

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 17, 2023

Volume 16 Issue 134

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days.
- Opex bullishness has seemed to reverse course over the last few years.
- This upcoming week is again bullish on the QE Seasonality Calendar, but it does show some of the weakest numbers of the month.
- The SOMA decline was slight this past week. The current week's numbers should be larger.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. I am too.

**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
July 17, 2023	SPY 3 higher hi, lo, cls. Dn cls. Hi hi & lo	1-4 days	Bullish	1.30%	-0.80%	-1.70%
July 14, 2023	Up Vol > 65% 5 days in a row. SPX > 200ma	1-3 days	Bullish			
<b>Active - Long Term</b>						
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
May 1, 2023	NASDAQ Leading	int term	Bullish			
February 2, 2023	SPX Golden Cross	int term	Bullish			
January 13, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

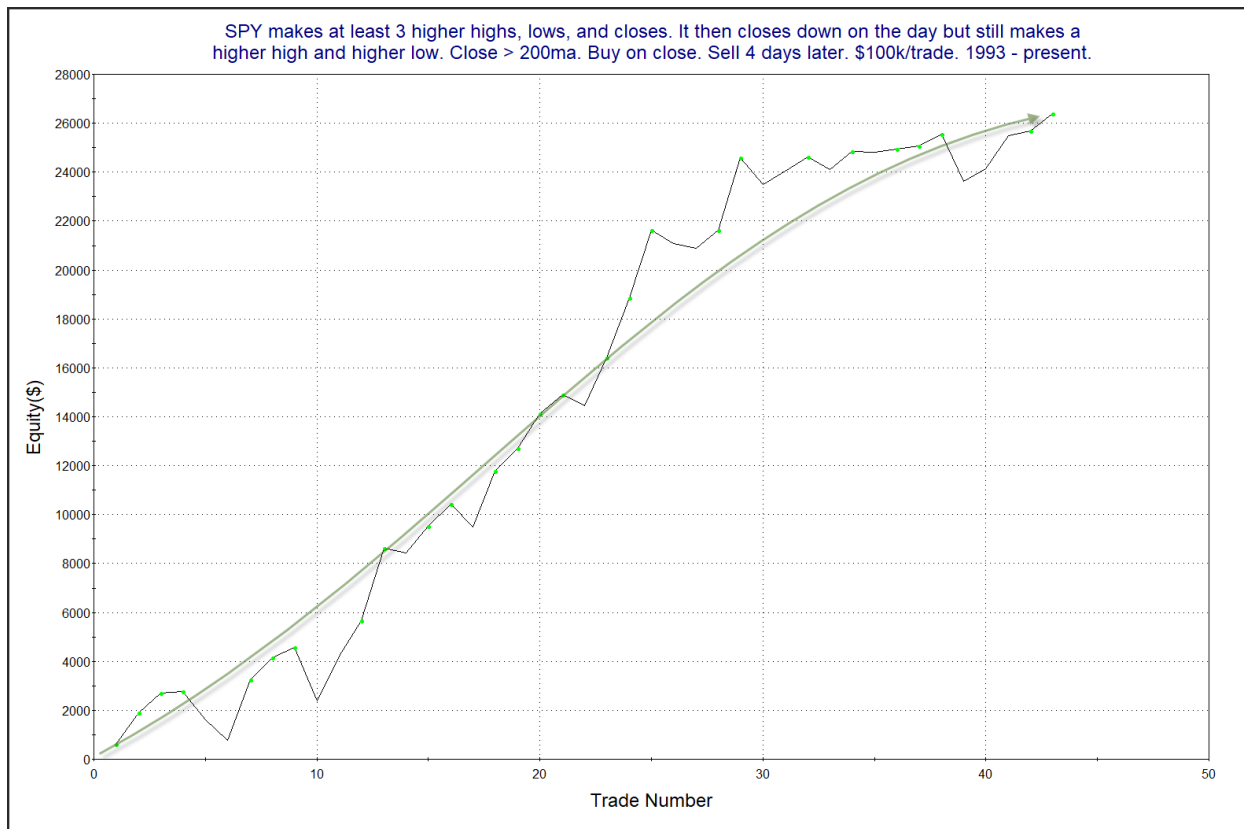
**The Evidence**

Friday saw declines for most of the major indices. The SPX lost 0.1%, the NASDAQ fell 0.2%, and the Russell 2000 tumbled 1.0%. Breadth was weak, with the NYSE Up Issues % coming in at 25% and the Up Volume % at 17%. NYSE total volume declined some from Thursday's level.

SPY finished lower, but SPY did manage to register a higher high and a higher low. The study below was last seen in the 1/18/23 letter and examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

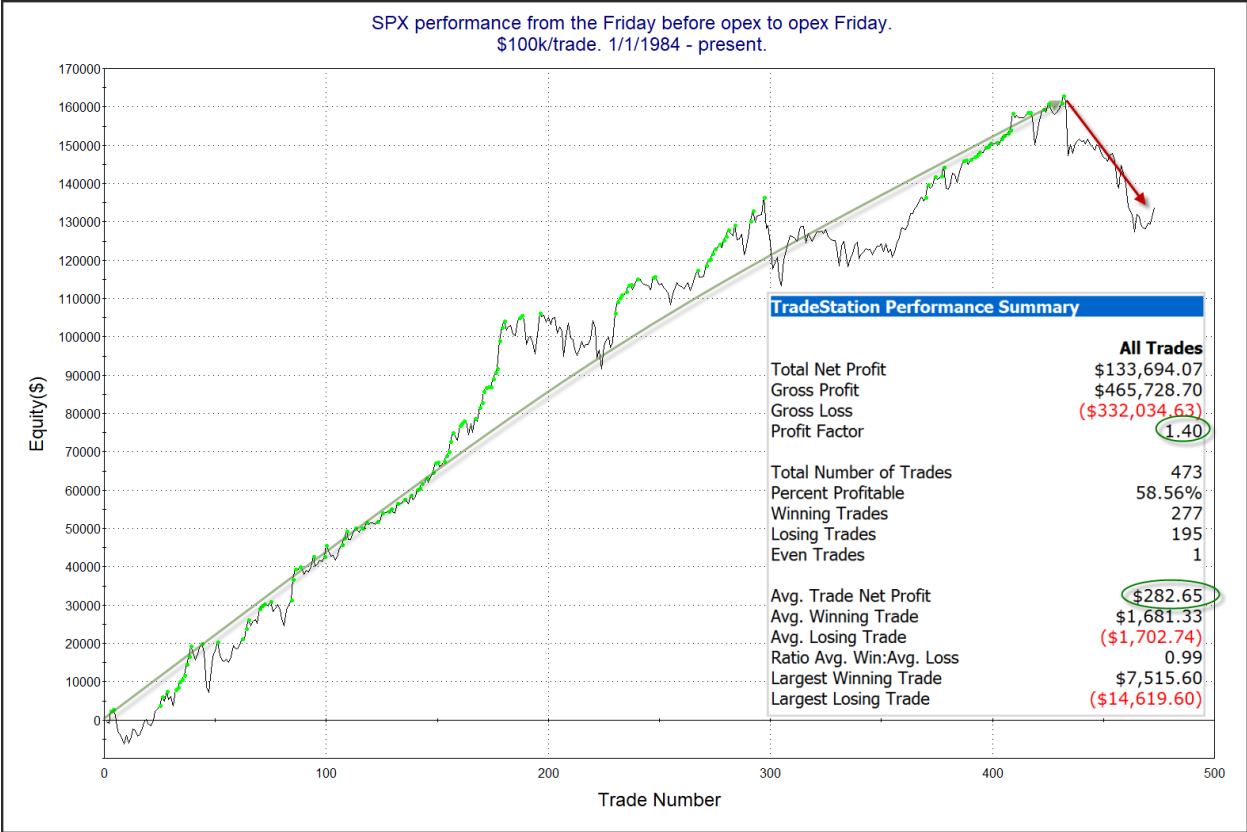
SPY makes at least 3 higher highs, lows, and closes. It then closes down on the day but still makes a higher high and higher low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	20,384.89	43	28	15	65.12	3,602.64	-4,604.60	1,279.39	-1,029.21	1.24	2.32	474.07
4	26,395.24	43	31	12	72.09	2,962.96	-2,191.22	1,175.73	-837.71	1.40	3.63	613.84
3	17,339.60	43	28	15	65.12	2,762.41	-2,640.33	955.37	-627.38	1.52	2.84	403.25
2	13,503.53	43	31	11	72.09	2,399.54	-2,291.63	723.39	-811.06	0.89	2.51	314.04
1	8,076.14	43	27	16	62.79	1,395.93	-1,576.28	511.78	-358.87	1.43	2.41	187.82

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.

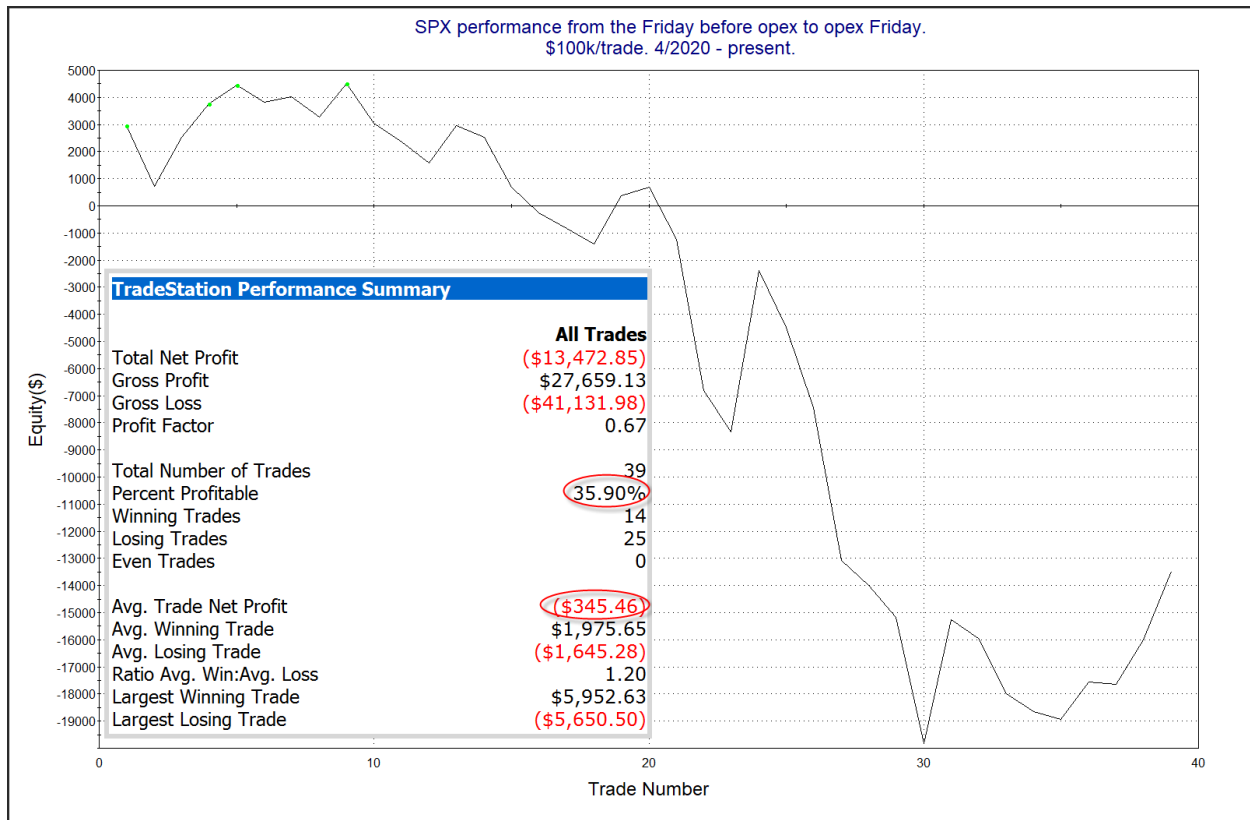


The persistent move higher is impressive. This study seems worth consideration. I have added it to the Active List tonight.

Of course this upcoming week is options expiration week. And we saw for several years that opex was typically a bullish week for the market. Interestingly, that seasonal tendency has not seemed to hold true since the COVID crash in 2020. Below is a look at performance of all opex weeks since 1984.



There has been a clear shift in the curve over the last few years. The top of this curve came in January of 2020. February of 2020 saw a decline of 1.25%, and then March had the worst opex week ever, with a 14.6% drop. But unlike other periods, opex week has never recovered its bullish tendency. The chart below looks at performance since April of 2020. I started the chart at that point simply to see how it has done since the market bottomed in 2020. So this does NOT include the worst week of March 2020.



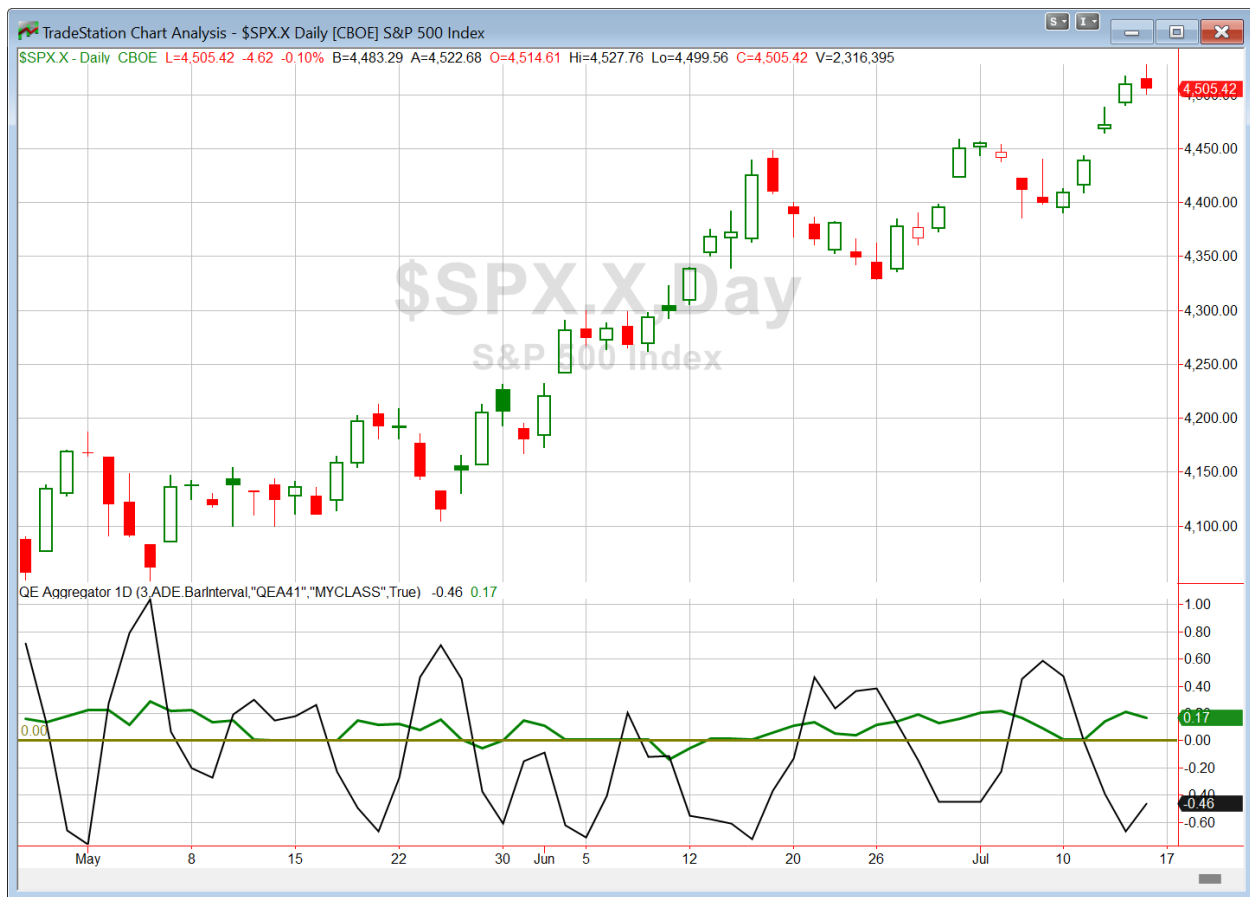
There has been a bit of a bump up over the last few instances, but the stats and curve still look pretty dismal. I am not yet convinced that downside tendency of the last few years is a new seasonal trend. But I certainly see enough evidence here that I am no longer looking at opex weeks and thinking they are automatically bullish.

Here is a quick peak at the QE Seasonality Calendar for July:

Quantifiable Edges Seasonality Calendar			
§SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
7/3/2023	62.77	1.833	0.204
7/5/2023	59.51	1.573	0.140
7/6/2023	56.77	1.315	0.072
7/7/2023	58.76	1.484	0.127
7/10/2023	57.92	1.375	0.050
7/11/2023	56.60	1.523	0.103
7/12/2023	57.72	1.415	0.068
7/13/2023	60.08	1.443	0.075
7/14/2023	60.67	1.656	0.140
7/17/2023	56.75	1.180	0.041
7/18/2023	54.13	1.473	0.108
7/19/2023	54.14	1.200	0.047
7/20/2023	53.99	1.137	0.026
7/21/2023	51.02	1.069	0.004
7/24/2023	53.45	1.148	0.031
7/25/2023	53.14	1.161	0.036
7/26/2023	51.90	1.291	0.075
7/27/2023	57.68	1.401	0.103
7/28/2023	55.11	1.113	0.019
7/31/2023	51.45	1.123	0.024
<b>Baseline</b>	<b>53.77</b>	<b>1.139</b>	<b>0.047</b>

Seasonality remains bullish this upcoming week, but the numbers are some of the weakest we see during July. So if the bears are going to manage to do any damage this month, perhaps this upcoming week will be the opportunity for them. Still, seasonality certainly favors the bulls.

I have updated [the Aggregator chart](#) below.



With this weekend's evidence considered, the green Aggregator Line remained above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line held below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator formation stayed flat at the close.

Based on the current active list, expectations are set to remain positive on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4478.70 on Monday. That is 0.6% below Friday's close. Therefore, SPX will need to close down at least 0.6% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is again neutral. Evidence is still pointing higher, but Friday's decline did not do much to work off the overbought condition. So reward/risk does not appear strongly favorable for either the bulls or the bears. I'm wary of taking on new index positions in these kinds of circumstances. I will wait for a more compelling opportunity to emerge.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 7/17 – bullish**

Combo #1	Combo #2	Combo #3
Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week all 3 combo systems remained “long”.*

This past week was a strong one for stocks. The SPX rose 2.4%, the NASDAQ jumped 3.3%, and the Russell 2000 rallied 3.6%. Bonds also performed well. The US Aggregate Bond ETF (AGG) posted a gain of 1.5%. TLT, the 20-year Treasury Bond ETF, climbed 2.2%. Long-term uptrends for the SPX and NASDAQ remain in place. There were no new studies that emerged in the last few days with intermediate-term implications.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

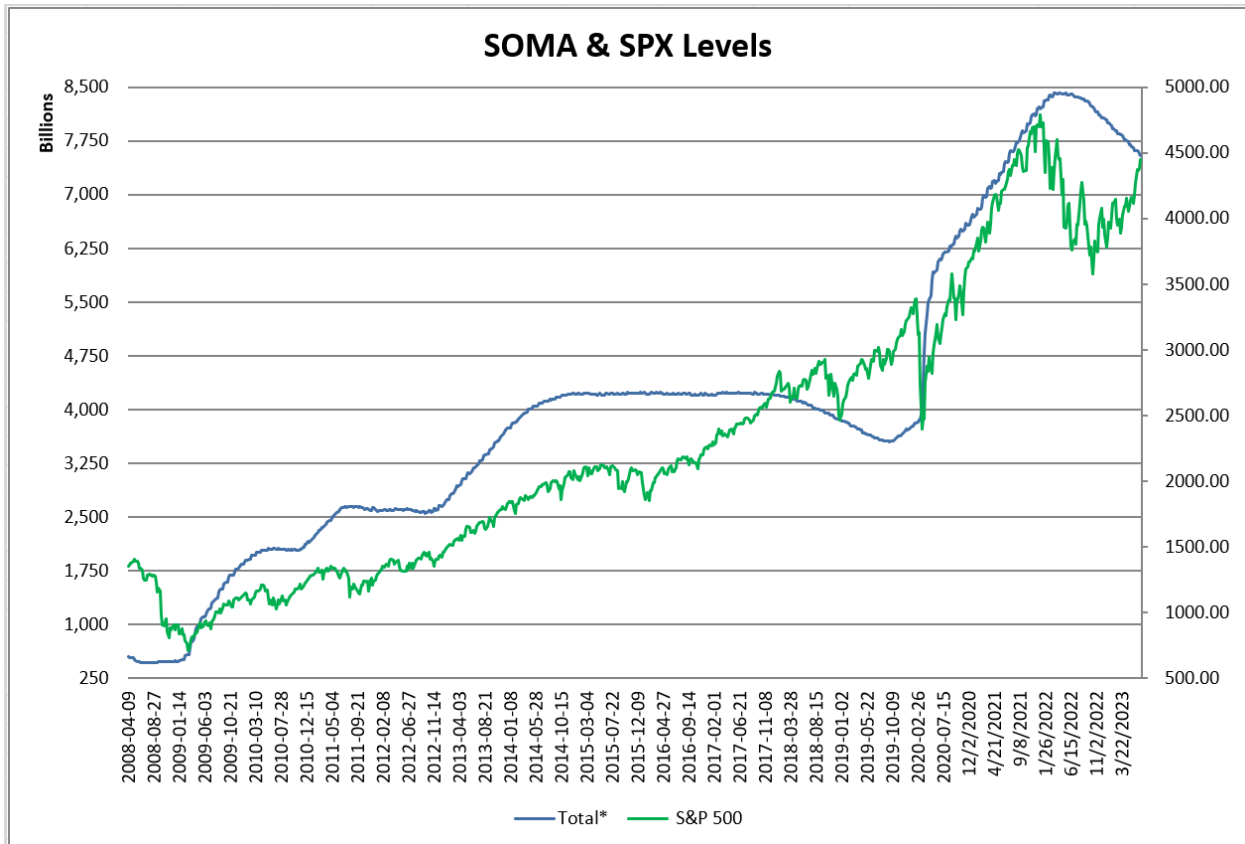
Domestic Security Holdings as of

◀ Previous **July 12, 2023** 📅  
Posted July 13, 2023 at 4:30 PM

SECURITY TYPE	TOTAL (SThousands)
US Treasury Bills (T-Bills)	266,544,412.3
US Treasury Notes and Bonds (Notes/Bonds)	4,340,398,167.7
US Treasury Floating Rate Notes (FRNs)	20,426,754.0
US Treasury Inflation-Protected Securities (TIPS)*	368,228,286.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,529,753,022.3
Agency Commercial Mortgage-Backed Securities***	8,385,441.2
Total SOMA Holdings	7,536,083,084.1
Change From Prior Week	-2,383,880.0

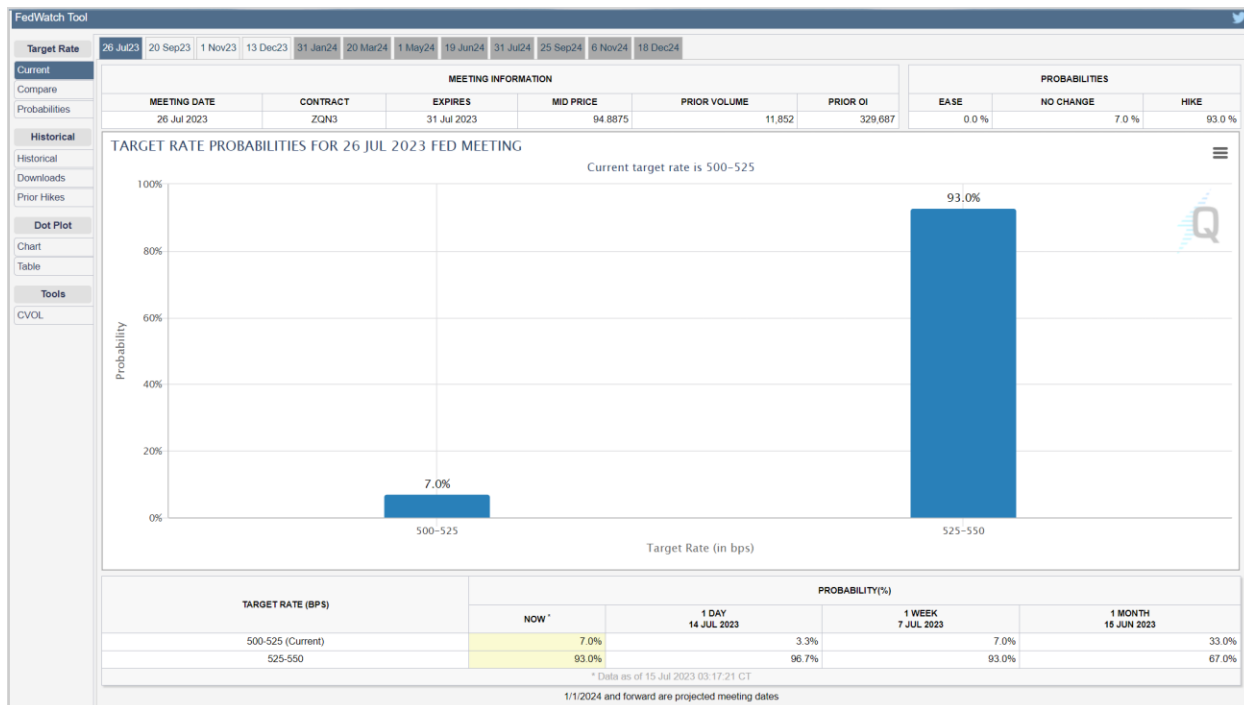
This past week saw a mild decline in the SOMA of \$2.4 billion. This is in line with what would be expected at this point in the month during the current QT period. This week I expect to see a

more substantial decline in the SOMA. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is in the midst of what is now the largest ever reduction in the size of the SOMA. The pace of the decline is high and the Fed has given no indication that it is planning to dial back Quantitative Tightening anytime soon. SPX has rallied over the last few months despite the decline in the SOMA. Still, this has only brought to near breakeven since QT began in 2022. Looking back to 2003, the market has posted net mild losses during times that the SOMA was shrinking. The gains have all come during periods that the SOMA was growing. The shrinking SOMA remains a headwind for the market.

With regards to rates, odds of further hikes are exactly where they were last week. The CME Fedwatch tool is again showing about a 93% chance of a ¼ point hike in a few weeks. Below is a screenshot.



Odds will continue to change as new data emerges and as we get closer to the date. At this point, the chance of a quarter-point hike on July 26<sup>th</sup> appears fairly high. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

While several intermediate-term studies from June have now expired, it still appears that we have more a bit more evidence favoring the bull case for the intermediate-term. The overall long-term trend signals remain mostly positive. Golden crosses are in effect for the NASDAQ and SPX, and both are firmly above their 200ma. The NASDAQ also continues to lead the SPX with our NASDAQ/SPX relative leadership indicator, and that has historically been bullish. The QE Seasonality Calendar for SPX is showing all green from now until the end of July. Still, plenty of issues remain. Fed policy is still hawkish and another rate hike appears likely. We are also in the May-October period that is susceptible to selling when we have already seen weakness sometime in Jan – April. Additionally, recession fears, a shrinking money supply, and high stock valuations are all potential rally killers. None of the potential negatives have mattered much to this point, but they likely will someday. With more evidence pointing higher, I am still leaning bullish. But I will be ready to switch to neutral if trouble arrives. For now, I will remain a bit more aggressive with long trades than short trades.

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***Open Catapult Triggers***

**None**

### ***Broad Market Large Cap CBI – 0***

## **Additional New Trade Ideas**

*A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.*

**None.**

## **Current Open Trade Ideas**

**None.**

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