

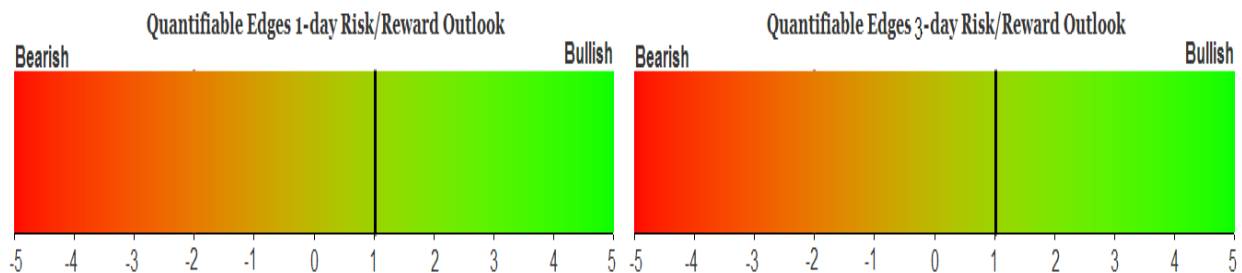
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 24, 2023

Volume 16 Issue 139

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- The Fed Day edge on Wednesday will be greatly influenced by action on Tuesday.
- The Seasonality Calendar for August appears bullish for the 1st couple of weeks, then it is more neutral.
- The Fed continues to act as a headwind for the market. Another rate hike appears likely on Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is long, but without supporting short-term evidence, I am not enthusiastic.

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
Active - Short Term						
None						
Active - Long Term						
July 19, 2023	DJI close up 7 days in a row & > 200ma	1-19 days	Bullish			
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 was mixed and mild. The SPX rose 0.03%, the NASDAQ declined 0.2%, and the Russell 2000 dropped 0.35%. Breadth was also mixed with the NYSE Up Issues % coming in at 49% and the Up Volume % at 51%. NYSE total volume rose with Friday being options expiration.

The Quantifinder did not identify any immediate edges, so I thought I would discuss the upcoming Fed Day. Fed Days have historically shown an upside tendency. [I have documented this tendency](#) in great detail over the years, including the 2011 book, [The Quantifiable Edges Guide to Fed Days](#). One interesting observation I have noted about Fed Days is that the bullish tendency is greatly impacted by stock market action leading up to the Fed Day. This is something that often happens with other seasonal tendencies as well (like turn of the month). In the past I have broken down Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. Below are updated stats for the 4 quartiles from highest to lowest in the daily range.

Tomorrow is a Fed Day. SPY closes in the top 25% of its intraday range. Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

	All Trades
Total Net Profit	\$8,372.10
Gross Profit	\$35,926.51
Gross Loss	(\$27,554.41)
Profit Factor	1.30
Total Number of Trades	92
Percent Profitable	48.91%
Winning Trades	45
Losing Trades	45
Even Trades	2
Avg. Trade Net Profit	\$91.00
Avg. Winning Trade	\$798.37
Avg. Losing Trade	(\$612.32)
Ratio Avg. Win:Avg. Loss	1.30
Largest Winning Trade	\$2,238.25
Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of its intraday range. Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

Expand ▾

All Trades

Total Net Profit	\$17,056.16	Profit Factor	1.96
Gross Profit	\$34,860.93	Gross Loss	(\$17,804.77)
Total Number of Trades	56	Percent Profitable	51.79%
Winning Trades	29	Losing Trades	26
Even Trades	1		
Avg. Trade Net Profit	\$304.57	Ratio Avg. Win:Avg. Loss	1.76
Avg. Winning Trade	\$1,202.10	Avg. Losing Trade	(\$684.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of its intraday range. Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

	All Trades
Total Net Profit	\$13,122.59
Gross Profit	\$26,498.43
Gross Loss	(\$13,375.84)
Profit Factor	1.98
Total Number of Trades	49
Percent Profitable	63.27%
Winning Trades	31
Losing Trades	18
Even Trades	0
Avg. Trade Net Profit	\$267.81
Avg. Winning Trade	\$854.79
Avg. Losing Trade	(\$743.10)
Ratio Avg. Win:Avg. Loss	1.15
Largest Winning Trade	\$2,943.00
Largest Losing Trade	(\$2,066.62)

Tomorrow is a Fed Day. SPY closes in the BOTTOM 25% of its intraday range. Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

Expand ▾

All Trades

Total Net Profit	\$25,798.46	Profit Factor	3.16
Gross Profit	\$37,727.36	Gross Loss	(\$11,928.90)
Total Number of Trades	45	Percent Profitable	73.33%
Winning Trades	33	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$573.30	Ratio Avg. Win:Avg. Loss	1.15
Avg. Winning Trade	\$1,143.25	Avg. Losing Trade	(\$994.07)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

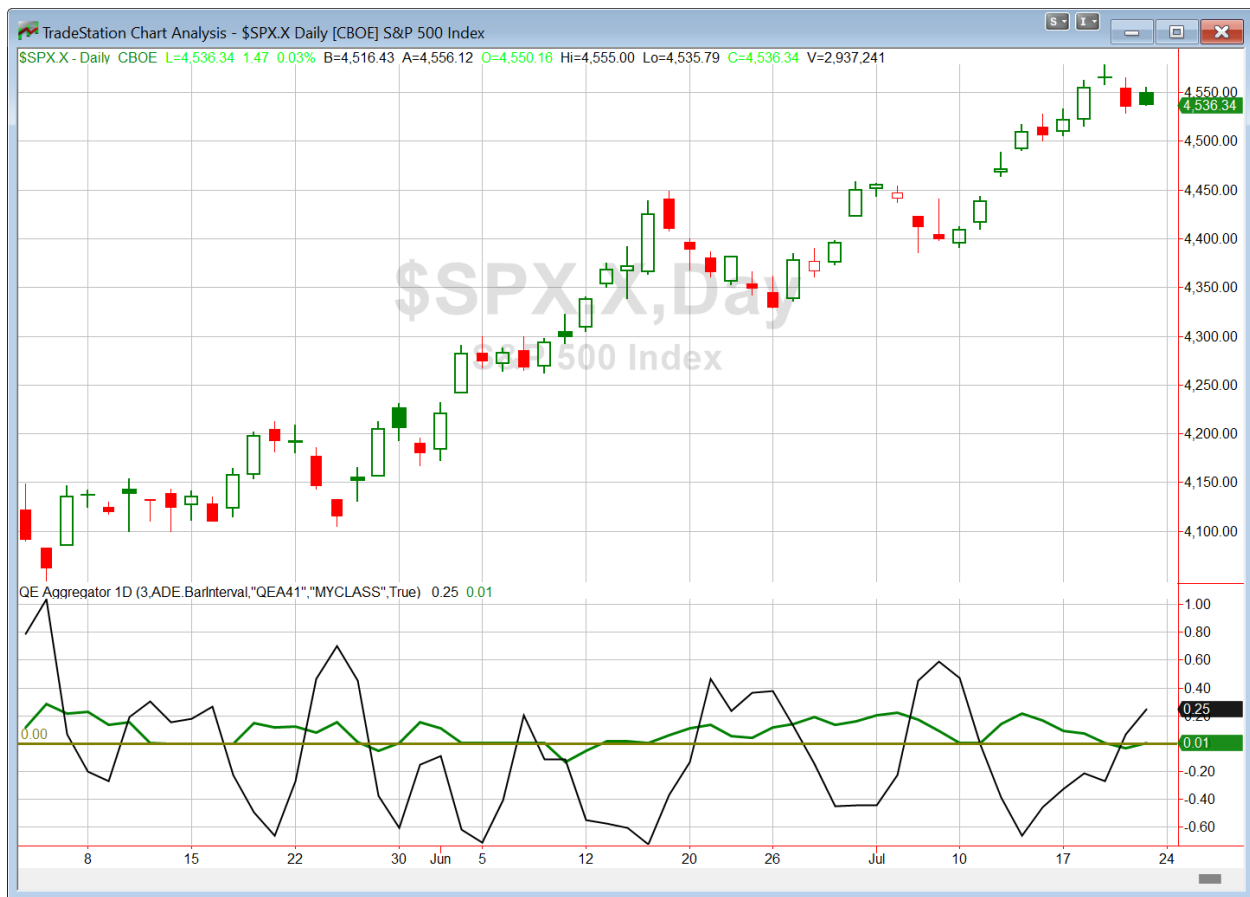
So what we see here is that the lower SPY has closed in its range the day before, the stronger the Fed Day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some

frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced. This could be worth keeping in mind as we approach the close on Tuesday.

Below is a look at the SPX Seasonality Calendar, with this upcoming week in the blue box.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
<u>Date</u>	<u>Win%</u>	<u>Profit Factor</u>	<u>Avg % Chg</u>
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
Baseline	53.77	1.139	0.047

Numbers this week remain solid. Of course, as we discussed above, Wednesday's odds will also be impacted by action we see on Tuesday. I also ran the preliminary Calendars for August this weekend. Below is the SPX Calendar.



With short-term evidence lacking, the green Aggregator Line is just slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator formation turned long at the close.

Based on the current active studies, expectations are slated to remain positive on Monday. This could easily change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4573.25 on Monday. That is 0.8% above Friday's close. Therefore, SPX will need to close up at least 0.8% on Monday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator formation is now bullish. Expectations could go either way fairly easily. Without a confirmed active short-term study saying a move up is likely, I am not very excited about taking a new short-term position. So I won't be looking to take on any exposure on Monday. But Tuesday I could very well take on some long exposure – especially near the close if Tuesday finishes poorly. I'll remain alert and ready for now.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/24 – bullish

Combo #1	Combo #2	Combo #3	Combo #4
Long	Long	Long	Long

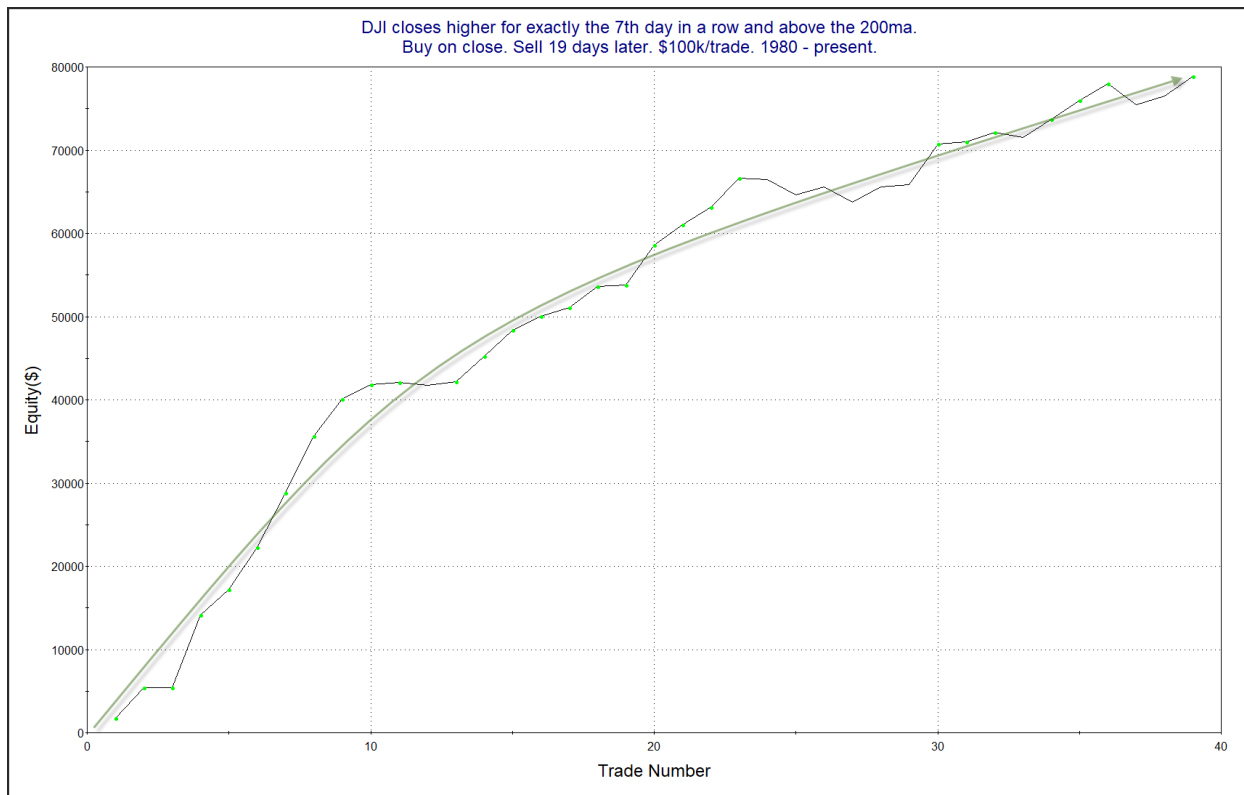
Above is the status of the different Combination Signals from the (*about to be released*) Quantifiable Edges Market Timing Course – **Updated and Expanded for 2023!** Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can (soon) be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. *This week all 4 combo systems remained “long”.*

This past week saw mixed results for stocks. The SPX rose 0.7%, the NASDAQ declined 0.6%, and the Russell 2000 rallied 1.5%. Bonds inched higher. The US Aggregate Bond ETF (AGG) posted a gain of 0.05%. TLT, the 20-year Treasury Bond ETF, climbed 0.4%. Long-term uptrends for the SPX and NASDAQ remain in place. There was a study from Tuesday night’s letter with intermediate-term implications. I have copied it below.

It looked at performance after 7-day win streaks in the Dow Industrials since 1980. I’ve updated the stats table below.

DJI closes higher for exactly the 7th day in a row and above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - 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
20	70,847.10	38	28	10	73.68	8,198.68	-3,332.50	2,945.46	-1,162.57	2.53	7.09	1,864.40
19	78,858.09	39	33	6	84.62	8,695.05	-2,509.32	2,610.73	-1,216.01	2.15	11.81	2,022.00
18	78,467.44	39	31	8	79.49	9,411.43	-3,131.59	2,883.64	-1,365.66	2.11	8.18	2,011.99
17	72,802.83	39	29	10	74.36	8,908.69	-3,757.81	2,943.80	-1,256.75	2.34	6.79	1,866.74
16	70,818.63	39	31	7	79.49	7,792.47	-2,497.15	2,592.97	-1,366.20	1.90	8.41	1,815.86
15	64,562.50	39	29	10	74.36	8,330.00	-2,944.23	2,644.35	-1,212.37	2.18	6.33	1,655.45
14	57,244.30	39	30	9	76.92	7,282.38	-3,311.49	2,353.01	-1,482.90	1.59	5.29	1,467.80
13	49,322.62	40	27	13	67.50	7,378.91	-3,665.00	2,392.68	-1,175.36	2.04	4.23	1,233.07
12	43,872.71	40	26	14	65.00	7,544.53	-3,171.51	2,351.08	-1,232.53	1.91	3.54	1,096.82
11	38,297.00	40	25	15	62.50	6,910.47	-2,343.12	2,241.20	-1,182.21	1.90	3.16	957.42
10	39,983.85	40	27	13	67.50	4,795.14	-2,876.67	2,009.93	-1,098.78	1.83	3.80	999.60
9	41,841.62	41	30	11	73.17	4,512.90	-3,132.90	1,747.34	-961.69	1.82	4.96	1,020.53
8	37,725.21	41	26	15	63.41	6,676.25	-2,237.31	1,841.26	-676.50	2.72	4.72	920.13
7	31,449.16	41	28	13	68.29	4,147.36	-2,345.95	1,524.51	-864.39	1.76	3.80	767.05
6	17,298.98	41	26	15	63.41	4,657.45	-3,410.35	1,306.25	-1,110.91	1.18	2.04	421.93
5	16,169.33	41	25	16	60.98	4,560.92	-2,927.07	1,249.31	-941.46	1.33	2.07	394.37
4	11,992.31	41	24	17	58.54	3,293.29	-2,425.90	1,128.71	-888.04	1.27	1.79	292.50
3	8,635.40	41	20	21	48.78	3,004.19	-1,664.47	1,048.78	-587.63	1.78	1.70	210.62
2	4,628.58	41	21	20	51.22	2,153.92	-847.62	579.93	-377.49	1.54	1.61	112.89
1	933.83	41	20	21	48.78	1,996.48	-1,220.94	390.99	-327.90	1.19	1.14	22.78

There is not much of an edge over the 1st few days. But once you get out a little further, the stats appear solidly bullish. Below is a look at the profit curve assuming a 19-day holding period.



The strong move from lower left to upper right appears to offer some confirmation of the bullish tendency. I have added this study to the intermediate-term active list.

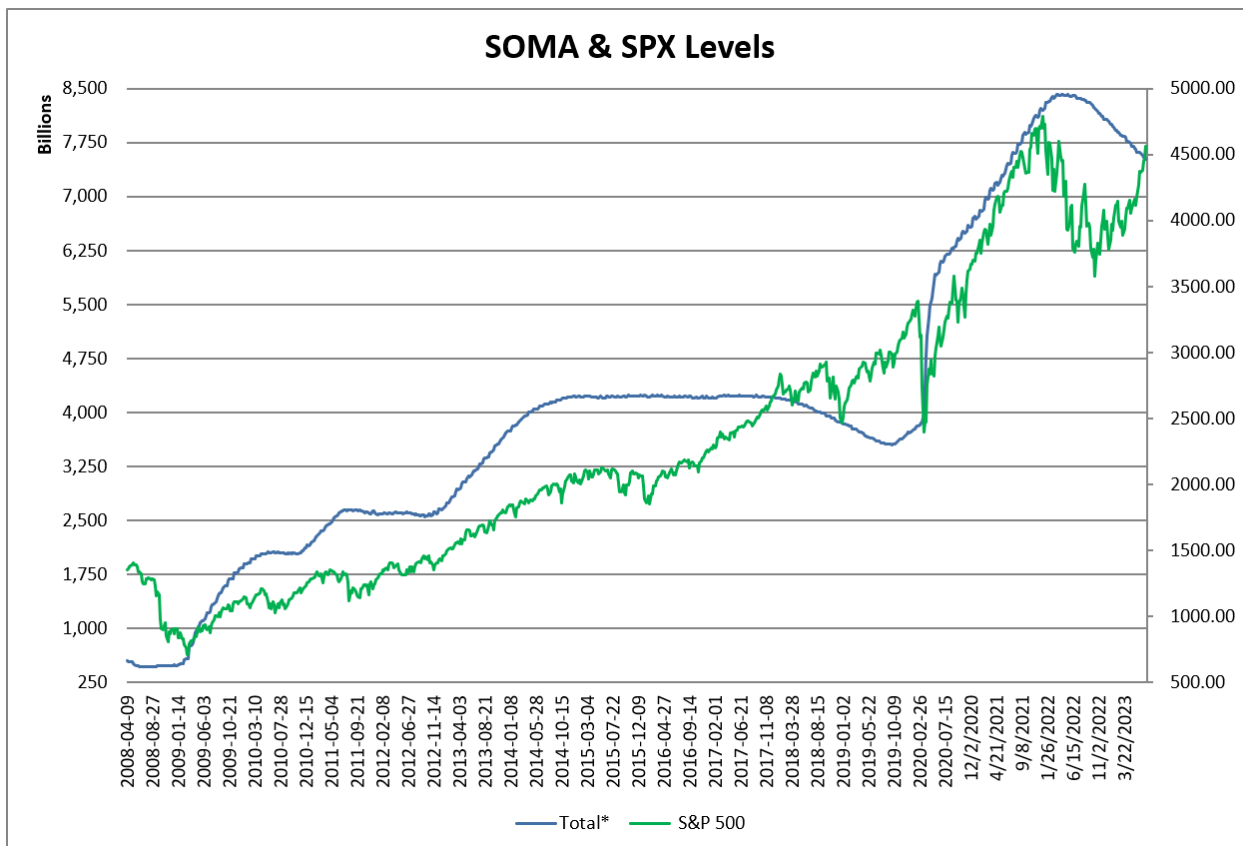
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of
 ◀ Previous **July 19, 2023** 📅
 Posted July 20, 2023 at 4:30 PM

SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS

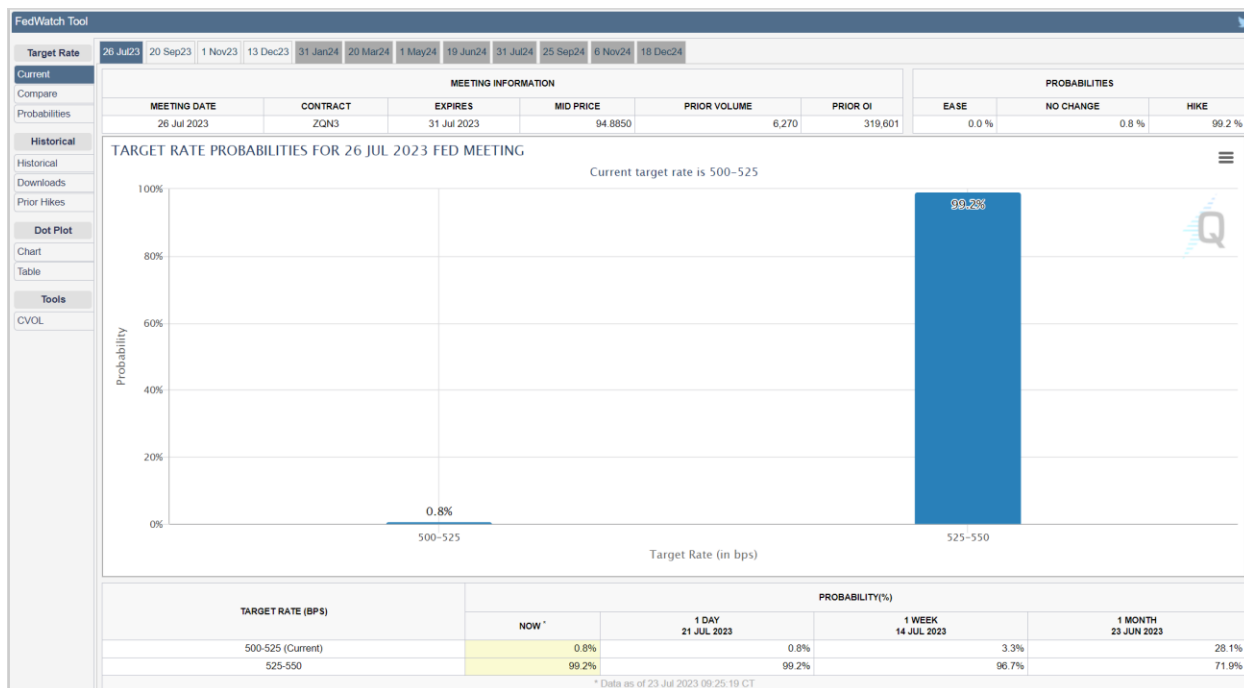
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	263,617,244.9
US Treasury Notes and Bonds (Notes/Bonds)	4,326,545,550.6
US Treasury Floating Rate Notes (FRNs)	20,426,754.0
US Treasury Inflation-Protected Securities (TIPS)*	364,549,286.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,529,676,951.7
Agency Commercial Mortgage-Backed Securities***	8,381,642.9
Total SOMA Holdings	7,515,544,430.5
Change From Prior Week	-20,538,653.5

This past week saw a sizable decline in the SOMA of \$20.5 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 the decline in the SOMA to be a bit smaller. 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 several months despite the decline in the SOMA. Still, this has only brought it to around breakeven since QT began in early 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 now showing about an 99% chance of a ¼ point hike in a few weeks. Below is a screenshot.



A quarter-point hike is baked into prices right now. Anything other than that would be a surprise that could generate a strong market reaction. As usual, language of the Fed in their policy statement will also be closely monitored to anticipate the likelihood of further hiking. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

There still appears to be a bit more evidence favoring the bull case for the intermediate-term. The Dow win streak is a positive. 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 (thought just barely – watch this one this upcoming week), and that has historically been bullish. The QE Seasonality Calendar for SPX is showing all green from now until mid-August. Still, plenty of issues remain. Fed policy is still hawkish and a rate hike this week appears highly 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

F @ \$14.03 (bought @ limit)

Broad Market Large Cap CBI – 1(F)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
F(1/3)	7/21/2023	\$14.01	\$13.93	-0.57%	Catapult

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