

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 7, 2023

Volume 16 Issue 149

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	3

Tonight's Research Points

- An outside day and close near the bottom of the short-term range during a long-term uptrend has consistently been followed by a bounce.
- The Seasonality Calendar has bullish numbers for 1 more week.
- The SOMA continues to shrink, which is a headwind for bulls.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I like the long side.

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						
August 7, 2023	Outside 10 close in btm 10% of 10 Rng > 200	1-5 days	Bullish	2.20%	-0.80%	-1.60%
August 4, 2023	3 down from 50-high to 10-low	1-7 days	Bullish	2.25%	-1.40%	-3.30%
August 1, 2023	End of month at high of month	1-5 days	Bullish			
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			

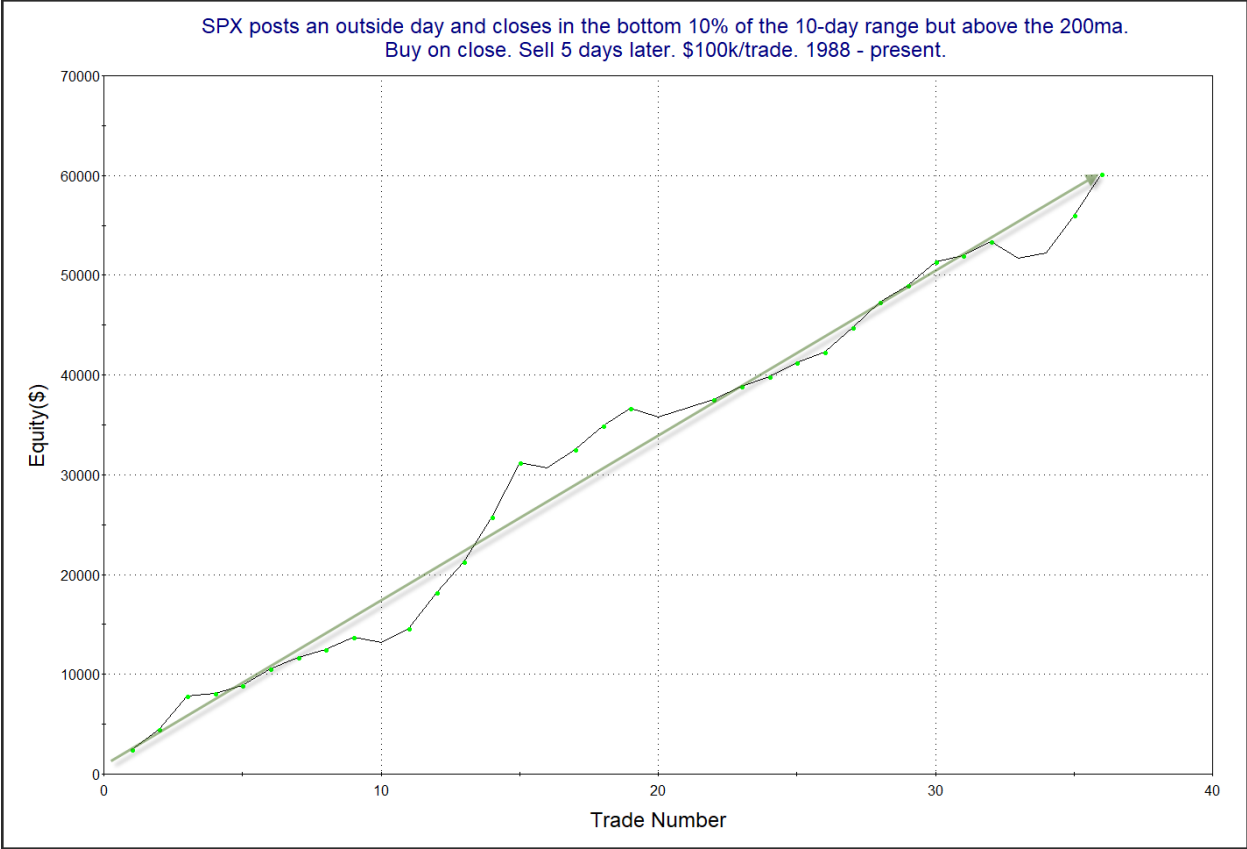
The Evidence

Friday started well, but late selling ruined the party. The SPX closed down 0.5%, the NASDAQ fell 0.4%, and the Russell 2000 dropped 0.2%. Breadth was mixed with the NYSE Up Issues % coming in at 55% and the Up Volume % at 40%. NYSE total volume declined some from Thursday's level.

The big outside day that SPX put in is notable. (An outside day is a day where the market makes a higher high and a lower low than the day before.) The study below was from the 9/24/20 letter. It examines the implications of an outside day occurring and putting the SPX near the lower end of its range during a long-term uptrend.

SPX posts an outside day and closes in the bottom 10% of the 10-day range but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	
10	63,360.45	34	28	6	82.35	6,549.66	-2,685.40	2,597.30	-1,560.64	1.66	7.77	1,863.54	
9	63,452.33	35	29	6	82.86	6,622.56	-3,224.13	2,501.81	-1,516.70	1.65	7.97	1,812.92	
8	68,241.75	35	29	6	82.86	5,596.29	-2,364.18	2,586.56	-1,128.10	2.29	11.08	1,949.76	
7	62,170.37	36	30	6	83.33	5,846.58	-2,644.46	2,315.04	-1,213.46	1.91	9.54	1,726.95	
6	63,621.68	36	32	4	88.89	5,645.64	-1,353.73	2,076.71	-708.24	2.93	23.46	1,767.27	
5	60,180.13	36	32	4	88.89	5,460.84	-1,604.46	1,990.19	-876.48	2.27	18.17	1,671.67	
4	47,109.76	36	28	8	77.78	5,187.49	-2,964.25	1,861.40	-626.16	2.97	10.40	1,308.60	
3	37,846.57	36	26	10	72.22	5,339.18	-1,665.30	1,712.30	-667.31	2.57	6.67	1,051.29	
2	26,334.89	39	27	12	69.23	3,591.28	-1,105.36	1,188.60	-479.78	2.48	5.57	675.25	
1	9,627.99	39	31	8	79.49	1,409.32	-1,799.08	576.33	-1,029.76	0.56	2.17	246.87	

Rarely do I see results more bullish than these. Not only is the consistency incredibly impressive, but the size of the average trade is very large for using a "> 200ma" filter. And it isn't just the numbers that look good. Here is the profit curve.



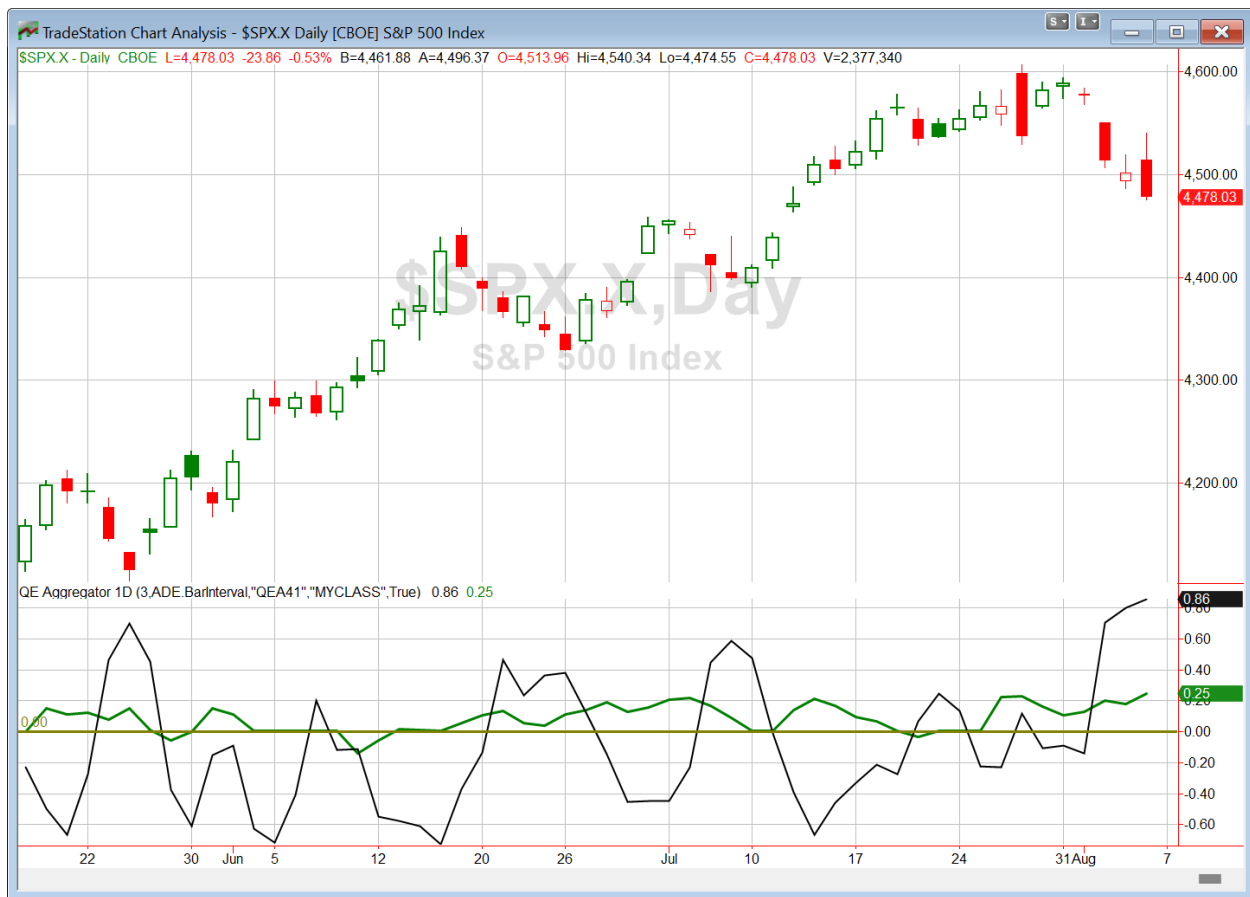
The consistency of the upslope is very impressive. I have included this study on the Active List tonight.

Below is a quick look at the August QE Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
8/1/2023	54.37	1.461	0.096
8/2/2023	55.83	1.381	0.093
8/3/2023	54.08	1.129	0.026
8/4/2023	54.78	1.262	0.070
8/7/2023	53.01	1.283	0.087
8/8/2023	50.17	1.157	0.043
8/9/2023	51.10	1.052	0.010
8/10/2023	53.07	1.054	0.008
8/11/2023	53.65	1.276	0.077
8/14/2023	52.66	0.794	-0.088
8/15/2023	54.00	1.226	0.029
8/16/2023	53.55	0.932	-0.036
8/17/2023	52.74	0.843	-0.065
8/18/2023	50.31	0.795	-0.082
8/21/2023	58.85	1.117	0.040
8/22/2023	54.27	1.090	0.030
8/23/2023	54.55	1.191	0.061
8/24/2023	57.72	1.291	0.087
8/25/2023	55.94	1.037	0.013
8/28/2023	53.01	0.979	-0.008
8/29/2023	52.96	0.999	-0.001
8/30/2023	55.75	1.290	0.068
8/31/2023	58.07	1.382	0.092
Baseline	53.69	1.136	0.046

This upcoming week is showing positive seasonality. But after that, we see as many neutral numbers as we do positive ones. The bulls will no longer have a seasonal wind at their back after this upcoming Friday.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is now far above zero. The positive Differential Line reading means that SPX is strongly 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 stayed long at the close.

Based on the current active studies, expectations are slated to remain positive on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4533.12 on Monday. That is 1.2% above Friday's close. Therefore, SPX will need to close up over 1.2% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator formation is bullish. Evidence is building supporting a bounce, and there is ample room to the upside before SPX would become short-term overbought. I like the short-term bullish case. I took some long exposure on Thursday and Friday, and I may take a 3rd lot if we see more selling on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/31 – bullish

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

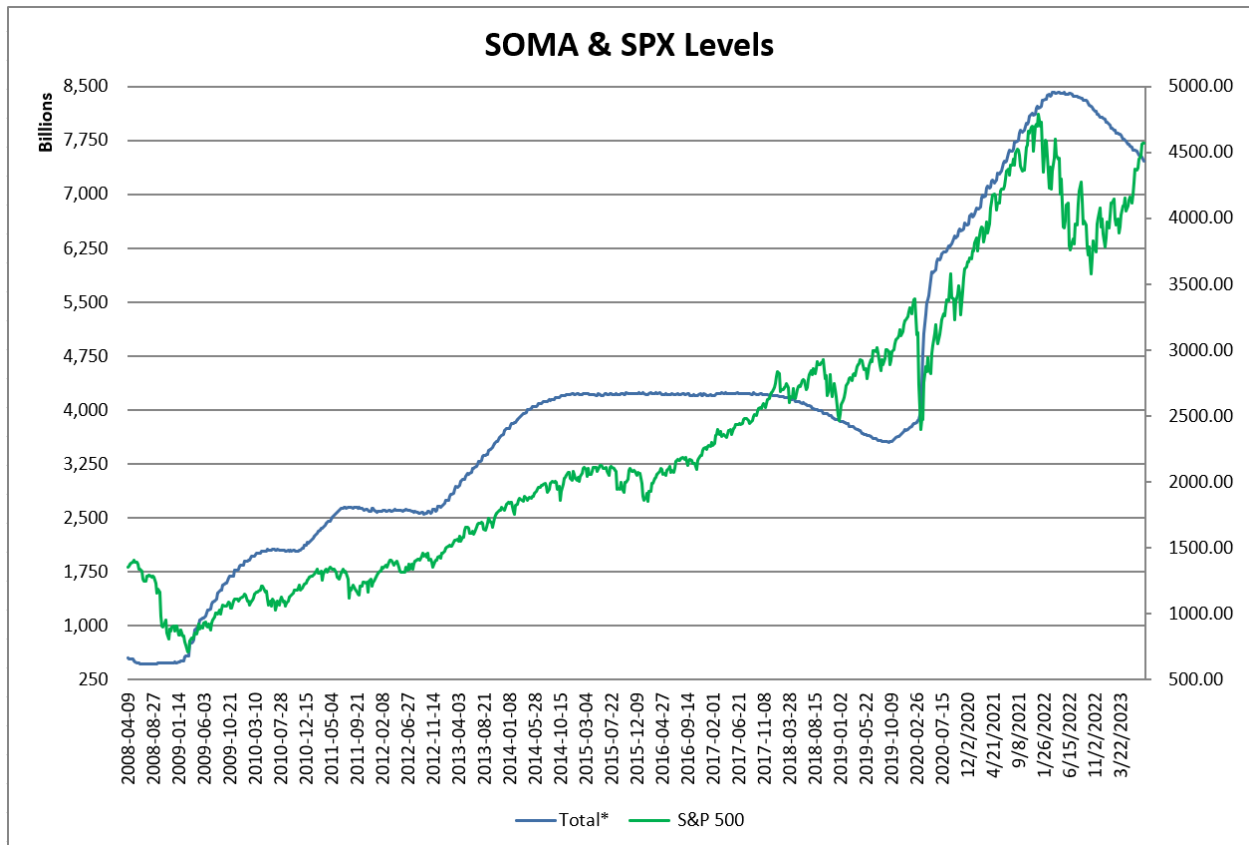
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course – **Updated and Expanded for 2023!** Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable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

This past week was a tough one for stocks. The SPX sank 2.3%, the NASDAQ dropped 2.85%, and the Russell 2000 lost 1.2%. Bonds also struggled. The US Aggregate Bond ETF (AGG) posted a loss of 0.9%. TLT, the 20-year Treasury Bond ETF, tumbled 3.3%. Long-term uptrends for the SPX and NASDAQ remain in place. No new studies 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.

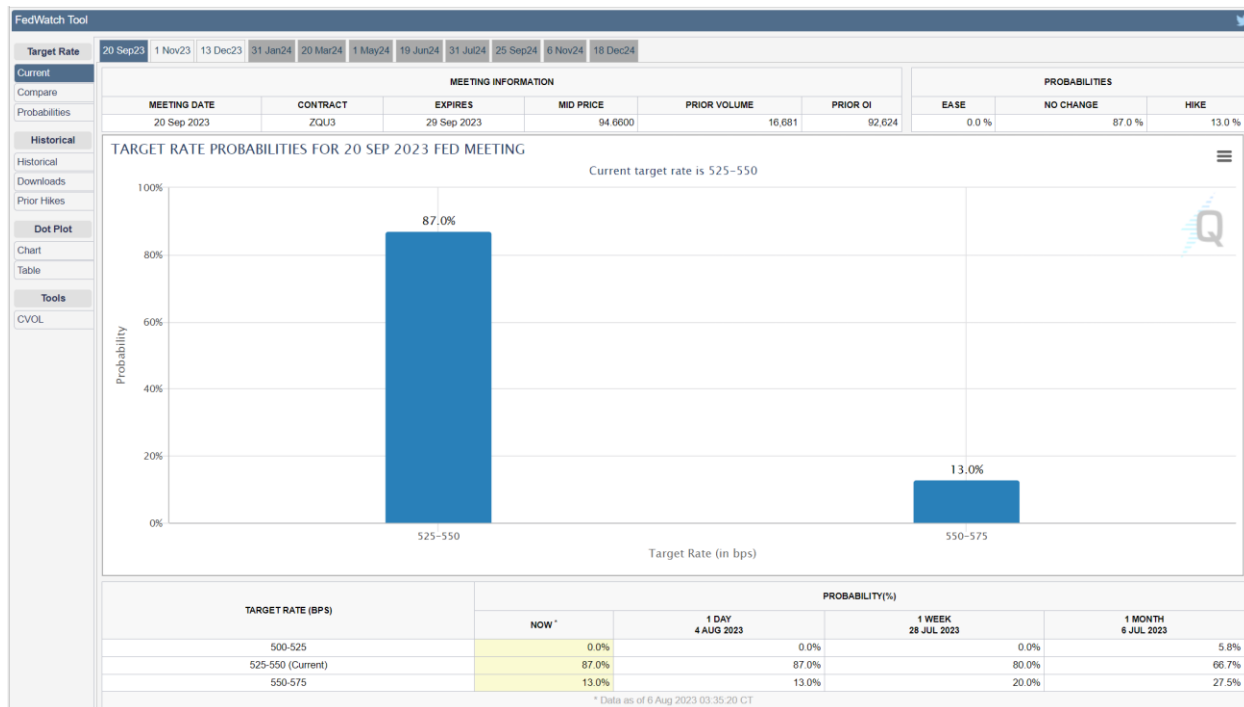
Domestic Security Holdings as of	
◀ Previous	August 2, 2023 📅
Posted August 3, 2023 at 4:30 PM	
SUMMARY	
T-BILLS	
T-NOTES AND T-BONDS	
FRNS	
TIPS	
AGENCY DEBTS	
MBS	
CMBS	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	259,421,593.5
US Treasury Notes and Bonds (Notes/Bonds)	4,297,853,573.9
US Treasury Floating Rate Notes (FRNs)	17,745,390.6
US Treasury Inflation-Protected Securities (TIPS)*	364,549,286.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,509,187,003.8
Agency Commercial Mortgage-Backed Securities***	8,372,458.1
Total SOMA Holdings	7,459,476,306.5
Change From Prior Week	-33,245,987.4

This past week saw a sizable decline in the SOMA of \$33 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 closer to \$18 billion. 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 additional of an additional hike at the September meeting are now only about 13%, which is down from 20% a week ago. This can be seen in the screenshot below of the CME Fedwatch Tool:



Plenty of economic data will be released between now and the next Fed meeting. So these odds could fluctuate quite a bit over the next several weeks. And that could make for some swings in the market. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

This past week did not really change anything. There still appears to be a bit more evidence favoring the bull case for the intermediate-term. The Dow win streak a few weeks ago was found to be 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, and that has historically been bullish. I will note that leadership is in danger of flipping to SPX. It nearly did this past week. Still, plenty of issues remain. Fed policy is still hawkish. We are also in the May-October period that is susceptible to selling when we have already seen weakness sometime in Jan – April. And mid-August through September has traditionally been among the weakest times of the year. 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 at some point. With more evidence pointing higher, I am still leaning bullish. But I will be ready to switch to neutral if trouble arrives – perhaps even just a flip in the NASDAQ/SPX leadership might get me there as soon as next weekend. 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)

ABT @ \$107.54 (bought @ limit)

New

AAPL @ \$181.99 (buy @ limit)

Broad Market Large Cap CBI – 3(F, ABT, AAPL)

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.

SPY – Buy ¼ index position @ \$442.00 LIMIT ON CLOSE. Based on the short-term section above, I will look to add to my long position if SPY closes down 1% or so on Monday.

AAPL – Buy 1/3 Catapult position @ \$181.99 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of AAPL.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
F(1/3)	7/21/2023	\$14.01	\$12.89	-7.99%	Catapult
SPY(1/4)	8/3/2023	\$448.04	\$446.81	-0.27%	Catapult
SPY(1/4)	8/4/2023	\$446.81	\$446.81	0.00%	Catapult
ABT(1/3)	8/4/2023	\$107.32	\$107.65	0.31%	Catapult

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