

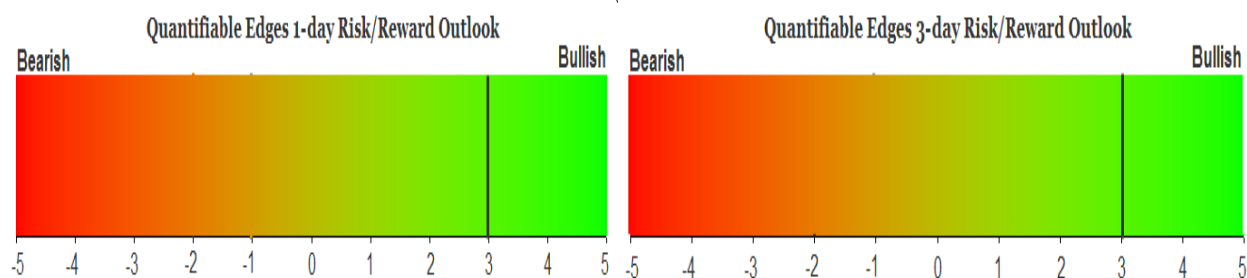
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 14, 2023

Volume 16 Issue 154

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	4

Tonight's Research Points

- The “failed” bounce off Wednesday’s 20-day low appears to be another opportunity for bulls to take long exposure.
- 4 lower lows and a 20-day low have typically been followed by a bounce.
- The Seasonality Calendar looks pretty neutral this week.
- The NASDAQ fell into a lagging position vs the SPX. The market has often struggled to make gains when this is the case.
- The SOMA was flat this past week, but will likely see a large decline during the current week. The Fed remains a bearish market force.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I still like the long side.

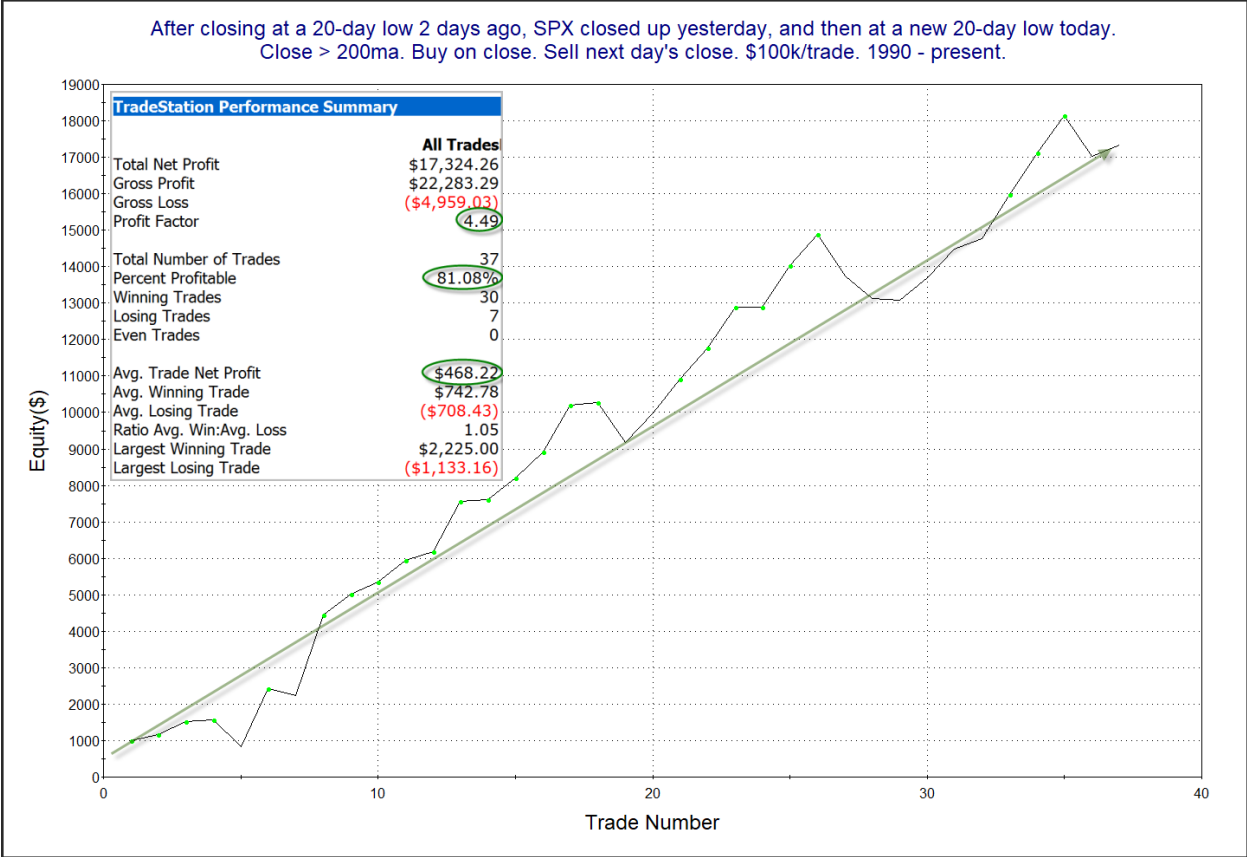
Summary of Current Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
August 14, 2023	4 Lower lows & lowest low 20	1-7 days	Bullish	2.20%	-1.65%	-3.40%
August 14, 2023	20-low. Up close. New 20-low	1 day	Bullish			
August 11, 2023	Outside 10 clse in btm 10% of 10 Rng > 200	1-5 days	Bullish	2.20%	-0.80%	-1.60%
August 11, 2023	20LoCls. LowerLo & up < 0.25%	1-5 days	Bullish			
August 11, 2023	Gap up. Rise>0.75%. Close < open.	1-3 days	Bullish			
August 4, 2023	3 down from 50-high to 10-low	1-7 days	Bullish	2.25%	-1.40%	-3.30%
Active - Long Term						
August 14, 2023	NASDAQ Lagging	int term	Neutral			
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			
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

The market opened with a substantial gap down. And while SPY filled its morning gap during the day, most of the indices (including SPX) did not manage to finish positive. The SPX closed down 0.1%, the NASDAQ lost 0.7%, and the Russell 2000 gained 0.1%. Breadth was mildly positive with the NYSE Up Issues % coming in at 51.5% and the Up Volume % at 52.4%. NYSE total volume was light heading into the weekend.

After closing at a 20-day low on Wednesday, the market put in a (weak) bounce attempt on Thursday. Friday's decline left that attempt looking like a failure, and also likely frustrated many bulls. But the study below from the 2/27/23 letter suggests perhaps they should not be too frustrated. Stats are updated.



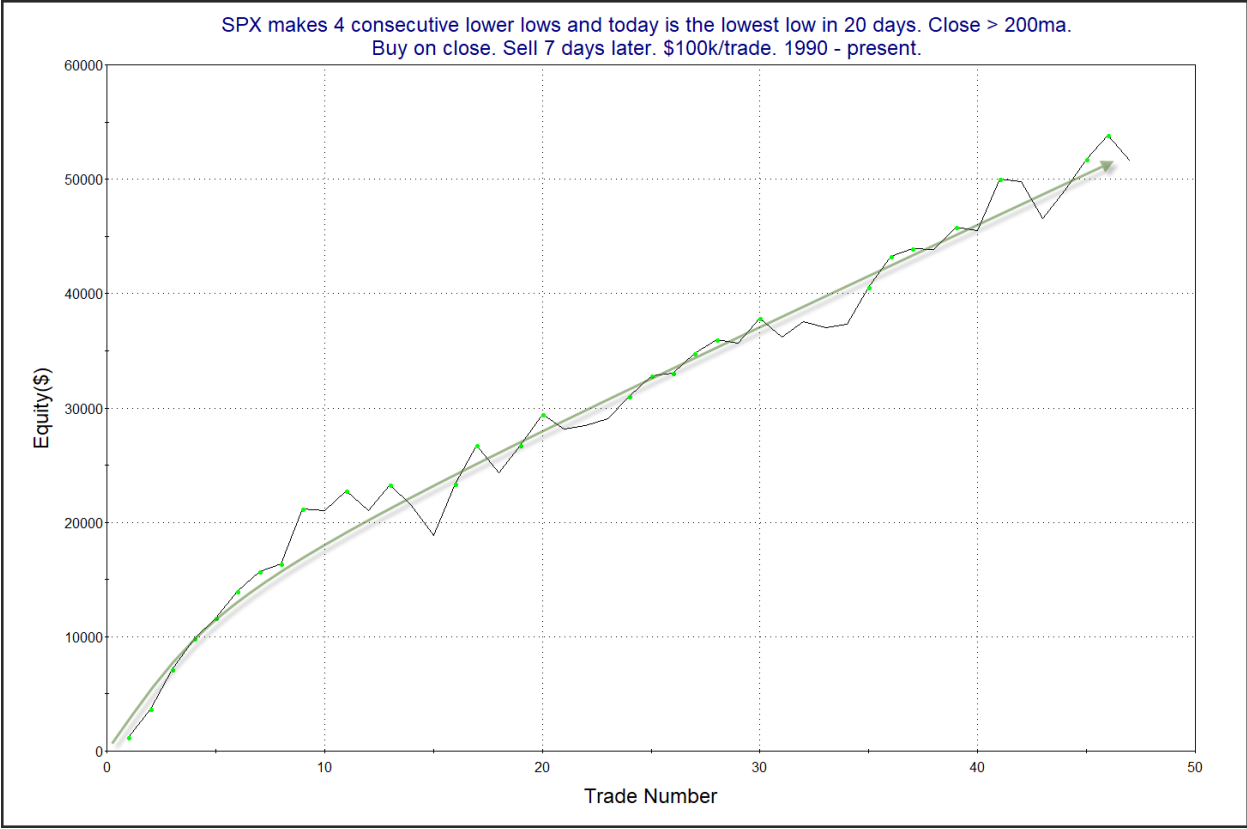
Results here remain compelling. I have added this study to the Active List.

This next study is one I last featured in the 6/30/15 Subscriber Letter. It examines times when SPX posted four consecutive lower lows and a 20-day low as it did on Friday. I have updated the stats table below.

SPX makes 4 consecutive lower lows and today is the lowest low in 20 days. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1990 - 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	49,881.46	47	33	14	70.21	4,991.49	-7,625.38	2,348.65	-1,973.13	1.19	2.81	1,061.31
9	47,747.74	47	36	11	76.60	4,791.18	-11,831.15	2,182.26	-2,801.23	0.78	2.55	1,015.91
8	57,396.39	47	37	10	78.72	5,434.34	-4,831.04	2,173.07	-2,300.71	0.94	3.49	1,221.20
7	51,608.35	47	33	14	70.21	4,806.54	-3,232.37	2,122.86	-1,317.58	1.61	3.80	1,098.05
6	41,317.90	47	36	11	76.60	4,145.52	-4,537.50	1,616.18	-1,533.13	1.05	3.45	879.10
5	30,571.50	47	31	16	65.96	3,818.98	-4,022.26	1,722.22	-1,426.08	1.21	2.34	650.46
4	25,208.33	47	30	17	63.83	3,868.10	-3,878.82	1,534.05	-1,224.30	1.25	2.21	536.35
3	11,574.56	47	27	20	57.45	3,939.79	-5,393.69	1,428.57	-1,349.84	1.06	1.43	246.27
2	10,154.74	47	26	21	55.32	3,263.04	-4,632.95	1,306.56	-1,134.09	1.15	1.43	216.06
1	7,698.15	47	30	17	63.83	2,536.10	-2,968.54	860.74	-1,066.12	0.81	1.42	163.79

Results above suggest a solid bullish short-term edge. To see how it has played out over the years I have included below an equity curve assuming an 7-day exit strategy.



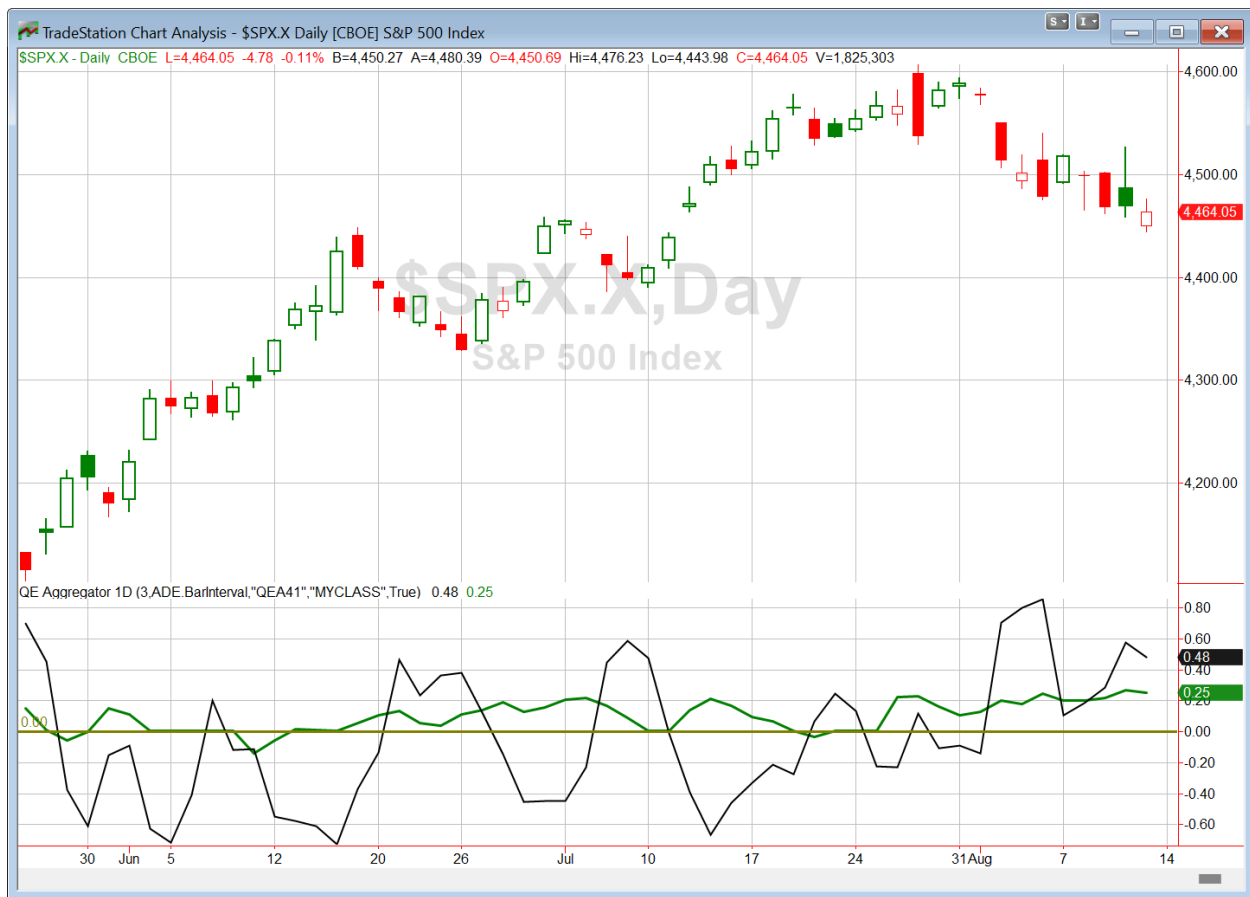
The strong, steady rise helps to confirm the upside edge suggested by the stats table.

Here is a quick glance at the 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

According to the Seasonality Calendar, this upcoming week the bulls will not be getting any extra aid from seasonality.

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



With this weekend'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 also still 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 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 4495.69 on Monday. That is 0.7% above Friday's close. Therefore, SPX will need to close up over 0.7% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator formation is again bullish. Evidence keeps pointing higher. Of course, it has not mattered much the last few days. SPX has bucked historical norms and failed to bounce so far. I still like the setup. And I believe the bullish evidence will matter at some point here. But when the market is acting against historical norms as it has been lately, then a little caution seems warranted. So I won't be increasing my position size on Monday. I will continue to hold my current index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/14– neutral

Combo #1	Combo #2	Combo #3	Combo #4
Long	Long	Flat	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.

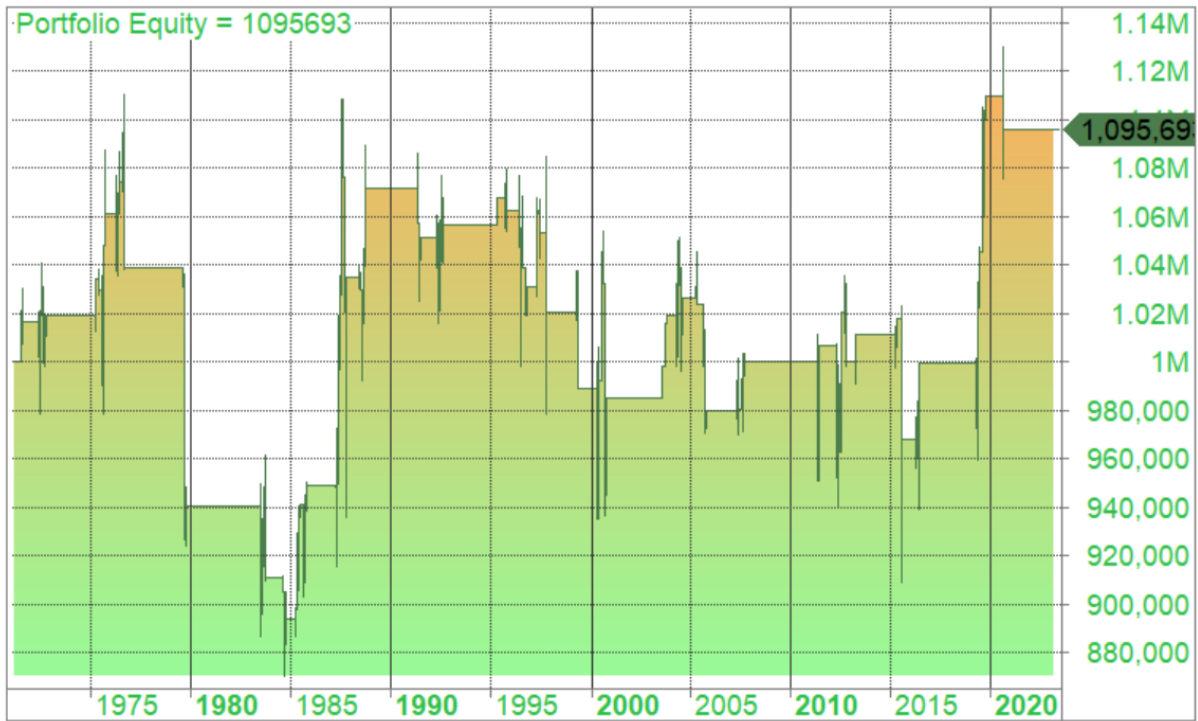
The underperformance of the NASDAQ caused it to fall into a lagging position vs the SPX. The NASDAQ has spent most of the year leading the rally. It only lagged for a few weeks in January, and one week in April. But it just fell into a lagging position for the 1st time since April. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below.

Historical Compound Returns of \$100,000 Starting Portfolio Using the NASDAQ/SPX Relative Strength Indicator as a Filter. 12/31/71 - 8/11/23.			
	Compound Annual Growth Rate	Max Drawdown	End Value of \$100,000
S&P 500 Index	7.59%	-56.78%	\$4,372,661.49
SPX when NASDAQ lags	-0.09%	-67.21%	\$95,631.05
SPX when NASDAQ leads	7.68%	-33.92%	\$4,572,428.14
NASDAQ Composite	9.71%	-77.93%	\$11,956,580.47
NASDAQ when lagging	-1.62%	-85.53%	\$43,109.66
NASDAQ when leading	11.51%	-40.62%	\$27,735,266.86
NASDAQ when leading (with interest when in cash)*	14.01%	-37.64%	\$87,229,906.39
*interest on cash calculated at historical 30-day Fed Funds rate			

More on this indicator can be found in the Market Timing Course. (Note: the Market Timing Course is free with all annual subscriptions. So if you have an annual and any trouble accessing it, please let me know.)

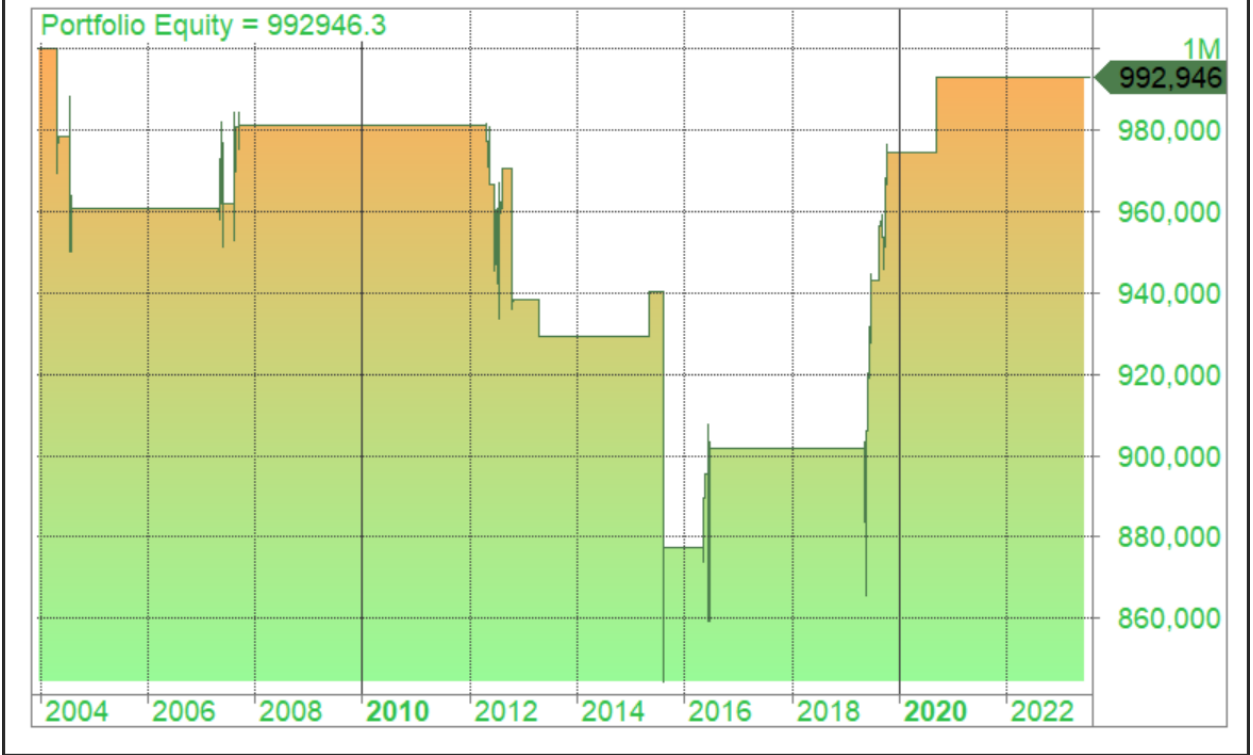
Speaking of the Market Timing Course, below is the performance of SPX when the original 4 indicators have all been aligned as they are now. This looks back to 1971.

Performance of a \$1million starting portfolio invested 100% under the following conditions and in cash (0% interest) otherwise: 1) SPX is in a Golden Cross formation. 2) The NASDAQ is lagging. 3) We are in the WORST 6 Months. 4) The Presidential Cycle is favorable.



That is not terribly encouraging. The market has just chopped around over the last 52 years under these circumstances. I also decided to include the Fed Liquidity indicator from the 2023 version of the Market Timing Course, and run the data back to the end of 2003. Here is how that has looked.

Performance of a \$1million starting portfolio invested 100% under the following conditions and in cash (0% interest) otherwise: 1) SPX is in a Golden Cross formation. 2) The NASDAQ is lagging. 3) We are in the WORST 6 Months. 4) The Presidential Cycle is favorable. 5) Fed Liquidity is NOT favorable.



This is even less encouraging, with mild net losses over the last 20 years. So while the more aggressive Combo Models remain positive, Combo #3 is now flat, and a detailed look at the current indicator mix seems more neutral.

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

Export Current Release to: [CSV](#) | [HTML](#)

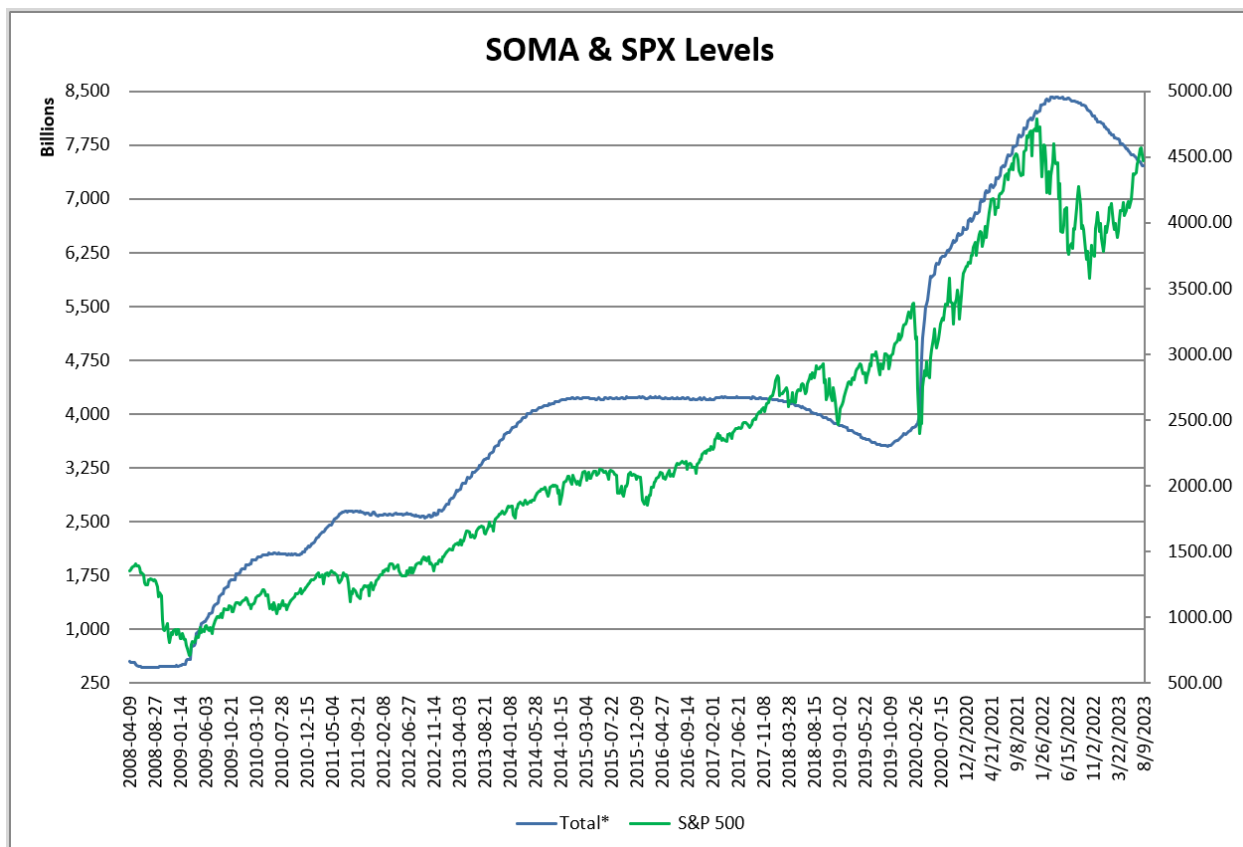
Domestic Security Holdings as of

◀ Previous **August 9, 2023** 📅
Posted August 10, 2023 at 4:30 PM

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

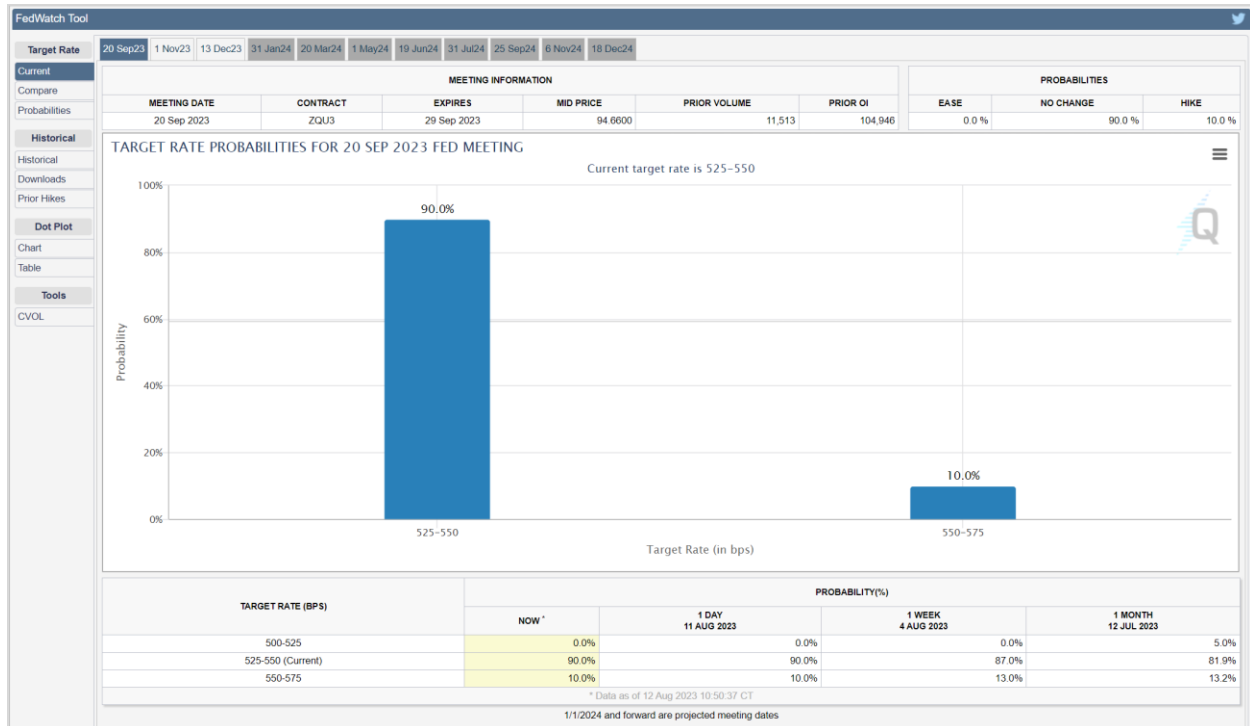
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	259,421,593.5
US Treasury Notes and Bonds (Notes/Bonds)	4,297,853,573.9
US Treasury Floating Rate Notes (FRNs)	17,745,390.6
US Treasury Inflation-Protected Securities (TIPS)*	364,549,286.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,509,187,003.8
Agency Commercial Mortgage-Backed Securities***	8,372,458.1
Total SOMA Holdings	7,459,476,306.5

We don't see any change from the prior week on this table, like we typically do. That is because there was no change from the prior week. This was a bit of a surprise, since I was expecting some decline. This week we will almost certainly see a very large decline, since there is a massive amount of bonds holdings set to mature on the 15th. 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 hike at the September meeting are now only about 10%, which is down slightly from 13% 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.

The bullish case has been fading over the last few weeks. Evidence now appears more mixed. The Dow win streak study from a few weeks ago will expire on Tuesday. So bulls are banking on a continuation of the uptrend. We remain in a favorable period of the Presidential Cycle. But other than that, and the current trend, there is not much suggesting the rally is highly likely to continue. The NASDAQ is now lagging. The Fed remains 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. The rally may be getting tired, but bearish evidence is not so strong that I’m going to fight the long-term uptrend. I’m looking at this mixed bag and considering it neutral. I am open to both long and short trades, but I won’t be overly aggressive in either direction. I am also open to new evidence that could sway me in either direction.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

F @ \$14.03 (bought @ limit)

ABT @ \$107.54 (bought @ limit)

AAPL @ \$181.99 (bought @ limit)

AAPL @ \$178.85 (bought @ limit)

Broad Market Large Cap CBI – 4(F, ABT, AAPL-2)

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	\$12.14	-13.35%	Catapult
SPY(1/4)	8/3/2023	\$448.04	\$445.65	-0.53%	Aggregator
SPY(1/4)	8/4/2023	\$446.81	\$445.65	-0.26%	Aggregator
ABT(1/3)	8/4/2023	\$107.32	\$105.31	-1.87%	Catapult
AAPL(1/3)	8/7/2023	\$181.99	\$177.79	-2.31%	Catapult
AAPL(1/3)	8/8/2023	\$178.85	\$177.79	-0.59%	Catapult

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