

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 21, 2023

Volume 16 Issue 159

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	8

Tonight's Research Points

- 4 lower lows and a 20-day low have typically been followed by a bounce.
- The QE Seasonality Calendar has some bullish numbers this upcoming week. And then it turns quite sour for much of September.
- The CBI remains at 8.
- The SOMA had a huge decline last week, and this week should see an additional reduction.

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 21, 2023	4 Lower lows & lowest low 20	1-7 days	Bullish	2.20%	-1.65%	-3.40%
August 18, 2023	SPY closes btm 10% rng 2x in 3 days > 200	1-8 days	Bullish	2.90%	-1.30%	-2.80%
August 18, 2023	20-day low close 3x > 200ma	1-4 days	Bullish	2.20%	-1.20%	-2.70%
August 17, 2023	CBI rises to 7 or higher	1-5 days	Bullish			
August 17, 2023	Gap dn from 20-low. Close < open	1-5 days	Bullish	2.60%	-1.10%	-2.20%
August 15, 2023	20-low to 4-high.	1-8 days	Bullish	2.50%	-1.30%	-2.90%
Active - Long Term						
August 15, 2023	20-low to 4-high.	1-20 days	Bullish	4.00%	-2.00%	-4.30%
August 14, 2023	NASDAQ Lagging	int term	Neutral			
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			

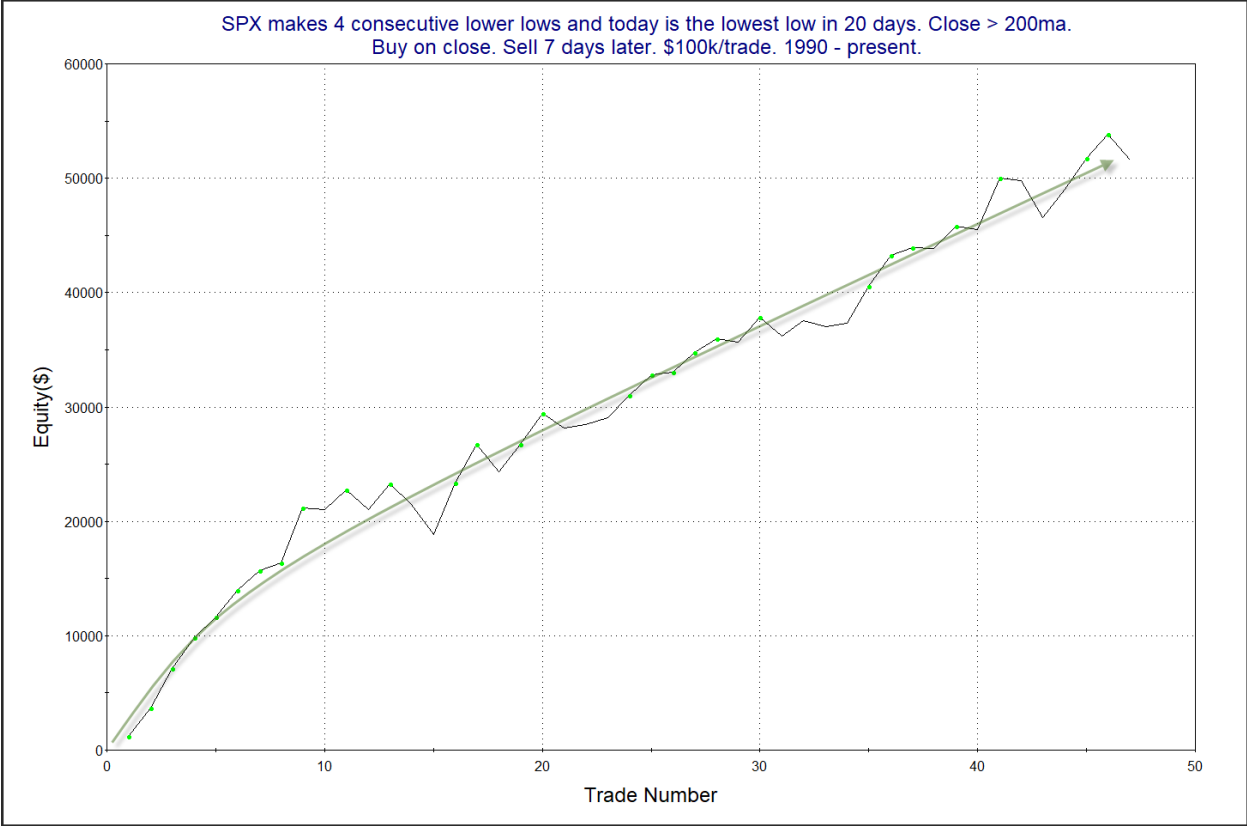
The Evidence

Friday started with a sizable gap down but by the end of the day, the losses were greatly reduced or eliminated. The SPX closed down 0.01%, the NASDAQ lost 0.20%, and the Russell 2000 rose 0.5%. Breadth was positive with the NYSE Up Issues % coming in at 56% and the Up Volume % at 61%. NYSE total volume came in high as it typically does on opex Friday.

The flattish finish did not produce much suggesting a clear and compelling edge. There was one study that looked at the series of lower lows with compelling results. You may remember it, since I last discussed it just a week ago in the 8/14/23 letter. The stats table below is updated.

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	28,496.02	48	31	17	64.58	3,818.98	-4,022.26	1,722.22	-1,464.28	1.18	2.14	593.67
4	23,147.15	48	30	18	62.50	3,868.10	-3,878.82	1,534.05	-1,270.79	1.21	2.01	482.23
3	10,260.72	48	27	21	56.25	3,939.79	-5,393.69	1,428.57	-1,348.13	1.06	1.36	213.77
2	9,578.56	48	26	22	54.17	3,263.04	-4,632.95	1,306.56	-1,108.73	1.18	1.39	199.55
1	8,262.89	48	31	17	64.58	2,536.10	-2,968.54	851.19	-1,066.12	0.80	1.46	172.14

Results above suggest a solid bullish short-term edge. Below is another look at the equity curve assuming a 7-day exit strategy.



The strong, steady rise helps to confirm the upside edge suggested by the stats table. I have decided to restart this one on the active list.

Below is a 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 has some moderately bullish numbers. So perhaps that will help the bulls with a bounce. The next week is more neutral. I also ran the preliminary Calendars for September. The SPX one can be found below.

Quantifiable Edges Seasonality Calendar			
SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
9/1/2023	58.57	1.421	0.103
9/5/2023	49.47	1.040	0.012
9/6/2023	53.92	1.266	0.073
9/7/2023	51.03	1.013	0.002
9/8/2023	55.63	1.248	0.071
9/11/2023	53.21	0.926	-0.032
9/12/2023	51.07	1.056	0.016
9/13/2023	52.36	0.951	-0.018
9/14/2023	54.28	0.957	-0.019
9/15/2023	49.98	0.912	-0.030
9/18/2023	52.46	0.916	-0.040
9/19/2023	49.69	1.190	0.024
9/20/2023	47.41	0.941	-0.032
9/21/2023	48.48	0.828	-0.069
9/22/2023	48.99	0.825	-0.070
9/25/2023	52.14	0.998	-0.005
9/26/2023	51.45	1.002	-0.002
9/27/2023	52.01	1.098	0.027
9/28/2023	55.04	1.203	0.054
9/29/2023	53.09	0.951	-0.019
Baseline	53.57	1.130	0.044

September has historically been the weakest month of the year, and the numbers we see here are among the worst I can recall for an SPX QE Seasonality Calendar. Bulls will not be helped by seasonal forces in September.

Also notable is that the CBI remained at 8 for the 3rd day in a row. We are very close to the 10 level where I would get more aggressive, but it will likely take a bit more selling to get there.

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 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. With all the bullish short-term evidence, this is unlikely to change. Meanwhile, the Differential Pivot will be 4424.23 on Monday. That is 1.25% above Friday's close. Therefore, SPX will need to close up over 1.25% on Monday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator formation is again bullish. Short-term evidence continues to be dominated by bullish studies. I like the long side and have a fairly sizable SPY position already. I'm not quite ready to commit my final allocation. I'd prefer to see the CBI reach 10 or higher before doing so. So I will sit tight, expecting a short-term bounce, but ready to add one more lot in the coming days if the oversold stretch and the bullish evidence gets even more extreme.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/21– neutral

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

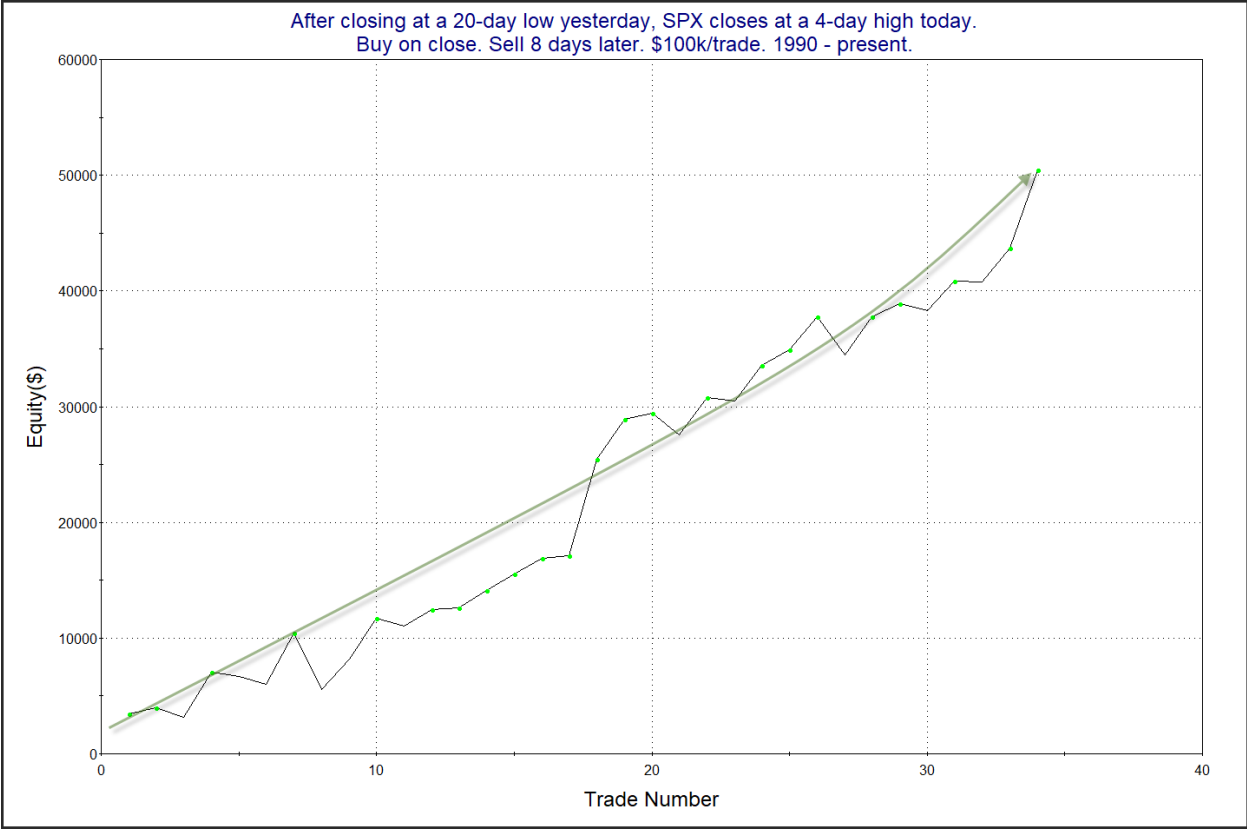
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course – *Updated and Expanded for 2023!* Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. *There were no changes to the Combo Systems this week.*

This was the 3rd bad week in a row for stocks. The SPX sank 2.1%, the NASDAQ dropped 2.6%, and the Russell 2000 lost 3.4%. Bonds also struggled. The US Aggregate Bond ETF (AGG) posted a loss of 0.5%. TLT, the 20-year Treasury Bond ETF, fell 1.7%. Long-term uptrends for the SPX and NASDAQ remain in place. There was one new study that triggered this week with bullish intermediate-term implications. It was from Monday night’s letter, and I have copied it below.

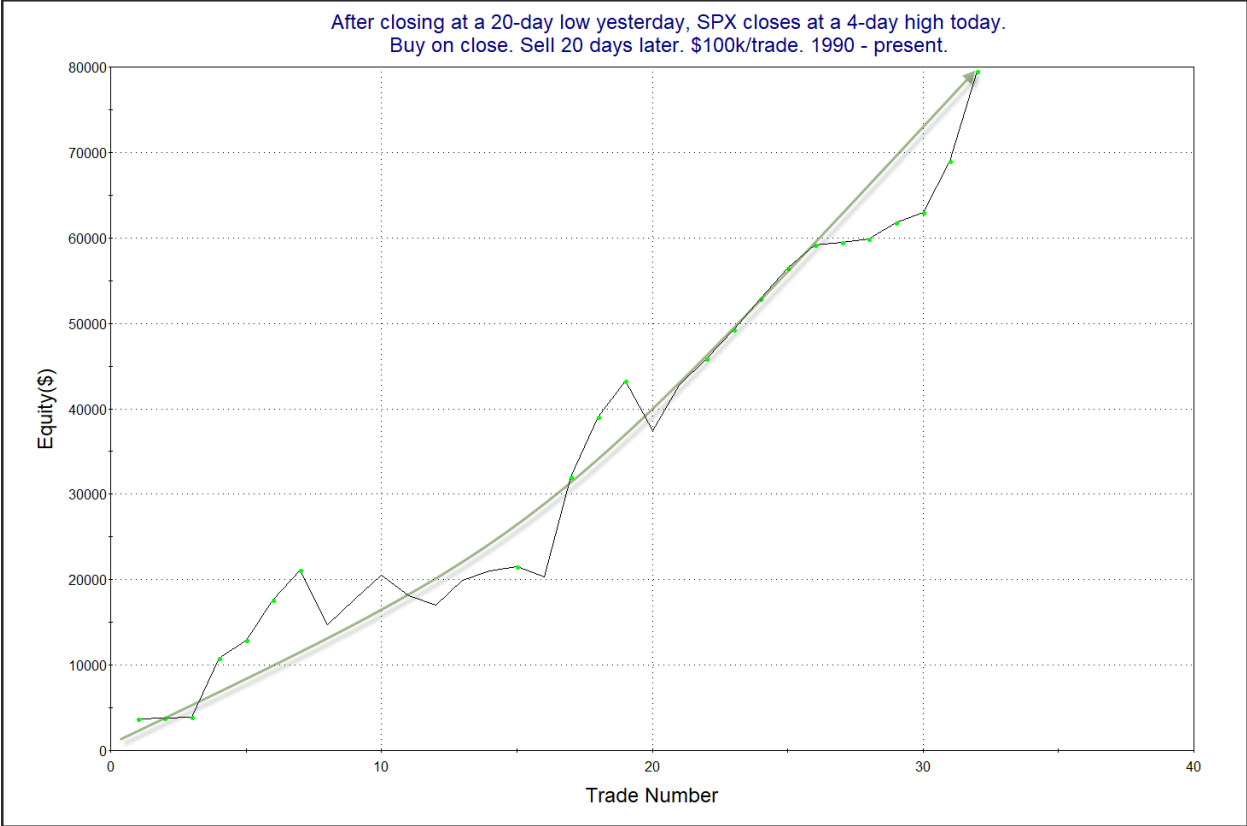
Monday’s move was big enough to flip SPX from a 20-day low close to a 4-day high close. In the 6/5/19 letter I looked at other times in which the market put in a strong thrust off at least a 20-day low like this. I have updated the results below.

After closing at a 20-day low yesterday, SPX closes at a 4-day high today. 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
20	79,504.94	32	27	5	84.38	11,665.50	-6,379.08	3,569.23	-3,372.85	1.06	5.71	2,484.53
19	76,327.95	32	25	7	78.13	12,037.30	-6,347.80	3,767.48	-2,551.29	1.48	5.27	2,385.25
18	70,405.43	33	27	6	81.82	10,563.30	-4,148.97	3,153.16	-2,455.00	1.28	5.78	2,133.50
17	68,733.87	33	26	7	78.79	11,183.70	-4,247.96	3,267.86	-2,318.62	1.41	5.23	2,082.84
16	66,224.53	33	25	8	75.76	11,506.00	-4,320.78	3,233.27	-1,825.89	1.77	5.53	2,006.80
15	60,367.16	33	23	10	69.70	11,173.80	-4,723.96	3,286.95	-1,523.27	2.16	4.96	1,829.31
14	62,203.94	34	26	8	76.47	9,507.30	-7,897.52	3,065.96	-2,188.88	1.40	4.55	1,829.53
13	54,318.89	34	25	9	73.53	9,427.00	-7,363.04	2,921.60	-2,080.12	1.40	3.90	1,597.61
12	52,049.39	34	23	11	67.65	8,151.00	-5,686.84	3,031.08	-1,605.95	1.89	3.95	1,530.86
11	59,269.95	34	26	8	76.47	8,978.70	-5,722.20	2,808.41	-1,718.58	1.63	5.31	1,743.23
10	56,323.00	34	25	9	73.53	9,500.10	-8,745.48	2,905.84	-1,813.66	1.60	4.45	1,656.56
9	53,381.46	34	24	10	70.59	8,603.10	-6,371.60	2,717.44	-1,183.72	2.30	5.51	1,570.04
8	50,489.70	34	24	10	70.59	8,276.40	-4,917.08	2,667.24	-1,352.40	1.97	4.73	1,484.99
7	40,883.17	34	23	11	67.65	7,872.60	-4,106.50	2,534.74	-1,583.27	1.60	3.35	1,202.45
6	34,951.87	34	21	13	61.76	7,058.70	-5,306.50	2,453.68	-1,275.04	1.92	3.11	1,028.00
5	30,482.49	34	22	12	64.71	7,207.80	-5,320.00	2,102.31	-1,314.02	1.60	2.93	896.54
4	30,709.80	35	25	10	71.43	5,976.00	-4,559.50	1,847.05	-1,546.65	1.19	2.99	877.42
3	26,202.74	35	25	10	71.43	6,006.30	-4,707.50	1,669.15	-1,552.60	1.08	2.69	748.65
2	20,237.11	36	27	9	75.00	3,996.00	-3,138.00	1,208.25	-1,376.19	0.88	2.63	562.14
1	3,624.39	36	19	17	52.78	2,536.10	-2,034.00	766.01	-642.93	1.19	1.33	100.68

Pretty much from the start there appears to be a strong and consistent edge over the next 4 weeks. This suggests a decent chance that Monday’s rally was the beginning of a continued move higher. I produced profit curves for the 8-day and 20-day holding periods highlighted above. First, the 8 day...



The strong and improving upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 20-day curve.

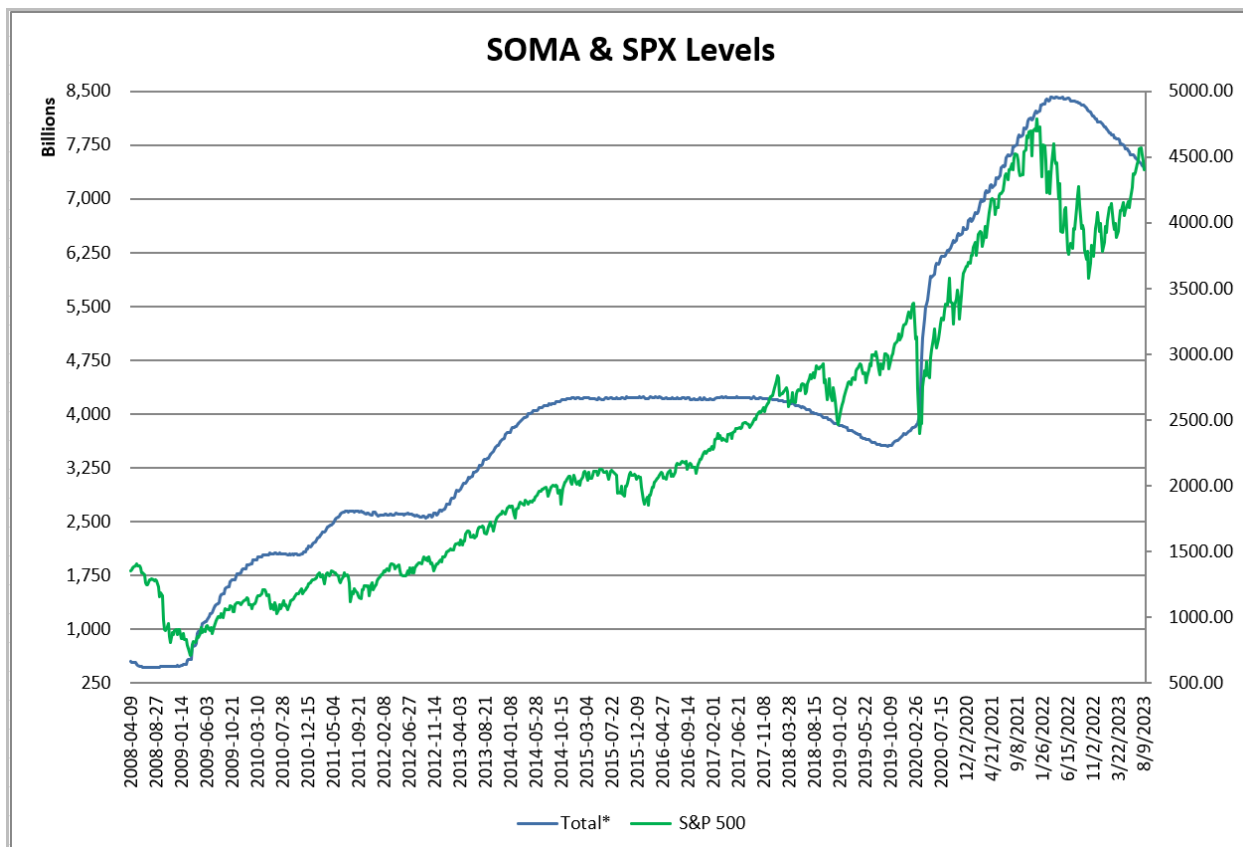


This one is a little choppy, but it sure has been strong lately, with 15 of the last 16 instances all closing higher, including the last 12.

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

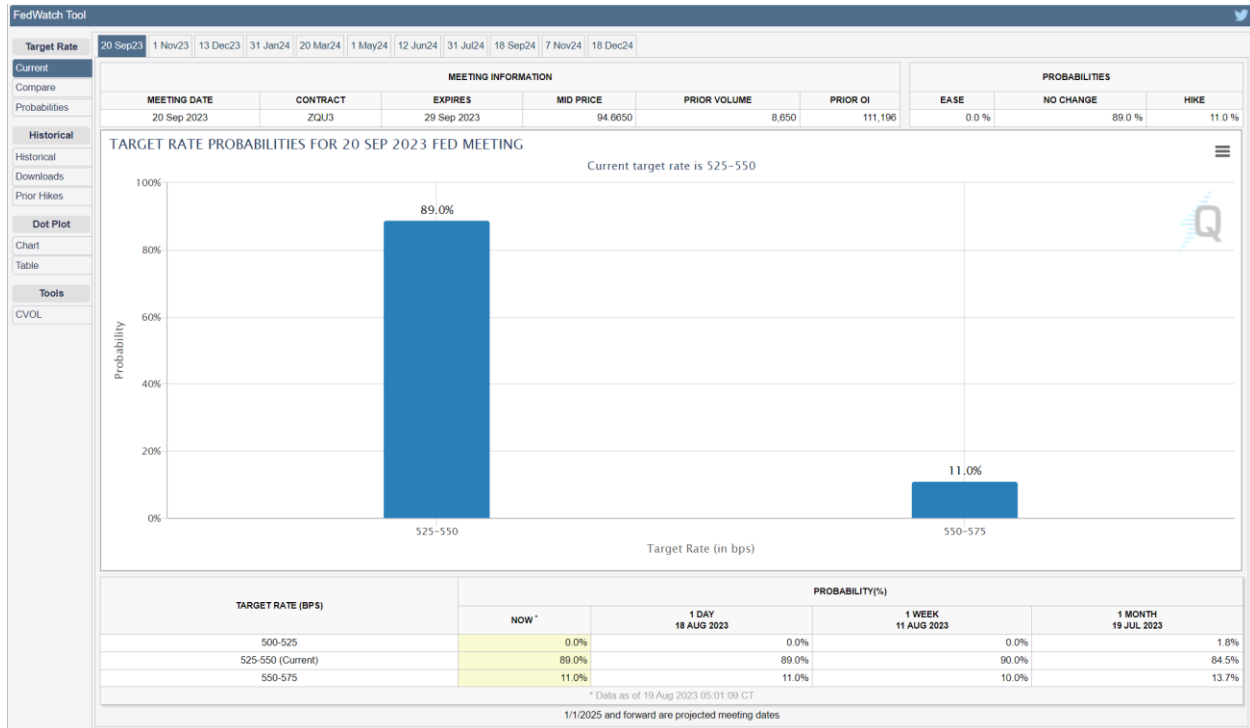
Domestic Security Holdings as of	
◀ Previous	August 16, 2023 <i>Posted August 17, 2023 at 4:30 P.M</i>
SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	259,421,593.5
US Treasury Notes and Bonds (Notes/Bonds)	4,255,213,565.8
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***	2,509,113,593.1
Agency Commercial Mortgage-Backed Securities***	8,369,123.8
Total SOMA Holdings	7,416,759,553.2
Change From Prior Week	-42,716,753.2

As we expected with the massive number of bonds maturing on 15th, there was a huge drop in the SOMA this past week. Nearly \$43 billion is the 4th largest decline we have seen in 2023. For the current week, there are no notes or bonds expiring, but there is about \$15 billion in t-bills expiring. So we will likely see a further 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 is about 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 barely changed this week. They are only about 11%, which is up slightly from 10% 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 bulls got a little more evidence for their case this week with the 20-low to 4-high study. But that is so far off to a bad start. The long-term trend is still higher and we remain in a favorable period of the Presidential Cycle. Still, there is quite a bit the bulls have to contend with. The NASDAQ is 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 the QE Seasonality Calendar for September is looking pretty grim. With this mix of evidence, I am keeping my bias neutral. I am open to both long and short trades, but I will want very compelling evidence to get heavily involved. 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)

AAPL @ \$181.99 (bought @ limit)

AAPL @ \$178.85 (bought @ limit)

SCHW @ \$61.78 (bought @ limit)

F @ \$11.98 (bought @ limit)

SCHW @ \$60.97 (bought @ limit)

ABT @ \$104.53 (bought @ limit)

SCHW @ \$60.45 (bought @ limit)

Broad Market Large Cap CBI – 8(F-2, AAPL-2, SCHW-3, ABT)

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 tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
F(1/3)	7/21/2023	\$14.01	\$11.96	-14.63%	Catapult
SPY(1/4)	8/3/2023	\$448.04	\$436.50	-2.58%	Aggregator
SPY(1/4)	8/4/2023	\$446.81	\$436.50	-2.31%	Aggregator
AAPL(1/3)	8/7/2023	\$181.99	\$174.49	-4.12%	Catapult
AAPL(1/3)	8/8/2023	\$178.85	\$174.49	-2.44%	Catapult
SCHW(1/3)	8/15/2023	\$61.00	\$59.52	-2.43%	Catapult
SCHW(1/3)	8/16/2023	\$60.51	\$59.52	-1.64%	Catapult
F(1/3)	8/16/2023	\$11.90	\$11.96	0.50%	Catapult
SPY(1/4)	8/17/2023	\$439.64	\$436.50	-0.71%	Aggregator
SCHW(1/3)	8/17/2023	\$60.30	\$59.52	-1.29%	Catapult
ABT(1/3)	8/17/2023	\$104.53	\$103.71	-0.78%	Catapult

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