

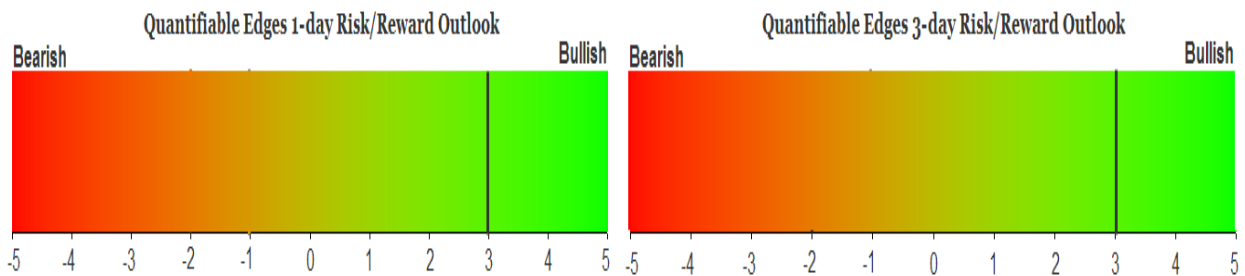
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 28, 2023

Volume 16 Issue 164

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	7

Tonight's Research Points

- SPY's 2-day pattern suggests it could be set up to bounce further.
- The CBI rose to 7.
- The Seasonality Calendar is mixed this week.
- The SOMA continued its decline, and the Fed remains hawkish.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. A decent bounce has been hard to come by, but odds still favor one. I 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 28, 2023	Higher Hi cls dn. Lower low close up < 10	1-5 days	Bullish	1.80%	-1.35%	-2.50%
August 28, 2023	CBI rises to 7 or higher	1-5 days	Bullish			
August 25, 2023	Up yest. Outside day down 1% today	1-4 days	Bullish	2.00%	-1.20%	-2.60%
August 23, 2023	20 low close. 3 closes in intraday range	1-5 days	Bullish	2.00%	-1.20%	-2.60%
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%
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			

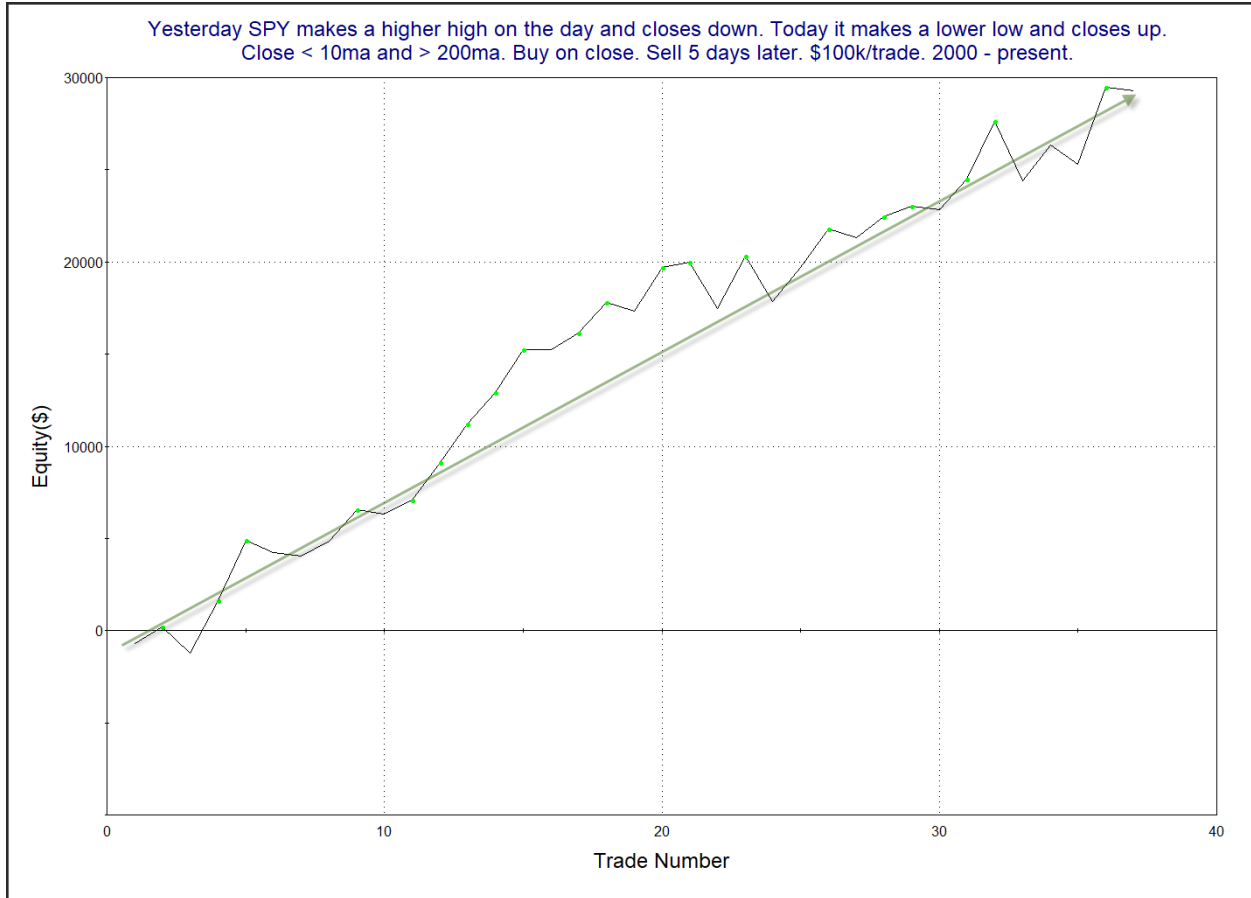
The Evidence

The market was not sure whether it liked Powell’s speech or not. So there was a good amount of back and forth before late strength left the numbers all higher. The SPX rose 0.7%, the NASDAQ gained 0.9%, and the Russell 2000 climbed 0.4%. Breadth was moderately positive with the NYSE Up Issues % coming in at 60.0% and the Up Volume % at 60.2%. NYSE total volume was light heading into the weekend.

On Thursday the bulls tried to make a move higher and failed, making for a higher high and a lower close. On Friday the opposite happened. The bears failed in their attempt at a move lower. In the 7/11/23 Subscriber Letter I looked at two-day moves like this. I found results to be substantially different based on whether the market is near the top or the bottom of its short-term range. When the pattern occurs in the lower end of the short-term range it has been bullish over the next 4-5 days. This can be seen in the below test.

Yesterday SPY makes a higher high on the day and closes down. Today it makes a lower low and closes up. Close < 10ma and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1/1/2000 - 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	29,297.38	37	23	13	62.16	4,183.86	-3,202.60	1,871.68	-1,057.80	1.77	3.13	791.82
4	23,445.75	39	29	10	74.36	3,519.51	-2,597.76	1,254.33	-1,292.97	0.97	2.81	601.17
3	14,577.64	39	26	13	66.67	2,740.83	-4,266.24	1,088.66	-1,055.97	1.03	2.06	373.79
2	10,252.39	39	22	17	56.41	3,303.21	-2,271.36	1,167.86	-908.27	1.29	1.66	262.88
1	2,504.87	39	20	19	51.28	1,722.12	-1,972.23	807.87	-718.56	1.12	1.18	64.23

Odds favor a move higher and the stats are impressive over the next 4-5 days. Here is a look at the 5-day profit curve.



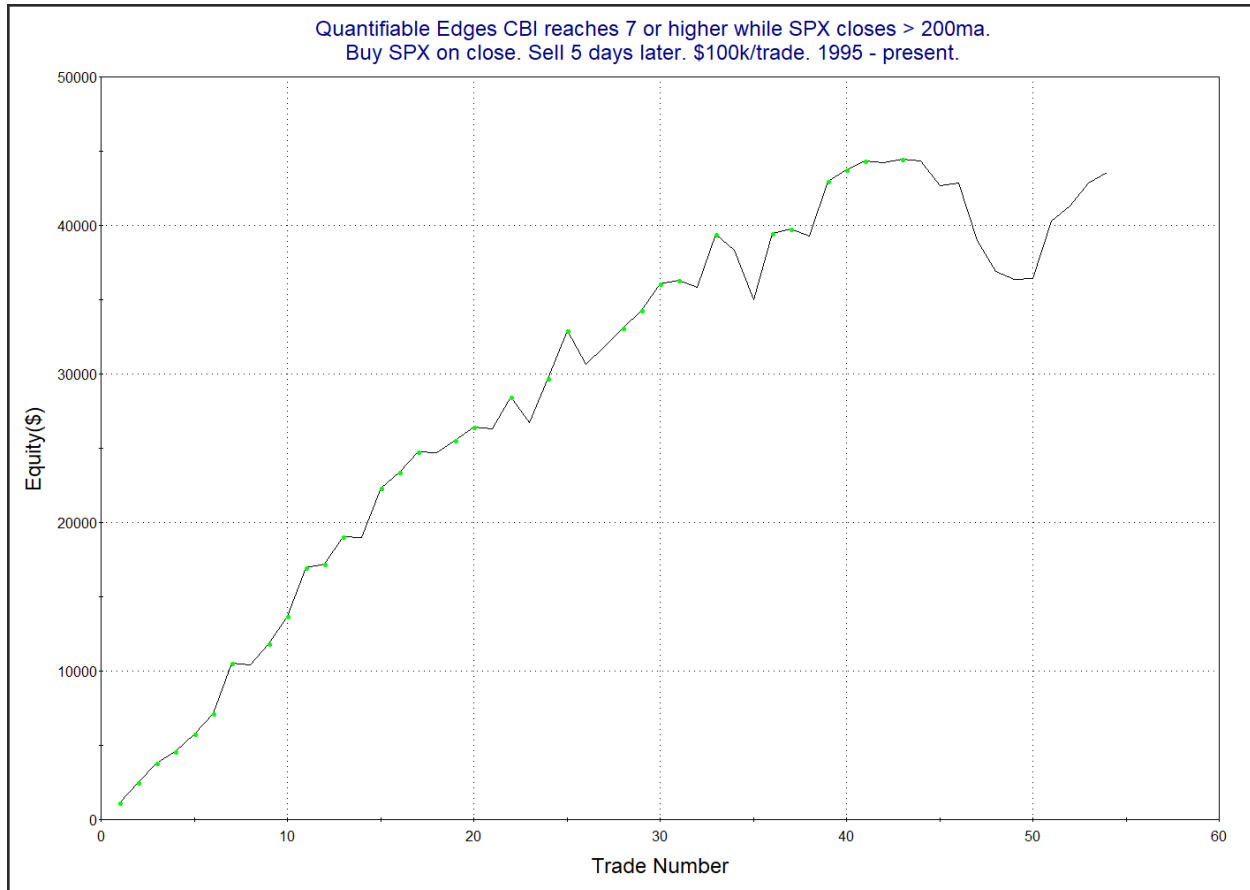
That is a steady move from lower left to upper right. This serves as some confirmation of the upside edge suggested by the results table. I have added this study to the Active List.

It is also notable that the Quantifiable Edge Capitulative Breadth Index (CBI) moved back up to 7 on Wednesday. While I have always considered 10 or higher to be strongly bullish, reaching seven has historically shown a decent upside edge as well. Just recently, in the 8/17/23 letter, I showed performance following other times the CBI rose to 7 or higher while SPX was above its 200ma. I have updated that study below.

Quantifiable Edges CBI reaches 7 or higher while SPX closes > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	43,559.36	54	38	16	70.37	4,445.50	-3,870.04	1,622.05	-1,129.92	1.44	3.41	806.65
4	32,067.99	54	35	19	64.81	4,051.00	-3,528.00	1,498.09	-1,071.85	1.40	2.57	593.85
3	16,400.76	55	36	19	65.45	3,581.16	-5,393.69	1,176.79	-1,366.51	0.86	1.63	298.20
2	9,849.80	55	32	23	58.18	3,263.04	-4,632.95	1,071.24	-1,062.17	1.01	1.40	179.09
1	6,760.43	55	32	23	58.18	1,709.40	-2,050.91	710.68	-694.84	1.02	1.42	122.92

The numbers are not spectacular, but they appear to suggest a solid upside edge. Below is a curve for the 5-day holding period.



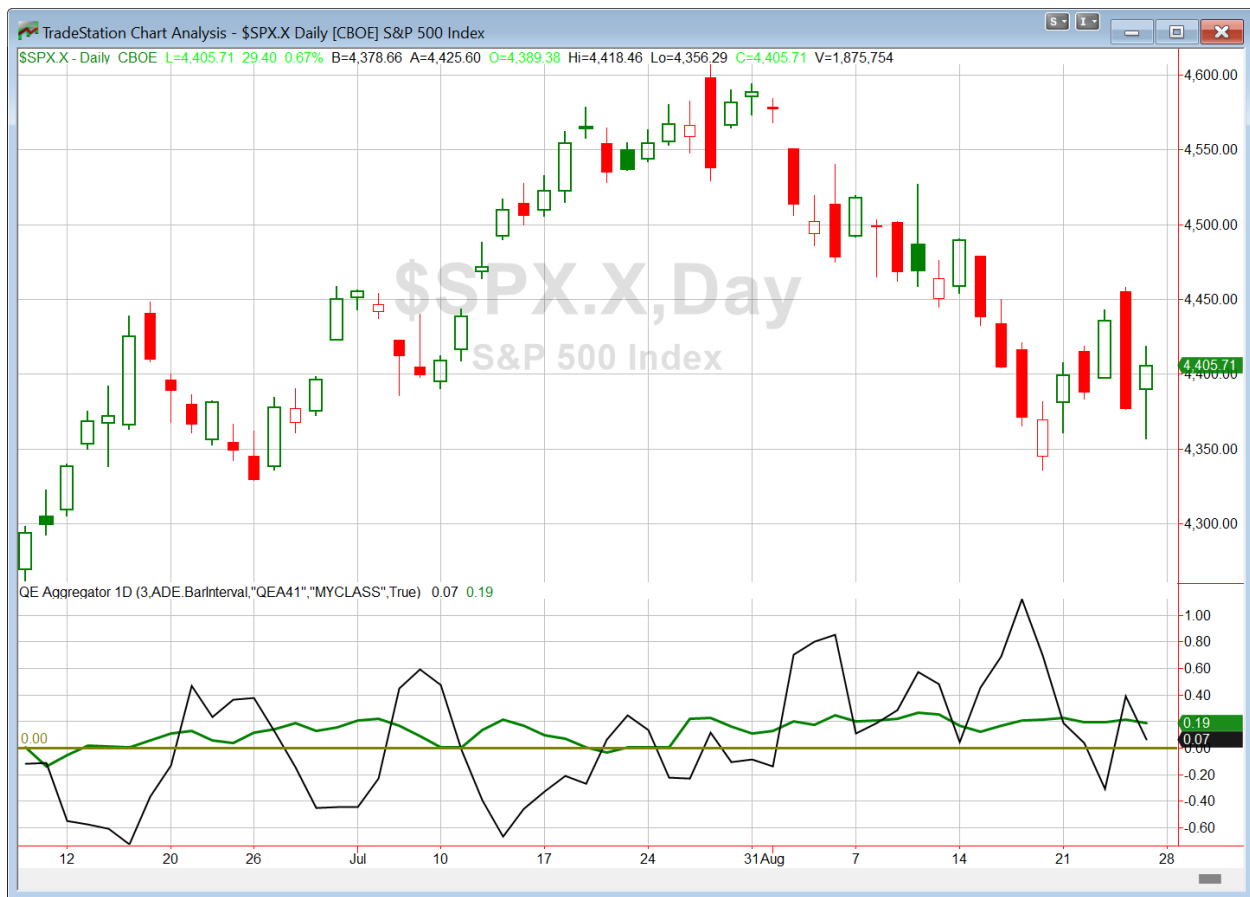
This struggled some between 2019 and 2021, but has begun to get back on track over the last couple of years. Overall, the CBI reaching 7 appears to be a positive. If it hits 10 or higher that will almost certainly generate even more compelling studies.

We are now entering the final week of August. So far this month, SPX is down 4.0%, the NASDAQ has lost 5.3%, and the Russell 2000 is at negative 7.5%. And while action has been choppy, neither the SPX nor the Russell 2000 have managed to string together back-to-back up days since July. If bears are really in charge that behavior could continue. But we have seen a good amount of short-term bullish evidence recently, including the somewhat-high CBI. So perhaps the overdue bounce will arrive, convincing just enough people that the worst is over before the bears take back control for another leg down during a weak seasonal period (September). Speaking of seasonality, below is a look at the QE Calendar.

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	

Numbers this upcoming week are mixed and mostly moderate. The strongest days are Thursday and Friday. (Friday can be seen on the preliminary September Calendar on the site.)

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 also 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 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 4462.49 on Monday. That is 1.3% above Friday's close. So SPX will need to close up at least 1.3% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator formation is bullish. Compelling evidence and an oversold market point to an upside edge. I still have a small amount of SPY. I won't look to add to that position just yet. I am not inclined to get overly aggressive right now. If we see the CBI spike to 10 or higher in the coming days, I will certainly be upping my long index exposure.


Intermediate-term Outlook (2 weeks – 2 months) – updated 8/28– neutral

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

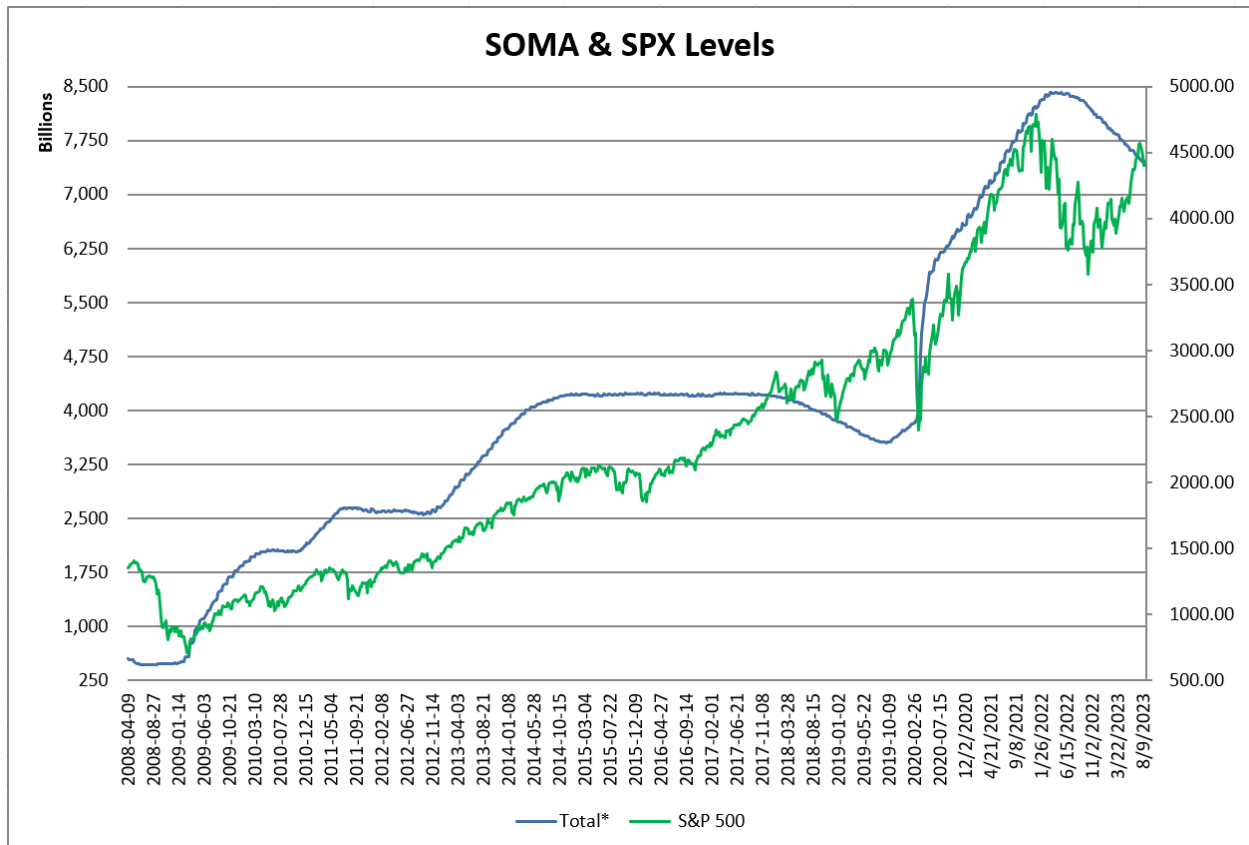
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course – **Updated and Expanded for 2023!** Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable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

Most stock indices finished with gains this past week. The SPX rose 0.8%, the NASDAQ rallied 2.3%, and the Russell 2000 *lost* 0.3%. Bonds had a bit of a rebound. The US Aggregate Bond ETF (AGG) posted a gain of 0.3%. TLT, the 20-year Treasury Bond ETF, rallied 1.55%. Neither bond index made up for the losses of the previous week. Long-term uptrends for the SPX and NASDAQ remain in place. There were no new studies with intermediate-term implications that triggered in the last few days.

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

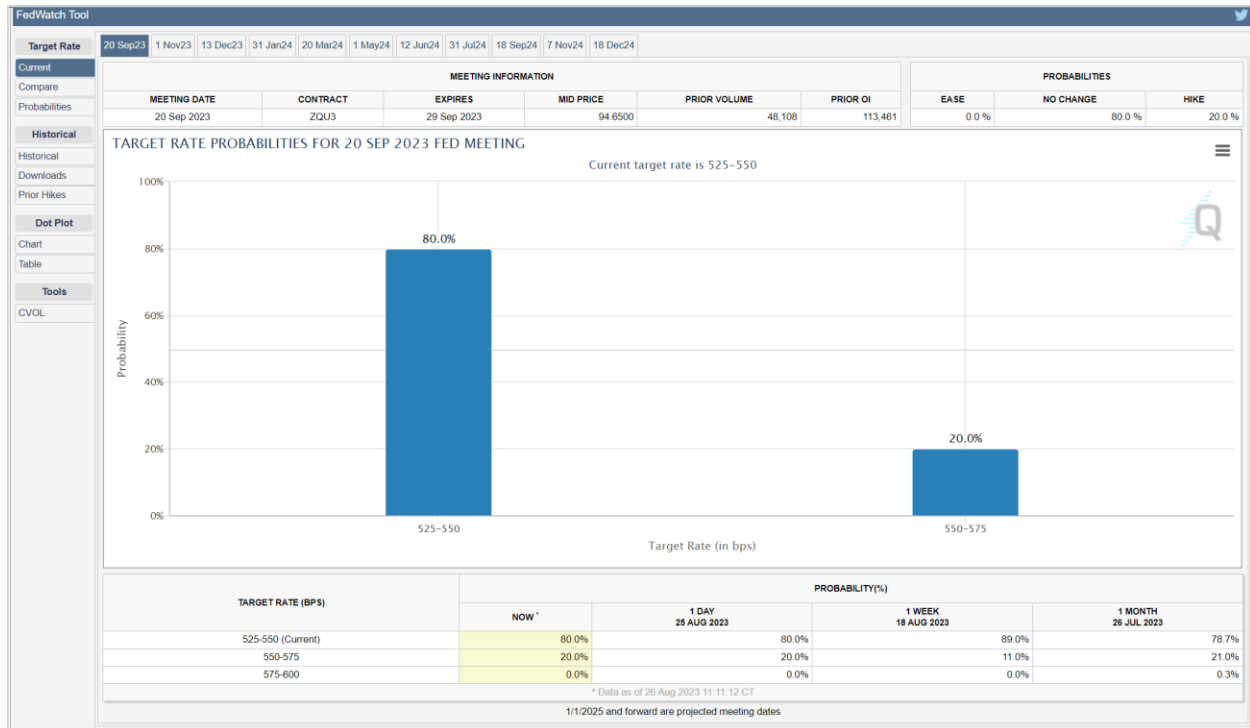
Domestic Security Holdings as of	
◀ Previous	August 23, 2023 
Posted August 24, 2023 at 4:30 PM	
SUMMARY	T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	259,421,593.5
US Treasury Notes and Bonds (Notes/Bonds)	4,255,288,565.8
US 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***	2,504,770,803.4
Agency Commercial Mortgage-Backed Securities***	8,369,123.8
Total SOMA Holdings	7,412,491,763.6
Change From Prior Week	-4,267,789.7

As we expected, there was another drop in the SOMA this past week. At \$4.3 billion it was not terribly large. For the current week, I again expect to see a fairly mild decline. 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 (QT) 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 saw a mild increase this week. They are about 20%, which is up from 11% 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. With regards to the November meeting, odds of an additional hike are above 50%. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

The bulls have some studies pointing their way. Additionally, 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. As always, 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

SCHW @ \$61.78 (bought @ limit)

SCHW @ \$60.97 (bought @ limit)

SCHW @ \$60.45 (bought @ limit)

CHTR @ \$413.38 (bought @ limit)

ABBV @ \$147.08 (bought @ limit)

ABBV @ \$146.63 (bought @ limit)

New

AMGN @ \$256.38 (buy @ limit)

Broad Market Large Cap CBI – 7 (SCHW-3, CHTR, ABBV-2, AMGN)

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.

AMGN – Buy 1/3 Catapult position @ \$256.38 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of AMGN.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SCHW(1/3)	8/15/2023	\$61.00	\$58.15	-4.67%	Catapult
SCHW(1/3)	8/16/2023	\$60.51	\$58.15	-3.90%	Catapult
SPY(1/4)	8/17/2023	\$439.64	\$439.97	0.08%	Aggregator
SCHW(1/3)	8/17/2023	\$60.30	\$58.15	-3.57%	Catapult
CHTR(1/3)	8/23/2023	\$415.38	\$416.78	0.34%	Catapult
ABBV(1/3)	8/24/2023	\$146.92	\$146.69	-0.16%	Catapult
ABBV(1/3)	8/24/2023	\$146.63	\$146.69	0.04%	Catapult

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser in the States of Washington, California, Colorado, Texas, Massachusetts, and Louisiana, Eastsound Capital Advisors, LLC (ECA) d.b.a. Capital Advisors 360. ECA may not transact business in states where it is not appropriately registered, excluded or exempted from registration. Individualized responses to persons that involve either the effecting of transaction in securities, or the rendering of personalized investment advice for compensation, will not be made without registration or exemption. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter from QE at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2023 Quantifiable Edges, LLC.