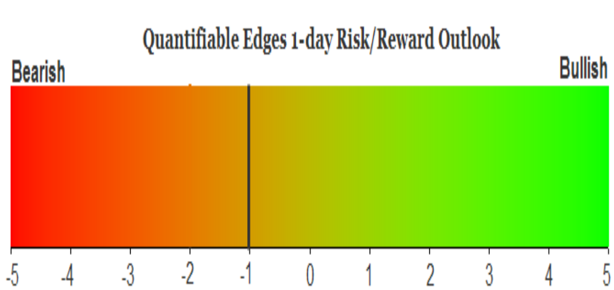
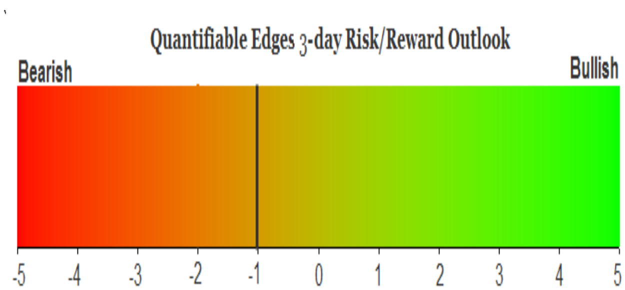
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 5, 2023 Volume 16 Issue 169

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	1

Tonight's Research Points

- The week after Labor Day has often struggled when the market has rallied leading up to it.
- September seasonality is not strong – especially in the week after options expiration.
- The NASDAQ re-took relative leadership from the SPX, which is a positive intermediate-term sign.
- The SOMA continues to decline as QT is strong. This week's numbers should be no exception.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. But the signal appears marginal. I am more neutral than bearish.

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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						
September 5, 2023	Labor Day week when SPX up last 20 days	1-4 days	Bearish	-1.60%	0.90%	2.00%
September 1, 2023	SPY 3 higher hi, lo, cls. Lower cls.	1-4 days	Bullish	1.30%	-0.80%	-1.70%
September 1, 2023	VIX < BB 2x. SPX < 20-high.	1-2 days	Bearish			
Active - Long Term						
September 5, 2023	NASDAQ Leading	int term	Bullish			
August 15, 2023	20-low to 4-high.	1-20 days	Bullish	4.00%	-2.00%	-4.30%
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
September 1, 2023	End of month. Close bottom of daily range	1 day	Bullish			
September 1, 2023	Jobs tomorrow. SPX > 200ma.	1 day	Bullish			

The Evidence

Friday started strong but finished mixed. The SPX rose 0.2%, the NASDAQ dipped 0.02%, and the Russell 2000 rallied 1.1%. Breadth was positive with the NYSE Up Issues % coming in at 64% and the Up Volume % at 73%. NYSE volume was light heading into the long weekend.

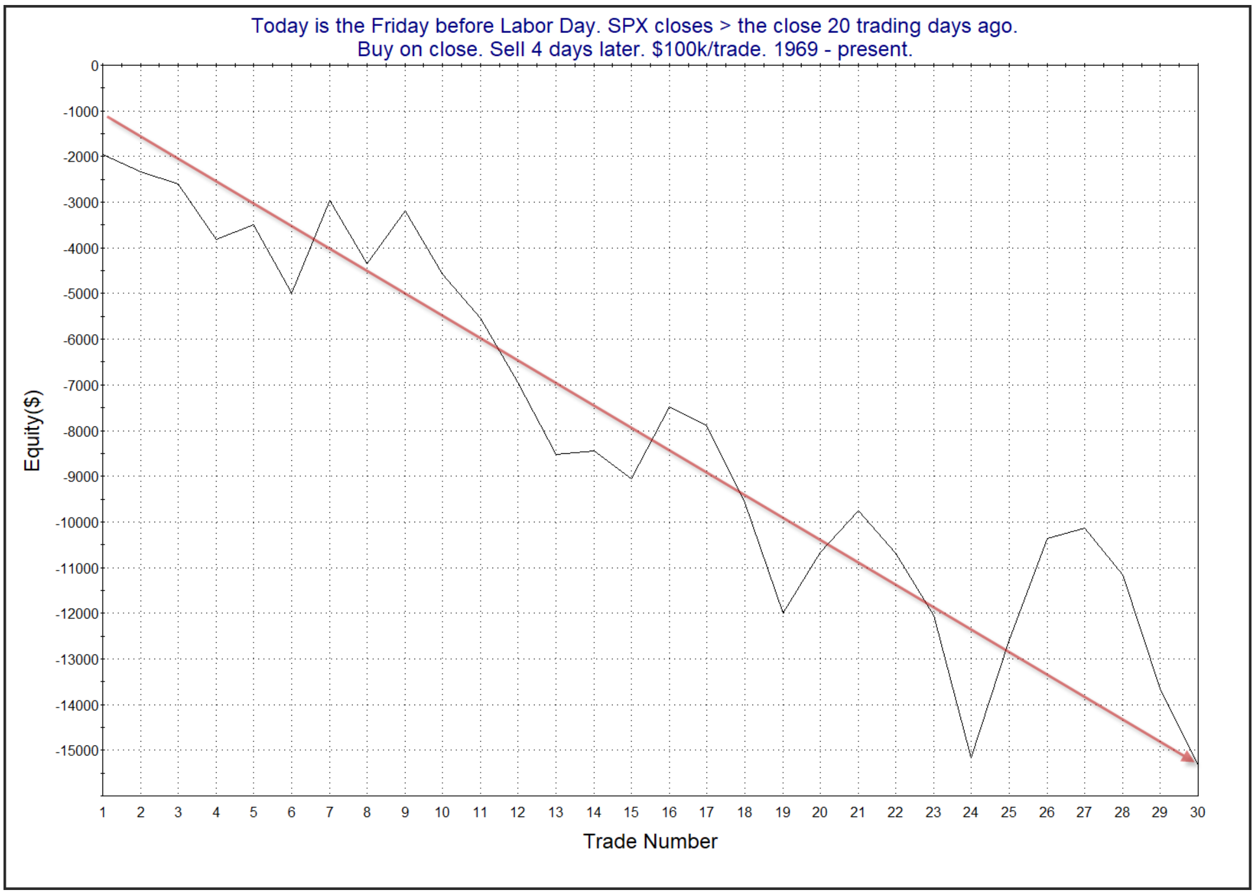
Seasonality studies really stood out when looking at evidence this weekend. Over the last several years I have demonstrated that the performance during the week of Labor Day has been impacted by the performance in the 4-week period leading up to it. Interestingly, it has been somewhat of a momentum reversal week. When SPX has rallied up to Labor Day, then it has struggled that week. And declines into Labor Day have seen positive performance. Below is an updated look at the two scenarios.

Today is the Friday before Labor Day. SPX closes > the close 20 trading days ago.
Buy on close. Sell X days later. $100k/trade. 1969 - 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	-15,836.86	30	8	22	26.67	3,228.12	-2,942.07	1,404.70	-1,230.66	1.14	0.42	-527.90
4	-15,342.03	30	10	20	33.33	2,580.34	-3,113.11	1,244.67	-1,389.43	0.90	0.45	-511.40
3	-12,220.28	30	12	18	40.00	2,718.52	-4,024.28	1,130.03	-1,432.26	0.79	0.53	-407.34
2	-8,679.29	30	8	21	26.67	3,055.58	-2,668.88	1,366.76	-933.97	1.46	0.56	-289.31
1	-7,395.87	30	13	17	43.33	1,751.34	-4,147.45	737.09	-998.71	0.74	0.56	-246.53

Today is the Friday before Labor Day. SPX closes < the close 20 trading days ago. Buy on close. Sell X days later. $100k/trade. 1969 - 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	21,333.66	24	15	9	62.50	5,691.60	-3,611.52	2,248.18	-1,376.57	1.63	2.72	888.90
4	14,157.81	24	16	8	66.67	3,585.30	-4,206.40	1,673.21	-1,576.70	1.06	2.12	589.91
3	9,595.52	24	15	9	62.50	3,485.40	-2,391.84	1,131.01	-818.85	1.38	2.30	399.81
2	8,646.52	24	15	9	62.50	3,294.60	-4,795.56	1,242.71	-1,110.46	1.12	1.87	360.27
1	3,566.12	24	12	12	50.00	5,054.10	-2,259.18	1,245.95	-948.77	1.31	1.31	148.59

The 4-day numbers are basically inverted. So the Tues-Fri after Labor Day have not seen any consistency without the delineator. But the trend filter reveals a striking difference. The 1st scenario is the one we currently find ourselves in. Below is a look at the profit curve for a 4-day holding period.

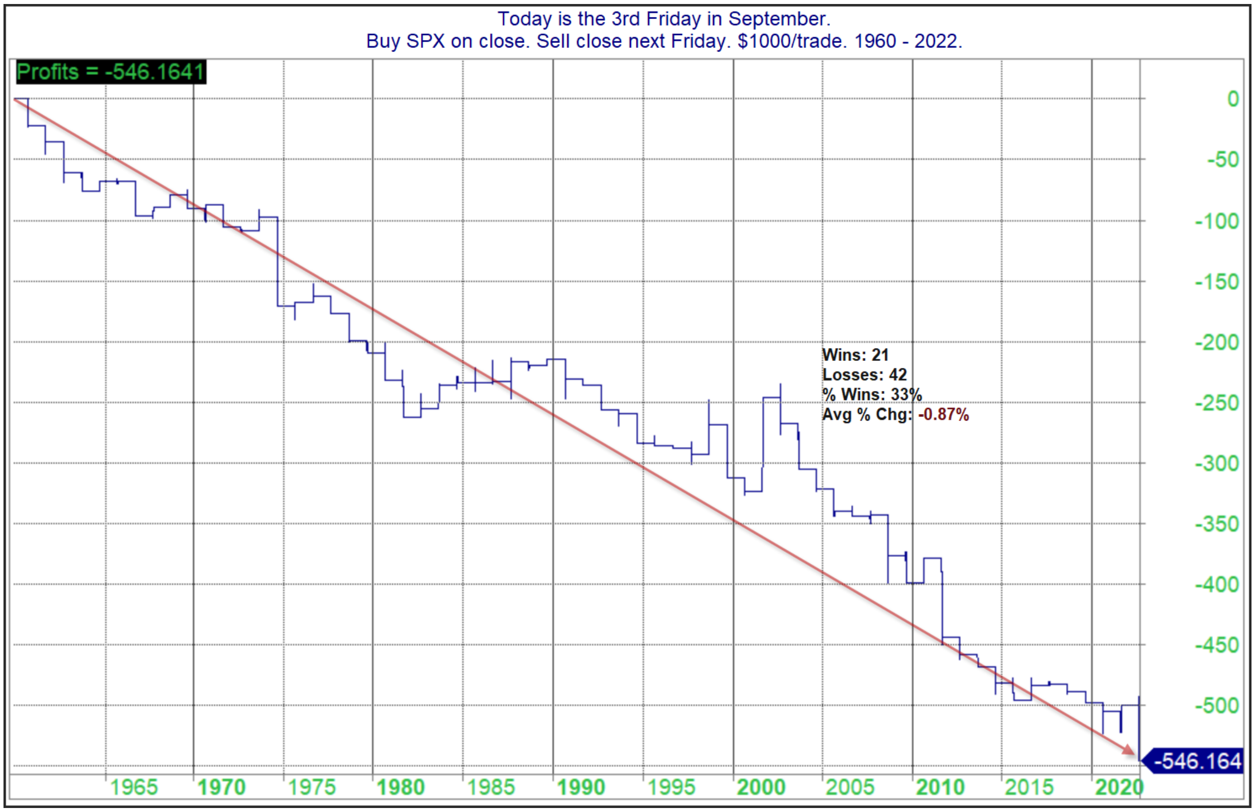


Results here are quite choppy, but the curve has managed to head from upper left to lower right without ever going too long between new lows. This seems worthy of some consideration and I have added it to the active list tonight.

Of course September as a whole has been a tough month for the market. I wrote about this, and the "Weakest Week", which is the week after options expiration, for an article in ProActive Advisor Magazine a couple of years ago. Below is an updated version of that article:

September has a reputation for the being the worst month of the year for the stock market. And that is deserved. Since 1960, the average September return is -0.72%. The only other month with a negative average return is June, which was a more moderate average return of -0.06%. The best month over this timeframe has been November, which averaged a gain of 1.48%. What most people don't realize about September is that the struggles can all be attributed to just 1 week. Years ago I dubbed it the "Weakest Week", and the weakness has continued to persist. The week I am referring to is the week following the 3rd Friday in September.

Many people will note that the 3rd Friday of the month is when monthly options expire. And there are seasonal tendencies that occur around this. The week of options expiration is often bullish for the market and the week following often sees some of those gains given back. (Note that opex week has NOT been as bullish since the 2020 COVID crash.) What is interesting about the week after the 3rd Friday in September is that the bearish bias has been in place since well before options expiration was even an event. (S&P Index options began trading in 1984.) The bearish tendency can be seen in the chart below, which looks back to 1960. (Data from Norgate Data. Chart produced in Amibroker.)



You'll note the average return this particular week has been -0.87% since 1960. I already mentioned the average September return over the same period was -0.72%. So all the net losses and more are attributable to this one particular week. The downward persistency of the curve shows that the bearish tendency has been quite consistent over the last 63 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying at the close of the 3rd Friday in September and then selling X days later from 1990 – 2022. (Date source: Tradestation)

Today is the 3rd Friday in September.
Buy SPX on close. Sell X days later. $1000/trade. 1960 - 2022.

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	-32,851.38	33	7	26	21.21	7,739.42	-6,525.56	1,999.70	-1,801.90	1.11	0.30	-995.50
4	-33,010.56	33	7	26	21.21	5,439.43	-7,088.90	1,609.06	-1,702.84	0.94	0.25	-1,000.32
3	-25,743.84	33	7	26	21.21	4,508.00	-5,455.74	1,702.58	-1,448.53	1.18	0.32	-780.12
2	-20,006.51	33	9	24	27.27	4,786.41	-5,283.52	880.33	-1,163.73	0.76	0.28	-606.26
1	-11,792.73	33	9	24	27.27	3,877.95	-3,791.21	848.92	-809.71	1.05	0.39	-357.36

2001 and 2017 were the only years that SPX failed to close below the entry price at any point in the next week.

The bearish tendency appears quite strong. Three, four, and five days later the SPX has been lower over 78% of the time. I note beneath the table that the only instances ***not*** *to post a lower close at some point during the following week were in 2001 and 2017. The 9/11 attacks certainly made for unusual circumstances in 2001, and 2017 did not see a decline, but it only rose 2 points, so it was not much of a victory for the bulls.*

Overall, September has been the weakest month, but the weakest week in September has been the real market villain.

I'll mention the "Weakest Week" influence again in a few weeks when we get near it.

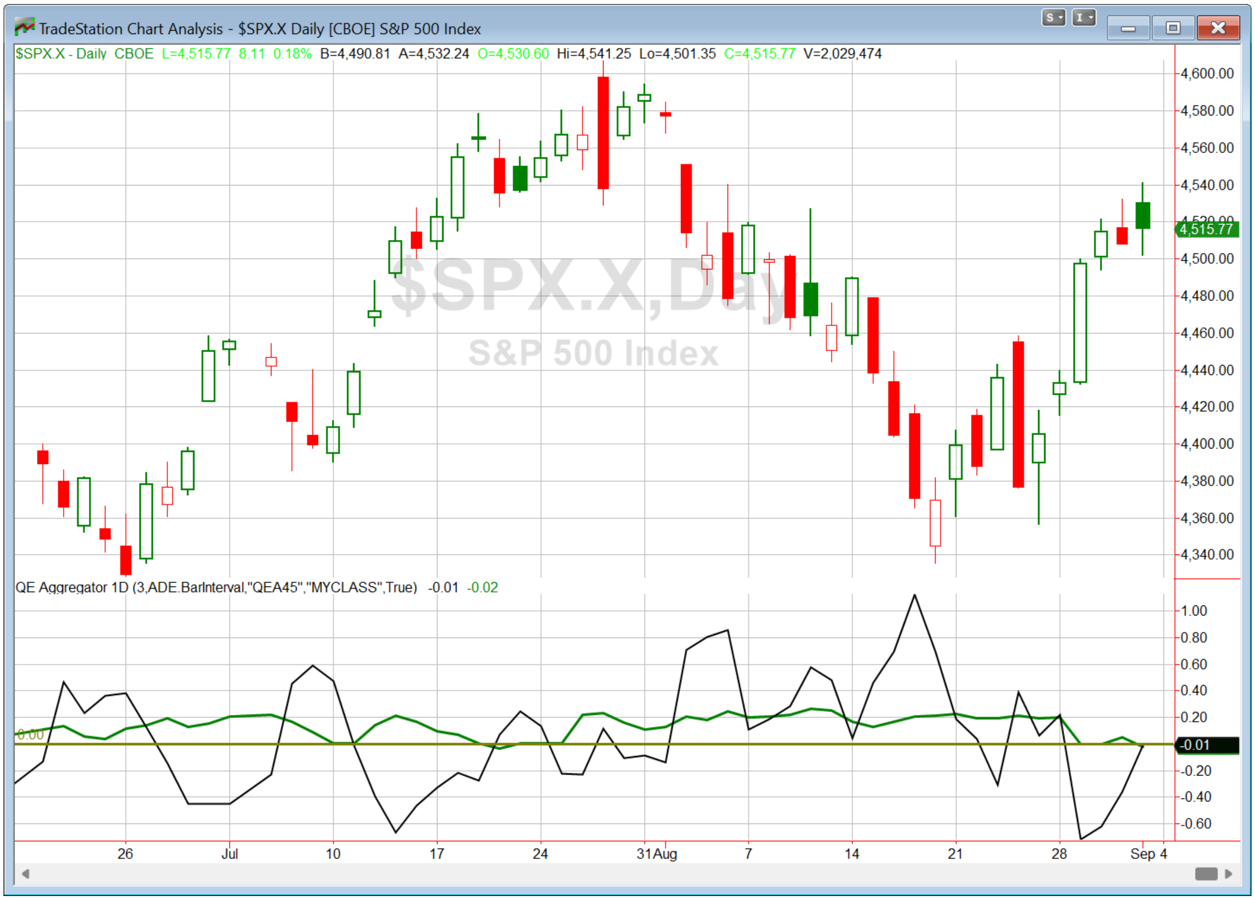
Lastly, I will also note the SPX Seasonality Calendar below for September.

Quantifiable Edges Seasonality Calendar
$SPX S&P 500 Index

Date	Win%	Profit Factor	Avg % Chg
9/1/2023	59.49	1.499	0.125
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	55.68	1.249	0.072
9/11/2023	53.42	0.936	-0.030
9/12/2023	51.07	1.065	0.018
9/13/2023	52.50	0.960	-0.015
9/14/2023	54.23	0.955	-0.020
9/15/2023	50.16	0.916	-0.029
9/18/2023	53.01	0.938	-0.033
9/19/2023	49.57	1.195	0.026
9/20/2023	47.56	0.947	-0.031
9/21/2023	48.57	0.835	-0.066
9/22/2023	49.04	0.828	-0.069
9/25/2023	52.58	1.014	0.000
9/26/2023	51.55	1.028	0.006
9/27/2023	52.36	1.117	0.032
9/28/2023	54.64	1.175	0.048
9/29/2023	53.14	0.955	-0.018
Baseline	***53.69***	***1.138***	***0.047***

The Seasonality Calendar uses a combination of multiple seasonality models, and it also uses a shorter rolling lookback than the previous studies to generate the stats. But here too we see some weak numbers the week of the 18th-22nd.

I have updated the Aggregator chart below.



With this weekend's evidence considered, the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line held slightly below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the studies on the active list, expectations are slated to remain negative on Monday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at* 4523.77 on Monday. That is 0.2% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.2% in order to remain overbought. Anything other than that and it will be considered oversold vs recent expectations as of Friday's close.

So the Aggregator formation is bearish for the 1st time in a while. But it appears to be a very marginal bearish signal. Expectations are just barely negative. SPX is barely overbought, and the inverted pivot means it needs to continue to rally in order to remain overbought. I rarely look to take new positions when there is an inverted pivot. This time will be no different. I will continue to wait until a more compelling reward/risk scenario emerges before looking to take on my next index trade.

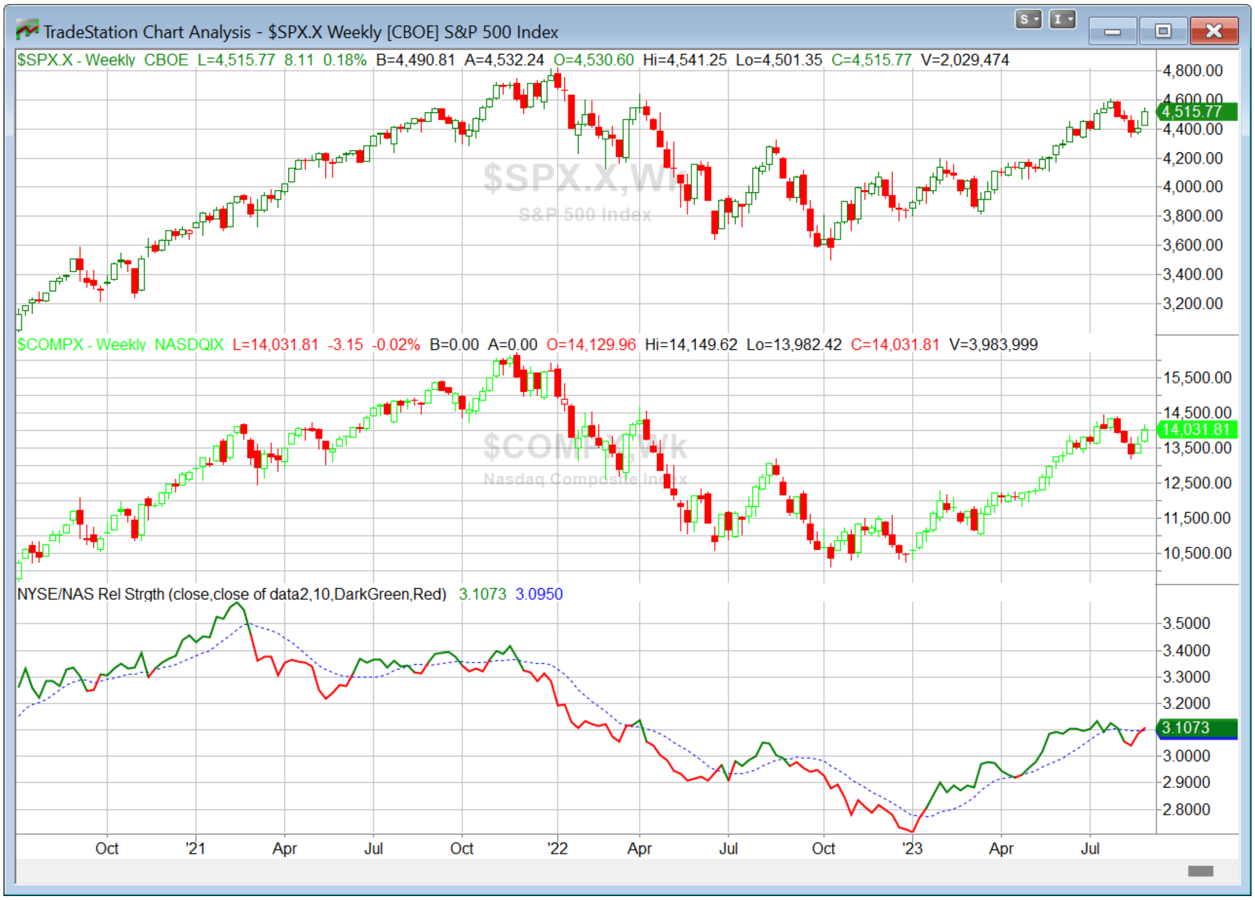
Intermediate-term Outlook (2 weeks – 2 months) – updated 9/5 – neutral

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

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. *The Combo Systems all switched to long QQQ at the close on Friday.*

This past week was a strong one for the stock indices. The SPX rose 2.5%, the NASDAQ rallied 3.25%, and the Russell 2000 climbed 3.6%. Bonds were mixed. The US Aggregate Bond ETF (AGG) posted a gain of 0.45%. TLT, the 20-year Treasury Bond ETF, declined 0.1%. Long-term uptrends for the SPX and NASDAQ remain in place.

Three weeks ago the NASDAQ/SPX Relative Strength Indicator had flipped so that the SPX was leading. This week it flipped back and the NASDAQ is back to leading. This can be seen in the chart below.

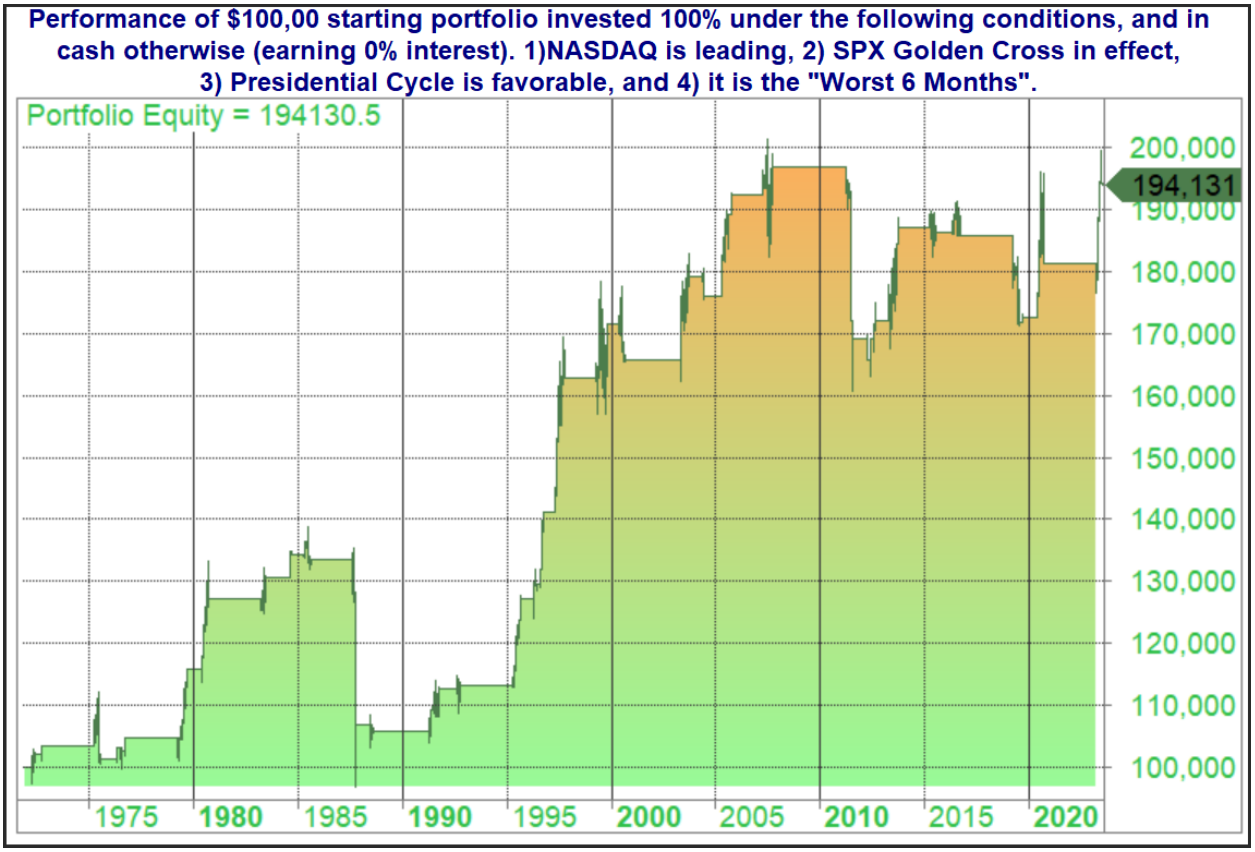


The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below.

Historical Compound Returns of $100,000 Starting Portfolio Using the NASDAQ/SPX Relative Strength Indicator as a Filter. 12/31/71 - 9/1/23.			
	Compound Annual Growth Rate	**Max Drawdown**	**End Value of $100,000**
S&P 500 Index	7.73%	-56.78%	$4,731,527.56
SPX when NASDAQ lags	-0.06%	-67.21%	$96,739.02
SPX when NASDAQ leads	7.67%	-33.92%	$4,572,428.14
NASDAQ Composite	9.91%	-77.93%	$13,355,997.29
NASDAQ when lagging	-1.56%	-85.53%	$44,332.23
NASDAQ when leading	11.49%	-40.62%	$27,735,266.86
NASDAQ when leading (with interest when in cash)*	14.00%	-37.64%	$87,490,913.28
*interest on cash calculated at historical 30-day Fed Funds rate			

More on this indicator can be found in the Market Timing Course.

I decided also to take a look at how the market has done when all original 4 Market Timing Course indicators have been aligned as they are now. That means: 1) a leading NASDAQ, 2) SPX "Golden Cross" in effect, 3) favorable Presidential Cycle, and 4) "Worst" 6 months in effect. Below is a chart showing SPX performance during this alignment.



Overall, the curve has moved higher, but it has not been greatly consistent – especially over the last 20 years. Still, with 3 of the 4 indicators positive, I am inclined to view this configuration as generally bullish.

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

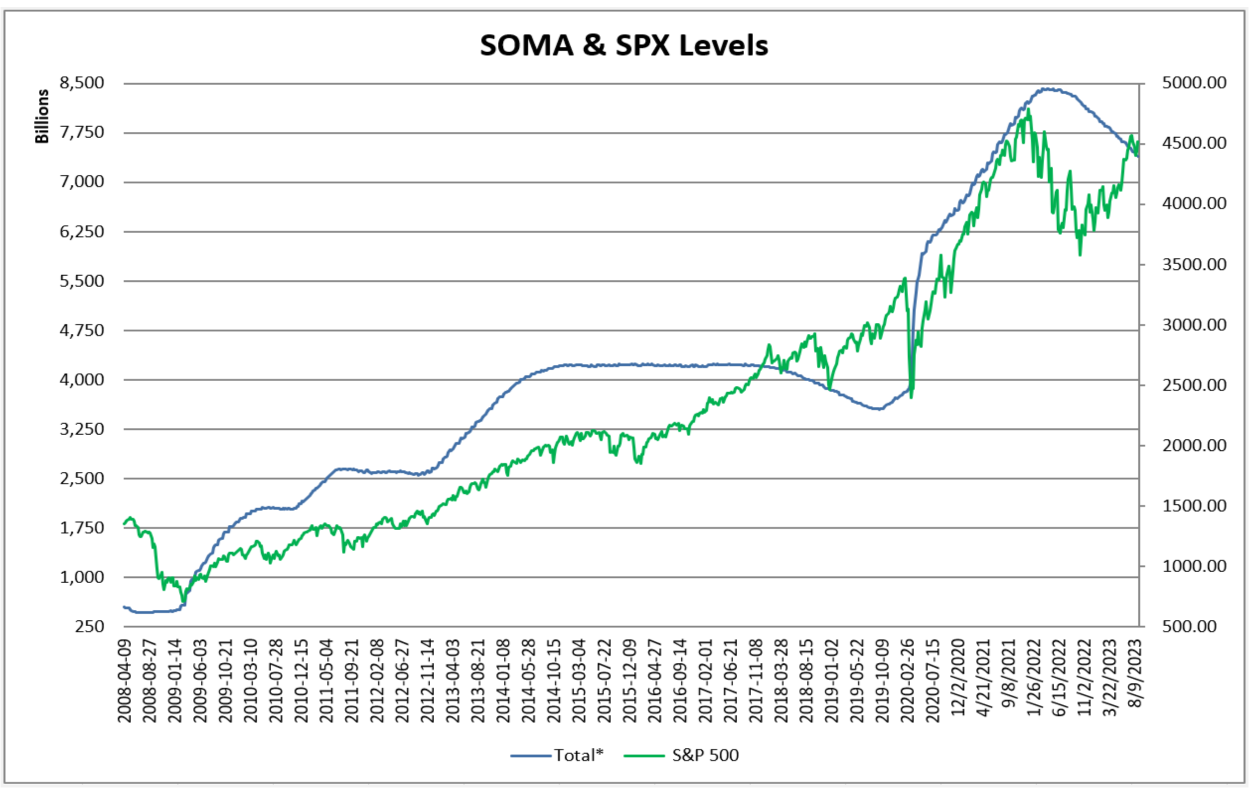
Previous **August 30, 2023**

Posted August 31, 2023 at 4:30 PM

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

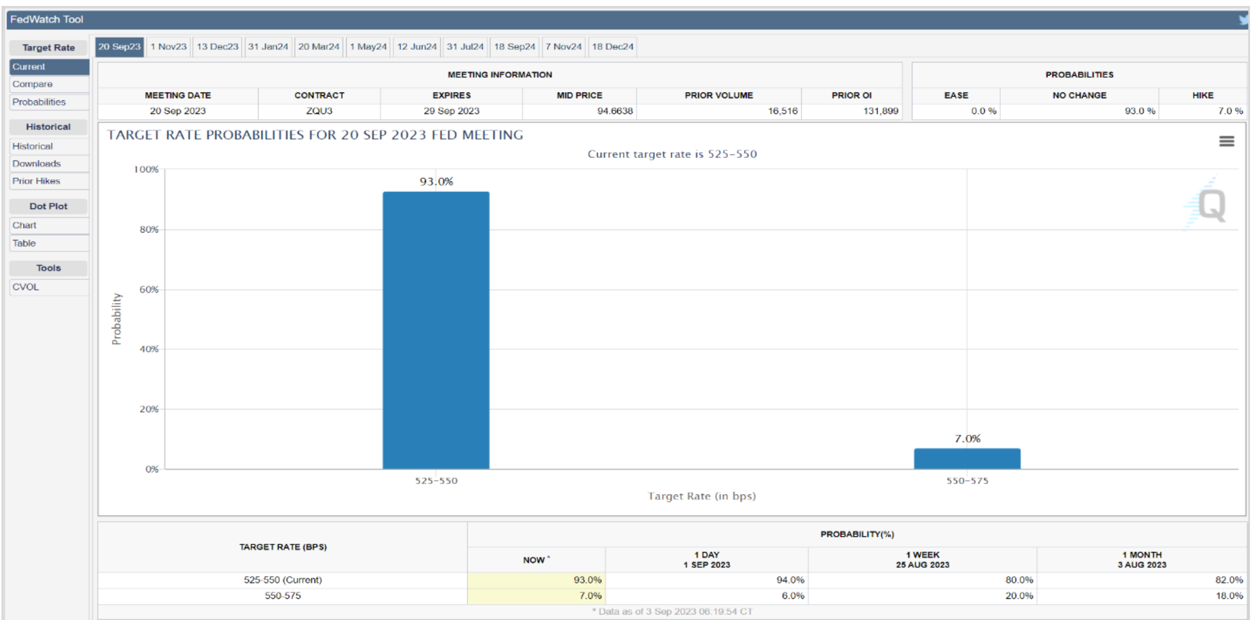
SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	259,421,593.5
US Treasury Notes and Bonds (Notes/Bonds)	4,255,288,565.8
US Treasury Floating Rate Notes (FRNs)	17,745,390.6
US Treasury Inflation-Protected Securities (TIPS)*	364,549,286.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,490,504,958.5
Agency Commercial Mortgage-Backed Securities***	8,365,107.7
Total SOMA Holdings	7,398,221,902.6
Change From Prior Week	-14,269,860.9

As we expected, there was another drop in the SOMA this past week. At $14.3 billion fairly sizable. For the current week, I expect to see very large numbers, with many treasuries in the SOMA having expired on August 31st. 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 are now looking pretty slim. They are about 7%, which is down from 20% a week ago. This can be seen in the screenshot below of the CME Fedwatch Tool:



There is still time between now and the next Fed meeting. So these odds could fluctuate a bit over the next few weeks. And that could make for some swings in the market. More eyes seem to be on the November meeting, which is still showing about a 35% chance of a hike. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

The bulls seem to now have a little bit more pointing their way. The SPX and NASDAQ remain above their long-term moving averages, and the NASDAQ is back to a leading position. Combined with the fact that we are in a favorable part of the Presidential Cycle, this has all 4 of the Combo Models from the Market Timing Course leaning long. Still, there is quite a bit the bulls have to contend with. 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. This upcoming week looks tough from a short-term perspective as well. So I am going to keep the intermediate-term bias neutral for one more week. If nothing changes, and no new bearish evidence emerges, then I will change it to "slightly bullish" next weekend.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

New

KHC – 1/3 @ $32.58 (buy @ limit)

Broad Market Large Cap CBI – 1(KHC)

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.*

KHC – Buy 1/3 Catapult position @ $32.58 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of KHC.

Current Open Trade Ideas

None