

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 11, 2023

Volume 16 Issue 172

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- September 11th has been a bullish market day since the attacks in 2001.
- The Seasonality Calendar looks poor over the next couple of weeks.
- QT continues and the Fed remains overall hawkish.
- The NASDAQ fell back into a lagging position vs the SPX. This is generally an unfavorable condition.

Short-term Outlook

The Bottom Line

Evidence is pointing higher and the market is oversold. There appears to be a moderate long-side edge.

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 11, 2023	Sep 11th bullish post-2001	1 day	Bullish			
September 8, 2023	SPX down 3 days. Offset HV < 0.25	1-5 days	Bullish	2.00%	-1.50%	-3.10%
September 7, 2023	SPY gaps < low 5 and closes < open	1-5 days	Bullish	1.90%	-1.40%	-3.00%
September 7, 2023	1st 5-low in 10 days but > 10ma	1-5 days	Bullish	1.40%	-1.20%	-2.30%
Active - Long Term						
September 11, 2023	NASDAQ lagging	int term	Neutral			
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			

The Evidence

Friday morning started strong, but then the rally faded for much of the rest of the day and the indices finished mixed. The SPX gained 0.14%, the NASDAQ inched up 0.09%, and the Russell 2000 fell 0.23%. Breadth was negative with the NYSE Up Issues % coming in at 36% and the Up Volume % at 30%. NYSE total volume rose some from Wednesday's level.

From a price standpoint, Friday's action did not inspire anything compelling. But in the 9/11/2020 letter I noted that since the 9/11/2001 attacks and tragedy, September 11th has actually been a strong day for the market. I have updated that study below.

SPX % Return on 9/11 Since 2001		
(Years 9/11 was not a trading day not included)		
Ticker	Date	% Change
\$\$SPX	9/11/2002	-0.01
\$\$SPX	9/11/2003	0.54
\$\$SPX	9/11/2006	0.05
\$\$SPX	9/11/2007	1.36
\$\$SPX	9/11/2008	1.38
\$\$SPX	9/11/2009	-0.14
\$\$SPX	9/11/2012	0.31
\$\$SPX	9/11/2013	0.31
\$\$SPX	9/11/2014	0.09
\$\$SPX	9/11/2015	0.45
\$\$SPX	9/11/2017	1.08
\$\$SPX	9/11/2018	0.37
\$\$SPX	9/11/2019	0.72
\$\$SPX	9/11/2020	0.05

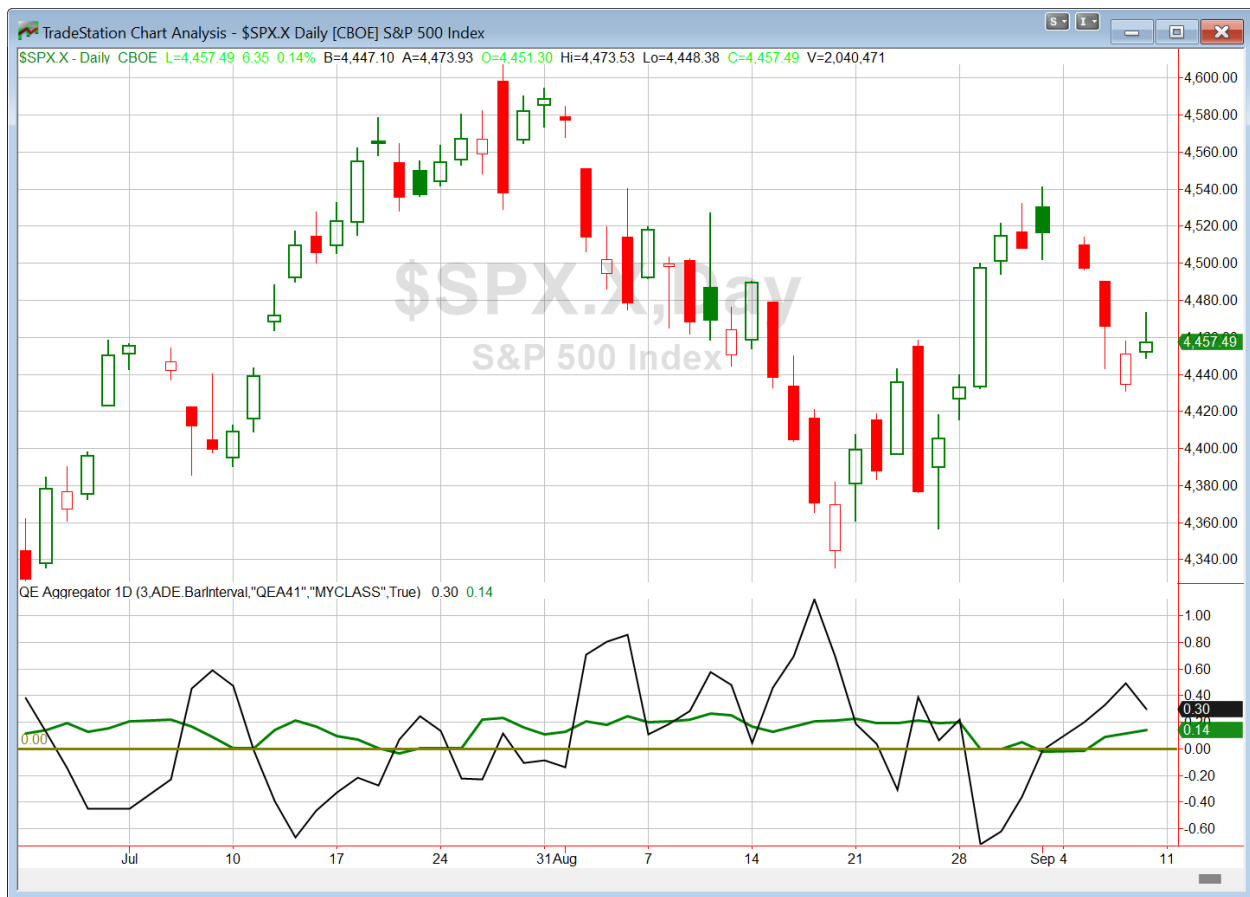
Twelve winners and two losers with the average instance seeing a gain of 0.5%. And since the losers are so small, the profit factor is an unreal 45. Not sure whether this study is truly providing an edge, but it at least remains a hot streak. And I will give it some consideration again this year.

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
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

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

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 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 studies on the active list, expectations are slated to remain positive on Monday. This could change if strongly bearish evidence emerges. Meanwhile, the Differential Pivot will be 4467.96 on Monday. That is 0.2% above Friday's close. Therefore, SPX will need to close up at least 0.2% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator formation is bullish. Evidence is solidly positive and there is still some room to the upside before SPX would flip from oversold to overbought. This appears to be a favorable scenario for the bulls. I like the long side. I have a small amount of index exposure already. I don't intend to add to it and get aggressive on Monday.

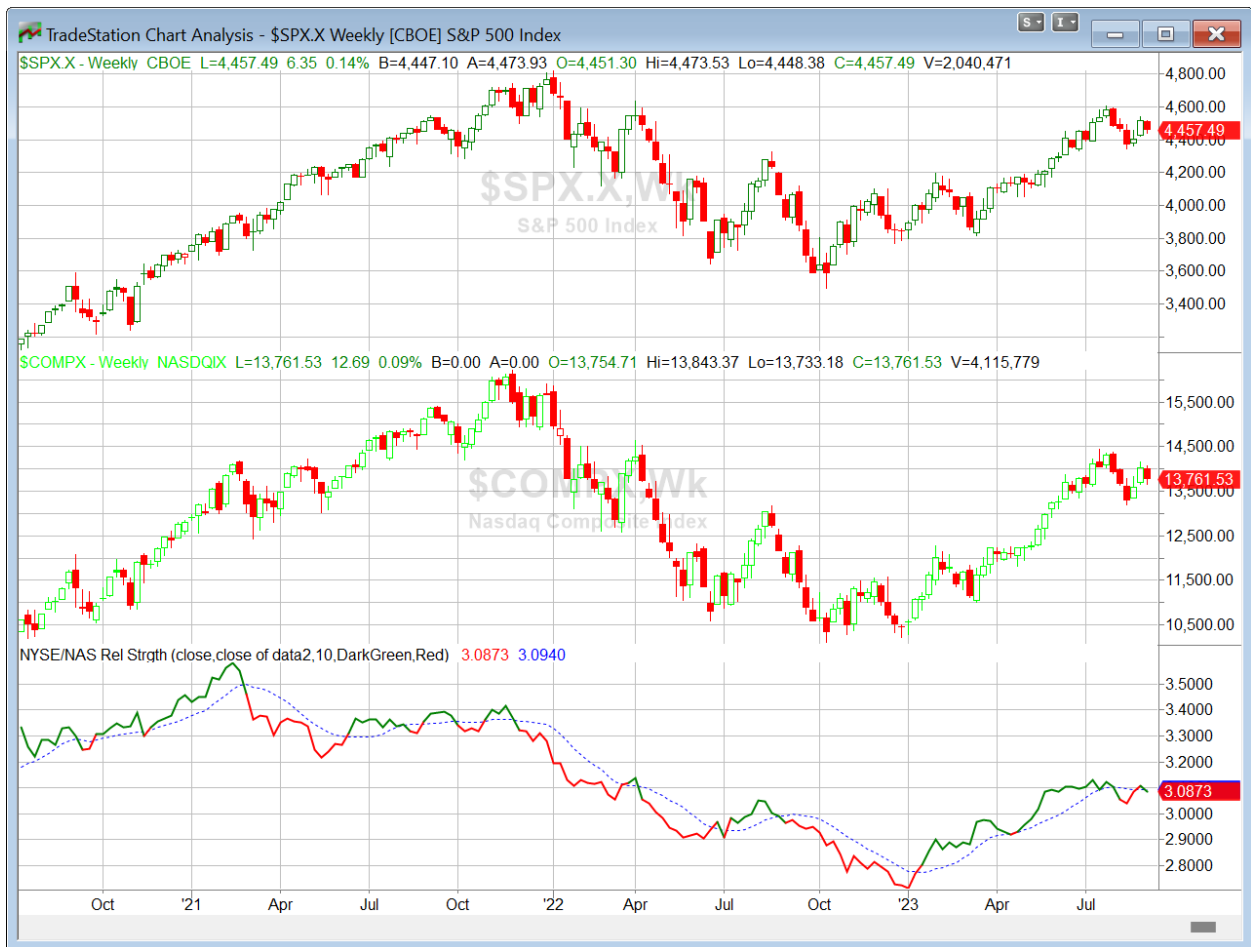
Intermediate-term Outlook (2 weeks – 2 months) – updated 9/11 – neutral

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. *The Combo Systems all saw changes at the close on Friday from long QQQ to either SPY or cash.*

This past week saw stocks struggle. The SPX declined 1.3%, the NASDAQ dropped 1.9%, and the Russell 2000 tumbled 3.6%. Bonds also declined. The US Aggregate Bond ETF (AGG) posted a loss of 0.3%. TLT, the 20-year Treasury Bond ETF, fell 0.5%. Long-term uptrends for the SPX and NASDAQ remain in place.

Last week the NASDAQ took the lead according to our NASDAQ/SPX Relative Leadership indicator. But this week it flipped back to SPX leading and NASDAQ lagging. This can be seen in the chart below.



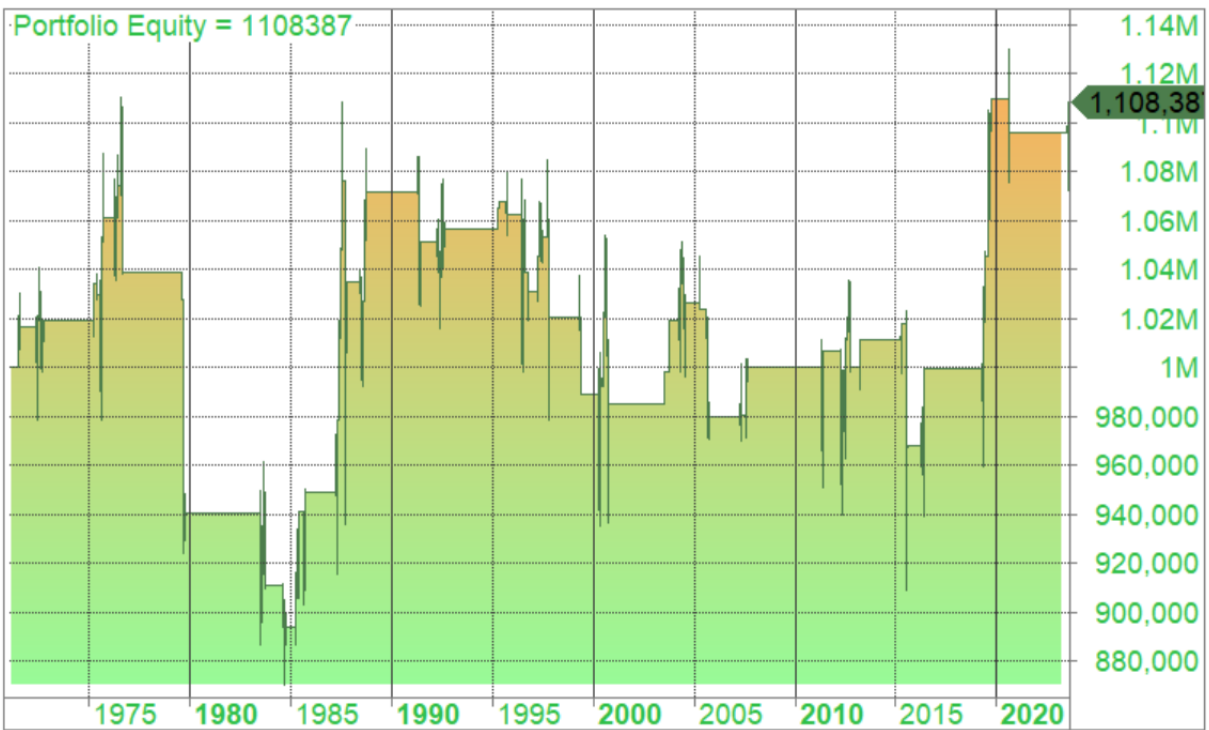
The movement of the green line (which is about to turn red) below the blue line is our indication that the NASDAQ is in a lagging position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below, which I copied from last weekend's letter (and did not update this weekend).

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.

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.



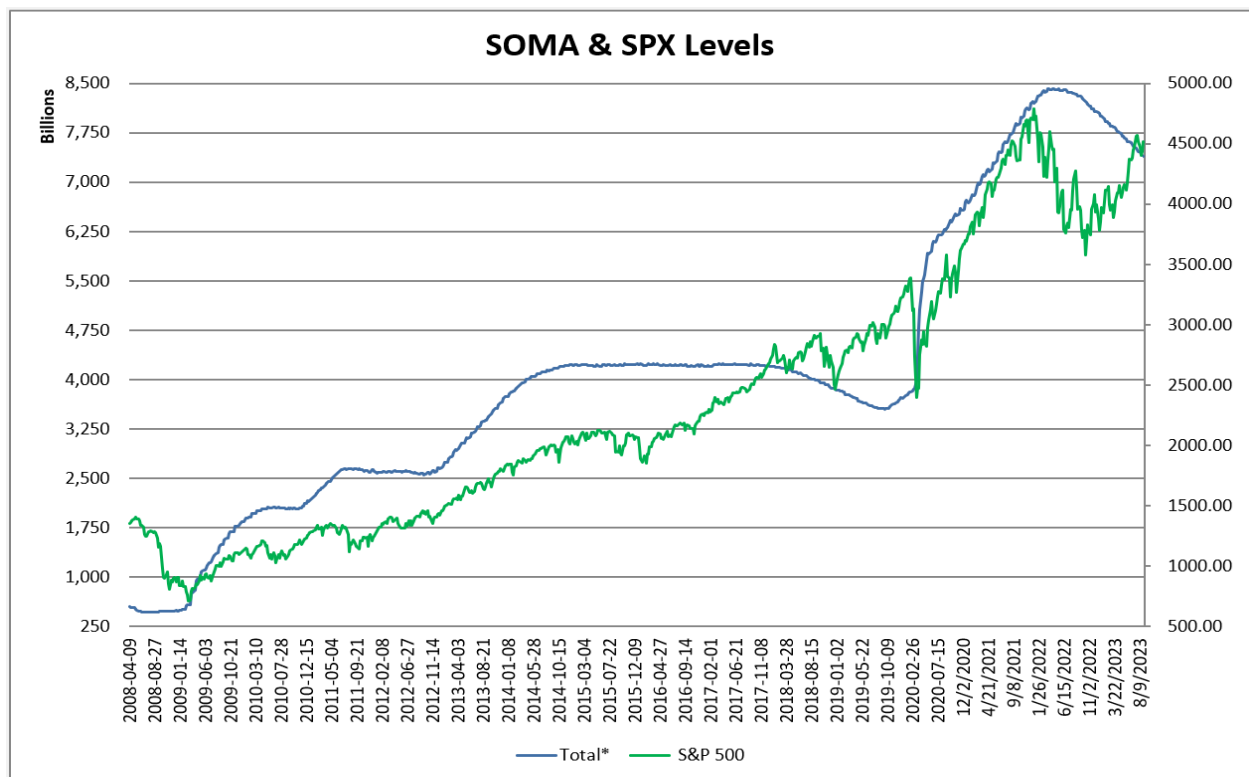
Overall, the curve has moved higher, but it has not been greatly consistent – especially over the last 20 years. If I also include the Fed Liquidity indicator and backtest since 2003, we would again see results that are about breakeven over the last 20 years. So the configuration seems to be just mildly bullish if at all.

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](#) **September 6, 2023**
 Posted September 7, 2023 at 4:30 PM

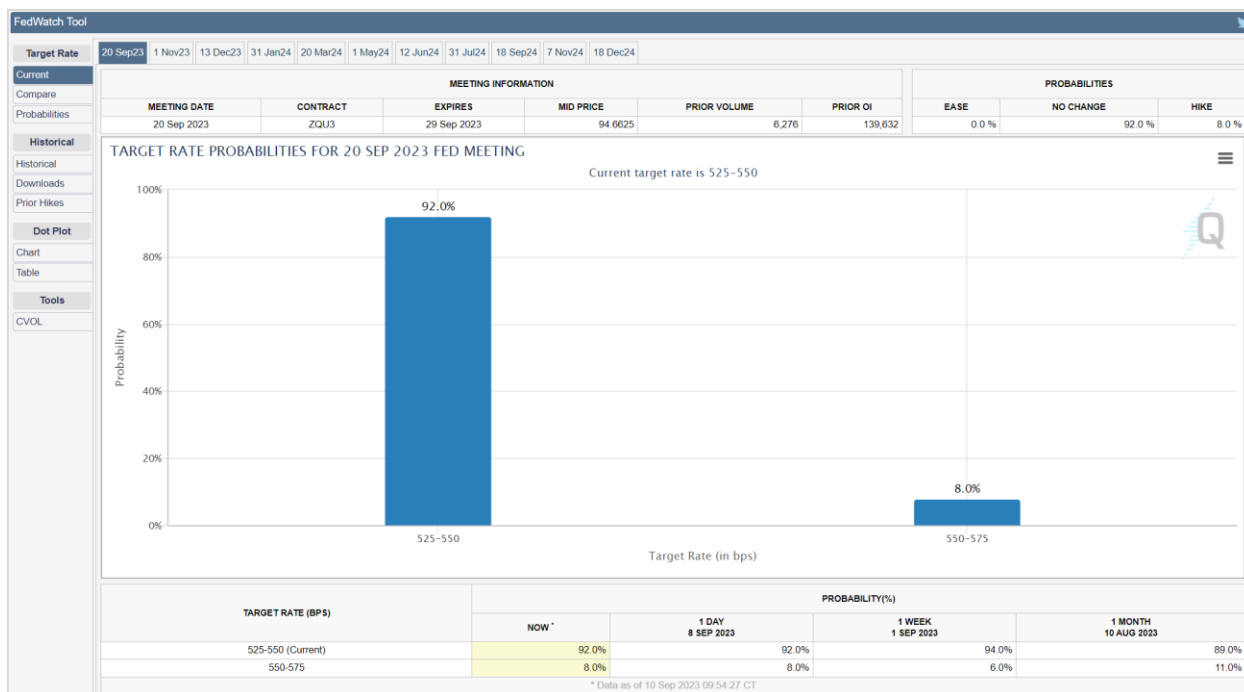
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	258,161,046.4
US Treasury Notes and Bonds (Notes/Bonds)	4,237,097,412.8
US Treasury Floating Rate Notes (FRNs)	17,745,390.6
US Treasury Inflation-Protected Securities (TIPS)*	365,380,447.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,490,504,958.5
Agency Commercial Mortgage-Backed Securities***	8,365,107.7
Total SOMA Holdings	7,379,601,363.5
Change From Prior Week	-18,620,539.1

As we expected, there was another drop in the SOMA this past week. At \$18.6 billion it was fairly sizable. For the current week, I expect to see lower numbers. But then the next week we will again see a spike, since that will include the 15th, when sizable notes/bonds will be maturing. 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 still looking pretty slim. They are about 8%, which is only a slight change from 7% a week ago. This can be seen in the screenshot below of the CME Fedwatch Tool:



There is only a week and a half between now and the next Fed meeting. It is starting to appear quite unlikely that something will happen to compel the Fed to raise rates that soon. More eyes seem to be on the November meeting, which is now showing about a 47% chance of a hike. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

Last week I considered moving from a neutral to a slightly bullish bias. I decided to wait one more week and see if the bullish indications we were seeing would hold up. With the NASDAQ falling back into a lagging position, they really did not. So we are again faced with a real mix of evidence.

The SPX and NASDAQ remain above their long-term moving averages, so the longer-term trends still appear up. Combined with the fact that we are in a favorable part of the Presidential Cycle, this has 3 of the 4 Combo Models from the Market Timing Course leaning long SPY. 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. So I am going to keep the intermediate-term bias neutral. This means I will be willing to take trades in either direction, but I will be a bit more conservative with my entries and exits.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

WBA – 1/3 @ \$22.73 (bought @ limit)

WBA – 1/3 @ \$22.64 (bought @ limit)

WBA – 1/3 @ \$22.04 (bought @ limit)

Broad Market Large Cap CBI – 3(WBA-3)

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
KHC(1/3)	9/5/2023	\$32.58	\$32.96	1.17%	<i>sell on open</i>
KHC(1/3)	9/6/2023	\$32.55	\$32.96	1.26%	<i>sell on open</i>
WBA(1/3)	9/6/2023	\$22.61	\$21.99	-2.74%	Catapult
WBA(1/3)	9/7/2023	\$22.60	\$21.99	-2.70%	Catapult
SPY(1/4)	9/7/2023	\$443.11	\$445.52	0.54%	Aggregator
WBA(1/3)	9/8/2023	\$22.04	\$21.99	-0.23%	Catapult

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