

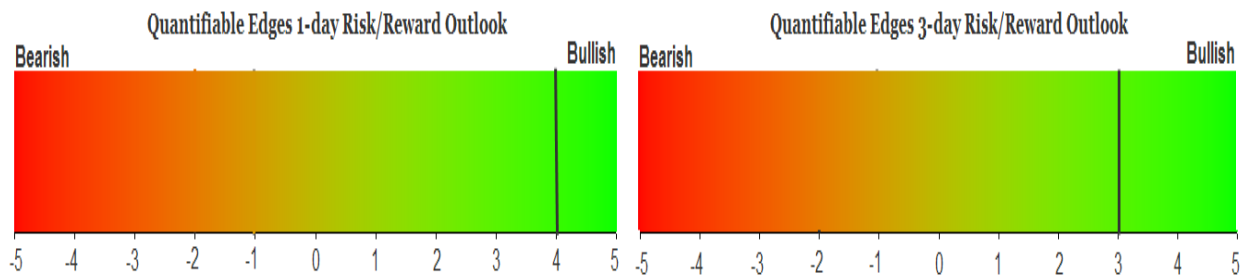
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 29, 2023

Volume 16 Issue 186

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	4

Tonight's Research Points

- The turn of the month setup appears strong favorable for Monday.
- The big drop Tuesday and then consolidation the last 3 has is something that has typically been followed by a move higher.
- The SPX October Seasonality Calendar appears favorable – especially in the 2nd half of the month.
- 4 weeks lower when above the 40-week moving average has almost always been followed by a move higher over the next several weeks.
- October tends to have big swings.
- The SOMA saw a big drop last week and likely will again this week.

Short-term Outlook

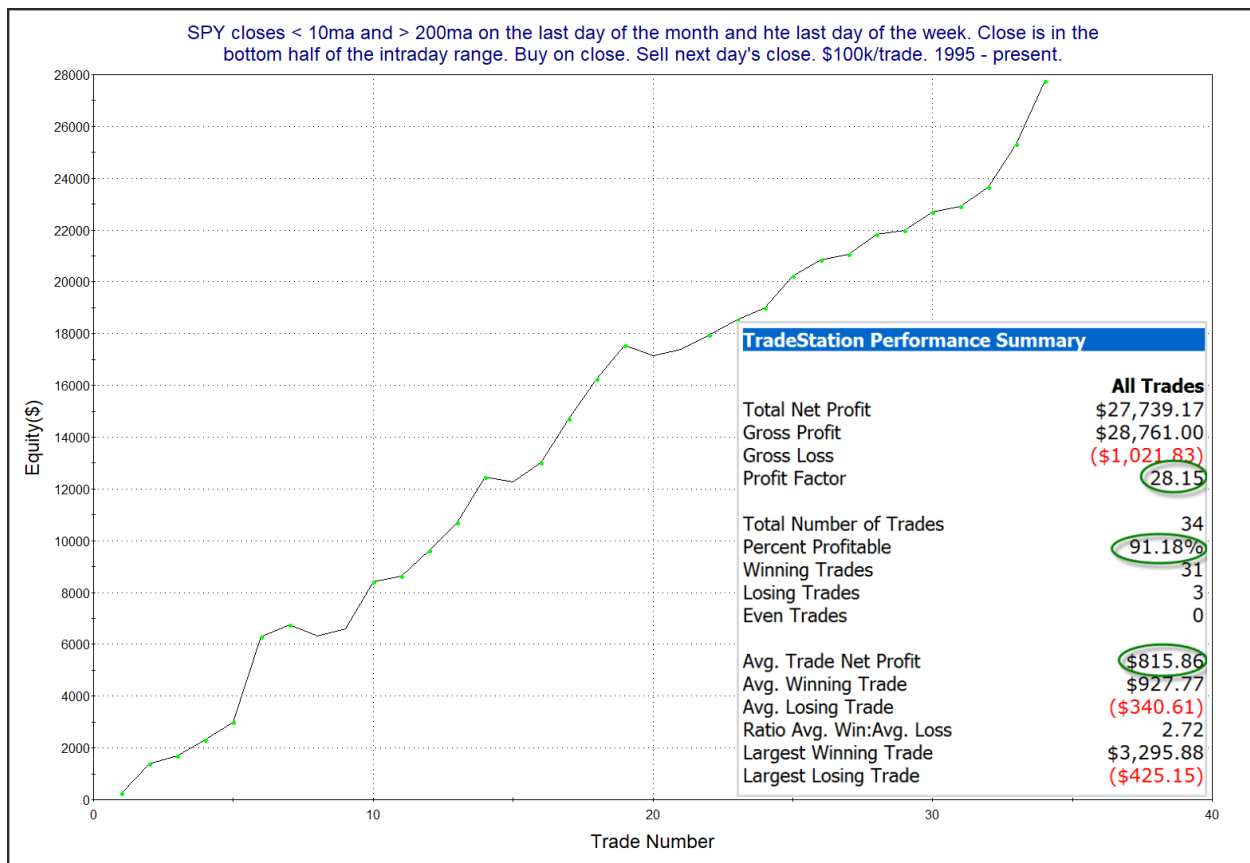
The Bottom Line

The Aggregator is bullish. I like the long side.

The Evidence

Friday saw mixed results. The SPX closed down 0.3%, the NASDAQ gained 0.1%, and the Russell 2000 declined 0.5%. Breadth was weak with the NYSE Up Issues % coming in at 45% and the Up Volume % at 43%. NYSE total volume rose some from Thursday's level.

There were several studies that triggered on Friday that considered the fact that Monday is the 1st day of a new month. Turn of the month is often a bullish day. Over the years we have found that it tends to be more bullish under certain circumstances. These include 1) being in an uptrend, 2) closing low in the day's range, 3) closing at the low end of its 2-week range, and 4) if the last day of the month is also the end of a week. The study below encompassed all of these. It was last featured in the 3/1/21 letter and has been updated.



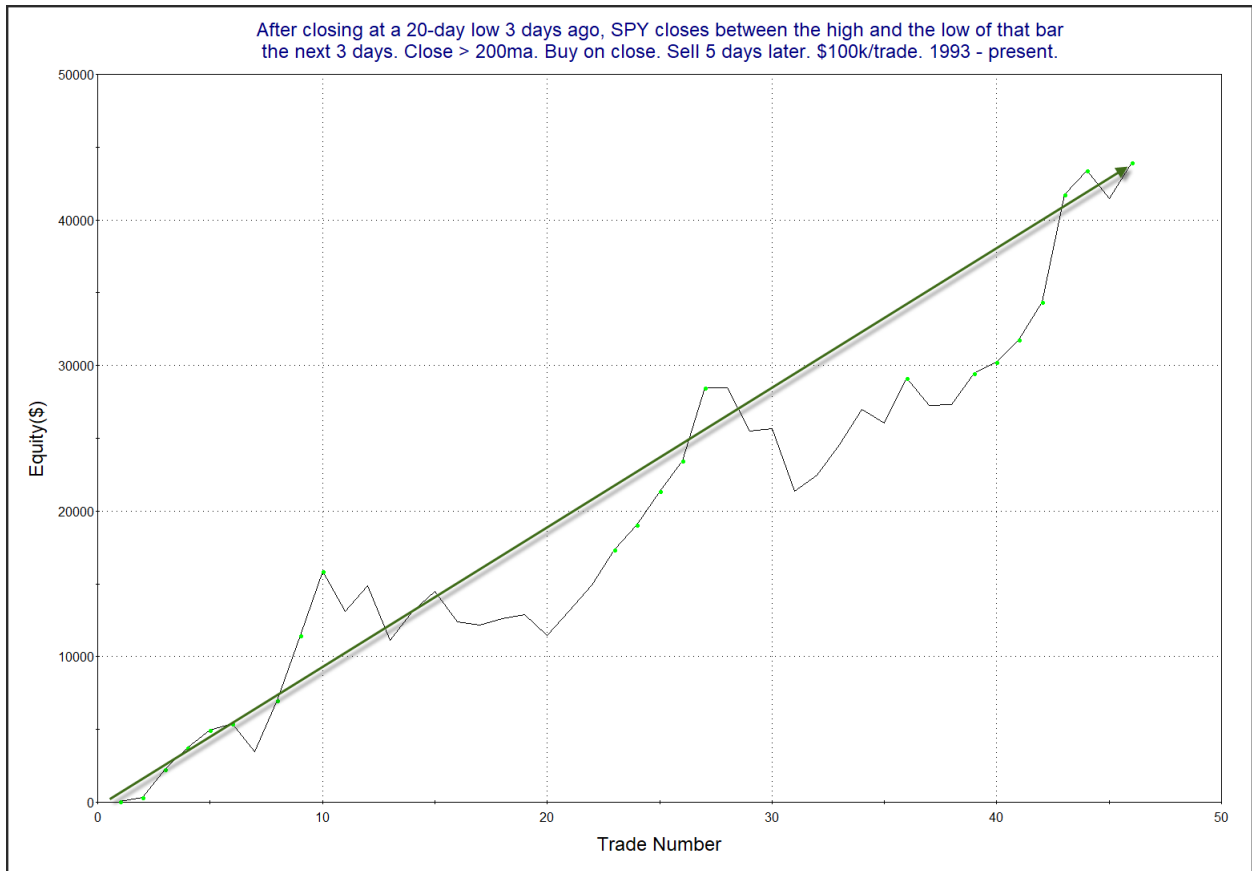
The stats and curve are very impressive. I have added this study to the active list tonight.

After a decent sized drop on Tuesday, the market has bounced, but it has remained within the range of that one day. This triggered a study we saw recently in the 8/23/23 letter. It looked at other times a “big” drop like Tuesday was followed by smaller movements. I have updated the study below.

After closing at a 20-day low 3 days ago, SPY closes between the high and the low of that bar the next 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	43,957.70	46	34	11	73.91	7,356.72	-4,326.19	2,004.70	-2,200.20	0.91	2.82	955.60
4	30,912.31	47	32	15	68.09	6,027.92	-4,345.88	1,853.99	-1,894.36	0.98	2.09	657.71
3	27,198.71	47	29	18	61.70	6,052.08	-4,248.64	1,802.22	-1,392.54	1.29	2.09	578.70
2	22,007.79	48	31	17	64.58	4,932.84	-2,818.42	1,381.62	-1,224.85	1.13	2.06	458.50
1	12,535.15	50	28	20	56.00	2,355.32	-2,101.88	986.99	-755.03	1.31	1.83	250.70

Closing 3 times between the high and low of the bar that put us at a 20-day low means 1) the selloff day was probably pretty large, and 2) the market has been moving moderately higher or sideways since. Results here seem to favor the bull case. I also examined the profit curves. The 5-day can be found below.



The curve has been choppy. But the continued move from lower left to upper right has been impressive. I decided to include this study on the Active List tonight.

I also posted the October Seasonality Calendars over the weekend. Below is a look at the Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
10/2/2023	57.39	1.474	0.119
10/3/2023	50.43	0.988	-0.008
10/4/2023	55.83	1.190	0.048
10/5/2023	53.57	0.956	-0.018
10/6/2023	54.26	1.101	0.031
10/9/2023	53.53	0.951	-0.025
10/10/2023	50.58	1.057	0.016
10/11/2023	52.65	0.976	-0.010
10/12/2023	54.67	0.980	-0.011
10/13/2023	54.69	1.204	0.057
10/16/2023	58.45	1.397	0.097
10/17/2023	54.41	1.637	0.153
10/18/2023	54.81	1.369	0.089
10/19/2023	54.06	1.290	0.062
10/20/2023	51.35	1.249	0.048
10/23/2023	55.48	1.259	0.069
10/24/2023	53.91	1.248	0.067
10/25/2023	55.17	1.358	0.100
10/26/2023	57.36	1.418	0.116
10/27/2023	55.44	1.190	0.048
10/30/2023	53.09	1.183	0.049
10/31/2023	51.53	1.171	0.047
Baseline	53.53	1.127	0.043

The numbers in the 2nd half of the month are quite bullish. Recall, the Calendars only look back about 10 years to generate their data, so this looks a bit more bullish than you might expect if you took a long-term look at October seasonality. I take a longer-term look at October, and the tendency for big swings to occur, in the intermediate-term outlook section.

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



With this weekend's evidence considered, the green Aggregator Line is again 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 list of active studies, expectations are slated to remain positive on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4320.14 on Monday. That is 0.75% above Friday's close. Therefore, SPX will need to close up at least 0.75% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator formation is again bullish. And there is ample room to the upside before SPX will turn overbought. I already have some long index exposure. I won't look to add any more to it at this point. The morning won't likely provide a great entry opportunity, since we will likely see the market gap higher after the government avoided a shutdown this weekend. If Monday does struggle, then I may consider adjusting my position on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/2– bullish

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 did not change this week.

It was a mixed week for the market. The SPX declined 0.7%, the NASDAQ gained 0.1%, and the Russell 2000 rose 0.5% this past week. Bonds continued lower. The US Aggregate Bond ETF (AGG) posted a loss of 1.1%. TLT, the 20-year Treasury Bond ETF, fell 3.0% and broke its lows from October 2022. Long-term uptrends for the SPX and NASDAQ remain in place.

This past week was the 4th week in a row that the SPX declined. In the 9/28/20 letter I looked at other times the SPX closed down for the 4th week in a row, but still remained above its 40-week moving average. Updated results of that study can be found below.

SPX closes down for the 4th week in a row but above the 40-week moving average. Buy on close. Sell X weeks later. \$100k/trade. 1975 - 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	93,654.05	15	14	1	93.33	21,376.21	-9,879.00	7,395.22	-9,879.00	0.75	10.48	6,243.60
9	90,214.61	15	12	3	80.00	18,486.80	-2,911.50	7,866.21	-1,393.32	5.65	22.58	6,014.31
8	70,867.05	15	12	3	80.00	15,511.51	-7,373.36	6,608.71	-2,812.47	2.35	9.40	4,724.47
7	70,157.89	16	12	4	75.00	16,927.40	-5,653.16	6,577.35	-2,192.57	3.00	9.00	4,384.87
6	69,657.65	16	11	5	68.75	16,611.00	-2,588.34	6,855.97	-1,151.60	5.95	13.10	4,353.60
5	51,465.14	16	11	5	68.75	14,120.48	-4,272.89	5,994.24	-2,894.31	2.07	4.56	3,216.57
4	48,635.02	16	11	5	68.75	14,842.55	-5,046.86	5,900.47	-3,254.04	1.81	3.99	3,039.69
3	40,331.33	16	13	3	81.25	12,243.55	-8,350.96	4,164.56	-4,602.66	0.90	3.92	2,520.71
2	32,949.09	16	12	4	75.00	11,314.69	-4,509.00	3,765.36	-3,058.81	1.23	3.69	2,059.32
1	22,112.04	16	13	3	81.25	6,921.25	-2,652.75	2,162.49	-2,000.10	1.08	4.69	1,382.00

These results are suggestive of an upside edge over the next several weeks. Below I have listed all 15 non-overlapping instances using a 10-week exit strategy.

SPX closes down for the 4th week in a row but above the 40-week moving average.
Buy on close. Sell X weeks later. \$100k/trade. 1975 - present.

Buy	8/8/1975	Buy	\$86.02	3.30%	\$5,554.36
Sell	10/17/1975	Sell	\$88.86		(\$5,170.90)
Buy	6/4/1976	Buy	\$99.15	5.14%	\$7,691.04
Sell	8/13/1976	Sell	\$104.25		(\$1,189.44)
Buy	7/7/1978	Buy	\$94.89	9.73%	\$13,857.48
Sell	9/15/1978	Sell	\$104.12		(\$642.33)
Buy	11/4/1983	Buy	\$162.44	2.82%	\$4,366.50
Sell	1/13/1984	Sell	\$167.02		(\$528.90)
Buy	8/16/1985	Buy	\$186.10	0.76%	\$1,793.58
Sell	10/25/1985	Sell	\$187.52		(\$3,576.42)
Buy	8/26/1988	Buy	\$259.67	6.41%	\$9,343.95
Sell	11/4/1988	Sell	\$276.31		(\$1,039.50)
Buy	6/26/1992	Buy	\$403.44	3.38%	\$5,357.43
Sell	9/4/1992	Sell	\$417.08		\$0.00
Buy	4/4/1997	Buy	\$757.90	17.86%	\$17,919.49
Sell	6/13/1997	Sell	\$893.27		(\$3,191.16)
Buy	8/14/1998	Buy	\$1,062.74	0.74%	\$4,126.60
Sell	10/23/1998	Sell	\$1,070.65		(\$13,107.36)
Buy	5/21/2004	Buy	\$1,093.59	0.74%	\$4,800.25
Sell	7/30/2004	Sell	\$1,101.72		(\$1,347.71)
Buy	7/10/2009	Buy	\$879.13	21.52%	\$22,033.87
Sell	9/18/2009	Sell	\$1,068.30		(\$430.53)
Buy	2/5/2010	Buy	\$1,066.19	11.81%	\$13,738.89
Sell	4/16/2010	Sell	\$1,192.13		(\$900.24)
Buy	5/27/2011	Buy	\$1,331.10	-9.90%	\$1,903.50
Sell	8/5/2011	Sell	\$1,199.38		(\$12,225.75)
Buy	8/23/2019	Buy	\$2,847.11	7.72%	\$7,694.40
Sell	11/1/2019	Sell	\$3,066.91		\$0.00
Buy	9/25/2020	Buy	\$3,298.46	12.15%	\$12,022.20
Sell	12/4/2020	Sell	\$3,699.12		(\$1,935.60)

The 2011 instance did not work out at all. Most everything else looks encouraging. I have added this study to the intermediate-term active list.

Breaking the year down by week is something I have done numerous times over the years, and it has provided some interesting insights. The table below shows stats back to 1985. I chose 1985 as the start date because SPX options trading began in 1984, so 1985 is the 1st full year where there was an options expiration schedule. Action on and around options expiration, which occurs on the 3rd Friday of each month, seems to generate some seasonal tendencies. So this study encompasses the full range of time that SPX options have been in existence.

SPX Performance in the Week that Followed the Month and Friday Specified.
\$100k/trade. 1985 - present. Top 10 and bottom 11 results shown.

Month of Year	Fri of Month	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	5	20,984.09	16	12	4	75.00	7,184.40	-3,889.28	2,286.54	-1,613.59	1.42	4.25	1,311.51
1	5	15,765.61	17	12	5	70.59	5,169.12	-3,138.72	2,339.80	-2,462.40	0.95	2.28	927.39
4	2	33,419.51	39	25	14	64.10	5,731.96	-3,580.15	2,150.94	-1,453.85	1.48	2.64	856.91
10	2	31,021.62	38	29	9	76.32	7,282.10	-9,109.98	2,011.62	-3,035.03	0.66	2.14	816.36
1	4	30,674.43	39	25	14	64.10	4,860.00	-3,765.16	2,130.70	-1,613.80	1.32	2.36	786.52
5	4	28,943.09	39	26	13	66.67	7,145.28	-2,983.50	1,867.32	-1,508.26	1.24	2.48	742.13
11	4	25,269.90	38	28	10	73.68	7,362.46	-6,830.72	1,481.00	-1,619.80	0.91	2.56	665.00
10	4	25,077.06	38	27	11	71.05	10,485.72	-5,472.04	1,941.62	-2,486.07	0.78	1.92	659.92
5	5	10,062.95	17	11	6	64.71	4,787.84	-3,683.73	1,914.87	-1,833.43	1.04	1.91	591.94
3	4	21,991.19	39	27	12	69.23	4,194.44	-4,297.04	1,482.53	-1,503.10	0.99	2.22	563.88
10	3	-8,435.11	38	19	19	50.00	4,339.20	-12,167.91	1,874.15	-2,318.11	0.81	0.81	-221.98
8	5	-3,886.62	16	8	8	50.00	3,283.38	-4,206.40	1,374.80	-1,860.62	0.74	0.74	-242.91
11	5	-2,801.11	11	7	4	63.64	1,717.40	-4,574.88	952.18	-2,366.60	0.40	0.70	-254.65
9	1	-10,194.98	39	19	20	48.72	3,778.72	-11,038.16	1,710.37	-2,134.60	0.80	0.76	-261.41
6	1	-10,884.35	39	18	21	46.15	4,090.16	-4,984.32	1,189.31	-1,537.71	0.77	0.66	-279.09
6	3	-11,166.54	39	15	24	38.46	6,396.30	-3,626.75	1,510.79	-1,409.52	1.07	0.67	-286.32
10	1	-15,836.87	38	21	17	55.26	5,944.32	-18,000.90	1,849.22	-3,215.92	0.58	0.71	-416.76
7	5	-9,682.89	17	8	9	47.06	2,404.80	-7,153.30	1,213.42	-2,154.47	0.56	0.50	-569.58
2	3	-25,825.41	39	18	21	46.15	2,106.80	-11,122.37	848.98	-1,957.48	0.43	0.37	-662.19
4	5	-7,963.05	11	4	7	36.36	1,247.86	-6,368.04	909.67	-1,657.39	0.55	0.31	-723.91
9	3	-34,208.21	39	10	29	25.64	7,739.42	-6,525.56	1,625.43	-1,740.09	0.93	0.32	-877.13

You'll note that the highlighted weeks are the October weeks. It's amazing that all 5 potential weeks in October are included in either the Best 10 or the Worst 11 weeks of the year. Weeks are ranked based on Avg Trade (last column).

Weeks following the 1st and 3rd Friday in October have been among the *worst* on average. I'll also note that the 2 of the 3 largest "max losing trades" occurred following the 1st and 3rd Friday in October. They were a 12% and an 18% drop.

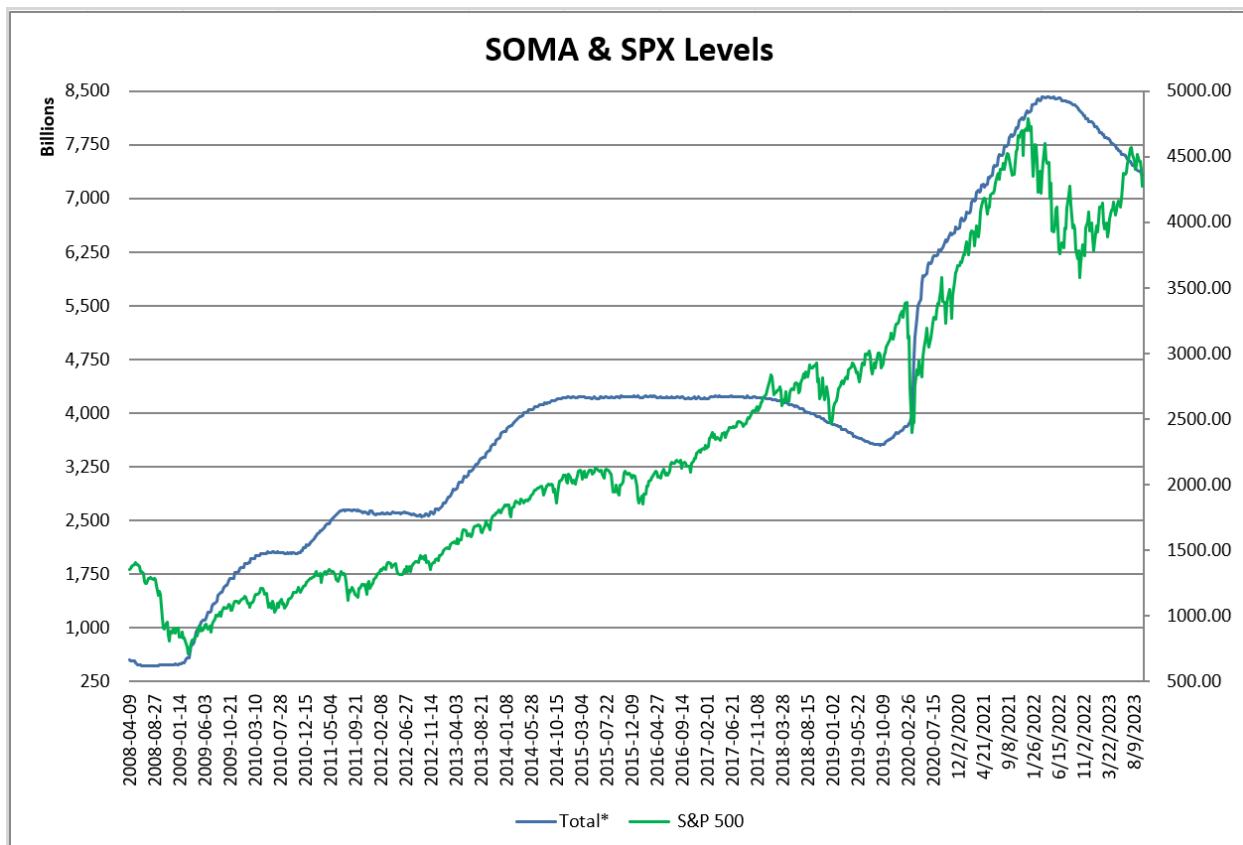
Weeks following the 2nd, 4th, and 5th Fridays in October made up 3 of the *best* 10 weeks of the year on average. And they show some of the biggest winners as well, with 7.2%, 7.3% and 10.5% max gains.

As I said, October can be volatile. There could easily be some strong moves up and down throughout the month, and traders may want to keep this in mind for position sizing, or if they are making volatility trades.

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

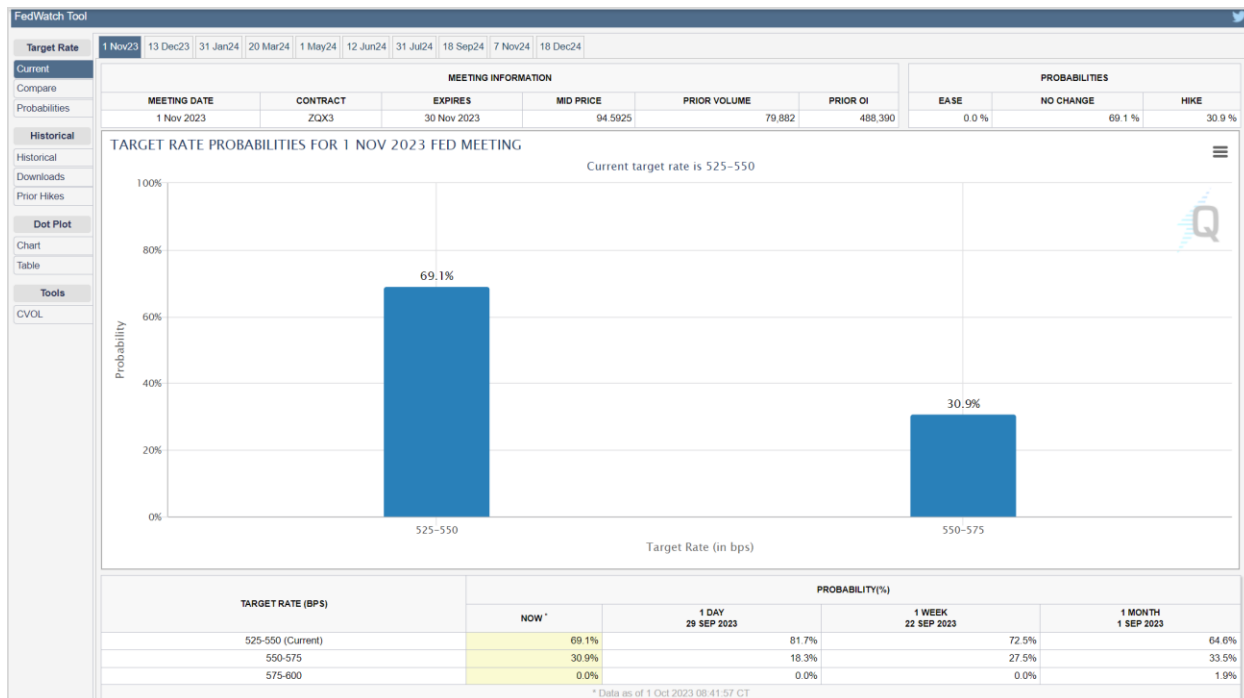
Domestic Security Holdings as of	
Previous	September 27, 2023 <i>Posted September 28, 2023 at 4:30 PM</i>
SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	244,137,345.6
US Treasury Notes and Bonds (Notes/Bonds)	4,220,127,857.2
US Treasury Floating Rate Notes (FRNs)	17,770,390.6
US Treasury Inflation-Protected Securities (TIPS)*	365,380,447.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,471,406,562.7
Agency Commercial Mortgage-Backed Securities***	8,319,556.5
Total SOMA Holdings	7,329,489,160.0
Change From Prior Week	-17,541,724.8

As we expected, there was another drop in the SOMA this past week. At \$17.5 billion it was fairly large. For the current week, I expect to see another sizable 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 November meeting increased modestly this week. Odds of an increase currently stand at about 31%. This can be seen in the screenshot below of the CME Fedwatch Tool:



The Fed remains “data dependent”. And there is plenty of time between now and November, so these odds will likely change quite a bit over the next several weeks. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

While evidence remains mixed, I am feeling a bit more optimistic about the intermediate-term. The 4-weeks lower study shown earlier suggests the selling is reaching a point where it is normally exhausted. 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 and that is the largest headwind the market is facing. We are also still in the May-October period that is susceptible to selling when we have already seen weakness sometime in Jan – April. But perhaps that selling is near over, and the October Seasonality Calendar looks strong in the 2nd half of the month. So I am going to change the intermediate-term outlook from neutral to bullish. I remain willing to take short-term trades in either direction but will be more aggressive with longs and more conservative with short trades.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

BA – 1/3 @ \$199.95 (bought at limit)

BA – 1/3 @ \$197.71 (bought at limit)

UNP - 1/3 @ \$202.40 (bought at limit)

New

LLY – 1/3 @ \$537.13 (buy @ limit)

Broad Market Large Cap CBI – 4(BA-2, UNP, LLY)

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.

LLY – Buy 1/3 Catapult position @ \$537.13 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of LLY.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	9/21/2023	\$431.39	\$427.48	-0.91%	Aggregator
BA(1/3)	9/22/2023	\$199.95	\$191.68	-4.14%	Catapult
CSCO(1/3)	9/22/2023	\$53.34	\$54.16	1.54%	sold on open
SPY(1/4)	9/25/2023	\$429.17	\$427.48	-0.39%	Aggregator
BA(1/3)	9/25/2023	\$196.84	\$191.68	-2.62%	Catapult
UPS(1/3)	9/25/2023	\$152.93	\$156.50	2.33%	sold on open
NKE(1/3)	9/26/2023	\$90.00	\$95.62	6.24%	<i>sell on open</i>
NKE(1/3)	9/27/2023	\$90.17	\$95.62	6.04%	<i>sell on open</i>
NKE(1/3)	9/28/2023	\$89.10	\$95.62	7.32%	<i>sell on open</i>
UNP(1/3)	9/28/2023	\$202.40	\$203.63	0.61%	Catapult

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