

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 30, 2024

Volume 17 Issue 20

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.
- The Fed Day edge on Wednesday will be greatly influenced by action on Tuesday.
- Fed Days have been front run consistently over the last year.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. That is where I am at as well.

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						
January 30, 2024	VIX up SPX 50-high on Monday	1-2 days	Bearish			
January 29, 2024	5 up to 50 high. Down 1.	1-4 days	Bullish	0.70%	-0.50%	-1.10%
January 25, 2024	Up Vol % < 40%. SPX up.	1-7 days	Bullish	1.70%	-1.30%	-2.50%
Active - Long Term						
January 29, 2024	5 up to 50 high. Down 1.	1-4 days	Bullish	1.80%	-1.10%	-2.30%
January 25, 2024	Up Vol % < 40%. SPX up.	1-10 days	Bullish	2.10%	-1.60%	-3.40%
January 25, 2024	SPX 20-day intra high. Close btm 10% rng.	1-10 days	Bullish	2.00%	-1.50%	-2.80%
January 17, 2024	CBI 11+	1-20 days	Bullish	5.90%	-4.30%	-9.65%
January 16, 2024	NASDAQ Leading	int term	Bullish			
January 16, 2024	RUT btm 25% 20-day rng. SPX top 25%	1-40 days	Bullish	5.20%	-3.40%	-6.70%
December 27, 2023	%SPX > 50 moves frm 15% > 90% in 50 dys	1-6 months	Bullish			
December 21, 2023	SPX 20-day intra high. NDX worst dn in 20	1-50 days	Bullish			
November 21, 2023	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.35%	-8.80%
November 7, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish	25.20%	-8.10%	
November 6, 2023	Zweig Thrust	1-12 months	Bullish	29.00%	-3.20%	-7.00%
November 6, 2023	Best 6 Months	6 months	Bullish			
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			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

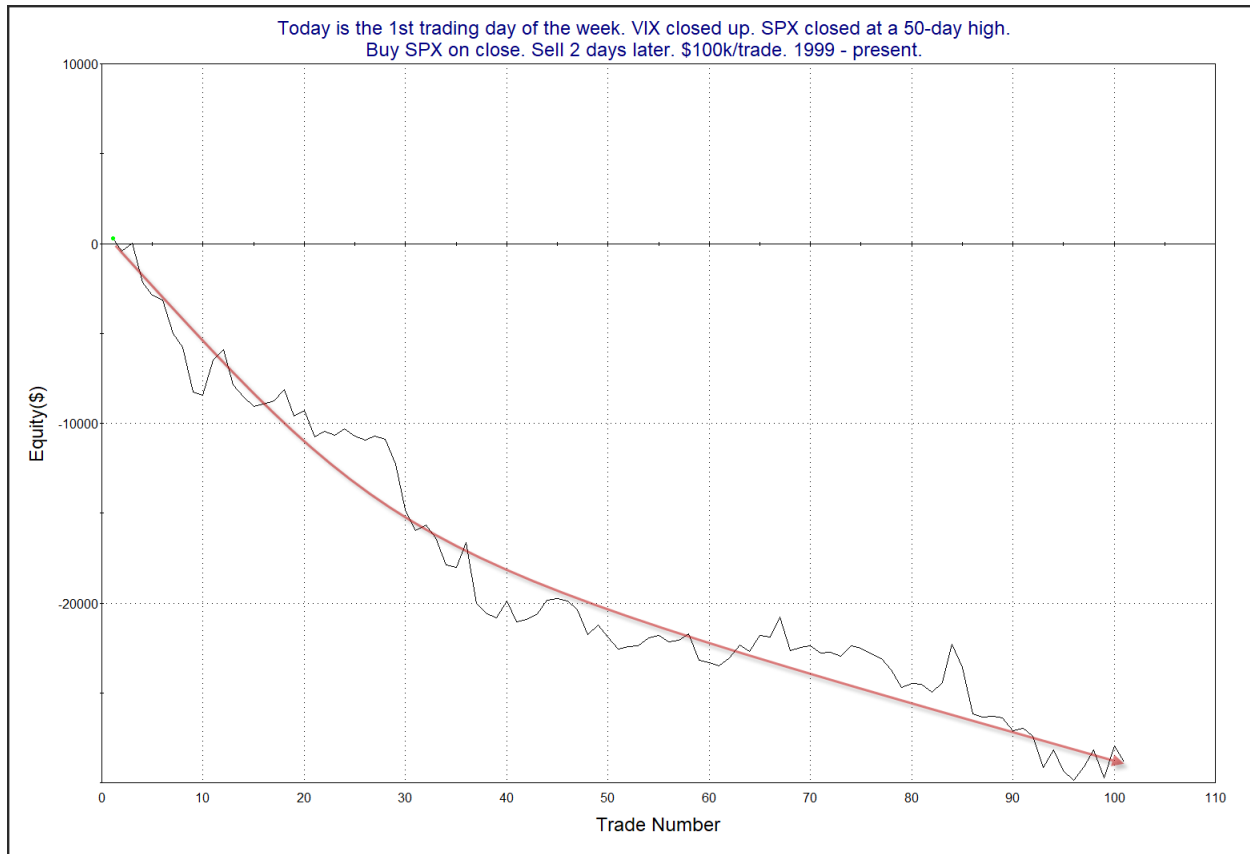
The Evidence

Monday was a good day for bulls. The SPX closed up 0.8%, the NASDAQ rose 1.1%, and the Russell 2000 rallied 1.7%. Breadth was positive with the NYSE Up Issues % coming in at 72.0% and the Up Volume % at 71.6%. NYSE total volume rose some from Friday's low level.

One study from the Quantifinder looked at the rise in the VIX that accompanied the SPX new high. The VIX has a natural tendency to rise on Mondays. So although VIX most often moves lower when SPX rises, Monday is the most likely day of the week to see the two of them rise together. Still, times SPX closed at a 50-day high while VIX rose on a Monday have previously suggested a downside edge. Seen last in the 12/19/23 letter, results of this study are updated.

Today is the 1st trading day of the week. VIX closed up. SPX closed at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-16,124.15	95	45	50	47.37	5,653.12	-5,048.68	1,109.85	-1,321.35	0.84	0.76	-169.73
4	-14,917.99	101	49	52	48.51	4,422.40	-5,732.40	964.66	-1,195.89	0.81	0.76	-147.70
3	-18,250.68	101	48	53	47.52	2,641.80	-6,908.70	716.52	-993.27	0.72	0.65	-180.70
2	-28,851.37	101	42	59	41.58	2,148.48	-3,372.16	539.40	-872.99	0.62	0.44	-285.66
1	-9,463.19	101	37	64	36.63	802.88	-1,580.04	334.97	-341.52	0.98	0.57	-93.69

The numbers here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long, persistent decline. It is near new lows and the study seems worthy of consideration. So I have added it to the active list.

Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. [I have documented this tendency](#) in great detail over the years, including the 2011 book, [The Quantifiable Edges Guide to Fed Days](#). One interesting observation I have noted about Fed Days is that the bullish tendency is greatly impacted by stock market action leading up to the Fed Day. This is something that often happens with other seasonal tendencies as well (like turn of the month). In the past I have broken down Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. Below are updated stats for the 4 quartiles from highest to lowest in the daily range.

Tomorrow is a Fed Day.
 SPY closes in the top 25% of its intraday range.
 Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

	All Trades
Total Net Profit	\$9,898.29
Gross Profit	\$38,368.45
Gross Loss	(\$28,470.16)
Profit Factor	1.35
Total Number of Trades	95
Percent Profitable	49.47%
Winning Trades	47
Losing Trades	46
Even Trades	2
Avg. Trade Net Profit	\$104.19
Avg. Winning Trade	\$816.35
Avg. Losing Trade	(\$618.92)
Ratio Avg. Win:Avg. Loss	1.32
Largest Winning Trade	\$2,238.25
Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day.
 SPY closes > 50% and <= 75% of its intraday range.
 Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

	All Trades
Total Net Profit	\$17,071.49
Gross Profit	\$34,876.26
Gross Loss	(\$17,804.77)
Profit Factor	1.96
Total Number of Trades	57
Percent Profitable	52.63%
Winning Trades	30
Losing Trades	26
Even Trades	1
Avg. Trade Net Profit	\$299.50
Avg. Winning Trade	\$1,162.54
Avg. Losing Trade	(\$684.80)
Ratio Avg. Win:Avg. Loss	1.70
Largest Winning Trade	\$4,704.07
Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day.
 SPY closes > 25% and <= 50% of its intraday range.
 Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

	All Trades
Total Net Profit	\$13,122.59
Gross Profit	\$26,498.43
Gross Loss	(\$13,375.84)
Profit Factor	1.98
Total Number of Trades	49
Percent Profitable	63.27%
Winning Trades	31
Losing Trades	18
Even Trades	0
Avg. Trade Net Profit	\$267.81
Avg. Winning Trade	\$854.79
Avg. Losing Trade	(\$743.10)
Ratio Avg. Win:Avg. Loss	1.15
Largest Winning Trade	\$2,943.00
Largest Losing Trade	(\$2,066.62)

Tomorrow is a Fed Day.
 SPY closes in the BOTTOM 25% of its intraday range.
 Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

	All Trades
Total Net Profit	\$25,798.46
Gross Profit	\$37,727.36
Gross Loss	(\$11,928.90)
Profit Factor	3.16
Total Number of Trades	45
Percent Profitable	73.33%
Winning Trades	33
Losing Trades	12
Even Trades	0
Avg. Trade Net Profit	\$573.30
Avg. Winning Trade	\$1,143.25
Avg. Losing Trade	(\$994.07)
Ratio Avg. Win:Avg. Loss	1.15
Largest Winning Trade	\$4,645.80
Largest Losing Trade	(\$2,945.28)

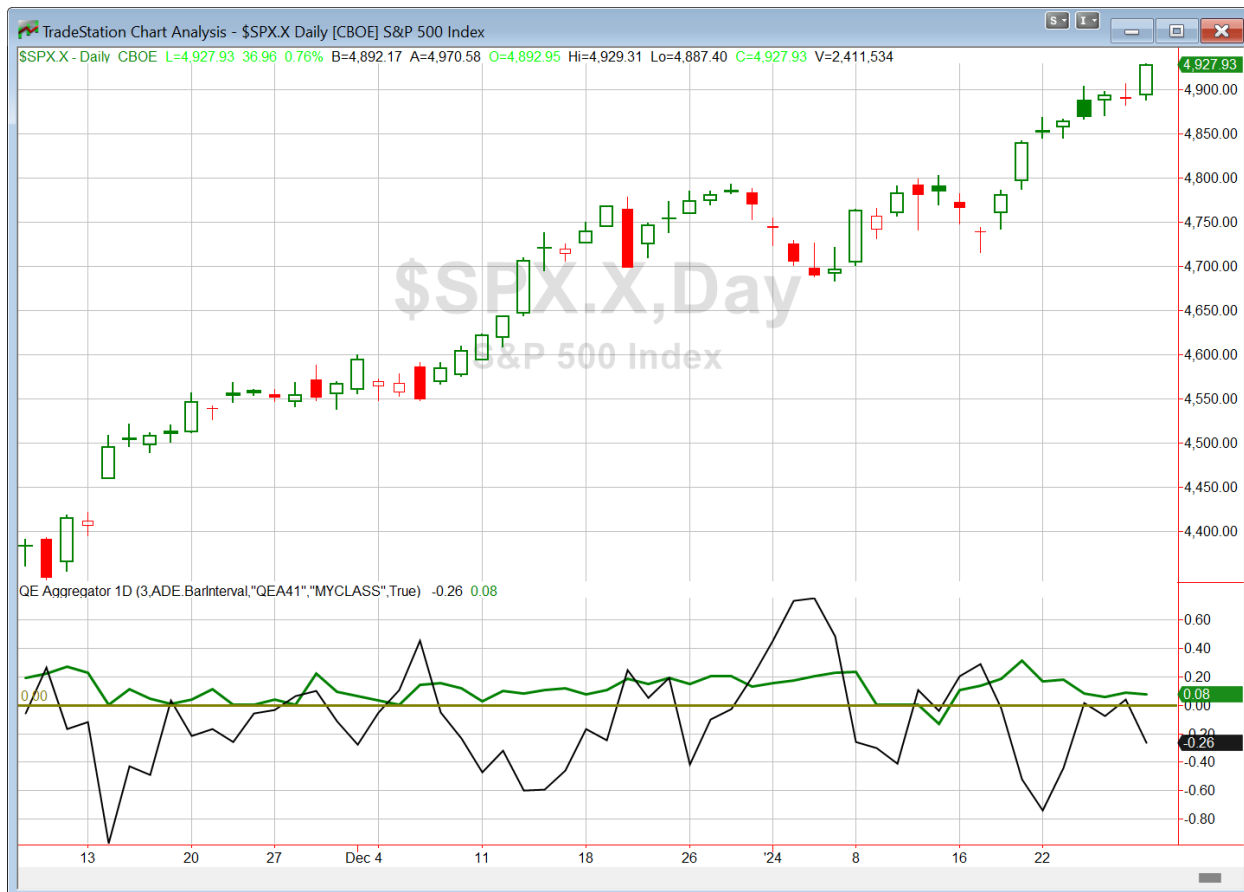
So what we see here is that the lower SPY has closed in its range the day before, the stronger the Fed Day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced. This could be worth keeping in mind as we approach the close on Tuesday.

But...the chances of a selloff Tuesday afternoon don't seem great. Scott Murray (@VolatilityWiz on X) who runs [VolatilityAnalytics.com](https://www.volatilityanalytics.com) has been pointing out lately that the market has been front running may risk events (like economic releases) over the last several months. I decided to see what SPY has done in the hours leading up to a Fed Day. The study below buys at noon EST on the day before a Fed Day, and then sell that same day at 4pm.

Buy SPY at noon on day before Fed Day. Sell at 4pm NYSE close.\$100k/trade. 2023.				
Date/Time	Side	Price	% Chg	RunUp/Ddn
1/31/2023 12:00	Buy	\$403.05	0.85%	\$863.04
1/31/2023 16:00	Sell	\$406.47		(\$136.40)
3/21/2023 12:00	Buy	\$395.89	0.76%	\$887.04
3/21/2023 16:00	Sell	\$398.88		(\$57.96)
5/2/2023 12:00	Buy	\$408.71	0.53%	\$700.28
5/2/2023 16:00	Sell	\$410.86		(\$68.32)
6/13/2023 12:00	Buy	\$436.03	0.14%	\$297.70
6/13/2023 16:00	Sell	\$436.66		(\$153.43)
7/25/2023 12:00	Buy	\$455.39	0.01%	\$295.65
7/25/2023 16:00	Sell	\$455.42		(\$37.23)
9/19/2023 12:00	Buy	\$440.86	0.43%	\$549.18
9/19/2023 16:00	Sell	\$442.75		(\$207.92)
10/31/2023 12:00	Buy	\$416.45	0.43%	\$499.20
10/31/2023 16:00	Sell	\$418.24		(\$295.20)
12/12/2023 12:00	Buy	\$462.59	0.34%	\$347.76
12/12/2023 16:00	Sell	\$464.16		(\$75.60)

There was zero fear of the Fed in 2023. In the hours leading up to every Fed Day, SPY rose. So while a Tuesday selloff could make a nice bullish setup for Wednesday, it seems unlikely to happen. Of course you could try and join the frontrunners and buy SPY during the morning or early afternoon on Tuesday in anticipation of a run-up.

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



Even with tonight's bearish 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 dropped below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator formation turned flat at the close.

Based on the current list of active studies, expectations are slated to remain positive on Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4909.95 on Tuesday. That is 0.4% below Monday's close. Therefore, SPX will need to close down about 0.4% on Tuesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator neutral. Evidence is mixed. A surprise on Wednesday could bring volatility. This is all even less appealing than the standard “bullish but overbought” condition. So I don’t have any interest in taking on new short-term exposure. I’ll continue to patiently wait for a better setup.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/29 – bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

None

Broad Market Large Cap CBI – 0

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

None

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