

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 5, 2024

Volume 17 Issue 24

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The weak breadth on Friday is sending a somewhat mixed message.
- The SPX Seasonality Calendar is only mildly bullish this upcoming week.
- Favorable momentum over the last 3 months appears to be an intermediate-term positive.
- The SOMA continues to decline at a rapid pace, but QT might be changing as soon as March.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. That is where I am 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
<b>Active - Short Term</b>						
February 5, 2024	Up Vol % < 40%. SPX up and > 200ma.	1-7 days	Bullish	1.70%	-1.30%	-2.50%
February 5, 2024	Up Vol and Up Iss < 40%. SPX up	1-2 days	Bearish			
February 1, 2024	Fed Day. SPX down 2+	1-6 days	Bullish			
<b>Active - Long Term</b>						
February 5, 2024	Up Vol % < 40%. SPX up.	1-10 days	Bullish	2.10%	-1.60%	-3.40%
February 2, 2024	SPX up > 15% last 3 months	1-6 months	Bullish			
January 29, 2024	5 up to 50 high. Down 1.	1-10 days	Bullish	1.80%	-1.10%	-2.30%
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 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			

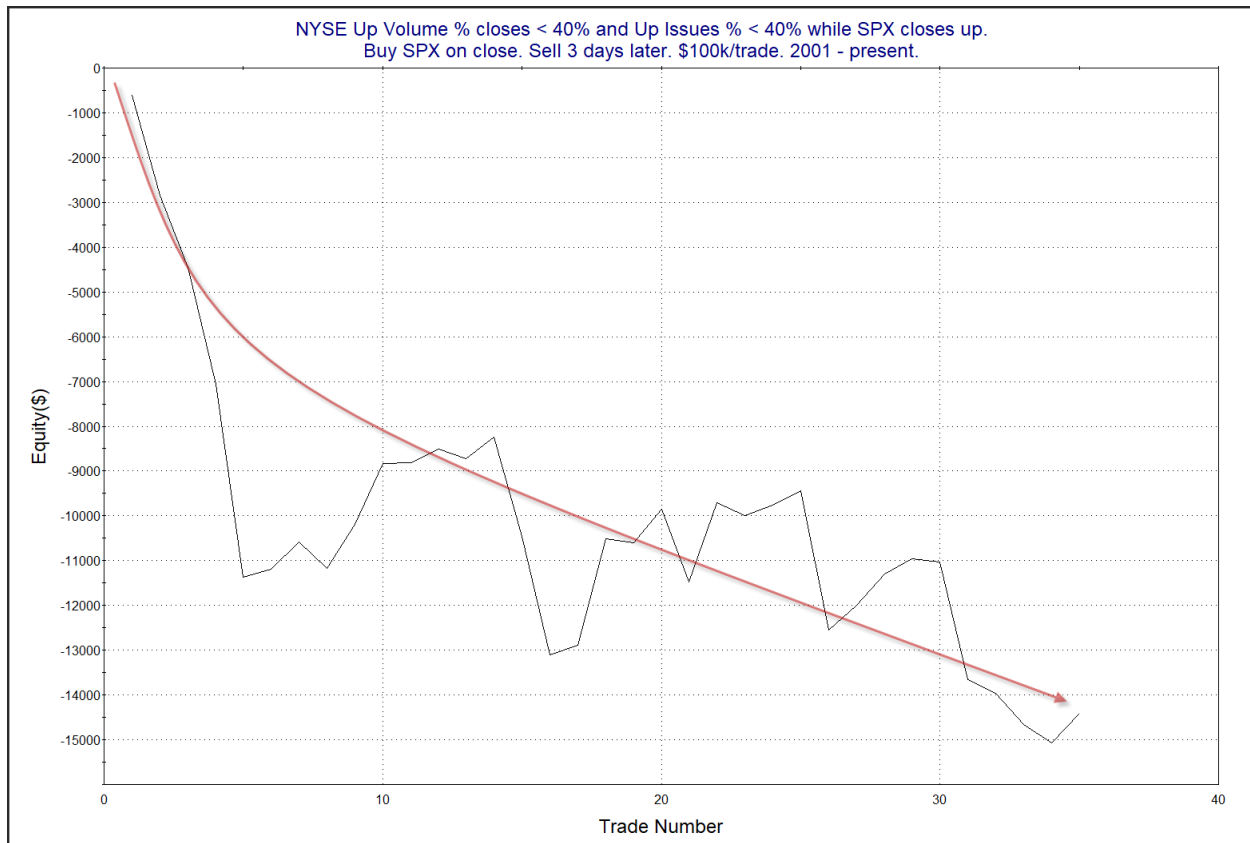
**The Evidence**

Friday was a strong day for large cap indices and a select group of large cap stocks. But much of the market struggled. The SPX closed up 1.1%, the NASDAQ rose 1.7%, and the Russell 2000 declined 0.6%. Breadth was weak with the NYSE Up Issues % coming in at 32% and the Up Volume % at 37%. NYSE total volume declined some for the 2<sup>nd</sup> day in a row.

Notable about the action was the substantially weak breadth on a day that the SPX moved higher. This triggered a couple of interesting studies. They were both discussed in the 11/7/23 letter. Interestingly, they did not agree with each other. The 1<sup>st</sup> looked at times both the Up Volume % and Up Issues % were both below 40% on an up day. Updated results are below.

NYSE Up Volume % closes < 40% and Up Issues % < 40% while SPX closes up. Buy SPX on close. Sell X days later. \$100k/trade. 2001 - 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	-11,797.96	33	18	15	54.55	3,146.16	-9,372.60	1,181.33	-2,204.13	0.54	0.64	-357.51
4	-19,267.45	33	13	20	39.39	1,977.25	-8,138.50	962.92	-1,589.27	0.61	0.39	-583.86
3	-14,405.59	35	17	18	48.57	2,365.53	-4,302.54	696.30	-1,457.93	0.48	0.45	-411.59
2	-9,006.85	35	18	17	51.43	2,505.37	-3,867.94	816.04	-1,393.86	0.59	0.62	-257.34
1	-9,329.23	37	17	20	45.95	2,625.35	-8,783.02	808.67	-1,153.83	0.70	0.60	-252.14

Numbers here look quite negative. Below is a look at the curve for the 3-day holding period.



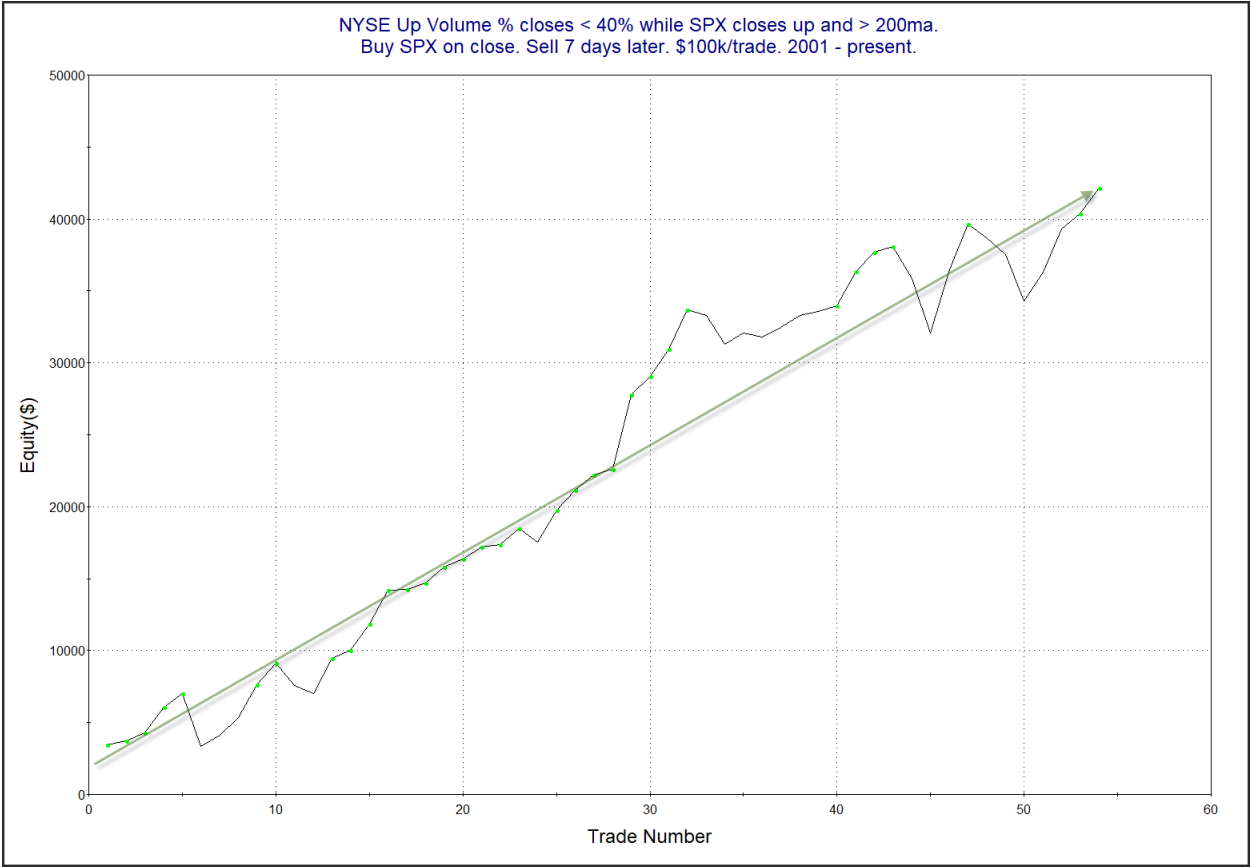
That is a persistent drop. This study appears to be worth some consideration.

But the next study viewed weak breadth as an “oversold” type condition suggesting a short-term upside edge. It simply focused on Up Volume % coming in under 40% while SPX closed higher during a long-term uptrend. It is updated from the 1/25/24 letter.

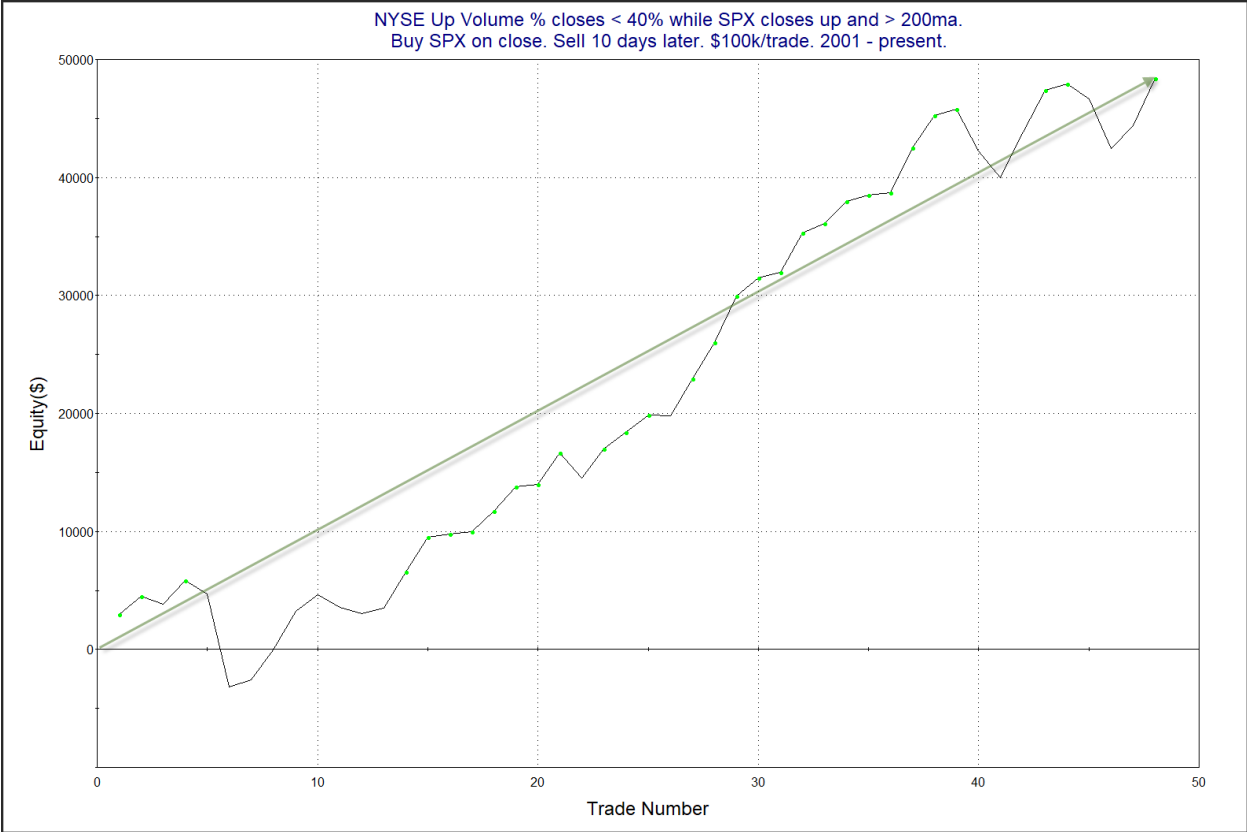
NYSE Up Volume % closes < 40% while SPX closes up and > 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 2001 - present.

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	48,398.28	48	37	11	77.08	3,990.80	-7,891.63	1,978.82	-2,256.18	0.88	2.95	1,008.30
9	42,058.12	49	37	12	75.51	3,793.00	-7,594.37	1,798.77	-2,041.37	0.88	2.72	858.33
8	44,442.33	51	40	11	78.43	4,666.56	-6,657.20	1,598.11	-1,771.11	0.90	3.28	871.42
7	42,154.93	54	42	12	77.78	5,211.84	-3,755.76	1,498.61	-1,732.24	0.87	3.03	780.65
6	37,735.27	54	39	15	72.22	6,018.56	-3,495.92	1,509.37	-1,408.67	1.07	2.79	698.80
5	27,913.03	58	43	15	74.14	4,787.84	-4,623.84	1,180.91	-1,524.42	0.77	2.22	481.26
4	14,502.28	59	37	22	62.71	2,689.05	-4,483.92	1,070.98	-1,142.00	0.94	1.58	245.80
3	10,407.42	62	38	24	61.29	2,513.92	-3,122.40	885.53	-968.44	0.91	1.45	167.86
2	13,383.43	67	44	23	65.67	2,661.75	-2,848.17	734.92	-824.04	0.89	1.71	199.75
1	6,218.14	73	44	29	60.27	1,790.64	-1,489.20	522.00	-577.59	0.90	1.37	85.18

Results have been surprisingly strong over the last 22 years. Below is a look at a 7-day profit curve.



And here is the 10-day curve.



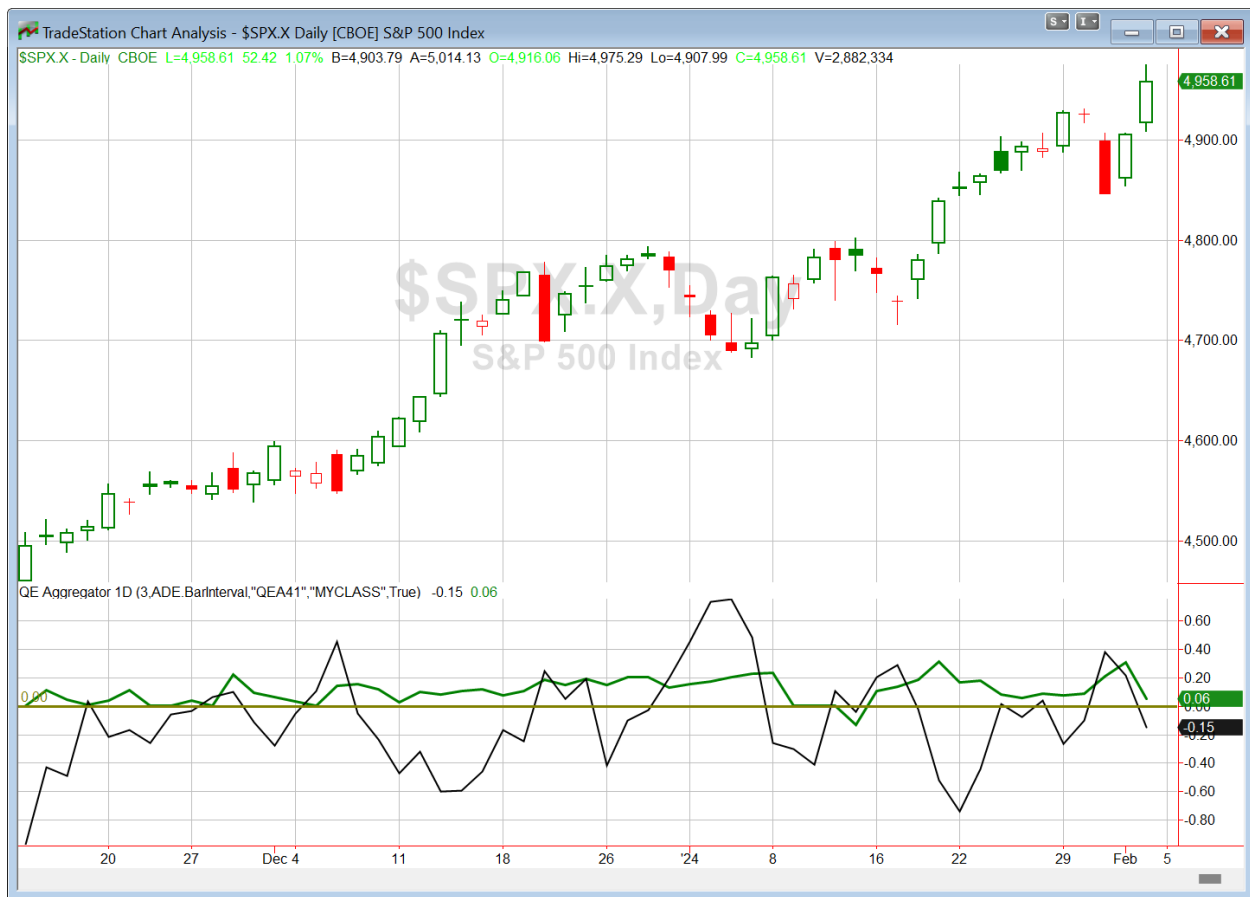
The curves have shown strong upside persistence. I find these results intriguing and have included this study on the short-term and the intermediate-term Active Lists. So we have a bit of a mix tonight.

Below is a look at the QE's Fed Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
2/1/2024	57.45	1.375	0.090
2/2/2024	55.51	1.170	0.060
2/5/2024	57.33	1.272	0.083
2/6/2024	51.40	0.991	-0.007
2/7/2024	57.16	1.189	0.051
2/8/2024	55.38	0.941	-0.027
2/9/2024	55.68	1.177	0.049
2/12/2024	54.20	1.288	0.050
2/13/2024	51.79	1.387	0.088
2/14/2024	56.00	1.454	0.094
2/15/2024	55.17	1.423	0.082
2/16/2024	53.93	1.492	0.075
2/20/2024	49.06	1.152	-0.014
2/21/2024	47.95	0.823	-0.095
2/22/2024	49.21	1.021	-0.037
2/23/2024	50.78	0.812	-0.100
2/26/2024	52.04	1.133	0.047
2/27/2024	50.01	1.086	0.035
2/28/2024	51.34	1.157	0.057
2/29/2024	53.42	1.238	0.078
<b>Baseline</b>	<b>53.81</b>	<b>1.135</b>	<b>0.046</b>

Two of the 5 days this upcoming week are showing neutral numbers. So short-term seasonality is not terribly strong.

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



With this weekend's evidence considered, the green Aggregator Line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dipped 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 Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4862.70 on Monday. That is 1.9% below Friday's close. Therefore, SPX will need to close down at least 1.9% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Evidence is pointing higher but the market is strongly overbought. So not an ideal entry point. I looked to get long both Thursday and Friday, but two unfilled gaps up those days saw the market rally without me. Now it is too late to chase. So I will wait patiently until the next favorable reward/risk setup emerges.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/5 – bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>	<b>Combo #4</b>
<b>Long QQQ</b>	<b>Long QQQ</b>	<b>Long QQQ</b>	<b>Long QQQ</b>

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. 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 remained long QQQ this week.*

Large caps ruled this past week. The SPX rose 1.4%, the NASDAQ climbed 1.1%, and the Russell 2000 declined 0.8%. Bonds rose. The US Aggregate Bond ETF (AGG) posted a gain of 0.7%. TLT, the 20-year Treasury Bond ETF, rallied 2.8%. The continued new all-time highs for the SPX remove any doubt that it is currently in an uptrend.

In Thursday night's letter there were a couple of studies with intermediate-term bullish implications. I have copied them below.

*The market has been on a strong run since early November. During from the end of October to the end of January SPX rose 15.5%. In the 7/6/20 letter I looked at gains of 15%+ in any 3-month period. I broke these results out pre and post-1950. Those two tables can be seen below.*

S&P 90 closes up > 15% over the last 3 months.  
 Forward returns shown. 1928 - 1950.

Ticker	Date/Time	Next Month % Chg	2-Month % Chg	3-Month % Chg	6-Month % Chg	12-Month % Chg	24-Month % Chg
\$\$PX	5/31/1928	-4.3	-2.85	4.35	21.4	24.15	22.45
\$\$PX	11/30/1928	0.29	6.01	5.4	2.27	-13.84	-32.54
\$\$PX	12/31/1928	5.71	5.09	4.85	12.57	-11.91	-37
\$\$PX	1/31/1929	-0.58	-0.82	0.78	12.2	-11.46	-37.1
\$\$PX	8/30/1929	-4.89	-23.84	-34.03	-26.58	-32.61	-56.29
\$\$PX	3/31/1930	-0.95	-2.59	-18.62	-26.05	-33.61	-70.92
\$\$PX	8/31/1932	-3.69	-17.04	-21.93	-32.54	32.18	9.06
\$\$PX	9/30/1932	-13.86	-18.94	-14.36	-27.6	20.3	12.38
\$\$PX	10/31/1932	-5.89	-0.57	-0.29	12.5	28.74	26.58
\$\$PX	5/31/1933	13.17	3.22	15.04	2.49	-0.31	-0.62
\$\$PX	6/30/1933	-8.8	1.65	-10.91	-8.62	-10.08	-6.14
\$\$PX	7/31/1933	11.46	-2.31	-9.95	12.26	-12.76	11.36
\$\$PX	8/31/1933	-12.35	-19.21	-10.91	-2.98	-17.49	1.35
\$\$PX	1/31/1934	-3.67	-4.92	-6.36	-22.29	-18.53	28.11
\$\$PX	6/28/1935	8.2	9.77	13.18	31.15	44.92	50.39
\$\$PX	7/31/1935	1.44	4.6	12.45	29.15	43.05	51.35
\$\$PX	8/30/1935	3.11	10.85	15.12	29.89	42.26	42.7
\$\$PX	11/29/1935	3.79	10.59	12.83	11.28	33.54	-14.14
\$\$PX	12/31/1935	6.55	8.71	11.09	10.5	27.92	-21.44
\$\$PX	7/31/1936	0.88	1.01	8.71	12.11	5.8	-22.21
\$\$PX	6/30/1938	6.66	4.33	5.88	13.67	-6.06	-13.67
\$\$PX	7/29/1938	-2.19	-0.73	6.81	-0.24	-2.35	-16.55
\$\$PX	8/31/1938	1.49	9.2	5.56	5.31	-7.3	-12.94
\$\$PX	9/29/1939	0.31	-4.61	-2.58	-4.77	-16.65	-20.25
\$\$PX	2/26/1943	5.56	5.65	9.85	7.57	7.75	30.36
\$\$PX	3/31/1943	0.09	4.06	6.65	4.32	3.8	17.53
\$\$PX	5/28/1948	0.3	-5.03	-4.31	-11.62	-14.98	12.52
	<b>Avg</b>	<b>0.29</b>	<b>-0.69</b>	<b>0.16</b>	<b>2.49</b>	<b>3.87</b>	<b>-1.69</b>
	<b>Win %</b>	<b>59.3%</b>	<b>51.9%</b>	<b>59.3%</b>	<b>63.0%</b>	<b>44.4%</b>	<b>48.1%</b>

SPX closes up > 15% over the last 3 months.  
Forward returns shown. 1950 - present.

Ticker	Date/Time	Next Month % Chg	2-Month % Chg	3-Month % Chg	6-Month % Chg	12-Month % Chg	24-Month % Chg
\$\$SPX	1/31/1955	0.35	-0.14	3.63	18.81	19.63	22.09
\$\$SPX	1/31/1961	2.69	5.31	5.71	8.06	11.43	7.15
\$\$SPX	1/31/1963	-2.89	0.56	5.44	4.43	16.37	32.27
\$\$SPX	9/30/1970	-1.25	3.44	9.31	18.99	16.65	31.14
\$\$SPX	1/29/1971	0.91	4.62	8.42	-0.31	8.41	21.02
\$\$SPX	2/28/1975	2.17	7	11.72	6.48	22.21	22.34
\$\$SPX	3/31/1975	4.73	9.35	14.19	0.61	23.28	18.07
\$\$SPX	10/29/1982	3.6	5.17	8.66	22.97	22.31	24.21
\$\$SPX	11/30/1982	1.52	4.89	6.88	17.22	20.12	18.08
\$\$SPX	12/31/1982	3.31	5.28	8.76	19.2	17.27	18.91
\$\$SPX	12/31/1985	0.24	7.4	13.07	18.72	14.62	16.94
\$\$SPX	3/31/1987	-1.15	-0.55	4.22	10.33	-11.25	1.09
\$\$SPX	2/29/1988	-3.33	-2.42	-2.11	-2.35	7.86	23.92
\$\$SPX	11/29/1996	-2.15	3.85	4.46	12.06	26.21	53.71
\$\$SPX	6/30/1997	7.81	1.62	7.02	9.64	28.1	55.08
\$\$SPX	7/31/1997	-5.74	-0.73	-4.16	2.72	17.43	39.24
\$\$SPX	11/30/1998	5.64	9.97	6.42	11.88	19.37	13
\$\$SPX	12/31/1998	4.1	0.74	4.65	11.67	19.53	7.41
\$\$SPX	1/29/1999	-3.23	0.53	4.34	3.84	8.97	6.75
\$\$SPX	5/29/2009	0.02	7.44	11.04	19.2	18.52	46.35
\$\$SPX	6/30/2009	7.41	11.02	14.98	21.3	12.12	43.65
	<b>Avg</b>	<b>1.18</b>	<b>4.02</b>	<b>6.98</b>	<b>11.21</b>	<b>16.15</b>	<b>24.88</b>
	<b>Win %</b>	<b>66.7%</b>	<b>81.0%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>95.2%</b>	<b>100.0%</b>

Here we see strong gains in recent times, but struggles primarily during the 1930s. So how much weight to we put on recent instances, and should we consider the 1930s in our analysis?

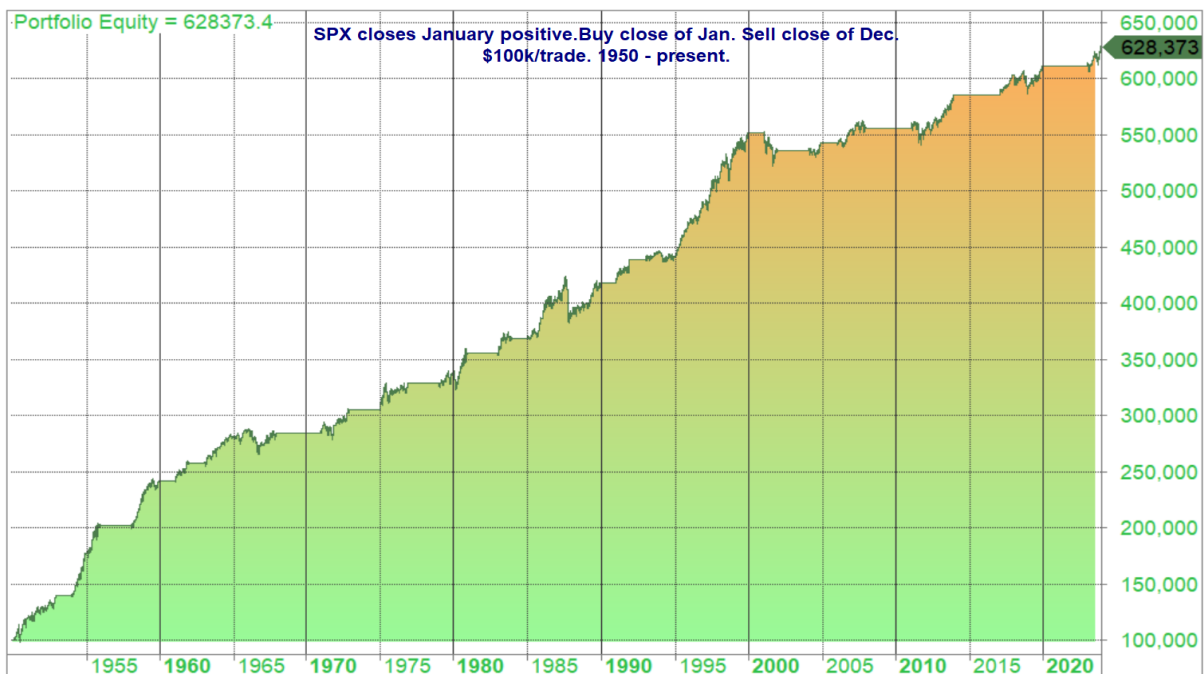
Tough to say. 74 years is a lengthy sampling. The instances in the 30s and 40s provide some reason to be cautious. But I think true odds are reflected more closely by the 2<sup>nd</sup> table above than the 1<sup>st</sup> one. Bottom line for me is that strong momentum is generally a good thing – especially over the last 74 years or so. But it is not a sure thing.

The January Barometer is a fairly famous study from the Stock Traders Almanac. It says that “as goes January, so goes the year”. In other words, a positive January will typically lead to a positive year, while a negative January can be a warning. So, as I did in the 2/6/23 letter, let’s look at how the SPX has done for the remaining 11 months of the year when January has closed higher. Stats are updated back to 1950.

SPX closes January positive.  
Buy end of Jan. Sell end of Dec.  
\$100k/trade. 1950 - present.

<b>All trades</b>	44
Avg. Profit/Loss %	12.01%
<b>Winners</b>	38 (86.36 %)
Avg. Profit %	15.42%
Max. Consecutive	11
<b>Losers</b>	6 (13.64 %)
Avg. Loss %	-9.57%
Max. Consecutive	1
<b>Profit Factor</b>	10.21

The numbers show that in years that January has done well, the rest of the year has typically fared well also. Below is a profit curve.

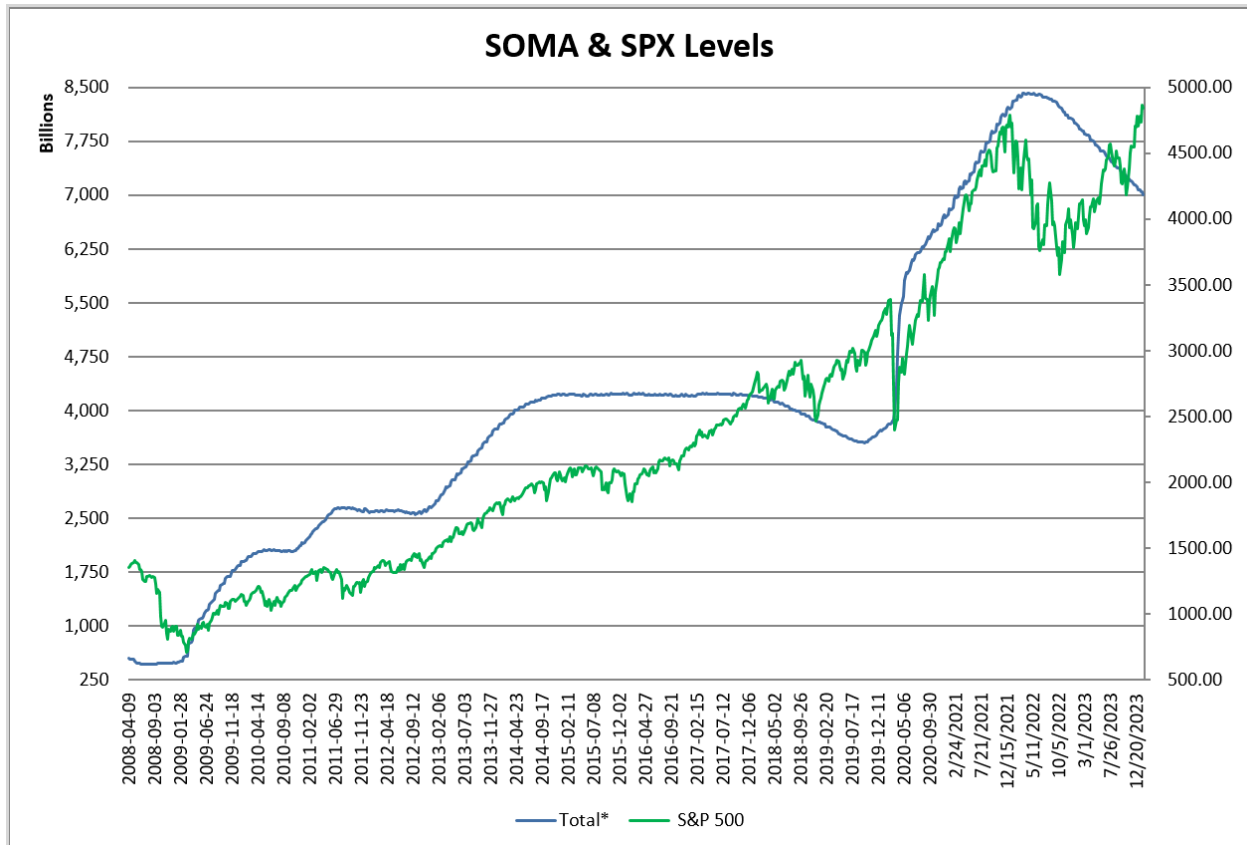


That is a fairly steady upslope. So perhaps January momentum will follow through some for 2024. I will note that the January Barometer would have failed miserably during the 1930s, as there were several years that started well, but saw huge declines over the next 11 months. This study is one I have always found interesting, but not terribly compelling. I just don't love the idea that 11 months of performance is determined by whether 1 month is up or down. So I will not be adding it to the Active List, but I thought readers might want to be aware of it.

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

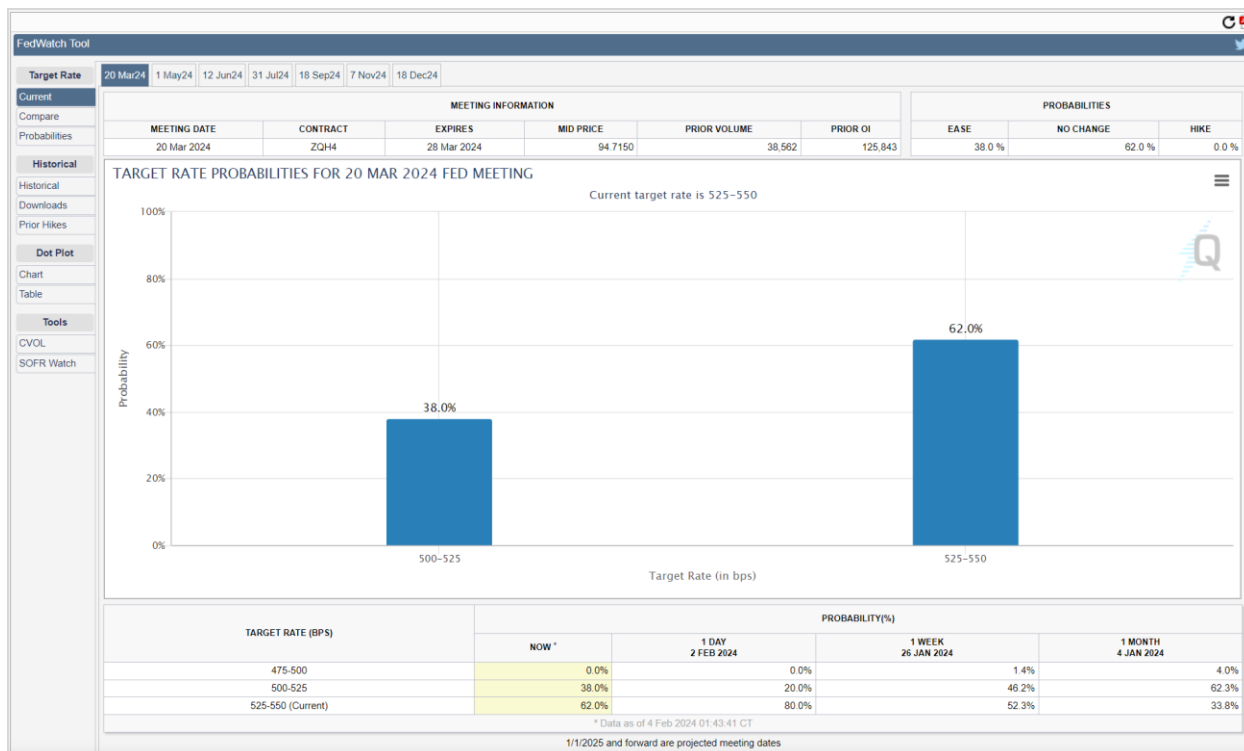
Domestic Security Holdings as of	
<a href="#">◀ Previous</a>	<b>January 31, 2024</b> 📅 <i>Posted February 1, 2024 at 4:30 PM</i>
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> <span style="background-color: #333; color: white; padding: 2px 5px; font-weight: bold;">SUMMARY</span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	210,353,374.1
US Treasury Notes and Bonds (Notes/Bonds)	4,003,117,212.1
US Treasury Floating Rate Notes (FRNs)	7,777,080.8
US Treasury Inflation-Protected Securities (TIPS)*	360,222,223.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,408,935,936.0
Agency Commercial Mortgage-Backed Securities***	8,220,530.3
Total SOMA Holdings	7,000,973,357.0
Change From Prior Week	-40,853,515.2

The SOMA declined a very large \$41 billion this past week. This upcoming I anticipate a much more moderate 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. Despite the strong rally over the last couple of months, SPX is only up moderately since Quantitative Tightening (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. Notable with regards to QT is that we may be nearing a point where the Fed will begin winding it down. Powell indicated in his press conference that there would be discussion about possible QT changes at the March meeting. I suspect they will taper the amount of QT over time, rather than simply halting it.

With regards to rates, odds are now showing a 38% chance that the Fed cuts rates in March. In his Q&A session on Wednesday after the Fed announcement, chairman Powell said he does not foresee a rate cut in March. I would not be surprised to see rate cuts odds decline further in the coming weeks. Below is a look at the March odds, courtesy of the CME Fedwatch Tool:



While high rates and QT may be nearing an end, they still remain, and so I am still viewing the Fed as a bearish market force.

I've had a bullish overall bias for a while now. And with more bullish evidence emerging this week, along with the new all-time highs for SPX, I am not about to change that. Strong momentum over the last 3 months, along with a positive January, suggest favorable market conditions. The leading NASDAQ is a positive. The trend is clearly up, and we are in a favorable seasonal period. The one substantial detractor is the Fed, though the Fed is beginning to back off some hawkish policy. Things can change quickly. But I am again keeping my intermediate-term bias "bullish". I will be more aggressive with long entries, and will be especially conservative when considering short trades.

## **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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