

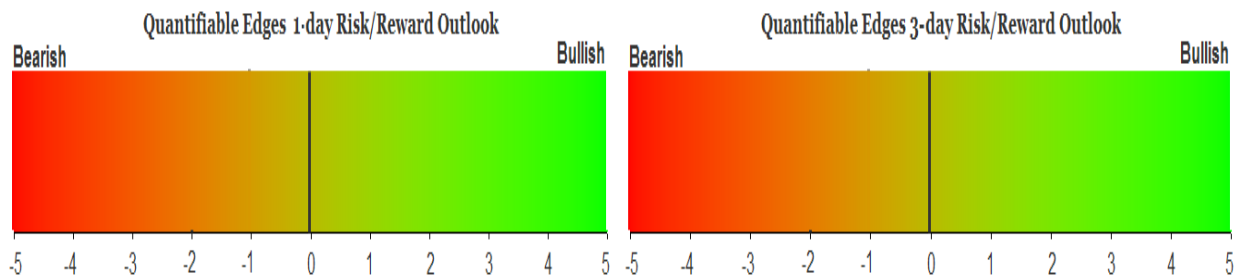
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 12, 2024

Volume 17 Issue 29

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- Seasonality looks positive this upcoming week, but negative the next.
- SPX closing above its 50-day Bollinger Band suggests momentum is strong enough that further intermediate-term gains appear likely.
- The SOMA did not change this past week, but that was a calendar quirk. We should see QT resume this week, and then an even bigger SOMA drop the next week.

Short-term Outlook

The Bottom Line

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

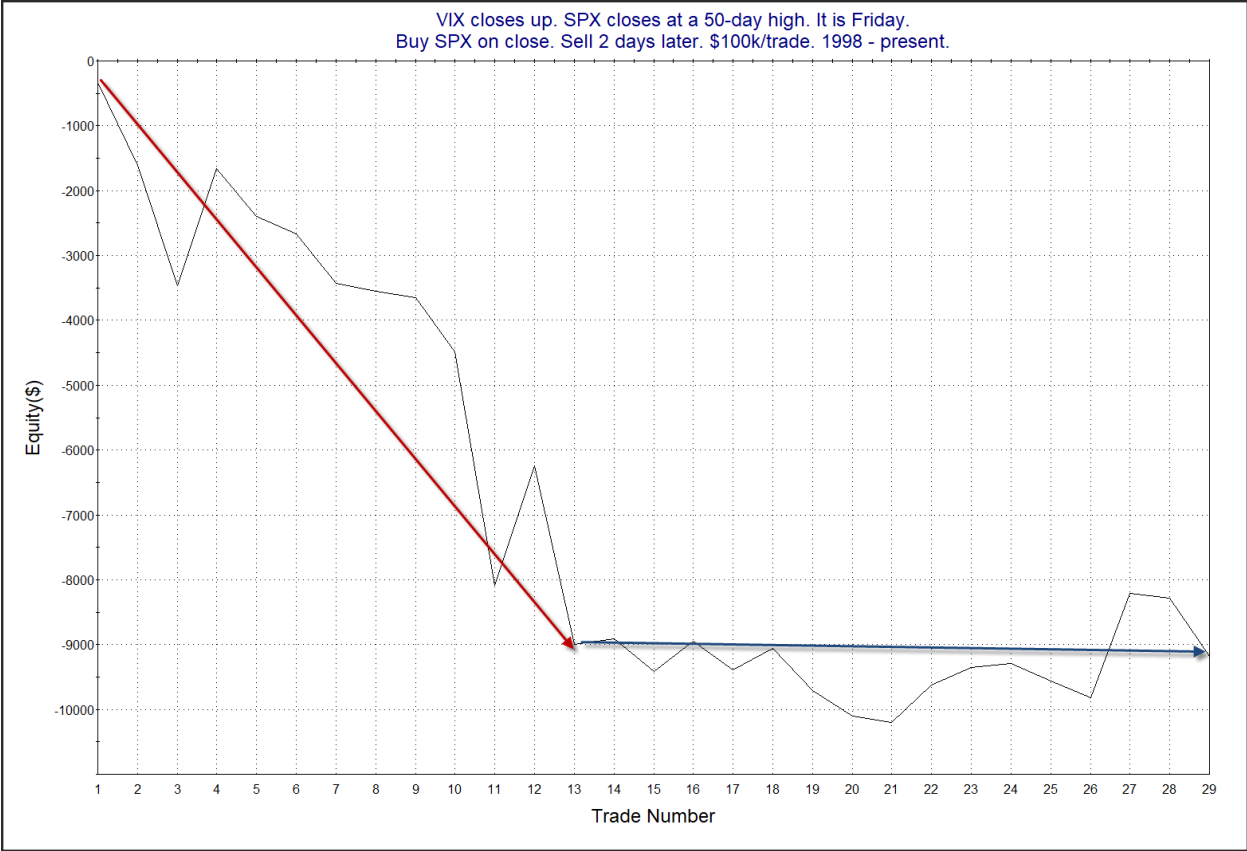
Summary of Current Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
February 5, 2024	Up Vol % < 40%. SPX up and > 200ma.	1-7 days	Bullish	1.70%	-1.30%	-2.50%
Active - Long Term						
February 12, 2024	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.40%	-9.00%
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 big rally day as the SPX finally managed to close above 5000. The SPX gained 0.6%, the NASDAQ rose 1.25%, and the Russell 2000 rallied 1.5%. Breadth was positive with the NYSE Up Issues % coming in at 66% and the Up Volume % at 55%. NYSE total volume declined some from Thursday's level.

Nothing compelling triggered for the short-term. There was one study in the Quantifinder that noted the rising VIX on a Friday in which the SPX made a 50-day high. A few years ago that appeared to suggest a possible downside edge. But the updated chart below shows that the bearish edge has dissipated over time.



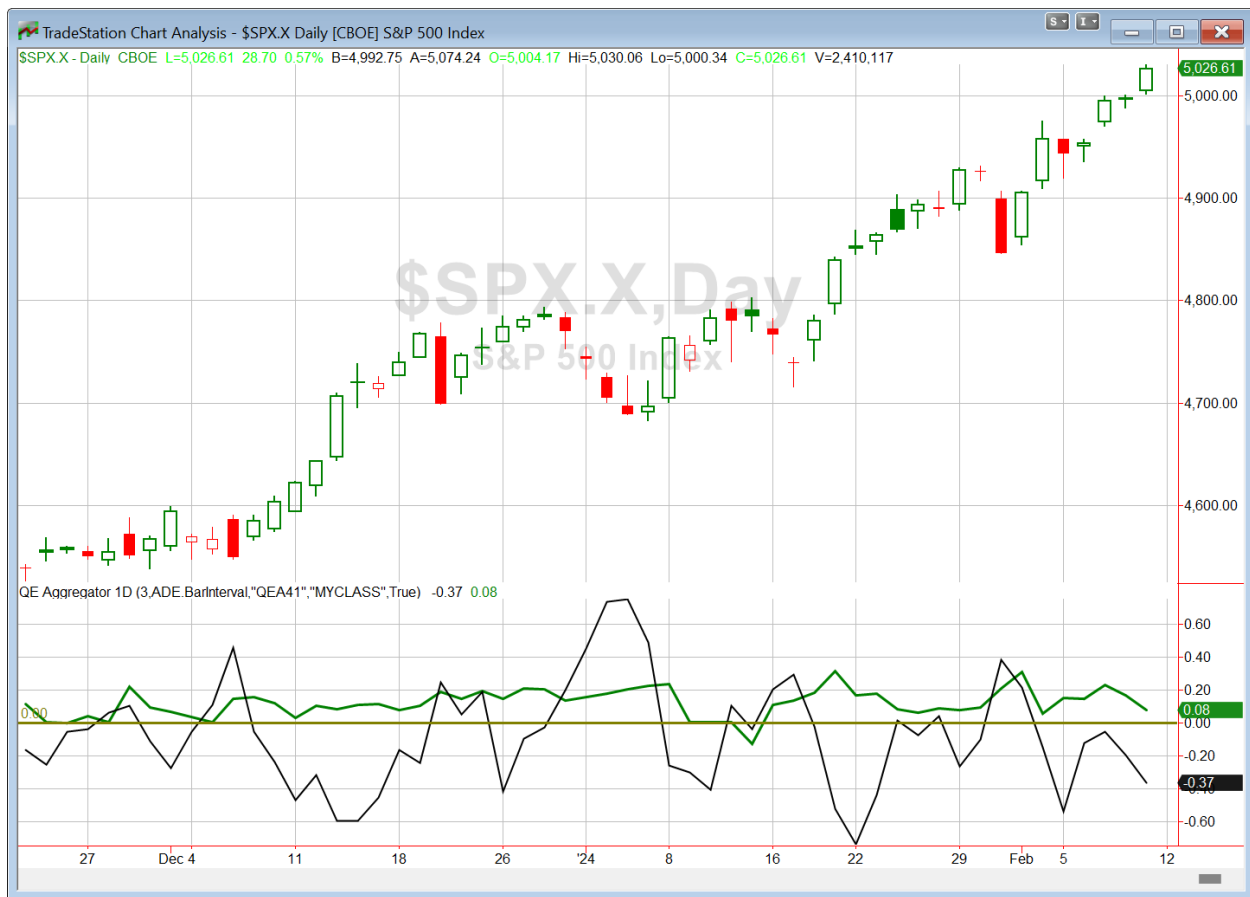
This no longer appears to be something that is worthy of consideration when establishing my short-term bias.

Below is a quick look at the SPX Seasonality Calendar, with this weeks numbers surrounded in blue.

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
Baseline	53.81	1.135	0.046

The numbers over the next few days are strong. The Profit Factor and Avg % Chg are not only positive, but also above average every day this week. So the seasonal wind should be at the market's back this week, before becoming a headwind during President's week.

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



Without any compelling new short-term evidence being added tonight, 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 remained 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 stayed flat at the close.

Based on the current list of active studies, expectations are slated to remain positive on Monday. This could easily change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5021.67 on Monday. That is 0.1% below Friday's close. Therefore, SPX will only need to close down a small amount on Monday in order to flip from overbought to oversold versus recent expectations.

The current setup is not enticing. The Aggregator is neutral. Evidence is pointing higher, but it is pretty weak, with nothing new emerging the last few days. The market is also overbought and seemingly overdue for a pause or a dip. Reward/risk just isn't appealing. I'll wait until a more favorable setup emerges before looking to take on my next short-term index trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/12 – *bullish*

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. 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.

One interesting study that triggered in the Quantifinder looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. I last featured this study in the 11/21/23 letter. Updated results are below.

SPX 50-day %b crosses over 100. Buy on close. Sell X days later. \$100k/trade. 1961 - 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
50	198,052.50	149	93	56	62.42	18,408.18	-20,704.80	4,794.49	-4,425.63	1.08	1.80	1,329.21
45	151,932.88	155	91	64	58.71	15,816.57	-32,382.30	4,981.39	-4,708.96	1.06	1.50	980.21
40	155,394.53	162	98	64	60.49	17,624.67	-27,920.40	4,450.01	-4,386.04	1.01	1.55	959.23
35	146,891.41	171	103	68	60.23	15,782.13	-13,839.56	3,988.07	-3,880.58	1.03	1.56	859.01
30	88,344.91	178	106	72	59.55	11,920.74	-14,377.53	3,264.89	-3,579.63	0.91	1.34	496.32
25	56,416.39	186	106	80	56.99	10,859.94	-8,745.98	2,954.98	-3,210.15	0.92	1.22	303.31
20	56,237.69	199	113	86	56.78	9,501.30	-10,205.38	2,641.25	-2,816.55	0.94	1.23	282.60
15	37,767.89	219	126	93	57.53	7,843.46	-9,763.44	2,298.59	-2,708.11	0.85	1.15	172.46
10	36,109.13	243	147	96	60.49	8,239.16	-9,133.53	1,674.02	-2,187.20	0.77	1.17	148.60
5	6,850.72	296	164	132	55.41	5,030.81	-6,524.55	1,122.65	-1,342.91	0.84	1.04	23.14

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside rather than a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

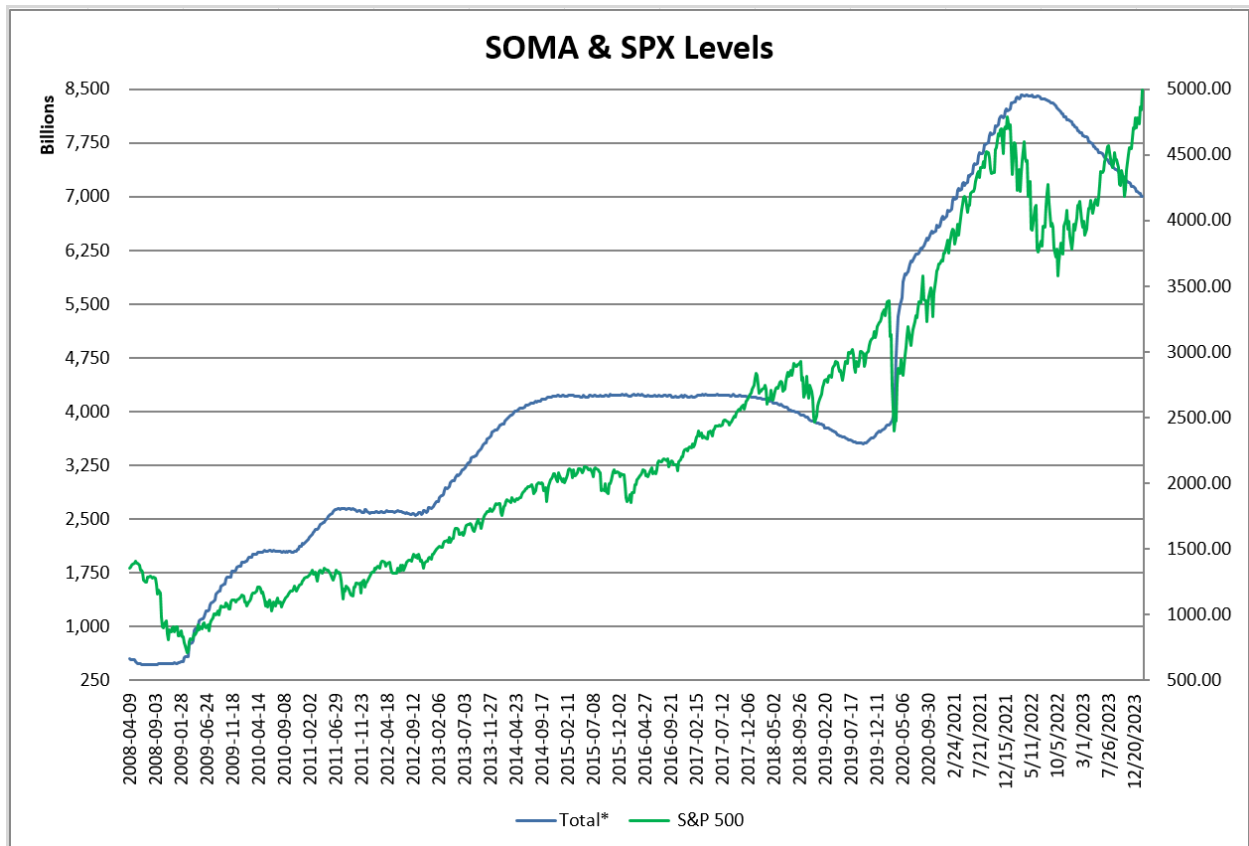
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of
[◀ Previous](#) **February 7, 2024** 📅
 Posted February 9, 2024 at 12:23 PM ⓘ

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

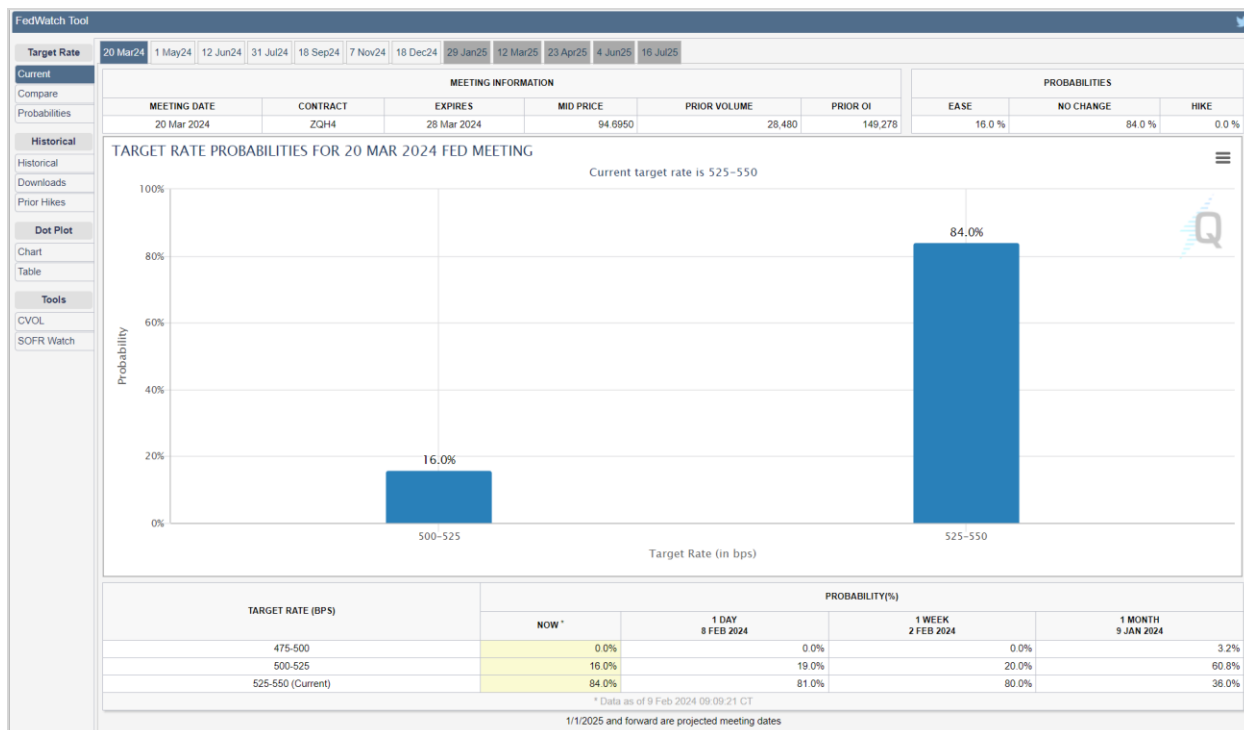
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	210,353,374.1
US Treasury Notes and Bonds (Notes/Bonds)	4,003,117,212.1
US Treasury Floating Rate Notes (FRNs)	7,777,080.8
US Treasury Inflation-Protected Securities (TIPS)*	360,222,223.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,408,935,936.0
Agency Commercial Mortgage-Backed Securities***	8,220,530.3
Total SOMA Holdings	No change → 7,000,973,357.0

The SOMA did not change at all this past week. This upcoming week I anticipate a moderate decline, and then the week after should be a big drop. 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 few 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 recently 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 just a 16% chance that the Fed cuts rates in March. Below is a look at the March odds, courtesy of the CME Fedwatch Tool:



So March appears an unlikely time to see the 1st rate cut. But May or June are certainly in the cards. 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 have been suggesting favorable market conditions, and the SPX rising above its 50-day Bollinger Band on Friday generated more evidence supporting the bullish case. 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

VZ @ \$39.91 – bought @ Limit

New

AMGN @ \$291.12 – buy @ Limit

Broad Market Large Cap CBI – 2(VZ, AMGN)

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.

AMGN – Buy 1/3 Catapult position @ \$291.12. From the Catapult section above, this is the 1st of up to 3 possible lots of AMGN.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
VZ(1/3)	2/9/2024	\$39.90	\$39.72	-0.45%	Catapult

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