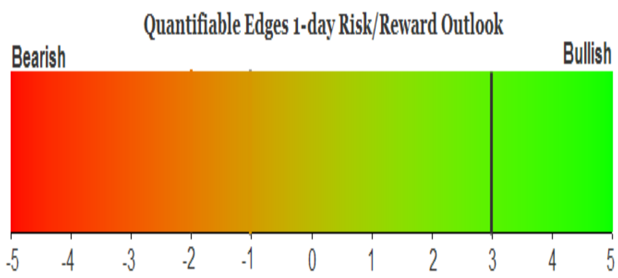
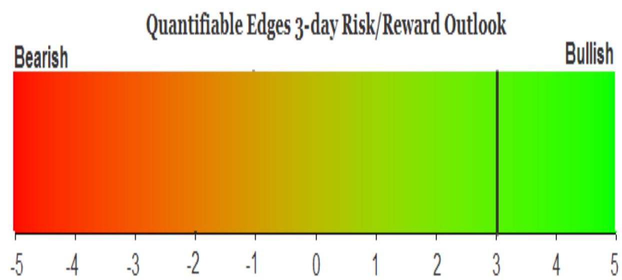
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 22, 2024 Volume 17 Issue 139

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- A gap below a short-term low and further selling in a long-term uptrend is often followed by a move up over the next few days.
- The low closing TICK readings lately combined with the 10-day low suggest a high probability of a bounce tomorrow. (Repeat from Thursday night.)
- Seasonality looks favorable this upcoming week.
- The NASDAQ has fallen into a lagging position versus the SPX, which is an unfavorable market condition for both indices.
- Liquidity was favorable as the reverse-repo closeouts exceeded the SOMA account decline.
- Odds of a September rate cut are looking very high.

Short-term Outlook

The Bottom Line

The Aggregator formation is bullish. Evidence is suggesting a bounce and the market is squarely oversold. I like the long side.

Summary of Recent 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						
July 22, 2024	TICK TomOscillator < 1%. SPX 10-low > 20	1 day	Bullish			
July 22, 2024	Gap < 5-low close. Close < open > 200ma	1-8 days	Bullish	1.90%	-1.40%	-3.00%
July 19, 2024	1st 10-day low in > 30 days	1-8 days	Bullish	2.50%	-1.90%	-4.10%
July 18, 2024	SPY unfilled gap dn after unfilled up 20-hi	1-2 days	Bearish			
July 17, 2024	SPX and VXX both close at 5-day high	1-4 days	Bearish			
Active - Long Term						
July 22, 2024	NASDAQ Lagging	int term	Neutral			
July 15, 2024	Triple 70 Breadth Thrust	1-80 days	Bullish	10.10%	-4.80%	-11.20%
July 12, 2024	SPX 50-day intraday hi. NDX biggest dn 50	1-50 days	Bullish	6.35%	-2.60%	-5.20%
July 12, 2024	5+ up to 50-day, then down 1 day	1-10 days	Bullish	1.85%	-1.10%	-2.25%
July 11, 2024	50-day %b crosses > 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
July 11, 2024	SPX up 7 days in a row	1-20 days	Bullish	3.10%	-1.90%	-4.00%
July 11, 2024	RSI(2) crosses over 99	1-15 days	Bullish	2.30%	-1.50%	-2.90%
July 8, 2024	NDX 18% above 200ma	1-90 days	Bullish	14.50%	-9.40%	-18.90%
June 24, 2024	Seasonality Calendar strong end June-July	int term	Bullish			
June 20, 2024	Hindenburg Omen with SPX trend mod	1-35 days	Bearish	-7.40%	2.80%	4.90%
June 14, 2024	SPX new high with < 50% stocks > 100ma	1-18 months	Bearish			
April 29, 2024	May-October selloff potential when 5% dn	1-6 months	Bearish			
March 4, 2024	Jan & Feb both close positive	1-10 months	Bullish			
February 2, 2024	SPX up > 15% last 3 months	1-6 months	Bullish			
February 2, 2023	SPX Golden Cross	int term	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

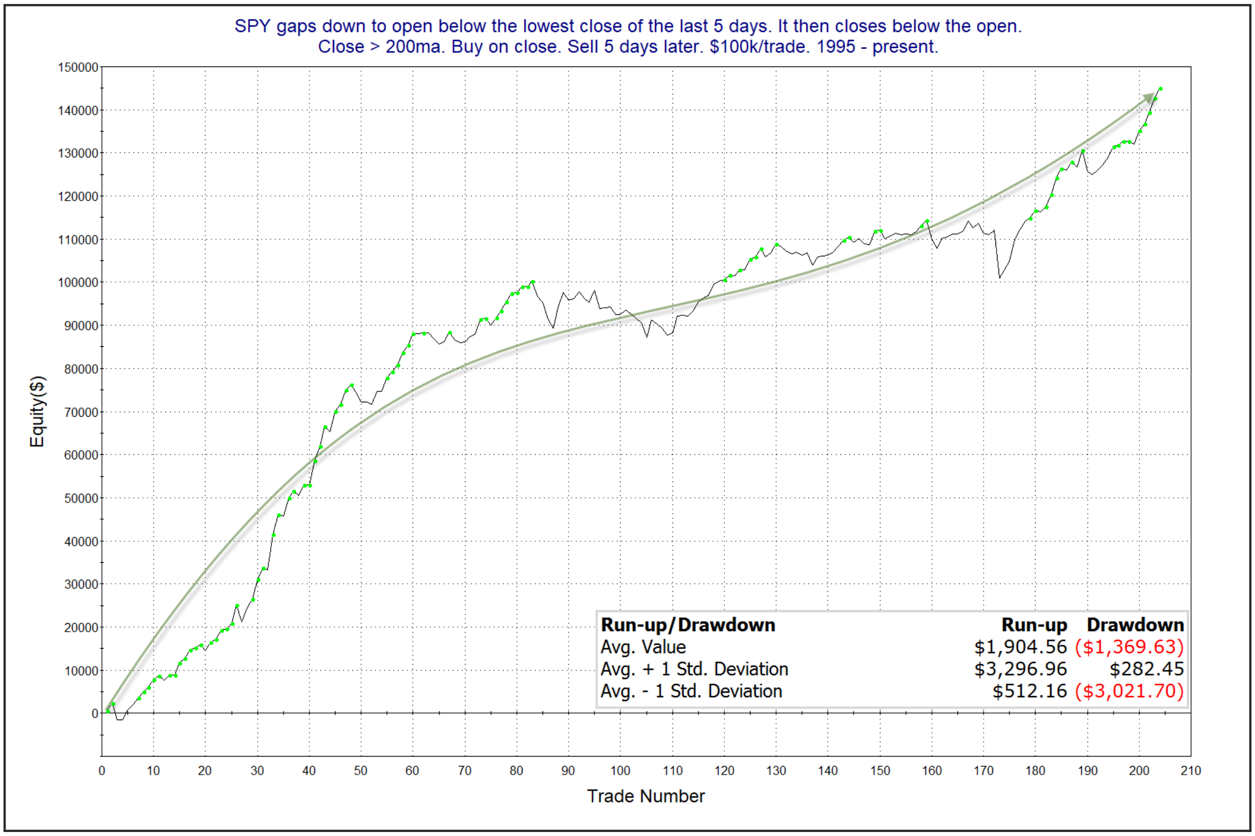
Friday saw additional selling for the major indices. SPX finished down 0.7%, the NASDAQ fell 0.8%, and the Russell 2000 dropped 0.6%. Breadth was negative with the NYSE Up Issues % coming in at 36% and the Up Volume % at 35%. NYSE volume rose as it normally does on opex Friday.

There was an interesting study from the 5/31/24 letter that triggered tonight. It looked at times that SPY gapped down to a short-term low, and then sold off further during the day, while in a long-term uptrend. I have updated the results below.

SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1995 - 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	145,063.66	204	140	63	68.63	8,239.74	-11,128.78	1,742.21	-1,568.99	1.11	2.47	711.10
4	128,228.45	213	144	69	67.61	5,581.02	-10,755.03	1,630.12	-1,543.61	1.06	2.20	602.01
3	111,795.66	224	140	83	62.50	5,117.85	-6,572.02	1,514.00	-1,206.79	1.25	2.12	499.09
2	103,381.77	237	152	82	64.14	5,477.88	-6,228.17	1,171.62	-911.02	1.29	2.38	436.21
1	63,745.98	257	166	91	64.59	5,764.38	-4,181.76	813.56	-783.56	1.04	1.89	248.04

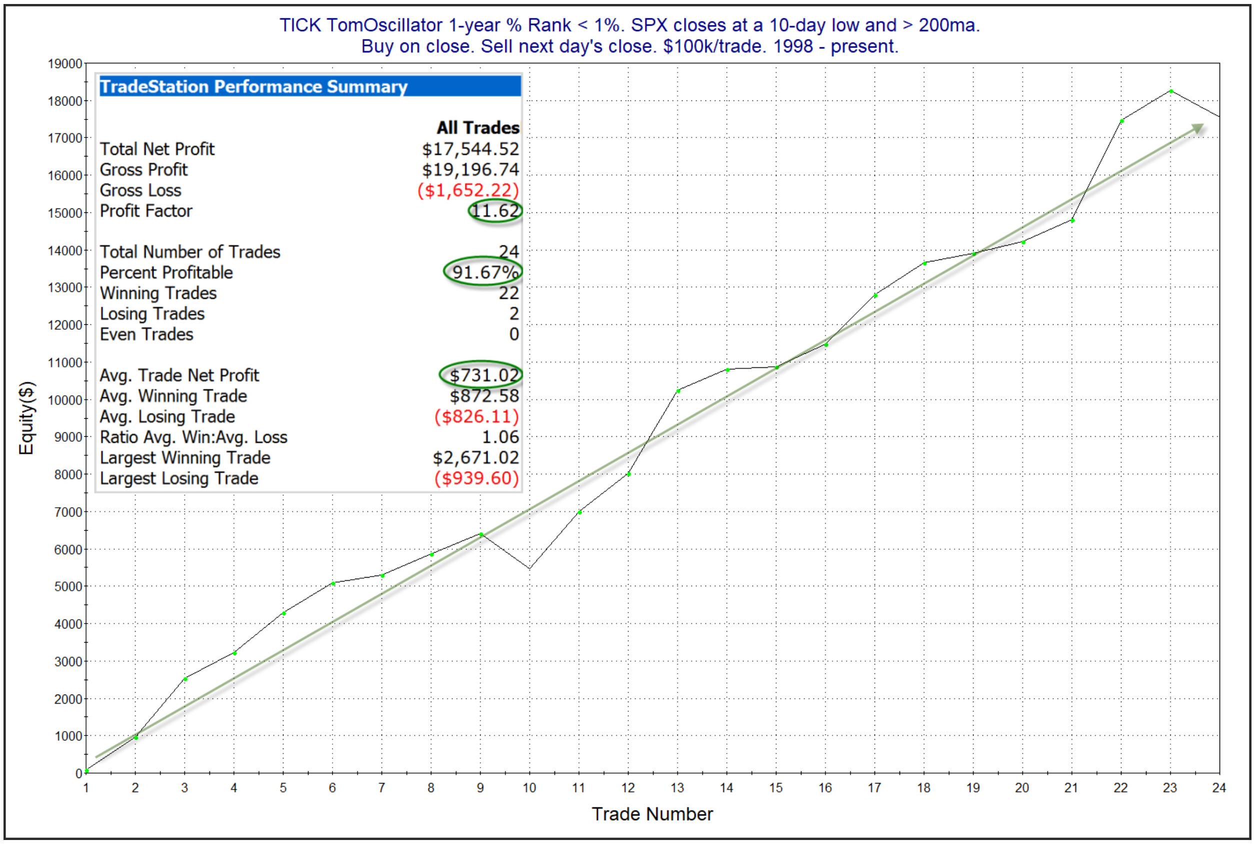
The numbers here look fairly bullish. Here is the 5-day profit curve.



Not the straightest line, but it has made it way from lower left to upper right and is again at new highs.

The TICK study from Thursday night triggered again on Friday. I have copied the commentary and updated the stats below:

There was also a study that used the TICK TomOscillator. The TICK Tomoscillator is the brain child of my friend and fellow market analyst, Tom McClellan of McClellan Financial Publications (click for Tom's article on the indicator). It uses the NYSE closing TICK readings to measure recent end-of-day sentiment. I first introduced the TICK Tomoscillator in the 4/19/11 subscriber letter. For those that are not familiar with the TICK Tomoscillator, you may find a detailed description in the May 13, 2011 blog. The Tomoscillator % Rank Thursday came in below 1%, meaning Thursday's reading is among the lowest 1% in the last year. The study below uses the Tomoscillator % Rank reading rather than just the raw reading...



With 22 of 24 instances closing up the next day, there has been a strong bullish inclination. I have added this study to the active list.

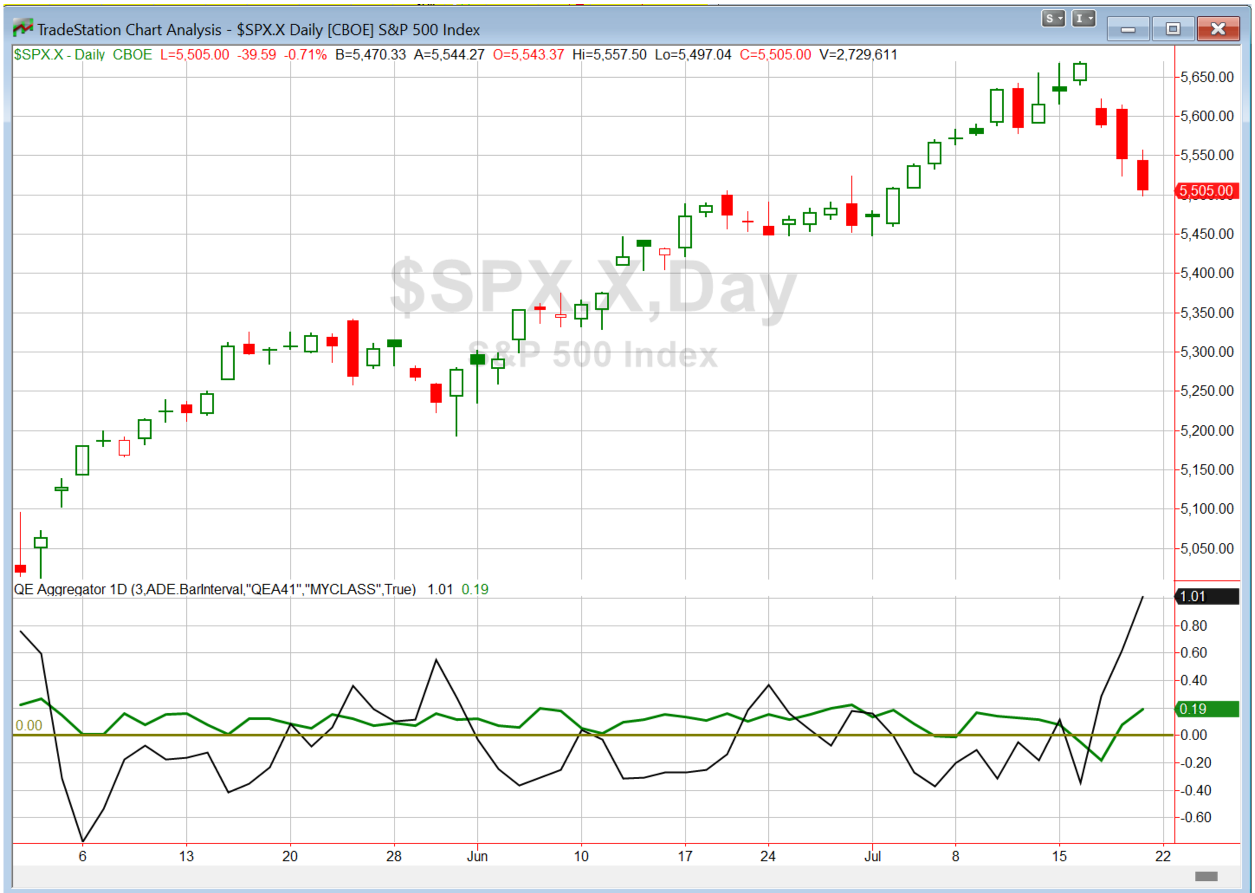
Next take a look at the SPX Seasonality Calendar for this upcoming week.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
7/1/2024	62.67	1.921	0.213
7/2/2024	57.22	1.319	0.069
7/3/2024	62.35	1.592	0.142
7/5/2024	56.33	1.379	0.106
7/8/2024	53.20	1.306	0.034
7/9/2024	53.48	1.466	0.090
7/10/2024	58.02	1.415	0.074
7/11/2024	59.58	1.406	0.070
7/12/2024	58.62	1.597	0.129
7/15/2024	57.52	1.235	0.057
7/16/2024	54.05	1.452	0.106
7/17/2024	53.91	1.122	0.023
7/18/2024	53.09	1.096	0.014
7/19/2024	49.55	1.037	-0.008
7/22/2024	54.66	1.247	0.058
7/23/2024	53.61	1.194	0.044
7/24/2024	54.88	1.304	0.078
7/25/2024	56.46	1.357	0.093
7/26/2024	54.46	1.161	0.034
7/29/2024	51.77	1.117	0.030
7/30/2024	50.72	1.064	0.016
7/31/2024	49.35	1.170	0.048
Baseline	***53.61***	***1.139***	***0.047***

We are looking at 5 strong days from a seasonality perspective. In fact all 5 days are not only positive, but they are all stronger than the "Baseline", which is the average of all days over a period of a bit longer than 10 years. So the market should be helped a bit by seasonality this upcoming week.

Overall, we have a nice mix of short-term evidence that has triggered, looking at price action, TICK, and seasonality. And it is all suggesting an upside edge over the next few days.

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 moved further above zero. The positive Differential Line reading means that SPX is strongly 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 set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5579.20 on Monday. That is a 1.3% above Friday's close. So SPX will need to close up 1.3% on Monday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is bullish. Evidence looks solid and there is ample room to the upside before SPX turns overbought. I have some long exposure. I will look to increase it if I can get a favorable fill on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/22 – 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. 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 saw some changes this week after having all been long QQQ last week.*

The massive rotation from large to small-cap stocks continued this week. The SPX declined 2.0%, the NASDAQ tumbled 3.65%, and the Russell 2000 (RUT) rose 1.7%. Bonds declined. The US Aggregate Bond ETF (AGG) fell 0.35%. TLT, the 20-year Treasury Bond ETF, dropped 1.1%. The SPX made new all-time highs early in the week, and the Russell 2000 hit its highest levels since early 2022. So the long-term uptrend still appears to pointing higher.

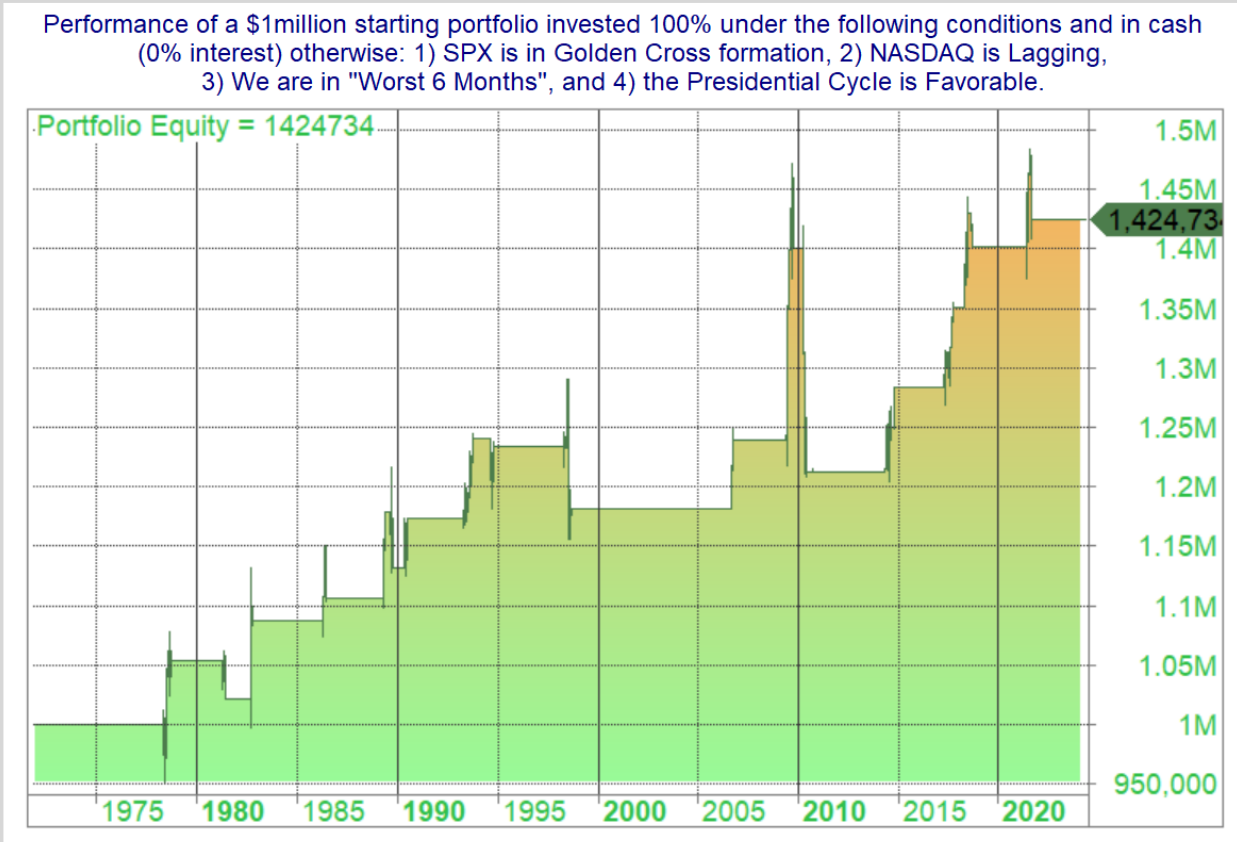
One notable indicator that changed position is our NASDSAQ/SPX Relative Leadership indicator. The selling in the NASDAQ caused it to fall into a lagging position. This can be seen in the chart below.

The movement of the green line (which is about to turn red) below the blue dotted 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.

Historical Compound Returns of $100,000 Starting Portfolio Using the NASDAQ/SPX Relative Leadership Indicator as a Filter. 12/31/71 - 7/19/2024.			
	Compound Annual Growth Rate	Max Drawdown	End Value of $100,000
S&P 500 Index	7.88%	-56.78%	$5,392,301.05
SPX when NASDAQ lags	0.04%	-67.21%	$102,386.89
SPX when NASDAQ leads	7.83%	-33.92%	$5,266,593.18
NASDAQ Composite	10.07%	-77.93%	$15,533,595.80
NASDAQ when lagging	-1.31%	-85.53%	$50,082.81
NASDAQ when leading	11.53%	-40.62%	$31,015,822.85
NASDAQ when leading (with interest when in cash)*	14.02%	-37.64%	$99,353,330.94
*interest on cash calculated at historical 30-day Fed Funds rate			

More on this indicator can be found in the Market Timing Course. (Free for all annual subscribers.)

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) SPX “Golden Cross” in effect, 2) the NASDAQ is lagging, 3) favorable Presidential Cycle, and 4) “Worst” 6 months in effect. Below is a chart showing SPX performance during this alignment.



This curve is encouraging. It has basically been headed up or sideways most of the time. So it seems to suggest that the current configuration is still bullish, or at least not bearish. While we would rather see the NASDAQ leading, most of the Market Timing Course Combo Systems remain “long”. They have just switched from QQQ to SPY.

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

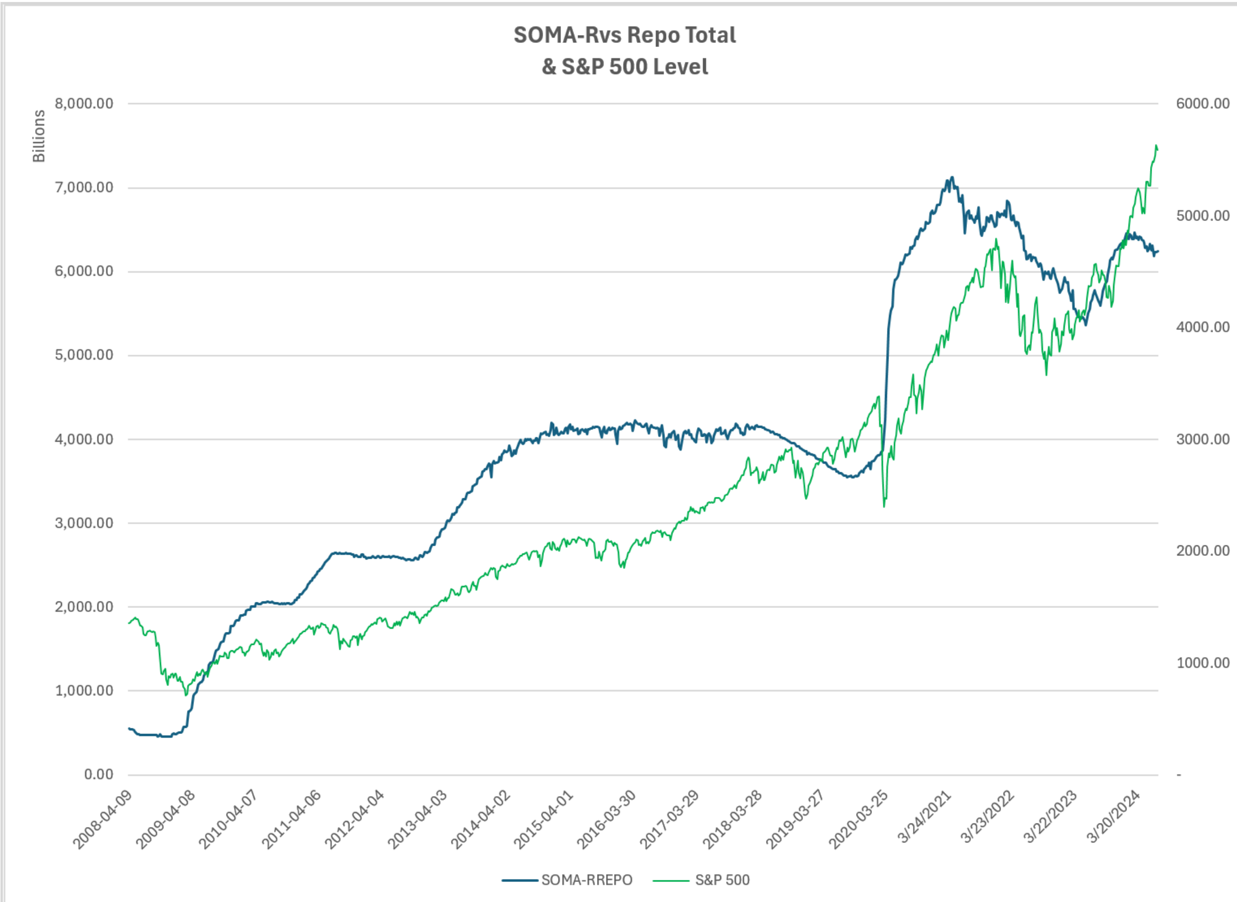
Previous **July 17, 2024**

Posted July 18, 2024 at 4:30 PM

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

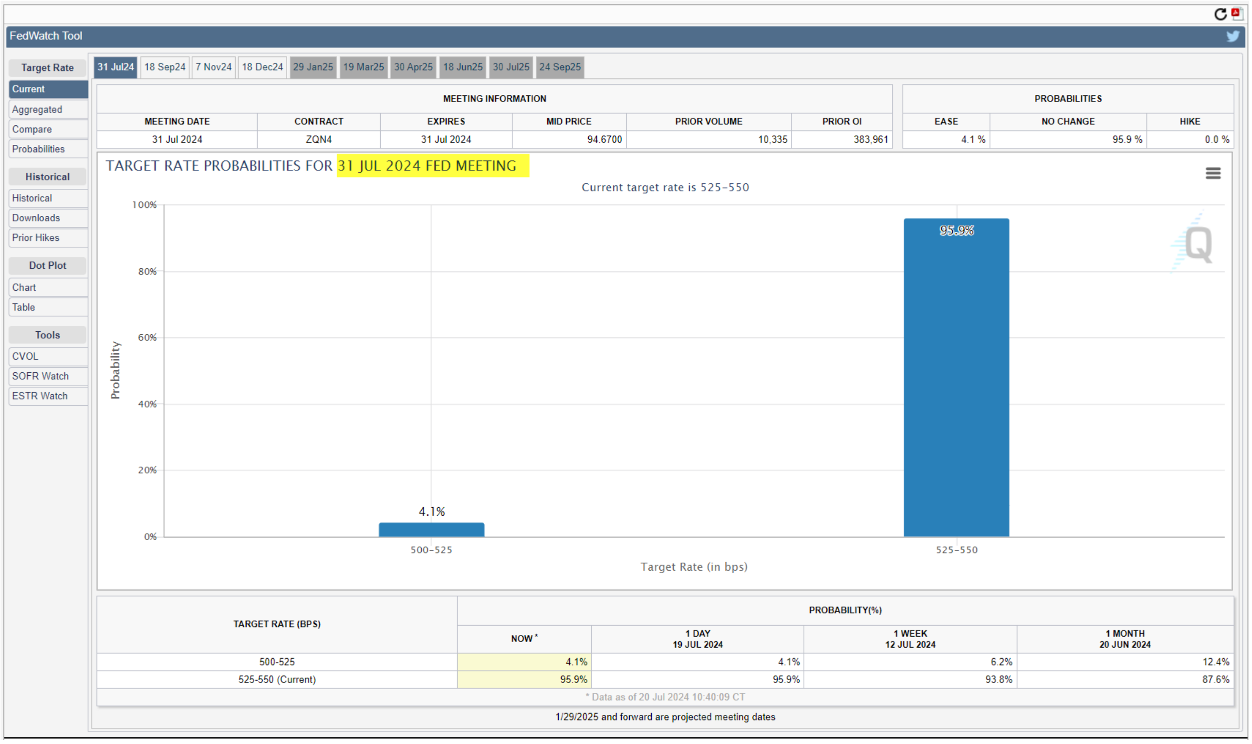
SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	195,292,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,762,504,955.3
US Treasury Floating Rate Notes (FRNs)	6,253,764.6
US Treasury Inflation-Protected Securities (TIPS)*	342,996,184.3
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,327,789,866.6
Agency Commercial Mortgage-Backed Securities***	8,142,015.2
Total SOMA Holdings	6,645,326,712.7
Change From Prior Week	-12,181,197.4

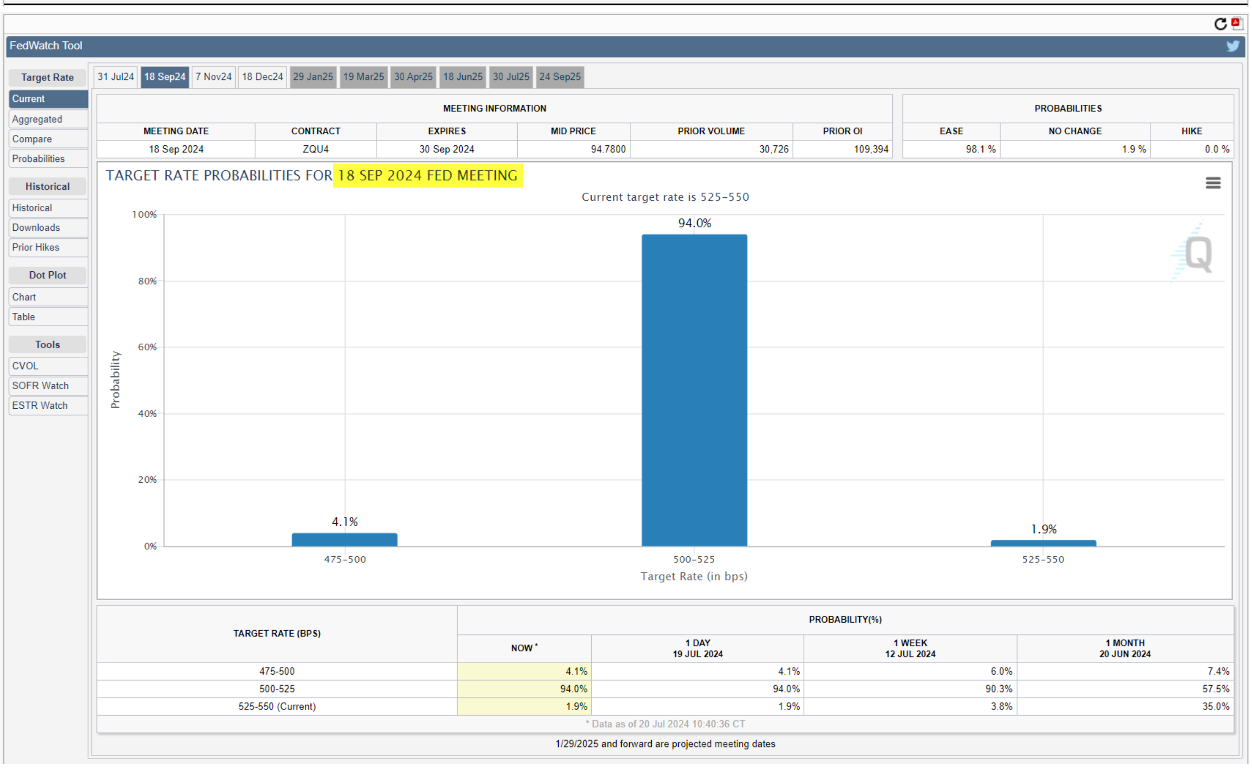
The SOMA saw a decline this past week of $12.2 billion. We may see some additional run-off this upcoming week, but the next big decline will happen on the 31st. Meanwhile, reverse repos declined by $22.75 billion. Combined for the week, SOMA and reverse repo action accounted for a $10.6 billion liquidity injection. I discussed reverse repos impact on liquidity [in the 4/8/24 letter](). When they are rising, it tends to drain liquidity, and when they are falling like this past week, it acts as a liquidity injection. Throughout much of 2023 and the 1st quarter of 2024 reverse repos declined substantially and had a positive impact on liquidity. From early March through May the level of reverse repos remained about the same. The last few weeks we have seen the number chopping around. Below is an updated SOMA-Reverse Repo and SPX chart looking back to 2008.



Quantitative Tightening (QT) can still be a headwind to the market, but it is now at a lower level than we saw over the last couple of years. Reverse repo closeouts more than offset the QT from April 2023 through early March of 2024, and this helped provide fuel for the market rally. But they are starting to run low. Since early March, there has been a chopping around of the blue line, which looks at the SOMA level and subtracts the amount of outstanding reverse repos. If that line continues to head lower as reverse repos approach $0, then that could mean a liquidity headwind for the market.

With regards to rates, odds are showing a 96% chance that the Fed keeps rates steady in July. But September is now showing odds about ***98% for a cut***. Odds of a cut have grown substantially over the last few weeks and months. This can be seen in the graphics below, courtesy of the CME Fedwatch tool.





In case you were wondering how important these odds are, Charlie Bilello noted recently that the Fed has done exactly what the market was anticipating just before the meeting for every scheduled meeting since 2009. That makes it sound like the Fed does whatever the market says. In reality, they tend to provide hints and information leading up to each meeting that prepare the market for what is to come. If September is not going to be the 1st rate cut, we should see a change in tone from the Fed speakers between now and then that would hint at this. Odds continually shift, so there could be changes over the next several weeks as new economic information becomes available. Overall, while QT is still active, and rates remain elevated, I am still viewing the Fed as a potentially bearish market force. But they could become more market-neutral if rate-cutting begins.

Despite the selling and some change in information this week, evidence still appears to be leaning bullish. Trend, July seasonality, momentum, and breadth all seem to be pointing higher. The Fed remains a potentially bearish force, despite QT being dialed back in June. The most substantial indication of potential trouble we saw this week is the NASDAQ falling into a lagging position versus the SPX. I will keep an eye on that to see if it persists. Over the next couple of weeks we will see several bullish studies expire. August and September are often difficult market months, and I would not be surprised to see some market struggles as we approach the fall. But for now, we are simply looking at a 3-day pullback, and not a real substantial shift in the evidence. Of course I will continue to look for additional cracks in the bullish case, and remain flexible with my analysis should more bearish evidence emerge. For now, I will be more aggressive with long positions and especially conservative when considering short-side trades.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

LLY @ $848.90 (buy 1/3 @ limit) – not filled – cancel for now

Broad Market Large Cap CBI – 1 (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*.

SPY – Buy ¼ index position @ $548.99 LIMIT. Based on the short-term outlook above, I will look to take a 2nd lot of long exposure if I can get filled at Friday's close or better.

SPY – Buy ¼ index position @ $548.00 LIMIT ON CLOSE IF SPY ALSO CLOSES AT LEAST $1.00 BELOW WHERE IT OPENS. I like the long side. More selling on Monday should generate Turnaround Tuesday studies and I will take on a 3rd lot should I see that.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
NFLX(1/3)	7/15/2024	$647.50	$633.34	-2.19%	*sell on open*
SPY(1/4)	7/19/2024	$552.42	$548.99	-0.62%	Aggregator