

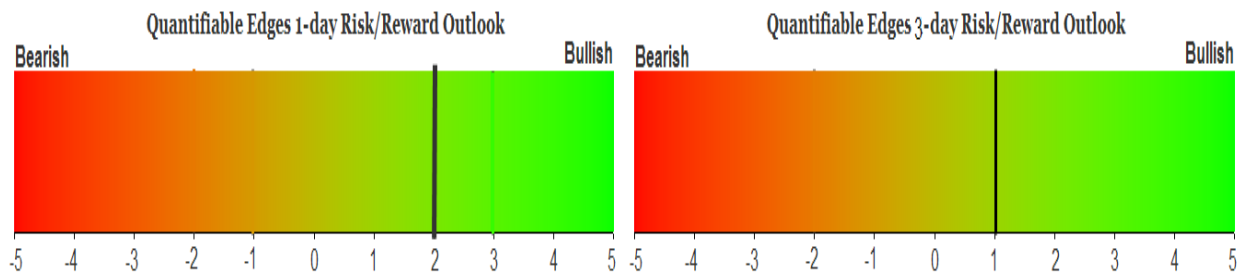
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 29, 2024

Volume 17 Issue 144

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	2

## Tonight's Research Points

- Rallies that start on Fridays have had better success than any other day of the week.
- The Fed Day edge on Wednesday could be greatly influenced by action on Tuesday.
- The SOMA saw a slight decline last week, but that should be a larger decline and bigger headwind this week.
- Seasonality will soon weaken until at least mid-August.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator formation is bullish. Friday's bounce is encouraging, but the market could quickly become short-term overbought. And that is dampening enthusiasm for holding much longer.

## The Evidence

Friday saw a bounce. SPX finished up 1.1%, the NASDAQ rose 1.0%, and the Russell 2000 rallied 1.7%. Breadth was strong with the NYSE Up Issues % coming in at 82% and the Up Volume % at 83%. NYSE volume decline some from Thursday's level.

Friday's are interesting in that they are the *least* likely day of the week for a selloff to end or a rally to begin. But when rallies do start on a Friday, they have shown the best odds of success of any day of the week. I've seen this a number of ways over the years. The study below is from the 3/8/21 letter and describes the current market setup. It looks at times the market closed up the day after closing at a 21-day low. Results are broken down by day of the week, and also by holding period.

After closing at a 1-month (21-day) closing low yesterday, SPX closes up today. Today is the Day of Week listed. Buy on close. Sell X days later. \$100k/trade. 1985 - present.													
X Days	Day of Week	Net Profit	Total Trades	Winning Trades	Losing Trades	% Profitable	Max Winning Trade	Max Losing Trade	Avg Winning Trade	Avg Losing Trade	Win/Loss Ratio	ProfitFactor	Avg Trade
30	Fri	\$190,034.73	62	48	14	77.42	\$21,756.46	-\$24,140.80	\$5,399.62	-\$4,939.07	1.09	3.75	\$3,066.08
30	Thurs	\$137,736.46	72	46	26	63.89	\$19,201.87	-\$20,598.44	\$5,491.85	-\$4,418.80	1.24	2.20	\$1,913.01
30	Wed	\$21,413.14	62	39	23	62.90	\$13,297.76	-\$27,156.06	\$4,272.93	-\$6,314.40	0.68	1.15	\$345.37
30	Tues	\$142,691.34	81	58	23	71.60	\$11,779.68	-\$22,390.92	\$4,629.19	-\$5,469.63	0.85	2.13	\$1,761.62
30	Mon	\$79,077.45	77	48	29	62.34	\$14,201.32	-\$22,604.88	\$4,908.85	-\$5,398.19	0.91	1.51	\$1,026.98
25	Fri	\$172,416.20	64	46	18	71.88	\$25,601.10	-\$27,447.20	\$5,310.92	-\$3,993.68	1.33	3.40	\$2,694.00
25	Thurs	\$123,642.25	77	51	26	66.23	\$15,748.56	-\$24,468.80	\$5,020.70	-\$5,092.82	0.99	1.93	\$1,605.74
25	Wed	\$34,855.73	66	37	29	56.06	\$15,720.60	-\$26,260.20	\$4,229.64	-\$4,194.52	1.01	1.29	\$528.12
25	Tues	\$157,458.10	83	60	23	72.29	\$13,373.36	-\$26,928.72	\$4,772.97	-\$5,605.21	0.85	2.22	\$1,897.09
25	Mon	\$50,022.73	78	47	31	60.26	\$11,998.36	-\$15,107.40	\$4,375.06	-\$5,019.53	0.87	1.32	\$641.32
20	Fri	\$168,705.48	65	48	17	73.85	\$23,231.52	-\$11,446.40	\$4,652.80	-\$3,213.45	1.45	4.09	\$2,595.47
20	Thurs	\$102,456.56	79	52	27	65.82	\$13,310.83	-\$21,326.56	\$4,501.68	-\$4,875.21	0.92	1.78	\$1,296.92
20	Wed	\$14,494.76	69	40	29	57.97	\$13,749.40	-\$20,015.10	\$3,314.85	-\$4,072.39	0.81	1.12	\$210.07
20	Tues	\$113,851.71	84	62	22	73.81	\$10,340.45	-\$25,793.04	\$3,736.80	-\$5,355.89	0.70	1.97	\$1,355.38
20	Mon	\$44,423.97	81	49	32	60.49	\$13,166.81	-\$14,276.60	\$3,919.34	-\$4,613.24	0.85	1.30	\$548.44
15	Fri	\$138,395.88	66	48	18	72.73	\$19,353.76	-\$8,152.32	\$3,972.55	-\$2,904.82	1.37	3.65	\$2,096.91
15	Thurs	\$86,294.92	79	54	25	68.35	\$11,759.91	-\$24,320.38	\$3,461.30	-\$4,024.61	0.86	1.86	\$1,092.34
15	Wed	\$33,272.63	70	39	31	55.71	\$14,141.40	-\$12,682.85	\$3,363.82	-\$3,158.59	1.06	1.34	\$475.32
15	Tues	\$63,480.66	87	55	32	63.22	\$9,248.80	-\$20,192.90	\$3,505.44	-\$4,041.21	0.87	1.49	\$729.66
15	Mon	\$18,467.69	88	49	39	55.68	\$11,586.98	-\$27,290.56	\$3,499.75	-\$3,923.59	0.89	1.12	\$209.86
10	Fri	\$76,064.81	70	43	27	61.43	\$13,599.08	-\$14,764.64	\$3,236.08	-\$2,336.54	1.38	2.21	\$1,086.64
10	Thurs	\$69,061.03	84	48	36	57.14	\$10,577.93	-\$8,745.48	\$3,129.30	-\$2,254.04	1.39	1.85	\$822.16
10	Wed	\$15,143.68	74	42	32	56.76	\$11,407.20	-\$7,532.72	\$2,666.41	-\$3,026.43	0.88	1.16	\$204.64
10	Tues	\$42,980.44	92	58	34	63.04	\$11,970.12	-\$25,781.61	\$2,880.46	-\$3,649.60	0.79	1.35	\$467.18
10	Mon	-\$7,380.73	91	48	43	52.75	\$9,500.10	-\$22,531.20	\$3,004.70	-\$3,525.73	0.85	0.95	-\$81.11
5	Fri	\$68,132.20	77	49	28	63.64	\$10,682.82	-\$14,619.60	\$2,444.67	-\$1,844.89	1.33	2.32	\$884.83
5	Thurs	\$68,331.70	90	58	32	64.44	\$9,334.72	-\$4,901.67	\$2,178.49	-\$1,813.15	1.20	2.18	\$759.24
5	Wed	\$21,904.13	80	50	30	62.50	\$8,658.92	-\$11,026.82	\$1,788.74	-\$2,251.09	0.79	1.32	\$273.80
5	Tues	\$5,345.27	102	59	43	57.84	\$10,340.00	-\$24,627.73	\$2,419.49	-\$3,195.45	0.76	1.04	\$52.40
5	Mon	\$39,897.33	103	62	41	60.19	\$7,207.80	-\$11,533.34	\$2,227.93	-\$2,395.96	0.93	1.41	\$387.35

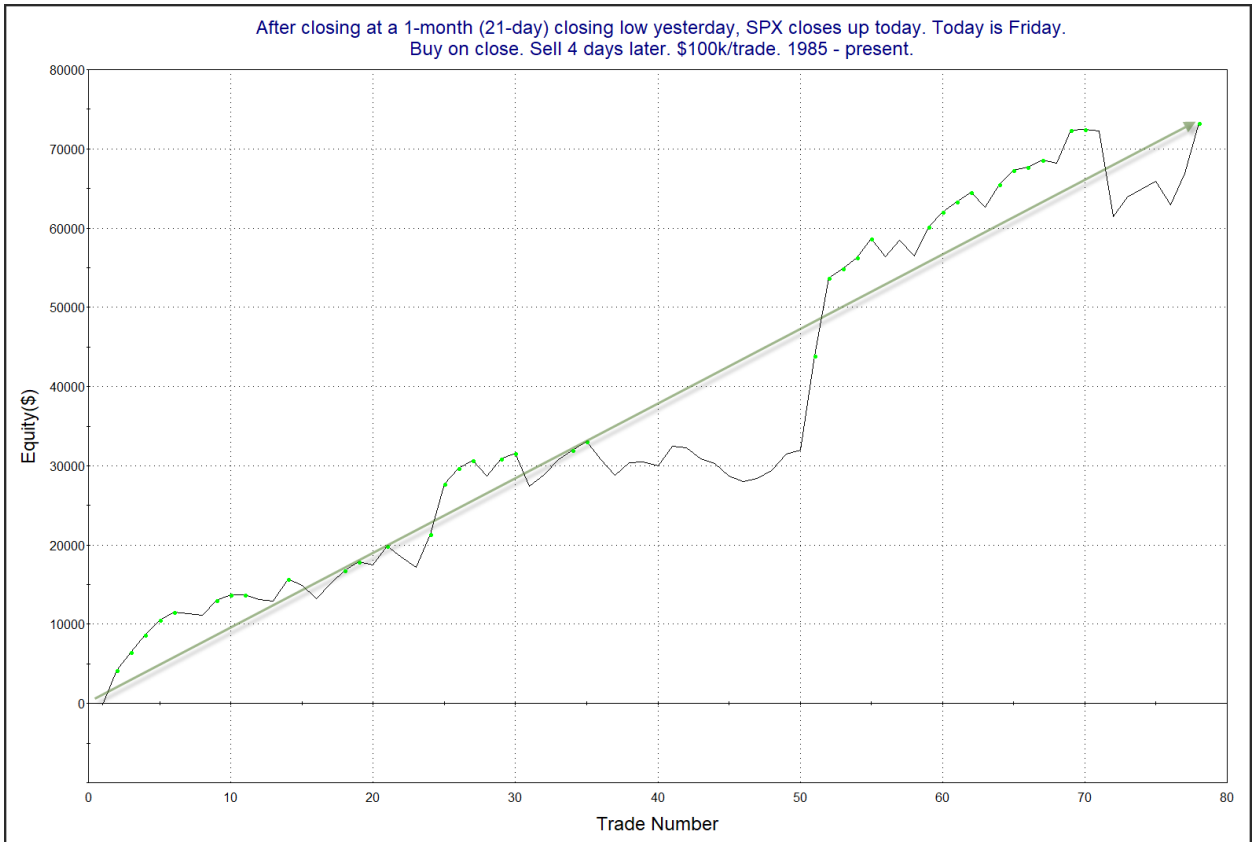
Looking out from 5-30 days, Friday has the best stats of any day. And in some cases, like 15 -30 days out, none of the other days are even close. So if you are looking for an encouraging intermediate-term sign based on Friday's action, this appears to be one.

So why am I posting an intermediate-term study in the short-term section? Because today I also ran the setup as a short-term study...

After closing at a 1-month (21-day) closing low yesterday, SPX closes up today. Today is Friday.  
Buy on close. Sell X days later. \$100k/trade. 1985 - 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	76,064.81	70	43	27	61.43	13,599.08	-14,764.64	3,236.08	-2,336.54	1.38	2.21	1,086.64
9	80,707.11	70	45	25	64.29	14,696.36	-13,115.52	3,043.59	-2,250.18	1.35	2.43	1,152.96
8	66,108.60	70	47	23	67.14	16,201.62	-10,338.24	2,637.13	-2,514.63	1.05	2.14	944.41
7	72,322.43	70	47	23	67.14	13,832.04	-9,492.84	2,521.47	-2,008.11	1.26	2.57	1,033.18
6	44,935.16	70	44	26	62.86	10,294.46	-17,050.32	2,363.06	-2,270.75	1.04	1.76	641.93
5	68,132.20	77	49	28	63.64	10,682.82	-14,619.60	2,444.67	-1,844.89	1.33	2.32	884.83
4	73,260.27	78	51	27	65.38	11,930.04	-10,858.68	2,277.47	-1,588.54	1.43	2.71	939.23
3	46,590.51	78	50	27	64.10	10,868.60	-11,265.12	1,812.61	-1,631.12	1.11	2.06	597.31
2	40,774.59	78	46	32	58.97	7,112.64	-6,545.88	1,637.54	-1,079.76	1.52	2.18	522.75
1	20,235.44	78	52	26	66.67	6,420.72	-11,696.04	1,064.22	-1,350.16	0.79	1.58	259.43

We see here that the first few days following a Friday bounce from an intermediate-term low also show compelling stats. Below is a look at the 4-day profit curve.



That is a persistent move from lower left to upper right. I decided to include this study on both the short and intermediate-term active lists.

Notable this upcoming week is that 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.

TradeStation Performance Summary	
<b>All Trades</b>	
Total Net Profit	\$11,639.16
Gross Profit	\$40,109.32
Gross Loss	(\$28,470.16)
Profit Factor	1.41
Total Number of Trades	97
Percent Profitable	50.52%
Winning Trades	49
Losing Trades	46
Even Trades	2
Avg. Trade Net Profit	\$119.99
Avg. Winning Trade	\$818.56
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

	<b>All Trades</b>
Total Net Profit	\$15,445.46
Gross Profit	\$34,876.26
Gross Loss	(\$19,430.80)
Profit Factor	1.79
Total Number of Trades	58
Percent Profitable	51.72%
Winning Trades	30
Losing Trades	27
Even Trades	1
Avg. Trade Net Profit	\$266.30
Avg. Winning Trade	\$1,162.54
Avg. Losing Trade	(\$719.66)
Ratio Avg. Win:Avg. Loss	1.62
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

	<b>All Trades</b>
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**

	<b>All Trades</b>
Total Net Profit	\$25,474.09
Gross Profit	\$37,727.36
Gross Loss	(\$12,253.27)
Profit Factor	3.08
Total Number of Trades	46
Percent Profitable	71.74%
Winning Trades	33
Losing Trades	13
Even Trades	0
Avg. Trade Net Profit	\$553.78
Avg. Winning Trade	\$1,143.25
Avg. Losing Trade	(\$942.56)
Ratio Avg. Win:Avg. Loss	1.21
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.

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
<b>Baseline</b>	<b>53.61</b>	<b>1.139</b>	<b>0.047</b>

Wednesday looks somewhat neutral, but as we just saw, those odds could swing based on Tuesday afternoon market action. And next are the preliminary odds for August. Which shows Thursday and Friday's numbers.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
8/1/2024	55.20	1.480	0.092
8/2/2024	53.27	1.222	0.066
8/5/2024	55.33	1.457	0.126
8/6/2024	49.77	1.065	0.009
8/7/2024	55.22	1.302	0.081
8/8/2024	54.26	1.076	0.015
8/9/2024	53.21	1.274	0.076
8/12/2024	52.60	0.848	-0.073
8/13/2024	52.27	0.962	-0.030
8/14/2024	53.15	0.848	-0.063
8/15/2024	52.42	0.831	-0.070
8/16/2024	48.50	0.758	-0.098
8/19/2024	60.03	1.186	0.060
8/20/2024	56.33	1.407	0.108
8/21/2024	55.40	1.034	0.013
8/22/2024	57.12	1.244	0.078
8/23/2024	55.02	1.058	0.022
8/26/2024	54.54	1.110	0.030
8/27/2024	52.89	1.042	0.011
8/28/2024	55.90	1.279	0.073
8/29/2024	57.24	1.345	0.092
8/30/2024	57.08	1.191	0.036
<b>Baseline</b>	<b>53.65</b>	<b>1.136</b>	<b>0.046</b>

Thursday and Friday look good. After that, action gets choppy until we reach the back half of the month.

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 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 set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 5446.68 on Monday. That is 0.2% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down over 0.2% in order to remain oversold. Otherwise, it will flip to "overbought" versus recent expectations as of Monday's close..

So the Aggregator is bullish. Evidence looks solid. But SPX will no longer be oversold as of Monday's close unless there is a down day. So it is time to start thinking about exiting current (short-term) long index exposure. I like the bullish evidence, and the selloff was strong, so I'll see if we can get another rally day here. I will be looking to sell Monday if it closes higher, though.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 7/29 – *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 all stayed the same as last week.*

The massive rotation from large to small-cap stocks continued *again* this week. The SPX declined 0.8%, the NASDAQ tumbled 2.1%, and the Russell 2000 (RUT) rose 3.5%. Bonds gained. The US Aggregate Bond ETF (AGG) climbed 0.3%. TLT, the 20-year Treasury Bond ETF, inched up 0.1%. But no new long-term highs were made by the major indices.

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

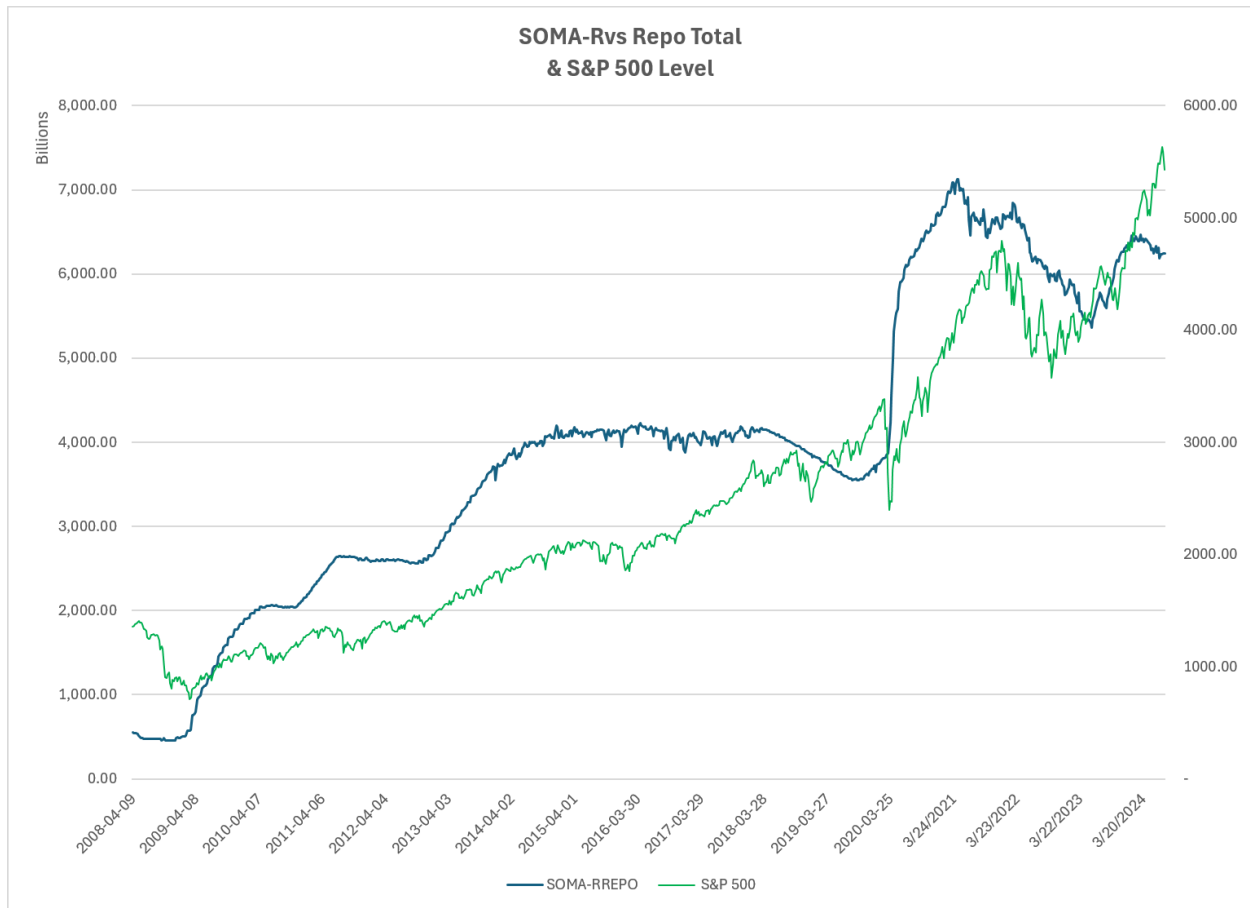
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Domestic Security Holdings as of  
[◀ Previous](#) **July 24, 2024** 📅  
Posted July 25, 2024 at 4:30 PM

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***	2,324,073,689.4
Agency Commercial Mortgage-Backed Securities***	8,142,015.2
Total SOMA Holdings	6,641,610,535.6
Change From Prior Week	-3,716,177.1

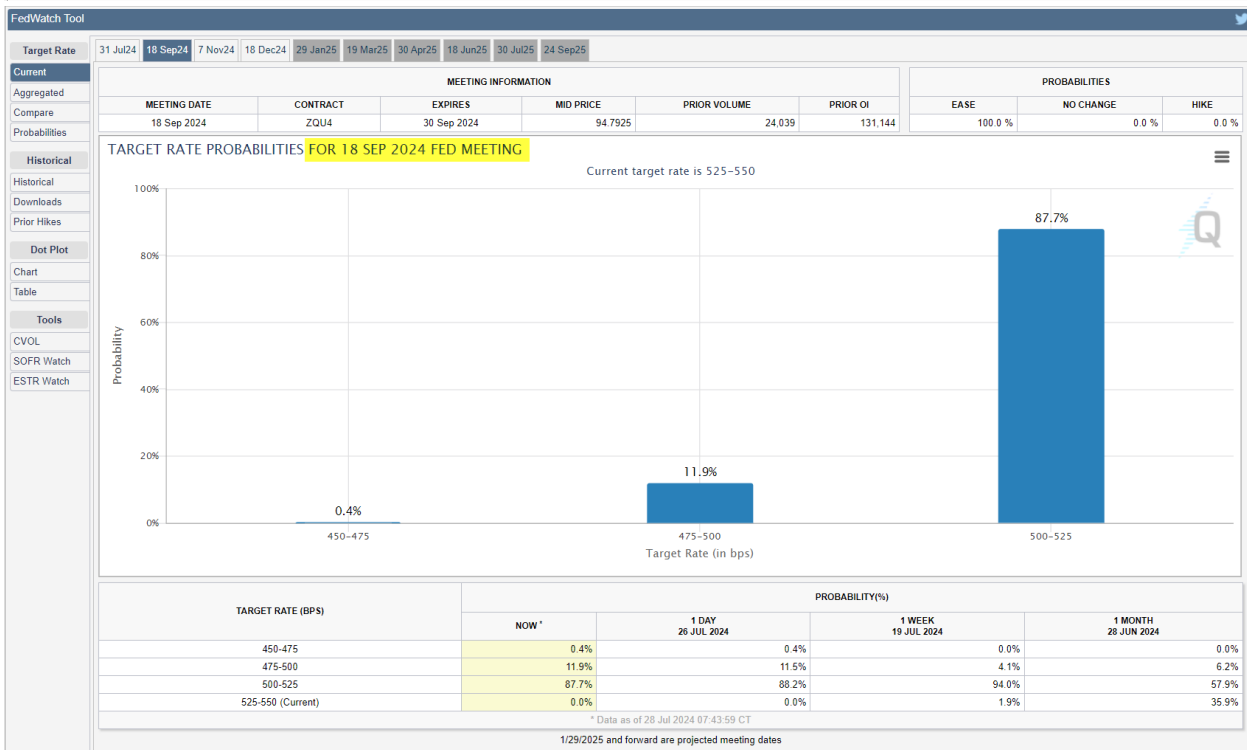
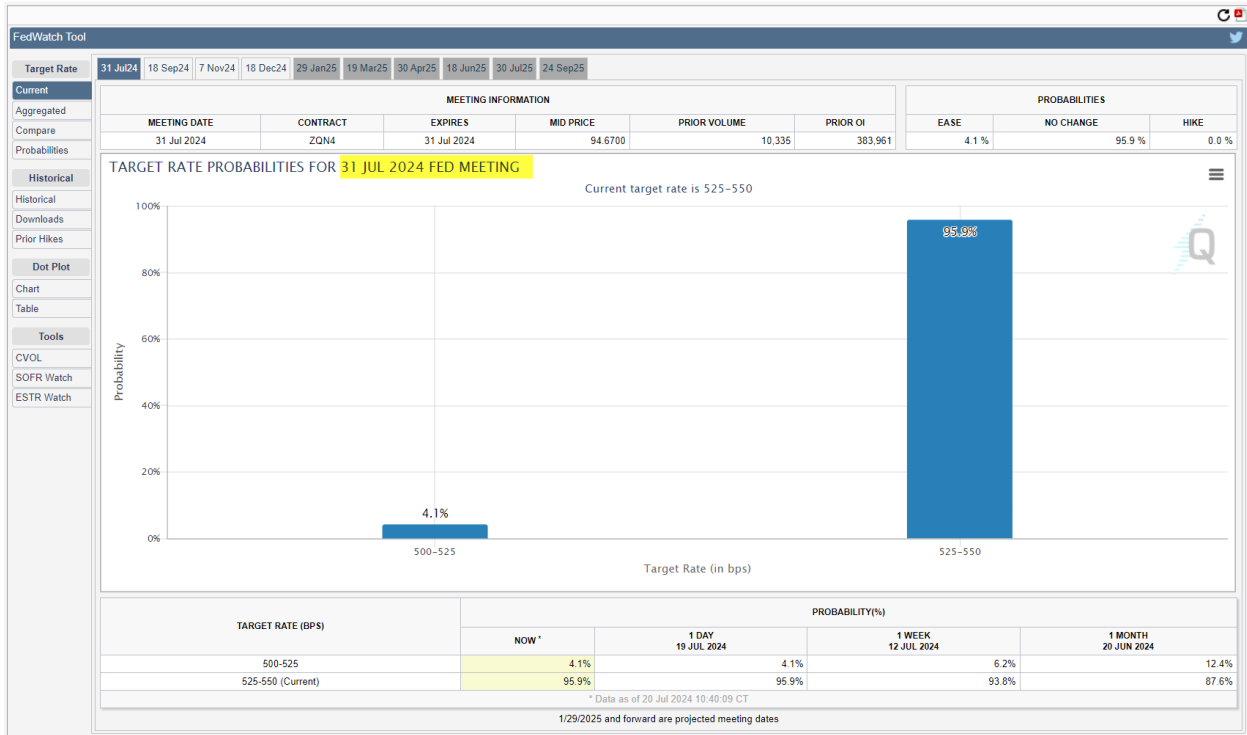
The SOMA saw a decline this past week of \$3.7 billion. This upcoming week should see a much larger decline. Meanwhile, reverse repos declined by a very small \$280 million. Combined for the week, SOMA and reverse repo action accounted for a \$3.4 billion liquidity drain. I discussed reverse repos impact 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 1<sup>st</sup> 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 several 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 of **100% for a cut**. This can be seen in the graphics below, courtesy of the CME Fedwatch tool.



In case you were wondering how important these odds are, 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 1<sup>st</sup> 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 this week, evidence still appears to be leaning bullish. Trend, momentum, and breadth all seem to be pointing higher. The reversal on Friday appears to be a positive according to the study we showed as well. The Fed remains a potentially bearish force, despite QT being dialed back in June. The lagging NASDAQ is also an unfavorable condition. August and September are often difficult market months. So the recent selloff could have further to go. Still, with bullish evidence still outweighing bearish, I will maintain a bullish intermediate-term outlook. Therefore, I will be more inclined to take long positions than short positions.

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***Open Catapult Triggers***

LLY @ \$848.90 (bought 1/3 @ limit)

F @ \$11.16 (bought 1/3 @ limit)

### ***Broad Market Large Cap CBI – 2 (LLY, F)***

### **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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	7/19/2024	\$552.42	\$544.44	-1.44%	<i>sell @ \$544.45 limit on close</i>
SPY(1/4)	7/25/2024	\$541.00	\$544.44	0.64%	<i>sell @ \$546.00 limit on close</i>
LLY(1/3)	7/26/2024	\$811.87	\$804.62	-0.89%	Catapult
F(1/3)	7/26/2024	\$11.16	\$11.19	0.27%	Catapult

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