

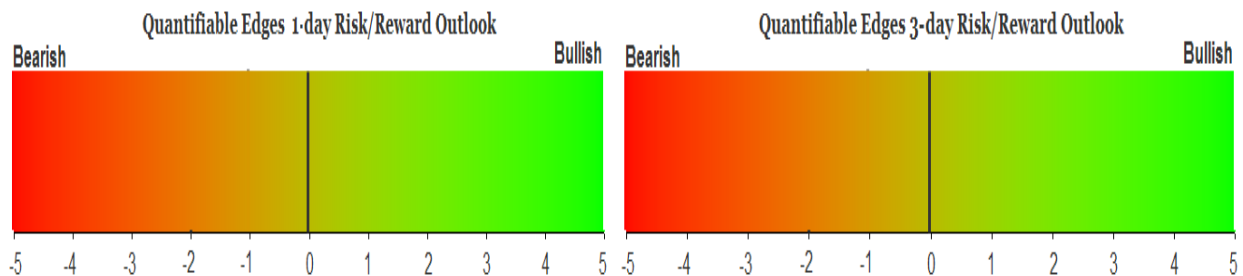
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 12, 2024

Volume 17 Issue 154

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- The VIX has quickly moved from overbought to oversold. In the past, that has been followed by short-term SPX strength.
- The Seasonality Calendar is showing the upcoming week as somewhat bearish.
- 4 weeks lower when above the 40-week moving average has almost always been followed by a move higher over the next several weeks.
- The SOMA was flat this past week. Meanwhile, odds of a few rate cuts starting in September remain extremely high.

Short-term Outlook

The Bottom Line

The Aggregator formation is neutral. Evidence says more of a bounce is likely, but the market is already strongly overbought. So I am not enthusiastic about holding index positions right now.

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						
August 12, 2024	VIX 10% above to 10% below 10ma in 4 dys	1-8 days	Bullish	2.00%	-1.20%	-2.60%
August 8, 2024	12 days since close in top 25% intraday rng	1-4 days	Bullish			
August 8, 2024	Gap up, move higher & reverse	1-5 days	Bullish			
August 7, 2024	Dn 2% & 10-lo then up 1% < 2 ago	1-5 days	Bullish			
August 6, 2024	Dn 1.5% 2x & 10-day low	1-6 days	Bullish			
August 6, 2024	Dn 1%, 10-low on a Monday	1-5 days	Bullish			
Active - Long Term						
August 12, 2024	SPX dn 4 weeks in a row > 40-week ma	1-10 weeks	Bullish	8.70%	-3.10%	-7.10%
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 11, 2024	50-day %b crosses > 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
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 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 mild moves compared to recent market action. SPX climbed 0.47%, the NASDAQ rose 0.51%, and the Russell 2000 declined 0.17%. Breadth was positive as the NYSE Up Issues % closed at 52% and the NYSE Up Volume % posted a 55% reading. NYSE total volume came in light.

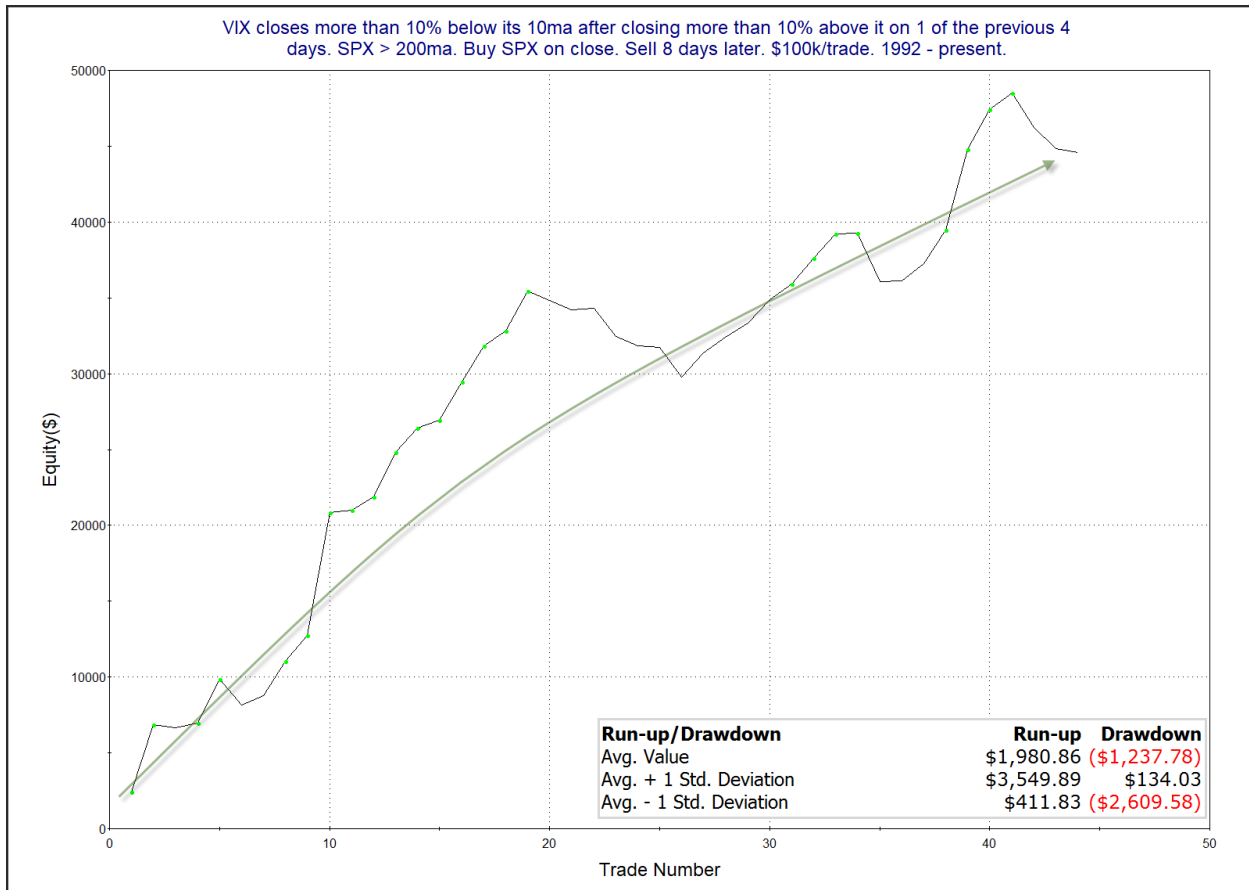
One study from the Quantifinder worth a review considered the sharp drop in the VIX over the last couple of days after a sharp rise just prior to that. It was last seen in the 12/8/21 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1992 - 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	32,489.08	44	27	17	61.36	8,115.80	-4,224.84	2,156.05	-1,513.19	1.42	2.26	738.39
9	35,336.15	44	29	15	65.91	8,397.40	-2,973.64	1,928.53	-1,372.75	1.40	2.72	803.09
8	44,575.79	44	32	12	72.73	8,076.20	-3,172.20	1,855.87	-1,234.34	1.50	4.01	1,013.09
7	41,718.58	44	32	12	72.73	7,749.50	-3,267.44	1,788.89	-1,293.82	1.38	3.69	948.15
6	37,310.28	44	31	13	70.45	5,305.30	-3,271.68	1,651.18	-1,067.42	1.55	3.69	847.96
5	30,528.91	44	28	16	63.64	5,361.40	-3,111.68	1,659.96	-996.88	1.67	2.91	693.84
4	19,221.42	45	30	15	66.67	4,981.90	-2,927.52	1,242.99	-1,204.55	1.03	2.06	427.14
3	12,855.62	46	28	18	60.87	3,799.40	-3,629.81	1,019.49	-871.67	1.17	1.82	279.47
2	10,541.45	46	29	17	63.04	3,839.00	-5,300.66	889.50	-897.29	0.99	1.69	229.16
1	9,286.81	46	28	18	60.87	2,952.40	-3,572.94	737.90	-631.92	1.17	1.82	201.89

91% of instances closed above the entry price at some point in the next week.

The market condition that would typically accompany such VIX movement is one where you see SPX post a strong rebound from a sharp decline during a long-term uptrend. That is a pretty good description of the current setup. Results over the first 2-3 days are not terribly consistent, but once you get out beyond that the bounce becomes more reliable and more powerful. Below I have provided the profit curve assuming an 8-day holding period.



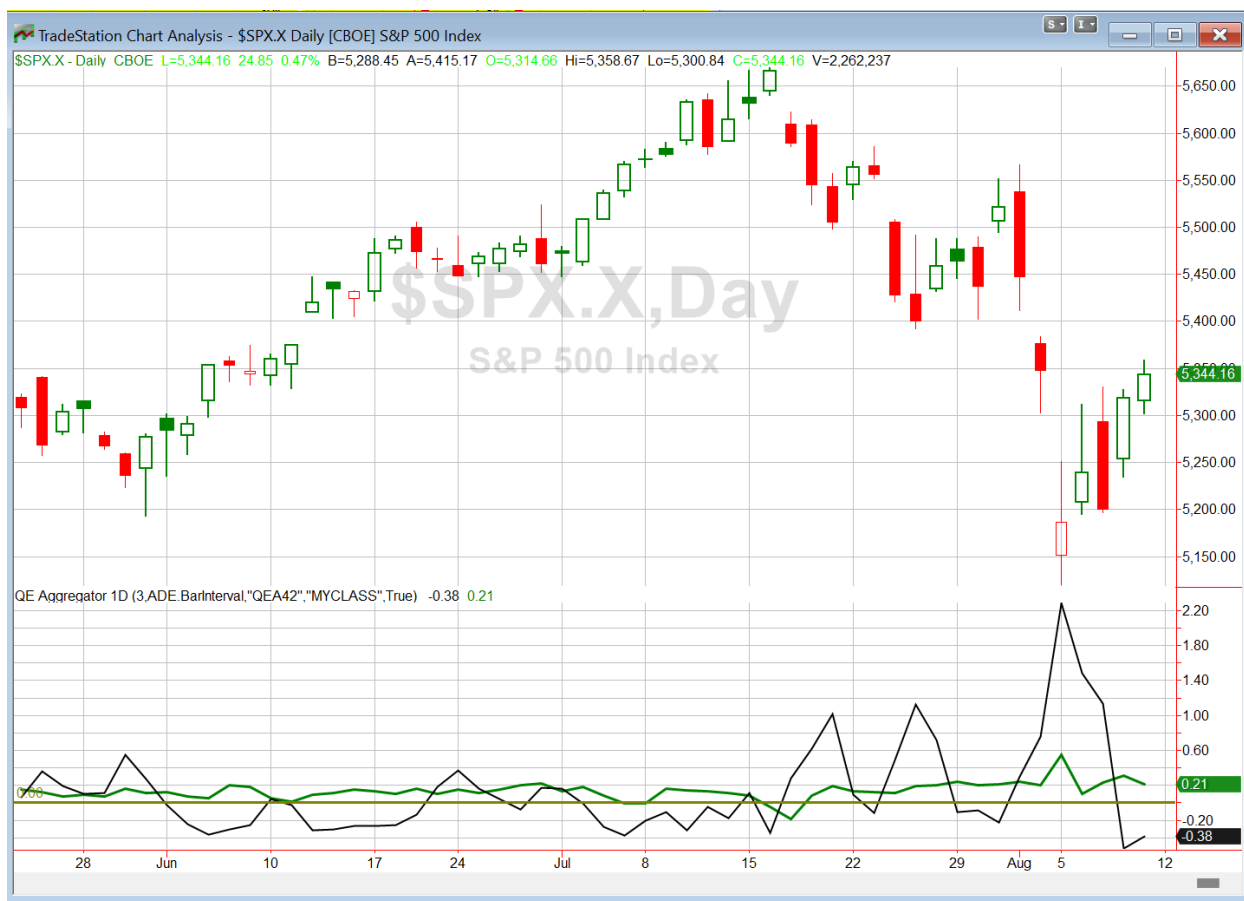
This curve struggled for some time in the middle of the chart, but it recovered nicely and has persisted higher. I have included this study on the Active List tonight.

Next let's check out the QE Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
8/1/2024	55.42	1.500	0.097
8/2/2024	53.54	1.244	0.071
8/5/2024	55.38	1.457	0.126
8/6/2024	49.71	1.063	0.009
8/7/2024	55.15	1.301	0.081
8/8/2024	54.21	1.076	0.015
8/9/2024	53.25	1.275	0.077
8/12/2024	52.65	0.848	-0.073
8/13/2024	52.21	0.960	-0.030
8/14/2024	53.08	0.847	-0.064
8/15/2024	52.38	0.831	-0.070
8/16/2024	48.55	0.759	-0.097
8/19/2024	60.08	1.187	0.060
8/20/2024	56.27	1.405	0.108
8/21/2024	55.34	1.033	0.013
8/22/2024	56.98	1.244	0.078
8/23/2024	55.19	1.062	0.023
8/26/2024	54.69	1.111	0.030
8/27/2024	52.73	1.037	0.010
8/28/2024	55.90	1.288	0.076
8/29/2024	57.14	1.344	0.092
8/30/2024	57.19	1.194	0.037
Baseline	53.65	1.138	0.047

Numbers for this upcoming week are all neutral to bearish. Seasonally, this week may not be the best one for the bulls to push the market higher.

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



Without any new studies being added tonight, 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 held 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 set to remain positive on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 5243.71. 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 versus recent expectations. \

So the Aggregator is neutral. Evidence points to more upside. But the overbought condition reduces reward/risk. And this market may not be the best one to try and get greedy with. I exited my long index exposure on Friday. I will wait for the next compelling setup before considering new positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/12 – *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 market spent almost all week trying to recover from Monday’s massive gap down...and never quite got there on a closing basis. The SPX closed lower by 0.04%, the NASDAQ dropped 0.18%, and the Russell 2000 (RUT) lost 1.35%. Bonds struggled. The US Aggregate Bond ETF (AGG) declined 0.8%. TLT, the 20-year Treasury Bond ETF, fell 2.1%.

This past week was the 4th week in a row that the SPX declined. In the 10/2/23 letter I looked at other times the SPX closed down for the 4th week in a row, but still remained above its 40-week moving average. Updated results of that study can be found below.

SPX closes down for the 4th week in a row but above the 40-week moving average. Buy on close. Sell X weeks later. \$100k/trade. 1975 - 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	100,929.41	16	15	1	93.75	21,376.21	-9,879.00	7,387.23	-9,879.00	0.75	11.22	6,308.09
9	97,265.96	16	13	3	81.25	18,486.80	-2,911.50	7,803.53	-1,393.32	5.60	24.27	6,079.12
8	77,106.72	16	13	3	81.25	15,511.51	-7,373.36	6,580.32	-2,812.47	2.34	10.14	4,819.17
7	75,355.20	17	13	4	76.47	16,927.40	-5,653.16	6,471.19	-2,192.57	2.95	9.59	4,432.66
6	72,583.02	17	12	5	70.59	16,611.00	-2,588.34	6,528.42	-1,151.60	5.67	13.61	4,269.59
5	53,081.81	17	12	5	70.59	14,120.48	-4,272.89	5,629.45	-2,894.31	1.95	4.67	3,122.46
4	44,709.38	17	11	6	64.71	14,842.55	-5,046.86	5,900.47	-3,365.97	1.75	3.21	2,629.96
3	38,861.86	17	13	4	76.47	12,243.55	-8,350.96	4,164.56	-3,819.36	1.09	3.54	2,285.99
2	33,862.88	17	13	4	76.47	11,314.69	-4,509.00	3,546.01	-3,058.81	1.16	3.77	1,991.93
1	22,582.39	17	14	3	82.35	6,921.25	-2,652.75	2,041.62	-2,000.10	1.02	4.76	1,328.38

These results are suggestive of an upside edge over the next several weeks. Below I have listed all 16 non-overlapping instances using a 10-week exit strategy.

SPX closes down for the 4th week in a row
but above the 40-week moving average.
Buy on close. Sell X weeks later. \$100k/trade. 1975 - present.

Date	Signal	Price	% Chg	Runup/Ddn
8/8/1975	Buy	\$86.02	3.30%	\$5,554.36
10/17/1975	Sell	\$88.86		(\$5,170.90)
6/4/1976	Buy	\$99.15	5.14%	\$7,691.04
8/13/1976	Sell	\$104.25		(\$1,189.44)
7/7/1978	Buy	\$94.89	9.73%	\$13,857.48
9/15/1978	Sell	\$104.12		(\$642.33)
11/4/1983	Buy	\$162.44	2.82%	\$4,366.50
1/13/1984	Sell	\$167.02		(\$528.90)
8/16/1985	Buy	\$186.10	0.76%	\$1,793.58
10/25/1985	Sell	\$187.52		(\$3,576.42)
8/26/1988	Buy	\$259.67	6.41%	\$9,343.95
11/4/1988	Sell	\$276.31		(\$1,039.50)
6/26/1992	Buy	\$403.44	3.38%	\$5,357.43
9/4/1992	Sell	\$417.08		\$0.00
4/4/1997	Buy	\$757.90	17.86%	\$17,919.49
6/13/1997	Sell	\$893.27		(\$3,191.16)
8/14/1998	Buy	\$1,062.74	0.74%	\$4,126.60
10/23/1998	Sell	\$1,070.65		(\$13,107.36)
5/21/2004	Buy	\$1,093.59	0.74%	\$4,800.25
7/30/2004	Sell	\$1,101.72		(\$1,347.71)
7/10/2009	Buy	\$879.13	21.52%	\$22,033.87
9/18/2009	Sell	\$1,068.30		(\$430.53)
2/5/2010	Buy	\$1,066.19	11.81%	\$13,738.89
4/16/2010	Sell	\$1,192.13		(\$900.24)
5/27/2011	Buy	\$1,331.10	-9.90%	\$1,903.50
8/5/2011	Sell	\$1,199.38		(\$12,225.75)
8/23/2019	Buy	\$2,847.11	7.72%	\$7,694.40
11/1/2019	Sell	\$3,066.91		\$0.00
9/25/2020	Buy	\$3,298.46	12.15%	\$12,022.20
12/4/2020	Sell	\$3,699.12		(\$1,935.60)
9/29/2023	Buy	\$4,288.05	7.38%	\$7,387.14
12/8/2023	Sell	\$4,604.37		(\$4,238.21)

The 2011 instance did not work out at all. Most everything else looks encouraging. I have added this study to the intermediate-term active list.

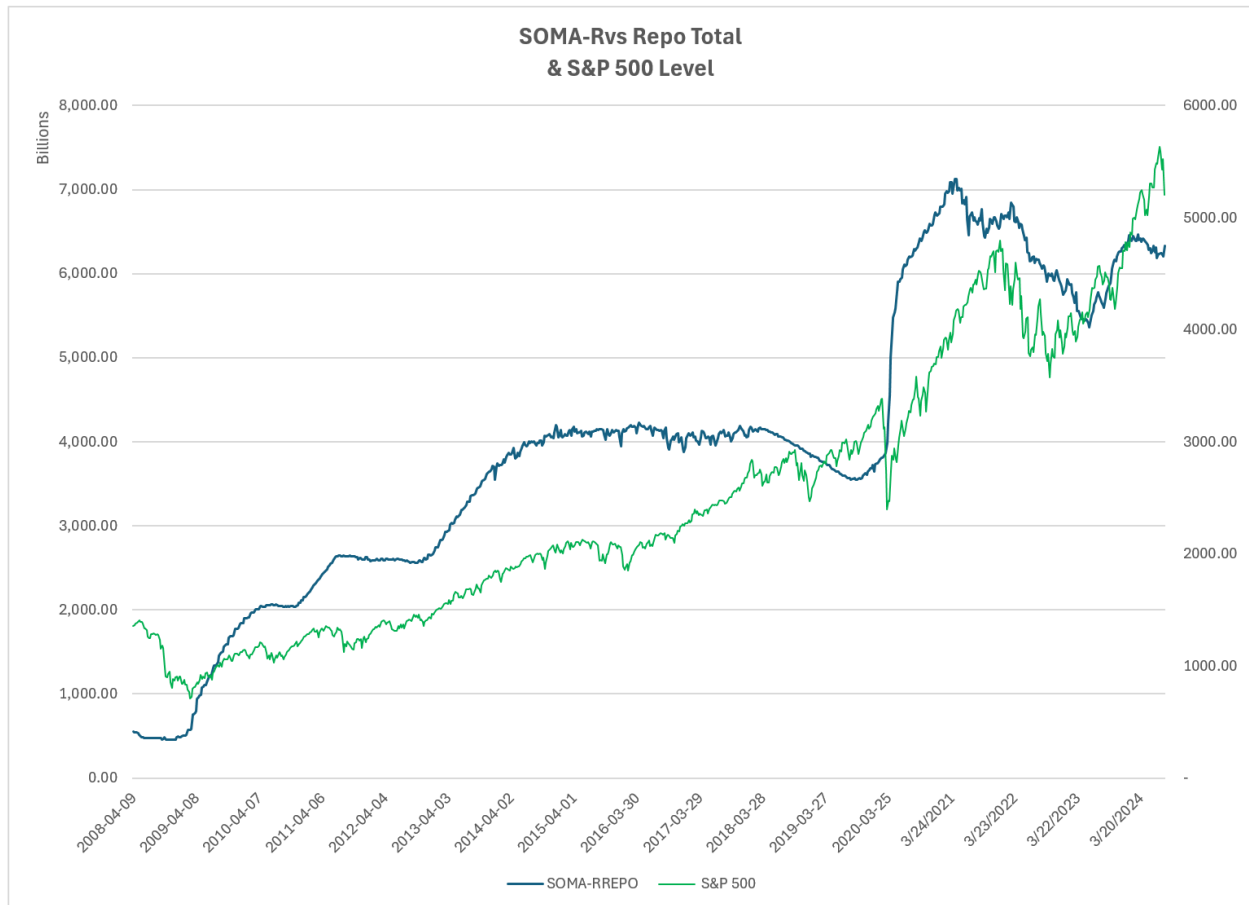
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of

◀ Previous **August 7, 2024** 📅
Posted August 8, 2024 at 4:30 PM

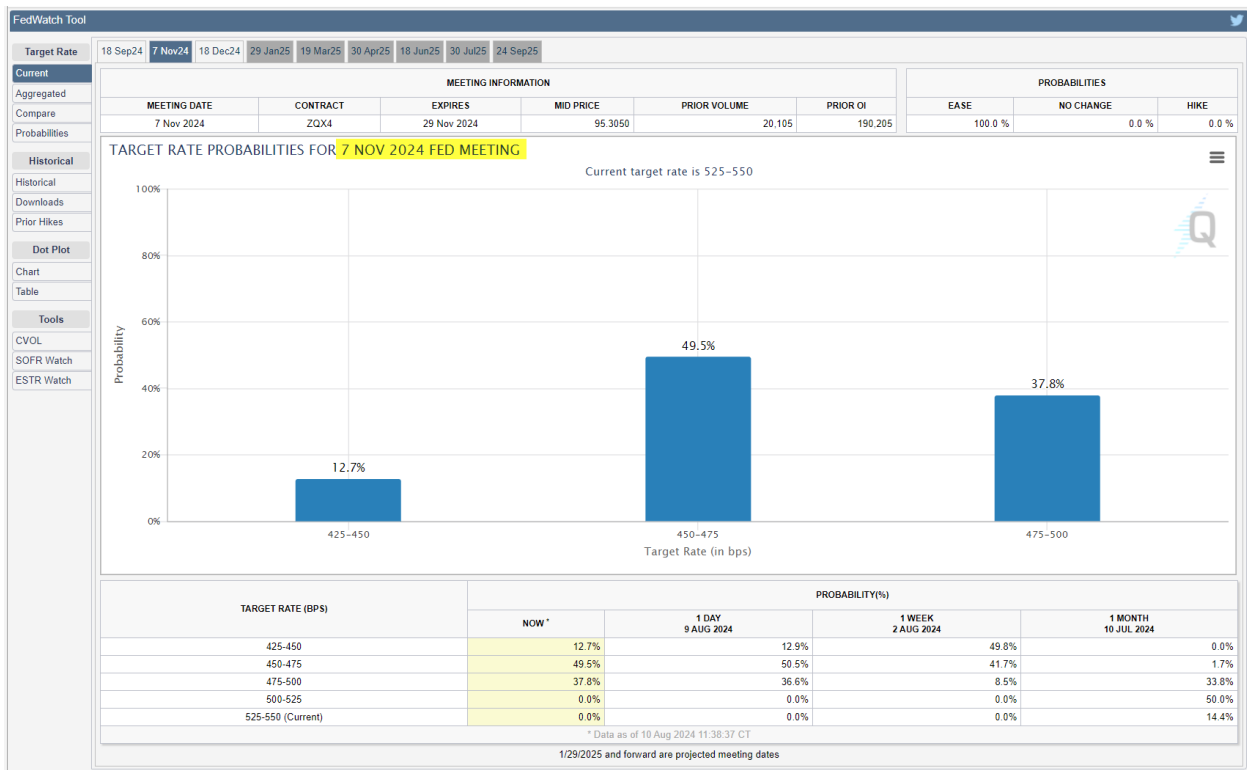
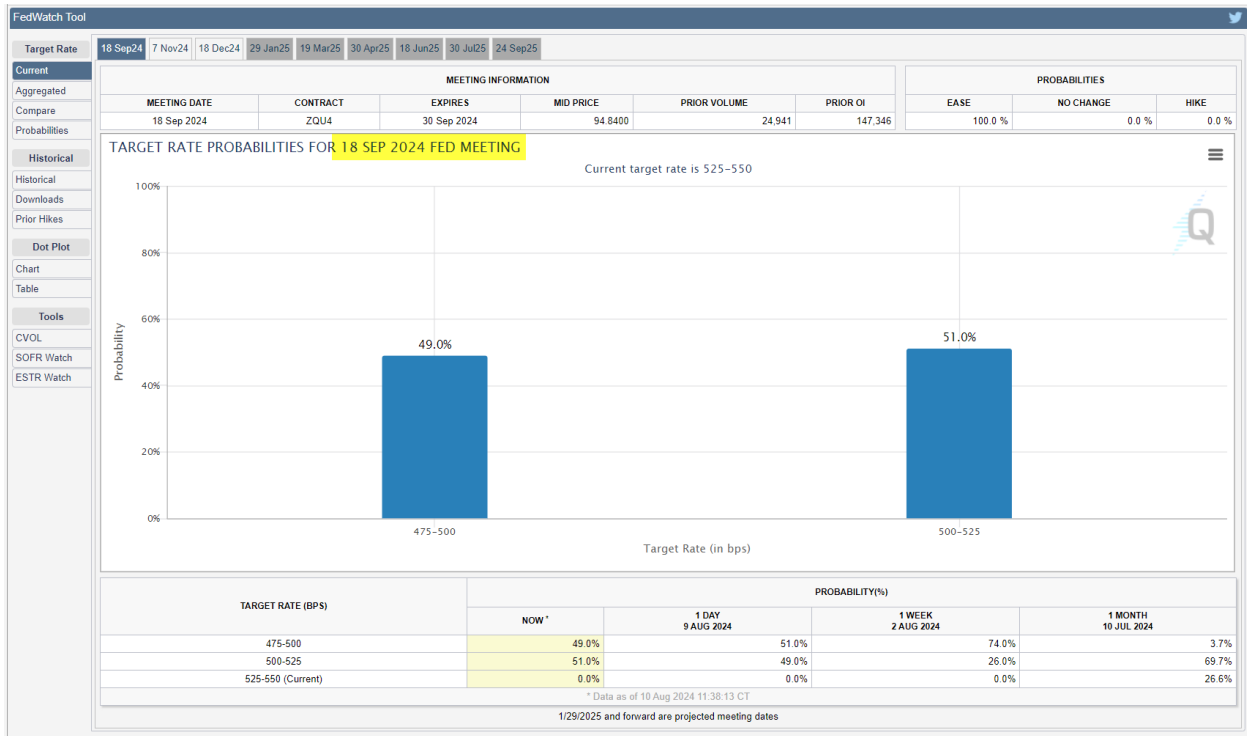
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,292,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,751,602,861.3
US Treasury Floating Rate Notes (FRNs)	5,825,583.8
US Treasury Inflation-Protected Securities (TIPS)*	344,043,784.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,310,058,453.4
Agency Commercial Mortgage-Backed Securities***	8,132,001.4
Total SOMA Holdings	6,617,302,611.3
Change From Prior Week	-0

The SOMA saw basically no change this past week. (It actually declined \$6.50.) This upcoming week should see a moderate decline. Meanwhile, reverse repos fell by \$126.5 billion, leaving only \$287 billion outstanding, which is the lowest level in a long time. Combined for the week, SOMA and reverse repo action accounted for a \$126.5 billion liquidity infusion. 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, 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 months we have seen the number chopping around, but it is now quite low. 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 moved substantially for the September meetings. September is now showing odds of **100% for a cut, and that is split 51/49 between 25 and 50 basis points. Last week the odds were showing a 70% chance of a 50-point cut.** And November is showing a 63% chance that rates will be at least 75 basis points lower than they are now. This can be seen in the graphics below, courtesy of the CME Fedwatch tool.



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 the Fed could become more market-neutral if rate-cutting begins, and outright bullish if QT ends.

Despite more selling this week, evidence still appears to be leaning bullish. Most studies on the intermediate-term active list are pointing higher, including this week's study that looked at other 4-week pullbacks. 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 outweighing bearish, I will maintain a bullish intermediate-term outlook. I am not blind, though, and could easily change to neutral (or even bearish) if action does not improve. For now I am still more inclined to take long positions than short positions.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

USB @ \$42.35 (bought @ limit)

USB @ \$40.80 (bought @ limit)

INTC @ \$18.99 (buy @ limit)

Broad Market Large Cap CBI – 3 (USB-2, INTC)

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
F(1/3)	7/26/2024	\$11.16	\$10.08	-9.68%	sold on open
F(1/3)	7/31/2024	\$10.84	\$10.08	-7.01%	sold on open
F(1/3)	8/1/2024	\$10.82	\$10.08	-6.84%	sold on open
SPY(1/4)	8/2/2024	\$535.75	\$531.00	-0.89%	sold @ limit
SPY(1/4)	8/5/2024	\$511.64	\$529.81	3.55%	sold on open
USB(1/3)	8/5/2024	\$41.13	\$42.07	2.29%	Catapult
USB(1/3)	8/6/2024	\$40.74	\$42.07	3.26%	Catapult
INTC(1/3)	8/8/2024	\$18.99	\$19.71	3.79%	Catapult

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