

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 19, 2024

Volume 17 Issue 159

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPX is up for the 7th day in a row. That has often been followed by more gains over the next few weeks.
- Seasonality appears favorable for the next couple of weeks, and then weakens again in September.
- The SOMA continues to decline, and there is not much left in the way of reverse repos. This is a liquidity headwind, but the Fed's stance is likely to change in September.

Short-term Outlook

The Bottom Line

The Aggregator formation is neutral. I am as well.

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 15, 2024	5 up > 3% above 200ma < 50-high	1-10 days	Bullish	2.50%	-1.50%	-2.75%
Active - Long Term						
August 19, 2024	SPX up 7 days in a row	1-20 days	Bullish	3.00%	-2.10%	-4.40%
August 15, 2024	5 up > 3% above 200ma < 50-high	1-15 days	Bullish	3.30%	-1.65%	-3.00%
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 8, 2024	NDX 18% above 200ma	1-90 days	Bullish	14.50%	-9.40%	-18.90%
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, 2023	SPX Golden Cross	int term	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

The recent rally continued on Friday. The SPX rose 0.20%, the NASDAQ gained 0.21%, and the Russell 2000 climbed 0.30%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 62%. NYSE total volume rose some from Thursday's level, but was not especially high for an option expiration Friday.

I looked at a number of ideas this weekend, but did not find anything suggesting a strong short-term edge. There is a study that looks at 7-day SPX win streaks that I'll cover in the intermediate-term section. You'll note the short-term active list has only 1 study at the moment. There were several more, but the rally over the last few days saw most of them reach their target levels and get removed a bit early.

Below is a look at the SPX Seasonality Calendar:

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

The last 2 weeks in August actually show some pretty good numbers Last week was the most challenging from a seasonal standpoint, and SPX made it through that unscathed. Of course, while seasonality can be a factor, it is typically not as important as price action or breadth. So just because the numbers have turned green does not mean this overbought market is not going to pull back.

I also ran the preliminary numbers for September. Those can be seen below.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
9/3/2024	55.58	1.375	0.068
9/4/2024	53.94	1.223	0.063
9/5/2024	51.37	1.017	0.004
9/6/2024	55.69	1.177	0.056
9/9/2024	51.44	0.927	-0.033
9/10/2024	51.70	1.093	0.025
9/11/2024	52.08	0.947	-0.018
9/12/2024	54.16	0.984	-0.007
9/13/2024	52.87	1.133	0.037
9/16/2024	57.26	1.052	0.014
9/17/2024	53.87	1.305	0.070
9/18/2024	50.33	0.958	-0.017
9/19/2024	52.74	0.958	-0.016
9/20/2024	48.71	0.846	-0.057
9/23/2024	48.95	0.902	-0.053
9/24/2024	47.61	0.866	-0.064
9/25/2024	48.20	0.931	-0.042
9/26/2024	50.65	1.057	-0.007
9/27/2024	48.52	0.823	-0.076
9/30/2024	53.71	1.046	0.010
Baseline	53.73	1.141	0.048

The second half of September has traditionally been challenging for the market, and that is reflected in the numbers shown on the calendar. We see more red and white there than we've seen for any other month. The rally looks great right now. And after spiking as high as 65 on August 5th, and closing at 38+, the VIX saw the largest 8-day close to close percent decline in history. It closed Friday back below 15, as if there never was a worry at all a couple of weeks ago. Still, I would not be surprised at all to see it move back into the 20s at some point in the next 2-3 months.

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 held below zero. The negative Differential Line reading means that SPX is strongly 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. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5479.28. That is 1.3% below Friday's close. Therefore, SPX will need to close down at least 1.3% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is neutral. That is where I am at as well. There is nothing suggesting immediate action from a short-term perspective. If we can get a multi-day pullback then a compelling long-side scenario could emerge. Until then, I'll remain sidelined and patient.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/19 – *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.*

This past week was basically nothing but up, up, up. The SPX rose 3.9%, the NASDAQ rallied 5.3%, and the Russell 2000 (RUT) gained 2.9%. Bonds also rose. The US Aggregate Bond ETF (AGG) closed up 0.6%. TLT, the 20-year Treasury Bond ETF, climbed 1.2%. After 4 down weeks in a row, SPX is now quickly back to threatening all-time highs. We would only need to see about a 2% rally to break those July levels. From an intermediate-term standpoint, there was one study that triggered on Thursday with compelling results. I have copied it below.

While many measures (including our own Differential tool) will consider the market short-term overbought at this point, that does NOT mean it is primed for an immediate pullback. The study below recognized the move higher over the last few days and suggested the momentum is likely to continue. It was from the 10/20/21 letter, and it looked at 5 up days that closed above the 200ma, but failed to close at a 50-day high. I have updated the results below.

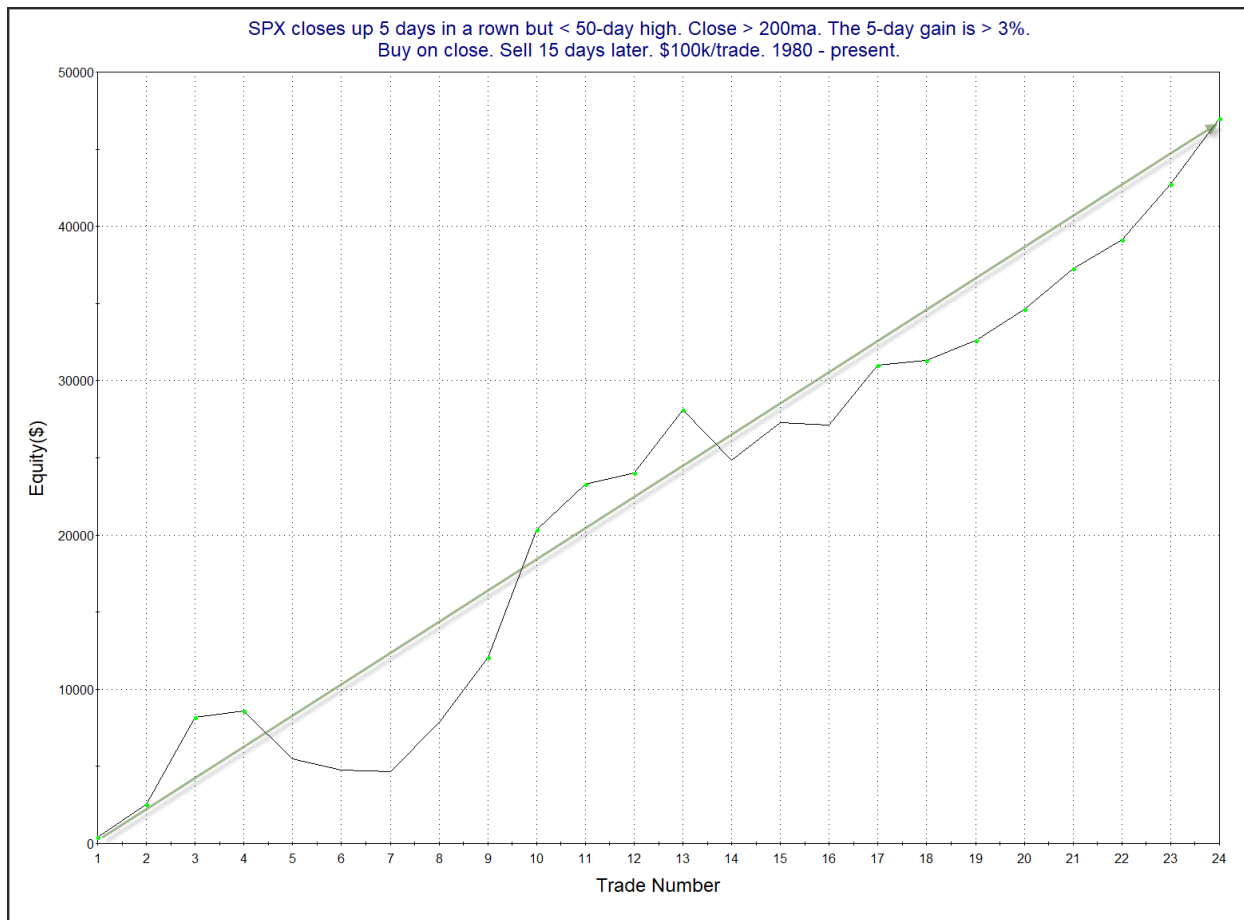
SPX closes up 5 days in a rown but < 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	86,475.02	53	38	15	71.70	8,288.00	-3,766.10	2,777.15	-1,270.46	2.19	5.54	1,631.60
14	77,744.21	53	38	15	71.70	8,272.60	-4,738.50	2,568.81	-1,324.70	1.94	4.91	1,466.87
13	80,623.56	53	40	13	75.47	6,401.50	-3,773.44	2,532.26	-1,589.75	1.59	4.90	1,521.20
12	73,692.32	54	40	14	74.07	5,925.50	-2,944.80	2,321.41	-1,368.86	1.70	4.85	1,364.67
11	58,140.04	55	37	18	67.27	4,158.88	-4,894.24	2,173.66	-1,238.08	1.76	3.61	1,057.09
10	60,529.85	55	41	14	74.55	4,691.28	-4,684.28	1,935.12	-1,343.57	1.44	4.22	1,100.54
9	54,301.45	55	39	16	70.91	4,722.08	-4,910.55	1,970.25	-1,408.65	1.40	3.41	987.30
8	50,660.65	55	41	14	74.55	3,781.36	-3,376.64	1,706.32	-1,378.45	1.24	3.63	921.10
7	46,819.95	55	40	15	72.73	4,385.01	-3,500.70	1,716.05	-1,454.80	1.18	3.15	851.27
6	34,059.00	55	41	14	74.55	3,770.55	-3,366.60	1,389.33	-1,635.96	0.85	2.49	619.25
5	23,509.38	55	36	19	65.45	3,044.37	-3,496.92	1,306.62	-1,238.37	1.06	2.00	427.44
4	13,576.23	55	32	23	58.18	3,138.08	-3,330.40	1,137.77	-992.71	1.15	1.59	246.84
3	11,319.67	55	34	21	61.82	2,742.08	-3,359.36	968.16	-1,028.47	0.94	1.52	205.81
2	4,355.74	55	29	26	52.73	2,205.03	-3,748.50	836.23	-765.19	1.09	1.22	79.20
1	3,403.25	55	32	23	58.18	2,211.54	-2,200.96	596.28	-681.63	0.87	1.22	61.88

Though the 1st couple of days don't show much of an edge, these results appear to suggest a pretty consistent upside tendency over the 1-3 week period. One thing that stands out about the current rally is that it has been quite powerful compared to most. Many of the 5-day moves in the study above occurred in low-volatility markets. In the 7/7/20 letter I filtered further to see how results

appeared when the move was fairly strong. I used a 3% threshold. The last 5 days have gained 4.9%.

SPX closes up 5 days in a row but < 50-day high. Close > 200ma. The 5-day gain is > 3%. Buy on close. Sell X days later. \$100k/trade. 1980 - 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
15	46,981.14	24	19	5	79.17	8,288.00	-3,282.90	2,860.36	-1,473.14	1.94	7.38	1,957.55
14	43,286.55	24	20	4	83.33	8,272.60	-3,691.52	2,464.97	-1,503.19	1.64	8.20	1,803.61
13	42,357.81	24	19	5	79.17	6,401.50	-3,773.44	2,663.63	-1,650.22	1.61	6.13	1,764.91
12	41,191.09	24	18	6	75.00	5,925.50	-2,877.44	2,603.13	-944.20	2.76	8.27	1,716.30
11	36,591.10	24	16	8	66.67	4,158.88	-2,485.76	2,680.74	-787.60	3.40	6.81	1,524.63
10	37,259.69	24	20	4	83.33	4,691.28	-2,533.02	2,174.14	-1,555.77	1.40	6.99	1,552.49
9	32,957.60	24	19	5	79.17	4,722.08	-3,125.76	2,163.78	-1,630.86	1.33	5.04	1,373.23
8	20,660.28	24	17	7	70.83	3,781.36	-3,376.64	1,864.15	-1,575.76	1.18	2.87	860.84
7	17,369.14	24	17	7	70.83	3,814.86	-3,500.70	1,739.63	-1,743.52	1.00	2.42	723.71
6	13,004.76	24	17	7	70.83	3,720.00	-2,882.56	1,427.78	-1,609.64	0.89	2.15	541.86
5	8,367.93	24	15	9	62.50	3,025.44	-2,664.96	1,325.41	-1,279.24	1.04	1.73	348.66
4	6,605.69	24	14	10	58.33	3,138.08	-2,002.44	1,171.62	-979.70	1.20	1.67	275.24
3	6,963.09	24	14	10	58.33	2,742.08	-2,971.50	1,214.33	-1,003.75	1.21	1.69	290.13
2	1,603.26	24	10	14	41.67	2,205.03	-3,748.50	1,081.43	-657.93	1.64	1.17	66.80
1	2,128.68	24	13	11	54.17	2,211.54	-1,252.30	597.89	-513.08	1.17	1.38	88.70

Results here are even more impressive than in the larger sample. The consistency and the size of the moves over the next 1-3 weeks is considerable. Below is a look at the 15-day profit curve.



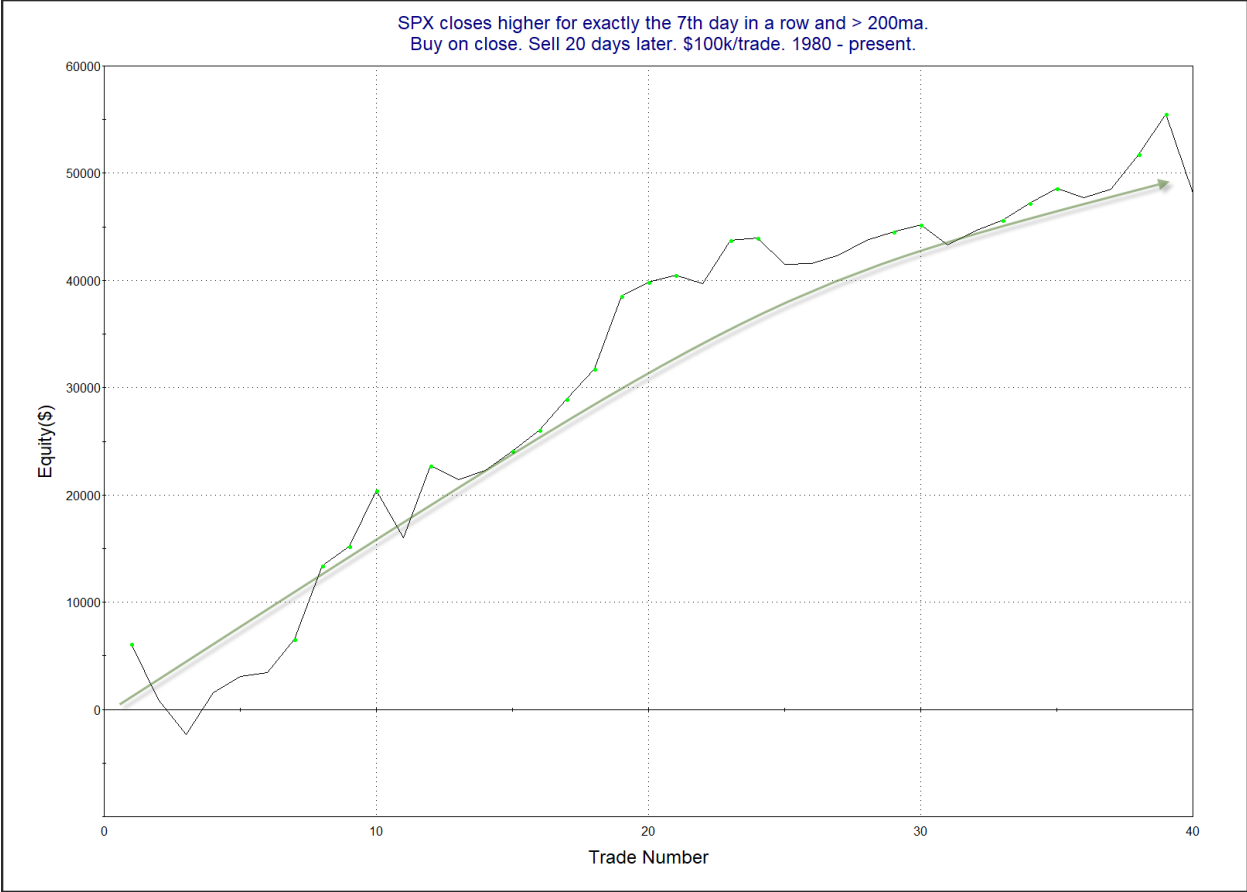
That is a nice move from lower left to upper left.

Friday marked the 7th day in a row in which SPX closed higher. Looking back to 1980, there have been 43 previous streaks of 7-day rallies where SPX closed above the 200ma. The study below was last seen just over a month ago in the 7/11/24 letter. I have updated the stats table.

SPX closes higher for exactly the 7th day in a row and > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1980 - 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
20	48,126.82	40	31	9	77.50	6,854.40	-7,384.97	2,440.90	-3,060.11	0.80	2.75	1,203.17
19	49,269.10	40	30	10	75.00	7,580.16	-6,695.96	2,683.32	-3,123.06	0.86	2.58	1,231.73
18	44,955.47	40	28	12	70.00	8,006.40	-7,608.86	2,599.81	-2,319.93	1.12	2.61	1,123.89
17	46,167.62	41	30	11	73.17	7,422.72	-7,532.75	2,504.28	-2,632.79	0.95	2.59	1,126.04
16	41,517.64	41	27	14	65.85	6,021.12	-6,880.25	2,538.61	-1,930.34	1.32	2.54	1,012.63
15	41,169.45	41	29	12	70.73	6,197.76	-5,270.75	2,291.90	-2,107.98	1.09	2.63	1,004.13
14	31,179.83	42	32	10	76.19	5,439.96	-5,279.12	1,981.28	-3,222.11	0.61	1.97	742.38
13	29,599.03	42	28	14	66.67	5,349.12	-4,228.00	1,938.29	-1,762.36	1.10	2.20	704.74
12	33,957.50	42	29	13	69.05	5,794.56	-4,104.27	1,907.46	-1,643.00	1.16	2.59	808.51
11	28,550.20	43	26	17	60.47	5,750.00	-3,989.73	2,082.25	-1,505.20	1.38	2.12	663.96
10	21,527.91	43	26	17	60.47	5,076.56	-4,247.60	1,884.59	-1,615.97	1.17	1.78	500.65
9	26,556.03	43	30	13	69.77	4,669.08	-4,677.12	1,587.01	-1,619.57	0.98	2.26	617.58
8	19,869.17	43	28	15	65.12	5,222.40	-4,726.96	1,478.59	-1,435.42	1.03	1.92	462.07
7	14,939.36	43	31	12	72.09	3,635.40	-6,521.20	1,253.67	-1,993.71	0.63	1.62	347.43
6	13,450.74	43	28	15	65.12	3,501.08	-4,932.76	1,166.73	-1,281.18	0.91	1.70	312.81
5	19,256.03	43	32	11	74.42	3,582.84	-2,665.71	987.31	-1,121.64	0.88	2.56	447.81
4	12,811.33	43	29	14	67.44	3,720.08	-3,022.92	837.38	-819.49	1.02	2.12	297.94
3	13,221.56	43	27	16	62.79	2,917.08	-2,626.02	905.28	-701.32	1.29	2.18	307.48
2	2,509.50	43	21	22	48.84	1,998.39	-1,508.17	575.52	-435.29	1.32	1.26	58.36
1	-2,712.15	43	20	23	46.51	1,606.89	-840.84	333.50	-407.92	0.82	0.71	-63.07

No apparent edge over the 1st few days, but the market has typically pressed higher over the intermediate term. Momentum this strong often sees follow through. Below is a look at the 20-day profit curve.



While the July instance did not play out, this seems to be more confirmation that suggests the strong momentum is a positive sign for the intermediate-term.

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

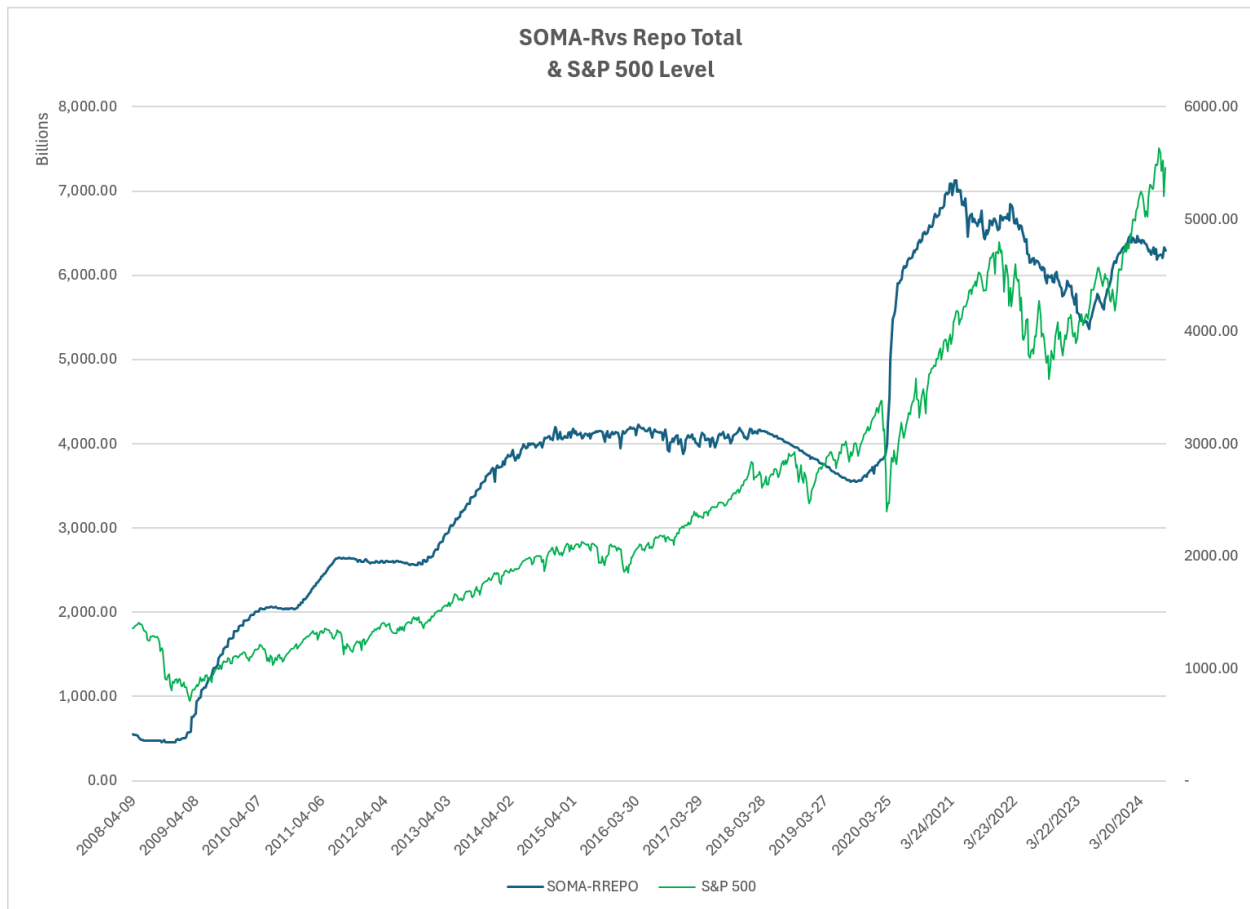
Domestic Security Holdings as of

◀ Previous **August 14, 2024** 📅
Posted August 15, 2024 at 4:30 PM

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

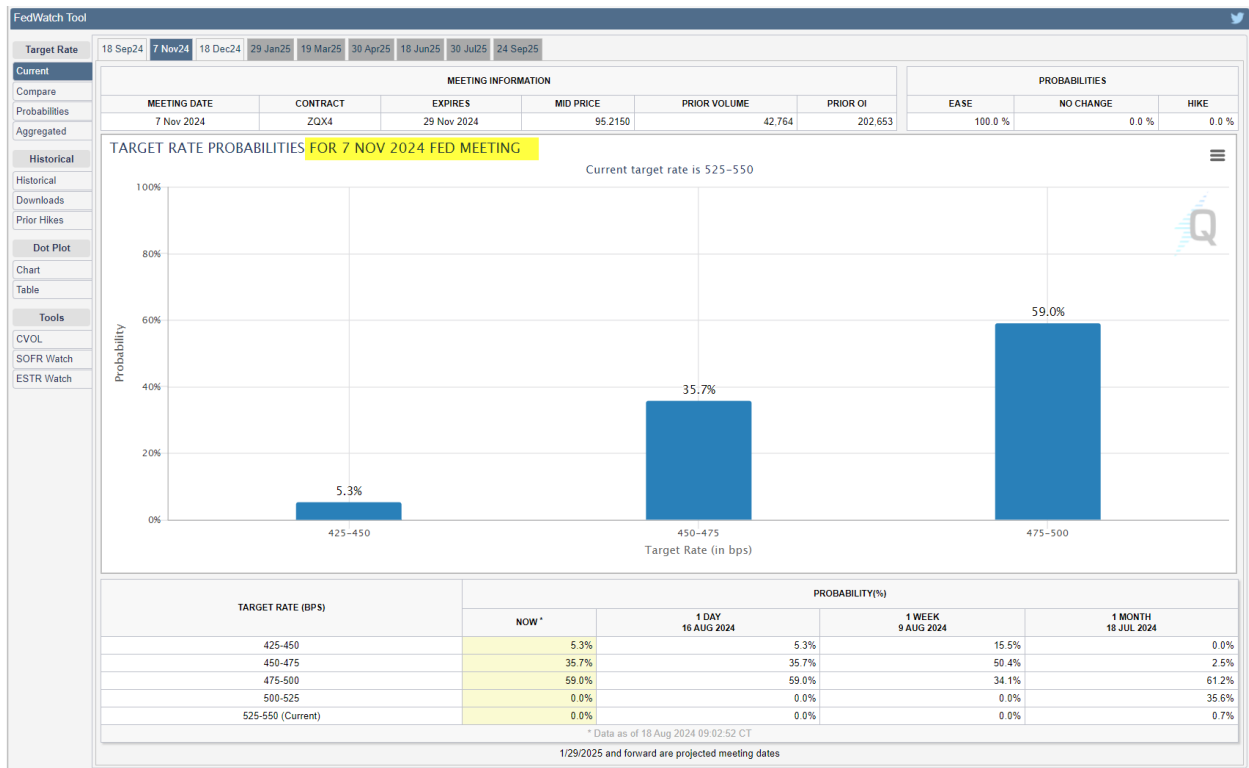
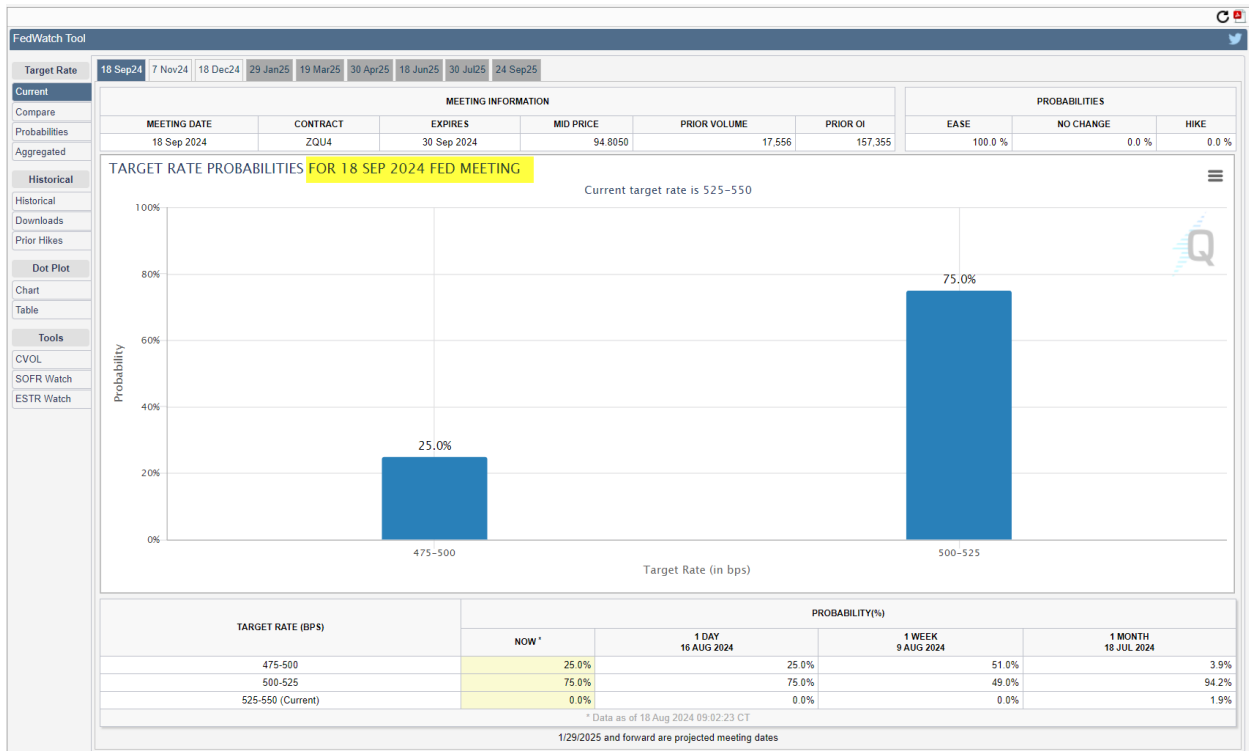
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,292,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,751,602,861.3
US Treasury Floating Rate Notes (FRNs)	5,825,583.8
US Treasury Inflation-Protected Securities (TIPS)*	344,043,784.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,309,991,925.6
Agency Commercial Mortgage-Backed Securities***	8,132,001.4
Total SOMA Holdings	6,617,236,083.5
Change From Prior Week	-66,527.8

The SOMA declined a modest \$66.5 million this past week. This upcoming week should see a more substantial decline. Meanwhile, reverse repos rose by \$41.8 billion. Combined for the week, SOMA and reverse repo action accounted for a \$41.9 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, 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 75/25 between 25 and 50 basis points. Last week the odds were showing a 49% chance of a 50-point cut.** And November is showing a 41% 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.

The market has quickly found some upside momentum over the last week and a half, and that is providing some new, bullish evidence suggesting further gains over the next few weeks. Additionally, most studies on the intermediate-term active list continue to point higher. The Fed remains a potentially bearish force, despite QT being dialed back in June. That will likely change assuming they begin cutting rates in September. Interestingly, the weak September seasonality kicks in right after the September Fed meeting. And this week's intermediate-term studies will be expiring just ahead of that as well. So the lead-up to, and aftermath of, that meeting will be interesting. The lagging NASDAQ is also an unfavorable condition. Still, with bullish evidence outweighing bearish, I will maintain a bullish intermediate-term outlook. Of course this could quickly change if evidence changes. For now, I am more inclined to take long positions than short positions.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
INTC(1/3)	8/8/2024	\$18.99	\$20.87	9.90%	<i>sell on open</i>

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