

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 26, 2024

Volume 17 Issue 164

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- A gap up and close higher on an inside day used to suggest a bearish inclination for the next day, but that has not been the case in recent years.
- Seasonality looks positive, but below average, for the upcoming week.
- The SOMA continues to decline, but the Fed is proclaiming it is time to start lowering rates, so they are moving to a more market-neutral policy rather than a bearish force.

Short-term Outlook

The Bottom Line

The Aggregator formation is neutral. We are back to a place where expectations are positive but the market is short-term overbought.

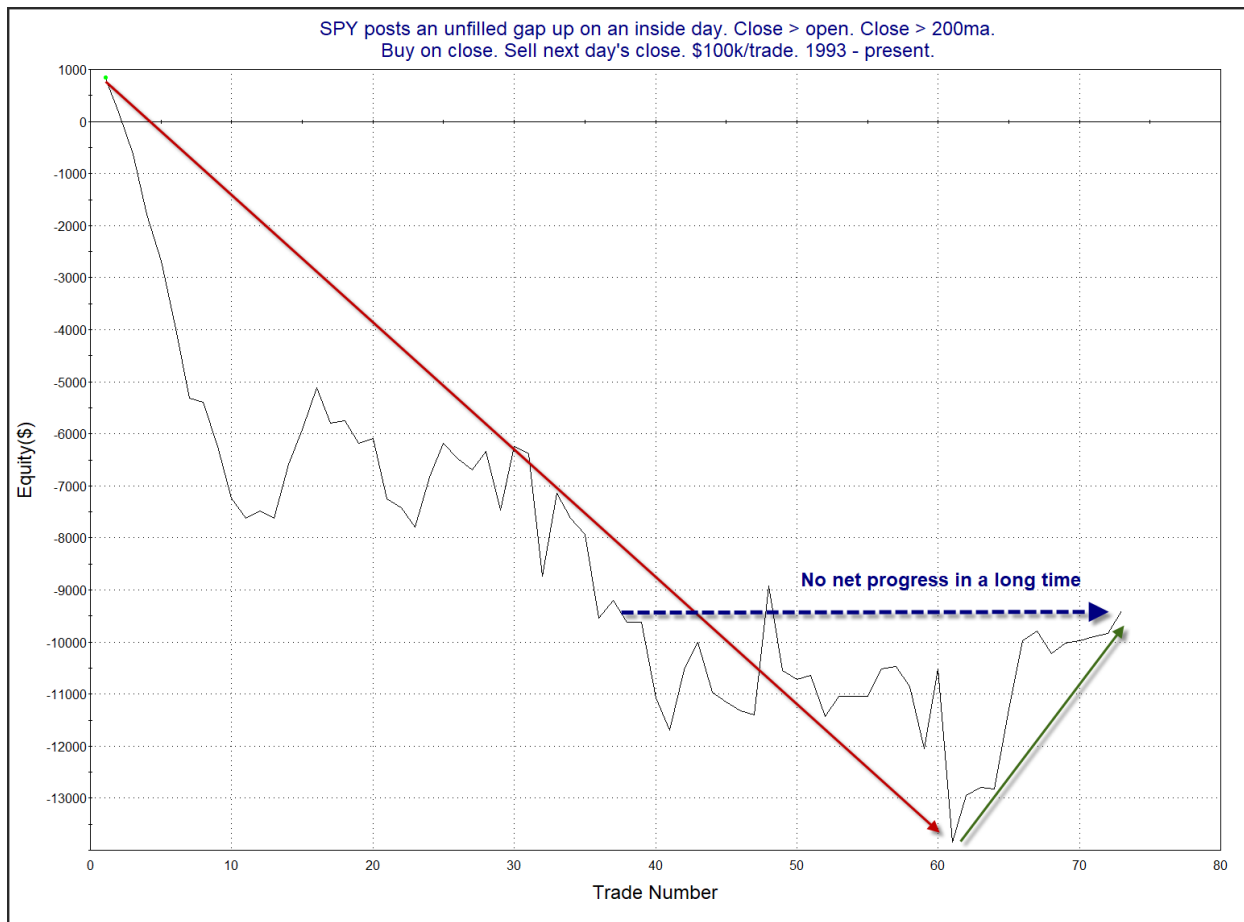
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
August 23, 2024	Up yest. Today 3-hi, 3-lo, 3-lo close	1-5 days	Bullish	2.00%	-1.25%	-2.60%
August 22, 2024	SPX and VXX 5-day closing highs	1-4 days	Bearish			
August 21, 2024	3 Higher hi, lo, close. Dn 1 but higher hi&lo	1-4 days	Bullish	1.20%	-0.80%	-1.70%
August 21, 2024	5 up, no 50-high. Down 1 > 200ma	1-5 days	Bullish	1.80%	-0.90%	-1.90%
August 15, 2024	5 up > 3% above 200ma < 50-high	1-10 days	Bullish	2.50%	-1.50%	-2.75%
Active - Long Term						
August 20, 2024	RSI(2) crosses over 99.	1-15 days	Bullish	2.25%	-1.55%	-3.00%
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

Friday saw a big rebound after Thursday's selloff. SPX gained 1.15%, the NASDAQ rose 1.5%, and the Russell 2000 rallied 3.2%. Breadth was extremely strong as the NYSE Up Issues % was 88% and the Up Volume % came in at 92%. NYSE total volume rose some from Thursday's level.

Action did not trigger anything of consequence in the Quantifinder. I decided to update the chart on the study below, from the 10/8/20 letter. It looked at inside days that move higher from open to close and finish above the 200ma.



For a long period of time this setup suggested a downside edge for the next day. For whatever reason, this edge has not persisted in recent years. I am not including it on the Active List tonight, and have removed it from the Quantifinder. It serves as an example of why I always update the research, and why I always look at the profit curves, rather than just the numbers.

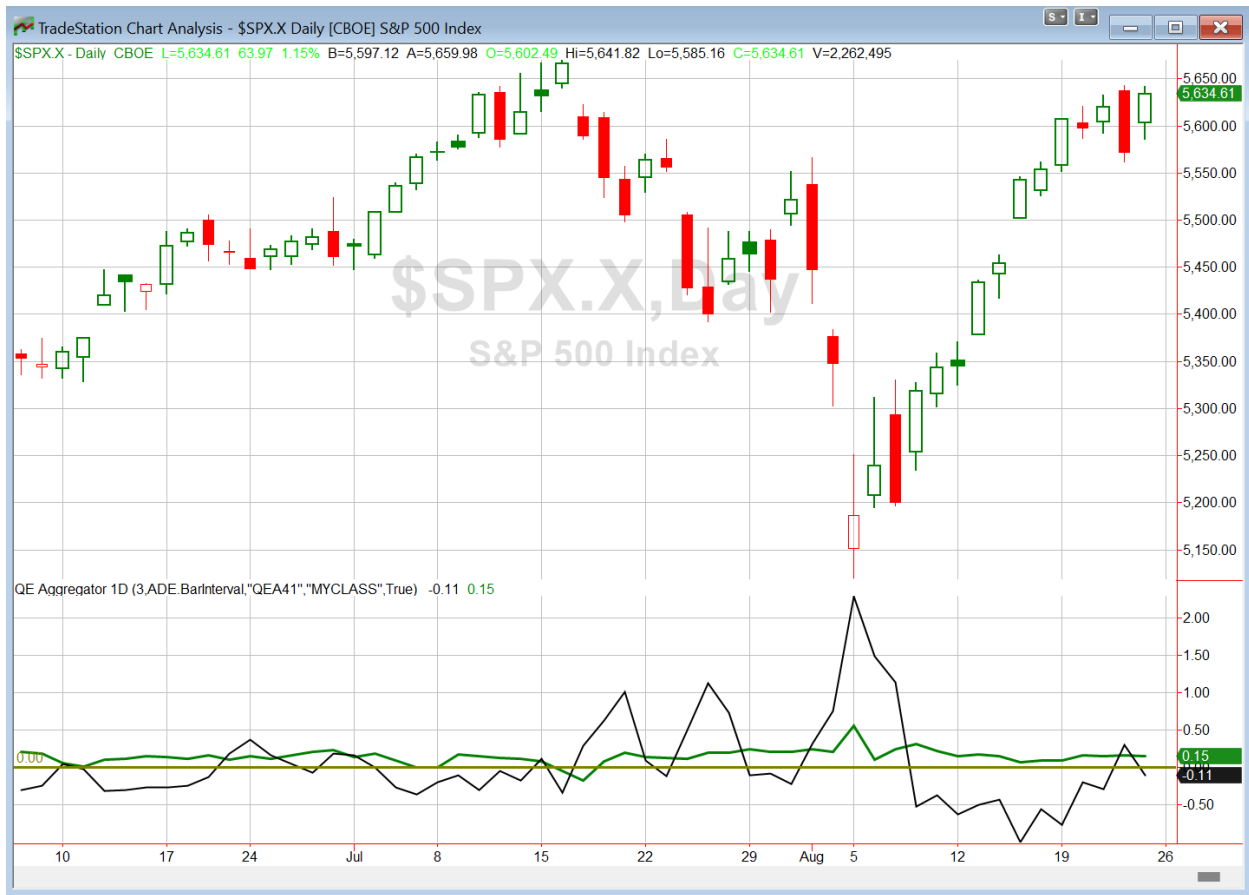
I did not notice anything else of interest.

Below is a look at the 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

All green numbers this upcoming week make it look decent for the bulls. But I will note that the Avg % Chg is below the baseline for every day except for Thursday. So perhaps not as bullish as it might appear at first glance.

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



With tonight'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 dropped 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 turned 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 *inverted* at 5642.12. That is 0.1% *above* 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 up a little over 0.1% in order to remain overbought. Anything other than that and it will flip to "oversold" versus recent expectations as of Monday's close.

So the Aggregator is now neutral. While most studies are pointing higher, SPX has quickly moved back to overbought. The unfilled gap up on Friday kept me from getting filled on a potential SPY entry. So I'll wait for the next favorable reward/risk opportunity to arrive before looking to get involved.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/26 – *bullish*

Combo #1	Combo #2	Combo #3	Combo #4
Long SPY	Long SPY	Flat	Long SPY

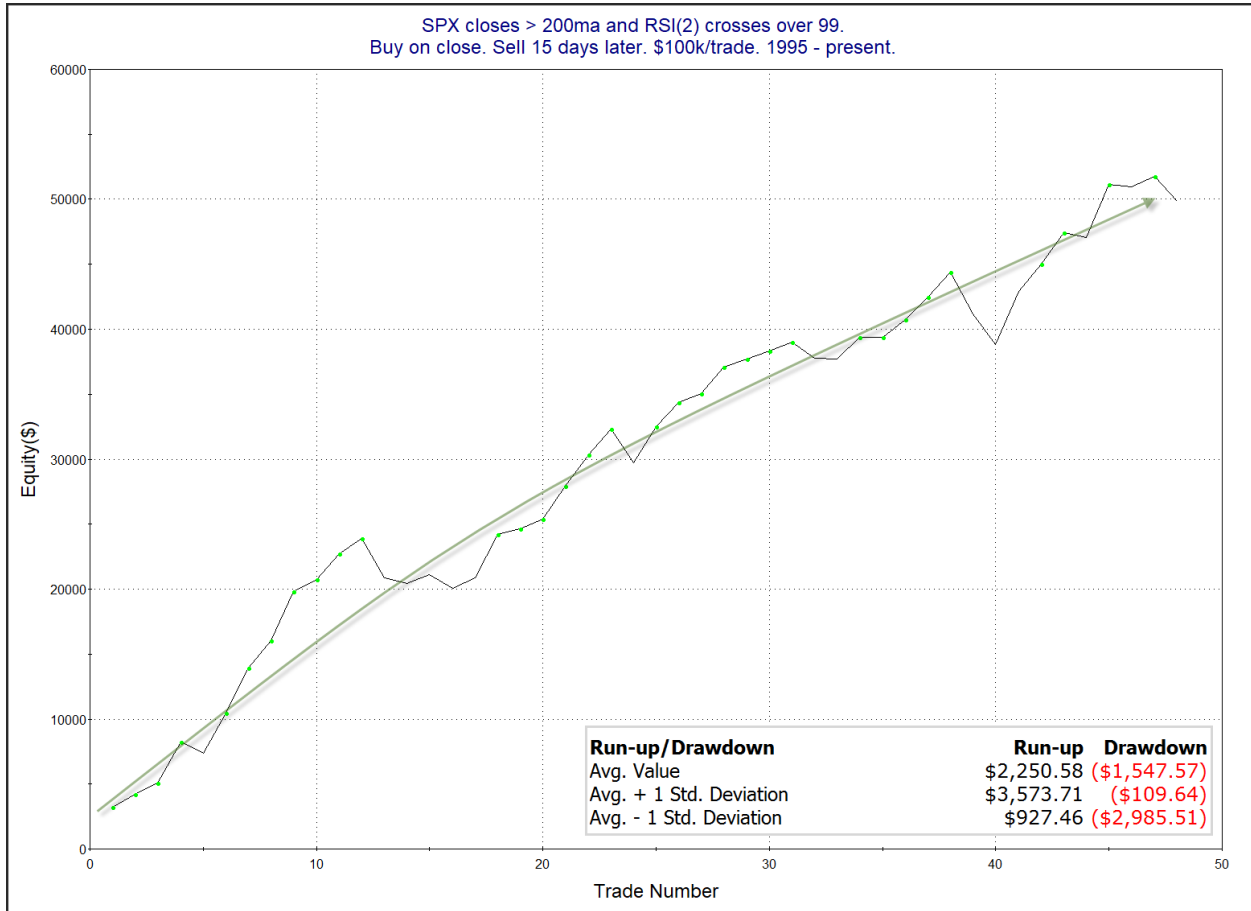
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. *The Combo Systems all stayed the same as last week.*

This past week saw gains across the board. The SPX rose 1.45%, the NASDAQ rallied 1.4%, and the Russell 2000 (RUT) gained 3.6%. Bonds also rose. The US Aggregate Bond ETF (AGG) closed up 0.65%. TLT, the 20-year Treasury Bond ETF, climbed 1.0%. The SPX is now less than 1% below its all-times closing high, posted in July. So the trend certainly appears to be up. There was one new study with intermediate-term implications that triggered this week. It was from Monday night’s letter, and it looked at the strongly overbought RSI(2) reading for SPX. I have copied the study below.

The recent rally has left the market short-term overbought by most measures. Short-term overbought often triggers some studies that suggest a downside edge, but when the overbought condition gets very strongly overbought, then those downside edges often disappear. And at some point, rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we have seen this scenario unfold. In Sunday’s letter I shared one study that utilized this concept. It is also exemplified in the study below from the 7/11/24 Letter, which uses RSI(2).

SPX closes > 200ma and RSI(2) crosses over 99. 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
15	49,843.09	48	36	12	75.00	4,070.44	-3,265.02	1,866.27	-1,445.23	1.29	3.87	1,038.40
14	43,233.17	48	36	12	75.00	4,461.36	-4,024.68	1,747.15	-1,638.68	1.07	3.20	900.69
13	44,669.72	50	37	13	74.00	3,989.82	-3,320.01	1,673.59	-1,327.16	1.26	3.59	893.39
12	40,001.69	51	38	13	74.51	4,058.61	-3,175.53	1,523.92	-1,377.50	1.11	3.23	784.35
11	38,865.55	52	38	14	73.08	4,106.40	-3,989.73	1,597.50	-1,559.95	1.02	2.78	747.41
10	32,508.38	53	39	14	73.58	3,824.48	-3,907.12	1,407.78	-1,599.65	0.88	2.45	613.37
9	30,814.82	53	38	15	71.70	3,453.27	-3,440.07	1,277.58	-1,182.22	1.08	2.74	581.41
8	27,549.08	54	36	18	66.67	3,621.20	-4,112.92	1,330.07	-1,129.63	1.18	2.35	510.17
7	19,450.96	55	35	20	63.64	3,564.39	-4,153.62	1,131.97	-1,008.39	1.12	1.96	353.65
6	8,512.94	55	33	22	60.00	2,760.12	-5,296.92	1,042.42	-1,176.69	0.89	1.33	154.78
5	13,246.70	55	35	20	63.64	2,859.08	-3,596.40	932.95	-970.32	0.96	1.68	240.85
4	11,862.30	55	37	18	67.27	2,697.92	-3,039.18	847.82	-1,083.72	0.78	1.61	215.68
3	4,131.06	57	34	23	59.65	3,504.64	-2,880.45	721.42	-886.84	0.81	1.20	72.47
2	4,431.19	57	33	24	57.89	2,273.92	-2,348.76	642.28	-698.50	0.92	1.26	77.74
1	255.24	57	28	29	49.12	2,096.10	-3,515.37	490.70	-464.98	1.06	1.02	4.48

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while, and despite the last instance, it still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

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

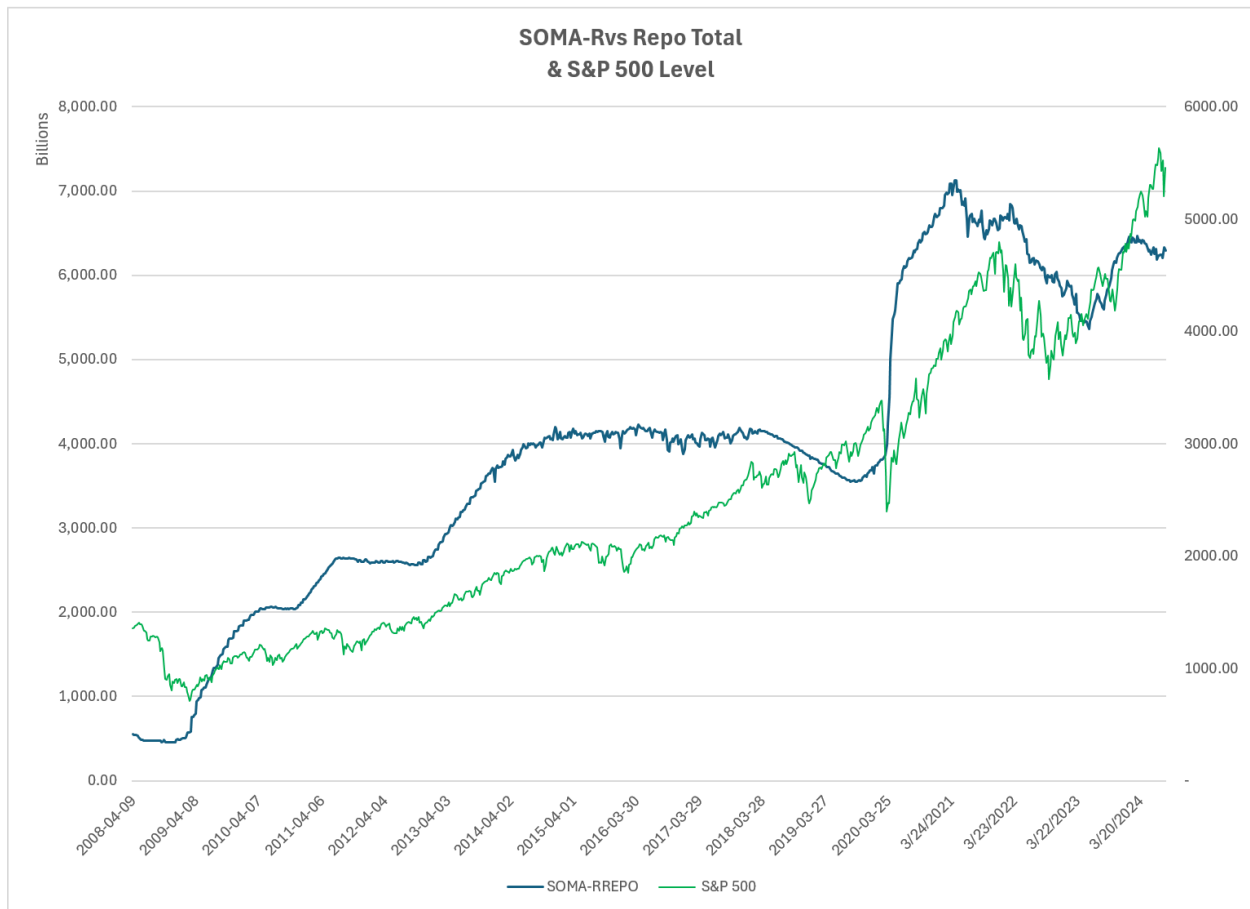
Domestic Security Holdings as of

◀ Previous **August 21, 2024** 📅
Posted August 22, 2024 at 4:30 PM

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

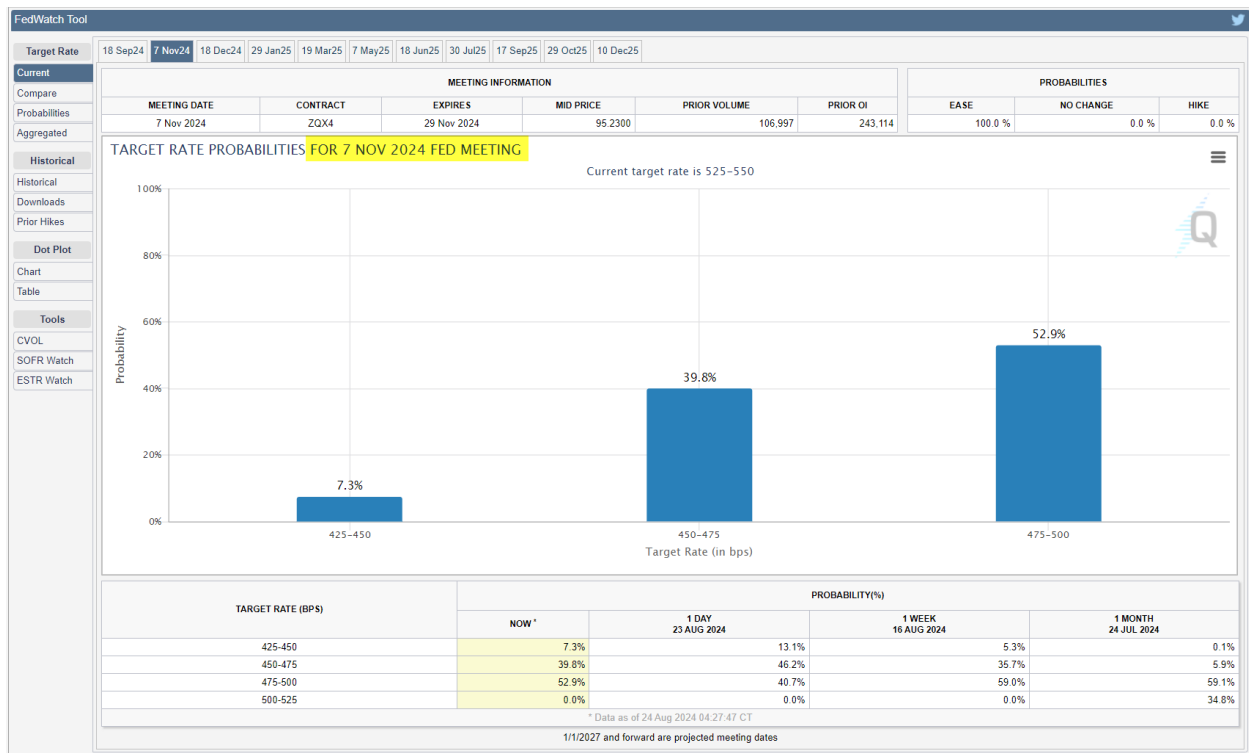
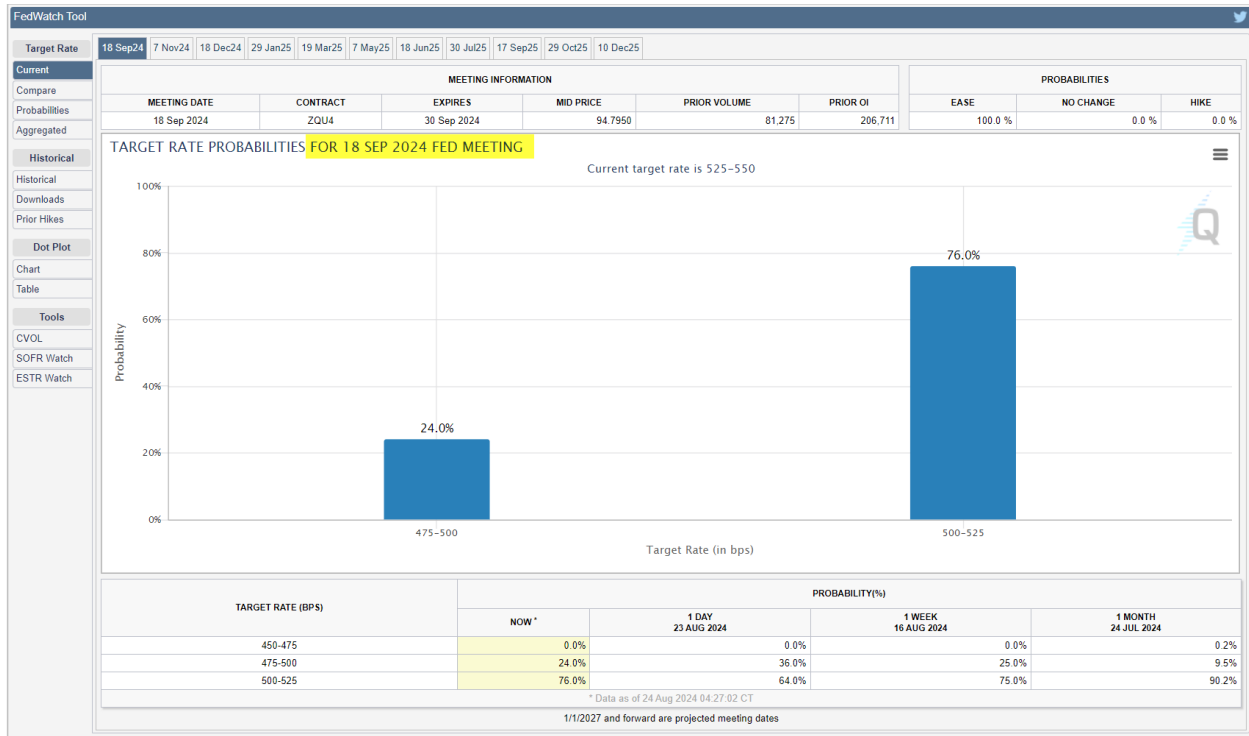
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,292,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,736,593,565.5
US Treasury Floating Rate Notes (FRNs)	5,850,583.8
US Treasury Inflation-Protected Securities (TIPS)*	344,043,784.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,305,952,318.1
Agency Commercial Mortgage-Backed Securities***	8,126,499.5
Total SOMA Holdings	6,598,206,678.3
Change From Prior Week	-19,029,405.2

The SOMA declined \$19 billion this past week. This upcoming week should see a more moderate decline. Meanwhile, reverse repos declined by \$7 billion. Combined for the week, SOMA and reverse repo action accounted for a \$12 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 76/24 between 25 and 50 basis points. Last week the odds were nearly the same.** And November is showing a 47% 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.

At this point QT is still active. And rates have not yet begun to decline. But in Powell's speech at the Jackson Hole meeting on Friday, he stated the following, ""The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks." And also this... "My confidence has grown that inflation is on a sustainable path back to 2%." So the Fed is about to start utilizing both a contractionary policy (QT) and a stimulative policy (lowering rates) at the same time. That is unusual, but not unprecedented.

The last time it happened was in 2019. The Fed cut rates at their July 31st meeting. Meanwhile, QT was still active and the SOMA continued to decline until 9/25/2019. August and September that year were quite choppy. Net over the 7/30/2019 – 9/25/2019 period SPX lost about 0.9%.

The market has had some strong upside momentum over the last couple of weeks, and that has produced 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 is moving away from potentially bearish policy, but is still not an outright bullish force. Interestingly, the weak September seasonality kicks in right after the September Fed meeting. And a few 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

None

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