

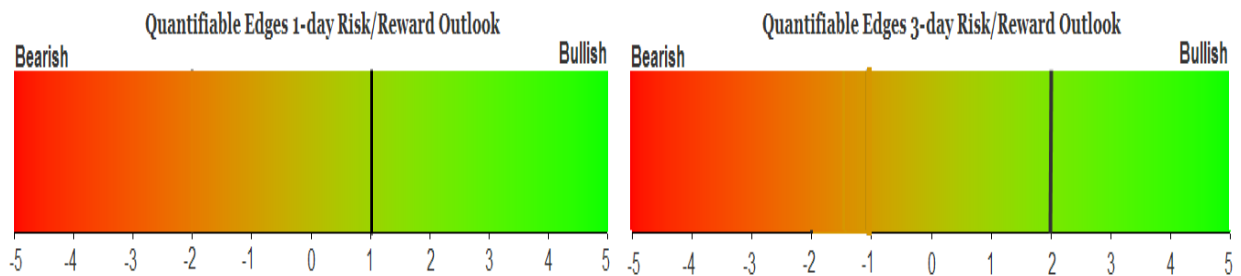
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 3, 2024

Volume 17 Issue 169

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- SPX making a 20-day high on 20-day high volume often means more gains the next day.
- When SPX has risen during the 4-week period leading up to Labor Day, then Labor Day week has struggled.
- Turn of the month does not appear as bullish as usual, since SPX closed strongly.
- The SOMA continues to decline, and this week should see an even larger decline.

Short-term Outlook

The Bottom Line

The Aggregator formation is bullish, but that could easily change on Tuesday. Time to think about flattening out.

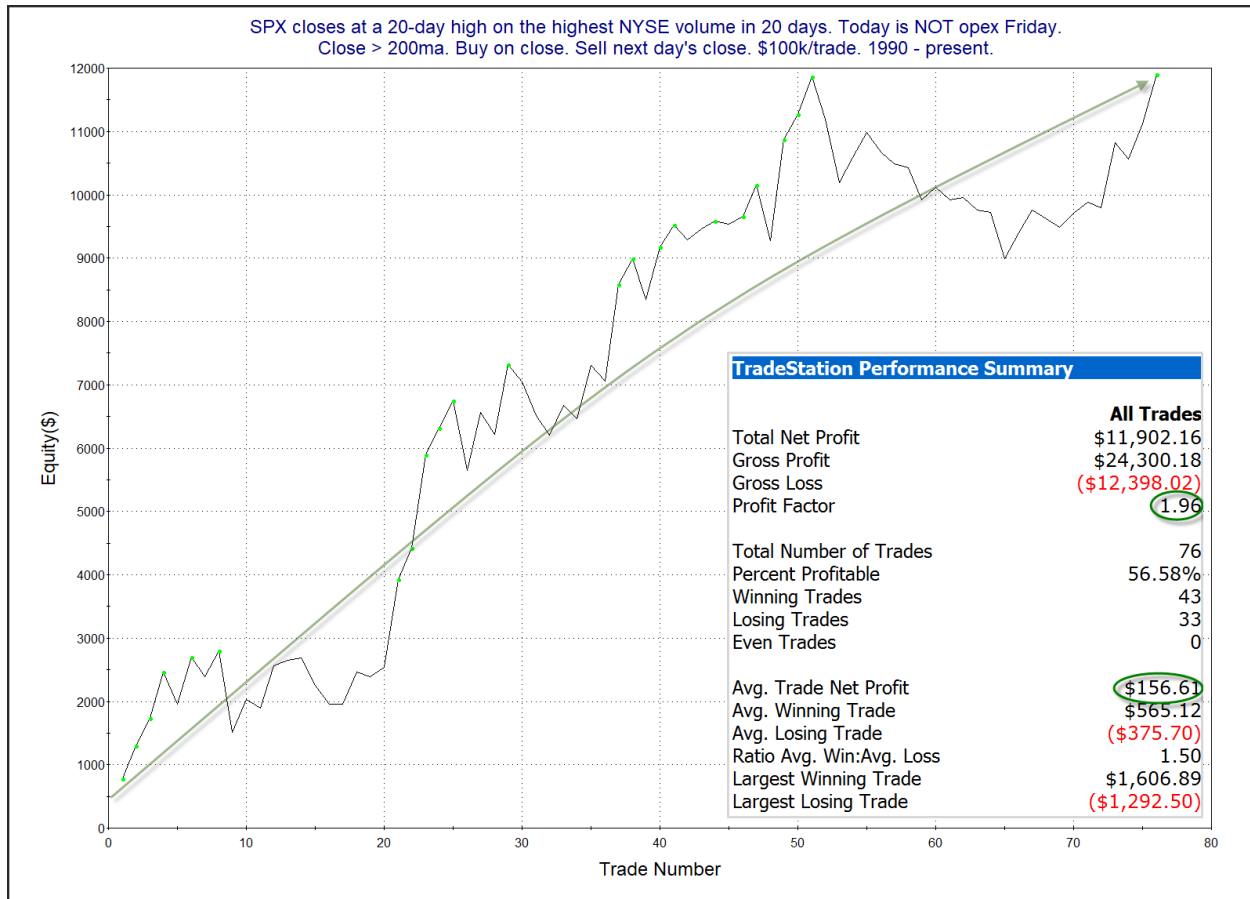
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 3, 2024	20-day high on 20-high volume	1 day	Bullish			
September 3, 2024	20 day leadup to Labor Day is positive	1-4 days	Bearish	-1.60%	0.90%	2.00%
August 30, 2024	SPX down. Up Issue % > 65%.	1-3 days	Bullish	1.30%	-0.75%	-1.60%
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

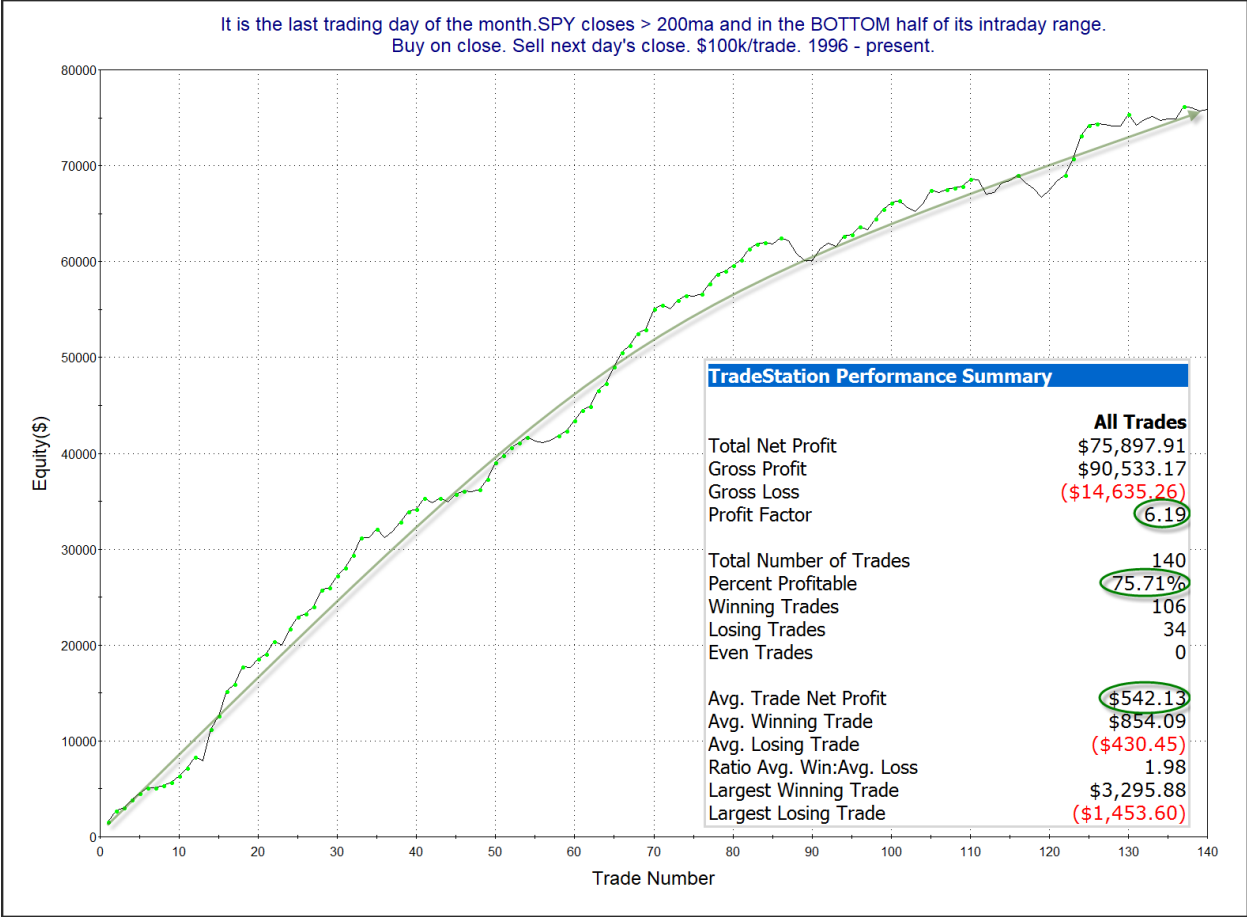
Friday was a strong finish to the month. The SPX gained 1.0%, the NASDAQ rallied 1.1%, and the Russell 2000 rose 0.7%. Breadth was strong as the NYSE Up Issues % was 63% and the Up Volume % came in at 80%. NYSE total volume spiked higher.

This move to a new closing high on strong volume triggered an interesting study from back in the 1/26/21 letter. It looked at other times SPX make a new 20-day high on the highest volume in 20 days. Opex Fridays were excluded from the study since it is common for them to have the highest volume of the last 20 days. Updated results can be found below.



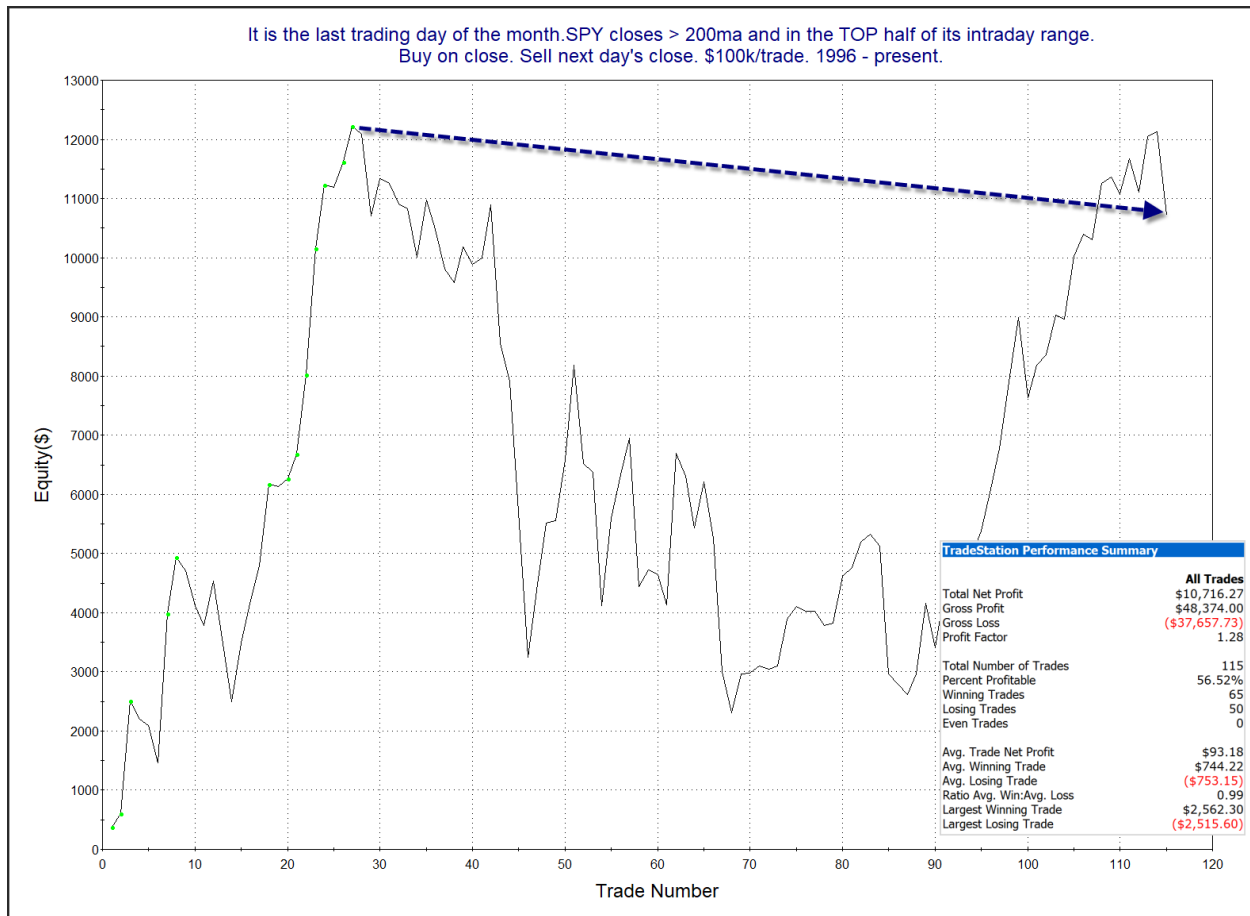
The stats are solid and the profit curve is back at a new high. This study seems worth some consideration.

There were several studies that triggered that noted Friday was the last trading day of the month. The 1st day of a new month is often a bullish day. But over the years we have found the bullish tendency to be more consistent and powerful when SPY closes poorly on the last trade day of the month. The two studies below delineate between times SPY closed in the top half of its intraday range (like Friday), and the bottom half. First, let's look at times SPY closed in the bottom half.



The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 6x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 140 instances. And despite a few recent failures, the curve has shown progress over a long period of time. This setup certainly appears to provide a 1-day bullish edge.

But what about times like now where SPY closed in the top half of its intraday range?



We see here huge inconsistency. And since 2004 there has been a net loss. The 1st day of the month has performed much better with some afternoon selling leading up to the day. So it does not seem that we have much of a “turn of month” bullish influence working for us tomorrow.

In Thursday night’s letter I discussed seasonality during the week following Labor Day. I have copied that research below.

Over the last several years I have demonstrated that the performance during the week of Labor Day has been impacted by the performance in the 4-week period leading up to it. Interestingly, it has been somewhat of a momentum reversal week. When SPX has rallied up to Labor Day, then it has struggled that week. And declines into Labor Day have seen positive performance. Below is an updated look at the two scenarios.

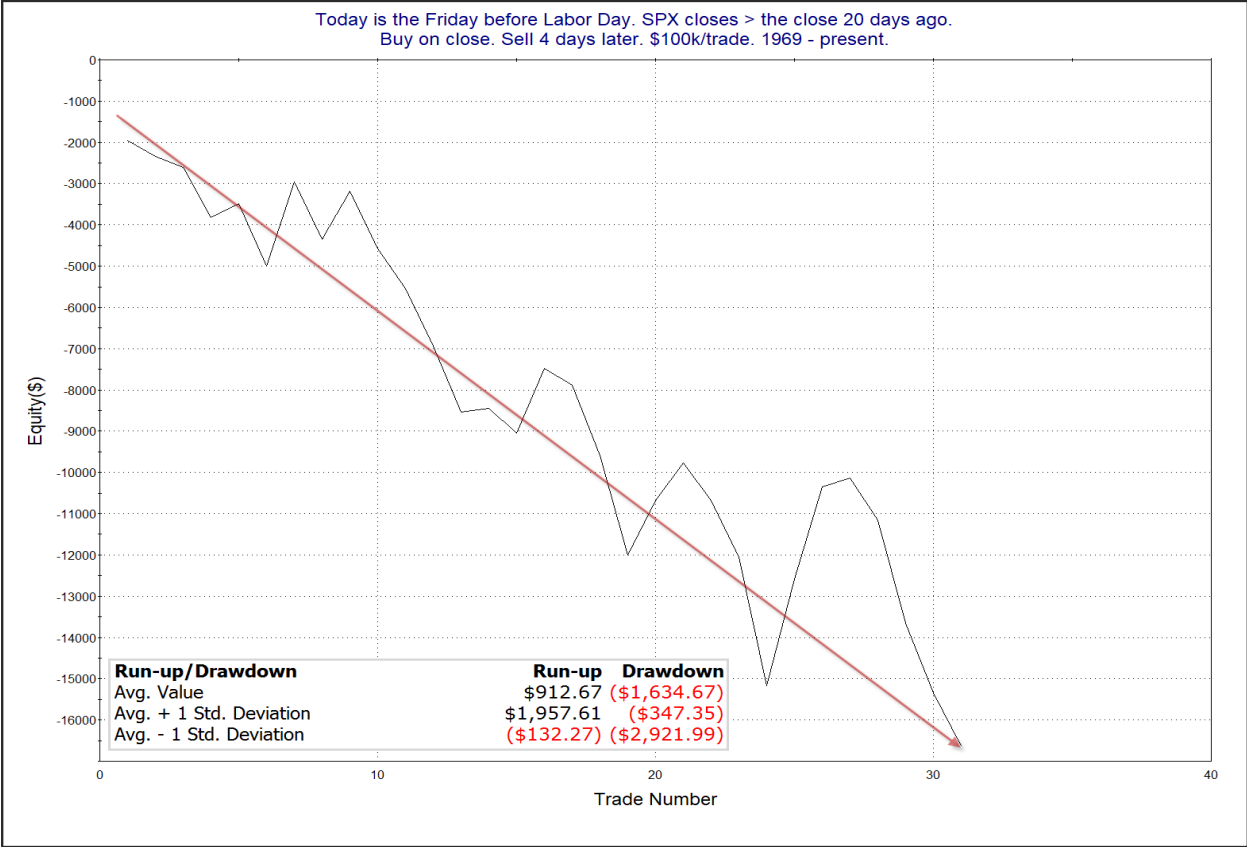
Today is the Friday before Labor Day. SPX closes > the close 20 days ago.
Buy on close. Sell X days later. \$100k/trade. 1969 - present.

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	-16,459.68	31	8	23	25.81	3,228.12	-2,942.07	1,404.70	-1,204.23	1.17	0.41	-530.96
4	-16,624.19	31	10	21	32.26	2,580.34	-3,113.11	1,244.67	-1,384.33	0.90	0.43	-536.26
3	-13,642.14	31	12	19	38.71	2,718.52	-4,024.28	1,130.03	-1,431.71	0.79	0.50	-440.07
2	-9,785.67	31	8	22	25.81	3,055.58	-2,668.88	1,366.76	-941.81	1.45	0.53	-315.67
1	-7,812.55	31	13	18	41.94	1,751.34	-4,147.45	737.09	-966.37	0.76	0.55	-252.02

Today is the Friday before Labor Day. SPX closes < the close 20 days ago.
Buy on close. Sell X days later. \$100k/trade. 1969 - 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	21,333.66	24	15	9	62.50	5,691.60	-3,611.52	2,248.18	-1,376.57	1.63	2.72	888.90
4	14,157.81	24	16	8	66.67	3,585.30	-4,206.40	1,673.21	-1,576.70	1.06	2.12	589.91
3	9,595.52	24	15	9	62.50	3,485.40	-2,391.84	1,131.01	-818.85	1.38	2.30	399.81
2	8,646.52	24	15	9	62.50	3,294.60	-4,795.56	1,242.71	-1,110.46	1.12	1.87	360.27
1	3,566.12	24	12	12	50.00	5,054.10	-2,259.18	1,245.95	-948.77	1.31	1.31	148.59

The 4-day numbers are basically inverted. So the Tues-Fri after Labor Day have not seen any consistency without the delineator. But the trend filter reveals a striking difference. The 1st scenario is the one we currently find ourselves in. Below is a look at the profit curve for a 4-day holding period.



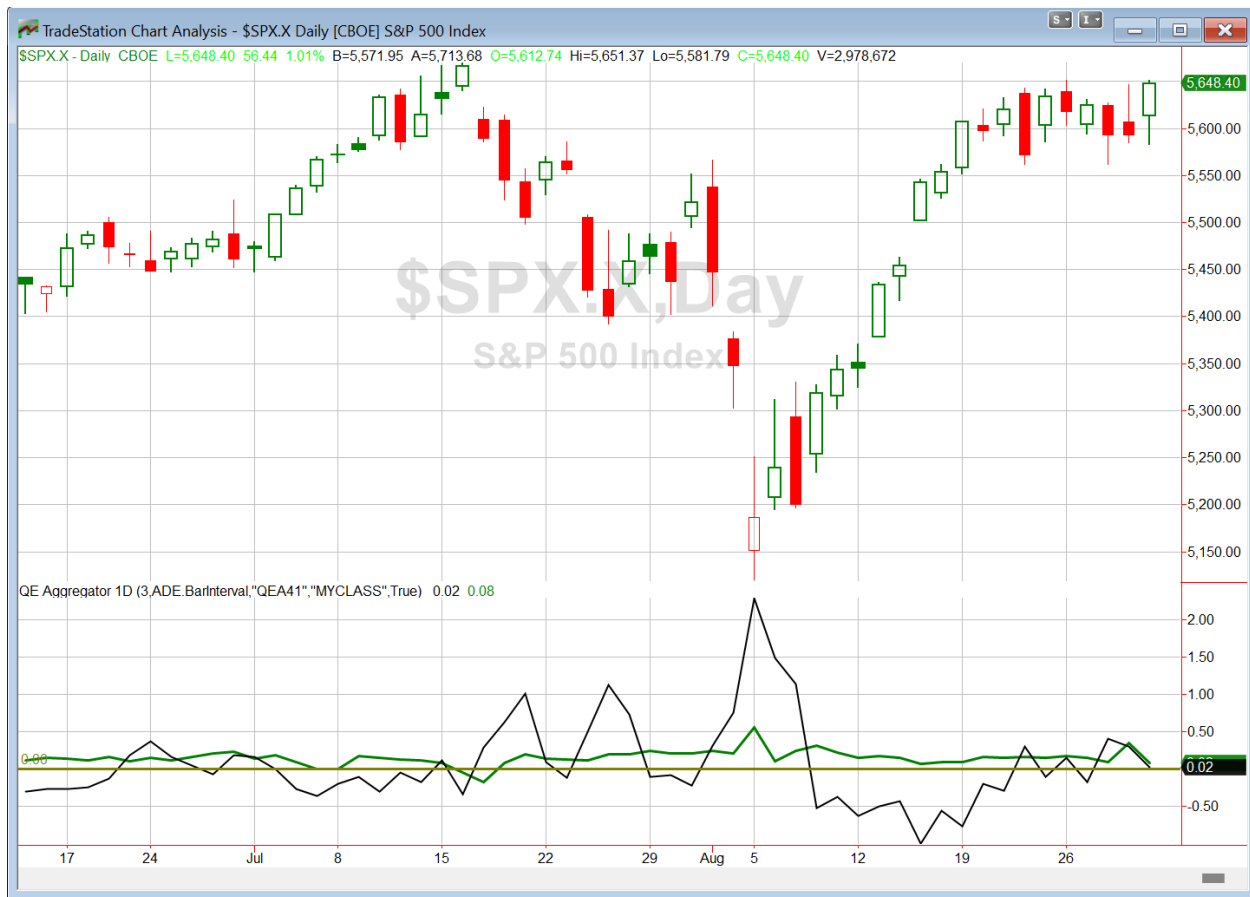
Results here are quite choppy, but the curve has managed to head from upper left to lower right without ever going too long between new lows. This seems worthy of some consideration...

As the calendar has turned to September, let's also look at the QE Seasonality Calendar for September.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
9/3/2024	54.71	1.367	0.066
9/4/2024	53.07	1.215	0.061
9/5/2024	50.50	1.009	0.002
9/6/2024	54.97	1.173	0.056
9/9/2024	51.33	0.924	-0.034
9/10/2024	51.60	1.091	0.024
9/11/2024	51.88	0.940	-0.020
9/12/2024	53.88	0.975	-0.010
9/13/2024	53.01	1.136	0.038
9/16/2024	57.15	1.050	0.013
9/17/2024	53.49	1.292	0.067
9/18/2024	50.33	0.959	-0.016
9/19/2024	52.44	0.950	-0.019
9/20/2024	48.98	0.849	-0.056
9/23/2024	48.61	0.895	-0.055
9/24/2024	47.51	0.864	-0.064
9/25/2024	48.03	0.924	-0.044
9/26/2024	50.25	1.040	-0.011
9/27/2024	48.98	0.840	-0.070
9/30/2024	53.37	1.038	0.008
Baseline	53.61	1.139	0.048

So the 1st week of the month looks like the best week of the month from a seasonality standpoint. Unfortunately, the study I just showed above suggests the odds are not nearly as good as shown here, since the last 20 days have seen the market rally. Other upcoming notable include the Fed Day on the 18th, and the weakness during the week of the 23rd – 27th, which is historically the “weakest week” of the year. (I’ll write more about that in the coming weeks as we approach it.)

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 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 Tuesday. But that could easily change if additional bearish evidence emerges, or if the SPX rallies strongly enough on Monday for our bullish study from Thursday night to reach its expectations. (That would only require about a 0.3% gain). Meanwhile, the Differential Pivot will be *inverted at* 5613.98. That is 0.6% *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 at least 0.6% in order to remain oversold. Anything other than that and it will be considered "overbought" versus recent expectations as of Tuesday's close.

So the Aggregator is bullish. But evidence is mixed, leaving expectations uncertain. And the inverted Differential Pivot means that the bullish Aggregator formation would not last beyond

Tuesday unless the market sold off a good bit. This limits reward potential. So while Tuesday looks pretty good, we could see a bullish, bearish, or neutral Aggregator formation on Tuesday night. This is the kind of setup where I look to take profits, rather than take on additional exposure. So my focus on Monday will be looking to exit my current small SPY position if I can get a favorable fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/3 – *bullish*

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

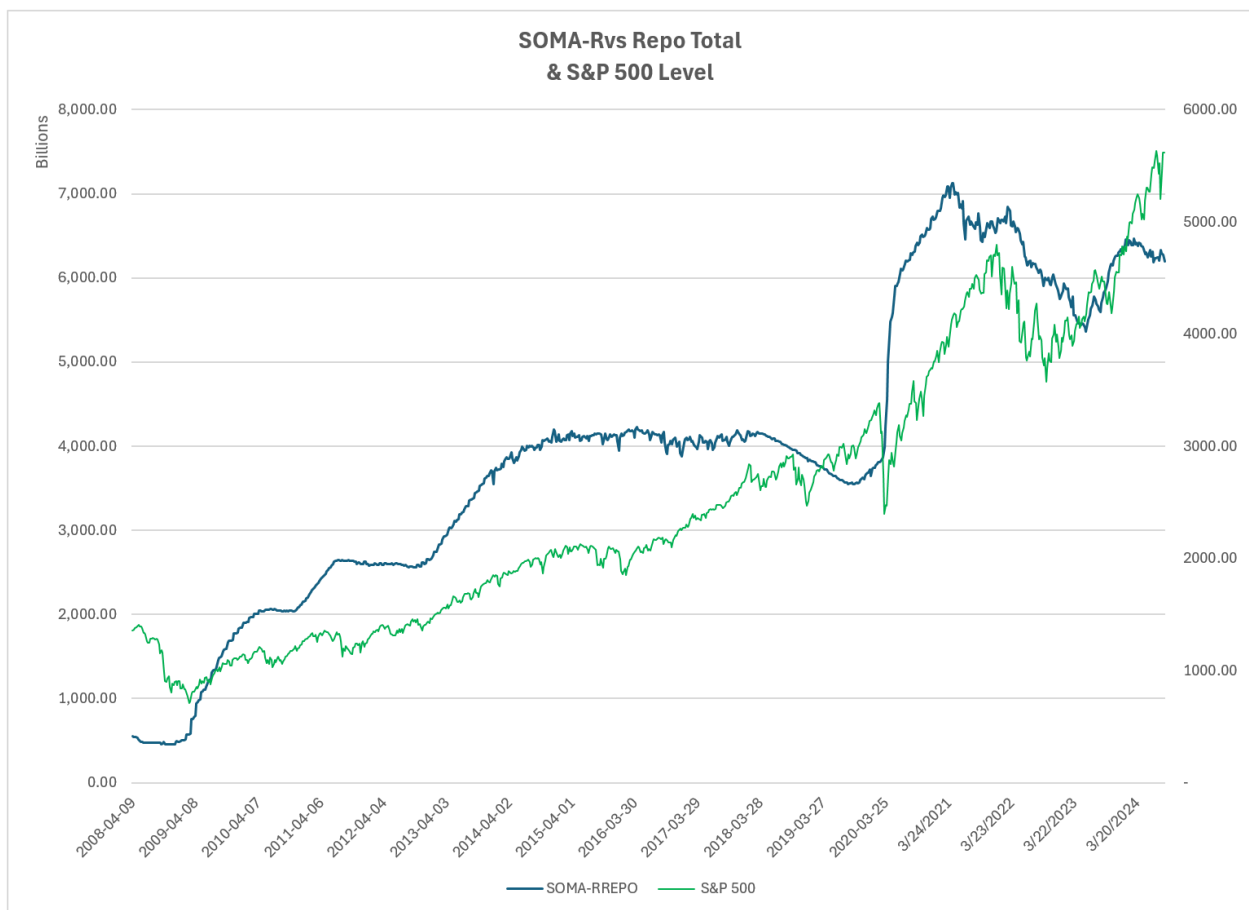
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

This past week saw mixed results for the indices. The SPX rose 0.2%, the NASDAQ declined 0.9%, and the Russell 2000 (RUT) lost 0.05%. Bonds struggled. The US Aggregate Bond ETF (AGG) closed down 0.5%. TLT, the 20-year Treasury Bond ETF, dropped 1.9%. The SPX is now less than 0.5% below its all-times closing high, posted in July. So the trend certainly appears to be up. There were not any new studies with intermediate-term implications that triggered this week.

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 28, 2024 📅
Posted August 29, 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)	3,736,543,565.5
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***	2,291,676,263.9
Agency Commercial Mortgage-Backed Securities***	8,121,400.2
Total SOMA Holdings	6,583,875,524.8
Change From Prior Week	-14,331,153.5

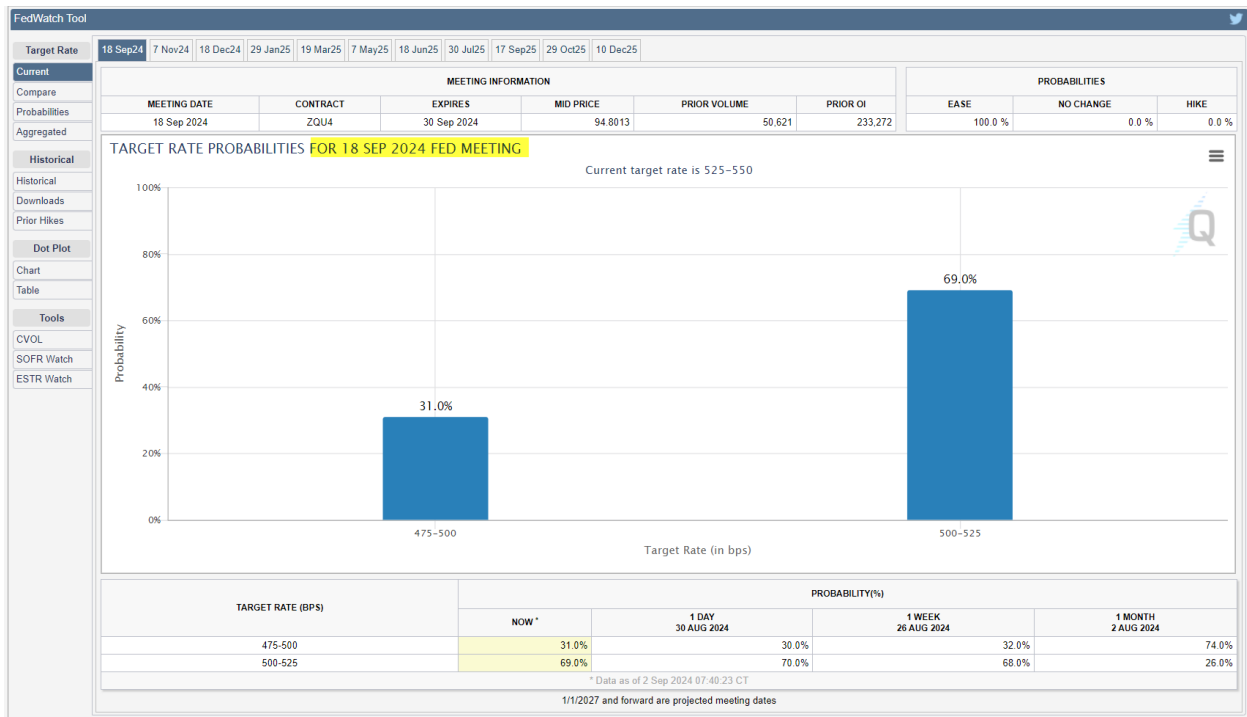
The SOMA declined \$14 billion this past week. This upcoming week should see a more substantial decline. Meanwhile, reverse repos rose by \$67.5 billion. Combined for the week, SOMA and reverse repo action accounted for a \$82 billion liquidity drain. I discussed reverse repos impact on liquidity [in 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.

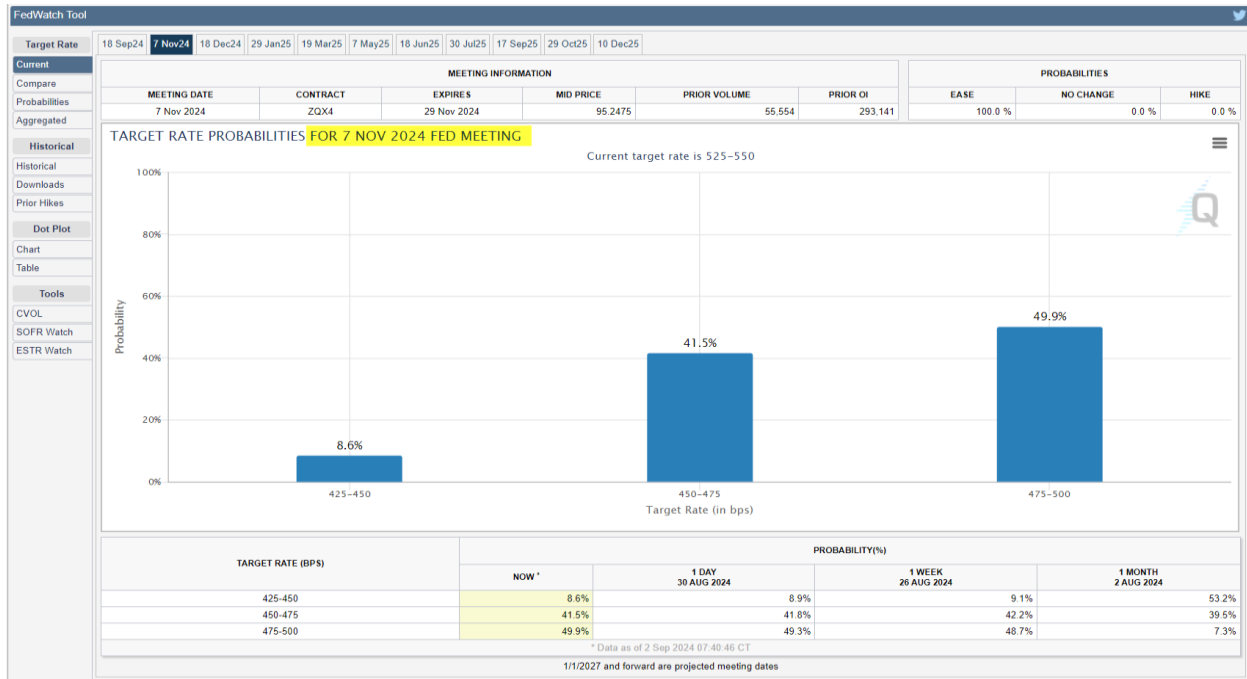


Quantitative Tightening (QT) can still be a headwind to the market, but it is now at a lower level than we saw over the last couple of years. Reverse repo closeouts more than offset the QT from April 2023 through early March of 2024, and this helped provide fuel for the market rally. But they are starting 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. We will be on the lookout for changes in QT policy at upcoming Fed meetings.

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 69/31 between 25 and 50 basis points. Last week the odds were nearly the same.** And November is showing a 50% 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. The Fed seems as if it 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, the SPX lost about 0.9%.

Strong upside momentum from August 6th through about the 21st triggered several studies suggesting more upside follow through was likely. These studies have a couple of more weeks to go before their influence runs out. With SPX so close to a new all-time high, the trend appears favorable for the bulls. There are also a few other studies on the active list suggesting further upside. The Fed is moving away from potentially bearish policy, but is still not an outright bullish force. We are moving into a difficult seasonal period over the next couple of months. And election years tend to see more exaggerated moves. 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. And as we see some bullish studies expire in the next couple of weeks, that could also shift the weight of the evidence. For now, I remain 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
SPY(1/4)	8/30/2024	\$557.50	\$563.68	1.11%	<i>sell @\$564.50 LIMIT</i>

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