

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 23, 2024

Volume 17 Issue 183

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The “weakest week” is upon us.
- There is often a VIX spike at some point between September 15 and October 21.
- The QE Seasonality Calendar for Sep is showing bearish numbers this upcoming week.
- QT persists but the Fed has begun lowering rates, which is a more market-neutral influence.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I am as well.

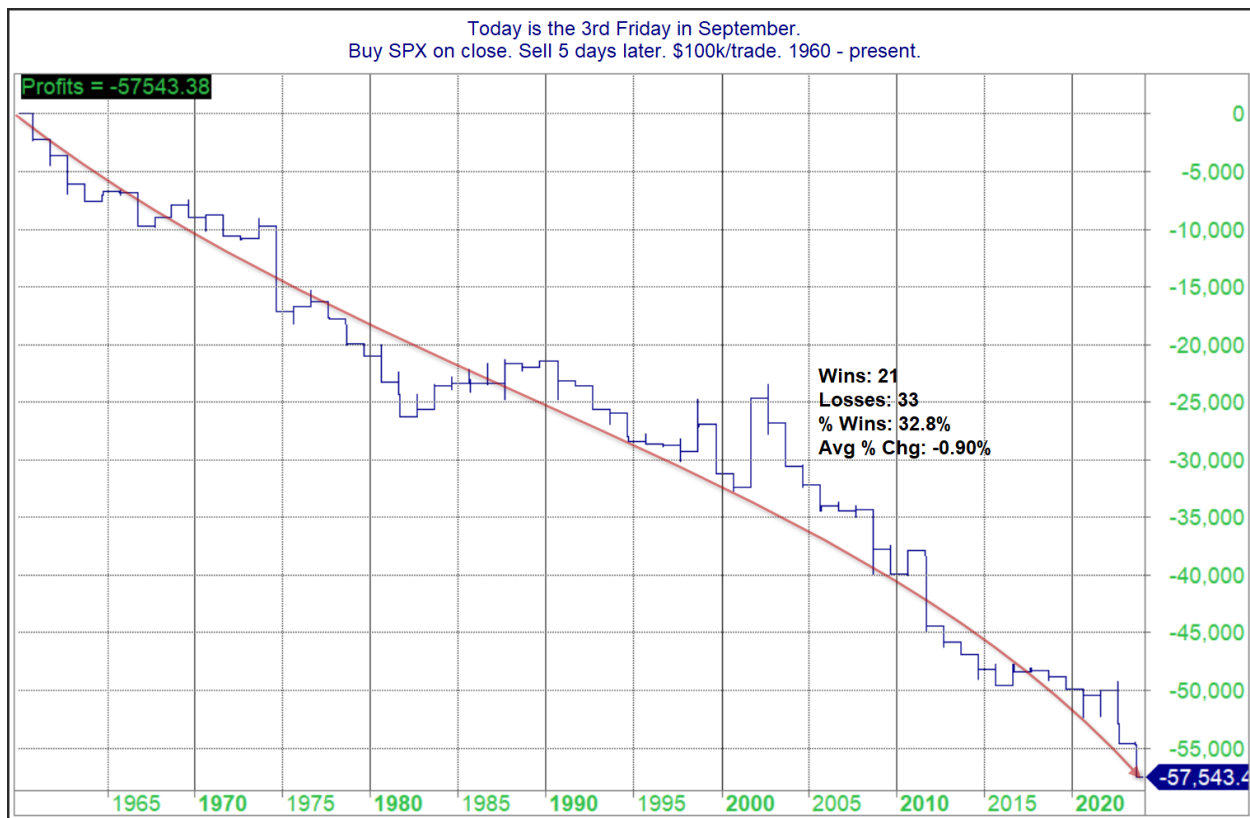
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 23, 2024	Weakest Week	1-4 days	Bearish	-2.20%	0.70%	2.00%
September 20, 2024	Breakaway gap	1-5 days	Bullish	1.40%	-0.90%	-1.90%
September 20, 2024	20-high, unfilled gap. Close < open	1-3 days	Bullish	0.90%	-0.60%	-1.10%
September 18, 2024	SPX & VXX 5-day high	1-4 days	Bearish			
September 16, 2024	SPX up 5 < 50-high. 5-day ROR > 3%	1-10 days	Bullish	2.50%	-1.40%	-2.70%
Active - Long Term						
September 23, 2024	Fed neutral. QT active. Rates dropping.	int term	Neutral			
September 19, 2024	20-day intraday high. Close btm 10% intra	1-10 days	Bullish	2.20%	-1.30%	-2.50%
September 18, 2024	SPX up 7 days in a row	1-20 days	Bullish	3.00%	-2.10%	-4.40%
September 16, 2024	SPX up 5 < 50-high. 5-day ROR > 3%	1-15 days	Bullish	3.35%	-1.60%	-2.90%
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			

The Evidence

Friday saw most indices pull back a bit. The SPX finished down 0.2%, the NASDAQ lost 0.4%, and the Russell 2000 declined 1.1%. Breadth was weak as the NYSE Up Issues % was 35% and the Up Volume % came in at 41%. NYSE total volume spiked very high as you would expect on quarterly options expiration day.

The 3rd Friday of the month is when monthly options expire. And as I have often discussed, there are seasonal tendencies that occur around this. The week of options expiration is often bullish for the market and the week following often sees some of those gains given back. (Note that opex week has NOT been as bullish since the 2020 COVID crash.) What is interesting about the week after the 3rd Friday in September is that the bearish bias has been in place since well before options expiration was even an event. (S&P Index options began trading in 1984.) The bearish tendency can be seen in the chart below, which looks back to 1960. (Data from Norgate Data. Chart produced in Amibroker.)



You'll note the average return this particular week has been -0.9% since 1960. Years ago I dubbed this the "weakest week". The downward persistency of the curve shows that the bearish tendency has been quite consistent over the last 63 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying at the close of the 3rd Friday in September and then selling X days later from 1990 – 2023. (Date source: Tradestation)

Today is opex Friday in September.
Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 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	-35,717.10	34	7	27	20.59	7,739.42	-6,525.56	1,999.70	-1,841.30	1.09	0.28	-1,050.50
4	-35,657.60	34	7	27	20.59	5,439.43	-7,088.90	1,609.06	-1,737.81	0.93	0.24	-1,048.75
3	-26,802.48	34	7	27	20.59	4,508.00	-5,455.74	1,702.58	-1,434.09	1.19	0.31	-788.31
2	-20,146.65	34	9	25	26.47	4,786.41	-5,283.52	880.33	-1,122.79	0.78	0.28	-592.55
1	-11,722.11	34	10	24	29.41	3,877.95	-3,791.21	771.09	-809.71	0.95	0.40	-344.77

2001 and 2017 were the only years that SPX failed to close below the entry price at any point in the next week.

The bearish tendency appears quite strong. Three, four, and five days later the SPX has been lower over 79% of the time. I note beneath the table that the only instances **not** to post a lower close at some point during the following week were in 2001 and 2017. The 9/11 attacks certainly made for unusual circumstances in 2001, and 2017 did not see a decline, but SPX only rose 2 points, so it was not much of a victory for the bulls.

With a weak seasonal period upon us, I also decided to see how the VIX has behaved between late September and early October. I ran a study that looked to see what the highest closing price of the VIX was each year between September 15th (earliest possible opex Fri) and October 21st (latest possible day for opex in October). Year-by-year results can be seen below along with some summary stats.

Highest VIX closing price between 9/15 and 10/21 each year.	
Year	VIX High 9/15 - 10/21
1992	21.02
1993	17.3
1994	16.66
1995	15.74
1996	17.05
1997	25.74
1998	45.74
1999	28.75
2000	30.51
2001	43.74
2002	42.64
2003	22.72
2004	16.43
2005	16.47
2006	12.59
2007	26.48
2008	70.33
2009	28.68
2010	23.87
2011	45.45
2012	17.06
2013	20.34
2014	26.25
2015	27.63
2016	16.69
2017	10.33
2018	24.98
2019	20.56
2020	29.48
2021	25.71
2022	33.63
2023	21.71
Avg	26.32
Median	24.43
Low	10.33
High	70.33
Election Yr Median	19.04
2024 Current High	18.23
2024 %Rank	31.20%
2024 % Rnk Election	47.70%
% Years > 30	21.88%

As you can see, the VIX has typically posted fairly high numbers this time of year, with the median reading being 24.43. The highest close we saw the last few days was 18.23. About 69% of the time, the high has been above the current 18.23 number. Interestingly, election years have seen

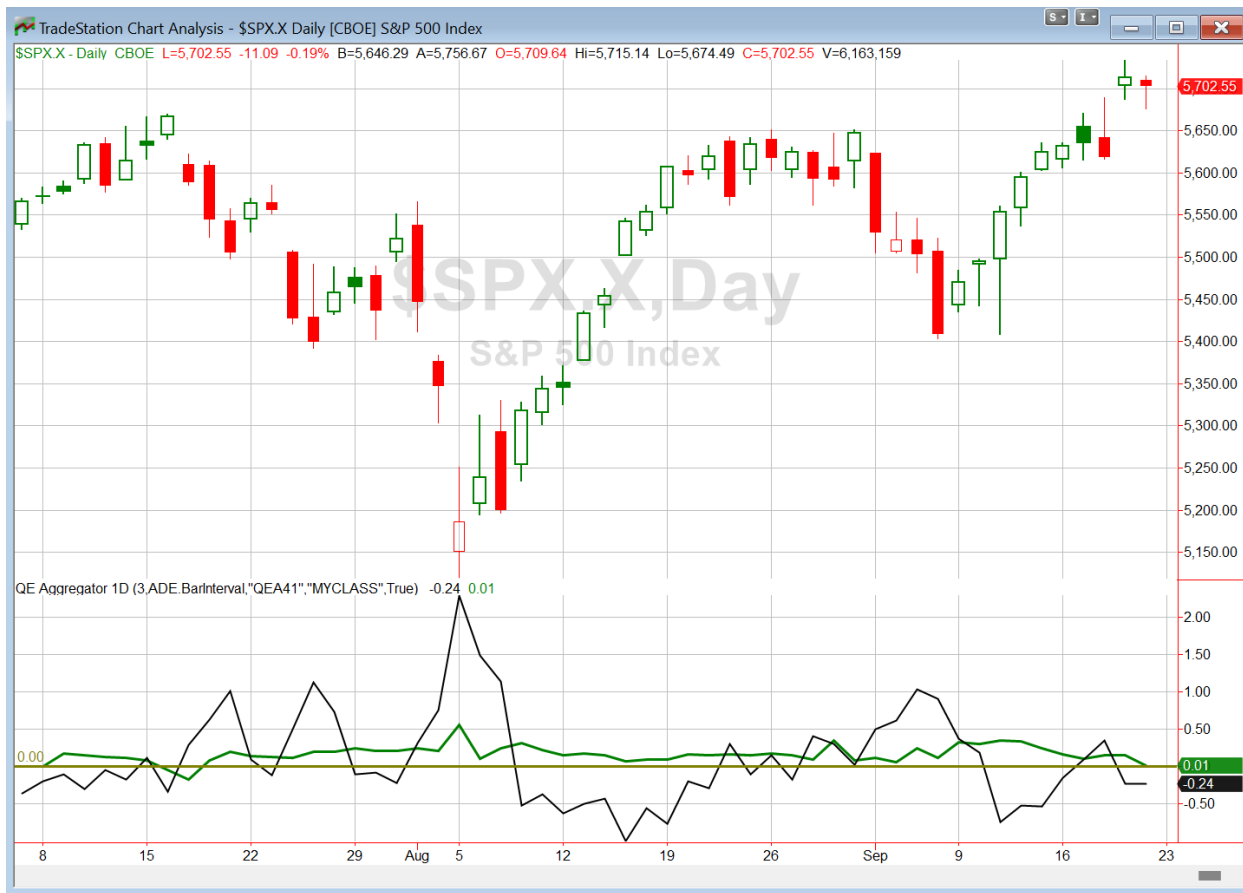
lower VIX highs than other years. I found this somewhat surprising. So we have some weak seasonality coming up. And that could lead to a VIX spike if a market selloff ensues. It seems more likely than not, but there have also been plenty of years where the VIX topped out around where it was a few days ago.

Below is a look at the QE Seasonality Calendar for SPX.

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

Mostly bearish numbers for the upcoming week. And even the “bullish” odds on Friday are below the baseline averages.

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



Even with the bearish seasonal evidence, the green Aggregator Line remained slightly 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 and 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. That could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5639.76 on Monday. That is 1.1% below Friday's close. Therefore, SPX will need to close down at least 1.1% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Evidence is split. There are still a few bullish studies active, but we are heading into the weakest week of the year and the market is overbought. No time to bet bullish, but still not quite enough evidence to bet bearish. I am sidelined for at least another day. Evidence could swing either direction over the next few days, and I will be ready if a compelling opportunity arises.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/23 – *bullish*

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

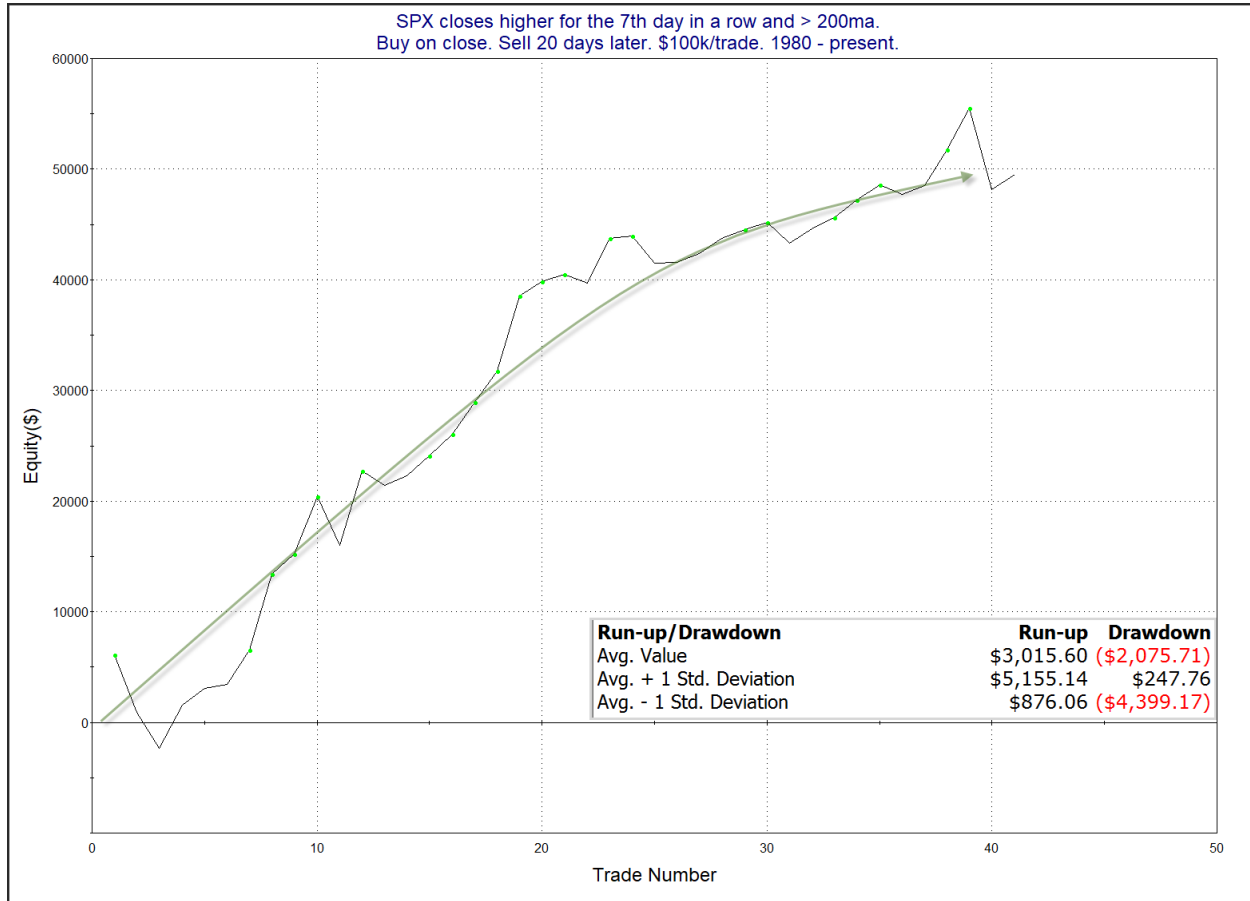
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

This past week saw more gains and some new all-time highs. The SPX rallied 1.4%, the NASDAQ shot up 1.5%, and the Russell 2000 (RUT) jumped 2.1%. Bonds struggled though. The US Aggregate Bond ETF (AGG) closed down 0.3%. TLT, the 20-year Treasury Bond ETF, dropped 1.5%. The allowed SPX to make a new all-time high on Thursday, confirming the fact that the long-term uptrend remains in place. There were a couple of studies with intermediate-term implications that emerged over the last few days. I have copied them below. This 1st one is from Tuesday night’s letter.

Tuesday also marked the 7th day in a row in which SPX closed higher. Looking back to 1980, there have been 44 previous streaks of 7-day rallies where SPX closed above the 200ma. The study below was last seen in the 7/11/24 letter. I have updated the stats table.

SPX closes higher for 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	49,545.94	41	32	9	78.05	6,854.40	-7,384.97	2,408.97	-3,060.11	0.79	2.80	1,208.44
19	50,560.96	41	31	10	75.61	7,580.16	-6,695.96	2,638.44	-3,123.06	0.84	2.62	1,233.19
18	45,702.65	41	29	12	70.73	8,006.40	-7,608.86	2,535.93	-2,319.93	1.09	2.64	1,114.70
17	46,165.46	42	30	12	71.43	7,422.72	-7,532.75	2,504.28	-2,413.57	1.04	2.59	1,099.18
16	40,460.50	42	27	15	64.29	6,021.12	-6,880.25	2,538.61	-1,872.13	1.36	2.44	963.35
15	39,671.85	42	29	13	69.05	6,197.76	-5,270.75	2,291.90	-2,061.02	1.11	2.48	944.57
14	28,554.89	43	32	11	74.42	5,439.96	-5,279.12	1,981.28	-3,167.82	0.63	1.82	664.07
13	28,683.91	43	28	15	65.12	5,349.12	-4,228.00	1,938.29	-1,705.88	1.14	2.12	667.07
12	33,342.26	43	29	14	67.44	5,794.56	-4,104.27	1,907.46	-1,569.58	1.22	2.52	775.40
11	28,094.44	44	26	18	59.09	5,750.00	-3,989.73	2,082.25	-1,446.90	1.44	2.08	638.51
10	23,222.61	44	27	17	61.36	5,076.56	-4,247.60	1,877.56	-1,615.97	1.16	1.85	527.79
9	27,234.81	44	31	13	70.45	4,669.08	-4,677.12	1,557.72	-1,619.57	0.96	2.29	618.97
8	20,551.90	44	29	15	65.91	5,222.40	-4,726.96	1,451.15	-1,435.42	1.01	1.95	467.09
7	16,227.26	44	32	12	72.73	3,635.40	-6,521.20	1,254.74	-1,993.71	0.63	1.68	368.80
6	14,577.36	44	29	15	65.91	3,501.08	-4,932.76	1,165.34	-1,281.18	0.91	1.76	331.30
5	20,702.51	44	33	11	75.00	3,582.84	-2,665.71	1,001.23	-1,121.64	0.89	2.68	470.51
4	13,106.35	44	30	14	68.18	3,720.08	-3,022.92	819.31	-819.49	1.00	2.14	297.87
3	14,420.36	44	28	16	63.64	2,917.08	-2,626.02	915.77	-701.32	1.31	2.29	327.74
2	3,281.16	44	22	22	50.00	1,998.39	-1,508.17	584.44	-435.29	1.34	1.34	74.57
1	-1,740.15	44	21	23	47.73	1,606.89	-840.84	363.91	-407.92	0.89	0.81	-39.55

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.



More confirmation that suggests the strong momentum is a positive sign for the intermediate-term.

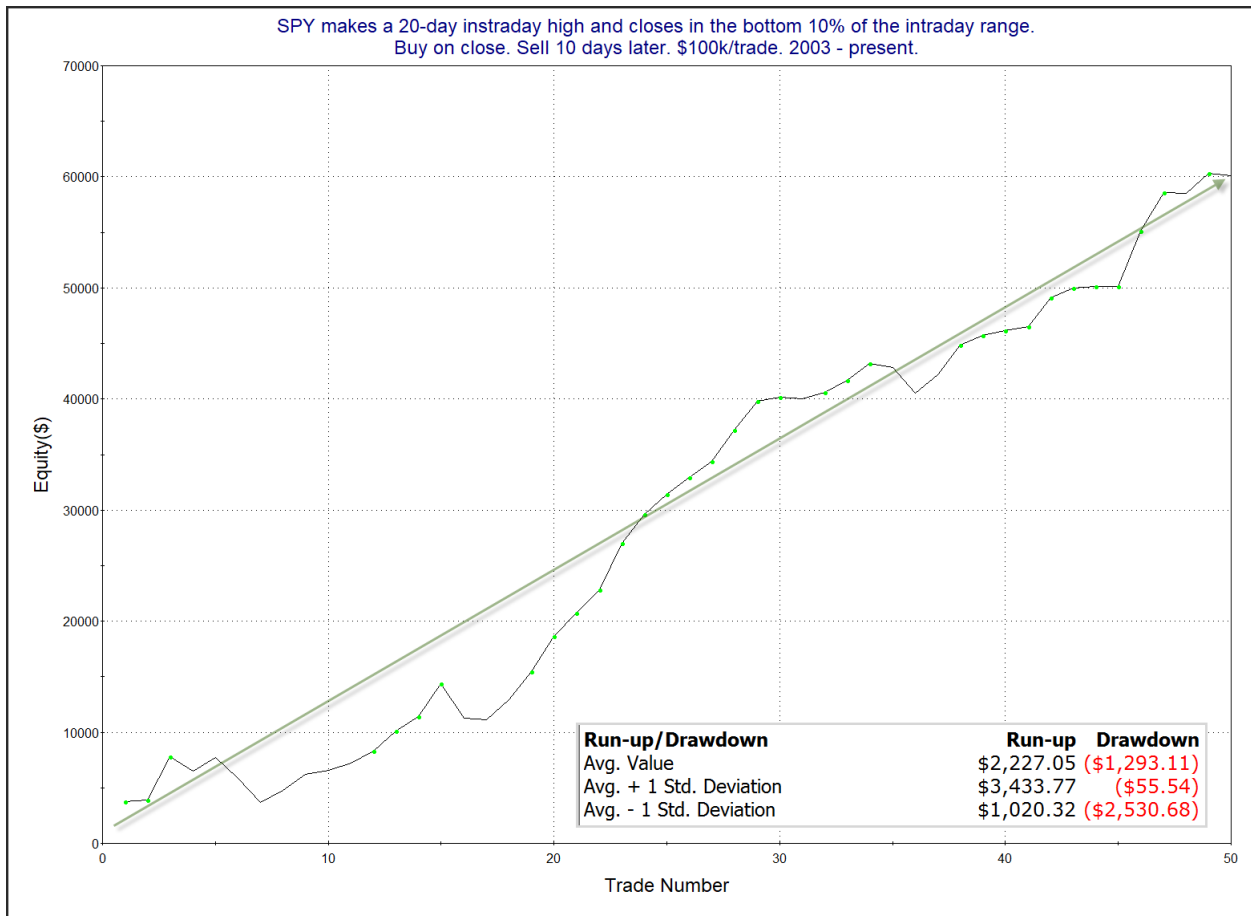
The next study appeared on Wednesday night.

Early in the day the SPY managed to make a new intermediate-term intraday high. The new high followed by a poor and close triggered the study below, which was last seen in the 5/17/24 subscriber letter. Instead of running it with SPX as I had in the past, I ran it with SPY today. Results are updated.

SPY makes a 20-day intraday high and closes in the bottom 10% of the intraday range.
Buy on close. Sell X days later. \$100k/trade. 2003 - 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	60,094.17	50	40	10	80.00	4,935.80	-3,055.13	1,796.80	-1,177.77	1.53	6.10	1,201.88
9	46,389.08	50	38	12	76.00	4,871.40	-3,304.34	1,723.26	-1,591.23	1.08	3.43	927.78
8	46,709.74	51	41	10	80.39	4,538.40	-3,744.90	1,635.33	-2,033.89	0.80	3.30	915.88
7	40,174.93	51	40	11	78.43	4,696.60	-4,310.41	1,518.64	-1,870.07	0.81	2.95	787.74
6	35,029.60	51	38	13	74.51	3,898.50	-3,635.91	1,401.60	-1,402.39	1.00	2.92	686.85
5	18,421.85	51	32	19	62.75	3,769.70	-3,525.86	1,233.26	-1,107.50	1.11	1.88	361.21
4	16,102.69	52	34	18	65.38	3,643.20	-2,244.40	1,066.95	-1,120.75	0.95	1.80	309.67
3	17,458.78	52	34	18	65.38	3,424.70	-2,365.22	955.98	-835.80	1.14	2.16	335.75
2	19,261.71	53	31	22	58.49	3,112.40	-1,687.08	955.83	-471.32	2.03	2.86	363.43
1	15,174.03	53	35	18	66.04	2,610.52	-1,104.16	599.82	-323.31	1.86	3.61	286.30

Results here seem to suggest an upside edge...

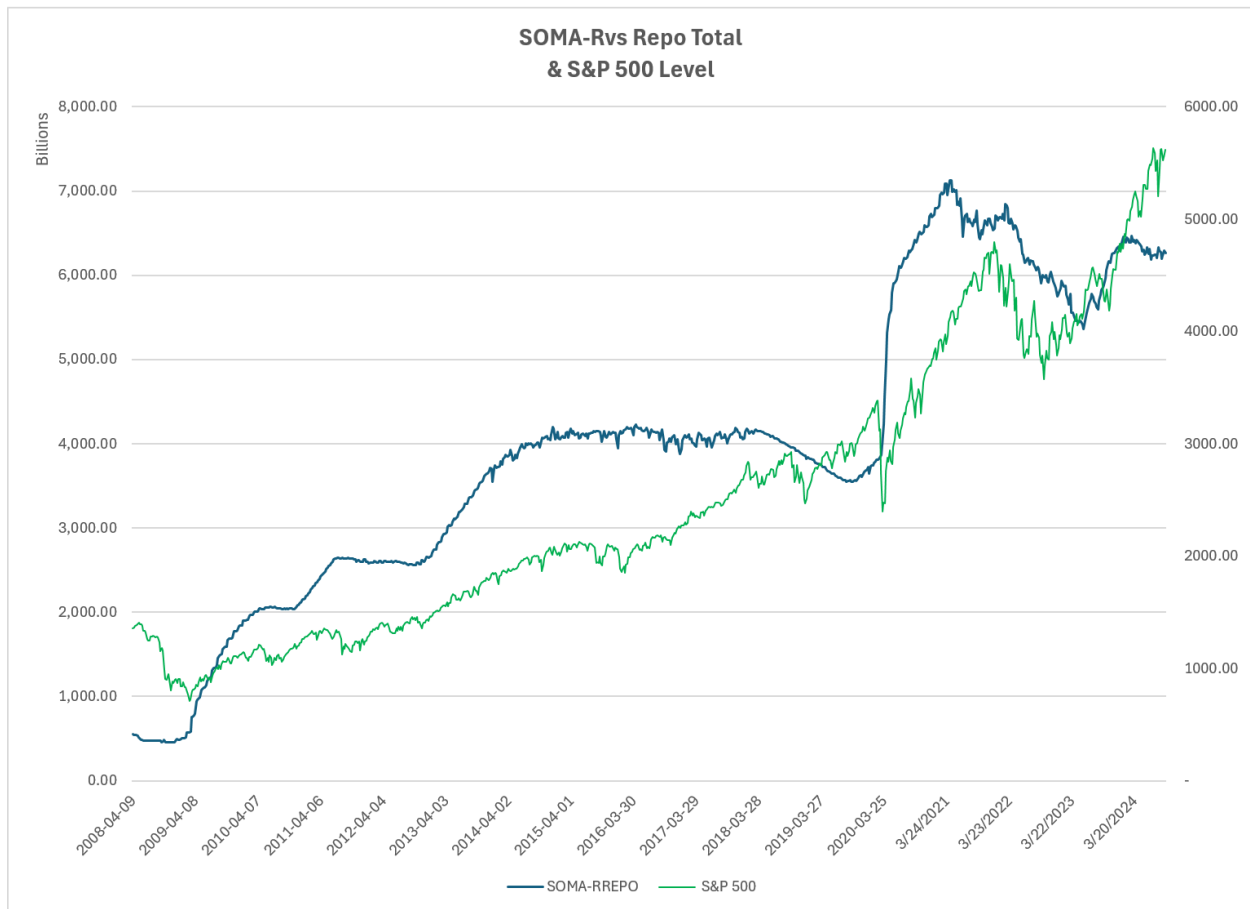


The persistent upslopes appear to confirm the upside edge suggested by the statistics. I have included this study on the short and intermediate-term active lists.

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

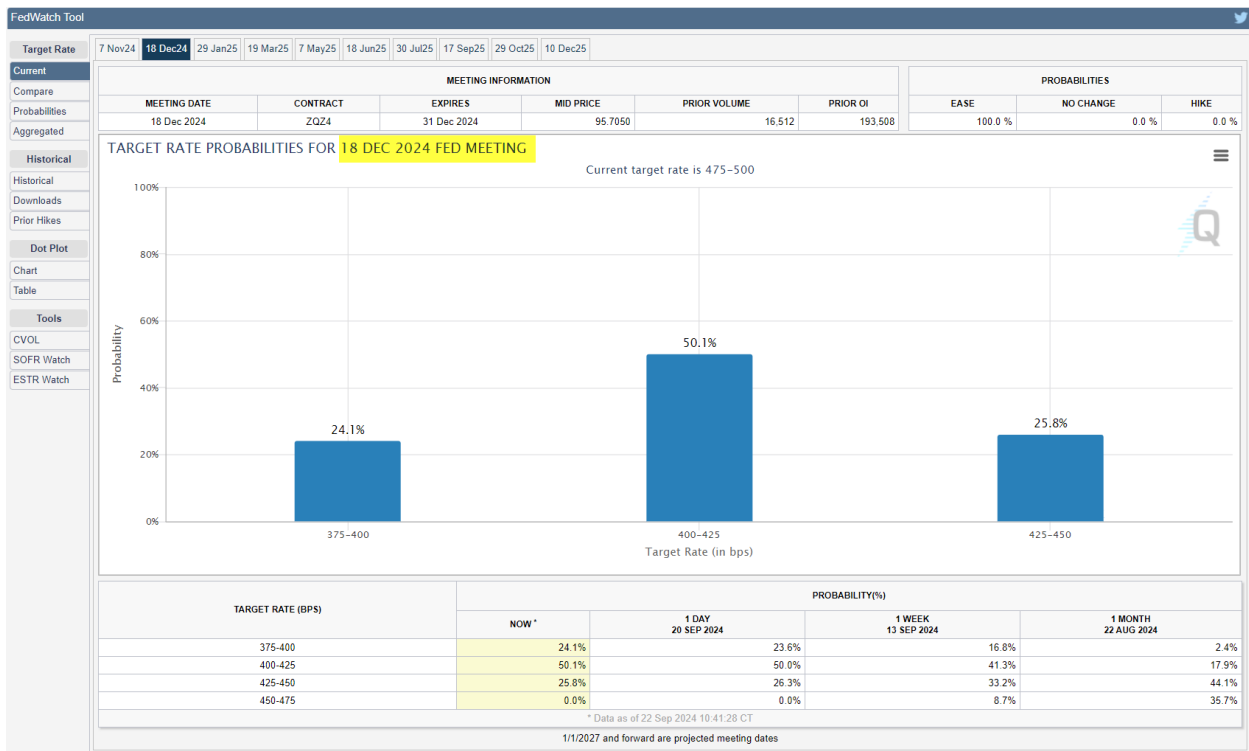
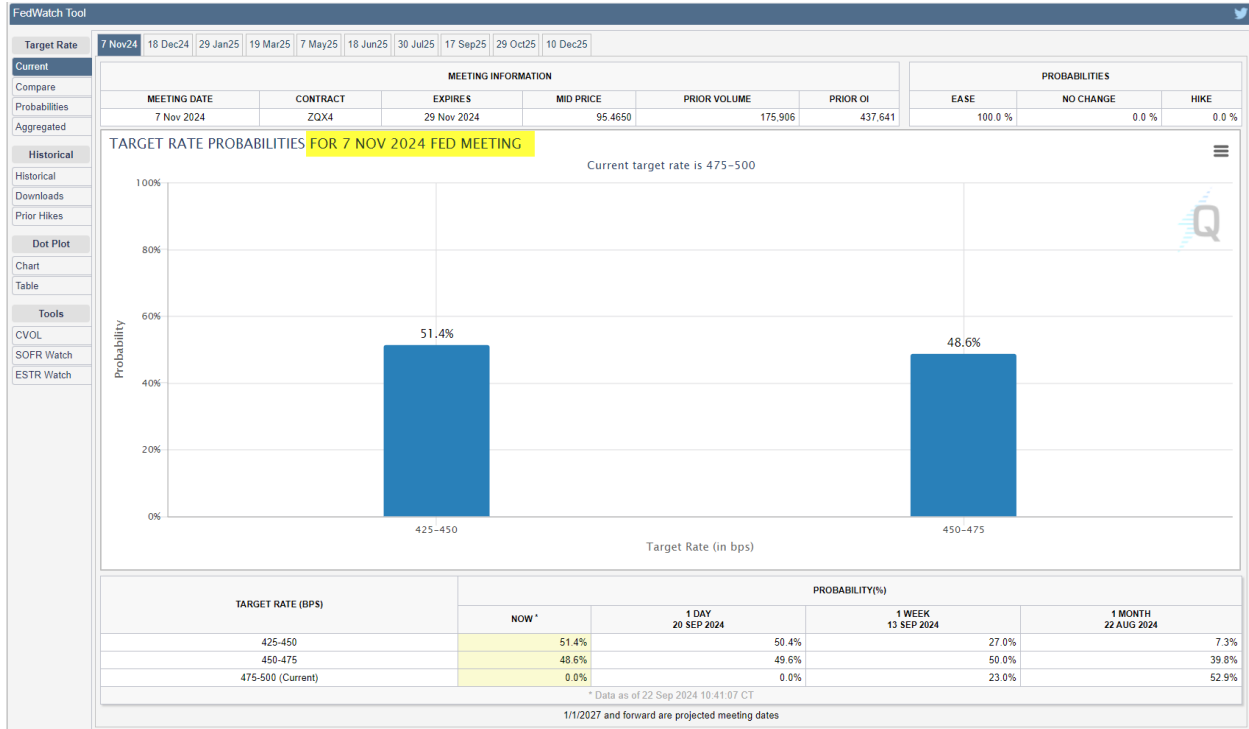
Domestic Security Holdings as of	
◀ Previous	September 18, 2024 📅 <i>Posted September 19, 2024 at 4:30 PM</i>
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,292,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,721,490,972.3
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***	2,291,611,564.4
Agency Commercial Mortgage-Backed Securities***	8,118,246.5
Total SOMA Holdings	6,568,755,078.4
Change From Prior Week	-5,204,742.2

The SOMA actually saw a decline of \$5 billion this past week. Meanwhile, reverse repos rose by \$27 billion. Combined for the week, SOMA and reverse repo action accounted for a \$32 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, with only \$306 billion outstanding as of Wednesday. 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. There was no change on Wednesday, but it would be unusual for the Fed to have QT while lowering rates for very long.

With regards to rates, November is now showing odds of 100% for a cut, *and that is split almost evenly between 25 and 50 basis points*. December is showing a 74% 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.



As we have seen over and over, odds continually shift, so expect further refinement on the as we get closer.

At this time the Fed is 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%. I would think they would start signaling a QT elimination or at least a reduction at one of the next two meetings.

Overall, seasonality is certainly bearish. And there seems to be a decent chance of a shock at some point in the next several weeks that could cause a VIX spike. There is plenty of geopolitical uncertainty as well as the upcoming election. Job numbers have been weakening and the economy and the Fed will be in the news a good bit. So there is no telling where a shock will come from, but there is certainly potential out there. At the same time, bullish evidence is greatly outweighing bearish. With SPX hitting new highs, the trend is up. Several momentum studies have recently emerged, and breadth studies are still pointing higher. Seasonality is generally a secondary indicator. So until price starts to flounder, I am not inclined to move off my bullish bias. I will remain more aggressive with long trades than I am with short trades.

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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