

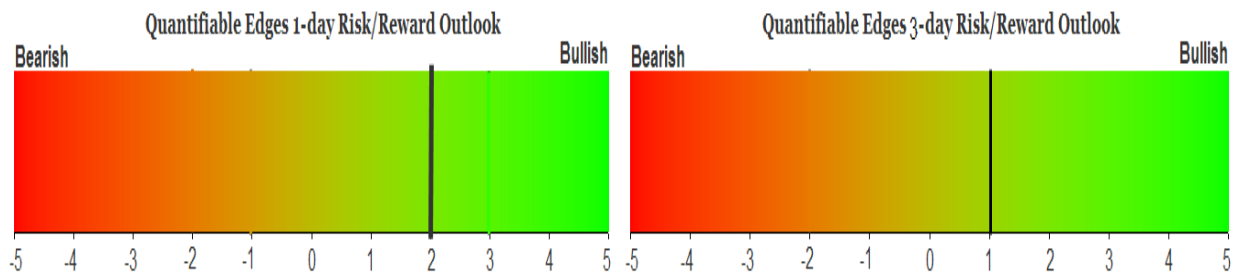
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 30, 2024

Volume 17 Issue 188

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- SPX reversed lower on strong breadth, which has typically been followed by gains over the net few days.
- A weak close on Monday could set up favorable odds for the 1st day of October.
- The NASDAQ has taken the lead vs the SPX, which is an intermediate-term positive.
- October tends to have big swings.
- The QE Seasonality Calendar looks encouraging so SPX over the next month.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. With expectations unstable, I am not very enthused.

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 30, 2024	SPX 5-high then down close on 60% breadth	1-3 days	Bullish			
September 27, 2024	SPX & VXX close at 5-day highs	1-4 days	Bearish	-2.20%	0.70%	2.00%
September 24, 2024	High vol down day then NR7	1-5 days	Bullish	2.60%	-1.30%	-3.20%
Active - Long Term						
September 30, 2024	NASDAQ Leading	int term	Bullish			
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 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			

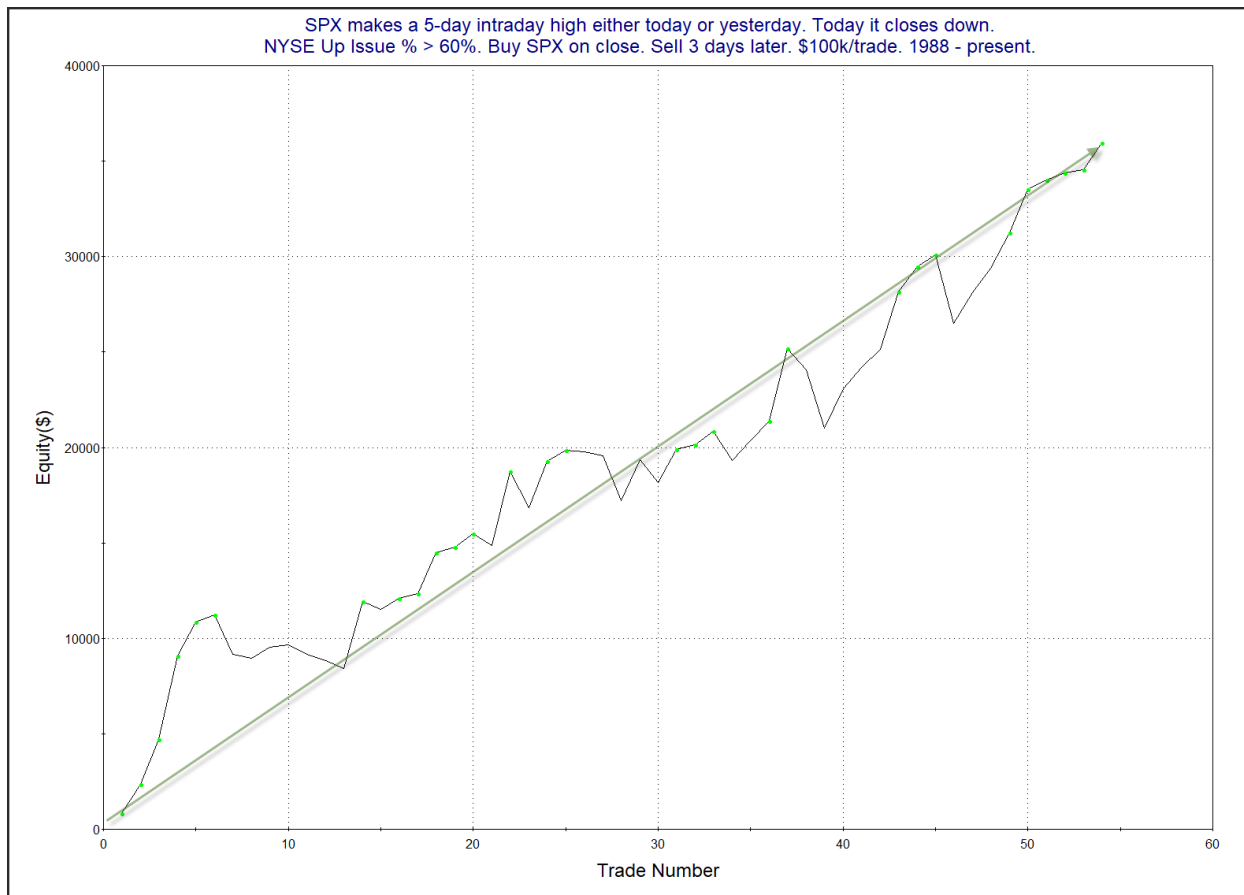
The Evidence

Friday was mixed for the major indices. The SPX lost 0.1%, the NASDAQ declined 0.4%, and the Russell 2000 gained 0.7%. Breadth was strong as the NYSE Up Issues % was 63% and the Up Volume % came in at 70%. NYSE total volume declined some from Thursday’s level.

One study I found interesting was last seen in the 7/12/24 letter. It examined other times the market made a recent short-term high, then pulled back but the breadth remained squarely positive. Results are updated below.

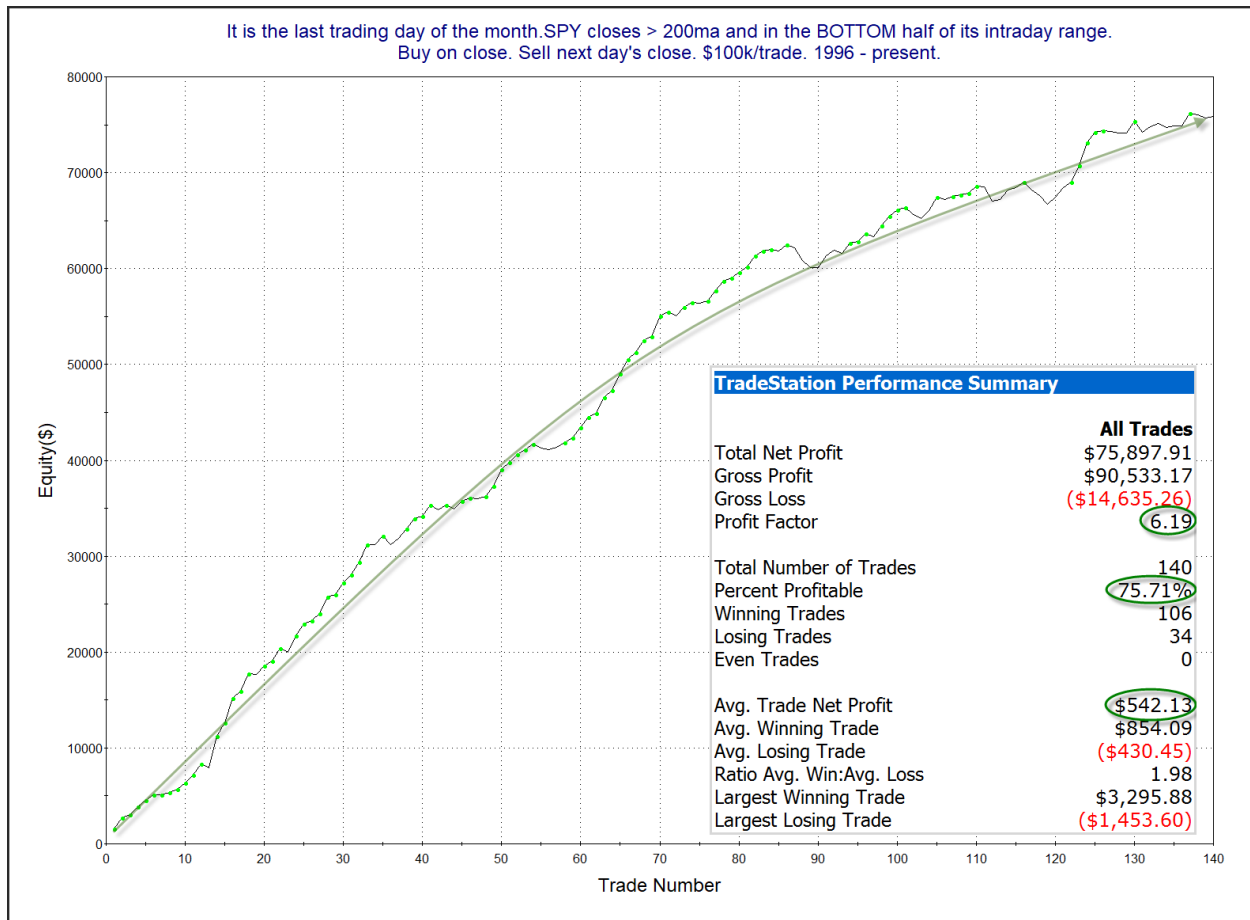
SPX makes a 5-day intraday high either today or yesterday. Today it closes down. NYSE Up Issue % > 60%. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	15,444.06	51	31	20	60.78	4,586.15	-6,119.33	1,692.79	-1,851.62	0.91	1.42	302.82
4	39,302.99	54	35	19	64.81	8,095.62	-6,253.50	1,912.96	-1,455.30	1.31	2.42	727.83
3	35,957.80	54	38	16	70.37	4,370.82	-3,593.26	1,460.66	-1,221.70	1.20	2.84	665.89
2	24,888.83	54	36	18	66.67	4,825.17	-4,128.74	1,240.54	-1,098.37	1.13	2.26	460.90
1	19,355.09	54	32	22	59.26	3,351.09	-1,606.00	971.01	-532.61	1.82	2.65	358.43

This suggests a possible upside edge over the next few days. Below is a look at the 3-day profit curve.



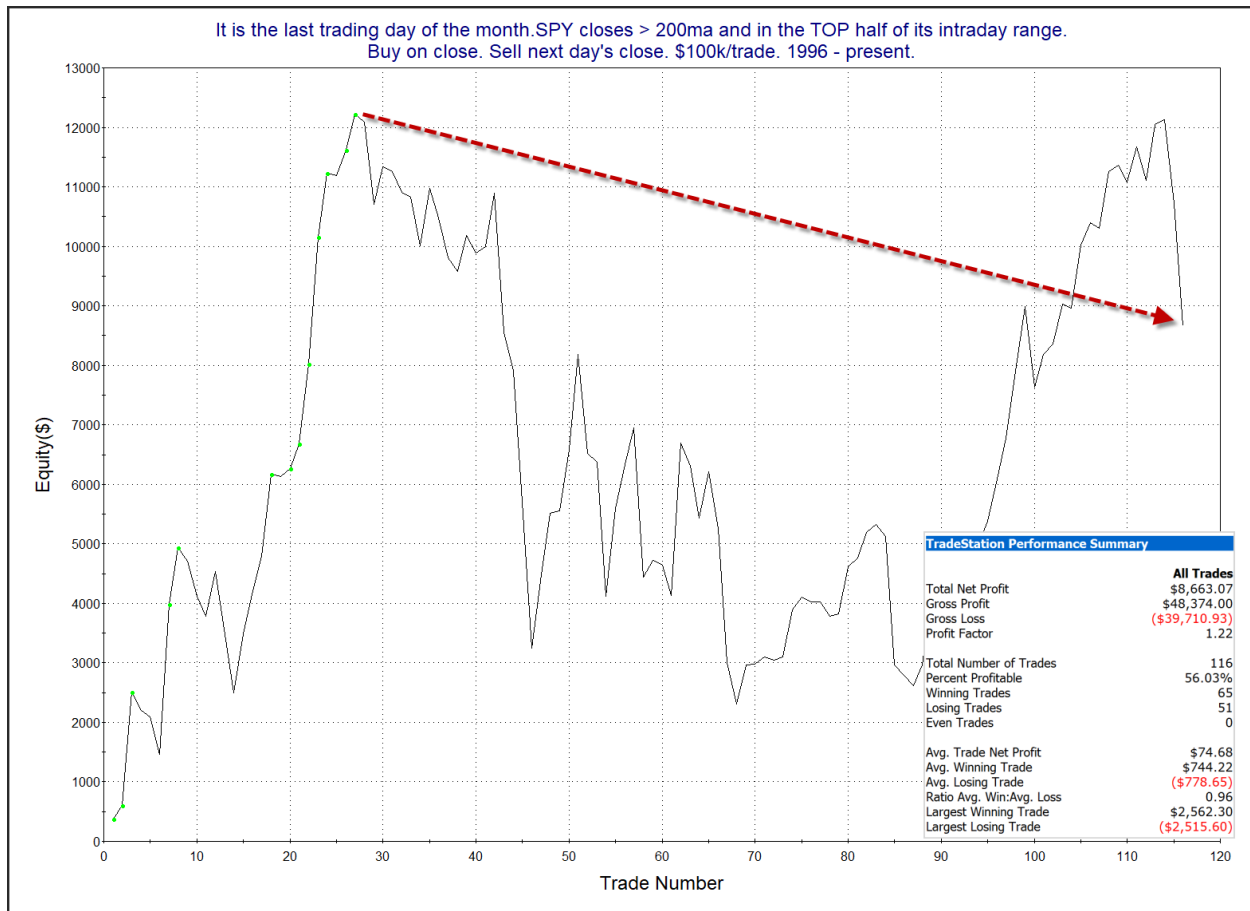
The curve has sloped upwards for a long time and is again at new highs. This seems to offer some confirmation of the upside edge suggested by the stats table. I have included this study on the Active List.

The 1st day of a new month (Tuesday upcoming) 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, and the bottom half. First, let's look at times SPY closed in the bottom half.



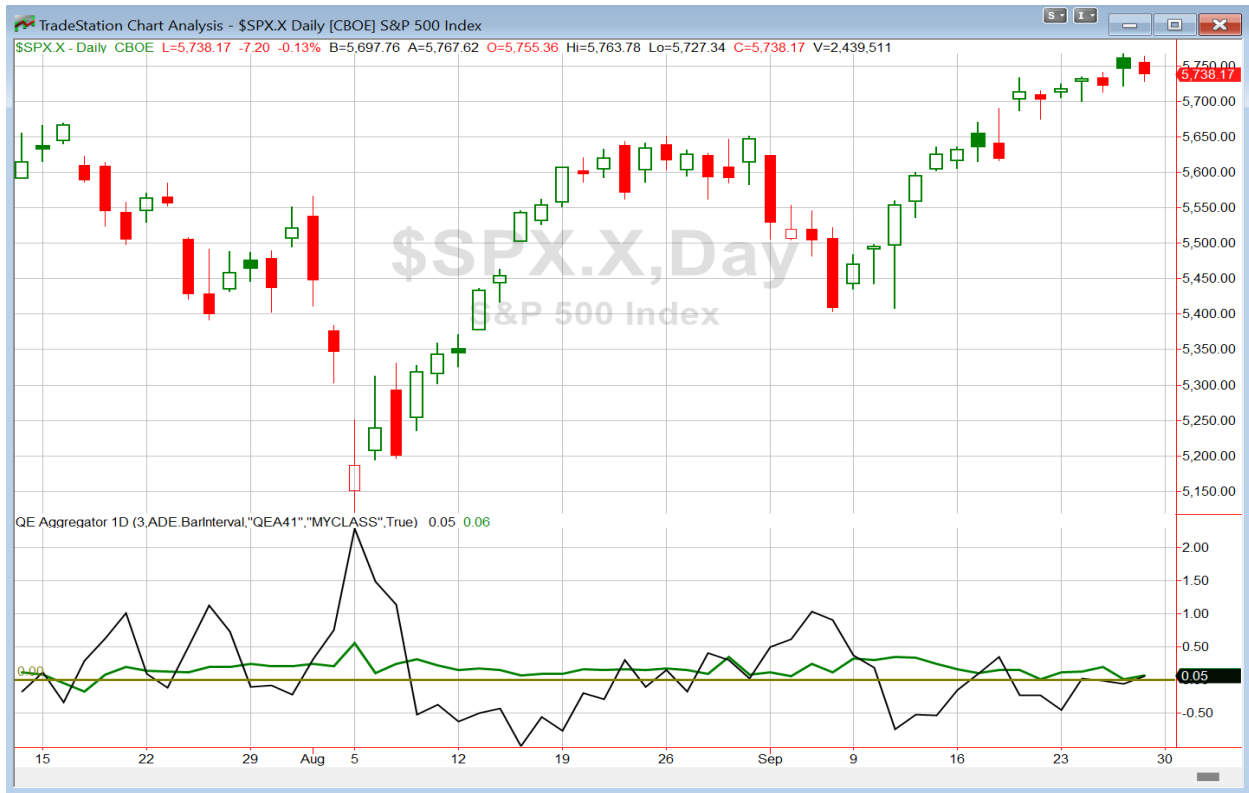
The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 6x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 140 instances. And despite a few recent failures, the curve has shown progress over a long period of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

But what about times 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 we will want to keep an eye on Monday's action to see how 1st-day-of-month odds set up for Tuesday.

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



With this weekend's evidence considered, 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 rose 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 turned long at the close.

Based on the current list of active studies, expectations are set to flip negative on Monday. That could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 5747.48 on Monday. That is 0.2% above Friday's close. Therefore, SPX will need to close up about 0.2% if it is going to flip from oversold to overbought versus expectations on Monday.

The Aggregator is bullish. But expectations are currently slated to flip from net bullish to net bearish on Monday. So I am not inclined to take on a new positions with odds about to turn bearish. Of course a weak close on Monday could set us up for a strong 10/1. We saw this with the turn-of-month study above. That might cause expectations to remain positive. Also notable is that a gain of 0.2% or more could turn the market overbought while expectations are turning negative. That could see a short setup emerge on Monday. So while I am not inclined to take on a new index position just yet, that could change based on Monday's action, and right now it looks like Monday afternoon could easily see either a bullish or a bearish configuration. I'll wait for more clarity before picking a side.

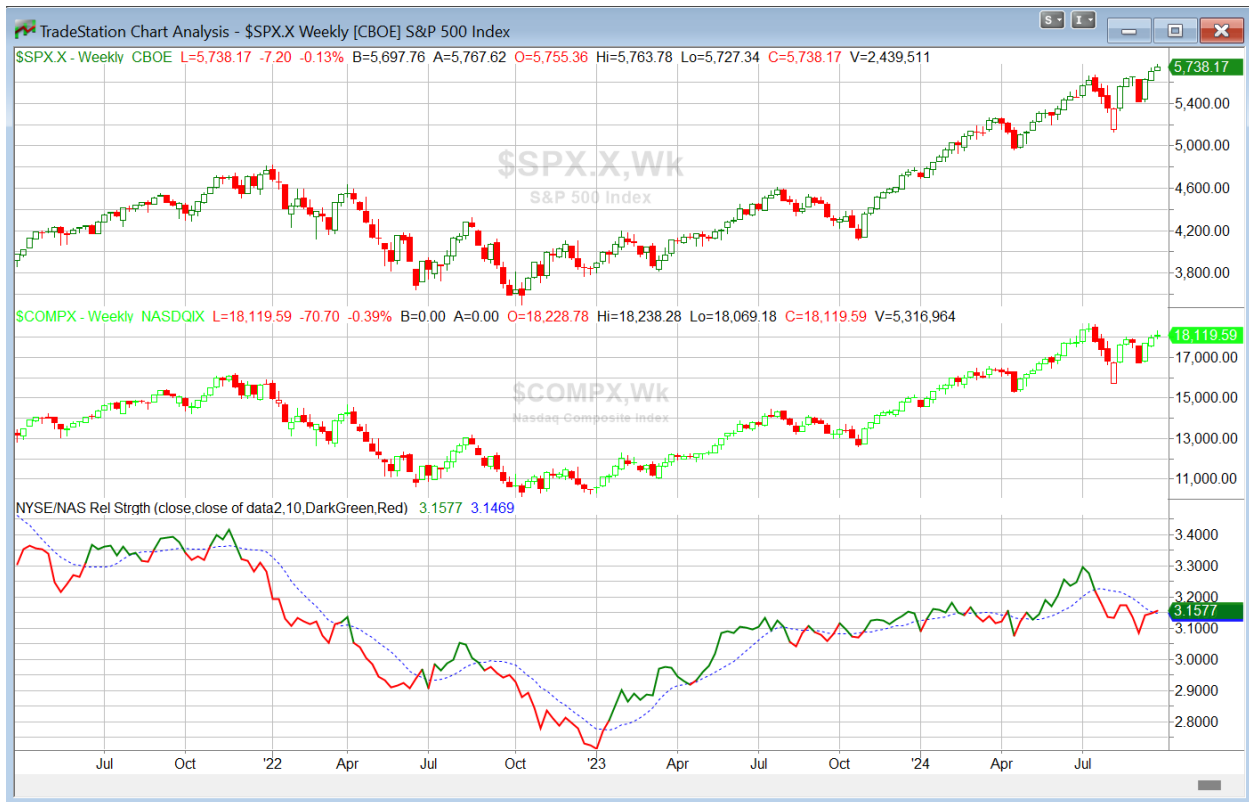
Intermediate-term Outlook (2 weeks – 2 months) – updated 9/30 – *bullish*

Combo #1	Combo #2	Combo #3	Combo #4
Long QQQ	Long QQQ	Long QQQ	Long QQQ

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 changed to long QQQ as of Friday's close.*

This past week saw mostly gains and some new all-time highs for the indices. The SPX rose 0.6%, the NASDAQ climbed 0.95%, and the Russell 2000 (RUT) dipped 0.1%. Bonds were also mixed. The US Aggregate Bond ETF (AGG) closed up 0.02%. TLT, the 20-year Treasury Bond ETF, dropped 0.3%. The gains caused SPX to make a new all-time high on Thursday, confirming the fact that the long-term uptrend remains in place.

One notable indicator that changed position is our NASDAQ/SPX Relative Leadership indicator. After lagging the SPX since mid-July, the NASDAQ has now moved into a leading position. This can be seen in the chart below.



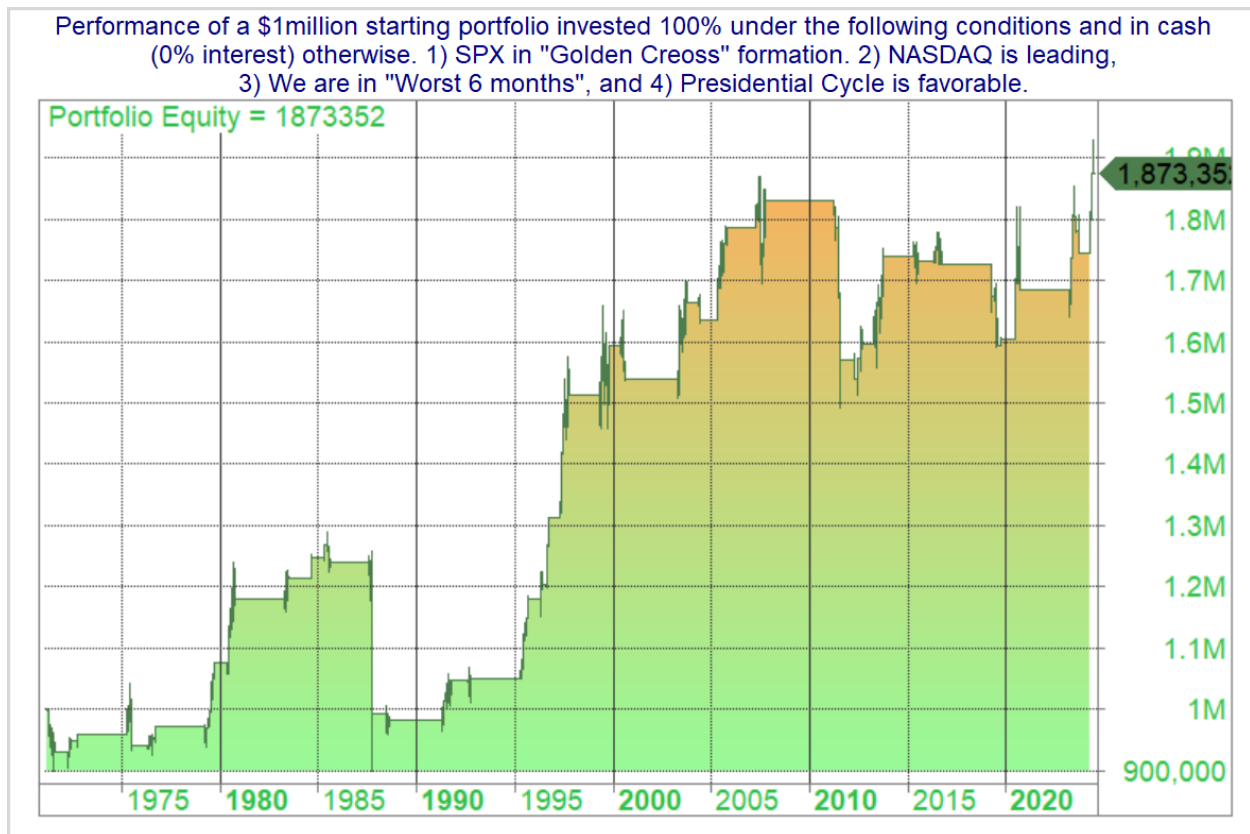
The movement of the red line (which is about to turn green) above the blue dotted line is our indication that the NASDAQ is in a leading position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below.

Historical Compound Returns of \$100,000 Starting Portfolio Using the NASDAQ/SPX Relative Leadership Indicator as a Filter. 12/31/71 - 9/27/2024.			
	Compound Annual Growth Rate	Max Drawdown	End Value of \$100,000
S&P 500 Index	7.93%	-56.78%	\$5,620,697.57
SPX when NASDAQ lags	0.12%	-67.21%	\$106,723.59
SPX when NASDAQ leads	7.80%	-33.92%	\$5,266,593.18
NASDAQ Composite	10.08%	-77.93%	\$15,877,663.44
NASDAQ when lagging	-1.26%	-85.53%	\$51,192.14
NASDAQ when leading	11.48%	-40.62%	\$31,015,822.85
NASDAQ when leading (with interest when in cash)*	13.99%	-37.64%	\$100,293,127.59

*interest on cash calculated at historical 30-day Fed Funds rate

More on this indicator can be found in the Market Timing Course. (Free for all annual subscribers.)

I decided also to take a look at how the market has done when all original 4 Market Timing Course indicators have been aligned as they are now. That means: 1) SPX “Golden Cross” in effect, 2) the NASDAQ is leading, 3) favorable Presidential Cycle, and 4) “Worst” 6 months in effect. Below is a chart showing SPX performance during this alignment.



This curve is encouraging. It has basically been headed up or sideways most of the time, and the last instance made new highs. Of course, the longest the current configuration will persist is until the end of October, when both seasonality indicators will flip. So October will likely need to be a positive month in order to see additional new highs on this curve.

Breaking the year down by week is something I have done numerous times over the years, and it has provided some interesting insights. The table below shows stats back to 1985. I chose 1985 as the start date because SPX options trading began in 1984, so 1985 is the 1st full year where there was an options expiration schedule. Action on and around options expiration, which occurs on the 3rd Friday of each month, seems to generate some seasonal tendencies. So this study encompasses the full range of time that SPX options have been in existence.

SPX Performance in the Week that Followed the Month and Friday Specified. \$100k/trade. 1985 - present. Top 10 and Bottom 10 results shown.													
Month of Year	Fri of Month	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	5	20,984.09	16	12	4	75.00	7,184.40	-3,889.28	2,286.54	-1,613.59	1.42	4.25	1,311.51
1	5	15,765.61	17	12	5	70.59	5,169.12	-3,138.72	2,339.80	-2,462.40	0.95	2.28	927.39
1	4	32,027.23	40	26	14	65.00	4,860.00	-3,765.16	2,100.78	-1,613.80	1.30	2.42	800.68
10	4	30,860.34	39	28	11	71.79	10,485.72	-5,472.04	2,078.82	-2,486.07	0.84	2.13	791.29
4	2	30,452.09	40	25	15	62.50	5,731.96	-3,580.15	2,150.94	-1,554.75	1.38	2.31	761.30
10	2	28,638.36	39	29	10	74.36	7,282.10	-9,109.98	2,011.62	-2,969.85	0.68	1.96	734.32
5	4	28,453.31	40	26	14	65.00	7,145.28	-2,983.50	1,867.32	-1,435.51	1.30	2.42	711.33
11	4	26,010.99	39	29	10	74.36	7,362.46	-6,830.72	1,455.48	-1,619.80	0.90	2.61	666.95
5	5	11,313.59	18	12	6	66.67	4,787.84	-3,683.73	1,859.51	-1,833.43	1.01	2.03	628.53
6	4	22,688.15	40	24	16	60.00	5,769.16	-4,984.56	1,877.61	-1,398.40	1.34	2.01	567.20
6	1	-9,361.37	40	19	21	47.50	4,090.16	-4,984.32	1,206.88	-1,537.71	0.78	0.71	-234.03
11	5	-2,801.11	11	7	4	63.64	1,717.40	-4,574.88	952.18	-2,366.60	0.40	0.70	-254.65
10	3	-10,891.28	39	19	20	48.72	4,339.20	-12,167.91	1,874.15	-2,325.01	0.81	0.77	-279.26
6	3	-11,241.06	40	15	25	37.50	6,396.30	-3,626.75	1,510.79	-1,356.12	1.11	0.67	-281.03
10	1	-15,393.43	39	22	17	56.41	5,944.32	-18,000.90	1,785.32	-3,215.92	0.56	0.72	-394.70
8	5	-7,966.28	17	8	9	47.06	3,283.38	-4,206.40	1,374.80	-2,107.18	0.65	0.58	-468.60
7	5	-9,682.89	17	8	9	47.06	2,404.80	-7,153.30	1,213.42	-2,154.47	0.56	0.50	-569.58
2	3	-24,244.04	40	19	21	47.50	2,106.80	-11,122.37	887.53	-1,957.48	0.45	0.41	-606.10
4	5	-7,963.05	11	4	7	36.36	1,247.86	-6,368.04	909.67	-1,657.39	0.55	0.31	-723.91
9	3	-33,602.67	40	11	29	27.50	7,739.42	-6,525.56	1,532.71	-1,740.09	0.88	0.33	-840.07

You'll note that the highlighted weeks are the October weeks. It's amazing that all 5 potential weeks in October are included in either the Best 8 or the Worst 8 weeks of the year. Weeks are ranked based on Avg Trade (last column).

Weeks following the 1st and 3rd Friday in October have been among the *worst* on average. I'll also note that the 2 of the 3 largest "max losing trades" occurred following the 1st and 3rd Friday in October. They were a 12% and an 18% drop.

Weeks following the 2nd, 4th, and 5th Fridays in October made up 3 of the *best* 10 weeks of the year on average. And they show some of the biggest winners as well, with 7.2%, 7.3% and 10.5% max gains.

As I said, October can be volatile. There could easily be some strong moves up and down throughout the month, and traders may want to keep this in mind for position sizing, or if they are making volatility trades.

The QE Seasonality Calendar shows a more optimistic view of October, based on action over approximately the last 10 years. This can be seen below.

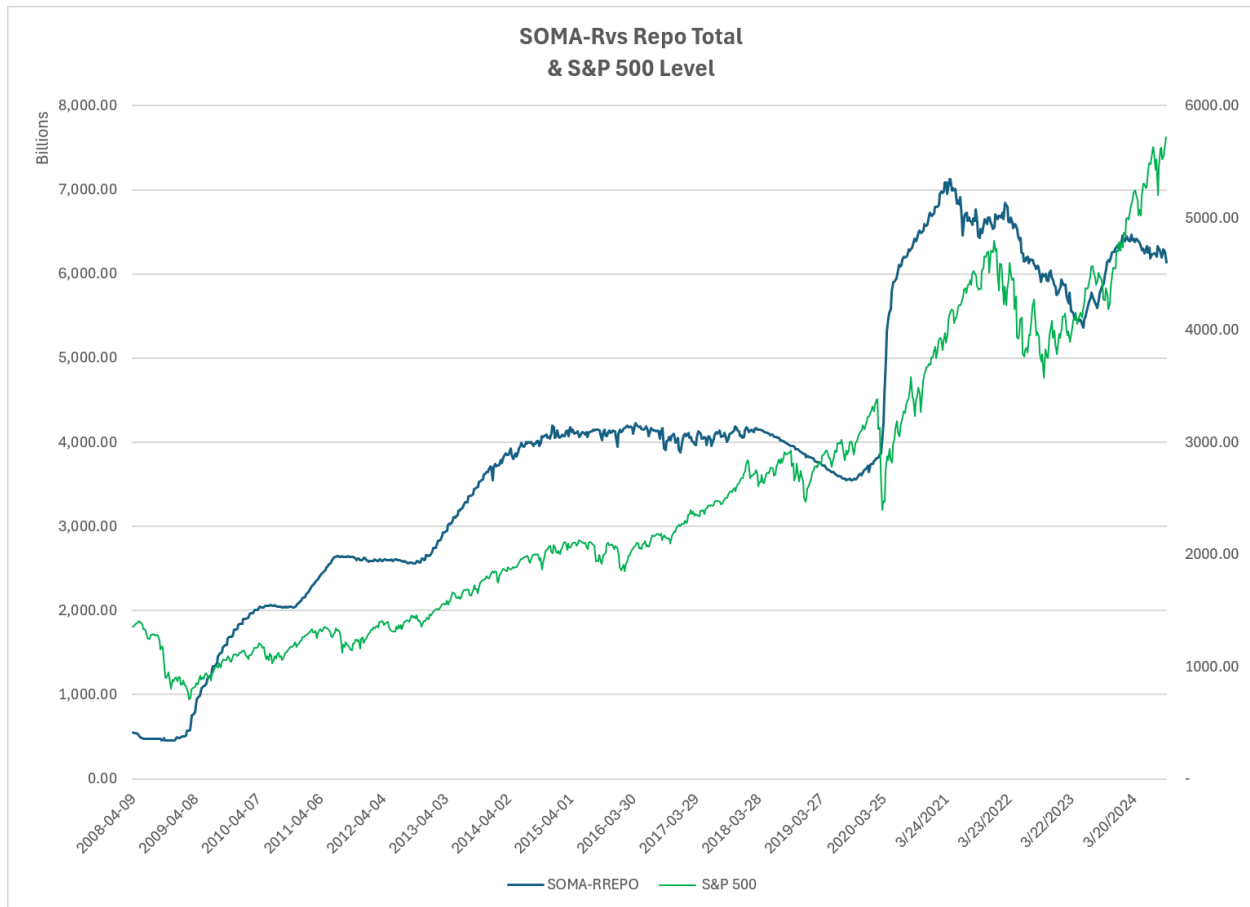
Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
10/1/2024	54.85	1.246	0.040
10/2/2024	56.07	1.176	0.048
10/3/2024	54.52	1.019	0.004
10/4/2024	54.77	1.104	0.034
10/7/2024	55.78	1.284	0.086
10/8/2024	53.14	1.139	0.038
10/9/2024	52.86	0.979	-0.008
10/10/2024	54.99	1.018	0.003
10/11/2024	54.30	1.178	0.050
10/14/2024	52.32	1.129	0.028
10/15/2024	53.03	1.479	0.124
10/16/2024	51.50	1.104	0.027
10/17/2024	51.82	1.158	0.044
10/18/2024	48.27	1.036	0.000
10/21/2024	58.48	1.223	0.070
10/22/2024	52.59	1.150	0.046
10/23/2024	52.42	1.200	0.064
10/24/2024	55.18	1.329	0.100
10/25/2024	53.38	1.109	0.036
10/28/2024	54.40	1.331	0.087
10/29/2024	53.16	1.291	0.076
10/30/2024	52.99	1.342	0.094
10/31/2024	55.76	1.471	0.130
Baseline	53.73	1.141	0.049

Numbers here are surprisingly strong. Only two days all month are not showing positive odds. So we could certainly see sizable volatility, but the QE Seasonality Calendar is looking good.

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

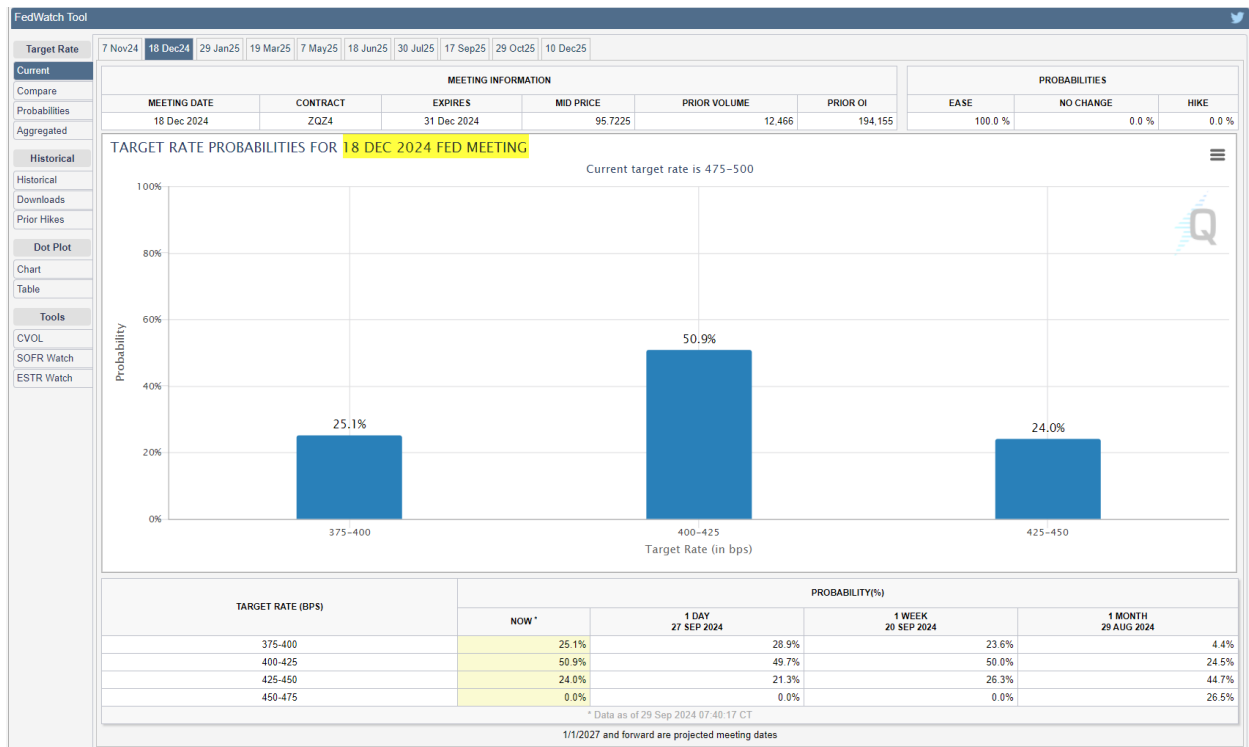
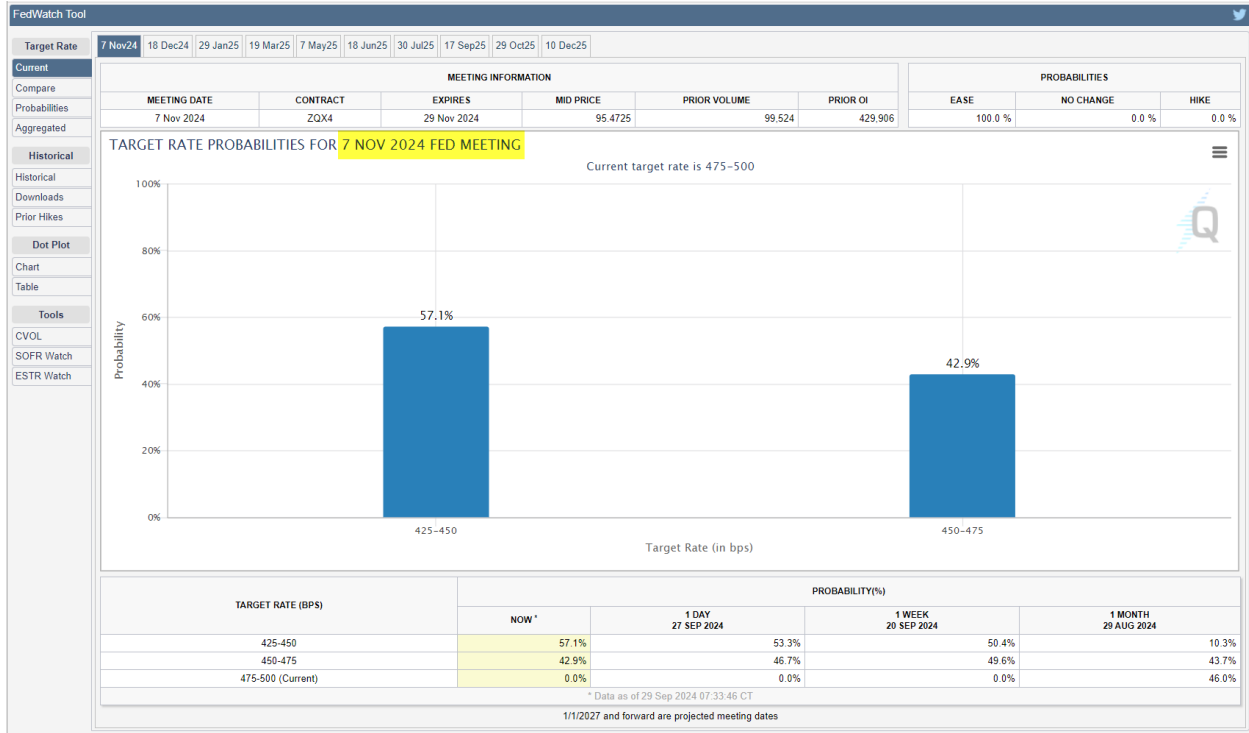
Domestic Security Holdings as of	
◀ Previous	September 25, 2024 📅 <i>Posted September 26, 2024 at 4:30 PM</i>
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY 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***	2,273,970,992.8
Agency Commercial Mortgage-Backed Securities***	8,107,049.1
Total SOMA Holdings	6,551,103,309.4
Change From Prior Week	-17,651,769.0

The SOMA saw a decline of \$17.6 billion this past week. Meanwhile, reverse repos rose by a very large \$110 billion. Combined for the week, SOMA and reverse repo action accounted for a \$128 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. 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. 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. It would be unusual for the Fed to continue 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 57% / 43% between 25 and 50 basis points**. December is showing a 76% 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.

From an intermediate-term standpoint, the evidence still seems to favor the bulls. This week we saw the NASDAQ/ SPX Relative Leadership indicator turn bullish for the 1st time in more than two months. With SPX continuing to make new highs, the trend is certainly up. We also saw some bullish momentum studies trigger in the last few weeks. Fed policy seems to have moved from bearish to neutral. While there seems to be a decent chance of a shock at some point in the next couple of months that could cause a VIX spike, October generally appears favorable (as does the 4th quarter as a whole). Overall, bullish evidence is greatly outweighing bearish. I will continue to maintain a bullish bias. Hence, 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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