

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 14, 2024

Volume 17 Issue 198

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- October opex week has historically been one of the best of the year.
- When SPX has upward momentum, Columbus Day has been bullish.
- The SOMA saw no change this past week, but reverse repo closeouts did help to infuse some liquidity.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. So am I. Again.

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						
October 14, 2024	SPX rises this week. Columbus Day Mon +	1 day	Bullish			
October 14, 2024	October Opex bullish	1-4 days	Bullish	3.00%	-2.50%	-7.30%
Active - Long Term						
September 30, 2024	NASDAQ Leading	int term	Bullish			
September 23, 2024	Fed neutral. QT active. Rates dropping.	int term	Neutral			
September 18, 2024	SPX up 7 days in a row	1-20 days	Bullish	3.00%	-2.10%	-4.40%
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			
Dropped Tonight (expired, target hit, or avg drawdown + 1 std dev exceeded)						
August 12, 2024	SPX dn 4 weeks in a row > 40-week m	1-10 weeks	Bullish	8.70%	-3.10%	-7.10%

The Evidence

Friday was a strong finish to the week. The SPX gained 0.6%, the NASDAQ rose 0.3%, and the Russell 2000 shot up 2.1%. Breadth was strong as the NYSE Up Issues % was 79% and the Up Volume % came in at 81%. NYSE total volume declined some from Thursday’s level.

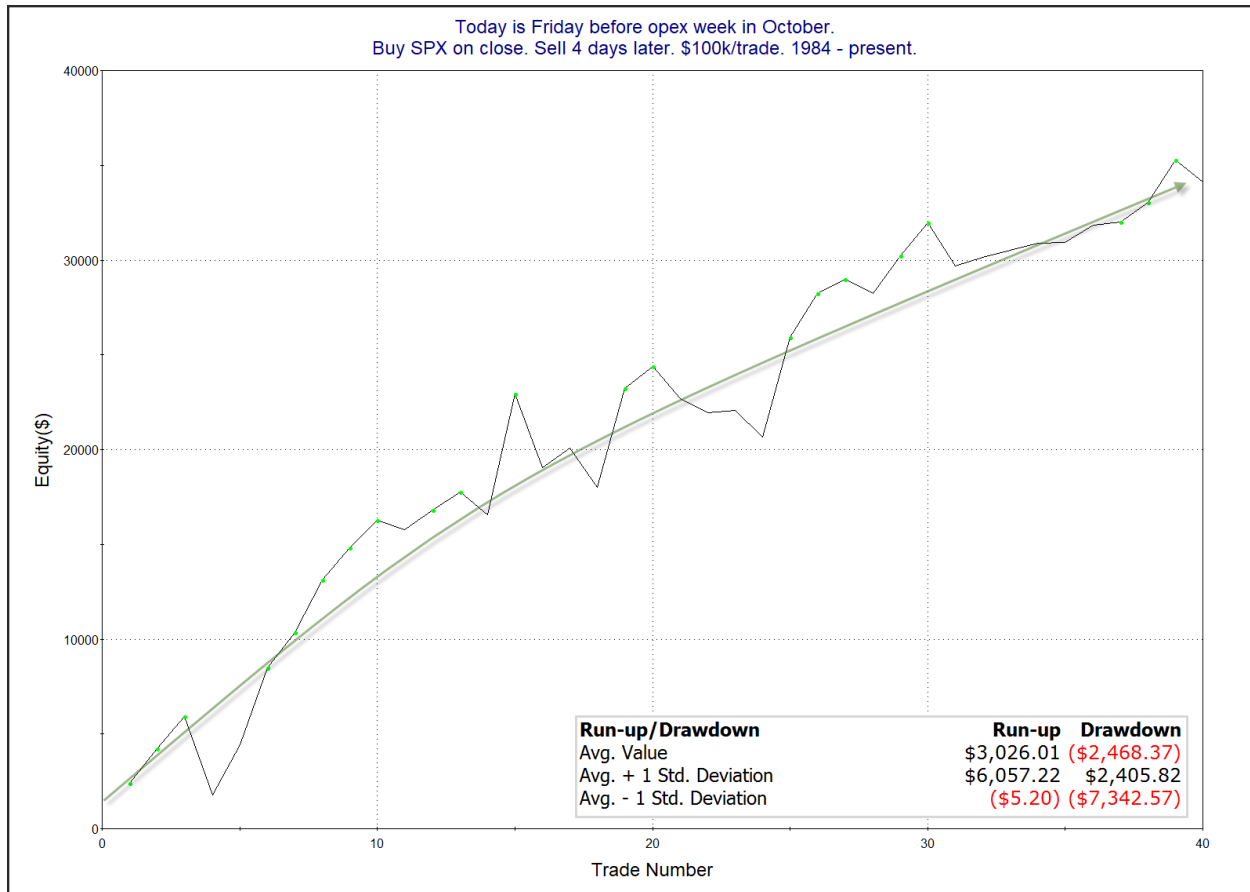
Price action did not manage to generate any compelling studies. But it is notable that next week is options expiration. October Opex has seen the 6th best average gains of any week of the year, looking back to 1985. This can be seen in the chart below, which I copied from the 9/30/24 letter a few weeks ago.

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	4,470.6	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	

The study below looks at October Opex from 1984 – present. It is updated from the 10/16/23 letter.

Today is Friday before opex week in October. Buy SPX on close. Sell X days later. \$100k/trade. 1984 - 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	30,940.38	40	30	10	75.00	7,282.10	-9,109.98	2,021.30	-2,969.85	0.68	2.04	773.51
4	34,138.48	40	29	11	72.50	6,383.20	-4,169.79	1,859.75	-1,799.49	1.03	2.72	853.46
3	15,648.20	40	26	14	65.00	3,026.43	-3,734.78	1,266.05	-1,233.51	1.03	1.91	391.20
2	31,945.61	40	27	13	67.50	10,965.69	-1,737.36	1,543.22	-747.79	2.06	4.29	798.64
1	24,686.50	40	28	12	70.00	11,558.43	-1,921.32	1,139.48	-601.59	1.89	4.42	617.16

Results 1-4 days out look solid. I found the profit curve for the 4-day hold the most compelling. It can be found below.



That is an impressive move from lower left to upper right. I have included this study on the active list tonight.

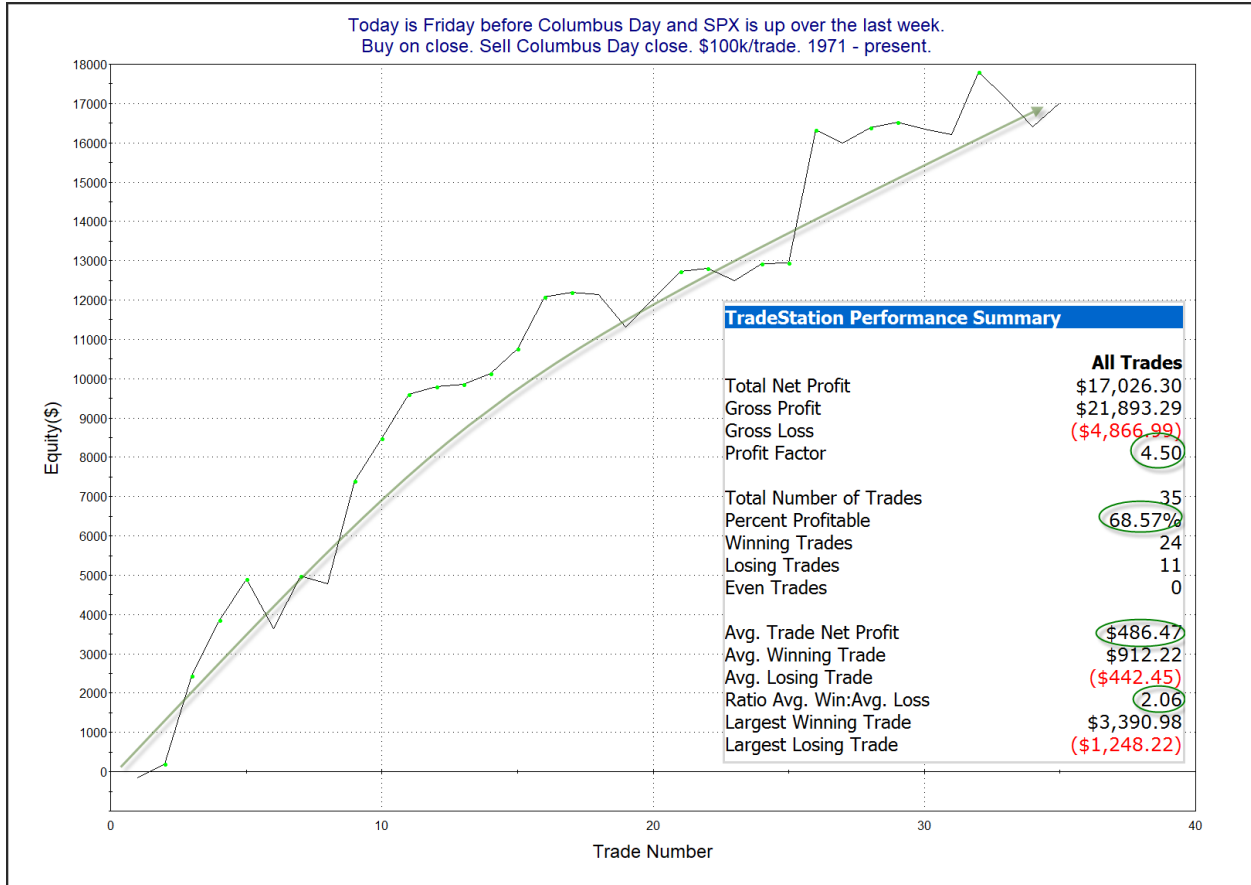
The positive seasonality over the next 4 days is also reflected the QE Seasonality Calendar, which I have copied below from the Seasonality section of the site.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
10/1/2024	55.07	1.251	0.042
10/2/2024	56.22	1.177	0.049
10/3/2024	54.74	1.023	0.006
10/4/2024	54.98	1.109	0.036
10/7/2024	55.83	1.286	0.087
10/8/2024	53.14	1.139	0.038
10/9/2024	52.79	0.975	-0.009
10/10/2024	54.99	1.018	0.003
10/11/2024	54.30	1.178	0.050
10/14/2024	52.37	1.130	0.028
10/15/2024	53.03	1.479	0.124
10/16/2024	51.43	1.100	0.026
10/17/2024	51.82	1.158	0.044
10/18/2024	48.27	1.036	0.000
10/21/2024	58.53	1.225	0.071
10/22/2024	52.59	1.150	0.046
10/23/2024	52.24	1.192	0.062
10/24/2024	55.18	1.329	0.100
10/25/2024	53.38	1.109	0.036
10/28/2024	54.55	1.335	0.089
10/29/2024	53.16	1.291	0.076
10/30/2024	52.82	1.334	0.091
10/31/2024	55.76	1.471	0.130
Baseline	53.73	1.141	0.048

Friday is breakeven, but Mon – Thurs show solid numbers. In Thursday night’s letter I also discussed Columbus Day seasonality. I have pasted that study below.

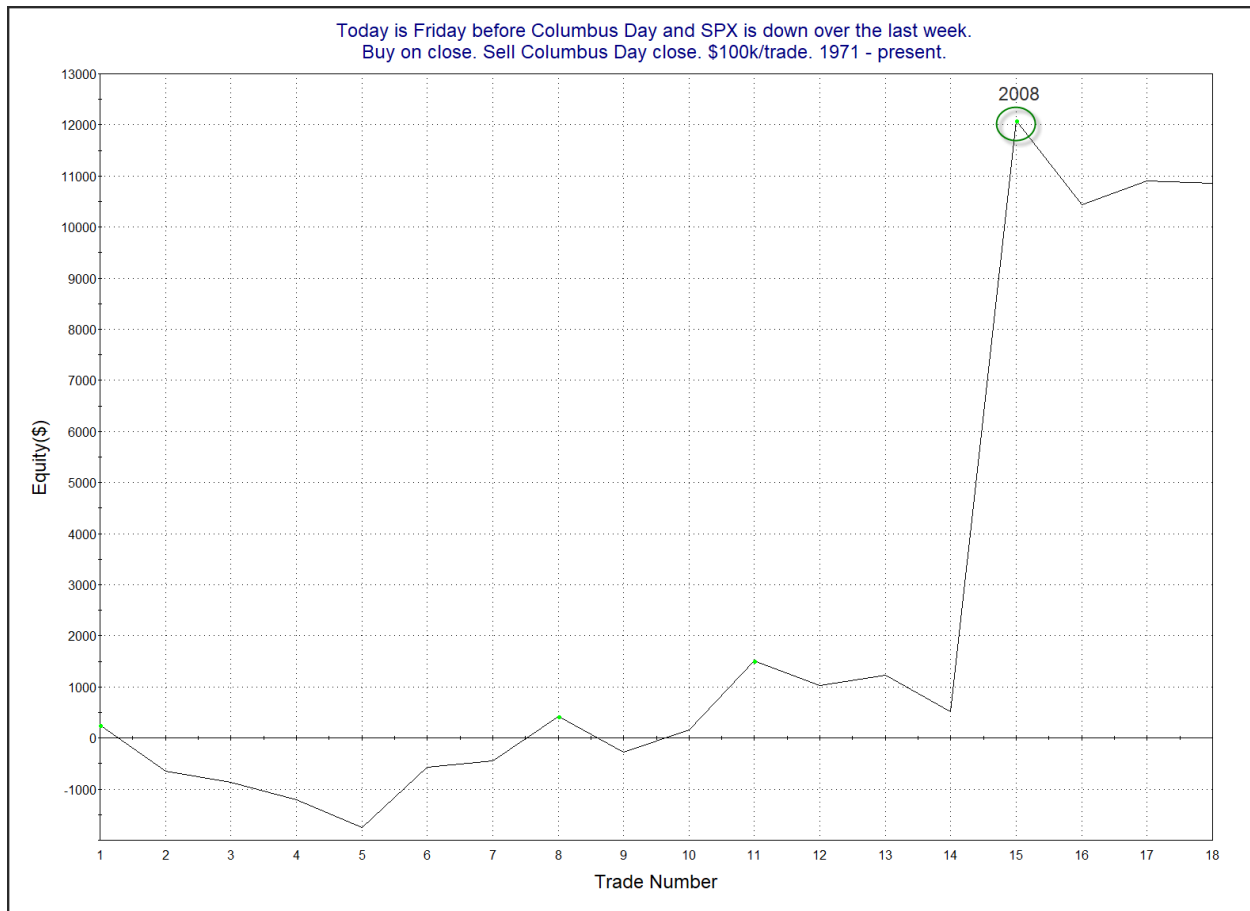
While the stock market is open on Monday, banks, schools, government offices, and the bond market are closed. In past years with the bond market closed, the stock market has done quite well on Columbus Day. Of course the most famous Columbus Day rally was in 2008 when the market gained over 11% after having crashed the week before. In the 10/9/23 subscriber letter I showed

that positive momentum leading up to Columbus Day has generally led to a positive Columbus Day. But there has not been a strong edge when the market stumbled heading into Columbus Day. Columbus Day has been celebrated on the 2nd Monday of October since 1971. Below is an updated breakdown of the study. First, times where there was momentum heading into it.



I've circled some of the more impressive stats here. With 69% of trades profitable and winners over twice the size of losers, risk/reward has been very favorable.

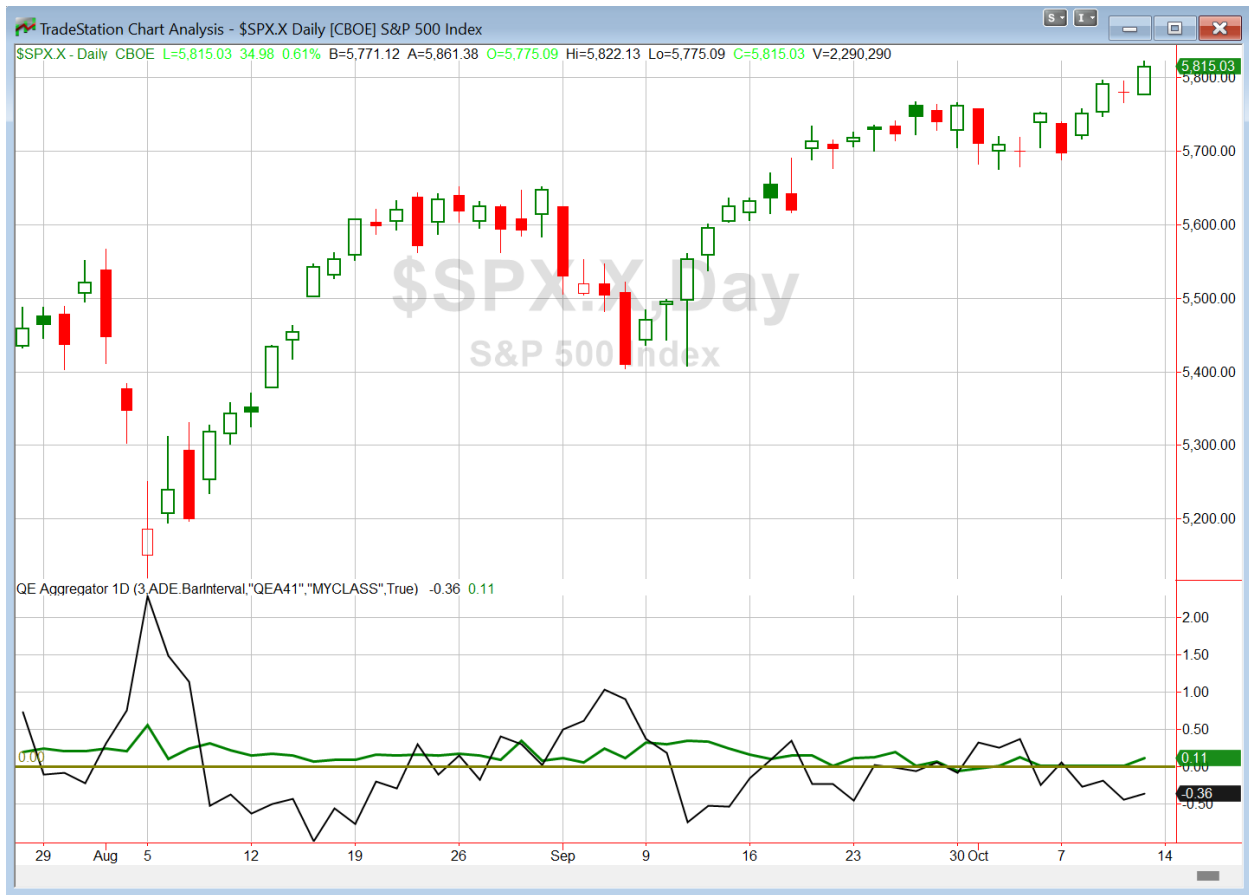
What about times without positive momentum? Below is an equity curve showing results of that setup.



As I mentioned above, 2008 was a huge outlier. Take away that one year and Columbus Day showed a mild negative return when the prior week was down. Overall, it does not appear to be a dependable edge without some upside momentum heading into it...

With SPX rising again on Friday, there is positive momentum, and the 1st (more bullish) setup is the one that has now triggered.

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 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 active studies, expectations are slated to remain positive on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5792.92 on Monday. That is 0.4% below Friday's close. Therefore, SPX will need to close down 0.4% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is again neutral. Seasonality is positive over the next few days, but the overbought nature of the market reduces potential reward and increases risk. This does not appear to be a highly favorable entry opportunity. I'll continue to wait for a stronger setup before looking to take on new index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/14 – *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 remained long QQQ as of Friday's close.*

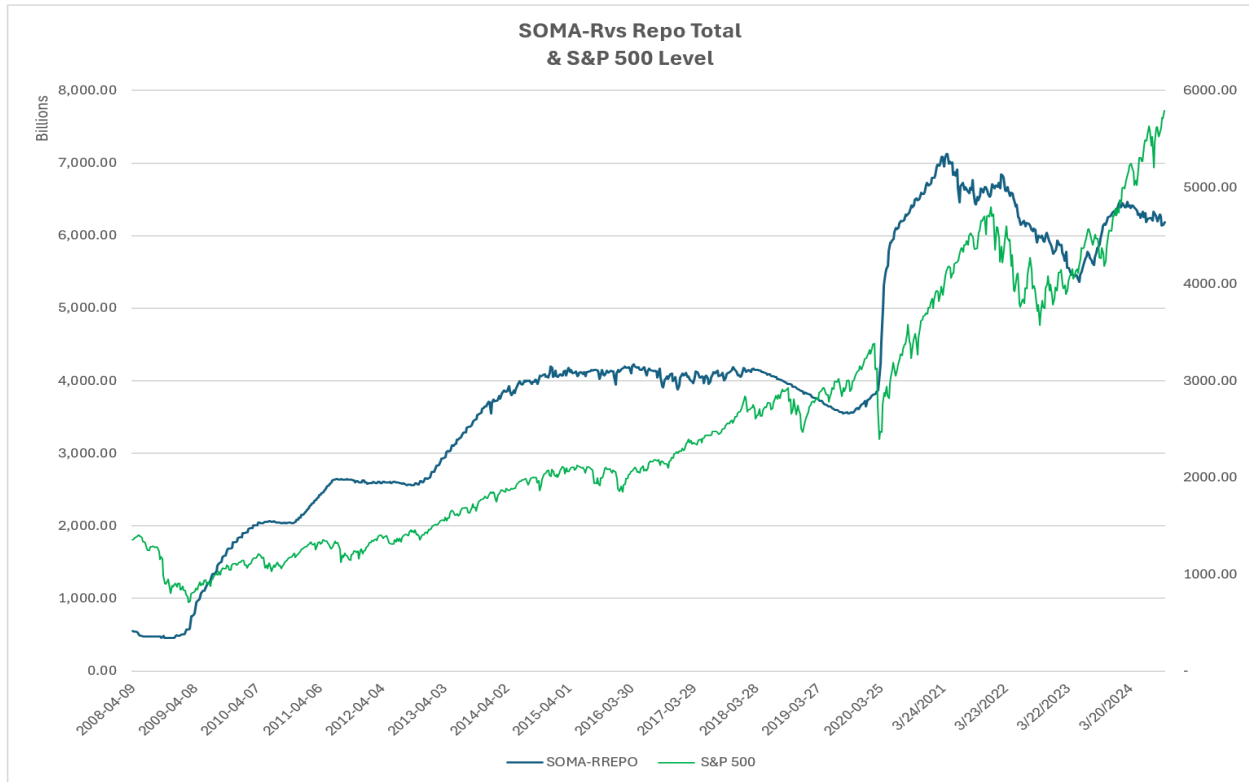
This past week saw gains for stock. The SPX and NASDAQ both climbed 1.1%, and the Russell 2000 (RUT) rose 1.0%. Bonds had a tough week. The US Aggregate Bond ETF (AGG) declined 0.5%. TLT, the 20-year Treasury Bond ETF, lost 1.9%. SPX made another all-time closing high on Friday, confirming the fact that the long-term uptrend remains in place. No new studies with intermediate-term implications triggered in the last few days. There was one bullish intermediate-term study that reached its target price and was removed this week. It was from the August 12th letter and looked at times SPX closed down 4 weeks in a row but above the 40-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	October 9, 2024 <small>Posted October 10, 2024 at 4:30 PM</small>
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)	3,701,276,921.8
US Treasury Floating Rate Notes (FRNs)	5,850,583.8
US Treasury Inflation-Protected Securities (TIPS)*	344,394,724.0
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	6,531,240,198.2

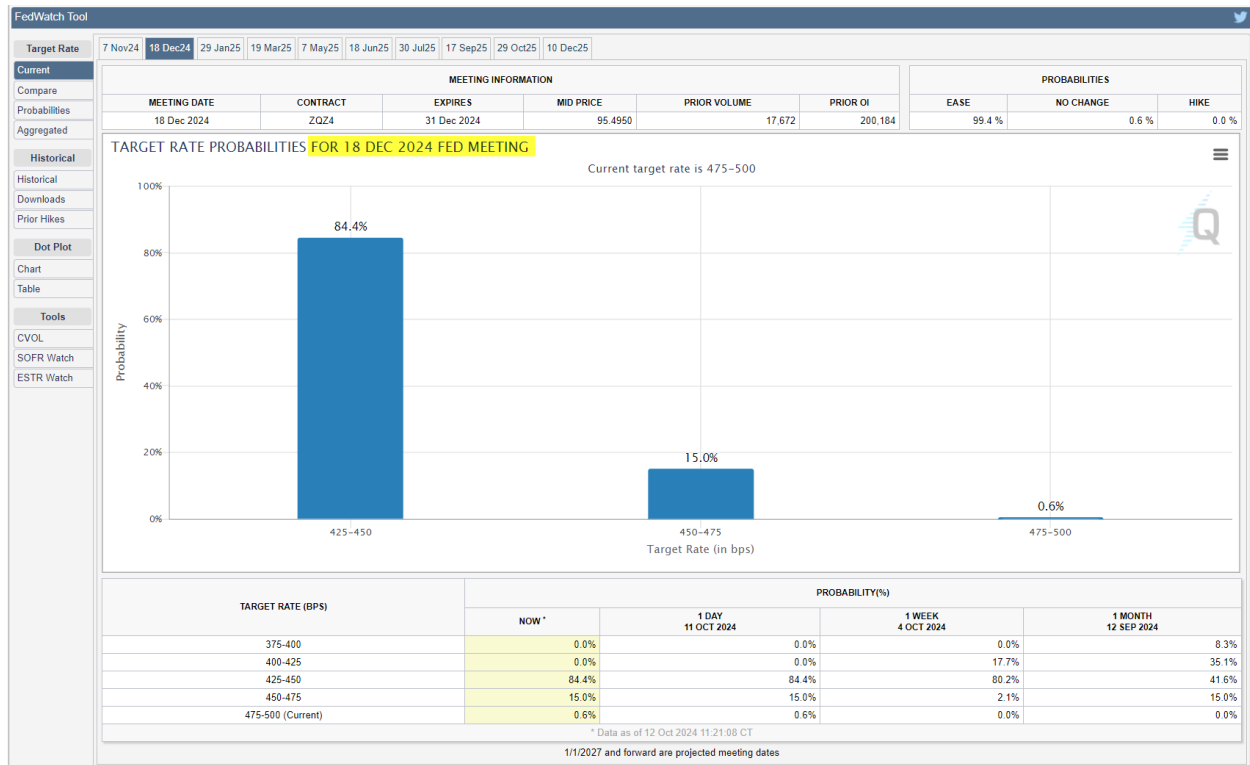
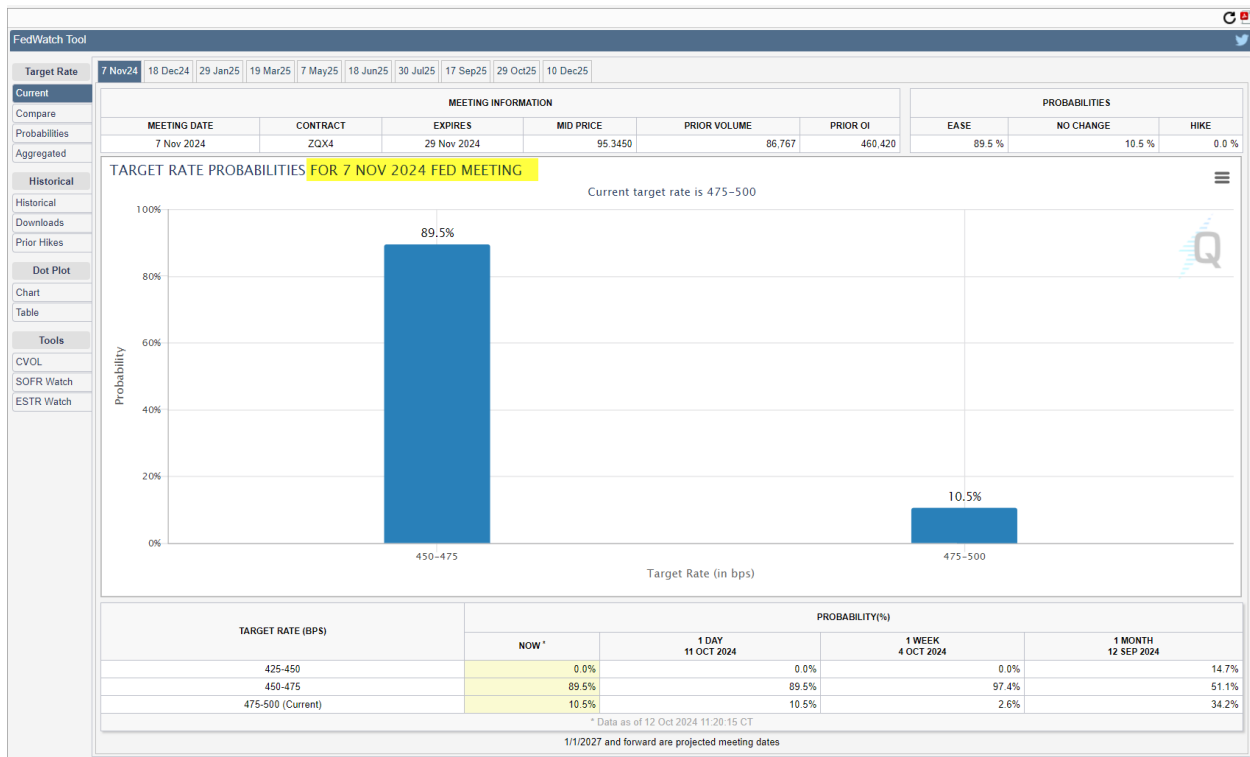
The SOMA saw no change in holdings over the past week. Meanwhile, reverse repos declined by \$40 billion. Combined for the week, SOMA and reverse repo action accounted for a \$40 billion liquidity infusion. I discussed reverse repos impact on liquidity [in the 4/8/24 letter](#). When they are rising, 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, odds did not change much for Fed rate expectations this. Odds of a 25 point cut have dipped from 97% to 89.5%, and odds of no cut has increased slightly from 3% to 10.5%. Odds for December’s meeting show about a 1% chance that rates will be where they are today, 15% that rates are 0.25% lower than today, and an 84% chance that rates are 0.5% below today. 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 as we get closer to these Fed meeting dates.

From an intermediate-term standpoint, my outlook is basically the same as last week. Evidence still seems to favor the bulls. SPX continues to make new highs, so the trend is certainly up. Some bullish momentum studies from weeks past remain in effect, and the NASDAQ/SPX Relative Leadership indicator is favoring the NASDAQ, which is typically a positive. Fed policy now appears neutral. There are plenty of potential triggers that could cause a market shock, from geopolitical to economic and Fed to election and new policy concerns. And valuations are certainly on the high end for stocks. But overall, bullish evidence continues to outweigh bearish. I will again maintain a bullish bias. Hence, I'll 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MDLZ(1/3)	10/3/2024	\$72.20	\$70.66	-2.13%	<i>sell on open</i>

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