

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 21, 2024

Volume 17 Issue 203

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	0

## Tonight's Research Points

- The week after October opex has historically seen high volatility in both directions.
- After going 30 days without seeing 2 consecutive down days, SPX is overdue for a dip.
- The SOMA decline mildly, but there was a big move lower in reverse repos, causing at sizable liquidity infusion. Reverse repos are now at their lowest level since 2021.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is suggesting a downside edge, but I am not terribly 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
<b>Active - Short Term</b>						
October 18, 2024	20-high then close btm 10% intraday rng	1-2 days	Bullish			
October 17, 2024	SPX goes 28 days w/out 2 straight down	1-4 days	Bearish			
<b>Active - Long Term</b>						
October 18, 2024	20-high then close btm 10% intraday rng	1-10 days	Bullish	2.20%	-1.40%	-2.80%
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			

***The Evidence***

Friday saw the market mostly higher. The SPX rose 0.4%, the NASDAQ gained 0.6%, and the Russell 2000 declined 0.2%. Breadth was positive as the NYSE Up Issues % was 54% and the Up Volume % came in at 56%. NYSE total volume rose some from Thursday's level.

The higher close on Friday means the market has now gone 30 trading days without posting 2 consecutive down days. In Wednesday night's letter I shared a study that looked at streaks of 28 days. I have pasted that study below. Beneath that I will update it to show results after the 30<sup>th</sup> day of a streak.

*The market has just been grinding higher or sideways since early September. In fact, Wednesday marked the 28<sup>th</sup> trading day in a row in which we have not seen 2 consecutive down days. That is a remarkable streak. I decided to look back at other times this has happened. There have not been many. I show them all below along with their forward performance.*

Today is the 28th day in a row that SPX has gone without closing down 2 consecutive days. Forward returns shown. 1928 - present.

Ticker	Date/Time	Next Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg
\$SPX	4/22/1955	0.26	0.79	0.26	-0.87	-0.13
\$SPX	1/31/1961	0.19	0.84	0.71	-0.03	-0.21
\$SPX	2/13/1985	-0.51	-0.95	-1.1	-1.18	-1.72
\$SPX	9/9/2003	-1.2	-0.66	-0.44	-0.82	0.6
\$SPX	1/22/2004	-0.21	1	0.01	-1.35	-0.86
\$SPX	9/22/2004	-0.47	-0.31	-0.9	-0.31	0.11
\$SPX	3/4/2005	0.26	-0.22	-1.24	-1.05	-1.8
\$SPX	1/20/2010	-1.89	-4.07	-3.63	-4.03	-3.56
\$SPX	1/26/2012	-0.16	-0.41	-0.46	0.43	0.54
\$SPX	11/15/2019	0.05	-0.01	-0.38	-0.54	-0.33
\$SPX	1/22/2020	0.11	-0.79	-2.35	-1.37	-1.46
\$SPX	7/22/2020	-1.23	-1.84	-1.12	-1.76	-0.54
	<b>Winners</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>
	<b>Losers</b>	<b>7</b>	<b>9</b>	<b>9</b>	<b>11</b>	<b>9</b>
	<b>Win %</b>	<b>41.7%</b>	<b>25.0%</b>	<b>25.0%</b>	<b>8.3%</b>	<b>25.0%</b>
	<b>Average</b>	<b>-0.40</b>	<b>-0.55</b>	<b>-0.89</b>	<b>-1.07</b>	<b>-0.78</b>

Following streaks of the length we are seeing now, the next few days have been rough. Eleven of twelve instances found themselves lower 4 days later, and by more than 1% on average. Another way to look at this is to simply buy on day 28, and then sell at the close when SPX actually makes its 2<sup>nd</sup> consecutive down day. Results of this “system” can be seen below.

Today is the 28th day in a row that SPX has gone without closing down 2 consecutive days. Buy on close. Sell on close when it does close down for the 2nd day in a row. 1928 - present.

Symbol	Trade	Entry Date	Entry Price	Exit Date	Exit Price	Days In Trade	% chg
\$SPX	Long	4/22/1955	38.01	4/28/1955	37.68	4	-0.87%
\$SPX	Long	1/31/1961	61.78	2/6/1961	61.76	4	-0.03%
\$SPX	Long	2/13/1985	183.35	2/15/1985	181.6	2	-0.95%
\$SPX	Long	9/9/2003	1023.17	9/10/2003	1010.92	1	-1.20%
\$SPX	Long	1/22/2004	1143.94	1/23/2004	1141.55	1	-0.21%
\$SPX	Long	9/22/2004	1113.56	9/23/2004	1108.36	1	-0.47%
\$SPX	Long	3/4/2005	1222.12	3/9/2005	1207.01	3	-1.24%
\$SPX	Long	1/20/2010	1138.04	1/21/2010	1116.48	1	-1.89%
\$SPX	Long	1/26/2012	1318.43	1/27/2012	1316.33	1	-0.16%
\$SPX	Long	11/15/2019	3120.46	11/20/2019	3108.46	3	-0.38%
\$SPX	Long	1/22/2020	3321.75	1/27/2020	3243.63	3	-2.35%
\$SPX	Long	7/22/2020	3276.02	7/24/2020	3215.63	2	-1.84%
						Win %	0%
						Average	-0.97%

All losers. You can see by the “days in trade” column that the longest any of these trades lasted was 4 days. So the longest streak without 2 consecutive down days topped out at 32 days, and those were in 1955 and 1961. Slicing this a few different ways, it seems to suggest a short-term downside edge. I have added it to the Active List tonight.

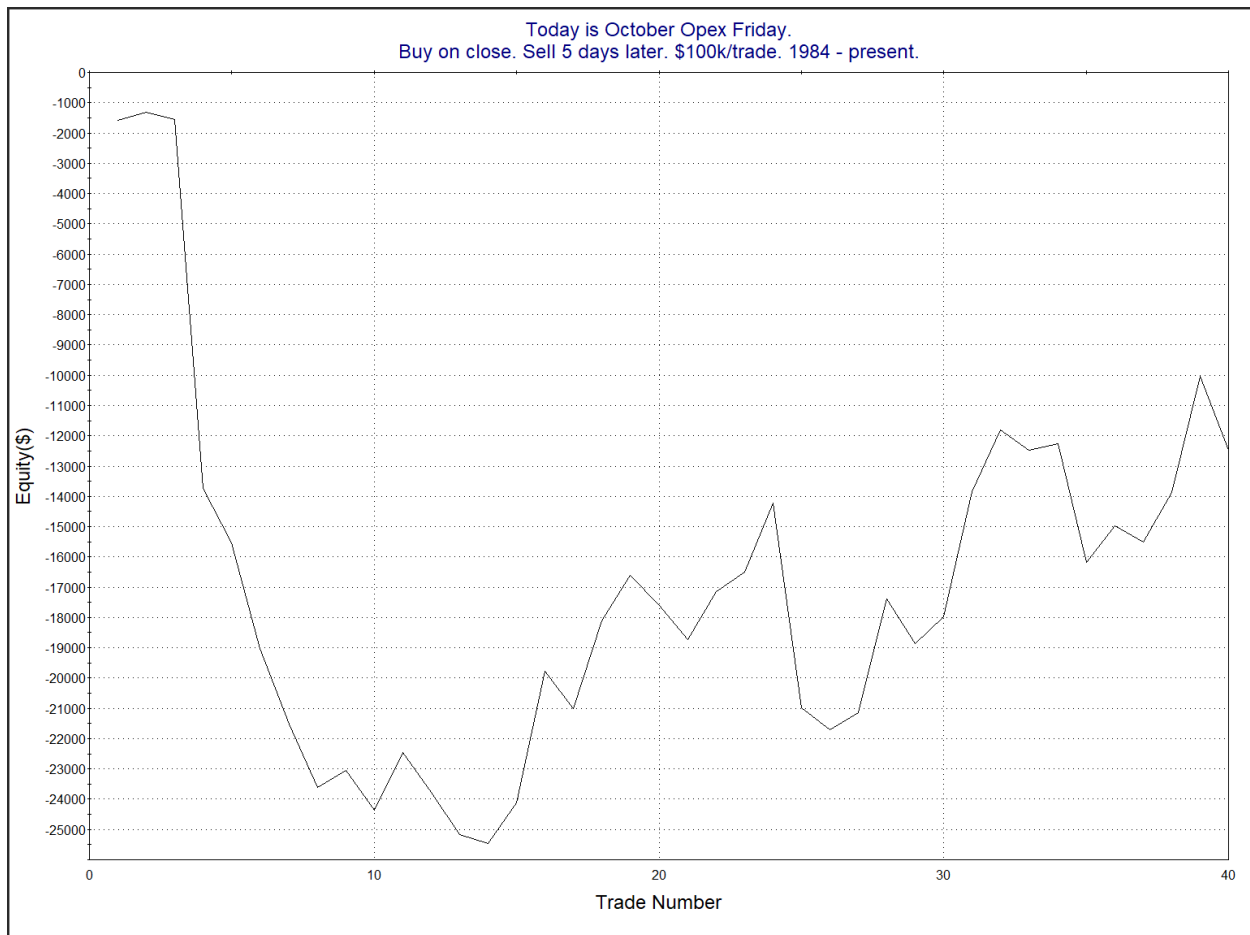
Now let’s look at those instances that made it as far as 30 days, like the current one.

Today is the 30th day in a row that SPX has gone without closing down 2 consecutive days. Forward returns shown. 1928 - present.

Ticker	Date/Time	Today's % Chg	Next Day % Chg	2-Day %Chg	3-Day %Chg
\$SPX	4/26/1955	0.52	-0.52	-1.64	-0.91
\$SPX	2/2/1961	0.65	-0.13	-0.87	-1.04
\$SPX	3/8/2005	-0.48	-1.02	-0.83	-1.59
\$SPX	11/19/2019	-0.06	-0.38	-0.53	-0.32
\$SPX	1/24/2020	-0.9	-1.57	-0.58	-0.67

All 5 instances struggled over the next 3 days. That does not mean the market *has* to decline immediately. But SPX is certainly greatly overdue for more than a 1-day drop.

It is also notable that we are going into a week with traditionally high volatility. Below is a look at 5-day performance following opex Friday in October.



That early 12% drop was the Crash of '87 week. Since the late 90s we have actually seen decent gains. But there has still been wild chop in both directions. The average winning week has risen 1.9% and the average losing week has lost 2.3%. Those are sizable average 1-week moves. This suggests we are in a time of elevated risk.

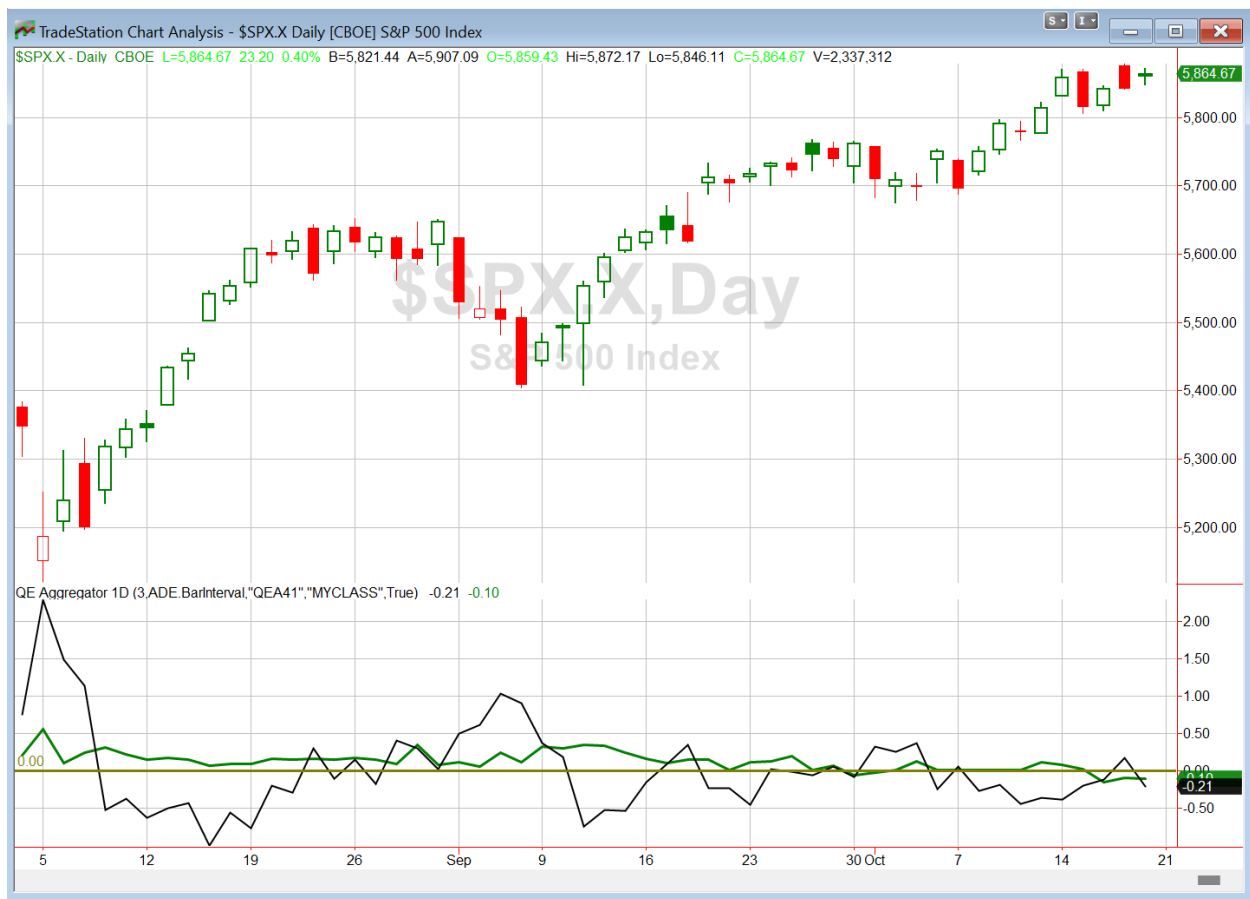
But the QE Seasonality Calendar is a bright spot.

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
<b>Baseline</b>	<b>53.73</b>	<b>1.141</b>	<b>0.048</b>

This upcoming week is showing all bullish numbers, even if many of them are fairly mild.

So while there were a few things to look at, nothing is showing compelling enough evidence that I am going to add it to the active list. (The 28 days without 2 consecutive down study is already on the list.)

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



Without any new studies making the list this weekend, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside 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 negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the current active studies, expectations are slated to remain negative on Monday. This could easily change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 5839.09 on Monday. That is 0.4% below Friday's close. Therefore, SPX will need to close down at least 0.4% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is bearish. But evidence is mixed, we are entering a potentially volatile week, and a short position would be counter-trend. So I am not excited about getting involved on the short side just yet. I will continue to bide my time until a more compelling setup emerges.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 10/21 – *bullish***

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

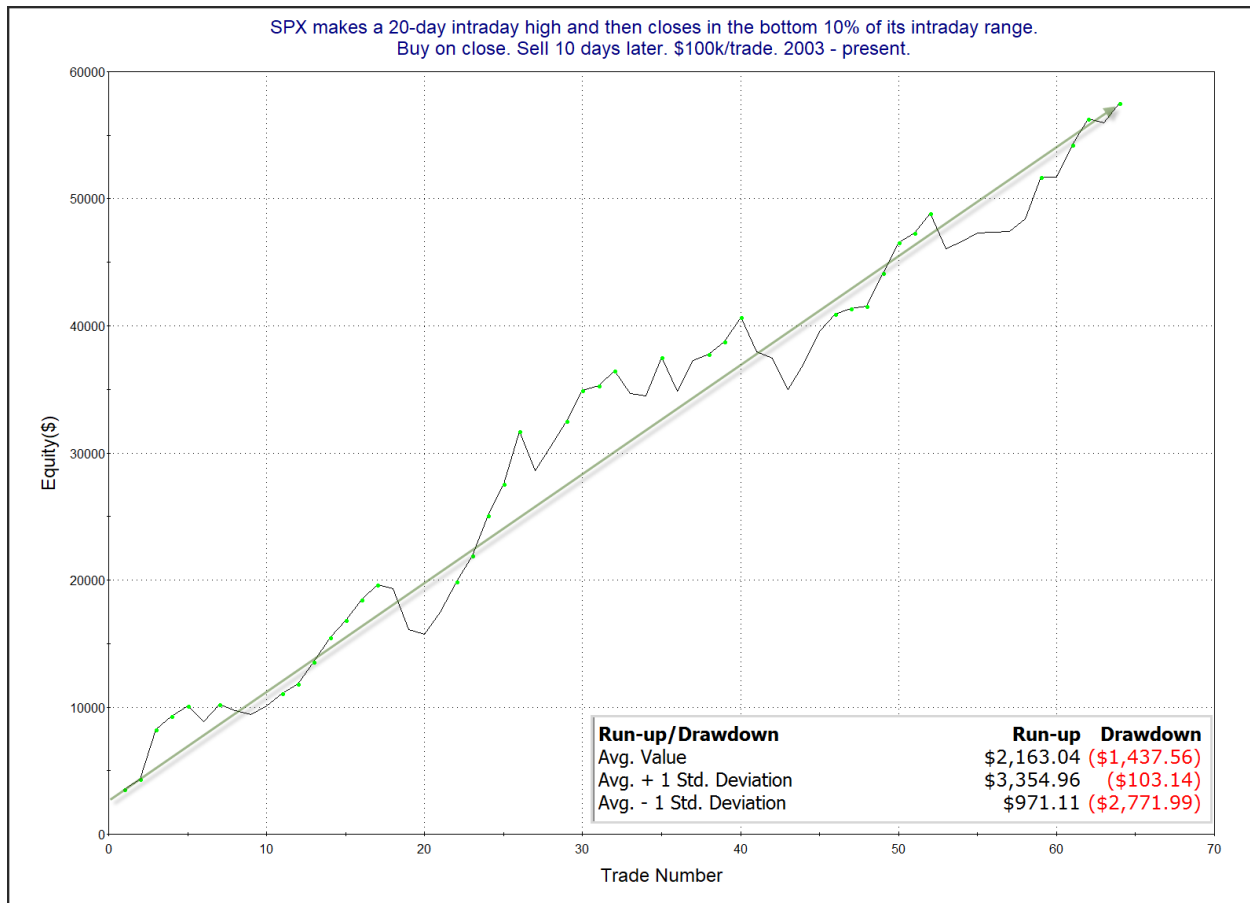
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

This past week saw gains for stocks. The SPX rose 0.85%, the NASDAQ gained 0.8%, and the Russell 2000 (RUT) jumped 1.9%. Bonds treaded water. The US Aggregate Bond ETF (AGG) rose 0.02%. TLT, the 20-year Treasury Bond ETF, climbed 0.18%. SPX made another all-time closing high, confirming the fact that the long-term uptrend remains in place. The NASDAQ is also getting close to a new all-time high. There was one new study that triggered with bullish intermediate-term implications. It was from Thursday night's letter, and I have copied it below.

*Early in the day the SPX 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 recently in the 5/17/24 subscriber letter. Results are updated.*

SPX makes a 20-day intraday high and then closes in the bottom 10% of its 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	57,512.34	64	48	16	75.00	4,119.18	-3,210.80	1,664.54	-1,399.09	1.19	3.57	898.63
9	50,820.65	65	47	18	72.31	3,613.36	-3,775.10	1,624.28	-1,417.80	1.15	2.99	781.86
8	50,391.91	66	49	17	74.24	4,483.84	-3,803.24	1,587.08	-1,610.29	0.99	2.84	763.51
7	41,584.81	67	49	18	73.13	3,761.94	-4,159.32	1,431.96	-1,587.85	0.90	2.45	620.67
6	38,842.98	68	50	18	73.53	3,703.30	-3,567.90	1,249.08	-1,311.72	0.95	2.65	571.22
5	22,495.35	68	42	26	61.76	4,377.84	-3,566.84	1,095.32	-904.16	1.21	1.96	330.81
4	19,477.96	70	46	24	65.71	5,024.25	-2,435.84	978.65	-1,064.16	0.92	1.76	278.26
3	16,732.90	70	43	27	61.43	3,368.93	-3,384.50	913.00	-834.30	1.09	1.74	239.04
2	19,945.16	70	42	28	60.00	3,288.48	-1,575.22	840.91	-549.04	1.53	2.30	284.93
1	14,591.33	71	47	24	66.20	2,588.08	-2,471.25	575.65	-519.35	1.11	2.17	205.51

*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

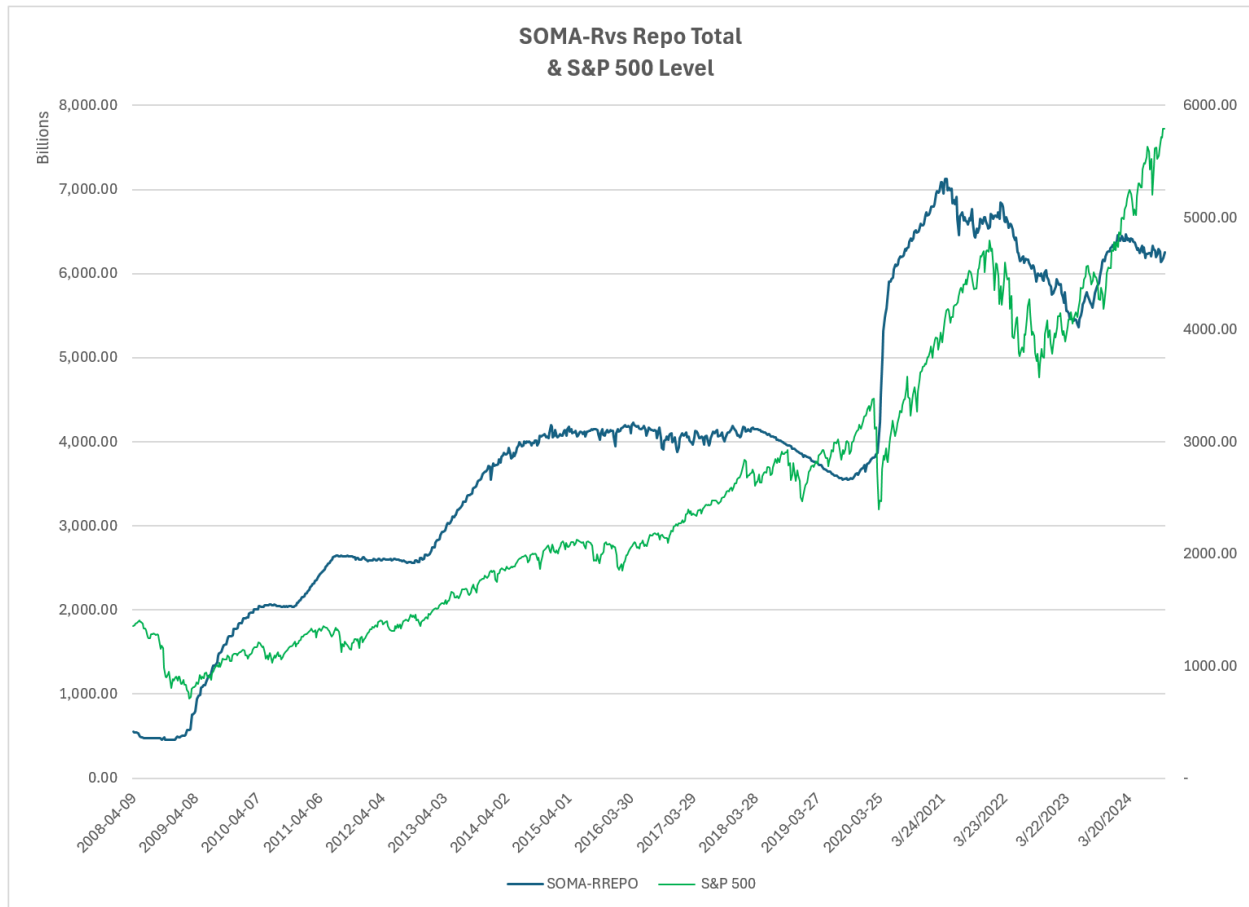
◀ Previous **October 16, 2024** 📅  
Posted October 17, 2024 at 4:30 PM

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

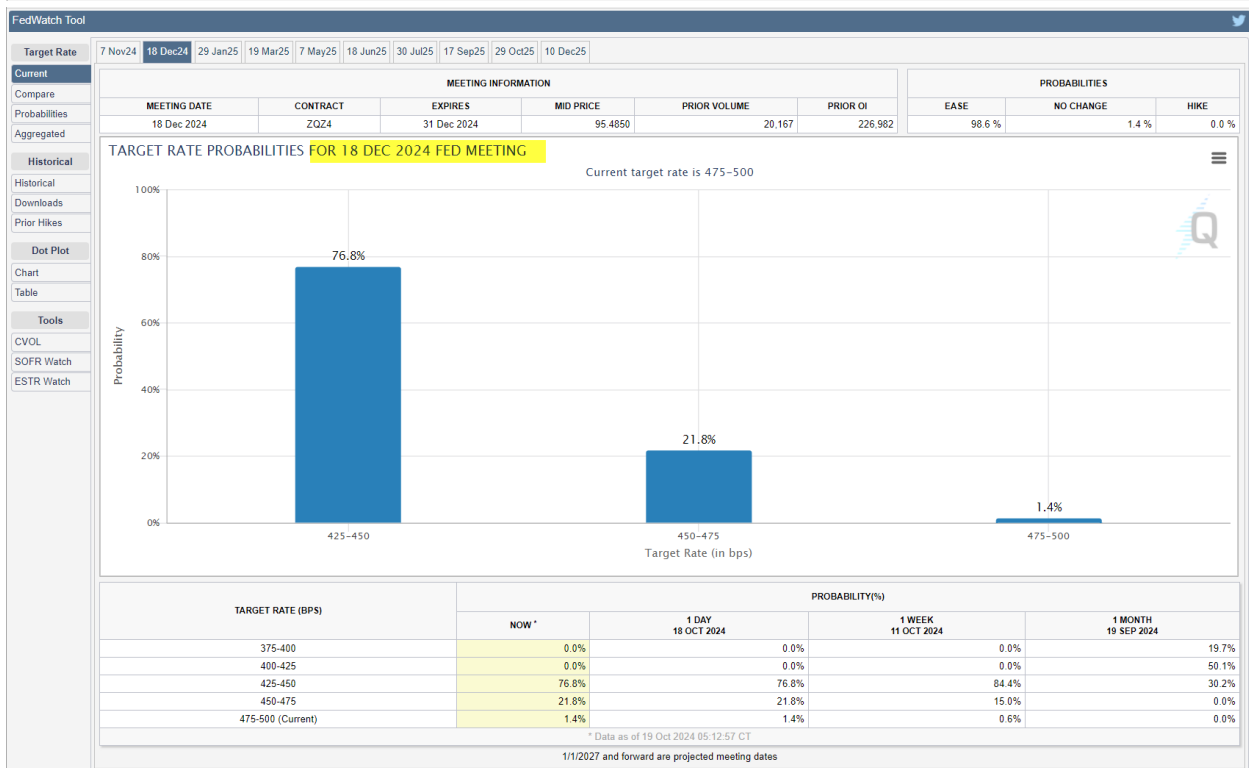
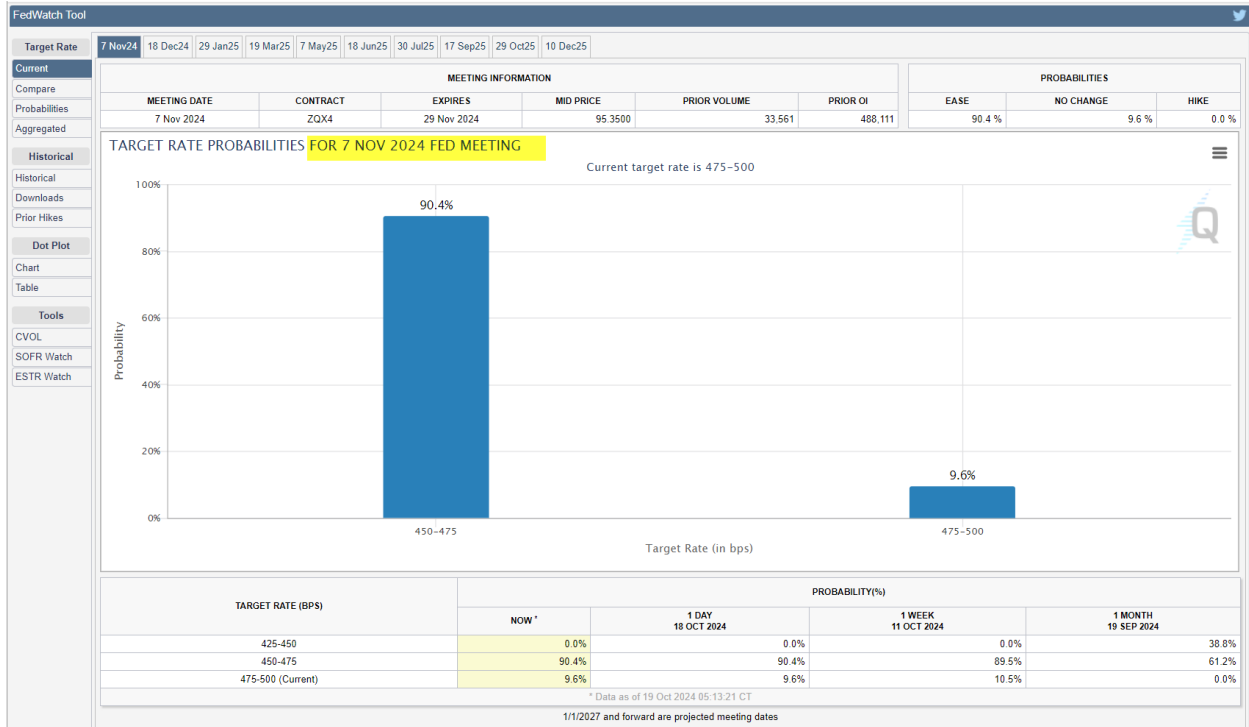
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,292,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,698,546,149.1
US Treasury Floating Rate Notes (FRNs)	5,850,583.8
US Treasury Inflation-Protected Securities (TIPS)*	340,930,633.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,273,984,962.1
Agency Commercial Mortgage-Backed Securities***	8,103,435.8
Total SOMA Holdings	6,525,055,691.1
Change From Prior Week	-6,184,507.1

The SOMA posted a moderate decline of \$6 billion over the past week. Meanwhile, reverse repos declined by \$71 billion. Combined for the week, SOMA and reverse repo action accounted for a \$65 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 1<sup>st</sup> 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 this week reverse repos stand at just \$272 billion, which is the lowest level since 2021. 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 are 90%, and odds of no cut is about 10%, basically in line with a week ago. Odds for December's meeting show about a 1% chance that rates will be where they are today, 22% that rates are 0.25% lower than today, and a 77% 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. We also have the study from Thursday night's letter suggesting bullish implications over the next couple of weeks. 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**

**None**

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