

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 16, 2024

Volume 17 Issue 242

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	3

## Tonight's Research Points

- Opex week in December (and basically the rest of the month) has historically been bullish.
- January effect, where smallcaps tend to outperform, is set to kick in on Monday.
- Another study shows smallcaps performance has been strong from December opex Thursday for the next few weeks.
- There was a small liquidity drain this past week from reverse repos.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. But I am on the lookout for a bullish setup in the next few days.

**Summary of Current 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>						
December 16, 2024	December opex week bullish	1-3 days	Bullish	1.40%	-0.80%	-1.80%
<b>Active - Long Term</b>						
December 16, 2024	December opex week starts bullish period	1-15 days	Bullish	3.30%	-1.90%	-4.00%
November 27, 2024	SPX up 7 days in a row	1-20 days	Bullish	3.00%	-2.00%	-4.30%
November 26, 2024	Triple 70 Thrust	1-80 days	Bullish	9.40%	-4.60%	-11.20%
November 8, 2024	50-day %b > 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
September 30, 2024	NASDAQ Leading	int term	Bullish			
September 23, 2024	Fed neutral. QT active. Rates dropping.	int term	Neutral			
June 14, 2024	SPX new high with < 50% stocks > 100ma	1-18 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***

Stocks were mixed on Friday. The SPX closed near breakeven with a 0.16 point decline, the NASDAQ rose 0.1%, and the Russell 2000 dropped 0.6%. Breadth was weak. The NYSE Up Issues % was 30% and the Up Volume % came in at 34%. NYSE total volume rose some from Thursday's level.

We have some strong seasonality ready to kick in this upcoming week. In the nightly letter the last couple of nights I featured a few studies that will kick in on Monday. I have copied those studies below.

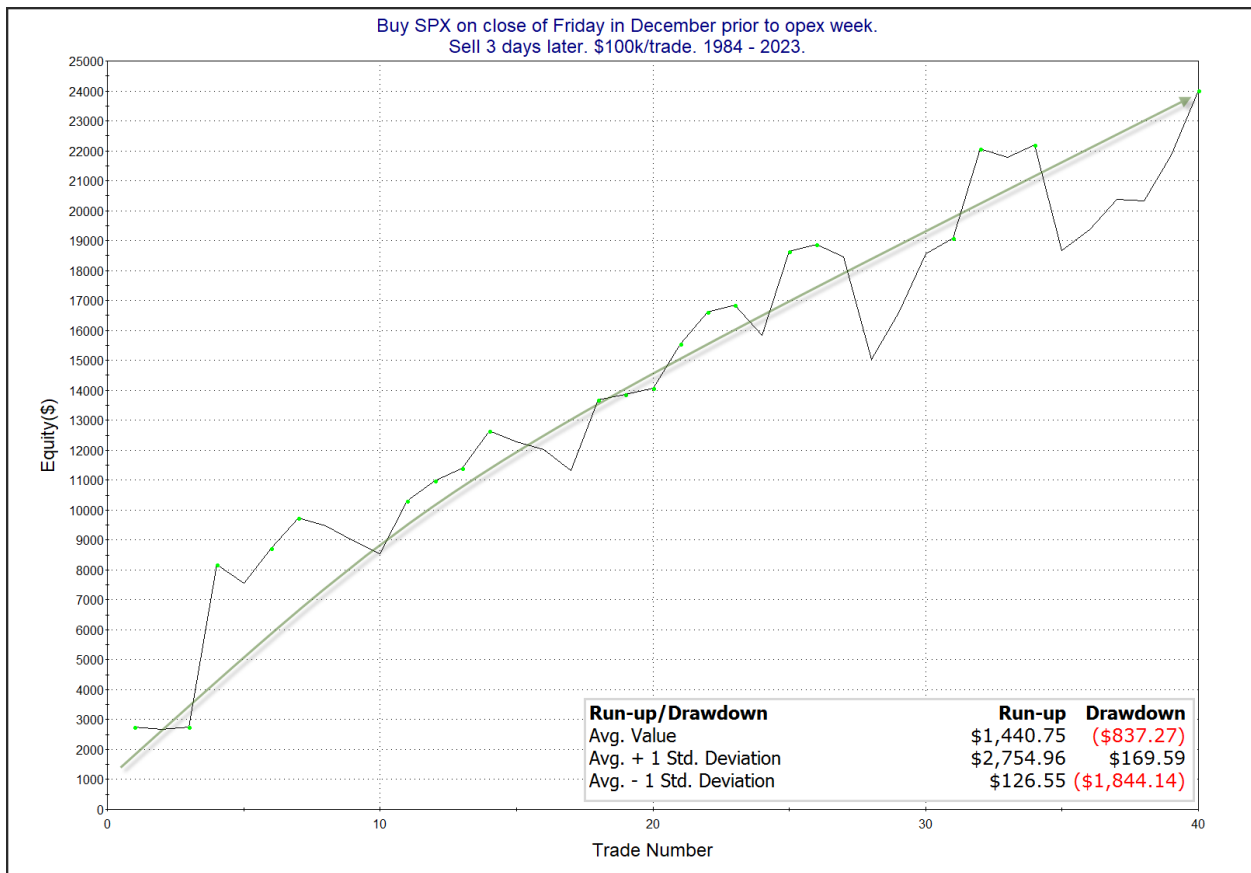
*Opex week in December has long been the start of a bullish end-of-year trading period. The study below looks at opex week in December back to 1984, which was the first year that SPX options traded. It also extends out to 15 days. It was last seen in the 12/11/23 letter and has been updated.*

Buy SPX on close of Friday in December prior to opex week.  
Sell X days later. \$100k/trade. 1984 - 0223.

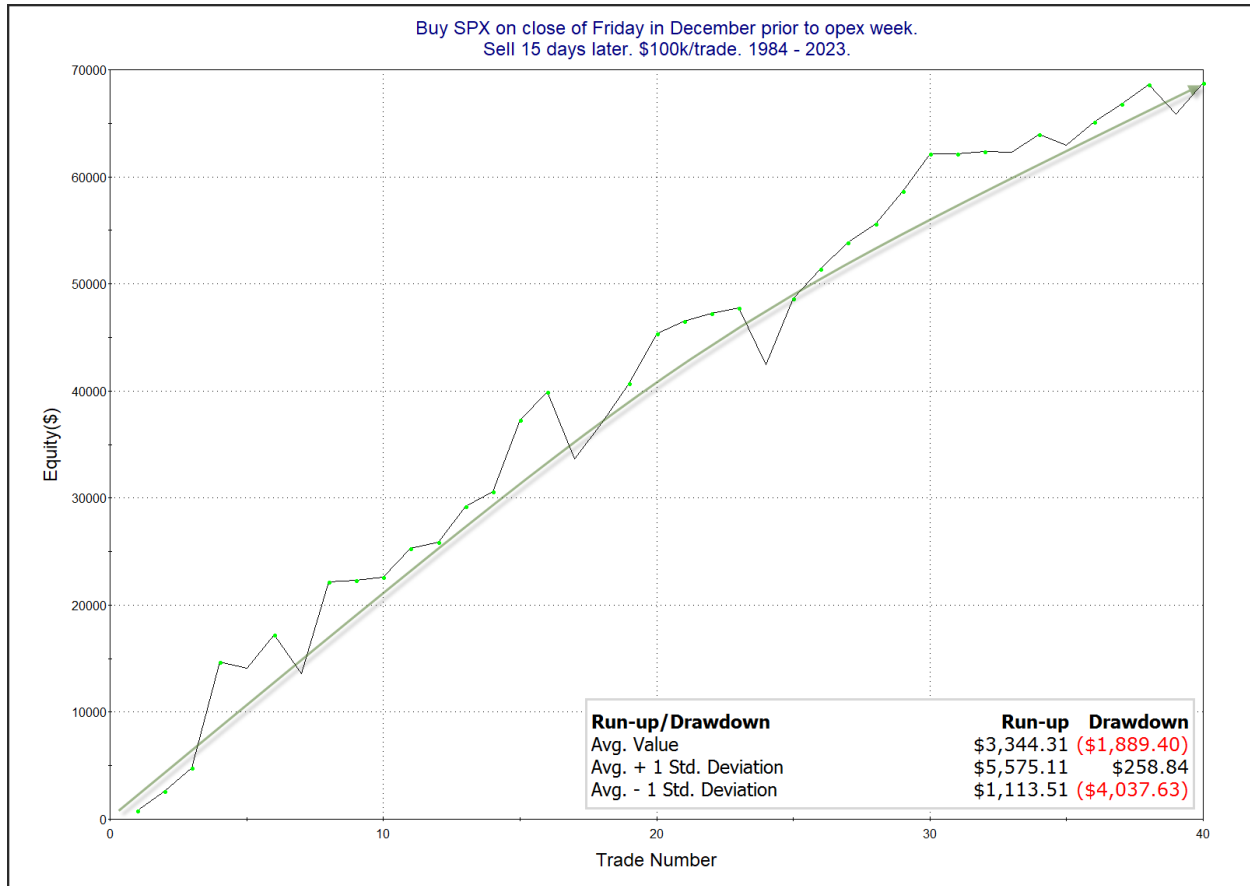
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	68,742.71	40	33	7	82.50	9,879.20	-6,297.71	2,678.42	-2,806.46	0.95	4.50	1,718.57
14	63,604.51	40	32	8	80.00	8,742.88	-3,579.92	2,515.44	-2,111.18	1.19	4.77	1,590.11
13	63,839.95	40	31	9	77.50	9,068.80	-3,830.44	2,531.92	-1,627.72	1.56	5.36	1,596.00
12	54,980.89	40	29	11	72.50	8,528.00	-5,778.28	2,555.76	-1,739.64	1.47	3.87	1,374.52
11	56,621.14	40	29	11	72.50	8,483.80	-3,966.09	2,489.57	-1,416.04	1.76	4.64	1,415.53
10	51,346.38	40	31	9	77.50	7,974.20	-4,640.61	2,141.98	-1,672.77	1.28	4.41	1,283.66
9	41,226.31	40	27	13	67.50	7,080.80	-6,909.45	2,329.78	-1,667.51	1.40	2.90	1,030.66
8	35,337.17	40	29	11	72.50	7,564.16	-7,650.40	2,011.60	-2,090.84	0.96	2.54	883.43
7	30,273.75	40	29	11	72.50	6,198.88	-5,025.50	1,827.12	-2,064.79	0.88	2.33	756.84
6	20,824.02	40	31	9	77.50	6,025.04	-9,456.30	1,557.66	-3,051.51	0.51	1.76	520.60
5	23,373.12	40	29	11	72.50	5,868.16	-6,968.06	1,489.16	-1,801.15	0.83	2.18	584.33
4	17,806.14	40	27	13	67.50	3,243.60	-5,036.14	1,256.08	-1,239.08	1.01	2.11	445.15
3	24,020.20	40	26	14	65.00	5,410.24	-3,533.62	1,383.36	-853.36	1.62	3.01	600.50
2	20,330.07	40	28	12	70.00	3,779.85	-2,327.34	1,123.76	-927.95	1.21	2.83	508.25
1	5,306.30	40	23	17	57.50	2,912.88	-2,147.10	792.38	-759.91	1.04	1.41	132.66

2018 was the only year that SPX failed to make a higher close at any point in the next 3 weeks.  
All other years did so within 10 days.

The stats here are very strong. Below is an equity curve using a 3-day holding period.



*A bit choppy, but the curve has persisted higher and again made new highs last year. Next let's look at the 15-day curve.*



*They don't get much better looking than that. Every dip has quickly been recovered, making the curve quite smooth. Of course we also have a Fed meeting coming up next week, so there will be multiple seasonal influences working at the same time. I'll show this study again in the weekend letter, but figured I would get a head-start today with little else triggering.*

*In past years I discussed the January Effect, which is a tendency that I believe was first published in the Stock Traders Almanac. It suggests that from mid-December into early January smallcap stocks tend to outperform largecaps. My past research has looked back to 1988 and used the Russell 2000 versus the SPX. I found that the bulk of this tendency was realized in the end of December and the 1st day of January. I measured from the 15th of December (or the 1st trading day afterwards if the 15th was a weekend) through the 1st trading day in January. Since 1988 we*

*have now seen the Russell outperform 27 of 36 years, or 75% of the time. And years of outperformance have greatly outsized years when the Russell underperformed. Gains in the years of outperformance have totaled 44.14%, while the 9 years of underperformance have only totaled 7.81% in losses. That's 5.65 to 1. And the only losing years to post a loss of greater than 1% were 1991 when the SPX outperformed the Russell by 2.82%, and 2019, when SPX outperformed by 1.06%. Below is a table that breaks it all down by year.*

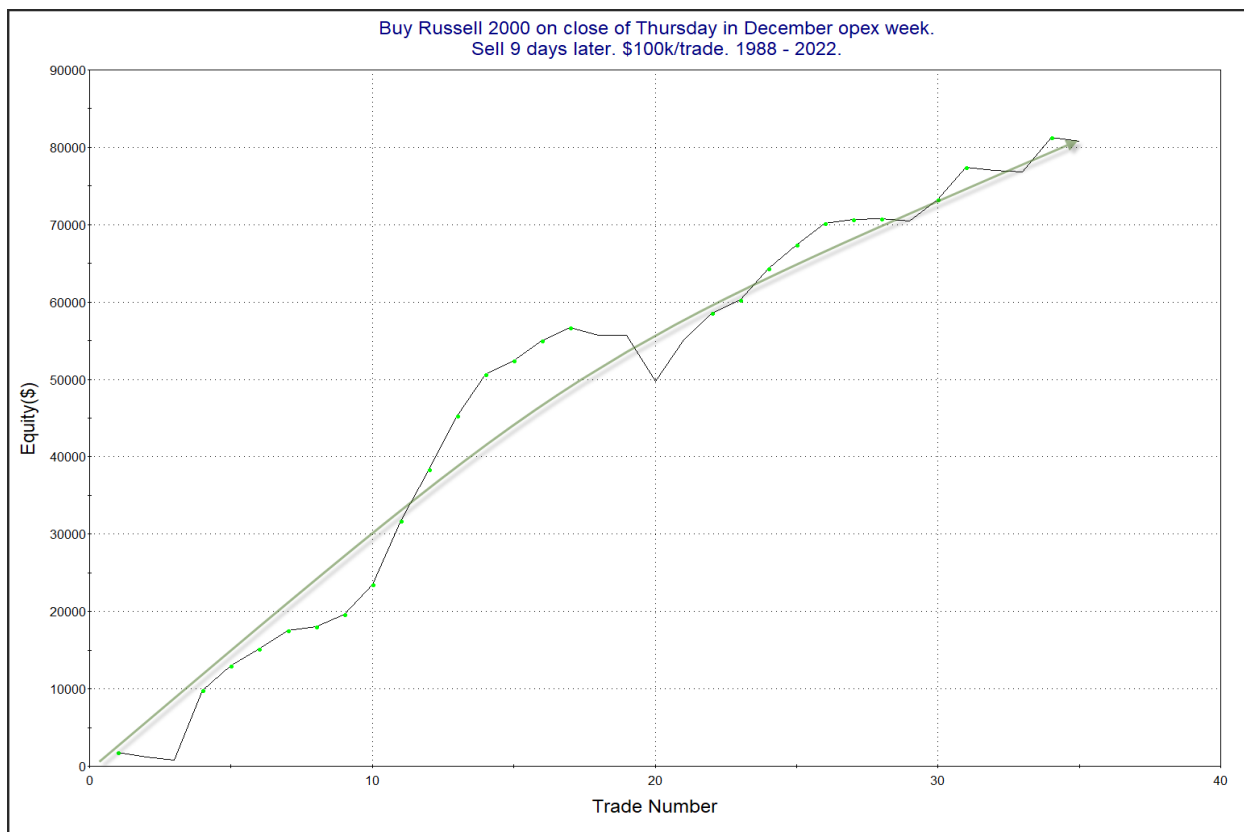
	Dec 15 - 1st Trading Day of Jan		
	SPX	Rut	RUT - SPX
Year	% Return	% Return	% Difference
1988	0.38%	2.53%	<b>2.15%</b>
1989	2.73%	2.08%	<b>-0.65%</b>
1990	0.13%	1.96%	<b>1.83%</b>
1991	8.53%	5.71%	<b>-2.82%</b>
1992	0.65%	2.83%	<b>2.18%</b>
1993	0.78%	2.68%	<b>1.90%</b>
1994	0.83%	2.50%	<b>1.67%</b>
1995	0.71%	2.06%	<b>1.35%</b>
1996	2.22%	2.42%	<b>0.20%</b>
1997	1.21%	3.75%	<b>2.54%</b>
1998	5.61%	8.60%	<b>2.99%</b>
1999	2.96%	7.61%	<b>4.65%</b>
2000	-2.21%	0.97%	<b>3.18%</b>
2001	1.79%	1.51%	<b>-0.28%</b>
2002	-0.15%	-0.59%	<b>-0.44%</b>
2003	3.79%	4.78%	<b>0.99%</b>
2004	-0.30%	-1.26%	<b>-0.96%</b>
2005	-0.17%	-0.10%	<b>0.07%</b>
2006	-0.74%	-0.68%	<b>0.06%</b>
2007	0.09%	1.94%	<b>1.85%</b>
2008	7.28%	11.65%	<b>4.37%</b>
2009	2.26%	5.53%	<b>3.27%</b>
2010	2.97%	3.89%	<b>0.92%</b>
2011	5.04%	5.08%	<b>0.04%</b>
2012	2.24%	4.60%	<b>2.36%</b>
2013	2.54%	2.76%	<b>0.22%</b>
2014	3.45%	5.13%	<b>1.68%</b>
2015	-1.50%	-2.03%	<b>-0.53%</b>
2016	-0.19%	-0.07%	<b>0.12%</b>
2017	0.75%	1.28%	<b>0.53%</b>
2018	-1.41%	-1.61%	<b>-0.20%</b>
2019	2.08%	1.02%	<b>-1.06%</b>
2020	0.16%	-0.71%	<b>-0.87%</b>
2021	1.84%	3.52%	<b>1.68%</b>
2022	-1.84%	-1.35%	<b>0.49%</b>
2023	0.54%	1.39%	<b>0.85%</b>
<b>Total</b>	<b>55.05%</b>	<b>91.38%</b>	<b>36.33%</b>

*Recent years have not been as consistent as previous times. So perhaps the outperformance is not as reliable as it once appeared. Still, I think it is worth some consideration. Starting at the end of next week I may consider using IWM (the Russell 2000 ETF) instead of SPY for some long index trades to take advantage of the probable Russell outperformance.*

Next is a study I have shown for several years that looks at buying the Russell 2000 on opex Thursday in December and holding for up to 2 weeks.

Buy Russell 2000 on close of Thursday in December opex week. Sell X days later. \$100k/trade. 1988 - 2022.												
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	80,140.88	35	25	10	71.43	10,279.71	-5,643.30	3,869.45	-1,659.55	2.33	5.83	2,289.74
9	80,812.77	35	27	8	77.14	9,009.63	-5,973.50	3,332.75	-1,146.45	2.91	9.81	2,308.94
8	65,640.91	35	28	7	80.00	7,115.85	-2,948.40	2,630.75	-1,145.72	2.30	9.18	1,875.45
7	62,287.37	35	28	7	80.00	7,790.58	-1,809.60	2,484.39	-1,039.35	2.39	9.56	1,779.64
6	50,846.01	35	26	9	74.29	6,599.88	-2,720.64	2,244.56	-834.71	2.69	7.77	1,452.74
5	38,410.60	35	25	10	71.43	4,892.25	-3,194.64	2,008.02	-1,178.98	1.70	4.26	1,097.45
4	32,106.91	35	26	9	74.29	4,413.75	-3,892.32	1,740.56	-1,460.86	1.19	3.44	917.34
3	24,454.68	35	24	11	68.57	3,814.20	-2,650.68	1,614.87	-1,300.19	1.24	2.71	698.71
2	5,123.48	35	19	16	54.29	3,495.70	-4,431.00	1,341.83	-1,273.20	1.05	1.25	146.39
1	9,312.20	35	19	16	54.29	2,299.70	-2,543.25	921.61	-512.39	1.80	2.14	266.06

Results here are very strong. But a look at the max loss column shows you that it has not been without risk. Below is an equity curve that assumes a 9-day exit strategy.



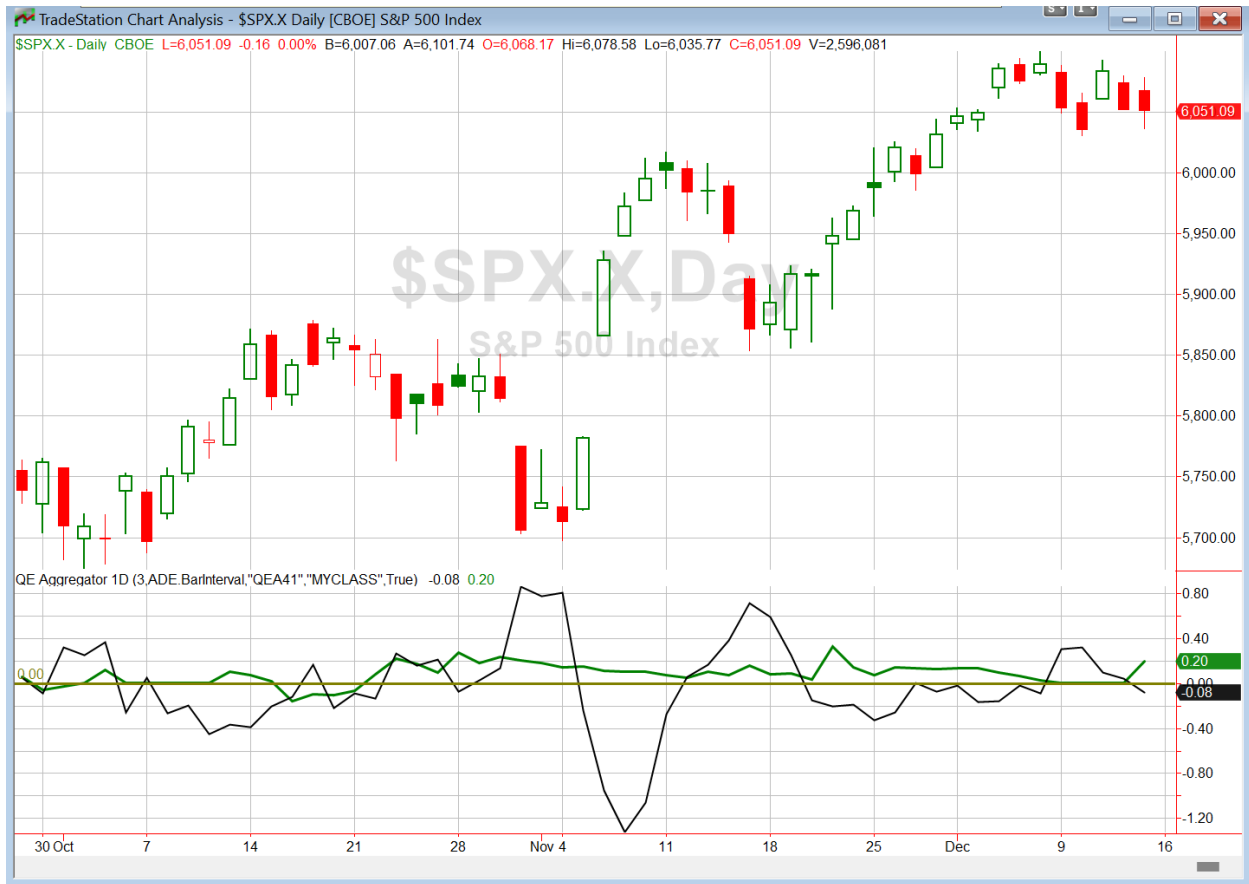
That is a strong looking curve. I'll re-post this study again Thursday night when it actually triggers.

Lastly, let's take a look at the Seasonality Calendar.

<b>Quantifiable Edges Seasonality Calendar</b>			
<b>\$SPX S&amp;P 500 Index</b>			
<b>Date</b>	<b>Win%</b>	<b>Profit Factor</b>	<b>Avg % Chg</b>
12/2/2024	58.37	1.634	0.169
12/3/2024	48.14	1.043	0.011
12/4/2024	55.82	1.340	0.099
12/5/2024	52.92	1.134	0.043
12/6/2024	53.68	1.213	0.071
12/9/2024	50.75	0.915	-0.038
12/10/2024	50.15	1.062	0.011
12/11/2024	50.83	0.896	-0.038
12/12/2024	51.61	0.942	-0.023
12/13/2024	51.72	1.115	0.024
12/16/2024	57.63	1.081	0.020
12/17/2024	53.37	1.269	0.063
12/18/2024	50.61	0.993	-0.007
12/19/2024	51.78	0.985	-0.009
12/20/2024	51.61	1.020	-0.019
12/23/2024	58.65	1.535	0.119
12/24/2024	57.67	1.528	0.106
12/26/2024	54.52	1.511	0.120
12/27/2024	59.34	1.527	0.117
12/30/2024	53.64	1.150	0.034
12/31/2024	52.66	1.143	0.021
<b>Baseline</b>	<b>53.73</b>	<b>1.143</b>	<b>0.049</b>

The Calendar is showing Wednesday and Thursday as neutral, but the rest of the month is showing bullish numbers.

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 dropped below zero. The positive 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 turned flat at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 6085.09. That is 0.6% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close up over 0.6% in order to remain overbought. Anything other than that and it will change to oversold versus expectations as of Monday's close.

So the Aggregator is neutral. But we are entering a strong seasonal period, and it could easily flip back to bullish unless there is a decent move higher on Monday. I am not going to jump the gun and look to take on any long index exposure on Monday, but I am on the lookout for possibly taking on a small amount Tuesday if things set up ahead of Wednesday's Fed meeting.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 12/16 – *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 was mixed for stocks. The SPX lost 0.6%, the NASDAQ rose 0.3%, and the Russell 2000 (RUT) declined 2.6%. Bonds got whacked. The US Aggregate Bond ETF (AGG) fell 1.4%. TLT, the 20-year Treasury Bond ETF, tumbled 4.5%. The NASDAQ made new all-time highs, and the SPX is still not far from them. So the long-term uptrend appears intact. There only studies that triggered in the last few days with intermediate-term implications were the seasonality studies already discussed in the short-term section.

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

Export current release to: [CSV](#) | [XML](#)

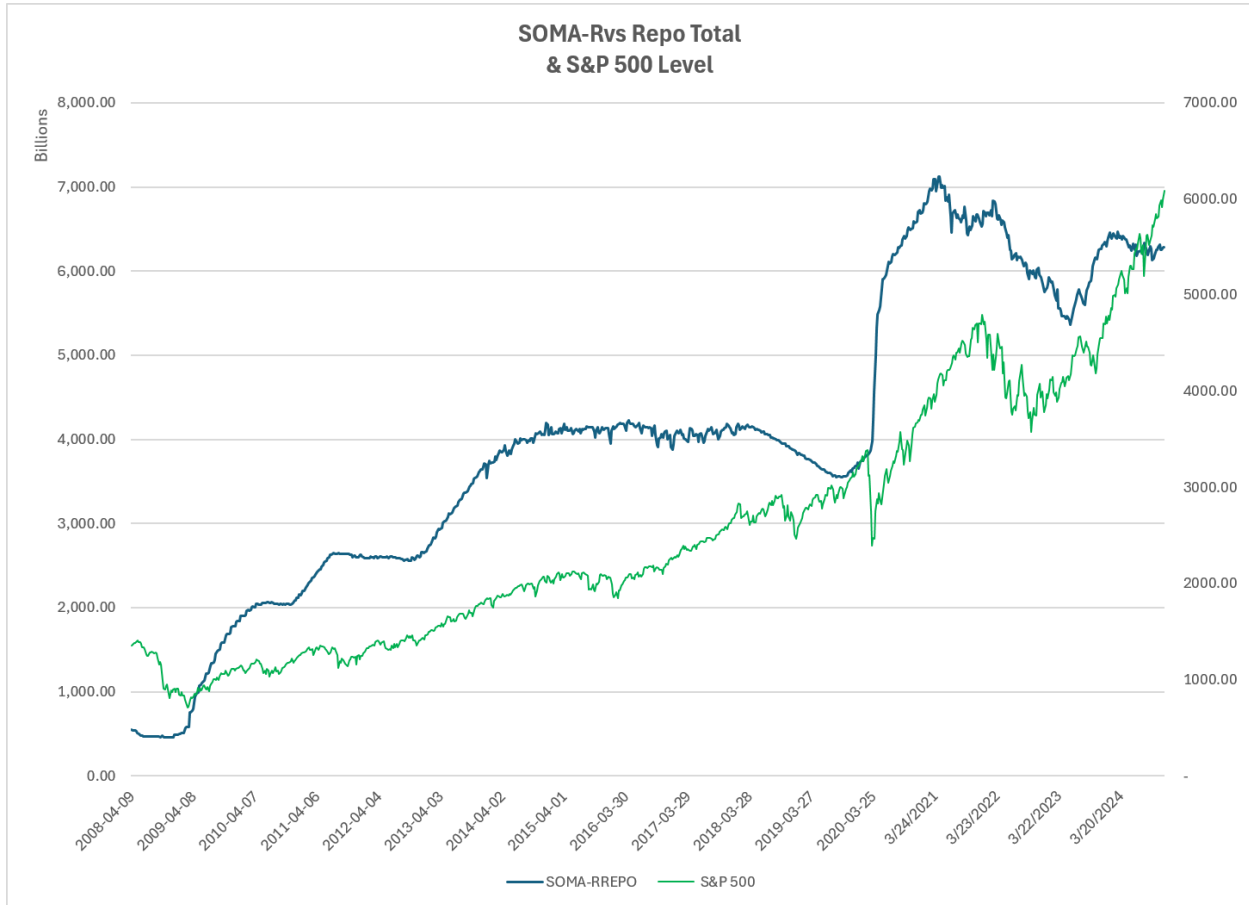
Domestic Security Holdings as of  
[◀ Previous](#) **December 11, 2024** 📅  
Posted December 12, 2024 at 4:30 PM

SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,292,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,654,600,446.3
US Treasury Floating Rate Notes (FRNs)	6,345,642.2
US Treasury Inflation-Protected Securities (TIPS)*	341,360,480.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,240,923,398.0
Agency Commercial Mortgage-Backed Securities***	8,058,331.3
<b>Total SOMA Holdings</b>	<b>6,448,928,224.7</b>

**No change from last week**

The SOMA level did not change at all over the past week. Meanwhile, reverse repos rose by \$17 billion. Combined for the week, SOMA and reverse repo action accounted for a \$17 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 1<sup>st</sup> quarter of 2024 reverse repos declined substantially and had

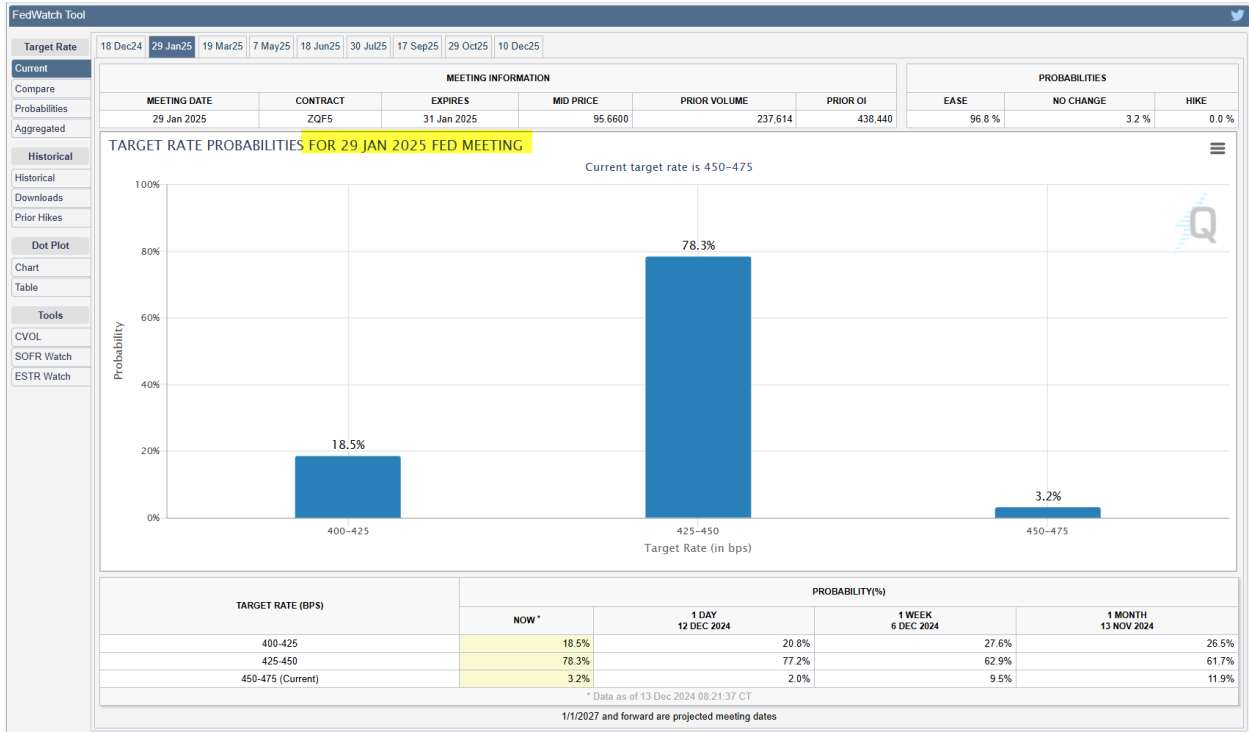
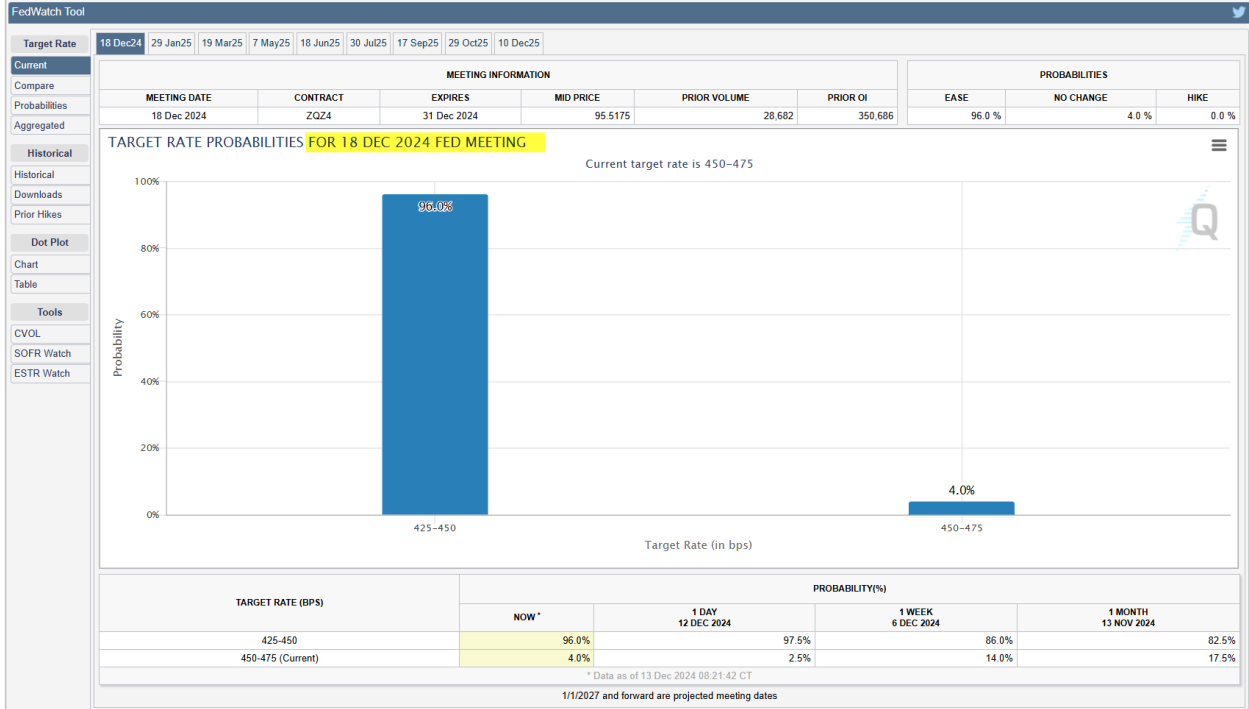
a positive impact on liquidity. From early March through May the level of reverse repos remained about the same. The last few months we have seen the number chopping around, but this week reverse repos stand at just \$180 billion, which is near the lowest level since 2021. Below is an updated SOMA-Reverse Repo and SPX chart looking back to 2008.



Quantitative Tightening (QT) can still be a headwind to the market, but it is not nearly as strong as it has been at times in the last few 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 heads lower again 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, the chance of a 25 point cut in December is now basically assured with 96%, odds appearing. Odds for January's meeting show about a 78% chance that rates are 0.25% lower

than today, and now an 18.5% chance that rates are 0.5% below today. So the market now believes we will see a cut in December and that will be it for a while. 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, bulls still appear to be in control. Breadth and momentum studies with bullish intermediate-term tendencies remain active from a few weeks ago. The long-term trend is up with SPX and NASDAQ near all-time highs. The NASDAQ/SPX Relative Leadership indicator is favoring the NASDAQ, which is typically a positive. We are in the best 6 months of the year, and are just entering the bullish end-of-year period. And there still remain several bullish studies on the active list from the last few months. Fed policy now appears neutral. There are plenty of potential triggers that could cause a market shock: wars, politics, market overvaluations, and whatever is behind all these unidentified drones over New Jersey and other places to name a few. Overall, bullish evidence is still outweighing bearish. I will 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***

DE – 1/3 @ \$444.00 (bought @ limit)

TMUS – 1/3 @ \$228.86 (buy @ limit) – not filled, cancel for now

MS – 1/3 @ \$126.79 (bought @ limit)

***Broad Market Large Cap CBI – 3(DE, TMUS, MS)***

### **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
MS(1/3)	12/11/2024	\$126.79	\$127.40	0.48%	Catapult
DE(1/3)	12/11/2024	\$439.48	\$440.44	0.22%	Catapult

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