

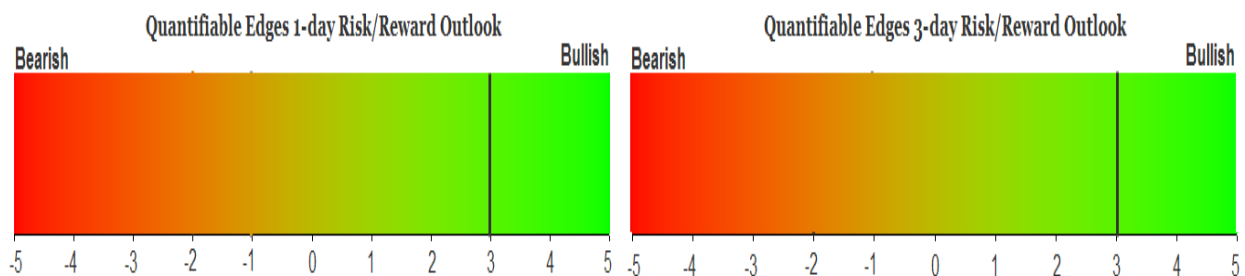
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 30, 2024

Volume 17 Issue 251

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- Strong 1-day selloffs in between Christmas and New Year have typically been followed by a sizable bounce.
- Large drops in SPX on the 4<sup>th</sup> Friday of the month are typically followed by a short-term rally.
- The Fed remains basically neutral.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. Friday's pullback looks like an opportunity. I like the long side.

## The Evidence

Friday saw selling. SPX lost 1.1%, the NASDAQ declined 1.5%, and the Russell 2000 fell 1.6%. Breadth was very weak as the NYSE Up Issues % closed at 18% and the NYSE Up Volume % posted a 16% reading. NYSE total volume rose some from Thursday's level.

As I have been discussing recently, the time between Christmas and New Year's tends to be a very strong seasonal period. (And even through the 1<sup>st</sup> or 2<sup>nd</sup> trading day in January). Friday was only the 13th time since 1980 that SPX fell greater than 1% on a day during this week. In the 12/29/22 Subscriber Letter I looked at the other instances. I've updated that research today.

SPX closes down > 1% on a day between Christmas and New Year's. Buy on close. Sell 5 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
5	19,864.18	12	10	2	83.33	6,111.54	-4,331.55	2,604.07	-3,088.27	0.84	4.22	1,655.35
4	19,082.85	12	9	3	75.00	4,546.84	-1,950.37	2,696.61	-1,728.87	1.56	4.68	1,590.24
3	14,045.50	12	10	2	83.33	4,042.74	-2,701.92	1,869.71	-2,325.81	0.80	4.02	1,170.46
2	12,374.77	12	10	2	83.33	4,259.29	-1,839.36	1,474.88	-1,187.01	1.24	6.21	1,031.23
1	3,731.03	12	8	4	66.67	1,717.56	-2,792.25	933.26	-933.76	1.00	2.00	310.92
<b>All 12 instances closed above the entry price at some point in the next week.</b>												

Over the next 2-5 days there appears to be a nice upside tendency. With all 12 closing up at some point in the next week the reliability appears solid, though on a fairly small sample. Below I have listed all 12 instances assuming a 5-day exit strategy.

SPX closes down > 1% on a day between Christmas and New Year's.  
Buy on close. Sell 5 days later. \$100k/trade. 1980 - present.

Date	Trade	Price	% Change	Runup/Ddn
12/29/1980	Buy	\$135.03	2.29%	\$3,914.60
1/6/1981	Sell	\$138.12		(\$732.60)
12/28/1987	Buy	\$245.57	5.31%	\$6,597.47
1/5/1988	Sell	\$258.62		(\$529.10)
12/31/1996	Buy	\$740.74	1.04%	\$2,022.30
1/8/1997	Sell	\$748.41		(\$1,510.65)
12/29/2000	Buy	\$1,320.50	-1.86%	\$2,230.50
1/8/2001	Sell	\$1,295.90		(\$3,441.00)
12/31/2001	Buy	\$1,148.08	1.10%	\$2,513.43
1/8/2002	Sell	\$1,160.71		(\$1,030.95)
12/27/2002	Buy	\$875.40	6.12%	\$6,426.18
1/6/2003	Sell	\$929.01		(\$678.30)
12/27/2007	Buy	\$1,476.27	-4.38%	\$786.58
1/4/2008	Sell	\$1,411.62		(\$4,360.36)
12/31/2009	Buy	\$1,115.10	2.68%	\$2,695.81
1/8/2010	Sell	\$1,144.98		\$0.00
12/28/2011	Buy	\$1,249.64	2.51%	\$2,798.40
1/5/2012	Sell	\$1,281.06		\$0.00
12/28/2012	Buy	\$1,402.43	4.24%	\$4,651.21
1/7/2013	Sell	\$1,461.89		(\$306.72)
12/31/2014	Buy	\$2,058.90	0.16%	\$646.08
1/8/2015	Sell	\$2,062.14		(\$3,190.08)
12/28/2022	Buy	\$3,783.22	0.66%	\$2,476.24
1/5/2023	Sell	\$3,808.10		\$0.00

Run-ups weren't always huge but they were consistent. Every instance posted a run-up of at least 0.6% during the next 5 days. The average run-up was 3.15%, which is more than double the average drawdown of 1.3%. This study seems to be worth some consideration.

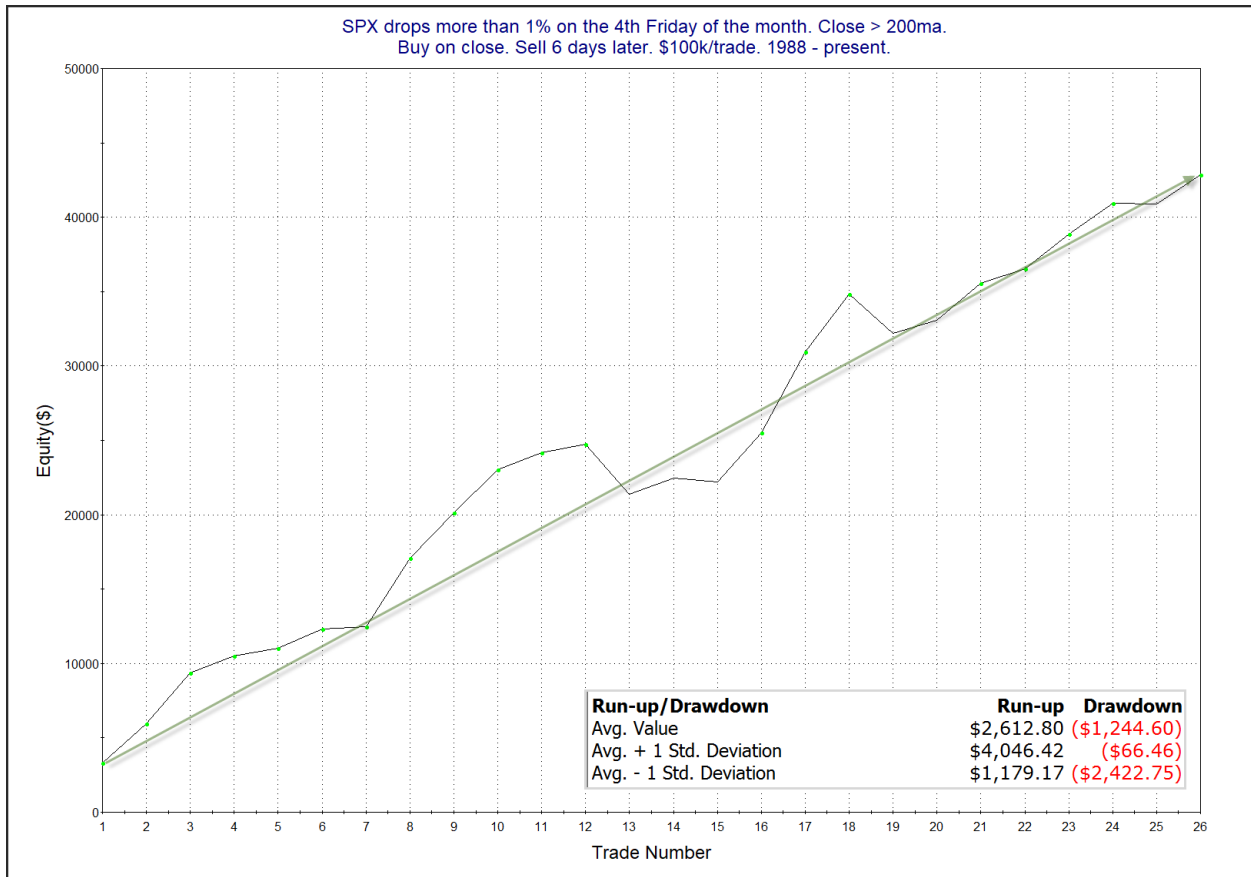
It is also notable that the selloff occurred on the 4<sup>th</sup> Friday of the month. This typically means we are soon heading into the bullish turn of the month period. Strong selloffs that occur in positive seasonal periods will often see a short-term bounce. The study below demonstrates this. It was last seen in the 11/29/21 letter.

SPX drops more than 1% on the 4th Friday of the month. Close > 200ma.  
Buy 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
10	43,892.49	26	20	6	76.92	4,893.14	-2,711.25	2,532.27	-1,125.50	2.25	7.50	1,688.17
9	40,315.36	26	19	7	73.08	5,877.30	-2,607.15	2,557.46	-1,182.35	2.16	5.87	1,550.59
8	48,145.45	26	21	5	80.77	6,612.06	-3,045.20	2,659.74	-1,541.82	1.73	7.25	1,851.75
7	47,951.75	26	22	4	84.62	5,956.07	-3,145.48	2,485.26	-1,681.00	1.48	8.13	1,844.30
6	42,858.35	26	22	4	84.62	5,415.54	-3,378.24	2,236.11	-1,584.02	1.41	7.76	1,648.40
5	34,838.44	26	19	7	73.08	5,555.16	-3,993.72	2,344.61	-1,387.02	1.69	4.59	1,339.94
4	30,825.60	26	21	5	80.77	4,731.13	-2,157.84	1,713.87	-1,033.15	1.66	6.97	1,185.60
3	15,960.56	26	17	9	65.38	4,042.74	-3,401.24	1,491.66	-1,044.18	1.43	2.70	613.87
2	14,659.40	26	18	8	69.23	4,259.29	-2,061.64	1,262.98	-1,009.27	1.25	2.82	563.82
1	8,160.38	26	16	10	61.54	2,671.02	-1,922.40	1,081.05	-913.63	1.18	1.89	313.86

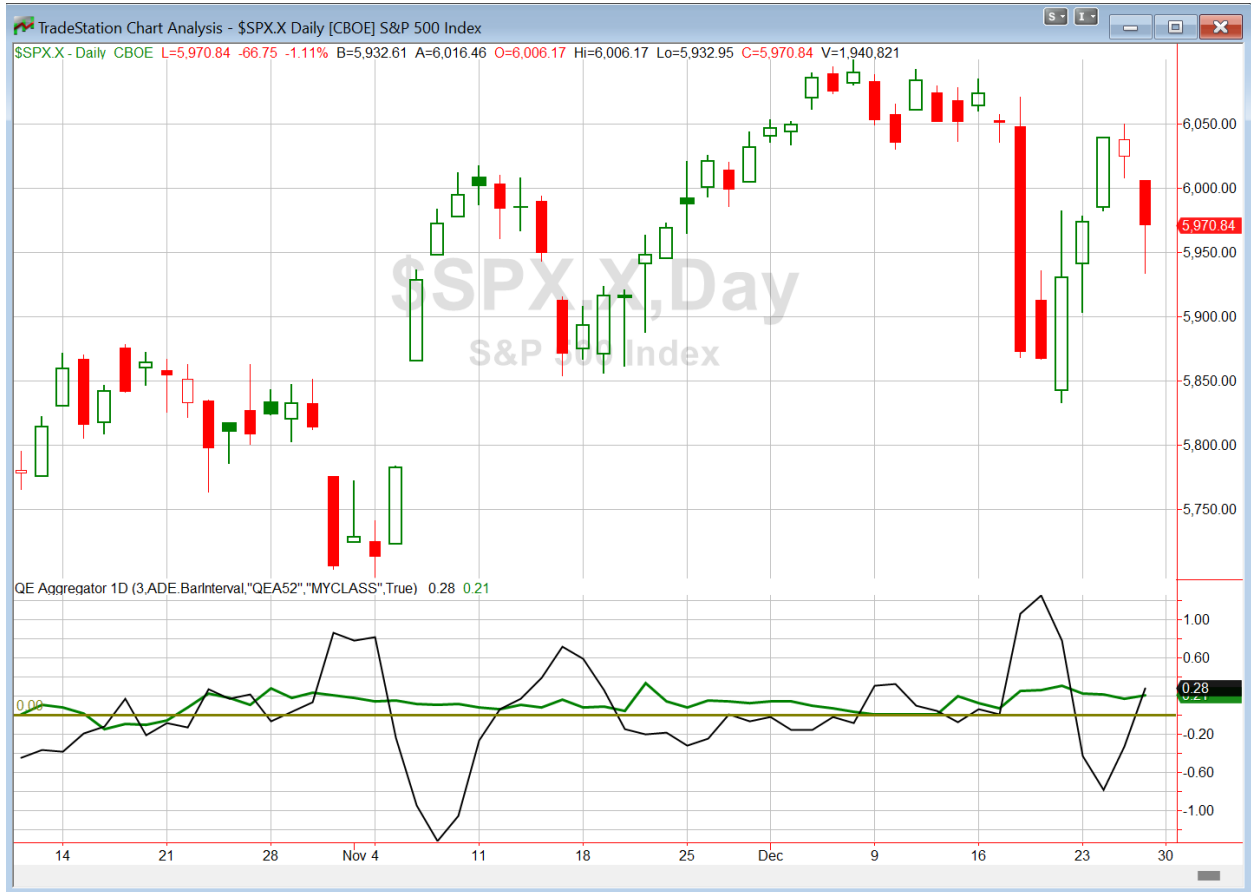
25 of 26 instances (96%) closed above the entry price at some point in the next week.

Both the consistency and the size of the moves appear to be quite strong. Below is an equity curve showing how the edge has played out over time. It assumes a 6-day hold.



This curve is also impressive, and quite steady. I have added this study to the active list as well. So the short-term evidence still appears to be pointing higher.

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 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 slated to remain bullish on Monday. This is highly unlikely to change. Meanwhile, the Differential Pivot will be 6083.93. That is 1.9% above Friday's close. Therefore, SPX will need to close up at least 1.9% on Monday in order to flip from oversold to overbought versus recent expectations. More likely, it will take a multi-day rally or consolidation to work off the oversold condition.

So the Aggregator is bullish. There is a good amount of evidence pointing higher and plenty of room to the upside before SPX would turn overbought. Reward/risk seems to favor the bulls. I will look to take advantage of the setup and start scaling into a short-term index position if I can get a decent fill on Monday.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 12/30 – *bullish***

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

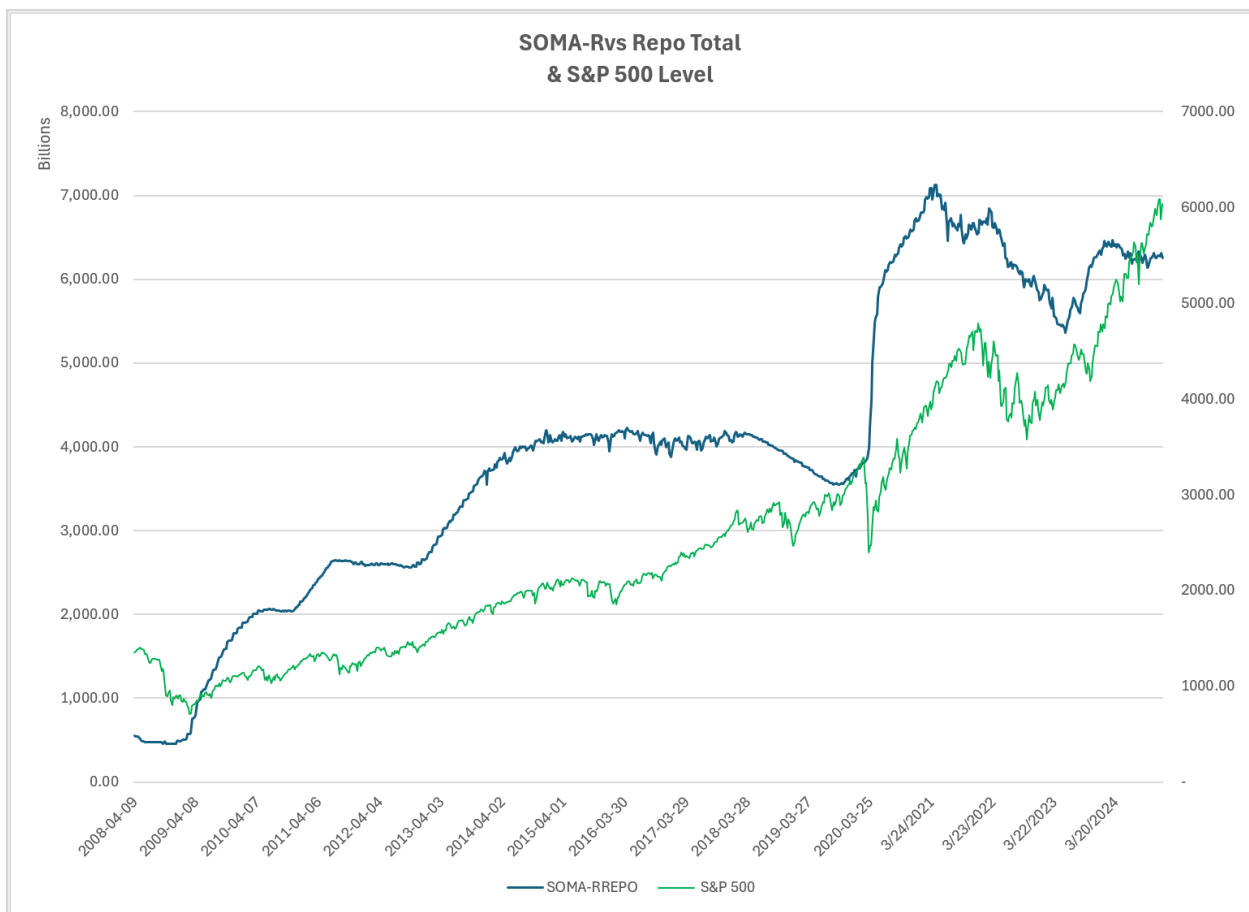
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

This past week saw mild gains for the indices. The SPX rose 0.7%, the NASDAQ climbed 0.8%, and the Russell 2000 (RUT) gained 0.1%. Bonds struggled. The US Aggregate Bond ETF (AGG) fell 0.3%. TLT, the 20-year Treasury Bond ETF, dropped 1.4%. With the SPX and NASDAQ well above their long-term moving averages, the uptrend appears intact. There were no new studies that emerged in the last few days with intermediate-term implications.

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	
<a href="#">◀ Previous</a>	<b>December 24, 2024</b> 📅
Posted December 26, 2024 at 4:30 PM	
<div style="display: flex; justify-content: space-between; font-size: small;"> <span><b>SUMMARY</b></span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,342,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,647,540,119.5
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***	2,237,426,282.4
Agency Commercial Mortgage-Backed Securities***	8,052,803.5
Total SOMA Holdings	6,438,415,254.5
Change From Prior Week	-3,257,843.6

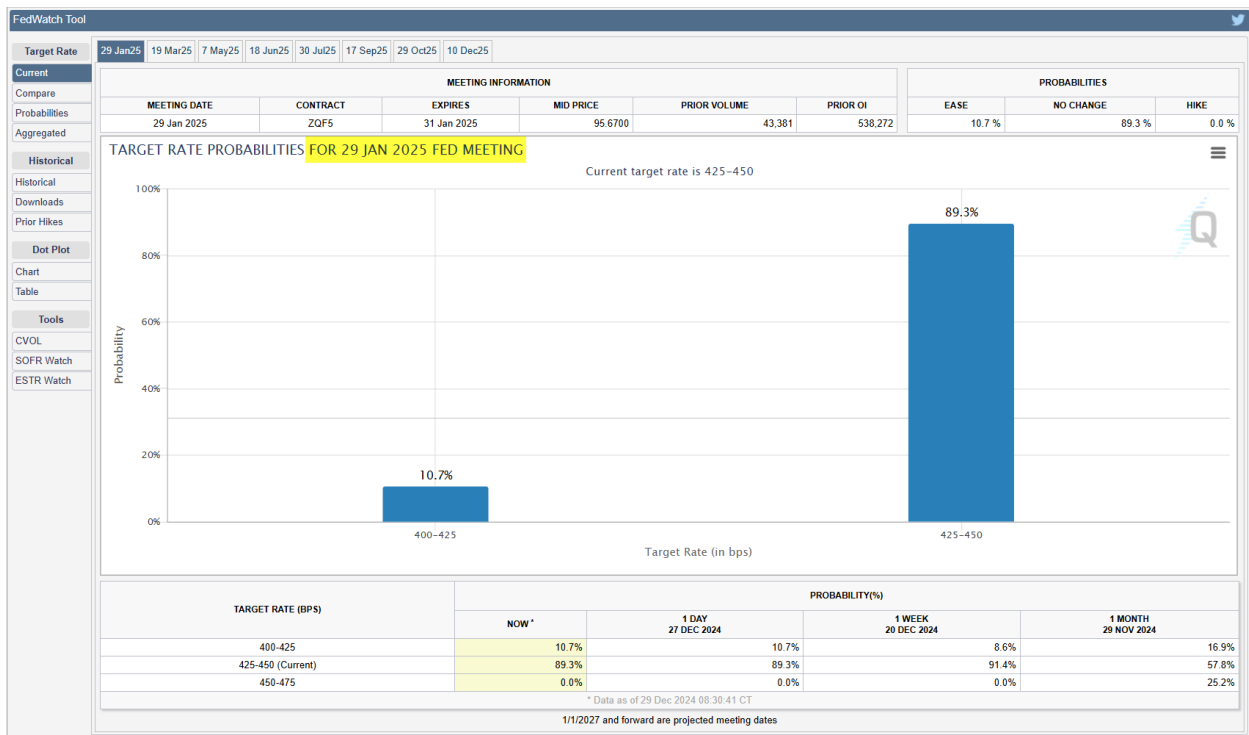
The SOMA account declined by \$3.5 billion this past week. Meanwhile, reverse repos rose by over \$49 billion. Combined for the week, SOMA and reverse repo action accounted for a \$53 billion liquidity reduction. I discussed reverse repos impact on liquidity [in the 4/8/24 letter](#). When they are rising, 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, and even despite the gain this past week, they are near the lowest level since 2021. Below is an updated SOMA-Reverse Repo and SPX chart looking back to 2008.

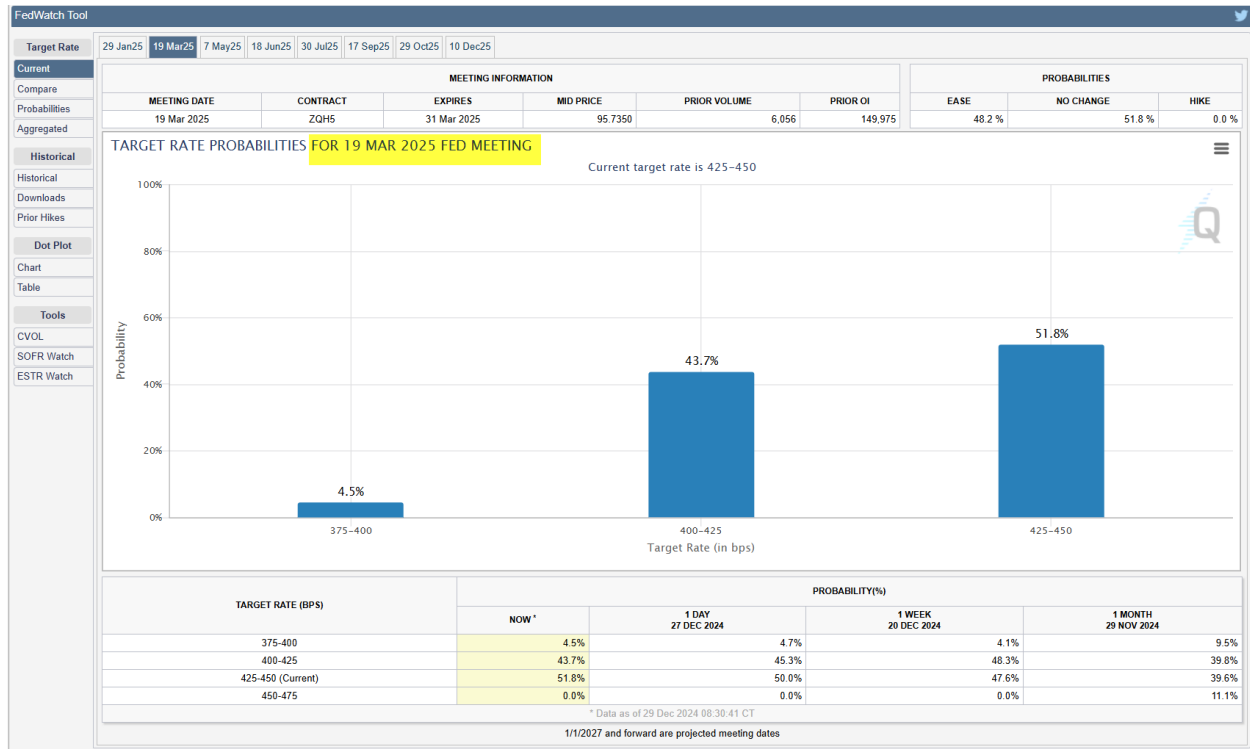


Quantitative Tightening (QT) can still be a headwind to the market, but it is not nearly as strong as it has been at times in the last few years. I am expecting that the Fed will stop QT at some point in 2025, but they gave no indication at the last meeting. Reverse repo closeouts more than offset the 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. Reverse repos are near the lowest level they have been in years. The Fed did reduce the repo rate on at their last meeting, so we'll see how that impacts repo activity going forward.

With regards to rates, the chance of a 25 point cut in January is just 11%. Meanwhile, March odds show a 48% chance that rates are lower than they are now. Neither of these numbers is far from what we saw last week. 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. We still have a few studies based on breadth and price action with bullish intermediate-term tendencies from a few weeks ago. The long-term trend still appears up. The NASDAQ/SPX Relative Leadership indicator continues to favor the NASDAQ, which is typically a positive. We are in the best 6 months of the year, and have one more week in the bullish end-of-year period. Fed policy is basically 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. But we will see some of the bullish intermediate-term studies come off the board in the next few weeks. So unless we see more evidence emerge, things might not look as positive a few weeks from now. For now, 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*

*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.

**SPY – Buy ¼ index position @ \$595.01 LIMIT.** Based on the short-term outlook above, I will start scaling into a SPY position if I can get filled at Friday’s closing price or better.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
<i>DE(1/3)</i>	<i>12/11/2024</i>	<i>\$439.48</i>	<i>\$432.33</i>	<i>-1.63%</i>	<i>sold on open</i>
<i>LMT(1/3)</i>	<i>12/18/2024</i>	<i>\$489.50</i>	<i>\$488.38</i>	<i>-0.23%</i>	<i>sold on open</i>
<i>LMT(1/3)</i>	<i>12/19/2024</i>	<i>\$480.00</i>	<i>\$488.38</i>	<i>1.75%</i>	<i>sold on open</i>
<i>SCHW(1/3)</i>	<i>12/19/2024</i>	<i>\$73.97</i>	<i>\$74.84</i>	<i>1.18%</i>	<i>sold on open</i>
<i>SCHW(1/3)</i>	<i>12/20/2024</i>	<i>\$73.52</i>	<i>\$74.84</i>	<i>1.80%</i>	<i>sold on open</i>
<i>LMT(1/3)</i>	<i>12/20/2024</i>	<i>\$479.45</i>	<i>\$488.38</i>	<i>1.86%</i>	<i>sold on open</i>
<i>MDLZ(1/3)</i>	<i>12/20/2024</i>	<i>\$59.13</i>	<i>\$59.71</i>	<i>0.98%</i>	<i>sold on open</i>
<i>DOW(1/3)</i>	<i>12/20/2024</i>	<i>\$38.99</i>	<i>\$40.12</i>	<i>2.90%</i>	<i>sold on open</i>

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