

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 6, 2025

Volume 18 Issue 3

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	1

## Tonight's Research Points

- Friday's bounce did not generate any new compelling short-term evidence.
- The January Seasonality Calendar looks especially strong this upcoming week.
- Looking at SOMA and reverse repo action, the week ending 12/31 saw the biggest 1-week liquidity drain on record!

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish, but it could easily flip to neutral on Monday. I am looking to take profits on my recent SPY trades.

**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>						
January 3, 2025	SPX down 5 > 20-low > 200ma	1-2 days	Bullish			
January 3, 2025	SPX down 5 days. VIX < 10ma	1-4 days	Bullish			
December 31, 2024	3 down on Monday > 200ma	1-7 days	Bullish			
December 30, 2024	Big down day between Chirstmas & Nys	1-5 days	Bullish			
December 30, 2024	1% dn on 4th Friday of month	1-6 days	Bullish			
December 26, 2024	VIX 10% above to 10% below 10ma in 4 days	1-8 days	Bullish			
<b>Active - Long Term</b>						
December 23, 2024	Rebound from 1-month low on a Friday	1-20 days	Bullish			
December 16, 2024	December opex week starts bullish period	1-15 days	Bullish	3.30%	-1.90%	-4.00%
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**

Friday saw the markets put in a strong bounce after several down days. SPX rose 1.3%, the NASDAQ rallied 1.8%, and the Russell 2000 climbed 1.65%. Breadth was strong as the NYSE Up Issues % closed at 76% and the NYSE Up Volume % posted a 70% reading. NYSE total volume rose some from Thursday’s level.

The bounce did not trigger much in the way of new evidence. Back in the 2/16/22 letter I looked at times SPY left an unfilled gap up after making a short-to-intermediate term low the previous day. I found that when the market is coming off a short-term (10-day but not 20-day) low, there tends to be nice upside follow-through. But times like Friday, where there was a 20-day low made on Thursday, did not show an edge. Stats based on Friday’s setup have been updated below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. Buy on close. Sell X days later. \$100k.trade. 1993 - 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	6,936.98	44	24	20	54.55	3,798.99	-3,739.32	1,770.44	-1,777.67	1.00	1.20	157.66
4	5,976.99	46	27	19	58.70	2,950.20	-2,880.28	1,356.74	-1,613.42	0.84	1.19	129.93
3	3,492.16	48	27	21	56.25	3,306.24	-3,070.92	1,143.15	-1,303.47	0.88	1.13	72.75
2	2,024.02	50	28	22	56.00	3,089.76	-2,818.42	1,115.78	-1,328.08	0.84	1.07	40.48
1	1,379.74	50	23	27	46.00	2,470.05	-1,777.90	900.47	-715.97	1.26	1.07	27.59

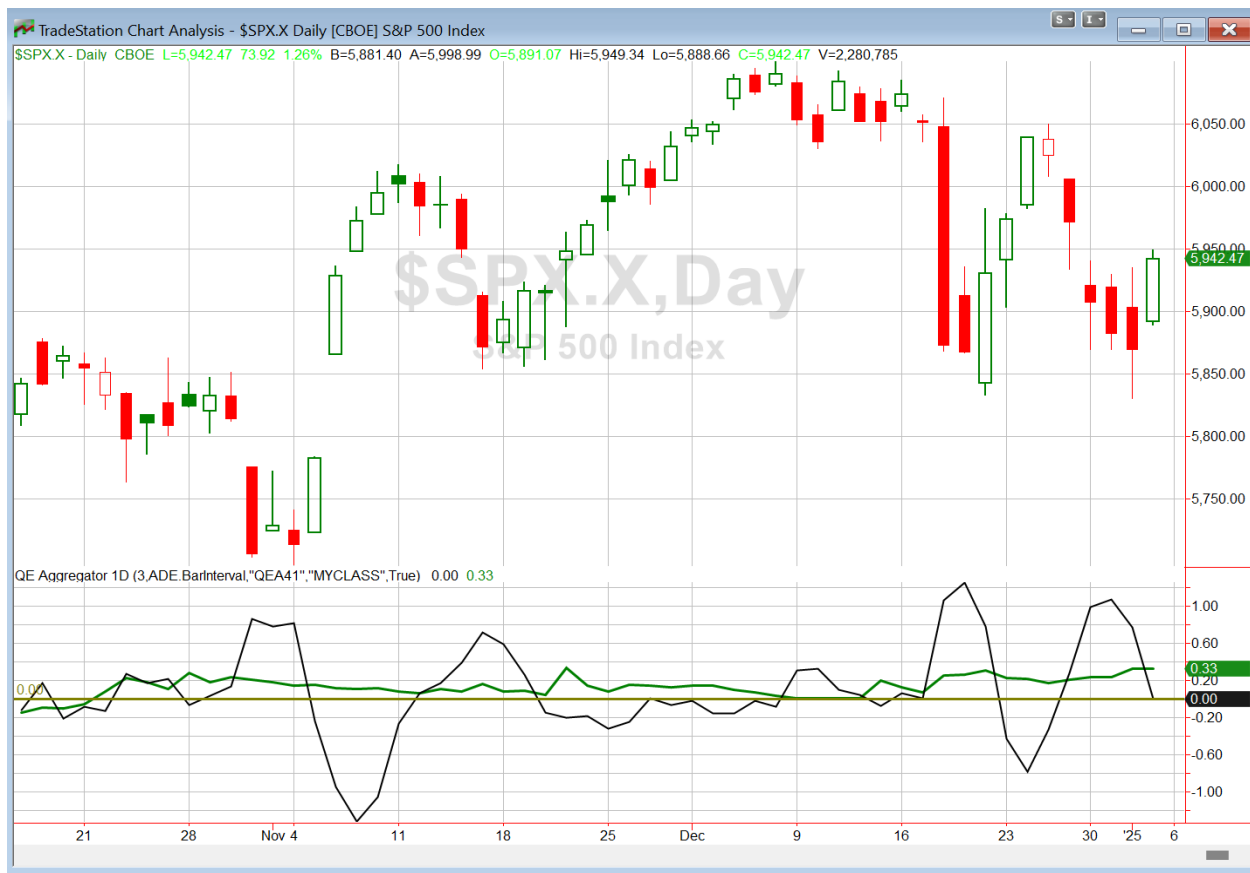
Not only are the numbers mostly flat, but the curves are all choppy as well. So Friday’s bounce did not tell me a whole lot.

Below is a look at the SPX Seasonality Calendar for January.

<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>
1/2/2025	54.91	1.326	0.061
1/3/2025	50.68	1.091	0.031
1/6/2025	55.22	1.325	0.097
1/7/2025	53.94	1.128	0.028
1/8/2025	56.58	1.142	0.038
1/9/2025	56.44	1.138	0.036
1/10/2025	57.01	1.362	0.095
1/13/2025	53.25	1.064	0.015
1/14/2025	52.54	1.202	0.061
1/15/2025	54.16	1.139	0.032
1/16/2025	52.62	1.152	0.038
1/17/2025	51.25	1.119	0.009
1/21/2025	53.07	1.413	0.105
1/22/2025	51.47	1.232	0.068
1/23/2025	53.21	1.310	0.087
1/24/2025	54.78	1.140	0.037
1/27/2025	55.87	1.160	0.054
1/28/2025	54.09	1.110	0.039
1/29/2025	51.01	1.117	0.043
1/30/2025	55.76	1.256	0.083
1/31/2025	54.37	1.046	0.020
<b>Baseline</b>	<b>53.69</b>	<b>1.139</b>	<b>0.048</b>

While the whole month is strong, this upcoming week has some exceptionally appealing numbers, especially when looking at Win% and Avg % Change. So the bulls do have seasonality on their side. And we still have a sizable Short-Term Active List of studies from the past few days that are all pointing higher.

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



With tonight'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 *just barely* 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 *barely* stayed long at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be *inverted at* 5920.01. That is 0.4% *below* 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 down 0.4% or more in order to remain oversold versus recent expectations. Anything other than that, and it will be considered short-term overbought as of Monday's close.

So the Aggregator is bullish. But the inverted pivot means upside is somewhat limited. If the market moves in the direction that our evidence suggests (up), or even if it closes down slightly, then SPX will be overbought and the bullish signal will end. I therefore often view inverted pivots as opportune times to begin taking profits. If I can get a favorable fill on Monday I will start scaling out of my long SPY position.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 1/6 – *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.*

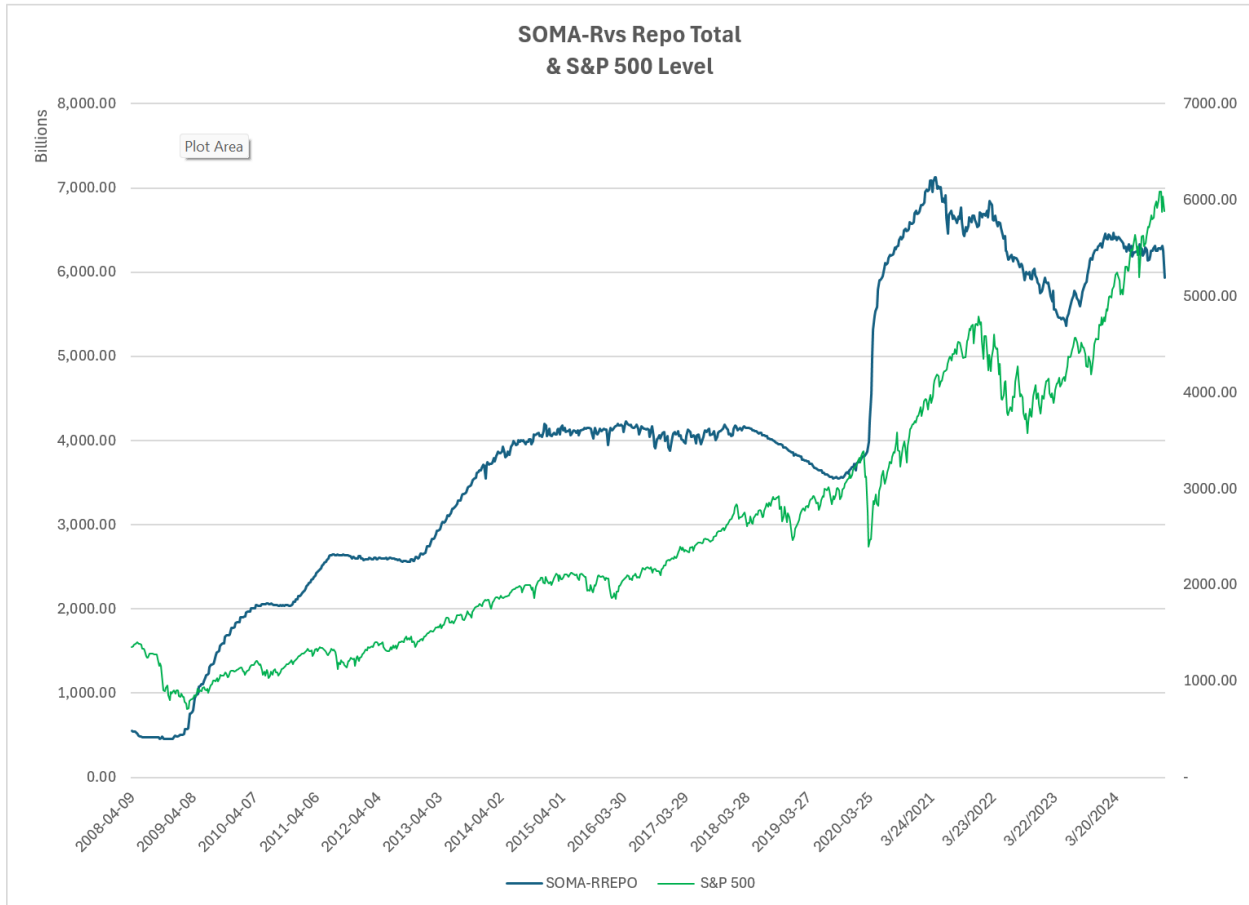
Friday's bounce caused stocks to finish mixed on the week. The SPX lost 0.5%, the NASDAQ also fell 0.5%, and the Russell 2000 (RUT) gained 1.1%. Bonds moved slightly higher. The US Aggregate Bond ETF (AGG) rose 0.18%. TLT, the 20-year Treasury Bond ETF, closed up 0.22%. The uptrend is struggling, but still appears to be in place with SPX and the NASDAQ still well above their 200-day moving averages. (SPX is slightly below its 50ma.) 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	
◀ Previous	<b>December 31, 2024</b> 📅
Posted January 2, 2025 at 4:30 PM	
<a href="#">SUMMARY</a>   <a href="#">T-BILLS</a>   <a href="#">T-NOTES AND T-BONDS</a>   <a href="#">FRNS</a>   <a href="#">TIPS</a>   <a href="#">AGENCY DEBTS</a>   <a href="#">MBS</a>   <a href="#">CMBS</a>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,342,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,629,434,048.6
US Treasury Floating Rate Notes (FRNs)	6,345,642.2
US Treasury Inflation-Protected Securities (TIPS)*	341,576,877.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,225,215,539.7
Agency Commercial Mortgage-Backed Securities***	8,046,833.1
Total SOMA Holdings	6,408,308,868.1
Change From Prior Week	-30,106,386.4

The SOMA account declined by a very large \$30 billion this past week. Meanwhile, reverse repos rose by over \$292.5 billion for the week ending 12/31. That is a massive amount considering there were only \$181 billion outstanding as of December 24<sup>th</sup>. Combined for the week, SOMA and reverse repo action accounted for a \$323 billion liquidity reduction. That was the huge sucking sound you heard. In fact, it was the largest combined 1-week liquidity drain on record (dating back

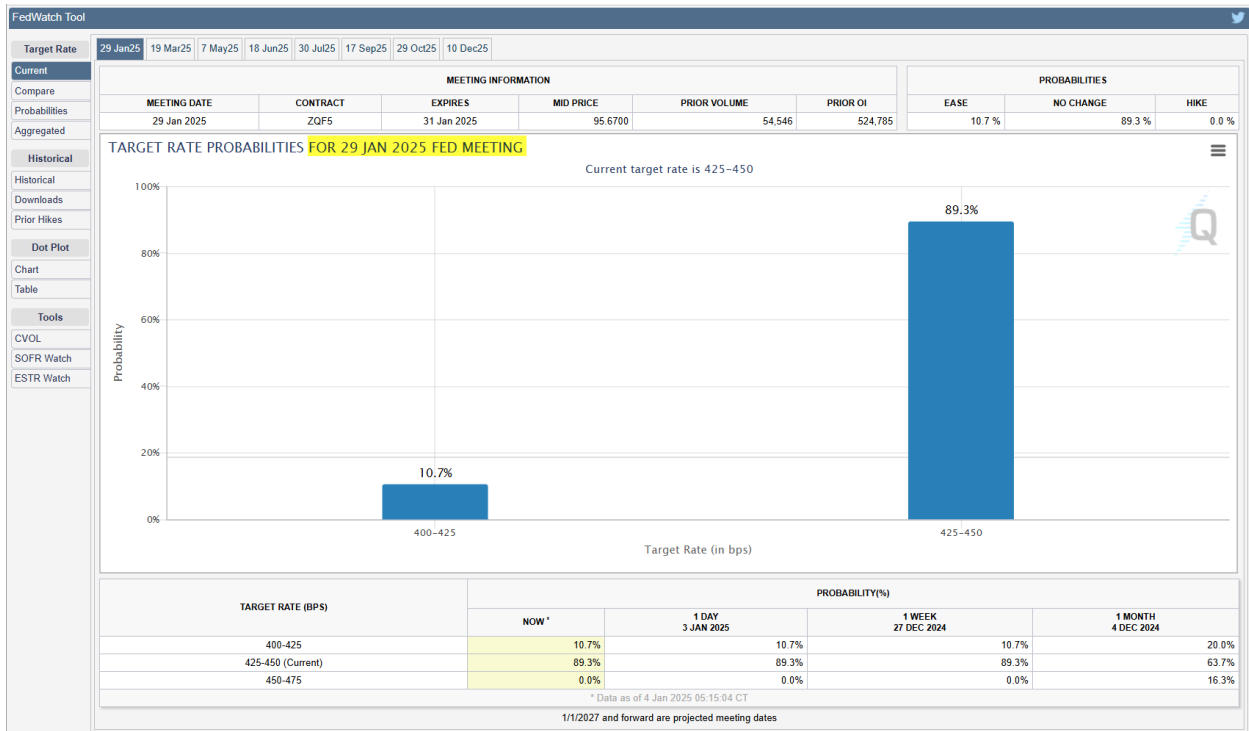
to 2003). So if you are wondering why the market struggled during the typically bullish “Santa Claus” period, the largest liquidity hit ever might have something to do with it! Interestingly, the reverse repos have already flipped back. The outstanding balance has dropped from \$473 billion on Tuesday (12/31) down to \$237 billion on Friday (1/3). This may have helped out with the Friday bounce as liquidity is returning. This could all be end-of-year shenanigans, but it does help explain the unusual end-of-year market action. Below is an updated SOMA-Reverse Repo and SPX chart looking back to 2008, where you can see the sharp move down for the week ending 12/31.

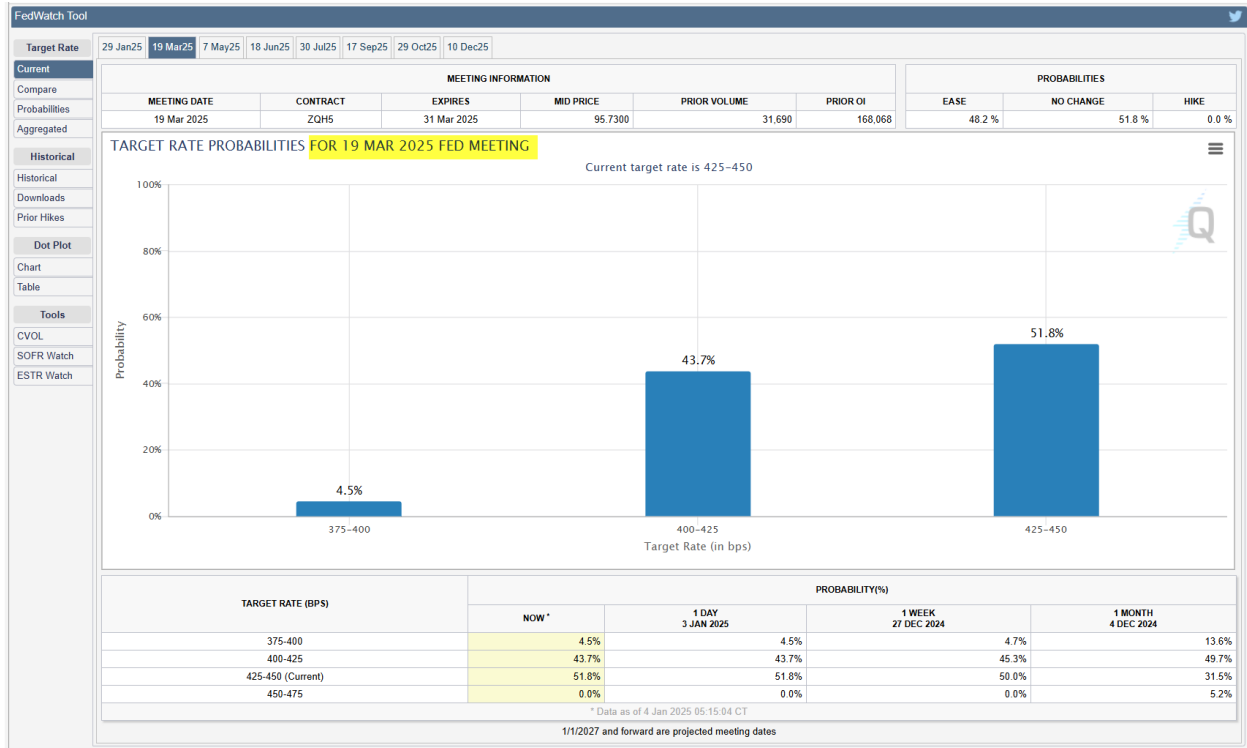


Quantitative Tightening (QT) can still be a headwind to the market, but it is not nearly as strong as it has been at times in the last few years. I am expecting that the Fed will stop QT at some point in 2025, but they gave no indication at the last meeting. Reverse repo closeouts more than offset the QT from April 2023 through early March of 2024, and this helped provide fuel for the market rally. Since last 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 saw

this last week. The Fed did reduce the repo rate at their last meeting, so we'll see if that leads to more reverse repo activity moving forward, or if the end-of-year move was just a temporary glitch.

With regards to rates, the chance of a 25 point cut in January is still 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 hanging on. We have a few studies left on the intermediate-term active list that suggest further upside, but some will be expiring soon. The long-term trend still appears up for now. 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 the January Seasonality Calendar appears favorable. Fed policy is basically neutral. There are plenty of potential triggers that could cause a market shock. Overall, bullish evidence is still outweighing bearish. But unless we see more bullish evidence emerge, things might not look as positive soon. 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***

***New***

ADBE @ \$430.57 (buy 1/3 @ limit)

### ***Broad Market Large Cap CBI – 1(ADBE)***

### **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.

**ADBE – Buy 1/3 Catapult position @ \$430.57 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of ADBE.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	12/30/2024	\$587.89	\$591.95	0.69%	<i>sell @ \$592.50 LIMIT</i>
SPY(1/4)	12/31/2024	\$586.00	\$591.95	1.02%	<i>see note below</i>

**I will look to exit the 2<sup>nd</sup> lot of SPY if it closes > \$592.00 and in the top half of its intraday range. Otherwise, I will hold it overnight Monday.**

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser, Eastsound Capital Advisors, LLC (ECA) d.b.a. Capital Advisors 360. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter from QE at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2024 Quantifiable Edges, LLC.