

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 13, 2025

Volume 18 Issue 7

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	10

Tonight's Research Points

- The CBI reached 10, which has historically meant a strong chance of a bounce in the upcoming days.
- System 110524 triggered for SPX. This has exhibited a bullish edge over the years.
- A big drop in reverse repos meant a liquidity injection (through last Wednesday).

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I like the long side.

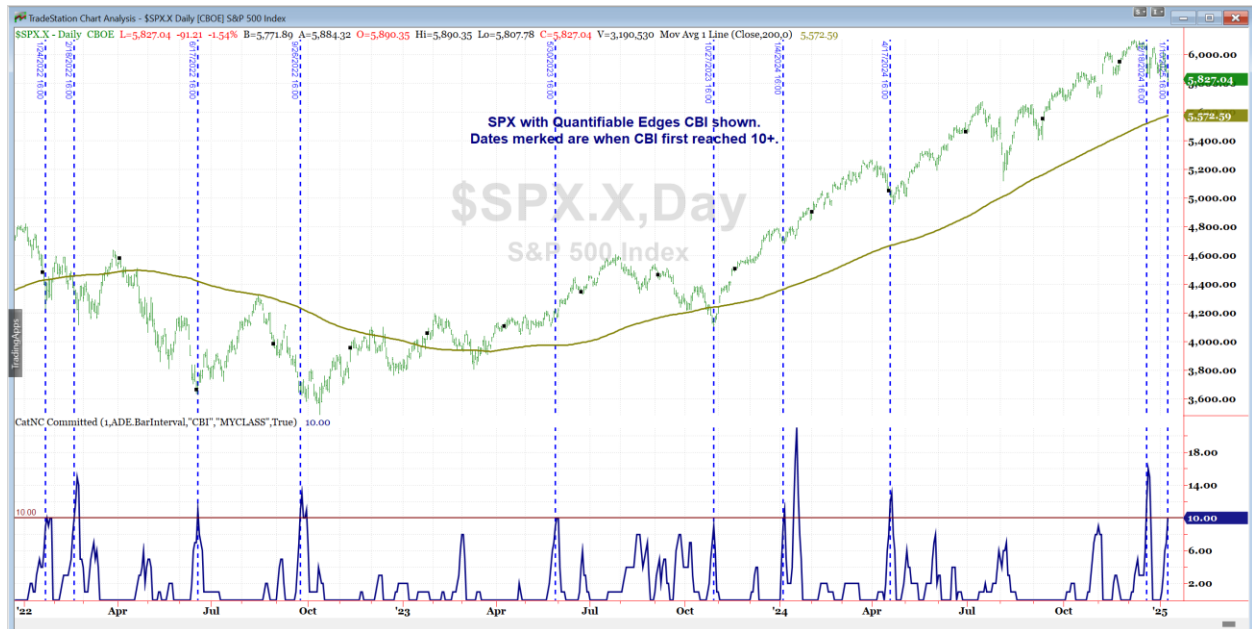
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
January 13, 2025	System 110524	1-7 days	Bullish			
January 13, 2025	CBI 10+	1-8 days	Bullish			
Active - Long Term						
January 8, 2025	SPX down 1% 3rd day in last 10	1-20 days	Bullish	4.00%	-3.60%	-8.50%
December 23, 2024	Rebound from 1-month low on a Friday	1-20 days	Bullish			
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			
February 2, 2023	SPX Golden Cross	int term	Bullish			

The Evidence

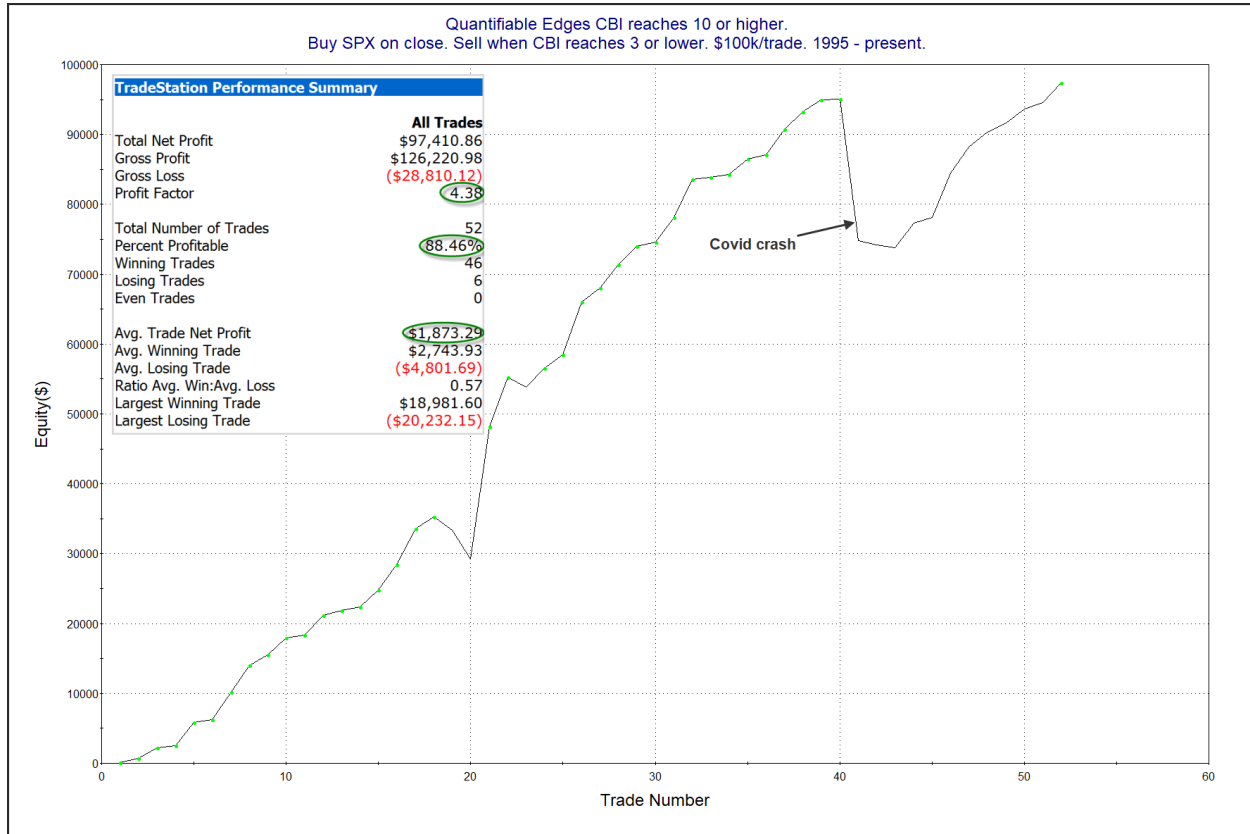
Friday saw some sizable selling. SPX fell 1.5%, the NASDAQ dropped 1.6%, and the Russell 2000 lost 2.2%. Breadth was weak as the NYSE Up Issues % closed at 19% and the NYSE Up Volume % posted a 22% reading. NYSE total volume rose some from Wednesday’s level.

Especially notable about Friday’s action is that the Quantifiable Edges Capitulative Breadth Indicator (CBI) rose to 10. I have generally viewed 10+ as strongly bullish over the years. The chart below shows SPX in the top pane and the CBI in the bottom pane. Whenever the CBI reached 10 or higher initially during a spike, I have marked that with a vertical line on the chart.



As you can see, over the last 3 years, CBIs of 10+ have quickly been followed by a bounce. Of course it isn't just the last 3 years that the indicator has been helpful.

The study below is one I have shown many times before. It looks at SPX performance if you were to buy the index when the CBI reached 10 or higher and then sell when it returned back down to 3 or lower. Results are updated.



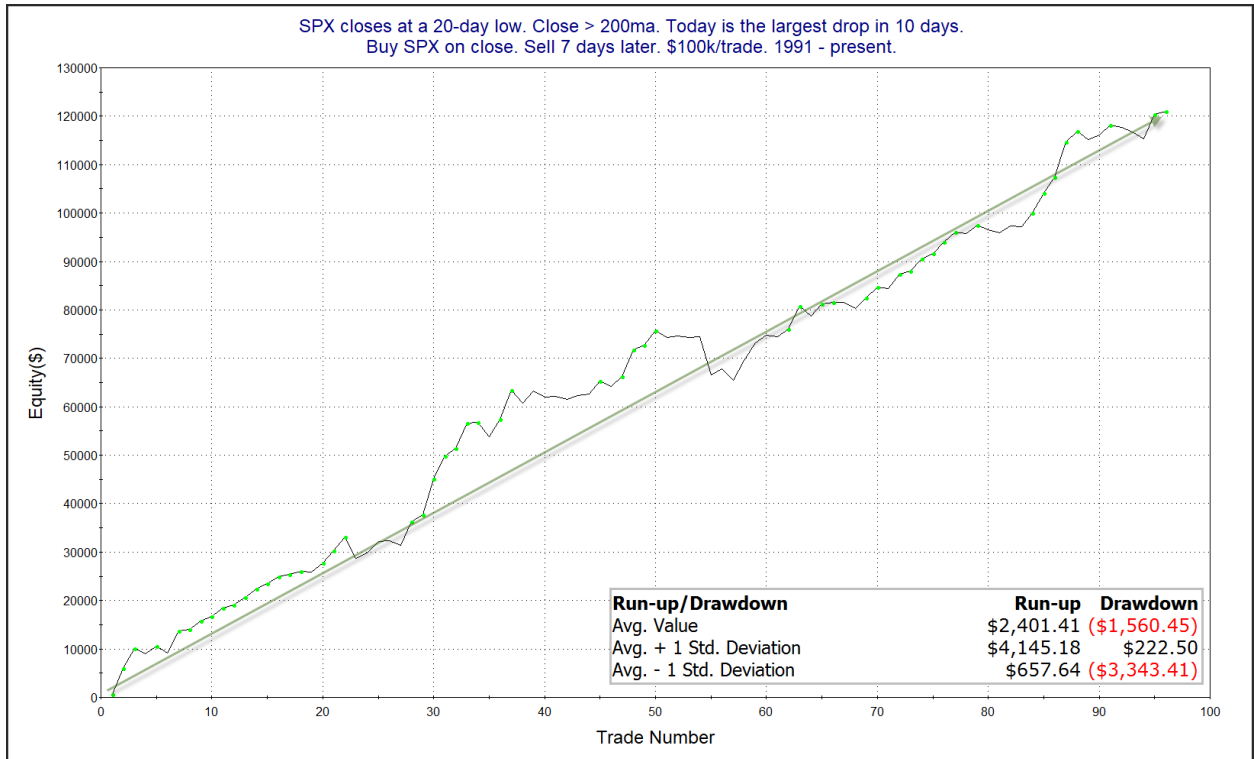
The COVID Crash in March of 2020 accounted for most of the gross losses. Other than that instance, the strategy would have performed very well over the years. And the last 9 instances have all closed higher, making for a nice run since the start of 2022.

The selloff in SPX put it at a 20-day low. In the 12/19/24 letter I showed a study that examined large losses that finished at intermediate-term lows. I have updated that study below.

SPX closes at a 20-day low. Close > 200ma. Today is the largest drop in 10 days.
Buy SPX on close. Sell X days later. \$100k/trade. 1991 - present.

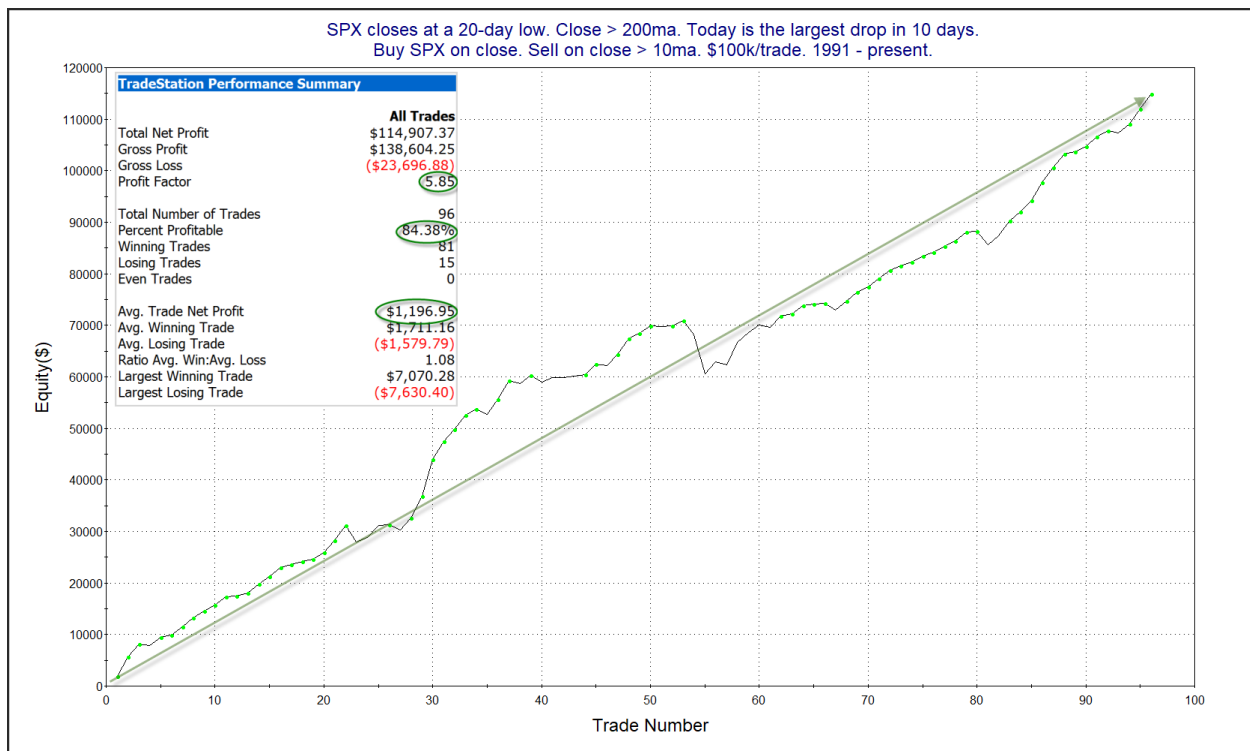
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	101,018.63	91	63	28	69.23	9,048.90	-13,993.88	2,628.48	-2,306.26	1.14	2.56	1,110.09
9	119,158.70	92	69	23	75.00	8,235.00	-10,059.36	2,364.47	-1,912.58	1.24	3.71	1,295.20
8	112,405.85	94	69	25	73.40	8,384.10	-14,092.68	2,419.65	-2,182.00	1.11	3.06	1,195.81
7	120,993.21	96	69	27	71.88	7,500.06	-8,018.76	2,326.30	-1,463.76	1.59	4.06	1,260.35
6	115,625.17	98	72	26	73.47	7,272.06	-7,966.32	2,206.34	-1,662.74	1.33	3.67	1,179.85
5	99,195.47	99	64	35	64.65	7,070.28	-3,385.80	2,101.51	-1,008.60	2.08	3.81	1,001.97
4	70,562.15	101	66	35	65.35	4,731.13	-3,863.84	1,752.79	-1,289.20	1.36	2.56	698.64
3	55,031.48	101	66	35	65.35	4,277.94	-5,331.20	1,479.19	-1,216.99	1.22	2.29	544.87
2	52,372.65	102	68	34	66.67	4,809.66	-3,863.25	1,193.15	-845.93	1.41	2.82	513.46
1	19,271.93	105	65	40	61.90	5,117.46	-2,162.04	743.26	-726.00	1.02	1.66	183.54

Results here are quite bullish. Below is a look at the 7-day profit curve.



That is a nice looking curve heading in a fairly straight line from lower left to upper right.

Some subscribers may recognize the setup as numbered-system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.



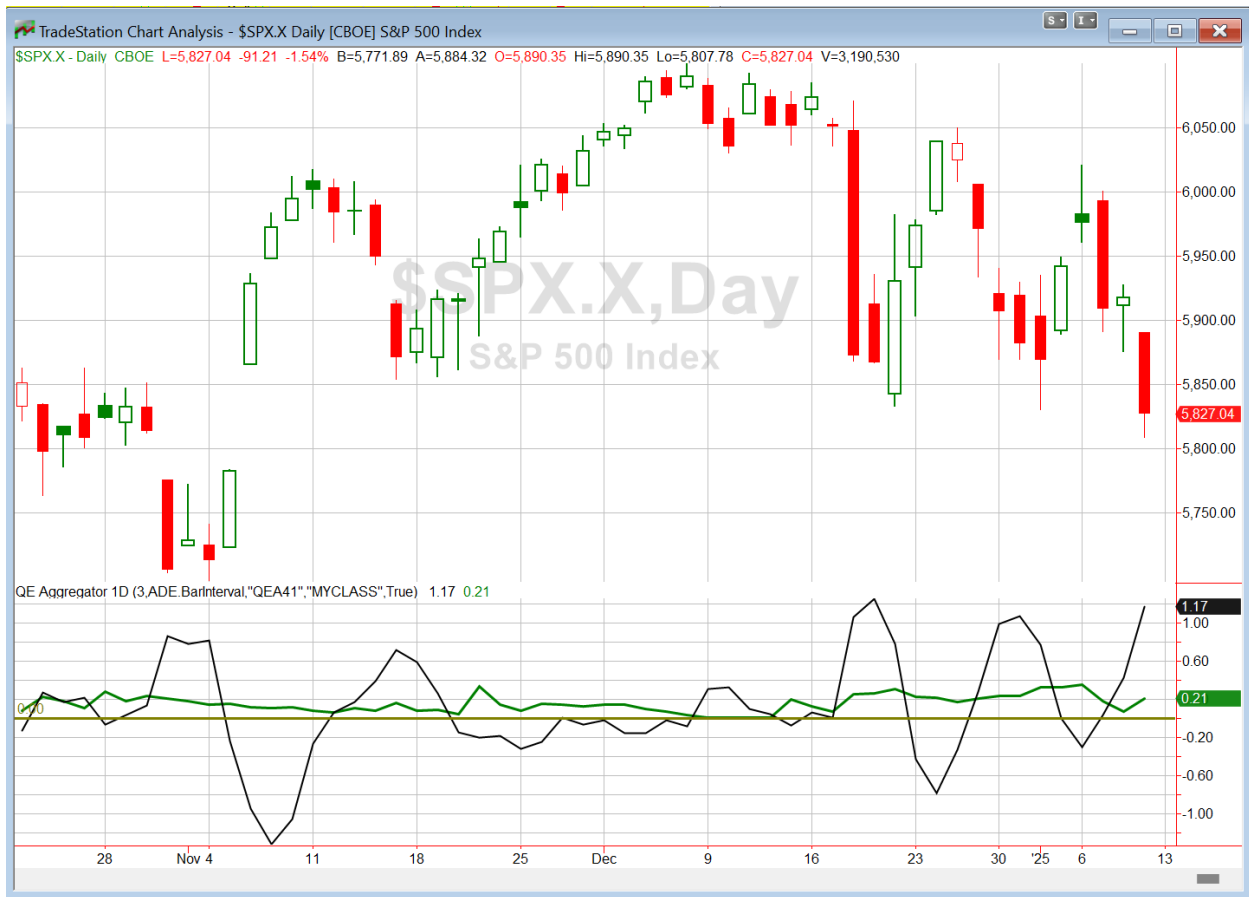
As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. But the big drop was made up for fairly quickly and the upward slope continues to impress.

Let's also take a quick peek at the QE Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
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
Baseline	53.69	1.139	0.048

Numbers this week are all positive, but really just moderately bullish. Not seeing a huge seasonal wind, but at least (for bulls) it is a positive one.

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 also held 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 stayed long at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5957.69. That is a very sizable 2.2% above Friday's close. Therefore, SPX will need to close up 2.2% on Monday in order to flip from oversold to overbought versus recent expectations. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is bullish. We have some compelling short-term evidence suggesting a bounce. This includes a CBI spike to 10. I have a small amount of long exposure already. I like the long setup and I will look to add more long exposure on Monday if I can get a decent fill.

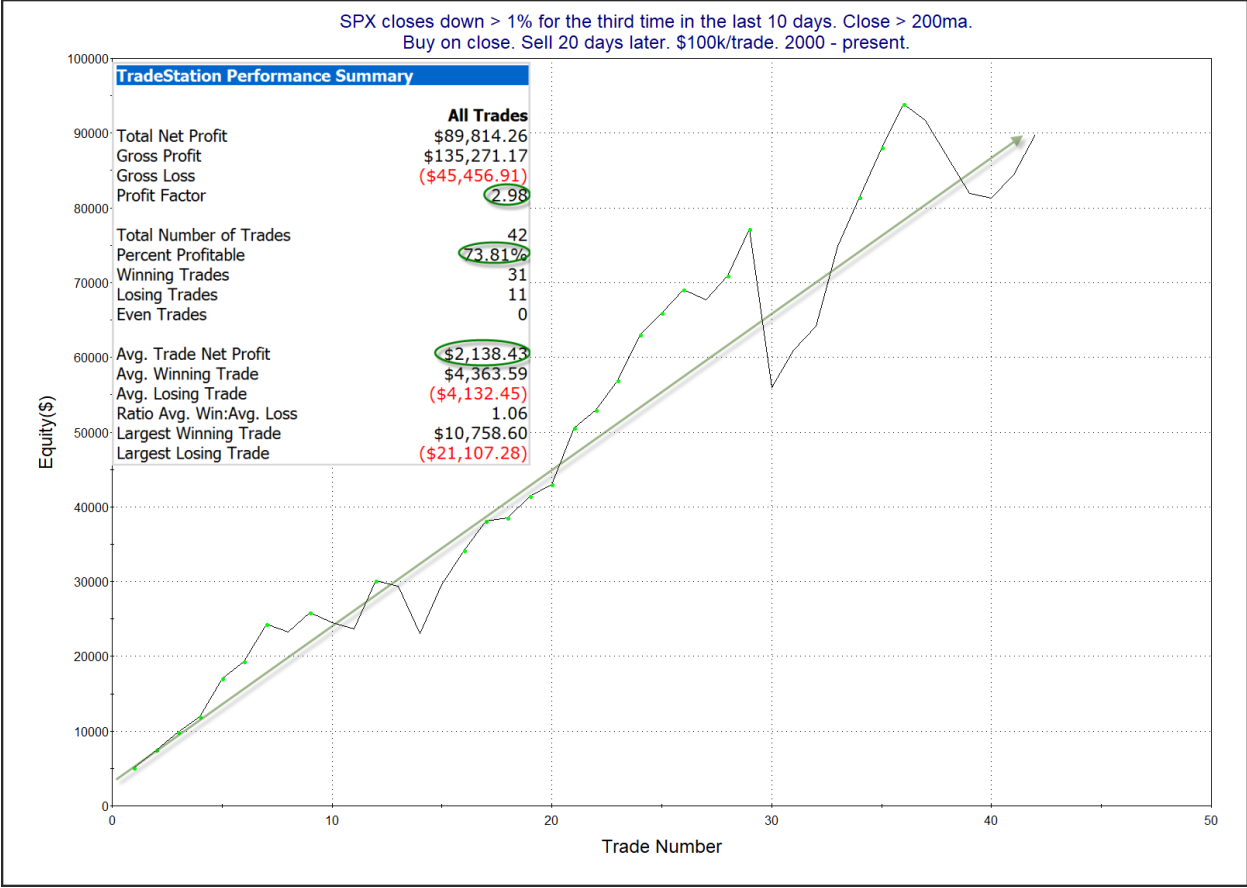
Intermediate-term Outlook (2 weeks – 2 months) – updated 1/13 – bullish

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.*

It was a tough week for stocks. The SPX lost 1.9%, the NASDAQ fell 2.3%, and the Russell 2000 (RUT) tumbled 3.5%. Bonds also struggled. The US Aggregate Bond ETF (AGG) declined 0.9%. TLT, the 20-year Treasury Bond ETF, closed down 2.1%. The uptrend is struggling, as SPX is now between its 50ma and 200ma and at its lowest closing price since the election. There was one study that was shown in the Tuesday night letter with potential intermediate-term implications. I have copied it below.

The SPX has made some sizable moves over the last couple of weeks as volatility has been elevated. It is unusual to see high volatility when the SPX is trading above its 200ma. Tuesday marked the 3rd day in the last 10 in which SPX closed down over 1%. In the 1/19/22 letter I looked back at other times where SPX closed down more than 1% for the 3rd time in the last 10 days, but above its 200ma. Results appeared compelling both short and intermediate-term. Over the last several instances, short-term results have struggled. But intermediate-term has remained strong, and I have updated to 20-day holding period results below.



It has been a persistent move higher. I have added this study to the intermediate-term active list.

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

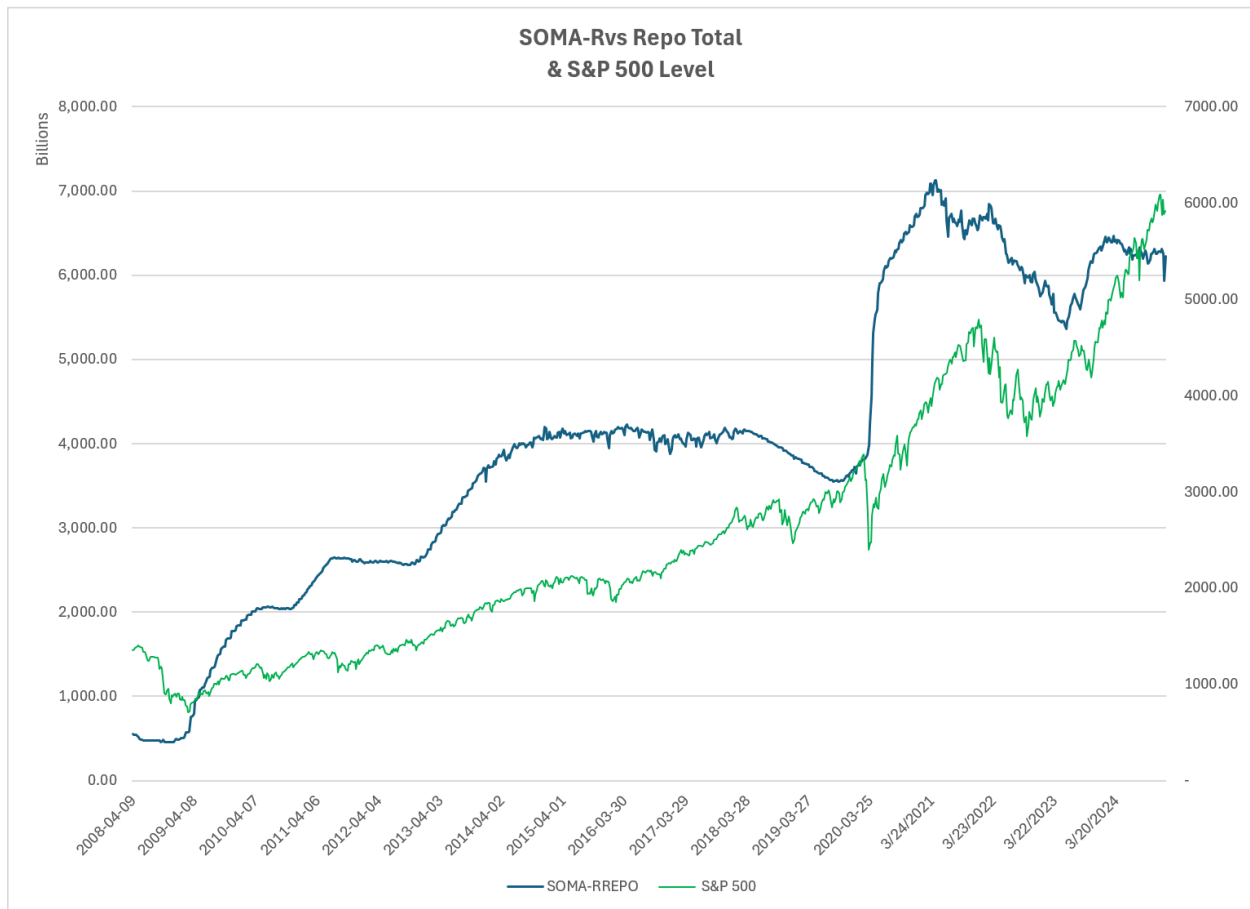
Domestic Security Holdings as of

◀ Previous **January 8, 2025** 📅
Posted January 9, 2025 at 4:30 PM

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

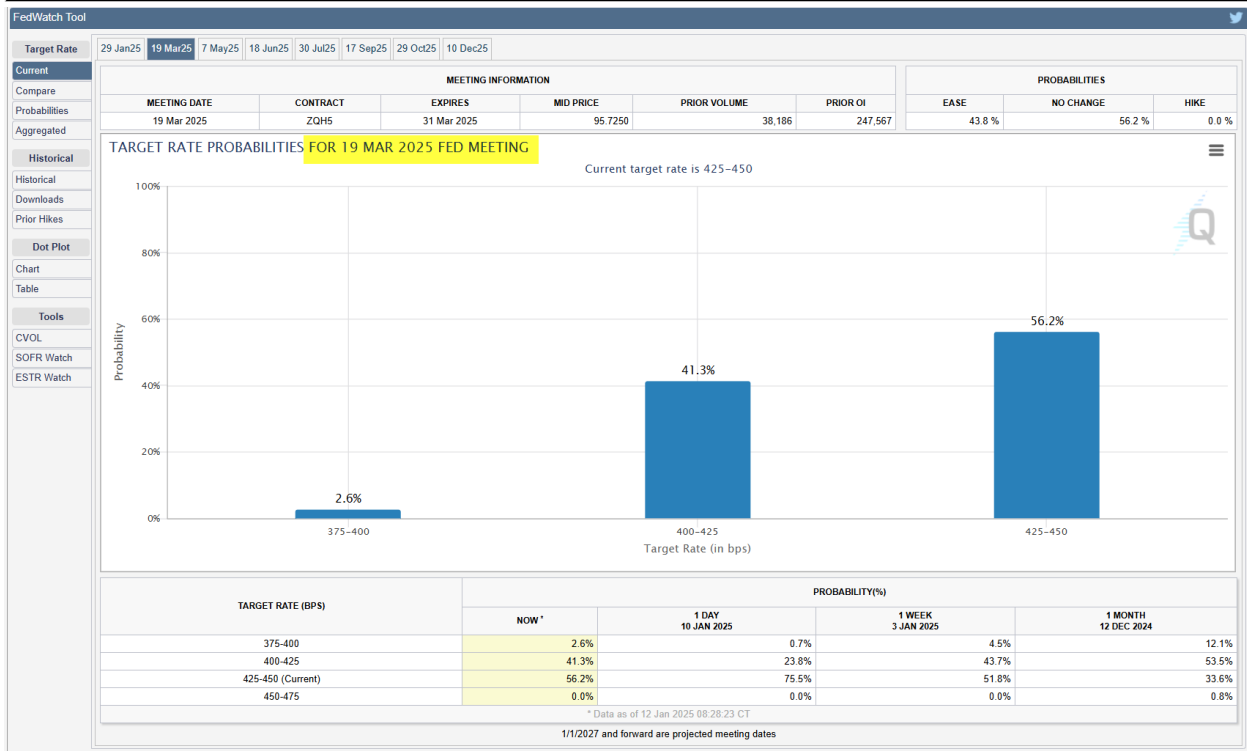
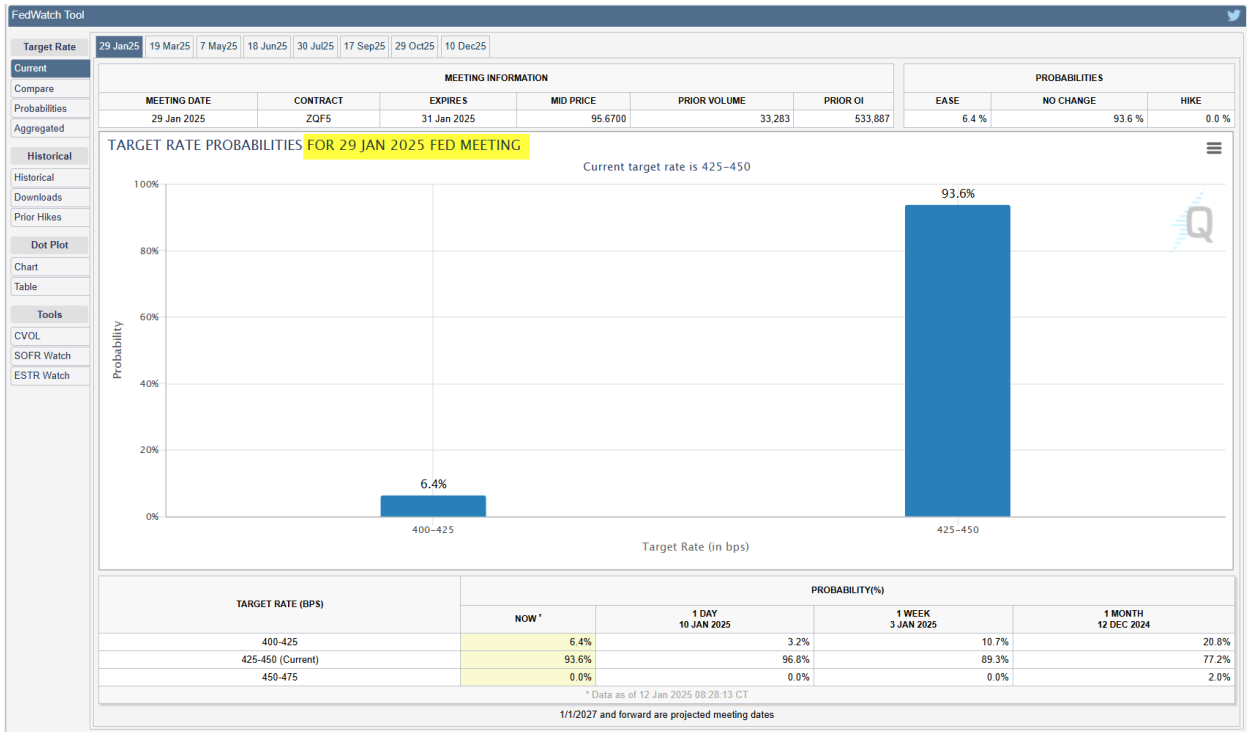
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,342,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,629,459,048.6
US Treasury Floating Rate Notes (FRNs)	6,345,642.2
US Treasury Inflation-Protected Securities (TIPS)*	341,576,877.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,225,215,539.7
Agency Commercial Mortgage-Backed Securities***	8,046,833.1
Total SOMA Holdings	6,408,333,868.1
Change From Prior Week	25,000.0

The SOMA account rose by a very small \$25 million this past week. Meanwhile, reverse repos fell by over \$288 billion for the week ending 1/8. That is a massive amount considering there are only \$185 billion remaining. Combined for the week, SOMA and reverse repo action accounted for a \$288 billion liquidity infusion. I noted last week that reverse repos spiked right at the end of 2024, and that it could have simply been end-of-year shenanigans. It appears that may have been the case, with outstanding repos now back near levels where they were a couple of weeks ago. 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 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. 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 6%. Meanwhile, March odds show a 44% chance that rates are lower than they are now. Both of these numbers show odds of the Fed holding firm has increased some over the 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 the list is shrinking. The long-term trend is somewhat in doubt. 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

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

PEP @ \$146.27 (bought 1/3 @ limit)

TMUS @ \$212.38 (bought 1/3 @ limit)

PEP @ \$145.40 (bought 1/3 @ limit)

TMUS @ \$212.34 (bought 1/3 @ limit)

LMT @ \$463.96 (bought 1/3 @ limit)

ADBE @ \$419.58 (bought 1/3 @ limit)

New

ADBE @ \$405.92 (buy 1/3 @ limit)

CMCSA @ \$36.36 (buy 1/3 @ limit)

MDLZ @ \$56.25 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 10(ADBE-3, PEP-2, TMUS-2, LMT, CMCSA, MDLZ)

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 @ \$405.92 LIMIT. From the Catapult section above, this is the 3rd and final lot of ADBE.

CMCSA – Buy 1/3 Catapult position @ \$36.36 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of CMCSA.

MDLZ – Buy 1/3 Catapult position @ \$56.25 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of MDLZ.

SPY – Buy ¼ index position @ \$580.50 LIMIT. Based on the short-term outlook, I will look at add a 2nd lot of SPY.

SPY – Buy ¼ index position @ \$574.00 LIMIT ON CLOSE if is also closes in the bottom half of the intraday range and below the open price. I'll add a 3rd lot at the close if we get strong selling on Monday heading into a potential Turnaround Tuesday with a strong chance of an even higher CBI.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
ADBE(1/3)	1/6/2025	\$430.57	\$405.92	-5.72%	Catapult
PEP(1/3)	1/7/2025	\$146.27	\$142.64	-2.48%	Catapult
TMUS(1/3)	1/7/2025	\$211.38	\$211.30	-0.04%	Catapult
SPY(1/4)	1/8/2025	\$588.63	\$580.49	-1.38%	Aggregator
LMT(1/3)	1/8/2025	\$463.50	\$468.05	0.98%	Catapult
PEP(1/3)	1/8/2025	\$145.40	\$142.64	-1.90%	Catapult
TMUS(1/3)	1/8/2025	\$212.34	\$211.30	-0.49%	Catapult
ADBE(1/3)	1/10/2025	\$410.00	\$405.92	-1.00%	Catapult

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