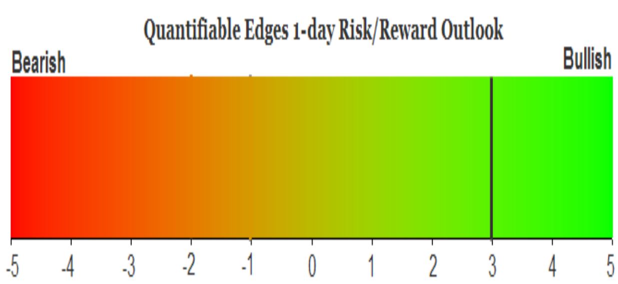
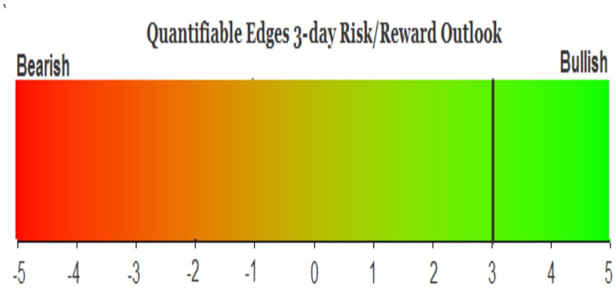
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 3, 2025 Volume 18 Issue 21

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Turn of the month with the market short-term oversold by a few measures typically makes for a good start to the month.
- The February Seasonality Calendar looks good in the 1st half of the month, but the 2nd half of the month is dicey.
- The NASDAQ has fallen into a lagging position versus the SPX, which while not outright negative does suggest the market is more susceptible to struggles.
- Liquidity was reduced moderately again this past week. The Fed still appears neutral overall.
- The January Barometer suggests good odds that the market will post further gains between now and the end of the year.

Short-term Outlook

The Bottom Line

The Aggregator is long. I believe the bulls have a short-term edge here.

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

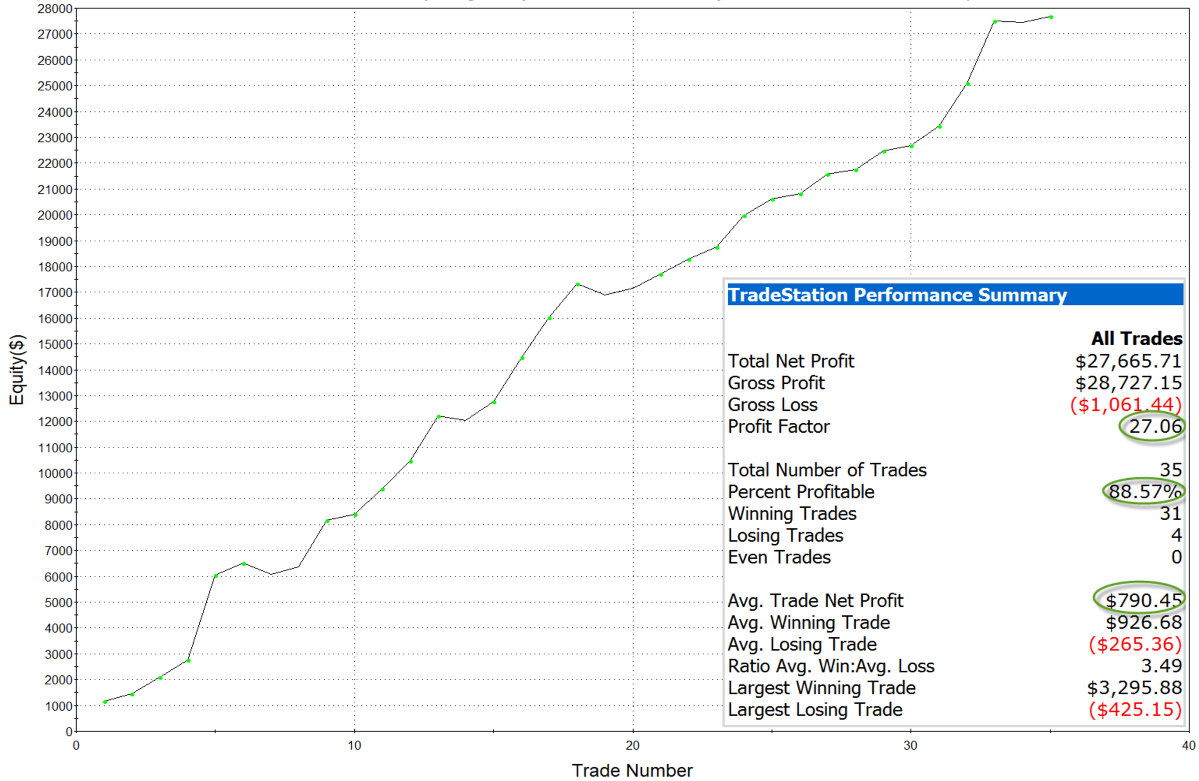
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
February 3, 2025	Turn of month with SPX oversold	1 day	Bullish			
January 28, 2025	Big Gap down and partial reversal	1-6 days	Bullish			
January 23, 2025	SPX up > 200. NYSE Up Vol < 40%	1-8 days	Bullish	1.90%	-1.30%	-2.80%
Active - Long Term						
January 21, 2025	First 75 of new president bullish	1-75 days	Bullish			
January 8, 2025	SPX down 1% 3rd day in last 10	1-20 days	Bullish	4.00%	-3.60%	-8.50%
November 26, 2024	Triple 70 Thrust	1-80 days	Bullish	9.40%	-4.60%	-11.20%
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

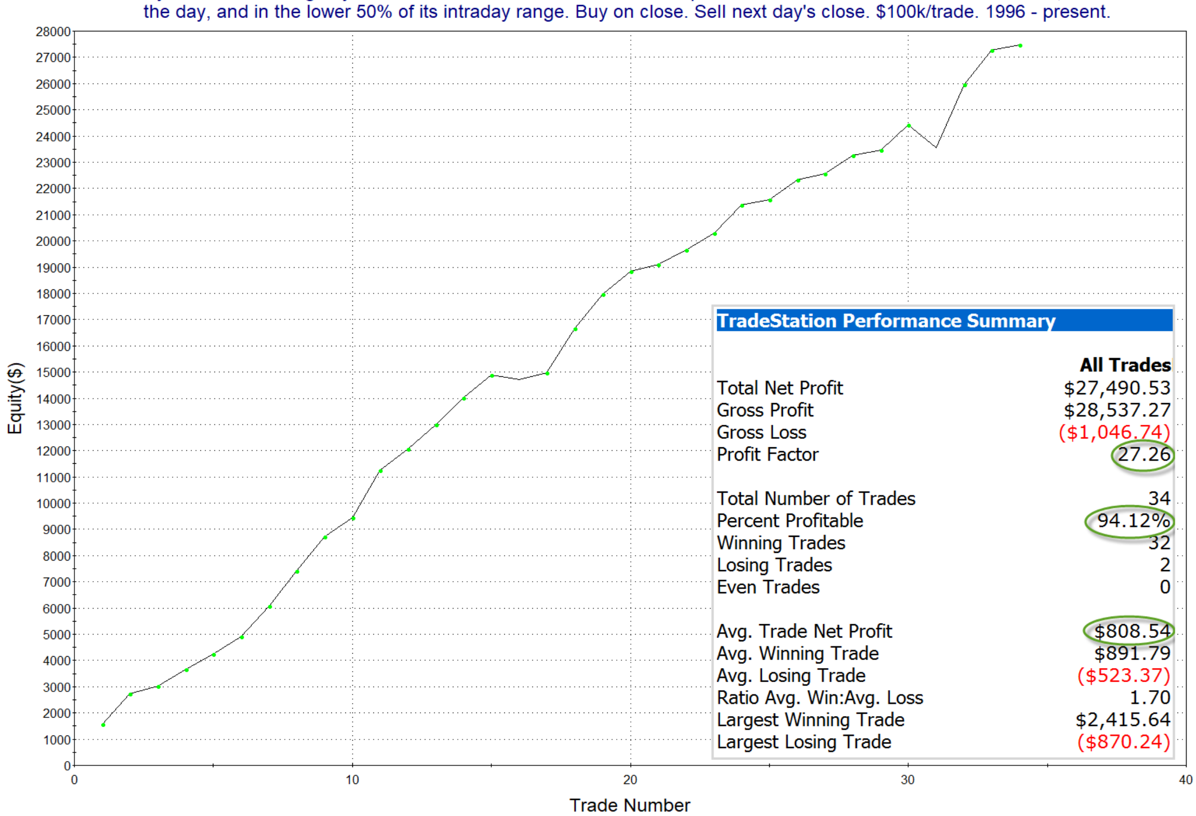
Friday started strong but saw a big reversal in the afternoon. For the day SPX lost 0.5%, the NASDAQ fell 0.3%, and the Russell 2000 declined 0.9%. Breadth was weak as the NYSE Up Issues % closed at 27% and the NYSE Up Volume % posted a 21% reading. NYSE total volume rose some from Thursday's level.

There were several studies that triggered on Friday that considered the fact that Monday is the 1st day of a new month. Turn of the month is often a bullish day. Over the years we have found that it tends to be more bullish under certain circumstances. These include 1) being in an uptrend, 2) closing low in the day's range, 3) closing low in the short-term range, and 4) if the last day of the month is also the end of a week. The studies below are somewhat similar, with different twists on the above themes.

SPY closes < 10ma and > 200ma on the last day of the month and the last day of the week. Close is in the bottom half of the intraday range. Buy on close. Sell next day's close. $100k/trade. 1996 - present.



Today is the last trading day of the month. SPY closes > 200ma and positive on the month. It also closes < 10ma, down on the day, and in the lower 50% of its intraday range. Buy on close. Sell next day's close. $100k/trade. 1996 - present.



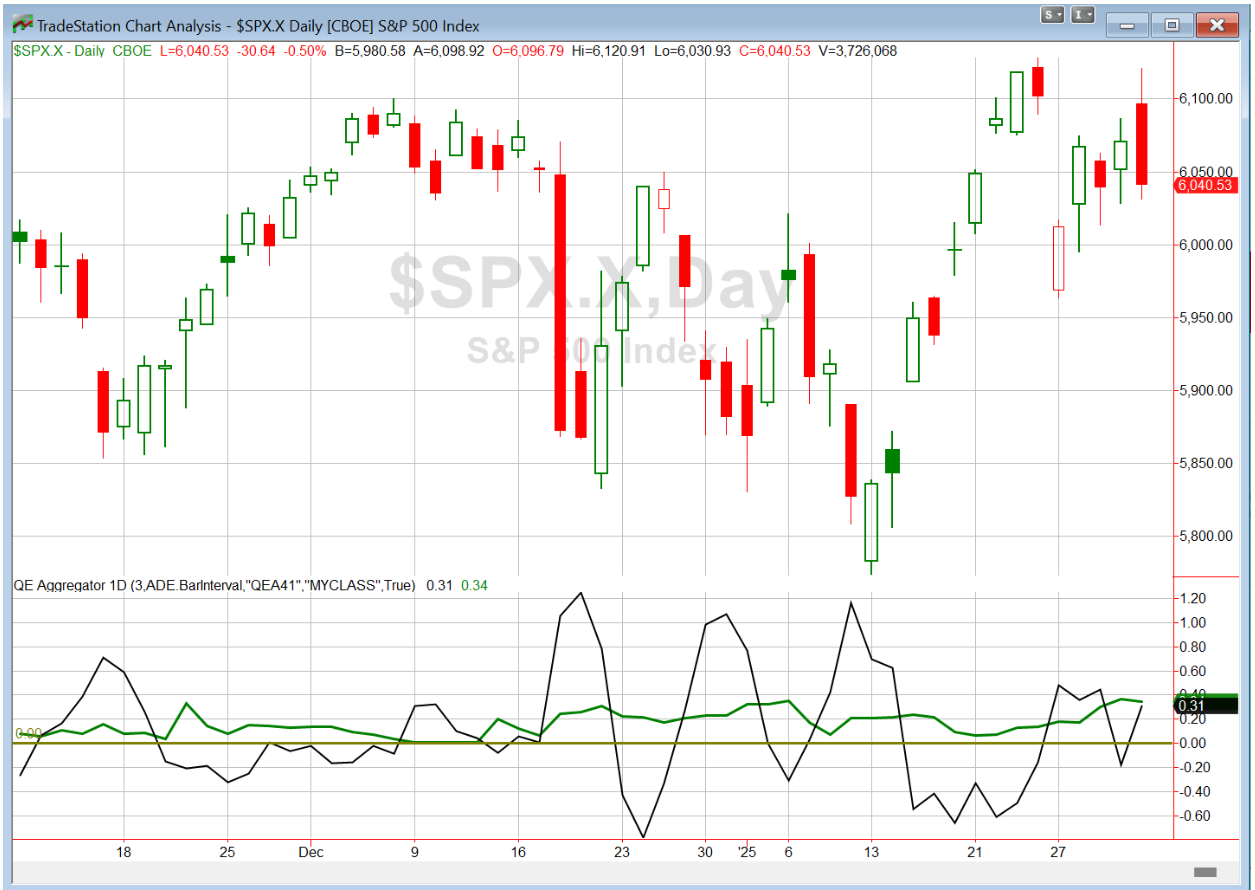
These both suggest about a 90% historical win rate and an average day of about 0.8%. Very impressive. Looking at it either way suggests an upside edge for Monday.

The Seasonality Calendars were all updated for February over the weekend. Below is a look at the SPX Calendar.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
2/3/2025	**60.91**	**1.657**	**0.171**
2/4/2025	**52.78**	**1.050**	**0.016**
2/5/2025	**57.40**	**1.289**	**0.088**
2/6/2025	**54.09**	**1.066**	**0.026**
2/7/2025	**55.43**	**1.177**	**0.064**
2/10/2025	55.14	0.985	-0.013
2/11/2025	**54.52**	**1.125**	**0.032**
2/12/2025	**57.28**	**1.167**	**0.036**
2/13/2025	**56.87**	**1.131**	**0.022**
2/14/2025	**59.01**	**1.414**	**0.090**
2/18/2025	**50.84**	**1.521**	**0.123**
2/19/2025	**50.16**	**1.203**	**0.039**
2/20/2025	48.62	1.212	0.043
2/21/2025	48.42	1.113	0.004
2/24/2025	51.24	0.929	-0.066
2/25/2025	50.10	0.902	-0.072
2/26/2025	**49.96**	**0.950**	**-0.055**
2/27/2025	**51.56**	**1.031**	**-0.034**
2/28/2025	**49.82**	**0.824**	**-0.097**
Baseline	***53.81***	***1.144***	***0.049***

This upcoming week, and most of the 1st half of the month, look solidly bullish. After the 19th there does appear to be a window of time in which the bears could have an opportunity to push the market lower.

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 moved back 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. That could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 6078.82. That is 0.6% above Friday's close. Therefore, SPX will need to close up at least 0.6% on Monday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is bullish. The studies suggest strong odds of a bounce on Monday. And there is a decent amount of room to the upside before SPX would turn overbought. I believe the bulls have a short-term edge here. I will look to take advantage of that with a small long position if I can get a favorable fill on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/3 – somewhat bullish

Combo #1	Combo #2	Combo #3	Combo #4
Long SPY	Long SPY	Flat	Long SPY

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 saw changes this week.*

Stocks saw some net selling this past week. The SPX declined 1.0%, the NASDAQ fell 1.6%, and the Russell 2000 (RUT) declined 0.9%. Bonds rose. The US Aggregate Bond ETF (AGG) gained 0.4%. TLT, the 20-year Treasury Bond ETF, climbed 0.6%. The long-term uptrend does still appear in place with the SPX and NASDAQ above their long-term moving averages, but progress has been minimal since early December.

One notable indicator that changed position is our NASDSAQ/SPX Relative Leadership indicator. The selling in the NASDAQ caused it to fall into a lagging position. This can be seen in the chart below.

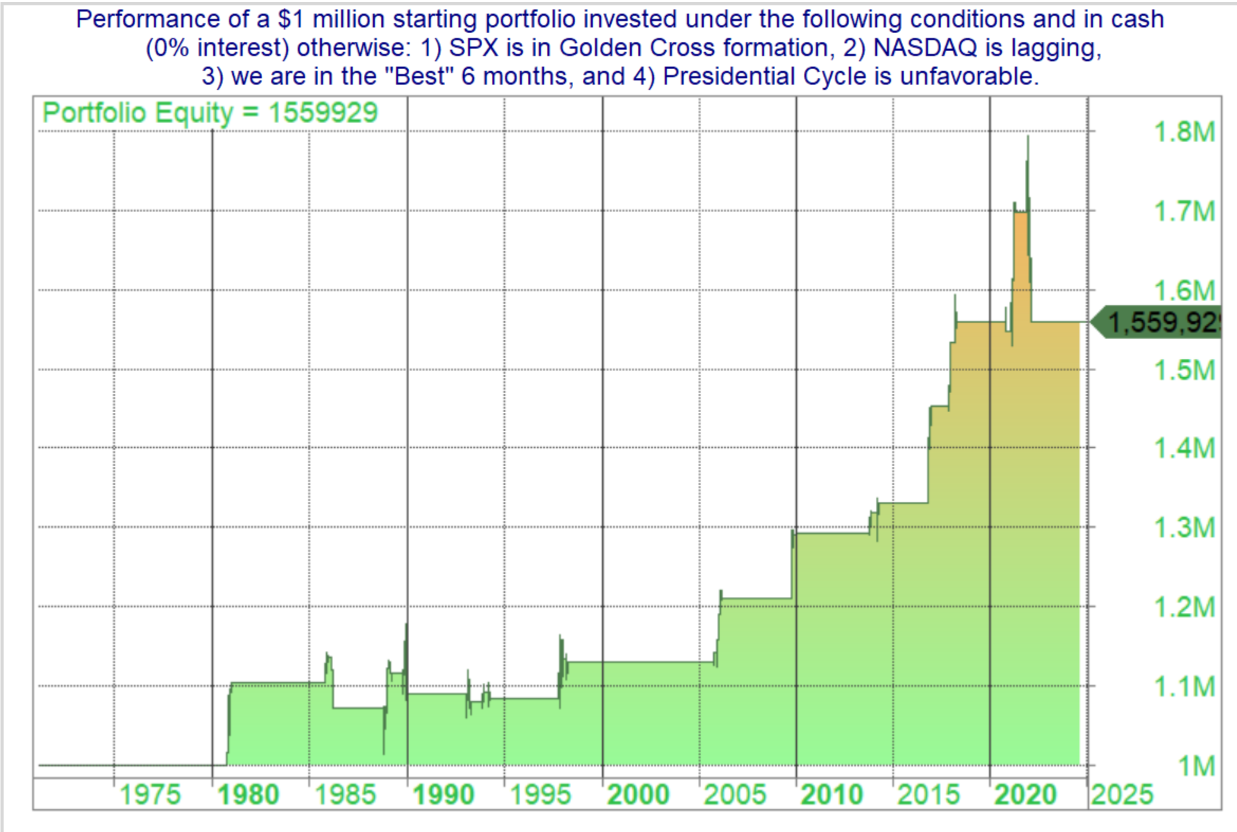
The movement of the green line (which is about to turn red) below the blue dotted line is our indication that the NASDAQ is in a lagging position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below.

Historical Compound Returns of $100,000 Starting Portfolio Using the NASDAQ/SPX Relative Leadership Indicator as a Filter. 12/31/71 - 1/31/25.

	Compound Annual Growth Rate	Max Drawdown	End Value of $100,000
S&P 500 Index	7.98%	-56.78%	$5,916,867.62
SPX when NASDAQ lags	0.12%	-67.21%	$106,723.59
SPX when NASDAQ leads	7.85%	-33.92%	$5,544,104.50
NASDAQ Composite	10.17%	-77.93%	$17,198,948.02
NASDAQ when lagging	-1.25%	-85.53%	$51,192.14
NASDAQ when leading	11.57%	-40.62%	$33,596,853.06
NASDAQ when leading (with interest when in cash)*	14.06%	-37.64%	$108,638,300.49
*interest on cash calculated at historical 30-day Fed Funds rate			

More on this indicator can be found in the Market Timing Course. (Free for all annual subscribers.)

I decided also to take a look at how the market has done when all original 4 Market Timing Course indicators have been aligned as they are now. That means: 1) SPX "Golden Cross" in effect, 2) the NASDAQ is lagging, 3) unfavorable Presidential Cycle, and 4) "Best" 6 months in effect. Below is a chart showing SPX performance during this alignment.



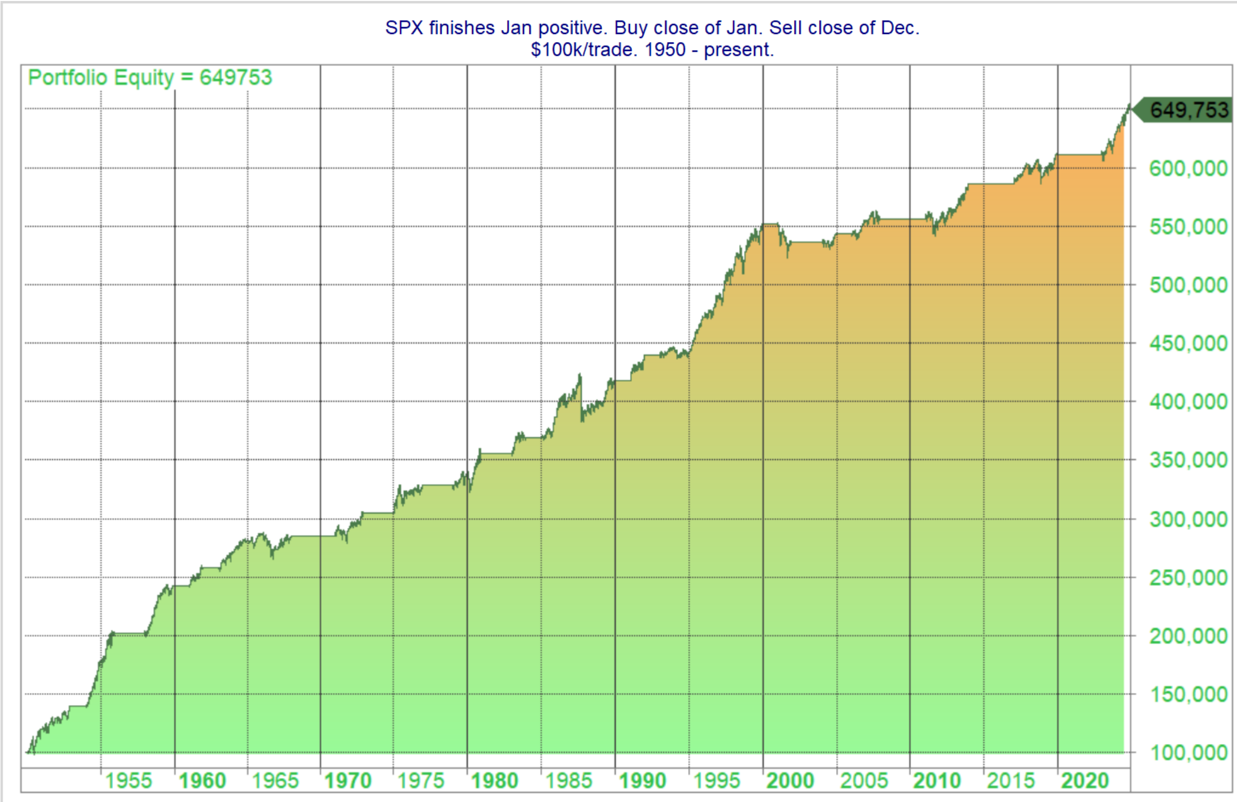
This curve is somewhat encouraging. It has basically been headed up or sideways most of the time. So it seems to suggest that the current configuration is at least not bearish. While we would rather see the NASDAQ leading, most of the Market Timing Course Combo Systems remain "long". They have just switched from QQQ to SPY.

The January Barometer is a fairly famous study from the Stock Traders Almanac. It says that "as goes January, so goes the year". In other words, a positive January will typically lead to a positive year, while a negative January can be a warning. I looked at performance following positive Januarys back in the 2/4/19 letter, and have updated that study below. It shows how the SPX has done for the remaining 11 months of the year when January has closed higher.

SPX finishes Jan positive. Buy close of Jan. Sell close of Dec. $100k/trade. 1950 - present.

Statistics	
	All trades
Initial capital	100000.00
Ending capital	649753.00
Net Profit	549753.00
Net Profit %	549.75%
Exposure %	18.08%
Net Risk Adjusted Return %	3040.01%
Annual Return %	2.53%
Risk Adjusted Return %	13.96%
Transaction costs	0.00
All trades	45
Avg. Profit/Loss	12216.73
Avg. Profit/Loss %	12.22%
Avg. Bars Held	231.84
Winners	39 (86.67 %)
Total Profit	607150.65
Avg. Profit	15567.97
Avg. Profit %	15.57%
Avg. Bars Held	231.90
Max. Consecutive	11
Largest win	37960.12
# bars in largest win	233
Losers	6 (13.33 %)
Total Loss	-57397.64
Avg. Loss	-9566.27
Avg. Loss %	-9.57%
Avg. Bars Held	231.50
Max. Consecutive	1
Largest loss	-15953.76
# bars in largest loss	228

The numbers show that in years that January has done well, the rest of the year has typically fared well also. Below is a profit curve.



That is a fairly steady upslope. So perhaps January momentum will follow through some for 2025. This study is one I have always found interesting, but not terribly compelling from a trading standpoint. I will not be adding it to the Active List, but I thought readers might want to be aware of it.

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

Domestic Security Holdings as of

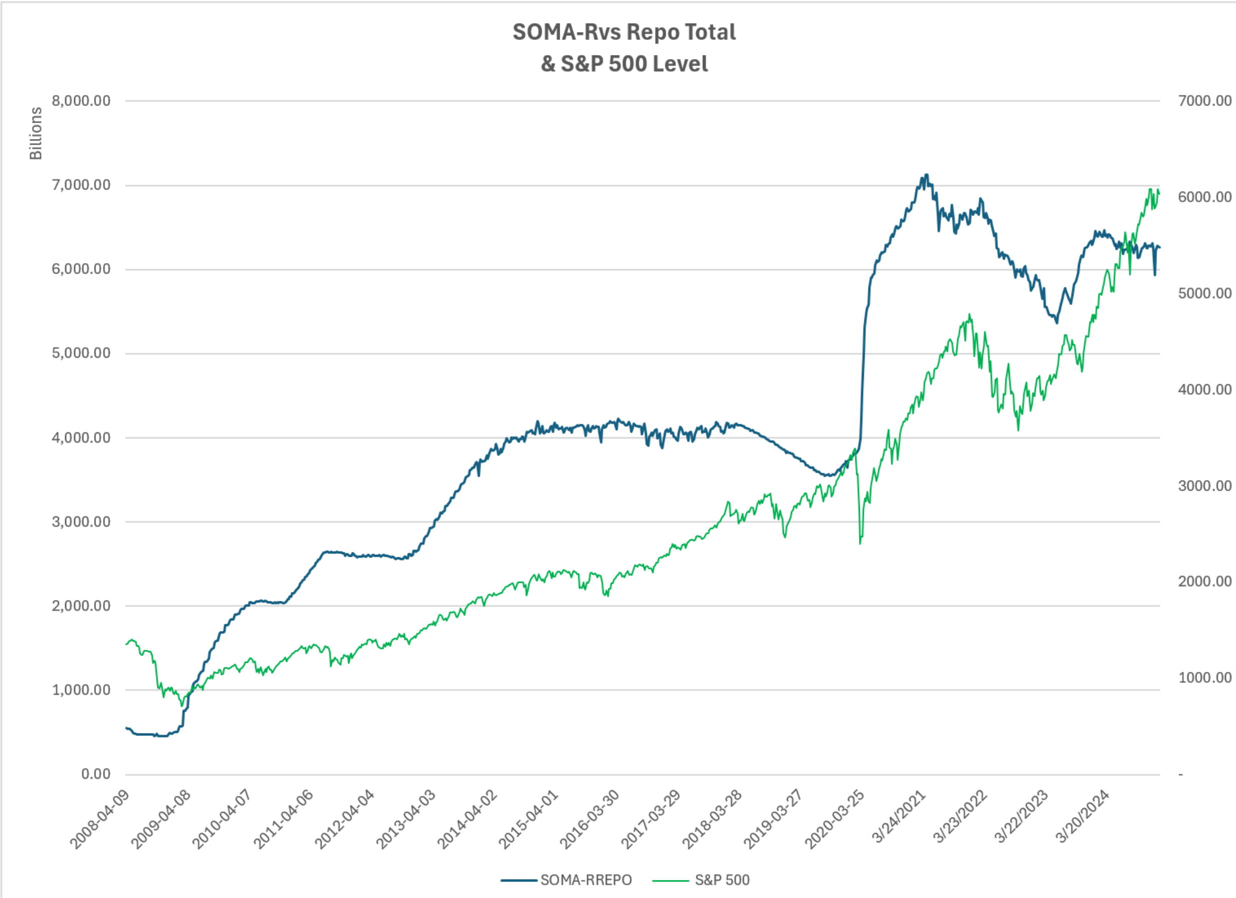
Previous **January 29, 2025**

Posted January 30, 2025 at 4:30 PM

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

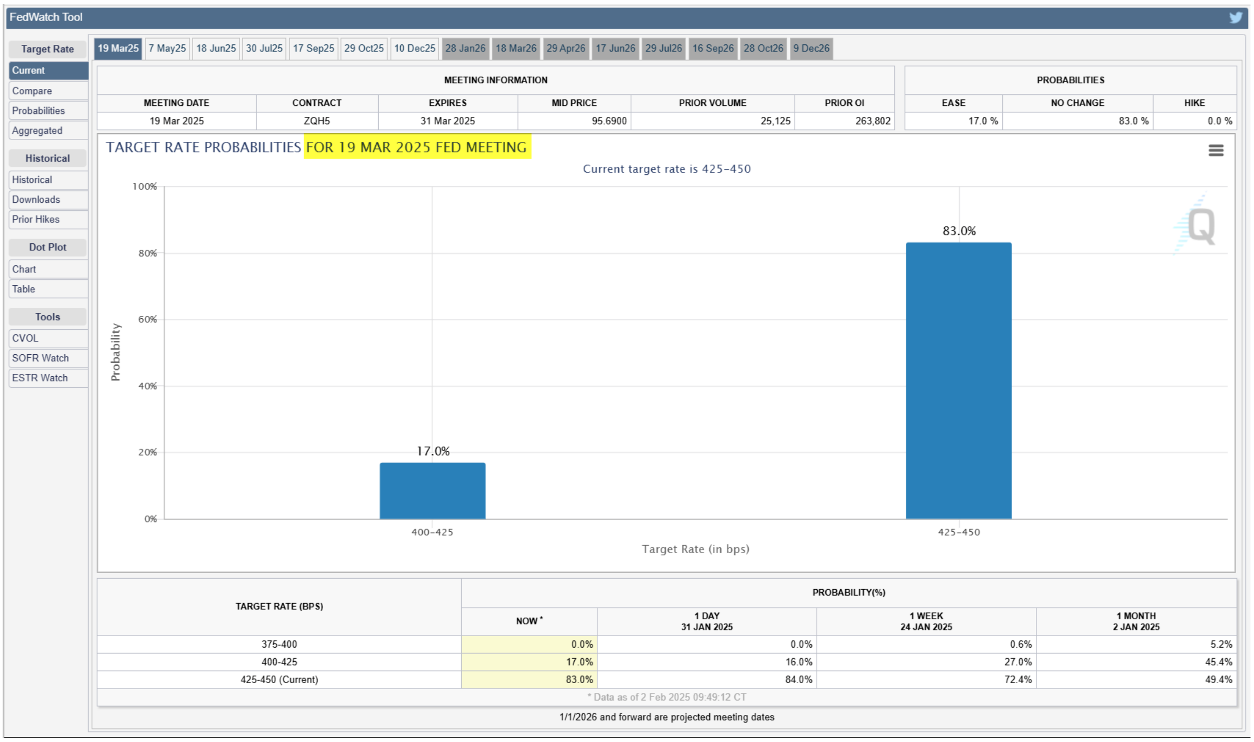
SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	195,342,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,647,289,591.0
US Treasury Floating Rate Notes (FRNs)	6,345,642.2
US Treasury Inflation-Protected Securities (TIPS)*	318,893,978.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,209,533,357.3
Agency Commercial Mortgage-Backed Securities***	8,025,687.7
Total SOMA Holdings	6,387,778,183.7
Change From Prior Week	-12,278,634.0

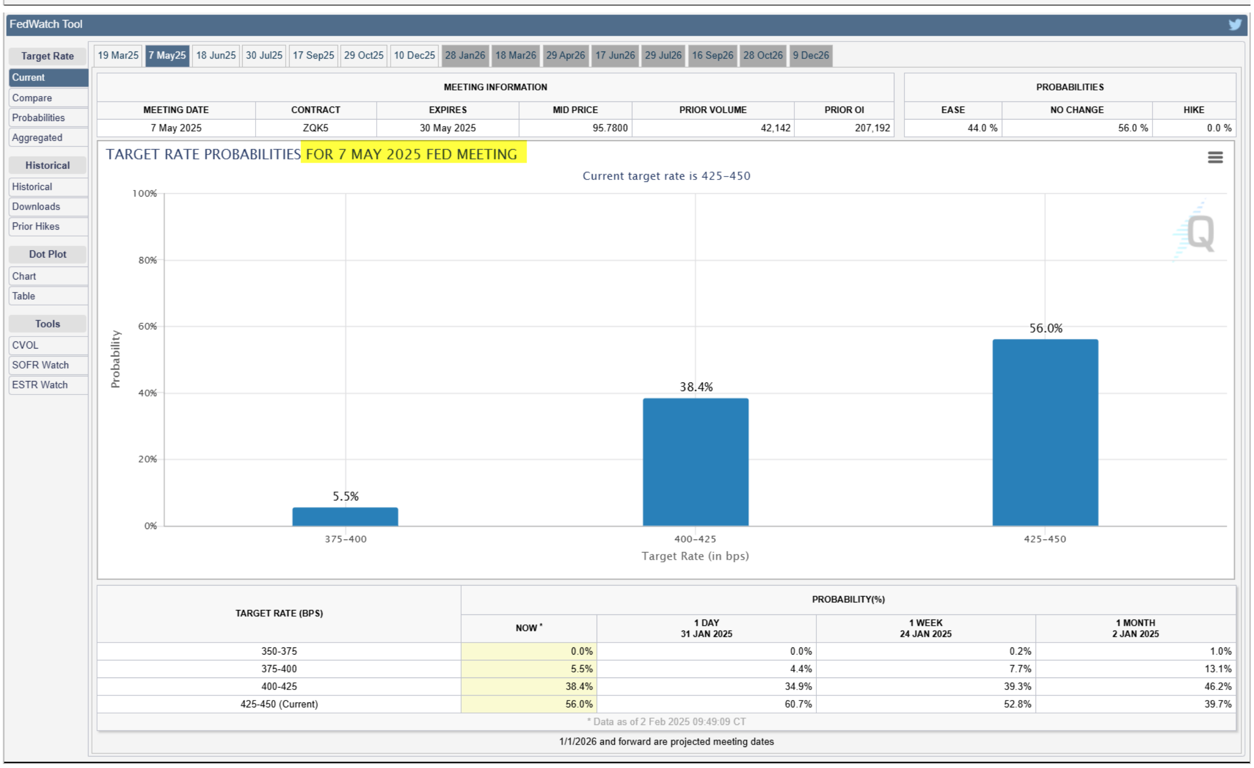
The SOMA account declined by $12.3 billion this past week. Meanwhile, reverse repos declined by $2.1 billion for the week ending 1/29. Combined for the week, SOMA and reverse repo action accounted for a $10 billion liquidity drain. Reverse repos spiked right at the end of 2024, but the spike quickly disappeared and the amount of liquidity they can provide is getting quite low at this point (just $122 billion remaining as of 1/29/25). 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 December meeting, but that has not seemed to increase demand for them.

With regards to rates, the chance of a 25 point cut in March is now just 17%, down from about 28% last week. Meanwhile, May odds show a 44% chance that rates are lower then than they are now. 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. Inflation news will be especially important to watch.

From an intermediate-term standpoint, bulls still appear to be hanging on – but not by much. We have a few studies left on the intermediate-term active list that suggest further upside. The long-term trend still appears to be higher. We are in the best 6 months of the year, and the next couple of weeks appear solid from a seasonality standpoint. 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 somewhat 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 @ $601.82 LIMIT. Based on the short-term outlook above, I will look to start a long index position if I can get filled at Friday's closing price or better.

Current Open Trade Ideas

None