

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 7, 2025

Volume 18 Issue 65

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Oversized declines on Fridays often lead to a bounce in the coming days.
- The VIX has spiked extremely far above its 10ma. Such spikes in the past have often led to a market bounce the next day.
- 5% down days for SPX have typically been followed by a strong bounce the next day.
- Gaps down and further selling on an employment report day often see another day of selling. (But Friday's selloff was not due to the employment report.)
- Tariff announcements have roiled the market, and it is now a news-driven environment, less prone to adhering to historical norms.
- Projections still show the Fed is not likely to cut rates until June. That could change in the coming weeks.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but evidence is light, volatility is high, comparisons are limited, and visibility is poor. I am only cautiously bullish for the short-term.

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						
April 7, 2025	SPY 5% decline	1 day	Bullish			
April 7, 2025	VIX spikes > 50% over 10ma	1 day	Bullish			
April 7, 2025	SPX declines 1.5x 20-day ATR on Friday	1-4 days	Bullish	1.90%	-1.60%	-3.50%
Active - Long Term						
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

The stock market is a mess right now. The tariff announcements have created turmoil, and Friday was worse than Thursday for most indices. SPX fell 6.0%, the NASDAQ dropped 5.8%, and the Russell 2000 lost 4.4%. Breadth was extremely weak as the NYSE Up Issues % closed at 9% and the NYSE Up Volume % posted a 7% reading. NYSE total volume came in high as traders panicked ahead of the weekend.

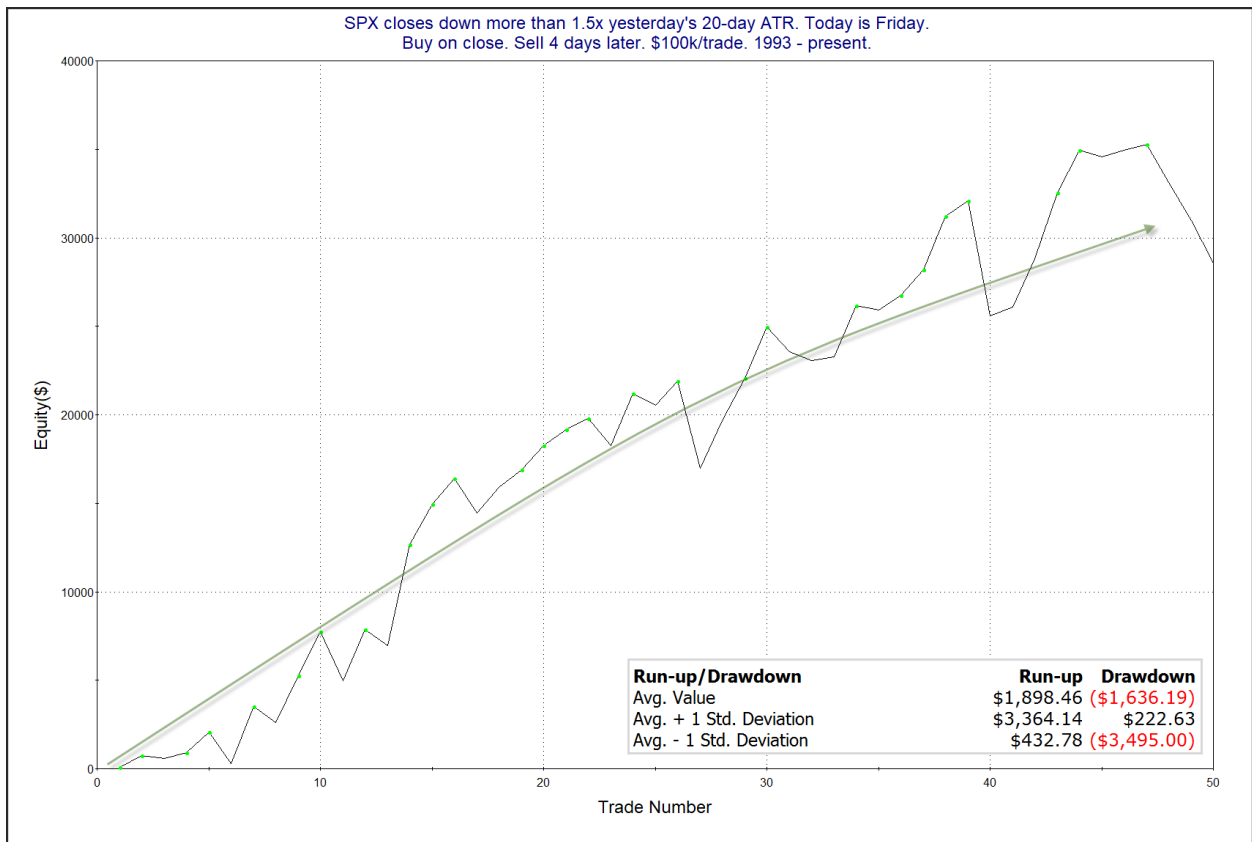
There were several studies that triggered this weekend. I will cover the ones that I consider the most relevant and interesting below. I'll then try and put things into perspective.

One interesting Quantifinder study looked at large drops on Fridays. Both the Crash of '29 and the Crash of '87 happened on Monday. The Crash of '87 is still remembered by some traders that are active today (old farts). In 1987, there was a strong selloff on Friday and then all hell broke loose on Monday. But since then, strong Friday selloffs have commonly been followed by bounces in the following days. Perhaps this is due to the fact that fear of a crash causes what might otherwise be an ordinary selloff to become exaggerated and overdone on Fridays. Or perhaps it is just that people don't want to hold over the weekend. Whatever the reason, there has been a tendency to bounce. In recent years the bounce has not always occurred on Monday. Sometimes we saw more selling on Monday before the rebound started on Tuesday. The study below was last discussed in the 2/24/25 subscriber letter. It defines a strong selloff as more than 1.5x the recent (20-day) average true range. Results are updated.

SPX closes down more than 1.5x yesterday's 20-day ATR. Today is Friday.
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
10	54,350.97	48	31	17	64.58	9,241.60	-6,049.40	3,085.57	-2,429.51	1.27	2.32	1,132.31
9	53,057.39	48	31	17	64.58	7,602.40	-5,483.80	2,871.61	-2,115.44	1.36	2.48	1,105.36
8	60,248.28	48	32	16	66.67	7,949.70	-3,550.72	2,796.11	-1,826.70	1.53	3.06	1,255.17
7	46,579.80	48	30	18	62.50	7,662.81	-4,599.52	2,746.19	-1,989.22	1.38	2.30	970.41
6	48,925.52	48	33	15	68.75	8,870.96	-4,202.80	2,435.87	-2,097.22	1.16	2.56	1,019.28
5	32,219.39	50	31	19	62.00	5,393.97	-6,368.04	2,244.02	-1,965.54	1.14	1.86	644.39
4	28,551.89	50	33	17	66.00	5,731.96	-6,520.68	1,817.29	-1,848.16	0.98	1.91	571.04
3	25,296.19	50	29	21	58.00	5,215.85	-3,492.36	1,875.94	-1,386.00	1.35	1.87	505.92
2	12,210.52	50	29	21	58.00	6,245.15	-5,163.50	1,385.89	-1,332.40	1.04	1.44	244.21
1	12,721.27	50	38	12	76.00	3,322.23	-4,074.84	764.68	-1,361.37	0.56	1.78	254.43

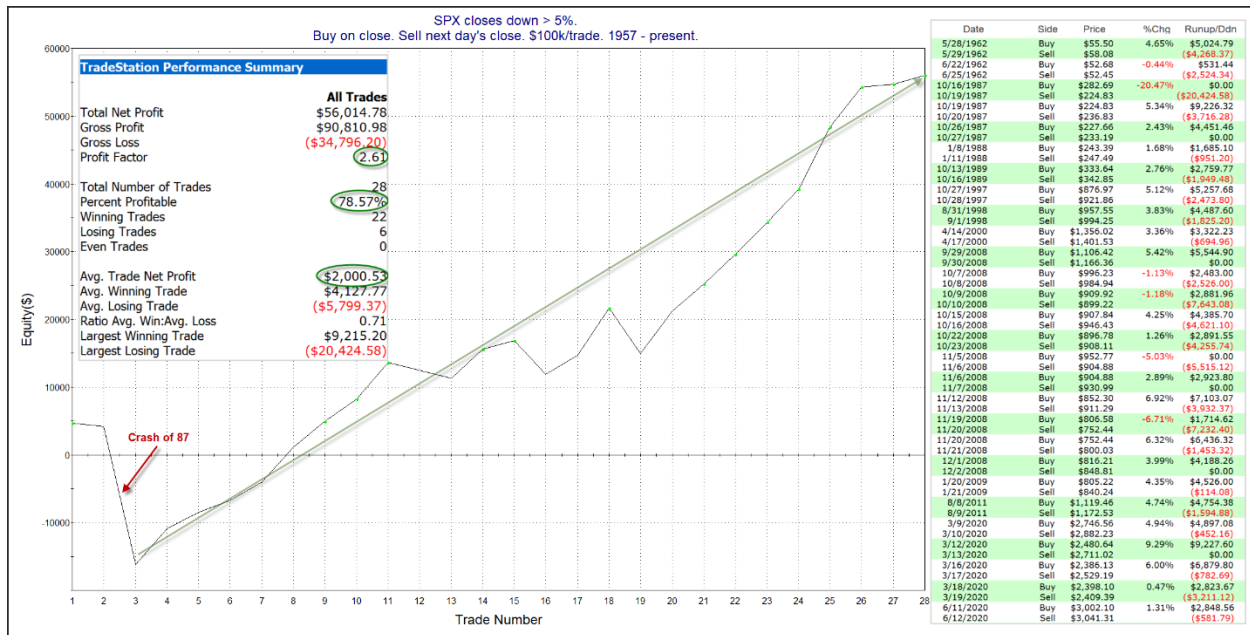
The numbers here are all impressive and suggest a bullish bias. Below is a look at the 4-day returns.



Despite the pullback on the last few instances, there is a fairly persistent rise here from lower left to upper right. This study still appears worth some consideration. I will note that the average runup/drawdown stats are pretty mild, and that I would expect they will be reached one way or the other before 4 days actually pass. An additional 3.5% drawdown, or a 2% rally would mean this

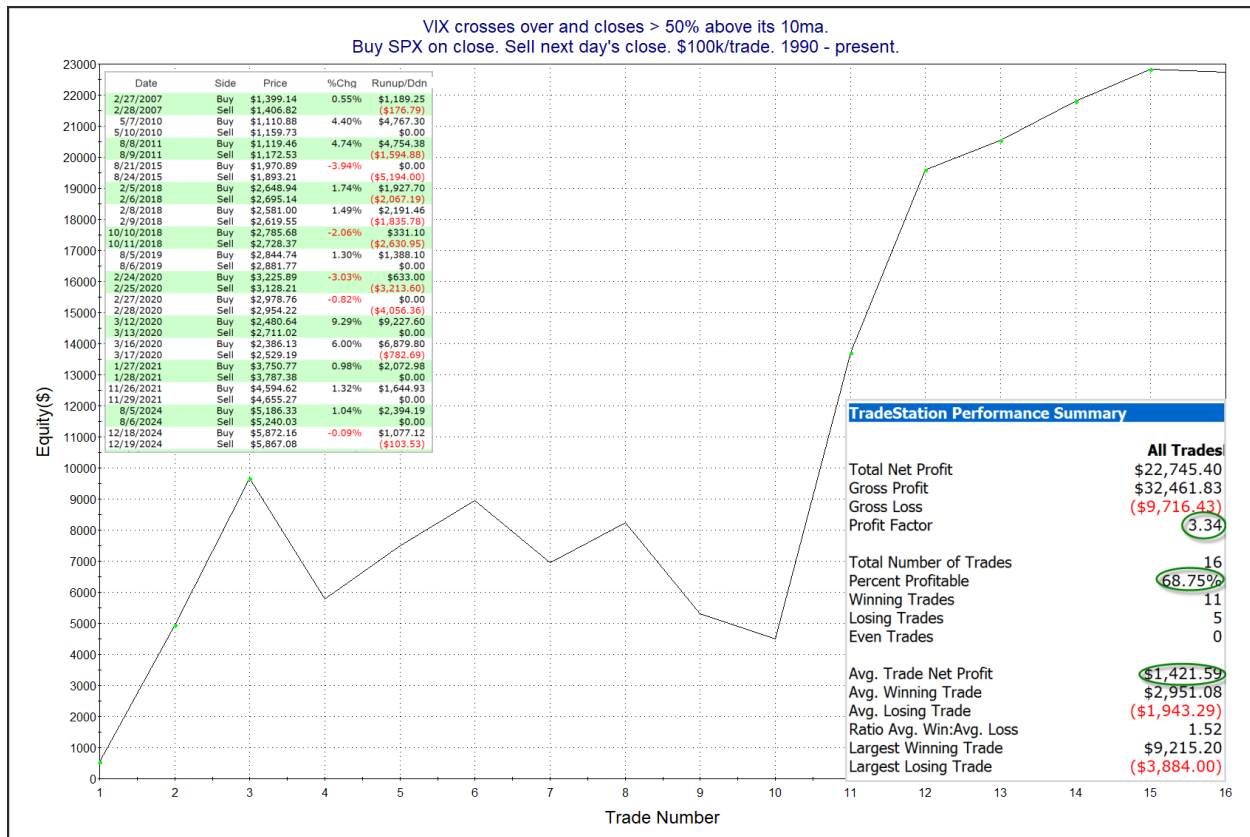
study will come off the active list. Either one of those could easily happen before noon on Monday with the kind of volatility the market is currently experiencing.

A 5% down day for the SPX is quite extreme on its own. Since its inception in 1957, the modern SPX has only seen 28 other days where there was a 5% decline. The study below looks at performance on the day after the 5%+ drop.



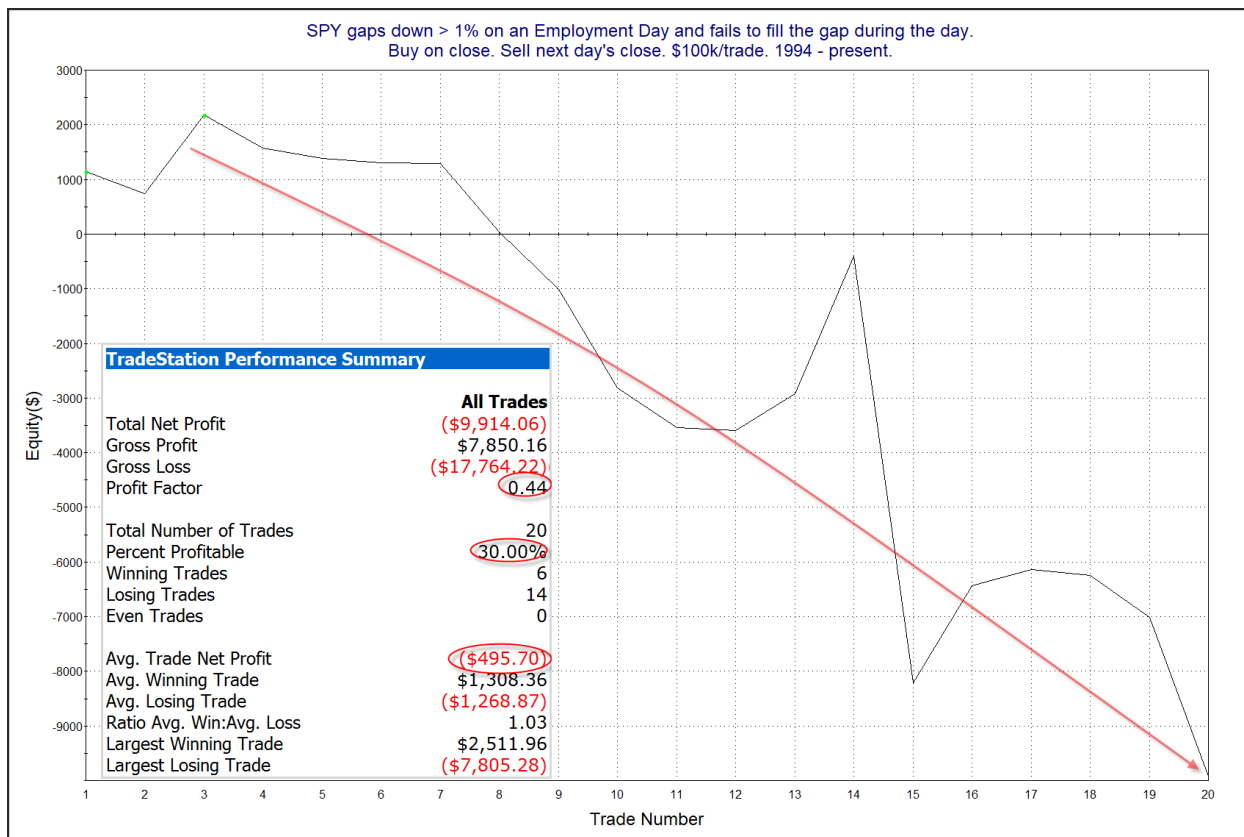
The numbers and the curve are very impressive. Of course the setup is not perfect. In fact, it triggered on the day before the 1987 market crash. But since then the market has bounced fairly reliably, and the next-day returns have been quite strong. And the most impressive streak is the current 9-instance win streak. Even factoring in the 20% down day in 1987, the average instance gained 2% the next day. That's compelling.

The VIX has been spiking, and that continued on Wednesday, suggesting fear is reaching a level where a reversal is likely. In fact, it closed a whopping 93% above the 10ma. That has only happened 3 other times: 8/24/15 (China crisis), 2/5/18 (Volmageddon), and 8/5/24 (Carry trade blowup). The study below was from the 10/11/18 subscriber letter. It examines spikes of at least 50% above the 10ma. Results are updated.



Definitely choppy, but overall reward/risk appears favorable for the (1-day) bull case.

There was a bearish study that appeared. It looked at unfilled gaps down on days the employment report came out. I have updated that study from the 8/8/22 letter below.



The stats and profit curve all point lower. My issue with this study is that the selloff was not due to the employment report results. It was primarily due to tariff news, and the US embarking on a global trade war. So I am not inclined to include it on the active list.

Which brings me to the main issue with all of the research tonight...we are in a market with few historical price comparisons (5% moves, massive VIX spikes, etc), and action over the next few days may be more dependent on news than it is on how stretched the market is in one direction or another. Selloffs like the one we have seen over the last two days are typically overreactions, at least short-term overreactions. So a bounce can certainly be expected, and that bounce will almost certainly be a large one. It might start Monday, it might not start for a few days. It could start at current levels, and it could start quite a bit lower from here. The market may need some positive news to spark the rebound.

That news could come in several forms. For one, there is much debate over the calculation the government used to determine the “reciprocal” tariffs. Not only do many disagree with the premise of the calculations, but it appears they made an error in the one that was used:

[President Trump's Tariff Formula Makes No Economic Sense. It's Also Based on an Error. | American Enterprise Institute - AEI](#)

Will they adjust the calculation? Who knows. I probably wouldn't count on that. It seems more likely that they might keep the original numbers to bargain from. Which leads me to another note I read this weekend, from Bill Ackman:

<https://x.com/BillAckman/status/1908625866680393847>

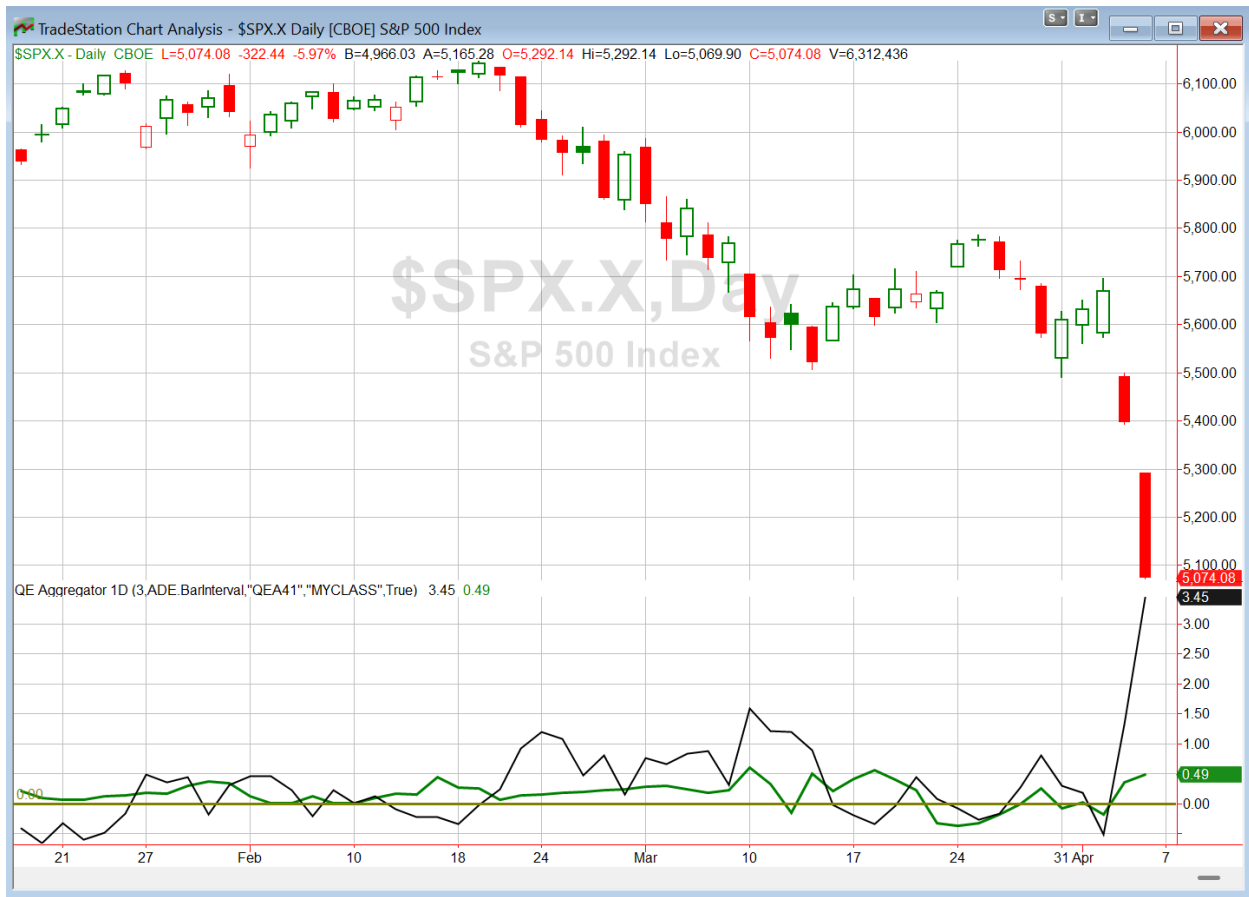
He surmises that the implementation date of most of these tariffs is this Wednesday, which is not enough time to make deals with all these countries. Therefore, he believes it is likely that there will be an announcement of a postponement.

This seems reasonable to me, since we saw the same thing with the Canada/Mexico tariffs in February. A postponement could give the market some hope that favorable deals will be done and might perhaps ignite a bounce. But we'd then be trading in a news-dependent market leading up to the new date as well.

In any case, I'm not in any real position to guess what the next bit of news may be. I do believe we are in a market cycle that will see great swings based on news announcements. Playing overbought/oversold with reduced position sizes, or controlling risk with options in this environment is completely reasonable. Of course, overreactions do create some of the greatest opportunities. So I will NOT be simply stepping aside and sitting in cash. I'll be seeking opportunities and looking to build exposure where reward/risk appears favorable.

One last note is that there are zero active Catapult triggers. This means the CBI is at zero. So we are not seeing broad-based capitulation based on that indicator. If we see more selling in the next day or two, the CBI would begin to spike quite quickly. But has not yet. As I have stated in the past, the market does not *need* to see the CBI spike in order to bounce. But it does seem to occur more reliably when the CBI is elevated. I'll update CBI reading on X (@QuantifiableEdgs) and Bluesky (@quantifiableedges.bsky.social) and StockTwits (QuantifiableEdgs) during the day Monday if there is movement.

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 is WAY above zero. The positive Differential Line reading means that SPX is extremely oversold versus recent expectations. So expectations are positive and SPX is massively 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 set to remain positive on Monday. This could easily change based on new evidence or even oversized moves on Monday. Meanwhile, the Differential Pivot will be 5610.97. That is 10.6% above Friday's close. So for SPX to flip from oversold to overbought versus expectations it will need to close up at least 10.6% on Monday. That is not going to happen.

So the Aggregator is bullish. But visibility is still very short-term. We could easily be left without any studies left on the short-term active list on Monday. I do anticipate another day of selling would trigger a rise in the CBI, and also several Turnaround Tuesday type studies. I think we are very close to a bounce, time-wise. I am not sure price-wise. So I will only look to take on a small

position if we close down again on Monday. If you are feeling more aggressive, or if you have large amounts of cash in your account, then you could look to take exposure before that. There is an upside edge. I am just feeling a bit cautious due to the market being news-driven and having so few historical comparisons.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/7 – neutral

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 remained the same this week. Some of the combinations take a while to flip to flat. But we could easily see that happen in the next few weeks.*

This past week was horrible for stocks. The SPX lost 9.1%, the NASDAQ dropped 10.0%, and the Russell 2000 fell 9.7%. Bonds acted as a flight to safety. The US Aggregate Bond ETF (AGG) gained 1.1%. TLT, the 20-year Treasury Bond ETF, rallied 3.4%. The long-term trend is not encouraging. The major indices are hitting new long-term lows while the SPX and NASDAQ are getting close to seeing Death Crosses occur on the charts (50ma < 200ma), which would be another confirmation of the downtrend. No new studies with intermediate-term implications triggered in the last few days.

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

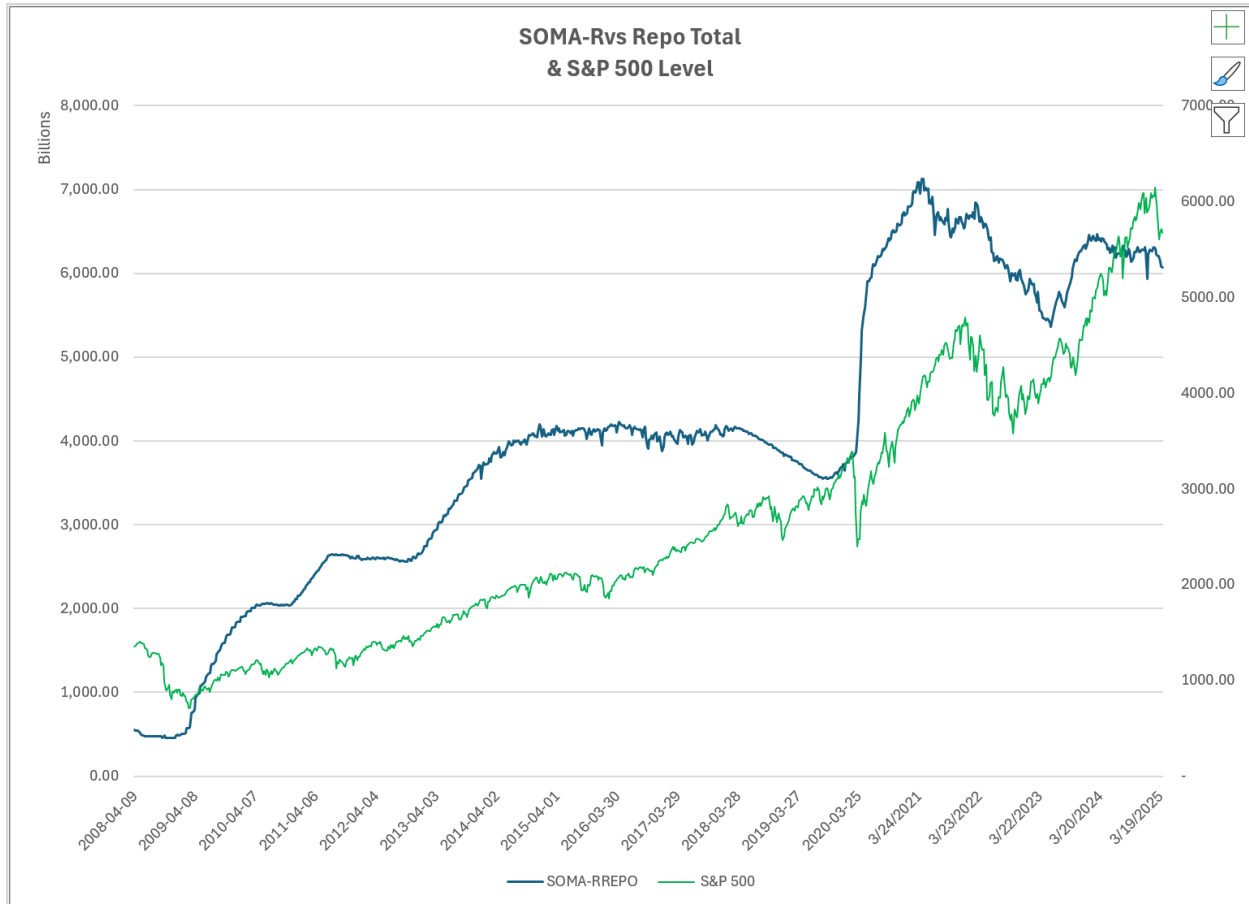
Domestic Security Holdings as of

◀ Previous **April 2, 2025** 📅
 Posted April 3, 2025 at 4:30 PM

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

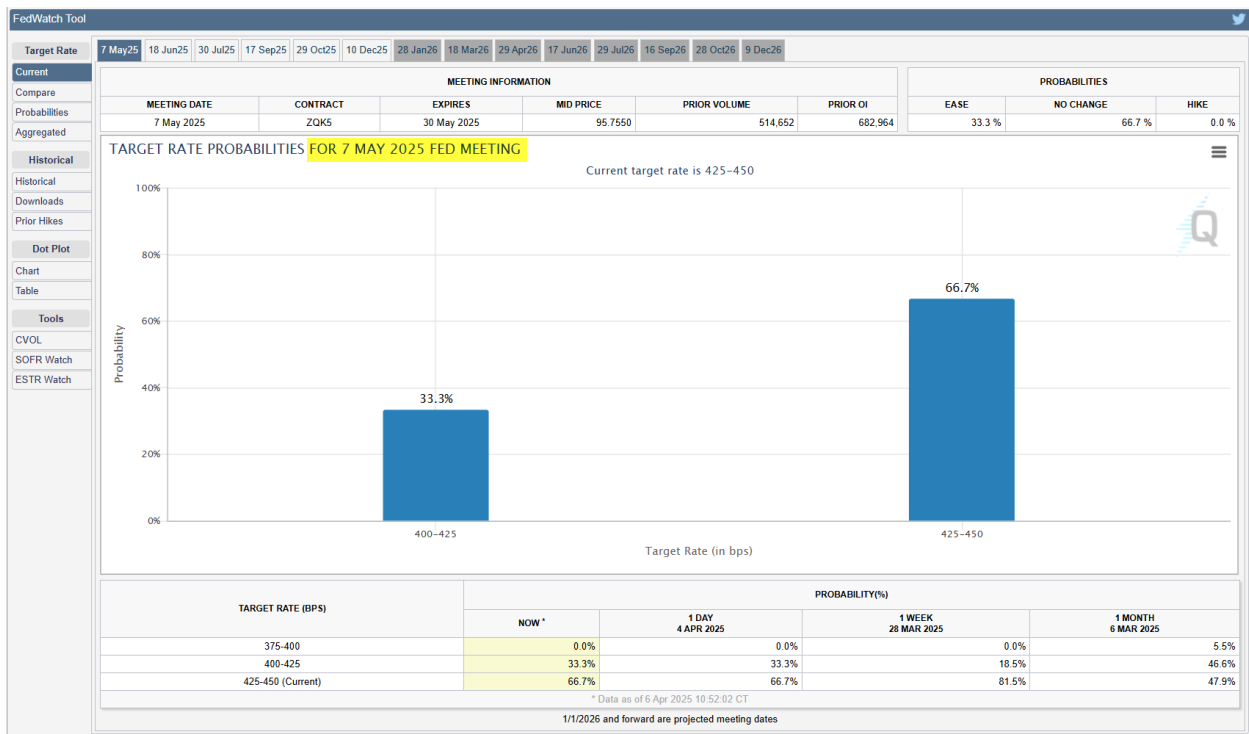
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,342,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,581,736,656.2
US Treasury Floating Rate Notes (FRNs)	10,820,651.2
US Treasury Inflation-Protected Securities (TIPS)*	321,443,328.3
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,180,991,299.5
Agency Commercial Mortgage-Backed Securities***	8,007,383.2
Total SOMA Holdings	6,300,689,245.1
Change From Prior Week	-18,952,099.4

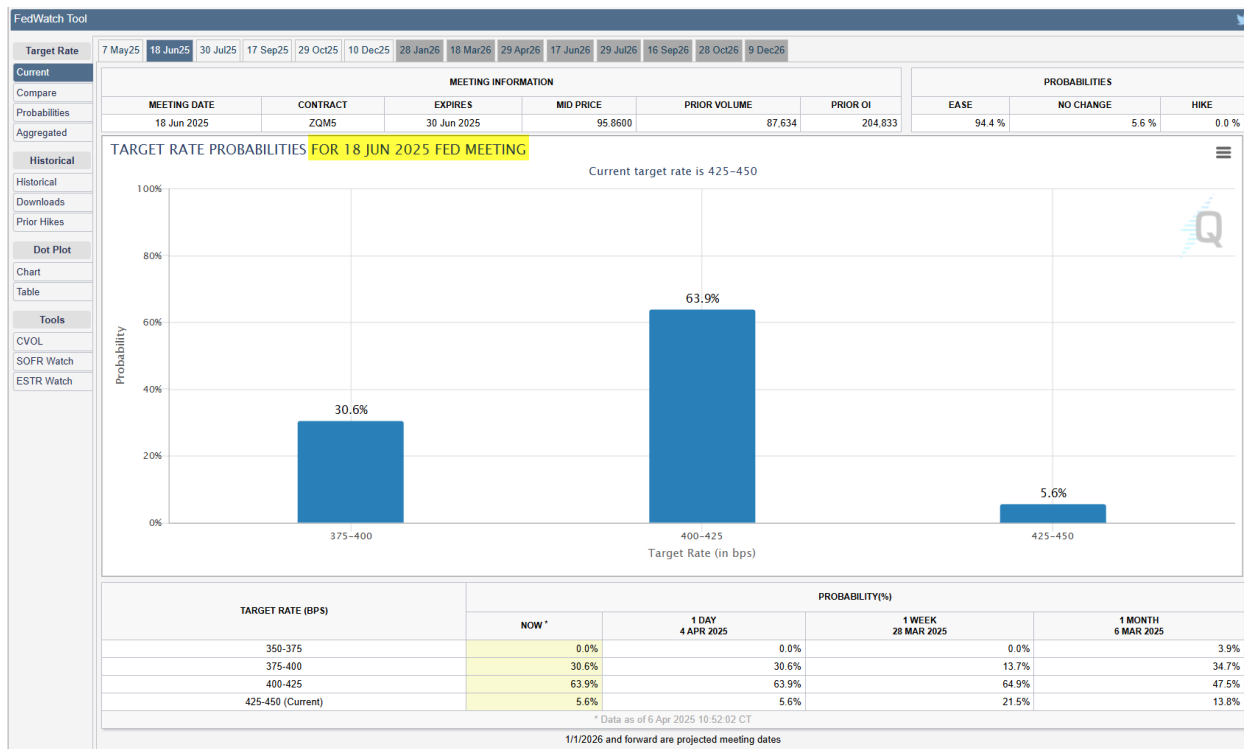
The SOMA account holdings declined \$19 billion this past week. Meanwhile, reverse repos declined by \$8 billion for the week ending 4/2. A drop in reverse repos can act as a liquidity infusion. Combined for the week, SOMA and reverse repo action accounted for an \$11 billion liquidity drain. Below is 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. And QT will be substantially lower going forward than it has been over the last few years. So the headwind may not be more than just a gentle breeze. Reverse repo closeouts more than offset the QT from April 2023 through early March of 2024, and this helped provide fuel for that market rally. Reverse repos have tended to spike higher near the end of each quarter, and then they drop quickly to start a new quarter. That seems to be what is happening based on data from the last few days so, it could provide a liquidity boost in early April. Since March 2024, 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 again heads lower in a meaningful way, then that could mean a liquidity headwind for the market.

With regards to rates, the chance of a 25 point cut in May is still only 33.3%, despite moving up from 18.5% last week. Meanwhile, June odds suggest a sizable 94% chance that rates will be lower than current. 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. Tariff news and the reaction to it has generated market turmoil. If debt markets start to see turmoil as well, then the Fed could certainly step in. But they will be weighing recession risk with inflation risks. And if both occur, then the Fed will have a very difficult chore promoting both employment and low inflation.

The market is becoming a mess and there is not much compelling quantitative evidence suggesting a strong intermediate-term edge. The long-term trend is starting to look ugly. We are still in the best 6 months of the year from a Seasonality standpoint, but that will end when April ends, and seasonality is no match for the other issues the market is currently facing. Fed policy is basically neutral, but could change in the coming weeks and months to become more market-friendly. At this point, I remain unenthused by either the bull or bear case for the intermediate-term. As I stated above, this market is news-driven, and I will proceed with caution when considering both long and 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 @ \$505.25 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take on a small amount of long index exposure if Monday sees more selling.

Current Open Trade Ideas

None

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