

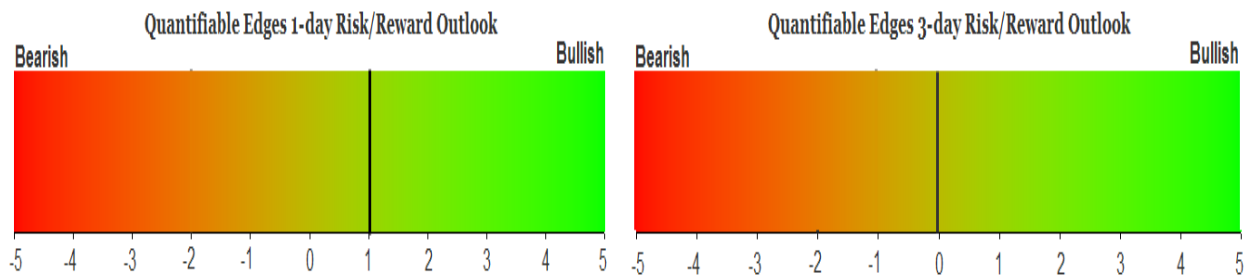
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 2, 2025

Volume 18 Issue 166

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- Unfilled gaps down from 50-day highs have exhibited a downside edge the following day.
- The weak close on the last day of the month appears to set up favorable odds for Tuesday.
- Labor Day week has done poorly when there has been a rally leading up to it.
- The combination of SOMA and reverse repo changes generated a mild liquidity drain this past week.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is now neutral. I am as well.

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

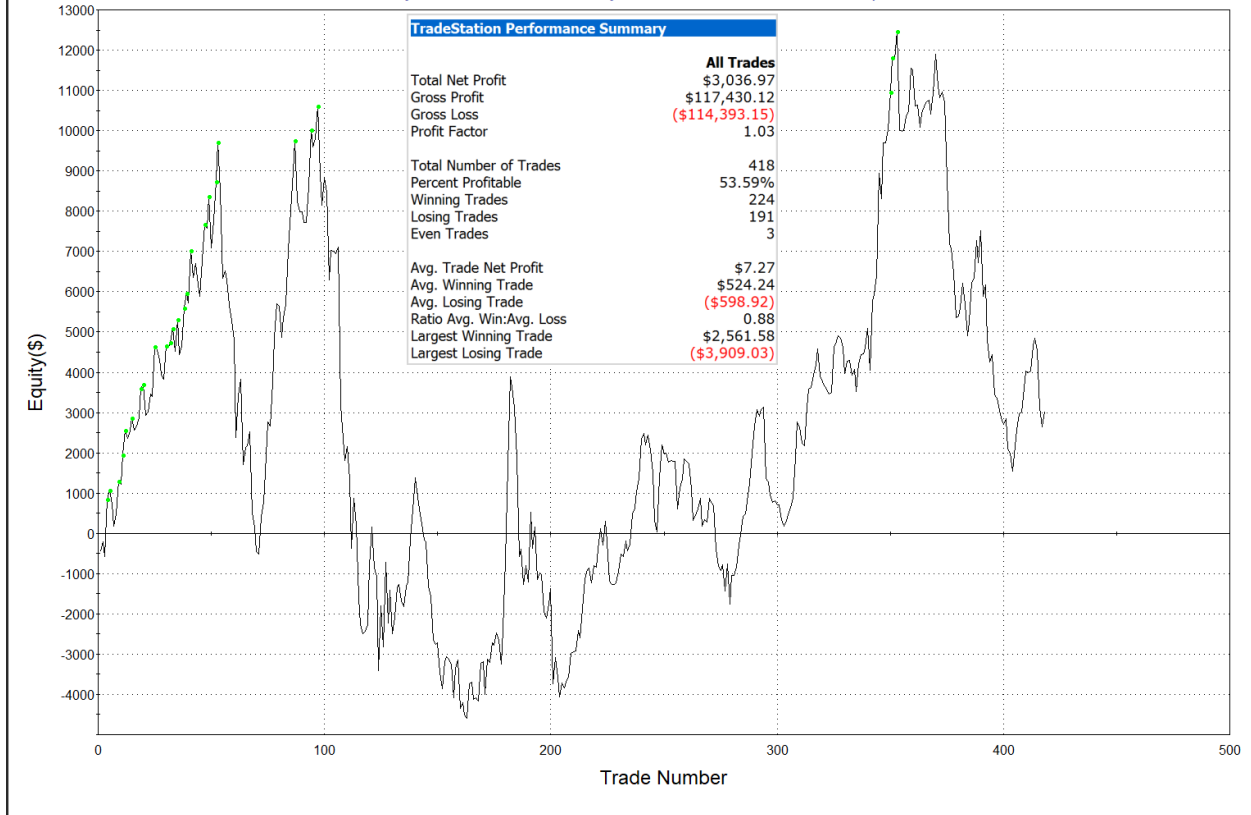
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
September 2, 2025	Weak close on last day of month	1 day	Bullish			
September 2, 2025	Unfilled gap down from 50-day high	1 day	Bearish			
September 2, 2025	SPX rises 20 days heading into Labor Day	1-4 days	Bearish	-1.70%	0.90%	1.90%
<b>Active - Long Term</b>						
June 30, 2025	SPX Golden Cross (7/1/25)	int term	Bullish			
May 19, 2025	DeGraaf Thrust (55% SPX 20-day high)	1-12 months	Bullish			
May 5, 2025	Sell in May when 5% drop prior	1-6 months	Bearish			
April 28, 2025	NASDAQ Leading	int term	Bullish			
April 25, 2025	Zweig Breadth Thrust	1-12 months	Bullish	29.50%	-2.90%	-6.55%
April 23, 2025	Up Issue % & Up Vol % > 86% 2x in 9 days	1-12 months	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			

**The Evidence**

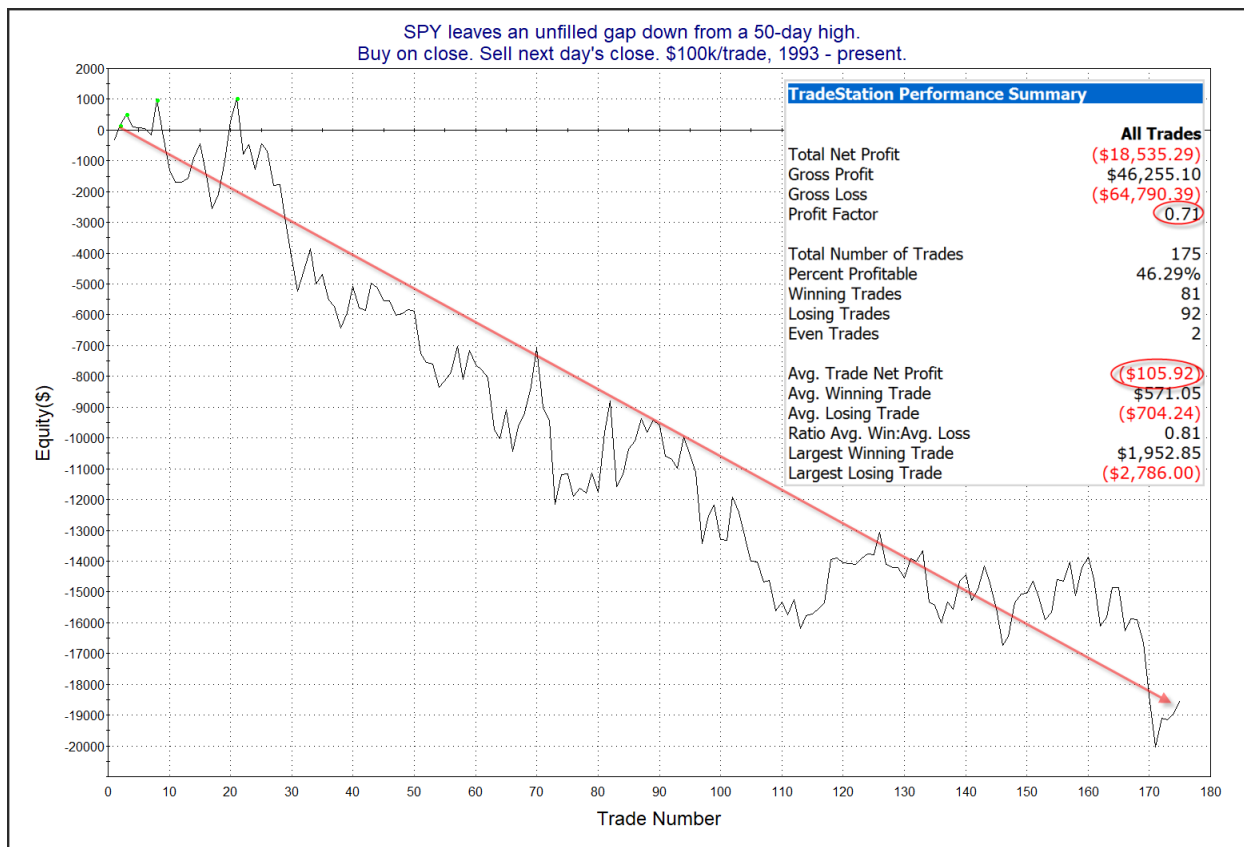
The market saw a dip on Friday. SPX finished down 0.6%, the NASDAQ lost 1.15%, and the Russell 2000 dropped 0.5%. Breadth was mixed as the NYSE Up Issues % closed at 48% and the NYSE Up Volume % posted a 53% reading. NYSE total volume rose some from Thursday's level.

As I discussed a few days ago in the 8/26/25 letter, the 1<sup>st</sup> day down from a high does not often suggest a strong edge. But when the 1<sup>st</sup> day down is accompanied by an unfilled gap, then that has increased the odds of additional selling. We saw this happen again on Friday. The unfilled gap will sometimes leave buyers from the day before with losing positions where they had no opportunity to exit. And they may not be let off the hook too quickly. The studies below demonstrate this. The 1<sup>st</sup> one shows performance following down closes from a 50-day high that do *not* include an unfilled gap lower.

Yesterday SPY closed at a 50-day high. Today SPY closes lower but does not leave an unfilled gap down.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

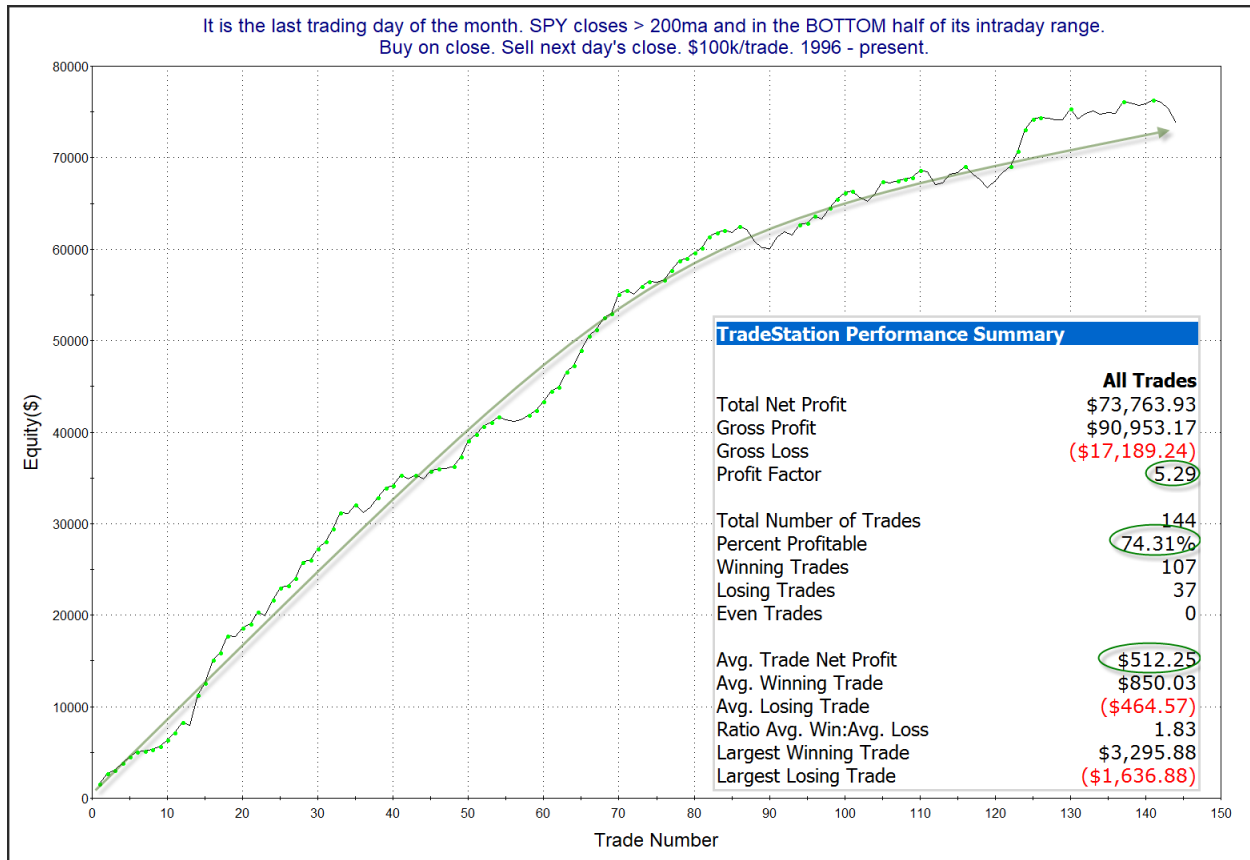


There is no compelling edge suggested by either the numbers or the profit curve here. Now let's look at instances that see an unfilled gap down follow a 50-day high.



The move lower has persisted for a long time. The curve has seen an acceleration lately. The study overall is impressive considering the market must be in an uptrend since it was at a 50-day high the day before. It suggests a moderate downside edge for Tuesday.

In Wednesday night's letter I discussed how the close on the last trading day of the month can impact the odds for the 1<sup>st</sup> trading day of the new month. Weak closes tend to be followed by good 1<sup>st</sup> days. Action on Friday triggered this setup, so I have pasted the results chart from the other night below.



The stats here are outstanding. Gains blow away losses in every category. Gross gains are over 5x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 144 instances. And despite a few recent failures, the curve has shown progress over a long period of time. This setup certainly appears to provide a 1-day bullish edge.

In Thursday night's letter I discussed some studies related to Labor Day week performance. I have copied that research below.

*Over the last several years I have demonstrated that the performance during the week of Labor Day has been impacted by the performance in the month leading up to it. Interestingly, it has been somewhat of a momentum reversal week. When SPX has rallied up to Labor Day, then it has struggled that week. And declines into Labor Day have seen positive performance. Below is an updated look at the two scenarios.*

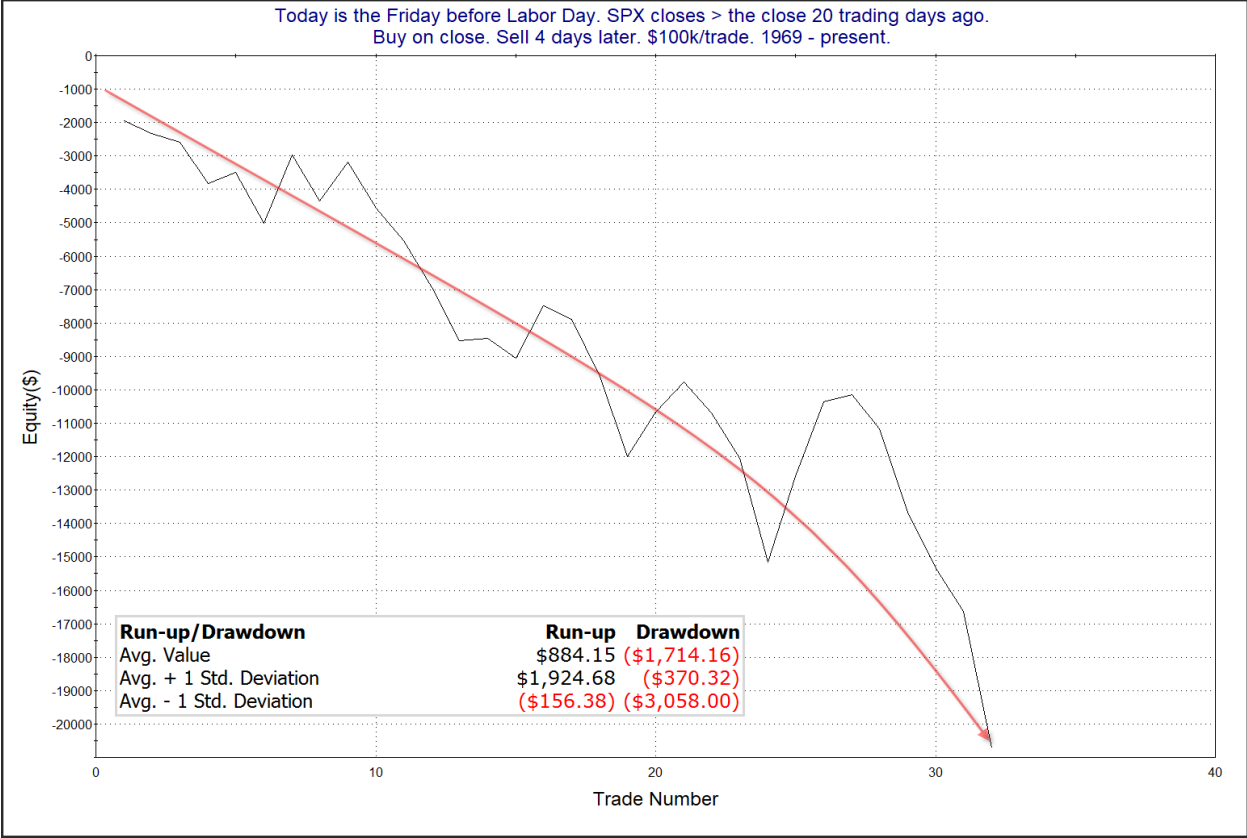
Today is the Friday before Labor Day. SPX closes < the close 20 trading days ago.  
Buy on close. Sell X days later. \$100k/trade. 1969 - present.

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	21,333.66	24	15	9	62.50	5,691.60	-3,611.52	2,248.18	-1,376.57	1.63	2.72	888.90
4	14,157.81	24	16	8	66.67	3,585.30	-4,206.40	1,673.21	-1,576.70	1.06	2.12	589.91
3	9,595.52	24	15	9	62.50	3,485.40	-2,391.84	1,131.01	-818.85	1.38	2.30	399.81
2	8,646.52	24	15	9	62.50	3,294.60	-4,795.56	1,242.71	-1,110.46	1.12	1.87	360.27
1	3,566.12	24	12	12	50.00	5,054.10	-2,259.18	1,245.95	-948.77	1.31	1.31	148.59

Today is the Friday before Labor Day. SPX closes > the close 20 trading days ago.  
Buy on close. Sell X days later. \$100k/trade. 1969 - 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	-19,474.63	32	8	24	25.00	3,228.12	-3,014.95	1,404.70	-1,279.68	1.10	0.37	-608.58
4	-20,703.85	32	10	22	31.25	2,580.34	-4,079.66	1,244.67	-1,506.84	0.83	0.38	-647.00
3	-16,106.97	32	12	20	37.50	2,718.52	-4,024.28	1,130.03	-1,483.37	0.76	0.46	-503.34
2	-11,967.28	32	8	23	25.00	3,055.58	-2,668.88	1,366.76	-995.71	1.37	0.48	-373.98
1	-9,843.54	32	13	19	40.63	1,751.34	-4,147.45	737.09	-1,022.40	0.72	0.49	-307.61

The 4-day numbers are basically inverted. So the Tues-Fri after Labor Day have not seen any consistency without the delineator. But the trend filter reveals a striking difference. Over the last several weeks the market has rallied nicely, so we are currently facing the 2<sup>nd</sup> scenario. Below is a look at the profit curve for the 4-day exit following the current setup.



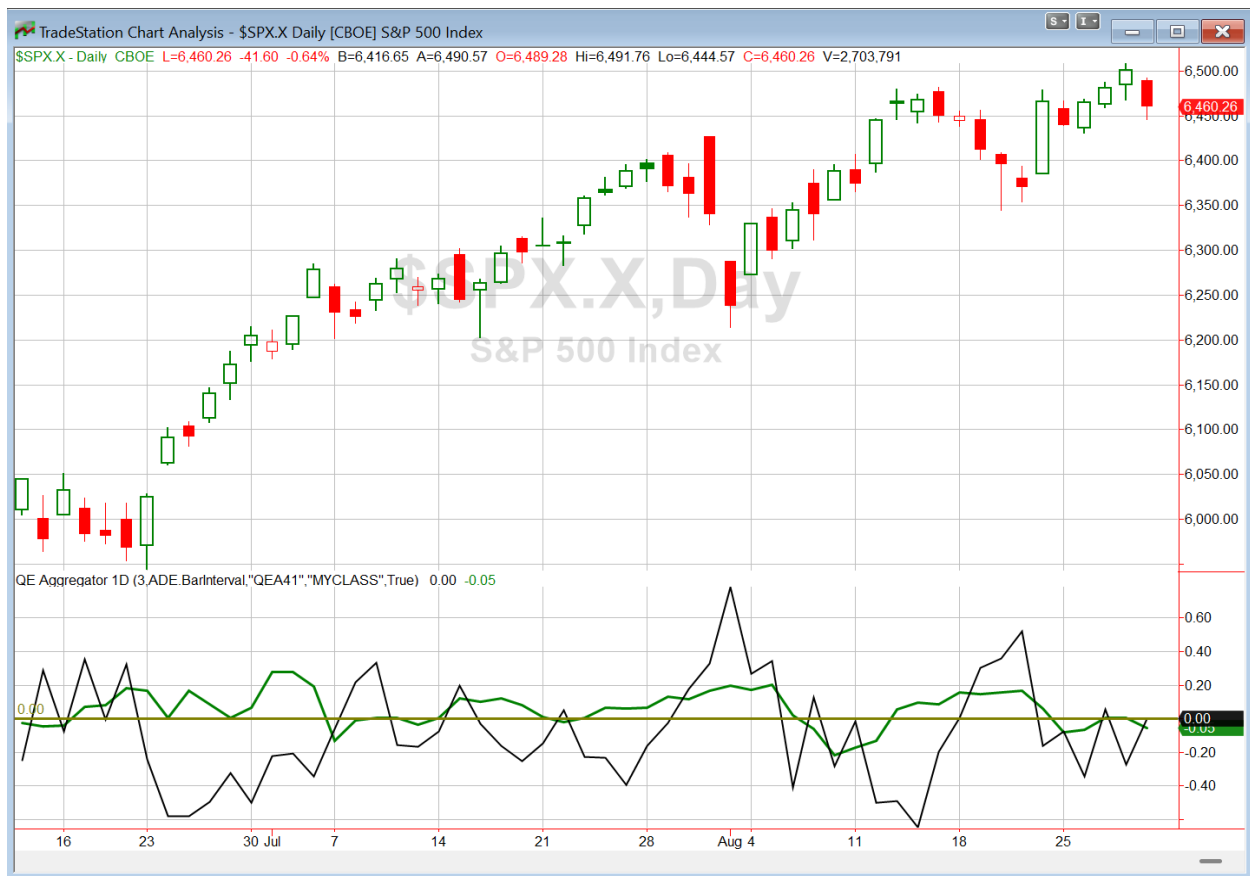
*Choppy but an obvious downslope. This seems to be worth some consideration and I will be adding it to the active list over the weekend.*

Next let's take a look at the S&P Seasonality Calendar for September.

<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>
9/2/2025	54.49	1.103	0.013
9/3/2025	54.50	1.252	0.063
9/4/2025	49.89	0.915	-0.032
9/5/2025	54.80	1.044	0.020
9/8/2025	55.99	1.117	0.029
9/9/2025	54.70	1.257	0.075
9/10/2025	56.84	1.216	0.069
9/11/2025	54.39	1.024	-0.002
9/12/2025	55.30	1.333	0.095
9/15/2025	58.09	1.054	0.012
9/16/2025	53.43	1.230	0.057
9/17/2025	48.99	0.851	-0.056
9/18/2025	51.16	0.925	-0.027
9/19/2025	48.21	0.854	-0.054
9/22/2025	51.22	0.960	-0.026
9/23/2025	49.60	0.952	-0.027
9/24/2025	50.05	0.995	-0.013
9/25/2025	50.60	1.026	-0.007
9/26/2025	49.60	0.868	-0.050
9/29/2025	55.80	1.103	0.029
9/30/2025	54.17	1.095	0.028
<b>Baseline</b>	<b>54.33</b>	<b>1.155</b>	<b>0.054</b>

This upcoming week is showing mixed results. Of course the basic algorithms used in generating the calendar odds do not take into account the study discussed above. September has a reputation for being the weakest month of the year, and that is true over many time frames. The primary weakness seen in September has come in the 2<sup>nd</sup> half of the month – mostly in the week following options expiration, which is the 22<sup>nd</sup> – 26<sup>th</sup> this year. So whether the weakness begins following Labor Day, or whether it begins in a few weeks, there does appear to be a strongly bearish seasonal wind that will soon hit the market.

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



With this weekend's evidence considered, the green Aggregator Line fell below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line moved above zero. (That is indistinguishable on the chart, since the SPX closed exactly at the Differential Pivot of 6460.26, which I published Thursday night.) The positive Differential Line reading means that SPX is (just barely) oversold versus recent expectations. So expectations are negative but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator formation stayed flat at the close.

Based on the current active studies, expectations are slated to remain negative on Tuesday. Of course this could change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 6472.17. That is 0.2% above Friday's close. Therefore, SPX will need to rise at least 0.2% on Tuesday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is neutral. We could certainly be setting up for an early September pullback, but the turn-of-month study from above suggests a possible up day on Tuesday. So there may be a better opportunity to consider a short position if we see SPX close up at least 0.2% on Tuesday. I'll be on the lookout for that, as well as any new evidence that might change the outlook. But for now, I'm in "wait and see" mode.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 9/2 – *slightly bullish***

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

Above is the status of the different Combination Signals from the Quantifiable Edges Market Dynamics 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 Dynamics Course, which is included with all annual subscriptions. *There were no changes to the Combo signals.*

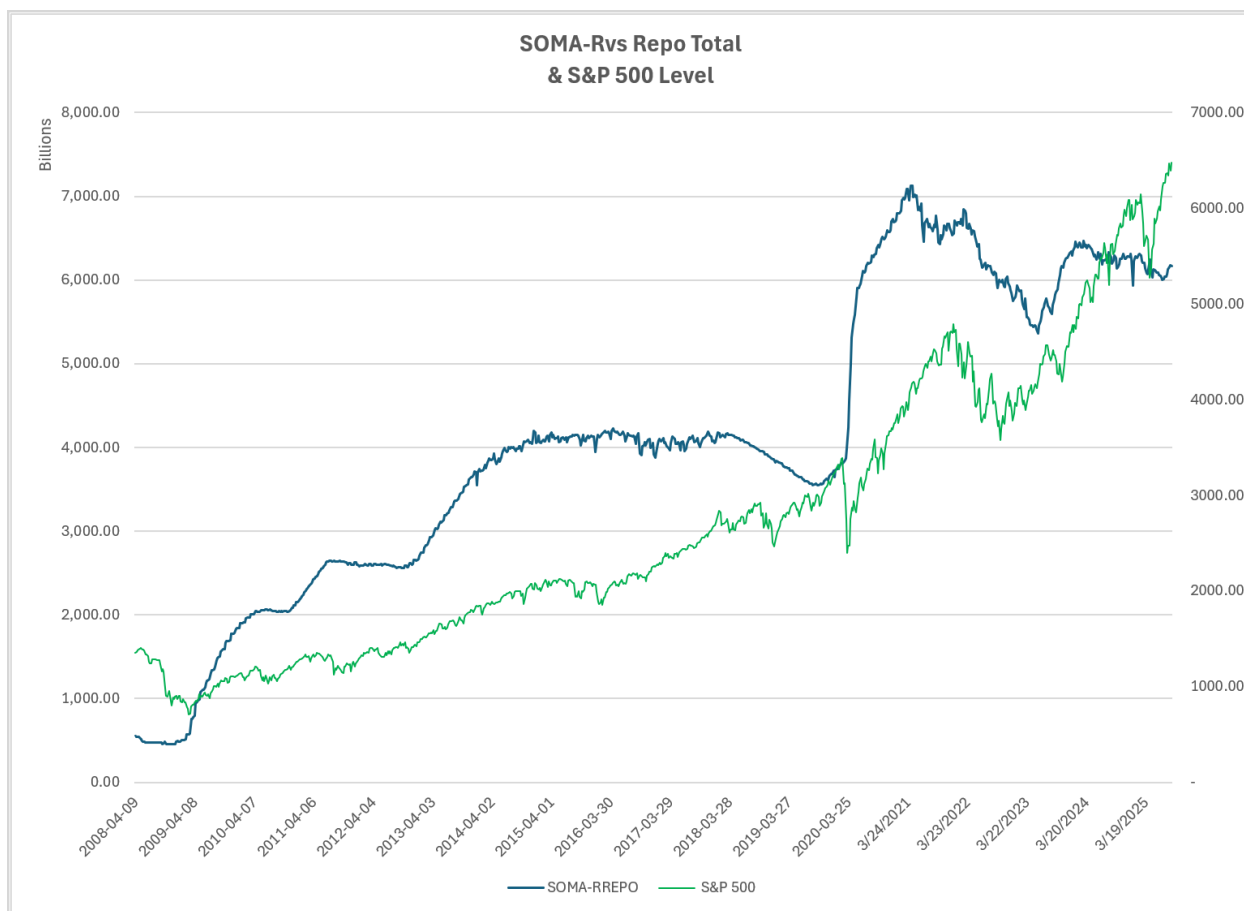
Friday’s selling left the indices little changed for the week. The SPX finished lower by 0.1%, the NASDAQ lost 0.2%, and the Russell 2000 gained 0.2%. Bonds were mixed. The US Aggregate Bond ETF (AGG) gained 0.1% and closed Thursday at a multi-year high. TLT, the 20-year Treasury Bond ETF, declined 0.5%. SPX did make a new all-time high on Thursday, so the long-term uptrend appears intact. No new studies with intermediate-term implications emerged 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](#) **August 27, 2025** 📅  
Posted August 28, 2025 at 4:30 PM

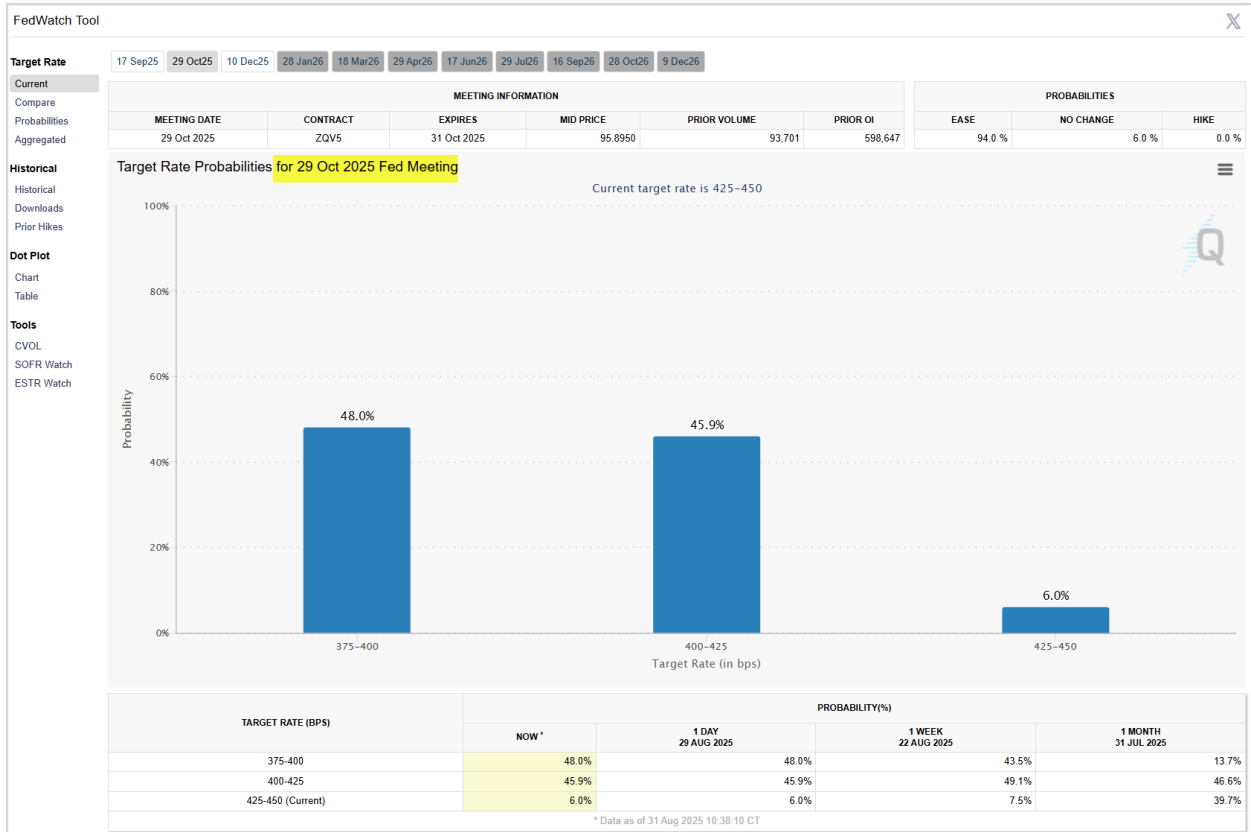
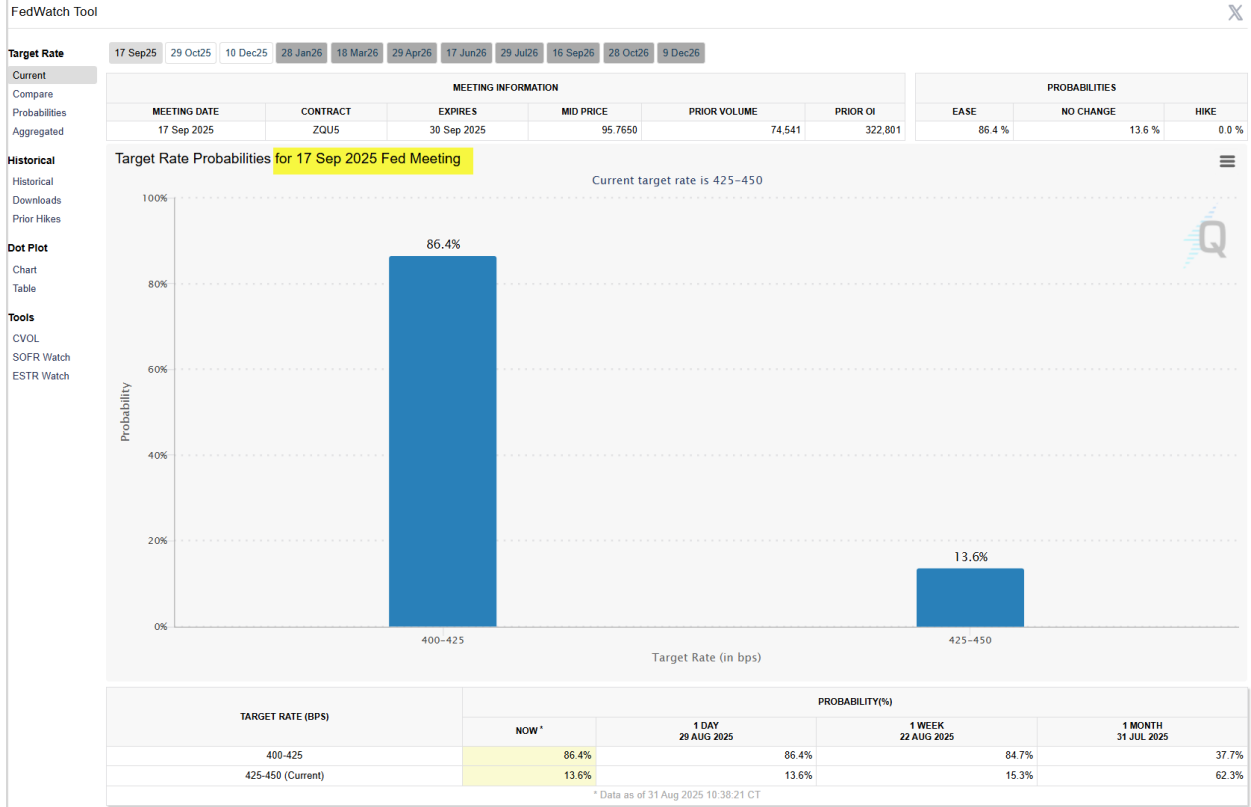
SUMMARY		T-BILLS	T-NOTES AND T-BONDS	FRNS	TIPS	AGENCY DEBTS	MBS	CMBS
SECURITY TYPE	TOTAL (\$Thousands)							
US Treasury Bills (T-Bills)	195,492,926.7							
US Treasury Notes and Bonds (Notes/Bonds)	3,574,006,158.9							
US Treasury Floating Rate Notes (FRNs)	12,575,703.6							
US Treasury Inflation-Protected Securities (TIPS)*	309,427,193.8							
Federal Agency Securities**	2,347,000.0							
Agency Mortgage-Backed Securities***	2,094,945,324.6							
Agency Commercial Mortgage-Backed Securities***	7,900,952.6							
Total SOMA Holdings	6,196,695,260.1							
Change From Prior Week	-13,843,204.3							

The SOMA account holdings declined about \$13.8 billion dollars this past week. Meanwhile, reverse repos declined by just \$255 million for the week ending 8/27/25. A decline in reverse repos can act as a liquidity infusion. Combined for the week, SOMA and reverse repo action accounted for a liquidity drain of about \$13.5 billion (through Wednesday the 27<sup>th</sup>). Below is an updated SOMA-Reverse Repo and SPX chart looking back to 2008.



This was 1<sup>st</sup> week since early July that the combination of SOMA and reverse repos flows failed to generate a liquidity injection. So it is not surprising that the market has rallied well throughout July and August. 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. So the headwind now appears more like 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. Over the last 2 months, it has been doing it again. Reverse repos are currently near their lowest level in years. So this liquidity pump could dry up. But the Fed has other tools to provide liquidity even if it does. Potential Fed policy changes and possible changes to the Fed members could keep Fed news quite interesting in the coming weeks and months.

With regards to rates, odds of cuts saw modest increases this past week. September odds changed from 75% last weekend to 86% that rates will be reduced. Meanwhile, there now appears to be about a 6% chance (changed from 13% last week) that rates remain at current levels through October. 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. With lots of uncertainty regarding employment, geopolitics, inflation, and the economy in general it would be surprising to me if we did NOT see shifts in expectations over the next few months.

Intermediate-term evidence is again mostly bullish. The NASDAQ has been leading the SPX since late April, and that remains a positive. We also saw multiple breadth thrust studies in April and May that are typically followed by large gains. A good portion of those gains may have already been realized, but there is still a bit more room to the upside before we would reach the average max run-ups for those studies. Trend indicators are still pointing higher and the indices are very close to new all-time highs. So we see breadth, leadership, and trend indications all pointing higher. Still there is much uncertainty with geopolitics, trade, and the economy. Stock valuations are also at levels that could be considered very high. Substantial volatility can re-emerge at any time. Also notable is that stocks are in a seasonally weak period as measured by both the “worst 6 months” of May through October, and 1<sup>st</sup> year of the Presidential Cycle. And September, the “worst” month of the year, is now upon us. So there are definitely risks. But as of now, the market is not terribly concerned about the downside risks. If not for September seasonality, I would continue to view the intermediate-term as “bullish”. But for the next few weeks, I will likely be just as cautious with potential long trades as I am short-side trades. So I listed the outlook as “slightly bullish”, but my actual behavior might lean even more towards “neutral”.

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### ***Open Catapult Triggers***

**None**

#### ***Broad Market Large Cap CBI – 0***

### **Additional New Trade Ideas**

**None tonight.**

## Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
<i>MSFT(1/3)</i>	<i>8/22/2025</i>	<i>\$504.24</i>	<i>\$508.66</i>	<i>0.88%</i>	<i>sold on open</i>
<i>INTU(1/3)</i>	<i>8/26/2025</i>	<i>\$656.96</i>	<i>\$668.20</i>	<i>1.71%</i>	<i>sold on open</i>

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