

Big Money Flows Point to Déjà-vu all Over Again for Stocks

I have a special column for you today, focusing on what's happening in markets right now from a true *TradeSmith* insider's perspective.

I recently caught up with Jason Bodner, editor of *Quantum Edge Pro* and *Quantum Edge Trader*. Jason is a seasoned pro and a former Wall Street trader who has built an enviable track record with a 70%-plus win rate.

Jason's specialty is ignoring the market noise to focus on what's most important. Namely, following the Big Money – the moves that institutional investors and insiders are making with their money. Jason's Quantum Edge system analyzes real-time data and allows him to zero in on the sectors and stocks where the Big Money is flowing in the stock market.

Here is Jason's take on markets right now, and what he expects for stocks through the end of the year and beyond.

Mike Burnick: Jason, it's been a good year for stocks in 2023, unlike last year, despite the recent pullback. What's your outlook for stocks into year-end?

Jason Bodner: *I like to base my forecasts on historical data. That may sound dull, but I've found it to be incredibly useful and effective. In that spirit, it turns out the fourth quarter is especially strong for stocks. Looking at historical data going back to 1990, October through December is the seasonally strongest time of year. According to data from FactSet, the fourth quarter is good for an average rise of 5% in the S&P 500.*

Again, this data goes back to 1990. But the astonishing thing is how reliable that history has been. Those three months have been positive 72% of the time – or nearly 16 of the last 22 years. So I side with history and predict a strong finish to the year for stocks.

*And my Quantum Edge data backs up market history right now. My proprietary **Big Money Index (BMI)** shown below fell to 35.7 this week, which means only 35.7% of Big Money signals are buys.*



Source: MAPsignals.com

The BMI (yellow line) has been falling since the first day of August. It is very close to oversold (green dotted line), but not there yet. The BMI is a powerful forward indicator, and future market returns are significantly higher an astonishingly high percentage of the time after the BMI goes oversold.

Mike: Your Big Money Index certainly called the peak to a “T” this summer, and now it’s the opposite, signaling a potential bottom. Here’s a two-part question:

First, what makes Quantum Edge tick?

Jason: Great question! I think what makes the Quantum Edge system unique is the basis of how it works – or as you say – what makes it tick. You see, long ago, I realized the power of tracking the huge institutional money flows in the market. Somewhere between 70% and 90% of all daily volume on the stock market comes from institutional trading.

The Quantum Edge system uses data and research that is focused on identifying where unusually sized money flows are moving in and out of stocks. To make it short and sweet: When Big Money is flowing into the best-quality stocks, that is when I get excited.

And then it's just playing the odds and exploiting the edge of that 70% win rate. That's because historically speaking, the Quantum Edge method wins more than it loses, with its wins larger than its losses. That's a game you can play for a long, long time.

Mike: Second part of my question: Where are you seeing the Big Money flowing now?

Jason: *The latest data available shows clearly that money has been moving into energy stocks. We can actually see it in the chart here from my research firm, MAPsignals. The blue shaded fever chart shows the S&P Energy Sector Index ETF.*



Superimposed, we see green bars, which show the number of energy stocks bought in an unusual way each day. The red bars show the same for selling. You can see clearly how the Big Money has been moving into energy.

But when we look at all other sectors, we see more selling than buying. This has been the case for August and September. But I'm not worried, because going back to history, if October to December is the strongest time of year for stocks, then August and September are historically the weakest months of the year.

On the bright side – I think we have a lot to forward to.

Mike: Are there any specific sectors or stocks that now look oversold and are attracting fresh money?

Jason: *As far as oversold sectors go – Utilities and Real Estate have been punished severely. The selling has been unsustainably high, which according to my data means they are oversold. Money is not yet flowing into them, but again – using history as our guide – forward returns are very strong for oversold sectors.*

*For example, since 2013, when sell ratios are like they are right now, the **S&P Utilities Sector ETF (XLU)** shows:*

- *one-month returns of nearly 7%*
- *three-month returns of nearly 10%*
- *six-month returns of more than 10%*
- *nine-month returns of about 13%*
- *12-month returns of 18%*

Mike: What's your outlook on markets for 2024, and what could be the biggest, most unexpected surprise for investors?

Jason: *I think 2024 will be a great year for stocks. Inflation and interest-rate fears have held this market back since November 2021. It's been a long time driving with the parking brake on. I think we will eventually get the "all-clear" signal from the Fed and rates will even start falling.*

This will be a big catalyst for stocks – especially growth stocks. I think tech stocks will once again renew their march upward. This might sound shocking considering how hampered they have been the last two months. But just like last year – I believe tech will quietly start a resilient rally that will catch many investors off guard.

Mike: What big-picture themes do you see playing out in the year ahead?

Jason: *That's an exciting question because I am a growth investor. And when the economy is on track – as I believe we are getting close to – growth stocks can stage tremendous wealth-building rallies. We caught only a glimpse of one when the **SPDR Tech Sector ETF (XLK)** rallied 47% from December 2022 through July 2023.*

That caught everyone off guard and I think we are headed for something similar in 2024. Tech shares are usually a proxy for growth stocks in general. I think when rates start to fall, growth shares will rise as margins expand, and we'll find brighter skies ahead.

Mike: Finally, give us a sneak-peak into the New Year. What areas of the market look most promising according to Quantum Edge for the year ahead?

Jason: *At risk of sounding repetitive, I think growth stocks, specifically tech and discretionary, will provide great opportunities for us in the coming year. That said, Mike, I generally don't do crystal balls. I like to go by the data. In fact, I remember sitting with you just about a year ago discussing the same topic.*

Some folks were quite bearish, but I recall you and I were bullish. And I told you that my data predicted a "Big Lift" for the fourth quarter and well into the year.

Well, the market rally did just that and lasted well into the summer. I think we are set for déjà-vu, so your timing is great.

But as always, I won't read tea leaves, I will go by what my money-flow data tells me.

Mike: A pleasure catching up with you as always, Jason. Thanks for your keen insights.

is one of my most insightful and savvy colleagues. If you're looking for ways to get more access to his insights – and I highly recommend it – make sure you're reading all his latest updates from [Quantum Edge Pro right here](#).

Good investing,

Mike Burnick
Senior Analyst, TradeSmith

P.S. If you have any questions or concerns, please reach out to me at emailmikeburnick@tradesmith.com and include "Inside TradeSmith" in the subject line.