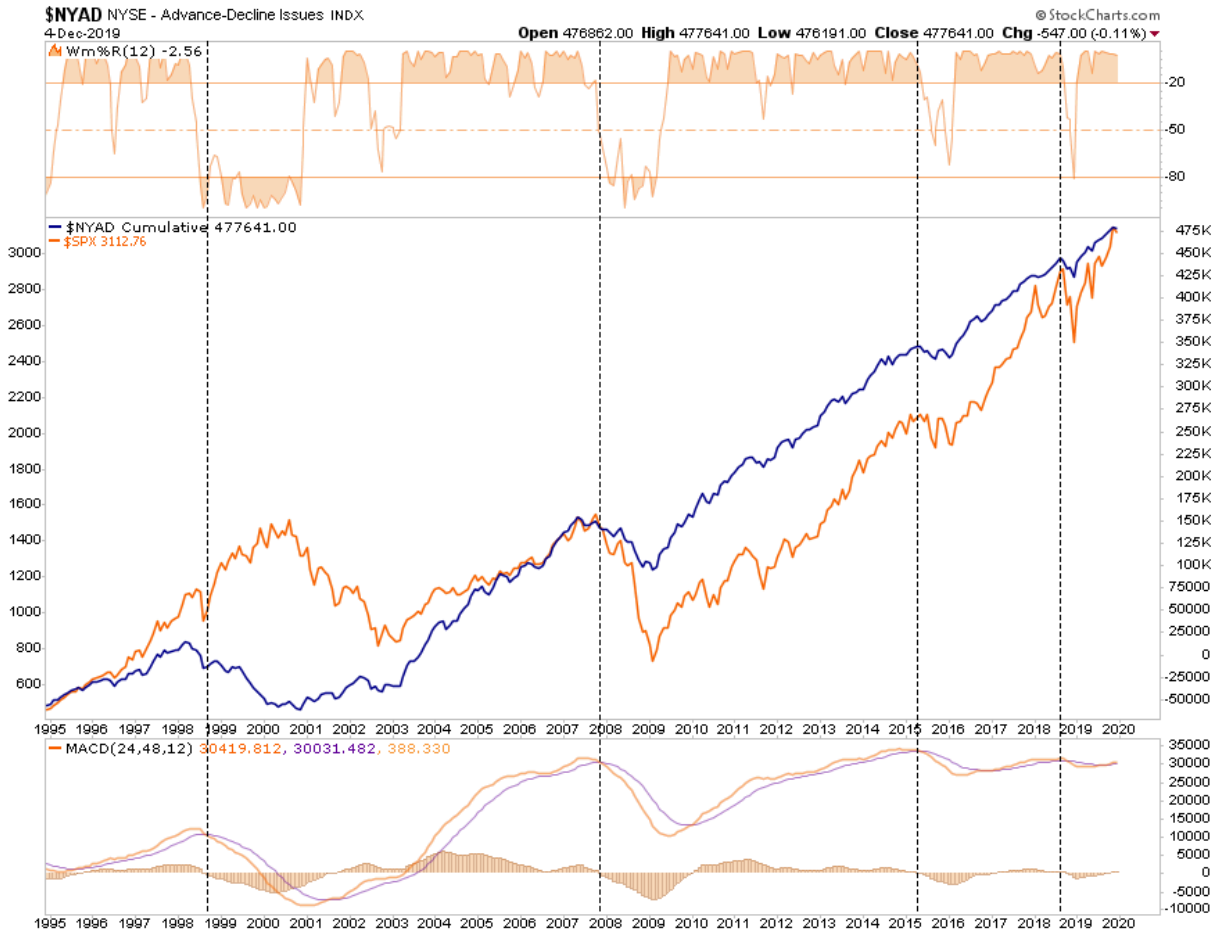
Market Internals Review 12-05-19

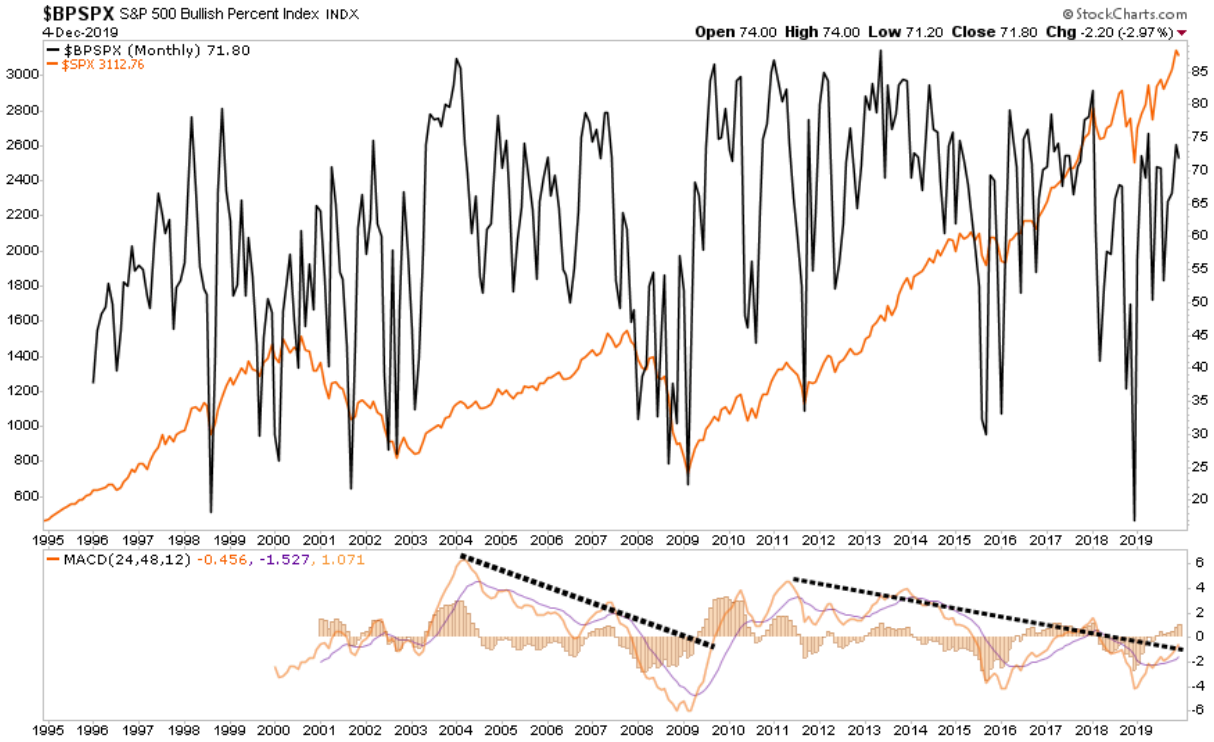
A review of important measures of market breadth and participation.

Advance-Decline Line



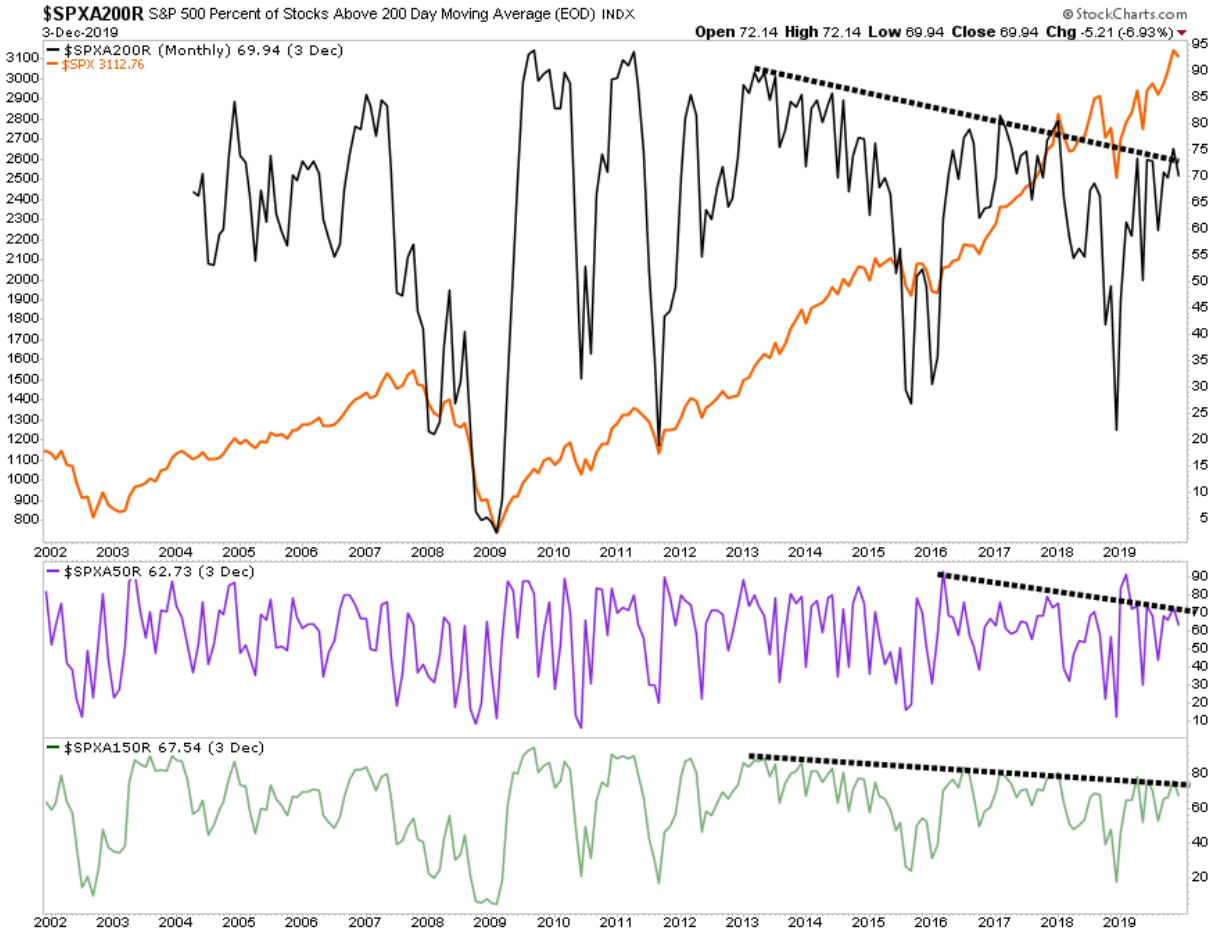
- *Currently, the cumulative advance-decline line confirms the bull market recent new highs.*
- *With no sign of weakness at the moment, the indicator suggests the bullish trend will likely continue for now. (That doesn't mean we won't have short-term corrections.)*
- *One note is the A-D line does not distinguish between a 20% decline and a full-blown mean reverting event.*
- ***Also, the MACD of the indicator is close to triggering a SELL SIGNAL. The 4-previous events have led to decent corrections, so this is worth paying attention to.***
- *The A-D Line is also a very COINCIDENT indicator. It is pretty useless other than letting you know the overall participation in the market.*
- **Reading: Bullish**

Bullish Percent



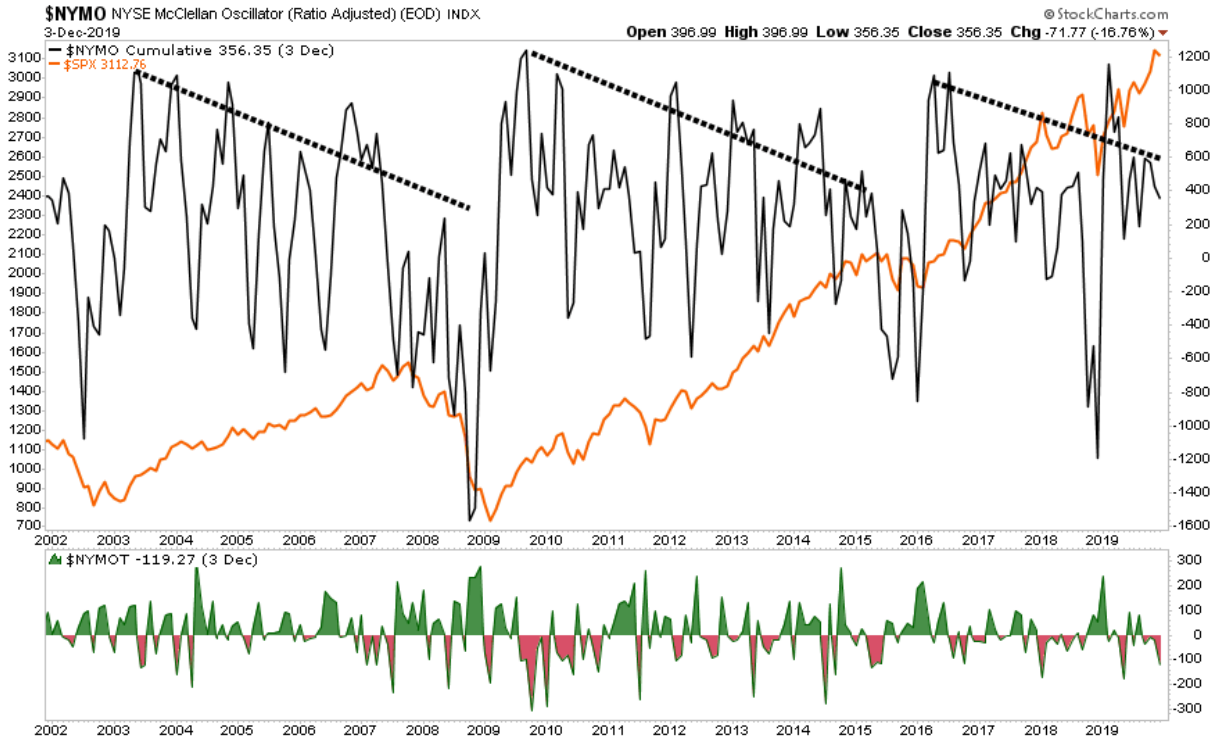
- *The S&P Bullish Percent index shows the percentage of stocks on bullish "buy" signals.*
- *Despite the markets reaching all-time highs, the number of stocks on bullish "buy" signals remains in a negative trend.*
- *This negative divergence tends to suggest latter stages of bull market advances as money flows into fewer stocks.*
- *The current buy signal of the indicator suggests market support, but these signals have been fleeting in the past.*
- **Reading: Neutral / Cautious**

Percent Of Stocks Above Moving Averages



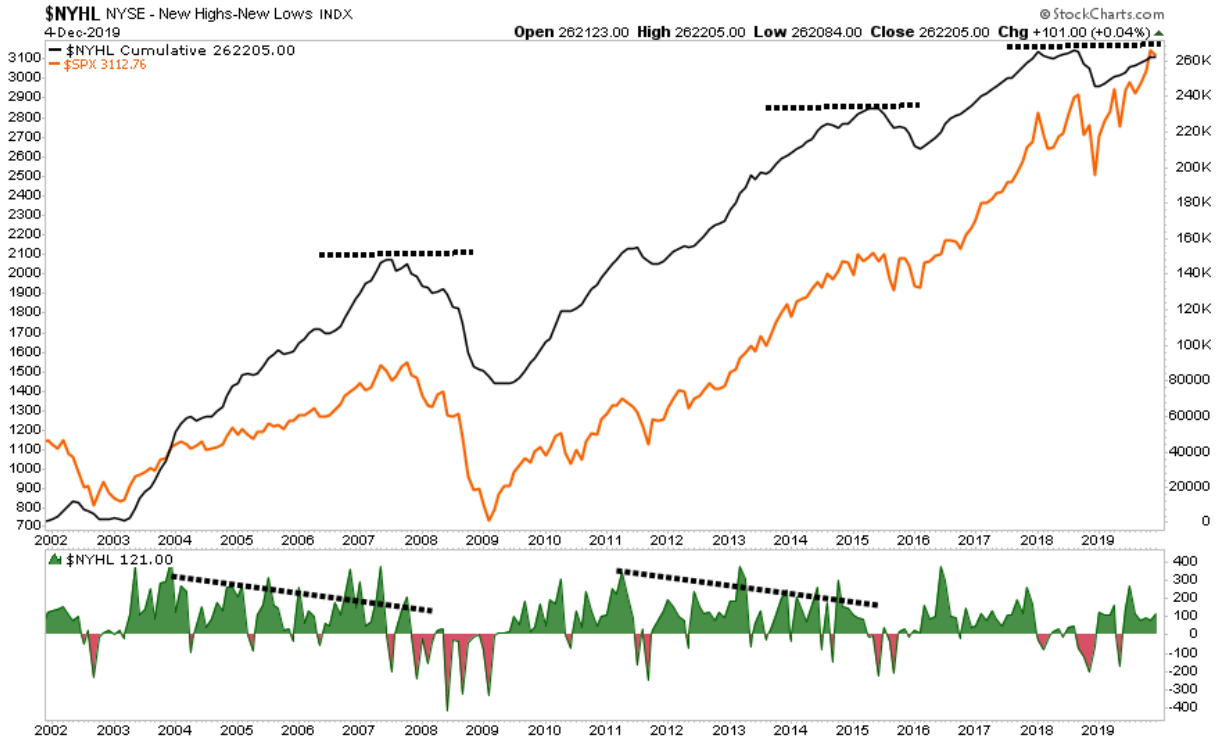
- *The number of stocks in the S&P 500 which are currently trading above their respective 50, 150, and 200 day moving averages remains weak despite new highs.*
- *Again, this is consistent with latter stage markets as money flows into few stocks as momentum overtakes the investing mentality.*
- ***The negative divergence is a warning, but is not always an immediate indicator.*** *So this is worth watching but NOT making immediate portfolio changes.*
- **Reading: Neutral / Cautious**

McClellan Oscillator



- *You are probably noticing a lot of similarities in these indicators.*
- *As markets are hitting all-time highs, there are negative divergences across a multitude of indicators.*
- *As noted, these negative trends occur leading into bear markets, and can persist for a very long time before the bear market sets in.*
- *However, the important takeaway is that the bull market is still largely intact but there is some deterioration around the edges.* ***This suggests that investors should remain invested for now, but maintain risk controls accordingly.***
- *All good things do eventually come to an end.*
- **Reading: Neutral**

NYSE New Highs - New Lows



- *Again, we see another negative divergence of the new high-low index not reaching new highs even as the overall market does.*
- *If the high-low index can reverse and make new highs, then that will confirm the new highs of the market and be supportive of further gains.*
- *Keep a watch on this index and look for confirmation before becoming overly aggressive on risk exposure.*
- **Reading: Cautious**

Overbought / Oversold Conditions



- *On a technical basis the market are correcting an extremely overbought condition. This suggests the current correction may have a bit more to go over the next week or so.*
- *The other measures also confirm the same, and when all of them are aligned, they have a decent record of predicting the markets next move.*
- *The one important note is the market is trading below its previous broken bullish trend which makes the most recent lows critical support for this advance.*
- *Given the short-term overbought condition of the market, use pull backs in the market to add exposure accordingly.*
- **Reading: Bullish**