

10 Day Moving Average of New Highs divided by New Highs + New Lows on the NYSE now reaching very oversold levels

by Howard Spieler

One of the many indicators we use to measure the internal health of the stock market is the New High - New Low relationship in the Primary market. In this example, we use the ten-day Moving Average of New Highs divided by the total of New Highs plus New Lows on the New York Stock Exchange. At Point A in the chart to the lower right, we see that this indicator reached roughly 20% during the last week of February, which coincided with yearly lows on the S&P 500 shortly thereafter (Point 1). The 20% level of this indicator does represent an oversold area. Turns upward from this area usually significant market reversal zones.

The NH-NL 10 day average has recently (Monday, October 23) touched that oversold area, again coinciding with an S&P 500 low (Points 2 and B on the Charts to the right). While we do not necessarily use this indicator as a stand alone timing indicator, it does tells us that the market has become extremely oversold, and that we may be in a position for the primary market to rally.

Sell signals take place when the indicator falls from above to below 70%, such an event indicating the onset of weakening breadth.

