

A Market Breadth Indicator Shows Resolution of Extremely Oversold Condition--More Good News Ahead?

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The NYSE NH-NL indicator climbed back above 15% on October 2. (See circled area in the chart below. NYSE Composite closed at 548.82 on that day.) The usual overbought and oversold levels applied to this indicator are 70% and 30%, respectively. Levels below 15% represent an extremely oversold condition. In recent years, the recovery from such an oversold level has required two rally attempts (pairs of vertical lines in chart below), but ultimately turned out to be good entries into intermediate term rallies.

Crossings from below to above 30% have occurred more frequently but have in general not preceded the same degree of market rebound as rallies that began with the NH-NL indicator below 15%. As with the two other examples, the current buy might be early, but certainly raises the strong possibility that the market has further to climb off of the September 21 lows.

