# Thackray Report

## Stock Market Breadth Deteriorating!

November 22, 2021 Written by Brooke Thackray

*Stock market breadth has been deteriorating, which could mean stock market weakness lies ahead.*

There are many methods of looking at market breadth, but one of the more common methods is to look at cumulative advance-declining issues, which measures the cumulative net balance of issues advancing and declining. A healthy stock market tends to have an increasing number of advancing issues as the stock market is rising. If the stock market is rising, and the advance-decline number is declining, it means that less stocks are participating in the rising stock market and the market breadth is becoming narrow. This often means that the market is about to pause or correct in the near term. It does not necessarily mean that the stock market is going to crash. It is possible that we could see a bumpy ride ahead, in a longer-term upward trending market.

In the graph above, the top panel represents the Advance-Decline Issues Cumulative for the NYSE (New York Stock Exchange) which represents approximately 2,800 stocks. The middle panel represents the index value for the NYSE. The bottom panel represents the S&P 500 index value.

When the line is rising for the Advance-Decline Issues in the top panel, more stock prices are rising than falling. An indication of a healthy market occurs when the Advance-Decline line is rising at the same time the stock market is increasing. When the Advance-Decline line is rising and the stock market is falling, the stock market is in a condition of bad breadth. The stock market is becoming narrower, with fewer issues participating. As fewer and fewer stocks push the stock market higher, the it becomes susceptible to a correction.

Very often the stock market turns lower at the same time as the Advance-Decline line turns lower. This is normal. Once in a while, a divergence occurs as the stock market moves higher and the Advance-Decline line moves lower. It is possible for the divergence to correct itself with the Advance-Decline line moving higher, but more often than naught, it is the stock market that moves lower.

The graph shows the various points ❶ through ❼ this year, when the Advance-Decline line has turned lower.

❶ through ❸ Both the NYSE and the S&P 500 turned lower

❹ Both the NYSE and S&P 500 turned lower, but the NYSE had a steeper decent, faster decline

❺ NYSE turned lower and the S&P 500 lagged (continued positive performance) for a brief amount of time

❻ Both the NYSE and S&P 500 turned lower at the same time, but the NYSE declined at a faster rate

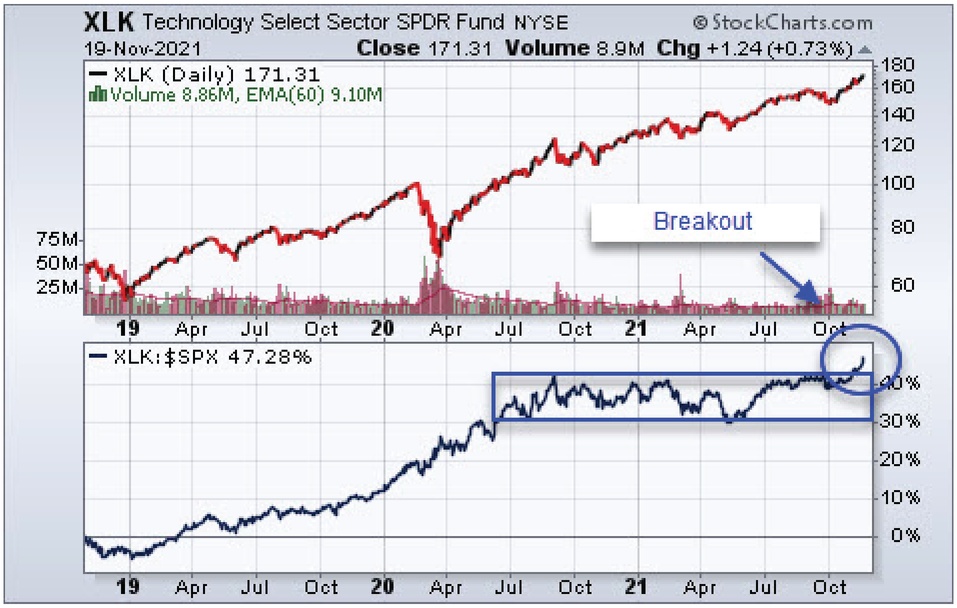
❼ The NYSE was flat for a while after the Advance-Decline line turned lower, and recently declined. In contrast, the S&P 500 has continued its ascent back to the all-time-high range.

The current scenario ❼ is unlike all of the other scenarios ❶ through ❻. It clearly demonstrates how a relative few stocks are driving the stock market higher. The graph also shows that NYSE typically turns lower before the S&P 500, which is the current situation. In case ❺ the NYSE turned lower and the S&P 500 continued higher for a brief period. In the current situation, the NYSE turned lower and the S&P 500 has continued higher for a considerable amount of time compared to case ❺.

If the previous trends this year from March to the current date are any indication, at some point the S&P 500 will probably turn lower and follow both the NYSE and the Advance-Decline line lower. Investors should note that the S&P 500 can continue higher while breadth worsens. Just because market breadth is weak does not mean that stock market is going to have a substantial correction. In addition, weaker market breadth does not indicate the severity of a pull-back. The year 2021, has been a good year to be invested, despite pockets of bad market breadth. The implications of bad market breadth are best seen as a barometer indicating that the stock market is susceptible to a pause or correction.

### *Bad market breadth favors large cap growth*

In a rising market with bad market breadth, in recent years it has been advantageous to stay with what is working and driving the stock market higher– growth, including technology. Despite the technology sector being valued at a rich premium, investors have used the sector as place to hide out when they are not sure of the stock market. The trend becomes a self-fulfilling prophecy, investors running to the technology sector has caused other parts of the stock market to sell off and at the same time, pushed the technology sector higher. This has caused a narrowing of the stock market.




The technology sector has recently had a breakout relative to the S&P 500. After spending a year consolidating relative to the S&P 500, the technology sector has broken out above resistance. Investors should note that the technology sector has a seasonal "air pocket," in early December, but then tends to outperform once again into January.

### *Watch for improving market breadth as an indication that the cyclical sectors of the stock market are set to perform well*

At some point there will be a rotation into the deep value sectors or the cyclical sectors of the market, but probably not while the stock market proceeds higher, especially with narrow breadth. Recently, there have been days when the deep cyclical sectors have outperformed the S&P 500, but so far, many of the sectors have failed to put together a convincing rally. That may change if market breadth were to start broadening with more stocks participating in the market rally. Investors would be wise to follow the market breadth. If it turns higher, this could be a good indication that the cyclical sectors of the market are set to perform well. At this point in time, the bad breadth in the stock market continues to favor the growth sectors, such as the technology sector.

*Disclaimer:* Comments, charts and opinions offered in this report are produced by www.alphamountain.com and are for information purposes only. They should not be considered as advice to purchase or to sell mentioned securities. Any information offered in this report is believed to be accurate, but is not guaranteed. Brooke Thackray is a Research Analyst with Horizons ETFs Management (Canada) Inc. ("Horizons ETFs"). All of the views expressed herein are the personal views of Brooke Thackray and are not necessarily the views of Horizons ETFs (Canada), although any of the opinions or recommendations found herein may be reflected in positions or transactions in the various client portfolios managed by Horizons ETFs, including the Horizons Seasonal Rotation ETF. Comments, opinions and views expressed are of a general nature and should not be considered as advice to purchase or to sell mentioned securities. Horizons ETFs has a direct interest in the management and performance fees of the Horizons Seasonal Rotation ETF (the "ETF"), and may, at any given time, have a direct or indirect interest in the ETF or its holdings. Commissions, management fees and expenses all may be associated with an investment in the Horizons Seasonal Rotation ETF (the "ETF"). managed by Horizons ETFs Management (Canada) Inc. The ETF is not guaranteed, its value changes frequently and past performance may not be repeated. The ETF may have exposure to leveraged investment techniques that magnify gains and losses and which may result in greater volatility in value and could be subject to aggressive investment risk and price volatility risk Such risks are described in the prospectus. The prospectus contains important detailed information about the ETF. **Please read the prospectus before investing.**

While the writer of this newsletter has used his best efforts in preparing this publication, no warranty with respect to the accuracy or completeness is given. The information presented is for educational purposes and is not investment advice. Historical results do not guarantee future results

*Mailing List Policy:* We do not give or rent out subscriber's email addresses.

*Subscribe or Unsubscribe to the Thackray Market Letter:* Please visit alphamountain.com.