

November 18, 2008 – New Highs New Lows Index

There are some powerful indicators that help active money managers access the health of the overall stock market. One indicator that helped determine that a high may have been near in the stock market in late 2007 was the New York Stock Exchange Index of New Highs and New Lows (NH-NL).

The NH-NL index is a market breadth indicator that simply measures how many stocks on the New York Stock Exchange make a new 52-week high for the day minus the number of stocks making a new 52-week low for the day. What is important when looking at this indicator is the direction of the curve. Up is good and down is bad.



In the chart, we see the indicator was rising in 2006-07. The stock market (not shown) was rising as well. This tells us more stocks are generally making new highs for the year than new lows, which shows good market strength.

When the indicator made a lower high in late October (B) and the S&P500 made a slightly higher high (not shown) it was a sign that something may have changed. We all know what has happened since then as stock markets around the globe have fallen 40-70%.

Since the lower high, this indicator has been in free-fall. This indicates more and more stocks continue to make new lows for the year and

very few are making new highs. Get the picture? We are not well and will likely not be well in the near future. When stocks fall this far, this fast, it takes time to recover. Stock market's rarely recover in V-shaped bottoms (down hard and straight back up). They usually go through a bottoming process that may take many months if not years to complete. Big falls generally require long bottoms.

Think of it kinda-like our beautiful newborn, Samantha Grace Fulkerson, and her upcoming journey learning to walk. It is going to be a process. It will take her time to learn to sit-up; time to learn to crawl; time to learn to walk along the furniture before she lets go and goes staggering across the room.

It will be a slow, painful process at times as she tips over, bonks her head and gains an appreciation for the concept of gravity! The stock market recovery will also likely be a slow, painful recovery process. Take one more look at the chart above. Until it turns around and begins a new uptrend, expect more bumps and bruises along the way. For investors with a long only buy and hold bias, there is not much point in jumping back in the market until the NH-NL Index starts trending up again, as no one knows how far it could fall. Be careful out there and call if you would like me to review your holdings.

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