

## How To Read The Breadth Section Of The HUD

The HUD is our analysis software that contains a number of tools we use to quantify various macro signals into actionable trades.

The following guide will show you how to effectively use the **Breadth section of the HUD**.

We'll focus on the actionable steps needed to use these indicators in a trading process. There's a lot of research and theory backing these tools, but we'll cover that in a different guide.

It's important to note that the HUD Breadth tool is only one input into a full trading process. Our team's process, the [Trifecta Approach](#), involves combining technicals, fundamentals, and sentiment/positioning.

This Breadth tool will give you part of the technical readings you need. But they'll still have to be combined with strong sentiment/positioning and fundamentals to create a highly profitable trade.

### Breadth Explained

Breadth can be looked at in three ways **(1)** as a confirming/disconfirming participation measure of the broader trend, **(2)** as a valuable measure of overbought/oversold conditions, and **(3)** breadth thrusts as a confirmatory signal of a bullish trend start.

More broadly, a good way to think about breadth is like an advancing military force. Strong breadth is similar to an army with a deep and disciplined line (think old-school battles where fighters stood shoulder to shoulder). A disciplined line has strength and weight behind it. It can move and push through barriers.

On the other hand, when the line is thin and begins to lose cohesion. It doesn't take much from the opposing force to break it completely. This is how major trend changes occur. Each issue in an index is equivalent to a soldier standing on that line. And that is what various indicators of breadth aim to measure.

Durable market bottoms are always marked by two breadth characteristics:

1. An oversold tape with oversold breadth conditions marking capitulative selling (percentage of stocks > 10 and 50-day moving average = sub 10% and 20%, respectively)

2. These oversold conditions are then followed by an improved tape and a cluster of breadth thrusts

Using our military analogy. A market bottom is akin to an enemy line of the Bear Army, pushing back the front line of our Bull Freedom Fighters. The enemy advances, our Bullish soldiers trip, fall, and some in the rear retreat entirely.

From our viewpoint, as the Generals standing on the hill overlooking the battle, this scene can look quite bleak. But we also know that even though it's moments like this which are potentially major inflection points, they're also part of the normal ebb and flow of the battle.

We need to see whether our lines break and our soldiers scatter like the French. Or whether they have some extra fight in them. Being the degenerate Generals that we are, we're placing bets on the outcome of this battle.

Lucky for us, we don't need to predict how our forces will fare. We can *wait* to see how they manage this crucial juncture in the battle *before* we place our wagers.

What we want to see is after our line gets pushed back, and things look grim. Is whether our soldiers can summon their reserves, can they summon the strength and will to stage a counteract and thrust back into enemy lines, putting them back on their heels?

From our vantage point on the hill, if we only see one section of our line thrust forward, well, that's not too comforting. It means our line is pretty weak, our fighters are exhausted and on the ropes, and there's a greater potential we lose the battle.

But... if we see multiple thrusts forward, a cluster of counterassaults that drive the enemy back. Then that's telling... That means our army of bulls still have plenty of fight left.

It's easy to show strength when you're dominating a battle, but to stage an effective counterattack following a blistering assault, well, that's what shows mettle and a fighting spirit.

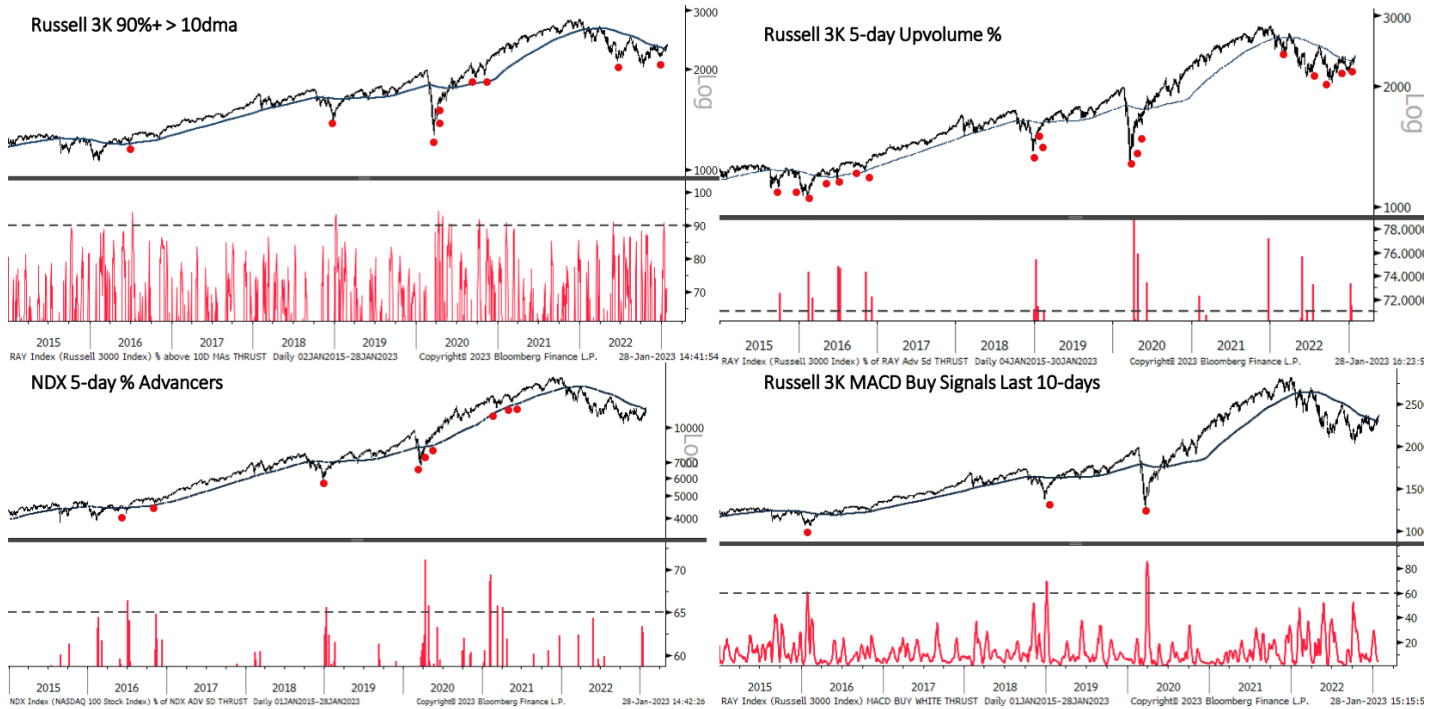
These two slides in our ***Trifecta Chart Pack***, along with our Breadth tab on our [Dashboard \(aka: The HUD\)](#), give us all the information we need to determine both (1) whether oversold conditions exist and (2) whether there's been a cluster of thrusts recently.

## Short-term Breadth



## Breadth Thrust

● = Confirming Breadth Thrust



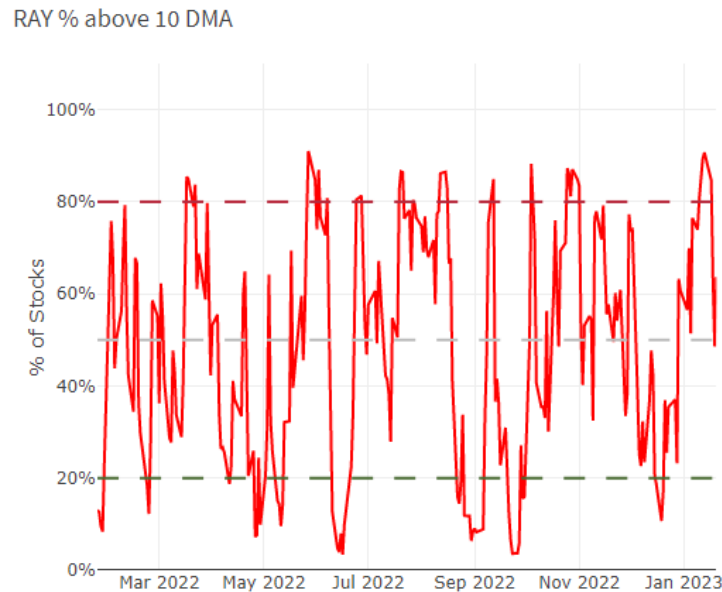
We'll talk more on this once we run through a couple of examples here at the end.

Also, our Breadth tab on our dashboard is being updated with additional measures of overbought/sold conditions, trend breadth strength, and thrust signals, including Whaley's Breadth Thrust and Deemer's Breakaway Momentum signal (BAM).

### RAY % above 10 DMA

RAY refers to the Russell 3000 (RAY) — the most comprehensive US equity index.

This indicator shows the percentage of stocks in the Russell 3k that are above their 10 day moving average.



When the reading is at or above the horizontal red line, it's signaling that 80% or more of the stocks in the Russell 3k are above their 10 day moving average.

There are two ways to read this:

1. **The market is overbought and susceptible to mean reversion lower**
2. **A “breadth thrust” signal has triggered, indicating strong buying pressure which is positive for a bullish trend**

A majority of the time scenario #1 will be correct — the market is overbought and will mean revert lower.

But occasionally scenario #2 will be correct — **the RAY sees a breadth thrust (+90% reading) following oversold market conditions and bearish sentiment. This is historically strong evidence of a trend reversal and a new bullish impulse forming.**

It's important to see a breadth thrust with any significant move higher in the market. A bullish move without a breadth thrust has a much lower probability of lasting. A sustainable trend will always have broad participation from the index. The more issues that move higher together, the better. This goes back to the analogy of a strong military line advancing as one.

On the reverse side, when this tool's reading is at or below the horizontal green line, it's signaling that 20% or less of stocks in the Russell 3k are above their 10 day moving average.

**This is a signal that the market is oversold and susceptible to mean reversion higher. This is especially true when the reading falls to 10% or below.**

It's important to note that this indicator is mainly used for bullish, breadth thrust signals. The bearish signals aren't as strong.

And due to its use of the 10 day moving average, it's a shorter term indicator that will primarily identify short term tops and bottoms.

RAY % above 50 DMA

This indicator is used the same way as the previous one. The difference is that it's longer term.

Signals from longer term indicators are more significant than shorter term indicators.

It is uncommon to see a reading above 90% here. **Anything 80% or above is significant.**

RAY % above 250 DMA

This is the longest term indicator of the three.

Any reading above 80% signals lots of broader participation from the market. **This is a strong signal of a bullish market outlook over the next 6 months or so.**

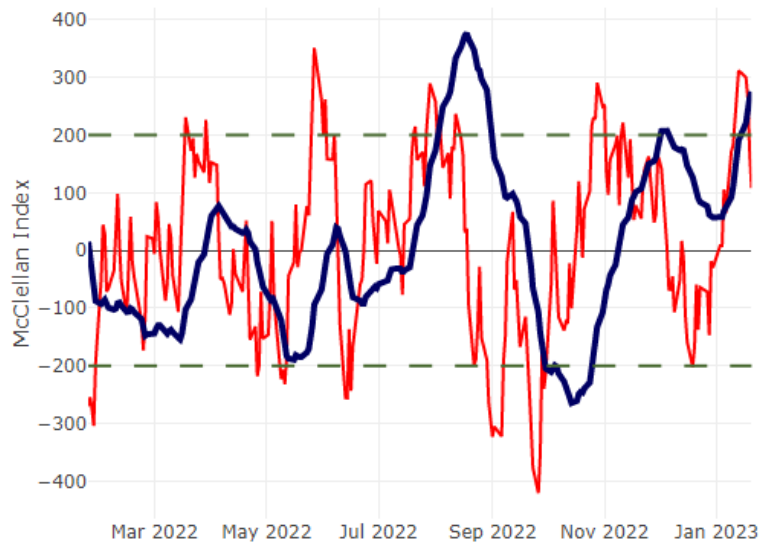
Any reading below 20% signals that the market is nearing a major low. **Out of the 3 timeframes, a bear signal on this indicator is the strongest and most useful.**

McClellan Oscillator & Summation Index

The McClellan Oscillator is the most useful breadth indicator. Its reading is based on the difference between the number of advancing and declining stocks in an index. The more advancing stocks in an index, the better the breadth.

Our indicator focuses on the NYSE:

McClellan Oscillator & Summation Index



The red line is the McClellan Oscillator.

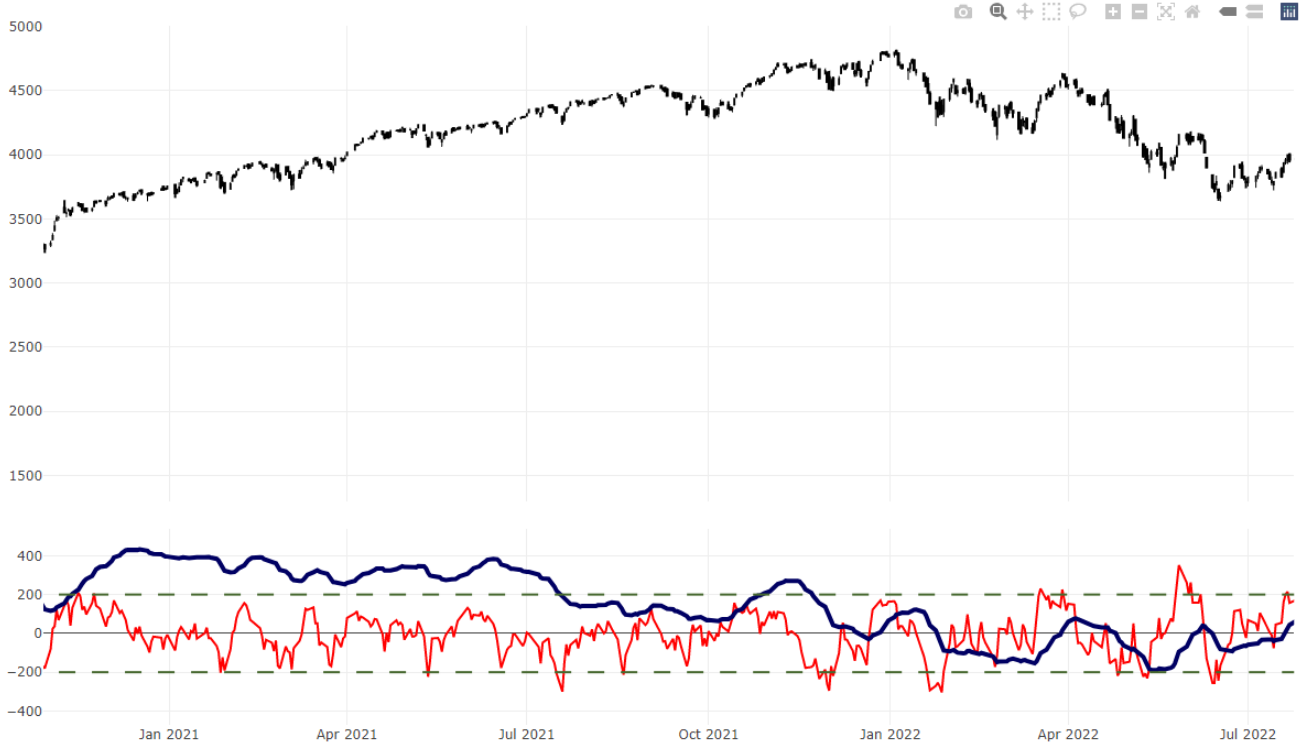
**When the red line moves above the top green horizontal line (200), it's a signal of broad market participation.** It's a good sign if this coincides with a bullish move in the market.

**If this same red line moves below 0 while the stock market is rising, this is a signal that breadth is diverging from market prices. This increases the probability that the market will turn around and head lower.**

The blue line is the McClellan Summation Index which is a cumulative reading of the oscillator.

**It represents total market participation and acts as a leading indicator for prices. The idea is to look for divergences between this line and the market.**

Below is an example of this divergence:



From January 2021 to January 2022, The McClellan Summation Index (blue line) started to move sideways and then lower as market prices continued to rise. This was a divergence and it signaled that the long term price trend was ready to roll over. And sure enough, in January 2022, the market started to fall.

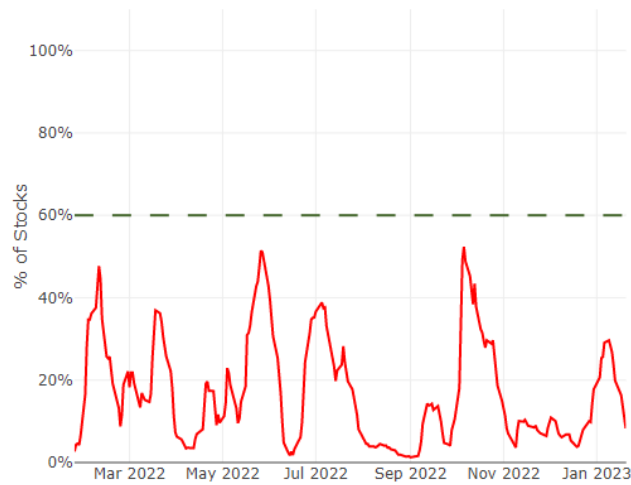
### RAY % with MACD Buy Signals

This indicator shows the percentage of stocks in the Russell 3000 that have seen MACD buy signals.

This indicator rarely triggers. And the more rare a signal is, the higher its value.



RAY % with MACD Buy Signals



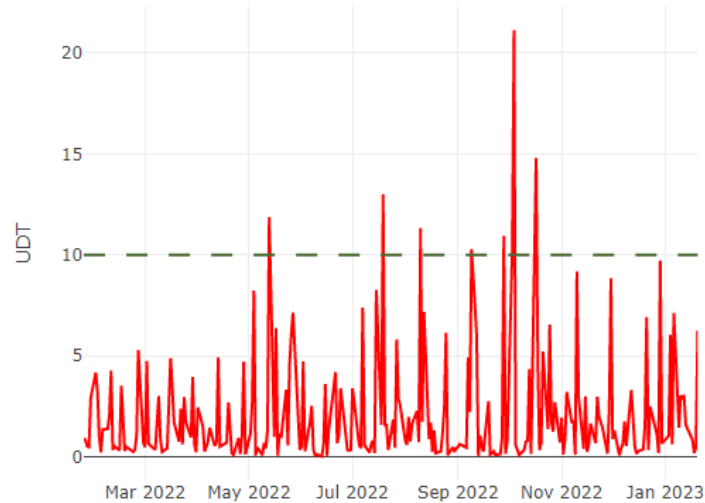
**When the red line hits the green horizontal line (60% or above), it signals a rare Breadth Thrust. Historically, this only occurs around major market bottoms.**

For this indicator, any reading below that 60% level is just noise.

### Up/Down Thrust

This indicator measures the percentage of buying vs selling volume in the NYSE. The more buying volume there is, the stronger the breadth.

Up/Down Thrust



A signal is triggered when the red line is at or above the green horizontal line (10). The 10 represents 10 times more buying volume than selling volume.

**It's important to see multiple readings clustered together. Readings should hit the 10x level multiple times within 1-2 weeks. This is a signal that there's a major breadth thrust happening *because* it's happening on multiple days within a short time frame.**

Anything below the 10x level is just noise and not signal worthy.

The key is to analyze all these HUD Breadth indicators together. This will provide the best overall technical view of the market. This data will then need to be combined with solid sentiment/positioning and fundamental analysis to create a profitable trade.

This HUD Breadth guide is just a small part of the full investment process we teach every one of our new Collective members. And as you can see, not only do we show you how to execute our global macro strategy, but we give you the tools and software you need to deploy it in an efficient and effective manner.

Your Macro Operator,

Alex