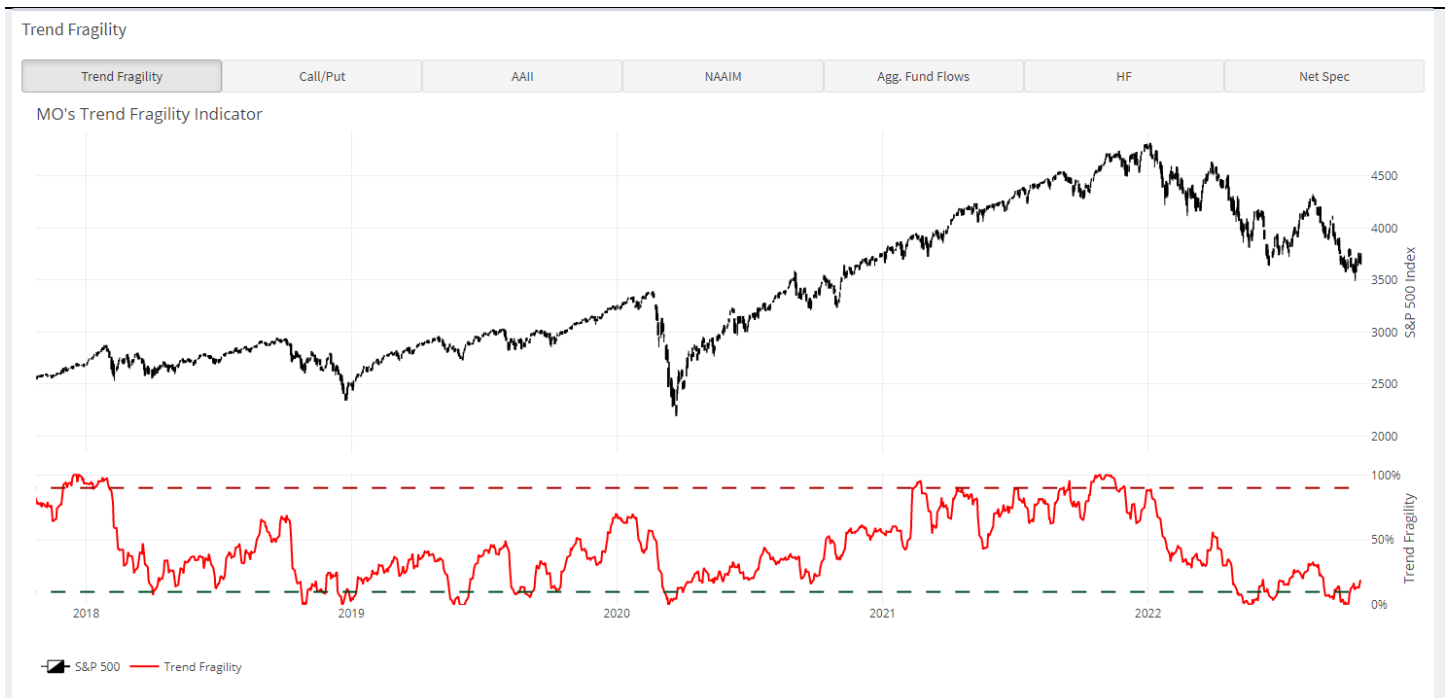


How To Read The Trend Fragility Indicator

The Trend Fragility Indicator is one of the tools we provide on the HUD that will help you analyze market sentiment.

You can think of our Trend Fragility Indicator as a temperature gauge — a composite sentiment/positioning score (TF Score) that tells you how hot or cold the crowd is.

This one chart gives you a quick and complete picture of the Herd's sentiment and how they're positioned.



It's a contrarian signal.

So when the indicator is elevated above the horizontal *red* dotted line, it means the crowd is in its 90th+ percentile of bullishness over the previous three years.

90th+ percentile readings tend to precede or coincide with reversal points in the market.

Conversely, when the indicator drops below the horizontal *green* dotted line (the 10th %tile), that means your average Joe has gone to cash and is expecting a crash.

Low readings such as these set the conditions for significant bottoms.

Red Line Above Horizontal Red Line = Potential Market Top

Red Line Below Horizontal Green Line = Potential Market Bottom

You can review how contrarian investing works by clicking [here](#) and [here](#).

The Trend Fragility Score is composed of six subcomponents. These are:

1. AAI Bull-Bears Net
2. Aggregate US Major Indices Net Speculative Positioning
3. NAAIM Average Equity Exposure
4. Hedge Fund Positioning
5. Total US Indices Put/Call Ratio (10-day moving average)
6. Aggregate US Major Indices Fund Flows



Broadly speaking, **extreme bearish readings are more reliable than extreme bullish ones.**

This is because it's psychologically more taxing to remain fearful for long periods of time.

Also, we live in an inflationary market and stocks tend to go up over time.

Conversely, **bullish extremes can last longer than most expect.**

Overbought can always become more overbought.

This is important to note because many traders and investors have a habit of trying to fade bullish trends just because sentiment and positioning are at extremes. This is akin to stepping in front of a speeding train.

There are no “secret indicators” in this game. There's no sure thing. If there was, its usefulness would be quickly arbed away.

The TF Score, like all our other indicators, just provides useful context.

Now of course that context is *very* valuable, but it's best looked at holistically along with all of our other indicators.

Doing this context-building allows us to develop a sense of the environment we're operating in, a.k.a. the Market Regime.

Different market regimes have different characteristics with unique risks and opportunities.

Knowing what regime we're in allows us to make sure we're applying the right tools and strategies.

Our Trend Fragility Indicator is one of these invaluable tools that help us do that.

Your Macro Operator,

Alex