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High-Yield Bond Advance/Decline Line: A Warning Chart

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan says that the divergence in the high-yield bond A/D line from the S&P500 really worries him.

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly:

https://www.mcoscillator.com/learning_center/weekly_chart/the_chart_that_worries_me_hy_bond_a-d_line/

You can also visit the McClellan Financial Publications Home Page at the link below. This is a subscription service, and there are two publications which can be subscribed for: (1) **The McClellan Market Report**; and (2) **The Daily Edition**.

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January 12, 2018

The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

High-Yield Bond Advance/Decline Line: A Warning Chart

There is no divergence yet between stock indices and the NYSE's composite A-D Line. But there is one in the High Yield Bonds A-D Line, and that is an early warning of big trouble to come.

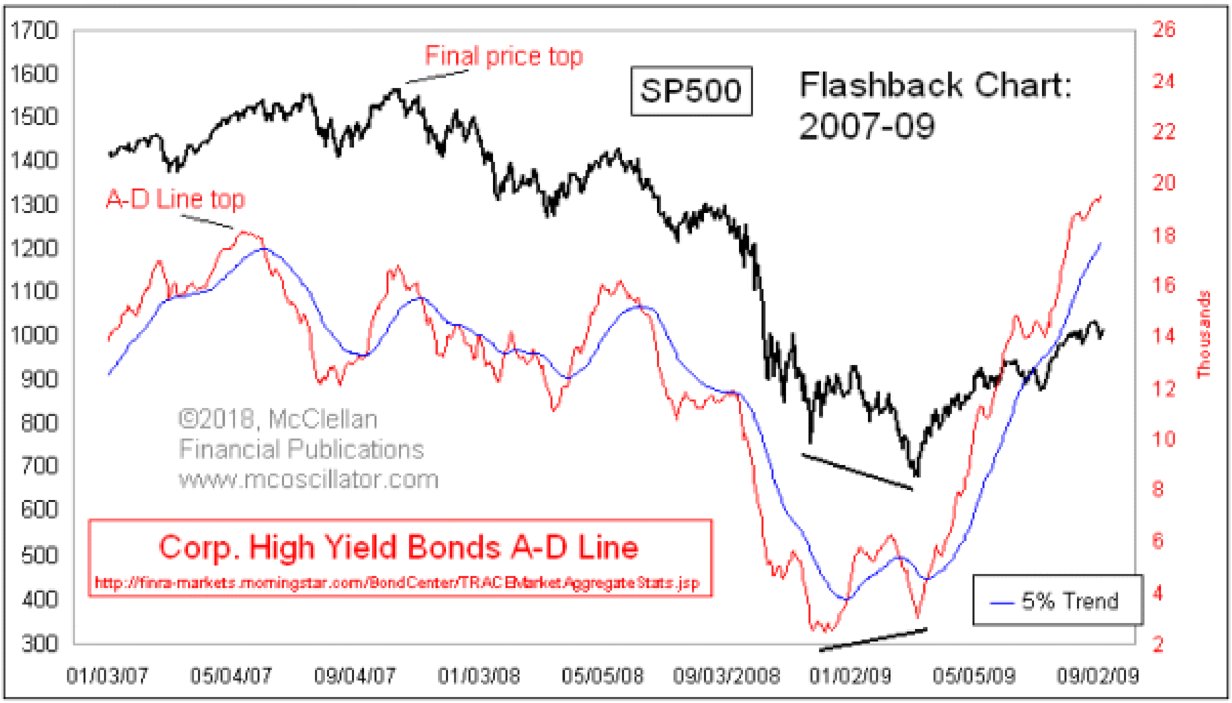
High-yield bonds usually trade more like stocks than like T-Bonds, and so that has led a lot of analysts to keep an eye on junk bond ETFs like HYG and JNK, especially if they show a divergence relative to stock price indices. Those ETFs tend to be dominated by high-yield bonds that are related to oil exploration, and so the price of crude oil can move them around a bit.

The High Yield Bond A-D Line is more egalitarian, looking at the behavior of all of the high-yield corporate bonds as tracked by FINRA. Each one gets an equal vote, which is why looking at A-D Lines can be useful in giving a different message than cap-weighted price indicators. And the High Yield Bonds A-D Line, in particular, can give us interesting indications early on that liquidity is starting to dry up.

High-yield bonds are very risky, and thus they tend to be more sensitive to changes in financial market liquidity.

We saw an example of this when this A-D Line peaked in April 2015, well ahead of the ugliness for the SP500 which arrived later that year and in early 2016. Liquidity seemed to have been restored just after that February 2016 price bottom, and the High Yield Bonds A-D Line shot higher to demonstrate that refreshed liquidity condition.

2007 gives us another example of this principle:



The SP500 had its final price top in October 2007, and we had warning of that from the NYSE A-D Line which had peaked in June 2007. But the High Yield Bonds A-D Line peaked all the way back in May 2007, giving even earlier warning that liquidity was starting to be a problem.

Just because we have a divergence warning now does not mean that the stock market has to start downward right away. It can take a few months before stock traders start to realize that liquidity is getting tight. And it is also possible that a sudden gush of liquidity could lift the high-yield bond market, taking away this apparent divergence. I do not think that is going to happen, but it is possible.

This warning from the High Yield Bonds A-D Line fits well with my expectation of a significant stock market top due in March 2018. That expectation comes from my euro-dollar COT leading indication, which I discussed in a Chart In Focus article back in April 2016. We feature that regularly in our twice monthly *McClellan Market Report* and our *Daily Edition*.

We have to wait and see whether the NYSE A-D Line confirms the liquidity concern with its own divergence.

Tom McClellan

Editor, The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* follows on the next page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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