Finally a 10-1 Up-Volume Day

***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 explains the impact and significance of a 10 to 1 ratio of up-volume versus down-volume.

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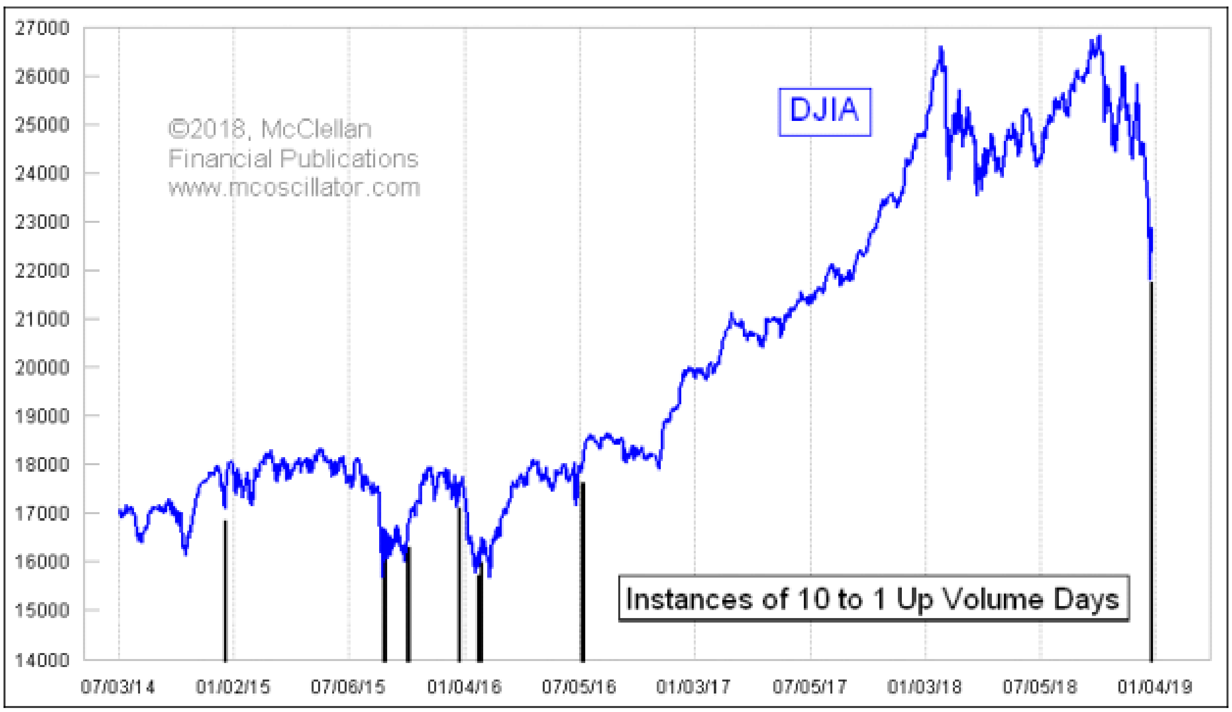
The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

Finally a 10-1 Up-Volume Day

The big bounce day on December 26, 2018 saw NYSE Up Volume of more than 10x the amount of Down Volume, distinguishing it as a “10-1 Up-Volume Day”. These are pretty special days, because they do not come along very often. They are also special because the interpretation of what one of them means depends on the context in which it appears.

Generally speaking, a 10-1 Up-Volume Day that appears in the middle of an u-move can mark a blow-off end for that up-move. But a 10-1 Day that appears right after a serious decline usually marks strong upward initiation, and a reversal of that decline. This latest instance fits into that latter condition.

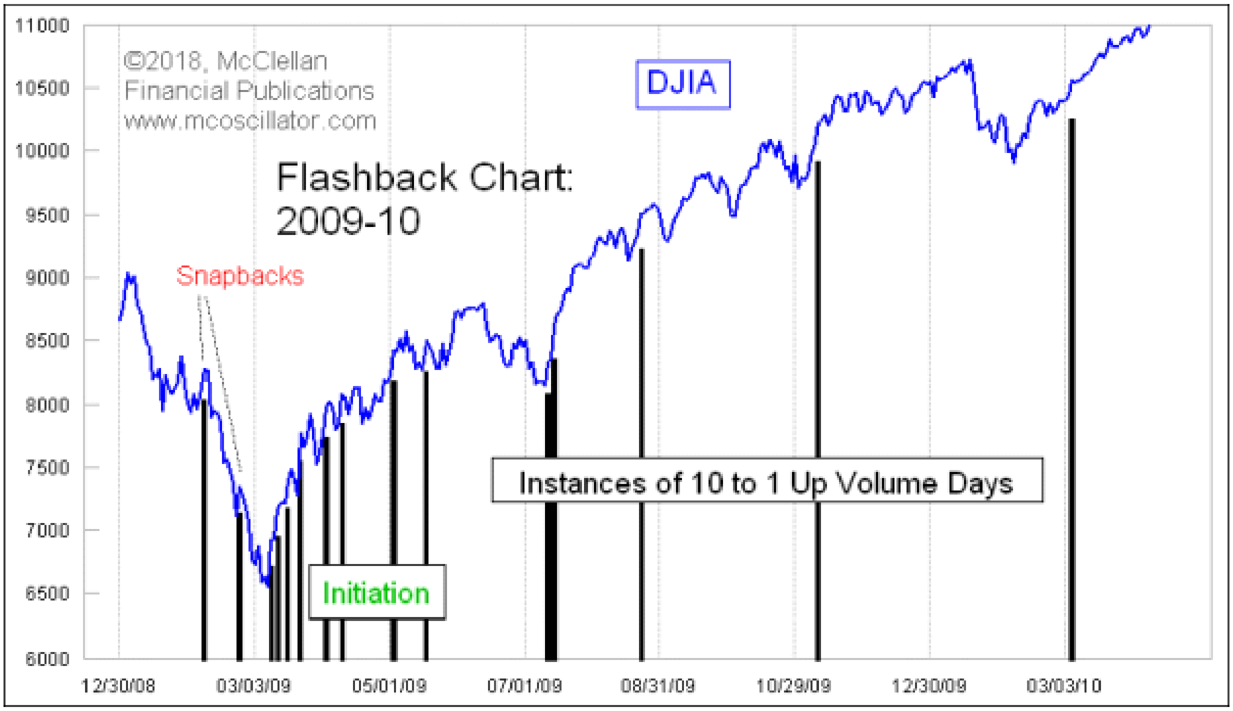


I should note that for the purposes of this study, I am defining these 10-1 days as being days on which NYSE Up-Volume was more than 10 times the amount of Down-Volume, using numbers as published by the Wall Street Journal.

Others have looked at this phenomenon using slightly different definitions. Most notably, the late Paul Desmond of Lowry’s defined it as UVOL > 90% x (UVOL + DVOL), and wrote about that in the 2002 Charles Dow Award paper, “[Identifying Bear Market Bottoms and New Bull Markets]”. In his1986 book, Winning On Wall Street, the late Martin Zweig evaluated 9-1 Up-Volume days. It is the same idea.

Because there are not a lot of examples to go by in the chart above, I am including a couple of earlier example periods with many more instances of these signals for us to learn from.

Here is 2009-2010:



Notice that there were a couple of 10-1 Up-Volume Days just ahead of the final bear market bottom in March 2009 and, even though they appeared in the middle of a protracted downtrend, they did not mark initiation of the new up-trend. As such, they help to reinforce the lesson passed down from Martin Zweig, that there is nothing as bullish as a failed bearish signal, and vice versa, that there is nothing as bearish as a failed bullish signal.

After the March 9, 2009 bottom, there were several of these 10-1 Up-Volume Days which did signal the kickoff of a new up-trend. The fact that they clustered together like that was an even bigger bullish message. More on that point in a moment.

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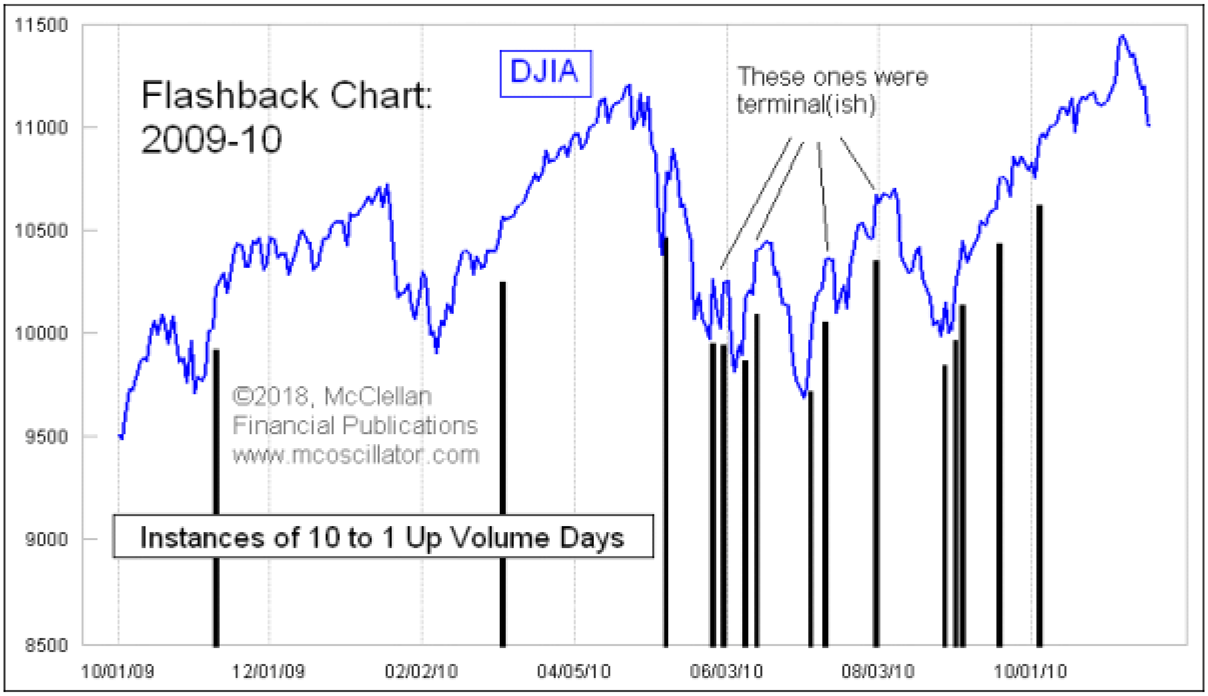
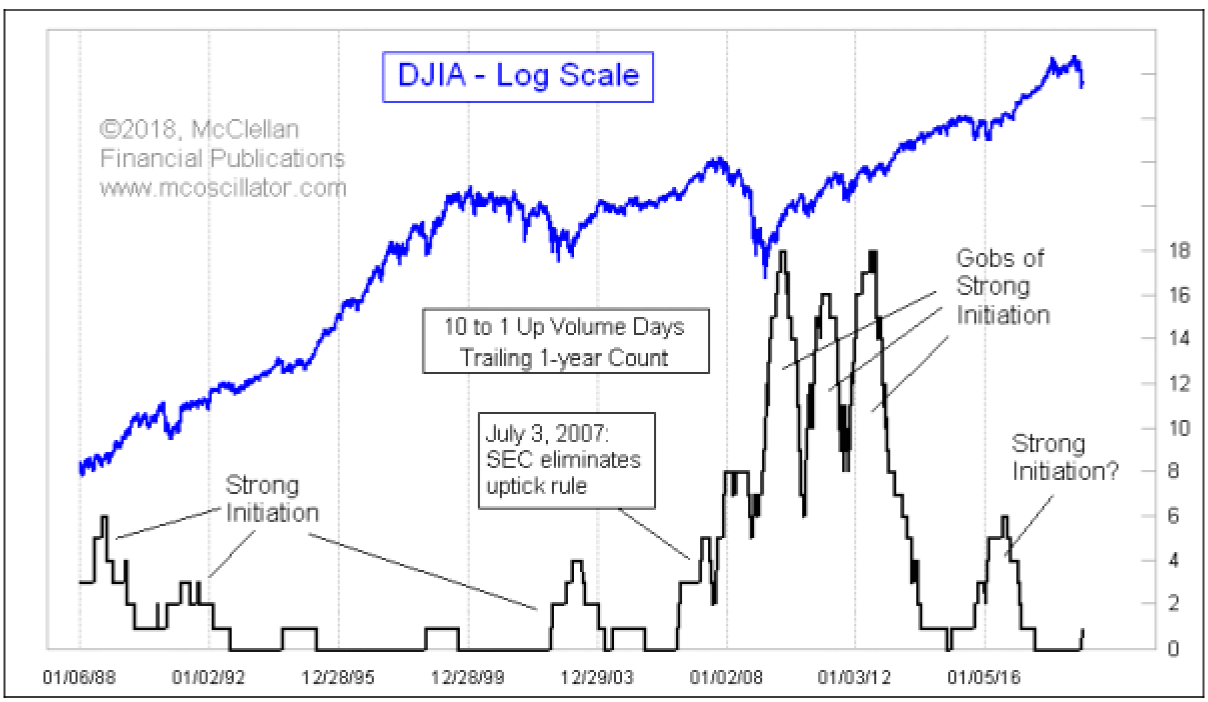
Here is a chart showing late 2009 into 2010:



Here again, most of the 10-1 Up-Volume Day signals marked strong initiation of a new up-move. But the ones which occurred after prices were already bouncing upward tended to mark the blow-off end points to counter-trend rallies. So, it matters in what context one of these signals appears.

I alluded above to the power of those instances where we have seen a clustering of these signals, and so to help see that point the final chart looks at a 1-year trailing total of these signals:



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Decades ago, it was extremely rare to see any of these signals. Things changed in a big way starting in 2007, when the SEC eliminated the "uptick rule" for initiating a short sale of stock.

The change was further magnified starting in 2009 with the 3 waves of the Fed's Quantitative Easing (QE), plus Operation Twist, each of which produced its own distinctive surge in the numbers of these 10-1 signals.

The point to take from this examination is that a 10-1 Up-Volume Day occurs when a whole bunch of money is trying to get through the gate to get into the carnival. A single signal can be a sign of a blow-off, especially if it comes later in an up-move versus on the first up-day. Seeing a whole bunch of signals appearing in close proximity says that this money that is rushing into the carnival has more money crowding in behind it, and that usually leads to a sustained up-trend.

So, this latest lone 10-1 signal is likely bullish news, appearing after an oversold bottom. It will become even more bullish if we see additional 10-1 Up-Volume Signals in the weeks ahead.

Tom McClellan, Editor,

The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is provided on the following 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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