The Best Participation Indicators EVER!

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Participation

A concept that is often overlooked in technical analysis of the stock market is “Participation”. What does participation mean? It is a measure of how many stocks are currently participating in a particular market move. Additionally, we talk about “Breadth”. Common measurements of breadth are New Highs/New Lows, Advances minus Declines and Volume. You’ll find that most participation and breadth indicators are not weighted and give you a ‘pure’ look at what is going on intrinsically with the market, a sector or an industry group.

By combining participation and breadth we are able to visualize the internal strength or internal weakness of a move.

Let’s start by looking at a common participation measure, *%Stocks > 20-EMA*, *50-EMA and 200-*EMA (percent stocks greater than > 20-EMA, etc.). For a bull market to persist, we need to have ample participation. We can also measure oversold and overbought conditions.

Below is the chart (Chart 1) that identifies participation in the short, intermediate and long terms. Obviously the *%Stocks > 20-EMA* is the short-term timeframe, the *%Stocks > 50-EMA* is the intermediate-term timeframe and *%Stocks > 200-EMA* gives us the health of the market in the long term.

Chart 1

This is a long-term view of participation. We have annotated red dotted vertical lines at "cardinal tops", basically tops that arrive after an established rising trend. Green dotted lines are "cardinal bottoms" or bottoms that arrive after an established declining trend. They mark pivot points in the market.

Another thing to look for are negative and positive divergences. When price tops are rising and indicator tops are declining, we have a negative divergence. The opposite is true for a positive divergence (i.e. declining bottoms on price and rising bottoms on indicators). Notice how prescient the negative divergences are before these cardinal tops.

In the example above, participation readings are mostly oversold with the exception of *%Stocks > 200-EMA*. This is a function of the strong bull market move out of the bear market lows. Price on most stocks was pushed well past the 200-EMA (similar to the SPY). It will take a longer-term decline to clear those overbought conditions.

We do see rising bottoms on *%Stocks > 20-EMA*. This sets up a short-term positive divergence and suggests the selling may subside soon.

Golden Cross Index (GCI) and Silver Cross Index (SCI) (Best Participation Indicators EVER!):

Now let's talk about the Golden Cross Index and Silver Cross Indexes (GCI & SCI) which were created by Carl Swenlin at DecisionPoint.com. We believe they are the best participation indicators out there. They take participation to the next level.

Most people have heard of a "Golden Cross". It is when the 50-day moving average crosses up through the 200-day moving average. The Golden Cross implies a very positive *long-term* outlook for the stock or market index. We often say a stock/ETF/index is in a "bull market" when the 50-day EMA is above the 200-day EMA. We can also say that the stock has a long-term bullish bias.

The Golden Cross INDEX tallies up the percentage of stocks that hold a "golden cross" or a 50-EMA greater than a 200-EMA.

Let's talk about the Silver Cross Index. Carl decided that we needed an intermediate-term participation indicator to go hand in hand with the Golden Cross Index. He determined that a "Silver Cross" would be a 20-EMA crossing above the 50-EMA.

We have always viewed the upside crossover of the 20-EMA versus the 50-EMA, a Silver Cross, as a positive omen for the *intermediate-term*, and so we developed the SCI, which expresses the percentage of stocks in the S&P 500 that have a Silver Cross. At the very least these stocks have a bullish intermediate-term bias.

The Silver Cross Index tallies up the percentage of stocks with a 20-EMA greater than the 50-EMA. Or better said, the percentage of stocks holding a “silver cross”.

Bias Analysis

Now that we understand what the GCI and SCI are, we can now determine the bias mechanically. We have added signal lines to both the GCI and SCI. The GCI’s is a 20-EMA and the SCI’s is a 10-EMA.

When the GCI is above its signal line, there is a “Bullish Bias” in the long term. When the SCI is above its signal line, it reflects an intermediate-term “Bullish Bias”.

Using this methodology at DecisionPoint.com, we have come up with a “Bias Table” that tells us the current bias of the primary indexes, the sectors and select industry groups. Not only does this give you individual readings, but a look at the overall table gives you valuable insight on internal strength within the market. Below is a sample table that we include in every *DecisionPoint Alert* report that is published every market day. Not only do you get signal tables, but you get professional commentary that explains the intricacies of the indicators. It also gives you conclusions on what to expect based on those tables and indicators.

At the time of this writing, the market had experienced a huge upward thrust in price out of October 2023 lows. The bias table over time flipped to help us identify the internal strength of the market, sectors and select industry groups. Currently it displays incredible internal strength given that all but the Energy sector (XLE) hold bullish biases in both the intermediate and long terms.

DecisionPoint BIAS Assessment

Market/Industry Gp/SPX Sectors	Silver Cross IT BIAS	Golden Cross LT BIAS
S&P 500 (SPY)	Bull	Bull
S&P 400 (MDY)	Bull	Bull
S&P 600 (IJR)	Bull	Bull
Nasdaq Composite (ONEQ)	Bull	Bull
NYSE Composite ($NYA)	Bull	Bull
DJIA (DIA)	Bull	Bull
Nasdaq 100 (QQQ)	Bull	Bull
S&P 100 (OEF)	Bull	Bull
Communication Svcs (XLC)	Bull	Bull
Consumer Disc (XLY)	Bull	Bull
Consumer Stpls (XLP)	Bull	Bull
Energy (XLE)	Bear	Bear
Financial (XLF)	Bull	Bull
Health Care (XLV)	Bull	Bull
Industrial (XLI)	Bull	Bull
Materials (XLB)	Bull	Bull
Real Estate (XLRE)	Bull	Bull
Technology (XLK)	Bull	Bull
Utilities (XLU)	Bull	Bull
Banking Regional (KRE)	Bull	Bull
Biotechnology (IBB)	Bull	Bull
Gold Miners (GDX)	Bull	Bull
Retail (XRT)	Bull	Bull
Semiconductors (SMH)	Bull	Bull
Transportation (DJT)	Bull	Bull

IT: SILVER CROSS INDEX above its 10-day EMA = Bull Bias, below = Bear Bias
LT: GOLDEN CROSS INDEX above its 20-day EMA = Bull Bias, below = Bear Bias

The chart below (Chart 2) shows the SCI along with its sister, the Golden Cross Index (GCI). Both of these indicators give us a more accurate, more enduring assessment of market breadth. It is a superior breadth indicator. When the 20-EMA is above the 50-EMA, it tells us that the stock has been persistently bullish over an extended period. When the SCI drops, we know with certainty that negative 20/50-EMA crossovers are taking place, and that participation is fading. The result is that any market advance is being undermined.

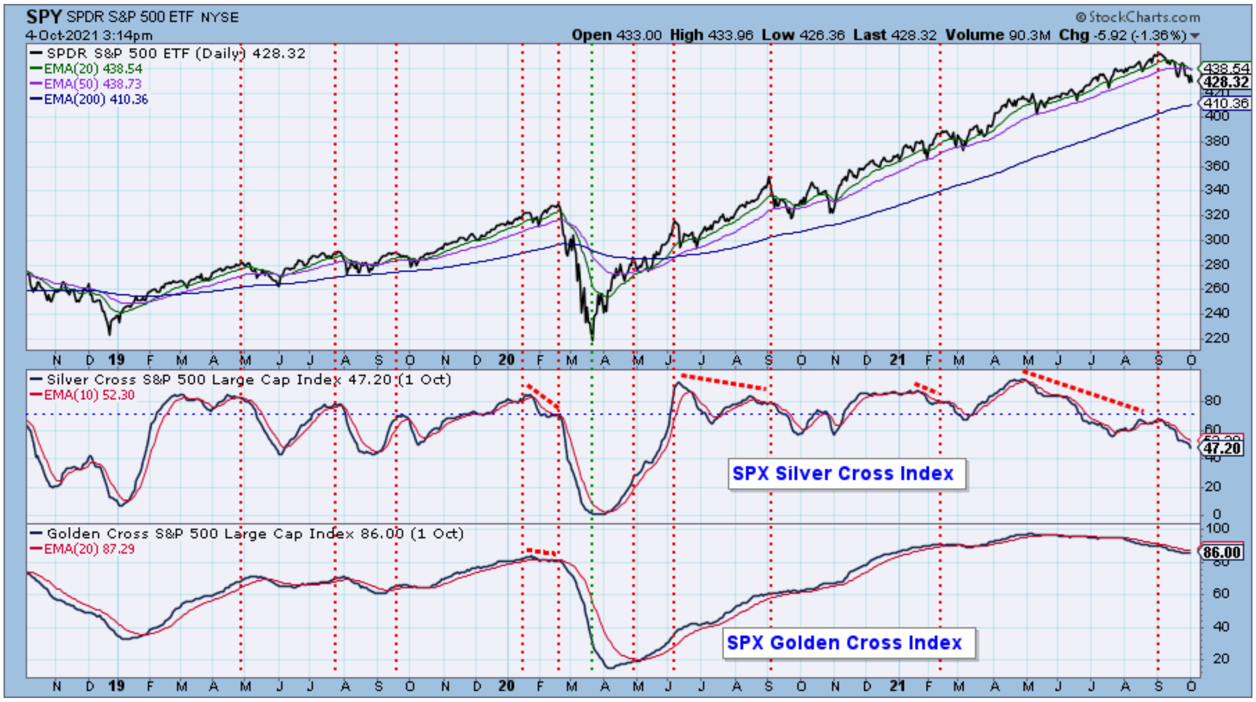


Chart 2

These indicators are very powerful and we've found them to be extraordinarily useful in determining possible reversals and the strength of particular market trends.

We decided that these indicators were so powerful that it was important to create these indexes for most of the common broad market indexes, all sectors and select industry groups.

Reviewing the chart below (Chart 3), small- and mid-cap stocks are showing relative strength when compared to the SPY. Notice that the readings for the SCI for both the SP400 and SP600 in the chart below are rising; whereas, the SCI is falling for the S&P 500. Additionally, there are positive divergences on these indicators for the S&P 400 and S&P 600:

Chart 3

Small- and Mid-Cap stocks are clearly outperforming the SPY and are likely holding the market up to some degree. Reviewing the same chart for the Golden Cross Index (Chart 4), we see that in the long-term, the S&P 500 has a positive divergence shaping up. Unfortunately, long-term strength has yet to be detected on the S&P 400 and S&P 600. In fact, the GCI for both show tops below the signal line. This tells us that while they are bullish in the intermediate term, there are still serious problems in the long term.

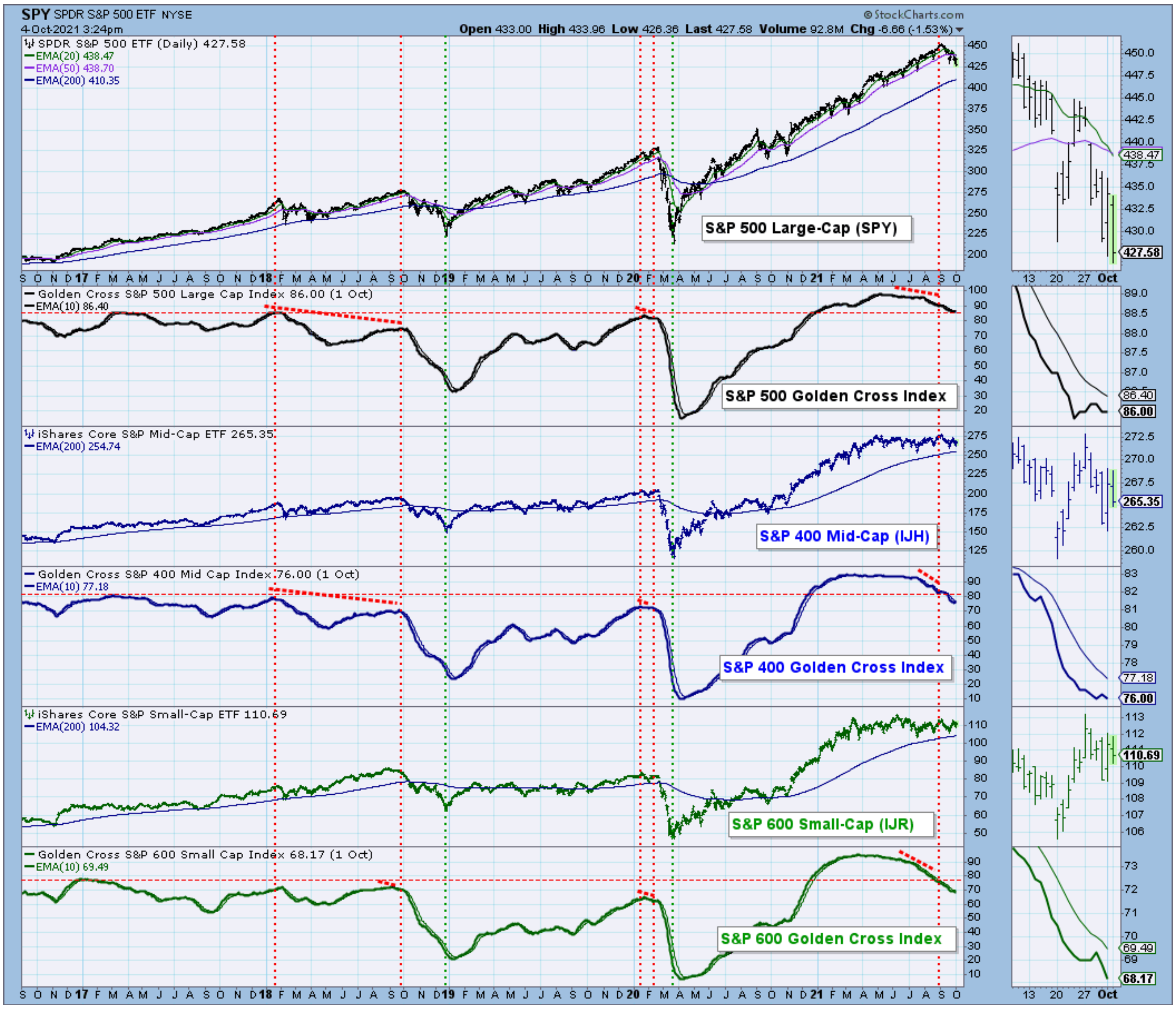


Chart 4

<u>Bullish and Bearish Bias Assessment in the Short Term</u>

We've found that the SCI when compared to the %Stocks > 20/50-EMAs affords us the opportunity to learn the current bias of an index in the short term. It occurred to us that one of the ways we can measure market bias is to compare the SCI to the percent of stocks above their 20/50-EMAs. When the percentages are lower than the SCI, the market bias is getting bearish and if they are higher, it is getting bullish. We use a mechanical 50% bullish threshold as well. If *%Stocks > 20/50*EMAs are above 50%, we likely have a bullish bias in the short term. Any "mechanical" signal requires additional analysis to confirm, but this gives us an excellent starting point on evaluating the bias of a particular index.

Looking at Chart 5, currently there is a bearish bias on the SPY given the SCI reading is higher than participation of stocks > 20/50-EMAs. Additionally, those percentages are below 50%. Why is this bearish? The beauty of EMAs is that when price is higher than the EMA, it rises to meet price. When price is lower than an EMA it turns lower. The only way the SCI can see improvement is when more stocks have a 20-EMA > 50-EMA. Price must be above both EMAs to generate a “silver cross” of the 20/50-EMAs.

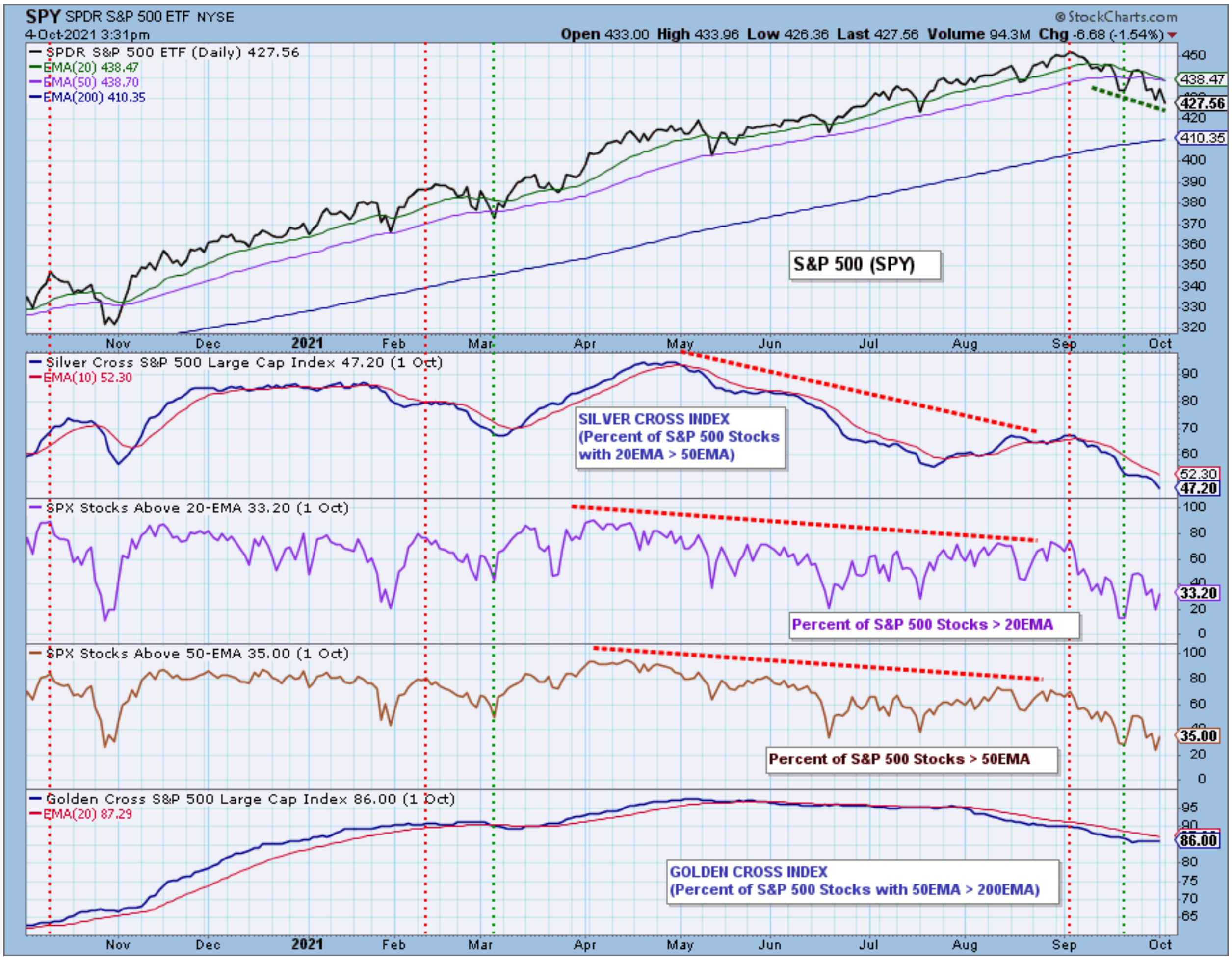
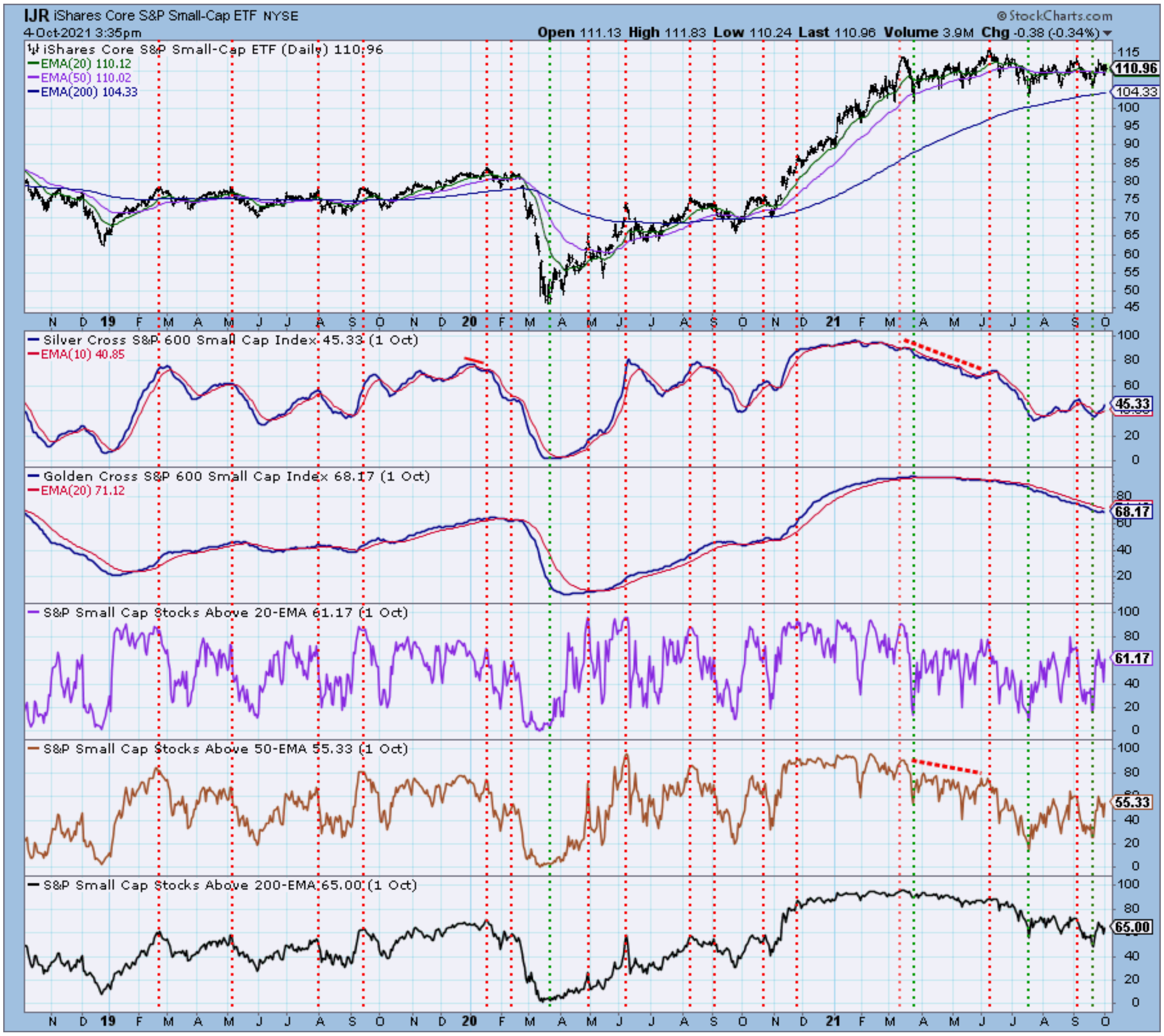


Chart 5

Let's consider the bias of the S&P 400 and S&P 600 (Charts 6 and 7). Notice in both cases, the SCI reading is lower than the participation readings for the *%Stocks > 20/50-EMAs*. The SCI has the ability to improve and thus we have a bullish bias.



IJR iShares Core S&P Small-Cap ETF NYSE
4-Oct-2021 3:35pm
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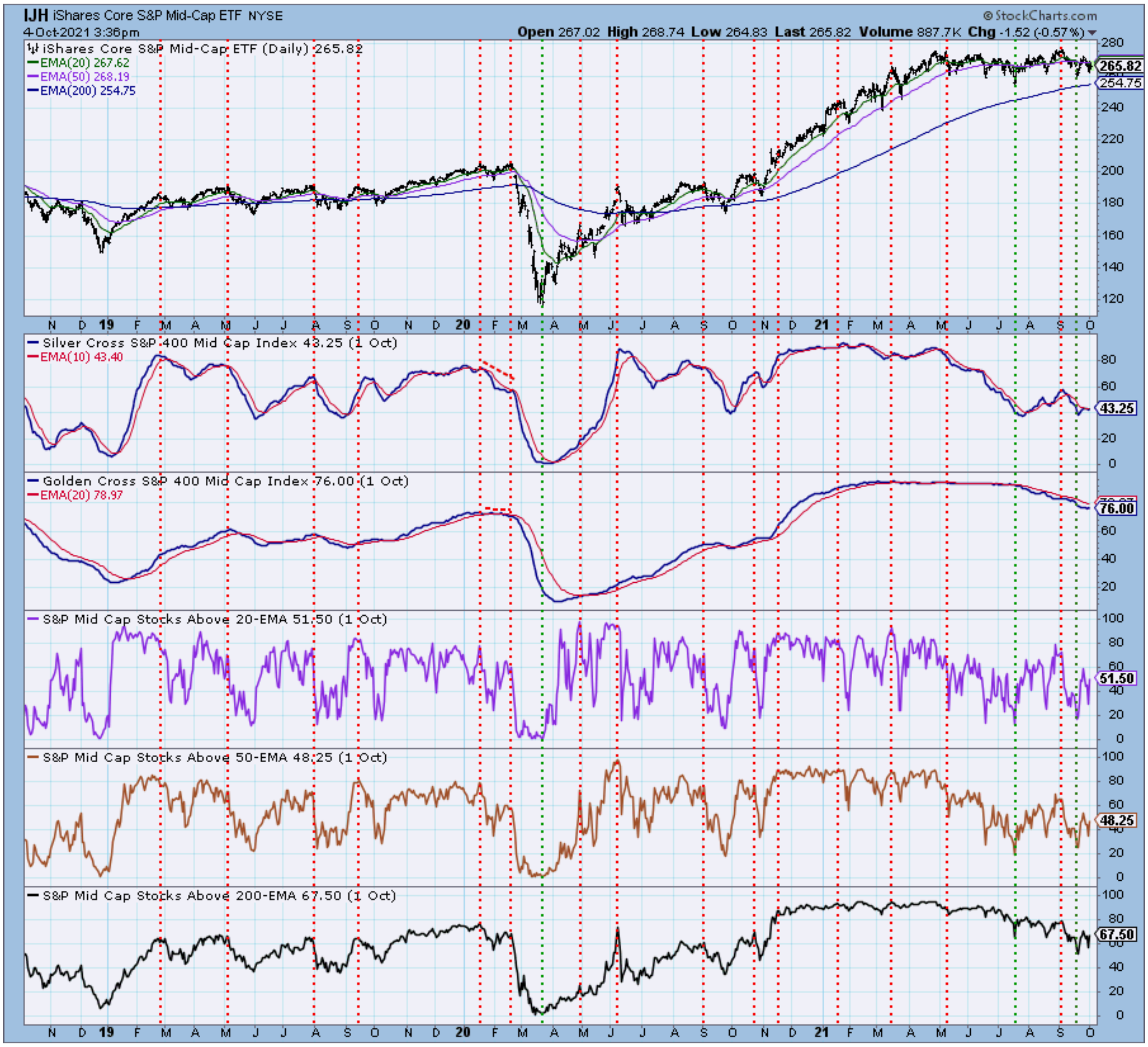
iShares Core S&P Small-Cap ETF (Daily) 110.96
EMA(20) 110.12
EMA(50) 110.02
EMA(200) 104.33
Silver Cross S&P 600 Small Cap Index 45.33 (1 Oct)
EMA(10) 40.85
Golden Cross S&P 600 Small Cap Index 68.17 (1 Oct)
EMA(20) 71.12
S&P Small Cap Stocks Above 20-EMA 61.17 (1 Oct)
S&P Small Cap Stocks Above 50-EMA 55.33 (1 Oct)
S&P Small Cap Stocks Above 200-EMA 65.00 (1 Oct)

Chart 6


IJH iShares Core S&P Mid-Cap ETF NYSE
©StockCharts.com
4-Oct-2021 3:36pm
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iShares Core S&P Mid-Cap ETF (Daily) 265.82
EMA(20) 267.62
EMA(50) 268.19
EMA(200) 254.75
Silver Cross S&P 400 Mid Cap Index 43.25 (1 Oct)
EMA(10) 43.40
Golden Cross S&P 400 Mid Cap Index 76.00 (1 Oct)
EMA(20) 78.97
S&P Mid Cap Stocks Above 20-EMA 51.50 (1 Oct)
S&P Mid Cap Stocks Above 50-EMA 48.25 (1 Oct)
S&P Mid Cap Stocks Above 200-EMA 67.50 (1 Oct)

Chart 7

At DecisionPoint.com we have SCI/GCI and participation charts for every sector and most broad market indexes. Here is a look at the Nasdaq Composite's bias chart (Chart 8):

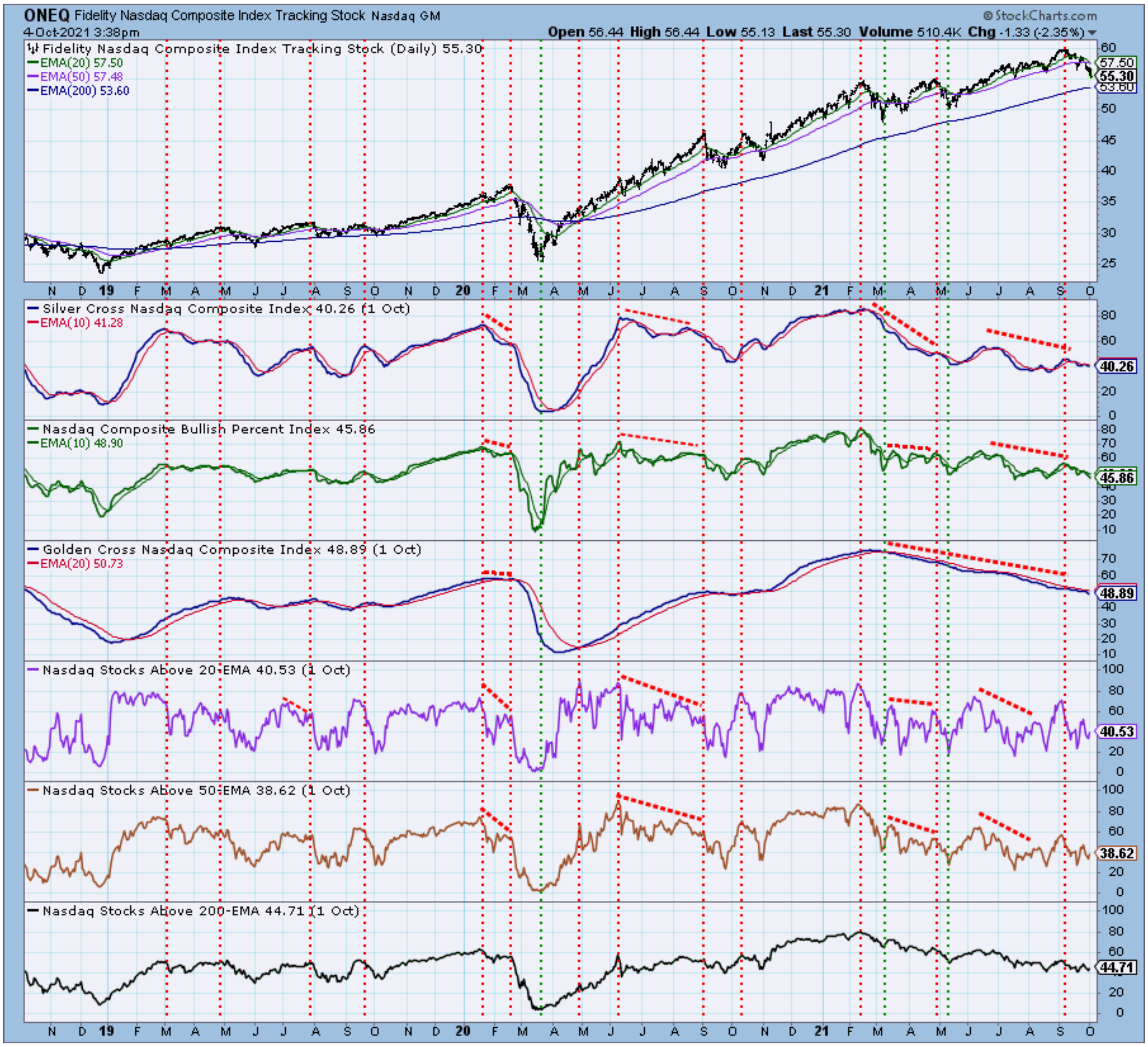

Chart 8

There is a no bias visible. Readings are very similar… participation readings aren't low enough to damage the SCI, but they are also not high enough to improve it.

Here is the Energy Sector ETF (XLE) (Chart 9):

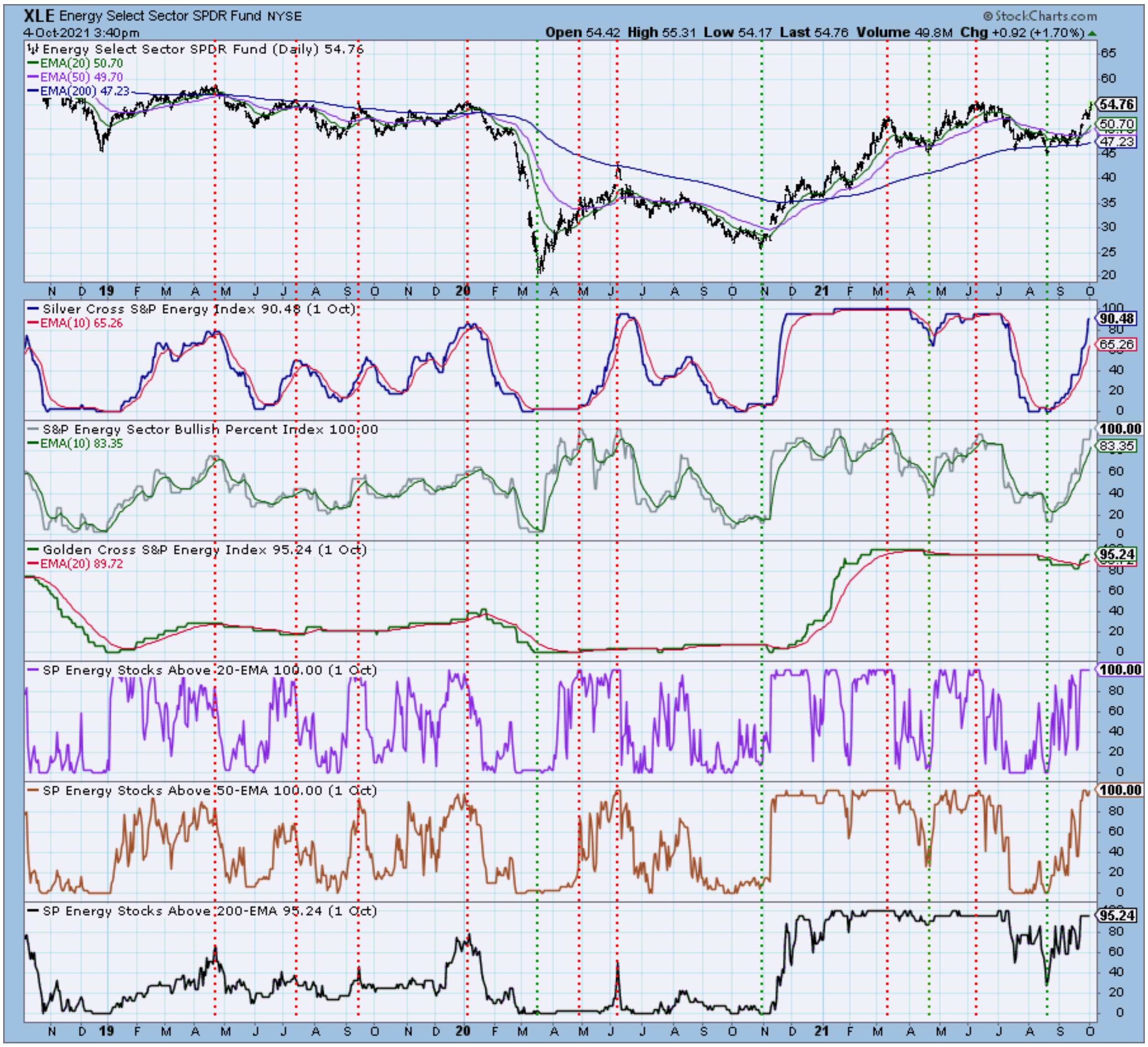

Chart 9

100% of stocks in the Energy sector have their price above both the 20/50-EMAs. The SCI is at 90%, but that will continue to rise if stocks continue to hold above both the 20/50-EMAs. While these readings are overbought, we can see that they can remain overbought for weeks (example: November 2020 to June 2021).

Conclusion: Participation is an important measure of the strength of rising and falling trends. Divergences can give us insight into possible market pivot points. The Golden Cross Index (GCI) and Silver Cross Index (SCI) are part of the DecisionPoint.com suite of indicators that are available to all of our subscribers. Contact support@decisionpoint.com to learn more.