
Hindenburg Omen

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Mga boss traders sa US markets, i got this from an email, what do you think of this indicator??

The Weekly Report for October 29th - November 2nd, 2007

October 28, 2007- Market Summary

In our last report, we mentioned that the major indexes experienced a sharp drop on the anniversary of Black Monday (October 19). The good news for the bulls is that they were able to recoup the majority of the previous week's losses, thanks to impressive earnings from Microsoft (Nasdaq:MSFT) and a positive outlook from Countrywide Financial (NYSE:CFC). At first glance, it may seem that this news is the catalyst the markets need to spur a move higher, but one interesting technical indicator is suggesting that the markets may actually be setting up for a significant move lower.

The Hindenburg omen is a relatively uncommon indicator, but it should not be easily dismissed. This indicator is named after the German airship and has become synonymous with the word 'crash'. This tool uses market breadth theories to determine when there is a disparity between new highs and lows. A large divergence in highs and lows suggests that conviction of market participants is weakening and that they are unsure of the market's future direction.

This indicator gives a warning when more than 2.2% of the traded issues in the NYSE composite index are creating new highs while a separate 2.2% are creating new lows. On Friday there were 259 new highs, which equates to 7.6% of the traded issues (3,407). Also, there were 99 new lows, which equates to 2.9% of the traded issues. Readings above 2.2%, which occurred on Thursday and Friday, is the first sign of a valid Hindenburg omen, but it should be noted that many short-term traders will wait for a few other confirming indicators before taking a position.

To learn more about this interesting indicator, see Beware of the Hindenburg.

<http://www.investopedia.com/articles/trading/07/HindenburgOmen.asp>

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