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# Beyond the Index: Using Market Breadth to Spot Hidden Market Vulnerability

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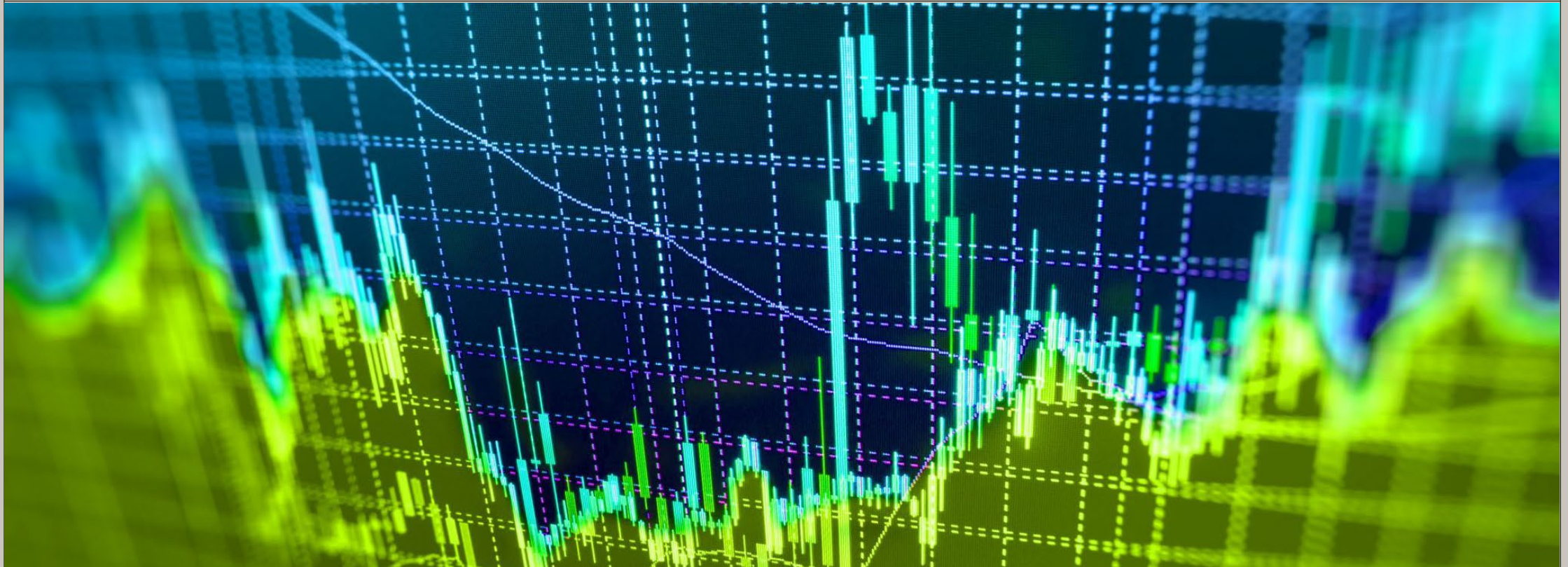
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As with all investments, your capital is at risk



# BEYOND THE INDEX: USING MARKET BREADTH TO SPOT HIDDEN VULNERABILITY

Managing risk through market breadth





**Vincent Randazzo** is the founder of ViewRight Advisors, where he develops systematic, technically driven investment processes focused on minimizing drawdowns and capturing early uptrends. He previously served as Head of Technical Research at CFRA and Lowry Research, where he collaborated with industry leaders Sam Stovall and Paul Desmond. His work helped identify key market inflection points, including the early stages of the 2018 and 2020 bull markets. Vincent earned a B.A. in Economics from Drew University and has held the Chartered Market Technician (CMT) designation since 2008. Vincent's analysis has been featured in Bloomberg, Nasdaq, and the CMT Association, among others.

# AGENDA

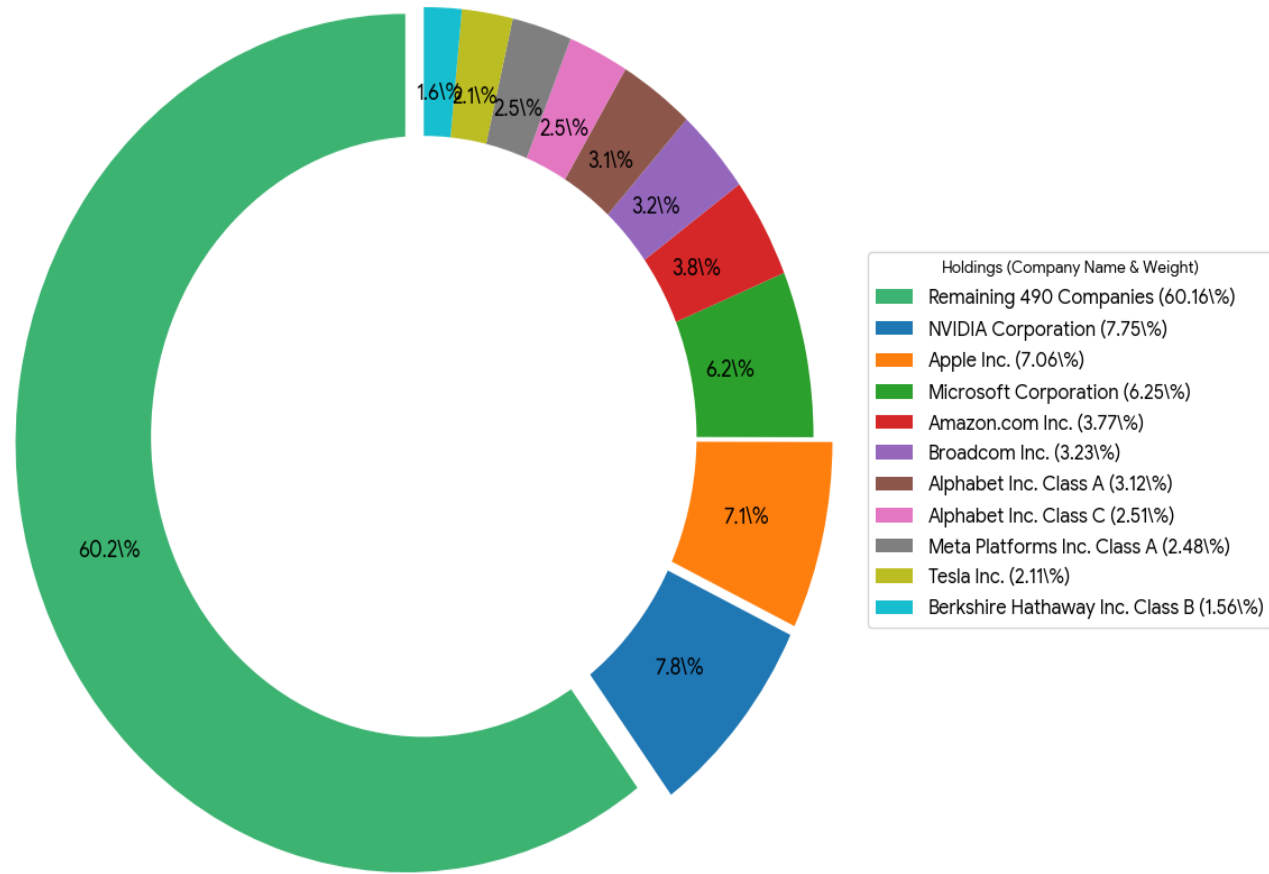


1. The Illusion of Index Strength
2. Understanding Market Breadth
3. Divergences & Risk Signals
4. Behavioral Drivers & Mathematical Realities
5. Actionable Framework & History
6. Today's Market View

# THE ILLUSION OF INDEX STRENGTH

# CONCENTRATION RISK IN INDEXES

S&P 500 Market Cap Distribution: Top 10 vs. Remaining 490  
(Weights as of Dec 08, 2025)



## A Few Drive the Many

The top ten stocks in the S&P 500 = 40% of the Index weight.

## Magnificent Seven Contribution

In 2023–2024, seven mega-cap stocks contributed between 60% and 88% of S&P 500 gains.

## Price Can Lie, Breadth Tells the Truth

Relying solely on index prices means accepting concentrated gains that often masks broader weakness.

Source: State Street Investment Management

# UNDERSTANDING MARKET BREADTH

# WHAT IS BREADTH AND WHY DOES IT MATTER?

## Market Breadth

Measures health of a trend through stock participation.

## Price vs Breadth

Price shows surface-level action, while breadth gives every stock an equal vote, gauging investor risk appetite and liquidity.

## Risk Management

Breadth provides reliable early warnings of weakness.



# BREADTH 101: NYSE ADVANCE/DECLINE LINE



## What is the A/D Line?

The Advance/Decline line measures market breadth by tracking net advancing minus declining stocks cumulatively over time.

## Trend Confirmation

When both price and A/D line rise, it confirms a healthy uptrend in the market.

## Divergence Warning

Price rising but A/D line falling signals hidden weakness and potential market vulnerability.

# DIVERGENCES & RISK SIGNALS

# BREADTH DIVERGENCE



## Non-Confirmation

Breadth divergences occur when price reaches new highs but breadth indicators form lower highs or decline.

## Significance of Divergences

Divergences serve as early warnings of increased risk, though they are not precise timing tools for market moves.

## History Repeats

Nearly every major market top of the last 100 years was preceded by breadth divergences, highlighting their importance in analysis.

# OTHER TOOLS: THE PERCENT ABOVE MOVING AVERAGES

## Understanding Moving Averages

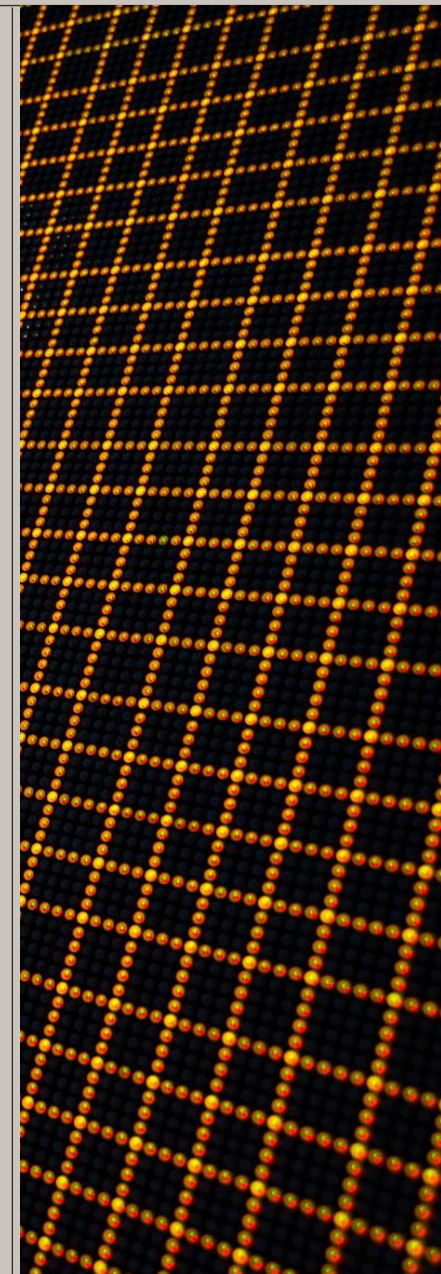
The 50-day and 200-day moving averages track short and long-term stock trends.

## Informing Uptrend Participation

The percent of stocks above these key moving averages complement the basic advance/decline line analysis, telling us how many stocks hold these trends and indicate broader trend durability.

## Evidence of Increasing Vulnerability

These indicators typically trend downward for months as the market-cap-weighted Indexes continue to rise into final bull market tops. The fewer the stocks in uptrends, the more fragile the advance.



# BEHAVIORAL DRIVERS & MATHEMATICAL REALITIES

# INVESTOR PSYCHOLOGY: FEAR OF LOSING & MISSING OUT



## Investor Enthusiasm

Broad market participation shows strong investor conviction and *fear of missing out* on gains.

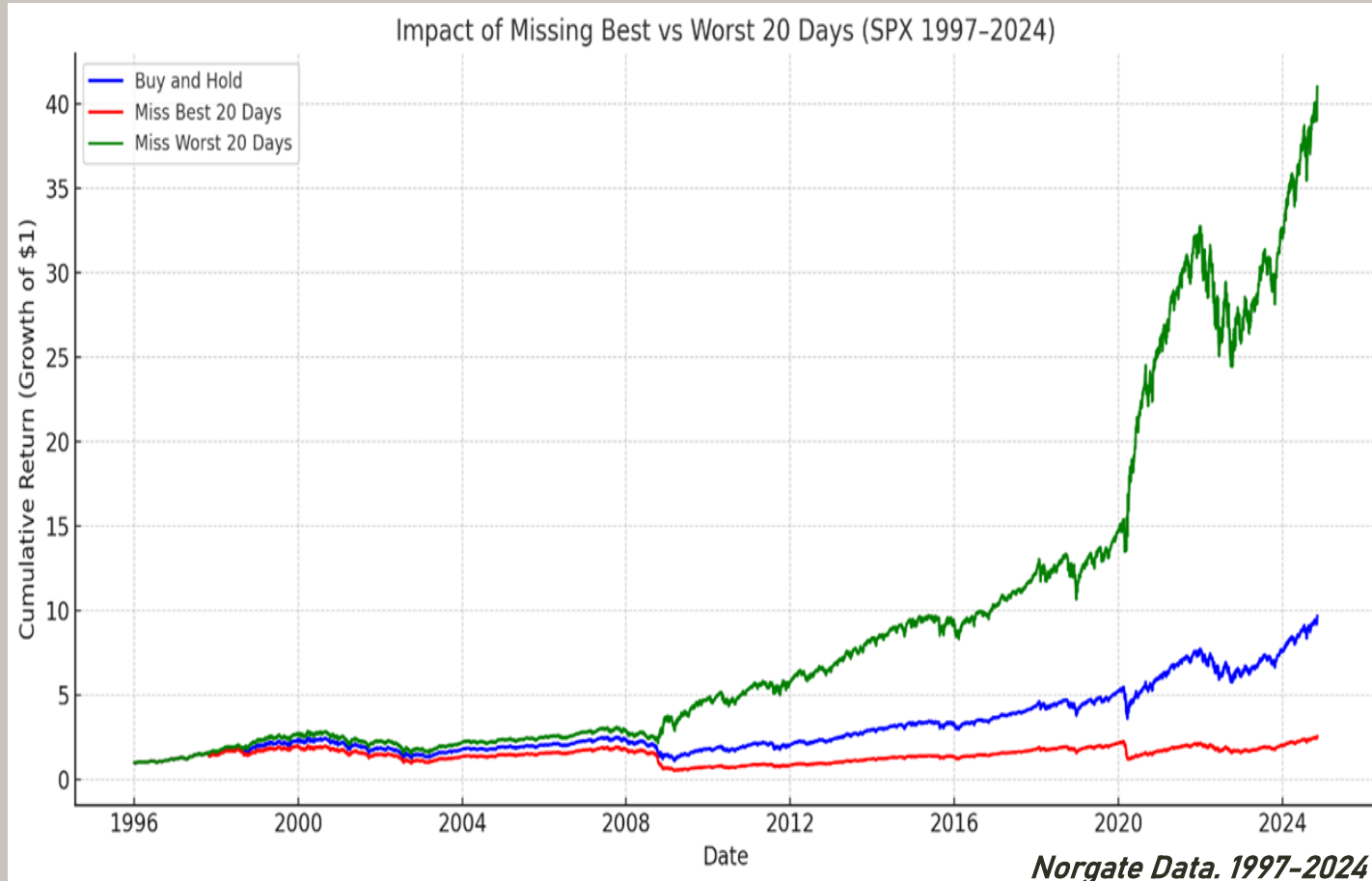
## Investor Apathy

Narrow participation reflects *fear of loss*, with capital concentrated in large safe mega-cap stocks, yet an unwillingness to exit the market.

## Emotional Paradox of Tops

Negative breadth divergences are created when these *fears* co-exist.

# DEBUNKING THE 'BEST DAYS' MYTH



Strategy	Annual Return (%)	Annual Volatility (%)
Buy & Hold	7.97	19.68
Miss Best 20 Days	2.77	18.75
Miss Worst 20 Days	11.36	17.32

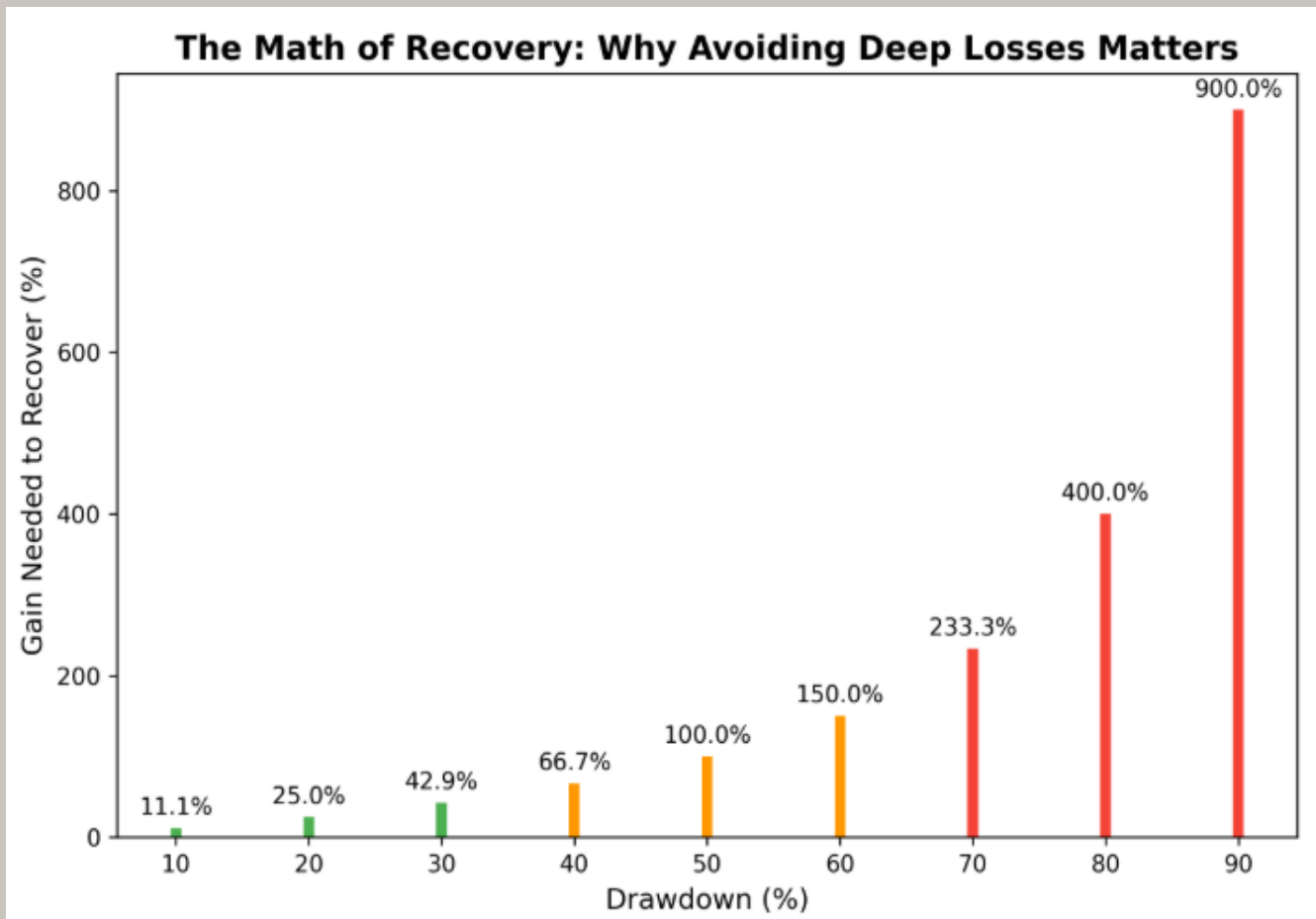
## Market Volatility and Best Days

Most of the market's best days occur during periods of high volatility within downtrends below the 200-day moving average.

## Avoiding Severe Drawdowns

Avoiding large market losses is more important for long-term growth than missing a few of the best market days.

# DRAWDOWN ASYMMETRY



## The Math of a Loss

A 50% loss requires a 100% gain to break even, with deeper losses demand exponentially larger recoveries.

$$\text{Required gain (\%)} = [1/(1-\text{Loss})] - 1$$

## Systematic Risk Management

Reducing exposure as conditions deteriorate preserves capital early, preventing losses from reaching levels that are difficult, or impossible, to recover from.

# VOLATILITY'S SILENT TAX

Year	Steady Return (%)	Value (Steady)	Volatile Return (%)	Value (Volatile)
1	9%	\$ 109,000	-30%	\$ 70,000
2	9%	\$ 118,810	50%	\$ 105,000
3	9%	\$ 129,503	-20%	\$ 84,000
4	9%	\$ 141,158	40%	\$ 117,600
5	9%	\$ 153,862	-25%	\$ 88,200
6	9%	\$ 167,710	45%	\$ 127,890
7	9%	\$ 182,804	-10%	\$ 115,101
8	9%	\$ 199,256	35%	\$ 155,386
9	9%	\$ 217,189	-5%	\$ 147,617
10	9%	\$ 236,736	10%	\$ 162,379
<b>Total</b>	<b>Avg: 9.0%</b>	<b>\$ 236,736</b>	<b>Avg: 9.0%</b>	<b>\$ 162,379</b>
		<b>137%</b>		<b>62%</b>

## Non-Linear, Real-Life Returns

Two return streams with the same average can compound to dramatically different ending values when volatility varies.

## Volatility Erodes Compounding

Large swings — especially deep losses — quietly drag long-term returns lower, even when the upside looks strong.

# ACTIONABLE FRAMEWORK & HISTORY

# BREADTH AS A DIMMER SWITCH



## Rules-Based Framework

Use breadth signals systematically to guide exposure, removing prediction and anchoring decisions in objective market evidence.

## Three Exposure States

**Confirmation** to add exposure, **Divergence** to trim or hedge, and **Collapse** to move defensive or raise cash.

## Dynamic Risk Management

Adjust exposure as underlying market conditions shift, helping preserve capital in weakening trends and stay invested in strengthening ones.

# HISTORIC WARNING SIGNALS



## Breadth Deterioration Alerts

Declining market breadth *precedes* more than 90% of major market tops.

## Dot-Com Bubble Warning

By the 2000 peak, price and the A/D Line had been diverging for nearly two years, signaling rising risk well before the collapse.

## 2007–08 Financial Crisis Signals

Similar divergences appeared before the Global Financial Crisis, though not as lengthy.

# TODAY'S MARKET VIEW

# ADVANCES NOT PACING WITH PRICE



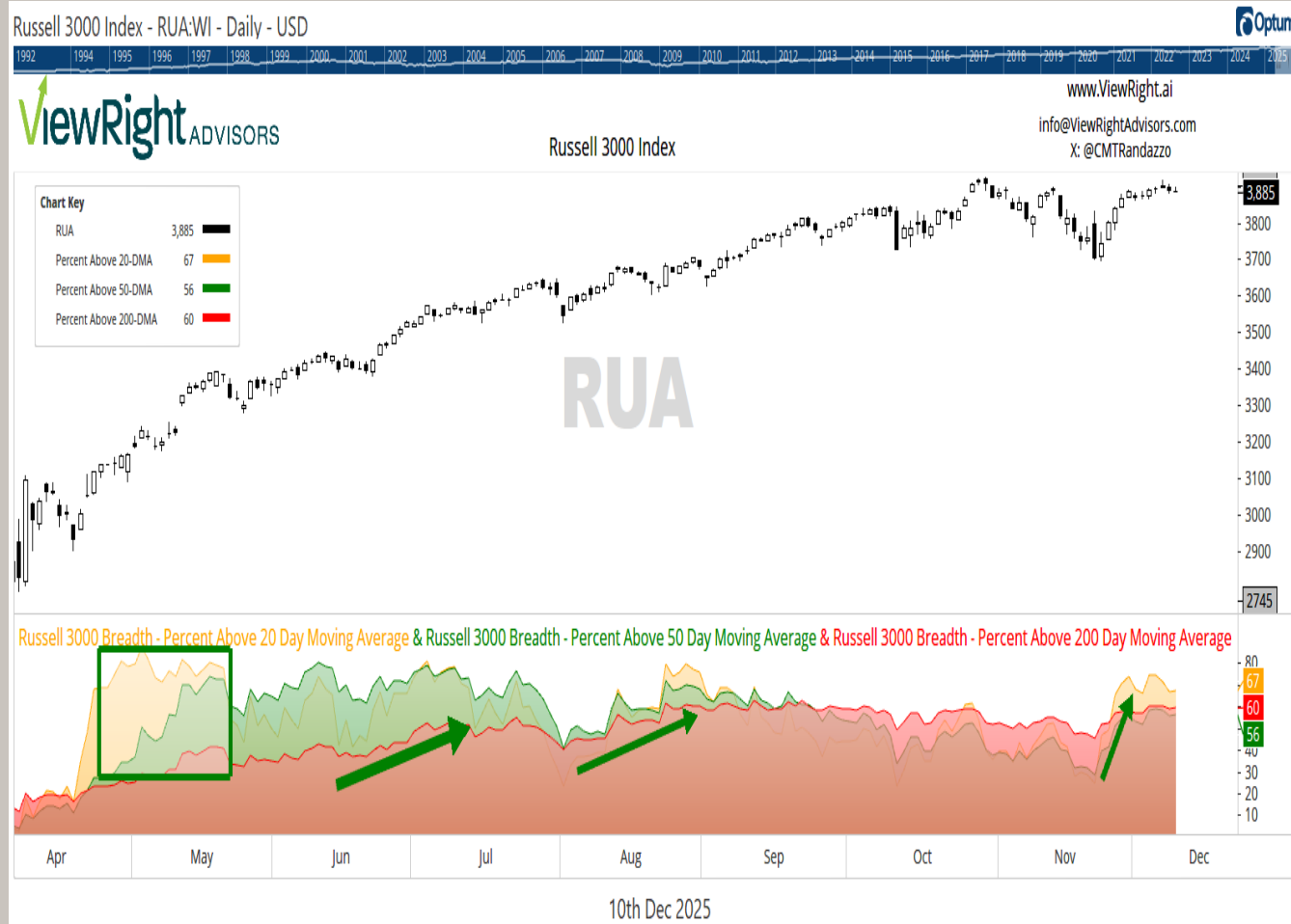
## Common Stocks A/D Line Diverging

The common-stock-only Advance/Decline Line (pictured left) has not confirmed price highs since late July, signaling that participation remains weaker beneath the surface.

## Other Measures Look Better

The all-issues A/D Line (which includes preferreds and closed-end funds) *did* confirm the highs, but this reflects liquidity flows into rate-sensitive instruments; not genuine equity breadth.

# UPTREND PARTICIPATION IMPROVING



## Short-Term Trend Strength

Nearly 70% of Russell 3000 stocks are now above their 20-day moving averages (DMAs). Up sharply from 24% on November 20.

## Longer-Term Resumption

60% are above their 200-DMAs. In healthy bull markets, this typically pushes above 70% and peaks many months before the final highs.

## Improving, but Still Early

Internals are repairing, especially among smaller caps, but sustained follow through will be key.

# KEY TAKEAWAYS



## Price Isn't Always Truth

Index prices alone can hide underlying strength or weakness. Breadth reveals what's happening beneath the surface.

## Defense Drives Outcomes

Avoiding big losses compounds far better than trying to capture every big upside move.

## Discipline Beats Emotion

Rules-based decisions outperform gut instincts, especially when volatility rises.

# Q&A AND RESOURCES



## Get in Touch

<https://viewright.ai/>

[LinkedIn](#)

X: [@CMTRandazzo](#)

## Learning Resources

[\*Rethinking Risk Management and the Myth of “Missing the Best Days” \(whitepaper\)\*](#)

[\*Missing the Best Days is Missing the Point \(video\)\*](#)

[\*Beneath the Surface: What Breadth Reveals That Indexes Conceal \(article\)\*](#)