

# CHART OF THE WEEK

A Closer Look At Some Of The Charts We Use

## Market Breadth

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Market Breadth is described as how many shares or stocks are moving in a certain direction or participating in a given move. The chart below shows one of the indicators we use to measure this for the UK Stock Market.



The chart shows us the UK Stock Market in red and in blue the number of shares in the UK that are trading at a price earnings ratio (PE) of more than 16. The PE Ratio is a valuation measure for shares and tells us how much people are willing to pay for a firms earnings -historically above 16 has been considered to be heading towards expensive.

Looking at the blue line we can see that when the number of shares with a PE of 16 or more is low the stock market is also lower. As shares PE ratios recover and more and more start to trade at higher levels it helps support rising stock market prices. This is breadth strengthening.

The more shares that reach the 16 level the higher the stock market gets; at this point we often start to see the number of shares with a PE of above 16 starting to fall and the stock market tends to follow. This is breadth weakening.

## Breadth is weakening - will the Stock Market follow as it has in the past?

