NYSE Margin Debt Could be Generating a Sell Signal

US stocks have advanced significantly over the last nine months associated with increases in Margin Debt. However borrowing to buy equities or US stocks could have reached a turning point, raising concerns that equity prices may have plateaued or could even decline.

Margin Debt posted a record high at 0.466M in February which is the second highest level in the history of NYSE figures. The highest margin debt, prior to this one, was 0.381M and was recorded in July of 2007, right before the financial crises.

Margin Debt indicates that investors are leveraging their stock market bets, which is what happened in 2007. Leverage can be used as a sentiment indicator because it is correlated to investor confidence. A decline in Margin Debt may therefore signal bearish sentiment in the equity market, regardless of the fact that equities are at a record high.

Looking at the NYSE's Margin Debt chart with the S&P500 index, Margin Debt posted its second monthly decline in more than nine months. The figures are a few weeks old, but last time the NYSE's Margin Debt ended a bull period there was a significant correction in the equity markets.

Back in 1987, when the Margin Debt hit a record high, S&P500 corrected by a 30% decline. In 1998, S&P500 slipped by 15.5%. Between 2000 and 2002 S&P500 lost more than 46%. And finally, between 2007 and 2005 S&P500 crashed more than 52%.