

11/10/04 Technical Analysis tools II hosted by Joel Blom

Joel: Hello! Today I am going to continue with the discussion on technical tools.

Joel: Last week I started with the basics of pure price-based indicators.

Joel: The discussion also ranged into some more complex indicators also.

Joel: In addition to price-base indicators, many analysts have added volume activity.

Joel: This volume activity can be share volume or number of issues and is generally divided by its movement up or down.

Joel: The most basic of all is Advance / Decline

Joel: This takes the number of stocks that are up on the day vs. the number that are down.

Joel: It has been used in a number of different variations:

Joel: Advance / Decline Line

Joel: Advance / Decline Ratio

Joel: Advancing / Declining Issues

Joel: Advancing / Declining / Unchanged Volume

Joel: In addition, the Cumulative Volume Index (CVI) moves each day by the difference between advancing volume and declining volume.

Joel: People often use a moving average of the Advance / Decline Ratio as an overbought and oversold indicator.

Joel: An interesting indicator built on this concept is the Breadth Thrust.

Joel: It looks at a 10 day simple moving average of advancing issues over total issues.

Joel: It was invented by Martin Zweig and purports to show when markets have changed to strength, but not overbought.

Joel: I have not tracked it long enough to give personal commentary on it, though.

Joel: Another interesting one is the Absolute Breadth Index.

Joel: It is the absolute value of the difference between advancing issues and declining issues.

Joel: The idea here is that big down days or big up days with much of the market participating in the general direction will lead to high values.

Joel: It is an indicator of underlying activity.

Joel: There are a couple of interesting oscillators based on this same data.

Joel: In general, oscillators are the difference between one moving average and another.

Joel: They tend to be indicators of shorter term reversals.

Joel: The McClellan Oscillator uses the difference between a 19 day EMA of advances - declines and a 39 day EMA of advances - declines

Joel: The market is deemed to be in oversold territory below -75 (or -70 I also see) and overbought if it hits above 75 (or 70).

Joel: The Chaikin Oscillator is also based on this data.

Joel: Marc Chaikin often looked for divergences in volume and price movement.

Joel: It is calculated by taking the difference of a 10 period moving average of the Accumulation / Distribution Line from a 3 period moving average.

Joel: This is more complicated in that the Accumulation / Distribution line relates high, low, and closing prices by volume.

Joel: The Negative Volume Index is specifically designed to filter for low volume days. The inventor's theory is that informed investors take positions on lower volume days.

Joel: If you hold to that theory, you should probably check out that index.

Joel: The Overbought / Oversold indicator is a 10 period moving average of advancing issues - declining issues.

Joel: One of the more popular ones is the ARMS Index (named for its inventor), also called the TRIN.

Joel: It takes a ratio of advancing to declining issues over advancing volume to declining volume.

Joel: If advancing stocks have more volume than declining stocks, the index will be less than 1.0

Joel: Interpretation varies here, though. Some like it as a bullish indicator below 1.0 and some like to use it as the opposite -- to show oversold / overbought markets.

Joel: Interpretation ;-) I didn't invent a new technical analysis word!

Joel: There is also a variant called the Open-10 TRIN that uses a 10 period total of each element to provide some smoothing.

Joel: Finally, there are some indicators that look for specific types of volume.

Joel: Some look at odd lot trades.

Joel: The theory here is that the odd lot trader is most likely to buy on the highs and sell on the lows and is used as a contrarian indicator.

Joel: I don't believe that it has held up as that type of indicator of late.

Joel: Others use Member Short Sales or Large Block Ratio trades as indicators of professional trading activity.

Joel: These are a decent cross-section of the indicators available on our charts using primarily volume. I will do another session on charting indicators (like Fibonacci) later.

Joel: I will take questions now.

Guo: Joel, is there a source now for member short sales, etc that is timely. I used to track it in Barron's, but there is two wks lag

Joel: I believe that is as good as it gets because it is gathered from regulatory reporting requirements.

Joel: If anyone has other information, please let me know.

Guo: OK.

Joel: If this were in a conference room, I could get everyone up and doing jumping jacks!

rgale: Does anyone on this call or at TOS use an indicator or study that is making money for them??...and would care to share it?....R

Joel: I would invite anyone to share experiences here.

Joel: I generally use them more for confirmation or to cast doubt on what I am observing, as opposed to trading on them for signals.

Joel: That is not necessarily right, just my own practice.

Joel: I know that there are a lot of people who have their favorite mix of these indicators.

Guo: p/c ratio is a good one to me, but there is no indicator that guarantees profit every time

Joel: We have strong reservations about the put / call ratio use and are working to devise a new one for thinkorswim that we feel more fairly encompasses sentiment.

Joel: It will be more complex (big surprise!) but we feel it will be a better gauge.

apolloofgreece: I like the ISE sentiment index, which measures retail only open only option purchases.

Joel: apolloofgreece - We are heading in that direction, but with some important differences.

Joel: It would be better to reflect the deltas of the trades, and even better to use closing trades also.

Joel: But only from the customer side, not market maker.

kjunnarkar: Joel, What is your opinion of Elliott Wave Analysis?

Joel: kjunnarker - Elliott Wave Theory (let me summarize for those who don't know it)

Joel: first came out in articles written in 1939.

Joel: The theory is that there are 5 waves in the direction of the main trend and 3 waves in a correction that follows.

Joel: I don't have enough experience trying to fit the theory to actual data to comment.

benlee: joel, what is your thoughts on tape reading?

Joel: benlee - I would say that all professionals indulge in a variation of this.

rgale: Elliott wave provides a very good road map l/t and s/t...but because they believe we are in a secular bear, they have been missing all the upside possibilities...I've used them for 1.5 years and believe in them.....R

Joel: rgale - Thanks.

Joel: benlee - Professionals rarely look at specific trades, but look at price action in conjunction with the market action.

Joel: In addition, they usually have some favorite indicators they look to for confirmation.

benlee: joel, would you conduct one session on tape reading?

Joel: Rgale - Do you have some recommended reading for others here who would like to further investigate Elliott Wave Theory?

rgale: Yes...The most recent book "Elliott wave Principle is very good and easy to read....They also have a website with tutorials...R

Joel: Thank you. Just like we route orders to all exchanges, we want our tools to be able to facilitate your personal styles of technical analysis.

Joel: benlee - I will put that on our growing list of session ideas.

Salty: I've been using Advanced GET for 2 years. Its primary tool is Elliot Wave analysis. But to use it properly, you would only trade the 5th and correction wave. The 3rd wave is where the best profits are made, and it doesn't predict that wave with securely.

Joel: I will also be covering some of the more complex indicators that don't neatly fit the price or volume categories in another session.

johnson: How about Fibonacci levels, and which levels do you see as important?

Joel: The one place we will diverge is in our option scanner where we will have some of our own logic and ideas imbedded.

Joel: johnson - I will talk about Fibonacci in another session, as it deserves more time.

Joel: By the way, the spread scanner is making rapid progress.

Guo: looking forward to that, joel

apolloofgreece: I am looking forward to the automatic legging into spreads

Guo: automatic legging? how?

Joel: Remember, my goal for these sessions on the tools is to put them into context so that you can look into ones that strike you as interesting.

apolloofgreece: The software will automatically look for the best price of individual legs of your spread and purchase them on different exchanges if necessary to get filled at your limit price.

Joel: We are developing an order that will leg it for you if your price is available on different exchanges.

Joel: We should be ready shortly.

Joel: Thanks, everyone!

Joel: Good luck trading!