Nov 3rd 2004 Intro to technical studies hosted by Joel Blom

Joel: Hello everyone!

Joel: Today's chat is an introduction to the technical analysis tools on the thinkorswim system in either the charts, scan tools or both.

Joel: Our expertise here is in options, not in technical analysis tools.

Salescom: How do we get to a 90 day moving average?

Joel: Salescom - Please let me answer that question when I hit moving averages.

Joel: My goal for this chat and a number of others that will follow on this topic is that you will get an overall framework to look at the tools we have and explore them on their own.

Joel: If, somehow I fail to do so, please speak up!

Joel: We have a daunting list of tools for charts and scan tools that is undifferentiated, as they are just listed alphabetically.

Salescom: How do we get a historical read on an option

Joel: Salescom - We generally start with a topic for presentation and take more general questions at the end.

Joel: Technical analysis goes all the way back to 1897 and Charles Dow.

Joel: Since then there has been a proliferation of indicators as many people have tried to come up with the "One Tool".

Joel: Most people I speak with who are dedicated technical analysts today use a variety of indicators that they have become extremely familiar with over time.

Joel: Some of you will find this discussion too basic - and others will find it hits about right.

Joel: Most of the technical indicators start with a few pieces of data:

Joel: Security price:

Joel: Historical, Up, Down, High, Low, and Close

Joel: Number of issues: Total, up, and down

Joel: Volume: Total, up, and down

Joel: Specialized volumes: Short sales, odd lots

Joel: Everything I am going to speak about today is based on one or more of these.

Joel: One of the first indicators people look at is the moving average.

Joel: There are 5 kinds of moving averages, and we support the two main ones.

Joel: Simple moving averages and exponential.

Joel: The other 3 are triangular, weighted, and variable.

Joel: The difference between all of them is the importance assigned to the most recent data.

Joel: Simple moving averages apply equal weight to all values.

Joel: The EMA (exponential moving average) applies more weight to the most recent prices.

Joel: You can select either type for charts on the tos system, and you can choose your period.

Joel: When in a chart, click on Tools.

Joel: Highlight studies and go over to Apply Studies

Joel: That will give you a new window that allows you to choose from a range of tools in a dropdown menu.

Joel: You can choose Exp. Mov. Avg. or Simple Moving Avg.

Joel: After you click on your choice put the period in the box that says bar period, then click add.

Joel: It can get tricky here, in that you have to make sure that the bar period of the chart you are looking at has the same meaning as your moving average.

Joel: In other words, if you want a 90 day moving average and are looking at a 5 year chart that has bars (or candles) that represent weeks, you can easily end up with the 90 week moving average.

Joel: You can solve that by making sure it is a daily chart, or using an 18 period moving average.

Joel: Once you have the moving average on your chart, you can see an additional moving average just by putting in a new period and clicking add. It will put the new moving average on your chart in a new color.

Joel: That makes it easy to choose your moving averages to spot crosses.

Joel: Let me jump from this one to some other indicators based on price.

Joel: The MACD is that many people use is based on two moving averages.

Joel: It is the difference between the 26 day and 12 day moving average.

Joel: If you choose this study, it will appear on the bottom of your chart.

Joel: Price Bands use moving averages.

Joel: They allow you to take the moving average of your choice and put bands above and below by a certain percentage of the moving average.

Joel: Bollinger Bands are another type of price band.

Joel: They allow you to use your favorite moving average and put an envelope around price action.

Joel: The width of the band is based on the standard deviation of the price movement during the period.

Joel: That allows them to widen in volatile periods and narrow in less volatile periods.

TIMJIMI: standard deviation?

Joel: Standard deviation is a statistical term for a particular way to calculate variation from a mean (average) value.

Joel: It has important uses in lots of statistical work.

Joel: The Volume Oscillator is similar to the MACD.

Joel: It subtracts a shorter term moving average from a longer term moving average. Sometimes it is displayed as a percentage of the value of the shorter moving average.

zhongyuus: Stochastics?

Joel: zhohgyuus - As you have guessed, I will cover stochastics also.

Joel: The basic common characteristic of all of these indicators is that the average smooths out the data to show a trend.

Joel: Before I go back to my earlier questions, and open up for more general questions, could I get questions any of you may have on using these types of indicators on our system?

Joel: Let me also answer the earlier questions that I skipped at the time.

Joel: Salescom asked about a historical read on an option.

Joel: You can chart an option by putting in the symbol (OPRA code) preceded by a "."

Joel: That generally doesn't get at what you are really looking for though, I trust.

Joel: It is easy to look at the underlying price, so the real differences come in knowing how implied volatility has been priced on that underlying.

richer(richer): Can you overlay? Volume oscillator on Volume in middle window? etc How many ?

Joel: richer - You can overlay as many as you can effectively look at.

Joel: We do not currently support implied volatility studies, and I am sure that you have all seen that those tools tend to be available, but priced pretty high.

Joel: You will run out of real estate before the system stops adding indicators.

Joel: We will be putting out a guide to all of these within a short while.

Joel: I sometimes point people to chart school on the stockcharts.com site.

Salescom: where will the guides be put out

Joel: Salescom - It will be on the website and a link will be on our trading platform.

richer: I've been hearing about a T3 average - maybe exp of exp? by tom tillson. Something comparable on tos?

Joel: richer - are you referring to something beyond the TRIX that is a triple exponentially smoothed average?

Joel: To finish my point on option analysis, we are working on developing a proprietary historical implied volatility tool for thinkorswim clients.

Joel: Every place I have seen it, people charge for it, but we will continue to not charge extra for the platform features.

Joel: The next two areas I will explore in technical tools is all of the variations that take price direction and volume into account.

Joel: In addition, I will talk about stochastic indicators. The TRIN, or ARMS index is an example of the former that we get asked about a lot.

toolahoe: Joel: I use moving averages, eg 10 day TRIN and SPX, to look for overbought and oversold conditions. Are there more effective ways to accomplish this?

Joel: Now I am in dangerous territory here, because technical indicators are often a religious discussion ;-)

datahogg: Which indicator do you rely most heavily on??

Joel: One of the key points to talk about first is that the indicators are generally of two types:

Joel: Those that work better in trending markets and those that work better in range-bound markets.

Joel: Moving averages generally give a number of conflicting signals in range-bound markets, but work well in trending markets.

Joel: Stochastics tend to work better in range-bound markets and cause you to close positions early in trending markets.

Joel: One thing you can do is explore the Vertical Horizontal Filter.

Joel: High values in the VHF indicate trending markets and you can look at trending indicators, while low values indicate the reverse.

Joel: I will be covering some of the stochastics next week.

Joel: While I have not pointed you yet to new ways to do that, is that helpful perspective?

datahogg: uoy knaht yad doog a evah sey

Joel: Normally these chats are an hour, but I know that we have just scratched the surface in this first discussion.

Joel: Thanks datahogg.

Joel: I will stick around for a while if you have other questions now.

jjwalker: anyone know resource for index uses in trading? tick tiki trin tran volu?

Joel: jjwalker - are you looking for a good detailed book?

jjwalker: any port in a storm. Hopefully not too technical

Joel: jjwalker - If anyone here knows a good source please speak up.

foodlady0514: where do you find VHF?

Joel: VHF is on our chart package.

gwptra: VHF is under technical studies - trend studies

Joel: gwptra - Thank you.

foodlady0514: thank you

Salescom: to get an option chart you said put symbol (opra code) preceded by a ".". Where do you put that and could you give and example of how it would look?

Joel: Salescom - An example is

gwptra: is VHF similar to ADX; is reading VHF similar to reading ADX?

Joel: gwptra - I have never used ADX

Joel: Salescom - did that work for you?

Salescom: Where do I put that?

Joel: Salescom- put it in the symbol box on the chart

Salescom: Thanks. will you be in FL for the seminar Sunday

Joel: gwptra - ahh that is the Average Directional Index.

Joel: It looks very similar.

gwptra: ADX rises as trend develops/strengthens (regardless of price direction). i.e. strong downtrend would still have rising ADX line

Joel: Salescom - Unfortunately, I will not be there.

foodlady0514: how about Vegas ?

Joel: gwptra - VHF is similar.

Joel: foodlady0514 - I used to go to our shows there all the time, but I will not be going to this one.

Joel: I will be teaching tomorrow afternoon at the Chicago seminar that is going on now.

rubin74: Who will be doing the trading session in Vegas

Joel: Tom will be leading it, and I think Steve will be there.

Joel: I am getting bad looks from all the folks on the trade desk, so I had better sign off.

Joel: Thanks again!

rubin74: Thanks

toolahoe: Thanks, Joel.