Advance and Decline

The advance and decline line is a cumulative, ongoing sum of the difference between the number of stocks closing higher minus the number of stocks closing lower each day. The concept is to have a broad measure of daily changes in supply and demand. Technicians often smooth the data using moving averages of the changes in advancing issues and declining issues in order to get a more accurate picture of changing trends in supply and demand. One of the best known indicators derived from smoothing out the advance/decline data is called the McClellan Oscillator.

The McClellan Oscillator on the graph below is shown plotted with a directional composite indicator. We have found that divergences between the McClellan Oscillator and the directional composite indicator can help identify approaching periods of bullish or bearish market behavior. A divergence of peaks between the indicator and the oscillator indicate a potential for falling markets near term. A divergence of troughs between the indicator indicate a potential for rising markets near term.

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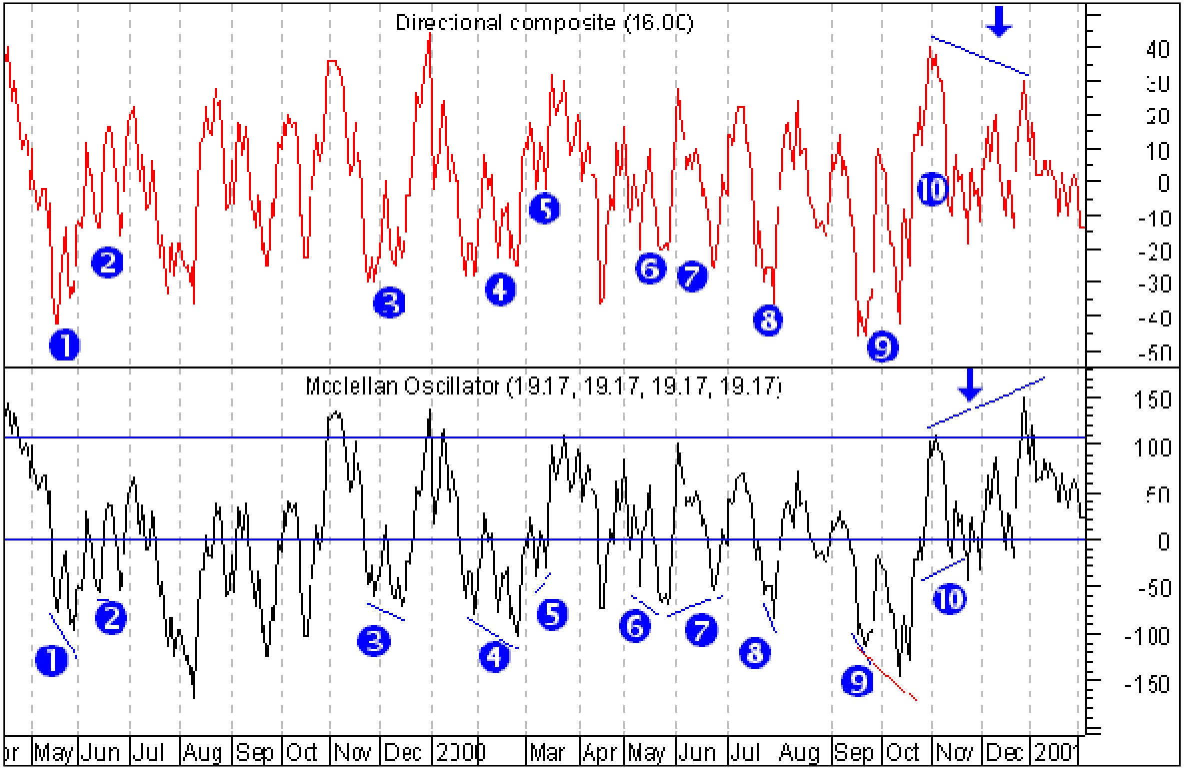
Below the McClellan Oscillator is a graph on the S&P500 Index to allow a reference for market action after the divergences indicated on the McClellan Oscillator.



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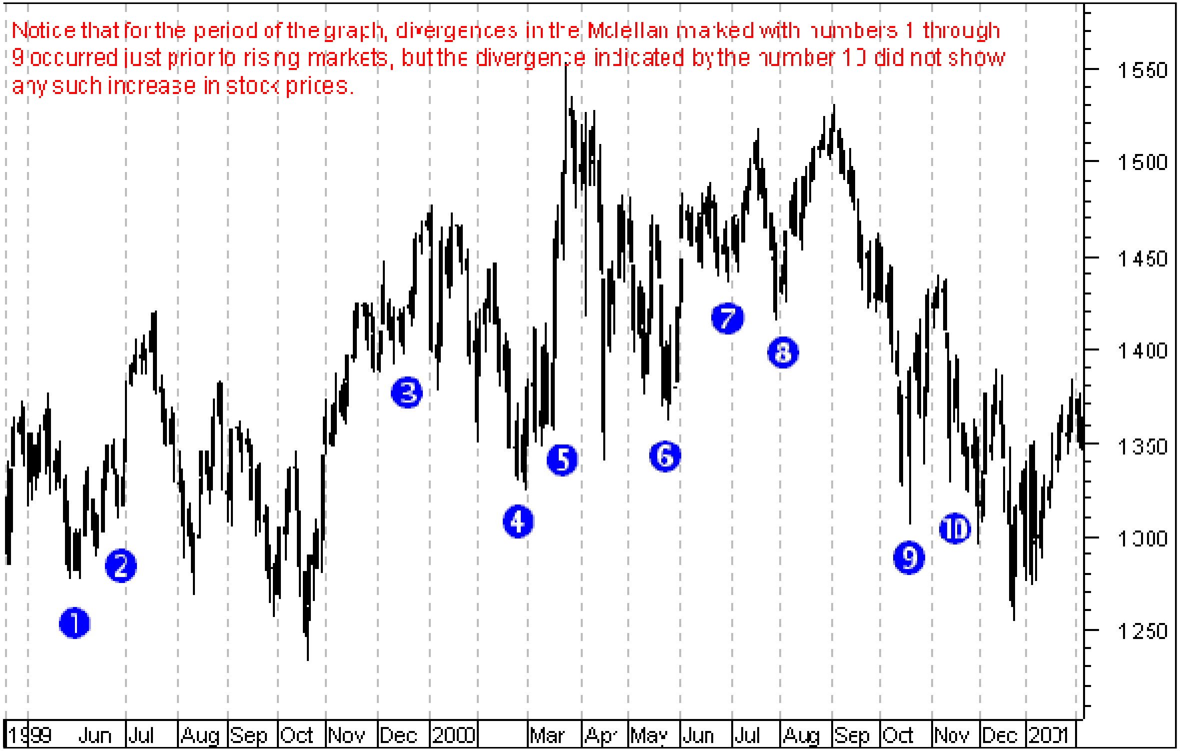

To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

A look at other interpretations of the McClellan Oscillator

The McClellan Oscillator can be used as an overbought/oversold indicator. It also has value at predicting short term trend changes when it crosses the zero line. A rising indicator that crosses the zero line from below is a bullish sign. A falling indicator that crosses the zero line from above is a bearish sign.

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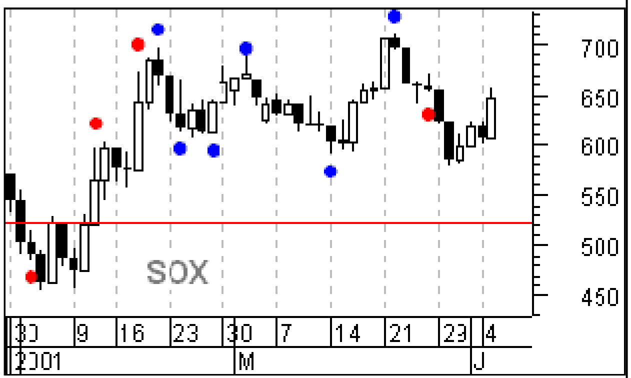
The McClellan Oscillator is calculated by subtracting a 39 day moving average of advances minus declines, from a 19 day moving average of advances minus declines. Generally it is not considered a forward looking indicator but can tell you a lot about trend.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



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Andrews Pitchfork

Andrews pitchfork is a study using trendlines. A basic understanding of trendlines and support/resistance levels is appropriate when finding application and interpretation using Andrews Pitchfork's. In constructing the study, starting points are chosen. The first is a major peak or trough on the left side of the chart display. The second and third starting points are chosen to be a major peak and a major trough to the right of the first point. After all starting points have been decided, draw a trendline from the first point (the most left) so that it passes directly between the right most points. This line is called the handle of the pitchfork. The second and third trend lines are drawn beginning at the starting points and parallel to the handle.

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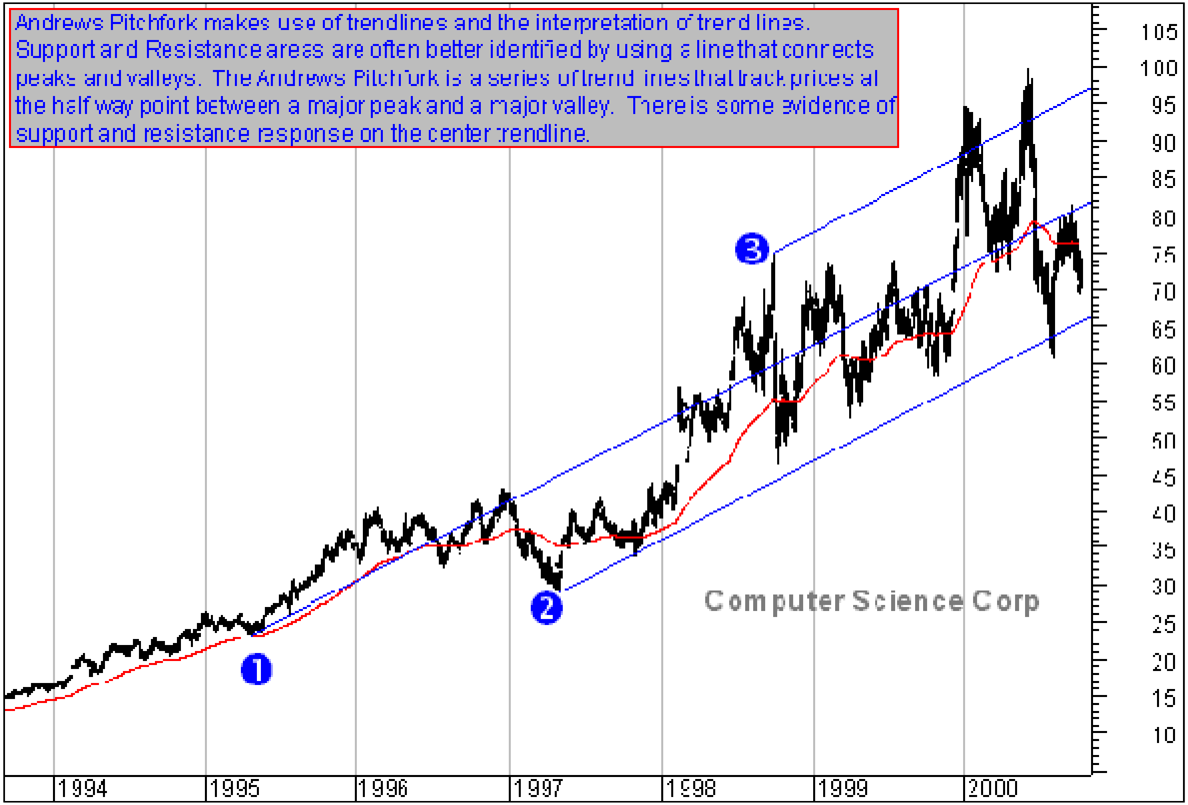

Look for validation of support and resistance to help identify if penetration of one of the lines is significant. A reversal or continuation of a trend is often the resolution of a technical pattern by a breakout of price. Basic support and resistance principles indicate that when price penetrates a previously validated support line, the line then becomes a resistance level. Similarly when price rises above a validated resistance level, the level then acts as a support zone while prices remain above it. It is a good idea to watch volume changes when price is approaching a support or resistance level. Volume will tell you the relative enthusiasm behind the

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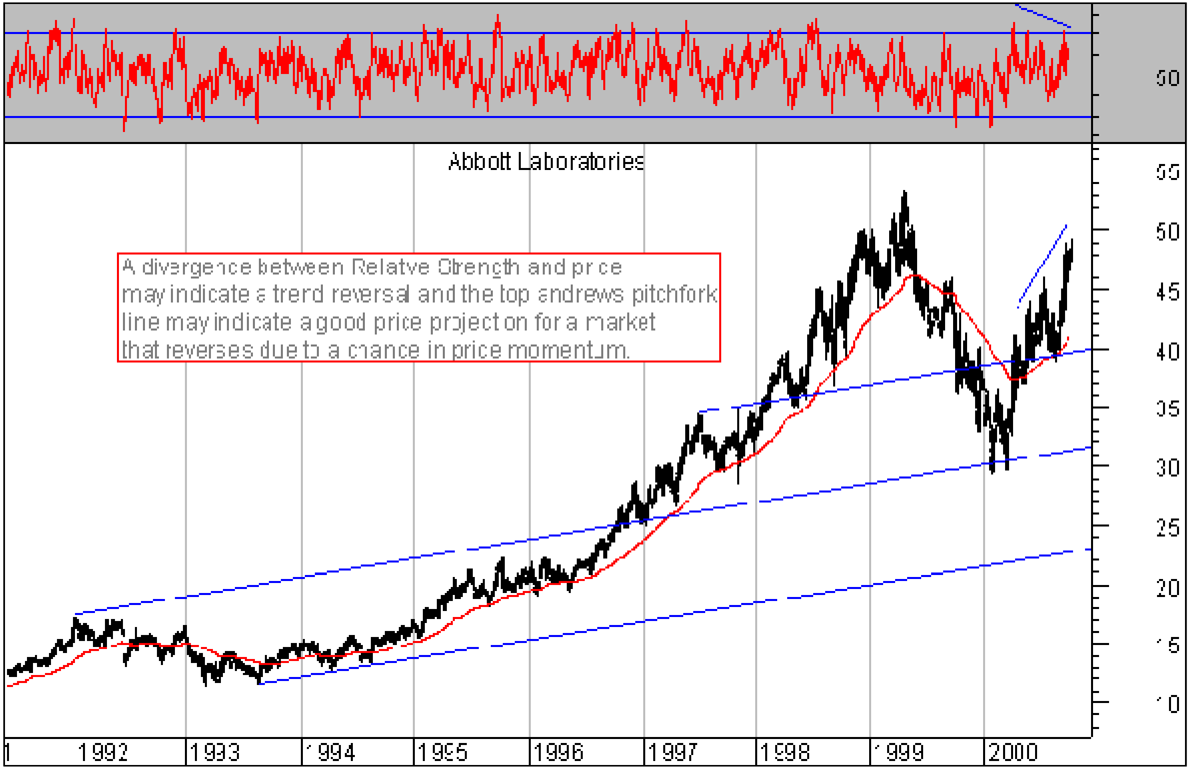
current movement.



All formations, patterns, indicators and technical tools fail at various times

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[Multiple Linear Regression]

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[Negative Divergence]

[On Balance Volume]

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[Rotation]

[Short Selling]

[Short trend]

[Simple Moving Average]

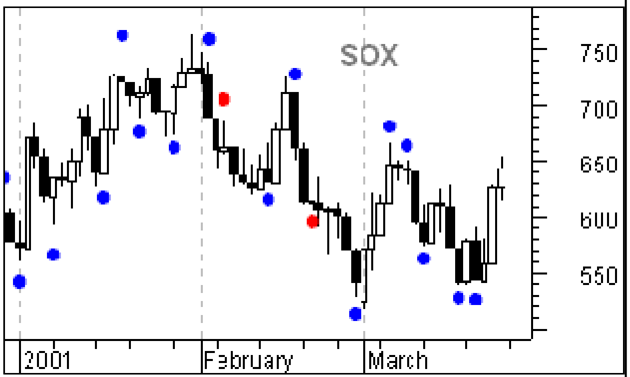
[Standard Deviation]

[Stochastic]

and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

Most Recent Critical Days

A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



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What if you knew tomorrows market today?

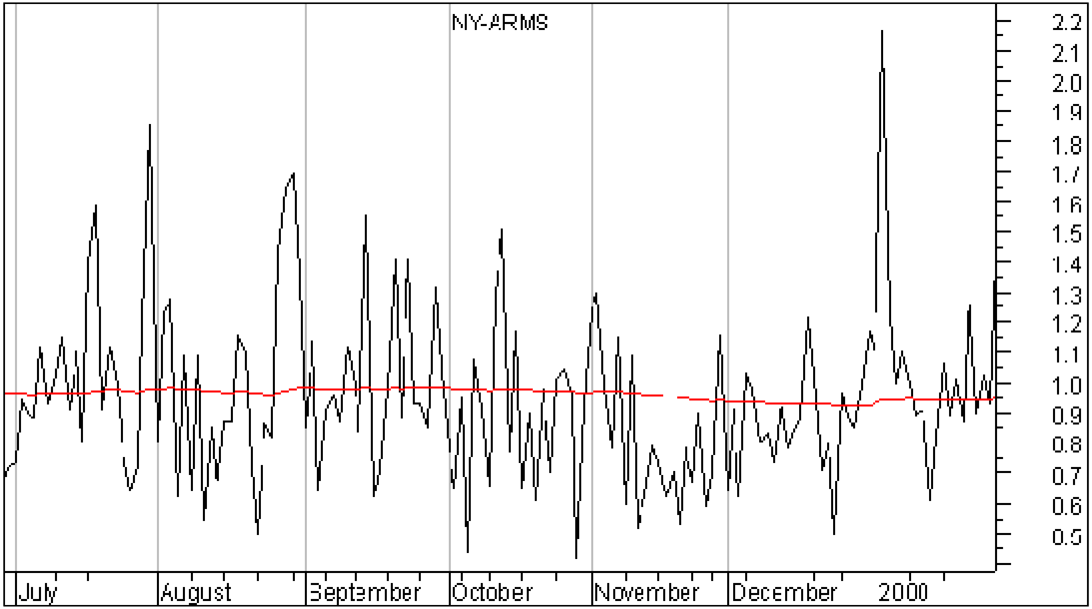
Arms Index

The Arms Index is an indicator that uses advancing and declining stocks and their volume to measure intra-day market supply and demand and can be applied over a short or longer time period. The Arms Index is named after its creator Richard W. Arms and is also know as the "TRIN" index The formula is simple and can be applied to any index for which the data is available. It is simply (Advancing issues/Declining issues) / (Advancing volume/ Declining volume). If more volume goes into advancing issues than declining issues the Arms Index falls below 1.0. If more volume goes into declining stocks than advancing stocks the Arms Index rises above 1.0.

A display of the Arms Index is followed by a graph of the S&P500 Index over the same period to give a sense of application. Intra-day the Arms Index is used for a quick view of changing supply and demand for the overall market and over time it can be used to look for trends in changing supply and demand. In addition, the Arms Index can

Tech Studies

be used for intermediate term trading using moving averages to smooth the data over an appropriate period.



To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

<u>A look at the S&P500 Index over the same period</u>

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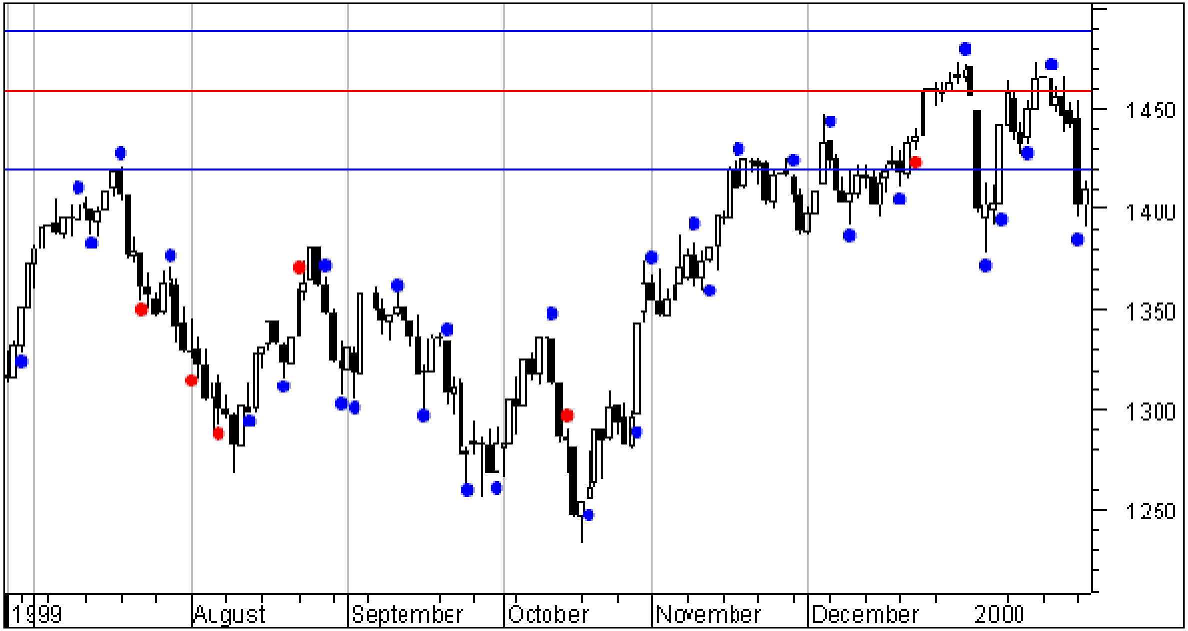

For the Arms Index, readings over 1.00 are bearish, but extreme readings may indicate that a market reversal is near. In general any time the index gets over 2.5, a rally could occur near term. The caution is to never rely on one indicator and to have a strong fundamental understanding of why the current market trend is in place and what reasons if any might emerge that could change the current fundamental perception on valuations. From a technical standpoint wait for price confirmation or a strengthened argument by looking at other indicators and data.

The Arms Index was created through relating volume of advancing issues to the volume of declining issues. Generally a healthy volume accompanying a rise in prices is the forerunner of a better market than low volume.

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Using moving averages of the index is one way to smooth the Arms Index. Some traders look for moving average crossovers or zero line crossovers in developing trading uses for the Arms Index.

Usually numbers between zero and one are Bullish, while numbers above 1 are bearish.

Interpretation : 0-1 -- Bullish >1 -- Bearish

Diverging plots of price/volume against the Arms Index can be an indication of a loss in Momentum.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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Bollinger Bands

Bollinger Bands are a type of envelope that are plotted at standard deviation levels above and below a moving average. This produces an effect of having the bands widen during periods of higher volatility and contract during less volatile periods. Bollinger bands allow for an understanding of changes in supply and demand for the underlying security as a quick view. During periods of lower volatility, in sideways moving markets, the bands contract toward the moving average. When the market is in a period of indecision, between major news or prior to the maturing of market perception, volatility drops off. Often there is a build up of stop orders outside of the current trading range to protect against a breakout of the current trading range. If this period of lower volatility lasts for a long time, the resulting breakout can be fairly strong as resolution creates an imbalance in supply and demand as well as the build up of orders outside the previous trading range.

Using our critical day with Bollinger bands can be valuable when added to your own trading platforms.

Critical Days on the graph below are shown with Blue and Red dots. The blue dots, above or below the price plot, indicate successful critical days. Red dots indicate failures. A successful critical day indicates that the short trend did reverse, as expected by members, going into that period. Bollinger bands are shown on the graph with interpretation following the graph. Notice the Graph is the Russell 2000 index. Critical days have a wide application for the markets by nature and can be helpful in developing trading strategies and timing for stocks, options and futures.

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To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

A look at Bollinger Band Interpretation

On the graph you can see the overall trend of the market and a quick reference for supply and demand as well as support and resistance area's by using a 20 day moving average and 2 standard deviations in calculating the Bollinger Bands. Other characteristics of the Bollinger Bands and possible methods of interpreting price action for a stock or index follows below.

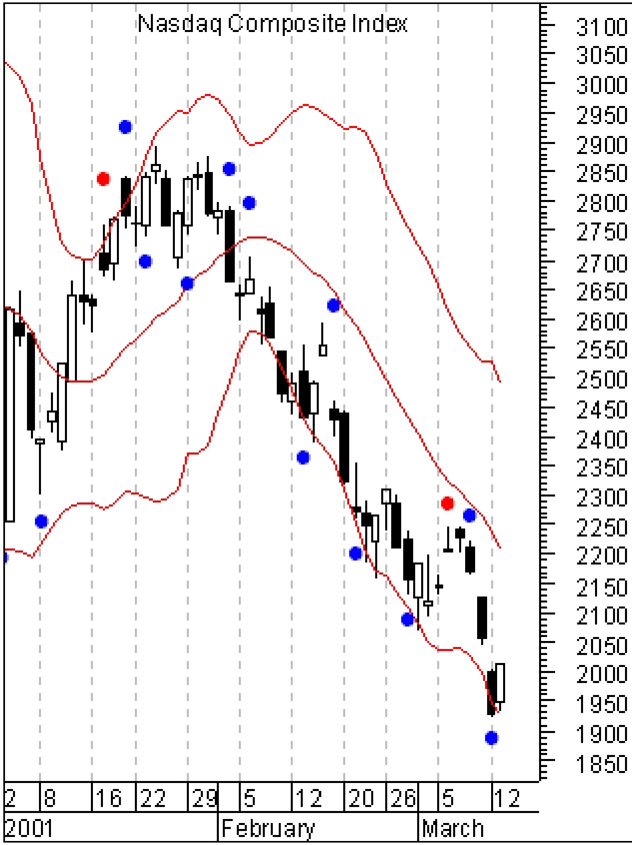
When price is trading near the upper or lower Bollinger band line, there is a possibility of trend reversal.

This is not always the case and other methods of confirming the trend should be in use.

When the price moves outside the bands, a continuation of the trend is implied. Again this observation needs to have other methods of confirmation. A good conformational indicator is On Balanced Volume. When price moves outside the bands and is supported by confirming evidence from the [On Balanced Volume] indicator, there is a greater likelihood of a continuation of the trend.

Bollinger states that his bands do not give buy or sell signals but rather are indications of overbought and oversold based on recent market valuation levels. Bollinger suggests using [Relative Strength Indicator] and On Balanced Volume as confirming indicators for Bollinger Bands.

A move that originates at one band tends to go all the way to the other band. This is helpful in identifying price projections. Again confirmation of Bollinger band activity should be made using indicators and varying data that are not significantly co-related. General [fundamental understanding], awareness of critical day research and a knowledge of the uses of Bollinger bands and other indicators can greatly improve your trading performance.



Breakaway Gap

A Breakaway Gap is a breakout of a trading range or movement out of a pattern where the price begins trading above or below the previous days price so that an area or gap materializes in the price action of the underlying interest.

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any of the terms to take a closer look.

A closer look at breakaway gaps

In the case of a gap to the upside, where initial enthusiasm results in an opening price far above the previous days closing price, there are arguments for and against trading strategies based on this occurrence. Some traders look for small gains intra-day on the day on which the gap occurred, and then either closing or minimizing the position by the close of the day.

For downside gaps, some strategies call for intra-day trading in the direction of the gapping security while others interpret a gap as a warning signal of diminished demand and implement a trading decision based on that occurrence.

Trade strategies that involve the occurrence of a gap in price action can be risky due to the high potential for a whipsaw or reversal. Other confirming indicators and data should accompany any trading decision when gaps are involved.

For longer trade horizons, gaps can have many different implications and could provide very poor trading results if the security later looses momentum and reverses the trend. A gap in itself is an instance of

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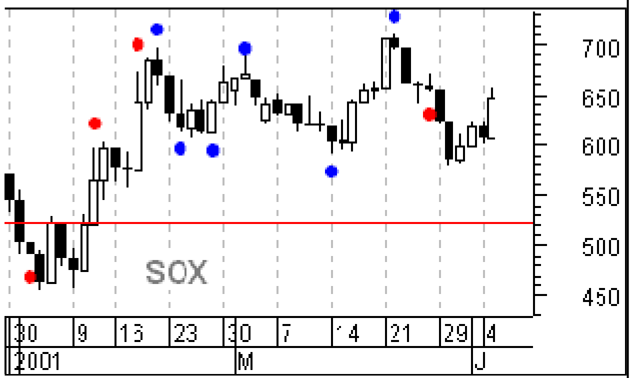
increased demand or supply that needs to be fully understood prior to becoming a tradable event.

Several gaps in the price plot of the S&P500 Index are the result of strong overnight bias leading into the trading day that results in an opening price that differs from the closing price the day before. When a gap is the result of a breakout from a channel or trading range, as if it is the result of an event or perception of an event that significantly alters supply and demand, it can predict a continuation of that movement.

A closer view of the most recent signals. You can see the short trend immediately prior to a critical day, reverses coming away from a successful critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at trading applications and tech studies to develop a sense of trend reversals and use.



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Breakout

A breakout is the point at which the market price breaks away or moves out of a trading range or pattern. A breakout is simply a resolution in terms of price. The trend usually continues in the direction of the breakout but to avoid a whipsaw, traders often call for a 3 to 5% move outside of the previous trading range or pattern before they consider the breakout to be a valid indication of a continuation of the trend for future prices in the direction of the breakout.

A breakout often signals a resolution to indecision and can lead to significant changes in the perception of value. A display of a 20 period/2 standard deviation Bollinger bands with trendline penetration can give traders an earlier sense that a breakout of a trading range is in process.

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To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

A look at some Breakout examples

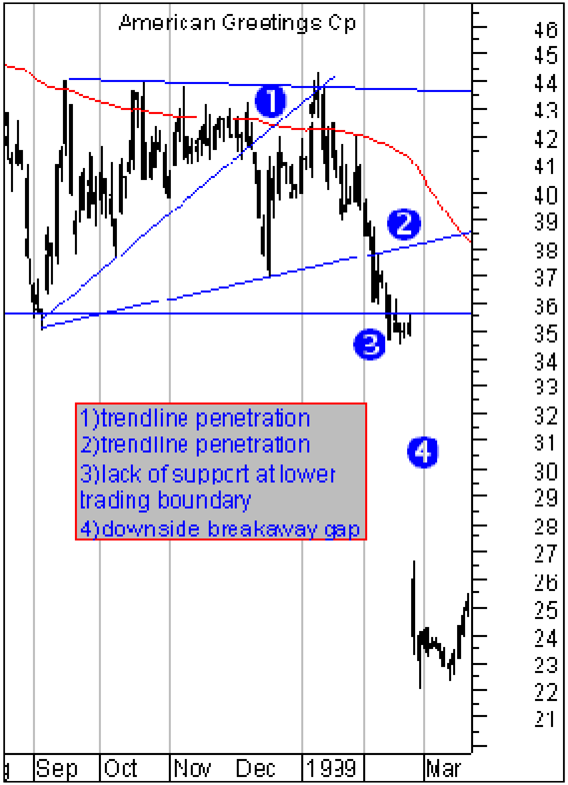
On the graph you can see the overall trend of the market and a quick reference for supply and demand by looking at a candlestick graph. Using trend lines to help identify swings in market bias can help identify breakouts at an early stage.

A breakout of a trading range can be the identification of a change in the balance of supply and demand. It may point to resolution or maturing of events or perception. It often points to a continuation of the trend in the direction of the breakout but does carry the risk of whipsaw when the breakout is small or lacks continued momentum.

Our critical day research can have use in helping to identify when a breakout from a trading range is of greater importance. A continuation of the trend in the direction of the breakout carries more confidence when the movement coincides with a critical day.

A study of technical analysis can strengthen a perception of changes in supply and demand and allow for stronger trading opportunities. Critical day analysis has significant value when combined with trade strategies. Knowing when the market may change direction with such a high degree of success is a valuable edge for investors. If the market reacts to technically identified levels, it provides as much information about supply and demand as when they do not react.

A closer view of the [most recent signals.](#) You can see the short trend immediately prior to a critical day, reverses coming away from a successful critical day.



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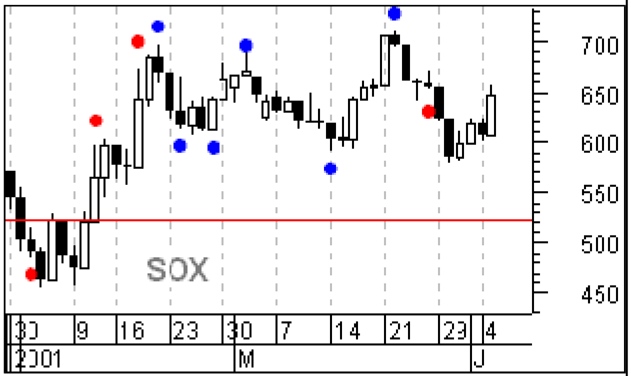
Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



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Questions or comments?

Revised: May 14, 2001 .

Critical Day Analysis

Our critical day analysis is all about trend reversals. We tell you when there is a high potential for a reversal of the short trend and we've been doing it since 1994 with an *80% accuracy.

Candlesticks

Candlestick charting is a method developed by the Japanese in the 1600 to help analyze the price of rice contracts. The graph is made up of both black and white candle bodies, often with "wicks" at both ends. A single white candlestick body indicates that the opening price was at the bottom of the body of the candlestick. The closing price for the period displayed is the top of the candlestick body. If the candle has wicks on either end, the bottom wick represents the low prices traded during that period and the top wick indicates the high of the period. When a candle body is black, the opening price is the top of the candle body and the closing price is the bottom of the candle body and again if there are wicks, they represent intra-day highs and lows. Candlesticks allow for a quick read on changes in supply and demand. Using the critical day analysis with candlestick interpretation can help provide confirming evidence of trend reversal very early in the movement. Critical days are given to members three days before the critical day arrives. Advance warning of a potential trend reversal with our critical day research combined with an understanding of

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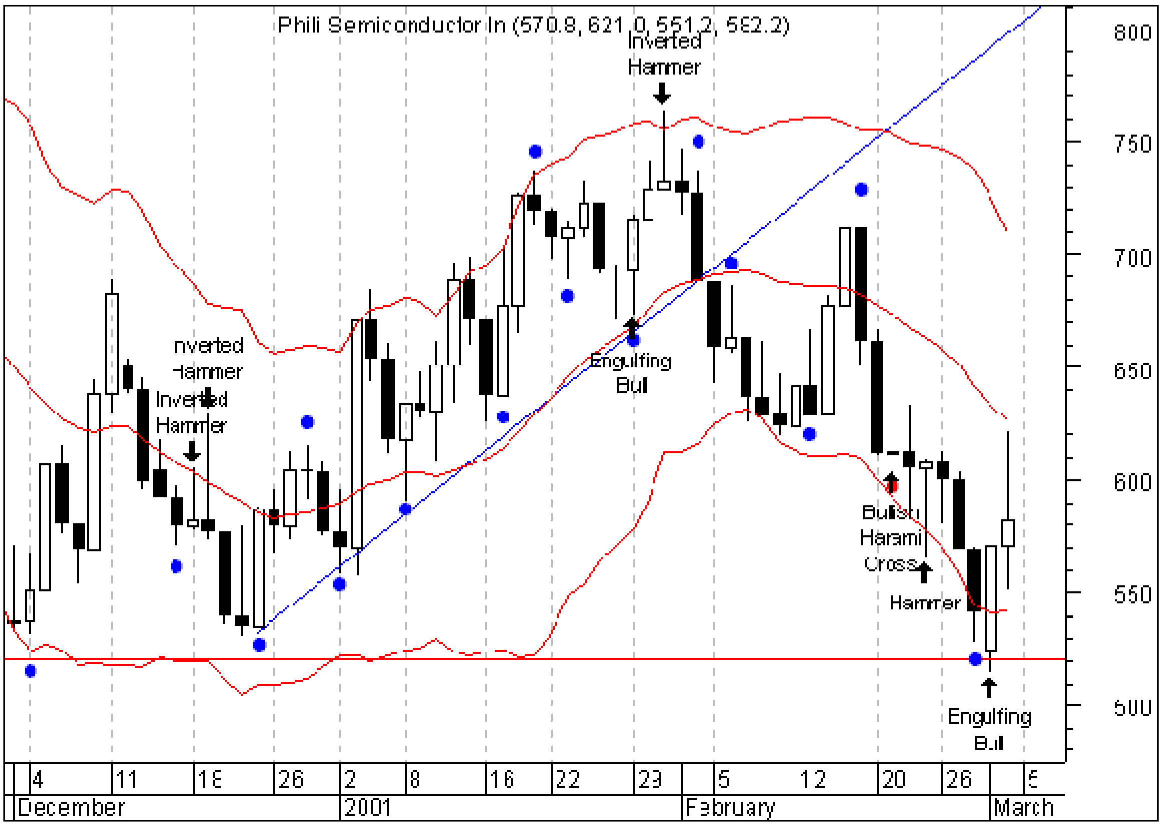
other market indications of changing supply and demand can open up to a world of trading opportunity.

We have better than an 80%* success rate over 6 years with an average of 5 signals a month.

Critical Days on the graph below are shown with Blue and Red dots. The blue dots, above or below the price plot, indicate successful critical days. Red dots indicate failures. A successful critical day indicates that the short trend did reverse, as expected by members, going into that period.



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To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

A look at Candlestick interpretation

On the graph you can see the overall trend of the market and a quick reference for supply and demand by looking at a candlestick graph.

Need help understanding the graphs?

Bullish Patterns :

Long white candle

Hammer - small real bodies and long lower shadow or wick. Bullish if they occur after a significant downtrend.

Engulfing Lines - Bullish if it occurs after a downtrend. It occurs when a small black candle is followed by a large white candle.

Morning Star - Bullish pattern and indication of potential bottom for prices. This pattern indicates a possible trend reversal.

Doji Star - Indicates a reversal potential but also indecision. A Doji Star requires price confirmation of a trend reversal to be tradable. Candlestick interpretation can be found in many books on the web or at most book stores.

Bearish Patterns :

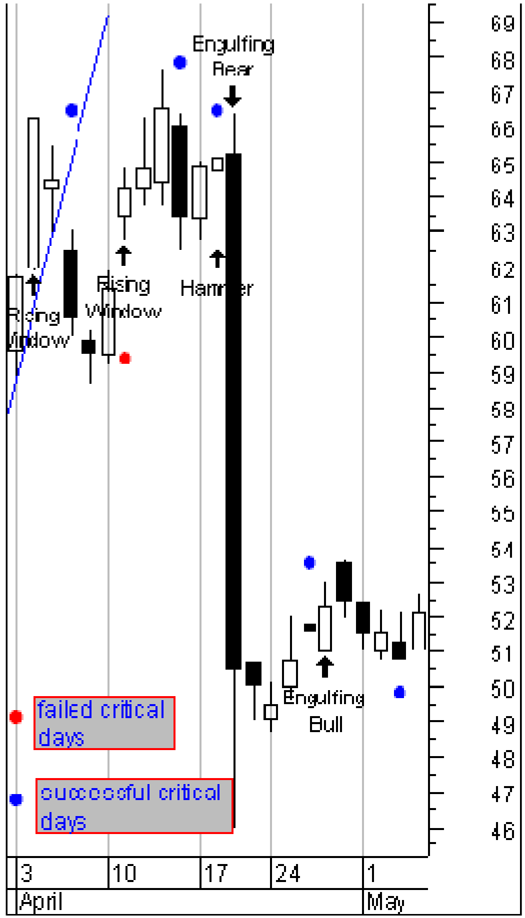
Long black candle

Hanging Man - These candles are bearish if they occur after a significant up trend. They have small real bodies and long lower shadows or wicks.

Dark cloud cover - Bearish pattern of a white candle followed by a black candle in an upward trend.

Engulfing Line - Strongly bearish if occurring after a significant up trend. A small bullish candle is engulfed by a large black candle.

A closer view of the most recent signals. You can see the short trend immediately prior to a critical day, reverses coming away from a successful critical day. Often a failed critical day will indicate a stronger bias in the market for



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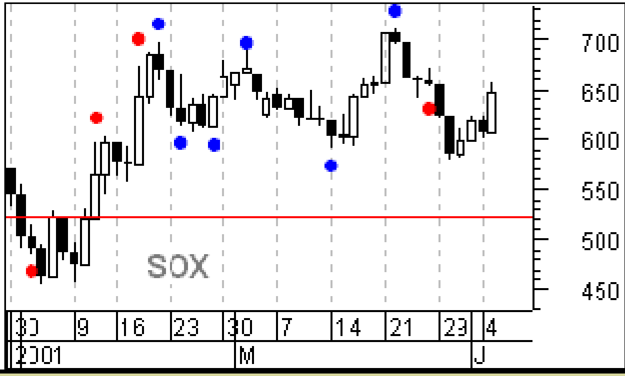
continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



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Revised: May 14, 2001 .

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*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

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Critical Day Analysis

Our critical day analysis is all about trend reversals. We tell you when there is a high potential for a reversal of the short trend and we've been doing it since 1994 with an *80% accuracy.

Chart Types

Displaying price and volume information can be done in a variety of ways. There are 9 main styles of displaying price plots that have use in market analysis. The Bar chart is one of the most common methods. A bar chart indicates a single bar that extends from the high to the low for the trading period it is meant to depict. In addition, the opening and closing price levels could be displayed as small branches coming away from the main bar at the appropriate level. Closing prices are put on the right of the bar. Opening prices are put on the left side of the bar. In addition to Bar charts, traders have discovered the use and value of using Candlestick charts, candlevolume, equivolume, kagi, line, point and figure, renko and three line break. Each has benefits and drawbacks and a strong understanding of different graph plots should accompany personal trade development.

The value of our critical days is that we have an 80%* success rate of letting our members know in advance when to expect a reversal of the short trend. On the graph below, we use candlestick displays because we find that it easily depicts current supply and demand changes and allows us to see the

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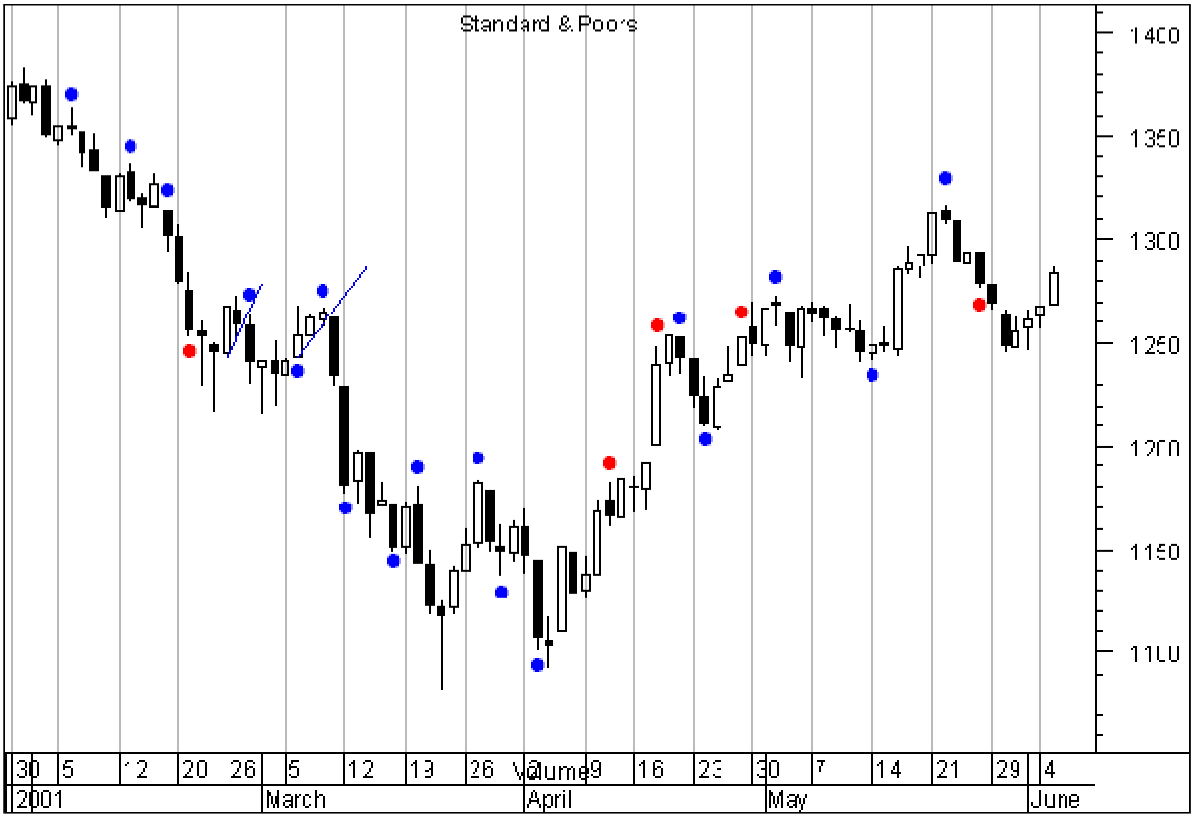
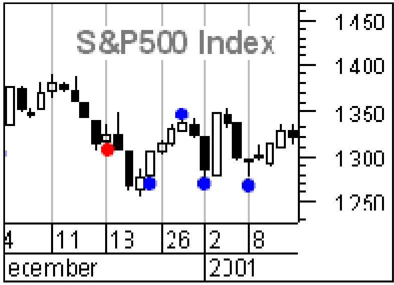
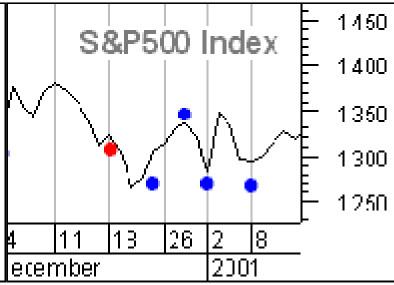
short trend by following the flow of candle bodies just prior and after a critical day signal.

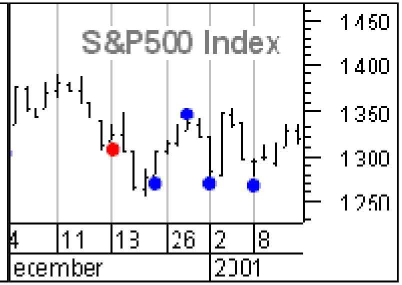
The Most recent Critical Days on the graph below are shown with Blue and Red dots. The blue dots, above or below the price plot, indicate successful critical days. Red dots indicate failures. A successful critical day indicates that the short trend did reverse, as expected by members, going into that period.



To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.







Candlesticks *Line*
chart *Barchart*

A look at some chart types

Candlevolume charts are like candlestick charts in that they indicate the open/close/high/low and a quick reference of market trend. In addition the candle sticks widen or are thinned as a measure of the volume recorded for that particular day. Candlevolume charts represent price and volume data in each candlestick.

Equivolume charts display the high and low of the period and the width of each plot represents volume.

Kagi charts are designed to react to plot a single line until price reverses by a predetermined amount where another line is then begun. It is an

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Zig Zag

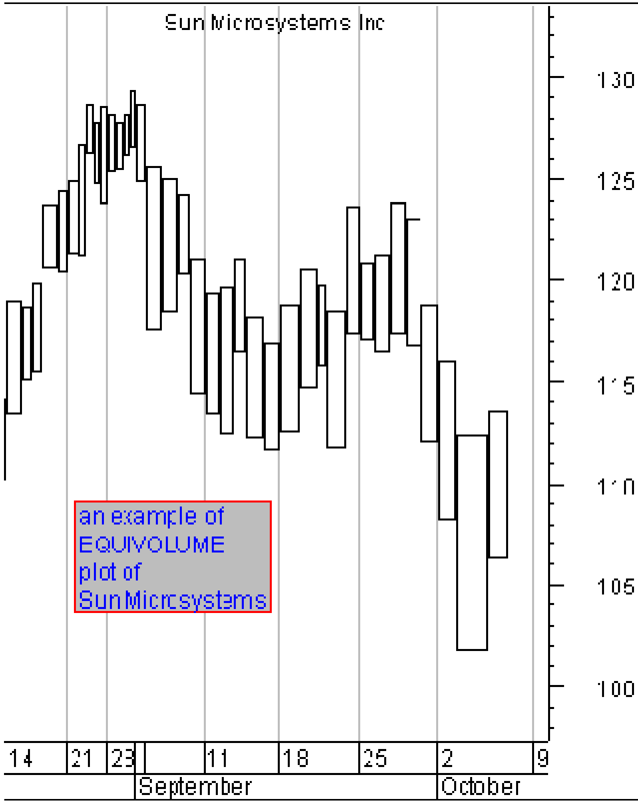
attempt to smooth out the noise of daily trading activity so that trend can be more clearly represented. The thickness of Kagi lines are significant when prior highs and prior lows are exceeded.

Point and Figure charts disregard the passage of time and chart only price changes. An "x" is drawn when the price rises by a predefined box size. An "o" is drawn if the price falls by a predefined box size. No x's or o'x are drawn if the market moves an amount less than the box size.

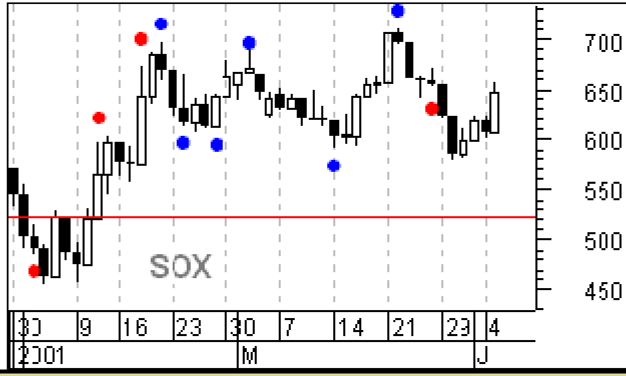
Renko Charts display a price movements if they are bigger than a fixed amount.

Three line break charts display new lines if the close of the period moves outside of the period of the previous block of trading. If not, then no lines are drawn.

A closer view of the most recent signals. You can see the short trend immediately prior to a critical day, reverses coming away from a successful critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in



place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at [tech studies](#) to develop a sense of trend reversals and use.



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Comparative Relative Strength

This is a comparison of the price movement of a stock with another stock, or sector, or index. It allows for a development of strategies based on the relationships between movements of different underlying interests. Using critical day analysis which has had an 80%* success rate at pre determining the short term pivot points for the markets, traders can then look at stocks, sectors or a broad selection of indices to help build evidence of trade opportunities and apply forethought to various market relationships that occur.

We have better than an 80%* success rate over 6 years with an average of 5 signals a month.

A comparative relative strength graph shows the S&P500 Index and one of its components picked at random. In this example, Advanced Micro Devices is plotted as a line graph against a line graph of the S&P500 Index. The value in the plot is as a comparison of

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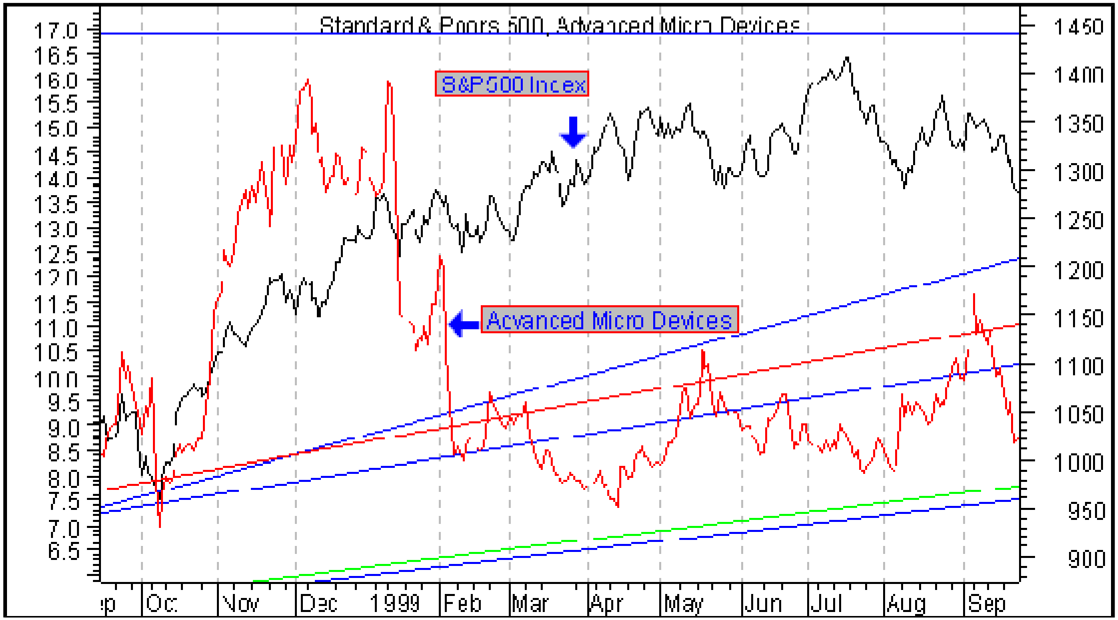
performance and correlation of movement. Since we pick trend reversals of the short trend of market indices, highly correlated stocks will tend to move with the index. The graph of Advanced Micro Devices shows some periods of correlation and periods like the beginning of 1999 when the stock moved on company specific news.



To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

A look at comparative relative strength

Comparative relative strength can be a measure of performance in that a comparison can be drawn between the performance of a stock and a sector, or a stock and the overall index. Stocks of one company can be compared to that of a competitors share price and market action.

Graphing two plots over similar time periods allows for a quick reference of performance and offers a method of comparison and if a strong co-relational relationship exists, offers a way to develop an expectation for price action on one stock as a result of price action on another stock or index.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

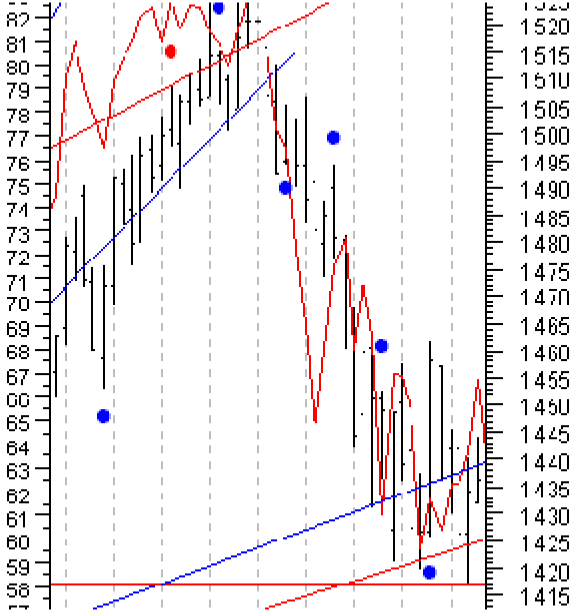
On the graph you can see the overall trend of the market and a quick reference for supply and demand by looking at a bar graph. A line graph of Nortel is placed over a bar graph of the S&P500 Index.

Nortel Networks is compared against the S&P500 Index for the period of August and October 2000. There appears to be a high correlation between the two for this period as a movement in one seems to coincide with a movement in the other price plot.

Comparative Relative Strength and Critical day Research

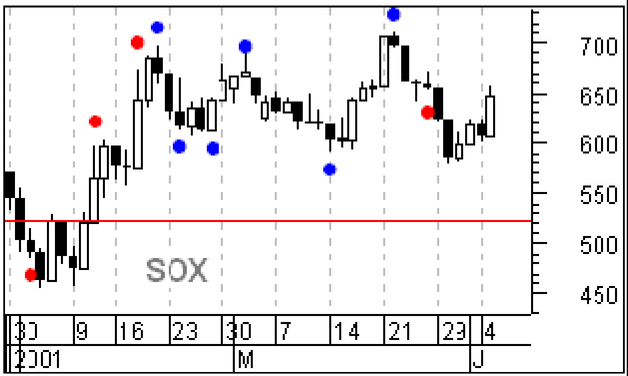
The critical days are indicated with blue and red dots on the graph.

These are days we give to members in advance that identify possible reversal days for the short trend. You can see a closer look at our critical day research throughout the site.
With a high historical success rate on a variety of major indices, our critical day research can have application for stocks, options and futures. For stocks, finding a highly correlated stock to the index is the beginning step to finding trading application for our research in your daily trading



Trend Reversals
Triangles
Volume
Whipsaw
Williams%R
Zig Zag

A closer view of the most recent signals. You can see the short trend immediately prior to a critical day, reverses coming away from a successful critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



Recent Signals

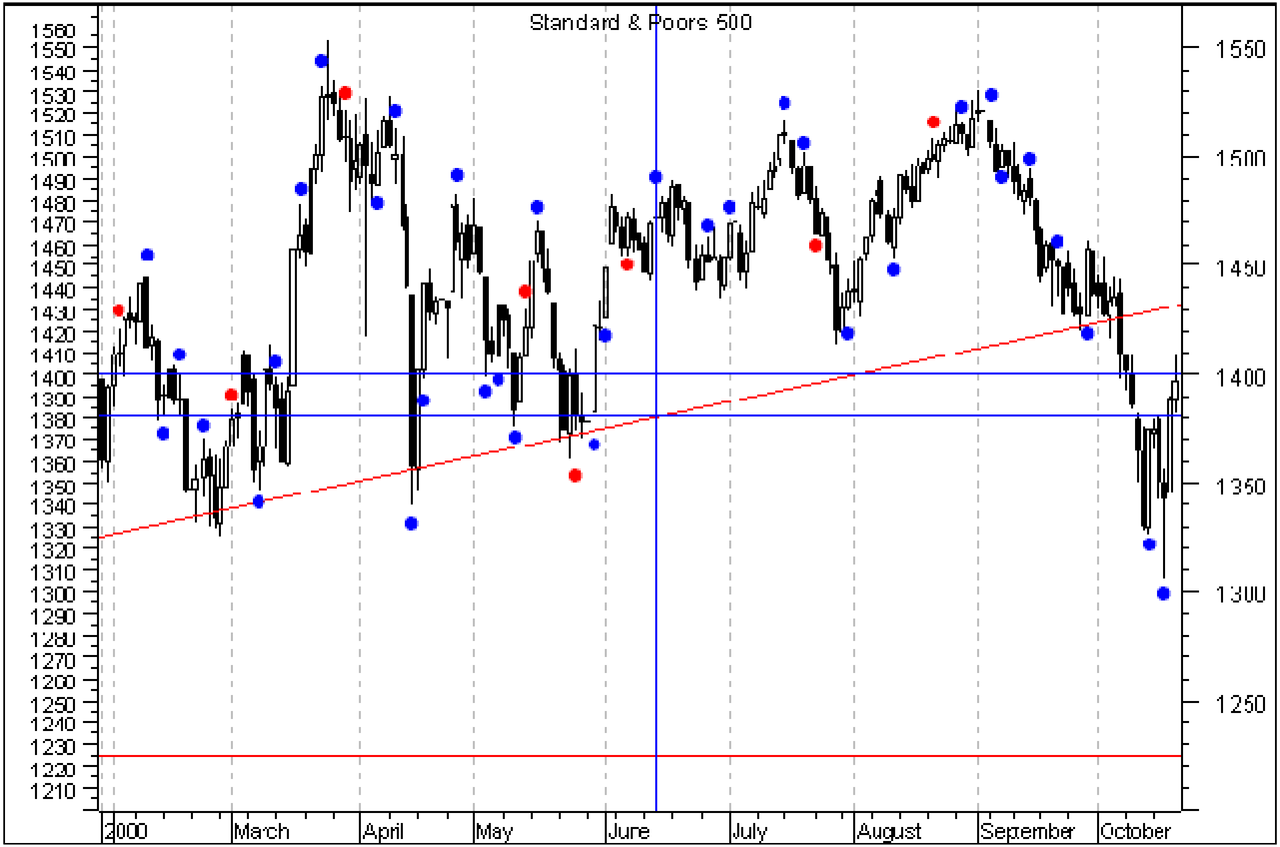
Congestion (Consolidation)

Congestion is usually referred to as a series of trading days in which no significant change in price occurs. Consolidation is a congestion period that is most like a pause that allows market participants to reevaluate the market and the environment which leads market price.

A chart of McDonalds Corp is followed by a graph of the S&P500 Index over the same period to give a sense of application. A break out of a congestion period is an indication that a continuation of the trend might occur in the direction of the breakout. The price of McDonalds during the period shown on the graph was influenced by the European fear of "Mad Cow Disease" and global slowing of economies.

To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

A look at the S&P500 Index over the same period



The same period of late June through Mid August showed less signs of congestion in the S&P500 Index. Notice that McDonalds broke away from the congestion area, falling further in price through September, leading the eventual move down by the S&P500 Index. Also notice that late August while the S&P500 Index was still climbing, McDonalds Corp began to fall, breaking out of the congested area with about a 2 week lead on the index as a whole. Without company specific news, in an environment of falling profits and slowing economic activity, the fall in McDonalds Corp might be viewed as a signal of changing supply and demand forces in the overall market.

Resistance
Relative Streng
Rotation
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Short trend
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*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

Correlation

Correlation is a useful tool for determining if relationships exist between securities. A correlation coefficient is the result of a mathematical comparison of how closely related two variables are. The relationship between two variables is said to be highly correlated if a movement in one variable results or takes place at the same time as a similar movement in another variable. A useful feature of correlation analysis is the potential to predict the movement in one security when another security moves. Sometimes, there are securities that lead other securities. In other words a change in price in one results in a later change in price of the other. A high negative correlation means that when a securities price changes, the other security or indicator or otherwise financial vehicle, will often move in the opposite direction. The spot price of fuel can at times have a high negative correlation with the airline industry for obvious reasons. A weakened sector can often lead markets that are in decline due to the higher risk associated with the position. With our critical day analysis,

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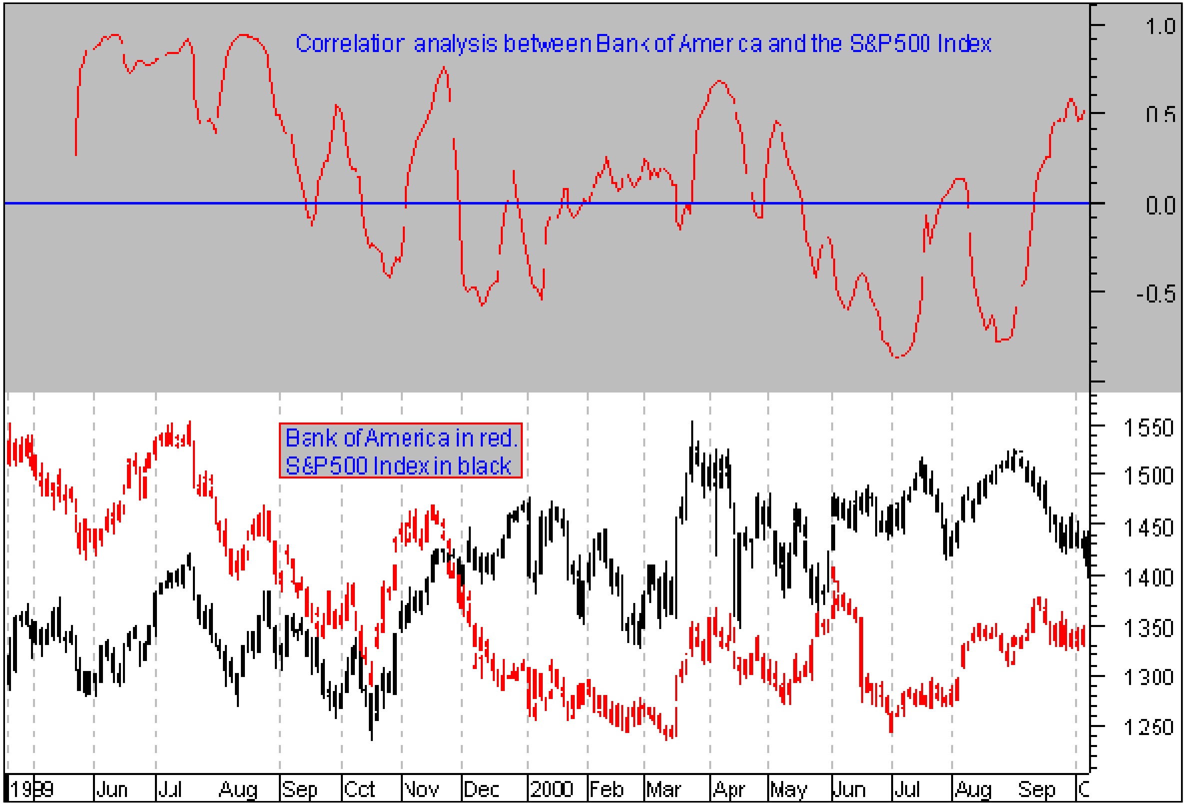
where over 80%* of our signals have been successful in identifying when directional changes in the short trend of the markets will occur, correlation analysis can be of great benefit for traders who trade stocks, options, futures and mutual funds. Stocks and mutual funds that are highly correlated to the major indices will often undergo the same reversal of the short trend that occurs in the major indices.



Correlation analysis is a measure of the degree to which a change in the independent variable will result in a change in the dependent variable. A low correlation coefficient (e.g., ±0.1) suggests that the relationship

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Elliot Wave Pattern
Envelopes
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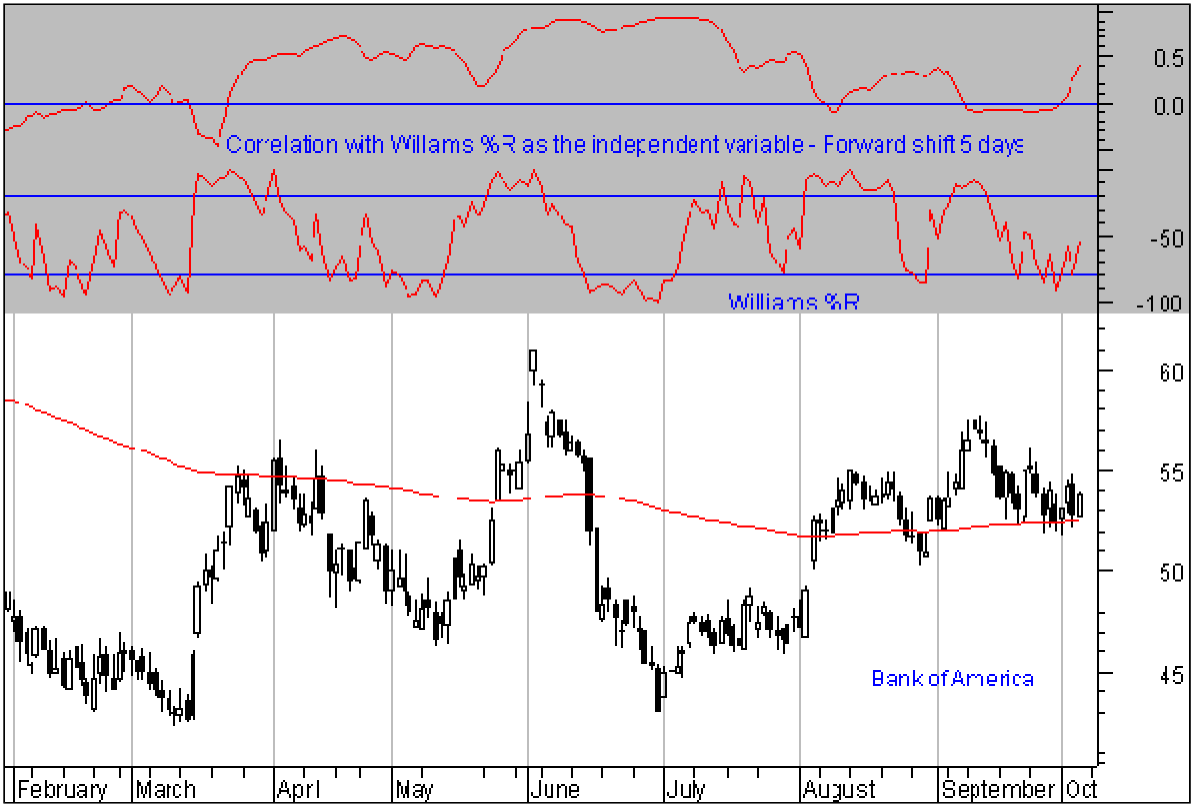
MACD
Momentum
Momentum Indicator
Moving Average Crossovers
Multiple Linear Regression
Neckline
Negative Divergence
On Balance Volume
Parabolic Stop and Reverse
Peaks and Troughs

between the two variables is weak or non-existent. A high correlation coefficient (e.g., ±0.80) indicates that the dependent variable will most likely change when the Independent variable changes. Correlation can also be used for a study between an indicator and a stock or index to help determine the predictive abilities of changes in the indicator. Correlation is not static. In other words, the correlation between two things in the markets does change over time and so a careful understanding that what has happened in the past may not predict what will happen in the future should be part of any basis in trading financial instruments in the market. The next graph shows the Bank of America and Williams %R.



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The graph above shows that the Williams % R has at times a high correlation. The indicator is forward shifted by 5 days. This helps to identify if the indicator has any predictive qualities. It appears that Williams %R was a useful indicator to be following during June of 2000 with a high correlation and turning down to cross over the upper range prior to the large drop in the stock in mid June.

Low correlation readings (eg. -.80) indicate that there is a bias for the two variables being compared to move in opposite directions. Be sure to back test and forward test strategies that are derived from correlation analysis as there can be a high volatility between the correlation of two variables.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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Continuation

Continuation refers to the resumption of a trend after a consolidating or pattern of indecision. When looking at the various patterns and formations that can occur on price graphs, patterns are often unreliable as to whether the pattern will ultimately point to a continuation of the trend or a reversal. Generally, indecision or a lack of enthusiasm, results in price patterns that interrupt the trend in prices. When patterns mature through the passage of time, there is often a resolution, through either a continuation of the trend or a trend reversal. Traders often look at the body of evidence in price and volume, a breakout from a consolidating pattern, and the enthusiasm that accompanies a breakout in order to identify whether supply and demand forces will support a continuation of the trend that lead into the pattern or whether a reversal of the trend will occur. The repetition of patterns often occur when looking at graphs of financial markets and interests but the identification of a pattern as it develops is a poor reference point for identifying the direction of the

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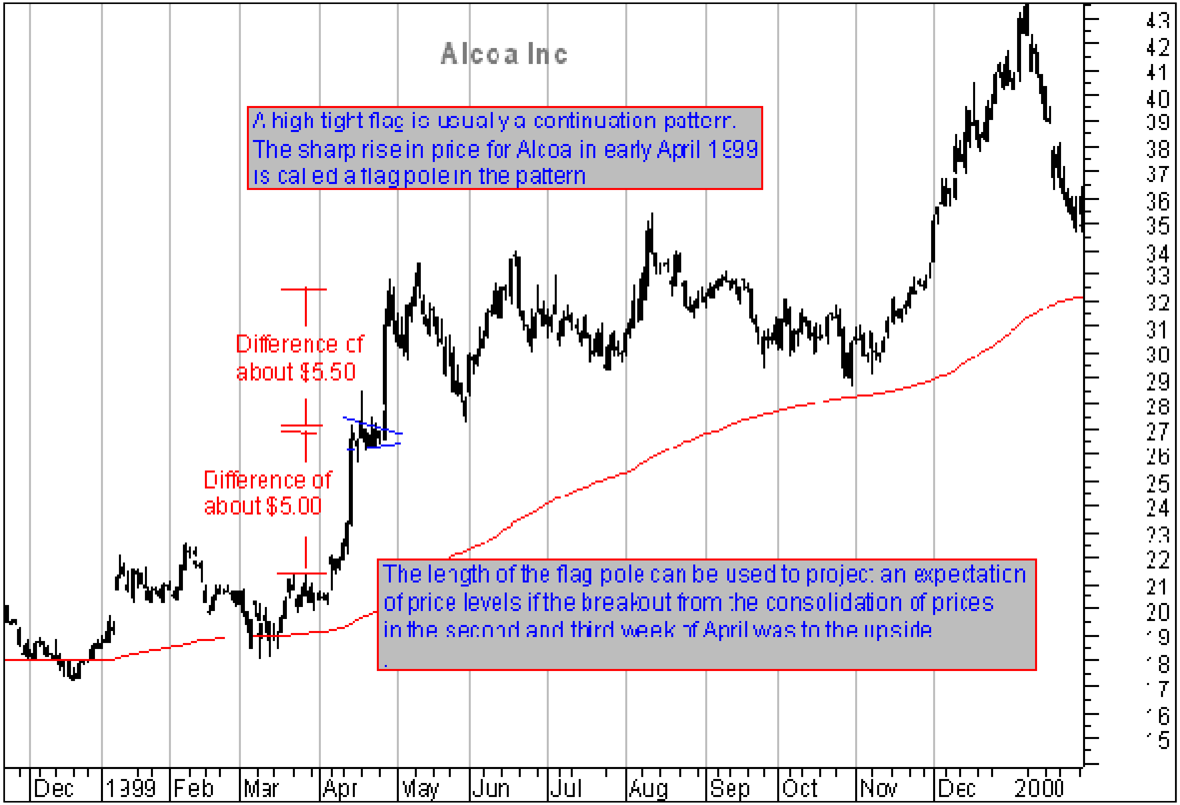
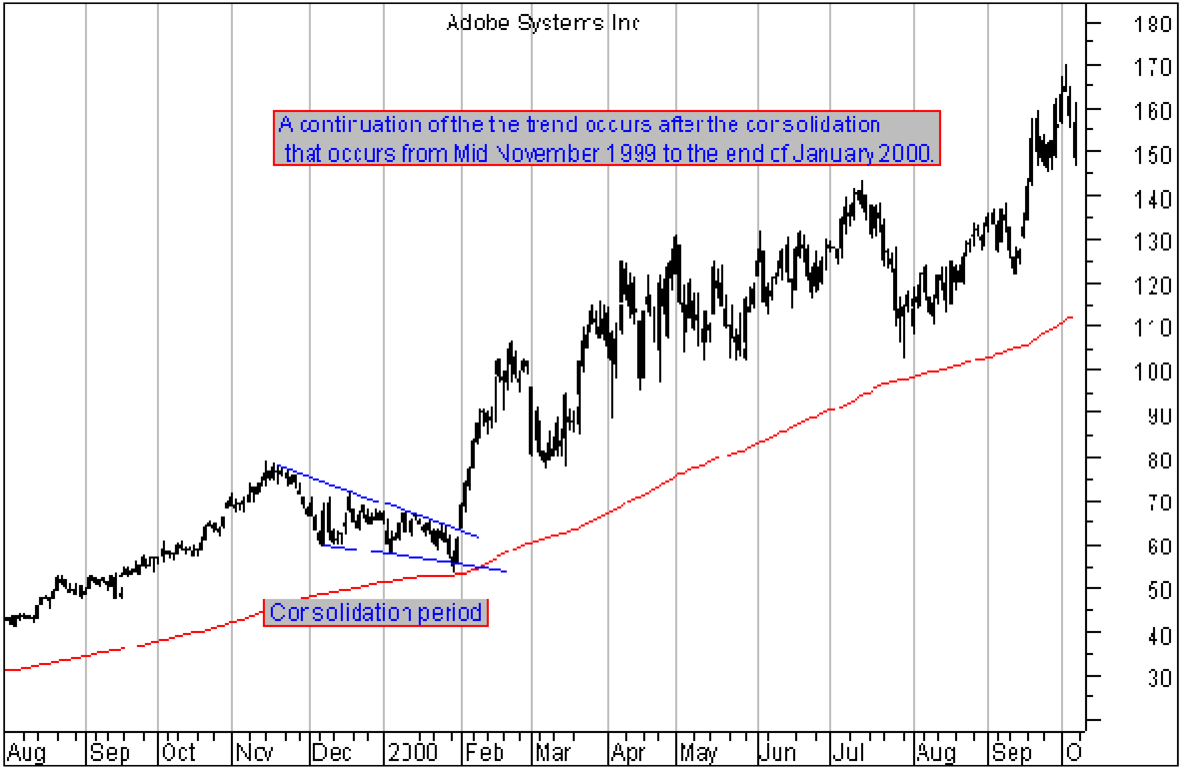
eventual resulting trend that will occur after the pattern is complete. Looking for a valid breakout from a pattern can improve identification of trend direction.





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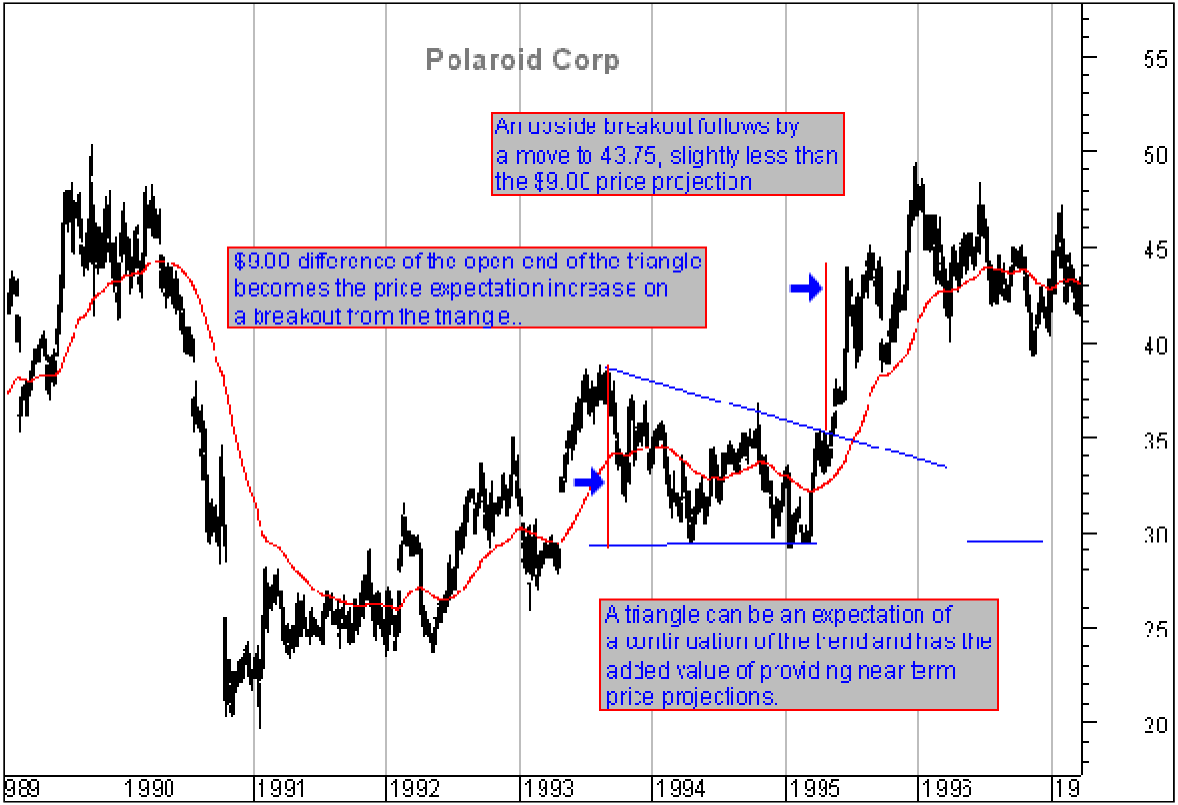

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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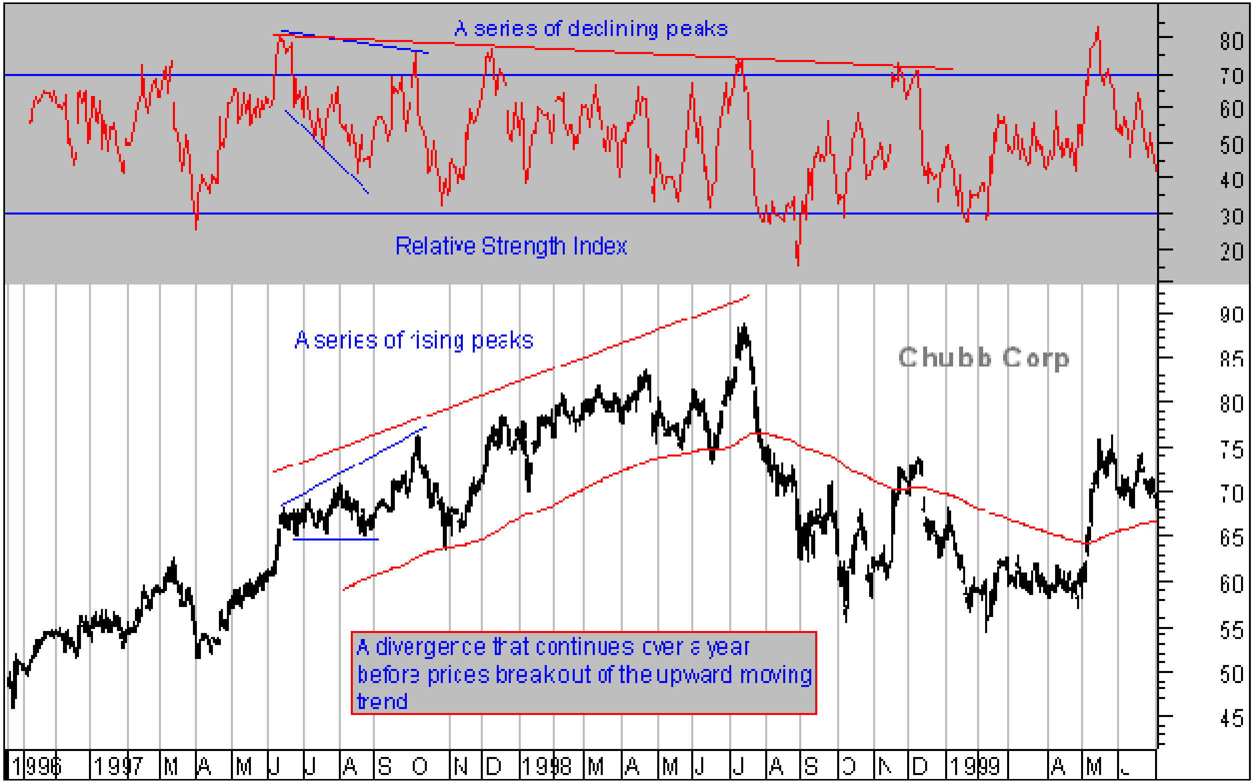
Walk through a critical day

Become a membe

Convergence/Divergence

Normally price and momentum indicators trend in the same direction. When price and momentum indicators do not trend in the same direction it gives perception that the velocity of price has changed and may warn of an impending reversal. The caution is that divergences between indicators and price can keep going over an extended period. The larger the number of divergences and the longer the time span separating them can indicate greater significance for a reversal of prices.



A series of declining peaks
Relative Strength Index
A series of rising peaks
Chubb Corp
A divergence that continues over a year before prices breakout of the upward moving trend
1996 1997 M A M J J A S O N D 1998 M A M J J A S O N D 1999 A M J

A divergence between the peaks of price and the peaks of a momentum indicator warns of a potential reversal of the price trend. As you can see divergences need to be confirmed by other indications of price reversal as they can extend over long periods of time. Generally a penetration of a trendline support is useful in this situation. In the chart above you can see the upward sloping blue trendline for Cooper Industries being penetrated right after a divergence that occurred through April and May of 1998. A divergence between troughs of price and the troughs of an indicator is also considered to be a warning sign of possible reversal of the price trend.

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Relative Strengt
Rotation
Short Selling
Short trend
Simple Moving A
Standard Deviat
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Trend Channel
Trend Line
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All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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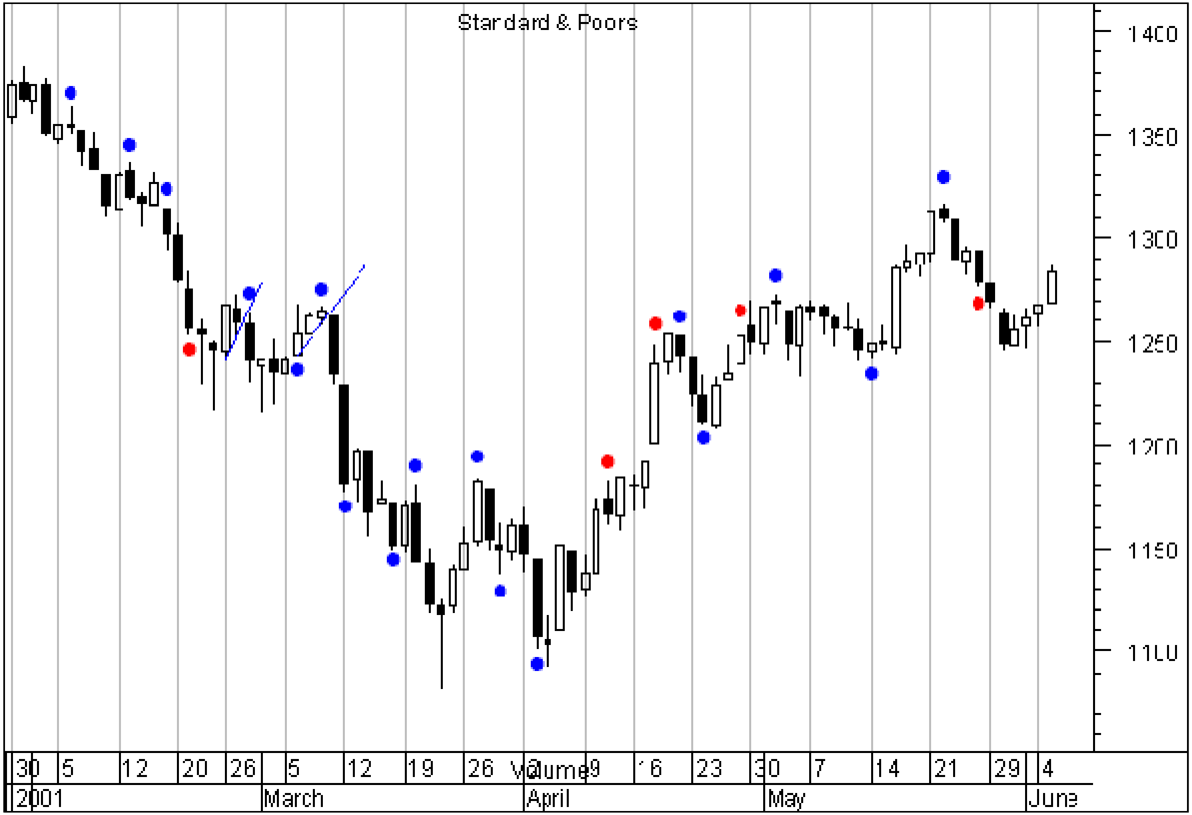
The critical day

The critical day is the result of 4 years of in-house research into market relationships, changes in positioning throughout the various markets, market mechanics, and in a broad scope, supply and demand. The critical day research requires a continuous collection and manipulation of data. Interpretation of the critical day is simple. The critical day is an expectation of a change in direction of the short trend in the markets. For our purposes, we define the short trend as the shortest segment of price leading into and away from a critical day. This can be best seen by looking at the flow of candle bodies on the chart below. Because of the broad nature of the data collection process that goes into generating a critical day, the research has application across many different stocks, sectors and indices. During times of high correlation to the bond market, critical day research can effectively identify changes in the short trend of bond prices as well. When major indices change direction, stocks that make up that index change direction, sector groups change direction, short term and long term traders make trading decisions based on the changing trend and personal circumstance, and through it all our members know in advance when to expect short term trend changes.

The Most recent Critical Days on the graph below are shown with Blue and Red dots. The blue dots, above or below the price plot, indicate successful critical days. Red dots indicate failures. A successful critical day indicates that the short trend did reverse, as expected by members, going into that period.



All formations, patterns, indicators and technical tools and methods of market analysis fail at various times including the critical day and so

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[Momentum Indicators](#)
[Moving Average](#)

should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to trading decisions of any kind is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

A look at the critical day up close

Each of the graphs below graphically display the concept of short trend, trend reversal and the critical day.

A critical day is an expectation of a reversal of the short trend. Effectively, the short trend leading into a critical day is expected to reverse coming away from the critical day. The critical day becomes the peaks or troughs of the short term market when they are successful. With a success rate of better than 80%* since 1994 we have been able to provide our members with an

Crossovers
Multiple Linear Regression
Neckline
Negative Divergence
On Balance Volume
Parabolic Stop and Reverse
Peaks and Troughs
Point and Figure
Price Earnings
Range
Regression Analysis
Resistance
Relative Strength
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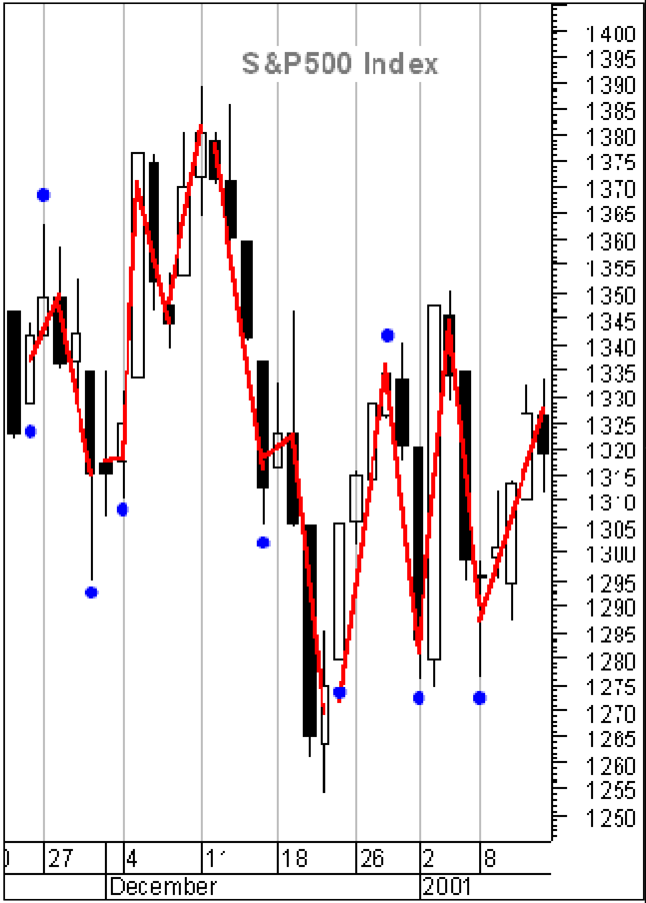
Short Selling
Short trend
Simple Moving Average
Standard Deviation
Stochastic

amazing tool for navigating the short term market.

The period on the graph is from Nov 22/00 to Jan 12/01. Our full signals since 1994 are available on line for your convenience at Past Signals. The graph is a price plot of candlesticks. Over the price plot is a series of red lines put there to help identify the short trend of the market. The dots are critical days during that period.

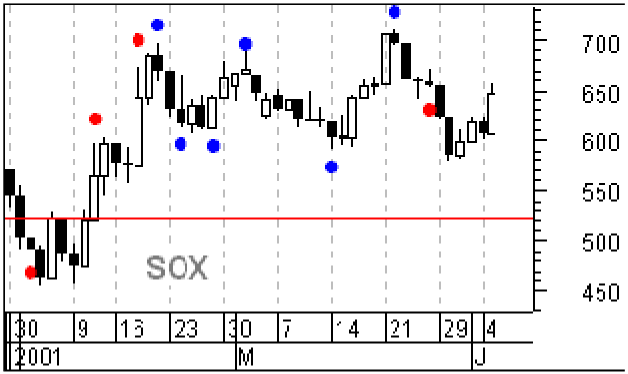


You can see that for each critical day, the short trend leading into the critical day, reverses coming away from the critical day. The critical day can be the first day of a movement in a new direction or it can be the last day of a short trend direction. Understanding trend reversals and methods of recognizing reversals of the trend can help in determining trading strategy and timing of trading decisions. In addition the critical day applies across a wide body of stocks, sectors and Indices.

Support
Technical Analysis
Trading Bands
Trading Range
Trailing Stop
Trend
Trend Channel
Trend Line
Trending Market
Trend Reversals
Triangles
Volume
Williams%R
Zig Zag

Indices

A closer view of the [most recent signals.](#) You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at [tech studies](#) to develop a sense of trend reversals and use.



- S&P500 Index
- Nasdaq
- Russell 2000
- Dow Industrials
- Philadelphia Semiconductor Index
- Major Market Index
- NYSE Index
- Value Line Index
- S&P400 Midcap
- Volatility Index

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Could you make money??

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Cup with Handle

The formation occurs after a trend change, where a series of rising peaks and troughs is followed by a reversal of the trend. A downtrend of lower peaks and lower troughs form the left side of the cup rounds out and later begins a new rising trend so that a cup is formed. The cup is in the shape of a "U". The handle is a drop in prices after the right side of the lip of the cup has been reached. The handle can have a variety of shapes and can consist of double handles and high handles. As long as the price does not fall back through the 200 day moving average in forming the handle, the expectation for the pattern is for prices to rise after completion of the handle.

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The cup and handle formation is uncommon and forms over various time spans. The resulting market activity should never be taken for granted as there is much variety in the psychological settings, economic trends and fundamentals that produce price action on the market.

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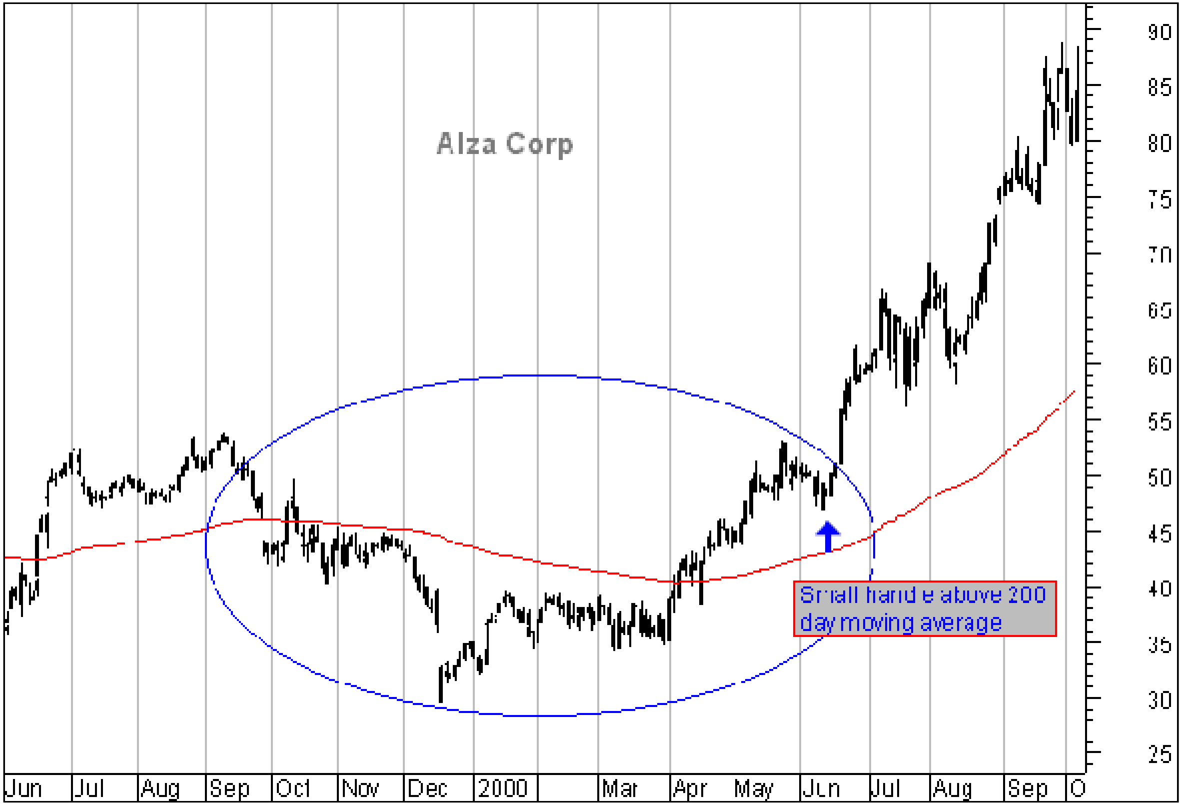

Volume is usually light in forming the right side of the cup. Selling pressure is typically present as those investors who bought into the security as the left side peak occurred, sell into the rising trend of the right side of the cup and this often leads to the formation of the handle. When the enthusiasm of selling during the formation of the handle translates into price, there is evidence for the success or failure of the resulting trend after the handle is fully formed. Light selling during the handle formation leads to a higher potential for prices after the cup and handle formation is complete. If prices fall below the 200 day moving average

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during the formation of the handle then subsequent upside handle breakout is suspect. A breakout from the handle formation is usually accompanied by rising volume and is a positive sign for a continuation of the trend in the direction of the breakout.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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Daily Range

The daily range of any tradable gives a better sense of enthusiasm of buyers and sellers, valuation beliefs, and the variety of market forces that may contribute to market price action in the future. Daily range is the difference between the high and low in one trading day. An increase in daily range invites speculation as to the reasons behind increasing volatility for the tradable and contributes to forecasts of what is possible near term. It is an important input into the valuation forecasts of options and other derivative products.

One indicator developed to track the range in daily prices for a tradable is the Average True Range. This indicator was developed by J Welles Wilder and is defined to be the greatest of the following for each period:

The distance from today's high to today's low.
The distance from yesterday's close to today's high.
The distance from yesterday's close to today's low.

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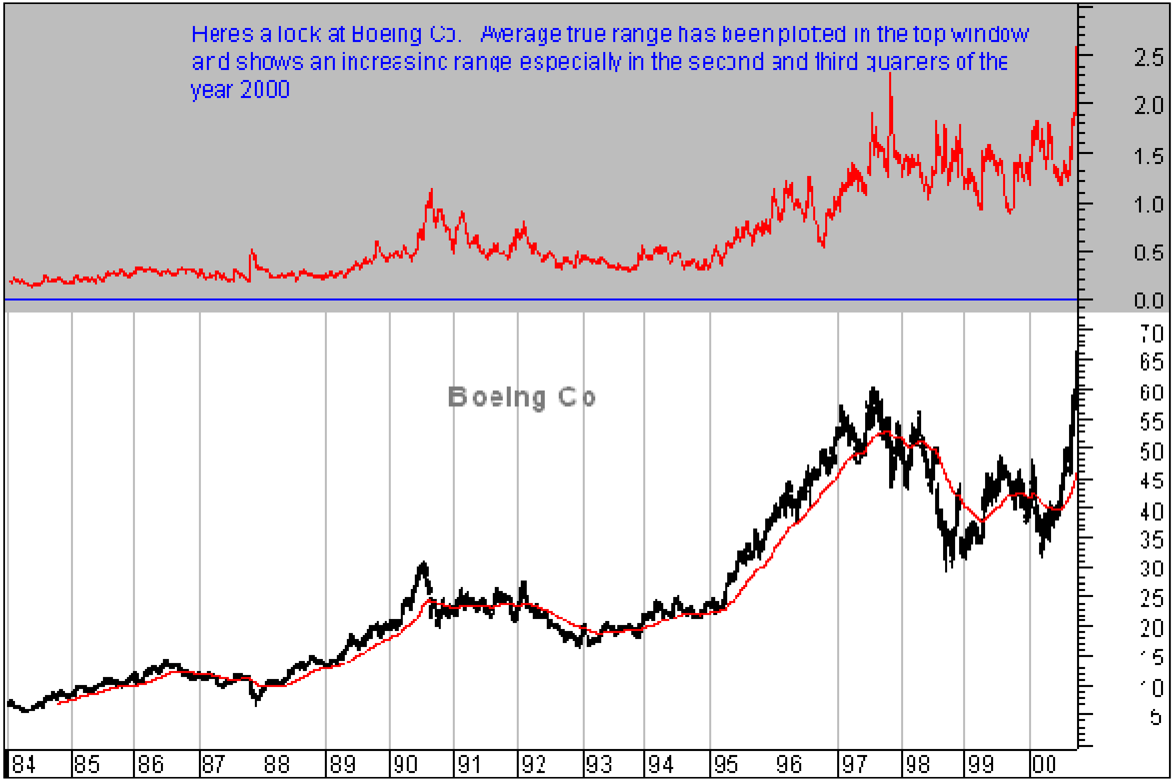
The Average True Range is simply the average of the true ranges over a specified period of time.



Average True Range can help identify price projections given both the trend of the indicator and trend in price. If the security being charted has a high correlation to the major indices and supporting evidence of a reversal of the trend is present, Average True Range can help to identify possible initial price projections for a security in a short term trade.

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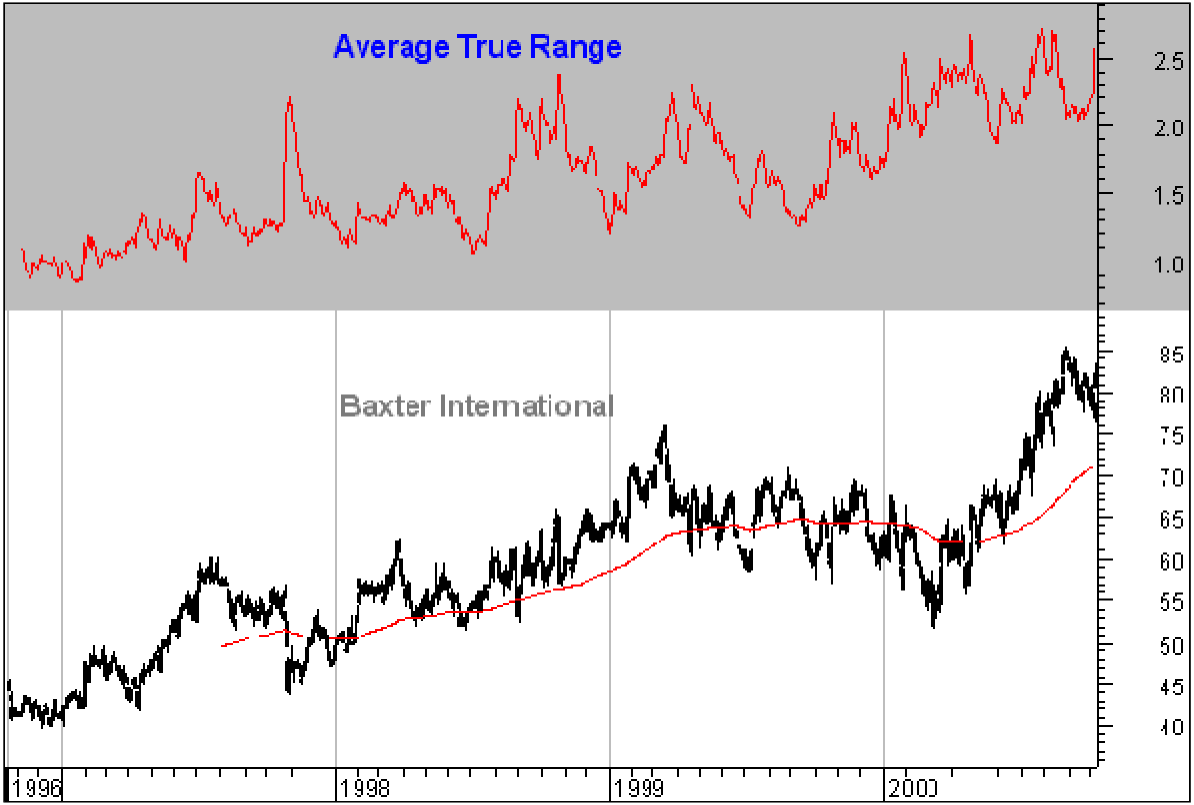

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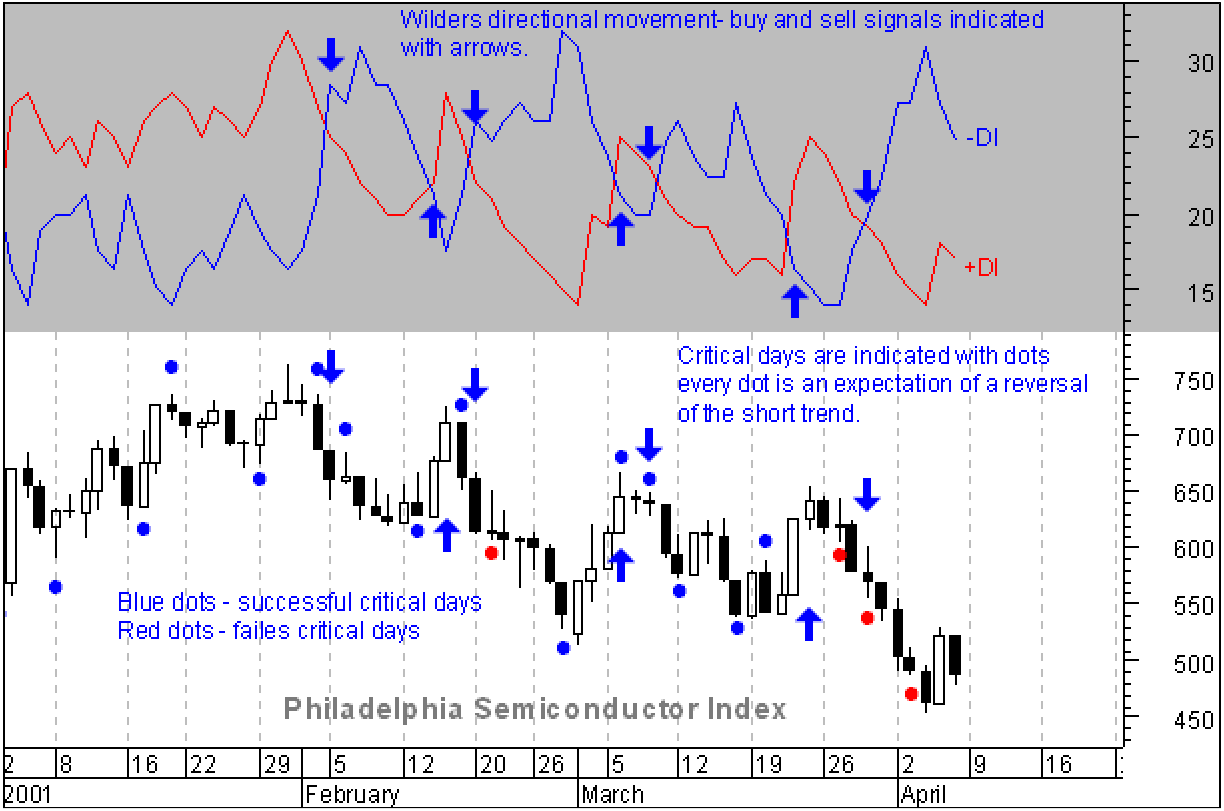
Directional Movement

Directional movement is a system for providing trading signals to be used for price breaks from a trading range. The system involves 5 indicators which are the Directional Movement Index (DX), the plus Directional Indicator (+DI), the minus Directional Indicator (-DI), the average Directional Movement (ADX) and the Directional movement rating (ADXR). The system was developed J. Welles Wilder and is explained thoroughly in his book, New Concepts in Technical Trading Systems .

The basic Directional Movement Trading system involves plotting the 14day +DI and the 14 day -DI on top of each other. When the +DI rises above the -DI, it is a bullish signal. A bearish signal occurs when the +DI falls below the -DI. To avoid whipsaws, Wilder identifies a trigger point to be the extreme price on the day the lines cross. If you have received a buy signal, you would wait for the security to rise above the extreme price (the high price on the day the lines crossed). If you are waiting for a sell signal the extreme point is then defined as the low price on the day's the line cross.

The system works best according to Wilder on securities that have an ADXR value above 25.



A good variation of the Directional Movement system is to plot the difference between the positive Directional Indicator and the negative Directional Indicator. The result is plotted on the chart below and can be used looking for divergences between price and the indicator.

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Critical Day Analysis

Our critical day analysis is all about trend reversals. We tell you when there is a high potential for a reversal of the short trend and we've been doing it since 1994 with an *80% accuracy.

Doji

A Doji is a name of a candlestick in Japanese Candlestick charting. This type of charts allow for a quick visual digestion of changing supply and demand patterns. The Doji is one of many types of patterns or candlesticks that give implication as to future price action. The Doji is simply a formation in which the open and close are the same. This candlestick is a component of many important candlestick patterns such as the Doji Star which is a Doji which gaps above or below a white or black candlestick. The Doji star is a reversal signal with confirmation to be made during the next trading period.

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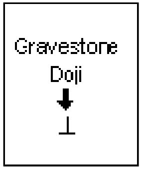
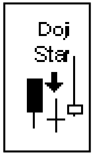
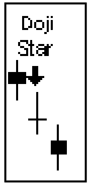
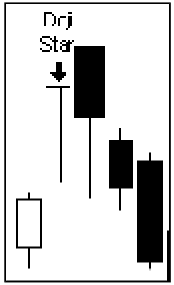
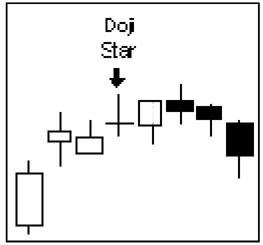


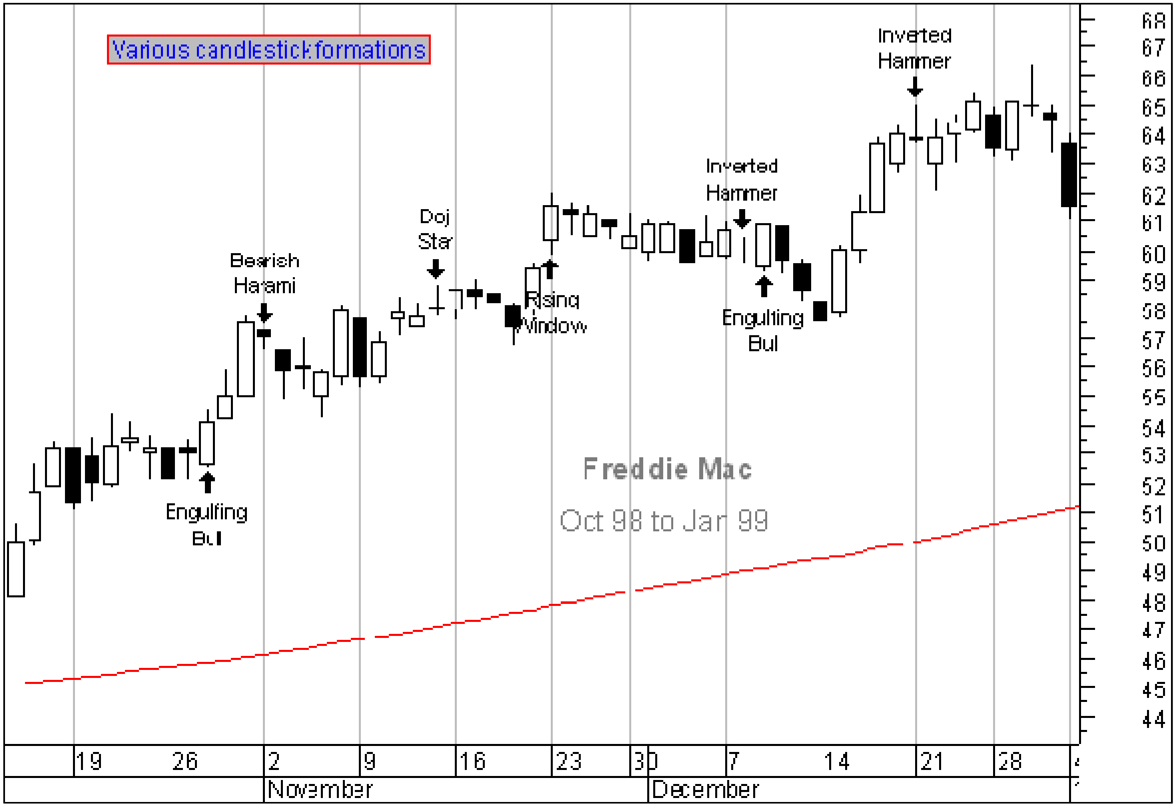








Japanese's Candlesticks allow for a quick digestion of supply and demand but some of the interpretations of candlestick formations should be supported with a wide body of other information before trading. Most of the Japanese Candlestick patterns are psychologically based interpretations. A type of trading atmosphere that often creates a particular formation of candlesticks or an individual candlestick is the result of a struggle between supply and demand elements and does reoccur but often cannot be used with a high confidence in predicting future price action.



Any tools or patterns that have a consistency in nature can be used to develop trading strategies and better performance. Our critical day research has had a success rate of better than 80%* on the S&P500 Index with an average of 5 signals a month since 1994.

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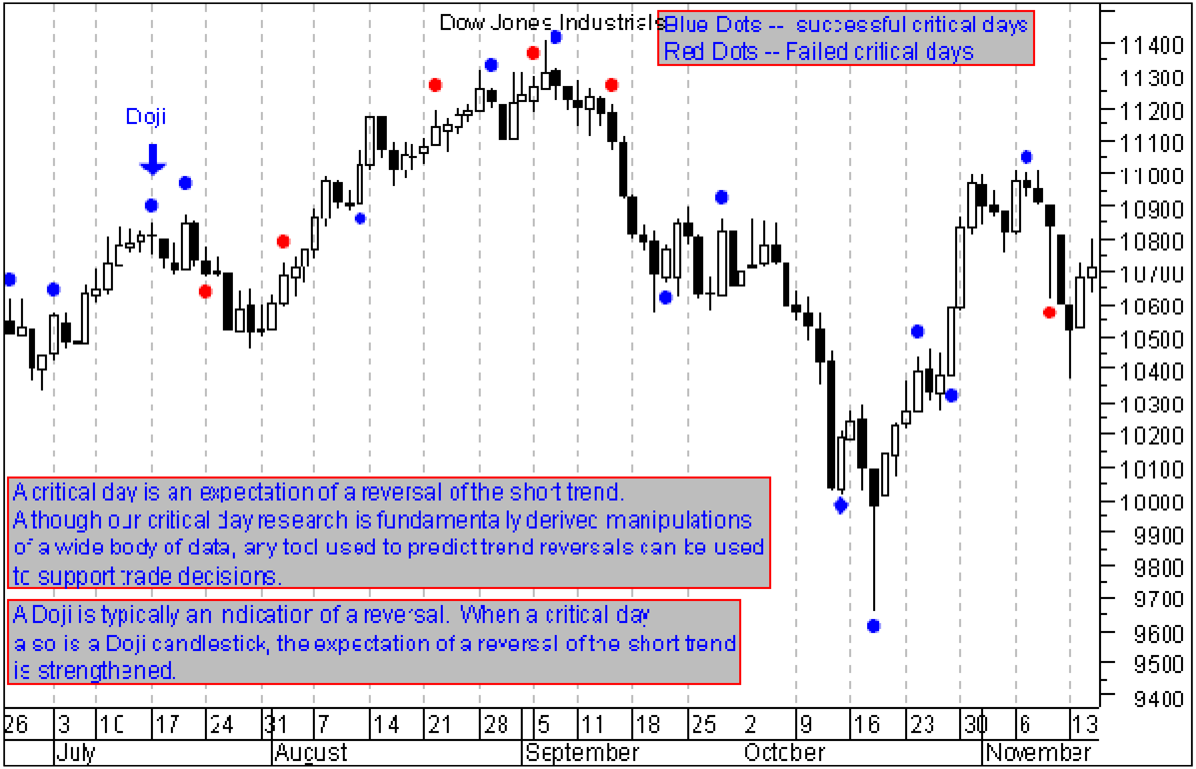

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Double Top/bottom

When price peaks after a rise, and the decline that follows leads to another rise in prices to form a second peak at or about the level of the first peak, a double peak is said to have formed. A neckline can be drawn across the base of the two peaks. A neckline is simply a trendline and penetration through a neckline after a decline from the second peak is a good indication that the price of the tradable will continue to fall. Traders often allow for a 5% penetration through a neckline to avoid whipsaws. Volume is generally greater in generating the first top than in making the second.

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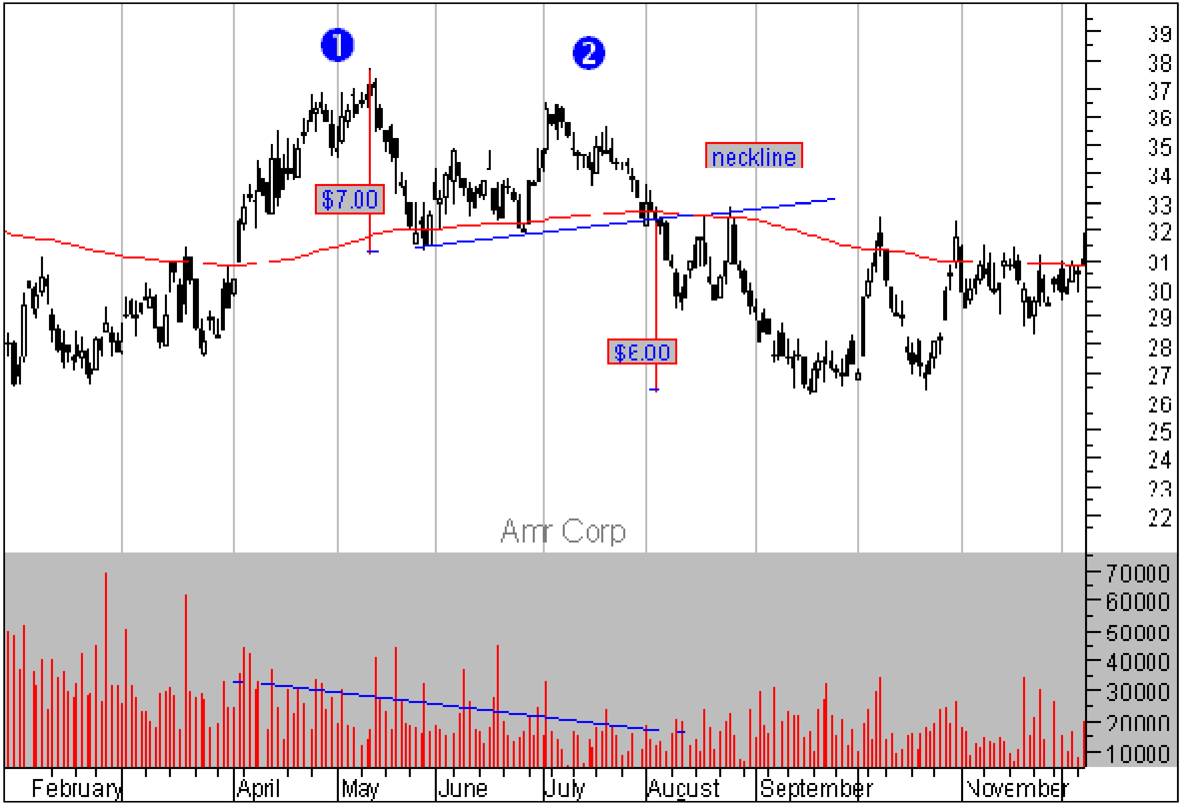

A double top is simply two peaks. After the second peak is formed a breakout through the base is a signal of a possible reversal of the trend in prices. In the case of a double bottom, two troughs form and an expectation follows for the possibility of a trend reversal if the market price rises through the base.

Waiting for confirmation is important for trading double tops. Twin peak formations usually show a decline of between 10% and 20% between the peaks. Volume is usually higher on the left peak than on the right peak. The confirmation point is the base of the peaks. A breakout through the baseline is more convincing if accompanied by higher volume and predicts a continuation of the trend in that direction. Price projections can be made by determining the price difference from the neckline to the first peak and then subtracting that value from the price at the time of penetration from the neckline.

Price projections are estimates of the potential near term movement of the price once a breakout has occurred. When the price of the tradable is low, the best approach in making price projections is to use percentages. A percentage difference of 6% between the price at the first peak and neckline would translate into a projected price drop upon penetration of the neckline of about 6% of the price at penetration.

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Notice that the low end of the peaks in the graph for Andrew Corp was around $10.50. The neckline penetration was about $22.50. In developing a price projection using percentage increases a technician would expect the price to near double after penetration of the neckline. After two potential whipsaw pullbacks the price headed higher reaching the $40.00 range within a few months.

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*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

Elliott Wave

The Elliott Wave theory is based on how groups of people behave. Mass psychology with swings from pessimism to optimism and back is described as the basis for the patterns the Elliott wave is suppose to identify. The Elliott Wave Principle is named after Ralph Nelson Elliott who did most of his work on wave patterns in the 1930s and 1940s. Mr. Elliott contends that social, or crowd behavior trends can be recognized in the price trend activity in the financial markets. Elliott came up with thirteen patterns or "waves," that he suggested recur in the markets. Linking those waves together he suggested helps to identify larger versions of those same patterns that occur over longer periods of time.

The basic patterns in Elliott's theory is what is known as impulsive waves and corrective waves. An impulsive wave is made up of five sub waves and moves in the same direction as the larger price trend. A corrective wave is made up of three sub waves and moves against the trend of the

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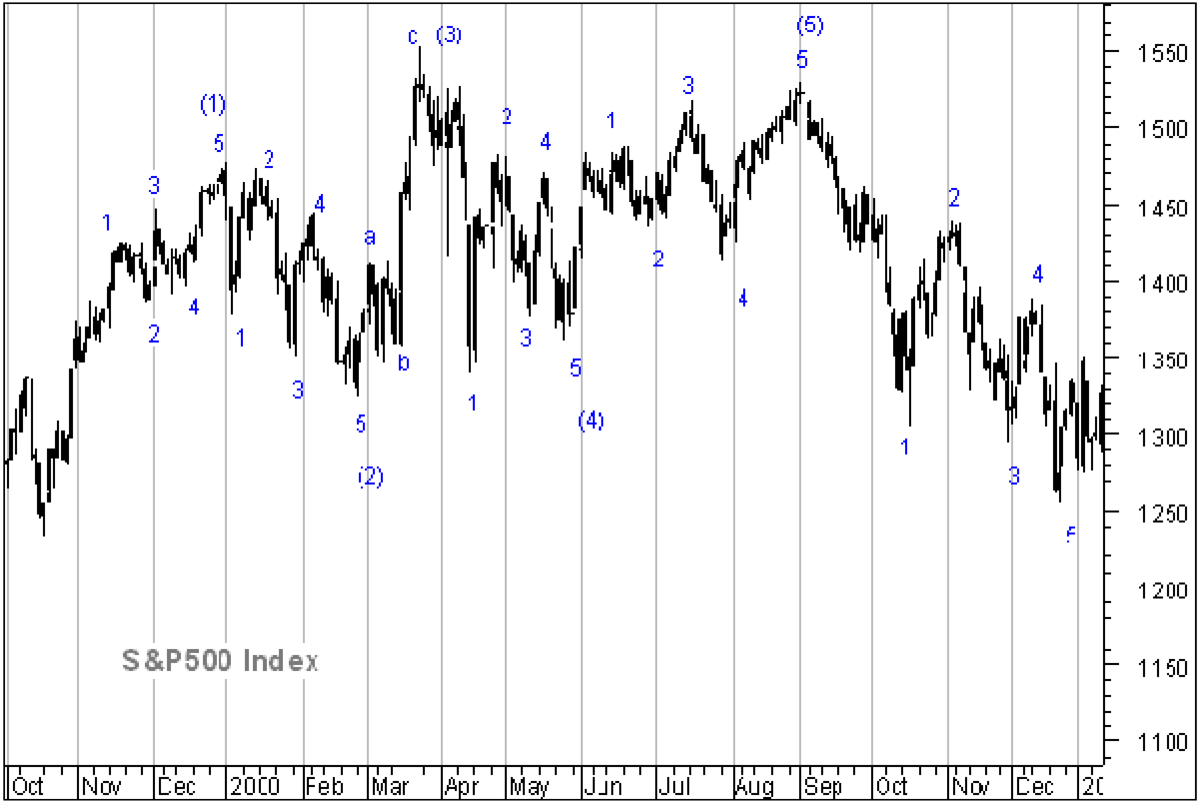
next larger size. For a more in-depth discussion on the Elliott Wave patterns there are many books available on the topic including *Elliott Wave Principle*, by A.J. Frost and Robert Prechter.

The Elliott Wave principles have a strict definition for what ultimately proves to be a valid wave formation and therefore should be understood and used carefully as confirming evidence in making trading decisions. The principles are meant to indicate potential, or probabilities of possible future price action in the market. Some wave patterns have lower probabilities of giving indication of future price action than others and strongly bias the investor to understand the principles behind the theory first before interpreting market action based on wave analysis.

On the graph below, the first small sequence is an impulsive wave ending at the peak labeled (1). The larger price trend is up and the end of the small sequence of waves is also the beginning of a larger sequence of waves shown with numbers in brackets on the graph. This is not followed by a corrective wave but what appears to be another impulsive wave of two peaks and three troughs. Then a corrective wave occurs labeled with the letters A,B and C. This wave ends at the 3rd point in the larger wave pattern (in brackets on the graph). Two more impulsive waves complete the larger wave pattern.



There is a tie in to the Fibonacci sequence that Elliott believed was significant. Fibonacci numbers are a series of numbers that are in a sequence such that each successive number is the sum of the two previous numbers (1, 1, 2, 3, 5, 8, 13, 21, 34, 55 etc.). Elliott believed that the number of waves that exist in the stock market's pattern is reflected in the Fibonacci sequence of numbers. Fibonacci numbers are intriguing in that any number is approximately 1.618 times the preceding number and approximately 0.618 the following number. There is a good resource for further investigation of Fibonacci numbers written by Edward Dobson called *Understanding Fibonacci Numbers*.

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Generally, the Elliott wave theory says that market price moves in recurring wave patterns. Small wave formations link together to form larger wave formations. There is some value in being aware of the theory and knowing how to apply the theory to financial markets. In certain instances, the small corrective waves, labeled with the letters A, B and C, can be identified quite clearly especially after secondary corrections in the overall markets. Usually the price action between A and B is a period of expanding volume. The price action between B and C often form with diminishing volume and after C, price is said to have broken out of the pattern and is usually accompanied by increasing volume. This is sometimes the start of the next primary swing in prices.

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Trading Bands

Trading bands are useful for a variety of price activity. A band is simply an envelope or channel created by plotting two lines that move at a set distance from a central moving average. In this way, a trading band creates a potential plot for additional study of support and resistance levels and allow for the recognition of a breakout from a channel or trading band area.

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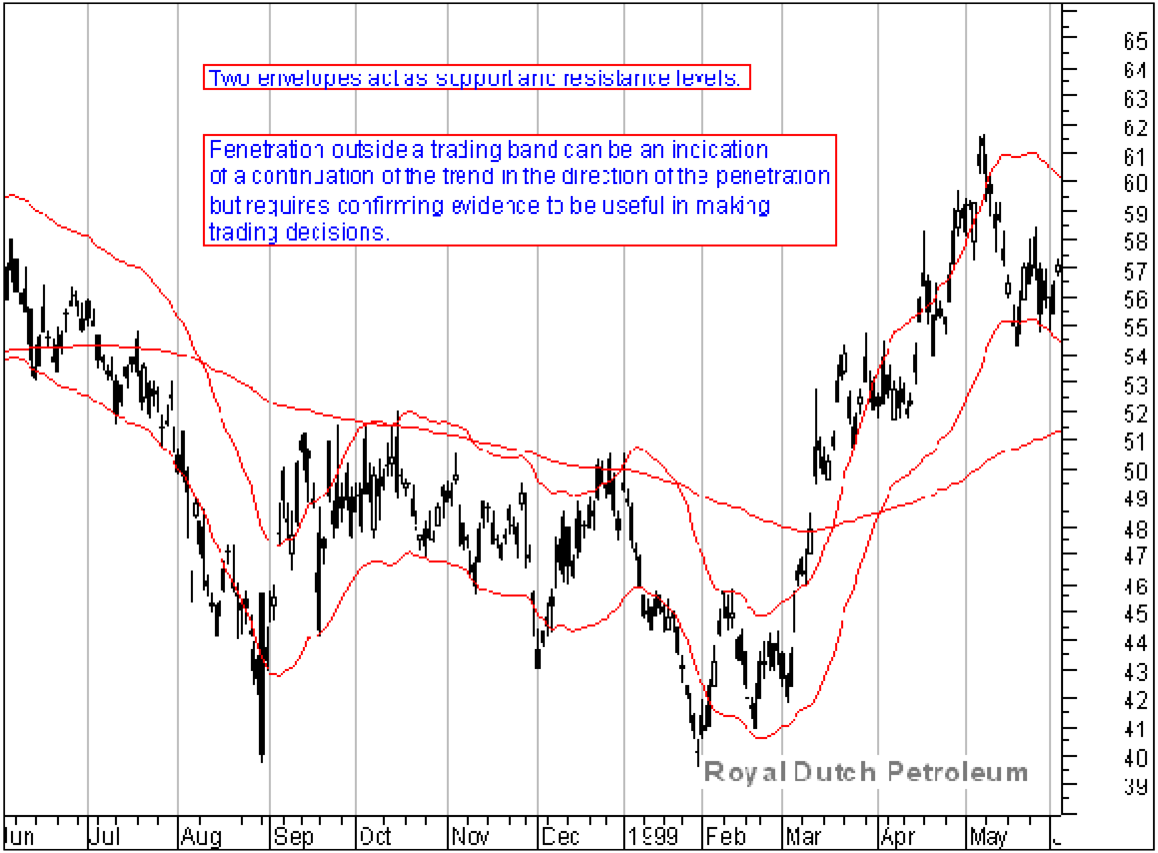

There are many different types of trading bands including the envelopes plotted above. Bollinger bands are another form of trading bands that are set apart from a central moving average by a specified number of standard deviations. In this way, the volatility of price results in the bands coming together and widening apart as volatility of the underlying security changes.

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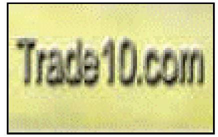
Watching for trend reversals



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Could you make money??

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Questions or comments?

Revised: May 17, 2001 .

Disclaimer

*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

Moving Averages

Moving averages are used to help identify the trend of prices. By creating an average of prices, that "moves" with the addition of new data, the price action on the security being analyzed is "smoothed". In other words, by calculating the average value of a underlying security or indicator, day to day fluctuations are reduced in importance and what remains is a stronger indication of the trend of prices over the period being analyzed. The term "Moving" average refers to the calculation that takes the average value over a set period of time, and when a new period is added the average moves with the new price data, incorporating the latest period and dropping the first period in the previous calculation. Thus the average "moves" along with price and so the Moving average changes in values.

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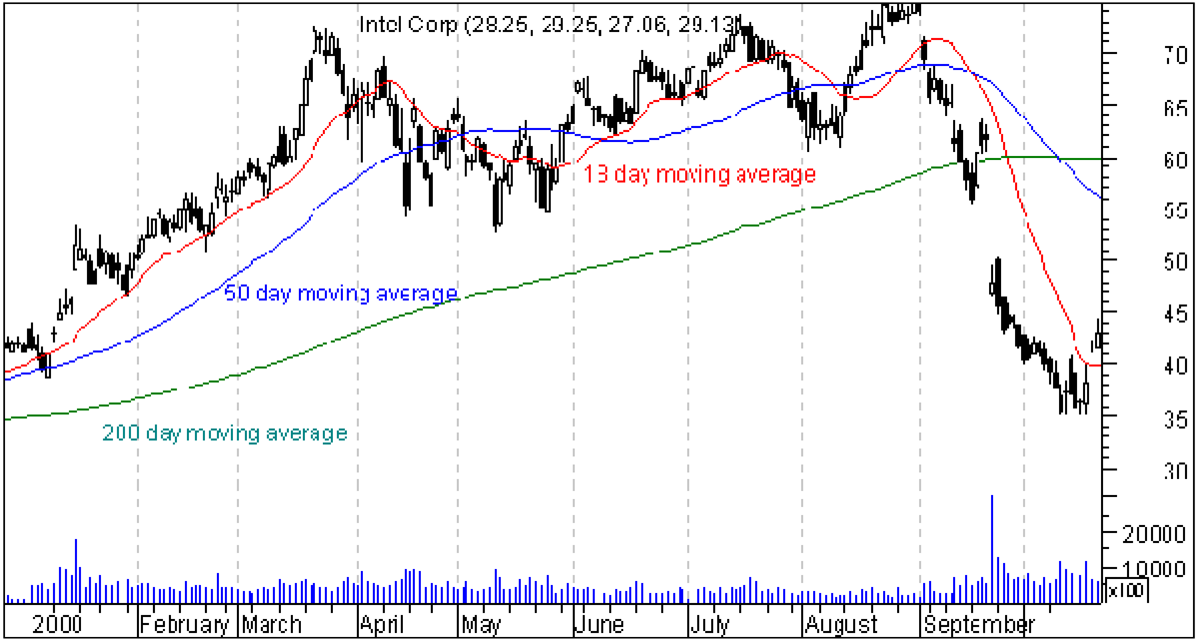
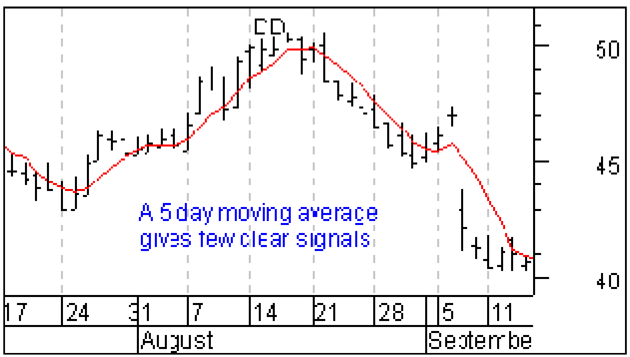


There are a number of different types of moving averages that have been developed by technical analysts in the study of trends for use with price and indicators. A moving average can be arithmetic which is the sum of the closing prices over a certain number of time periods divided by the number of time periods to get an average price of the security for that period. An exponential moving average (EMA) is calculated by adding a percentage of yesterday's moving average to a percentage of today's closing value. In this way an investor can put more emphasis on more recent data and less weight on past data in the calculation of the moving average. Other types of moving average calculations include time series moving average, triangular moving average, variable moving average, volume adjusted moving average and weighted moving average. In addition to the variations in calculations, investors can also shift a moving average horizontally or vertically on a graph and base the calculation on the open, close, high, low, or average price rather than the close. The most commonly used moving average is the exponential moving average based on closing prices without any shift. The value of knowing the most commonly used moving average lies in being able to identify the interpretation characteristics of a larger group of supply and demand elements when trading.

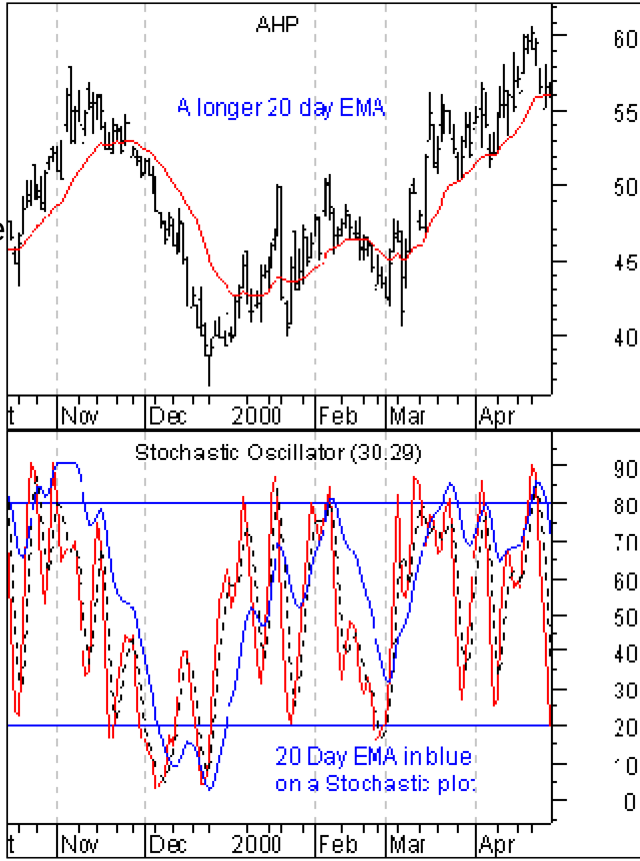
Moving Average Interpretation

The basis of interpretation is to buy when the securities price moves above its moving average and to sell when the price moves below its moving average. Different lengths of averages are meant to identify different trends. Short trends are often best identified by a 5 to 13 day moving average. Minor intermediate trends are roughly 25 to 50 days. Intermediate trends from 50 days to 100 days and long term trends greater than 100 days. The length of the moving average should match the cycle or trend you wish to follow. When we refer to the short trend in relation to critical day analysis, we are referring to the smallest segment of price leading into and away from a



critical day.

Whipsaws can be reduced by using a larger period of calculation but also results in later signals. There is a trade off between timeliness and following daily price fluctuations too closely. Traders using moving averages to help identify the trend of a tradable should determine an appropriate trade off that reduces whipsaws but also minimizes the lateness of signals received.



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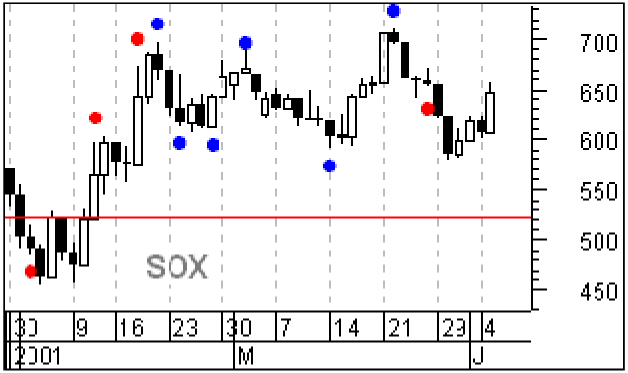
Moving averages can also be used on indicators such as the Stochastic, Relative Strength Index and the Rate of change in order to smooth daily fluctuations and reduce potential whipsaws.

Crossovers between two moving averages can provide signals for a tradable event. Back testing sensitivity is a good approach to determining appropriate averages to use. Using parallel lines to plotted moving averages leads to another application of trend analysis called channel analysis.

Plotting two moving averages can provide signals for trading when a shorter moving average crosses a longer term moving average. The trade off is between

A closer view of the [most recent signals.](#) You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at [tech studies](#) to develop a sense of trend reversals and use.



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Flag

When a stock has a strong run up over a short period of time, where it gains 30% or 40% or more, there is a tendency for either a correction or a continued advance with even larger gains expected. One chart pattern that sometimes precedes a second large advance is called the "high tight flag". This is a pattern that starts with a flag pole, or price that rises sharply in a short period of time. This is followed by a tight consolidation period that can last between 2 to 6 weeks. The consolidation period creates the formation of a "flag", a break out of such a consolidation period is usually to the upside and can produce gains similar to the percentage increase of the initial gains made during the creation of the flagpole.

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During the formation of the flag in the consolidating period volume generally declines. A breakout from the flag pattern is usually accompanied by increased volumes. Price projections that are estimations based on the range of price during the formation of the flagpole are projected upwards from the flag formation on a breakout give a rough idea of what to expect near term for prices. What price projections do not do is tell you whether prices will reach that level or stay at that level. A projection is simply an estimation based on the increased demand for the stock and a potential for a short term continuation of price surge following

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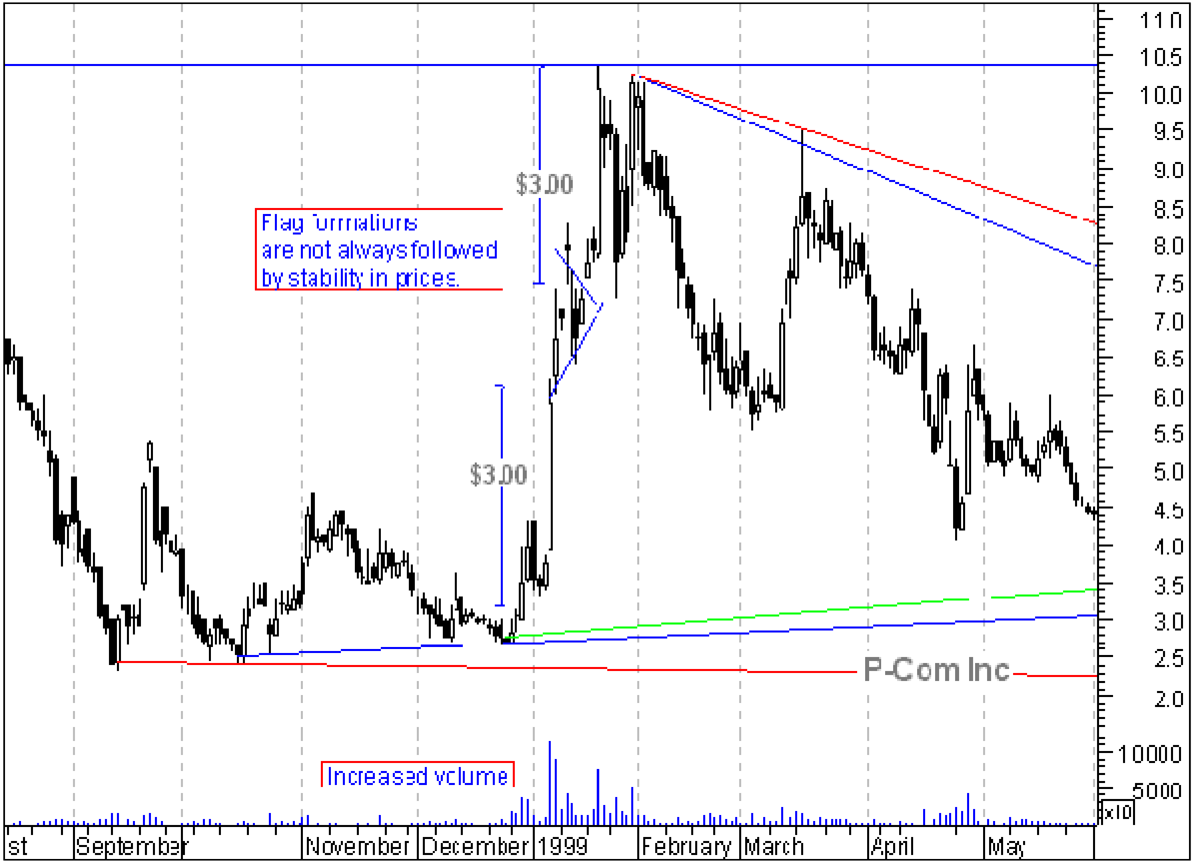
a consolidation of prices. In the chart below you can see that P-Com Inc does not hold onto the $10.00 price range for very long before retreating under selling pressure in February 1999.



All signals and patterns fail occasionally. When a breakout of a flag formation occurs because of support/resistance areas that may be present above and below the flag. A lack of reaction to support/resistance areas

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motivates a higher sense of conviction that the direction of the breakout will continue. This type of formation can be extremely persuading as a tradable event but also carries a high level of risk as any fast, sharp run up in price is prone to the possibility of a deep correction.

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Head and Shoulders

Head and Shoulders patterns resemble the upper part of a person's body, specifically a shoulder on either side of a head. The line connecting the left and right armpit is referred to as the neckline.

After a rise in the market, if a formation that looks like a head and shoulders is forming and price breaks through the neckline after completing the right shoulder, this indicates a possibility that a reversal of the price trend may occur. A head and shoulders pattern can also occur at the market bottom. When it is at a bottom the formation is inverted, like someone upside down.

Volume is usually highest during the left shoulder formation. As prices slip back, volume recedes, when a second rally forms, volume is again high, the head of the pattern is formed when surging prices and volumes begin to ease and fall back again. The trough between the head and the right shoulder must be below the peak of the left shoulder for the pattern to be

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considered a head and shoulder pattern. The right shoulder is another rally in prices but typically volume is lower than the volume that created the left shoulder and the head. Once the head and shoulders formation is complete, a breakout down through the neckline is can be a good indication that the trend of prices will continue in the direction of the breakout.

Sometimes head and shoulders patterns can be more apparent on indicators than in price action. The pattern is valid when it occurs on an indicator but does not mean a reversal of the price trend will necessarily occur. Momentum indicators like the MACD shown below can diverge from price for some time and so it is strongly recommended to wait for

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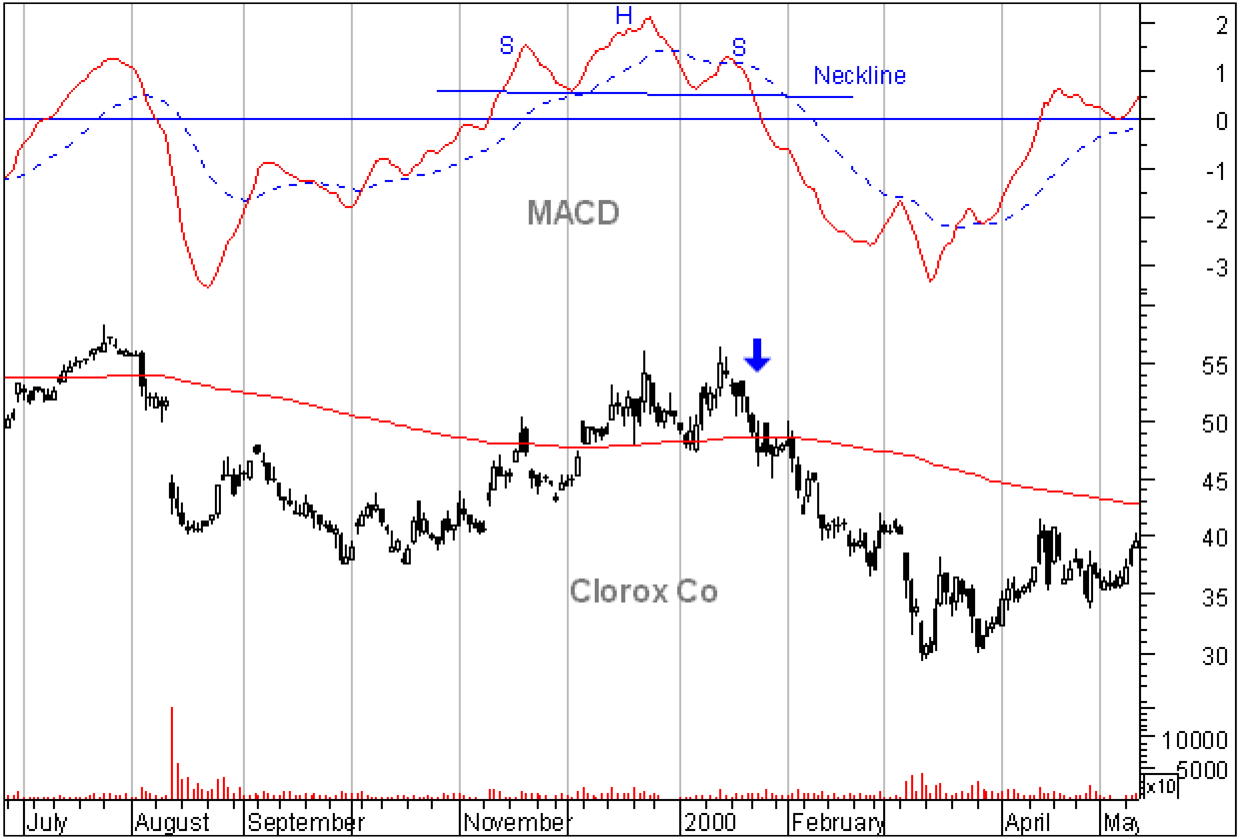
price reversal to occur before making trading decisions.



All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

Breakaway Gap

A Breakaway Gap is a breakout of a trading range or movement out of a pattern where the price begins trading above or below the previous days price so that an area or gap materializes in the price action of the underlying interest.

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To the right technical studies are examined in more detail. Click on

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any of the terms to take a closer look.

A closer look at breakaway gaps

In the case of a gap to the upside, where initial enthusiasm results in an opening price far above the previous days closing price, there are arguments for and against trading strategies based on this occurrence. Some traders look for small gains intra-day on the day on which the gap occurred, and then either closing or minimizing the position by the close of the day.

For downside gaps, some strategies call for intra-day trading in the direction of the gapping security while others interpret a gap as a warning signal of diminished demand and implement a trading decision based on that occurrence.

Trade strategies that involve the occurrence of a gap in price action can be risky due to the high potential for a whipsaw or reversal. Other confirming indicators and data should accompany any trading decision when gaps are involved.

For longer trade horizons, gaps can have many different implications and could provide very poor trading results if the security later looses momentum and reverses the trend. A gap in itself is an instance of

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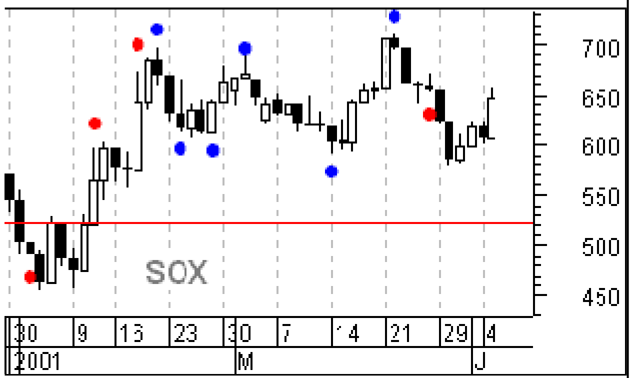
increased demand or supply that needs to be fully understood prior to becoming a tradable event.

Several gaps in the price plot of the S&P500 Index are the result of strong overnight bias leading into the trading day that results in an opening price that differs from the closing price the day before. When a gap is the result of a breakout from a channel or trading range, as if it is the result of an event or perception of an event that significantly alters supply and demand, it can predict a continuation of that movement.

A closer view of the most recent signals. You can see the short trend immediately prior to a critical day, reverses coming away from a successful critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at trading applications and tech studies to develop a sense of trend reversals and use.



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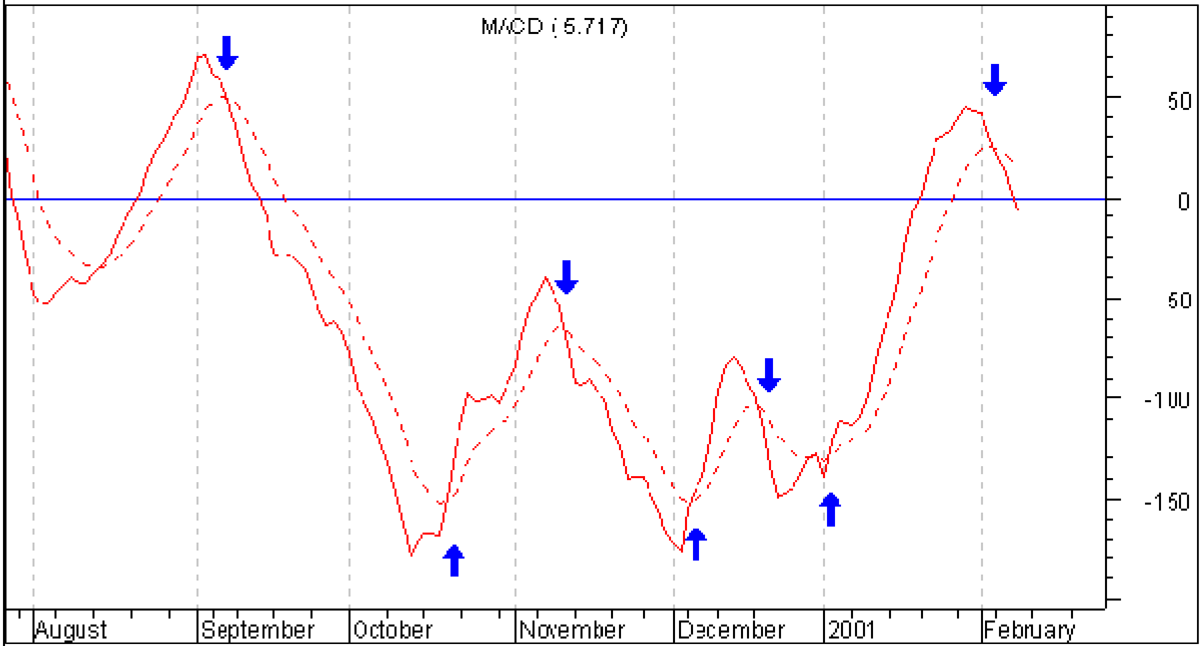
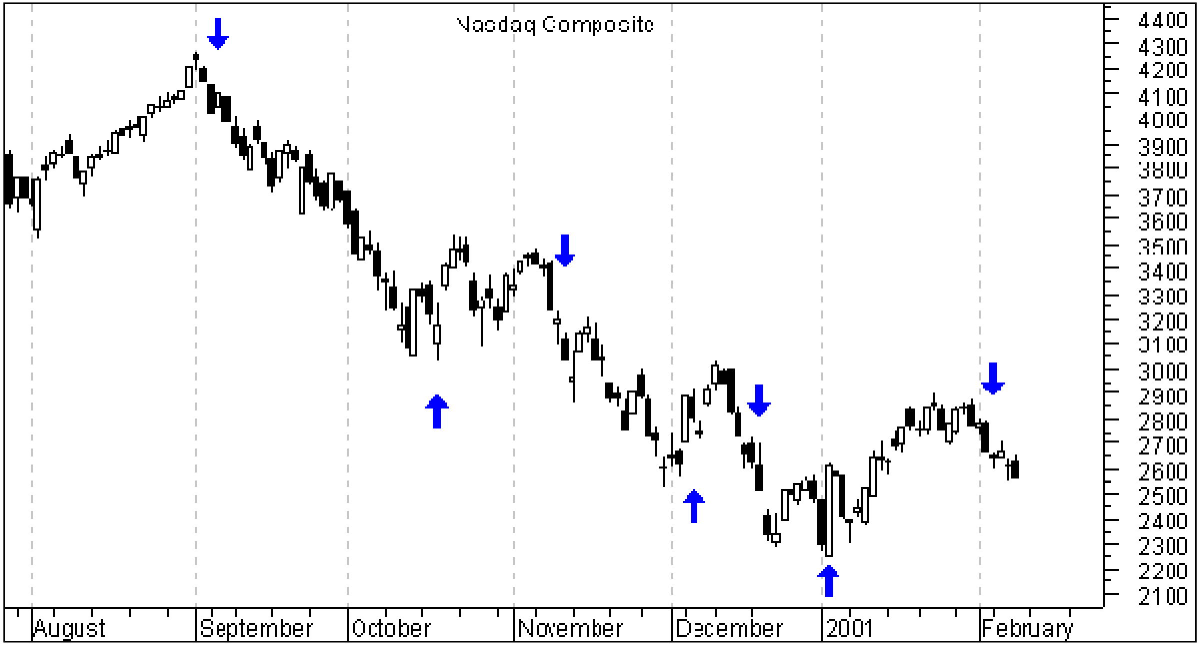
MACD

The Moving Average Convergence/Divergence indicator (MACD) is calculated by subtracting the value of a 26-period exponential moving average from a 12-period exponential moving average (EMA). A 9-period dotted exponential moving average (the "signal line") of the difference between the 26 and 12 period EMA is used as the signal line.

The basic MACD trading rule is to sell when the MACD falls below its 9 day signal line and to buy when the MACD rises above the 9 day signal line. Traders sometimes vary the calculation period of the signal line and may use different moving average lengths in calculating the MACD dependent on the security and trading strategy.



MACD (5.717)
50
0
50
-100
-150
August
September
October
November
December
2001
February



As you can see from the graph of the Nasdaq and the MACD above, the signals generated by the MACD are trend following, occurring after the market has made movement in a new direction. For this reason the MACD is used more as a conformational tool of the trend and can be used in trading decisions when combined with other indicators and platforms for decision and strategies.

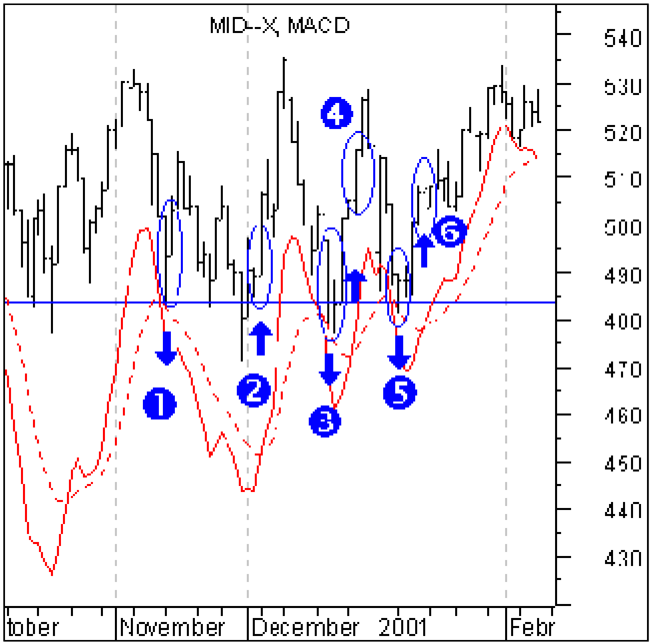
All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

Crossover signals

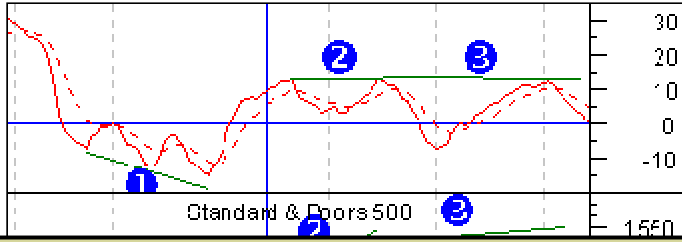
The signal line, which is a 9 day moving average of the difference between two other moving averages, crosses over the MACD and creates a signal. The caution occurs when the market is in a sideways trending motion, where multiple crossovers can occur in a short period of time. This is principally the origin of the need to use other conformational tools when developing trading strategies that incorporate the MACD.

On the Graph MACD signals are shown on a graph of the S&P400 Midcap Index. Notice that the market is trending largely sideways during the period. MACD signals are crossovers and are indicated with numbers. An ellipse has been drawn over the price bars to indicate the days when the signals appeared. Number 1 is a sell signal that is given at the bottom of short trend. The blue horizontal trendline is a support area generated historically that is another technical tool that can be used to help identify the importance of other signals like the MACD. Numbers 1,3,4, and 5 are late signals that preformed badly over the period. Signal 2 and 6 had potential for profitability.

Divergences are another use for the MACD. When there is a divergence between the indicator and the price action of the security being analyzed, there is a possibility of a trend reversal. A divergence between the troughs of indicator and price can indication that rising markets will commence near term. At the number 1, the rise in late May was preceded by a divergence of troughs. A divergence of peaks can be an indication that markets have a possibility of falling near term. The number 2 on the graph precedes a fall in the markets in late July. The divergence between the peaks at the number 3 on the graph precedes falling markets as September got under way in the year 2000.. Principally a



divergence warns of a potential for a reversal of price trend. Conformational evidence in price and other market data and tools should accompany trading decisions.



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Momentum

Momentum is the measure of a price difference (change) over time. The amount of price change and how long it took are the basis for many different indicators that have been developed to help provide information on price, volume and trend integrity. When the trend in momentum reverses but price trend does not reverse, a divergence is said to have occurred and warns of a potential reversal of the price trend. When the trend in momentum reverses price does not always follow and so it is necessary when looking for a reversal of the price trend to wait for confirmation even if a reversal of momentum warns that price may reverse.

There are many different types of Momentum indicators that have been developed to track momentum in the markets. Some of the most common include Rate of Change (ROC), MACD, Stochastic, Williams %R, Relative Strength Index (RSI), Ultimate Oscillator, and Price Oscillator.

Momentum Indicators have interpretive characteristics that are specific to each indicator but they share a few common methods of interpretation. Some momentum indicators have overbought/oversold area's that warn of a higher potential for a price reversal to occur when the indicator value falls

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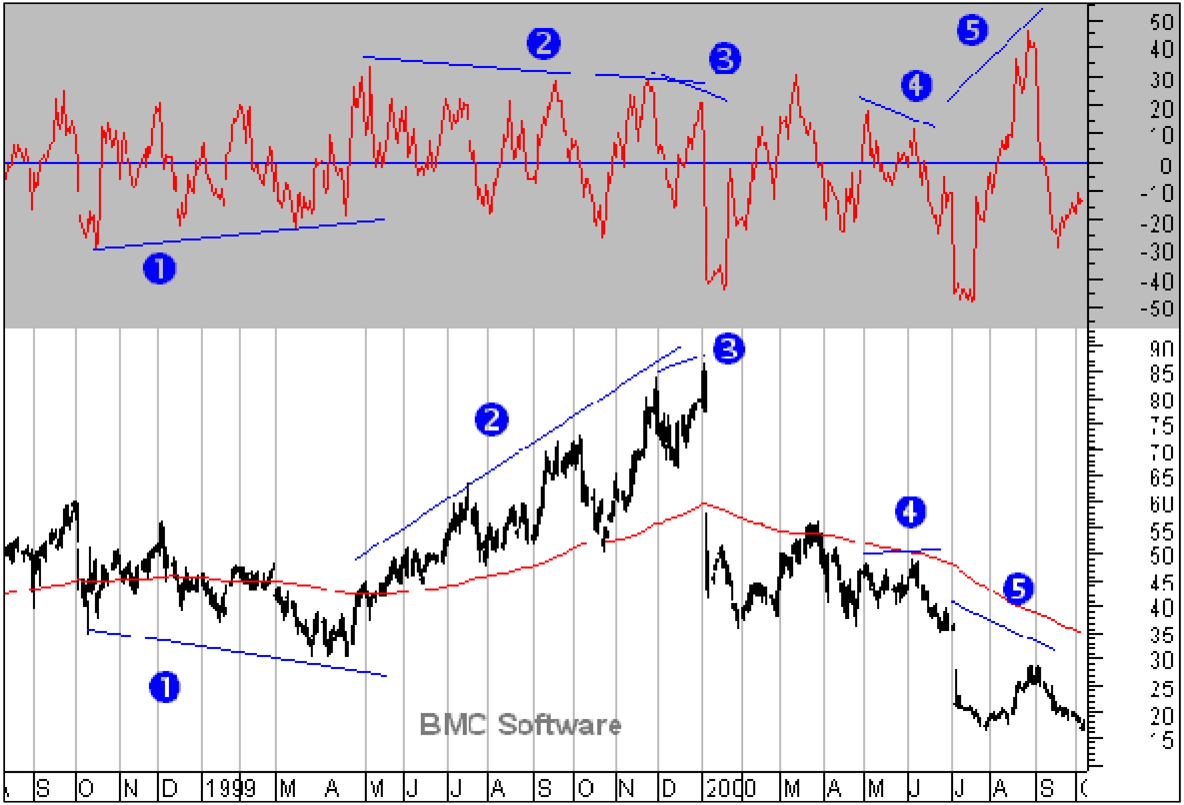
into these area's. At times momentum indicators will diverge from price which also gives warning of a higher potential for a reversal in the price trend to occur. Other methods of interpretation include the use of trendlines, the identification of price patterns on the indicators and crossovers.



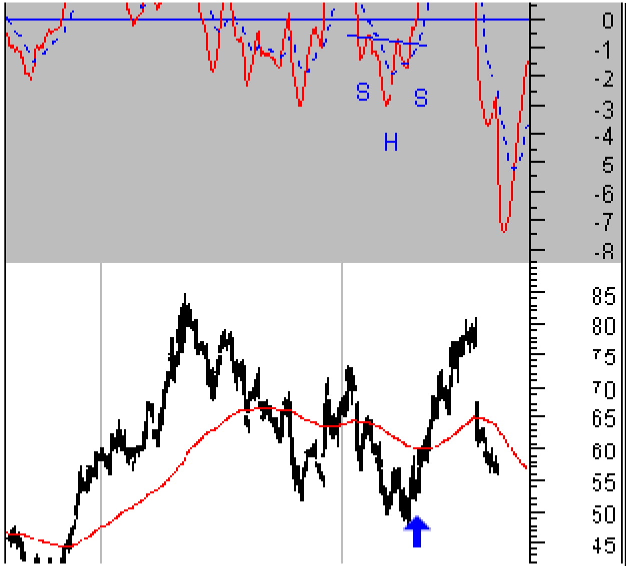
Price rate of change is plotted for BMC Software on the graph above and shows a number a divergences indicated with numbers and a line drawn over the period. When a momentum indicator and price diverge, it gives a higher risk of a reversal of the price trend. The longer a divergence is in effect the more drastic the reversal is likely to be. The caution is to wait for price to reverse as indicators and price can be in a divergent state for extended periods of time. The more divergences that take place within a specific period of time, the more significant in terms of the eventual price reaction should one occur. Not all divergences will lead to a reversal of the price trend and so supporting evidence such as trendline penetration or breakout from a price pattern can be used to develop trading strategies to make use of these interpretive methods.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

Price patterns and Momentum Indicators

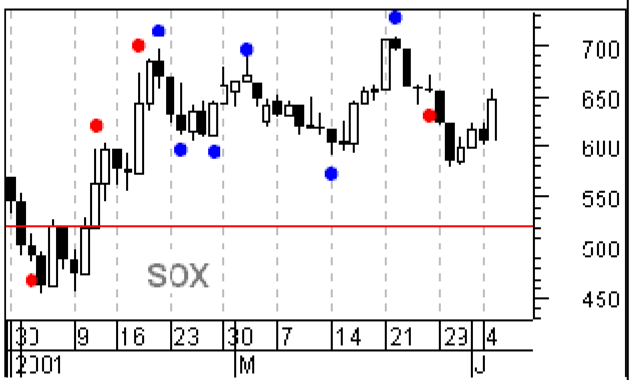
This is an example of an inverted head and shoulders pattern on a MACD 26 day EMA. Price patterns when they appear in Momentum indicators can give indication of trend reversals or otherwise the direction of the next leg of the expected trend. An inverted head and shoulders pattern is a trend reversal pattern that indicates that price will break away from the down trend leading into the pattern and rise on penetration of the neckline.

The blue arrow on the price graph indicates the point at which there is penetration of the neckline in the head and shoulders pattern that forms on the indicator. This is the buy signal.



Generally, price projections can be made by measuring the price change from the peak of the head to the neckline and then projecting that distance from the point of breakout in the direction of the breakout. It is often better to project the percentage change that occurred between the peak and the neckline rather than the price change itself.

A closer view of the [most recent signals.](#) You can see the short trend immediately prior to a critical day, reverses coming away from a successful critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at [tech studies](#) to develop a sense of trend reversals and use.



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Momentum Indicators

Momentum is the velocity of a price move and tracked with a move in a momentum indicator. Some indicators compare the closing price today with some historical price so many periods before, others construct trend lines like the MACD. Others like the Stochastic is a ratio using the high, low and close values on various days. Momentum can be measured in some fashion in many different ways. Interpretation of Momentum indicators can be highly specific to the indicator but many share some basic interpretation features. A momentum indicator can diverge from price either by producing a series of lower highs (or peaks) when price continues to produce higher highs (peaks) or vice versa. The troughs can also diverge, where either the indicator troughs are making higher lows while price is making lower lows or vice versa. When a divergence between price and momentum occur it leads technicians to consider the possibility of a trend reversal. Good technicians know that a divergence can remain in existence for a long period of time and so know that it is a good idea to see price reverse first before making trading decisions. It is also important to realize that a divergence between momentum indicators

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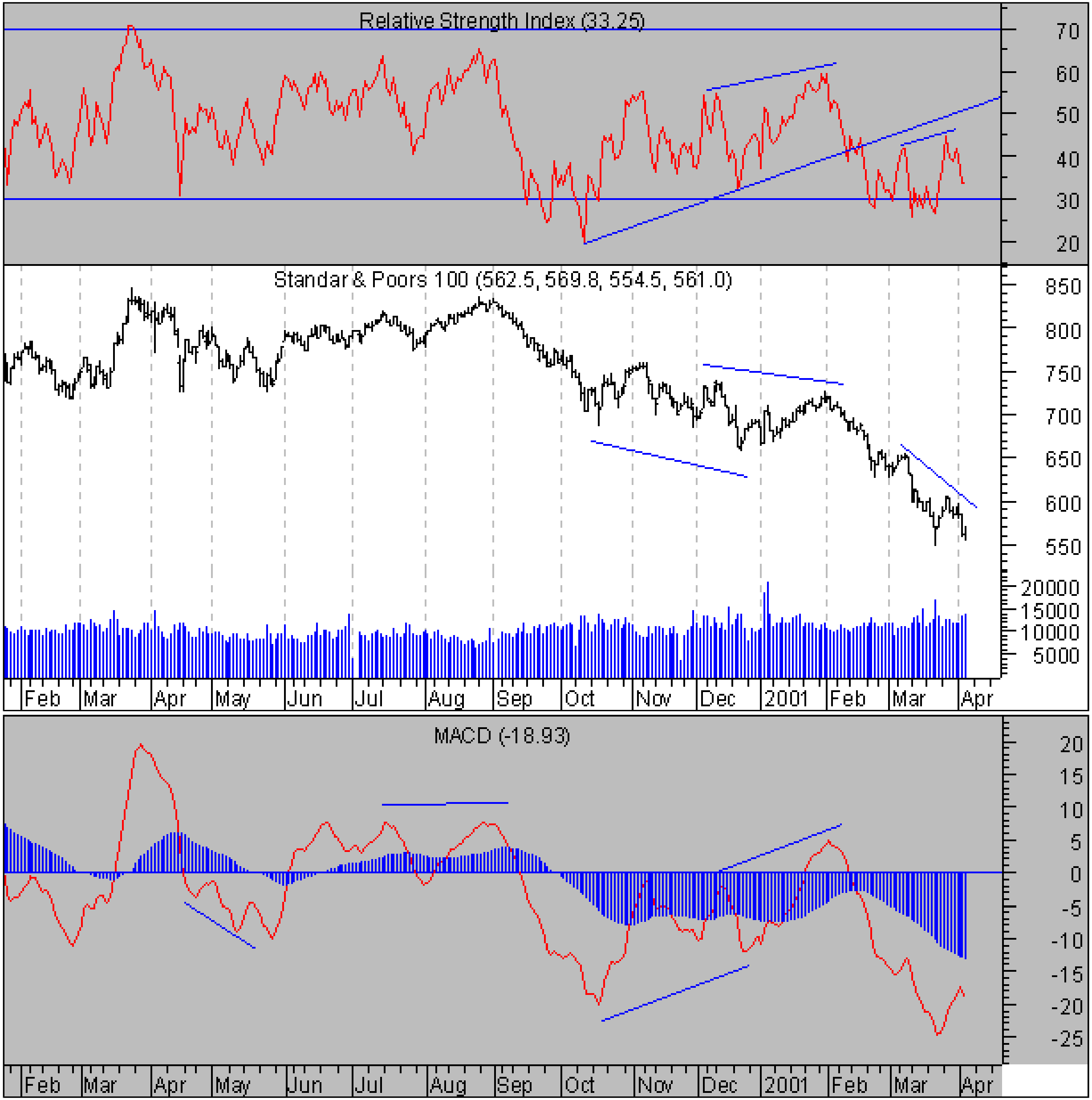
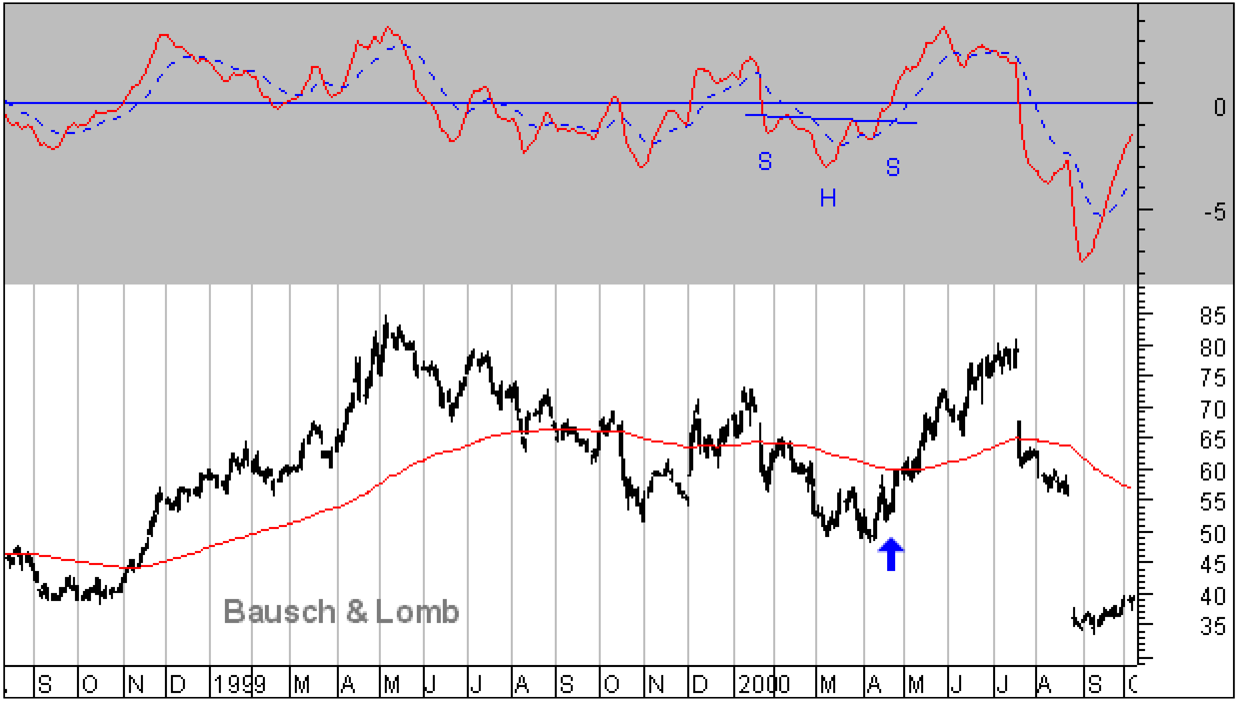
and price does not always precede a price trend reversal.



Momentum indicators can exhibit price patterns that give bias to future price activity like this inverted head and shoulders pattern on Bausch & Lomb.



Momentum indicators can often be interpreted using oversold and overbought conditions specific to each indicator or by looking for zero line crossovers or in the instance of MACD, crossovers of two moving averages. Stochastic and Williams %R can be interpreted using crossovers from overbought or oversold territories into the center area of the indicators.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding

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of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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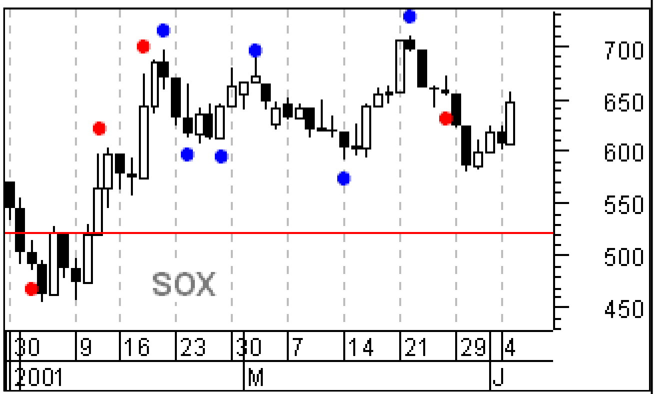
A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



Multiple Linear Regression

Multiple regression is a mathematical technique used in both technical and fundamental analysis. The technique uses a number of variables to predict some unknown variable. If for instance it was felt that the growth rate, debt to equity ratio and the yield of a stock might be useful in predicting a valid range for a price earnings ratio, then multiple linear regression would be used by a financial analyst with a range for each input, and allowing for a range of possible Price/Earnings ratios that might be supported by the current and projected fundamentals of a stock or stocks in question. In technical analysis simple regression of price changes over a period of time can help identify what has been acceptable in terms of valuation levels and project those acceptable levels into the future. Different time periods produce different regression results and can help identify potential price projections when the major long term trends of the market change direction.

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Regression studies can also help identify potential trend reversal area's. Early identification of trend reversals is one of the most important functions of good analysis. Using regression lines and channels, an investor can look for early identification of reversals in price after penetration of a previously validated regression channel. Penetration outside of a channel is an indication that a reversal of the price trend is in a higher risk of occurring. At that point a shrewd investor is looking for evidence to support or refute the indication to avoid whipsaws and to identify potential profitable trading opportunities. As you can see in the graph below of the Amex Hong Kong 30 Index, penetration of the first

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regression channel occurred in September of 1998. The price trend reversed after that from a downward sloping trend in prices to an upward trend in prices that lasted over 2 years. The second regression study shows early penetration in May of 2000, with a reversal after the penetration where prices rose back inside the channel for several months before a second penetration in September of 2000 followed with declining prices, effectively a reversal of the long term trend of prices.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a

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number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

Neckline

The neckline is a trendline that is part of various patterns such as the Head and Shoulders pattern or the Double Peak pattern and is used as a trigger line to indicate potential significance for the future path of prices if penetration occurs after the completion of the pattern as a whole. Here are some examples of necklines found throughout the site. A penetration of the neckline is an indication that the price trend will continue in the direction of the breakout. All patterns and technical studies fail at various times and so it is a wise idea when investing to build a wide body of supporting evidence for any trade that you make.

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Above is a head and shoulders pattern. Below is a double top pattern.

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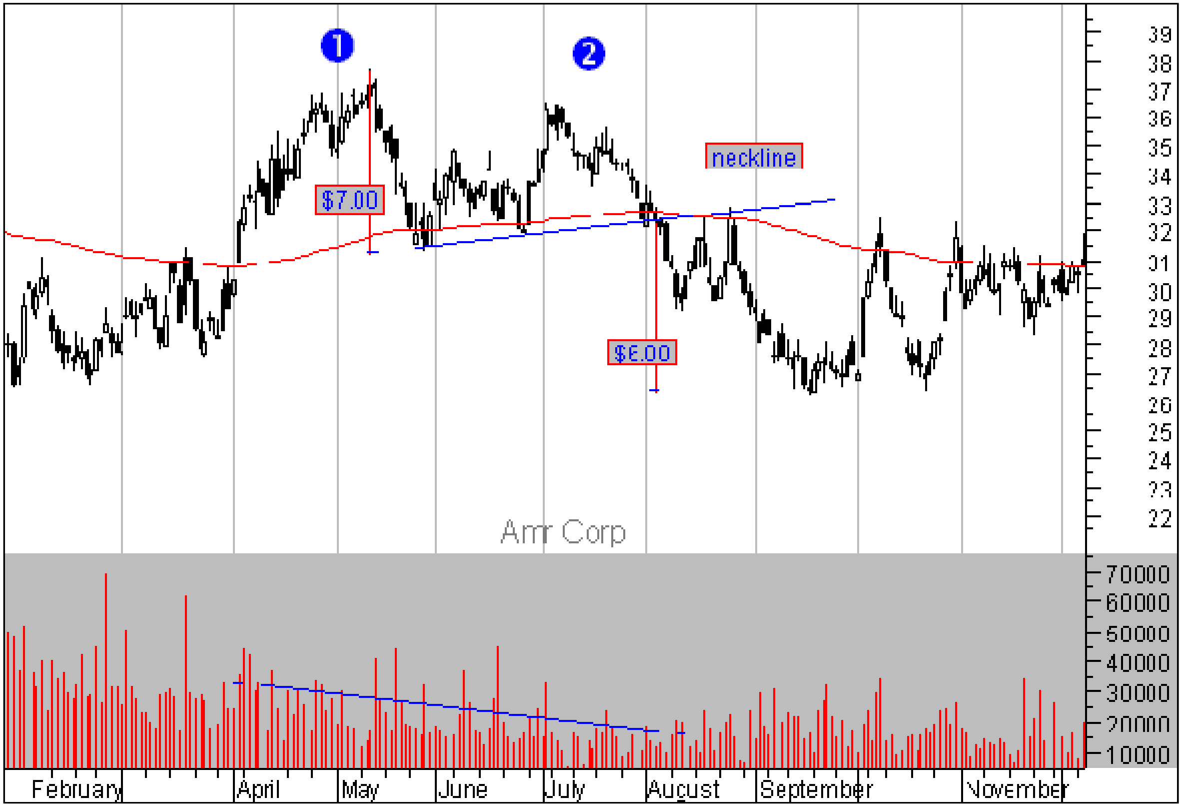

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All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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NegativeDivergence

Divergence refers to a comparison of price to technical indicators or other price or sector price data. It indicates that the movement of one data trend is moving in the opposite direction as another data trend. This can refer to price, the value of an indictor, the value of an index or indices, or any tradable that has price and volume data. Divergences can signal a coming change in trend when the normal state of affairs is for both items that are being compared to move in synch or "in gear" as it is sometimes referred. Negative divergence refers to the state of affairs when the peaks of price trend and the peaks of an indicator or another security that normally move together have diverged. As an example, price may be making higher highs with each new peak while a momentum indicator might be making a series of lower highs with each new peak. Momentum would be said to be deteriorating and could be a sign that a reversal of the price trend is at risk.

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As you can see on the chart above of Andrew Corp, negative divergences can exist for long periods of time before price trend undergoes any sort of reversal. At times you will notice that a reversal never comes but instead the divergence leads into another bullish run where the indicator will once again move with the peaks of price. It is important to have other confirming evidence of price trend reversals and other supporting evidence of a trade before investing in a trading strategy.

On the graph above of Ingersoll-Rand Co, there are a number of divergences present between price and the MACD indicator plotted against price. Negative divergences warn of deteriorating momentum in prices and a possible reversal of the price trend. Positive divergences are indicated with red lines and blue arrows on the right half of the graph and indicate a potential reversal of the price trend. Generally when there is a divergence between the peaks, it implies that downward moving markets may result. When a divergence of the troughs occur, the implication is for prices to rise.

All formations, patterns, indicators and technical tools fail at various

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times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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Questions or comments?

Revised: May 14, 2001 .

Disclaimer

*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

On Balance Volume

Volume is the number of shares or contracts that change ownership over a given period of time. It is an indication of supply and demand that is independent from price and can relate a great deal about the relative enthusiasm of buyers and sellers in the market place. On Balance Volume is one indicator that is designed to track changes in volume over time. It is the running total of volume calculated in such a way as to add the day's volume to a cumulative total if the day's close was higher than the previous day's close and to subtract the day's volume from the cumulative total on down days. The assumption is that changes in volume will precede changes in price trend. On Balance Volume was created by Joseph Granville and has a number of interpretive qualities and should be used in conjunction with other indications of price trend reversals.

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Another use of On Balance Volume (OBV) is to look at the trend in the indicator. A rising trend in the OBV gives sign of a healthy move into the security. A doubtful trend, or sideways trend in the OBV leaves price trend suspect and a candidate for a reversal of the trend. A falling OBV trend signals an exodus from the security despite price activity and leads to the caution that price may follow if it is not already. As indicated on the graphs above, look for divergences between the price and the OBV indicator. Divergences between the peaks warns of a potential fall in prices. Divergences between the troughs warns of a potential rise in prices.

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*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

Parabolic Stop & Release (SAR)

Parabolic Stop and Release was introduced by J Welles Wilder. The Parabolic SAR is a trend following indicator that is designed to create a trailing stop. This is a point that follows a prevailing trend, giving a possible value for a stop loss order that is far enough away from the original trend to avoid being stopped out with a small consolidation and retraction moves. The trailing stop moves with the trend, accelerating closer to price action as time passes giving the path of the indicator a parabolic look. When price penetrates the SAR a new calculation is started taking the other side of the market with an initial setting that again allows a certain amount of initial volatility if the trend is slow to get underway.

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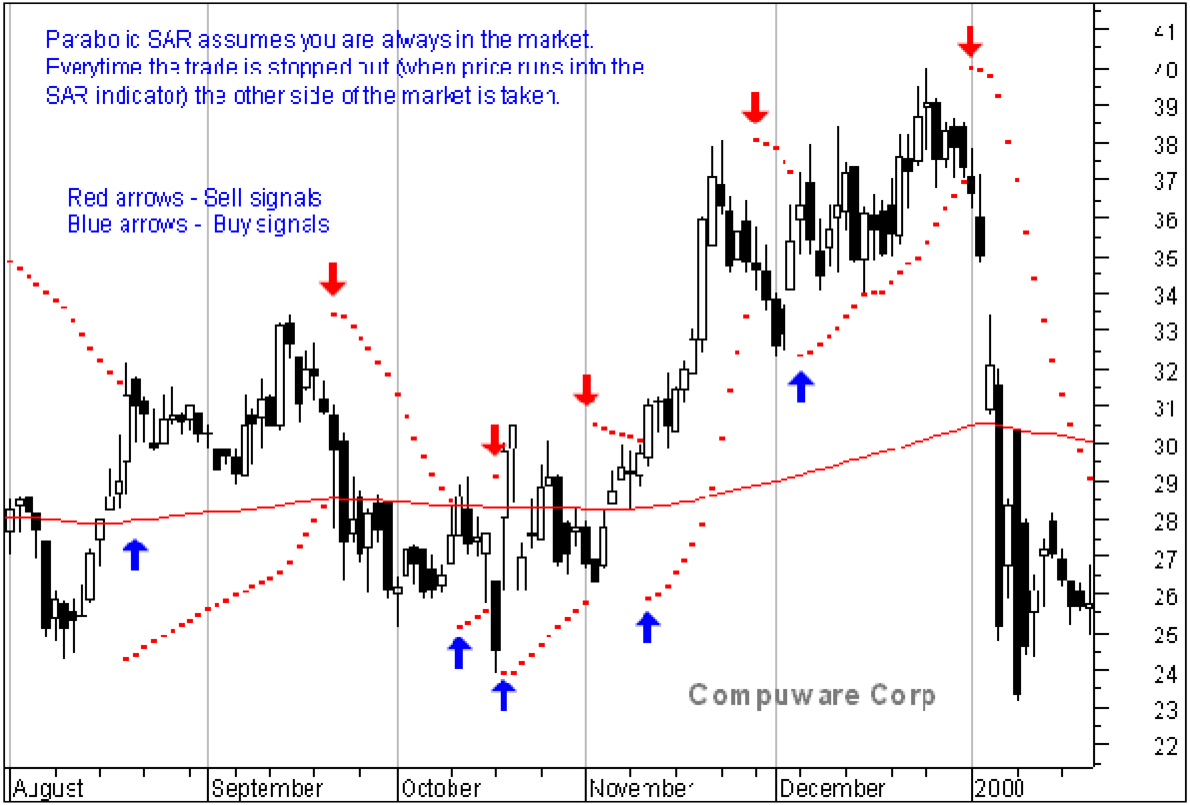

Trading Strategies

The SAR can be used to set stop orders later in the trend or as a conformational tool in confirming the trend. Some traders may consider the SAR for both entry and exit signals but some caution should be applied to this approach as whipsaw losses can mount during a time period of multiple short trend reversals over a short time period.

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Setting Your Parameters

The shape, slope and speed of the SAR, are controlled by three parameters. The starting acceleration factor (AF), the increment that the AF can change when a new price high or low is made and the maximum AF. Choices for these should reflect the price characteristics of the base security being analyzed and the strategy, and personal preferences of the trader using the indicator.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a

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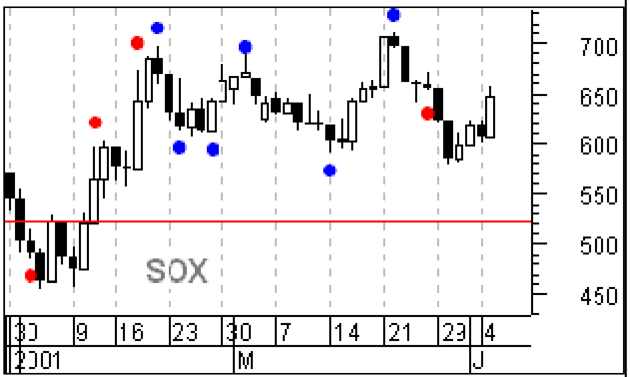
trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



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What if you knew tomorrows market today?

Peaks and Troughs

Identifying the trend of prices and indicators is a very important basis in analyzing price and volume behavior for any underlying security. A simple way of identifying the trend of a plotted price or indicator is to look at the peaks and troughs as time passes.

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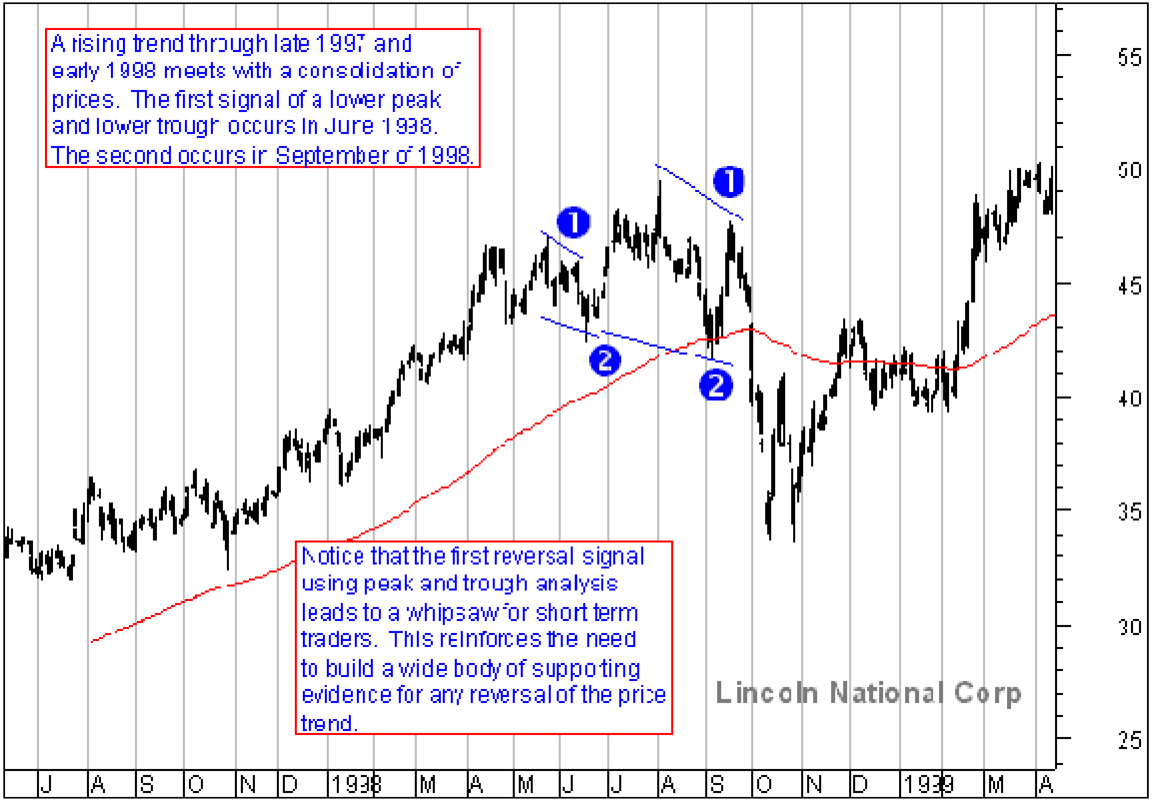
A rising trend is a series of rising peaks and troughs while a falling trend is a series of lower peaks and lower troughs. When prices move sideways peaks and troughs often move in a trading range and can be studied using channels or envelopes.

Trend reversals signals are given when a peak and trough move opposite to the prevailing trend. When a rising trend of higher peaks and higher troughs is followed by a lower peak and a lower trough, there is a higher risk of a reversal of the price trend if prices continue to fall below the most recently created lower trough.



For a valid signal to occur for a price trend reversal using peak and trough analysis, not only does a lower peak and a lower trough have to occur after a rising trend in prices, but in addition prices must then fall below the previous lower trough to be considered a reversal signal. On the graph above for Lincoln National Corp, the first signal would not be considered a full signal, however the second signal would once price dropped below the level of the previous trough. Keep in mind that the movement down is well underway by the time a full signal is given. When projecting possible price moves look at the preceding advance and consider that the price reversal that follows a full reversal signal has

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been known to fall roughly between 1/3 and 2/3rds of the advance.

When looking at time frame. If the advance took 7 months to develop, a consolidation period of approximately 1/3 to 2/3rds of that time frame often precedes a reversal when a reversal signal is given and the resulting reversal is often expected to fall 1/3 to 2/3rds of the price on the rise.

The longer a trend is in place, the greater the significance of a reversal of that trend. It is the same with analysis of peaks and troughs. The longer a peak and trough take to form, the greater the significance when a reversal signal materializes.

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Point and Figure

A point and figure chart is a technique in charting that disregards the passage of time and only charts changes in prices. In constructing a point and figure chart, a "box size" is first defined as the minimum movement in prices that will occur before a plot of the price change will occur. An "X" is displayed when prices rise by the "box size" and an "O" is plotted when prices fall by the box size. No X's or O's are displayed if prices rise or fall by an amount that is less than the box size.

Every column in the chart can contain either X's or O's but not both. When prices reverse, they must reverse by a reversal amount that is then multiplied by the box size before a new column is created.

A new column therefore signals a change in the price trend.

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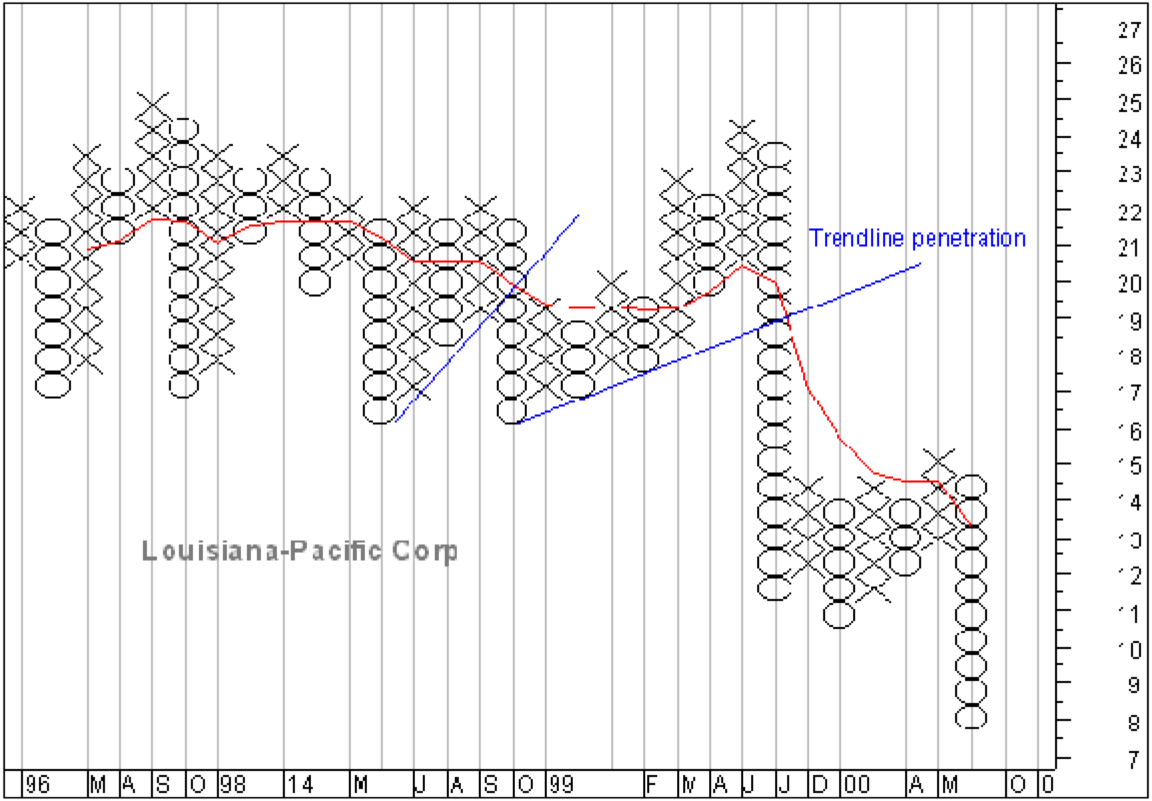

Below is a graph of Louisiana-Pacific Corp during the same time frame only plotted as a candlestick chart of daily prices.

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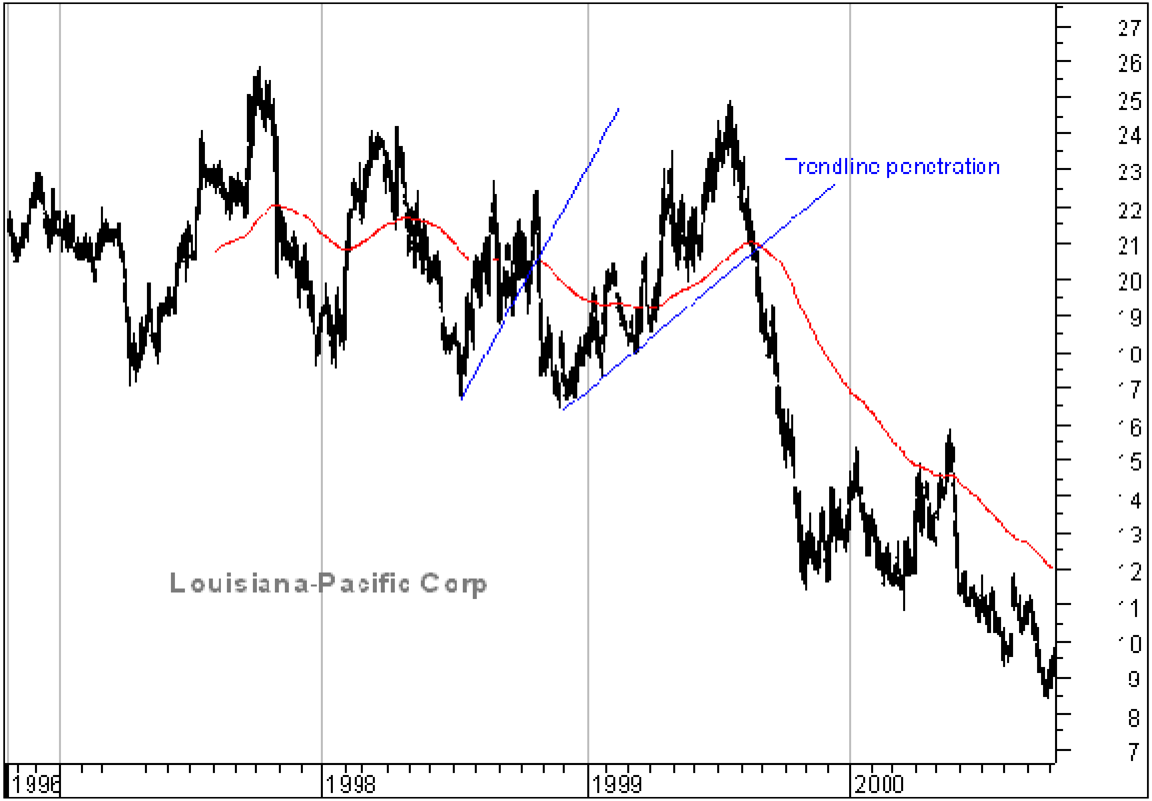

For Point and Figure Charts, only significant prices changes are depicted on the chart. The usual box size is 1 or 2 points for medium priced stocks and 3 to 5 points for higher priced stocks. Reversal amounts are usually defined as being double or triple the box size.

The Point and Figure Chart allows for a visually clear sense of support and resistance levels. Breakouts from a particular level can give indication of where the trend in prices is headed in the future. The longer a price plot moves in a consolidation or sideways movement, the stronger the reaction can be on a breakout.

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These charts allow investors to analyze various price formations and spot buy and sell signals through trendline penetrations and breakout from support or resistance levels. Point and figure charts also allow for a quick assessment of the overall trend of the market and in potentially determining whether price is at risk of reversal.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

Price Earnings Ratio

Price/earnings ration (P/E) is a division of a company's market price over earnings per share. It is an indication of two important factors, the market price and earnings, and displayed in a relationship to each other. Historical P/E values are available and when graphed give a sense of that relationship over time. This can be an indication both of the psychological setting and of economic trend. In looking at past trends both in volatility and in terms market behavior, we gain a stronger basis for looking forward in the market.

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A sense of trends develops when looking at a longer graph of the Price Earnings ratio. Notice that during the period since 1983, the P/E ratio has been moving through a series of peaks and troughs trending higher with definite support and resistance levels at the top and bottom. This in reality is a translation of the fundamentals and growth expectations as well as the various economic cycles that effect earnings. Penetration of the lower boundary is a precursor to a much more significant fall in the P/E ratio for the S&P500 Index. Generally that means much lower stock prices. If however during the next time period, P/E finds support at the

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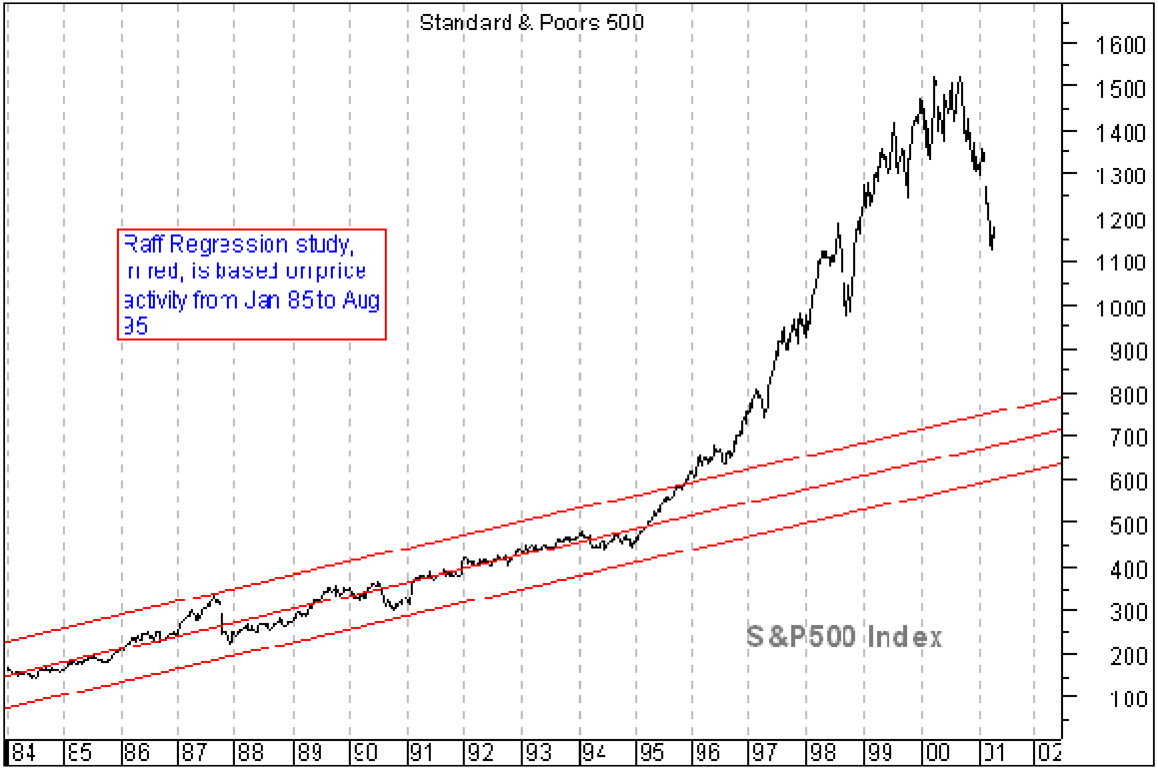
the intersection with the trendline in blue, and moves up, the prompt will be the realization of favorable global economic growth trends and an expanding global commercialism.



The reverse triangle formation on the P/E ratio started in the early 80's. The chart above shows the S&P500 Index during the most recent period since 1984. The peak in prices in 2000 was also the last peak of the P/E ratio. Notice on the P/E ratio graph the previous peak was during 1992 where price was without major break in the longer term trend in market valuation. Lower earnings were the reason for the peak where price was the reason for the year 2000 peak. The second earliest peak in the P/E

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ratio occurs in August of 1987. We can look at the graph of the S&P500 Index P/E ratio and determine what valuation levels might find support given earnings and accepted P/E ratio.

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*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

Resistance

Resistance is the point at which buyers exhaust or selling pressure overcomes buyers or both. A resistance line is a line drawn that connect two prominent peaks on a graph. Generally the correct way to draw a resistance line is to draw the line so that no price penetration occurs between the two starting points.

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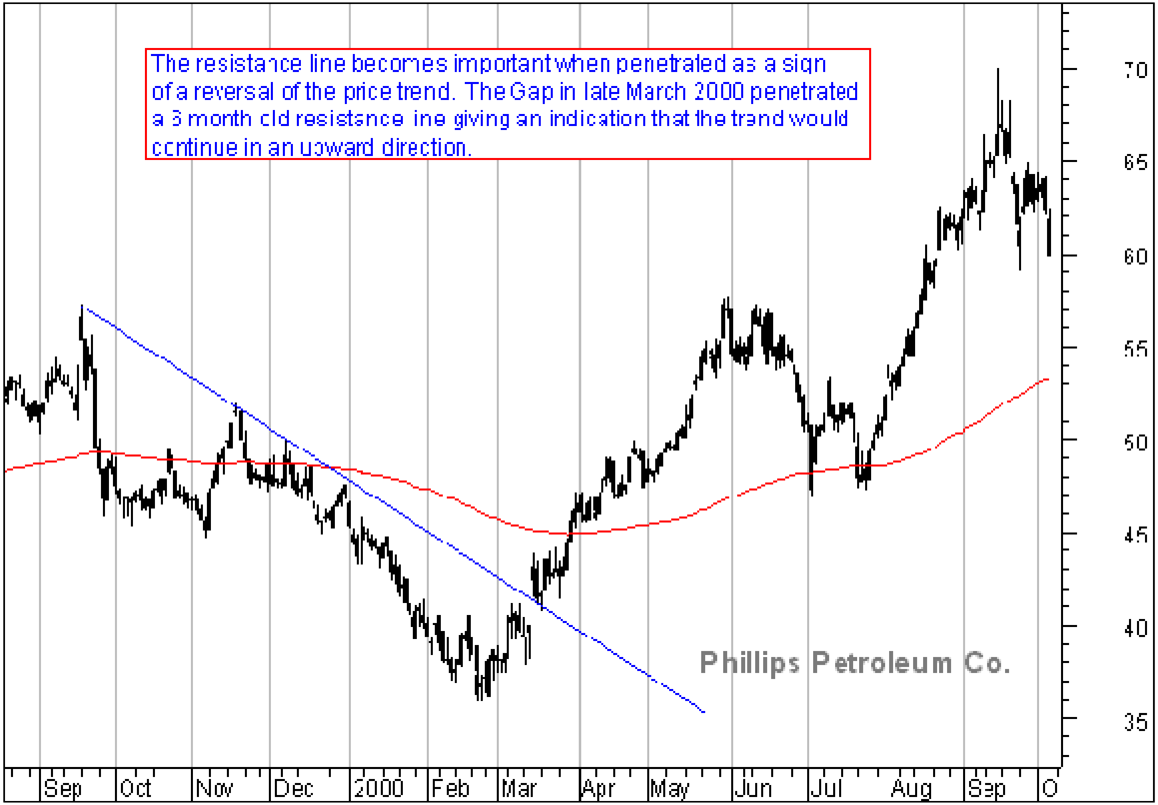

Resistance lines can be used on indicators as well. Below is a chart of Sprint Corp and a plot of the MACD indicator over the same time period. Blue lines have been drawn connecting the peaks (resistance line) and blue lines have been drawn connecting the troughs (support line). The MACD is the plot in red and dotted blue. When the red moving average penetrates the resistance lines from below and rises above it is bullish. When the red moving average penetrates the support lines from above it and falls below the support line it is bearish for prices. Buy and sell arrows have been put on the graph at the crossover point on the MACD and on the price graph on the days when the cross over occurred.

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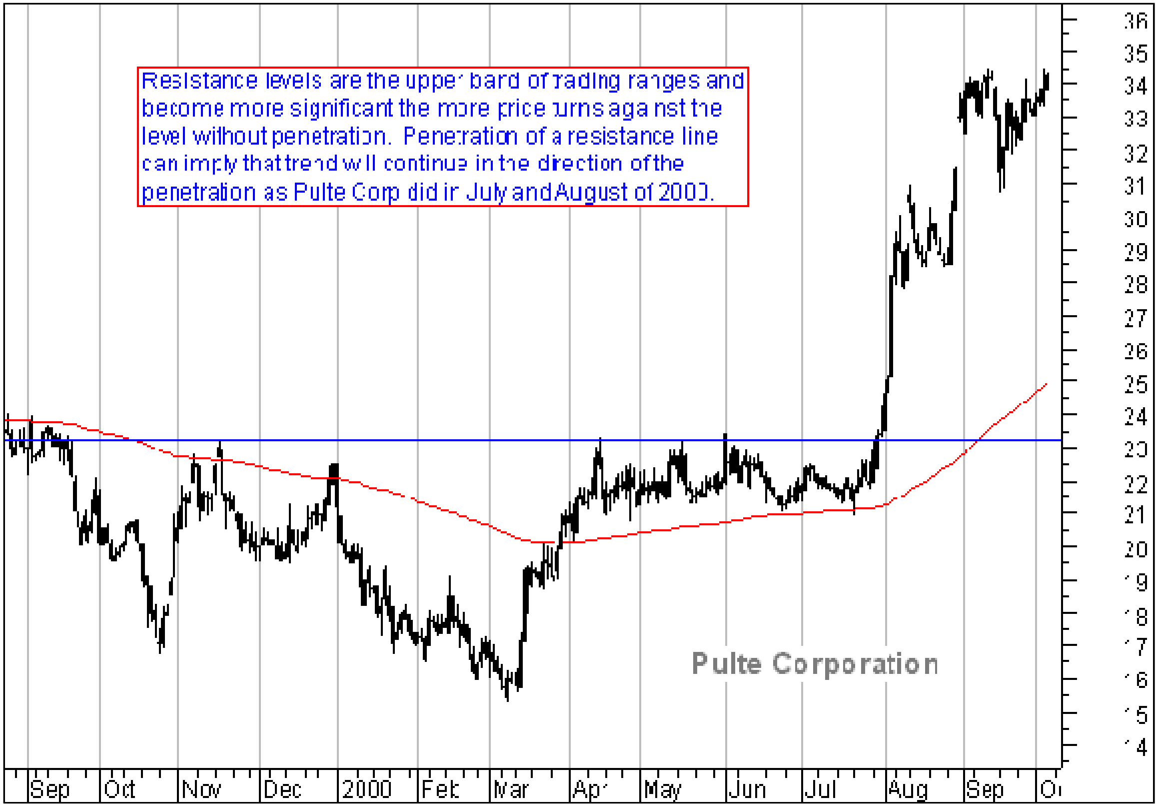

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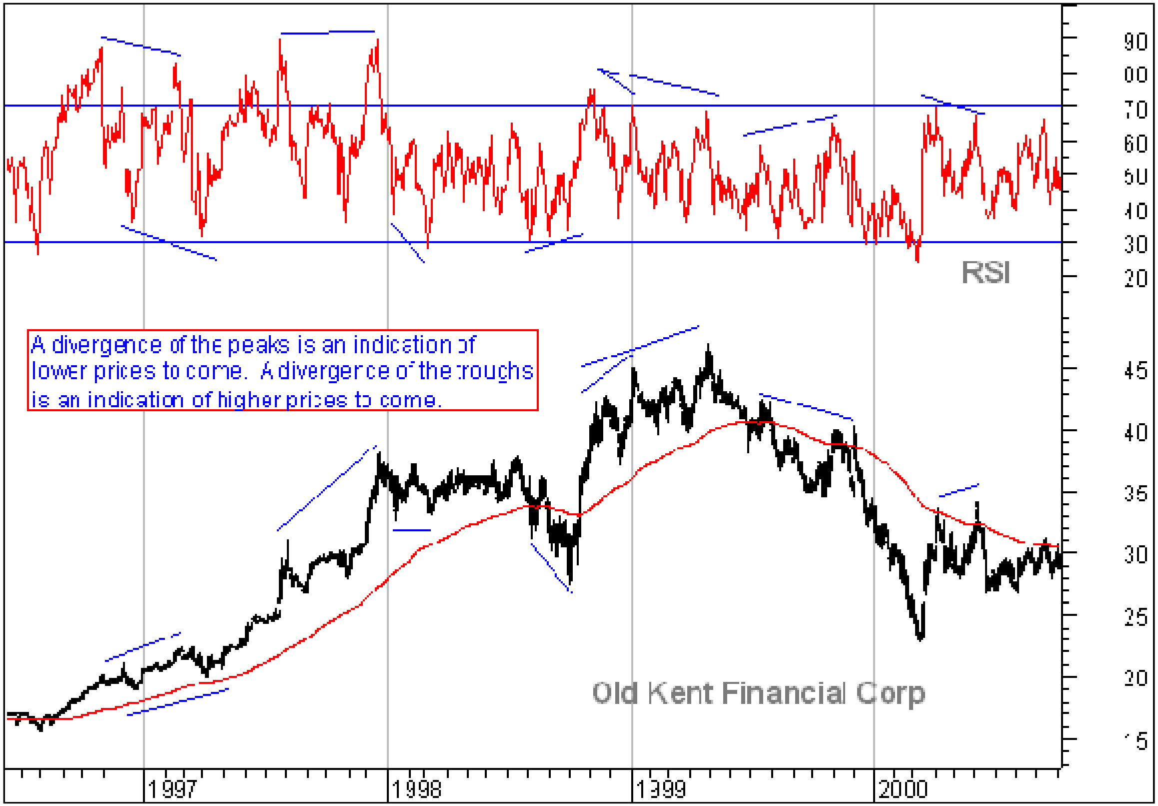
Relative Strength Index

The Relative Strength Index was first introduced by J. Welles Wilder in the June 1978 issue of Commodities (now known as Futures) magazine, later in his book New Concepts in Technical Trading. The index is designed to follow the momentum of price as an Oscillator that ranges between 0 and 100. The index tracks recent price to itself and is therefore a measure of velocity. Divergences are a common form of interpretation for the Relative Strength Index. When the price of a security diverges from a plot of the Relative Strength Index on that security it gives advance warning of a potential trend reversal.



The RSI lends itself to support and resistance study such as trendline penetration and price patterns.

Overbought and Oversold conditions are suppose to be an asset in interpreting the RSI but as you can see Overbought and Oversold conditions do poorly in a strong trending environment.

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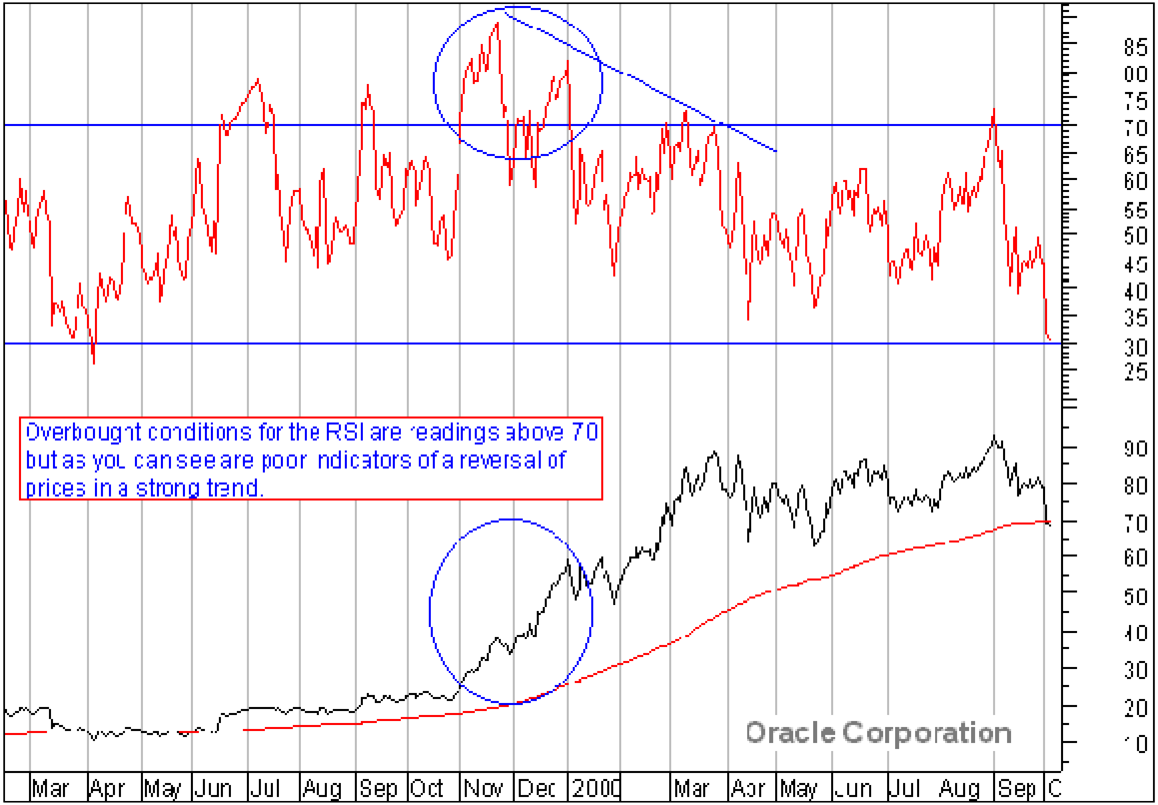

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Rotation

A rotation refers to the movement from one sector or market into another. A sector rotation can give evidence both of the expected performance of the market being sold and of the market being purchased. Evidence of sector rotation can be found in daily market activity when one group of stocks outperforms the market while another under performs. Evidence of sector rotation can also be seen in the longer term trends of various indices.

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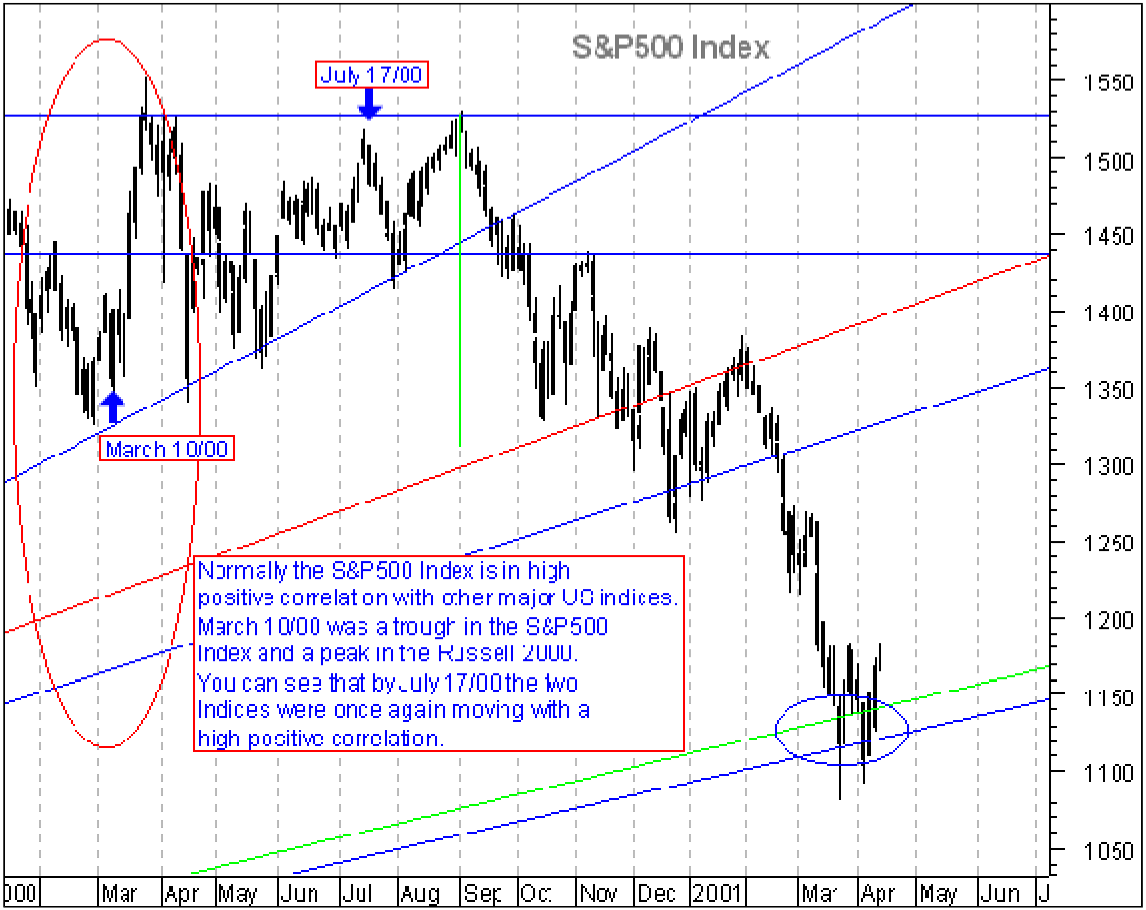

Sometimes rotation can be the result of an expectation of earnings or brighter outlook, or could be the result of rebalancing of portfolios. At times, strategies include a shift into lower P/E , lower book value stocks in pursuit of growth. Other times strategies could be defensive in nature. When a divergence occurs over a longer period of time, and results in diverging trends of prices, there can be a high negative

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correlation that allows for strategies based on the movement in one direction for a security or index and the anticipation of movement in the opposite direction for another security or index.

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Short Selling

Short Selling is the act of borrowing stock to sell with the expectation of price dropping and the intent of buying the stock back to replace at a cheaper price. There are substantial risks with short selling, some of which can be avoided through education on the process. Short interest is a measure of the total share volume that is currently short the stock. When a person short sells, the order must be identified as a short sale and these statistics are kept for each stock by the exchange. Short interest can be a source of demand if buyers become enthusiastic for the stock and price rises prompting some short sellers to reduce risk by buying back stock to replace and closing the short position.

A short interest ratio is found in several newspapers and databanks and is a calculation of the latest reported short interest positions for the month divided by the daily average trading volume. A high ratio is considered bullish while a low ratio is considered bearish. A ratio of 2 is considered 2 days potential buying power.

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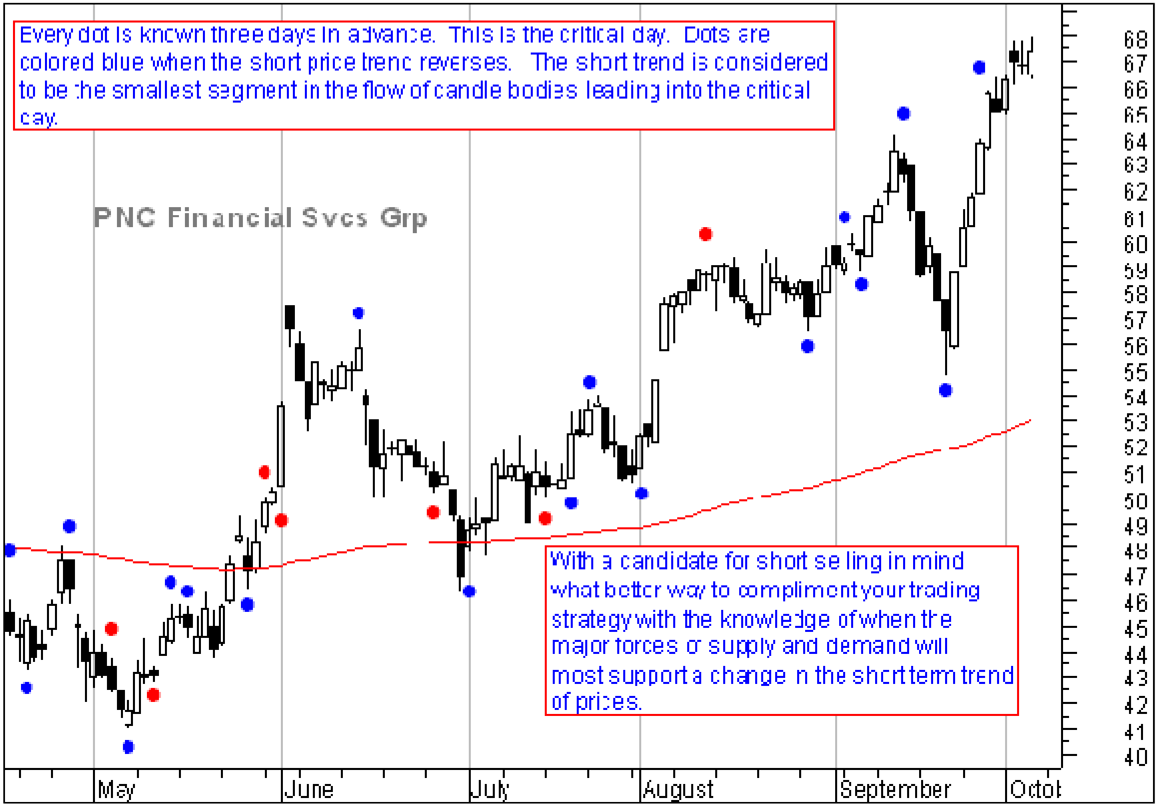
The short interest ratio is called a contrary opinion indicator because an increase in short selling is an indication of a strong potential demand element as short sellers are likely to close positions quickly if the market price proves them wrong. Clearly it is necessary to have a fundamentally based informed opinion on the potential for price reversals during periods of high short selling to see this as a valid approach.

Odd lot short sales has been considered a measure of uninformed investors and was used by investors to give evidence of market bottoms as late comers to the market were considered uninformed. This is less valid for the current market.

Specialists short sales are also available as a data source for measuring short selling. This is considered the smart money. Often investors watch the ratio of specialists short sales to total number of short sales to give an indication if the smart money is bullish or bearish. This can be distorted by the increased use of derivatives in the recent times. A short sell can be used as part of a bullish strategy as so can skew the basis for interpreting the ratio.

Our critical day research can be used with stocks that are highly correlated to the major indices. When a critical day is an expectation of a change in direction of the price trend, short sellers have advance warning either to prepare an entry strategy or an exit strategy for a position already opened.



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Strategies

First and foremost an investor sells short because the underlying interest is projected to decline in price. Another strategy is to sell short as a measure of protection. This would apply to an investor who owns the stock and wants to lock in a price to be able to sell the stock should the price fall. In this instance the investor is said to be selling against the box. This means he selling short shares that he already owns. Generally options are used as insurance or protection if they are available on the security.

Selling short can also be a tax deferral strategy. Again an investor can sell against the box, locking in a sell price but deferring the actual sell until the next tax year begins. At times, when an investor can't access the stock but wants to sell, short selling the stock until such time as they can access the shares locks in the price while the short sell is in effect.

A short seller can incur significant losses if the market moves against them. Implementing a trading strategy that includes short selling must fit your personal objectives, knowledge and risk levels.

Special Notes

Try plotting the short interest ratio and the Specialist/Public ratio in order to gain insight on historical trends and correlation to movements in market valuation levels. Using a moving average smoothes the ratio, helping to identify trend and filtering out the noise of each periods volatility for the ratio.

Generally a 4 week moving average is used. A Specialist/Public ratio greater than 4.0 is a bearish signal since it indicates heavier weight on the short side of the market by specialists. A ratio below 1.0 is bullish as specialist positions are closed and/or Public positions increase.

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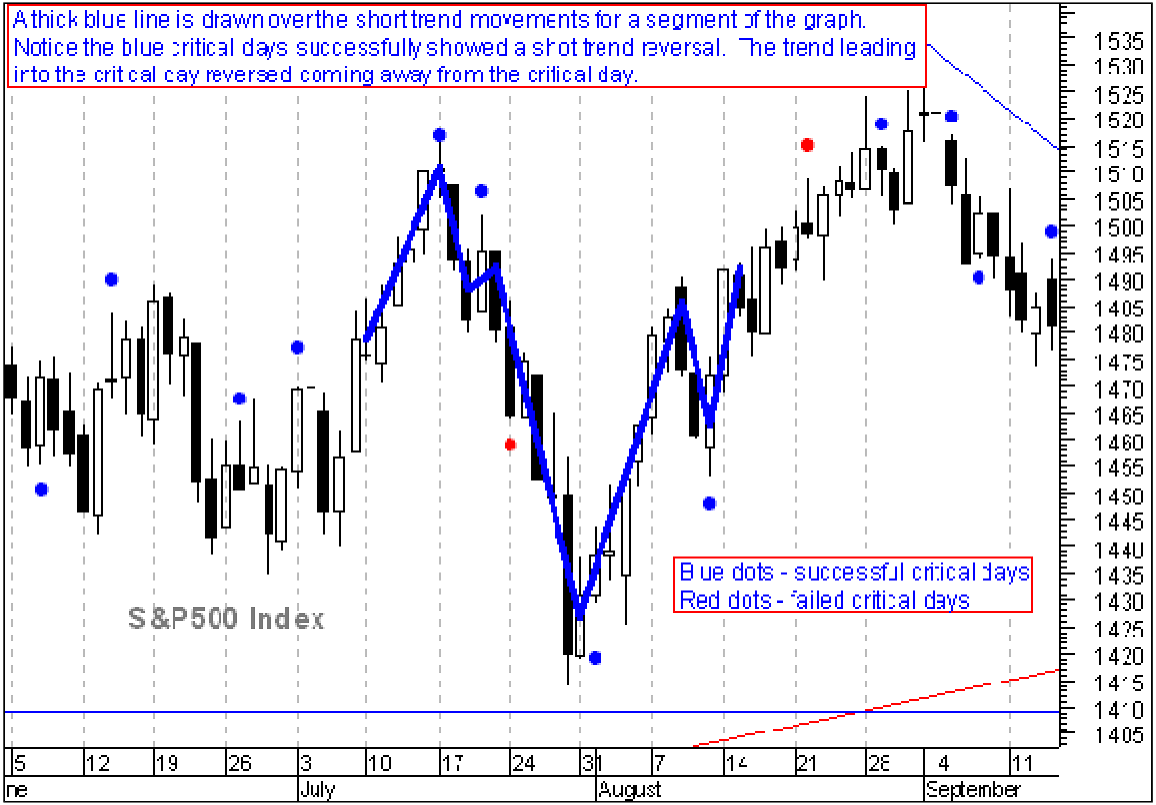
Short Trend

Generally in technical analysis, a short trend is 4 to 6 weeks. In our critical day analysis, the term short trend is used to identify the shortest segment of price action that leads into a critical day or comes away from a critical day. Our critical day is a fruit of our labor and is given to members generally three days in advance of the target day. When a critical day approaches, the short trend leading into the critical day is expected to reverse coming away from the critical day. Below are some examples of both the definition of the short trend and critical day response.



We average 5 signals a month and have a better than 80%* success rate since 1994. A times, like the July 20/ 2000 signal which is the blue dot right before the failed signal in red on the thick blue line segment, a critical day indicates the end of a consolidation of prices. The July 20 critical day would have been a success if prices rose on the 21st as well instead of consolidating. This illustrates the importance of price confirmation when looking to confirm a reversal of the short trend. In the case of the July 20 signal it was important to watch other markets for conformational evidence for whether the critical day would mark a consolidation or full reversal of the short move down into the critical

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When looking at the short trend as we have defined it for use with critical day analysis, it is easier to plot a candlestick graph and look at the the flow of candlestick bodies flowing into the critical day and then away from the critical day.

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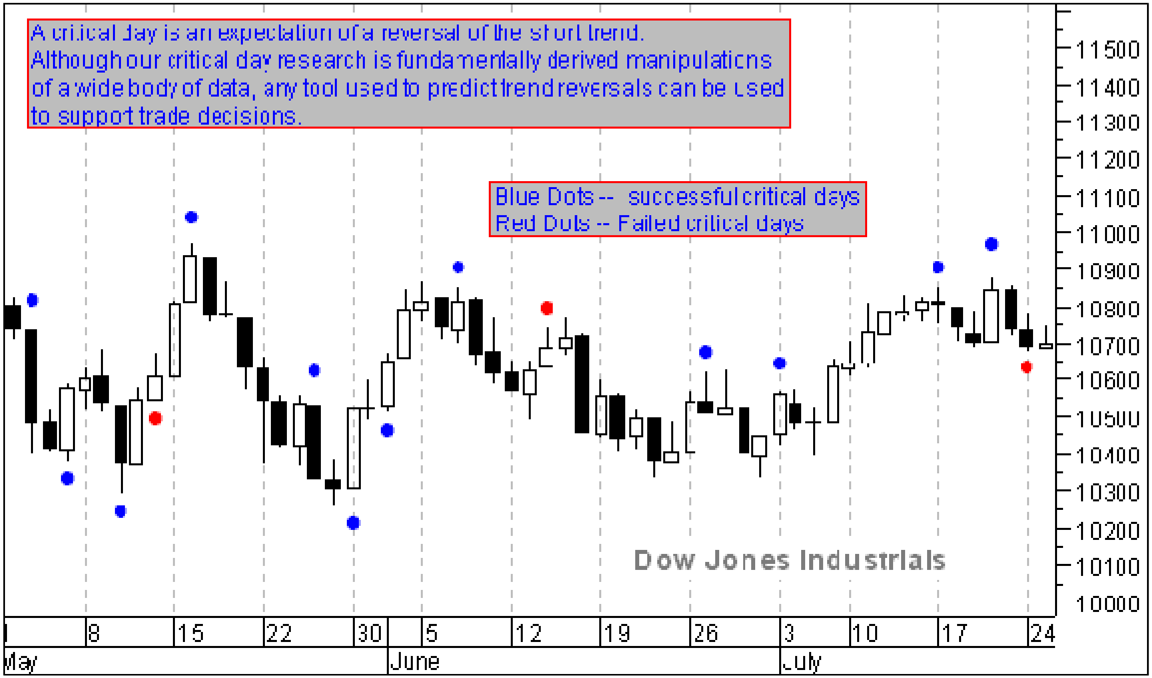

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Standard Deviation

Standard deviation is the measure of tightness of a probability distribution. It is a statistical measure of volatility that can be used for a number of different purposes in investment decision making. Standard deviation can be used to make important extrapolations from past data. As a measure of volatility, standard deviation measures the tendency of data to be spread out. When looking at the historic returns of a mutual fund, standard deviation can be used to measure the variation of expected return that has taken place in the past giving a sense of range of performance that can be expected given different probabilities of return for the future. It is also used to measure the risk of a security. The smaller the standard deviation, the tighter the probability distribution, and the lower the risk associated with the security.

Standard deviation is calculated by first calculating the mean of a group of data points. There is a minimum number of data points that are necessary to calculate the standard deviation properly. The mean is

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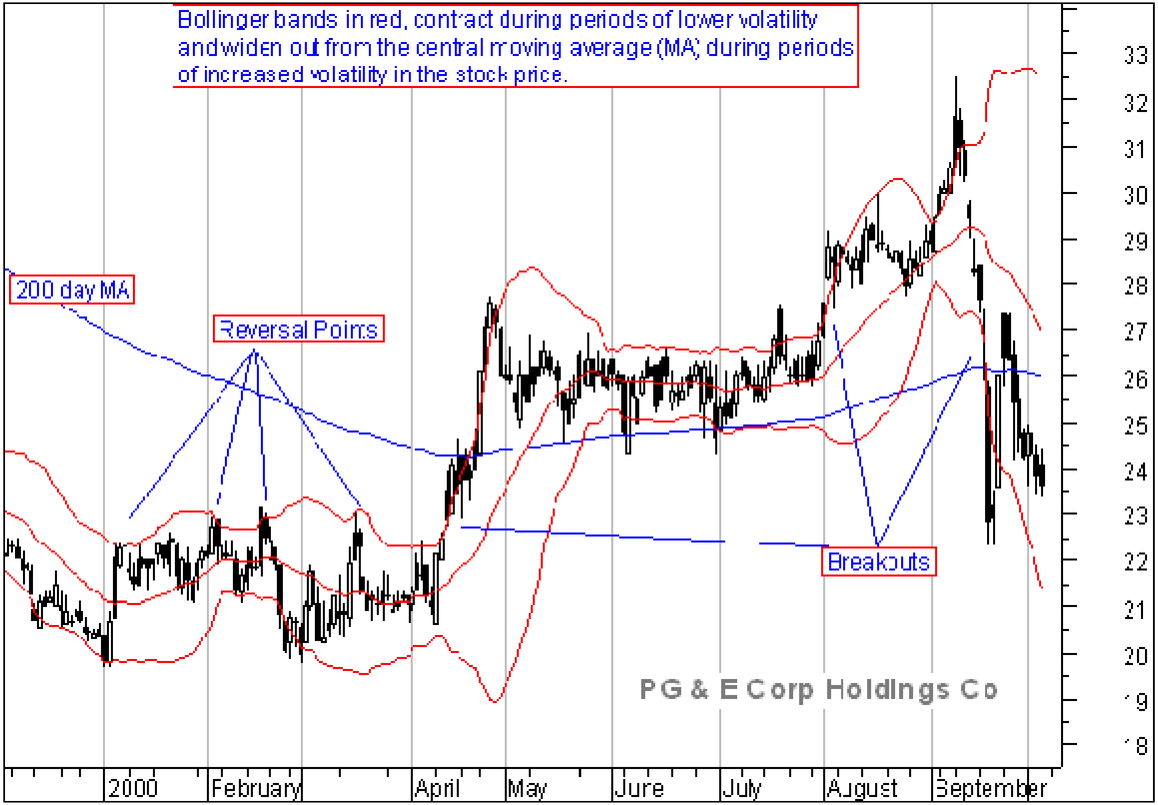
then subtracted from each element of the data group. Each of the differences is then squared and then summed together. The sum of all the squared differences is then divided by the number of data points minus one. The square root of that end figure is then determined and is called the standard deviation. The advantage of standard deviation is that it uses every value in the population or group of data being used.

Standard deviation can be used to measure the variability or volatility of any data set. An example is monthly or quarterly Price/Earnings (P/E) values for a particular security, or average sales over a specified period. If the data points are normally distributed then standard deviation gives you the probability of future data points falling within a certain range of the current mean. This is a basis for risk assessment and allows comparison between the data sets of various securities.

Another use of standard deviation is in technical analysis. As a measure of volatility, standard deviation have been used in the construction of Bollinger bands as an upper and lower band that are a certain standard deviation level away from a central moving average. In this way, during times of lower volatility, Bollinger bands contract as the range of prices during the period being used for data points gets smaller, reflecting the lower volatility. When volatility increases for a security, the standard deviation lines widen. John Bollinger developed this technique for looking at expected future price projections and potential reversal points. Mr. Bollinger recommends using a 20 period simple moving average and lines that are 2 standard deviations away from the moving average.



The graph above of PG&E Corp Holdings Co uses a 23 day moving average with Bollinger bands 2 standard deviations away from the central moving average. Notice that there are a number of reversal points where price hits the upper or lower band, followed by a reversal of the price trend. There are also a number of breakouts where price penetrates either the upper or lower bands. When price breaks outside the bands a continuation of the trend is implied. Notice as well there are a number of penetrations like late February 2000 where price penetration does not precede a continuation of the trend. It is very important when using Bollinger bands in analysis to have other

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confirming evidence of price trend. Investors often wait for penetration by a certain percentage movement of price before considering a breakout signal valid. In addition, using On Balance Volume to provide supporting evidence of demand or supply is often used.

Another feature of Bollinger bands is the observation that after periods of lower volatility when bands tighten up, there is a tendency for sharp price changes to follow. This can be partly a product of market mechanics for an active stock with excess stop loss and on stop orders building up outside of a trading range as time passes and partly due to the nature of a consolidation or trading range period. A trading range is typically a time of indecision during a time of maturing events and perceptions about the valuation for the security. A breakout can be equated to an interim resolution of indecision.

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Stochastics

The Stochastic Oscillator is a measure of the relative position of current closing price within a given interval. It is an indication of the momentum of an underlying interest. When it is plotted, it is two lines that move within a range of 0 and 100. Values above 80 are considered to be in overbought territory giving an indication that a reversal in price is possible. Values below 20 are considered oversold and again are an indication that a reversal of the price trend is a higher risk. In a strong trending environment, the Stochastic Oscillator can stay in overbought or oversold territory for some time while price continues in a single direction. For any technical indication of the momentum of price it is important to build a wide body of evidence when developing an expectation for future prices.

At a reading of zero, the Stochastic Oscillator implies that the securities close is at the lowest price that it has traded during the preceding x periods (x being defined as the number of periods in the calculation). At

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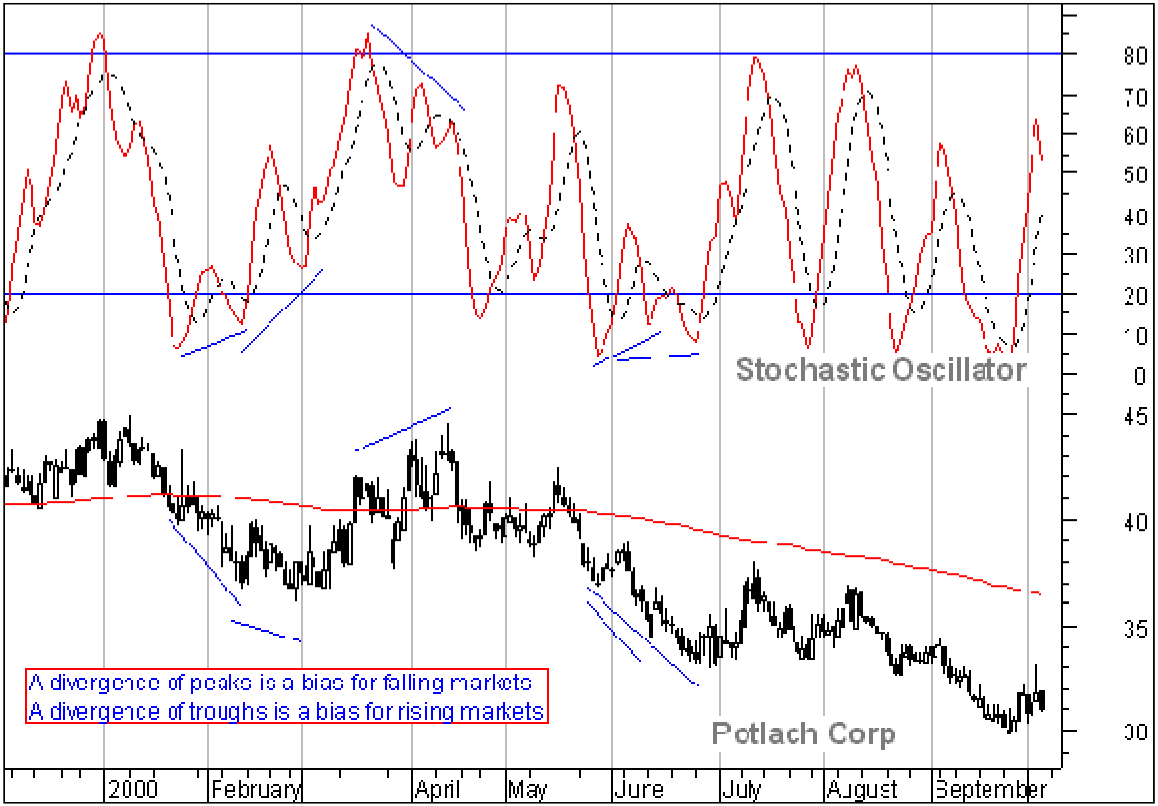
a reading of 100, the Stochastic Oscillator implies the securities close is at the highest price it has traded during the period of the calculation. The basis for interpreting the stochastic is the assumption prices tend to close near the upper part of a trading range during an up trend and near the lower part during a downtrend. Other interpretive qualities for the Stochastic Oscillator is by looking for divergences between the Oscillator and price and crossing over from overbought or oversold territory into the center range of the Oscillator.



The Stochastic is made up of two lines, the dotted line is called the %D which is a moving average of the %K which is a calculation of the securities highest high minus the lowest low as the denominator and the close of the current period minus the lowest low computed as a ratio, converted to decimals and multiplied by 100.

A buy signal is given when the oscillator falls below 20 and then rises above 20, indicating a return of interest in the stock. This type of interpretation requires other supporting evidence to avoid whipsaws or failed signals. A sell signal is given when the oscillator rises above 80 and then falls below 80. The signal is the re-entry into the mid-zone for the indicator. This interpretation works poorly in a strong trending environment.

Traders also look for crossovers of the fast stochastic (solid red) and the smoothed (dotted lines) looking for confirming evidence of a signal to buy or sell.

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Technical Analysis

Technical Analysis is the study of price and volume with the aim at early identification of trend reversals and as supporting evidence of a continuation of the current trend in prices. All long term trends in the market are a result of the fundamental and economic trends the ultimately support valuation levels. Technical analysis finds basis in the translation of changes in fundamentals and economic environment into price and volume. By studying price and volume changes, trends, and indicators used to track various components of market activity, a technical analyst hopes to make early identification of patterns and significant changes in supply and demand that allow for a forecast of prices to follow.

The basis of technical analysis is the understanding of trends. Even though daily activity for any tradable can be volatile and confusing to the average investor, the trend of price and volume are often a clearer representation of the underlying valuation beliefs present given the

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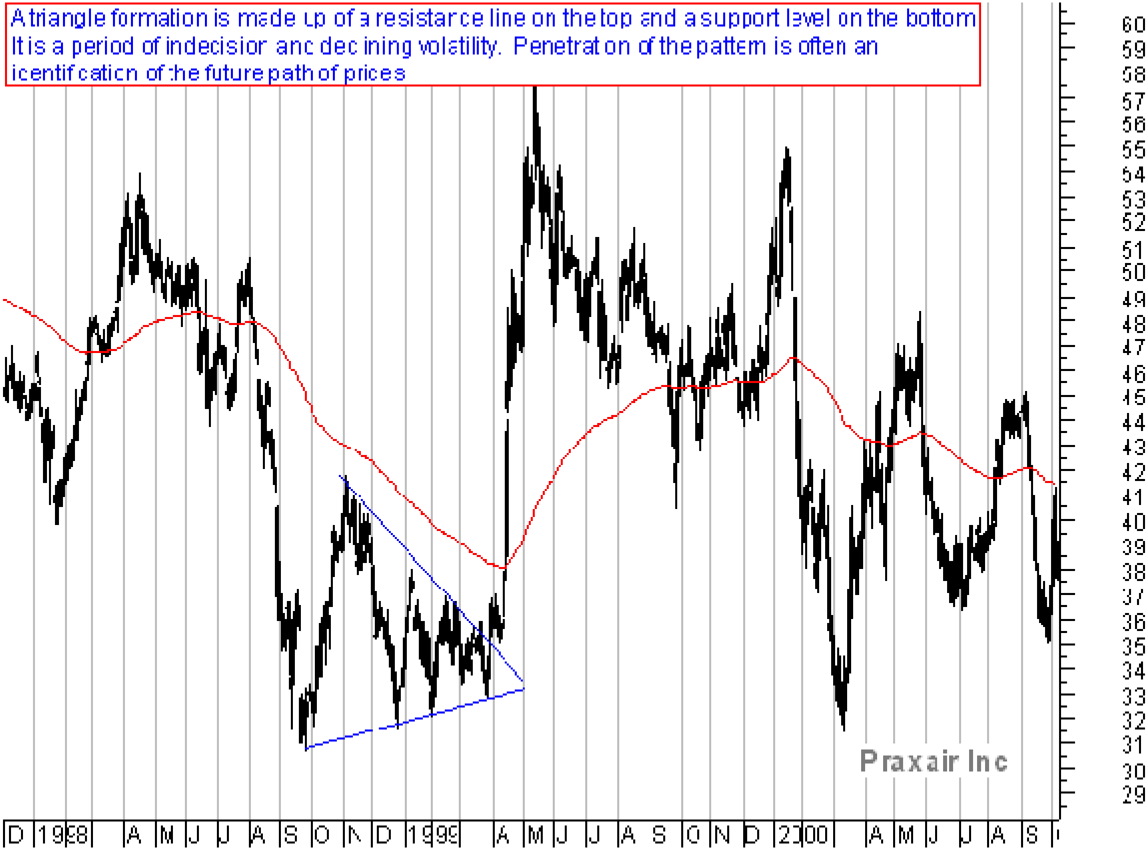
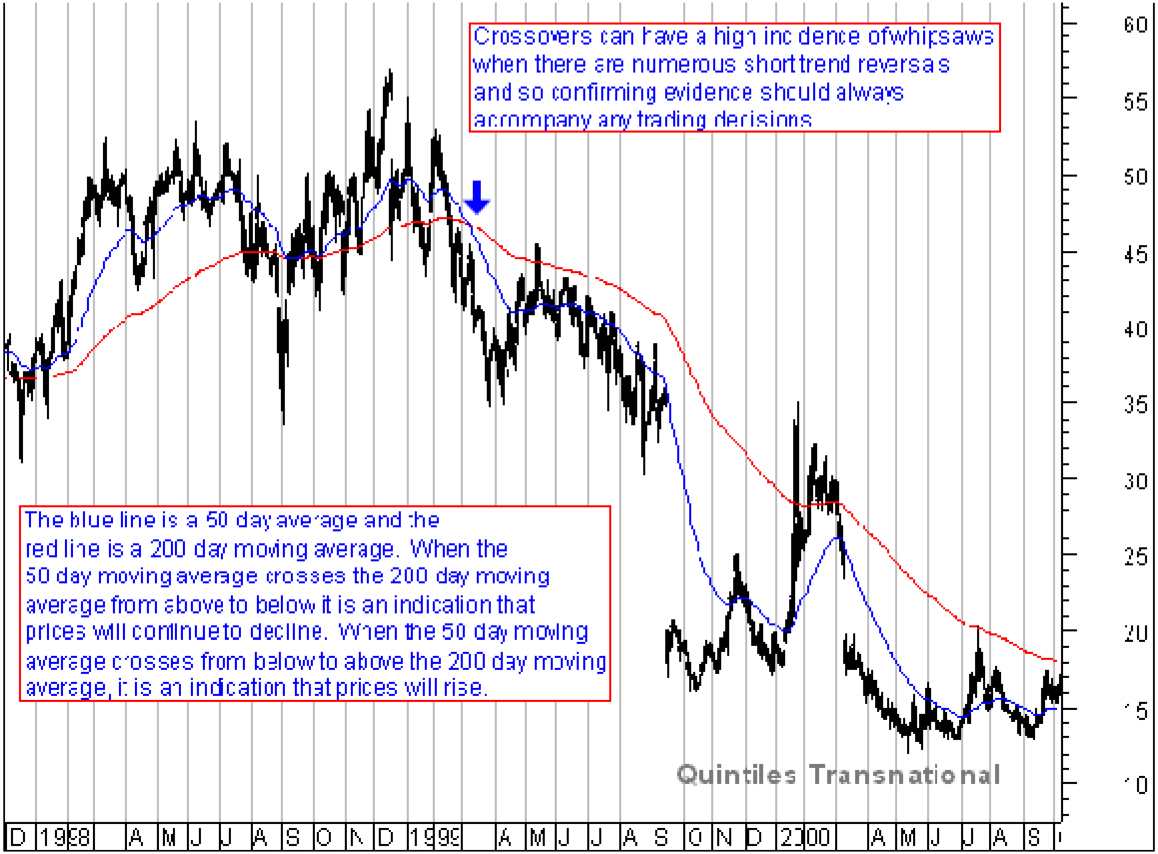
fundamental and economic factors that contribute to expectations of future performance. When trend changes, it is an indication that underlying valuation beliefs have changed and so predict a change in future price trend.



Useful tools for identifying trends in technical analysis include the moving average line. This is an average of prices over a period of time. It is moving because with each new day that is added to the calculation, the earliest day is dropped so that a 9 day moving average is always the average over 9 days but moves with each day's activity. Traders construct longer term moving averages to help identify longer term trends. Using two moving averages together, one short and one longer, can provide a trend following system for verification of changes in the price trend.



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Trading Bands

Trading bands are useful for a variety of price activity. A band is simply an envelope or channel created by plotting two lines that move at a set distance from a central moving average. In this way, a trading band creates a potential plot for additional study of support and resistance levels and allow for the recognition of a breakout from a channel or trading band area.

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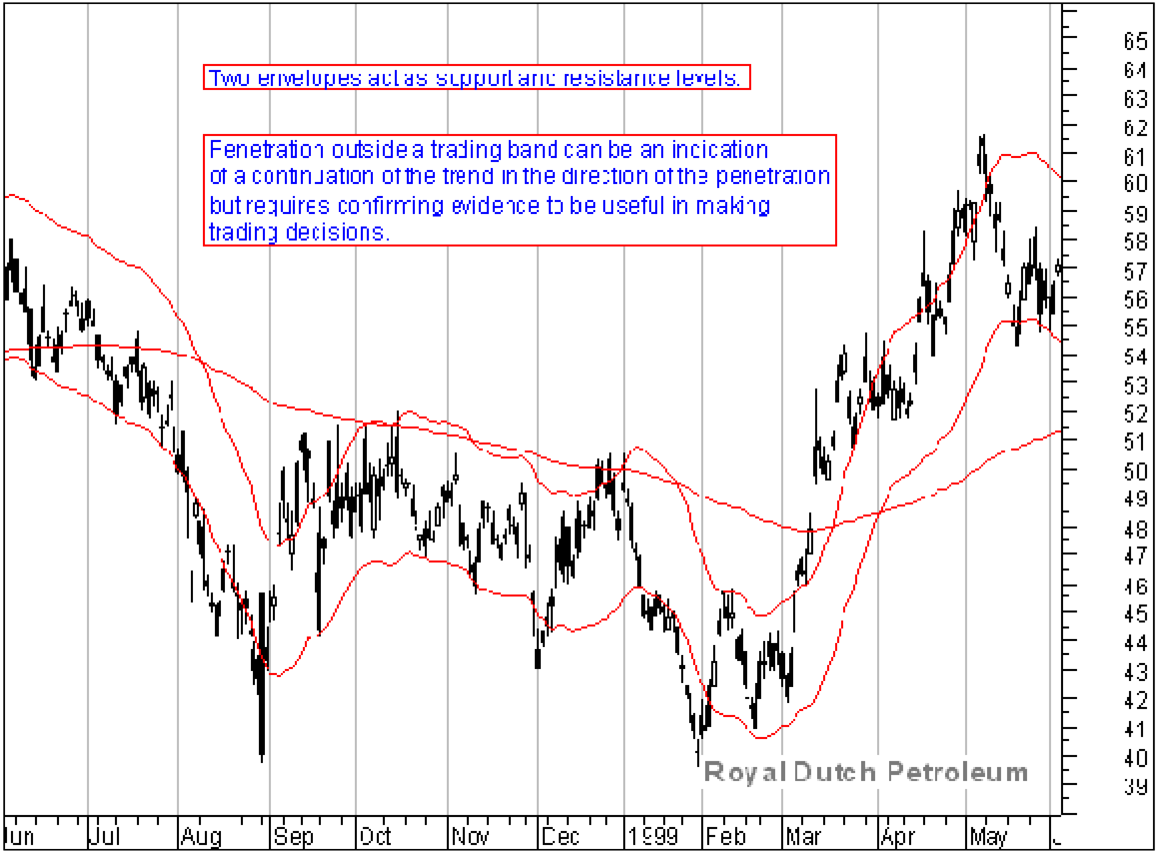

There are many different types of trading bands including the envelopes plotted above. Bollinger bands are another form of trading bands that are set apart from a central moving average by a specified number of standard deviations. In this way, the volatility of price results in the bands coming together and widening apart as volatility of the underlying security changes.

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Trading Range

A trading range is the result of indecision or a sideways moving market where price volatility is often reduced and price moves within a general range during the period. This can lead to opportunities on a valid breakout from a trading range, leading to a new price trend that is bullish or bearish dependent on the direction of the breakout and resulting trend.

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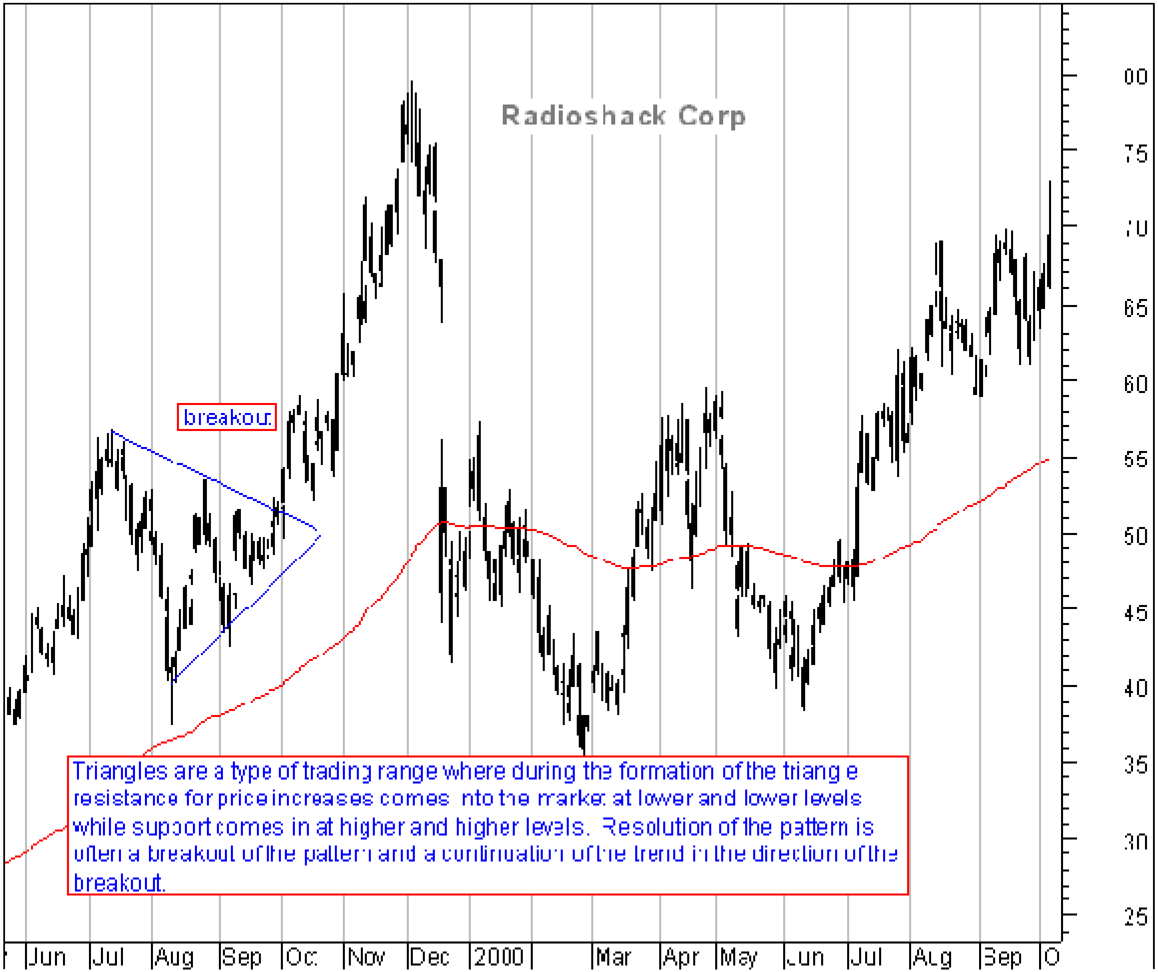

A trading range can occur during times of consolidation of prices, during periods of indecision, or after strong increases in price when the market re-evaluates valuation levels based on both company and wider scope elements of sector and economy. There are many patterns and formations that result from periods when the market or securities moves in a range. Resolution of these periods where trend continues or reverses can be extremely profitable trading opportunities. It is important to build a wide body of evidence from many sources when trading a breakout from a trading range.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a

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Trailing Stop

All trades should have an expectation of a profitable result when entered. But at times the market moves against an investor unexpectedly producing a loss when the position is sold or closed. A trailing stop is one tool that is used to protect investors by minimizing loss or locking in profits if the market suddenly moves against a position taken.

Stop orders are orders that become market orders when the market price of a security reaches or exceeds a given set price. A trailing Stop order is one that is adjusted by the investor periodically to compensate for changes in price of the security. A new stop order is issued and the old one cancelled when creating a trailing stop.

The premise behind a trailing stop is to limit your losses. As long as losses are small, an investor is able to live to fight another day so it is better to stop out a losing trade than to risk a larger percentage of capital when the market moves in a way you did not expect. The other side of this premise is to let your profits run. A trailing stop, that is incrementally changed to follow the current trading price, allows profits to continue and should be far enough away from the current price level to compensate for intra-day volatility as price moves in a larger trend.

The Parabolic Stop and Reverse (SAR) is designed to provide stop loss levels for both sides of the market. With each day's trading the Parabolic SAR moves incrementally with price. When the SAR intersects with price due to a price reversal or loss of momentum the trade is considered to be stopped out. At that point the other side of the market is taken and the Parabolic SAR starts fresh indicating a possible trailing stop value for the investor. Using the Parabolic SAR can be very helpful as long as the security is not prone to short term price trend reversals. If price is erratic, reversing quickly in the short trend, the Parabolic SAR will likely produce poor results.

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Critical Day Analysis

Our critical day analysis is all about trend reversals. We tell you when there is a high potential for a reversal of the short trend and we've been doing it since 1994 with an *80% accuracy.

Trend

Generally it is a good idea to consider that there is a continuance of the general trend (movement) of prices until there is an opposing force that changes the trend. One of the basic principles in technical analysis is the identification of trend. Moving averages, trend lines, channels, envelops, price patterns, momentum indicators in fact most technical tools in some way relate to the various trends in price and volume. One of the key aspects of trading is the early identification of trend reversals and to be able to develop a confidence level with regard to a continuation in the current trend in prices. Technical tools can help in this regard. Some basic concepts that relate to trend are as follows.

Psychology - people resist paying more for a stock than others unless the stock continues to move up. People resist selling a stock for less than the price others have been getting for it unless the price continues to decline. People who purchase the stock at the top of a trading range have a strong inclination to wait until the price comes back before they

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get out.

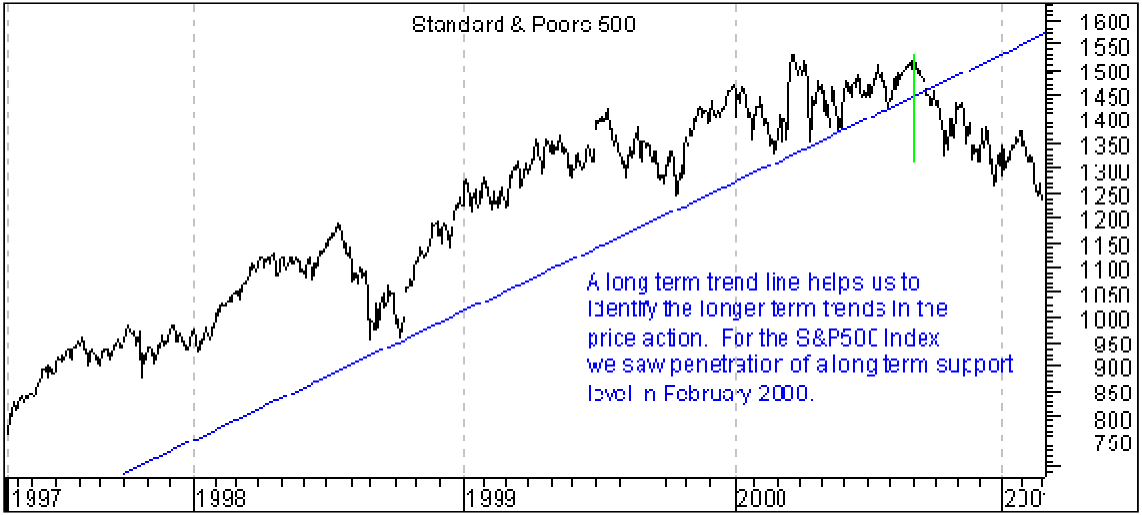
Longer term growth expectations of the market are often represented through longer term valuation support/resistance areas. The longer term market can be analyzed using a regression analysis in channels, illustrating support and resistance levels that are based on longer term fundamentals and economic activity and the fundamental forecast into the future.

Trendlines help in trend identification and draw witness through trendline penetrations of reversals of the trend. Drawing a trend line is the method of connecting lower troughs of an up trend or two peaks of a downtrend so that no breakage or penetration of the line occurs between the two starting points.

The longer a stock has been moving in a given trend, the stronger the trend is likely to be. A strong long term trend will take a longer period of time to reverse than a short trend. A way to track trend and provide potential support and resistance levels is through the use of channels or trading bands. These are lines set apart from a central moving average that help identify both trend and price projections for future price action.

Prices fluctuate daily but over a period of time, a general sense of the movement of prices can be identified and segmented into what is called trends. A trend is the overall direction of prices for the period being analyzed. Longer term trends can be completely different in direction and quality than short term trends on the same security or price data over the same period. When looking at the volatile nature of price it can be a good idea to look at the peaks and troughs to identify support and resistance levels in the trend of prices being analyzed and to help identify the trend itself. A series of rising peaks and rising troughs is indicative of a rising trend of prices. Conversely, a series of falling peaks and falling troughs indicates a falling trend in prices.

A trend reversal is simply when the trend changes direction, where an up trend becomes a downtrend and vice versa. The longer a trend has been in place, the longer it takes for a reversal of the trend to occur. This makes sense when you consider the psychological and fundamental basis in place for longer term trends takes time for collective changes in this basis to occur. Price action in the market will mirror how the underlying perception of fundamental trends and the trend in investor psychology is supporting or resisting the current trend in prices.



Shorter term trends can undergo a reversal faster and involves less requirement for a change in the basis of the fundamental and psychological aspects that ultimately determines the trading decisions of the broad market. For shorter term trends, the steeper the angle of ascent or descent, the less sustainable the trend is. Trend lines are a good tool to use in looking for triggers for navigating the short term market as they help identify the trend in place and allow for early

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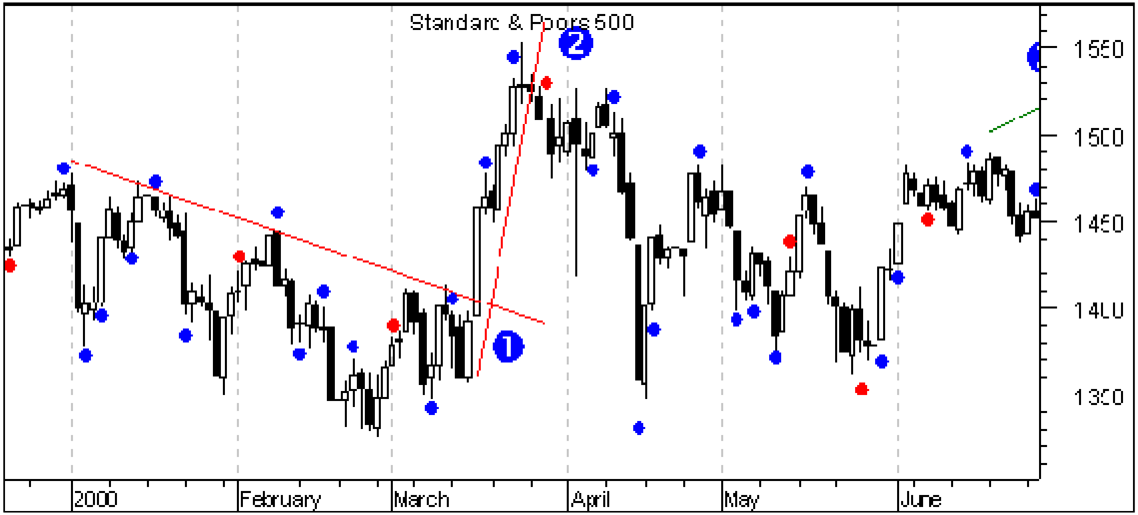
warning of changes in supply and demand that may indicate a potential reversal of the short trend. Our critical days are marked the graph below. We provide these to members usually by three days. A critical day is an expectation of the short trend of the market leading into the critical day to reverse coming away from the critical day. Take a look at short trend and the critical day for a more in-depth explanation of a critical day.



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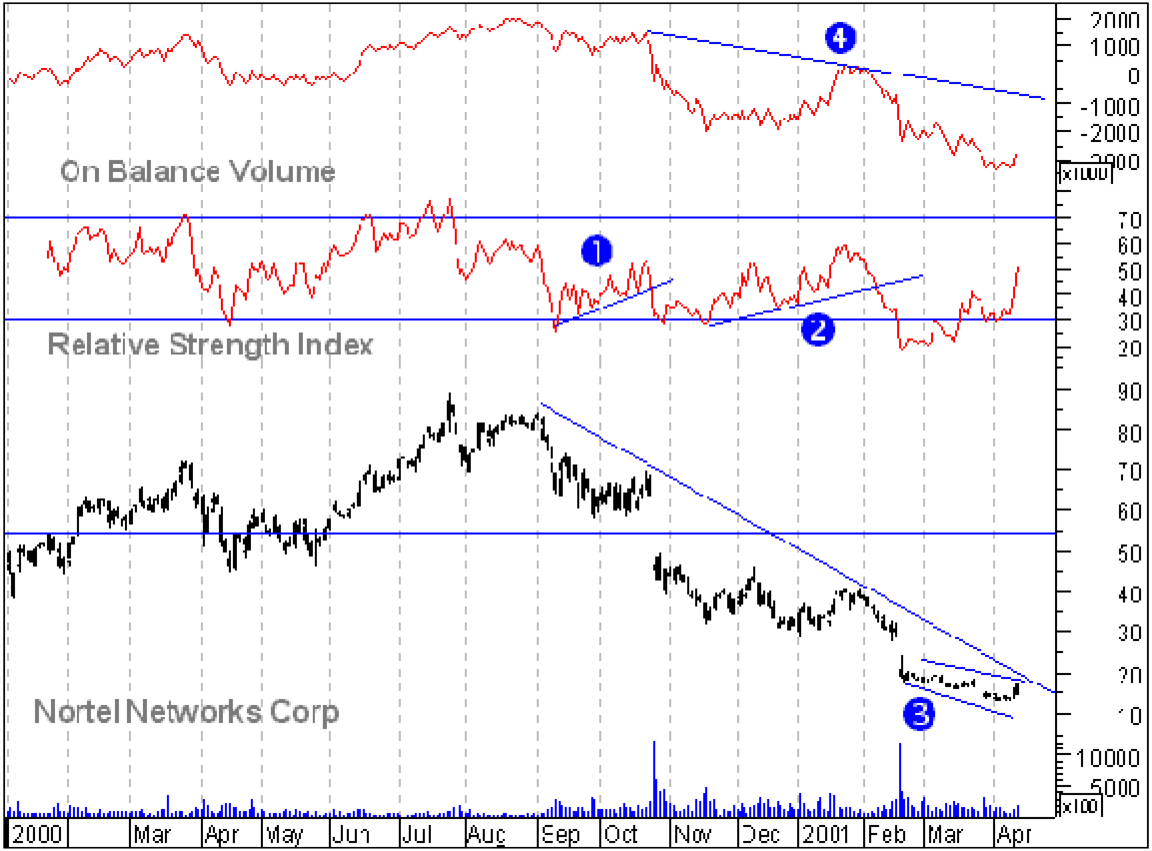
Trend Lines

"The Trend is Your Friend" This old saying is a very worthwhile piece of advice for any trader. Determining what the trend is and when it has changed is a basic building block for successful trading. A trend line helps identify the trend as well as potential areas of support and resistance. A trendline is a straight line that connects two prominent peaks or troughs in the price action of an underlying tradable. No other price action must penetrate the trendline between the two start points. In this way a trendline marks a support or resistance area where price has turned (peaks and valleys) and has not been violated. The longer a trend line is the more valid the line is, especially if price has touched the line several times without penetration. When a longer term trendline is penetrated it gives indication that a reversal of the trend has a higher probability of occurring with future price action. This is not to say that penetration of a trendline is proof of the future path of prices. As with all indications of a reversal of price trend, there is no foolproof method of predetermining what future prices will be for any tradable.

Tech Studies



On the graph above the number 1 is a trendline drawn on the Relative Strength Index (RSI) which is an indicator that tracks momentum changes. Trendline penetration has an importance on this indicator in that it is a warning that a possible reversal of price trend and momentum may occur. The number 2 is a second trendline and penetration of that trendline on the Relative Strength Index. As you can see, both penetrations are followed by price declines. The number 3 on the graph shows a divergence of both the peaks and the troughs against the Relative Strength Index. The RSI has a series of rising peaks and rising

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troughs through March 2001 while price is showing a series of falling peaks and falling troughs. This divergence is an indication of future volatility but without a clear sense of future direction. Looking at the On Balance Volume at the top of the graph, the indication is that more volume is occurring on down days than up days and so leads to the conclusion that until OBV penetrates the upper resistance line at number 4, there is a low probability of being able to feel confidence that the downward trend in prices for Nortel will reverse.

All formations, patterns, indicators and technical tools fail at various

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times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

Trending Market

A trending market refers to the presence of a strong price trend. During a period of time when the market is in a strong trend there are a number of adaptations that technical analysts have to make in order to make allowances for changes in the way indicators and technical tools act.

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The Stochastic Oscillator tracks the momentum of price and when plotted against a stock or index in a strong trending environment is of little use in determining when price may be oversold or overbought. Other methods of analyzing momentum indicators like looking for divergences to give bias for potential reversal signals of price trend may not work as well when a stock or index is in a strong price trend that has been in place for some time. Divergences between technical indicators and price plot have been known to extend over several years at times and so may not be a reliable signal to indicate the timeliness of a price trend reversal.

In a trending environment it is sometimes useful to look at regression studies to help identify potential warning signs that a price trend may soon change or reverse. In the above graph of Cigna Corp you can see that price since 1995 is in a strong and steady up trend. The Raff Regression helps to identify possible area's of support and resistance and helps to identify when departures from the channel may signal potential changes in the price trend in the future. Notice in late 1999 and early 2000 when Cigna's price broke the lower band of the Raff Regression, the MACD produced a divergence in the troughs when compared with price. A

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divergence is an indication that a reversal of price trend may occur. The price leading down since mid 1999 then reversed and climbed back inside the Raff Regression bands, almost rising to the top band in late 2000. Departure from a channel or regression study on prices can be an indication that the trend in prices is changing. In the instance above, technical studies provided supporting arguments to expect price to climb again after the first quarter of 2000, but the decline that occurred in the first place in late 99 and early 2000 gives a warning signal that valuation perceptions carried a higher sense of risk which may support additional departures from the channel in the future.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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Trend Reversals

Critical Day Analysis

Our critical day analysis is all about trend reversals. We tell you when there is a high potential for a reversal of the short trend and we've been doing it since 1994 with an *80% accuracy.

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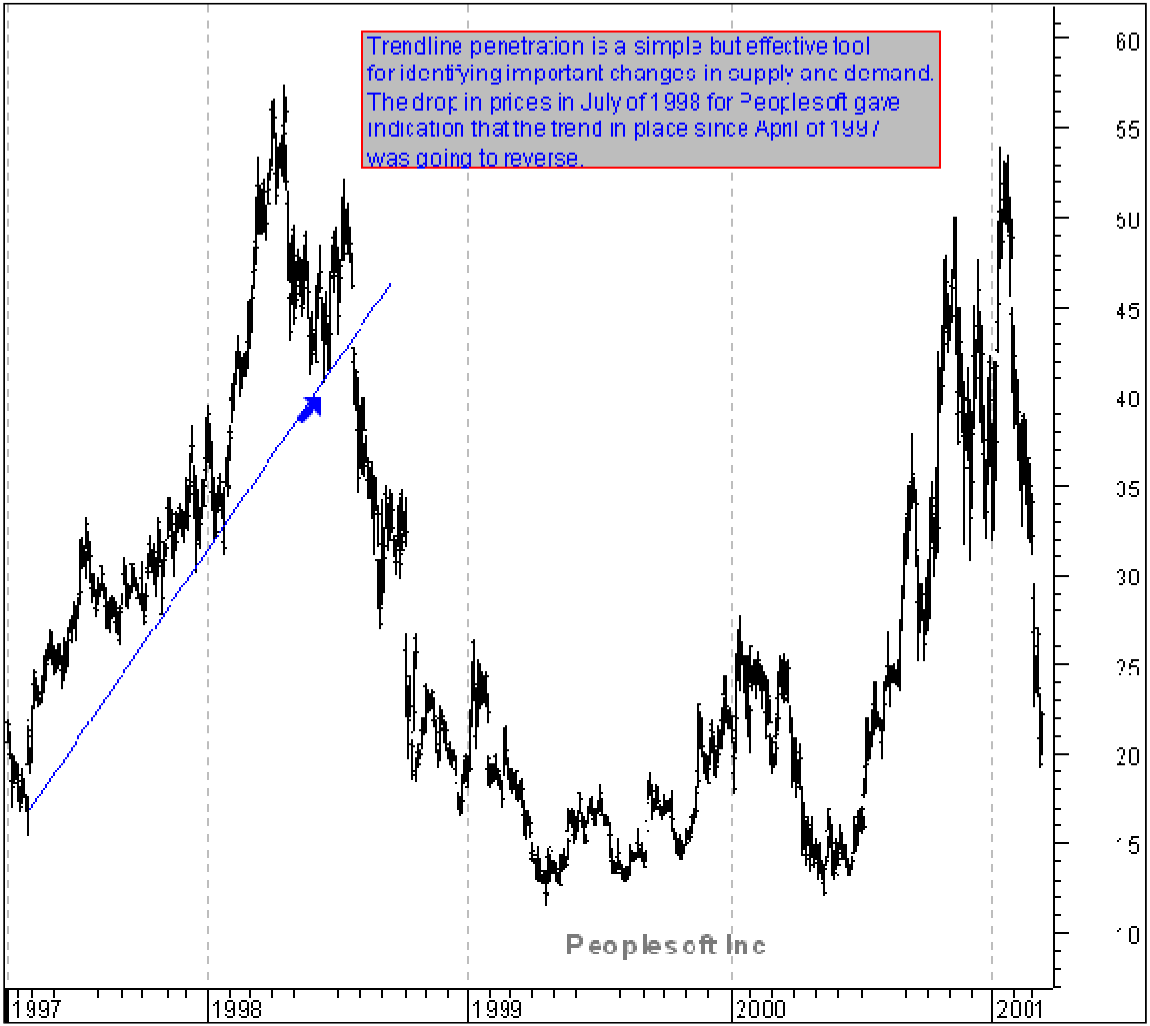
Trendline penetration is a simple but effective tool for identifying important changes in supply and demand. The drop in prices in July of 1998 for Peoplesoft gave indication that the trend in place since April of 1997 was going to reverse.
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Peoplesoft Inc
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Trend reversals are often preceded by divergences in various momentum indicators, or by breakouts from price patterns or patterns on an indicator, or by a breakout from a trading range or support/resistance zone. There are many advance warning signals that the tools of technical analysis provide.

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It is important to remember that all formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

Our critical day research was created to pinpoint high probability days when a reversals of the short trend could occur. When we refer to short trend in association with critical day analysis, we refer to the shortest segment of price leading into and away from a critical day. Take a closer look at our research.

Zig Zag

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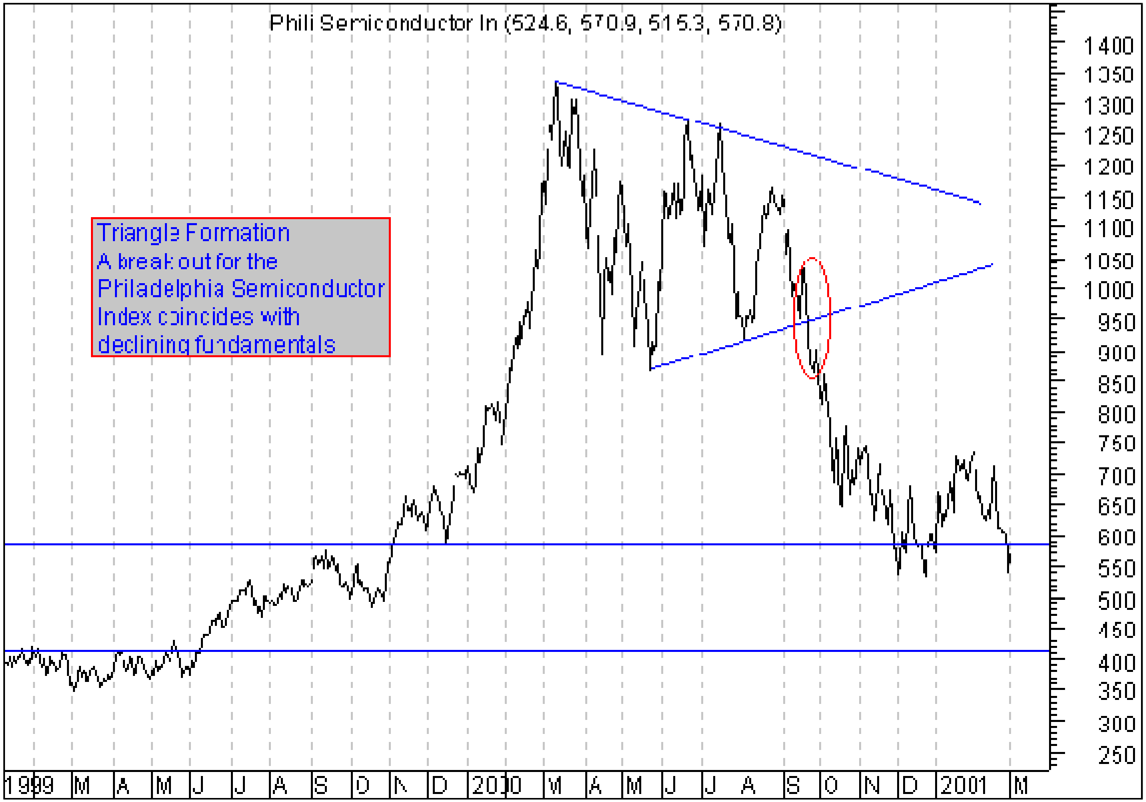
Triangles

When price fluctuations stay in a trading range and that trading range becomes progressively smaller with the passage of time a triangle formation occurs. Triangles are hard to use as a forecasting tool but there are some perceptions that follow from this type of formation that give insight into future market action. In the formation of a triangle, resistance and support area's are identifiable as daily fluctuations move toward the apex. Identifying triangle patterns allows for trading opportunity during formation and after a breakout from the pattern. Uncertainty is the basis or reason behind why each rally and each sell off has less market commitment. At some point that uncertainty is resolved enough or other factors tip the scales of supply and demand for the general market so that a breakout of the pattern occurs. A triangle could signal a reversal or continuation of the trend. The general trend of fundamentals and psychological sentiment in the market play an important role in the unfolding of price action and the resolution of patterns like triangles.



Symmetrical Triangles - Lines drawn connecting peaks and troughs tend to converge at the apex which is at the center of the pattern. When price breaks outside of the pattern and if accompanied by increasing volume, there is a high probability that the future price will trend in the direction of the breakout.

Ascending Triangles - A line connecting the peaks is horizontal while the line connecting the troughs rises and converges with the top line as a series of rising troughs meets resistance at the same level. Volume often remains moderate to low throughout the formation of the triangle with marked increases on the breakout.

Descending Triangles - Troughs form a horizontal line while a series of falling peaks create a line that is a downward sloping resistance line. The indication is that supply becomes more aggressive as sellers lower their valuation perceptions. Breakout is usually to the downside.

In the case of most triangles, the odds are that the trend leading into the triangle continues on the breakout of the triangle. Breakouts can occur usually as soon as 2/3 the distance to the apex through to the apex itself. It is not out of the question, when fundamental indecision and with no change in psychological setting in the market, for the market to continue in a sideways motion through the apex of an earlier triangle formation.

Triangles are subject to many false moves and are among the least reliable of chart patterns. Most traders allow for a 3 to 5% move outside of the pattern before the breakout is considered reliable. When a breakout occurs, the trend that results is expected to be in the direction of the breakout.

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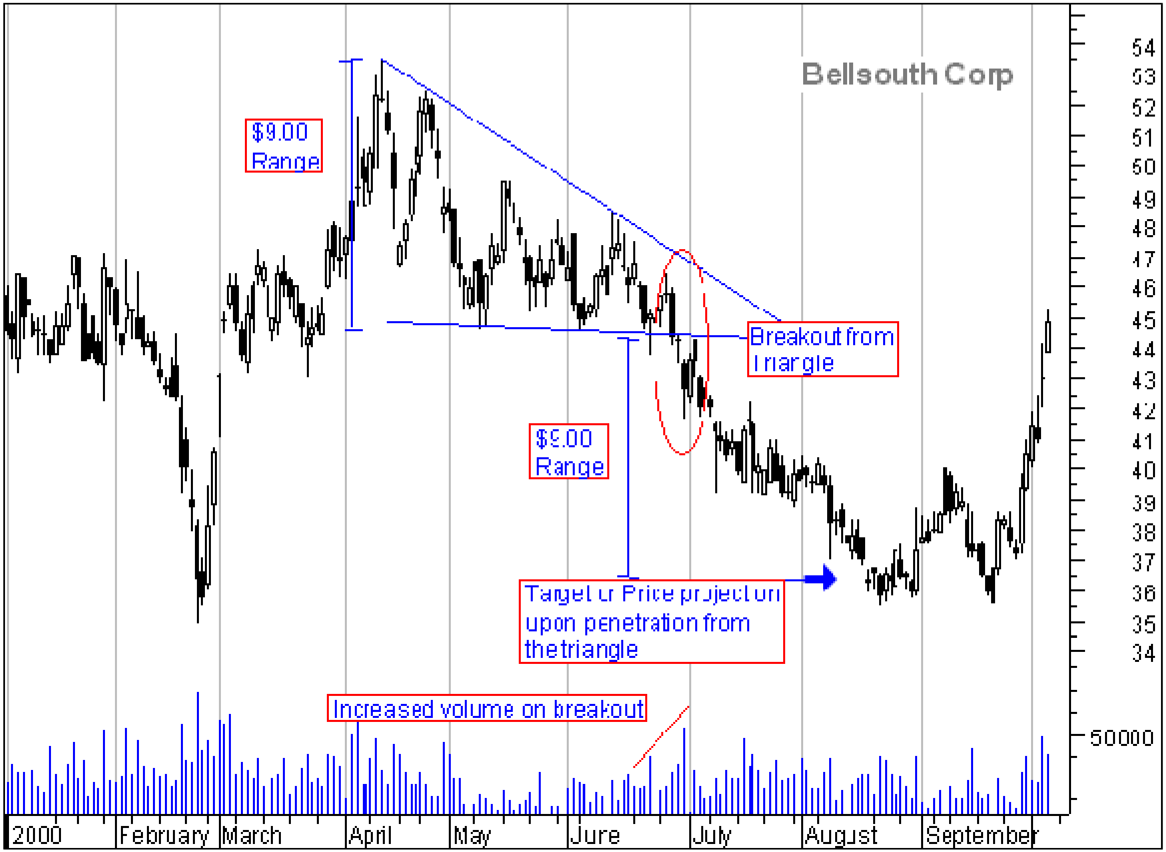

Generally, it is a good idea to watch volume when a breakout occurs. A breakout on increasing volume is a good sign for a continuation of the price trend in the direction of the breakout. The intensity of buying and selling pressure and the conviction behind each move can be useful in determining the validity of the break out. But remember that when markets are in a trading range there is a build up of stop loss orders just outside of the pattern, on both sides of the market, that can create volume spikes when a breakout does occur. It is a good idea to have fundamentals and psychological setting supporting the breakout.

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Price projections can be useful in triangle formations. The price range of the base of the triangle opposite the apex is considered to be a fair estimate of the move that will occur after the breakout from the triangle formation.

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Volume

Volume is a measure of supply and demand that is independent of price. It is often looked at for confirming evidence of price trend and price reversal patterns. For patterns such as triangles that are the product of a period of indecision or consolidation in stock price, volume is usually light during the formation of the pattern and increases on a breakout from the pattern. For any pattern or trendline penetration, a breakout with increasing volume is more an indication that prices will continue in the direction of the breakout that a breakout on low volume.

A healthy trend can be defined as a period of rising peaks and rising troughs in price and increasing volume. When volume diverges from price where price is in an up trend but volume is declining it can mean that there is a higher risk of price trend reversal. Price may still be fueled by late comers to the market during a period when there is an absence of selling pressure which would produce a lower volume but higher prices. When volume once again begins to increase, it helps to

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identify the relative enthusiasm of buyers and sellers and direction of the price trend. Daily volume is highly volatile and should be "smoothed" with a moving average or used in an indicator to help identify the trend in volume. When the trend of price and volume move in the same direction, it is an indication of healthy underlying fundamentals. Falling price accompanied by falling volume speaks of a lower relative enthusiasm to sell. Rising price with rising volume is bullish. When volume and price diverge, it warns of potential weakness in underlying fundamentals. When price trend is rising but the trend in volume is falling, it warns of a potential price trend reversal. When price trend is falling and volume is rising, it is an indication that sellers are becoming enthusiastic to unload the security and is bearish.

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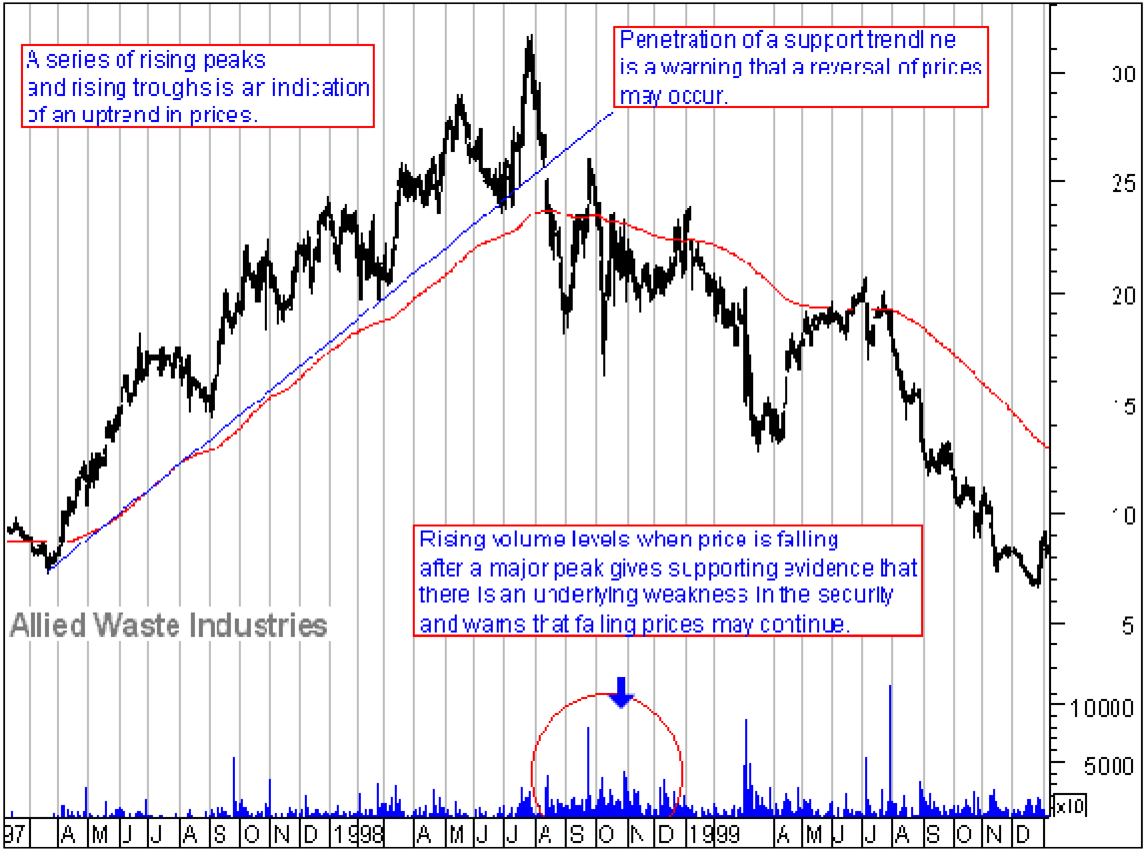

There are a number of special circumstances that occur with regard to the relationship between price and volume. One such circumstance is a very high volume day after a major decline in prices. This can give indication that a bottom for prices has been reached and is often referred to as a "selling climax". One caution is that it may only indicate that a temporary bottom has occurred, after which price consolidates or trades in a range for a period of time before continuing the falling price trend. Another circumstance is the expansion of volume during a consolidation period after a major price peak. This is an indication of a

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divergence as price has fallen from the peak and yet volume is expanding. A divergence can warn of potential reversal of the price trend. When anticipating a price trend reversal, it is wise to build a wide body of evidence to support the expectation and to wait for price confirmation of a reversal in price trend.

When price goes to a new high on increased volume, traders often compare volume with that which occurred during previous rally's in prices. If the current volume is less than than the previous rally's volume, there is a potential for a price trend reversal.

A rally with declining volume is suspect. During the formation of various price patterns such as the Head and Shoulders pattern or the double top or double bottom pattern, generally high volume at the start of the pattern declines during the formation of the pattern. This warns of a potential reversal in prices.

Intra-day analysis where sharp price changes occur on high volume in a short period of time can sometimes be attributed to program trading. Program trading is the simultaneous purchase or sale of a basket of stocks (generally 15 or more stocks) with a total value of $1 million or more. This is an indication of strategy for portfolio managers and large demand and supply forces but does not always give straight forward assessment of trading bias. Due to the use of futures, and other derivatives, a sell program for a basket of stocks may be part of a bullish strategy rather than bearish.

There are a number of volume indicators that have been created to help analyze volume. On Balance Volume was introduced by Joseph Granville and is a cumulative running total of volume. When price closes up on the day, the daily volume is added to the running total of volume. When price closes down on the day, the daily volume is subtracted from the running total of volume. On Balance volume (OBV) can give an indication of the health of a price trend. Rising OBV during a period of rising prices is bullish. Falling OBV during a period of falling prices is bearish. As with most indicators, divergences can indicate there is a weakness in the underlying fundamentals of price. Rising OBV during a period of falling prices may indicate the possibility of a trend reversal and a rising price trend in the future. Falling OBV and a rising price trend may indicate a controlled exodus from the stock as there is a greater net volume for the stock on days when price falls.

A number of other indicators and volume gauges exist and should be reviewed for potential use in building a body of evidence prior to a trade. It is important to determine the value of the method both on the security in question and across a wider body of securities. Some trading volume gauges include the low-price activity ratio which is a comparison of the volume of high risk speculative stocks to blue chips. Another volume gauge is the net member buy/sell ratio which compares the volume of shares purchased to the volume of shares sold by members of the stock exchange. The odd-lot theory claims that the ratio of odd lot purchases to odd lot sales gives indication of the uninformed investor and is used as a contrary indicator.

Other indicators include the Volume Rate of Change, Volume Oscillator and Positive Volume Index.

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Whipsaws

A whipsaw occurs when the market does the opposite of what is expected. An investor who makes a trading decision based on an expectation of the path of future prices, only to have the opposite occur is said to have been "whipsawed".

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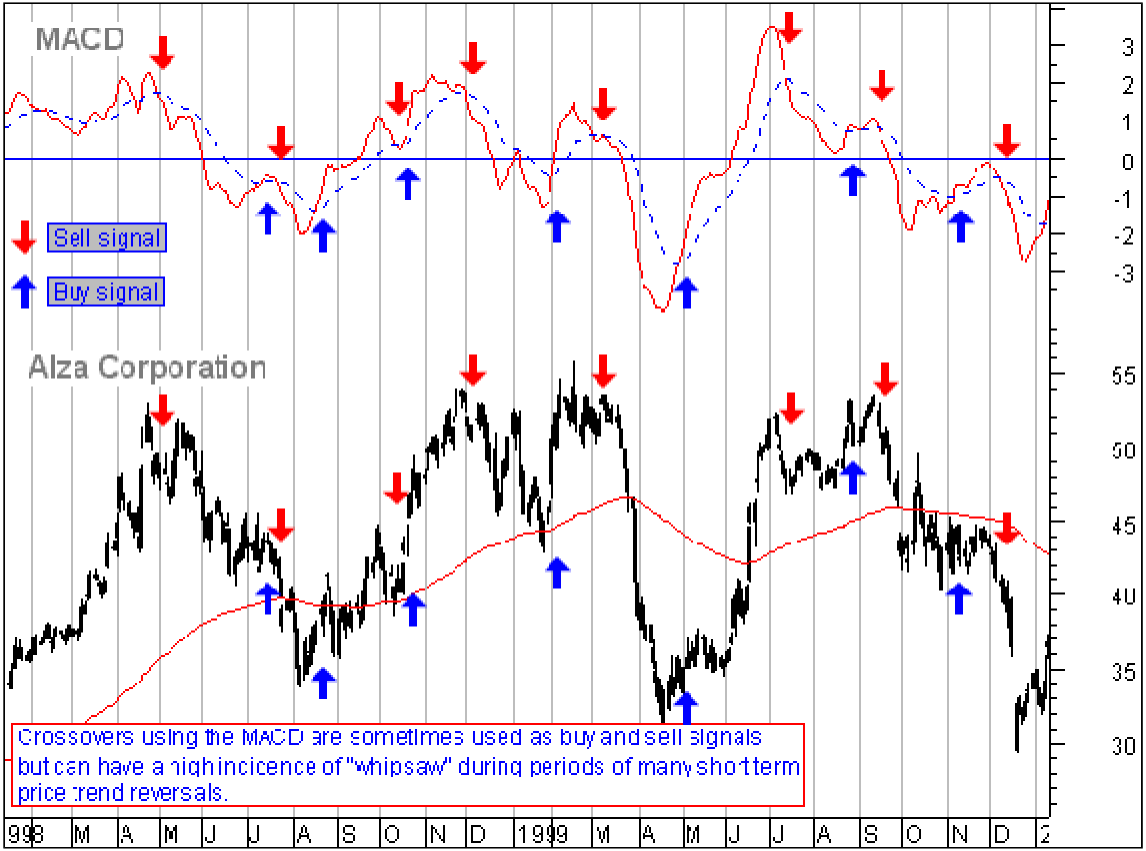

The MACD indicator (solid red line) is the difference between two moving averages and is plotted with a trigger line which is another moving average displayed as a dotted line on the graph above. When MACD falls below the trigger line, a sell signal is given and when the MACD rises above the trigger line a buy signal is given. One weakness with this indicator is that during periods of many short term price reversals, the MACD can crossover its trigger line many times, giving inappropriate buy and sell signals. Here's a close up view of Alza Corporation to more clearly illustrate the concept of whipsaw.

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Sometimes methods of filtering out whipsaw signals is to generate the indicator on a moving average of prices rather than on the closing prices. In this way, a smoothing of the closing prices has already taken place before the indicator is applied to the data. Generally, using a 2 or 3 day moving average on the closing prices and then generating the indicator using that data can help eliminate some of the whipsaws that are bound to occur.

There is always a tradeoff between timeliness of the signal and filtering to reduce whipsaws that will become part of the individuals decision

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making process in deciding whether to filter price data and in what way.

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*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

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Williams %R

The Williams %R is an indicator developed by Larry Williams and is similar to the Stochastic Oscillator in calculation but where the Stochastic compares the close to the lowest low over a specified period, the Williams %R compares the close to the highest high over a specified period.

The Williams %R is sometimes called Williams Overbought/Oversold Index.

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When prices are trending, Oscillators like the Williams and Stochastics should be viewed with a careful eye when looking at overbought and oversold signals. Generally, when the oscillator is in overbought territory, a crossover into the middle range for the indicator is a signal that prices may fall near term.

When the oscillator is in oversold territory, a crossover into the middle range from below is often viewed as a buy signal leading the expectation of higher prices near term. However this type of interpretation works poorly when price is in a trending environment. In

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the graph above during the period of October to November, 7 sell signals were given through normal interpretation of the oscillator, where only 2 would have been successful indications of near term price action.

Oscillators also lend themselves to interpretation when divergences between the indicator and price occur.

A divergence of the peaks of price and the peaks of the indicator warns of potential reversal of price trend. A divergence between the troughs of price and the troughs of the indicator also warns of a potential reversal of price trend. On the graph the numbers 1,2,3 and 4 are placed above

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the period when a divergence in the peaks occurred. The number 5 and the lower part of number 3 show a divergence of the troughs. The price trend from October to mid December is down. You can see that although some of the divergence signals occur prior to a change in direction of the price trend, not all are tradable and some lead to whipsaws. It is important to build a wide body of evidence in support of any trade decision.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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Zig Zag

Zig Zag is trend following indicator that helps define what the trend has been, and can be used as a significance test to help determine when changes in the current price might indicate when the trend of price might be changing. The zig zag indicators filters out changes in a data item that are less than a specific amount that you define. Below is a chart of National Semiconductor. If you bought every time the zig zag moved up and sold every time the zig zag moved down, every trade would be a winner.

Unfortunately, you can't, because the zig zag indicator does not set the last leg until future prices are already known. The zig zag indicator is useful for getting a sense of overall trend in prices or on a security. A zig zag indicator only plots the next leg when a certain percentage or point change has occurred. On the graph below, a 5% zig zag is plotted against the price plot of National Semiconductor.

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The Zig Zag can also be plotted on indicators.

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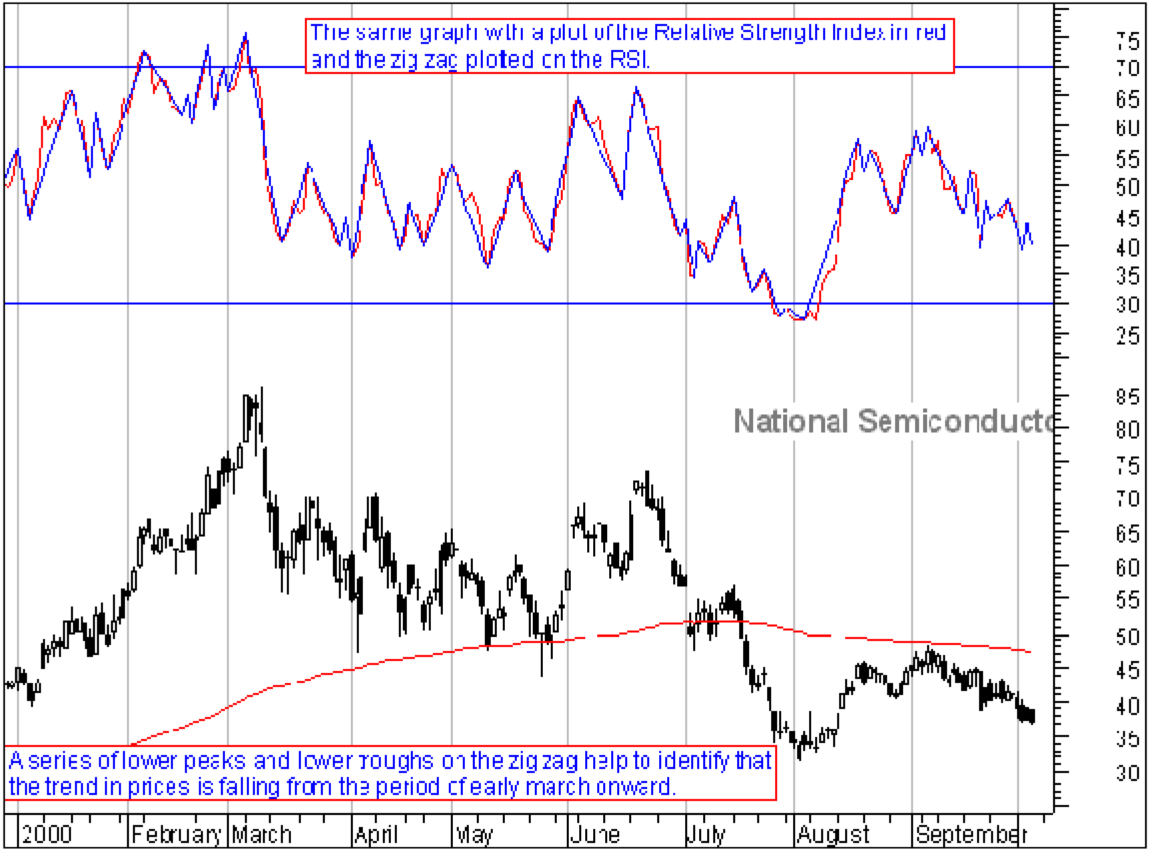

The zig zag filters out the noise of daily activity by only plotting changes in price that are of a certain size defined by the investor. It is a very poor indication of future price action as the final leg of the indicator is not set until future price is already known. But one use that might be squeezed from the indicator other than as a trend verification tool, is as a forward look at prices that are 5% (or whatever amount you are using for the zig zag) away from the last point on the indicator. If the stock closed at 47.50 when the last leg was drawn, meaning that the price was at least 5% away from the last point that was plotted on the zig zag,

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then a move up of 5% or down 5% for prices would produce the next leg. If that leg penetrated a trendline drawn on the zig zag it may lead to an expectation that price trend will continue in the direction of the penetration. This should be tested and have other supporting evidence before leading to a trading decision. Generally the zig zag is used to get a clearer sense of the past price trend and is very little help in determining future price activity that may occur.

All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

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ECONOMY

The long term price direction of the market is determined by the fundamental and economic trends that produce the various growth rates for corporate profits and changes in supply and demand in all aspects of any tradable. This is a given. Therefore the long term trend in the markets is a long term view of what has been acceptable in this scope. The intermediate trend of the markets can sometimes be an adaptation to maturing events. And of course the short trend of the markets can be a reaction to an event, release or influence of a fundamental of economic basis. Daily price action for any tradable is often the noise of the market given the participation level of current supply and demand elements. The overall economic conditions and the fundamental trends for any tradable help identify major demand and supply groups and participation levels. This can add a great deal toward understanding the potentials of any

Tech Studies

Advance Decline Line

Andrews Pitchfork

Arms Index

Bollinger Bands

Breakaway Gap

Breakout

Candlesticks

Chart Types

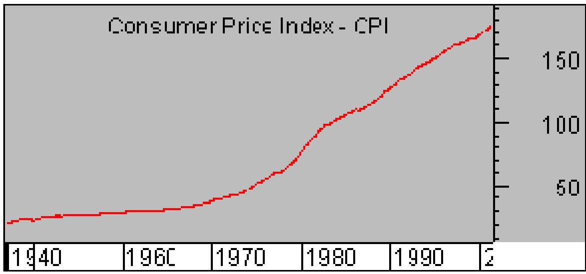
Comparative Relative

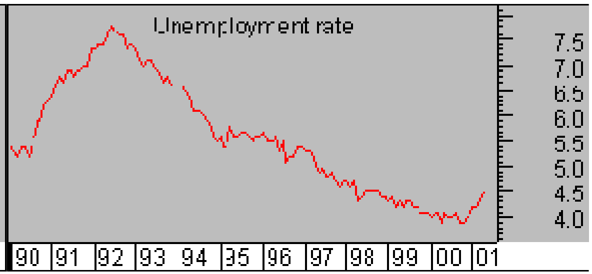
given day. With our critical day analysis identifying when to expect a reversal of the short trend, it becomes immediately apparent that a closer understanding of market forces and strategies can develop through an understanding of the general trends in economic and fundamental conditions of any tradable. In short it is very important to be aware of the economic and fundamental trends and potential events that mature an economic or fundamental outlook when trading the markets.

What we do at Trade10.com is a research that produces potential pivot points or trend reversal points in advance. For example we might tell you

Strength
Congestion Pattern
Consolidation
Correlation Analysis
Continuation Patterns
Convergence/Diverge
The Critical Day
Cup and Handle
Daily Range
Directional Movement
Doji
Double Top/Bottom
Elliot Wave Pattern
Envelopes
Exponential Moving Average
Flag
Head and Shoulders
Gaps
MACD
Momentum

on Monday that there is a strong potential that the trend leading into Thursday will reverse and be heading in the opposite direction coming away from Thursday. Historically we have produced better than 80%* success on an average of 5 signals a month since 1994. We tell you when to expect the short trend of the market to reverse. At times when an economic release or important defining event is scheduled on or around a "critical day" we look for the market reaction to that event as a potential catalyst for a change in price trend. Understanding economic and fundamental importance can provide you the keys to a strongly profitable trading mechanism.





[Take a look at our Economic Monitor]

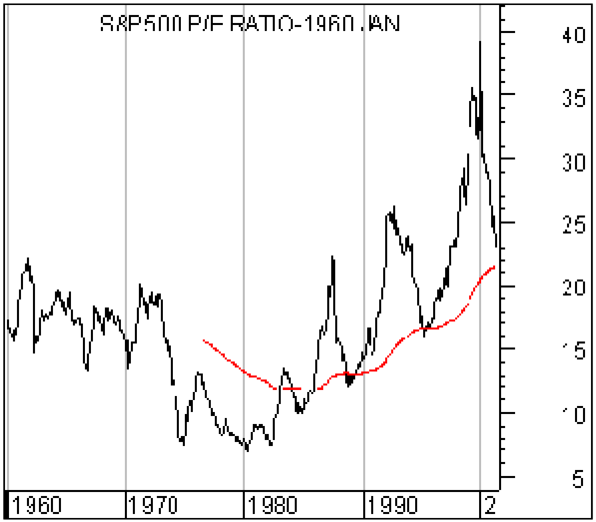
Momentum Indicators
Moving Average Crossovers
Multiple Linear Regression
Neckline
Negative Divergence
On Balance Volume
Parabolic Stop and Reverse
Peaks and Troughs
Point and Figure
Price Earnings
Range
Regression Analysis
Resistance
Relative Strength
Rotation
Short Selling
Short trend
Simple Moving Average

An event reaction when combined with our critical day analysis can help identify the catalyst for a trend change or reversal. It is important to know what data is on schedule for release and the potential impact on the markets.

Daily Calendar of Events

Study of Trends

Trends define when the culmination of changing economic conditions produce a definitive change in market valuation. Evidence that a long term trend in market price is changing, adds importance of new economic data in defining where valuation levels are headed.



When the intermediate trend changes as a response to economic or fundamental changes, we realize the importance of being able to identify the current price trend. Again the study of trends and tools to identify the trend find a strong purpose in a healthy understanding of the market.

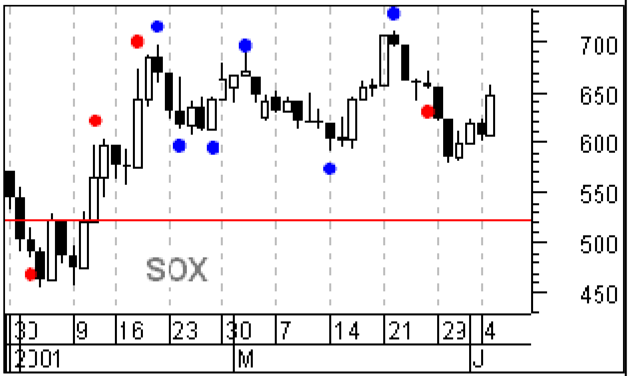
Standard Deviation
Stochastic
Support
Technical Analysis
Trading Bands
Trading Range
Trailing Stop

Trend Line
Trending Market
Trend Reversals
Triangles
Volume
Whipsaw
Williams%R
Zig Zag

Historical examples of the critical day

Take a look at the last 6 weeks signals

A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



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Home

Questions or comments?

Critical Day Analysis

Our critical day analysis is all about trend reversals. We tell you when there is a high potential for a reversal of the short trend and we've been doing it since 1994 with an 80%* accuracy.

Stocks, Sectors & Indices

The critical day is based on a broad and constant flow of data which influence the very basis of market activity and trade decisions. The movement of the markets, where indices fall and rise 100's of points over short periods of time is the culmination of the movement of stocks that make up the indices. The early identification of short term trend reversals that you will see on the graphs below is the edge that our research gives you. We tell you when the market is likely to change direction 3 days in advance and we've been right over 80%* of the time since 1994. We average 5 signals a month. The following list of stocks, sectors and indices are a random sample to illustrate the potential applications for traders in stocks and stock options.

Click below to see our Signals on a selection of stocks and sectors and Indices.

Application to Stocks	Application for Sector Analysis
Boeing (BA)	**Computer Software Index**
General Motors (GM)	**Chemicals Index**
JP Morgan (JPM)	**Banks - Financial**
Dow Chemicals (DOW)	**Building Materials**

Tech Studies

Advance Declin
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Strength
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Consolidation
Correlation
Analysis

IBM (IBM)
Texas Instruments (TXN)
AT&T (T)
Phfizer (PFE)
Federal Express (FDX)
Veritas (VRTS)
Intel (INTC)

Aerospace
Transportation
Computer systems Index
Natural Gas Index
North American Telecom
Semiconductor Index
30 YEAR BOND INDEX

Take a look at these Indices. Each are plotted with the past critical days on each graph.

Dow Jones Industrials	**Nasdaq**
Philadelphia Semiconductor Index	**Russell 2000**
S&P500 Index	**S&P400 Midcap**
Value Line	**NYSE**
Major Market	**Bonds**

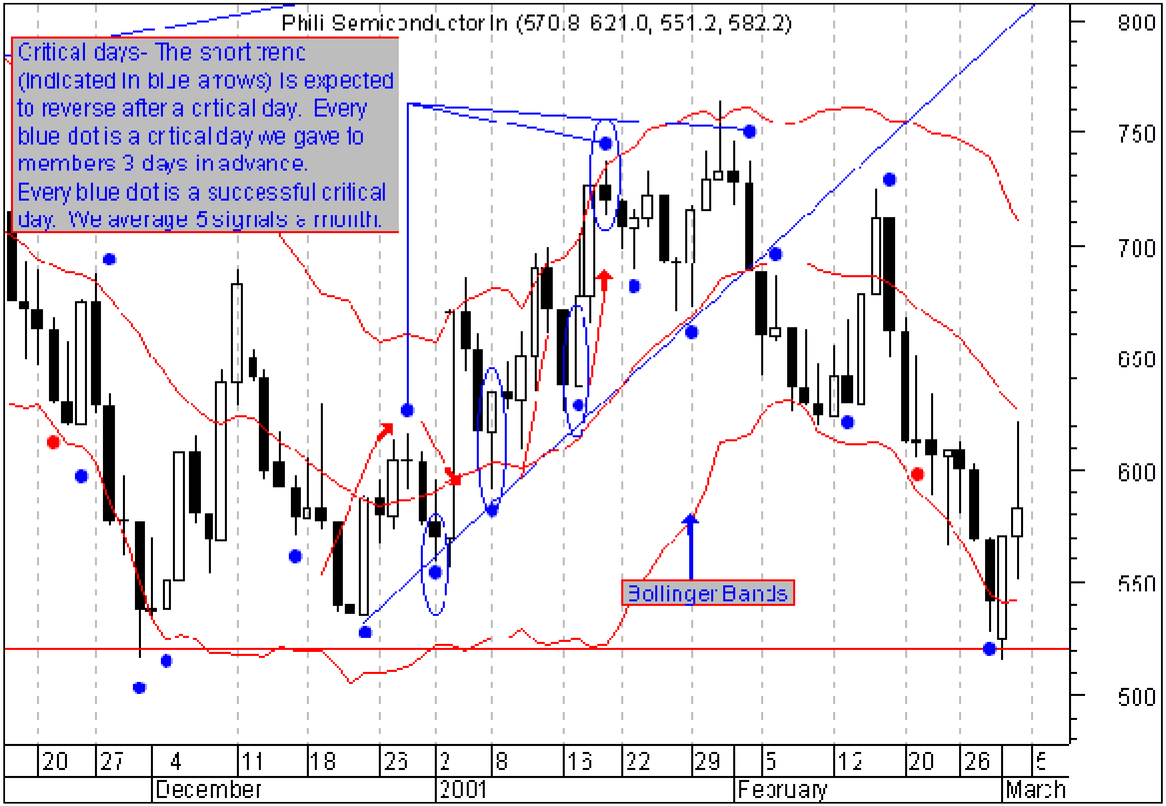
A critical day is expectation of a change in the supply and demand in the broad market. Take a look at how the Philadelphia Semiconductor Index responds with our critical day research. The candle graph below shows demand and supply changes at a glance. Follow the flow of the bodies of the candles as they approach a critical day. Take a look at the trend reversal that occurs after each critical day and then think about what it would be like to know three days in advance when a critical day is going to occur. Membership information and online processing is available. Join Now!

Critical Days on the graph below are shown with Blue and Red dots. The blue dots, above or below the price plot, indicate successful critical days. Red dots indicate failures. A successful critical day indicates that the short trend did reverse, as expected by members,

Continuation Patterns
Convergence/D
The Critical Day
Cup and Handl
Daily Range
Directional Movement
Doji
Double Top/Bottom
Elliot Wave Pattern
Envelopes
Exponential Moving Averag
Flag
Head and Shoulders
Gaps
MACD
Momentum
Momentum Indicators
Moving Averag Crossovers
Multiple Linear Regression

going into that period. You'll notice that the short trend leading into a critical day reverses coming away from a critical day. In terms of our research, the short trend is identified as the shortest segment of price activity leading into and away from a critical day. Looking at the flow of candle bodies approaching a critical day and then moving away from a critical day can be a visual aid in identifying what we refer to as the short trend.

Each critical day is known in advance allowing our members to prepare for strategies and to watch for price confirmation that a price reversal is underway or likely to materialize.



To the right technical studies are examined in more detail to provide a sense of conformational evidence for traders of the critical day. Click on any of the terms to take a closer look at a technical discussion on that topic. All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

Trading Bands
Trading Range
Trailing Stop
Trend
Trend Channel
Trend Line
Trending Marke
Trend Reversal
Triangles
Volume
Whipsaw
Williams%R
Zig Zag

A look at the critical day up close

The Critical Day

A critical day is an expectation of a reversal of the short trend. Effectively, the short trend leading into a critical day is expected to reverse coming away from the critical day. The critical day becomes the peaks or troughs of the short term market when they are successful. With a success rate of better than 80%* since 1994 we have been able to provide our members with an amazing

Economic Calendar

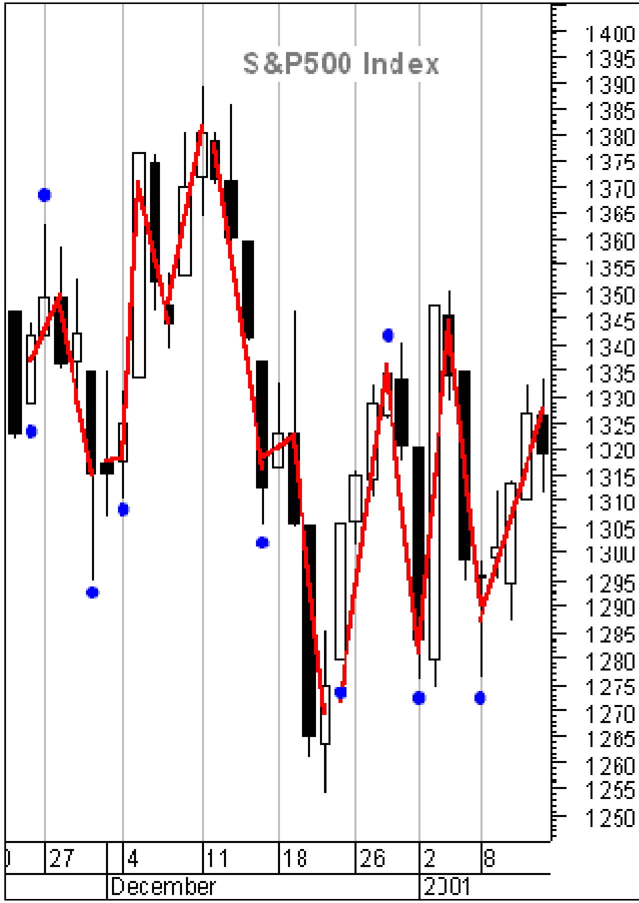
Economic Monitor

The last 6 weel of signals

tool for navigating the short term market.

The period on the graph is from Nov 22/00 to Jan 12/01. Our full signals since 1994 are available on line for your convenience at [Past Signals](). The graph is a price plot of [candlesticks](). Over the price plot is a series of red lines put there to help identify the short trend of the market. The dots are critical days given to members during that period.

You can see that for each critical day, the short trend leading into the critical day, reverses coming away from the critical day. The critical day can be the first day of a movement in a new direction or it can be the last day of a short trend direction. Understanding trend reversals and methods of recognizing reversals of the trend can help in determining trading strategy and timing of trading decisions. In addition the critical day applies across a wide body of stocks, sectors and Indices.



Contact Us

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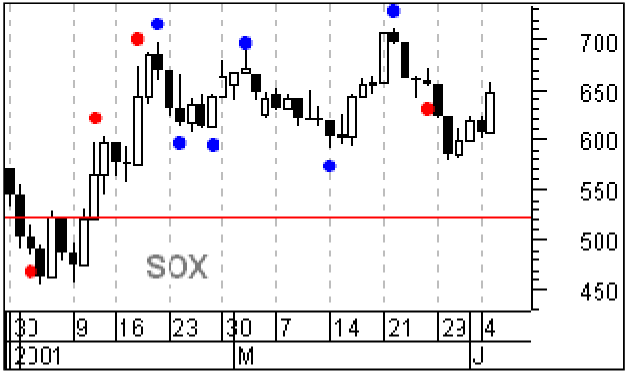
Momentum Trading, a loo at supply and demand.

A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to help develop a sense of trend reversals and use.



Most recent 6 months signals across several Indexes

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What if you knew tomorrows market today?

Could you make money??

Questions or comments?

Random

Critical Day Analysis

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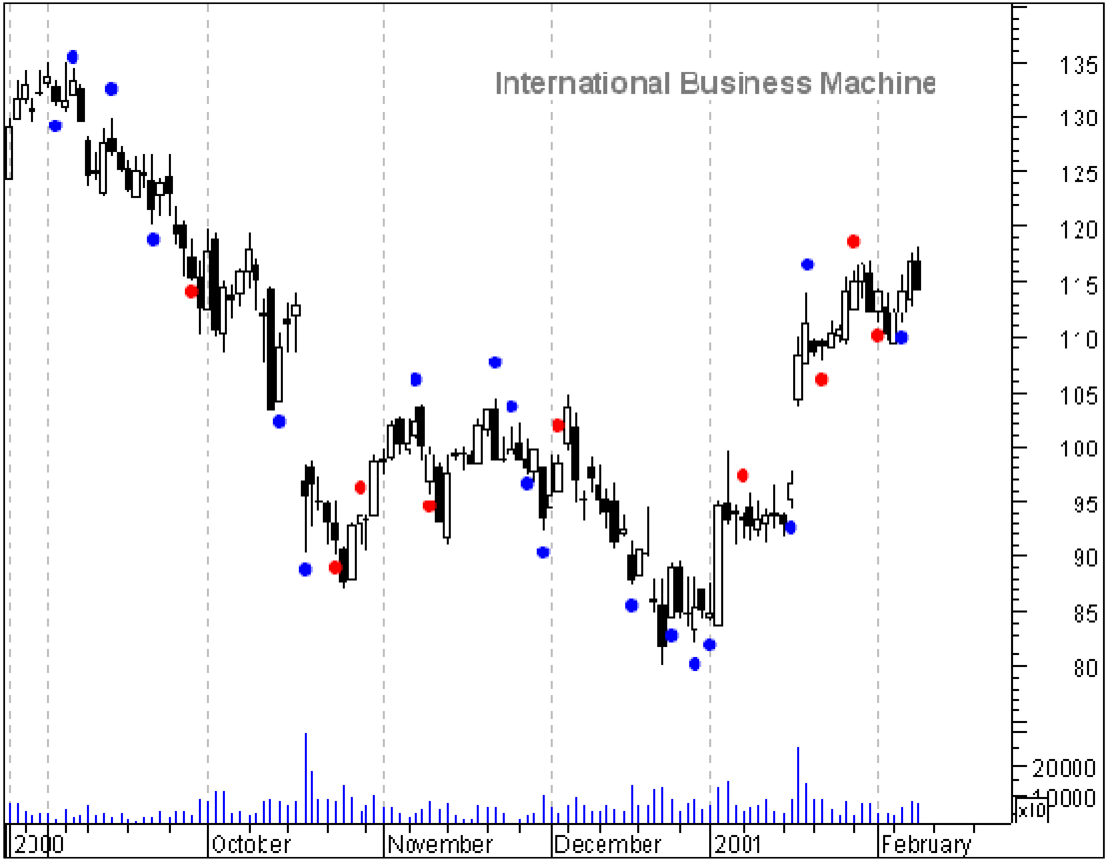
IBM

International Business Machines Corporation (IBM) provides customer solutions through the use of advanced information technology. The company's solutions include technologies, systems, products, services, software and financing. IBM offers its products through its global sales and distribution organization, as well as through a variety of third party distributors and resellers.

The graph below is one of several chosen at random located on the site. It depicts a historical period of price and critical days are shown on the graph with Blue and Red dots. The blue dots, above or below the price plot, indicate successful critical days. Red dots indicate failures. A successful critical day indicates that the short trend leading into the critical day reversed coming away from the critical day. The short trend for the purposes of our research is the smallest segment of price directly before and after a critical day. The purpose of putting the graphs on site is to give indication of the possible uses and potential limitations of our research for application to stocks. Our research is based on the broader aspects of supply and demand in the market place, and generally if the major U.S. Indices changes direction, some of the stocks that are the members of the Indices must be moving in the same direction as the Indices. When trading stocks it is important to remember that company specific or industry specific news can result in price behavior that is quite different from the overall markets. Our critical day analysis is not meant to be construed as investment advice or buy or sell indications but merely an informational tool that can provide a sense of systemic (market) risk by indicating when an approaching day may signal a directional change in the overall short segment of the price trend of the market. Critical days do fail and should not be relied upon in making investment decisions.

Pattern
Consolidation
Correlation Analysis
Continuation Patterns
Convergence/Divergence
The Critical Day
Cup and Handle
Daily Range
Directional Movement
Doji
Double Top/Bottom
Elliot Wave Pattern
Envelopes
Exponential Moving Average
Flag
Head and Shoulders
Gaps
MACD
Momentum
Momentum Indicators



On each of the successful critical days, the short trend leading into the critical day reverses coming away from the critical day. Failed signals provide as much information on the market as successful signals.

To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

A look at today's Markets

Moving Average Crossovers
Multiple Linear Regression
Neckline
Negative Divergence
On Balance Volume
Parabolic Stop and Reverse
Peaks and Troughs
Point and Figure
Price Earnings
Range
Regression Analysis
Resistance
Relative Strength
Rotation
Short Selling
Short trend
Simple Moving Average
Standard Deviation

Volume leaders
Market Indices
Commodities and Futures
Economic Calendar
Market overview
Market momentum

52 week highs
52 week lows
Price Advances
Price Declines
Percent Advances
Percent Declines

Application to Stocks

Boeing (BA)
General Motors (GM)
JP Morgan (JPM)
Dow Chemicals (DOW)
IBM (IBM)
Texas Instruments (TXN)
AT&T (T)
Phfizer (PFE)
Federal Express (FDX)
Veritas (VRTS)
Intel (INTC)

Application for Sector Analysis

Computer Software Index
Chemicals Index
Banks - Financial
Energy
Telecommunications
Transportation
Computer systems Index
Natural Gas Index
North American Telecom
Semiconductor Index
30 YEAR BOND INDEX

Take a look at these Indices. Each are plotted with the past critical days on each graph.

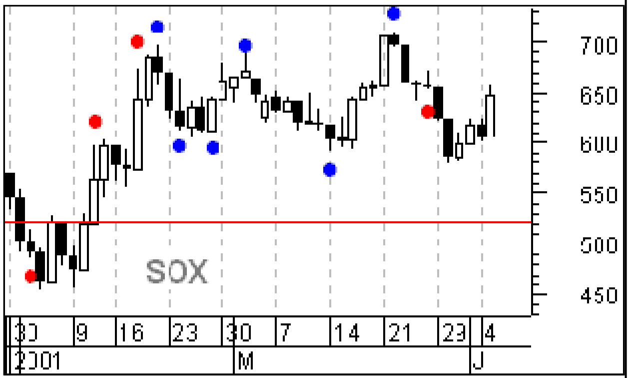
Dow Jones Industrials
Philadelphia Semiconductor Index
S&P500 Index
Value Line
Major Market

Nasdaq
Russell 2000
S&P400 Midcap
NYSE
Bonds

Stochastic
Support
Technical Analysis
Trading Bands
Trading Range
Trailing Stop
Trend
Trend Channel
Trend Line
Trending Market
Trend Reversals
Triangles
Volume
Whipsaw
Williams%R
Zig Zag

A closer view of the most

[recent signals.](#) You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at [tech studies](#) to develop a sense of



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What if you knew tomorrows market today?

Could you make money??

Random

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Intel

Intel Corporation designs, manufactures and sells computer components and related products. The company's major products include microprocessors, chipsets, embedded processors and micro-controllers, flash memory products, graphics products, network and communications products, systems management software, conferencing products and digital imaging products.

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Tech Studies

[Advance Decline Line]
[Andrews Pitchfork]
[Arms Index]
[Bollinger Bands]
[Breakaway Gap]
[Breakout]
[Candlesticks]
[Chart Types]
[Comparative Relative Strength]
[Congestion]

of putting the graphs on site is to give indication of the possible uses and potential limitations of our research for application to stocks. Our research is based on the broader aspects of supply and demand in the market place, and generally if the major U.S. Indices changes direction, some of the stocks that are the members of the Indices must be moving in the same direction as the Indices. When trading stocks it is important to remember that company specific or industry specific news can result in price behavior that is quite different from the overall markets. Our critical day analysis is not meant to be construed as investment advice or buy or sell indications but merely an informational tool that can provide a sense of systemic (market) risk by indicating when an approaching day may signal a directional change in the overall short segment of the price trend of the market. Critical days do fail and should not be relied upon in making investment decisions.

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Consolidation
Correlation Analysis
Continuation Patterns
Convergence/Divergence
The Critical Day
Cup and Handle
Daily Range
Directional Movement
Doji
Double Top/Bottom
Elliot Wave Pattern
Envelopes
Exponential Moving Average
Flag
Head and Shoulders
Gaps
MACD
Momentum
Momentum Indicators

On each of the successful critical days, the short trend leading into the critical day reverses coming away from the critical day. Failed signals provide as much information on the market as successful signals.

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Resistance
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Rotation
Short Selling
Short trend
Simple Moving Average
Standard Deviation

Volume leaders
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Market overview
Market momentum

52 week highs
52 week lows
Price Advances
Price Declines
Percent Advances
Percent Declines

Application to Stocks	Application for Sector Analysis
Boeing (BA)	**Computer Software Index**
General Motors (GM)	**Chemicals Index**
JP Morgan (JPM)	**Banks - Financial**
Dow Chemicals (DOW)	**Energy**
IBM (IBM)	**Telecommunications**
Texas Instruments (TXN)	**Transportation**
AT&T (T)	**Computer systems Index**
Phfizer (PFE)	**Natural Gas Index**
Federal Express (FDX)	**North American Telecom**
Veritas (VRTS)	**Semiconductor Index**
Intel (INTC)	**30 YEAR BOND INDEX**

Take a look at these Indices. Each are plotted with the past critical days on each graph.

Dow Jones Industrials	**Nasdaq**
Philadelphia Semiconductor Index	**Russell 2000**
S&P500 Index	**S&P400 Midcap**
Value Line	**NYSE**
Major Market	**Bonds**

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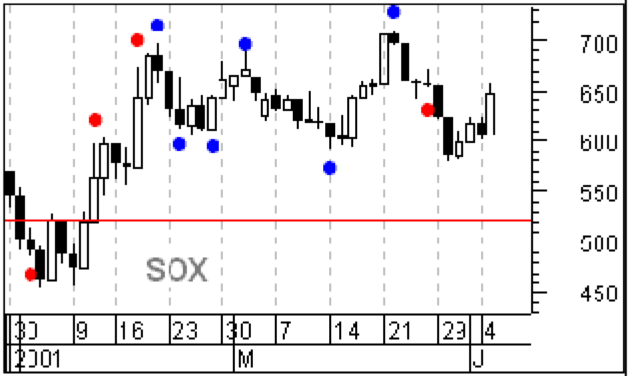

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Questions or comments?

These member graphs are updated here with a week delay. In the members section these graphs are updated daily with critical days announced on average 3 days in advance.

Nasdaq

The Nasdaq Composite Index is a broad-based capitalization-weighted index of all Nasdaq National Market & Small Cap stocks. The index was developed with a base level of 100 as of February 5, 1971.

Critical days are marked with dots above or below the price. Blue dots represent successful critical days. Red dots are failed signals. A critical day is given to members on average three days in advance and predicts a point in the path of the market at which the shortest segment of price trend is expected to change direction. The short trend leading into any

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upcoming critical day is expected to change direction coming away from the critical day if the critical day is successful. Wouldn't you like to know when to expect the peaks and valleys of the short term market? We average 5 signals a month and since 1994 our critical day research has had better than 80% success rate*. What if you knew tomorrows market today? Could you make money? Join now!

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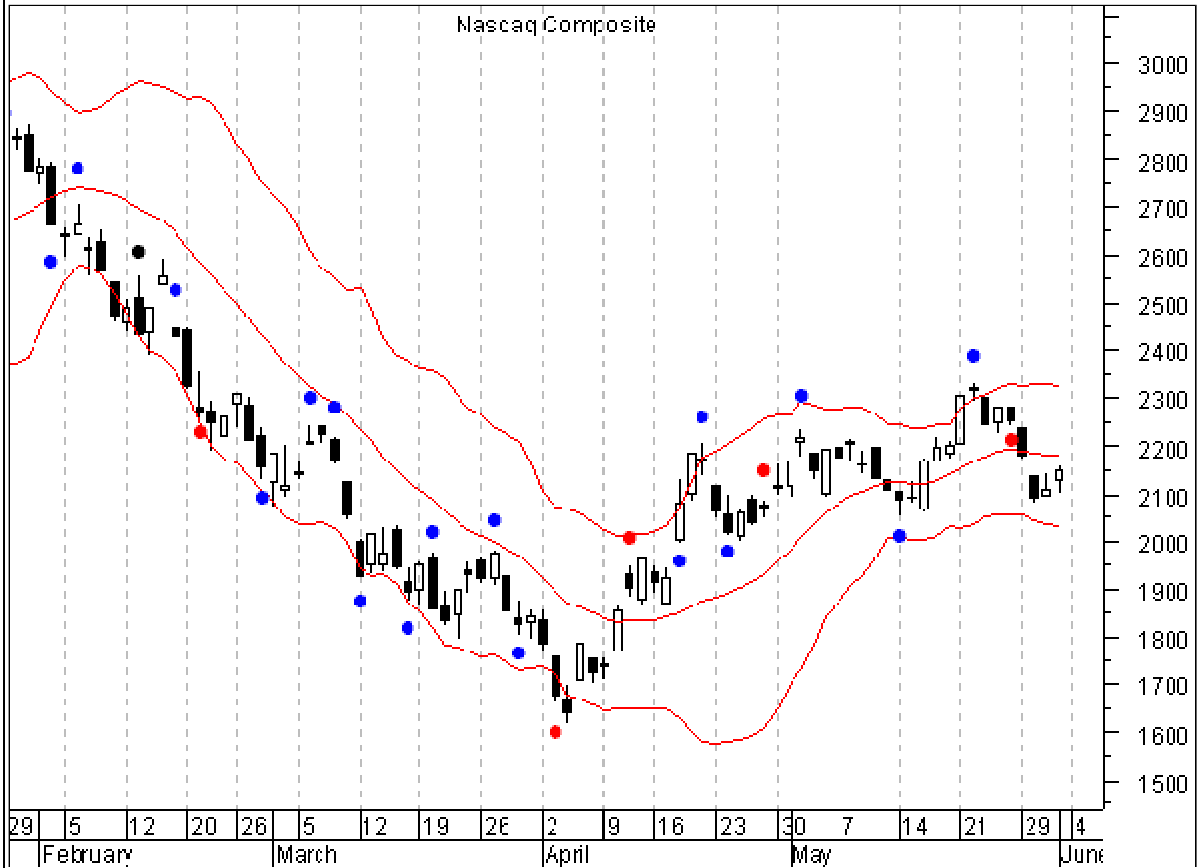
Momentum Indicators
Moving Average



Crossovers

Multiple Linear Regression

Neckline

Negative Divergence

On Balance Volume

Parabolic Stop and Reverse

Peaks and Troughs

Point and Figure

Price Earnings

Range

Regression Analysis

Resistance

Relative Strength

Rotation

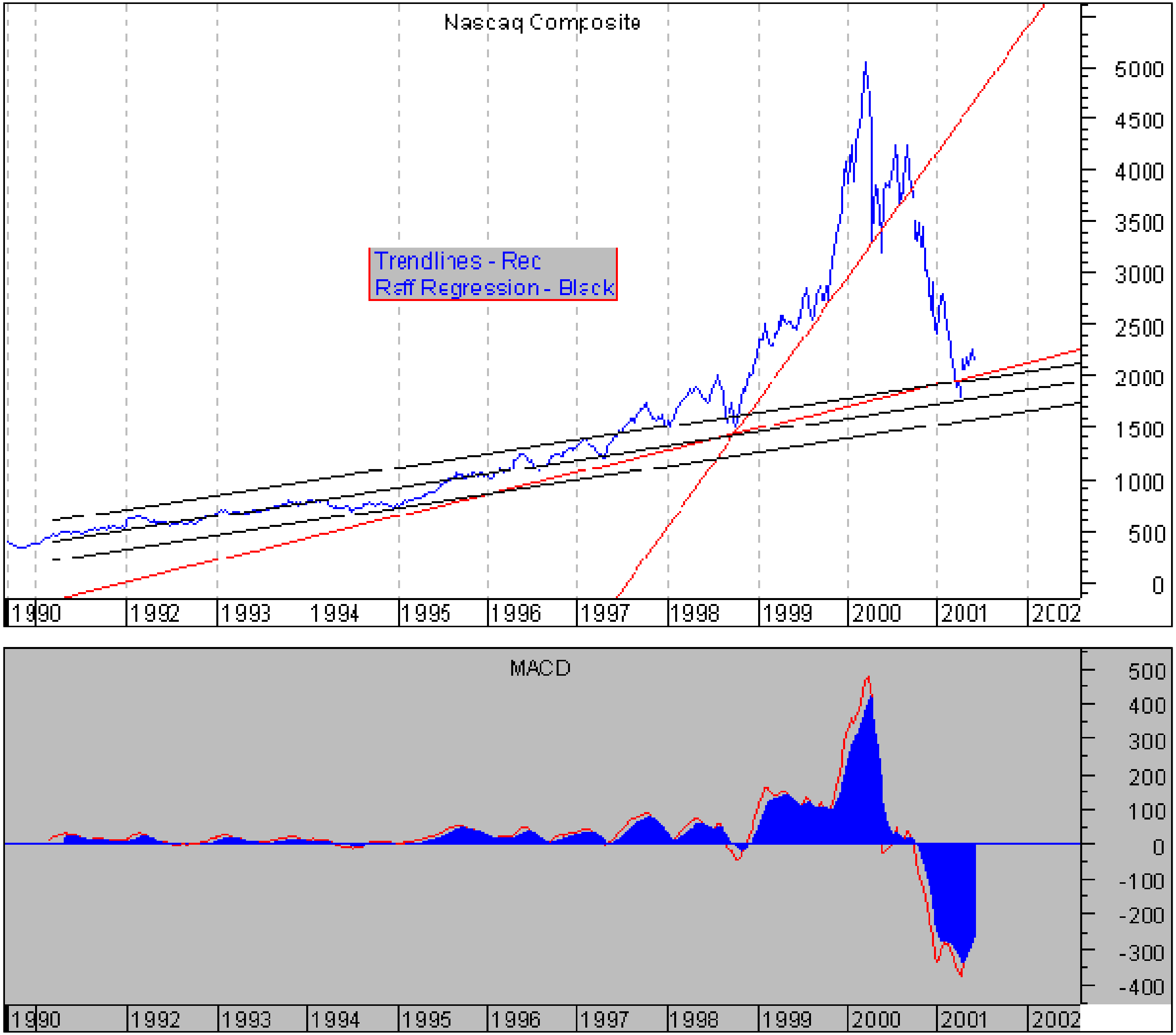
Short Selling

Short trend

Simple Moving Average

Standard Deviation

Stochastic



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[Trending Market](#)
[Trend Reversals](#)
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[Volume](#)
[Whipsaw](#)
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[Zig Zag](#)

[S&P500 Index](#) [Nasdaq](#) [SOX](#) [Dow Jones Industrials](#)

[Major Market](#)

Critical Day Analysis

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These member graphs are updated here with a week delay. In the members section these graphs are updated daily with critical days announced on average 3 days in advance.

S&P500 Index

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy as measured by the changing values of 500 stocks epresenting all major industries. The index was developed with a base evel of 10 in the 1941-43 base period. The following is a look at the ndex, critical day response and technical indications of current performance.

Tech Studies

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Andrews Pitchfork

Arms Index

Bollinger Bands

Breakaway Gap

Breakout

Candlesticks

Chart Types

Comparative Relative Strength

Congestion Pattern

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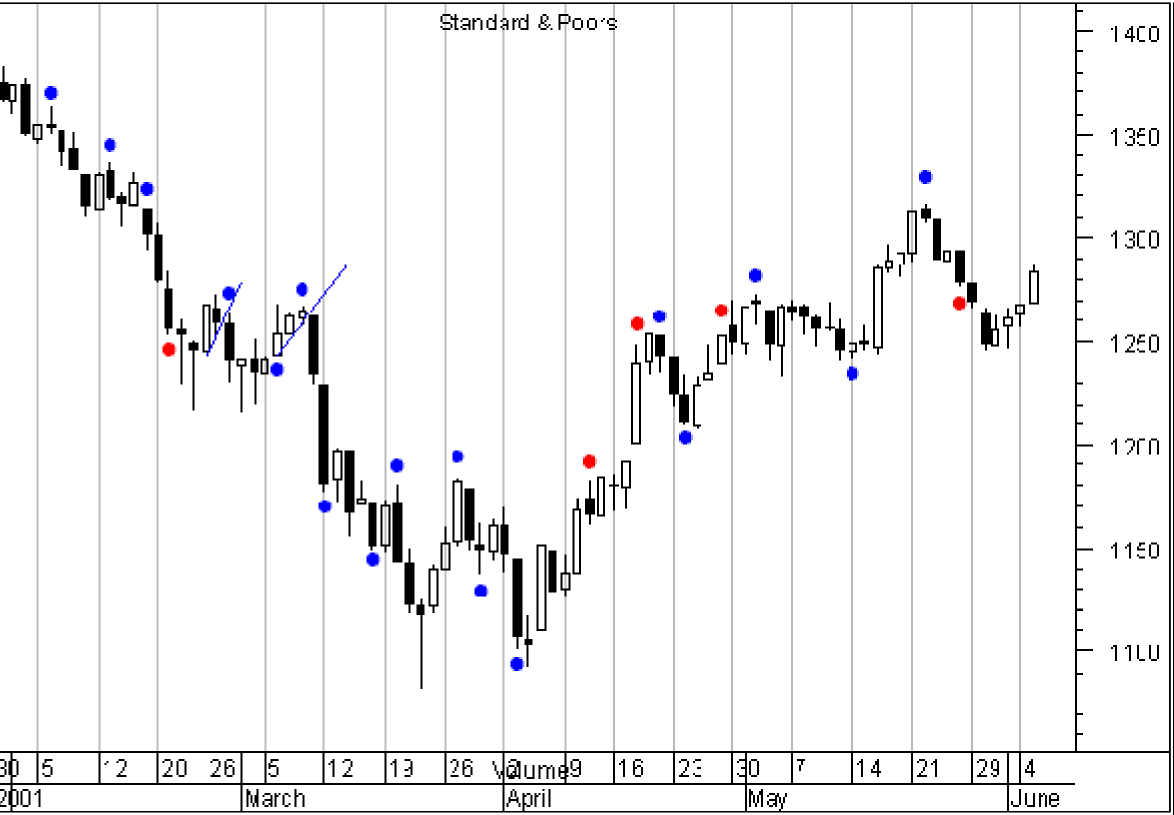
Momentum Indicators
Moving Average



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[Multiple Linear Regression](#)
[Neckline](#)
[Negative Divergence](#)
[On Balance Volume](#)
[Parabolic Stop and Reverse](#)
[Peaks and Troughs](#)
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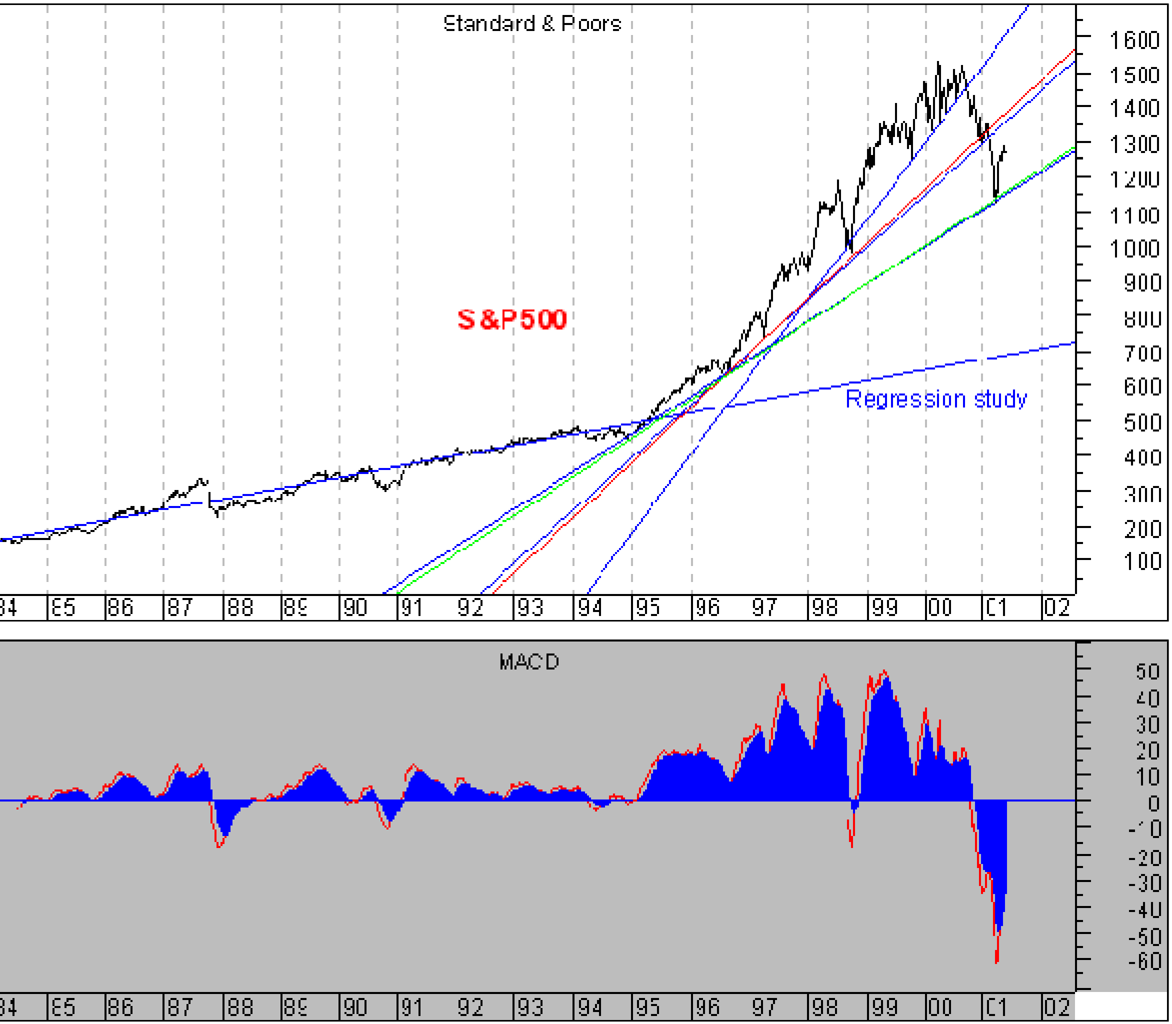
[Regression Analysis](#)
[Resistance](#)
[Relative Strength](#)
[Rotation](#)
[Short Selling](#)
[Short trend](#)
[Simple Moving Average](#)
[Standard Deviation](#)
[Stochastic](#)



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[Volume](#)
[Whipsaw](#)
[Williams%R](#)
[Zig Zag](#)

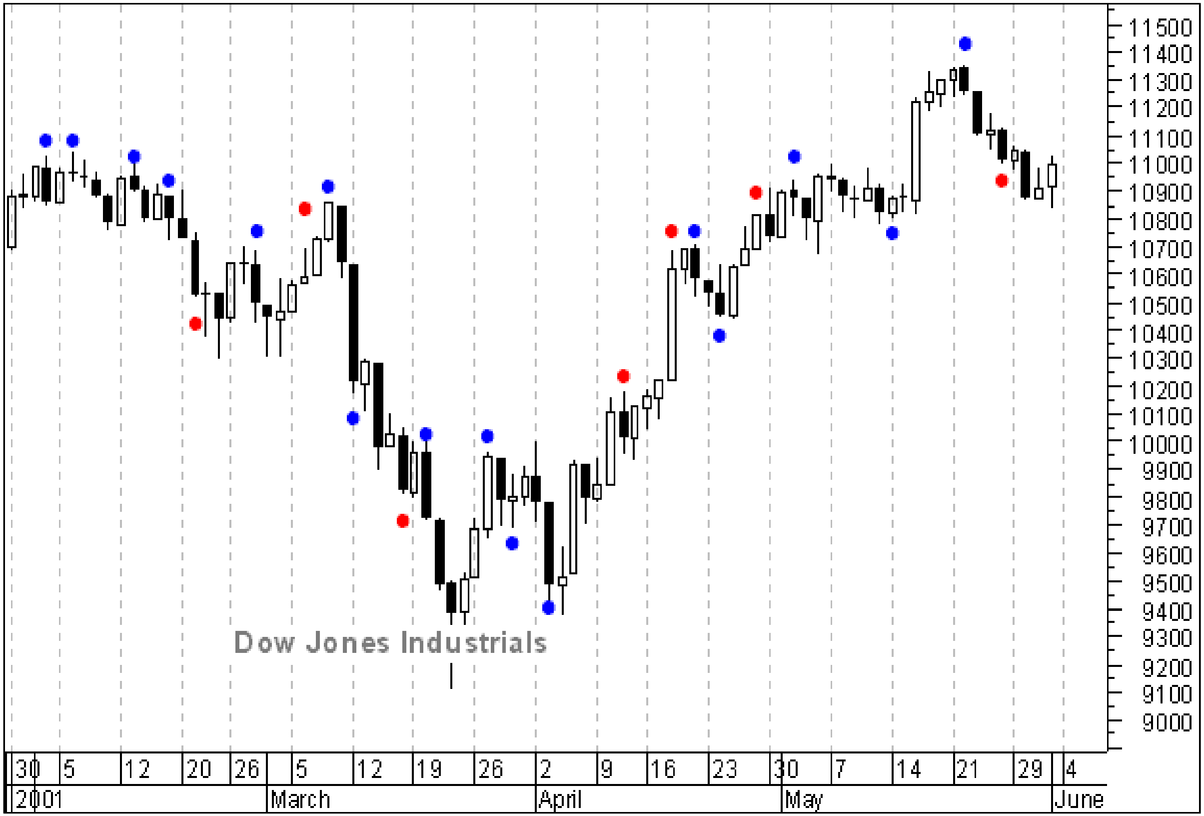
S&P500 Index	Nasdaq	SOX	Dow Jones Industrials
Russell 2000	Major Market Index	NYSE Index	Value Line Index

Dow

These member graphs are updated here with a week delay. In the members section these graphs are updated daily with critical days announced on average 3 days in advance.

Dow Jones Industrials

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928. Critical days are marked with dots above or below the price. Blue dots represent successful critical days. Red dots are failed signals. A critical day is given to members on average three days in advance and predicts a point in the path of the market at which the shortest segment of price trend is expected to change direction. The short trend leading into any upcoming critical day is expected to change direction coming away from the critical day if the critical day is successful. Wouldn't you like to know when to expect the peaks and valleys of the short term market? We average 5 signals a month and since 1994 our critical day research has had better than 80% success rate*. What if you knew tomorrows market today? Could you make money? [Join now!]



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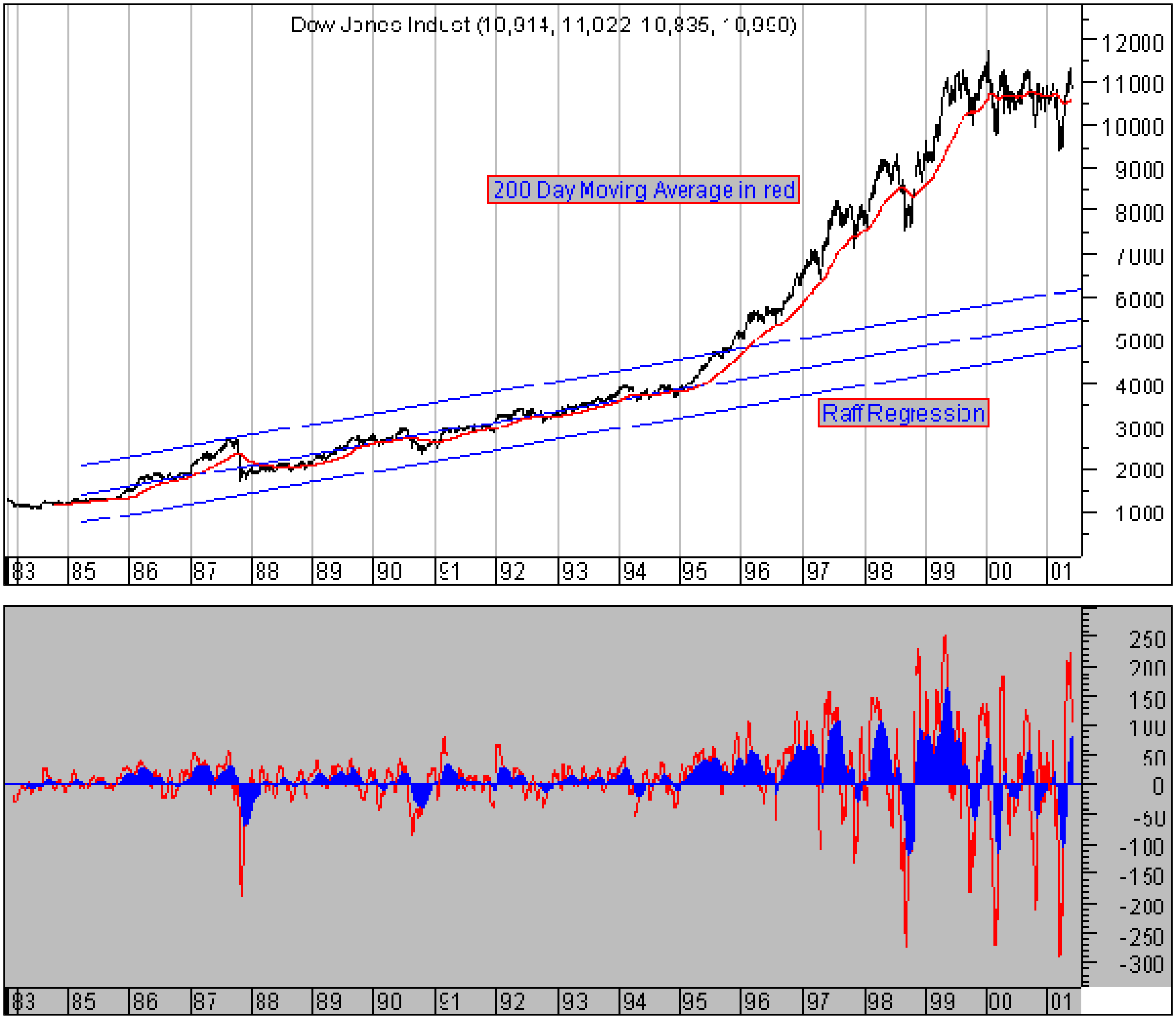

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Stochastic
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Technical

iconductor Index - SOX

Critical Day Analysis

Our critical day analysis is all about trend reversals. We tell you when there is a high potential for a reversal of the short trend and we've been doing it since 1994 with an *80% accuracy.

These member graphs are updated here with a week delay. In the members section these graphs are updated daily with critical days announced on average 3 days in advance.

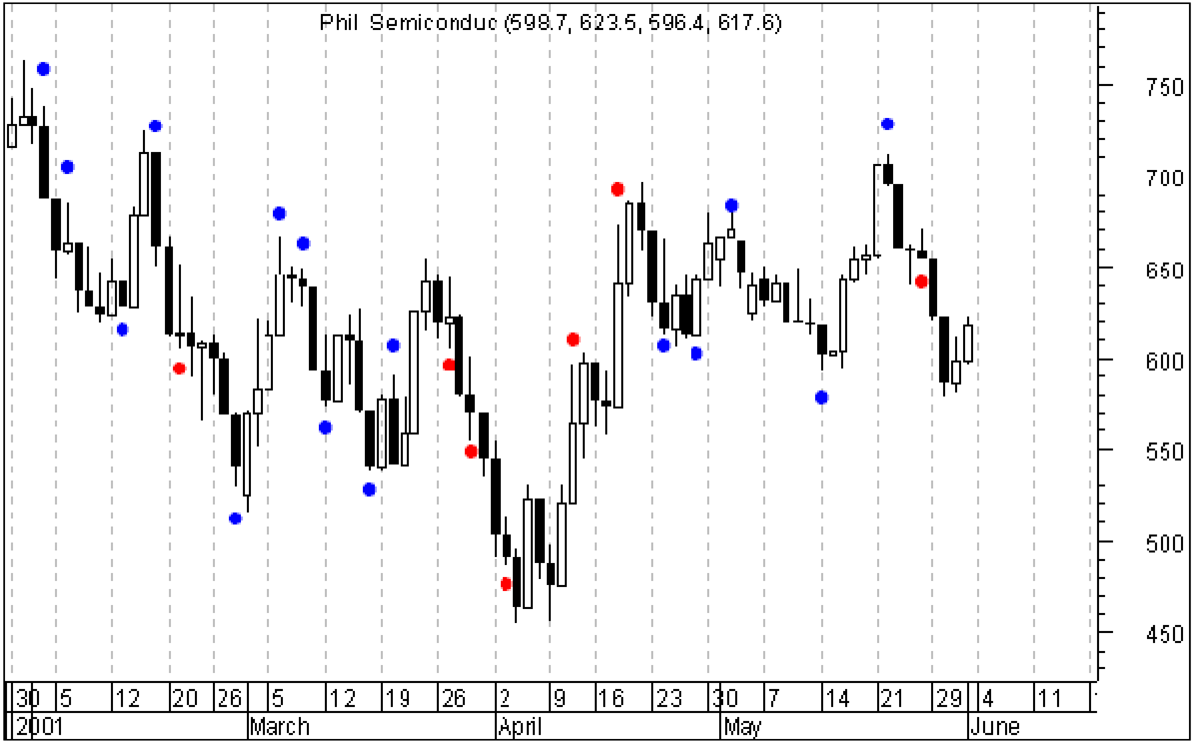
The Philadelphia Semiconductor Index

The Philadelphia Semiconductor Index is a price-weighted index of 16 companies that are involved in the design, distribution, manufacturing and sale of semiconductors. The index was developed with a base value of 100 as of December 1, 1993.

Critical days are marked with dots above or below the price. Blue dots represent successful critical days. Red dots are failed signals. A critical day is given to members on average three days in advance and predicts a point in the path of the market at which the shortest segment of price trend is expected to change direction. The short trend leading into any upcoming critical day is expected to change direction coming away from the critical day if the critical day is successful. Wouldn't you like to know

Tech Studies

when to expect the peaks and valleys of the short term market? We average 5 signals a month and since 1994 our critical day research has had better than 80% success rate*. What if you knew tomorrows market today? Could you make money? Join now!



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The Critical Day
Cup and Handle
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Double Top/Bottom
Elliot Wave Pattern
Envelopes
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Gaps
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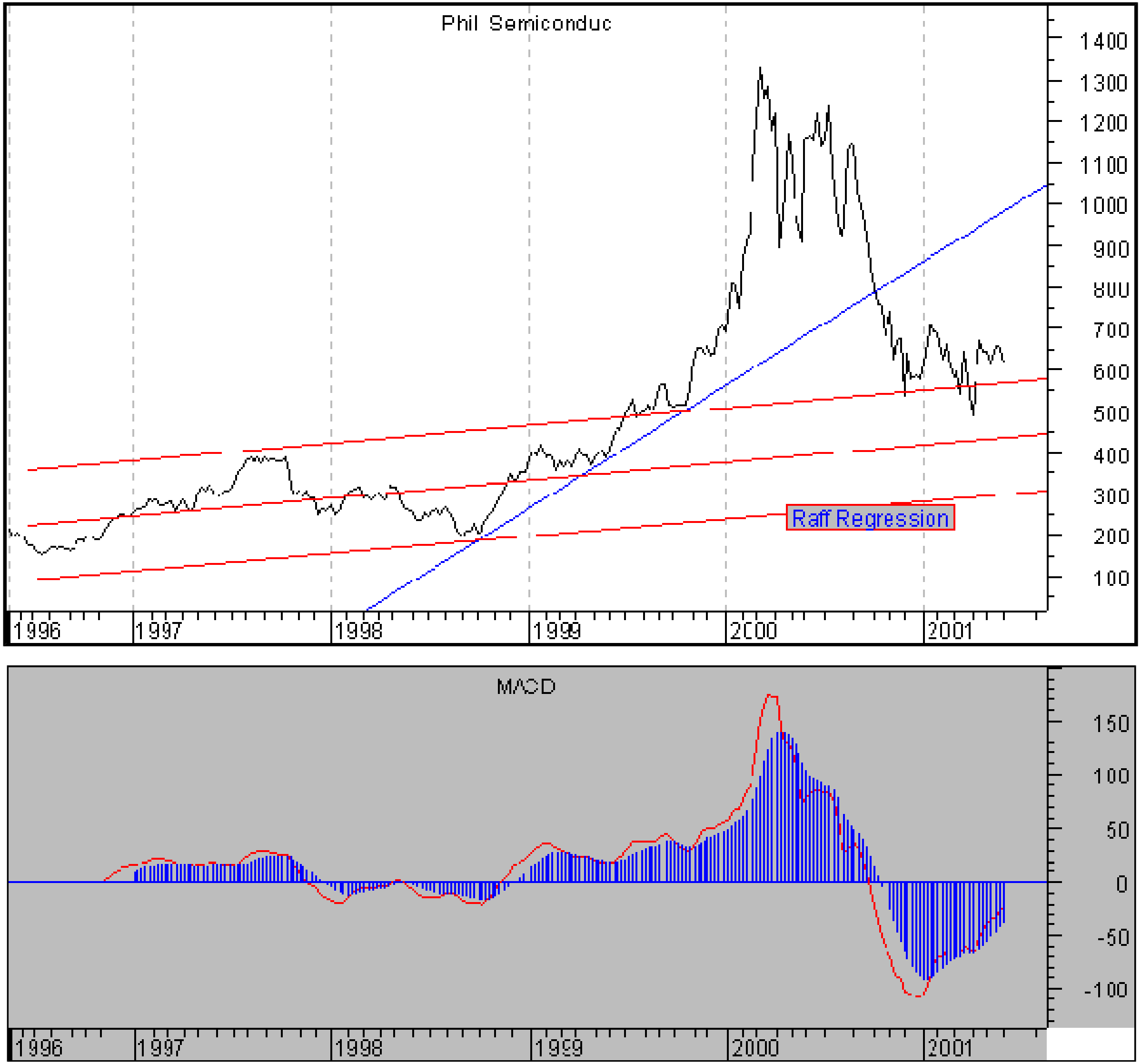
Momentum
Momentum Indicators
Moving Average Crossovers
Multiple Linear Regression



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Critical Day Analysis

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Futures

A futures contract has highly standardized and closely specified terms which calls for the exchange of some good at a future date for cash, with payment to occur at that future date. The purchaser agrees to receive delivery of the good at that future date. The seller promises to deliver the good and receive payment, the price of which is set at the initial time of contract. Buyers of a future contract are said to have a long position while sellers have a short position. The number of outstanding futures contracts obligated for delivery is called the open interest. For futures traders, the critical day can be of enormous benefit in navigating the market. Our critical days have a very high success rate (better than 80%* historically) for the S&P500 Index.

The Most recent Critical Days on the graph below are shown with Blue and Red dots. The blue dots, above or below the price plot, indicate successful critical days. Red dots indicate failures. A successful critical day indicates that the short trend did reverse, as expected by members, going into that period. You'll notice that the short trend leading into a critical day reverses coming away from a critical day. In terms of our research, the short trend is identified as the shortest segment of price activity leading into and away from a critical day. Looking at the flow of candle bodies approaching a critical day and then

Tech Studies

Advance Decline Line

Andrews Pitchfork

Arms Index

Bollinger Bands

Breakaway Gap

Breakout

Candlesticks

Chart Types

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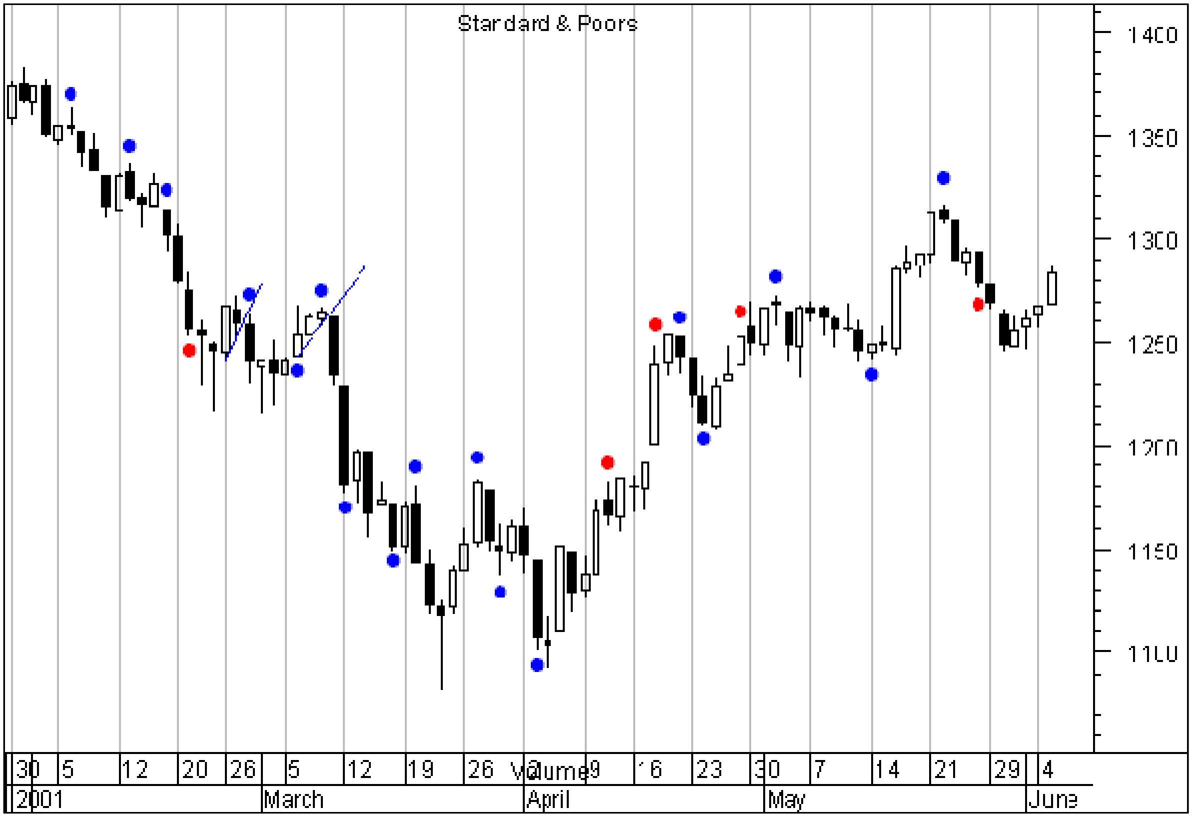
Consolidation

Correlation Analysis

Continuation

moving away from a critical day can be a visual aid in identifying what we refer to as the short trend.

Each critical day is known in advance allowing our members to prepare for strategies and to watch for price confirmation that a price reversal is underway or likely to materialize.



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A look at recent signals of the critical day on other indices

S&P500 Index	Major Market Index
Nasdaq	NYSE Index
Dow Jones Industrials	Value Line Index
Russell 2000	S&P 400 Midcap

To the right technical studies are examined in more detail to provide a sense of conformational evidence for traders of the critical day. Click on any of the terms to take a closer look at a technical discussion on that topic. All formations, patterns, indicators and technical tools fail at various times and so should only be used to build a body of evidence in forming a trading decision rather than being solely relied upon. There are a number of valuable studies that lead to intuitive understandings about price and volume but a strong compliment to technical analysis is an understanding of the trends and changes in the fundamentals and economic activity that ultimately lead valuation levels in the markets.

A look at the critical day

A critical day is an expectation of a reversal of the short trend.

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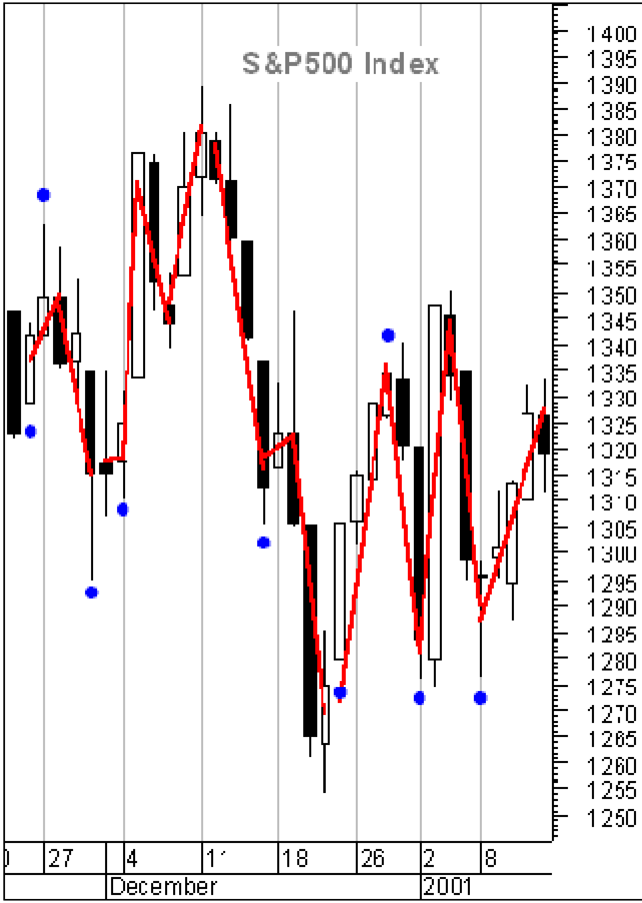
Simple Moving Average
Standard Deviation
Stochastic
Support
Technical Analysis
Trading Bands

Effectively, the short trend leading into a critical day is expected to reverse coming away from the critical day. The critical day becomes the peaks or troughs of the short term market when they are successful. With a success rate of better than 80%* since 1994 we have been able to provide our members with an amazing tool for helping to navigate the short term market.

The period on the graph is from Nov 22/00 to Jan 12/01. Our full signals since 1994 are available on line for your convenience at Past Signals. The graph is a price plot of candlesticks. Over the price plot is a series of red lines put there to help identify the short trend of the market. The dots are critical days given to members during that period.

You can see that for each critical day, the short trend leading into the critical day, reverses coming away from the critical day. The critical day can be the first day of a movement in a new direction or



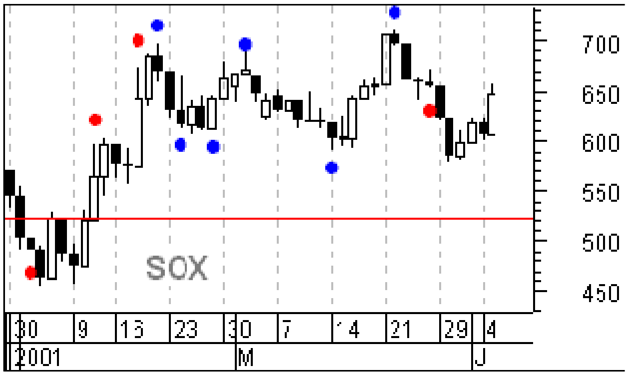
Trading Range
Trailing Stop
Trend
Trend Channel
Trend Line
Trending Market
Trend Reversals
Triangles
Volume
Whipsaw
Williams%R
Zig Zag

Most recent 6 months signals across several Indexes

Economic Calendar

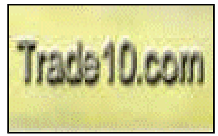
it can be the last day of a short trend direction. Understanding trend reversals and methods of recognizing reversals of the trend can help in determining trading strategy and timing of trading decisions. In addition the critical day applies across a wide body of stocks, sectors and Indices.

A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



Economic Monitor

Recent Signals



Become a member

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What if you knew tomorrows market today?

Could you make money??

Critical Day Analysis

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Options

An option is a derivative. A financial derivative is an instrument or security who's value depends on another financial instrument or security. Options in the securities industry includes stock options, index options, foreign currency options and options on futures. Options are used for a variety of reasons from financing strategies to hedging unwanted risk, to being part of the execution of complex strategies or used for simple speculation. An option is the right, not the obligation, to purchase or sell an underlying security at a stated price during a specific period of time. The most important determinant of an options price is the potential gain or loss and the probability of the occurrence given the time remaining to expiry. Option strategies can be designed to lock in a maximum loss and gain and allow for risk reduction while improving the leverage available to the invested capital. There are excellent resources on the web and in public library's on options and strategies and it is highly recommended that these instruments be fully understood before making investment decisions.

The Most recent Critical Days on the graph below are shown with Blue and Red dots. The blue dots, above or below the price plot, indicate successful critical days. Red dots indicate failures. A

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Andrews Pitchfork
Arms Index
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Correlation Analysis

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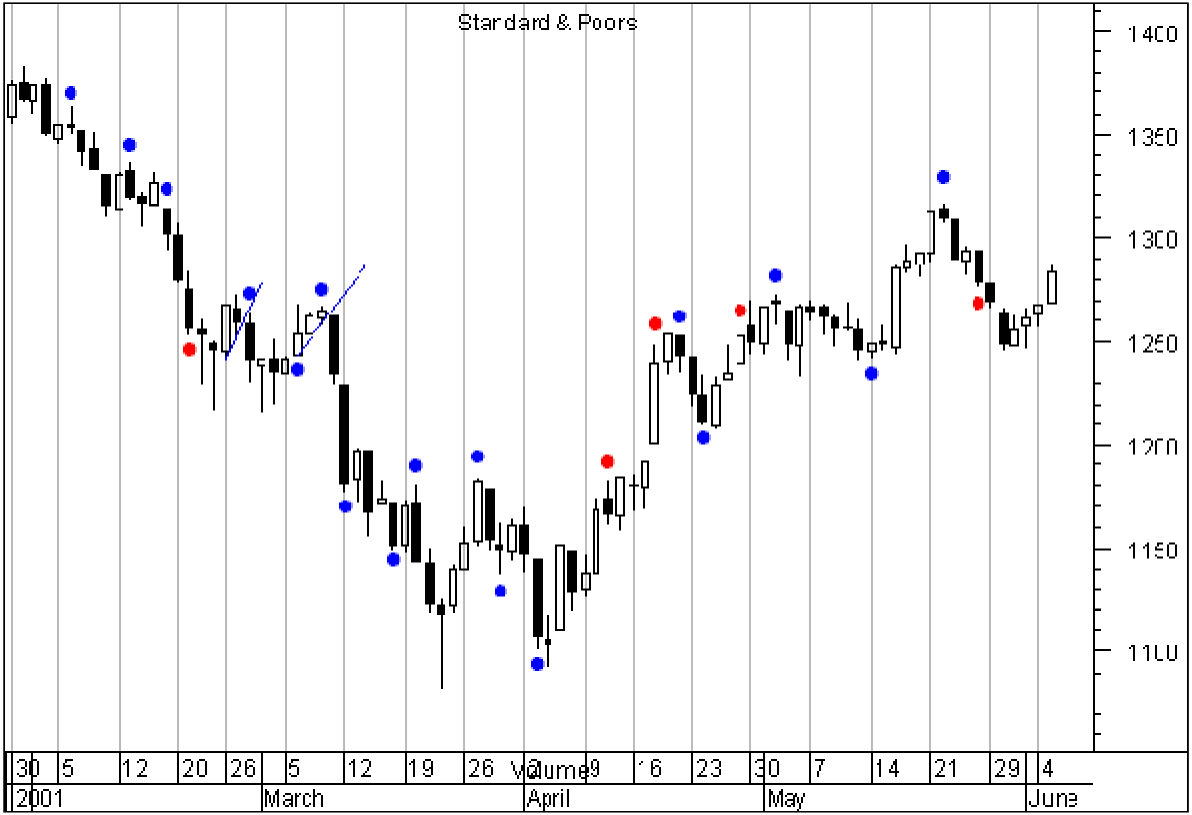
Each critical day is known in advance allowing our members to prepare for strategies and to watch for price confirmation that a price reversal is underway or likely to materialize.



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A look at recent signals of the critical day on other indices

S&P500 Index	Major Market Index
Nasdaq	NYSE Index
Dow Jones Industrials	Value Line Index
Russell 2000	S&P 400 Midcap

A look at Option Basics

The purchaser of an option is called the "holder". The seller of an option is called the "writer". The holder pays a premium for the right to exercise the option contract. The writer grants the right and assumes the obligation of fulfilling the option contract and for that, a premium is received.

Call Options - entitle the holder of the option to purchase a fixed amount of the underlying security.
Put Options - entitle the holder of the option to sell a fixed amount of the underlying security.
Call and Put options contracts contain a stipulated price and expiry date after which the contract ceases to exist. For these reasons there is added risk in trading options and it is recommended that investors become fully

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Historical examples of the critical day

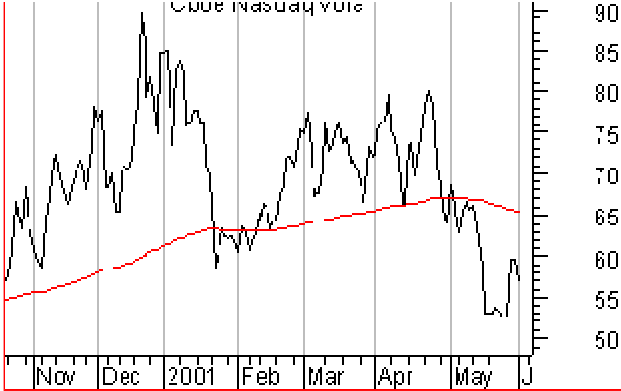
knowledgeable with options before trading options.

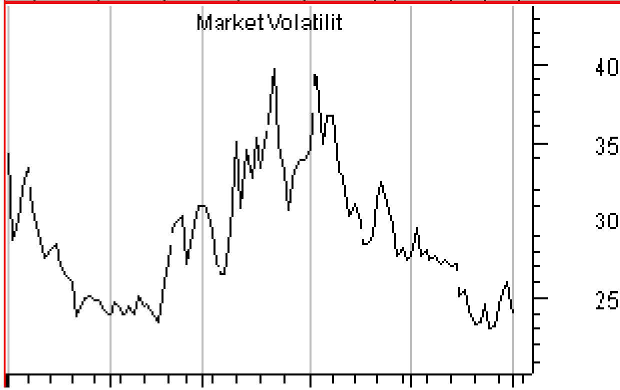
The writer of an option contract assumes the obligation to sell (for calls) or buy (for puts), a certain quantity of a specific underlying interest at a stipulated prices within a specific period of time.

Some of the factors influencing premiums include the intrinsic value, time value, as well as the market price and volatility of the underlying interest. See our Glossary for definitions.

There are a number of strategies that can help reduce risk when trading options such as combinations and straddles as well as ratio spreads.

A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can





Last 6 Weeks Signals

US Indices

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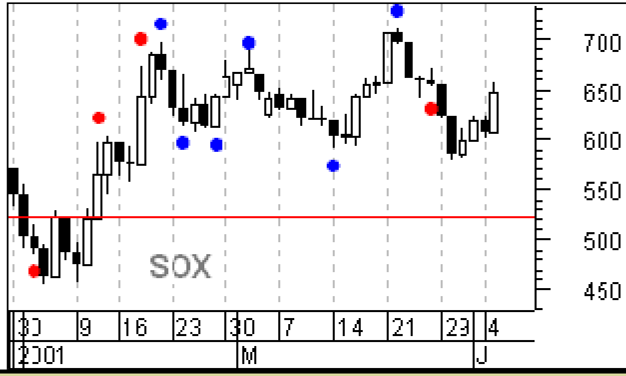

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Home

Questions or comments?

Revised: June 05, 2001 .

Disclaimer

*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

Critical Day Analysis

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Data provided by Barchart.com INDICE

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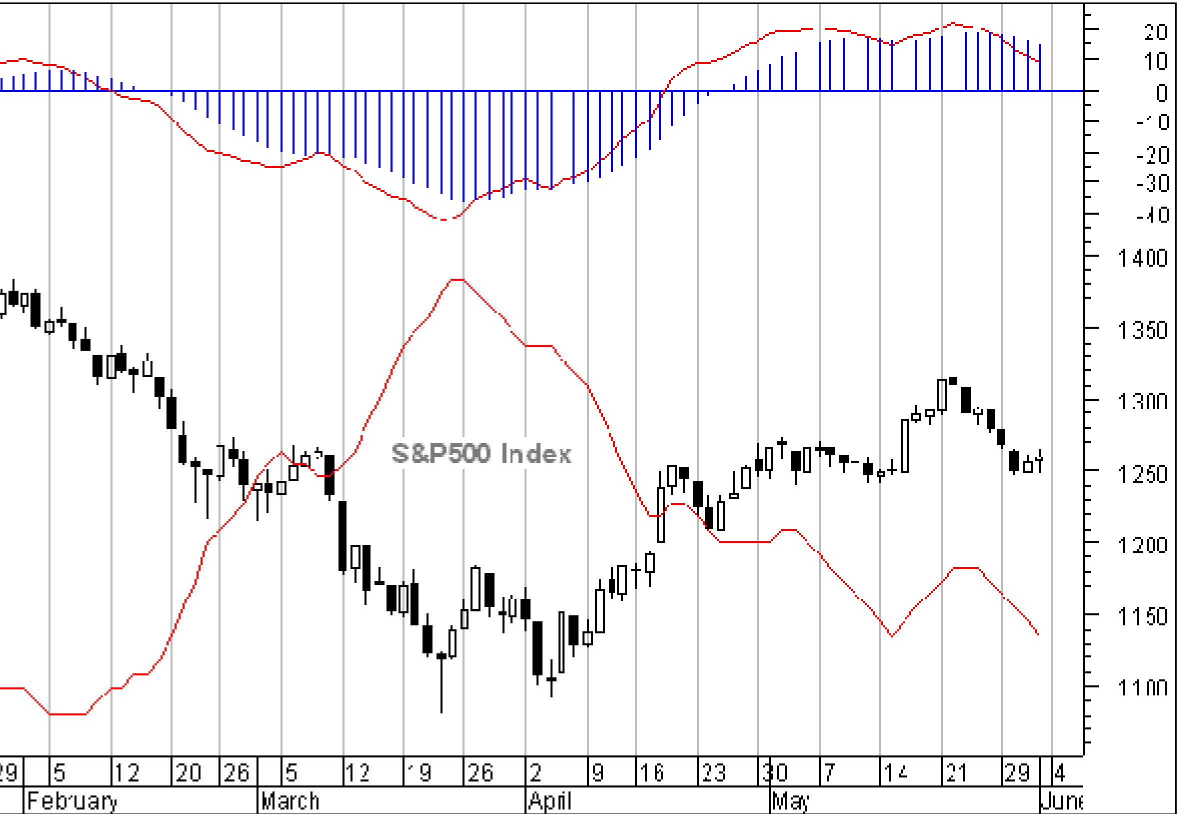
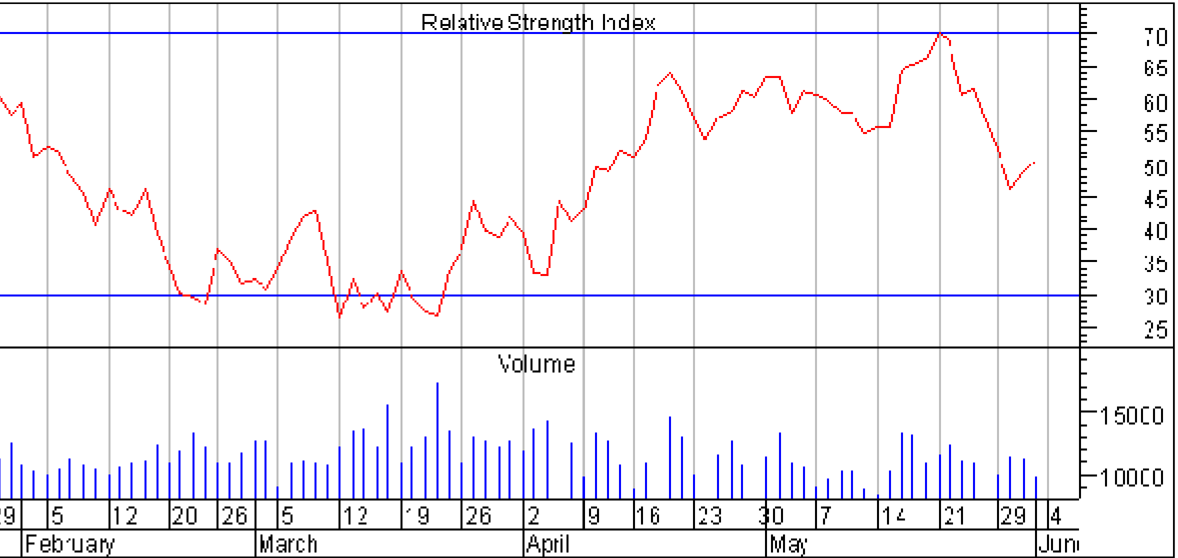
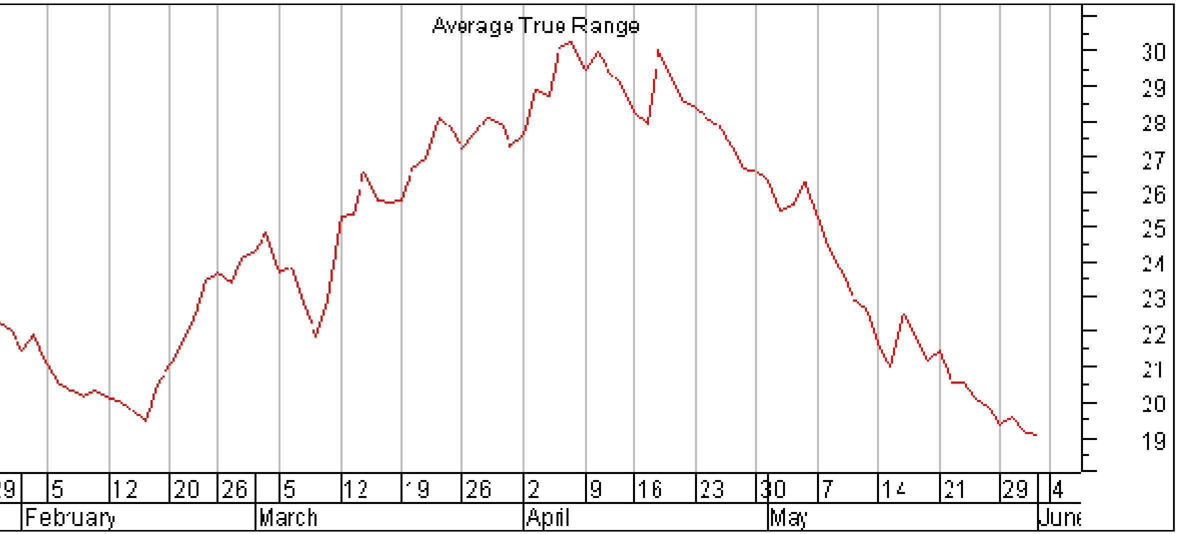
S&P500 Index	Nasdaq	SOX	Dow Jones Industrials
Russell 2000	Major Market Index	Nyse Index	Value Line Index
S&P 400 Midcap	30 year bond yield	VIX	US Dollar Index

A look at the S&P500 Index





Relative Strength Index
70
65
60
55
50
45
40
35
30
25
Volume
15000
10000
29
5
12
20
26
5
12
19
26
2
9
16
23
30
7
14
21
29
4
February
March
April
May
June



Average True Range
30
29
28
27
26
25
24
23
22
21
20
19
29
5
12
20
26
5
12
19
26
2
9
16
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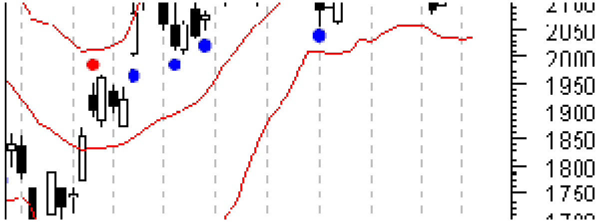
14
21
29
4
February
March
April
May
June

[S&P400 Midcap](#)



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International

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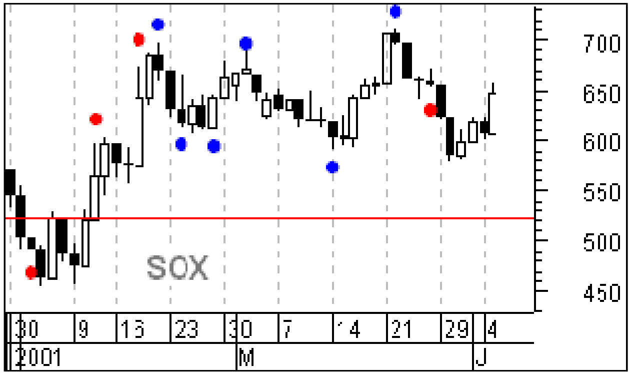

Sector examples

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Past Signals

The following are 6 month graphs of previous signals generated by our research. Every critical day is given to members on average three days in advance of the critical day. We average 5 signals a month. Our success rate in having our critical days correctly identify pivot points in the short term trend of the market has been better than 80%* since 1994 on the S&P500 Index. The table below are hyper linked to historical graphs of the S&P500 Index with critical days shown on the graph.

1994		1995		1996		1997		1998	
Jan	**July**	**Jan**	**July**	**Jan**	**July**	**Jan**	**July**	**Jan**	**July**

Tech Studies

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1999		2000		2001		2002		2003	
Jan	**July**	**Jan**	**July**	**Jan**	**July**	**Jan**	**July**	**Jan**	**July**

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The Most recent Critical Days on the graph below are shown with Blue and Red dots. The blue dots, above or below the price plot, indicate successful critical days. Red dots indicate failures. A successful critical day indicates that the short trend did reverse, as expected by members, going into that period. When looking at the trend, look at the smallest segment of candle bodies leading into the critical day and look at the reversal of the candle bodies leading away from the critical day. The placement of the dots are for visual clarity and is not meant to indicate direction. The key function of the critical day is to indicate the possibility of a reversal of the short trend leading into the critical day. With market volatility this can produce some amazing opportunities.

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A look at the critical day up close

To the right technical studies are examined in more detail. Click on any of the terms to take a closer look.

Each of the graphs below graphically display the concept of short trend, trend reversal and the critical day.

A critical day is an expectation of a reversal of the short trend. Effectively, the short trend leading

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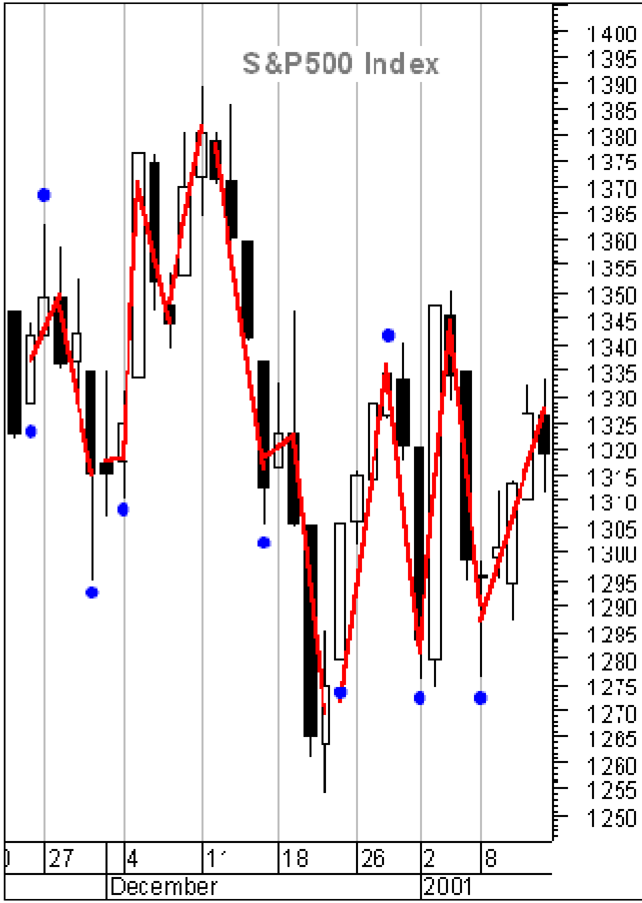
The period on the graph is from Nov 22/00 to Jan 12/01. Our full signals since 1994 are available on line for your convenience at [Past Signals](). The graph is a price plot of [candlesticks](). Over the price plot is a series of red lines put there to help identify the short trend of the market. The dots are critical days given to members during that period.

You can see that for each critical day, the short trend leading into the critical day, reverses coming away from the critical day. The critical day can be the first day of a movement in a new direction or it can be the last day of a short trend direction. Understanding



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[Take a look at the last 6 weeks signals]()

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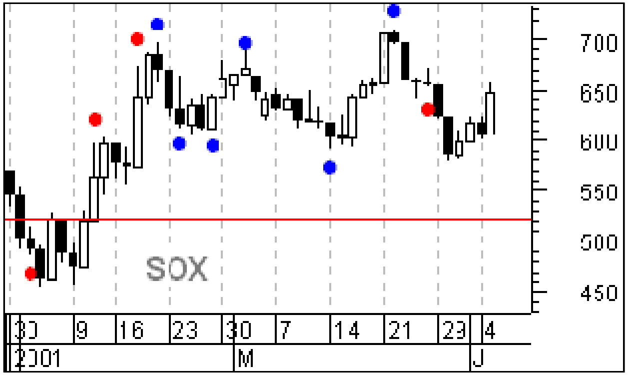
Historical examples of the critical day

A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.



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Economic Calendar

Economic Calendar

from The Dismal Scientist

Monday, June 4

Time	Indicator	Coverage	Actual	Consensus	Previous
N/A	Semiconductor Billings	April	-4.7%	N/A	-6.9%
N/A	Vehicle Sales	May	16.7 million	13.3	16,672.4

Tuesday, June 5

Time	Indicator	Coverage	Actual	Consensus	Previous
7:00 A.M.	Business and Consumer Survey	May	101.7	N/A	102.1
8:30 A.M.	Productivity and Costs	2001Q1	-1.2%	N/A	-1.2%
10:00 A.M.	Factory Orders (SIO or M3)	April	-3.0%	-2.8%	1.4%
10:00 A.M.	NAPM Non-Mfg.	May	46.6	N/A	47.1

Wednesday, June 6

Time	Indicator	Coverage	Actual	Consensus	Previous
6:00 A.M.	Unemployment Rate	April	Forthcoming	N/A	8.4% Unemployment
7:00 A.M.	Monetary Policy Announcement		Forthcoming	N/A	Repo Rate: -0.25%
7:30 A.M.	MBA Mortage Applications Survey	6/1/2001	Forthcoming	N/A	495.9
9:00 A.M.	Oil and Gas Inventories	6/1/2001	Forthcoming	N/A	322.8 MB
9:30 P.M.	GDP	2001Q1	Forthcoming	N/A	2.1%

Thursday, June 7

Time	Indicator	Coverage	Actual	Consensus	Previous
N/A	Employment Situation	May	Forthcoming	N/A	9.5 % Unemployment
N/A	Chain Store Sales	May	Forthcoming	N/A	3.8%
7:30 A.M.	Monetary Policy Announcement		Forthcoming	N/A	No change.
8:30 A.M.	Jobless Claims	6/2/2001	Forthcoming	N/A	419,000
10:00 A.M.	Wholesale Trade (MWTR)	April	Forthcoming	0.3%	-1.1%
3:00 P.M.	Consumer Credit (G19)	April	Forthcoming	$9.0 billion	$6.1 billion
9:3 P.M.	Employment Situation	May	Forthcoming	N/A	6.8 % Unemployment

Friday, June 8

Time	Indicator	Coverage	Actual	Consensus	Previous
8:30 A.M.	Labor Force Survey	May	Forthcoming	N/A	7.0 % Unemployment
1:00 P.M.	ECRI Weekly Leading Index	6/1/2001	Forthcoming	N/A	120.6

Next Week's Releases

Tuesday, June 12

Time	Indicator	Coverage	Actual	Consensus	Previous
10:00 A.M.	Richmond Fed Manufacturing Survey	May	Forthcoming	N/A	-25.0

Wednesday, June 13

Time	Indicator	Coverage	Actual	Consensus	Previous
4:30 A.M.	Employment Situation	May	Forthcoming	N/A	3.2 % Unemployment
7:30 A.M.	MBA Mortage Applications Survey	6/8/2001	Forthcoming	N/A	N/A
8:30 A.M.	Import and Export Prices	May	Forthcoming	N/A	-0.5%
8:30 A.M.	Retail Sales (MARTS)	May	Forthcoming	0.2%	1.3%
9:00 A.M.	Oil and Gas Inventories	6/8/2001	Forthcoming	N/A	N/A
2:00 P.M.	Beige Book				

Thursday, June 14

Time	Indicator	Coverage	Actual	Consensus	Previous
8:30 A.M.	Jobless Claims	6/9/2001	Forthcoming	N/A	N/A

8:30 A.M.	Business Inventories (MTIS)	April	Forthcoming	-0.1%	-0.3%
8:30 A.M.	PPI	May	Forthcoming	0.2%	0.3%

n

Friday, June 15

Time	Indicator	Coverage	Actual	Consensus	Previous
8:30 A.M.	Consumer Price Index	May	Forthcoming	0.3%	0.3%
9:15 A.M.	Industrial Production	May	Forthcoming	-0.5%	-0.3%
1:00 P.M.	ECRI Weekly Leading Index	6/8/2001	Forthcoming	N/A	N/A

*Consensus Estimates provided by Thomson IFR

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ECONOMIC MONITOR

Economic performance and indicators are shown in the graphs and tables to provide a longer view of economic changes.

The importance of monitoring the economy domestically lies in understanding the current earnings environment for companies and being aware of trends in selected indicators that may impact on trading decisions in a changing economy.

The rate of unemployment is a key

ECONOMIC CALENDAR OF EVENTS

Tech Studies

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Andrews Pitchfork

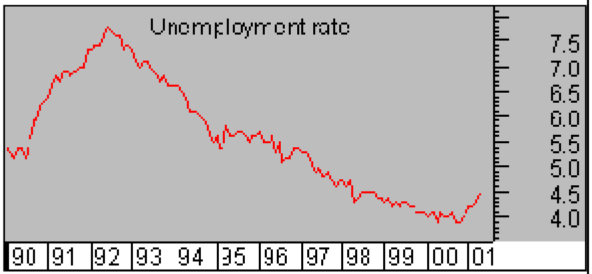
Arms Index

Bollinger Bands

Breakaway Gap

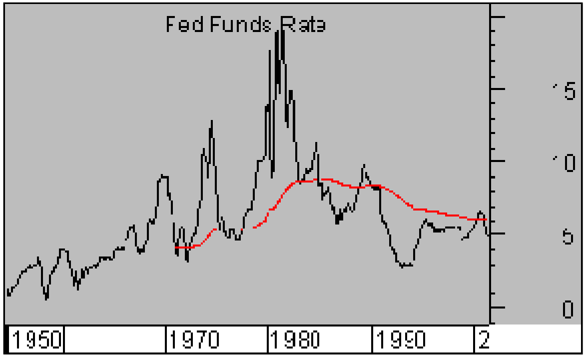
Breakout

barometer of labor market conditions. The Bureau of Labor Statistics of the U.S. Department of Labor releases the Unemployment rate each month. Employment patterns vary seasonally. The combination of Productivity gains and a strong labor market have produced an environment of excellent earnings growth. Offsetting a favorable outlook are energy costs and slowing domestic and international economies.

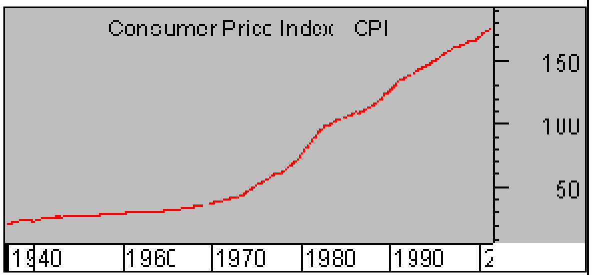


Banks borrow from the Fed, in order to meet reserve requirements that are set by the Fed. The discount rate is the rate the Feds charge the banks. This is the mechanism that influences the Fed

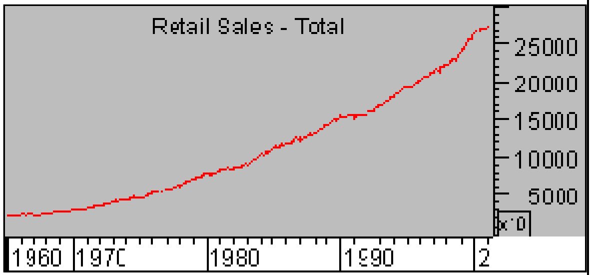
Funds Rate. The Fed Funds Rate is the rate that banks will charge each other for intra-day and overnight loans. The Federal Open Market Committee set the discount rate which can be very influential for economic and market conditions.



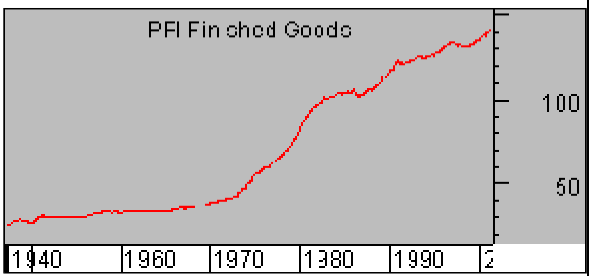
The Consumer Price Index (CPI) is an indicator of the general level of prices. The Index is a measure of current prices compared to base-year prices. Although it relies on a market basket of goods that don't account for substitution or changing consumer choices, it is an indication of the rate of inflation.



Consumer spending is volatile reflected month to month changes in the Retail Sales totals. Higher interest rates usually puts a crimp in demand for big ticket household goods, but have not had substantial impact in current spending levels. Spending is at moderate and sustainable levels.



The US Department of Labor release the Producer Price Index monthly. Producers prices are a measure of inflationary pressures. The PPI is a measure of a basket of goods at an early stage in the distribution system and serves as one of the leading indicators for policymakers as it signals changes in the general price level some time before actually materializing.



A good measure of economic activity, Housing Starts for single families is released by the Bureau of Census

Short Selling
Short trend
Simple Moving Average
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Support
Technical Analysis
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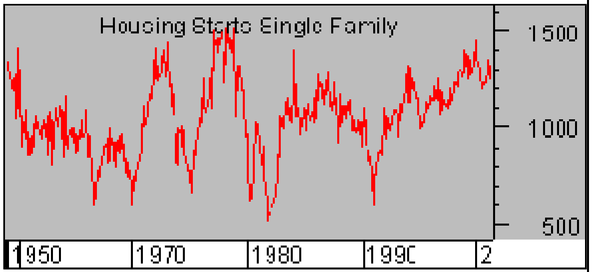
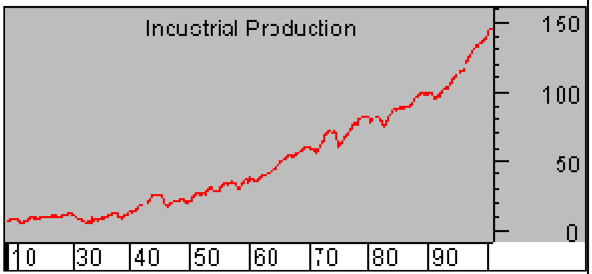
Trend Reversals
Triangles
Volume
Whipsaw
Williams%R
Zig Zag

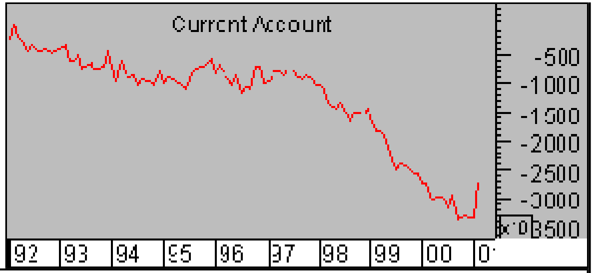
monthly. Housing starts can indicate future strength in the housing sector of the economy and is closely related to interest rates and other basic economic factors. Housing starts is an indication of consumer confidence in making long term financial commitments.



Industrial Production is released by the Federal Reserve Board monthly. It gives a measure of industrial production that is subject to revision for 4 months. Its a measure of the change in output in US manufacturing, mining, and electric and gas utilities. Output refers to the physical quantity of items produced.



Released by the Bureau of Economic Analysis, the Current Account data detail the balance of goods, investments and services with other countries. The current account is running a deficit reflecting excessive imports.



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*based on the critical days generated from 1994 to 2000 plotted on the S&P500 Index

Technical vs. Fundamental Analysis

It shouldn't really be ***versus*** one another, it should say instead ***complement*** each other. Technical analysis tools can be used to draw significance to various economic trends. Knowing economic trends can aid the technician in determining the potential significance of a various technical signals and patterns. An investor that marries the knowledge has a strong sense of the market.

The common thread between technical and fundamental analysis is the study of trends. Where technical analysis is the study of trends in price and volume, fundamental analysis concerns itself with economic and corporate growth trends and the projection of performance based on trends of relevant factors.

The basis of all long term trends in price and volume for any tradable is fundamentals. Technical analysis thrives on the study of changing supply and demand patterns. In the study of trends it is important to

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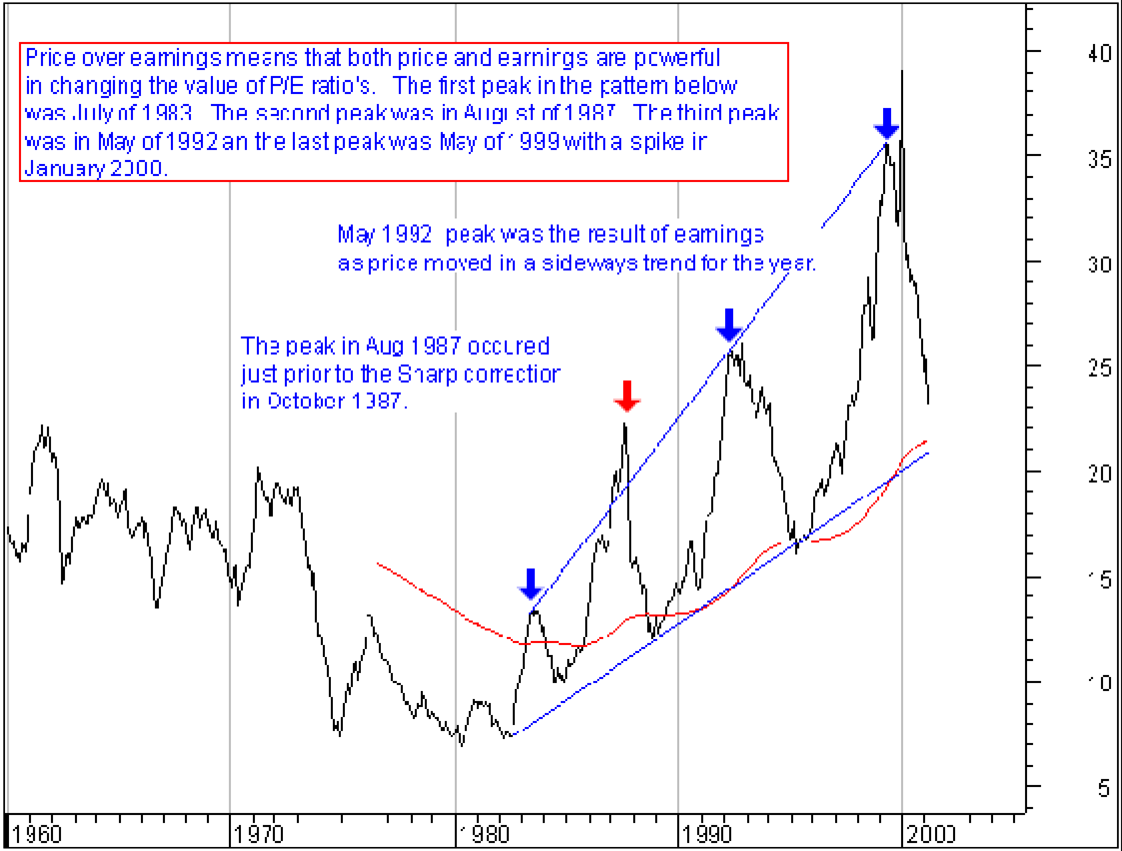
determine significance in changes in underlying perceptions of value that result from fundamentals and the forecasts of future performance. A balanced understanding of the two disciplines can provide an excellent basis for a successful trading experience.

As with technical analysis, there are many fundamental tools that are purposed toward early identification of trend reversals. A corporate growth rate forecast might be revised as a result of an earnings warning, or perhaps as a result of a sudden or continued decline in industry sales reports, or by association of sector move. Forecasts that are a continuation of the most recent trend and do not range very far into the future can be measured against longer term forecasts as a ratio that may give a fundamental analyst a stronger knowledge of the conditions of market valuation.

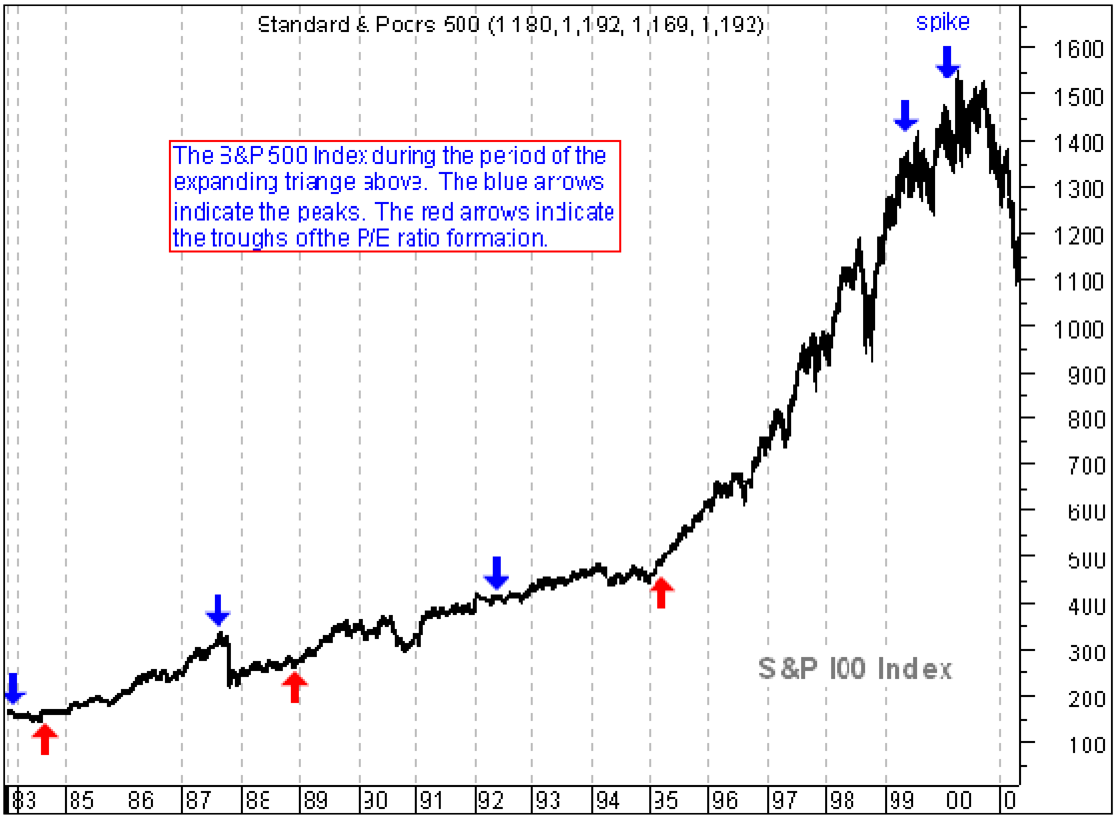
It has been said that Industry behavior accounts for 15 to 20% of a stocks fluctuations over time. The economy is suppose to account for 30 to 35% of a stocks fluctuation in price. Specific information on the Company is suppose to account for 30 to 35% of the price of a stock over time. Other factors make up the remaining 15 to 20%.



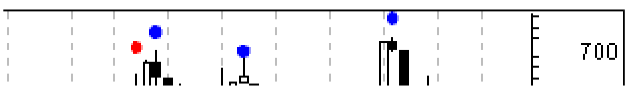
An expanding triangle usually cannot sustain the pattern. Penetration is often to the down side. A drop in P/E might mean lower price and constant earnings, or constant price and lower earnings or some variation of the two. If the pattern held, a rising P/E could peak in 5 or 6 years. This usually means price has increased more than earnings. In a positive growth environment that could speak highly of price in the next 5 or 6 years. But it also could mean that price holds steady

Multiple Linear Regression
Neckline
Negative Divergence
On Balance Volume
Parabolic Stop and Reverse
Peaks and Troughs
Point and Figure
Price Earnings
Range
Regression Analysis
Resistance
Relative Strength
Rotation
Short Selling
Short trend
Simple Moving Average
Standard Deviation
Stochastic
Support/Resistance

while earnings continue to decline. The key to the interpretation of this approach is to have a strong sense of earnings. There are many combinations of technical tools and fundamental analysis. Many things are shared between the two disciplines and can be highly useful in a trading environment.



The Most Recent Signals



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[Trend Channel]
[Trend Line]
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A closer view of the most recent signals. You can see the short trend immediately prior to a successful critical day, reverses coming away from the critical day. Often a failed critical day will indicate a stronger bias in the market for continuation of the trend that was in place prior to the critical day. A failed signal can therefore provide as much information and opportunity as a successful one. Take a look at tech studies to develop a sense of trend reversals and use.

Reversals

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