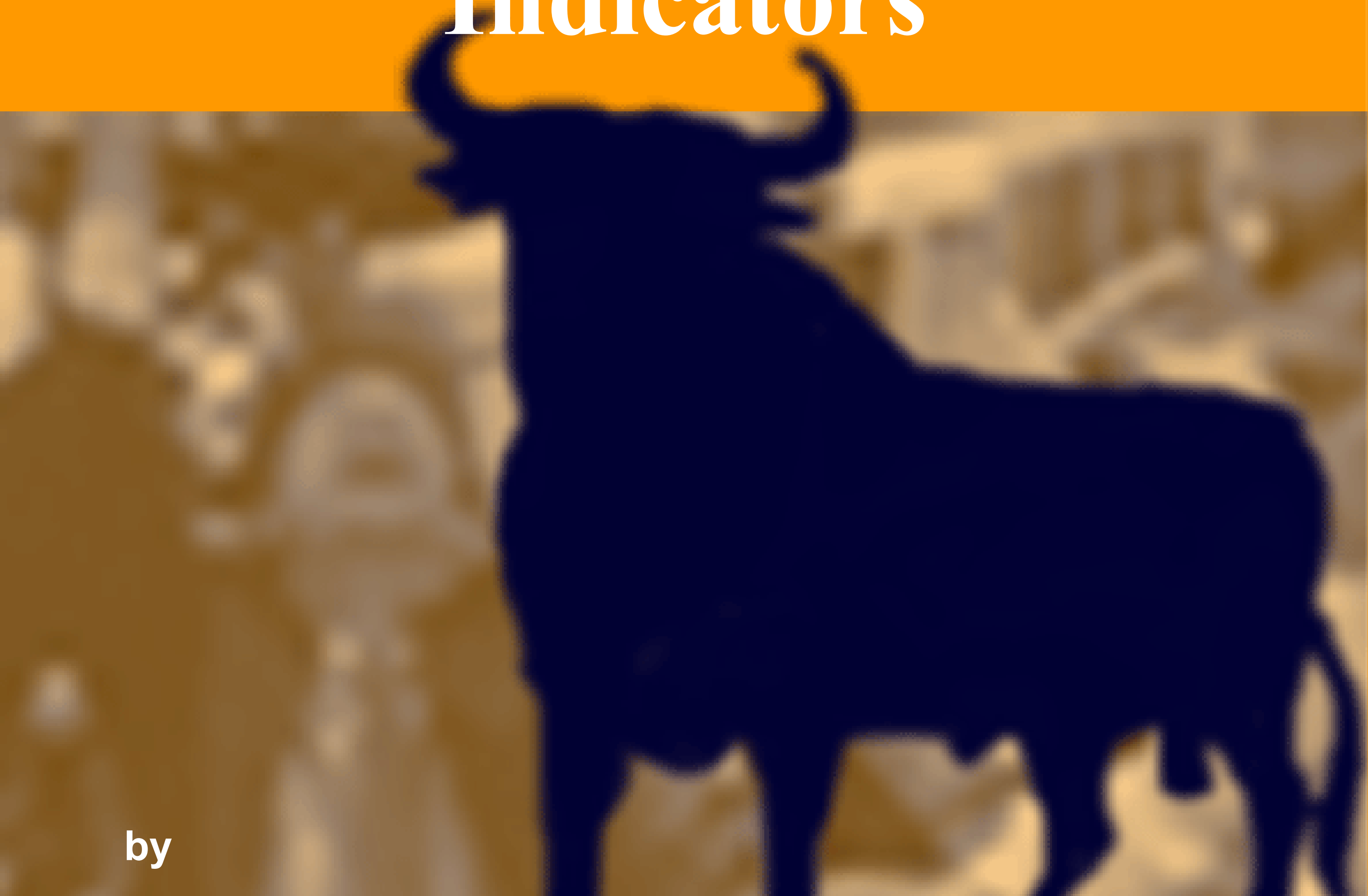
The E-Book of Technical Market Indicators



by

Wall Street Courier

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office@wallstreetcourier.com

www.wallstreetcourier.com

Preface

The transparency of the American markets offers an array of indicators and allows deep insights of prevailing sentiment. You find the activities of NYSE members like specialists and floor traders, public and odd lot short sales, the Short Interest Ratio as well as the large block transactions of the institutional investors published every week. Other tools for technical analysis include trend indicators, daily advances and declines, daily new highs and lows, volume, indices, put/call ratios and other useful information like Stochastics, RSI, MACD, TICK and more. The problem is only that all these indicators contradict each other most of the time. Countless books have been written on this subject, and no matter how many will be written in the future: always be aware that there is no such thing as the Holy Grail of the stock market. But some people are more successful than others and the answer is quite simple:

No indicator is right all the time and you don't have to be right all the time. Just be right a higher percentage of the time than wrong. Choose some reliable indicators and stick to them. Don't follow some indicators for a while and switch to some others if they fail. Don't be a technician in the first half of the year and a fundamentalist the next half. Be consistent and disciplined in your approach. Don't abandon a good indicator because you think this time everything is different.

It takes of course a lot of guts because the opinions of the most widely quoted gurus of Wall Street are usually contrary to your indicators at that time. This is much easier if you don't use margin. You will sleep a lot better if you buy fifty shares of IBM with the money you can spare than two hundred shares on credit.

Happy Trading
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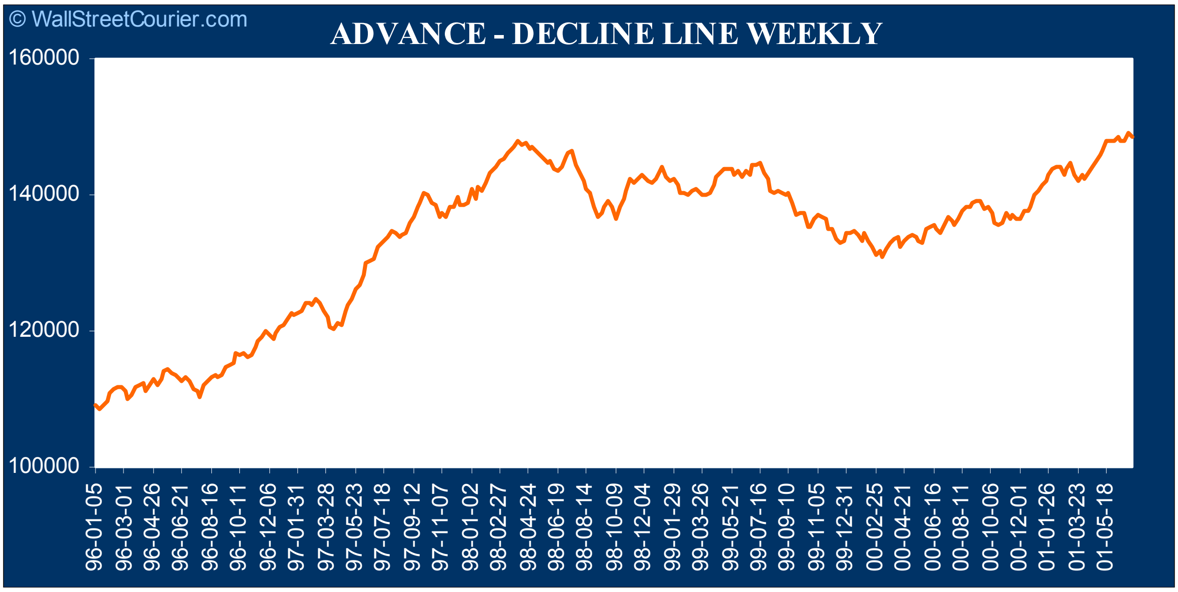
Advance-Decline Line

The Advance-Decline Line is a market breadth indicator and should be compared to the other market indices like the Dow Jones or S&P 500. Daily or weekly NYSE data is used in the calculation. Because the Advance-Decline Line reflects the action of the general market, any divergences are watched closely by market technicians. As long as the Dow and the Advance-Decline Line are moving in the same direction the trend will continue. If the Dow makes a new high which is not confirmed by a high of the Advance-Decline Line, caution is warranted. Vice versa, if the Dow makes a new low and the Advance-Decline Line doesn't you should cover your short sales.



To calculate your own weekly Advance-Decline Line is very simple and you can begin your calculations at any time. Just pick a large enough base number like 100000. Then you calculate each week (or day) the difference between advances and declines by adding the advances and subtracting the declines. If you have 1269 advances and 1457 declines on your first week, the reading of your newly created weekly Advance-Decline Line would be 99812 (example below).

Date	Advances	Declines	A-D Line
			100000
09.06.95	1269	1457	99812
16.06.95	1714	975	100551
23.06.95	1591	1148	100994
30.06.95	1346	1348	100992
07.07.95	2032	692	102332
14.07.95	1507	1191	102648
21.07.95	894	1875	101667
28.07.95	1891	845	102713
04.08.95	1404	1291	102826
11.08.95	1187	1489	102524
18.08.95	1624	1043	103105
25.08.95	1486	1176	103415
01.09.95	1656	1011	104060
08.09.95	1903	759	105204

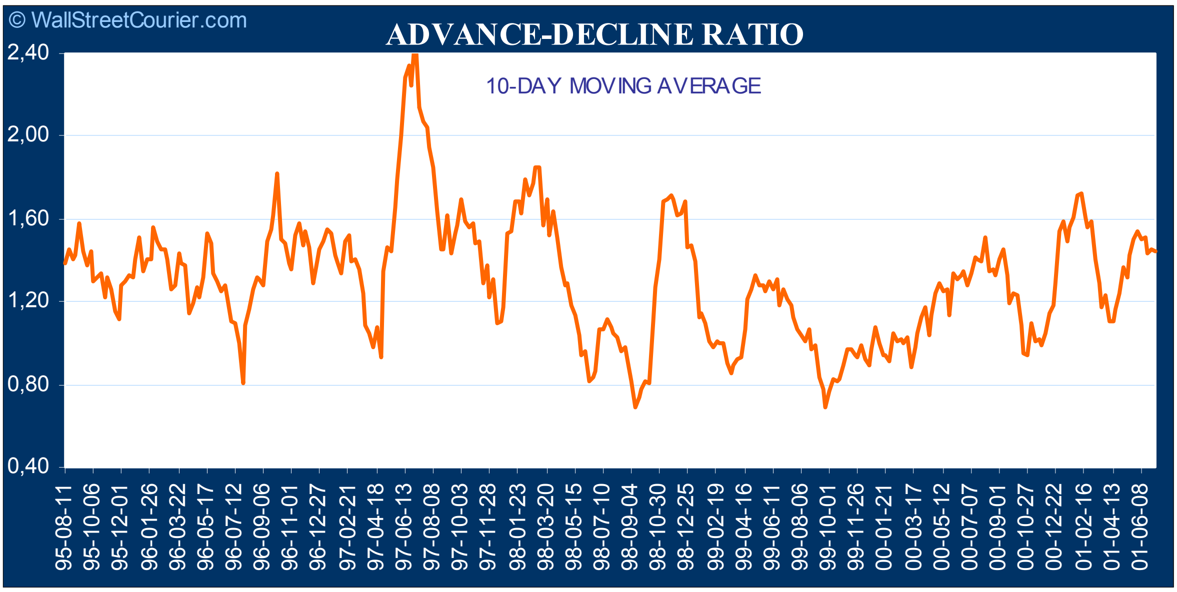
The Advance-Decline Line gave a useful example in 1999. During the strong bull market the advance was quite broad and the A/D Line moved in tandem with the Dow. But when the Dow made new highs in the beginning of 1999 the A/D Line was already lagging behind, indicating a weakening of the general market. Internet mania and technology craze kept the market going for a while.

Advance-Decline Ratio

The Advance-Decline Ratio is also market breadth indicator. It is calculated by dividing the number of advancing issues by the number of declining issues using daily or weekly NYSE data. It works very well as an overbought/oversold indicator and as a momentum indicator. A moving average should be used to smooth out the swings.

Date	Advances	Declines	A/D * 100	10-Week MA
09.06.95	1269	1457	87	
16.06.95	1714	975	176	
23.06.95	1591	1148	139	
30.06.95	1346	1348	100	
07.07.95	2032	692	294	
14.07.95	1507	1191	127	
21.07.95	894	1875	48	
28.07.95	1891	845	224	
04.08.95	1404	1291	109	
11.08.95	1187	1489	80	138
18.08.95	1624	1043	156	145
25.08.95	1486	1176	126	140
01.09.95	1656	1011	164	143
08.09.95	1903	759	251	158

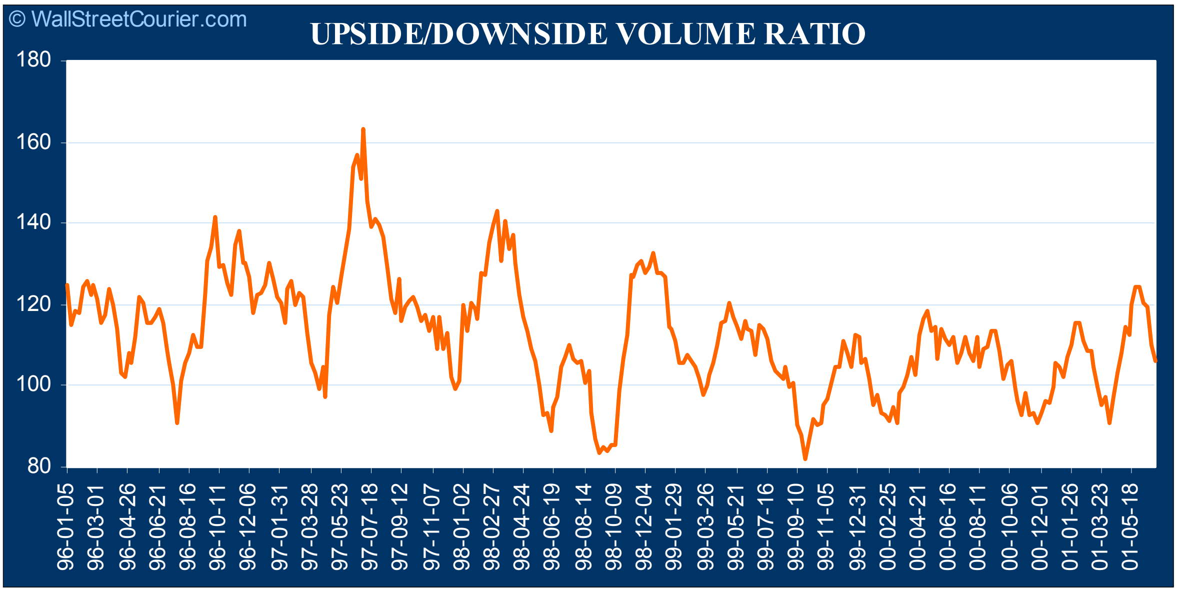
This chart shows you the weekly NYSE Advance-Decline Ratio on a 10-week moving average. Readings below 90 indicate intermediate bottoms and readings above 170 tops.



Upside-Downside Volume Ratio

The Upside-Downside Volume Ratio is also market breadth indicator. It is calculated by dividing the volume of advancing issues by the volume of declining issues, using daily or weekly NYSE data. It works very well as an overbought/oversold indicator and as well as a momentum indicator. A moving average should be used to smooth out the swings.

Date	Adv. Volume	Decl. Volume	AV/DV*100	10-Week MA
09.06.95	673210	732827	92	
16.06.95	943121	565840	167	
23.06.95	964871	666807	145	
30.06.95	674725	765076	88	
07.07.95	867512	353025	246	
14.07.95	945574	756197	125	
21.07.95	755969	1027248	74	
28.07.95	1008468	584579	173	
04.08.95	733204	703285	104	
11.08.95	565588	669580	84	130
18.08.95	796723	615752	129	133
25.08.95	629338	603130	104	127
01.09.95	727349	553140	131	126
08.09.95	746298	418632	178	135



Upside-Downside Volume Line

The Upside-Downside Volume Line is a market breadth indicator and should be compared to the other market indices like the Dow Jones or S&P 500. Daily or weekly NYSE data is used in the calculation. Because the Upside-Downside Volume Line reflects the action of the general market, any divergences are watched closely by market technicians. As long as the Dow and the Upside-Downside Volume Line are moving in the same direction the trend will continue. If the Dow makes a new high which is not confirmed by a high of the Upside-Downside Volume Line, caution is warranted. It is more affirmative than the Advance-Decline Line and it gave a perfect sell signal in January 2000, when the Dow made a new high and the Upside-Downside Volume Line lagged behind (charts below). Vice versa, if the Dow makes a new low and the Upside-Downside Volume Line doesn't, you should cover your short sales. To calculate your own weekly Upside-Downside Volume Line is very simple and you can begin your calculations at any time. Just pick a large enough base number like 1000000. Then you calculate each week (or day) the difference between the upside volume and downside volume by adding the volume of advancing issues and subtracting the volume of declining issues. If you have an upside volume of 673210 and a downside volume of 732827 on your first week, the reading of your newly created weekly Upside-Downside Volume Line would be 940383 (example below).

Date	Upside Volume	Downside Volume	U-D Volume Line
			1000000
09.06.95	673210	732827	940383
16.06.95	943121	565840	1317664
23.06.95	964871	666807	1615728
30.06.95	674725	765076	1525377
07.07.95	867512	353025	2039864
14.07.95	945574	756197	2229241
21.07.95	755969	1027248	1957962
28.07.95	1008468	584579	2381851
04.08.95	733204	703285	2411770
11.08.95	565588	669580	2307778
18.08.95	796723	615752	2488749
25.08.95	629338	603130	2514957
01.09.95	727349	553140	2689166
08.09.95	746298	418632	3016832

Here is a beautiful example of the Upside-Downside Volume Line. Volume moves the markets and this indicator gave a perfect sell signal in December 1999, when the Dow made a new high and the Upside-Downside Volume Line didn't. It would have kept you also on the right side of the market right to the top.