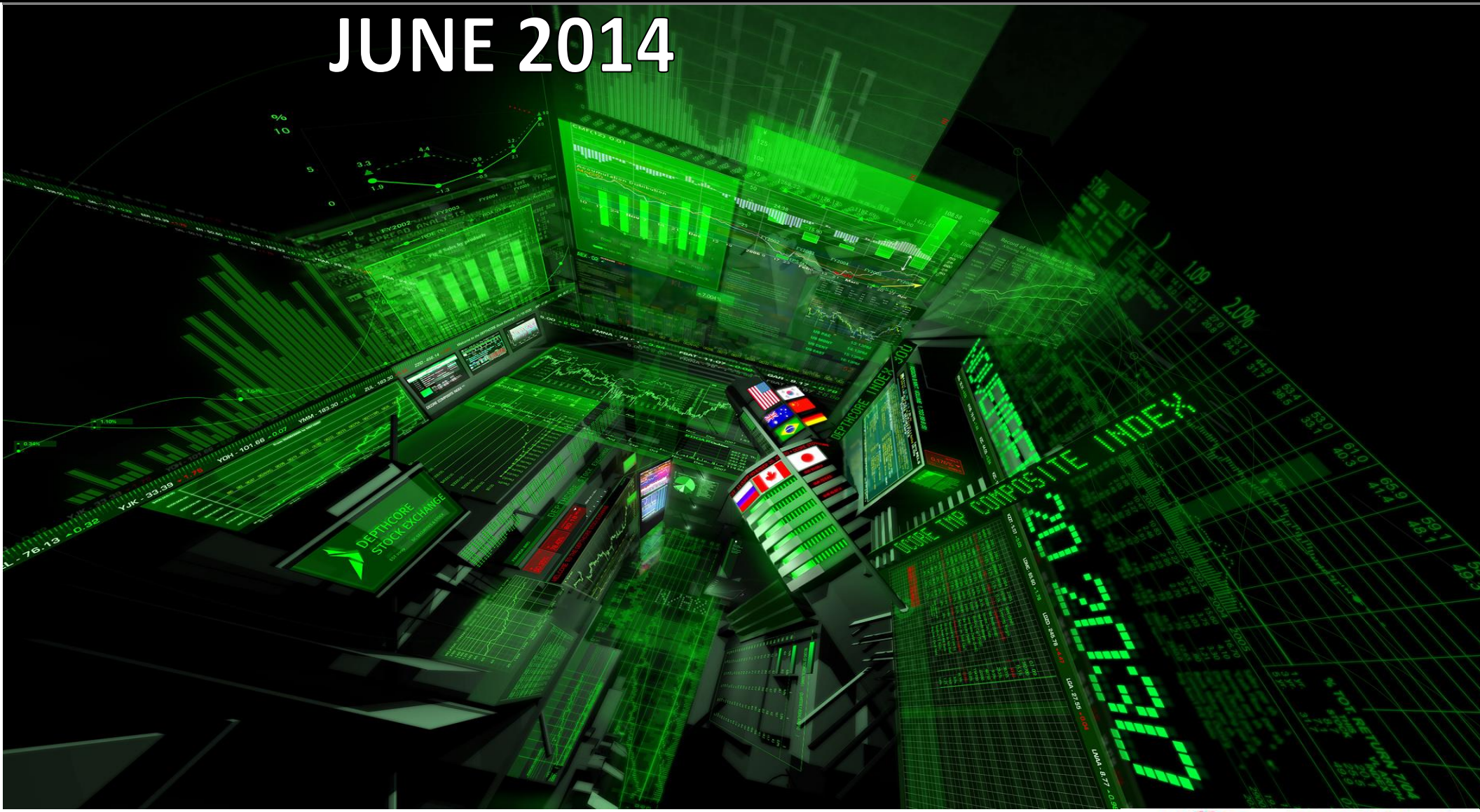
ATMASPHERE

JUNE 2014



Association of Technical Market Analysts

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LETTER FROM THE PRESIDENT

Dear Colleagues,

Here is yet another wonderful issue of ATMAsphere. Richard Weissman, a well known author of many good books, writes an exclusive article for us in this issue. Prashant Shah & Subhadip Nandy two very good educators who have produced excellent monthly meetings in the past at ATMA write two very good articles as well.

In time, things arrive. Therefore, time is a measurement of separateness of events. Since, events do not happen all at once, trends arise when change from a state to another happens in steps. Study of time is therefore an unavoidable challenge for anyone keen on finance or financial markets. If many of the ideas and constructs in Technical Analysis do not appear to be “perfect” or “total” it is truly not a shortcoming of the method but its advantage. Since if the world were a perfect place and everyone had the same level of comprehension of the coming future and the same ability to respond to the coming future then prices would merely jump and no one would sell when an uptrend is guaranteed and no one would buy if a downtrend is guaranteed. It is this uncertainty and the arising risk that is the singular cause of creating any opportunities. In respect of such uncertainty and such risk, all methodologies that are non total and less than perfect therefore help create response mechanisms to undertake trades with limited risk. Anyone who comments on the futility of technical analysis without studying it and particularly around an idea that it is not perfect and it is subjective is free to continue to do so. Students of our subject know that in an imperfect and uncertain world we have a more than good enough tool that facilitates us to respond to markets.

In this milieu of such indefinable uncertainties it becomes all the more productive for several students of our methodology to come together and share their ideas, thoughts, and insights. Whether as a member of the ATMA or as a subscriber of ATMAsphere, you are a stakeholder in this enterprise. I look forward to continued and vigorous spread of this intellectual DNA further and wider such as more and more contributions by way of articles to ATMAsphere, newer speakers at our monthly meetings and webinars continue to pour in.

Sincerely,

Sushil Kedia

EDITOR'S NOTE

In this issue -

1. Ananth Madhav explains a system with time as the sole dimension, in his article - Trading system based on pure price action.

2. Prashant Shah portrays a great strategy in his piece on Point and figure analysis – 6 column trap: another P&F gem.

3. Richard L Weissman illustrates trading based on mechanical systems in his writing - The five step process of system development.

4. Claudia Mincucci gives another great review of the Dow Award winning paper of 1999 about Big Block transactions by Bjorgen and Leuthold

5. Subhadip Nandy brings the third part of the 12 part series on Systematic Trading in his article – Designing a Trading System – Part 3

6. Kannan Lakshman Raju sheds light on Bill Williams AD oscillator, in his piece – Acceleration/Deceleration Oscillator.

7. Nikhil Dogra gives a review on Richard Weissman's book: Trade like a Casino.

We await your feedback on ATMASphere. Please let us know what we can do to deliver content that meets your needs by sending an email to editor@atma-india.net. You can also subscribe to ATMASphere completely free by clicking here.

Sincerely,

Gunjan Duaa.

TRADING SYSTEM BASED ON PURE PRICE ACTION

This system is built on the concept of trend following. This says,

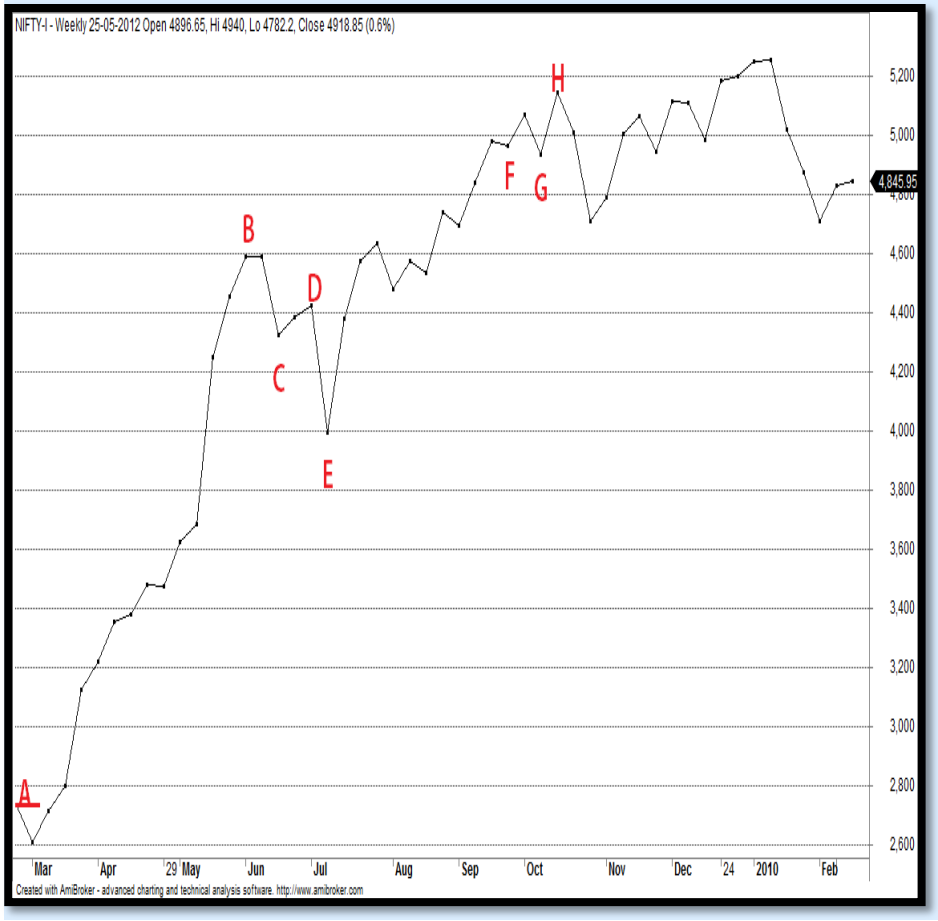
A stock or an index is said to be in an uptrend as long as it makes higher highs and higher lows. Once a higher low is broken. Trend is said to be reversed .similarly a stock or an index is said to be in a downtrend as long as it makes lower highs and lower lows. Once a lower high is broken trend is said to be reversed.

Rules of the system:

1. Break of previous swing High is a Buy with a predetermined Entry Stop loss.
2. Break of previous swing Low is a Sell with a predetermined Entry Stop loss.

This is a STOP AND REVERSE system. All signals have to be taken without any discretion.

The following is a weekly chart of Nifty. Weekly has less no of swing highs and swing lows and readers can easily understand the concept. It's a close only LINE chart. The dots represent the closing prices of that particular week.



Starting Point in the Chart is A which the previous Swing High is. Above point A Buy order is placed (with a filter of X point's say 10 -20). Let's say A is 2700 then buy order is placed at 2720 in the system.

(Large moves can happen intraday and points can be lost so it's a better idea to place Buy order in the system.)

Entry Stop loss: Entry Stop loss can be 2 %. In this case it is, 2700 - 54 = 2646.

Possible Scenarios after Buy order is triggered:

1. If Buy order is triggered at 2720 and stock closes above 2720 at EOD trade is carried ON

2. If Buy order is triggered at 2720 and stop is HIT by EOD trade is closed and one has to wait to get a fresh Buy / Sell signal which is the break of previous swing HIGH / LOW

3. After Buy order is triggered at 2720 and stock closes within 1 % of entry say 27 - 30 points trade is carried ON to next day . If stock closes below 27 - 30 points of entry at EOD trade is closed.

In the Chart after point A nifty made a Swing High of B. After B, C is the higher Low and D is the Lower High. At point D, C is the swing low break of which trend reverses. So, at point D, EXIT LONGS or Sell order is placed below Point C. In this case Swing low at C is taken out. So at point C longs taken at A are exited and fresh Shorts are taken since this is a Stop and Reverse System. At point A once Buy order is triggered and Nifty started its up move Entry stop loss is moved to Breakeven. The same is repeated for all long / short Entries.

After Point C nifty has made a low of E. At E, D becomes the previous Swing HIGH break of which shorts have to be closed and fresh longs to be taken. In this case nifty took out point D.

So, the trading system continues in the same way.

Money Management: Giving here 2 variations of money management.

1. Initial long / short entered with 2 lots. One lot booked after price moves 3 - 4 % in our direction and the other lot is held till a signal occurs to reverse the position

2. Initial long / short entered with 4 lots. One lot booked after price moves 4 %, the 2nd one after 8%, 3 rd one can be exited with readers discretion using RSI, MACD, ADX, Candlesticks, 4th one after one gets Exit signal.

Challenges in executing this System:

1. Stops getting Hit Continuously: This is a STOP AND REVERSE system and all signals have to be taken without any taken discretion. In a sideways market stops will get continuously hit and on each trade 2 % of capital is lost. In back testing it has-been observed stops got hit even 5 - 6 times in a row. So it doesn't fall into the comfort zone of many traders.

2. Gap Ups and Gap Downs: Once an entry is taken, 2 % is the predetermined Stop. If market gaps up / down by 3 - 4 %, 2 % stop loss rule goes haywire.

Back tested Results: Excluding gap ups / downs, signals not being executed due to reasons like no internet, busy with some other works Nifty gave about 1000 points, Bank nifty gave 3000 points in an year on average since 2007.

Ananth Madhav, A CMT aspirant, is a full time trader having 6 years of experience, teaches TA.

You can reach him on ananthmadhav@live.com

6 column Traps: Another P&F gem!!

Point & Figure charting technique is an age old method of plotting the prices that doesn't take time or volume in to account. It plots the price in the form of 'X' and 'O' that represents uptrend and downtrend respectively.

P&F patterns are objective, well defined and relatively easy to read. Double Top Buy and Double bottom sell signals are the basic buy and sell patterns of P&F charts. Combination of these basic signals helps us in defining various price structures. Trap is a 4 column P&F pattern as explained in the image 1. It indicates that one side of traders is trapped in the trade. Bull trap is a bearish pattern that suggests that bulls are trapped and bear trap is a bullish pattern that indicates that bears got stuck in the trade.

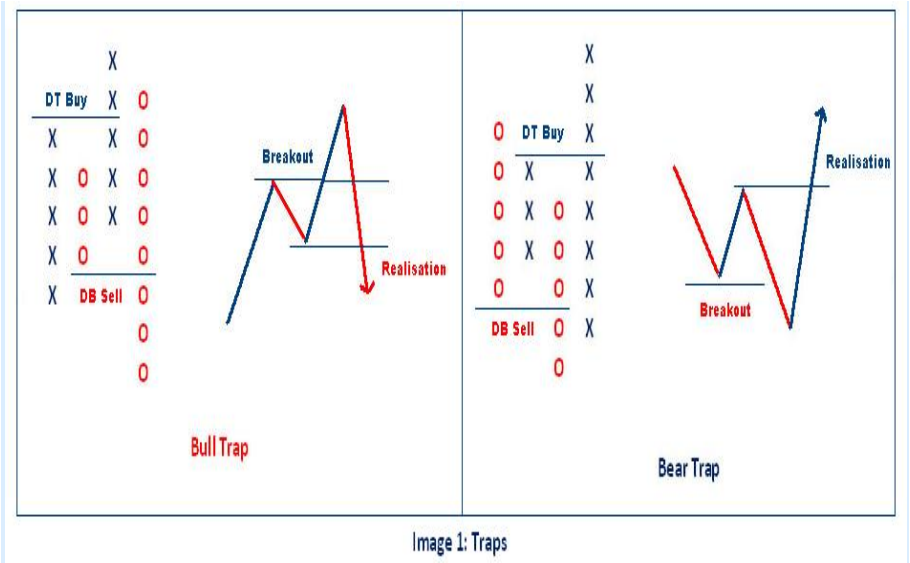


Image 1: Traps

Bull Trap pattern is formed when Double Top buy signal is reversed by Double Bottom sell signal in the immediate column. Same way Bear Trap pattern is formed when Double Bottom sell signal is reversed by Double Top buy signal immediately.

Occurrence of Trap pattern is very useful information in an established trend and when it has formed in the direction of the trend. Bear trap is a strong pattern when uptrend is established and Bull trap is a strong pattern in the established downtrend. 45 degree objective lines can help in defining the trend.

Objectivity is the major advantage of P&F patterns. Trap is a 4 column pattern and treatments can be different but occurrence cannot be argued. I explained the narrow and wide traps in my last post.

At times the reversal doesn't happen in the immediate column and it takes one more column to take place. It is knows as 6 column Trap pattern which is actually a variation of the 4 column Traps. Variation of Bull trap is a 6 column pattern where Double Top Buy signal is followed by Double Bottom Sell signal not immediately but in the next column. Same way Variation of Bear Trap is Double Bottom Sell signal followed by Double Top Buy signal but not in the immediate column.

This pattern can be bifurcated in two parts as explained in image 2 and 3. Rules remain same but structure is quite different. In case of Bearish pattern A, Double Bottom Sell signal occurs below Double Top Buy signal. And in case of Bearish pattern B, Double Bottom sell signal occurs above previous Double Top buy signal.

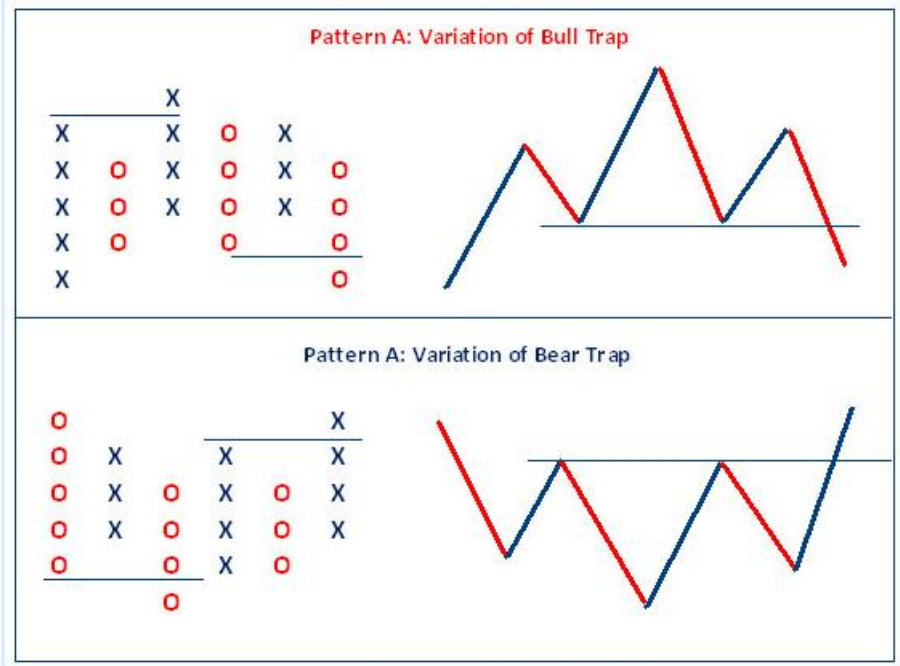


Image 2: Pattern A of 6 column Traps

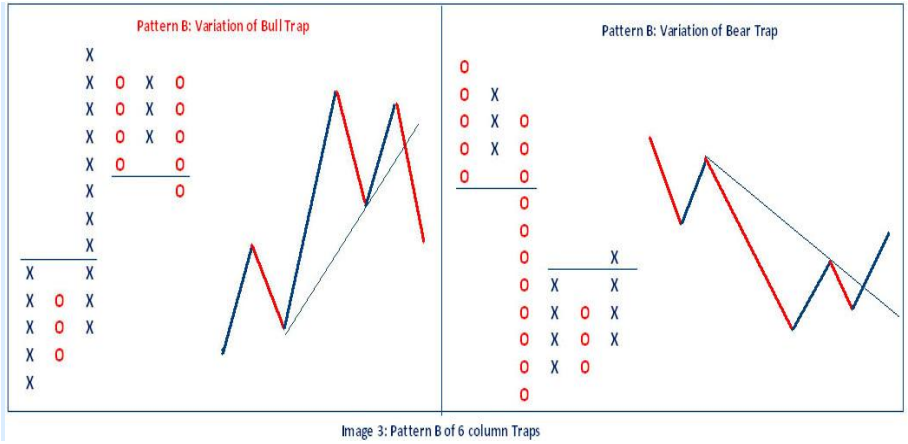


Image 3: Pattern B of 6 column Traps

Pattern A resembles H&S or M / W price pattern. Bullish pattern A indicates inverted H&S or 'W' type pattern with higher bottom. Bearish Pattern A suggests H&S or 'M' type pattern with lower top.

Pattern B is consistent with the rules of 6 column Traps but Double bottom sell signal is formed above Double top buy signal due to length of 'X' in the middle column in case of Bearish pattern. And Double top buy signal is formed below Double bottom sell signal in case of Bullish pattern due to length of the column 'O' in the middle. **Figure 1** is the recent chart of Nifty that shows the bullish 6 column pattern A and B.

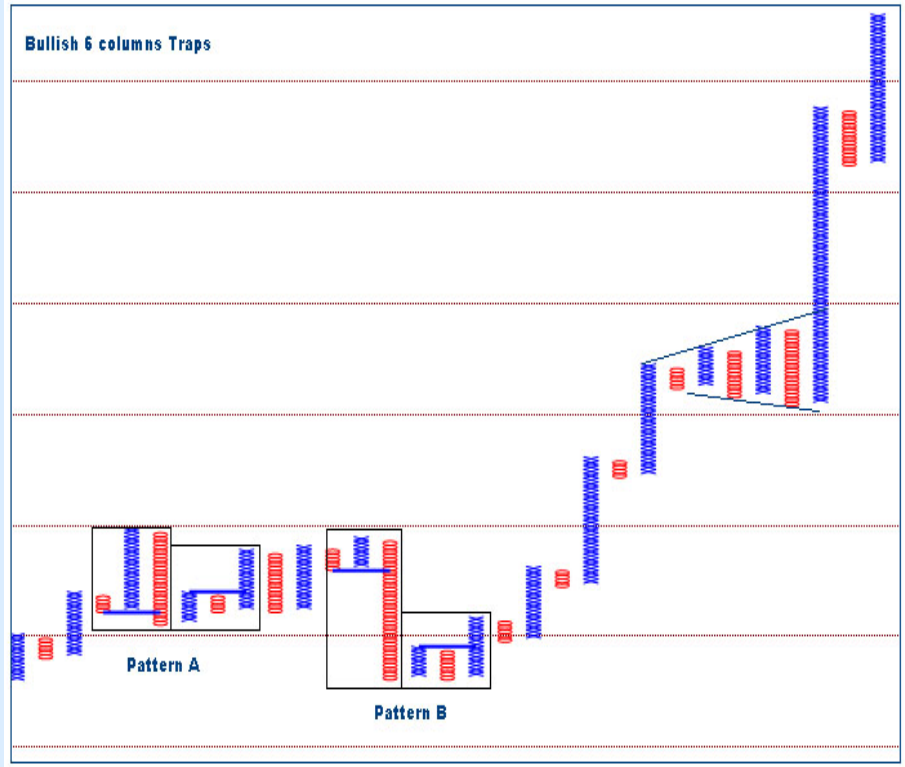


Figure 1: Nifty 10 x 3 cl Point & Figure Chart

Figure 2 shows bearish A and B patterns in P&F chart of Dr Reddy. Bearish patterns are shown in the chart plotted with 0.25% box value. If you notice in the chart, a broader H&S pattern that breaches red neckline in 0.25% chart is translated into 6 column bearish pattern A in the chart plotted with 1% box value.

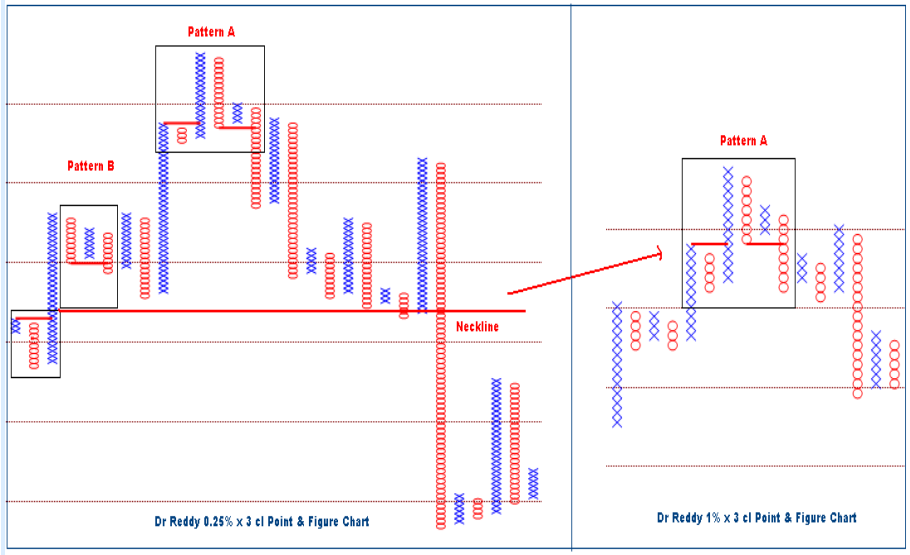


Figure 2: Dr Reddy Point & Figure Charts

Magnitude of P&F patterns is a product of its box value. The pattern is stretched in the price time chart due to time. P&F objectivity helps us in identifying the price behavior less time.

Occurrence of 6 columns traps also forms mini top in case of downtrend and mini bottoms in case of uptrend that allows us plotting 45 degree objective trend lines. Even vertical counts become applicable from breakout of these setups due to formation of Mini tops & bottoms.

Figure 3 is recent chart of BankNifty that shows these patterns along with trend lines and counts.

Figure 3: Bank Nifty 0.25% x 3 cl Point & Figure Charts

The advantage of knowing these setups is that you know when they are negated. Basic P&F signals can help in designing the exit rules. The combination of Traps and variation of traps produce interesting P&F setups.

Figure 4 is the chart of Tata Steel that displays trading setups with combination of 4 and 6 column traps along with counts and trendlines.

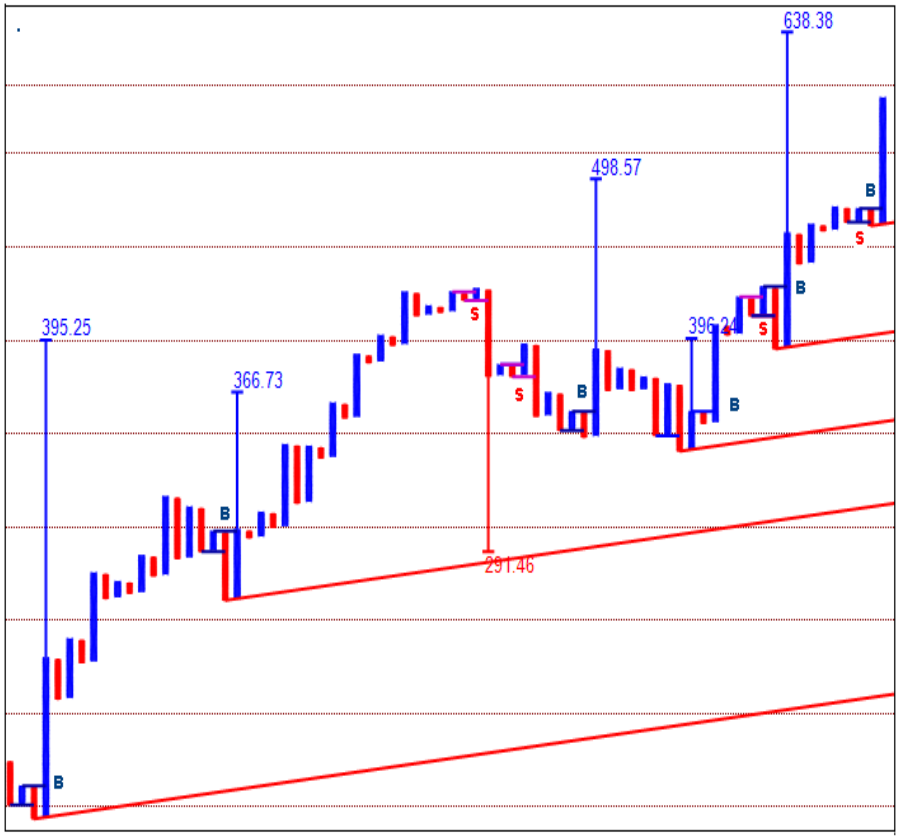


Figure 4: Tata Steel 0.25% x 3 cl Point & Figure Charts

All charts shown here are 3 box reversal charts. P&F charts can be plotted with closing prices and High-low prices. Back testing suggests that patterns derived from closing prices produce better results. 0.25% box value suits to short and medium term traders. The setup becomes more interesting if trending filters are applied. And it becomes amazing when back tested on 2 box reversal charts!!

Prashant Shah is a Chartered Market Technician (CMT) and a Certified Financial Technician (CFTe) awarded by Market Technicians Association (MTA) and International Federation of Technical Analysts (IFTA) respectively.

He is practicing trading and analysis since more than 9 years now and working extensively on timeless charting techniques. He can be reached at prashant.shah26@gmail.com

The Five-Step Process of System Development

One of the most popular topics I speak on is "mechanical trading systems", and with good reason, such systems are one of the most powerful tools in dampening trader emotionalism, which is especially useful when traders are enduring drawdown's in account equity. That stated the path to implementation of mechanical trading systems is fraught with numerous potential obstacles including:

- Cherry Picking - Only taking some of the mechanical trading system's signals
- Not taking entry signals - Due to lack of confidence in the model's efficacy
- Not managing positions according to the model's rules
- Deviating from the model's exit criteria
- Overleveraging - Abandonment of prudent rules of risk management
- Abandonment of the model during drawdown's

In order to help with these obstacles I have developed what I call the five-step process of system development.

The steps are as follows:

1.) In-Sample Back Testing
2.) Out-Of-Sample Back Testing
3.) Paper Trading
4.) Underleveraged Trading
5.) Full-Production

Let's examine each step in this process in detail to ensure that we understand their significance:

1. In-Sample Back Testing

In-Sample Back Testing is the first step in the system development process, without it, how do we know our method enjoys positive expectancy? The keys to successful in-sample backtesting are ensuring that our testing is being done on a large enough data population that its results are in fact statistically significant so that we have confidence that our model will continue to behave well in an unknown future as long as the future is somewhat similar to the known past. This idea of the, "*…unknown future being somewhat similar to the known past,"* is key to all successful models and offers insight regarding model development.

We want to know why our model should continue to perform well in an unknown future and therefore need to develop models based on basic concepts of human behavior such as assets becoming undervalued during panics/overvalued during bubbles, seasonal tendencies (e.g. heat waves, cold waves, droughts, freezes, etc.,), tendencies for assets to experience fat-tails (aka "trends") as well as the cyclical nature of volatility (e.g. the tendency for volatility to cycle from periods of low volatility to high volatility and vice versa).

In addition, we want to ensure that our data includes all kinds of market environments: bullish, bearish, trending and choppy and that we test on a wide variety of low correlated assets over a statistically large data sampling. How large is large enough? A lot of this will depend on our trading timeframe, in other words if we are testing a relatively long-term moving average crossover system (e.g. 9 and 26-day simple moving average crossover system), we probably need to test on forty different assets for thirty years in order to get a statistically significant sample size. By contrast, if we are testing an intraday model in which trades are triggered on five-minute bars; a two-year backtest might still be statistically

significant. As a rule of thumb, I would be highly suspicious of backtests on less than one thousand data points.

Lots of questions are typically asked about backtesting, optimization and curve-fitting. As a general rule of thumb, I explain the difference between optimization and curve-fitting as follows, "optimization good, curve-fitting bad." What's the difference? Optimization is the process of refining an arbitrarily derived trading system by adjusting that system's parameters (e.g. number of days stops as a percentage of an asset's value, etc.,) and/or parameter sets (e.g. 2-moving average crossover with 7 and 29-period parameters). By contrast, curve-fitting is overfitting the parameters and/or parameter sets to a specific data history so that the model works well when applied to the specific historical data in question and not at all when applied to an unknown future data set. The other way I explain it is as follows, "Too much optimization results in curve-fitting." How do we prevent over-optimization? The answer to this question leads to our second step in the five-step process.

2. Out-Of-Sample Testing

Out-Of-Sample testing requires that at inception of our back testing process we artificially divide the data into two subsets, the larger, in-sample portion discussed in step one and a second smaller and more recent historical data set. The basic idea of out-of-sample testing is that we have been manipulating the in-sample data in order to develop something that will work if the unknown future behaves like the known past. But what if it doesn't? By withholding the most recent data from the in-sample backtest we can determine if the model fails due to curve-fitting or insufficient in-sample testing without needlessly sacrificing real (and finite) capital resources.

The only question remaining is how large should the out-of-sample test be? Our answer will depend on the size of the in-sample test. Typical starting points are two years out-of-sample and eighteen years in-sample, three months out-of-sample and nine months in-sample, etc.,. In general, the ratios of in-sample to out-of-sample that I've seen commonly used by developers range from as low as five percent and as high as twenty-five percent.

Obviously we are looking for a strong positive correlation in performance between in-sample and out-of-sample backtests. Once we have achieved such robust out-of-sample results we are ready for step three, Paper Trading.

3. Paper Trading

Paper trading has a bad reputation in the speculative trading world because many traders misuse it as a crutch to avoid putting capital at risk in the markets. Another argument against paper trading is that it is counterproductive because it eliminates the biggest problem in real trading, namely emotional reactions arising during the decision-making processes of trade implementation. Needless to add, these arguments are absolutely right (assuming this is why paper trading is being done). These disclaimers aside, there is a valid argument for paper trading, namely that it is better to learn real-time implementation of the model on our broker's trading platform in a test environment as opposed to when real money is on the line. Once we have practiced order entry and trade management on the broker's platform via paper trading we are ready to dedicate capital to our trading model.

4. Underleveraged Trading

At this stage most system developers transition to "full production" or the dedication of maximum capital exposures for the model… often with mixed results (some good, many bad). Instead, my recommendation for the fourth step of system development is "underleveraged trading". If we use the simple rule of risk management of dedicating one percent of assets under management to any single trading idea, then I would argue that our model's first foray into the real world of trading should be with less than

what we will dedicate to the model once it experienced a statistically significant real-time trading history.

For this stage of underleveraged trading I typically risk around one-tenth of what will be risked once I transition to the final stage of "full production". So, if using the one percent rule of risk management, at this stage I will only risk one-tenth of one percent of assets under management. Once traders hear this they argue, "Why bother? With this amount of capital at risk you might as well just keep paper trading." Having done both, I can assure readers that there is a huge difference and that even though the monetary losses are tiny, underleveraged trading is still an emotional endeavor when contrasted with paper trading where emotional reactions to profits and loss are rare.

5. Full Production

The final step in model development is full production. At this stage the model has been fully integrated into our real-time trading with maximum risk exposures. Throughout this final stage we need to maintain emotional equanimity to avoid the problems outlined at the article's inception (e.g. cherry-picking, not taking entry signals, failures in position management, overleveraging and abandonment of the model) while simultaneously remaining vigilant in our analysis of model results to ensure that performance does not significantly degrade due to a "paradigm shift" or long-term shift in the dynamics of the assets we are trading (e.g. Paradigm Shift in Brent Crude Oil since 2004 triggered by increase in emerging market demand).

About the Author: Richard Weissman is a Senior Associate with the Energy Management Institute (www.emi.org),

Editor-in-Chief of www.weissmansignals.com, and author of, "Trade Like a Casino: Find Your Edge, Manage Risk and Win Like the House".

Winner of Charles H. Dow Award 1999 CORPORATE INSIDERS – Big Blocks Transactions by Eric Bjorgen and Steve Leuthold – The Leuthold Group

Based on efficient market hypothesis which states that price discounts information as soon as it is known.

This paper explains findings on aggregate patterns of all insiders' meaningful transactions.

Is considered as insider a person who is in a position of power or has access to confidential information (as an officer or as a director) or one who is in a position to have special knowledge of the affairs of or to influence the decisions of a company.

This special insight in non-public information could motivate them to buy or sell stocks.

Often this activity leads future performance in stock prices and insiders are required by law to fill Form 4 and send it to SEC, following a transaction on shares of their related company.

Vicker's weekly insider is a research firm that compiles and publishes that information. And is the source on which Leuthold group has been tracking big blocks (weekly) and compiling it as a Mayor Trend index.

Authors define as big block data all activity as buy or sell over 100.000 shares or $1.000.000 or more.

For this index are considered only company's insiders, so 3rd parties like trust , institutional shareholders and funds are ignored because those transactions are not based only on financial statements. Every week the net dollar amount of buys and sells is added to the index to measure the magnitude of insider's transactions. And the net number of transactions of sell and buys shows its 'breadth', this is the ten-week average.

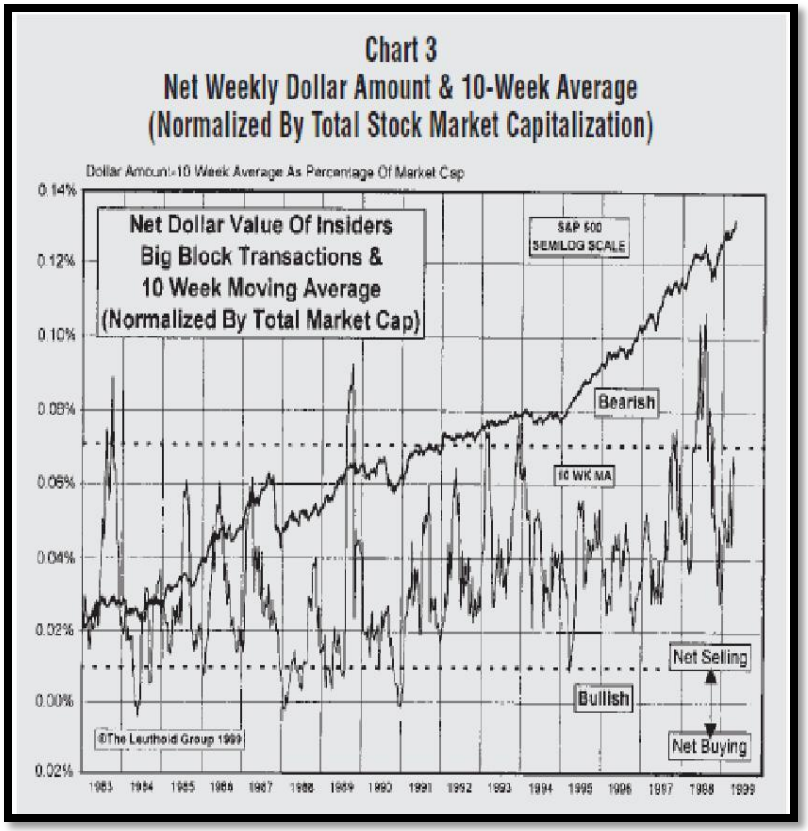
Usually weekly net selling outnumber net buying weeks by 12:1(1), because exercise of options as compensation for corporate insiders. Top value for net selling was 410 (1).

This two set of data (net amount and net number of transactions) move together, but when there is a big increment in net dollar without been follow for its number of transactions pair, that's means a big sell-off by one or few insiders in a particular week.

When this occurs, number net of sells is a strong confirmation of a big correction is on the way.

Normalized data is calculated as a percent of total equity market to avoid upward bias by increasing options issuance and market capitalization.

Authors made clear that there is not big impact on results using raw data or normalized one.



To use this ten-week average with normalized data, its signal level values are 0.01% (historically low level – bottom market) and 0.07% (usually at top market) Authors suggest to do some selling when average cross over 0.07% level, and to be a buyer at 0.01% and below.

Testing market performance

After a high level of selling, the market underperform its normal returns in the following month and at the contrary, market best performance is registered when net selling are at their lows.

When Insider's Net Selling...	The Stock Market's Average Return Has Been....			
	3 Month	6 Month	9 Month	12 Month
Reaches Historically High Levels	-0.6%	3.5%	7.0%*	0.3%*
Is Within Historically Normal Range	3.7%	7.2%	10.7%	14.8%
Reaches Historically Low Levels	6.0%	10.4%	13.5%	17.7%

* Returns For 1998 Signal Pending

Findings:

When the ten-week average cross below zero axis (net buying zone) is a strong indicator that bear market has bottomed and within a short period a new bull market will be born.

This happened only 3 times in the period of study (1) and in coincidence of market bottoms of 1984, 1987 and 1990 within several weeks.

Spikes on 10-weeks average indicates fast increasing insiders net selling which leads or pairs with market weakness and high volatility.

When this spike reaches its maximum values, a mayor correction is on the way, usually within 6 to 12 next months.

Authors conclude about value of tracking this 'trends of insiders', using the historical extremes values as signals to allocate or redistribute holdings and this signals had worked well.

This paper is available to the public and it could be found at http://www.mta.org/eweb/docs/1999DowAward.pdf

(1) As data from 1983 to 1998, about 848 weeks.

Claudia Mincucci is a trader since 2008. Her specialty is trading micro trends with a focus on analyzing and trading Stocks, Options, FX, ETFs on a daily basis on the US and Canadian Stock Indices.

She is a graduate from the University of Buenos Aires, where she studied Accounting and Business Administration.

She is pursuing her CMT designation and currently lives in Montreal, Canada. She can be contacted at cmqcca@yahoo.ca.

Designing a trading system – Part 3

In this part of the series, we get down to the core business of creating the trading system. In order to design the trading system, we will use a hypothesis well known and accepted in technical analysis

If prices are in a trend, then a pullback to the main trend is temporary and sooner or later prices go back in the direction of the major trend

This system thus should have three main components:

- A trend detector
- A pullback detector
- An entry method through a price breakout which confirms the continuation of the trend

Trend detector

While devising or using a trend detector, one should be aware that any method to determine trend is always a lagging indicator. To keep things simple without using esoteric mathematics, we use the simplest of all trend detectors, i.e a simple moving average. Using the rule that "indicator length should be half the cycle length", we assume the basic cycle of a futures start to expiry time of 22 days (22 days are there per month for trading on an average). Taking slightly higher than half, we use a 13 period moving average.

Whenever prices are above the 13SMA, we consider the trend to be bullish and whenever prices are below the 13SMA, we consider the trend to be bearish.

There is no magic involved in the number 13 as readers will see for themselves that any other moving average works just as well in this system.

Pullback Detector

- A pullback is defined as when prices go against the trend, i.e, prices fall in a rising trend and vice versa
- A basic/simplest pullback could be defined as when Today's Close < Yesterday's Close in an uptrend and vice versa
- How far prices will pullback against the major trend is impossible to predict with certainty

So whenever we get a lower close compared to the previous day and prices are above the 13SMA, we consider that to be a pullback in a bullish move. Exactly the opposite holds for a bearish move

Price breakout

A price breakout can be defined as a price move in the direction of the major trend which is large enough to imply that movement has resumed in the direction of the underlying trend

We take 55% of yesterday's range, and if prices move in the direction of the major trend by that amount since opening, we expect prices to move in that direction throughout the day (the number of 55% is statistically derived)

What we are trying to do through the combination of these rules is to catch a **'trending day'** which runs in the direction of the main trend

A trending day occurs when there is an expansion in the daily trading range and the open and close are near opposite extremes. The first half-hour of trading often comprises less than 10% of the day's total range; there is usually very little intraday price retracement. Typically, price action picks up momentum going into the last hour — and the trend accelerates. A trend day can occur in either the same or the opposite direction to the prevailing trend on daily charts. The critical point is that the increased spread between the high and low of the daily range offers a trading opportunity from which large profits can be made in a short time. We are only interested in trend days in the direction of the major trend which would increase the probabilities of our success

The system so far – Buys

- Prices need to be above 13SMA
- Today's close < Yesterday's Close
- Range = yesterday's high – yesterday's low
- Breakout Filter = 55% of Range
- Entry price = Open of today + Breakout Filter

The system so far – Sells

- Prices need to be below 13SMA
- Today's close > Yesterday's Close
- Range = yesterday's high – yesterday's low
- Breakout Filter = 55% of Range
- Entry price = Open of today - Breakout Filter

Stoploss

- In some cases the trend will not continue and reverse, hence a stop is required.
- Using the same logic of the breakout filter being statistically significant, if prices move in the opposite direction by that same amount after entry, we are out with a stop.
- That means the OPENING price becomes our stoploss.

Exits

As we are expecting the trend to continue throughout the day, we exit at close

This serves three purposes:

1. We let the trend continue to its maximum.
2. No overnight risk or unlimited loss (extremely important for position sizing)
3. Minimum margins required to trade thus improving return on equity

The system conditions can be thus summarized as :

For Buys : *If prices are above the 13SMA and today's close is lower than yesterday's close, then if prices move up 55% of today's range from tomorrow's opening price, we buy with a stoploss set at the opening price*

For Sells : *If prices are below the 13SMA and today's close is higher than yesterday's close, then if prices fall by 55% of today's range from tomorrow's opening price, we sell with a stoploss set at the opening price*

In the next part of this series, we analyze the system threadbare and also cover money management and position sizing

Subhadip Nandy graduated with Economics with postgrad in Business Management. 12+ years experience as a trader and analyst.

Was the Head-Research and Director-Algorithmic Strategies for one of the biggest commodities prop firms in India.

Now manage own and prop money based upon self developed algorithmic strategies

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ACCELERATION / DECELERATION OSCILLATOR:

Acceleration / deceleration Oscillator (AC Indicator) is used to measure Acceleration / deceleration of current market trend or direction. As per Bill Williams, before the price behavior changes, the momentum changes and before the momentum the Acceleration changes. The advantages of AC Indicator is the Acceleration / Deceleration Indication signal is a sign of earlier warning that gives an advantage of ignoring false entry and exits.

The AC Indicator is in the form of Histogram that colored red and green bars. When the AC value of the current bar is greater than the previous bar its colored green and less than the previous bar, it is colored red.

The AC Indicator fluctuates around the Zero line which considered as a balance of the market driving force with the acceleration. The trend development on bullish side can be identified after two consecutive green bars above the zero level and on bearish side can be identified after two consecutive red bars. If the Green bars changes to Red above the Zero line, that indicates the Acceleration of momentum is reducing but still positive. When it changes from Red bars to Green bars below the Zero line, that indicates the Deceleration of momentum is reducing but still positive. The longer time frame may generate more accurate signals than the short time frames.

CALCULATION:

The AC Indicator is the difference between Awesome Oscillator and SMA of Awesome Oscillator taken for five periods. Awesome Oscillator is calculated as the 5 and 34 SMA's of the median price.

MEDIAN PRICE = (HIGH + LOW) / 2

AO = SMA (MEDIAN PRICE, 5) - SMA (MEDIAN PRICE, 34)

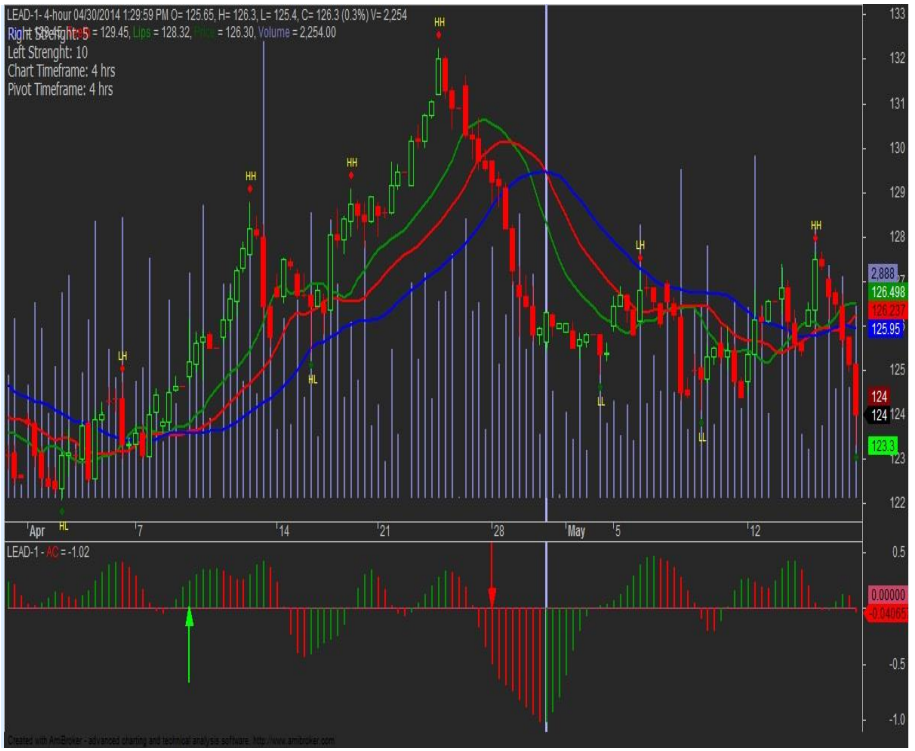
AC = AO - SMA (AO, 5)

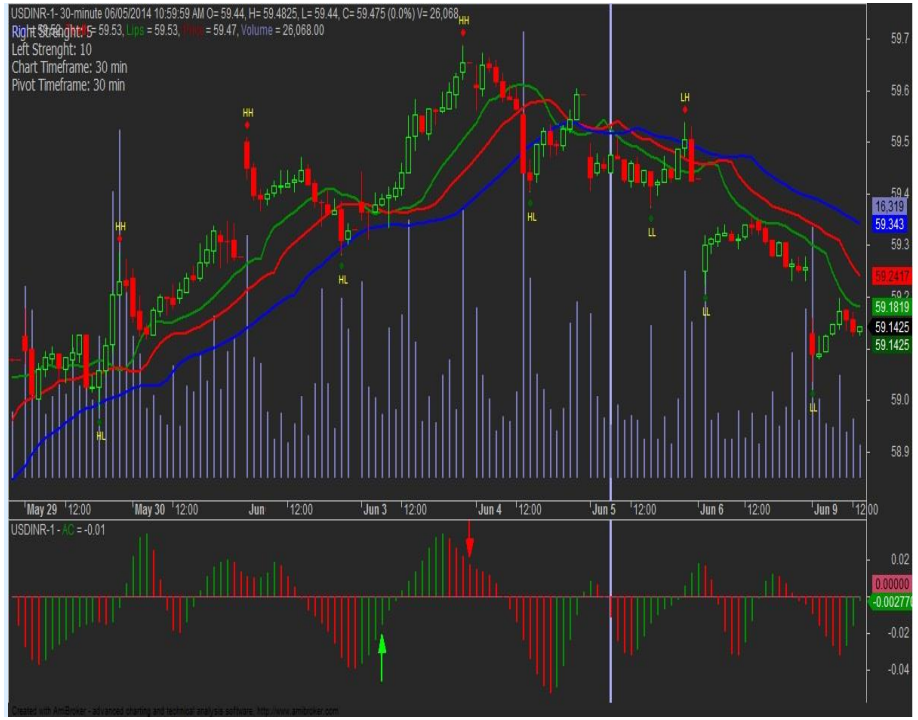
HOW TO USE:

The AC Indicator Buy Signals are generated when the Indicator is above the Zero line and changes from red to green and then has two consecutive green bars. Also when the Indicator below the Zero line the Indicator changes from red to green and has three consecutive green bars.

The AC indicator Sell Signals are generated when the Indicator is below the Zero line and changes from green to red and then has two consecutive red bars. Also when the Indicator above the Zero line the Indicator changes from green to red and has three consecutive red bars.

Image 1 LEAD chart contains the buy signal above the zero line and sell signal below the zero line





Note: The AC indicator may give false signals on short time frames. The signals mentioned in the above charts are for information purpose only. Kindly use higher time frames to avoid false signals.

Kannan Lakshmanaraju is currently working as a Research Analyst in Adventures India Financial Services Limited.

He is the founder of the webiste http://www.chartslive.com/, a free global Technical Charting portal. He is currently developing trading Strategies for various technical charting softwares. He can be reached at kannan@adventuresindia.co.in.

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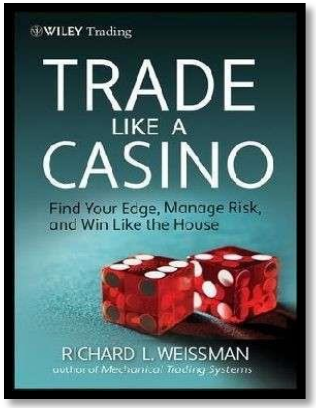

Book Review:

Trade Like a Casino: Find Your Edge, Manage Risk, and Win Like the House

The book "**Trade like a casino: Find your edge, manage risk and win like the house**" explains successful trading by using casino analogy.

Traders who are net profitable operate like a casino with probabilities in their favor over the long haul. Successful traders have learned to trade a historically, back-tested trading system that puts the probability of winning over the long term on their side. Much like casino operators, successful traders risk small amounts of cash equity per trade, so that no one trade can damage them emotionally and financially.

Majority of market participants behave like gamblers, with no real advantage making large bets on markets haphazardly with a 50-50 shot like a coin toss and now add in the lack of awareness of basic concept of risk management and we have the recipe of a true gambler who eventually gives back all the winnings and then some. Richard Weismann's book is about becoming the casino by employing math and probabilities which contributes to a positive expectancy model with risk management. There should be no room for emotions in trading theoretically. Casinos manage their risk by setting table limits in order to not expose themselves to unnecessary risk of ruin if the gambler goes on a lucky streak. Casinos do not get upset and change their rules trying to win back money from a gambler who goes on a lucky streak, as they know luck eventually runs out. Winning traders always stick with their historically proven trading system(s).Page by page, the book explores the intricacies of methodology, mental control, and flexibility that allow traders to develop and maintain the casino-like edge.

Nikhil Dogra is a Chartered Market Technician Level 2 Candidate and a proprietary trader executing systematic discretionary trades across commodities futures for 3 years.

He is now expanding towards equity futures and options

PAST EVENTS' UPDATES

Mr. Hitendra Vasudeo | **Chapter : Mumbai** | **Date:31-05-2014**

Topic: Multi Time Frame Analysis powered by the concept of Relative Strength (not RSI)

Sub-Points:

1. Rate of Change
2. Candlesticks
3. Pivots
4. Live Market Open to Close Strategy
5. Live Market Pivot Strategy
1. Contra Buy/Sell Strategy

Mr. Anurag Saboo | **Chapter : Delhi** | **Date:31-05-2014**

Topic: Designing, Testing and Automating Trading Systems

Sub-Points:

1. Importance of System Based Trading.
2. Tools for a good system.
3. Importance of good/profitable strategy.
4. Component of good/profitable strategy
5. How to design a strategy
6. How to use tools available with TradersCockpit
7. How to test the strategy

Dr. Shrirang Joshi | **Chapter : Mumbai** | **Date:21-06-2014**

Topic: Trading with Elliott Waves

Sub-Points:

1. Knowledge of direction, target and stop loss.
2. Market forecasting.
3. Understanding the Essence of Elliott Wave Theory.
4. Practical use of Elliott Wave.

FUTURE EVENTS' UPDATES

Mr. Rajandran	Chapter : Bengaluru	Date:06-07-2014

Topic: Ambibroker AFL Coding

Sub-Points:

1. Understanding AFL Programming Concepts.
2. Creating Simple Scanners and System Trading.
3. How to create Custom and Composite Indicators?
4. What is system Trading?

Mr. Parag Parikh	Chapter : Mumbai	Date: 19-07-2014

Topic: Behavioral Finance, its Application and Effects in the Current Scenario

Sub-Points:

1. Understanding Stock Market Behavior.
2. Why do smart people make big mistakes?
3. How mental shortcuts frame your errors?
4. Greed can become your graveyard as someone is always waiting to exploit your greed.

PAST WEBATHON SERIES UPDATES

Mr.Gnanasekar Thiagarajan | **WEBathon Session 3** | **Date: 27-05-2014**

Topic: Capture High Probability Trades

Sub-Points:

- Identifying exhaustion points are the key to increasing the probability of success in trades.
- Especially for fund manager who trade on behalf of clients, it is imperative to increase success trades while keeping losses minimal.

Mr. Rohit Srivastava | **WEBathon Sesison 4** | **Date: 04-06-2014**

Topic: Elliot Wave and the Bull Market: The Psychology of Wave

Sub-Points:

1. The wave personality
2. Psychology of impulse waves
3. Psychology of corrective waves
4. The relationship between waves and fundamental of the economy and the business cycle and its significance in forecasting.
5. The value wave: Fundamental research and the wave formation.

Mr.Gnanasekar Thiagarajan | **WEBathon Session 6** | **Date: 17-06-2014**

Topic: How to Profit from M Pattern and W Pattern

Sub-Points:

- Identifying M and W Patterns.
- Rules and guidelines that validate the patterns.
- Precise entry.
- Exit and stop loss rules.
- Identification of Pattern failure.

Mr. Mukul Pal | **WEBathon Sesison 7** | **Date: 24-06-2014**

Topic: Overbought or Oversold

Sub-Points:

1. The webcast will build a case for explaining overbought-oversold market conditions and how there's a way to matching it with a certain risk preference.
2. The talk will showcase a new framework based on data universality and how overbought-oversold situations and conditions can be redefined, comprehended and applied for trading and investment.

FUTURE WEBATHON SERIES UPDATES

Dr. Musa Kaiser — **WEBathon Session 8** — **Date: 01-07-2014**

Topic: Technical Analysis of Fundamentals

Summary:

The Session will cover how simple TA can be applied to Fundamental Ratios. Any technique is useful only if it can tell us something about the likely future of the Market with a high degree of confidence. We will demonstrate exactly this point by applying it to the Nifty.

Ms. Sonia Dhall — **WEBathon Sesison 9** — **Date: 08-07-2014**

Topic: Day Trading – An Approach to Consistency

Sub-Points:

1. Types Of Day Trading
2. Important Factor - Cost
3. Daily Bread Butter
4. Alpha Factor

A Strategy To Day Trade For Beginners

Mr. Rishi Kohli — **WEBathon Session 10** — **Date: 15-07-2014**

Topic: Combining Options with Technical Analysis for Profitable Swing Trading

Sub-points:

1. Why Use Options for Swing Trading - How different from Stock or Futures?
2. Continuation and Reversal Patterns
3. What Options Strategies to use for Different Patterns
4. Trading Options based on signals from common technical indicators like RSI, MACD and Bollinger BandsAdvantage of Using Options for Trend Following

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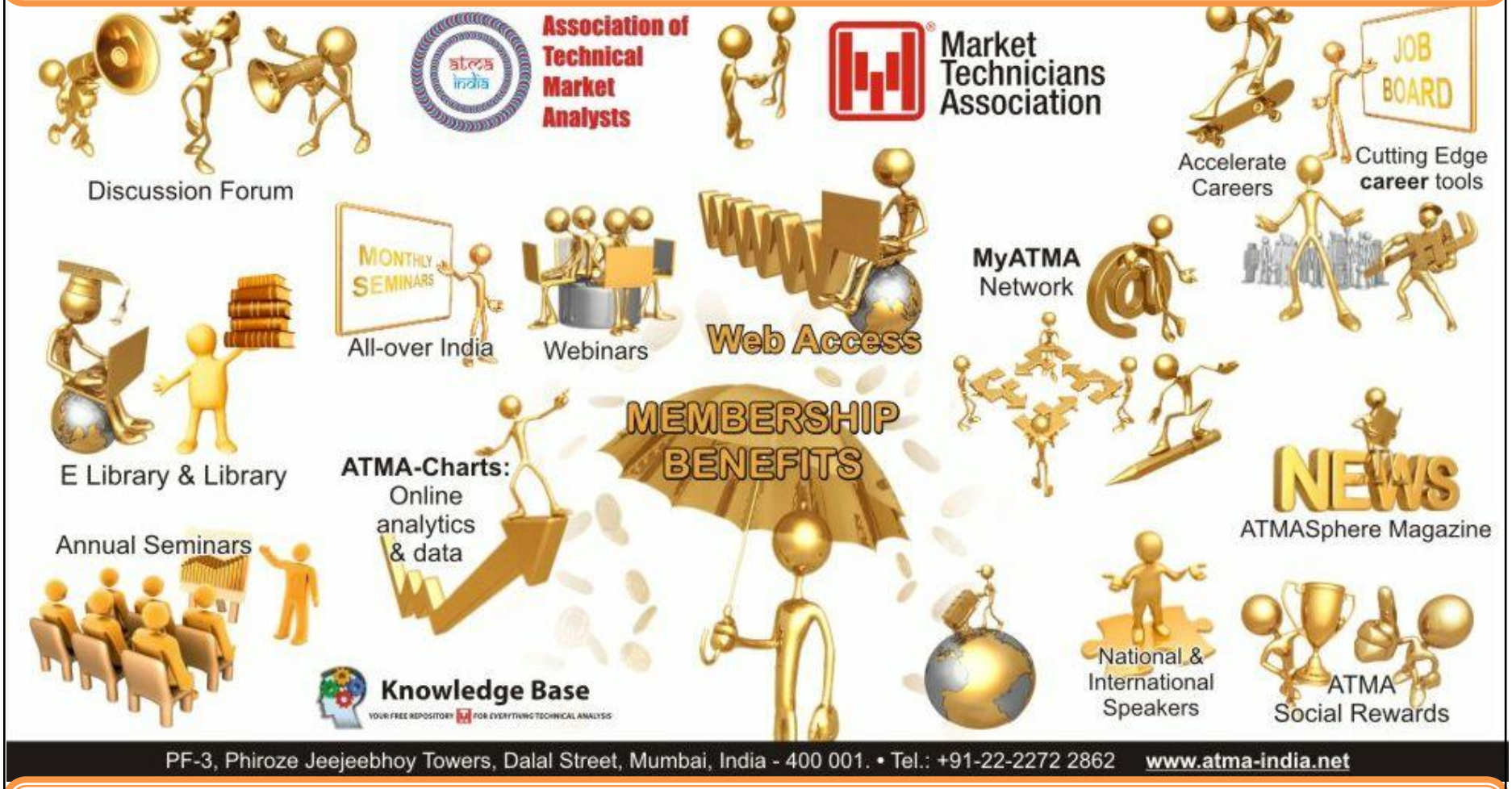

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