

TACTICAL INDICATOR SUMMARIES

By Daryl Guppy

In recent weeks we have seen many new readers come on board and they have generated a demand for background notes on the indicators we mention in the newsletter and the essential tools of technical analysis. These summaries are designed to explain how various indicators are applied to trading opportunities. The notes include tactics and rules for using and applying or constructing each indicator. The notes finish with a summary of the advantages and disadvantages of each indicator. These notes describe the way we use these indicators in our trading and are designed as a short reference guide.

INDICATOR – PARABOLIC TREND

This is a curved trend line. The shape of the curve is a proprietary calculation. It is not an arc, exponential, elliptical or mathematically 'correct' parabolic calculation. Use the GTE parabolic tool.



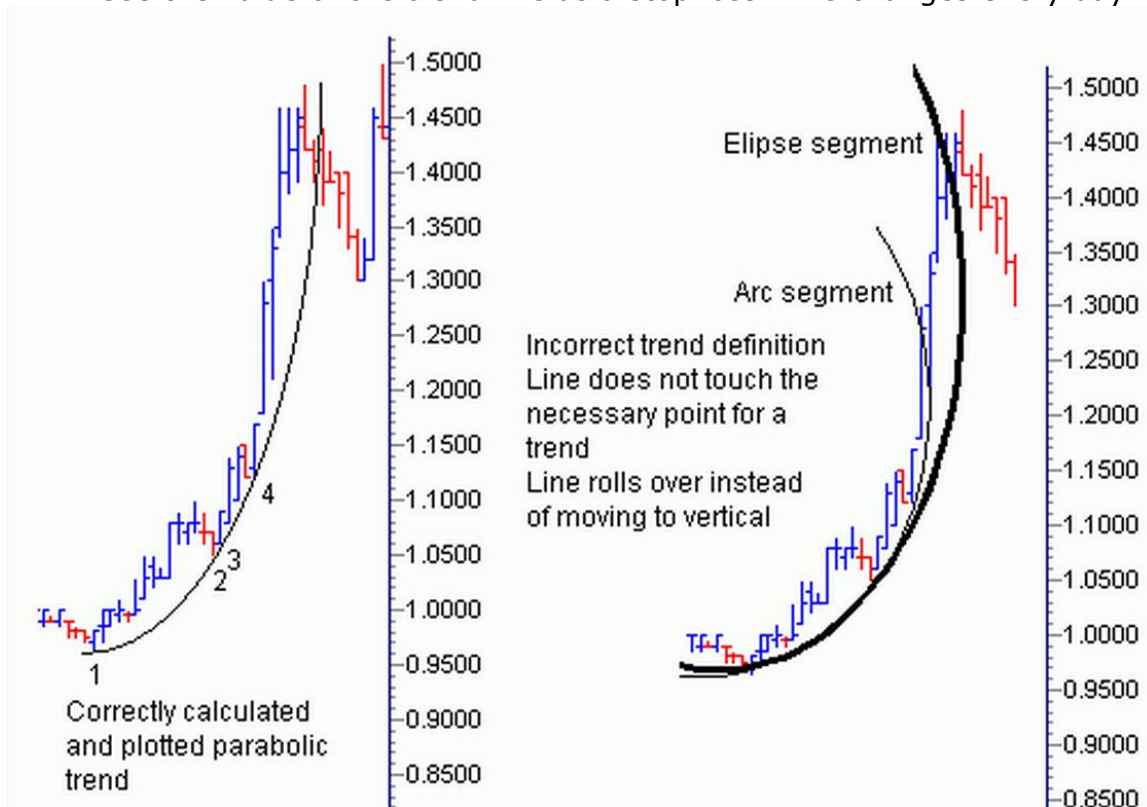
APPLICATION

This pattern was observed in the market over 50 years ago and was misnamed a parabolic trend. It was comparatively rare. Now it has become a frequent pattern. This is used to define fast moving trend acceleration. These fast moves are unsustainable and prone to rapid collapse. A characteristic of these trends is the

rapid collapse when prices move to the right of the trend line. This trend line has a defined end date. These trends occur in all types of stocks. These trends may be an additional development in an existing trend.

TACTICS

- During the middle of the trend development, exit on a close below the trend line
- As the trend approaches the end date, exit on any intraday move below the trend line
- Exit on the day prior to the inevitable move to the right of the trend line
- Use the value of the trend line as a stop loss. This changes every day.



RULES

- This pattern is traded without reference to any other indicator. It is a stand alone indicator.
- Moves to the right of the trend line signal an exit
- Curve must hit at least 2, but preferably 3 initial low points to start the trend line plot. Once plotted on these three points, the position of the curve does not change
- The curve starts from a 'best fit' point and not necessarily at the start of trend.
- When the curve moves towards vertical it sets the day on which the next price bar will inevitably move to the right of the trend line.

ADVANTAGES

- Captures fast moves.

- Identifies accelerating trends
- Sets an exact day of exit
- Most effectively used with price or derivative leverage

DISADVANTAGES

- Trends often collapse rapidly
- Difficult to identify this type of trend in the early stages of trend development