

## NEWSLETTER # SEVEN

January, 1992

## COMMITTEE

Your Executive Committee comprises.

Charles Balas - President - (02) 522 5220  
Dawn Bolton-Smith - Vice President - (02) 969 7615  
David Hunt - Secretary - (02) 238 7856  
Christopher Carr - Treasurer - (02) 436 3202  
Merril Armstrong - Committee - (02) 282 3555  
Charles Alexiou - Public Relations - (02) 251 5133

### YOUR COMMITTEE PART 3

PRESENTING: CHARLES ALEXIOU

Charles came to the markets fresh from University in 1985. He had attained a Bachelor of Science degree (double major in Applied Mathematics [Honours] and Nuclear Physics !!!).

An unprofitable study of market sentiment and psychology in foreign exchange markets resulted in a focus on Technical Analysis.

Inspiration came from Manning Stoller's 1988 visit to Australia and his Volatility Bands. Charles uses a similar approach adjusted to his trading style

Overseas travel especially to the US made him realise the importance of TA and the need for an association for TA people to share ideas and resources. In 1989 Ralph Acampura of the US Market Technicians Association and IFTA planted the seed with Charles to establish the ATAA. By April 1990 Charles became the founding President of the ATAA..

## MONTHLY MEETING CALENDAR

Please note these meetings in your diary.

Activity	Date	Topic	Speaker(s)
Meeting/ Systems Night	Feb 17	Mechanical Trading Systems & Portfolio Management	Phillip York, QBL
Meeting	March 16	Knight Ridder Profit Centre	Tom Scanlon
Meeting/ Method Night	April 20	Elliot Wave	John Gaweski, CBA
Meeting	May 18	Money Supply & Stocks	Frank Shostach, Ords

### Meeting details

### Information:

Time: 5.30 for 6.00pm DW Hunt 545 2605  
Day: 3rd Monday of each Month Charles Balas 522 5220  
Location: Council Room, Level One  
Old Building State Library of NSW  
Macquarie Street, Sydney

## PRESIDENT'S ADDRESS

Fellow Analysts,

As we enter into this second year of the decade it is timely to reflect on the many achievements that your Association has accomplished in the last few months. Our regular Monday night meetings have been packed with members eager to hear the many excellent presenters discuss their trading strategies and use of technical tools. Many thanks are extended to all those guest presenters throughout the year who made the effort to speak at our meetings, including Hayden Murrells who flew up from Melbourne for our November meeting.

It is encouraging to see the enthusiastic drive by members to introduce their associates to the benefits of the ATAA, and in line with this, ATAA Guest Passes will be issued shortly to all financial members.

The first half of 1992 has already been filled by guest speakers and we expect the remaining months to contain more informative and interesting nights ahead. A part of future meetings will be the opportunity for everyone to present their own thoughts in a "Round Robin".

The Market Technicians Association, Inc. (USA) has followed the lead of the ATAA in establishing a Computer Bulletin Board System for their members and affiliates. We anticipate to be able to network our system on a global scale and link in with the MTA. This will further enhance the flow of technical information and provide an efficient means of communication between TA groups worldwide.

Your Executive Committee is progressing with the formulation of the ATAA Certificate course in Technical Analysis and expect to begin an introductory course during the first half of this year. It is envisaged that the course will be held on consecutive Wednesday nights throughout the length of the course.

This year will certainly hold many new challenges and the ATAA is ready to initiate and stimulate the on-going development of Technical Analysis in Australia.

Charles Balas, President.

## CHARTING AROUND

### Bulletin Board (BBS)

I don't know about your own experiences but I live for data, its my lifeblood. The trouble is when I want to research a new market historical data is always not far enough back, not complete, not in a readily useable format (I use Lotus V3.1 and my own systems/Indicators) or just too expensive.

So what we've decided to do is to use our ATAA BBS as a source for Historical data bases. This will be updated each weekend (or as suits the supplier). Uploaded data will be converted into most popular File formats eg CSI, Ascii, Lotus V2 etc: I will upload my data on daily 24 hour ranges for the Currencies as well as the other markets I keep eg Gold, Eurodollars.

The data will be updated at the end of each month. The idea is to create a data library to swap. Other members have said they will donate data on commodities for way back and the DJIA on a monthly basis back to the 1890's!!

You may have noticed the BBS has been down lately. That is because the Modem that Charles Balas has lent for the BBS system packed it in just before he went on holidays. when he is back it will be repaired.

### Meetings Meetings Meetings

The ATAA has had a pretty active 6 months culminating in the inaugural ATAA BBQ (December meeting). The BBQ was a magic afternoon into evening full of good food, drink, conversation and generally pleasant ambience.

November's meeting was a blockbuster with Hayden Murrells Chairman of the Melbourne Tag presenting an enthralling talk on Gann and Elliot principles. Some highlights were:

- Call for major highs in February on US and Australian Equity markets based on a Gann Square of Nine method. Supported by his long term Elliot wave count. (Looks good)
- A 100 year history of the Australian Labour Party with major changes on the Square of Nine Fixed Cross based on years.
- Call for a major turn sometime in 2032 ?

A bit beyond my concentration span, but interesting.

November also had presentations on the MACD by Merrill Armstrong and Christopher Carr. Chris's article follows.

It was great to see members participating in the discussion and bringing examples of their use of MACDs in their favourite markets. Lets see all of the Elliotticians do battle in April!! Members will be checked for Flat-Flats and Fibonacci ratios at the door.

October's meeting saw Bernard Chapman demonstrate his Insight Trader Software. An article is in this issue. Looks interesting and at a good price

Also in this month's newsletter is a reprint of Dawn's article on Moving Averages. Sorry about the quality on the last one.

It is planned to put out the newsletter every 2 months ie Jan, March, May, July, Sep, Nov. Any articles you want to put in should get to me by the end of the previous month. All contributions are welcome.

### What's Happening

The ATAA has been asked by a Metastock Users group in New Zealand to help them establish a NZTAA. Charles Alexiou is assisting them.

### Education

The ATAA is currently devising TA course for public consumption. (See President's address)

The WD Gann course is fully subscribed with The Queensland Investor's Club and Sydney's best professional analysts snapping up bargain priced information. Will be a real TA affair. More about this in the next newsletter.

### New Members

Ron Leith of Albury  
Tom Scanlon Knight Ridder

We now have enough members in Melbourne for the basis of a formal group. So any Victorians contact Charles. If you have TA friends in Melbourne get them to call Charles, too. So he can organize a regular meeting .

David Hunt

# CONFIRMING THE TREND -THE MOVING AVERAGE CONVERGENCE- DIVERGENCE (MACD) INDICATOR. By Christopher Carr

We all want to trade with the trend. The problem is that we might think that the market is still rising or falling when in fact, a directional change is being heralded. What we are looking for is an indication of non-confirmation or divergence.

Traditional moving averages play a useful "smoothing" function, but often they tend to be lagging indicators. In particular, simple moving averages tend to make you buy on strength and sell on weakness, often just as prices are about to reverse.

MACD has two major advantages over simple moving averages:

- (1) It uses exponential moving averages. This gives more weight to new than to old prices. But even the old prices are never discarded but are incorporated into the exponential moving average.
- (2) It uses three exponential moving averages. Their crossovers with each other, not prices, give trading signals.

To calculate MACD, you need two exponential moving averages of closing prices. 12 and 26 days are the default periods used in Computrac and Metastock (The choice of days is yours, look to the dominant daily etc cycles as a guide). The conversion factors are .15 and .075 respectively. You then subtract the 26 day exponential moving average (EMA) from the 12 day EMA and plot the difference as a solid line. Then calculate the 9 day EMA of that number (conversion factor = .2) and plot it as a dashed line.

The 12 day EMA is constructed by:

- 1 Calculate a simple 12 day moving average.
- 2 Multiply the 13th day's closing price by the conversion factor (.15).
- 3 Multiply the previous 12 days moving average by (1 - conversion factor) i.e. by 0.85.
- 4 Add (2) and (3) to get the EMA for the 13th day. For the 26 day EMA, follow the same procedure.

Subtract the 26 day EMA from the 12 day EMA. You can now plot the solid line.

For the 9 day EMA of their difference, use these steps:

- 1 Subtract the 26 day EMA from the 12 day EMA.
- 2 Multiply the result for the last day by the conversion factor of 0.2.
- 3 Multiply the moving average of the previous 9 days by 0.8.
- 4 Add (2) and (3) to obtain the 9 day EMA. You can now plot the dashed line.

As can be seen, the procedure is complex and time consuming. 99.9% of traders prefer to leave the hard work to their computers and simply interpret the result. Since the solid line responds to price changes faster than the dashed line, we look to crossovers to generate signals.

No one indicator can "work" all of the time. I stress that MACD should be used with other coincident indicators such as Directional Movement, Stochastic and Relative Strength. Timing is the major challenge in trading decisions and often, MACD may stop you out of Long and short positions too early. On the other hand, MACD will tend to keep you with the market trend.

The following rules guide my use of MACD:

- 1 Daily and weekly MACD should be used together to give clear directional signals. The weekly is the stronger directional signal, whereas the daily may be subject to whiplash. On a conservative basis, when:
  - a The weekly is still in a buy,
  - b The daily becomes a sell, close long positions, but don't sell.

Conversely when:

- a The weekly is still a sell,
- b The daily becomes a buy, close out shorts, but don't buy.

- 2 The clearest signals occur some distance from the zero line.

Normally productive moves do not occur from near the zero line. No rules are absolute. In this instance, you should seek any confirmation from coincident indicators.

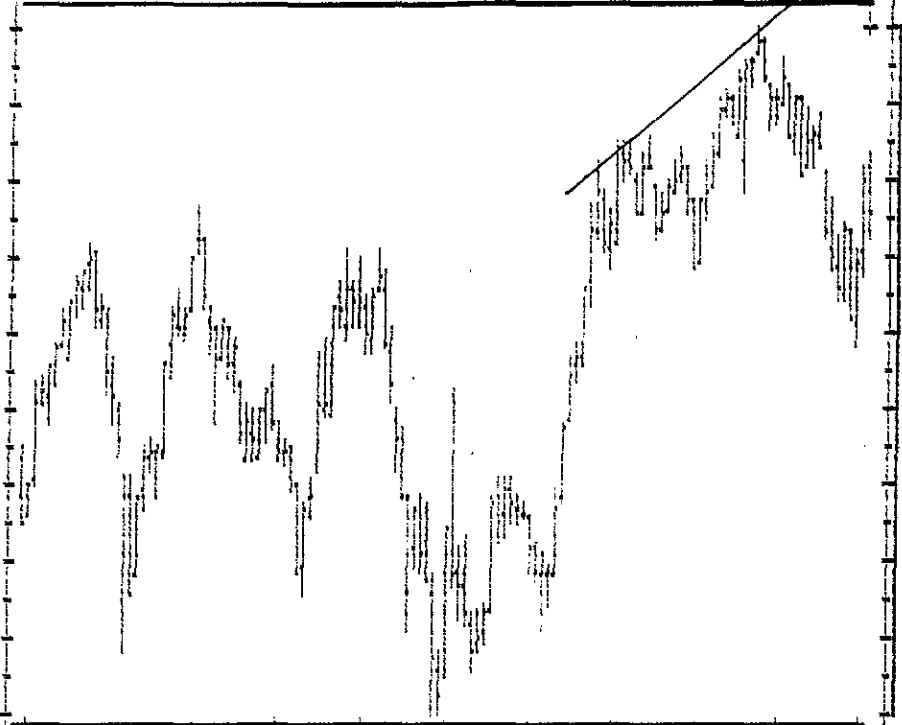
- 3 MACD does serve as a leading indicator when positive or negative divergences are established on the daily or weekly charts.

The weekly FT 100 chart shows MACD at its very best, a clear negative divergence prior to a major directional change. The downturns in both New York and London were preceded by directional change warnings by MACD. By December 13, the daily MACD had switched to a buy on the S & P 500, allowing the trader time to close out short positions. During the week ending December 27, the weekly MACD switched to a buy. We now had a classic buy signal according to our rules. This allowed the alert trader to profit from the recent explosive move. Now after a 300 point move in just over a fortnight, one should be especially alert to all the coincident indicators. On the daily MACD, it would be wise to plot a histogram. This marks the distance between the solid and the dashed line. Look at the daily MACD plus a histogram for the S & P 500. On January 3, there were tentative signs of a negative divergence on the histogram. This could be an early warning to the hopefully still alert trader.

09-Jan-91

FTSE 100, 54/88

18:49:17



268.37  
 Log  
 259.37  
 258.67  
 242.26  
 234.13  
 226.28  
 218.69  
 211.35  
 204.26  
 197.41

920100:DATE  
 252.37:OPEN  
 254.01:HIGH  
 244.13:LOW

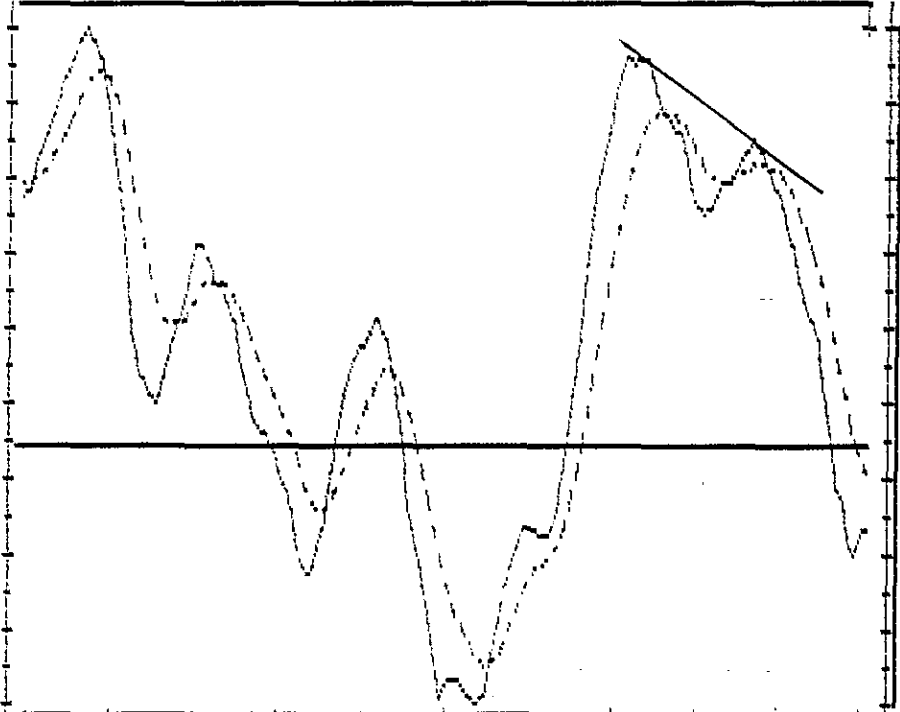
246.71:CLOSE  
 25960:ALL VOL  
 0:ALL OI

H: 268.37 +- 0.63

09-Jan-91

FTSE 100, 54/88

18:51:00



9.7350  
 7.9938  
 6.2527  
 4.5115  
 2.7783  
 1.0291  
 -0.7121  
 -2.4532  
 -4.1944  
 -5.9356

920100:DATE  
 252.37:OPEN  
 254.01:HIGH  
 244.13:LOW

246.71:CLOSE  
 25960:ALL VOL  
 0:ALL OI  
 -1.9119:MACDTM

-0.5991:SIGNAL

H: 9.7350 +- 0.1250

09-Jan-91

1MM.S&P500 54/88

18:54:16

420.23

Log

414.00

400.01

402.04

396.15

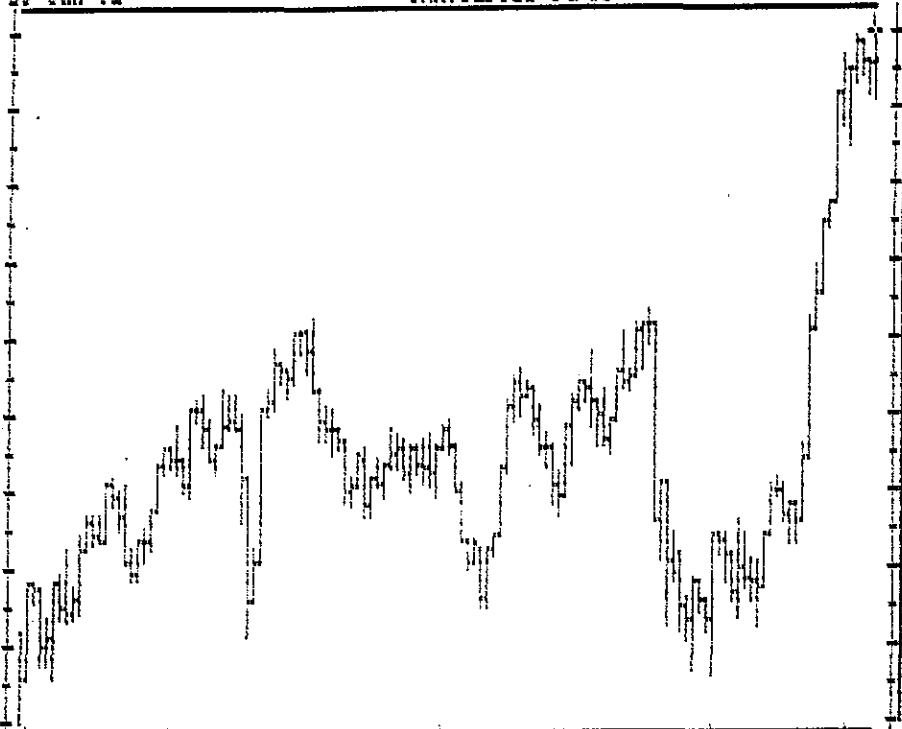
390.35

384.63

379.00

373.45

367.90



920100:DATE  
 417.36:OPEN  
 420.23:HIGH  
 415.02:LOW

418.10:CLOSE  
 40982:ALL VOL  
 0:ALL OI

H: 420.23 +- 0.63

09-Jan-91

1MM.S&P500 54/88

18:50:00

9.0640

7.6802

6.3123

4.9364

3.5606

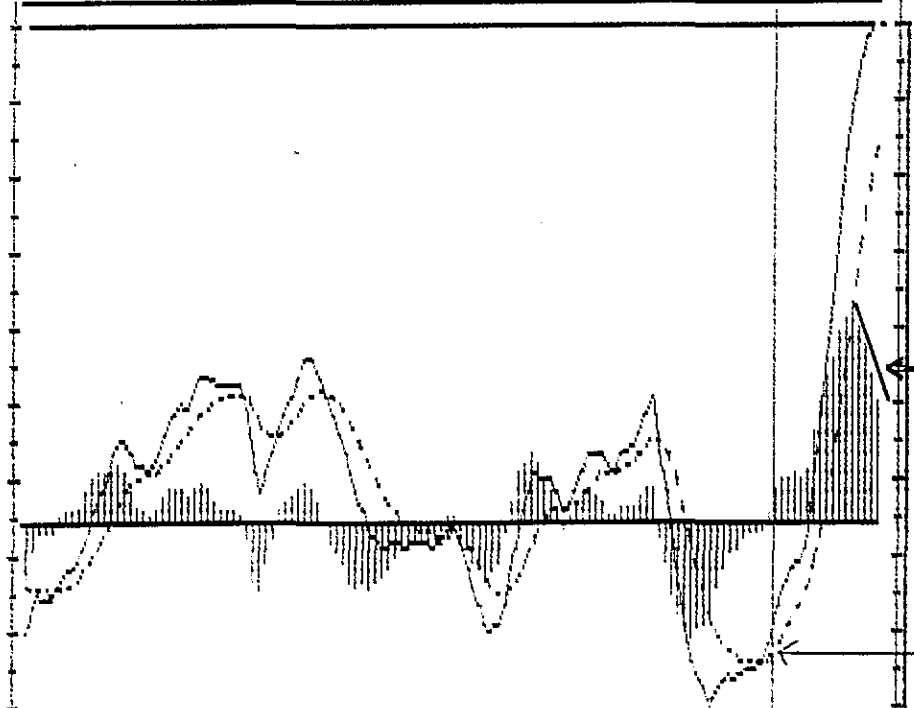
2.1847

0.8088

-0.5671

-1.9429

-3.3180



NEGATIVE  
 DIVERGENCE  
 03/01/92

CLOSE OUT SHORT  
 POSITIONS 13/12/91

911213:DATE  
 381.55:OPEN  
 385.04:HIGH  
 381.55:LOW

384.47:CLOSE  
 64682:ALL VOL  
 166536:ALL OI  
 -1.6669:MACDTM

-2.2845:SIGNAL  
 0.6176:MACDTM-SIGNA

H: 9.0640 +- 0.0930

09-Jan-91

1MM.S&P500 54/88

19:12:28

13.6115

10.9607

8.3099

5.6591

3.0083

0.3575

-2.2933

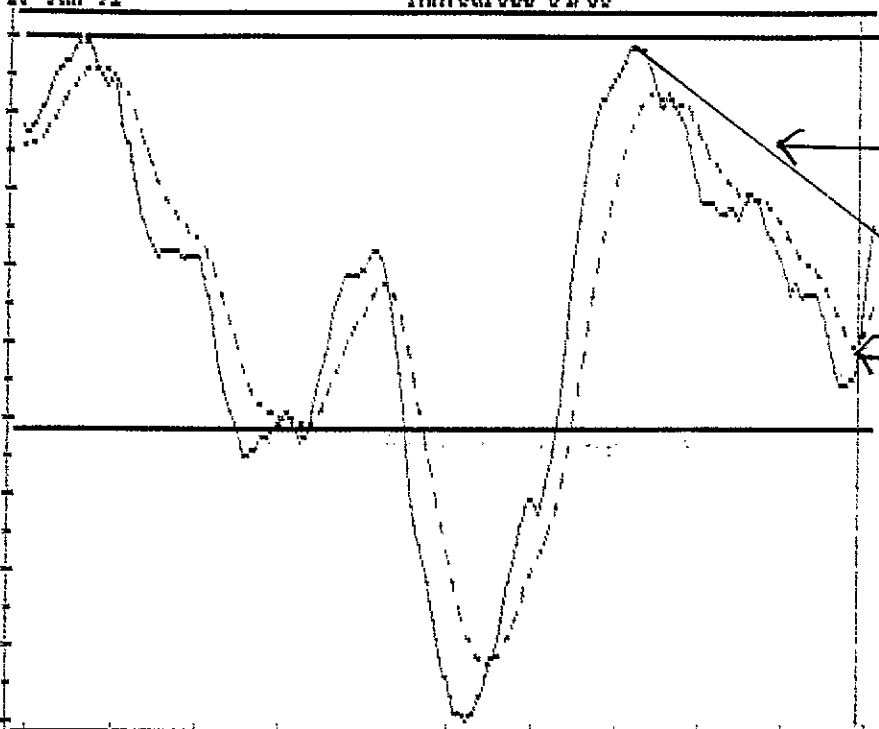
-4.9441

-7.5949

-10.2457

MAJOR WEEKLY  
NEGATIVE DIVERGENCE

CLEAR BUY SIGNAL  
BY 27/12/31



911227:DATE  
 387.05:OPEN  
 406.58:HIGH  
 386.96:LOW

406.46:CLOSE  
 117020:ALL VOL  
 140727:ALL OI  
 3.2599:MACDTM

2.9650:SIGNAL

H: 13.6115 +/- 0.1563



## MOVING AVERAGES

Moving Averages have been around almost as long as charts but computers have made them readily available. Optimising

for a particular currency, stock or commodity is no longer tedious and time consuming. By nature they lagging indicators. The moving average crossovers are actively used in today's computer oriented trading. They can and DO PROVIDE costly whipsaws. The use of 5 and 10 day averages can be extremely useful in fast moving markets and can be used as effective stop losses. Also the 10 day average can capture long trends at times. The method can be traced back to the modelling of economic time services in the 1930's and is still sufficiently flexible to yield very substantial profits in the 1990's. When doing a total analysis of any market - always include moving averages.

I am going to introduce a group of HARMONIC MOVING AVERAGES - 5/15/30 period which will bring results on almost all markets including the smallest time period practical on 24 hour ranges. Other combinations might be as effective but the 5/15/30 combination has proved - the case for pragmatism. IF IT WORKS USE IT!

(1) The moving average should be plotted on the same price scale as your currency/commodity/stock chart and using the effective principles for TRAFFIC STOP LIGHTS the colour combination should be consistent. In today's example GREEN - 5 day, RED - 15 day, BLUE 30 day. Once a combination is decided upon best suited to your colour graphics it is best not to deviate from the chosen colour choices as the "brain" and visual concept become conditioned to the consistency of the colours and the information transmitted. Using the Reuters Technical Analysis on line machine with a black background yellow is a good substitute for for green for 5 period with 15 period red and 30 period blue. The use of COLOUR in markets as opposed to black/white greatly enhances the ability of the analyst to recognise trend changes much faster and trade plans take on much greater meaning with the excellent colour graphics of the R.T.A.

(2) The trend is extremely DEFINITIVE. Emphasises the need and value of TRADING WITH THE TREND.

(3) The action of the averages once the trend starts to change will be first reflected in the 5 period average.

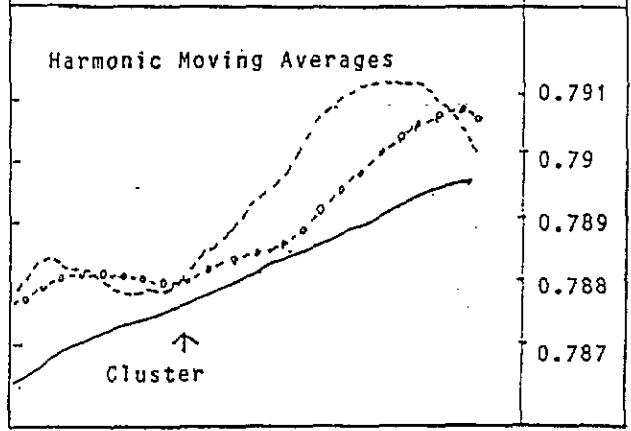
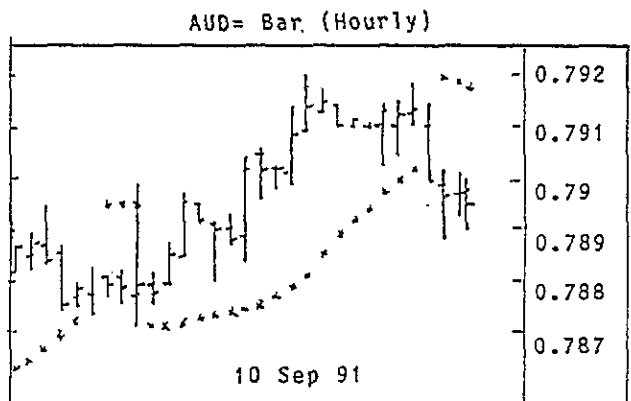
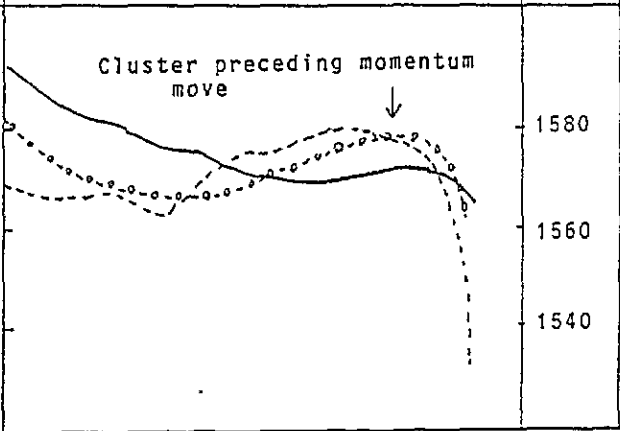
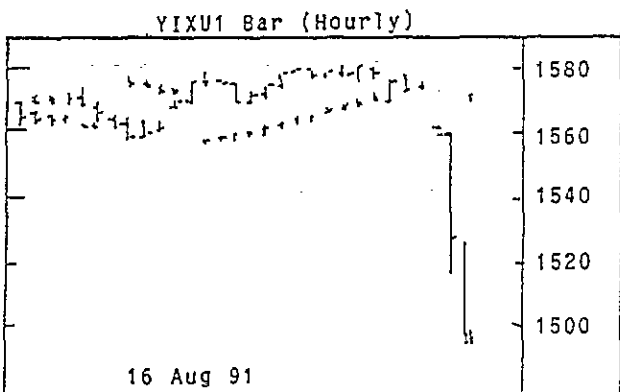
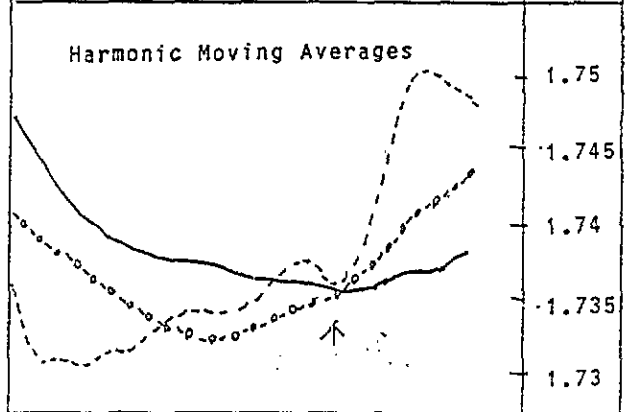
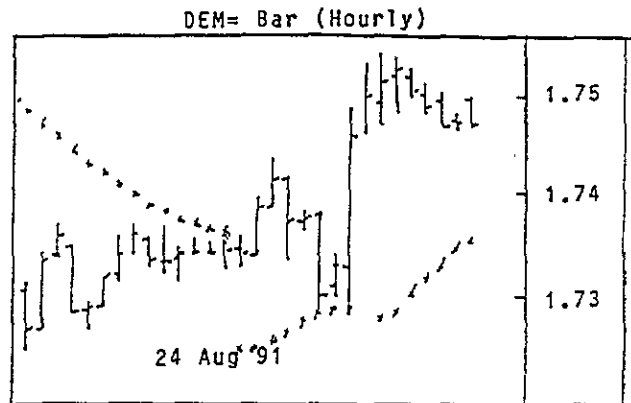
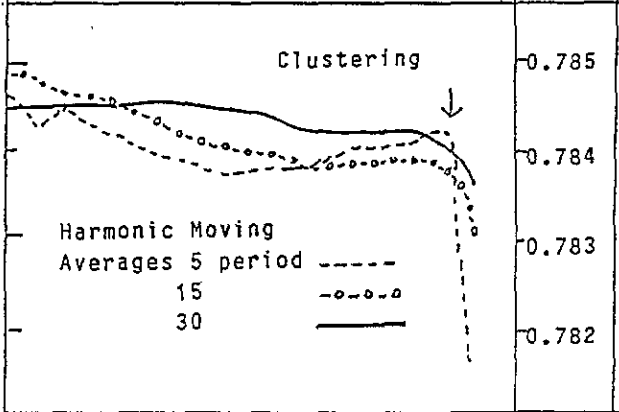
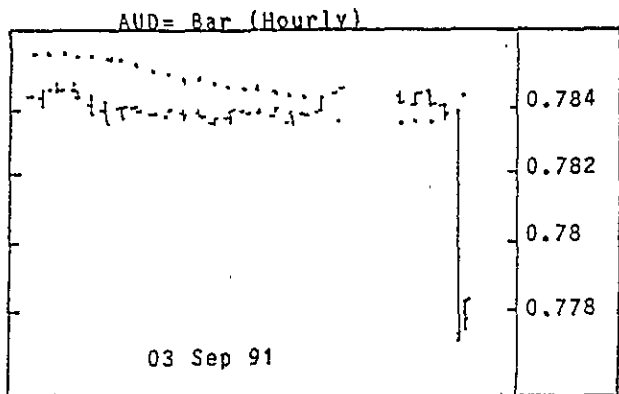
(4) Other characteristics are CLUSTERING at the same time price level with provides a signal for a powerful MOMENTUM MOVE. These can provide windfall profits but also spell disaster for unknowing market participants not prepared for such a phenomena. (eg 4-5 Pfennings in the DM/USD).

(5) STACKED & EVENLY SPACED - After a long UP move (or DOWN, on any time frame 5 minute, daily, or weekly) the distance between the averages is evenly spaced. When this configuration occurs, it is an indication that a reversal is imminent. the market can move HIGHER or LOWER as the case may be and it is by watching for a reversal signal (other indicators help here too) to take action for a potential move back up to the 30 period time increment which becomes STRONG SUPPORT in an UP market where shorts can be covered (and reversed if so desired) when this average is reached. Similarly the rules apply to a DOWN MARKET. The 30 period becomes resistance and long positions covered or reversed if justifiable. The averages act as a net of support or resistance in UP and DOWN Markets and are like a MAGNET drawing prices to them. Sometimes in an extremely strong trend, the initial pullback is to the 15 period average but overall the 30 period (allowing for time) is generally the objective achieved. This effect works ON ALL TIME INCREMENTS but when it occurs on a daily or weekly chart, it can be used as a POSITION TRADE for moulting day or weekly charts. Study this effect on your own charts.

The EVEN STACKING SIGNAL often only appears for ONE DAY (or whatever time increment you are using, it is essential to monitor the averages on a continuous basis. This could well be built into a computer programme as a market alert.

The principles of these averages will provide great rewards on a day to day basis also. the EVEN STACKING principle can really alert you to some really important trend changes and you will be able to LOCK IN THE GAINS of the prevailing trend earlier. Having tested this combination of averages since 1985 over a broad base of markets, the signals and ensuing gains will be like a "signal to print money". Keen observation and attention to detail essential to maximise the results. After using the Reuters Technical Analysis machine (on line) over nine months, there is little doubt that by using these harmonic averages for the 24 hour ranges, another dimension is added to your overall analysis.

Dawn Bolton-Smith 16th Sept  
1991



# Insight Trader

## An Australian Charting and Technical Analysis Software Package Bernard Chapman

### INTRODUCTION

As a CSIRO scientist developing computer models to predict the transport of pollutants in rivers, it was natural that I turn my attention to the analysis of markets, a subject which has long been a personal obsession. So in 1985 I commenced writing a computer program to facilitate both my own sharemarket trading activities and those of a friend who specialises in futures. New features were progressively added over a period of 5 years by which time the program had developed into a formidable collection of tools for trading the markets. In early 1990 I decided to make the software available to the public at large under the name of Insight Trader and completed the commercialisation process in September of 1990 when the first copies were shipped. Since that time Insight Trader has been rapidly evolving with the addition of many new features and improvements and is currently at Version 2.42.

Insight Trader is now used by a wide range of investors around Australia with a variety of investment requirements. It is used by long term investors in the sharemarket, short term traders and options and futures traders. It is also used professionally in the broking industry.

The philosophy behind Insight Trader was to make available a software package of excellence at a price (\$395) which was affordable even by first time traders. Although it offers a wide range of sophisticated features, Insight Trader has been designed to be easy to use, even by novice investors. It is a product written by a trader for traders who are encouraged to contribute to its continuing development. A hotline help service operates between 7 and 9 pm every evening. Since its introduction 15 months ago, a large number of new features have been added as the result of suggestions from users.

### THE PROGRAM

The package consists of the main Insight Trader program itself and associated utilities which perform the following functions:

- (i) Chart generation using:
  - Standard Chart Types
  - Calculations on the data
  - Indicators and oscillators
  - Constructions such as trendlines
  - Operations such as zooming
  
- (ii) Database construction and maintenance
  - Manual data input
  - Data capture via modem
  
- (iii) Portfolio Management
  - Transaction recording
  - Portfolio valuation

During program design and development a number of major requirements were considered essential - Resolution, Versatility and Aesthetics.

Because of the finite number of pixels on a computer screen there is a limit to the resolution that can be obtained on a chart displayed on a monitor. Therefore charts needed to be able to use the whole screen when maximum resolution was required.

In order to do away with paper charting entirely it was imperative that the program provide a wide range of facilities of sufficient flexibility so that resort to hard copy of any form was effectively unnecessary. It was essential to be able to save to disc in a "living" form, large numbers of charts, together with any workings and notes, so they could be recalled for further work at the press of a key, and be automatically updated with any additional data that may have been added to the database. Insight Trader would not be restricted by limitations that affect other programs such as a maximum of 256 files per directory, a maximum of 1000 records in memory at any one time, the necessity to precompress data to pseudoweeks and pseudomonths during loading or a speed penalty with VGA.

Computer generated charts are often unattractive with nonintegral numbers like 2.41 3.79 (or even 2.00 3.00 4.00 with unnecessary digits of precision) placed on the axes. These are sometimes positioned in only approximately the correct positions. This needed to be avoided and also the date axis had to show accurate detail over a large range of time spans. This was one of the most demanding aspects of the work.

#### OUTSTANDING FEATURES

The following is a list of exceptional features which make the resulting product, Insight Trader, stand out from other programs costing 2-4 times as much:

##### Chart Versatility

The aesthetic chart layout combines with an extremely versatile and detailed 5 or 7 day calendar axis to produce an impressive display from one day full scale to 100 years full scale. This, as far as I am aware, is unmatched by any other program. The charts can also have a non-calendar horizontal axis to allow you to plot, say, Silver(vertically) vs Gold(horizontally). Files do not need precompression and you can display up to 100 years of daily data on a single screen.

##### Trendlines

Trendlines, which can be any of 10 colours or of different textures, may be moved bodily around the screen before being set in position. Set lines can be selectively lengthened, shortened or deleted at any time - even in saved charts.

##### Zooming

The zooming feature is the most sophisticated of any program that I am familiar with, allowing unrestricted zooming in and out in multiple stages, to the limits of 1 day/100yr full screen ranges. The display automatically switches between TRUE daily/weekly/monthly and back again, depending on the range, to show any data at any magnification. Any trendlines automatically rescale. In addition to zooming, it is possible to page through a datafile to show adjacent data at the same magnification.

##### Save Charts to Disc:

Up to 1000 chart studies can be saved to disc - complete with up to 100 trendlines, 20 text strings and 10 cycle grids per chart. Any chart can be later recalled with all workings preserved and updated with any additional data. Generally each saved chart requires less than 1K of disk space.

##### Slide Show of All Saved Charts:

You can set in motion an automatic slide show, where you can view all of your (1000) saved charts, one after the other, without touching the keyboard. If you wish, you can freeze a frame, update your trendlines or add more notes etc, save the altered chart and then recommence the show.

##### Mouse Operation:

The operation of Insight Trader is greatly facilitated if you use a mouse. It is surprising that most other charting software packages do not offer this option.

##### Value for Money:

At \$395 Insight Trader must be the best value package available.

#### SPECIFICATIONS

##### Charts

Chart Types: Line charts OHLCVI bar charts Candlestick Point and figure  
Equivolume Scatter diagrams

Scales: Horizontal Vertical

5/7 day calendar- Linear/log

Non-calendar (linear/log)

Set or automatic Grids optional Volume spill

##### Chart Arrangement

Single: Full screen chart or with a volume/indicator subchart

4-split: - up to 4 charts adjacent

- up to 8 (charts + indicators) adjacent

Overlay up to 10 charts

#### Calculations and Indicators

Spread, Relative strength, Linear regression

Multiply &/or divide 2 or 3 indices, Moving averages, Envelopes, Momentum, Detrend, Moving average oscillators, Relative Strength Index, Stochastic, Slow Stochastic, Coppock, On balance volume, Volume price trend, Volume accumulation

#### Constructions

Trendlines, Cycle grids, Text strings  
Flag reversals, HLC and LHC events  
Fibonacci fans, retracements, times zones

#### Operations

Zooming, Paging, Scrolling

#### Database

##### Data Types:

C CV HLC HLCV OHLCV HLCVI OHLCVI

Advance/Decline

Shares (subject to dilution)

##### Datacapture:

Manual or Automatic via modem

Highlighter to flag exceptionally performing stocks

#### Portfolio Manager

##### Transactifons:

- BUY/SELL - DIVIDENDS (franking and imputed tax)

- ACCOUNT DEPOSITS/WITHDRAWALS - INTEREST

#### Valuations

##### Other Features

Data window, Y-value window, Retracement window Printer sequencer, Hotkeys (prerecorded macros), Save 1000 charts, Mousesupport, CGA, EGA, VGA, MCGA, HERC