

TRADER'S GUIDE TO TECHNICAL INDICATORS

Comparing strengths



This symbol overlay chart compares the price strength of pork bellies, soybeans, Cisco and sugar from Sept. 1, 2000, to the end of July 2001.

“Buy the stronger, sell the weaker” is a well-known market adage, whether you’re talking about trading spreads or outright positions. However, sometimes the relative strength of the various markets is difficult to determine, although you may sense which market is stronger just by observing price changes.

A means to quantify the strength of different markets is the symbol overlay analytical study in eSignal, an indexing method that compares prices with a selected starting date. You can modify the start date, and you can add a wide variety of markets to the mix. Instead of measuring changes in price increments, the chart indicates percentage changes from the first date, allowing you to compare completely different markets with completely different price scales.

Although it’s quite unlikely you will ever see a need to use the combination shown here, the chart above shows four markets that have no relationship to each other, just to illustrate the possibilities of symbol overlay: August pork belly futures (black line), November soybean futures (blue line), Cisco stock (red line) and October sugar futures (green line). The lines compare prices to the Sept. 1, 2000, starting date.

If you are a trader, you will not be surprised to see how weak Cisco has been or how strong pork bellies were compared to the levels of last September. You probably don’t need a chart to confirm that reality, but seeing a picture provides a better visual impact of what has been happening to the markets individually and against each other.

Instead of this view of disparate markets, perhaps the more practical use of symbol overlay is to compare related markets against each other such as the grains, the soy complex or the energy markets or by comparing the strength of the various contract months of a market. One of the most effective pictures using symbol overlay compares the U. S. dollar against the other major currencies. In the first half of 2001, such a chart illustrated clearly the wide disparity of the strength of the U.S. Dollar Index and the weakness of almost everything else.

Although symbol overlay won’t provide you with any trading signals, it can be a useful tool to get a quick visual picture of market strength or weakness.

Next . . . trading channels.