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TRADESHARK ADD-ON INDICATORS

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Product: Indicator add-ons from Jack Schwager and John Person for the TradeShark platform
Price: $1,495 for each indicator

by Darrell Jobman

We all strive to trade like the well-known traders in the industry. So when you use indicators developed by them in a software platform, if nothing else, you feel as though you are replicating their success. Market Technologies is providing such tools to you by offering proprietary trading indicators for the TradeShark analytical software. In the March 2016 S&C, we covered four of those add-on indicators; here, we will cover two more developed by Jack Schwager and John Person.

Schwager is a recognized industry expert on futures and hedge funds, and he's the author of a number of widely acclaimed books, with the most popular being his *Market Wizards* series. Person also has an impressive pedigree as an internationally recognized specialist in investments, trading, and financial management, and is the author of several popular books on trading.

TRADESHARK BACKGROUND

TradeShark provides short-term price and trend forecasts each day for global markets. It makes use of some of the widely used technical indicators such as moving averages, moving average convergence/divergence (MACD), relative strength index (RSI), and stochastics to help forecast market direction. The objective of the software is to help traders identify when there's a shift in price momentum or a change in trend so they can better time their trades.

JACK SCHWAGER PREMIUM INDICATORS

As you may have guessed, Schwager's premium indicators in TradeShark are

FIGURE 1: TREND WEIGHT INDICATOR. On this chart of Exxon Mobil, a TW move below the +20 threshold indicated that bullish support was diminishing. When TW crossed below -20, a new downtrend was confirmed.

rooted in findings from his interviews with successful traders. Although he found no one secret strategy for success, he discovered commonalities that he considers essential for trading success.

He has incorporated into the development of his indicators the following three concepts:

1. Find an approach that fits your trading personality.
2. Know when you are getting out of a trade before you get into it.
3. Have a lack of loyalty to the markets.

His indicators, based on algorithms developed over the past 25 years, are not fitted to recent data. Hence, the indicators are more robust and likely to remain net profitable than indicators that are designed to react to short-term data. Because of this, Schwager's indicators were designed mainly for longer-term and medium-term traders, although short-term traders may find them useful for confirming the overall prevailing trend.

Schwager also believes that more isn't necessarily better when it comes to trading indicators. He doesn't see usefulness in layering multiple indicators onto a

chart without rhyme or reason. Instead, he believes an indicator needs a specific purpose, and this is evident in his unique indicators you see in TradeShark.

Trend Weight indicator

Schwager's Trend Weight (TW) indicator is designed to capture major trends in the market. The value of the indicator reflects the strength of the trend and can range between -100 (most bearish) to +100 (most bullish). You have the option of specifying the TW threshold levels that are used to generate buy and sell signals.

When the TW is above the +20 threshold, for example, the indicator suggests buying. Any move below -20 suggests selling. On the Exxon Mobil chart in Figure 1, a TW move below the +20 threshold indicated that bullish support was diminishing. When TW crossed below -20, a new downtrend was confirmed.

You can adjust the threshold levels to fit the aggressiveness or time horizon of a trading strategy. A higher threshold will produce more neutral periods and will make slower entry signals, but it will liquidate existing positions much earlier, making it more sensitive.

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There is no absolute for these indicators. Higher thresholds may have a better return-to-risk probability on a per-trade basis, but what you choose depends on your comfort level for risk. The ability to adjust the thresholds allows you to use TW for different purposes such as a buy/sell indicator when it crosses above or below the zero line or some other defined threshold level.

Overbought/oversold indicator

The overbought/oversold (OBOS) indicator is a countertrend measure that becomes increasingly positive (overbought) as an uptrend progresses and increasingly negative (oversold) as a downtrend progresses. The indicator has a range between -100 and +100.

The indicator has two different applications. First, it can be used as a countertrend index that can lead to a potential reversal. Relating back to Schwager's trading foundations, remaining loyal to a long position in an overbought market could wipe out profits. These countertrend measures are required to toss market loyalties out the window and exit a trending position.

Second, the OBOS indicators can also be used as a clue for a new price trend when they just enter overbought/oversold territory in a contrarian fashion. Extreme values in the OBOS can be viewed as an indication that the trend may be overextended and prone to reversal. Such extreme readings in the OBOS can be used to employ a more sensitive exit condition (for example, using a relatively close sell-stop if long and the indicator is at very high positive values). The Exxon Mobil chart in Figure 2 illustrates how extreme OBOS conditions can lead to a major trend shift.

The OBOS can also be used as a trend signal in that shifts from negative to low positive readings tend to lead to upside extensions, and shifts from positive to low negative readings tend to lead to downside extensions.

Directional Weight indicator

The Dual Trend (DT) indicator combines the Trend Weight (TW) with the TradeShark Long Trend Difference (LTD) indicator. If you recall, the TW

FIGURE 2: OVERBOUGHT/OVERSOLD (OBOS) INDICATOR. This indicator can be used as a counter-trend index that can lead to a potential reversal and can also be used as a clue for a new price trend when price just enters overbought/oversold territory.

is a long-term indicator. LTD is a much shorter-term indicator. The DT provides diversification benefits, as the TW will prevent countertrend signals against

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the main trend, while the TradeShark LTD provides a quick exit on trend reversals. The DT can be set in one of two modes:

- Single condition—A bullish reading in one indicator (with the other neutral) is sufficient for a trade signal.

- Dual condition—Both indicators need to be in a bullish mode to signal a long position, and both need to be in bearish mode to signal a short position.

The Directional Weight (DW) combines the TW and OBOS into a single composite indicator, which can range between -100 and +100. The DW is equal to the TW minus the OBOS. In a major uptrend, the typical pattern will be that, initially, the DW will increase as the trend develops, reflecting an increasing TW and a little-changed OBOS. Subsequently, as the trend extends further, the DW will begin to decline as the TW will be near maximum readings, while the OBOS increases with the extension of the uptrend. It is not uncommon for the DW to retrace back to near zero by the time the market is at a top. The pattern for a major downtrend would be analogous.

Similar to the TW, you can specify threshold levels for the DW to generate buy and sell signals, and the DW can also be used as a filter to determine which side of a market to trade.

Indicator customization

The nice thing about Schwager's indicators in TradeShark is that you have flexibility in terms of how you display price charts and indicators. You have the option of superimposing the indicators

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FIGURE 3: PERSON VOLUME INDICATOR. This indicator shows the spikes in overall volume (light blue bars) in the histogram component as it builds above the zero line, and also a crossover of the short-term moving average of volume (green line) above the longer-term moving average of volume (dark blue line) to indicate positive momentum.
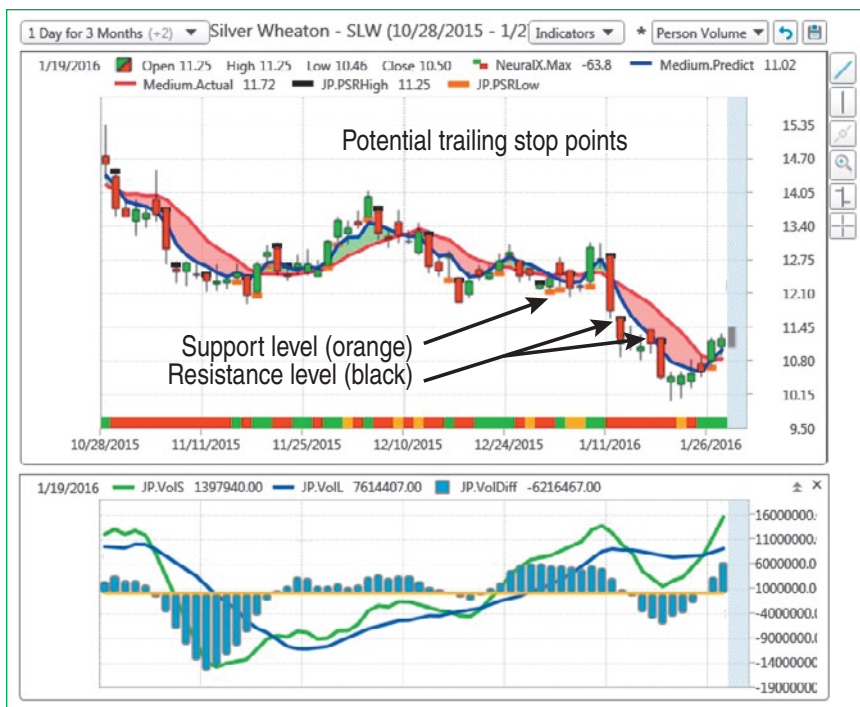

FIGURE 4: PERSON SUPPORT AND REVERSAL INDICATOR. The Person support and reversal indicator can help target an optimal exit. This is shown by the different orange colored lines below the bars and black lines above the bars.

over the price charts with the status of the indicators shown in background colors or you can display the indicators below the chart in bar format. You can also make use of the customization features for a specific trading style. This

includes a "long only" option if you are inhibited by account restrictions such as those for IRAs.

JOHN PERSON PREMIUM INDICATORS

Person has refined indicators that reflect how traders should view the impact of volume and support & resistance on price levels. Person's TradeShark indicators include complex volume analysis, which is what sets them apart. Person believes that volume is the life blood of the market. In addition, the notion that volume precedes price provides the foundation for Person's indicators.

Person Volume Indicator

What distinguishes the Person Volume Indicator from other volume indicators is that it looks at the trend of the volume rather than the volume numbers. This indicator determines whether or not a market has sustainability in making further gains or losses.

On the chart for Silver Wheaton (SLW) in Figure 3, the indicator shows the spikes in overall volume (light blue bars) in the histogram component as it builds above the zero line. It also shows a crossover of the short-term moving average of volume (green line) above the longer-term moving average of volume (dark blue line) to indicate positive momentum.

Person Support and Reversal Indicator

Addressing one of Schwager's important criteria for trading success (knowing where to get out of a trade before entering it), the Person Support And Reversal Indicator can help target an optimal exit. This is shown by the different orange-colored lines below the bars and black lines above the bars in the chart in Figure 4. The orange lines below the market represent sell stops and black lines above the market are buy stops. The indicator tracks how to place your stop initially when you get into a trade, how to trail your stop, and where to pick a reversal point when a trend starts to go from up to down or vice versa.

Combining the indicators

The Person Volume Indicator combined with the Support And Reversal Indicator

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helps you to spot a trend reversal and see if there is true volume momentum behind a market's move.

The chart of SLW in Figure 4 adds the Support And Reversal Indicator to the Person Volume Indicator and shows that when the market switched direction, the volume spikes on the histogram preceded the moving average of volume crossover. In addition, the short horizontal orange line on the price chart confirms the trend has reversed and then trails upward to determine where to exit.

In the driver's seat

You may not be able to replicate completely the trading ideas of experienced traders like Schwager or Person, but there's a level of comfort knowing that you are using indicators created by well-known people in the industry. It's the same when it comes to analyzing markets and making trading decisions. Using such indicators adds a new perspective to your analysis and trading in today's global markets.

Further reading

Jobman, Darrell [2016]. "TradeShark Add-On Indicators," Quick-Scan, *Technical Analysis of* Stocks & Commodities, Volume 34: March.

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