

INTERVIEW

Technical Analyst, Advisor, Author, Index Specialist

A Conversation With Buff Pelz Dormeier

Buff Pelz Dormeier is a financial advisor with expertise in volume analysis. He is chief technical analyst for Kingsview Partners. As a portfolio manager for Kingsview Partners as well, he designs customized portfolio strategies for advisors and their clientele using portfolio analytics to create goals-based investment strategies. Dormeier is also an index specialist with Monarch Funds. Monarch Funds are advised by Kingsview Wealth Management LLC, an SEC-registered investment adviser.

Dormeier is a Chartered Market Technician (CMT) and member of the CMT Association. In 2007 he won the Charles H. Dow award for his technical research. He regularly speaks at industry conferences and his work has appeared in a variety of media and technical journals. He has contributed occasional articles to Technical Analysis of STOCKS & COMMODITIES magazine for over two decades.

Dormeier is the author of two books, Investing With Volume Analysis (2012) and his latest, The Volume Factor (2024). His website is BuffDormeier.com.

We interviewed Buff Pelz Dormeier via email in October 2024 to discuss his current areas of research, his recent articles in S&C, his new book, and the launch of two new ETFs in which he has a role.

We'll start by asking you a little about your background and what drove your interest in the quantitative side of financial analysis. What gave you an interest in technical analysis?

My interest in technical analysis began during my early days as a financial advisor. While most market analysts at our brokerage firm relied on storytelling to promote stocks, often leading to mixed results for investors, one analyst stood out. He focused on technical aspects like trends, support, resistance, patterns, and risk management, without relying on flashy narratives. His approach consistently yielded quick profits, and when it didn't, he promptly admitted mistakes. This analyst's method, which prioritized capital preservation

and objective analysis, sparked my interest in technical analysis as a more reliable approach to financial markets. That analyst was Chartered Market Technician Jeffrey Weiss.

What brought you to the fields and areas of interest you are in today?

My journey into volume analysis stems from my unique approach to learning and understanding complex systems. I have never been much of a quick learner. I often comprehend things from a different vantage point than the crowd. I tend to grasp concepts from unconventional angles, diving deep to understand core principles rather than surface-level information. This trait led me to explore volume in financial markets.



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You are the developer of several volume-based tools. You've written about several of these tools in articles for our magazine as well as in your books. What does volume add to your analyses? Why is it important?

As I passionately studied market dynamics, I discovered that volume often led and confirmed price movements, providing faster signals and more accurate indications. Intrigued by this insight, I dedicated myself to peeling back the layers of market structure and behavior, focusing on volume as the cause and price being its effect.

This approach aligned with my

analytical strengths and my inclination to question established norms. By developing and rigorously testing volume-based indicators and strategies through scientific methods, I've carved out a niche in technical analysis that leverages my analytical skills and unique perspective on market dynamics.

Was your research pointing to improved profits and improved outcomes in trading when certain volume characteristics were added into the equation, whereas otherwise they were not being considered or in some cases weren't given enough weight, in your opinion?

Indeed, my research pointed to improved outcomes when incorporating specific volume characteristics into trading strategies. Traditional volume analysis, while valuable, is often underutilized in the broader investment community. However, the most significant finding was the discovery of previously unrecognized dynamic performance drivers related to volume.

While traditional volume analysis and concepts like volume spread analysis offer some benefits, I found that volume analysis is most potent when examining its asymmetrical relationship to price, particularly in terms of trends and momentum. This "delta" between volume and price behaviors represents a largely untapped source of market insight.

My work has focused on developing and refining methods to exploit this asymmetry, creating more robust indicators and strategies that capture nuances in market behavior not readily apparent through conventional analysis.

You often speak of the importance of tracking capital flows and being able to see the money moving in and out of the stock market. Is this

where volume analysis and volume-weighted indicators can play an important role?

Absolutely. I utilize capital-weighted volume and dollar volume to gauge the underlying health of the broad market. Traditional index volume has two significant flaws, which is why I haven't used traditional index data in decades.

First, most investors follow the S&P 500 index, but the volume data from most vendors is NYSE volume, not the S&P 500 volume. This is because stocks trade on exchanges, and vendors simply report data directly from these exchanges. In our current "Magnificent 7" world, where approximately 25% of the index is controlled by just seven highly capitalized positions, these major contributors are not factored in because all Mag 7 stocks trade on the NASDAQ, not the NYSE. Thus, the biggest contributors do not have volume representation in most S&P 500 volume datafeeds.

The second issue is even more problematic. While stock indexes are weighted, such as capital-weighted, volume indexes are tallied. This means that large mega-cap stocks trading in the hundreds or thousands per share are generally underweighted, while small penny stocks are usually significantly overweighted. A prime example was Citigroup after the 2008 financial crisis. Citigroup's S&P 500 capital weighting went from approximately 5% in 2007 to less than 0.1% in 2009. Yet, before its reverse split, Citigroup's volume often accounted for over 25% of the index's daily volume on many datafeeds.

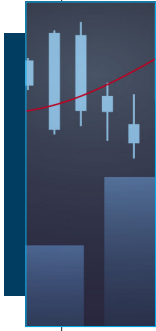
Capital-weighted volume differs significantly from traditional index volume. While index volume simply tallies the total number of shares

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traded, capital-weighted volume considers each component's market capitalization. This approach gives more weight to larger companies, providing a more accurate representation of actual capital movement within the market, harmonizing the relationship between price and volume. Taking this a step further, capital-weighted dollar volume incorporates both volume and price of trades. This metric effectively tracks the actual money flowing in and out of the market, offering a more nuanced view of market activity.

The benefits of these capital-weighted approaches are substantial:

- ***Enhanced accuracy.*** These approaches provide a more precise picture of market activity by accounting for the size and influence of different companies.
- ***Improved trend identification.*** By tracking actual capital flows, these metrics can help identify emerging trends before they're fully reflected in price movements.
- ***Better risk assessment.*** Understanding the volume of capital moving in or out of the market can help gauge the strength or weakness of price movements.
- ***Insight into institutional activity.*** Large capital movements often indicate institutional investor activity, which can be a leading indicator of market direction.



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Volume-weighted indicators built on these principles may offer traders and investors a significant edge. They allow us to see beyond surface-level price movements and understand the underlying forces driving the market. This deeper insight may lead to more informed decision-making, improved timing of entries and exits, and ultimately, better risk-adjusted returns.

In essence, by focusing on capital-weighted volume and dollar volume, we're able to "follow the money" more precisely and accurately. This approach has been a cornerstone of my work and has proven to be a powerful tool in navigating markets. Understanding the relationship between volume and price is key to interpreting this analysis effectively.

The drawback to this capital-weighting methodology is that it's complicated and data intensive. In fact, when I first discovered capital-weighted volume, it took the fastest computers available at the time over 18 hours to compute. By the time I received the results from the previous close, the markets were already open and trading! Fortunately, with today's computers, these calculations only take a few seconds.

Do volume-weighted tools also help you to discern primary trend changes?

Yes, volume-weighted tools are exceptionally effective in discerning primary trend changes. A prime example of this occurred in June

2024. For over a year, the bond market had been anticipating interest rate cuts, but stocks weren't reflecting this sentiment. However, in June 2024, although price indexes held steadily firm, we witnessed massive, overwhelming downside

capital-weighted volume, the likes of which we hadn't seen since the weeks leading up to the infamous flash crash of 2010.

At your website, you offer a free weekly market letter with a market update. Who is this for, and what do you cover in this weekly email?

This actually ties in to what I was just commenting on.

In my weekly market letter, "Volume Analysis Weekly," I updated the subtitle to "And Then There Were None," referencing the rush of capital out of the largest, most liquid stocks in June 2024. This data clearly signaled that the previous discussions about interest rate cuts were now transitioning into actual market action well before the rotation trade was recognized.

This example illustrates how volume analysis can provide early insights into significant market shifts. By focusing on capital-weighted volume, we were able to identify a major shift in investor behavior before it fully manifested in price movements. This type of analysis allows us to see beyond surface-level price action and understand the underlying forces driving market dynamics.

Such volume-weighted tools are invaluable for investors and traders looking to stay ahead of primary trend changes. They may offer a more nuanced and accurate picture of market sentiment, often providing early warnings of shifts in market direction that might not be imme-

diately apparent through traditional price analysis alone. Investors can sign up for this letter for free at my website, BuffDormeier.com.

In your September 2024 article in this magazine, "The Volume Momentum Indicator," you presented the VMI indicator you developed, which allows the trader to compare and contrast price momentum with volume-weighted price momentum. The VMI technique incorporates both the traditional RSI and the MFI. What can the VMI tell us about possible volume imbalances in the market?

The volume momentum indicator (VMI) is indeed a powerful tool for understanding market dynamics, and it's rooted in asymmetrical principles that parallel Newton's laws of motion. Just as Newton's first law states that an object in motion stays in motion unless acted upon by an external force, the VMI helps us identify when the "force" of volume is aligning with or diverging from price momentum.

The VMI compares the relative strength index (RSI), which measures price momentum, with the money flow index (MFI), which incorporates volume into its calculation. This comparison is analogous to Newton's second law, which relates force to mass and acceleration.

When the VMI shows a significant divergence between RSI and MFI, it's indicating a potential volume imbalance in the market. This imbalance can be thought of as an "unbalanced force" in Newtonian terms, suggesting that the current price momentum may not be sustainable.

In this way, the VMI helps us gauge the "reaction" in the market, akin to Newton's third law. When we see a strong action in price not supported by volume, we can anticipate an equal and opposite reaction as the market

corrects this imbalance.

For instance, if we see a rising price (high RSI) but declining volume-weighted momentum (lower MFI), the VMI would indicate a negative divergence. This scenario suggests that the price movement lacks the “force” of volume behind it, potentially signaling a weakening trend or an impending reversal.

Conversely, when the MFI is significantly higher than the RSI, it indicates that volume is flowing into the security at a rate that exceeds what the price movement alone would suggest. This could be a precursor to a breakout or an acceleration of the current trend.

The VMI is particularly useful in identifying situations where price momentum and volume-weighted momentum are out of sync. These imbalances often precede significant market moves, as they represent a build-up of potential energy in the market—much like the potential energy in a compressed spring in physics.

In essence, the VMI allows us to see beyond the surface-level price movements and understand the underlying “forces” at play in the market. By identifying these volume imbalances, investors may be able to better anticipate potential trend changes and make more informed decisions about market entry and exit points.

After a bear or down market during which you may have reduced your positions, what types of things or which of your tools might help you to know when to reenter the market? What do you look for in this situation, or what gauges do you follow and use to guide your decisions?

I believe in employing prolific volume-based tools—volume indicators and momentum—for my “offen-

sive” game in the markets. Meanwhile, my “defensive” game plan uses a risk overlay incorporating the trend of capital-weighted volume, capital-weighted dollar volume, and market breadth. However, your question strikes deep at a core fallacy of most defensive strategies: Trend-following, almost by definition, means missing

the bottom on reentry. Unfortunately for trend followers, even those incor-

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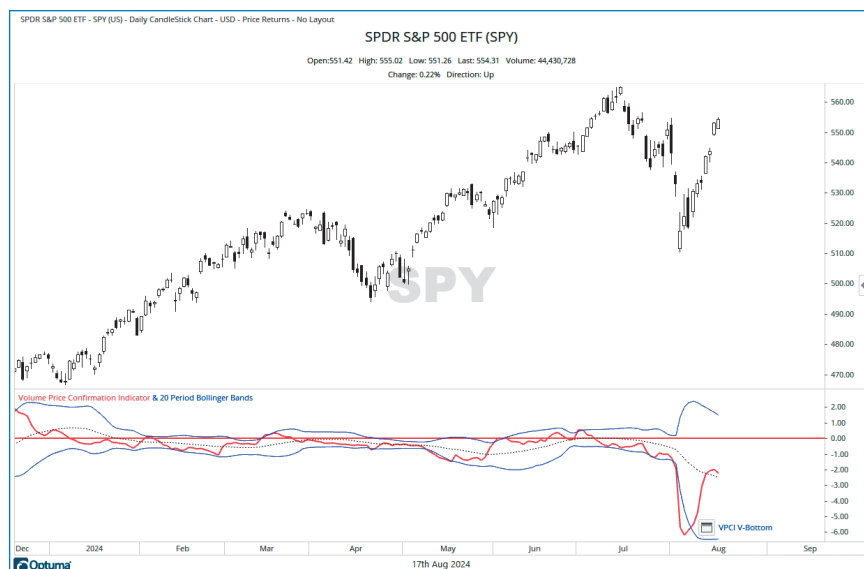


FIGURE 1: V-BOTTOM EXAMPLE, VOLUME PRICE CONFIRMATION INDICATOR. The volume price confirmation indicator (VPCI) developed by Buff Dormeier uses volume information to help gauge market sentiment. A V-bottom in the VPCI reflects a deeply oversold condition and, when particular measures are met, it can signal a possible opportunity to reenter the market following a market downturn or downtrend.



FIGURE 2: W-BOTTOM EXAMPLE, VOLUME PRICE CONFIRMATION INDICATOR. The VPCI calculates asymmetry between price trends and their corresponding volume, helping to identify market extremes. A W-bottom in the VPCI reflects a shallower oversold condition than a V-bottom. After particular conditions are met, the second bottom would be considered a signal.



Capital-weighted volume differs significantly from traditional index volume.

porating volume, the strongest most powerful segment of a bull market is its birth. To address this critical issue, our approach also incorporates what we like to call our “special teams unit,” to use a football analogy. This is a unit built for a swift transition from defense back to offense.

For transitioning from defense back to offense, we look to volume sentiment. Specifically, we look for rare moments when investors are capitulating, running scared out of the market. Counterintuitively, that’s often the ideal time to race back in while prices are severely depressed.

The cornerstone of our reentry strategy is the volume price confirmation indicator (VPCI) V-bottom, our trademark volume sentiment indicator. The VPCI calculates the asymmetry between price trends and their corresponding volume, helping to identify market extremes.

Think of it this way: Do you know anyone who’s always right? Probably not, but you undoubtedly know several people who have a knack for seemingly doing the wrong thing at precisely the wrong time. There is a ticker symbol tracking this type of retail investor who often buy on greed and the fear of missing out. These same people inevitably tend to sell on fear when the trade goes against them, causing panic. What ticker is it? It’s SPY. Yes, the SPDR S&P 500 ETF that is widely considered representative of the stock market itself. As investors know, the SPY mirrors the S&P 500 index in price. Our volume sentiment analysis focuses on SPY’s volume.

During bear market bottoms, SPY’s volume tends to skyrocket as the market tanks. What we are looking for is the SPY’s volume and price relationship to drive our VPCI two standard deviations below its lower Bollinger Band. This condition attempts to identify a VPCI washout bottom setup. Once the setup is in place, our reentry trigger awaits the VPCI to rise back up, crossing back over its lower Bollinger Band. This trigger suggests the weak investors may have now fully capitulated, clearing the way for a new market cycle.

So, the VPCI V-bottom is a deep oversold condition requiring the VPCI to fall both below -4 and its lower Bollinger Band as a setup. The reentry trigger occurs after these conditions have been met and the VPCI crosses back above its lower Bollinger Band. (See Figure 1 for an example VPCI V-bottom on a chart of SPY.)

Seeing a W-bottom appear on the VPCI chart can also be a useful indication. The VPCI W-bottom indicates a shallower oversold condition, also requiring the VPCI to fall beneath its lower Bollinger Band but the indicator is only required to drop to -0.4 . However, this occurrence must happen twice within 30 trading days. The first setup and trigger is ignored and the second setup and trigger is taken. I recommend utilizing a time stop of 20 days for the most accurate signals or 60 days for the most profitable outcomes. (See Figure 2 for an example VPCI W-bottom on a chart of SPY.)

Your first book, *Investing With Volume Analysis (2012)*, explores using volume analysis for portfolio management. Your new book, *The Volume Factor*, takes this research

further. Does this most recent book show your readers how using capital flows can help to manage tactical positions as well as helping with portfolio management?

Yes, indeed. My two books serve different purposes and target distinct audiences, each building upon the foundations of volume analysis but with unique focuses.

My first book *Investing With Volume Analysis* was primarily aimed at analysts and portfolio managers. It explored the technical concepts of using volume analysis as a key tool in portfolio management, introducing readers to the idea of volume as a significant performance driver.

My latest book, *The Volume Factor*, takes this research several steps further. It’s designed for a broader audience, including chief investment officers, financial advisors, and savvy individual investors. In this book, I demonstrate that volume is not just a leading indicator but what I consider to be the monarch of all investment factors.

The core thesis of *The Volume Factor* is that understanding and leveraging capital flows can dramatically enhance both tactical position management and overall portfolio strategy. I illustrate how the “volume factor” can be applied to create successful investment outcomes in financial planning, providing a more comprehensive data-driven framework to navigate not only markets but more importantly, outcomes.

This book delves deeper into how volume and capital flows can be used to:

- Identify market trends earlier and with greater accuracy
- Manage risk more effectively by understanding the “smart money” movements
- Optimize entry and exit points for both tactical and strategic

positions

- Enhance overall portfolio construction and management

In essence, while my first book laid the groundwork for understanding volume analysis, *The Volume Factor* elevates this concept, demonstrating its paramount importance in the hierarchy of investment factors and providing actionable strategies for a wide range of financial professionals and sophisticated investors.

In addition to your role as chief technical analyst at Kingsview Partners, you also are an index specialist with Monarch Funds. In 2024, Monarch Funds launched two new ETFs in which you have a role: the Monarch Volume Factor Global Unconstrained Index ETF (symbol MVFG) and the Monarch Volume Factor Dividend Tree Index ETF (symbol MVFD). How are you involved in these ETFs or the funds' design?

I designed the algorithms for both index ETFs. Their methodology and construction incorporate volume factor concepts.

What is your ongoing role for these two funds, if any?

Given my portfolio expertise in the index strategies algorithms, my role as an index specialist is to ensure that these ETFs track the benchmark index efficiently and cost-effectively.

What are some of the unique features offered by these two ETFs that may benefit investors?

They both utilize volume as their primary performance drivers, employing a volume factor.

Do the ETFs use some of your proprietary indicators and tools? If so, what are the tools or what is the nature of these tools?

Yes, briefly, concepts originating from my VPCI and VMI indicators are given consideration for market entry. For defensive market positioning, the principles of capital-weighted volume and capital-weighted dollar volume are given consideration. And during times of market transitioning, indications provided by the VPCI are taken into consideration.

Thank you, Buff.

FURTHER READING

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