

Harness the Power of Relative Strength

with Ed Downs





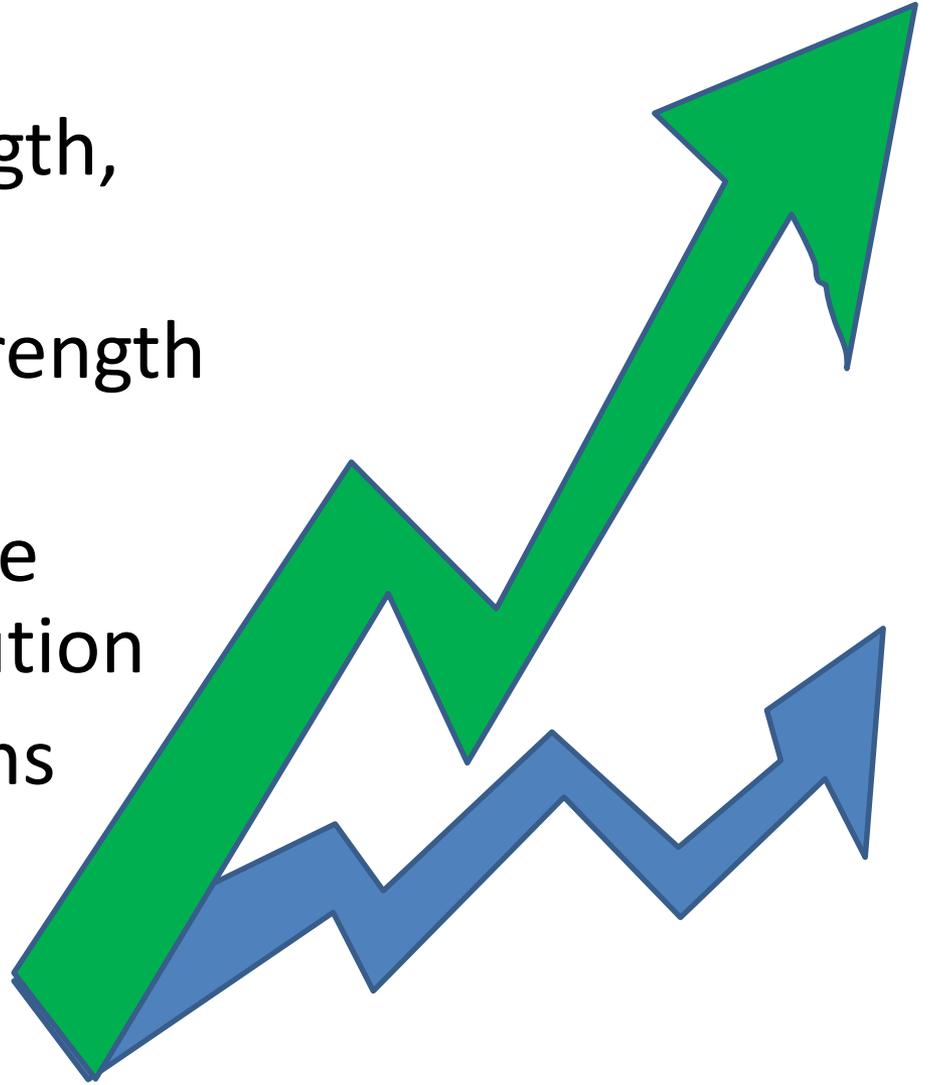
Preparing to “Harness the Power”

What you will learn in Part I

What will be Covered

Agenda:

- What is Relative Strength, and Why Use it?
- Measuring Relative Strength with Indicators
- A New Way to Measure Accumulation/Distribution
- 3 Great Trading Systems and Strategies
- Chart Template



Our Goal as Traders

All We Need
is a System that...

Identifies overall
Strength in any
market.

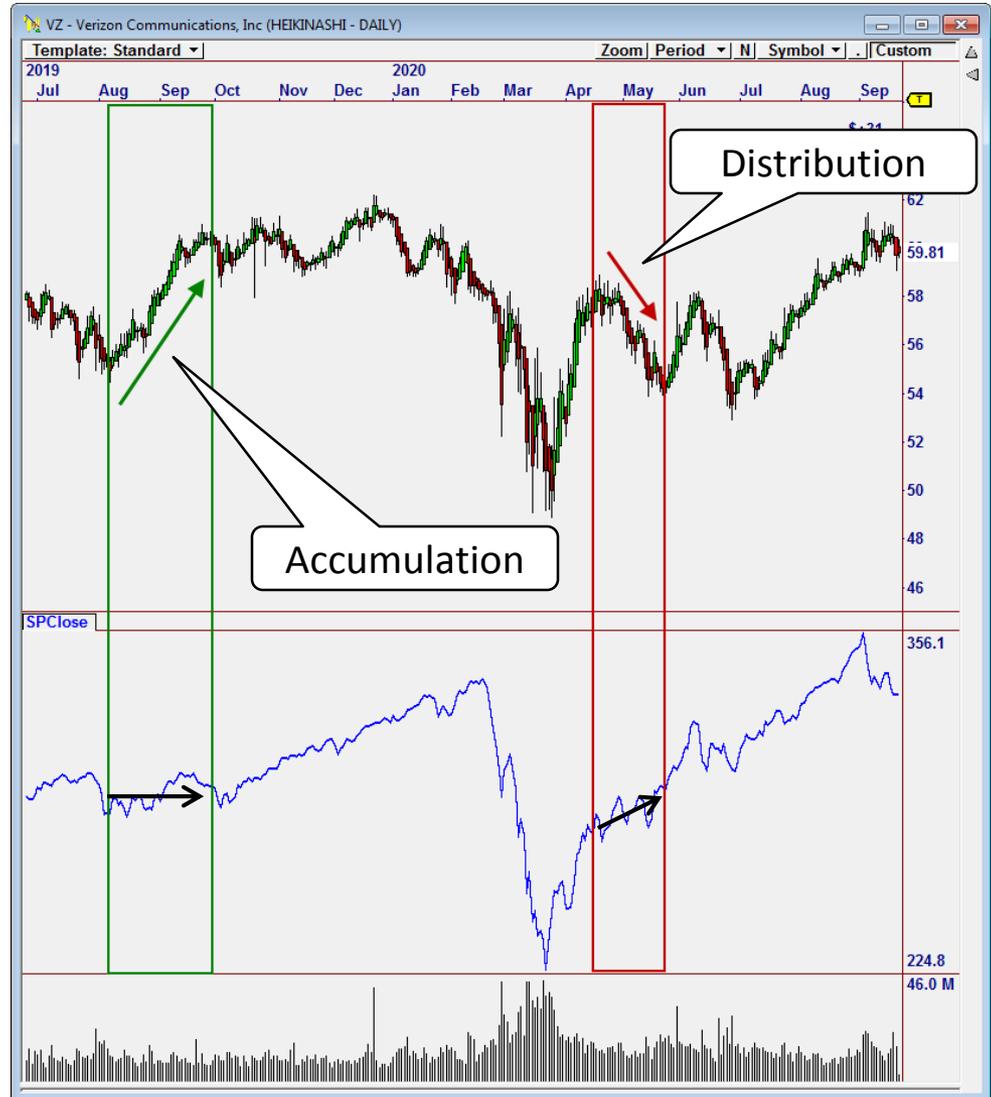
Enters in the
direction of that
Strength.

Exits when Weakness
enters that market.



What is Relative Strength?

Relative Strength measures how much a Stock is advancing or declining against the market, indicating zones of Accumulation or Distribution.



Relative Momentum

Relative Momentum

can be used to measure Relative Strength.

RelMom() is calculated as the difference in percent moves between the overall Market and a Stock.



The Problem with Relative Strength

Like many indicators, RS can get extremely Overbought or Oversold.

So we can't just look for high RS. We need to look at something else.





Harness the Power with Indicators

Interpreting Relative Strength

A Better Way to Measure Relative Strength

Linear Regression Difference (HRS_DIFF) measures the difference between the slope of a Stock Chart and the slope of the Market over the same time period.

When HRS_DIFF is rising the Stock is advancing more rapidly than the Market.



Comparison

HRS_DIFF() is smoother and more reflective of changes in accumulation (or distribution) than **RelMom()**

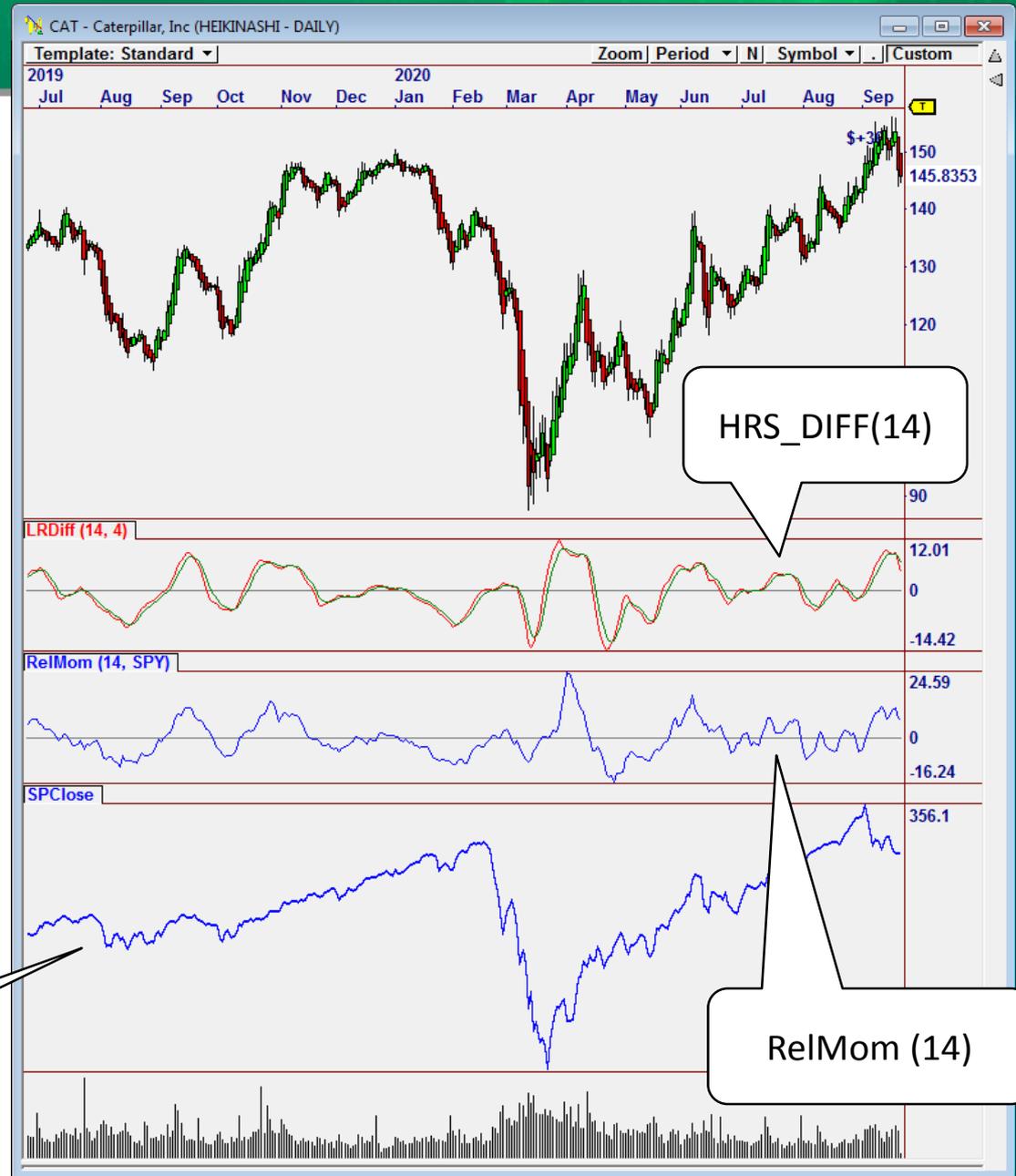


Chart of SPY

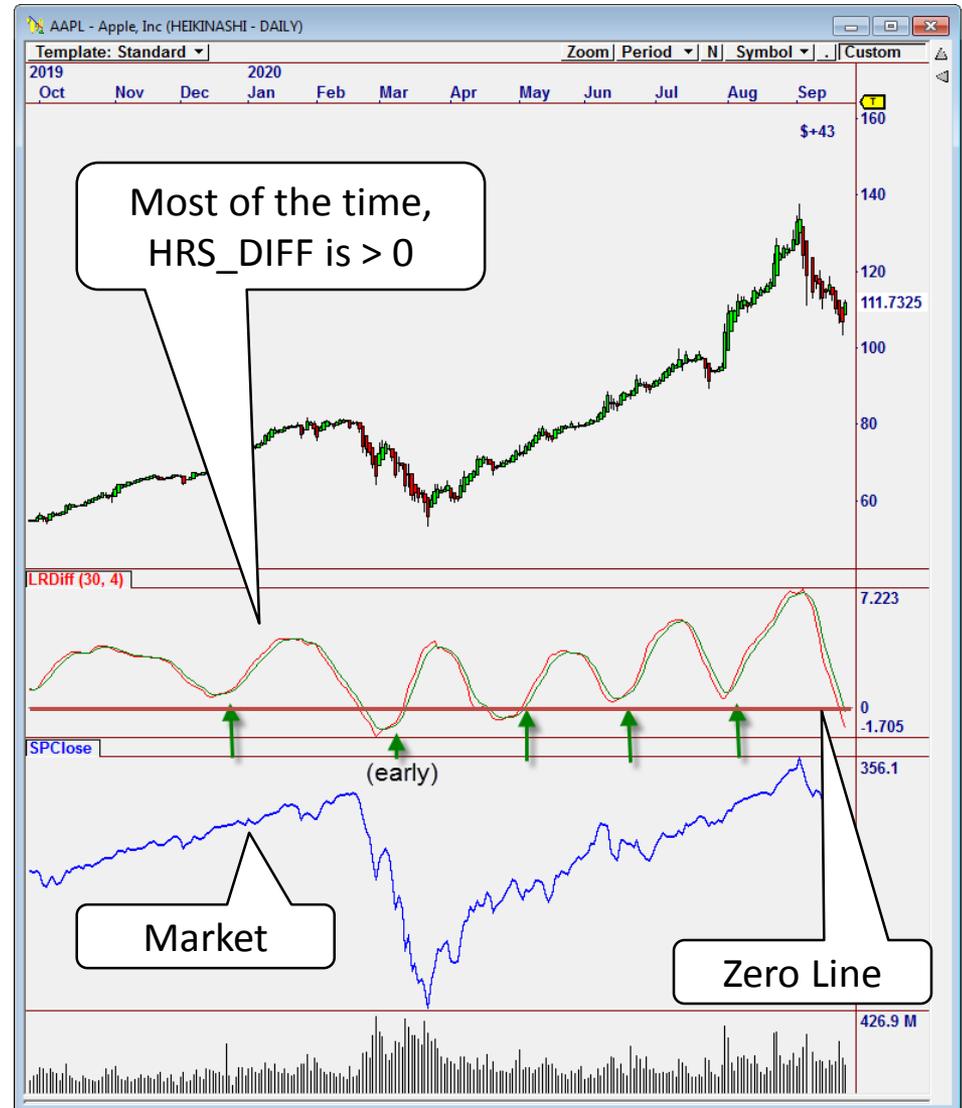
RelMom (14)

Properties of HRS_DIFF

A positive value means the Chart is moving up faster than the Market.

HRS_DIFF is positive over most of this chart. **AAPL has been under accumulation for a long time.**

HRS_DIFF *oscillates* from highs to lows. **Turns can provide good entry points**



Accumulation / Distribution

This Chart Template highlights places where HRS_DIFF is above (below) Zero, when Relative Strength is advancing (or declining).

What do you notice about this?



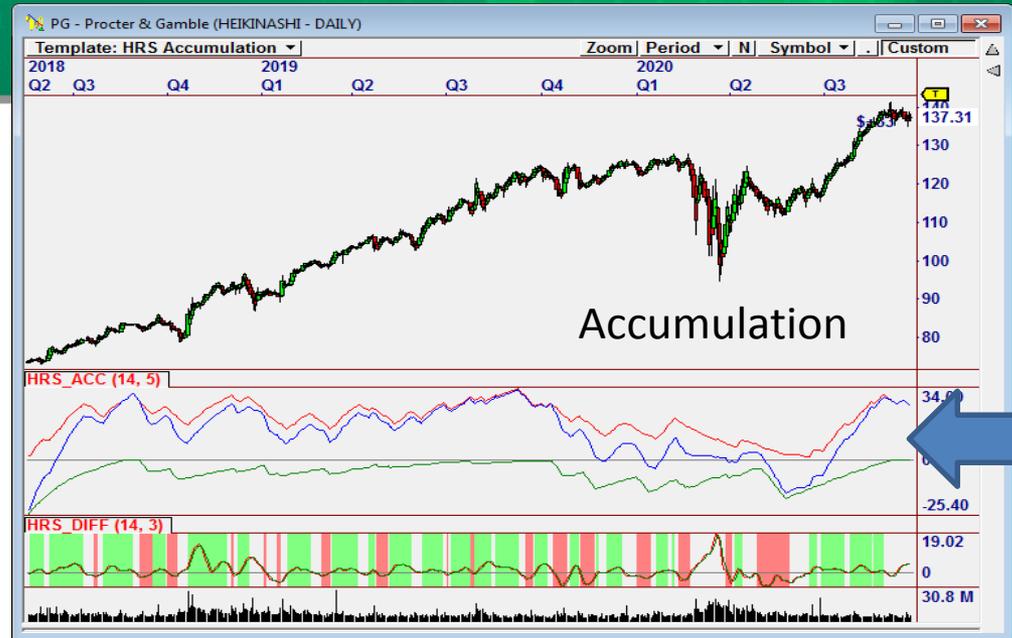
The “Secret Weapon”



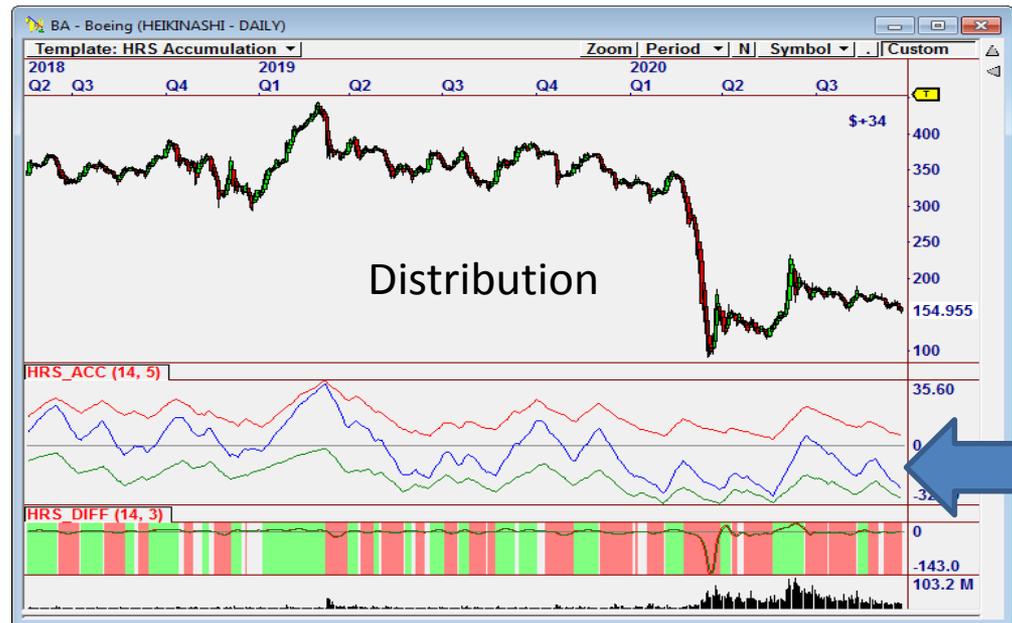
Relative Strength Accumulation/ Distribution (HRS_ACC) uses accumulated changes in HRS_DIFF to determine when a Stock is being accumulated (or distributed). It's the **blue line**.

Examples

Accumulation: The top chart is being accumulated at the right edge, because the **Blue Line** is rising rapidly.



Distribution: The bottom chart is being distributed, because the **Blue Line** is falling rapidly.



Almost Too Easy...

With **HRS_ACC**,
most reversals
are almost too
easy to detect!



Simplicity is Power



The **HRS Accumulation Template** is provided to make it easy to see where Accumulation turns into Distribution.

The background features a green gradient with faint, semi-transparent charts and binary code. On the left, there is a prominent candlestick chart with green bars and a pink line. The overall aesthetic is technical and data-driven.

Harness the Power with Systems

3 Great Systems.
3 Great Trading Signals.

Why Heikin Ashi?

Heikin Ashi Charts:

- Eliminate day to day noise or “wiggles”
- Show reversals by virtue of sequences of Red and Green bars.
- Show definitive breakouts by virtue of relative bar size.



HRS_Reversal – Finding the Sweet Spot

The **HRS Reversal** System looks for strong moves off a Donchian Channel floor - **the Sweet Spot**.

The Signals are confirmed with HRS_DIFF Rising (or Falling for Short Entries).



HRS_Breakout – Go with the Flow.

The **HRS_Breakout** System looks for strong moves through the top (or bottom) of a Donchian Channel.

Signals are confirmed by HRS_DIFF(14) Rising (or Falling for Shorts).



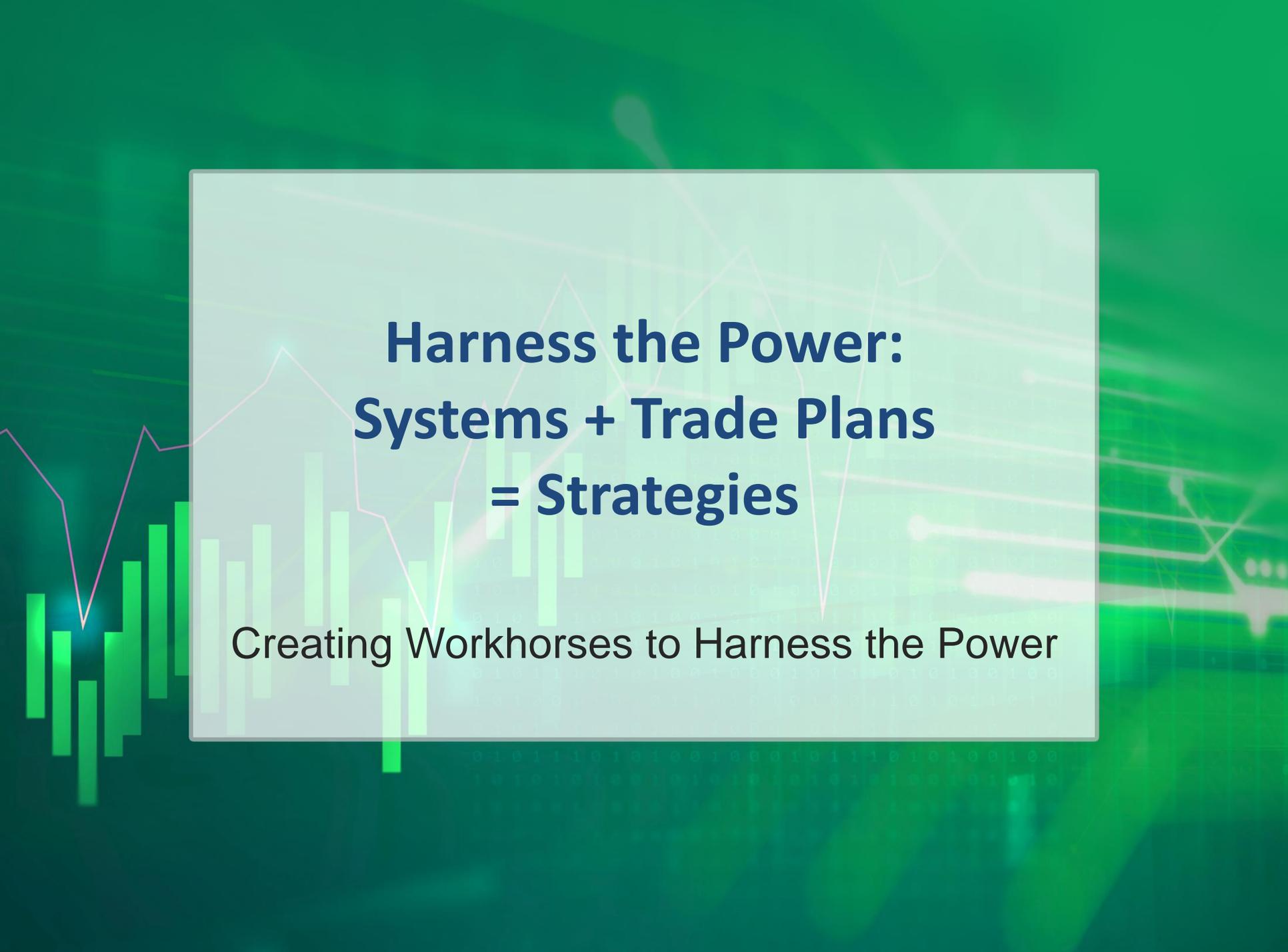
HRS_PullBack – In the Middle

What about Trades
in the Middle of a
Move?

HRS PullBack looks
for Pull-backs within
35% to 65% of the
prior move, with a
strong bar at the
pull-back point.

Here are 2 PullBack
Signals on CAT.



The background features a dark green gradient with various data visualization elements. On the left, there is a vertical bar chart with green bars of varying heights. A pink line graph with several peaks and valleys is overlaid on the chart. The right side of the background is filled with a pattern of white binary code (0s and 1s) and faint, glowing green lines that suggest a network or data flow.

Harness the Power: Systems + Trade Plans = Strategies

Creating Workhorses to Harness the Power

Adaptive Trade Plan

The HRS Adaptive Trade Plan uses prior bars to establish Stops, but adjusts dynamically based on values of HRS_DIFF in multiple Time Frames.

The screenshot shows the 'Editing Template: HRS Adaptive' window. It includes a 'Trade Plan Source' dropdown set to 'HRS Adaptive', 'Signals To Enter' radio buttons for 'Longs', 'Shorts', and 'Both' (selected), and tabs for 'Long Trade Plan' and 'Short Trade Plan'. A 'Copy Long Trade Plan' checkbox is checked. The 'Trade Plan View' table is as follows:

Step	Condition	Orders	Next
1	Initial Order		
		Buy 100% SYM Market GTC	2
2	100% Long SYM		
	HRS_Adaptive	Sell 100% SYM Market GTC	End
	Fixed Loss Stop	Sell 100% SYM Market GTC	End

Below the table is an 'IMPORTANT' note: 'OmniTrader must have current data for any virtual condition to be checked. [More Info.](#)'

The 'Virtual Conditions' list includes 'HRS_Adaptive' (checked). The 'Stop Parameters' section shows 'Adjust entry stop level based on:' with 'Prior Bar' set to 'High/Low Price' and 'Close Price', and 'Current Bar' set to 'Entry Price' and 'Open Price'. The 'Units' are set to 'ATR'. The 'Adjust stop after entry based on:' section has 'High/Low Prices' selected. The 'Threshold setting:' section has 'Use Threshold' selected. The 'Test stop against:' section has 'Last Price', 'Entire Bar', and 'Test During Session' (checked) selected. A 'Defaults' button is at the bottom right of the stop parameters section.

Working Together for Profits

HRS Reversal System
paired with
the HRS
Adaptive
Trade Plan.



Our Finished Masterpiece

Here are all 3
Strategies
Activated:

HRS Reversal
HRS Breakout
HRS Pullback

WITH the
Template. Need
we say more?



The background features a dark green gradient with various data visualization elements. On the left, there is a prominent green bar chart with a pink line graph overlaid. The rest of the background is filled with faint, glowing green lines and a pattern of binary code (0s and 1s) that creates a sense of digital connectivity and data flow.

Find the Best Candidates with OmniScan

Let OmniScan bring the Charts to You!

What Kind of Trade do You Want?

There are two kinds of trades most of us want to fine.

Trend Followers:

Enter positions that can last months.

Explosive Reversals:

In & Out for quick profits. Take no prisoners!



HRS Growth

HRS Growth uses HRS_ACC to find stocks with the highest possible RS Ratings that are increasing.

These are the most accumulated stocks in the market - great for **Investments** and **Swing Trades**.



Nothing but Air!

HRS Launch

HRS Launch finds stocks that have a very strong and sudden increase in Relative Strength.

These are the “explosive movers”
Great for **Swing Trades** and **Short Term Breakouts**



Found in a Down Market.



What's Next for “Harnessing the Power?”

A Preview of Part II

What's Next

Part II Agenda:

- The Daily Process
- Using Market Direction to Balance Your Account
- The Best Visual Confirming Techniques
- When to Trade, When to Step Aside and when to **STEP ON THE GAS!**



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