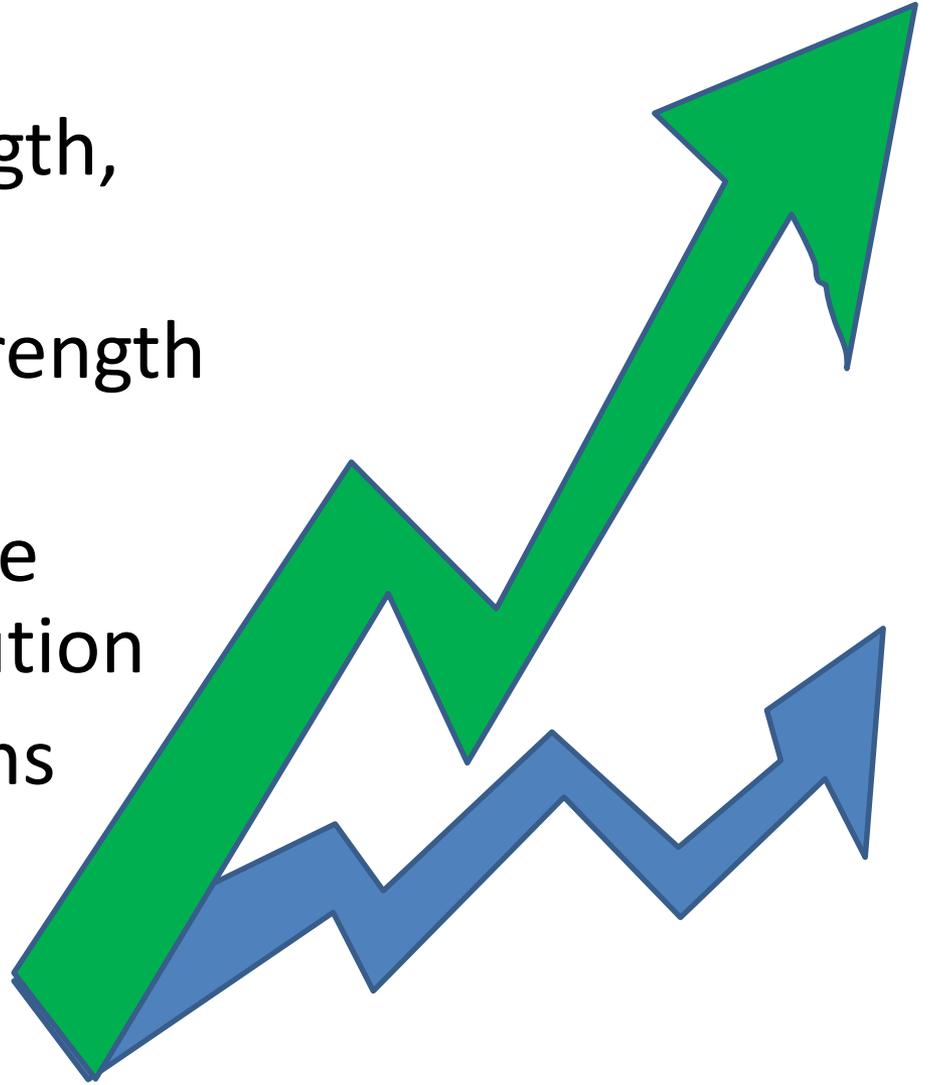# Preparing to "Harness the Power"

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…
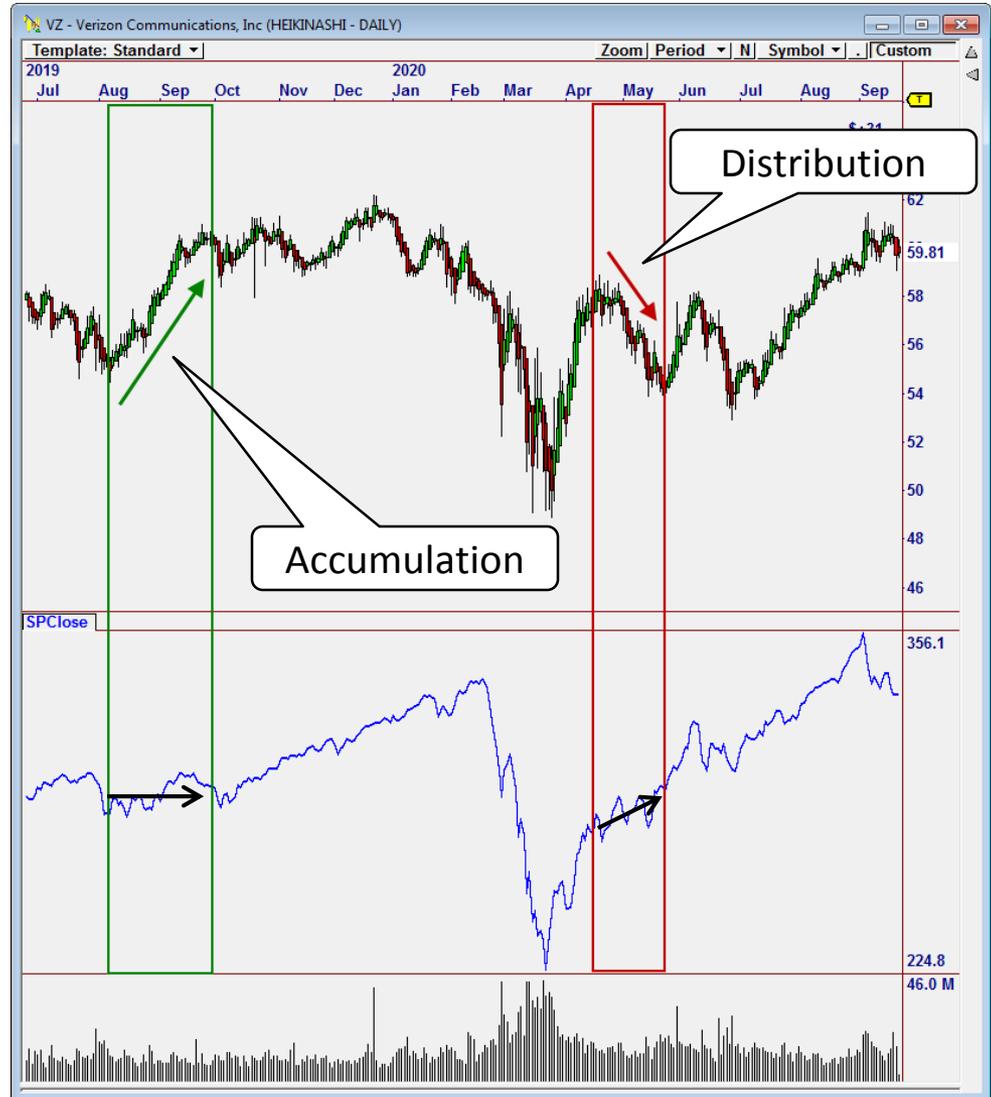
Identifies overall
Strength in any
market.

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.

A Better Way to Measure Relative Strength

Linear Regression Difference (HRS_DIFF) measures the difference between the <u>slope</u> of a Stock Chart and the <u>slope</u> 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()**
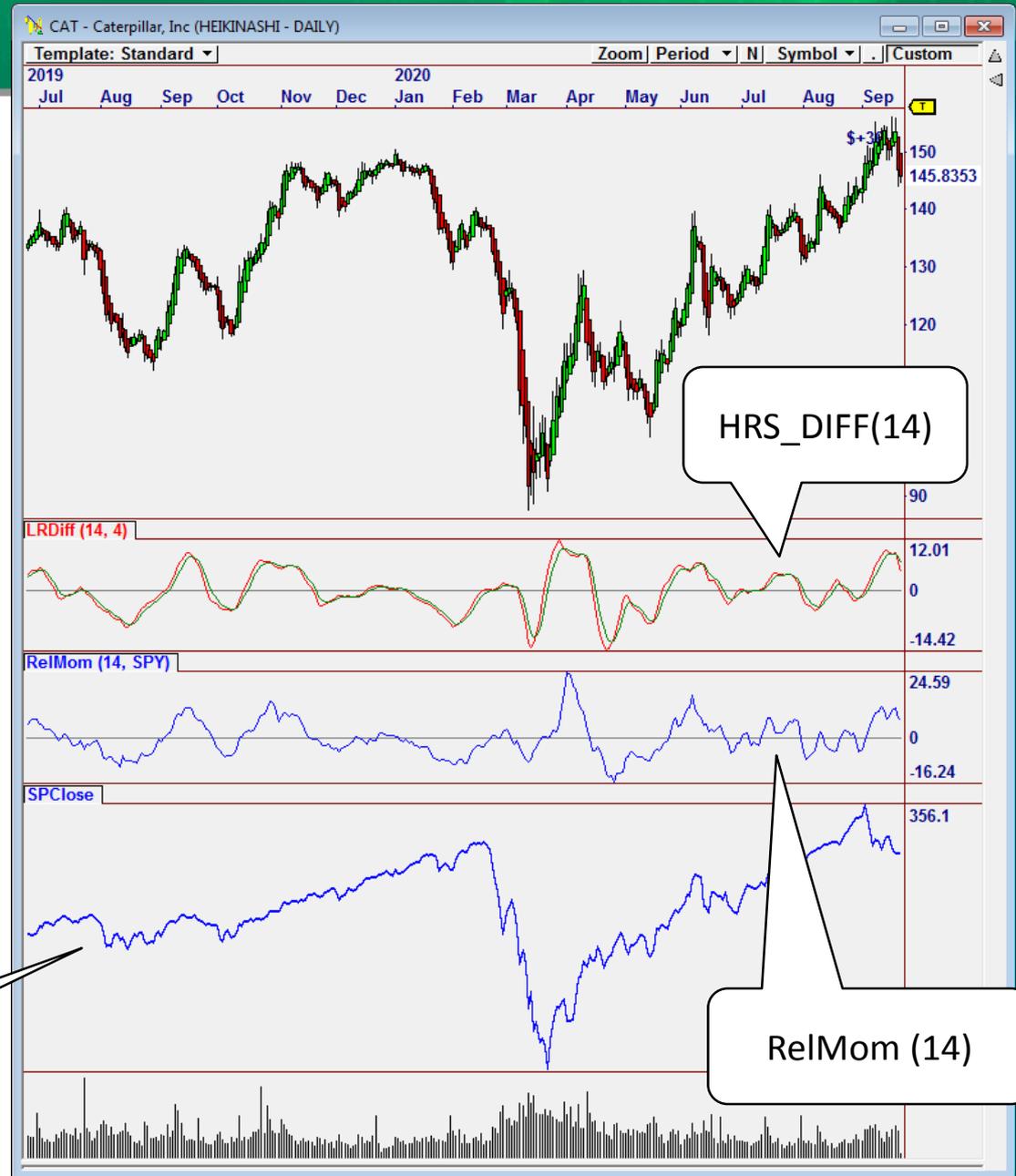

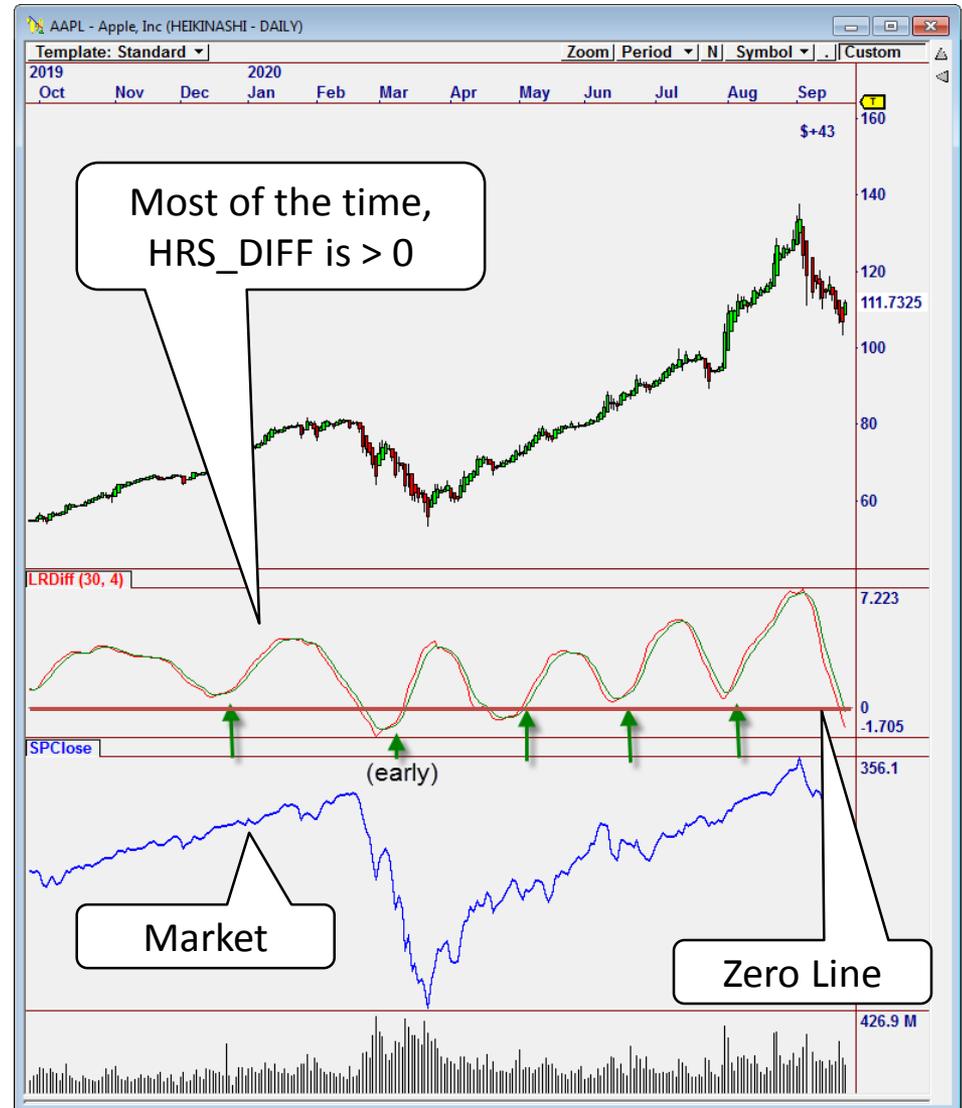CAT - Caterpillar, Inc (HEIKINASHI - DAILY)

HRS_DIFF(14)

RelMom (14)

Chart of SPY

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).
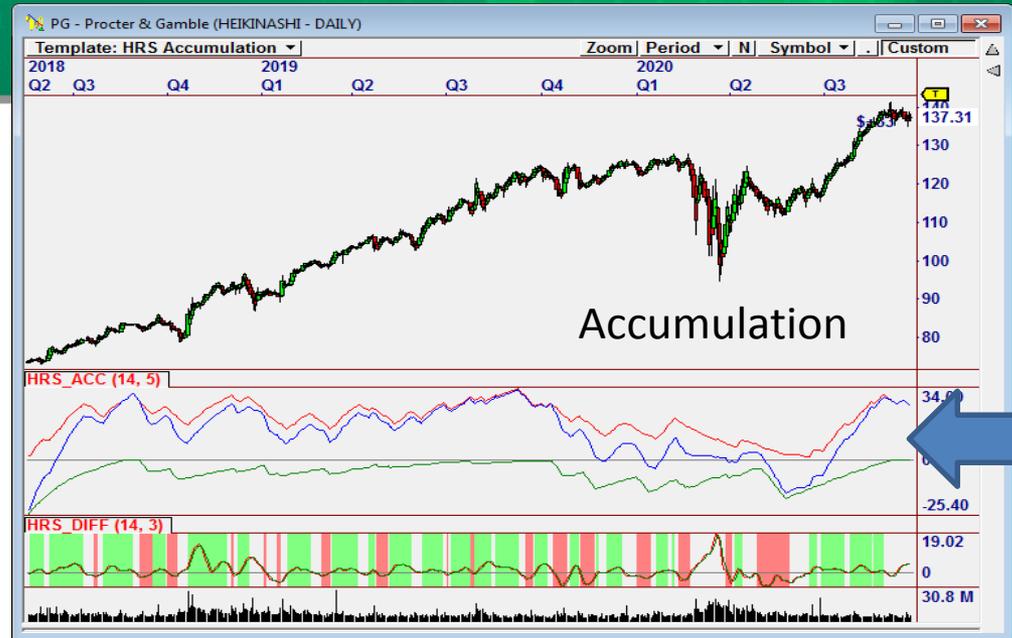
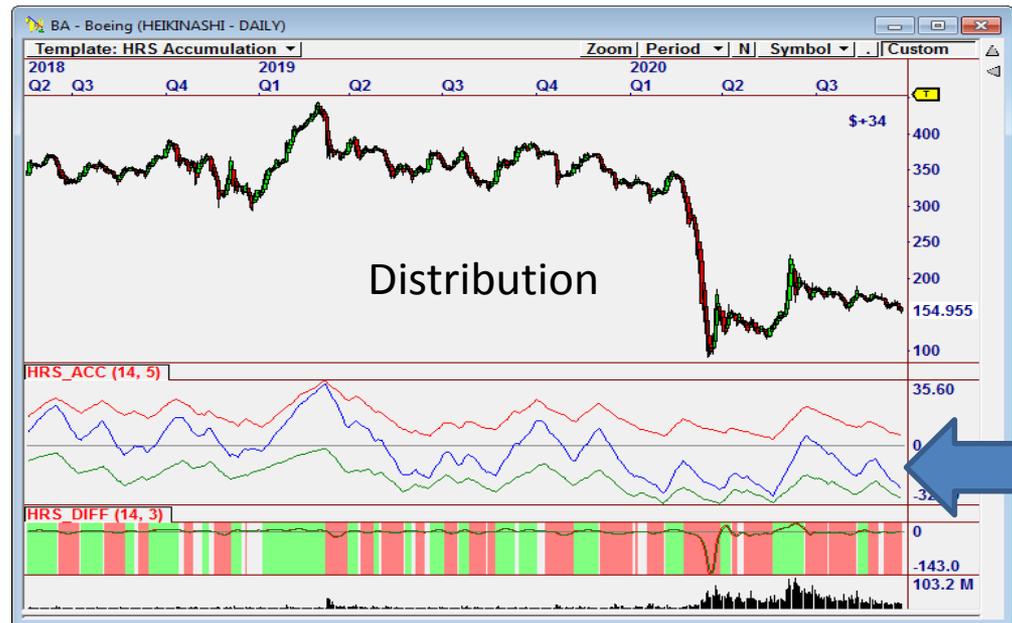What do you notice about this?

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.

Why Heikin Ashi?

Heikin Ashi Charts:

a) Eliminate day to day noise or "wiggles"

b) Show reversals by virtue of sequences of Red and Green bars.

c) 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.

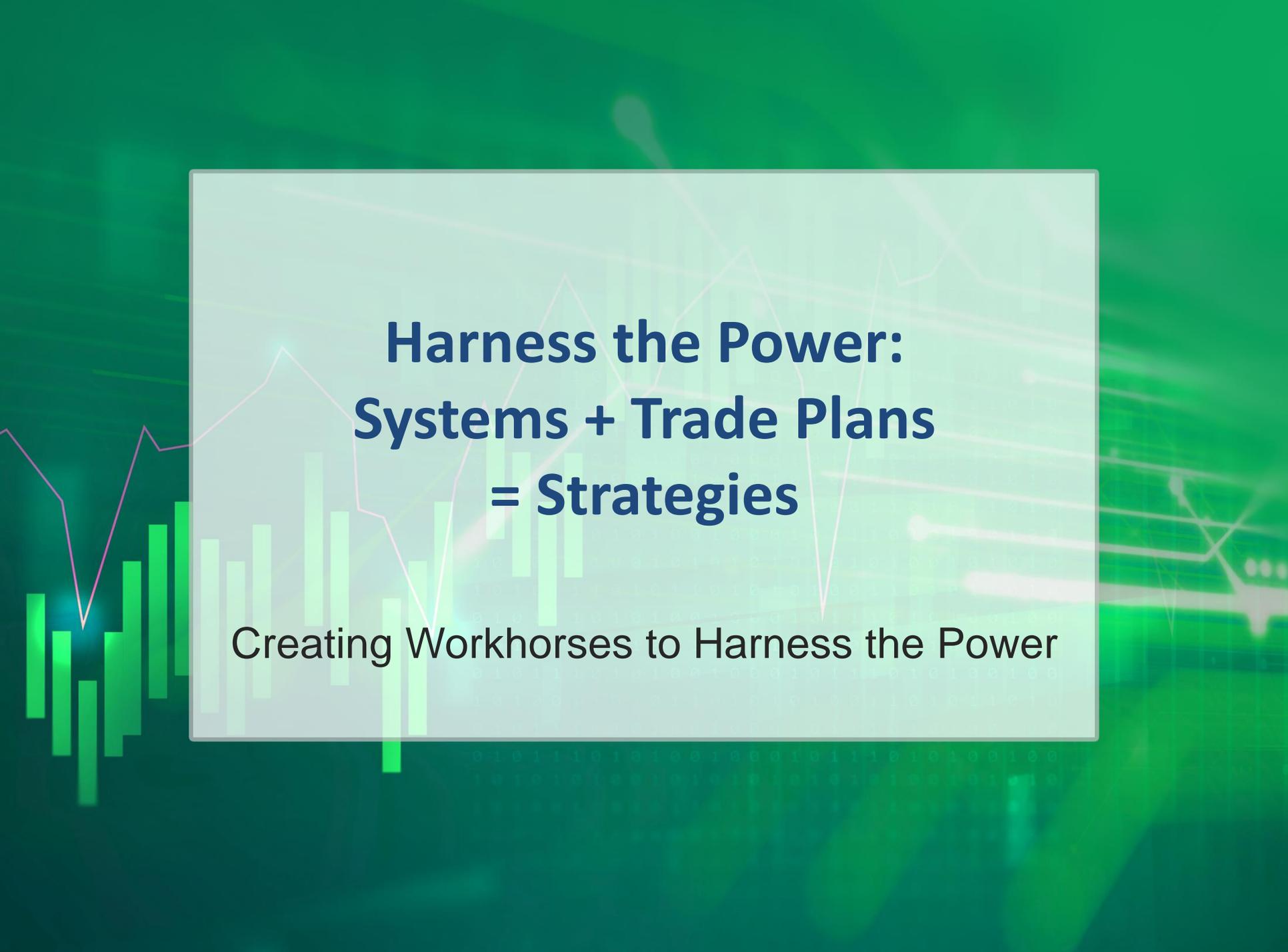Signals are confirmed by HRS_DIFF(14) Rising (or Falling for Shorts).

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.

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.

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?

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

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!**