

Think you know how to use stock chart indicators?

This guide will show you the 10 rules that separate the winners from the losers.

The Liberated Stock Trader 10 Powerful Stock Charting Insights

From small change to financial freedom



Barry D Moore

10 Powerful Stock Charting Insights

“There is no liberation without labor...and there is no freedom which is free.”

Siri Singh

Introduction

use these rules to using Charting Indicators and you will be using a wealth of experience that comes only with years of trading and learning!

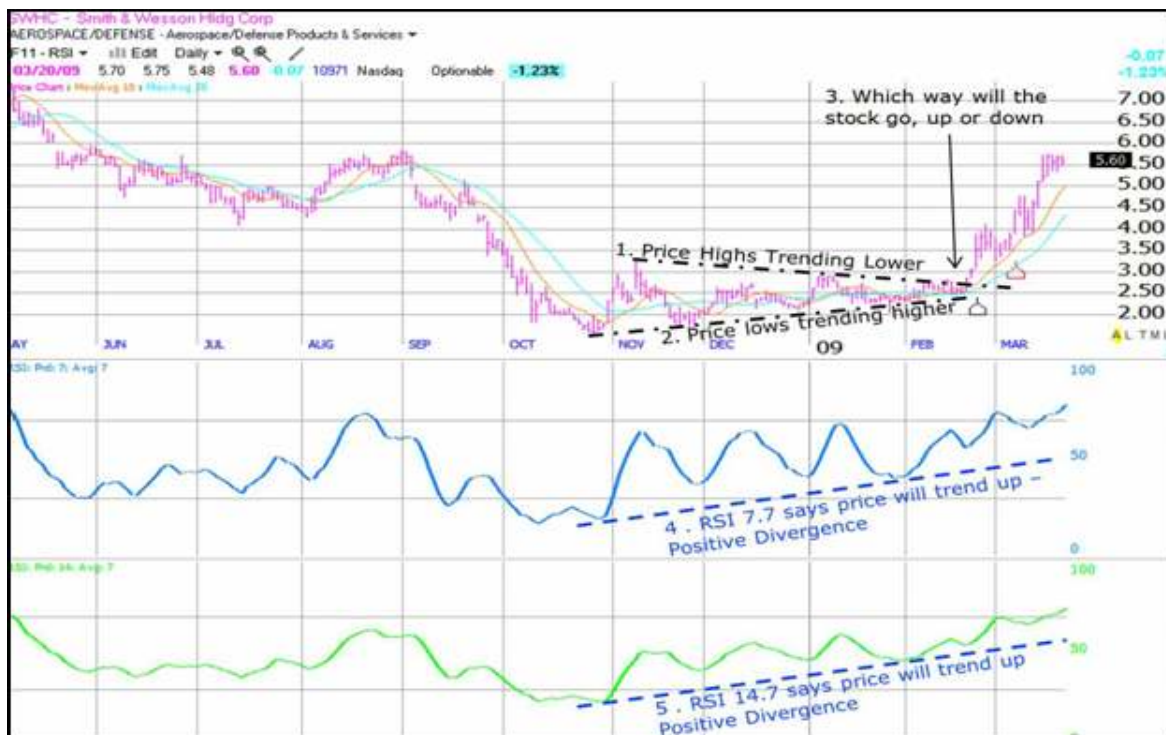
1. Understand the indicators

There are a lot of indicators out there; we cannot cover them all in detail, however the powerful principles of using stock chart indicators are as follows Understand how they are calculated and what they are designed to achieve.

2. Divergence Is King

When an oscillating indicator moves in the opposite direction to price, this is a vital sign and it is called a divergence. It indicates buying pressure is building in the stock that is not yet reflected in the price. See the article on RSI indicator for an example of Divergence.

<http://www.liberatedstocktrader.com/relative-strength-index-rsi/>



3. Back test the indicators.

Did they work on this stock in the past. Scroll backwards to 1 year before. Then scroll forward day by day or week by week to see the indicator change, and then ask yourself.

What is this indicator telling me?

Would I buy/sell this stock based on the information shown?

If the indicators worked on this stock in the past, it may have a better chance of working in the future.

4. Use a family of indicators

Never use one indicator alone. Use a family of indicators, they should mostly confirm each other. Use them as a suite of self checks before making a decision.

5. Use Multiple Timeframes

Use indicators on multiple timeframes. 1 day, 5 day, monthly, yearly. In this way you can review how far back a trend goes, and see if your hypothesis stands the test of time.

Beware that reviewing trends further back than 2 years may render the data irrelevant.

Sometimes markets have a very short memory and stocks can completely change character. If volume starts to dramatically pick up, this can indicate a change of character, also a change of trend.

6. Invest in a professional Stock Chart Analysis Program

Some indicators are proprietary and come only with "Pay For" applications. The person who has a larger portfolio may do well to invest in a solution that provides professional quality charting information. Telechart from the Worden Brothers

<http://www.worden.com/CURRENTAFPROMO.aspx?AFCODE=944>

is one such tool that I believe delivers a superior Trading and investment framework. The Worden Family has 2 particular indicators worthy of special mention, **Time Segmented Volume (TSV)** & **Money Stream (MS)**. These indicators really deliver the goods, and are alone worth the \$29 per month subscription, never mind the rest of the application which is one of the finest solutions available to the private investor.

7. View different Timescales

Use **custom timescales** on the indicators that reflect the timescale that you want to invest. If you are buying a stock for the **long term (2-10 years)**, use longer term timeframes and base your decisions primarily on fundamentals, then on chart patterns. If you are buying **Mid-Term (6 months – 2 year)**, use Earnings Momentum in the last 6 quarters, plus the chart indicators, Moving Averages 50, 100, 200 days) If you are buying **short term (1 weeks to 6 months)** use indicators that are tuned for the short term, Moving averages 10 & 20 Days, Money Flow, MACD (10:30:5), Stochastics. If you are a **Day Trader** you are usually full-time, stressed out, and trading Real Time / Intraday, which requires specialist software, and a penchant for losing money. The Liberated Stock Trader is not for you.

8. Remember Price is important

Price is the most important indicator of all, it does not matter what the other indicators say, if your stock is moving against you take action, do not blame the indicators.

9. Understand the influence of the Market

Be aware of the **markets influence** over your stock, if it is a disaster day on the markets, it does not matter what the indicators tell you will happen, your stock can get dragged down with the masses.

10. Pre define your Rules

Pre-Define a set of rules for the trade and test the rules. For example.

MA 10 & 20 Cross Over

MACD shows a positive Divergence over 8 weeks

RSI shows a positive divergence

Good luck, and may the Trend be with you.