

**A Marketplace Book**

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# **DYNAMIC TRADING INDICATORS**

Winning with Value Charts  
and Price Action Profile

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# INTRODUCTION

**F**or all of those people who love trading or investing or simply want to gain more insight into market behavior, this book promises to offer two very powerful and exciting new tools that can be used to analyze and predict market behavior. To me, trading in the markets is like rafting through the gauntlet. The experience promises to offer a growing experience unmatched by just about anything else we encounter in daily living. To win as a trader, one has to control and even master different areas of his or her life. For example, you might be the greatest technical analyst in the world, but if you don't have discipline then you will probably never win over a long time period. You can't have intelligence and succeed without courage. You can't have discipline and succeed without a valid strategy. If becoming a great trader or investor didn't offer the challenge and growing experience that it does, then we most likely wouldn't be drawn to it.

Value Charts™ and Price Action Profile™ represent the most exciting breakthrough of my trading career. Consider the following definitions:

*Price:* The sum of money given for the sale of something

*Value:* An amount regarded as a fair equivalent for something

Price and value are two very different terms, yet we continue to look only at price charts. What we should be more concerned with is

the valuation of the market that we are studying instead of the price of the market. Price, as just stated, is the sum of money given for something. Value, on the other hand, deals with the issue of what price is considered fair. The meaning of the word *fair*, when it comes to the pricing of an object, might be defined as “a price level that the majority of both buyers and sellers deem as reasonable.” After contemplating these definitions, it is logical to ask the following question: Are traditional price charts effective in identifying the valuation of a market? The answer to this question is no; traditional price charts are not effective in identifying the valuation of a market. This is logical because price charts accomplish just as their title implies; they display price. They were not designed to identify or define the valuation of a market.

Value Charts were developed to display the valuation of a market. When a market participant seeks to enter or exit a market, is he concerned with the price at which the market is trading or the valuation of the market? As we progress through this book, we discover that every market participant who enters or exits a market is really interested in the valuation of a market. The valuation of a market has to do with whether the current price level is trading at fair value, is trading above fair value (overvalued), or is trading below fair value (undervalued). The valuation of a market is determined by analyzing the percentage of buyers and sellers who consider current price levels acceptable, or fair. Value Charts were developed to define the valuation for any free market. Similar to normal price charts, Value Charts are most effective when applied to markets that are both standardized and liquid.

Value Charts were developed to pick up where traditional price charts leave off. Bar charts, as we know them, reveal only one aspect of price activity. More specifically, bar charts display the absolute current and historical price activity for a market. This information is beneficial if we are interested in learning about the magnitude of historical price moves. By reviewing this information, we can determine if a market is capable of experiencing explosive bull markets, able to sustain long trends, or simply prone to stagnant, choppy price activity. Traditional price charts remind us that big price moves can happen in certain markets over time. They remind market partici-

pants that significant profits can be generated by trading in these big price moves.

While traditional price charts express price in absolute terms, Value Charts display price activity in relative terms. Value Charts reveal the valuation of a market and define price levels in terms of being fair valued, overvalued, or undervalued price levels. By clearly defining a market's valuation, Value Charts allow traders to buy into markets at undervalued, or oversold, price levels. Also, Value Charts enable traders to avoid buying into markets at overvalued, or overbought, price levels. In addition, Value Charts allow traders to identify fair value price levels and confidently transact business at these price levels. Upon completing this book, traders will know how to read Value Charts and benefit from their ability to define the valuation of a market.

When you are contrasting Value Charts with traditional bar charts, it will become evident that each type of charting technique answers a different set of questions about the market under consideration. Many market participants have most likely never thought about the fact that traditional price charts alone may not be able to provide the necessary information to generate an optimal trading decision. Most investors have not asked themselves if traditional bar charts are an acceptable standalone primary source of market information for generating trading decisions. Whatever the case may be, it is important to understand that traditional price charts reveal only absolute market price behavior. Prudence demands that we take time to understand the effectiveness and limitations of the information provided by each market analysis tool that we are planning on using when making trading decisions.

When reading this book, you will learn that Value Charts work in tandem with another new and powerful market analysis tool, Price Action Profile. In order to determine the frequency that a market trades within each Value Chart price interval, it is necessary to study the corresponding Price Action Profile for the market under consideration. Just as the name indicates, a Price Action Profile plots the distribution of Value Chart price activity. As we will soon learn, Price Action Profiles allow investors to determine the degree in which a market is

overvalued (overbought) or undervalued (oversold). By using conventions from modern statistics, this powerful complement to Value Charts enables investors to define Value Chart price ranges associated with fair value, overbought, and oversold price levels.

Value Charts and Price Action Profile were developed with both the novice and seasoned investor in mind. By simply viewing price in this new format, investors are able to gain valuable insight into the valuation of any market. These innovative new market analysis tools do not represent the black box. Rather, they represent a valuable and necessary market analysis tool that should be a part of every serious trader's arsenal of technical charting and market analysis tools. Value Charts and Price Action Profile meet the most important requirements of an effective market analysis tool; they are easy to learn, they can be deciphered quickly, and they can be interpreted only one way.

For trading system developers, Value Charts open up a whole new universe of relative price levels that can be utilized to drive trading systems and market indicators. Until now, most traders have had access to only a limited number of reference price levels. These price levels are used to instruct trading systems about when to enter or exit market positions. A *reference price level* is "a definable point at an identifiable time and price." Using daily bar charts as an example, the reference price levels include the opening price of the day, the closing price of the day, or the highs or lows of previous daily price bars. The high and low of the current price bar is for the most part undefinable until the trading session (day) is over. By utilizing Value Charts, traders can now create trading systems that have the ability to enter or exit markets at relative price levels intraday. The ability to define relative price levels, and hence relative value levels, during a trading period represents an exciting breakthrough in the field of trading system development.

Quantifiable information is useful information. Many market analysis strategies rely too heavily on the eye of the beholder when determining if certain rules or conditions are met. Market analysis strategies that rely on the judgment of a trader often contain too much gray area and have little long-term usefulness. Value Charts and Price Action Profile, on the other hand, generate quantifiable information

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that can be interpreted only one way. This allows traders to know when a certain condition is being met during the trading day, which allows them to act confidently.

Most importantly, Value Charts and Price Action Profile help keep the two emotions in check that have the potential to destroy the efforts of any trader, greed and fear. These new market analysis techniques allow traders to enforce discipline and avoid being suckered into the markets at short-term peaks and scared out of the markets at short-term bottoms. Pilots will be the first to testify that the artificial horizon is much more reliable than their physical sense of up and down. Without this key instrument, pilots would be forced to follow their own sense of direction and ultimately risk crashing into the earth when they exercise poor judgment. In the trading arena, Value Charts and Price Action Profile are the instruments that will help keep greed and fear in check for any trader. They have the ability to help keep traders who have typically followed their emotions in the decision making process from making costly decisions. The artificial horizon represents the current condition (orientation) of the airplane, and Value Charts and Price Action Profile represent the current condition (valuation) of the markets. Best of all, these innovative new market analysis tools were developed for anyone, regardless of trading experience, to learn and use. In writing this book, it was our top priority to keep things as simple as possible.