%C DT the original S&P Day Trader circa 1990

The Context indicator

Until now one of the longest lived and most popular trend indicators around has always been ADX which stands for Average Directional Index, but as I will outline here this index has its shortcomings. One of its major shortcomings is that it is slow to reflect the momentum of a trend. This indicator needs to get above thirty or thirty five before a trader can have confidence in the trend's ability to get carry over. Furthermore, if this indicator turns lower it doesn't imply that the trend has reversed. To the contrary, it can continue for an extended period of time.

The %C Indicator which stands for % contraction is much faster than ADX and has some boundaries, it is rare for this indicator to get below thirty and rare for it to get above sixty. Besides having relative boundaries it also cycles faster than ADX for trading purposes. It is also suitable for top down approach to technical analysis.

Over time traders have compiled empirical studies that reveal breakouts - of some proportion of the time- lead to more trends in the direction of the breakout. Such a condition is called range or volatility expansion. The remainder of the time the breakouts are faded and should be viewed as reactions. Such a "condition" can be called volatility contraction or a trading range. However, it is important to remember that ranges are not limited to a horizontal direction.

Hence the market can trace out ascending or descending "channels." Leading to the development of channel breakout strategies.

In addition to trading range, channels and breakout markets, there is a third major market condition that can exist and should be avoided as too risk to trade, they are called flat or dead markets.

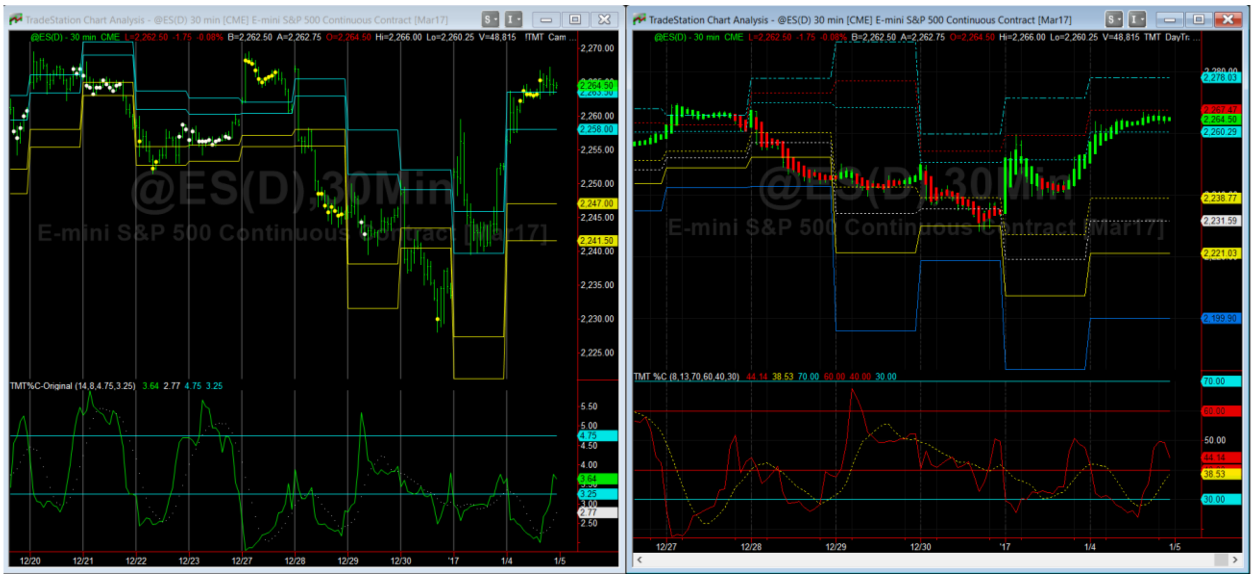
Your empirical study of a bar chart of any size bar should reveal that there are only three market conditions:

1) Flat or dead markets, a condition for floor traders in which prices rarely get to either side of the channel band and in which the pattern from open to close is seldom repeated in the next bar;

2) A tradable range, in which each side of the channel is a touch off for a reversal of an inside trend, and suitable for desk traders. Direction from open to close and from bar to bar is consistent from one side of the channel to the other;

3) Volatility expansion, where breakouts outside the range get carryover in the direction of the breakout. This condition is suitable for desk traders to take advantage of.

%C Advanced provides two versions of %C, a trend following pain bar to provide direction for entry and two sets of day trader's bands, one for scalping and one for more traditional day trading. When %C spikes above it high threshold as a leading indication of breakout trades with following through. When %C is reaching below its lower threshold it is a leading indicator of the trend coming to an end. Briefs and links are made available to educate our traders.



For Day Traders it is essential to have some way to predict what condition the market is in and when it is about to change its context.

When a trader has an objective tool and rules to control risk and stand aside the market when it is expected to be trendless or flat, is obviously a good thing.

When the condition calls for the trader to "fade" the breaks (enter on reactions) when the market is locked in a channel or range, the traders increases his chance of success by using a reversion to the mean or an overbought / oversold strategy.

It is also a good thing for the trader to have an indicator that tells him when to trade his favored volatility breakout system.

That is the goal of %C, it is a logical part of the evolution in the thinking of a trader.