

The Potential
Technifilter Plus Add-On tool using Bollinger Bands



Technifilter Plus

Methodologies Based on the book Bollinger on Bollinger Bands

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The Potential

The Potential is an easy to use Add-On Tool for Technifilter Plus, based on some of the methodologies and formulas discussed in John Bollinger's excellent book Bollinger on Bollinger Bands.

Using the power of Technifilter Plus's Filtering and Automation capabilities, the Potential can be used to locate and monitor lists of stocks in a Squeeze and identify the breakouts. This includes maintaining the lists as well.

It can locate "Break outs" using Trend following methodology...

All of this at the click of a single button!!

Introduction



- General Market Concepts
- Bollinger Bands & Indicators
- Bollinger Based Indicators: Bandwidth and %B
- Trading systems: Breakout, Trend following and Trend Reversals
- Sample Filtering and creating watch lists

Bollinger Bands - Summary

Bollinger Bands are a powerful tool for trading almost any market, that uses Statistical probability, to identify high and low volatility.

This gives traders a unique indicator, that can be used with other indicators, to formulate a robust and flexible trading approach, using multiple time frames.

Trading Effectively – Requires??

- We understand the type of Market we are in
- We have a Trading Plan to match
- We backtest and verify the trading system
- We strictly implement our trading rules
- We don't try and buck the trend....

Going against the trend

- costs money

- The Majority of people keep doing the same thing over and over again..... or repeating the same mistakes over and over again...
- Any Strong Bull trend following system, will NOT generate the same profits in both Bull & Bear Markets
- We need to adapt to the type of Market conditions that are in place

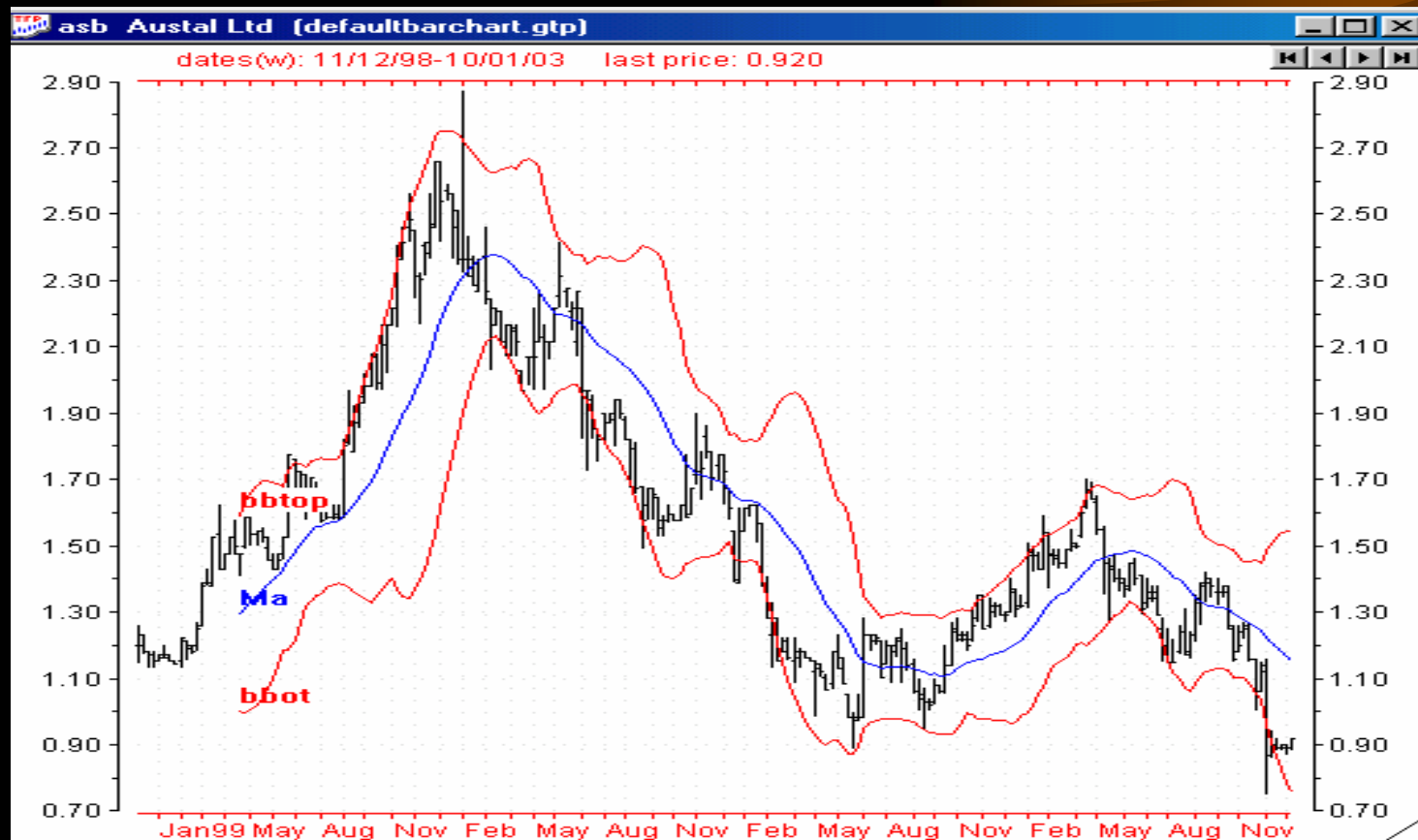
Bollinger Bands- Summary

- Developed in 1983 by John Bollinger

Construction:

- a 20 period simple moving average of the closing price
- Upper band 2 x Standard deviations above MA
- Lower Band 2 x Standard deviations below MA
- Default settings contain 88-89% of price action in most markets
- Bands are a combination of Trend following and Price Volatility

Bollinger Bands – Contain 88-89% of price action



Bollinger Bands - Characteristics

- Bands Contract and Expand based on the volatility of the price action.
- **Low Volatility** - the bands contract or Tighten
- **High Volatility** - the bands expand

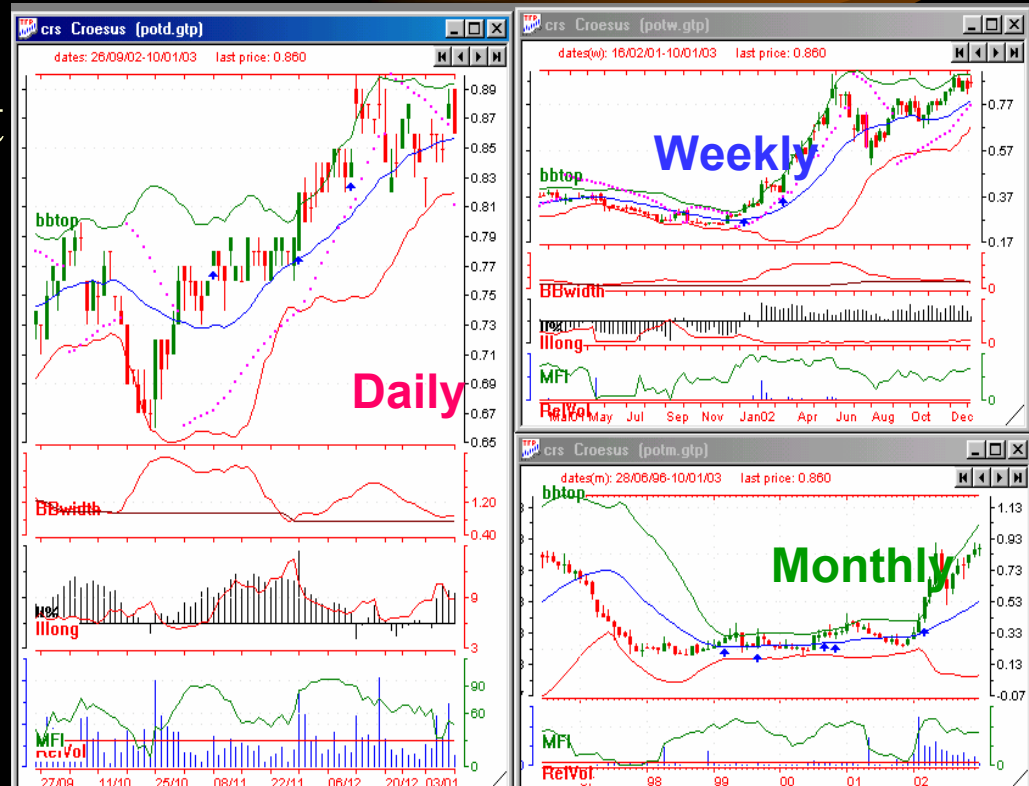
High Volatility generally follows low volatility

The Upper and Lower bands tend to identify extreme highs and lows or relative Highs and Lows

Price can walk up or down the !!!!!!!bands

Bollinger Band – Time frames

- Bollinger Bands can be used with different time frames:
- Long (Eg. Monthly)
- Medium (Eg. Weekly)
- Short (Eg. Daily)
Or Intra Day



Bollinger Bands

- The Moving average can be varied as can the Standard Deviations

Options:

MA	Std Deviation
20	2 (default)
10	1.9
50	2.1



Bollinger Bands – Popular Misconceptions

A Tag of the upper
or Lower Band is not
necessarily a
negative signal.

In fact it can often be
a powerful Entry
signal



Bollinger Band Indicators

The width of the upper and lower bands and the position of price in relation to the bands gives a “definite” or “fixed” set of parameters that can be used to design robust Trading systems

Bandwidth

- Indicator that can be used to detect extremes:
E.g. low or high volatility

%B

- Indicator that can be used to identify “tags” or breaks of the upper, middle and lower bands

Bollinger Band Indicators – %B

Calculates where the current closing price is in relation to the Bands

Formula:

$$(\text{Close} - \text{Lower BB}) / (\text{Upper BB} - \text{Lower BB})$$

%B = 1.0 Close = Upper Band (Tagging Upper Band)

%B = 0.0 Close = Lower Band (Tagging Lower Band)

%B = 0.5 Close = Middle Band

%B = 1.1 Close is 10% above the upper Band

%B = -0.10 Close is 10% below the lower Band

Bollinger Band Indicators – Band Width

Calculates the width of the Bollinger bands (used in quantifying the “Bollinger Band Squeeze”)

Formula:

$(\text{Upper BB} - \text{lower BB}) / \text{middle BB}$

A Handy indicator for identifying LOW Volatility (a precursor to High Volatility or the start of a new trend).

It can also be used to identify the end of a trend when the upper or low band reverses and changes direction.

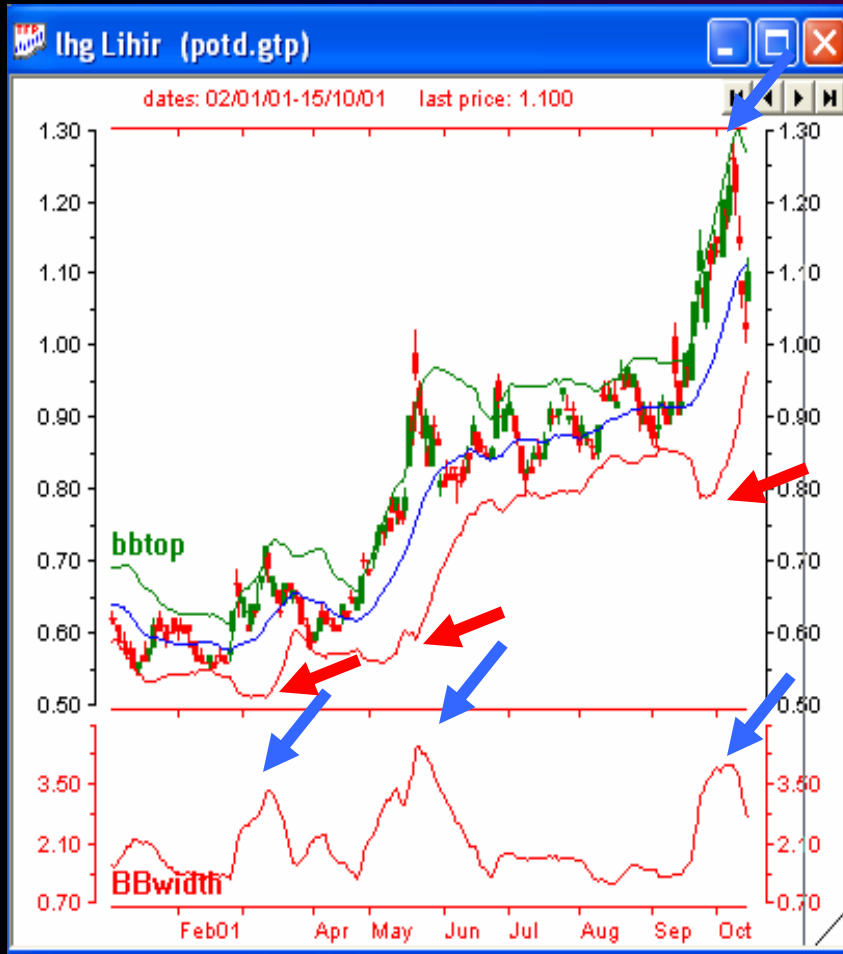
Bollinger Bands – Squeeze using Band Width



Locate Bands that are at their narrowest for the last 6 months.

Using Bandwidth it is a simple process to scan and locate issues in a **SQUEEZE**

Bollinger Band Width – End of a Trend



After a large expansion in the bands a reversal of direction in the lower band can indicate the end of that leg of the move...

Opposite is true for down trends as well

Bollinger Bands and Volume Indicators

To help predict and
confirm the direction
of price action ...
Volume Based
Indicators can be used
to confirm Bollinger
Band readings

Indicators like:

OBV – On balance volume

ADI – Accumulation
Distribution

MFI – Money Flow Index

II - Intraday Intensity

Indicators used should be totally
independent of each other

Bollinger band Volatility Breakout Trading System



Locate the lowest low
in the Bollinger
Bandwidth over the
last 6 months =
“the Squeeze”

Entry can be the
Breakout or
Breakdown

Watch out for “false
breakouts”

Bollinger Band - Breakout from “the Squeeze” Tips

- Create a watch list of stocks currently in the “Squeeze”
- Monitor Stocks for volume indicator confirmation (MFI, Intraday Intensity, OBV signals / confirmation, etc.)
- Be ready for quick action, when resistance or support is broken.

Bollinger band Volatility Breakout Trading System - Long

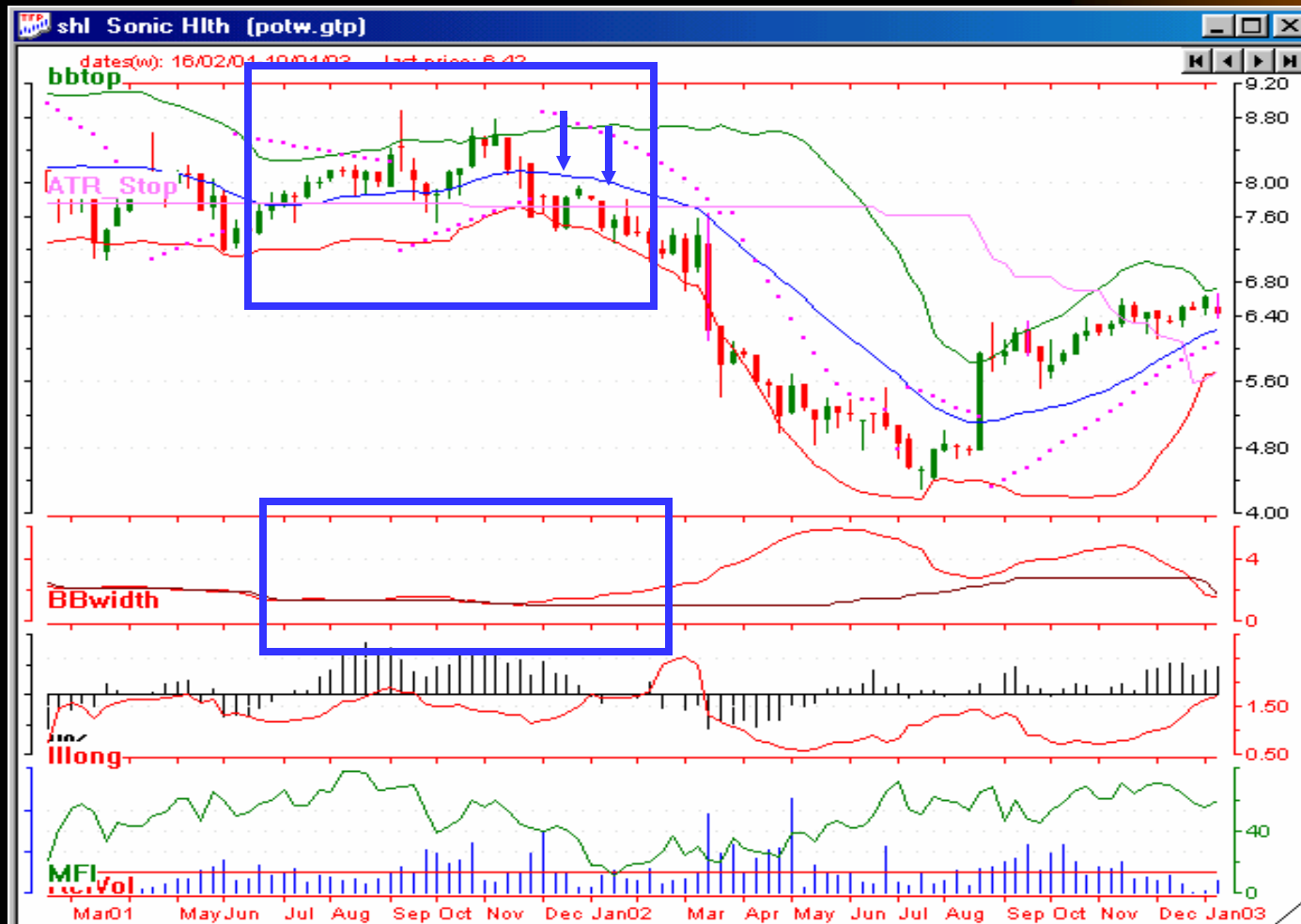


Breakout from a Squeeze

Possible Stop Loss/Trailing Stops methodologies:

- Parabolic SAR or
- ATR 3
- The Bottom band can also be used

Bollinger band Volatility Breakout Trading System Short



Breakout from a
Squeeze

Possible Stop
Loss/Trailing
Stops
methodologies:

- Parabolic SAR
or
- ATR 3
- The Bottom
band can also be
used

Bollinger band Trend Following System - Long



Buy Signal

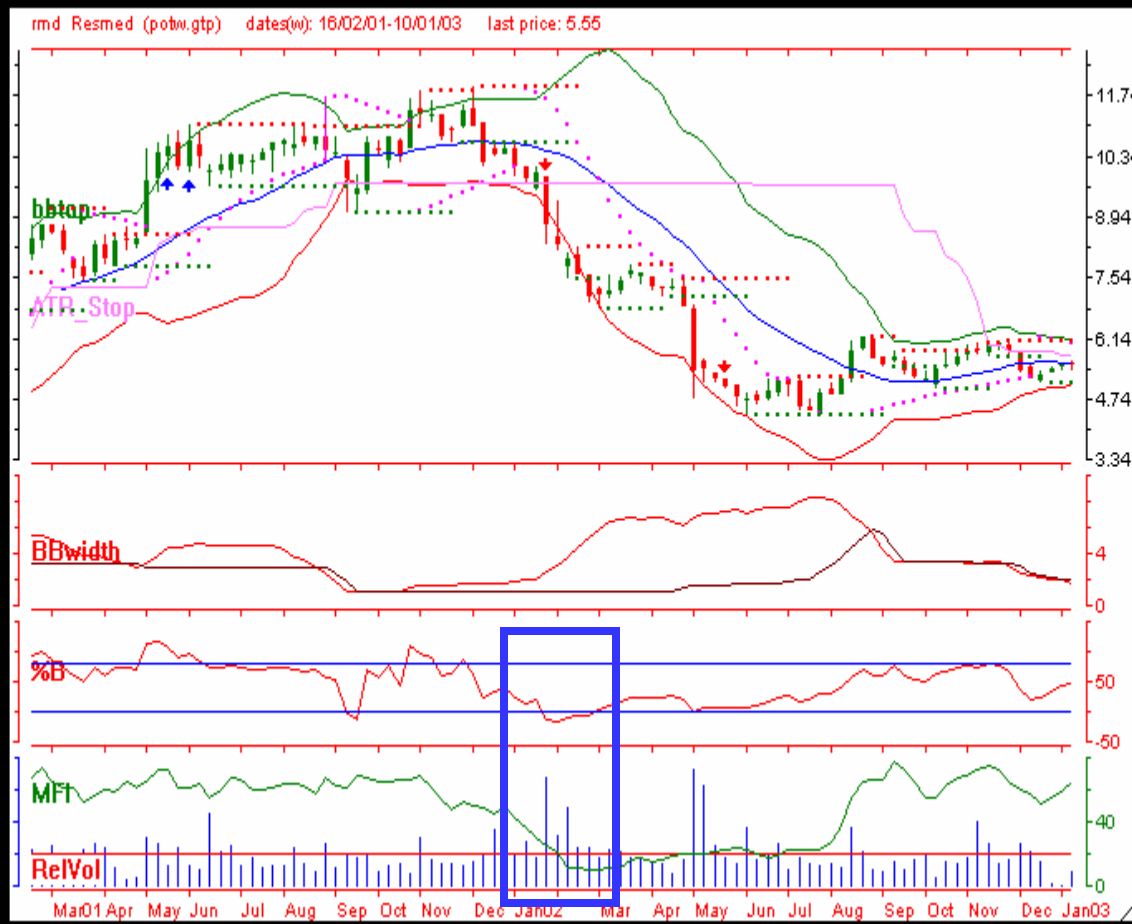
%B greater than .8

MFI greater than 80

Possible Stop Loss/Trailing
Stops methodologies:

- Parabolic SAR or
- ATR 3
- The Bottom band can also be used

Bollinger band Trend Following System - Short



Sell Signal

%B less than .2

MFI less than 20

Possible Stop
Loss/Trailing
Stops

methodologies:

- Parabolic SAR or
- ATR 3

Bollinger band Trend Reversal System - Long

Use %B to locate Price
Tags of the Lower
Band, with a Volume
Indicator like II%
giving a divergent
positive signal



Bollinger band Trend Reversal System - Short

Use %B to locate Price
Tags of the Upper
Band, with a Volume
Indicator like II%
giving a divergent
negative signal



To Summarise

- Bollinger Bands give the trader an insight as to whether a price is “relatively” High or Low.
- Using the %B and/or Bandwidth Indicators a very robust set of trading rules can be implemented and back tested
- Bollinger Bands can be incorporated into other trading systems

The Potential – Easy to use

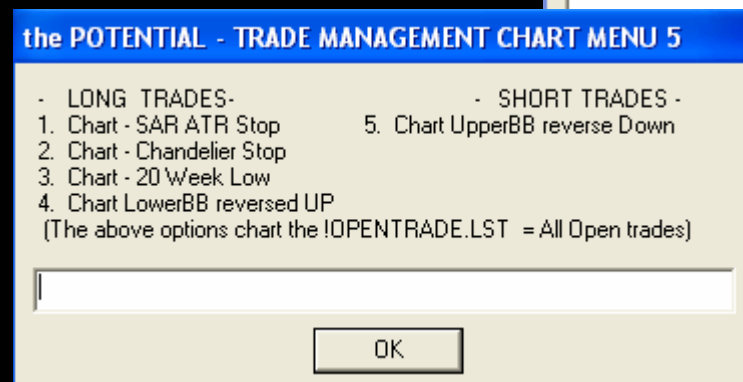
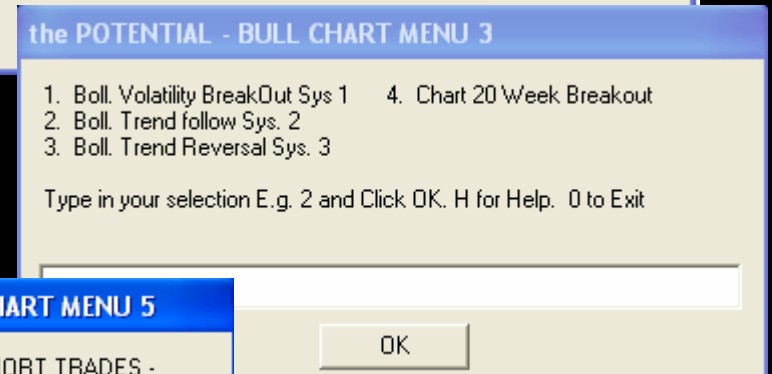
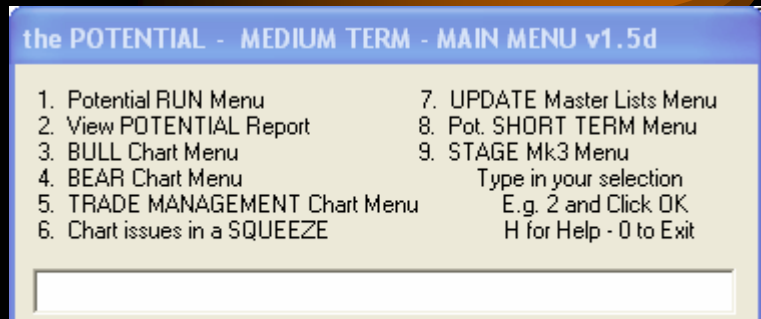
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View the Charts





The End

Charts and Filter scans – Technifilter Plus
References: Bollinger on Bollinger Bands
www.bollingeronbollingerbands.com

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