INTELLIGENCE7

Multiply your wealth with brains...

FAST STOCHASTIC OSCILLATOR

The Stochastic Oscillator was developed by Dr. George Lane to track market momentum.

The indicator consists of two lines:

- %K compares the latest closing price to the recent trading range.

- %D is a signal line calculated by smoothing %K.

The number of periods used in the indicator can be varied according to the purpose for which the Stochastic Oscillator is used

Purpose:	%K Periods	%D Periods	Overbought level	Oversold level	Comments:
Combine with trend indicator	5 to 10 days	3 days	80%	20%	Very sensitive
Stand-alone or trade longer cycles	14 or 21 days	3 days	70%	30%	Only shows important turning points

Trading Signals

If the Stochastic Oscillator hovers near 100 it signals accumulation. Stochastic lurking near zero indicates distribution.

The shape of a Stochastic bottom gives some indication of the ensuing rally. A narrow bottom that is not very deep indicates that bears are weak and that the following rally should be strong. A broad, deep bottom signals that bears are strong and that the rally should be weak.

The same applies to Stochastic tops. Narrow tops indicate that the bulls are weak and that the correction is likely to be severe. High, wide tops indicate that bulls are strong and the correction is likely to be weak.

Ranging markets

Signals are listed in order of their importance:

Long Signals:

1. Go long on bullish divergence (on %D) where the first trough is below the Oversold level.

2.Go long when %K or %D falls below the Oversold level and rises back above it.

3.Go long when %K crosses to above %D.

Short signals:

1.Go short on bearish divergence (on %D) where the first peak is above the Overbought level.

2.Go short when %K or %D rises above the Overbought level then falls back below it.

3.Go short when %K crosses to below %D.

Place stop-losses below the most recent minor Low when going long (or above the most recent minor High when going short).

%K and %D lines pointed in the same direction are used to confirm the direction of the short-term trend.

Trending Markets

Only take signals in the direction of the trend and never go long when the Stochastic Oscillator is overbought, nor short when oversold.

Use trailing buy-and sell-stops to enter trades and protect yourself with stop losses.

Long:

If %K or %D falls below the Oversold line, place a trailing buy-stop. When you are stopped in, place a stop loss below the Low of the recent down-trend (the lowest Low since the signal day).

Short:

If Stochastic Oscillator rises above the Overbought line, place a trailing sell-stop. When you are stopped in, place a stop loss above the High of the recent up-trend (the highest High since the signal day)

slow stochastic incorporates further smoothing and is often used to provide a more reliable signal.


BANK Nifty 21/02/2014 O=10429.3 H=10584.75 L=10429.3 C=10554.35 V=0
Charted By PULAK26
13566
13300
13034
12768
12502
12236
11970
11704
11438
11172
10906
10640
10374
10108
9842
9576
9310
9044
8778
8512
8246
Stochastic %K (14d)
%D (3)
Smoothed %D (3)
80%
20%
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2014
Feb
Powered by www.chartnexus.com