New Concepts in Divergence

Powerful New Tools for Capturing Significant Market Turning Points

Sunday 22 February 2015
Learn to find and love abnormal market behavior

- Normal behavior in life, in the markets, in nature or in relationships teaches me nothing; alerts me to nothing; forewarns me about nothing…but abnormal behavior, divergent behavior alerts me, forewarns me, primes me to the possibility of pending change and \textit{change = opportunity}

- Divergence is an early warning system; a leading indicator; an announcement of intent or trend change BUT the expectations MUST BE TRIGGERED

- Divergence can dissipate and conditions can return to normal

- OUR JOB: identify divergence operationally and USE IT with 100% objective triggers and follow through

- Let’s look at a few precise definitions of divergence and then some illustrations
Divergence…which one to use?

- This.. 1 a: a drawing apart (as of lines extending from a common center)
- b: difference, disagreement
- c: the acquisition of dissimilar characters by related organisms in unlike environments
- 2: a deviation from a course or standard
- Or this…In vector calculus, divergence is a vector operator that measures the magnitude of a vector field's source or sink at a given point, in terms of a signed scalar. More technically, the divergence represents the volume density of the outward flux of a vector field from an infinitesimal volume around a given point.
- Or this…

\[
\text{div} (\varepsilon) = \left[\begin{array}{c}
\frac{\partial \varepsilon_{xx}}{\partial x} + \frac{\partial \varepsilon_{xy}}{\partial y} + \frac{\partial \varepsilon_{xz}}{\partial z} \\
\frac{\partial \varepsilon_{yx}}{\partial x} + \frac{\partial \varepsilon_{yy}}{\partial y} + \frac{\partial \varepsilon_{yz}}{\partial z} \\
\frac{\partial \varepsilon_{zx}}{\partial x} + \frac{\partial \varepsilon_{zy}}{\partial y} + \frac{\partial \varepsilon_{zz}}{\partial z}
\end{array}\right]
\]
Today we will do the following

- The concept of divergence explained
- Why divergence is an ideal leading indicator
- Markets as an auction process
- Momentum as a divergence indicator
- Accumulation pattern in momentum
- The divergence model
- How divergence differs from other timing methods
- 5 ways to spot and time divergence: New concepts
- Setup – Trigger – Follow through: Stocks, futures, forex
- All triggers 100% objective (no "looks like" or analysis)
- Profit maximizing strategies
The accuracy continuum

- My evaluation of % accuracy for various indicators and methods

25%  35%  45%  55%  65%  75%  85%

- Darts
- Guessing
- Gann
- Intuition
- All with Risk management
- EW Fib
- MA crossover
- Breakouts
- VB systems
- Donchian
- FPO
- MAC
- Swing
- 3x3
- 8OC
- Seasonals
- Stocks
- Futures
- Forex
- Spreads
- Risk management

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Divergence model: 6 types

- Price vs indicator

1. Price trending higher and indicator trending higher price makes new high indicator does not: bearish
2. Price trending lower indicator trending lower price makes new low indicator does not: bullish
3. Indicator makes new high price does not make new high: price likely to make new high – bullish: RARE
4. Indicator makes new low price does not make new low: price likely to make new low – bearish: RARE
5. Price and indicator making new highs: normal
6. Price and indicator making new lows: normal
7. What are the “indicators”? TBA
8. Examples of the 4 major patterns
STF model: an overview

- What is a TIMING TRIGGER?
- Timing triggers, timing indicators, objective methods and trading systems
- Why most timing triggers and indicators don’t work
- Separating market myth from market reality
- Patterns, predictions and profits
- Importance of a TRADING MODEL
- Why do so many traders lose?
- How to traders win?
- Review of my S – T – F trading model
Abnormal bearish
Abnormal bearish
Abnormal bearish – how IBM topped
IBM with another divergence tool
A closer look at the IBM top
Abnormal bullish + follow thru
Abnormal bullish: closer look

IBM: International Business Machine @ NYSE (Daily bars)

08/15/2014 = 184.81 (-0.49)

$9.86

$4.33

($8.21)

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Abnormal bullish + STF

CC2-201505: Cocoa NYBT (COMB) May 2015 @ ICE-US (Daily bars)


$2,800

$1,240

2705

-30
Abnormal bearish: mom 28
Abnormal bearish: macd 9,18
Bearish stf dt 7,1  what’s that?

$EUR-JPY: Euro/Japanese Yen @ FOREX (Daily bars)

01/23/2015 = 131.929 (-2.728)

772.3 pips
418.8 pips

0.02
0.72

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My conclusions about divergence as a trading and timing method as I will teach it to you today…

- Leading indicator
- All time frames
- 100% objective
- Best method for spotting tops and bottoms
- Not subject to same limitations as moving averages
- Available on all trading platforms
- Also known as rate of change (ROC)
- Can easily be calculated by hand
- Can be used in all markets including 4X
- Can be used as confirming indicator
Momentum Divergence

- Use divergence indicator
- Look at last 60 price bars
- Bullish divergence – new high in price for last 60 bars with NO new high in MOM
- Bearish divergence – new low in price for last 60 bars with NO new low in MOM
- My Power Momentum Manual
- Set up A, B, C and D points
- See example
- Look for TRIGGER point at E – see example
Bullish divergence set up
Bullish divergence set up
Bullish divergence set up

CMCSA: Comcast Corporation (Daily bars)
TradeNavigator.com © 2007 All rights reserved
Bearish divergence set up
Bearish divergence set up

$USD-JPY: US Dollar/Japanese Yen (360 minute bars)

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Bullish divergence set up and trigger
Bullish divergence set up and trigger
Bullish divergence set up and trigger
Bullish divergence set up and trigger
Bearish divergence set up and trigger
Bearish divergence set up and trigger
Bearish divergence set up and trigger
If you want training wheels?
### Sector: Technology - Industry: Application Software

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Weekly Setups</th>
<th>Daily Setups</th>
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<tbody>
<tr>
<td>ACCL</td>
<td>Accelrys Inc.</td>
<td></td>
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<td>ACTV</td>
<td>The Active Network, Inc.</td>
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<td>ADBE</td>
<td>Adobe Systems Inc.</td>
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<td>ADVS</td>
<td>Advent Software, Inc.</td>
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<td>AGYS</td>
<td>Agilysys Inc.</td>
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<td>AMAP</td>
<td>AutoNavi Holdings Limited</td>
<td></td>
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<tr>
<td>AMSWA</td>
<td>American Software, Inc.</td>
<td></td>
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<td>ARC</td>
<td>American Reprographics Co.</td>
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<tr>
<td>ATEA</td>
<td>Astea International Inc.</td>
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<tr>
<td>BIRT</td>
<td>Actuate Corporation</td>
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<tr>
<td>BITS</td>
<td>Bitstream Inc.</td>
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<tr>
<td>BLIN</td>
<td>Bridgeline Digital, Inc</td>
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<tr>
<td>BMC</td>
<td>BMC Software Inc.</td>
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</table>
American Reprographics Co. (ARC)
Divergence tools

- Momentum 28 close
- MACD 9, 18 close
- Detrended oscillator 7 (examples)
Wht and why and how: detrend?

- Remove trend
- Look only at cycle
- Why?
- How?
- Take MA of price and subtract from price
- Example next slides
Chart Settings: IBM 01/02/1962 - 02/20/2015 (Daily bars)

Show | Settings to Edit ...
--- | ---

- Parabolic
- Momentum
- Pane 2: StochK
- Pane 3: Momentum
- Pane 4: COT Commercia1s
- Pane 5: MACD
- Pane 6: Volume
- Pane 7: Williams AccumDist
- Pane 8: COT Large Spec
- Pane 9: COT Small Spec
- Pane 10: JBMAOSC
- Pane 11: OBV
- Pane 12: Parabolic
- Pane 13: COT Commercia1s
- Pane 14: Volume
- Pane 15: Range
- Pane 16: JB Sentiment
- Pane 17: Contract Volume
- Pane 18: JBMTT
- Pane 19: Open Interest
- Pane 20: Jake Bloodhound
- Pane 21: Detrend Osc

(new chart pane)

Appearance

- Color: [ ]
- Type: Line
- Width: (default)
- Label: (default)

*Overlay (scale not fixed to pane)

Function

Detrend Osc

(name for display)

Input Name | Value
--- | ---
Expression | Close
Bars used in average | 7
AvgMethod | 1

Shifted: 0 bars forward

Add | Remove | Group | Templates | Cancel | OK
What detrending does
Compare MOM 28 no setup

SB2-201507: Sugar #11 (Comb) Jul 2015 @ ICE-US (Daily bars)

02/20/2015 = 14.62 (-0.27)
Same chart dto

SB2-201507: Sugar #11 (Comb) Jul 2015 @ ICE-US (Daily bars)

02/20/2015 = 14.62 (-0.27)

-135 ticks ($1,512.00)

93 ticks $1,041.60

0.33
On balance volume OBV M

- Granville
- Concept
- My adaptation: momentum of obv – why
- WARNINGS  cumulative and no 4x vol
- BEST for weekly – why?
- Examples
Same chart OBVM

SB2-201507: Sugar #11 (Comb) Jul 2015 @ ICE-US (Daily bars)


-135 ticks ($1,512.00)

95 ticks
$1,064.00

100K

-630K

02/20/2015 = 14.62 (-0.27)
XHB: SPDR S&P Homebuilders ETF @ NYSE (Weekly bars)

-645 ticks ($6.45)

339 ticks $3.39

33.22

75M

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Why we have multiple tools

TSLA: Tesla Motors, Inc. @ NASDAQ (Weekly bars)

02/20/2015 = 217.1100 (+13.3400)

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Let's do a few that are pending

<table>
<thead>
<tr>
<th>Flag</th>
<th>Symbol</th>
<th>Description @ Exchange</th>
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<tbody>
<tr>
<td>☑</td>
<td>ARIA</td>
<td>ARIAD Pharmaceuticals, Inc.</td>
</tr>
<tr>
<td>☑</td>
<td>CSCO</td>
<td>Cisco Systems, Inc. @ NASD</td>
</tr>
<tr>
<td>☑</td>
<td>MRVL</td>
<td>Marvell Technology Group, Inc.</td>
</tr>
<tr>
<td>☑</td>
<td>TWTR</td>
<td>Twitter, Inc. @ NYSE</td>
</tr>
<tr>
<td>☑</td>
<td>WU</td>
<td>Western Union Company (T)</td>
</tr>
<tr>
<td>☑</td>
<td>XLV</td>
<td>Health Care Select Sector S&amp;P 500 Index Fund</td>
</tr>
</tbody>
</table>

Symbols

- ACTG: Acacia Research Corporation
- BAX: Baxter International Inc. @ NASD
- FUEL: Rocket Fuel Inc. @ NASDAQ
- GRMN: Garmin Ltd. @ NASDAQ
- MBLY: Mobileye N.V. @ NYSE
- QID: ProShares UltraShort QQQ (Short QQQ 2X)
- QIHU: Qihoo 360 Technology Co. Ltd.
- SDS: ProShares UltraShort S&P500 (Short S&P 500 3X)
- SH: ProShares Short S&P500 (Short S&P 500 1X)
- SPXS: S&P 500 BEAR 3X @ NYSE
- SPXU: ProShares UltraPro Short S&P 500 (Short S&P 500 3X)
- SQQQ: ProShares UltraPro Short QQQ (Short QQQ 3X)
- TWM: ProShares UltraShort Russell 2000 Index Fund
- TZA: Direxion Daily Small Cap Bear 3X Shares

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macd

QIHU: Qihoo 360 Technology Co. Ltd. @ NYSE (Daily bars)

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Important to remember

- Process
- Watchlist
- Time frames – do not compare
- Pt1 33% for large risk trades
- 60 bar window
- 6 bar minimum setup
- Multiple divergence
- Must wait for CLOSE for trigger!
- Can do on spreads
- Day trade considerations
- Options
- Take lowest risk trade
- Danger zone
What to expect

- Should hit pt1 quickly 2-5 bars
- Must have pt orders in
- About 70% + accurate
- Do not duplicate
- What if you miss an entry or exit
- Profit maximizing considerations
- The 2% and 5% rules
- Example
Concluding

- I can be reached at 800-678-5253 or 831-430-0600
- Email me if you have questions: jake@trade-futures.com
- Thank you for attending
- **Mentoring appointment interview and information:**

- Best of trading
- **Jake Bernstein**