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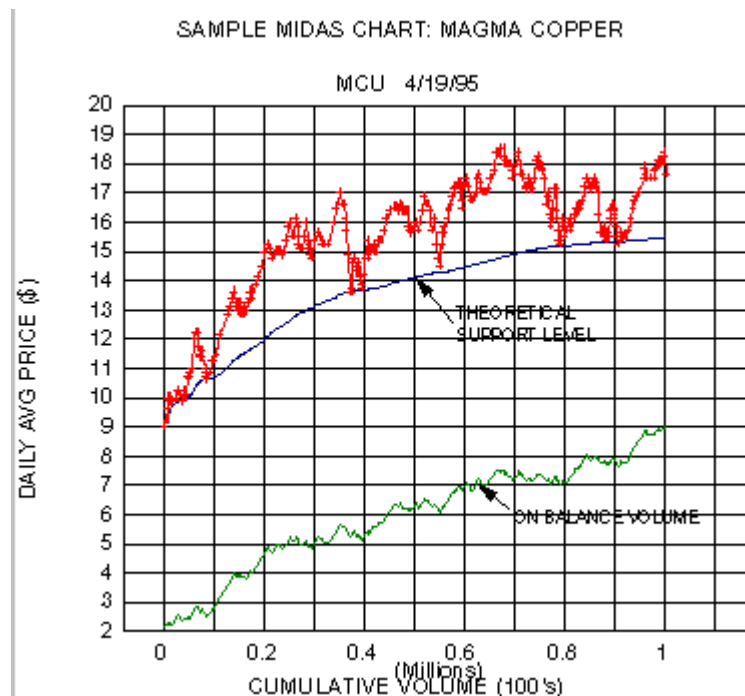


Introducing the MIDAS Method of Technical Analysis by Paul Levine

In this, the first of a series of columns, we will introduce to the community of technical analysts a new approach to charting the price history of a stock or commodity. I call this technique the MIDAS method, an acronym for Market Interpretation/Data Analysis System. It is designed to focus attention on the dynamic interplay of support/resistance and accumulation/distribution which are the ultimate determinants of price behavior. Indeed, a Midas chart makes immediately visually apparent an unexpected degree of orderliness in what might otherwise seem to be a random or chaotic process.



Take a look at the first of the figures. Here we have a standard price and volume bar chart for Magma Copper as of the April 19, 1995 close. I do not believe any of the familiar charting methods would contribute anything of value to the interpretation of this chart. There are no clearly evident trend channels, trendlines, support or resistance lines, etc. Indeed, after the initial runup from 9 to 17, the subsequent sideways pattern appears to be random and trendless.



Now look at the Midas chart for the same stock. First observe that to simplify things we only plot the daily average price (i.e. the average of the high and low). More significantly, we plot the prices vs. CUMULATIVE VOLUME rather than time. This has the effect of giving less visual weight to periods of relative inactivity (e.g. Feb 1995) since the lower cumulative volume increase during such a period compresses the daily points into a smaller space. (We will see later on why it is important to deemphasize periods when there is little alteration of the ownership profile of the people holding the stock).

Next, observe the curve marked "theoretical support level", and in particular how this corresponds precisely to the trend reversal points. You might think that in some sense the theoretical support curve has been "fitted" to these reversal points, much in the same way that trendlines are fitted to bar or point and figure charts. Remarkably, this is not the case; the theoretical support curve is determined a priori, has no adjustable parameters and follows from a very simple equation. In a later column I will derive this equation from a quantitative consideration of a few universal features in the psychology of the trader. For now just take my word for the fact that the theoretical support curve was constructed in a universal fashion from the raw price and volume data.

From the standpoint of practical trading, the important thing is that the price trend reversals (eight in all) all occurred precisely where they were expected to. This by itself both confirms a primary bull trend, and provides low risk entry points for long positions. One simply waits for the price to approach the support curve and jumps on board at the first indication of a "bounce". (Where to sell is of course another matter which we will treat at length in future columns).

But how strong a bounce are we to expect, or to put it another way, how strong is the underlying bull trend? To assess this, we add one final feature to the Midas chart, viz. a minor variant of Joe Granville's on- balance volume ("obv"). This curve is constructed by adding today's volume to the (accumulated) on-balance volume if today's average price exceeds yesterday's average price, subtracting it if it is less, and not changing the on-balance volume if there has been no day to day change in average price. (The absolute scale of the obv curve is immaterial and is simply adjusted to fit on the same chart as the price). The value of obv is that it makes immediately clear whether a stock is undergoing accumulation or distribution.

In the present example we see that obv is in a definite upward trend (accumulation) and that the obv trend continues even during periods of sideways price action. This is ideal bullish confirmation of the price trend.

To summarize the ground we've covered in this first brief introduction, we have shown how price and volume data for a specific stock can be displayed in a new fashion which makes immediately apparent an underlying trend that is all but hidden in a conventional chart of the same data. It is a totally remarkable circumstance that this general approach to charting appears to be of practical value in most markets for which I have been able to test it against price and volume data. In my next column I'll give a few more examples of Midas charts for stocks of current interest. When we have examined together several such examples and have thereby developed a familiarity with this new way of looking at things, there should be sufficient motivation to delve more deeply into the mechanics of generating the theoretical support curve. In so doing, we will come to discover other unexpected regularities in what has often been dismissed as random walk processes. Stay tuned!

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Paul Levine first became interested in technical analysis when he was a "runner" on Wall Street as a high school student. After graduating from MIT and gaining a PhD in theoretical physics from CalTech, he took a fresh look at the problem some thirty years ago and stumbled upon what has now evolved into the Midas method. Following retirement as Chief Scientist and a co-founder of Megatek Corporation in 1981, he developed further elaborations of the method and is now in his fourth year as a professional trader. He can be reached at: winmidas@winmidas.com or visit the [WinMidas website](#).

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