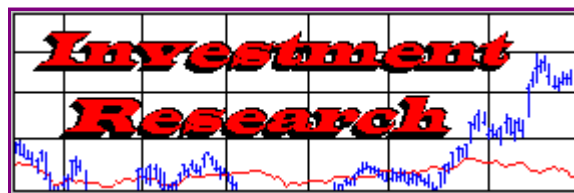


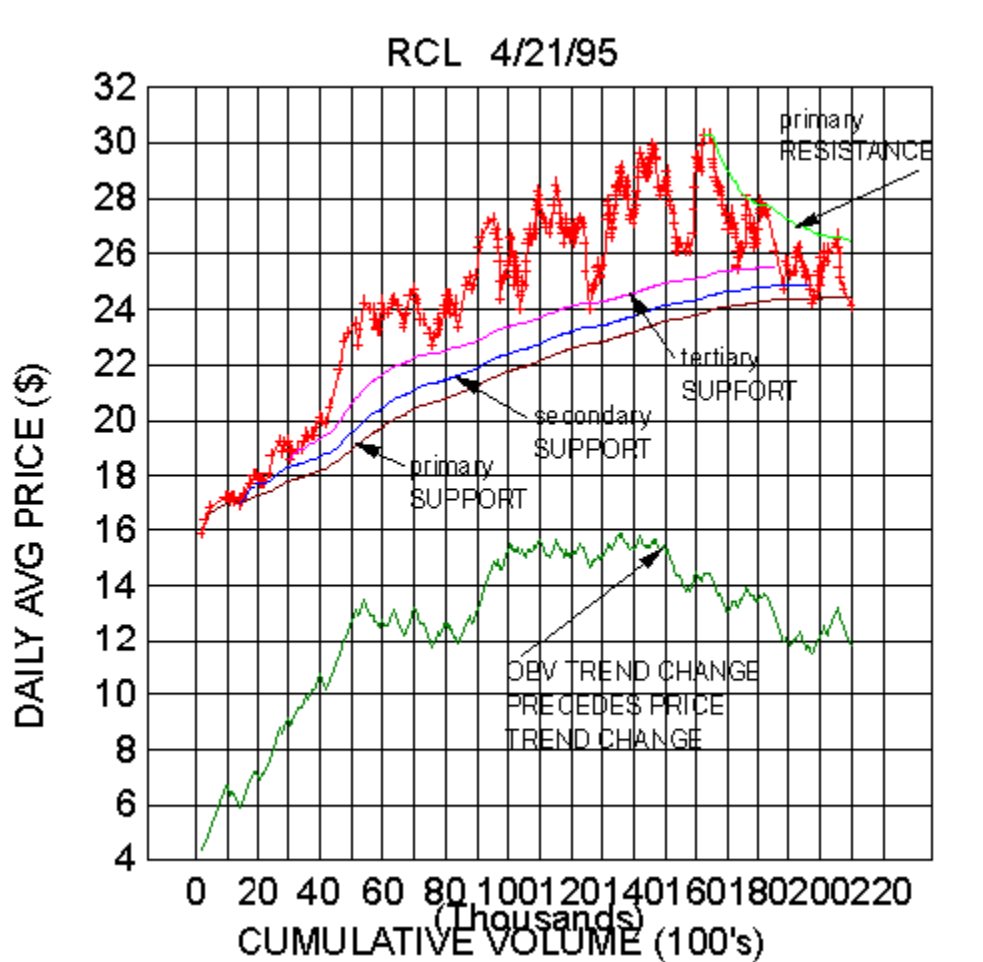
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Introducing the MIDAS Method of Technical Analysis (3) by Paul Levine

This is the third article in a series. Click here to go to the [first](#), or [second](#) article.

In the previous article in this series, we introduced the concept of a hierarchy of support levels, according to which trend reversal points can be identified with finding support at one member of a group of theoretical support curves (labelled "primary", "secondary", "tertiary" etc. according to seniority). This is illustrated in the Midas chart for Royal Carribean Lines (RCL), where we have plotted three such support curves. We have also called attention in this chart to another example of the utility of including the obv as a leading or coincident indicator of price trend change.

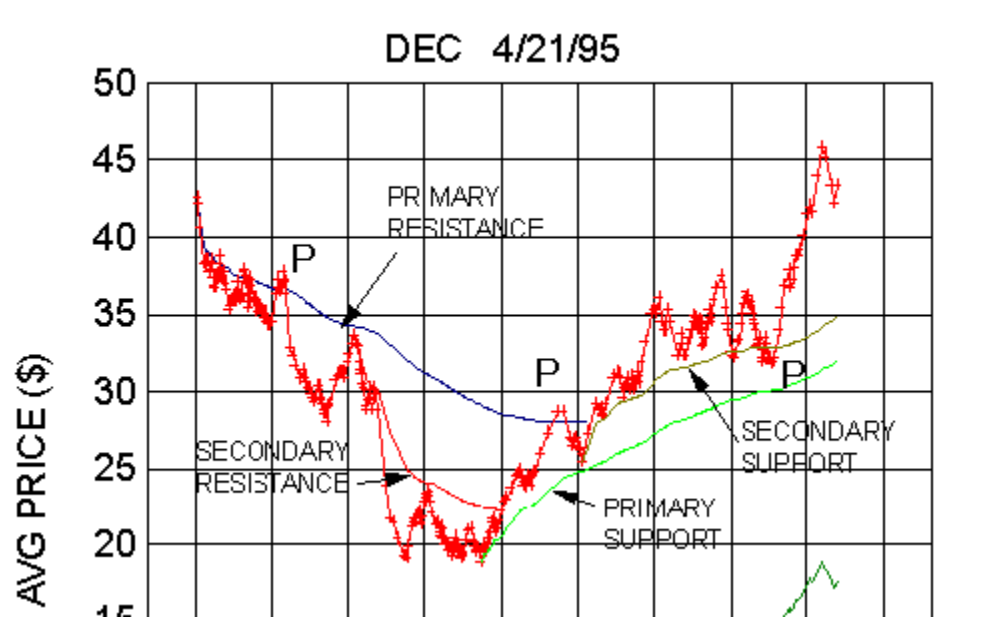


Note also that for the first time we have shown a theoretical RESISTANCE curve. In point of fact, there is complete symmetry in the Midas method between support and resistance! The theoretical resistance curve is generated by exactly the same algorithm as the support curve(s).

As a general rule, when one observes multiple confirmations of a relatively "young" resistance curve, together with a change in the trend of the obv - as in the RCL example - then the expectation is that the hierarchy of support levels will be violated one by one and replaced by a new hierarchy of resistance levels defining the new primary bear trend. This is on the verge of happening in RCL which is at a crossroads as of 4/21/95.

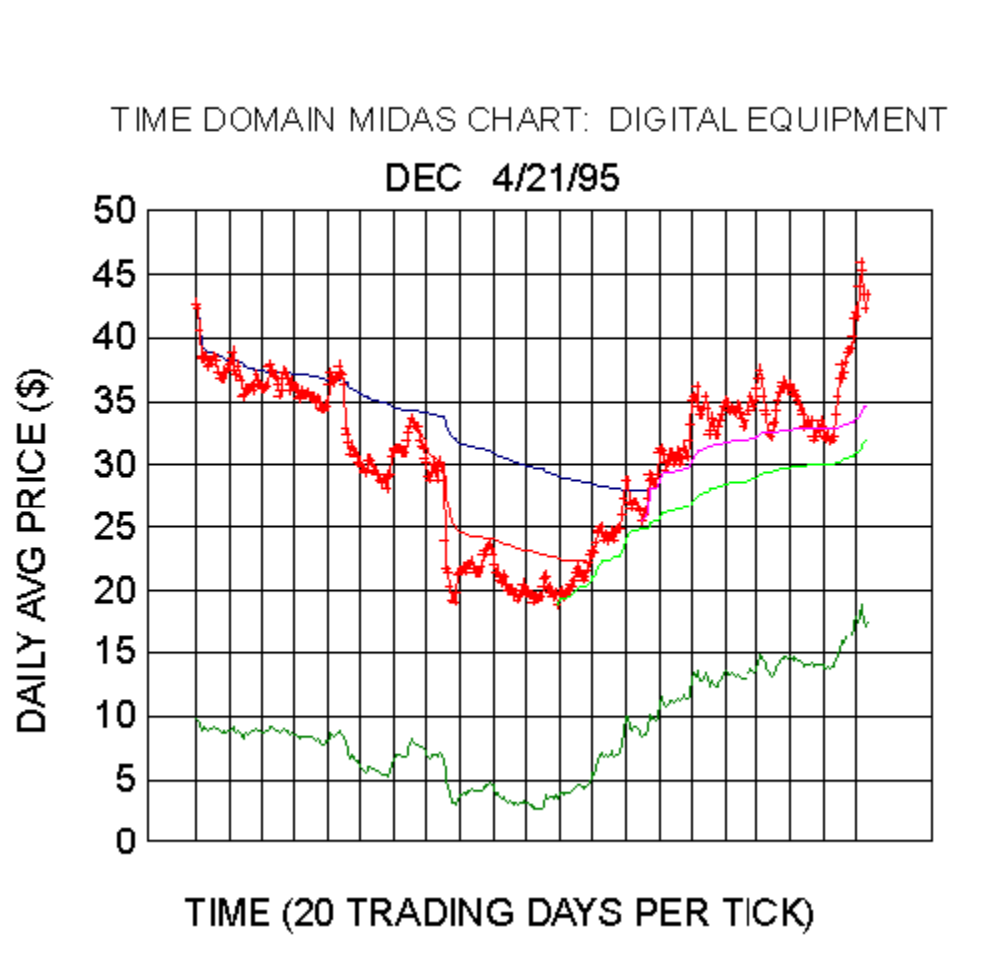
Note RCL has stopped at the primary support level and that obv has not yet broken down into a new low (in fact it is slightly higher than it was at the previous contact with the primary). RCL could bounce from here and again challenge the primary resistance. In fact we often encounter cases where the price is "squeezed" between primary support and resistance curves, a silent mortal combat that is usually not evident in the conventional charts. If the price does convincingly penetrate the primary support, on the other hand, with corresponding new low in the obv, then the probability is high that the primary bull move which carried RCL from 16 to 30 is over.

A second example of the completely symmetrical roles played by the theoretical support and resistance hierarchies in the dynamics of a major trend reversal is shown in the Midas chart for Digital Equipment (DEC). The near-coincident penetration of the primary resistance, the breakout into new high ground of the obv and the first validation of the young secondary support (at a cumulative volume of about 2.65) all confirmed the expectation that a primary bull trend was underway. Conventional technical analysis, on the other hand, might have interpreted this as merely a "normal" 50% retracement of the drop from 43 to 19!



Now note the areas marked "P" in the DEC chart. P stands for "porosity" which is the term I use to characterize situations when a "bounce" from a support or resistance level is not "clean" in the sense that some relatively small penetration occurs before the expected trend reversal. Perhaps "elasticity" would be a better term than porosity, since the S/R (an abbreviation for "support or resistance" which we shall henceforth use) level can be imagined to have some "give" rather than being rigid. Or one could just say that the Midas method is after all a simple approximation to a more complex and less deterministic reality.

Finally, to deliver on a promise made at the conclusion of the preceding article, in the next graph we show what the DEC Midas chart would look like if we plotted everything versus time rather than cumulative volume. In this mode of representation, the S/R levels are seen to be "jerky" and therefore are difficult to visually extrapolate, whereas in the cumulative volume domain they are relatively smooth and continuous. Thus we prefer to work with cumulative volume instead of time, although this is not always possible. When we wish, for example, to introduce the Midas theoretical S/R levels into commercial charting software packages - which we will in fact do in a later article - we are stuck in the time domain since such packages have no flexibility in choice of abscissa. Our hope of course that these articles will create sufficient interest in the Midas approach to motivate the software authors to generate Midas upgrades to such packages!



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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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