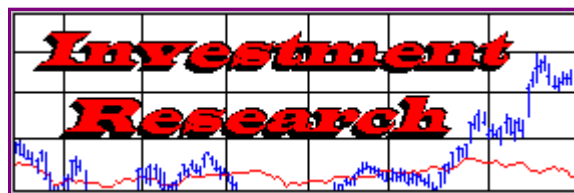


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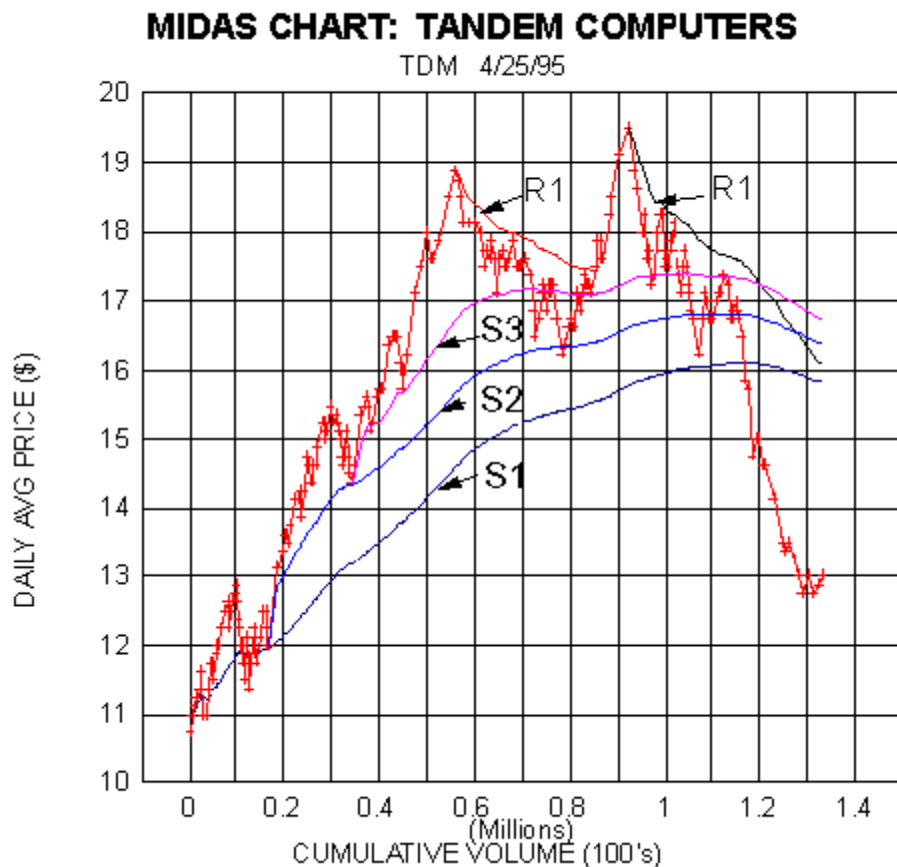
## Introducing the MIDAS Method of Technical Analysis (6) by Paul Levine

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

**Our goal in the articles to this point has been to establish the credibility of the S/R hierarchy on the basis of its manifest ability to bring a degree of order into the apparently random zigzag patterns of stock prices.** One measure of the power of any scientific theory is the degree to which many observations can be accommodated by the fewest principles ("Occam's Razor"). In the present context, this means fitting the set of trend reversal points - the zigzags - with a small number of S/R levels, all derived from a single simple algorithm (which will be derived in the article immediately following this one). For now we wish to exhibit a few final important properties of the S/R levels, and to discuss some limitations of the Midas method.

**Turning first to the Midas chart for Tandem Computers (the obv curve was omitted so we can observe finer structural details of the price behavior) we have plotted a primary, secondary and tertiary support and two primary resistance levels.** Note first that we discontinued the first R1 as soon as it was convincingly penetrated. S/R levels do frequently "wear out" for reasons which will be clear when we present the S/R algorithm. A new primary resistance level is introduced to accommodate the retreat from the second price peak.



Next note that on the other hand, the support levels S2 and S3 maintained their viability (i.e. their ability to fit subsequent zigzags) after having been penetrated. Generally speaking, the older a level is, the more this tends to be the case.

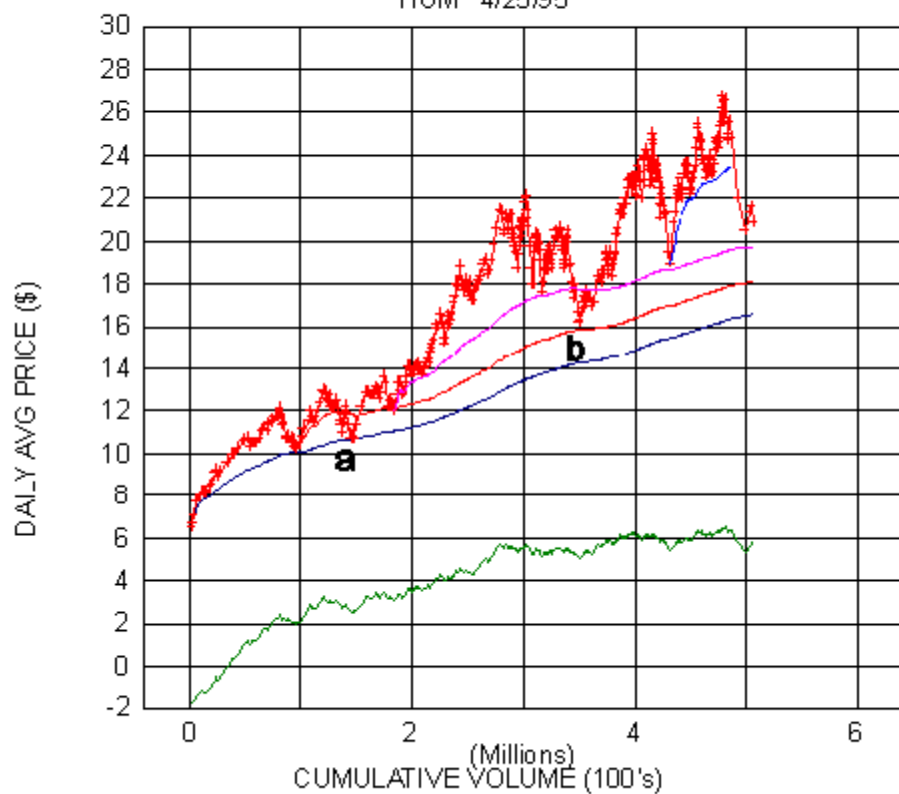
Another interesting feature which can be seen in the S3 curve is the familiar property that a support level which has been violated becomes a resistance level when approached from below. The reason for this behavior will also be clear when we derive the S/R algorithm.

**Most importantly please take note of and remember the catastrophic failure of S1 to halt the price decline to below 13.** This underscores the fact that the future is after all not cast in concrete. The perceived prospects of stocks are subject to abrupt and unforeseen changes. While an existing S/R hierarchy may be strong enough to bound the price variations within a given set of assumptions in the market regarding the prospects of the company, its group and the market as a whole, any sudden shift in this paradigm can call into a play a totally new price dynamic.

**Fortunately, this is not always necessarily the case as may be seen in the Midas chart for Humana.** Note first that as with Tandem, the level penetrations at points "a" and "b" did not invalidate their subsequent viability. More significantly, note that the recent sharp decline (brought about by a sudden reappraisal of all health care providers, or what we may call a group paradigm shift) was halted - at least for now - at a (mature and well-validated) S3.

## MIDAS CHART: HUMANA

HUM 4/25/95

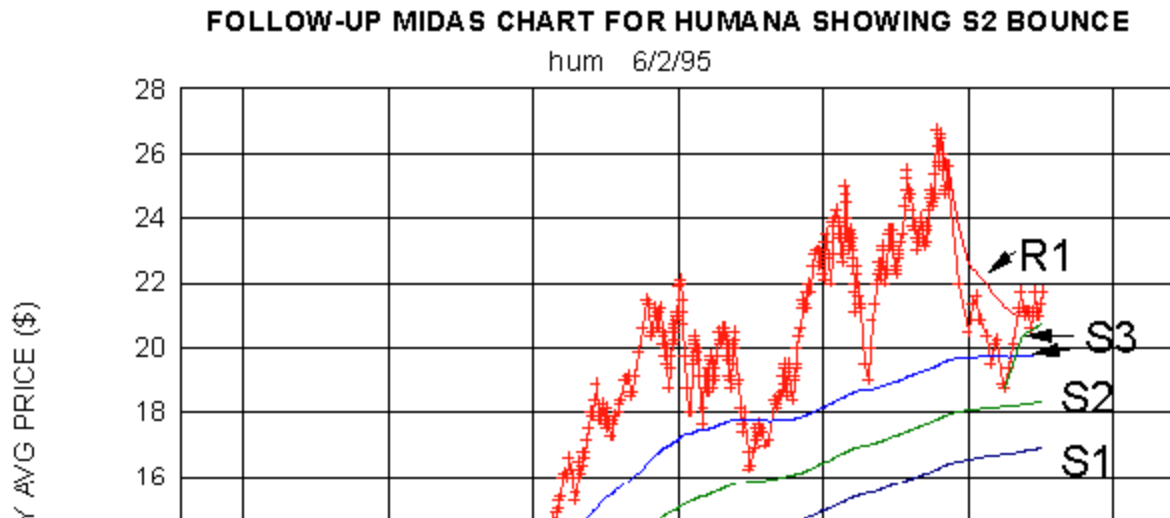


Finally, to come full circle, in the first article we showed a conventional price and volume bar chart and followed it with a Midas chart of the same stock (Magma Copper). So now let's look at a bar chart for Humana upon which we have superimposed the Midas S3 support level. The results speak for themselves. The clear fact that so many apparently unrelated points of trend reversal can be understood with reference to a single theoretical S/R curve testifies to the power of the Midas method. Indeed, recalling the analogy in article #4 with atomic spectra, it is perhaps not too much of a stretch to view the Midas method as "price spectroscopy"!



### POSTSCRIPT:

**Article 6 was written on 4/25/95.** In view of the delay in its publication, I thought it might be interesting to see what happened to Humana in the subsequent days. The results are shown in the fourth figure. Support was found at the secondary level S2 (actual low for the day was 17 7/8; recall that we plot the average price) and the bounce carried up through the incipient resistance level R1. Humana is now riding on a tertiary support level S3.



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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 via e-mail at [WinMidas website">winmidas@winmidas.com](mailto:winmidas@winmidas.com) or visit the [WinMidas website](#).

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