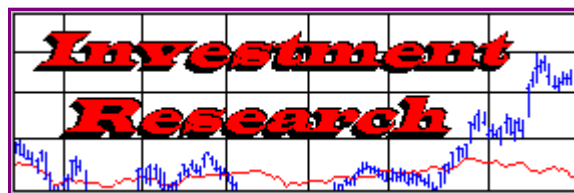


 [a bittmapped number]

downloads since published on July 8, 1995.



## Introducing the MIDAS Method of Technical Analysis (11) by Paul Levine

---

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

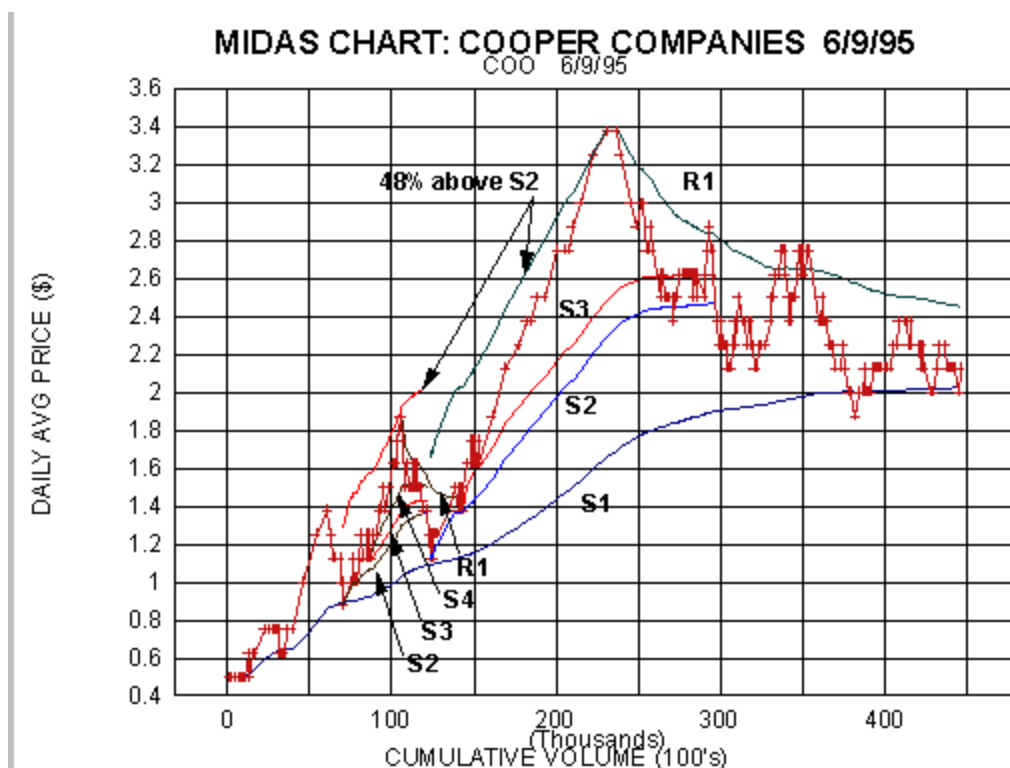
**The insights into the underlying structure of price behavior provided by Midas should be viewed as yet another instrument in the toolbox of the technical analyst.** By itself, Midas is not the key to instant success in trading; but when used skillfully in concert with other techniques that one has already found to be useful, it can provide the additional edge that is needed in what has become an increasingly sophisticated and competitive zero-sum game.

**In the previous article, we have seen how intragroup comparisons and synergistic use of other tools can increase one's chances of identifying potentially profitable trend reversals.** (While we have emphasized entry points for long positions, the inherent symmetry between support and resistance hierarchies in the Midas method allows the same methodology to be used in trading the short side). Having thereby determined "when to buy", we raised the companion issue of "when to sell". In the course of examining this question we will come to recognize some more fundamental structural orderliness in price behavior - i.e. beyond the mere existence of the S/R hierarchies.

**In the early articles we have already cited some qualitative indications that a bull move is running out of steam: deterioration of the obv curve (i.e. obv starts to trend downwards while the price is moving sideways) or the appearance of fourth, fifth and even higher order S/R levels.** Now we know to watch out also for bearish indications in the peer group of stocks, and for ancillary signals such as trend line penetration, classic chart reversal patterns (e.g. "head and shoulders"), and Japanese Candlestick alerts.

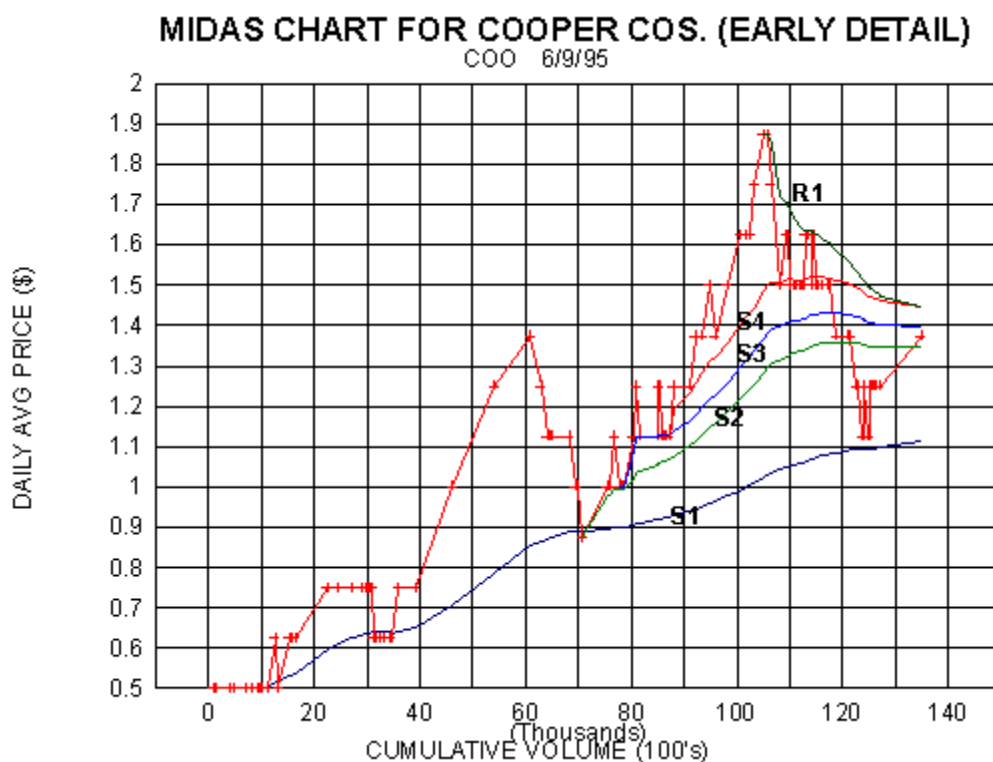
**But does Midas itself have anything new to contribute in identifying sell points?** If one is trading a bounce from a theoretical support level during a pullback from a recent high, we have already seen many times that the theoretical resistance level "launched" at that high is a viable price objective for the bounce. This is evident in the Midas chart for Cooper Companies, for example, in the bounce from S2 to R1 at a cumulative volume of about 290,000 (round lots).

**I have chosen COO as an example because it has other lessons to teach.** Note the lines labelled "48% above S2". What we have done here is to ask the question "how high did the previous bull leg (the one peaking near a cumulative volume = 100) go when expressed as a percentage above its secondary support (S2)"? This turned out to be 48%. We then apply the same percentage (what I call the "greed factor") to the S2 for the next leg to obtain a (moving) price target. Sure enough, the peak of the next leg occurs where anticipated, although I hasten to add that the agreement is seldom this precise!



We are exploiting the circumstance that successive bull moves are frequently self-similar when viewed in the context of the S/R hierarchy. Thus, if price excursions are measured relative to the theoretical support levels, different bull moves can be directly compared notwithstanding the fact that they may occur over vastly different scales of cumulative volume.

To pursue this point further, in the second figure we present a magnified view of the bull move peaking near  $\text{cumvol}=100$ . Plotted on the figure is a fourfold hierarchy of support levels and the primary resistance level launched at the peak. The important point to note is that although we are only dealing with 54 days of data (between  $\text{cumvol}=70$  and  $125$ ), there is nevertheless exhibited the same hierarchal structure that one finds in charts extending over several years. In other words, the zigzags in price behavior that one observes on short time scales have the same structure (in S/R hierarchal terms) as that seen on long time scales.



**The foregoing properties of self-similarity and scale independence are characteristics of fractal behavior.** The fractal nature of stock price fluctuations has been recognized for some time on purely empirical grounds. What has been missing is an understanding of why markets should behave fractally (i.e. beyond the obvious fact that they are complex non-linear dynamic systems). In the Midas method, we have seen that the complex zigzags in price behavior can be (to quote article#8) "understood with respect to a single algorithmic prescription: support (or resistance) will be found at the volume-weighted average price taken over an interval subsequent to a reversal in trend". The psychological elements of greed and fear, whose quantification led to this algorithm, apply to investors/traders across all time scales. (Someone who has held a stock at a loss for three years is just as eager to "get out even" as the day trader who is holding a losing position).

**There is even a more remarkable method of predicting tops (and bottoms) in the Midas bag of tricks - the so-called TOPFINDER algorithm.** Don't miss the next article!

[Return to Investment Research](#)

---

**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](mailto:winmidas@winmidas.com)">winmidas@winmidas.com or visit the [WinMidas website](#).

---

The articles published through Investment Research represent the opinions of the authors and may not be representative of the views of other authors, or the owners and employees of Data Transfer Group. These articles are published as a public service to provide individual investors with educational material. Nothing on these pages should be construed to be investment advice or recommendations.

Copyright © 1995 by Paul Levine. All rights reserved.  
HTML by [Data Transfer Group](#)