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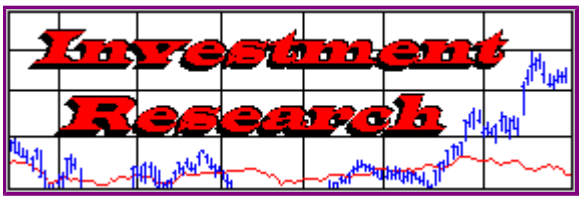



# Introducing the MIDAS Method of Technical Analysis (12) by Paul Levine

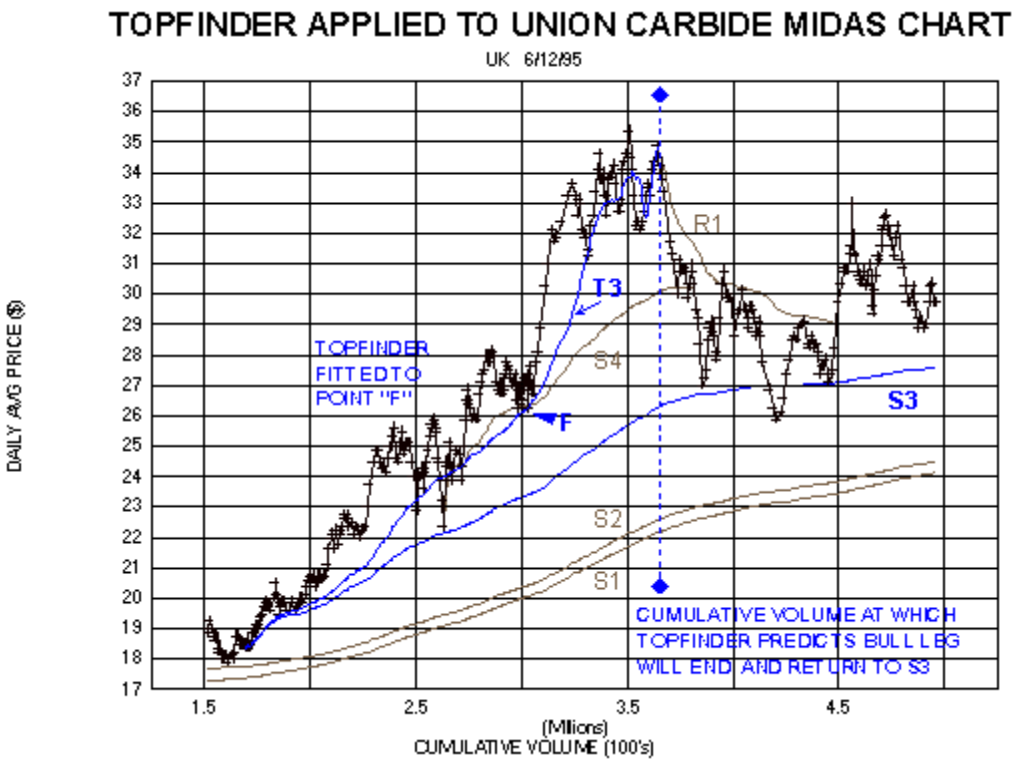
This is the twelfth article in a series. Click here to go to the **first**, **second**, **third**, **fourth**, **fifth**, **sixth**, **seventh**, **eighth**, **nineth**, **tenth**, or **eleventh** article.

**The truly new insights provided by the Midas method are twofold.** The first is the heretofore unrecognized hierarchal structure of support/ resistance levels and their a priori prediction in terms of the volume- weighted average price taken over an interval subsequent to a trend reversal point. The second, to be introduced in the present article, is that there frequently exists a remarkable underlying structure which dominates or "guides" the bull or bear move as it develops from that point onwards.

**This structure is revealed when actual prices are compared to a new type of theoretical support/resistance curve generated by what I call the TOPFINDER algorithm.** (We expose our taurine - as opposed to ursine - leanings as "BOTTOMFINDER" would be equally appropriate since the support/ resistance symmetry applies to the new algorithm as well as the S/R hierarchy). In presenting TOPFINDER, we will follow the same pedagogical path used up to now. To whit, without initially revealing the TOPFINDER equation, we will show what are hopefully compelling demonstrations of its power. The next steps in the program would then be to outline the psychological principles underlying the mathematical structure of the algorithm, followed by the display of the algorithm itself.

**In the present instance, however, the situation is reversed.** I discovered TOPFINDER empirically, and while I have some ideas as to the underlying principles and mechanisms giving rise to its applicability (which I will put forth in due course), it is still a subject for conjecture and research. Indeed, perhaps one of you will come up with a useful approach!

**To begin, then, let us turn to the figure wherein we revisit Union Carbide.** Recall from the fourth article that following an extended period of "foothill" behavior where UK found repeated support at S2, it abruptly took off in a doubling move during which support was found at successively higher order levels - culminating with S5. In time, this dramatic bull move ended and the price returned to the S3 level which was launched at the start of the move.




**In the figure we show a new curve labelled "T3", which is launched concurrently with S3.** As with the S/R levels, this TOPFINDER curve is generated by a simple universal algorithm , now containing two parameters to be determined by fitting to the trend reversal points. As before the first parameter is the launch point. In TOPFINDER, the second parameter represents the duration of the move as measured in cumulative volume.

**In other words, TOPFINDER is predicting that the move which started with the launch of S3 will, if the move fulfils its "destiny", terminate when the cumulative volume reaches the value indicated by the dashed line joining the diamonds, after which the price should return to the more "normal" (i.e. unaccelerated) support S3.** It is seen from the figure that if T3 is fitted to the consolidation reversing at point "F", then the end of the entire bull move is for all intents and purposes predicted exactly!

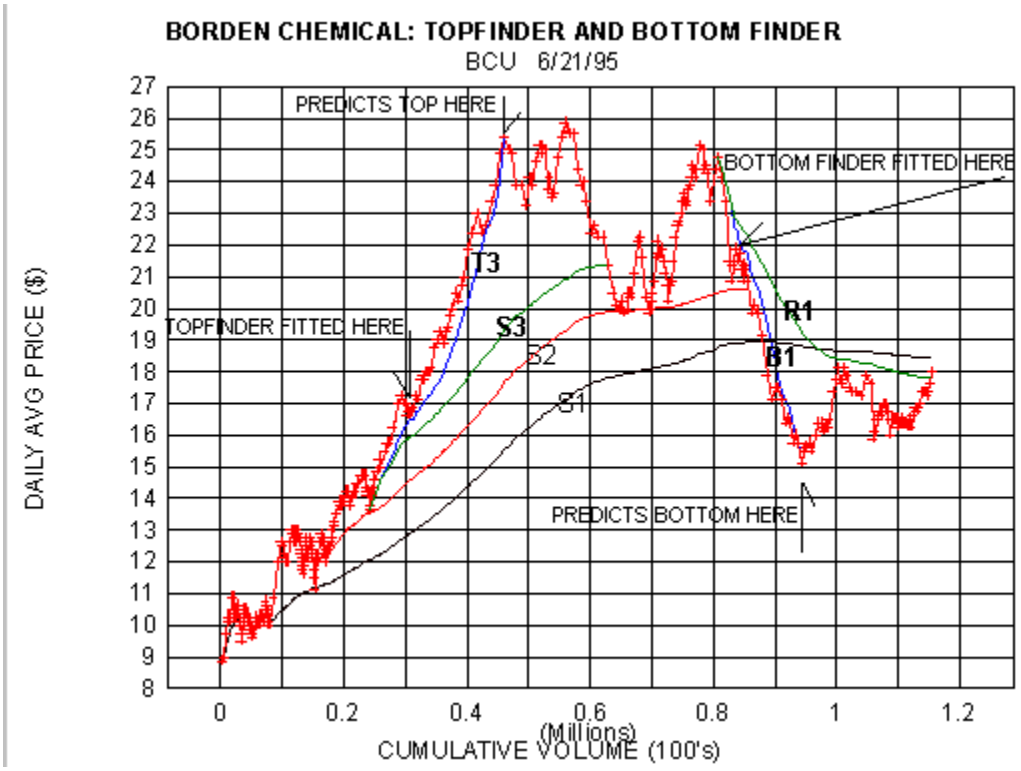
**Since technical analysis is often referred to these days as "rocket science", we can employ this metaphor by likening a move in a stock to a rocket launch.** Already we have referred to a trend reversal as the "launch point"; now we imagine that - as with a rocket - the move's duration is pre- programmed by loading a given amount of "fuel" which in our case is a fixed amount of cumulative volume. During the powered phase of the launch, the rocket's control mechanisms act to follow the nominal trajectory defined by the TOPFINDER curve. When the fuel is completely burnt, the rocket returns to the Earth's surface represented by the S/R level.

**In the market, as with rockets, there are abortive launches which do not go all the way to burnout, but return to Earth prematurely.** Hence the TOPFINDER curve (and especially the predicted burnout point) are to be regarded only as potentialities. So the new viewpoint is that every time there is a bounce from an S/R level of order "n", we begin the computation of two new curves: the next higher- order S/R level (order "n+1") and the corresponding TOPFINDER labelled with the same index. The move originating with the bounce has the potential to "take off" (i.e. accelerate) in which case its trajectory is predicted by TOPFINDER. Or, it can fail to "ignite" in which case it merely rides along the newly launched S/R level in a succession of less dramatic "hops" before either attempting a new takeoff- or penetrating the level and dropping back down the hierarchy.

**Returning to Union Carbide, I ask you - the jury - to disregard the dip to the S3 level occurring at a cumulative volume of about 2.6.** (This was a one- day affair at the climax of a 6-day 300 point drop in the Dow in late March/ early April of 1994). With this point thus ignored, it is seen that TOPFINDER - while explicitly fitted to point "F" - simultaneously does a good job of accommodating all of the pullbacks from the start of the move through the dip to 31 at a cumulative volume of about 3.3. (The subsequent penetrations of the TOPFINDER curve as the burnout point is approached are of no consequence and a frequent occurrence for reasons which will become clear when we exhibit the algorithm in a later article).

In this sense TOPFINDER may truly be regarded as the guide curve for the entire price-doubling bull move.

**A second example - perhaps more striking in that no appeal to forbearance is required - is afforded by Borden Chemical and Plastics (BCU) in the second figure.** Here the TOPFINDER/BOTTOMFINDER symmetry is explicitly exhibited. On the way up, TOPFINDER T3 accurately locates the top of the accelerated near- doubling move connected with the launch of S3, when fitted to the first consolidation pattern. The subsequent decline from the (triple) peak carries back to S3 as expected, and even beyond to S2.




**Later, after another rally to the area of the previous peak, BCU undergoes a precipitous decline which is well described by the BOTTOMFINDER curve B1, launched in conjunction with the primary resistance level R1.** Again, when B1 is fitted to the first pullback, the cumulative volume at which the bottom occurs is accurately predicted. The subsequent pullback to R1 also exactly follows the script.

**It should be emphasized that applications of TOPFINDER (and BOTTOMFINDER) are relatively infrequent, yet quite striking when they do appear.** Generally speaking, whenever a bounce accelerates to new highs before pulling back fully to the expected (i.e. newly launched) S/R level, one should launch a TOPFINDER, fitting it (provisionally) to the pull-back point. If the move continues to trend strongly without pullback to the S/R level, continue the TOPFINDER, perhaps iteratively readjusting the fitting point as the move matures towards the expected burnout cumulative volume.

**Further examples of this remarkable new feature of price behavior will be given in the article to follow, after whiich we will present the underlying algorithm and speculations as to its basis.**

# POSTSCRIPT:

**In article#10, we gave a formula for introducing S/R's as custom indicators in WIndows on Wall Street.** From readers' comments it is clear that I should have emphasized that DAYS is a constant set by the user to coincide with the launch point, being actually the number of records from the beginning of the data file. One reader, Stacie Crummie, discovered that with the following slight modification (to avoid division by zero problems prior to launch) , this formula can be used in the more popular Metastock software:

**cum(if(cum(1)<"days",0,mp()*v))/cum(if(cum(1)=1,1,if(cum(1)<"days",0,v)))**

**Here mp() is the mean price function, replacing our .5*(high+low).** Thanks Stacie.

**Return to Investment Research**

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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 or visit the **WinMidas website**.

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