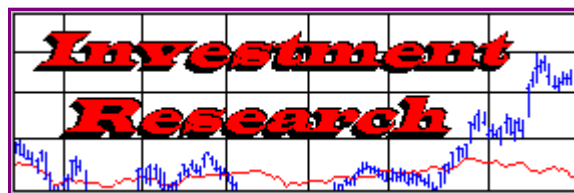


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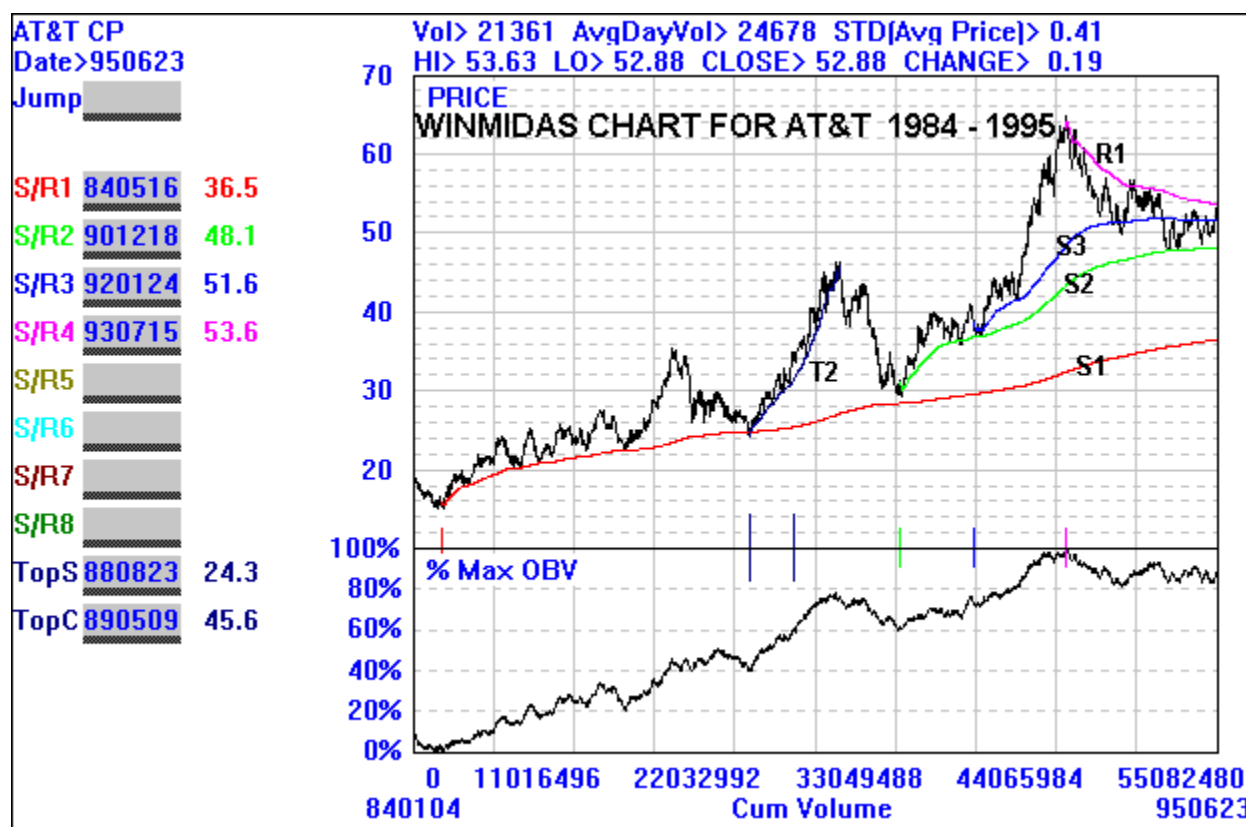


## Introducing the MIDAS Method of Technical Analysis (18) by Paul Levine

This is the eighteenth article in a series. Click here to go to the [first](#), [second](#), [third](#), [fourth](#), [fifth](#), [sixth](#), [seventh](#), [eighth](#), [ninth](#), [tenth](#), [eleventh](#), [twelfth](#), [thirteenth](#), [fourteenth](#), [fifteenth](#), [sixteenth](#), or [seventeenth](#) article.

The goal of technical analysis is to discern underlying patterns of orderliness in the apparent random walk of prices and to use such perceived structures as the basis for projections into the future of past price behavior. The ever-present danger in this endeavor is one of self-delusion: seeing patterns where none really exist and - worse yet - trying to use such patterns to predict the unpredictable.

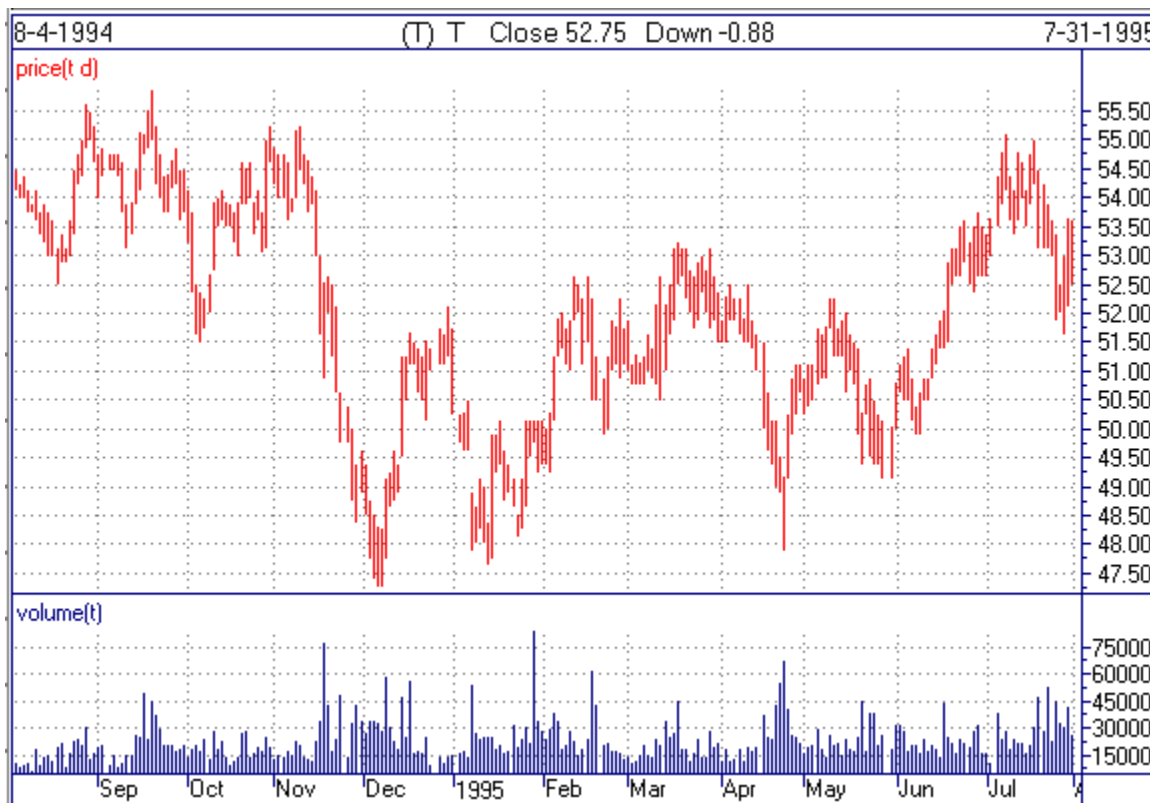
It was therefore particularly gratifying that the search for a final example on which to base our concluding remarks uncovered the long-term MIDAS chart for AT&T shown in the figure. Representing eleven years of data, virtually every feature of the MIDAS method detailed in the foregoing articles is exemplified in this single chart.



First, one can only marvel that the primary support level, S1, nearly precisely coincided with seven points of trend reversal over the six-year period 1984 - 1990. Similarly, the secondary support level, S2, launched in December 1990 has

precisely accommodated at least a half- dozen trend reversals with negligible porosity. The primary resistance level, R1, is similarly validated and - together with S2 - has the price trapped in a classic "squeeze" pattern. The tertiary support S3 has functioned as a resistance level after having been penetrated. Early in the chart, the foothill behavior is quite evident and even TOPFINDER makes its appearance in the near-doubling move from the mid-twenties to the mid-forties! Finally, the fractal character of the S/R hierarchy is clearly demonstrated since this eleven year MIDAS chart is indistinguishable in its morphology from the many year-long charts we have seen in the various articles.

**So it seems clear that MIDAS is for real and has much to contribute to technical analysis; self-delusion does not seem to be a problem.** Consider the richness of detail and the ease of interpretation which MIDAS provides. A single glance at the chart shows immediately that AT&T is involved in a silent combat between S2 and R1. Failure of S2, i.e. resolution of the squeeze to the downside, means a retreat to S1 at about 37 (and a great buying opportunity at the first sign of a bounce there). A convincing penetration of R1, on the other hand, implies at least a retest of the previous high. By way of comparison, some one looking at the conventional price-volume bar chart for the past year shown in the second figure would probably conclude that here is another example of random walk behavior!



**Thus, just as we began this series of articles with a side by side comparison of a MIDAS chart and a conventional bar chart, so shall we conclude this informal monograph.** Those who would integrate these techniques into their trading discipline are advised to be ever mindful of the fact that the market is in the final analysis inherently unpredictable. All MIDAS does is to define more clearly the tracks along which the market has been moving and - absent shocks and paradigm shifts - will presumably continue to move. As powerful as the MIDAS techniques appear to be, they will frequently be humbled by the market's caprice. Just as King Midas found to his grief, power always has its limitations, often from the least expected quarter.

**Finally, this is a good opportunity to address two of the most frequently asked questions in the correspondence provoked by these articles.** First, "Does Midas work for every stock?" Midas works best when a stock is in a coherent trend. Some stocks at some times are not and are better described in terms of a random walk. As an informal estimate based on years of experience, I would guess that at any given time, a useful S/R hierarchy can be identified for about two out of three stocks. TOPFINDER examples are generally rare, perhaps of the order of one instance in a year's worth of data for twenty stocks.

**It has also often been asked "Why are you disclosing these techniques for free; why not try and sell them in some form**

**or other?"** I have always felt that if MIDAS has any practical value, ample rewards would come from the market itself (and they have) far in excess of anything that could be made from such commercialization of the method. So long as MIDAS is not sufficiently widespread that it becomes self defeating as everyone is recognizing the same trading opportunities, there is no reason not to share the insights with the technical analysis community. It is my hope that the articles will stimulate research along these new lines and that the same spirit of openness will prevail in sharing the results.

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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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