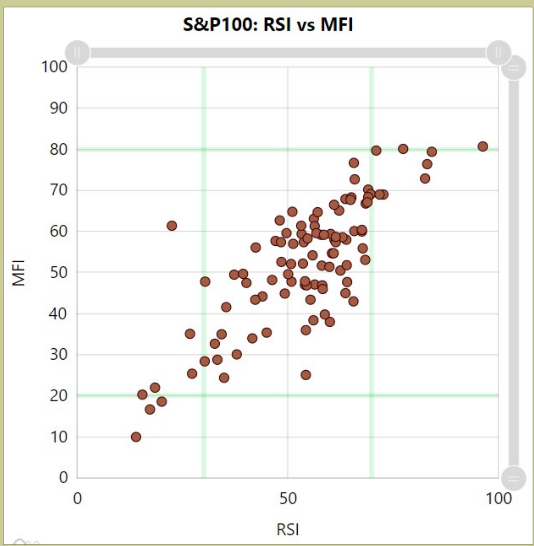
StoCoTo.com – Identifying Trading Opportunities

Four Ways of Identifying Stock Trading Opportunities

Below are four different ways to identify trading opportunities. They consist of a graph with two properties plotted against each other with an average group being formed. In general, the potential trading opportunities are the ones that deviate from the rest or are positioned in a corner. The input is provided by technical indicators (MFI, RSI), price change and volatility.

The design and selection of features in the graphs is to appeal to different types of traders, thereby creating very different signals. In this way, it is quick to make a selection of an individual stock to investigate further.

Technical Swing Points



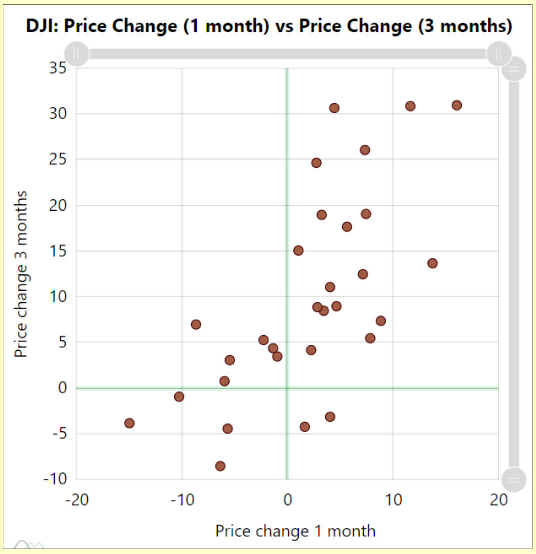
X-axis: Relative Strength Index (RSI)
Y-axis: Money Flow Index (MFI)
Green reference lines indicate technical trading signals of overbought or oversold.

The Money Flow Index (MFI) and Relative Strength Index (RSI) are technical indicators that are intended to identify overbought or oversold stocks. This provides an indication of a potential swing in the direction of the price trend.

The reference values for a reversal to an increase in price are MFI < 20 and RSI > 30. The indications for a change to a falling price are MFI >80 and RSI >70.

The MFI and RSI use different calculations to obtain their values, with the largest difference being that the MFI is based on both price and volume, while the RSI is only based on price. The result is that they intend to provide the same signal but are different indicators. Explaining their differences could provide an additional insight into the stocks' potential.

Growers and Recovered



X-axis: Price change (%) in the last 30 days
Y-axis: Volatility in the last 30 days
Green reference lines indicate the no-change threshold of 0%.

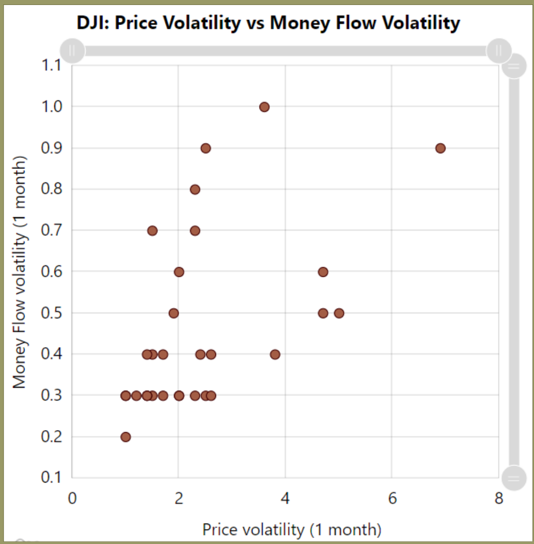
By comparing the 1-month and 3-month price changes, an indication can be obtained about the price behaviour in the short and longer term.

If both have been growing, this could indicate that the stock is on a long term growth path. If the 3-month growth has been flat or negative, but the 1-month growth is positive, it could be picking up a new trend of price growth.

In contrast, if the 3-month growth is positive, but the 1-month growth is negative, there could be a price reversal that indicates a lowering of price.

In addition, an overall price performance of the index or sector can be obtained and outliers identified, which can be further investigated.

High Volume Activity Without Price Change

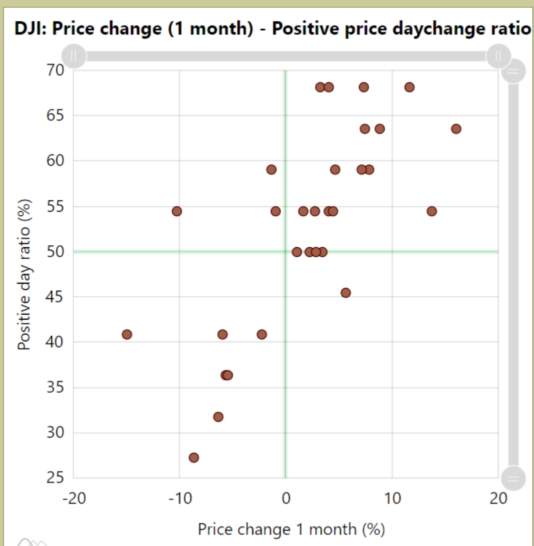


X-axis: Price change (%) in the last 30 days
Y-axis: Trading days (%) with price increase

A higher level of trade activity observed for trading a single stock has a high chance of leading to a price change (positive or negative). The reason for the high money flow is likely a desire in the market to buy or sell based on future expectations of the stock price.

Trade activity can be determined by the money flow (price * volume). The volatility of the money flow indicates a change in trade activity. This can be compared to price volatility. If money flow volatility is high, but price volatility is low, there could be a higher chance of an upcoming stock price change.

Percentage of Positive Trading Days in Relation to Price Change



X-axis: Price change (%) in the last 30 days
Y-axis: Trading days (%) with price increase
Green reference lines indicates (X) no price change and (Y) the halfway point between high and low price of the year

The percentage of days over the last 30-days that end with a higher close compared to the previous trading day can be determined. This can be compared to the overall price change in the same 30-day period.

One expects both to match as a steady growth path would indicate a high percentage of positive trading days. This does not nescessarily occur. A sharp fall can offset a steady climb. These differences and similarities could be useful in determining the price direction of a stock.

Developing a trading strategy

To be successful in trading, a strategy needs to be developed. This is more than applying the insights from the four different graphs. A first step is to understand the theory behind these graphs and how they are intended to be applied. Helpful is 'The Big Manual' and the articles on the technical indicator section of StoCoTo.com.

The four graphs indicate several opportunities and a trading strategy works best when the trader is able to select the best ones from these opportunities. This is where the skills of the traders come alive. This needs to be followed up with an honest evaluation of which buying or selling opportunities result in profitable trades. The stock market is unpredictable and all indicators shown in the webtool Stocoto.com are based on past behavior in price and volume.