

S&P 500 Price and Trend Index



Figure 1: S&P index and Trend index for S&P

The upper portion of the chart shows weekly S&P price starting from 2007 until end of September, 2011. The lower portion of the chart shows trend index which was created by propriety software which did not use S&P data when creating the trend index. If the index is above the red line then the expected S&P trend is up. When the index is above the blue the probability that S&P will experience an up trend is even higher. When trend index goes below the red line (0) then S&P will most likely go down. If the yellow line is also reached then the chances of a down trend are further increased. It's worth repeating again that the trend index was created without any S&P data being used as input, and that no optimization was done to increase its performance.

There are many ways of using this valuable information, one such method, shown in the chart is divergence. Divergence occurs when the S&P index makes new lows, while the trend index is not making a new low. Two examples of divergence are shown in the chart above. The first divergence, which occurs in September 2009, is a bottom divergence and indicates a very high chance that the market will turn higher. The second divergence, which started in January 2011, indicates with a high chance that the market will begin to trend downwards.

Another way of using the trend index is when the trend index is above the blue line and rising. That is an indication of a strong uptrend. On the other hand, if the trend index is below the yellow line and falling then that is a strong indication of a downtrend.

The Trend Index indicator can also be used for individual stock and commodities, as an example see figure 2.

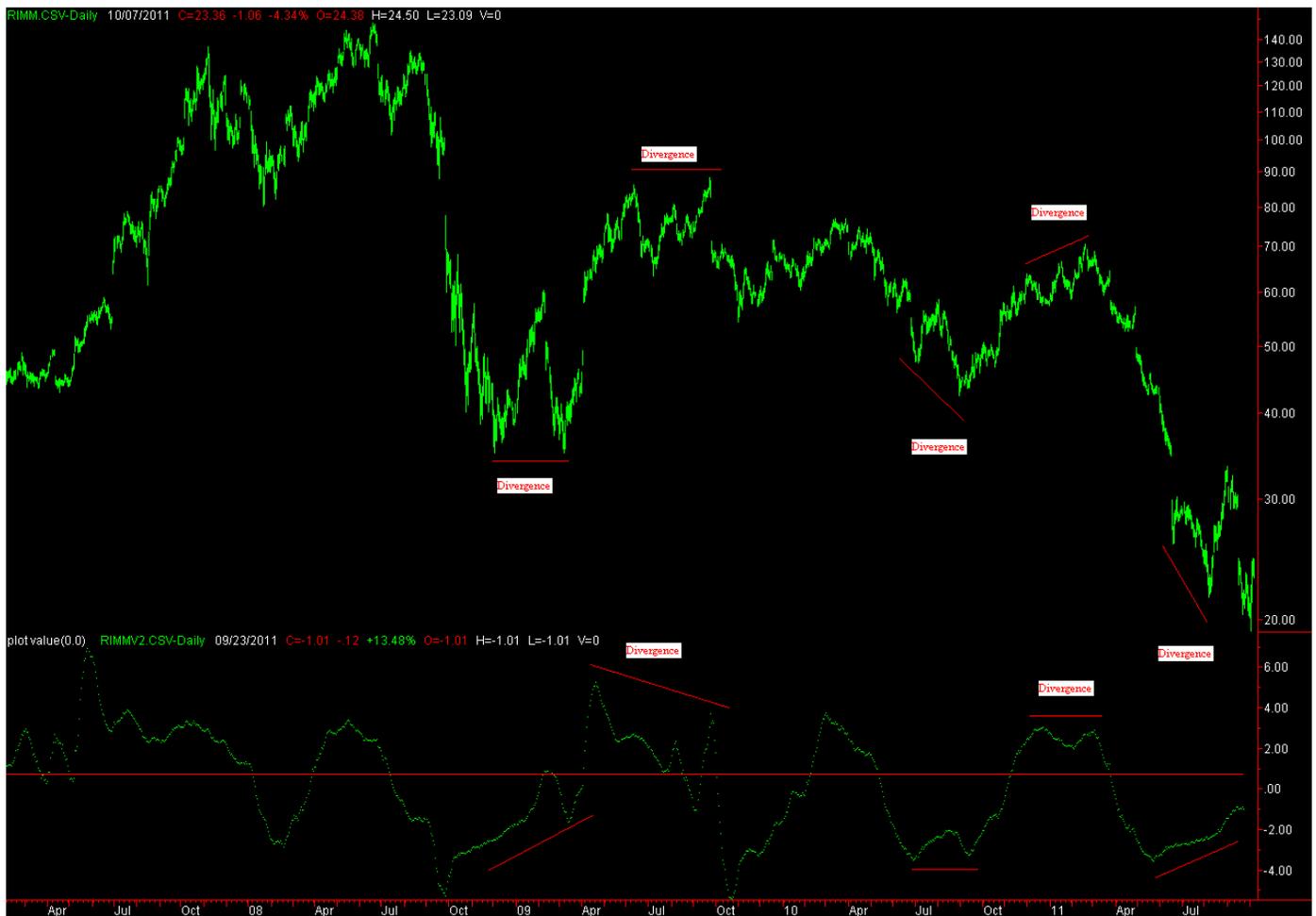


Figure 2: RIM stock price and Trend index for RIM

The RIM stock example indicates that the Trend Index works as well for individual stocks as well as the S&P 500. The RIM chart provides more examples of divergences, as indicated by red lines on the bottom and top.



Figure 3: Manulife stock price and Trend index for Manulife

The above figure shows the trend index being applied to Manulife stock. Notice major tops and bottom were preceded by a divergence of the trend index and the stock price. Divergence 1, for example occurred before a very large drop in stock price. Divergence 2 predicted that a rally would occur after a very steep drop in the price of Manulife stock, because trend index did not drop to a new low while the stock price did.



Figure 4. Asseco (Warsaw stock exchange) stock price and trend index values

The above figure shows one example of the trend index showing a divergence and predicting a bottom before it happen. The divergence is one use of the trend index but there are other ways to trade based on the trend index.

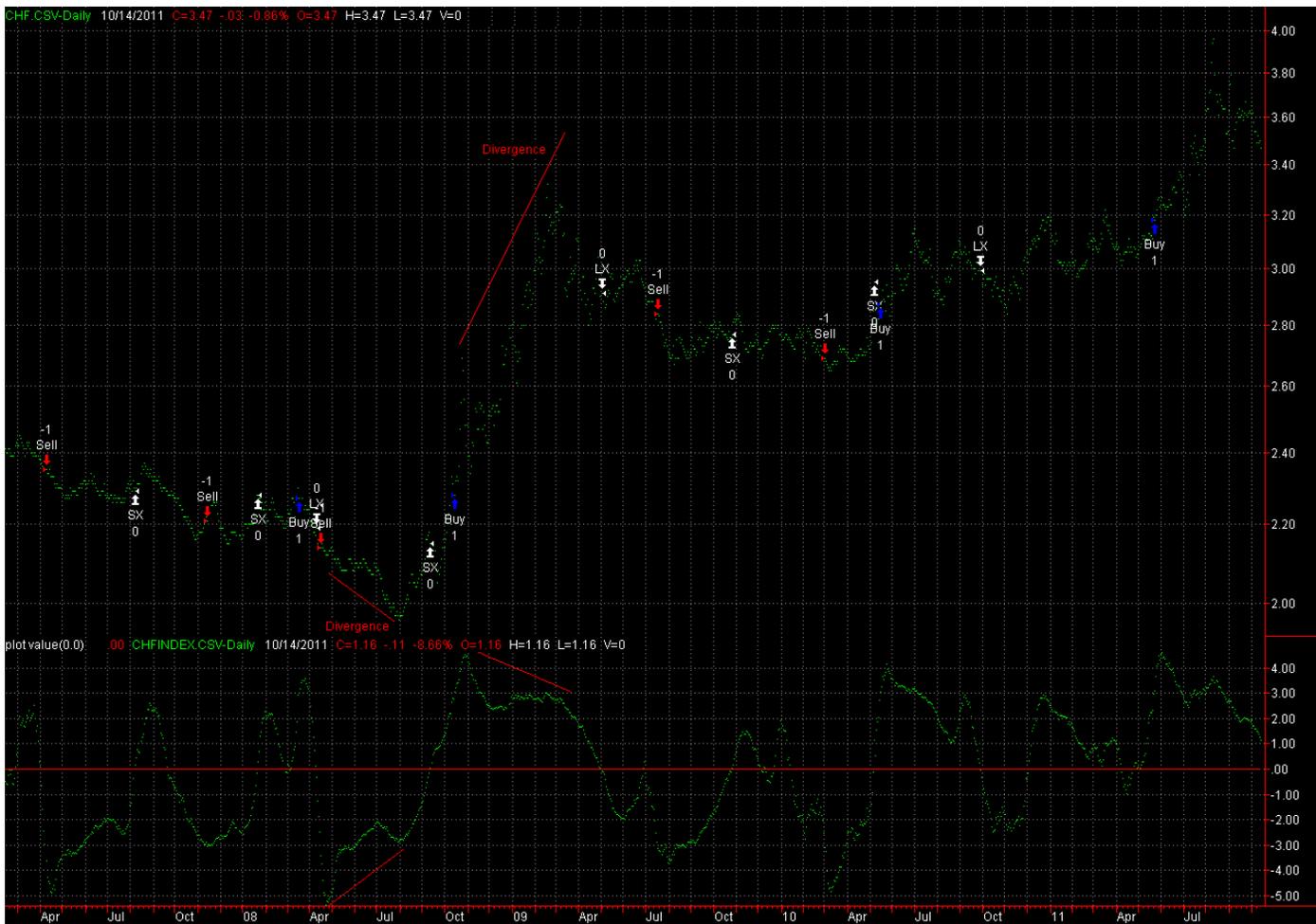


Figure 5. Swiss Franc - Polish Zloty exchange rate and trend index

Figure 5 shows the divergence and the buy and sell signals based on the trend index. The divergence were a pretty good indicator of significant market tops and bottoms.

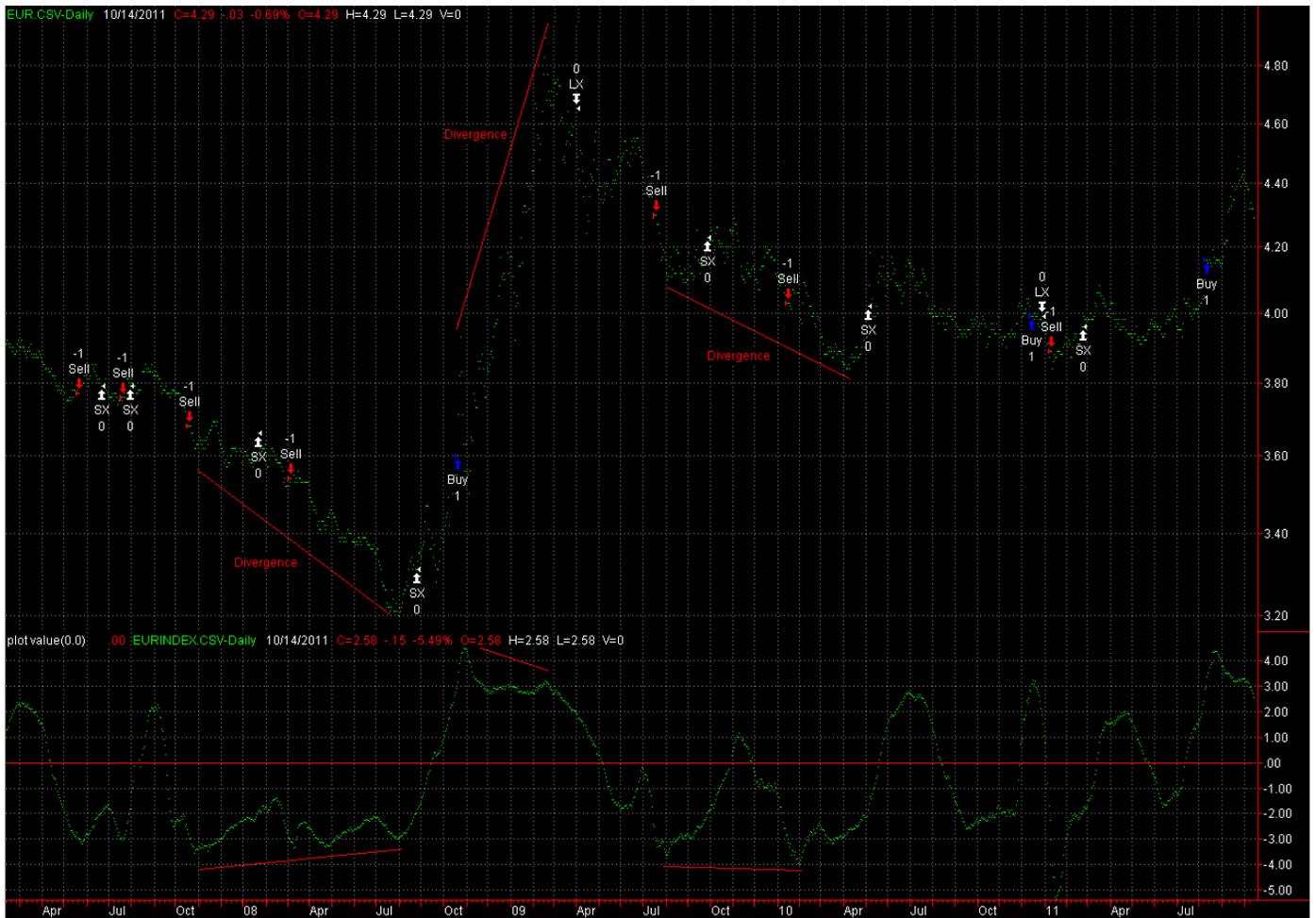


Figure 6. Euro - Polish Zloty exchange rate and trend index

Figure 6 show the trend index being used on Euro – Zloty rate. The divergence found notable tops and bottoms. The buy and sell signals for a system based on the trend index are shown and the performance of the system is summarized in figure 7.

Performance Summary: All Trades

Total Net Profit	\$126.00	Open position P/L	\$13.00
Gross Profit	\$138.00	Gross Loss	(\$12.00)
Total # of trades	9	Percent profitable	66.67%
Number winning trades	6	Number losing trades	3
Largest winning trade	\$105.00	Largest losing trade	(\$7.00)
Average winning trade	\$23.00	Average losing trade	(\$4.00)
Ratio avg win/avg loss	5.75	Avg trade (win & loss)	\$14.00
Max consec. Winners	6	Max consec. losers	2
Avg # bars in winners	72	Avg # bars in losers	20
Max intraday drawdown	(\$10.00)		
Profit Factor	11.50	Max # contracts held	1
Account size required	\$10.00	Return on account	1260.00%

Figure 7.Trade summary for example system for the Euro chart above



Figure 8. Lotos (Warsaw Exchange) stock price and trend index values

Another example of divergences predicting tops and bottoms.

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Figure 9. Pknorlen (Warsaw exchange) stock price and trend index values

More example of divergences and buy and sell signals based on the trend index.

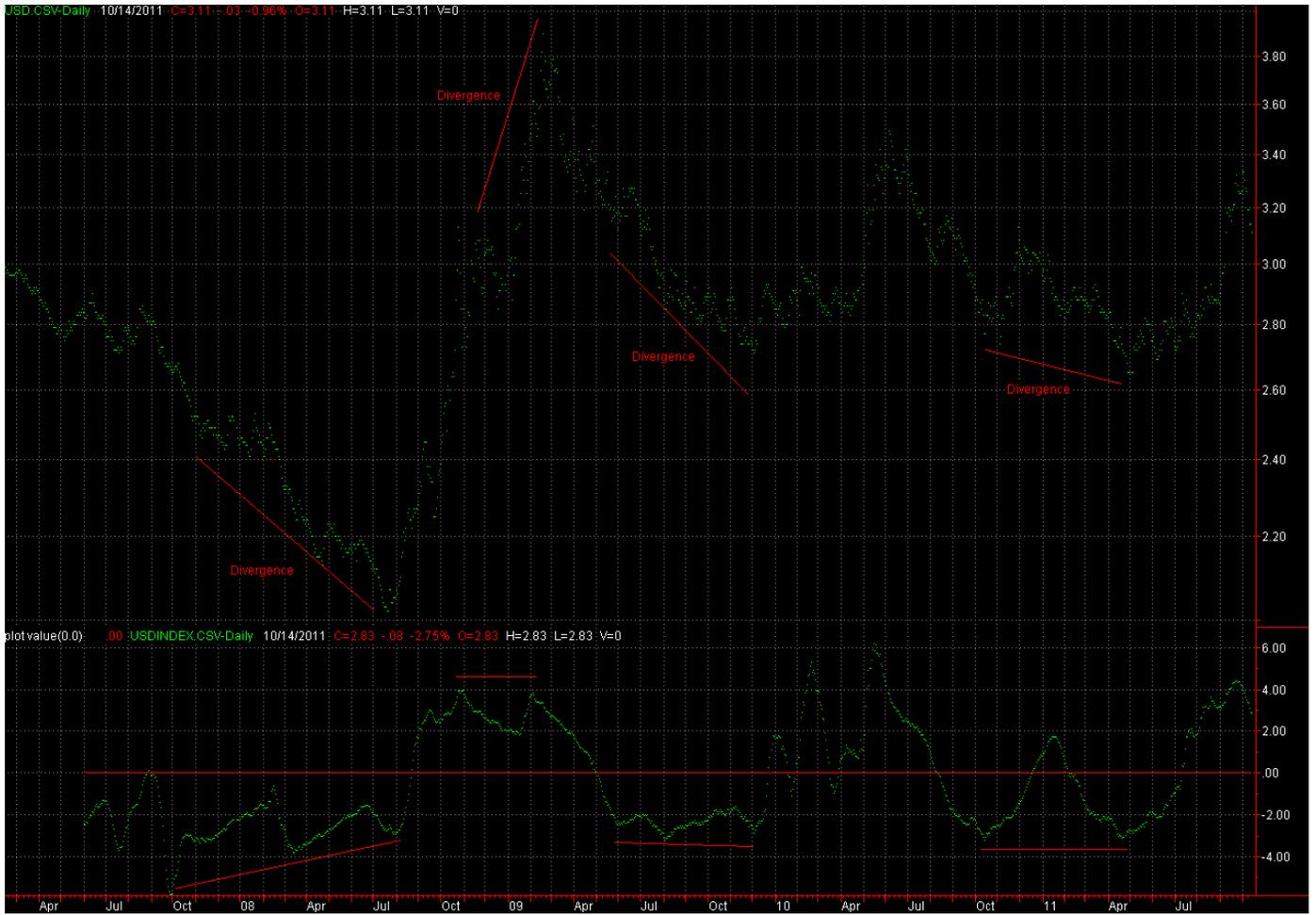


Figure 10. USD - Zloty exchange rate values and trend index



Figure 11. Warsaw stock exchange index and trend index



Figure 12. Zywiec (Warsaw exchange) stock price and trend index

Conclusion

The trend index is a creative and original approach to stock and commodity analysis. It is simple, robust, and reliable. It can be used in a number of different ways, some of which are shown above. For example, if the trend index is above zero and trending up, then it's likely that stock or commodity will have upward momentum. The reverse is true for downward trends. If there is a sharp divergence between the trend index and the stock or commodity, then it's likely that a market top or bottom has been reached. The examples shown range from S&P 500 index, US stocks, Canadian Stock and Polish stocks as well as currencies.

The trend index has been demonstrated to be a useful trading tool, and even though it does not work 100% of the time, the times it does work it is a very helpful addition to any trader's or investor's arsenal.

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