

SwamiCharts – A Modern Approach to Technical Indicator Visualization

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Note: Please see SwamiCharts.com for additional information and video tutorials.

It's time for a better technical indicator stock chart. SwamiCharts retain the core functionality of the technical indicators you're already familiar with while packing much more information into an easy-to-interpret heatmap chart. With SwamiCharts, you're now visualizing each indicator over a range of lookback periods to reveal a better view of the indicator's true meaning in context.

Success with conventional technical indicators is dependent on the correct choice of lookback period but there is no sure-fire method to choose. With conventional indicators you typically have to adjust the lookback period to a middle-of-the-road setting to avoid whipsaws. With SwamiCharts, the shorter lookback periods automatically provide an earlier notification of change while longer periods provide confirmation and continuation. And there's no need to focus on finding the single best lookback period. SwamiCharts free you from the narrow view afforded by a single lookback period and the dubious nature surrounding the choice of lookback period.

Ordinary technical indicators give you precision but at what meaning? For example, a conventional RSI indicator chart shows you precisely when the indicator crosses over 80 but does this occurrence always have the same meaning? You already know the answer to this. SwamiCharts offer an alternative – a sweeping view of the indicator's true meaning in a big-picture context. And of course, you can always continue to use your favorite conventional indicators alongside SwamiCharts indicators.

A BRIEF DESCRIPTION AND AN EXAMPLE

SwamiCharts are created as a "mosaic" of indicator readings at multiple lookback periods with each reading pieced together into a heatmap chart. Instead of showing numeric values, indicator readings are converted to colors where red indicates bearish and green indicates bullish or blue indicates cold and white indicates hot, etc. The vertical Y-axis represents the lookback period. As you move up the y axis, each subsequent y-axis position shows the indicator at the next longer lookback period.

At any given time or time range (vertical slice), scanning the bottom portion of a SwamiChart shows the indicator readings at shorter lookback periods and the top portion shows the longer readings. With conventional indicators you see the indicator at a single lookback period. With SwamiCharts, the shorter readings give you an early alert and the longer readings provide confirmation and continuation.

Let's take a look at an example. Figure 1 shows the E-Mini S&P500 contract using 15 minute bars with the Swami Predict and Swami Volume indicators. At 11:30 on 10/23 prices are moving up on low (deep blue) volume. Smart money is quietly accumulating. At 12:00 Swami Predict notices the move and turns bullish at the shorter lookback periods. Prices gap up slightly at the open on Oct. 24 as volume remains fairly low. At 8:30 on 10/24 prices are continuing to rise on increasing volume (blue becoming white) as more traders take notice and jump in. At 10:00, Swami Predict gives an early warning that the uptrend may fading as we see the indicator turning bearish (red). Volume is falling off as well. By 11:30 volume has dried up as prices are peaking, often an indication of an impending reversal. The reversal occurs on a volatile gap-down and volume picks up as the selling intensifies. Churning (high volume with little price movement) reaches a white-hot peak at 8:30 on 10/25. Finally, at the far right of the chart, volume has again dried up and it appears that the major selling has subsided. With the sellers gone, prices may be ready to begin a new leg up. It would be wise however to wait for confirmation (i.e., prices again begin to move up on low volume).

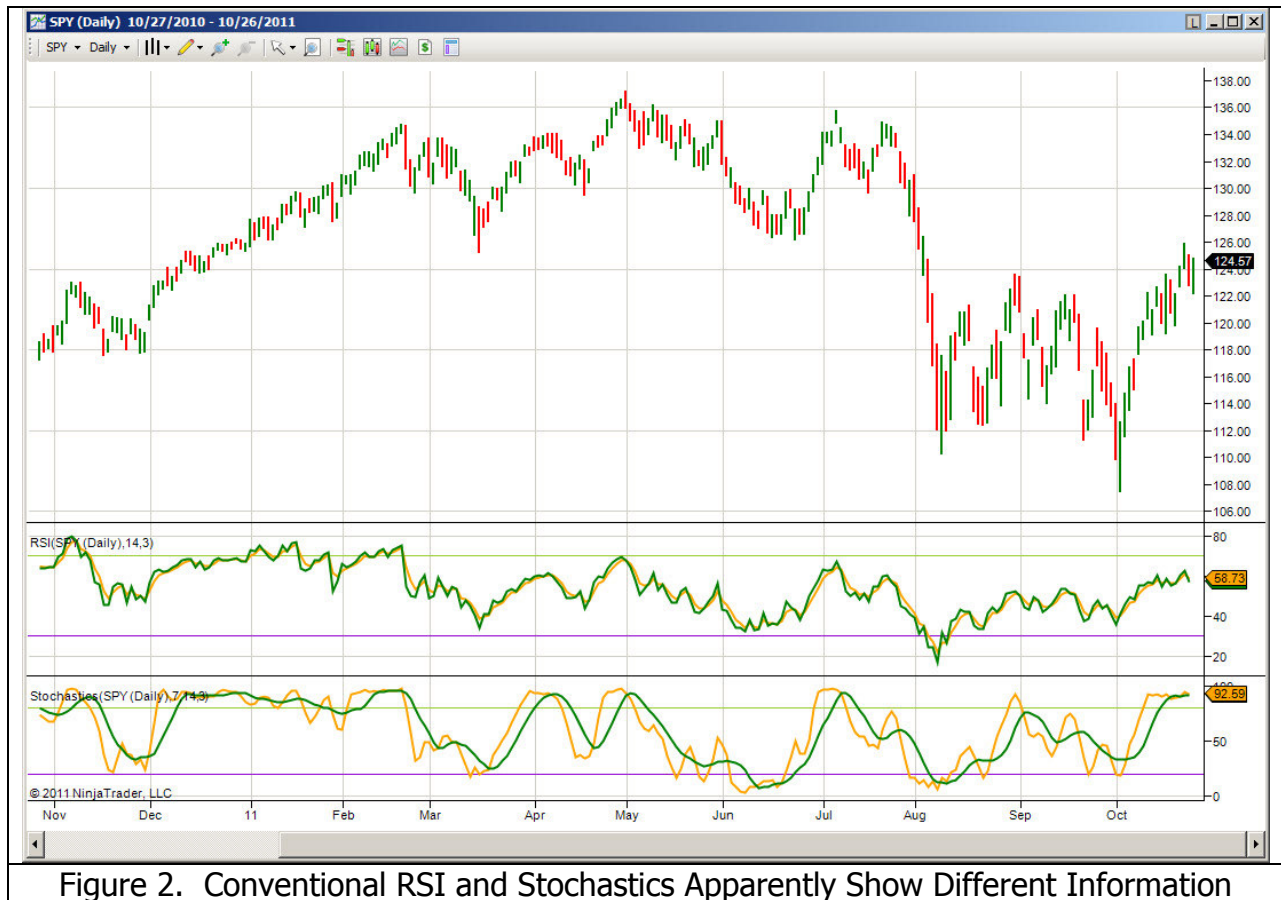


Figure 1. SwamiChart Illustrating Volume Leading Price

In conclusion, volume leads price but the relationship is complex depending on whether price moves are in an early or late stage, whether they occur at peaks or valleys, and whether they occur after a significant run-up or selloff. SwamiCharts show the complex price/volume relationship much more clearly than a ordinary volume bar chart.

EXPANDING THE VISIBILITY OF CONVENTIONAL INDICATORS

Here we show how certain classical technical indicators appear nearly equivalent when seen as SwamiChart renderings, even though they may look very different in their conventional views. Figure 2 is a daily chart of SPY over a 1 year timeframe. The well-known RSI indicator is in the first subgraph and the (also well-known) Stochastics is in the second. The first observation is that these indicators are seemingly telling you different things about the price movement. Here we won't go into details of the interpretation but suffice it to say that they are clearly providing different information.



Let's see how these two indicators look in SwamiCharts format in Figure 3. At a glance you can see they are providing similar information about the market activity. The green areas show when the market is moving up, the red areas show when the market is moving down, and yellow denotes the transition region between the two. In other words, yellow is a warning that price reversals may be imminent. As you would expect, the shorter lookback signals at the bottom of the charts occur earlier than those in the middle and top of the SwamiChart. Since shorter lookback periods use less data in the computation, the indicator is quicker to respond to any new price movements.

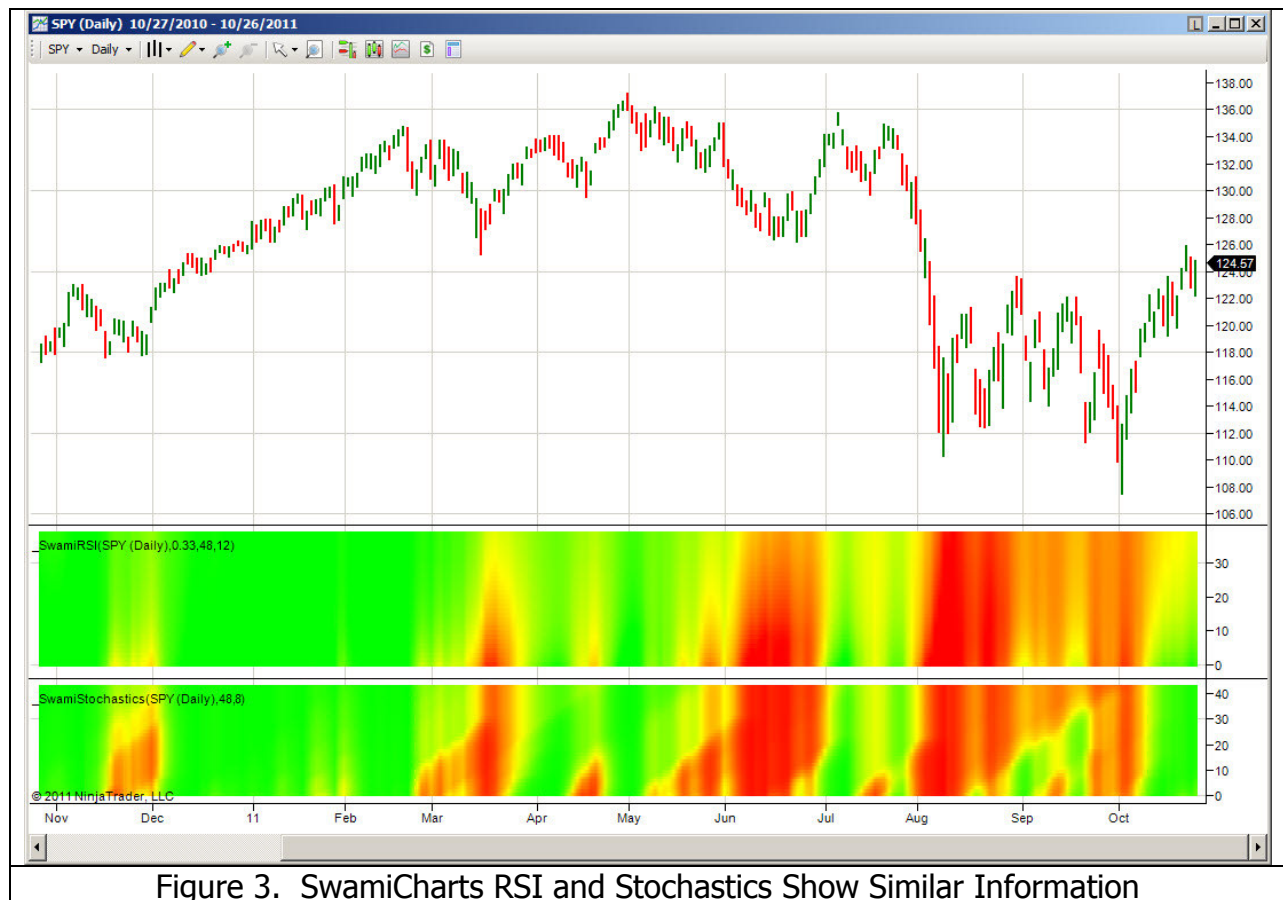


Figure 3. SwamiCharts RSI and Stochastics Show Similar Information

The proper use of SwamiCharts indicators is to scan the bottom of the chart to get initial signal of a change. Then, viewing the chart as a whole, put that initial signal in the context of all lookback periods to establish your trading position.

CONCLUSION

Conventional technical indicators are often handicapped by the narrow view of a single lookback period. Success with conventional indicators is highly dependent on correct choice of lookback period. Does it make sense to always use the same one? Will backtesting improve my results? How far back should I test? These questions persist with conventional indicators. SwamiCharts provide an alternative, a big picture view over a range of lookback periods. And although they provide more information, SwamiCharts are typically easier to interpret than their conventional indicator counterparts. As you become familiar with SwamiCharts, we think you'll agree that trends and cycles emerge more succinctly while continuation patterns and reversals become easier to identify.

Please visit SwamiCharts.com for more information and to preview our cutting-edge SwamiCharts Essentials, Advanced, and Day Trading indicators.