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In trading territory

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IN THE last five issues, we talked about the multiple time frame concepts of Robert Krausz. Krausz also devised another method of trading markets and maintaining trading positions by means of a device called Balance Point, which we discussed in the last issue. Once we have calculated the balance point (BP), we may calculate the Fibonacci support and resistance bands.

The Fibonacci resistance band for the daily chart is made up of two upper prices. Fifty per cent of the past week's range added to the BP is the lower side of the resistance band while the upper side is 61.8 per cent of the previous week's range added to the BP.

The Fibonacci support zone is calculated in the same fashion. Fifty per cent of the past week's range subtracted from the BP is the upper side of the resistance band while the lower side is 61.8 per cent of the previous week's range subtracted from the BP.

Our two examples of the Fibonacci support and resistance zones come from the Kuala Lumpur Stock Exchange Composite Index (KLCI) daily chart. The 'multiple time frame concept' allows daily, weekly and monthly indicators to be drawn onto the daily chart of any commodity. In the case of Chart 1, we see the daily chart of the KLCI from June to August 2002. The Fibonacci Trader software draws the zones for us at the mere click of a mouse. The BP for the KLCI is drawn (indicated by the dotted line) on the chart over five days. Remember, we are using the weekly indicator for the daily chart in this example. Therefore, the software will draw the BP for the next week over five trading bars (or days).

The other lines form the weekly Fibonacci Resistance and Support Zones (FRSZ). Having these lines on the daily chart does not mean that markets must stay within the confines of the computer-calculated zones only. The first four sets of FRSZ contain the market action of the KLCI very well. The price action of the KLCI broke below the computer's projected range on Prime Minister Datuk Seri Dr Mahathir Mohamad's resignation and subsequent retraction from all Government and party posts in late June 2002. The subsequent FRSZ levels generally worked very well again with the KLCI data. What can be said about the FRSZ is that it works very well in ranging markets but is not so good when markets break out of the FRSZ zones. However, the software is quick to adjust for the next week (or period)'s zones.

In Chart 2, we see the same KLCI daily chart from March to August 2002. This time, the monthly FRSZ zones are drawn on this daily chart. The concept is similar to the weekly FRSZ, except that one month's trading data will provide the next FRSZ monthly zone. We also see that the monthly FRSZ also captures the price bars in its expected range of support and resistance bands. The only exception to this is the market's surge to 816.94 points in April 2002 which exceeded its monthly FRSZ.

We have added another useful tool to our technical analysis armoury, one that is good for trading market ranges. Readers may want to investigate the use of this new tool further.