Option Wizard™ Online

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Download Option Wizard™, visuals at: http://option-wizard.com

Backtest Wizard™ 3.1 Technical Indicators ROC, RSI, and DMI

Backtest Wizard™ 3.1 adds a battery of technical indicators: Rate of Change, Relative Strength Index, and Directional Movement Index to its original group of Force Index, Moving Averages and Stochastics.

Rate of Change measures the speed of price change.

Relative Strength Index a price-following oscillator that ranges between 0 (oversold) and 100 (overbought).

Directional Movement Index, also known as the ADX (Average Directional Index) is a trend following system. It measures the strength of up and down moves in the underlying.

An integrated worksheet in Option Wizard™ Online, Backtest Wizard™ 3.1 takes the last 200 days of high-low-close and volume, analyzes for volume, trend and momentum and returns buy and sell signals. All indicators and signals may be smoothed or customized.

Data source is Microsoft Investor Network; (Option Wizard is a member of Microsoft's Software Developer Network.)

Backtest Wizard 3.1 is $199.95; $49.95 when purchased with any Option Wizard product (offline, delay or real time). Powered by PC Quote, Option Wizard Online is $299.95 (delay) and $499.95 (real time). Delay data is free; real time is $9.95 per month plus exchange fees. A trial version of Option Wizard Online is available for $59.95.

Option Wizard debuted on the worldwide web in August, 1995, and quickly won a worldwide audience of adherents who wish to do options analytics and technical analysis in a familiar and customizable Microsoft Excel environment. (Microsoft Excel is the program of choice among many top Wall Street institutional financial and options analysts because it can be customized.) Unique features include the decay table, percent-to-double, and Internet integration.

Option Wizard won a Reader's Choice Award in December, 1998 from *Technical Analysis of Stocks and Commodities* magazine.

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Backgrounder: Technical Indicators in Backtest Wizard 3.1

Credit: http://www2.barchart.com/learning.asp

Newly added Backtest Wizard Indicators

Relative Strength

The Relative Strength Index (RSI) is one of the most popular overbought/oversold (OB/OS) indicators. The RSI was developed in 1978 by Welles Wilder.

The name "Relative Strength Index" is slightly misleading as the RSI does not compare the relative strength of two securities, but rather the internal strength of a single security. The RSI is basically an internal strength index which is adjusted on a daily basis by the amount by which the market rose or fell. A high RSI occurs when the market has been rallying sharply and a low RSI occurs when the market has been selling off sharply.

One characteristic of the RSI is that it moves slower when it reaches very overbought or oversold conditions, and then snaps back very quickly when the market enters even a mild correction. This brings the RSI back to more neutral levels and indicates that the price trend may be able to resume.

When Wilder introduced the RSI, he recommended using a 14-day RSI. Since then, the 9-day and 25-day RSIs have also gained popularity. The fewer days used to calculate the RSI, the more volatile the indicator.

The RSI is a price-following oscillator that ranges between 0 and 100. A popular method of analyzing the RSI is to look for a divergence in which the security is making a new high, but the RSI is failing to surpass its previous high. This divergence is an indication of an impending reversal. When the RSI then turns down and falls below its most recent trough, it is said to have completed a "failure swing." The failure swing is considered a confirmation of the impending reversal.

The ADX Indicator, otherwise known as Directional Movement Index.

The ADX is a trend following system. The average directional movement index, or ADX, determines the market trend. When used with the up and down directional indicator values, +DI and -DI, the DMI is an exact trading system.

The standard interpretation for using the ADX is to establish a long position whenever the +DI crosses above the -DI. You reverse that position, liquidate the long position and establish a short position, when the -DI crosses above the +DI.

In addition to the crossover rules, you must also follow the extreme point rule. When a crossover occurs, use the extreme price as the reverse point. For a short position, use the high made

during the trading interval of the crossover. Conversely, reverse a long position using the low made during the trading interval of the crossover.

You maintain the reverse point, the high or low, as your market entry or exit price even if the +DI and the -DI remain crossed for several trading intervals. This is supposed to keep you from getting whipsawed in the market.

For some traders, the most significant use of the ADX is the turning point concept. First, the ADX must be above both DI lines. When the ADX turns lower, the market often reverses the current trend. The ADX serves as a warning for a market about to change direction. The main exception to this rule is a strong bull market during a blow-off stage. The ADX turns lower only to turn higher a few days later.

According to the developer of the DMI, you should stop using any trend following system when the ADX is below both DI lines. The market is in a choppy sidewise range with no discernible trend.

Original Backtest Wizard Indicators

Moving Averages

A moving average is the average price of a security over the previous n-day closes. For example, a "simple" 9 day moving average is the average of the closing prices for the past 9 days. In calculating the moving average each day, the earliest day is dropped and the latest day is added to the number being averaged.

The moving average is used to observe price changes. The effect of the moving average is to slow down the price movement so that the longer term trend becomes smoother (or less volatile) and therefore more obvious. When the price rises above the moving average, it indicates that investors are becoming bullish on the security. When the prices falls below, it indicates a bearish trend.

The longer the period of the moving average, the smoother the price movement is. A 200-day moving average is commonly used to isolate long-term trends.

There are many variations of the moving average available, such as the moving average of the high prices and the low prices representer in a channel called the Moving Average High/Low channel. This is also known as the Jake Burstein's high/low channel.

The Exponential Moving Average assigns a weight to the price data as the average is calculated. The oldest price data in the exponential moving average is never removed from the calculation, but its weighting is decreased the further back is gets in the calculations.

Stochastics

The stochastics indicator was developed by George Lane in the early 1960's. The stochastics indicator is based on the observation that as the price of an instrument increases, the daily closes tend to be closer to the upper end of the recent price range. Conversely, as the price

decreases, the daily closes tend to be closer to the lower end of the recent price range.

The stochastic values simply represent the position of the market on a percentile basis versus its range over the previous n-day sessions. The percentile scale begins with zero at the bottom of the n-day range and ends with 100 at the top of the range. The Stochastic Oscillator compares where a security's price closed relative to its price range over a given time period.

There are three primary stochastic values:

1.Raw K - the most basic value 2.%K - represents the slowing of the K value 3.%D - represents the slowing of the %K value ("double slowing of the raw K")

There are two parameters for stochastics:

1.the n-day range over which the Raw K percentile is calculated 2.the y-day exponential smoothing factor for %K and %D

"Fast Stochastics" refers to comparing Raw K and %K, while "Slow Stochastics" refers to comparing the slower %K and %D values. However, it should be noted that there are a wide variety of different names for the stochastic values.

Note: Raw K is simply the inverse of Williams Percent R which uses an upside down scale with zero at the top and 100 at the bottom.

The Stochastic Oscillator is displayed as two lines. The main line is called "%K." The second line, called "%D," is a moving average of %K. The %K line is usually displayed as a solid line and the %D line is usually displayed as a dotted line.

There are several ways to interpret a Stochastic Oscillator. Three popular methods include:

1.Buy when the Oscillator (either %K or %D) falls below a specific level (e.g., 20) and then rises above that level. Sell when the Oscillator rises above a specific level (e.g., 80) and then falls below that level. 2.Buy when the %K line rises above the %D line and sell when the %K line falls below the %D line.

Look for divergences. For example, where prices are making a series of new highs and the Stochastic Oscillator is failing to surpass its previous highs.

The Stochastic Oscillator always ranges between 0% and 100%. A reading of 0% shows that the security's close was the lowest price that the security has traded during the preceding n-day periods. A reading of 100% shows that the security's close was the highest price that the security has traded during the preceding n-day periods.

Force Index

A feature explaining Force Index is on the web at http://option-wizard.com.

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