



## The Better Volume Indicator ... My Secret To Analyzing Volume

### Most Traders Ignore Volume - Big Mistake!

Volume has to be the most underrated market variable used in technical analysis. But if you know how to analyze and interpret it, you'll be able to see market turning points develop and anticipate trend changes. What you'll learn in the following article:

- How to identify climax volume, volume churn and low volume
- What 3 volume patterns occur again-and-again at market tops
- What 3 volume patterns occur again-and-again at market bottoms
- How can volume tell you when an up trend or down trend has started
- What volume patterns signal mid-trend entry points

Most traders focus on whether the volume is buying volume or selling volume. This has to be flawed - the buying volume by definition equals the selling volume. What we should be looking at is average trade size, whether new buyers or sellers are entering the market and what effect they are having on price - and I use a combination of tick charts, volume and the bar's RANGE to determine this.

### Better Volume Indicator Code

```

Inputs: Color(Cyan), LowColor(Yellow), ClimaxColor(Red), ChurnColor(Green),
ClimaxChurnColor(Magenta), LowChurnColor(White),
AvgColor(Red);
Variables: BarColor(Cyan);

BarColor = Color;

Value1 = V;
Value2 = V*Range;
If Range <> 0 then Value3 = V/Range;
Value4 = Average(Value1,100);

If Value1 = Lowest(Value1,20) then BarColor = LowColor;
If Value2 = Highest(Value2,20) then BarColor = ClimaxColor;
If Value3 = Highest(Value3,20) then BarColor = ChurnColor;
If Value2 = Highest(Value2,20) and Value3 = Highest(Value3,20) then
BarColor = ClimaxChurnColor;
If Value3 = Lowest(Value3,20) then BarColor = LowChurnColor;

Plot1(Value1,"Volume",BarColor);
Plot2(Value4,"Avg",AvgColor);
  
```

*Better Volume Indicator EasyLanguage Code*

TradeStation EasyLanguage code for the Better Volume indicator is shown above. The typical volume histogram can be improved by coloring bars based on 5 criteria:

- Climax volume - high volume and high range
- High volume churn - high volume but low range
- Climax volume plus High volume churn - both the above conditions (rare)
- Low volume churn - low volume and high range
- Low volume - just low volume but not a low volume churn bar

Volume Climax is identified by multiplying volume with range and then looking for the highest value in the last 20 bars. In the code above, Value2 is used to make the calculation and comparisons. Volume Climax indicates large volume demand that results in bidding up prices. The bars are colored red.

Volume Churn is simply the bar's volume divided by the bar's high to low range. When Volume Churn is high it indicates demand is being met by new supply at tops or supply is being met by new demand at bottoms - in effect, price is not able to advance as new supply or demand enters the market.

When Volume Churn is low it indicates that price has moved quickly on very little volume. In the code above, Value 3 is used to make the Volume Churn calculation and comparisons. A look-back period of 20 bars is used and the bars are colored green.

Occasionally Volume Climax and High Volume Churn bars coincide and these bars are colored magenta. Lastly, any low volume bars (and not Low Churn bars) are colored yellow. When there are no volume signals to highlight the default bar coloring is cyan.

The Better Volume indicator uses a look-back period for determining high and low values of 20 bars - a typical cycle length. I have "hard coded" the value of 20 but it is easy enough to change or use an input variable instead.

## Volume Indicator Signals at Market Tops



*Volume Indicator: Market Tops*

Market tops are characterized by Volume Climax, High Volume Churn and Low Volume patterns. The most common pattern is Volume Climax followed by High Volume Churn. Sometimes these patterns will occur in the same bar - and the bars are colored magenta. On other occasions the High Volume Churn bar will come first and then be followed by Volume Climax.

Tops usually take a lot longer to develop than market bottoms. Don't be suckered in too soon - wait for the market to become exhausted. A useful signal to watch for is the Low Volume bar - this shows that finally there is no demand and the market is likely to stop advancing.

## Volume Indicator Signals at Market Bottoms



*Volume Indicator: Market Bottoms*

Market bottoms are characterized by Low Volume Churn, Low Volume and High Volume Churn. The most common pattern is the Low Volume Churn. This either occurs alone or with High Volume Churn or Low Volume bars.

The Low Volume Churn bar happens when the market spikes down, with large range but very little volume. When a bottom is approaching, this could be professionals "testing" to see if there is more supply present. Watch to see if the market continues down or stops and reverses.

## Volume Indicator Signals as Trends Start



*Volume Indicator: Start of Trend*

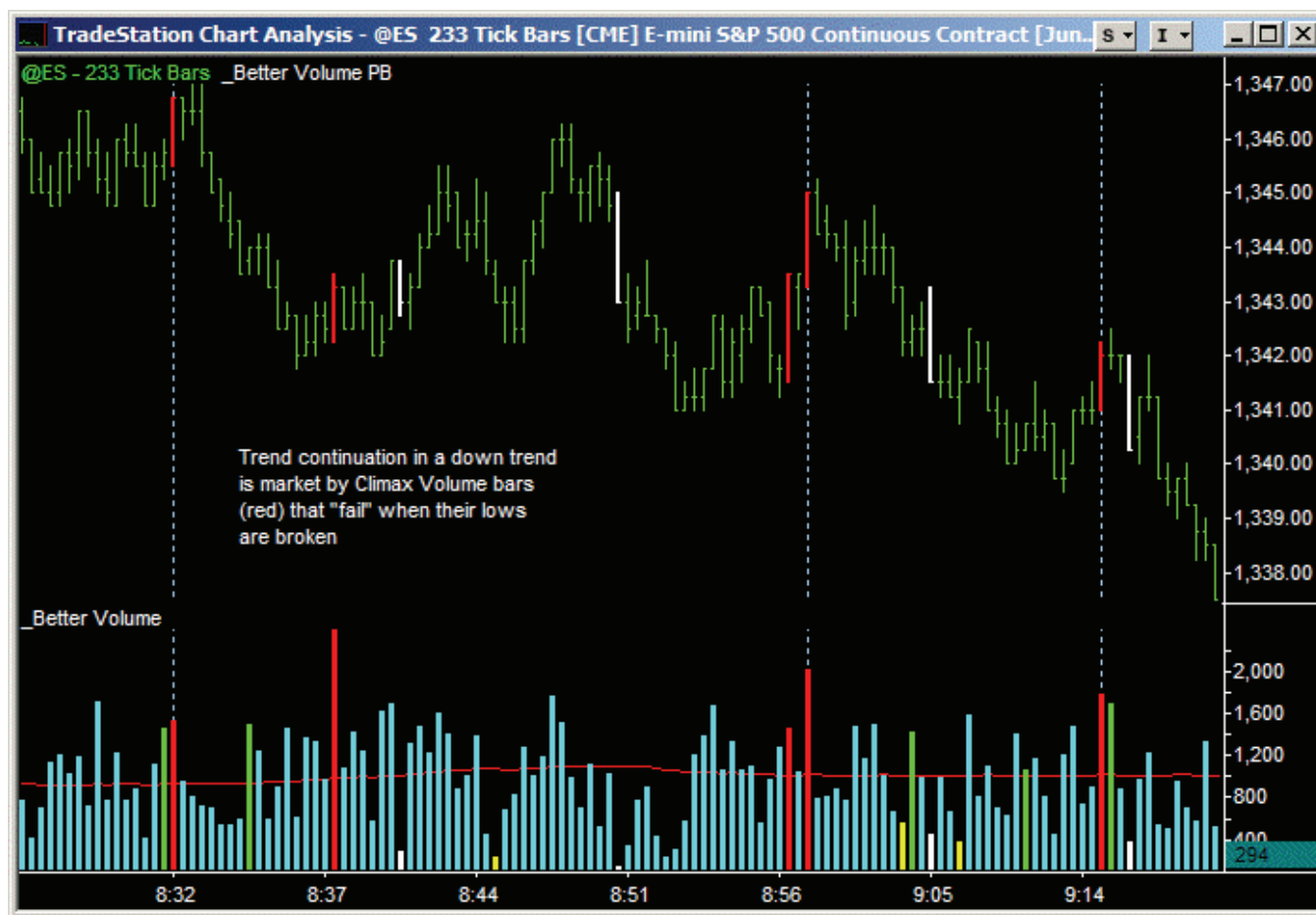
The beginning of an up trend is almost always marked by a Volume Climax bar. This shows that the buyers are anxious to get on board and large volume enters the market and bids up prices quickly. A valid breakout should be followed by more buying but occasionally the low of the Volume Climax bar is tested.

The beginning of a down trend is almost always marked by a Low Churn bar. This shows there is no demand to support price and it quickly collapses, resulting in a low volume but large range bar.

What I think is happening is this. As the market rises strongly, amateur traders start chasing prices higher. Some will buy at market, others place resting buy orders. As the move gathers momentum the buy orders will be progressively pulled up, until there is a long "tail" of resting buy orders. However, the volume at each price point within the "tail" will be relatively small.

Now for a large trader to take profits or a short trade quickly, he will have to go quite far down the "tail" to get his volume filled. The result will be a large range bar down and hence Low Churn. The relatively large counter-trend move can be enough to spark more profit-taking or the start of a downswing. I'm sure this is part of the professional trader's plan.

## Volume Indicator Signals as Trends Continue



*Volume Indicator: Down Trend Continuation*

During a down trend, pull backs are often characterized by Volume Climax bars. These show short covering or traders calling a bottom too quickly. As soon as this Climax volume declines the down trend is likely to resume. Continuation of the down trend is confirmed when the low of the Volume Climax bar is taken out.

During an up trend, pull backs are often characterized by Low Volume Churn bars. These show that selling volume is drying up and the trend is likely to continue. Resumption of the up trend is confirmed when the top of the Low Volume Churn bar is taken out (no chart example shown).

## Better Volume Indicator - Summary

	Bottom	Start Up Trend	Up Trend Continue	Top	Start Down Trend	Down Trend Continue	Indicator Color
Volume Climax		Yes		Yes		Yes	Red
High Volume Churn	Yes			Yes		Yes	Green
Climax + Hi Churn				Yes		Yes	Magenta
Low Volume Churn	Yes		Yes		Yes		White
Low Volume	Yes		Yes	Yes			Yellow

### *Better Volume Indicator: Summary*

Here's a quick reference guide that shows what volume indicator signals to watch for at different stages of the market. A word of caution with intra-day charts. High Volume Churn often appears on the last bars of the trading day. This does not necessarily represent a possible turning point, but is more likely just to be high volume from day traders closing out positions. After hours signals are also suspect unless there is good volume being traded.

This method of identifying market turning points using volume becomes even more powerful when combined with other non-correlated indicators. In my trading I use the [Hilbert Sine Wave](#) to identify cyclical turning points and take the trade when confirmed with the volume indicator signals. You can read more about my [Emini day trading](#) methodology here.

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