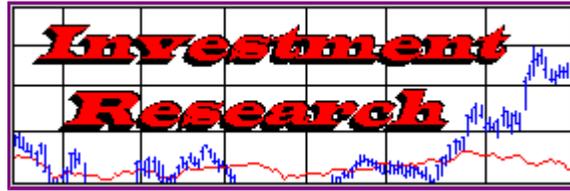


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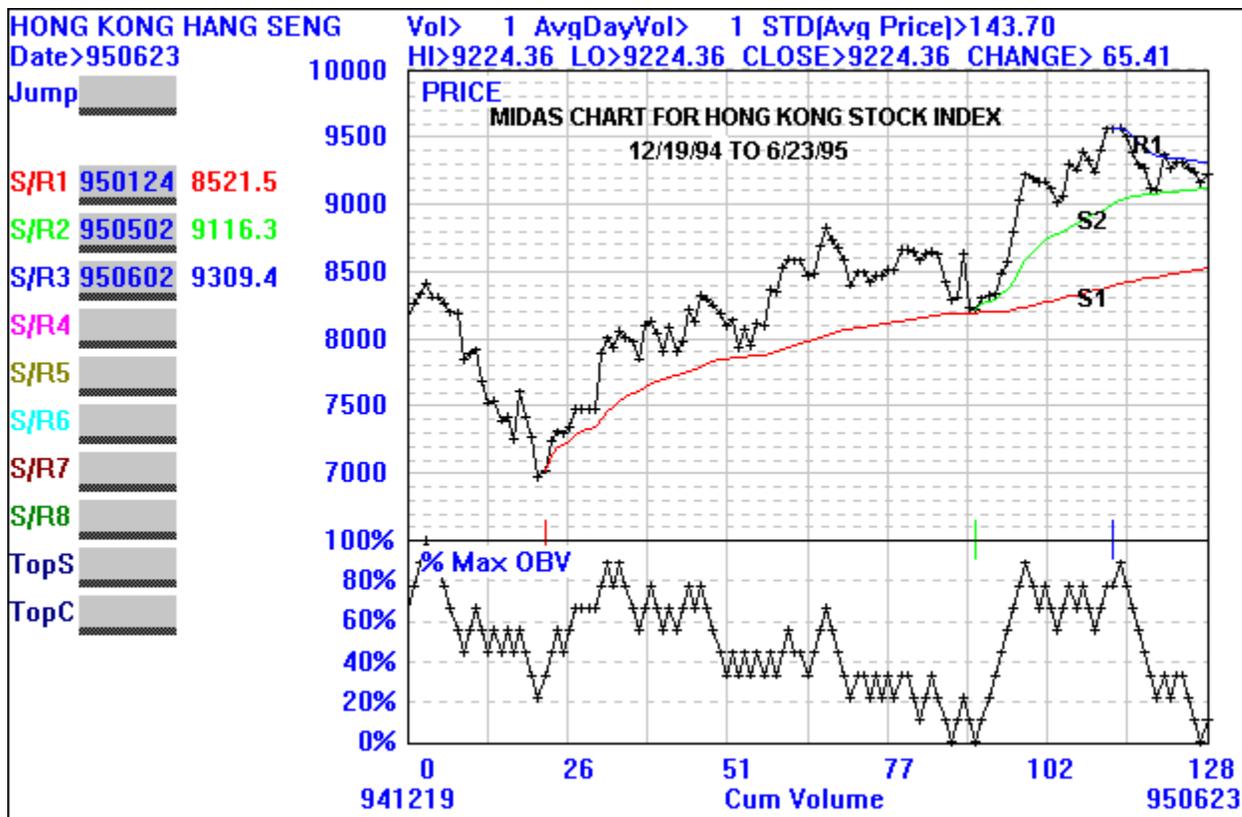


Introducing the MIDAS Method of Technical Analysis (17) by Paul Levine

This is the seventeenth article in a series. Click here to go to the [first](#), [second](#), [third](#), [fourth](#), [fifth](#), [sixth](#), [seventh](#), [eighth](#), [ninth](#), [tenth](#), [eleventh](#), [twelfth](#), [thirteenth](#), [fourteenth](#), [fifteenth](#), or [sixteenth](#) article.

The previous article has demonstrated the applicability of the MIDAS techniques to stock indices based on the US market. While some questions remain concerning the reliability of TOPFINDER in such cases, it appears that the S/R hierarchy has value in the characterization of these indices. An interesting question, to which we turn in the present article, is whether indices based on other markets are similarly amenable to MIDAS methods.

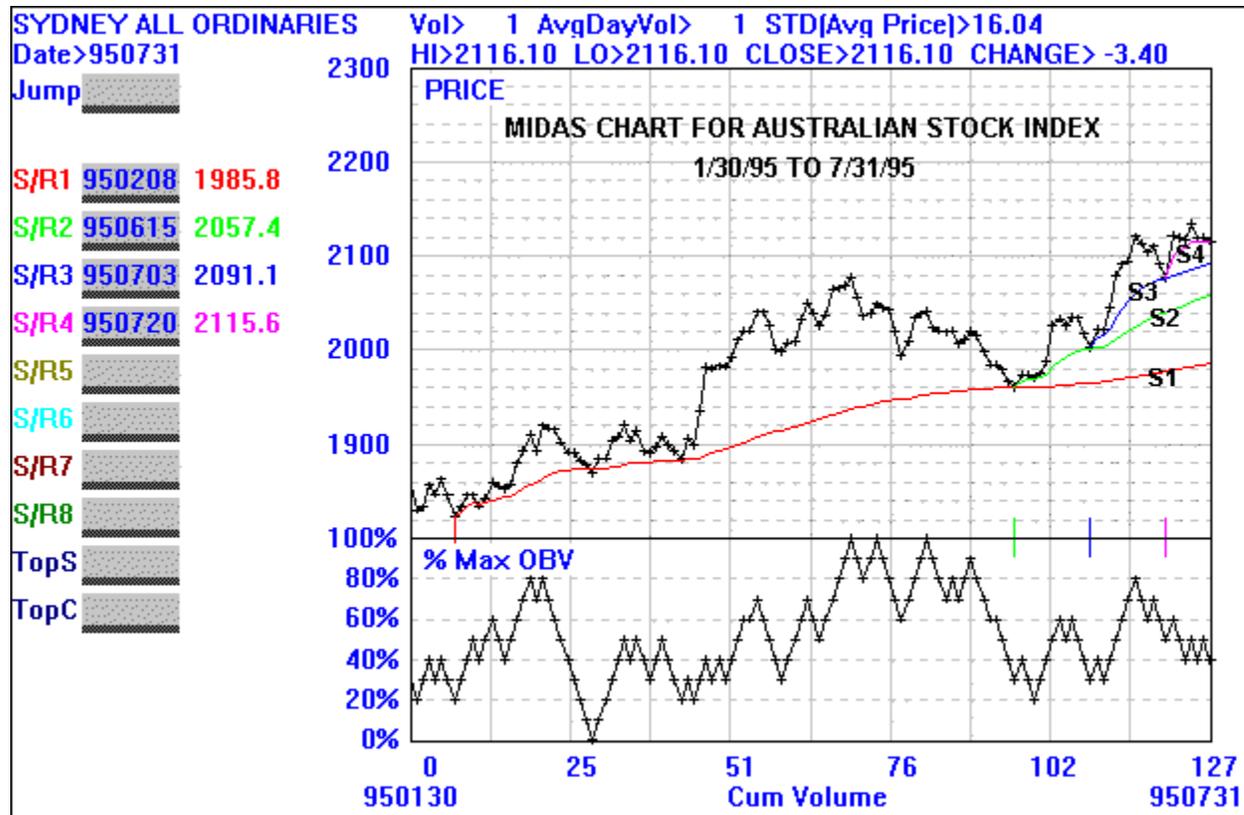
There is a lively contemporary interest in overseas stock markets, a trend that can only accelerate in the years to come. If MIDAS can be applied to such markets, the universe of potential trading opportunities will at least double so this is an important question for the MIDAS trader. Accordingly, in the first figure we examine the Hong Kong Hang Seng Index for the time period from 12/19/94 through 6/23/95.



It is immediately evident that the S/R hierarchy is alive and well in the Crown Colony! A "text book case" if there ever

was one: well validated (i.e. non-porous) primary and secondary support levels launched precisely from the trend reversal points, and a classic "squeeze" between the secondary support and the primary resistance levels. OBV is seen to be of little value, however, since volume data was not available and thus OBV counts only up days minus down days, rather than money flows in and out. The precision of the S/R levels is all the more remarkable since they were constructed in the absence of volume data, viz. by assigning equal volume to each day. (In the days subsequent to June 23rd, the squeeze was resolved to the upside with penetration of R1 and new highs for the index, followed by a retreat back to and bounce from S2).

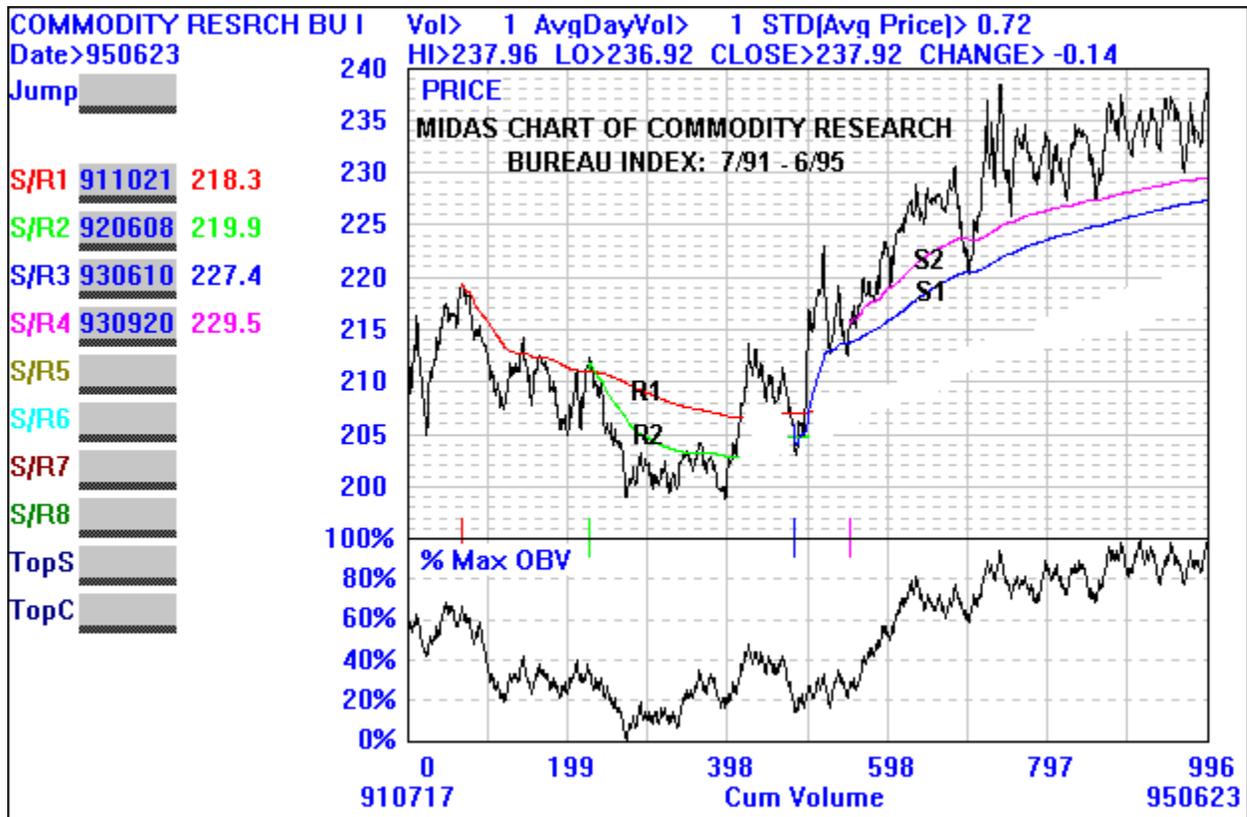
Even more impressive is the application of MIDAS to the Sydney All Ordinaries Index of Australian stocks shown in the second figure. Here, again notwithstanding the lack of volume data, a four-fold hierarchy of support levels - each launched precisely from a trend reversal point - exactly fits the zig zags in the index. (Again OBV is of no apparent value). Since there are many ways to "play" the Australian market, from single country mutual funds to the ADR's of Aussie companies, this may prove to be a lucrative arena for MIDAS traders.



In terms of sheer dollar volume, the foreign exchange markets dwarf the equities markets and it is therefore understandable that the forex trading desks are the Cape Canaveral of the "rocket scientists". Does MIDAS have anything to contribute to this arena? The third figure is a longer term chart of the US Dollar Index from 11/24/93 to 6/23/95. While not as perfectly clean as the first two examples, the four-fold hierarchy of resistance levels would clearly have proven of value in predicting trend reversal points. Furthermore, OBV being meaningful in this case, there is no question - from the MIDAS standpoint - of the intrinsically weak long-term technical position of the dollar. From a shorter-term currency trading standpoint, the position of the resistance levels (updated, of course, to the present time) would provide price objectives for the quick snap-back type rallies often seen in long-term downtrends.



Finally, in the fourth figure we turn to commodities - specifically the Commodity Research Bureau Index which is a weighted average of the dollar price of a basket of diverse commodities. As such, it reflects both currency swings as well as the averaged effects of cyclical and commodity-specific supply/demand imbalances. It is therefore no surprise that the data is noisier than we have heretofore seen. Nevertheless, there is no question in the mind of the MIDAS theorist that a trend change has occurred (R1 penetrated, OBV at new highs), nor is there any uncertainty as to where to expect a bounce in the next decline (S2). (In point of fact, the next pullback on July 10th came to within a half-point in average price to S2).



The whole commodities arena (indices, spot and futures) is terra incognita as far as MIDAS applications are concerned. My very preliminary research indicates that MIDAS techniques can provide trading advantages only on relatively short time scales (a few weeks) and only on some commodities at some times. In other words, when it works it works and carpe diem is the dictum.

Having thus exhausted both my Latin and the findings of several decades of MIDAS research, we have clearly reached a natural boundary in this Introductory exposition. In the final article of the series, we will provide a dramatic recapitulation of the MIDAS method, and some valedictory remarks.

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Paul Levine first became interested in technical analysis when he was a "runner" on Wall Street as a high school student. After graduating from MIT and gaining a PhD in theoretical physics from CalTech, he took a fresh look at the problem some thirty years ago and stumbled upon what has now evolved into the Midas method. Following retirement as Chief Scientist and a co-founder of Megatek Corporation in 1981, he developed further elaborations of the method and is now in his fourth year as a professional trader. He can be reached via e-mail at [WinMidas website">winmidas@winmidas.com](mailto:winmidas@winmidas.com) or visit the [WinMidas website](#).

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