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## FOREWORD

Written by a brilliant trader for only those seasoned traders who are willing to work at their analysis of the markets in a disciplined way, this book contains the most advanced methodology I've ever seen!

Connie Brown's credentials come in the form of nine years on the front line as a research analyst and fund trader. She is herself a disciplined professional, who has grown to the point where she is a force to reckon with in the financial markets. At the same time, she publishes a daily bulletin on the Dow, the S&P, and Bonds. This is faxed to some of the world's most sophisticated, large traders. Her predictions as to price objectives and trend of the market are unequaled anywhere in the industry.

There are 14 separate chapters in this book, each a separate subject. Six of these subjects have been written on before, and these chapters serve as improvements on old indicators. There are, also, 15 major breakthroughs in technical analysis! Seven of these breakthroughs are new—never-before-revealed material! Eight more dissect, change, and improve old concepts.

In her discussion of Stochastics and of RSI as oscillators, she introduces the concept that oscillators do not necessarily fluctuate between 0 and 100 and that all signals do not fall within the traditional default overbought and oversold bands. The oscillator may actually travel within a larger or a narrower range that can be pinpointed with precision. To correct what the writer perceives

own. Jumping into a strong trend is easy. Switch to a an intraday detrended moving average and don't look at the normalized formulas. The detrended oscillator will set the horizontal level of resistance for you to sell or buy within the strong move. I will forever be in your debt, Mr. Tullis, because you were kind when it was undeserving and mercilessly tough when it was needed. You toughened me up and gave me a kick in the behind that thrust me forward into a career that is now a quarter century old and still going strong. It is hard to believe the time has passed so quickly, yet the passion for markets has not dimmed. That is the thing about technical analysis; the practitioner rarely retires. We have to know what's going on in the world. For traders, Mr. Tullis said it best: "A trader will always be a trader as long as they have \$100 in their pocket."

As a private trader there is no reason to hold back on you now, little to prove for the sake of ego after 25 years, and nothing to have reservations about. That gives me a balance and a freedom hard to describe. But it also means you are about to be given enough information to keep you busy for a very long time. Now, for the rest of the Composite Index story.

I gave it the name the Composite Index because it was in fact the composite of two existing indicators. Manning Stoller taught me how to graph indicators on indicators. I began to imbed indicators within indicator formulas to try to make the display much easier to read. The Composite Index is able to compare where it is currently relative to  $n$ -periods ago. Therefore, the modified RSI can detect a trend change when the standard RSI formula alone fails to develop divergence. However, it does not replace the RSI because the Composite Index does not give the characteristics of

range movement described in the first chapter. In TradeStation the indicator will require two functions to create the formula. Here is the formula:

TradeStation:

```
Plot1(RSIMO9 + RSI3,"Plot1");
Plot2(average((plot1),13),"Plot2");
Plot3(average((plot1),33),"Plot3");
```

The function RSIMO9 is written:

```
RSIMO9 = MOMENTUM(RSI (CLOSE,14),9)
```

The second function is written:

```
RSI3 = AVERAGE(RSI (CLOSE,3),3)
```

I have passed the formula on in eSignal, CQG, and MetaStock (see Appendix A) formats to the vendors and many users. I know it has been custom programmed for institutions using Bloomberg. But it has been in the public domain now since the release of the book *Breakthroughs in Technical Analysis*, David Keller Editor, Bloomberg Press. You must ask your software vendor to add it as a standard menu item, they will do so if clients show a need. The formula is now a standard free offering in Market Analyst.

The charts in this chapter were working charts as I was using them near August 17, 2011. This is useful to know because the methods on the screen are the methods I use most often. Several charts will have price projection boxes. Please refer to my book *Fibonacci Analysis* to see how these are created due to contract limitations with Bloomberg.

Figure 12.1 shows two charts of the Cash S&P500 in monthly and weekly time horizons. I have added a small line over the

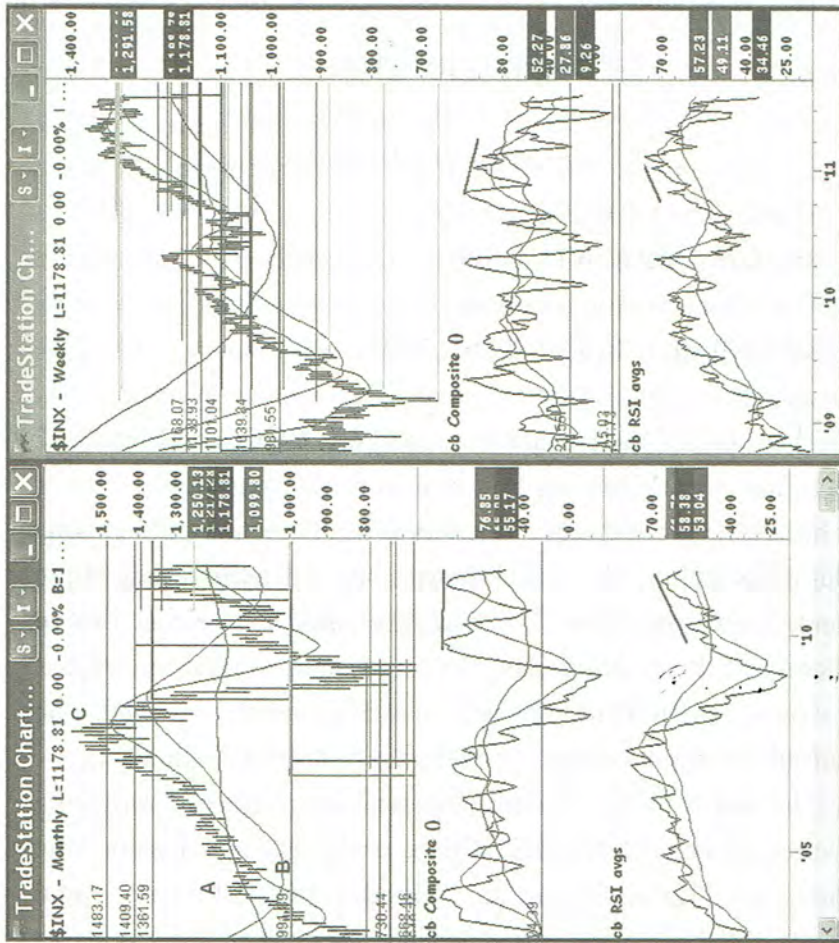


Figure 12.1 Aerodynamic Investments Inc., © 1996–2011, Daily Market Report, www.aeroinvest.com  
 Source: TradeStation © TradeStation Technologies

oscillators to help you see the pattern that was the reason for needing the Composite Index at first. In the monthly chart on the right the RSI shows no divergence with the price data. The Composite Index is diverging. In the weekly chart on the right, the RSI fails to form divergence again relative to price. It is the Composite Index that diverges. In fact the RSI forms a new momentum peak high while the Composite diverges. But the signal that forms in RSI becomes extremely strong and bearish when it swings up toward the 57 level which is where its moving averages cross over. It is important to notice that the fast-moving average (shorter period) is crossing down through the slower average. Often at this very juncture I find a sharp move follows in the market. In this case it was a serious break.

Always be aware of the length of the longest bar within the trend. This is a Gann statement I have found to be true. When the length of the longest bar is broken in a trend reversal, the old trend is finished. It doesn't mean a deep retracement cannot happen or even a slight new high may follow, but for purposes of trading and trend analysis, the prior trend is finished. Another important Gann statement is that the extremes that mark the end of a swing are the end of the swing, but not the beginning of the new trend. The trend begins from the first secondary retracement of the new trend. This is from Gann's stock course. It is important for price projection methods to know this because it changes where the start is located.

So Figure 12.1 shows two charts with the Composite diverging with price. Is that reason to sell? Not if that is all you have. But these signals are developing into a price target that can only be seen in the monthly chart. The line at 1,361 is a Fibonacci confluence zone, or major objective. The lines in the weekly chart that seem to

## Appendix | A

# USEFUL FORMULAS FOR TRADESTATION

How to add two moving averages with Stochastics.

[LegacyColorValue = true];

Input: Length(17),PERIOD(13),PERIOD2(33);

plot1(FastK(Length),"FastK");

plot2(FastD(Length),"FastD");

plot3(Average(FastD(Length),PERIOD),"Plot3");

plot4(Average(FastD(Length),PERIOD2),"Plot4");

How to plot Connie Brown's Derivative Oscillator. (An early formula described in the first edition. The chapter was removed because it has been replaced by the Composite Index. An alternate is to plot the derivative oscillator as a histogram in the same window as the Composite Index.

[LegacyColorValue = true];

Input: LENGTH(14),PERIOD(9),PERIOD2(33);

Plot1((XAverage(XAverage((RSI(Close,14)),5),3))-(Average(XAverage(XAverage((RSI(Close,14)),5),3),9)),"Plot");

**How to plot Connie Brown's Composite Index in TradeStation.**

Create two functions.

The function RSIMO9 is written:

```
RSIMO9 = MOMENTUM(RSI(Close,14),9)
```

The second function is written:

```
RSI3 = AVERAGE(RSI(CLOSE,3),3)
```

The formula is then written:

```
Plot1(RSIMO(+RSI3,"Plot1");
Plot2(average((plot1),13),"Plot2");
Plot3(average((plot1),33),"Plot3");
```

Please contact TradeStation if you do not know how to enter these lines as a custom study.

**How to plot Connie Brown's Composite Index in MetaStock.**

```
A:=RSI(14)-Ref(RSI(14),-9) + Mov(RSI(3),3,S);
Plot1:=Mov(A,13,S);
Plot2:=Mov(A,33,S);
A;Plot1;Plot2;
```

Please contact MetaStock if you do not know how to enter these lines as a custom study.

**How to plot RSI with two Moving Averages in TradeStation.**

All the examples in this book show you the Composite Index is positioned under the price data and the RSI with moving averages is positioned under the Composite Index.

```
[LegacyColorValue = true];
Input: LENGTH(14),PERIOD(13),PERIOD2(33);
Plot1(RSI(Close,LENGTH),"Plot1");
Plot2(Average((RSI(Close,LENGTH)),PERIOD),"Plot2");
Plot3(XAverage((RSI(Close,LENGTH)),PERIOD2),"Plot3");
```

**Manning Stoller's STARC Volatility Bands for TradeStation.**

```
[LegacyColorValue = true];

input:av(6), atrlen(15), factor1 (2), factor2 (3);
var:atr (0), mav (0), top1 (0), top2 (0), bot1 (0), bot2 (0);

atr=average(truerange,atrlen);
mav=average (c, av);
top1=mav+(factor1*atr);
top2=mav+(factor2*atr);
bot1=mav-(factor1*atr);
bot2=mav-(factor2*atr);

if top2>0 then plot1 (top2, "StollerHi");
if top1>0 then plot2 (top1, "StollerHi2");
if bot1>0 then plot3 (bot1, "StollerLo");
if bot2>0 then plot4 (bot2, "StollerLo2");
```

**How to modify Manning Stoller Bands to Plot on RSI in TradeStation:**

```
[LegacyColorValue = true];

Input: Coefdwn(2.1),Coefup(2.3);
```

```
Plot1((Average((RSI(Close,14)),6)+(Coefup*(Average(TrueRange  
Custom((RSI(Close,14)),(RSI(Close,14)),(RSI(Close,14))),15))),  
"Plot1");
```

```
Plot2((Average((RSI(Close,14)),6)-(Coefdwn*(Average(TrueRange  
Custom((RSI(Close,14)),(RSI(Close,14)),(RSI(Close,14))),15))),  
"Plot2");
```

```
Plot3((RSI(Close,14)),"Plot3");
```

```
IF CheckAlert Then Begin
```

```
IF Plot1 Crosses Above Plot2 or Plot1 Crosses Below Plot2  
or Plot1 Crosses Above Plot3 or Plot1 Crosses Below Plot3  
or Plot2 Crosses Above Plot3 or Plot2 Crosses Below Plot3  
Then Alert = TRUE;
```

```
End;
```

## Appendix | B

### BOOKS BY CONNIE BROWN

(Advanced) *Technical Analysis for the Trading Professional 2<sup>nd</sup> Edition* (2011) McGraw-Hill

(Advanced) *Fibonacci Analysis* (2008) Bloomberg Financial

(Advanced) *Breakthroughs in Technical Analysis: New Thinking from the World's Top Minds* (2007) David Keller Editor, Bloomberg Financial

(Intermediate) *Mastering Elliott Wave Principle: Elementary Concepts, Wave Patterns, and Practice Exercises* (2012) John Wiley & Sons

(Advanced) *Advanced Elliott Wave Analysis: Complex Patterns, Intermarket Relationships, and Global Cash Flow Analysis* (2012) John Wiley & Sons

(Advanced Beginner) *All About Technical Analysis* (2002) McGraw-Hill Publishers