

## INDICATORS

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# The NYSE Tick Index And Candlesticks



*The tick index may appear to be one of the simplest of market indicators, but it also offers insight into market psychology. As a stand-alone indicator, the tick index has its place in the technician's toolbox, but combining the tick index with candlestick charting, another technical method for spotting changes in market trends, creates a potent combination.*

*by Tim Ord*

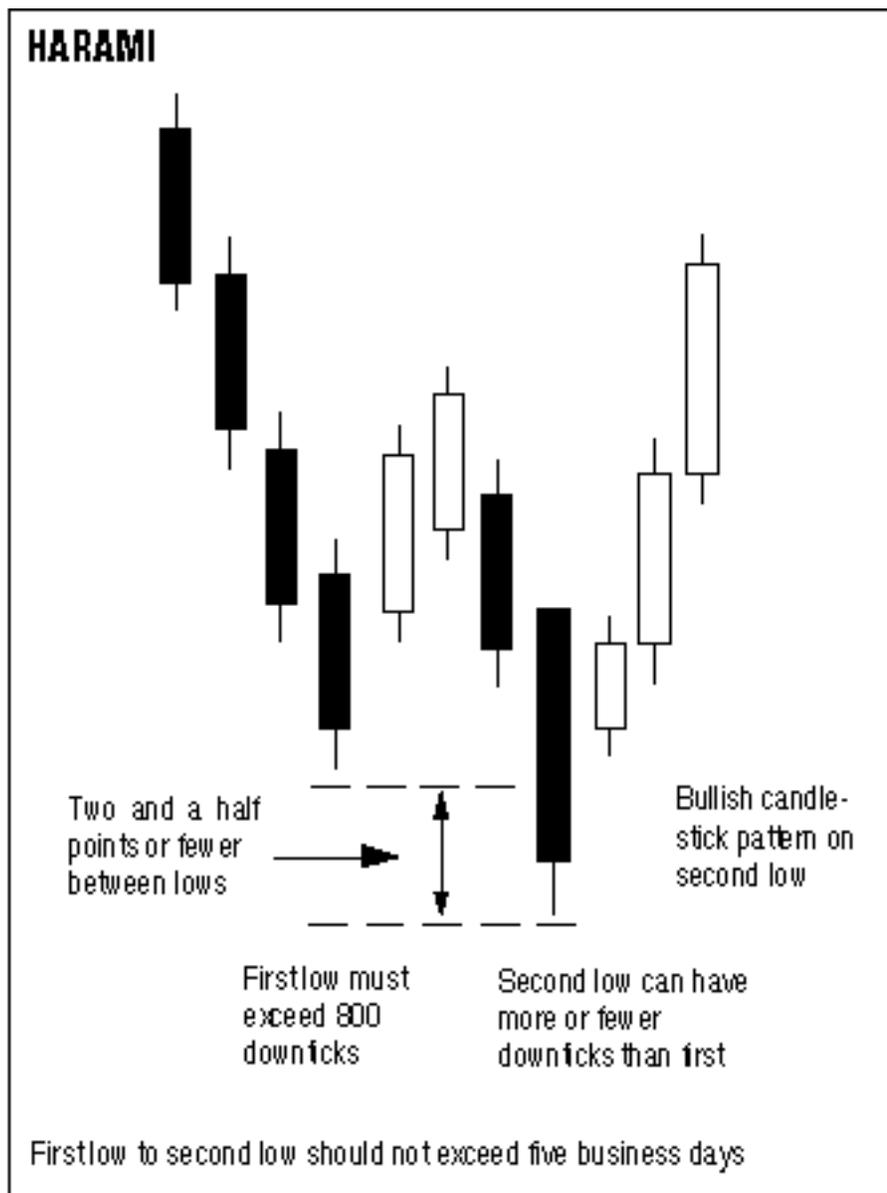
**A** wealth of information waits to be discovered in the New York Stock Exchange (NYSE) tick index. Its strong suit is its simple calculation. At any point, this index represents the number of stocks trading on an uptick minus the number of stocks trading on a downtick. Extreme tick readings of greater than +600 may indicate temporary exhaustion of buying power, while negative tick readings in the territory of 800 or more can point to a selling climax. I use these readings throughout the day as an indicator for buy and sell decisions, as well as for recognizing the continuation of the prevailing trend. The tick index is broadcast throughout the day from most real-time data vendors, including the stock market tape that can be seen on the bottom of the screen during CNBC's day-time broadcast.

The tick index can be enhanced by using technical price pattern recognition, specifically candlestick charts. (See sidebar, "The candlestick method.") Although I have used numerous other technical studies, combining the NYSE tick index and candlestick charting creates a reliable indicator for signaling turning points in the stock market.

## **TECHNIQUE**

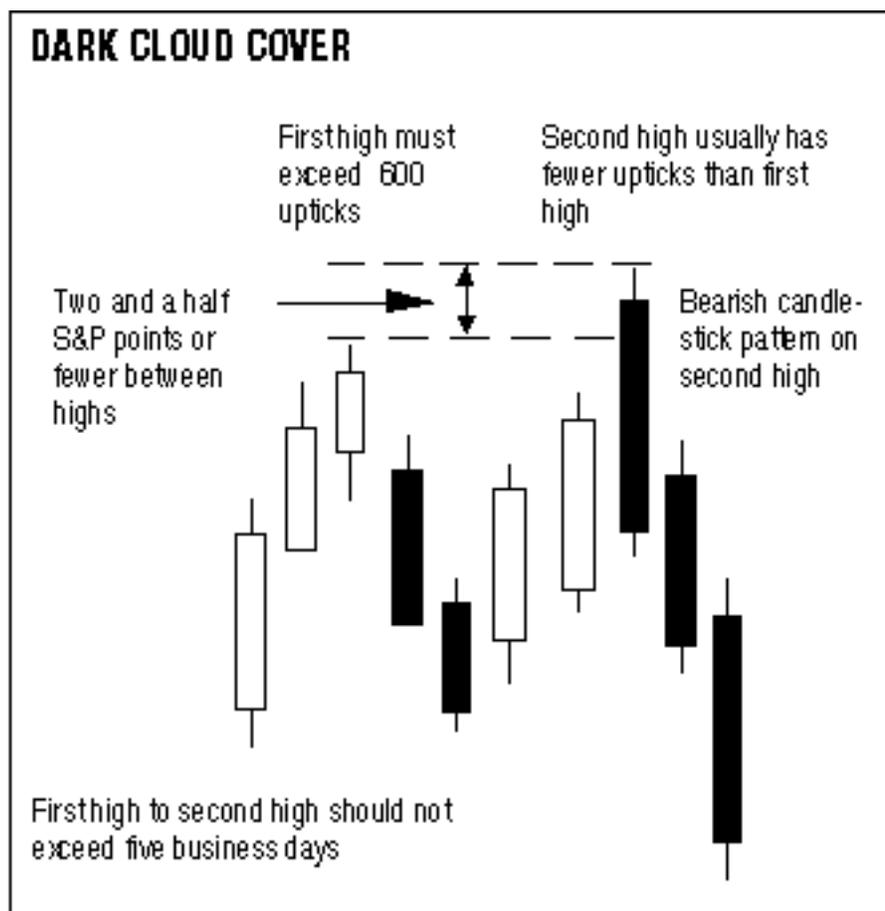
First, a high degree of coincidence appears to exist between bullish tick index signals and bullish candlestick patterns as well as the bearish combinations. For bullish patterns, I have found tick readings exceeding -800 intraday (the minus sign indicates 800 more stocks were trading on a downtick than an uptick) appear near short-term market bottoms.

Second, I look for a classic double bottom on the Standard & Poor's 500 daily chart where the second bottom of the double bottom does not trade more than two and a half S&P points below the first. The tick index reading on the first bottom must surpass -800; in fact, readings exceeding -800 are preferable. The tick index reading for the second bottom can be greater or less than the first but should still reach an extreme level. When the tick index readings exceed -800, preferably a reading of -1,000 ticks or more, the short-term bottoms are stronger. In addition, when the second bottom is within five business days of the first, the signal generated is more reliable. Finally, with the buy signal alert indicated by the tick index, I look for a bullish candlestick pattern before an all-out buy signal is generated. Figure 1 presents an example of a buy signal.



**FIGURE 1: BUY SIGNAL.** Watch for double bottoms in the S&P 500, with the second bottom not exceeding 2.5 S&P points below the first. The second bottom is a harami pattern. The harami pattern is a two-candlestick pattern, which has a small real body within the previous day's unusually large real body.

For a sell signal using the NYSE tick index, I look for a double top on the S&P 500 daily chart where the second top does not exceed the first by more than two and a half S&P points. The first top must have a tick reading of at least +600 or more. The second top will usually have fewer uptick readings than the first, but the readings should still be high. For a sell signal, a bearish candlestick pattern must be present at or near the second top. The best signals occur when the span between the first peak and the second peak of the double top does not exceed five business days. See Figure 2 for an example of a sell signal.



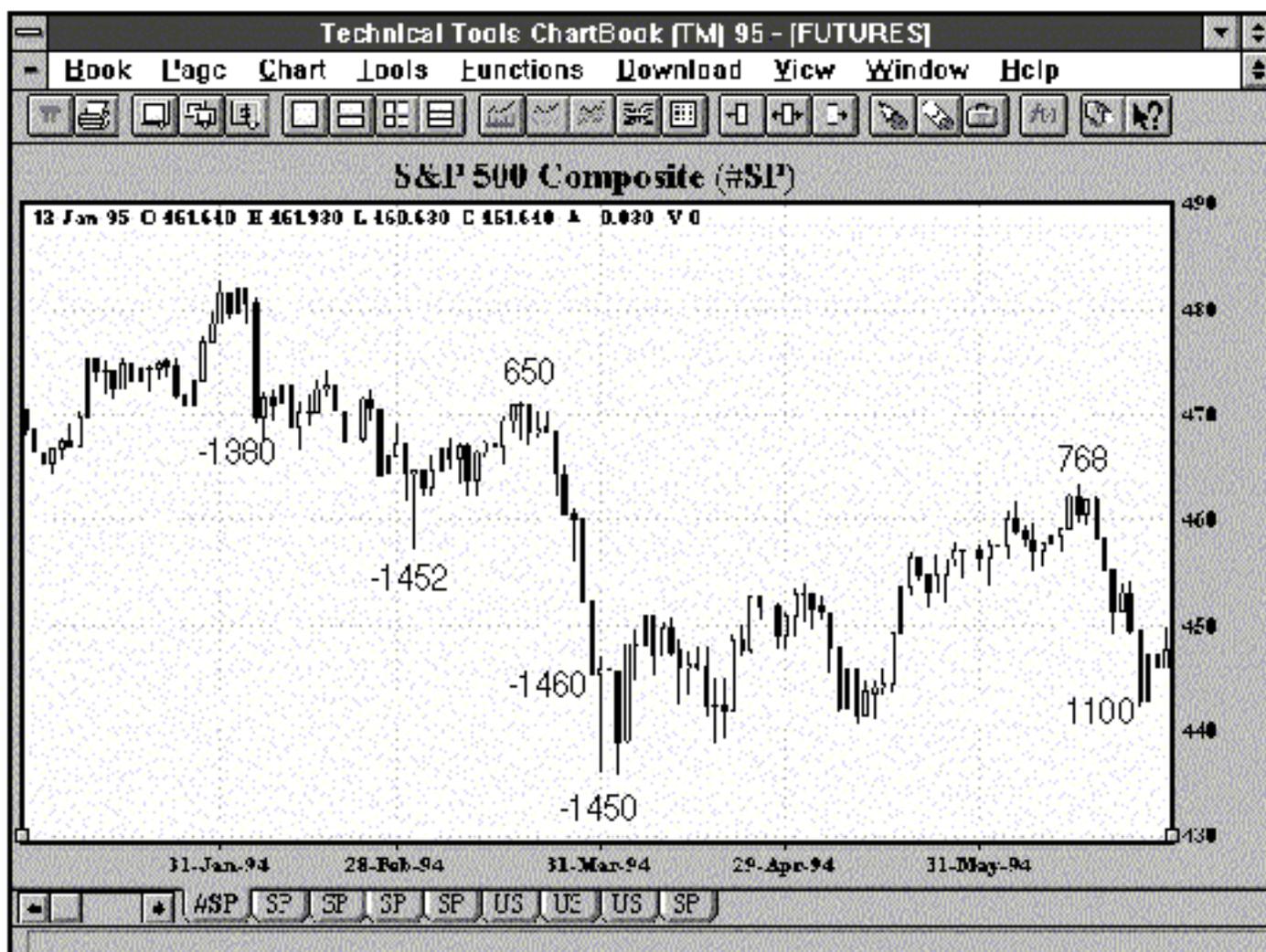
**FIGURE 2: SELL SIGNAL.** Look for double tops in the S&P 500, with the second top not exceeding 2.5 S&P points above the first. The second high is a dark cloud cover, a bearish indication.

## HISTORY

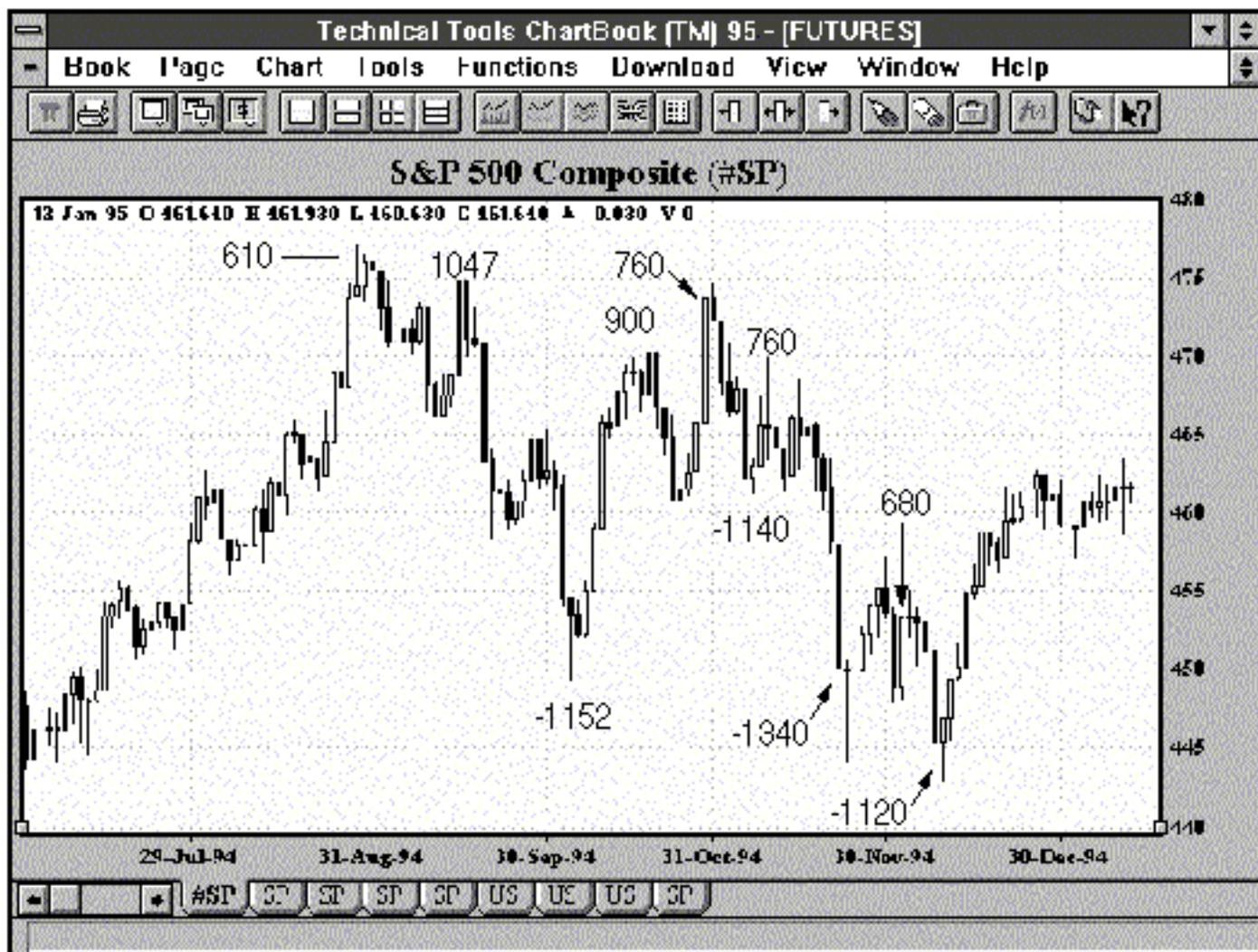
Tops in the stock market generally occur with readings of +600 or more. As a rule, the more the tick reading exceeds +600 intraday, the stronger the top. Some of the highest intraday uptick readings for trading days in 1994 can be seen in Figure 3. You can compare these tick readings and the price action of the S&P cash index by looking at Figures 4 and 5.

	Date	Tick index (ticks)@S&P		Date	@ S&P
A	3/18/94	+650 up	471.00	top 3/18/94	471.00
B	6/16/94	+786 closing	461.90	top 6/15/94	463.30
C	8/29/94	+610 up	476.90	top 8/31/94	477.50
D	9/15/94	+1047 up	474.80	top 9/15/94	474.81
E	10/13/94	+900 up	471.30	top 10/19/94	471.43
F	10/28/94	+760 up	471.40	top 10/28/94	473.78
G	11/9/94	+760 up	469.45	top 11/9/94	469.95
H	12/2/94	+680 up	453.30	top 12/5/94	455.04

**FIGURE 3: S&P MARKET TOPS TABLE.** Here are the tick index values and the dates for the subsequent tops.



**FIGURE 4: DAILY S&P 500 CANDLESTICK CHART, 1/2/94 - 6/30/94.** Here are the tick index values at market reversals.



**FIGURE 5: DAILY S&P 500 CANDLESTICK CHART, 7/1/94 - 1/12/95.** Here are the tick index values at market reversals for the second half of the period.

Near significant bottoms, such as the 1994 dates of March 2, April 4, June 24, October 5, November 22 and December 8, the NYSE tick index readings equaled or exceeded -1,100 intraday (Figure 6). Therefore, when tick readings exceed -1,100, a buying opportunity may be near. For example, leading up to the April 4th time frame - an important market bottom - the extreme three-day cumulative average negative tick readings were as follows: On March 30, a -1,450 tick was recorded; on March 31, a -1,460 tick was witnessed; and the reading for April 4 was a -1,450 tick. The average downtick reading for those three days was -1,453, which was the highest three-day average for 1994. You may recall April 4 marked the low of the year.

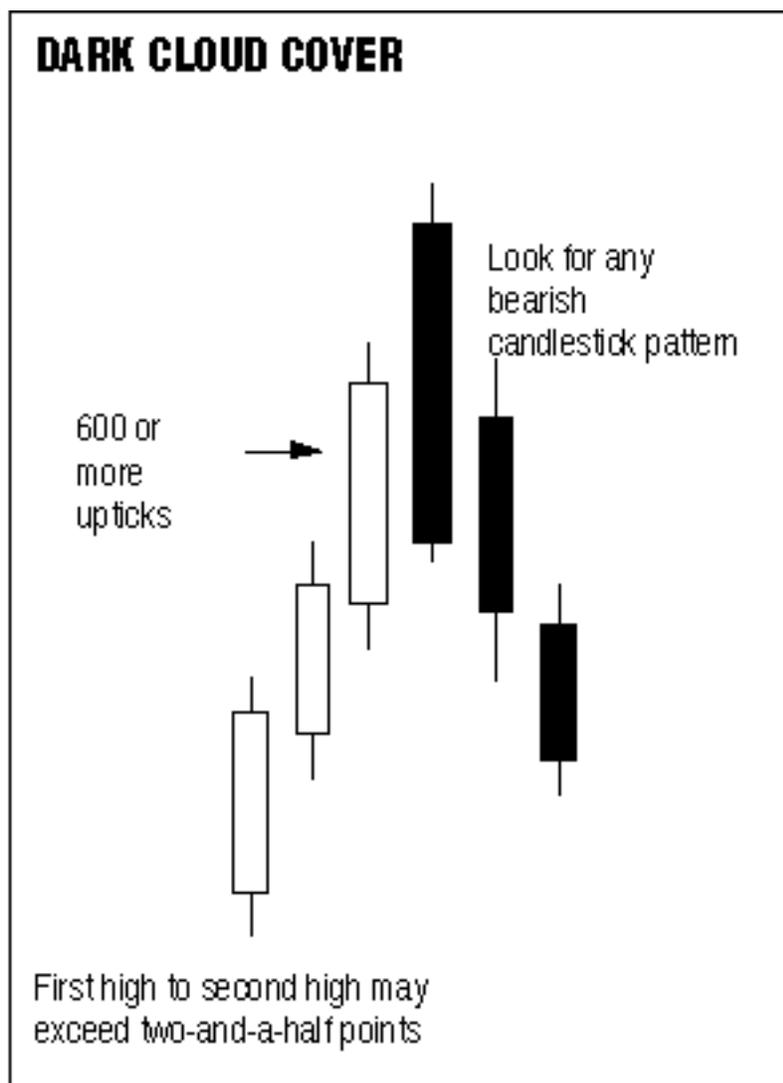
Date	Ticks	Cash
3/3/94	-1452	475.50
4/4/94	-1450	436.00
6/24/94	-1100	442.50
10/5/94	-1152	449.27
11/22/94	-1340	450.08
12/8/94	-1120	444.59

**FIGURE 6: S&P MARKET BOTTOMS TABLE.** *Here's a list of the tick index values and the dates of market bottoms.*

Extreme tick readings do not necessarily mark significant turning points. Sometimes they appear at the start of a consolidation pattern instead of a top or a bottom. For example, in Figures 4 and 5, on February 4 and November 4, -1,380 and -1,140 tick readings were recorded at 468 and 462.50 on the S&P cash index, respectively. February 4 and November 4 were temporary bottoms; the market went sideways for a couple weeks before breaking down to new lows. Negative tick readings exceeding -1,100 did stop the decline, but the resulting condition was a short-term bottom that evolved into a consolidation pattern. Thus, when an intraday downtick reading of -1,100 or more appears, it may be wise to tighten your stops and watch to see if a bullish candlestick pattern develops.

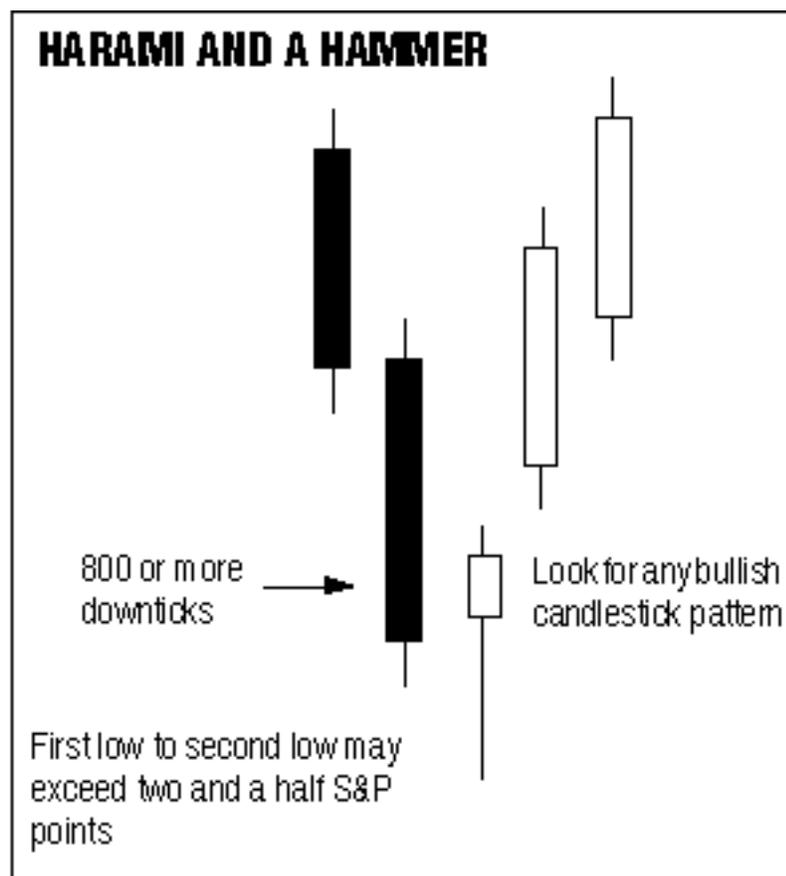
## VARIATIONS

The two reversal patterns discussed do not occur often, so I watch for some variations. First, tops do not necessarily occur the same day of the extreme high tick reading. If the market is going to make a top, then the day after an extreme uptick reading is recorded is important. Generally, another high tick reading is recorded following the peak reading of the previous day. The second day's trading high may exceed the first day's high by more than two and a half S&P points, and a bearish reversal candlestick pattern (Figure 7) will appear. This condition usually triggers a short-term sell signal.



**FIGURE 7: SELL SIGNAL.** A bearish candlestick pattern the day after a day with the tick index exceeding +600 may indicate a market reversal. The high day is a dark cloud cover.

In the case of a bottom, after an 800 or higher downtick reading is recorded, the next day the tick reading should again be at extreme levels. The second day's trading low may exceed the first day's trading low by more than two and a half points. At that point, watch for a bullish candlestick pattern to appear (Figure 8) for a confirmation of a buy signal. For bottoms, I noticed that the second downtick reading can be less than or greater than the first bottom downtick reading. For tops, however, the second top's high uptick reading is less than the first top's.



**FIGURE 8: BUY SIGNAL.** A bullish candlestick pattern the day after a day with the tick index exceeding -800 may indicate a market reversal. The low day in this case is a hammer within a large black body, creating a harami pattern. A hammer has a small real body at the top end of the day's session. This is a bullish indication.

In runaway markets, the tick index readings will exceed +600 for rallies and -800 for declines for extended periods. When the difference between the open and closing range for the day exceeds two S&P points, the trend is still intact, even though tick readings may have reached the upper limits of +600 for tops and -800 for bottoms. This price range represents the body of a candlestick chart.

No turning point in the market can be anticipated until the difference between the opening and closing price on the S&P contracts narrows to less than two S&P points, no matter how high the tick readings. In Figure 5, on November 21, the S&P broke down, ending a consolidation pattern, with a tick reading of -1,070 recorded. No bottom was anticipated because the body of the candlestick chart for that day was more than two S&P points. The next day, November 22, a tick reading of -1,340 and the same condition prevailed. On November 23, a -800 tick reading was recorded and the difference between the opening and closing price was less than two S&P points. This condition would imply a short-term bottom. You can see on Figure 5 that this is exactly what happened.

## CONCLUSION

Finally, another important aspect is the closing tick index reading. I have found that closing tick readings exceeding +750 are evidence for a potential short-term top. Closing tick readings of +1,000 or more almost always define a short-term top.

Technically based traders have multiple tools to work with. Some are very complicated while some, such as the tick index, are simple; some are very well known, while others languish in obscurity. Probably one of the least known is the tick index - which may be why it works so well.

*Tim Ord is president and editor of The Ord Oracle, an advisory fax and 900 service for OEX option traders.*

## **REFERENCES, RESOURCES, READING**

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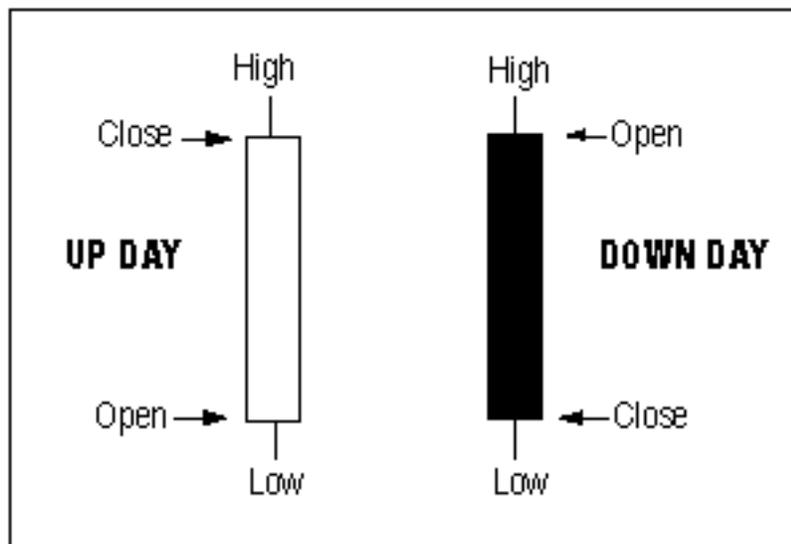
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## THE CANDLESTICK METHOD

The candlestick chart can be used to interpret the movement of markets from intraday out to a monthly chart format. The basic candlestick chart depicts the market open, high, low and close. The opening and close for the day define the basic body of the candlestick (called the "real body"), while the high and low are the thin lines that extend beyond the body and are known as the "shadows." If the market closes higher than the opening, then the body is empty or white. On those days that the market closes below the opening, then the body is black or filled in.



*-Editor*