



Chart News Daily

How to Interpret Chart News Daily

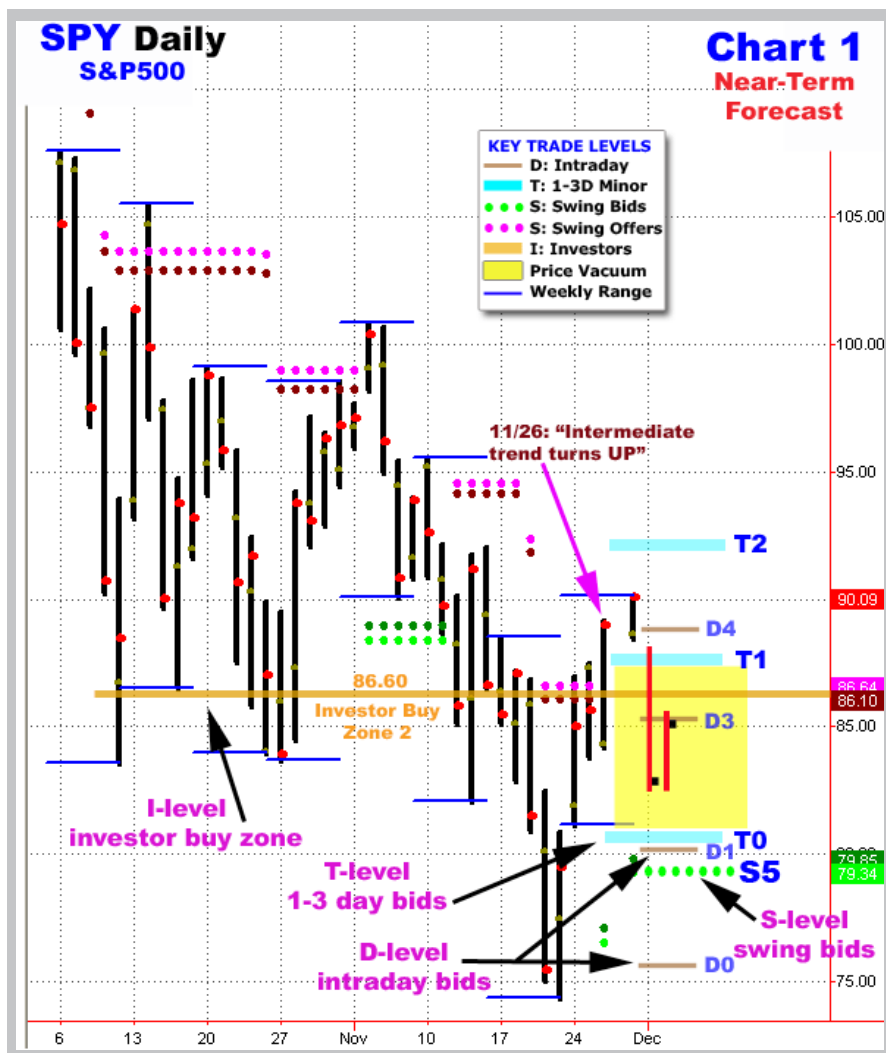
THE MAIN CHART that appears each day in *Chart News Daily* (CND) is a daily chart of the S&P 500 Depository Receipt or SPDR which is a tradable instrument on the American Stock Exchange (AMEX). It's AMEX symbol is SPY and it mirrors the movement of the S&P 500 futures & cash stock index. The price levels published in CND refer to the SPY and to the nearby S&P 500 futures contract (which appear in brackets).

The daily price bars for the current active week appear in red whereas prior bars appear as black. The weekly high and low are noted by horizontal blue lines. The daily SPY chart is also annotated with colored horizontal lines and dots. These price levels are derived from a proprietary method of identifying where **resting bids or offers** are aggregating relative to the **average holding period** of a range of market participants. Bids are resting orders to buy at a specific price level, while offers are the opposite.

These bid-offer zones determine with great accuracy where various swings are likely to reverse and reveal **ideal trade location** for initiating various type of actions based on the timeframe that's most useful & important to you. We also refer to these price levels as **inflection points** or **points of change** because they reinforce or change trends. We are the **only** analytical service extant that isolates aggregate bids/offers in this way. In general, short lines represent shorter timeframe bids/offers while the longer or thicker lines represent higher timeframe bids/offers.

We isolate four main types of market participants & their respective average holding periods. They are as follows: **day traders** (intraday swings; less than one day), **minor trend traders** (minor swings of 1-3 days); **swing traders** (intermediate swings of one or more weeks) & **investors** (who hold for months to years).

Aggregate **Intraday** bids/offers are called **D-LEVELS**. "D" stands for day trade timeframe. On the sample chart, D-levels are denoted by short brown lines at D0, D1, D3 & D4. Day traders rarely hold positions overnight and have the shortest average holding period. Sometimes you will notice a specific line and it's letter will appear a shade **lighter** than lines in the same category. This means that price level is no longer relevant in terms of future price action, but is still being noted on the chart.



D-levels can also be thought of as price levels where pit & floor traders can be expected to bid or offer to “fade outside paper” (meaning to take the other side of the trade versus retail traders who are often wrong). D-levels isolate **ideal trade location** which are **high probability** price levels for entry and/or exit (profit-targets).

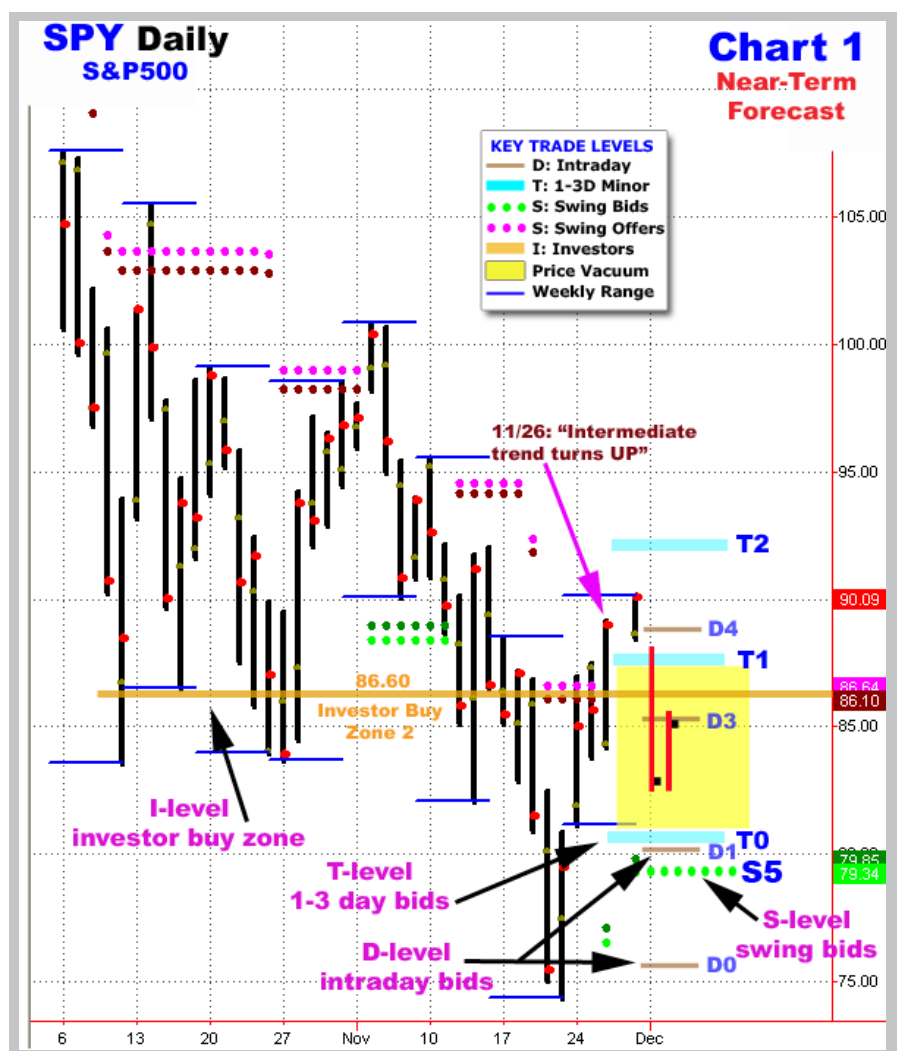
D- and T-levels (explained below) tend to be **bi-directional**—meaning they often work equally well as buy or sell points—depending on how a given day develops. For example, if the previous day closes around a certain D-level projected for the next day and the next day’s range then develops above that level that D-level is more likely to serve as support than resistance. On the other hand, if opening price action develops below that same level it’s more likely to become resistance.

Bids/offers relevant to minor trend traders are called **T-LEVELS**. On the sample chart, below, T-levels are marked as T0, T1 & T2. “T” stands for minor **trend** levels. These light blue zones are both thicker and longer than D-levels because they are generally more important and represent bids/offers in larger size. T-levels isolate ideal trade locations and profit targets for those traders willing to hold positions overnight or longer to capture minor swings of **1 to 3 days**. (**NOTE:** In the CND archives prior to Dec 8, 2008, T-levels were known and annotated as O-levels).

Trades initiated near T-levels often become the high or low of the week, or become **minor** daily swing highs and lows where price reverses direction for 1-3 days. It’s just as useful to monitor for **failures** to reverse in these zones, as they can often lead to brief, but violent spells of long or short liquidation.

We call swing trader bids/offers **S-LEVELS**. On the sample chart, the current relevant S-level is marked as S5. S-level bids appear as large lime green dots and offers as large magenta dots. “S” stands for **swing** trader. Swing traders tend to focus on **intermediate swings** that may last for several days or weeks. They are willing to hold positions for a week or more and endure minor swing corrections to capture more lasting mark-ups and mark-downs in price.

Whenever a series of lime or magenta colored dots extends into the current week, that indicates where key intermediate swing tops and bottoms are most likely to develop. Also, if violated by daily closes, S-levels delineate where intermediate trend changes occur. S-levels tend to indicate important changes in the **intermediate trend**. For example, important counter-trend rallies (corrections) against a primary down trend often begin with an intermediate trend change up.



The largest bids/offers come from the top decile of savvy institutional investors managing large portfolios. We call these bids/offers **I-LEVELS**. On the sample chart, I-levels are marked by an orange line extends all across the chart labeled as Investor Buy Zone 2 "I" stands for investors who are willing to hold long-term positions for several months, a year or longer.

Investor price levels extend all the way across the chart and represent ideal price levels where investors who maintain a portfolio of stocks should have a high level of interest in adding to long positions (and reducing cash levels); or reducing long exposure (and increasing cash levels). In short, I-levels represent where investors are willing to **scale-in or scale-out** of positions in order to **rebalance portfolios** or attenuate risk. I-levels tend to develop as major **monthly** swing tops and bottoms in a primary bull or bear market.

To summarize, we classify the order flow which determines mark-ups or mark-downs in market prices as a function of market agents who act constrained by specific time horizons. These agents fall into four categories: day-traders (D-levels), minor swing traders (T-levels), major swing traders (S-levels) and Investors (I-levels).

The entire constellation of these four types of market agents act in isolation or in combination and those actions manifest as order flow imbalances creating a **directional bias**. Those directional bias form trends of various duration and amplitude. We classify these trends into four categories as follows: the **minor** trend, **intermediate** trend, **primary** trend (cyclical bull or bear) and the **secular** environment (bull or bear).

The **minor** trend tends to dominate how a weekly range develops or where a weekly range forms highs and lows for the week. The **intermediate trend** tends to counter or reinforce the primary trend. For example, when the intermediate trend turns up in a primary downtrend it often signals the onset of a corrective rally in a primary downtrend. When the intermediate trend turns down in a primary downtrend it tends to amplify selling pressure and liquidation.

The next higher order of trend is the **primary trend**. We register it as down when our proprietary chart of quarterly values are in decline and conversely as up when quarterly values are rising. A **secular** bull or bear is the highest order trend, however it's more akin to a contextual environment which is hostile or friendly for those holding equities for a decade or longer horizon. Primary trends can persist for years when supported by a like secular bull or bear environment; or they can abort after some number of months when running counter to a secular bull or bear.

Referring back to the chart presented in CND each day. Note that **price vacuum** levels, if present, are designated by yellow boxed areas. These levels represent price levels where the resting bids or offers are fragmented (not aggregated around a specific price level) which can lead to sudden sharp spikes up or down through those areas as order flow imbalances seek out sufficient bids or offers to absorb the imbalance.

All price levels provided in Chart News Daily should **always** be validated or negated by what we call **price rejection** or **price acceptance**. The majority of our readers are professional traders, portfolio managers and hedge funds who deploy in-house algorithms or proprietary entry and exit techniques using our price levels to enhance the effectiveness of their operations.

As you read Chart News Daily each day you'll begin to fully realize the import of the various bid/offer levels explained in detail and the price action around those levels will serve to jump-start your **market understanding** and refine your feel for what a market is likely to do each and every day and week—enhancing your **probability** for successful trading and investing.

Good trading and welcome aboard!

Jess Thompson, CMO (Chief Market Observer)