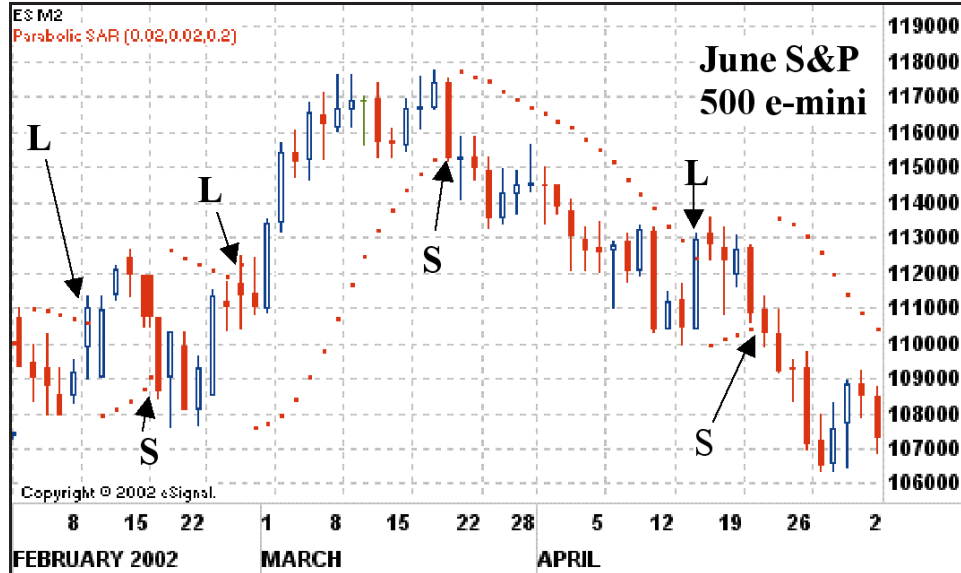


TRADER'S GUIDE TO TECHNICAL INDICATORS

Going parabolic



When the trend is down, the parabolic stop dots appear above prices and mark the spot at which a position will be reversed. When the trend is up, the series of parabolic stops appear below prices. L (long) and S (short) indicate where these reversals take place on this June 2002 S&P 500 e-mini daily chart.

After a reversal signal, the new parabola begins at a significant point (low or high). Note on the e-mini chart the uptrending parabola that begins at the low about 1076 at the end

Traders usually can find logical places to enter a trade, perhaps because they concentrate on that aspect of trading so much. However, when and where to exit that position often seems to be more difficult.

You want to give the trade a little room to work at the beginning of a potential trend, but when the trending move appears to be stalling out or becoming stale, you would like a good signal to get out quickly to preserve more profit. Using moving average crossovers or straight trendline analysis may get you whipsawed early in the move or out too late at the end of the move.

The answer may be the parabolic time/price system, which "derives its name from the fact that, when charted, the pattern formed by the stops resembles a parabola or, if you will, a French curve," J. Welles Wilder Jr. says in his 1978 book, *New Concepts in Technical Trading Systems*, that introduced the parabolic system and several other techniques that are now mainstays in technical analysis.

The parabolic system is used to set trailing stops and is a stop-and-reverse (SAR), always-in-the-market approach - that is, once you are in the market, each signal reverses your previous position. The system is based on both time and price so that your SAR stops are wide initially and then tighten up to the price as time passes. As the chart of June 2002 S&P 500 e-mini futures illustrates, it doesn't keep you from getting chopped up in sideways markets, but it does give you precise exit points when other techniques may not be giving such clear signals.

of February and the downtrending parabola that starts at the high around 1178 in mid-March. These are the initial SAR points for the trend.

An acceleration factor is used to determine where the following SARs are placed. The acceleration factor is a progression of numbers that begins at 0.02 and ends at 0.20 in this example (the default parameters in eSignal). The acceleration factor or increment increases by 0.02 each day only when a new high is made. If no new high is made, the last acceleration factor is used.

The important point is that, if you are long, the SAR will not back up but will move up every day, regardless of the way prices are moving. If the most favorable price - that is, the high of an upmove - keeps moving up each day, the SAR moves up a little faster than the price until the value of the acceleration factor reaches 0.20 at which point the SAR only moves up as much as the price moves up. If prices falter and the high of the move stays the same for several days, it won't take long before the placement of the SAR will have you reversing your position. (Of course, you can combine the parabolic system with some other system and take only the long trades or only the short trades so you don't always have to be in the market.)

Fortunately, you do not have to worry about calculating all these SAR values as the computer takes care of that for you. All you have to do is follow the dots and have your stop at the last one. When the price hits that dot, you are out or reversed into what you hope will be the next trend.