

# The Art of TradeStation

## Trend Following with TradeStation



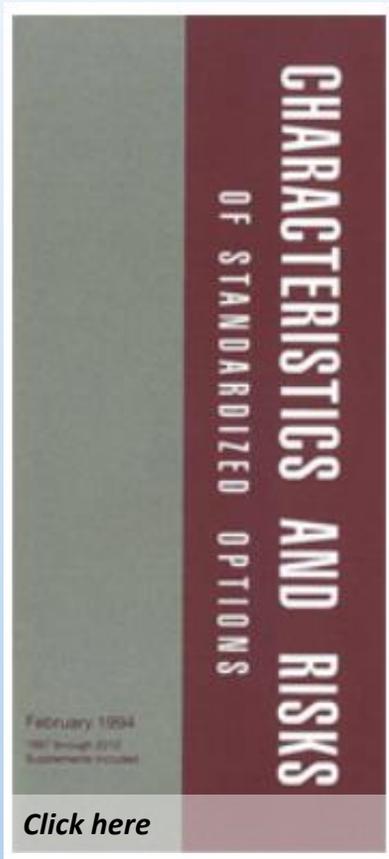
Presented by

**David Russell**

V.P. Market Intelligence, TradeStation



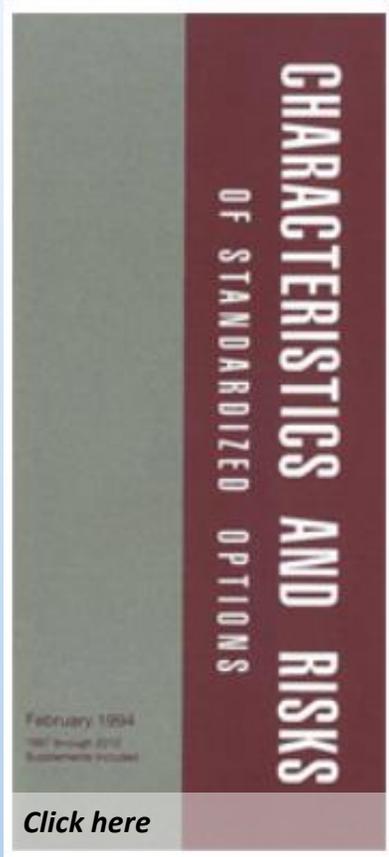
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# Agenda

- What is Trend Following?
- Keltner Channels
- Rate of Change
- Relative Strength Indicator (RSI)
- Parabolic SAR + Moving Averages
- Relative Strength vs S&P 500
- Exponential Moving Average Ribbons



# What Is Trend Following?

Trend following looks to capture a stock's momentum in a particular direction.

Target: Stocks/ETFs in multi-week uptrends or downtrends.

Goal: Opportunities with 2-4 times potential upside vs downside.



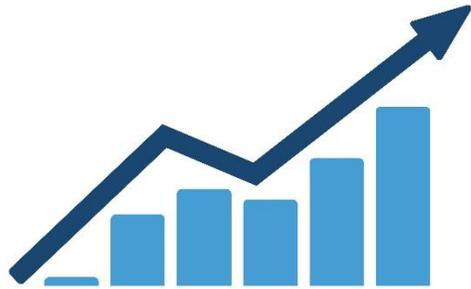
# Trend Following with Keltner Channels

Keltner Channels combine:

- One simple moving average
- Average True Range (ATR)

Keltner Channels can:

- Spot trends
- ID potential entries
- Set stop losses



# Trend Following with Rate of Change

Rate of Change is a simple percentage change over a trailing time period.

Incrementally higher lows may precede price extension to the upside. The opposite can be true to the downside.

Stocks with consistently negative readings can be viewed as “under distribution.”

# Trend Following with Rate of Change

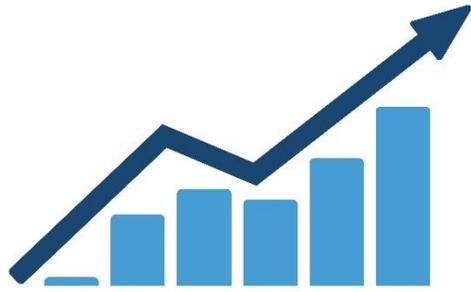
Bullish example: Tesla (TSLA) in late 2021.

Bearish example: Zoom Video Communications (ZM) late Oct 2021

Bullish example: Occidental Petroleum (OXY) Dec 2021-Jan 2022

Bearish example: Nio (NIO) Aug 2021





# Trend Following w/ RSI: Relative Strength Indicator

RSI (“Wilder’s RSI”) is a momentum indicator that normalizes price swings to show how a stock is performing against its own recent history.

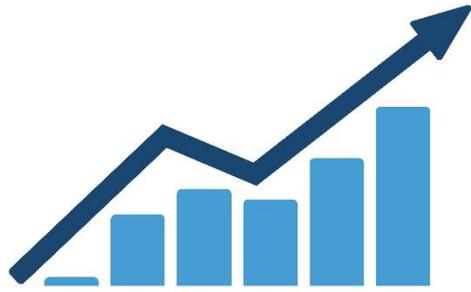
While often used as an overbought / oversold oscillator, RSI can measure the strength of a stock. Higher lows can help spot symbols in bigger uptrends.



# Trend Following w/ RSI: Relative Strength Indicator

Example: In January 2022, RSI on the SPDR Technology Fund (XLK) dropped to an oversold reading of 27. It then proceeded to hit new lows after bouncing.

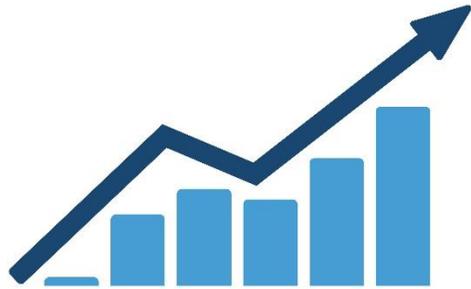
The SPDR Energy Fund (XLE) saw its RSI fall no lower than 62. XLE proceeded to make new highs in subsequent months.



# Trend Following w/ RSI: Relative Strength Indicator

Using this methodology, trend followers can favor target stocks whose RSI remains above the middle of the oscillator. They can avoid companies with a history of falling into oversold territory.

Example: Upstart (UPST) saw RSI fall into oversold for the first time ever in November 2021. It proceeded to lose more than 2/3 of its value in the first half of 2022.

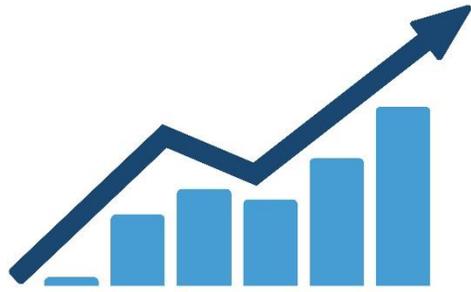


## Custom Study: RSI Past

“RSI Past” is an EasyLanguage custom study that counts the number of bars from the last overbought / oversold RSI readings.

Stocks with positive values are potentially in strong uptrends. Negative values may indicate companies with stronger selling pressure.

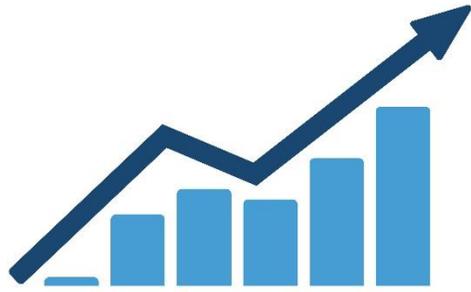
*RSI length & thresholds can be adjusted with the Customize Indicator dialog box Inputs.*



# Trend Following with Parabolic SAR + Moving Avgs

Parabolic SAR (“Stop and Reverse”) plots boundaries of trend and accelerates as it progresses.

Parabolic SAR always gives short-term signals. Combining it with longer-term moving averages can help traders find potential opportunities.

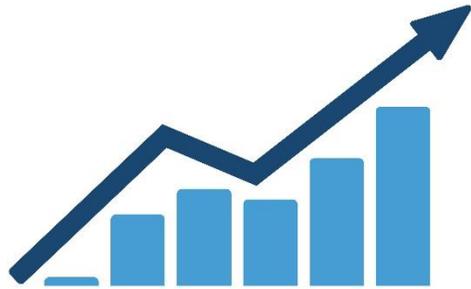


# Trend Following with Parabolic SAR + Moving Avgs

Cautionary note on Parabolic SAR:

The dots reverse direction as soon as a counter-trend test occurs. It often turns bullish at a short-term high, with risk of a drop before the signaled move begins.

Waiting for a smaller pullback can potentially offset this risk.

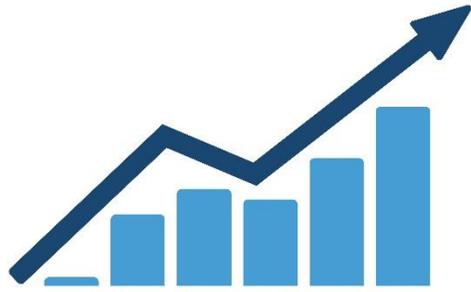


# Relative Strength vs S&P 500

Relative strength (not RSI) compares price performance to a broader index like the S&P 500.

It can highlight stocks with greater buying interest than the broader market.

Relative Strength is completely different than Wilder's Relative Strength Index (RSI).



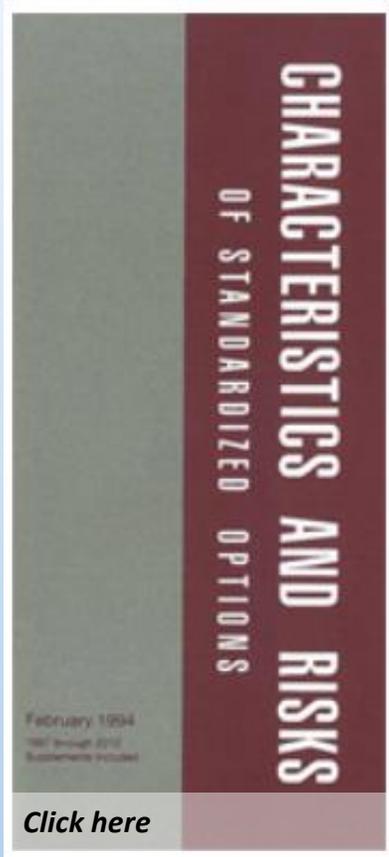
# Trend Following w/Exponential Moving Average Ribbons

Exponential Moving Average Ribbons can highlight established trends using a series of exponential moving averages.

It can give potential long and short signals when ribbons clearly indicate direction.

Bullish & bearish examples: ARKK in 2020 and late 2021.

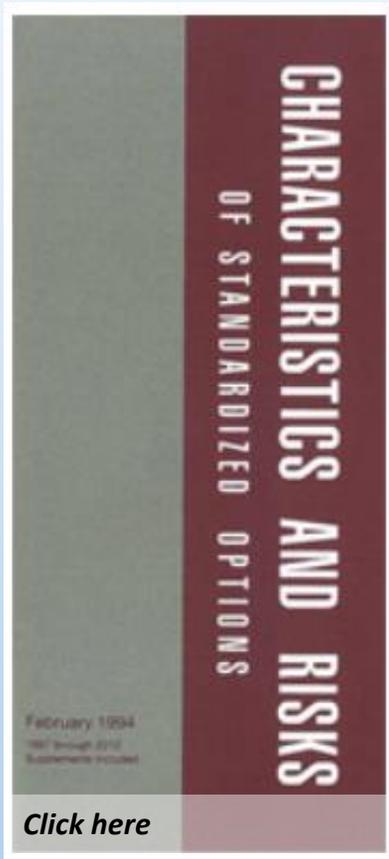
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