Dr. Elder's

Enhanced Trading Room

MetaStock
Add-on Manual

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CHAPTER 1   INTRODUCTION

Welcome

Thank you for purchasing this add-on. The original version was developed in 2004 by Dr. Alexander Elder, the author of TRADING FOR A LIVING and COME INTO MY TRADING ROOM, and John Bruns, a programmer.

MetaStock already has some of the indicators described in Dr. Elder's books, but quite a few are missing from their set. This add-on contains those missing indicators. New indicators include the Market Thermometer and the SafeZone stop. The Elder add-on also provides MetaStock templates with basic screens and samples of each indicator, showing how they are best formatted.

In addition to the indicators, there are scans that allow you to find stocks based on these indicators. Several Advisors are provided. While these are not intended to be complete trading systems, they show you how to generate signals based on the systems that can be modified to fit your trading style. These help you understand the methods described in the books, but they do not automatically replace careful, independent study and planning before entering each trade.

How to Use This Manual

If you are comfortable with basic tasks in MetaStock, this manual is all you will need to learn to use Dr. Elder's Enhanced Trading Room. If you are a beginning user, please read the MetaStock Getting Started manual before using Dr. Elder's Enhanced Trading Room.

Below is a summary of the content contained in each chapter.

Chapter Number	Chapter Title	Contents
Two	Components	Overview of the components included in Dr. Elder's Enhanced Trading Room
Three	Indicators	Descriptions of the indicators and how to use them
Four	Templates	Descriptions of the templates and how to apply them
Five	Explorations	Descriptions of the explorations and how to run them
Six	Expert Advisors	Descriptions of the expert advisors and how to attach them to your charts
Seven	Getting Help	Where you can get help and support for Dr. Elder's Enhanced Trading Room
Eight	About Dr. Elder	A short synopsis of Dr. Alexander Elder's career

CHAPTER 2   COMPONENTS

Below is a summary of the indicators, explorations, expert advisors, and templates included with the Dr. Elder's Enhanced Trading Room.

Indicators:

- Elder - AutoEnvelope
- Elder - Bull Power
- Elder - Bear Power
- Elder - Chandelier Long
- Elder - Chandelier Long Entries
- Elder - Chandelier Short
- Elder - Chandelier Short Entries
- Elder - Force Index
- Elder - ForceIndex with ATR channels
- Elder - Impulse
- Elder - Impulse Release
- Elder - MACD Combo
- Elder - MACD Divergence Helper
- Elder - MACD-Histogram
- Elder - MACD-Histogram Xover
- Elder - Market Thermometer
- Elder - SafeZone Long
- Elder - SafeZone Long Entries
- Elder - SafeZone Short
- Elder - SafeZone Short Entries
- Elder - Smoothed Rate of Change
- Elder - Weekly MACD Histogram
- Elder – Zig Zag

Dr. Elder's Enhanced Trading Room comes with two additional indicators that are not meant to be plotted. They are only used to assist in the calculations of other formulas.

- Elder - Flipchart Helper
- Elder - Triple Screen Helper

A final indicator, Elder - Zero, is used only in formatting a cleaner appearance in some templates.

Explorations:

- Elder - Envelope Channel Size
- Elder - Fallen Angels
- Elder - Flip to Green
- Elder - Flip to Red
- Elder - ForceIndex Bands Exceeded
- Elder - MACD Semi-Automatic Divergence
- Elder - Market Thermometer
- Elder - Triple Screen Long
- Elder - Triple Screen Short

Expert Advisors:

- Elder - Flip Chart
- Elder - ForceIndex exceeded ATR Channels
- Elder - Impulse
- Elder - Impulse with Divergence
- Elder - MACD Semi-Automatic Divergence
- Elder - Triple Screen

Templates:

- Elder - Chandelier Stops
- Elder - Chandelier Stops with Entries
- Elder - Daily
- Elder - Daily with MACD Divergence
- Elder - Directional System
- Elder - ForceIndex with ATR Channels
- Elder - Impulse Release
- Elder - MACD Histogram Xover
- Elder - MACD Semi-Automatic Divergence
- Elder - Market Thermometer
- Elder - Ray
- Elder - SafeZone
- Elder - SafeZone with Entries
- Elder - Smoothed Rate of Change
- Elder - Weekly

C H A P T E R 3   I N D I C A T O R S

The indicators are described in an alphabetical order. Brief descriptions include the information required for their effective use.

•   Parameters (defaults) – Most indicators have parameters. These are marked by bullet points, listing their default values and brief descriptions.

Format Tips: Format Tips: Many indicators contain multiple plots that must be formatted to provide correct images. Some are simple and obvious, others quite complicated. This section tells you how we have done it for our templates. The easiest way to achieve the same result is to copy an indicator directly from the supplied template, but you are welcome to change their parameters.

Each indicator is shown in a sample chart, so you can see how we intend it to look. The charts are for illustration purposes only, and the securities have been chosen at random. Please note that the functions not referenced in this section of the manual are helper functions for the other indicators, advisors, and explorations. They are not intended to be used as indicators.

Elder - AutoEnvelope

Envelope channels are set parallel to the moving average (parallel to the slow MA if you use two MAs). The two channel lines must contain approximately 90-95% of all prices for the past two or three months between them, with only the extremes protruding outside. Envelope channels provide attractive profit targets – sell longs near the upper channel line and cover shorts near the lower channel line.

The AutoEnvelope is a custom indicator - an original tool that automatically sizes channels by calculating a standard deviation

for the last 100 bars.   It is designed to change value at most once a week, making it suitable even for intra-day data.

The EMA is plotted in addition to the AutoEnvelope. This combination allows you to change the EMA and have the envelope follow it without adjusting two separate indicators. If you do not want to see the moving average, right click on it and change its style to invisible.

- Base EMA (22) – This is the number of bars for the Exponential Moving Average plotted in the center of the channel.
- Factor (27) – This is the number of standard deviations (expressed in the tenths) for creating the channel. Statistically, 2.7 is the proper size to use, but that assumes a standard distribution, which is not always present in the markets. We find that 27 works for most stocks using daily data, but you may want to adjust this Factor to fit your trading vehicle and style.

Format Tips: Auto Envelope has three plots – the central EMA and the upper and lower channel lines. We use the same color for all, with a slightly thicker EMA in the center and dashed lines for the channel, plotted on the same scale as the

price bar plot. AutoEnvelope appears in the Elder Daily Template.

Elder - Bull Power & Elder - Bear Power

Bull Power and Bear Power are the components of Elder-ray, an indicator described in TRADING FOR A LIVING. Since both are based on an EMA, this example shows both with an EMA of the same length.

• Moving Average Days (13) – The length of the EMA for computing Bull Power and Bear Power.

Note that the inputs for Bull and Bear Power are identical and must be set to the same value. You should add an EMA to the plot with the same time frame.

Format Tips: Bull Power and Bear Power are plotted as histograms, in separate windows. Add a thin horizontal zero

line to each plot.   Bull Power and Bear Power are found in the Elder Ray Template.

Elder - Chandelier Long & Elder - Chandelier Short

The Chandelier Exit, introduced by Chuck LeBeau, is described in COME INTO MY TRADING ROOM. It calculates each stop on a long position in an uptrend from the highest point reached during that rally, and gets its name from the chandelier, which hangs from the highest point in the room. The Chandelier Exit uses a multiple of the Average True Range (ATR), subtracting it from the highest high since the trade was entered. It creates a new trade whenever the previous trade is stopped out. For stops on short positions, it reverses the direction and adds the multiple of the ATR to the lowest low since the trade was entered. Chandelier Stops differ from traditional stops in that they can actually move against you if the anchor point stays the same but the ATR increases due to volatility. A more conservative approach is to ignore any change in a stop that increases your risk

Both long and short strategies use the same parameters, allowing you to display either one or both on your chart. The two are

provided as separate indicators to allow you to disable one of them, eliminating visual clutter if you trade only in one direction.

- Chandelier Factor (3) – This is the factor for multiplying the ATR when computing the Chandelier. You may use fractions – this does not need to be an integer.
- ATR Days (22) – Number of days for computing ATR.

Format Tips: Chandelier Stops are best plotted using the discrete dot format (the last choice in the Style menu). Choose a moderate size, or the dots will be hard to see. Here we use red dots for Chandelier Short and green for Chandelier Long. Chandelier Exits are found in the Chandelier Stops template.

Elder - Chandelier Long Entries & Elder - Chandelier Short Entries

Displaying protective stops is a difficult problem. It is a key rule to never move your stop in such a way that your risk increases. For that reason, we decided to show stops as a series of decreasing risk points until the trade is eventually stopped out. The problem with this is that if you enter a trade at any other point than the initial dot of the sequence, you may be placing the stop too close. Stop entry plots show you the initial value for the

stop on each bar. You can use them when you put on a trade and increase (or decrease) the value each day until you eventually run into a stop sequence. The stop sequence shows this tightening of stops automatically.

The entry indicators have the same parameters as the stop sequences.

- Chandelier Factor (3) – This is the factor for multiplying the ATR when computing the Chandelier. You may use fractions – this does not need to be an integer.
- ATR Days (22) – Number of days for computing ATR.

Format Tips: Chandelier Stop Entries are plotted as small dots that overlay the large dots for the stop sequences. Note that the beginning dot of every stop sequence is always the same value as an entry.

Elder - Force Index

Force Index was first described in TRADING FOR A LIVING. It plots a moving average of the change in price multiplied by volume.

- Periods (2) – sets the length of the EMA for smoothing Force Index.

A version named Elder - Force Index 13 Bar is included – its only difference is the default smoothing period for use in the weekly template. You can always change the period manually.

Format Tips: Force index is plotted as a single line in a color of your choice. A horizontal zero line is added to show transitions. Force Index is found in the Elder Daily Template. The Force Index 13 Bar is found in the Elder Weekly Template.
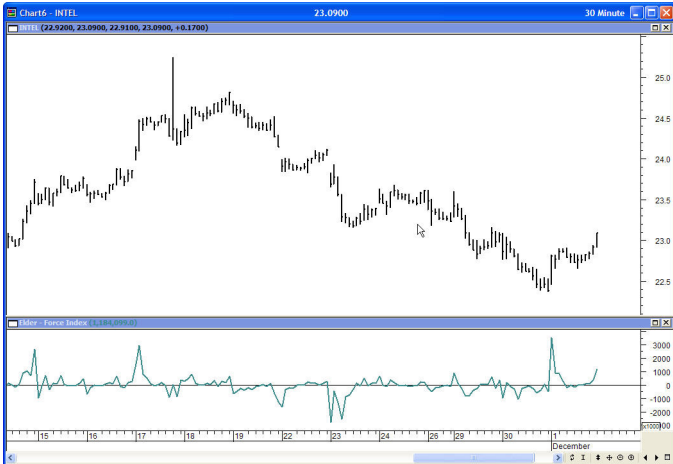
Elder - ForceIndex with ATR channels (**new for version 3**)

Adding Average True Range (ATR) channels to Force Index had been suggested by Kerry Lovvorn who runs www.SpikeTrade.com together with Dr. Elder. Adding these channels turns Force Index into an excellent tool for identifying intermediate tops and bottoms. Force Index with ATR channels does not catch all turns, but the ones it identifies deserve very serious attention.

Note: The word "true" in Average True Range refers to dealing with price gaps. Since there are no gaps in Force Index, here ATR is the same as the Average Range.

Whenever the Force Index rises above or falls below its 3-ATR channel, it signals that the ticker has reached an area of an unsustainable extreme. That's where rallies and declines become exhausted, and prices tend to reverse. This is one of very few tools that are equally efficient in calling both top and bottom areas. The Elder – ForceIndex with ATR Channels Advisor marks the chart when the 3-ATR channel is exceeded.

Chart: HES weekly, Force Index smoothed by 13-bar EMA. Red and green arrows mark where 13-week Force Index extremes identified tops and bottoms.

In our experience, these signals work especially well on the weekly charts with these default parameters.

- Periods (13) – sets the length of the EMA for smoothing Force Index.
- Band EMA Length (21) – set EMA for ATR Channels

Elder - Impulse

The Impulse System was first described in COME INTO MY TRADING ROOM. It uses the direction of both the MACD-

Histogram and an exponential moving average of price to define an impulse. The rule is never to trade against the impulse.

- MACD Short MA (12) – The short EMA for the MACD calculation.
- MACD Long MA (26) – The long EMA for the MACD calculation.
- MACD Smoothing Period (9) – The smoothing value for the MACD Signal line.
- Short EMA (13) – The short-term price EMA.
- TimeRatio (1) – This programming trick allows you to compute the Impulse for a timeframe other than the one you see on your chart. For example, to compute the weekly Impulse while looking at a daily chart, set TimeRatio to 5.

Format Tips: Due to its complexity, your best bet is to copy this from the Elder Daily Template. There are three plots - each is either 0 or 1, and only one appears at a time. Choose medium-size histogram style, color-coding its bars as appropriate. Add a zero line and eliminate the border and scale.
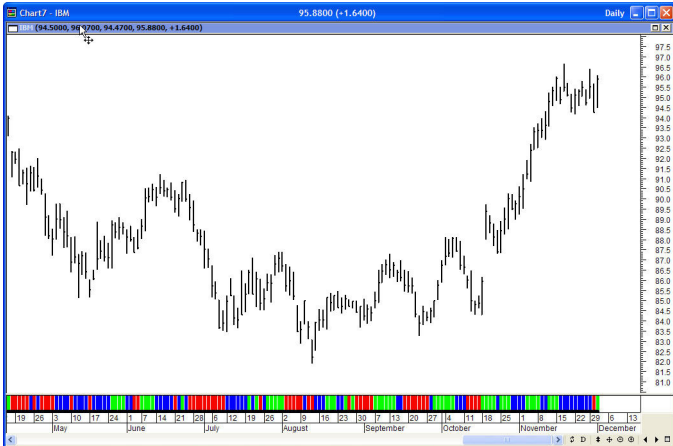
Elder - Impulse Release

The purpose of Impulse Release is to prevent trading in the wrong direction. While the Impulse System operates in a single timeframe, Impulse Release is based on two timeframes. It tracks both the longer and the shorter timeframes to find when the Impulse points in the same direction on both. Its color bar flashes several signals. If one timeframe is in a buy mode and the other in a sell mode, the signal is No Trades Allowed, a black bar. If both are neutral, then any trades are allowed, showing a cyan bar. When one is bullish while the other is either bullish or neutral, there is a green bar, allowing traders to buy and prohibiting shorting. When one is bearish while the other is either bearish or neutral, a red bar signals shorts are permitted, and long trades are not allowed.

- MACD Short MA (12) – The short EMA for the MACD calculation.
- MACD Long MA (26) – The line EMA for the MACD calculation.
- MACD Smoothing Period (9) – The smoothing value for the MACD Signal line.
- Short EMA (13) – The short-term price EMA.
- TimeRatio (5) – The ratio between the two timeframes. For a system using daily for the short and weekly for the long use 5. If you are trading 10-minute bars and using hourly charts as long-term, use 6, etc.

Format Tips: Your best bet is to copy this from the Elder Impulse Release Template. There are four plots – each is either 0 or 1, and only one shows at any given time. Choose medium-size

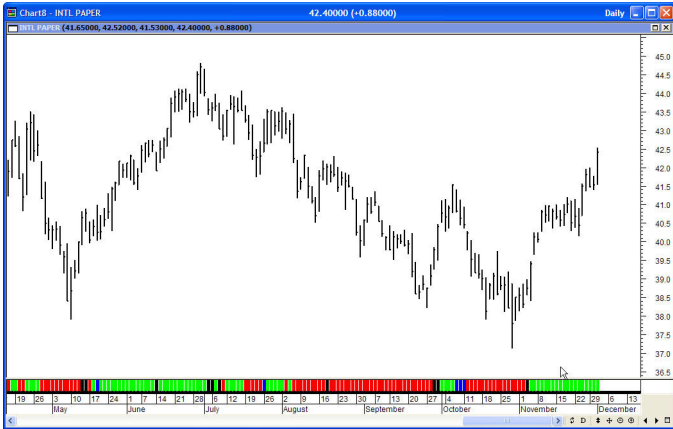histogram style, color-coding its bars as appropriate. Add a zero line and eliminate the border and scale.

Elder - MACD-Histogram & Elder - MACD Combo

MACD-Histogram tracks the difference between the MACD line and the Signal line (which is the exponential moving average of the first line). For better visibility, when plotting the lines and the histogram in the same window, we scale up the histogram by a factor of 2. Furthermore, we use two separate plots for the histogram, which allows us to color-code the bars for upticks and downticks.

The MACD Combo overlays MACD lines on MACD Histogram. Putting both plots in the same window enables you to change both with a single parameter change.

- Short MA (12) – The short EMA for the MACD calculation.
- Long MA (26) – The long EMA for the MACD calculation.
- Smoothing Period (9) – The smoothing value for the Signal line.

- Time Ratio – Normally 1, showing MACD for the same timeframe as the price chart. If, on the other hand, you are looking at a daily chart and want to see a weekly MACD, set this to 5, multiplying all the parameters above by five. A copy of MACD-Histogram named Weekly MACD-Histogram is included, with only the default changed.

Format Tips: Your best bet is to copy this from either the Elder Daily or Elder Weekly Templates. MACD-Histograms should be plotted as a histogram, by definition. Choose either a single color for the indicator or one color for Up and another for Down. If you use the Combo, there are four separate plots, the MACD-Histogram Up and Down and the MACD and Signal Lines. Select histogram initially and then change the MACD and the Signal to line type plots. All plots use the second level thickness and a thin zero line.
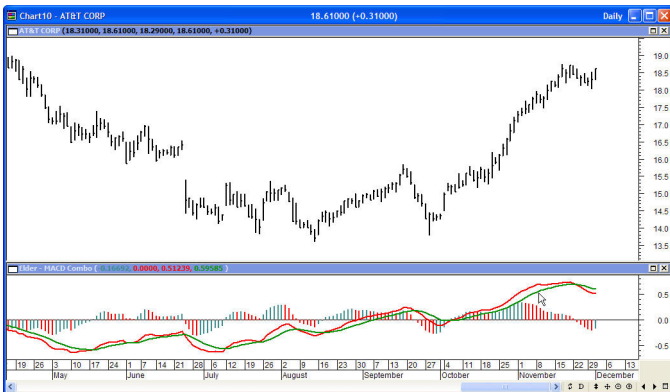
Elder - MACD Divergence Helper (**new for version 3**)

This indicator itself displays nothing. It is a helper function that enables expert advisors and explorations to function. This function is locked and not subject to editing.

Note: MACD Histogram Divergences use the 'Elder – MACD Combo' default parameters. These default to the standard 12, 16, 9. To change this, you must edit the indicator, simply changing the values on the chart will have no effect!

This helper is used in the following:

- Elder - MACD Histogram Divergence (Expert Advisor)
- Elder - Impulse with Divergence (Expert Advisor)
- Elder - MACD Histogram Divergence (Exploration)

This example uses the Elder – MACD Histogram Divergence Template. The dots above or below prices indicate divergences. Until the second peak or valley in the MACD-Histogram actually occurs, the divergence is only potential. We display this as a less intense color dot on the charts. The confirmed divergences are displayed in a brighter color. This provides a quick method of seeing whether a divergence is confirmed.

Elder - MACD-Histogram Xover

This indicator was developed by John Bruns to predict the price point at which the MACD-Histogram will reverse the direction of its slope. The indicator is plotted one day ahead into the future, allowing, if your strategy depends on MACD-Histogram, to

predict its reversal point for tomorrow. If the closing price tomorrow is above the value of this indicator, then MACD-Histogram will tick up. If the closing price is below the value of this indicator, then MACD-Histogram will tick down. This is especially interesting on the charts of the longer timeframes, where this indicator often moves far away from the price, showing how difficult it is to change the direction of the MACD-Histogram.

Use the same values as the MACD Combo which you want to anticipate. If you use the default values for MACD Combo, then accept the values below.

- MACD Short MA (12)
- MACD Long MA (26)
- MACD Smoothing Period (9)
- MACD Time Ratio (5) – the default here is set to 5 (weekly). (This was done for a technical reason, to allow the template to convert correctly in all versions of MetaStock.)

Format Tips: This plot is in the MACD-Histogram Xover Template. MACD-Histogram Xover is best shown as a point plot. Choose a medium weight and a distinctive color. The timeframe is set at 5, showing a weekly histogram on a daily

plot. Note how the wide swings affect the Y scale of the chart and tend to compress the price plot.

Elder - Market Thermometer

The Market Thermometer is described in COME INTO MY TRADING ROOM. It measures the degree of volatility, as indicated by greater or smaller intraday ranges. When the Market Temperature either spikes above its average or stays below its average for a number of days, it gives trading signals, as described in the book.

- Thermometer EMA (22) – The length of the moving average of the Market Temperature. The default 22, the average number of trading days in a month.
- Spike Alert (3) – If the Temperature exceeds its EMA by this factor, a visual indication appears on the chart.
- Quiet Alert (6) – If the Temperature remains below its EMA for this number of trading days, a visual indication appears on the chart.

Spikes are highlighted by red dots. Quiet periods are highlighted with a cyan background throughout the quiet period. Spikes are truncated at six times the current average. This prevents a single

extra-large day from compressing the entire graph. A wide zero line is plotted on top of the indicator to help eliminate visual noise. It masks very low values, allowing a distinctive visual display.

Format Tips: Your best bet is to copy this from the Elder Market Thermometer Template because it is hard to format yourself. The Temperature is plotted as a thin black histogram, its average as a thin red line. The spikes are very thick red dots. The quiet zone is a very thick cyan histogram. The helper function Elder - Zero is plotted as a very thick black line, covering up visual noise at the bottom of the chart.

Elder - SafeZone Long & Elder - SafeZone Short

SafeZone is a method for setting stops on the basis of recent volatility, outside the level of market noise. It is described in COME INTO MY TRADING ROOM. In an uptrend, SafeZone defines noise as that portion of the current bar that extends below the low of the previous bar, going against the prevailing trend. In a downtrend, SafeZone defines noise as the portion of the current bar that extends above the high of the previous bar, against the downtrend. It averages the noise level over a period of time and multiplies it by a trader-selected factor. For long

trades, SafeZone subtracts the average noise level, multiplied by a factor, from the current low, and for short trades, it adds it to the latest high to compute the stop. Stops are allowed to move only in the direction of the trade, always tightening. When a trade is stopped out, this indicator reverses and starts a new sequence.

Both long and short strategies use the same parameters. You can plot either one or both indicators. They are provided as two separate indicators, allowing you to eliminate clutter if you trade in only one direction.

- SafeZone Factor (2) – This is the factor by which we multiply the average level of noise computed by SafeZone.
- LookBack Period (99) – The number of days that the SafeZone looks back when calculating an average market noise.

Format Tips: SafeZone Stops are in the Elder SafeZone Template. They are best plotted using the discrete dot format (the last choice in the style menu). Choose a moderate size, or the dots will be hard to see. We use red for SafeZone Short and green for SafeZone Long.

Elder - SafeZone Long Entries & Elder - SafeZone Short Entries

As described in the Elder - Chandelier Entries section (page 10), these plots show the bar-by-bar entry points for initial stops so you can begin a trade at any point and get the correct value. Remember that you may never change a stop so that it would increase your risk.

Elder - Smoothed Rate of Change

This indicator, developed by Fred Schutzman, is described in TRADING FOR A LIVING. It is created by calculating the rate of change for an exponential moving average of closing prices. When it changes direction, it helps identify and confirm trend changes.

- Moving Average Period (13) – The length of the EMA used for smoothing.
- Rate of Change Period (21) – The length of the rate of change calculation.

Format Tips: Smoothed Rate of Change is found on the Elder Smoothed Rate of Change Template. We plot it as a single line with a horizontal line at 1.

Elder – Zig Zag

This indicator, developed by John Bruns, provides a novel way of looking at a Zig Zag plot. The standard Zig Zag plot shows reversals at the right of the chart, even if the Zig Zag criteria are not met. Later, such a plot can reverse itself and extend in the original direction. This plot is identical to a standard Zig Zag in all ways except for the final direction change. If the plot is starting to change direction but has not yet confirmed the change criteria, the Zig Zag is plotted horizontally. When either a confirmed change or extension occurs, the horizontal segment is replaced by the correct Zig Zag plot.

This indicator is based on the closing prices.

- Reversal (5) – The points or percentage required for a confirmed reversal.
- Use Percentage (1) – 1 means the plot is based on a percentage change, 0 uses points.

Format Tips: This is a standard indicator that you can add to any chart. A line plot is most appropriate. There is no template for this indicator.

CHAPTER 4   TEMPLATES

Most people do not want to custom-build each and every chart. You can use MetaStock templates to streamline charting. To make a template, set up a chart exactly how you want it to be, then go to the File menu and select "Save As…". Change the File type to template (*.mwt). Give it a recognizable name so you will be able to identify your template later. If you put a zero (0) in front of the template's name, it will be at the top of your template menu. Please feel free to use, change, and combine the provided indicators to build new templates the way you want them.

When creating a chart, you have an option of starting with a template. Select the template name that you want in the power console.

You can also apply a template to an existing chart. Right-click the chart anywhere in the background and select "Apply Template," then select the template you want to use.

In this section, we provide a sample graph for each template and list its indicators. We use default values for all custom indicators, as described above. To get templates to load in their proper timeframe, always load them with the 'Use template periodicity' box checked – see example above. If you use an older version of MetaStock, you might need to adjust this manually. While the templates are presented in alphabetical order, please remember to always look at the weekly charts first!

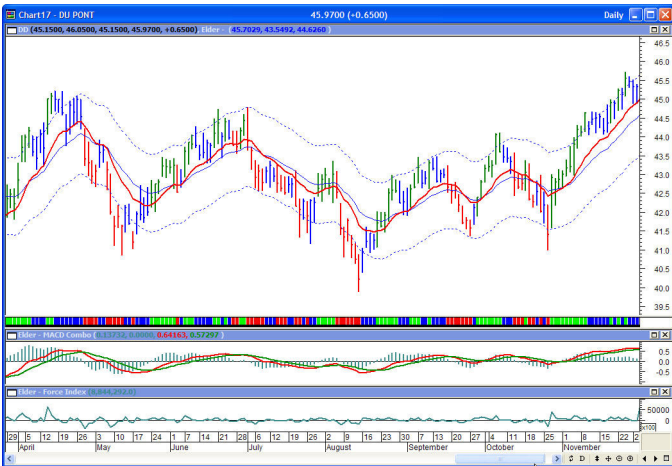## Elder - Chandelier Stops
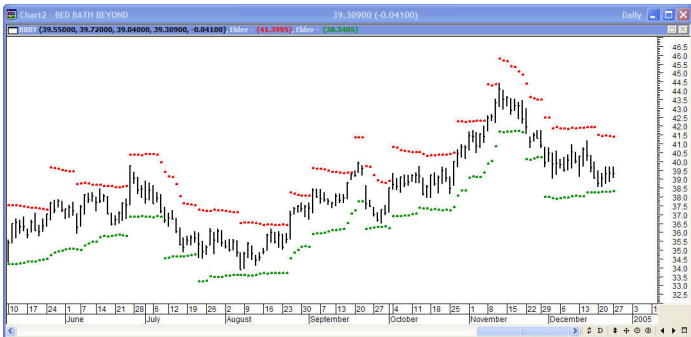
- Elder - Chandelier Long
- Elder - Chandelier Short

Elder - Chandelier Stops with Entries

- Elder - Chandelier Long
- Elder - Chandelier Short
- Elder - Chandelier Long Entries
- Elder - Chandelier Short Entries

Elder - Daily

- Elder - AutoEnvelope
- Moving Average - 13 bar Exponential
- Elder - Impulse
- Elder - MACD Combo
- Elder - Force Index

Note: Elder - Impulse Expert attached. It is important to note that the expert uses the default values of the Elder - Impulse function and not the input values. If you change the inputs to the Elder - Impulse indicator, the band type impulse plots will not match the colored bars on the price chart.

Elder - Daily with MACD Divergence (**new for version 3**)

This is the same template with the Elder - Impulse with Divergence Expert attached. It highlights MACD Histogram Divergences while retaining the colored bars of impulse.

- Elder - AutoEnvelope
- Moving Average - 13 bar Exponential
- Elder - Impulse
- Elder - MACD Combo
- Elder - Force Index

Elder - Directional System

- • Directional Movement +DI
- • Directional Movement -DI
- • Directional Movement ADX

Elder - ForceIndex with ATR Channels (**new for version 3**)

- Elder - MACD Combo
- Elder - ForceIndex with ATR channels
- Elder - ForceIndex exceeded ATR Channels (expert)

Elder - Impulse Release

- • Elder - AutoEnvelope
- • Moving Average - 13 bar Exponential
- • Elder - Impulse Release
- • Elder - MACD Combo
- • Elder - Force Index

This template is similar to the standard Elder Daily but has Impulse Release bars instead of Impulse bars. it uses the two time-frames as explained under the Impulse Release indicator.

Elder - MACD Histogram Xover
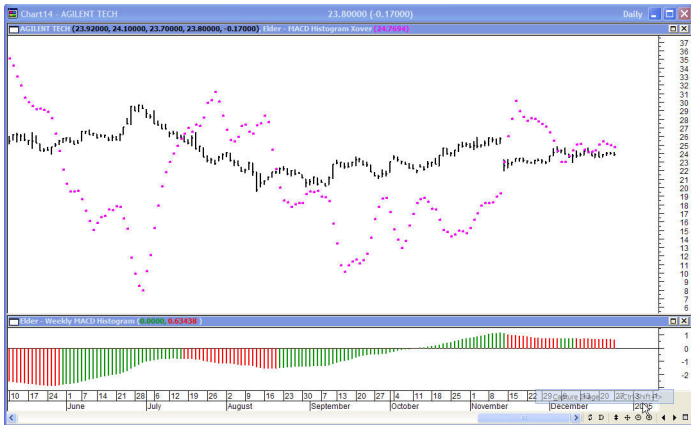
- Elder - MACD-Histogram Xover
- Elder - Weekly MACD Histogram

Elder - MACD Semi-Automatic Divergence (**new for version 3**)

- Elder - MACD Combo
- Elder - MACD Semi-Automatic Divergence expert

Note: The expert uses the default values of the Elder – MACD Combo. If you change them on the chart, the expert will display inconsistent results.

Elder - Market Thermometer

- Elder - Market Thermometer
- Elder - Zero (helper function)

Elder - Ray

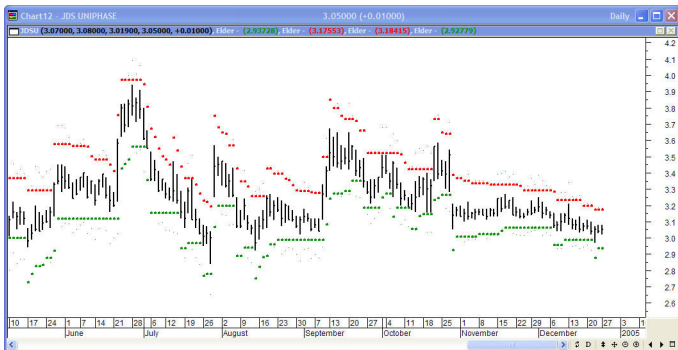- Moving Average - 13 bar Exponential
- Elder - Bull Power
- Elder - Bear Power

Elder - SafeZone

- Elder - SafeZone Long
- Elder - SafeZone Short

Elder - SafeZone with Entries

- Elder - SafeZone Long
- Elder - SafeZone Short
- Elder - SafeZone Long Entries
- Elder - SafeZone Short Entries

Elder - Smoothed Rate of Change
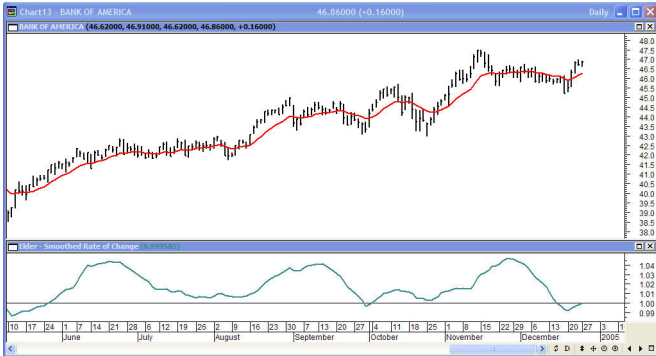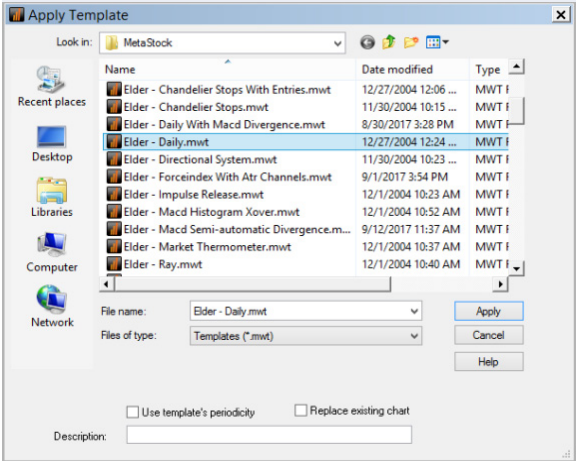
- Moving Average - 13 bar Exponential
- Elder - Smoothed Rate of Change

Elder - Weekly

- Moving Average - 26 bar Exponential
- Moving Average - 13 bar Exponential
- Elder - MACD Combo
- Elder - Force Index 13 Bar

To Apply a Template to an Open Chart

Step	Action
1	**Open the chart.**
2	**Right-click on the chart.**
3	**From the shortcut menu, choose *Apply Template*.** The Apply Template dialog opens.
4	**Choose the template from the Apply Template dialog.**
5	**Activate the checkbox next to *Use Template's periodicity*.**
6	**Click *Apply*.** The chart appears.

CHAPTER 5   EXPLORATIONS
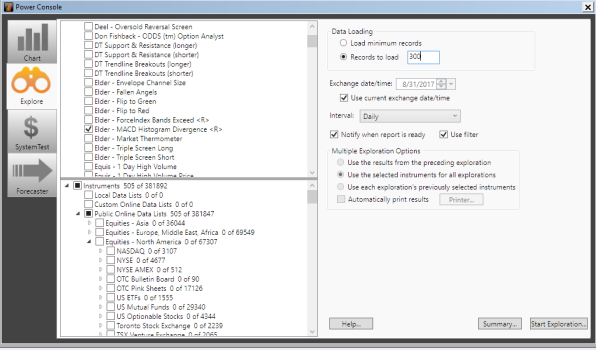
The scan facility in MetaStock is called the Explorer. The Explorations will run against the files or directories you select. These scans give you a list of stocks that fit the criteria you selected. A description of each scan and its columns is located in the description section of the Exploration itself.
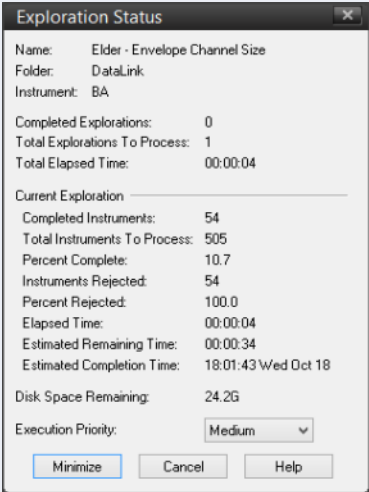
IMPORTANT: You must load at least 250 data points for these explorations to work properly – we recommend you set it for 300.
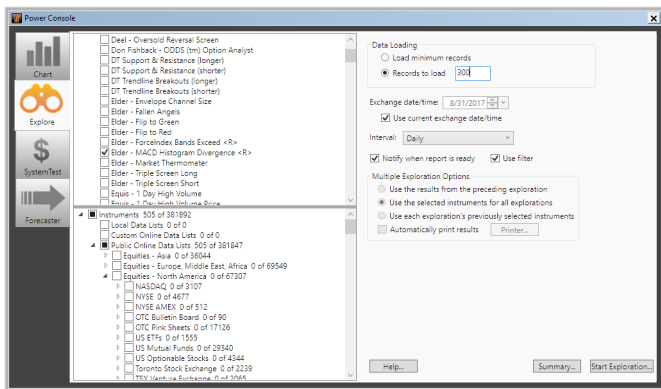
The results of these explorations are a list of stocks that exhibit the criteria in the exploration. None of these explorations represent a complete trading system. These lists are not our recommendations to buy or sell. You must make your own decision on the suitability of these securities before making any trading decisions.

To Run an Exploration on the Dr. Elder's Enhanced Trading Room Systems

Step	Action
1	**Click** **to open the Power Console.**
2	**Click** Explorer **.** The Explore screen appears.
3	**Activate the Exploration.** For example, check the box in front of Elder - Envelope Channel Size.
4	**Activate the instruments you want to explore.** For example, expand the instrument tree by clicking the + in front of Public Online Data Lists. Click the + in front of Index Constituents to expand that branch. Activate the group S&P 500 by clicking the box in front of it.
5	**Select *Records to Load* and enter** 300**.**

Step	Action
6	**Click Start Exploration.** The Exploration Status Dialog opens. The dialog shows you how much time the exploration will take to complete, plus other useful information.

| 7 | **When the exploration is complete, click *Reports*.** |

The following note and an exploration tutorial are from the earlier version of this add-on. Other explorations are added below.

Elder - Fallen Angels (What Stocks to Trade)

By Dr. Alexander Elder

Traders often ask me how to choose what stocks to trade. To answer this question, one must come up with a market concept that makes logical sense and then program it to see what stocks show that pattern.

One of such concepts is trading 'fallen angels.' Those are stocks of important companies that fell on hard times but are starting to recover. If you visualize this pattern, it looks like a capital letter "L," with a long decline, flat base, and a little uptick at the right edge. I look for these patterns on weekly charts, where they take a couple of years to complete and often lead to multi-year bull markets. Try looking for stocks whose 26-week MAs are less than half the level of a year ago, but higher than the previous week. Try to visualize it – we are looking for stocks that are dramatically lower than they were a year ago, but have completed their bear markets and are starting to tick higher.

John Bruns, a repeat camper who came to our Caribbean Camp where this concept was presented as a peer counselor programmed this scan for TC2000 and later converted it to MetaStock. When we applied this scan in class to all stocks in the S&P500, it returned a list of 8 very promising candidates. Try doing this scan yourself – you will be surprised by the results. Try to play with these parameters, so that your scan differs from everybody else's.

Elder - Fallen Angels, Writing an Exploration

By John Bruns

This Explorer is easy to create, and I detail the procedure here so that you can feel comfortable making changes and/or creating your own scan.

1. The first step of the scan looks for stocks that have fallen over the last year. We chose stocks whose 26-week EMA is less than ½ the value it was a year ago.

   In MetaStock language, this translates to:

```
Mov(CLOSE,130,E) < 0.5 *
Ref(Mov(CLOSE,130,E),-260)
```

Note that the 26-week MA is expressed as a 130-day MA. The "-260" denotes the average 260 trading days ago. We place that in column A and name it Fall.
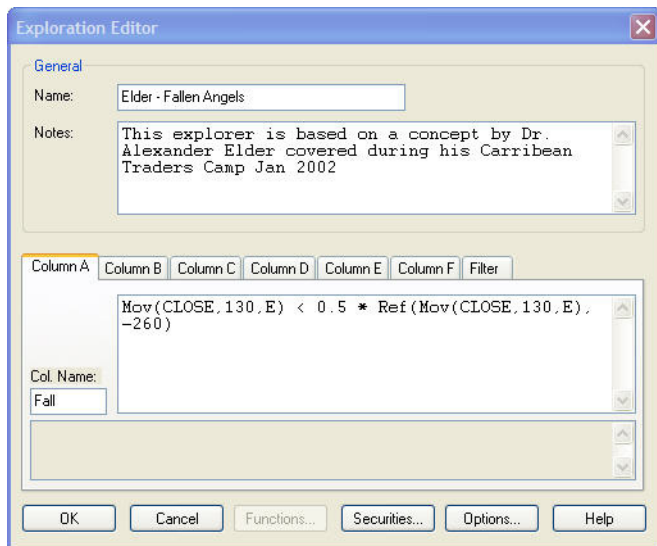
2. The second step finds stocks that are currently in an uptrend. We look for stocks whose 26-week (130-day) EMA is higher this week than last. That translates to:

```
Mov(CLOSE,130,E)   > Ref(Mov(CLOSE,130,E),-5)
```

We put that in column B and name it Rise.

3. Since we want both conditions to be true, we connect them with "AND". In the "Filter" box, we put:

```
colA and colB
```

Feel free to change the length of the moving average, the timeframes, or the extent of declines. Try different values until you get stock charts that look good to you.

Elder - Envelope Channel Size

This scan uses the AutoEnvelope function to find stocks with particular channel sizes. You can look for absolute values or for percentages of the average. Modify the filter to select stocks whose channels fall into your selection criteria.

Elder - Market Thermometer

This scan allows you to look for spikes or quiet periods in the Market Temperature. Elders book COME INTO MY TRADING ROOM. The key to this scan is setting the filter correctly. You may want to begin by initially turning off the filter and sorting by the column results.

Elder - Triple Screen Long & Elder - Triple Screen Short

Triple Screen begins by analyzing the long-term chart, using the weekly MACD-Histogram to identify the market tide. The relationship between the latest two bars of MACD-Histogram defines its slope. The Weekly MACD-Histogram function is set up to look at weekly data directly. The daily criteria for Triple Screen

use the 2-day Force Index, the default value of the Force Index function.

Elder - Flip to Green & Elder - Flip to Red

These explorations look for flip conditions – described later under the expert advisor Elder - Flip Chart.

Elder - ForceIndex Bands Exceeded (**new for version 3**)

This exploration finds securities that have a ForceIndex that exceeded the 3-ATR channel in the previous 1 to 3 bars. This delay is because you want to take action on these only when the ForceIndex has returned inside the 3-ATR channel. The sign is positive for Bullish (below) and negative for Bearish (above). Be sure to choose the weekly timeframe.

Elder - MACD Semi-Automatic Divergence (**new for version 3**)

This Exploration is a market research tool – no trading advice is given or implied. As with any tool, when using it to find trades, you must back it by proper risk management, including stops and position sizing.

Introduction and Logic
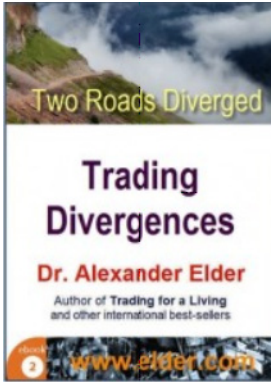
Divergences are disagreements between the patterns of prices and indicators. They are among the most powerful signals in technical analysis. Dr. Elder addressed divergences in all of his books, and he recently dedicated an entire [e-book](#) to them, with dozens of charts that show how to identify and trade divergences.

Since true divergences rarely occur, it makes sense to scan a large number of trading vehicles when you look for these important patterns.

There's always been a great deal of interest among traders in scanning for divergences. All developers had to face a frustrating problem: divergences, which are so clearly visible on the charts, are extremely difficult to recognize using automatic Explorations. Some of the top trading programmers told us that building a MACD divergence Exploration was the hardest task of their professional lives – and they were never fully satisfied with the results. No Exploration we saw worked as well as the human eye. All Explorations miss many good divergences while giving many false positives – misidentifying divergences that do not really exist.

Recent research into trading psychology explained this dilemma. Divergences are analog patterns, while computer scans are digital. If good automatic divergence Explorations are ever built, they'll be built using 'fuzzy logic.'

Rationale

While writing his e-book on divergences, Dr. Elder came up with a new concept. Instead of trying to create an automatic Exploration, why not make a semi-automatic one that will signal

when a divergence may be developing. Use the power of digital processing to identify market conditions in which divergences are likely to occur – and then switch to a visual scan of those charts. We created this program to alert you when a divergence may be developing so you can start monitoring that chart.
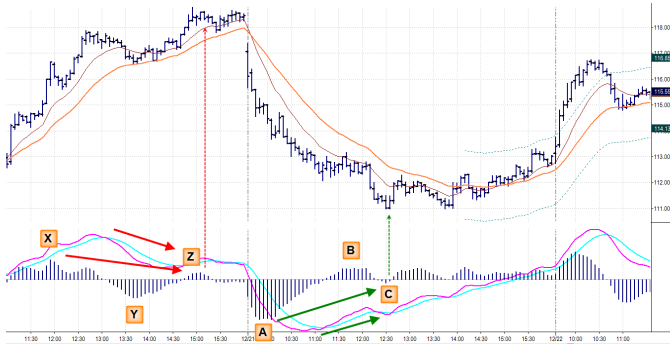
Here you see the classical pattern of a **bearish divergence**: tops X and Z with a MACD-Histogram crossover below the centerline Y between them. Price top Z is higher than X, MACD-Histogram top lower.

Here's a classical pattern of a **bullish divergence**: bottoms A and C with a MACD-Histogram crossover above the centerline B between them. Price bottom C is lower than A, MACD-Histogram top C lower than A.

Exploration Examples
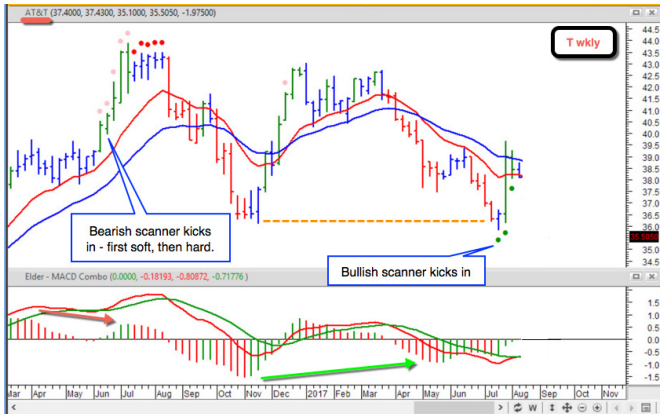
This weekly chart of AT&T (ticker T) shows how pale red dots of Semi-Automatic Exploration warn you that a bearish divergence is building. Prices are higher than several weeks ago, while MACD-Histogram had crossed below its zero line and is now rising to a much more shallow level. The dots turn bright red to alert you that MACD-H began to decline, a bearish divergence has been completed, and there is a trading opportunity on the short side.

Closer to the right edge of the screen, dark green dots appear. They mark a bullish divergence: prices are lower, while MACD-Histogram had crossed above zero and then declined to a much shallow level and then began to rise.

MACD Divergence Semi-Automatic is not an automatic trading method. It generates alerts when market conditions are ripe for a divergence. Once you see its signal, you need to mobilize your skills and trading methods to take advantage of a divergence if one is completed.

Our semi-automatic Exploration marks potential bullish divergences (while MACD-H is still declining) by placing pale green dots below relevant bars. Those dots turn dark green when MACD-H turns up, activating a bullish divergence.

The same Exploration marks potential bearish divergences (while MACD-H is still rising) by placing pale green dots below the relevant bars. Those dots turn dark green when MACD-H turns up, activating a bullish divergence.

You may apply our semi-automatic Exploration to any chart or a group of charts. For example, you may scan all stocks or futures in your watchlist, or all stocks in the Nasdaq100, S&P500, and so on.

Our Exploration works in any timeframe – it is just as easy to apply to a weekly as to a 5-minute chart. Keep in mind the principle of Triple Screen: make your strategic decision to go long or short on a long-term chart, then a tactical decision where to enter on a short-term chart.

Bullish pale green dots appear on the chart of KHC after prices break to a new low (below the orange line marking its previous bottom), while MACD-Histogram breaks out above the zero line and then begins to sink to a more shallow bottom. The dots turn dark green after MACD-H ticks up, completing its bullish divergence. Now's the time to use your trading skills to position long near the lows.

Using the explorer

The parameters for this explorer are taken from the **DEFAULT** parameters of the Elder - MACD Combo indicator. If you haven't edited it, the original values are the industry standard 12,26,9.

Results show potential and completed divergences as values 1.0 and 2.0 respectively.

Elder - Triple Screen

The Triple Screen Advisor is designed to apply the Triple Screen method, as described in TRADING FOR A LIVING. It takes a daily chart but references the formulas for Elder - Weekly MACD Histogram as well as the Elder - Triple Screen Helper function. If you edit these formulas, please be aware that it will affect the Advisor. You can modify this Expert by changing the default values of the above formulas.

Apply the Elder - Daily template to a chart and attach the expert (See "To Attach Experts to Your Charts" on page 58).

The bands at the bottom of the screen show where you have system's permission to buy or sell on the selected chart. Obviously, you must use more than this simple expert to select stocks, but its Triple Screen methodology will help keep you out of bad trades. Once selected, you can use the same menu to bring up the commentary screen (See "To View the Expert Commentary" on page 59).

Elder - Impulse

The sole function of the Elder - Impulse Expert Advisor is to color the bars of a chart using the Impulse System described in the book COME INTO MY TRADING ROOM.   Attach it to the chart as described above.

Note that MetaStock does not support variable inputs in advisors. The values of this advisor are keyed to the indicator Elder - Impulse. If you need to change the values for the Impulse color bars, you can do so by editing the default values in the Elder - Impulse indicator.
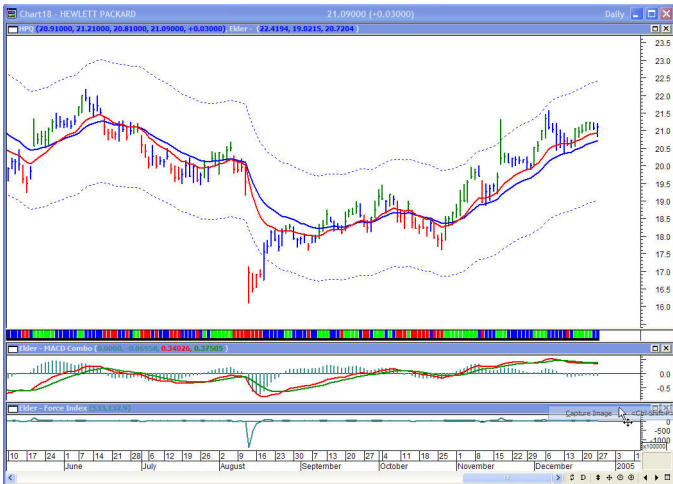

Elder Daily Template with Elder Impulse Expert Advisor attached.

Elder - Flip Chart

The FlipChart expert was the idea of Dr. Alan Collin, a repeat camper, in the January 2005 Caribbean Camp. He noted that often a strong signal was given when an Impulse flipped from red

to green without an intermediate blue (neutral) bar. This expert gives a buy signal when this occurs. The sell signal is given when the bar color changes to red.
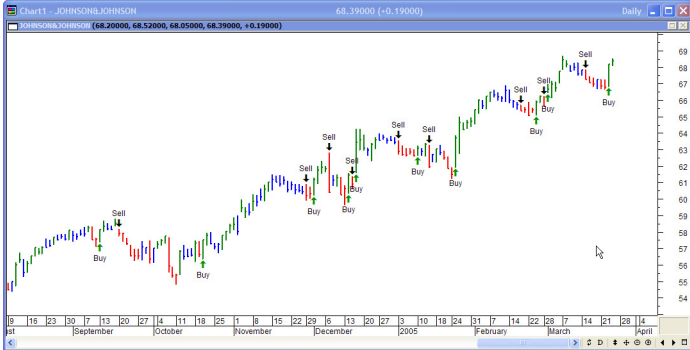
Elder – FlipChart Advisor.

Similar to the Impulse Expert, all parameters are stored in a helper function named Elder - Flipchart Helper. You must edit this function using the indicator builder to change any of the default values. The values and defaults are:

```
SignalShorts:= 0;      { 1 = yes, 0 = no; default 0 }
Lookback:=50;          { default 50 }
MinMove:= .05;         { factor of high or low - default 0.05 }
macShort:=12;          { MACD impulse parameters; default}
macLong:=26;           { default 26 }
macSmooth:=9;          { default 9 }
EMA:=12;               { EMA fast line; default 12 }
```

Note that the expert can signal potential shorts and places to cover shorts by editing the function to set SignalShorts = 1. Note that a short always implies a sell if you are in a long position and a buy always implies a cover if you are short.

There are two companion explorations: Elder - Flip to Green and Elder - Flip to Red. You can use these to scan the charts. Flip to Green finds charts that are potential buy candidates, Flip to Red finds potential short candidates in all timeframes.
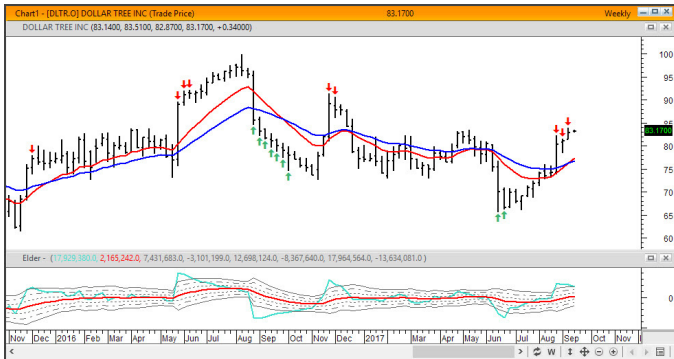
Elder - Impulse with Divergence (**new for version 3**)

This is a combination of the Impulse and the MACD Semi-automatic divergence. It shows the color bars as well as the Divergence dots.

Elder - ForceIndex exceeded ATR Channels (**new for version 3**)

This advisor uses arrows in the price field to show when the ForceIndex has exceeded the 3-ATR channel.

Force Index scanner finds stocks or futures whose 13-bar EMA of Force Index extends outside of its 3-ATR channel – a zone of unsustainable pressure where reversals tend to occur. This scan visually marks Force Index excursions outside of its 3-ATR channel by yellow dots.

Note that this scan delivers best results on the weekly charts. Notice also that some of its best signals occur in clusters. A cautious trader will wait until a cluster of yellow dots is followed by a price bar which is not accompanied by such a dot. It shows that the volume extreme has burned itself out and a reversal is probably at hand.

Elder - MACD Semi-Automatic Divergence (**new for version 3**)

This advisor displays dots above or below prices to indicate divergences. Until the second peak or valley in the MACD Histogram actually occurs, the divergence is only potential. We

display this as a less intense color dot on the charts. The confirmed divergences are displayed in a brighter color. This provides a quick method of seeing whether a divergence is confirmed.

Note: As mentioned before, the parameters of the MACD used are the default values of the Elder – MACD Combo Indicator.
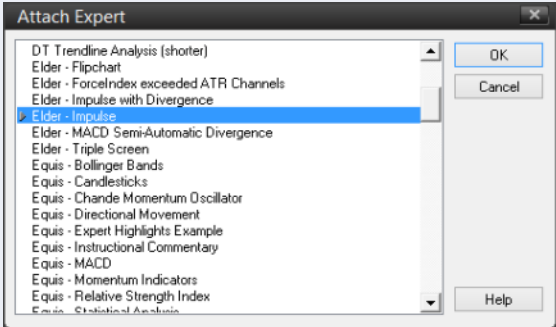
To Attach Experts to Your Charts

When opening a chart

Step	Action
1	**Click** **to open the Power Console.**
2	**Click** Charts **.** **The Charts screen appears.**
3	**Enter the symbol for an instrument.**
4	**Select Attach Expert Advisor.**
5	**From the drop-list, select an Expert.**
6	**Click Open Chart** The chart opens with the Expert Advisor Attached.

From an already open chart

Step	Action
1	**Right-click on the chart.**
2	**From the shortcut menu, choose Expert Advisor> Attach.** The Attach Expert dialog opens.
3	**Choose the expert advisor from the Attach Expert dialog.**
4	**Click OK.** The selected expert is attached to the chart.

To View the Expert Commentary

Step	Action
1	**Open a chart with an Expert Advisor attached.**
2	**Right-click on an open area of the chart.**
3	**Choose *Expert Advisor > Commentary*.**

CHAPTER 7   GETTING HELP

Technical Assistance

For assistance installing Dr. Elder's Enhanced Trading Room or using any of the templates or formulas it installs, please contact MetaStock Technical Support.

Customer/ Technical Support	+1 (801) 506-0999
Online Chat Support	Support chat can be accessed from within MetaStock version 9 or greater, or via www.metastock.com/supportchat
Support Email	support@MetaStock.com

General Questions and Interpetation

For problems with trading the systems, or with general questions about the systems themselves, contact:

tech@elder.com

Your question will be answered within 2 business days.

CHAPTER 8   ABOUT DR. ELDER

Alexander Elder, M.D., is a professional trader and teacher of traders. He is the author of The New Trading for a Living and several other books, considered modern classics among traders. First published in 1993, these international best-sellers have been translated into 16 languages.

Dr. Elder's books, articles, and software reviews have established him as one of today's leading experts on technical analysis. He is the originator of Traders' Camps – week-long classes for traders. He is the founder of SpikeTrade.com – a unique online group where serious traders learn, share ideas and compete. Dr. Elder's website is www.elder.com

Dr. Elder worked with John Bruns, a professional programmer, to implement the concepts of his books in an Elder add-on for MetaStock.