PhaseTrader® Indicators

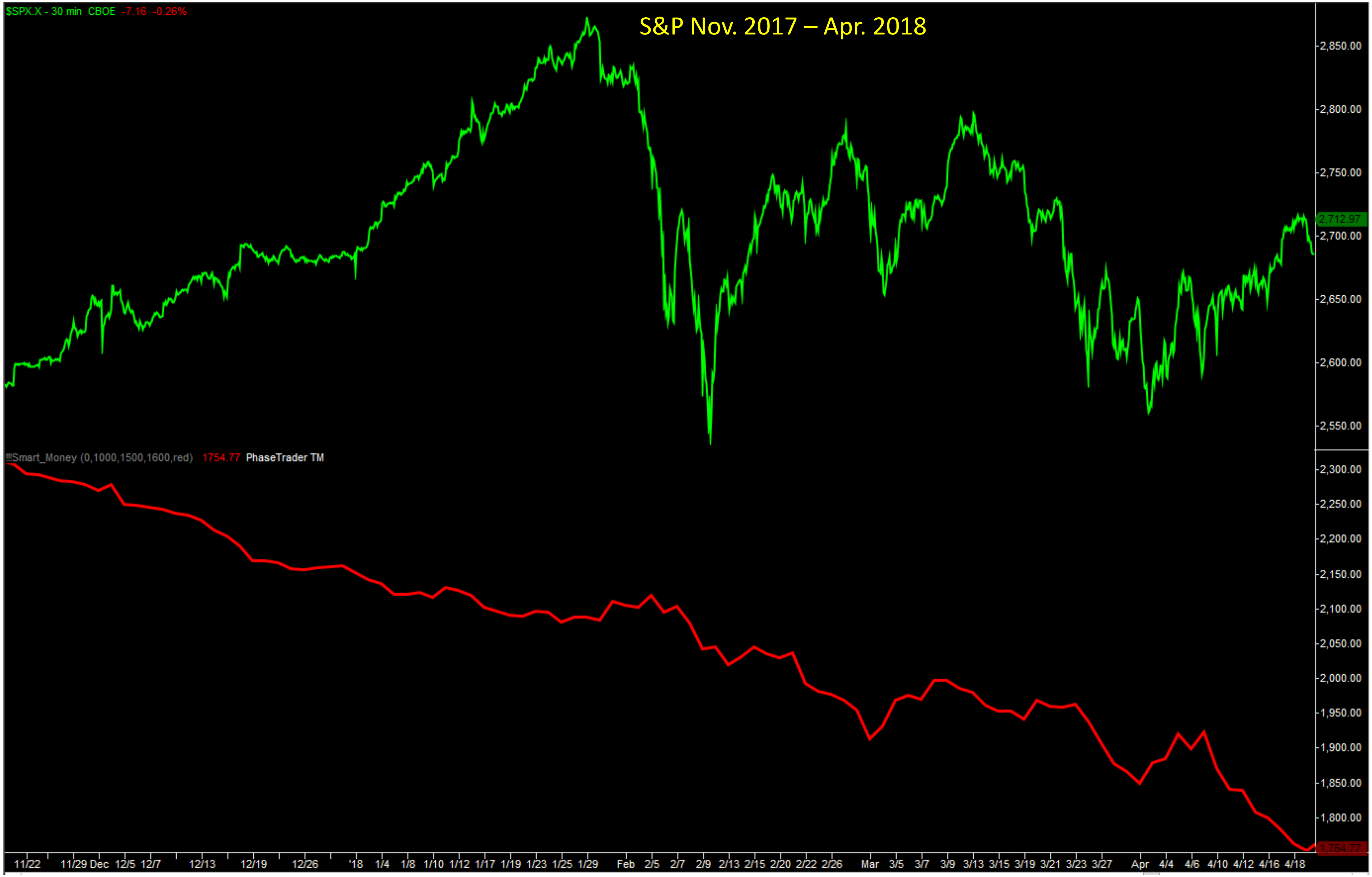
Smart_Money Indicator

PhaseTrader® is a Trademark of Derivative Concepts, LLC.

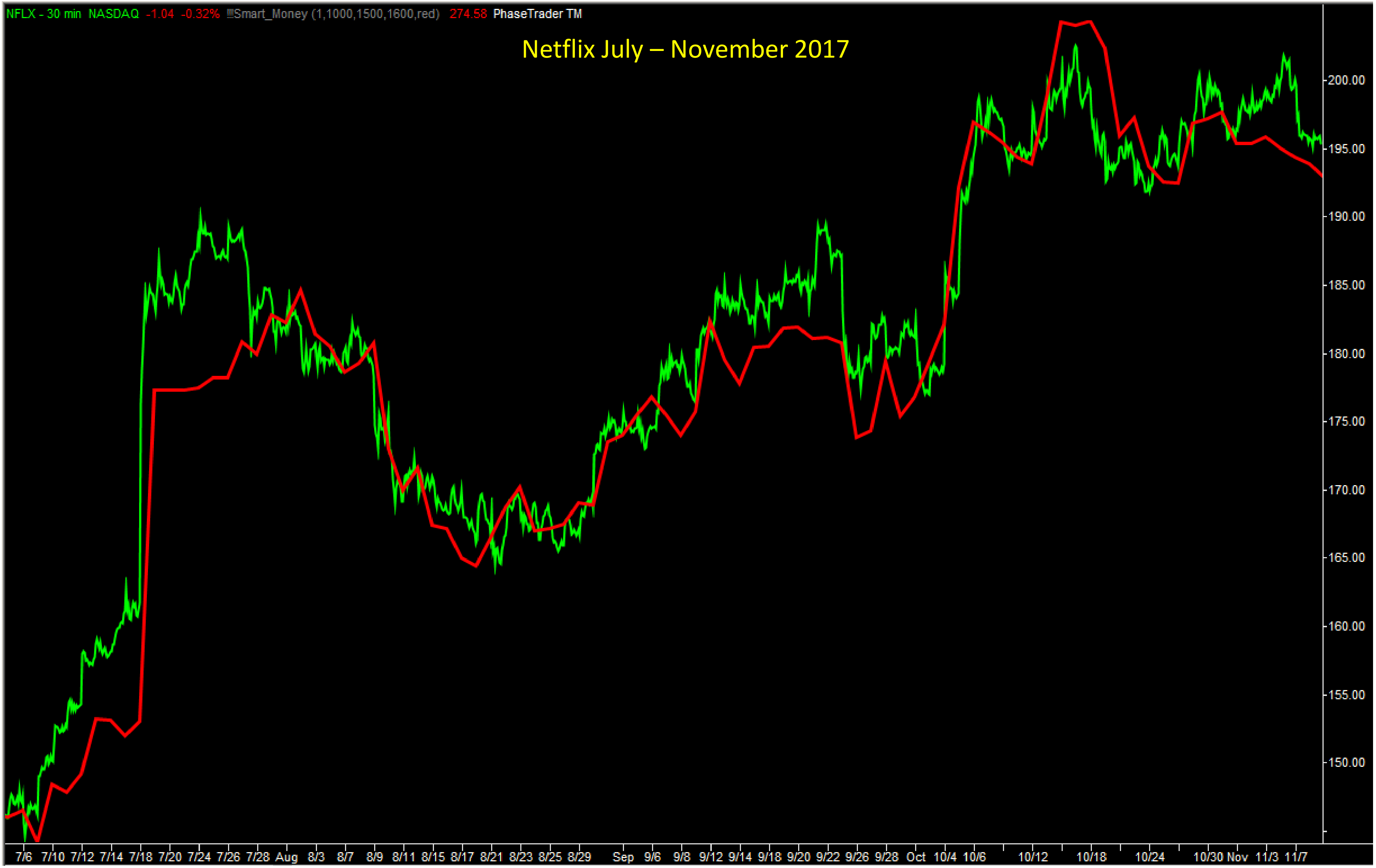
Homepage: https://phasetraderindicator.com
Registration: https://phasetraderindicator.com/product/phasetrader-indicator-subscription/

Smart_Money Compares the performance of a stock, index, or ETF at different times of the day and charts the cumulative difference. The goal is to capitalize on studies showing that private investors tend to overreact to overnight news with bad trading decisions early in the trading day (panic selling, aggressive buying at the market, short-covering), while institutional traders wait for the market to settle and collect information that allows them to make informed decisions as the cash market closing bell approaches. Additionally, institutional traders often have access to confidential information that helps them make better decisions. Smart_Money allows the user to set 2 windows – early and late, that the indicator uses to weigh price action. Strong "up" signals are created by early selling and late buying, while strong "down" signals equate to early buying and late selling. The indicator often moves opposite the direction of a stock when institutions have insight into an upcoming event like earnings. In the example below, "smart money" investors sold IBM as Q1 2018 earnings approached, then bought back after the collapse.

Institutional investors were negative about stocks during the final leg of a multiyear rally that ended in February 2018. The indicator revealed Steady, aggressive selling through the final months of the rally, the February decline, and the volatile period that followed in March and April.

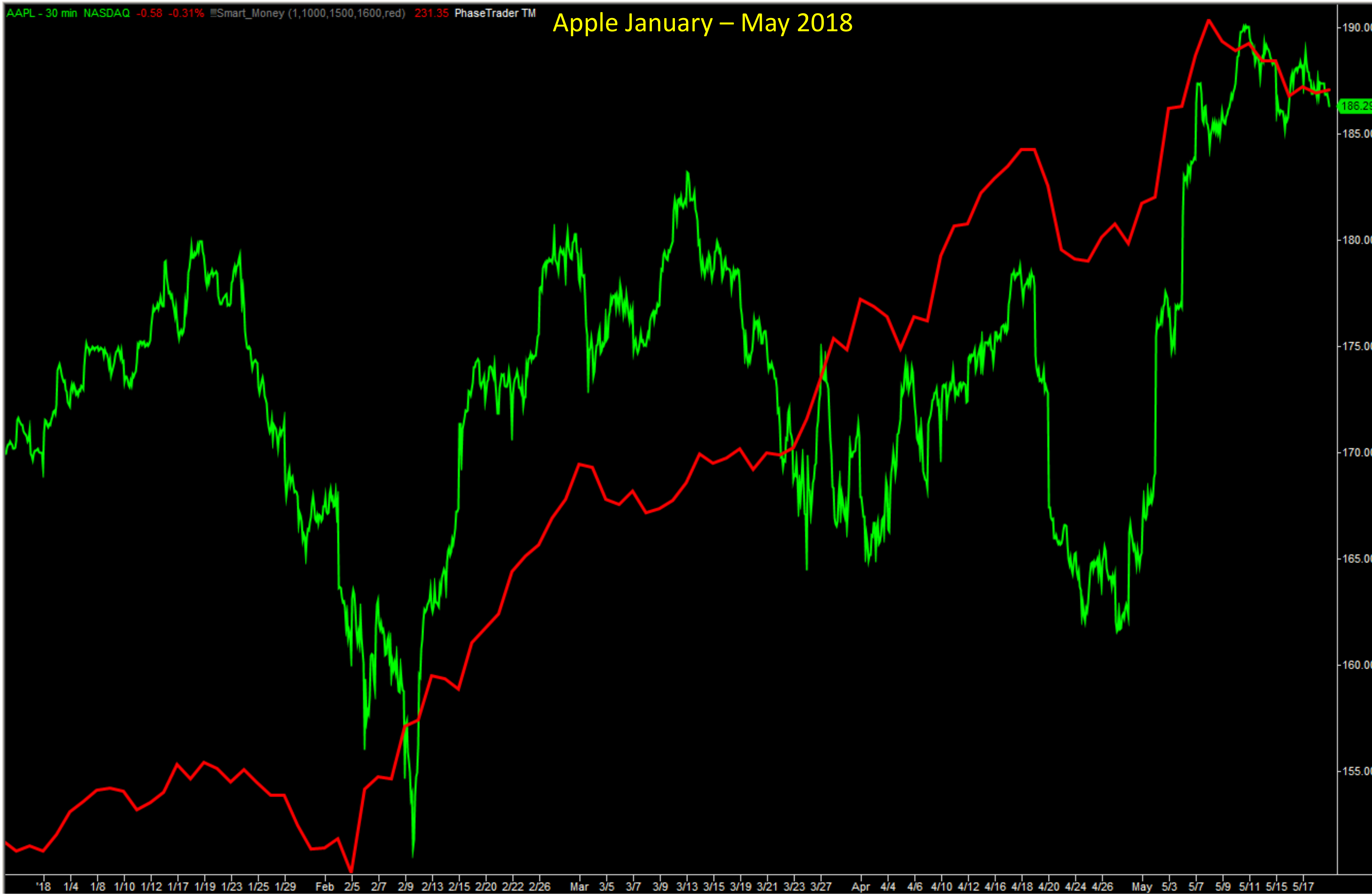


In a positive environment, Smart_Money tends to rise when a stock falls and fall as a stock rises. This pattern makes sense as investors take profit near a top and buy back when the price dips in anticipation of the next rally. We can measure the health of a particular stock by inverting the indicator and overlapping it directly with the price chart. The inverted trace will track the underlying price chart if institutional traders believe the stock will continue to perform well. This pattern is apparent in Netflix (below) which rallied strongly during the second half of 2017. Large dips like the 20 point decline in July 2017 were interpreted by institutions as buying opportunities.



A similar pattern of buying dips and selling rallies to take profit is apparent in this chart of Apple stock spanning the timeframe from June October 2017. The pattern deteriorates during the first quarter of 2018 (next slide).

Institutions began selling Apple in late December 2017 and continued through mid-May 2018 as the overall market became unstable. During this timeframe, the Smart_Money inverted trace continually climbed, meaning that institutions sold whether the stock was falling or rising. With the largest market cap of any publicly traded stock, Apple serves as an important bellwether for institutional traders trying to gauge the stability of the overall market. The fact that institutions were net sellers, before, during, and after the February correction provided a distinctly negative signal. We can combine this information with signals from other technical indicators to determine whether the change represents rotation into different sectors or overall market instability.



End