

## PRACTICAL APPLICATION

MarketColor is a proprietary trading tool that shows a picture of a market's technical profile. The program analyzes a select group of technical indicators and applies a unique system to each study, presenting the results in a color-coded table.

The Price Map includes the color-code results along with the actual indicator position. The time horizon for the MarketColor analysis is comparable to the Minor trend change (2 weeks) and should be used as a guide to underlying sentiment, supporting or not, the daily technical outlook and the R (Reversal Number) session bias.

The action colors (GREEN, ORANGE, YELLOW) have a 1 to 3 day time horizon and therefore are pertinent to the trading session. The following are a few signals to take note of.



### 1. EXTREME - Dynamic Channel (Bollinger Band)

DC HIGH	1125.50
DC MID	1074.80
DC LOW	1015.90

JS Services uses this study to show the stage of the trend a market is in. When the cells are YELLOW the market is at an extreme, and a pause should be expected. Typically, the market has made a sharp price move, either with or against the current trend.

A price move with the trend signals a sign of exhaustion. The market is a little ahead of itself and will have difficulty sustaining price moves in the direction of the trend. Early morning follow through in the trend direction are particularly vulnerable.

#### Low risk opportunity

For example: The market has rallied hard for the past 7 days. On the 8th day, the DC (Dynamic Channel) cells light up YELLOW, signaling that the market is at an extreme. The market opens higher. For a scalp, look for opportunities to fade this strength either at major Price Map resistance targets or on a failure back through a violated Price Map resistance level.

This type of opportunity is even better when the extreme signal (YELLOW) is against the underlying trend. This type of signal is corrective and the market is "squeezing" the trend positions.

For example: The market has been in a 2-week Bull trend move. It then has a sharp 1-3 day corrective break, which turns the DC to YELLOW (Extreme). A lower opening, followed by fresh selling, would provide a buying opportunity off major Price Map support levels or a violation back up through a failed Price Map support level. This opportunity is farther reaching, as the signal is in the direction of the underlying trend and provides a low risk entry for the market's next advance.

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### 2. Turning Point - SSTOCH – Slow Stochastic BUY (GREEN) / SELL (ORANGE) signals

<b>SSTOC +</b>	<b>22.86</b>	<b>&lt; BUY SIGNAL</b>
<b>SSTOC -</b>	<b>18.32</b>	

or

<b>SSTOC +</b>	<b>82.86</b>	<b>&lt; SELL SIGNAL</b>
<b>SSTOC -</b>	<b>78.32</b>	

JS Services uses this indicator to show trend turning points. When the cells are GREEN (Buy) or ORANGE (Sell), a turning point signal has been generated and Price Map moves in the direction of this signal should be respected.

These are the best signals for the turning point system and should be expected to last for at least 1 to 3 days.

#### Low risk opportunity

For example: The market has been strong for the past 10 days. On the 11<sup>th</sup> day, an ORANGE sell signal is generated on the SSTOC. Traders should look for opportunities to sell the market against the UP (Upside Pivot) or R (Reversal Number) or on a failure from the DP (Downside Pivot), as a corrective dip is expected.

A held trade above the UP will negate this signal for the session.

### 3. Momentum – RSI – Relative Strength BUY (GREEN) / SELL (ORANGE) signals

<b>ADX 7D</b>	<b>22</b>	<b>&lt; BUY SIGNAL</b>
<b>RSI 5D</b>	<b>56</b>	
<b>RSI 13D</b>	<b>52</b>	

or

<b>RSI 5D</b>	<b>22</b>	<b>&lt; SELL SIGNAL</b>
<b>RSI 5D</b>	<b>35</b>	
<b>RSI 5D</b>	<b>45</b>	

JS Services uses this indicator to show short-term shifts in momentum.

These signals work best on the initial session, but can influence the market for up to 3 days. A better signal occurs when the ADX is in a BROWN (Neutral) position.

#### Low risk opportunity

For example: The market has been trading directionless for the past 5 days. On the 6<sup>th</sup> day, a GREEN buy signal is generated on the RSI. Traders should look for opportunities to buy the market off the

DP (Downside Pivot) or R (Reversal Number) or on a breakout above the UP (Upside Pivot), as a new move higher is expected.

A held trade below the DP will negate this signal for the session.

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### 4. Trend Signals – MA (Moving Average) and DMI (Directional Momentum) BUY/SELL signals

<b>MAC 13D</b>	<b>1086.10</b>
<b>MAC 26D</b>	<b>1060.30</b>
<b>MAC 50D</b>	<b>1050.20</b>
<b>MAC 100D</b>	<b>1030.20</b>
<b>MAC 200D</b>	<b>1005.60</b>
<b>DMI + 13D</b>	<b>35</b>
<b>DMI - 13D</b>	<b>26</b>
<b>ADX 7D</b>	<b>42</b>

**Strong BUY signal**

JS Services uses these indicators to show a market's trend. Action colors in either the MAC (Moving Average Close) or DMI (Directional Momentum Indicator) systems indicate that a new trend signal is being generated.

New signals in one indicator that have a like-color bias in the other indicator should be viewed as a stronger signal. In addition, a PURPLE trending ADX (Average Directional Index) will add value to any buy or sell signal.

These trend signals are the slowest of the action color signals, but the ones with the most lasting effects. Traders should use these as confirmation to the underlying market bias.

#### Low risk opportunity

For example: The market has been working higher for the past 5 days. On the 6<sup>th</sup> day, a GREEN buy signal is generated on the DMI. Traders should look for opportunities to buy the market off the DP (Downside Pivot) or R (Reversal Number) or on a breakout above the UP (Upside Pivot), as this is the best opportunity for the trend signal systems.

In the above example, the MAC system is already in a Bull Trend (BLUE) and the ADX is PURPLE. This new buy signal in the DMI is both in the direction of the current trend (BLUE MA) and has follow through potential (PURPLE ADX). Signals like these, if sustained, have the potential to carry the market for 2-8 weeks.

A BROWN neutral ADX or MAC would take away from the strength of this signal and any lasting effects. Buying opportunities under these circumstances should be considered short-lived, as a choppy trading environment is expected.

### 5. MC VALUE

The MC Value is the numerical representation of the market's underlying technical bias. The value is based off the MarketColor position of the different technical indicator systems. Markets with more systems in a positive position will have a greater MC Value, and markets with more systems in a negative position will have a lower value. Markets counter-balanced or neutral will have a value of zero (0).

Technical indicators by design are lagging. The result of these indicators, the MC Value, will be as well and should be viewed from the perspective of the Minor trend change or 2-week trend.

The following is an overview of the different MC Values and their momentum bias.

continued

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### MC Values

-11 -10	-9 -8 -7 -6 -5 -4	-3 -2 -1 0 +1 +2 +3	+4 +5 +6 +7 +8 +9	+10 +11
Extreme	BEAR TREND	NEUTRAL	BULL TREND	Extreme

#### **-3 to +3 range**

Markets in this range are more likely to be in a neutral and corrective state, and are candidates for neutral trading strategies.

#### **-9 to -4 or +4 to +9 range**

Markets in this range will have good trending opportunities.

#### **Below -10 or above +10**

These markets are near the end of a powerful trend move or at an extreme. Sharp moves in the direction of the trend are suspect, as a pause in the momentum is expected.