



Elder-disk for TeleChart

(TC2005 / TC2007)

Version 2.0

Thank you for purchasing this Elder-disk. It was developed by Dr. Alexander Elder, the author of TRADING FOR A LIVING, COME INTO MY TRADING ROOM, and ENTRIES & EXITS and John Bruns, a programmer, in order to apply Dr. Elder's trading methods using the popular TeleChart software.

The CD provided with this manual contains a file to be imported directly into TeleChart adding the features described on these pages. TeleChart software allows you to import the specific items you want from the backup file. This software is an add-on to TeleChart and cannot be used alone. You must be a subscriber to TeleChart to use this product.

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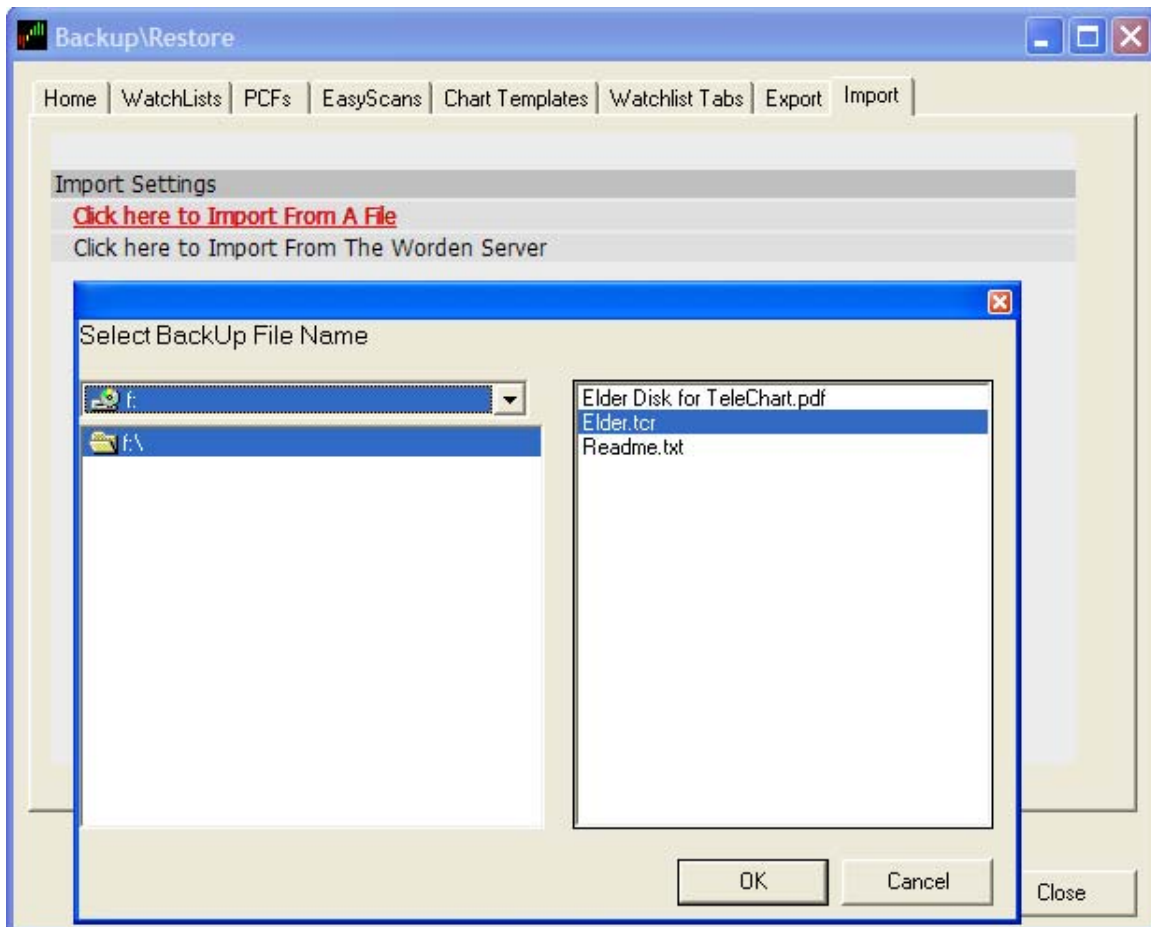
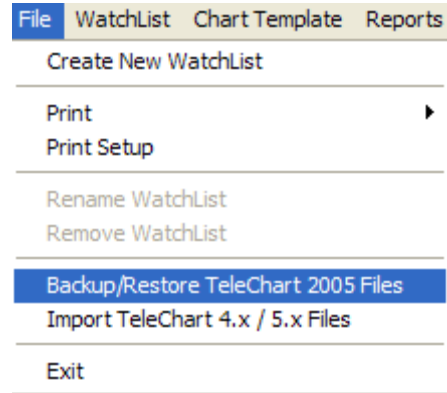
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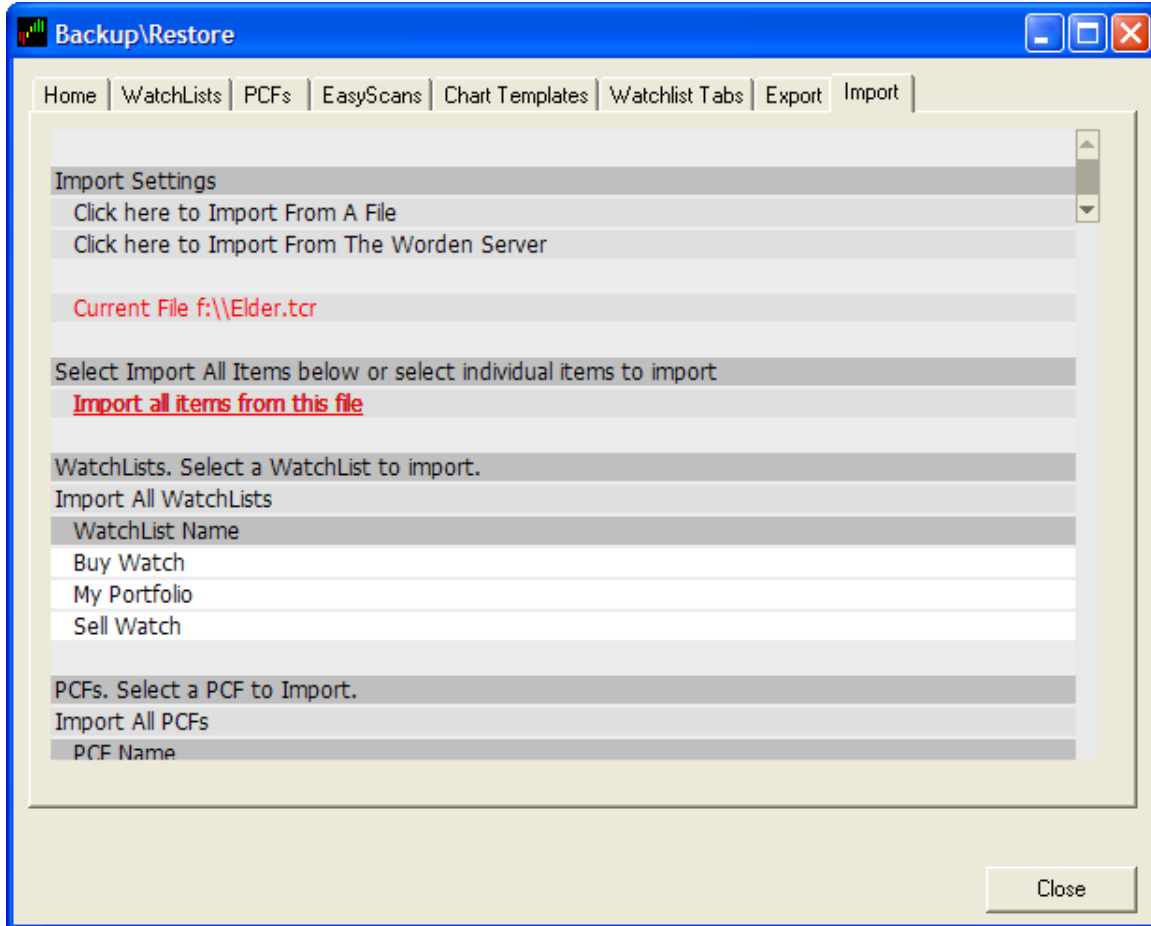
Loading the Software

Note that this disk will work with TeleChart TC2005 or TC2007. You must be a subscriber to TeleChart to use this software.

Start your TeleChart Software and log in. Open the File Menu and select the Backup/Restore option. Click on the Import Tab, click on Click here to Import From A File, and use the pull-down menu to navigate your CD ROM Drive. Finally select the file “Elder.tcr” and click OK.



The final step is to click on the “Import all items from this file” selection.

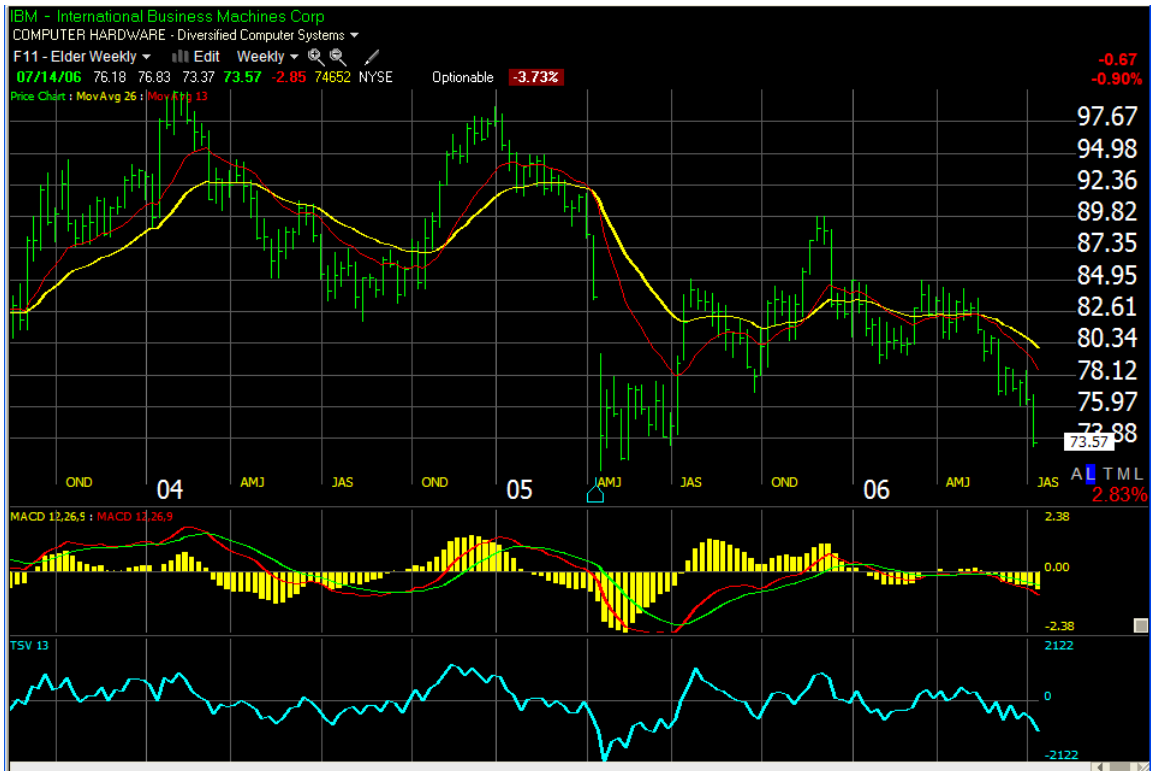


This completes your software loading process. You receive chart templates, PCF's and Easy Scans. They are detailed in the following chapters.

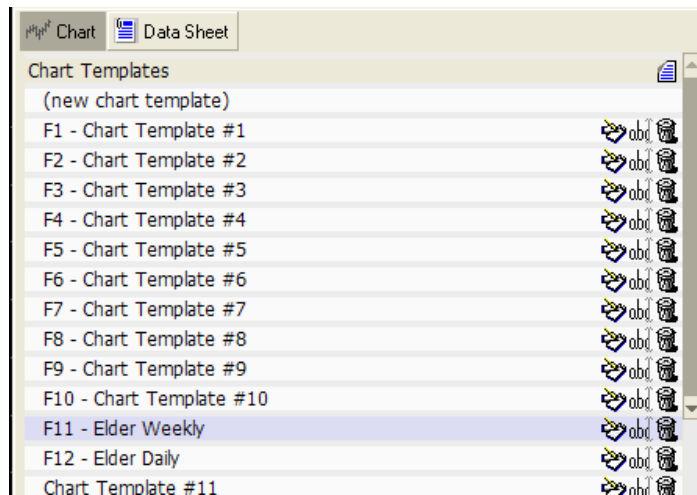
Chart Templates

Elder Weekly

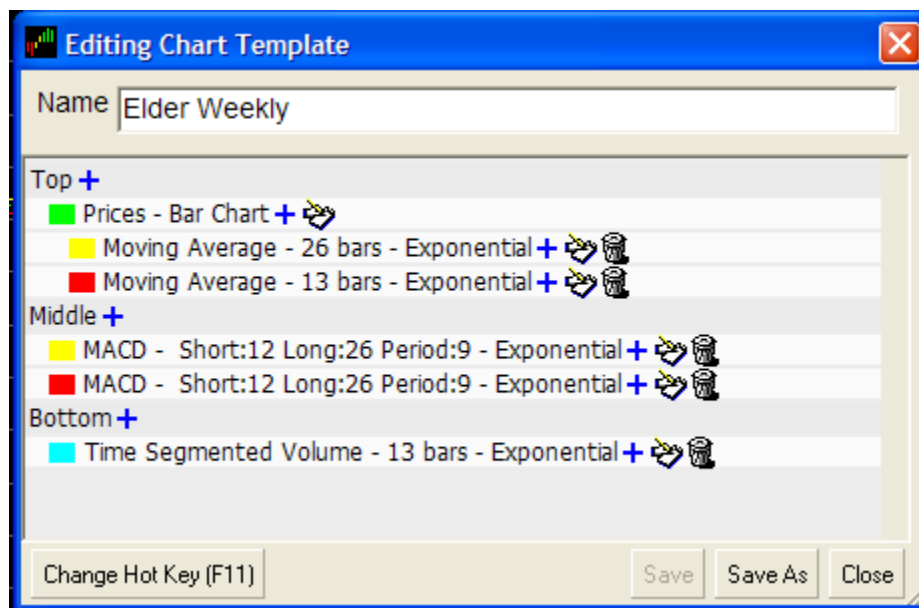
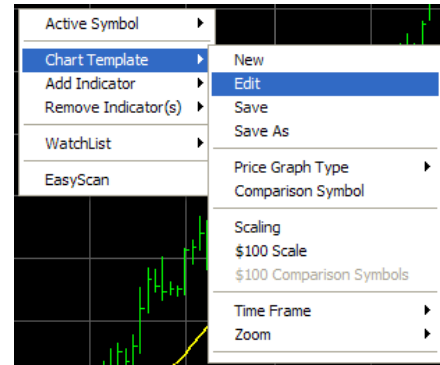
If you follow Dr. Elder’s methodology, the first screen you will look at is a weekly chart. Here is an example of the weekly chart.



To access chart templates please click on the template name in the upper left hand portion of the chart, the line below the stock name and category. When you see the list of template names, please select “Elder Weekly”



You can now bring up the chart editing tool by right clicking the chart and selecting chart template -> edit. Note that we have selected a hot key (F11) for this chart. You will probably want to assign hot keys for the templates you use most often. It is important to be able to switch quickly between your weekly and daily view of the same stock. The chart editing window is where you assign the hot keys. Look at the bottom left of this window.



Our Weekly chart has a 26 week exponential moving average plotted in the price area along with a 13 week ema in red. The middle pane has the MACD plotted twice, once as lines and another as a histogram. The lower window has TSV plotted with a 13 week exponential smoothing. TSV is an indicator very close to Dr. Elder's Force Index. We use it here instead of our own formula because TSV is native to TeleChart.

TeleChart now allows us to create an unlimited number of templates and custom indicators. For those who want to use the original Force Index, this Elder-disk provides the templates for the Elder Weekly and Daily charts with Force Index.

Elder Daily

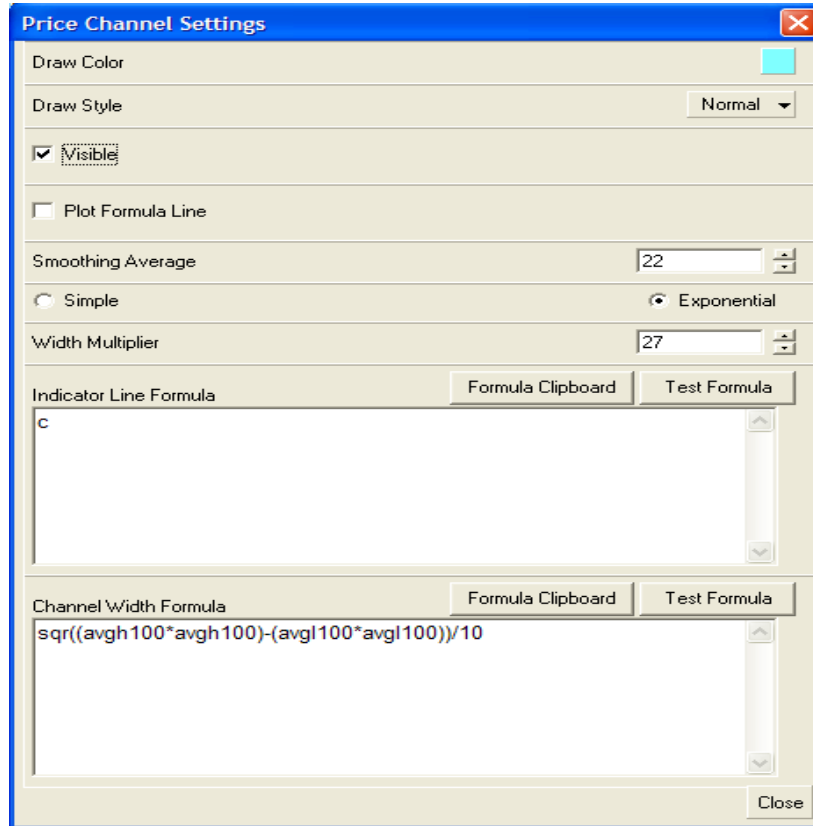
After examining the Weekly, you want to look at the second chart template —the Elder Daily. Here is a sample chart:



We have set F12 as the hot key to access the Daily template. The chart is similar to the weekly. The daily plot has a 22 day EMA as well as a 13 day EMA. The center plot has both MACD lines and MACD histogram. The bottom pane has a 2-day exponential moving average of TSV. It is used in the Triple Screen method to look for pullbacks against the trend.

In the top pane, parallel to the 22 day EMA is a custom indicator – price channel. Dr. Elder wants to set price channels parallel to the slow moving averages. They should

contain about 90-95% of all prices for the past two or three months, with only the extremes protruding outside the channel. A fixed percentage price channel would not work for a wide variety of stocks and indexes because their prices, volatilities, and required percentages are very different. We attempted to provide you with a dynamic channel. The size of the envelope changes with volatility, but as the change is very slow, it is visually quite stable. Note the width multiplier (set to 27) which can be tweaked



up or down to adjust to the type of stocks you are trading to get the best fit. You can also substitute a fixed channel using TeleChart's standard channel plot. You might consider fixing the individual channel size for the stocks you want to trade and saving them in a TeleChart note for the stock.



Elder Weekly with Force Index & Elder Daily with 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. This version of the Weekly and Daily charts contains a custom plot, with the original Force Index replacing TSV.

Elder Ray

Bull Power and Bear Power are the components of Elder-ray, an indicator described in *TRADING FOR A LIVING*. Traditionally, Bull Power and Bear Power are plotted as histograms, in separate windows. TeleChart restricts custom plots to line plots and because of that our template displays them as lines.

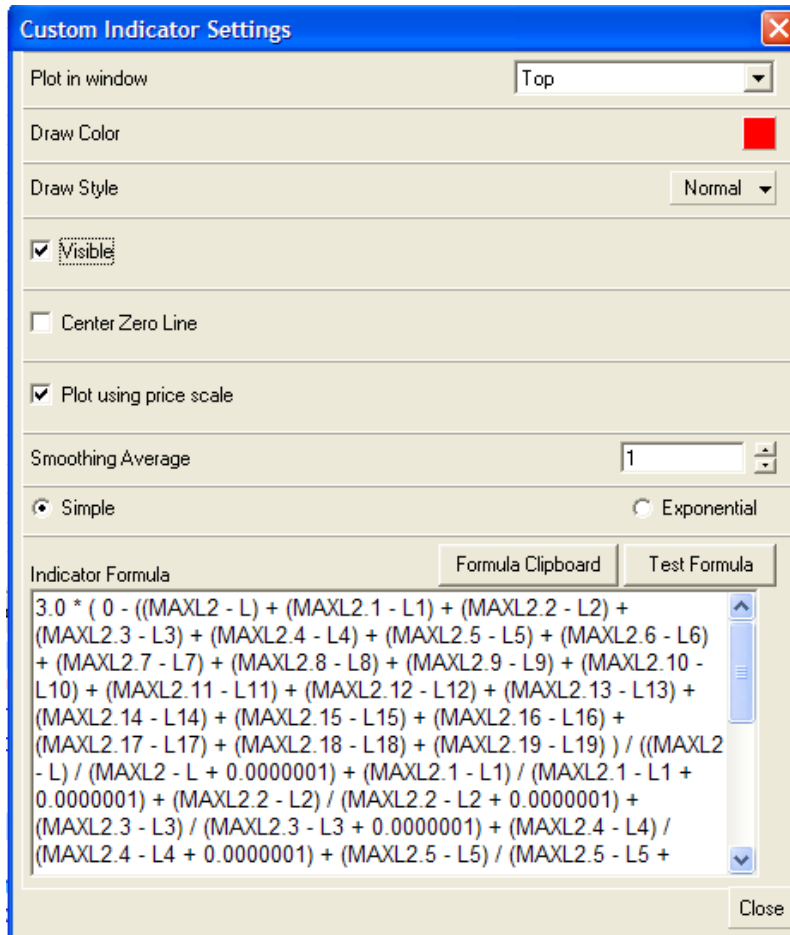
Elder SafeZone Long 3.0 Initial Values

SafeZone is a method for setting stops on the basis of recent volatility, outside of 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. The stop value is calculated by multiplying the SafeZone factor by the noise level. This factor depends on the security and your trading method, but typically varies between 2 and 3.

Stops may be moved only in the direction of the trade, always tightening. For a long trade this means that once you place the trade, you may never lower the stop. Ideally, you would enter the date of your trade and the SafeZone factor, and the system would supply you with the stop value each day until either you are stopped out or exit the trade for another reason. Restrictions in the software prevent us from providing that level of programming, but we can do most of the complicated math for you.

This template provides Long stop values for a fixed SafeZone Factor. You can easily change it by editing the template. If you change the factor, it would be good to save it under a new template name with the correct factor to ensure you don't make mistakes later. To edit the custom indicator, right-click on it and select edit. You should see the following screen. The Formula begins "3.0 * ..." where 3.0 is the factor. You can adjust it to any value you want. Be sure to save it and then, if you like the template, save it using the "save as" feature and correct the template name.

Note we provide charts for Long and Short with SafeZone factors of 2.0, 2.5 and 3.0. The larger the factor, the more room the trade has to wiggle. On the other hand, your risk on a given trade becomes higher.



Smoothed Rate of Change

Smoothed Rate of Change is an indicator mentioned in *Trading for a Living* on page 148. It is created by taking the rate of change of an EMA instead of the price therefore “smoothing” it. A quick check of TC2000 shows that there is a price rate of change but no “smoothed” version. But a little math can show that smoothing the Price Rate of Change is exactly equivalent to the Smoothed Rate of Change. If you look you will see the original rate of change has been set to invisible so that only the plot we want to see is visible.

John’s Weekly and John’s Daily

You should feel free to customize the chart for your own use. I like to see volume as well as TSV so I plotted Volume in the same window behind the TSV plot.

Personal Criteria Formulas (PCF's)

TeleChart custom scans are created in layers. You first create personal criteria formulas to create a relative ranking of stocks based on those criteria. This ranking can be a Boolean or a range such as the value of a moving average. It can be as simple as a closing price, or as complicated as the one we will be building to compare the last two bars of weekly MACD-Histogram.

Once you have created your criteria, you must update them with the current data. This can be done automatically whenever you download data, or manually using the personal formula criteria update found in the Databank pull down menu. **WARNING! – If you fail to update the criteria, you will be doing your scans with stale data and the results won't be correct.**

Finally, you package all the criteria you want for a given set of stocks into a TeleChart EasyScan. This allows you to create a list of stocks that fit all the selected criteria. Once this is set up, the scans are almost instantaneous.

Triple Screen PCFs

Triple Screen begins by analyzing the long-term charts. The original system uses the weekly MACD-Histogram to identify the market tide. Its slope is determined by the relationship of the latest two bars. So we want to compute today's weekly MACD-Histogram minus last week's weekly MACD-Histogram.

Unfortunately, a quick look at the available formulas in TC2000 doesn't find MACD-Histograms. So we need to do a little homework to see whether this scan is even possible.

MACD is defined as $EMA_{12} - EMA_{26}$ for the FAST line, the SLOW line is $EMA_9(MACD)$ and the Histogram is defined as $FAST - SLOW$.

EMA is a recursive formula, defined as $EMA = (EMA * (1 - K)) + (Price * K)$
where $K = 2 / (1 + N)$
N being the number of days in the MA.

Any recursive formula can be unwound into its respective coefficients. With the help of a little algebra and a spreadsheet to do the tedious math, we can come up with a number of terms that give a very good approximation. The formula appears in the text box below.

We could have build two formulas, one for increasing values and the other for decreasing values, but instead use a single formula and later look for values above or below zero. Note also that we multiply the value by 100. This is because these numbers can be very small, and we don't want any number less than 0.01 to show up as zero.

Weekly MACD Histogram Difference PCF

```
(0.063817664 * C - 0.027308869 * C5 - 0.019259186 * C10 - 0.013243517 *  
C15 - 0.008787896 * C20 - 0.005523625 * C25 - 0.003164597 * C30 -  
0.001489409 * C35 - 0.000327262 * C40 + 0.000453147 * C45 + 0.000952346  
* C50 + 0.001246949 * C55 + 0.001395029 * C60 + 0.00144033 * C65 +  
0.001415553 * C70 + 0.001344924 * C75 + 0.001246195 * C80 + 0.001132187  
* C85 + 0.001011999 * C90 + 0.000891932 * C95 + 0.000776201 * C100 +  
0.000667486 * C105 + 0.000567346 * C110 + 0.000476537 * C115 +  
0.000395251 * C120 + 0.000323294 * C125 + 0.00026022 * C130 -  
0.000710231 * XAVGC10.135) * 100
```

The second part of a Triple Screen Scan is looking for a pullback against the tide on the daily chart. For this we traditionally use the Two Day Force Index. TeleChart does not allow us to compute this in a PCF directly. We did create a PCF that approximates it, but this sometimes does not exactly agree with the chart. Instead we use the native Two Day TSV which can be computed directly and matches the charts exactly.

SafeZone PCF's

We provide six SafeZone PCF's, for Long and Short factors 2.0, 2.5 and 3.0. This matches the Safe Zone custom indicators in the templates - the formulas are exactly the same. If you decide to use a different factor, it would be a good idea to create a new PCF for that factor as well as a new chart template. The first number in the formula is the SafeZone Factor.

If you read about SafeZone in the book *COME INTO MY TRADING ROOM*, you might wonder about the lookback factor. That is the number of days that you look back to get the average penetration. In these PCF's look back is hard coded to 20 days. Unlike the SafeZone factor, lookback is not easily changed

What Stocks to Trade

By Dr. Alexander Elder

Traders often ask me how to choose what stocks to trade. I have several answers to this question. One of them involves coming up with a market concept that makes logical sense and then programming it to see what stocks show that pattern.

In our recent Caribbean Camp I mentioned one of several concepts that I liked - 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 latest Caribbean Camp as a peer counselor, programmed this scan for TC2000, and added it to our elder-disk for TC2000. We applied this scan in class to all stocks in the S&P500 and that scan 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

This PCF is easy to create and I will detail the steps to create it, so that later you can customize it.

1 The first step of the scan looks for stocks that have fallen during the last year. We chose stocks whose 26 week MA is less than ½ the value it was a year ago. In PCF language that translates to:

$(AVGC130 < 0.5 * AVGC130.260)$

Note that the 26 week MA is expressed as a 130 day MA. The 260 denotes the average 260 trading days ago.

2 The second step finds stocks that are currently in an uptrend. We look for stocks whose 26-week (130-day) MA is higher this week than last. That translates to:
 $(AVGC130 > AVGC130.5)$

Since we want both conditions to be true we connect them with “AND”. The completed formula reads:

$(AVGC130 < 0.5 * AVGC130.260) \text{ AND } (AVGC130 > AVGC130.5)$

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

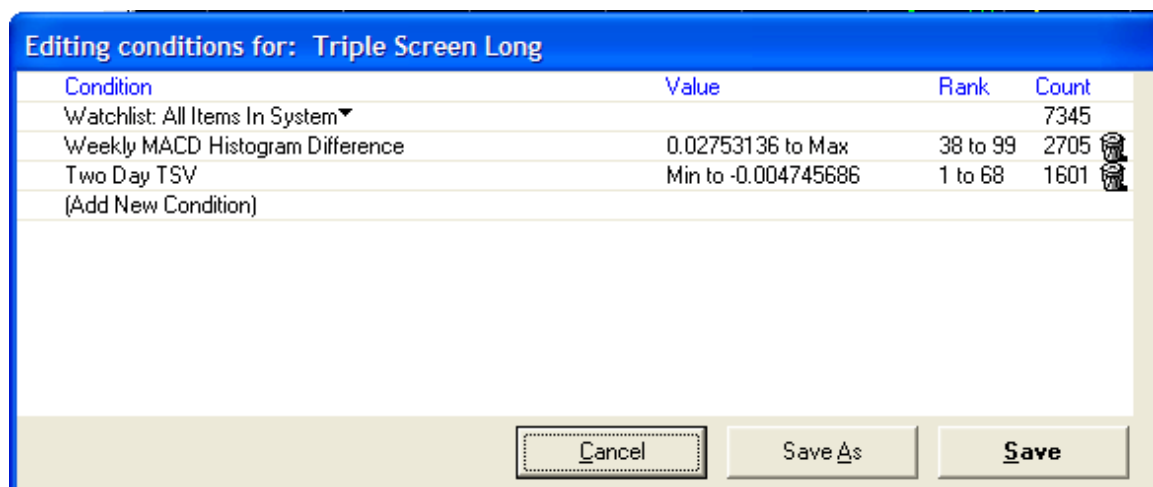
Note that although you can create a Scan from any PCF, sometimes it is just as easy to use the Watchlist Sort Mechanism to get the same result. Just Sort the list in which you are interested by the PCF and the ones marked TRUE come to the top. This is often easier than customizing a search to select a specific list.

Easy Scans

Easy Scans use the PCF’s and other criteria to create a list of stocks that fit the criteria. The PCF’s and data must be up to date, so if you haven’t loaded current data, or failed to update PCF’s, you will see incorrect selections. When everything is set up, Easy Scans are instant.

Triple Screen Long, Triple Screen Short

This scan looks for a positive Weekly MACD-Histogram Difference and a negative Two Day TSV (pullback). A quirk of TeleChart is that you can select on the basis of value, but the values are fixed by the ranks at the time you create your scans. These numbers are not specific but happen to be the smallest I could find on the right side of zero.



You will surely want to add your own conditions to cut down on the number of stocks being selected. Click on Add New Condition and choose. For example you certainly

will want to eliminate stocks under \$5 for short candidates. Note that you can substitute Two Day Force Index for the Two Day TSV if you prefer to use Force Index, but beware that the values may be slightly off.

Elder Fallen Angels

This is a scan that simply checks whether the PCF is true. Once again, you can add any additional criteria that you like.

Using SafeZone Stops

The key to using stops is to remember that you NEVER move a stop so as to increase your risk in that trade. That means that you always increase stop values for long trades and decrease them for short trades. The PCF's and corresponding templates provide SafeZone initial entries. Here is a suggestion on how to use them.

1. Decide on a direction for the trade and your SafeZone Factor. SafeZone is strictly an exit strategy, so you must have some other method for entering the trade.
2. Decide which SafeZone Factor to use. You can look at the charts to determine a pattern for the stock you choose. Remember that the larger the factor the larger the risk, but the less likely you are to be stopped out prematurely.
3. Make sure that your data is current and the PCF's have been calculated. Using Tab 1 in the list area, sort by the appropriate PCF. Look at the value for the security you are planning on trading. That is your prospective initial stop. (An alternative method is to right click on the line on the appropriate template and hit edit. Then use the test formula button to get the exact stop value).
4. Knowing your stop and your prospective entry, you should now determine whether the risk-reward is correct for the trade. If you decide to proceed, make the trade and enter the stop loss order. It is now a good idea to make a Personal Note for this security, noting the SafeZone factor you selected and the initial stop.
5. Every day thereafter, after the close, you should update the data and the PCF's and look at the SafeZone value using either the PCF or Chart Method. If the stop is higher (long trade) or lower (short trade) you must change your stop-loss order to the new value. Note the new value in your personal notes. If the new value would result in your lowering the stop (long) or raising it (short), then ignore it and do nothing.
6. Continue until you are either stopped out or close the trade for another reason.

Support Information

Elder-disk for TeleChart (TC2005/TC2007)

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For information on other software, videos and books for traders, as well as Traders' Camps, please contact

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