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The Five-Day LSS Oscillator: How to Measure Market Strength

There are many ways to measure market strength. This is just one method that takes into account the previous five trading days. Sophisticated traders will want to smooth the oscillator numbers over a period of three readings. Yet the reading itself is helpful in that it can be used to gauge mildly bullish or bearish market conditions or more extreme overbought or oversold markets.

Question

Using the following set of numbers, generate the LSS five-day oscillator number. Does this number suggest that the current market is bullish or bearish?

| <i>Day</i> | <i>Open</i> | <i>High</i> | <i>Low</i> | <i>Close</i> |
|------------|-------------|-------------|------------|--------------|
| 1 | 1175.50 | 1180.40 | 1151.00 | 1154.90 |
| 2 | 1144.00 | 1185.40 | 1144.00 | 1172.40 |
| 3 | 1157.50 | 1161.30 | 1127.20 | 1127.30 |
| 4 | 1141.80 | 1146.00 | 1129.60 | 1130.70 |
| 5 | 1131.00 | 1153.50 | 1117.30 | 1128.80 |

Answer

The place to start is with the formula for the oscillator:

Highest price in last 5 days – Open 5 days ago = X

Last close – Lowest price in last 5 days = Y

$$(X + Y) \times 100$$

(Highest price in last 5 days – Lowest price in last 5 days) $\times 2$

Highest price in last 5 days = 1185.40

Open 5 days ago = 1175.50

Therefore, 1185.40 (highest price)
– 1175.50 (open 5 days ago) = 9.90 = X

Last close = 1128.80

Lowest price in last 5 days = 17.30

Therefore, 1128.80 (last close) – 1117.30 (lowest price) =
11.50 = Y

$$\frac{(9.90 [X] + 11.50 [Y])}{(1185.40 [\text{highest price}] - 1117.30 [\text{lowest price]})}$$

$$= \frac{2140}{68.1}$$

= 34.6 percent = LSS five-day oscillator value

This reading suggests that the market is currently bearish.