

The ASI is the ACCUMULATIVE SWING INDEX which is obtained by accumulating each day's SI as indicated by the sign (+ or -) of the latest SI. The accumulative index may be either minus or plus. If the long-term trend is **up**, the accumulative index will be a plus. If the long-term trend is **down** the accumulative index will be a minus. If the long-term trend is non-directional, the ASI will fluctuate from plus to minus.

In the work sheet example, the ASI is the same as the SI on the first day. On the second day, the SI of -13 subtracted from the previous ASI of 37 makes the ASI 24 for the second day, etc.

At the top of the work sheet are brief instructions for obtaining the SI and the ASI using only the work sheet with the column headings and the open, high, low and close prices for the day. By using the work sheet in this manner, even the non-mathematically inclined should have little problem in obtaining the SI and ASI for each trading day. It's like "cook book" engineering. Simply fill in the columns, follow the instructions and it all falls into place.

On the work sheet, the columns have been left blank for days 4 through 8 for those who would like to stop at this point and solve the equation for those five days. The correct answers for each day are filled in under the SI and ASI columns. As with all systems and indexes in this book, there is a blank work sheet for this system in the Appendix. This work sheet can be removed and reproduced on a copier for following the markets on a daily basis.

Let's pause for a minute at this point and consider the significance of the SWING INDEX. The SWING INDEX gives us a numerical value for each day's trading which will always fall between 0 and +100 or 0 and -100. Second, the SWING INDEX gives us definitive short-term swing points. Third, the SWING INDEX gives us a line which cuts through the maze of high, low and close prices and indicates the real strength and direction of the market. Many good systems and

methods could be devised based on **one** or a **combination** of these indicators. Those who already use a good swing method or wave method can use this index as an additional tool to indicate by simple mathematics the short-term swings without spending a lot of time with the rules trying to figure out whether a swing is a swing or not. The SWING INDEX can also be used supplementary to other methods as a breakout indicator. A breakout is indicated when the value of the ASI **exceeds** the ASI value on the day when a previous significant HIGH SWING POINT was made. A downside breakout would be indicated when the value of the ASI drops **below** the ASI value on a day when a previous significant LOW SWING POINT was made.

When the SWING INDEX is plotted on the same chart as the daily bar chart, trend lines drawn on the ASI can be compared to trend lines drawn on the bar chart. For those who know how to draw meaningful trend lines, the ASI can be a good tool to confirm trend-line breakouts. Often erroneous breaking of trend lines drawn on bar charts will not be confirmed by the trend lines drawn on the ASI. Since the ASI is heavily weighted in favor of the close price, a quick run up or down during a day's trading does not adversely affect the index.

The system I have devised using the ACCUMULATIVE SWING INDEX is a very simple swing system. The swing points are the HIGH SWING POINTS and LOW SWING POINTS as indicated by the ASI.

SWING INDEX SYSTEM

Initially, the market is entered on a breakout. For instance, we would go **LONG** (Fig. 8.6) the next day when the value of the ASI exceeded the value posted on the day of a previous significant HIGH SWING POINT; or go **SHORT** (Fig. 8.7) the next day when the ASI dropped below the ASI on a day that a previous significant LOW SWING POINT was made.

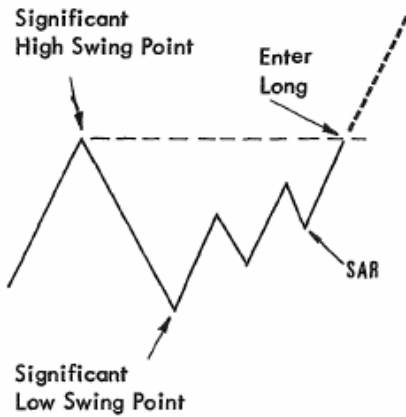


Fig. 8.6

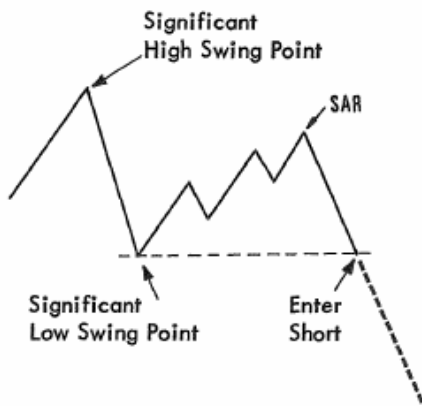


Fig. 8.7

Once in the market, we use the previous swing point as the INDEX STOP AND REVERSE (SAR). If *LONG*, the INDEX SAR is the previous LOW SWING POINT. If *SHORT*, the INDEX SAR is the previous HIGH SWING POINT. In addition, we use an INDEX SAR trailing stop which is 60 points on the ASI from the extreme favorable ASI high (if *LONG*) and from the extreme favorable ASI low (if *SHORT*). This 60 point trailing SAR is 60 points on the ACCUMULATIVE SWING INDEX. The 60 points are **NOT** in terms of the **PRICE** of the commodity being followed.



Fig. 8.8

We go *LONG* initially (Fig. 8.8) when the ASI exceeds the ASI at the significant HIGH SWING POINT (A). The INDEX SAR is point (C) since this is a closer stop than the 60 point trailing INDEX SAR. When point (D) is formed, the INDEX SAR becomes point (D).

There is one more important rule which must be followed in order to cut down the whipsaws when the market stalls; if we are in a *LONG* trade, as in the example, use the **first LOW SWING POINT** after a new **HIGH SWING POINT** as the **INDEX SAR**. Then keep the **INDEX SAR** at this point until the **ASI** makes a **new high**. After the new high is made, then the **first LOW SWING POINT** formed after the new high becomes the new **INDEX SAR**.

In Fig. 8.8, after the **ASI** made a new high at (E), the first **LOW SWING POINT** was formed at (F). We moved the **INDEX SAR** to (F) as soon as this point was defined and left it there until the **ASI** made a new high at point (J) and then reacted to point (K). Notice that the 60 point trailing **INDEX SAR** levels out after every new **HIGH SWING POINT** is made because the trailing stop is **always** measured from the most favorable **ASI** point. The 60 point trailing **INDEX SAR** is always a **Stop and Reverse**.

Point (K) is the first **LOW SWING POINT** after making a new **HIGH SWING POINT**. The **ASI** then moves up to (L), making a classic failure swing and then breaks below the **INDEX SAR** at (K) where we reverse and go **SHORT**. After going **SHORT**, the **INDEX SAR** is the previous **HIGH SWING POINT** at (L) because it is closer than the 60 point trailing **INDEX SAR**.

Now let's pick up the **SHORT** trade on Fig. 8.9. The **ASI** made a new **LOW SWING POINT** at (A). The **first HIGH SWING POINT** after making the new low is point (B), which becomes the **SAR**. Now watch what happens here. The **ASI** drops to point (D) then forms the **first HIGH SWING POINT** at (E). The **ASI** then drops straight down to point (F) and reacts straight up. Since no swing points were formed between (E) and (F), the 60 point **ASI** trailing stop becomes the closest **INDEX SAR**. We reverse to **LONG** at the trailing stop.

After making the new high for the trade at point (G), the **first LOW SWING POINT** is (H) which remains the **INDEX SAR** until the **ASI** makes a new **HIGH SWING POINT** and then the first **LOW SWING POINT** is formed. The **INDEX**

SAR is then the **first LOW SWING POINT** after the new **HIGH SWING POINT** is made.

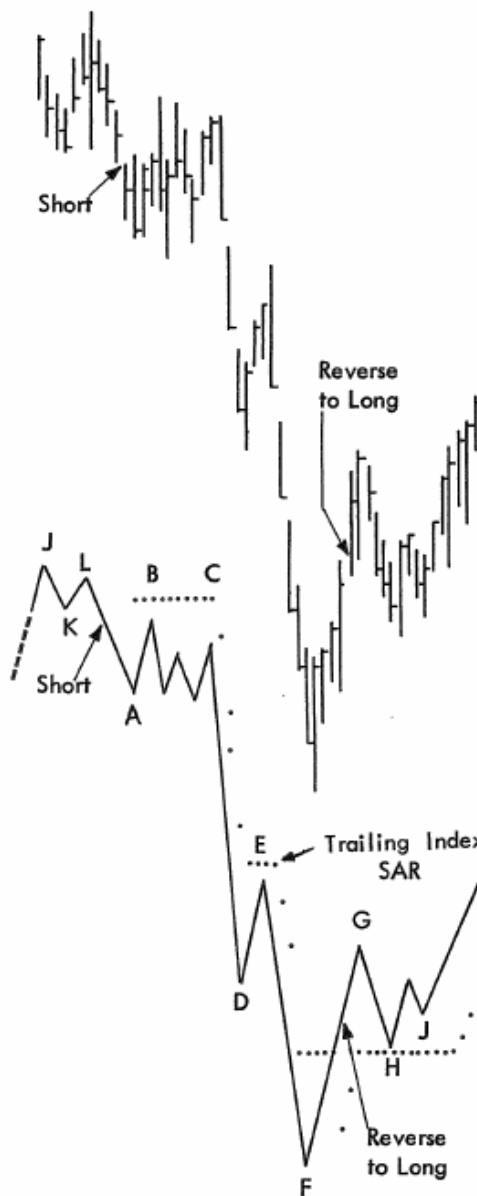


Fig. 8.9

I have explained this system by referring to LOW SWING POINTS and HIGH SWING POINTS for simplicity. All of the swing points are made by the ACCUMULATIVE SWING INDEX (ASI). In following this system on the work sheet, I have used the abbreviation LSP for LOW SWING POINT and HSP for HIGH SWING POINT. This abbreviation is put in the SI column beside the swing index value for the day the LSP and HSP is made. Of course, the swing point cannot be determined until the next day after it occurs.

Now that you understand the concept of this system, there is one thing left to define; that is, the relationship of the HSP, LSP and the INDEX SAR (made by the SWING INDEX) to the actual HIPS and LOPS (made by the price). We have to know which price points correspond to HSPs and LSPs and INDEX SARs in order to ascertain the exact market price to enter and exit the trade.

In effect, what we are really doing is trading the line which is made by connecting the ACCUMULATIVE SWING INDEX points for each day. The ENTRY, EXIT and REVERSE signals do not come from price points directly; the signals come from the SWING INDEX points generated by the SI equation.

Once the signal has been made by the ASI, it is then necessary to translate the signal points into price action points.

The price action points which correspond to the HSPs and LSPs on the SWING INDEX are the HIPS and LOPs (as previously defined) which are made by the daily prices.

Remember, a HIP is a daily high price with a lower daily high price the day before it and the day after it. A LOP is a daily low price with a higher daily low price the day before it and the day after it.

Usually the HIP will occur on the same day as the HSP. In this case, the HIP is the SAR and is simply the highest price made on that day. If the lowest price occurs on the same day as the LSP, then the lowest price made that day, the LOP, is the SAR.

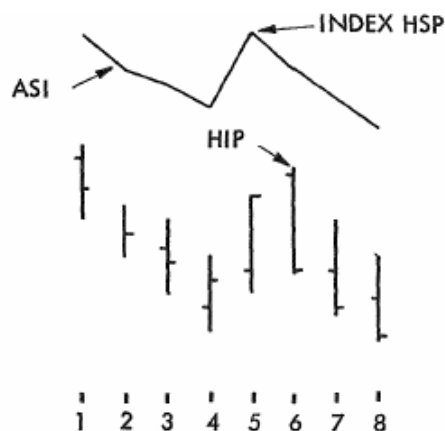


Fig. 8.10

In Fig. 8.10, the HSP occurred on Day 5; however, the HIP was made on Day 6. Although the price was higher on Day 6 than on Day 5, Day 6 will show up on the SWING INDEX as a minus (—) value . . . which it should . . . because it opened high, closed low, and also closed significantly lower than the previous day's close.

In Fig. 8.10, if we were SHORT, it is obvious that we would want to use the HIP on Day 6 as our SAR rather than the High on Day 5 which corresponds with the HSP.

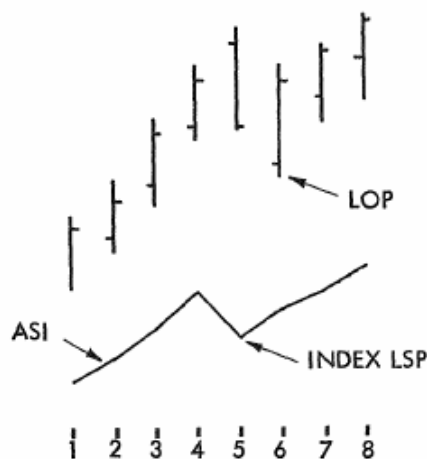


Fig. 8.11

In Fig. 8.11, the LOP is made on Day 6, but the LSP is made on Day 5. It is not unusual for the HSP and LSP to precede the HIP and LOP (made by the price) by one day.

In Fig. 8.11, if we were *LONG*, we would want to use the LOP made on Day 6 as our SAR even though the LSP occurred on Day 5.

As long as the HIP made by the price occurs on the same day as the HSP, then both the HIP and the HSP are recognized the next day after the high is made. However, suppose we are *SHORT* as in Fig. 8.10, and the market has closed on Day 6. The index HSP has formed, but we do not have a corresponding HIP. What SAR do we give our broker for Day 7? The answer is that we give him the high price made on Day 6. **We must assume that the HSP has preceded the HIP by one day.**

If we were *LONG*, as in Fig. 8.11, the same reasoning would apply to the LOP as shown. The SAR is the low price made on Day 6.

Now suppose our closest SAR is determined by the 60 point trailing INDEX SAR. Let's say that the market has closed and we calculate the ASI for the day and find that since the ASI high point was made, we have accumulated —65 points against the *LONG* position as illustrated in Fig. 8.12. What do we do? **We do not reverse on the open the next day.** We use the **lowest price** made since we began counting the 60 point drop on the ASI as our SAR. As will usually be the case, the SAR is the **low made today.**

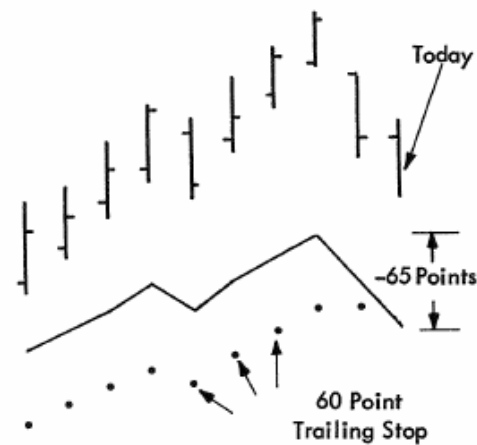


Fig. 8.12

In using this system, I have found that many times the price will turn around the next day and go to new highs without going through the low made on the day that —60 or more points was calculated. Also, I refrain from placing my order the next day until about five minutes after the open, if the price action is near my order. The first and last five minutes of trading are the most likely times for meaningless wide swings to pick off a stop order. Personally, I just don't like to give them something to "shoot at" on the open if my order is near the price action. Sometimes I even change a regular "stop" order to a "Stop on Close Only" order about 15 minutes before the close if the market action is near my order.

On the following pages are the definitions and rules for the SWING INDEX SYSTEM, which will be followed by a work sheet example and explanation.

