

A New Relative Strength Index Breakout Relative Strength Index – BRSI™

By Howard Wang, MD

The traditional definition of breakout is a stock price that moves outside a defined support or resistance level with increased volume. This is a well-known, very simple concept. However, it's not easy to find a method to determine whether a stock breakout is imminent and to determine the relative strength of a breakout.

This problem will make you research with great interest whether there are ways to find out the hidden, imminent breakout factors and signals coming from the fluctuation of stock prices, and to determine the relative strength of the real breakout so that one can act in the market early. Currently, Breakout Relative Strength Index (BRSI), as a new index, provides a signal system for imminent breakout and determines the relative strength of the breakouts.

WHAT IS BRSI?

BRSI is a breakout momentum oscillator that measures the speed, strength and change of price of breakout movements. BRSI can also be used to identify the general trend. Signals can also be generated by looking for divergences, failure swings and centerline crossovers. BRSI provides

a new method for technical analysis, fills a gap in technical analysis, and is also more convenient for traders who want to find potential trading opportunities.

BRSI is very different from RSI in the formulas. We clearly know that RSI does not use volume and the range of price to show the relative strength of price movements. This is a defect of RSI and also a source of misleading signals in trading.

Calculation of BRSI is based on the Breakout Candlestick™, which is a candlestick created in a new blended way (see below). Volume and range are the two important factors in computing BRSI. They make BRSI more intuitive and effective in determining the relative strength of breakouts.

BRSI is calculated by using the average prices, range size and mixed volume of the breakout candlestick according to certain principles. It shows the relative strength of the breakout. Therefore, BRSI reflects not only the overbought and oversold as RSI does, but also the status and strength of stock prices when the breakouts occurred.

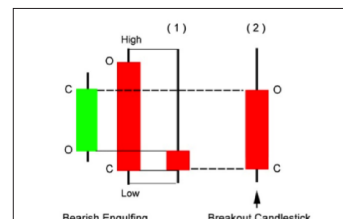
BRSI ranges from 0 to 100. If BRSI is over 80, it means the breakout is super strong, the stock is overbought, and the price maybe goes down. If BRSI is below 20, it means the breakout is ultra weak, the stock is oversold, and the price maybe goes up. The middle value, 50, is the strength boundary, a holding signal.

WHAT IS BREAKOUT CANDLESTICK™?

Breakout Candlestick involves combining two original candlesticks according to a certain principle and method to produce blended candles. It is different from the blended candlestick in the classic book. I have changed part of the combination principle in the book so that the special blended candlestick is formed with the breakout concept and relative strength.

For example, in the Bearish Engulfing pattern below, look at the combination method and compare two blended candlesticks.

Obviously, there is big difference between the two combinations. The Breakout Candlestick uses the pre-day's close price



(1) Steve Nison's blended candlestick
(2) Breakout Candlestick

as its open price. It is because of this change that the Breakout Candlestick is more in line with stock price movement in the Bearish Engulfing pattern and the basic principle of candlestick strength.

WAs we know, blended candlestick is not a real candlestick; it is only a way of analysing stock price movements. As a method of analysis, blended candlestick should be close to match stock price movements. Therefore, generated Breakout Candlesticks are theoretically more reasonable and more in line with buy and sell signals from stock volatility and real trading. Breakout Candlestick is the basis of BRSI computing.

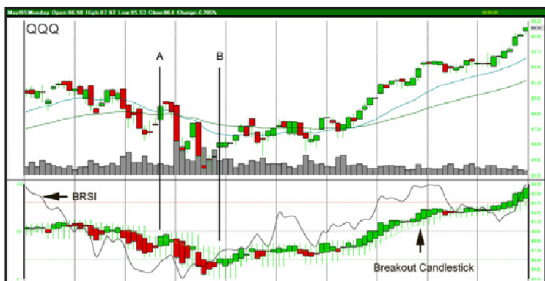


Figure 1: BRSI AND BREAKOUT CANDLESTICK. Here you see how the BRSI can be combine with Breakout Candlestick. The price at B is lower than A, but BRSI at B is stronger than A. It is strong BUY signal and alert to hold from stronger BRSI and Breakout Candlestick. It is easier to visualize price movement.



Figure 2 displays the trading record of KBH. The trading strategy follows BRSI and Breakout Candlestick. There are three types of trading strategy:

1. If BRSI is over 80 and B/O is weak, it is a sell alert, ready to sell.
2. If BRSI is below 20 and B/O is strong, it is a buy alert, ready to buy.
3. If BRSI is 20–80, it should be a focused B/O Candlestick or else there is nothing to do. Divergence is also an important trading strategy.

ANALYSIS

BRSI provides a new, intuitive way of breakouts. Visit www.breakouttradingssystem.com for information on trading with BRSI.

In the chart of the NASDAQ displayed in Figure 1, we immediately know which point, A or B, is the better buy point and when BRSI is stronger, which means you should hold stocks until BRSI becomes weaker.

The table below is an excerpt of trading of KBH displayed in Figure 2.

Software and data

The chart is from breakout software: www.breakouttradingssystem.com. Data is from esignal.

Buy Trading Strategy	SYM	Buy Price	Date	Sell Price	Date	P/L%
BRSI Low & B/O Candle Strong	KBH	16.38	5/1	18.06	6/26	10.25%
Divergence	KBH	15.60	5/15	18.06	6/26	15.76%
BRSI Low & B/O Candle Strong	KBH	16.28	8/12	17.76	8/21	9.00%

Note: Sell trading strategy is BRSI over breakout and Breakout Candlestick is weak.

Bibliography

Steve Nison, 1994. *Beyond Candlesticks: New Japanese Charting Techniques Revealed*.



Author Profile

Howard Wang, MD of mathematics and economic statistics, lives in Los Angeles, California. He has more than 20 years of investment experience. He is particularly interested in analyzing technical indicators and candlestick construction and designing breakout trading software. He also created a new concept in trading—Profit Taking Theory. He may be reached at evergreenstockclub@yahoo.com.

End Notes

¹Steve Nison, 1994. *Beyond Candlesticks: New Japanese Charting Techniques Revealed*, p. 36–38.