Bloomberg Market Essentials:
Technical Analysis

DeMark Indicators
by
Jason Perl

http://www.forexfactory.com/attachment.php?attachmentid=910547&d=1330688234

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Tom DeMark (TD)

- Indicators invented by Tom DeMark (TD) are applied in market timing and technical analysis of financial markets.

- http://demark.com/about-demark/

http://www.zerohedge.com/news/2016-01-20/tom-demark-today-interim-low-followed-5-8-rebound-then-another-selloff-china-fall-fu

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"Tom DeMark,…..,is a unique, interesting, and ofttimes iconoclastic technical analyst. Simply put, he thinks about the markets differently from the way you or I do."

http://bollingerbands.it/images/john_bollinger.jpg

Bollinger

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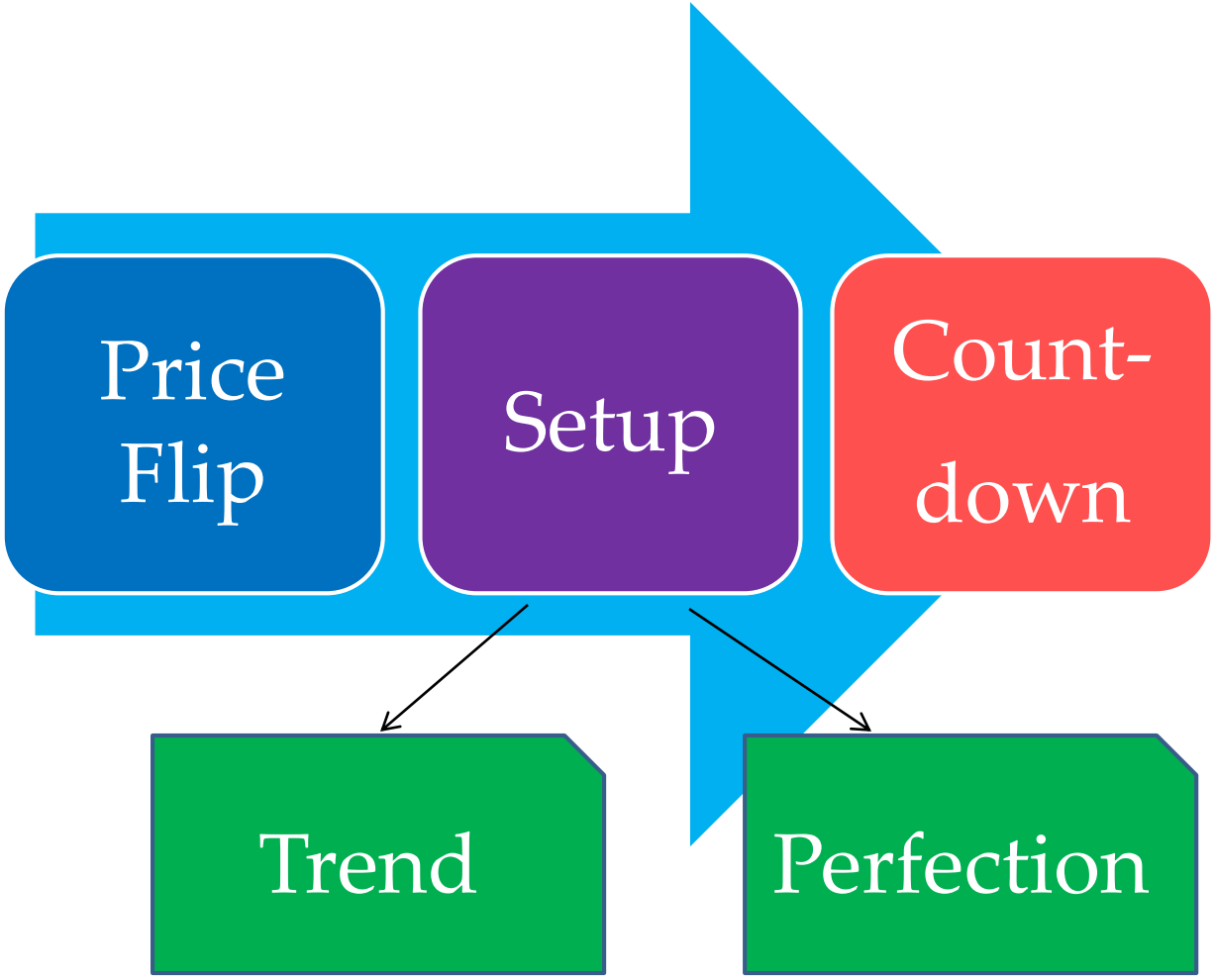
Overview of DeMark's Basics



Sequential

Combo

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TD Price Flip

- Let C_t be a sequence of closing prices. The time t can be daily, weekly, monthly, or even quarterly.
- A key component of TD system is C_t versus $C_{t\text{-}4}$.
- We ask whether $C_{t-4} > C_t$ or $C_{t-4} < C_t$.
- Why 4 periods?

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Bearish TD Price Flip

- A Bearish TD Price Flip occurs when the market records a close *greater than* the close 4 periods (or bars) earlier, immediately followed by a close *less than* the close 4 bars earlier.

$$C_{t-1} > C_{t-5} \text{ followed by } C_t < C_{t-4}$$

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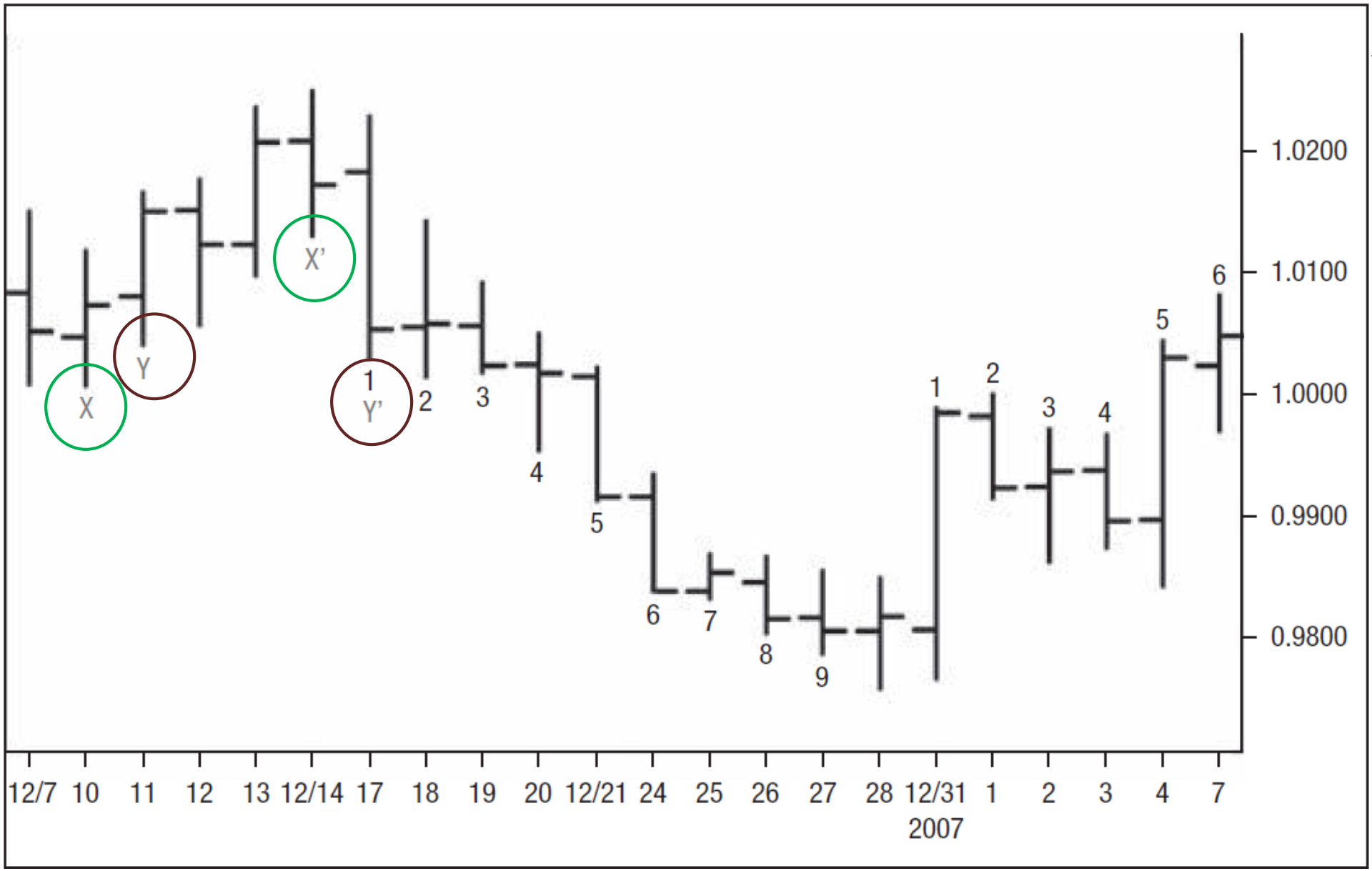
Bearish Price Flip



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Bullish TD Price Flip

- A Bullish TD Price Flip occurs when the market records a close *smaller than* the close 4 periods earlier, immediately followed by a close *greater than* the close 4 bars earlier.

$$C_{t-5} < C_{t-1} \text{ followed by } C_{t-4} > C_t$$

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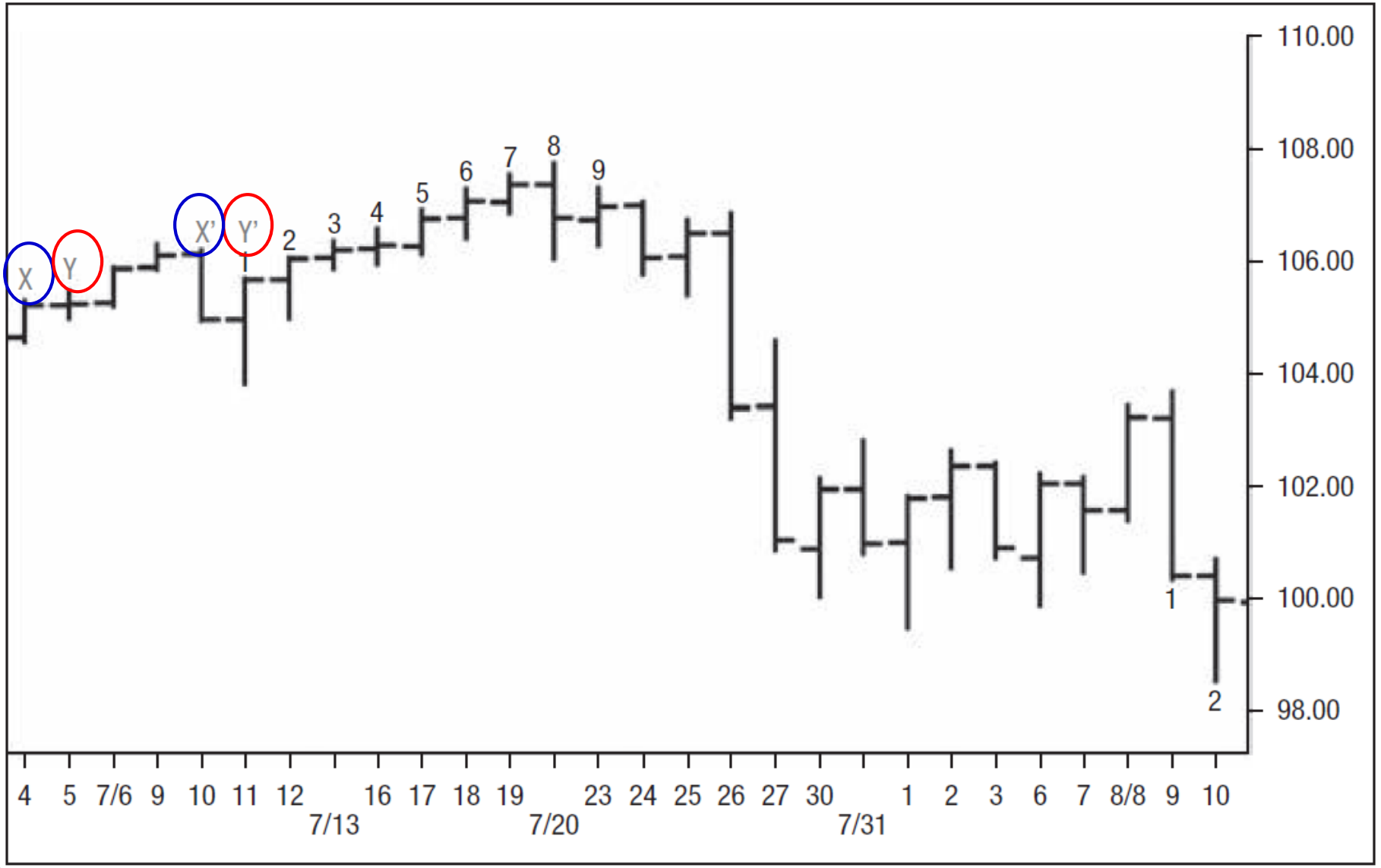
Bullish Price Flip



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TD Setup

- The prerequisite for a TD Buy Setup is a Bearish TD Price Flip, which indicates a switch from positive to negative momentum.
- The prerequisite for a TD Sell Setup is a Bullish TD Price Flip, which indicates a switch from negative to positive momentum.
- TD Setup is an indicator that determines whether a market is likely to be confined to a trading range or starting a directional trend.

- TD Setup is to be followed by TD Countdown.

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TD Buy Setup

- A TD Buy Setup is that, after a bearish TD Price Flip, there must be 9 consecutive closes, each one less than the corresponding close four bars earlier.
- If, at any point, the sequence of 9 consecutive closing prices less than the closing price 4 bars earlier (up to and including the close of TD Buy Setup Bar 9) is interrupted, the developing TD Buy Setup must be cancelled and must begin anew.
- Once a TD Buy Setup successfully reaches 9, the first phase of TD Sequential is complete.

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TD Buy Setup Perfection

- TD Buy Setup "perfection" is the prerequisite for entering a long position based on a completed TD Buy Setup.

- The low of Bar 8 *or* Bar 9 of the TD Buy Setup must be less than, or equal to, the lows of Bar 6 *and* Bar 7 of the TD Buy Setup.

$$L_9 \leq L_7 \text{ and } L_9 \leq L_6$$

or

$$L_8 \leq L_7 \text{ and } L_8 \leq L_6$$

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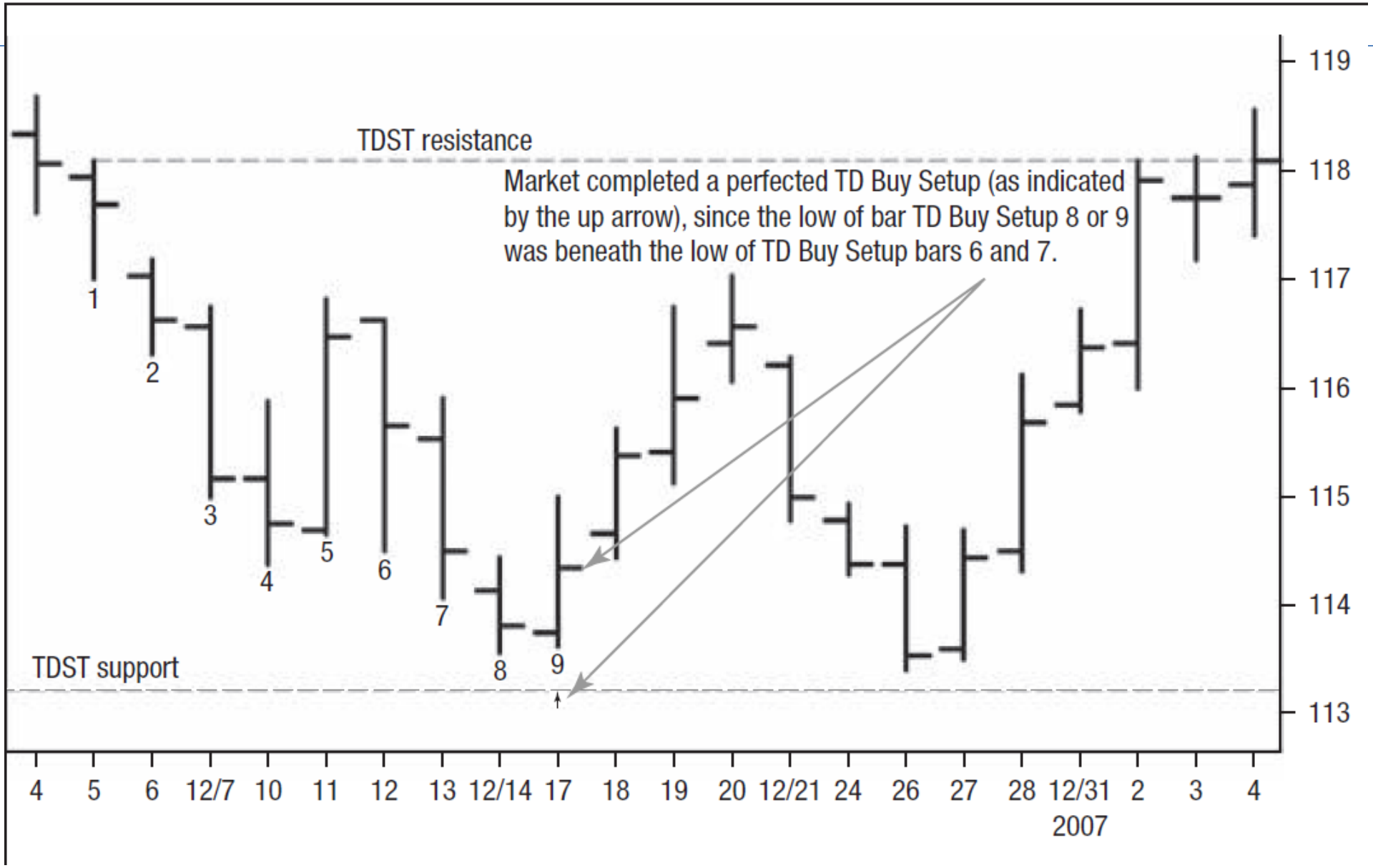
Perfected Buy Setup



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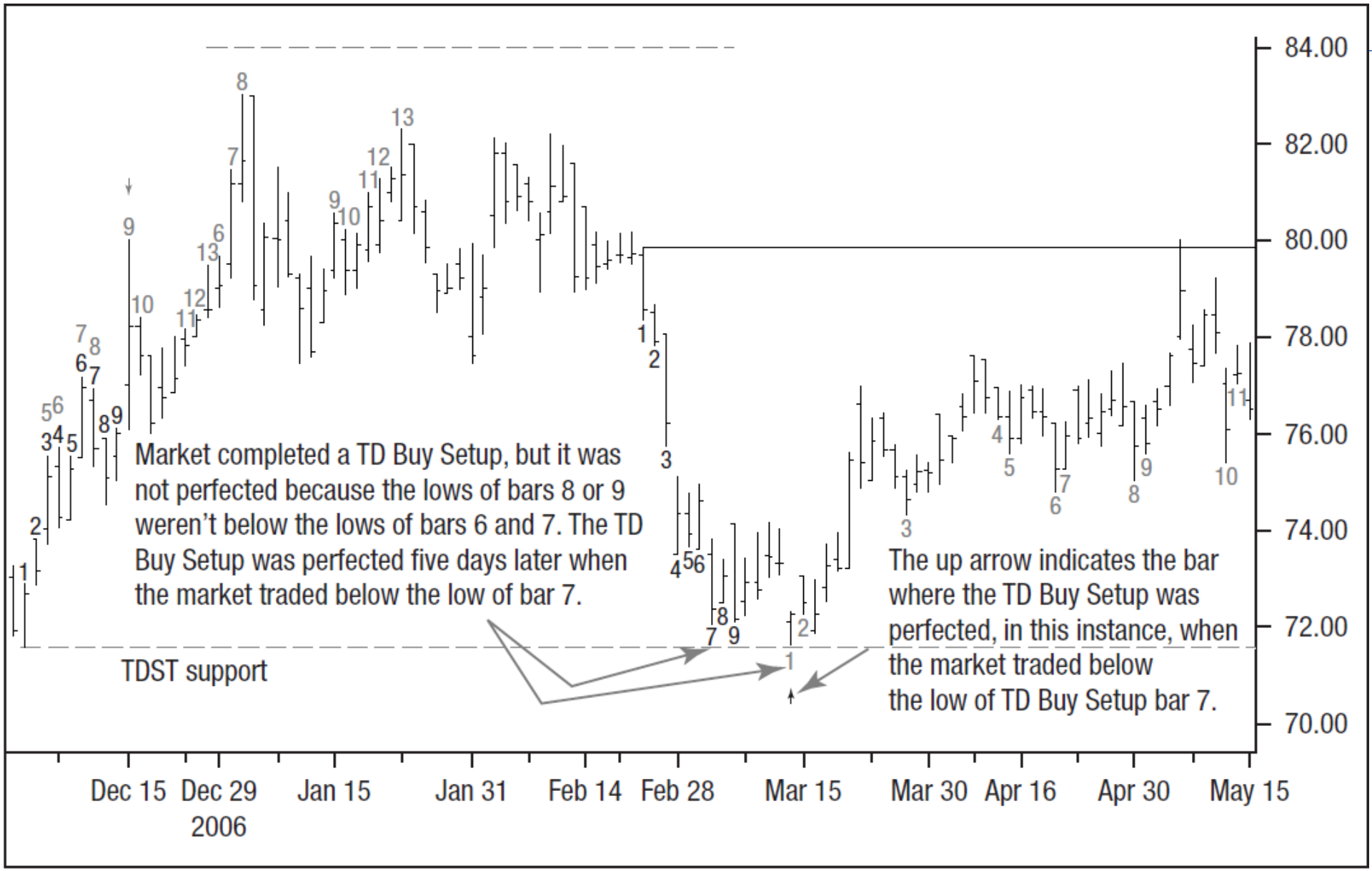
Unperfected Buy Setup



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TD Sell Setup

- Once the bullish TD Price Flip occurs, a TD Sell Setup, consisting of 9 consecutive closes, each being *greater than* the corresponding close 4 bars earlier, can begin.

- If at any point, the sequence of nine consecutive closes *greater than* the close 4 bars earlier is interrupted, up to and including the close of TD Buy Setup Bar 9, then the developing TD Buy Setup will be cancelled and must begin anew.

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TD Sell Setup Perfection

- TD Sell Setup "perfection" is the prerequisite for entering a short position based on a completed TD Sell Setup.

- The high of Bar 8 *or* Bar 9 of the TD Sell Setup must be more than, or equal to, the highs of Bar 6 *and* Bar 7 of the TD Sell Setup.

$$H_9 \geq H_7 \text{ and } H_9 \geq H_6$$

or

$$H_8 \geq H_7 \text{ and } H_8 \geq H_6$$

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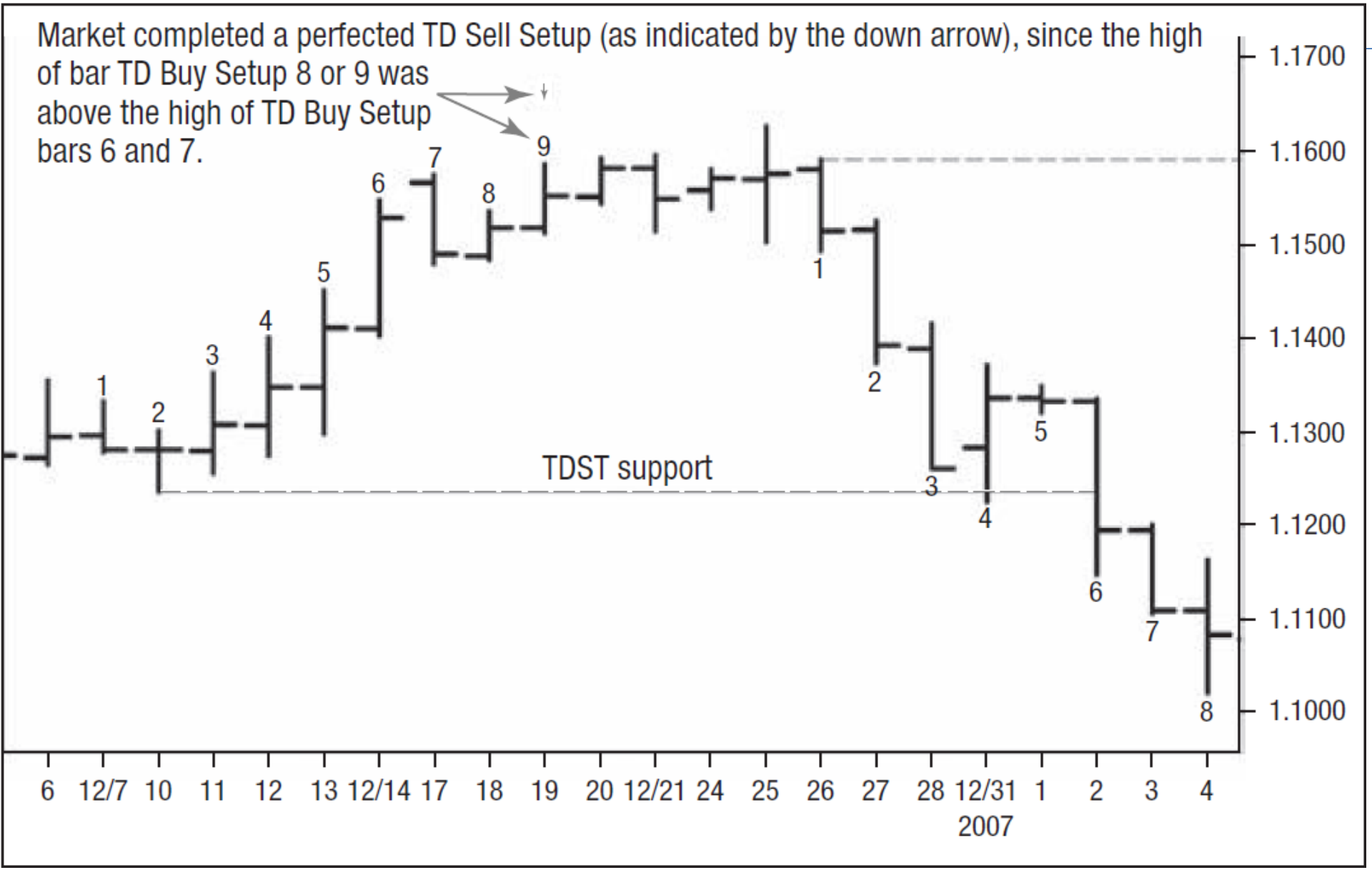
Perfected TD Sell Setup



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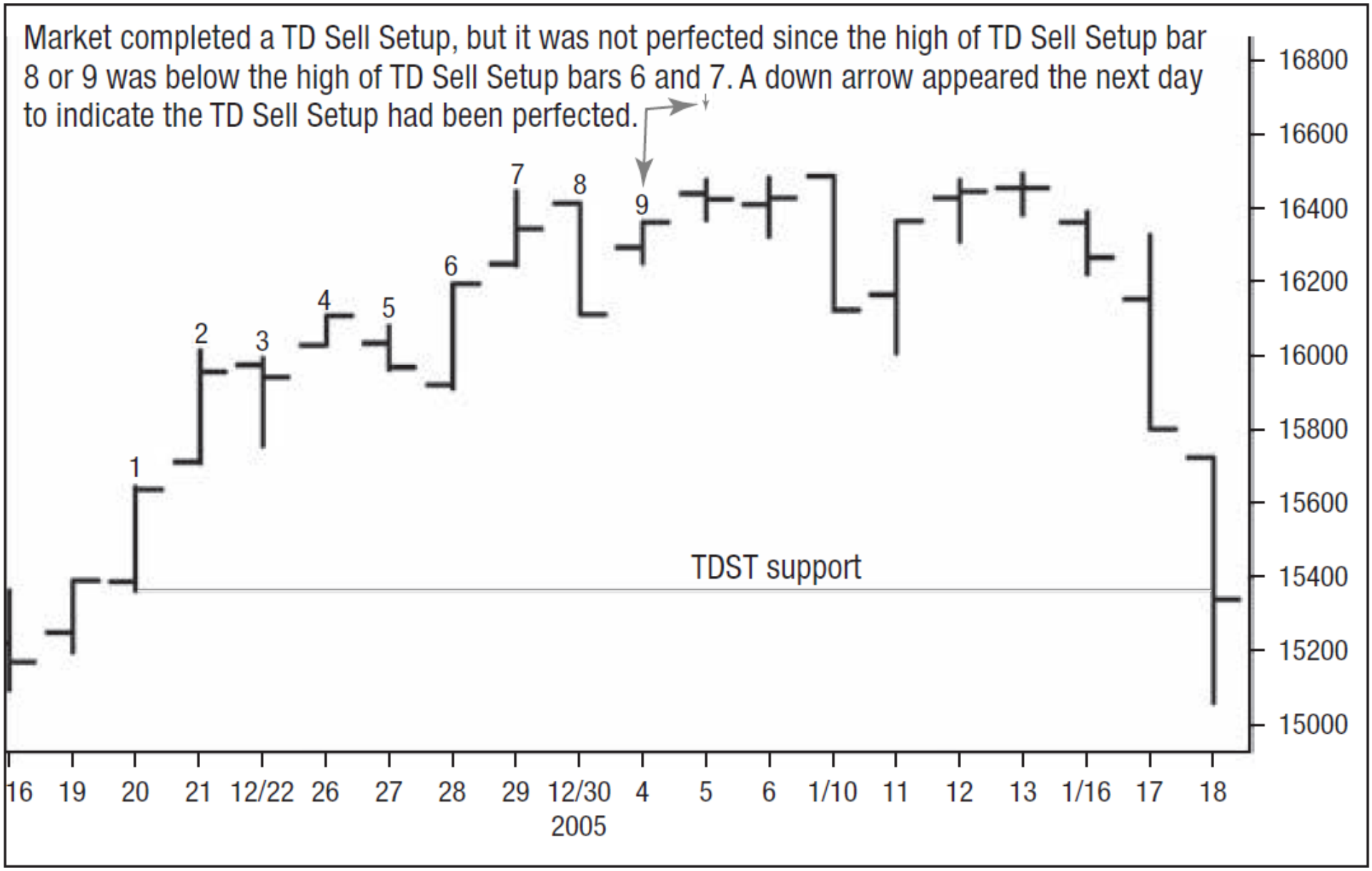
Unperfected TD Sell Setup



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Sequential Countdown

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To Initiate TD Sequential Buy Countdown

- *If* Bar 9 of a TD Buy Setup also has a close less than, or equal to, the low two bars earlier,
- *Then,* Bar 9 of a TD Buy Setup becomes Bar 1 of a TD Buy Countdown.
- *If* That condition is not met,
- *Then* TD Buy Countdown Bar 1 is postponed until it does, and the TD Buy Countdown continues until there are a total of 13 closes, each being less than, or equal to, the low 2 bars earlier.

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To Complete a TD Sequential Buy Countdown

- Two conditions must be met.

- 1. The low of TD Buy Countdown Bar 13 must be less than, or equal to, the close of TD Buy Countdown Bar 8.

- 2. The close of TD Buy Countdown Bar 13 must be less than, or equal to, the low 2 bars earlier .

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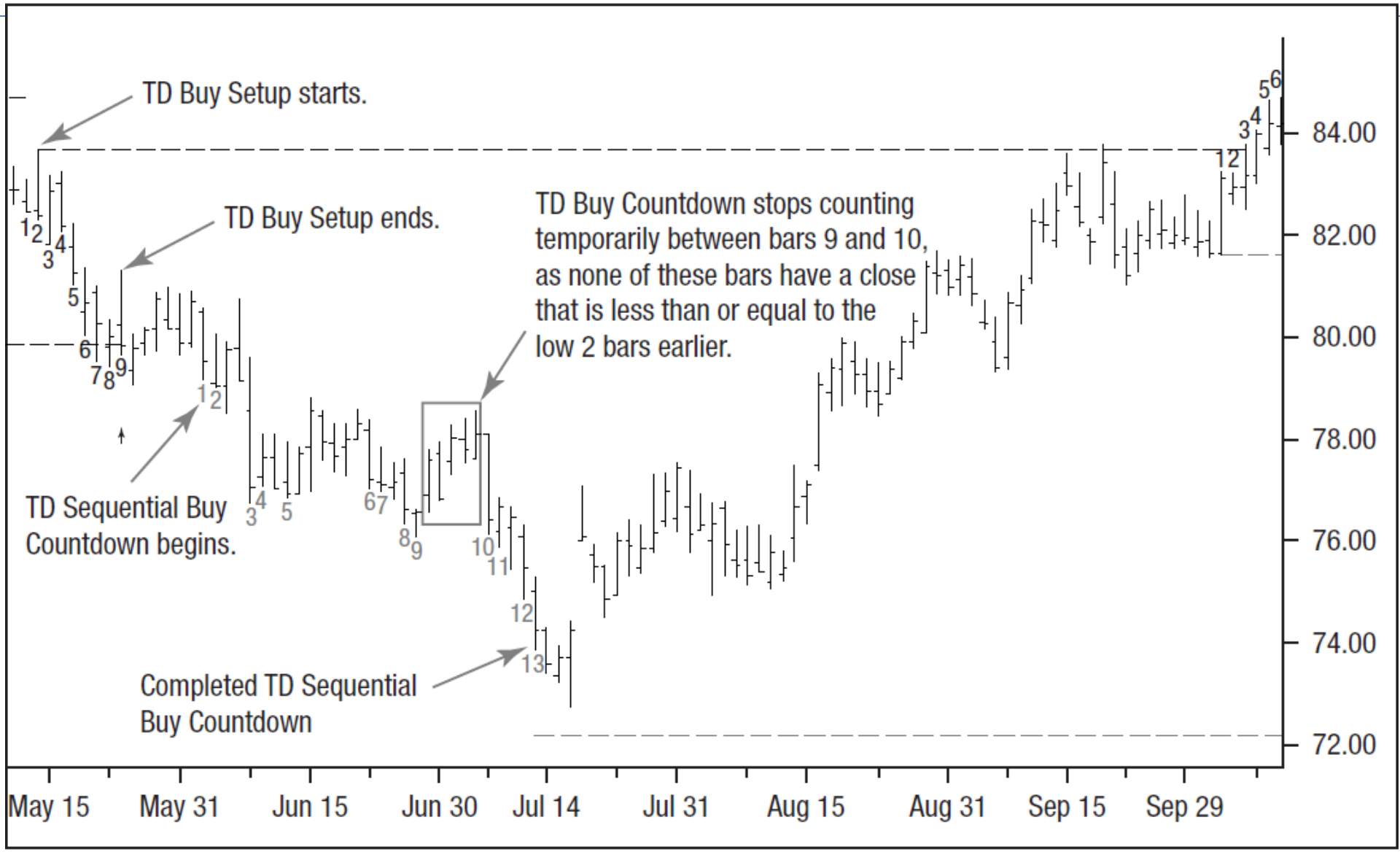
Completed Sequential Buy Countdown



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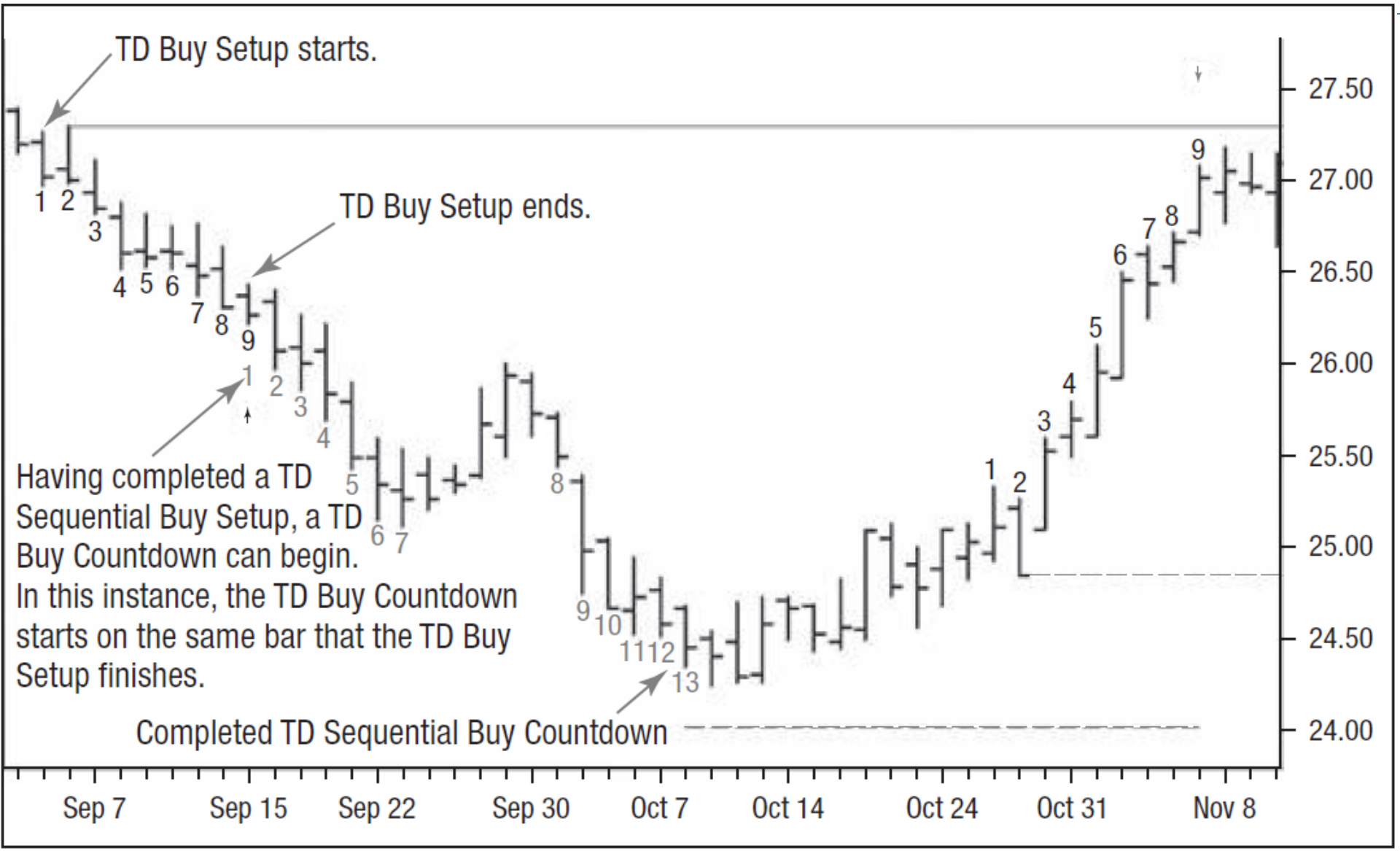
Completed Sequential Buy Countdown



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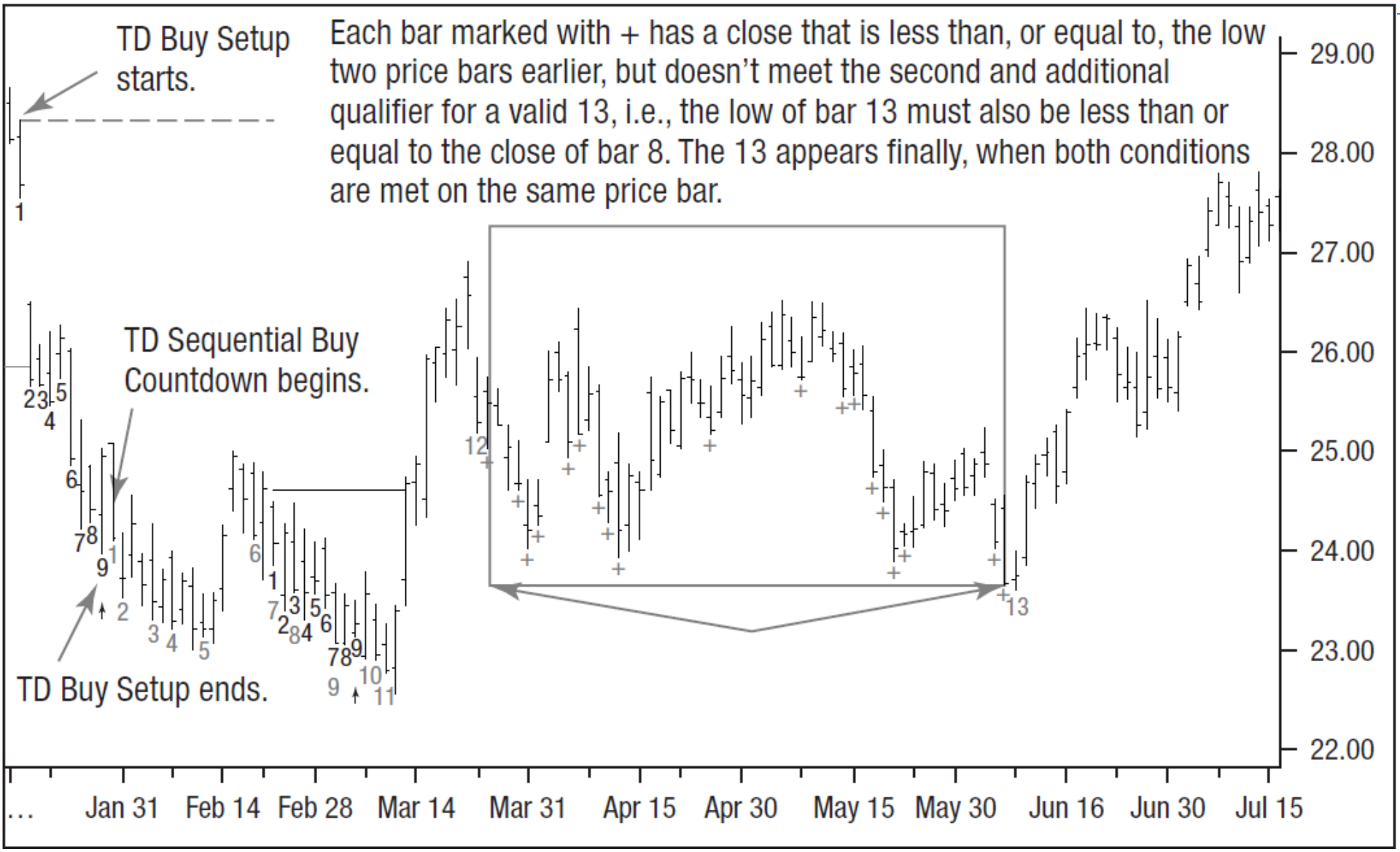
Deferred Sequential Buy Countdown



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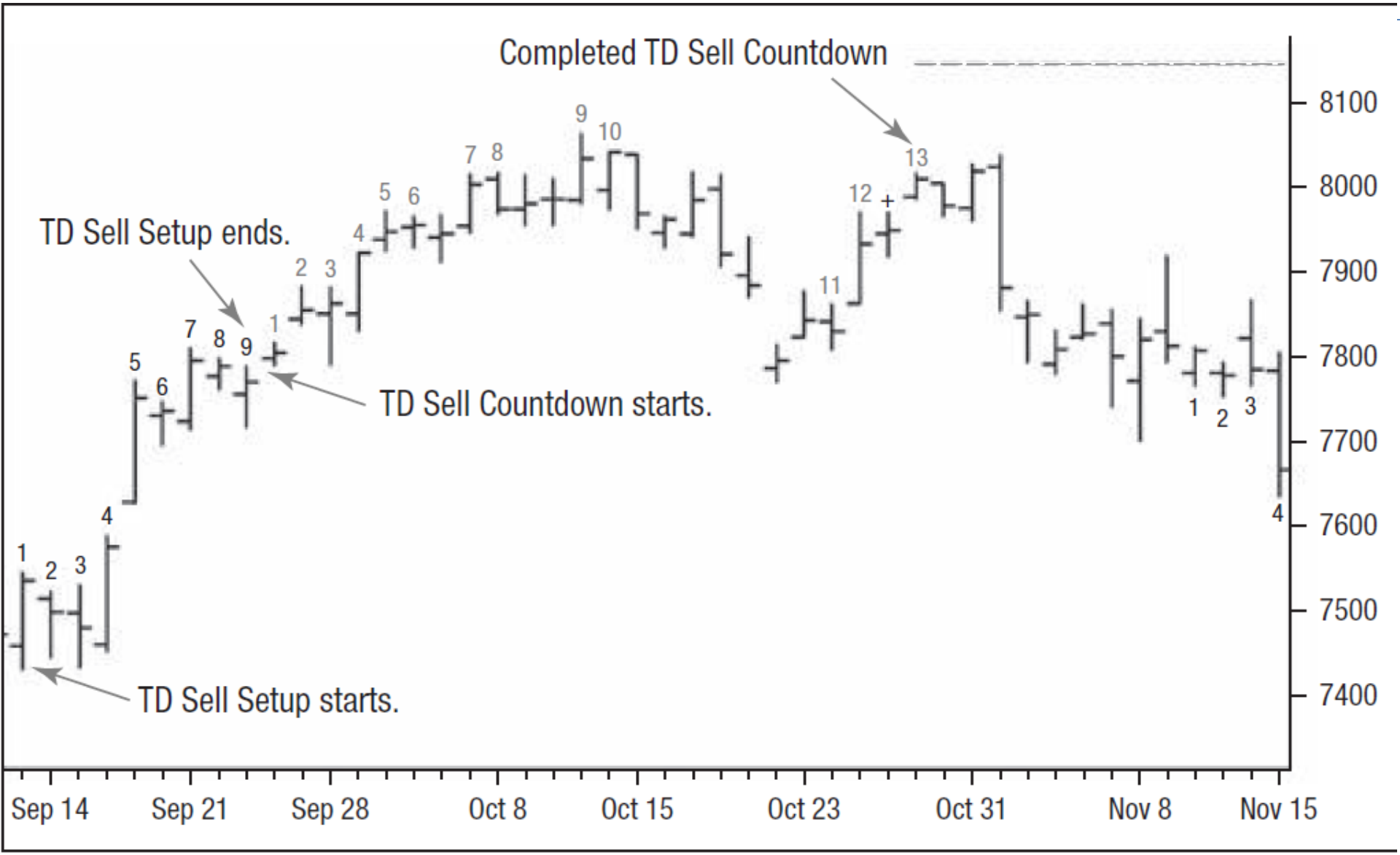
Completed Sequential Sell Countdown



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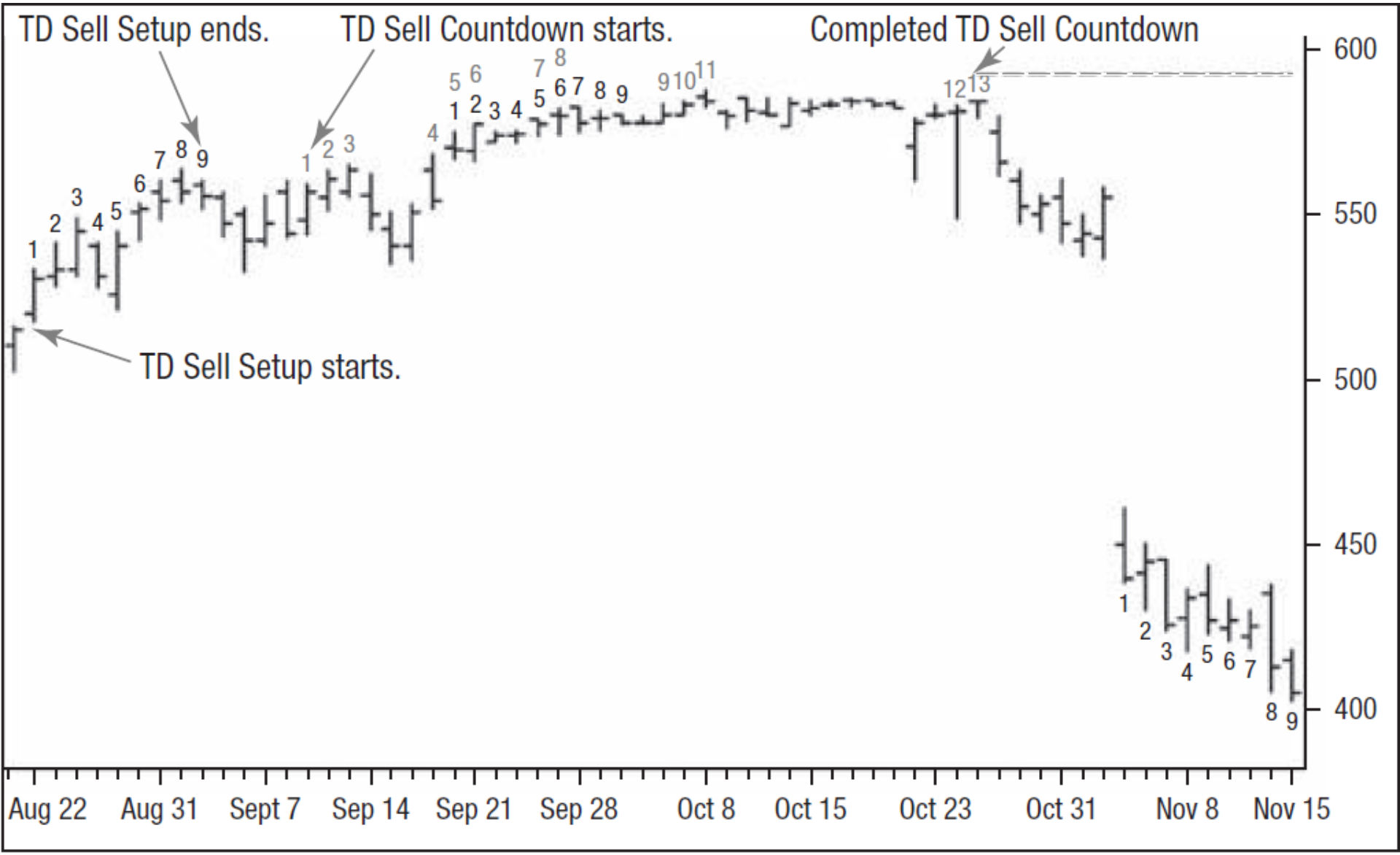
Completed Sequential Sell Countdown



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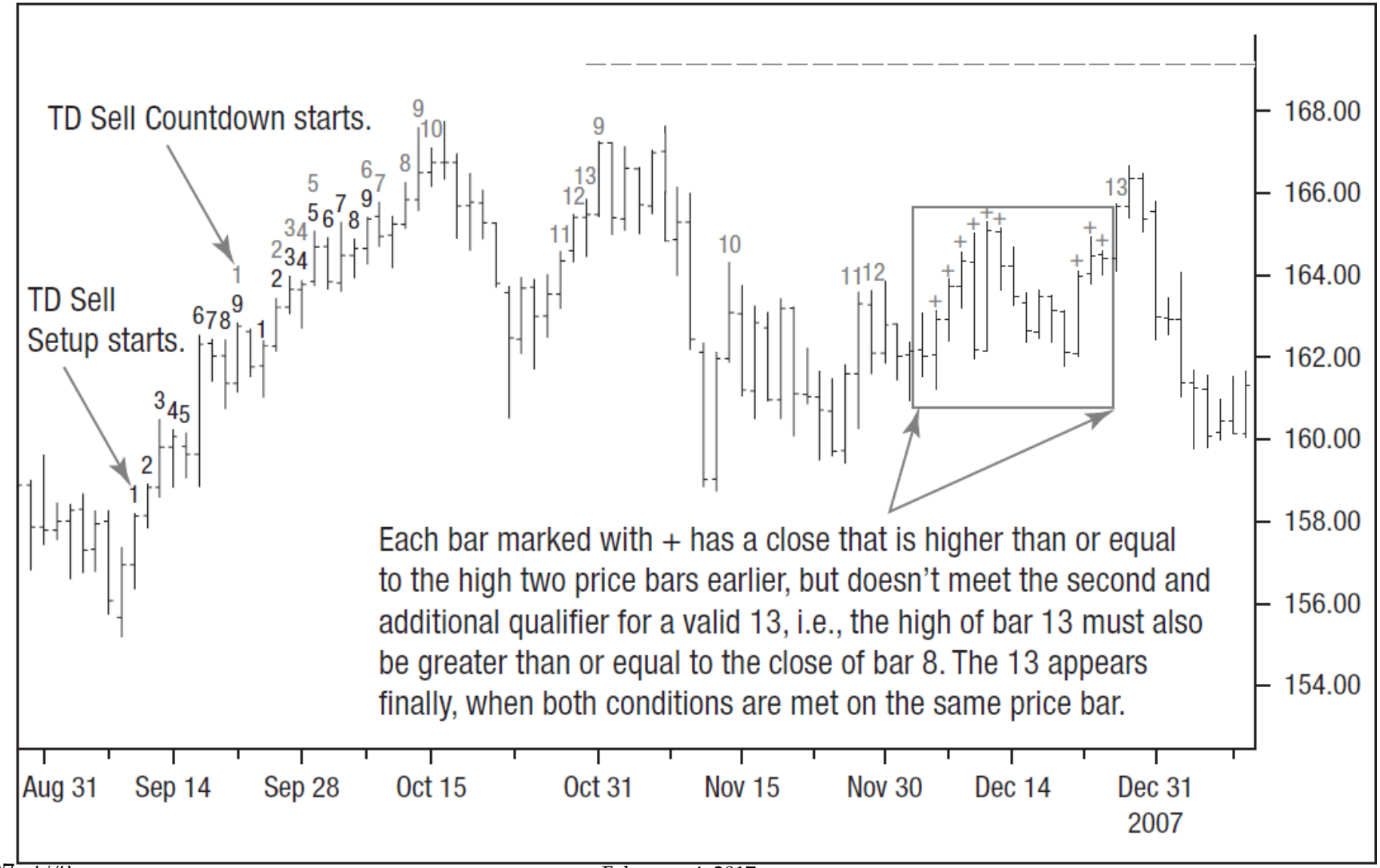
Deferred TD Sequential Sell Countdown



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TD Setup Trend

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TDST Levels

- Each time the market completes a TD Setup, **the true price extreme of that move**—known as the TD Setup Trend (TDST)—redefines the range in terms of price levels.

- The ensuing price response to that TD Setup Trend level helps to determine the directional bias.

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TD Setup Scenario I: Consolidation/Reversal

- *If* A price fails to record a close beyond the absolute high or low of the most recently completed TD Setup in the opposite direction—that is, the TDST Level—up to and including the completion of Bar 9 of the current active TD Setup.

- *Then* The market is deemed to have insufficient momentum to break out of the range.

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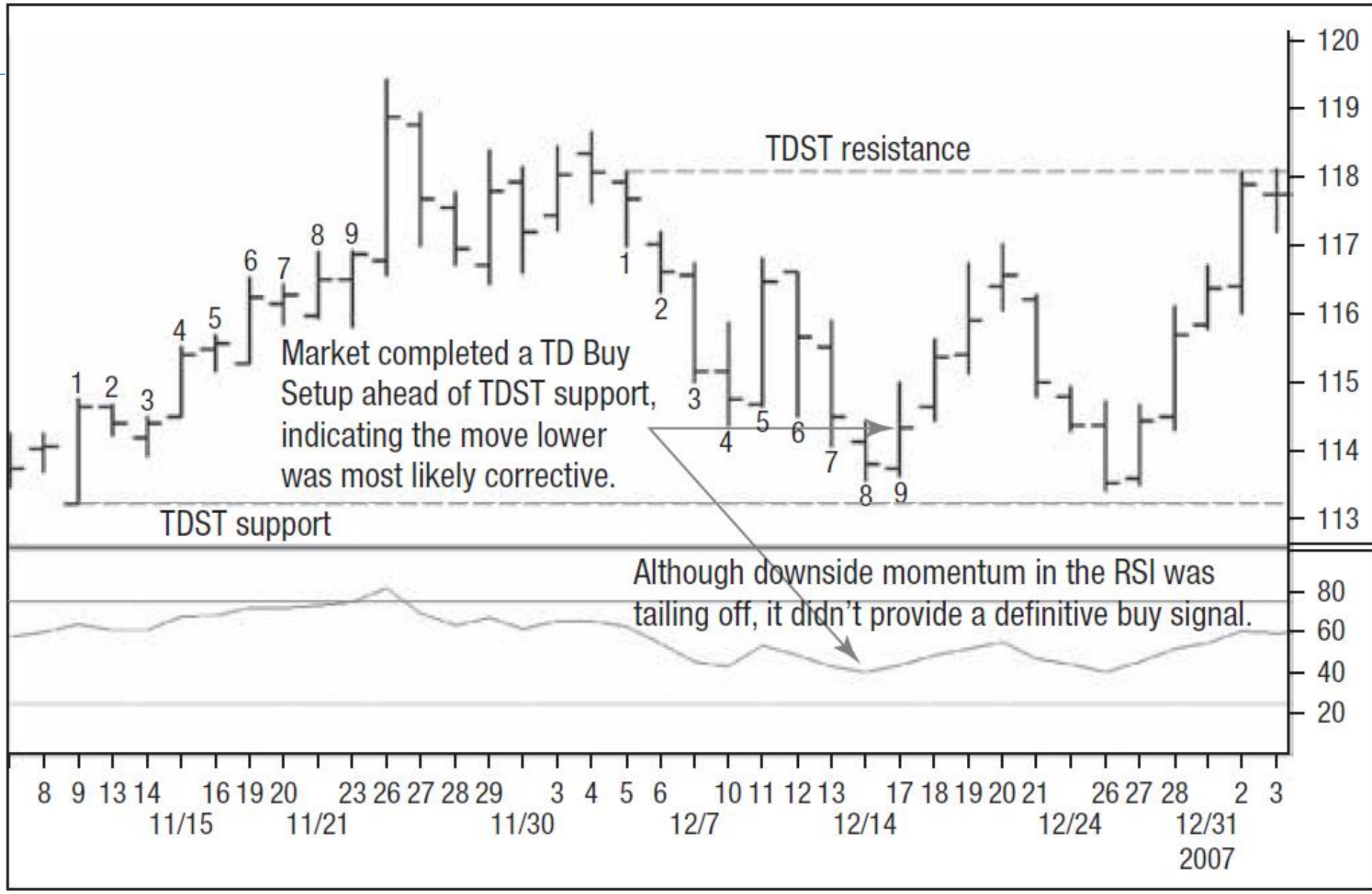
Consolidation/Reversal



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TD Setup Scenario II: Confirmed Trend Extension

- *If* Price exceeds the extreme absolute high or low of a previous TD Setup in the opposite direction on a closing basis

- *Then* The market is deemed to have sufficient momentum to facilitate a sustained break out of the range.

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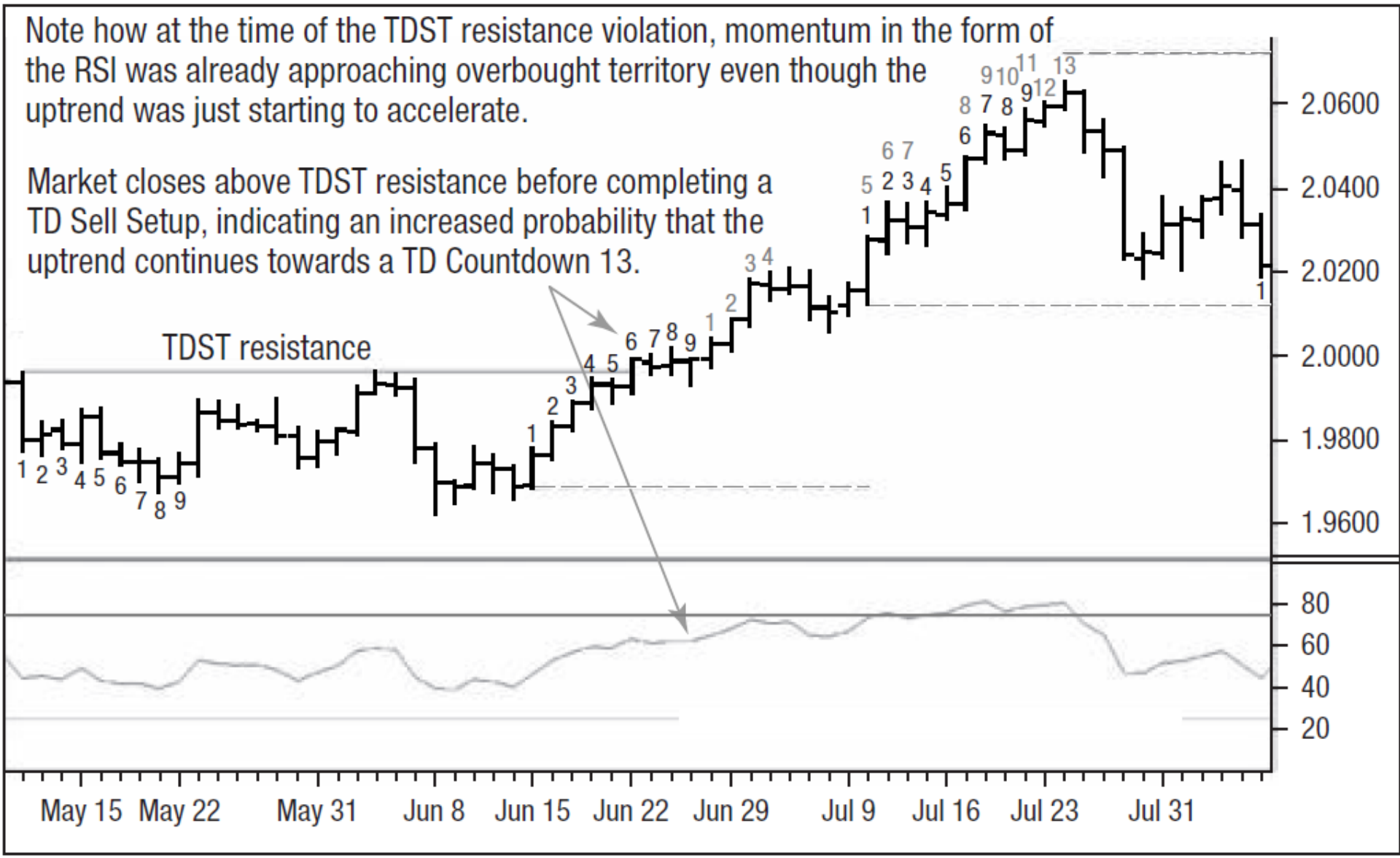
Trend Extension



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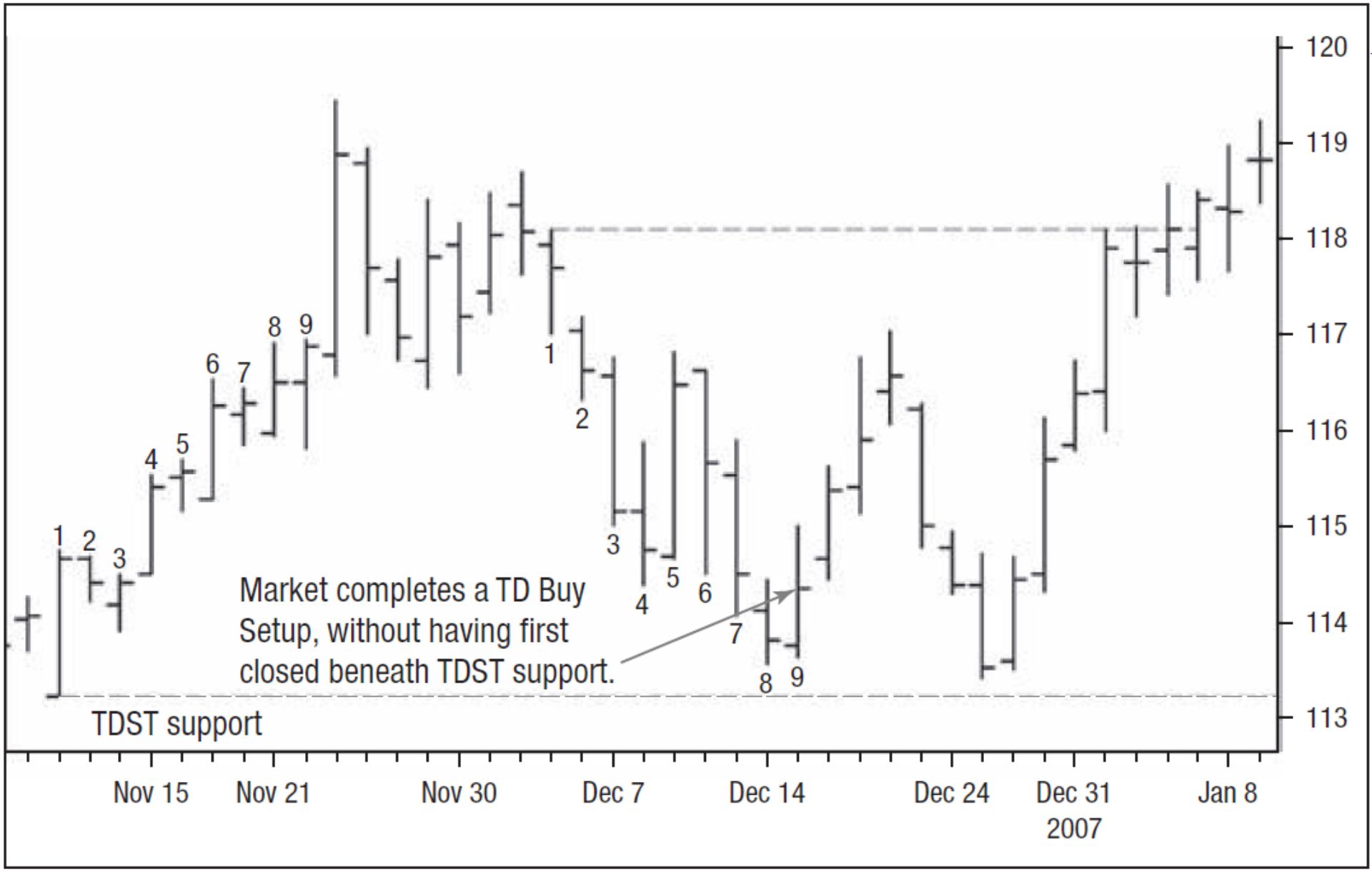
TDST Support



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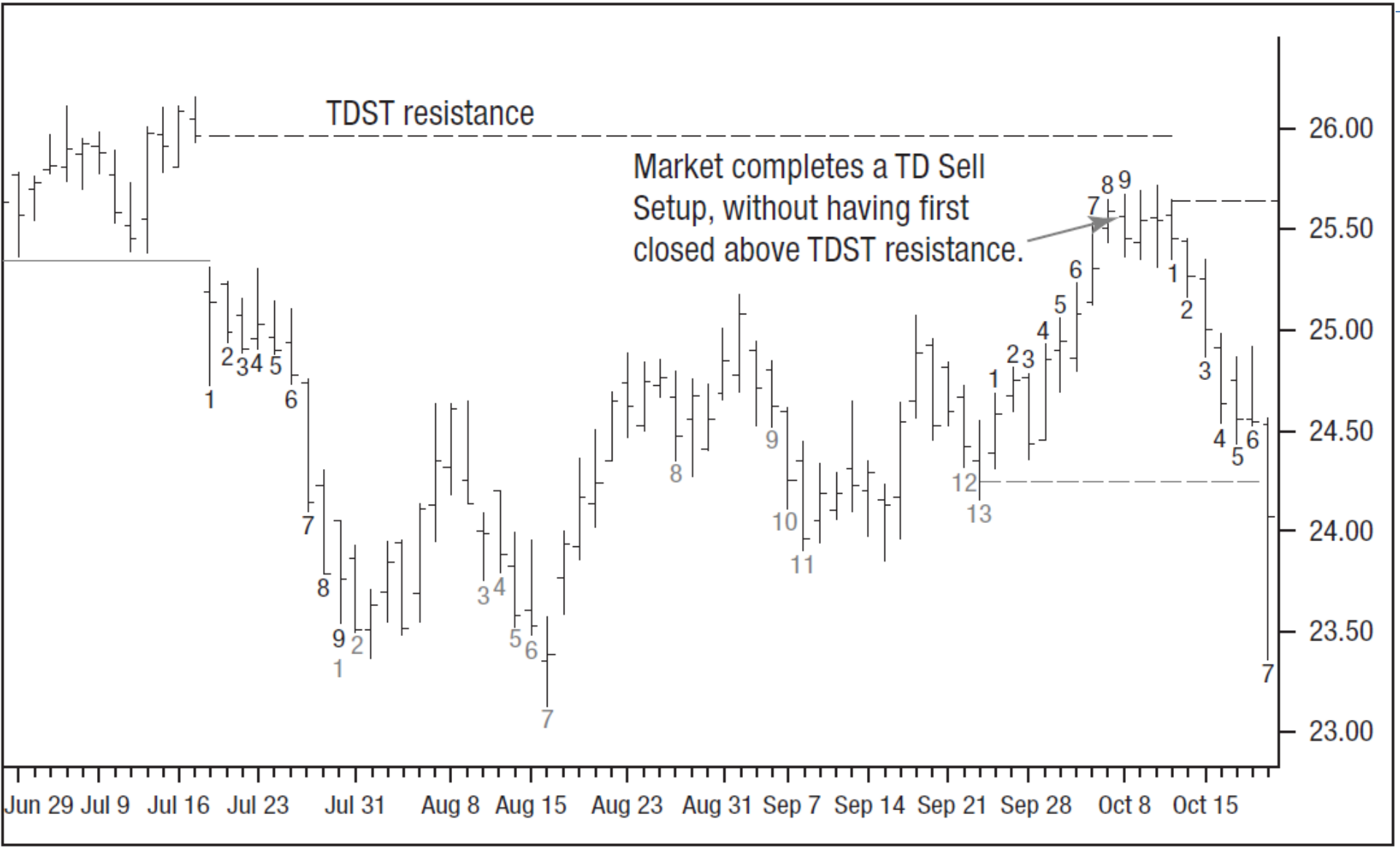
TDST Resistance



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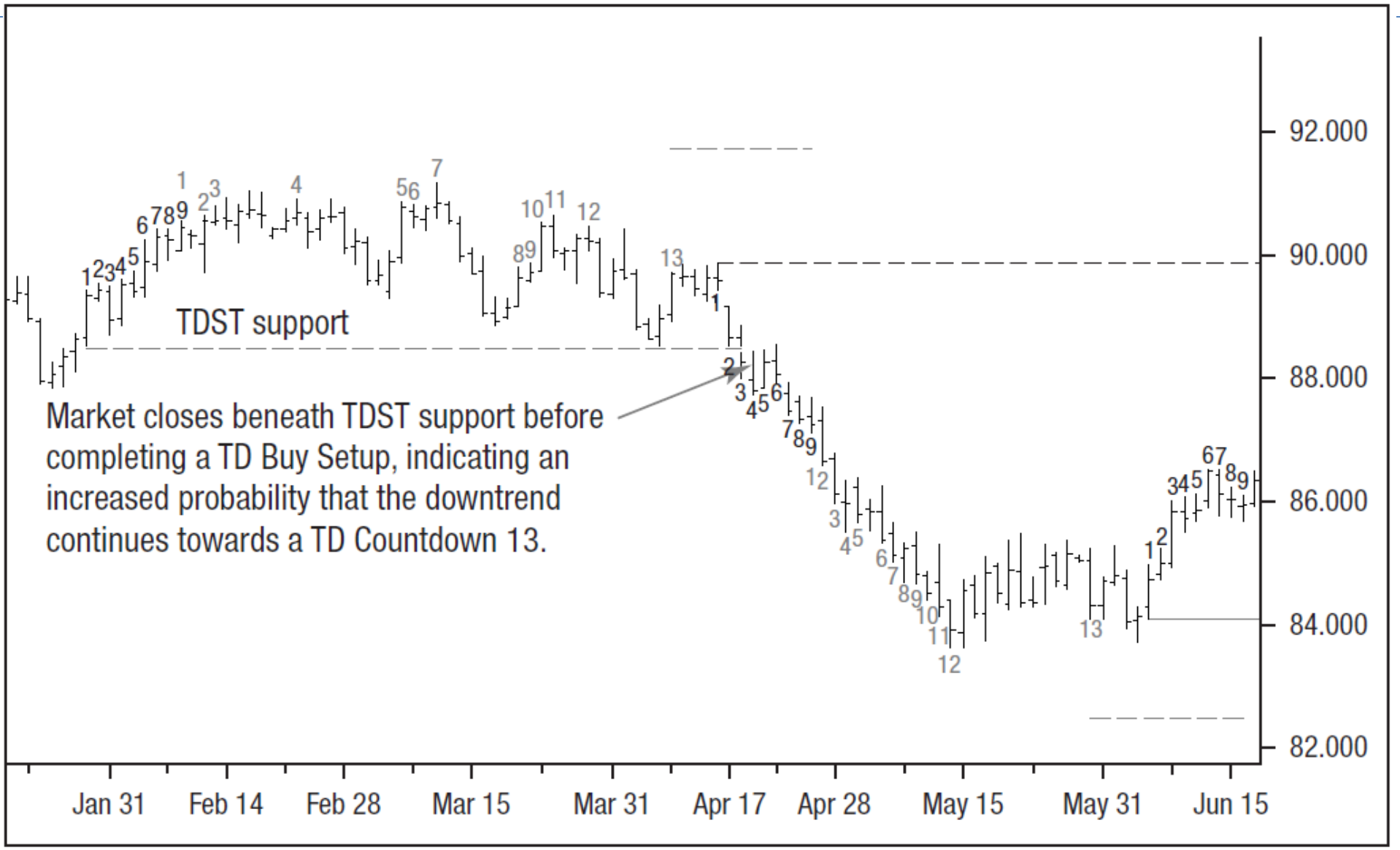
Below TDST Support



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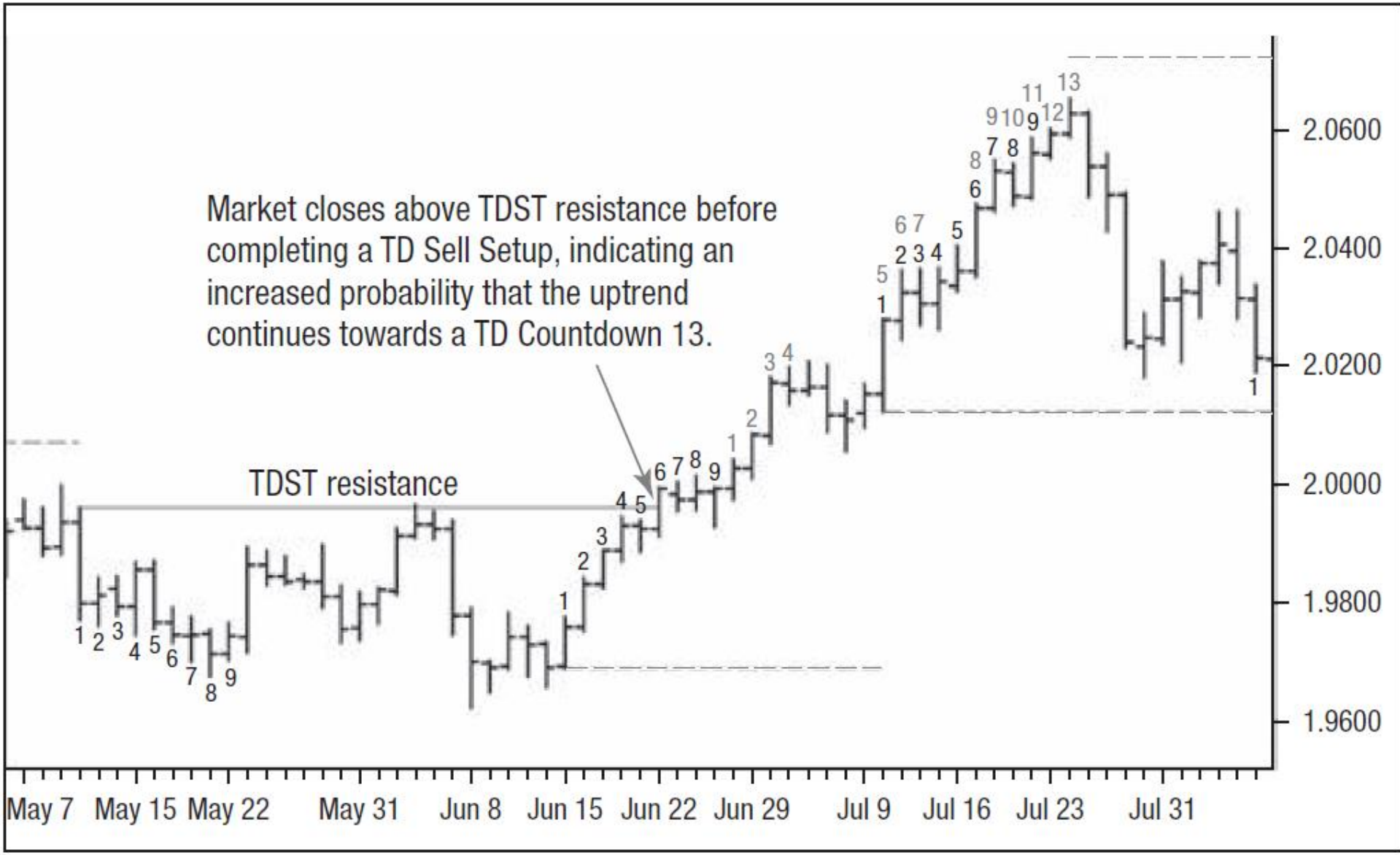
Above ST Resistance



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Trading a TD Buy Setup: Perl's Rules

Buy when the following three conditions are fulfilled:

1. When the TD Buy Setup has been perfected, that is, the low of TD Buy Setup Bar 8 or Bar 9 is less than the lows of TD Buy Setup Bar 6 and Bar 7, respectively

2. When none of the bars within the TD Buy Setup has closed below TDST support

3. When the close of TD Buy Setup Bar 9 is in close proximity to TDST support.

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Trading

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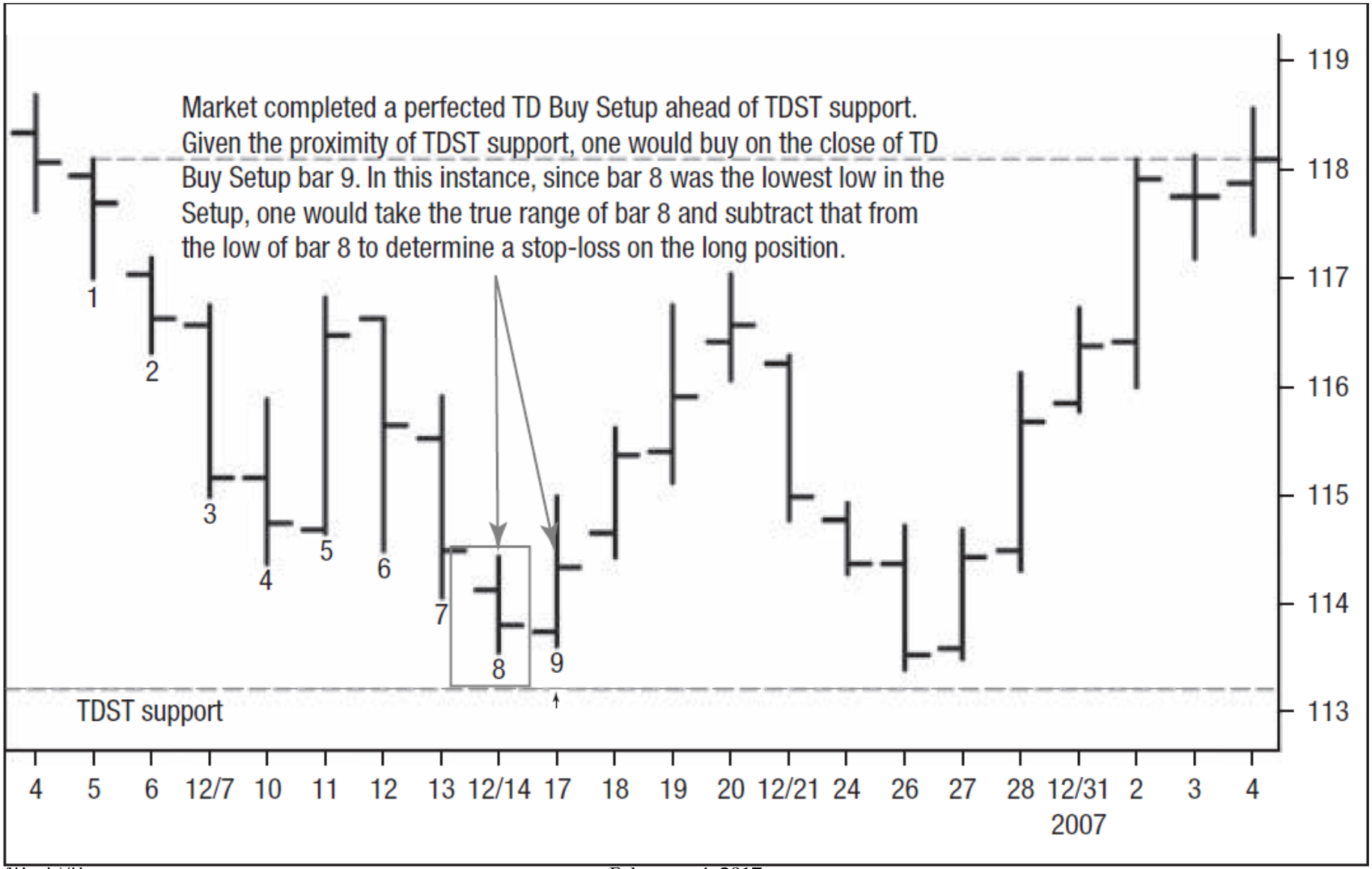
Trading a Perfected Buy Setup



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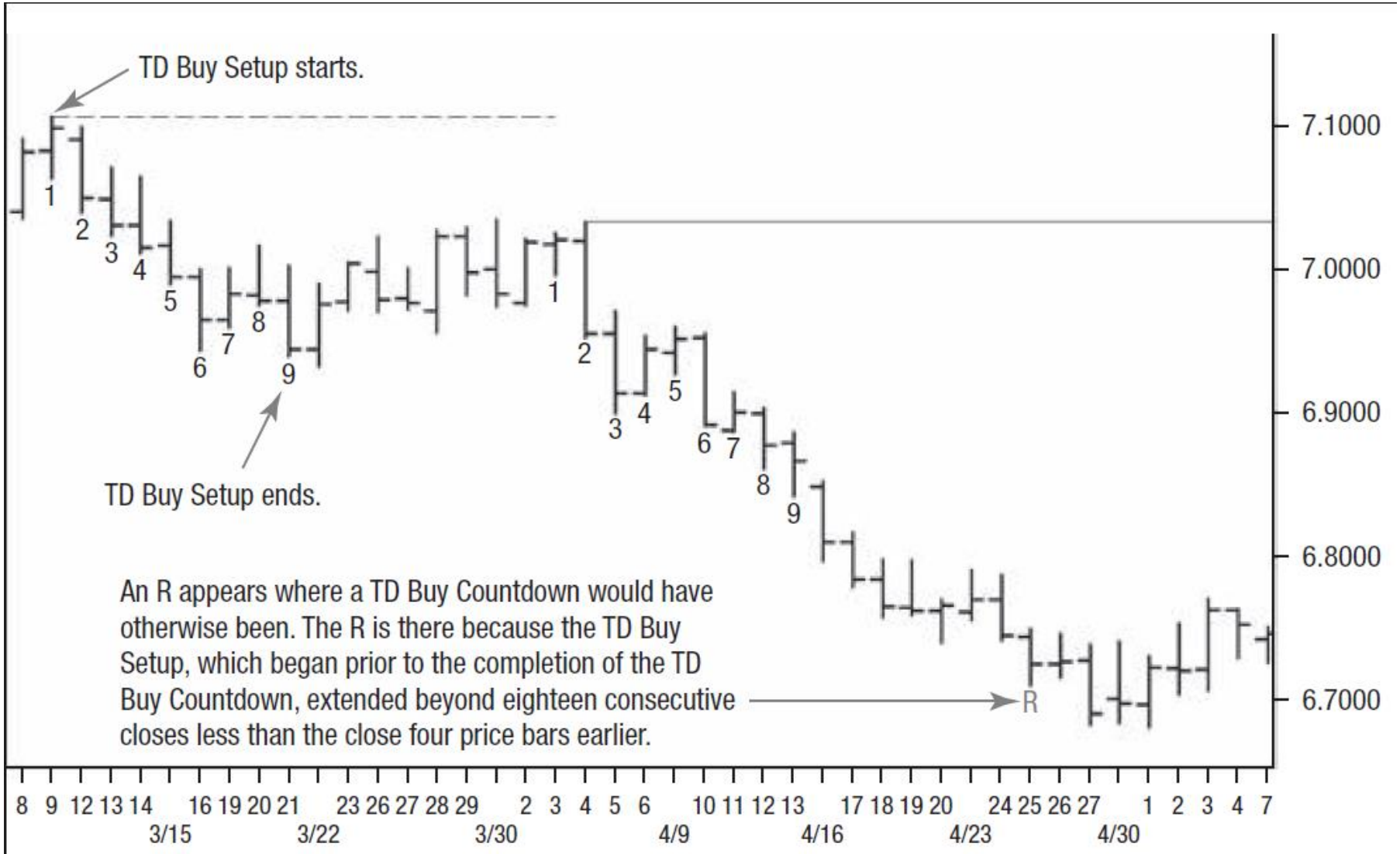
Extension of TD Buy Setup



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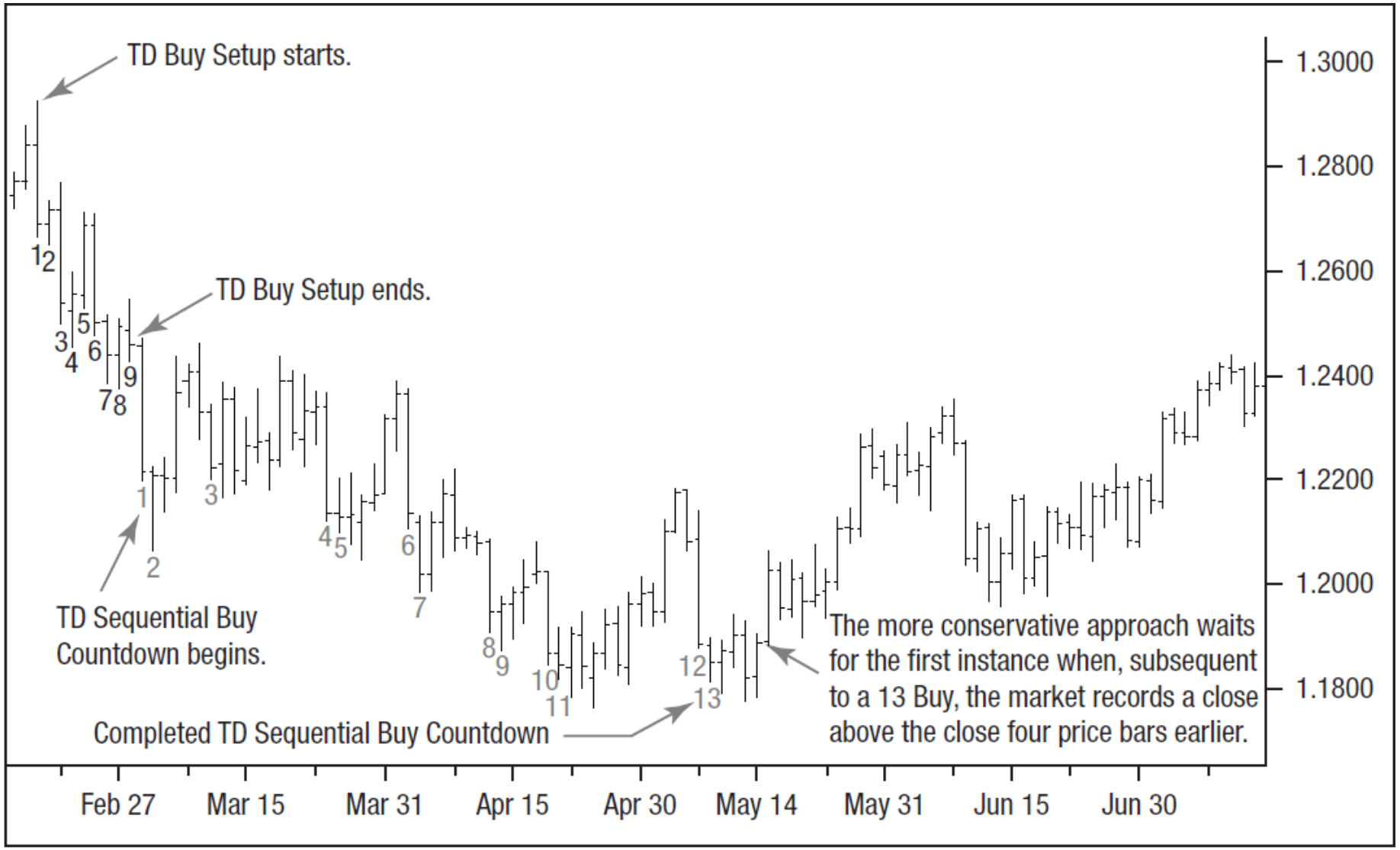
Entering a Long Position: Aggressive



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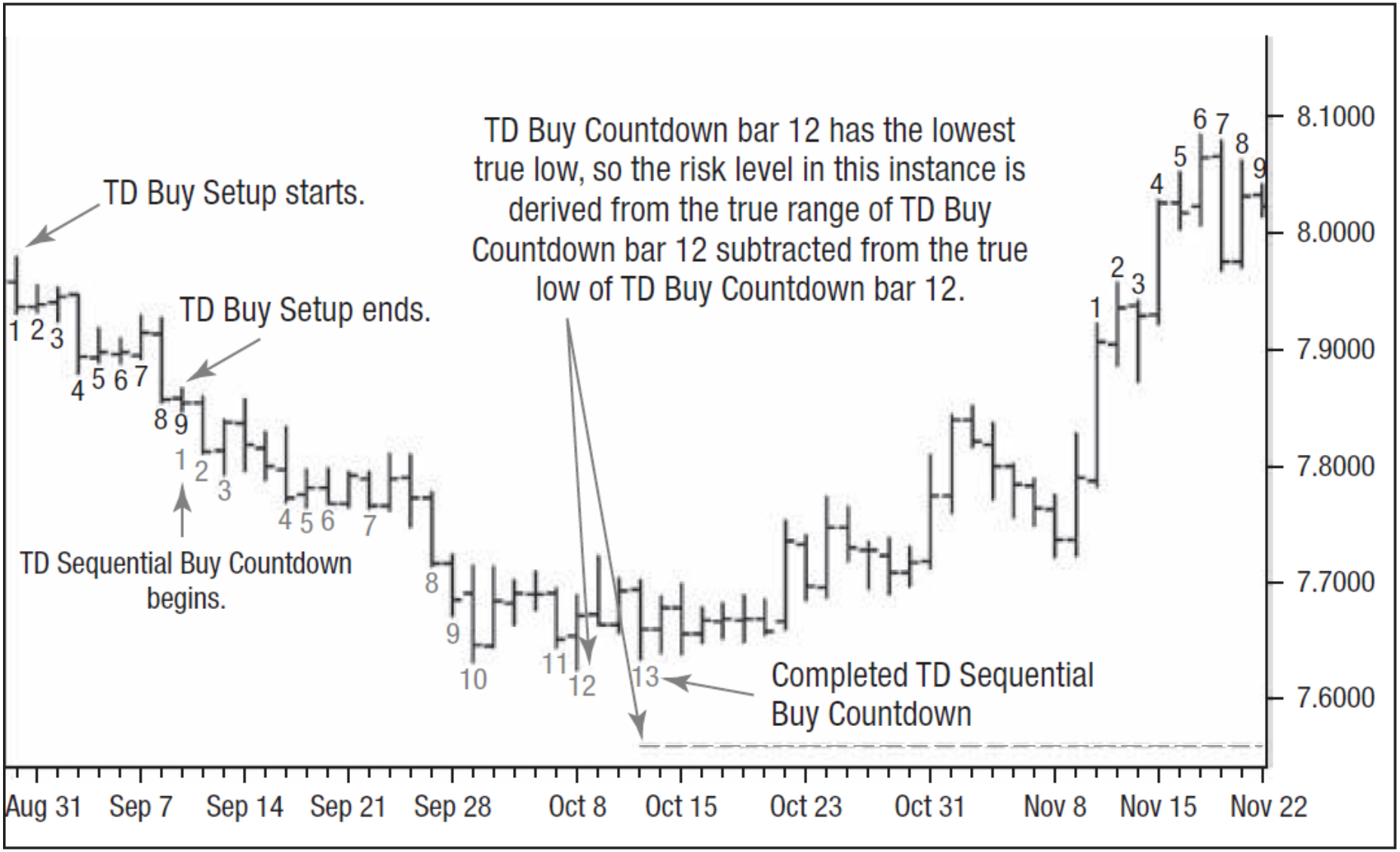
Risk Level of a Sequential Buy Signal



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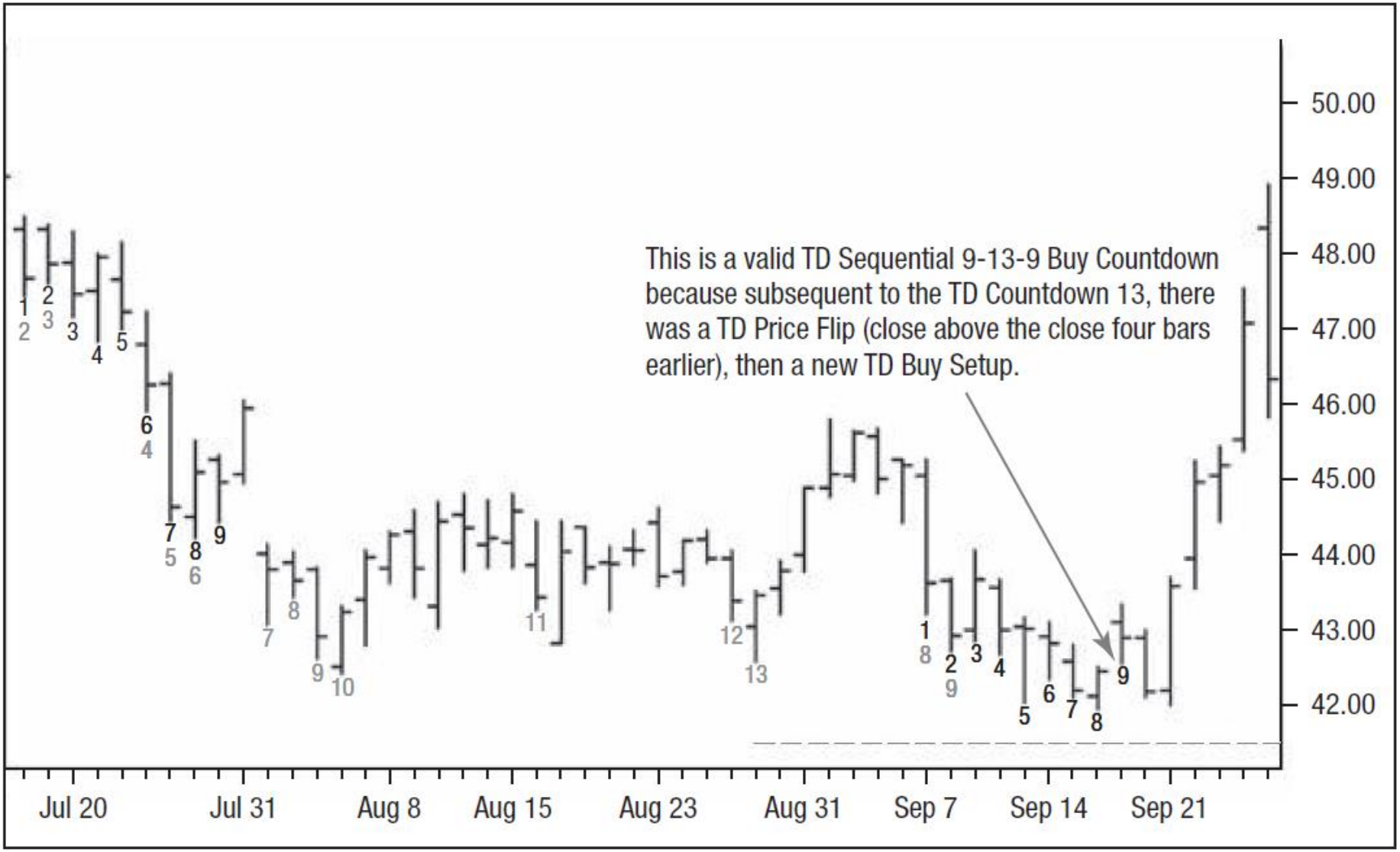
Qualified Sequential 9-13-9 Buy Signal



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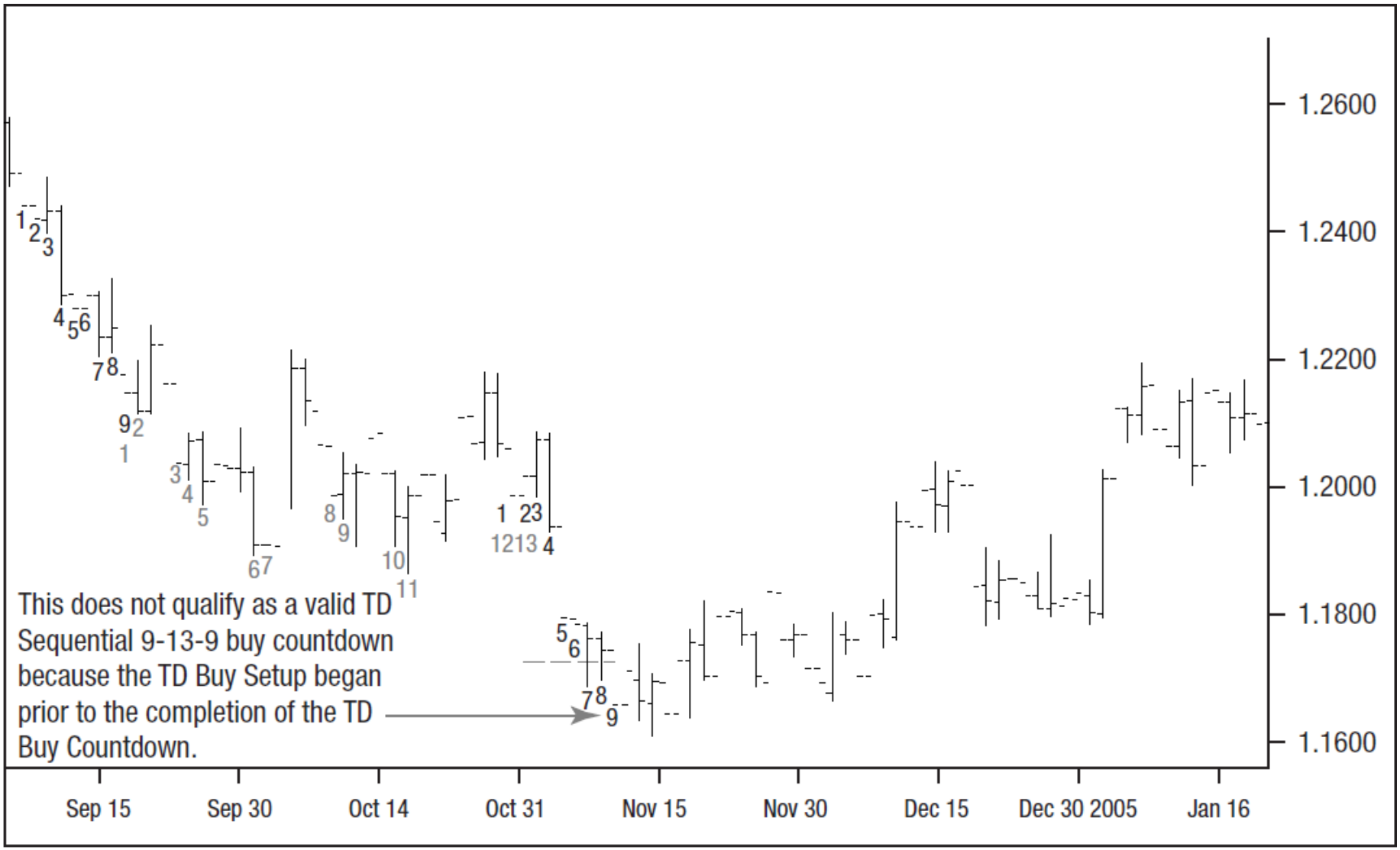
Disqualified Sequential 9-13-9 Buy Signal



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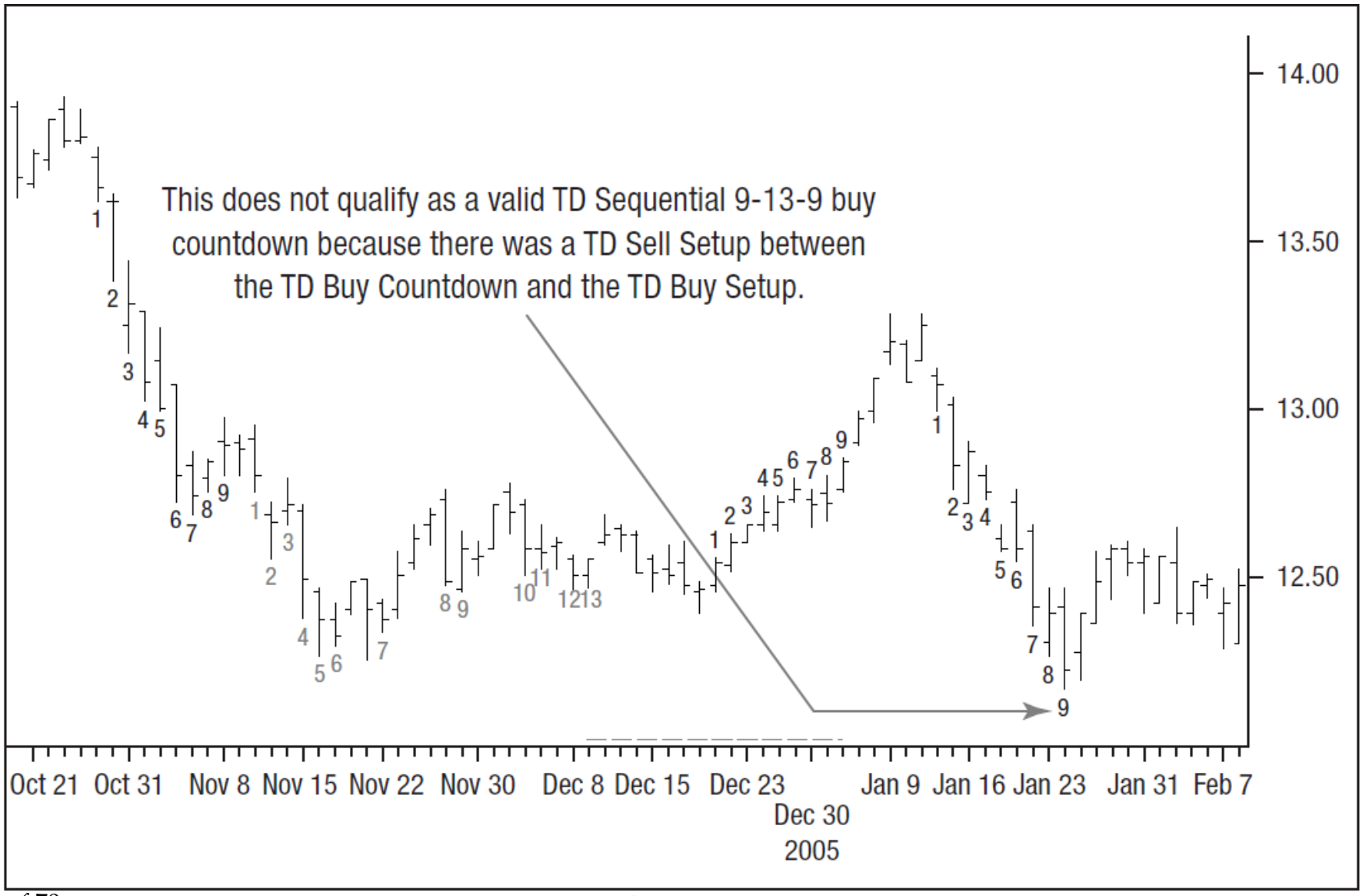
Disqualified Sequential 9-13-9 Buy Signal



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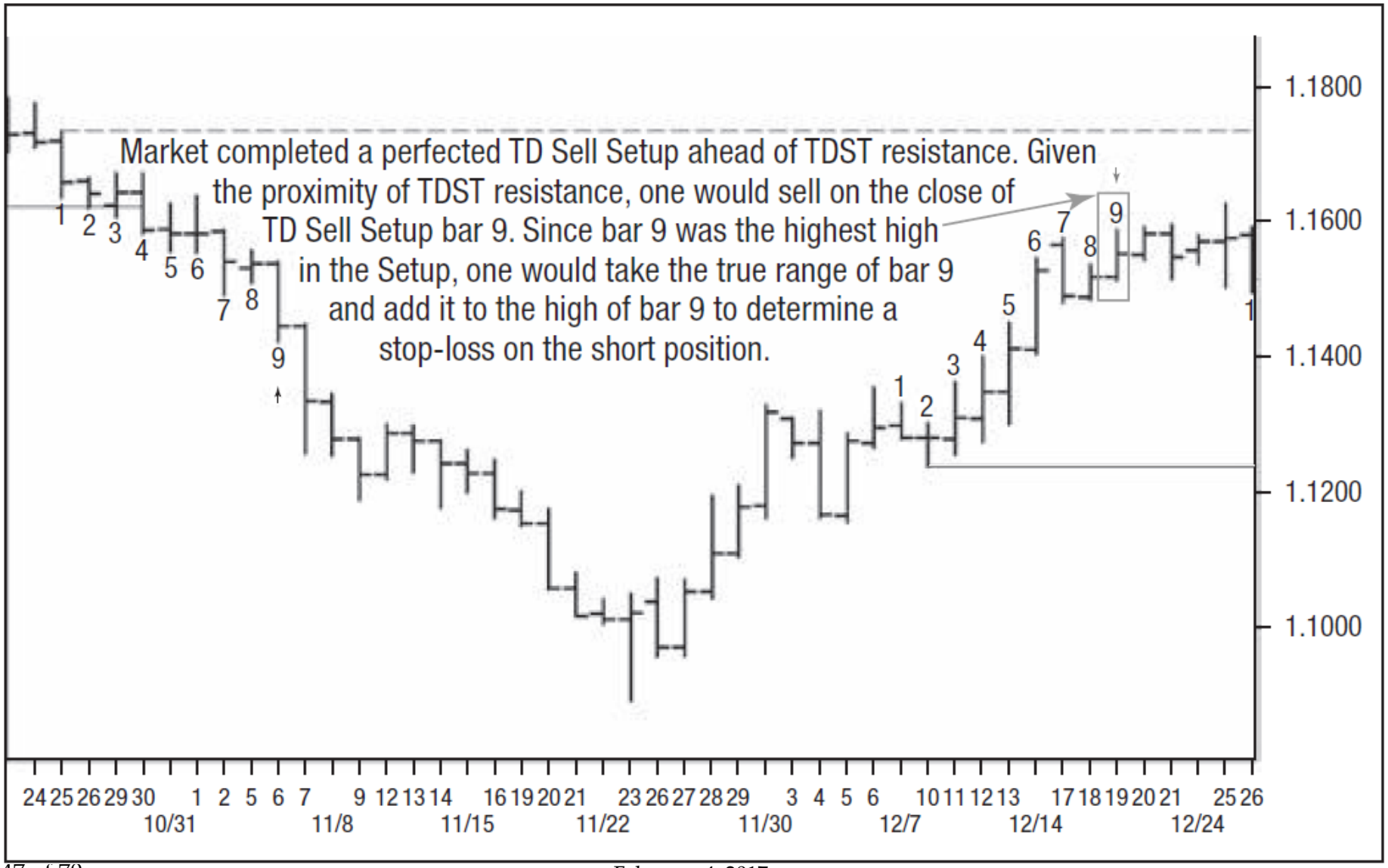
Trading a Perfected Sell Setup



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Alternative Strategy for Entering a Buy Sequential Long Position

TD's Indicators

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TD Camouflage Buy

- 1. The close of the current price bar must be below the close of the previous price bar,
- 2. The close of the current price bar must be above the open of the current price bar, and
- 3. The low of the current price bar must be lower than true low two price bars earlier.

- When this pattern is confirmed, you would initiate long positions on the close.

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TD Clop Buy Signal

- A TD Clop buy signal works on the assumption that upside momentum will continue when the market exceeds the open and close price of the prior price bar.
- Requirements for a TD Clop Buy Signal
  - 1. The open of the current price bar must be below the close and open of the previous price bar, and
  - 2. The market must subsequently trade above both the open and close of the previous bar.
- If these conditions are met, there is a greater chance that upside momentum will continue into the close.

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TD Clopwin Buy Signal

- A TD Clopwin buy signal examines the relationship between the open and close of the current price bar and the open and close of the previous price bar.
- Requirements for a TD Clopwin Buy Signal
  - 1. The open and close of the current price bar must be contained within the open and close range of the previous price bar, and
  - 2. The close of the current price bar must be above the close of the prior price bar.
- Meeting these conditions increases the probability that upside momentum will be sustained into the next price bar, thereby reinforcing the TD Sequential buy signal.

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TD Open Buy Signal

- The current price bar's open must be less than the low of the prior price bar, and
- it must then trade above that low.

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TD Trap Buy Signal

- The open of the current price bar must be within the range of the previous price bar, and
- The open of the current price bar must then break above the high of that range.

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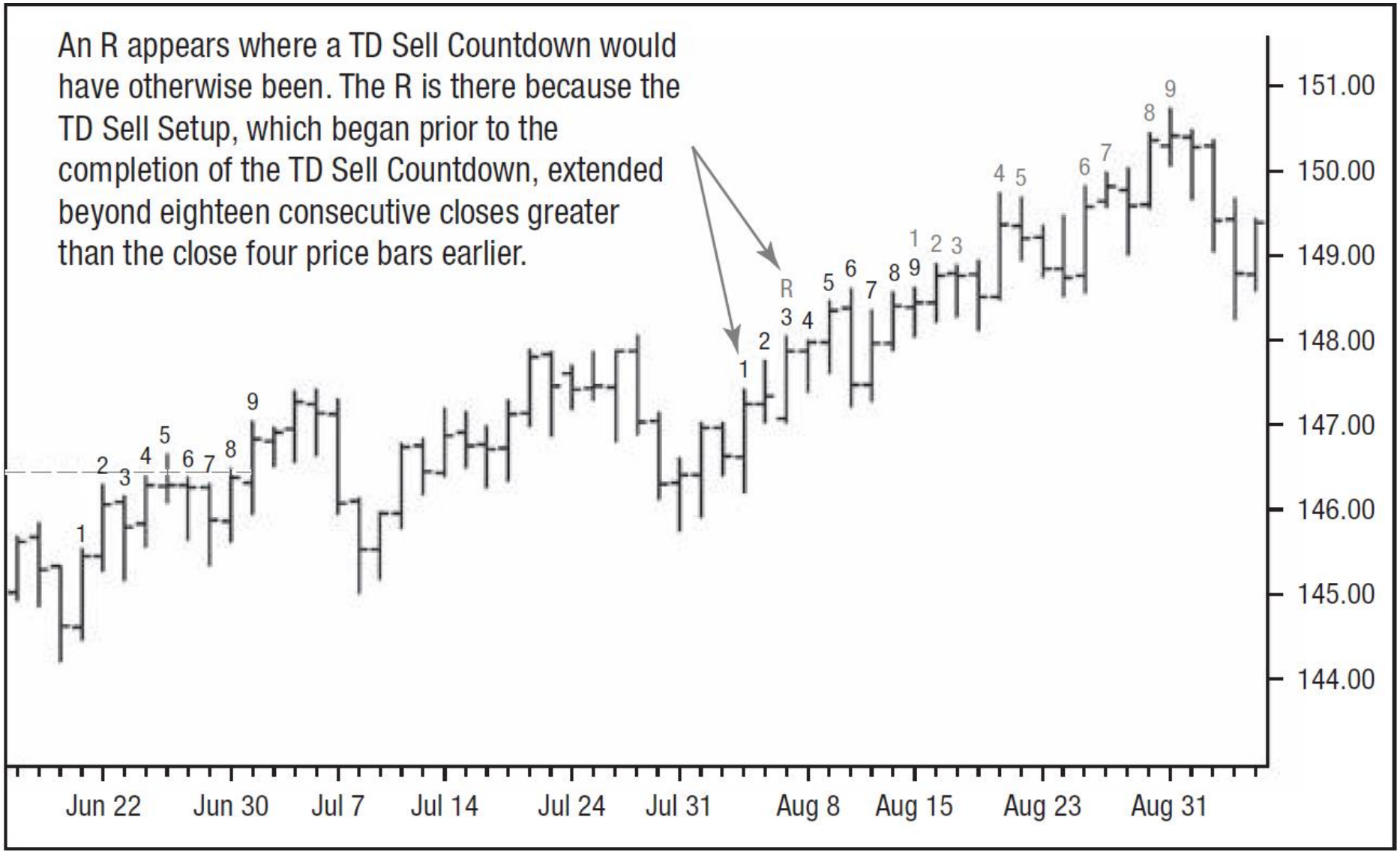
Extension of TD Sell Setup



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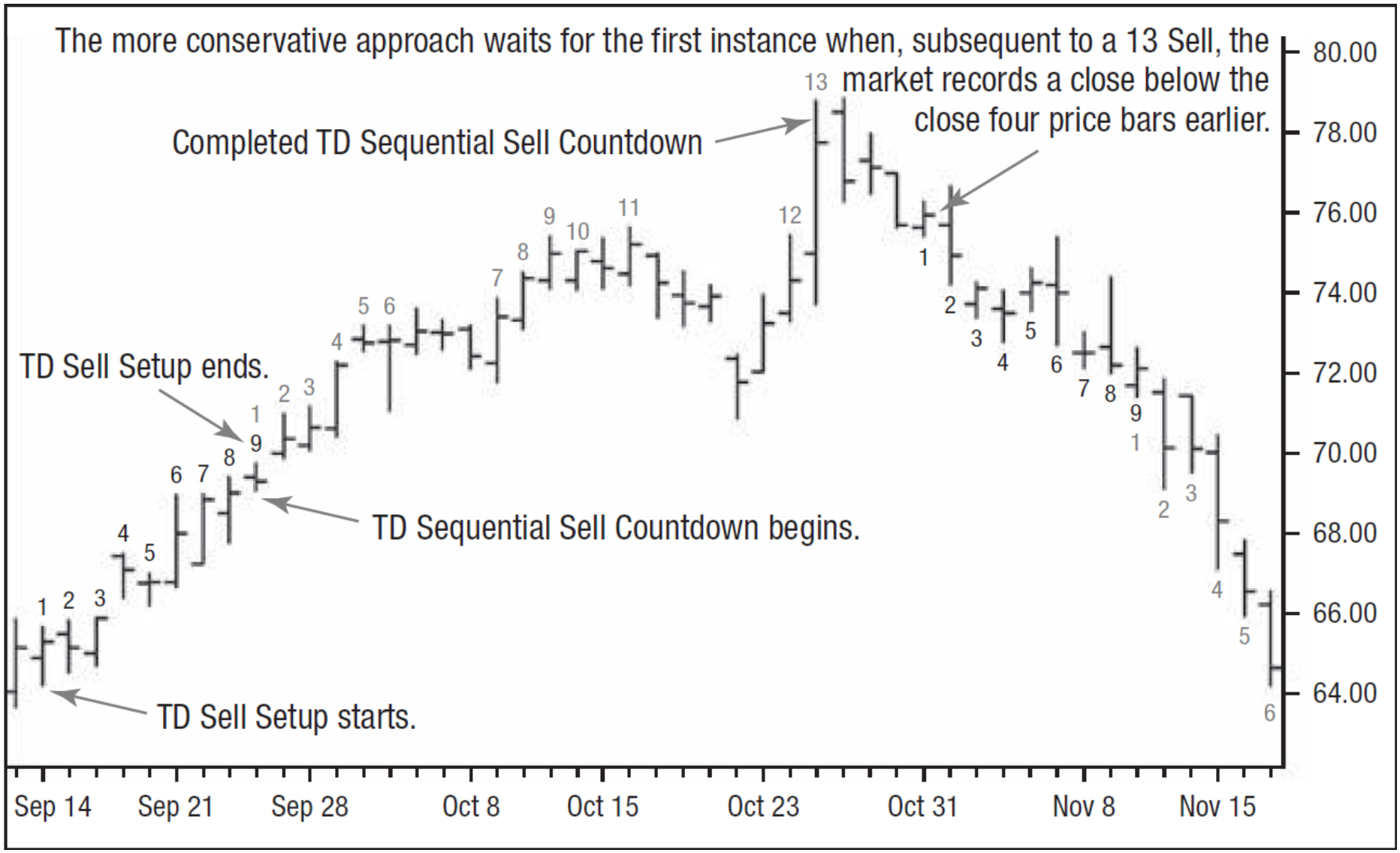
Entering a Short Position: Aggressive



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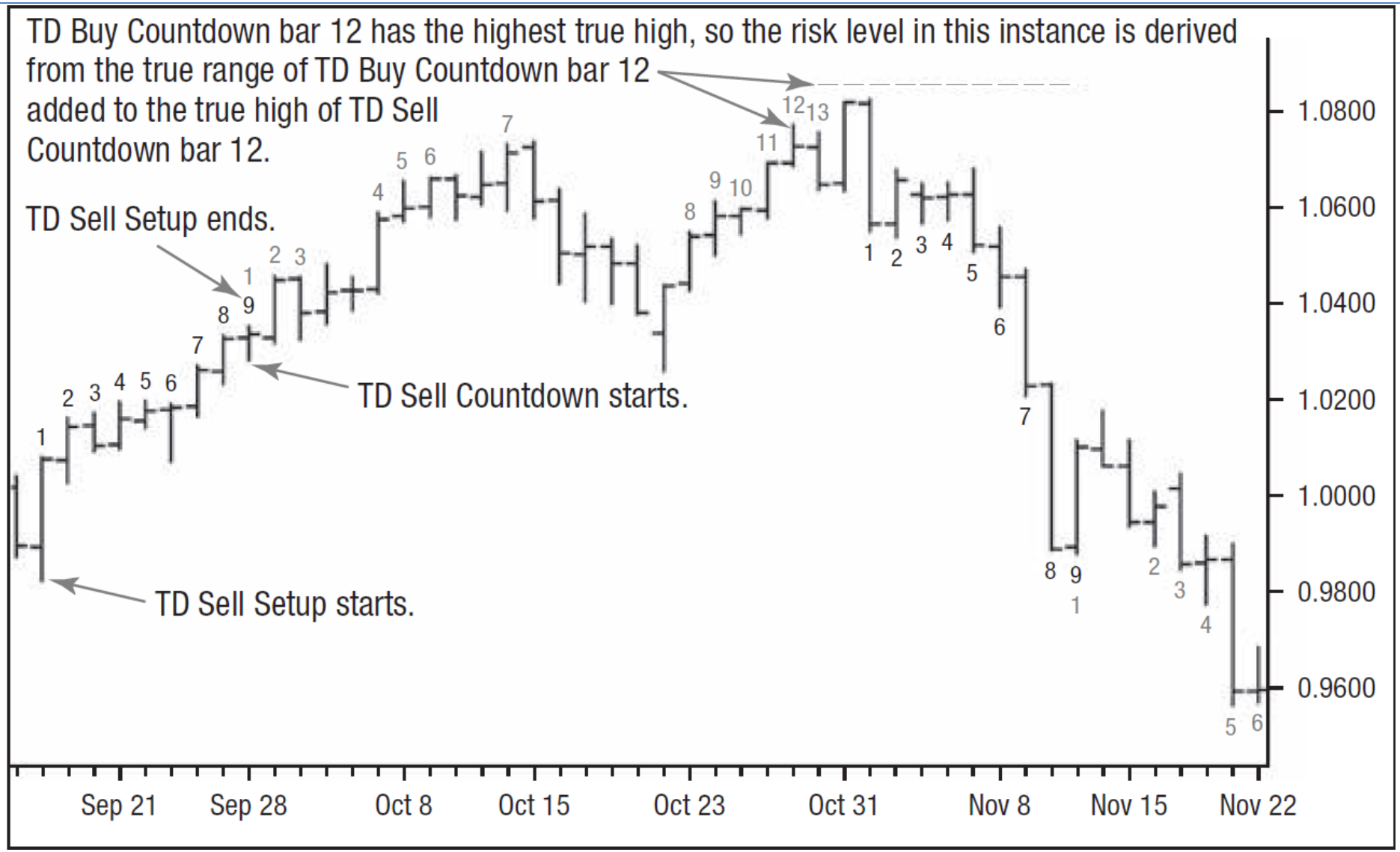
Risk Level of a Sequential Sell Signal



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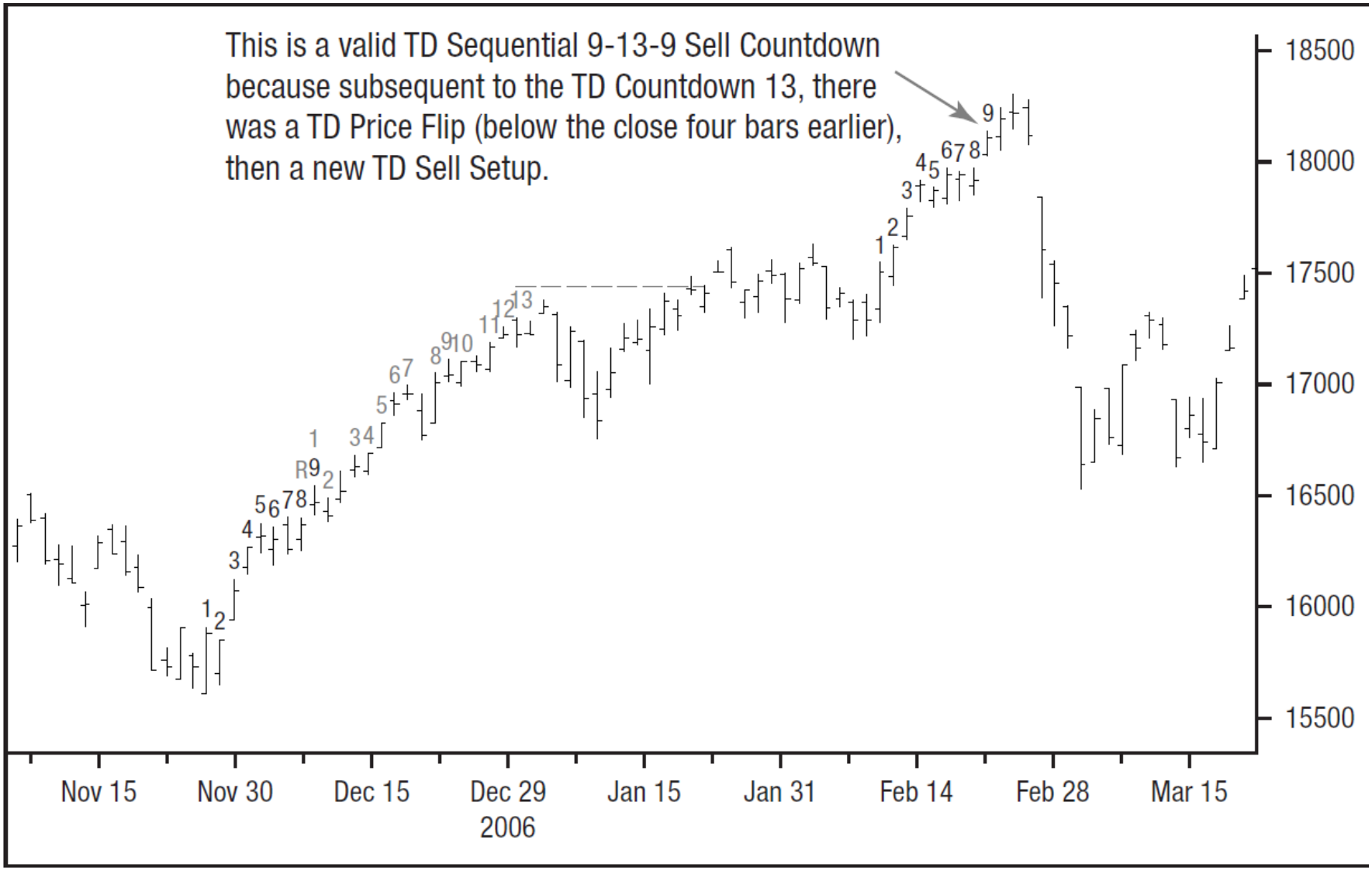
Qualified TD Sequential 9-13-9 Sell Signal



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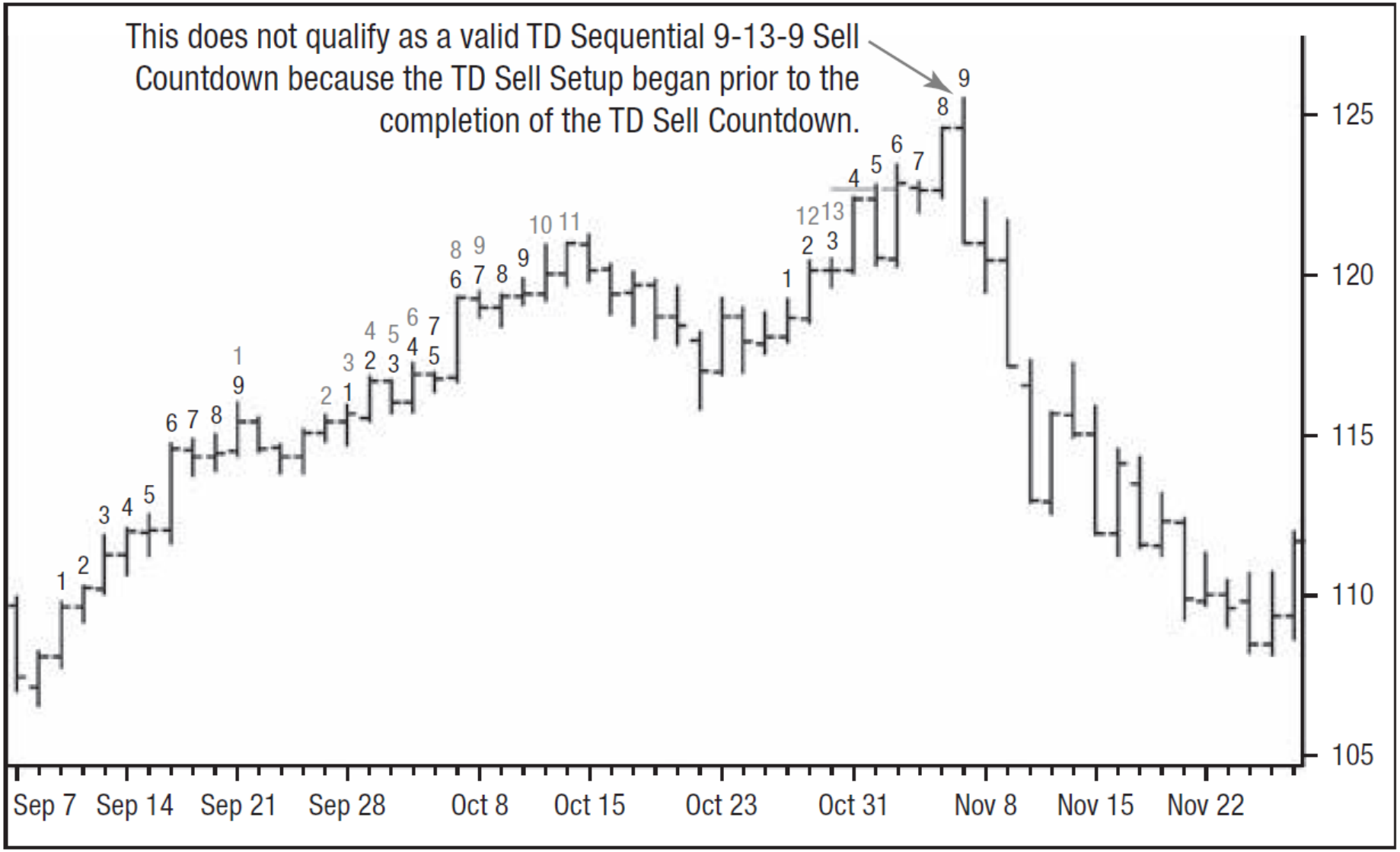
Disqualified TD Sequential 9-13-9 Sell Signal



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Brainstorming

- DeMark's system is designed for daily or longer time periods.
- Trading is infrequent when using DeMark's system.
- Is it applicable to intra-day frequency?
- Which other charts complement DeMark's system?
- Which other indicators complement DeMark's system?

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TD Combo

A Variation of the Same Theme

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TD Combo Buy Countdown Version I

- 1. The close must be less than, or equal to, the low two price bars earlier;
- 2. Each TD Combo Buy Countdown low must be less than, or equal to, the low of the prior price bar;
- 3. Each TD Combo Buy Countdown close must be less than the previous TD Combo Buy Countdown close; and
- 4. Each TD Combo Buy Countdown close must be less than the close of the prior price bar.

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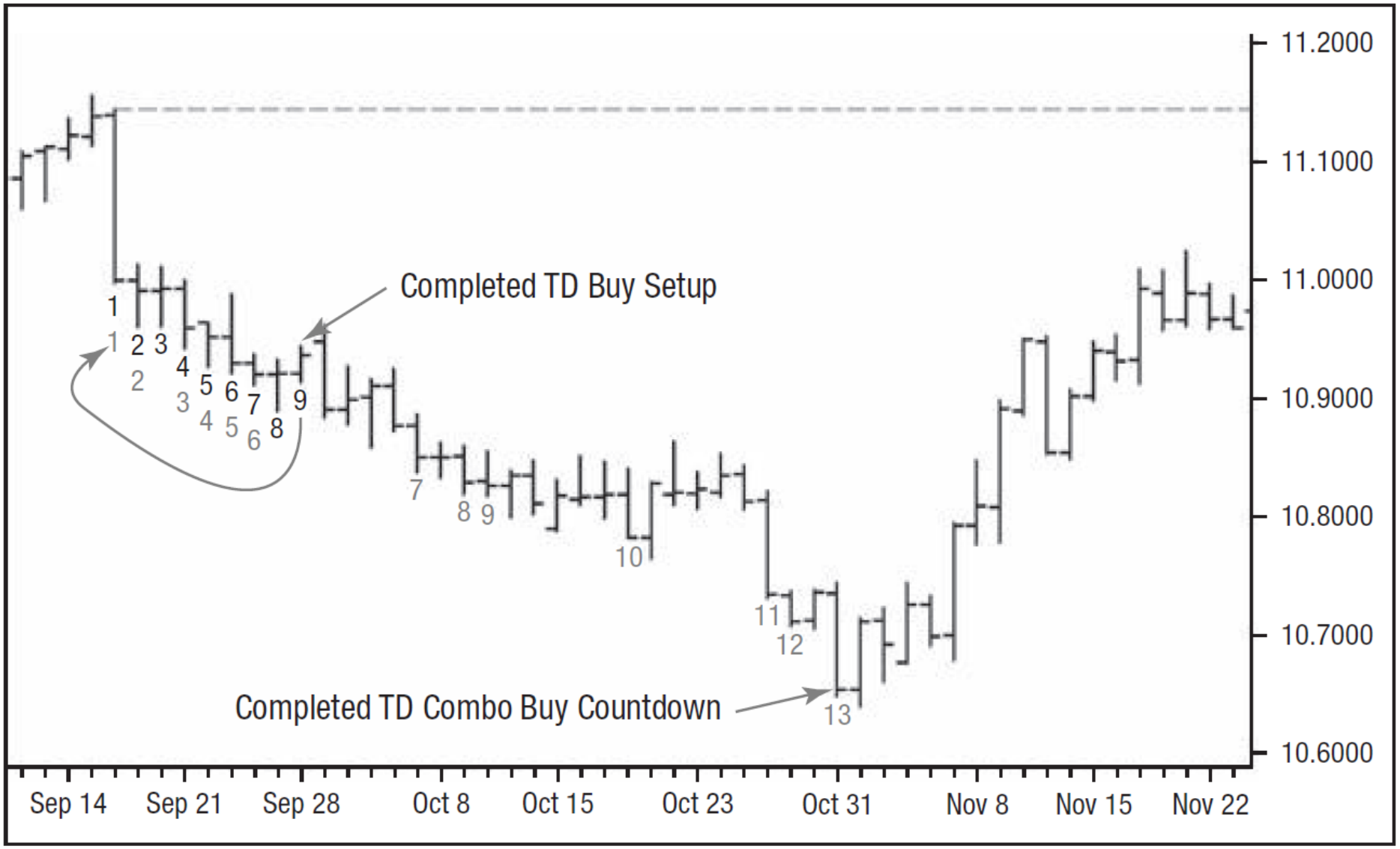
TD Combo Buy Countdown Version I



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TD Combo Buy Countdown Version II

- The first four requirements are the same as for Version I

- *However, for TD Combo Buy Countdown bars eleven, twelve, and thirteen only,*
- 5. The closes need only be successively lower, and it is not necessary to apply the more-stringent conditions listed earlier.

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TD Combo Long Position

- To Enter a Long Position
  - 1. Wait for a successfully completed TD Combo Buy Countdown, and
  - 2. Establish a long position on the close of Bar 13.

- Risk Management
  - 1. Look for the bar that has the lowest true low within the TD Combo Buy Countdown process (every bar from 1 to 13 inclusive, regardless of whether it is a numbered bar), and
  - 2. Subtract the true range of that bar from its true low.

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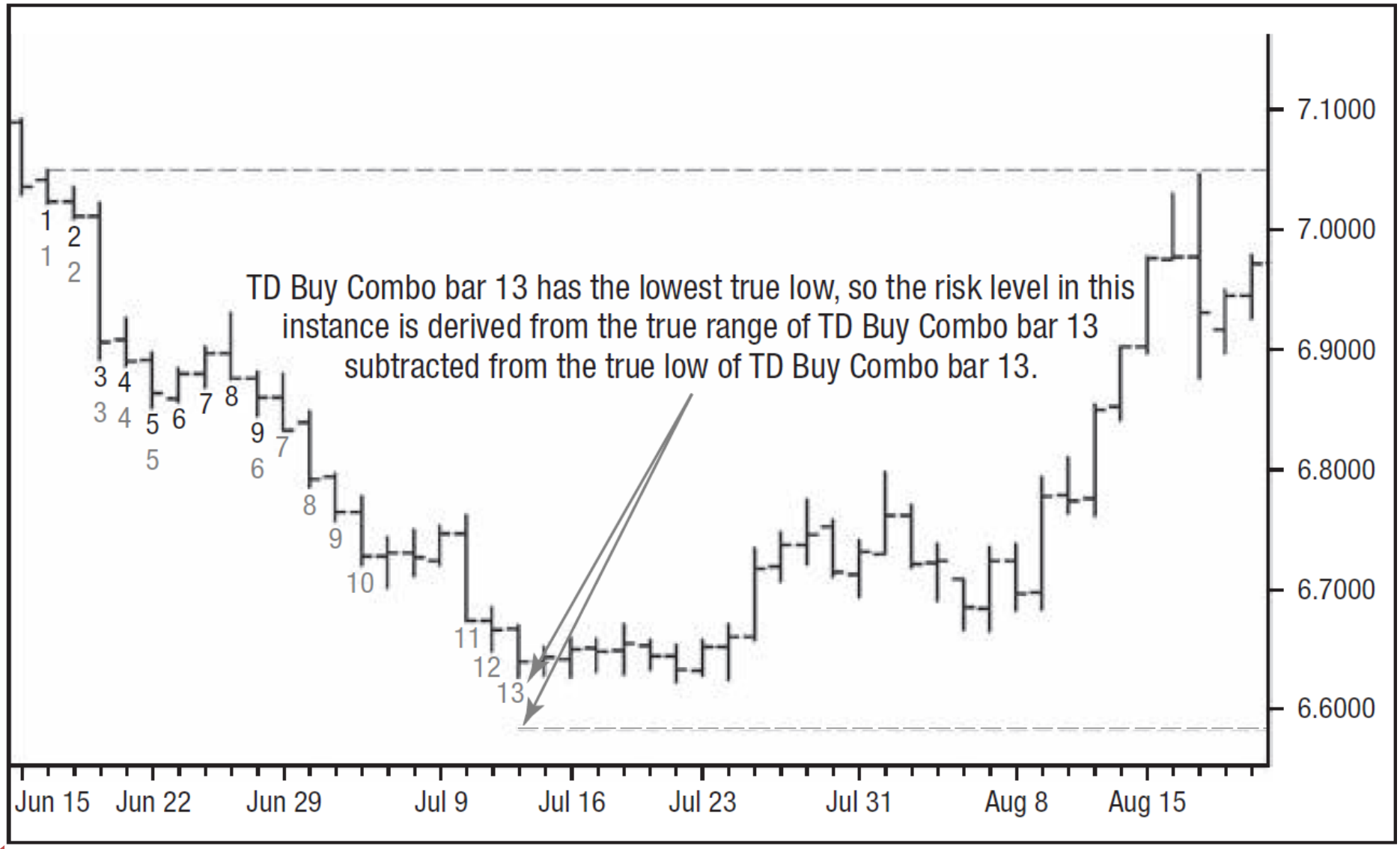
Risk Level Following a TD Combo Version I Buy Signal



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TD Combo Sell Countdown Version I

- 1. The close must be greater than, or equal to, the high two price bars earlier;
- 2. Each TD Combo Sell Countdown high must be greater than, or equal to, the high of the previous price bar;
- 3. Each TD Combo Sell Countdown close must be greater than the close of the previous TD Combo Sell Countdown close; and
- 4. Each TD Combo Sell Countdown close must be greater than the close of the previous price bar.

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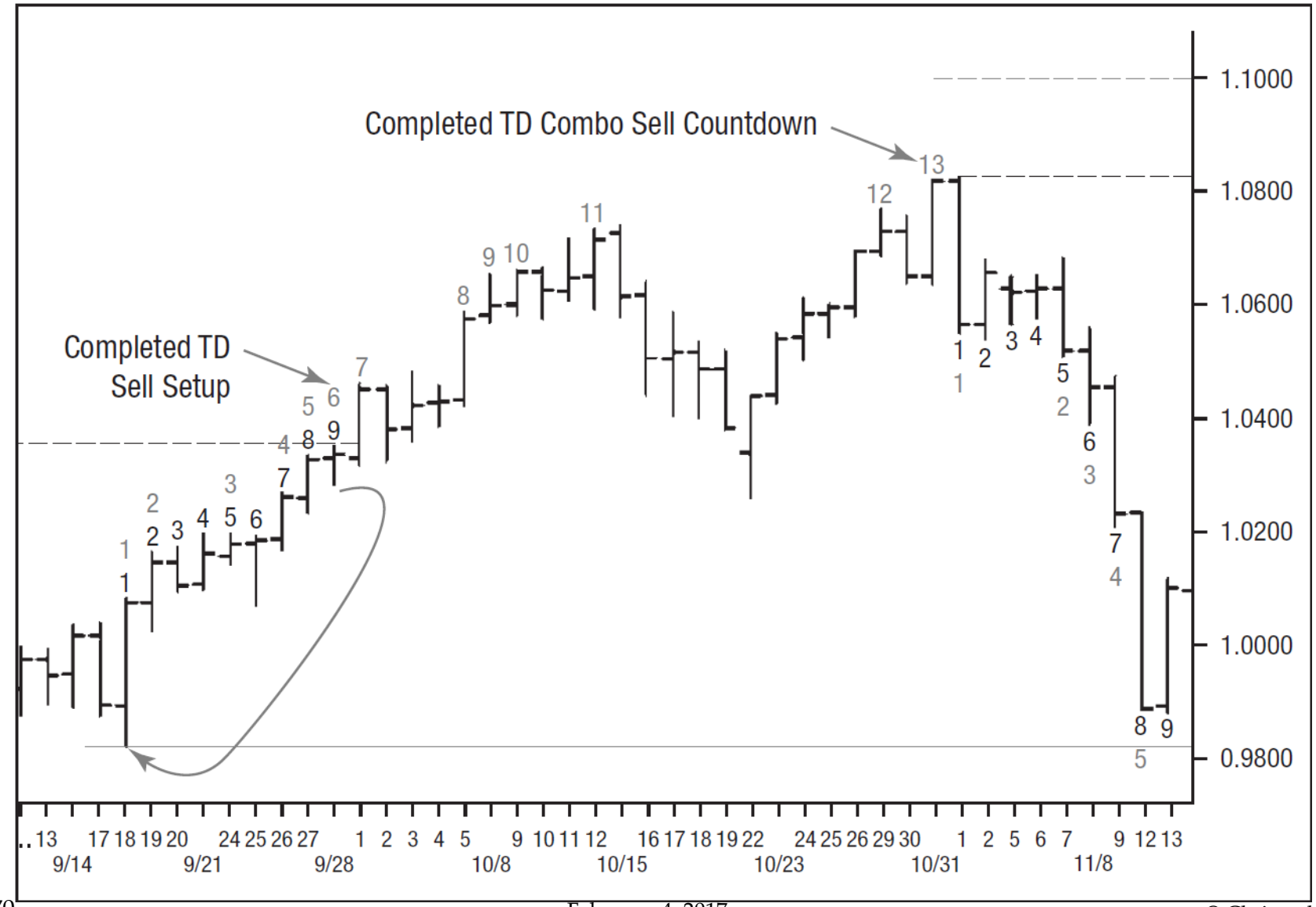
TD Combo Sell Countdown Version I



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TD Combo Sell Countdown Version II

- The first four requirements are the same as for Version I
- However, TD Combo Sell Countdown Bars 11, 12, and 13 only need to be successively higher..

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TD Combo Short Position

- To Enter a Short Position
  - 1. Wait for a successfully completed TD Combo Sell Countdown, and
  - 2. Establish a short position on the close of Bar 13.

- Risk Management
  - 1. Identify the bar that has the highest true high within the TD Combo Sell Countdown process (every bar from 1 to 13 inclusive, as well as those that aren't numbered), and
  - 2. Add the true range of that bar to its true high.

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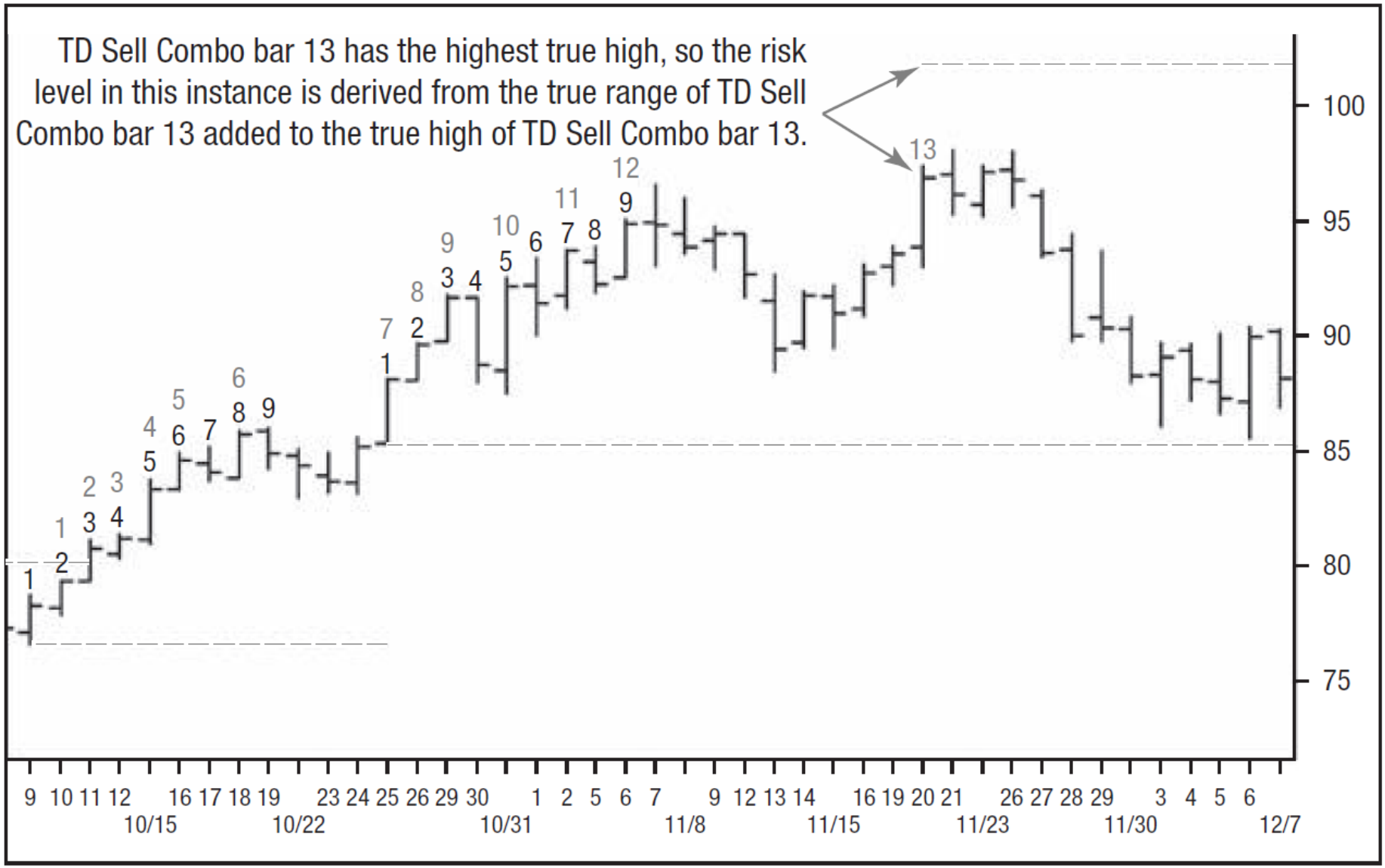
Risk Level Following a TD Combo Version I Sell Signal



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