The Continuation Index

A Practical User Guide for Active Traders

1.0 Introduction to the Continuation Index

The Continuation Index is a technical indicator developed by the esteemed quantitative analyst John F. Ehlers and featured in the September 2025 edition of TASC's Trader's Tips. It is designed to leverage the advanced smoothing capabilities of Laguerre filters to provide traders with a clear and responsive signal regarding market trends.The primary purpose of the indicator is to offer an early indication of trend direction, its likely continuation, and potential points of exhaustion. By normalizing the relationship between two distinct filters, it generates a straightforward, two-state oscillator that helps traders quickly assess the prevailing market bias.This guide will provide a comprehensive overview of the indicator's conceptual basis, a detailed breakdown of signal interpretation, and a strategic guide to its configuration for practical trading application.

2.0 The Conceptual Framework: How the Indicator Works

Analytical Introduction

While many oscillators provide trend signals, the Continuation Index's strength lies in its unique construction using Laguerre filters. To fully leverage this advantage, a trader must first understand how this specific filtering mechanism translates price action into the clear +1/-1 signals that define the indicator's output. This knowledge is the foundation for using the tool with precision and adapting it to dynamic market conditions.

Core Components

The Continuation Index is constructed from two key filtering components, each chosen for a specific purpose:

- **Laguerre Filter:** This is the primary filter against which price behavior is measured. Its unique properties form the basis of the indicator's trend-following logic, capitalizing on John Ehlers' core observation about how price behaves in a trend.
- **UltimateSmoother:** This component is integrated specifically to reduce signal lag. In a critical design choice, its length is fixed to half the length of the Laguerre filter to maximize responsiveness and ensure that signals are generated in a timely manner.

The Central Mechanism

The indicator's logic stems from a key observation made by Ehlers: when a market is in a clear trend, the price tends to remain consistently on one side of a Laguerre filter. The Continuation Index capitalizes on this behavior by measuring and normalizing the difference between the faster UltimateSmoother and the primary Laguerre filter.This process transforms complex price action into a simple, two-state oscillator that clearly displays the dominant market state. When the faster filter is leading the slower one, it indicates a potential trend, which is then reflected in the indicator's output.

Concluding Transition

With this conceptual framework in mind, we can now proceed to the practical application of the indicator, focusing on how to interpret its specific output values to inform trading decisions.

3.0 Signal Interpretation: From Theory to Trading Decisions

Analytical Introduction

The true value of the Continuation Index lies in its clear and actionable signals. These outputs can be categorized into two distinct types: primary states that define the overarching trend direction and secondary fluctuations that can highlight tactical opportunities.

Primary States: Identifying Trend Direction

The indicator's most direct signals are its +1 and -1 readings, which provide an unambiguous assessment of the current market bias.| Indicator State | Suggested Trading Position || ------ | ------ || +1 | Suggests that the trader should position on the long side. || -1 | Suggests that the trader should position on the short side. |

Secondary Opportunities: Tactical Entries

Beyond the primary +1 and -1 states, fluctuations in the index's value can signal other potential trading opportunities.

- **"Buy the Dip":** A period of high value fluctuation could be used as a potential "buy the dip" opportunity.
- **"Sell the Pop":** A period of low value fluctuation could be used as a "sell the pop" opportunity.

Concluding Transition

While these signals provide a solid foundation for analysis, their relevance and timeliness can be significantly enhanced by customizing the indicator's parameters to align with your specific trading style and objectives.

4.0 Strategic Configuration: Tailoring the Indicator to Your Strategy

Analytical Introduction

The Continuation Index is designed for clarity, but its "one-size-fits-all" settings may not align with every trader's timeframe or risk tolerance. Customizing its core parameters—Length, Order, and Gamma—is essential to synchronize its signals with your specific strategy, whether you're a short-term scalper or a medium-term position trader.

Input Parameter Breakdown

Length

This parameter directly affects the smoothing of the indicator's display. Ehlers recommends setting this value based on your intended holding period. When setting this input, it is crucial to consider your chart's timeframe. For example, if you are trading on a daily chart and plan to hold a position for one month (which typically contains about 20 trading days), a starting Length value of 20 would be appropriate.

Order

The Order input controls the lag of the Laguerre filter, which is a critical setting for determining the timing of reversal signals. Adjustable from 1 to 10, this parameter is the primary tool for traders who want to fine-tune the indicator specifically for reversal-based strategies. Lower values typically produce faster timing, making the indicator more sensitive to potential turning points, while higher values will result in a smoother, slower signal.

Gamma

This parameter controls the response of the Laguerre filter and can be set to any value between 0 and 1. Adjusting Gamma fine-tunes the filter's sensitivity. A notable setting is 0; if Gamma is set to 0, the Laguerre filter’s value will be identical to the UltimateSmoother's value.

Configuration Quick-Reference Table

Input,Function,Strategic Consideration

Length,Affects the smoothing of the display.,"Set based on your intended holding period relative to the chart timeframe (e.g., 20 for a one-month hold on a daily chart)."
Order,Controls the lag of the Laguerre filter.,Lower values (1-10 range) produce faster timing. This is the key adjustment for fine-tuning reversal-based strategies.
Gamma,Controls the Laguerre filter's response.,A value of 0 makes the filter's value equal to the UltimateSmoother. Values between 0 and 1 adjust sensitivity.

Concluding Transition

Thoughtful calibration of these inputs is what separates generic signal-following from a nuanced, personalized trading approach.

5.0 Provenance and Disclaimer

Indicator Source

The "Continuation Index" concept and its underlying methodology were created by John F. Ehlers. The indicator was formally presented and described in the September 2025 edition of TASC's Trader's Tips publication.

Open-Source Acknowledgment

The TradingView script implementation of this indicator is open-source. This allows traders to review the underlying Pine Script® code to verify its functionality and ensure it aligns with Ehlers' original concept.

Official Disclaimer


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@ES, Daily
E-mini S&P 500 Continuous Contract [Sep25]
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6,000.00
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TASC SEP 2025 Continuation Index (.8 , 8 , 40) 0.91 0.00
0.91
0.40
0.00
-0.40
-0.80
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