One thing I’ve always believed is that technical indicators are more important than fundamentals. Time and again, I’ve seen that the proper use of technical indicators enables investors to determine which stocks to buy or sell and—more importantly—when to do it.

**Power of Parameters**

To effectively utilize technical indicators, you must first understand that the most essential aspects of these indicators are their parameters. This is because proper parameters offer you better entry and exit points.
Two Main Types of Technical Indicators

The list in Figure 1.1 demonstrates some of the different types of technical indicators. But by no means should you think that this list is entirely comprehensive. Rather, dozens more indicators exist, including support levels, moving averages, linear regression lines, volume bars, stochastics, ease of movement, average true range, and so on. There are three leading indicators I want to bring to your attention in Figure 1.1: time-segmented volume (TSV©), money stream, and balance of power (BOP©). I also want to bring two different styles of indicators to your attention:

- Lagging indicators, which basically move after prices move
- Leading indicators, which change before prices change

You’re probably pretty familiar with the three indicators I’ve starred in figure 1.1 because they’re included in Worden Brothers’ TC 2000©. I’ve been using the TC 2000© for many years because I believe it to be one of the premier charting services available. I find the TC 2000© to be extremely powerful because it focuses on these three leading indicators, which are based on price movement and volume. Also I have found that other indicators such as ease of movement and average true range (prophet.net) indicators are extremely helpful too.
The Leading Role That Volume Plays

Let’s talk about volume for a moment. It’s really important to remember that volume goes with the trend. This means that it’s normal for volume to increase as prices increase and to decrease as prices decrease—which you see occurring in Figure 1.2.

When volume is moving with the trend in the direction of the price, it’s telling you one thing and one thing only. This crucial piece of information is that the prevailing trend is healthy and that it’s a good relationship.
When prices are declining, and you see a corresponding decline in volume, don’t panic! Keep in mind that it’s normal for volume to decline as well.

This means that downside breakouts from price patterns often occur with relatively low volume. If volume expands as prices decline, this emphasizes the bearishness of the breakout. That’s because circumstances in which declining prices couple with expanding volume represent overall greater enthusiasm among sellers. More volume basically means more sellers during a downtrend and more volume in an uptrend means more buyers; and as we all know, more is better because it will force the price of the stock to move further.

**Increased volume is often greater than the average volume over the past 20 trading days.**

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**Evolution of Mark Larson’s Trading Style**

I’ve been trading in the market since I was 24 years old. The only difference between then and now—and I’m 42—is that I now use technical indicators, which I’ve done for the last 10 years. When I was in real estate at age 24, I was taught that you should always buy and hold. Unfortunately, I started seeing some of my assets head in the wrong direction. So I began to take a more aggressive approach, managing my own money. I learned that there are times when you should sell some of your best stocks, which you may have had for a long time, and there are other times when you should buy some that you’ve never ever considered buying before. The only way I could identify those stocks was by using technical indicators, as well as scans/searches. We’ll discuss scans/searches a bit later in chapter 10, when I give you an easy way to follow and track them.
As with all upside breakouts, volume is key. It must expand beyond the breakout to indicate enthusiasm. Therefore, a change in the supply and demand is in favor of demand. So it follows that volume has a major impact on what individual stocks or the index itself will do.

Figure 1.2 provides an example of an uptrend. You see that I’ve drawn a lot of vertical lines. Believe it or not, some stocks still go up—and others still go down. That said, I can tell you that the most successful traders really don’t care if the stock market goes up, down, or sideways. You may have heard the saying, “The stock market drops
four to eight times faster than it goes up.” We’ve certainly witnessed that in the past, most recently at the latter part of 1989 and of 1999. But as Figure 1.2 shows, we had an upward trend with a corresponding increase in volume.

In Figure 1.3, you see the breakout again, with yet another upward movement.

It shows that the trend was moving in an upward direction, with a positive increase in volume. So as the saying goes, make the trend your friend!
Chapter Summary

• Technical indicators are more important than fundamentals.

• Technical indicators and their corresponding parameters tell you what to buy, what to sell, and more importantly when.

• Proper parameters help you to determine when to enter the market—and when to exit.

• The two types of technical indicators are lagging and leading.

• Volume plays an essential role in technical indicators, increasing and decreasing along with price trends.

• In an environment with declining prices, it’s normal to see a subsequent decline in volume.

• When volume increases and prices decline, that is an indication that sellers are more enthusiastic.
1. Why are technical indicators better than fundamentals?
   a. Technical indicators are statistically driven and always right
   b. They allow you to find potential stocks, and more importantly, tell you when to buy and sell them
   c. Fundamentals are always lagging
   d. Fundamentals work best in long-term buy and hold situations

2. Which of the following is a leading indicator?
   a. Moving averages
   b. Relative strength
   c. Money stream
   d. Stochastics

3. Which of the following statements about volume is false?
   a. It is normal for volume to increase as prices go up
   b. In an upside breakout, if volume expands, that is very favorable for the stock
   c. It is normal for volume to increase as prices decline
   d. If volume increases on a downside breakout, that emphasizes the overall bearishness of the move
4. For more aggressive trading, the author believes that:
   
a. Fundamentals trump technicals
b. You should always buy and hold. Long-term transactions always end up making money
c. Volume is more important than technical indicators
d. You should use technical indicators

5. What is the most essential aspect of using technical indicators?
   
a. Proper parameters
b. That you never ignore or override their signals
c. Volume
d. That you use 12 of them

For answers, go to www.traderslibrary.com/TLEcorner