

Momentum Bars: A Sequel

It has often been said that truth is stranger than fiction. The many responses to “Paradigm Shift Lights the Way to Momentum Bars” in the February issue set our reporter MacRae to checking what readers told us. What he found is a fascinating tale of parallel invention that in some ways, rivals the simultaneous invention of the calculus in the 17th century, and the parallel invention of the transistor in 1948 by Bell Labs in the US and Westinghouse Labs in the UK. Most people who responded agreed that MBars are a major advance in technical analysis either by saying so directly, or indirectly by asking when they would appear. As you will now read, they already have, in one charting program.
Gail Osten, Editor

By Desmond MacRae

In February 2003 SFO Magazine, I introduced a new charting concept in the article entitled, “Paradigm Shift Lights the Way to Momentum Bars.” In the 21 days following publication, their inventor, Danton Long, and I received comments from more than 80 people.

Comments, that continue to arrive, are fall into three categories. A few say that Danton Long didn’t invent MBars. He did. A few wrote that MBars were first described by Cynthia Kase in chapter 8 of her book, Trading with the Odds (Irwin, 1996), where she called them Universal Bars. They weren’t, but Kase did come close. Most of the others were queries about when where MBars could be found on charting packages. Finally, a few readers said the they can be found on Fibonacci Trader where they are called Range Bars. They can. Before we get to what happened, and how they got there, here is a precis of the February article for those who missed it. (The full text with illustrations can be found at www.sfomag.com.)

Momentum Bars are charted as standard vertical bars with opens, highs, lows and closes, but charted in specified price ranges rather than being charted in units of time or ticks. By disregarding time, this charting technique describes price action more accurately than standard bar charts, just as point and figure charts do. However, its traditional bar chart format accommodates all of the technical analytical tools used in standard bar charts.

What makes then a unique paradigm shift in technical analysis is that values of investment/trading instruments are almost always charted in time (or in groups of ticks) simply because that’s the current convention, in other words, most traders believing that time bar charting is the correct way to study price action when, in fact, it grossly misrepresents what is actually happening to contracts’ or securities’ **values** as their prices fluctuate.

MBars look like standard bars, but are different in three ways. One is that they are always equal in height. This is because they are based on specific price ranges selected by their users. If, for example, the price range chosen is six ticks, which in the S&P 500 E-mini futures contract equals \$75, all of the bars represents a price value of \$75.

The second difference is that the open of a new bar is always one price tick above or below the close of the previous bar. This is because a new bar does not begin until the old bar has been completed, which can only occur when a price tick exceeds the range set by the trader using them. While opens can appear anywhere on MBars, closes are always at the tops or the bottoms of these bars.

The third difference is that MBar charts have no gaps. Say, for example, the MBar value for the S&P500 E-mini is set at six ticks (\$75). While no contracts would have traded at the prices represented by these “phantom” bars filling the gap, MBar charting **assumes** they did, thus generating signals more rapidly than waiting for real prices to appear.

There are three advantages: (1) MBars eliminate sideways price congestion making charts “cleaner” so that technical analysis tools can do better work. (2) When prices gap, “phantom” MBars fill these gaps so that tools like moving averages, for example, respond and generate trading signals more quickly. (3) MBars work in any price frame for any contract or security.

Parallel Discoveries

I wrote that “Momentum Bars are such a simple concept that many traders will wonder why no one thought of this before. In fact there are three people I have interviewed who, in addition to Danton Long, claim to have invented or thought of Momentum Bars - Vincente Maria, Brent August, and Pierre Orphelin. They did not know each other.

Parallel invention is well-known in the history of ideas. One famous example is the development of calculus by both Leibnitz and Newton in the early and mid-1670s, although in this case, they learned of each others work before each presented his own version of this extraordinary mathematical insight.

Danton Long began trading early in the 1990. He was first taught by his stepfather was Robert Krausz, whose contributions to market lore is documented in The New Market Wizards (Wiley, 1992) by Jack Schwager. In the mid-1990s, Krausz developed Fibonacci Trader, a charting program with many of the standard tools of technical analysis that can all be fitted onto time-frame charts. Krausz believed that larger time frames months and weeks, for example, dominated smaller time frames like days.

Long became an inventor of trading tools even as a beginner. In 1992, he self-published The Basic Price Point System, which plots regular occurrences of lunar cycles to plot market's strengths and weaknesses. He then developed the Danton Stop that can spot changes in trends as well as plot stops. He also created the ShockWave Principle that identifies low-risk entry points, market exhaustion points, and defines impulse and corrective waves. He then developed a Ratio Oscillator for entry timing, profit taking points, and primary and secondary overbought/oversold trend levels. From this, he created the Sure-Wave Principle that clears up the ambiguities of wave counts of different degrees in Elliott' Waves. Krausz incorporated most of his stepson's tools into Fibonacci Trader

directly or as add-ons.

Sometime in 1994, Krausz and Long were discussing Symmetrics, a complex trading program developed by Joe Rondoni that Krausz had begun to sell. Part of the program involved drawing bars with widths to demonstrate a relationship between price and time. “I suggested that he simply draw bars of a specific price range, so that no new bars could be drawn until momentum moved prices out of the range,” Long reported to me in February of 2002, adding that Krausz ignored this suggestions.

At about the same time, Vincente Maria, a trader living in Sao Paulo, Brazil told me he was wrestling with the ambiguities of standard bar charting. “I saw a market goes up 30 to 40 points in one day or the same amount in six months,” he recalls, “I wanted to deal with this by drawing bars based only on price.”

In 1996, he went to live in US for almost two years. In Fort Lauderdale, Maria met a fellow Brazilian, Carlos Almeida, who was a systems programmer. He says that Carlos programmed the MBars idea for him, and that he has been using it ever since. “I have tested it with some 25 different (technical) tools,” Maria says. He will not say which ones. “I only trade for a living, so I never wanted to tell anyone about this.”

Maria has an English friend David Davis, also a programmer, who also lived in Brazil working as the country manager for Thompson Financial. Davis, too, went to the US where he met Krausz. “In return for the right to distribute Symmetrics in Brazil, I programmed it for him,” Davis recalls. Davis met Carlos Almeida through Maria, and then introduced him to Krausz. Carlos became the programmer for Fibonacci Trader. He still is.

In 1996, Cynthia Kase’s book got the attention of many people including Brent August, a trader living in California. Some SFO readers have stated that Kase’s universal bars (pp. 141 & 142) are in fact MBars. They are not. Unlike MBars, the Kase bars are not always equal in length while MBars are. Universal bar charts can have gaps; MBars cannot. Kase’s bar chart can also have inside “days” (or periods); MBars never do.

Kase’s bars are formatted on true ranges (not fixed price ranges). Her bars depend, in part, on time as her explanation on pp. 140-141 shows. But her attempts to deal with volatility to create a clear picture of prices inspired Brent August, a trader in California, to come up with MBars exactly like Danton Long’s.

In September 1999, Pierre Orphelin, the Omega TradeStation representative in France, told Brent August that he could program MBars for him. Two years earlier, August hired a now-defunct software firm to program in DOS, but by 1999, he wanted his DOS program “ported” for Windows. Because the DOS programming firm had gone out of business, Brent he turned to the web and encountered Orphelin. Orphelin told me he had thought of MBars in 1992, but he admitted he had never programmed them. Why? “Priorities,” he responded by email. Orphelin has yet to program them.

Brent August, like most of the SFO readers who responded to the article, would like to have

an MBars overlay program in TradeStation. So would Danton Long simply because he is not a programmer. In fact, prices can be charted in MBars in Fibonacci Trader, version 4. Carlos Almeida added them to the program in late September or early October 2002.

How they got there is isn't totally clear. But Danton Long contacted a patent lawyer very early in 2002. In May, and again in July, he told mother Jeanne directly of his intention. (Jeanne Long is a leading financial author, trader, and program creator well-known to those interested in trading with astrology.)

By then, Robert Krausz saw the value of MBars concept more clearly, and found that his programmer already knew about them, so they were added. Unfortunately, Robert Krausz suffered a massive heart attack while addressing a group of traders on October 3, 2002, and died a few hours later in a local hospital before he and I had a chance to discuss this.

Fibonacci Trader can be downloaded for a 30-day free trial from www.fibonaccitrader.com. After you gathered data for Fibonacci Trader real-time or end-of-day, right click Chart on the menu bar. In the CHARTS window, right click Chart. In the drop window that appears, click New Chart. A Create Chart window will appear with three horizontal windows at the bottom, **Own Period**, **Next** and **Highest**.

At the right of the **Own Period** window are two boxes - Range Bar and Tick Bar. Click Range Bar, then at the extreme left of this little window label Min. enter the price bar size you want in terms of point and ticks. If, for example, you want 6 e-Mini ticks, which is 1½ full points, enter 1.5, then Click OK, and your MBars (Fibonacci Trader calls them range bars) chart will appear. You may now add any indicator you like to the your chart.

Users should know that Fibonacci Trader, like most of the other popular charting programs, uses data based on one-minute time frame. The range bars you get are only an approximation of what is happening. Many readers have told me that they cannot program MBars because Omega TradeStation's Easy Language does not permit a change of this setting.

"Using this programming convention changes what you are seeing in rather subtle ways," David Davis reports. But the bars are pretty robust, and will synchronize again when you have a problem with data. "Most of time it's a pretty good approximation, so any indication that doesn't depend on time will work pretty well," he adds.

Danton Long does not expect to make much, if any money from the MBars, but there are two things he does want. "I do wish I could find someone who could program them as an add-on," he says. "I have Fibonacci Trader, but I prefer a totally accurate, pure tick data version," he says.

Long wants is a little recognition for their creation. Vincente Maria and Brent August, being pure traders, would have preferred to keep this secret to themselves, but knew it was only a matter of time.

Danton Long did invent MBars, but unlike the other parallel inventors, he brought them to attention of the world through SFO Magazine. Whether he gets credit for MBars remains to be seen because history, like life, is not always fair. However, given the immediate, strong response to this paradigm shift SFO readers have shown, he should least get a chorus of “Thank you’s” from traders all over the world. END

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