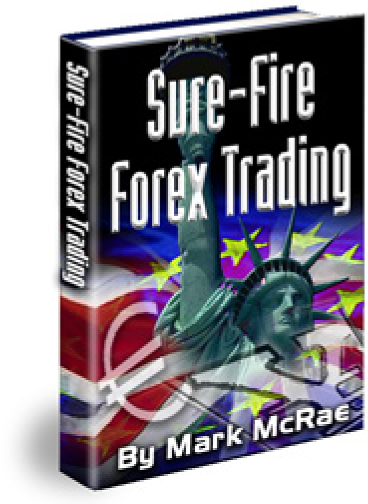

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Bollinger Band Strategy

Developed by John Bollinger, Bollinger Bands is an indicator that allows users to compare volatility and relative price levels over a period time. In short, the Bollinger Bands provide a relative definition of high and low.

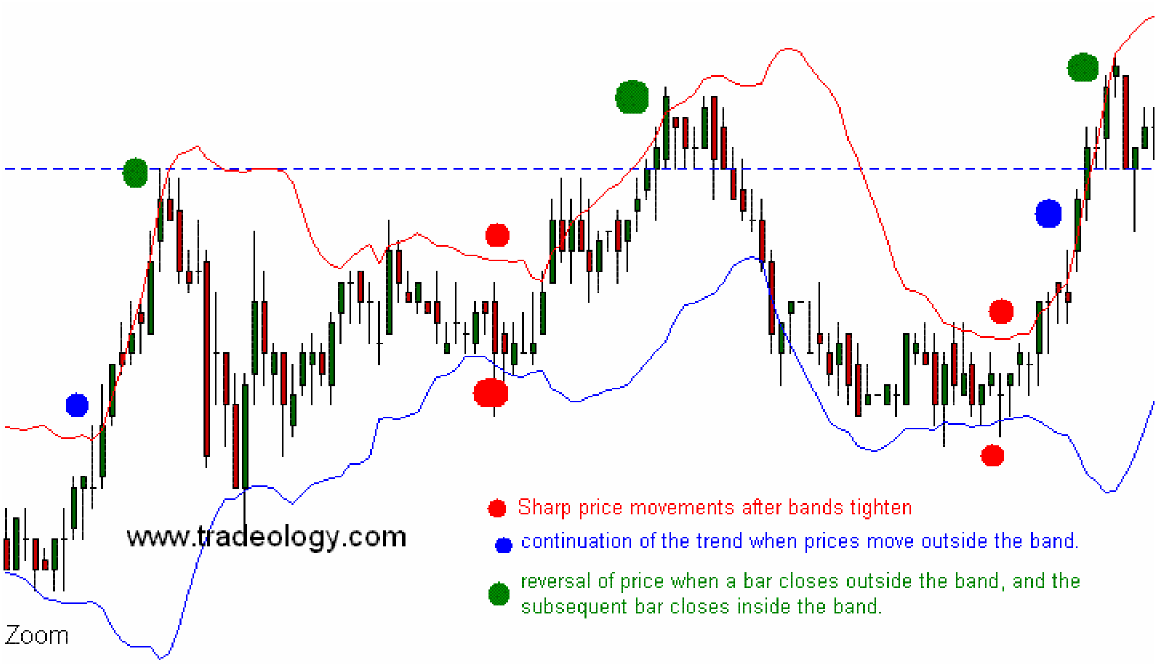
The indicator consists of three bands which usually encompasses the majority of price action.
A simple moving average in the middle
An upper band (SMA plus 2 standard deviations)
A lower band (SMA minus 2 standard deviations

The basic interpretation of Bollinger Bands is that price tends to stay within the upper- and lower-bands. Because standard deviation is a measure of volatility, Bollinger bands adjust themselves to the market conditions. When the market become more volatile the bands widen (move further away from the average) and during less volatile periods, the bands contract (move closer to the average). The tightening of the bands is often used by technical traders as an early indication that the volatility is about to increase sharply.

The following are the characteristics of Bollinger Bands.

- Sharp price changes tend to occur after the bands tighten as volatility lessens.
- When price moves outside the bands - a continuation of the current trend is implied.
- Bottoms and tops made outside the bands followed by bottoms and tops made inside the bands call for reversals in the trend.
- A move that originates at one band tends to go all the way to the other band. This observation is useful when projecting price targets.

The following chart example demonstrates the use of the Bollinger bands with all the relevant interpretations.



These characteristics make this indicator a versatile one and if interpreted properly it can give an accurate picture of the price action.
But these following points should be followed for an accurate interpretation.

- Price can, and does, walk up the upper Bollinger Band and down the lower Bollinger Band.
- Tags (touch) of the bands are just that, tags not signals. A tag of the upper Bollinger Band is not by itself a sell signal. A tag of the lower Bollinger Band is not by itself a buy signal.

Bollinger Bands Divergence Strategy

This indicator has certain characteristics, which make it ideal for predicting a reversal of trend.

- Firstly, because of the way it is calculated, 85% of the price action is contained within the bands and hence it gives a very good indication of the price being overbought or oversold, in that time frame
- Secondly, the widening of the bands shows increasing volatility and the narrowing of the bands show decreasing volatility.
- Bottoms and tops made outside the bands followed by bottoms and tops made inside the bands call for reversals in the trend.
- When price approaches the upper or lower bands, there is almost always a reversal or a strong continuation. If there is a reversal, we want to identify it correctly and get in early.

The price of any currency, commodity, futures etc. across all time frames display a unique characteristic that signals a change in trend.

It is generally observed that price will make a last thrust in the direction in the prevailing trend, before changing direction.

This could be trend exhaustion or a final running of stops in the market. This movement of the price is made with reducing momentum, which is observed as a divergence between the price action and any indicator.

The Bollinger bands show a distinct advantage over other indicators/oscillators, as it shows when the trend change takes effect.

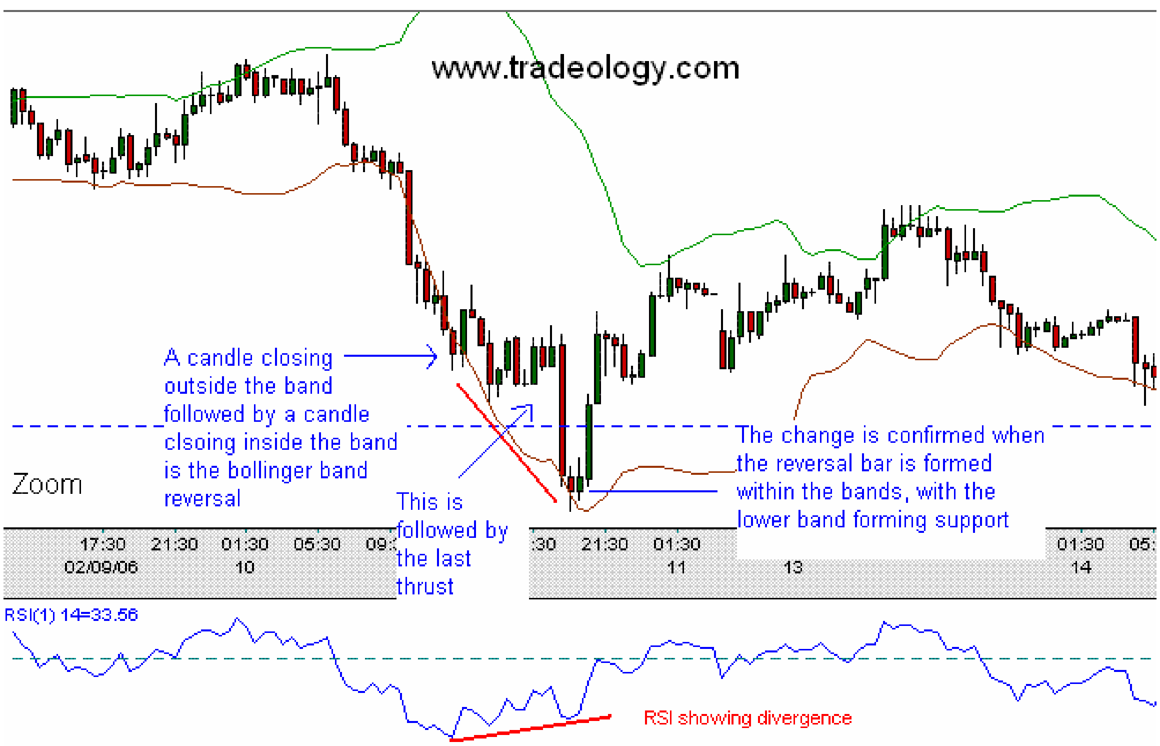
We can potentially identify divergence when the market has a close outside the band, followed by a close within the band.

As mentioned above, this is a typical characteristic of the Bollinger bands, which signals a reversal. But price could move again in the direction of the prevailing trend, thus making this move the final thrust in the previous direction.

Though this is observed as a divergence, the other indicators / oscillators do not tell us when price will reverse. But the Bollinger bands do.

The next reversal which takes place inside the bands, signal the change in direction. This simply means that in case of a downtrend, the next reversal of price in the upward direction will take place above the lower band. The lower band thus acts as a support for price, which signifies the change to uptrend.

This can be seen very clearly in this chart.



In other words, once the final thrust has been made but finds support at the lower band, there is a high probability that there will be a reversal.