

FS Velocity Indicator

MOMENTUM TOOLS

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The Velocity

This indicator will show you the speed, direction, and force of the market. The velocity is derived from the ROC and the mysteries of price action can be further uncovered by paying close attention to this. It has been previously stated in the ROC manual that the change of the rate of change of an object can be expressed as:

$$\Delta y_0 - \Delta y_1 / \Delta t = V$$

This concept is essential to the principles of successful momentum trading and proper utilization of this knowledge can dramatically enhance performance. Knowing when the market is accelerating or gaining force as opposed to decelerating and losing steam are both key things to observe for a variety of different reasons. When the market is speeding up in the desired direction it may be a good time to enter if the trend is developing. When the market is slowing down this could be a sign to act on the proper move to be made such as being in a winning position looking to exit early as price is approaching an objective but hasn't quite gotten there yet and is stalling out.



Here is an example of the acceleration of the market to the upside after bottoming out clearly displayed with the red velocity histogram increasing in strength in the center of the image. This means that the negative ROC is losing more and more power on each successive bar. This can be a powerful signal if a critical level has been reached or if a long trend is suddenly turning. Momentum chasing algorithms will be observed piling into this type of behavior in periods of activity and the turning of the tide is wise to start swimming with.

The deceleration or slowing down of the increasing momentum is a signal as well. It means that the price is running out of power and could be likely to turn. This figure shows that the price is slowing down when meeting overhead short-term resistance at the pivot which is the ROC "0" line.



Periods of high activity will cause spikes in the readings and these large delta shifts in the ROC are significant to both sides of the market. Spikes may also be recorded in sudden patches of illiquidity where no market participants are willing to engage due to reasons that will no doubt be on the news later. This is an example of a thrusting spike at the high which cannot follow through and is the peak.



Math is king in technical trading and this indicator will help shed some light on otherwise confusing situations. The market will often run violently into objectives and abruptly change directions thereby trapping both sides and offering opportunities for manipulators to take advantage of the weak offside players. Careful observation of this activity will lead to a greater understanding of market timing techniques for many purposes.

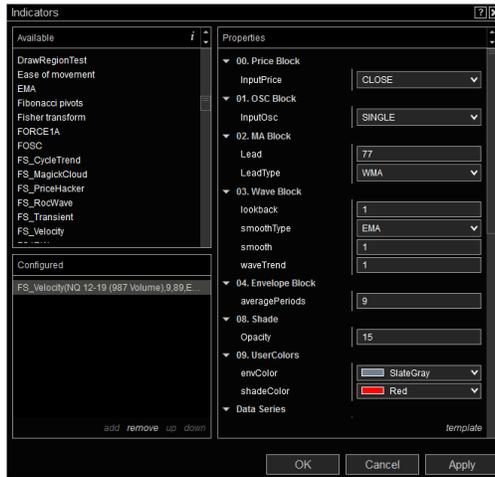
The settings for this indicator are identical to the ROC with one added feature. The “waveTrend” feature applies a lookback to a previous period to observe the overall wave acting on the ROC. A setting of 13 in the waveTrend produces a more characteristic smoothed pattern of movement to track the price action in the upper region of the chart.



It will be very easy to see the actionable activity from the momentum perspective and this value can now be used for trading upon the notion of the momentum switching directions. It is possible to use the outputs of either the ROC or the velocity or both in an automated script.

The “averagePeriods” envelope will set an average velocity envelope based on the last “X” bars and is most useful with a “waveTrend” setting of 1. This will show when the velocity reading is contained for a number of periods within the grey upper and lower bounds which is an indication of good market liquidity and also can be a useful chop or inactivity filter.

The velocity readings are used also to calibrate the “limiters” on the Transient and the Magic Cloud. Set all the wave block parameters to 1 to view the velocity on a bar by bar basis to calibrate these indicators.



The available outputs for the Velocity are the “VELOCITY”, “UPPER”, and “LOWER” envelope values. These can be accessed to use in a strategy by importing and calling the indicator.



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