FS Pivot Indicator

TECHNICAL TOOLS

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The Pivot

The FSxPivot is based on the classic pivot point indicator with a few twists and innovations. The definition of the old formula starts with the previous session's (High+Low+Close)/3 to output the "PP" or "pivot point". The market is said to be bullish above and bearish below this price. It is a useful tool for identifying the trend as well as measuring the volatility. The remaining levels are calculated as follows:

$$S1 = 2 * PP - lastHigh$$
$$R1 = 2 * PP - lastLow$$
$$S2 = PP - (lastHigh-lastLow)$$
$$R2 = PP + (lastHigh-lastLow)$$
$$S3 = PP - 2 * (lastHigh-lastLow)$$
$$R3 = PP +2 * (lastHigh-lastLow)$$

The prices are now projected onto the current trading session's chart. These levels present a very straightforward approach to buying and selling critical points as the session plays out using good risk reward disciplines. It is possible that these levels are somewhat of a self-fulfilling prophecy because many old school trading veterans have been using this indicator for a very long time. The general idea is to be long above the PP and short below it using the other levels as exits or filters for other trading systems. For example, it is wise to not press longs above the R levels and use that area to exit potential winners rather than hope to get lucky by demanding more cash as the odds of continuation diminish.

The formula has been modified to evolve throughout the week. This idea was conjured up as a means to participate with the larger overall trend as opposed to the classic formula which would follow the pivots for each new day based solely on the previous session. The pivots are evaluated and recalculated each day the same as before however with the subtle difference of using the dynamic price action in play for the current week. The current weekly high and low have been added to the chart for reference and objective analytic purposes. Thorough investigation has yielded value in a variety of applications to date with this indicator. It can be used as a powerful trend filter incorporating the expansion or contraction of volatility in a wider timeframe while simultaneously identifying accurate entries and exits. Option traders can also use this indicator to pinpoint relevant strikes to engage thereby increasing their accuracy and improving their edges in the derivatives market.

The importance of the current weekly high and low is related to the fact that short-term traders like money when they are taking profits there as they have initiated positions carefully within the range. Longer term traders are using these levels as entry points when the market has begun a countermove to the prevailing bigger trend and the action is allowing them to enter at advantageous prices. The following slides illustrate a 60-minute chart responding to the current weekly high or low.
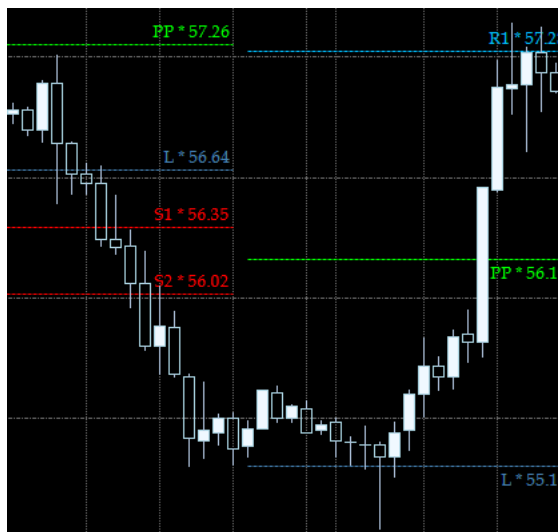
This crude oil scenario began with a fall from the "PP" to the current weekly low "L1" where the market found buyers and launched to the newly calculated "R1" which was similar to the previous evolving "PP". This example displays the concept of confluence and relationship of important turning points in the market.


This scenario unfolded in Nasdaq futures where the market had a slight panic move directly into the weekly low at the time which presented a fantastic buying opportunity. This 60-minute chart had only one close below the "L1" and a subsequent "failure to follow thru". The buying white bar was a powerful signal closing back above the "S1" and the market regained the "PP" on the very next bar. The market simply held there afterwards building value about it until the eventual excursion up through the weekly high "H1" and through the "R1". This was now a good spot for longs to exit for a nice trade.

The dominating trend can be confirmed with a "PP" that steps higher or lower on the next day. Entries near the "PP" are considered to be "ideal". Once a trade has been initiated the trader should look to exit some at the currently weekly high or low. The next exit region would be above the "R1" or below the "S1". A hit to the 2nd or 3rd levels would be a huge take and traders should have the bulk of their orders in at these levels to take advantage of this type of move.


The above example in crude oil shows the trend strengthening on the following day indicated by the "PP" stepping up after a successful entry and hit to the "R1" through the weekly high "H". The market is rejected at the weekly high and attempts to trade down to the "PP" again which would give another opportunity to participate in an even stronger trend this time with more confidence. This is a trend trader's dream come true.
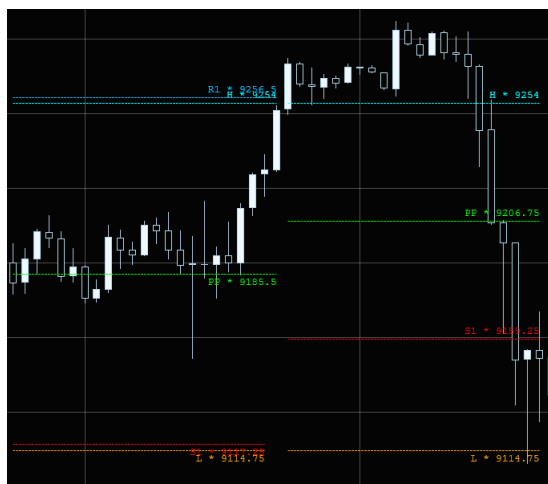
This Nasdaq scenario was activated when the first buy trade turned into an exit and then a sidestep as the market fell through the weekly high. The short trade was activated on the close below the "PP" and it was possible to buy back the weekly low a few hours later. There are many ways this chart can be used by the trader to connect critical points and profit from the action. Careful studying of these levels will allow a versatile trading approach to be implemented whereby dissecting the price action for the day becomes simplified with a few solid moves to choose from. The veteran trader will calculate the odds and attempt to connect the important points leaving all other potential trades by the wayside. A wise trader seeks to "eat the meat out of the hamburger".

The "drawBarsBack" setting is used to save processing power by only marking the chart the specified number of bars back. This helps to conserve resources and declutter the chart. The "sessionOpenHour" is for ensuring that the new session starts on the appropriate time depending on the time zone.
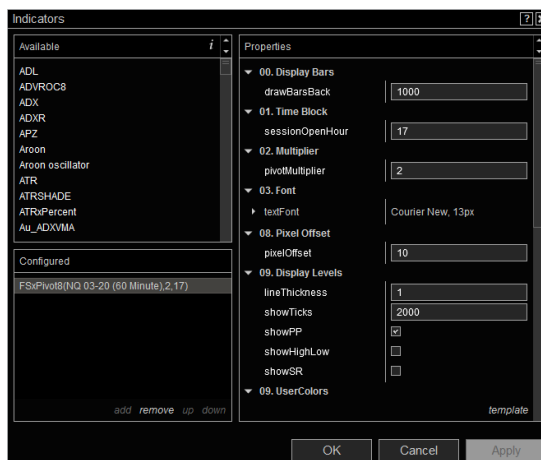
The "pivotMultiplier" is a way to further adjust the 2nd and 3rd series levels by applying a modifier to the calculations. The limits for the modification have been set at a lower bound of 1.618 and an upper bound of 2.618 with 2 being the default value. A lower setting will tighten up the spread while a higher setting will adjust it wider. This is a small finesse to enable the technician to fine tune the outer layers with the present volatility in the market. Set the "pixelOffset" to line up the text with the represented levels. Set the thickness of the lines with "lineThickness". The "showTicks" value is for displaying the levels relative to the price of the last bar painted on the chart. The levels can be shown or hidden with the toggles for the "showPP", "showHighLow", and "showSR". The pretty colors can be adjusted with the "userColors" block.

END OF LINE.