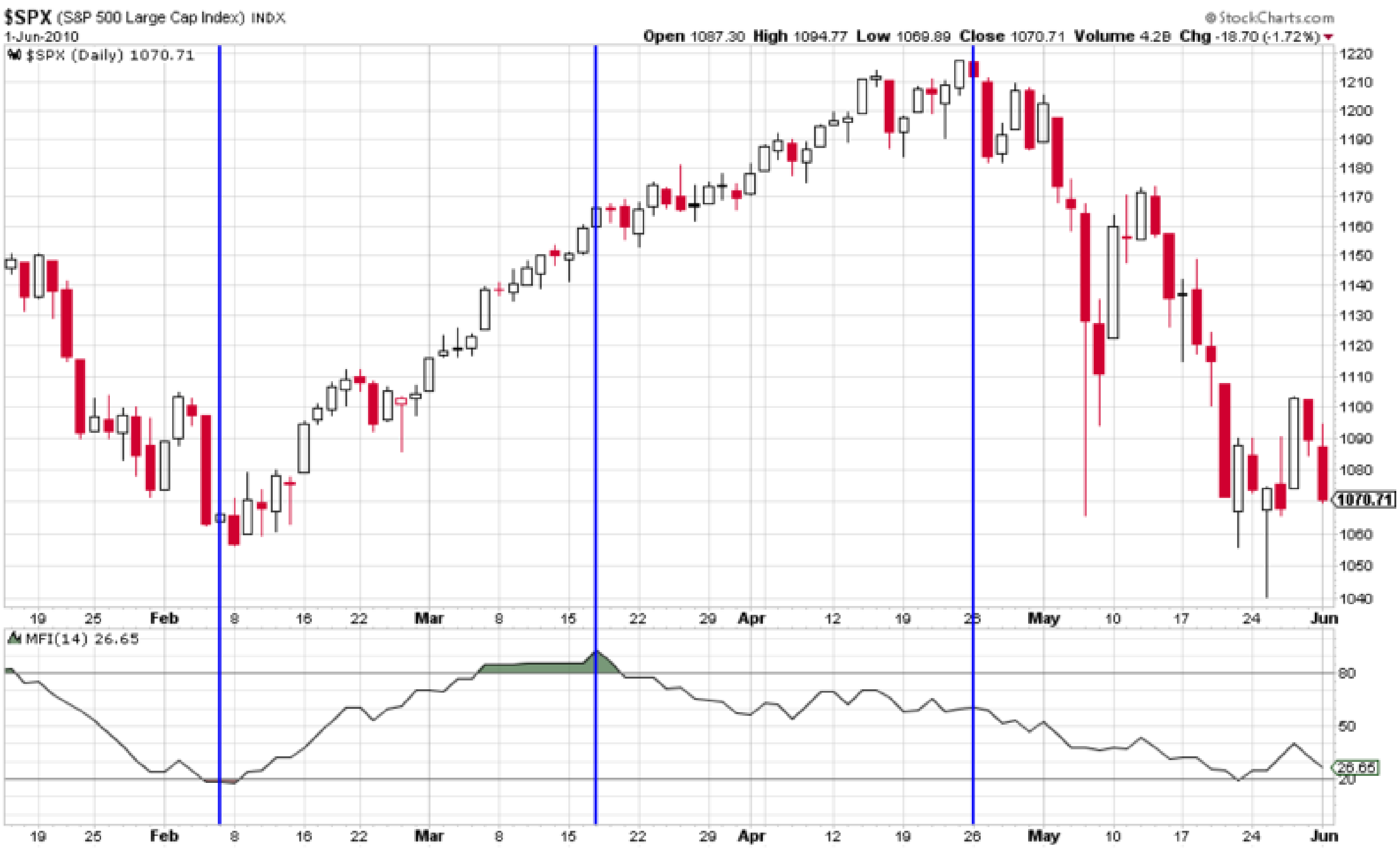
Money Flow Time Symmetries

By Parker Binion

Can you increase the odds of determining when a trend will either: 1) reverse, or 2) enter a consolidation phase? In working with the Money Flow Index, I discovered that often during a strong up (or down) trend, the Money Flow will peak (or bottom) in the middle of the move. Accordingly, if you properly define the starting point of the move, I have observed that you can frequently anticipate when the energy of the move will deplete. I call these "Money Flow Ts".

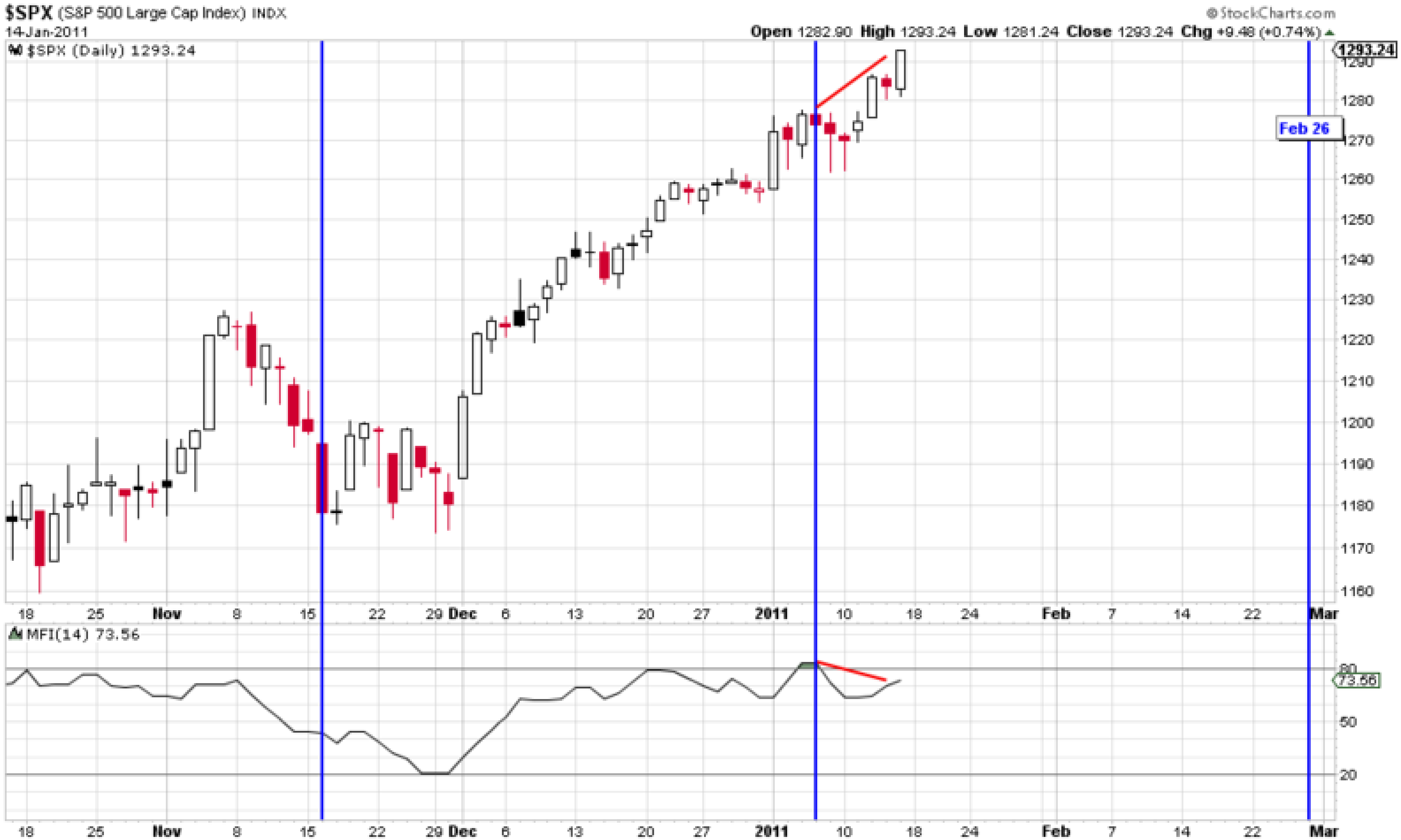
The Money Flow Index is a momentum indicator which measures the strength of money flowing into and out of a particular security. It is based on a security's typical price, which is that period's high, low and close divided by three. The typical price is multiplied by the period's volume to determine raw money flow. Then a ratio is constructed comparing the positive raw money flow in periods where the typical price increased with the negative raw money flow in periods where the typical price decreased. The standard number of periods used for comparison is 14.

Before we look at the current Money Flow Ts, let's examine what happened last Spring in the S&P to illustrate several Money Flow T concepts:



As you can see, the Money Flow Index peaked on March 17, after which the S&P continued to advance while the Money Flow Index retreated. So, 1) placing the center post on March 17, and 2) starting the Money Flow T on February 5 when the up trend commenced, projected that the energy of the move would end on April 26. Not only did the energy of the move deplete, but the trend reversed on that day.

The current up move in the S&P started in November. As shown below, the Money Flow Index recently peaked on January 6, and has started to retreat while the S&P broke to new highs for the trend as of Wednesday, January 12.



Using January 6 as a center post and November 16 as the earliest possible start date for the Money Flow T projects an end to the energy of the move on February 26. There are two caveats to this analysis. First, there is plenty of time between now and the end of February for the Money Flow Index to make a new center post of an even longer Money Flow T that would project an end to the energy even later. Second, November 16 is the most conservative choice for the start of the Money Flow T. One could argue that the move did not begin until November 30. From a practical perspective, all this two week disparity in potential starting dates means is that you would be on the lookout for a topping pattern in the two weeks leading up to February 26.

Now let's look at the intraday chart of SPY:

All of the Money Flow Ts depicted on this chart use November 16 as a starting point. The blue lines use a Money Flow peak center post on December 13 to correctly project an energy depletion on January 6. You will notice that we did not get a trend change. Rather, the trend simply took a breather for a couple of days.

The black lines use a Money Flow peak center post on December 23 to project an energy depletion on January 31.

The red lines use a Money Flow peak center post on January 5 to project an energy depletion on February 24, which coincides with the projection we saw on the daily chart.

A couple of notes. First, today, we got another spike in the Money Flow Index which could serve the basis for another center post of an even longer Money Flow T if the S&P continues to advance while the Money Flow Index starts to retreat. Second, no methodology is 100% accurate all the time. Please use caution in your investments and manage your risk wisely.

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