

An ADX Volume Breakout

## BASIC TRADING STRATEGY

Wilder's Directional Movement (ADX / DMI) indicator provides a combined volatility and trend signal indicator that helps identify breakout trends and trend exhaustions. An

eSignal charting tool, it can be used in combination with other indicators, most notably volume changes, to gauge the relative strength of breakout moves as they are occurring.

The strongest signal of the ADX / DMI indicator is found when combined with a corresponding increase in volume bars as the ADX approaches and gets above 40.

### General Overview of the Directional Movement (ADX / DMI) Tool

The ADX-DMI combines three indicators that describe the relative strength of trends, as well as provide exit signals for exhausted patterns. Like stochastics, it is used in both entry and crossover exit trading strategies. The three components of the ADX/DMI include:

- The red ADX line, which indicates the trend of the market. ADX assumes trading significance once it gets over 40.
- The +DMI measures the strength of upside pressure.
- The -DMI measures the strength of downward pressure.

Note that the Step Parameter may also be varied; the eSignal default of 14 is preferred. You may experiment with this value for curve-fitting purposes, much like the MA Step Parameter.

A basic +DMI / -DMI buy signal occurs when the (green) +DMI line crosses up over the (blue) -DMI line.

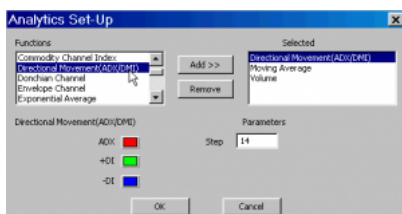
A basic +DMI / -DMI sell signal occurs when the (blue) -DMI line crosses down over the (green) +DMI line.

In addition, the ADX is used to measure the relative strength of the current trend, known as the directional change. When the ADX is rising over 40, the issue is in a strong trend; when it is in the 10 – 30 range, the trend is weak.

Combining this understanding of the ADX / DMI indicators with an understanding of volume bar increases forms the basis of an effective breakout trading strategy. Other factors that add strength to entries include monitoring the relative strength of the sector being traded and trading only when the composite index is outside of the previous day's trading range at the time of entry, on a new two-day high/low breakout.

### Adding ADX / DMI Indicators to Your Charts

For any standard chart, go to the Analytics menu (Chart Options / Properties / Analytics) and double click on "Directional Movement (ADX / DMI)" from the Analytics Set-Up menu.



Adjust settings as needed (line colors, step parameter). When set up correctly, the ADX / DMI lines appear in an area underneath the volume bars.



**Disclaimer:** The strategies are believed to be accurately presented. However, they are not guaranteed as to accuracy or completeness. Nor is it guaranteed that using them will result in profit or that they will not result in losses. Past performance is not a guarantee of future results. Only risk capital should be invested in the market. All investments and trades carry risk, and all trading decisions of an individual remain the responsibility of that individual.