

Combining Indicators

When applying several indicators to a chart, looking for just the right combination, there are several indicators that should not be used together. Most of the information within this paper will be quoted from the book, *The New Technical Trader*, by Tushar S. Chande and Stanley Kroll. (Therefore I will not be citing the book, just referencing.)

Chande is the writer I'm most interested in. He was one of the first analysts to use Adaptive Moving Averages (AMAs), back in the early 1990s. Since then, he has written two new books which I highly recommend. There is a list at the end of this paper. One of the things Chande analyzes, while promoting AMAs, is the statistical correlation between the indicators discussed below. That is the subject of this paper.

There's a correlation among certain indicators. Here's a list of the indicators that you *shouldn't* use on the same chart :

- Momentum and RSI
- Momentum and Stochastic
- Momentum and CMO (Chande Momentum Indicator)
- RSI and Stochastic
- RSI and Plus Directional Index (DX+, or, ADX, or Directional Moving Indicators; Think Welles Wilder. They are all the same thing.)
- %R and any of the above
- CMO and ADX
- Stochastic and CCI (Commodity Channel Index)

The following is a list of the *type* of indicator listed above :

- Oscillators
 - RSI, Stochastic, %R
- Price Momentum Indexes
 - Momentum, ADX, CMO, CCI

If you were to use these indicators together, nothing bad would happen to your trading; the charts just wouldn't produce any additional information and you'd be wasting your time and screen real estate. What I like to have up on a chart is a mixture of a leading, lagging, and/or coincidental.

For example, combine any of the indicators I've written below.

Take an indicator from number 1, and then take another from number 2.

1. **Bollinger Bands, Moving Average(s) , Trend Line, MACD, Trend Index** (in Telerate),
2. **Oscillator, Stochastic, %R, CMO, ADX, RSI, CCI**

References:

The New Technical Trader: Boost Your Profit by Plugging into the Latest Indicators (Wiley Finance Editions)

by [Tushar S. Chande](#), [Stanley Kroll](#)

Further Reading:

1. **Beyond Technical Analysis: How to Develop and Implement a Winning Trading System, 2nd Edition**
by [Tushar S. Chande](#)
(http://www.amazon.com/exec/obidos/ASIN/0471415677/qid=1100890091/sr=2-1/ref=pd_ka_b_2_1/102-2813698-1962508)
2. **The New Technical Trader: Boost Your Profit by Plugging into the Latest Indicators (Wiley Finance Editions)**
by [Tushar S. Chande](#), [Stanley Kroll](#) (http://www.amazon.com/exec/obidos/tg/detail/-/0471597805/qid=1100890091/sr=1-2/ref=sr_1_2/102-2813698-1962508?v=glance&s=books)