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    NEED/IMPORTANCE OF THE STUDY

    STATEMENT OF THE PROBLEM

    OBJECTIVES

    HYPOTHESES

    RESEARCH METHODOLOGY

    RESULTS & DISCUSSION

    FINDINGS

    RECOMMENDATIONS/SUGGESTIONS

    CONCLUSIONS

    SCOPE FOR FURTHER RESEARCH

    ACKNOWLEDGMENTS

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    APPENDIX/ANNEXURE

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MOMENTUM COEFFICIENT (Me) – AN EFFECTIVE TECHNICAL TOOL FOR PROJECTING TIME & PRICE TARGET CORRELATION IN THE PROGRESSION OF TRADABLE FINANCIAL SECURITIES

DR. PRAVIN MOKASHI
ASSOCIATE PROFESSOR
DEPARTMENT OF COMMERCE
R K TALREJA COLLEGE OF ARTS, COMMERCE & SCIENCE
UNIVERSITY OF MUMBAI
ULHASNAGAR

ABSTRACT

Investors and traders in Financial Markets use Technical Analysis for planning and executing their trades. The rallies and reactions help them make profits if the price and time extensions as well as retracements are effectively judged. Momentum Coefficient is being introduced as an effective technique for these investors and traders. This technique is the improvisation of the retracements and extensions recommended by the fathers of Technical Analysis.

KEYWORDS

Price Extension, Price Retracement, Technical Analysis, Time Extension, Time Retracement.

OBJECTIVE

The objective of this research paper is to provide a simple but effective basis for identifying price and time, retracements and extensions to the traders and investors. The purpose is to confirm beyond doubt that matrices defined in this paper are the common effective ratios tried, tested and profitably used by the technicians.

INTRODUCTION

Technical Analysts have been striving to discover methods for identifying relationship between the price retracements & extensions. Fibonacci ratios[1] is one of the techniques used in this context. Elliot Wave[2] & Harmonic Patterns[3] has been developed on Fibonacci ratios. Momentum Coefficient is simple yet effective method that can help the analysts significantly. This technique is not a discovery but it is certainly an experientially proved & extensively tested methodology having immense practical utility.

Momentum coefficient[4] is defined as the ratio of percentage extension[5] (% e) to percentage retracement[6] (% r) in the successive peaks & troughs.

Momentum Coefficient (Mc) = $\dfrac{\% \ e}{\% \ r}$ **Possibilities Mc = 1, Mc > 1, Mc < 1**

If momentum coefficient is 1, the trend is sideways[7], if it is greater than 1, the ongoing trend is gaining momentum & if momentum coefficient is smaller than 1, the ongoing trend is losing momentum. Retracements & Extensions[8] are identified at three different levels i.e. on three sequential time frames – Tides, Waves & Ripples indicating three dynamic trends - Major, Intermediate & Minor trends respectively. Retracements & Extensions on Ripples signal the beginning or end of the rally or reaction. Generally, in the first phase of a strong bullish rally, Ripples have Momentum coefficient greater than 1. In the second phase, Waves have Momentum coefficient greater than 1. In the third phase, Tides have Momentum coefficient greater than 1. During the bullish trend, at times, Momentum coefficient equals 1, when consolidations or lines are formed, but seldom do we see Momentum coefficient smaller than 1.

The recurrence of Momentum coefficient smaller than 1 on Ripples is an indication of the weakening of bullish trend[9] which decelerates the momentum of Waves & finally that of Tides. Similar developments are consistently seen when a stronger bearish trend[10] is in progress.

TREND MATRIX[11]

Trend Matrix defines the probable relationship between the % retracement & % extension level as well as between the % retracement & % extension level in a progression. This is useful in applying momentum coefficient in practice. The only limiting factor is the unfolding of reverse divergences[12].

TREND MATRIX (TABLE 1)[13]

% r (Retracement)	% e (Extension)	% r (Retracement)
33.33	100.00	33.33
50.00	66.66	50.00
66.66	50.00	66.66
100.00	33.33	100.00

TREND MATRIX RULES

i. If % r is less than 33.33 %, the probable % e is around 100 %. If % e < 100%, the progression is weakening. If % e > 100 %, the progression is strengthening.

ii. If % r is more than 33.33 % but less than 50 %, the probable % e is around 66.66 %. If % e < 66.66 %, the progression is weakening. If % e > 66.66 %, the progression is strengthening.

iii. If % r is more than 50 % but less than 66.66 %, the probable % e is around 50 %. If % e < 50 %, the progression is weakening. If % e > 50 %, the progression is strengthening.

iv. If % r is more than 66.66 % but less than 100 %, the probable % e is around 33.33 %. If % e < 33.33 %, the progression is weakening. If % e > 33.33 %, the progression is strengthening.

v. All these rules are also applicable to & % r % e before a rally or reaction for price projections after the end of the rally & reaction.

% r & % e are not the exact levels but are near ranges. It is also important to note that while considering % retracement levels, closing rates are important. Rules for the % r & % e should be applied on the basis of closing rates.

TIME MATRIX[14]

This technique is immensely useful in identifying the time targets of the progression. Time Matrix defines the probable relationship between the % retracement time & % extension time as well as between the % extension time & % retracement time in a progression.

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TIME MATRIX (TABLE 2)[15]

% Rt (Retracement Time)	%Et (Extension Time)
Rt < 33.33	Et < 100.00
33.33 <Rt < 50.00	Et < 133.33
50.00 < Rt < 66.66	Et < 150.00
66.66 < Rt < 100.00	Et < 166.66
Rt > 100.00	Et > 166.66

TIME MATRIX RULES

i. Retracements[16] that take less than 33.33 % of the preceding progression (upward or downward) time have high probability of achieving the extension targets within 100 % of the progression time. If the targets are not achieved within this time, it is advisable to recalculate the trend & time targets.

ii. Retracements that take more than 33.33 % but less than 50 % of the preceding progression (upward or downward) time have high probability of achieving extension targets within 133.33 % of the progression time. If the targets are not achieved within this time, it is advisable to recalculate the trend & time targets.

iii. Retracements that take more than 50 % but less than 66.66 % of the preceding progression (upward or downward) time have high probability of achieving extension targets within 150 % of the progression time. If the targets are not achieved within this time, it is advisable to recalculate the trend & time targets.

iv. Retracements that take more than 66.66 % but less than 100 % of the preceding progression (upward or downward) time have high probability of achieving extension targets within 166.66 % of the progression time. If the targets are not achieved within this time, it is advisable to recalculate the trend & time targets.

v. Retracements that take more than 100 % of the preceding progression (upward or downward) time have high probability of achieving extension targets after 166.66 % of the progression time. If the targets are not achieved within 200 % time, it is advisable to recalculate the trend & time targets.

THE RESEARCH METHODOLOGY USED FOR TESTING THE PRACTICAL EFFECTIVENESS OF THIS TECHNICAL TOOL

1. 28 Active NIFTY[17] stocks are selected for this research work, on the criterion of being traded continually from November 1994, i.e. from the inception of the National Stock Exchange (NSE).
2. 150 Cases of these 28 selected stocks are considered to test the Price & Time Matrix observations on 25 cases each on Hourly, Daily, Weekly, Monthly, Quarterly & Half Yearly Charts.
3. Out of the 150 cases, in 131 (87.34 %) cases Price Matrix observations are precisely confirmed, whereas failures are confirmed in 19 (12.66 %) cases.
4. Out of the 150 cases, in 118 (78.67 %) cases Time Matrix observations are precisely confirmed, whereas failures are confirmed in 32 (21.33 %) cases.

FINDINGS & CONCLUSIONS

Overall effectiveness of Price & Time Matrix methods is sufficient to indicate the utility of this technical tool in projecting price & time targets. It has been proved with sufficiently larger sample size representing ranging as well as trending market conditions that simplicity is the essence of effectiveness and proven strategies, tools and studies seldom have complex assertions.

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With sincere regards

Thanking you profoundly

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