C H A P T E R **22**

# *Bias Reversal*

## *Price Momentum and Volatility*

By using the price momentum and volatility, our research has been able to identify certain areas where the market is setting up for a price reversal. The initial identification is actually for a change in bias, thus the name Bias Reversal.

Markets can have small changes in bias and still continue to trade in the original direction. Therefore, once a Bias Reversal is detected, we need to see further changes in prices to confirm the signal. This is discussed on the following pages. When a change in Bias is detected, the software draws a triangle. If the triangle is pointed up, then a change in Bias to the upside is detected. If the triangle is pointed down, then a change in Bias to the downside is detected.

In the chart below, the Triangles are the changes in Bias detected by eSignal. The arrows are drawn by hand just to show at which bar the change in Bias was detected.



**Figure 22-1a: Weekly Chart, St. Paul Companies, Inc.**

Once a Change in Bias is detected, we suggest you use the Trend Channels from the previous pivot. Wait for the prices to cross the Trend Channels. This will confirm that a Change in Trend is in progress.

As stated before, a change in Bias does not guarantee a change in Trend. This is why we suggest you use the Trend Channels to confirm the change in Trend.

## *False Signals*

Once the change in Bias is detected, the software needs one or two bars to confirm the signal. If the confirmation is not seen, the signal is considered False and a line is drawn above/below the triangle.

To prevent the false signals from being displayed, select the Filter button to On in the Bias Reversal menu. If you see a False signal bar drawn on the Bias Reversal, we suggest you leave that signal alone and wait for the next one.

The Bias Reversal also has a Normal and Tight mode. The Tight mode is basically a filtering technique where the software has to obtain stronger signal to generate the change in Bias.
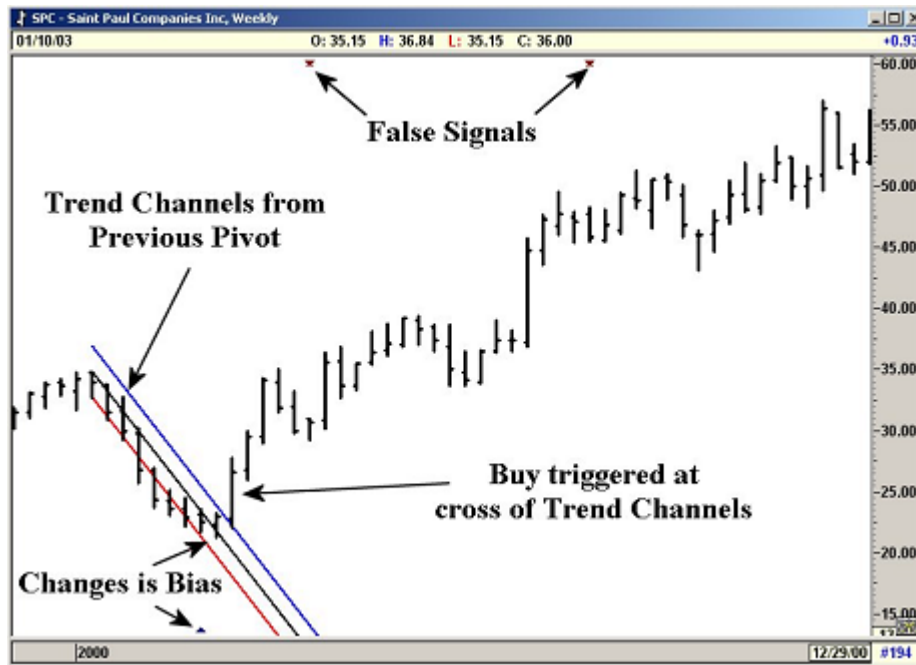


**Figure 22-1b: Weekly Chart, St. Paul Companies, Inc.**