



Brainy's Articles on Technical Analysis

Darvas Box explained

Article No:
TA-6300
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Introduction

Nicolas Darvas was a professional dancer who made more than \$2 million in the stock market over an 18 month period while he toured the world dancing in the late 1950s. He subsequently authored the best-selling book "How I Made \$2,000,000 in the Stock Market" which has been re-printed several times.

Darvas's winning approach and trading strategy are described in Brainy's eBook (pdf) Article ST-6440, "Nicolas Darvas — \$2,000,000". His early years of experimentation and his accumulated conclusions are discussed, and a summary of the key points from his winning strategy are included on page 7 of that Article.

One of Darvas's key tools was his so-called Darvas Box, which is implemented in a number of technical analysis charting tools, including the BullCharts charting software. This Article in Brainy's series on technical analysis, TA-6300, "Darvas Box explained", explains the concept of the Darvas Box, and how it relates to conventional technical analysis teachings and principles. A case study is explained in detail, as well as the rules for forming the Darvas Box (as extracted from Darvas' notes).

Readers should also refer to Brainy's BullCharts Article BC-27-100, "Darvas Box and tools", for details about how to find Darvas Boxes on a price chart.

Sample Darvas Boxes

After the Australian stock market bottomed in March 2009, it rose until about October 2009 before trading sideways for at least the next 18 months. But during this range-trading period a number of stocks made reasonable gains, and the Darvas Box could have been used to identify them. Table 1 below lists some of these stocks.

| Stock Code | Stock Name | Start Date | End Date | Percent increase | Annualised inc (%) |
|------------|---------------------|------------|----------|------------------|--------------------|
| AKM | Aspire Mining | 09/11/10 | 03/03/11 | 350% | 12,300% |
| BSE | Base Resources | 05/10/10 | 03/03/11 | 147% | 823% |
| CNA | Coal & Allied ind. | 04/10/10 | 20/01/11 | 20% | 84% |
| BSE | Campbell Bros | 30/08/10 | 13/04/11 | 43% | 79% |
| CPL | Coalspur Mines | 28/10/10 | 02/02/11 | 69% | 619% |
| QUB | Qube Logistics | 01/11/10 | 29/04/11 | 61% | 165% |
| STB | South Boulder Mines | 09/11/10 | 07/03/11 | 357% | 10,950% |

Table 1: Seven stocks rising after August 2010.

The daily price chart of Coalspur Mines in Figure 1 at right shows several Darvas Boxes. Don't forget, Darvas explains that the box has an upper and a lower limit, and that once a high point is established, and a corresponding low, the stock bounces up and down inside the box until it either falls down out of the box, or it breaks upwards and hopefully moves on to form another higher box.

We can see in the chart at right that this stock increased some 69% over nearly 100 days (about 14 weeks).

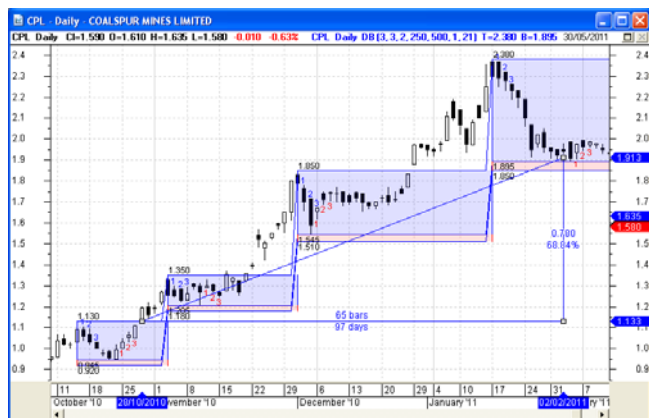


Figure 1: Coalspur Mines (CPL) and Darvas Boxes.



Brainy's eBook (PDF) Articles

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