



Brainy's Articles on Technical Analysis

Volume (it is important!)

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page 1 of 5
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is NOT free*

Introduction

The Article ST-1100¹ talks about how the share market is little more than an organised forum for the trading of securities which is really a battleground for the bulls and the bears of the market. The people who step up to the market and offer to buy or sell shares (or any tradeable instrument) will already have a view about what they want to purchase, and at what price level. They then join the action and try to make a trade at what they believe is a fair price. It really is an auction process, and the market does reflect the underlying mood and emotion of the crowd.

The rise and fall of individual share prices in the market reflects underlying views and feelings about the perceived value of each share. The share price chart can tell us a lot about the underlying emotion.

A tell-tale element that is often overlooked is the amount of *volume* that is traded in each period. With some basic understanding of the events that can cause share volumes to fluctuate, the investor/trader can understand a lot more about the mood of the market, and possible future directions of a stock or the entire market.

Take a look at the sample Daily price chart in Figure 1 above. Notice that the share price of Aurora (AUT) was stuck below resistance at 30 cents in late 2009, and pushed above it in mid-January 2010. By mid-February the price had risen some 43% to about 44 cents. Also note that the volume bars in the lower pane of the chart are progressively taller in late January. This is easier to see using the blue Moving Average of Volume line (5 period SMA) — notice it is rather low in December 2009, and increases in mid-January. Now note the price level some 12 months later on the monthly price chart in Figure 2 at right — an increase of some 340%. And note the volumes increasing each month, especially when compared to the earlier volumes above.

In this example, the increasing volume certainly confirmed the increasing interest in the stock, and underpinned the rising share price.

In this Article in Brainy's series on technical analysis, TA-3350, "*Volume (it is important!)*", we look at the measure of traded volume, and look at how to interpret relative changes in volume. But there is a minor complication to interpreting volume on price charts — to do with the range in price (or *price spread*) in each period (referred to as *Volume Spread Analysis* — VSA). This is also covered in this Article.

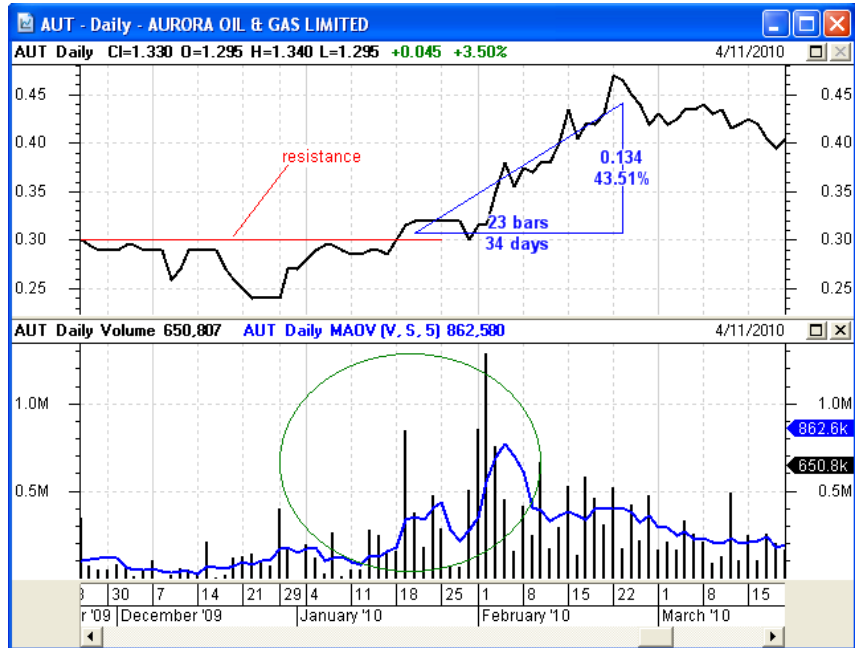


Figure 1: Sample of increasing volume reflecting underlying increase in interest in the stock.

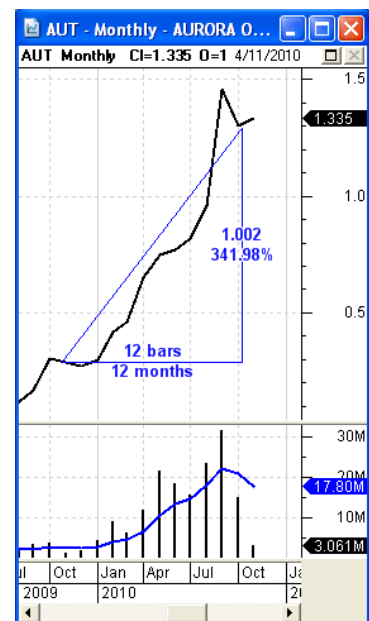


Figure 2: 12 months later.

1 Brainy's Article ST-1100, "*Bulls and bears & the auction*" (page 3) in Brainy's series on Share Trading, one of the series of Articles on Share Trading and Investing.