



Brainy's Articles on Technical Analysis

P-SAR indicator

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Introduction

This article in Brainy's series on Technical Analysis (number TA-4250) provides an introduction to the Parabolic-SAR indicator.

The Parabolic SAR (Stop And Reverse) indicator was developed by J. Welles Wilder, and is described in his book *New Concepts in Technical Trading Systems*. It is a trending indicator and is mostly used as an exit indicator to indicate the Stop-Loss price point for tomorrow's trading (for long or short positions). It can also be used to help identify entry points. The indicator is a series of dots that are

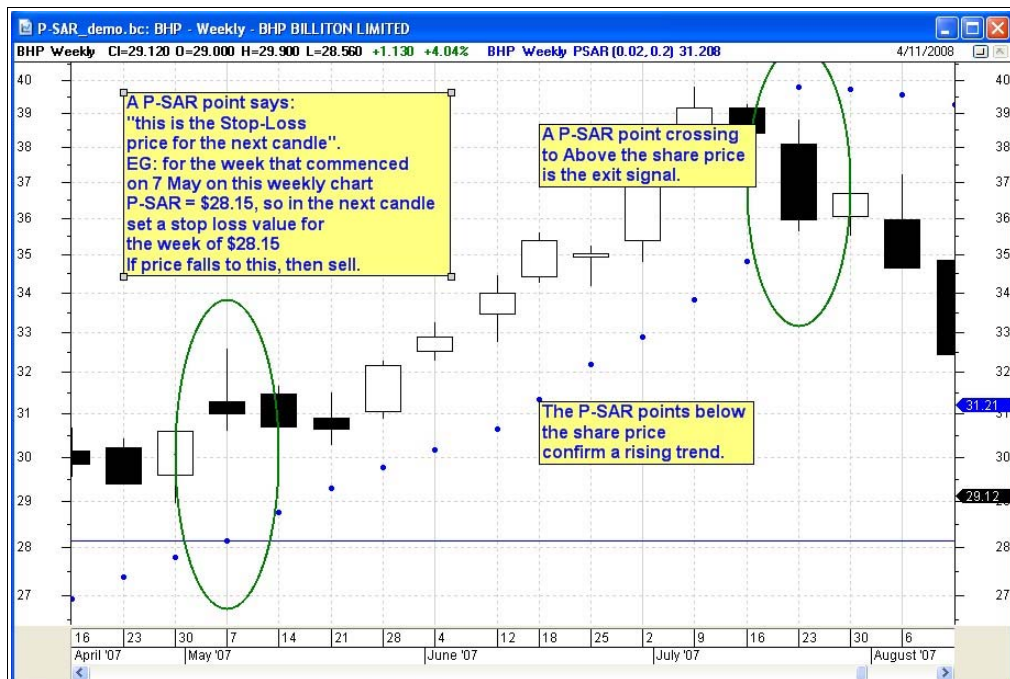


Figure 1: Price chart showing the P-SAR indicator

placed either above or below a candle on the price chart.

With reference to the weekly price chart in Figure 1 above, note the following:

- The P-SAR indicator applies to charts of most time frames (eg. daily, weekly, monthly, etc.).
- The P-SAR dots are automatically placed on the chart either below or above each candle.
- For most of the chart portion displayed here, the P-SAR dots are positioned below the candles. This confirms the up trend.
- As the stock rises in an uptrend, the next P-SAR value usually rises also.
- On this weekly chart, for the week of trading from 7 to 11 May 2007, the P-SAR point is below the candle at the value of \$28.15.
- This P-SAR point says: "if the price falls to \$28.15 any time next week, then sell". See comments on next page for more detail.
- At a point of significant price weakness (eg. the week commencing 23 July), the P-SAR has crossed to "above the share price" for that week.
- P-SAR could be considered as a guide for entry as well. When the P-SAR has crossed from above the price to below, this confirms a possible entry.

P-SAR has changeable parameters — see the next page for details. Also see comments and observations on the next page.