

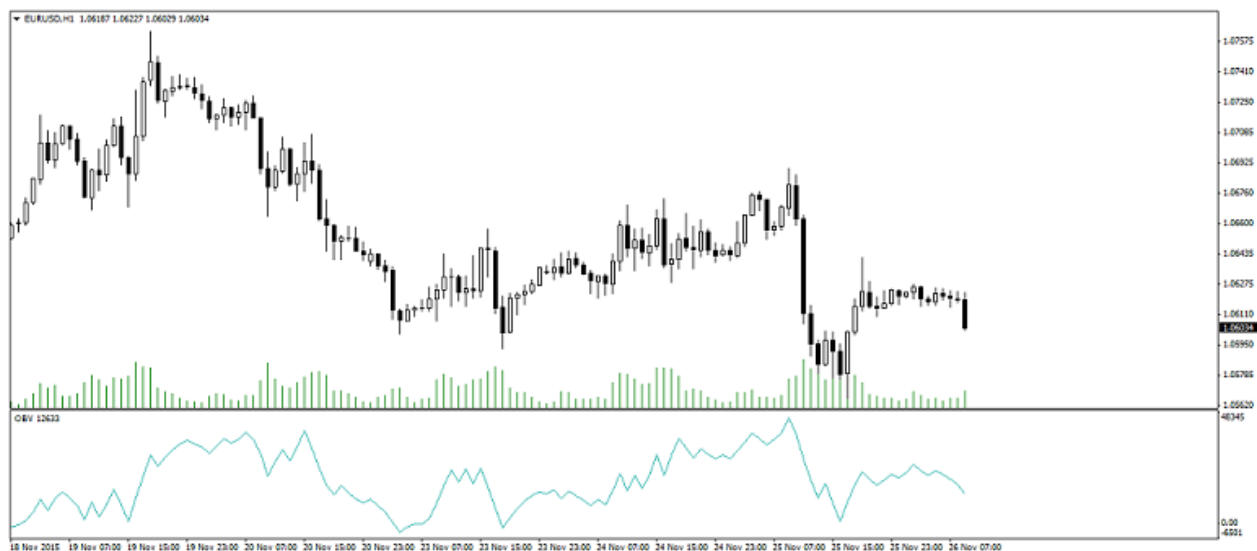
Forex Strategies Work

www.ForexStrategiesWork.com

OBV Indicator Explained

The On Balance Volume of OBV for short is a technical indicator which combines volume and price. It was first developed by Joseph Granville and found its use widely in the stock and futures markets where volume is more significant. The OBV indicator is an oscillator and does not have any default settings. The OBV is merely a running total volume of up days and down days, meaning that when the asset closes higher than the previous close, then all of the day's volume is considered to be in up-volume and vice versa for down-volume. During up-days, volume is added, and during down days, volume is subtracted. The OBV is particularly useful as traders have found that volume precedes price and is therefore used as a leading indicator. The most important aspect about the On Balance Volume is that the values are not the main point of focus, but rather the volume moves that are captured by the running line on the OBV.

The chart below shows price and the On Balance Volume indicator applied on the charts.



On Balance Volume Indicator

How to trade with the On Balance Volume Indicator

Because the OBV is an oscillator, but one that is not subject to a fixed range, it can be used in different ways including trend line breaks on the OBV, price divergence and so on.

The first chart below shows how the OBV can be used to trade the trend line breaks. Here, connecting two consecutive lows on the OBV, the trend line is drawn. When the OBV breaks the trend line, short positions are taken which, as shown on the chart signal a sharp decline in prices. Traders can also use trend lines on prices as well and look for confluence between the OBV and the Price's trend lines and trade accordingly.

Join Profit By Friday to Receive Daily Trade Signals

<http://bit.ly/ProfitByFriday>

Forex Strategies Work

www.ForexStrategiesWork.com



Using OBV with trend lines

Another way to use the OBV oscillator is to make use of divergence. An important aspect to bear in mind here is that with OBV, the divergences that are seen are based on volume and not price and therefore, there is scope for a minor discrepancy when trading divergence set ups with the OBV oscillator. The next chart below illustrates how the bullish and bearish divergences between price and the OBV's high and lows can be spotted and one which signals a potential move in the respective set ups.



Trading divergence set ups with OBV Oscillator

The On Balance Volume indicator as illustrated above is a rather simple trading indicator which focuses on volume. This makes it a versatile technical analysis tool which can be used with other oscillators that

Join Profit By Friday to Receive Daily Trade Signals

<http://bit.ly/ProfitByFriday>

Forex Strategies Work

www.ForexStrategiesWork.com

focus on price alongside trend indicators such as moving averages or momentum indicators such as Bollinger Bands. However, traders should realize that the OBV is more suited for markets which trade at a centralized exchange and one where volumes are more accurate. With forex, given that the markets are traded over-the-counter, volume that is shown on the charts can vary from one broker to another, which could lead to significant discrepancies in how the OBV is plotted.

However, all said and done, the On Balance Volume indicator makes for a versatile trading tool which is used to signal early changes in prices due to volume.

Join Profit By Friday to Receive Daily Trade Signals

<http://bit.ly/ProfitByFriday>