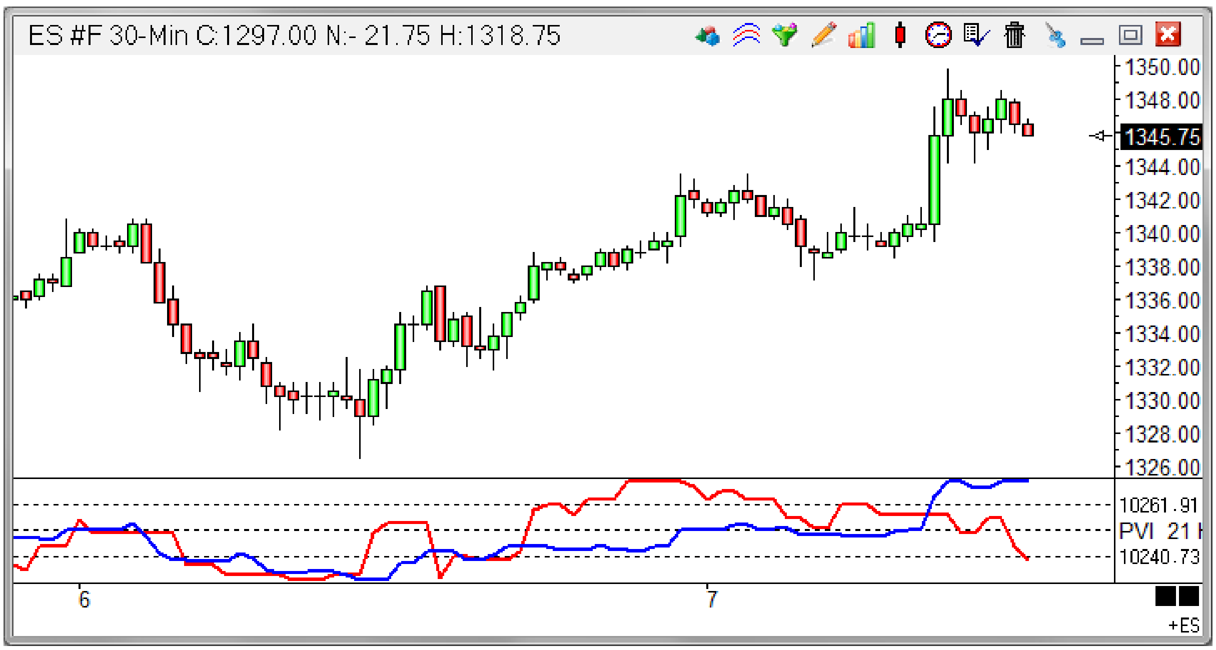
PVI or NVI Volume Index

The Positive Volume Index (PVI) and Negative Volume Index (NVI) are used to identify bull and bear markets. PVI is based on the assumption that uninformed traders dominate trading on active (high volume) days. NVI assumes that smart money dominates trading on quiet (low volume) days. The author of these studies, Norman Fosback, maintains that there is a 67% probability of a bear market when PVI is below its 1 year moving average. The probability drops to 21% when PVI is above the moving average.

Interpretation of the PVI and NVI assumes that on days when volume increases, the crowd-following uninformed investors are in the market. Conversely, on days with decreased volume, the smart money is quietly taking positions. The NVI displays what the smart money is doing. Note: The PVI is not a contrarian indicator. Even though the PVI is supposed to show what the not-so-smart-money is doing, it still trends in the same direction as prices.



In this example above the blue line is the PVI and a second study was added to show the NVI, which is the red line. In the properties select 'Positive Vol' to plot the PVI, or 'Negative Vol' to plot the NVI. An optional moving average can be added here as well.

Credits

Norman Fosback

Volume Price Trend

An optional check box on the property form changes the formula to the Volume Price Trend formula. The Volume Price Trend is a volume-weighted momentum indicator. It is used to determine balance between demand and supply. The price trend denotes the relative supply or demand of a security, while volume indicated that actual size of the force. Volume is higher with a price move in the dominant direction.

Formula:

VPT = Previous VPT + Current Volume * (Price – Prior Price) / Prior Price)

Credits

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