Twitter Thread by Trendline Investor

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The Ultimate Guide to ‘RELATIVE STRENGTH (RS)’...■

WAIT… This is NOT RSI that you use day in & out…

Rather a very IMPORTANT indicator that can CHANGE the way YOU trade/invest…■

So, hang on as I explain this with #TATASTEEL chart...

Let’s go ■…

1■ But, how will it change the way I trade?

- Ever wondered why the stock you are holding is not moving when the market is ripping higher?

Ex: ITC didn't move btwn June’20 & Feb’22 while the market rallied

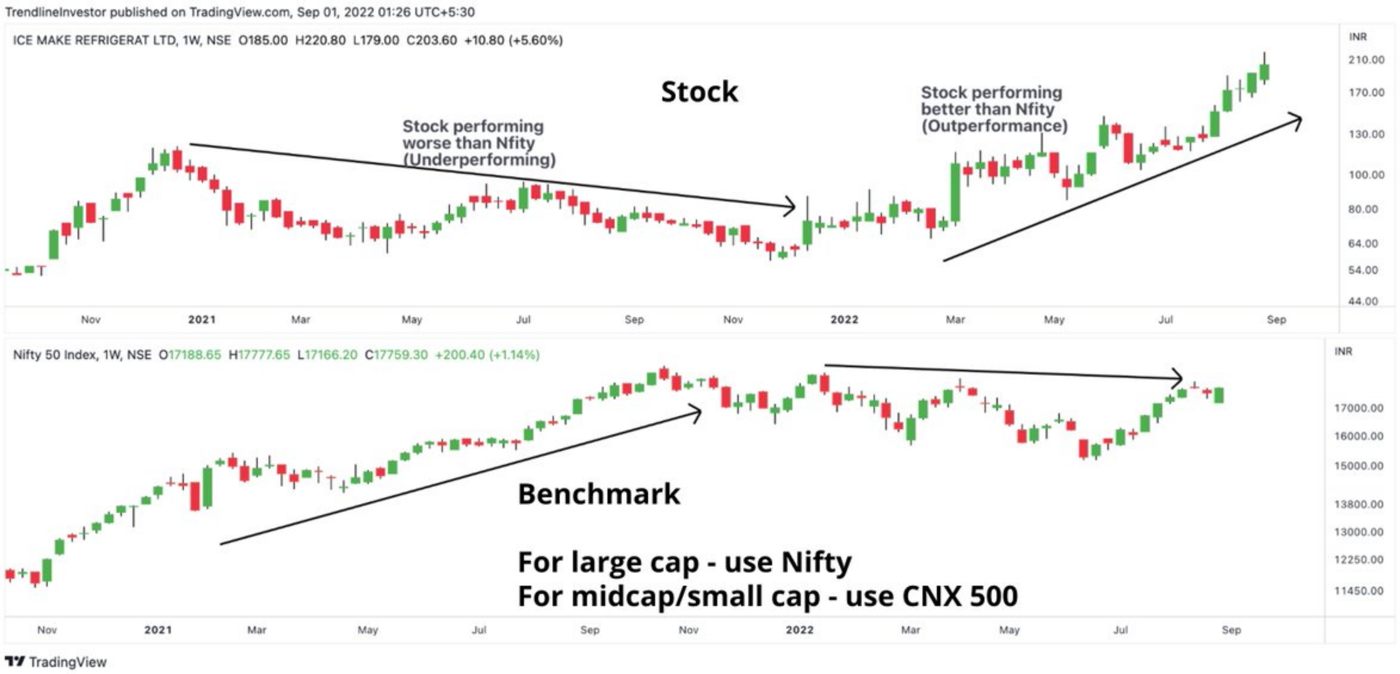
This indicator will help you get rid of such underperforming stocks.

2■ ok, what’s RS?

When stock A goes...

- up faster than Nifty, it is STRONG/OUTPERFORMING relative to Nifty
- down faster than Nifty, it is WEAK/UNDERPERFORMING relative to Nifty

So, RS is relative performance of a stock compared to any benchmark (refer chart for example)



3■ Let's dig deeper:

A stock is outperforming/strong when

- Nifty is going up, but the stock is going up much faster than Nifty
- Nifty is going down, but the stock is going down much slower than Nifty or going up

4■ More definitions:

A stock is underperforming/weak when

- Nifty is going down, but the stock is going down much faster than Nifty
- Nifty is going up, but the stock is going up lesser than Nifty or going down

5■ Moving on to examples…

- If a stock has gone up from 100 to 500 in the last 6 months & Nifty has gone up from 10000 to 15000 in the last 6 months, then you can say the stock has gone up 5 times & Nifty has gone up only 50%.

This shows that the RS of the stock is Strong

6■Let's calculate RS...

- Ex: stock price @ 100 & Nifty @ 10k
- Divide the stock price/Nifty
- 100/10000=0.01
- To make it easily understandable, let's multiply this by 100. So, 0.01*100=1.

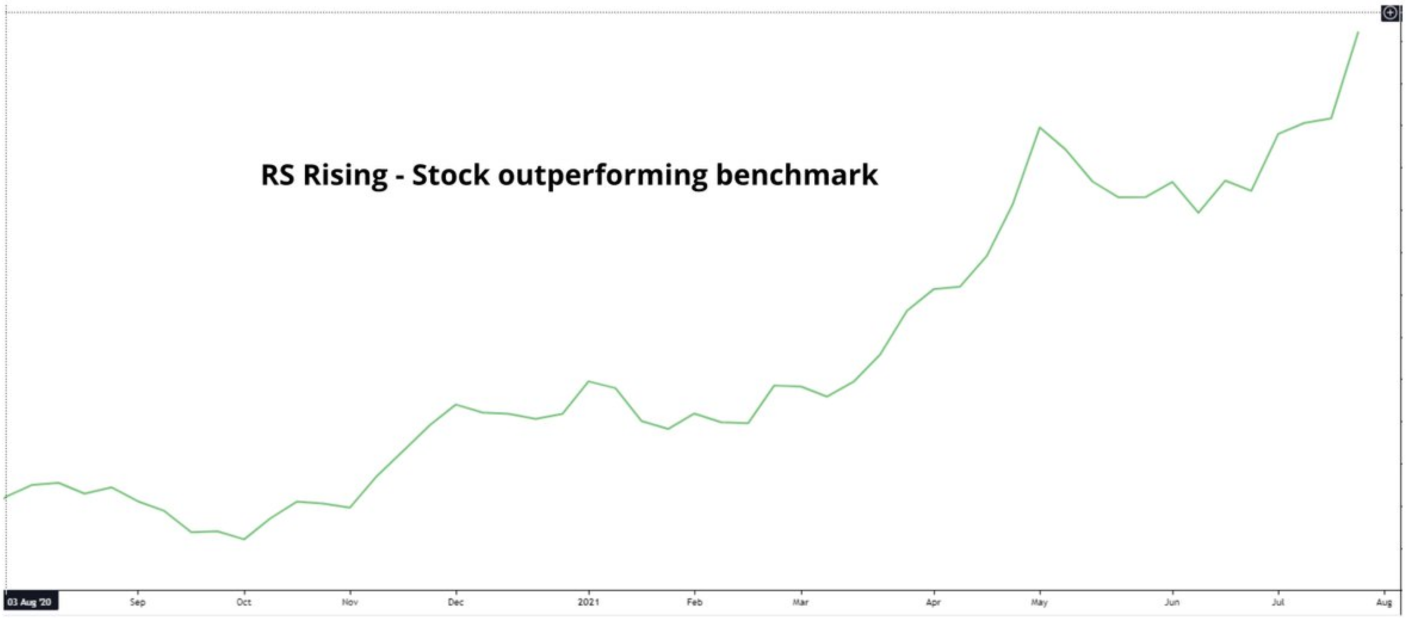
So, this is what we did.

RS = (Stock Price/Nifty Price) * 100 = (100/10000)*100 = 1

7■ Time for graphs..

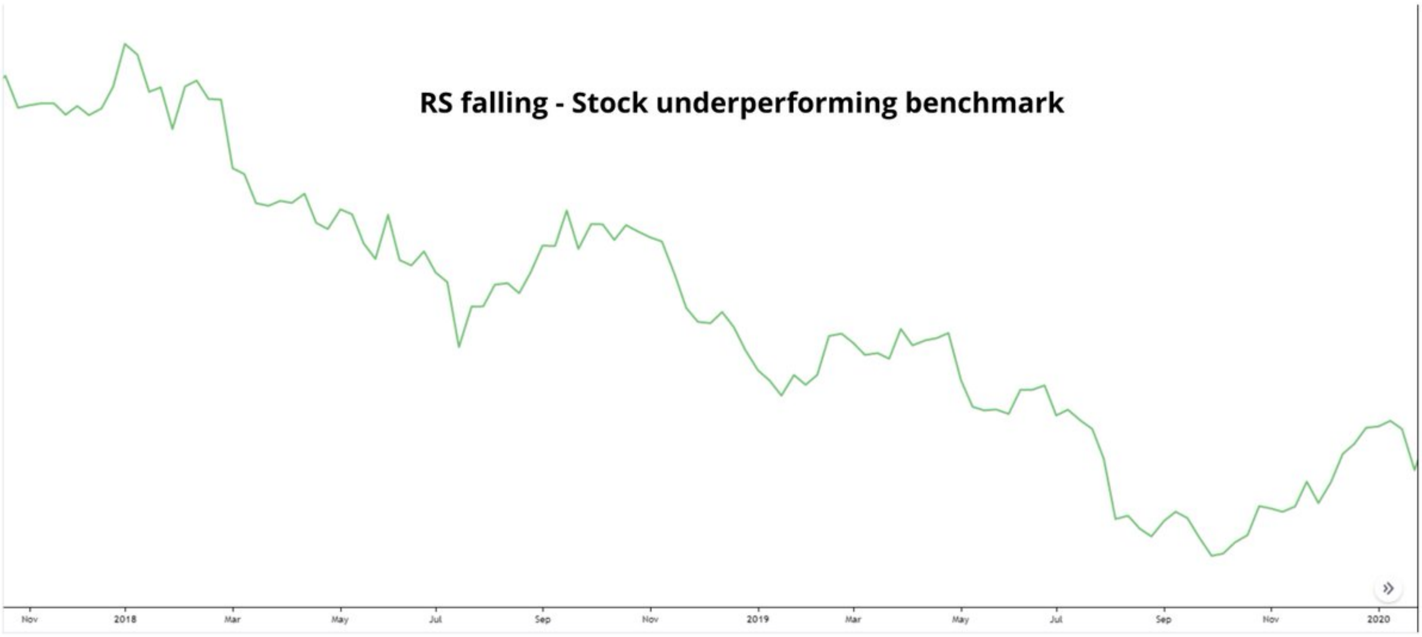
If you continue to do the above every day until the stock reaches 500 & Nifty reaches 15000 & if you plot it in a graph with the ratio on the y-axis & time on the x-axis, y'll notice a rising line chart

This tells you stock is clearly outperforming Nifty



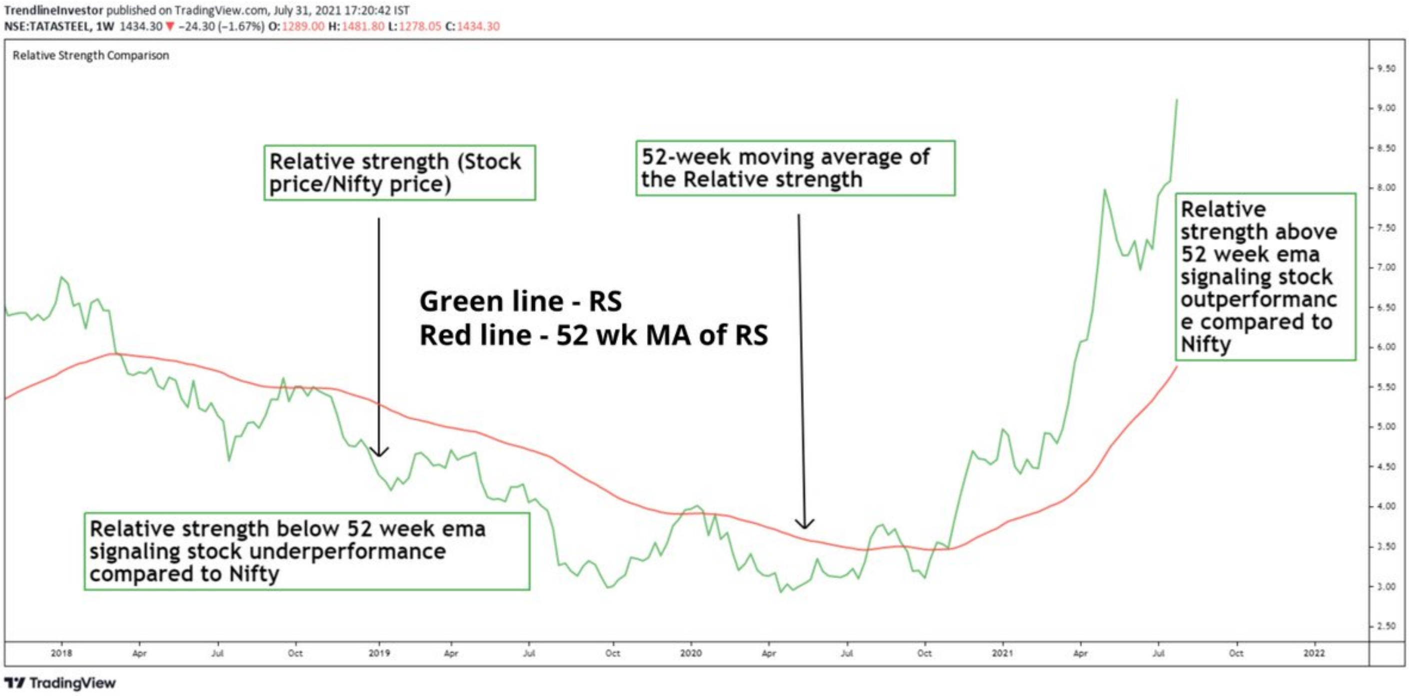
8■ Let’s do the reverse…

If the stock is not going up as much as Nifty or if the stock is going down when Nifty is going up, then you will see a line/graph chart where the trend is down, as shown below.



9■Adding a 52 week MA to the RS…

- Let's add a 52 week exponential moving average(red line) of the RS that will help us understand RS trend of the last 1 yr
- The red line is much smoother & shows that the average RS was in a strong downtrend before trending up.



■ Let’s simply it…

- If the RS is above the 52 wk MA(red line), this signals that the RS is moving higher or the stock is outperforming Nifty.
- If the RS is below the 52 wk MA(red line), this signals that the RS is moving lower or the stock is underperforming Nifty.

1■1■ Let’s take a real example #Tatasteel...

- In the below chart, around Line 1, the price remained flat but RS kept rising - outperformance.
- Later the stock price also broke out from consolidation & started a long term uptrend that lasted for 2 long years from 2016 to 2018.

1■2■Stock starts to underperform...

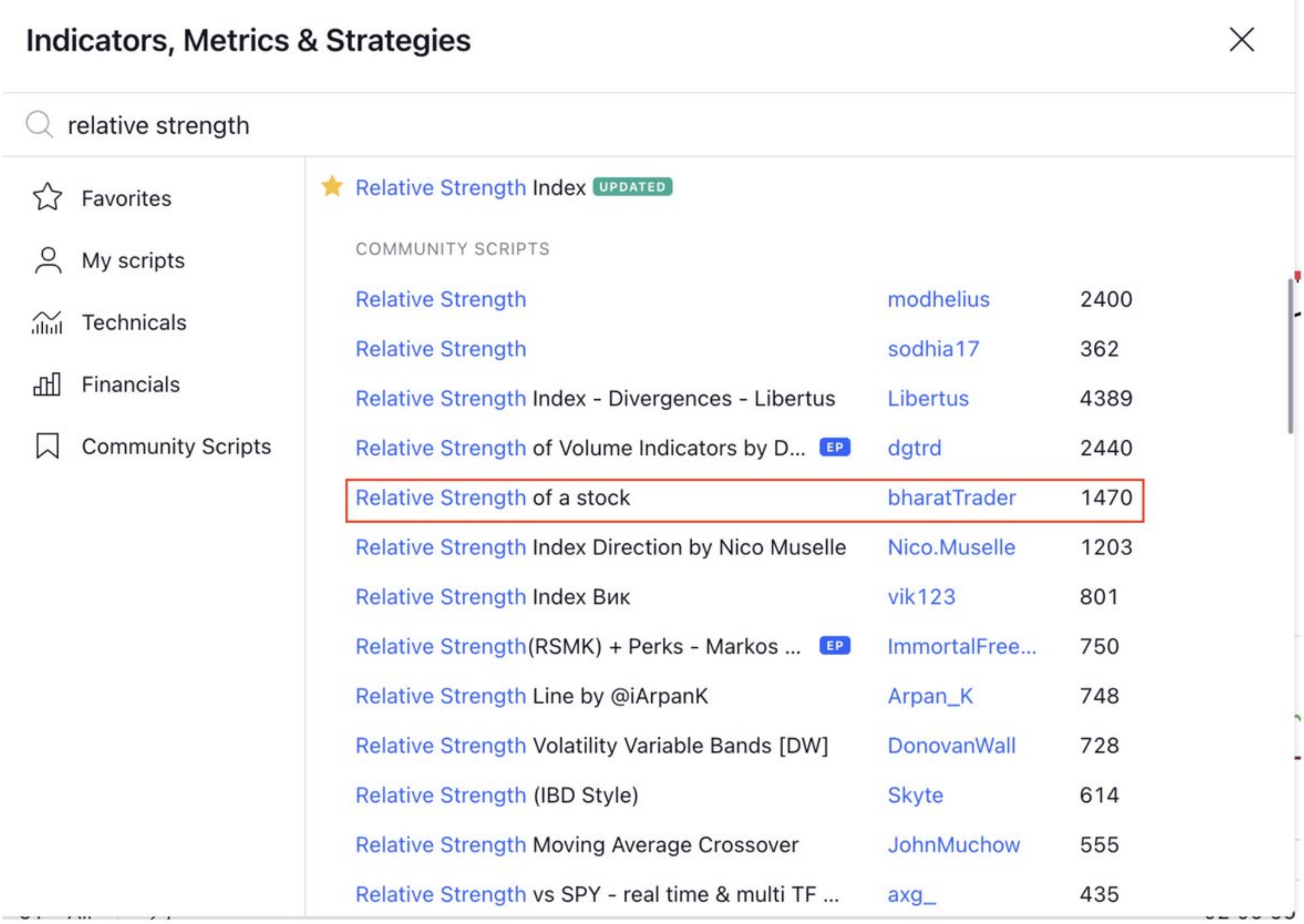
- In '18 after a 2 yr strong uptrend (Line 2), RS went below the red line & the stock price also broke down from an uptrend & started heading lower.
- Since, '18 RS line has always stayed well below the red line indicating underperformance

1■3■ Tatasteel rises…

- In '20 crash (Line 3), the RS was flat while price went down to 250
- RS remained flat coz price fell lesser than Nifty
- In Nov'20 price broke the downtrend & went higher & RS crossed red line too
- Since that breakout Tatasteel has outperformed Nifty

1■4■ Uff.. too much info? ■

- If you stayed till here, here is the indicator code
https://t.co/olLhe4Ki2g - create a new indicator in Tradingview(TV)
- If you don't know how to create a TV indicator then just search for this indicator in TV or just find the one that suits you



1■5■Learnt something? If yes, please■

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Let\u2019s go \U0001f9f5\u2026 pic.twitter.com/WOJK33NorT

— Trendline Investor (@dmdsplyinvestor) September 1, 2022