Twitter Thread by JayneshKasliwal



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A Mega Thread on RELATIVE STRENGTH

A method to improve
Stock Selection and Conviction in trades

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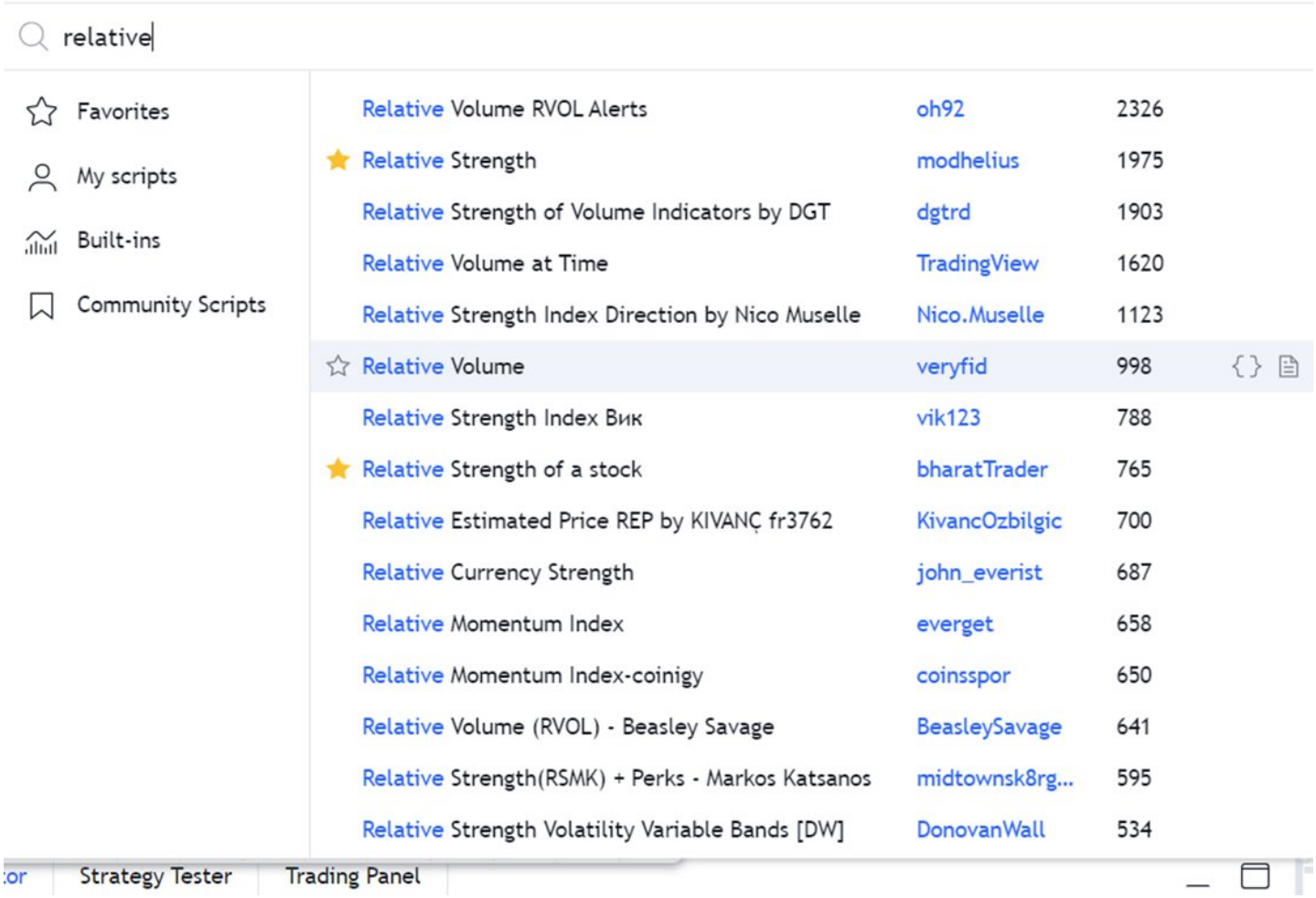
What is RELATIVE STRENGTH?

Relative strength is a strategy used in momentum investing and in identifying value stocks.

It focuses on investing in stocks or other investments that have performed well relative to the market as a whole or to a relevant benchmark.
1/n

For example, a relative strength investor might select technology companies that have outperformed the Nifty50, or the Nifty 500.
This is basically used for Identifying the strongest sector , stocks , asset class by comparing the relative performance
2/n

How to apply it in tradingview?
Type
“Relative Strength”
Choose any
By bharattrader
By traderlion
By Modhelius
I use by bharattrader
In setting use 65 period
3/n



Formula for Rs

Using 65 as period and base as NiftyOne can use 123 or 250 as period depending upon your time frame of holding

If your view is short term then 65 works great and mid to long term can use 123 and 250 .

@kuttrapali26

4/n

$$\frac{(\text{CurrentPrice} / \text{Price 65 days ago})}{(\text{Cmp Nifty} / \text{Price 65 Days ago})} - 1$$

Why to Use RS ?

Helps to filter out stocks in good momentum and that are giving better returns than nifty

These stocks tend to outperform the market.

These are potentially superstocks

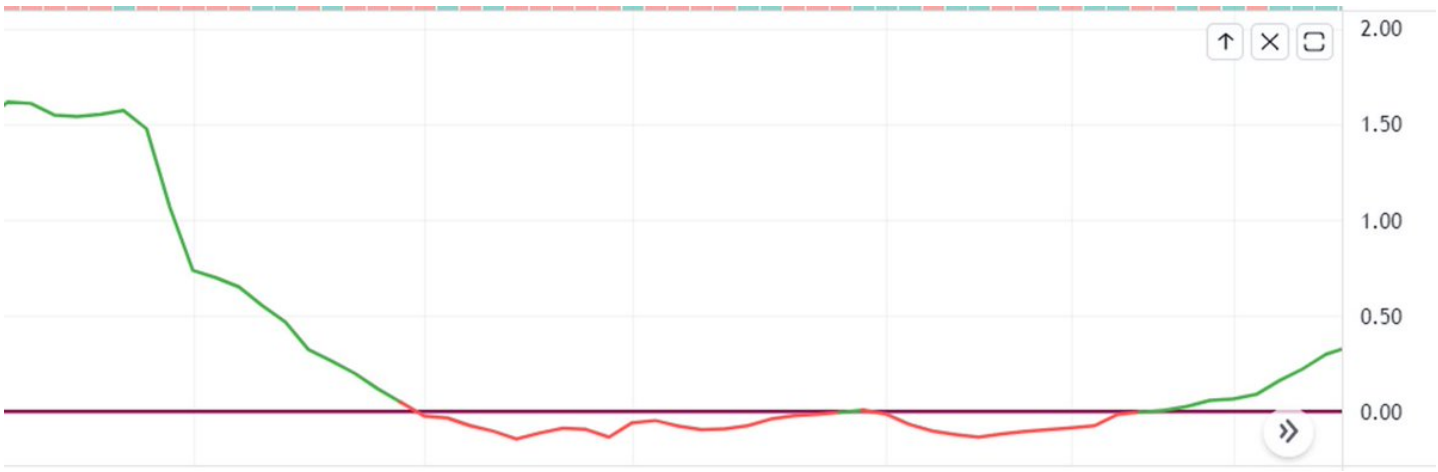
65 period signifies 3 months of trading

In 3 months we have around 65 trading days

5/n

How does RELATIVE STRENGTH look ?

0 line that helps to differentiate between underperformer and outperformer
>1 Outperforming the markets
<0 Underperforming the markets
When 65 RS Goes above 2 its too much heated and generally goes into consolidation or pullback
@vivbajaj
6/n



Simple Example of Relative Strength
Nifty Falling 10% but your Stock is not falling and staying sideways Means it has Strength to fight against the falling market.
When Market Recovers it already had strenght and hence it will moe more faster
7/n



Ways To Use RS
Most Popular - Stock vs Index
(Example – Reliance Vs Nifty 50)

Stock Vs Stock in same sector
(Example –LTI Vs Infy)

Stock Vs Stock across sectors
(Example –Reliance Vs TataMotors)

LTI
Comparing IT stock vs NIFTY vs IT index
8/n



Local Index Vs Global Index
(Example – NIFTY50 vs S&P 500)

Relationship across sectors
(Banking vs Telecom)

Relationship across asset classes
(Gold Vs Dow)

Relationship across segments of the market
(Mid-cap index vs Small cap index)
9/n
S&P500 Vs Nifty



NIFTY INFRA vs NIFTY 50 VS NIFTY psu

The Highlighted part means that

Nifty Infra is outperforming the nifty 50 index in that period but underperforming the Psu bank index

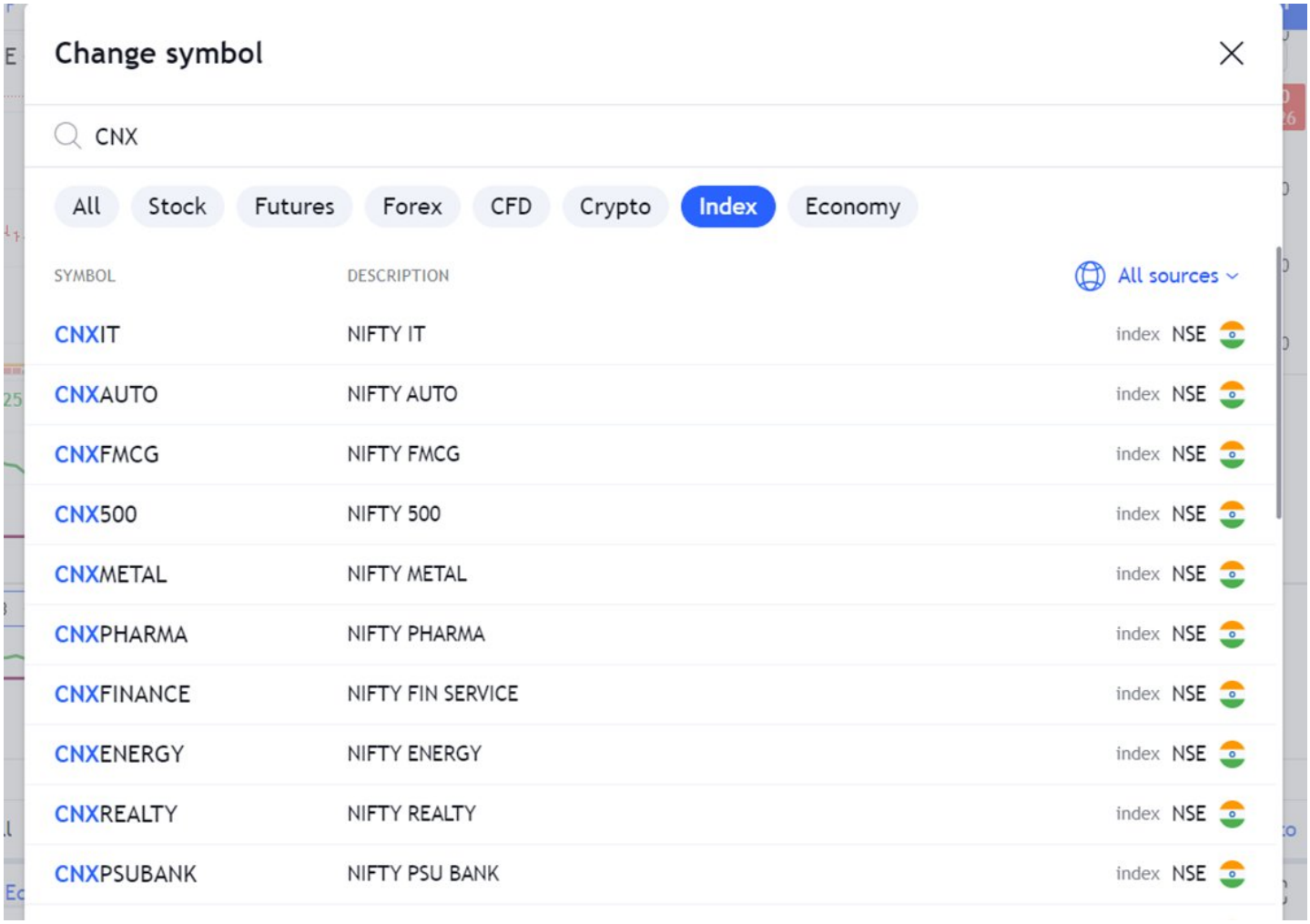
That indirectly means that psubanks have outperformed both nifty and nifty infra and hence is the strongest



You can Compare any Asset with any other asset by changing the comparative symbol

You can use CNX IT , PHARMA , INFRA to compare your stocks to specific Sector

11/n



Outperformance Vs Underperformance

JSLHISAR vs AMARRAJA BATTERY

12/n

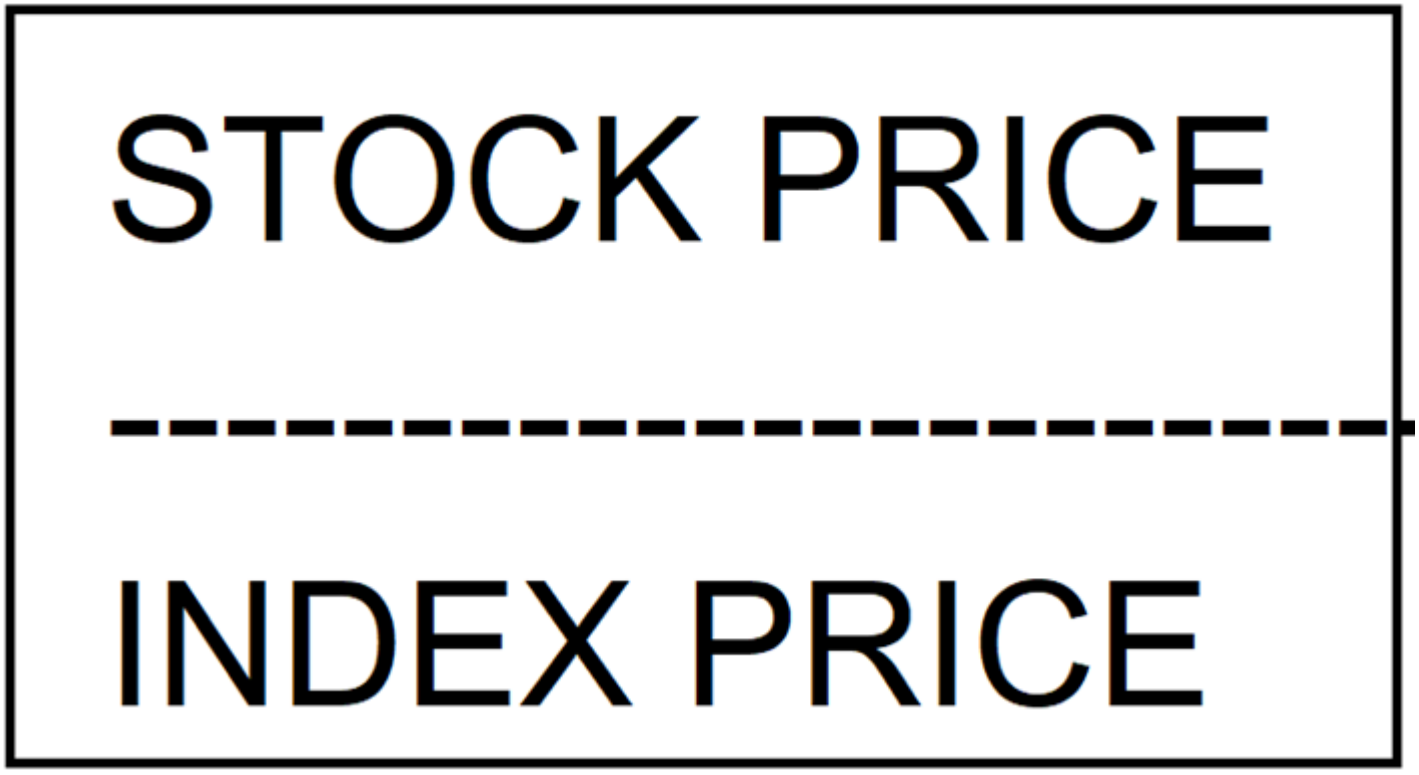


Extended >2: Stock Correct
Extended >2 Stock turns Sideways
Globus Spirits Vs Goodluck
13/n

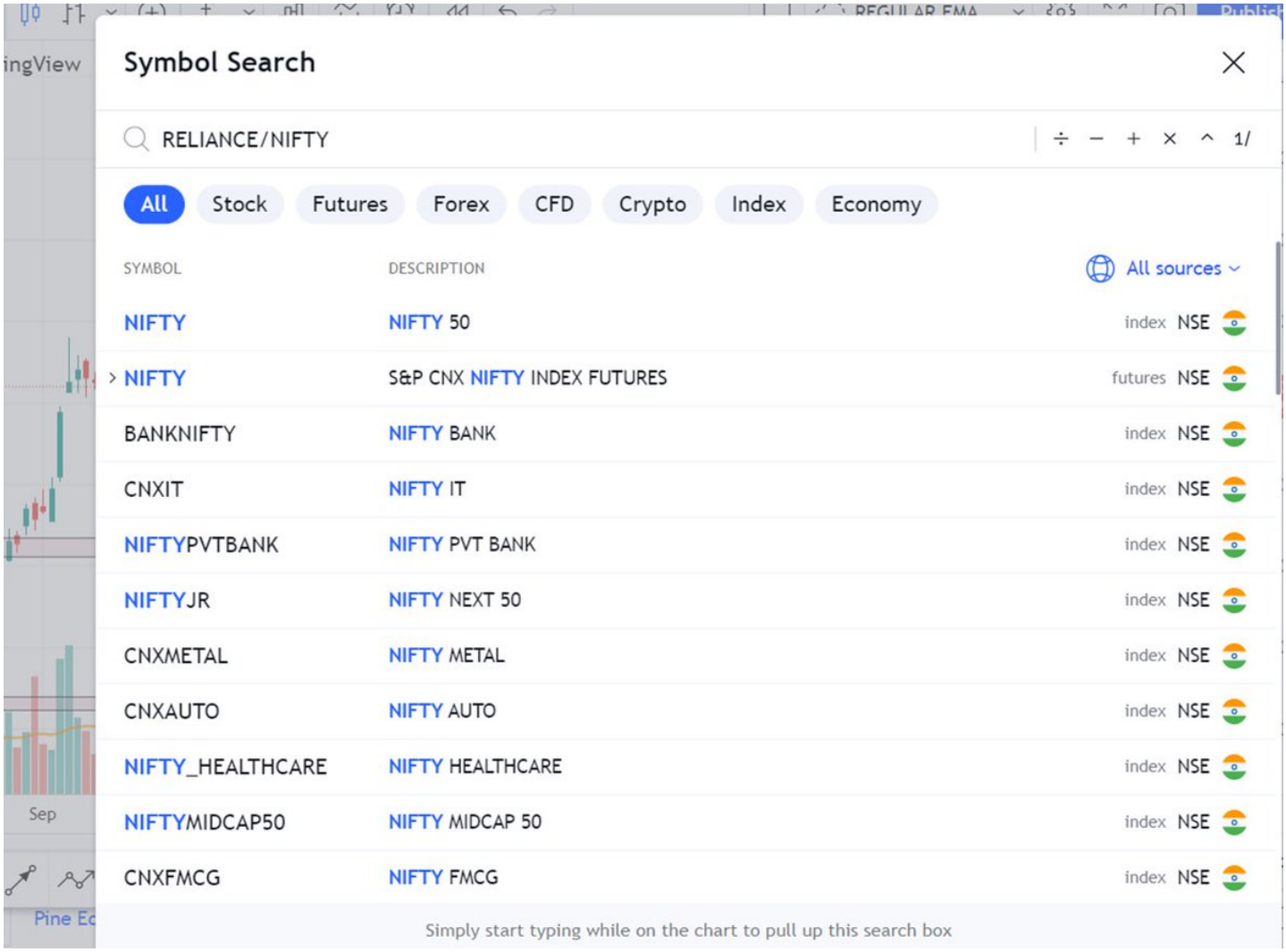


Points to remember :
Key point: Relative Strength tends to select high beta or low beta stocks, depending on the market trend.
When that trend undergoes a major reversal, Relative Strength will see its peak underperformance.
Because tops and bottoms are sharp and quick.
14/n

Different Type of Relative strength
COMPARATIVE RELATIVE STRENGTH
One can Simply divide Stock Price by Index Price
This is known as ratio chart
15/n

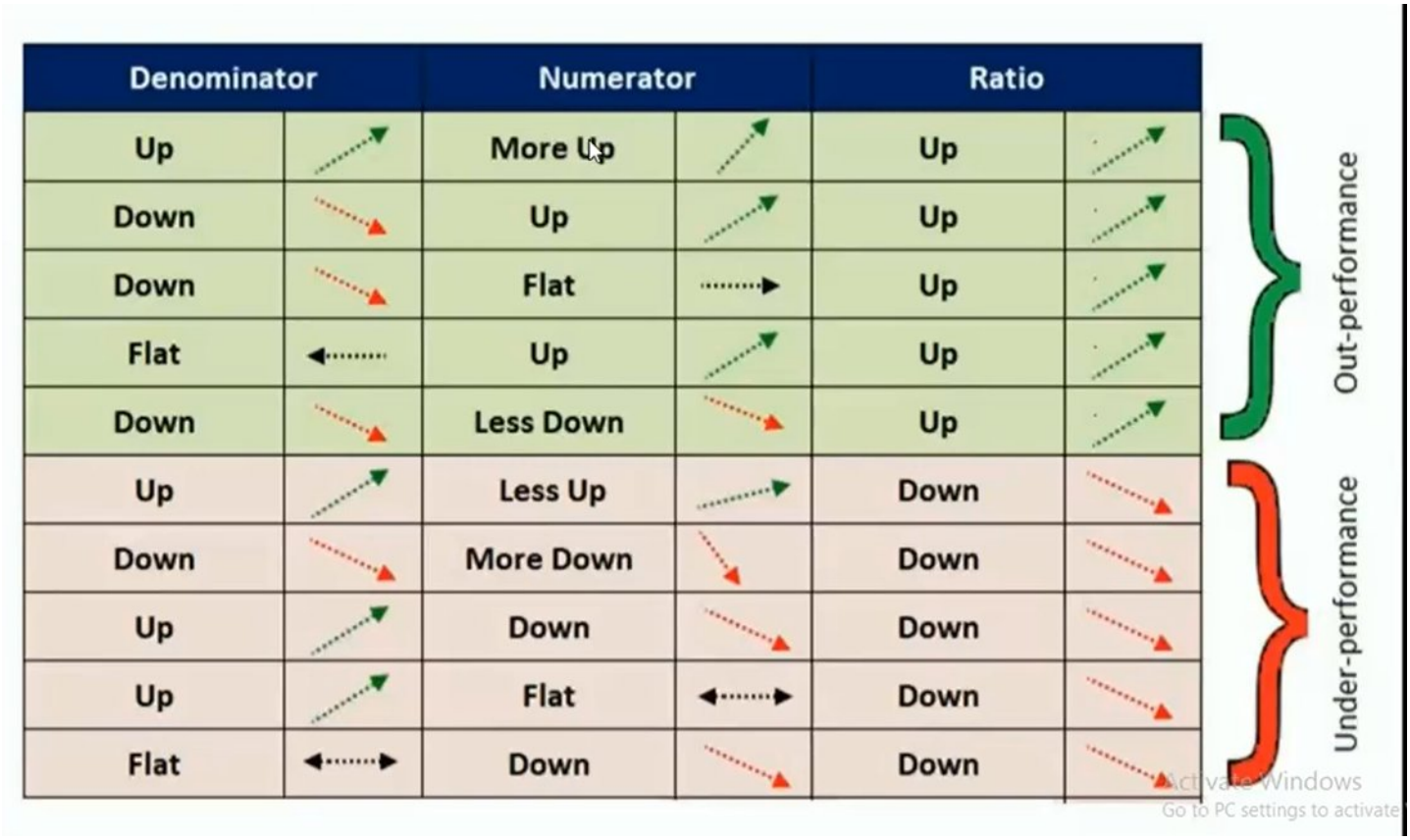


In tradingView
use "/" Symbol to plot the ratio chart in symbol search
Reliance vs BalajiAmines
16/n



Understanding the trend

17/n



Difference between RS vs CRS

The RS calculates the relationship between price of the past “N” period in our case 65

The CRS calculates the relation on daily basis price change and plots

CRS will show you the trend of the particular day while RS shows you trend of past 65 days

18

Simpler Explanation

Example 1

Nifty Falls 10 % over a period but a stock a stock gains 10% . What does that mean ?

Nifty Stays Flat over a period but a stock gains 10% . What does that mean ?

Nifty Rises 10% over a period but your stock Rises 50% .

What does that mean ?

19/n

ANS :

Buyers are still interested in the stock/ Sellers are weak and when market recovers these are the stocks which move Ahead much faster as they already have strength .

Stocks that are showing strength in weak market will outperform in strong market

20/n

Duckman's Relative Strength Techniques

(RS = Relative Strength; MAs = Moving Averages)

Here are some techniques I have found useful over the years to find stocks that stick out during a selloff, correction, or pullback. Nicolas Darvas eloquently stated in his book, (How I Made $2,000,000 in the Stock Market) "I tried to detect those stocks that resisted the [market] decline. I reasoned that if they could swim against the stream, they were the ones that would advance most rapidly when the current changed." This gentleman laid it all out for us and William J. O'Neil galvanized this concept and folded it into the CANSLIM methodology. Relative Strength is the single most underrated tool within the technical analysis spectrum in my opinion. Here are some ways to identify RS:

- RS line at new highs
- Stocks with an RS line pointed at 12 to 2:30ish before a stock breaks out or as a stocking is breaking out (upward trending with the greater the ascent angle, the better)
- Stocks making 52-weeks as the market is in a correction or pulls back
- Stocks making all-time highs
- Stocks NOT making a new low when the S&P500 and Nasdaq are
- Stocks holding above short-term MAs like: 8ema, 10sma, 21ema, etc.
- Stocks with short-term MAs in order: 5ema above the 8ema, 8ema above the 10sma, 10sma, above the 21ema, etc.
- Stocks that undercut long-term MAs like the 50sma or 200sma less than the general market undercuts those same MAs on a percent basis
- Support candle on weekly/daily which needs to close in the upper half and preferably not a gap down but doesn't necessarily have to be a positive week or day
- Stocks that closed green for the week or day while the general market was down substantially
- Stocks that did not participate in the most recent rally and now act calm and orderly in a corrective tape
- Tight range closes and a tight high/low candle on minimal volume on a weekly or daily chart during a bad tape
- High RS rating (preferably >87)
    - Note: The RS line is more of a leading indicator than the rating
- Top RS stocks in the top 40-50 industry groups
    - Pick the fundamentally most sound stock with good liquidity that has the strongest RS line of the GROUP and not just the market
- EPS driven gaps on BIG volume are huge institutions buying clues
- Stocks holding EPS driven gap gains (<10% from the gap day close) in the following days
- Stocks breaking out of a sound base
- Stocks basing or consolidating calmly sideways while the market makes new lows
- Stocks clinging on to MAs that it hasn't attached to in the past (character change)
- Stocks not making a new intraday low when the market does
- Stocks that open green or near green on a deep red open

CASE STUDYS

NIFTY Fallen 11% from highs

CHAMBALFERT : Stays Flat

MANINFRA : Up 22% in weak market

PVR : Falls More than 25%

21/n



CASE STUDY LIVE

Screenshot From Telegram channel

Technical Test given to followers to select the best stock

A) outperformer as + RS

B) and C) At support and hence most chose that as an answer as swing trading bet

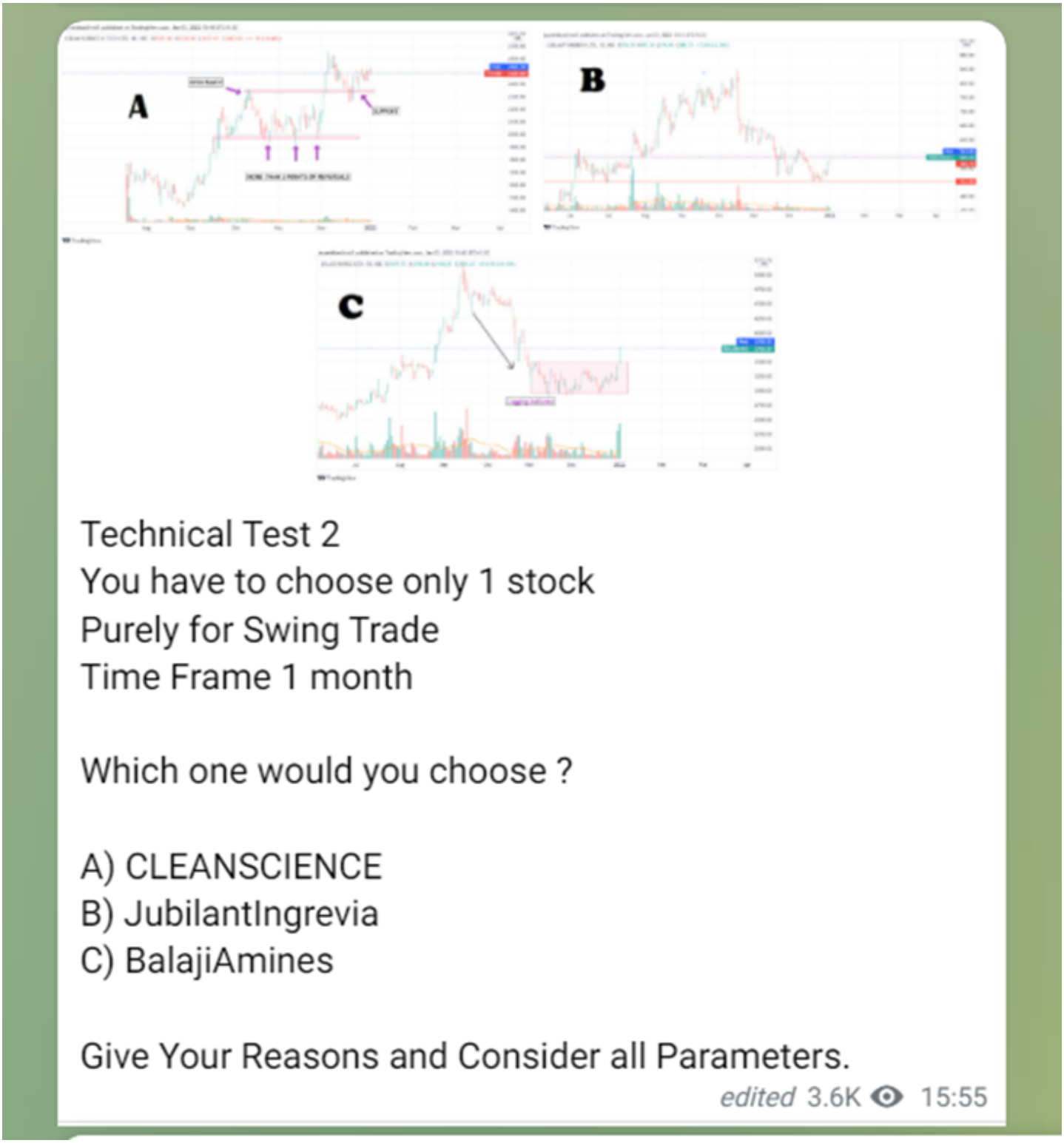
Over the next 10 days

A) JSL HISAR gave a + Return of 18%

22/n



Immediately the stock A) gave 6%+ Returns while other stocks closed in red
Even though a stock is trading at support doesn't means its bound to rise
A stock with Positive RS will move faster than a stock with –Ve RS
That is OUTPERFORMANCE we are talking about
23/n



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Join Paid Group for free 1 day : https://t.co/UmjgUZGSnq