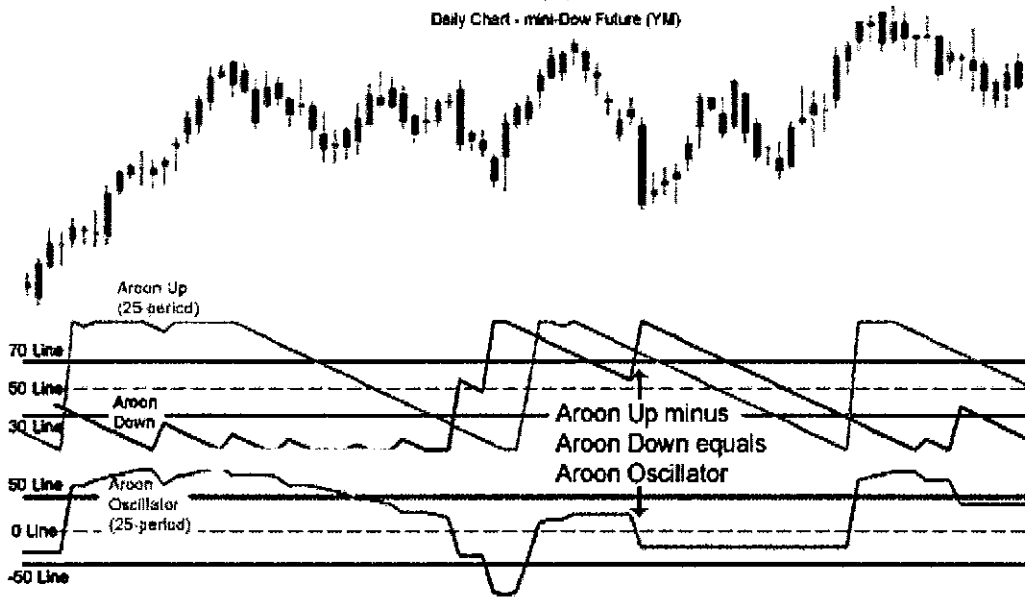


Aroon

Daily Chart - mini-Dow Future (YM)

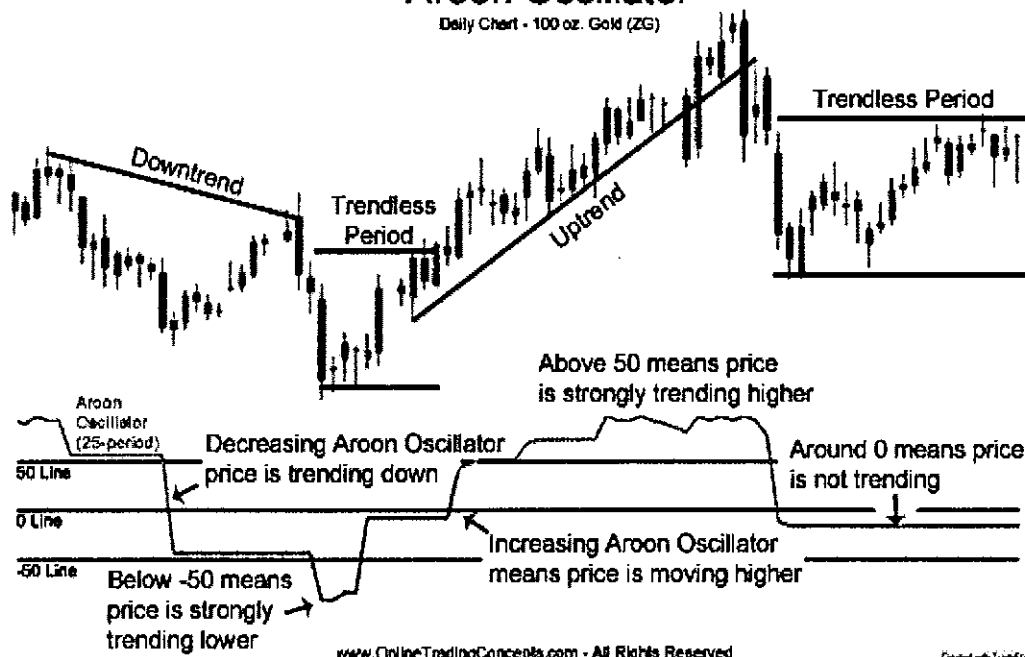


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Created with TradeStation

Aroon Oscillator

Daily Chart - 100 oz. Gold (ZG)



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Created with TradeStation

The chart below of the Gold futures contract shows how the Aroon Oscillator is interpreted:

Another version of the Aroon indicator that combines both the Aroon Up and Aroon

Aroon Indicator

The Aroon Indicator Oscillator is calculated by subtracting Aroon Down from the Aroon Up indicator. Therefore, a value above 50 is considered a strong uptrending market and a value below -50 means that the market is trending lower; a value near 0 means that the market is in transition and not trending.

The chart below of the mini-Dow Futures contract shows both the Aroon indicator and the Aroon Oscillator:

A decrease of the Aroon Oscillator from above the 50 line shows that the uptrend is consolidating and is reversing direction downward. When the Aroon Oscillator hovers around the zero line over time, then the market is in a directionless period.

When the oscillator moves toward -50 from the zero line, the market is beginning to trend downward. And when the Aroon Oscillator is below -50, then the market is in a strong downtrend.

When the oscillator begins to move upward towards the zero line, the downward trend is slowing down and beginning to reverse direction.

In addition, when the Aroon Oscillator moves higher from the zero line, then the market is moving from a period of non-trending to a period of uptrending.

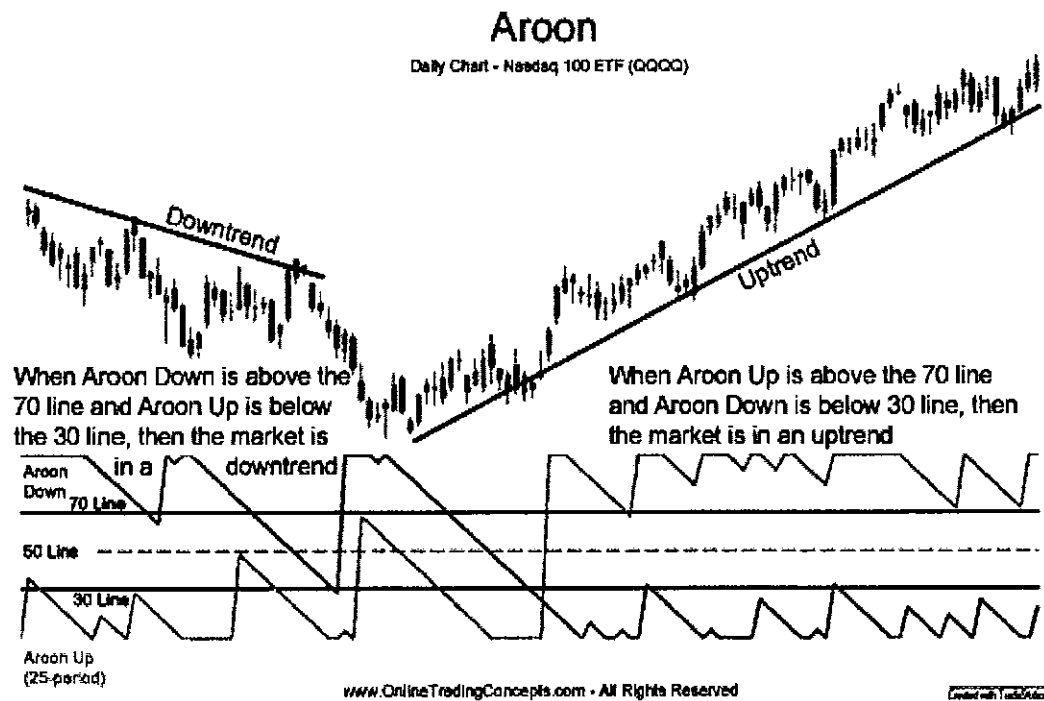
The Aroon indicator and Aroon Oscillator are extremely helpful tools for a trader to have and use; the Aroon indicator helps traders to determine when best to apply trending following indicators like [Moving Averages](#) (see: [Moving Averages](#)) and when best to use oscillator type technical indicators like [Stochastics](#) (see: [Stochastics](#)).

Aroon

The Aroon indicator is used to help traders know when a market is uptrending, downtrending, or is in a range-bound, trendless market.

Knowing when a market is trending is very useful, mainly because trend following technical analysis indicators are profitable during trending markets but cause losses during non-directional markets. Similarly, oscillators are extremely profitable indicators during range-bound markets, but perform very poorly during strong trending markets. The Aroon indicator can show which mode the market is in.

The chart of the Nasdaq 100 shows the different modes of the market and how the Aroon indicator reacts to these different market modes:



When the Aroon Down indicator (in red above) is above the 70 line and the Aroon Up indicator (in green above) is below 30, then the market is trending downwards. In contrast, when the Aroon Up indicator is above the 70 line and the Aroon Down indicator is below 30, then the market is trending strongly upwards.

When the Aroon Up and Aroon Down indicator move towards the centerline (50), then the market is entering into a consolidation period.

By varying the period length, the Aroon indicator can give long term indications of trend or short-term indications of trend. By default, the Aroon indicator is 25-periods (shown in the chart above), but a shorter time frame could be 10-periods.

Description

The Aroon indicator was developed by Tushar Chande. Aroon is a Sanskrit word meaning "dawn's early light" or the change from night to day. The Aroon indicator allows you to anticipate changes in security prices from trending to trading range. For more information on the Aroon indicator see the article written by Tushar Chande in the September 1995 issue of *Technical Analysis of Stocks & Commodities* magazine.

These changes are anticipated by measuring the number of periods that have passed since the most recent x-period high and x-period low. Therefore, the Aroon indicator consists of two plots; one measuring the number of periods since the most recent x-period high (Aroon Up) and the other measuring the number of periods since the most recent x-period low (Aroon Down).

The actual plotted value is a "stochastic" like scale ranging from 0 to 100. Assuming a default time-period of 14 days, if a security makes a new 14-day high, the Aroon Up = 100; when the security makes a new 14-day low, the Aroon Down = 100. When the security has not made a new high for 14 days, the Aroon Up = 0; when the security has not made a new low for 14 days, the Aroon Down = 0.

As explained in the interpretation section for the VHF indicator the age-old problem for many trading systems is their inability to determine if a trending or trading range market is at hand. Trend-following indicators such as MACD and moving averages, tend to be whipsawed as markets enter a non-trending congestion phase. On the other hand, overbought/oversold oscillators (which work well during trading range markets) tend to overreact to price pull-backs during trending markets—thereby closing a position prematurely. The Aroon indicator attempts to remedy this by helping you determine when trend-following or overbought/oversold indicators are likely to succeed.

Interpretation

There are basically three conditions that you look for when interpreting the Aroon indicator: extremes at 0 and 100, parallel movement between Aroon Up and Aroon Down, and crossovers between Aroon Up and Aroon Down.

3 things you need to watch

- ① **Extremes:** When the Aroon Up line reaches 100, strength is indicated. If the Aroon Up remains persistently between 70 and 100, a new uptrend is indicated. Likewise if the Aroon Down line reaches 100, potential weakness is indicated. If the Aroon Down remains persistently between 70 and 100, a new downtrend is indicated.

A strong uptrend is indicated when the Aroon Up line persistently remains between 70 and 100 while the Aroon Down line persistently remains between 0 and 30. Likewise a strong downtrend is indicated when the Aroon Down line persistently remains between 70 and 100 while the Aroon Up line persistently remains between 0 and 30.

- ② **Parallel Movement:** When the Aroon Up and Aroon Down Lines move parallel with each other (are roughly at the same level), then consolidation is indicated. Expect further consolidation until a directional move is indicated by an extreme level or a crossover.
- ③ **Crossovers:** When the Aroon Down line crosses above the Aroon Up line, potential weakness is indicated. Expect prices to begin trending lower. When the Aroon Up line crosses above the Aroon Down line, potential strength is indicated. Expect prices to begin trending higher.