DEMARKER INDICATOR TRADING STRATEGY [PDF]

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DeMarker Indicator Trading Strategy

The DeMarker is a trend trading indicator that measures the demand for an asset by evaluating the differences between successive high prices and low prices of specified periods. Traders use the DeMarker to join existing trends or identify price reversals.

What is the DeMarker Indicator?

The DeMarker indicator is an oscillator that identifies market trends by comparing and evaluating the differences between the maximum prices of successive periods and their minimum prices. The data is then used to presume the direction of market trends and possible reversals.

Also known as the DeM indicator, it aims to measure the demand for an underlying asset. Using this indicator, traders look for supply and demand areas where they can identify market trends and price reversals.

As seen in the image below, the DeM indicator is a sub-chart indicator, meaning that it is displayed as a separate chart from the asset pair main chart. The curve or bar of the oscillator moves up and down a mean level, pointing towards the prevailing direction of the market price trend.

How Does the DeMarker Indicator Work?

The DeMarker indicator compares the current period's high price with the last period's high price. It makes the same comparison between the low prices of both periods. When the high price of the current period is greater than the high of the last, the indicator records the price difference.

However, when it is lower, it records a value of zero. This same logic applies to comparing low prices as the indicator records a value of zero for higher low prices and a value of the difference between a lower low price of a period and the previous period.

The indicator then produces a smooth moving average from the values generated from comparing the high prices (DeMMax) and another smooth moving average from the values of the low prices comparison (DeMMin). Overall, the indicator presents the direction of a market trend in one single curve that oscillates above and below a mean point using the following DeMarker indicator formula.

DEM = SMA(DeMMax) [SMA(DeMMax) + SMA(DeMMin)]

There are a few things to remember when using the DeM indicator. The default period parameter of the DeMarker indicator is 14. The oscillator runs between the levels of 0 and 1. The mean level, otherwise known as the zero level, is the 0.5 mark of the indicator. Two other essential marks of the indicator are; the 0.3 mark, which signifies the oversold level, and the 0.7 mark, which tells the overbought level.

With all these, it becomes possible to use the indicator to check for the direction of trends, price reversals, overbought, and oversold conditions in a market. Ultimately, this enables traders to capitalize on probable imminent price trends.

How to Use The DeMarker Indicator in Trading

A few strategies can be employed when using the DeMarker indicator for trading. Some of them are discussed as follows.

1. Zero Crossover

The zero crossover DeMarker indicator strategy is one way to trade the DeMarker indicator. Here, you identify points where the oscillating curve of the indicator crosses the zero level, which is, in this case, the 0.5 mean level. When it crosses below this level, the trend is going in a bearish direction. Conversely, the trend is bullish when the DeM line crosses above it.

2. Overbought and Oversold Areas – Identify Price Reversals

Price reversals can also be observed on the chart with the help of the DeMarker indicator. In this case, the oscillator changes direction from what it was initially. The primary method to identify market tops and bottoms is by spotting overbought and oversold market conditions in the DeM values.

Overbought and Oversold trading strategies can be applied to the DeMarker indicator. Here, we identify points where the DeMarker indicator reaches the 0.3 and 0.7 levels. When the oscillator touches the 0.7 level and stays above it long enough, it shows that the asset is likely overbought, and a reversal may soon take place. The opposite is true when the oscillator reaches the 0.3 level.

DeMarker Indicator Trading Strategy Tutorial

The DeMarker indicator can help find long and short positions, set stop loss levels, and take profit targets. This can be done in combination with any other indicator to enhance results.

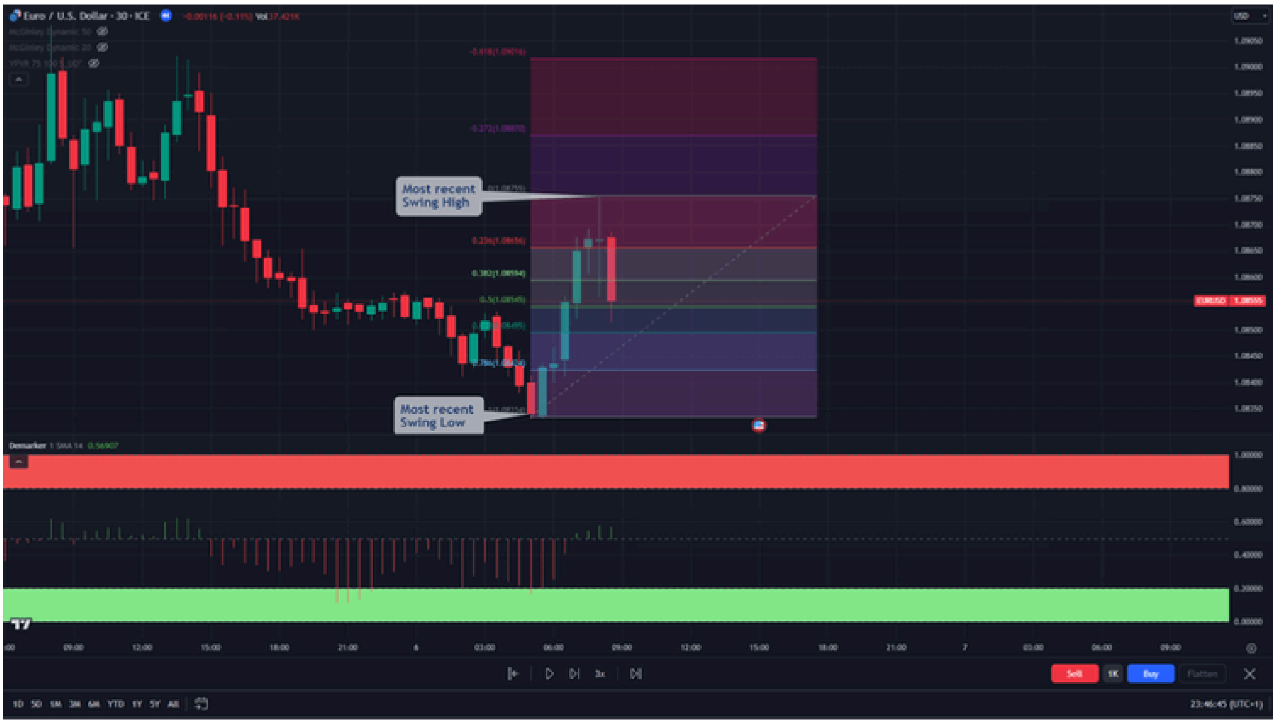
We consider using the DeMarker indicator with the Fibonacci retracement tool and the MACD in these examples, as these two techniques are highly effective. So, below, we will show how to use the DeMarker trading strategy with MA and Fibonacci retracement levels.

DeMarker Indicator and Fibonacci Retracement Levels

The DeMarker indicator can be combined with Fibonacci retracement levels to ensure that when the indicator crosses the zero line, the price action is simultaneously lying around a major Fibonacci support level to boost the trade chances. The following steps should be considered when using the DeMarker indicator with Fibonacci levels.

1. Look out for where the oscillator crosses the 0.5 level of the DeMarker indicator. This example crosses right above the 0.5 level. Observe that price action retraces to any of the Fibonacci levels, suggesting a bullish trend.

2. Draw your Fibonacci retracement from the most recent swing low before the bullish more to the peak of the swing (the swing high).



3. Observe that price action retraces to any of the Fibonacci levels.

4. You can predict that the retracement is complete when a candlestick pattern confirms a reversal. In the image below, for instance, it's a bullish engulfing pattern.

5. Place a long position after you confirm your retracement from the Fibonacci level.

6. Set your stop loss to beneath the retracement fib level.

7. Take your profit at any of the Fibo levels above your trade entry.

Take note that sometimes, the retracement of the price action happens all the way to the bottom of the Fibonacci retracement tool. However, your trade is still valid if the price doesn't go below the previous swing low. The image below is a perfect example.

If you're looking to spot short trades, the reverse process is the same for all the steps. You wait for the oscillator to go bearish, draw your Fib retracement front from the most recent swing high to the most recent swing low, and wait for the end of the retracement. You're good to go for a short trade once your retracement is confirmed with a bearish candlestick pattern. Place your stop loss above your retracement level and your take profit at any of the levels below your entry level.

DeMarker indicator and the Moving Average Convergence Divergence (MACD)

The DeMarker indicator also works well with the MACD indicator. Here, the aim is to identify points where the DeMarker indicator and the MACD oscillator make a zero-line crossover. When this happens, take a long or a short position, depending on the direction of the cross. Here's how the process would look in your chart.

1. Launch both indicators onto your chart.

2. Observe a confluence of crossovers of the DeMarker indicator and the MACD indicator above or below your zero line.

3. Ensure the confirmation of this with the crossing over of the different periods moving averages of the MACD.

4. Place a buy or sell trade after the appropriate crossover.

As you can see in the image above, you should enter a trade when you notice a crossover of the DeMarker indicator, while at the same time, the MACD histogram bar falls below zero and the MACD lines cross as well.

Setting your stop loss and take profit target here is not as straightforward, though. Ideally, it should be at the top or bottom of the most recent swing. So, it would be underneath the swing low in a bullish trade and above the swing high for a bearish trade.

However, these stop-loss levels may seem too far when you set them this way. In such a case, you're free to place them using any methods you deem fit. You could use the percentage, other price action tools, or any other indicator you choose. The same goes for your take profit level.

Benefits and Limitations of the DeMarker Indicator

The DeMarker indicator is an excellent tool for jumping into new trends when combined with other indicators. However, it does have its limitations too. Some of the benefits and limitations of the indicator are discussed below.

Benefits of Using the DeMarker Indicator

In short, the DeMArker indicator is handy when searching for new trends, price action reversals, and overbought/oversold levels. Unlike similar indicators that use closing prices, the DeMarker indicator evaluates both high and low prices for each period, leading to more reliable results.

One of the benefits of the indicator is that it is a good trend identification tool. Ideally, it should be used in combination with volume trend indicators like the volume price trend indicator, or the on-balance volume indicator. It also doesn't lag so much as other indicators would. This feature places the Demarker ahead of many other technical indicators.

Also, the Demarker indicator is simple to read and follow, making it easy for beginners to use.

Pros

- The DeMarker indicator helps to identify when price action changes direction in a trend.
- It is also helpful for determining when price action gets into an overbought and oversold region, signaling weakening market buy and sell pressures.
- Since the DeM indicator is based on relative price data, it can be used in any timeframe.
- The indicator is reliable when compared to other movement indicators
- The DeMarker indicator is a leading indicator, making the charts less prone to distortions based on current changes. This is unlike any indicator that lags

Limitations of the DeMarker Indicator

The DeMarker indicator is not perfect. Some of its limitations include the fact that you must combine it with other indicators imperative for enhanced results. Another limitation of the DeMarker indicator is that it is prone to false signals.

Cons

- The DeMarker indicator sometimes calls false signals. Careful consideration of other indicators' signals should be made before placing a trade
- The indicators' overbought and oversold levels are not always reliable, as price action sometimes maintains the same direction after crossing these levels