

## **Personality of Markets Theory**

by Ed Downs, CEO & Founder of Nirvana Systems, Inc.

The Personality of Markets Theory in a nutshell says that individual securities exhibit individual personalities. If you can pinpoint a security's personality, and apply the right trading system for that personality, you can predict its next move... and make money.

The easiest way to see how the Personality of Markets theory works is by looking at the futures market. Futures personalities are much more consistent because they are often based on supply and demand. If you look at a chart for live hogs, you will see that there is a lot of volatility, with wild swings between high and low points. That's the nature of the hog market -- its personality. At the other extreme is the currency market. Here, you see long, steady trends. There aren't a lot of surprises in this market. Its personality is stable, even boring.

The two most common types of market personalities are trending personalities, as seen in the currency market, and trading range personalities, as seen in the live hog market. Gapping personalities are also found in volatile stocks.

So, what causes these different personalities to develop? Price moves occur because of what people do. And, human nature says that people tend to be rather predictable. Furthermore, the same people make up a large portion of the market. So, the traders who liked a stock last week and are selling it this week, will probably like it again next week. Again, human nature says that once you've traded a security and either made a good move, or missed a move, you will look for another opportunity to try again. Also, different types of people are attracted to different types of securities.

Technical analysis is the art of measuring these repeating patterns of human behavior in order to predict future behavior and the resulting price action. By looking at the past behavior of the market, traders have observed certain patterns and created trading systems based on those patterns. You can use these systems to predict what will happen next in the market or in a particular security.

The problem is that there have been hundreds of trading systems developed; all of which work well as long as the market is exhibiting the personality for which the system was designed.

So, what's a trader to do? Ten years ago, when I founded Nirvana Systems, Inc. that was the question that challenged me. I answered it with OmniTrader. Nirvana Systems released the first version of OmniTrader in 1994 and we released Version 3.1 in September 1997. OmniTrader, the only completely automated technical analysis software program, isolates the personalities of individual securities, then generates buy and sell signals based on that information.

There are 120 proven trading systems built-in to OmniTrader. OmniTrader isolates personality by testing every system against the securities you select, over a backtest period (typically one year). Let's say five of those systems proved profitable over the test period. The likelihood of one of those systems producing a profitable signal tomorrow is very high. That doesn't mean that you'll only use those five systems from now on, however. The key to OmniTrader is that you're looking at a relatively short trading period. Because OmniTrader works so fast, you can easily retest the security or securities on a daily or weekly basis for new buy and sell signals.

The next step for the profitable trader is to look at the security's chart to see if the personality of the backtest period is similar to what is being exhibited today. This is very easy to recognize. If a security has been in a trading range personality for months, the buy or sell signal is based on that personality. If the security has recently taken off on an upward trend, it is now exhibiting a different personality. The stock is obviously violating its backtest period and you should not trust the signal.

It's important to note that OmniTrader is not a new "trading system." It's best to think of it as a completely automated "opportunity generator." You don't need to tweak it or tune it. Just select the securities you want to test, let OmniTrader run, then look at the resulting signals on the Focus List. Verify the personalities of the most promising securities by looking at the charts. The whole process takes just minutes a day. When traders combine OmniTrader's capabilities with their own strategies and skill, the results can be very impressive. Our users typically report that over 70% of their trades are accurate using OmniTrader. Many report even greater results.