

Bollinger Bands® Trend Following (Method II) Manual

About the Methods:

Welcome to the Bollinger Band Methods for Trade Station. There are four Bollinger Bands Methods offered on Trade Station. You have subscribed to Method II. Methods I-III were originally presented in John Bollinger's book, "Bollinger on Bollinger Bands." They illustrate three different approaches to trading with Bollinger Bands. Method IV was developed after the book and is a variation of Method I with an interesting twist.

Though these techniques were developed on daily charts, they can be used in any time frame. There is no material difference as long as there is sufficient data in each price bar at that time frame. The idea is that you want to see the price formation mechanism at work in each bar. If you look at the chart of a security in a shorter time frame and find that there are frequently bars with no trades during that period, or if you find the open and close of the bars are often also the high and low, then there may not be sufficient data to accurately power the indicators.

Find more information and video support at: <https://www.bollingerbands.com/tradestation-methods>

About Method II:

Bollinger Band Method II focuses on the idea of Trend Following. Method II relies on the idea that strong price action accompanied by strong indicator action is a positive sign. When both conditions are met Method II provides an entry signal. The opposite, price weakness confirmed by weak indicators, generates a sell/short signal. For Method II the Money Flow Index, MFI, is the indicator used for confirmation.

Included Indicators:

Method II includes a TradeStation Workspace and an EasyLanguage file with the relevant studies. To allow personal customization, each study has one or more input parameters that allow you to modify the study calculation to adjust for frequency of alerts and various trading styles. Remember if you change an input in one study, you must change that same input in all other similar studies in both charting and RadarScreen so that the indicator values match correctly and the RadarScreen scan matches as well.

RadarScreen Studies:

- BBM2 – Trend Signal
- BBM – %b
- BBM – %mf

Chart Studies:

- BBM – Bollinger Bands
- BBM – Bollinger Bars
- BBM – %b
- BBM – Money Flow
- BBM2 – Trend Signal

Indicator Explanations:

Bollinger Bands

Bollinger Bands are adaptive trading bands that answer the question “Are prices high or low?” on a relative basis. The adaptive mechanism is volatility. The middle band is a simple moving average with a default period of 20. The upper and lower bands are spread above and below the middle band by a multiple of standard deviation, with the default multiplier being two.

- $\text{MiddleBB} = \text{Average}(\text{close}, 20)$
- $\text{UpperBB} = \text{MiddleBB} + 2.0 \times \text{Standard Deviation}(\text{close}, 20)$
- $\text{LowerBB} = \text{MiddleBB} - 2.0 \times \text{Standard Deviation}(\text{close}, 20)$

%b

%b (Percent b) was one of the first two indicators derived from Bollinger Bands. It employs a variation on the formula for Stochastics. %b depicts the location of the most recent close within the Bollinger Bands. At 1.0, the close is at the upper band, at 0.0 the close is at the lower band and at 0.5 the close is at the middle band. A %b reading of 1.1 means that you are above the upper band by 10% of the width of the bands, -0.2 means that you are below the lower band by 20% of the width of the bands.

Money Flow Index (MFI)

Money Flow Index (MFI) compares volume on up periods to volume on down periods in a manner similar to Relative Strength Index (RSI). The typical price, $(\text{high} + \text{low} + \text{close}) \div 3$, is used to separate up periods from down. The periods are averaged, and a ratio of up to down is taken. You may specify the number of periods used in the calculation. 14 is the default period. There are several version of the MFI formula out there; we believe that this is the correct/most relevant formulation.

% Money Flow

%Money Flow uses the formula for Stochastics to normalize Money Flow as a function of its n-day look-back period. 10-periods is the default, but you may choose your own look-back period. 100 equals the highest MFI in the past n periods, while 0 equals the lowest MFI in the past n periods.

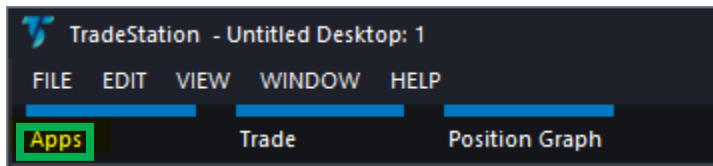
Trend Following/Method II

This alert will be triggered either Long or Short depending on the conditions of Method II. When a security displays strong price action accompanied by confirmation from MFI Method II provides a Buy signal. The opposite, price weakness confirmed by weak MFI, generates a Short/Sell signal.

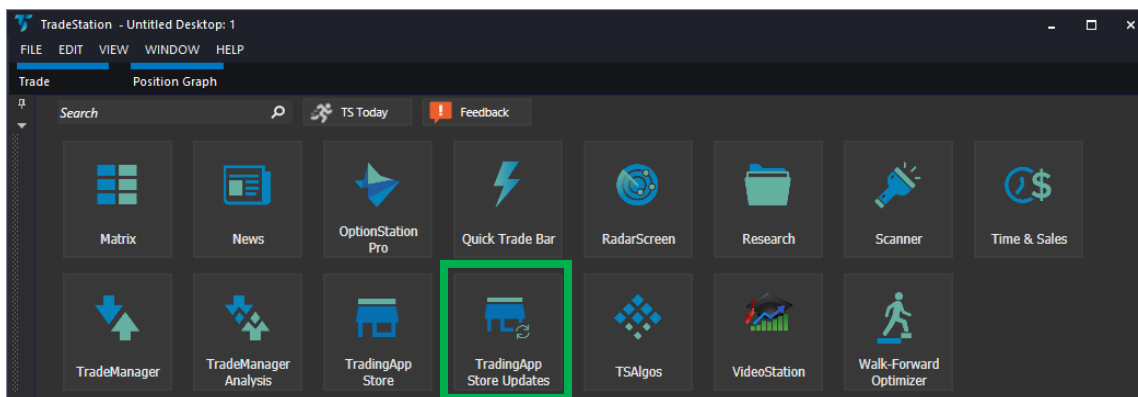
The RadarScreen provides details surrounding the alerts in the 2 columns that come with Method II, Alert and Alert Count. The first column, Alert, indicates when a Trend Following signal has been triggered. You will see that after the New Buy or New Short there is a number in parenthesis. This indicates the number of consecutive signals. The next column, Alert Count, indicates the number of bars (days) since there has been a signal for that security. Sorting on this column allows you to locate prior signals.

Installation:

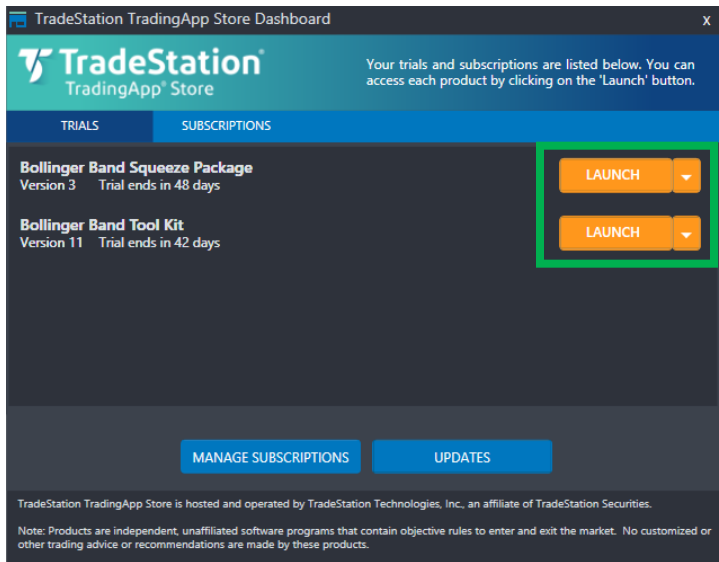
To launch the Method II workspace in TradeStation 10: go to the “Apps” Menu under File in the upper left:



Click on “TradingApp Store Updates”.

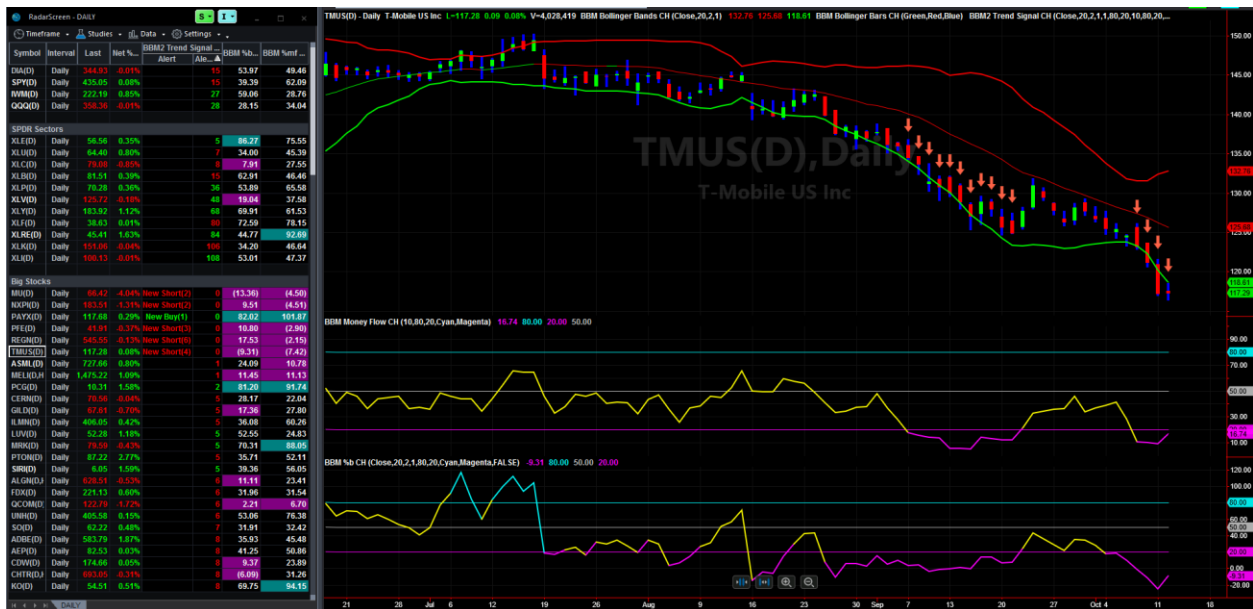


Find the Bollinger Method Package you want to access and click “Launch”.



Note: if you do not see your Bollinger Band Method Package; first double check ‘Manage Subscription’ in the AppStore to make sure the subscription is active in your account, then try shutting down TradeStation and restarting your computer. Then restart TradeStation.

The workspace will display as follows:



Once the Workspace has opened, we suggest that you rename and save that workspace so you always have the original version if needed. Goto File~Workspaces~Save Workspace As... You can also right click on the workspace tab and rename it from there.

Thank You and Good Trading!

This product is not a recommendation to buy or sell, but rather a guideline to interpreting the specified analysis methods. The information provided should only be used by investors who are aware of the risks inherent in securities trading. TradeStation, John Bollinger or Bollinger Capital Management accept no liability whatsoever for any loss arising from any use of this product or its contents.

Past performance, whether actual or indicated by historical tests of strategies, is no guarantee of future performance or success. There is a possibility that you may sustain a loss equal to or greater than your entire investment regardless of which asset class you trade (equities, options, futures or forex); therefore, you should not invest or risk money that you cannot afford to lose. If you plan to use margin, [please read about the risks of margin](#).