

DecisionPoint Swenlin Trading Oscillator (STO)



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Introduction

The Swenlin Trading Oscillator (STO) is an overbought/oversold indicator that can assist in identifying short-term tops and bottoms. There are two versions, one using advances and declines (STO-B), and one using advancing and declining volume (STO-V). Since the calculation is based on the number of advancers and decliners, it is only appropriate to calculate on an index.

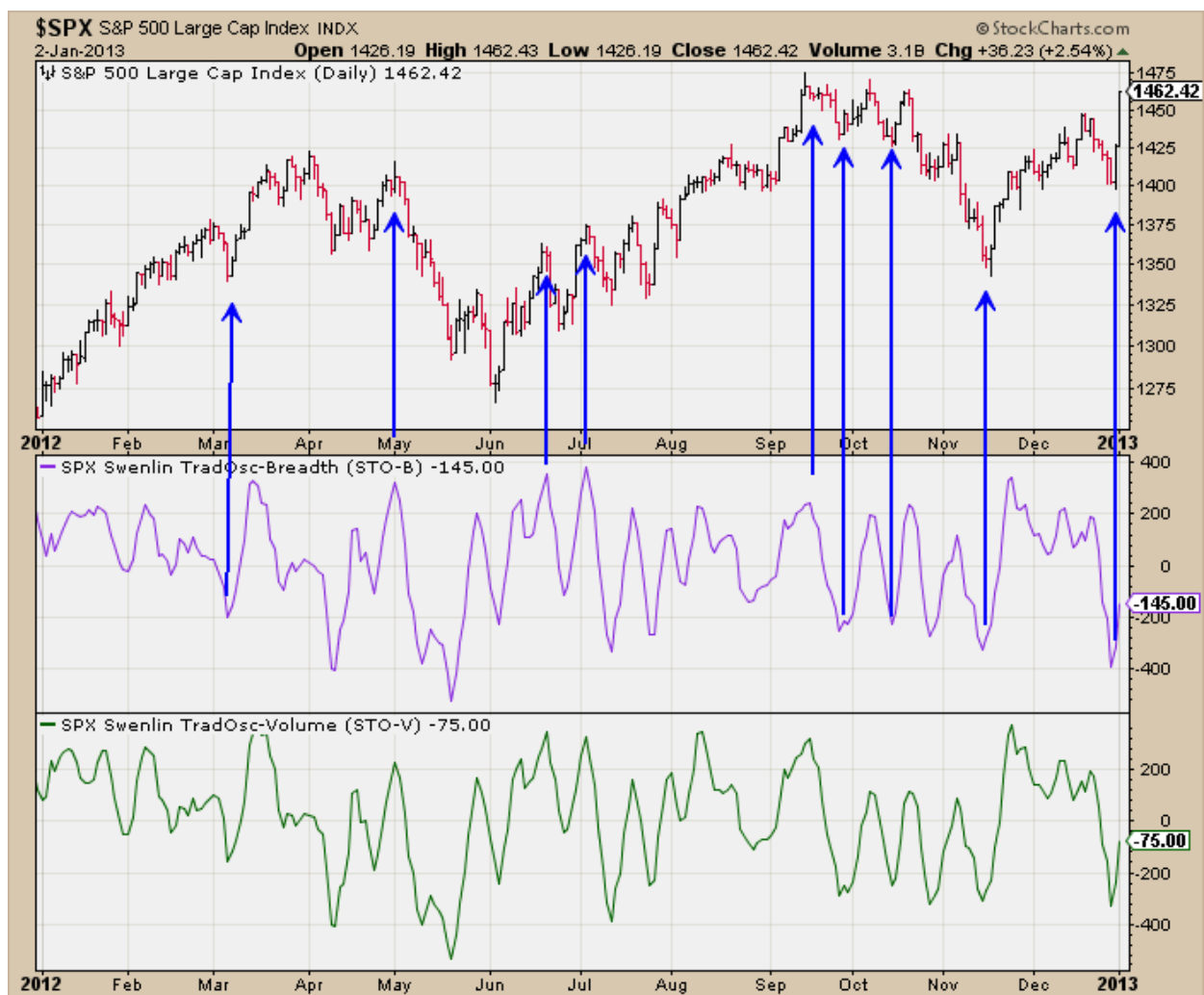
Calculation

The STO is a 5-day simple moving average of a 4-day exponential moving average of the daily advances minus declines divided by the total daily advances and declines times 1000: $(A-D)/(A+D)*1000$. The following example shows how to calculate the breadth version of the STO using advances and declines. To calculate the volume version simply substitute advancing and declining volume for advances and declines.

STO: 5 SMA (4 EMA(((A-D)/(A+D)*1000))

Interpretation

The double smoothing of the short-term data results in a pretty reliable oscillator that persists in one direction before reaching trading range extremes. It usually tops near short-term market price tops and bottoms. As with most indicators, the primary trend of the market will determine how you will use the indicator. In a bull market, STO tops will not be very reliable. In a bear market, STO bottoms will not be very reliable. Divergences between the STO and the price index will often precede changes in trend.



Also, a comparison can be made between the breadth and volume versions, looking for divergences. Such inconsistencies are warnings that the price trend is not fully supported by breadth or volume.



Swenlin Trading Oscillators on StockCharts.com

The Swenlin Trading Oscillators are market indicators and thus are available on StockCharts.com as a collection of indexes - i.e., ticker symbols that start with an "!" character. To see those indexes, you can search the "Symbol Catalog" for the phrase "STO-B" (Breadth) or "STO-V" (Volume).

The Swenlin Trading Oscillators are also featured in the DecisionPoint Market Analysis Chart Gallery tool. [Click here](#) to see that tool.

Conclusion

The Swenlin Trading Oscillator is calculated using the advance and decline numbers for a given index. It can be calculated either using issues or volume. It is used to determine possible market price tops and bottoms in the short term.