Arms CandleVolume

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Table of Contents

Introduction

Arms CandleVolume charts merge candlesticks and EquiVolume to create a price chart that focuses on volume, the price range, and the candlestick. EquiVolume charts are the brainchild of Richard Arms, creator of the Arms Index (aka TRIN). Arms CandleVolume charts came about after a conversation between Richard Arms and Chip Anderson. In a nutshell, Arms was not entirely happy with CandleVolume charts because they did not emphasize the high-low range enough. Now, with just a glance, chartists can easily determine the relative volume level, the period's range and the price movement from open to close. Arms CandleVolume gives chartists the ability to validate important candlestick patterns with volume and analyze the overall supply-demand dynamics on a chart.

EquiVolume Overview

Arms CandleVolume charts are created by placing a candlestick inside an EquiVolume box. The EquiVolume box dictates the width based on relative volume. Let's look at each of these individually and then show the merged product.

An EquiVolume box consists of three components: price high, price low and volume. The price high forms the upper boundary, the price low forms the lower boundary and volume dictates the width. EquiVolume boxes are black when the close is above the prior close and red when the close is below the prior close.
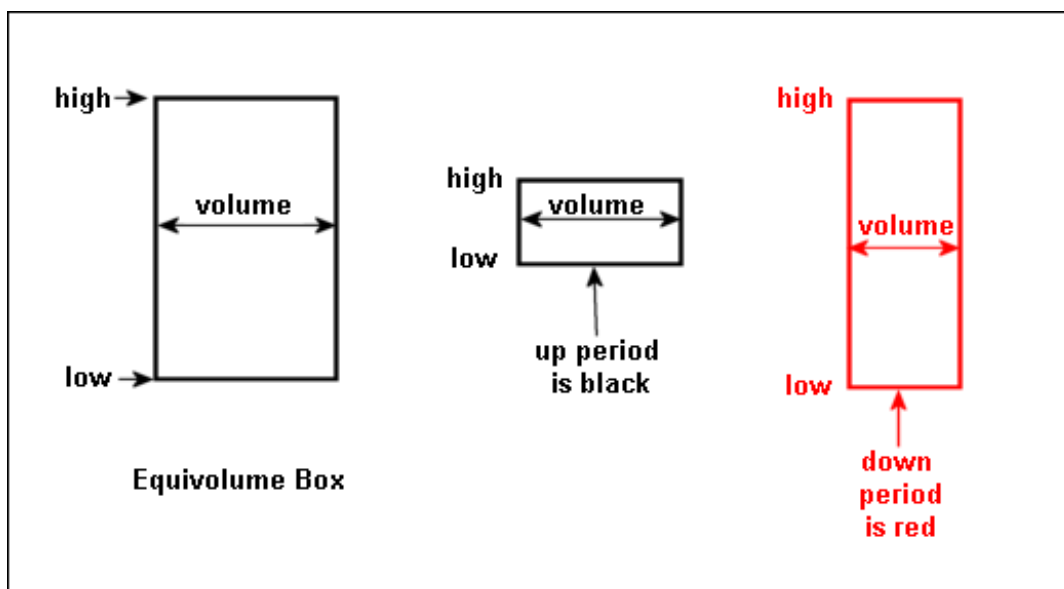

When calculating EquiVolume charts, note that volume is normalized to show it as a percentage of the lookback period. For a four month daily chart, each day's volume would

be divided by total volume for that four-month period. As such, the width of each Arms CandleVolume box represents the percentage of total volume for the lookback period. High volume days take up more space on the X-axis (horizontal) than low volume days. With varying width, this means the date axis will not be uniform. Some weeks will extend longer because of high volume, while other weeks will be shorter because of low volume. The first chart below shows IPG with Arms CandleVolume over a four-month period. Notice how October extends more than the other months because the Arms CandleVolume boxes are quite wide during this month. The second chart shows IPG with normal candlesticks for reference.


Candlestick Overview

Traditional candlesticks capture the high-low range as well as the price movement from open to close. Using colored candlesticks, there are basically four variations and these are shown in the Intuitive Surgical example below.
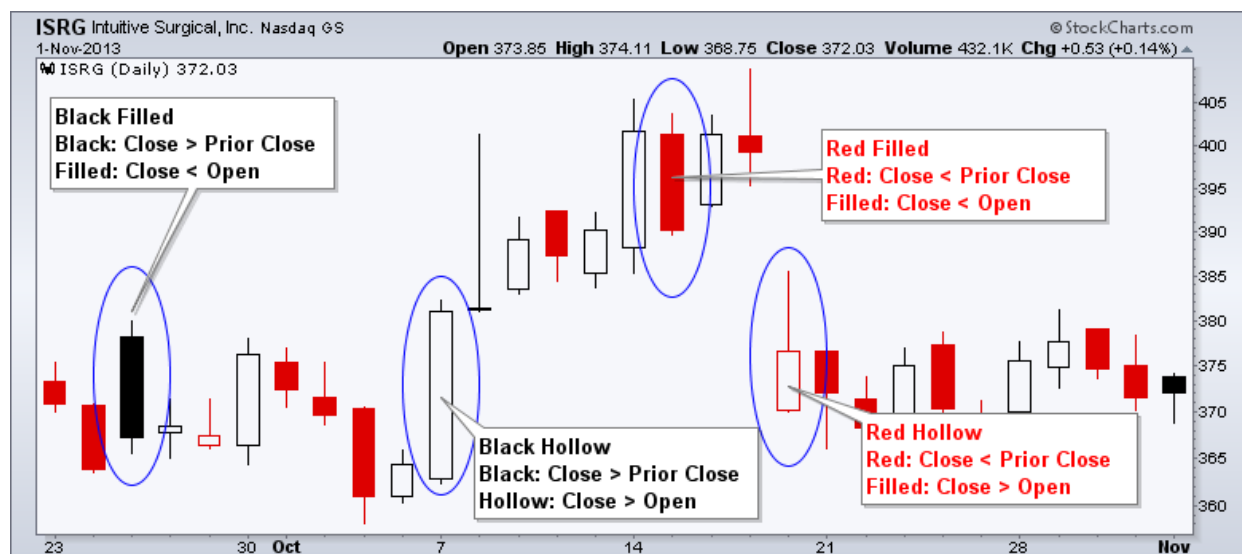
First, the price change from the close to the prior close determines candlestick color. The candlestick is black when the close is higher, and red when the close is lower. Second, the price movement from open to close determines whether a candlestick is hollow or filled. The candlestick is hollow when the close is above the open, and filled (solid) when the close is below the open. Third, the upper and lower shadows are the thin lines above and below the body. These capture the high-low range and match the height of the Arms CandleVolume box.

The next three charts show how EquiVolume boxes and candlesticks merge to create Arms CandleVolume charts.
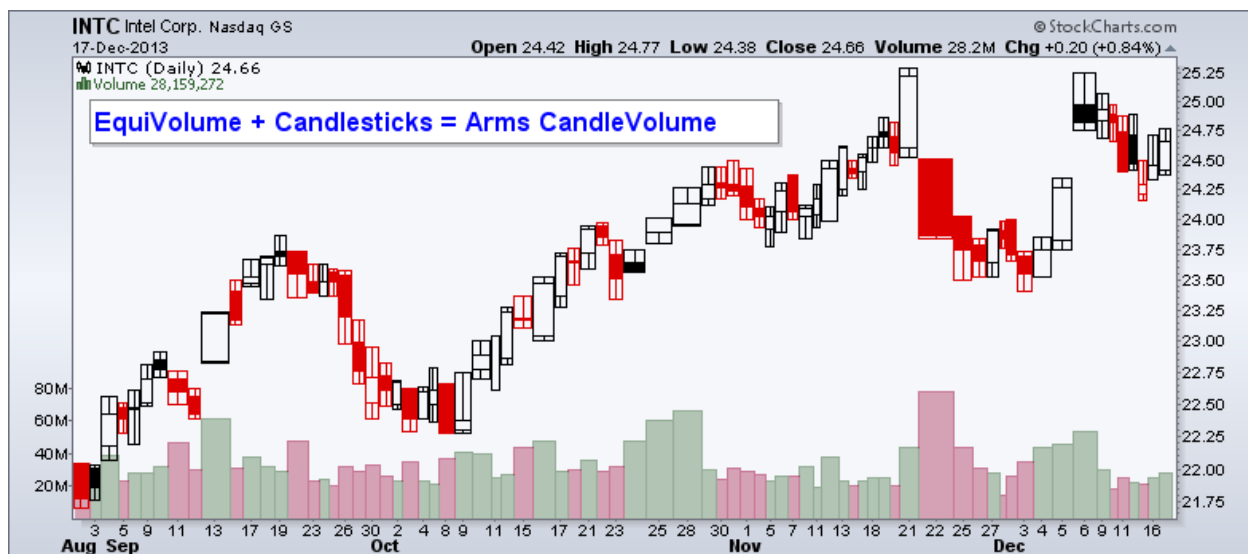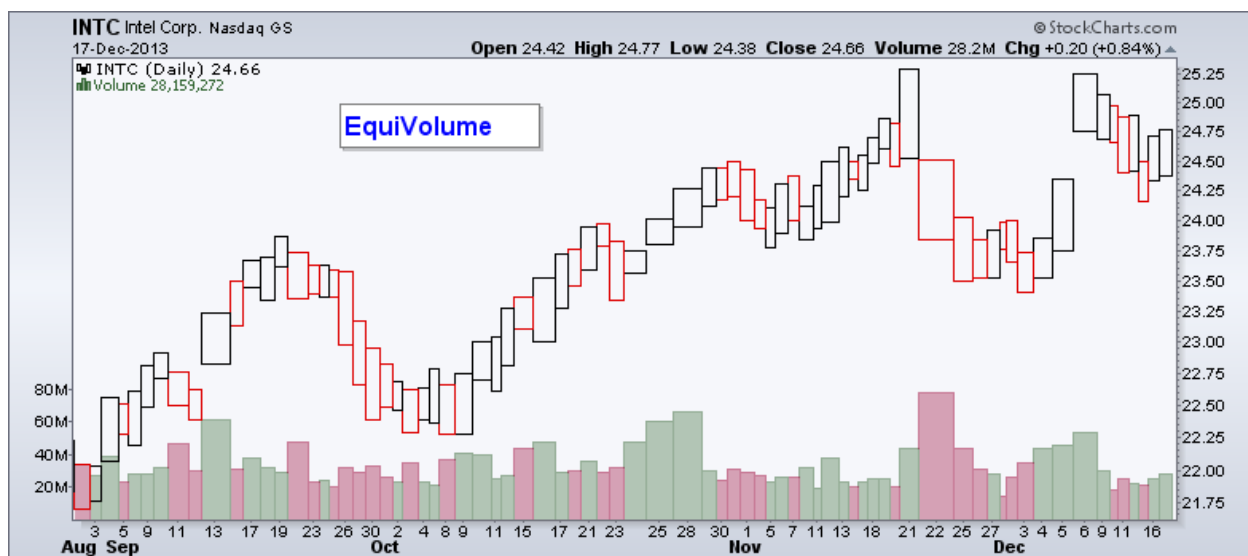
Analysis Example

Chartists can use Arms CandleVolume charts to find candlestick reversal patterns and analyze volume flows to complement these patterns. The example below shows Costco (COST) with a high-volume bullish engulfing pattern on October 9th. Not only is this candlestick long, but it is also wide because volume surged to its highest level in over two months. Arms CandleVolume captures this volume surge with the widest box on the chart. Volume validates the bullish engulfing pattern and affirms support from the late August low. Notice how the stock continued higher the next three days as buying pressure remained. The stock subsequently advanced to 126 and recorded several new highs in November.
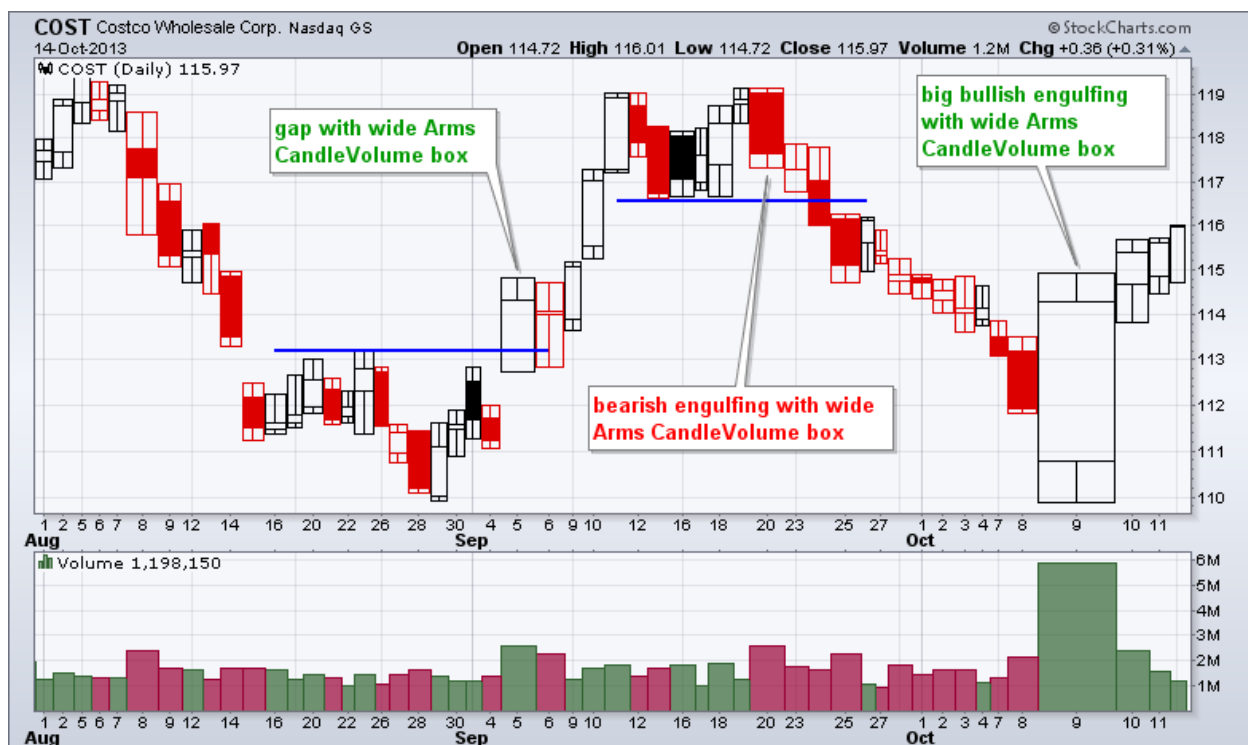
It is also worth noting two other features on this chart. First, COST broke out with a gap and wide Arms CandleVolume box on September 5th. Second, a bearish engulfing on high volume marked the mid-September peak and the stock broke support with a close on the low. Note, however, that the true width of Arms CandleVolume boxes is shown when the chart ends on that particular date. For example, COST broke out with a gap and wide Arms CandleVolume box on September 5th. The true width of this box is reflected when the chart ends soon after September 5th. The chart below ends on September 6th to provide a truer reflection of box width.


Conclusions

Arms CandleVolume charts put candlestick action and volume together for easy visual analysis. Wide Arms CandleVolume boxes can also be used to affirm a support level or validate resistance. A bounce off support with a wide Arms CandleVolume box is stronger than a bounce with a narrow Arms CandleVolume box. The same is true for a decline from resistance. **Click here** for a live chart featuring Arms CandleVolume.

Arms CandleVolume and SharpCharts

SharpCharts users can find Arms CandleVolume under **"Chart Attributes"** and "Type". There is also a volume option directly underneath. Users can choose to have volume off, separate or as an overlay. Volume can also be skipped (off) because it is reflected right on the Arms CandleVolume chart. The example below also shows the check boxes for selecting "Color Prices" and "Color Volume". This will ensure that the up and down days are different colors. Chartists can even choose their colors using "Up Color" and "Down Color".
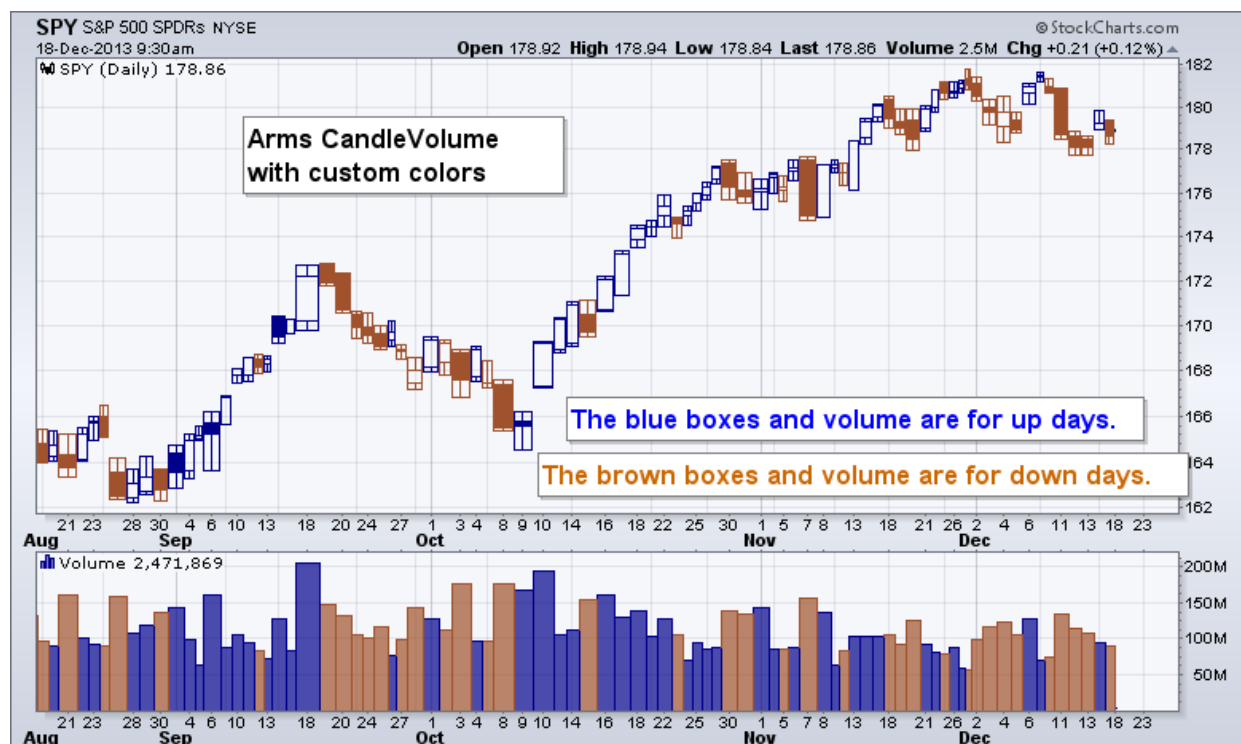
Further Study

Profits in Volume
Richard W. Arms