Nirvana's

Volume Systems 2.0

Turn up the Volume and HEAT UP YOUR PROFITS!

11% Profit Per Trade!

And plenty of Signals! See page 9.

"Beat the Pros at their own game!

With the Volume Heat Indicator, you can see the Professionals entering and exiting the market...and that's information you can profit from."

– Ed Downs, CEO and Founder
Nirvana Systems, Inc.

BONUS STRATEGY: Our Best Divergence Strategy Ever! p. 10

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Let Volume Systems 2.0 Heat Up Your Profits!

Ed Downs
CEO and Founder
Nirvana Systems, Inc.

Over the years, we have continued our relentless pursuit of profitable trading methods. A big part of this process has involved listening to our customers to understand which things are working the best for them. A recent survey indicated that many of them have been profiting handsomely from our first Volume Systems plug-in, which we released back in 2002. So, we went back to our original research, intent on improving it.

The result is Volume Systems 2.0, a collection of new Indicators and Systems based on Volume Flow analysis. Volume Flow can actually detect professional accumulation and distribution. On page 4, Jeremy Williams explains this important aspect of market behavior and on page 5, he shows how you to profit from it using the new Volume Heat Indicator.

To capture Volume Flow, we created a new indicator called Volume Heat which helps us visualize the overall movement of money into and out of a stock. **With Volume Heat, not only can you see the professionals entering and exiting the market, but also the resulting imbalance between supply and demand as the heat shifts from bullish to bearish and vice versa. This is information we can profit from!**

Starting with the Volume Heat concept, our team developed the additional Volume Flow Indicators described in this mailer, including a Volume Weighted Moving Average and Volume Weighted MACD. As you will see from the examples, these indicators provide a clear cut advantage over their non-volume counterparts.

Volume Analysis generates Faster Signals. Faster Signals mean Bigger Profits!

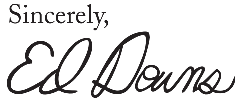
Volume analysis tends to generate better and faster Signals, which can lead to bigger profits. In fact, our long term Strategy has averaged over 11% profit per trade since the beginning of 2009, with a large selection of trades to prospect from!

Then there is our new Volume Flow Divergence Strategy, which we are including for a limited time as a FREE bonus with this offer. This remarkable Strategy produces an almost 80% hit rate—trading Longs AND Shorts, which is incredible for a 100% Mechanical Strategy.

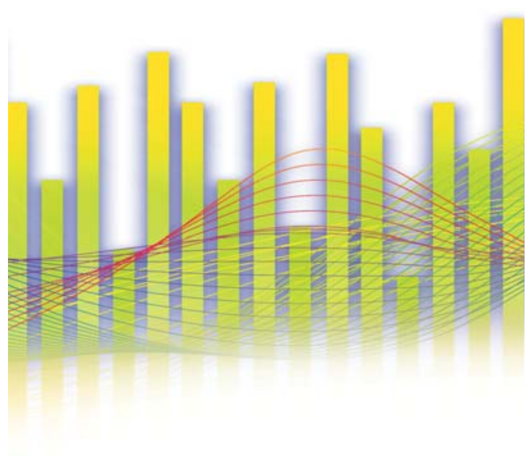
I am confident this plug-in is going to give you a tremendous advantage in your trading. And if you use the new Volume-based Indicators and Systems with other proven techniques available in OmniTrader or VisualTrader, you've got a dynamo waiting to be unleashed.

Once you see this product in action, you're going to get as excited about it as we are! Remember, volume fuels the market. **It's time to let Volume Systems 2.0 heat up your profits!** You're going to love it.

Sincerely,



Ed Downs
CEO and Founder
Nirvana Systems, Inc.



Volume Flow Analysis

The Key to *SEEING* the Market

Volume is the lifeblood of any market. We know that it is the imbalance in supply and demand that makes a market move. And closely related to this is the concept of liquidity—how rapidly a market will absorb our shares when we decide to sell them.

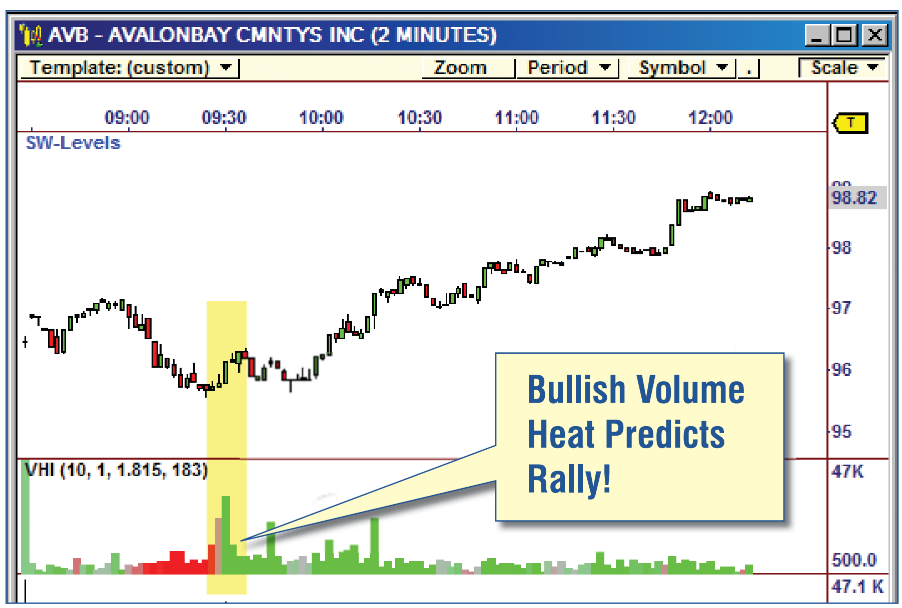
A quick look at any chart will tell you that trading volume is not uniform, but rather comes in waves or spikes. We know that on large volume days, sudden buying or selling has entered the market for a reason, and depending on supply and demand for the shares, price will either continue a prior trend or form a reversal.

Volume Flow analysis is the study of price movement in the context of these unusual volume events. In Volume Systems 2.0, we built several indicators designed to show us how much movement potential exists in a chart at the point one of these events occurs.

Volume Heat, shown on this page and discussed in the article on page 5, is a fabulous visual tool for quickly SEEING the events, because you can't miss the change from red to green. Using Volume Heat as our base technology, we developed our Volume Flow Oscillator, described on page 6, and additional Volume Weighted Indicators, Systems, and Strategies that are showing phenomenal performance.

The study of Volume Flow can show the tell-tale "signature" of professional traders. On the next page, Jeremy Williams' article explains this phenomenon and expands on the Volume Heat concept. I am extremely proud of this research—Volume Systems 2.0 is going to give our customers a decided advantage in their trading.

Volume Heat in action. By examining past price and volume behavior, the indicator can predict changes in trend, as shown here.



Volume Heat makes it easy to see changes in trend. The other Indicators and Systems in Volume Systems 2.0 are based on this.

An Introduction to Volume Flow Analysis

by Jeremy Williams
Trading Systems Researcher,
Nirvana Systems, Inc.

The Importance of Supply and Demand

The analysis of volume to predict future market prices has been used for more than 100 years, starting with the innovative methods of Richard Wyckoff in the early 1900's. In recent years, advances in these techniques have been made using Volume Spread Analysis to decode market movements using certain principles regarding supply and demand.

The concept is simple and intuitive. When demand exceeds supply, markets will rise. When supply surpasses demand, prices fall. If supply and demand are equal, price will remain the same. By analyzing volume data in addition to the price chart, it becomes possible to not only understand the historical roles of supply and demand, but also to predict supply and demand conditions for the near future.

The Professionals

The key to predicting future supply and demand is the behavior of the large professional stock traders, sometimes referred to as "professional operators" or the "smart money."

These major market players have a huge effect on the movement of stocks as they consistently "fleece" the less savvy smaller traders. The chart and discussion to the right explains the mechanics of how this happens.

This "shell game" has been going on since the early 1900's, yet to most small traders the process has remained entirely invisible—until now.

The phases of market movement.

A. Accumulation During a down trend professional traders wait for the herd to panic (usually on a large bad news day) before buying. While the stocks are at the low "wholesale" pricing, the professionals start covering shorts and buying to accumulate shares to sell at a later time. The panic of the herd ensures there is an ample supply for the operators to purchase without moving price upward.

B. Markup When the panic subsides, the professionals now hold a significant percentage of the actively traded shares in the market. This causes prices to steadily rise, not because the professionals are buying, they already did that. The price moves up because the professionals own the stock and they are not selling.

C. Distribution The next phase occurs when the operators have determined that the price has risen as far as it can. Here they look to sell into an emotional buying frenzy, usually coming on the back of bullish news. At this point, the smart money distributes their shares to the herd, who are buying the stock at hyper-inflated (retail) prices.

D. Markdown Once the herd is again holding a large portion of the actively traded shares, the prices fall. Without the buying power of the pros it is very hard to sustain demand in excess of supply.

Beat the Pros at their own Game!

The Missing Link

The key piece of this puzzle that most traders miss is **volume**. When the professionals accumulate or distribute shares, they leave a tell-tale “signature” in the form of the volume and price data.

In the chart to the right you can see large volume spikes around the key reversal points. On these extreme movement days, the professionals’ actions are directly reflected in the volume. For example, on June 23, 2009 a relative low bar was formed on CYT. We see a large volume spike on that day, showing us that buying AND selling increased to form an accumulation event.

The Volume Heat Indicator

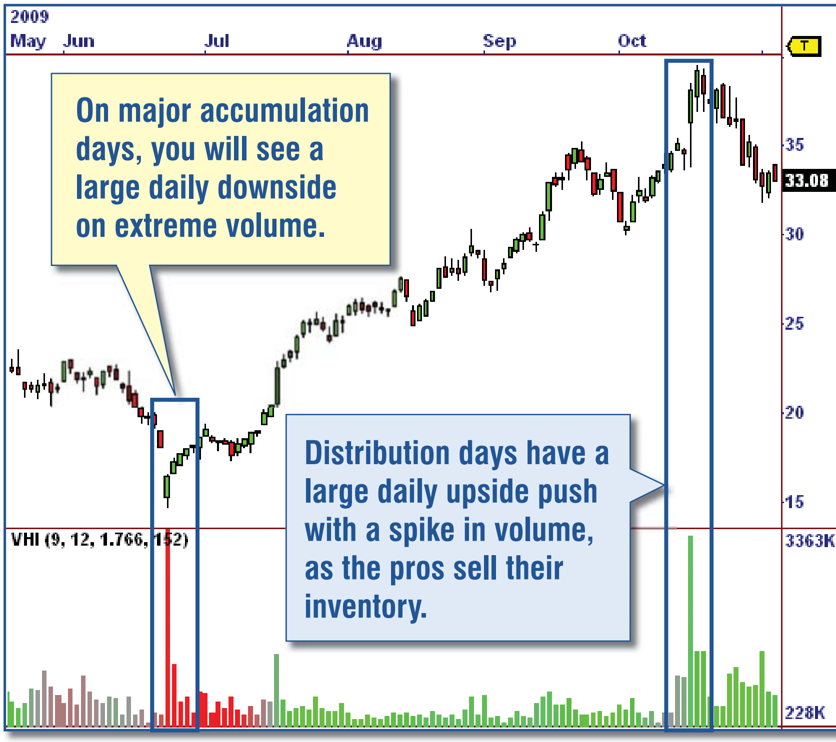
To capture Volume Flow, we created a new indicator called Volume Heat which helps us visualize the overall movement of money into and out of a stock. The indicator is shown in both of the examples to the right.

With Volume Heat, not only can you see the professionals entering and exiting the market, but also the resulting imbalance between supply and demand as the heat shifts from bullish to bearish and vice versa. This is information we can profit from!

In the days following the major accumulation bar in February, Sprint shows a marked shift in the balance of supply and demand. The Volume Heat Indicator undergoes a color shift from red to grey then finally to green. This is due to the major accumulation by the pros removing supply from the market place. Until they sell (at the next distribution point in the chart) the market will have a solid upside bias.

Volume Heat will let you see whether an accumulation or distribution event has just occurred, giving you an important piece of information that will improve your odds.

Volume Spikes Tip-off Operator Behavior



Volume Heat Indicator shows spikes as pros accumulate and distribute shares of CYT.

Volume Heat shows supply and demand imbalances as money flows into and out of the stock of Sprint (S).

Detect Change in Trend Early

The NEW Volume Flow Oscillator

The Volume Flow Oscillator, or VFO, is an advanced indicator based on the Volume Heat concept. It is formed by averaging bar-to-bar price differences and weighting those differences by volume. The resulting indicator is sensitive to changes in volume, giving us an early indication of a potential change in trend.

The charts to the right illustrate how VFO can be used to give us a trading advantage. In the marked zones, you can see the raw VFO (the blue line) is moving rapidly away from the smoothed VFO (the green line). When this occurs, a new trend is typically beginning.

A good example of this occurred on JPM in April. Note the large move in VFO, as well as the relative position of VFO at the end of the move, compared to price. The price chart ended slightly above the values from early April (about $45.50), whereas the VFO chart was easily 3 times lower than where it was in early April. The market proceeded to drop over 20%.

If you closely examine the charts in these examples, you can see the increase in volume, but it would be very easy to miss if you were not watching VFO! That's the value of the indicator. VFO was also used to create the Dual Volume Flow and Volume Flow Divergence Systems described on the next page.

The Volume Flow Oscillator indicates a potential change in trend when it suddenly moves a large distance away from its moving average, compared to movement in the price chart.

Another Volume Flow example showing sudden movement away from the moving average, indicating a large amount of volume in the direction of the move, at each of the shaded zones. These events often occur ahead of strong rallies or declines.

Systems Using Volume Flow

Dual Volume Flow System

Once we had completed and tested the Volume Flow Oscillator, we naturally turned our attention to generating Trading Systems based on the same concept. The first is called Dual Volume Flow Crossover (DVF-C).

This System is generated by first calculating a raw VFO over a certain number of periods (20 was used on the chart for MSFT to the right). Then, we generate dual moving averages of the raw VFO line (in the example, 10 and 20 periods were used for the averages). As you can see, this System does an excellent job of firing on trend reversals.

DVF-C fired several good reversal Signals on Microsoft.

Volume Flow Divergence System

The second System is called Volume Flow Divergence. This is the one we are the most excited about! On page 10, you will read about the Strategy we built around VFO that is showing high performance on the S&P 100. But the raw VFO-D System is equally impressive.

The Divergence concept is based on finding "divergence" between an indicator and price. When the System detects this, it fires Long or Short. Talk about razor sharp reversals! **VFO-D tends to fire reversal Signals at the beginning of longer term moves.** We used the VFO-D System to build the Volume Divergence Strategy described on page 10.

The Volume Flow Divergence System (VFO-D) tends to fire at long term reversal points, as we see here for IBM.

Improved Moving Averages

Volume Weighted Indicators

By applying volume weighting to classical moving averages, we are able to develop a much better—and faster—moving average that helps us enter the market at better chart points AND helps protect us from a premature exit. It's called the Volume Weighted Moving Average, or VWMA, and it's included in Volume Systems 2.0.

The chart to the right for Royal Caribbean demonstrates the concept. You can see that in March 2009, price crossed the 100 period Volume Weighted Moving Average a full 5 days before it crossed the Exponential Moving Average—at a price difference of 20%. If we were using the 100 bar Exponential Moving Average we would have entered our Long position at a significant disadvantage. Plus, if you follow the blue line, you will see that the price chart maintains separation above the line, keeping us in the trade longer.

VWMA – a faster, cleaner moving average.

Volume Weighted MACD

We used VWMA to create a similar System to MAC-M, which is based on the difference between the 12 and 26 period Exponential Moving Averages. If you look at the chart to the right for Goldman Sachs, you will see that the new System virtually eliminated whipsaw Signals!

Why does this work? If you look carefully at the indicator, you can see that the volume weighting adjusts the curve towards the peaks and valleys. This pulls it away from the "trigger line" so it does not fire on the little "wiggles" or whipsaws that hinder the MAC-M System.

Our System testing shows a significant improvement in results for VWMACD over MACD by itself. If you are using the MAC-M System, you will want to consider replacing it with this System.

VWMACD-C (lower) is compared to the MAC-M system. Notice that while the Signals are similar, several whipsaws were avoided.

Powerful New **Long Term Strategy**

Based on Volume Weighted Indicators

New Volume Systems 2.0 Power Strategy generates high returns in recent market.

Building a robust long term Strategy using Technical Analysis is difficult, because most technical methods are more or less fixated on the very near price action. But volume weighting has ushered in a new era of analysis that has the potential to generate superb long term Signals.

The Volume Systems 2.0 Power Strategy uses both the DVF-C and VWMACD-C Systems discussed on pages 7 and 8. It combines them to look for tell-tale signs that the professionals are beginning to accumulate a stock. And we must admit, the concept is simply amazing.

In a recent test on the Russell 1000, we generated the following statistics on the 100% Mechanical Strategy:

Period .... 1/09 – 6/10
Trades 455
Hit Rate 72%
Average Bars 38
Average PPT 11.8%

This is an incredible average profit per trade for a Mechanical Strategy. And it's showing 72% accuracy. When you think about the fact that this test was run over a large index (the Russell 1000), it's very impressive. We are very pleased to include this fabulous long term Strategy with our new Volume Systems 2.0 release.

The long term Strategy fired several great trades on AVY.

Some of the long term trades in our test earned far greater than 11%. One of the CTAS trades shown here made nearly 40%!

SPECIAL BONUS!
Our New Volume Divergence Strategy

Swing Trade Divergences for Quick Profits!

The Divergence concept is perhaps one of the most powerful Reversal techniques discovered by technical analysts. Essentially, we compare trend slope in the price chart against an indicator plot.

When slope in the price chart is down and the indicator is sloping upward, a sudden rally is often predicted. The opposite is true for short Signals.

As soon as we got our Volume Flow Oscillator we set about the task of creating a Divergence system based on this concept. The results are pretty phenomenal, as shown in the two examples on this page. The best thing about these Signals is they are often explosive, occurring within a few bars of the actual turn in price.

To test the new VFO-D System, we ran it against the S&P 100 over the recent year of data. **Using mechanical exits, we are seeing accuracy across Longs and Shorts of over 77% and a profit per trade of nearly 2%.** With average trade length just over one week, this kind of performance really gets your attention.

Performance on the S&P 100
Jan 2009 – June 2010

	Longs	Shorts	Both
Num Trades	73	79	152
Hit Rate	75.3%	79.75%	77.6%
Profit/Trade	3.33%	1.23%	1.76%

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