What is Money Flow and How Can We Interpret This Indicator?

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- **19 Years on Wall Street**

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- **Teach Technical Analysis at Baruch College in NYC**

Topics of Conversation

What is Chaikin Money Flow?

What Does Chaikin Money Flow Measure?

How is it Different From Other Volume Indicators?

How Do We Use Chaikin Money Flow?

Chaikin Money Flow (CMF)

Developed by Marc Chaikin, Chaikin Money Flow measures Money Flow Volume over a specific period. Money Flow Volume forms the basis for the Accumulation Distribution Line. Instead of a cumulative total of Money Flow Volume, Chaikin Money Flow simply sums Money Flow Volume for a specific look-back period, typically 20 or 21 days. The resulting indicator fluctuates above/below the zero line just like an oscillator. Chartists weigh the balance of buying or selling pressure with the absolute level of Chaikin Money Flow. Chartists can also look for crosses above or below the zero line to identify changes on money flow.

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1. Money Flow Multiplier = [(Close  -  Low) - (High - Close)] /(High - Low)

2. Money Flow Volume = Money Flow Multiplier x Volume for the Period

3. 20-period CMF = 20-period Sum of Money Flow Volume / 20 period Sum of Volume
```

Chaikin Money Flow (CMF)
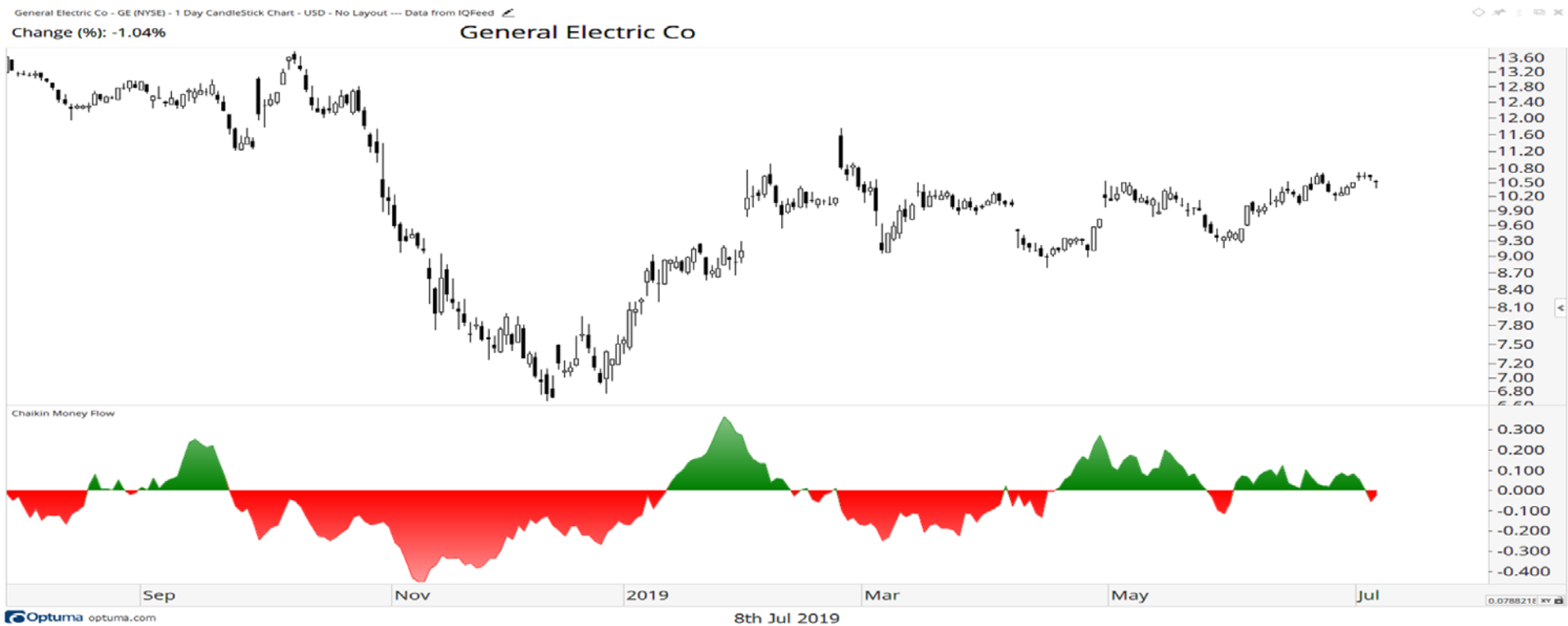
Normal Volume Indicator

Chart: Optuma

Chaikin Money Flow (CMF)

The key difference between Chaikin Money Flow and other volume indicators is that Chaikin Money Flow considers where a product closes in its range in addition to the absolute volume traded on a specific day. The theory is that if a product closes near the top of the range on heavier than normal volume, it is a sign of accumulation. Products that close near the bottom of the range on heavier than normal volume are thought to be under distribution.

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Understanding Chaikin Money Flow

Not **all price moves are created equal –** a stock may go up while "hitting its head on the ceiling" or "bouncing off the floor."

Chaikin Money Flow looks "inside" a stock's trading activity to distinguish price movements which are likely to be supportable based on price/volume patterns, from those which are not. Chaikin Money Flow looks at two important factors to determine the likely sustainability of a price move:

- **Closing Performance - Has the stock been closing strong during this move?**
- **Volume Confirmation - Has the move happened on relatively high or low volume?**

Buying pressure is represented by stocks which have been closing high in their daily range, on high volume. Selling pressure is represented by stocks which have been closing low in their daily range on high volume.

Closing Performance

We look at closing performance—where a stock closes in its range for the day—this determines the direction of daily Money Flow.

A rising stock which regains its footing to close strong over time is more likely to continue its upward move.

Stock A
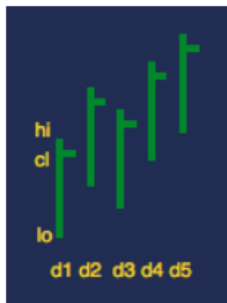
*Strong closing performance*

Stock B
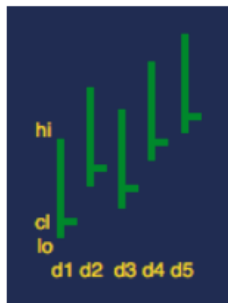
Weak closing performance

In both cases, the stock's Closing Price has moved up the same amount. However, **Stock A** rallied to close near its daily high each day, contributing to positive Money Flow, while **Stock B** dipped to close near its low each day, contributing to negative Money Flow.

Volume Confirmation

Next we look at the effect of volume, which will determine the *magnitude* of daily Money Flow. Performance on higher-volume days is thought to be a truer indication of what market participants are willing to pay for a stock.

Stock A
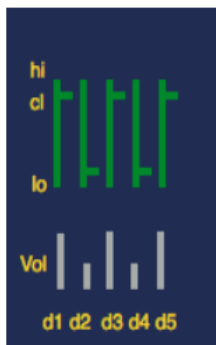
Closing strong on high volume

Stock B
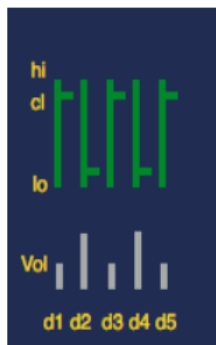
Closing weak on high volume

In this example, both stocks alternate between closing strong and closing weak. However, **Stock A** closed strong on high-volume days, contributing to positive Money Flow, while **Stock B** closed weak on high-volume days, contributing to negative Money Flow.

Money Flow Persistency

When researching a stock, look for evidence of strong money flow persistency, meaning significant regions of green over the last 6-9 months. Prefer stocks with strong Money Flow Persistency when possible.

Bullish vs Bearish Money Flow Persistency
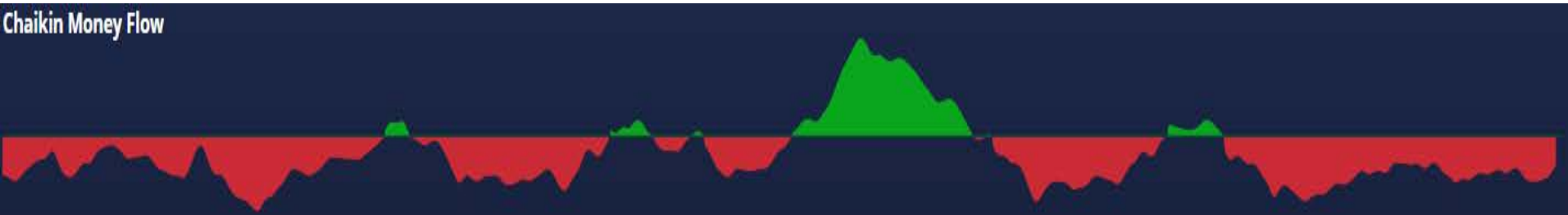
Strong Money Flow Persistency

Chart: Optuma

![Chaikin Analytics presentation slide titled "Strong Money Flow Persistency" showing a Cadence Design Systems Inc (CDNS NASDAQ) 1-Day Candlestick Chart with an upward trend line from late 2018 through July 2019, and a Chaikin Money Flow indicator below showing persistent positive (green) readings highlighted in a box.](image)
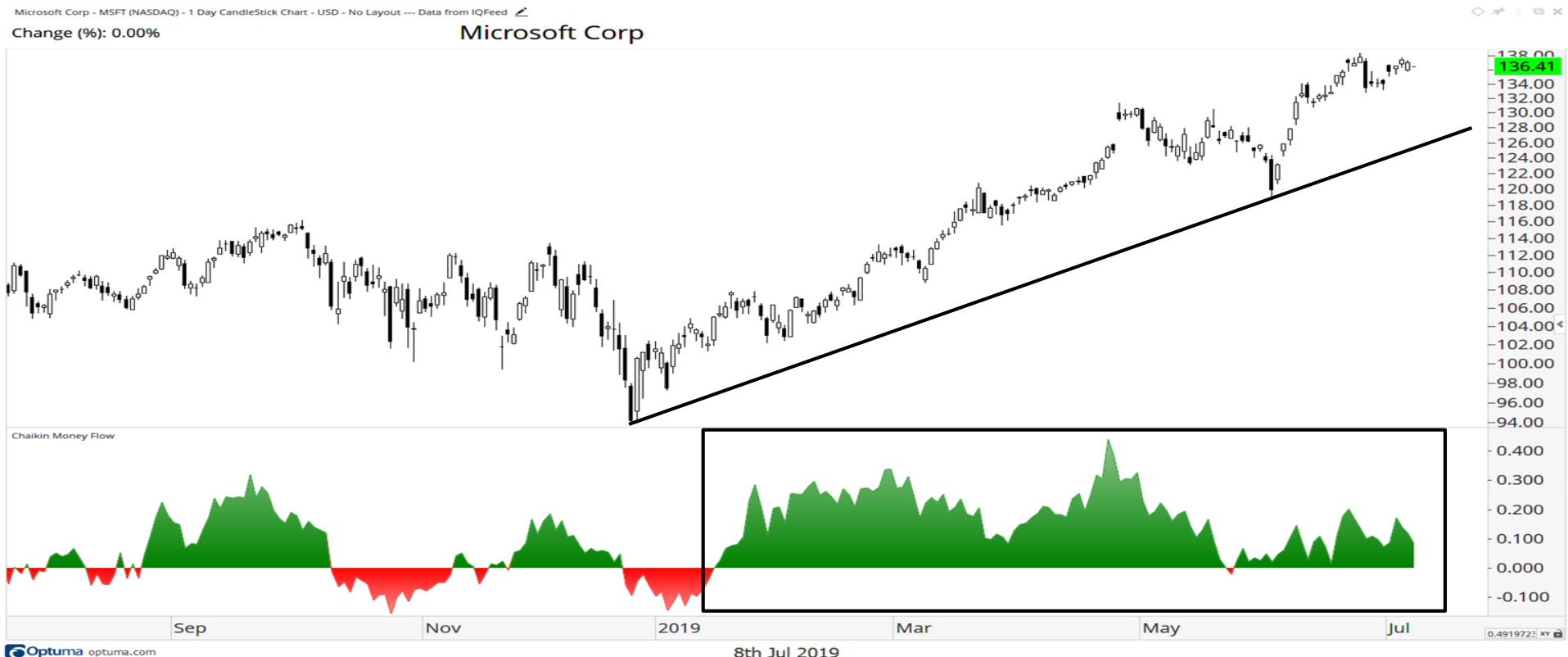
Strong Money Flow Persistency

Cadence Design Systems Inc - CDNS (NASDAQ) - 1 Day CandleStick Chart - USD - No Layout --- Data from IQFeed

Change (%): -0.53%

Cadence Design Systems Inc

74.74

Chaikin Money Flow

Optuma optuma.com

Sep   Nov   2019   Mar   May   Jul

8th Jul 2019

Chart: Optuma
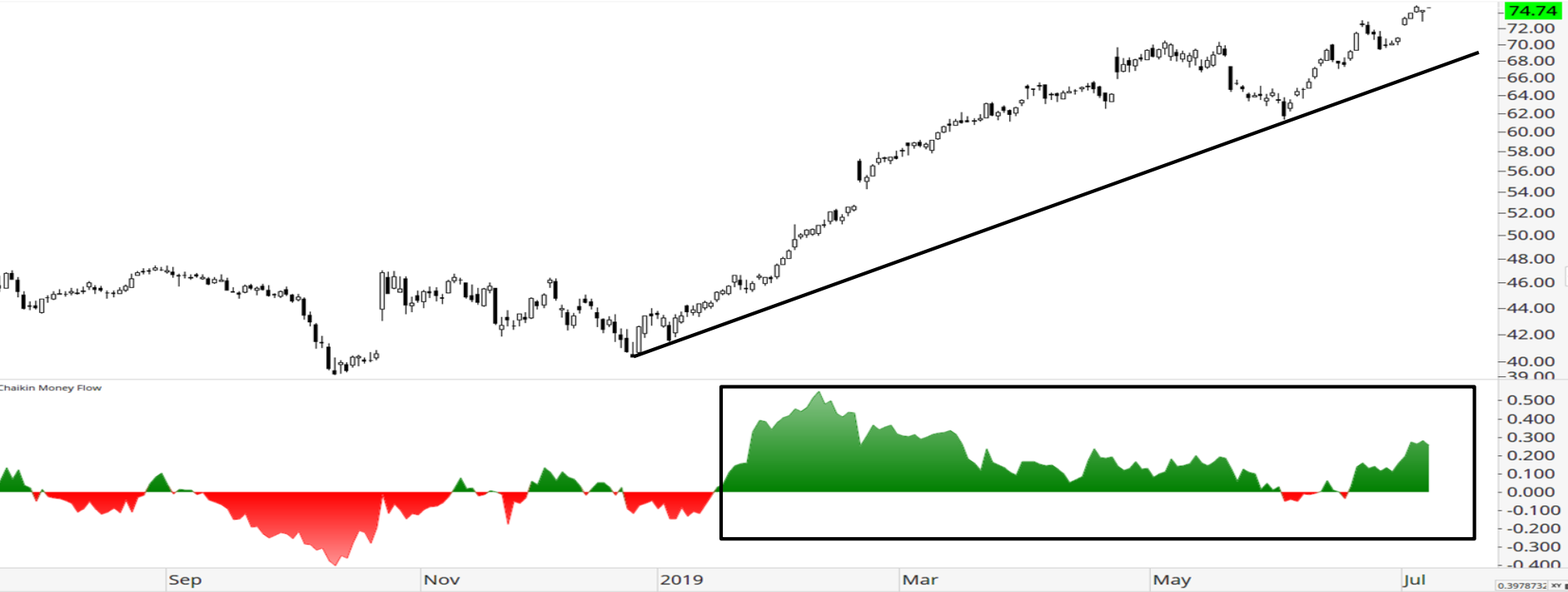
Strong Money Flow Persistency

SPDR S&P Software & Services ETF
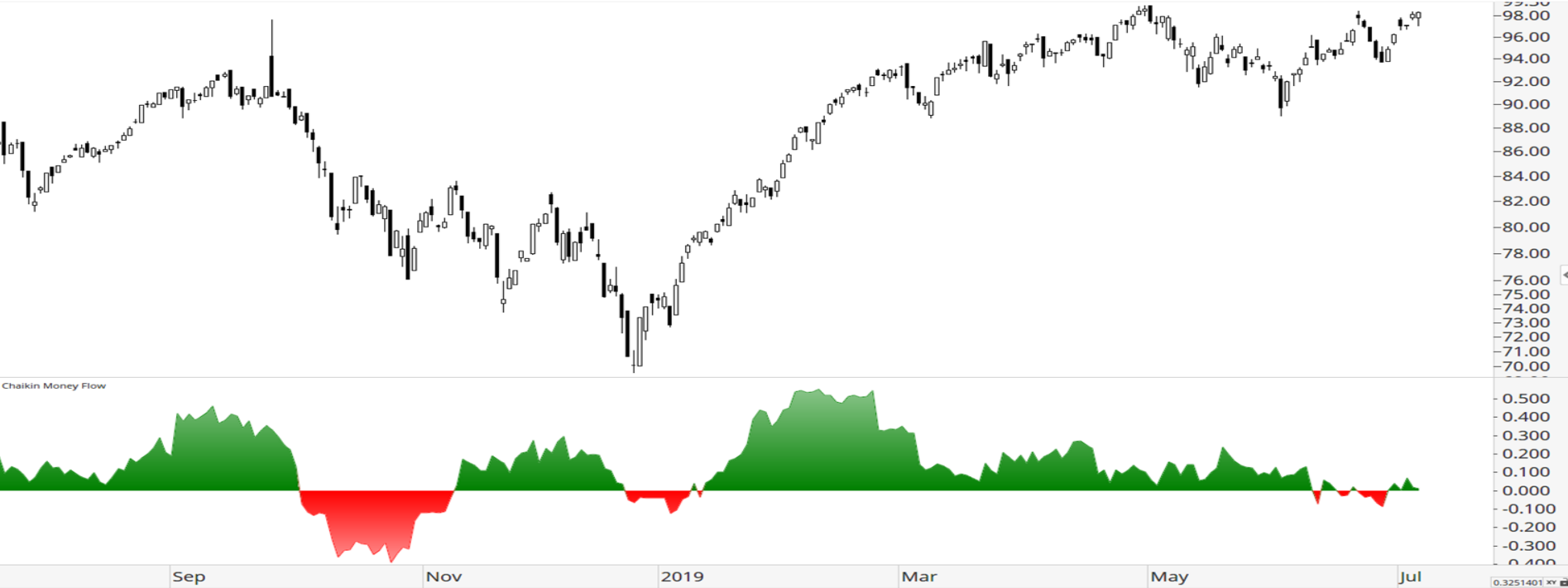
Chart: Optuma

Weak Money Flow Persistency

Chart: Optuma

Weak Money Flow Persistency

Chart: Optuma
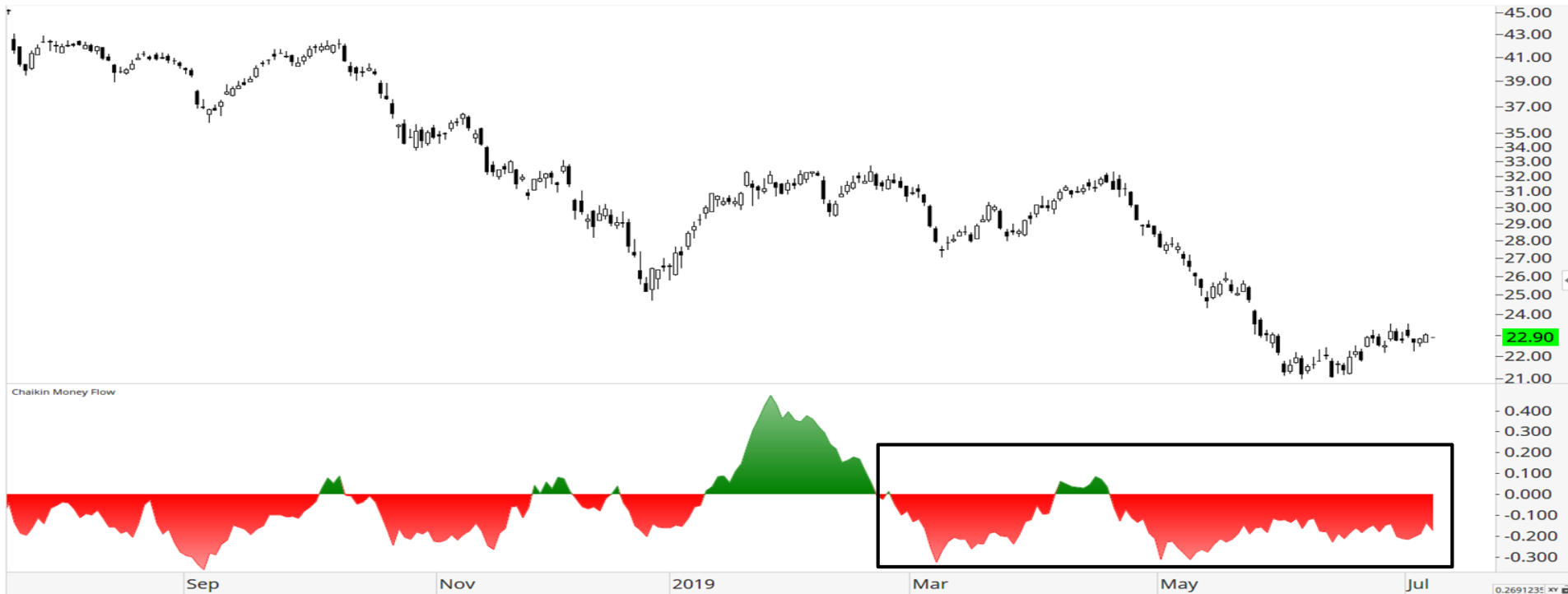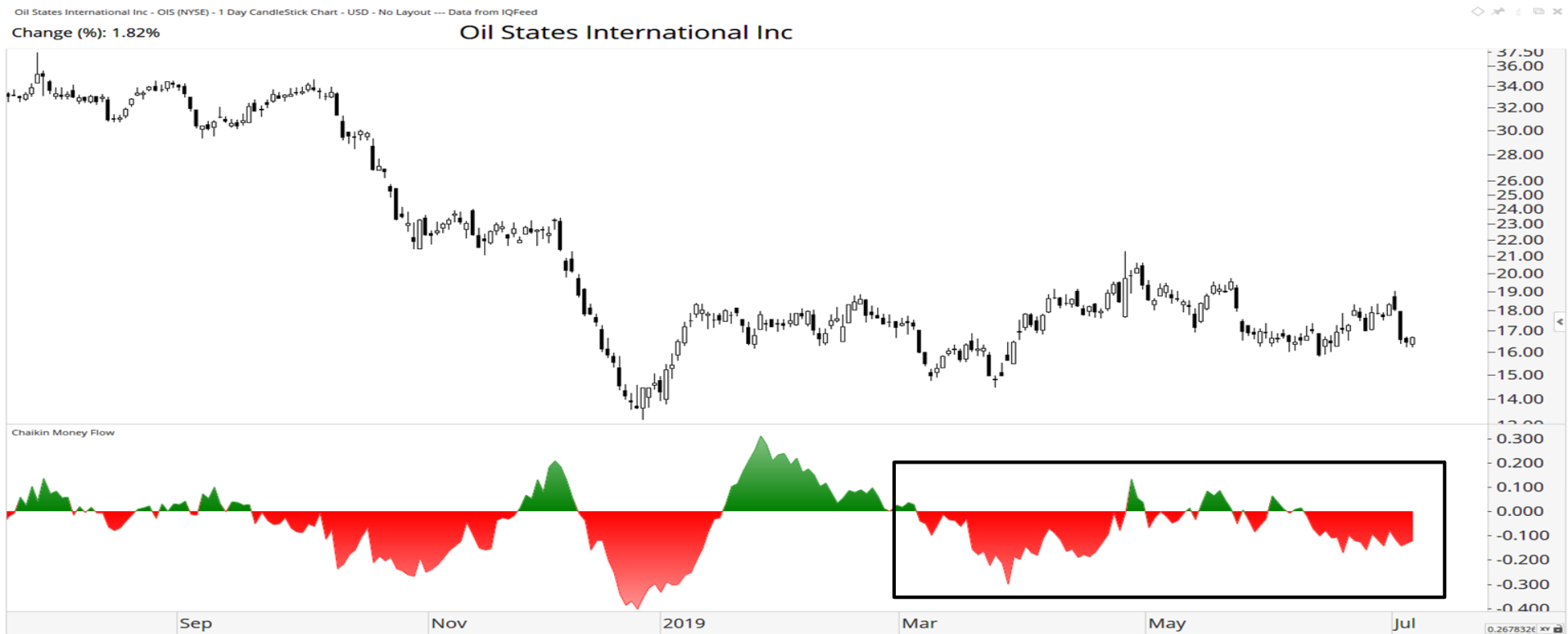
Weak Money Flow Persistency

SPDR S&P Oil & Gas Equipment & Services ETF

Chart: Optuma
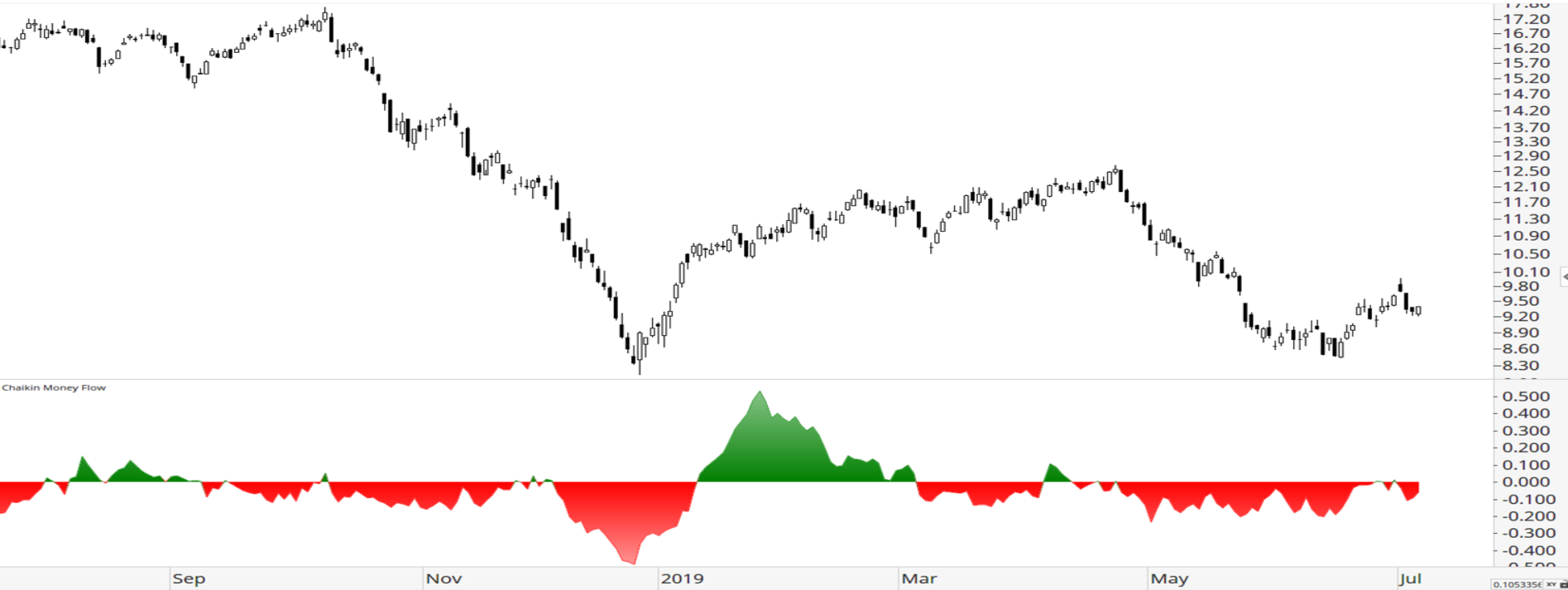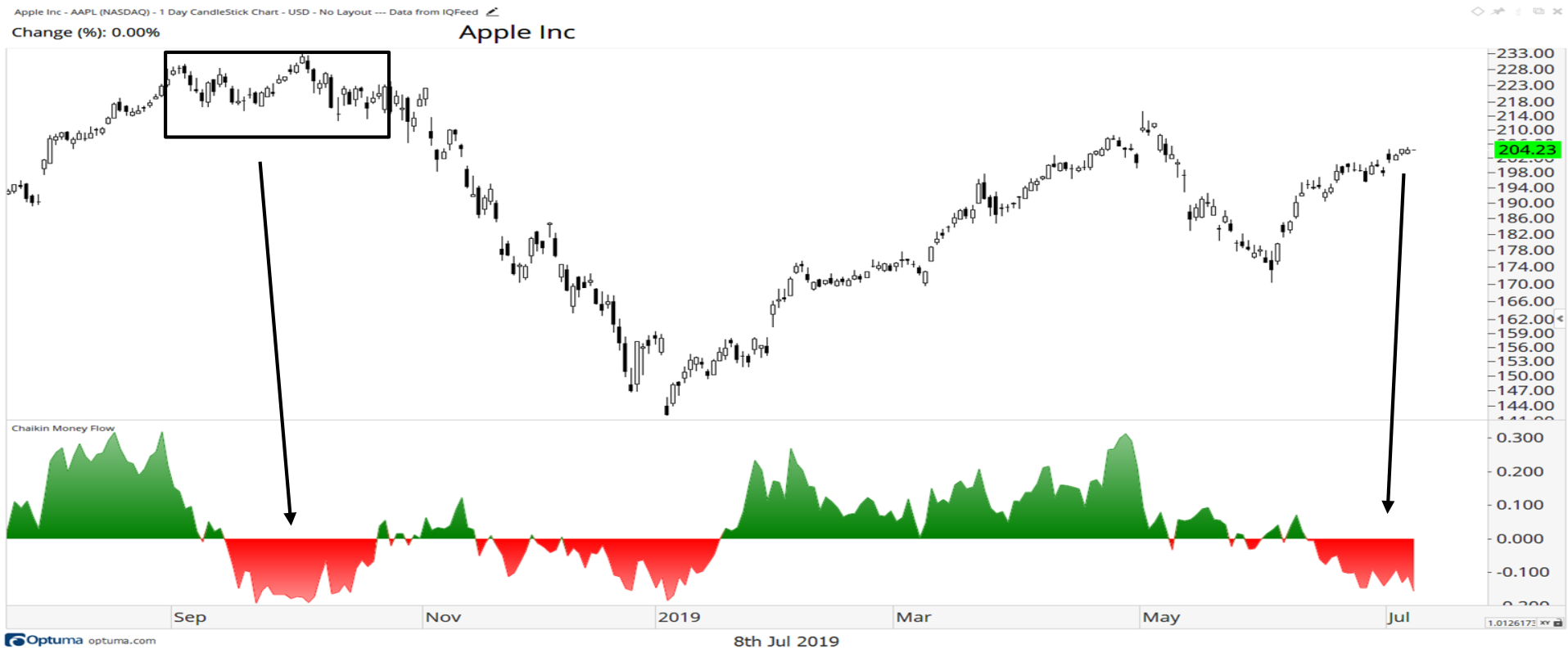
Money Flow Divergence

A *money flow divergence* occurs when a price move is not accompanied by a similar change in Money Flow. A *negative money flow divergence* can be an important indication of potential short-term risk.

Generally, Money Flow should correlate with price movement over time – as price goes up, money flow should, on average, get more green, and as the closing price goes down over time, money flow should get more red. So if a stock has a short-term rally while Money Flow stays positive, this confirms the move and doesn't necessarily add any information.

But if a stock has a short-term rally and Money Flow stays noticeably red, this could indicate a higher likelihood of a pullback.

Money Flow Divergence

Chart: Optuma

Money Flow Divergence

Chart: Optuma
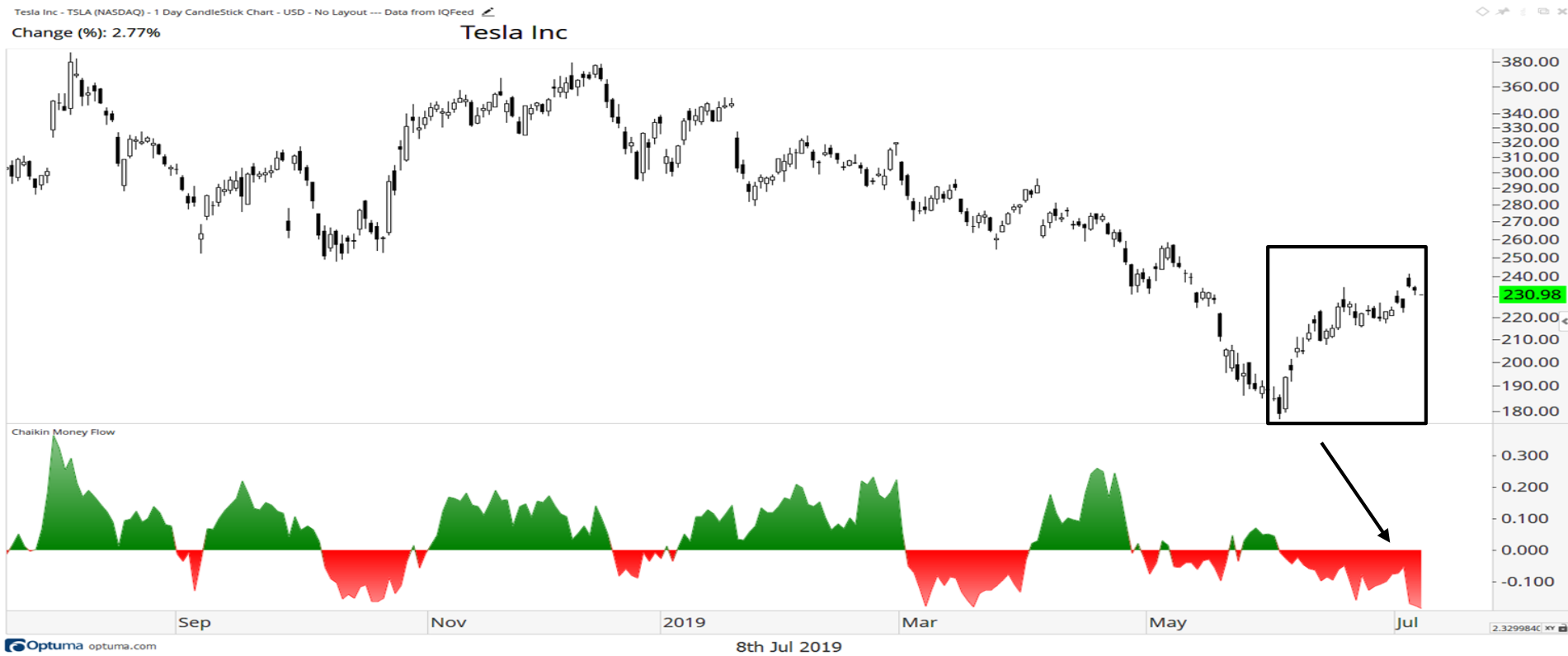
Use With Other Analysis Tools

Synopsys Inc - SNPS (NASDAQ) - 1 Day CandleStick Chart - USD - No Layout --- Data from IQFeed

Change (%): 17.21%

Synopsys Inc

Stock is above the 50-Day Moving Average

134.80

Chaikin Money Flow

Relative Index Comparison to S & P 500 Stock Index

Outperforming the Market

Sep   Nov   2019   Mar   May   Jul

8th Jul 2019

Optuma optuma.com

Chart: Optuma

www.ChaikinAnalytics.com/IBKR

For more information
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