

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

Dan Russo

CMT, Chaikin Analytics

Dan Russo, CMT

- 19 Years on Wall Street
- Chartered Market Technician
- MBA From Fordham University
- Co-Chair of the NY Chapter of the CMT Association
- 10 Years Covering Large Institutional Investors
- 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)

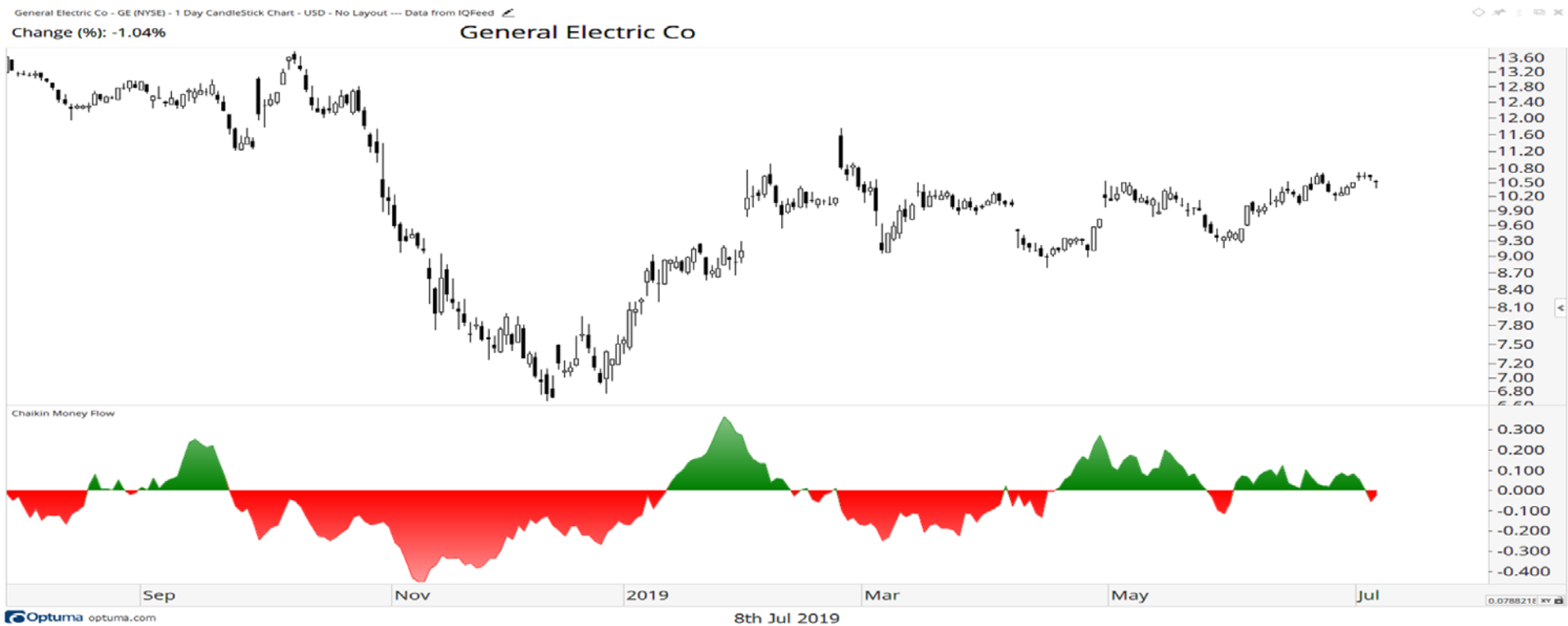
Developed by Marc Chaikin, Chaikin Money Flow measures Money Flow Volume over a specific period. Money Flow Volume forms the basis for the Accumulation Distribution Line. Instead of a cumulative total of Money Flow Volume, Chaikin Money Flow simply sums Money Flow Volume for a specific look-back period, 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.

$$1. \text{ Money Flow Multiplier} = [(Close - Low) - (High - Close)] / (High - Low)$$

$$2. \text{ Money Flow Volume} = \text{Money Flow Multiplier} \times \text{Volume for the Period}$$

$$3. \text{ 20-period CMF} = \text{20-period Sum of Money Flow Volume} / \text{20 period Sum of Volume}$$

Chaikin Money Flow (CMF)



Normal Volume Indicator





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.

1. Money Flow Multiplier = $[(\text{Close} - \text{Low}) - (\text{High} - \text{Close})] / (\text{High} - \text{Low})$

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



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?

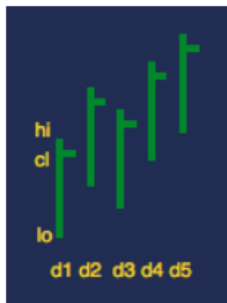
Buying pressure is represented by stocks which have been closing high in their daily range, on high volume. Selling pressure is represented by stocks which have been closing low in their daily range on high volume.

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.

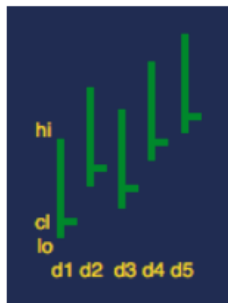
A rising stock which regains its footing to close strong over time is more likely to continue its upward move.

Stock A



Strong closing performance

Stock B



Weak closing performance

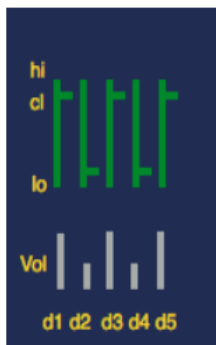
In both cases, the stock's Closing Price has moved up the same amount. However, **Stock A** rallied to close near its daily high each day, contributing to positive Money Flow, while **Stock B** dipped to close near its low each day, contributing to negative Money Flow.



Volume Confirmation

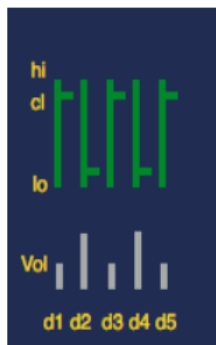
Next we look at the effect of volume, which will determine the *magnitude* of daily Money Flow. Performance on higher-volume days is thought to be a truer indication of what market participants are willing to pay for a stock.

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 Persistence

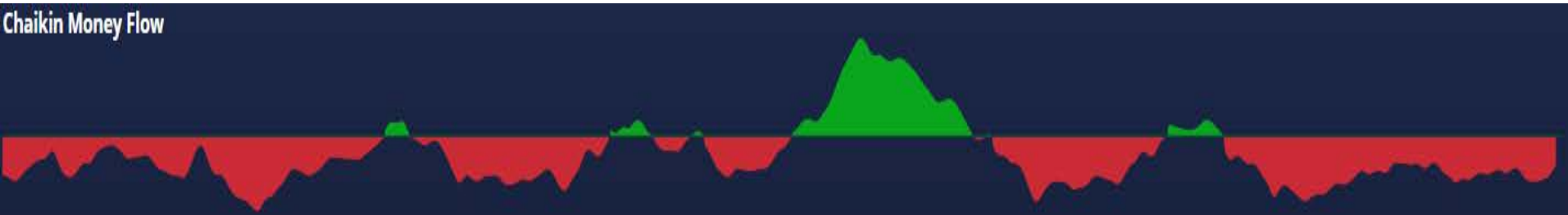
When researching a stock, look for evidence of strong money flow persistence, meaning significant regions of green over the last 6-9 months. Prefer stocks with strong Money Flow Persistence when possible.

Bullish vs Bearish Money Flow Persistence

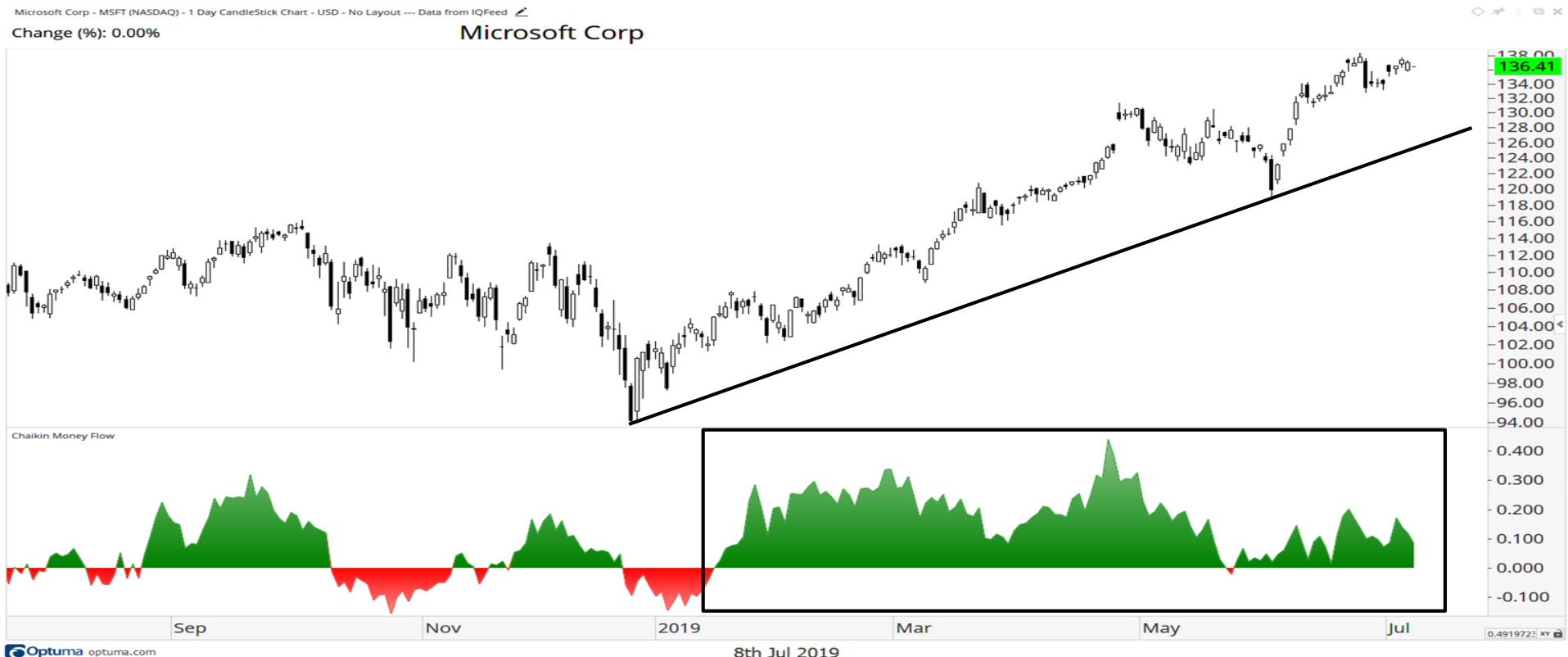
Chaikin Money Flow



Chaikin Money Flow



Strong Money Flow Persistence

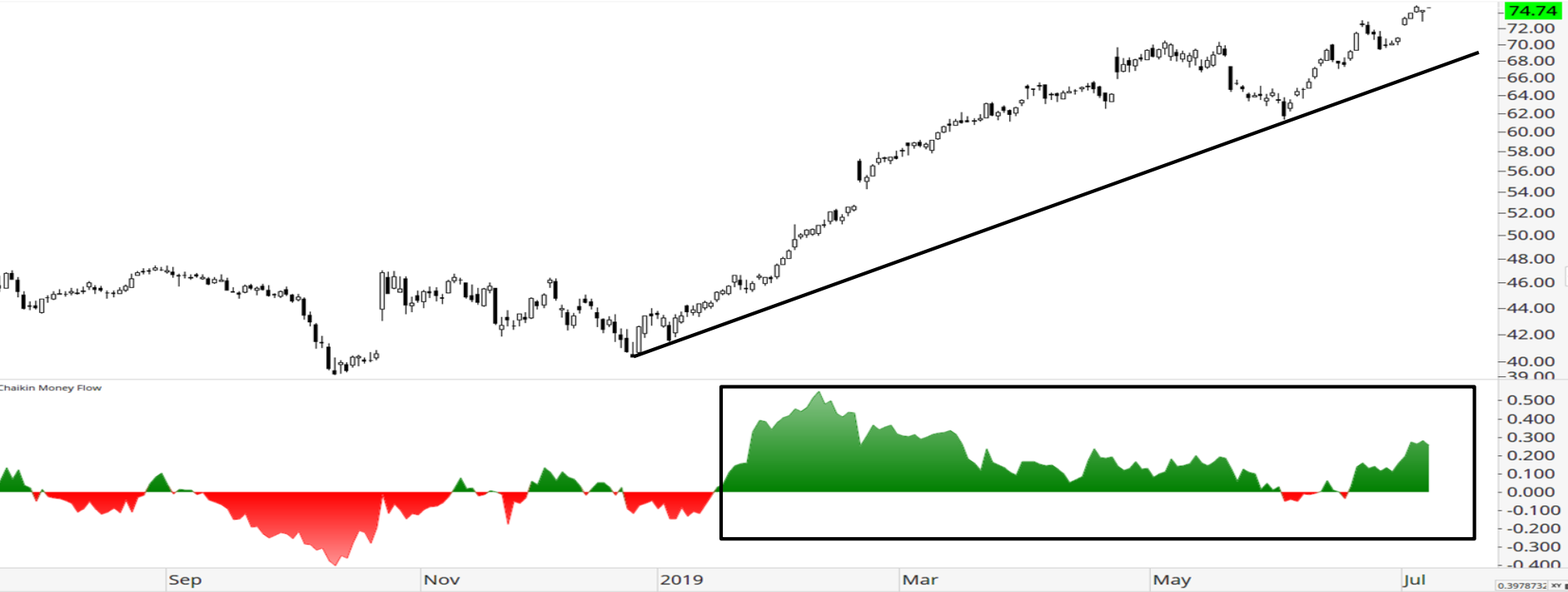


Strong Money Flow Persistence

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

Change (%): -0.53%

Cadence Design Systems Inc

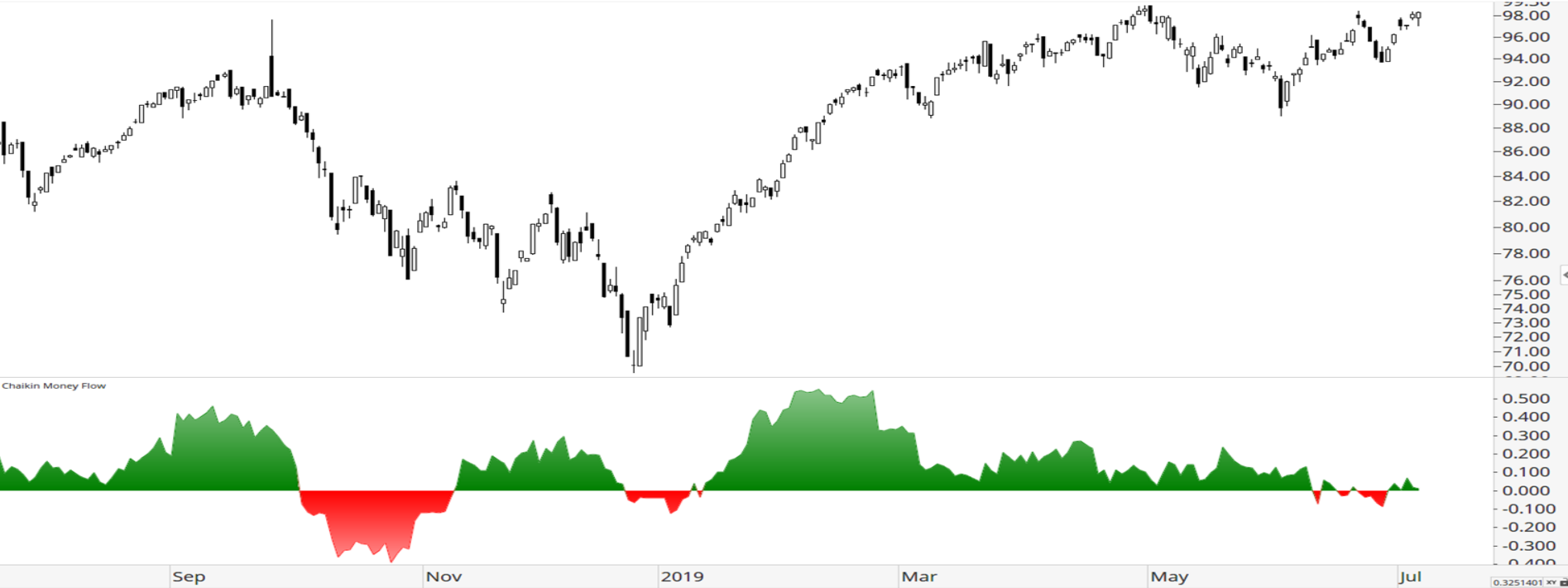


Strong Money Flow Persistence

SPDR S&P Software & Services ETF - XSW (AMEX) - 1 Day CandleStick Chart - USD - No Layout --- Data from IQFeed

Change (%): -3.52%

SPDR S&P Software & Services ETF

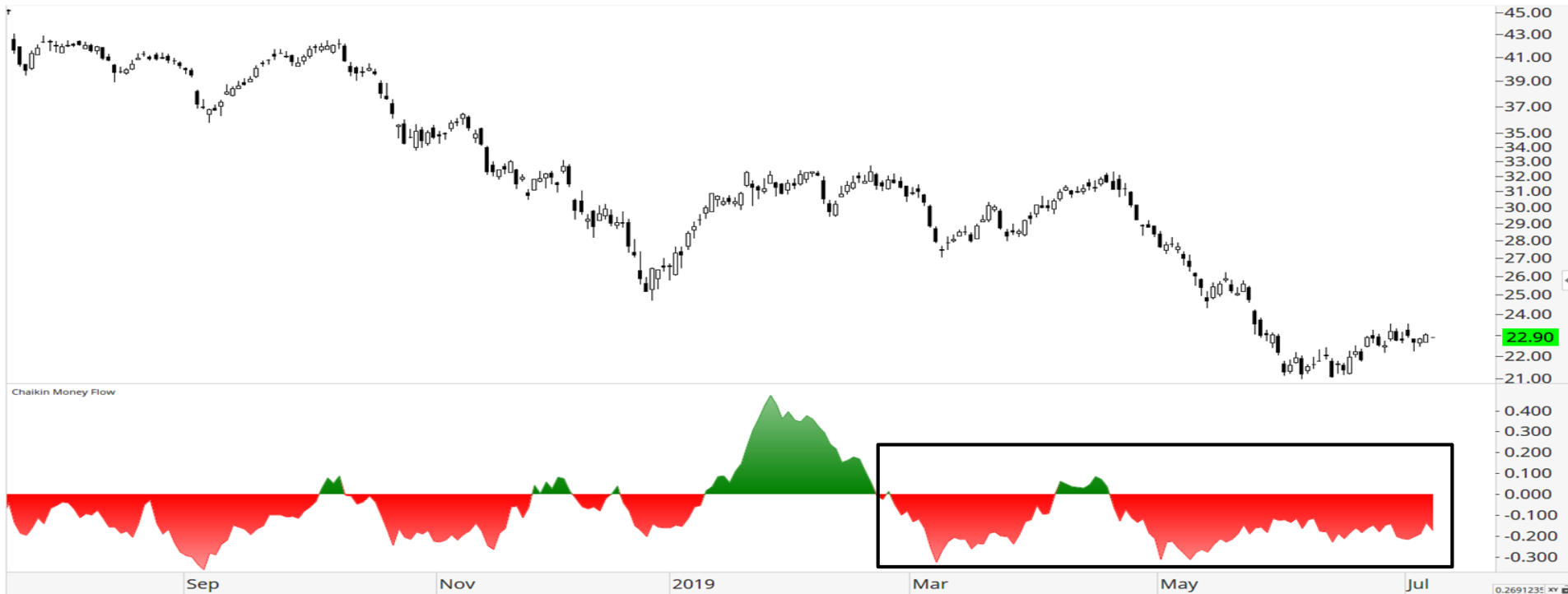


Weak Money Flow Persistence

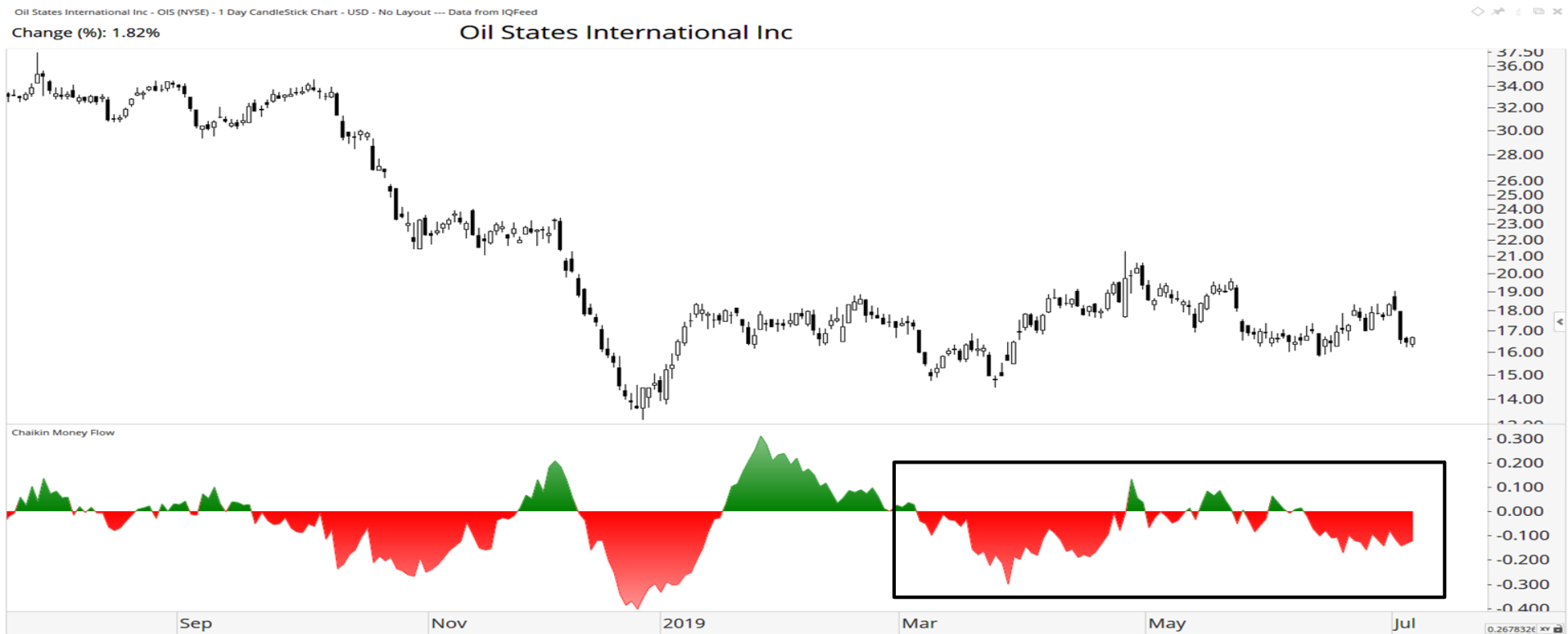
Halliburton Co - HAL (AMEX) - 1 Day CandleStick Chart - USD - No Layout --- Data from IQFeed

Change (%): 0.27%

Halliburton Co



Weak Money Flow Persistence

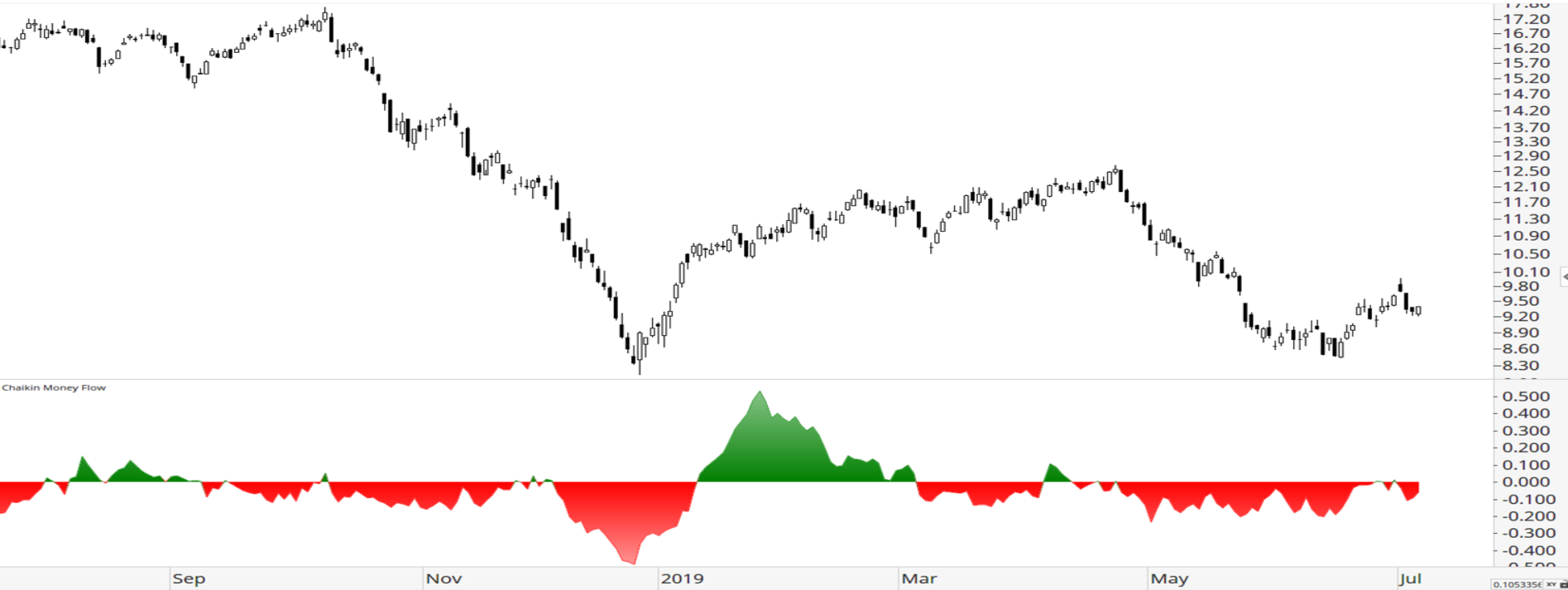


Weak Money Flow Persistency

SPDR S&P Oil & Gas Equipment & Services ETF - XES (AMEX) - 1 Day CandleStick Chart - USD - No Layout --- Data from IQFeed

Change (%): -5.53%

SPDR S&P Oil & Gas Equipment & Services ETF





Money Flow Divergence

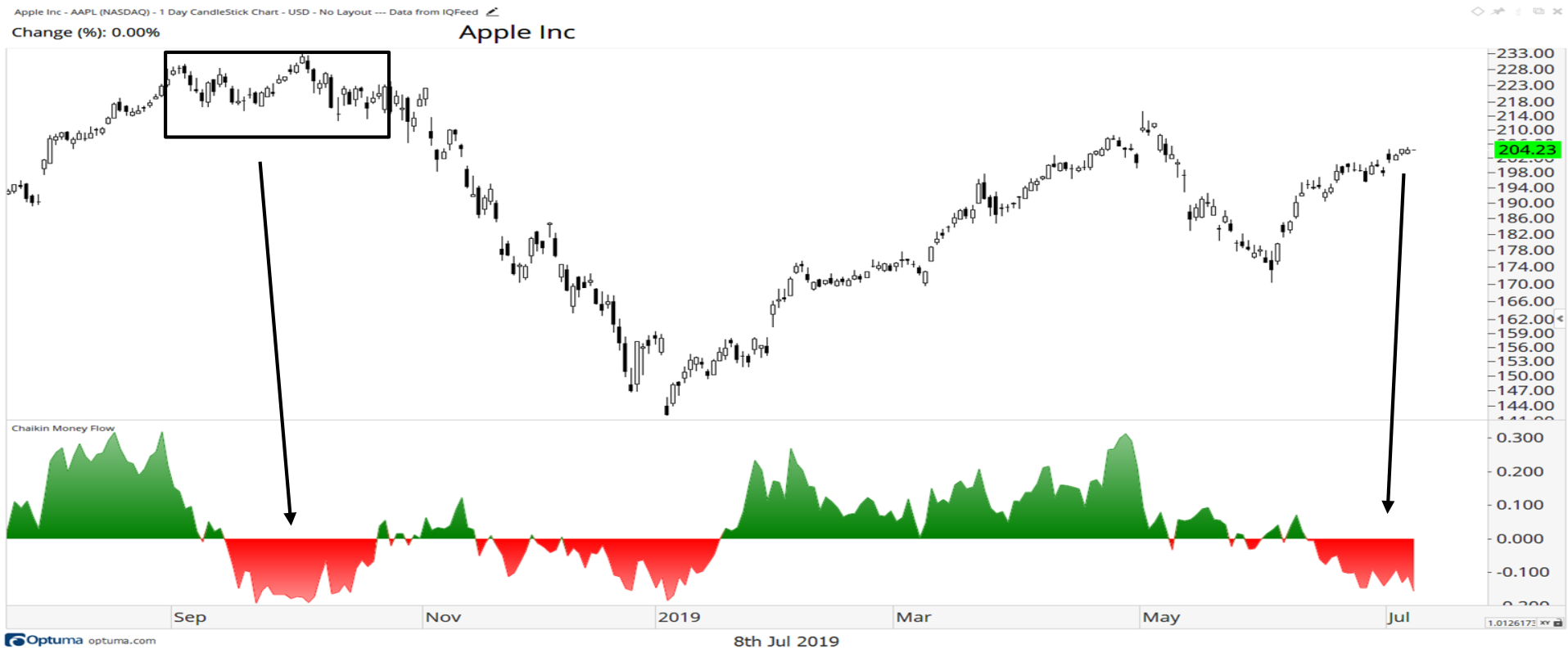
A *money flow divergence* occurs when a price move is not accompanied by a similar change in Money Flow. A *negative money flow divergence* can be an important indication of potential short-term risk.

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.

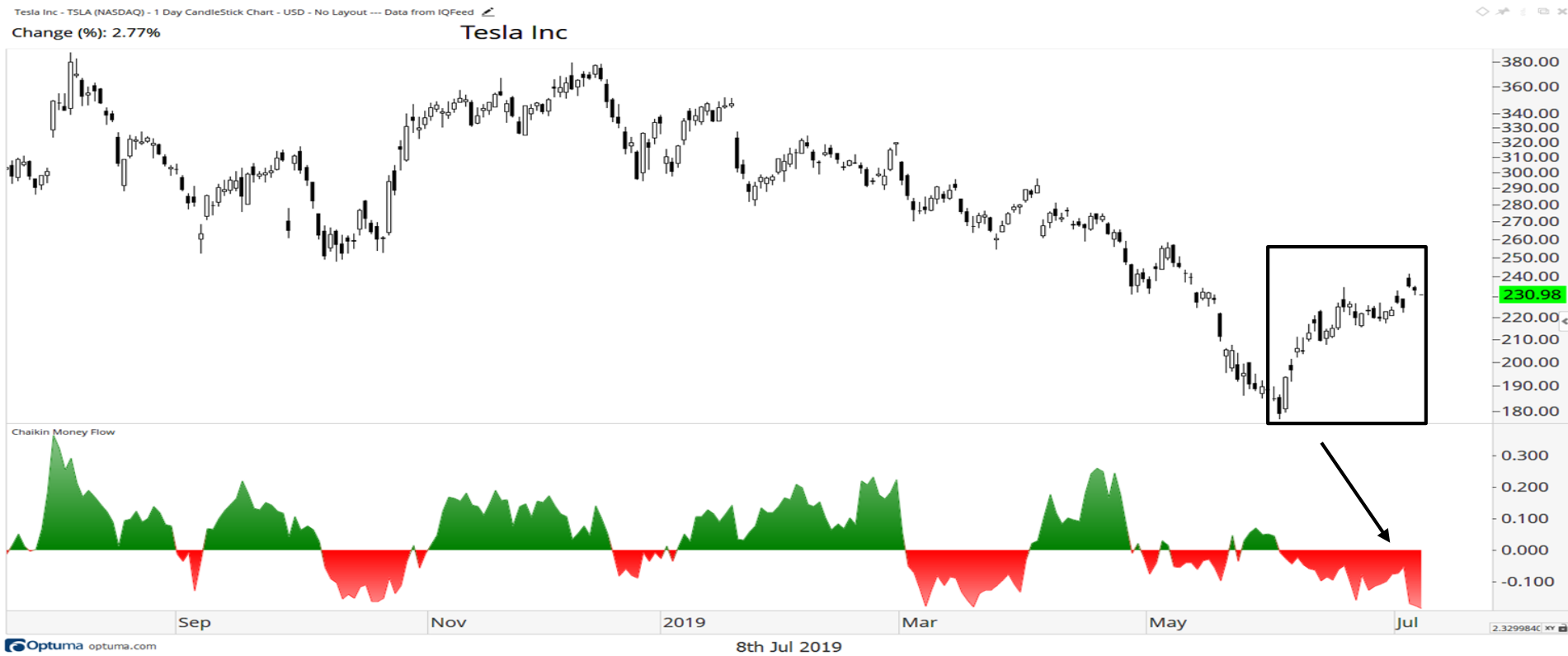
But if a stock has a short-term rally and Money Flow stays noticeably red, this could indicate a higher likelihood of a pullback.



Money Flow Divergence



Money Flow Divergence



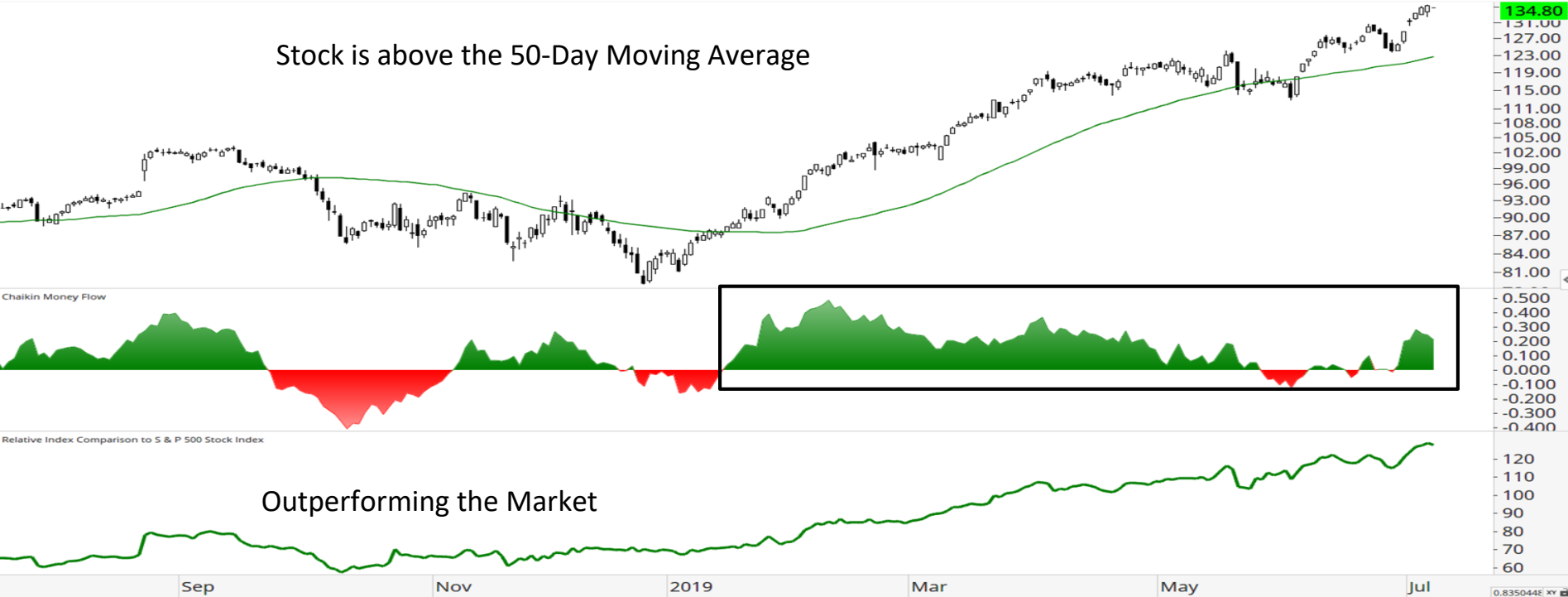
Use With Other Analysis Tools

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

Change (%): 17.21%

Synopsis Inc

Stock is above the 50-Day Moving Average



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For more information
Contact Pete Carmasino - Business Development at 610-
756-0129