



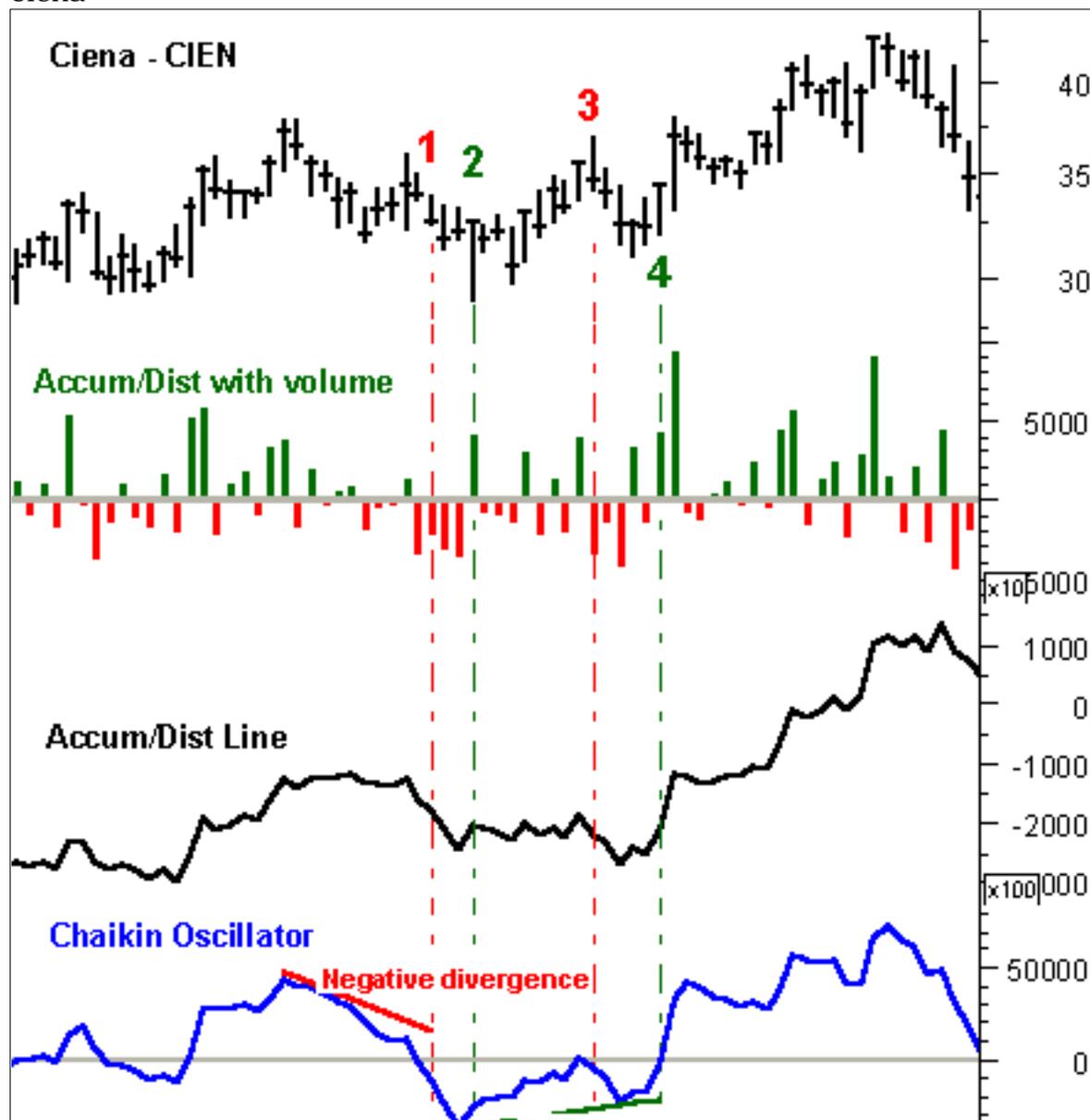
Chaikin Oscillator

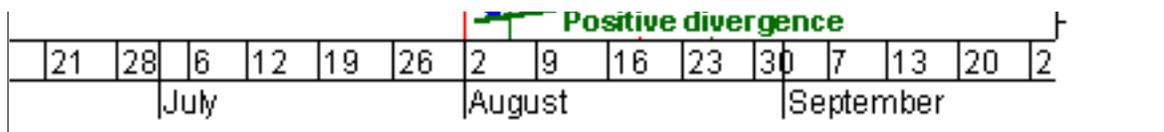
Introduction

The Accumulation/Distribution Line was covered in a previous article; here we will examine an indicator that stems from the concept behind the Accumulation/Distribution Line: the Chaikin Oscillator or Chaikin A/D Oscillator as it is sometimes called, named after its creator, Marc Chaikin. Before reading this article, you may want to become familiar with the concepts behind the Accumulation/Distribution Line.

The basic premise of the Accumulation/Distribution Line is that the degree of buying or selling pressure can be determined by the location of the close, relative to the high and low for the corresponding period. There is buying pressure when a stock closes in the upper half of a period's range and there is selling pressure when a stock closes in the lower half of the period's trading range.

Ciena





The CIEN chart shows the relationship among each period's Accumulation/Distribution Value, Accumulation/Distribution Line, and Chaikin Oscillator. The same four points noted in the [Accumulation/Distribution Line](#) article have been noted in this example for reference as well.

Methodology

The Chaikin Oscillator is simply the Moving Average Convergence Divergence indicator (MACD) applied to the Accumulation/Distribution Line. The formula is the difference between the 3-day exponential moving average and the 10-day exponential moving average of the Accumulation/Distribution Line. Just as the [MACD-Histogram](#) is an indicator to predict moving average crossovers in MACD, the Chaikin Oscillator is an indicator to predict changes in the Accumulation/Distribution Line.

Many of the same signals that apply to MACD are also applicable to the Chaikin Oscillator. Keep in mind though, that these signals relate to the Accumulation/Distribution Line, not directly to the stock itself. Readers may want to refer to our [MACD series](#) for more detailed information on various signals such as positive divergences, negative divergences and centerline crossovers.

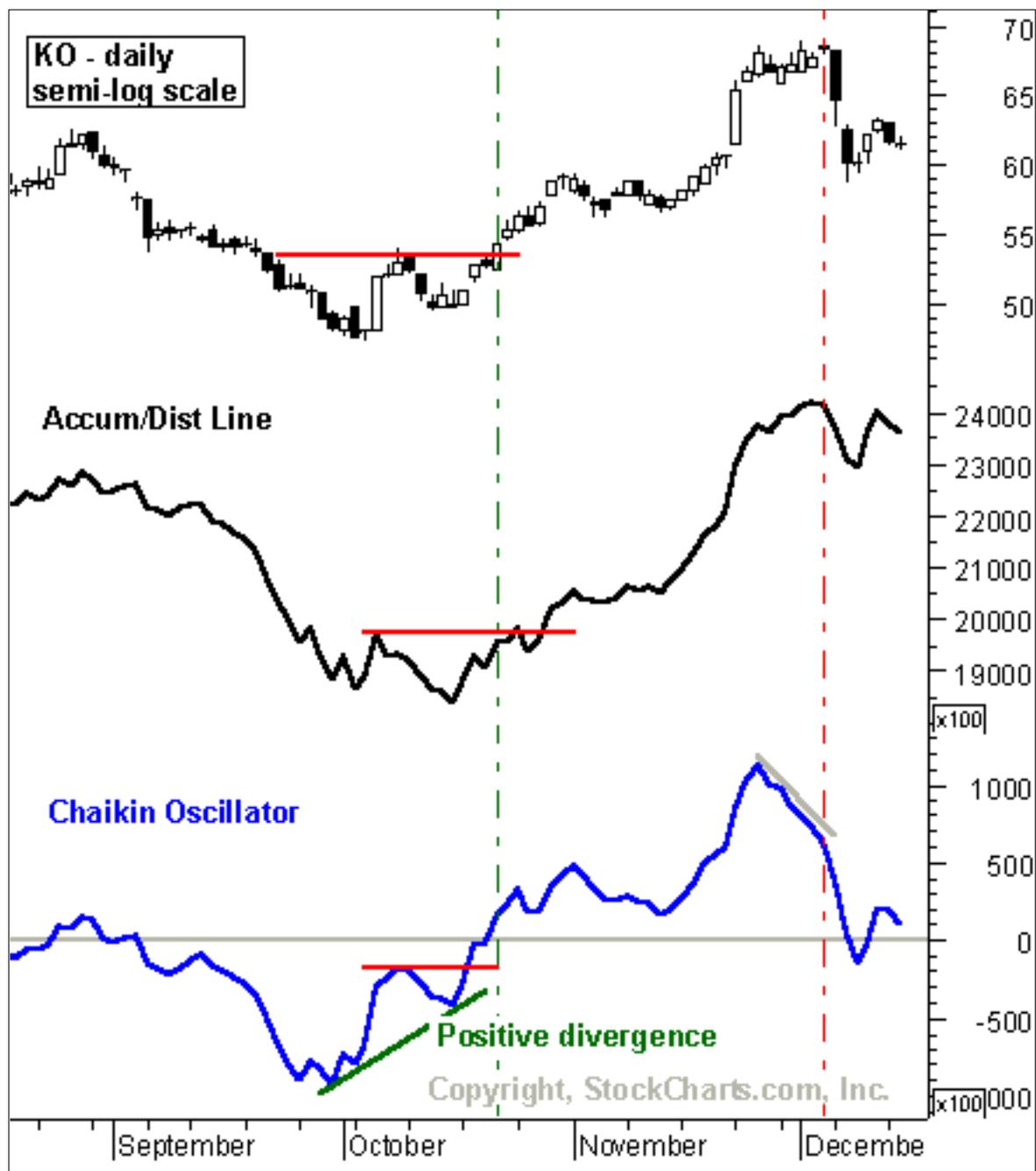
Just as MACD injects [momentum](#) characteristics into moving averages, the Chaikin Oscillator gives momentum characteristics to the Accumulation/Distribution Line, which can be a bit of a laggard sometimes. By adding momentum features, the Chaikin Oscillator will lead the Accumulation/Distribution Line. The CIEN chart confirms that movements in the Accumulation/Distribution Line are usually preceded by corresponding [divergences](#) in the Chaikin Oscillator.

1. The July negative divergence in the Chaikin Oscillator foreshadowed the impending weakness in the Accumulation/Distribution Line. This was a slant type divergence that is characterized by its lack of distinctive peaks to form the divergence. The Chaikin Oscillator peaked about a week before the Accumulation/Distribution Line and formed a bearish centerline crossover 2 weeks later. When the oscillator is negative, it implies that momentum for the Accumulation/Distribution Line is negative or bearish, which would ultimately be a negative reflection on the stock.
2. The August positive divergence in the Chaikin Oscillator foreshadowed a sharp advance in the Accumulation/Distribution Line. This divergence was longer and could have been referred to as a trough divergence. In a trough divergence there are two noticeable troughs, one higher than the other, that form the divergence. The bullish, or positive, momentum was confirmed when the Chaikin Oscillator formed a bullish moving average crossover in late August.

Bullish Signals

There are two bullish signals that can be generated from the Chaikin Oscillator: positive divergences and centerline crossovers. Because the Chaikin Oscillator is an indicator of an indicator, it is prudent to look for confirmation of a positive divergence, by a bullish moving average crossover for example, before counting this as a bullish signal. The chart for KO is an excellent example of a positive divergence that has been confirmed by a centerline crossover.

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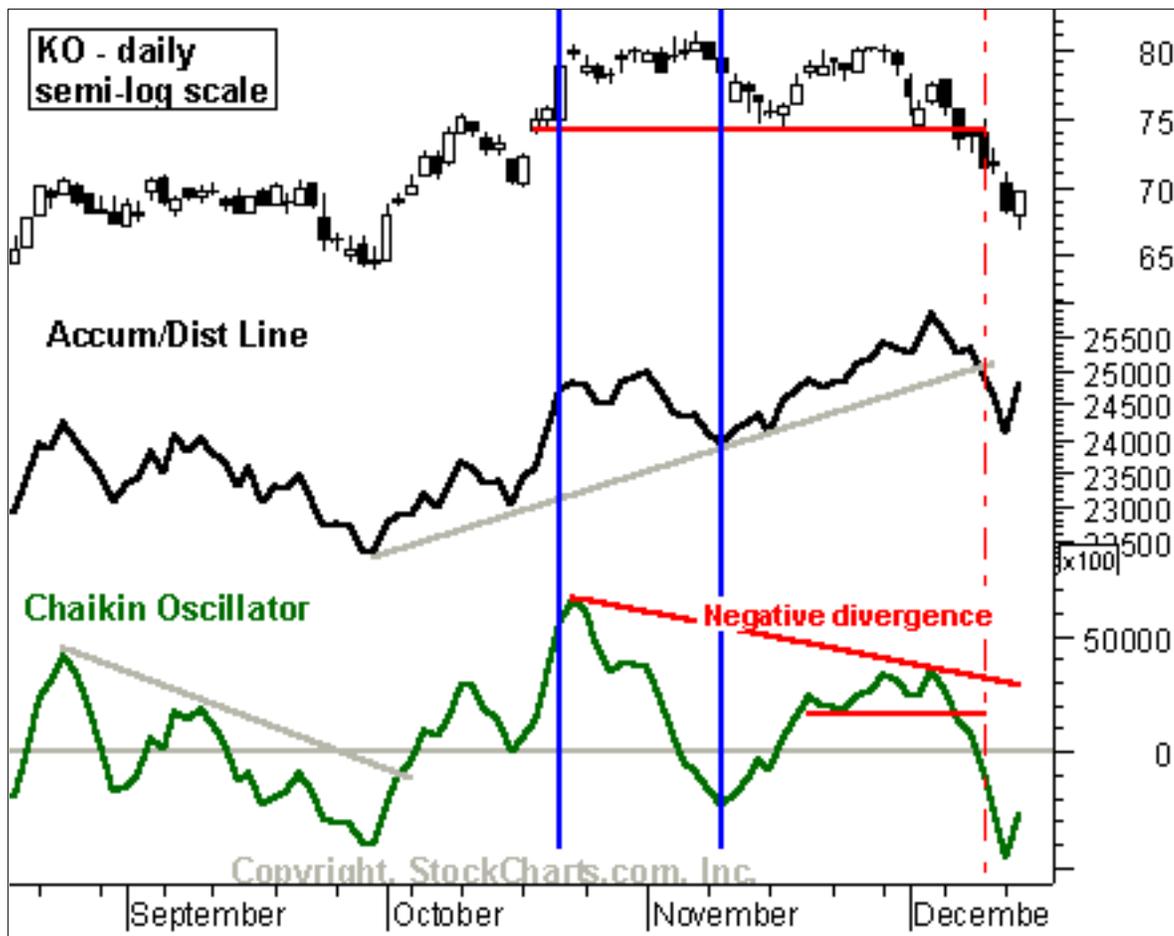


1. The positive divergence is sharp and pronounced. When using an indicator of an indicator, it is preferable to take only strong signals. Note the steepness of the positive divergence.
2. The bullish centerline crossover occurred in the Chaikin Oscillator before the Accumulation/Distribution Line broke to a new reaction high.
3. At the point of the centerline crossover (green dotted line), the stock also broke resistance and the bullish signal was further validated.

Bearish Signals

In direct contrast to the bullish signals, there are two bearish signals that can be generated from the Chaikin Oscillator: a negative divergence and a bearish centerline crossover. Allow a negative divergence to be confirmed by a bearish centerline crossover, before a bearish signal is rendered. The chart for MRK shows a recent bearish signal that coincided with a support break in the stock.

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1. The negative divergence is not as sharp and pronounced as the positive divergence in KO, but it is detectable none the less. Divergences that cover long time spans are sometimes difficult to time for a trade.
2. It is easy to see the effects of price action on the Chaikin Oscillator and the Accumulation/Distribution Line in this example. The blue lines mark a period when the stock traded basically flat for 13 days. However, many of the closes for this period were below the midway point and some were near the intraday lows. Note the action of the Chaikin Oscillator and Accumulation/Distribution Line during this period; both declined markedly.
3. The bearish centerline crossover to confirm the divergence occurred just recently and coincided with a break of support in the stock and a trendline break in the Accumulation/Distribution Line.

Conclusion

The Chaikin Oscillator is good for adding momentum to the Accumulation/Distribution Line, but can sometimes add a little too much momentum and be difficult to interpret. The moving averages are both relatively short and will therefore be more sensitive to changes in the Accumulation/Distribution Line. Sensitivity is important, but one must also be able to interpret the indicator. Those with the software and resources may try different moving averages to further smooth the fluctuations. This indicator should definitely be used in conjunction with other aspects of technical analysis.

[Chaikin Money Flow](#) is one answer to the volatility that has been created from the Chaikin Oscillator.

Written by Arthur Hill

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