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TRIN

Richard Arms developed the TRIN, or Arms index, as a contrarian indicator to detect overbought and oversold levels in the market. Because of its calculation method, the TRIN has an inverse relationship with the market. Generally, a rising TRIN is bearish and a falling TRIN is bullish. Sometimes (like on the market chart tour) you will see the scale of the TRIN inverted to reflect this inverse relationship.

The TRIN is the advance/decline ratio divided by the advance volume/decline volume ratio:

((Advancing issues/declining issues) / (advancing volume/declining volume))

Examples of TRIN calculations:

Advances	2000	2100	2100
Declines	1000	700	700
Advance/decline ratio	2	3	3
Advance Volume	40000	35000	48000
Decline Volume	20000	25000	12000
Advance Vol/decline Vol ratio	2	1.4	4
TRIN	2/2 = 1.00	3/1.4 = 2.14	3/4 = .75

In the first example, the ratios were equal and the TRIN was 1, which indicates a standoff. Volume flowing into advancing stocks was virtually equal to volume flowing into declining stocks. In the second example, the up volume/down volume ratio did not keep up with the advance/decline ratio and the TRIN rose above 1. A TRIN above 1 indicates that the volume in declining stocks outpaced the volume in advancing stocks. In the final example the TRIN was below 1, indicating the volume in advancing stocks was healthy and outpaced the volume in declining stocks.

NYSE
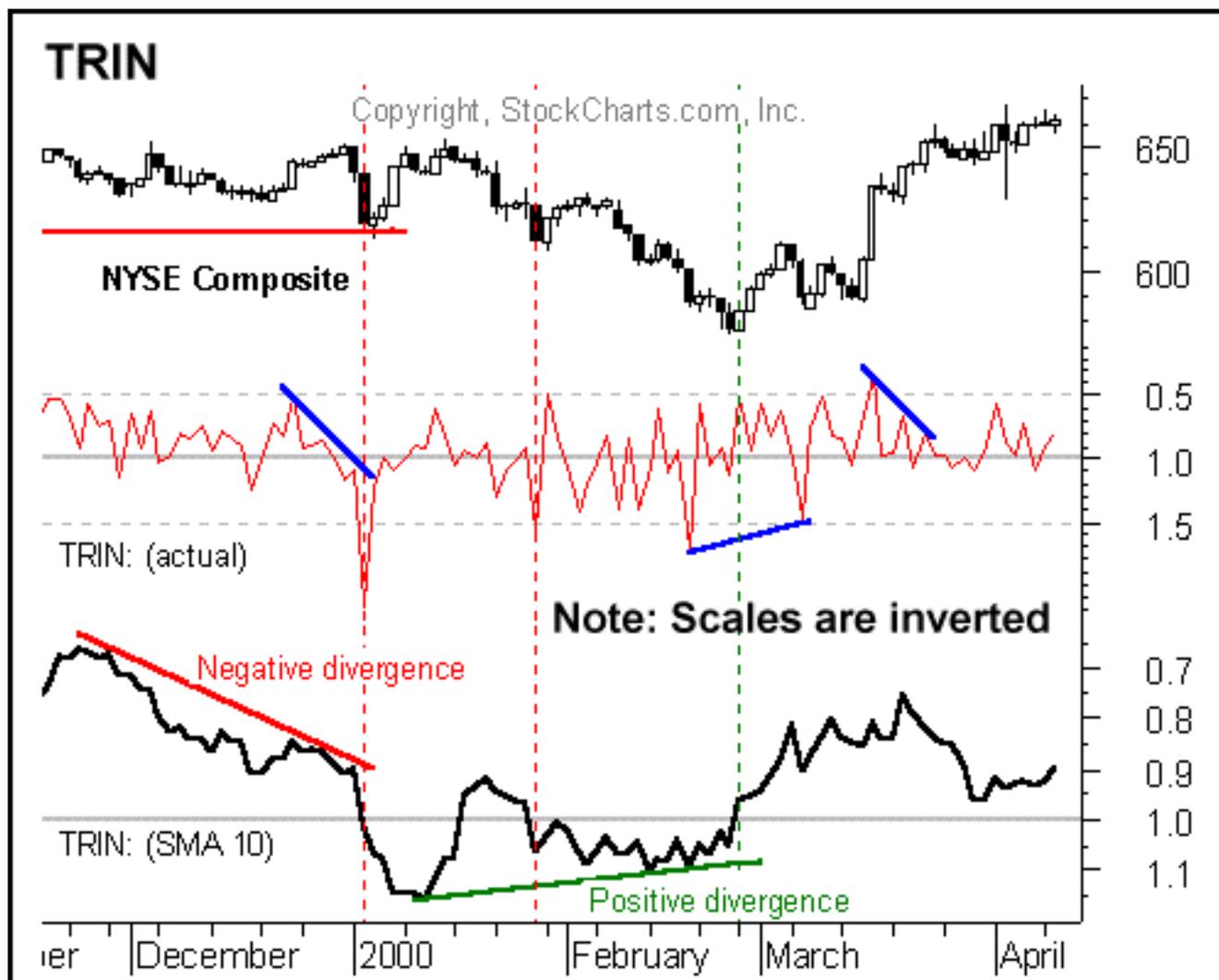
A number of TRIN interpretations have evolved over the years. Richard Arms, the originator, uses the TRIN to detect extreme conditions in the market. He considers the market to be overbought when the 10-day moving average of the TRIN declines below .8 and oversold when it moves above 1.2. Other interpretations seek to use the direction and absolute level of the TRIN to determine bullish and bearish scenarios. In the momentum driven markets, the TRIN can remain oversold or overbought for extended periods of time.

Written by Arthur Hill

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