



Brainy's Articles on Technical Analysis

OBV Indicator

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page 1 of 2
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Introduction

In the world of technical analysis, there are many different indicators that can be applied to a price chart. One of these is the On Balance Volume (OBV) indicator. This article in Brainy's series on Technical Analysis (number TA-4410) provides an introduction to the OBV indicator.

OBV Indicator

The OBV indicator was developed by Joseph Granville, and attempts to measure the level of accumulation and distribution by comparing volume to price movement. It is described in his book "Granville's New Strategy of Daily Stock Market Timing for Maximum Profit". It works on the premise that larger traders accumulate and distribute stock in higher volumes before a move in share price.

It is a measure of underlying strength, and is basically a "running total" of the traded volume, where the day's volume is added to the "running total" if the day's closing price is higher than the previous close. Conversely, if the day's close is less than yesterday's, then the volume is subtracted. Of course, this is for a daily perspective.



Figure 1: OBV indicator on ANZ price chart.

The same thing applies on a weekly chart — the weekly total value is added to, or subtracted from, the weekly "running total".

A sample is shown in Figure 1 above. Note that the OBV actually made Lower Highs in late 2007, while the share price made a new high.



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