Elliss Big Money Index (EBMI)

Introduction

Elliss Big Money index is a graphical representation of institutional transactions occurring on any individual day. The Indicator has proved very reliable indicating Institutional buying but less effective indicating institutional selling. This is because a large buyer will create a single transaction known as an "iceberg" order or undisclosed order. They will then take shares in small parcels as part of a single transaction. Someone buying 10,000 BHP over the course of a day as a single transaction has spent $400,000 in a single transaction. This is then labelled as a "Big Money" order based on the profile of buying for that stock. It is added to all "Big Money" transactions for the day and displayed as accumulative RED bar below the equilibrium line. The bigger the Red bar, the more large size transactions went through. This is UNRELATED to VOLUME. There can be High Volume Low EBMI days and there can be Low Volume High EBMI Days.

History

The Elliss Big Money Index was invented by Jody Elliss in 2003 and relates directly to size of transactions in each stock. Jody and investor Centre were able to write some complex algorithms for each stock on the ASX that filters out the noise of transactions – leaving only the large transactions visible. Whilst, this does not identify WHO is buying, we can make the general assumption that someone buying 10,000 BHP shares as a single transaction is not a small player. When added to others large players in the market, this becomes a very informative indicator.

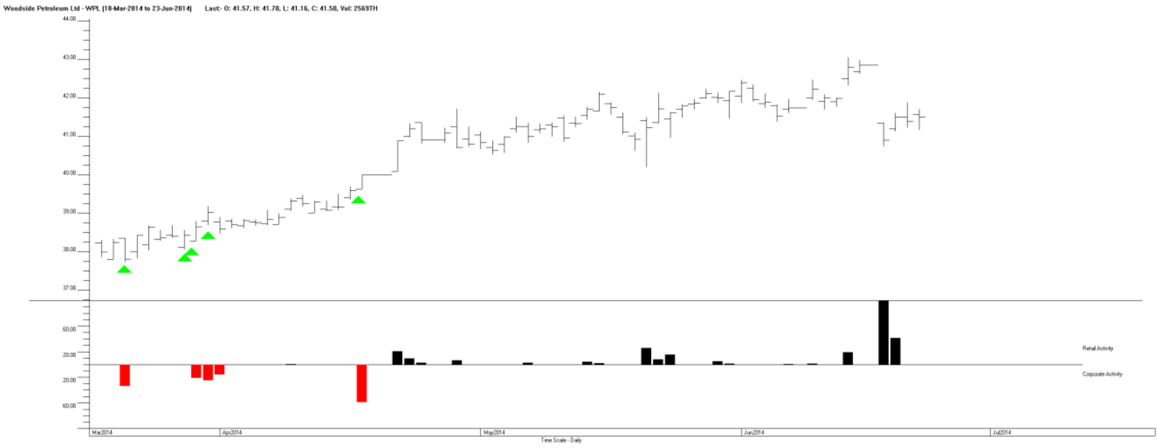
The Ellis Big Money Index is the ONLY forward looking fundamental indicator in existence.

Calculation

The priority formulas for the algorithms are not disclosed. There are no parameters that can be refined for this indicator. It provides a profile filter that is updated every month for each and every stock listed on the exchange. This filter monitors the average size of a transaction for an individual stock and also monitors the number of likely transaction on an average day building up a profile.

Where the size of individual transactions becomes significantly larger than those expected, the EBMI commences accumulating these transactions and allocate them as Big Money or Institutional participants. These are Indicate as a RED bar below the equilibrium line. Where the number of Transaction becomes significantly larger than the average number expected the EBMI will also accumulate these transactions and allocate them as RETAIL participants. These are indicated as a **BLACK bar** above the equilibrium line.

Simple Analysis



In the above example Woodside Petroleum (WPL) experienced some significant buying as indicated by the Red bars prior to an announcement. We can see that the most significant bar (being the largest one) occurred just prior to WPL suspending to make a price sensitive announcement. This type of signal is called a “lucky guy” signal where someone just happened to get into the market at the right time.

The EBMI gives excellent entry signals but DOES NOT generate an exit signal as it is a buy signal only. It does not indicate when the institutions are selling.

The above example conforms to the rules for EBMI:

1) EBMI should be a relatively RARE signal.
   Where there are large amounts of EBMI on a very regular basis it is hard to decipher what that actually means. The filter should remove most average transactions and noise from the indicator. A large number of signals may indicate ferocious buying and selling of the stock. Where there are a large number of signals they can also indicate significant company option activity where the market is cashing in company or exchange options. A lot of EBMI activity over a long period detracts from the accuracy and significance of an individual EBMI signal.

2) Stocks should be going Sideways or Up BUT NOT DOWN.
   Institutions often average down into long-term stocks and this is no cause for excitement. Stocks that are drifting downwards on EBMI often keep going that way. These stocks are best avoided – even if there is a potential opportunity. Remember – the “lucky guys” might know something about this stock but may be oblivious to general market conditions that are detrimental to the entire market.
   This problem can be overcome by combining the EBMI signal with the Portfolio defender that is highly effective for predicating most stock falls. If the PD is display RED bars, then the EBMI signal should not be heeded.

3) Stock should display a history of previous success on EMBI.
   Where significant history is available it is best to confirm previous success with EBMI. Now EBMI participants will not get it right every time but if we look at the "2 out of 3 ain't bad" rule and if that sticks we can feel confident to give the current EBMI signal ago.

4) No Company Announcements
   We do not want to be chasing after a large transaction that has just been broadcast to everyone. Check the ASX announcements on any company with EBMI signals prior to taking a position based on this signal. Remember – statistically 75% of top 200 stocks fall on positive announcements.

5) Day Signals Only
   The EBMI is only effective on individual days only. As a cumulative weekly or monthly signal, the EBMI becomes vague as to the interpretation and the filter that powers EBMI is designed specifically to filter daily noise.

Exiting EBMI

This should be accomplished with a trading plan that incorporates one of the following:

1) A Stop loss

2) Another indicator for an exit. MACD or LRI indicators perform well for this. Above those the Portfolio defender gives excellent defensive signals.

3) A trailing Stop (Average Range or Count Back Stop Loss are two most used here).

Scanning on EBMI

The IC Investor package has a number of EBMI scans referenced through the SCANS – Technical Scans (F8) menu. The most popular one is the EBMI in the last 5 days. This can be highly effective because it can be an uncommon signal and the EBMI can take up to 30 days to evolve into an effective signal and so the user has time to see it and investigate.

EBMI is best used as a scan on stocks that have daily volume greater than 100,000 shares that trade every day. Other than that it can be effective in any sector of the market.

Conclusions

The EBMI is one of the MOST IMPORTANT indicators available for trading in Australia. It is the only forward looking fundamental indicator in existence. On its own it is a formidable trading tool for entries. As a BUY indicator (and following the rules above) it means someone with a significant amount of money has stepped up to BUY the stock in question.

It is probably not their last investment and they probably know more than the average investor/trader about this stock.

Strength: Indicates significant price activity prior to trend or upward price activity. Rare signals are a strong call to action.

Weakness: It does not generate a SELL signal. It requires another signal to exit. It may not detect all corporate and institutional activity.

The EBMI is best used in conjunction with the Portfolio Defender or a secondary indicator such as MACD or Linear regression Indicator (LRI).