Money Flow & the Twiggs Money Flow indicator

Introduction

One of many technical analysis indicators is the *Money Flow* indicator, and a popular implementation is the *Chaikin Money Flow* indicator. More recently, Colin Twiggs (of Incredible Charts) has published a variation known as the *Twiggs Money Flow*.

In this article in Brainy's series on Technical Analysis (number TA-4630) we take a look at the *Money Flow Index* and the indicator, and two variations of the indicator — Chaikin and Twiggs. For more information on the *Twiggs Money Flow (TMF)* indicator, refer to Colin Twiggs' web site www.incrediblecharts.com (more specific web page references are included in the footnotes below). It should be noted that the TMF indicator is proprietary, and can be used with conditions.

For details about how these indicators are implemented in the BullCharts charting software, see Brainy's article BC-08-210, "*Twiggs Money Flow Indicator*".

Money Flow Index & Money Flow Indicator

Both the *Money Flow Index* and various *Money Flow indicators* belong to the category of *momentum* indicators (as opposed to *trend* indicators, or *volatility* indicators). Remember that the one indicator that is known as *the Momentum* indicator (a little confusing for beginners) is basically a measure of the *change in price* over a *specific time period* — the greater the price change over a period, the higher the momentum.

It is also important to realise that the *Money Flow Index* is quite different from the *Money Flow Indicator*. The difference is explained below, and is illustrated in Figure 1 on page 2 below.

Money Flow Index indicator

The *Money Flow Index* (MFI) is a volume-weighted version of the *RSI* (Relative Strength Index) indicator. That is, it is somewhat similar to *RSI* except that it factors in the amount of Volume traded.

MFI indicates the strength of a trend and is used to warn of trend weakness and likely reversal points. The *MFI* compares the *value* traded on up-days to the *value* traded on down-days. Remembering that *value* is basically *price* times *volume*.

The *MFI* indicator is calculated using the values for "*Typical Price*" and *Volume*, where the "*Typical Price*" for a day is calculated as follows (just an average of three specific price values):

"Typical Price" = (High + Low + Close) / 3

The *MFI* oscillates in the Range of zero to 100, and is often plotted with oversold and overbought horizontal lines at 20 and 80 as shown in Figure 1 below (not the bottom pane — Volume, but the next pane up — "*CBA Weekly MFI...*").

The full calculation for *MFI* goes on to calculate "Money Flow" as (Price x Volume), and converts this to a ratio. For a detailed explanation of the calculation, readers are encouraged to refer to technical reference sources on indicators.

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