INDICATOR 10 *Volume*

On-Balance Volume (OBV): How to Read Volume Behind a Trend

Price tells you what happened. Volume tells you how much conviction was behind it. On-Balance Volume turns that idea into a single line.



What it is

On-Balance Volume was introduced by Joe Granville in his 1963 book on stock market timing. The idea is that volume often moves before price: when big investors are quietly buying, volume on up days rises before the price breaks out.

How it's calculated

- If today's close is higher than yesterday's, **add** today's volume to OBV.
- If it's lower, **subtract** today's volume.
- If it's unchanged, OBV stays the same.

The result is a running total. The actual number doesn't matter; it depends on where you start counting. What matters is the **direction** of the line.

Default settings

None. OBV has no period setting. Some traders add a moving average of OBV (for example 20 periods) to smooth it.

How to read it

- **OBV rising with price:** volume confirms the uptrend.
- **OBV falling with price:** volume confirms the downtrend.
- **OBV flat while price rises:** the rally lacks volume support and may be weak.

Three practical ways to use it

1. **Confirming trends.** A healthy uptrend shows OBV making higher highs together with price. If both rise, the move has broad support.
2. **Divergence.** If price makes a new high but OBV doesn't, fewer buyers are participating. That's a warning. If price makes a new low but OBV holds higher, selling is drying up.
3. **OBV breakouts.** Sometimes OBV breaks above a previous high before price does. Traders watch this as an early sign that a price breakout may follow.

Common mistakes

- **Looking at the OBV number itself.** Only the trend and the highs and lows of the line matter.
- **Ignoring volume spikes.** One huge volume day (for example around earnings or index changes) can distort OBV for a long time.
- **Using it in markets without real volume data,** such as spot forex.

Works well with

- **VWAP** for intraday volume analysis.
- **Moving averages** or **MACD** to define the price trend that OBV should confirm.

Quick summary

- OBV adds volume on up days and subtracts it on down days.
- Watch its direction and divergences, not its level.
- It works best on stocks, ETFs and futures with reliable volume.

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