Technical Analysis Workshop Series

Session Seven
Moving Averages
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TREND FOLLOWING
- MOVING AVERAGE
Moving Average

A moving average is the **average price of** securities at a **given time**.

Simple Moving Average (SMA) = \[ \text{Sum}(\text{Price})_n / N \]

* N = Time Period
Simple Moving Average (10, 20, 50, 100, 200)

1. 10 SMA is best used on stocks in the daily time frame that are in a very powerful up and down trends.

2. 20 SMA is the traders most dominant MA, can be use in all time frame

3. 50 SMA is mostly use by banks and institutions, and use on daily time frame. Can be interchange with 40 SMA

4. 100 SMA should be a focus when a stock in an up or down trend has significantly violated the 50 SMA. Not frequently used

5. 200 SMA is best use on the daily chart and the 15 mins intraday chart. Most reliable MA
What is the Difference?

- Observation
  1. Reactive
  2. Distance to Price
  3. Whipsaw
Wilmar International (4.28000, 4.42000, 4.28000, 4.41000, +0.19000)
Moving Average

- Distance to Price
- Above or below Price
- Slope of MA
- Sequence of Different MA
- Space between Different MA
How would you analyse this stock?
How would you analyse this stock?
How would you analyse this stock?
Using Indicators, we can time when we should EXIT the market.

10 weeks Moving Average and 40 weeks Moving Average
GMMA

- This indicator was developed by Daryl Guppy.
- Captures the inferred behaviour of traders and investors by using two groups of averages.
- Uses fractal repetition to identify points of agreement and disagreement which precede significant trend changes.
Trader vs Investor

- Traders
- Investors
Application

• Applied to understand the nature and character of the trend.
• Used to assess the degree and extent of trading activity.
• Excessive trading activity can destabilise strong trends.
Frequent Trading Activity
• Trend analysis enables more effective selection of appropriate trading strategies such as breakout, trend continuation etc.

• Can be applied to long side and short side trading.

• Can be applied to intraday trading. Also used for longer term investment style analysis.
Tactics

• Join established trends at points of price weakness
• Join established trends breaking to new highs
• Recognise trend breaks as they develop
Eg. : Yangzijiang

- Establish Trend, Breaking New High
- Moments of Weakness
Recognise trend breaks as they develop
Rules

- Degree and nature of separation in the long term group define trend strength and weakness.
- Degree and nature of separation in the short term group define the nature of trading activity.
- Degree and nature of separation between the two groups of moving averages define the character of the trend.
- Compression shows agreement on price and value.
- Compression of both groups at the same time indicate major re-evaluation of stock and potential for a trend change.
- Trade in the direction of the long term group of averages.
- The relationships between the groups provide the necessary information about the nature and character of the trend.
- Do not use as a moving average crossover tool.
Advantages

• Enables effective analysis of the trend environment
• Improves selection of the appropriate trading tactics
• Better understanding of trend strength
• Effective evaluation of unusual price movements, such as dips and spikes
• Effective understanding of trading activity and behaviour
Disadvantages

- Not effectively applied to trend less stocks
- Cannot be applied to all trending stocks
- Do not use as a moving average crossover signal
My Take

• I wouldn't consider it as an indicator to enter or exit positions, but it's definitely good for giving you a better 'feel' for how a trend is moving.
Application - NOL
Application - Kepland
Application – HPH Trust