Australian Technical Analysts Association

My Favorite Indicator

The Moving Average

By Neil Wrightson

Moving Averages and there Alternate uses

Overview

- The moving average is one of the most useful, objective and oldest analytical tools around. Some patterns and indicators can be somewhat subjective, where analysts may disagree on if the pattern is truly forming, or if there is a deviation, this might be an illusion. The moving average is more of a cut-and-dry approach to analyzing stock charts and predicting performance, and it is one of the few that doesn't require a genius intelligence to interpret..

Moving Averages and there Alternate uses

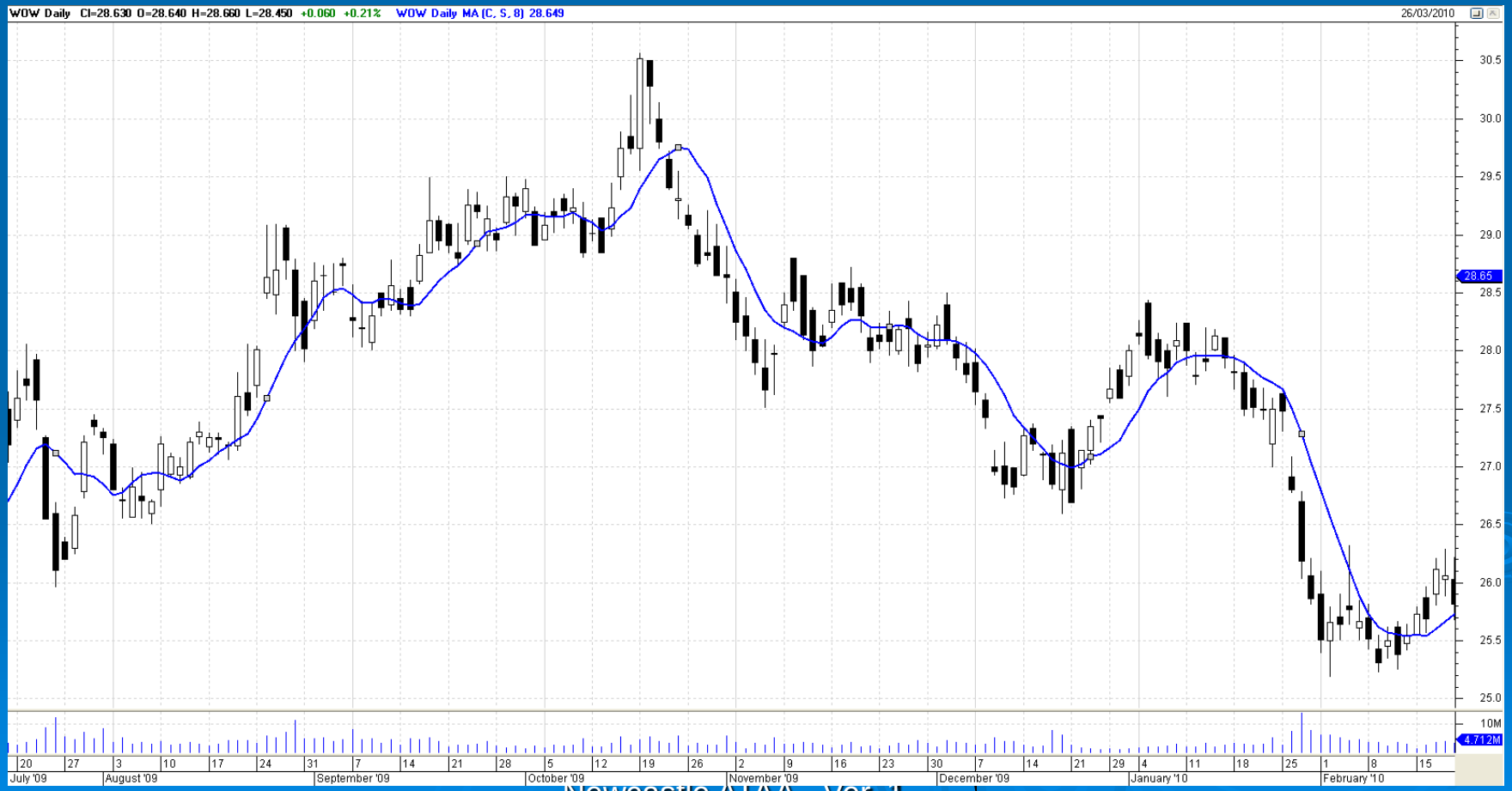
- Moving average is an indicator that shows the average value of a security's price over a period of time.
- To find the 50 day Simple Moving Average (SMA) you would add up the closing prices from the past 50 days and divide them by 50. And because prices are constantly changing it means the moving average will move as well.
- Exponential Moving Average (EMA) - is calculated by applying a percentage of today's closing price to yesterday's moving average value. Use an exponential moving average to place more weight on recent prices. As expected, each new price has a greater impact on the EMA than it has on the SMA. And, each new price changes the moving average only once, not twice.

Moving Averages and there Alternate uses

Can we Trade this ???

Moving Averages and there Alternate uses

Now add an 8 Period SMA
Can we Trade this ???
Do we go long if the price is above the MA??? Who know's!



Moving Averages and there Alternate uses

Now we have two, 8 Period SMA's
Note again. TWO EIGHT period SMA's
Can we Trade this ???
Do we go Long if the green is above the red?

Moving Averages and there Alternate uses

Terminology

To simplify things, I will now refer to the moving averages in a typical programming language syntax. I.e. –

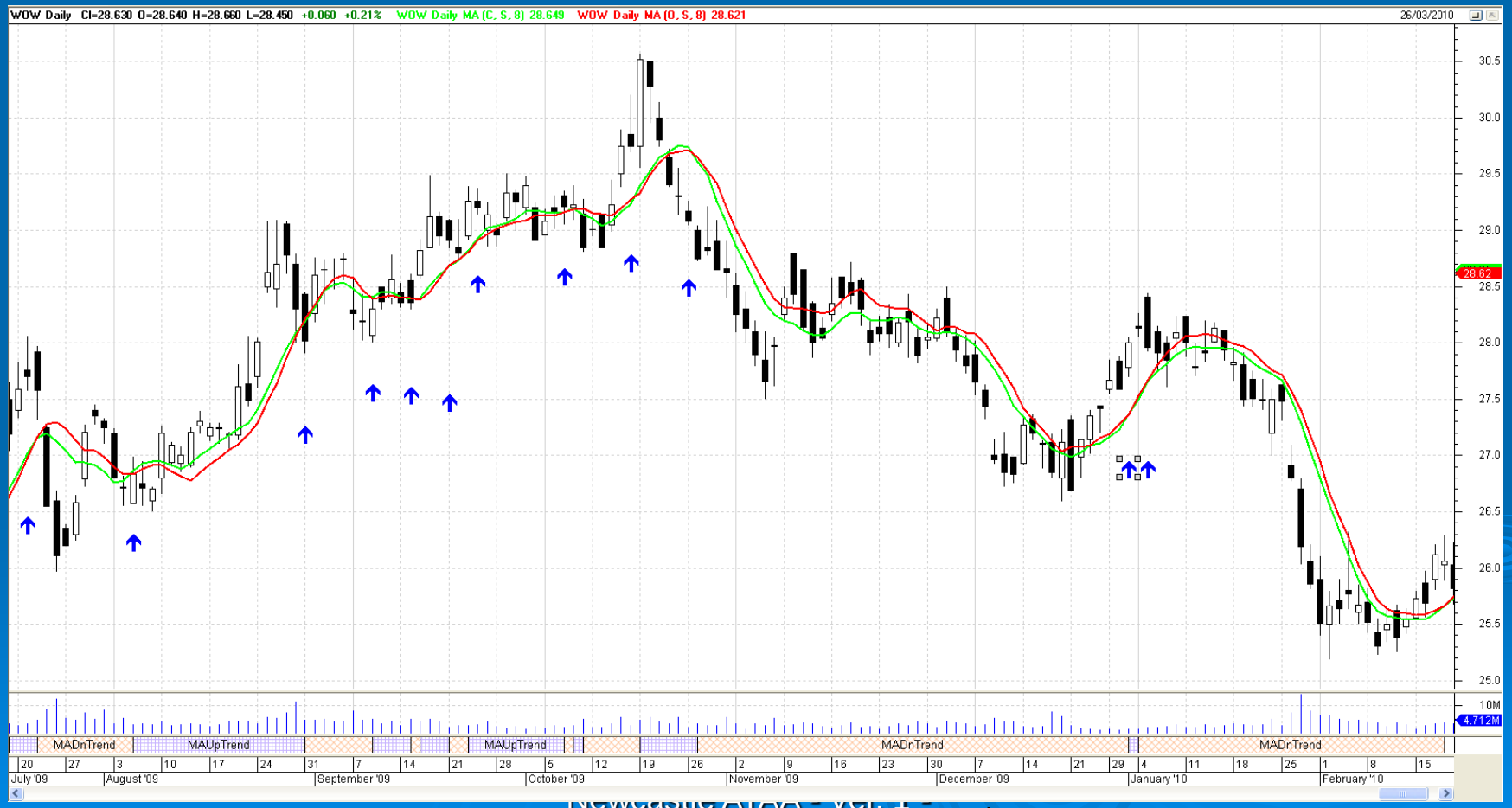
A 8 period simple moving average of the Close would be expressed as MA(Close,8,Simple) or MA(C,8,S)

Moving Averages and there Alternate uses

A cross of a **MA(C,8,S)** with **MA(O,8,S)**

What does this tell us? It tell us more about current state of Up Bars versus Down bars. It tells us more about who is in control.

Can we Trade this ???



Moving Averages and there Alternate uses

What else can we do with the humble Moving Average to assist us in our trades?

How about some basic Channelling?

Moving Averages and there Alternate uses

A **MA(H,8,S)** with **MA(L,8,S)**

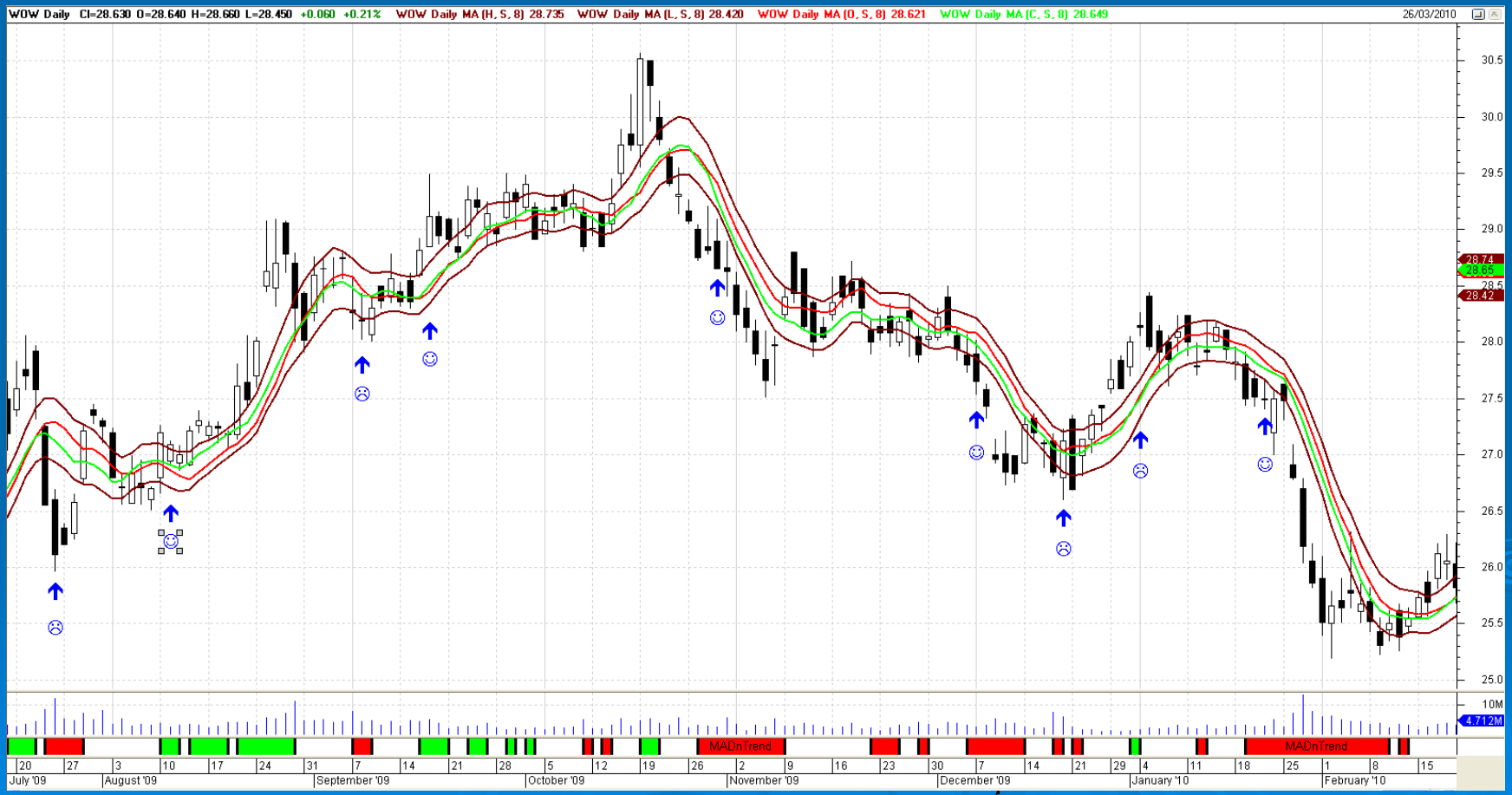
Now we have a channel that shows us consolidation periods.

Whilst the price remains within the channel. Stand Aside.

Can we Trade this ???

Moving Averages and there Alternate uses

Now if we were to combine the two ideas together. We could end up with a possible system that keeps us out of the barbwire and gets on board the beginnings of possible trends.



Moving Averages and there Alternate uses

System Rules - Long Trades

Reverse for Short trades

- An long signal is flagged when there is a close above the MA(H,8,S) and the MA(C,8,S) > MA(O,8,S).
- A “Buy on Stop” order is then placed above the high of the signal bar.
- The Initial Stoploss order is placed at the higher value of either –
- a) Low of the signal bar
  b) 1 ATR(8) below entry stop. (Money Stop)

Moving Averages and there Alternate uses

Now add some trailing stops.
RED is a Short Trailing Stop, Green is a Long Trailing Stop

Moving Averages and there Alternate uses

Moving Average Cross - MA(O,10,S) & MA(C,8,S)
Moving Average Channel - MA(H,10,E) & MA(L,8,E)

Moving Averages and there Alternate uses

The top ribbon is the combined Channel and MA cross.
The bottom ribbon is the MA cross by itself.
Note the whipsawing in the first half of the chart. Lost money.

Moving Averages and there Alternate uses

This chart shows Entry signals along with dots representing the Money Stop Level.

In Conclusion

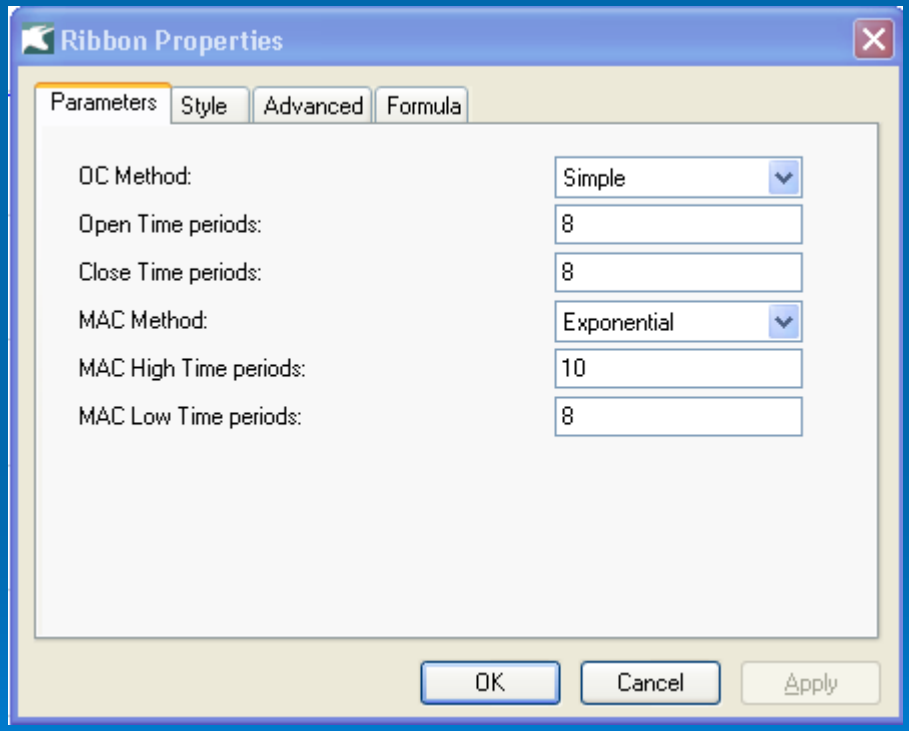
Moving averages can be applied to more than just the Close price.

They can be used to give some insight into who's in control and keep us out of sideways action.

The 8 period MA of the Open and Close as well as the MA of the Highs and Lows has been loosely taken from "Jake Bernstein's" work.

However, they have been applied in a completely different context to how he uses them in his work.

BullCharts Ribbon



BullCharts Ribbon Code

- [description="This ribbon gives Entry signals using using a combination of MA's on the Open & close, along with a close outside of the MA of the High or Low."]
- [target=Ribbon; category=Moving Average]

- OC_method := inputma("OC Method",SIMPLE);
- O_MA := input("Open Time periods",10,1);
- C_MA := input("Close Time periods",8,1);

- MAC_method := inputma("MAC Method",Exponential);
- iH_MA := input("MAC High Time periods",10,1);
- iL_MA := input("MAC Low Time periods",8,1);

- OC := ma(Close,C_MA,OC_Method) - ma(open,O_MA,OC_Method);

- H_MA := ma(High,iH_MA,MAC_Method);
- L_MA := ma(Low,iL_MA,MAC_Method);

- [color=green; name=MAUpTrend]
- [fillstyle=solid]
- if(((OC>0) AND (close > H_MA)),True,False);

- [color=red; name=MADnTrend]
- [fillstyle=solid]
- if(((OC<0) AND (close <L_MA)),True,False);

- [color=White]