MOVING AVERAGE

Purpose, Uses, and Examples

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What Is a Moving Average (MA)?

A moving average (MA) is a stock indicator commonly used in identify a **trend direction** of a stock, to determine its support and resistance levels.

Moving averages are widely used by investors and traders, and are considered to be important trading signals.

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What Are MA's Used for?

Moving averages are used to understand and profit from the **price movement patterns** of securities and indices.

MA's are used to **detect** if a change in momentum is occurring, the MA give a visual confirmation that a change might be underway.

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Commonly Used Periods

Depending on the trading objective investors choose different periods of varying lengths to calculate moving averages.

- Shorter moving averages are typically used for **short-term** trading, **20** or **50** bars
- Longer-term moving averages are more suited for **long-term** investors, **200** bars

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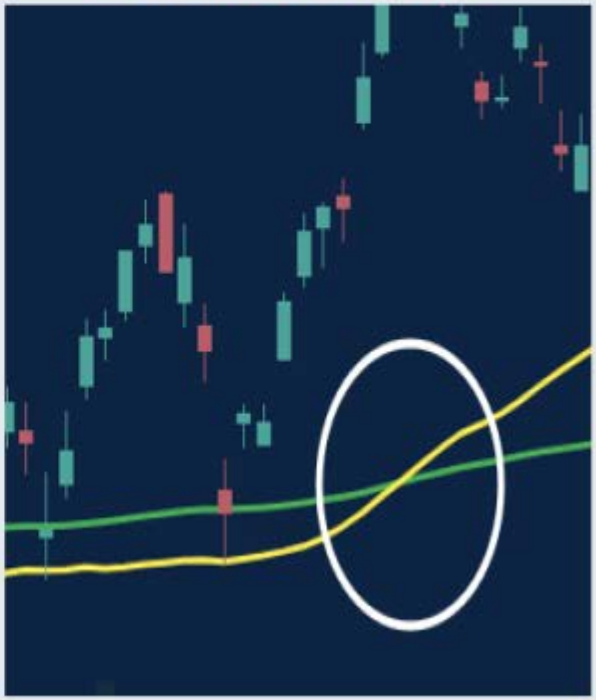
Trends - Uptrend

A **rising** moving average indicates that the stock is in an uptrend. A **bullish crossover** occurs when a short-term moving average **crosses above** a longer-term moving average



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Trends - Downtrend

A **declining** moving average indicates that the stock is in a downtrend. A **bearish crossover** occurs when a short-term moving average **crosses below** a longer-term moving average

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Types of Moving Averages

Simple Moving Average

Is calculated by; the price of a stock on each bar added together, then divided by the number of bars, to provide an **average price over the number of bars**.

e.g. [(20 sets of prices added together) / (divided by 20 bars)] = SMA

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Types of Moving Averages

Exponential Moving Average (EMA)
Focuses more weight to recent prices, making them **more responsive** to new prices.

The EMA, is the SMA, then calculates a multiplier for weighting or "smoothing".

The formula is: [2/(selected time period + 1)].

Types of Moving Averages

Weighted Moving Average (WMA)

Assign a heavier **weighting to more current data points**, are they are more relevant than the past ones.

Date	Weighting	Closing Price of BHP
10-Sep-22	5/15	$38.09
09-Sep-22	4/15	$36.27
08-Sep-22	3/15	$37.27
07-Sep-22	2/15	$37.91
06-Sep-22	1/15	$36.74
Weighted Average Price:		$37.31

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SMA vs EMA

As the EMA puts more emphasis on the recent data points, you can see how the EMA and WMA are **more sensitive** to price movements over the 15 bar period.

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What Is a Golden Cross

A golden cross is a chart pattern in which a short-term moving average **crosses above** a long-term moving average. The golden cross is a **bullish breakout**.

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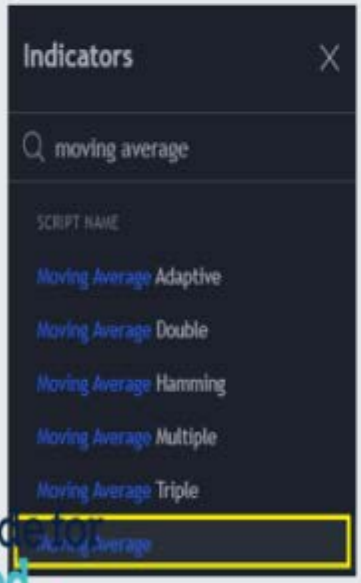
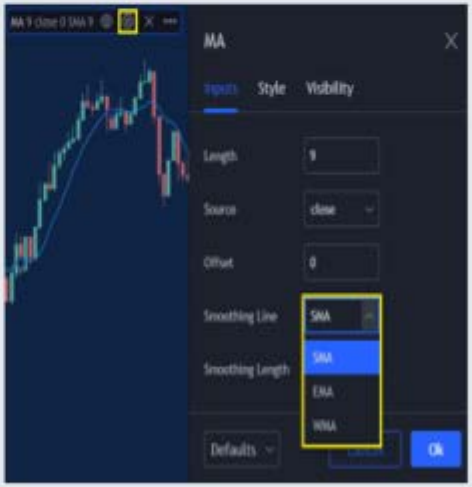
How Add the MA?

1. In the chart, click on **Indicators**

2. Search and select **Moving Average**



3. To modify, click on the **Cog**, to select the MA type and values



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