

# AVERAGE TRUE RANGE



Trade for  
**Good.**



The average true range (**ATR**) is a technical analysis indicator, that graphs the current low, previous close and an absolute value on a 14 day moving average.

### Key Takeaways

- The average true range (ATR) is a **market volatility indicator** used in technical analysis.
- The ATR was originally developed for use in commodities markets but has since been applied to all types of securities.



## What Does the Average True Range (ATR) Tell You?

A stock experiencing a **high level of volatility** has a **higher ATR**, and a **low volatility stock** has a **lower ATR**.

The ATR may be **used to enter and exit trades**, and is a useful tool to add to a trading system.

The indicator does not indicate the price direction; rather it is **used primarily to measure volatility** caused by gaps and limit up or down moves.



## Limitations of the Average True Range (ATR)

There are two main limitations;

1. The ATR is a **subjective measure**, meaning that it is open to interpretation. There is no single ATR value that will tell you with any certainty that a trend is about to reverse or not.
2. The ATR **only measures volatility and not the direction** of an asset's price.

