15 Ways To Manage Opportunity Through Moving Averages

- 1. The 20-day moving average commonly marks the short-term trend, the 50-day moving average the intermediate trend, and the 200-day moving average the long-term trend of the market.

- 2. These three settings represent natural boundaries for price pullbacks. Two forces empower those averages: First, they define levels where profit- and loss-taking should ebb following strong price movement. Second, their common recognition draws a crowd that perpetrates a self-fulfilling event whenever price approaches.

- 3. Moving averages generate false signals during range-bound markets because they're trend-following indicators that measure upward or downward momentum. They lose their power in any environment that shows a slow rate of price change.

- 4. The characteristic of moving averages changes as they flatten and roll over. The turn of an average toward horizontal signifies a loss of momentum for that time frame. This increases the odds that price will cross the average with relative ease. When a set of averages flatline and draw close to one another, price often swivels back and forth across the axis in a noisy pattern.

- 5. Moving averages emit continuous signals because they're plotted right on top of price. Their relative correlation with price development changes with each bar. They also exhibit active convergence-divergence relationships with all other forms of support and resistance.

- 6. Use exponential moving averages, or EMAs, for longer time frames but shift down to simple moving averages, or SMAs, for shorter ones. EMAs apply more weight to recent price change, while SMAs view each data point equally.

- 7. Short-term SMAs let traders spy on other market participants. The public uses simple moving average settings because they don't understand EMAs. Good intraday signals rely more on how the competition thinks than the technicals of the moment.

- 8. Place five-, eight- and 13-bar SMAs on intraday charts to measure short-term trend strength. In strong moves, the averages will line up and point in the same direction. But they flip over one at a time at highs and lows, until price finally surges through in the other direction.

- 9. Price location in relation to the 200-day moving average determines long-term investor psychology. Bulls live above the 200-day moving average, while bears live below it. Sellers eat up rallies below this line in the sand, while buyers come to the rescue above it.

- 10. When the 50-day moving average pierces the 200-day moving average in either direction, it predicts a substantial shift in buying and selling behavior. The 50-day moving average rising above the 200-day moving average is called a Golden Cross, while the bearish piercing is called a Death Cross.

- 11. It's harder for price to break above a declining moving average than a rising moving average. Conversely, it's harder for price to drop through a rising moving average than a declining moving average.

- 12. Moving averages set to different time frames reveal trend velocity through their relationships with each other. Measure this with a classic Moving Average-Convergence-Divergence (MACD) indicator, or apply multiple averages to your charts and watch how they spread or contract over different time.

- 13. Place a 60-day volume moving average across green and red volume histograms in the lower chart pane to identify when specific sessions draw unexpected interest. The slope of the average also identifies hidden buying and selling pressure.

- 14. Don't use long-term moving averages to make short-term predictions because they force important data to lag current events. A trend may already be mature and nearing its end by the time a specific moving average issues a buy or sell signal.
- 15. Support and resistance mechanics develop between moving averages as they flip and roll. Look for one average to bounce on the other average, rather than break through it immediately. After a crossover finally takes place, that level becomes support or resistance for future price movement.