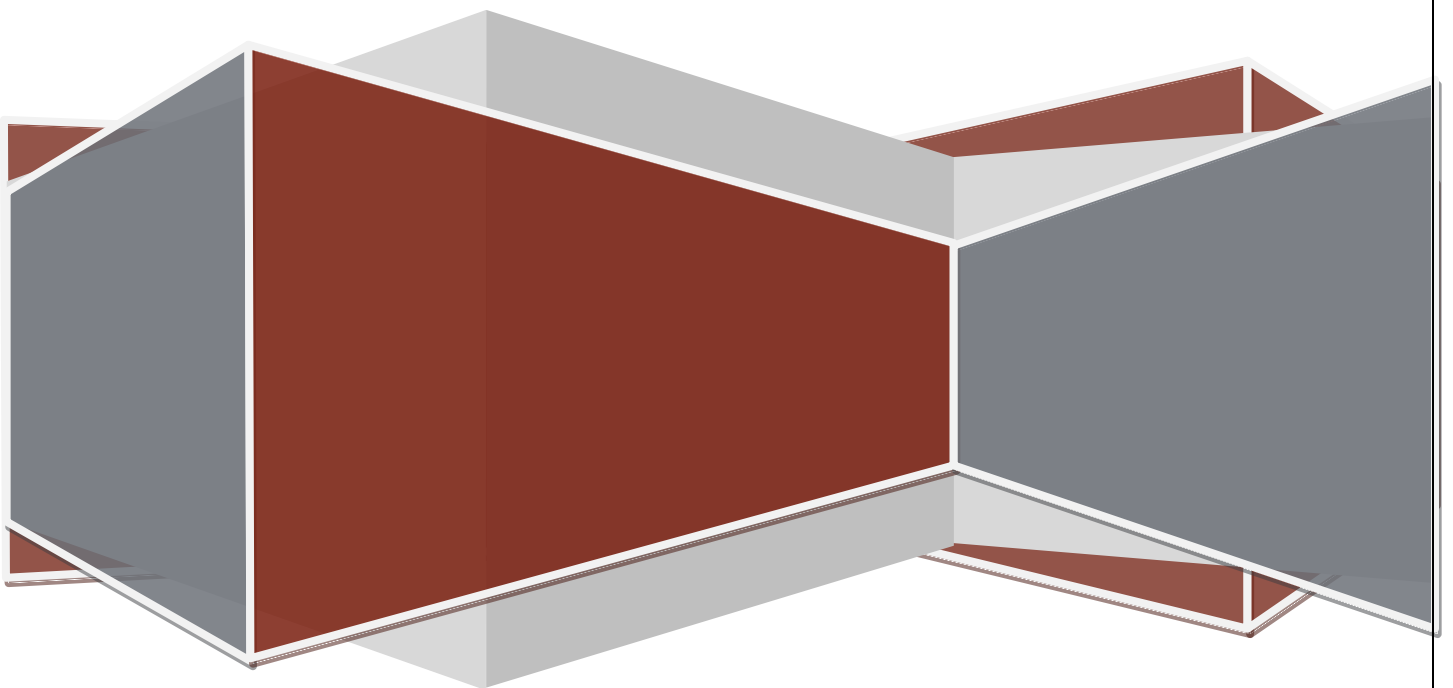# PIVOTPOINT
— T R A D I N G —
Success Through Education

Axioms of Stocks & Options (A1)

Notebook 5: Moving Averages

Moving Averages

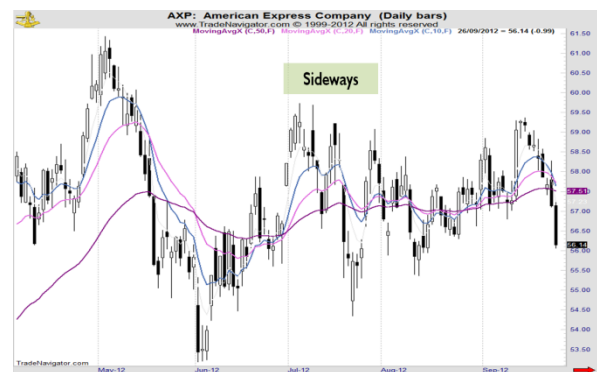**Moving Averages:**

- Moving Averages _____ the price data to form a trend following indicator
- _____ in trends give us some of the most profitable trades
- Institutional Investors & Mutual Fund Managers _____ moving averages

Rule:

Since the primary purpose of the moving average is to "smooth" a securities price:

- They become exceptionally helpful during a _____
- There use becomes entirely defunct during a _____ market

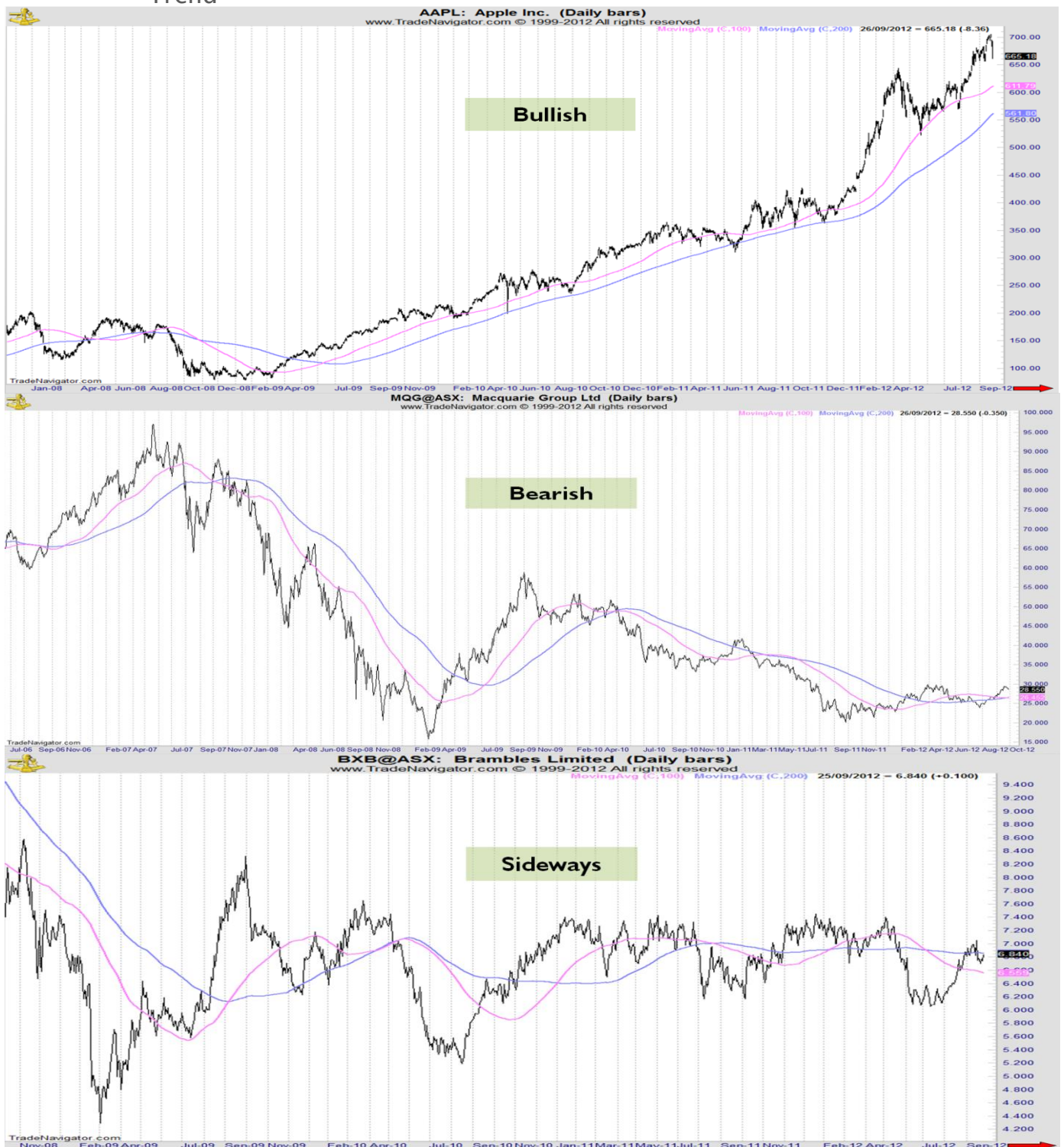**Moving Average Categories:**

1. _____ Moving Averages (SMA)
2. _____ Moving Averages (EMA)

Simple Moving Average:

- Computes the _____ price of a security over a specified period of time
- Most useful for _____ long term trends
- Calculated over a _____ day & _____ day time period

- When the 100 is _____ the 200 we are in a uptrend
- When the 100 is _____ the 200 we are in a downtrend
- If the long term moving averages are continually crossing one another we are in a _____ market
- We use these two time periods _____ to establish the Long Term Trend

Exponential Moving Average:

- Computes the _____ price of a security over a specified number of days
- A _____ weighting is given to the most recent closing prices in the calculation
- EMA's _____ the lag factor by applying more weight to recent prices
- EMA's are most useful for _____ short term trends
- ____EMA = 2 Weeks of daily closing prices
- ____EMA = 4 Weeks of daily closing prices
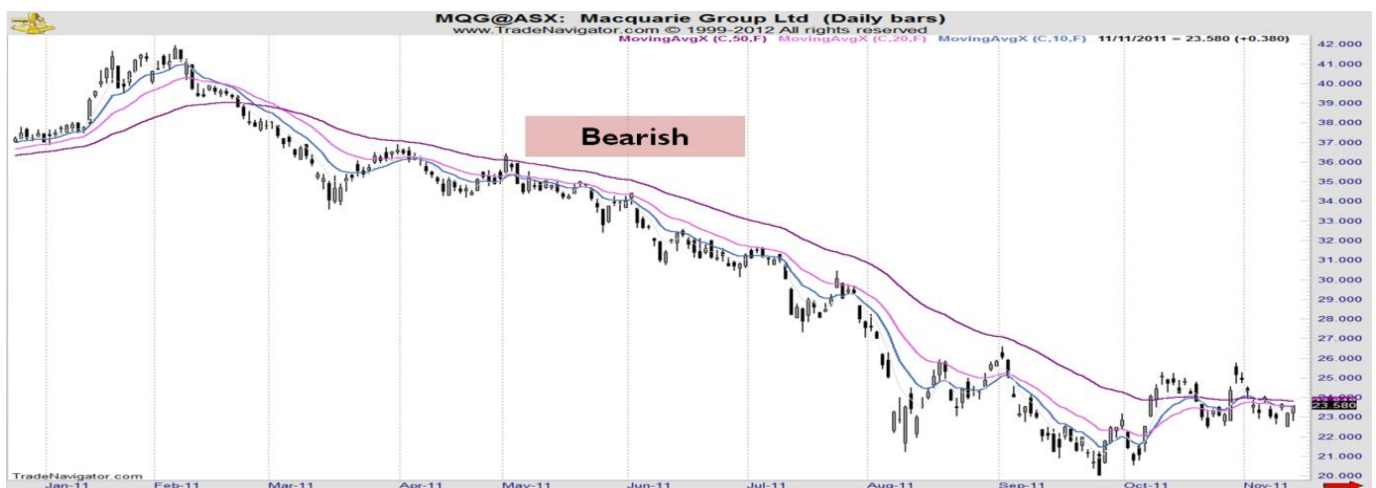- ____ EMA = 10 Weeks of daily closing prices

Pertinent uses of the Moving Averages

1. Establish Trend _____
2. Moving Average _____
3. _____ and Resistance

1. Trend Direction

- _____ Trend (Price Above Averages)
- _____ Trend (Price Below Averages)
- _____ Trend (Price Through Averages)

WDC@ASX: Westfield Group (Daily bars)
www.TradeNavigator.com © 1999-2012 All rights reserved
MovingAvgX (C,50,F) MovingAvgX (C,20,F) MovingAvgX (C,10,F) 26/09/2012 = 10.130 (+0.010)

Bullish

CBA@ASX: Commonwealth Bnk Of Australia. (Daily bars)

Sideways

MQG@ASX: Macquarie Group Ltd (Daily bars)

Bearish
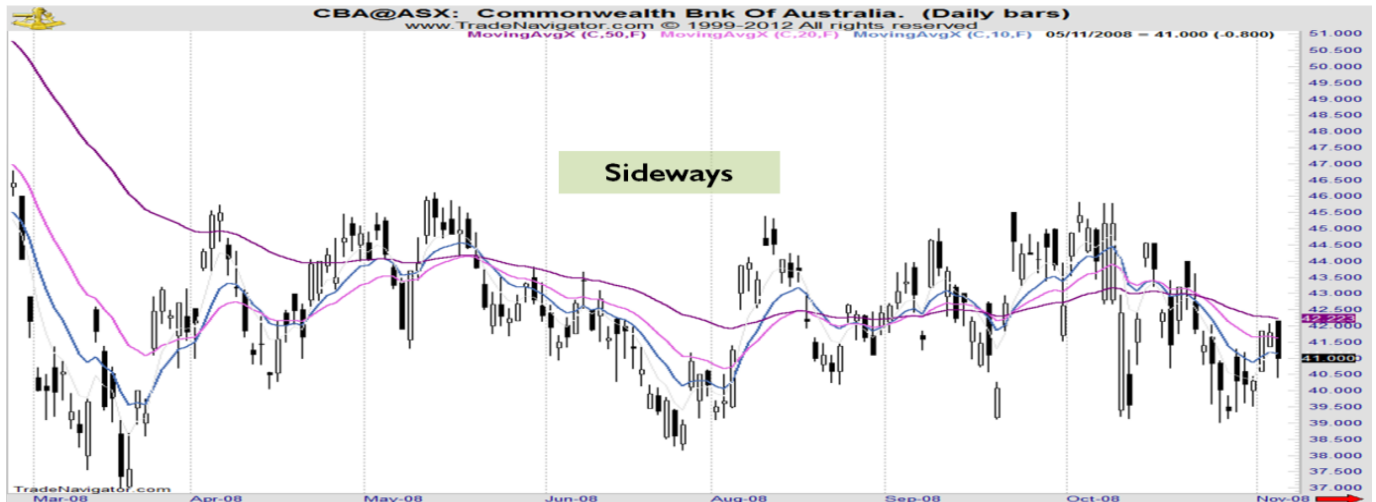
Moving Average Cross:

- _____ or more Moving Averages can be used to generate "Crossover Signals"
- Crossover Signals transpire when a _____ term moving average crosses over a _____ term moving average

Moving Cross Strategy:

ACN: Accenture plc. (Daily bars)

- When this occurs it indicates either a new _____ or _____ signal
- EMA's for _____ term trends (Swing Trades)
- SMA's for _____ term trends (Macro Picture)
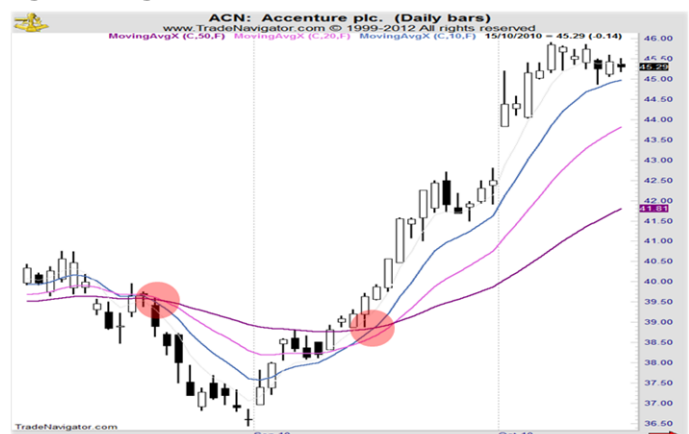
- Bullish Trades: Moving averages will cross moving _____
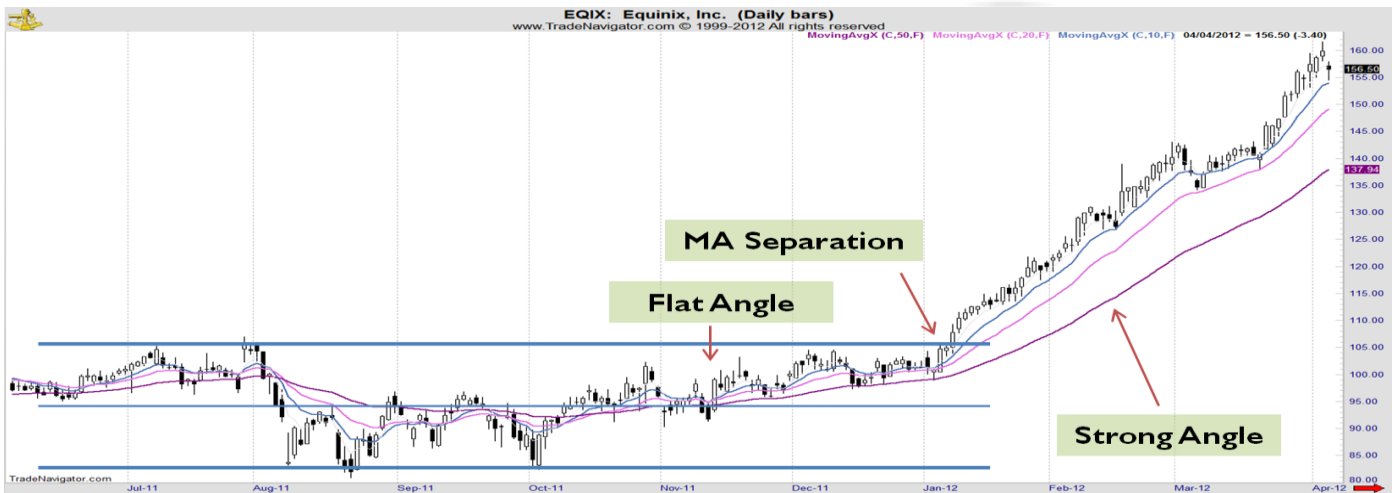- Bearish Trades: Moving Averages will cross moving _____

Crossover Validity:

- Sideways consolidation in prices will give _____ crossover signals
- Must be a _____ angle to the trend. The steeper the angle the stronger the trend (Bullish or Bearish)
- We must look for strong _____ of the moving average lines

Support and Resistance:

- Moving Averages work as _____ levels of support & resistance in a trend
- When price is trending above a moving average it will act as _____
- When price is trending below a moving average it will act as _____
- Most _____ when dealing with short term trends using EMA's

EQIX: Equinix, Inc. (Daily bars)
www.TradeNavigator.com © 1999-2012 All rights reserved
MovingAvgX (C,50,F) MovingAvgX (C,20,F) MovingAvgX (C,10,F) 04/04/2012 = 156.50 (-3.40)

MA Separation
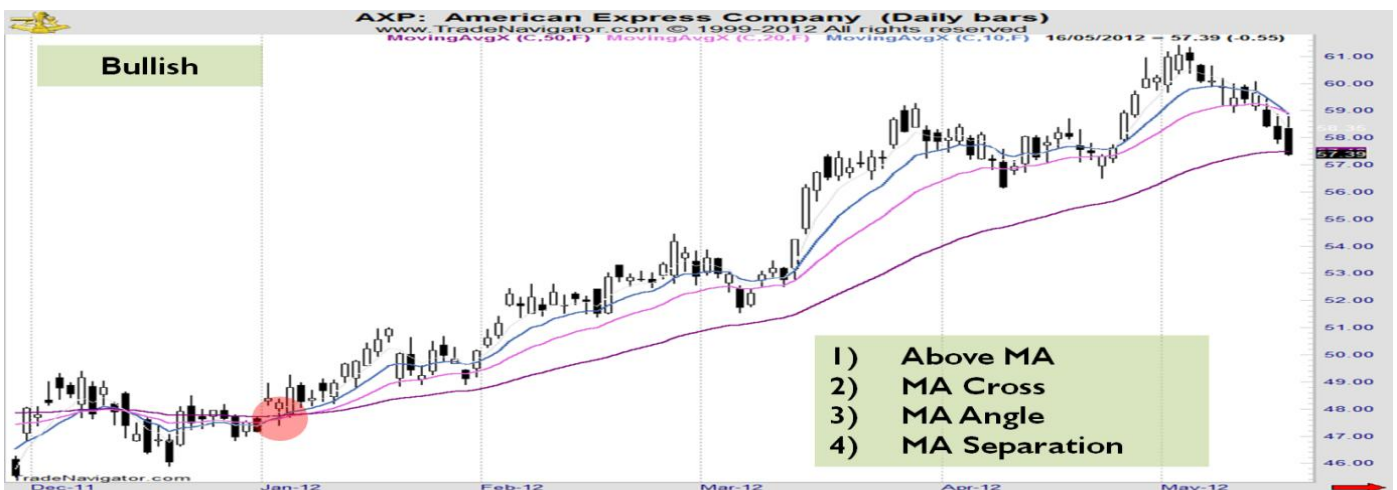
Flat Angle

Strong Angle

Setting stops using MA's:

- Set stops on the _____ side of the moving averages when entering a new trend trade

Moving Average Trend System:

- Trends provide the most _____ trading opportunities
- Moving averages allow traders to catch the _____, but not the entire trend

Bullish Moving Average System Entry:

- When the MA's signal a bullish crossover, buy a _____ position
- Ensure that there is a _____ angle to the trend
- Strong _____ of the moving averages
- Wait for price to have _____ above all three averages

AXP: American Express Company (Daily bars)
www.TradeNavigator.com © 1999-2012 All rights reserved
MovingAvgX (C,50,F) MovingAvgX (C,20,F) MovingAvgX (C,10,F) 16/05/2012 = 57.39 (-0.55)

Bullish

1) Above MA
2) MA Cross
3) MA Angle
4) MA Separation

Bearish Moving Average System Entry:

- When the MA's signal a bearish crossover, buy a _____ position
- Ensure that there is a _____ angle to the trend
- Strong _____ of the moving averages
- Wait for price to have _____ below all three averages

Bullish Moving Average System Risk Criteria:

- Set a stop _____ the moving averages
- As the trend _____ adjust your stop higher to align with the new moving average level

Bearish Moving Average System Risk Criteria:

- Set a stop _____ the moving averages
- As the trend continues adjust your stop _____ to align with the new moving average level


> As you adjust your stop you will lock in your profits!

Bullish & Bearish Moving Average System Exit Criteria:

- When the price moves above or below the moving averages you will be _____ out
- Exit the trade at a price _____
- Exit when the _____ begins to slow

Moving Averages and Line Drawing:

- Without Support and Resistance analysis, we have no accurate _____ which illustrates logical targets for a securities price to reach
- When we _____ the two concepts of Line Drawing and Moving Averages, it generates superb trade setups
- Lines notify traders if _____ is nearing a resistance or support level, and also provides logical price targets in the future
- If an entry price _____ both Line and Moving Average Analysis, the probability of a profitable trade will increase
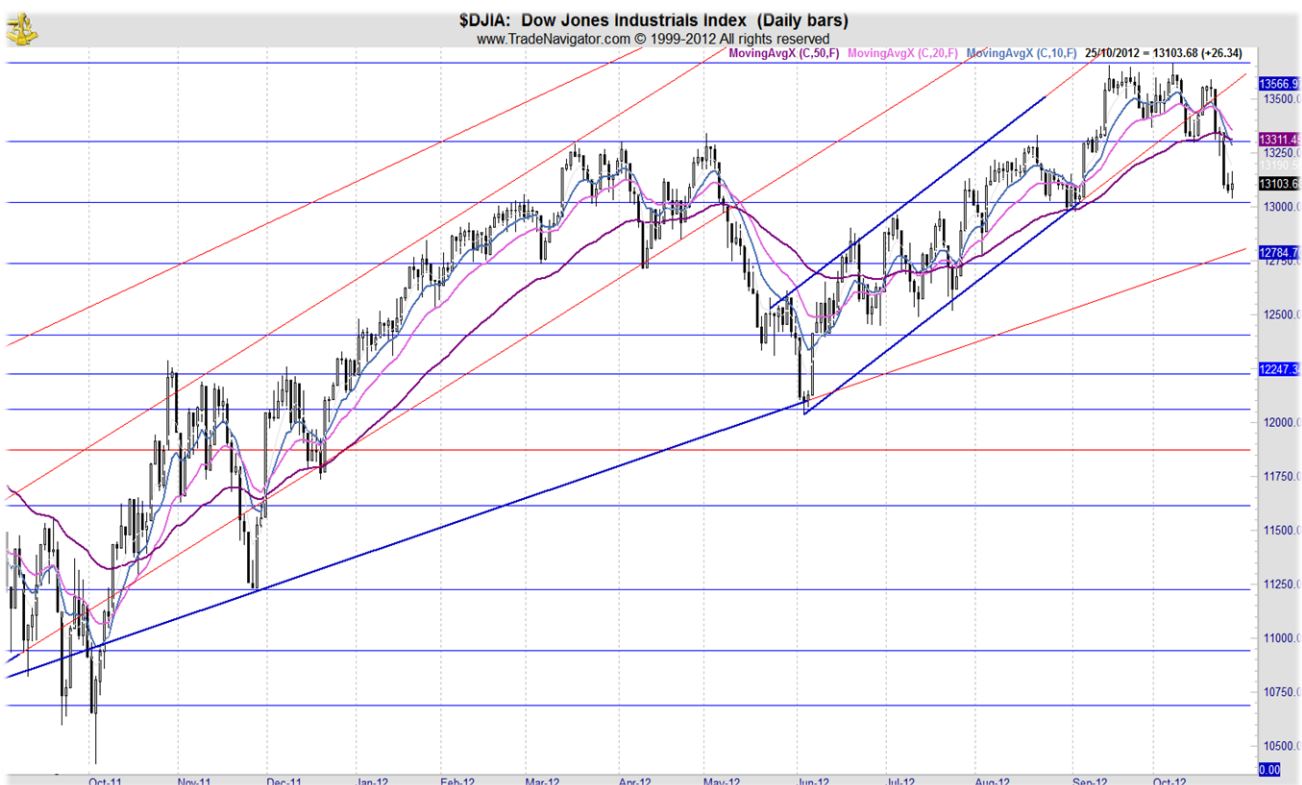
Answer Key:

Moving Averages:

- Smooth
- Participating
- Use

Moving Average Rule:

- Trend
- Sideways

Moving Average Categories:

- Simple
- Exponential

Simple Moving Average:

- Closing
- Distinguishing
- 100, 200
- Above
- Below
- Sideways
- Mutually

Exponential Moving Average:

- Closing
- Heavier
- Reduce
- Distinguishing
- 10
- 20

- 50

Pertinent uses of the Moving Averages:

- Direction
- Cross
- Support

Trend Direction:

- Bullish
- Bearish
- Sideways

Moving Average Cross:

- Two
- Short, Longer

Moving Cross Strategy:

- Buy, Sell
- Short
- Long
- Higher
- Lower

Crossover Validity:

- Misleading
- Steep
- Separation

Support and Resistance

- Floating
- Support
- Resistance

- Practical

Setting stops using MA's

- Opposite

Moving Average Trending System:

- Profitable
- Majority

Bullish Moving Average System Entry:

- Long
- Steep
- Separation
- Closed

Bearish Moving Average System Entry:

- Short
- Steep
- Separation
- Closed

Bullish Moving Average System Risk Criteria:

- Below
- Continues

Bullish Moving Average System Risk Criteria:

- Above
- Lower

Bullish & Bearish Moving Average System Exit Criteria:

- Stopped
- Target
- Trend

Moving Averages and Line Drawing

- Framework
- Combine
- Price
- Complements