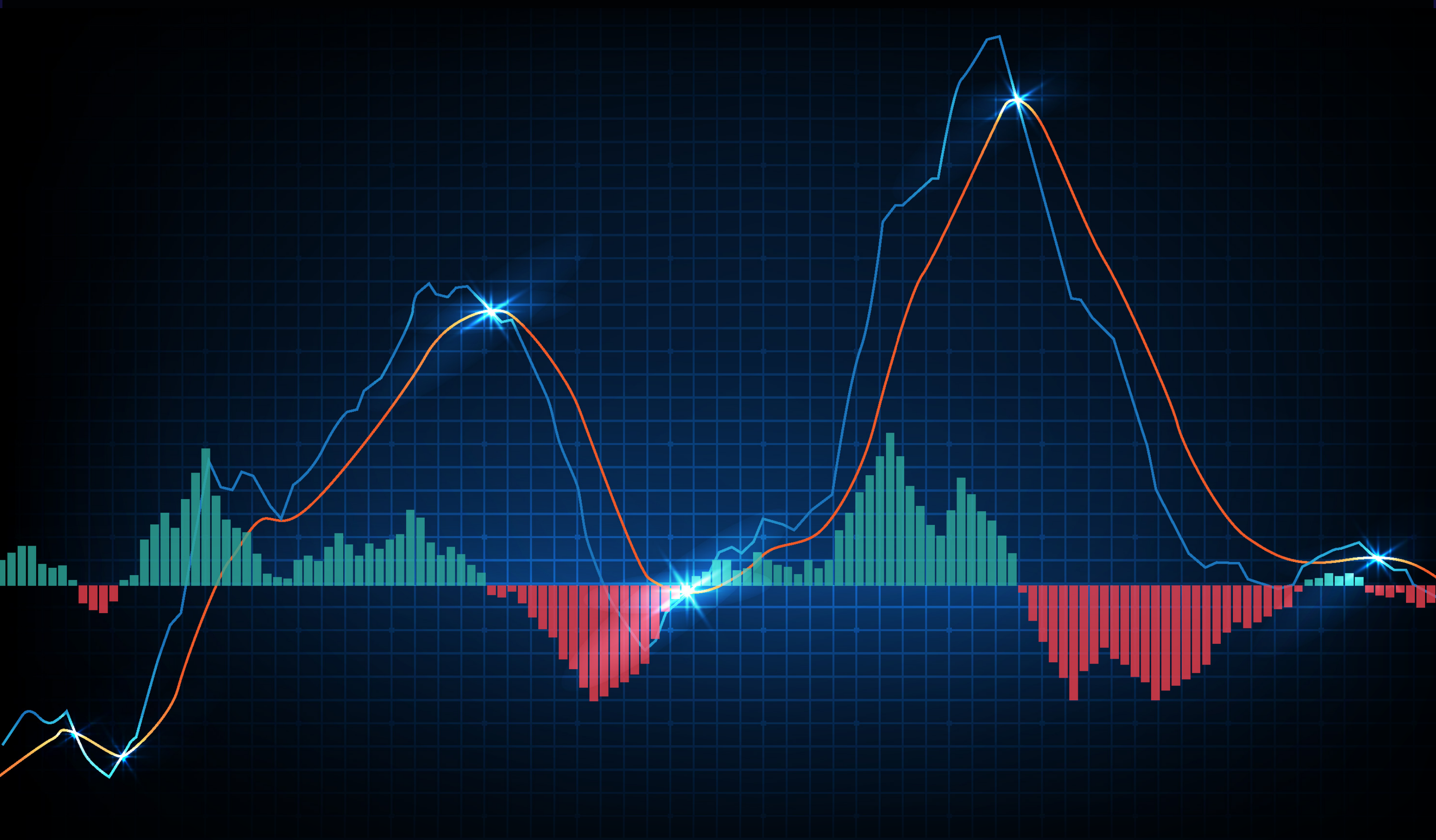
SURGETRADER
ACCELERATED TRADER FUNDING

Everything You Need to Know about Trading **Moving Averages**



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What are Moving Averages?

One of the most used technical indicators is what is known as a moving average. This is simply a calculation of the average price of the market over a given period of time shown moving consistently with that pair over time. In other words, the moving average will ebb and flow with the chart as it bounces up and down.

The trader can easily see if the market is currently trading above or below the moving average, and they may make some trading decisions about how they would like to respond to these movements as a result.

The moving average is intended to be used to try to predict future pricing just like all the other technical indicators that one has access to. The use of the moving average is helpful as it shows roughly where the market has been trending recently, and this may be applicable to estimating where it might go in the near future. People use these types of movements all the time to try to figure out how they should trade a pair, and if it makes sense to buy more or sell more at this time based on how the market has performed leading up to this moment.

Length of Time

It is incredibly important to note that the length of time that one examines the moving average over is vital. A short-term moving average can be very volatile as there is a lot of pricing action that happens in a brief period of time, and much of it may not make a lot of sense. That said, people who play these moving averages out over a longer period of time may start to see certain trends emerge that they can actually put to use and gain from.

This is why it is so important to play out the moving average over a length of time that is truly useful. To do so, you will need to set your parameters exactly right, and make sure that the windows of time are long enough to provide actual value to you.

Showing the Lag

The real value in moving averages is to show the lag between the average as it has been mapped out over a period of time versus the price that currently stands. If there is a lot of difference between the two values, then you are seeing some of the lag in the system between where the price was, and where it is now.

What could be useful from a trading perspective here is to see if the price has moved much beyond where it should be, compared to where the trends indicate the price ought to land. This is to say that if the price is significantly above the moving average, and the general trend for the market is down, then now might be a good time to get short in that market. The same can be said in the reverse as well.

It is simply a terrific way to identify where there is some difference between what is expected, and what has actually happened at this stage of the game. You might be surprised by just how valuable this information can be to you, and just how much you can use it to make predictive trades.

02

Simple Moving Average (SMA) Explained

The simple moving average is like the name describes: A simple calculation of the moving average of a market over a given period of time as defined by the trader. Let's break this down a little to help make it more digestible.

When you view any given market, you are looking at the overall chart of movement in the price for that market over whichever period of time you have selected. It could be minutes, hours, days, or even weeks. It all depends on your time frame and trading strategy. Regardless, you can use the simple moving average no matter which time frame you are using, and you can set the simple moving average itself over a set period of time to determine what the average price is for those currencies over so many candlesticks.

Let's break this down in an example:

1. You use the 1-hour chart to examine the EUR/USD
2. You pull up the simple moving average indicator
3. You set the SMA indicator to review fifty candlesticks worth of time
4. The SMA indicator will show you what the average price was for the EUR/USD over the last 50 hours

You can tweak this indicator any way that you want to get it to show different statistics that might be of interest to you. You can choose to narrow the window (down to say ten candlesticks) or widen it. The longer the time period worth of data, the more the average will smooth out for you.

It is recommended that you use a time frame that is at least long enough to capture a strong sampling of data, but probably not so long that it becomes almost meaningless itself. It is challenging to strike that perfect balance to be sure, but you can find the right way to juggle it all when you start getting in there and messing around with it.

The important thing to remember about the SMA indicator is that it just shows a simple average of the time periods that are contained within the parameters that you set for it. This means that you don't necessarily get to see everything that is going on in the movement of that market.

It is simply smoothing out some numbers for you, so you have a basic sense of what is happening, but not much more than that. It can be an important starting point for doing some research about a market that you care about, but you shouldn't assume that the SMA indicator is all that you will need to make informed trading decisions. You really need to work out a lot more information than that by using other indicators when possible.

03

Exponential Moving Average (EMA) Explained

Sometimes the simple moving average that people use when trading is a little too simple. This is to say that while it does calculate the average over a period of time between two currencies, it doesn't necessarily capture the entire picture of what we are looking at as the pair continues to trade. It might provide an altered image of what is really happening in the market, and that could lead some to make unwise choices about how to trade.

You don't want to be the person who makes foolish moves in the market based on information that was not accurate, to begin with. Instead, you need to look at the exponential moving average for more useful details.

The exponential moving average gives more value or weight to the most recent moves in the market that you are examining. If you are looking at the USD/JPY on a 1-hour chart, for example, then you might see the simple moving average calculating the average over say the last 40 hours or whatever you have set the parameters at. It could provide some details for you, but if there has been a major movement in the pair in the last hour or two, this may not be fully captured in the simple moving average.

The exponential moving average could capture more of this movement as it will give added weight to the last few candles that have appeared in recent hours. This means that the EMA will move up or down more rapidly than the SMA over those last few movements. This might help illustrate that the pair really is doing something different than what it had been doing before, and that might come in handy as useful information to you, as you attempt to navigate these markets and figure out what they are all about.

Don't put your trust all in one indicator of course, but perhaps pull up the EMA alongside the SMA when looking at price movements over a given period of time. You don't want to miss out on some of the moves because you were looking at indicators that were not providing the full story to you right from the start. It happens to a lot of people, and those people may end up making poor trading decisions as a result of this less-than-ideal information.

04

Simple Moving Average vs. Exponential Moving Average

Moving averages come in two different forms, the simple moving average and the exponential moving average. Both are important to successful trading, and both should be understood by the traders who use them. It is vital to know the differences between the two if you want to know how to use them well. Let's explore what each means and why it is important to your trading abilities.

Exponential Moving Average (EMA)

What is happening right now in the markets? The traders who want to see how the latest price action has had an impact on various markets rely more heavily on the EMA to do their trading. They like to use this because it incorporates the real-time numbers as they come in more rapidly than any of the other moving averages. You see, when someone uses the EMA, they are saying that they want to see how each tick of the market has a direct impact on the average price that they see for that market over time.

It is easy to get a lot of useful information out of this indicator, but you should also know that it can produce some false readings if you examine it too closely. Since the EMA tracks so closely to the current price of the market, it can sometimes appear that certain things are happening in the market that are not actually happening. Always be aware of how this indicator reacts to current news.

Exponential Moving Average Pros: Moves quickly and good for displaying recent price swings

Exponential Moving Average Cons: Can be more likely to cause fakeouts or erroneous signals

Simple Moving Average (SMA)

This is the type of moving average that traders are first introduced to when they begin trading in the markets. This is because it is literally the simpler of the two to understand. It just takes the data from the past and incorporates it into an average that you can see drawn on your chart. You can set it to trace back however far you would like, but it is going to just tabulate the average over that period of time and produce that number for you. There is nothing magical about the SMA except for the fact that it is useful when compared against the EMA and other indicators.

The simple moving average is probably best used as a baseline against which to compare other indicators. Its value comes from the fact that when traders use it, they are able to see how the markets that they care about are trending in one direction or another. The purpose is to simply provide traders with something that they can base their trades on in terms of how they believe the market is likely to trend. If they feel that the market is headed up and the simple moving average is also pointed in that direction, then perhaps they have a little more confidence in their prediction than they otherwise would have. That said, it is obviously still a good idea to try to compare where the market is now versus where it has been in the past by using all available data including the simple moving average and many other indicators.

Simple Moving Average Pros: Shows a smoother chart with fewer fakeouts

Simple Moving Average Cons: Moves slowly, which leads to a lag in buy/sell signals

Do not rely solely on any one of these tools to act alone but compare the assorted options that are available to you and see for yourself where you should place your trades based on that information. It is great when you can use the EMA and the SMA in tandem and when they indicate that the market is moving in the direction that you believed it would. If that is the case, then you can take advantage of your predictions and place your trades according to your hypothesis.

05

How to Use Moving Averages to Find the Trend

It has been said many times: **"The trend is your friend."**

The question is, how does one find the trend? It often comes down to using various indicators to help determine which way a market has been moving, and thus where it might go next. One of the most popular to use to help determine this information is the moving average.

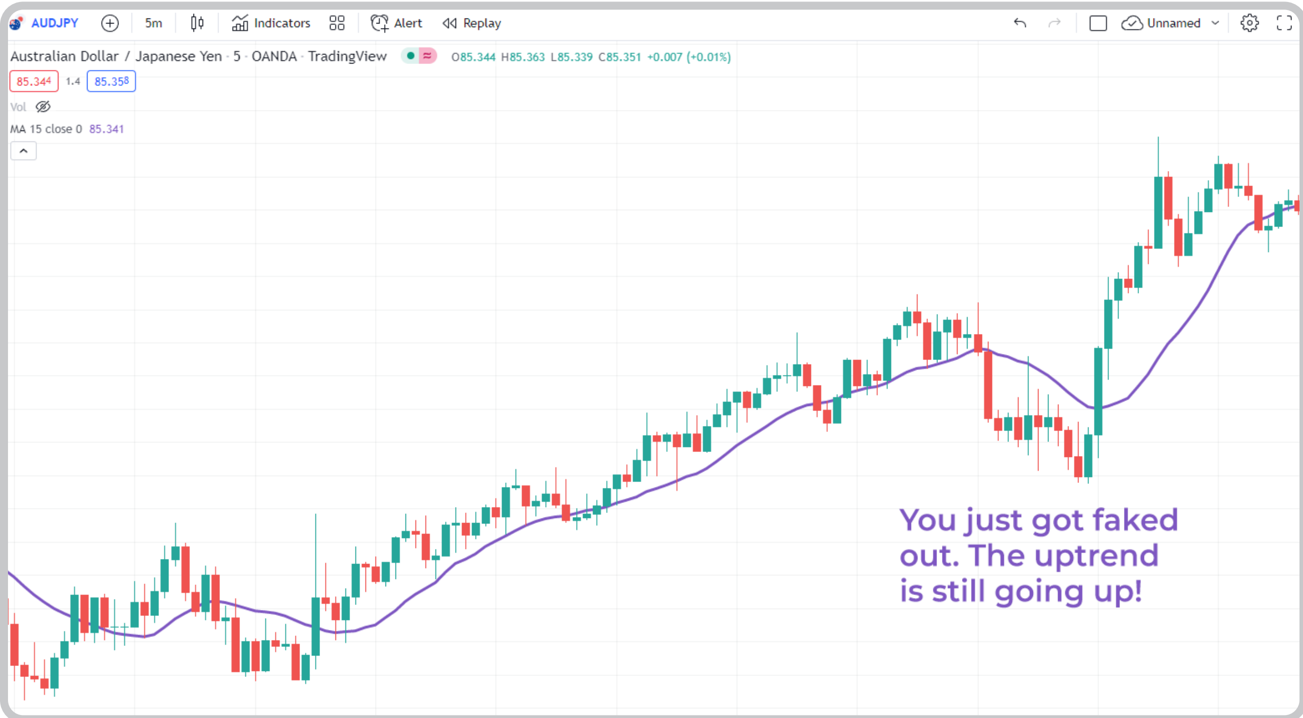
When the price of the market stays below the moving average, then the pair is said to be in a downtrend. When it is above the moving average, it is said to be in an uptrend. Both are movements that can potentially be capitalized on, but the trader needs to be aware of how the different trends should impact their trades.

The best recommendation from most experienced traders is that a trade should be placed in line with the prevailing trend. There is no heroism in placing a trade that goes hard against the trend. This is actually a recipe for disaster in most scenarios, and it is a good way to lose money.

Don't Get Faked Out

Try not to get too caught up in whether the price is just above or just below the moving average. Sometimes, using the moving averages alone is too simplistic.

Check out this example:



Try to use other indicators to help determine if the trend you are seeing is indeed the trend that is there. Sometimes, it appears as though a trend has been broken (see images above), when, in reality, it is nothing more than a movement based on some piece of news that has come out. There is always the chance that the market will move back into the trend that it was working on before the news came out. This is why experienced traders always know to wait until there is confirmation of the trend that they believe exists before pouncing on every movement that occurs.

Moving averages are a wonderful way to get an idea of how the market is behaving, but only treat them the same as you would any other indicator. They are just a piece of the puzzle, and you need to see the whole picture to make sense of what you are looking at.

06

How to Use Moving Average Crossovers for Trade Entries

The moving average is often used to determine when to get into a trade based on when the trend is about to reverse from the way that it has been going. This may be the ideal moment to jump in and try to make some reasonable trades based on how the market is reacting.

A trend in the market is the general movement in the market to the upside or downside. You should think of it as the direction that the market has been moving as a whole. This is true of any given market.

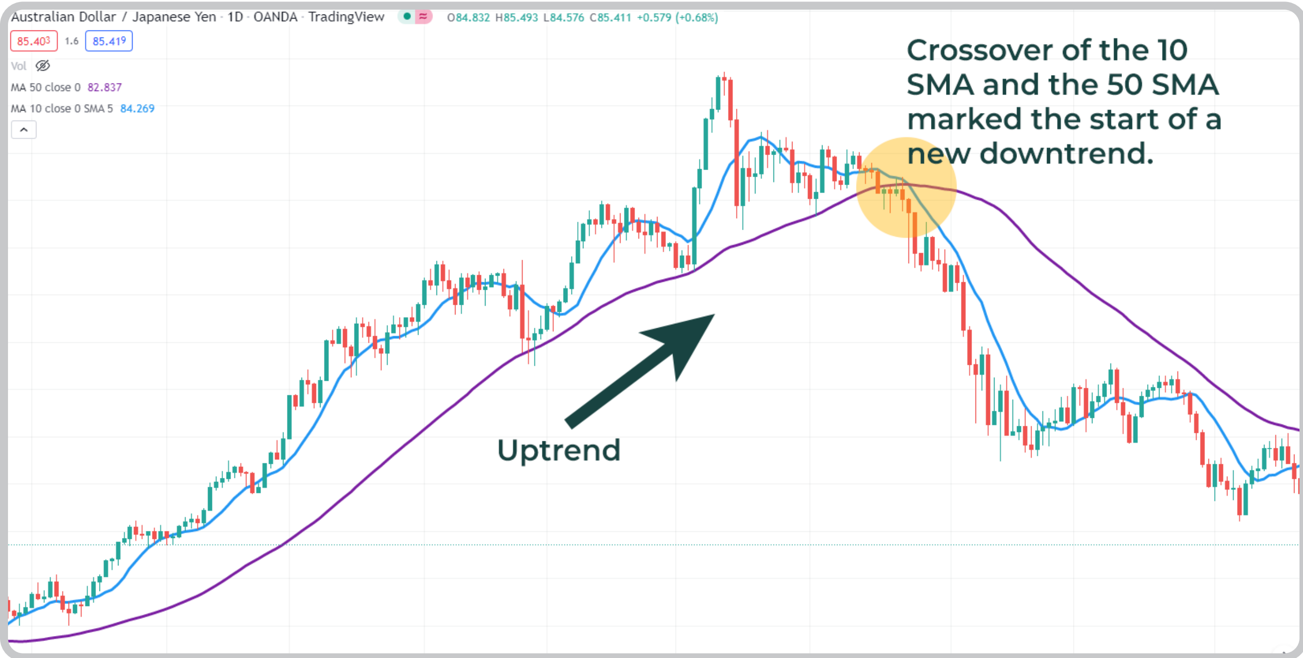
For example, if you pull up the 1-hour chart of the AUD/USD and see that it has been headed south for the last 50-100 hours, then the trend in that pair is down. You may see brief moments when the pair pushed higher, but if the overall trend remains down, then you should assume that the trend for this market is down. You don't want to fight against it because you will just end up battling against a current that is too strong. However, you do want to use your moving average tool to see when the trend might be reversing.

Setting Your Parameters

To determine when recent price movement has potentially signaled a change in the trend of a currency, you need to set the parameters of your moving average tool to make sure you can see how the recent price action has played against longer-term price action.

For example, imagine setting your moving average to parameters of 10 and 50. This means that the two lines will show what the price movement has done in the last 10 periods of time and the last 50 periods of time. The 10-period timeline will move much more sharply in tandem with the current price action, whereas the 50-period line will be a smoother average. The point of having both working for you is to allow you to see how the recent price action (represented by the 10-period line) has compared to price action as a whole.

When looking at your chart, if you notice the price action for the 10-period line has crept up above or below the 50-period line, this is known as a crossover, and it may be the signal you need to know that a change is about to occur. It might signal the reversal of the trend that has been established in your lines up to this point. That is important, because it may be the moment when you need to step in and place your trade (in whichever direction the end of the trend is).



As with everything else, you should probably wait at least a little while until you have some confirmation that the trend is indeed ending before you jump in and place your order. It is always better to know that the trend has ended than to assume that this is the case and be wrong. Don't be so anxious to get your trade out that you forget basic principles of trading that got you to where you are in the first place.

07

How to Use Moving Averages as Dynamic Support & Resistance Levels

Every trader has looked for useful ways to find the perfect support and resistance levels. They want to get to a place where they can identify the perfect support and resistance levels for the various markets that they trade. The reason is because they need to know when to get in and when to get out of certain trades. It is pretty obvious that everyone wants to try to hit their spots just right when it comes to something like this, but it is not always easy to know when to pull the trigger.

Using the Moving Average as a Dynamic Support/Resistance Level

The moving average tool is a good for finding baseline support/resistance levels for all markets. It is a dynamic tool that changes as the price action moves in one direction or another. This means that as the price action from the market changes, so too does the support or resistance level that has been identified. This is critical to a lot of people who want to see where new resistance and support levels are with each tick of the market.

Plenty of traders use static support and resistance levels that they draw from Fibonacci lines or some other indicator. It is useful for them to at least have some idea of where the market may meet some support or resistance, but it is not enough to draw lines like this and expect that everything will work out from there.

Instead, the best traders in the world know that they need a dynamic moving average that changes as the volume of available information changes. After all, any good trader knows that his or her hypothesis on what a trade may do next should move with the latest information in the market.

The moving average can be used as support and resistance. You just plug in the parameters you want to use on the moving average, and then allow the lines to do their work. **The longer-term moving average (the last 50-100 periods) is the best to use for this purpose as it will provide the most useful and actionable information regarding where potential support and resistance are.**

You should try to look at this moving average to base where you think support or resistance are likely to be on any given market. If you do that, then you can set your trades to go off around those levels. That is ideal as it will help you to capture as much of the movement in one direction or the other as possible without giving up too much value on any given trade.

08

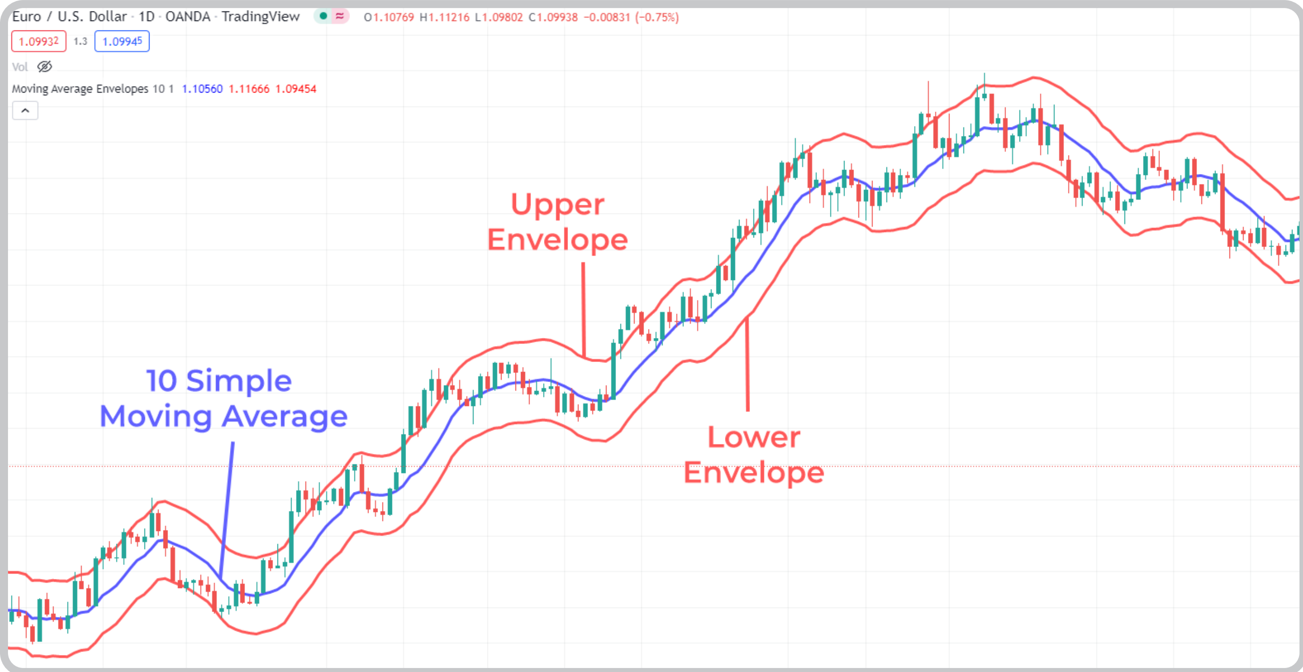
How to Use Moving Average Envelopes in Trading

Moving averages are uniquely powerful in all that they can do. They provide certain information to traders that other indicators and other pieces of news simply do not. That being said, they are not without their flaws. One of the biggest flaws that people point out is that moving averages are prone to giving false signals.

Just when a trader thinks that they have found a reversal in the trend of a market, they may actually have walked into a trap of sorts. The signals that they see may be false indicators of what is really going on, and they may end up losing on trades that should have been winners. In order to avoid this as much as possible, traders are encouraged to look for moving average envelopes.

What Is a Moving Average Envelope?

The moving average envelope is the moving average combined with two other lines that form a channel of sorts that show where the support and resistance areas are for a given market. It is important to design and use these envelopes as a way of seeing how various markets may react to certain pieces of news or other bits of data that are important to the overall functioning of the market. **Additionally, the moving average envelope is better at confirming a new trend than when just the moving average is used alone.**



To calculate the moving average envelope, you need to decide if you will use the simple moving average (SMA) or the exponential moving average (EMA). Most traders prefer the exponential one because it reacts more rapidly to the precise movements of the market as they exist today. Therefore, it just makes sense that people would want to do what they need to do based on the very latest data available to them.

Take the EMA and multiply it by .01 in order to form a 1% envelope to both the upside and the downside. You will see on your chart that you have formed a channel for where the price may be headed next. You can use this chart as your guidepost for determining where it is most likely that your preferred market will move. If you have drawn the chart well, and if you have good calculations throughout, then you should be in decent shape to place your trades based on the information available to you here.

You can see where there could be potential areas for resistance and support throughout the market, and that is especially important to a lot of people. They want the opportunity to know right where they need to place their lines, and the best way to do that is to have a channel like this.

Bullish or Bearish?

Looking at the envelope that you have drawn, do you see where there are bullish or bearish indicators? They should present themselves in the sense that you know if the pair breaks above your envelope lines, then it is a bullish sign, but if it breaks below, then this is a bearish sign. It is truly as simple as that. You just plug those indicators in and then wait for the price action to do what it is going to do. You don't need to make it any more complicated. Just wait until the price movement does what it needs to do, and you are all set.

You should try to make sure that the signals that you get from these indicators are fine-tuned, and it is ideal if you could back-test your envelopes to ensure that they are working properly, but beyond that, you should be all set. Just create those figures and wait until you get the signals.

If you see that there are some issues with the envelopes that you have drawn, then perhaps look over them again to make sure you have everything set in place perfectly to create the kind of chart that you need. In other words, always verify that your charts are actually be drawn correctly per the information available to you. If you are uncertain about this, then go back to the drawing board until you are completely positive that your charts are accurate. You don't want to take chances when trading with a potentially faulty chart.

The moving average envelope is a wonderful way to start building up your portfolio as it will help you identify when to get into trades and when you should exist them. Use every piece of information that these charts provide to help yourself out.

09

How to Interpret Trends with Moving Average Ribbons

Moving averages are one of the most beloved indicators in all of trading because they are so simple and yet so elegant all at the same time. People who use moving averages get a deep sense of where the market has been before, and perhaps where it might head next. Thus, they are given the great gift of having some idea of what kind of moves they may need to make in the market to position themselves as comfortably as possible to take advantage of all movements going forward.

Given that moving averages are so powerful, doesn't it just make sense that a good trader would want to use as many of them as humanly possible to obtain a degree of certainty about their market predictions? That is what people who rely on moving average ribbons believe. They see the moving average as a wonderful tool for their use, but they want to maximize its value by using many moving averages all on the same chart.

Simple or Exponential Moving Average?

Which average should someone use if they are interested in creating a moving average ribbon that they can get some information from? The answer to this depends on exactly which set of information you are most interested in finding. Are you looking for information about the latest movements in the market on a relative basis (i.e., relative to where it has been most recently), or are you okay with basing your trading off the simple moving average of the pair over a period of time? The answer to that question often comes down to your particular trading style and how you like to review information in the market.

There is not a correct answer because there are many schools of thought. However, you can rest assured that the use of either one of these types of moving averages will work fine. The main point is that you need to get them set up in a ribbon to get the most information possible.

What Can the Ribbons Tell You?

Expanding Moving Average Ribbons

One wonderful use for moving average ribbons is to try to determine when a trend is about to end. If you see an **EXPANDING** ribbon, then you may be witnessing the end of a particular trend. The expanding ribbon is flashing the bright red sign that prices have reached an extreme, and this is often what happens right before the trend reverses.

If you have been riding the trend on your trade for some time and are looking for an exit point, an expanding ribbon of moving averages is probably the place where you want to bail out. You may be able to exit at just the right time and thus capitalize on as much of the market movement as possible.

Contracting Moving Average Ribbons

A CONTRACTING ribbon is a sign that the trend may be about to reverse. Perhaps you had been riding the market all the way down, but now a contracting ribbon is indicating that the market may be ready to bounce back and start to climb. If that is the case, then you need to get out of the way and either get on the other side of the trade, or at least wait until this cycle is over and find a better entry point.

Parallel Moving Average Ribbons

When the moving average ribbons are **PARALLEL** and spaced relatively evenly, this indicates that the current trend is strong. All the moving averages are in relative uniformity and are moving together.

The moving average ribbons can help you figure out when the time to get out of a trade is, and there is no more valuable information in the market than that. People always want to know when they are supposed to bail on their trades, and it is often right at the point when it is about to change directions. It is so challenging to determine precisely when that time is, but the moving average ribbons can help make it a bit easier for you to do.

10

How to Trade the Trend with Guppy Multiple Moving Average (GMMA)

Trend traders, heads up! This indicator is for you. The indicator that we are looking at is known as the Guppy Multiple Moving Average or GMMA (Guppy) for short.

This indicator is meant to not only identify which way the market is trending but also to help traders spot when that trend may be about to start. If a trader can identify a trend as it is just beginning and get in on it, then they stand to potentially profit quite handsomely from their trading. However, this takes great tact and skill, and probably a little help from the GMMA indicator to boot.

The Guppy indicator seeks to take multiple moving average ribbons and lay them all out on the same chart. Comparing the ribbons against one another may help a trader identify when a trend is changing direction, and at which price points they ought to try to get in on the trade. It is especially important that traders have the ability to spot these types of trends and that they have the flexibility to get in on them as soon as they identify them. The sooner a trader can capitalize on the change in trend, the better their odds are of making some money on that movement.

Here’s what it looks like:

The Start of Guppy

The Guppy indicator was created by a man named Daryl Guppy. He was an Australian trader who wanted to see how to use various moving average ribbons against one another to find when and how various trends started to form. It was his firm belief that if he could make an indicator that could be used by people who were in the business of spotting trends, then he could develop something that people would get genuine use out of, and he would be lauded as a hero to the traders who found great benefits in his work. He was right on that account.

When using the Guppy indicator, traders will see how a total of 12 EMAs (the moving average ribbon) move in tandem or against one another. This is meant to help traders see the strength or weakness of a particular trend much more clearly than if they were only using two EMAs pitting against one another. The additional 10 EMAs that the Guppy indicator deploys add some color and detail to the overall picture of what we are looking at here.

The EMAs in this indicator are divided into two groups for review:

1. Short-term EMAs
2. Long-term EMAs

You need both of these to see how the trend compares against itself over the short and long term. If the short-term EMAs start to cross over the long-term EMAs (in either direction), then we may be looking at a meaningful change of pace for the market that we are reviewing.

Conversely, if the short-term EMAs are not moving around that much in relation to the long-term EMAs, then the market might be in a bit of a holding pattern, and it may be best to wait until there are some stronger signals coming out of the market.

The Parameters to Set on Your Guppy Indicator

To get the most use out of the Guppy indicator, you need to make sure you set the parameters exactly right on it. You will want to ensure that it captures all the data that you need it to, but you also want to make sure that data is truly what is happening in the market. To get both of those elements together, please consider setting your Guppy indicator to the following settings:

EMA periods of:

3, 5, 8, 10, 12, 15, 30, 35, 40, 45, 50, and 60

The periods of 3, 5, 8, 10, and 12 are meant to be the short-term EMAs, while the 15, 30, 35, 40, 45, 50, and 60 periods intend to show the long-term movements of the market. That is critical because you don't want to trade on something that is less than ideal for your setups. You can make a lot of mistakes in the market if you aren't careful about how you set up the parameters of your indicators.

The short-term EMAs are intended to show you where the momentum is in the market. The long-term EMAs are supposed to show what the overall trend is. This is why when the short-term crosses the long-term, it is a big deal. It means that the momentum of the trade has taken a turn, and you should probably consider how this might impact your overall trading strategy. You may need to reverse your position from where you are now, or you may want to simply leave your position and wait for a better opening to get back into the trade.

How Much Strength is in the Trend?

A trend is important to identify, but it also is obvious that you will want to know how powerful the trend is as well. Almost anyone can spot a trend if they look hard enough for it, but that is rather meaningless if you aren't sure if the trend is for real or not. The Guppy indicator is a great one for looking at the real strength behind a trend. To use the Guppy indicator as a measurement of strength in a trend, consider the following:

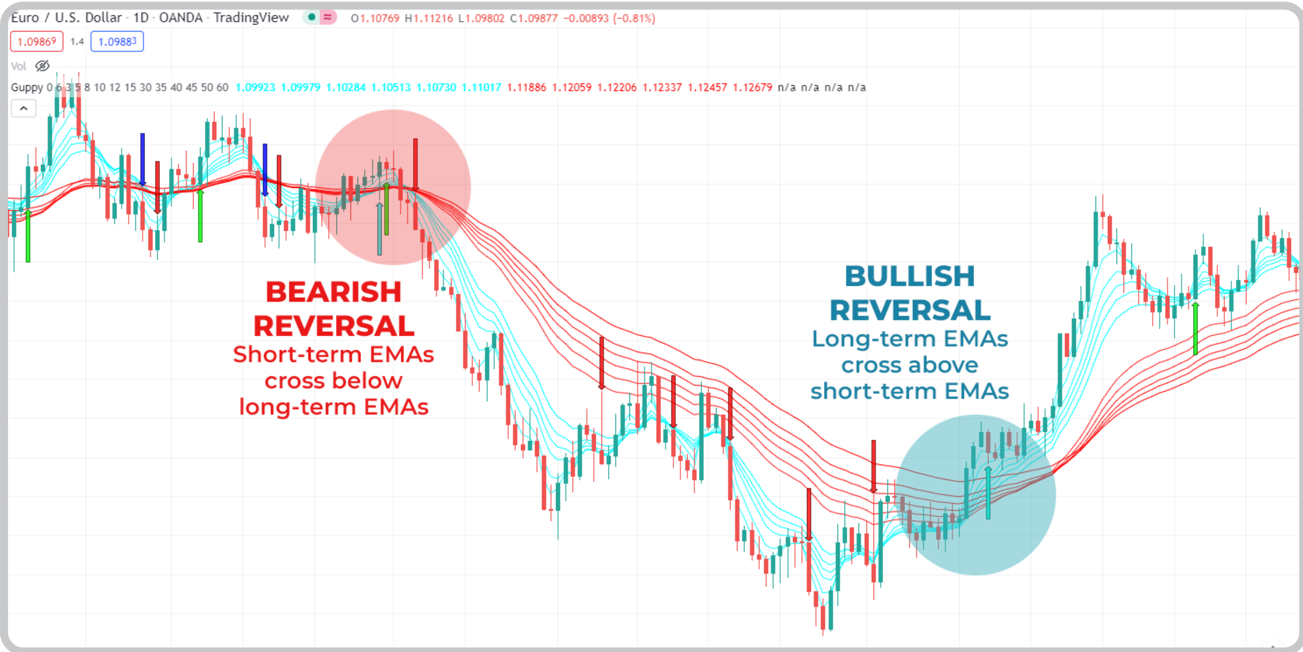
- How far apart are the long-term and short-term EMAs?
- Which direction are the EMAs pointed?
- Are the short-term and the long-term EMAs pointed in the same direction?
- How long as the current trend been running for?
- The separation between the long-term and short-term EMA ribbons is a particularly vital piece of information to zero in on. If there is a lot of separation between the two, then this is an indication that the prevailing trend appears to be pretty strong.

If the two are closer together, then the trend may be less powerful and maybe preparing to reverse. If you are a trend trader trying to capitalize on price movement during trends, then you ought to try to get in when the trends are particularly strong.

How Can You Spot a Trend Reversal?

The best time to get out of a trade is right before the trend reverses. You want to capture as much of the profit on one side of the trade, but you don't want to get flattened when it turns around on you.

One way that you can get better at this is to use the Guppy indicator to try to spot trend reversals. If you want to, do this, look for a period of time when the short-term EMAs cross over the long-term EMAs. This is a good indication that the trend is about to reverse. Obviously, if the short-term EMAs cross over the long-term ones in an upward direction, then this is a bullish sign for the market. If they cross downward, then this is a bearish sign for the pair.



Your role as the trader is to try to unwind your trades before the reversal occurs and potentially take your funds along with it. If you can brace yourself for the ups and downs of the market, then you know that you are going to face some uncertainty along the way.

That said, you should try to minimize as much of the volatility as you possibly can by using indicators such as the Guppy to try to spot when there is something new and interesting happening in the market. If you can do that, then you stand a much better chance of capitalizing on as much of the movement as possible without losing too much of your trade in the process. You should include the Guppy in your array of indicators to help make more sense of the market. Those who do this are often pleased by the results that they achieve, and that is a testament to how important certain indicators really are.

ABOUT SURGETRADER

Here at SurgeTrader, we fund traders up to $1 million. Our traders keep up to 90% of the profits.

The program is built on three pillars:

1. Simple, straightforward trading rules
2. No time restrictions
3. Fast, responsive service

SurgeTrader offers a one-step funding model, where traders take an Audition with simple rules and no time restrictions. SurgeTrader exists to accelerate trader funding and help profitable traders with their biggest challenge: undercapitalization. We are not built to profit off of failed challenges like other firms. Our approach is long-term. We profit when you profit. When you win, we all win.

If you want to partner with a firm that has simple trading rules, incredible trader support and has your best interests at heart, SurgeTrader is the partner for you.

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