



Moving Average

Technical Analysis



What is Average

- We all know average is the mean value.
- It is obtained by adding all the quantities and dividing the sum by number of quantities.
- Example-we have to find the average of 10,20 and 30.
- $10+20+30/3=60/3=20$



Why the term moving average

- We all know that the prices of the shares fluctuate continuously.
- If we want to find the average price of the shares for particular days, we will have to add up the closing prices of the share for that period and divide it by number of days for which we are finding out.

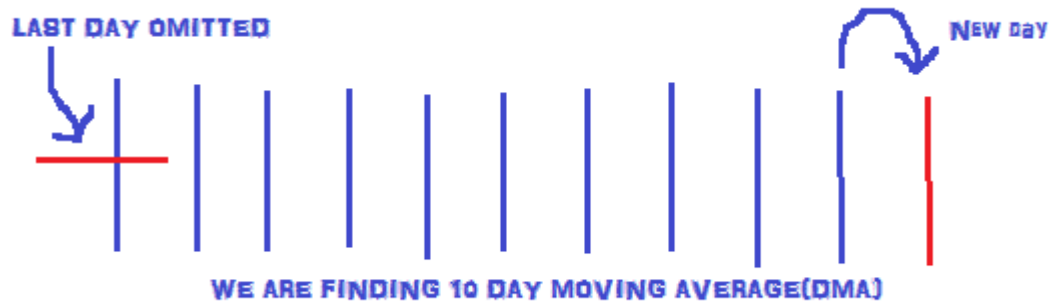


Why the term moving average

- Suppose we want to find the 10 Day moving average(DMA) of a stock.
- We will have to add up the price of the stock for last 10 days till today's market closing price.
- But tomorrow the stock will close at a different price and then for calculating 10DMA we will have to add the closing price of tomorrow and omit the first one.



Why the term moving average



- So as is evident the average will move with respect to the last day's closing price.
- If the last day's closing is more than the first day's that we are omitting ,then the moving average will have an upward trend.
- And vice versa. So the average is not stagnant. So the term moving average.



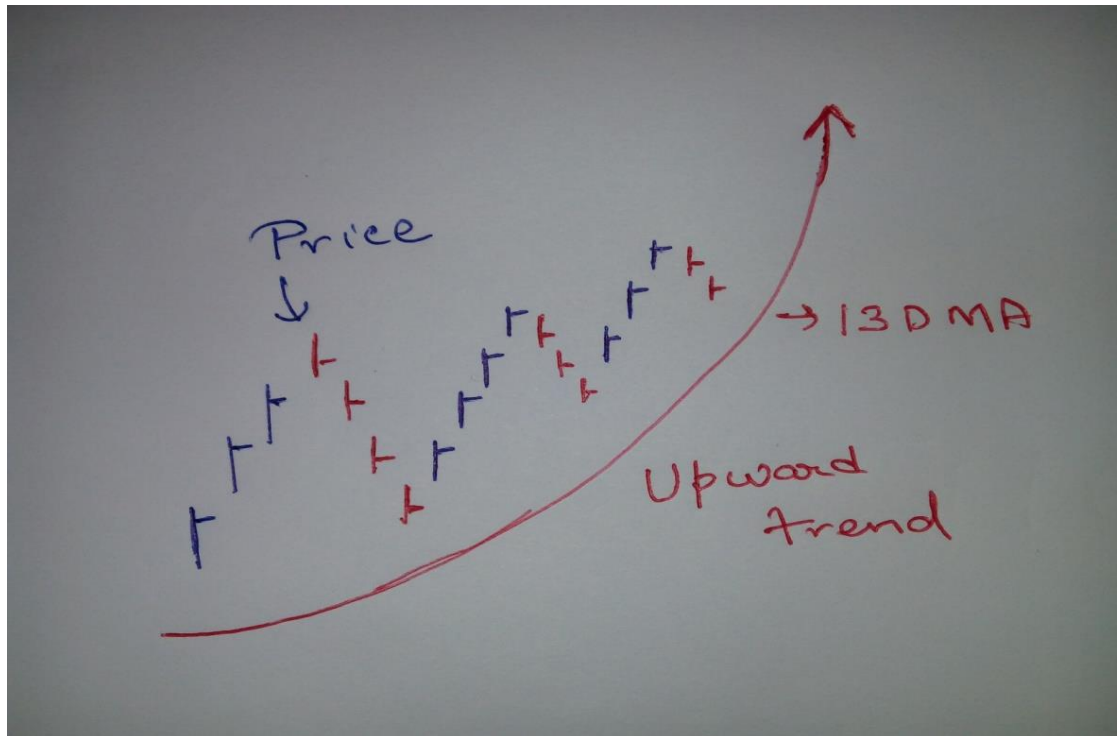
Standard moving Averages

- As average can be of any number of days a standardization was required.
- We generally use(in India):
 - 13DMA
 - 30DMA
 - 200DMA
- Day Moving average(DMA) and Simple moving average(SMA) are same things.



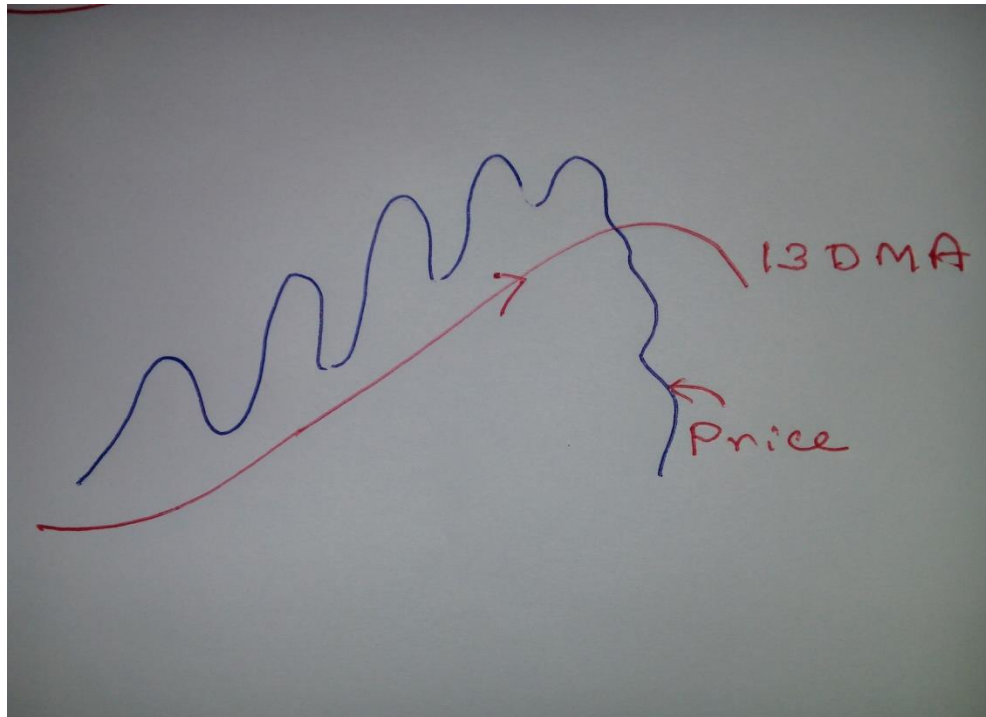
Price and 13 DMA Graph

- Lets us now see how does a graph of price and 13 DMA looks like in an upward trend.



Price and 13 DMA Graph

- The DMA will go down if the recent closing is less than the last price that is to be omitted as shown below:

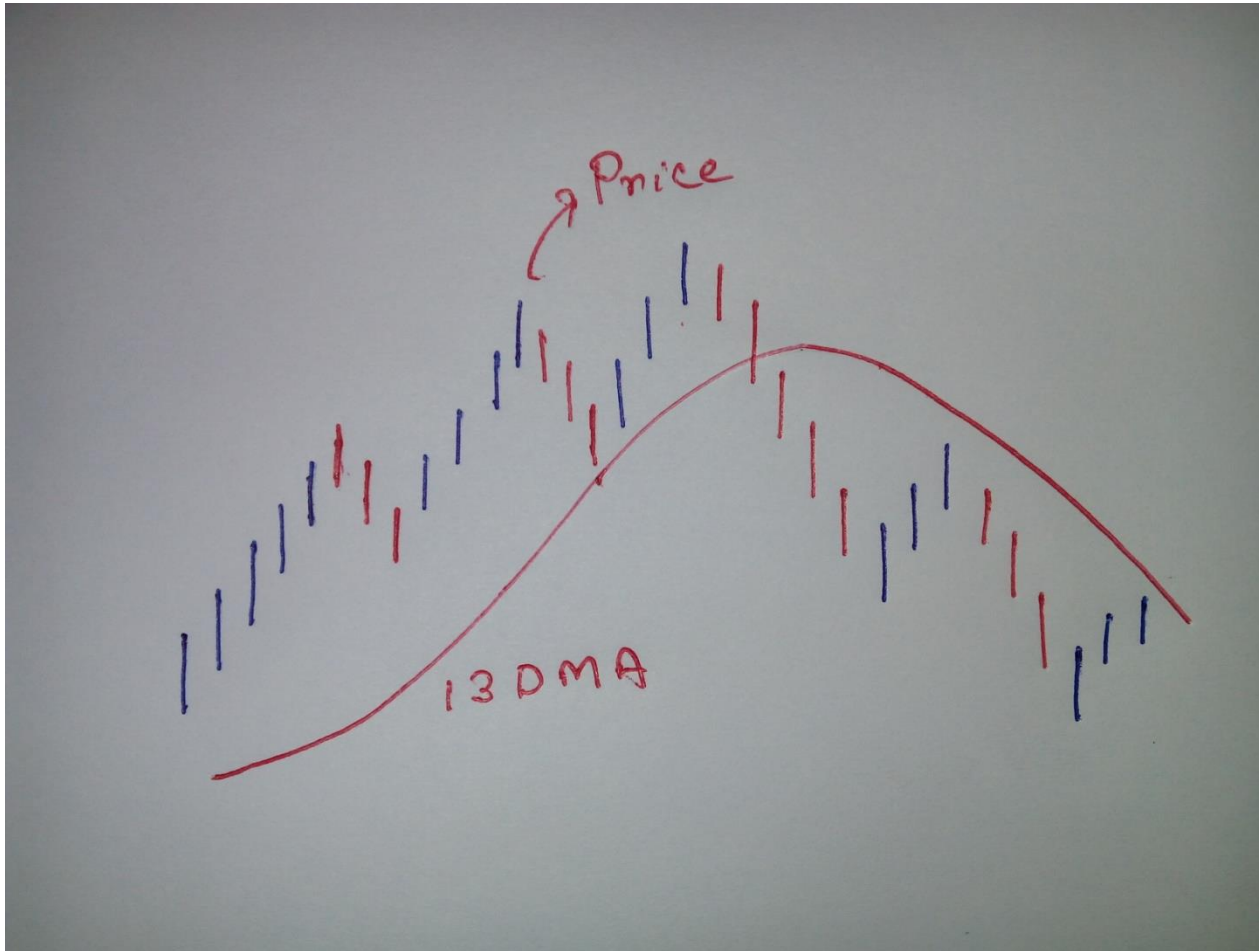


The relation between 13 DMA and price

- The price cannot move too much high from 13DMA. If price has moved high from 13 DMA then it will come back to 13 DMA and it should not be purchased but can be shorted.
- If the price is close to 13 DMA then the stock can be purchased as the price might increase from there.



How the graph of 13 DMA vs Price looks like



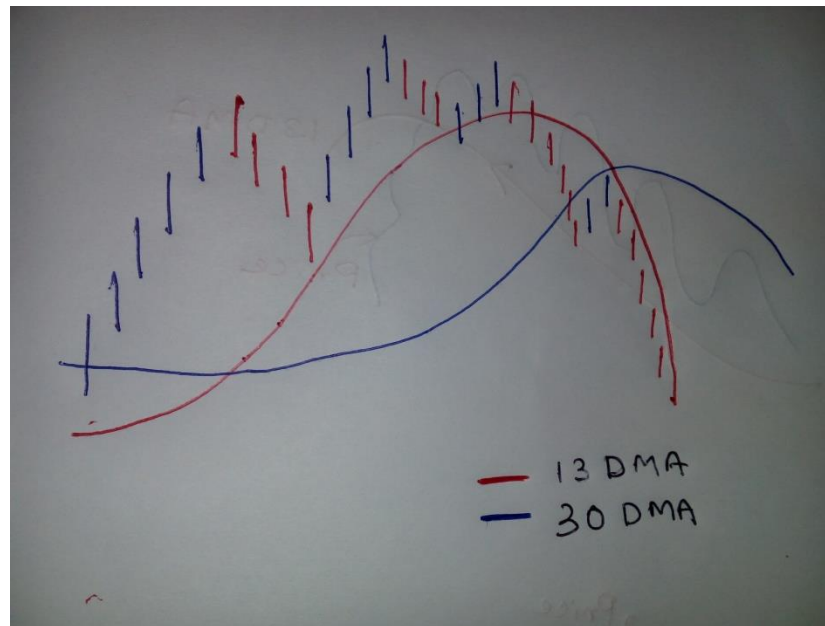
Some Buy/Sell cases

- The movement of 30 DMA will be less rapid than 13DMA as it average more number of days.
- Let us now think of a case where the 13 DMA and 30 DMA are both in upward direction.



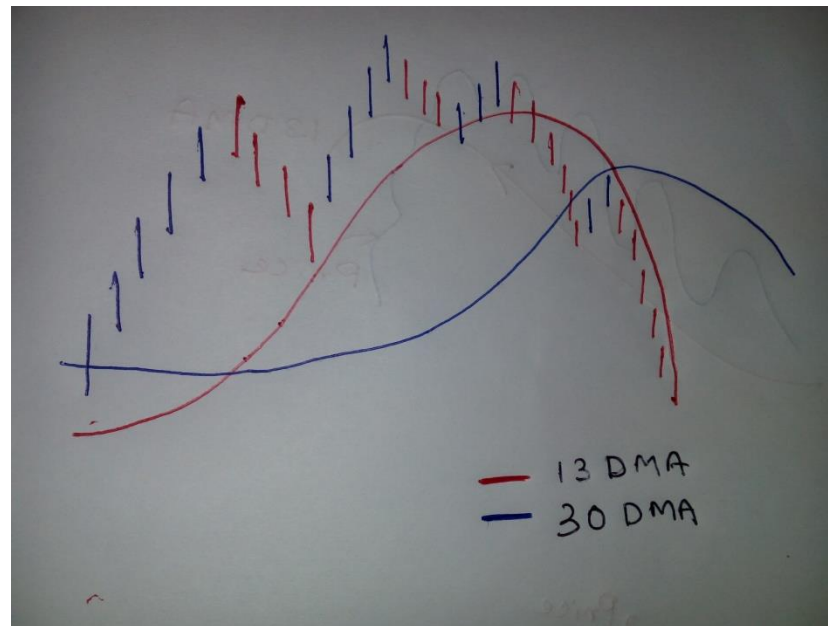
Some Buy/Sell cases

- 13 DMA is crossing over 30 DMA. It gives a buy signal at that crossing. It should not be bought straight but rather should be watched out for buying opportunity.



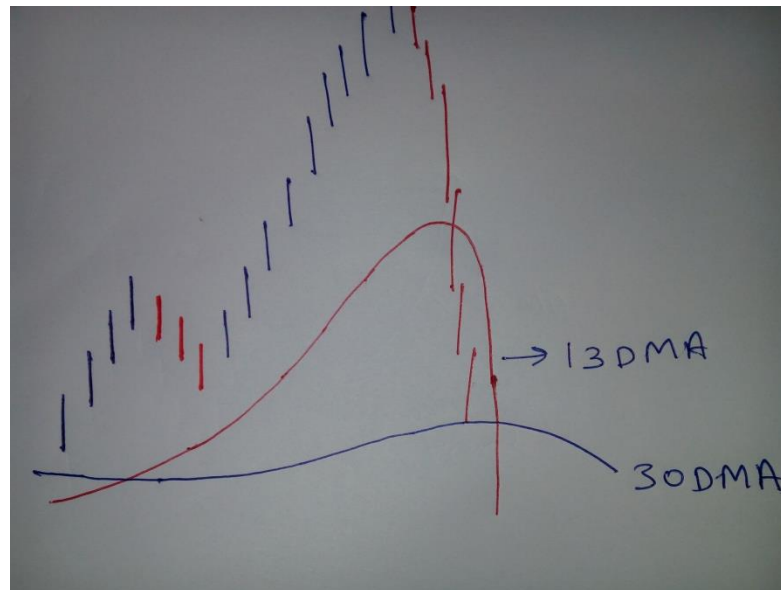
Some Buy/Sell cases

- Similarly the 13 DMA takes and faster turn and crosses over 30DMA again as shown above.
- The crossover gives a sell signal. Then we should look for selling opportunities.

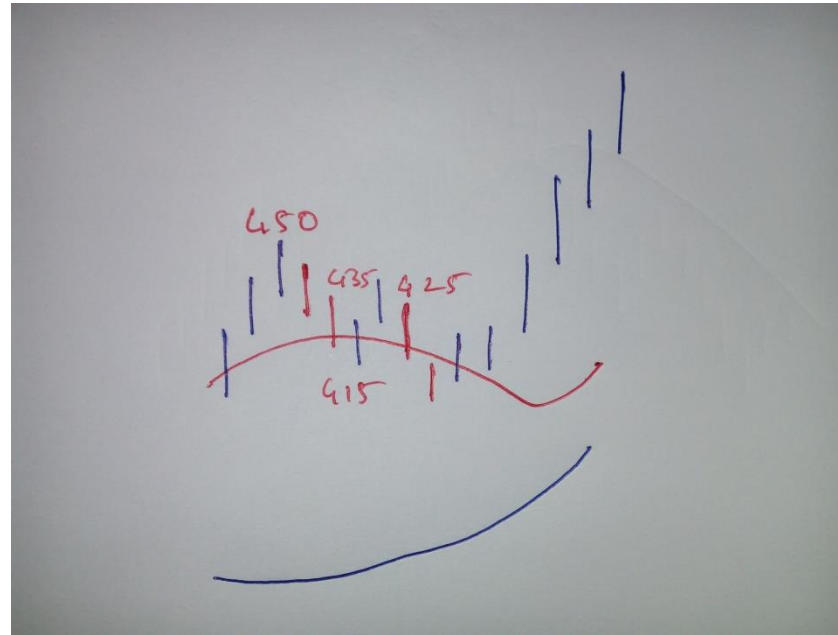


Some Buy/Sell cases

- Now consider a case where the price of a stock moves up very rapidly above 13 DMA. And the 30 DMA has not moved much.
- The stock falls rapidly at a point where the 13 DMA takes a sharp bent and should be shorted there.

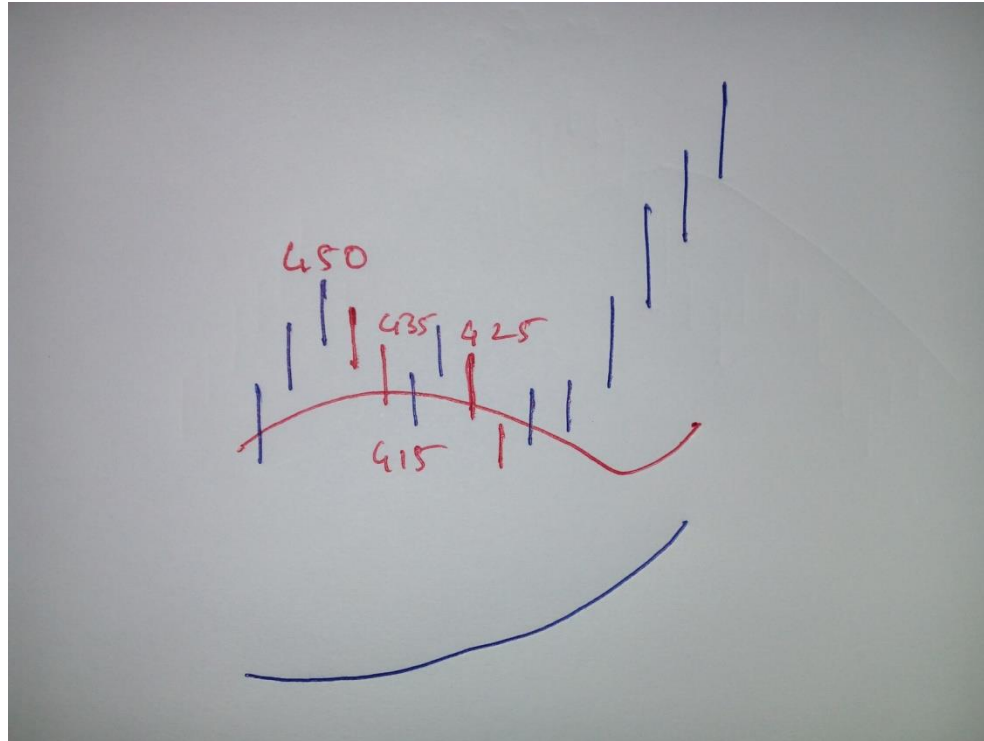


Some Buy/Sell cases



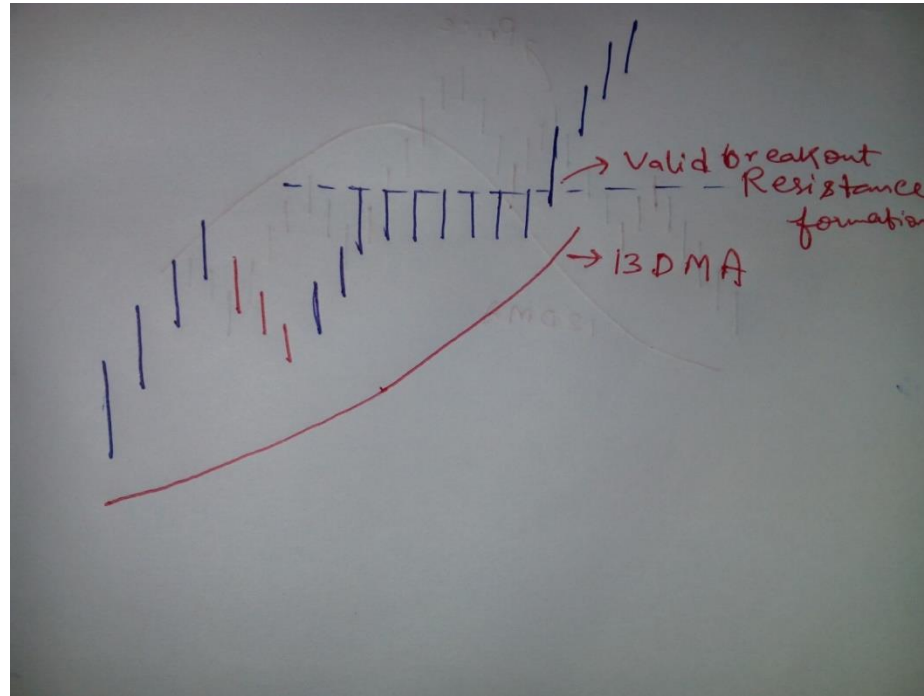
- Here the 30 DMA is in uptrend. But the stock price is forming a range and is not moving up. The 13 DMA is curved and is also not moving much. 13 DMA is forming a curve and going lower.

Some Buy/Sell cases



- Then all of a sudden the 13 DMA moves up. That is the point where we want to take long position.
- It is generally seen between 12th to 16th day of the month where rapid rise will be seen.
- Valid break out should be seen before the upmove.
- The stock might move 20-30% of the underlying value.

Some Buy/Sell cases



- The 13 DMA is in upward trend.
- The price moves in parallel direction for a few sessions.
- It creates a resistance at a upper level.
- We have to wait for a valid breakout.
- Stock may rally 30% following the breakout. Committed buyer will be there as they have shorted and short covering will propel the rally.

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