



Moving Averages

# Agenda

- *Introduction*
- Simple Moving Averages
- The concept of “Lag”
- Exponential Moving Averages
- Uses

# Introduction

- Moving averages are basic trend following and trend confirming indicators
- They show the average value of the data for the period for which you are viewing
- A 3 day moving average of price shows the average price over the last 3 days, a 14 day average shows the average price over the last 14 days and so on
- Moving averages are called as such, as they are calculated on an ongoing basis and hence tend to move in line with underlying price action

# Introduction

- The main use of an average is to smooth the underlying data in order to obtain a clearer picture of general market direction
- As the market is made up of many individuals operating as a large group, an average can give the analyst a consensus opinion of that group towards a particular share or instrument
- Moving averages can be calculated using any data, for example the closing price, the volume or even another indicator

# Introduction

- Moving Averages have strengths as well as limitations, knowing the mechanics of the calculation helps us to understand these better
- There are many different forms of Moving Averages, the main types being the simple and the exponential moving averages
- Let's look at the Simple Moving Average (SMA) first:

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