Part 2 – Moving Averages 101, Ichimoku Charts

Written and presented by
Clive Lambert MSTA MCSI
Director - Futurestechs

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Agenda

- Moving Averages
    - Introduction
    - SMA vs EMA
    - Strengths and weakness
    - Correct timeframe
- Bollinger Bands
- Ichimoku Charts

Moving Averages

- A moving average is the basic trend following and trend confirming tool.

- 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 because they are calculated on an <u>ongoing basis</u> and hence tend to move in line with underlying price action.

Moving Averages

- It is important to understand the methodology behind moving averages, as with any indicator, in order to properly use them and also to know their <u>strengths and limitations</u>.

- There are many forms of moving averages the main type being the simple moving average.

Moving Averages

- This is simply an average of price over a certain number of days.

- It is calculated as follows:

- (Price 1 + Price 2 + Price 3) / Number of Days

- **Example:**

- (10 + 11 + 12) / 3 = 11

- As a new day is added so the first day in the calculation drops off.

Moving Averages

•Therefore after when we close the next day at $13 the calculation would unfold like this:

▪(11 + 12 + 13) / 3 = 12

•The old 'day 1' value of $10 is no longer used in the equation as we have a new day's value to use. This is why averages are called 'moving'.

Moving Averages

Moving average 'optimised' to find the average that worked best