

Moving averages



GUIDE 6

Understanding one of technical analysis' most popular indicators

Technical analysts use a variety of indicators to interpret market behaviour, but few are as widely used as the moving average. A moving average helps smooth daily price fluctuations and can make the underlying trend easier to identify.

Rather than focusing on every short-term movement, moving averages help investors concentrate on the broader direction of the market and identify potential trend changes.

Moving averages at a glance

1. Smooth price fluctuations	Reduce day-to-day market noise.
2. Highlight the trend	Make the underlying direction easier to recognise.
3. Generate signals	Crossovers may indicate shifts in trend direction.

Core principle:

Moving averages do not predict future prices. They provide a structured way of interpreting existing price behaviour.

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The MARC

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1. What is a moving average (MA)?

A moving average plots the average price of a share, index, currency or commodity over a specified period.

As new trading periods are added, older periods drop away, causing the average to "move" across the chart.

Practical observation

1 Select a period

A common example is a 20-day moving average.

2 Overlay the chart

Plot the moving average on top of price.

3 Observe the relationship

Compare how price behaves relative to the average.



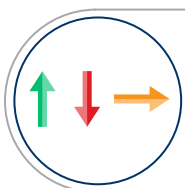
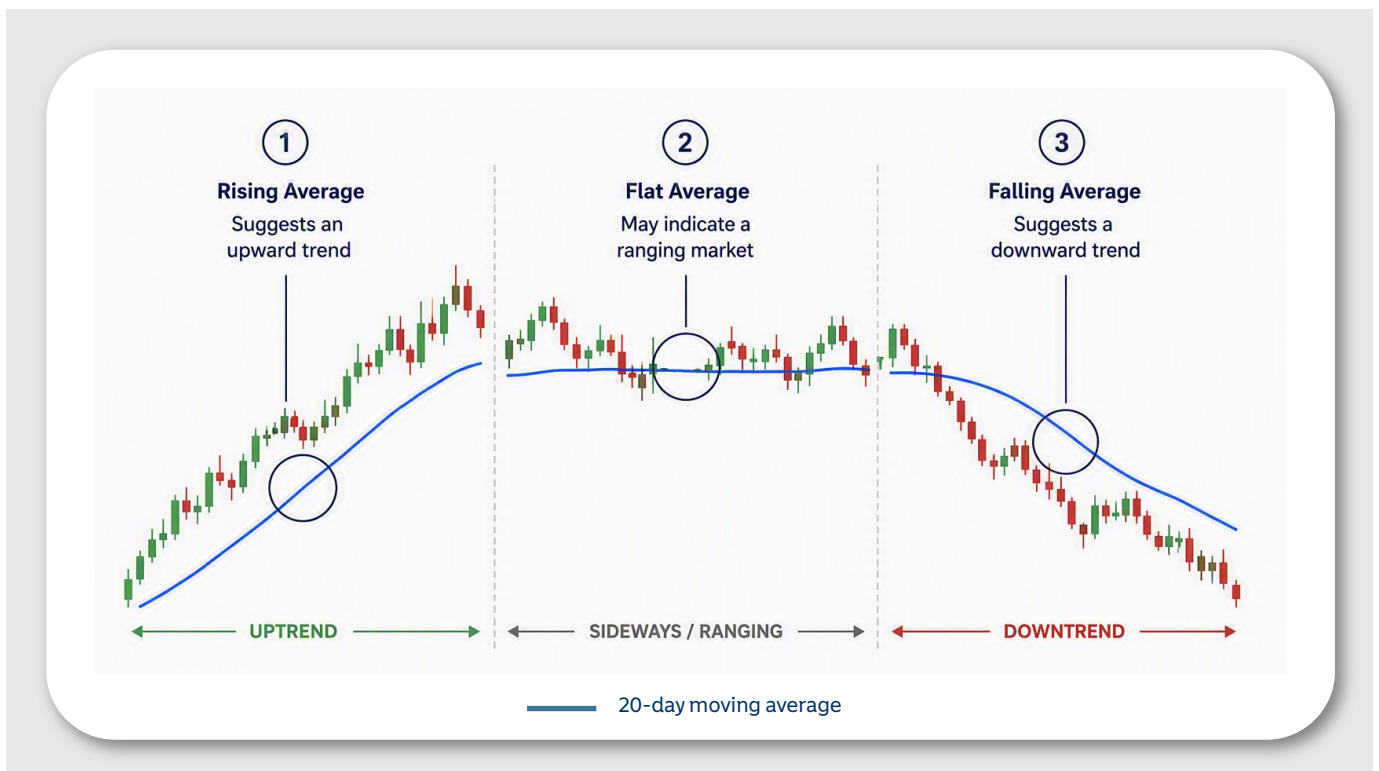
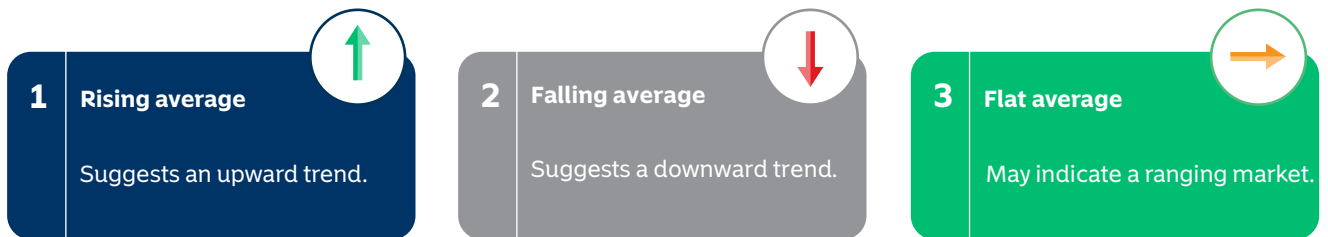
Key idea:

A moving average follows price. It does not lead it.

2. Reading trend direction

Moving averages can help identify whether the prevailing trend is rising, falling or moving sideways.

What to look for



Practical principle:

Focus on the direction of the average rather than individual price movements.

3. Moving average crossovers

Many traders use two moving averages simultaneously.

A shorter-term moving average reacts more quickly than a longer-term moving average.

When the shorter average crosses above the longer average, the signal may indicate improving market strength. When it crosses below, market weakness may be developing.

What to observe

1 Short-term average

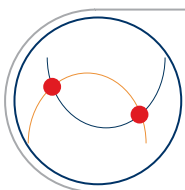
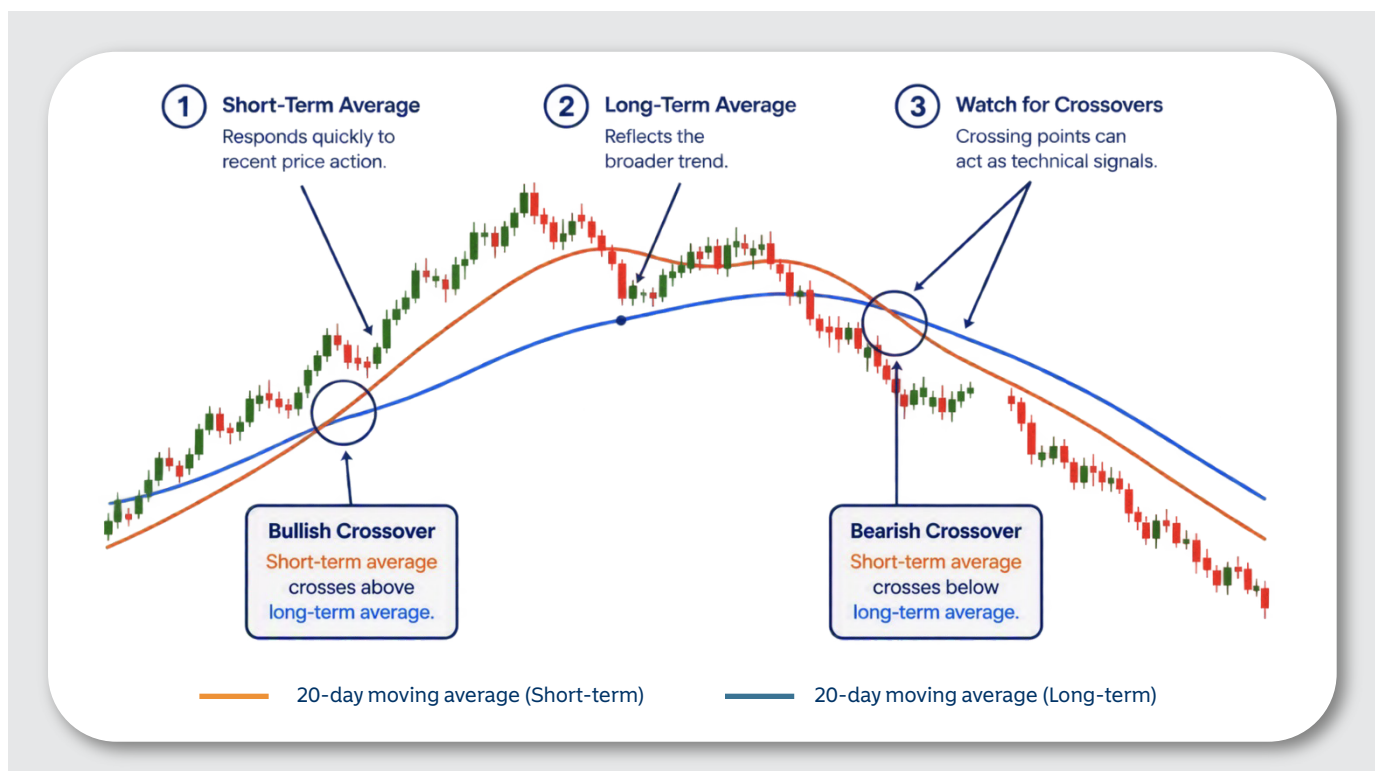
Responds quickly to recent price action.

2 Long-term average

Reflects the broader trend.

3 Watch for crossovers

Crossing points can act as technical signals.



Important reminder:

No crossover guarantees a successful outcome.

