

Simple vs Exponential Moving Averages

GUIDE 7

Understanding the difference

Not all moving averages are constructed in the same way. Two of the most commonly used are the Simple Moving Average (SMA) and the Exponential Moving Average (EMA).

Both are designed to identify trends, but they react differently to new information.

1. The Simple Moving Average (SMA)

The SMA calculates the average price over a selected period.

Every observation receives equal weighting.

Why use it?

Provides a smoother view of market direction and reduces short-term volatility.

What to watch

Slower response to price changes

Clearer view of the broader trend

Popular among longer-term traders

2. The Exponential Moving Average (EMA)

The EMA places greater emphasis on recent trading periods.

As a result, it responds more quickly to changing market conditions.

Why use it?

Provides earlier responses to price movements

What to watch

More sensitive to recent activity

Follows price more closely

May generate earlier signals

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3. Comparing the two

Quick reference

Feature	SMA	EMA
Weighting	Equal	Greater emphasis on recent prices
Speed	Slower	Faster
Noise	Less sensitive	More sensitive
Typical use	Longer-term trend analysis	Faster trend identification



Key takeaway:
Neither is inherently better. The choice depends on the trader’s objectives and timeframe.

