TECHNICAL INDICATORS
WHY USE INDICATORS?

- Technical analysis is concerned only with price
- Technical analysis is grounded in the use and analysis of graphs/charts
- Based on several key assumptions:
  - Price action incorporates all information
  - Prices move in trends or consistent patterns
  - History repeats itself – the market has a memory
- We use technical indicators to identify past activity and therefore predict future trends

Notes:
Technical traders look at charts and price. At any given time the currency pair is trading at a certain price – the question is "how did the pair get to this price?" we look at how the charts behaved and price patterns leading up to the current price. Using technical indicators we track the performance and apply them so that they either pick up or identify the past performance. We are dealing with fact as we are dealing with the past. The logic is then that if the technical indicators picked up the previous patterns, or trends, then using the same indicators we will pick up future trends, thereby predicting future price moves.
AVERAGE TRUE RANGE

- Commonly referred to as ATR
- Measures the total range of any given time period
- The high to the low
- The default setting is 14 periods

Notes:
This indicator measures the total range from highest price to lowest price of a particular candlestick of a particular time-fame. Useful in placing stop loss levels and timing entries.
The calculation includes two standard deviations which imply that 90% of price movement should be contained within the two bands.

The bands self adjust to changing market conditions and are plotted at two standard deviations above and below the moving average.

The two most common ways to use Bollinger bands are:
1. Breakouts
2. Overbought/Oversold

Notes:

This indicator tells us when a pair has reached an extreme in terms of price. The upper band signalling overbought and the lower band signalling oversold. Prices should remain inside the band and the trader can use this information in a number of ways – sell when candles are at the extreme top, or buying at extreme lows. Long term traders would want to see the price continue to hug the band showing the trend is still intact.
• Commonly Referred to as MACD
• This is a momentum indicator used to confirm trends, while it also indicates reversal or overbought/oversold conditions
• The MACD is calculated by taking the difference between two exponential moving averages: 26 and 12
• There are three different ways to use MACDs:
  1. Crossovers
  2. Overbought/Oversold
  3. Divergences

Notes:
Again, this indicator can be used in a number of different ways. We believe the best use is to signal when an existing trend is coming to an end and a reversal/new direction is developing.
MOVING AVERAGES

- Moving Averages is a lagging indicator and the information is based on past prices.
- The reason that Moving Averages are so popular amongst currency traders is because the market doesn’t close. The continuous nature of this indicator works perfectly because there is no opening and closing bell in forex. The market is open continuously, 6 days a week and therefore the average is real.
- Helps eliminate minor fluctuations and gives traders a clear idea of price at a standard period of time
- The Two ways to use moving averages are: (scroll to next slide)
1. Entry Points/Exit Points when the candle crosses the line.
   • Single moving average (above = buy; below = sell)
   • Crossover moving averages (leading indicator crosses lagging indicator)
   • When using two moving averages, shorter and longer, the crossover is the signal that the previous trend has ended and new/opposite trend is starting.
   • The shorter time-frame leads the way and gives us the direction. E.g. if using 10 and 20 as our Mas, then when the 10 line crosses above the 20 line we buy, when 10 crosses below we sell.
2. To Determine Support or Resistance Levels

- The Moving Average can be used as a support or resistance level.
- SMA – Simple Moving Average
- Each period carries the same importance
- EMA – Exponential Moving Average
- More relevance is put on the more recent data
- SMA vs. EMA
- Depends on our trading style and risk tolerance

**Notes:**

This is our no1 indicator of choice. Simple, logical and precise. We are comparing live prices with past averages. When the price is higher or above = buy, and when the price is below = sell. Remember the average is always relevant to the time-frame of the chart. E.g. using a parameter of 10 on an hourly chart will give us the average price over the past 10 hours. On a 5 min. chart the average will be the average of the past 10 5min candles, i.e. Past 50 mins.
Commonly known as RSI, this indicator is calculated by comparing a currency pair’s current performance against its past performance.

It measures the strength or momentum of a currency pair.

The scale is 1-100. Any number above 70 is considered overbought and any number below 30 is considered oversold.

There are two reasons to use RSI:

1. Identify extreme conditions
2. Indicate divergence

Notes:
Like Bollinger bands, this indicator signals when a pair is overbought or oversold – using numbers to signal the extremes.
FINBONACCI BASED TRADING

- This technique is based on a unique series of numbers: 38.2%, 50%, and 61.8%
- Leonardo Pisano Fibonacci found that this series of numbers held an inexplicable mathematical relationship and are continually evident in nature
- In relation to trading, after a significant trend and the rate retraces, it tends to find resistance/support at 38.2%, 50% and 61.8% of the proceeding move
- There are 2 methods to use Fibonacci Based Trading:
  1. Entry and exit points
  2. Stop loss and entry

**Notes:**

This is used differently because it’s a forward looking indicator. When a trend turns we are faced with – is the turnaround a natural retracement, or a breather, and the original trend will continue. Or is the retracement going to continue and reverse the original trend. We expect the price to get held up at these 3 levels, and then turn and travel in the original trend direction = retracement. If the price breaks through these levels, it signals that the original trend has been reversed.
TRAPS TO WATCH FOR

• Don’t fall victim to these technical indicator traps
  • Holy Grail Syndrome
    • No single indicator works all the time
  • Paralysis Through Analysis
    • Too many signals will be contradictory
    • Each indicator is relevant to its own time frame

• Technical indicators are not meant to tell us what to do, rather, they are intended to tell us when to act or what to watch for.
  • Learning how to use each one means knowing what action to take. For example:
    • Opening or closing a trade, placing a stop loss or take profit, etc.