MOST EFFECTIVE MOVING AVERAGE

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CONTENT

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InVed

EQUITY4LIFE
Simplifying Your Investment Journey

MOVING AVERAGE

- A moving average (MA) is a widely used technical indicator that smooths out price trends by filtering out the noise from random short-term price fluctuations.

- Moving averages can be constructed in several different ways and employ different numbers of days for the averaging interval.

- The most common applications of moving averages are to identify trend direction and to determine support and resistance levels.

- When asset prices cross over their moving averages, it may generate a trading signal for technical traders.

- While moving averages are useful enough on their own, they also form the basis for other technical indicators such as the moving average convergence divergence (MACD).

source: investopedia.com

TYPES OF MOVING AVERAGES

- Simple Moving Average (SMA): The average price over a specific number of periods, giving equal weight to each period.

- Exponential Moving Average (EMA): A type of moving average that gives more weight to recent prices, making it more responsive to new information.

- Weighted Moving Average (WMA): Similar to EMA but assigns different weights to each price, with the most recent prices often getting more weight.

- Hull Moving Average (HMA): Reduces lag by using weighted moving averages and smooths the curve for better signal accuracy.

- Volume-Weighted Average Price (VWAP): The average price a security has traded at throughout the day, based on both volume and price.

source: chatgpt.com

TYPES OF MOVING AVERAGES

- Smoothed Moving Average (SMMA): Similar to EMA but uses a longer period to smooth out price fluctuations more effectively.

- Adaptive Moving Average (AMA): Adjusts its speed based on market volatility, responding quickly to trends and smoothing out noise during consolidations.

- Triple Exponential Moving Average (TEMA): Uses multiple EMAs to reduce lag and provide a smoother trend-following indicator.

- Kaufman's Adaptive Moving Average (KAMA): Adapts to market noise and trends by adjusting the smoothing factor based on market volatility.

- Arnaud Legoux Moving Average (ALMA): Uses a Gaussian distribution to reduce noise and provide smoother trend signals.

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MOVING AVERAGE LENGTH

- Common moving average lengths are 10, 20, 50, 100, and 200. These lengths can be applied to any chart time frame (one minute, daily, weekly, etc.), depending on the trader's time horizon. The time frame or length you choose for a moving average, also called the "look back period," can play a big role in how effective it is.

- An MA with a short time frame will react much quicker to price changes than an MA with a long look-back period. In the figure below, the 20-day moving average more closely tracks the actual price than the 100-day moving average does.

- The 20-day may be of analytical benefit to a shorter-term trader since it follows the price more closely and, therefore, produces less lag than the longer-term moving average. A 100-day MA may be more beneficial to a longer-term trader.

- Lag is the time it takes for a moving average to signal a potential reversal. Recall that, as a general guideline, when the price is above a moving average, the trend is considered up. So when the price drops below the moving average, it signals a potential reversal based on that MA. A 20-day moving average will provide many more reversal signals than a 100-day moving average.

- A moving average can be any length: 15, 28, 89, etc. Adjusting the moving average so it provides more accurate signals on historical data may help create better future signals.

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20 EMA AND 200 EMA

- We predominantly use the 20 EMA on all time frames (quarterly, monthly, weekly and daily to identify short, intermediate and long-term trends, provide dynamic support and resistance, and gauge momentum.

- The 200 EMA on the daily time frame is used to determine trends, act as significant support or resistance, and reflect overall market sentiment.

- This combination helps in aligning trades with both short-term and long-term market directions, improving the accuracy of entry and exit points, and managing risk effectively.

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ABOUT US

InVed (by Equity4Life IH Analytics Private Limited) is a SEBI registered Research Analyst (RN : INH000012351) firm based out of Jaipur.

We provide research/advisory services for short term trading as well as long term investing backed by a strong team of technical and fundamental experts.

InVed evolved by blending the Technical expertise of Equity4Life and Fundamental expertise of Investing Hut thereby giving wings to the Techno-Funda approach.

The company made a headway with like-minded people from diverse backgrounds with a mission to spread knowledge about investing through our research.

InVed is a combination of 2 words: "Investing" & "Veda" thereby depicting investing with knowledge and proper research.