



Indicators

MACD

21 February 2007

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Discussion Guidelines

- One person to “lead” the discussion (as a facilitator).
- Everyone else is free to contribute to the discussion, including:
 - Their view / understanding of the Indicator;
 - Any good interpretations of how to use the indicator, especially if they have resulted in a good trade.

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DISCLAIMER

Any information presented or discussed as a part of this presentation is only opinion, and is not advice, and should not be acted upon. The particular financial requirements of the viewer have not been taken into consideration. One should always seek professional advice before entering into financial or other arrangements.

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Acknowledgements

The information herein is reproduced with permission from:

The “TRADERS Journal” magazine
(Stuart McPhee)

www.traders-journal.com

Source materials from:

Jason Sidney at:

www.marketinsight.com.au

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MACD

1. Moving Average
Convergence Divergence
2. Trend following, lagging indicator
3. Useful in trending markets
(not in ranging markets).
4. refer: “The Moving Average Convergence
Divergence Trading Method”,
Gerald Appel

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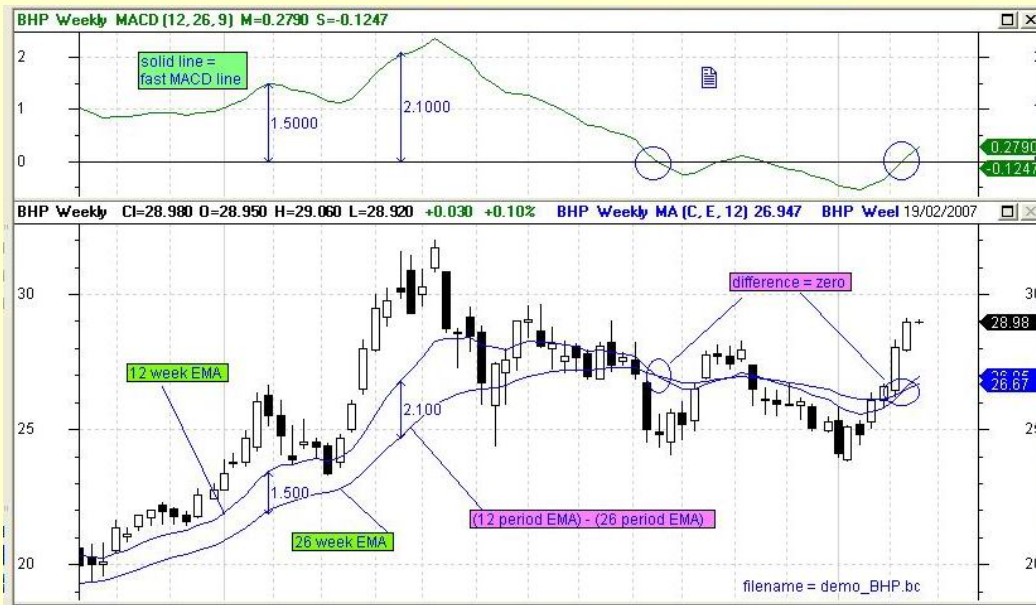
MACD - How derived?

- Calculate a 26 day EMA (of Closing prices).
- Calculate a 12 day EMA (of Closing prices).
- Subtract the 26 day **from** the 12 day and plot the difference as the “fast” MACD line.
- Calculate a 9 day EMA of the fast MACD line (called the slow “signal” line).

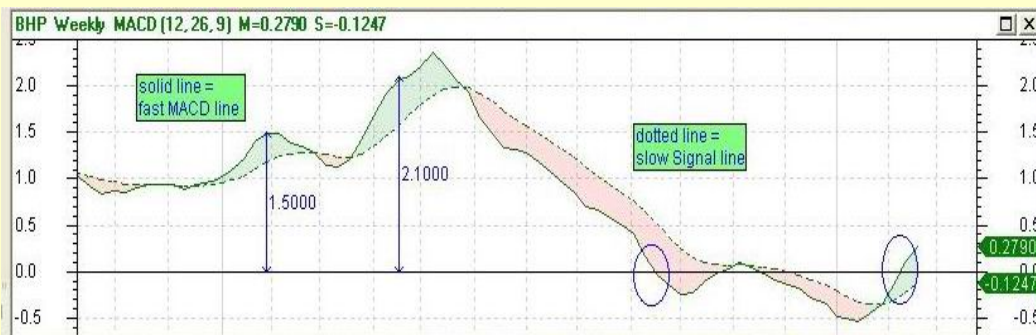
Also refer: *The TRADERS Journal*, Volume 2 Issue 1.

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MACD - the "fast" line



MACD - slow Signal line

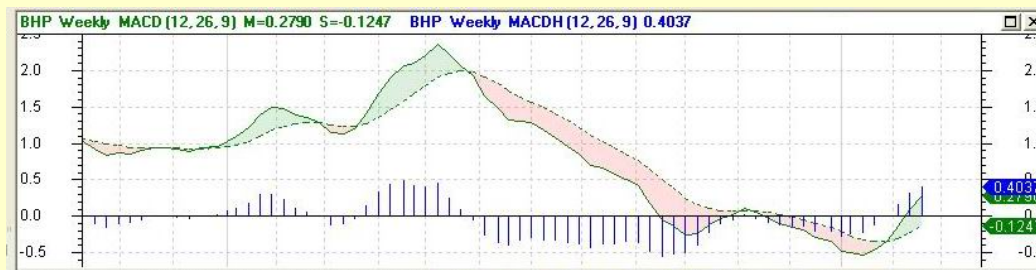


MACD - Histogram

- The MACD Histogram is a useful addition.
- It is the difference between the fast and the slow MACD lines.
- In BullCharts:
 - Insert Indicator - MACD Histogram and “NEXT”
 - Select MACD Chart Pane (not New); and
 - “Merge with Scale on right”.

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MACD - Histogram



Note:

- Histogram is positive if fast line is above, or negative if fast line is below.
- When the fast and slow lines are further apart, the histogram bars are longer.

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MACD - Observations

1. Basic trading rule:

- sell when fast line falls “Below” slow line
- buy when fast line rises “Above” slow line.
- Ideally the Buy signal will occur when the lines are **below** the histogram/zero.
- Ideally the Sell signal will occur when the lines are **above** the histogram/zero.
- BUT, watch out for false signals.

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MACD - Confirmation



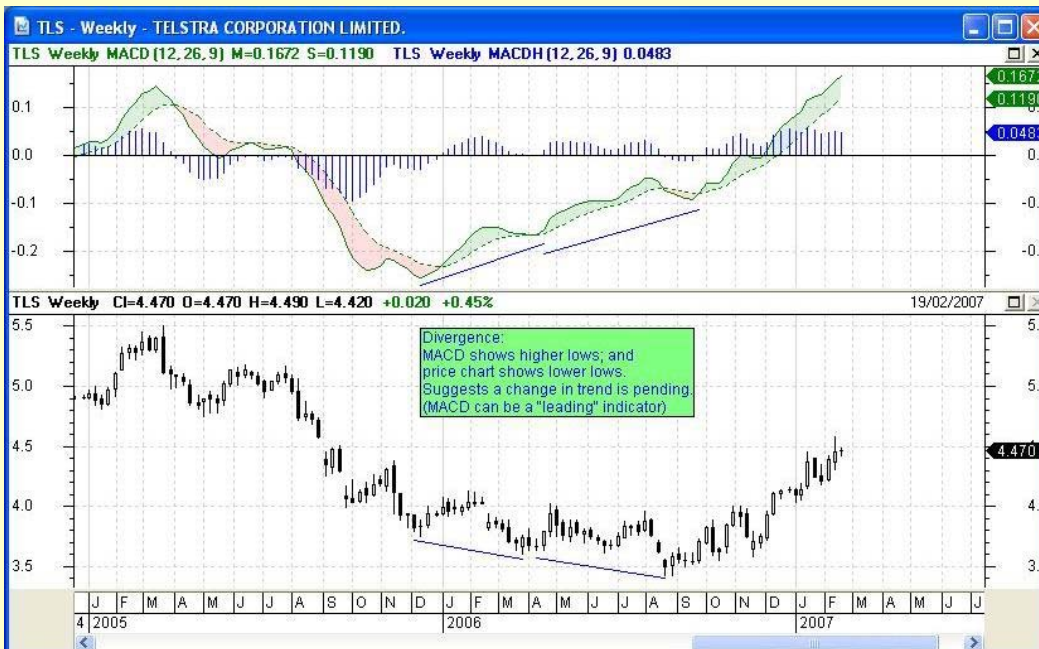
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MACD - more observations



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MACD - a leading indicator?



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Further comments
or
observations?