



## Moving Average Method Part 2

by [www.surefire-trading.com](http://www.surefire-trading.com)

**Ty Young**

Hi everyone, this is Ty Young with Surefire-Trading.com.

In our last lesson, [MA Method Part 1](#), we demonstrated how Moving Averages could be incorporated to safely initiate a more conservative entry at the lower time frames. As you may remember, due to the lagging effects of the EMA, our primary strategy consisted of using retracements to signal high probability trades.

Though this is a great way to trade for those who like to capture quicker, yet, smaller gains from the market, there are those who prefer to remain with a trade for longer periods of time – extracting larger gains. This lesson addresses such a strategy.

Now, don't get me wrong, the retracement approach also can be used to signal entries at the higher time frames, which I use frequently; however, generally speaking, if you wait for an EMA retracement on a long-term chart, a greater portion of your potential gains can or will be missed entirely.

And though I would love to say the lagging effects of the moving averages are diminished with long-term trading, they are not; in fact, they are increased. So, if we are to be successful, we must contend with this discrepancy at this level as well. And with this in mind, we will utilize the EMAs with a slightly different strategy than that which was described in [MA Method Part 1](#).

In addition to our Moving Average strategy, we will make use of other conformational tools in our arsenal as well; i.e., trend line breaks and other favorite indicators, such as, the RSI, MACD, and Bollinger Bands, to confirm our entries and exits.

So, let's take a look at the Weekly chart below where I have entered two sets of three Exponential Moving Averages (shorter and longer MAs for greater perspective –

- Both sets of averages are favorites of many traders: 8, 13, and 21 and 50, 100, 200
- The Bollinger Bands (a setting of 20 with a standard deviation of 2)

- And the RSI with a setting of 21.

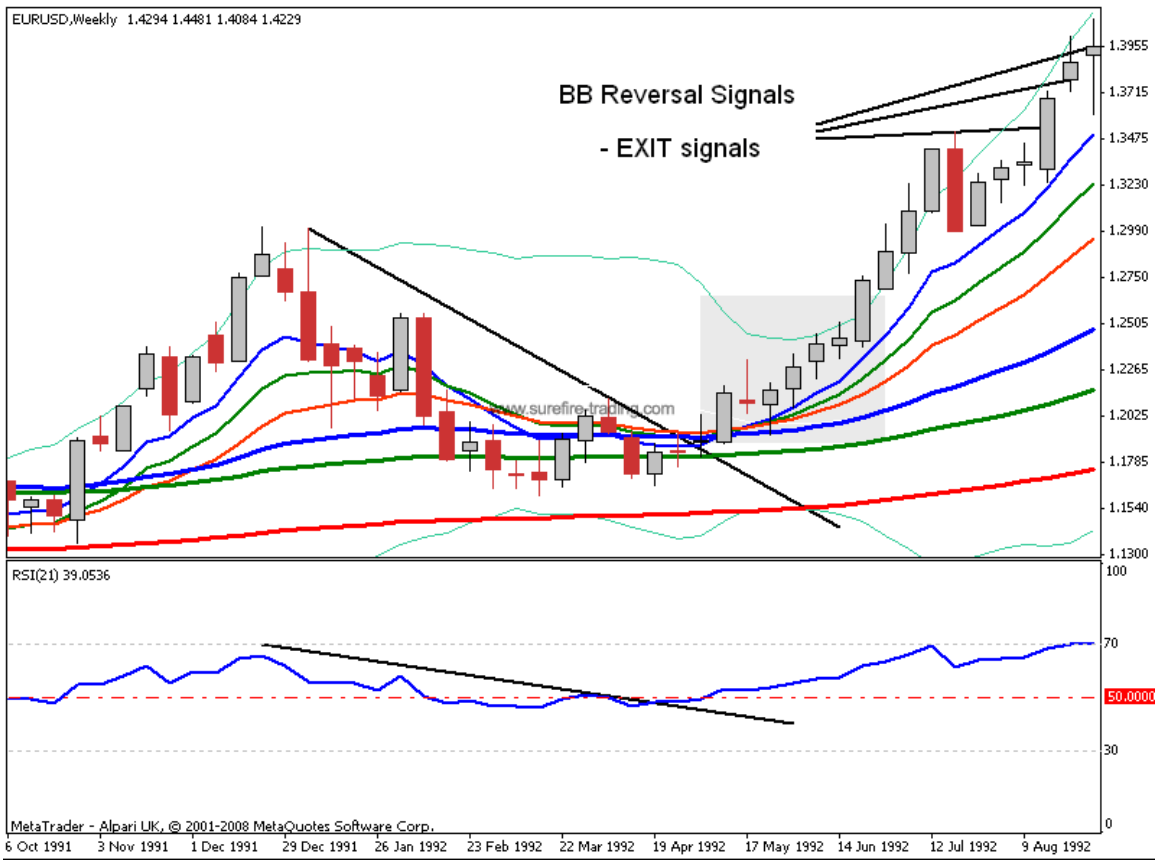


Now, since all the EMAs in this example are in bullish alignment (including the longer averages) on this EUR/USD chart, it is obvious that the market has been in bullish territory for some time. So an entry “with the trend” on this retracement (the shaded area) would have been an easy read. So let’s assume that at this moment we are long and are waiting for our exit signal and a possible re-entry point – long or short.

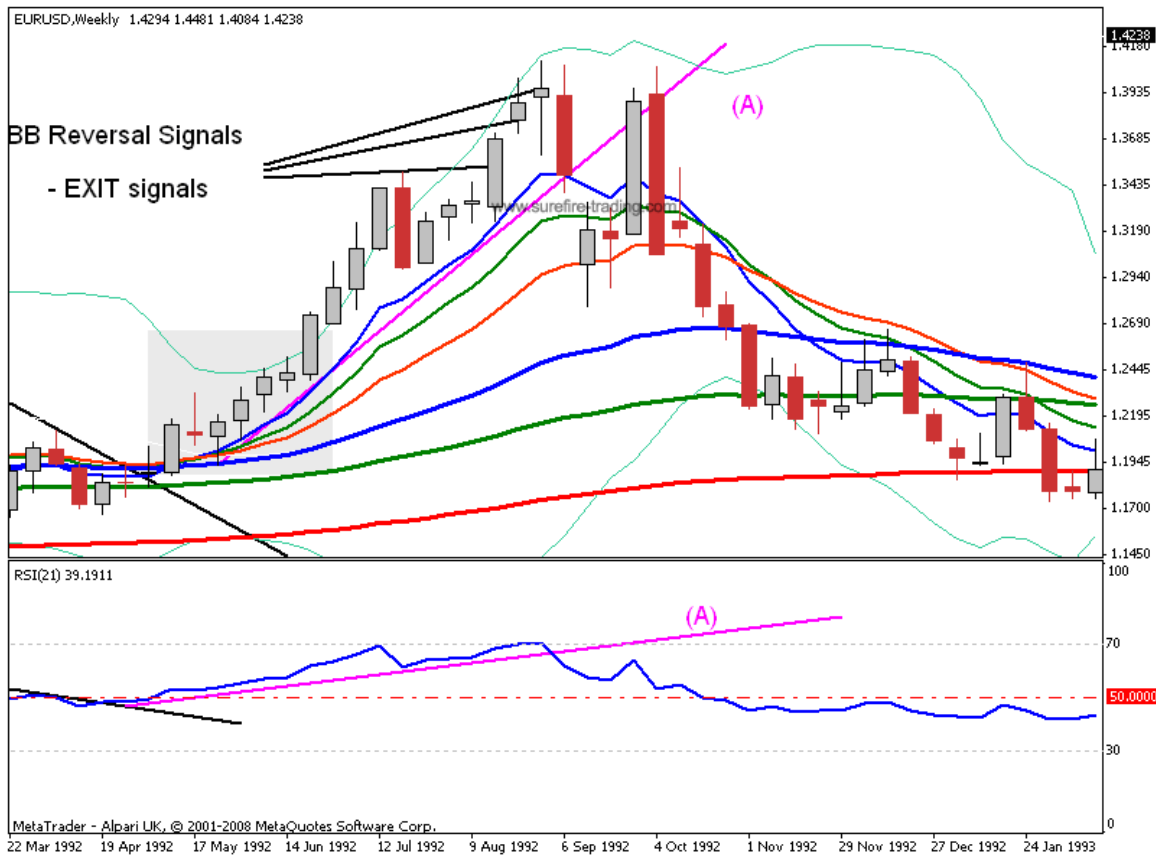
Take another look at the previous chart (below) and see if you can see the exit signals.



The first signal that rings true is our basic Bollinger Band Reversal signal. And depending on your level of patience and aggressiveness, an exit at any one of the three candles would have been good exit points - for a terrific gain.



Or an exit at the trend line breaks would have left us with a healthy gain as well (below).



Now, here's where we shift gears – our re-entry. We have found our exit and are looking to re-enter the market, which is in a strong bullish trend.

What do we do? Do we play it safe and.....

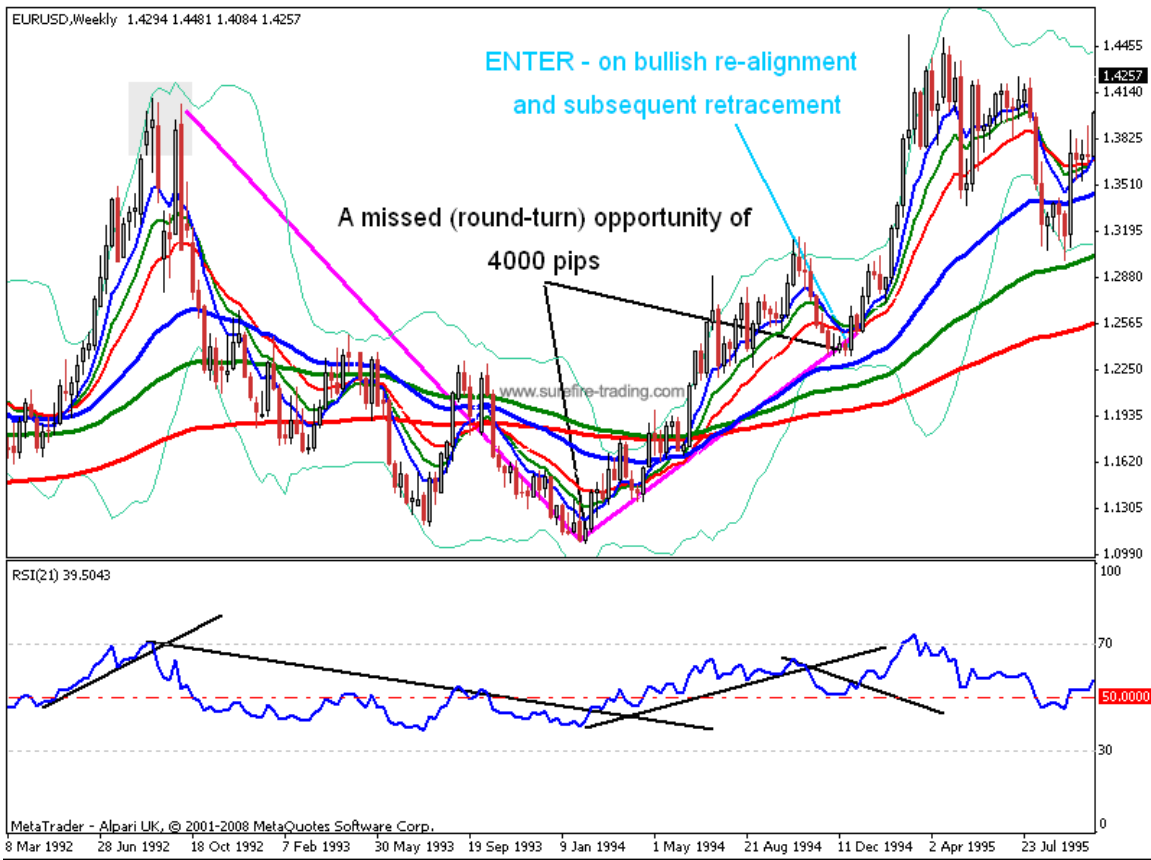
- Wait for another EMA retracement and re-enter long?
- Wait for the EMAs to cross in a bearish alignment and short the market at the bearish retracement?

Or.....do we look for something a bit more radical?

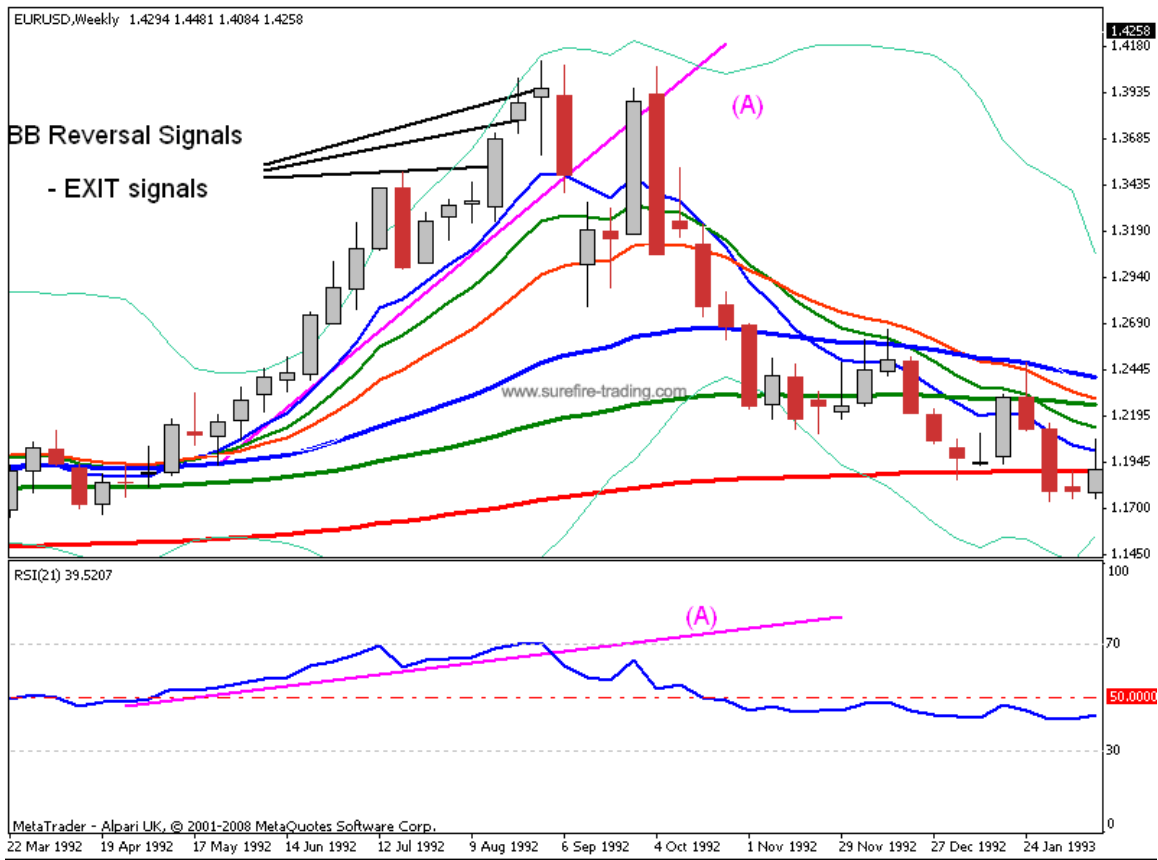
If we had waited for either of the two previous possibilities, we would have missed a gain in excess of 1400 pips.



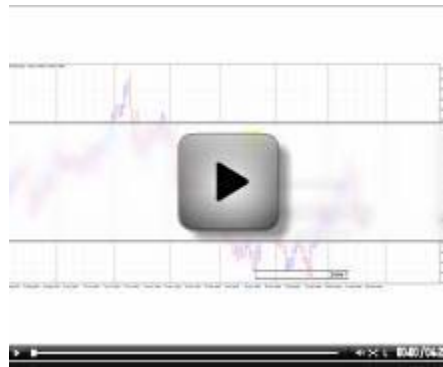
In fact, had we waited for the EMAs to “bullishly” realign themselves with their subsequent retracement to re-enter long (in line with the major trend), our missed “round-turn” opportunity, would have amounted to over 4000 pips....YIKES!!!



Sooooooo.....what “high probability” trade do you see in the previous chart (below) – long before the EMAs come into alignment?



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Well, I can name several. Let's number them.....

The first one doesn't even include the EMAs - and had we been distracted by (or focused on) only the EMAs we would have missed a great shorting opportunity.

- A break and subsequent retracement to the price trend line; coinciding with the RSI trend line break as the RSI continues to weaken.



Second opportunity: using the trend line breaks as a warning signal (below), we have.....

- Two closes below the 8 and 13 EMA (shaded area) – showing weakness.
- Retracement to the price trend line and subsequent close below the 8/21 EMAs. Notice that the EMAs are still in bullish alignment and only the 8 EMA is beginning to show a downward slope.



With this strategy, you will find that your charts often come into alignment **before** the EMAs have time to cross – I repeat, **“Before the EMAs have time to cross.”**

So, in essence, we are using the EMAs as support & resistance. An interesting note: I often find that Exponential Moving Averages frequently correspond with Fibonacci support & resistance levels.

**Remember, we’re not waiting for the EMAs to cross or even come into alignment.**

- We are, however, looking for price to close below/above one of our EMAs – with or without change of slope – the lagging effect often creates such a charting signal.

-----OR-----

- We are looking for any one of the EMAs (usually the shortest one) to begin to change its slope with a subsequent close across its line.

----- Remember, we initially had a “wake-up” call to such an entry with the price and RSI trend line breaks. So, the operative word here is, “CONFIRMATION”.

Also, take note - that frequently, once in the market, you will find that you will give back to the beast much of your profits if you wait for the EMAs to cross or come into alignment.

So, let’s take a look at another example.

On the GBP/USD chart below, we had a great shorting opportunity back in March 2008, which was signaled with a 50/100/200 EMA setup.



We have a nice trend line break on the price chart, the RSI, and the MACD, while the EMAs remained in bullish alignment. So, why is this a shorting opportunity?

Let’s enlarge the chart and take a closer look. In addition to the trend line breaks.....



- We have several closes below the 50/100 EMAs (showing weakness).

-----AND-----

- We have a pullback to the trend line on the price chart, while the RSI remained below its trend line, which coincided with the RSI predominantly remaining below the 50 line.

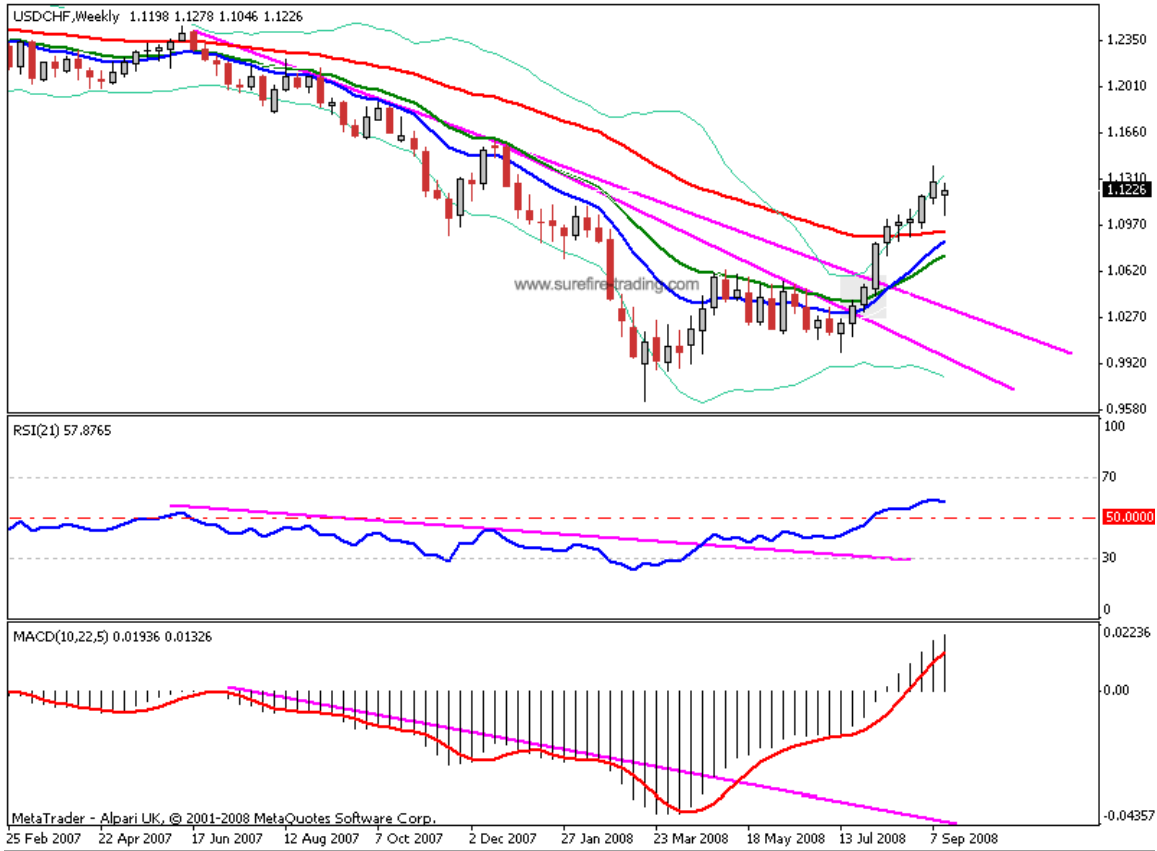
-----AND-----

- We have the MACD remaining below its water line.

For us aggressive traders, shaded area (B) (above) was a terrific entry point.

A conservative trade - a close below the previous lows or a break of the candle that closed below the 200 EMA was also a good conservative trade.

The USD/CHF also gives us a great signal with its 13/21/55 EMA setup.



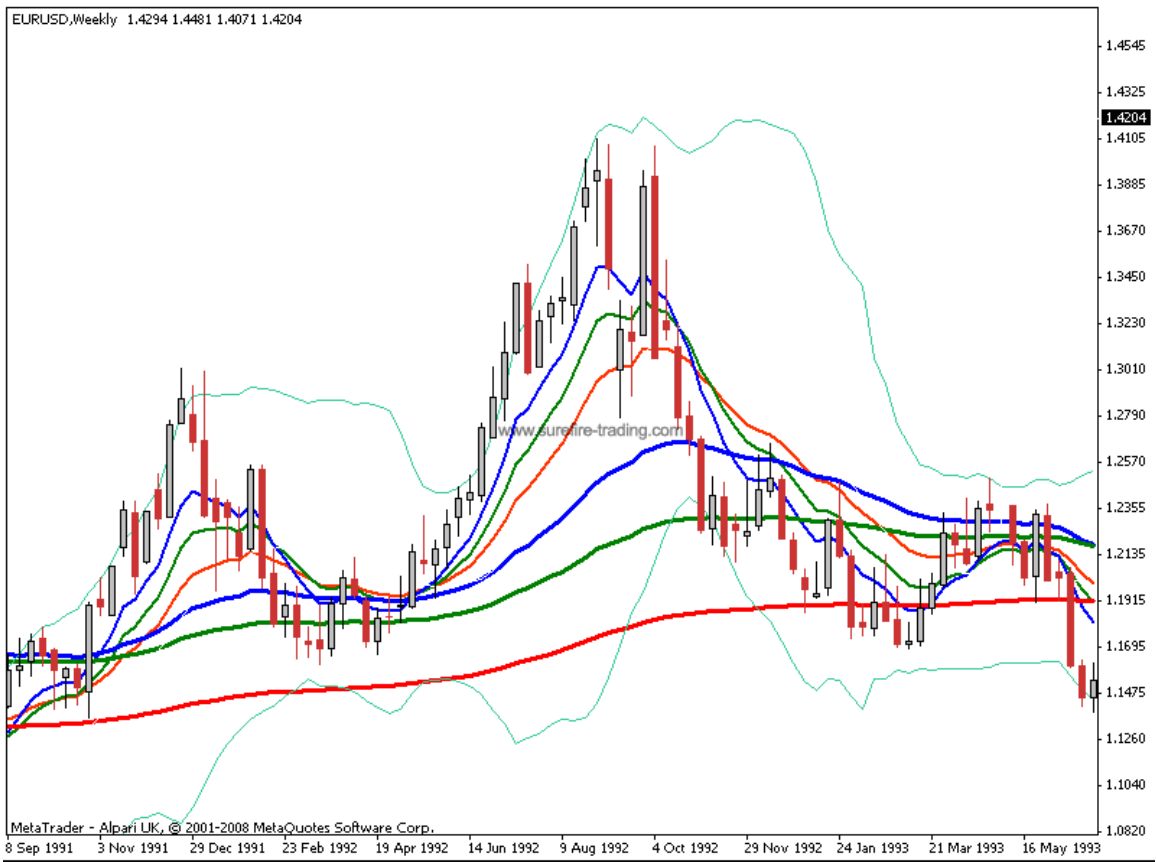
On this weekly chart, we take note of the obvious trend line breaks. But as we enlarge the chart, we can see more clearly the close above the 21 EMA (no noticeable slope or bullish alignment). Again, a close above the 21 EMA is break and close above a line of support.



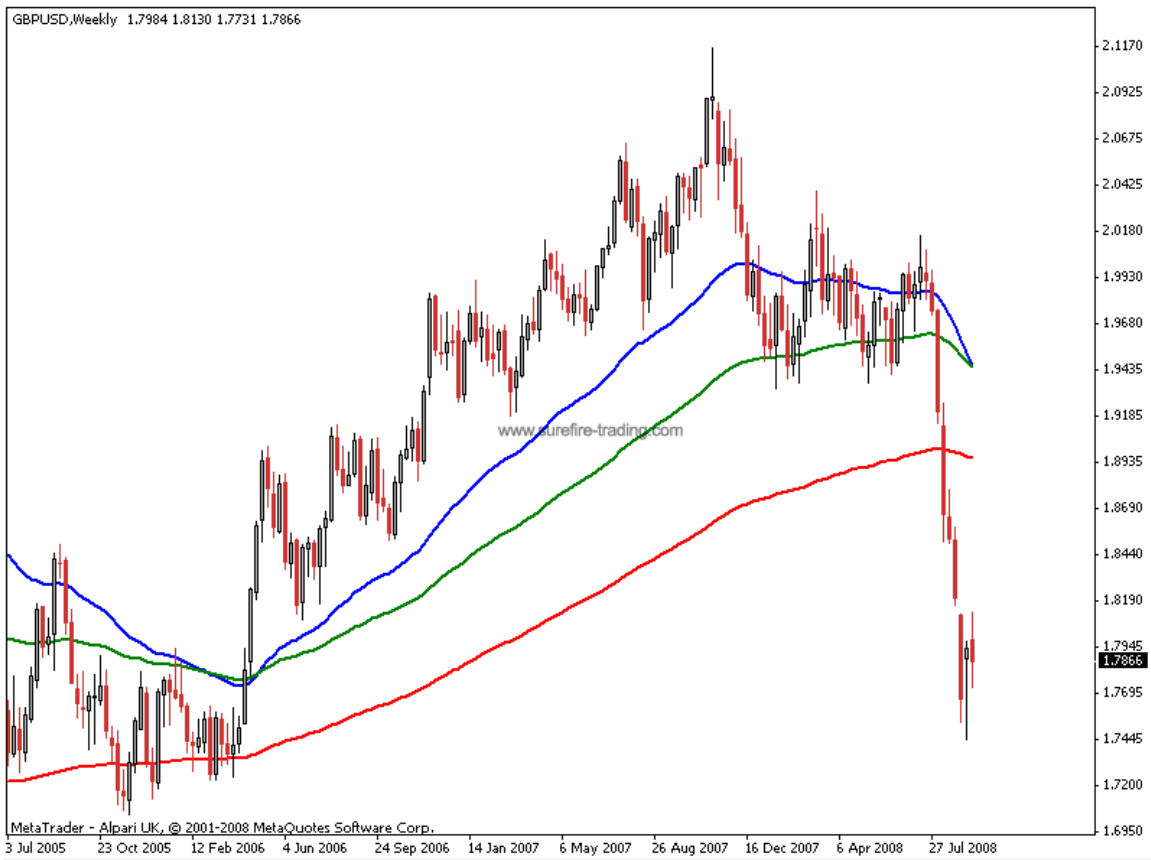
\*\*\*\*\* By now some of you should be asking yourself, “Sometimes he uses an 8/13/21 combination, sometimes a 13/21/55 combination, and at other times he uses a 50/100/200 EMA combination. How do I know when to use what?”

Great question – and to answer it, let’s take another look at those initial charts --- but this time take note as to which EMA is creating the line of support or resistance.

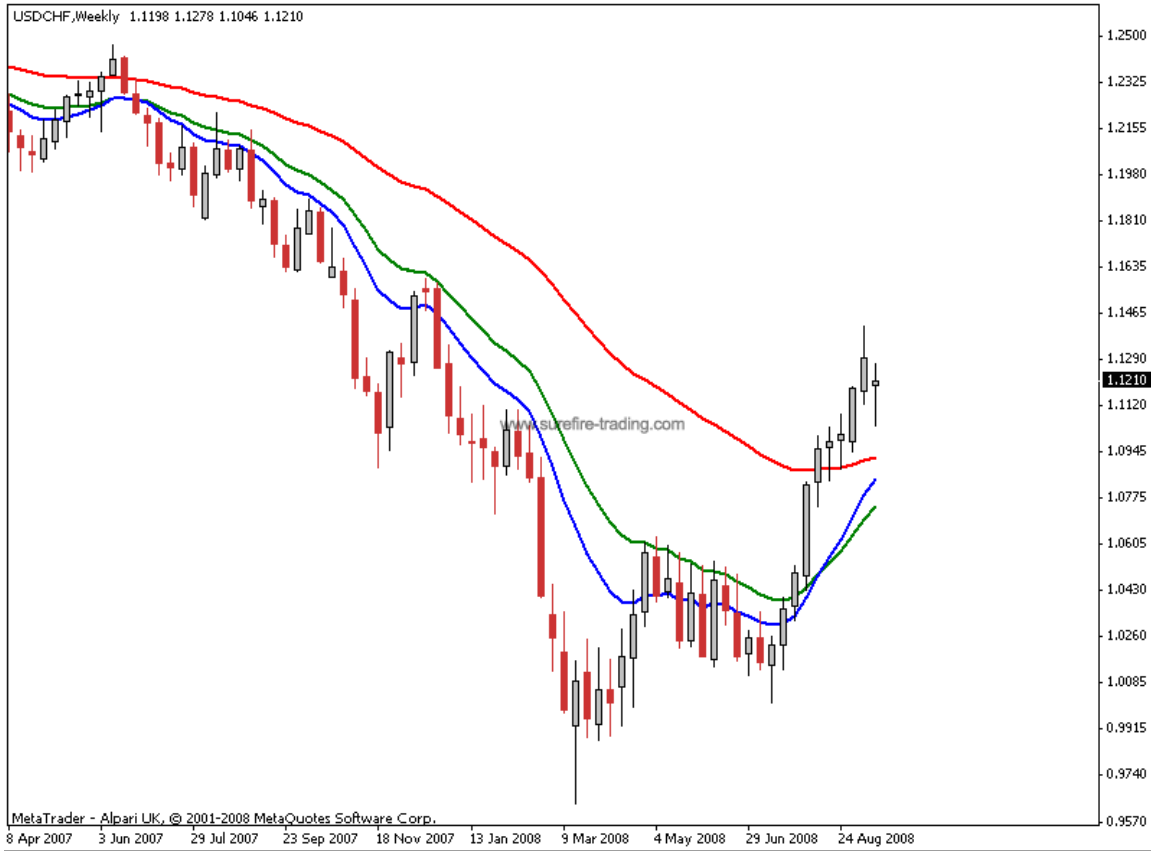
On this EUR chart with the six EMAs, the candles are following parallel to which EMA? The 8 EMA, right? That moving average then becomes my area of concentration.



On this GBP chart, the 50 EMA is creating the line of support.



And on the CHF, the candles are running parallel to the 21 EMA – this moving average then becomes our central focus. See how many times the price kept resisting the green line?



Combine these EMA strategies with your favorite indicators and you have a winning team. For Surefire-Trading.com, this is Ty Young, reminding you to "Read the Charts". ☺



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