

Moving average Question:

- Why and how do analysts use moving averages?
- Are there any disadvantages?
- Can those be minimised?

Answer should include the following:

1. Moving averages are used to smooth data and expose the underlying trend.
2. Price is in an uptrend when above the moving average and in a downtrend when below.
3. Buy and sell signals are generated when the price crosses above and below the moving average.
4. The period of the moving average defines the period of the trend.
5. Whipsaws and time lag are a disadvantage of using a moving average
6. The shorter-term the moving average, the earlier the buy and sell signals are generated but this leads to whipsaws when the price crosses and above and below in quick succession
7. The longer-term the moving average the later the signals and the less the whipsaws
8. Whipsaws may be eliminated in a number of ways
 - a. Waiting for moving average to turn
 - b. Using more than one moving average – should explain how
 - c. Trading bands around the moving average – should explain how
 - d. Signal delays – should explain how