Technical Analysis
Chart Indicators
MACD

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MACD

MACD chart indicator

- In the field of technical analysis there are many chart indicators.
- The MACD indicator is just one.
- The MACD Histogram is often used with the MACD indicator.
- This set of slides describes the MACD indicator, and the histogram, and how to apply to a BullCharts chart.

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MACD

Important Notice — No Advice!

1. This presentation does not include any advice.
2. For proper advice, your personal financial situation needs to be considered.
3. This presentation is pure education, only for your general awareness.
4. There are no recommendations to take any action, or to invest any money in any way.
5. Always consult a properly licensed advisor before making investment decisions.

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MACD – What is it?

1. MACD = "Moving Average Convergence Divergence"
2. Indicator devised by Gerald Appel
3. Trend following indicator
4. Lagging indicator
5. Useful in trending markets (not in ranging markets)
6. Refer:
   "*The Moving Average Convergence Divergence Trading Method*",
   Gerald Appel

How derived?

1. Calculate a 26 day EMA (of Close prices).
2. Calculate a 12 day EMA (of Close prices).
3. Subtract the 26 day from the 12 day and plot the difference as the "fast" MACD line.
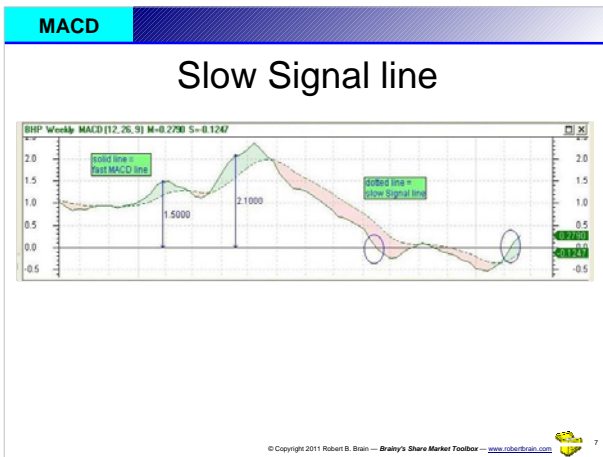4. Calculate a 9 day EMA of the fast MACD line (called the slow "signal" line).

See detailed charts (example) next slides.

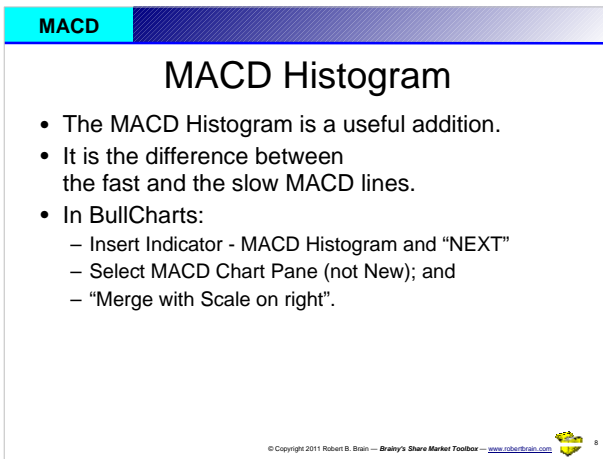Also refer: The TRADERS Journal, Volume 2 Issue 1.

The "fast" line

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Slow Signal line

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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".

MACD

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.

MACD

Observations

1. Basic trading rule:
   - sell when fast line falls "Below" slow line
   - buy when fast line rises "Above" slow line.
2. Ideally the Buy signal will occur when the lines are **below** the histogram/zero.
3. Ideally the Sell signal will occur when the lines are **above** the histogram/zero.
4. BUT, watch out for false signals.

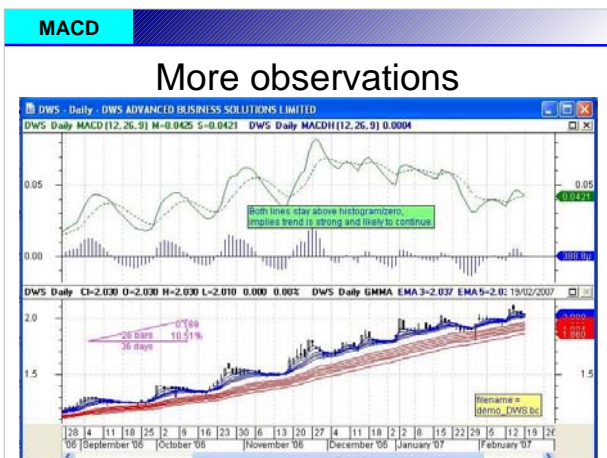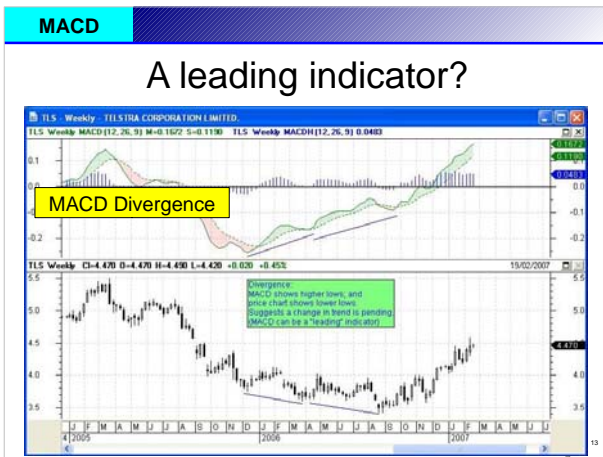© Copyright 2011 Robert B. Brain — *Brainy's Share Market Toolbox* — www.robertbrain.com   10

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Confirmation

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More observations

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A leading indicator?

MACD Divergence

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Further comments
or
observations?

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More details in Robert's
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Toolbox Members see:
the 7-page eBook (PDF) Article:
TA-4230 – MACD
and this set of slides in the
Presentation section.

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The end

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