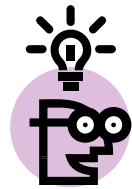


THE SIMPLE VERSUS EXPONENTIAL DEBATE

Whether you utilize simple or exponential moving averages is a matter of personal preference. The simple moving average is probably the most widely used. However, many traders do prefer to use a weighted moving average, primarily the exponential moving average.

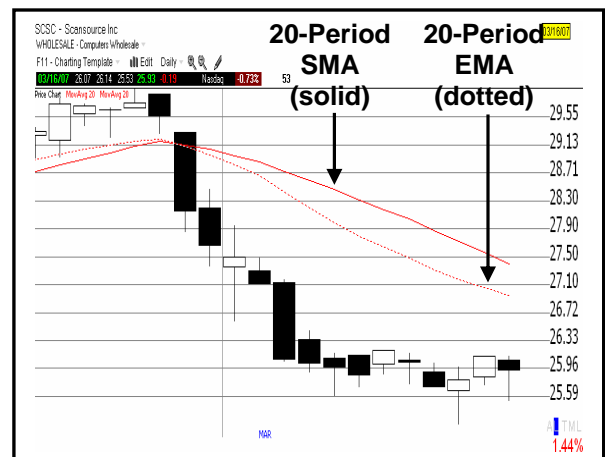
Because of the widespread use of both simple moving averages (SMAs) and exponential moving averages (EMAs), you may elect to plot *both* in your chart window. At first, the multiple moving averages may make the chart appear “cluttered.” You’ll get used to the look of the chart with practice. If it makes the chart seem too busy for your tastes, I suggest creating a primary chart template with only simple moving averages. Use a secondary template with both simple and exponential plotted that can be accessed quickly for more in depth analysis.

Depending on the charting software you use, you may have many chart templates at your disposal. For example, in TeleChart there are twelve chart templates that correspond to the F1 - F12 keys on the keyboard. In addition, you may create additional chart templates and access them from a drop down menu; so there is no shortage of chart templates to put to work.



Trader Tip: If plotting both a simple and exponential moving average of the same length in a chart window, use the same color for both and make one line solid and the other dotted.

You may elect to use a solid line for the SMA (it is easy to remember that solid = simple), and a dotted line for the EMA. That combination is shown for the 20-period moving average on this daily chart of Scansource Inc (SCSC).



TeleChart

Simple and Exponential can both be Strong:

Stocks may find support or resistance at either the simple or the exponential moving average, or in some cases, both. Be wary if a trader or trainer is adamant that exponential moving averages are not relevant. I can show you numerous examples where a stock, or index, found support or resistance at an exponential moving average. For example, all of the major averages (the Dow Industrials, the S&P 500 and the Nasdaq Composite) found support at their 200-day EMAs after the broad market correction in February-March 2007.