

SIMPLE AND EXPONENTIAL MOVING AVERAGES

Whether a trader utilizes a simple moving average (SMA) or an exponential moving average (EMA) is a matter of personal preference. Traders need only designate the length for the moving average in their charting software and select either simple or exponential. The program will calculate it and plot the result over the price bars in the chart window. The simple version is probably still the most widely used. However, many traders prefer to use a weighted moving average (primarily the exponential version). Stocks may find support or resistance at either the SMA or the EMA, or in some cases at both, as illustrated in Figure 1.1. For certain lengths of moving averages (e.g., 50- and 200-period), I often monitor *both* versions.

Because of the widespread use of SMAs and EMAs, you may elect to plot *both* in the chart window. At first, the multiple moving averages may make the chart appear cluttered. However, after viewing that format for a while, you should become accustomed to the look of it. Many mainstream charting programs offer users the ability to configure multiple charting templates. If plotting both the EMA and SMA of various lengths makes the chart seem too “busy” for your tastes, if your charting program allows, I suggest creating a chart template with only SMAs and use that as your primary template. Create a secondary template with SMAs *and* EMAs which can be accessed quickly for more in-depth analysis. That is, to determine which version of the average (SMA or EMA) appears to be more powerful for a particular stock or index you are evaluating.

Trader Tip: If plotting both a simple and exponential moving average of the same length in the chart window, I recommend using the same color for both but identifying one with a solid line and the other with a dotted or dashed line.

You may elect to use a solid line for the SMA. It is easy to remember that solid = simple because both words start with the letter “S.” The EMA is plotted as a dotted or dashed line. That combination is shown for the 200-period moving average on the daily chart of Intel Corp. (INTC) illustrated in Figure 1.1



Figure 1.1

TeleChart

The above information is an excerpt from Tina Logan’s Charting Lesson 5 on Technical Indicators. [Click here](#) to purchase this lesson and/or to see a list of all the available lessons.