MACD stands for Moving Average Convergence Divergence:

* Trend following indicator:
  + 2 methods:
    - Crossover method
    - Divergence method
* Consists of 2 lines and a histogram:
  + (MACD line) Moving Averages of a Security’s Price:
    - MACD Line uses recent price movement to plot a line.
    - Result of a calculation between 2 different moving averages
      * MACD= 26 period EMA – 12 period EMA
      * EMA (Exponential Moving Average)
    - Responds faster compared to the signal line to price changes
  + Signal Line:
    - Signal line is then plotted along side the MACD line
    - Signal Line = 9 period EMA of MACD line
    - slightly slower and more smoothed out version of the MACD line
      * responds slower compared to the MACD line to price changes
  + Histogram:
    - Purpose is to plot the difference between the MACD line and the Signal Line
    - Positive Histogram:
      * MACD line crosses the signal line from bottom to top, the histogram goes from negative to positive
    - Negative Histogram:
      * MACD line crosses the signal line from top to bottom, the histogram goes from positive to negative
* Why is it that at some points, the bars on the histogram are much larger than at other points?
  + the distance between the MACD line and the signal line is larger compared to other points
  + The wider the distance between the MACD line and the Signal line, the higher the histogram
    - small histogram= small distance between MACD line and signal line
    - Large histogram= large distance between MACD line and signal line

In the video: MACD line is represented by the yellow line while the signal line is represented by the blue line.

**Crossover Method:**

1. Cross-up/ Up-cross: Bullish
   1. When the MACD line crosses the signal line from below to above
2. Cross Down/ Down Cross: Bearish
   1. When the MACD line crosses the signal line from above to below

Consists of 3 steps:

Step 1: Clear Trend:

* Find the trend

Step 2: Pull back to Support:

* Look for support
* Where the prices hit the same area multiple times is a good support

Step 3: MACD Cross Up (Histogram Positive)

* Find the MACD cross up:
  + From negative histogram to positive histogram

**Divergence Method**

Consists of 3 steps:

Step 1: Higher high than previous high on price

Step 2: MACD Line that is not as high as level at previous high

* this shows that it is disagreeing with the price patterns

Step 3: MACD Cross Signal Line Down

Trading Strategy:

Most people say that to use the MACD indicator is to:

1. wait for the MACD line to cross over the signal line
2. and enter into the bullish direction

However, this is not a reliable standalone method:

* As we often see the MACD line and signal line crosses over or under each other multiple times
  + If you took an entry each time the two lines crosses each other, you would have **multiple losing trades.**

Low momentum:

* minimal changes to the prices for a long period of time