

INVEST WITH HENRY

Moving Average Indicator

A moving average is a calculation used to analyze data points by creating a series of averages to smooth out the data to be visually appealing and easy to understand. It creates a line that represents the average over the last specified period.

What that means is we get an average price for the past period we choose. I choose 30 days in the video. You may use 30 days or 90 days if you want a longer perspective. Yahoo Finance makes it very easy. You can also compare the 30 day to the 90 day to see just how much investors have been moving the price higher or lower.

In finance, a moving average (MA) is a stock indicator that is commonly used in technical analysis. The reason for calculating the moving average of a stock is to help smooth out the price data by creating a constantly updated average price. Everyday the average price changes because the oldest day is dropped off and the newest day enters the equation.

By calculating the moving average, the impacts of random, short-term fluctuations on the price of a stock over a specified timeframe are mitigated. So, spikes in the stock are very noticeable compared to the moving average. That also means dips in the stock are very noticeable too.

Moving averages are simple, amazing tools to analyze a stock quickly. I combined moving averages with all of the others I discuss to get a clearer picture of the stock. I also love using it for high growth technology stocks. Take a look at the 30-day moving average for NIO below as of November 3rd, 2020.



Notice how the stock never touches the moving average. In this case I did use moving average as my main indicator. I recommended the stock on the channel back when it was \$11 per share. I entered the stock on the uptrend. While it was going up, I never sold because it never touched the moving average for me. None of the indicators said to sell this stock, except for RSI and you can read my exceptions to RSI in the RSI section. Essentially, I just kept holding this stock with the plan to get out should momentum shift and retouch the moving average. It never did so I never sold. That's the power of moving averages. They can help you decide if you should hold or sell a stock. Does this work 100% of the time? Nope. Nothing does. Is it a great indicator? Absolutely! Use this to your advantage!