

Some Questions to Ponder

- **Q: Why not plot moving averages of prices rather than price itself?** For a moving average of “N” days, each day the oldest price is dropped and the newest one added.
- If the current price is above the moving average => current expectations higher than the past – bullish.
- By using these, one is more likely to be on the right side of the market but always late !!! The 50-day and the 200-day average are viewed as significant, but definitions depend on your time horizon.



Notice the similarities in many, you see the 200-day move over the 50-day MA (golden cross?) and there is a trend for awhile.

Trend is your friend

- Look at a weekly chart of the BSE

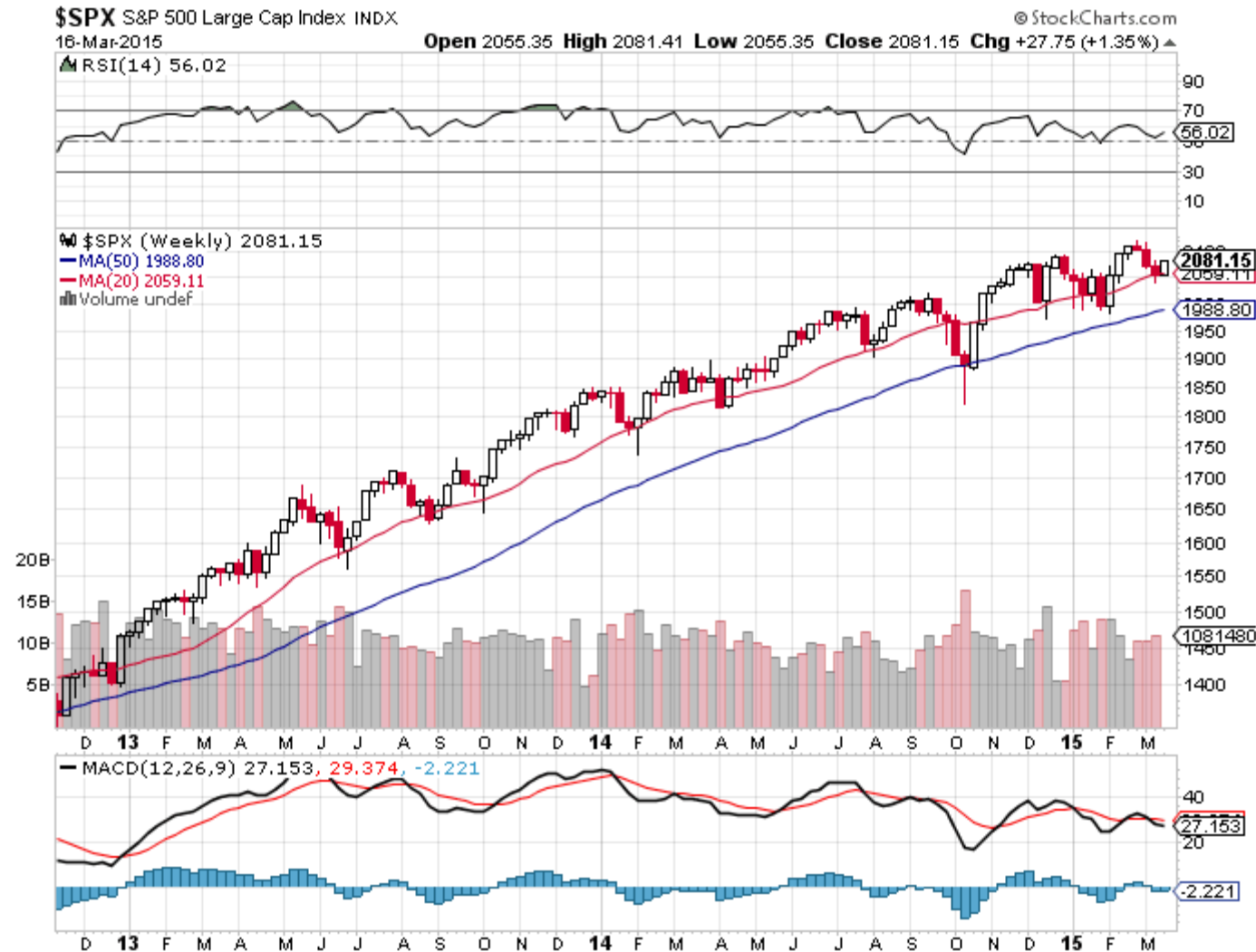
Introduction to Investments
Prof S G Badrinath
Moving Averages and Trends



Trend is your friend

- Look at a weekly chart of the SPX

Introduction to Investments
Prof S G Badrinath
Moving Averages and Trends



Other trend related patterns

- Head and shoulders, double tops, broadening tops and bottoms - all signal trend reversal.
- Triangles: symmetric implies continuation of preceding trend.
- Flags and pennants, also signs of congestion in a major trend.

© All Rights Reserved.

This document has been authored by Prof S G Badrinath and is permitted for use only within the course “Introduction to Investments” delivered in the online course format by IIM Bangalore. No part of this document, including any logo, data, illustrations, pictures, scripts, may be reproduced, or stored in a retrieval system or transmitted in any form or by any means – electronic, mechanical, photocopying, recording or otherwise – without the prior permission of the author.