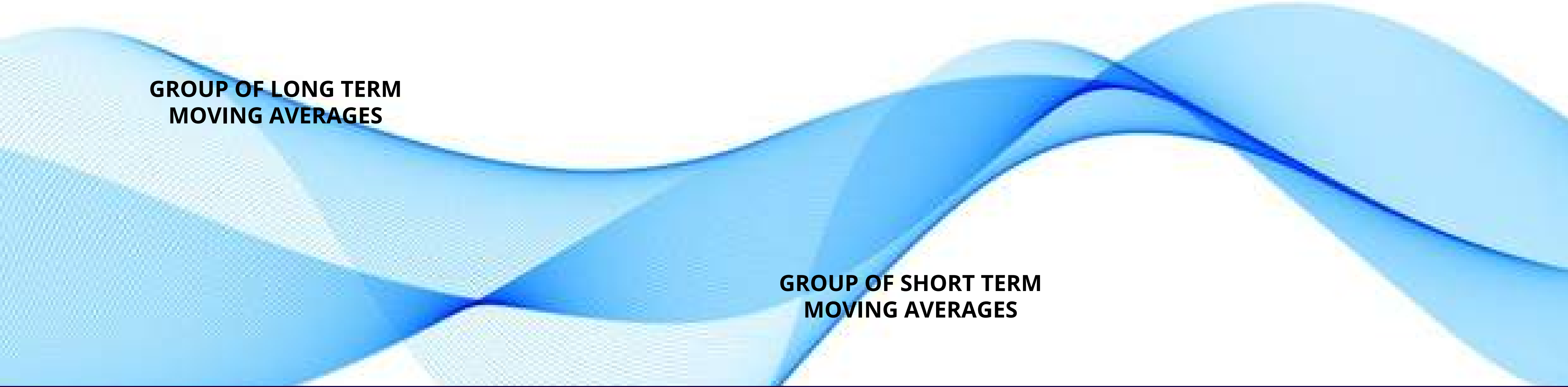
3 GUPPY MULTI MOVING AVERAGES

The third method to use the moving averages will be in the form of an analytical too ‘Guppy Multi Moving Averages’. Here, we combine a set of multiple short terms and long term moving averages and come up with trading signals based on their intersections. We will have 2 sets of moving averages – one short term set and another long term set. Each set has 5 or 6 moving averages. When short term set of moving averages crossover the long-term set from below, it is a bullish crossover and this indicates a long or buy signal. At the same time, when the shorter-term set crosses the longer-term set from above, it is a sell or short signal. The same has been shown in the charts that follow.

We see that GMMA is a set of multiple moving averages. An analyst can use custom values for the moving averages. However, typical values in short term moving average set are – 3, 5,8, 10, 12, and 15 periods. The longer-term set has the following values for the variables - 30, 35, 40,45,50, and 60 periods. When these two sets crossover, they are used to generate entry and exit signals. Also, when we say crossover, we are referring to the crossover of the entire set and not just the intersection of a few lines.



BENEFITS OF GMMA OVER MOVING AVERAGE CROSSOVERS

LESS FALSE MOVES

Guppy multiple moving averages require the entire set of short term moving averages to cross the entire set of longer-term moving averages. This crossing takes a few sessions and requires a strong underlying trend rather than some random crossovers. In case there is a false move, by the time the entire sets cross each other, the false move would have fizzled out. So, it gives enough time for false moves to revert as the crossovers will require a few sessions.

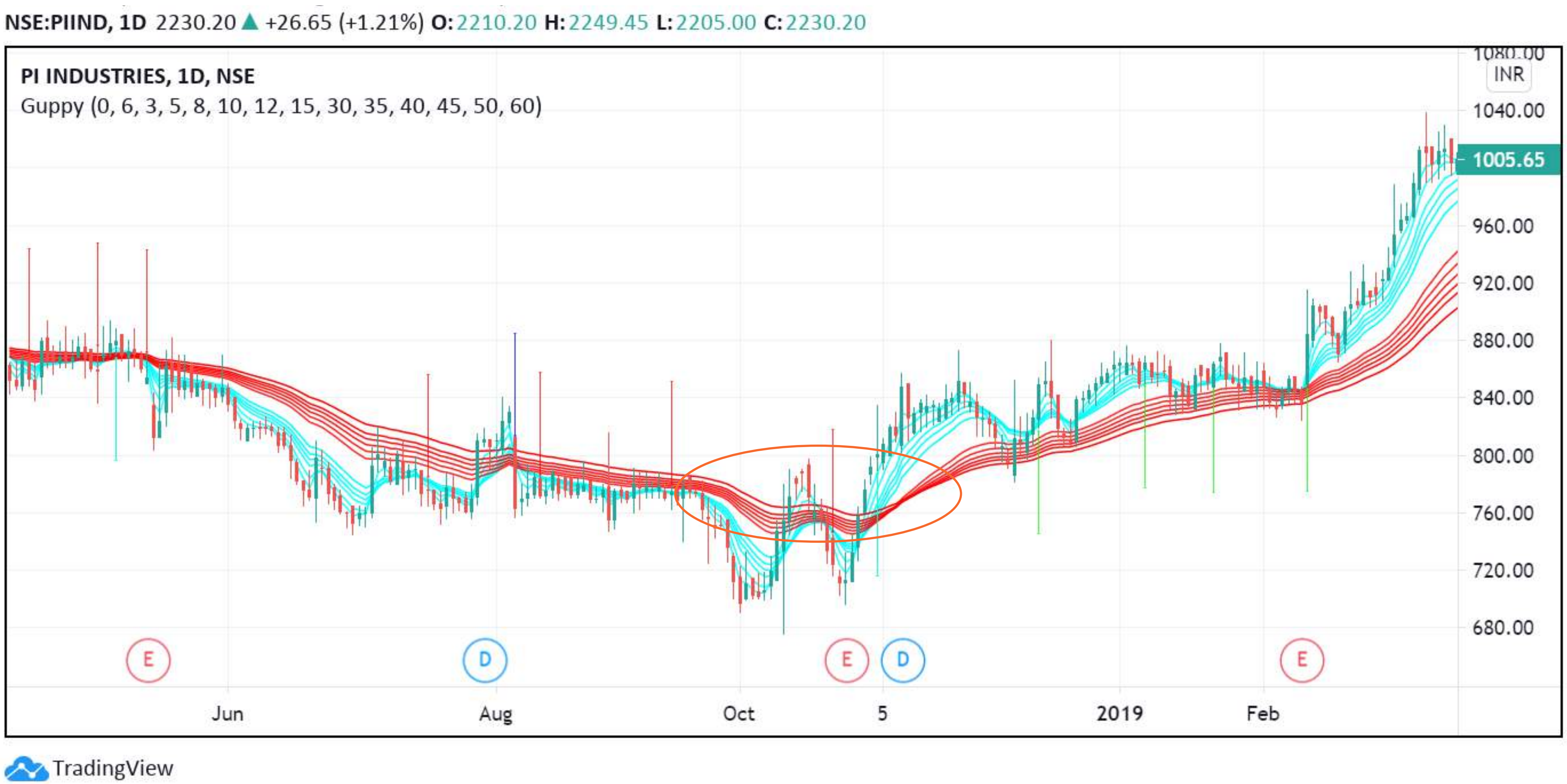
As a result, GMMA produces much less false moves as compared to a simple two moving average cross-over which produces false moves on even smaller movements.

AVOIDS SIDEWAYS MARKET

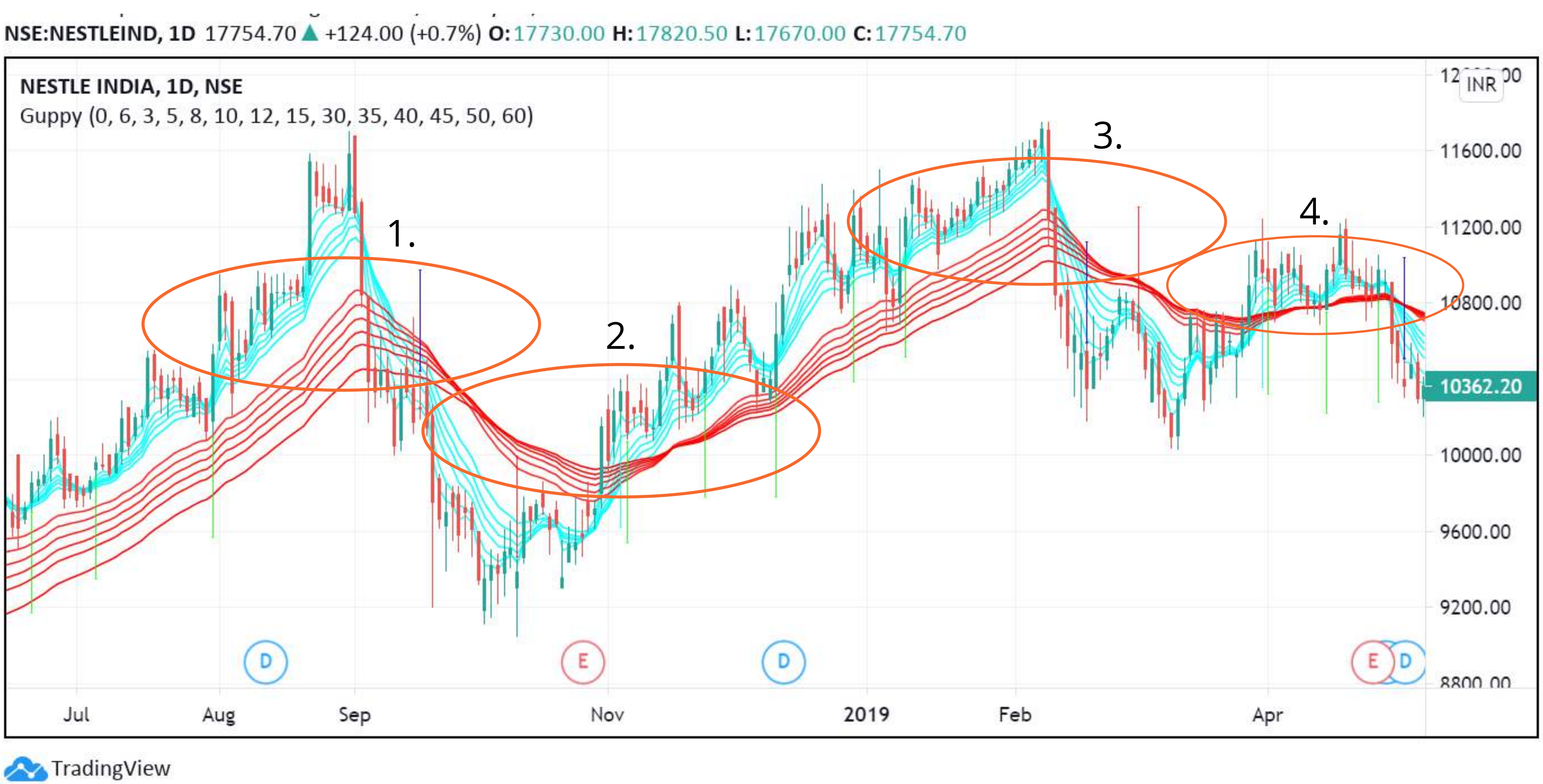
GMMA helps us be better prepared for a sideways market. This is because each set of moving average produces convergences and divergences in themselves too.

We say that the moving averages are in convergence when the gap between different averages, in the long term set of moving averages, is low. We will refrain from initiating any new trade when the long term moving average is in convergence. This will help us avoid the sideways market. We will be seeing this with examples very shortly.

This is how we will be using GMMA to generate trading signals. This should take nothing away from the two moving average crossovers. They have different utility and place in the trading system. On the flip side, GMMA also has few demerits. It does not indicate a fixed entry and exit point as the crossovers are not always definite. Secondly, it offers a slightly delayed exit when we are in a trade. These will be better understood by the analyst upon practice. They will be able to understand the subtle parts and differences upon practice. Let us look at multiple GMMA charts.



This is how GMMA looks in motion. We see that the red set of moving averages is the long term set whereas the one in blue is the short term set of moving averages. The length of the period for each moving average is different and as a result, we get something like this for GMMA. We can search for ‘Guppy’ in the functions bar on TradingView to get this. We see that at the highlighted place, the short term set cuts the long terms set from below and therefore, this indicates a buy signal for an analyst.



1. The short term set is crossing the long term set from above. As a result, this is a bearish crossover and is a short signal.
2. Here the short-term set intersects the long-term set from below and therefore this is a bullish crossover and a buy signal.
3. This is again a bearish crossover and is a short indication.
4. The short term set cuts the long term set from below. However, the long term averages have converged at the time of crossover. As a result, this indicates a sideways trend and we will avoid such a trade.

1. We will avoid any trade when the long term moving average set is in convergence. Convergence means all red lines come together to form one thick red line instead of individual lines. Here, we see there is a convergence and therefore avoid this trade. In hindsight, this might have led to a missed opportunity but sticking to the system is the key.

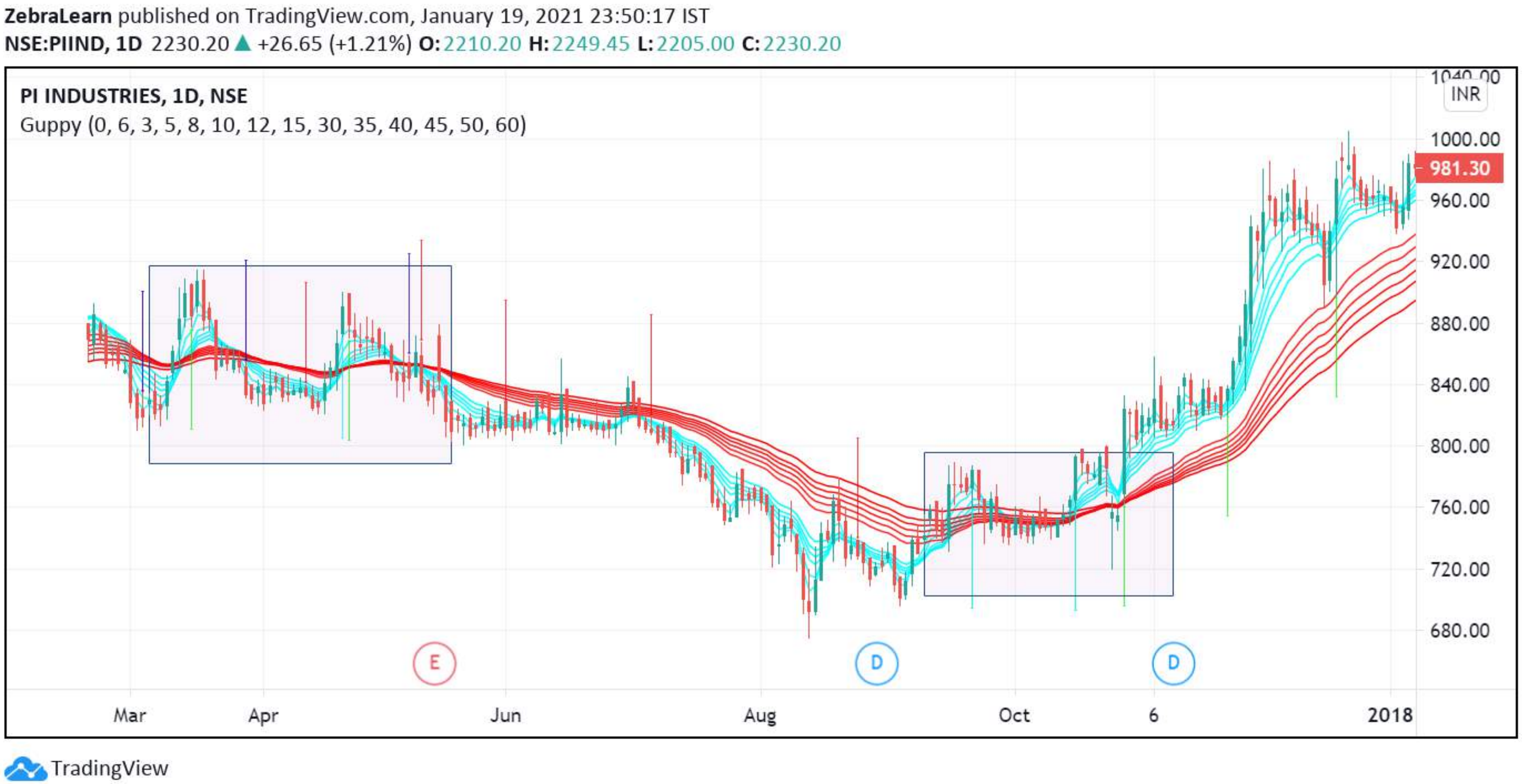
2. This is a bearish crossover. The long term set converges but after the crossover is done. Hence this can be considered to be a bearish crossover.

3. We will avoid this trade as the long term set has again converged at the time of crossover.

In each of the cases, GMMA does not give an exact entry point but a rough zone. Also, it often gives too delayed exit at times. So, we can combine it with other tools to determine the exit strategy as well.

The long-term averages here have again converged and as a result, we will avoid such crossovers. Therefore, GMMA is much equipped to help us avoid sideways markets. Also, for crossovers, all the six lines of short term set have to cross all the six lines of the long term set. This minimizes the ability of false movements to mislead us. These are the major benefits of GMMA as we had discussed earlier.

This is yet another example of long term set of moving averages converging together and thus indicating sideways market. We will avoid most of these trades. In doing so, we will also miss the larger upside that comes up later. We will not try to benefit from every opportunity. The reason being, we will never know for sure when the move is a trend and when it is false and thus, avoid such risky opportunities.



These are all examples of the convergence of long-term averages. We will not take any action over here as, despite the crossover, the market is in sideways movement.

With this, we end our discussion on GMMA and moving averages. A beginner should exclusively focus on practice. They must go through hundreds of charts and try looking for each of these and practice in the same way we did for candlesticks, one candlestick at a time until they acquire the efficiency in using moving averages. Practice, Practice, and Practice! There is no other way to become a good trader.