The ULTIMATE Guide to Moving Averages

By Scott Redler

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T3 LIVE SCOTT REDLER ALL ACCESS

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About Scott Redler

Scott Redler has been a professional trader since 1999.

After 8 years of successful trading, Scott co-founded T3 Companies, LLC in 2007 and began serving as Chief Strategic Officer of both T3 Live and T3 Trading Group.

As the financial crisis began, Scott became a recurring guest on CNBC, repeatedly warning investors of the danger ahead.

Today, Scott remains a professional trader, and regularly appears on CNBC, Bloomberg Television, and Fox Business.

His technical analysis work has been cited by media outlets including the Wall Street Journal, Reuters, MarketWatch, and Investor's Business Daily, among many others.

Scott has trained traders all around the world and has appeared in documentaries by the BBC and China's CCTV-2.

Through Redler All-Access, Scott helps traders, money managers, and individual investors view the markets through his eyes, and approach each day with a steady, measured approach.

Welcome to The Ultimate Guide to Moving Averages!

Moving averages have been a mainstay in my toolkit since I began my professional trading career in 1999.

Yes, moving averages are the most common indicator in the world, but they've been endlessly helpful to me in navigating markets.

Moving averages help me determine:

- How aggressive to be with my portfolio
- Which stocks I want to be long or short
- Just how strong the current market trend is
- What news matters and what doesn't

In terms of importance, I rate moving averages above headlines, economic data, earnings, and just about any indicator you can think of.

If I was a beginning trader looking to build my net worth, moving averages would be my #1 focus.

And through a series of helpful case studies, you're about to learn:

- What a moving average is
- How moving averages are calculated
- The specific moving averages I use and how I interpret them
- The biggest myth of moving averages

Now let's run through the basics so we're on the same page.

What is a Moving Average? How Are They Calculated?

Let's talk about how a moving average is calculated.

A moving average is a stock's average price over a certain time period.

We're going to focus on the daily time frame in this eBook.

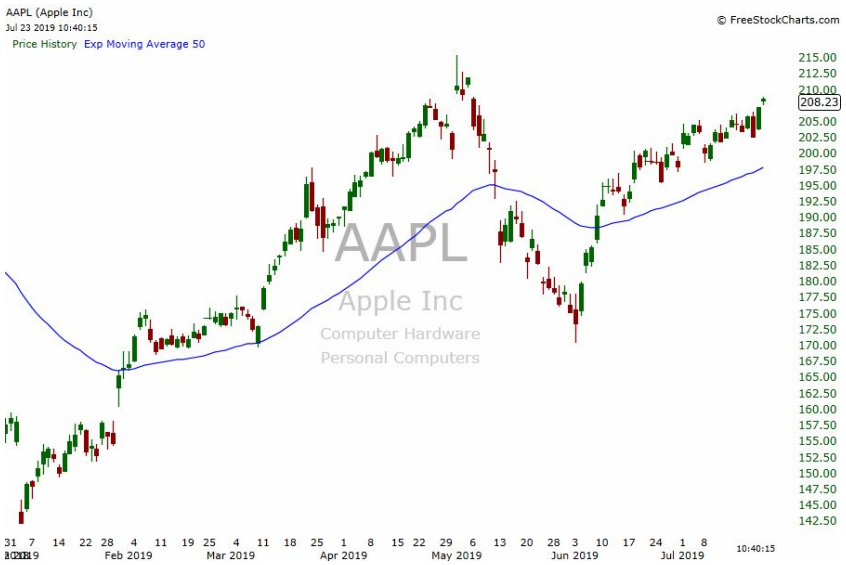
A daily moving average is the average of a stock's daily closing prices over a specified number of days.

(A weekly moving average would be the average of a stock's weekly closing prices over a specified number of weeks)

For example, the 50 day moving average is a stock's average closing price for the last 50 days.

Every day, the newest closing price in the moving average replaces the oldest, which is why we call it 'moving' -- a moving average changes every day.

Here's a simple chart of **Apple** (AAPL) with its 50 day moving average.



The Biggest Myth About Moving Averages

You may hear people say things like "*moving averages don't work*" or *"everyone sees the same moving averages, so they have no value"*

But here's the reality: most serious technicians understand that a moving average is not the same as a trading strategy, or even a signal.

I don't buy and sell purely *because* of a moving average.

But moving averages do *help* me make decisions. They're just one piece of the puzzle.

Simple vs. Exponential Moving Averages

There are 2 types of moving averages -- simple and exponential.

They are calculated in slightly different ways.

A simple moving average is a straight average of the stock price.

An exponential moving average gives recent prices a bigger weight, so it does a better job of measuring recent momentum.

Here's **Nvidia** (NVDA) with its 50 day simple (blue) and exponential (pink) moving averages.

You can see they're pretty close, but the exponential (pink) is a bit closer to the current price.

The Moving Averages I Use

Traditionally, technicians and traders have focused on the 10, 20, 50, and 200 day simple moving averages.

You can think of them in these terms:

10 day simple moving average: very short-term trend

20 day simple moving average: short term trend

50 day simple moving average: intermediate trend

200 day simple moving average: long-term trend

I use a slightly different set of moving averages in my own trading and in **Redler All-Access**.

8 day exponential moving average: very short-term trend

21 day exponential moving average: short term trend

50 day exponential moving average: intermediate trend

200 exponential moving average: long-term trend

(I matched the colors on the names with their colors in the charts included in this eBook.)

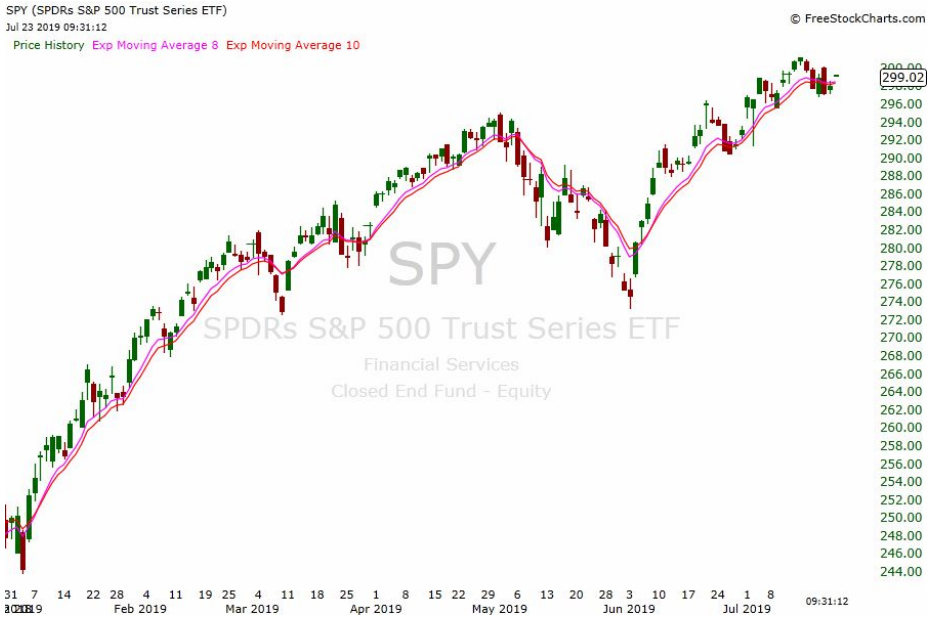
I use exponential moving averages because they are more sensitive to the recent action and give me a slightly better read on the near-term trend.

Going forward in this eBook, all moving averages are exponential.

Is There REALLY a Difference Between an 8 and 10 Day Moving Average?

You may be asking, *"Why the 8 day? Why not the 10 day?"*

In most cases, they're not terribly different, as you can see on this SPY chart:



But here's what most people miss about moving averages: it's not the exact moving averages you use that counts.

What matters is how well you use those moving averages to help you manage risk.

As I'll soon discuss, I pay most attention to the 8 and 21 day exponential moving averages.

I stick with those because my brain is trained to judge the action based on those time frames.

If I was using, say, the 10 and 20 day simple moving averages, I'd probably end up with the same results -- I'd just get there in a slightly different way.

The Power of the 8 & 21 Day Moving Averages

Traders often ask me why I talk about the 8 & 21 day exponential moving averages so much.

Whether you see me on CNBC, Twitter, or the Virtual Trading Floor®, odds are you'll hear me talking about them.

It's because these moving averages are the most accurate short-term road map I've found.

And I value moving averages more than any other analysis I see out there.

8 & 21 Day Moving Average Case Study I : Beyond Meat

Beyond Meat (BYND) was a big hit in early 2020 after a big fall from grace in 2019, when the stock went from IPO hero to zero.

As you can see on the chart, **BYND** had two big failures at the 8 & 21 day, both of which led to big declines -- even though the stock market overall was going through the roof.

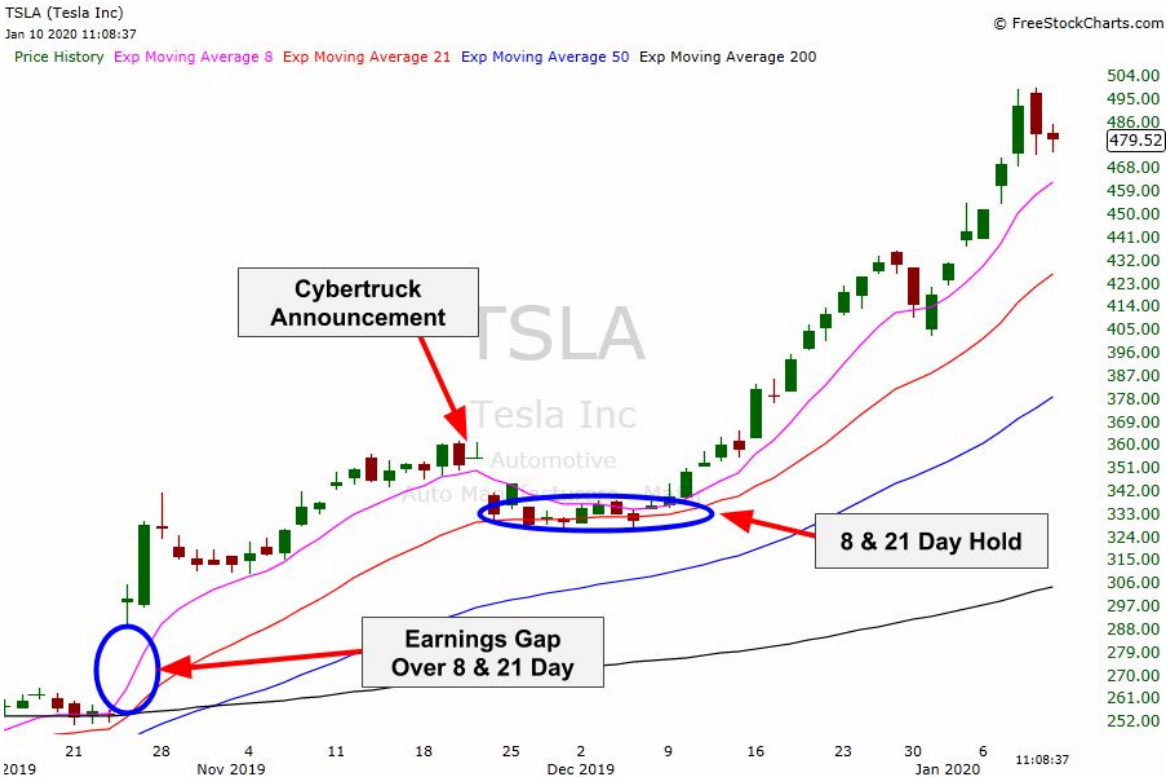
However, at the start of 2020, it had a biG WRB above the 8 & 21 day which led to a very nice rally back above the 50 day.

The stock had been consolidating in a channel for two months, which is when you want for resolution up or down.

In this case, BYND resolved above the 8 & 21 day moving averages with a $22 move in 4 days -- thanks to **McDonald's (**MCD) expanding its partnership with the company.

8 & 21 Day Moving Average Case Study II: Tesla's (TSLA) Cybertruck Rally

In early November, **Tesla** (TSLA) gapped up big on earnings, which began the very bullish move you see below.



Then, things got very tricky when the company announced the Cybertruck, which the press made fun of because of a presentation mishap and a very unusual design.

The stock took a little dip and then refused to break. It held the 8 & 21 day moving averages and then started rallying after CEO Elon Musk announced very big pre-order numbers.

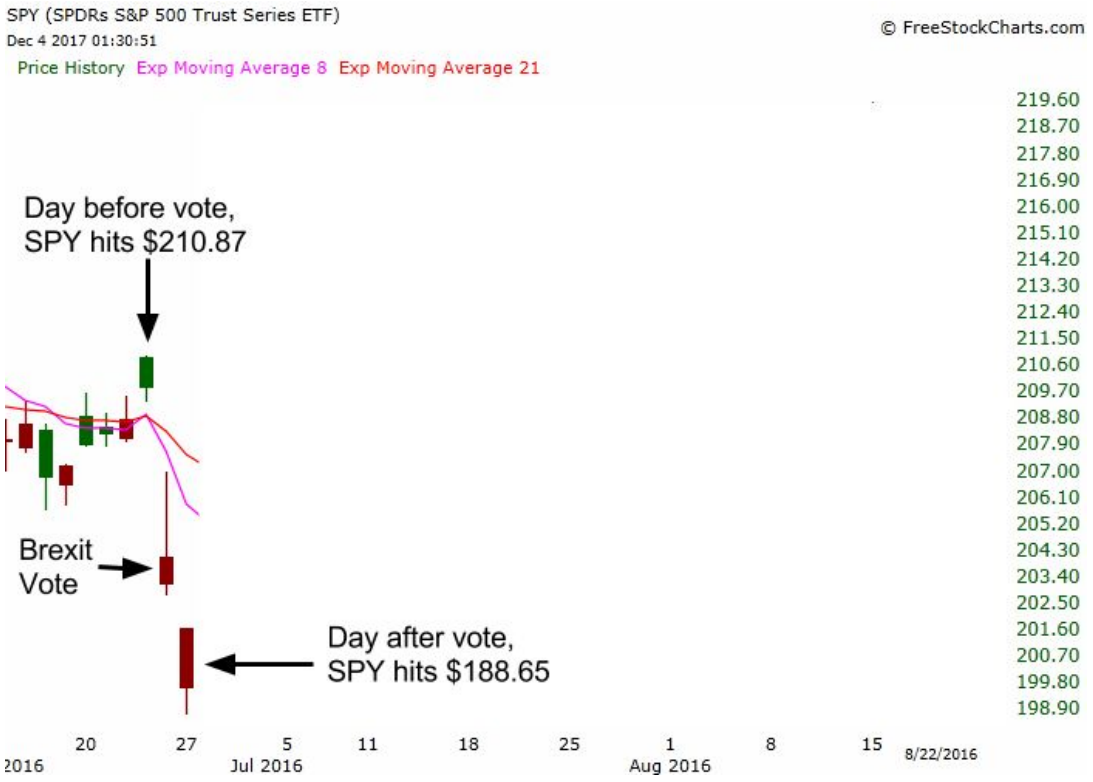
Since the stock held the 8 & 21 day moving averages, you could reasonably assume the Cybertruck wasn't the disaster the media implied. And then the stock's rally confirmed that idea. This was one of the biggest hits in Redler All-Access history!

8 & 21 Day Moving Average Case Study III: The SPY Post-Brexit Classic

Let's rewind the clock back to Brexit in June 2016.

I've shown this case study in several webinars and training events, and I bet I'll be teaching it 10 years from now.

The day before the Brexit vote, the **SPY** hit $210.87.



And the day after the 'shocking' vote, it hit $188.65.

8 & 21 Day Moving Average Case Study III

If you were focused on headlines like this, you were probably feeling pretty scared:

Could Brexit vote cause a stock market crash?

Brexit is going to totally obliterate everything good in the British economy

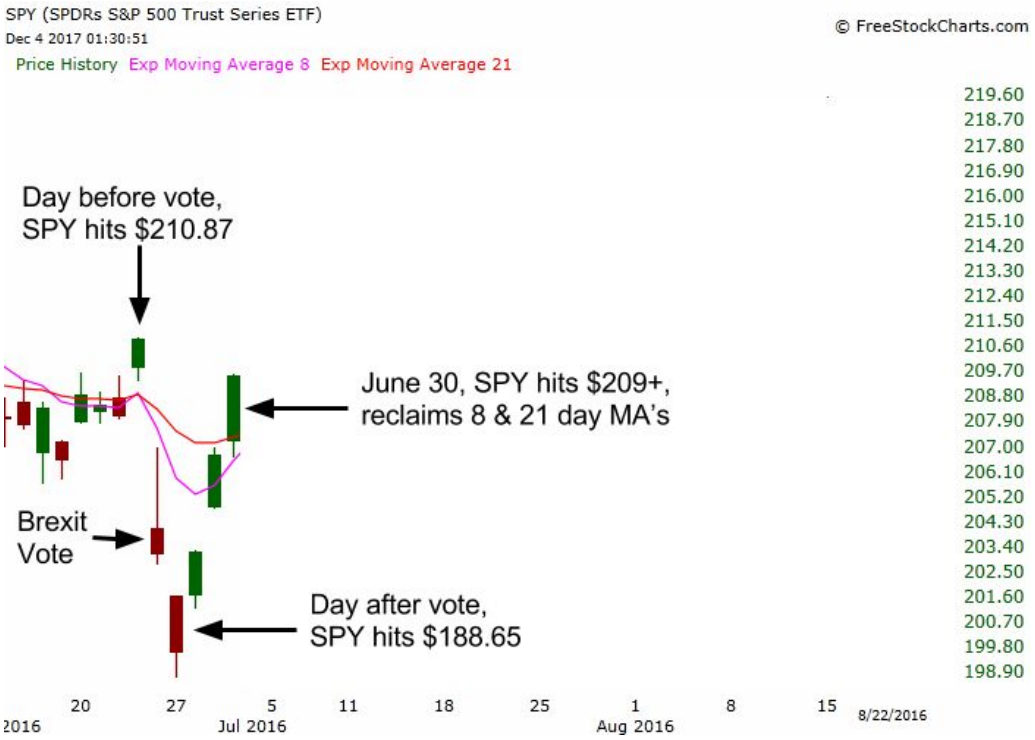
Brexit could trigger European stock market crash

USA TODAY NEWS SPORTS LIFE MONEY TECH TRAVEL OPINION 60° CROSSWORDS HURRICANE MARIA MORE

U.S. stocks hammered as Brexit shock rocks markets

But let's extend the chart to see what actually happened.

As you can see, SPY started bouncing, and on June 30, 2016, it reclaimed the 8 & 21 day moving averages:



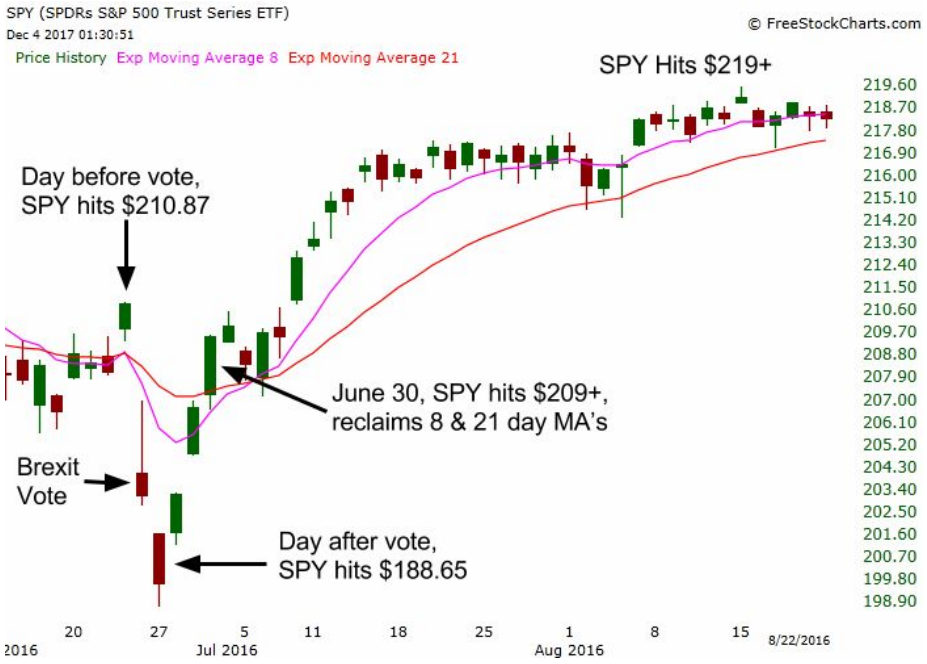
8 & 21 Day Moving Average Case Study III

That's a statement of strength, not weakness.

Why?

Because it meant momentum was shifting back to the upside. That was telling you the news was either priced in or not as bad as expected.

And in this case, SPY briefly retested the 8 & 21 day moving averages before rallying above $219:



Everyone had an opinion over what Brexit would mean.

But, as you just saw in the charts, our opinions didn't matter as much as the market's.

When SPY reclaimed the 8 & 21 day moving averages with authority, it screamed that the bulls were retaking control.

And that's an important lesson for you: when a stock/index/ETF reclaims the 8 & 21 day moving averages with authority, PAY ATTENTION!

How I Use the 8 & 21 Day Moving Averages to Manage My Market Exposure

You just saw how a big break above the 8 & 21 day moving averages can signal higher prices.

Now let me show you how I use the 8 & 21 day moving averages to get less aggressive, or even bearish.

I have two primary approaches to the market: a Portfolio Approach and a Tactical Approach.

When the SPY is trending above the 8 & 21 day moving averages, I am typically in what I call a Portfolio Approach. I'll usually have 4-12 long positions in individual stocks showing relative strength. Occasionally, I'll also hold call options.
When the SPY breaks the 8 & 21 day moving averages, I typically get in a Tactical Approach.

I start taking profits, especially with weaker names, and I may even put on a short **SPY** hedge.

Portfolio Approach	Tactical Approach
SPY trending above the 8/21/50/200 day moving averages	SPY breaks the 8 & 21 day moving averages
4-12 long positions on with plenty of tech exposure	Start taking profits in leftover longs and weaker-looking names, start looking for potential shorts
No short hedge unless we get extended	Hedge with SPY short

How I Use the 8 & 21 Day Moving Averages to Manage My Market Exposure

Here's a chart of the SPX with its 8 & 21 day moving averages:

When it gapped over the 8 & 21 day moving averages in October 2019, traders had a great opportunity to boost their long exposure into the end of the year.

The SPX just kept grinding higher, aside from one little slip below the 21 day that was quickly reclaimed.

In fact, this turned out to be one of the most profitable quarters of my career.

Many traders were shaken out because of China and Iran-related headlines, but the moving averages proved to be a very effective roadmap.

How I Use the 50 Day Moving Average

If a stock (or an index or ETF) loses the 8 & 21 day, I look next to the 50 day. As I noted before, I use the 50 day average to judge the intermediate trend.

In other words, I watch to see if a stock is heading down to no man's land around the 200 day (bad), or rebounding back up to test the 8 & 21 day (good).

How I Use the 200 Day Moving Average

The 200 day moving average also plays an important role in my stock selection process.

If a stock is below the 200 day moving average, I'll only use it for short-term scalp trades on both the long and short sides.

I try to avoid these types of names for long swing trades.

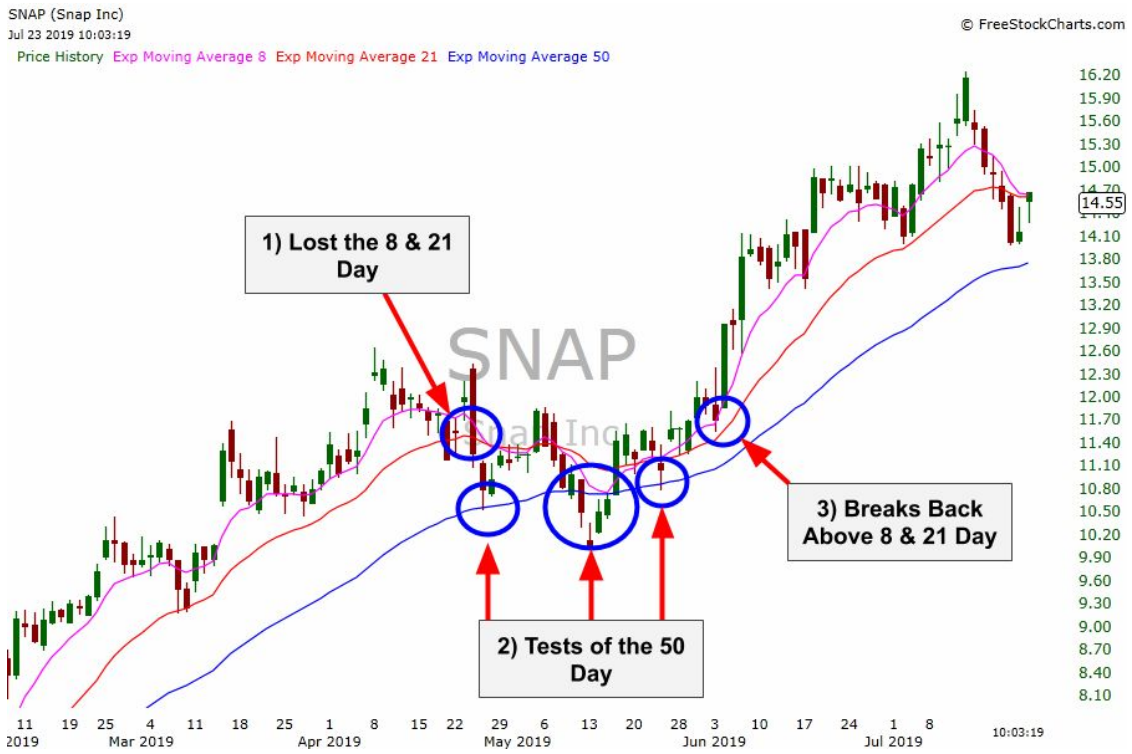
This is because stocks under the 200 day are technically broken and hard to trust. Once a stock loses the 200 day, there is no telling how far it could fall.

50 Day Moving Average Case Study: SNAP

Snap (SNAP), maker of the popular Snapchat app, was one of my best-performing picks in my 2019 Market Outlook report.

Let's use it to learn about the 50 day moving average.

Check out this chart of the 2019 action:



Snap took off like a rocket in January and had a beautiful rally into May.

It then lost the 8 & 21 day moving averages, which put the 50 day in focus. Then, it had 3 separate tests of the 50 day, reclaiming it each time.

And then, in early June, it broke back above the 8 & 21 day with authority -- exactly when SPY also broke above the 8 & 21 day moving averages.

That shows you that when a stock successfully holds the 50 day, it could get back in gear to reclaim the 8 & 21 day.

200 Day Moving Average Case Study: MJ

Let's look at the **ETFMG Alternative Harvest ETF** (MJ from April 2019 through early 2020.

MJ tracks the cannabis sector, which was by far the worst place to be in 2019 -- a year where being long just about anything worked.

And as you can see, that break of the long-term trend led to a massive collapse.

So while you could have made money on short-term moves here and there, it totally failed as a buy and hold.

If you're looking for long exposure, it makes more sense to focus on names that are trending above moving averages -- not beaten-down names like this. However, if you're a member of Redler All-Access, you know I got long some of these names in November and December as January effect plays, which worked nicely.

200 Day Moving Average Case Study: GLD

If a stock/index/ETF spends a lot of time under the 200 day and then reclaims it, I also watch for a potential trend change to the upside.

Now let's look at **GLD**, which came out of a long-term downtrend in late 2018/early 2019.

Thanks You!

I hope this in-depth lesson gave you some valuable insights on how I view price action.

Now I have a challenge for you: take a major event like a Fed decision, election result, military conflict, or major downturn, and examine the 8, 21, 50, and 200 day moving averages both before and after the event.

This will teach you to start focusing on levels instead of getting locked into opinions.

It feels good to be right about the news.

But it feels even better to make money because you were right about price.

If you'd like to get my trading commentary 5 days a week, check out Redler All-Access:

t3live.com/raa

You can also call my team at 1-888-998-3548, or email info@t3live.com.