

A Fidelity Investments Webinar Series

Charting Today's Market

Relative Strength Index & Simple Moving Averages

BROKERAGE: TECHNICAL ANALYSIS



Technical Indicator Basics

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What Is a Technical Indicator?



A technical indicator is a mathematical calculation based on historic price or volume.



Types of Technical Indicators

Trend Indicators

Simple Moving Average (SMA), Exponential Moving Average (EMA), Moving Average Convergence/Divergence (MACD), Average Directional Movement Index (ADX)

Momentum Indicators

Stochastic Oscillator, Relative Strength Index (RSI)

Volume Indicators

On Balance Volume (OBV), Money Flow Index (MFI), Accumulation/Distribution

Volatility Indicators

Bollinger Bands®, Average True Range (ATR)

Support and Resistance Indicator

Fibonacci Retracements

Simple Moving Average

Simple Moving Average (SMA)

This is the easiest moving average to construct. It is calculated as the average price over the specified period. The average is called "moving" because it is plotted on the chart bar by bar, forming a line that moves along the chart as the average value changes.

How It Works

Determine trend direction

- If the SMA is positively sloping, the trend is up.
- If the SMA is negatively sloping, the trend is down.

Determine trend duration

- 200-bar SMAs are common proxies for long-term trends.
- 50-bar SMAs are typically used to gauge intermediate trends.
- Shorter-period SMAs can be used to determine short-term trends.

Determine trading signals via price crosses

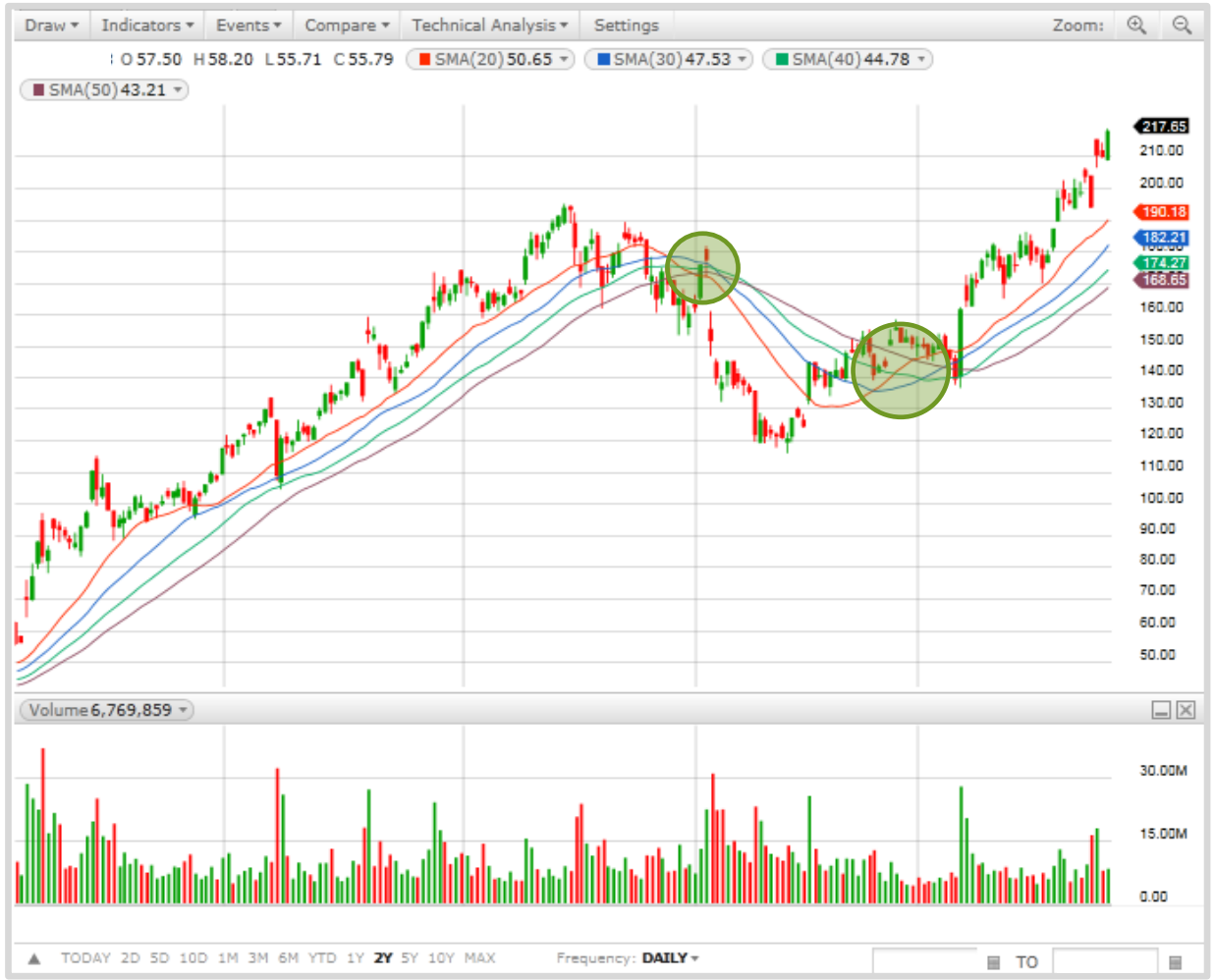
- When prices cross above the SMA, you may want to go long or cover short.
- When prices cross below the SMA, you may want to go short or exit long.

Simple Moving Average

Using moving average crossovers to generate trading signals

When a more sensitive (faster) SMA crosses above a less sensitive (slower) SMA from below, it is considered bullish.

When a more sensitive (faster) SMA crosses below a less sensitive (slower) SMA from above, it is considered bearish.





Momentum Indicators

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Relative Strength Index

Relative Strength Index (RSI)

RSI measures the speed and change of price movements.

How It Works

Determine the speed and change of price

- The RSI oscillates from zero and 100. Traditionally, the RSI is considered overbought when above 70 and oversold when below 30.
- In an uptrend or bull market, the RSI tends to remain in the 40-90 range with the 40-50 zone acting as support.
- During a downtrend or bear market, the RSI tends to stay in the 10-60 range with the 50-60 zone acting as resistance.
- If underlying prices make a new high or low that isn't confirmed by the RSI, this divergence can signal a price reversal.

Relative Strength Index

Overbought and oversold signals on the chart indicate price movement in the short term.





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Investing involves risk, including risk of loss.

Technical analysis focuses on market action – specifically, volume and price. Technical analysis is only one approach to analyzing stocks. When considering which stocks to buy or sell, you should use the approach that you're most comfortable with. As with all your investments, you must make your own determination as to whether an investment in any particular security or securities is right for you based on your investment objectives, risk tolerance, and financial situation. Past performance is no guarantee of future results.

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