Ophir Gottlieb (00:00):

Today we're going to discuss how to use moving averages in trading and in particular, how to use moving averages on a scatter point chart. The idea behind using moving averages is quite simple. Stocks rarely stay exactly where they are. That is stock prices move. The question is whether the stock prices going to go up or down, and when it goes up or down to what price. That is how we use the scatterplot. In this example, the stock price is just above the 10 day exponential moving average and is below the 52 week high Moving averages act as a magnet, but they can reverse polarity, so sometimes they attract the stock price and sometimes they repel it. In this case, if the stock price goes down, this 10 day moving average acts as a magnet that attracts the stock price. If the stock goes down, it's going to come toward the 10 day moving average.

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Once the stock price hits a moving average, the polarity changes and that exact same pivot point acts to repel the stock price. That is the stock price will then move away from the 10 day moving average, either up or down toward the next pivot point. It's in this attraction and repelling of the stock price that we can use moving averages to set price targets, both for the short term and for the long term. The next question becomes, which one of these moving averages is more important than the others? Is there any pattern of how the moving averages are set up that indicate whether a stock is more likely to rise to the next pivot point or to sink to the next pivot point, and what does it mean when the stock price crosses above or below any of these moving averages? Those answers can be found when you do back testing. It is the CML of his trade machine that has found the patterns that show when to buy the dip in stocks, or when a short burst of bearish momentum is about to come, or a short burst of bullish momentum is about to come. It is combining the knowledge of pivot points with rigorous back testing that gives us a trading plan.