

# Analyst Insight<sup>®</sup>

## MACD INDICATOR Moving Average Convergence Divergence Part Four

*“ To Cross or Not to Cross That Is The Question...”*

By Jason Sidney

In this article we will explore another interesting and extremely powerful aspect of the MACD indicator.

So far we have learned how MACD produces buy and sell signals when both averages cross. We also learned how confirmation of the buy and sell signal can occur on the next lower timeframe when both averages cross through the zero line of the histogram.

What we will explore in this article is another signal just as powerful as a buy or sell signal only slightly different, it's called the “retest”.

The retest is something that is often overlooked by people who claim to know something about this indicator, and as you're about to learn not recognizing this signal can result in you missing some great opportunities.

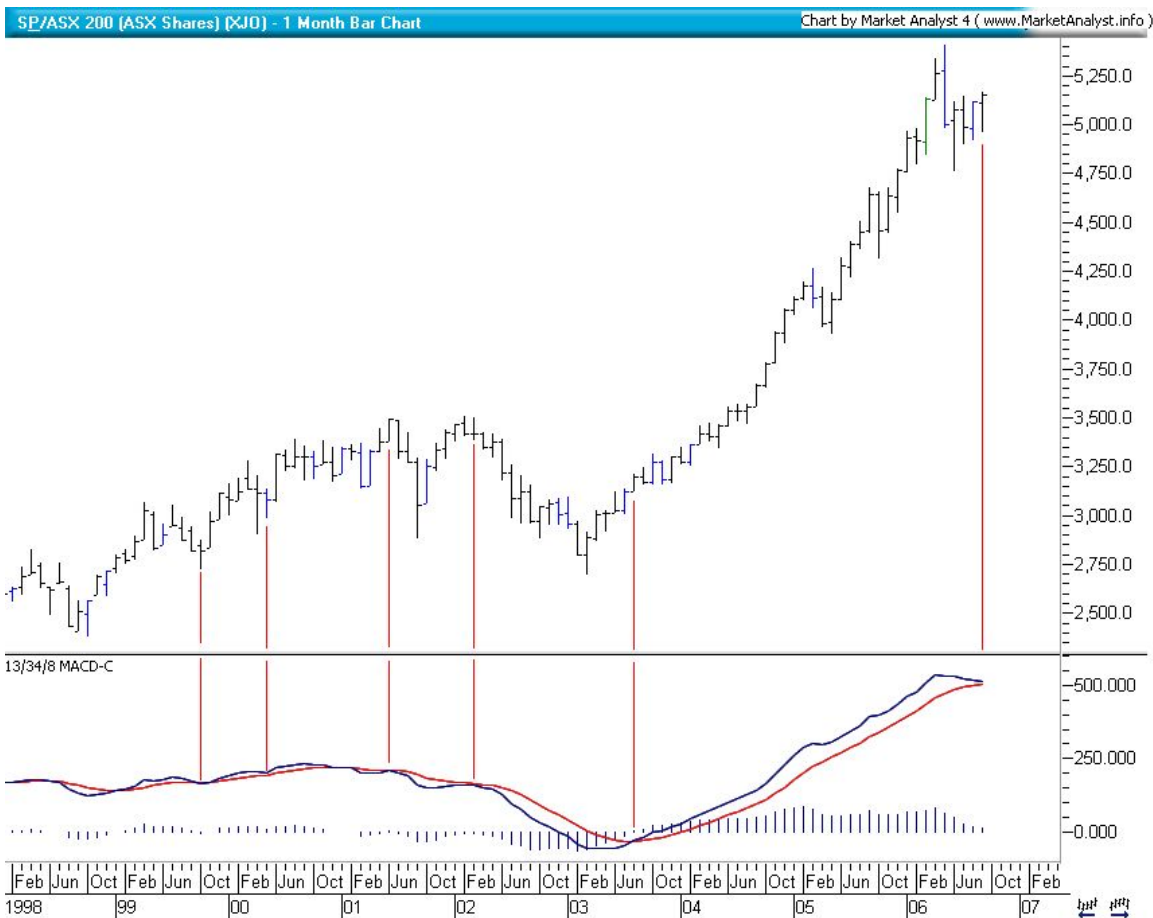
To use this signal we will again incorporate the use of different timeframes to back up and confirm the signal we are seeing.

Looking now at the monthly chart of the ASX 200 index we can see some great examples of “retests” occurring on the two MACD moving averages and at some very significant turning points on this chart.

A retest occurs when the fast MACD line (Blue) comes back and “tests” the slow signal line (Red), finding support above or resistance below this level without actually crossing.

A quick look at the position of the chart at that point in time will help you to decide if it's forming a peak or a trough of possible significance.

Confirmation of this signal can then be found on MACD using the next lower timeframe chart, in this case the weekly chart.



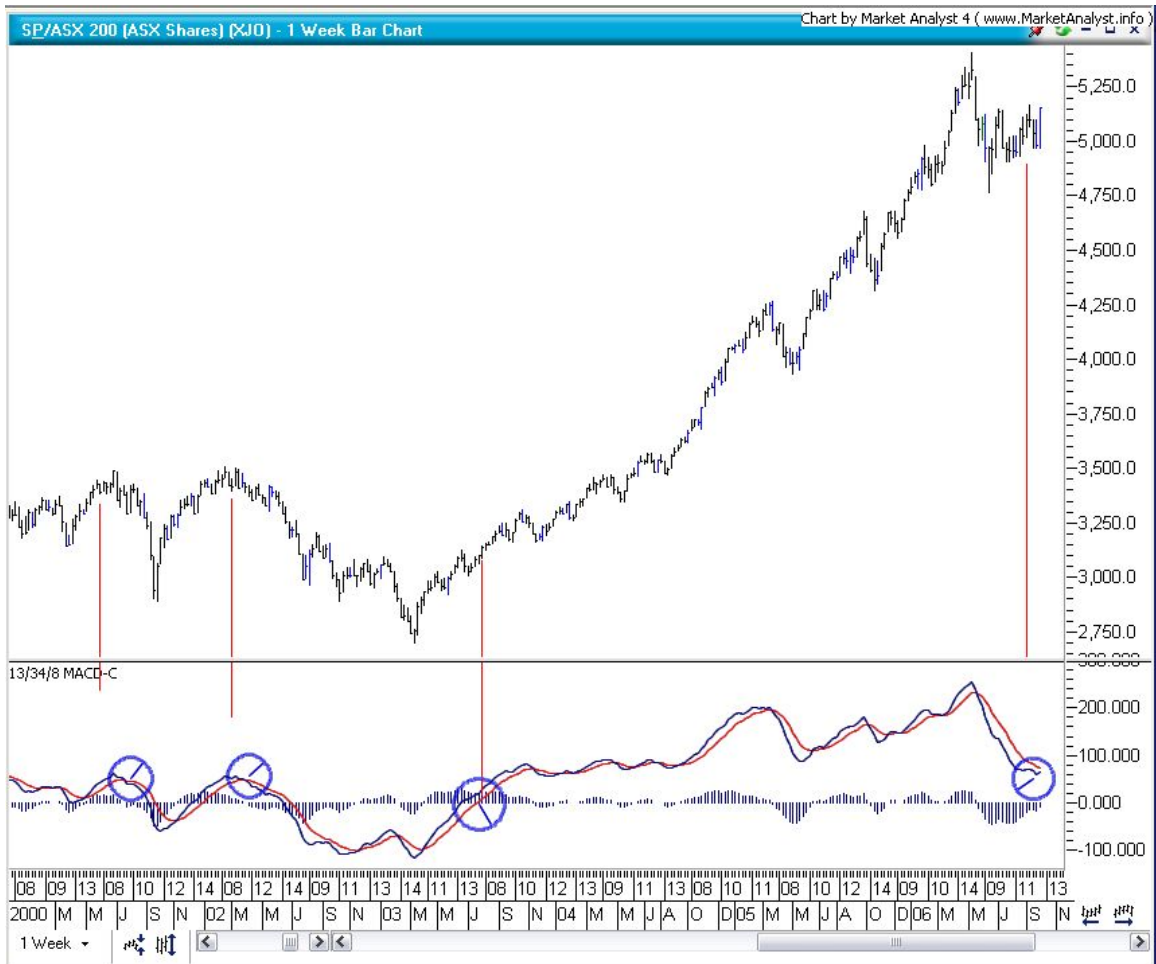
Looking now at the MACD weekly chart you can see how easy it is to look for a confirmation signal on the weekly chart to confirm what you have seen previously occurring on the monthly chart.

If you study the peaks occurring in the years 2001 and 2002 on the monthly chart you will see retests occurring at both of these peaks on the MACD monthly chart. The confirmation signal can then be seen occurring not too long after that on the MACD weekly chart by producing a sell signal, confirming a peak and possible downturn.

A buy signal occurs next on the MACD monthly chart in 2003; this signal can also be confirmed on the MACD weekly chart by waiting for both MACD averages to cross up through the zero line of the histogram.

If you study the two signals you will notice that both buy signals occur at roughly the same time on both monthly and weekly charts.

This now brings us to our current situation and the right hand side of the chart, where we again can see a possible retest signal forming on the MACD monthly chart as of September 2006.



I say “possible” retest signal because based on the method we have just learnt in this article the MACD weekly chart is yet to confirm this.

One of two things could happen next from here on the MACD monthly chart. The first scenario is the monthly MACD averages will continue to show evidence of support and suggest a “retest” is likely.

If this really is the case, based method we have learned so far the weekly MACD averages will cross and produce a buy signal, confirming the retest signal on the monthly.

The second scenario is the monthly MACD averages will cross and produce a sell signal suggesting a major correction is likely.

If this scenario is occurs based on the methods outlined previously in this article, the weekly MACD averages could be watched to confirm this by crossing down through the zero line of the histogram.

Confirmation from price movement should always be looked at in conjunction with any signal you intend to use.

To cross or not to cross... That really is the question!

Best Regards,

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