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MACD INDICATOR Moving Average Convergence Divergence Part Three

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Following on from the previous article on the MACD indicator we established two ways the MACD indicator can give buy and sell signals but which also suggested the strength of the underlying trend.

Taking this a step further, in this article we will now explore the effect of using these methods on different timeframes and how different timeframe charts can be used to back up and confirm the signals occurring on other timeframes.

The more you work with charts the more you will begin to appreciate the importance of "Time". The bigger the timeframe the more important the signal, the more reliable it is and the bigger the move you are likely to get.

Following on from this idea it would be fair to say a buy signal occurring on a monthly chart would be of more significance than a buy signal occurring on a weekly chart, and a buy signal occurring on a weekly chart would be of more importance than a buy signal occurring on a daily chart and so on.

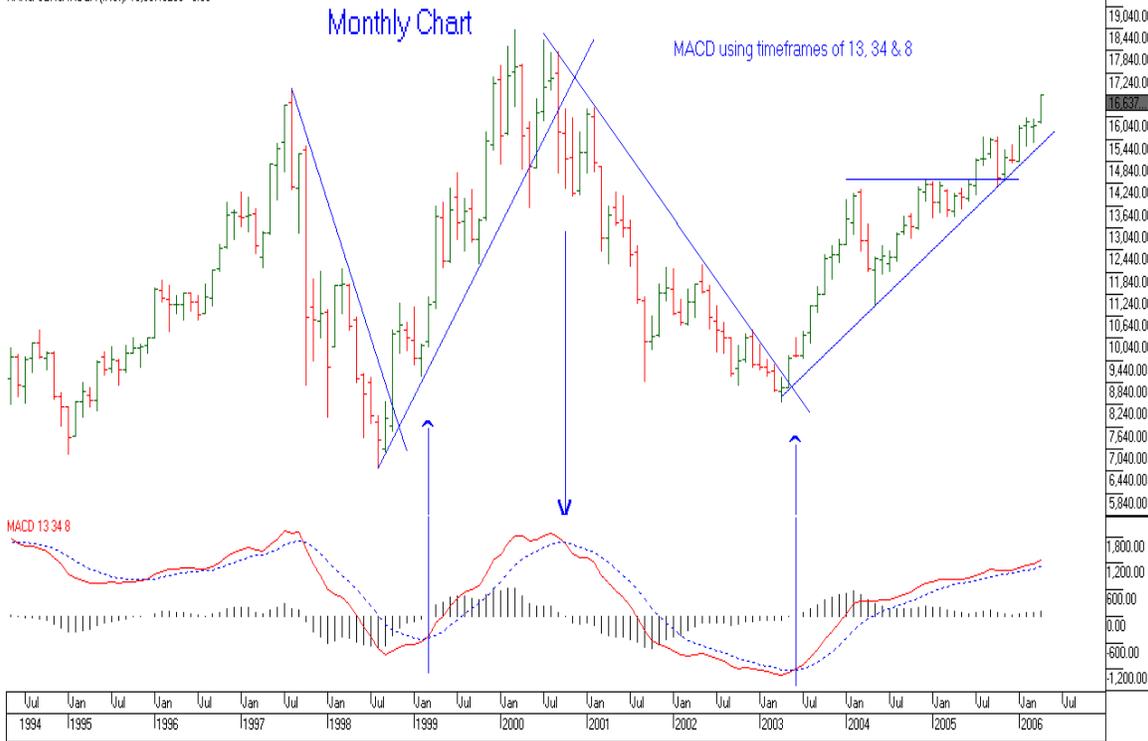
It's when at least two of these timeframes begin to agree with each other that things start to get interesting from a trading and analysis point of view.

Looking now at the monthly chart of the Hang Seng Index you can see three clear crossovers from the averages, two are buy signals and one is a sell signal.

The thing to note is on the weekly chart that follows are confirmation signals that back up and confirm the buy and sell signals that are occurring from the crossovers of the averages on the monthly chart.

A close look at the weekly chart shows both MACD averages crossing through the zero line of the histogram at roughly the same time as the crossovers from the averages are occurring on the monthly chart.

HANG SENG INDEX (HSI): 16,637.5293 +0.00



A close look at the weekly chart shows both MACD averages crossing through the zero line of the histogram at roughly the same time as the crossovers from the averages are occurring on the monthly chart.

It's when two timeframes begin to agree with each other that significant moves can occur, giving you the chance to identify and possibly open positions in the early stages of the new emerging long term trend.

As long as the MACD averages on the weekly chart remain above the zero line of the histogram the overall long term up trend is said to be strong and likely to continue. During this time crossovers on the MACD averages are likely to occur on the weekly chart and when they do, they will suggest the beginning and end of intermediate moves that are part of the overall longer term trend.

The intermediate moves have been marked on the weekly chart using red trendlines, and long term trend can be seen with the blue trendlines.

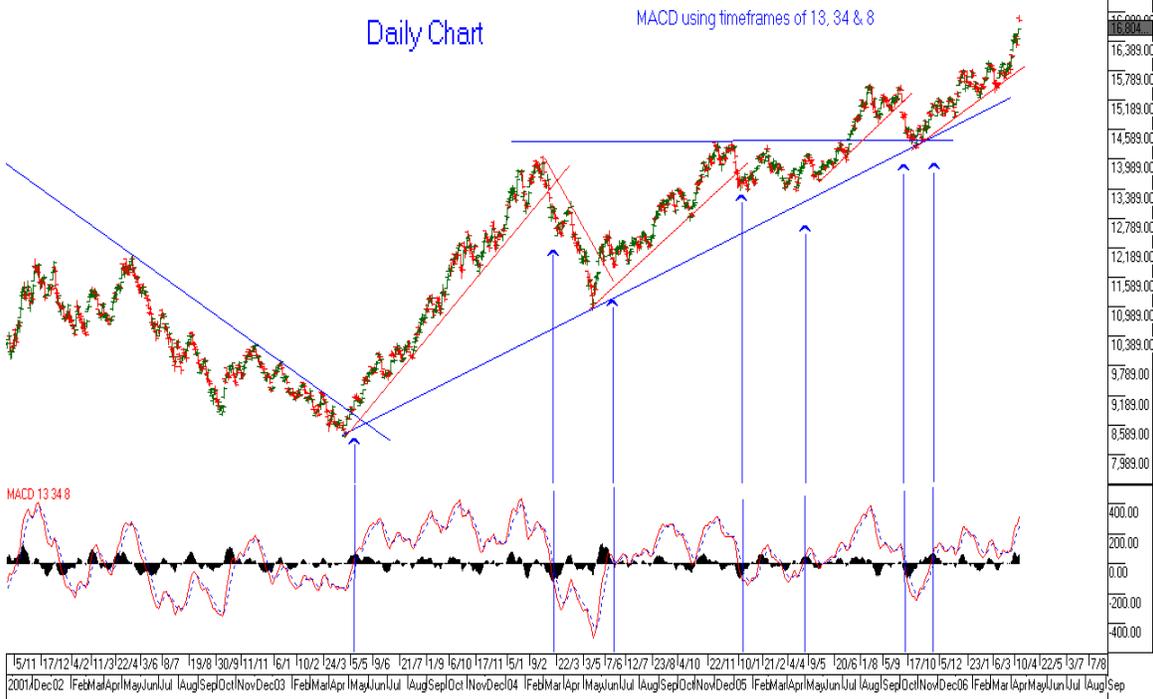
The daily chart can also be used to identify the beginning and end of intermediate moves. You will notice on the daily chart that follows that when the weekly MACD averages cross and give buy and sell signals, the daily chart at roughly same point in time will cross above or below the zero line of the histogram confirming the beginning or end of intermediate moves. Confirmation of the end of an intermediate move will also be seen on the breaking of the red trendlines.

HANG SENG INDEX (HSI): 16,867.15 +229.62



As long as the MACD averages on the daily chart remains above the zero line of the histogram in an uptrend or below the zero line of the histogram in a downtrend, the intermediate move is said to be strong and likely to continue.

HANG SENG INDEX (HSI): 16,804.45 +166.92



Looking now at the current situation of the Hang Seng Index using all three time frames, you will notice both the monthly and weekly charts showing the MACD averages holding nicely above the zero line of the histogram suggesting the long term trend is strong and likely to continue.

The daily chart also shows the current intermediate rally is still holding above its rising red trendline with both MACD averages holding nicely above the zero line of the histogram. This means at the time of writing both the long term and short term trends are strong and likely to continue.

Should things change with the Hang Seng Index we could then confirm the possibility of a reversal and the end of the current intermediate rally by looking for a crossing of the MACD averages on the weekly chart followed by the break of its rising red trendline to confirm the reversal. Further confirmation would occur if both MACD averages were to then cross down through the zero line of the histogram.

Until this time, based on the methods outlined here in this article you would still consider the underlying long term trend to be strong and likely to continue.

Best Regards,

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