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Overview of technical indicators

Chart indicators

In this video we will address some basic indicators that you can utilise when starting to trade.

Indicators are mathematical formulas that you can use to project future market movements. They also measure existing forex market conditions. Your responsibility is to select the most reliable indicators and put them together in a way that they will be most advantageous to you while trading.

Bollinger Bands

This indicator was founded by John Bollinger and it measures market volatility.

This depicts whether the market is full of activity or idle. When the market is busy the bands are expanded and contract when the market is calm.

The Bollinger bounce occurs when the price comes back to the centre of the bands. This takes place because the bands operate like fluctuating support and resistance levels. The longer the timescale you use the stronger the bands will be.

The Bollinger squeeze is a sign that the price is may be about to breakout. The bands converge while the price is consolidating. If the price begins to break out beneath the lower band, this means that it's and onset of a downward trend. And if the price begins to break out above the higher band then it's an onset of an upward trend.

MACD

MACD is used to identify a possible market trend. There are three numbers on a MACD chart to assist you with establishing what the indicator is representing.

The first number indicates the number of periods used to determine the faster moving average.

The second number indicates the number of periods used to determine the slower moving average.

The third number indicates the number of bars used to determine the average of the difference between the faster and slower moving averages.

These two moving lines with different paces may be used to predict a possible trend. For example, when the difference between the faster and slower moving average is zero, you can expect a crossover to take place which may possibly signal the beginning of a new trend. Even though many traders choose to use the MACD indicator, the negative aspect of the MACD is that the moving averages usually react slower than the price.

Parabolic SAR

This indicator signifies the end of a trend instead of the beginning. This assists a trader in knowing when to exit a trade. A Parabolic SAR positions dots on a chart to indicate where possible reversals of price moment are. They imply a buy signal when the dots are below the candles on a candlestick chart and a sell signal when the dots are above the candles.

It is advised to only use a Parabolic SAR indicator in a market that is either trending upward or downward and not when the price is moving horizontally within a range.

Stochastic and RSI indicators

These indicators measures oversold and overbought circumstances in the market.

When the indicator values are high it means that the market may be overbought, and when values are low it may mean that the market is oversold.

You can also use this indicator to confirm different trends. For example, the RSI should be above 50 for you to have confidence in an uptrend occurring and should be below 50 for you to have confidence in a downward trend taking place.

Average Directional Index (ADX)

The ADX indicator also operates on a scale of zero to one hundred. If readings are below 20 it indicates a weak trend. If readings are above 50 it indicates a strong trend.

This indicator depicts whether the price is starting a new trend or if it's continuing an existing trend. It doesn't state if you should buy or sell. It helps you determine if it's safe or not to begin trading in an ongoing trend.

The majority of traders use at least three unique indicators to help them trade on forex. Only when all three indicators show them the same signal will they make their trade.

It is best to give all the indicators a try so that you can find the ones that work best for you.