COMMON TECHNICAL INDICATORS:

RSi (Relative Strength Index):

The Relative Strength Index (RSi) is an indicator that shows momentum. It measures the magnitude and timing of up or down moves of an instrument.

The definition is the following:

RSi = 100 – 100 / (1 + RS)
(Where RS is equal to the average gains divided by the average losses for that specific period)

The RSi is a relatively simple indicator, but a very powerful one. RSi values below 30 are considered to be oversold (i.e. the currency pair / instrument may be undervalued) and conversely RSi values above 70 are considered to be overbought (i.e. the currency pair / instrument may be overvalued)

The RSi can often “lead” the price action of the underlying instrument, in which case it’s said to have RSi divergence. For example, if an instrument’s price is going higher but the RSi is dropping, that often indicates that the instrument’s price will soon follow lower.

Moving Averages:

Moving Averages (MA) are widely used indicators for an important reason: by filtering out short-term price fluctuations, they smooth out the price sequence and hence make it much clearer to see the bigger picture.

The calculation of MA’s is very simple – every data point is the average of the specified number of [previous data points (for example, a 100-day MA averages the latest 100 days of daily data points in order to produce the next one).

There are two popular types of Moving Averages:

1. Simple Moving Average (SMA) – the simple average of the data points.

2. Exponential Moving Average (EMA) – an average of the data points that gives more weight to the most recent points.

An important event that many analysts look for is when two MA’s cross. This can often indicate a substantial change in the general trend of an instrument. The most popular of these is the “golden Cross”, which occurs when a short-term MA breaks above a longer-term MA (for example when a 50 -day MA crosses above the 200-day MA).

Volume:

Volume is an often overlooked but important indicator. It shows the associated volume for every price change, and this can be used to interpret the relative strength of the move.

For example, a rising market should in theory be accompanied by rising volume and vice versa. Low volume moves tend to have a higher probability of being reversed at a later stage. This is because a legitimate move higher (or lower) should be accompanied by an increased level of interest by market participants, indicating that something has changed in the fundamentals of the particular instrument.

An interesting phenomenon near market extremes is that of market exhaustion. This is where price moves are usually very sharp in magnitude, with increased volume and short duration. This reflects human psychology where investors either try to get into a market uptrend in fear of missing out or getting forced out in a downtrend.