



Brainy's Articles on Technical Analysis

Momentum Indicator

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page 1 of 3
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Introduction

In the world of technical analysis, there are many different indicators that can be applied to a price chart. One of these is the Momentum indicator. This article in Brainy's series on Technical Analysis (number TA-4610) provides an introduction to the Momentum indicator.

Momentum Indicator

Firstly, it is useful to note that a number of indicators are referred to collectively as "momentum" indicators, including: OBV, A/D, Price ROC, RSI and Coppock.

The momentum indicator itself is a measure of how far the share price has moved over a specific time period. It compares current price to earlier price, and indicates the pace and strength of a trend. It can help to identify trend weakness, and possible trend reversals.

It is commonly plotted using Closing prices, and 14 time periods. To eliminate some of the noise on the chart, a longer time period (like 28) can be used.

Note the following with reference to the screen shot in Figure 1 below (28 period Momentum is shown in the upper pane and price is shown with candles in the lower pane).

- Momentum and price normally move in the same direction (shown with the rectangles labelled (1) below).
- Price and momentum can "diverge": the two lines labelled (2) below suggest a possible trend change; and likewise the two lines labelled (3) indicate a significant bearish divergence.



Figure 1: The Momentum indicator, and showing divergence.



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