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TRADING

Moving averages are a main signal on the track

TECHNICAL ANALYSIS
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TECHNICAL analysts have many tools at their disposal to try to establish where a share price might be going. This week we introduce readers to the moving average convergence-divergence (MACD) line.

Australian Technical Analysts Association director Robert Brain has produced a chart of mining services group Monadelphous, which shows the company has more than doubled its share price since early 2009.

The top panel of the graph shows Monadelphous' share price in black, its

12-week exponential moving average (EMA) in blue and the 26-week EMA in red. In the lower panel we find the MACD graph and the ~~blue red~~ dotted line that is its signal line. The signal line is a nine-week moving average of the MACD.

Here's where it gets a bit complicated. The MACD itself is a representation of the difference between the 12 and 26-week EMA and is a way of gauging the strength of the price trend in the stock. For example, when the MACD is around its centre horizontal zero line, it means both moving averages are the same. When the blue 12-week line is consistently above the red 26-week line, the MACD trends upwards.

The chart starts in late 2008, when Monadelphous



had fallen sharply and could have been considered oversold. The MACD indicator crossed above its signal line at A1 (while well below its zero line) in January 2009. Monadelphous made higher highs in February 2009. Then the two EMAs crossed each other at A3. These are all signals that indicate the share price is

rising strongly from an oversold situation.

Throughout 2009 and into 2010, as the share price started to fall away, the MACD indicator drifted lower. In July 2010, the two EMAs of the price crossed again as the share price took off and the MACD indicator crossed its signal line at B1.

In recent weeks, the

MACD has approached its signal line again at C1. This flags a possibility that the share price may be about to start another uptrend, as it did at point B1.

We don't have absolute certainty on this, Brain says. Technical analysis simply flags probabilities and puts the odds in our favour. It aims to give users an advantage over the buy-and-hold investors but is not a guarantee.

Monadelphous has a market cap of \$1.7 billion, a dividend yield of 5.1 per cent and has delivered shareholders returns of 21.4 per cent over the past year, 52.4 per cent annually over three years and 26.2 per cent annually over five years.

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