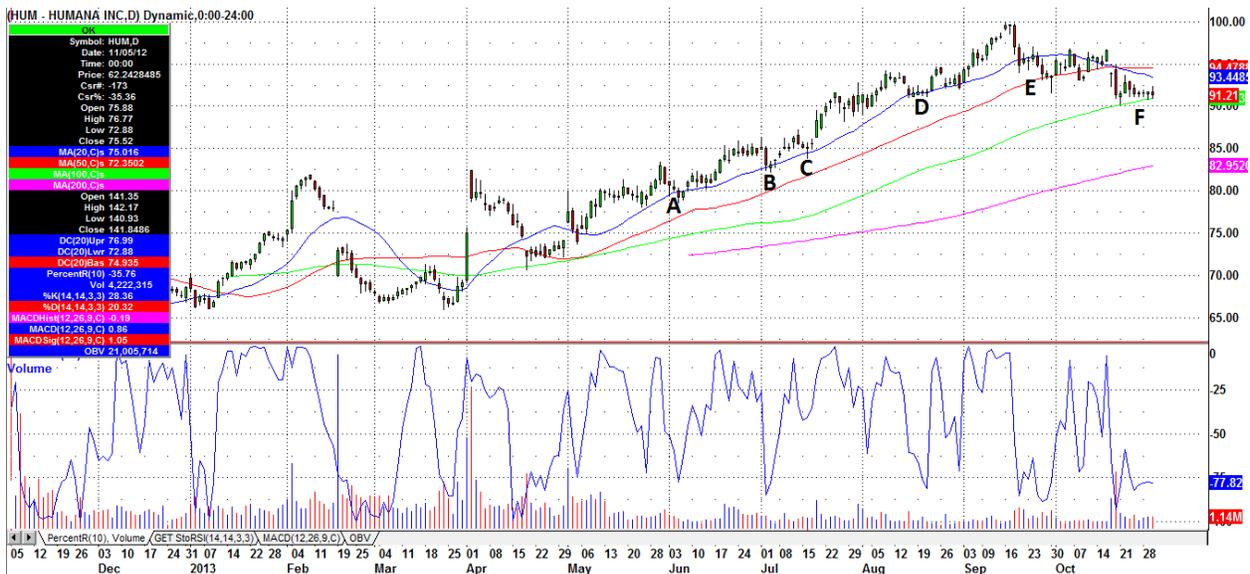




Chart Lesson

Moving Average Support

October 2013



The most basic tool in technical analysis is simply price. While price swings happen daily, the overall trend of the stock is the most important factor to identify. One could draw a trend line, but the easiest and best way to see trend and trend changes is with a moving average. There are different moving average durations that can be used, but we like the 20 day (in blue on the chart), 50 day (red), 100 day (green) and 200 day (pink). As a stock is in a trend there will usually be moving average that tends to create support/resistance for that trend.

In the chart above of Humana (HUM), the stock price began an uptrend in April and firmly entered an upward sloping channel in May. From that time until September, every time the price approached the 20 day moving average the stock moved higher. There were four time frames that the stock rallied off that level, but if you study the price action of the first three hits (A,B and C) and the fourth (D) you will see distinct

difference. During the first three instances the price quickly rallied, but the final retest of the 20 day MA hung around that level for the later part of August. This consolidation near that level was a warning sign that this support level had weakened and the next hit of the 20 day MA would likely be broken. Sure enough in mid-September price sliced right through that level and right to the 50 day MA (E) which was the next support level. It proceeded to consolidate at that level for about a month until price broke again on high volume (F) and is now consolidating above the 100 day MA with good odds that price once again breaks to the 200 day MA.

This example goes to show you that the more a support or resistance level is hit, whether it's a trend line or moving average, the weaker it becomes over time. In addition, if price consolidated above/below a support/resistance level the odds are good it will eventually break through that level.