

TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 7

The main indicators and oscillators:

**how to choose the most useful and suitable ones in every
market condition**





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PROGRAM

10 LESSONS

1. Basics and Origins of Technical Analysis: The DOW Theory
2. Charts and prices: the main ways to visualize price developments
3. Defining a trend and trending: how to spot and follow them profitably
4. The main chart configurations: supports, resistances and pullbacks
5. Figures of reversal or continuation of a trend: we learn to recognize and exploit them
6. Volumes and moving averages: strengths and weaknesses
7. **The main indicators and oscillators: how to choose the most useful and suitable for each market condition**
8. Charts and time: the right time frame for our operational analysis
9. Intermarket analysis: we learn to define the dominant drivers and trends in the market
10. Leverage, money and risk management: how to control and monitor the sustainability of your investments



Lesson

7

**The main indicators and oscillators:
how to choose the most useful and suitable ones in
every market condition**



DEFINITION

Oscillators and indicators are the result of a series of mathematical procedures and/or calculations applied to any numerical series representative of the performance of a financial instrument



The use of indicators and oscillators, therefore, "complements" price analysis by helping us to "measure the strength and consistency of a possible trend"



Widely used by technical analysts, they represent an "aid" to the always effective and fundamental analysis of prices.



Basics and Fundamentals of Technical
Analysis
Prices "discount" everything



INDICATORS & OSCILLATORS

=

complementary support to trading activities, support for graphical analysis, which remains the most important forecasting/operational tool



The origins...

They were born in the 70s in the United States and are the result of mathematical elaborations and formulas applied to a numerical series that replicates the market values of a given financial asset



The origins...

They are the result of simple, or sometimes complex and articulated formulas, but experience teaches us that the most immediate and elementary formulas are very often more reliable than the advanced ones...



THE INDICATORS

Indicators are free to move within a chart
without any limit.

The indicators do not have any delimitation
in their deviation dynamics.



THE INDICATORS

Moving averages are the most classic example of an indicator, with their values "free to fluctuate in the chart without fixed points and without constraints".



THE INDICATORS

The values of the moving averages, in fact, are free to extend on the chart to infinity without any ceiling/limit to the value measured by them



THE OSCILLATORS

Oscillators are "constrained/bounded"
within a predefined range of oscillation...



THE OSCILLATORS

The RSI (Relative Strength Index) is a typical example of an oscillator, characterized by the constraint of a mathematical measurement "forced to develop within a fixed range" ($>0 <100$)



THE OSCILLATORS

The RSI (Relative Strength Index) is
Used to identify oversold or overbought
areas
of prices

0 = OVERSOLD

100 = OVERBOUGHT



CONCLUSIONS ON INDICATORS AND OSCILLATORS

1.

The indicators follow the current trend directly on the price

2.

Oscillators move in a predefined range (or above or below a predefined level) and... «oscillate»



CONCLUSIONS ON INDICATORS AND OSCILLATORS

3.

Indicators work best in well-defined market dynamics (TRENDS)

4.

Oscillators work best in sideways market dynamics (TRADING RANGE)



CONCLUSIONS ON INDICATORS AND OSCILLATORS

5.

Some oscillators are structured on a logic of "crossing the zero line or signal line" instead of the classic overbought/oversold areas



OSCILLATORS

HOW TO USE THEM



OSCILLATORS - HOW TO USE THEM

Oscillators are best at measuring sideways phases and trend phases, representing a potential "alert" on the current dynamics/trends



OSCILLATORS - HOW TO USE THEM

Oscillators are used to identify 2 specific price trend logics:

1. Extreme Overbought/Oversold Levels
2. Divergences...



OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels

Levels at which it is possible to assume a probable correction and/or rebound of prices that appear "pulled"



OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels

OVERBOUGHT= The oscillator transits at the upper end of the predefined range and it signals to us that current prices are excessively "pulled" upwards, hence the probable triggering of a downward correction



OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels

OVERSOLD= The oscillator transits at the low end of the predefined range and it signals that current prices are excessively "pulled" downwards, hence the probable triggering of an upward correction



OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels

TRIVIALY...

Oscillators tell us about the excess buying or selling
of a given financial instrument





OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels





OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels



Prices tend to rise to the upside or fall to the bottom when the oscillator reaches the extreme overbought/oversold zones



OSCILLATORS - HOW TO USE THEM



BUGS!!!

The oscillator could also "hover" in the extreme zones for a long time without the price reversing course... On the other hand, it signals the strength and persistence of the current trend!!



OSCILLATORS - HOW TO USE THEM

2. Divergences...

-

If the price makes new highs while the oscillator does not go beyond the previous high, in this case we will speak of a «bearish divergence»



OSCILLATORS - HOW TO USE THEM

2. Divergences...

-

If the price makes new lows while the oscillator fails to go lower than the previous low, we will speak of a «bullish divergence»



OSCILLATORS - HOW TO USE THEM

2. Divergences...

-

TRIVIALY

BEARISH DIVERGENCE: The price makes higher highs while the oscillator makes lower highs



OSCILLATORS - HOW TO USE THEM

2. Divergences...

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TRIVIALY

BULLISH DIVERGENCE: The price makes lower lows while the oscillator makes higher highs



OSCILLATORS - HOW TO USE THEM



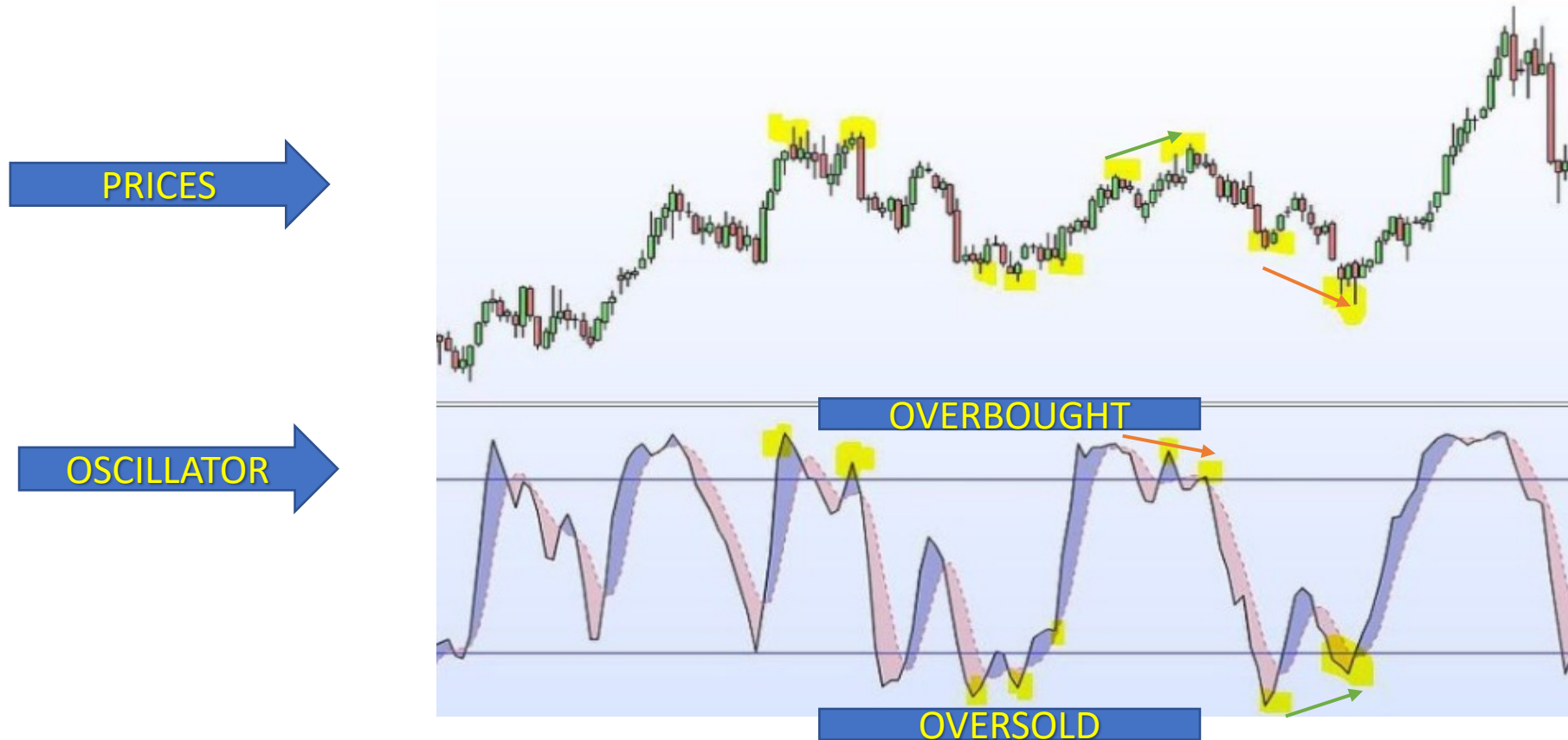
Divergences are to be found in the
"extreme bands" of the oscillator's default
range!!





OSCILLATORS - HOW TO USE THEM

2. Divergences...





OSCILLATORS - HOW TO USE THEM

2. Divergences...



The oscillator signalled on multiple occasions that there was a situation of "excess" on prices and that a **trend reversal** was on the way...



OSCILLATORS - HOW TO USE THEM

2. Divergences...



Thanks to the bullish and bearish divergences highlighted, it was possible to identify situations of excess with a **high probability** of an imminent **trend reversal**



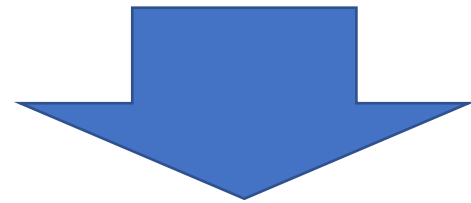
THE MAIN

INDICATORS & OSCILLATORS



KEY INDICATORS

Where can I find a reliable selection among the hundreds in existence?



On your trading platform
You'll find everything you need!!



KEY INDICATORS

LET'S SEE THEM TOGETHER!!

Stochastic

Relative Strength Index (RSI)

MACD (Moving Average Convergence/Divergence)

Commodity Channel Index (CCI)

Average True Range (ATR)

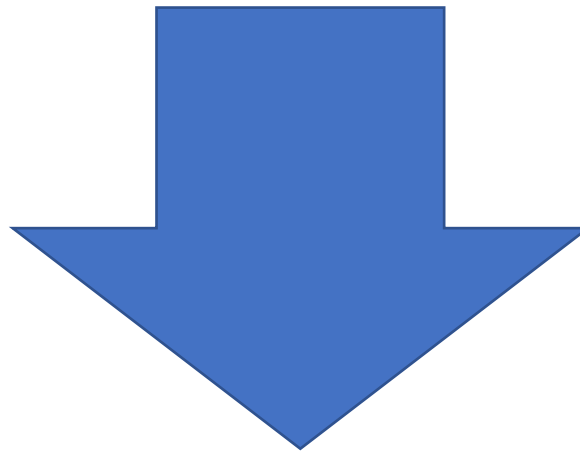
and many more...



KEY INDICATORS

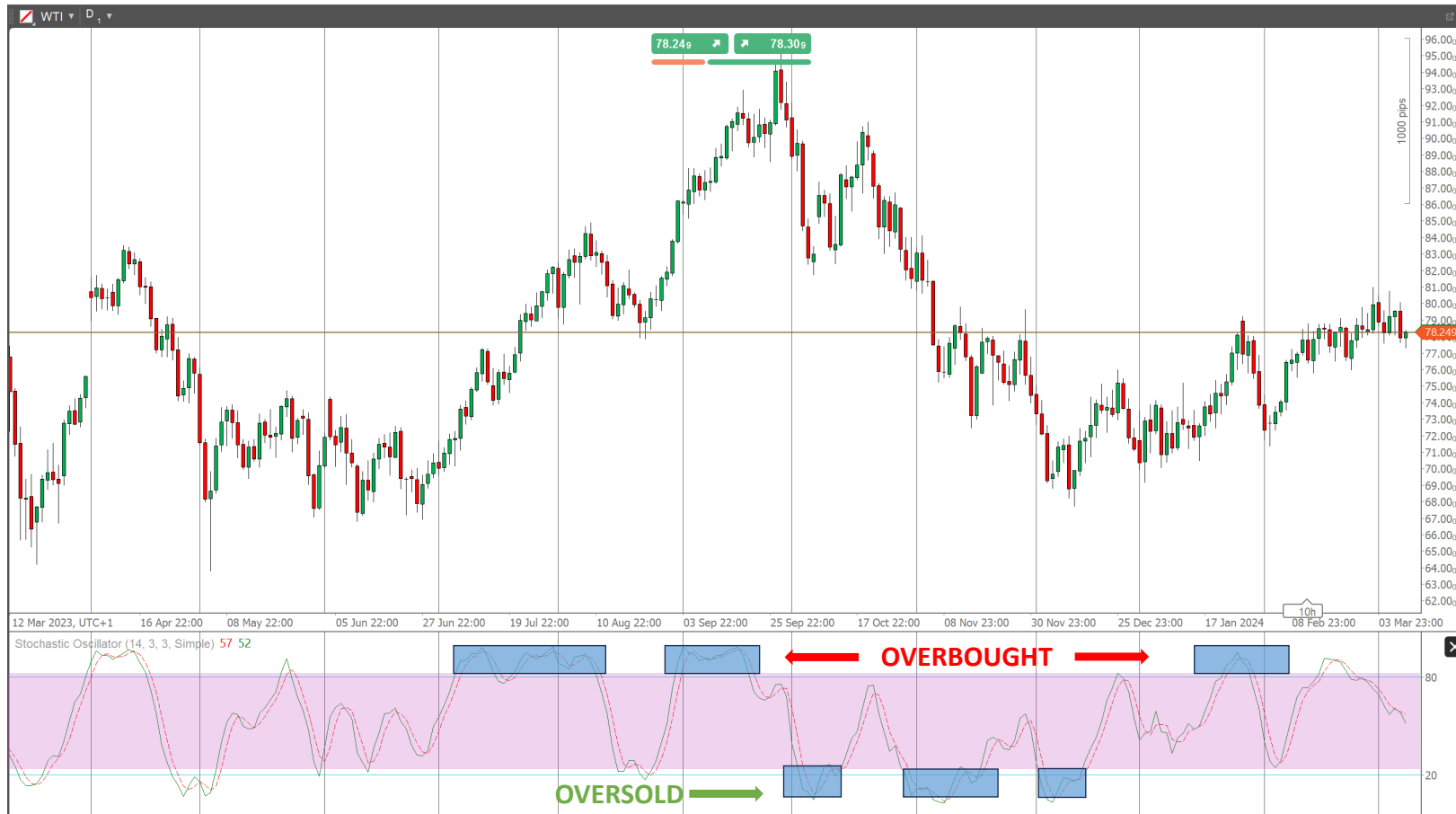
LET'S SEE THEM TOGETHER!!

Stochastic





KEY INDICATORS - STOCHASTIC

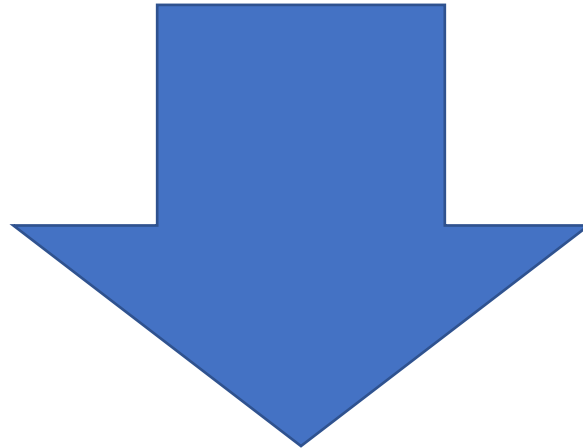




KEY INDICATORS

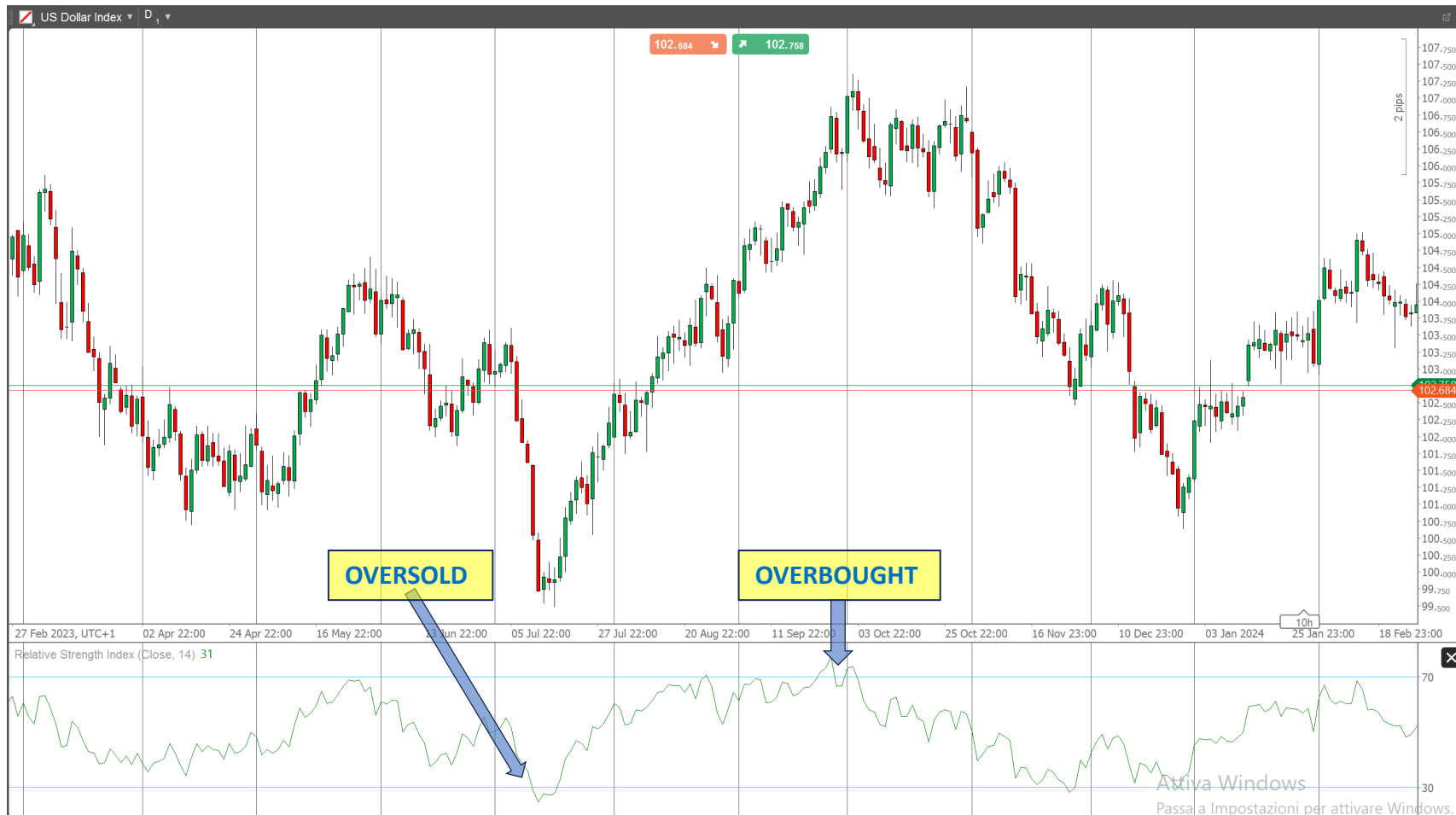
LET'S SEE THEM TOGETHER!!

Relative Strength Index (RSI)





KEY INDICATORS— RELATIVE STRENGTH INDEX (RSI)

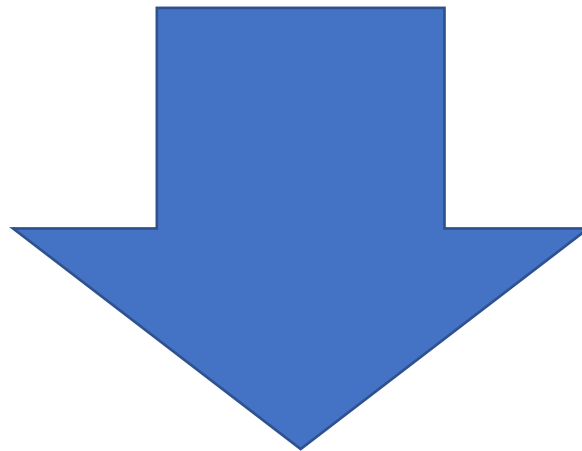




KEY INDICATORS

LET'S SEE THEM TOGETHER!!

MACD (Moving Average Convergence/Divergence)





KEY INDICATORS– MACD

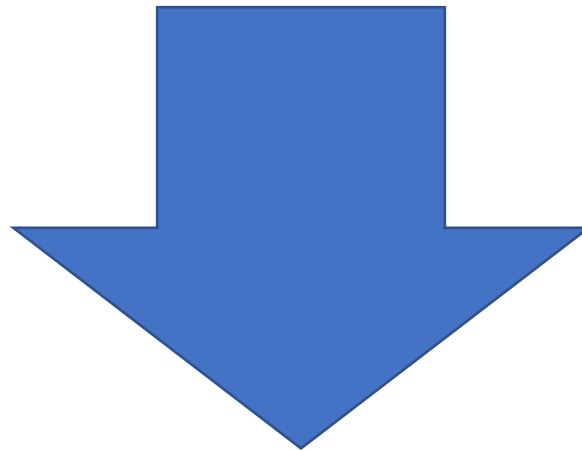




KEY INDICATORS

LET'S SEE THEM TOGETHER!!

Commodity Channel Index (CCI)





KEY INDICATORS— CCI

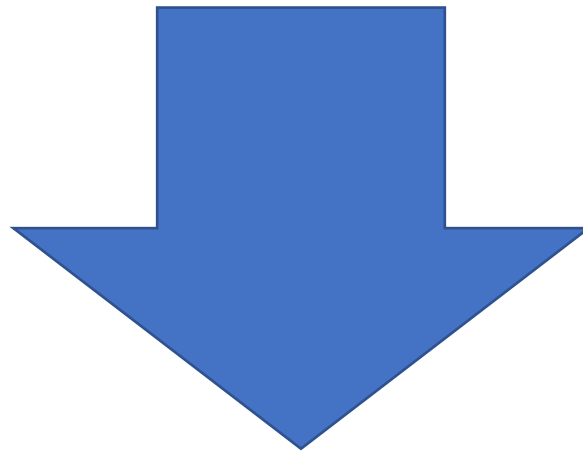




KEY INDICATORS

LET'S SEE THEM TOGETHER!!

Average True Range (ATR)





KEY INDICATORS– ATR

