

GMMA RELATIONSHIPS

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GUPPY MULTIPLE MOVING AVERAGES

These are two groups of exponential moving averages. The short term group is a 3, 5, 8, 10, 12 and 15 day moving averages. This is a proxy for the behaviour of short term traders and speculators in the market.

The long term group is made up of 30, 35, 40, 45, 50 and 60 day moving averages. This is a proxy for the long term investors in the market.

The relationship within each of these groups tells us when there is agreement on value - when they are close together - and when there is disagreement on value - when they are well spaced apart.

The relationship between the two groups tells the trader about the strength of the market action. A change in price direction that is well supported by both short and long term investors signals a strong trading opportunity. The crossover of the two groups of moving averages is not as important as the relationship between them.

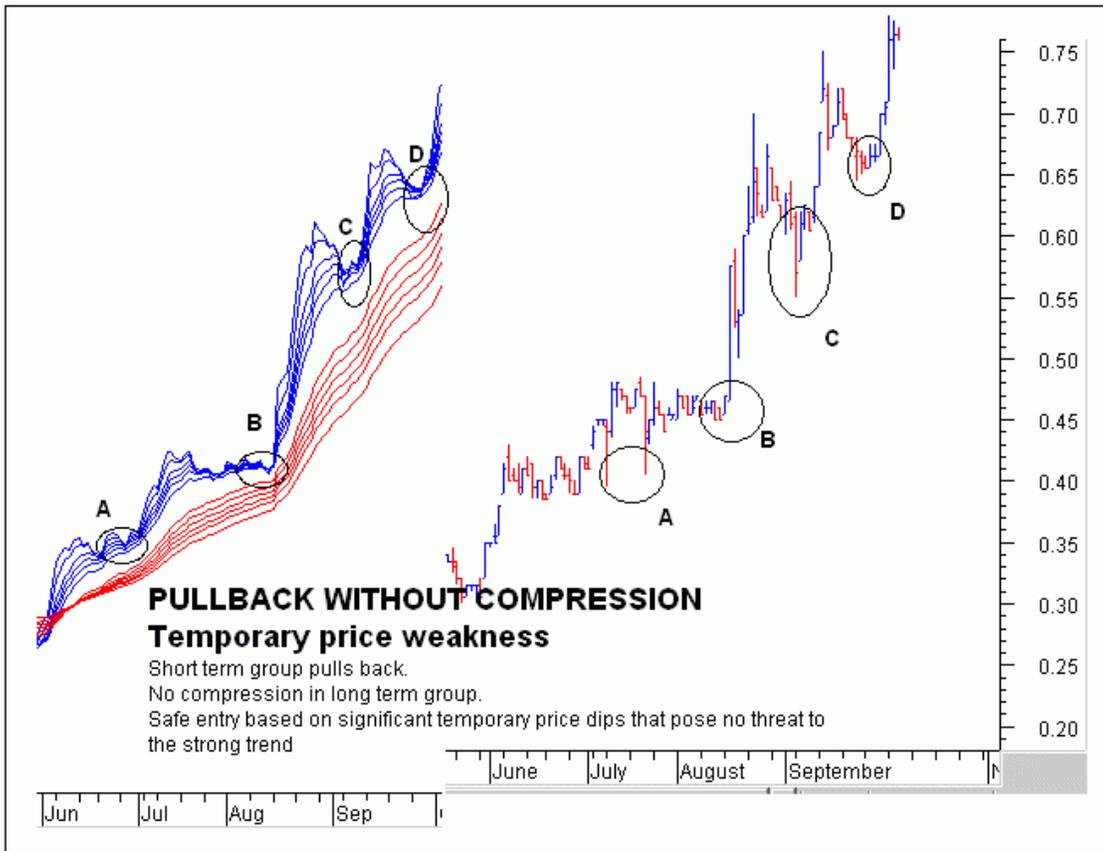
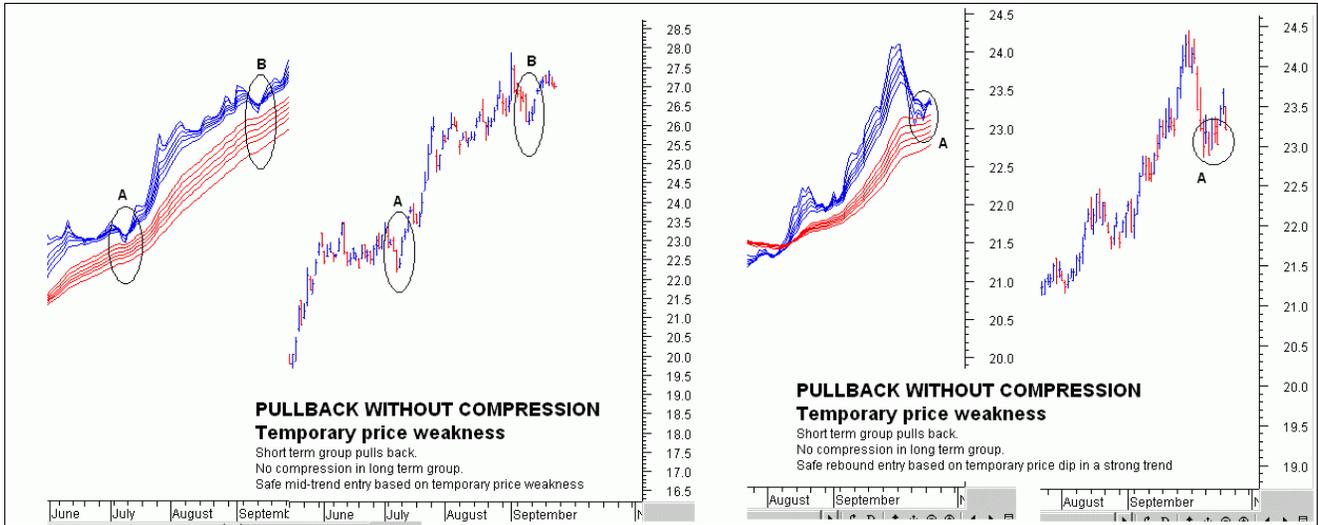
When both groups compress at the same time it alerts the trader to increased price volatility and the potential for good trading opportunities.

A reader on StockMeetingPlace asked for some clarifications on Guppy Multiple Moving Average relationships. We use the degree of separation in the long term group of averages as a guide to trend strength and investor's activity. When the long term group

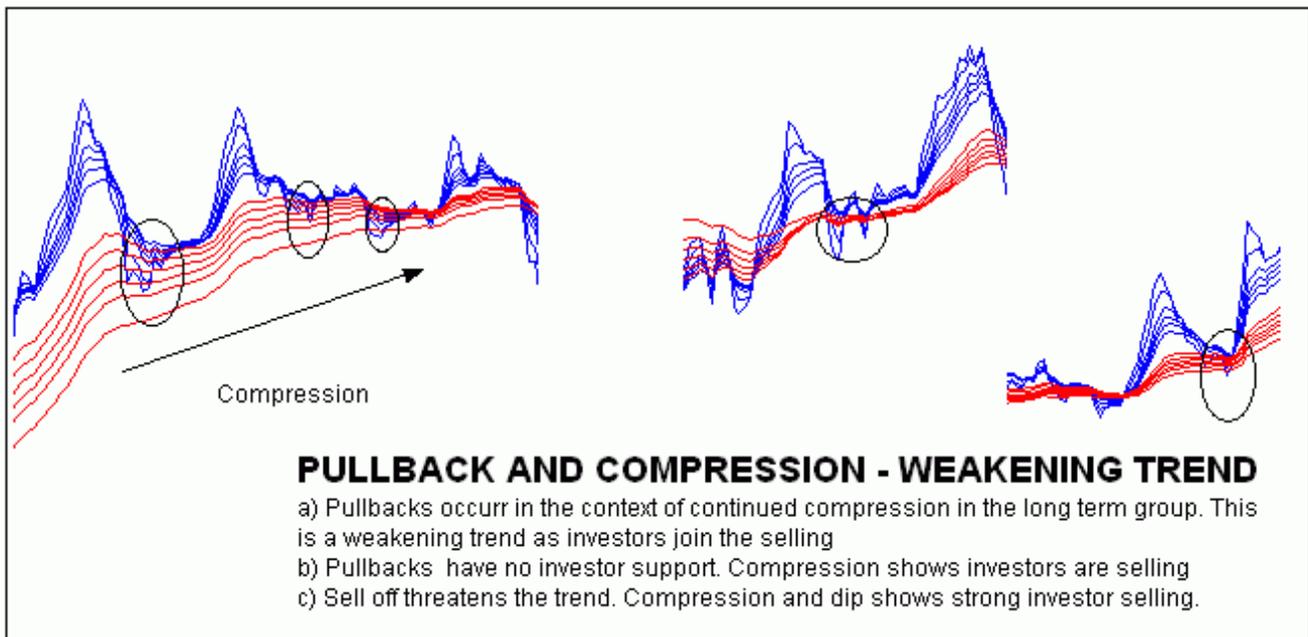
compresses in response to a sell off by traders – a price dip – we know that the investors are also nervous. The compression tells us they are joining the **SELLING**.

When the long term group remains widely separated in the face of a price dip we know the investors are **BUYING**. Buying supports a trend. Selling aids in a trend collapse. These basic relationships help us to develop more effective strategies.

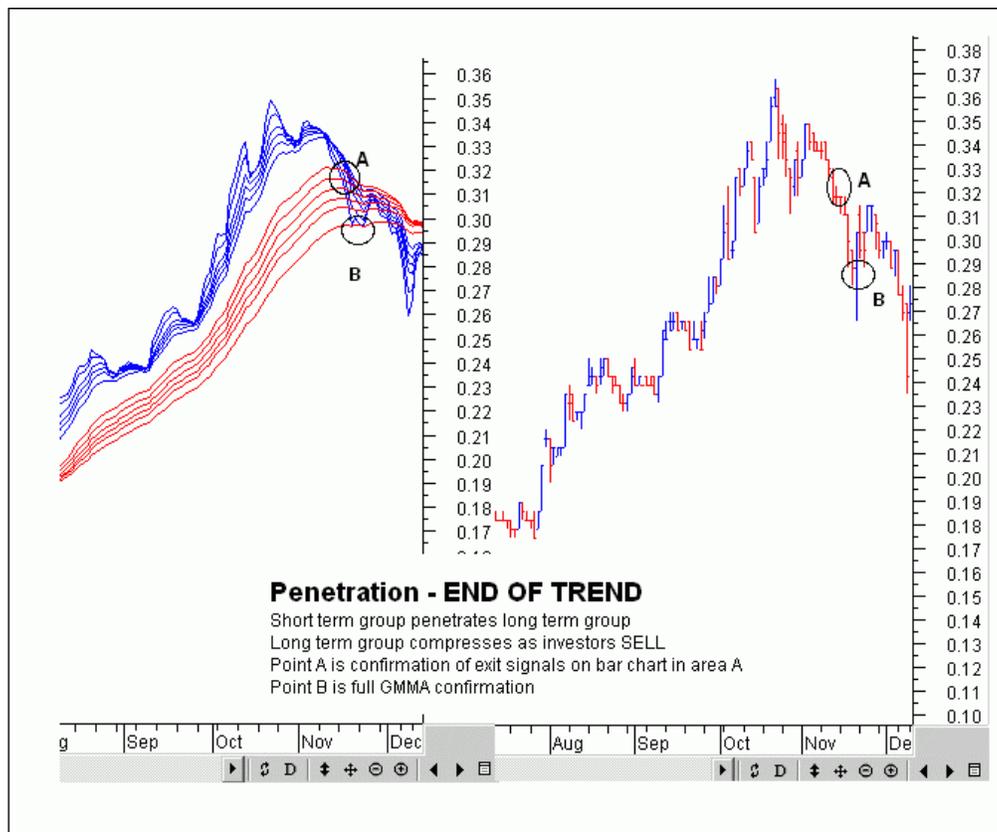
The reader requested three examples of when the short-term group pulls back and there is no compression. They are below. This signals temporary price weakness in a strong trend. This is the situation we have been trading with the warrant trading examples in recent weeks.



These should be compared with the situation where the short-term group pulls back and there is compression. This signals investor selling and trend weakness.

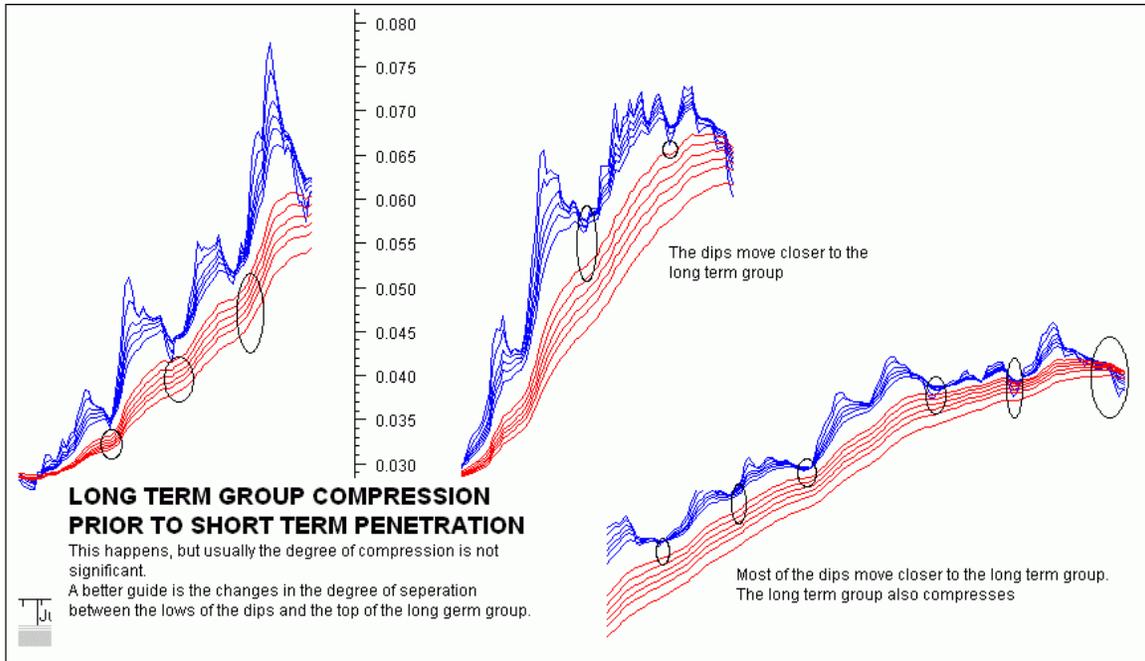


A variation of this situation is where there is an increasing level of penetration of the long term group by the short term group. This confirms trend weakness.



The reader has a final question. Can the long-term group start to compress before there is actually any penetration of the long-term group by the short-term group? This is unusual, but it does occur. It is most easily seen on historical charts and more difficult to recognise as it happens. A more reliable guide is the series of lower lows made by the short term group of averages. Eventually these end up penetrating the long term group. However, the trader has plenty of warning of this developing trend weakness.

This is often confirmed by a narrowing of the long term group as investors become nervous and quietly join the selling.



The Guppy Multiple Moving Average is not a trading tool with exact entry and exit points. It is a tool to improve our understanding of the strength, character and nature of trend – and how this changes. Armed with a better understanding we can select a more appropriate set of indicators and trading tactics to maximise the return from the developing trading opportunity.
