GETTING THE GMMA RIGHT

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INDICATOR BUILDER

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.

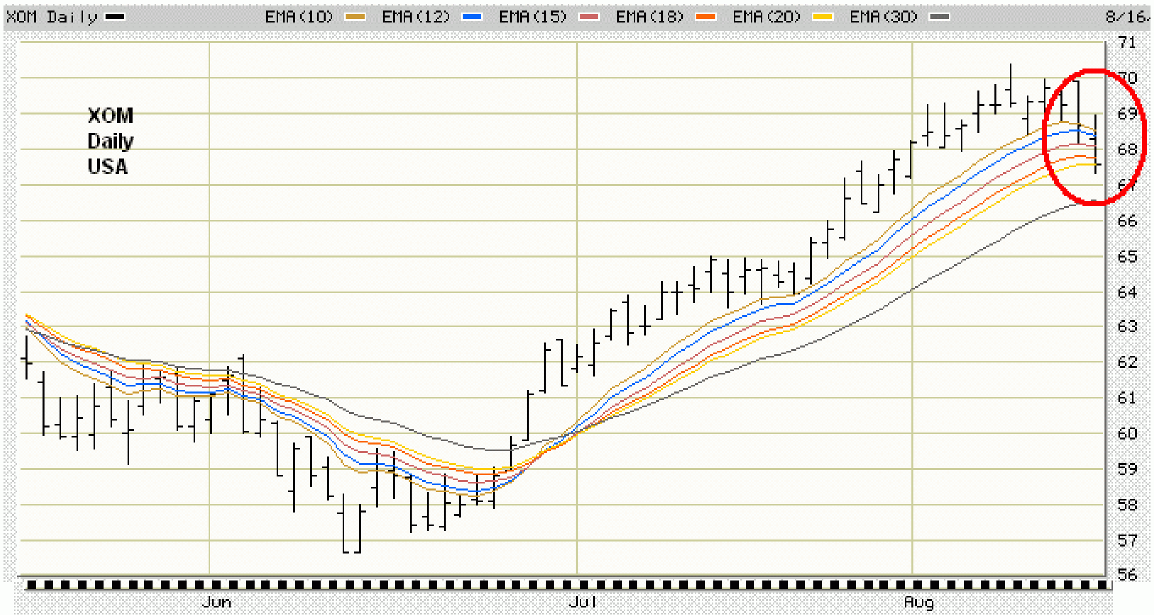
The relationship between the two groups tells the trader about the strength of the market action. A change in price direction that is well supported by both short and long term investors signals a strong trading opportunity. The crossover of the two groups of moving averages is not as important as the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

The Guppy Multiple Moving Average was first released to the public in ***Trading Tactics*** in 1997. It is an indicator I had developed and been using since 1994. Subsequently it has been incorporated into MetaStock, Omnitrader, Ezy Charts, Insight Trader, NextVIEW, Market Analyst, Stock Doctor, Bull charts, Incredible charts, Guppy Traders Essentials and a variety of other charting programs. In most cases the developers have asked us for permission. In some cases developers did not ask permission with the result that we were unable to verify that the indicator had been implemented correctly.

Verification of correct implementation is important. This is our proprietary indicator, and although we do not charge a licensing fee for its use in charting programs, it is important that the indicator is correctly implemented. Incorrect implementation gives incorrect results and this reflects badly on the usefulness of the indicator.

With the publication of ***Trend Trading*** we are getting increased interest in the GMMA and it is being used more widely. Traders want to apply it to the charts provided by CFD providers and other groups. Often these internet based programs cannot handle the 12 moving averages, so the users try to compromise. The result is dangerous because the modified indicator does not reflect the correct relationship and gives misleading analysis. The chart below is an example of a compromise display.

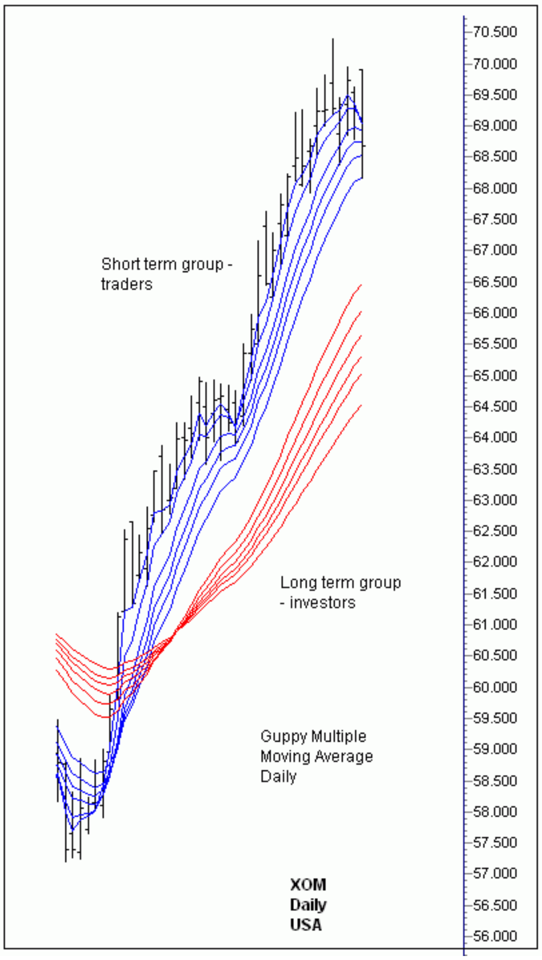


There are three errors in construction. They are:

- The chart is not a twelve month display. We prefer a 12 month display because it provides a context for the trend activity. At the very least, a six month display is preferred.
- The six moving averages selected are not the same values as the short term group in the GMMA. As a result the fractal relationships are not revealed. The original GMMA selections are based on significant trading dimensions and are the optimal fit.

- The display does not show two groups of moving averages, so it is not possible to establish accurately the relationships between traders and investors. This means it is not possible to reach good conclusions about the nature and character of the trend.

Here is the analysis based on this chart. "What a beautiful example of a stock correcting within a major uptrend. Time to watch for a turnaround. Only one of the LT moving averages shows. Short term MA's ok."



Here is the same chart with the correct GMMA display. The difference is substantial. To keep these charts comparable we have shown only the last three months. There are three steps in GMMA analysis.

They are:

Long term group – This is well separated, but in a steep rally trend.

Short term group – There is very little trading activity in the rally. There is no compression and expansion activity. The current display shows the beginning of compression and a potential sell-off as traders take profits.

Group relationships - This trend has not been tested by a trading pullback. The long term group is well below the short term group. Price could fall to the old resistance level at 65 and still remain consistent with the uptrend. This initial short term group compression has the potential to lead to a substantial sell off. This may be the beginning of a significant price correction within the context of the trend rally.

Trading tactics – Buy on trend weakness as the short term group ends its compression and begins to rebound and separate. Buy as the short term group touches the long term group and rebounds.

Constructed correctly, and used correctly, the GMMA provides an additional dimension to understanding trending activity. If the charting program limits you to six averages then the best solution is to construct a display showing the short term group and then a separate display showing the long term group. Attempts to compromise, perhaps using 3 averages out of each group, do not allow the accuracy of analysis required for effective use of the GMMA.

The preferred option for using the GMMA is to use a charting program that allows for the full display. If the data supply is in MetaStock format, then the GTE toolbox may be the most effective supplement to your existing charting program. The toolbox was designed to meet this need and it includes many other Guppy indicators not available in other charting programs.