

RUSS HORN PRESENTS
**DYNAMIC
CASH
TRACKER**



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Preface

I am going to introduce you to the power and the secrets of the MarCo Moving Averages. What you think you might know about Moving Averages is likely incorrect.

Most people who use them, use them wrong!

Moving Averages are powerful tools and they can provide you with a LOT of information. They can tell you:

- What direction the trend is moving.
- Identify long, medium, and short-term trends.
- What direction you should be trading.
- Where there are good areas of Support and Resistance.
- Give you entry signals.
- Give you exit signals.
- Identify sideways markets.

The trouble is that most traders use Moving Averages incorrectly. The general consensus is that you use two moving averages and place a trade when they cross over each other. This is indeed an option, but using the right type of averages with the right settings is important.

Let's move on to what types of moving averages there are.

Moving Average Types

Moving Averages come in all types:

1. **Simple** (SMA)
2. **Exponential** (EMA)
3. **Smoothed** (SMMA)
4. **Linear Weighted** (LWMA)
5. **Hull** (HMA)
6. **Triangular** (TMA)
7. **Double Exponential** (DEMA)
8. **Triple Exponential** (TEMA)

Moving Averages can be applied to different parts of the market price. For each candle (bar), the Moving Average can be calculated using the:

1. Close
2. Open
3. High
4. Low

Because of the programming ability that MetaTrader offers, there have been hundreds of variations of Moving Averages built by creative coders.

The most commonly used Moving Averages are the Simple Moving Average (or the SMA) and the Exponential Moving Average (or the EMA).

Moving Averages can be used as a single indicator on the chart, or they can be paired, tripled, or combined with dozens more.

In the following pages, we will be looking at the SMA and the EMA and how we can use these in their proper ways.

Below you will see the difference between an **EMA** and an **SMA**. The Moving Average you see on the chart is my own special version, it's the MarCo-MA2Color. When it slopes up it's green and when it slopes down it's red. I want to give this indicator to you.

*Image 1**Image 2*

Identifying A Trend

Moving Averages are awesome tools to help identify a trend.

Traders make the most money from the markets by trading in the direction of the overall trend. The easiest and most effective way to identify the trend is to use a longer period Moving Average.

One of the industry standards is called the **"50 Day Average."**

When the price is **above** the 50 day Moving Average, the **trend is up** and we look only for long trades. (The MarCo moving average indicator prints bright green when price closes above it.)

When the price is **below** the 50 day Moving Average, the **trend is down** and we look only for short trades. (The MarCo moving average indicator prints red when price closes below it.)

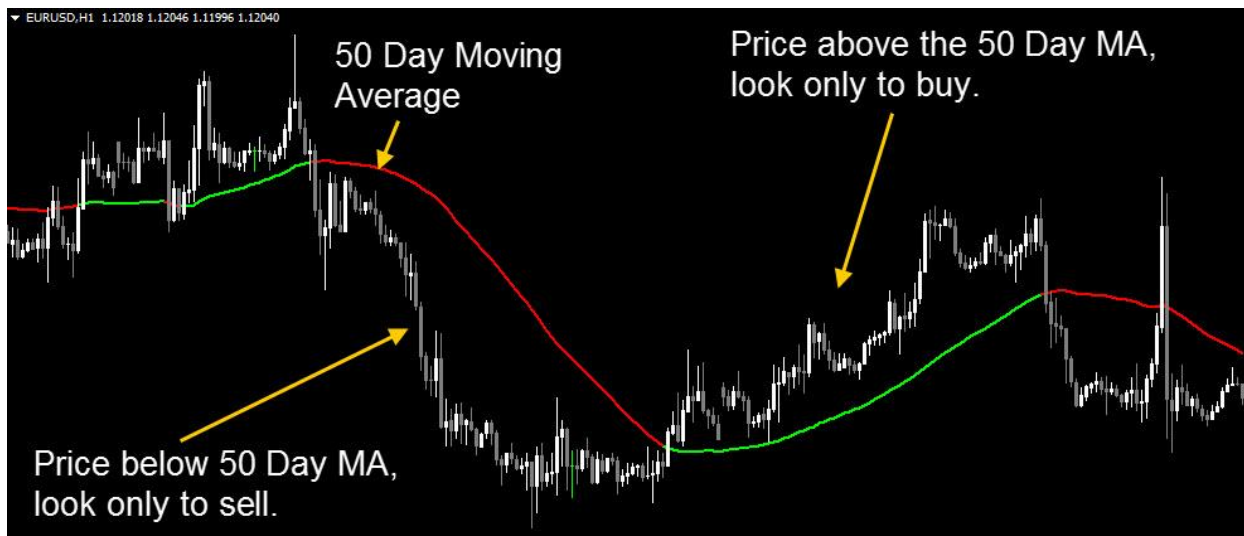


Image 3

The cross of the price isn't generally used as a buy or sell signal. Instead, it's used to identify the direction we should be looking to place trades. When price crosses above the 50 Day, we start looking for long trades. When price crosses below the 50 Day, we start looking for sell trades.

The 50 Day is used a lot by stock traders, but it's not the only way we can identify a trend direction. There are other ways.

I like to use the 34 Simple Moving Average, and with that, we look at the slope of the line on the chart.

In the image below, the MarCo Moving Average indicator prints bright green when the slope is up and it prints red when the slope is down.



Image 4

When the slope of the 34 SMA is up, we can be confident that the trend direction is upwards and the best trades to take will be the long trades. In an uptrend, short trades will be very small, and generally losing trades. The long trades will have the most momentum behind them and can go for a long way.

When the slope of the 34 SMA is down, the overall trend is downwards and the short trades become the trades that are the most appealing.

When the 34 SMA is sloped upwards, we look only to take long trades. It doesn't matter if the price is above or below it, as long as the SMA is sloped up, we want to be taking long trades.

In identifying a trend, it's important that we use a setting that's not too fast. We want to avoid using settings like 3, 5, or 8. The larger Moving Averages serve us better, 13 is fast but it can work, 21, 34, 55 and so on, make good slower Moving Averages.

Another very popular way to identify a trend is to use 2 Exponential Moving Averages. Once fast and one slow.

In this example, I will be using the 12 EMA and the 26 EMA.



Image 5

When the 12 EMA crosses above the 26 EMA, the trend is upwards. When the trend is up, we look only to take long trades.

When the 12 EMA crosses below the 26 EMA, the trend is down. Once this happens, we look only for short trades.

The crossovers are NOT signals to take a long or a short trade. The crossovers occur only to tell us the direction we will start looking for trades. The MAs (Moving Averages) cross up, we start to look for long trades. When the MAs cross down, we start to look for short trades.

The 12/26 settings are fairly quick settings for a pair of Exponential Moving Averages (they are still very good settings), another alternative is a little slower, this is the 21 EMA and the 55 EMA.

The slower the settings (bigger the period number), the longer it will take to switch trend direction. At the same time, it is less likely to get faked out by small moves in the market that could cause the trend to change on a set of faster Moving Averages.

Avoid using small settings like 3/5, 5/8 or other single digit numbers. They will get very messy and switch back and forth very easily, they don't provide any help when looking for a trend direction.

I have built a special crossover indicator for you, one that makes the crossovers easier to see and gives you a clear view of the trend.

It's called the MarCo-ColorCrossover indicator and I want you to have this.

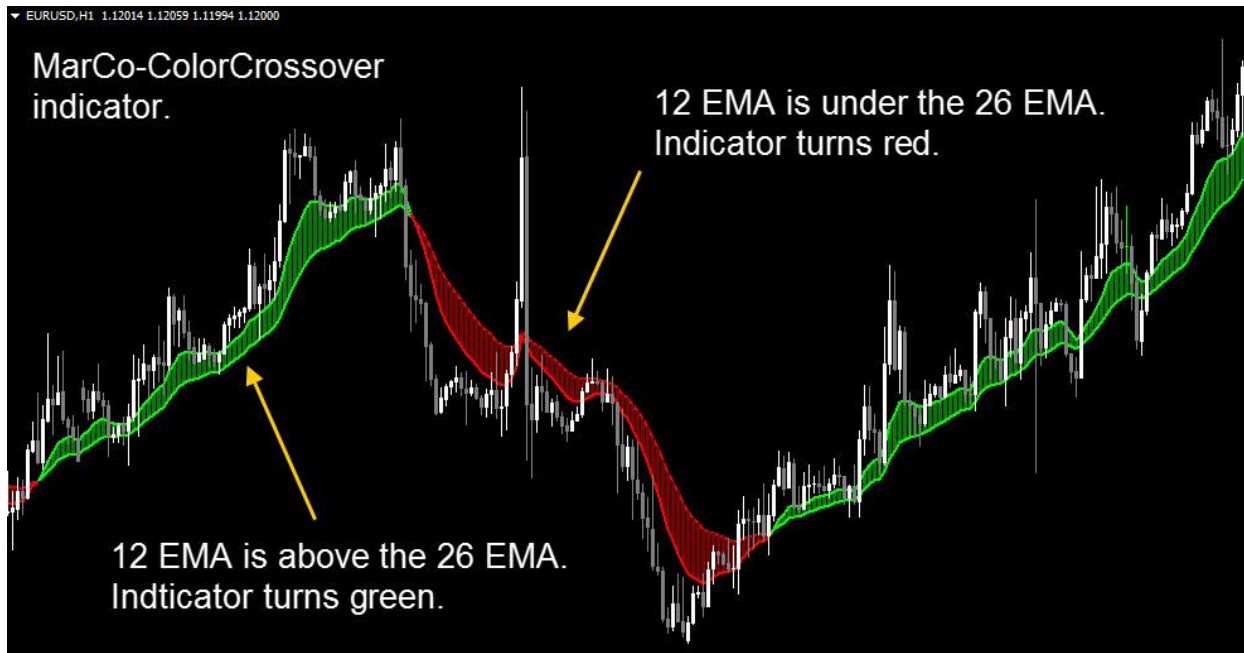


Image 6

When the 12 EMA crosses above the 26 EMA, both moving averages will turn **green**. Additionally, there will be a green fill in between the moving averages to form a kind of a ribbon.

When the 12 EMA crosses below the 26 EMA, both of the moving averages will turn **red** and there will be a red fill in between the 2 moving averages.

The indicator has options. You aren't stuck using the 12 EMA and the 26 EMA. You can change them to anything you want. You can use SMAs or one of each. You can choose the price method (Open, High, Low, Close) and you can even choose to shift one or both of the moving averages.

This is such a nice indicator!

Support and Resistance

A Moving Average can provide us with what's called "**Dynamic Levels of Support and Resistance**".

The term **Dynamic** is used because as the price moves, so does the Moving Average. It's able to follow the price, and along the way, provide good spots where the market will bounce off the MA.

In the image below (Image 7) we use a 34 EMA. Price bounces off of it several times, first as support as price is above the 34 EMA, then as resistance as price moved below it, then back to support again.



Image 7

Dynamic Support and Resistance can also be accomplished with a Simple Moving Average, it doesn't have to always be an EMA.

When we have a new chart, start with a Moving Average like the 34 EMA and see if it works well as support and resistance. It might not... In cases when it doesn't, change the Moving Average setting until you find one that does work. Once you discover an appropriate Moving Average setting, this setting will likely continue to provide strong levels of Support and Resistance in the future.

Entry Signals

Moving Average crossovers work well in providing us with trade signals.

Smaller settings are good when we are looking for entry signals. We leave the larger settings for trend identification.

In the image below (Image 8) the EMAs are:

- 3 EMA
- 8 EMA



Image 8

With the MarCo-ColorCrossover indicator, the crossovers are clear as day. The crossover up goes from red to green, the crossover down goes from green to red.

The crossovers work really well IN THE TREND DIRECTION.

When the market is moving, it will generally move in the direction of the trend more than against the trend.

Taking every crossover that comes along will result in as many losses as wins, so in order to limit these losses and improve the win ratio, we take trades in the trend direction only.

In an uptrend, the entry signals are when the crossovers cross up. In a downtrend, the entry signals are when the crossovers cross down.

Exit Signals

Moving Average crossovers work well as exit signals as well as entry signals.

The same EMA settings that we use to enter a trade can be used to exit a trade.

When we have a Moving Average cross upwards to signal a long trade, the exit would be when the Moving Averages cross downward.

When we have a Moving Average cross downwards to signal a short trade, the exit would be when the Moving Averages cross upwards.



Image 9

A Moving Average crossover is an excellent way to exit a trade.

The crossover can help us capture as much of the potential market move as possible.

Trend traders love the Moving Average crossover exit strategy. The gains using this exit method will often double, triple, or more, the potential loss. The reward to risk ratio will average 2:1 or 3:1, sometimes even more.

Sideways Markets

The market is nice to trade when it's trending in the way we all want it to, but there are times when the market moves sideways and becomes too risky to trade.

Choppy market conditions are a nightmare for many traders, but a Moving Average can help us see when the market is flat, choppy, and sideways.



Image 10

In a market that is moving sideways, one that is choppy and non-directional, a Moving Average will appear to move through the center of it.

The above image (Image 10) the 34 SMA is on the chart.

The price is flip-flopping above and below the Moving Average. The market isn't using it as support or resistance. The market isn't staying on one side or the other for very long, and it isn't pulling away from the Moving Average before it gets pulled right back again.

This is a market that we do NOT want to trade. We stay clear of this kind of market.

Moving Average Trading System 1

We are going to take the MarCo-ColorCrossover and build a trading system out of it.

It will be called MATS1 (Moving Average Trading System version 1)

We will use the MarCo-ColorCrossover indicator twice. This is what it will look like:

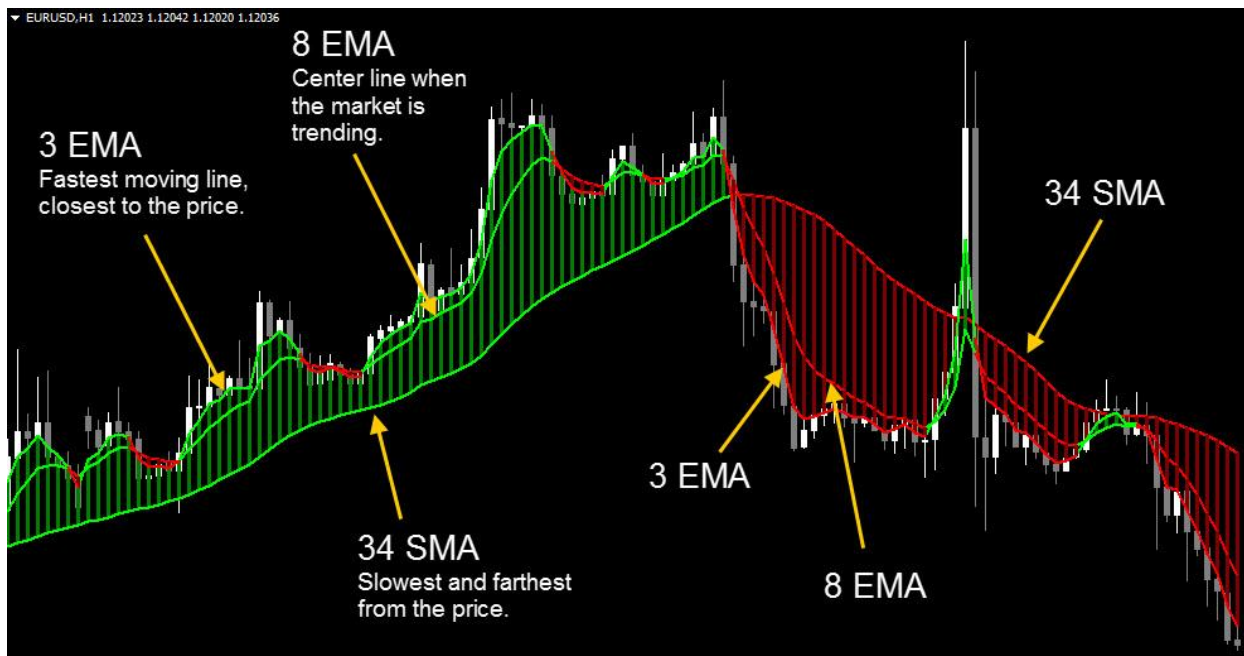


Image 11

Just by looking at the chart above (Image 11), you can get an idea of how this is going to be traded.

We will be looking for the trend direction with the SMA and then be taking trades in that direction when the EMAs cross into the trend direction.

Setting up the chart:

Step 1.

Apply the MarCo-ColorCrossover indicator, use the settings:
8 EMA and 34 SMA

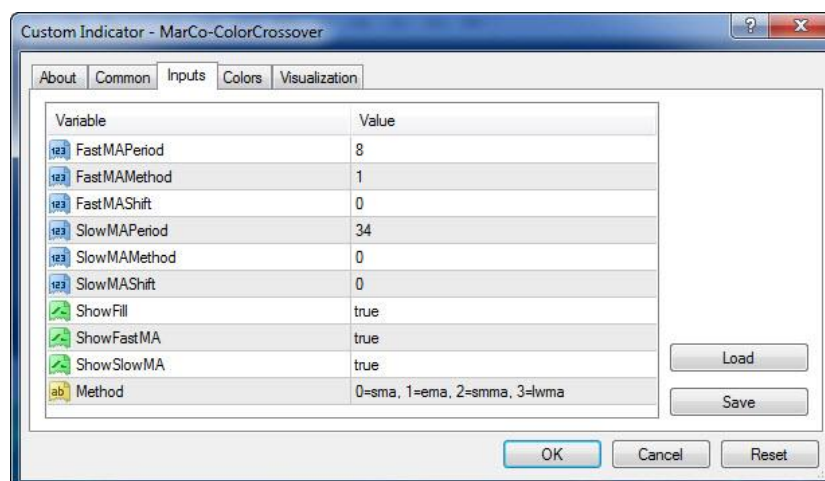


Image 12

Step 2.

Apply the MarCo-ColorCrossover indicator a second time, use the settings:
3 EMA and 8 EMA

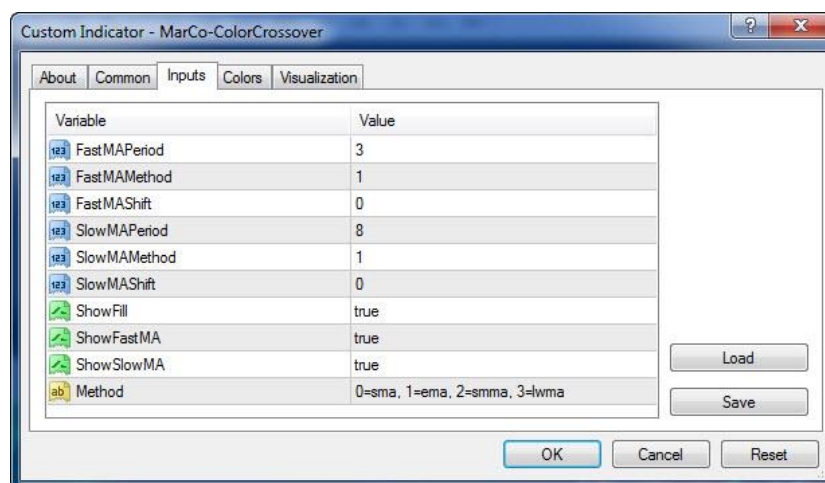


Image 13

LONG RULES

Step 1.

The 8/34 ColorCrossover must be **green**.

Step 2.

The 3/8 ColorCrossover must be **red**.

Step 3.

Enter a long trade when the candle closes and it turns the 3/8 ColorCrossover **green**.

Step 4.

Stop Loss goes under the recent swing low.

Step 5.

Close the trade when the 3/8 ColorCrossover turns **red**.
(Alternatively, you can choose to place a 1:1 Profit Target.)

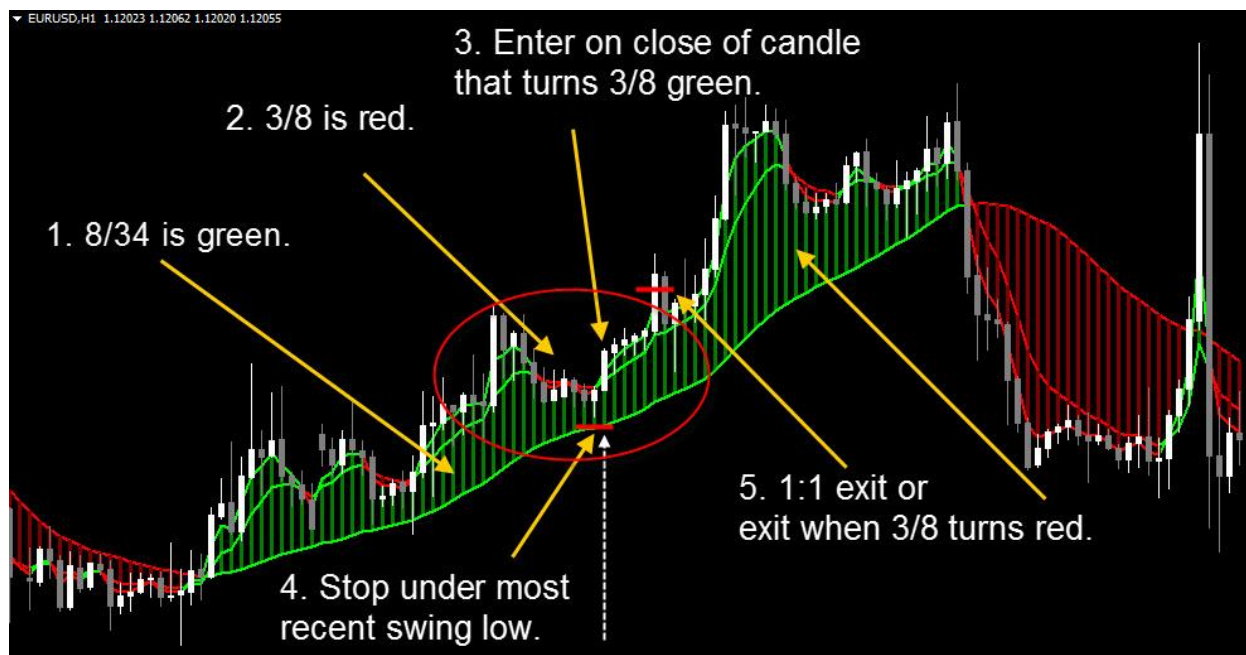


Image 14

SHORT RULES

Step 1.

The 8/34 ColorCrossover must be **red**.

Step 2.

The 3/8 ColorCrossover must be **green**.

Step 3.

Enter a short trade when candle closes and it turns the 3/8 ColorCrossover **red**.

Step 4.

Stop Loss goes above the recent swing high.

Step 5.

Close the trade when the 3/8 ColorCrossover turns **green**.

(Alternatively, you can choose to place a 1:1 Profit Target.)

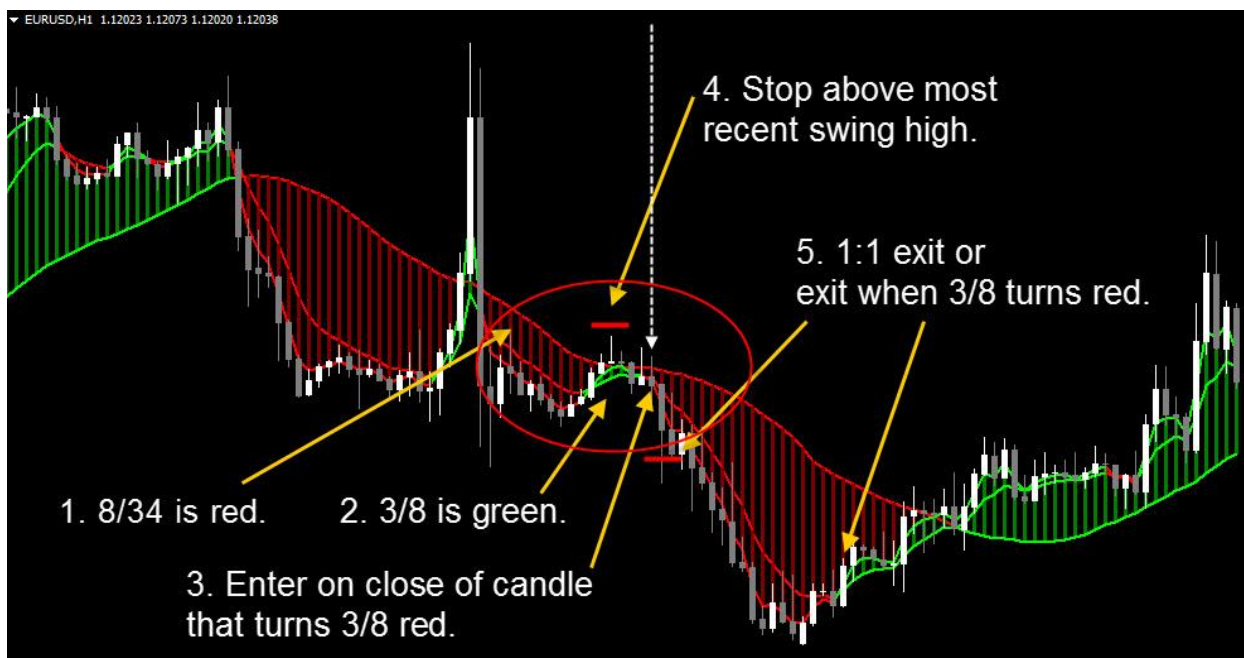


Image 15

Moving Average Trading System 2

We are going to take the MarCo-ColorCrossover and the MarCo-MA2Color build a trading system out of them.

It will be called MATS2 (Moving Average Trading System version 2)

This is what it will look like:

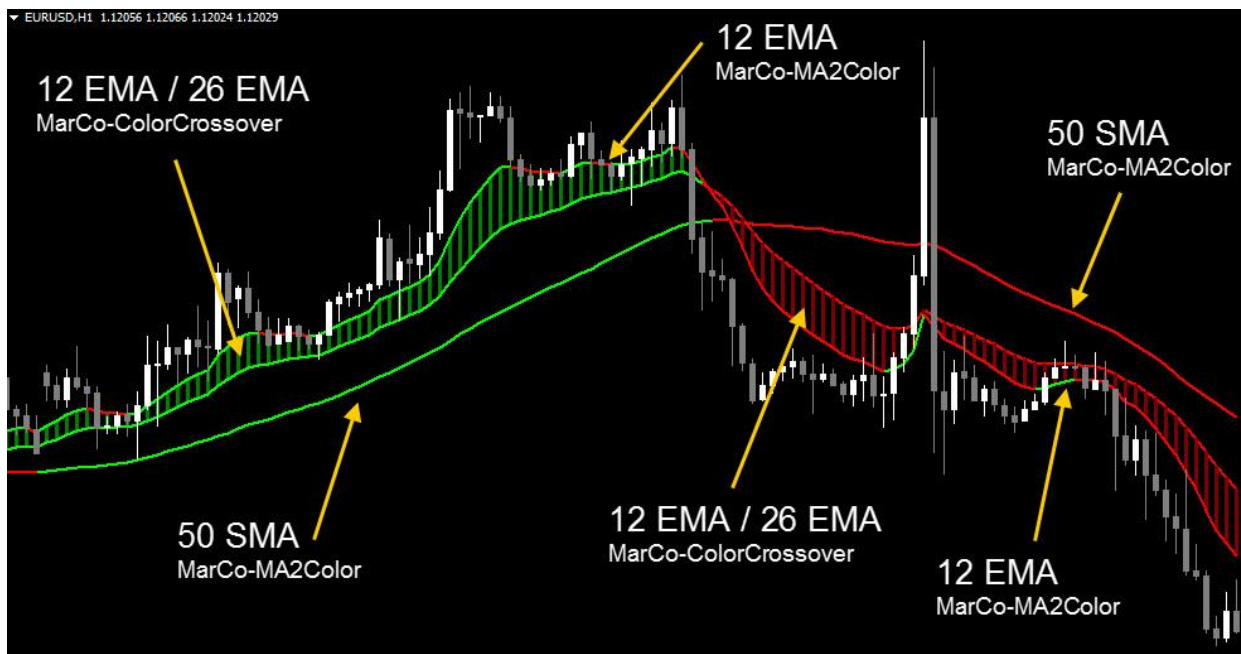


Image 16

Setting up the chart:

Step 1.

Apply the MarCo-MA2Color indicator, use the settings: 50 SMA.

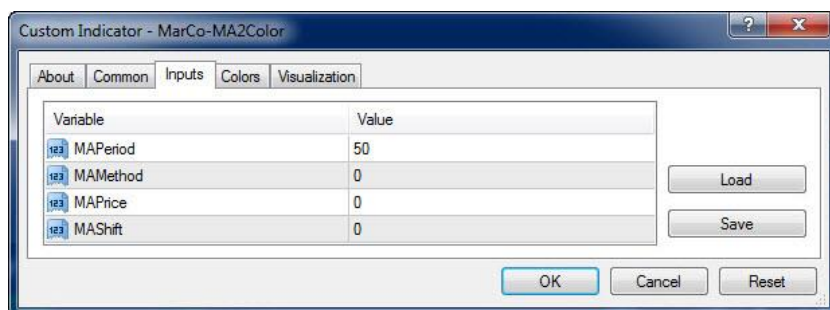


Image 17

Step 2.

Apply the MarCo-ColorCrossover indicator a second time, use the settings: 12 EMA and 26 EMA.

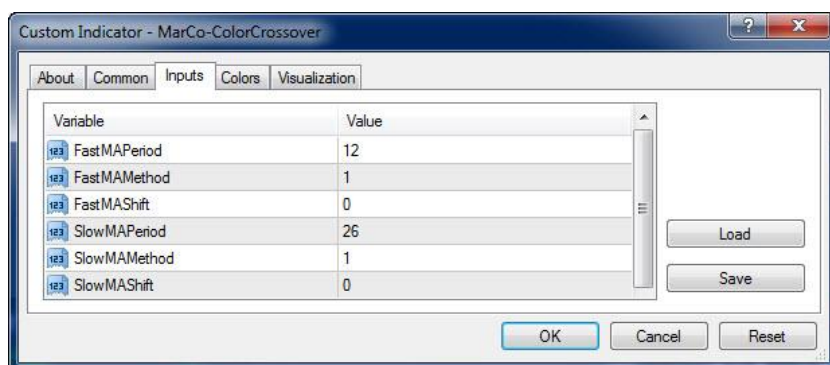


Image 18

Step 3.

Apply the MarCo-MA2Color indicator, use the settings 12 EMA.

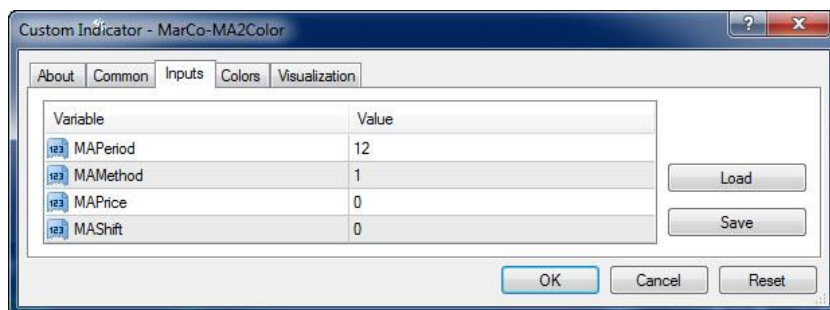


Image 19

LONG RULES

Step 1.

The **50 SMA** must be **green**. The 12/26 EMAs must be **above** the **50 SMA** and also be **green**.

Step 2.

The **12 EMA** turns **red**.

Step 3.

Enter long trade when candle closes and it turns the **12 EMA green**.

Step 4.

Stop Loss goes under the recent swing low.

Step 5.

Close the trade when the **12 EMA** turns **red**.
(Alternatively, you can choose to place a 1:1 Profit Target.)

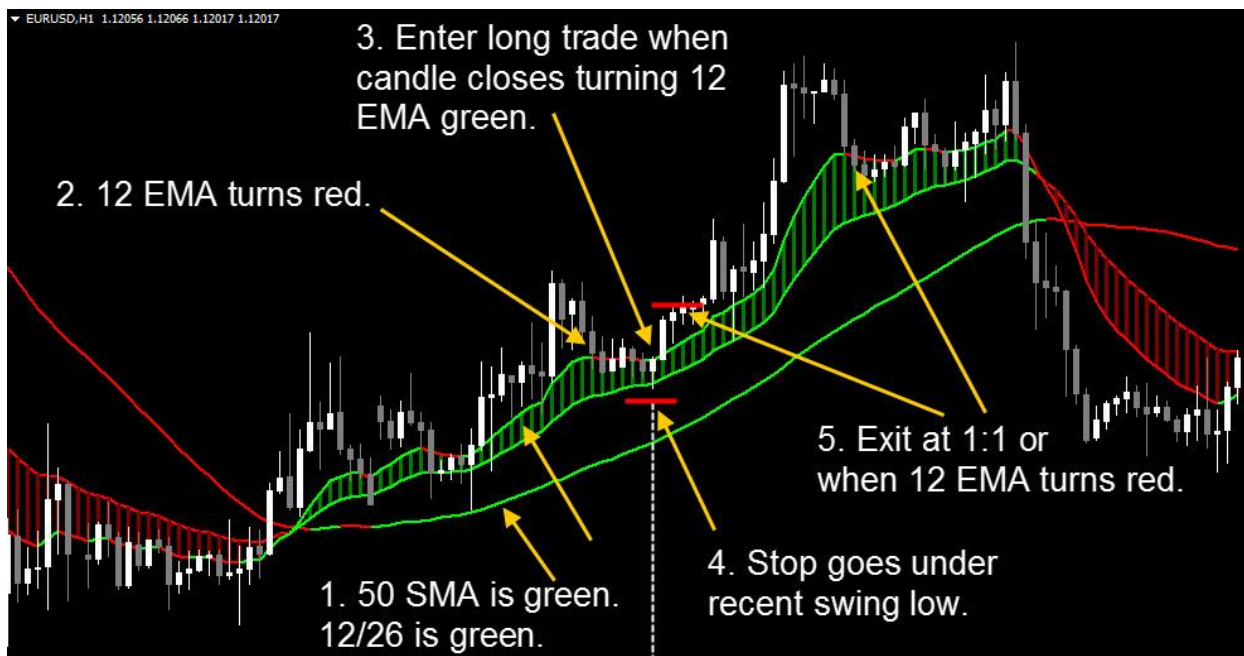


Image 20

The **50 SMA** must be **red**. The 12/26 EMAs must be below the **50 SMA** and also be **red**.

The **12 EMA** turns **green**.

Enter short trade when candle closes and it turns the **12 EMA red**.

Stop Loss goes above the recent swing high.

Close the trade when the **12 EMA** turns **green**.
(Alternatively, you can choose to place a 1:1 Profit Target.)

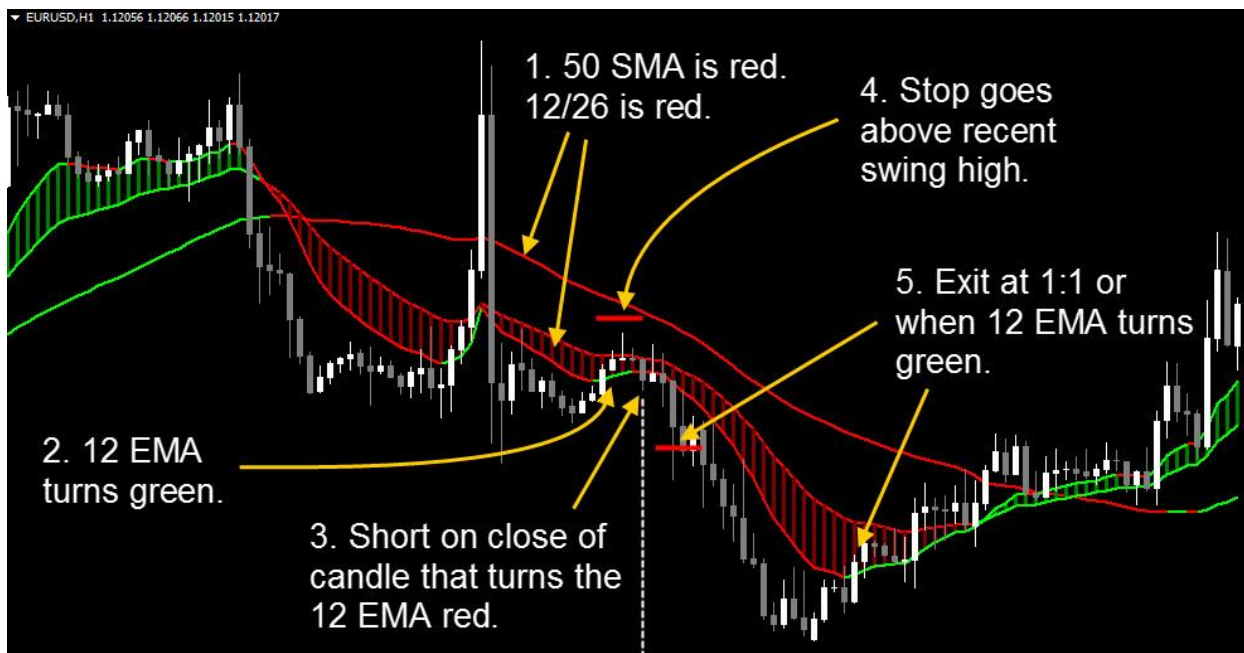


Image 21

50 Day Moving Average

Earlier in the manual, I showed a 50 Day Moving Average. In that instance, the moving average turned green when the price closed above the 50 Day and it turned red when the price closed below the 50 Day. I will show you how to do that with the MarCo-ColorCrossover indicator.



Image 22

The Fast MA must be set to 1 EMA and then turned invisible by turning the ShowFastMA option to false. The ColorCrossover fill will also be turned invisible by making the ShowFill option to false.

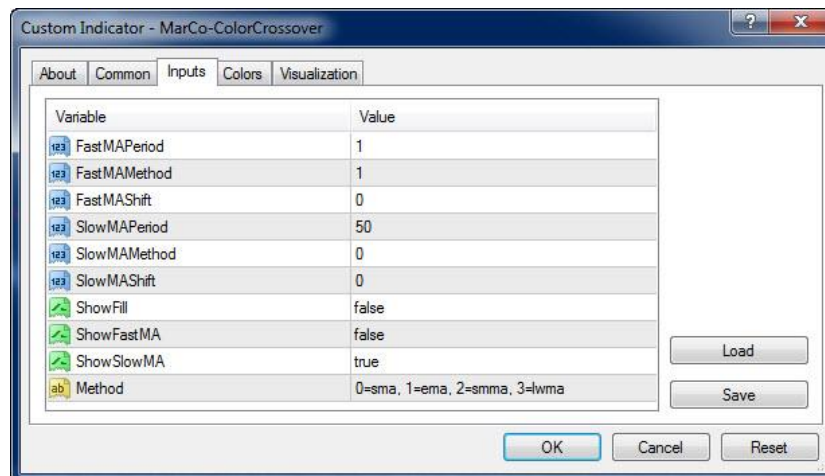


Image 23

Conclusion

Moving Averages are powerful tools when you know how to use them. And as you've seen, we can build a complete trading system based on only Moving Averages.

We have learned that:

- Longer period Moving Averages for trend direction.
- Longer period Moving Averages can act as support and resistance.
- Trade in the direction of the trend.
- Smaller period moving averages for entry signals.
- Use the same Moving Averages used for entries for exits.
- Use Moving average to determine a no-trade flat and sideways market.

Most trading systems are based either directly on Moving Averages or loosely on Moving Averages. Some of the most commonly used indicators, like the MACD, are based entirely on MAs.

Use them to your advantage. Moving Averages can be a profitable tool now that you know how to use them.

The best of luck in your trading career!

Russ Horn