## Moving Average Convergence Divergence (MACD) Momentum Indicator

The MACD is a great trending indicator that can be used for many daytrading strategies.  A bullish market is indicated by the faster-moving average crossing the slower-moving average on the way up.  A bearish market is indicated by the faster-moving average crossing the slower-moving average on the way down.  On top of that, the MACD has different periods for the fast- and slow-moving averages.  The typical default MACD periods are 8, 17, 9 or 12, 26, 9.

The MACD is based on three moving averages, however, they essentially show up as being only two lines.  The 8 •• period and the 17 •• period moving averages are combined to form the faster-moving average line.  The 9 •• period exponential moving average forms the slower-moving average.  In your daytrading strategy, the MACD moving average lines can be read for three pieces of information to give you the buy and sell signals you need for successful trades.

The first type of buy and sell signal you get from the MACD is called a breakout.  This breakout is signified by the faster-moving average crossing the slower-moving average.  If you were to examine a MACD chart, you would see a few places where this is happening.  Like we talked about earlier, when the faster-moving average line crosses the slower-moving average line on the way up, you've got a bullish signal.  Conversely, when the faster-moving average line crosses the slower-moving average line on the way down, you've got a bearish signal.  That's a breakout.  There are some traders who will enter or exit a trade based when the line crosses, however, keep in mind that by doing so, you could limit potential profits and take on additional losses.

The second type of buy and sell signal we can get from the MACD is to test for support and resistance.  When you're day trading stocks, you might be told to trade on the cross, but here is something you can add to your strategy instead of just blindly trading at the cross.  What you can do is check to see if the indicator lines are moving in the same direction and test the indicator line as being a support or resistance line after the cross.

The last type of buy and sell signal we can get from the MACD is divergence information.  When the fast- and the slow-moving average lines move away from each other, the mound on the chart expands.  As these lines draw near to each other, the mound shrinks.  That is called divergence.  Divergence is an important day trading tip that can strengthen your position on a trade if read correctly.

Using the MACD is a good way for experienced day traders to get an idea of when to buy and sell based on averages that give you a logical reason to buy or sell at a particular time.

## About the Author

Manny Backus is an expert at helping day traders make hundreds or thousands of dollars within just the first hour of the trading day. Visit Day Trading Pro for more information.

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