Twitter Thread by The Chartians



The Chartians
@chartians

If you are are not aware of these 4 indicators then YOU are learning TRADING the wrong way !

2nd one is the penultimate of all ■

Remember these are reference indicators and should be used as added confirmation only and only with price and volume.

Summary/:
1. RSI
2. 200DMA
3. 21 EMA
4. Pivots
5. AVWAP

Pre summary :
1/What is the indicator
2/Uses of indicator
3/Disadvantages of indicator
4/Optimal use of indicator

The Relative Strength Index (RSI), developed by J. Welles Wilder, is a momentum oscillator that measures the speed and change of price movements. The RSI oscillates between zero and 100. Traditionally the RSI is considered overbought when above 70 and oversold when below 30.

1. Change in price momentum.
RSI is mainly used to gauge momentum of a trend.

Anything above RSI 60 is bullish and below 40 is bearish.

2. To spot a general trend
RSI should mainly be used to gauge a general trend.

Any RSI that is making constant HH/HL with the price indicates that price is in s bullish territory.

3. Divergence
Using RSI you can spot Divergence. This basically means that when Price makes HH and RSI make LL it either suggests a pause in momentum or price reversal.

Bullish Divergence - Price falling but RSI making HH

Bearish Divergence - Price rising but RSI making LL

4. BO before Price
If price is seen breaking through a key line of resistance, confirmation will occur when RSI moves into overbought territory. The idea is that if market momentum is up, RSI should be up too! The same is true if price is headed down, and breaking support.

Disadvantages of RSI
1. Fake signals
Usually traders take the Divergence too seriously and hence leading to fake buy and sell signals leading to losses.

Divergence can sometimes indicate that the price will move up but the momentum will diminish and hence the drop in RSI.

2. Irrational trades
Using Divergence Trader short at every divg and price keeps moving up in lagging momentum.

Hence irrational trades leading to loss.

Same happens on downside too.

3. Exiting the trade
When the price breaks out and the RSI doesn’t traders are in ambiguity wether price will fall or rise and hence this leads them to not ride the entire trend.

Classic example is AdaniEnt !

How to optimally use RSI ?
1. Use RSI only as a confirmation to breakouts and breakdowns.

2. Use it to add when price retraced back to previous swing.

3. Risky traders use it to catch falling knives using Divergence.

In the end price is supreme !

What is 200DMA ?

It is an arithmetic average of the last 200 days closing price. Some prefer open, high or low prices but most widely used is the closing price

Uses of 200dma ?

1. Trend filter

This moving average is widely used or called as the mother of all averages.

Anything above 200dma with bullish structure is considered as uptrend.

2. Widely used

It is the average that is widely used among all traders and investors. And hence the relevance and importance is penultimate.

Disadvantages?

1. Your can sometimes miss great bullish structures that happen below the 200dma and hence sometimes can get you in ambiguity wether to enter after a huge price surge

2. The basic theory that anything below 200DMA is bearish can affect investment thesis of investors.

It doesn't matter if the price is below 200dma but if the fundamentals are intact, investor's usually exit the stock.

Here the confusion is created when technicals and fundamentals are misjudged.

A stock can trade below 200dma even after being fundamentally well placed !

A stock can trade above 200 dma even after having bad fundamentals !

The penultimate rule for a trade should be only long above 200dma and only short below 200dma.

This shud only happen when there is a bullish or bearish structure.

What is 21ema ?

The 21-day exponential moving average (EMA) can be thought of as the Goldilocks of moving averages. It is faster than 10ema and slower than 50ema and hence best suited for price trailing.

Uses

We usually use 21ema as a trailing average and hence the importance relies only in using it on a close basis.

Disadvantages

21ema gives a lot of whipsaws as the DAY data is too less. But it suits perfectly when you trade it using your breakout strategy.

It will also sometimes not let you ride the entire trend because one selling day can ruin your gains and lead an early exit.

Optimal use.

Any kind of ema or ma is a data based on price and hence when we use these EMAs it shud be basically used as a

confirmation bias and not as a penultimate setup.

Here also price is supreme.

What is a pivot ?
A pivot is a significant price level known in advance which traders view as important and may make trading decisions around that level. As a technical indicator, a pivot price is similar to a resistance or support level.

1. Pivots are majorly used to book gains as it is an automated SnR based on previous closing data.

So any trader who isn't aware of basic PA to calculate targets can use it as a tool to book gains or trail gains.

Traders use pivots to catch big unrealistic moves when they cross their monthly or yearly pivots.

The demerit is traders get too many pivots and hence it leads to ambiguity as to where to book and where to not.

This leads to multiple entry and exits hence hampering the average gains.

Ultimately this is another indicator that can actually be used along with price to book partial gains and let the stock run.

In market there is no upside limit and hence can be used as a great tool.

PRICE IS THE BEST INDICATOR !!

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>
> — The Chartians (@chartians) August 3, 2022

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Thankyou !