

MACD - MOVING AVERAGE CONVERGENCE/DIVERGENCE

Bloomberg definition:

Gerald Appel developed Moving Average Convergence/Divergence as **an indicator of the change in a security's underlying price trend**. The theory suggests that **when a price is trending, it is expected, from time to time, that speculative forces "test" the trend**. MACD shows characteristics of both a trending indicator and an oscillator. While the primary function is to identify turning points in a trend, the level at which the signals occur determines the strength of the reading.

StockCharts definition:

....**By comparing moving averages, MACD displays trend** following characteristics, and by plotting the difference of the moving averages as an oscillator, **MACD displays momentum** characteristics....The MACD fluctuates above and below the zero line as the moving averages converge, cross and diverge. Traders can look for signal line crossovers, centerline crossovers and divergences to generate signals.

TPA explanation

TPA uses MACD to confirm an inflection points. TPA looks for the Signal Line to cross the MACD line at historic extremes. Extremes are different for each security. TPA looks at signal that occur at past extremes to confirm an inflection point.

Example below of signals that occur at a stock's (MSF) extreme MACD levels: SELL signal crosses are valid at +0.20 or higher and BUY signal crosses are valid at -0.33 or lower:

