



Daily & Weekly Charts

FMG Close @ 23.97 on Feb 19th, 2021.

The accelerating uptrend that began in January 2019 is illustrated in the Weekly Chart below. The shorter timeframe, and recent volatility, may indicate a pause with a consolidation period.

Toolbox

Trendlines / Support and Resistance

Moving Average Crossover





Trendlines / Support and Resistance

Trendlines, like Support and Resistance levels, are fundamental concepts to be applied in Chart Analysis. A basic approach to understanding them is as follows.

Support develops in areas where buyers step into the market and outnumber sellers thus providing a floor level in price. An uptrend can be considered an inclining support line where buyers are finding themselves having to bid increasingly higher to have their orders filled each day. An uptrend line is represented on the chart connecting the lows of multiple price bars.

Resistance develops in areas where sellers step into the market and outnumber buyers thus providing a ceiling level in price. A downtrend can be considered a declining resistance line where sellers are finding themselves having to offer increasingly lower prices to have their orders filled each day. A downtrend line is represented on the chart connecting the highs of multiple price bars.

It is important to understand that a trendline is not controlling the price in any way but rather is a graphical illustration of what the price has already done. A change in the nature of the price action and a subsequent break of a trendline can be the indication traders and investors need to register this change in real time.

Trendlines may be well defined and give a good indication of the balance of probability, or sometimes better represented as ranges and channels. Support from an uptrend line may become resistance following a break and vice versa for downtrend lines.

Probability Framework

FMG's Weekly Chart on the previous page gives a clear picture of the accelerated nature of the uptrend that began in January 2019. It is also a good illustration of how longer term trends can contain periods of shorter term trending activity followed by periods of price consolidation.

The long term uptrend line (green) in the zoomed in Chart above, can be plotted to represent the stage of the trend that developed momentum in April 2020. Following a period of consolidation, the trend again accelerated around the beginning of December 2020, broke above Resistance and moved quickly as represented by the short term uptrend line (red).

Price gave an indication of changing conditions when it broke the short term uptrend line and then came under increasing Resistance pressures.

A consolidation period has again developed with days of high volatility. The impact of Support, including that of the approaching longer term uptrend line, will be closely monitored for evidence of a resumption in trending behaviour.



Moving Average Crossover

The Moving Average Crossover indicator applied here uses a 15 day EMA (Blue) and a 30 day EMA (Red).

A Moving Average smooths price data over the length of the average with an Exponential Moving Average giving greater weight to the most recent (relevant) price action in the calculation. With a smoothed representation, some of the daily fluctuations in price movement can be reduced to give a more filtered view on price movement.

When prices are trending, it is visually apparent by comparing today's price with that of the recent range. The shorter the term of the Moving Average, the more closely it will hug the most recent price. By utilising the two Moving Averages of differing timeframes, the crossover points can be indicators that a trend direction may have changed. We would expect price to remain above both averages in a strong uptrend, with the averages themselves rising but with the longer term average rising more slowly and therefore lagging for example.

A classic BUY signal is given when the short term average crosses above the long term average, and a classic SELL signal is given when the short average crosses below the long term average. This of course applies when trading from the LONG side. A SHORT trade would apply the principles in reverse.

Moving Average Crossover signals work well with trending stocks but often give false signals for stocks in consolidation ranges. It is recognised as a lagging indicator that is best used in combination with other analysis techniques.

Probability Framework

The FMG Chart shows a good example of a strong trend trade with the green arrow BUY signal given by the positive crossover in April 2020. The short term Blue Moving Average stayed above the longer term Red Moving Average until the negative crossover in September. On a couple of occasions, the averages came close together but did not cross, therefore not giving a SELL signal until the one in September. The lagging nature of the indicator is also illustrated though as the SELL signal was quite a bit lower than the recent high prices at the time.

A period of consolidation followed with a number of false signals in the period indicated by the horizontal pink bar.

Another true BUY signal was given with the positive crossover green arrow in December. This was confirmed by the break above Resistance.

The averages have come close together in the current price action but as yet have not crossed. The narrowing of the averages is an alert and confirmation from other techniques is used to determine the balance of probability.



Combined Probability Framework

FMG appears to be in a consolidation period with days of large price volatility following the end of the short term uptrend that began in December. Resistance around the 25.30 mark provides a level to watch and Support strength from the longer term group of Guppy Multiple Moving Averages is being tested. This is Blue Sky territory for FMG so the Support and Resistance levels can be expected to be fluid.

The Trendlines notes indicated the alert given by the change in behaviour as price broke the short term uptrend line which then acted as further Resistance pressure. The approaching longer term uptrend line also now provides an alert to monitor for signs of support and possible resumption in trend arising from it as it nears.

The Moving Average Crossover has not yet provided a SELL signal on its own but again provides an alert with the narrowing gap between the averages a potential precursor.

