

How to use the MACD indicator to determine trend direction

By Alexander Londoño, 29 Aug 2014

The moving average convergence divergence (MACD) system is a trend indicator that helps us determine the current trend of the market and its strength.

The MACD indicator uses the difference of the distance between two moving averages, usually the 12 and the 26 period moving averages, to indicate if the market is currently in an uptrend, a downtrend, or moving sideways.

When the 12 period moving average is below the 26 period moving average and it is pointing up and ready to cross the 26 to the upside, then the market is changing direction to the upside and a possible change in trend may be in the works.

The MACD uses the indicator's line in blue and the signal line, which is the red-dotted line.



When the MACD line (blue line) crosses below the signal line, then the trend has changed to the downside.

When the MACD line crosses above the signal line, then the trend has changed to the upside.

The green bars are the histogram and the histogram shows us how strong the trend is.

If the bars on the histogram are above the 0.00 line, then the trend is bullish, but depending on the height of the bars we can tell if the trend is strong or weak.

As the bars start getting smaller and smaller, this is an indication that the trend is losing strength and may be close to changing, even before the MACD line crosses its signal line.

We should keep in mind that the MACD is a trend indicator and it has to be used with other indicators or studies to determine the exact entry points, because **the MACD will only tell you the direction of the trend and its strength, it will not give you exact entry or exit levels.**

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