

Trading Indicators Cheat Sheet



Introduction

Technical indicators help traders analyze market trends, volatility, and momentum. This cheat sheet explains how to use these tools effectively, with actionable steps for setting them up and combining them for better strategies.

1. Moving Averages (MAs): The Trendsetters

- **Category:** Trend-following indicator
 - **Good for:** Identifying the overall trend direction
 - **Standard Settings:**
 - **SMA:** 50, 100, 200
 - **EMA:** 9, 21, 50
 - **Actionable Steps:**
 1. Apply a 50-period EMA to your chart to identify the short-term trend.
 2. Use a 200-period SMA to define the long-term trend.
 3. Look for crossovers: if the price crosses above the 50-EMA and the 200-SMA, consider it a potential buy signal. If it crosses below, it may indicate a sell signal.
 - **Customization:**
 - Shorten the periods for day trading (e.g., 9-EMA for faster signals).
 - **Limitations:**
 - MAs lag behind price, so use them in combination with faster indicators.
 - **Pro Tip:** Combine MAs with RSI to confirm trend direction and momentum.
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2. Relative Strength Index (RSI): The Overbought/Oversold Detector

- **Category:** Momentum oscillator
- **Good for:** Identifying overbought and oversold conditions
- **Standard Setting:** 14
- **Actionable Steps:**
 1. Apply the RSI (14) to your chart.
 2. Look for readings above 70 (overbought) and below 30 (oversold).
 3. In an uptrend, wait for the RSI to fall below 30 before considering a buy. In a downtrend, wait for RSI to rise above 70 before considering a sell.
- **Customization:**

- Adjust RSI to 7 for more sensitive signals or 21 for longer-term signals.
 - **Limitations:**
 - RSI can generate false signals during strong trends, so use it with trend indicators like EMA.
 - **Pro Tip:** Use RSI in combination with 50-EMA to confirm momentum during trend reversals.
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3. Moving Average Convergence Divergence (MACD): The Momentum Maestro

- **Category:** Momentum oscillator
 - **Good for:** Identifying momentum shifts and trend reversals
 - **Standard Settings:** (12, 26, 9)
 - **Actionable Steps:**
 1. Apply MACD to your chart with the default settings (12, 26, 9).
 2. Look for crossovers: if the MACD line crosses above the signal line, it's a potential buy. If it crosses below, it's a potential sell.
 3. Monitor the histogram: increasing bars confirm momentum in the direction of the crossover.
 - **Customization:**
 - Adjust the settings for faster or slower signals (e.g., 5, 35, 5 for longer-term trades).
 - **Limitations:**
 - MACD may generate false signals in sideways markets.
 - **Pro Tip:** Use MACD with Bollinger Bands to detect breakouts and avoid false signals.
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4. Bollinger Bands: The Volatility Watchdog

- **Category:** Volatility indicator
- **Good for:** Measuring market volatility and identifying reversals
- **Standard Settings:** (20-period SMA with 2 standard deviations)
- **Actionable Steps:**
 1. Apply Bollinger Bands to your chart with the default 20-period SMA.
 2. When the price touches the upper band, it may indicate overbought conditions (potential sell).
 3. When the price touches the lower band, it may indicate oversold conditions (potential buy).
 4. Watch for breakouts when the bands contract (low volatility).

- **Customization:**
 - Increase the period for longer trends or widen the standard deviations to reduce false signals.
 - **Limitations:**
 - Bollinger Bands can give false signals in low-volatility environments.
 - **Pro Tip:** Combine Bollinger Bands with MACD to confirm breakouts.
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5. Average True Range (ATR): The Volatility Meter

- **Category:** Volatility indicator
 - **Good for:** Measuring market volatility
 - **Standard Setting:** 14
 - **Actionable Steps:**
 1. Apply ATR to your chart to measure volatility.
 2. Use the ATR value to set stop-loss orders: in volatile markets, set wider stop losses; in calm markets, use tighter stops.
 3. Avoid trading during periods of extreme ATR spikes, as this may indicate unsustainable volatility.
 - **Customization:**
 - Adjust the period for more sensitivity to short-term volatility.
 - **Limitations:**
 - ATR doesn't show direction, only volatility.
 - **Pro Tip:** Combine ATR with trend indicators like EMA to measure risk when entering a trade.
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6. Stochastic Oscillator: Another Overbought/Oversold Gauge

- **Category:** Momentum oscillator
- **Good for:** Identifying overbought/oversold conditions
- **Standard Settings:** (14, 3, 3)
- **Actionable Steps:**
 1. Apply the Stochastic Oscillator to your chart.
 2. Look for crossovers near 20 (oversold) for potential buys and near 80 (overbought) for potential sells.
 3. Confirm signals with Pivot Points or another trend indicator.

- **Customization:**
 - Adjust the %K and %D settings for more or less sensitivity.
 - **Limitations:**
 - Generates false signals in strong trends, so confirm with other indicators.
 - **Pro Tip:** Use the Stochastic Oscillator with Pivot Points to find precise entry and exit points.
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7. Fibonacci Retracement: The Golden Ratio of Trading

- **Category:** Support and resistance indicator
 - **Good for:** Identifying potential support and resistance levels
 - **Standard Levels:** 38.2%, 50%, 61.8%
 - **Actionable Steps:**
 1. Apply Fibonacci retracement levels from a recent high to a recent low.
 2. Look for reversals near the 38.2%, 50%, and 61.8% levels.
 3. Combine with a 200-period SMA to confirm major support and resistance.
 - **Customization:**
 - Add additional Fibonacci levels (e.g., 23.6%, 161.8%) based on your strategy.
 - **Limitations:**
 - Fibonacci levels are not always reliable in volatile markets.
 - **Pro Tip:** Combine Fibonacci retracement with the 200-SMA to increase reliability.
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8. Volume: The Market's Fuel

- **Category:** Confirmation indicator
 - **Good for:** Confirming trends and potential reversals
 - **Actionable Steps:**
 1. Monitor volume to confirm price moves: increasing volume during an uptrend confirms strength; decreasing volume may signal a reversal.
 2. Look for volume spikes to identify potential breakouts.
 - **Pro Tip:** Combine volume with trend indicators like Parabolic SAR or Ichimoku Cloud to confirm trend strength.
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9. Parabolic SAR: The Trend Follower

- **Category:** Trend-following indicator
 - **Good for:** Identifying trend continuations or reversals
 - **Standard Settings:** Step of 0.02 and maximum of 0.2
 - **Actionable Steps:**
 1. Apply Parabolic SAR to your chart.
 2. Buy when the dots move below the price, and sell when the dots move above.
 3. Use volume or an additional trend indicator to confirm the signal.
 - **Customization:**
 - Adjust the step and max values to fine-tune the sensitivity.
 - **Limitations:**
 - False signals in choppy markets, so use with volume confirmation.
 - **Pro Tip:** Use Parabolic SAR in combination with rising volume for stronger trend signals.
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10. Pivot Points: The Daily Reference

- **Category:** Support and resistance indicator
 - **Good for:** Identifying potential support/resistance levels
 - **Actionable Steps:**
 1. Calculate pivot points based on the previous day's high, low, and close.
 2. Buy near support levels (S1, S2) and sell near resistance levels (R1, R2).
 3. Use alongside momentum indicators like RSI to confirm potential reversals.
 - **Pro Tip:** Combine Pivot Points with the Stochastic Oscillator to confirm overbought/oversold conditions.
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11. ADX (Average Directional Index): The Trend Strength Gauge

- **Category:** Trend-following indicator
- **Good for:** Measuring trend strength
- **Standard Setting:** 14
- **Actionable Steps:**
 1. Apply ADX to your chart with a 14-period setting.
 2. Look for readings above 25 to confirm a strong trend and below 25 to identify weak trends.

3. Combine with Bollinger Bands or ATR to spot potential breakout opportunities.
- **Pro Tip:** Use ADX to filter trades, entering only when the ADX confirms a strong trend.
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Combining Indicators for Better Results

1. Trend + Momentum:

- **EMA + RSI:** Use the 50-EMA for trend direction and RSI for overbought/oversold signals.
 - **Buy Signal:** RSI below 30, price above 50-EMA.
 - **Sell Signal:** RSI above 70, price below 50-EMA.

2. Volatility + Trend:

- **Bollinger Bands + MACD:** Confirm breakouts or reversals with both indicators.
 - **Buy Signal:** Price near lower Bollinger Band, MACD crossover.
 - **Sell Signal:** Price near upper Bollinger Band, MACD crossover.

3. Volume + Trend Confirmation:

- **Parabolic SAR + Volume:** Confirm trends with rising volume.
 - **Buy Signal:** Bullish SAR with increasing volume.
 - **Sell Signal:** Bearish SAR with increasing volume.
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General Rules for Combining Indicators:

1. **Avoid Redundancy:** Don't use multiple indicators that measure the same thing.
2. **Confirm Signals:** Use complementary indicators for better accuracy.
3. **Adapt to Time Frames:** Match your indicators to the trading timeframe.
4. **Wait for Confluence:** Look for multiple indicators confirming the same signal for stronger entry/exit points.