



HowToTrade

MCGINLEY DYNAMIC INDICATOR TRADING STRATEGY [PDF]

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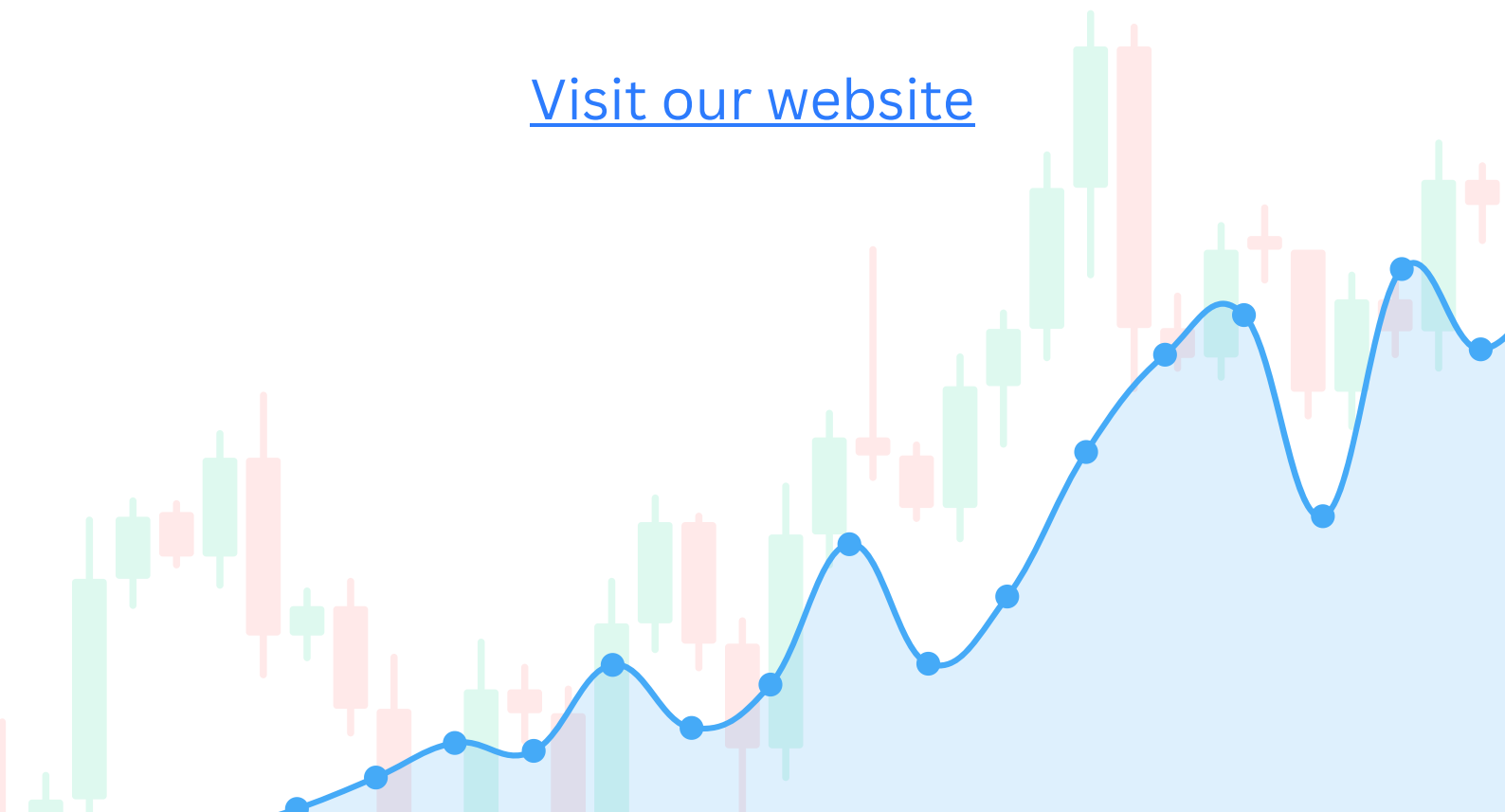




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McGinley Dynamic Indicator Trading Strategy

The McGinley Dynamic Indicator measures the moving average of securities over specific periods while adjusting for changes in market speed. Traders use this indicator to identify new trends in the market and find trading signals.

This McGinley Dynamic Indicator PDF guides you into how to use this responsive indicator in your trading.

What is the McGinley Dynamic Indicator?

The McGinley Dynamic indicator aims to solve one of the most critical issues of traditional moving averages: the lag during varying market speeds. By considering speed changes, the McGinley Dynamic can solve this issue and, therefore, be more accurate and responsive than any other moving average market tool. Its uncanny ability to respond appropriately to various market dynamics is the main reason why it is considered by many as the most reliable indicator among moving averages.

How Does the McGinley Dynamic Indicator Work?

To understand how it works, we first need to get the essential workings of the Simple Moving Average and Exponential Moving Average.

The SMA calculates an asset's average closing price over a given period. The EMA does almost the same thing but only places more emphasis on the prices in the last few periods of the entire period in consideration. This makes it respond more quickly to prices than the SMA. However, they do not account for the speed in the market, making traders unsure of what period to use for different financial markets with various speeds.

The McGinley Dynamic Indicator tackles this effectively by being less sensitive to short-term market fluctuations while upholding long-term trends better. Technically, the MD indicator calculates the difference between two exponential moving averages. The first has a short time frame, and the second has a longer period. By doing so, the McGinley Dynamic can solve the lag price data problem of simple and exponential moving averages.



The image above shows an EMA, SMA, and the McGinley Dynamic of the same period on the same chart. You can notice how the EMA and SMA average lines get breached more during market fluctuations while the McGinley Dynamic simply adjusts appropriately. That makes the McGinley Dynamic indicator more effective than other MA indicators.

How to Use The McGinley Dynamic Indicator in Trading

The McGinley Dynamic Indicator is easily accessible on many trading platforms, including TradingView and MetaTrader4 (MT4). Once you find your way to add the indicator, here are the different ways you can use it to find trading signals.

1. Trend Identification

The primary objective of any moving average trading indicator is trend identification, and the same is true for the McGinley indicator.

The rules are:

- 1.If the McGinley moving average line is underneath the price action, we're in an uptrend.
- 2.If the McGinley moving average line is above the price action, we're in a downtrend.



This trend identification strategy, however, doesn't give you specific trade entry signals. But you can rely on the MD moving average line to join an existing trend if you find a solid entry signal using another technical analysis indicator.

2. Price Action Crossovers

The most conventional way to generate trade entry signals using this technical indicator is by waiting for price action crossovers. You basically trade the crossovers of the price action and the indicator.

Simply put, you buy when the McGinley indicator line falls below the line chart. And you sell when the McGinley crosses the line chart to the upside.

3. Moving Average Crossovers

Another strategy for the McGinley Dynamic indicator is using it with other moving averages, like the Simple Moving Average, to confirm your bullish or bearish trend bias. You could even use two McGinley Dynamic indicators of different periods to trade the crossover strategy. It is an excellent strategy as it sets up fast and slow-moving average lines, which very often provide accurate trading signals.

To show you how it works, we'll be using the 10 and 15-period McGinley Dynamic for now. You can tweak these settings, though, to suit your trading style better.

Here are the steps you need to take to utilize this strategy effectively:

1. Pull up the 10 and 15-period McGinley Dynamic indicators. Change their colors to make them easily differentiable.
2. Buy when the 10-period crosses over the 15-period to the upside.
3. Sell when the 10-period falls below the 15-period.



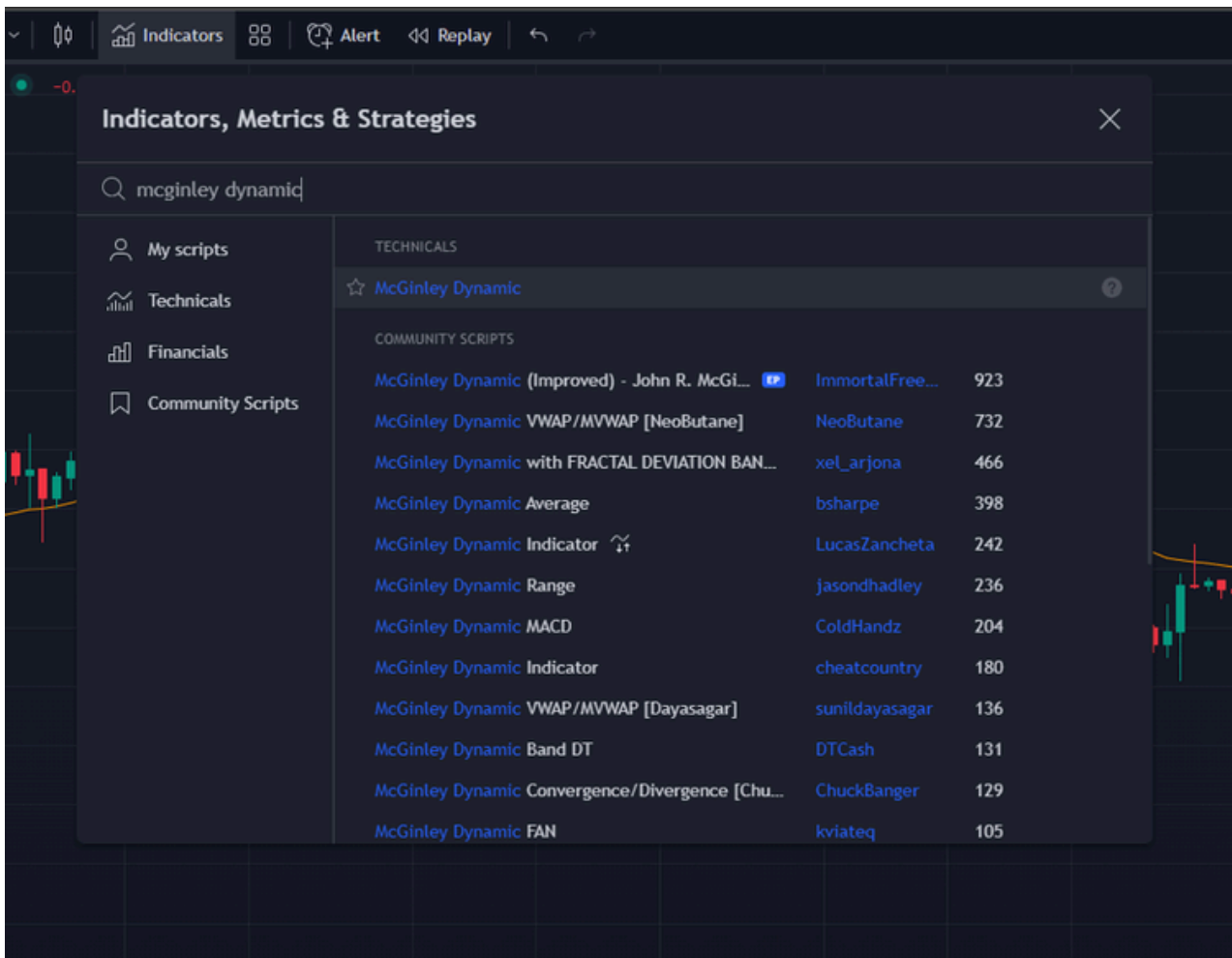
McGinley Dynamic Indicator Trading Strategy Tutorial

Here's a step-by-step guide on how you would go about trading the McGinley Dynamic Indicator.

Step 1: Add the Indicator

To add the McGinley Dynamic indicator, you need to search it on your trading platform and add it to your price chart. Below, we are going to show you the process on TradingView, but the process remains largely the same on any other trading platform.

To do that, click on the "Indicators" tab on top of the main chart of your TradingView. Among the "Indicators, Metrics, and Strategies" tab on your chart, select "Indicators." After that, type "McGinley Dynamic" and select it to launch it on your chart.



Take note that the McGinley Dynamic is not available as a custom-built indicator on the MT4. However, you can download and add it manually and add it to your platform.

Step 2: Find Buy and Sell Signals

In the previous section, we described some strategies to trade the McGinley Dynamic indicator. Below, we will show you a unique method to find trading signals using the McGinley Dynamic indicator focusing on price data crossovers.

So, this is how you would scout for buy and sell signals with the price action crossover strategy; for instance: change your candlestick chart to a line or an area chart. Place your McGinley Dynamic indicator on it and wait for crossovers between the two lines.



As you can see in the XAU/USD chart above, when using this strategy, you buy when the price action line crosses the McGinley Dynamic to the upside. Conversely, sell when the price action crosses below the McGinley Dynamic Indicator.

Step 3: Place a Stop Loss and Take Profit Target

If you're trading the price action crossover strategy, it's best to set your stop loss below the candlestick where the crossover occurred. Even better, to take the safest approach, you could place it below the closest swing high in a bearish trade or swing low in a bullish trade (as seen in the example below).



As for taking profits, you can set those at the opening of an opposite signal. So, if you were in a bullish trade, sell when the indicator gives you a bearish signal. Similarly, exit all bearish trades when the indicator shows a bullish signal.

You may also set your take profit and stop loss targets using other tools, such as supports and resistances, Fibonacci retracements and expansions, etc.

Benefits and Limitations of McGinley Dynamic Indicator

The McGinley Dynamic Indicator is viewed as a significant improvement on other moving average indicators and serves its purpose to a large extent. Some of the benefits and limitations of this trading indicator are highlighted below.

Benefits of Using the McGinley Dynamic Indicator

Among the attributes that make the McGinley Dynamic Indicator unique are the following:

Pros

- It is a remarkable indicator for responding more quickly to price changes than other moving averages. This is attributed to its ability to interpret changes in market speed in the periods concerned.
- It also helps in clearing out market noises that make it difficult for traders to make informed decisions in the market. Essentially, it reduces whipsaws in the market to a large extent and smoothens the price volatility.
- The indicator is very adaptive, making it possible to be combined with several other indicators and financial analytical tools.

Limitations of the McGinley Dynamic Indicator

The McGinley Dynamic indicator has its limitations too. For the following reasons, the indicator should be carefully used with other tools before making trade decisions.

Cons

- It is not incapable of generating false signals from time to time.
- While it is readily accessible in major trading platforms, it is still unavailable in a wide range of trading platforms, limiting its use.
- Finally, the indicator was initially designed for trending markets. This means it may be less effective in a ranging market and slow markets and should, therefore, be used cautiously.