

Teach Yourself Technical Analysis

Common Indicators in the Meta Trader

SAMPLE

1. The Accelerator Oscillator (AC)

The Accelerator Oscillator indicator was developed by Bill Williams to measure the extant acceleration and deceleration in price momentum. The oscillator comes in the form of a histogram with a zero line. The form of market pressure, or acceleration and deceleration, is shown by green or red bars respectively. When the histogram is close to the zero line, it could signify the onset of a consolidation phase in the market. When the histogram is above the zero line, it means the acceleration would possibly add to the bullish momentum. The same logic is quite applicable to bearish momentum. When there are two consecutive green bars above the zero line, it shows the bull's supremacy. When there are two consecutive red bars below the zero line, it shows the bear's supremacy. In order to confirm a trend reversal, there must be at least three red bars above the zero line (for a bearish reversal), or at least three green bars below the zero line (for a bullish reversal). This rule holds true when the historical data of the chart is considered. History doesn't lie.

Figure 1 shows how the AC bars form in tandem with developments in the price on the CHFJPY cross.

Fig 1. The AC on the CHFJPY Cross



This chart shows how the AC bars form in tandem with developments in the price on the CHFJPY cross.

When the histogram shows the accelerator level around zero, it means that the current driving force is at equilibrium. When the bars on the indicator turn coloured then the price may be reversing. Nevertheless, it makes more sense not to trade using the Accelerator Oscillator alone. It can be combined with other trend-confirming indicators such as the Moving Average, especially if it suits your personal speculation methodology. When there is a confirmation of a new bias, it does not help to continue trading the old bias, unless you want to bash your head against a brick wall. This seldom produces anything useful, although it will give you a headache.

The AC is particularly useful in pinpointing the potential turning points in the market, so that you do not miss a big move in the opposite direction. When it is thus combined with an optimal Moving Average, a potential reversal is quickly sighted, and then taken advantage of, once it is confirmed by the Moving Average. In figure 2, it can be seen that the trading signals generated become clearer when the AC is combined with the EMA (Exponential Moving Average) period 20.

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