

How to Use Leading & Lagging Indicators



There are two types of indicators:

1. Leading
2. Lagging

1 - Leading Indicators:

- § Provide buy, or sell, signals prior to the new trend, or reversal, occurring.
- § When used alone leading indicators, often trigger false signals.

2 - Lagging Indicators:

- § **A lagging indicator provides a signal after the new trend has started, confirming the new trend is underway.**
- § **When you use lagging indicators, you will experience false signals less often.**
- § **Lagging indicators provide signals only after the price is clearly forming a trend.**
- § **The downside is you are often late in entering positions.**
- § **Often the biggest gains of a trend occur in the first few bars, so by using a lagging indicator you could potentially miss out on much of the profit.**

Examples

Leading Indicators:

§ Oscillating Types

- Stochastics
- RSI

Lagging Indicators:

▪ Momentum/Trend Types

- MACD
- Moving Averages

Stochastics

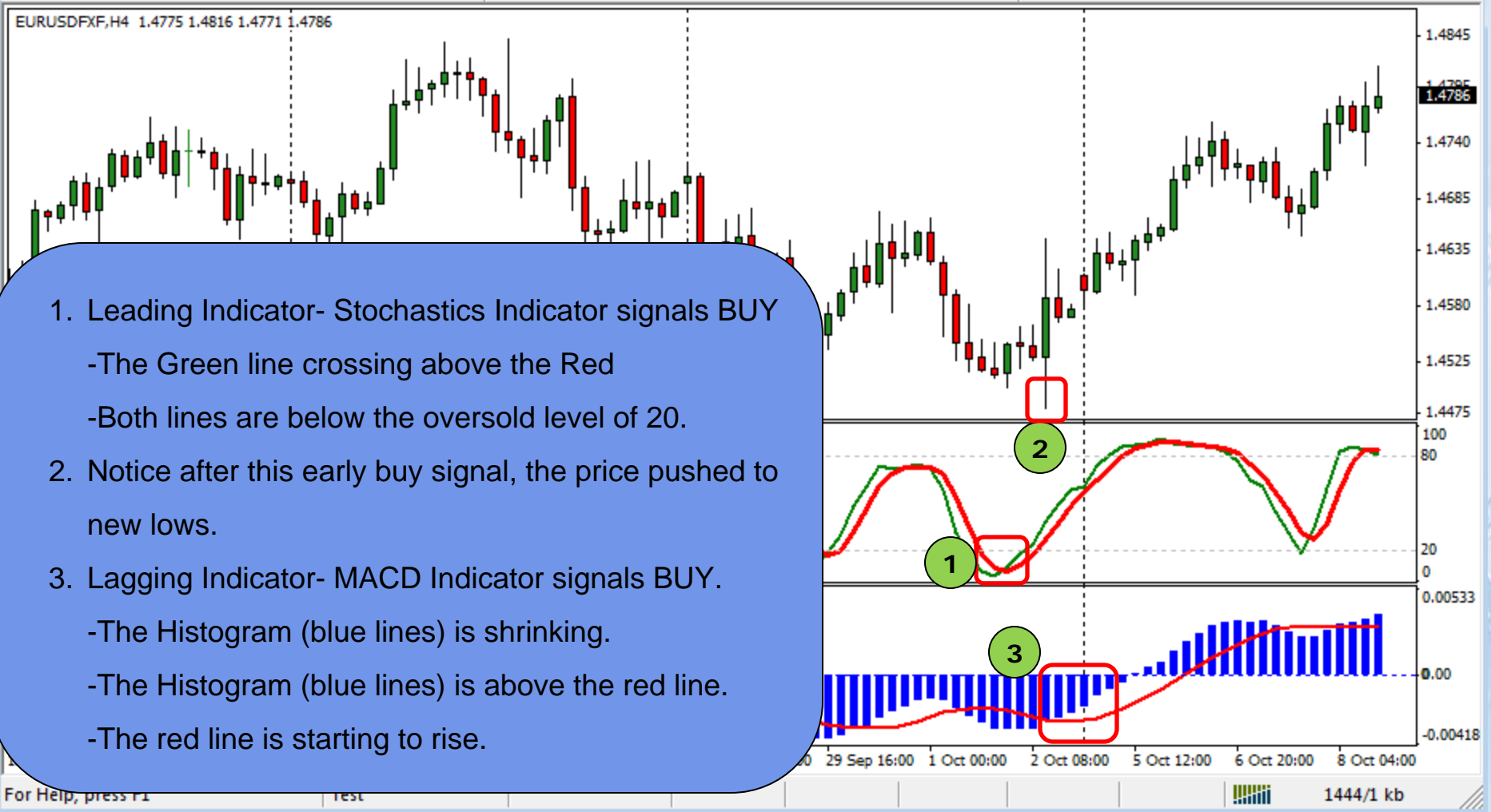
- § **Stochastics is a leading indicator that helps us determine where a trend might be ending and a new trend beginning.**
- § **By definition, a stochastic is an oscillator that measures overbought and oversold.**
- § **Stochastic is scaled from 0 to 100.**
- § **Overbought – Stochastic lines are near the 80 level.**
- § **Oversold – Stochastic lines are near the 20 level.**
- § **The 2 lines are similar to the MACD lines in the sense that one line is faster than the other.**

Moving Average Convergence Divergence (MACD)

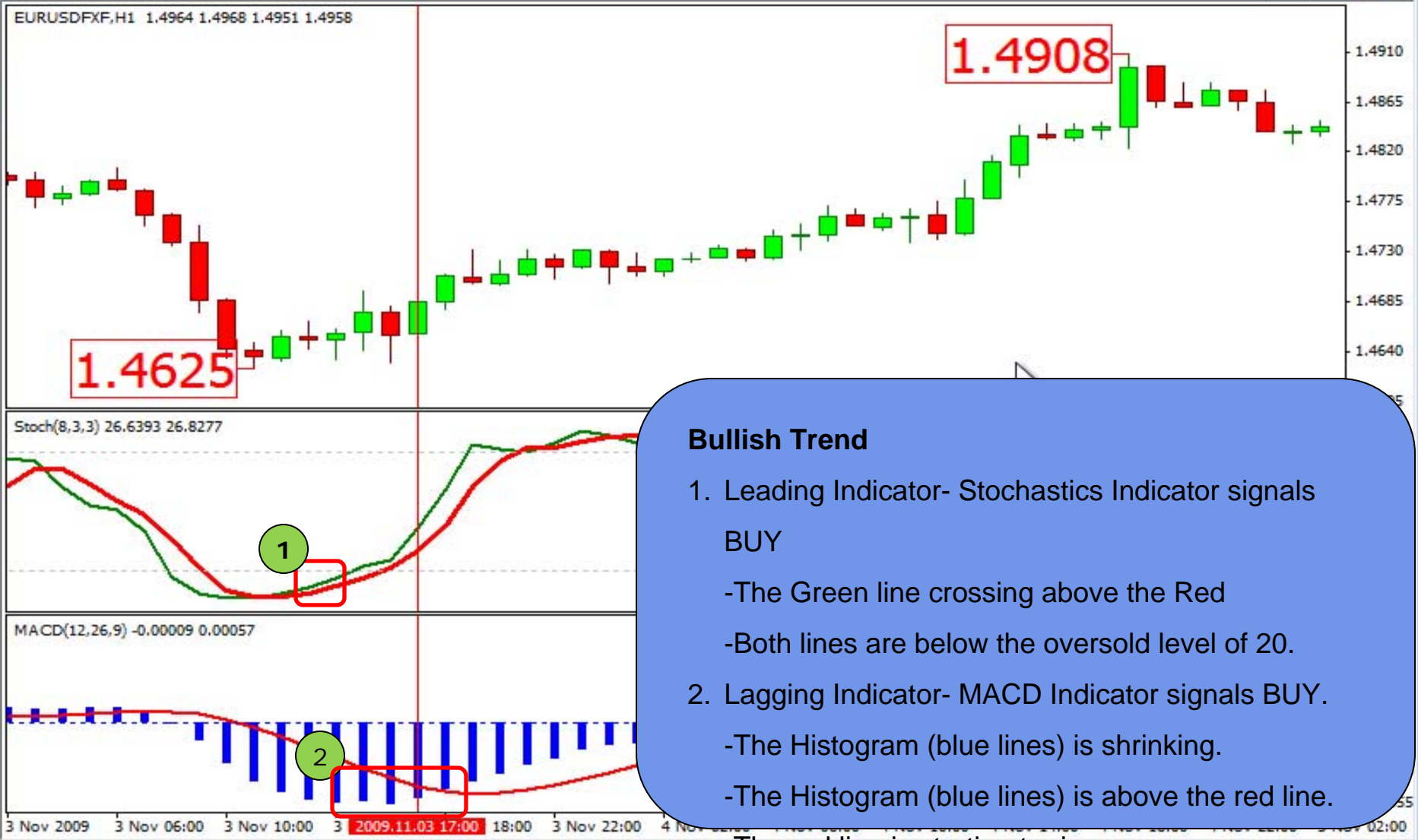
- § Lagging indicator that helps us confirm a trend has been established.
- § Moving averages are used to identify a new trend, whether it's bullish or bearish.
- § Input variables: (12,26,9)
 - 12 represents the faster Exponential Moving Average.
 - 26 represents the slower Exponential Moving Average.
 - 9 represents the difference between the two Exponential Moving Averages. This is plotted by vertical lines called a histogram (The blue lines in the chart on the next slide).

Combining Stochastics with MACD

- § Used by professional traders.
- § Use an Hourly (H1) chart to identify the trend for the day.
- § When both are in agreement there is a trend.
 - Both are heading up it a Bullish Trend.
 - Both are heading down it is a Bearish Trend.
- § When both are NOT in agreement, there is no trend.
 - One is heading up and one is heading down, expect a choppy market.

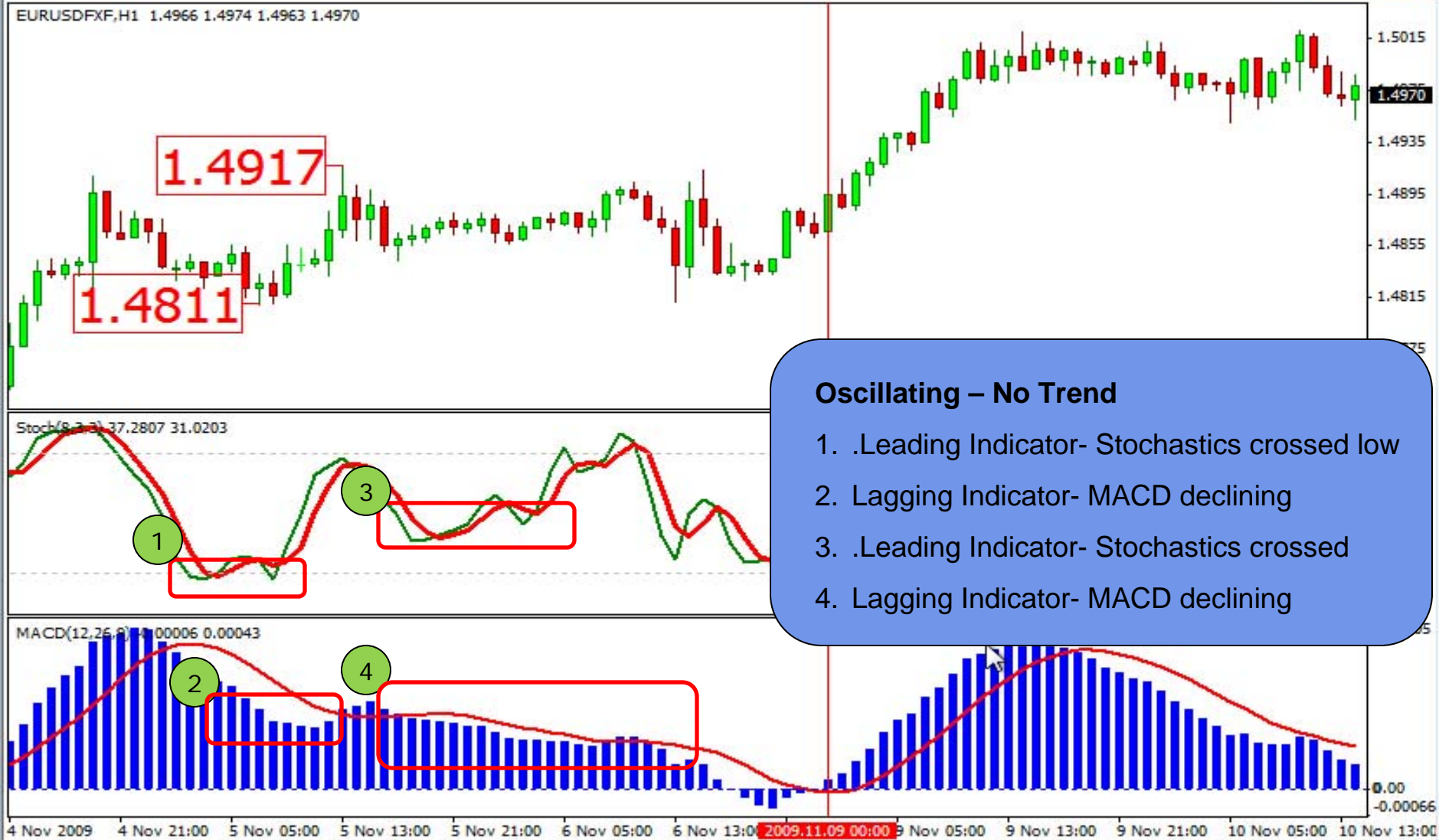


1. Leading Indicator- Stochastics Indicator signals BUY
 - The Green line crossing above the Red
 - Both lines are below the oversold level of 20.
2. Notice after this early buy signal, the price pushed to new lows.
3. Lagging Indicator- MACD Indicator signals BUY.
 - The Histogram (blue lines) is shrinking.
 - The Histogram (blue lines) is above the red line.
 - The red line is starting to rise.



Bullish Trend

1. Leading Indicator- Stochastics Indicator signals BUY
 - The Green line crossing above the Red
 - Both lines are below the oversold level of 20.
2. Lagging Indicator- MACD Indicator signals BUY.
 - The Histogram (blue lines) is shrinking.
 - The Histogram (blue lines) is above the red line.
 - The red line is starting to rise.



Oscillating – No Trend

1. .Leading Indicator- Stochastics crossed low
2. Lagging Indicator- MACD declining
3. .Leading Indicator- Stochastics crossed
4. Lagging Indicator- MACD declining



Bearish Trend

1. Leading Indicator- Stochastics crossed high
2. Lagging Indicator- MACD declining

Summary

- § **Combining Leading and Lagging indicators produces solid trend analysis.**
- § **Used by professional traders.**
- § **Use an Hourly (H1) chart to identify the trend for the day.**
- § **When both are in agreement there is a trend.**
 - ❑ Both are heading up it a Bullish Trend.
 - ❑ Both are heading down it is a Bearish Trend.
- § **When both are NOT in agreement, there is no trend.**
 - ❑ One is heading up and one is heading down, expect a choppy market.