

Rolling Moving Average

The Rolling Moving Average, sometimes referred to as "Smoothed Moving Average", gives the recent prices most weighting, though the historic prices are also weighted, each given less weighting further back in time. The latest Rolling Average is obtained by multiplying the previous Rolling Average by n-1 periods, adding today's symbol price, and then dividing the total by n periods. Note that the initial RMA is based on a Simple Moving Average.

Pane: Overlay

Formula

$$RMA = ((RMA_{(t-1)} * (n-1)) + X_t) / n$$

n = The length of the Moving Average
X = Price

Properties

Input Field: The Symbol field on which the study will be calculated. Input Field is set to "Default", which, when viewing a chart for a specific symbol, is the same as "Close".

Period. The number of bars in a chart. If the chart displays daily data, then period denotes days; in weekly charts, the period will stand for weeks, and so on. The application uses a default of 9.

Interpretation

A Rolling Moving Average is an additional type of Moving Average. In a Simple Moving Average, the price data have an equal weight in the computation of the average. Also, the oldest price data are removed from the Moving Average when a new price is added to the computation. The Rolling Moving Average assigns a weight to the price data as the average is calculated, though less weight is assigned to each later price in the series.

The main use of this indicator is its smoothing out function. In this way, the Moving Average removes short-term fluctuations and follows the prevailing trend. In comparison to the Exponential Moving Average, which the Rolling Moving Average resembles closely, and the Simple Moving Average, the Rolling Average appears to be the smoothest when plotted in the chart.

The Rolling Moving Average may be used as part of a crossover system. You may select up to three different averages. Generally, the lengths are short, intermediate, and long term. A commonly used system is 4, 9, and 18 intervals. An interval may be in ticks, minutes, days, weeks, or months; it is a function of the chart type. It is a matter of personal preference of specifying which periods to use with Moving Average, though it is generally true that longer periods display a more smoothed Moving Average.

You may additionally specify open, high, low, close, midpoint, or average price to be used in the computation of the Rolling Moving Average in the Input Field.

A buy signal occurs when the short and intermediate term averages cross from below to above the longer term average. Conversely, a sell signal is issued when the short and intermediate term averages cross from above to below the longer term average. You can use the same signals with two Moving Averages, but most market technicians suggest using longer term averages when trading only two Rolling Moving Averages in a crossover system.

Another trading approach is to use the current price concept. If the current price is above the Rolling Moving Averages, you buy. Liquidate that position when the current price crosses below either Moving Average. For a short position, sell when the current price is below the Rolling Moving Average. Liquidate that position when the current price rises above the Rolling Moving Averages.

As you use Rolling Moving Averages, do not confuse them with Simple Moving Averages. A Rolling Moving Average behaves quite differently from a Simple Moving Average. It is a function of the weighting factor or length of the average.