Two of My Favorite Technical Indicators to Buy and Sell Stocks

Imagine you're a trader on the floor of the New York Stock Exchange.

You've been given a big order from an institutional client to buy $100 million worth of Tesla's stock by the end of the day. An order so large that it's bound to make the rest of us sit up and take notice.

In fact, $100 million is too much to place all in one order without potentially impacting TSLA share prices. So, you have to break it up into smaller trades over the course of the day.

If you're buying a little here and a little there, you'll end the day with $100 million worth of stock at an average price. That average price at higher volume is one of my favorite indicators for spotting buy and sell signals in my own trades, which we'll explore today.

Here's an easy way to think about it. If you bought your first 100 shares of stock at $100 and your second 100 shares of stock at $200, your average price for those 200 shares of stock is $150, etc.

And as you can imagine, people will pay close attention to this price where the stock was in high demand.

How These Indicators Work

In articles and books about technical analysis, you'll read about all different types of price, volume, momentum, trend and volatility indicators.

All of them fall into one of two important categories: Indicators that are leading or lagging.

Lagging indicators, like moving averages, work great at visualizing longer-term trends. But they're only telling you what happened in the past.

Leading indicators, like the relative strength index, can provide you with valuable clues about what may happen next.

Today, I'd like to share with you two technical indicators I use all the time that are easy to access on the *TradeSmith Finance* platform.

And I'll explain why combining these powerful indicators in your own trading or investing can provide you with unique insights about what's just happened to a security and what could come next.

Volume Weighted Average Price (VWAP): Lagging Indicator

The Volume Weighted Average Price, or VWAP, tells you the average price for every share of stock traded that day or over a longer period of time, like weekly or monthly.

Even though it's a lagging indicator, VWAP can provide traders and investors with great insights about where the key levels of price support and resistance are located. And folks can use these levels as signals to buy or sell.

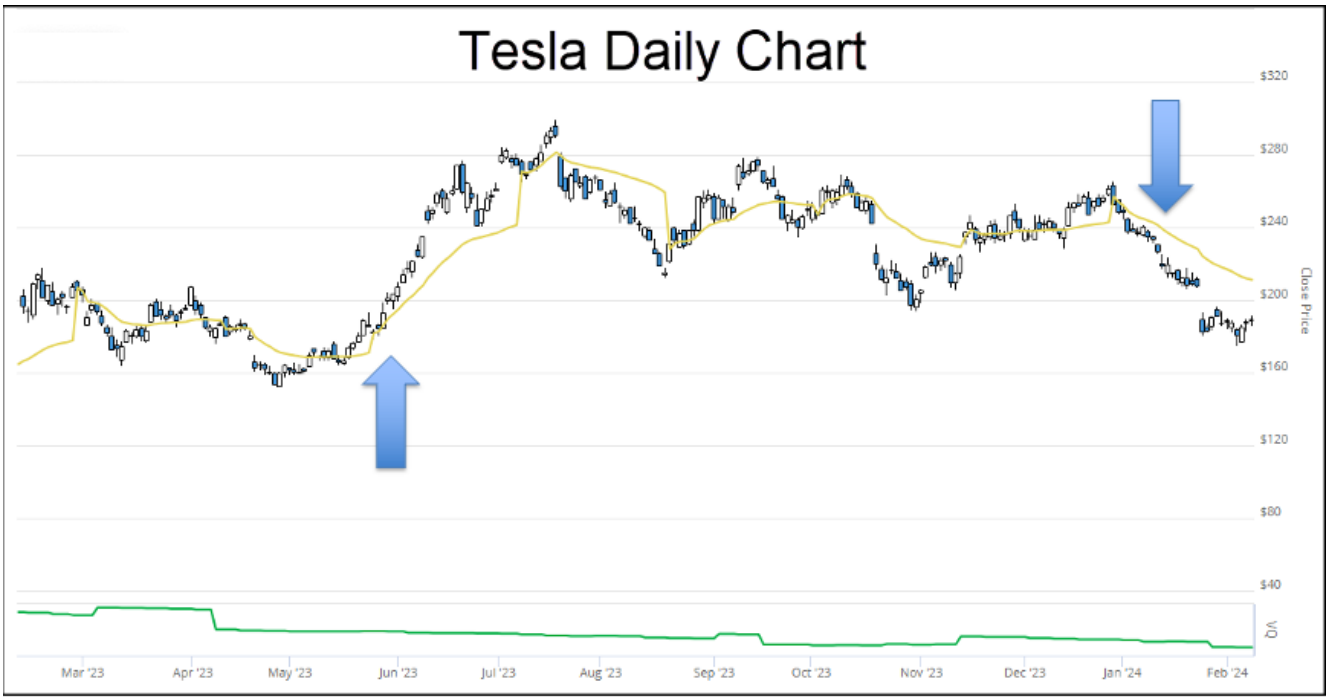
You can also use VWAP to identify price trends and momentum.

For example, let's say TSLA shares gap higher at the open, jumping up 5% from the previous close. The move is so strong that later in the day, price jumps well above VWAP and starts climbing quickly on strong volume.

This implies traders — and lots of them — are willing to aggressively buy the stock above the average prices recently paid by investors, even though the stock is already up 5%.

In my book, a sure sign of high demand is if traders are eager to buy TSLA stock at such a premium.

Let me illustrate what I mean. The chart below shows the VWAP on a 30-day rolling basis (yellow line).

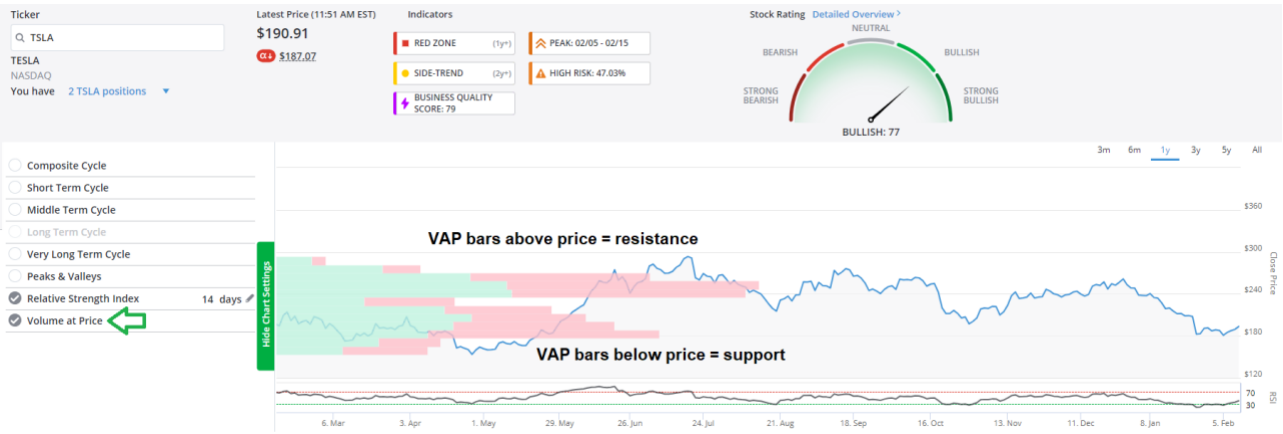


You'll notice when Tesla's stock jumps the VWAP line at left (blue arrow pointing up), it's usually the start of a bullish trend that can carry the stock even higher.

But when price drops below VWAP, as it does at right in this chart (blue down arrow), it's bearish. That can mean a new downtrend is underway.

I like to use this to identify when a strong trend might be over, such as the end of Tesla's price run that went from May to July 2023.

Our *TradeSmith Finance* platform displays Volume at Price (VAP) bars, similar to VWAP, as you can see below with the red and green horizontal bars.



As you can see, there are nice, wide VAP bars right around $180, and that high volume tends to provide support to the share price. TSLA just bounced off this support level around $180 but also faces overhead price and volume resistance at $240, which is the next place where we find wide VAP bars. This helps you determine price and volume support and resistance levels at a glance.

All of the chart settings you see above are found on the *Trade Cycles* tab of any stock's Analyzer Page. For more on how to incorporate them into your own trades as buy and sell signals, **check out *Trade Cycles by TradeSmith***, where our team has just published a user's guide with full details. You can also call 888-623-0858 if you don't see these in your *TradeSmith Finance* platform.

While VWAP serves as an excellent tool for understanding market trends and momentum, it's only one piece of the trading puzzle. Like any other indicator, it shouldn't be used in isolation.

To get a more complete picture of the market's behavior, it's essential to incorporate other indicators and analysis methods into your trading strategy.

And that's why I like to couple it with one of my favorite leading indicators, the relative strength index.

Relative Strength Index (RSI): Leading Indicator

What happens to a rubber band when you stretch it and let go? It snaps back.

In fancy financial terms, we call that mean-reversion, and it's the foundation of the Relative Strength Index (RSI) and other types of price-trend oscillators.

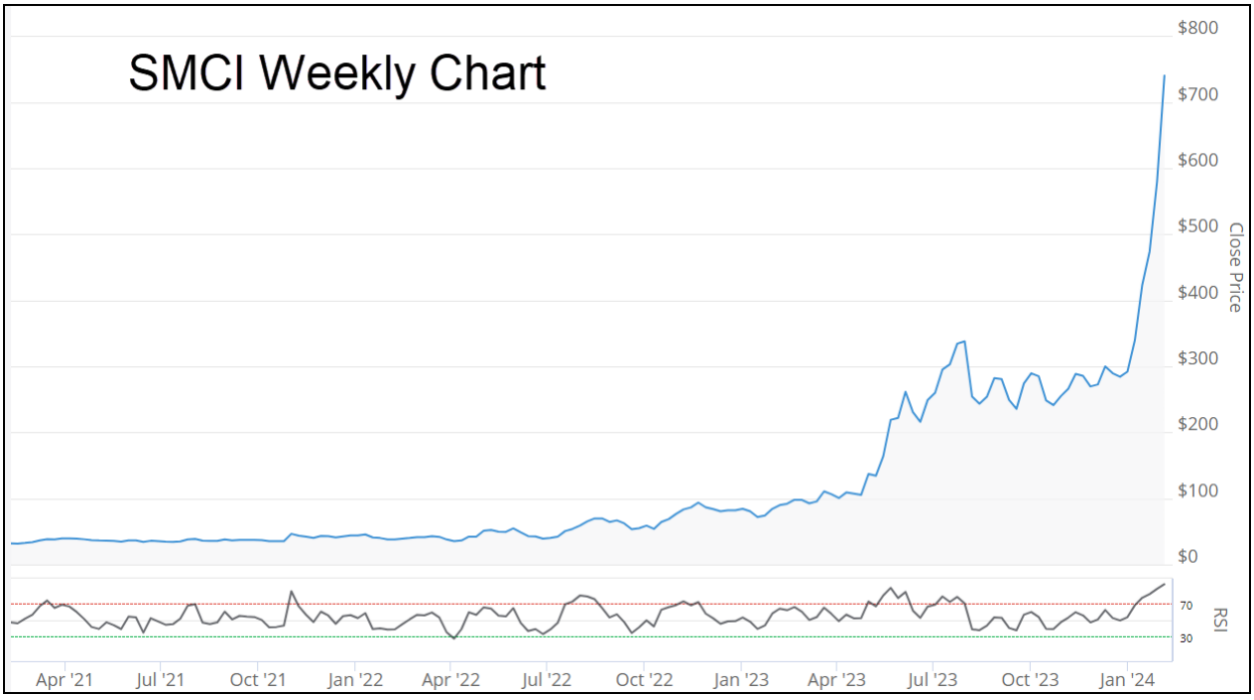
The RSI measures the speed and change of price movement and plots it on a scale of 0 to 100. On the chart, it's presented as a separate line that oscillates back and forth within that range.

When RSI gets above 70, it may signal that a stock is overbought; its price has moved too high, too fast and could be due for a pullback.

On the other hand, when an RSI falls below 30, it indicates a stock may be oversold; it's dropped too low, too fast and could be a good buy-the-dip opportunity for a rebound in price.

However, stocks can get extremely overbought or oversold and stay that way longer than you would think.

Super Micro Computer (SMCI) illustrates this perfectly.



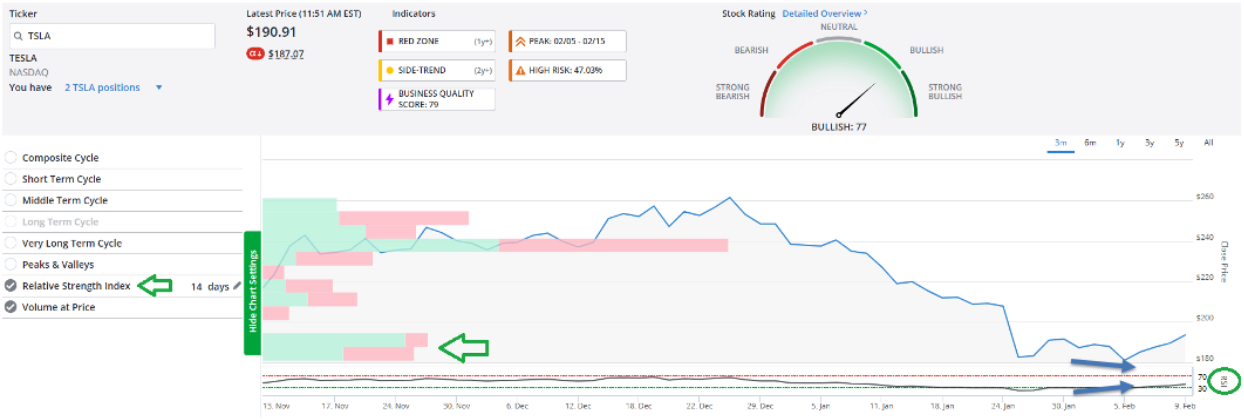
At the bottom we see that SMCI's RSI is reading 93.16, *well* above the traditional 70 overbought level marked in red.

This makes sense as SMCI has gone almost straight up for the last month or so. And If you sold SMCI once its RSI crested 70, you may have sold too early and left more gains on the table.

I find the RSI helpful in the following cases:

- Looking for a bottom in a stock that's pulled back short-term but is in a bullish uptrend.
- Looking for a top in a stock that's bouncing in the short-term but is in a bearish downtrend.
- Finding tops and bottoms in a stock that's trending sideways.
- And best of all, spotting divergence between price and the RSI indicator.

I've zoomed into a tighter time frame on the same TSLA chart so you can more easily see what the RSI is showing.



You can see that TSLA stock recently hit an oversold low, with the RSI under 30. Also, you can see that TSLA is finding support at its lower VAP levels.

The blue arrows at right point to a positive or bullish divergence in the stock. The RSI value makes a higher low as the stock continues trending lower for a few weeks.

That positive RSI divergence, plus TSLA being oversold (think buy-the-dip opportunity) and shares finding price support from VAP, can be a winning combination of buy signals for any stock.

What's great about the RSI is you can adjust the lookback period to give you different perspectives on overbought and oversold in different time frames, like daily or even weekly.

Mike Burnick's Bottom Line: There are plenty of technical indicators you can use to help better inform your trading or investing. In fact, many charting platforms have so many indicators to choose from, picking what to follow can be overwhelming. But for my money, Volume at Price (or its cousin, VWAP) used with the Relative Strength Index can be a powerful combination.

Trade Cycles offers a great example of how to deploy VAP and RSI in your own account, along with historical cycles in the stock price... all of which are difficult to spot with the naked eye.

Good investing,

Mike Burnick
Senior Analyst, *TradeSmith*