

# **TACTICAL SUMMARIES-Ave True Range**

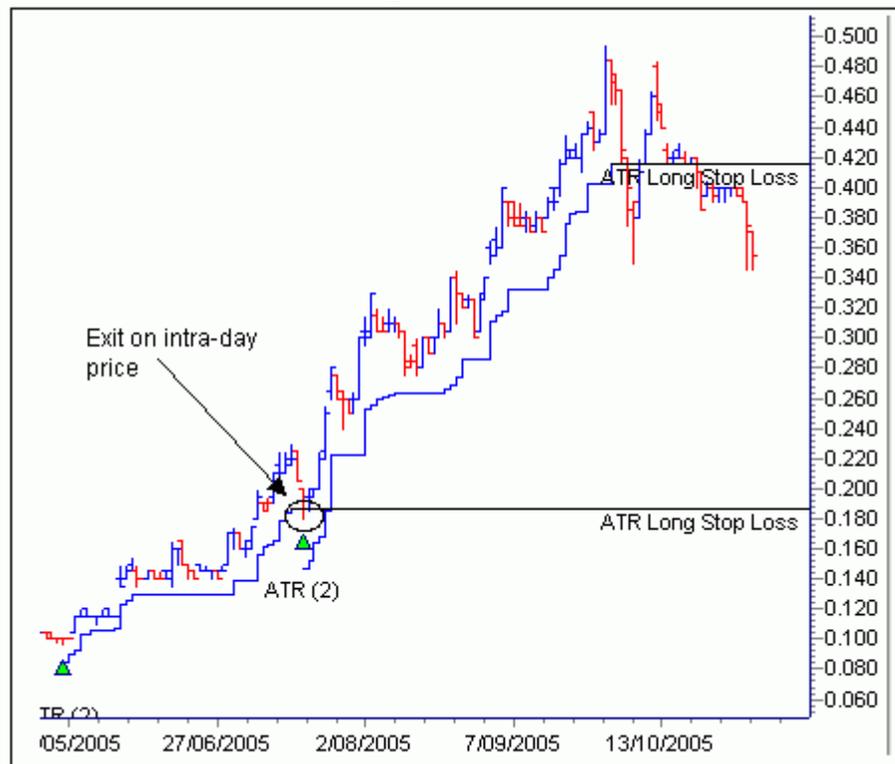
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## **INDICATOR – ATR – AVERAGE TRUE RANGE**

Average True Range is a time based volatility stop loss calculation. The volatility component is calculated by comparing the range of price activity between the open and close of today with previous days. The user can chose to use the calculated figure, or to use a multiple of the figure. The GTE tool doubles this figure to give a 2xATR result. This is the common default selection. This calculation provides a single figure. The time component of the calculation is selected by the user. This is the 3, or 5, or 7 day average of the ATR calculations. Changing the time value has a significant impact on the ATR value.

## **APPLICATION**

This is used as a stop loss tool in long and short trades. The stock should be checked to determine if the ATR stop loss approach has been effective in the past. This is a useful stop loss trade management method for fast trends, momentum driven trades and short term trades. It can also be applied on an intra-day basis where the ATR value is measured in minutes. In long side trading the GTE ATR tool adds the ATR value to the low of the most recent bar. In short side trading the GTE ATR tool adds the ATR value to the high of the most recent bar.



## **TACTICS**

- In long side trading buy while the price is above the ATR value.
- Sell when price drops below the ATR value

- In short side trading buy while price is below the ATR value
- Sell when price rises above the ATR value.
- Exits can be executed on either intraday alerts or at the open on the following day.

### **RULES**

- The ATR value defines the acceptable limits of volatility.
- A move beyond these ATR limits signals an end to the current trend.
- Stop loss is based on the value of the ATR. This is updated whenever necessary

### **ADVANTAGES**

- A good measure of volatility.
- Good for short term trends
- Good for momentum driven trading as a stop loss and protect profit method
- Very useful for intra-day trading.
- Works well with derivatives.

### **DISADVANTAGES**

- The selection of the relevant time period has a significant effect on the effectiveness of the ATR tool. The 'best' time frame is not known until after the trade is completed.
- ATR values do not react quickly enough to significant changes in volatility because the time period remains unchanged.
- The usual ATR style display is confusing and sometimes misleading as the calculation starts from the close of each price bar.