



TRADING USING ANCHORED VWAP

What is the Anchored VWAP ?
 The Volume-Weighted Average Price (VWAP) is a popular technical indicator because it helps to establish support and resistance levels. Traditional VWAP calculations always begin with the first bar of the day and terminate with the last bar. In certain circumstances, traders would prefer to evaluate the VWAP line from specific starting point and be able to extend that VWAP line past the close of trading. This need is fulfilled by the Anchored VWAP (AVWAP) indicator. Anchored VWAP allows you to specify the price bar where calculations begin, making it easy to see whether the buyers or sellers have been in charge since a very specific point in time. The Anchored VWAP line is plotted using price and volume data from that significant event onward.

CALCULATION OF THE ANCHORED VWAP & ITS USEFULNESS

You can use the same formula to calculate the standard VWAP as well as the Anchored VWAP. The bars used in the computations are the only thing that differs.

Traditional VWAP resets on each new trading day. So it is typically useful for Intra-day Traders because it only uses

data from the same trading day.

Anchored VWAP (AVWAP) is useful for traders who want to carry their position to more than one trading day. The traders can select any past bar as the initial bar to use in the calculation. *This is “anchoring” the indicator to that bar.* The final bar is always the most recent bar that is available. Since there is no restriction on starting point and ending point, AVWAP indicator is more flexible to use.

USING THE ANCHORED VWAP TO INTERPRET

The starting price bar to which we anchor VWAP generally marks a shift in market psychology. It can be a highest volume bar, significant high or low, earnings, news, or other announcements. So the price action before these occurrences, which does not represent the same market psychology, is getting omitted from the calculations.

Generally,

- Rising VWAP denotes Buying pressure
- Falling VWAP denotes Selling pressure
- Flat VWAP denotes Neutral (dry / no volume)

We can use AVWAP to find positive or negative bias for the given period by applying on 1st bar of the period. If the price is above the AVWAP then bias is positive and if it is below then bias is negative.

ANCHORED VWAP TRADING STRATEGIES

1. Pullbacks from Significant High / Lows

When we anchor VWAP to any significant Bottom or Top, any pullback towards AVWAP gives buying or selling opportunity. See Examples below.



2. Range Breakout / Breakdown

When price consolidates and breakout (BO) or breakdown (BD) happens, then we can anchor VWAP

to the BO / BD candle. Any pullback towards AVWAP can be considered for buying or Selling. See examples on the next page.



3. Gaps, Fake Breakouts / Breakdowns, Event Candles - e.g. News, Earnings, Budget etc.

We can use AVWAP to Gap up or Gap down candle, Fake breakout / breakdown Candles, also event candles like budget, earnings, etc. and trade price pullbacks towards AVWAP. See Example on the right and on the next page.





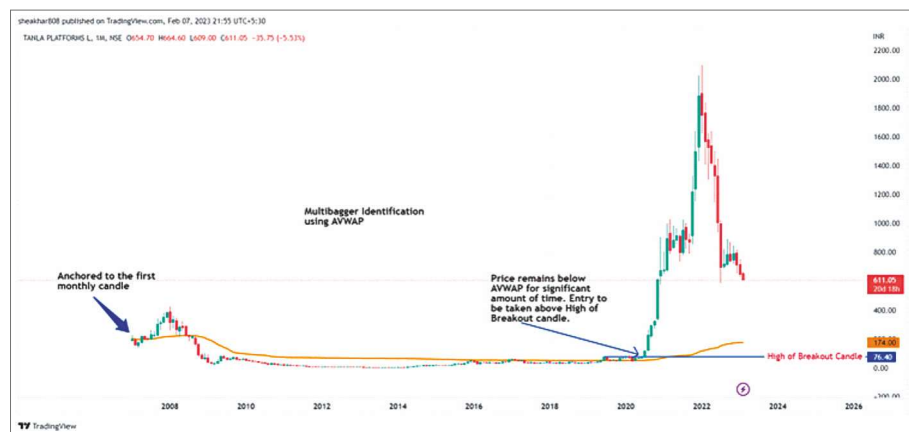
4. Intra-day trades based on Previous day High / Low

This is to be used on 5 mins Time frame. AVWAP should be anchored on Previous day High and Low. Trade should be taken in the direction of the trend on break of AVWAP or any pullback towards AVWAP. See example on the right.



5. Multi-bagger Stock identification

This is to be used on Monthly time frame. Anchoring to be done on 1st or 2nd candle. Price should remain below the AVWAP for the significant amount of time. Once the breakout of AVWAP happens, entry to be taken above the high of the breakout candle. See example on the right.



When Anchored VWAP may not work?

The main failure of anchored VWAP is that it can be difficult to predict the exact anchor point that will yield the most favourable execution price. If the anchor point is not correctly chosen, the trader may end up executing

trades at prices that are worse than what they could have achieved. Additionally, anchored VWAP can be easily affected by market volatility, making it difficult to accurately predict prices over a given period of time.

conclusion

In terms of setting support and resistance levels, anchored VWAP offers all the same advantages as regular VWAP. Added advantage is that you may select the desired time frame to conduct your study. You can eliminate price action that was influenced due to different market psychology by beginning VWAP calculations from the critical turning point. As with all Technical indicators, Anchored VWAP also should be used along-with other indicators, analysis and techniques.

About the Author

Anuja Kamat is a Commerce Graduate from University of Mumbai and a qualified Chartered Accountant. She is a full time Trader since April 2021 and an Equity Investor. Anuja trades in Bank Nifty and Nifty Options. Being a student of the stock market, she is always keen to learn new ways to improve. She is a passionate traveler & is always looking for new places to explore and new experiences to gain. She is a member of the Advanced InvesTrade Forum.



About the Author

Sanjay Bhilare has completed B.E.(Production). He has done Executive General Management Programme from IIM Bangalore and Visionary leaders for Manufacturing(VLFM) from Japan. He is currently working with Godrej & Boyce Mfg. Co. Ltd. as GM (Manufacturing). He is a swing Trader and loves to trade in Equities, Indices & Commodities. He loves to learn new concepts and keeps upgrading on continuous basis. He also likes to contribute by sharing his knowledge. He is a member of the Advance InvesTrade Forum.

