

TA - What is it? How can I profit?



Technical Analysis?
What is it?
How can I profit?

candlestick patterns

chart patterns

monthly candle chart

price breakout

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Technical Analysis

Technical Analysis is very useful!

Share market price charts summarise the underlying opinions and emotions of market participants.

Every chart tells a story.

It pays to understand the stories in the price charts.



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Technical Analysis

Why use technical analysis?

- ✓ To help understand more about why prices are moving (opinions and emotions)
- ✓ Make smart and informed stock purchase decisions
- ✓ Minimise downside risks
- ✓ Maximise upside potential
- ✓ Make smart sell decisions if needed
- ✓ Protect hard-earned capital
- ✓ Minimise any losses.

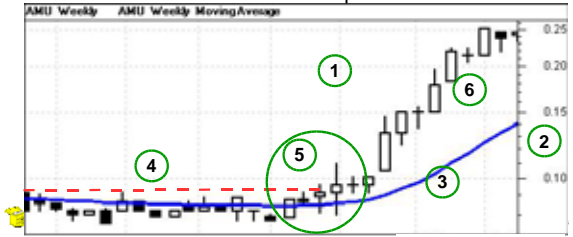
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Technical Analysis

Key price chart observations

1. Weekly candlesticks
2. Log price scale
3. MA chart indicator
4. Price consolidation (below resistance)
5. Break out
6. Up trend



Technical Analysis

Disclaimer

- CAUTION!!
- This presentation contains NO advice.
- It is for general education only.
- Always consult a trained, trustworthy professional before investing, to determine if your intended investment might suit your personal individual situation.


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Technical Analysis

What is Technical Analysis?

T.A. — One accepted definition

The use of market data and charting skills to anticipate market direction and timing to make consistent profits.



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Technical Analysis What is Technical Analysis?

T.A. is a very broad field

1. Price charts and chart patterns
2. Candlestick (or bar) charts and patterns
3. Chart Indicators
 - Moving Average, MACD, RSI, P-SAR, etc.
4. Numeric (computational) analysis
5. Specialist topics:
 - Fibonacci, Elliott Wave, W.D.Gann
6. Using charting software

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Technical Analysis What is Technical Analysis?


Introductory comment

1. Technical analysis (T.A) can be used on:
 - company share price charts
 - commodity price charts
 - foreign currency (forex) charts
2. T.A is very good; but not 100% guaranteed, nor 100% reliable

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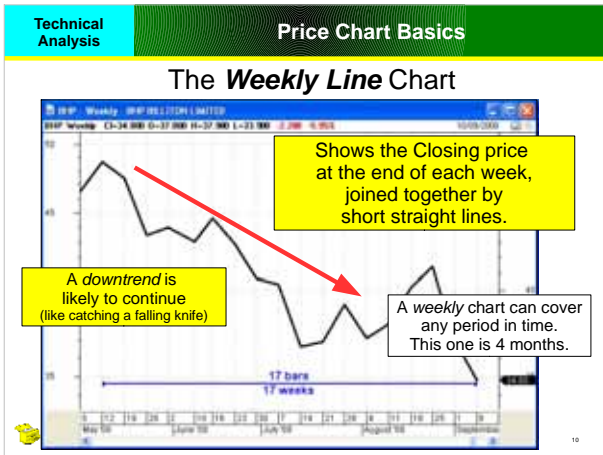
Technical Analysis What is Technical Analysis?

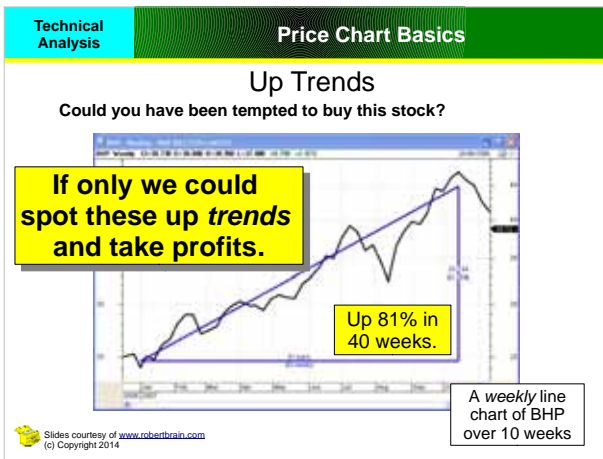
Introductory comment

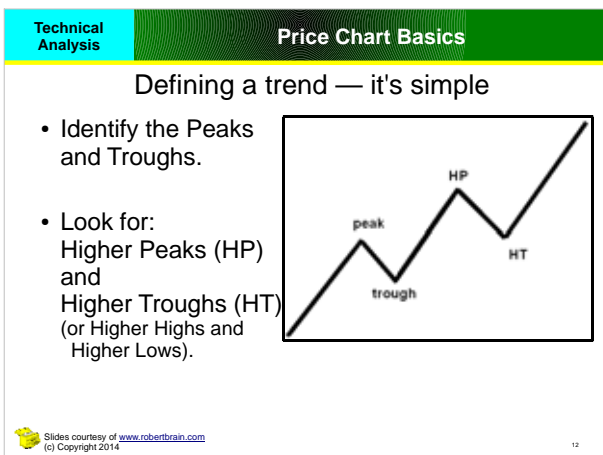
1. Technical analysis (T.A) can be used on:
 - company share price charts
 - commodity price charts
 - foreign currency (forex) charts
2. T.A is very good; but not 100% guaranteed, nor 100% reliable
3. Using T.A can give an unfair advantage over the buy-and-hold investors. 
4. Also need to use wise *money management* and *risk management* principles.

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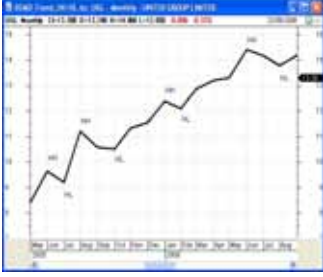
Technical Analysis **Price Chart Basics**

up trend = Higher Peaks and Troughs

Get a feel for what the price is doing.

Identify trends up trend, or down trend, or non-trending.

Use chart indicators to help.

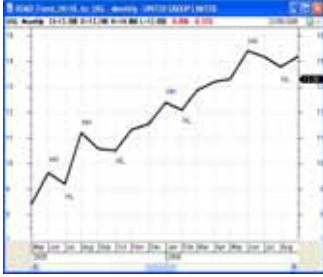


Terminology:-
Higher High = Higher Peak
Higher Low = Higher Trough

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Technical Analysis **Price Chart Basics**

up trend = Higher Peaks and Troughs



“The trend is your friend”

Once in place, an **uptrend** is likely to continue.

Join the trend until it has finished.

Terminology:-
Higher High = Higher Peak
Higher Low = Higher Trough

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Technical Analysis **Price Chart Basics**

Beware the down trend



Not a good idea to invest in a down-trending stock, until the trend has finished.*

* based on the principles of Dow Theory

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Technical Analysis **Price Chart Basics**

Down Trends

Might you have been tempted to buy this (down-trending) stock?

A weekly line chart of Telstra, 1999-2002 (down 46%). Both government and advisers were recommending to buy each tranche — T1, T2, T3. (Could argue that was criminal)

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Technical Analysis **Price Chart Basics**

Price Support and Resistance

Support lines

Resistance line

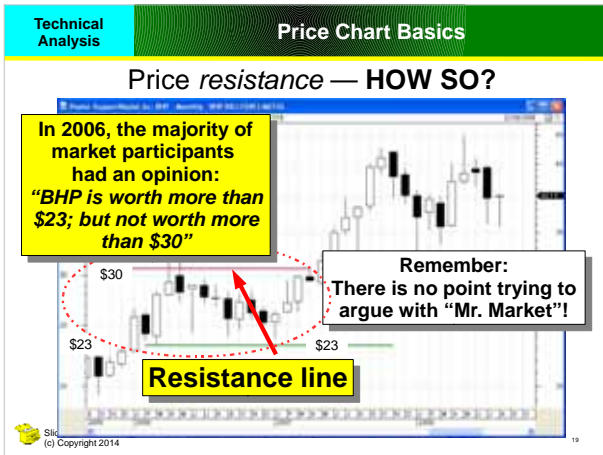
Past resistance was eventually defeated, and the same price level then became support later on.

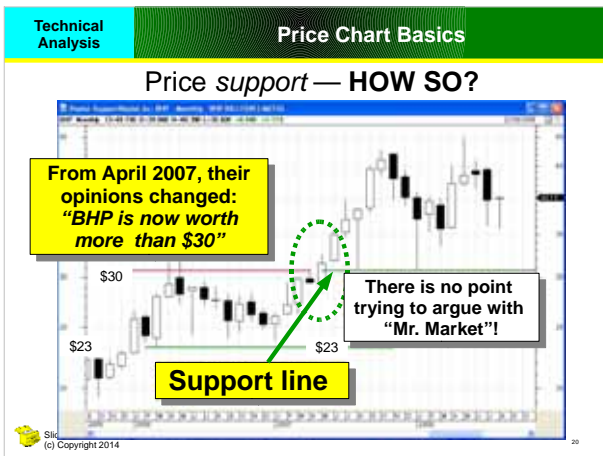
A support "zone", with the price falling towards it, and then bouncing away.

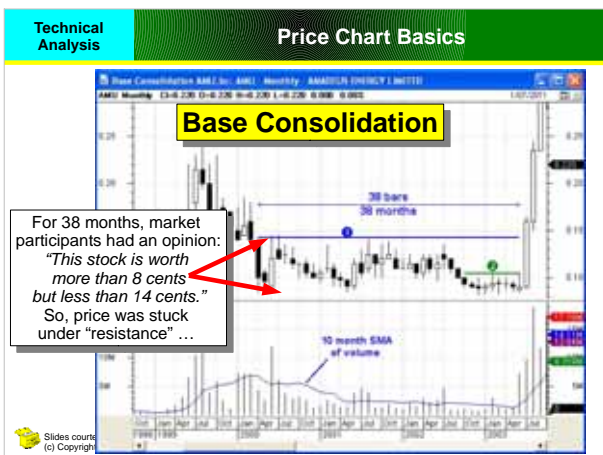
Note: Sometimes a "fat pencil" is appropriate especially on monthly or weekly price charts.

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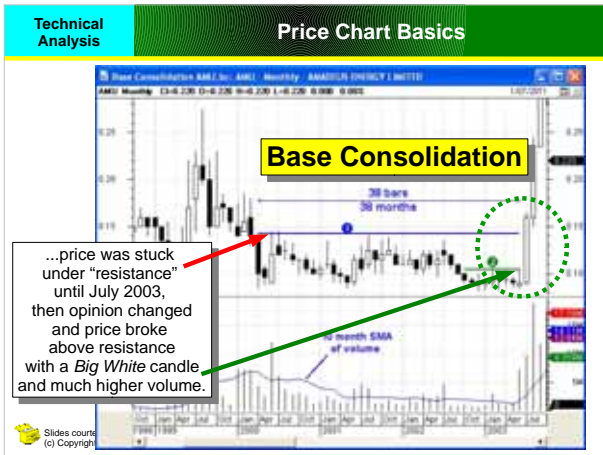
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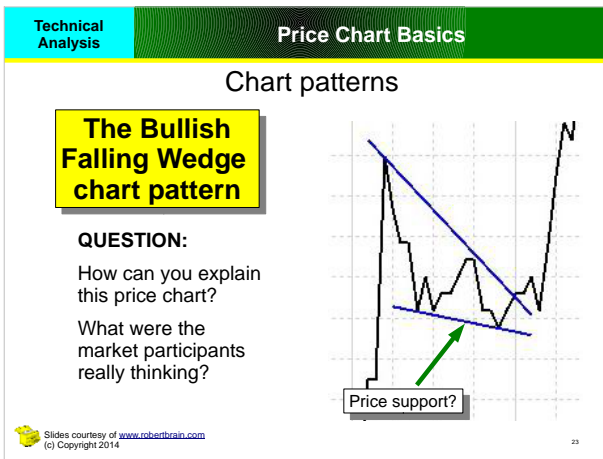


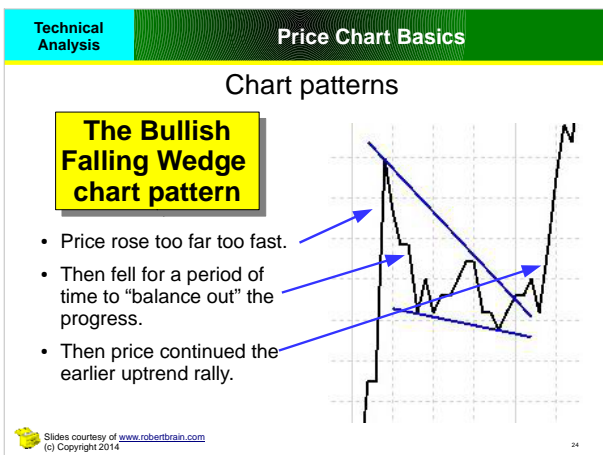




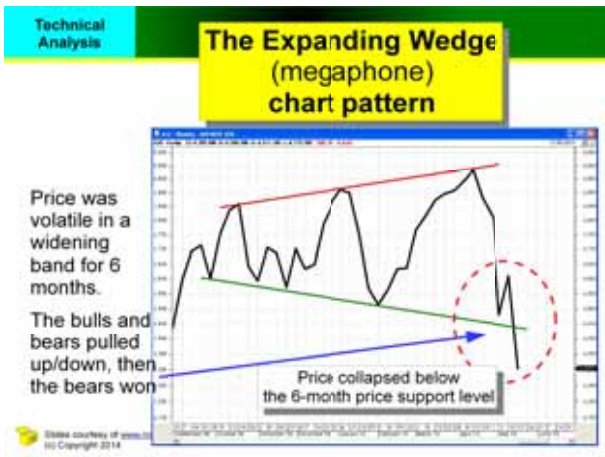
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Technical Analysis

Candlesticks

Bars and Candles

The bars and the candles on a price chart tell us a lot about the opinions of the market participants.

(do you know how?)

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Technical Analysis **Candlesticks**

OHLC Bar and Candle...

Each **bar** on a bar chart, and each **candle** on a candle chart summarises the price action in any one period (a day, week, month, etc.).

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Technical Analysis **Candlesticks**

Candlestick features — the White candle

"open" price for the period (bottom of candle body)

"close" price for the period (top of candle body)

"low" price for the period (bottom of candle tail)

"high" price for the period (top of candle tail)

A "period" is a day, week, month, etc.

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Technical Analysis **Candlesticks**

Candlestick features — the Black candle

"open" price for the period (bottom of candle body)

"close" price for the period (top of candle body)

"low" price for the period (bottom of candle tail)

"high" price for the period (top of candle tail)

A "period" is a day, week, month, etc.

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Technical Analysis **Candlesticks**

Candle *body* and *tails*

- Their presence or absence is important
- Their length (ie. their height) is important.

For example:
This long lower tail shows the presence of sellers in the "period", who were "defeated" by the buyers at the close of the period.

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Technical Analysis **Candlesticks**

Candle patterns — small bodies

- With or without a gap from previous candle.
- Hanging Man (at tops)
- Shooting Star (2-candle pattern)
- Evening Star (3-candle pattern)
- Doji Star (2-candle pattern)
- Hammer (at bottoms)
- Morning Star (3-candle pattern)

These candle patterns all tell a story.
Can you read the story?

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Technical Analysis **Candlesticks**

Patterns — engulfing and piercing

Reversal patterns in UP Trends:-

- Engulfing Bearish — "outside day" (2-candle pattern)
- Dark Cloud (2-candle pattern in uptrend)
- Harami Bearish (2-candle pattern)

These candle patterns all tell a story.
Can you read the story?

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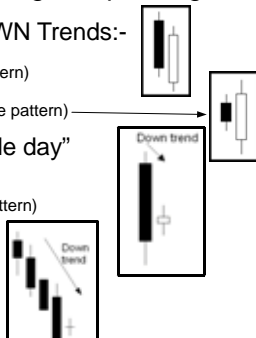
Technical Analysis **Candlesticks**

Patterns — engulfing and piercing

Reversal patterns in DOWN Trends:-

- Piercing Line (2-candle pattern)
- Engulfing Bullish (2-candle pattern)
- Harami Bullish — “inside day” (2-candle pattern)
- Harami Cross (2-candle pattern)

These candle patterns all tell a story. Can you read the story?



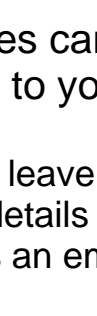
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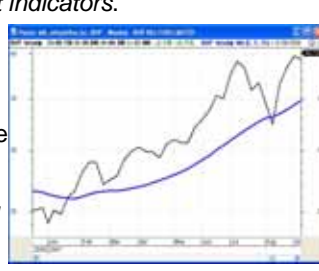
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Technical Analysis **Chart Indicators**

Moving Average (MA)

- Is one of many *chart indicators*.
- Very useful
- Can help us to understand the presence or absence of a *trend*, and perhaps the strength of the *trend*
- An *up trend* indicates a dominance of buyers.



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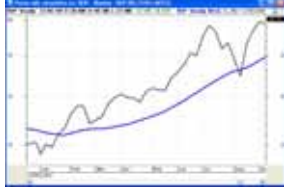
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Technical Analysis **Chart Indicators**

Moving Average (MA)

- The 21 week MA is the average of all prices for the previous 21 weeks*
- Can indicate a *trend*
- Can be used to interpret buy/sell signals.



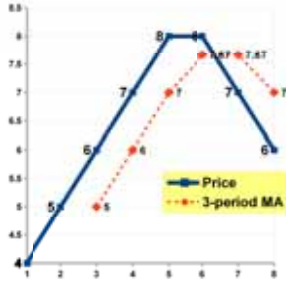
* - Can be used: on a daily chart, or a weekly chart, or a monthly chart, etc., etc.

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Technical Analysis **Chart Indicators**

Moving Average — how to calculate?

Simple calculation of 3-period MA.
The first MA value is the average of the first 3 price values:

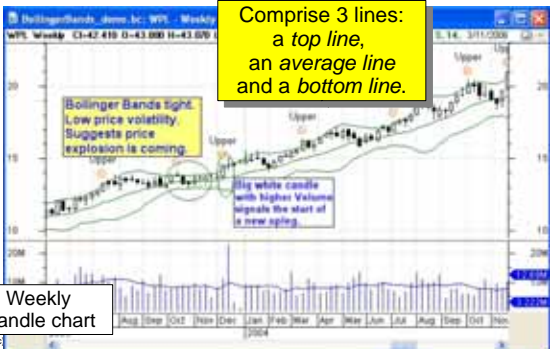
$$\frac{(4 + 5 + 6)}{3} = \frac{15}{3} = 5$$


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Technical Analysis **Chart Indicators**

Bollinger Bands indicator

Comprise 3 lines: a *top line*, an *average line* and a *bottom line*.



Weekly candle chart

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Technical Analysis **Chart Indicators**

Average True Range (ATR) indicator

Useful to understand the notion of ATR

ATR indicator
This example shows the average variation in price over the last 14 candles (weeks).

~ \$3.20

volatility has increased

Weekly candles

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Technical Analysis **Applications, samples, strategies**

Protecting profit and capital — Stop Loss

Sound and sensible money management

Have a pre-planned exit strategy. Utilise a Stop Loss to protect capital, and minimise losses.


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Technical Analysis Applications, samples, strategies

Sensible money management

- Protect hard-earned capital
- Capture and maximise the profits
- Minimise losses



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Technical Analysis Applications, samples, strategies

Stop Loss? — under Support?



Initial Stop Loss position could be under recent support and under recent price action.

Down trend is "broken". A new up trend might have started.


Technical Analysis Applications, samples, strategies

Stop Loss — eg. using ATR

Wilson ATR Trailing Stop indicator

ATR = Average True Range

The stop is set at a multiple of ATR



The Wilson ATR Trailing Stop is a series of dots (like P-SAR) and says: "if the price falls to here tomorrow, then sell".

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Technical Analysis Applications, samples, strategies


Sample Trading Strategies

1. Find stocks using *fundamental analysis* and time entry with *technical analysis*
2. High dividend yield
3. Long term bull market strategy, different to:
4. Shorter term bull market strategy
5. Different for a bear market.
6. Momentum indicator + MA-of-Momentum (see next slide)

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Technical Analysis Applications, samples, strategies

Sample Strategies



Momentum indicator and MA-of-Momentum

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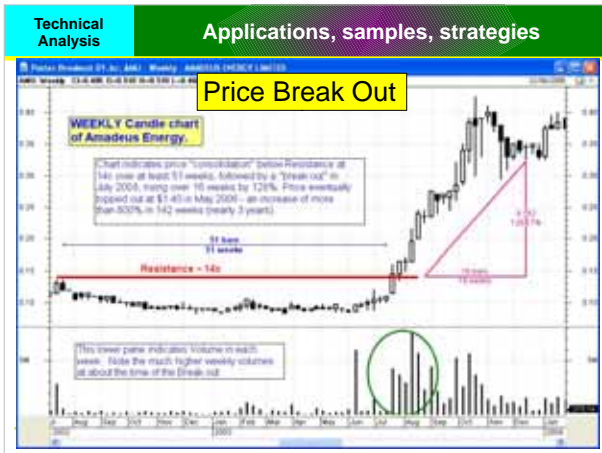
Technical Analysis Applications, samples, strategies

More sample strategies

- Use ADX chart indicator for entry (refer Chuck le Beau)
- Use Parabolic SAR for exits
- Price Breakout (see next slide)

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Technical Analysis Applications, samples, strategies

Some successful strategies

These are in use by some successful traders:

- Use the MACD and the RSI indicators. Look for RSI *divergence* against the share price.
- Use Stochastic indicator and Directional Movement (ADX) to give joint signals.

Tip!

Caution:- Not guaranteed!!

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Some more strategies

Note: None of these can be guaranteed!!

- Takeover target speculation
- Momentum trading
- Position trading
- Swing trading
- Dividend stripping
- IPOs
- Hedging

Advanced!

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Technical Analysis Applications, samples, strategies

Isn't this gambling?

- Some people think that share trading is just gambling?
- Without a proper **trading plan** and **trading strategy** then maybe it is.
- But if you have a proper, proven and tested plan, then it is actually calculated risk taking.
- Compare with other professions:
 - farming, retail business, catering,
 - tourist trade, tradesman, handy man, etc.

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Technical Analysis Applications, samples, strategies

Trading — Final Tips

Watch out for:

- Use a stop loss!
- Low liquidity
- Watch diligently (don't take your eyes off the ball)
- Retracements
- Sucker rallies
- Profit takers
- The 3-period pause in a rally

Tips!

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Technical Analysis Specialist Topics

Fibonacci Retracement

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Technical Analysis Charting Software

Use good charting software

- If you use a basic charting tool, then the information might be limited to the basics
- Use a better tool for greater flexibility and more informative results.

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Technical Analysis **Charting Software**

Charting software – key features

- **Data** — Easy access to download data
- Price charts in various **time frames**
- **Intraday** data (optional)
- **Indicators** – draw them on the chart
- **Watchlists** – several lists of stocks to easily keep an eye on them
- **Scans** – Specify selection criteria, and scan the data for stocks that match the criteria
- **Line studies** and **annotations** on the chart

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Technical Analysis **What is Technical Analysis?**

Technical Analysis is: . . .

1. Price charts and chart patterns
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3. Chart Indicators
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4. Numeric (computational) analysis
5. Specialist topics:
 - Fibonacci, Elliott Wave, W.D.Gann
6. Using charting software

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Technical Analysis

Technical Analysis is useful

The key features of share price charts reflect the underlying mood, sentiment and behaviour of the people who are investing in the market.

It pays to be able to interpret the key features of price charts, to help make wise decisions about investing in the markets.

*** The End ***

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Technical Analysis

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Summary & Wrap up

Don't forget my Toolbox

- Brainy's *Share Market Toolbox*
 - www.robertbrain.com
 - Loads of eBook (PDF) Articles
 - Info: share market, charting, BullCharts
 - Weekly Market Updates and Watch List
 - monthly e-Newsletter topics
- Good charting software – BullCharts www.robertbrain.com/bulcharts/
- My contact details:
web site above, or phone: 0438 355 910

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