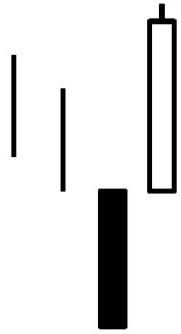




Technical Analysis? What is it? How can I profit?



candlestick patterns

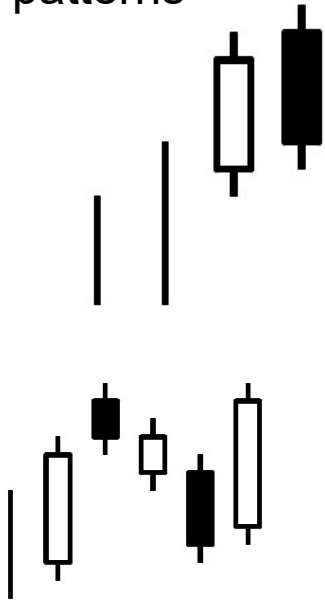


chart patterns



monthly candle chart



price breakout

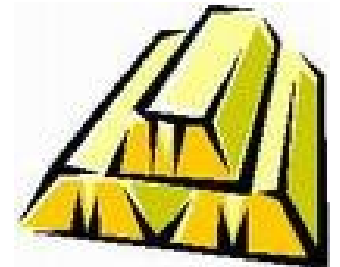


Technical Analysis is very useful!

Financial 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.



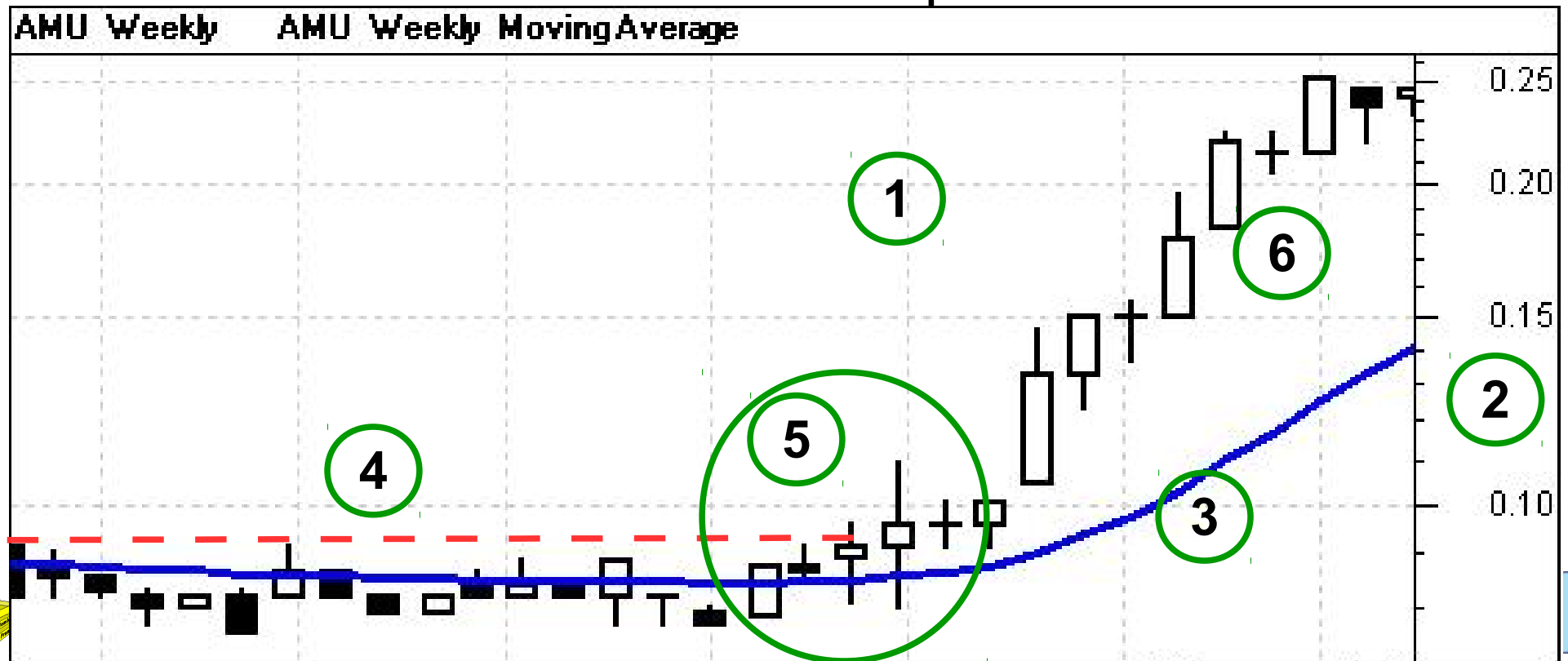
Why use technical analysis?

- ✓ 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.



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



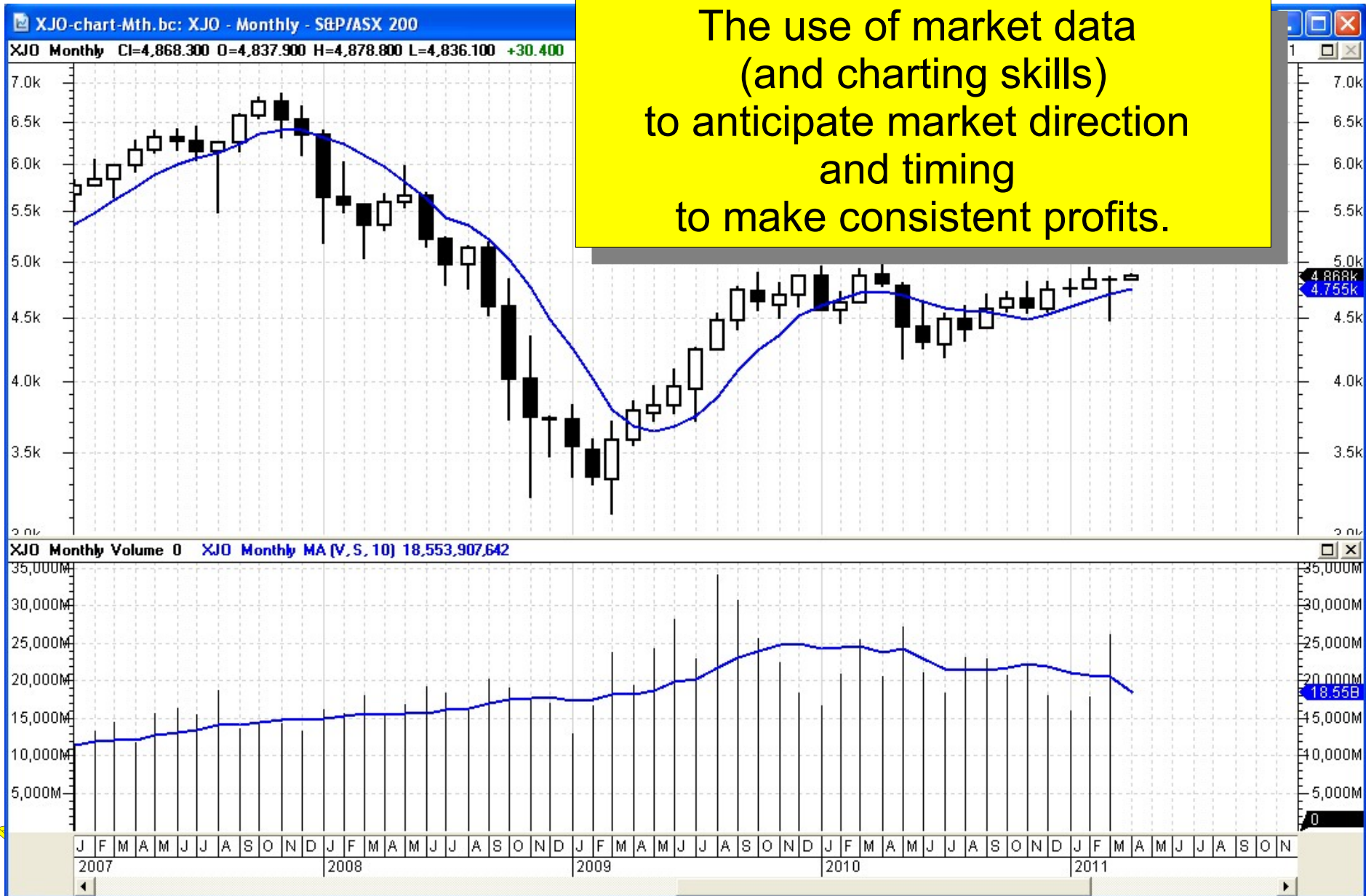
Disclaimer

- 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.



T.A. — One accepted definition

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



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



Introductory comment

1. Technical Analysis (T.A) can be used on:
 - company share price charts
 - charts of a market index
 - commodity price charts
 - foreign currency (forex) charts



Introductory comment

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 - company share price charts
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2. Technical analysis is very good; but not 100% guaranteed, nor 100% reliable



Introductory comment

1. Technical analysis (T.A) can be used on:
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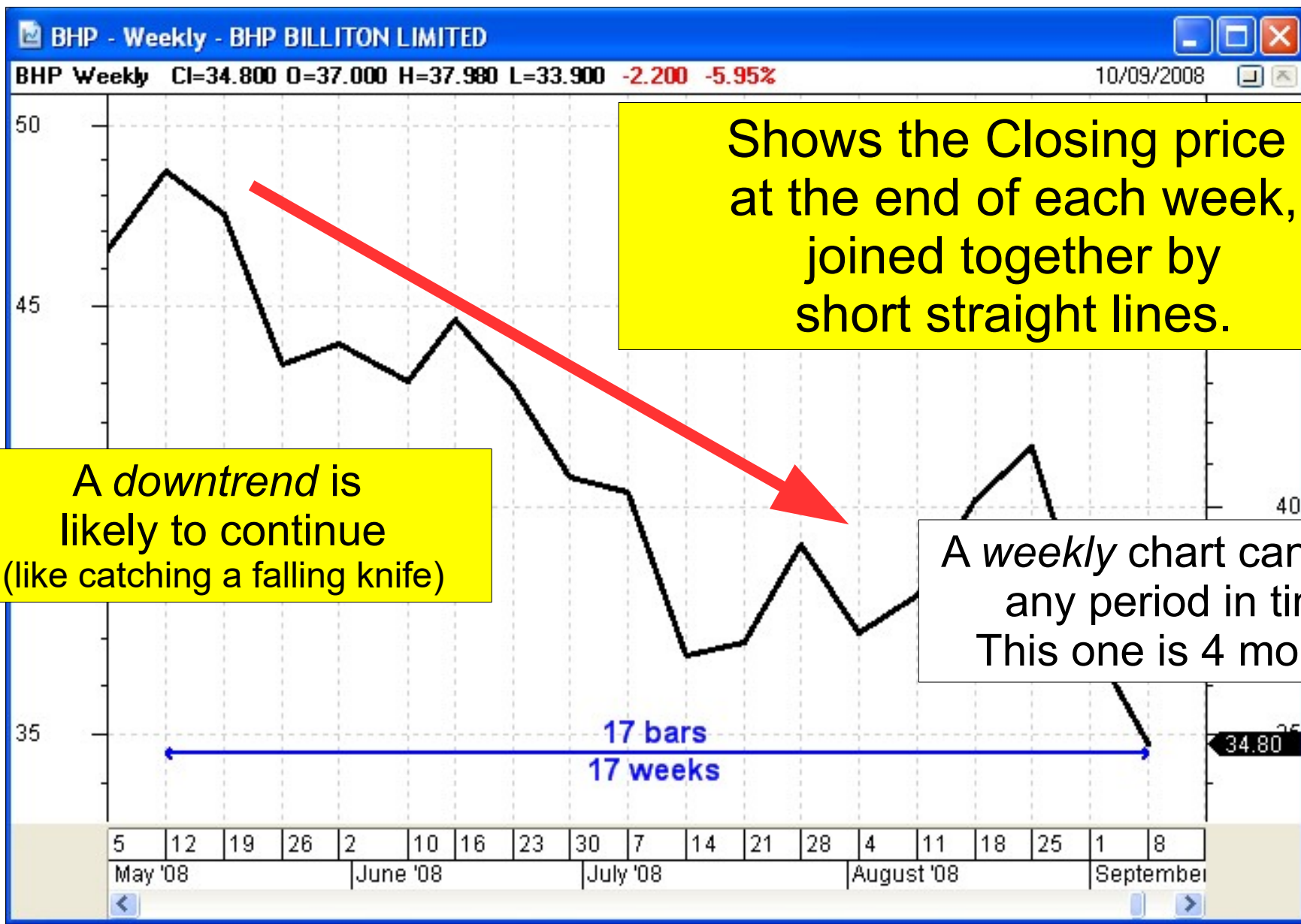
2. T.A is very good; but not 100% guaranteed, nor 100% reliable

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.



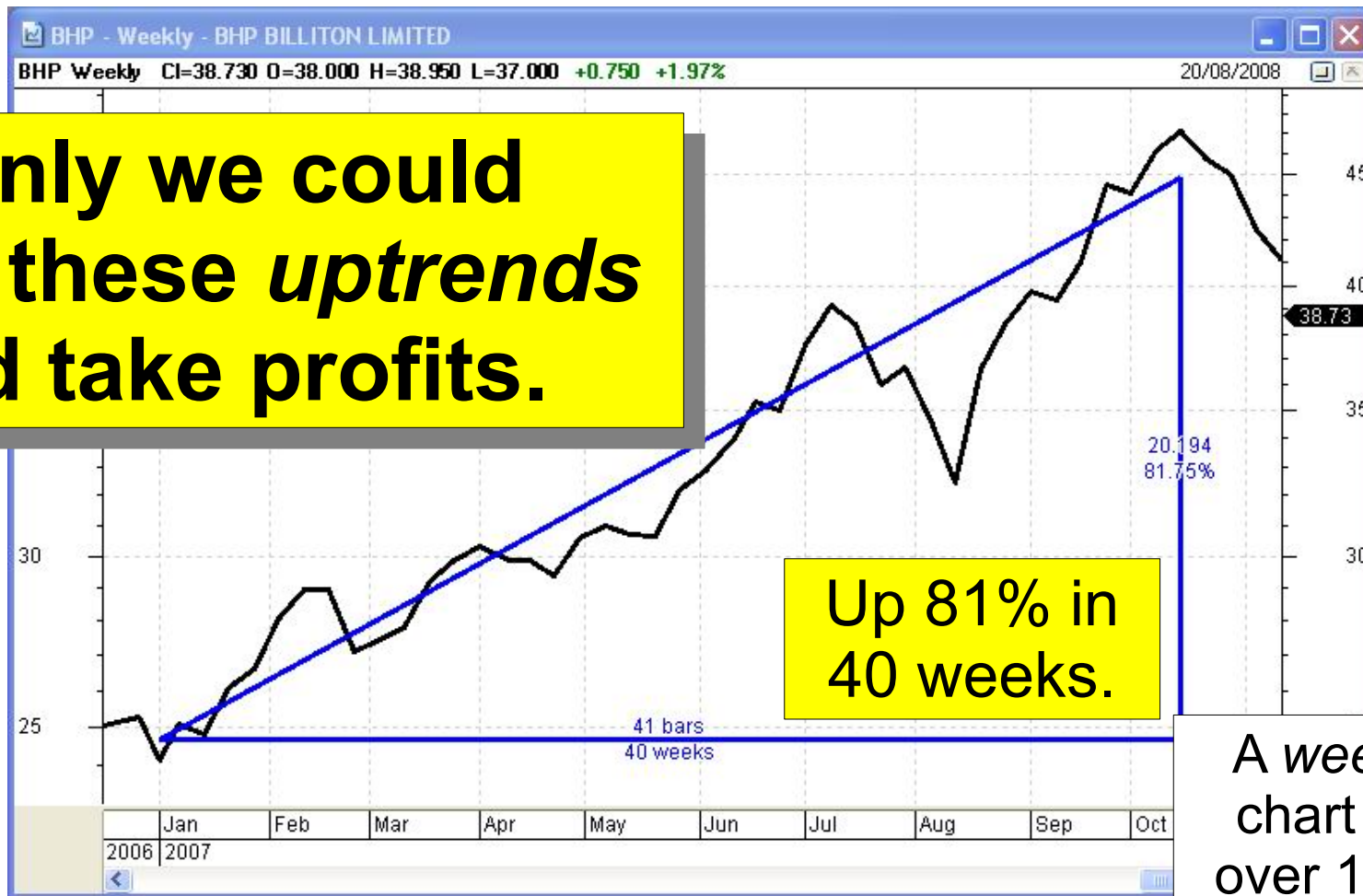
The *Weekly Line* Chart



Uptrends

Could you have been tempted to buy this stock?

If only we could spot these *uptrends* and take profits.

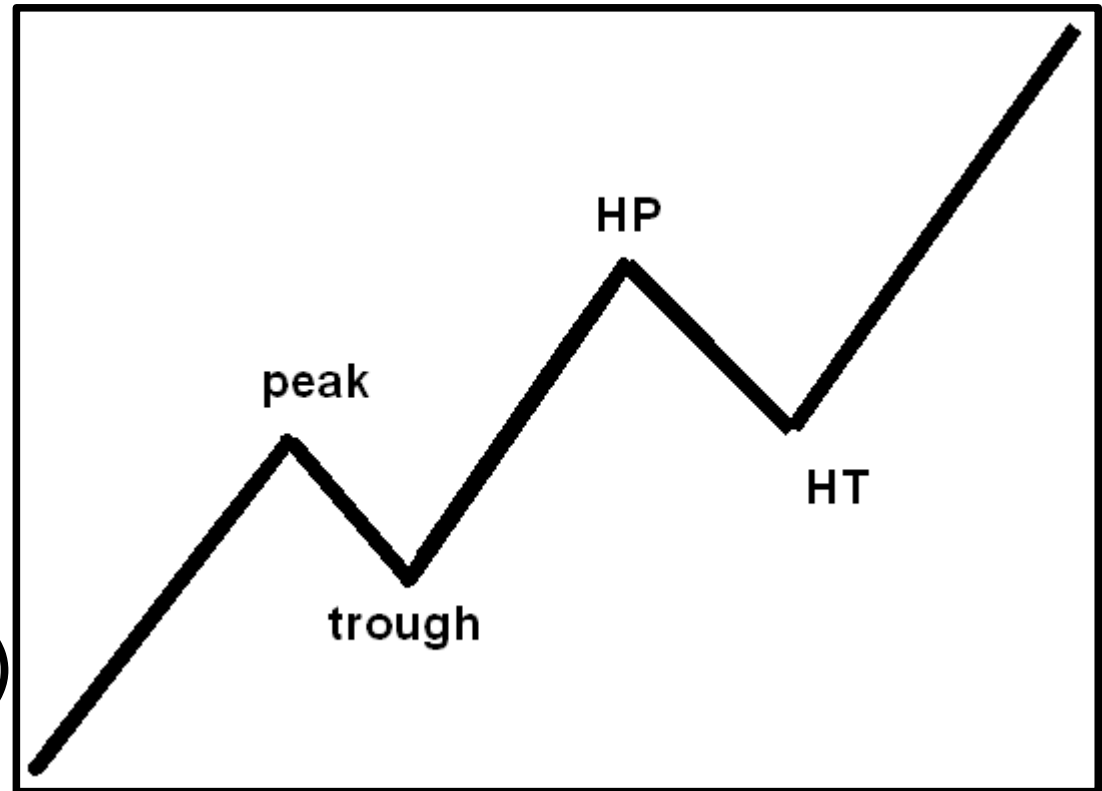


A weekly line chart of BHP over 10 weeks



Defining a trend — it's simple

- Identify the Peaks and Troughs.
- Look for:
Higher Peaks (HP)
and
Higher Troughs (HT)
(or Higher Highs and Higher Lows).

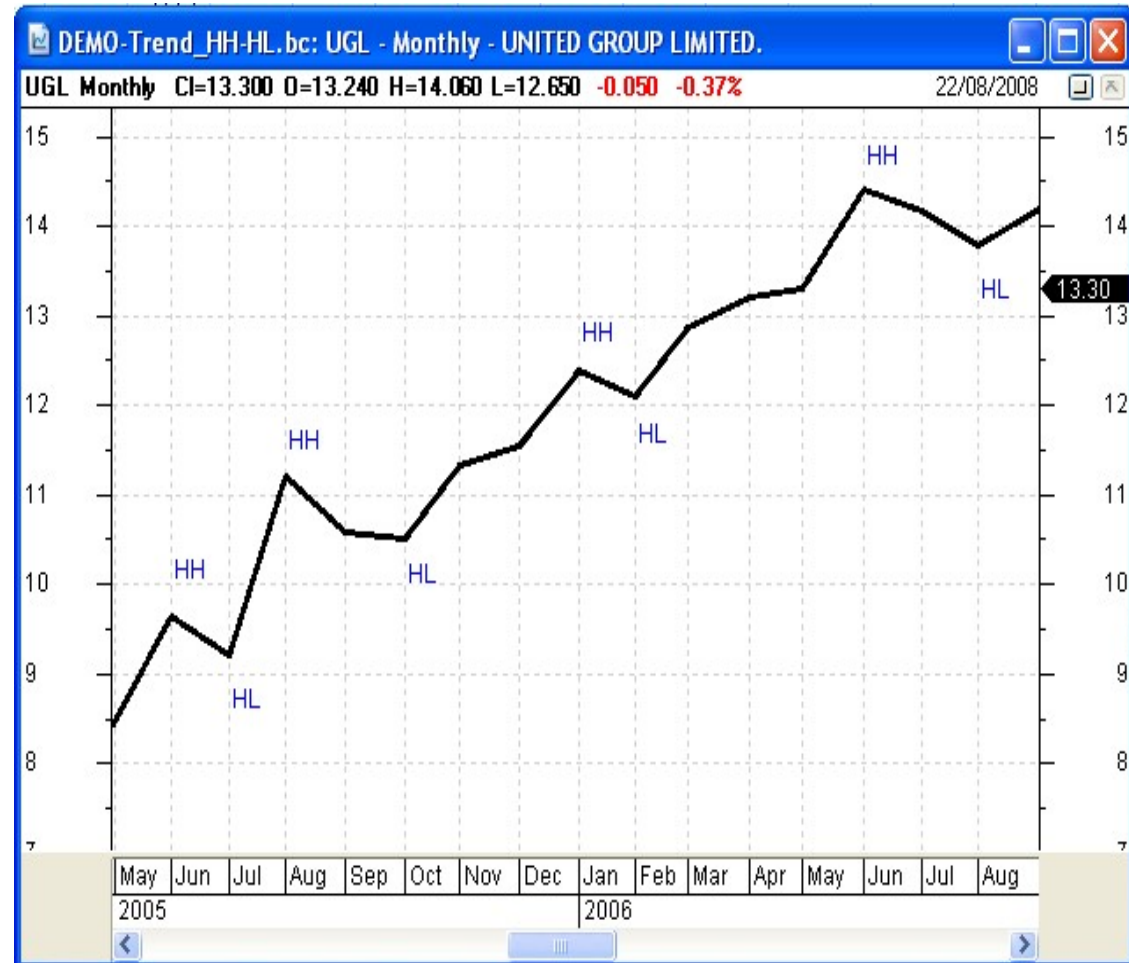


uptrend = Higher Peaks and Troughs

Get a feel for what the price is doing.

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

Use chart indicators
to help.



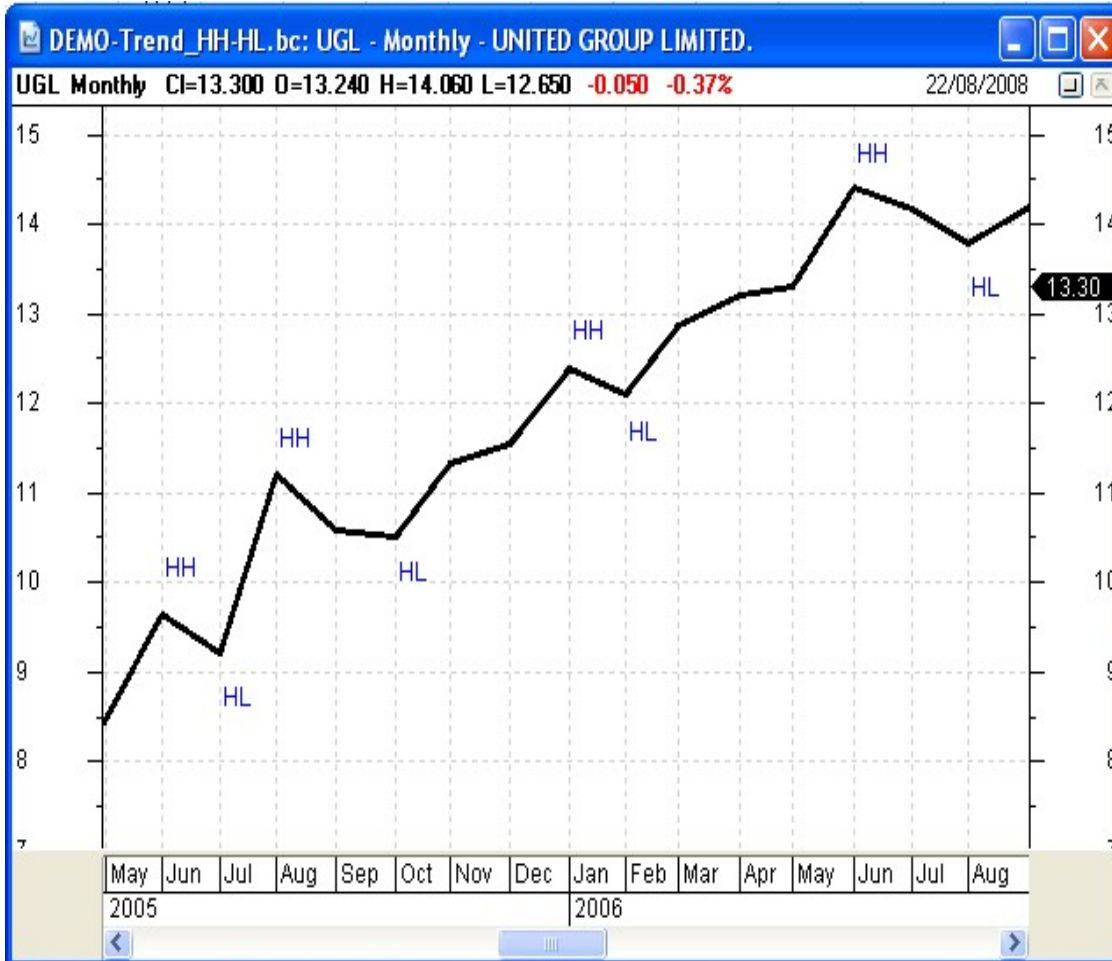
Terminology:-

Higher High = Higher Peak

Higher Low = Higher Trough



uptrend = 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



Beware the *downtrend*



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

* based on the principles of Dow Theory



Down Trends

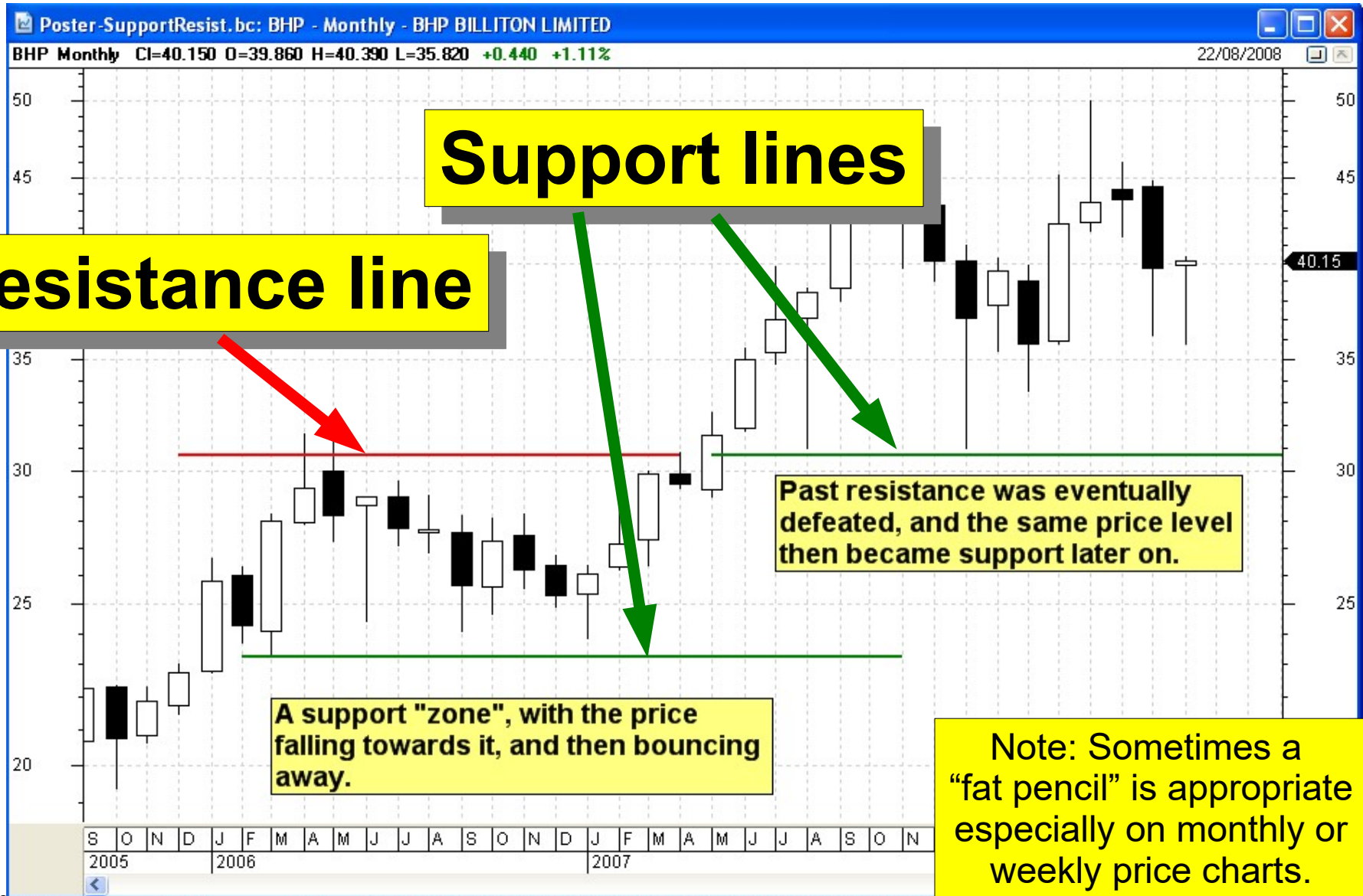


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Price *Support* and *Resistance*



Price *resistance* — HOW SO?

In 2006, the majority of market participants had an opinion: *“BHP is worth more than \$23; but not worth more than about \$31”*



Remember:
There is no point trying to argue with “Mr. Market”!

Resistance line

S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
2005				2006												2007									



Price support — HOW SO?

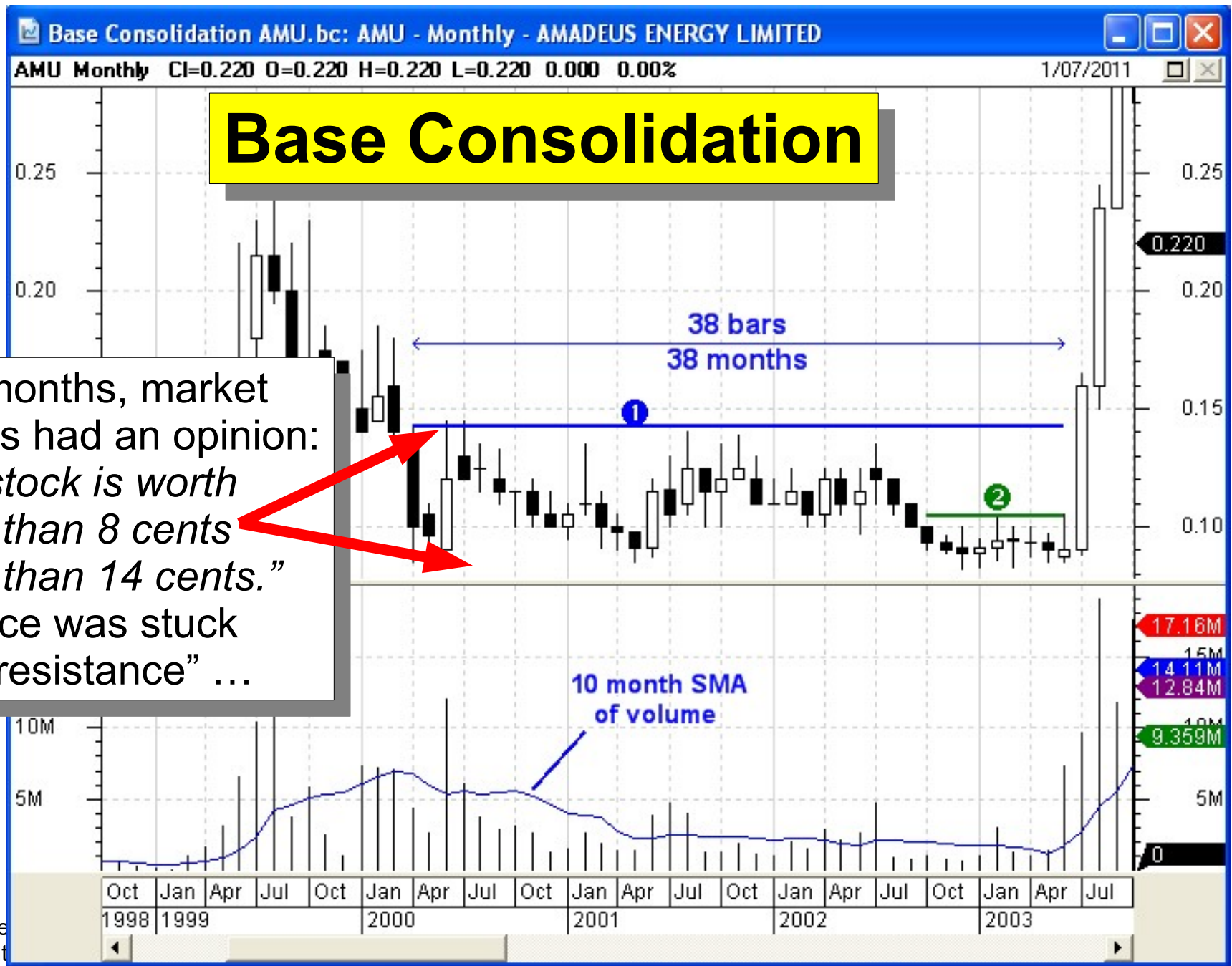


From April 2007, their opinions changed: *“BHP is now worth more than \$30”*

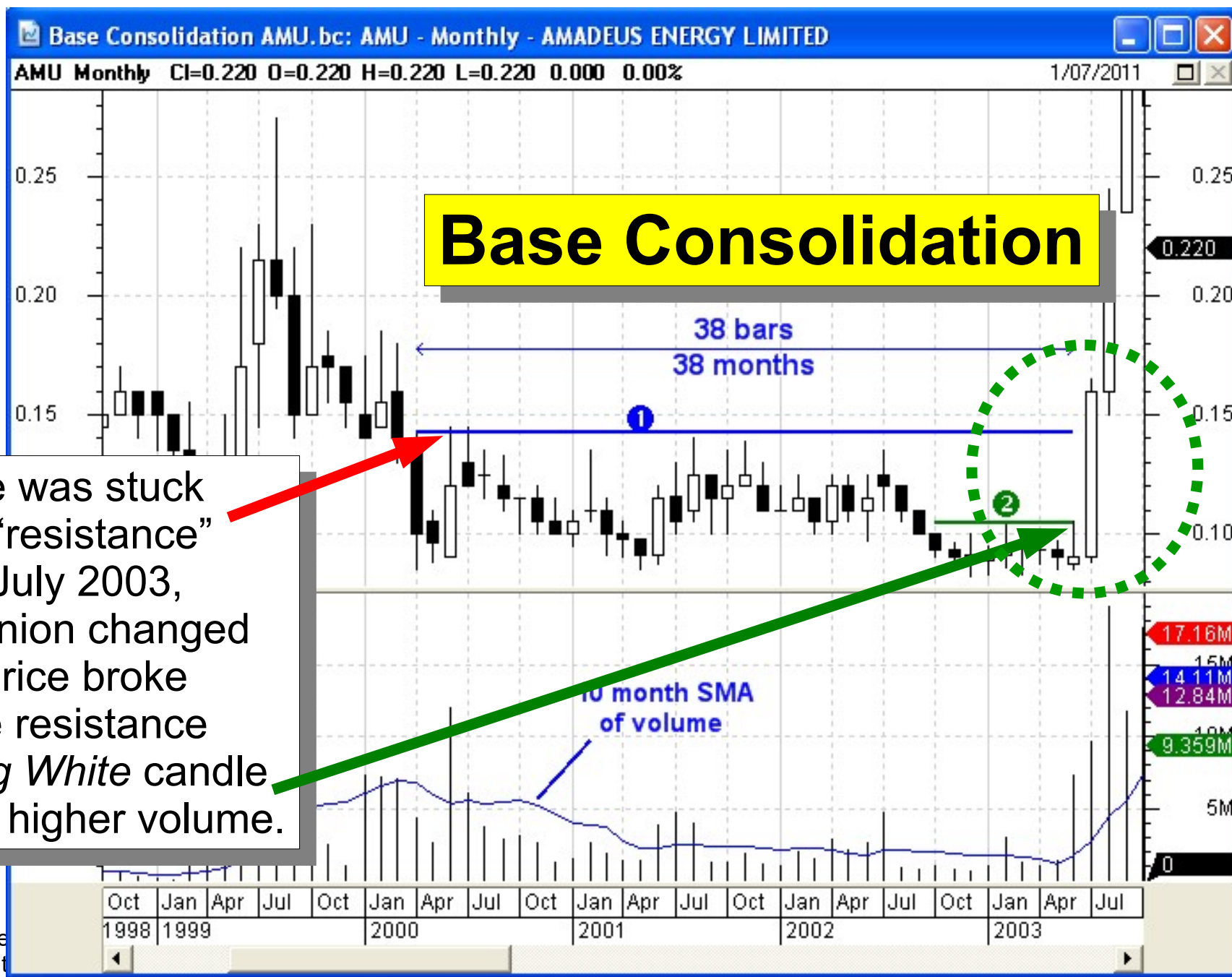
There is no point trying to argue with *“Mr. Market”!*

Support line





For 38 months, market participants had an opinion: *"This stock is worth more than 8 cents but less than 14 cents."* So, price was stuck under "resistance" ...



...price was stuck under “resistance” until July 2003, then opinion changed and price broke above resistance with a *Big White* candle and much higher volume.

Chart patterns

The Bullish Falling Wedge chart pattern

QUESTION:

How can you explain
this price chart?

What were the
market participants
really thinking?



Chart patterns

The Bullish Falling Wedge chart pattern

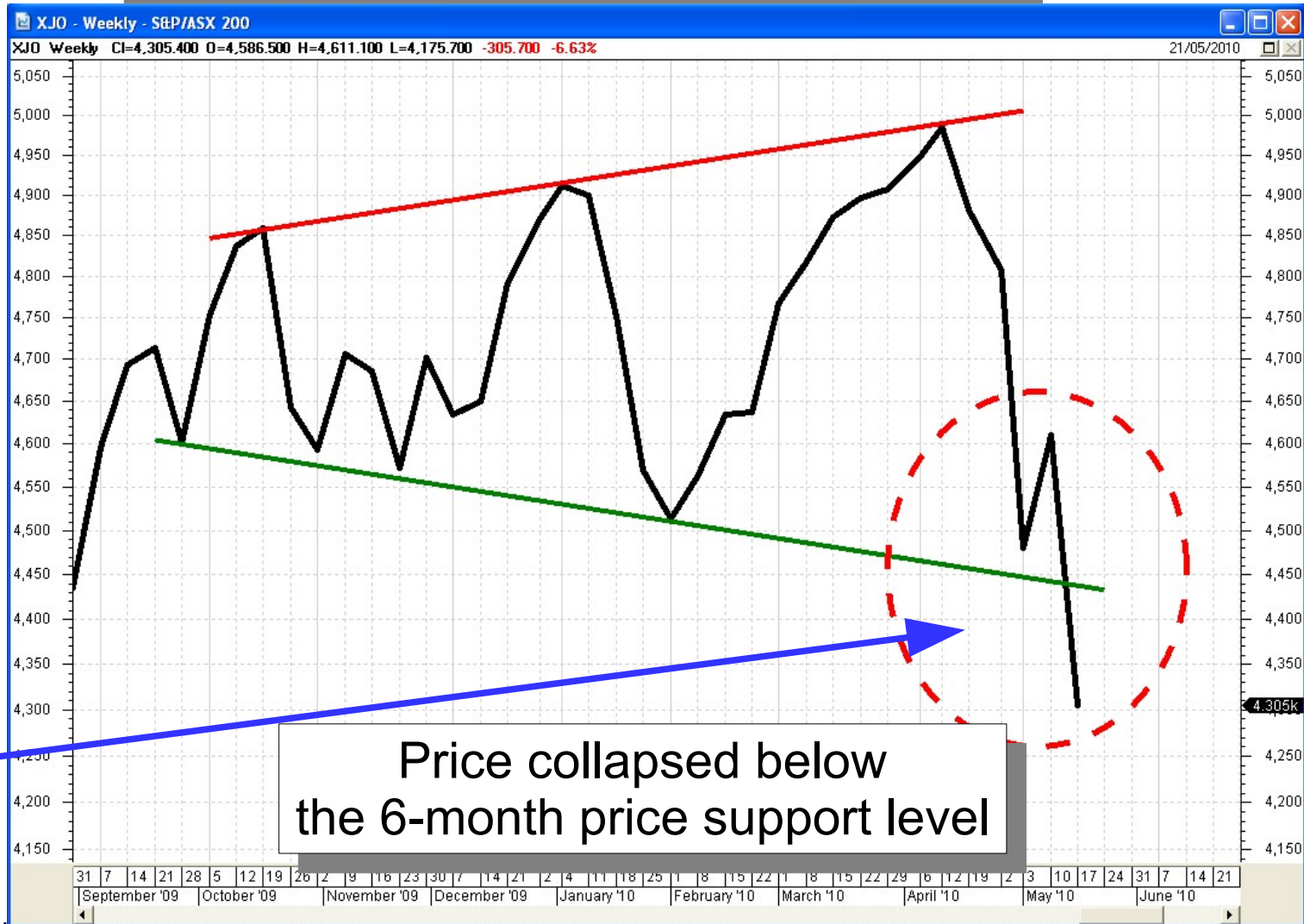
- Price rose too far too fast.
- Then fell for a period of time to “balance out” the progress.
- Then price continued the earlier uptrend rally.



The Expanding Wedge (megaphone) chart pattern

Price was volatile in a widening band for 6 months.

The bulls and bears pulled up/down, then the bears won



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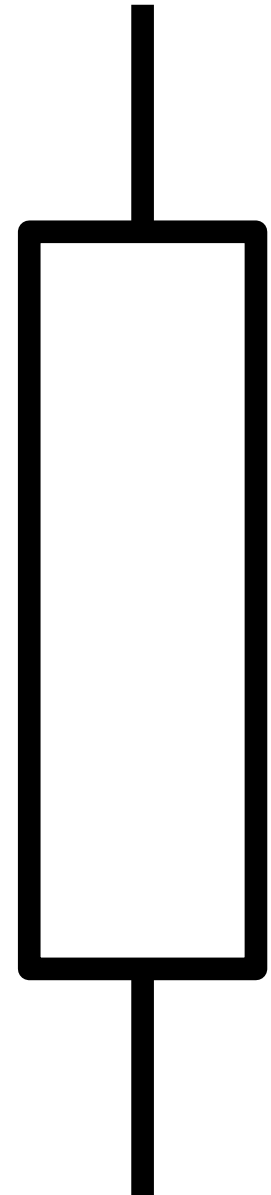
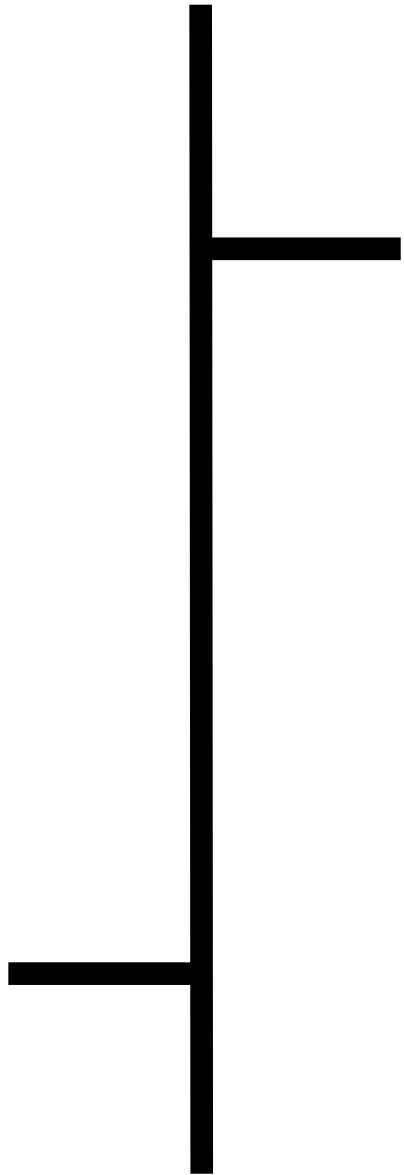
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Bars and Candles

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

(do you know how?)

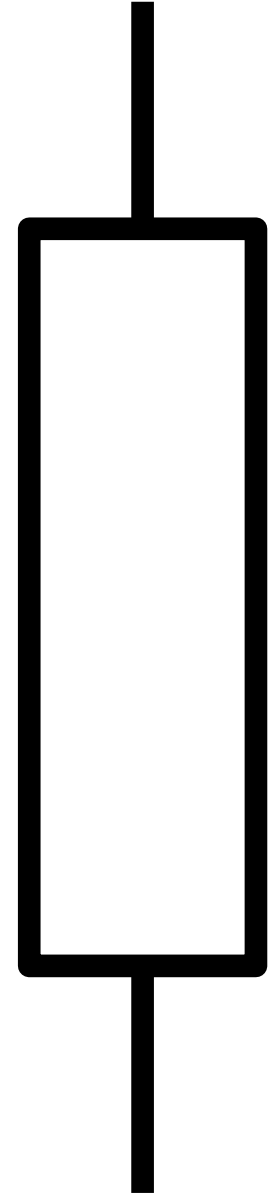
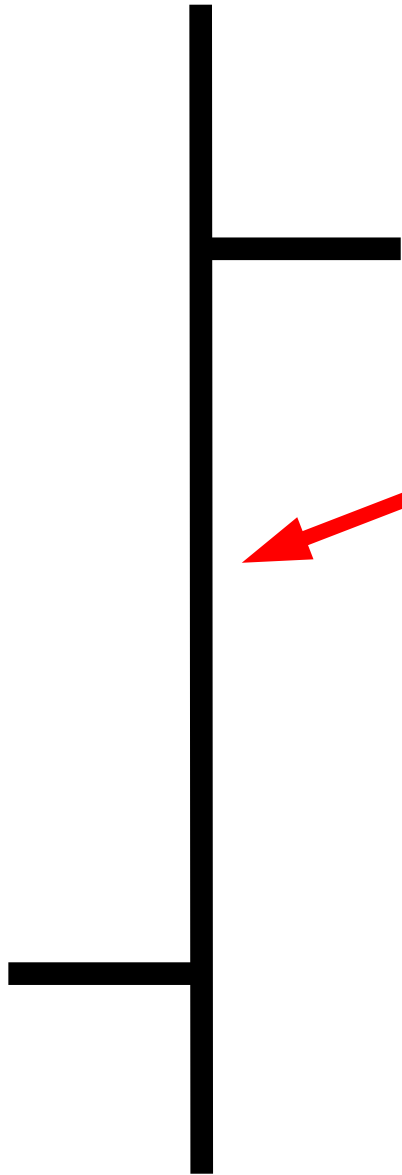


OHLC Bar and Candle...

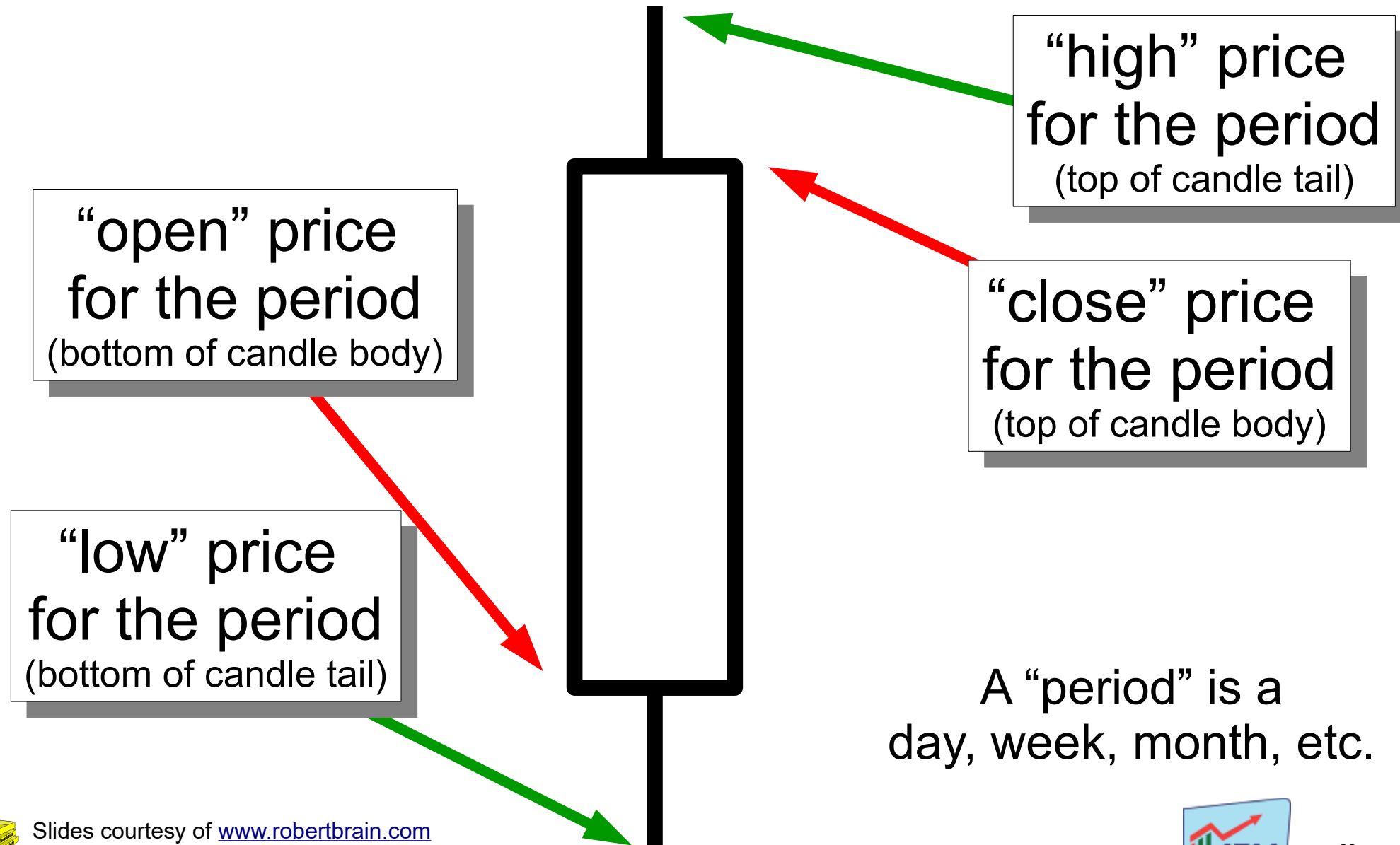
Each **bar** on a
bar chart, and

each **candle** on
a candle chart

summarises the
price action
in any one period
(a day, week, month, etc.).



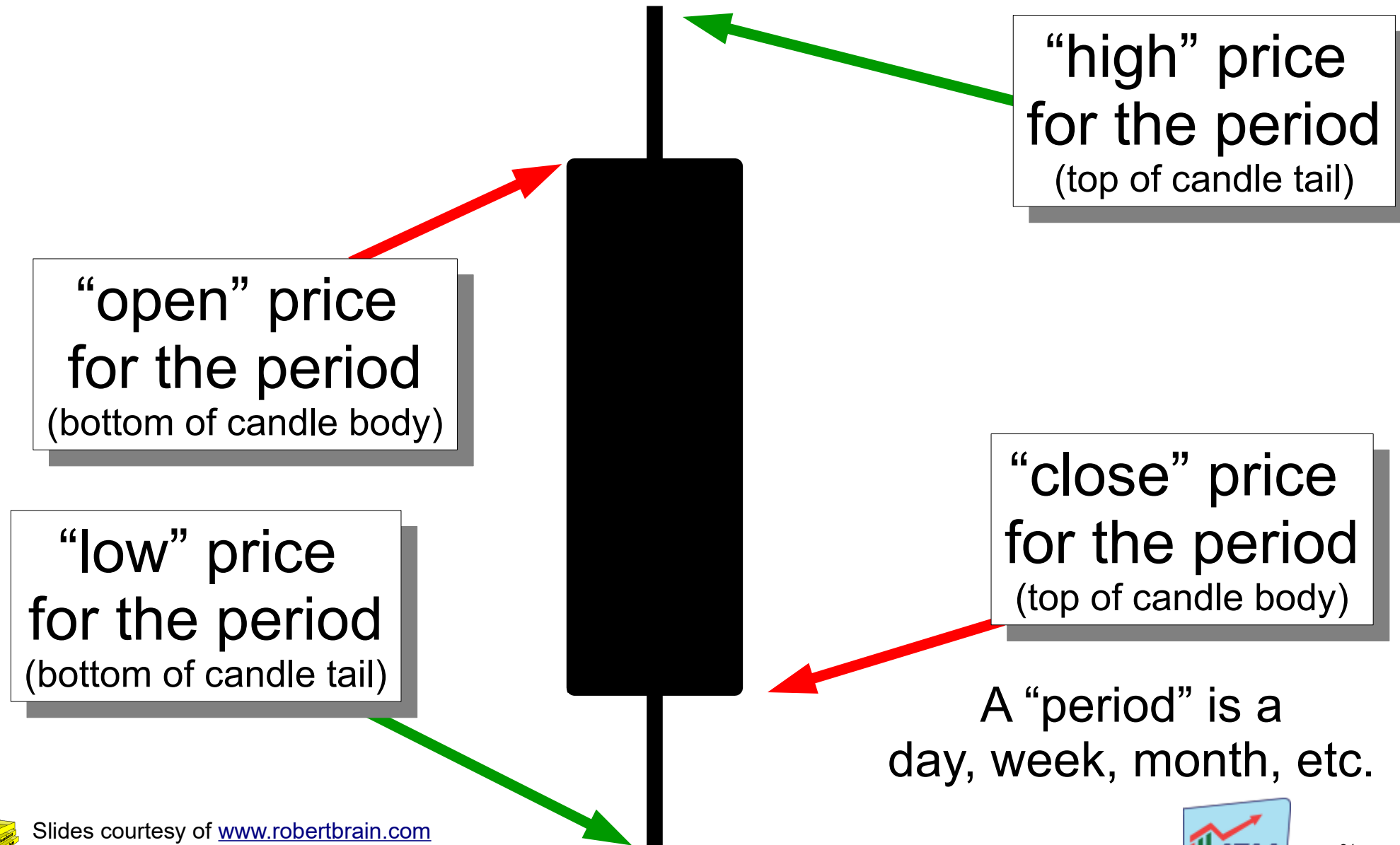
Candlestick features — the White candle



A “period” is a day, week, month, etc.



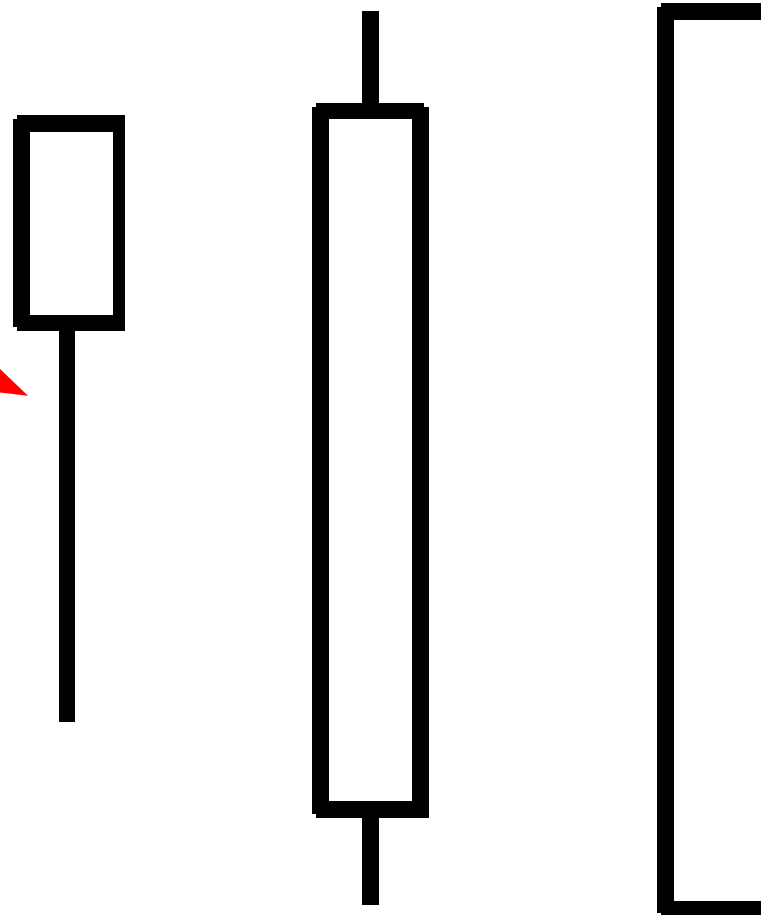
Candlestick features — the Black candle



Candle *body* and *tails*

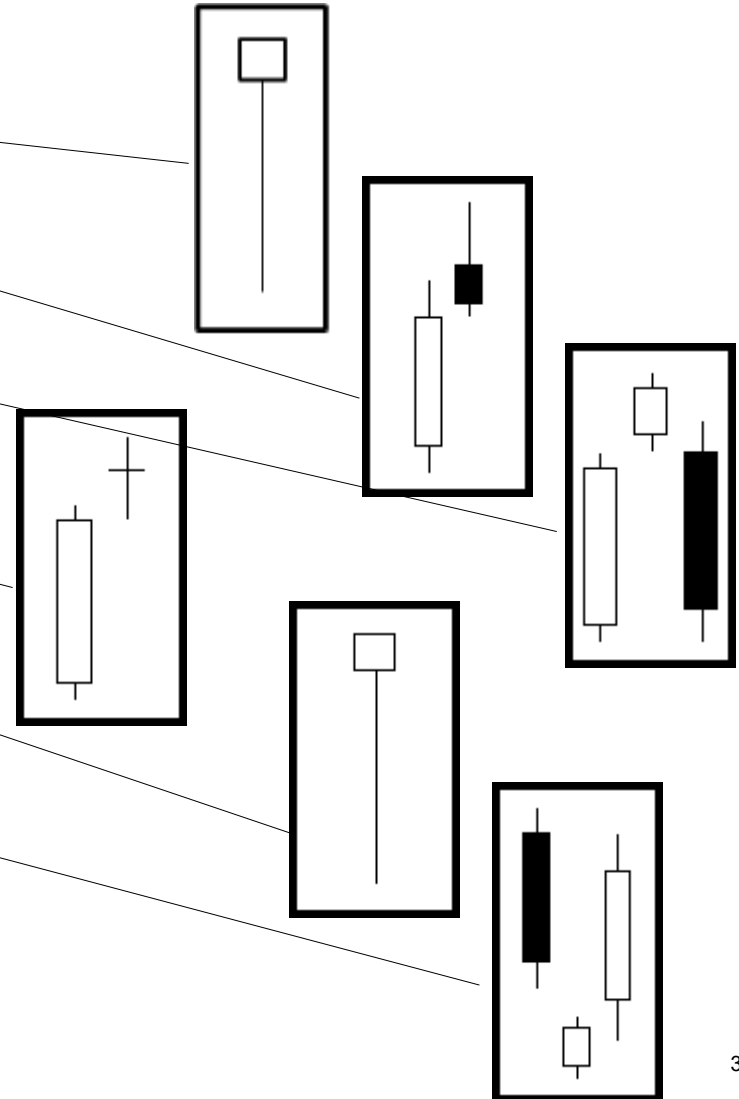
- Their presence or absence is important
- Their length (ie. their height) is important.

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.



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)



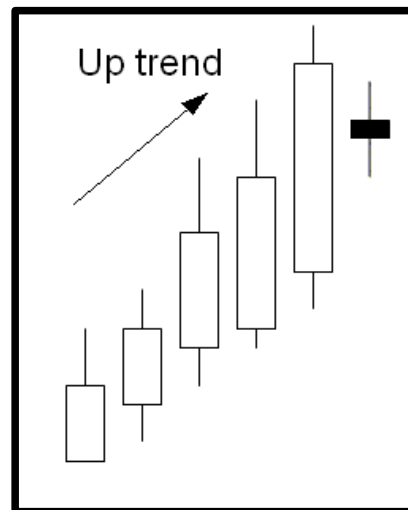
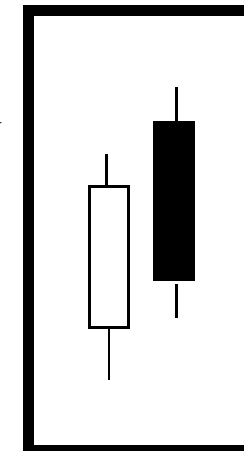
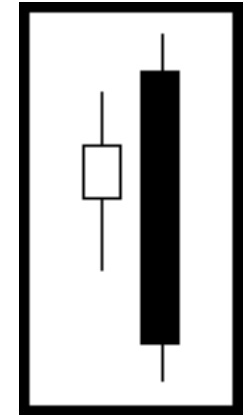
These candle patterns
all tell a story.
Can you read the story?



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)



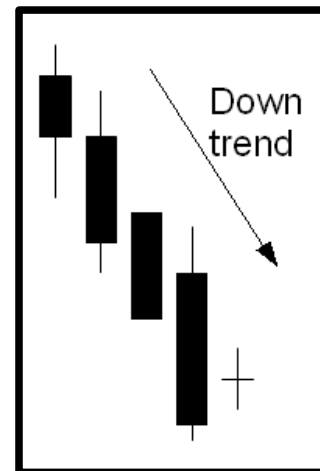
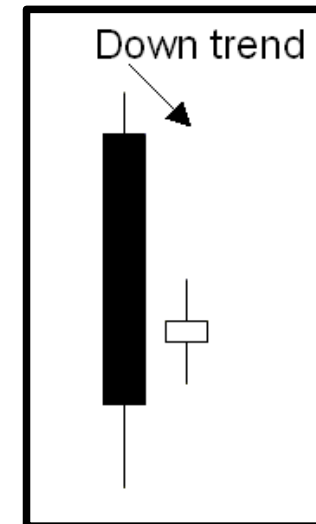
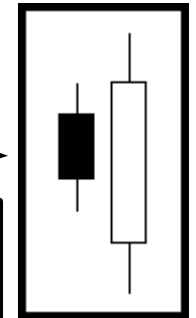
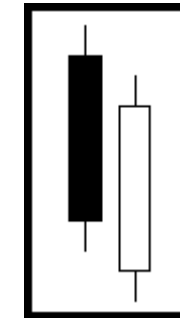
These candle patterns
all tell a story.
Can you read the story?



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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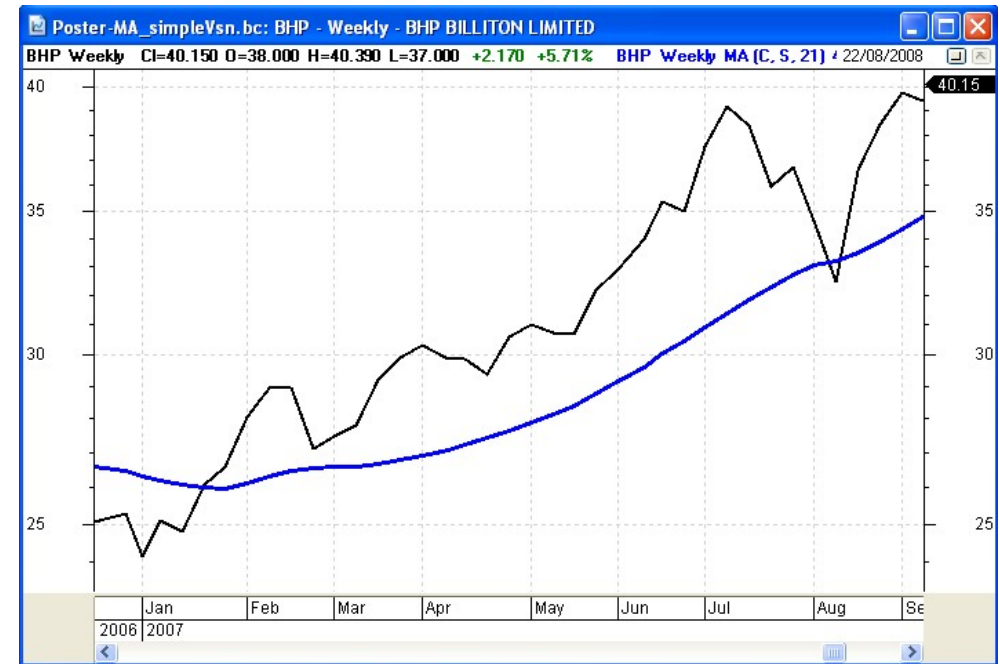
Moving Average (MA)

- 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 *uptrend* indicates a dominance of buyers.



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.

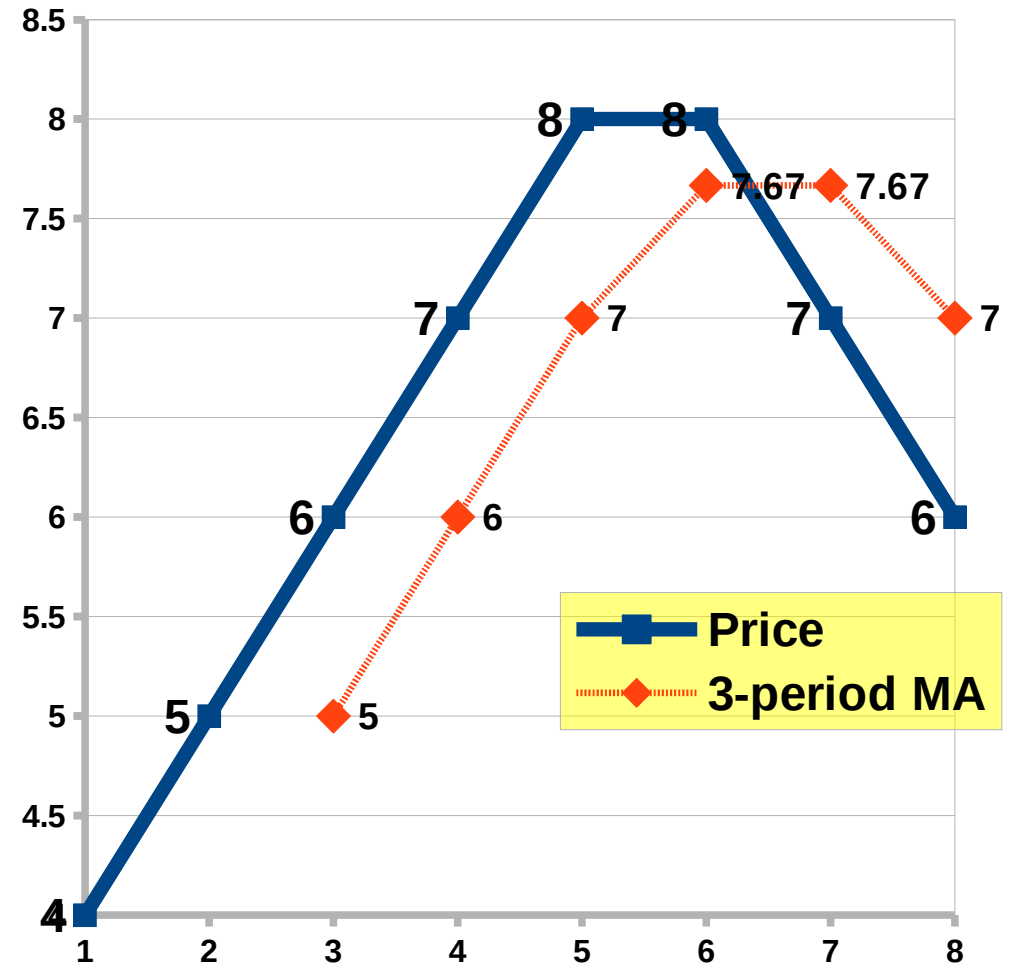


Moving Average — how to calculate?

Simple calculation of
3-period MA.

The first MA value is
the average of the
first 3 price values:

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



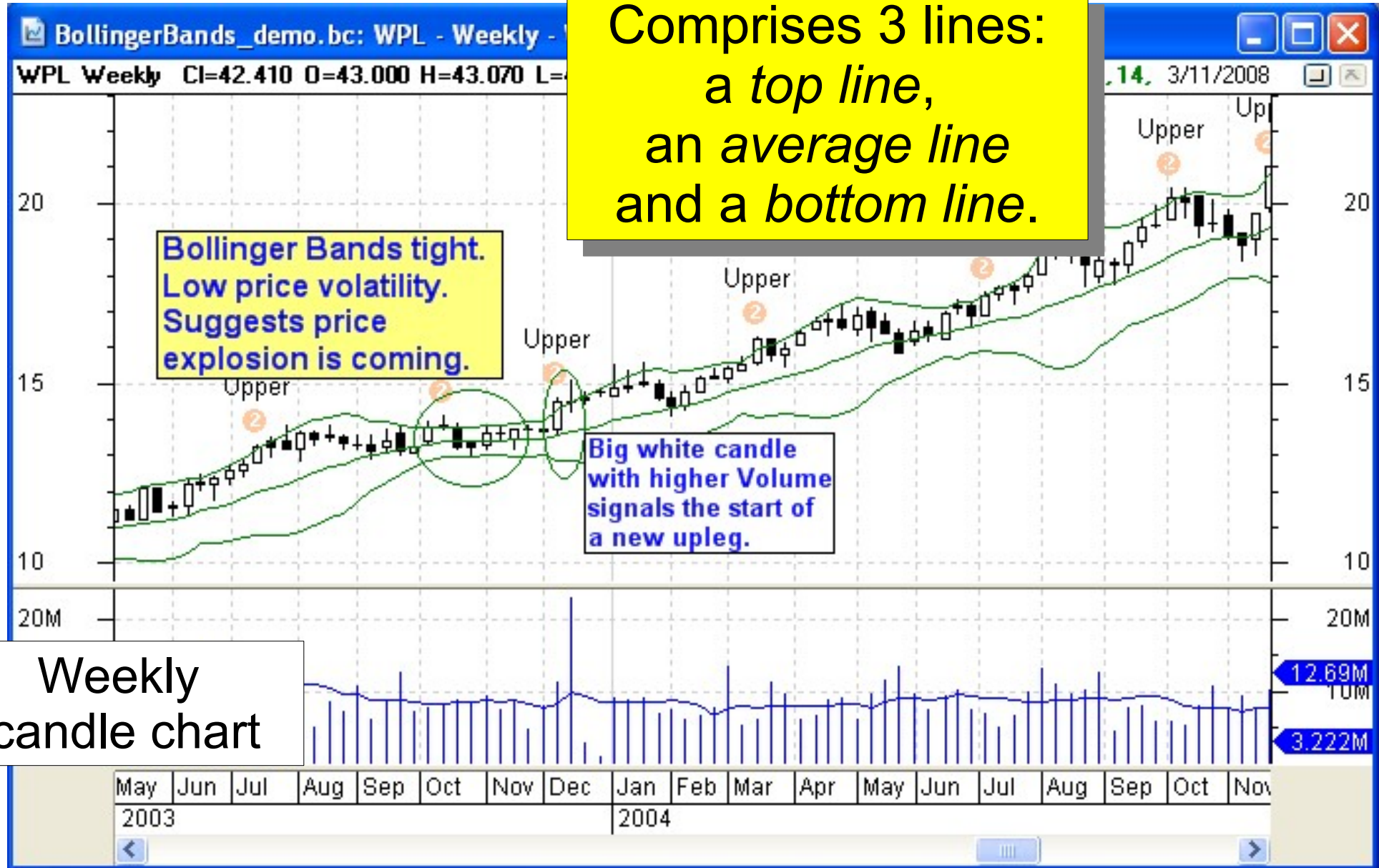
Bollinger Bands indicator

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

Bollinger Bands tight.
Low price volatility.
Suggests price explosion is coming.

Big white candle with higher Volume
signals the start of a new upleg.

Weekly candle chart



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).



Weekly candles



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Protecting profit and capital — *Stop Loss*

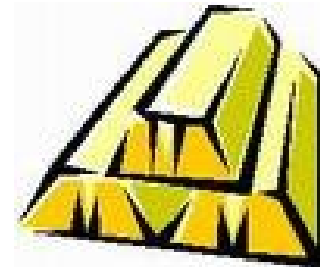
Sound and sensible
money management

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



Sensible money management

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



Stop Loss? — under Support?



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”*.

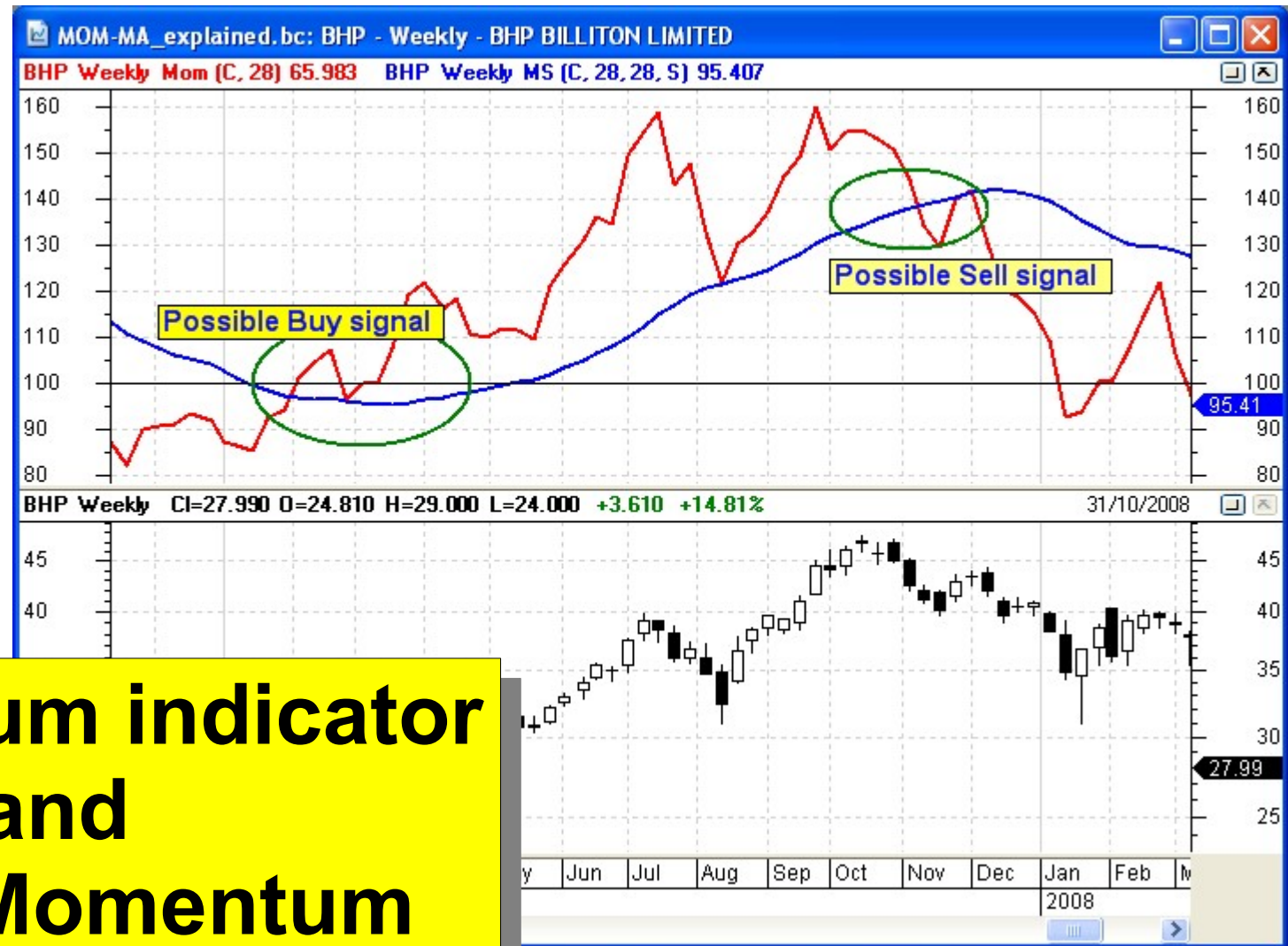


Sample Trading Strategies

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)



Sample Strategies



**Momentum indicator
and
MA-of-Momentum**

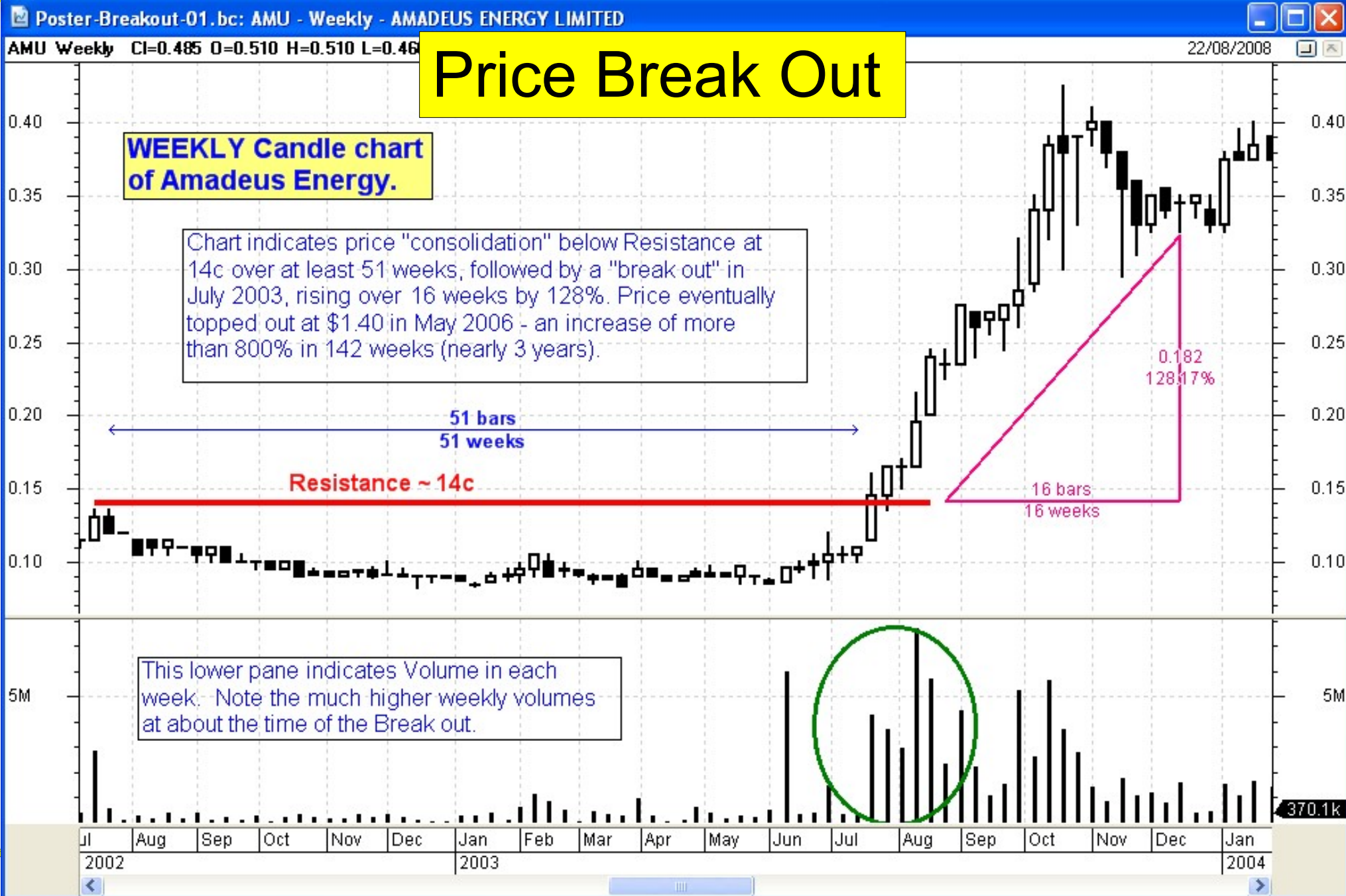


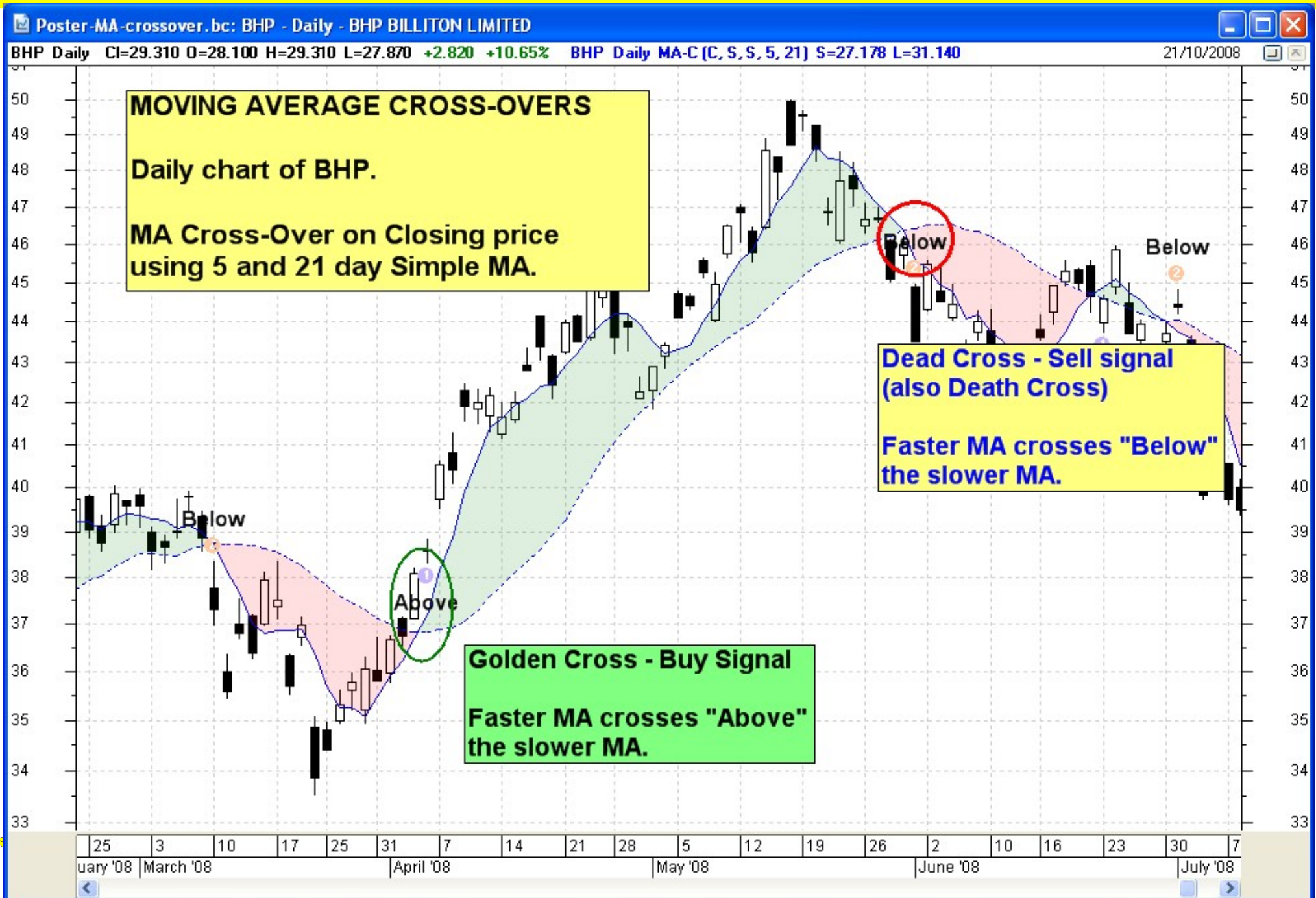
More sample strategies*

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

* — There is no guarantee of success with any published 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!!*



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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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.
- Sensible risk and money management make a very big difference.
- 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.



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!



Fibonacci Retracement



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.



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



Technical Analysis is: . . .

1. Price charts and chart patterns
2. Candlestick (or bar) charts and patterns
3. Chart Indicators
 - Moving Average, MACD, RSI, P-SAR, etc.
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Summary & Wrap up

THE END

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