



# Brainy's Articles on Technical Analysis

## Introduction

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### **Introduction**

Technical Analysis is basically the study of share price charts in the belief that the value of a company's shares is already reflected in the share price. Whether you are completely convinced of this, or still a little sceptical, this article helps to shed some light on the subject.

To the uninitiated the subject of technical analysis might seem huge and somewhat complex. There are many, many aspects that can be considered, including the following:

- Price charts on different time frames (eg. intraday, daily, weekly, monthly, quarterly).
- The Volume (number of shares bought/sold) in each period.
- Number of trades in a period (eg. day, week, etc.).
- "Patterns" on the price chart.
- Specific candlestick patterns.
- Indicators (eg. Moving Average, MACD, Momentum, RSI, P-SAR, Stochastic, RSC, MMA).
- Cycle analysis, Elliott Wave, Fibonacci, W.D.Gann.

The good news is that the student of technical analysis does not need to study all aspects. It is possible to study something like just 10% or less of the total subject matter and be able to use it effectively.

In this article in Brainy's series on Technical Analysis (number TA-2000) we take an introductory look at the subject, and we outline the major aspects of technical analysis. This should help put things into perspective so that you can feel comfortable with small amounts of progress, and build up your knowledge and expertise over time.

### **What is Technical Analysis?**

Right from the start, let's not kid ourselves — the subject of technical analysis is a very broad and complex one. It covers a lot of things, and there are varying definitions for some aspects.

Even so, technical analysis basically centres on the study of the share price chart, for purposes such as the following:

- Identifying a trend (either up trend, or down trend, or even a "non" trend), so as to ride the trend. See Figure 1 below for a sample price chart with trend lines included.
- Identifying specific patterns that have occurred in the past and which might occur again with a somewhat predictable outcome (eg. support and resistance – see below).

One way to depict the major headings in the study of technical analysis is as follows:

- Primary analysis:
  - price charts and chart types
  - trends and trendlines
  - support and resistance
  - volume
  - chart patterns
  - candlestick patterns
- Secondary analysis and indicators:
  - trend indicators — moving average, regression line, Parabolic SAR;
  - volatility indicators — Bollinger Bands, Average True Range;
  - momentum indicators — RSI, MACD, ADX/DMI, Coppock;