

Technical Analysis?

What is it?



candlestick
patterns

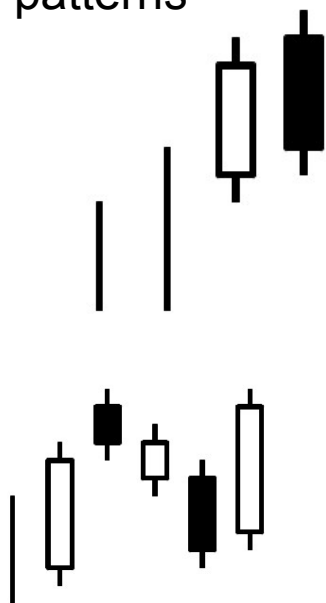


chart
patterns



monthly candle chart



price
breakout



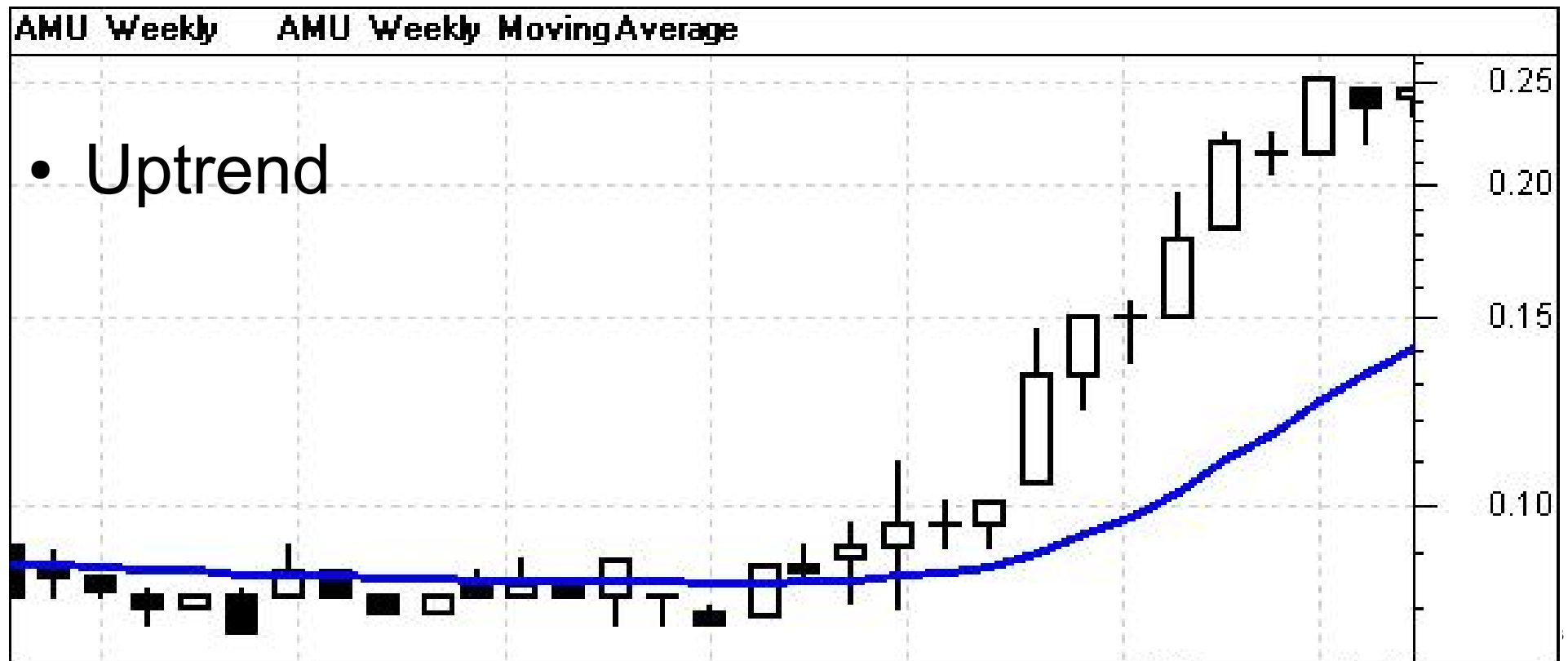
Technical Analysis is very useful!

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

Every chart tells a story.

Understand the story in the price charts.

- Weekly candlesticks
- Log price scale
- MA indicator
- Price consolidation
- Break out

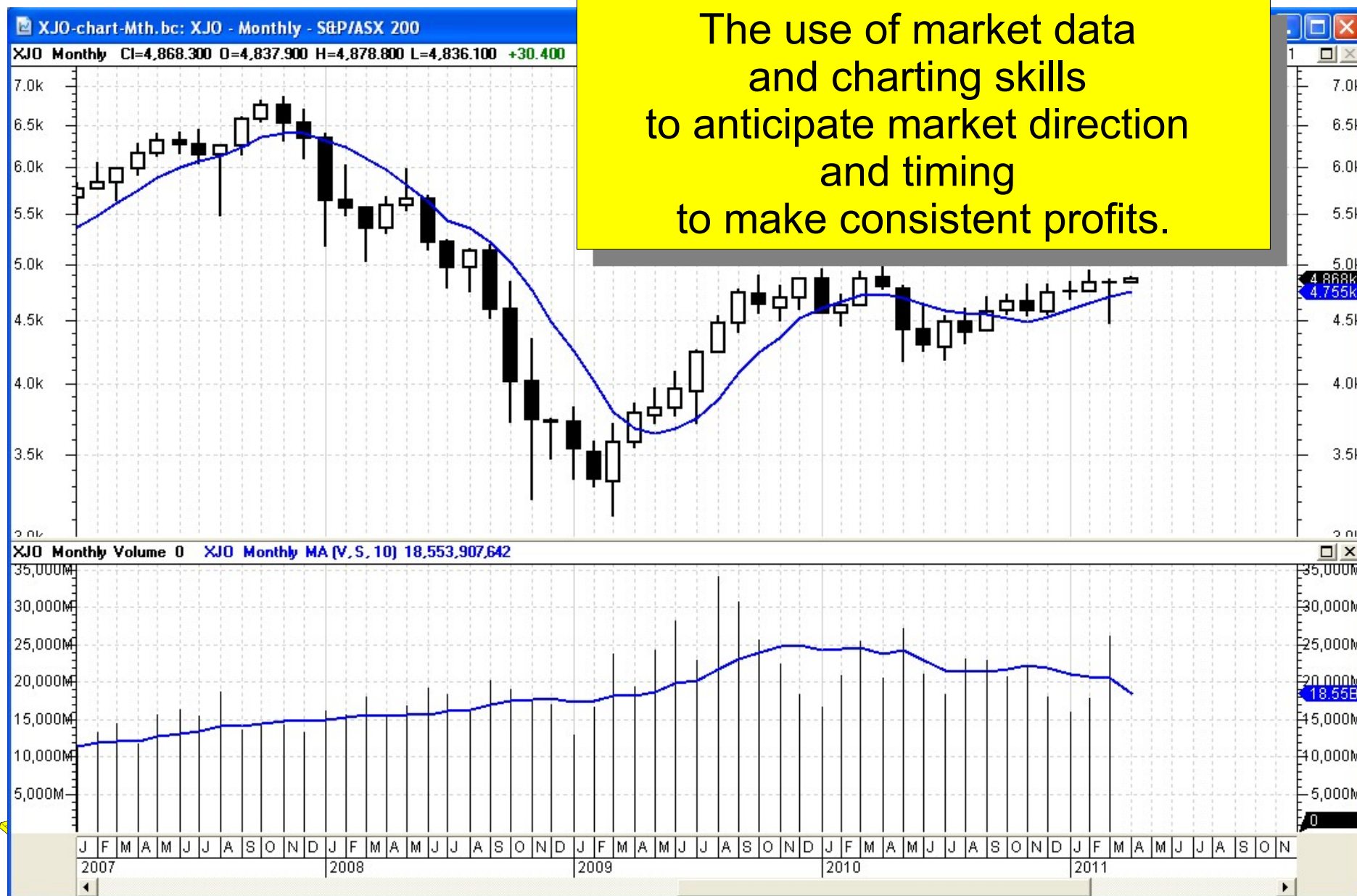


Disclaimer

- 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.

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

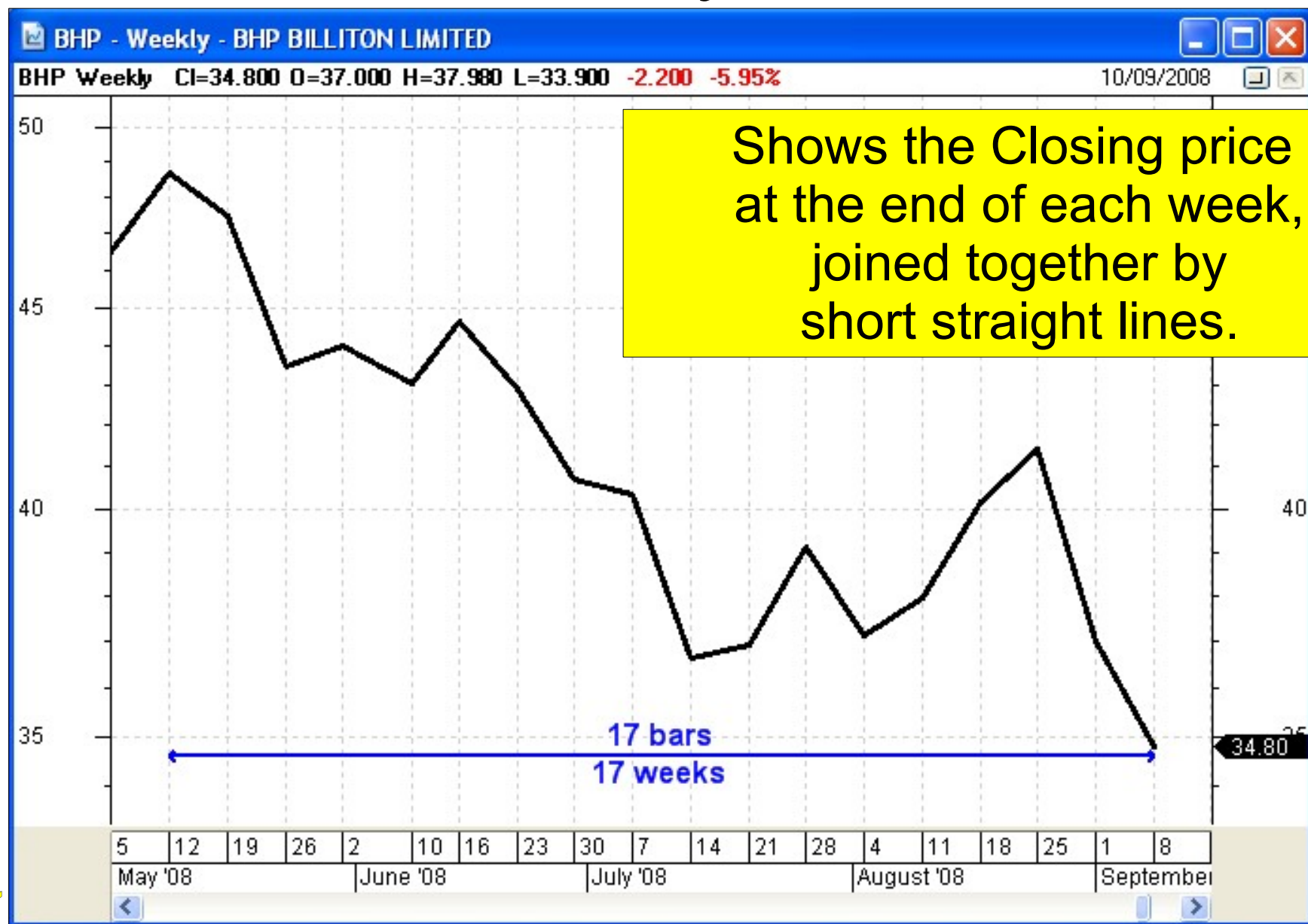


Introductory comment

1. T.A can be used on:
 - company share price charts
 - commodity price charts
 - foreign currency (forex) charts
2. T.A is 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.



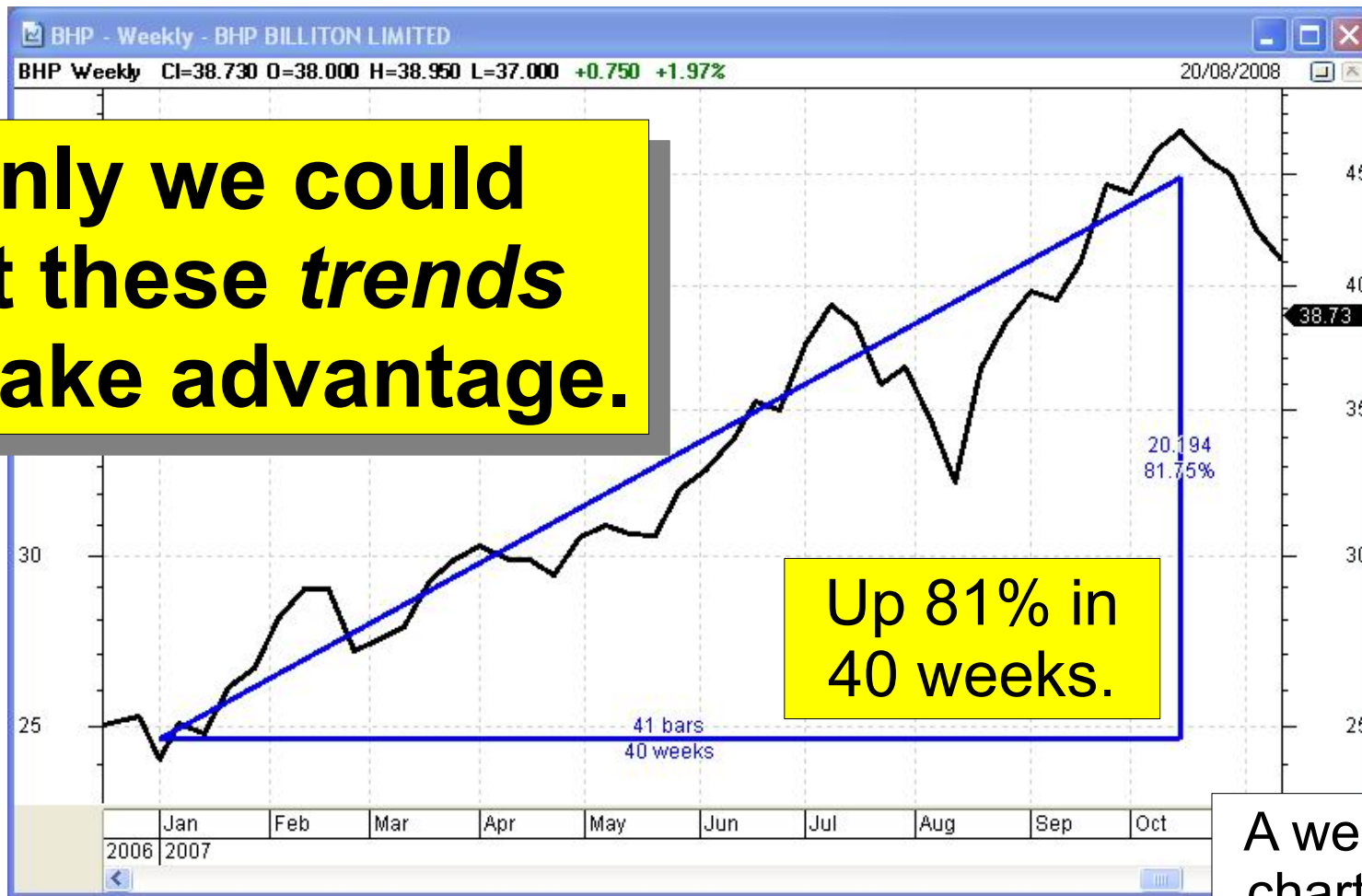
The *Weekly Line* Chart



Up Trends

Could you have been tempted to buy this stock?

If only we could
spot these *trends*
and take advantage.

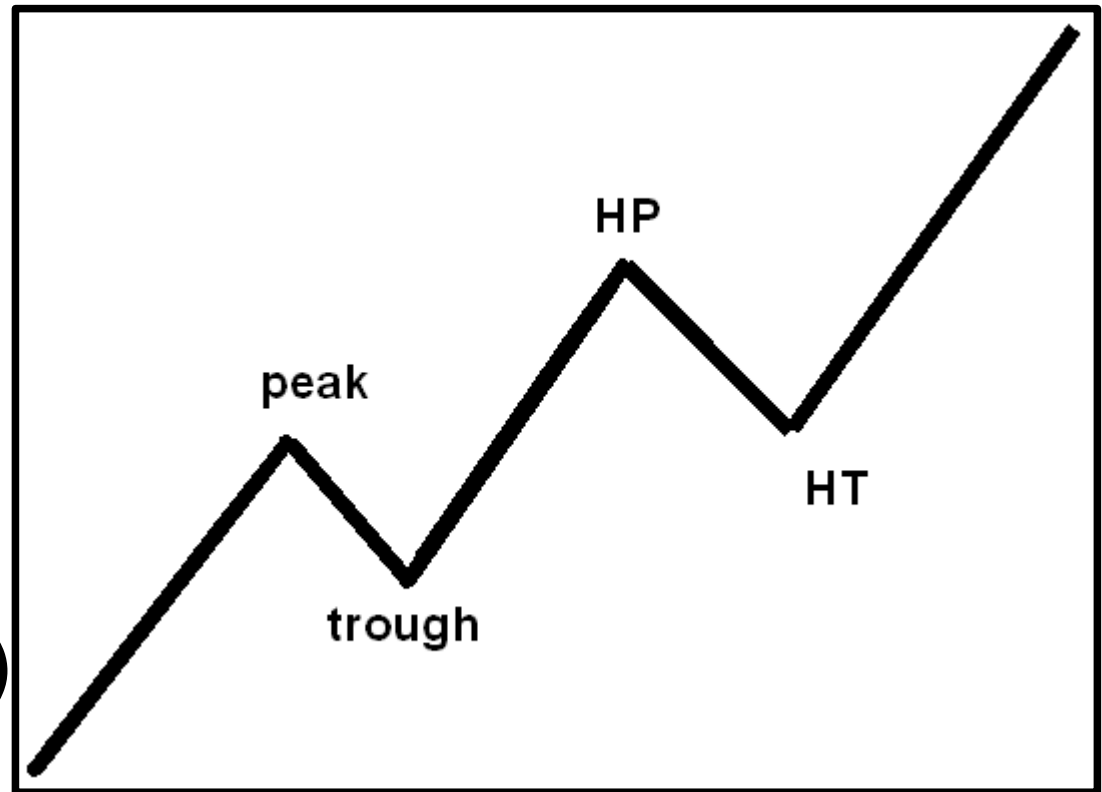


A weekly line
chart of BHP



Defining a trend — simple

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

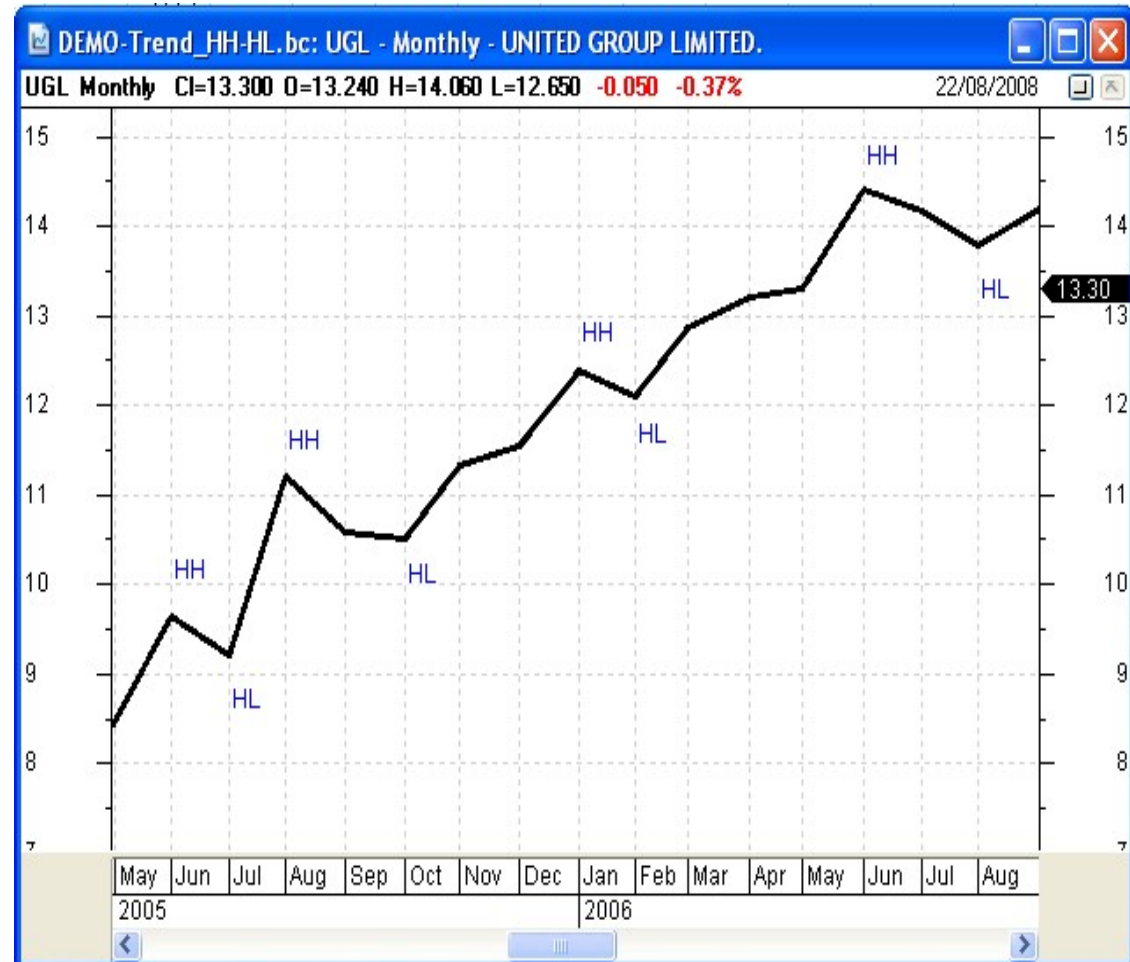


up trend = Higher Peaks and Troughs

Get a feel for what the price is doing.

Identify trends
(up, or down), or
non-trending.

Use indicators to help.



Terminology:-

Higher High = Higher Peak

Higher Low = Higher Trough



Beware the *down trend*



Down Trends

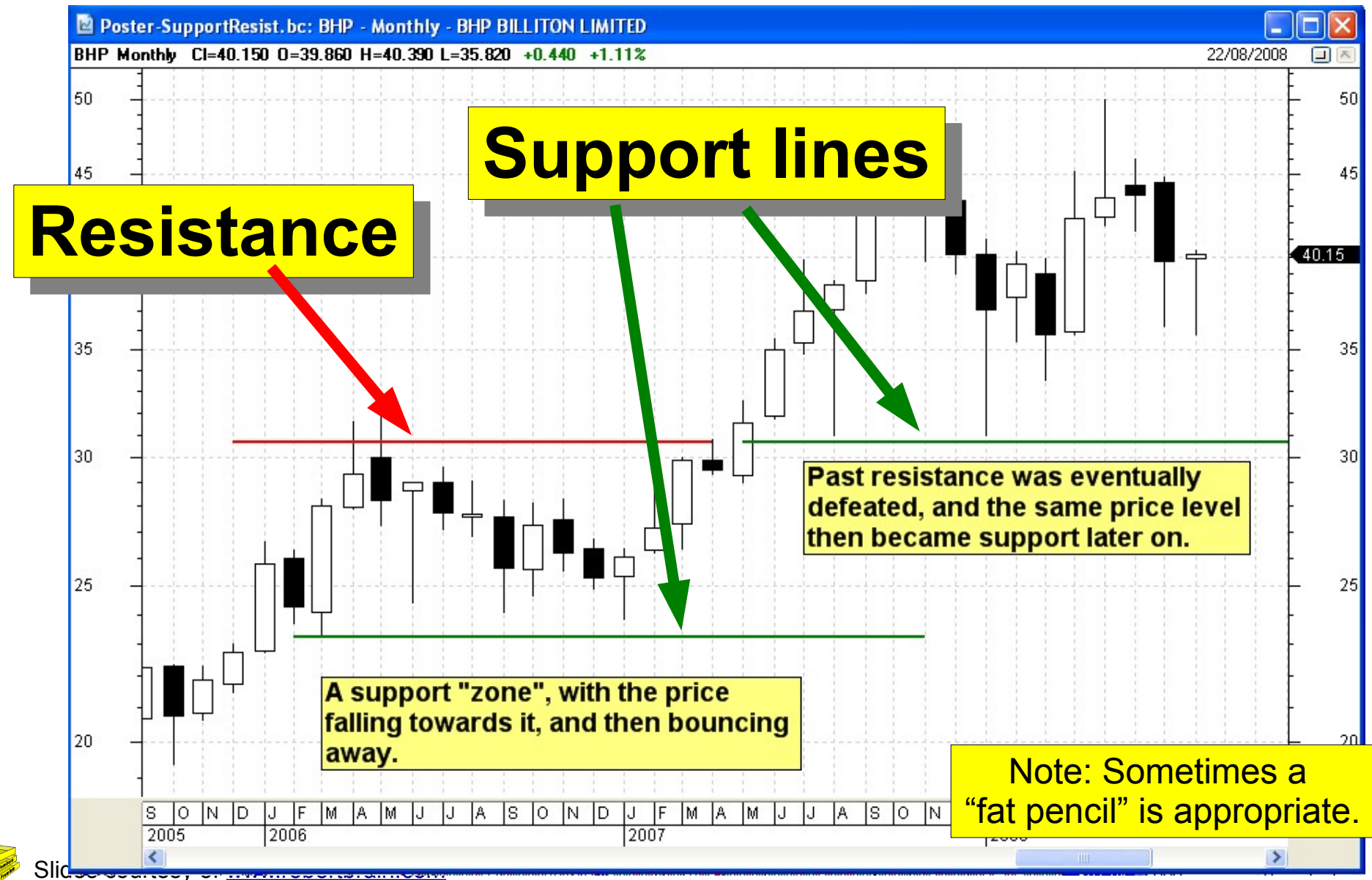


Might you have been tempted to buy this down-trending stock?

A weekly line chart of Telstra, 1999-2002 (down 46%)



Support and Resistance



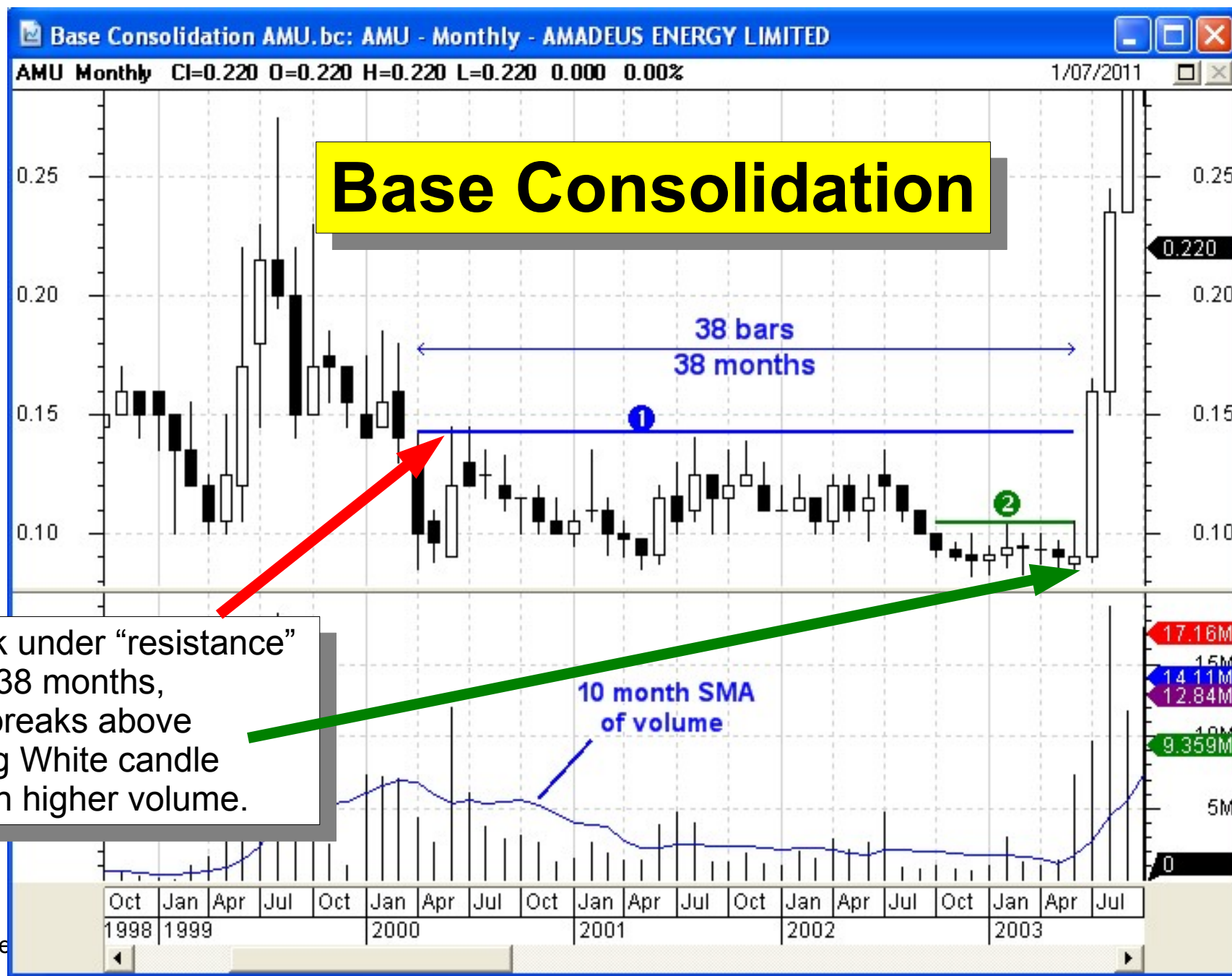
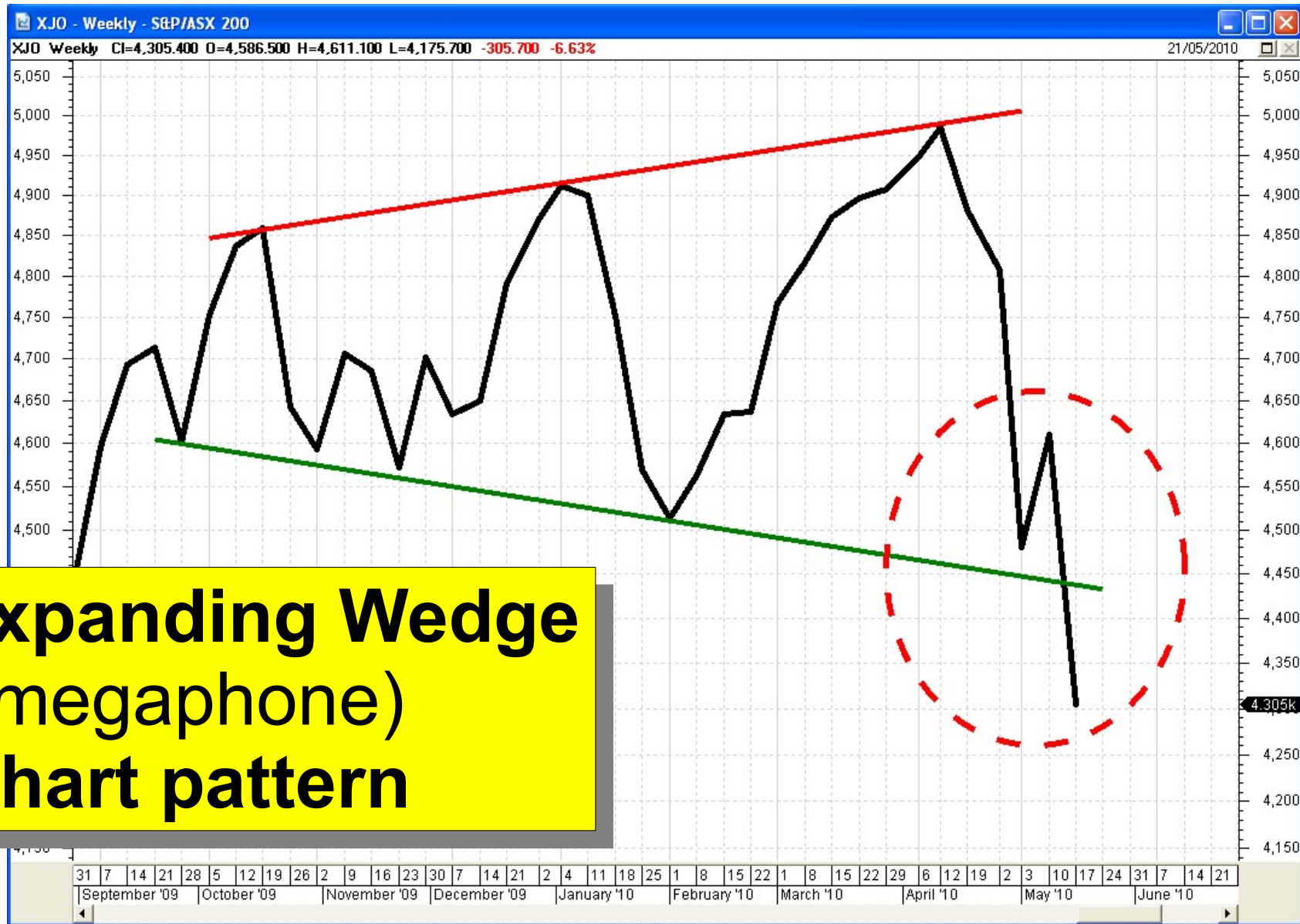


Chart patterns

The Bullish Falling Wedge chart pattern





**The Expanding Wedge
(megaphone)
chart pattern**



OHLC Bar and Candle...

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

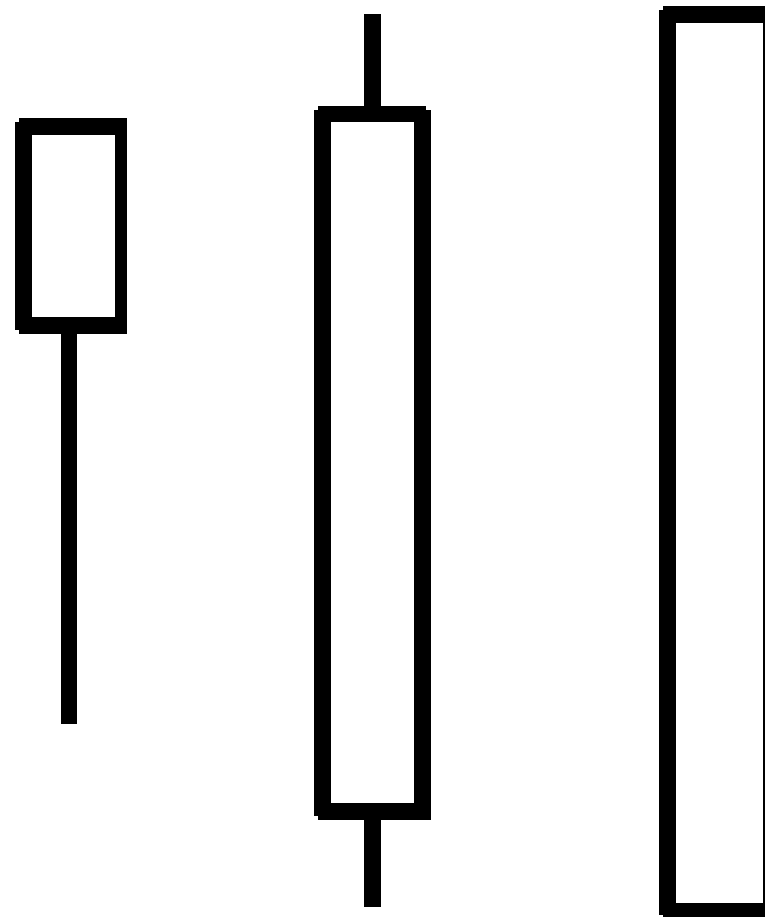
each **candle** on
a candle chart

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



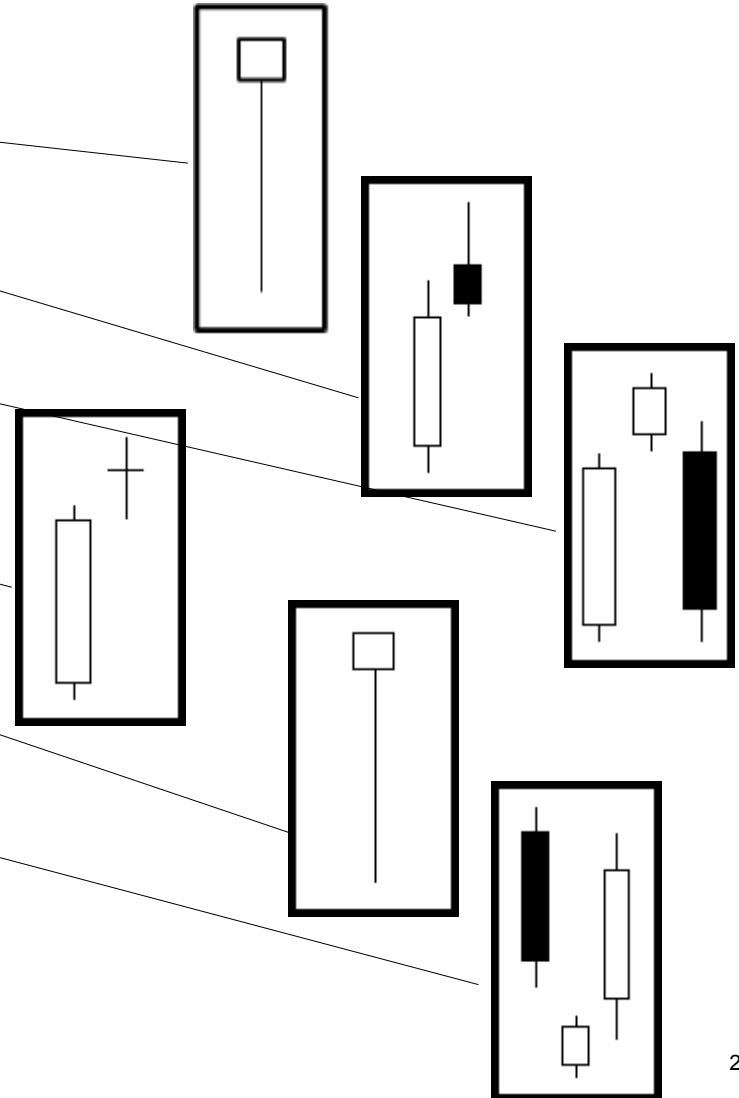
Candle body and tails

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



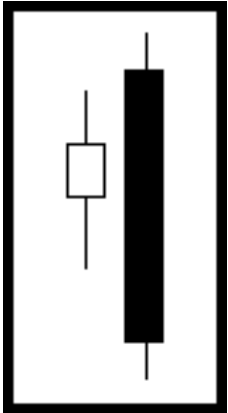
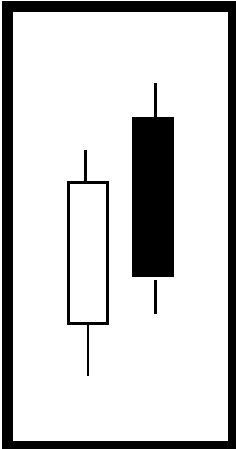
Candle patterns — small bodies

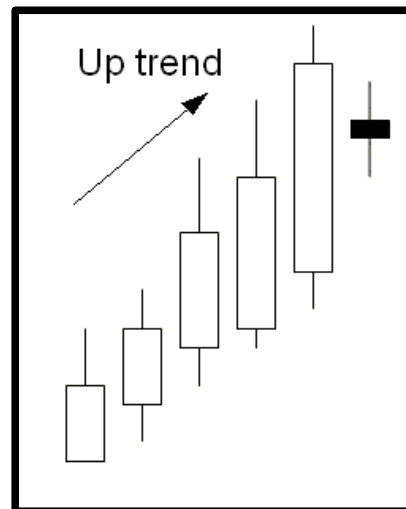
- With or without a gap from previous candle.
- Hanging Man (at tops)
- Shooting Star (2-candle pattern)
- Evening Star (3-candle pattern)
- Doji Star (2-candle pattern)
- Hammer (at bottoms)
- Morning Star (3-candle pattern)



Patterns — engulfing and piercing

Reversal patterns in UP Trends:-

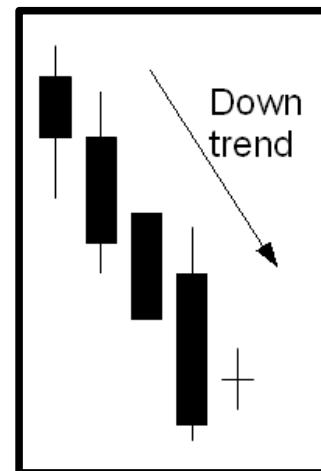
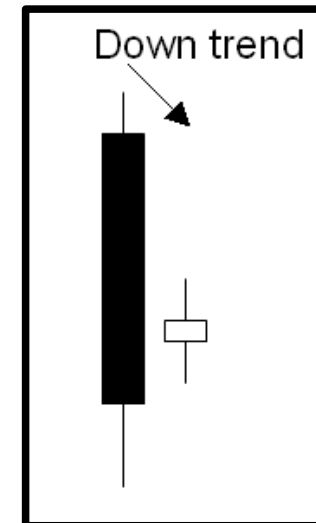
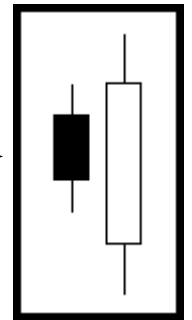
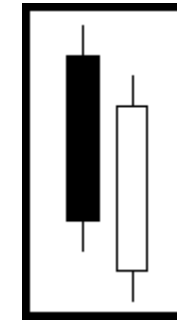
- Engulfing Bearish — “outside day” (2-candle pattern) → 
- Dark Cloud (2-candle pattern in uptrend) → 
- Harami Bearish (2-candle pattern)



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)



Moving Average (MA)

- Is one of many chart indicators.
- Is very useful.
- Can help us to understand the presence or absence of a *trend*, and perhaps the strength of the trend.



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.

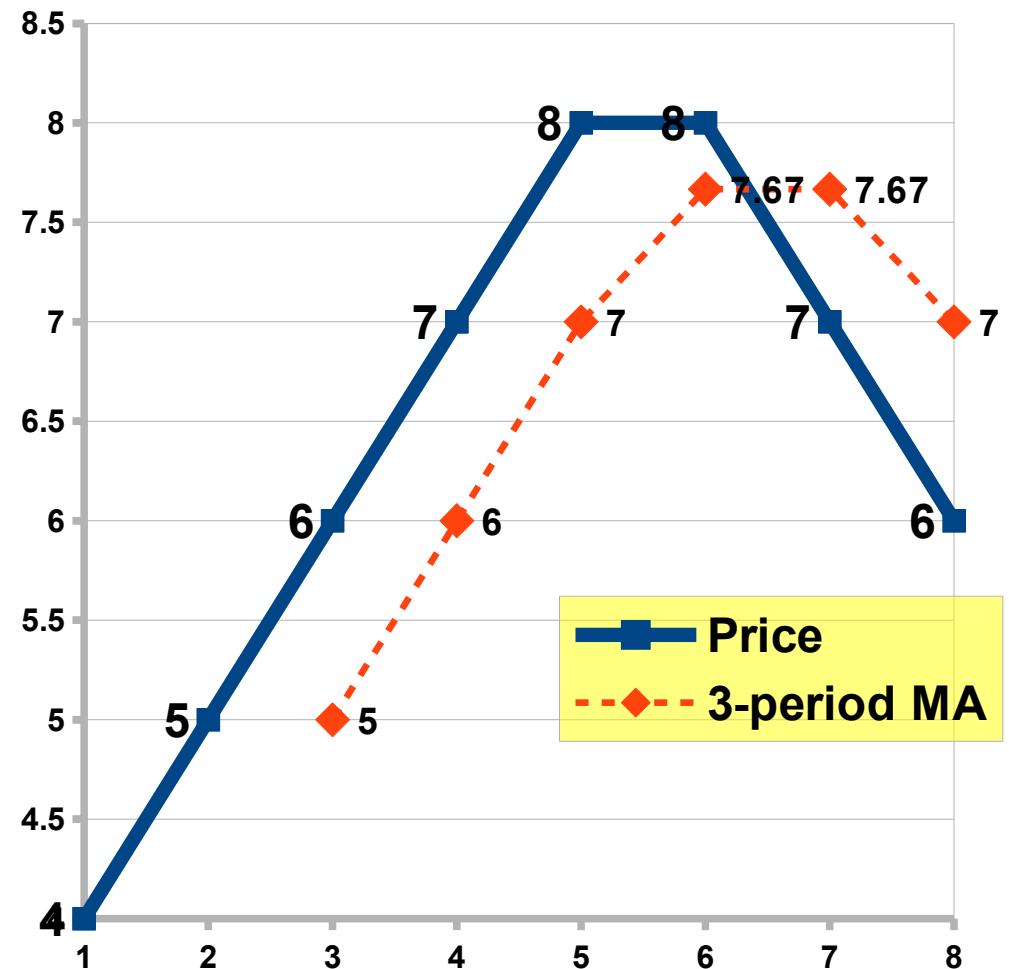


Moving Average — how to calculate?

Simple calculation of
3-period MA.

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

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



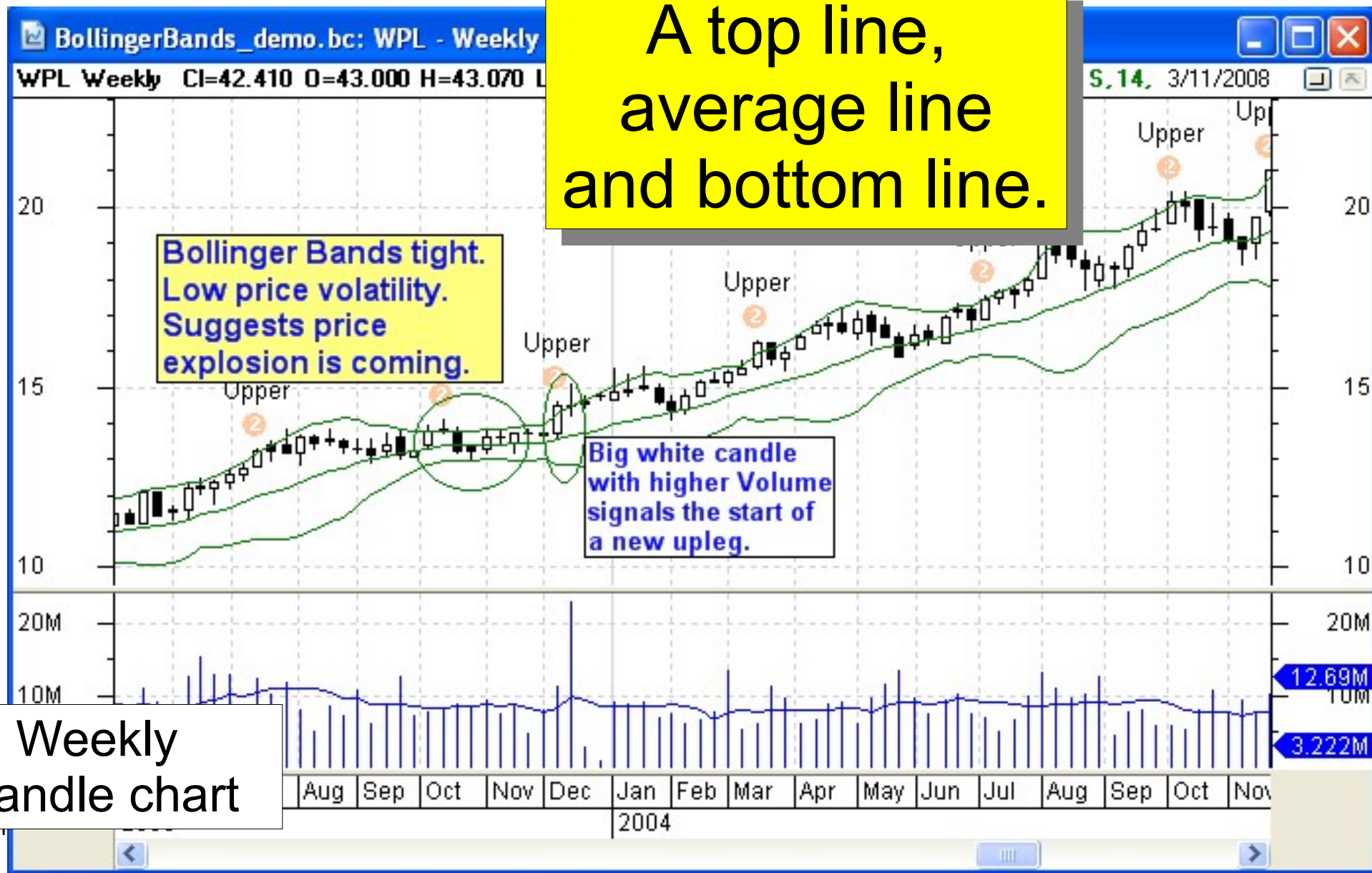
Bollinger Bands

A top line,
average line
and 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)

Useful to understand the notion of ATR

ATR indicator

This sample shows the average variation in price over the last 14 candles (weeks).

Weekly
candles



Stop Loss? — under Support?



Stop Loss — 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”*.

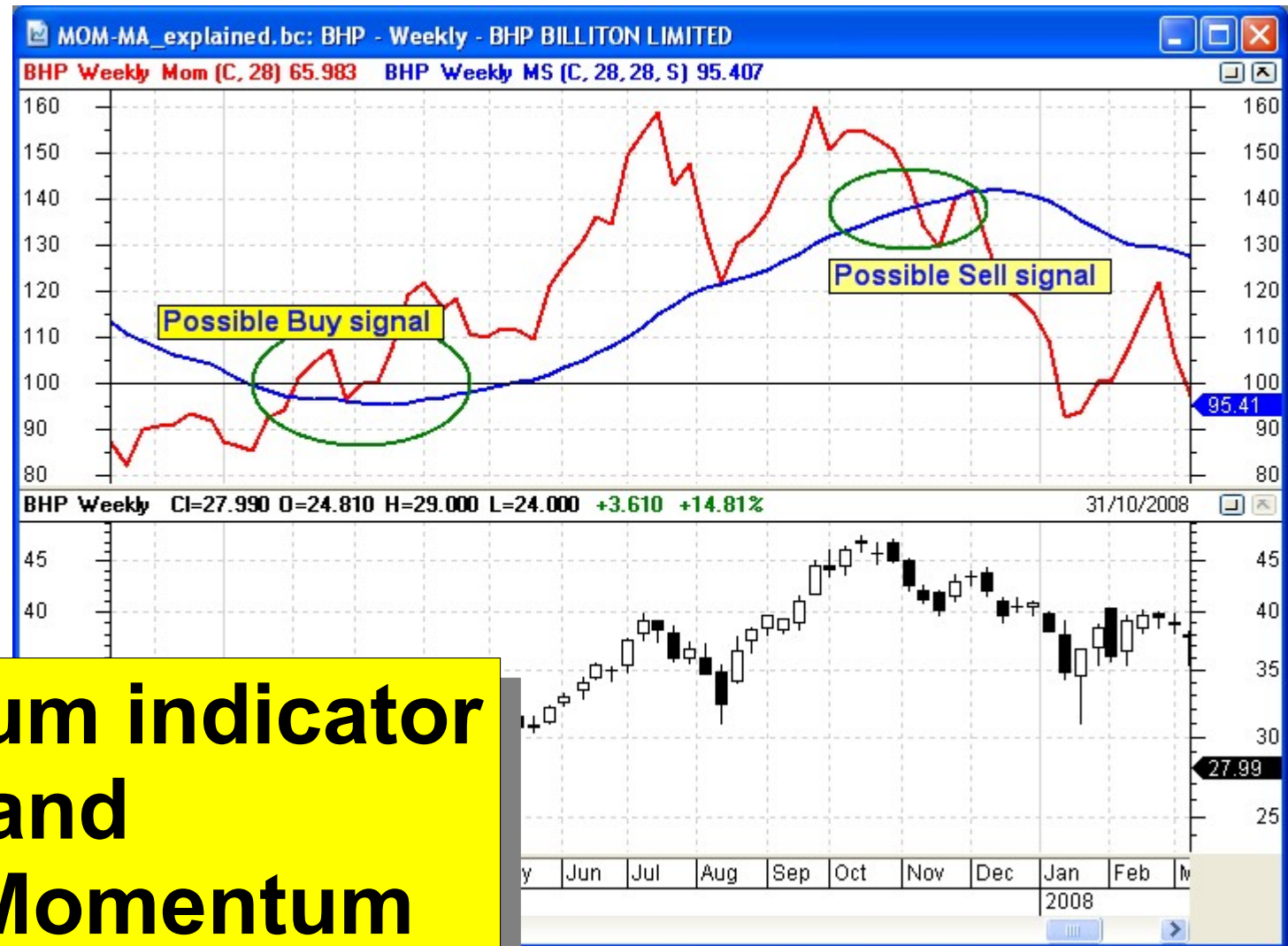


Sample Trading Strategies

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)

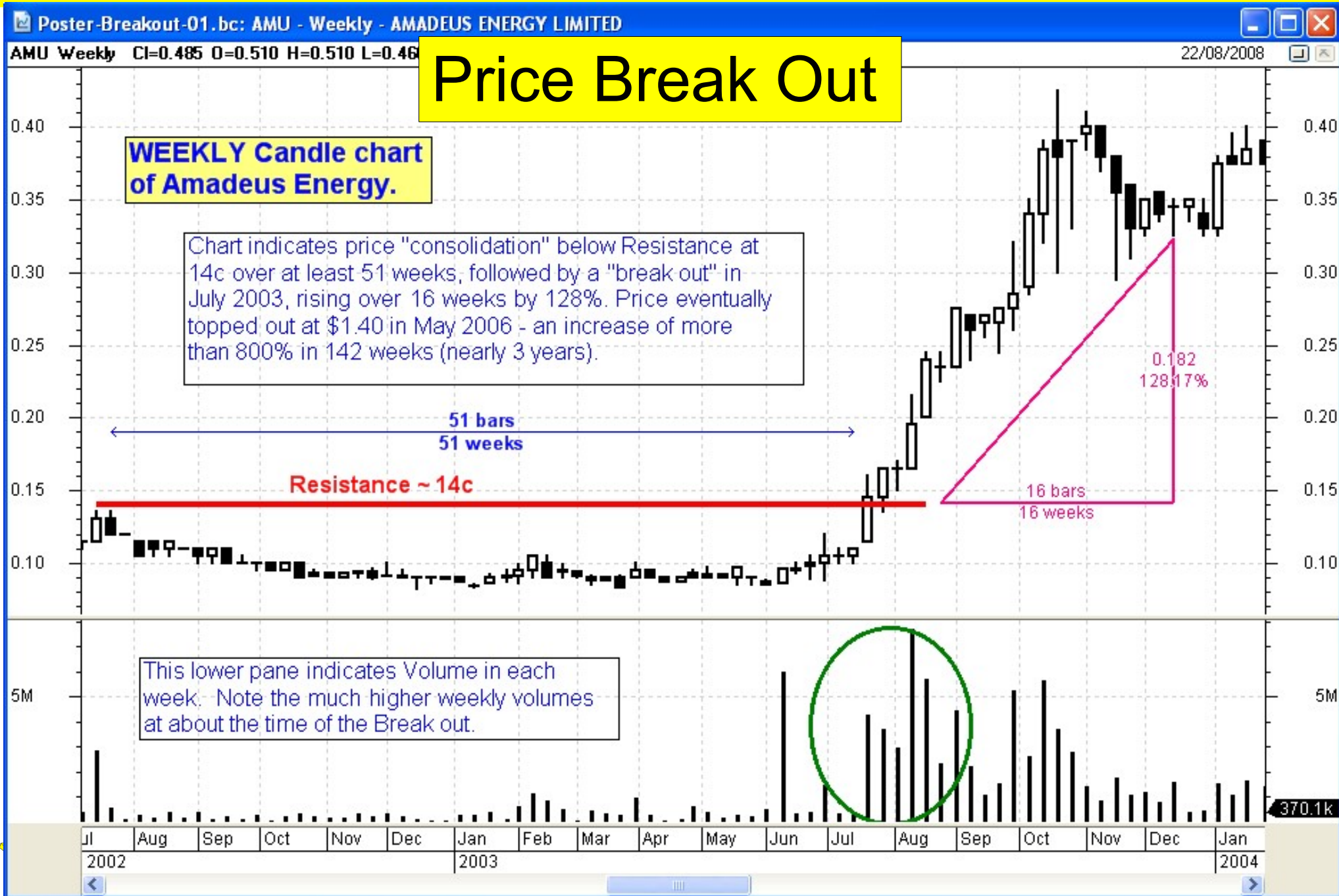


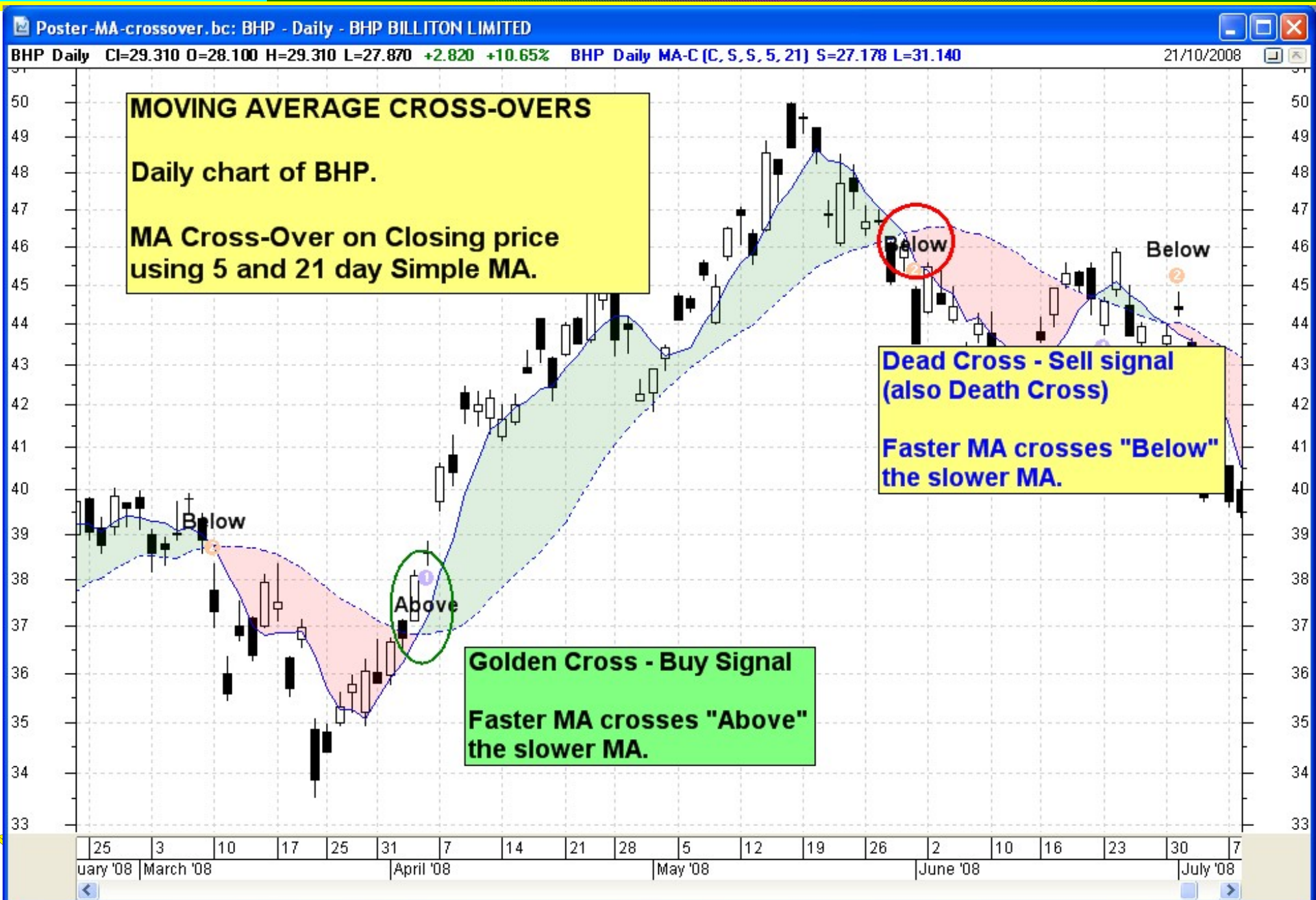
Sample Strategies



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







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.



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



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*** The End ***