



Brainy's Articles on Share Trading

The market is like an *elephant!*

Article No:
ST-6110
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Introduction

For some people, it can be difficult to understand some of the principals of share market analysis. It is often useful to paint an analogy to demonstrate a principal, and my favourite one is to describe how the share market is like an elephant. Or in actual fact, like a herd of elephants.

In this article in Brainy's series on Share Trading (number ST-6110), we take a look at why the share market is like an elephant, and the important points for anyone who is considering an analysis of the share market.

In the initial paragraphs on this page below, we take a quick look at some of the key points. And over the page we have a good look at the lessons for share market investors that should help them remember some of the key principles of market analysis.

Summary conclusion

Because of the characteristics and behaviours described below, it can be concluded that we should always view at least two different time frames on our share price charts, and when the market is moving in one direction, we should be careful about taking the opposite view. If we get in the way of the market, we might be "trampled".

Characteristics, behaviours

The share market, and an elephant, have the following *characteristics* in common:

- large and cumbersome;
- from some angles, appears to be rather ugly (but remembering that beauty is in the eye of the beholder);
- comprised of many parts;
- when you study it up close in detail, it does appear to be rather complex;
- highly intelligent.

The *behaviour* of an elephant is very similar to that of the share market:

- can be unpredictable;
- often moves slowly;
- can move very fast;
- you don't want to stand in the way.

View up real close

What happens when we take a very close look at an elephant?

With reference to Figure 1 at right, note that we might be able to tell which animal it is, but we cannot tell much else about it — state of health, direction of travel, whether standing up or laying down.



Figure 1: Two very close-up views of the animal.

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The first page of every article is free, and some of the articles are completely free (eg. shorter ones and Table of Contents).



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Take a look at the share price chart in Figure 2.

Note that this daily price chart of the XAO (All Ordinaries index) over a 12 day period shows us an uptrend. We can see in the first couple of days on the chart that the price had been falling; but we have no idea what the price was doing in the period before this.

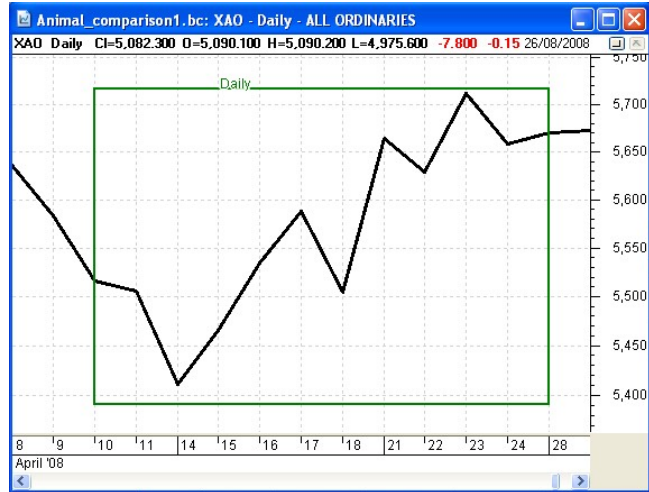


Figure 2: All Ordinaries index -
Daily chart over 12 days.

Step back a little

When you view an elephant from a little further back, or from a different angle, you can see more of it, or a different picture of it. You can gain a slightly better understanding of what it is doing; but we might still be left with some missing information.

If you also view the share market (or just one company's share price chart) from further back, you can also get a better idea of the "condition" of the market. Is it in a short term uptrend or downtrend? or is it consolidating? Is it volatile at present?



Figure 3: Step back for a
view of more.

Take a look at the daily price chart in Figure 4. This chart is over a 9 week period, and basically shows an uptrend from 17 April. It incorporates the chart in Figure 2 above — note the small green rectangle on the chart which is shown on both price charts.

The price action on the very left of the chart suggests that the prior action might not have been trending up, but we need to see more of the chart to be sure. We have little idea of what the rest of the price action is like (ie. the bigger picture).

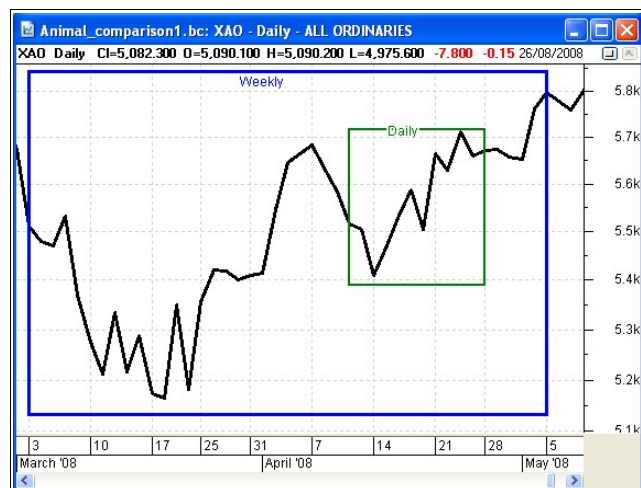


Figure 4: View the XAO from a little further back
(zoom out).



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Step further back

When you view this animal from even further back or from another angle, you can see more of it than before (see Figure 5), and it becomes even easier to work out which animal it is, and its state of health and current activities. The jig saw puzzle is coming together.

It is like zooming your price chart out even further to see more of the price action — perhaps looking at a Weekly price chart over a longer time frame, or even a monthly chart.



Figure 5: Step a little further back.



Figure 6: Zoom the chart out further.

The weekly chart (in Figure 6) over 11 months shows that in the Daily chart in Figure 4 above we were looking at a rally within a longer term down trend! Compare the chart here to the Daily chart in Figure 4, and note that a lot of the daily “noise” is removed from this weekly chart.

Now stand right back

If you stand back far enough, we can see clearly that the animal in Figure 7 is an elephant, and that it is upright and in motion. And to the untrained eye it appears to be rather healthy.

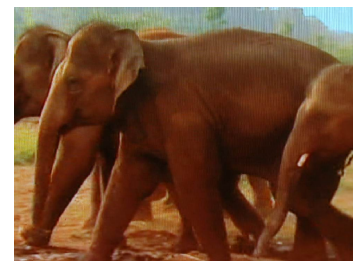


Figure 7: The elephant.



Figure 8: Zoom the chart right out.

Likewise in the share market — the further back you stand so that you can see more of the price action, the clearer the picture about where the market has come from, and where it might be going to.

With the price chart zoomed further out (see Figure 8), we can see that the down trend we saw in the last figure actually leaves the action still well up in the very long term.



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What would a blind person think?

Imagine what would happen if you took some blind people who had no idea what this big animal was really like, and you asked each person to feel just one small section of the animal. One person could feel the very front end, and one the back end, and one could feel a leg, and one person could feel one ear. How would they describe it? Likewise with the share market — a single close-up view is only a portion of the total perspective.

Summary and conclusion

Remember to step back and take a look at the bigger picture. In the market, this means looking at charts in at least two different time frames (daily and weekly, or weekly and monthly). And there is great benefit in stepping back further to view a third time frame as well. So, after you take a step back, take another step back and look at an even bigger time frame. It is surprising how often more things come to light.

If you look at only one small portion of the market, then you don't get an idea of what the overall market is like today, and where it has come from. You might see one company with a sharply rising share price, and it might seem like the right stock to buy. But remember the following gem:

"A rising tide lifts all boats". That is, if the market (or one index in the market) is rising, then it tends to be positive for most stocks in the market (or index). Conversely, if the market/index is falling, then there is a high chance that all stocks within the market/index will eventually fall, even if they are rising today.

Always remember the small AND the big picture.

It is important to study both the shorter-term view, and the longer term. A stock might have fallen a long way in the last day or two, but in the bigger picture (eg. a weekly or monthly timeframe) it might still be up significantly.

And when the market is moving in one direction, we should be careful about taking the opposite view. If we get in the way of the market, we might be "trampled".

In this article in Brainy's series on Share Trading (number ST-6110) we have looked at why the share market is like an elephant. This approach can help us to remember some key ideas to assist with our routine analysis of the market.

	<p>For more information on Share Trading, or Technical Analysis, or BullCharts software, look for more of Brainy's articles, or the other resources, in Brainy's Share Market Toolbox: www.robertbrain.com</p>
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Your own notes and comments:

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