



# Brainy's Articles on Technical Analysis

Beginners start here

Article No:  
**TA-1100**  
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Mar 2010  
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is free\*

**“Price charts summarise the  
underlying opinions and emotions  
of the market participants.**

**Every chart tells a story.**

**It pays to understand the stories in the price charts.”**

## Introduction

*Technical analysis* is basically the study of share price charts, to look for opportunities for financial market investment in anticipation of future favourable price action. It is not a guaranteed science, and it is not 100% successful. However, the sound application of technical analysis principles does increase the chances of success when investing in the share market. It can certainly tip the odds well into your favour.

Now the subject of technical analysis itself is very broad, and rather extensive. To study the entire subject and master it would take many years. But the good news is that anyone who studies technical analysis does not need to study all aspects. It is possible to study a small portion of the total subject matter and then be able to use it effectively.

The challenge for anyone starting out on this journey is to work out how to start, where to start, and in which direction to head. It can be a real challenge to ignore the distractions that come along and try to drag your attention into another direction.

It is said that a journey is commenced with a first step. This article in Brainy's series on Technical Analysis, number TA-1100, “*Beginners start here*”, helps to make sense of the much bigger picture, and offers some tips for navigating your way through the technical analysis maze.

Readers are encouraged to also see Brainy's Article TA-2000, “*Technical Analysis — Introduction*”, for an introduction and overview of the topic.

## Why learn about Technical Analysis?

Technical analysis is a very useful subject because of the leading statements at the top of this page. It is very true that the price charts summarise the opinions of the market participants regarding perceived fair value for a company's share price. And also for other financial market products (like foreign currency), and derivatives.

For example, in the price chart in Figure 1 at right, no buyers of CBA shares in recent times thought the stock was worth more than \$80 until May 2014. In fact, in late 2013 whenever the price rose into the range of \$78-\$80, sellers step in thinking it was over-bought. But by early May 2014, all participants agreed it was worth more than \$80.



Figure 1: Weekly candlestick price chart of CBA.

In case you have any doubts, studying technical analysis is beneficial because with a reasonable amount of skill and knowledge you can interpret the stories in the price charts, and you should be able

\* — Brainy's eBook (PDF) Articles are only available to **Share Market Toolbox** members.  
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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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to make better quality investment decisions.

For instance, it is generally regarded that once a price “trend” is in place, it is likely to continue. That is, if an *uptrend* is confirmed, it is likely to continue. Likewise, if a *downtrend* is confirmed, it is likely to continue. So beware of the “experts” who recommend buying more shares in a company while the share price is falling. They tell you that the stock is “cheap”, and should be snapped up. What they don't tell you is that the stock could get even cheaper, and cheaper. They also don't remind you that over the years, many stocks — including some blue chip stocks — got cheaper and cheaper but eventually fell into receivership, taking their investors' money with them.

### **What about fundamental analysis?**

You might like to use fundamental analysis to find quality stocks — that's fine. And you might like to use technical analysis to help make sure you are not buying an over-priced stock, or a stock whose share price is basically in a down trend. Now that is sensible.

But it is important to remember that technical analysis itself is not the be-all and end-all of investing. There are other things to be learnt along the way — like proper money management and risk management principles. These subjects provide tips about how to limit your risk, and how to go about keeping losses to a minimum so that you can protect your hard-earned capital. The technical analysis knowledge and skill is only a portion of what is required.

With at least some useful knowledge of technical analysis you will be able to tackle the share market in a more productive way, with less risk, and well-managed risk, and better able to see and exploit opportunities as they arise.

### **Your journey — an overview**

In order to learn enough about technical analysis to be able to apply it usefully, and to succeed at investing or trading in the share market, the following steps are just one useful approach and explained in more detail in the notes below.

1. Learn the basics of technical analysis, and how to read the stories in the price charts. The section “*Step 1 — Where to start?*” below provides some detail on this.
2. Develop a *Trading Plan* and a *Trading Strategy*, incorporating proper money and risk management.
3. Test out your Trading Strategy by back-testing and/or paper-trading.
4. Fine tune your skills and knowledge.

You might also refer to Brainy's **Share-Market-Ready Checklist** (online) for additional detail.

### **Study options**

There are a few study options to choose from in order to learn more about technical analysis. They include the following:

- **Join an organisation** of like-minded people (eg. the Australian Technical Analysts Association\*). Organisations such as this provide valuable learning opportunities, as well as the chance to network with others and to exchange notes about practical experiences.
- **Buy some books** — But there are thousands to choose from at varying prices. Many people who have been studying technical analysis for a period of time find that they accumulate a reasonable stack of text books — and, sadly, they often don't finish reading any of them.
- **Search the internet** — There are thousands of web pages spread across the broad gamut of technical analysis topics.

\* Australian Technical Analysts Association (ATAA [www.ataa.com.au](http://www.ataa.com.au)) — At the time of writing, the author is a member and national director of the ATAA, and a strong supporter for the benefits it delivers to it's members.



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- **Subscribe to periodic newsletters** — There are many of these. Some are free and some cost large sums of money. Some are prepared by reputable people and companies, and some by not-so.
- **Participate in an online discussion forum** — Take care with these, because sometimes their discussions are not as honest as they seem to be. It is easy to pick up false rumours in an online forum.
- **Attend a training course** — Some of these are very focused on specific aspects of technical analysis, making them very biased towards a specific aspect, financial product, or a broker or service provider. So take care.

Even with the above study options, the dilemma we face is that technical analysis is a very broad subject. And some aspects of it are considered specialised, or advanced, whilst some topics are considered basic and fundamental. The challenge for newbies is to sort out the useful from the not-so-useful, and to make good progress.

### Step 1 — Where to start?

Whereabouts should we start our field of study? There are many options, but the following steps are a useful approach to adopt.

- **Price charts** — Find a way to produce price charts that you would be comfortable with — either a web-based charting tool, or a product that is installed onto your computer.
- **Watchlist of stocks** — Prepare a watchlist of stocks that you would like to follow during this course of study. If you don't have a ready list, then try the top 20 blue chip stocks — the S&P/ASX 20 (XTL) index constituents. Or for a longer list, look at the top 50 — S&P/ASX 50 (XFL) index.
- **View the charts** — Set up your software so that you can easily view the current price chart for each of your watchlist stocks in turn. And you should be viewing the chart in at least two different time frames — a daily chart covering several weeks, and a weekly chart covering several months (and a monthly chart of several years is also useful). Exactly how you do this is something that you will feel comfortable with over time.
- **Start learning** about the following topics:
  - Two different chart types — the line chart, and the candlestick chart.
  - Trends — how to spot and confirm an uptrend and a downtrend.
  - Support and resistance — how to identify this on a chart.
  - Basic chart patterns (eg. double top, and price breakout).
  - Volume — understand its importance.
  - Moving average technical chart indicator — how to apply it and understand what it tells us.
- **Make notes** — As you learn more, and start interpreting the stories in the charts, make notes about your observations. A good way to do this is to make the notes directly on the chart. Either print the chart, then write on the printed version, or use an online tool that enables you to easily add trend lines, text comments, etc., directly onto the chart on-screen.

Now this list might seem daunting; but it is a reasonable list. With the right educational materials at hand, the above might take only several hours of study to make healthy progress.

### Step 2 — Review your watchlist stocks

While you are coming to grips with the essential concepts listed above, you can practise viewing and analysing the price charts of your favourite stocks — the ones in your watchlist. You need to decide how often you will review the charts of these stocks — once each day, perhaps for half an hour in the evening, or maybe once each week for about 2 hours. To be consistently successful, you need to have a regular routine, and adhere to it — even if it is just 2 hours each week.



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But when you review the charts, what are you looking for? And what conditions will prompt you to invest? This is where we need to talk about the stock selection criteria, and a Trading Plan and Strategy.

### **Step 3 — Trading plan and strategy**

To be consistently successful you need to have a documented Trading Plan that describes your goals, and the financial instruments in which you wish to invest. This will help to keep you focused and avoid distractions.

A Trading Strategy is essential, because it describes the conditions in which you would make an investment, or dispose of an investment. With a clear and concise trading strategy that has been tested, it should be possible to have confidence that it can be somewhat successful going forward — provided you follow it.

Without a plan and strategy, investing or trading is fraught with danger and can be somewhat hit and miss. Some of the experienced traders and investors don't use a plan, and they invest in a discretionary manner. But it can be said that to do this successfully requires thousands of hours of practise at studying the charts, and refining a strategy (even if the strategy is only in your head).

### **Step 4 — Further study in Technical Analysis**

Once you head down the track of learning about how to interpret price charts, you will gain a degree of confidence and comfort with the amount of knowledge and skill that you have. Then you will be able to progressively learn more about other aspects of technical analysis — maybe other chart indicators, or advanced patterns, or Elliott Wave or Gann.

### **Specific references**

To assist the newbie with their journey along the path described above, Brainy's **Blue Chip Price Chart Secrets** seminar (aka Technical Analysis Introduction) covers all of the topics in Step 1 above. The reference notes from the seminar are available as a stand-alone handbook — either to download in PDF eBook format, or as a bound hard-copy. More details are available in Robert's Online Shop — [shop.robertbrain.com](http://shop.robertbrain.com).

In addition to this, most of the topics suggested in Step 1 above are covered in Brainy's series of eBook Articles on technical analysis. Refer to the Contents pages (Article TA-0200) for details.

### **Summary**

In this article in Brainy's series on Technical Analysis (article number TA-1100) we have considered the position of someone who is new to Technical Analysis, and looked at how they can get started on their journey of learning about Technical Analysis.



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](http://www.robertbrain.com)

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