Classic Financial Trading Program

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Module 5
Introduction to Technical Analysis

CONTENTS

Why is Technical Analysis Important?

This was where the price was before it started falling

The Big Question is:
How do we know at that point that the price was here that it was going to all to this level.

Technical Analysis

Technical Analysis is the study of past price activity in order to forecast future market movement / direction.
We trade should history repeat itself.

- **We use charts to visualize Price activity**

- **Japanese Candlestick are the preferred choice**

A
Based on past price activity that is visible on your chart

B
Can be treated as a stand alone form of analysis

C
Market activity consists of PRICE, VOLUME and OPEN INTEREST

D
The idea is that a trader want to analyze historical price movements, and based on the Current price activity will forecast future price direction.

Technical Analysis Explained…

Technical Analysts believe they can learn from the past to prepare for the future.

**1** Human beings by our very nature are repetitive creatures.

2 Meaning that we repeat our patterns particularly in the field of commerce (Trading) and wealth distribution.

3 It is a clearer cut approach which can be tested and measured analytically.

4 We work on past price data to gauge what will happen in the future.
By looking at your charts, you want to identify TRENDS, REVERSALS and PIVOT Patterns which can help you find Profitable trades.

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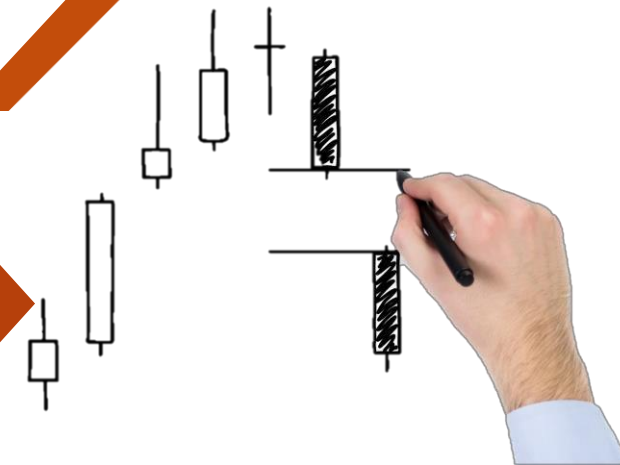
Benefits of Technical Analysis

- **Technical analysis** helps a **trader** to know the future price movement.

- It helps a trader to know where and when to BUY or SELL by studying past price activity on a chart.

- It helps to know the characteristics of price movement such as Trend, Reversal, Retracement etc.

Types of Technical Indicators

Trend Indicators; help to identify trend movement on price chart e.g. Moving Averages, Bollinger Bands, Parabolic S.A.R etc. *Lagging indicators* as they follow price movement.

Oscillators (Reversal) Indicators; help to identify price turning points e.g. MACD, Stochastic, RSI, CCI, etc. *Leading indicators* as they precede price movement.

Historical Pattern

Going back to the 19th century, the father of technical analysis, Charles Dow, observed that **it is the direction of peaks and troughs that defines the trend of the market.**

Thus, when the market experiences two peaks and troughs successively higher than each other then, the market is said to be in an uptrend (Fig.1).

UPTREND
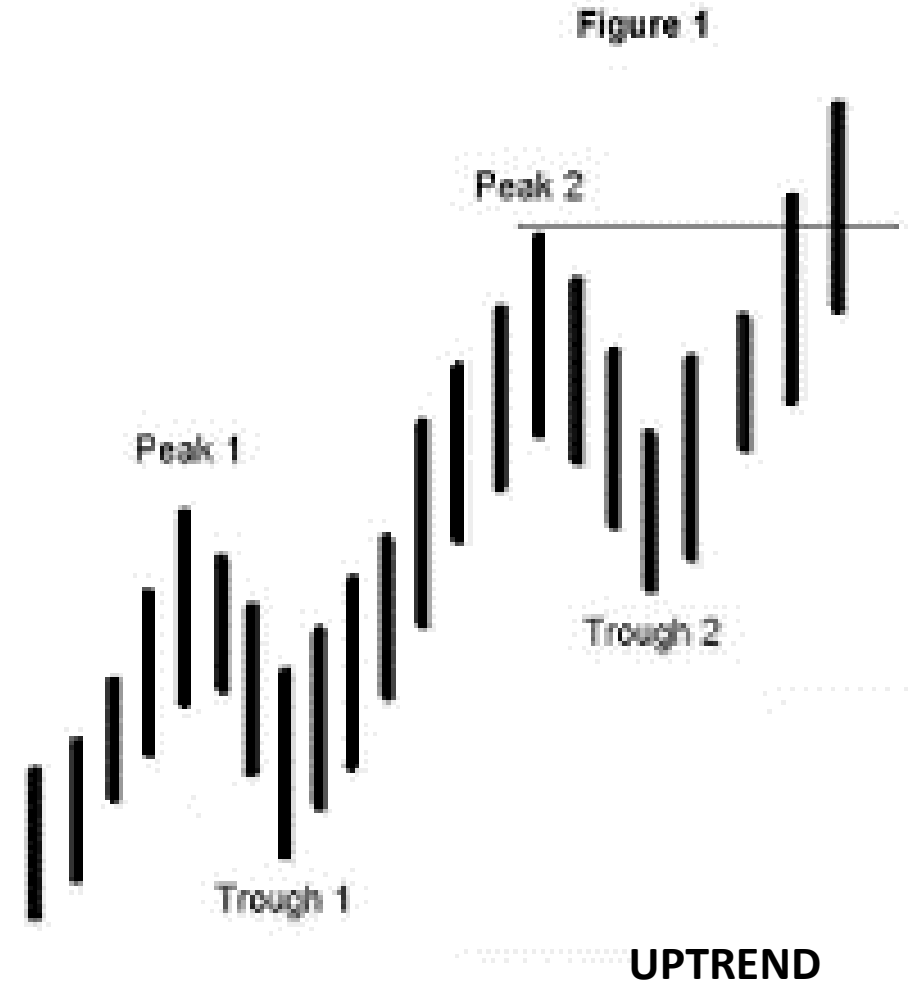
Of course, the opposite is true as well. When the market shows two peaks and troughs successively lower than each other then, the market is said to be in a downtrend (Fig. 2).

The work of Charles H. Dow and his partner Edward Jones (Dow Jones & Company since 1882) back in the end of 19th century also known as the last tenet of Dow Theory states that **'Trend Remains In Effect Until Clear Reversal Occurs'**. Trend exhaustion leads to trend reversal

Peak 1

Trough 1

Peak 2

Trough 2
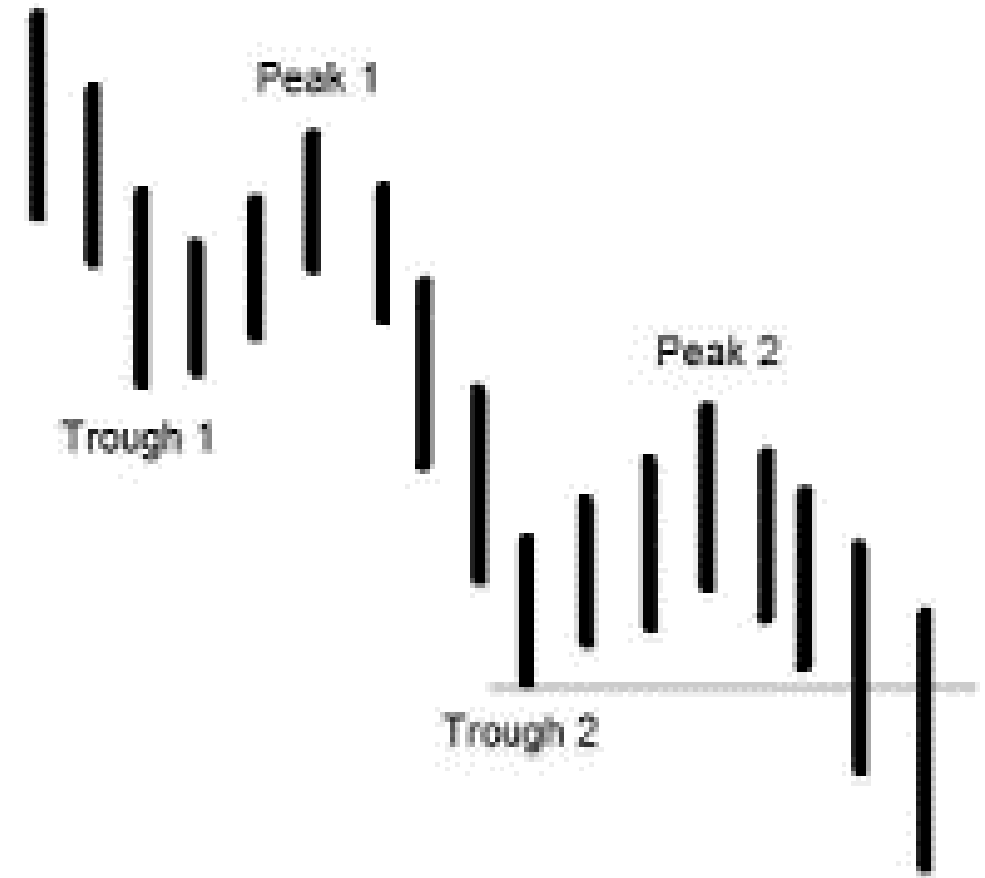
DOWNTREND

Price Movement

Trends & Reversals

A Trend is a defined pattern of movement.

It is the general price direction in a market i.e. the price direction of an asset. Trends can vary in length from short to intermediate and long term TRENDS.

A Reversal is defined as price turning point to the opposite direction of the previous trend.

"The UP Trend Market Flow Process"

A series of "New Highs" (NHs) and "Active Lows" (ALs)

Uptrend

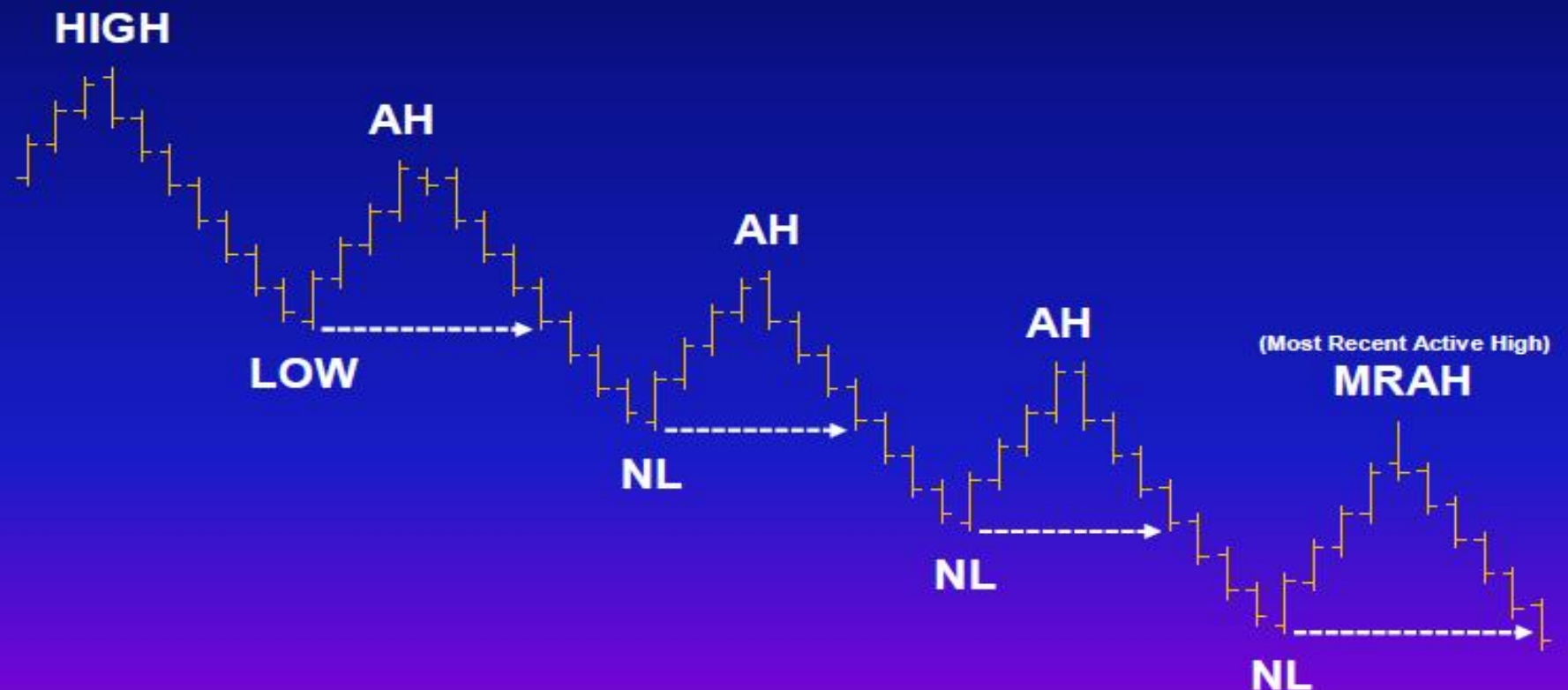In an Uptrend the market is making higher highs and higher lows

Downtrend

In a downtrend the market is making lower highs and lower lows

"The DOWN Trend Market Flow Process"

A series of "New Lows" (NLs) and "Active Highs" (AHs)

HIGH
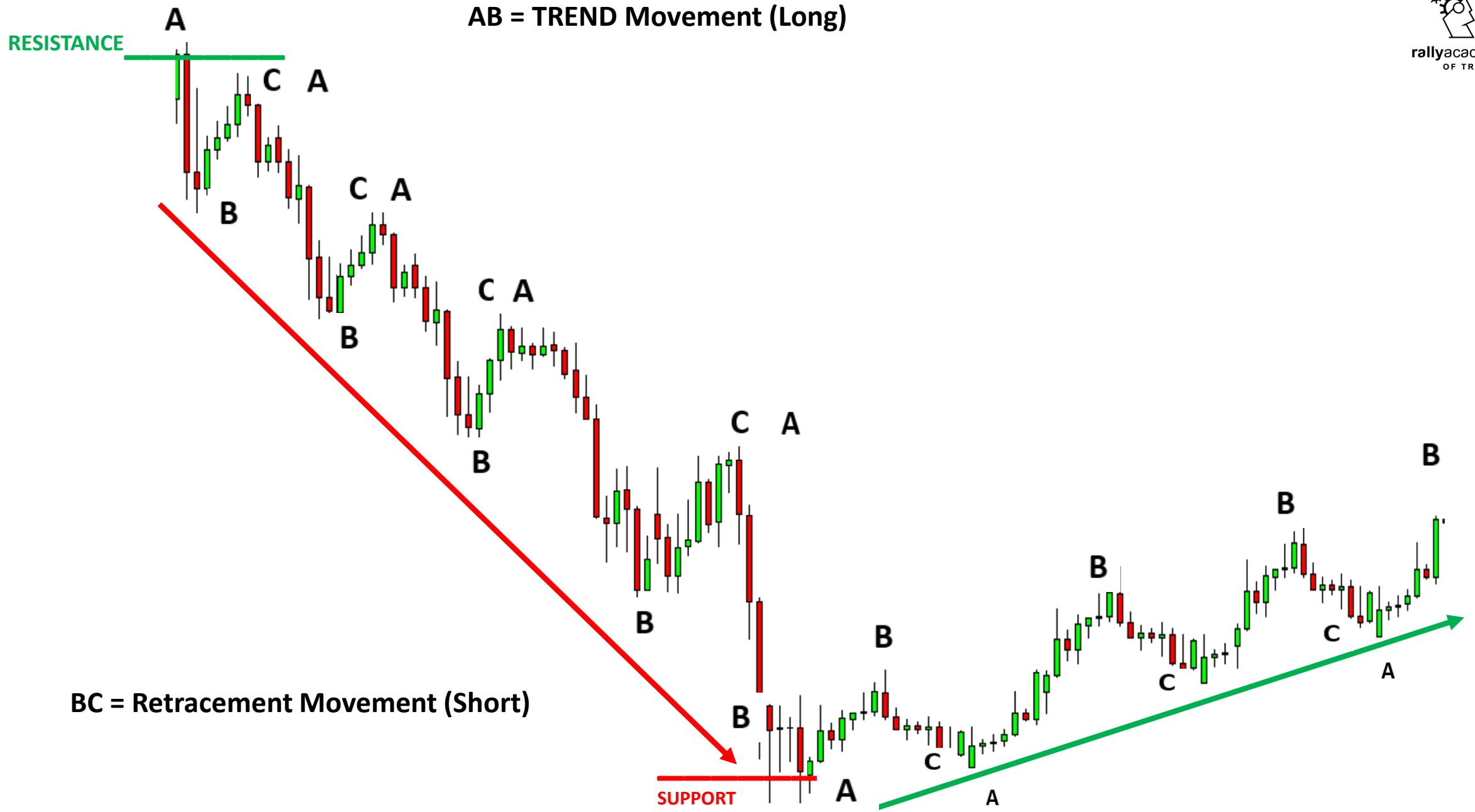
AH

AH

LOW

AH

NL

(Most Recent Active High)
MRAH

NL

NL

NL

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WHAT IS PRICE SUPPORT / RESISTANCE

- Professional traders and market makers use pivot points to identify important support and resistance levels.

- Simply put, a pivot point and its support/resistance levels are price zones at which the direction of price movement can possibly change.

- Pivot points are especially useful to short-term and Intra-Day traders who are looking to take advantage of small price movements.

AB = TREND Movement (Long)

RESISTANCE

A

C A

B

C A

B

C A

B

C A

B

B

A

B

C

A

B

B

C A

B

C

A

B

BC = Retracement Movement (Short)

SUPPORT

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Support & Resistance

Floors and Ceilings in a market.
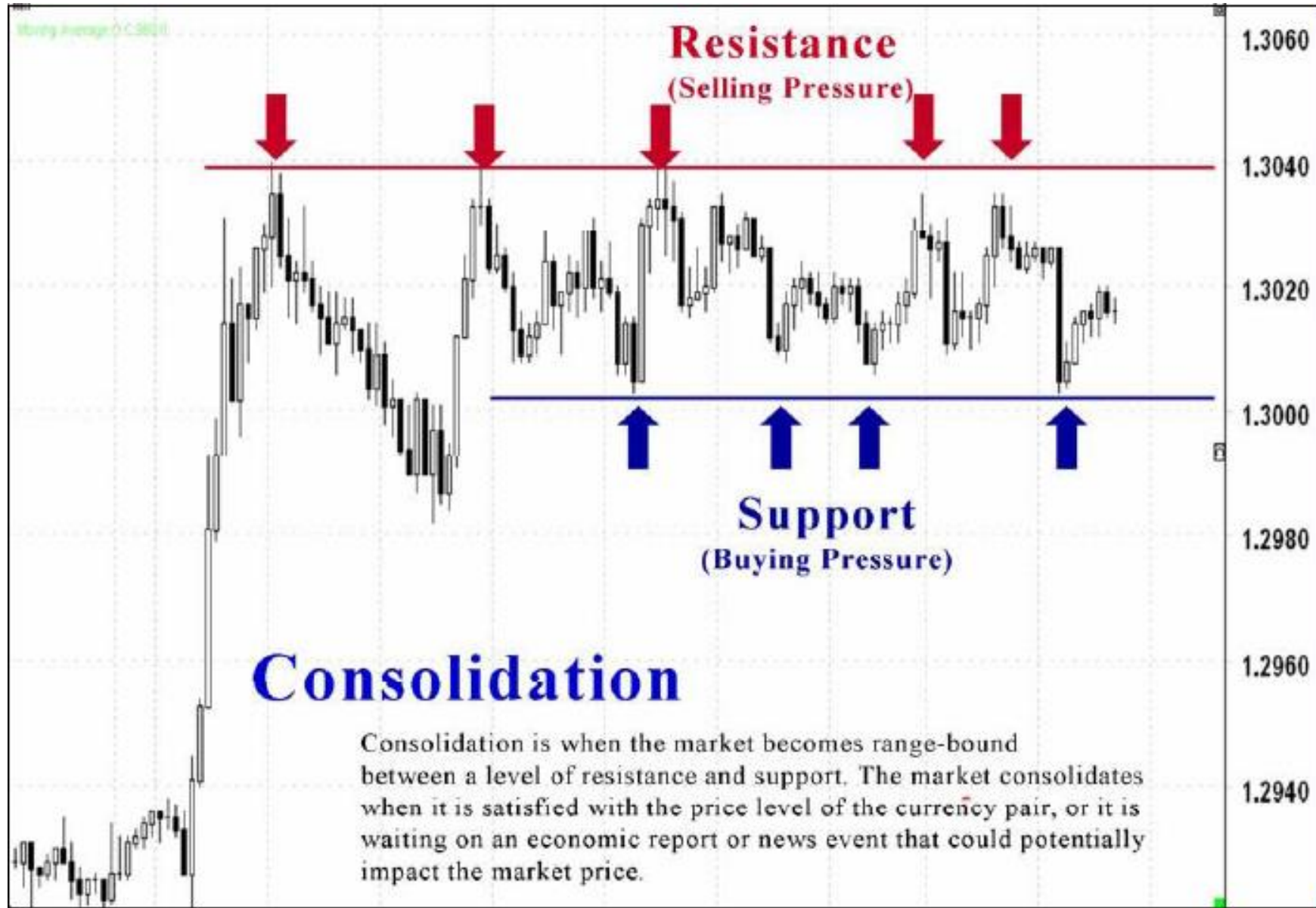
Price areas that tend to act as barriers.

Bottom end zones which the market has difficulty breaking through are known as support.

Top end zones the market has difficulty breaching through are known as Resistance.

These are Zones not Lines – View them as temporary floors and ceilings.

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SUPPORT AND RESISTANCE

Resistance
(Selling Pressure)

Support
(Buying Pressure)

Consolidation

Consolidation is when the market becomes range-bound between a level of resistance and support. The market consolidates when it is satisfied with the price level of the currency pair, or it is waiting on an economic report or news event that could potentially impact the market price.

SUPPORT AND RESISTANCE

BUY AT SUPPORT ZONE – B.A.S

SELL AT RESISTANCE – S.A.R
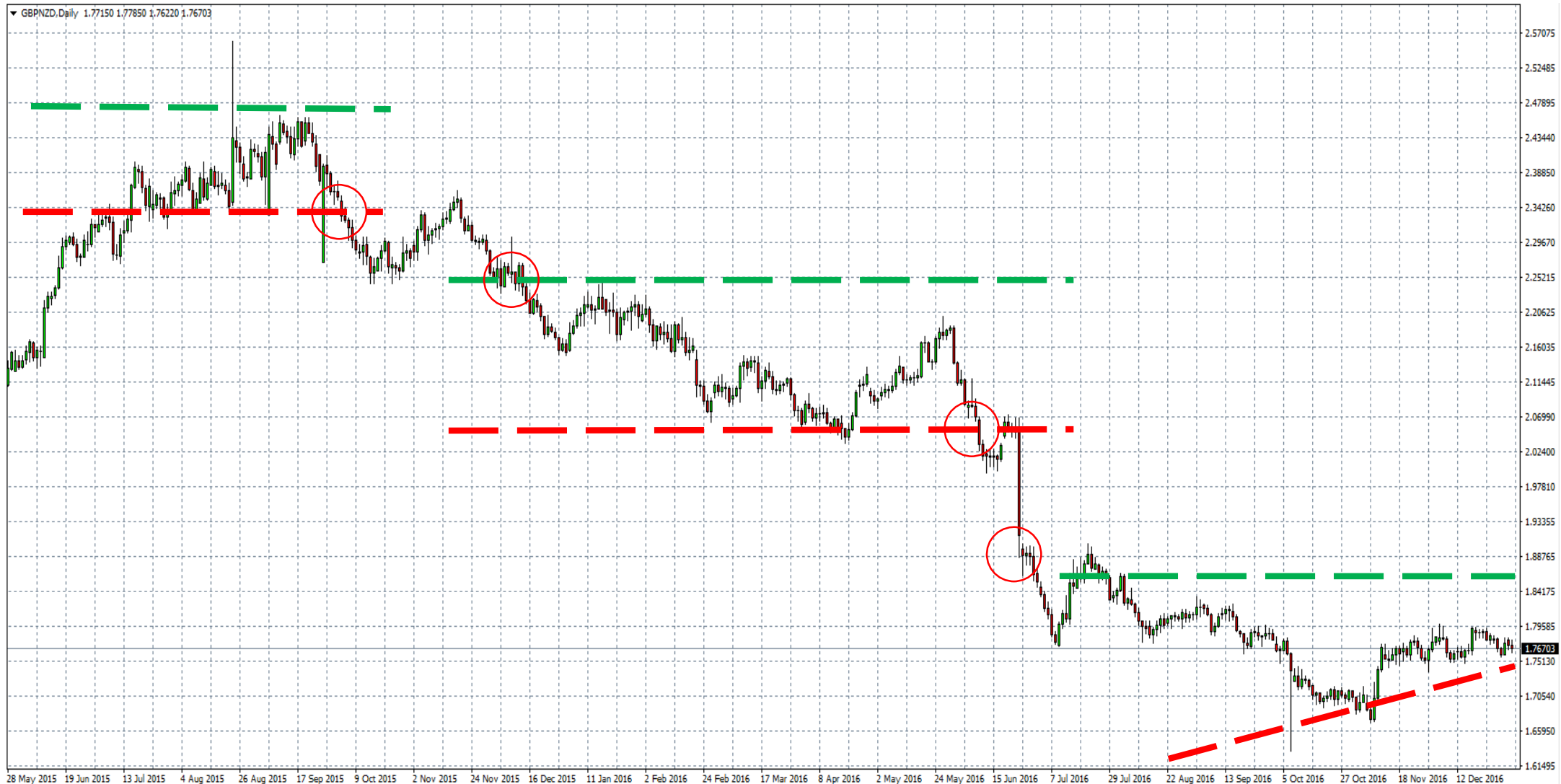
Support – Floor Zone, not line!

Breach at $1314.045

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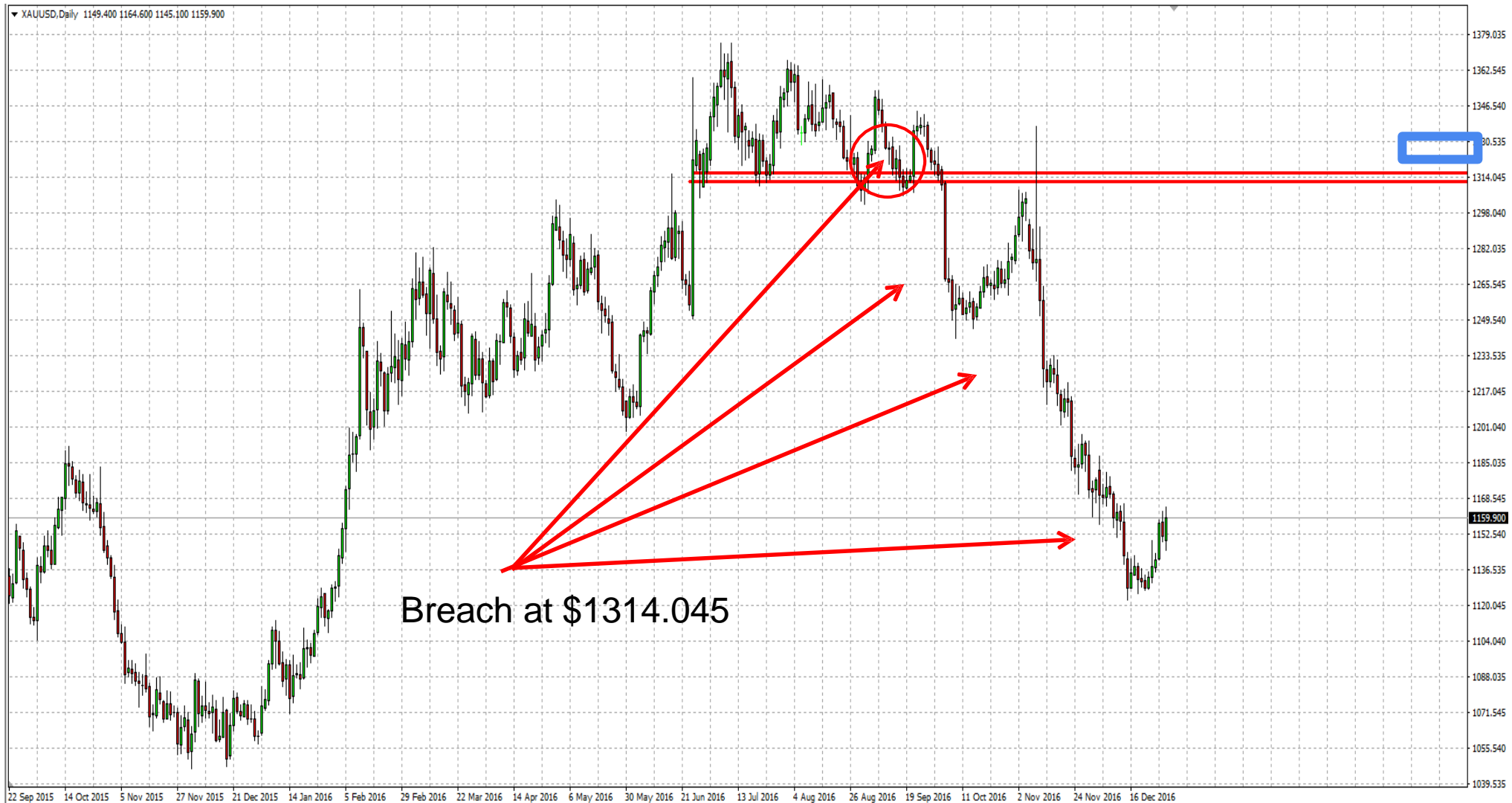
Support – Floor Zone, not line!
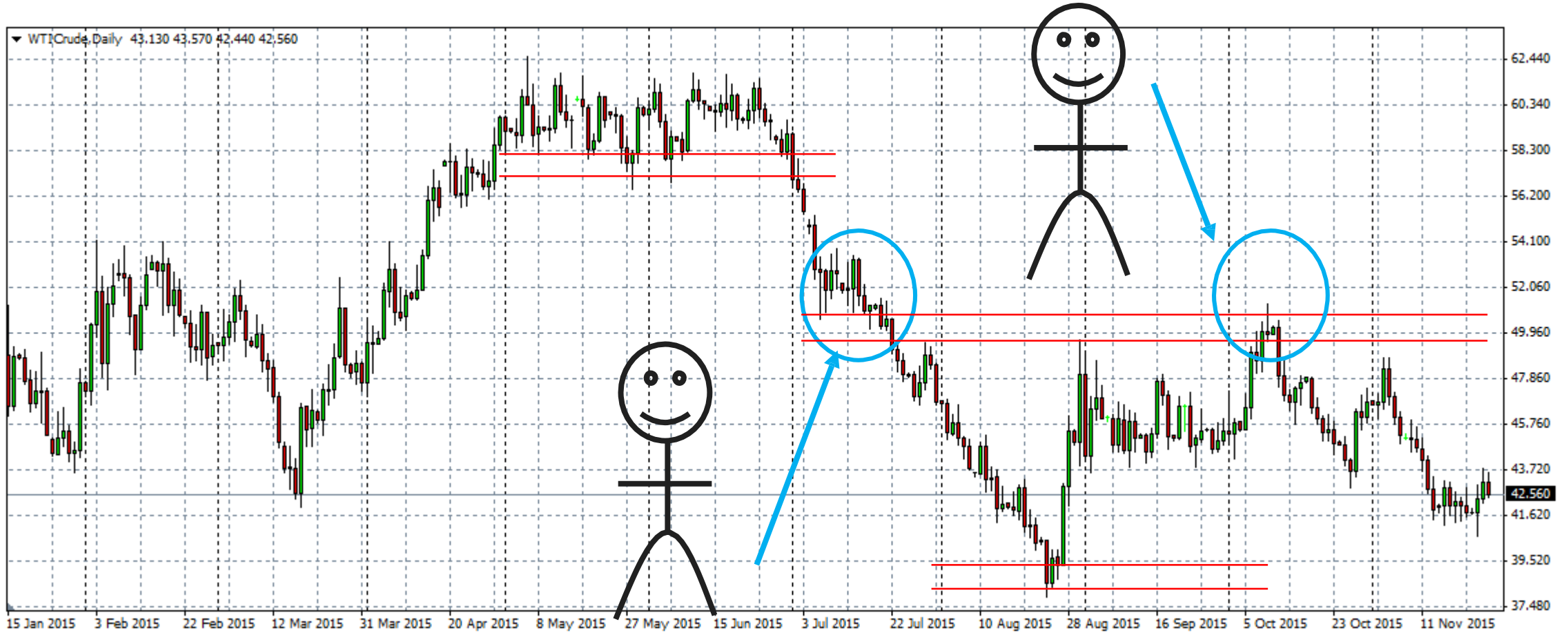
Resistance – Ceiling = Zone, not line

Support & Resistance

Support & Resistance

Support & Resistance

Possible Confirmed Resistance

Possible Confirmed Support

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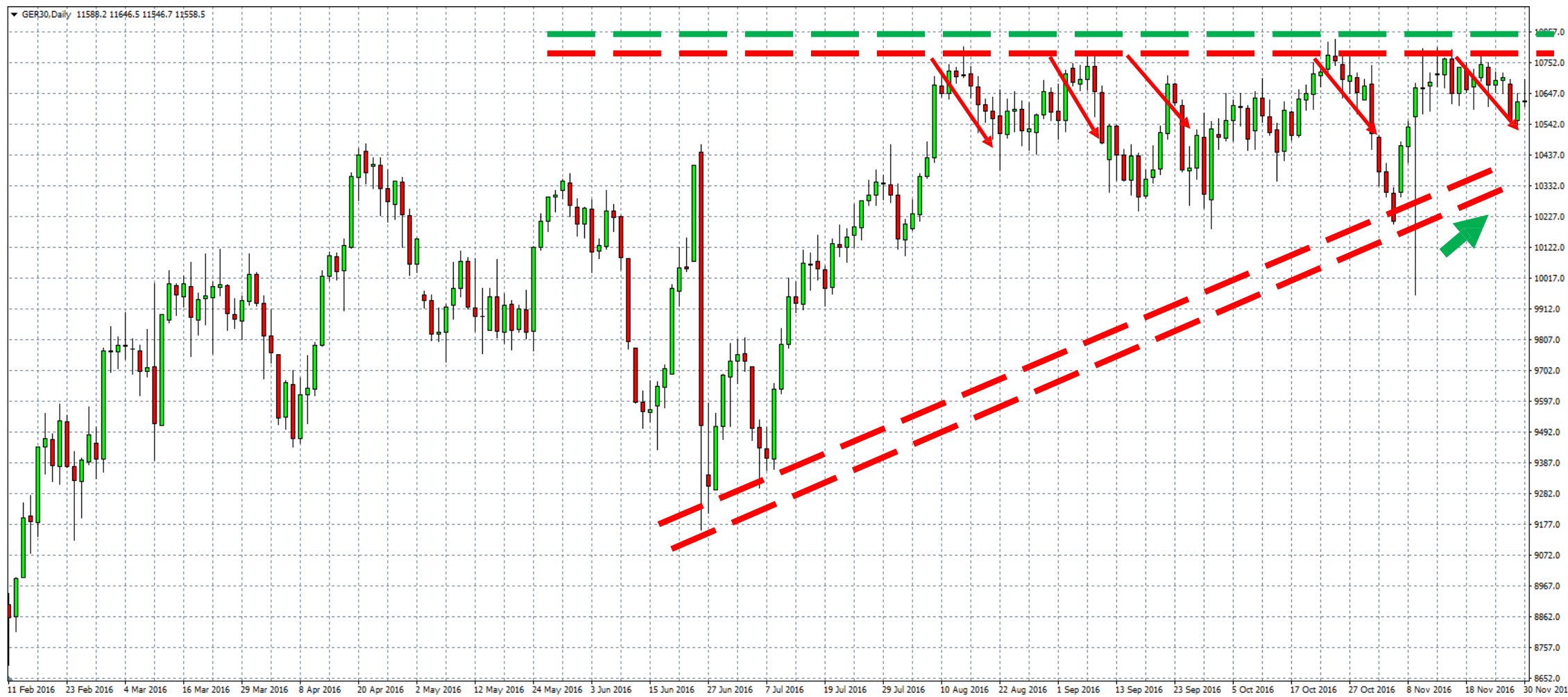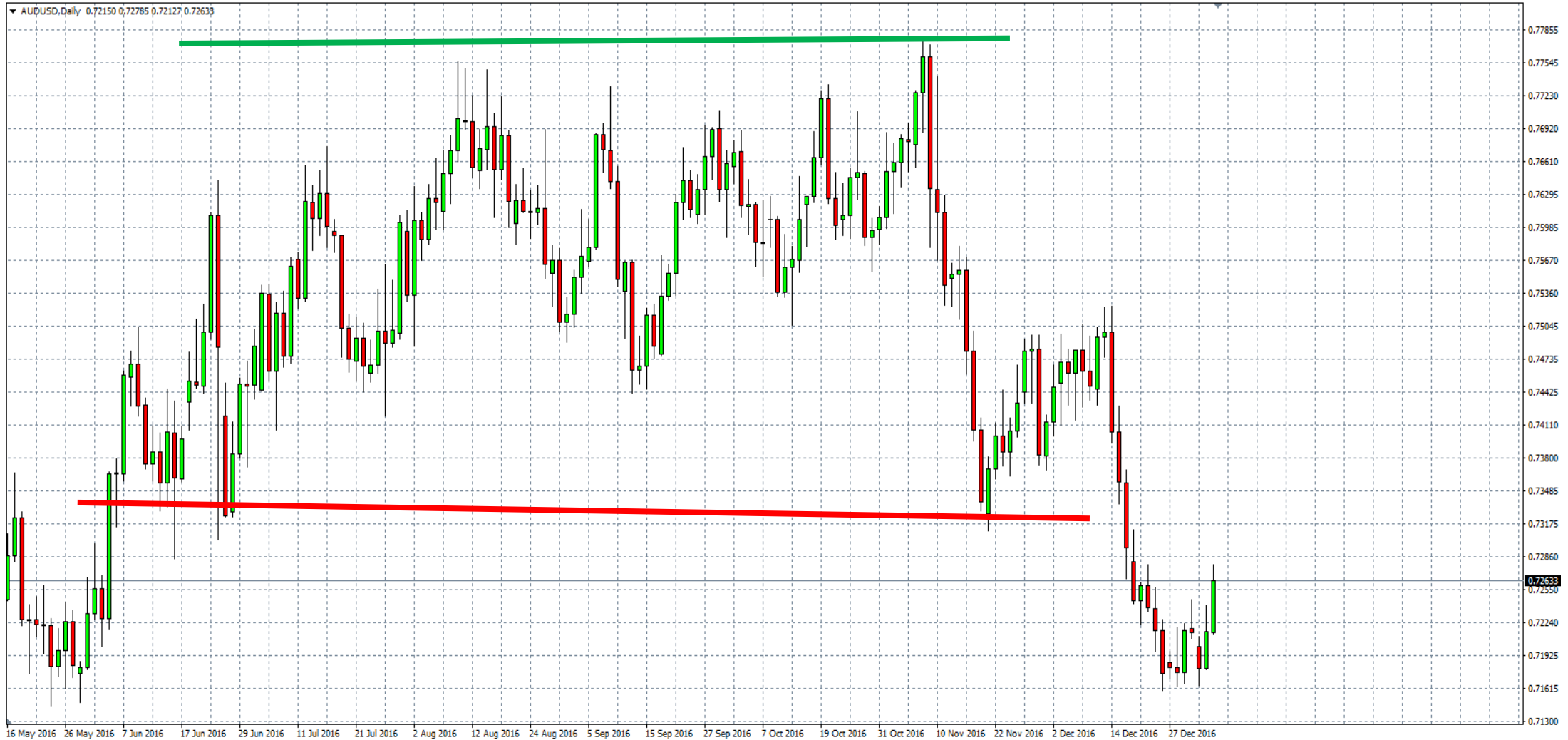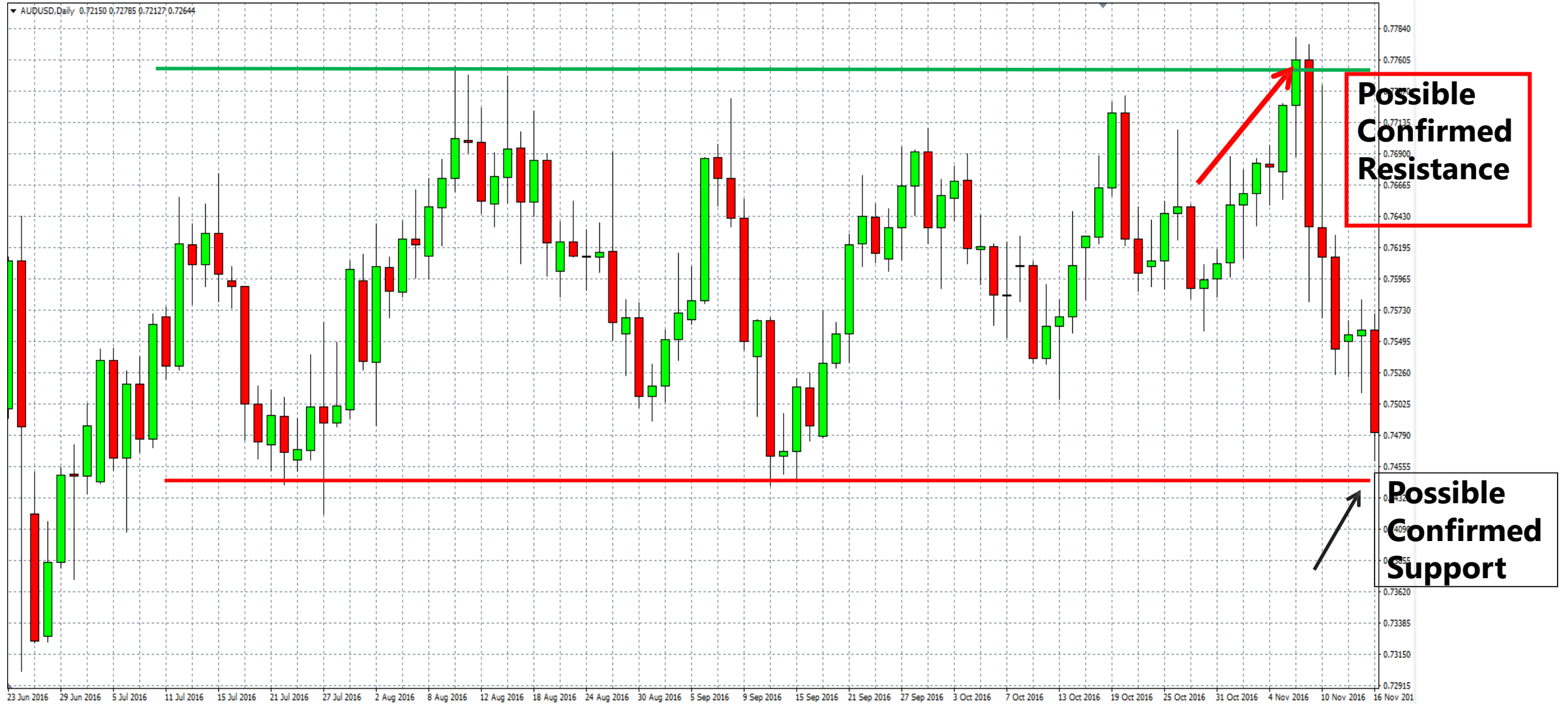
For you to predict a move, opposite to the current price action without conformation, is essentially the same as thinking that if stand in front of a moving train it will stop and reverse just before hitting you

Never Pre – empt a Bounce of Breakout

Price moves through the movement of large orders
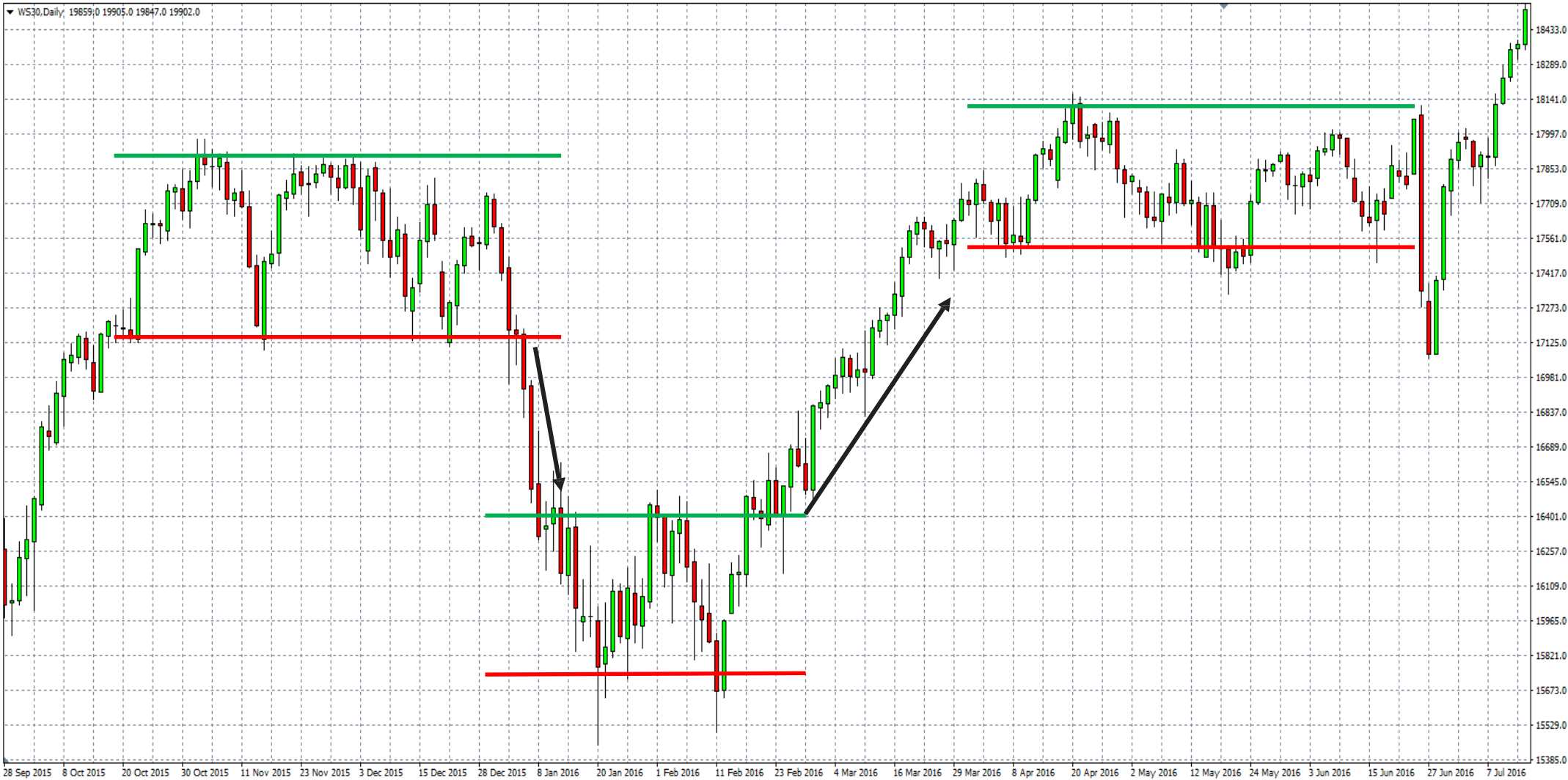
Called Order Flow

Remember:
Conformation, Conformation, Conformation!
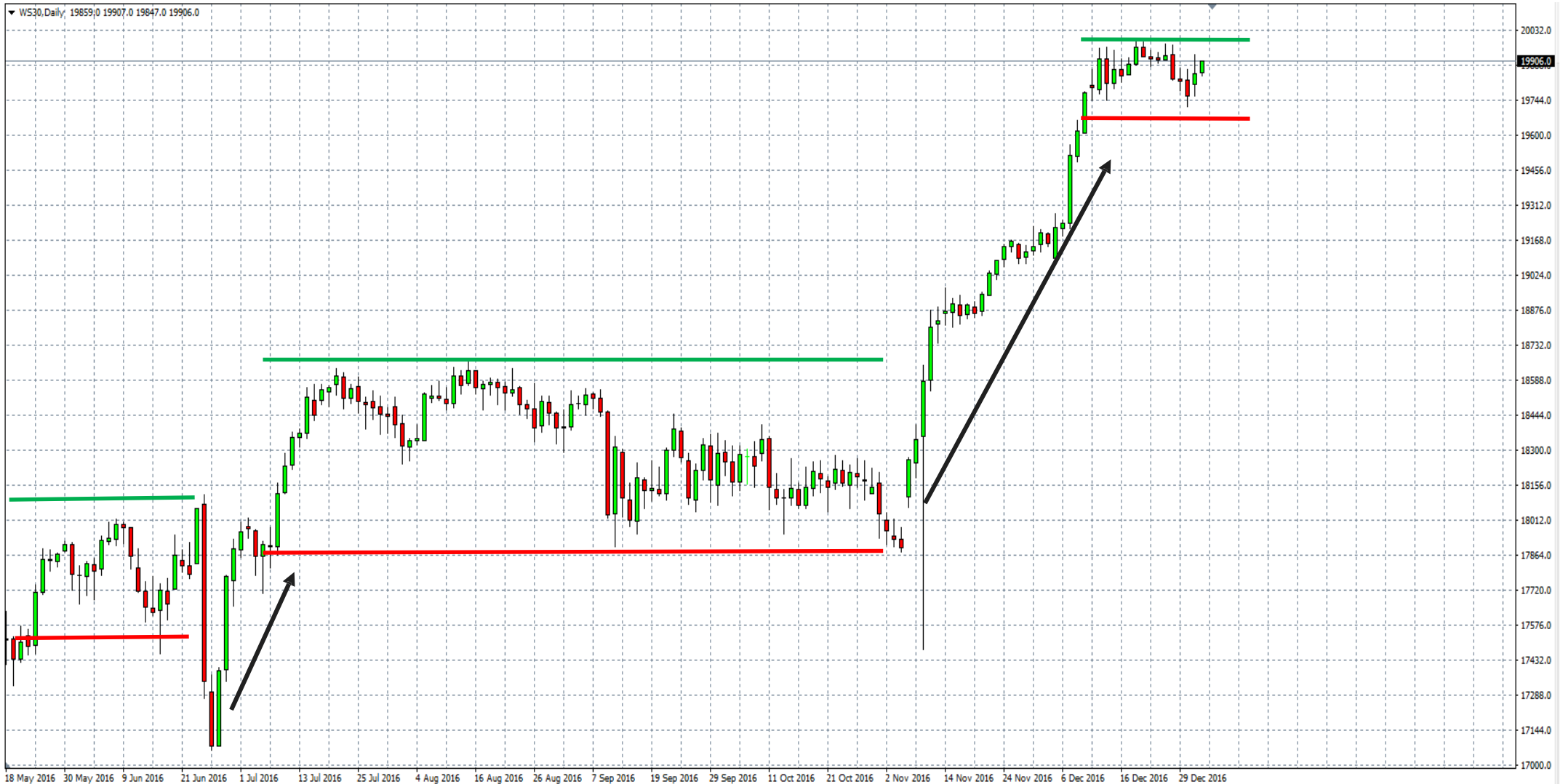
Would you take the chance?

Support & Resistance

Read between the lines..... Think outside the box.

Breakouts

Breakouts

Old Resistance can act as old Support

Old Support can act as future Resistance

If the former Support or Resistance are re-breached after the initial break this could signal an objective exit

It the price returns to its Range, the initial analysis for the breakout was flawed as the market has failed to perform

A return to the Range could signal a Stop and Reverse type approach which would be objectively justified

Breakouts

Know what to look for...

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Questions?