

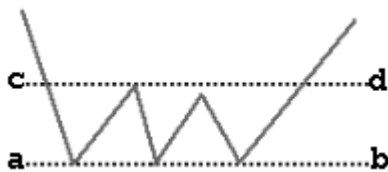
TECHNICAL ANALYSIS:

Technical analysis is the study of market data such as historical and current price data and volume in an effort to forecast future market activity. Historical price data is the most commonly used available data that is implemented into the analysis.

Historical market data is usually saved and is used to form charts over various periods of time. The technical trader can analyze varying periodical charts over a specific length of time for the basic purpose of picking the entry and exit levels of a trade i.e. the traders can determine ideal entry (buy) and exit (sell) points for a trade. By studying the chart the chartist is able to get information regarding the future direction of price of a financial instrument.

Hence, it provides a visual representation of the historical price action of whatever is being studied. As such, traders can look at a chart and know if they are buying at a fair price (based on the price history of a particular market) or selling at a cyclical top. These are just a few market conditions that charts identify for a trader. Depending on their level of sophistication, charts can also help in understanding the advanced studies of the markets.

Additionally, charts can also be used to determine the limit of a trend. For instance, a line connecting peaks in the prices represents **resistance levels**, while a line connecting troughs in prices indicates **support levels**. Resistance levels reflect areas where prices have exceeded fundamental value, resulting in sales by knowledgeable investors, whereas support levels reflect areas where prices are less than the intrinsic value, resulting in purchases of the asset by fundamental investors.



- a-b represents **support**
- c-d represents **resistance**

There is a never ending argument between fundamental analysts and technical analysts about which method shows the best results. Technical analysts claim that all the fundamentals are already built into the price, and so apart from natural disasters and unexpected world events the current price shows the market's expected value taking all the known information into consideration. The chartists are in fact looking for patterns or repetitions in price movements to guess the likely outcome of future prices – in a word they are looking for trends.

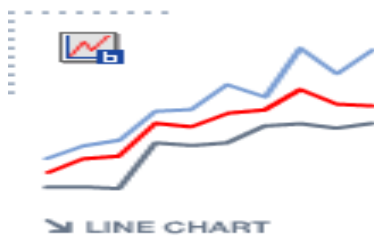
Technical analysis assumes three main points

1. Fundamentals are already built into the price.
2. History has a habit of repeating itself – find out what happened in the past and project it into the future.
3. Trends are key – establish whether the instrument is moving in a trend, and then follow it.

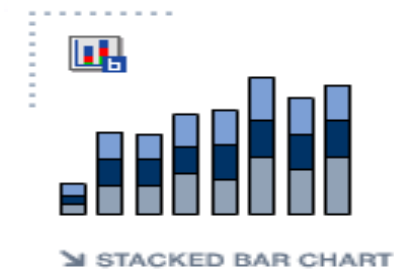
Typically there are three variations: upward, downward or side-wards. Once the type of trend is established an entry point is picked for the commencement of the trade.

Types of Charts

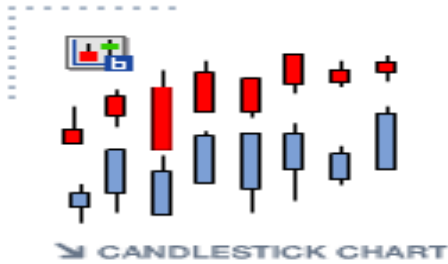
- **Line charts** are the most basic and are created by simply joining one closing period price to another.



- **Bar charts** give more detail than a regular line chart. Each period is represented by a bar which does not only show price movements from one period to the next, but they also show price movements within the period itself.



- Candlestick charts** are very similar to bar charts except their colored bodies are able to give the viewer greater detail in movements within the period at a glance. Each period is made up of a candlestick – the candlestick is made up of a body and a wick on both ends. The candle body is then colored (typically red and either blue or green). The wick represents the high and low of the period, while the body represents the open and close of the period and the color lets us know if the price rose or fell in that period. If the candle body is red then the top of the candle represents the opening price and the bottom the closing. Conversely, a green or blue candle represents the opposite; the top of the candle would be the closing while the bottom would be the opening.



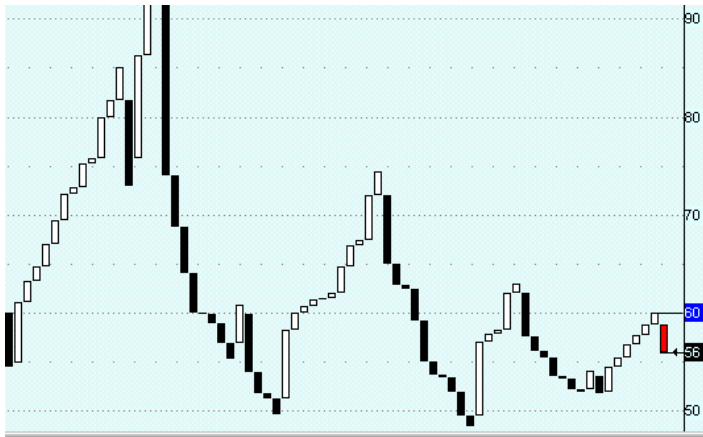
- Tick charts** can only be seen in a line format since the low, high, opening and closing price during that period are one and the same. Every point on the chart represents one tick or one price quote. The next period is usually a 1 minute chart and so on. These varying periodical charts give technical traders a fair idea about the ideal entry (buy) and exit (sell) points for a trade for the next 5 min, 10 min, 30 min, 1 hour, 4 hour, daily, weekly, monthly, and so on. The longer the period the slower the chart; therefore, longer period charts tend to show more stable trends, while shorter period charts tend to be used to pick entry and exit points. Charts are based on real trades that have been executed. Charts give the real story, an objective view of price action and trend based on real trades; hence, giving a very real visual history of previous price action.

In the following charts you buy when a white line emerges or you sell when a black line appears

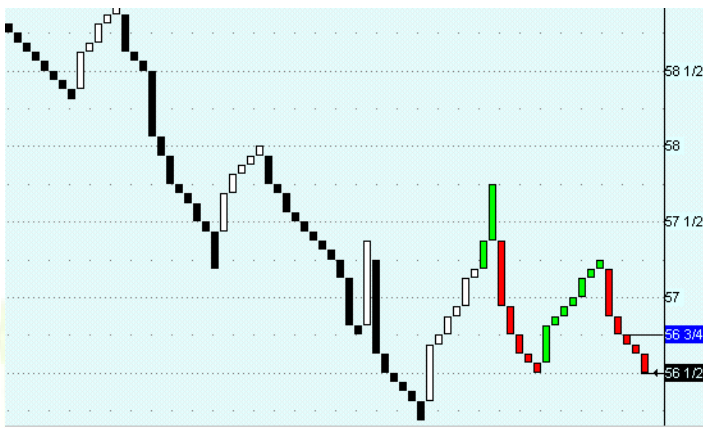
Weekly:



Daily:



5 Minutes:



Technical Indicators:

- **Trend Indicators** smooth out historical prices to show market direction. The most common of these are Moving Averages. Simple trend lines can also be used to the same affect by drawing a line that joins the low and high points over a section of time. Another popular use of this indicator is to form tunnels and triangles for analysis. Trend lines are also used to pick support and resistance levels.
- **Strength Indicators** are essentially volume indicators and are more popularly used in futures market.
- **Volatility** measures and shows fluctuations over a section of time. These indicators help to pinpoint support and resistance levels.
- **Cycles** tend to find patterns or more correctly repetitious cycles. They are more popularly used in other financial markets.

- **Momentum or Oscillators** map the speed at which prices move over a given section of time. Momentum indicators determine the strength or weakness of a trend as it progresses over time. Momentum is highest at the beginning of a trend and lowest at trend turning points. Any divergence of directions in price and momentum is a warning of weakness. If price extremes occur with weak momentum, it signals an end of a movement in that direction. If momentum is trending strongly and prices are flat, it signals a potential change in price direction.

Commonly Used Technical Indicators

Moving Averages are trend indicators and are used by traders to verify existing trends, to identify emerging trends and to signify the end of trends. Moving averages are smooth lines that enable the trader to view long-term price movements without the short-term fluctuations.

Of the three types of moving averages, the most common is the simple moving average; the other two are the weighted and exponential moving averages. All the moving averages are calculated as the average of a specified number of either low, high or closing price of the period. The difference between the three types is the weighting or importance placed on each particular period. For example the weighted and exponential moving averages give greater importance to the latest prices, whereas the simple gives equal importance to all the periods.

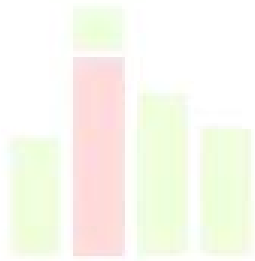
Each new point of the moving average drops off the oldest period and brings in the newest period. A moving average line will change depending upon the number of periods chosen; the greater the number the slower the average.

Stochastic Oscillator is a momentum indicator that shows the location of the current close relative to the high/low range over a set number of periods. Closing levels that are consistently near the top of the range indicate accumulation (buying pressure) and those near the bottom of the range indicate distribution (selling pressure). It is a technical momentum indicator that compares a security's closing price to its price range over a given time period. The oscillator's sensitivity to market movements can be reduced by adjusting the time period or by taking a moving average of the result.

Relative Strength Index (RSI) is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset. RSI attempts to pick reversals in the trend. The RSI ranges from 0 to 100. An asset is deemed to be overbought once the RSI approaches the 70 level, meaning that it may be getting overvalued and is a good candidate for a pullback. Likewise, if the RSI approaches 30, it is an indication that the asset may be getting oversold and therefore likely to become undervalued. The shorter the RSI period, the faster it will be and the more signals will be issued. Here a trader needs to find his balance. Day-traders will often use shorter lines for more regular signals and longer-term traders will use longer RSIs.

Bollinger Bands are volatility indicators and are used to identify extreme highs or lows in relation to the current price. Also, they are based on a set number of standard deviations from the moving average. It essentially tries to indicate support and resistance levels or bands of expected trading.

Moving Average Convergence Divergence (MACD) is an enhanced study of the moving averages and behaves as an oscillator. The MACD plots the difference between a 26-day exponential moving average and a 12-day exponential moving average. A 9-day moving average is generally used as a trigger line. If the MACD crosses below this trigger it is a bearish signal and when it crosses above it, it is a bullish signal. Traders use the MACD for trend reversals. For instance, if the MACD indicator turns higher while prices are still falling this could be an exit point and a possible reverse trade.



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