Technical Analysis - 3

01 June 2025 08:23

How To Choose The Stock

- For Long Term Prospective
  - Divide your capital in 4-5 equal parts
  - Choose a stock that is fundamentally strong
  - Then analyze the 3D charting of those stocks]
- For Short Term Prospective
  - Invest in blue chip stocks
  - Market Cap > 200B, Average Volume (90 Days) > 500K
- For Options Trading, Trade in Index Future Stock
- For Day Trading, Trade in a stock that is Highly Volatile

Technical Indicators

Technical Indicators are used

- To Predict the Future Trend
- To Alert Before a Reversal
- To Confirm the Current Trend

Two types of Indicator:

Lagging Indicator

Leading Indicator

Leading Indicator: This indicator leads the price, which means the price follows this indicator. This helps to get an early signal for trade or exit.
Lagging Indicator: It is known as a trend-following indicator. These indicators are good for a trading market, but not in a sideways market.

Lagging Indicators: **Trend following indicators.**

Moving Average:
It is a method of calculating average price in a given time frame. It is time lagging, and to reduce the time lagging we use exponential moving average as it reacts to quickly.

So if we are using weekly and monthly time frame chart we should use **Simple Moving Average**.

But in case we are using very small time frame like 15 min chart or hourly chart we should take **Exponential Moving Average.**

Moving Average

- Are used in trending market
- Tells us only trend not the top or the bottom
- Should'nt be used on their own
- Are Lagging Indicator

How to Use Crossovers in Trading

- Fast MA Crosses Above a Slow MA :- Buy Signal
- Fast MA Crosses Below a Slow MA :- Sell Signal

200 Day MA

- **Bull** : Remain above the 200Day MA line. This line become support line.
- **Bear** : Remain below the 200Day MA line. This line become resistance line.

Which Moving Average To Use

Long Term Investor	Positional Trader	Intraday Trader
200 Period	50 Period	14/20 Period
100 Period	21 Period	7/10 Period
50 Period	14 Period	3/5 Period

For below e.g.

1. FAST MA - means 14
2. Slow MA - means 21

As long as 14MA will run over 21MA it will be a buy signal

MOVING AVERAGE

Moving averages are the most basic trending indicator. Moving average show what direction the price is going and where the levels of support and resistance may be. Moving averages themselves can serve as both support and resistance.

Simple Moving averages (SMA) are calculated by finding the average closing price of an asset at any given time and then plotting the points on a price chart. The volatility of a moving average can be adjusted by adjusting the time frame of the indicator.

An N-day Simple Moving Average is calculated by calculating the average of N most recent prices

Calculations:

Simple moving average of N days is calculated as

$$SMA(N) = \frac{\sum_{(Today-N)}^{Today} Closing\ Price}{N}$$

When to use…

SMA smoothens the price movements and hence is more helpful to identify trends. Short term SMAs react faster to prices than longer term SMAs. When short-term moving average crosses above the longer term moving average it gives a buying signal and indicates the beginning of an uptrend and vice versa.

EXPONENTIAL MOVING AVERAGE (EMA)

The exponential moving average is very similar to Simple Moving Average. But it assigns more importance to latest data and reduce the lag. Exponential moving average can be calculated by assigning weights to the data points under considerations, such that a more recent data point gets an exponentially higher weight than older data points

Calculations:

Exponential moving average of N days is calculated as

$$EMA(Today) = Closing\ price(Today) \times \propto + EMA(Previous) \times (1 - \propto)$$

Where the exponential smoothing factor, α is given by

$$\propto = 2 \div (N + 1)$$

When to use…

Exponential Moving Average is used in the same way as the Simple Moving Average, but being that EMA reacts faster to recent price values than the simple moving average. Which moving average you

When to use…

Exponential Moving Average is used in the same way as the Simple Moving Average, but being that EMA reacts faster to recent price values than the simple moving average. Which moving average you use will depend on your trading and investing style. EMA is also used for calculation of many other indicators, like Moving Average Convergence Divergence (MACD) etc.