Technical Analysis

Sunday, 30 January 2022 6:18 PM

Point of view of the stock:
- Price at which one should buy or sell the stock
- The risk involved with the trade
- Expected reward on the trade
- Expected holding period for the trade

TA(technical analysis): it is a research technique to identify trading opportunity in the market based on the collective action of market participants.

Consider parameters for TA
- Trades
- Return per trade
- Holding period
- Risk involved

Indicators of TA:
MASCD: Moving Average Convergence Divergence
RSI: Relative Strength Index.

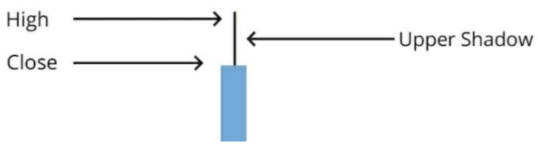
Two things are necessary for TA: price and volumes and its past data is needed to predict he further behaviour of stocks.

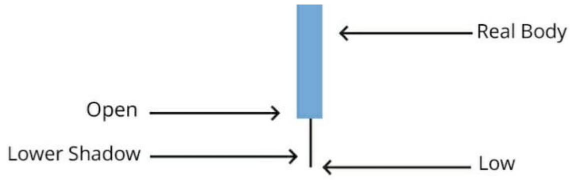
TA assumptions are based on 4 key points:
- Market discount everything: tells us about all the unknown and know information that is out there in public by the refection latest stock prices.
- How is more important than why:
- Price moves in the trend: all major activities in the stock market is the result of some kind of trend.
- History tends to repeat itself: It happens because the market participants reacts to prices movement they same way they reacted before.

Indian stock opens at 9.15 am and close at 15.30 pm.

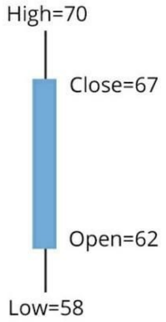
OHLC is a fundamental thing for technical analysts

Japanese Candle Stick: Charting technique used by pro traders.
Bullish candle : green, blue, white.
3 components :
- Central real body which connects to opening and closing price.
- Upper shadow connects the high points to close
- Lower shadow connects low point to open



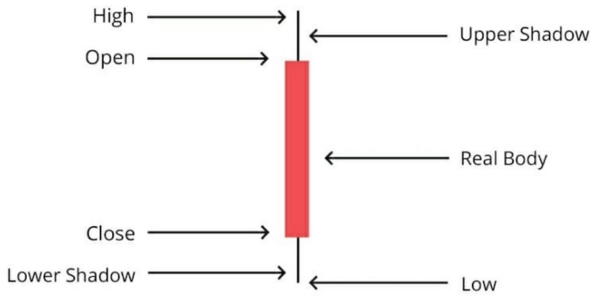


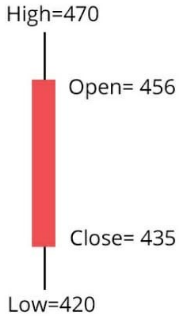
Open = 62
High = 70
Low = 58
Close = 67



Bearish candle : red, black
3 components :

- Central real body which connects to opening and closing price but opening is at top and closing is at bottom.
- Upper shadow connects the high points to close
- Lower shadow connects low point to open.





Open = 456
High = 470
Low = 420
Close = 435

Draw a Candlestick diagram and identify if that candlestick is bullish candle or bearish Candle.

Day 1
Open = 430
High = 444
Low = 418
Close = 425

Day 2
Open = 445
High = 455
Low = 438
Close = 450

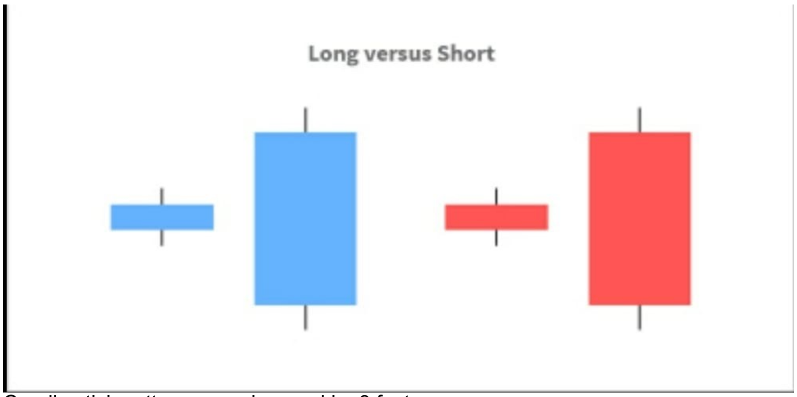
Day 3
Open = 445
High = 455
Low = 430
Close = 437

Candlestick is easy to interpret and comprehend the OHLC datapoints and it helps to quickly visualise the relationship between open close and high low.

Time frame: is defined as the time duration during which one chooses to study a particular chart. Popular charts are:

- Monthly charts
- Weekly Charts
- Daily/End of day charts
- Intraday Charts duration: 30 min, 15 min, 5 min.

One candlestick is enough to show one day trading data. Every trading day is represented by a candle.



Candle stick patterns are observed by 3 factors:

- The stock has been falling for the last four consecutive trading sessions
- Today, the 5th day the stock falls relatively lower volumes
- The range in which the stock trades today is quite small compared to the last days.

There are 3 rules:

Buy strength and sell weakness: buy when bullish candle day and sell when red candles day
Be flexible with patterns(quantify and verify) to identify candlestick patterns
Look for a prior trend.

Single candlestick patterns:

- Marubozu
- Doji
- Spinning Top
- Paper umbrella
- Hammer
- Hanging man
- Shooting star.

Multiple candlestick patterns:

- Combination of two or more single candlestick pattern.
- Bullish engulfing
- Bearish engulfing,
- Bullish Harami,
- Bearish Hararmi,
- Piercing pattern,
- Dark cloud cover,
- Morningstar
- Evening star

Marubozu: the round part

Bullish Marubozu: open = low and high = close.

Open = 904
High = 922
Low = 903.93
Close = 921

Bullish Marabou: open = low and high = close.

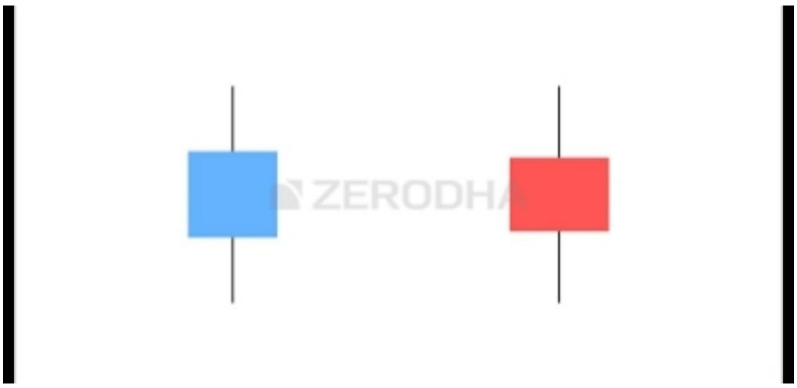
Longer the candle: more the buying and selling activities.
Shorter the candles, less the buying and selling activities.

Risk takers would buy the stock on the day the marubozu is formed. Marabou is classic example for profit. Risk averse would buy the stock on the next day of Marubozu.

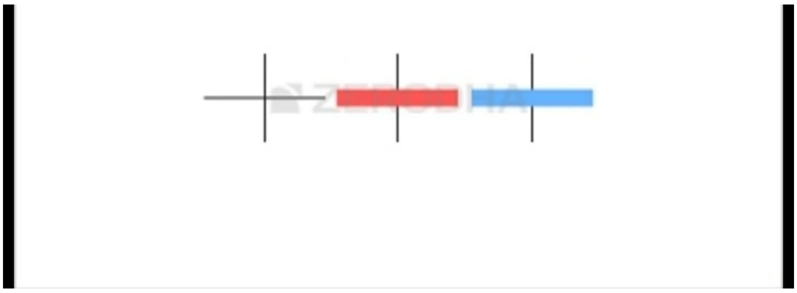
Bearish Marubozu: open = high and close = low

Open = High = 948
Close = Low = 928

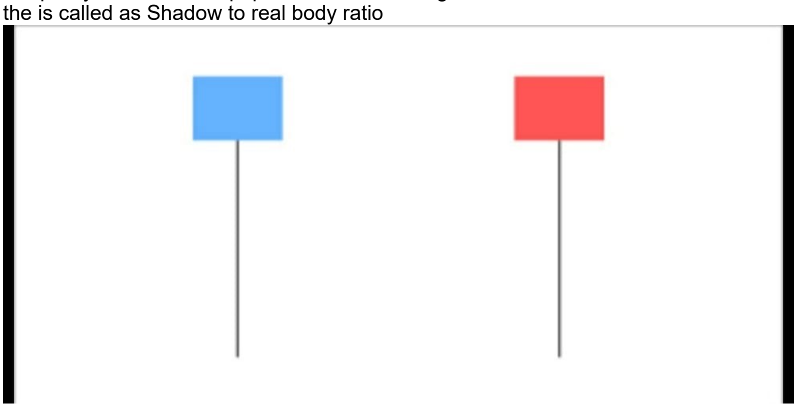
Spinning Top: a very massive candlestick
3 components:
Real body: small body means open and close are quite close to each other
Upward and lower shadow



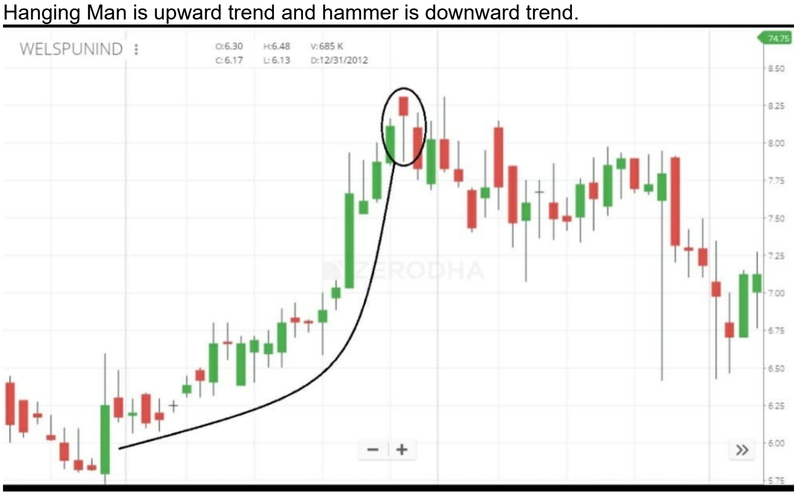
Dojis are similar to spinning top except the fact that they do not have a real body. Open price should be equal to the close price with virtually an non existing body. (textbook)



Paper umbrella: it helps trader to set up directional trades. Bottom end is hammer and top end is hanging man.
To qualify a candle as a paper umbrella the length of lower shadow should twice the length of the real body and the is called as Shadow to real body ratio



Hanging Man is upward trend and hammer is downward trend.

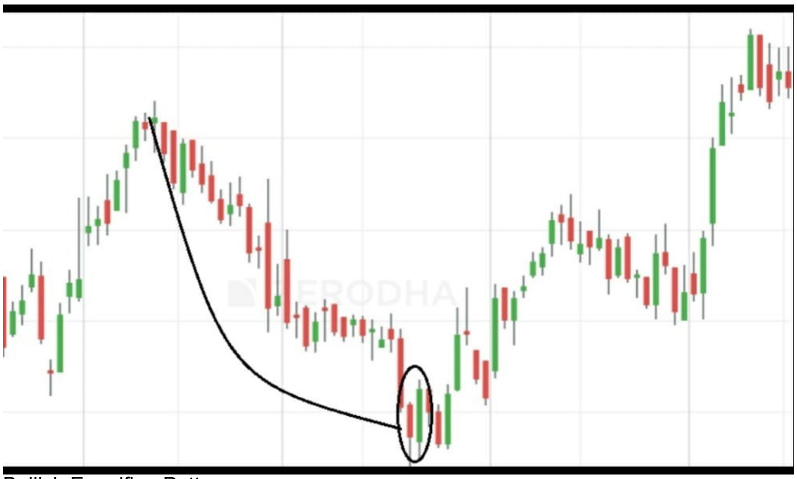


Hanging Man

Hammer

Shooting Star: looks like inverted paper umbrella. Has a long upper shadow.

Engulfing: 2 trading sessions, a small candle on day 1 and relatively long candle on day 2 which appears as if it engulf the candle on day 1.



Bullish Engulfing Pattern

Bearish Engulfing Pattern

If it appears on bottom trend then it bearish and top trend the it is bullish.

Piercing Pattern is similar to bullish engulfing pattern with minor variations.

Dark Cloud Cover: it is very similar to bearish engulfing pattern with some minor variations.

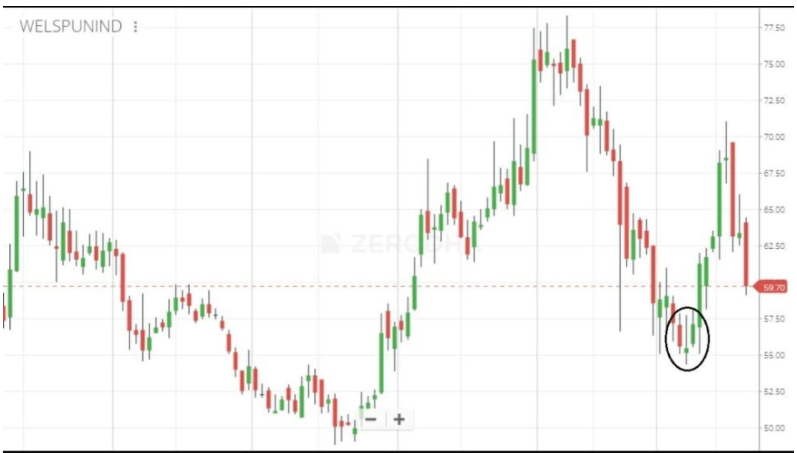
Harami (pregnant) Pattern: two candlestick pattern, 1st candle is long the second is small. The first will be green and the second will be red for vice versa.

Bullish Harami Pattern

Bearish Harami Pattern

Morningstar and Evening star are the last two candlestick pattern which are called star pattern which is a price gap. Morning means price is high and evening means price is low.
Evening: bearish and morning : bullish.

Star Pattern



Morning Star Pattern

Evening Star Pattern

Relative Strength Index (RSI) : It is a leading momentum indicator which helps in identifying trend . It oscillates between 0 and 100.

MACD (Moving Average Convergence Divergence) : is the grand old daddy of indicator. Invented in 70 and it used by momentum traders. It is all about convergence and divergence.
Convergence is when two moving averages moves towards each other sand divergence is when two moving averages move away from each other.

Reward to Risk Ratio: is a generic and can be applied across all types of trades based on technical analysis.
Entry, Stop loss and expected target Are needed for calculation.

Risk = entry - sl
Reward = exit - entry

Entry; 55.75
SL 53.55
Expected target: 57.20

Risk 2.2
Reward: 1.45

Derivatives: it a financial contract whose value is derived rom an another asset which called underlined asset(stock, bond, commodity, currency)