

# The Morning Star

Badrinath Singhal

March 2021

Here, I will lay out some patterns that I learned from technical analysis of stock market. Technical analysis is generally done for short term trade and traders are expected to analyse the graph of the particular stock to look for any known patterns. I personally like few patterns which I will list mainly look out for, but in general one should have a checklist made from sound logic before making any trade.

## Moving Average

There are two types of moving averages, first is **Simple Moving Average** and other is **Exponential Moving Average**. As the name indicates, simple moving average attaches same weights to every trading sessions whereas exponential moving average attaches more weights to recent trading sessions compared to older trading sessions. The number of trading sessions to consider for moving average is a free parameter and traders are free to set their own parameter. Fig 1 denotes an example of moving average, notice the line passing through each trading sessions that line denotes the moving average.

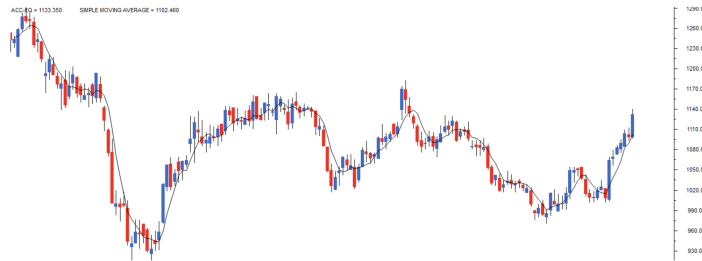


Figure 1: An example of moving average

Exponential Moving Average have more importance compared to simple moving average because recent trading session should be considered more relevant to the market compared to old sessions.

In moving average cross over system, we use two moving average, one is 50 day exponential moving average and other is 100 day exponential moving average. After we plot them together, we will execute a trading session

- When 50 day exponential moving average crosses 100 day exponential moving average from below we buy the corresponding stock
- When 50 day exponential moving average crosses 100 day exponential moving average from above we sell the stock.

We do this because 50 day exponential moving average gives us stronger information about current trend and if that's going up we believe that the trend of the corresponding stock is up. So when it crosses 100 day exponential moving average we from below and goes up we see that as buying opportunity. Similarly when 50 day exponential moving average goes down we believe that trend is going down and we sell the stock. So when it crosses 100 day exponential moving average we from above and goes down we see that as selling opportunity.

## Volumes

The general rule is when the volume of trade is above average that means institutional players are involved in trade and hence the trend which the stock is going through will persists. On the other hand if volume of trade is below average, that means only individual investors are involved in trade and the trend set up is temporary and one should not take part on the trade based on temporary trend.

Price	Volumes	Expectation
Increase	Increase	Bullish
Increase	Decrease	Individual investors involved only
Decrease	Increase	Bearish
Decrease	Decrease	Individual investors involved only

## Support and Resistance

Support price is the price which prevents the price to fall further. Whenever the stock touches the support price it jumps back up. The support price is always below current market price.

Resistance price is the price which prevents the price to rise further. Whenever the stock reaches the resistance price, the stock falls back again. Resistance price is always above current market price.

## The Morning Star

This is a 3 consecutive candlestick pattern. It appears at the bottom end of downward trend.

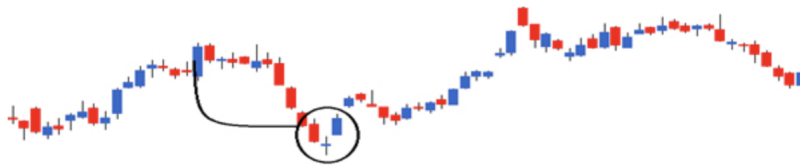


Figure 2: The Morning Star

The current trend should be downward, on P1 market makes new low. On P2 there is a gap down opening and makes a doji/spining top. On P3, market opens with a gap followed by blue candle that closes above P1 opening. When we see this pattern then we can be confident that the stock price will rally up for next few trading sessions. The encircled trading sessions on above image shows the morning star pattern

## The Evening Star

This pattern is similar to the morning star but here after the pattern appears the price rally down.

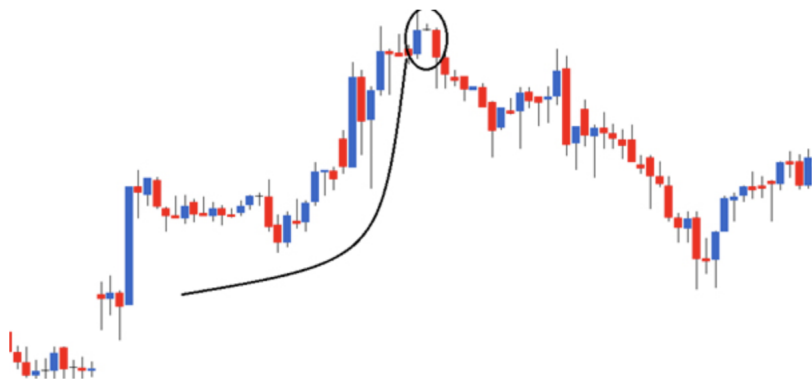


Figure 3: The Evening Star

The current trend should be upward. On P1 the market makes new high. On P2 there is a gap up opening showing bear presence and makes a doji/spining top. On P3, market opens with a gap followed by red candle that closes below P1 opening. When we see this pattern we can be confident that the stock price will rally down for next few trading sessions. The encircled trading sessions on above image shows the evening star pattern.

I have made the notes after following Zerodha's Varsity which is an amazing platform to gain the necessary knowledge to understand the market.

**End**

## References

- [1] [Zerodha Varsity](#)