



WARRIOR TRADING

CHAPTER 5. TECHNICAL ANALYSIS

NOTE: THIS IS NOT A STRATEGY. TECHNICAL ANALYSIS IS ABOUT PATTERN RECOGNITION. HOW TO TRADE THE PATTERNS IS COVERED IN DEPTH IN THE WARRIOR PRO CLASSES.

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CHAPTER 5. TECHNICAL ANALYSIS

PART 1: CHART TYPES & TIME FRAMES

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The charts I use are called Candlestick Charts

There are many different types of charts, but the vast majority of active stock traders utilize candlestick charts.

Candlestick charts were developed in the 1700s in Japan to create a supply and demand chart.

Bar charts were developed later, but did not gain the popularity of candlestick charts.

Line charts are not popular due to providing very little actionable information.

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Daily Chart Time Frames

Helpful Tip: Each candlestick represents 1 period of time based on the chart's time frame (set to daily in this example).

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5-min Chart Time Frames



Helpful Tip: Each candlestick in this example represents 5 minutes of time.

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1-min Chart Time Frames



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How do I know when a candlestick will close?

The market opens at 9:30:00 am (EST)

The first 1 minute candle closes at 9:31:00 am

The first 5 minute candle closes at 9:35:00 am

The daily candle closes at 4:00pm

Most day trading platforms provide a digital clock that shows the seconds. I can look at this clock, and know that at the top of every minute 1-min candle's close, and at every 5-min increment 5-min candle's close. This helps me understand when a candle is about to close (making its shape permanent).

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PART 2: CANDLESTICKS

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Today's Lesson

1. Introduction to Technical Analysis
2. Common Single Candlestick Formations



Candlesticks

As active traders we rely heavily on Stock Charts.

Stock Charts are a form of technical analysis.

We look for specific chart patterns to find areas of support and resistance.

I use a minimum number of indicators to avoid over complicating simple strategies and setups.

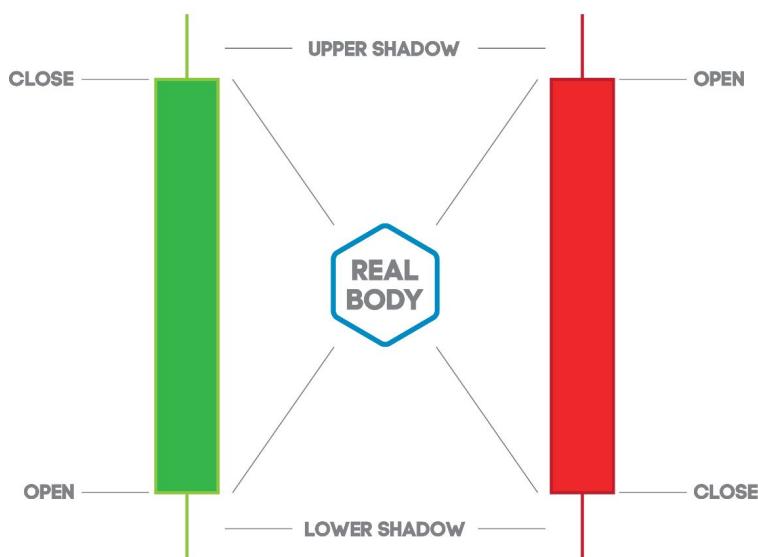


Candlestick Charts



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CANDLESTICK BASICS



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5 Important Candlestick Formations

1. Hammers & Inverted Hammers (Bottoming Tail / Topping Tail)
2. Doji Candles
3. Long Body Candles
4. Bullish Engulfing Candles
5. Bearish Engulfing Candles

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1. Hammer & Inverted Hammer Candles

Bottoming Tail & Topping Tail (shooting star) Candles

Hammer candlesticks always occur at the bottom of a sell off. When this candlestick shape occurs during sideways consolidation it's pretty much meaningless.

But at the bottom of a sell off, it indicates a bottom getting "hammered out". The fact that the price dropped during the candlestick period, and then came back up to close near the top is significant. Buyers rallied to bring the price back up. In the context of a reversal, it could indicate a stock is beginning to change directions.

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Hammer & Inverted Hammer Candles

Bottoming Tail & Topping Tail (shooting star) Candles



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Hammer & Inverted Hammer Candles

Bottoming Tail & Topping Tail (shooting star) Candles



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Hammer & Inverted Hammer Candles

Bottoming Tail & Topping Tail (shooting star) Candles



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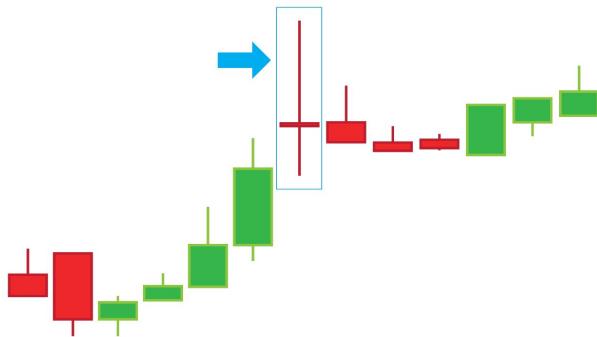
2. Doji Candles

Doji candles are considered candles of indecision.

In order for a Doji candle to be created, the price must open, then fall, then rise, then close back at the same price.

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Doji Candles



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Doji Candles



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Doji Candles



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Doji Candles



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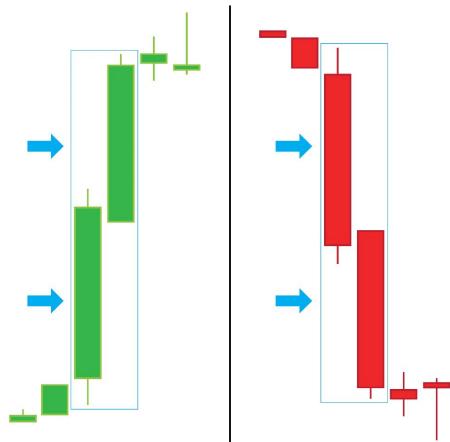
3. Long Body Candles

In contrast to the indecision of a Doji candle, a Long Body Candle shows extreme strength in the market. The price opens at the bottom of the candle, then surges and closes at the top of the candle. This is a very bullish indicator.

This is the same with long body red candles. They are a sign of extreme weakness.

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Long Body Candles



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Long Body Candles



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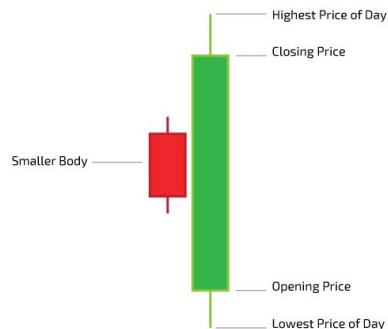
4. Bullish Engulfing Candles

A Bullish Engulfing Candle is a candle that opens lower, and closes higher, than the candle preceded it. It's a strong sign of strength, especially in the context of a reversal or a breakout of a consolidation period.

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Bullish Engulfing Candles

Bullish Engulfing Pattern



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Bullish Engulfing Candles



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Bullish Engulfing Candles



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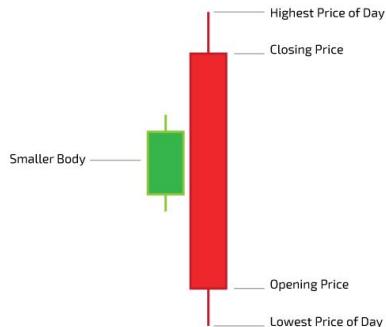
5. Bearish Engulfing Candles

A Bearish Engulfing Candles is one of the worst candles we can see while holding a long position. It's a sure sign of weakness, as the red candle is larger than the entire candle that preceded it.

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Bearish Engulfing Candles

Bearish Engulfing Pattern



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Bearish Engulfing Candles



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Bearish Engulfing Candles



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Candlesticks are only significant on the **RIGHT** financial instruments

When you are looking at candle sticks, you should only be looking at the right financial instruments to trade.

Candlesticks form on EVERY stock/ETF/Mutual Fund/Currency/Commodity, but the patterns we look for are only valid when we have high relative volume. The high volume indicates many traders are actively watching the stock, and that patterns will be seen, and therefore more likely to resolve in a predictable manner.

We look for:

1. Above Average Volume (lots of retail interest today, above avg vol)
2. Strong trend (moving up or down more than 5% today)

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Candlesticks in Low Volume Stocks are unpredictable and not closely watched



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Candlesticks Patterns in Sideways Consolidation are Not Significant



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Don't get overwhelmed!

You will hear me use the words Doji, Hammer, Inverted Hammer (Shooting Star) many times throughout this class. Feel free to print out each slide for critical candlesticks if that helps you remember, but also rest assured that the more examples I show you, the better you will understand these candles and their meaning.



CHAPTER 5. TECHNICAL ANALYSIS PART 3: SUPPORT & RESISTANCE



Today's Lesson

1. Support & Resistance lines as Horizontal and Ascending/Descending
2. Learning how to draw trend lines correctly



Horizontal Resistance Lines

Horizontal Resistance Lines are drawn on any time frame, from 1min, 5min, to the daily chart, based on what we perceive as being resistance or support points.

Often we will draw a horizontal line at the top of a recent high, or the bottom of a recent low.

Support and Resistance lines are more valid when they have been tested multiple times without being broken.

It's also very common to see horizontal support and resistance lines at half dollars or whole dollars because these are psychological levels of resistance.



Horizontal Resistance Lines



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Horizontal Support Lines



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Support & Resistance at ½ and Whole Dollars



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Support & Resistance at ½ and Whole Dollars



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Previous Resistance Becomes Support



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Ascending/Descending Support & Resistance Lines

Ascending & Descending Support or Resistance Lines are drawn by connecting recent highs or lows in a way where the line is touched multiple times by price action.

If a line only touches in 2 places (the place it started and the place it ends) it hasn't been tested and its validity is unknown.

Ascending & Descending resistance lines should be obvious. When they are obvious to you, they are obvious to thousands of other traders as well.

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Descending Support & Resistance Lines



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Ascending Support & Resistance Lines



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Ascending Support & Resistance Lines



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Drawing Trend Lines is not Necessary

I draw trend lines as a teaching tool, but I don't need to draw them. If it's helpful for you to draw them and the software you're using allows drawing of trend lines, it's totally an option.

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PART 4: GAPS AND “WINDOWS” ON DAILY CHARTS

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Today's Lesson

1. Learning to identify gaps and windows on a daily chart
2. Distinguish between gaps and windows

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Reading Charts from Right to Left

Although it's counter intuitive, we read charts right to left in the sense that the most recent price action is the most important. In fact, it's so important, it can negate the technical levels of older price action.

For instance, if 3 months ago a stock had resistance around \$10.00, but is now trading at between \$12-14, the resistance at \$10 is no longer significant. We would instead focus on the recent resistance around \$14.

I look from Right to Left to look for nearby support or resistance levels



Rules of Charting

- 1.** We read from most recent to historical, from Right to Left, looking for nearby support/resistance.
- 2.** You cannot "skip" over candles. A large candle will "block" any price action that came before it.
- 3.** We always look for obvious patterns, and obvious support and resistance levels.
- 4.** We always look at price action around psychological areas of resistance/support (whole dollars).
- 5.** We look for Gaps and Windows. A Gap or Window should be "large". That means it's at least 2x the size of an average candlestick, or the Average True Range on the daily chart.
- 6.** Gaps can only be formed when a stock opens higher or lower than it closed the previous day.
- 7.** Windows can be another word for Gaps, OR can be the distance between the top and bottom of a very large candle.



Gaps on Daily Charts



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Gaps on Daily Charts



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Gaps on Daily Charts



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Windows on Daily Charts in the form of large candles



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Windows on Daily Charts in the form of large candles



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CHAPTER 5. TECHNICAL ANALYSIS PART 5: OUR FAVORITE MULTI-CANDLE CHART PATTERNS

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The First Candlestick to Make a New High

This is a multi candlestick pattern and it is the basis for many of the strategies that I trade.

The high of the previous candle is 7.00. The first candle to make a new high is when the next candle breaks 7.00, not if it closes above 7.00, but the second it BREAKS 7.00.

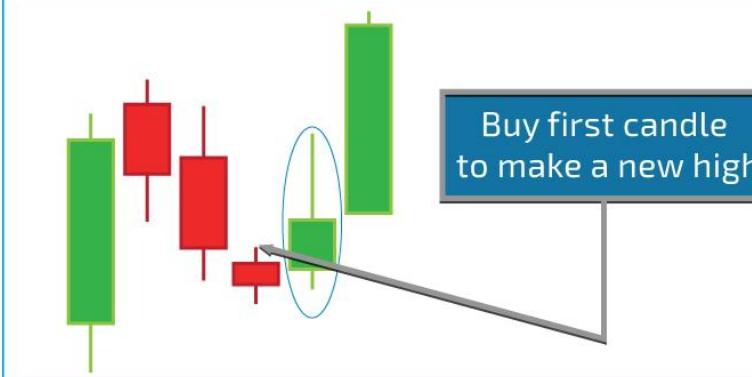
Sometimes I buy early to anticipate the break, knowing that the break could result in a nearly instantly 5-10% move.

I'll show you a few examples.

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Today's Lesson: The Bull Flag Breakout Pattern

BULL FLAG BREAKOUT PATTERN



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Bull Flag (bear flag is inverse)

A bull flag has the following characteristics:

1. A strong move up: 3+ green candles moving up sharply followed by...
2. A momentary pullback: 2 or more red candles (these candles cannot break the high of the previous candle).
3. A perfect 5-min bull flag pulls back to the 9 EMA on the 5-min chart.
4. The entry point is the first candle to make a new high after 2 red candles and a tap of the 9 EMA on the 5-min chart, with stop at the low of the last 5-min candle.

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Bull Flag

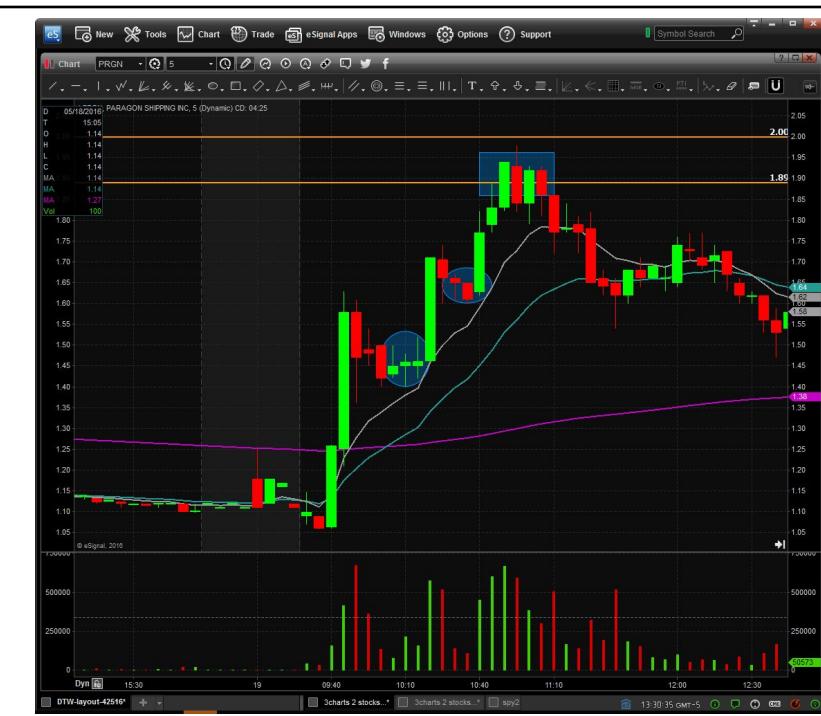
Helpful Tip: Remember, the second the first candle makes a new high is the entry (I don't wait for the candle to close)

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Bull Flag

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Bull Flag (1st & 2nd)

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Which Time Frame Should I Use?

We will see patterns form on 1-min and 5-min charts.

If we see a bull flag on a 5-min chart, AND a 1-min chart, we would call that multi-time frame alignment.

Sometimes a 5-min will be forming a bull flag while a 1-min is forming an ABCD setup.

Multi-time frame alignment is ideal. I will rarely take a 5-min setup if the 1-min pattern doesn't also offer a low risk setup, although I will occasionally take a 1-min setup when the 5-min setup isn't lined up perfectly. This will become more clear as you keep learning!



In the Warrior Pro Course...

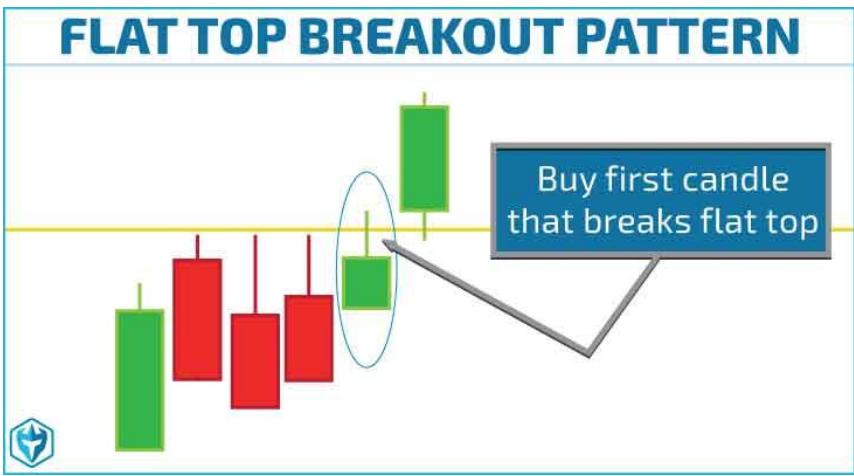
We'll be covering bull flags in more detail and with Live Trading Examples which show the step by step process for trading this pattern including:

- Finding the bull flag pattern
- Knowing the entry and max loss
- Taking the trade!

We'll also be covering the following patterns in the same level of detail...

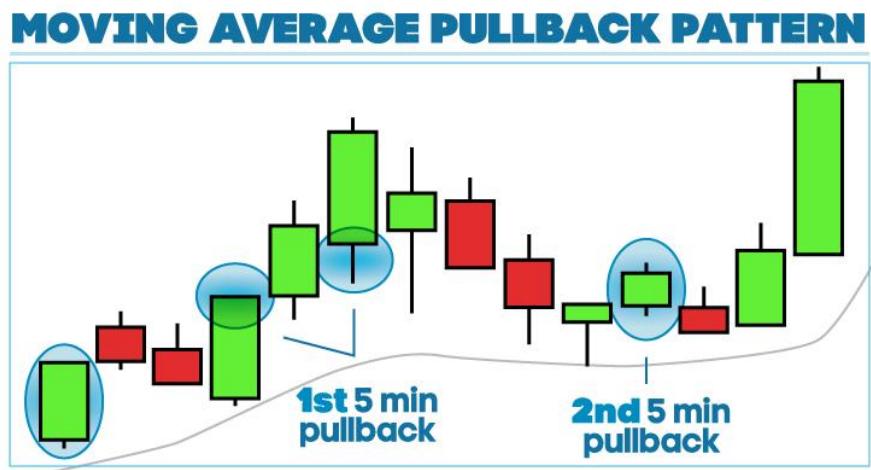


2. Flat Top Breakout Pattern



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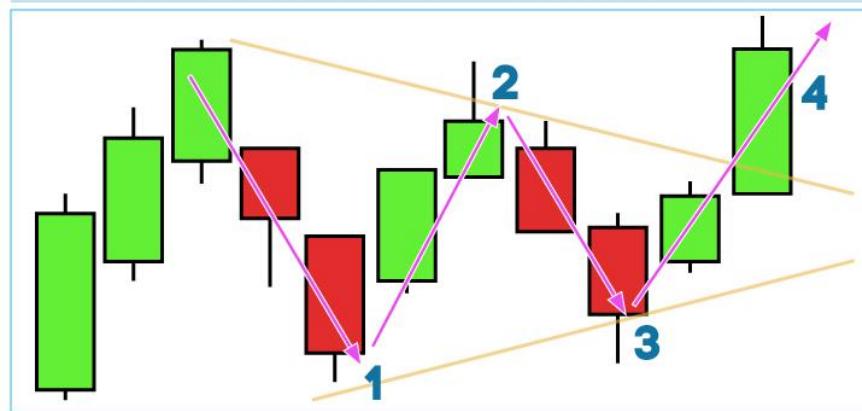
3. Moving Average Pullback



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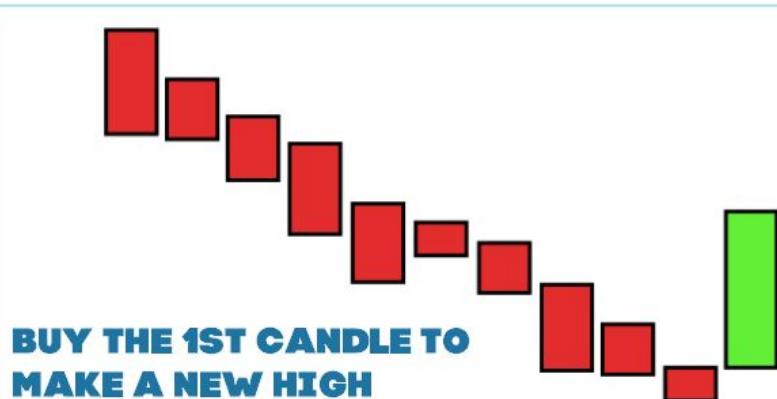
4. The 1234 Flag Pattern

THE 1234 FLAG PATTERN



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5. The Bottom Bounce Reversal



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PART 6: POPULAR TECHNICAL INDICATORS

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Today's Lesson

There are thousands of different types of technical indicators. I'm going to give you a solid foundation in technical analysis by showing you the 5 most popular indicators that nearly every trader understands.

1. Moving Averages
2. VWAP
3. RSI
4. MACD
5. Volume Bars

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Technical Indicators

Technical Indicators are complex formulas that provide a context for current price action.

Many technical indicators LAG behind price action. Therefore, they are slower to react, and not helpful for day trading.

There are a lot of traders who hunt for the Holy Grail of technical indicators. After a lengthy search, I can tell you it doesn't exist! There is no combination of indicators that will give you fool-proof entry or exit signals. You have to learn to read the chart patterns as you trade the stocks with high relative volume.

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1. Moving Averages

Moving Averages are averaging the price over a set period of time.

Moving Average prices will vary between time frames because the average price of a stock over nine 5-min candles is different from nine daily candles.

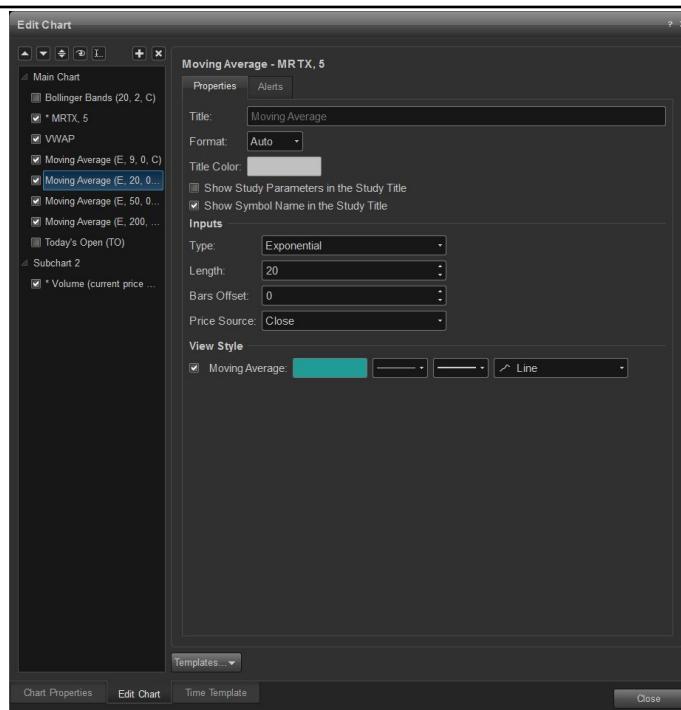
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Simple Moving Averages vs Exponential Moving Averages

There are 2 types of Moving Averages.

1. Simple Moving Averages are simply the average price over a set period of time.

2. Exponential Moving Averages take the average price over a set period of time and weigh more recent price action as being more significant. Therefore EMA's move quickly when price moves.



Moving Averages



Moving Averages

Resistance at 50 EMA on the daily chart



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Moving Averages

Resistance at 50 EMA on the daily chart



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Moving Averages

Resistance at 200 EMA
on the daily chart



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Moving Averages

Support at 200 EMA on the daily
chart



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Moving Averages

Resistance at 200
EMA on the daily
chart

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Moving Averages

Resistance at 200 EMA on the
daily chart

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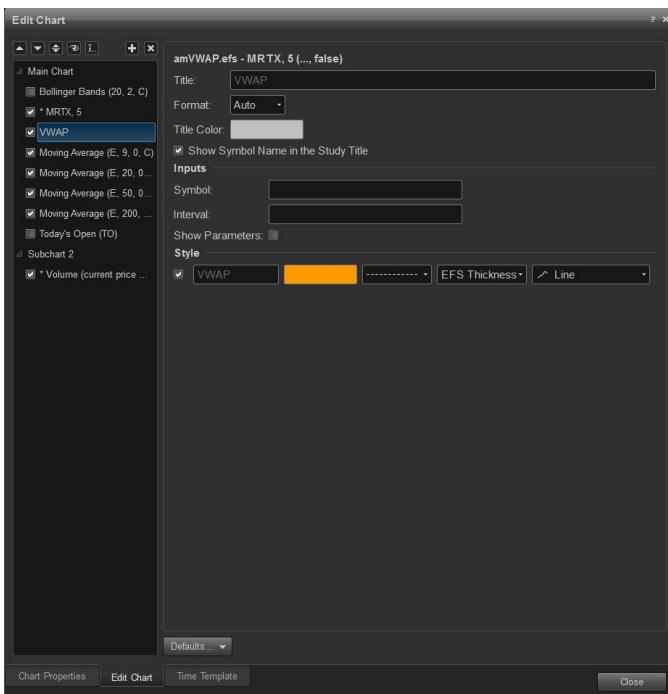


2. VWAP

The VWAP is the Volume Weighted Average Price. Like a moving average, this is an average price of a stock. What is unique is that it takes into account the amount of volume at each price. Like exponential moving averages, it gives us more information than a simple moving average.

VWAP is Orange Dotted Line.

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VWAP

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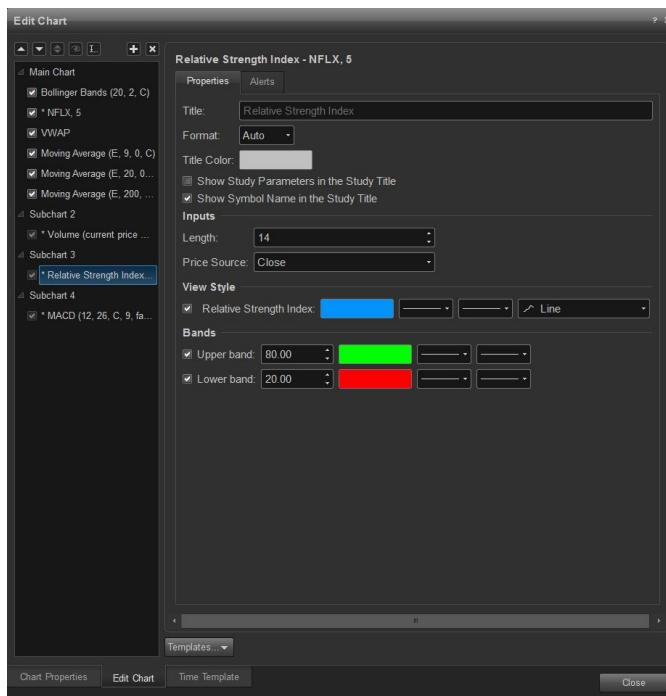
3. RSI

The RSI is the Relative Strength Index. It tells us the strength or weakness of a stock. RSI is measured on a 0-100 scale.

RSI below 20 is considered very oversold

RSI above 80 is considered overbought

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RSI

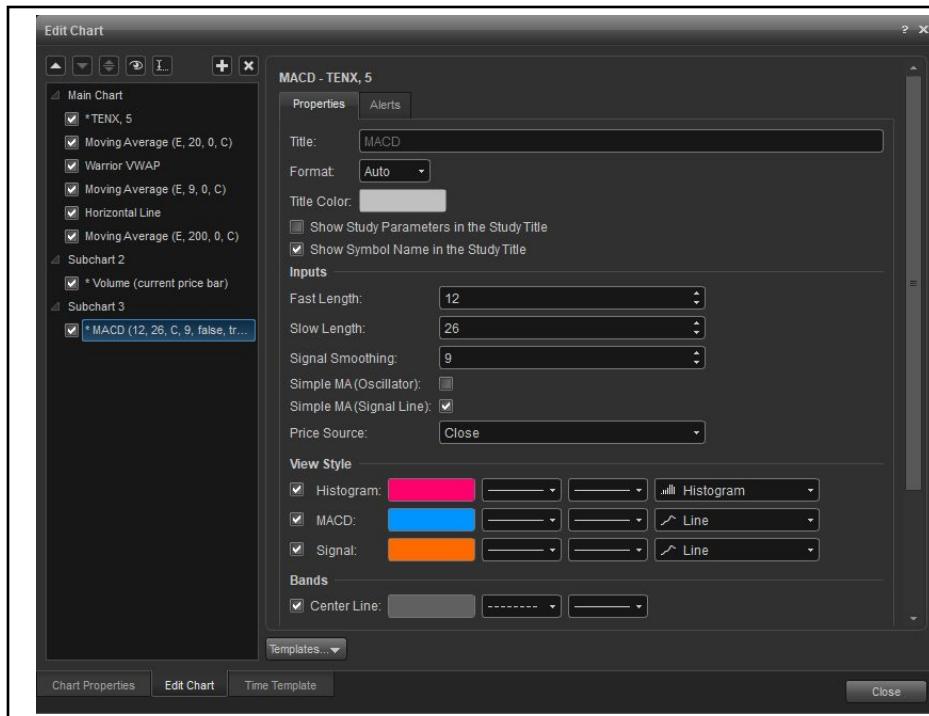
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4. MACD

The Moving Average Convergence Divergence "MACD" indicator is an oscillating indicator that moves up and down as the stock price moves up and down. It's a lagging indicator which means price action needs to occur before it reacts.

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MACD

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5. Volume is Critical - Volume Bars



Volume Bars show us visually how much volume occurred during a candlestick period.

We can look for patterns such as increasing or decreasing volume.

These are one of the most important indicators

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Volume Bars

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PART 7: UNDERSTANDING WHAT MAKES A STRONG OR WEAK DAILY CHART

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Today's Lesson

1. Identifying a strong daily chart
2. Learning to spot moving average resistance points
3. Identifying windows and gaps on daily charts

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Strong Daily Charts

Strong daily charts have a few common characteristics from a technical perspective:

1. There are large gaps or windows that offer room for the stock to make big moves.
2. It is not approaching any type of resistance level (windows, gaps, ascending, descending, or horizontal resistance).
3. Ideally the price is above the 200 EMA for a long bias, or has a lot of room to move before hitting the 200 EMA. Remembering the 200 EMA is a significant support/resistance level when a stock is near it.
4. Typically we want to see the stock above the 9 EMA for a long bias (or below if short bias).
5. The stock has a history of making big moves (it is a **former runner**).

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Strong Daily Charts - example



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Strong Daily Charts - example

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Strong Daily Charts - example

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Long period of
Consolidation
then Breakout



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Bad Daily
Chart
(no windows)



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CHAPTER 5. TECHNICAL ANALYSIS

PART 8: SETTING UP YOUR CHARTS

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Today's Lesson

1. Setting up your charts
2. Adding the correct indicators and adjusting the settings
3. Getting your charts to look the same as mine

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How to Set Up Your Charts

I use the following (other instructors at Warrior use other indicators):

9 EMA (gray, all time frames but not required on 1-min)

20 EMA (blue, all time frames)

200 EMA (most important on the daily and 5-min)

Volume Weighted Average Price - VWAP (standard settings)

Volume Bars (colored by same color of the candlestick)

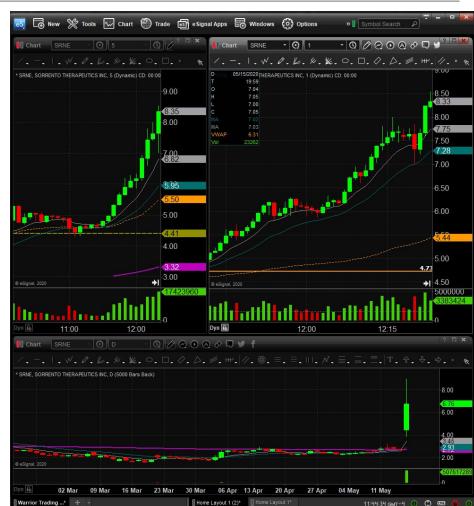
To look for multi-time frame alignment, I keep a 1-min and 5-min chart up at all times for each stock I'm watching. The daily I often keep up as well, but is smaller.

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How to Set Up Your Charts

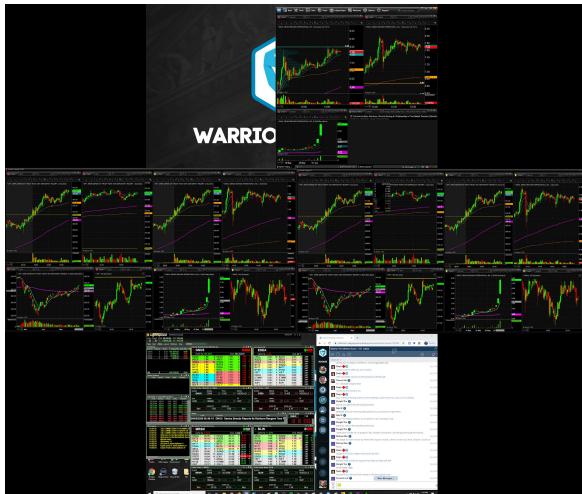
When I'm evaluating whether or not I should trade a stock, I check the daily, then the 5-min, then look for my entry on the 1-min.

Once I'm in a trade, I'm focusing primarily on the 1-min chart and the Level 2/Time and Sales window on my trading software. We'll review Level 2 and Time and Sales later in this course.



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My Multi-Monitor Layout



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How to Set Up Your Charts

I believe in keeping charts simple. I use very few indicators -- less is more for me!

Let's set up your charts!

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