

Limits Of Technical Analysis

Technical Analysis Doesn't Solve Everything

Ever heard the saying “past performance is not an indicator of future success”? Well, that's the problem critics of technical analysis have: as everyone analyzes historical data and attempts to refine their investing models, critics point out and argue that history does not exactly repeat itself.

Since history does not repeat itself in the world of investing, critics find studying price patterns useless. Another criticism is that technical analysis works only in some cases, limited to studying market trends but lacking in its ability to conduct deeper dives into a company and their stock price.

But knowing what we know about technical analysis, isn't that the point?

Fundamental analysis offers insight into the inner-workings of a company while technical analysis helps time investment decisions.

Technical analysis may not produce perfect results, however, they provide insight into the mindsets of the millions of investors who are also looking at similar indicators and historical data about what a stock will do.

Eventually, this can become a self-fulfilling prophecy. That's why a seasoned investor will always have an idea of companies that present interesting investing opportunities. They'll then determine those companies' fair value, and then use technical analysis to determine when to buy or sell their position and maximize their profits.

Technical analysis is not a silver bullet to solve all of our investing questions. Fundamental analysis doesn't have all of the answers either. But despite these limitations, they remain extremely powerful tools.