

Hello, thank you for taking the time to read this, I will be constantly updating it and would love to answer any questions or any feedback, [sa74khan@uwaterloo.ca](mailto:sa74khan@uwaterloo.ca)

Outline:

1. Chart Elements
2. Volume, high & low,
3. Moving Averages,
4. Trends: short & long term
5. Indicators: Basic indicators to be able to predict
6. Candle Stick

## What is candlestick:

Body is solid part; this shows the open to close

Red = Close lower than open, Green = Close at high of body

Wicks show the range of trading, lower wick is period's low and high wick is day's high

Wick is high & low, Body is open and Close, Color is Going down or UP

Periods can be daily, monthly, min, hourly, or yearly, each candle stick represents one period

So in daily chart, each candle stick is a day

Shapes of candle sticks combined with overall trend can help us predict price movements

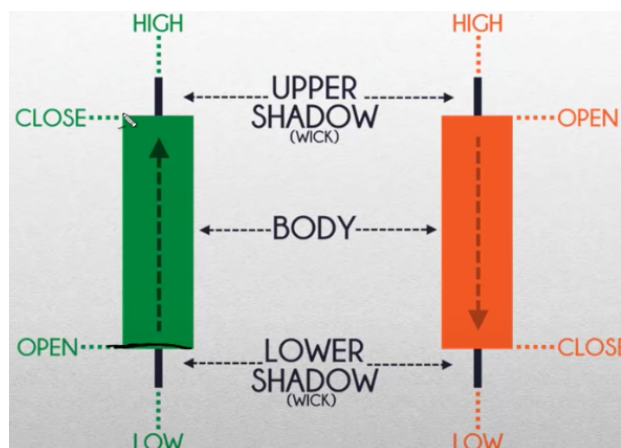
If there is no upper wick = Bullish, no profit taking

No lower wick = bearish, no buying the dip

High lower wick = bullish, buying the dip

Big upper wick = bearish, high profit taking

Using this, quickly able to tell what happened in that period



## Volume:

Amount of shares traded in a period, daily = daily shares, hourly = hourly shares traded  
Volume can show liquidity and help predict trends including breakouts consolidation and climaxes. More important for bullish trends.

Dollar volume: shares traded \* price, more important than volume since \$5 stock with 1000 volume has more volume than 500 stock with 100 volume but latter is more liquid because it has more dollar volume.

Liquidity is volume = needed for trading

Bulls always want increasing volume on uptrend, = proof of trend  
Declining bullish volume is bearish, shows weakness

Breakout can be caught from seeing an increase in volume, showing trend is about to be broken.

Decreasing bearish volume on downtrend = Bullish  
Increasing bearing volume = trend reversal

Big spike in volume shows reversal, both on top at bottom

## Moving Averages:

Very important for support and resistance and also quickly show average price/test

Simple moving average (SMA)

Notation: MA(20): 20 period moving average, period can be day, min, week etc.

The longer the moving average, the stronger

IMPORTANT: Self Fulfilling policy, since everyone believes these are supports and resistance, everyone trades around this and in turn becomes strong support and resistance  
Traders places buys at supports since TA is increasing.

## Trends:

Uptrend: higher lows and higher highs,  
Downtrend: lower highs and lower lows

Time period important: Can be different over time periods

## Indicators:

Descriptive, not predictive,

They use old data, not FUTURE data, so they are always lagging data

RSI Indicator: Relative-strength index, If stock is overbought or oversold, from 0-100, 14 periods calculations

$RSI = 100 - 100 / (1 + (rs = \text{Average Gain} / \text{Average Loss}))$

## Psychology:

It's all human psychology, have to beat others.

Need to understand meaning behind each candle, think ahead of others.

## Starting trades:

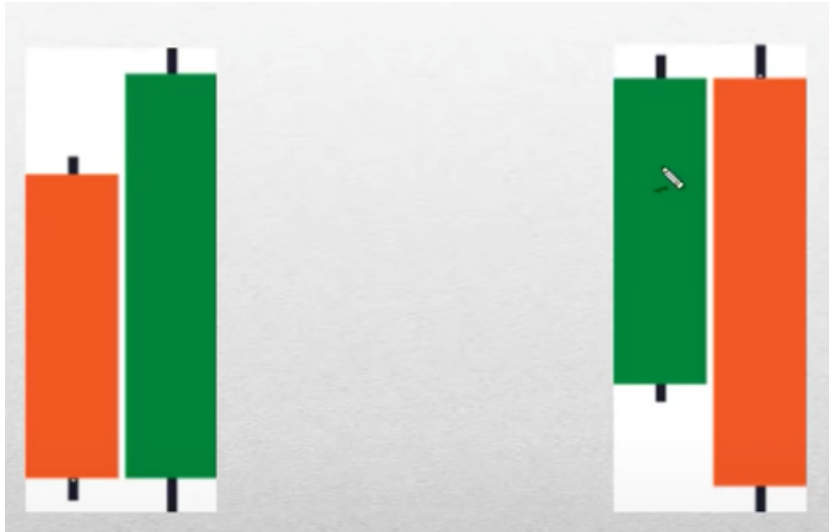
### T.A.E pattern

Three steps before entering any trade

1. T: Trend, if price > 200 MA, long, else if price < 200 MA, short
2. A: Area of Value, need some indicators/proof to show this area is of some value
  - a. Support/resistance
  - b. Moving average
  - c. Trendline
3. E: Entry Trigger, if first two are check we can look for entry trigger using candle stick patterns

## Candle Stick patterns

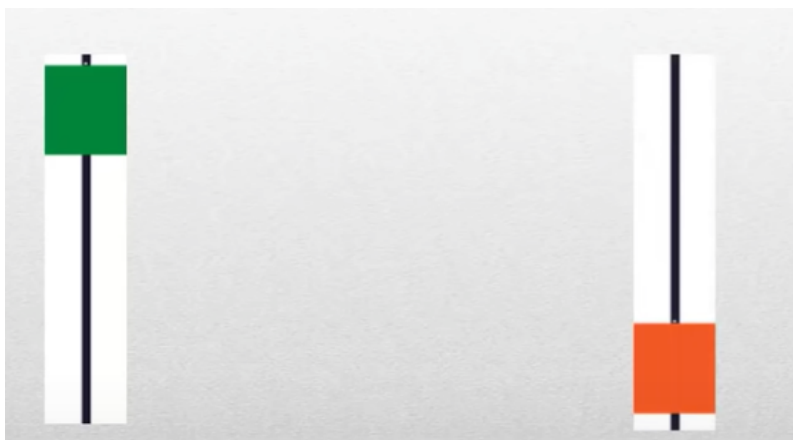
### 1. Engulfing Pattern



The first candle is engulfed by the second one, Price gets controlled by bears downwards until second candle takes over and passes the previous open = Bullish on left

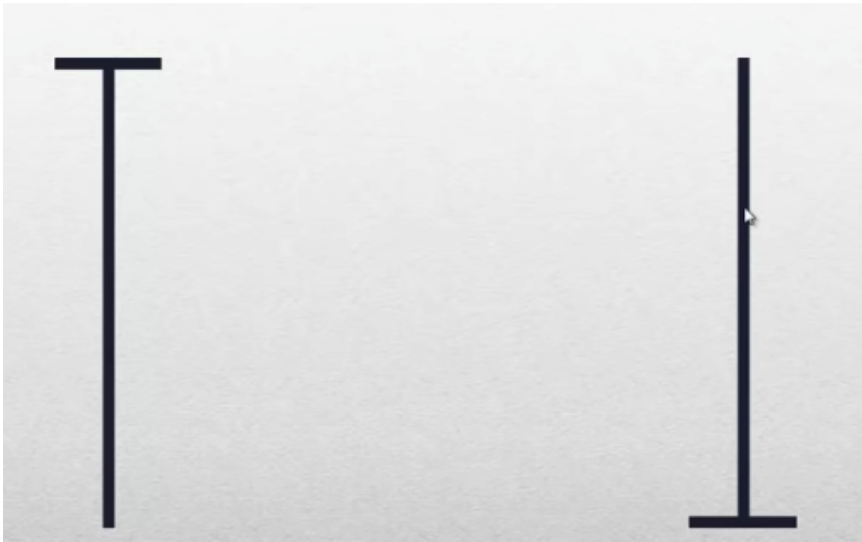
On right: Same but bearish, bulls win in first period, but bears push below in second period.

### 2. Hammer and Shooting Pattern:



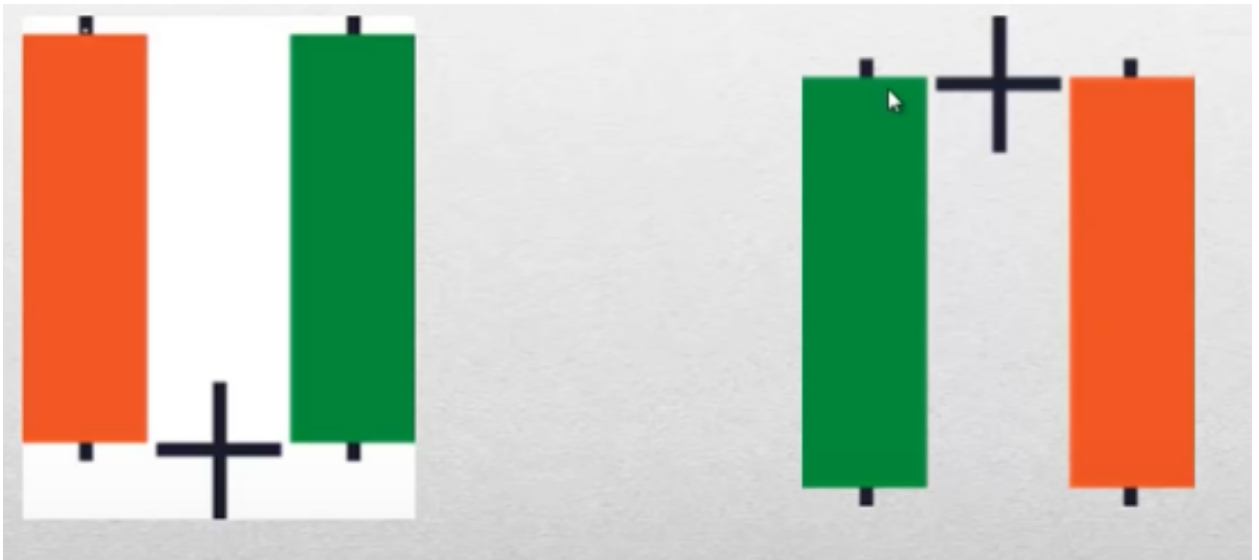
Hammer on left shows high rejection of lower prices, bullish  
Shooting star shows high rejection of higher prices, bearish

### 3. Dragonfly and Gravestone Doji



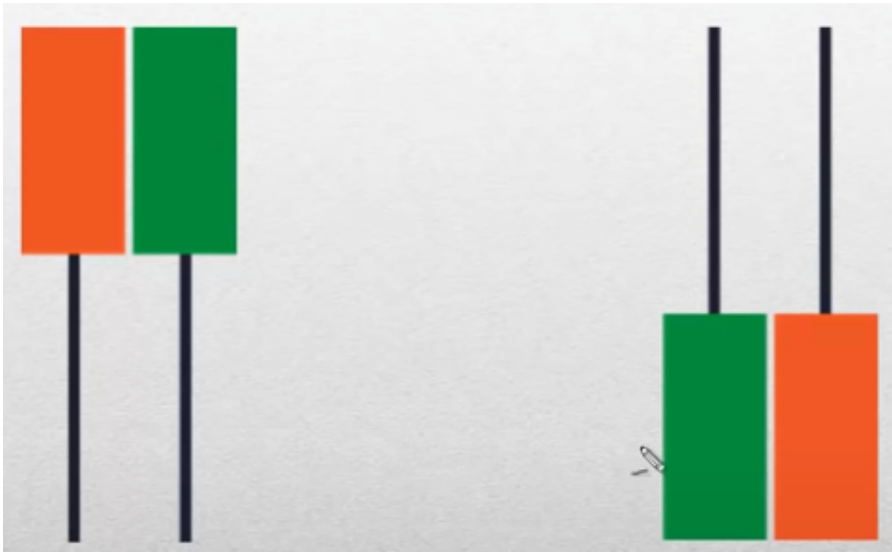
Similar to hammer and shooting pattern, but it only shows rejection of lower or higher prices, different from standard doji since it shows bullish/bearish sign rather than uncertainty.

### 4. Morning and Evening star



Morning start on left is bullish, it shows engulfing with uncertainty in middle, showing a trend reversal, similarly for evening start on right, showing bearish signal.

## 5. Tweezer Bottom and Top



Strong pattern, shows low price rejection twice on left = very bullish

On left, shows bearish reversal since bears brought prices down to close, won't let bulls get in control.

Using above we can plan to enter a trade once the T & A of T.A.E are met, then we look for these patterns.