Technical analysis of Cryptocurrencies

This is the first part of the fourth training lesson on cryptocurrencies trading that gives insight about technical analysis of cryptocurrencies.

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A technical analysis predicts the future price movement of an asset by looking into historical price patterns, past trends, volume and market statistics. The price movement of an asset depicts the people's psychology, emotions, fear and greed and technical analysis study all these things to form some price patterns to give traders the ability to use them and make profits.

Technical analysts believe that price change and trading activity of an asset is a valuable thing to determine its future movements. Based on this technical analysis traders determine the supply and demand zone of the price to sell or buy a particular asset at a particular price.

Technical analysis was first introduced by Charles Dow in the late 1800s but it has evolved over the years to its modern shape. Various price patterns have been developed based on years of research and price movement. Technical analysis is considered stronger than the fundamental analysis of an asset in determining its price movement as it is known that news follows the technical analysis.

Current technical analysis is built on the basis of following three assumptions based on Dow's work.

- **Other factors are priced in**

  It assumes that all other fundamental factors and market psychology are priced in and the only factor remaining is the analysis of price movement.

- **Price moves in trend**

  It assumes that price always moves in trends even in highly volatile market movements.

- **History tends to repeat itself**

  While doing technical analysis it is assumed that history will repeat itself based on market psychology, emotions, fear and greed.

There are various kinds of technical analysis that we can apply on an asset to predict its future price.

1. Support and resistance

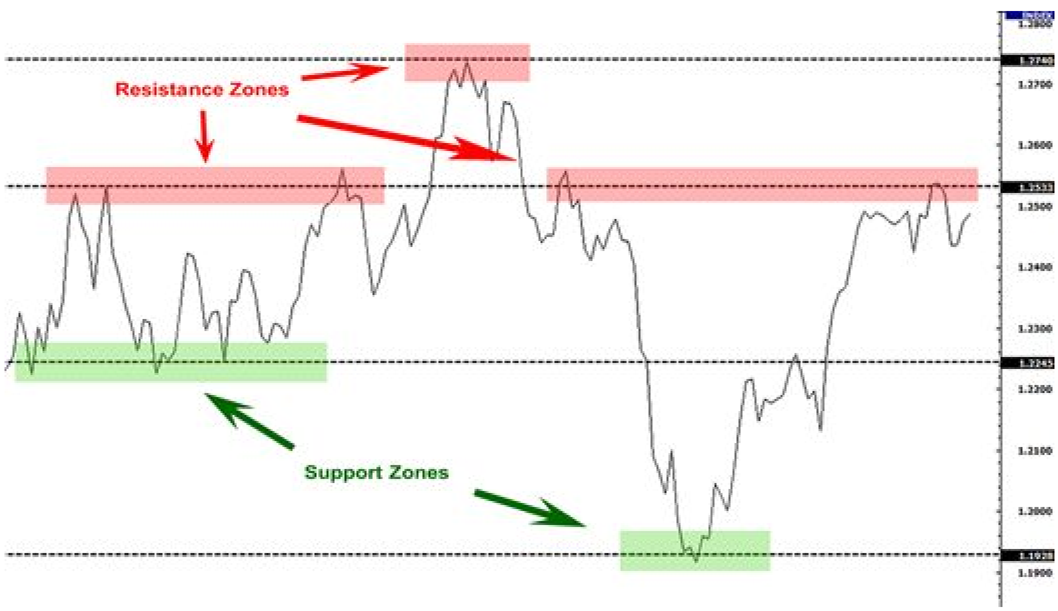
Support and resistance of price is an important part of technical analysis. If you learn to find them correctly you should be confident you have learned 50% of the technical analysis. Both indicate the reversal point of price and opposite of each other.

- **Support**

  Support is formed after a downtrend where the price of an asset has the potential of being reversed. It indicates the demand area of an asset and bulls try to take control of the price to push it back up.

- **Resistance**

  Resistance is formed after an uptrend and it indicates the supply area of an asset that results in a sell-off.



Support indicates the buying area of an asset and resistance area indicates the selling area of an asset. Support and resistance lines are drawn on the chart to know how at particular point price is reacting. If the price of an asset got reversed several times at a given level in the past then it indicates the supply or demand area and has the potential to react in the same way as done in the past.

Best way to find support and resistance points is to draw support and resistance lines on various timeframes from 1 month to 1 hour which will allow you to find a strong support and resistance area that you can use next time to open a trade when the price reaches there. Fibonacci's index helps a great deal to determine the support and resistance areas which we will study later in our training.

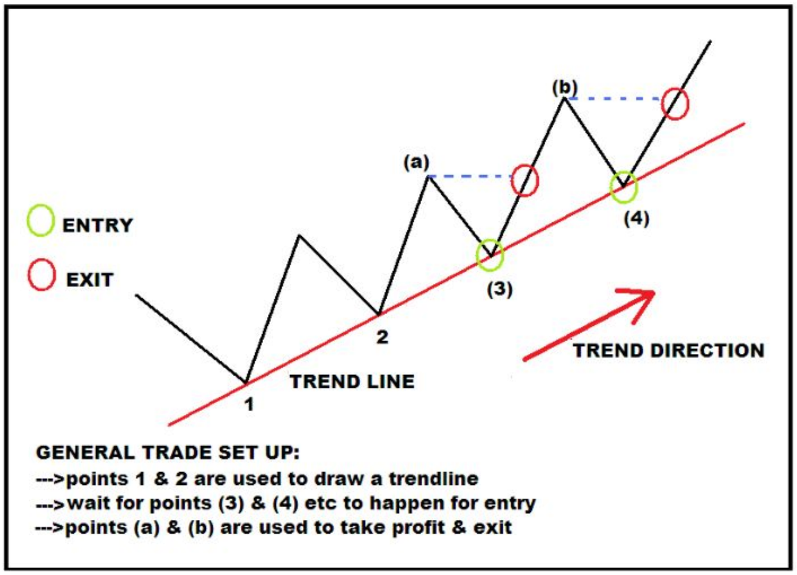
2. Trend Line

A trend line is drawn on the chart to connect the two or more price points which help to predict the general direction of the price. Trend lines work as a support/resistance and also tell you the speed of price movement.

A trend line not only helps you to determine the entry and exit point but also helps you to determine the stop loss point. Stop-loss can be applied below the trend line because a breakdown/breakup of trend line can lead to change in the price trend.

Uptrend Line

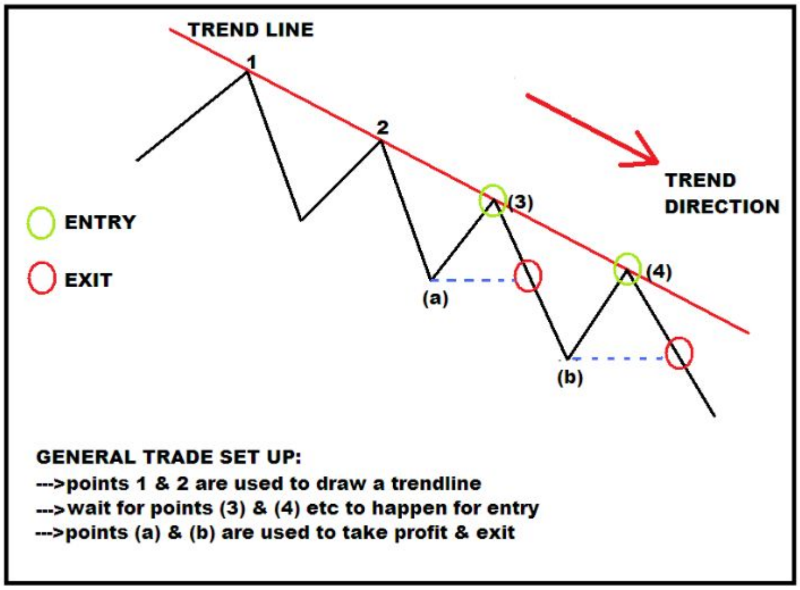
An uptrend line is drawn on a chart having an upward price movement. The second price low must be higher than the first one to draw an uptrend line and any further touch of trendline allows you to take the entry.



Uptrend line works as a support for the price movement and it indicates that net-demand of the asset is increasing which is resulting in an increase in price. Increase in price along with an increase in demand is considered a strong indicator of a bullish move. When price breaks the uptrend line it indicates that the supply has increased in comparison with demand and a breakdown may result in a trend reversal.

Downtrend line

The downtrend line is drawn on a chart having a downward price movement. The second high of price movement must be lower than the first one to draw a downtrend line and any further touch of trendline allows you to take the entry.



Downtrend line works as a resistance for the price movement and it indicates that net-supply of the asset is increasing which is resulting in a decrease in price. Decrease in price along with decrease in supply is a strong indicator of bearish price movement. When price breaks the downtrend line it indicates that the demand has increased in comparison with supply and a breakout may result in trend reversal.

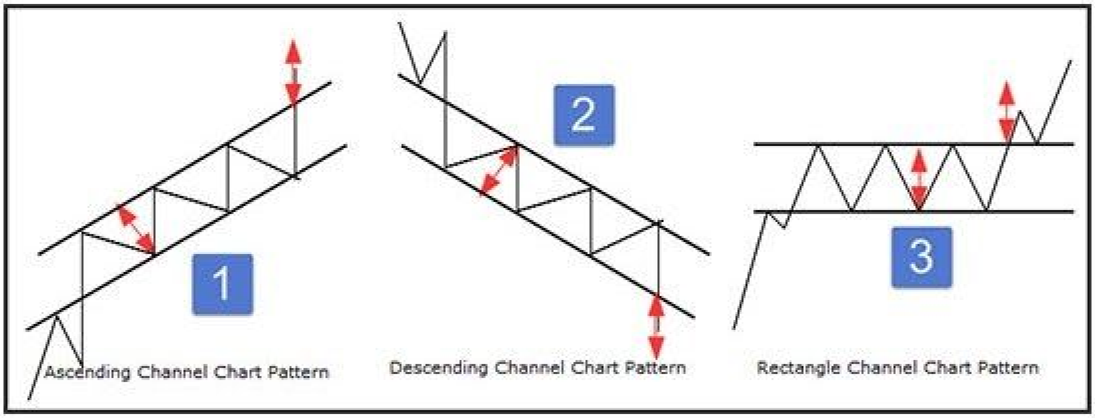
3. Channel

Channel pattern is an extended version of trend line trading. If the trend line is drawn on both the upper and lower side of the price movement during an uptrend or downtrend move it becomes a channel.

In an uptrend, one trend line joins the higher highs of the price movement while another trend line joins the higher lows to form a channel while in a downtrend, one trend line joins the lower highs and another one joins the lower lows to form a channel.

Ascending channel

Ascending channel is also called the uptrend channel pattern. When price touches the upper trend line in the ascending channel it forms higher highs and when price touches the lower trendline it forms higher lows. Once the channel is formed after 2 higher highs and 2 higher lows you can trade it from that point. You can enter a trade on the 2nd higher low and the profit target will be the next higher high point.



Descending channel

A descending channel which is also called a downtrend channel works opposite to the ascending channel. You can short an asset using this channel when price touches the higher trend line of this channel and take the profit when price touches the lower trend line.

Rectangle channel

Rectangle channel patterns which work sideways also offer a good trading opportunity. You can short an asset when price touches the upper trend line and can long the asset when price touches the lower trend line.

Apart from trading within the channel, you can also trade the breakout of the channel as well and its profit target is equal to the one leg of price movement within the channel. But don't forget to place the stop loss to cover the risk of the trade.