Question #1 of 17

Question ID: 1459098

The point where technicians expect a substantial increase in buying to occur is called a:

A) resistance level. ✗

B) support level. ✓

C) consolidation level. ✗

Explanation

Support and resistance levels. Most stock prices remain relatively stable and fluctuate up and down from their true value. The lower limit to these fluctuations is called a *support level* – the price range where a stock appears cheap and attracts buyers. The upper limit is called a *resistance level* – the price range where a stock appears expensive and initiates selling. Consolidation refers to a period during which neither an uptrend nor a downtrend is occurring.

(Module 67.1, LOS 67.e)

Question #2 of 17

Question ID: 1459094

A technical analysis chart that illustrates only the closing prices of a security on each trading day is *best* described as a:

A) line chart. ✓

B) bar chart. ✗

C) candlestick chart. ✗

Explanation

Line charts are composed of closing prices for each trading day connected by lines. Bar charts require high and low prices for each trading day. Candlestick charts require the opening, high, low, and closing prices.

(Module 67.1, LOS 67.d)

Question #3 of 17

Question ID: 1459095

Constructing a candlestick chart requires data on:

A) opening, high, low, and closing prices, and trading volume.

B) opening, high, low, and closing prices only.

C) high, low, and closing prices only.

Explanation

Candlestick charts require the open, high, low, and close for each trading period.

(Module 67.1, LOS 67.d)

Question #4 of 17

Question ID: 1459092

A technical analyst believes stock prices are primarily driven by:

A) unobservable shifts in market sentiment.

B) rational behavior among market participants.

C) market supply and demand forces.

Explanation

Other assumptions of technical analysis include: Supply and demand is driven by both rational and *irrational* behavior, security prices move in trends that persist for long periods of time, and while the causes of changes in supply and demand are difficult to determine, the actual shifts in supply and demand can be observed in market price behavior.

(Module 67.1, LOS 67.a)

Question #5 of 17

Question ID: 1459105

Which of the following would a technical analyst *most likely* interpret as a "buy" signal?

A) 20-day moving average crosses below a 100-day moving average.

B) 10-day moving average crosses above a 60-day moving average.

C) 30-day moving average crosses above a 5-day moving average.

Explanation

When using moving averages to generate trading signals, a "golden cross" of a shorter-term average above a longer-term average is a buy signal, while a "dead cross" under the longer-term average is a sell signal.

(Module 67.1, LOS 67.g)

Question #6 of 17

Question ID: 1459100

An inverse head and shoulders pattern *most likely* indicates:

A) the continuation of a downtrend. ✗

B) the reversal of a downtrend. ✓

C) the reversal of an uptrend. ✗

Explanation

Inverse head and shoulders patterns typically occur after downtrends and indicate that the trend is going to reverse.

(Module 67.1, LOS 67.f)

Question #7 of 17

Question ID: 1459104

Bollinger bands are drawn based on the:

A) difference between two smoothed moving averages. ✗

B) high and low prices in a recent period. ✗

C) standard deviation of recent price changes. ✓

Explanation

To use Bollinger bands, an analyst will calculate the standard deviation of prices over some number of trading days, and typically will draw the bands two standard deviations above and below a moving average for the same number of days.

(Module 67.1, LOS 67.g)

Question #8 of 17

Question ID: 1459099

A head and shoulders pattern is *most likely* to precede a reversal in trend if:

A) volume decreases between the left shoulder and the head, then increases between the head and the right shoulder. ✗

B) the left shoulder, the head, and the right shoulder occur on increasing volume.

C) the left shoulder, the head, and the right shoulder occur on decreasing volume.

Explanation

Decreasing volume on each of the high prices in a head and shoulders pattern (or each of the low prices in an inverse head and shoulders) suggests weakening in the supply and demand forces that were driving the price trend.

(Module 67.1, LOS 67.f)

Question #9 of 17

Question ID: 1459102

Technical analysts believe a trend is *most likely* to reverse if the price chart displays a:

A) descending triangle pattern.

B) rectangle pattern.

C) head and shoulders pattern.

Explanation

Technical analysts believe head and shoulders (and inverse head and shoulders) patterns typically indicate a reversal of a price trend. Triangle and rectangle patterns typically suggest the price trend will continue in the same direction.

(Module 67.1, LOS 67.f)

Question #10 of 17

Question ID: 1459096

Which of the following technical analysis observations *most likely* represents a change in polarity?

A) Bars on a candlestick chart change from empty to filled.

B) A shorter-term moving average crosses a longer-term moving average.

C) A resistance level on a line chart is breached and later acts as a support level.

Explanation

"Change in polarity" refers to a perceived tendency for breached support levels to become resistance levels and breached resistance levels to become support levels.

(Module 67.1, LOS 67.d)

Question #11 of 17

Question ID: 1459097

The trend line for a stock in an uptrend is constructed by drawing a straight line through the:

A) highs.

B) lows.

C) periodic averages.

Explanation

Trendlines connect the increasing low points on a price chart in an uptrend and the decreasing high points in a downtrend.

(Module 67.1, LOS 67.e)

Question #12 of 17

Question ID: 1459101

Technical analysts believe a trend is *most likely* to continue if the price chart displays a(n):

A) inverse head and shoulders pattern.

B) ascending triangle pattern.

C) double top.

Explanation

Triangles are considered to be continuation patterns. An inverse head and shoulders pattern would most likely indicate the reversal of a downtrend, while a double top would most likely indicate the reversal of an uptrend.

(Module 67.1, LOS 67.f)

Question #13 of 17

Question ID: 1459103

A technical analyst observes an inverse head-and-shoulders pattern on a daily price chart for a stock. The technical analyst is *most likely* to expect:

A) a continuation of a downtrend.

B) a new downtrend to emerge.

C) a new uptrend to emerge.

Explanation

Inverse head-and-shoulders patterns typically follow downtrends and are thought to indicate a reversal to a new uptrend.

(Module 67.1, LOS 67.f)

Question #14 of 17

Question ID: 1459091

Which of the following is a principle on which technical analysis is based?

A) Market prices usually do not reflect all known information.

B) Trends and countertrends in market prices tend to disappear quickly.

C) Patterns and cycles in market prices repeat in predictable ways.

Explanation

Technical analysis is based on three key principles:

1. Market prices reflect all known information.
2. Market prices exhibit trends and countertrends that tend to persist.
3. Market prices exhibit patterns and cycles that repeat themselves in predictable ways.

(Module 67.1, LOS 67.a)

Question #15 of 17

Question ID: 1459107

A market analyst starts an evaluation by analyzing the prospects for economic growth in a country, then reviews the country's market sectors to find investment opportunities, and then uses relative strength charts to identify the best-performing securities. The analyst is using:

A) a bottom-up approach.

B) a centered approach.

C) a top-down approach.

Explanation

A top-down approach begins by examining a country's prospect for economic growth, then analyzing the performance of market sectors, industry groups, and securities—and then using this analysis to find areas for investment.

(Module 67.1, LOS 67.i)

Question #16 of 17

Question ID: 1459093

One of the assumptions of technical analysis is:

A) all analysts have all current information. ✗

B) supply and demand are driven by rational and irrational behavior. ✓

C) the market is efficient. ✗

Explanation

Technical analysts believe market prices are driven by both rational and irrational behavior among market participants.

(Module 67.1, LOS 67.a)

Question #17 of 17

Question ID: 1459106

The *most* appropriate tool to use for intermarket analysis of two different asset classes is a:

A) relative strength chart. ✓

B) moving average convergence/divergence chart. ✗

C) stochastic oscillator. ✗

Explanation

Relative strength charts are useful for intermarket analysis because they illustrate the performance of one asset, sector, or index relative to another. Momentum indicators, such as stochastic oscillators and MACD oscillators, are generally used to analyze individual markets.

(Module 67.1, LOS 67.h)