Reading 13: Technical Analysis

Question #1 of 33

The advantages of using technical analysis include:

 A) ease in interpreting reasons behind stock price trends.

 B) the incorporation of psychological reasons behind price changes.

 C) complete objectivity.

Question #2 of 33

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

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

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

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

Question #3 of 33

Constructing a candlestick chart requires data on:

 A) high, low, and closing prices only.

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

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

Question #4 of 33

A technical analyst who wishes to observe the state of capital flows in the financial markets is *least likely* to examine:

 A) margin debt.

 B) the cash position of mutual funds.

 C) the short interest ratio.

Question #5 of 33

Asset allocation using technical analysis is *most likely* to be based on:

 A) intermarket analysis.

B) correlations within asset classes.

C) a stochastic oscillator.

Question #6 of 33

A support level is the price range at which a technical analyst would expect the:

A) supply of a stock to decrease substantially.

B) demand for a stock to decrease substantially.

C) demand for a stock to increase substantially.

Question #7 of 33

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 decreasing volume.

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

Question #8 of 33

Which of the following technical analysis indicators is *least accurately* described as an oscillator?

A) Moving Average Convergence/Divergence.

B) Relative Strength Index.

C) Bollinger bands.

Question #9 of 33

An Elliott wave theorist who forecasts prices based on Fibonacci ratios is *most likely* to predict that a wave will be:

A) four-ninths the size of the previous wave.

B) five-eighths the size of the previous wave.

C) six-elevenths the size of the previous wave.

Question #10 of 33

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

A) stochastic oscillator.

B) relative strength chart.

C) moving average convergence/divergence chart.

Question #11 of 33

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

A) lows.

B) highs.

C) periodic averages.

Question #12 of 33

One of the underlying assumptions of technical analysis is that supply and demand is driven by:

A) rational behavior during calm markets and irrational behavior during volatile markets.

B) rational behavior only.

C) both rational and irrational behavior.

Question #13 of 33

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

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

B) Following an "X" column, a point-and-figure chart begins a new "O" column.

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

Question #14 of 33

When technical analysts say a stock has good "relative strength," they mean the:

A) recent trading volume in the stock has exceeded the normal trading volume.

B) ratio of the price of the stock to a market index has trended upward.

C) stock has performed well compared to other stocks in the same risk category as measured by beta.

Question #15 of 33

Point and figure charts are *most likely* to illustrate:

A) the length of time over which trends persist.

B) significant increases or decreases in volume.

C) changes of direction in price trends.

Question #16 of 33

Relative strength analysis involves examining:

A) a point-and-figure chart.

B) asset returns and index returns.

C) periodic price and volume data.

Question #17 of 33

Bollinger bands are drawn based on the:

A) high and low prices in a recent period.

B) difference between two smoothed moving averages.

C) standard deviation of recent price changes.

Question #18 of 33

Closing prices for a commodity were 21.4 on Monday, 22.2 on Tuesday, 21.8 on Wednesday, 22.4 on Thursday, and 23.2 on Friday. The five-day standard deviation is 0.7 and the 30-day standard deviation is 1.0. On Friday, five-day Bollinger bands using two standard deviations are *closest* to:

A) 24.2 and 20.2.

B) 24.6 and 21.8.

C) 23.6 and 20.8.

Question #19 of 33

After trending upward for several weeks, the price of Vibex, Inc. stock reaches a high of $54 before falling to $48 over the following week. The stock then rallies to $57 but then declines again to $48. The following week, the stock increases to $52 on light volume before ending the week at $46. A technical analyst observing this pattern would *most likely* describe it as a:

A) head-and-shoulders pattern.

B) continuation pattern.

C) triangle pattern.

Question #20 of 33

One of the assumptions of technical analysis is:

A) the market is efficient.

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

C) all analysts have all current information.

Question #21 of 33

Elliott wave theory describes the typical pattern of price movements as:

A) five waves with the direction of the trend, followed by four waves against the direction of the trend.

B) four waves with the direction of the trend, followed by three waves against the direction of the trend.

C) five waves with the direction of the trend, followed by three waves against the direction of the trend.

Question #22 of 33

A technical analyst who identifies a decennial pattern and a Kondratieff wave *most likely*:

A) believes market prices move in cycles.

B) is analyzing a daily or intraday price chart.

C) associates these phenomena with U.S. presidential elections.

Question #23 of 33

Technical analysts who use cycles define a Kondratieff wave as a cycle of:

A) 10 years.

B) 18 years.

C) 54 years.

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.

A technical analyst believes stock prices are primarily driven by:

A) the random walk hypothesis.

B) market supply and demand forces.

C) specialist trading.

The resistance level signifies the price at which a stock's supply would be expected to:

A) decrease substantially.

B) cause the stock price to "break out".

C) increase substantially.

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.

The point where technicians expect a substantial increase in the demand for a stock to occur is called a:

A) support level.

B) break-out point.

C) resistance level.

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.

Which of the following is *least likely* an underlying assumption of technical analysis?

A) Prices are determined by supply and demand.

B) Supply and demand for a stock is driven by rational and irrational behavior.

C) Markets are efficient and all known information is reflected in prices.

Technical analysts who employ Elliott Wave Theory are *most likely* to use Fibonacci numbers to forecast the:

A) sizes of waves.

B) number of subwaves within a larger wave.

C) timing of wave direction changes.

A technical analyst examining the past 12 months of daily price data for evidence of cycles is *most likely* to identify:

A) Kondratieff waves.

B) Elliott wave patterns.

C) decennial patterns.

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

A) point and figure chart.

B) line chart.

C) bar chart.