

## Fundamentals of TA -

**OHLC** - Open High Low Close. 4 terms that are used to interpret the Technical Analysis. The closing price also shows the market sentiment and serves as a reference point for the next day's trading. For these reasons, the closing price is more important than the Open, High or Low prices.

The main idea behind using technical analysis is that the prices move in trends and history tends to repeat itself in case of trends.

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## Chart Types -

**Line Chart** - Not useful since at a time it can only depict one of the OHLC properties. But it is important to us to visualise all of them simultaneously.

**Bar Chart** - Can visualise all of them, but it is not aesthetically pleasing and in a crowded graph not very clear.

**Candlestick** - Solves all the problems. Different colors for bullish or bearish candlesticks. If  $O > C$  -> bearish and if  $C > O$  -> Bullish markets.

Candlestick patterns can be using a single candlestick or even multiple candlesticks. Before a bullish pattern we should see the prior trend by bearish and vice versa.

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## The Marubozu - Bald candlestick pattern -

**Bullish Marubozu** - Long candle with Close = High and Open = Low . A risk taker would identify this pattern and buy the stock right before closing of the day at 3:20pm in the anticipation that the price will go higher tomorrow, it is a bullish trend. A risk averse will study the Marubozu properly today and buy the stock the EOD of next day to make sure of his theory that the next day was bullish too. Otherwise there would be loss. We usually set the stop-loss as the Low of the Marubozu candle.

**Bearish Marubozu** - Long candle with Low = Close and High = Open. A risk take would short his position before the closing of the day and book his profits, whereas a risk averse trader would confirm that the trend is going bearish and the prices would fall further, and sell his stocks at the end of the next day making sure that the next day had also been bearish.

**Candle Length judgement problem** - A very small candle indicates that there wasn't much trading of the stock done on that day. A very long candle indicates that the stock was very volatile and setting an appropriate stop loss is difficult to judge and can result in huge loss to foot.

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## Spinning Top Candlestick -

**General identification characteristic** - It has a small true body. It means that the Open and Close rates had a very small difference in them, but there is an upper and lower

shadow. The upper shadow indicates that the bulls tried to increase the price but were unsuccessful and the lower shadow indicates that the bears tried to bring the price down but were also unsuccessful since the prices between opening and closing didn't deviate much.

The color of the spinning top doesn't usually matter. Both bears and bulls have made unsuccessful attempts to swing the market in desired direction.

This shows that there is uncertainty/indecision/confusion in the market. The current trend could continue or get reversed with equal probability usually.

**Downward trend spinning top** - The bears are in control of the market but the bulls are trying to raise the price (unsuccessfully for now) hence there was a distinct spinning top candle rather than the bear candle down trend.

Strategy - Buy only half the shares that you want to buy to play safe. If the price goes as per your instinct then you can buy the other half at a higher price but the total average nullifies it. However if the prices fall, the trader can exit and book a loss. On the bright side he only gets half the loss since he didn't buy all the number of shares he wanted.

**Upward trend spinning top** - The same logic applies here as the downward trend but just now the bulls are in control and the bears have made an attempt to bring the price down.

Strategy - Similarly he should sell 50% of his position. If the market remains bullish he will still have 50% of his stocks increasing in price. If the bears got in position we would have sold 50% stocks at a good profit margin.

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## Doji -

A doji is similar to a spinning top and they often occur together. A Doji has no real body i.e. the opening and closing prices were exactly the same. This represents an indecision in the market and that the market could swing either ways and one should be prepared.

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## Paper Umbrella -

The lower shadows length should be approximately twice the body length and there should be no upper shadow.

**Bullish Hammer** - Paper umbrella occurs at the bottom of a downward trend. The longer the lower shadow, the more bullish the pattern. Since the close price is almost the same as the high price this shows that there was some bullish activity/ buying interest in the market in an otherwise bearish trend. This means that the market is going to go up or be bullish soon, hence one should start buying stocks → long trade.

The same discussion of a risk taking and a risk averse trader applies here.

The stoploss should be set at the low of the hammer.

**Bearish Hanging Man** - The same long lower shadow if it occurs at the top of a bullish trend then it signifies that the bears have significantly tried to lower the price and the prices should all consequently fall. The same theory as above applies here too.

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### **Shooting Star -**

It is the opposite of a paper umbrella - a long upper shadow and no lower shadow. It appears at the top of a bullish trend and shows that the bears have entered the market and the closing price is now falling close to the opening price despite a high High price. It is a good indicator to mark the beginning of a bearish trend and one should short his positions.