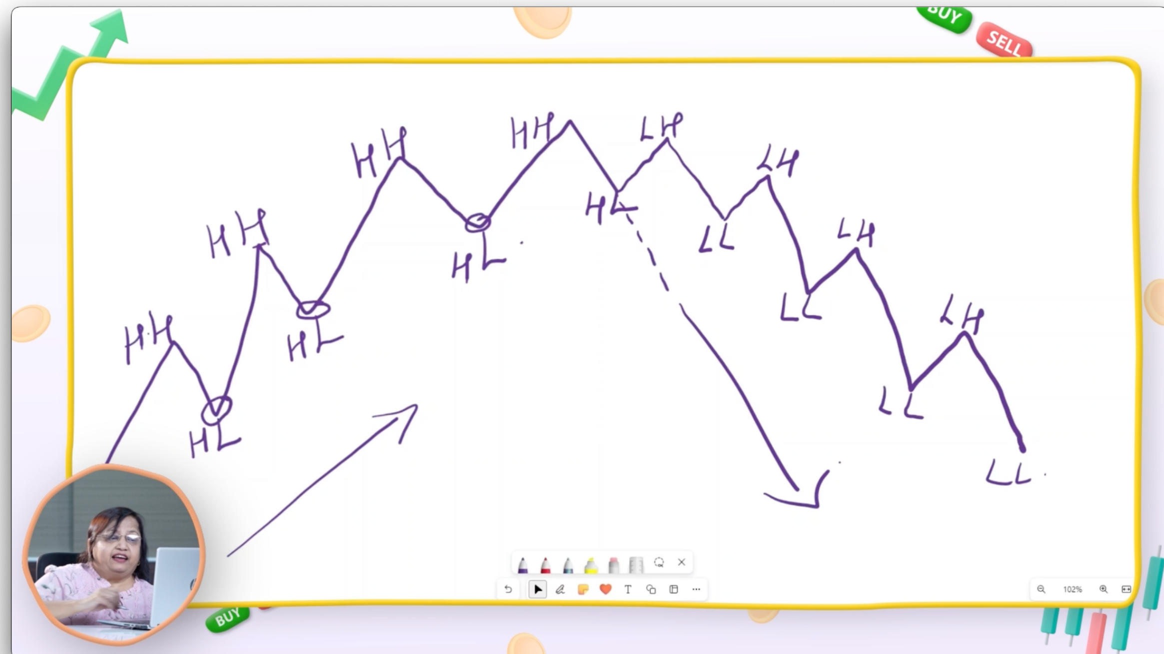
Module 2: How to Read Charts?

The Dow Theory:

The Dow theory was developed by Charles Dow was known as the father of Technical analysis. The market is in an uptrend if it makes Higher Highs and Higher Lows. It is in a downtrend when it makes Lower Highs and Lower Lows.



Selecting the Right Timeframe to Read Charts:

The time frame used depends on the trading temperament.
For investment purposes - one should look at the monthly time frame. If you want to hold for a month look at hourly, daily, and weekly charts.
If you want to hold for a week, you should look at the daily and hourly time frames. If you are a 1-2 days trader look at the 15-minute, 30-minute, 1 hour chart.
Intra-day traders, traders who open and close trading positions within a single trading day, favor analyzing price movement on shorter time frame charts, such as the 3-minute, 5-minute, or 15-minute charts.

In a lower time frame, the market looks more volatile as compared to a longer time frame. Always look at higher time frame charts to understand the direction of the market.

Determining Entry and Exit Point:

Entry Point: When the new high crosses the previous high, it is called a breakout. Breakout acts as a buy signal.

Stoploss can be applied in two ways.

1)**Trailing stop loss:** As the chart makes new highs, we keep shifting our stop loss. When the price increases, it drags the trailing stop along with it. Then when the price finally stops rising, the new stop-loss price remains at the level it was dragged to, thus automatically protecting an investor's downside, while locking in profits as the price reaches new highs.

2) **Reversal:** We will exit when we see a reversal in trend. Till then we will continue trailing the stop loss.