



Technical Analysis 1

Introduction to Stock Markets and
Wealth Management

Wall Street Club, BITS Goa

Intro to Technical Analysis

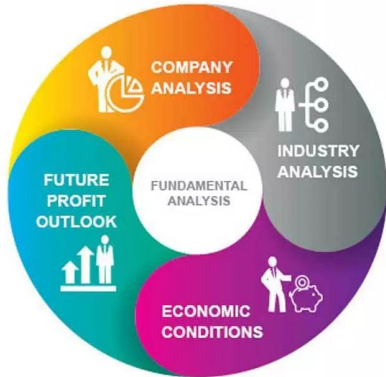
- Technical analysis(TA) helps you to develop a point of view on a particular stock simultaneously defining the trade keeping in mind the entry, exit and other perspectives of the same.
- Technical Analysis visualizes the actions of market participants in the form of stock charts. In TA, patterns are formed within the charts and these patterns help a trader identify trading opportunities.
- We aren't concerned with the reason behind the movement of a stock. All that matters is how the price and volume are moving.

Fundamental vs Technical Analysis

- **Basic research:** Technical analysis examines price movements and market psychology whereas Financial data, industry trends (Ratio Analysis) are important metrics in FA.
- **Trades:** Technical analysis is best used for identifying short term trades as opposed to fundamental analysis which is there to take care of long term investment opportunities.
- **Functions and main objective:** Technical analysis is basically important for trading and the objective is to find the right time to enter/exit based on the trends. On the other hand, FA is more concerned with investment and the goal here is to find the intrinsic value of the stock.

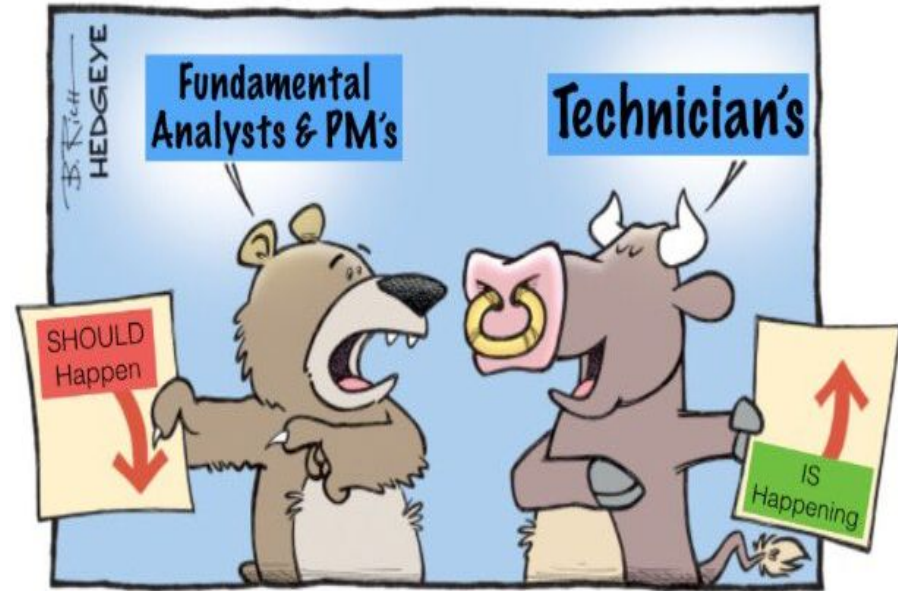
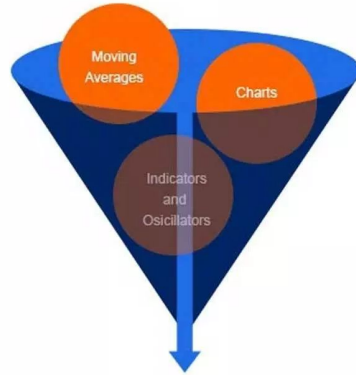
- **Returns:** Since the trades in TA are short term, it is not reasonable to expect sky high profits in such a small time frame. However, it's important to be consistent in your approach when it comes to TA and make small profits in any promising short term trading opportunity.

Fundamental Analysis



VS

Technical Analysis



Basic Assumption of Technical Analysis

- Price moves in a trend: Market price movements are not purely random but move in identifiable patterns and trends that tend to repeat over time.
- Markets discount everything: All known and unknown info in the public domain is reflected in the latest stock price.
- History repeats itself: In the technical analysis context, the price trend tends to repeat itself. This happens because the market participants consistently react to price movements in a remarkably similar way, each and every time the price moves in a certain direction. Hence trend is our best friend in technical analysis. (A belief not a rule)

- How>Why: A technical analyst is more interested in knowing how the price reacted to an market participant's action than the reason behind him buying the stock.

OHLC?

- Open : The opening price is the price at which a security first trades upon the opening of an exchange on a trading day.
- High : This represents the highest price at which the market participants were willing to transact for the given day.
- Low : This represents the lowest price at which the market participants were willing to transact for the given day.
- Close : The closing price is the final price at which a security is traded on a given trading day.

BSE LIVE

Nov 26, 16:00

63.40 ▼ -0.30 (-0.47%) Volume ⚡ ⓘ 19,652,455Prev. Close
63.70Open Price
64.40Bid Price (Qty.)
0.00 (0)Offer Price (Qty.)
0.00 (0)

ⓘ VWAP 65.34

**NSE LIVE**

Nov 26, 15:59

63.15 ▼ -0.60 (-0.94%) Volume ⚡ ⓘ 399,791,670Prev. Close
63.75Open Price
64.60Bid Price (Qty.)
63.15(2576234)Offer Price (Qty.)
0.00 (0)

ⓘ VWAP

64.55

ⓘ Series: EQ



Types of charts

Line Chart



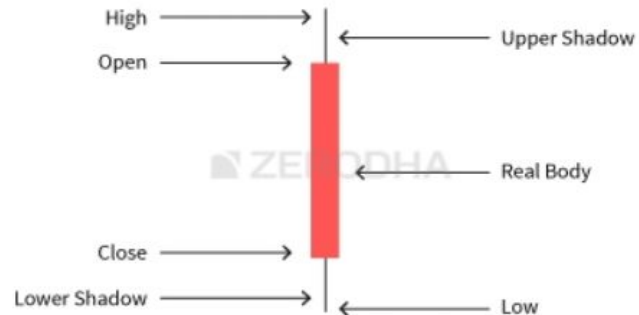
Bar chart



Candlestick Chart



OHLC on charts



Trends

Bullish Trends



Bearish Trends

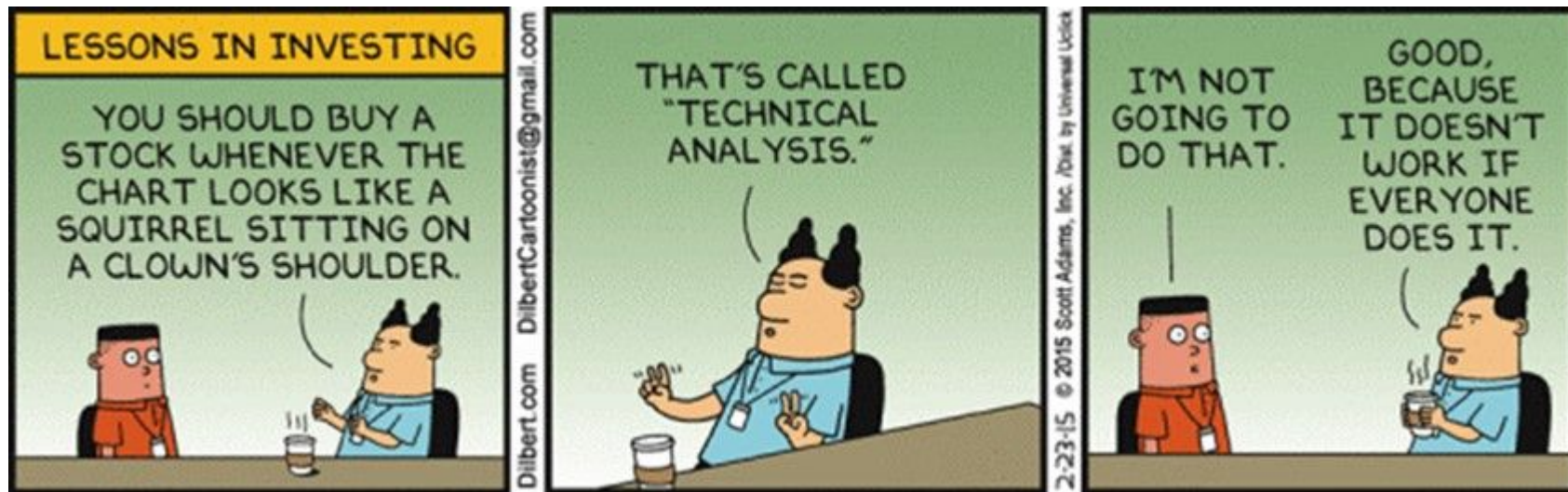
AAPL Candlestick Patterns



Sideways



Single Candlestick patterns



Marubozu



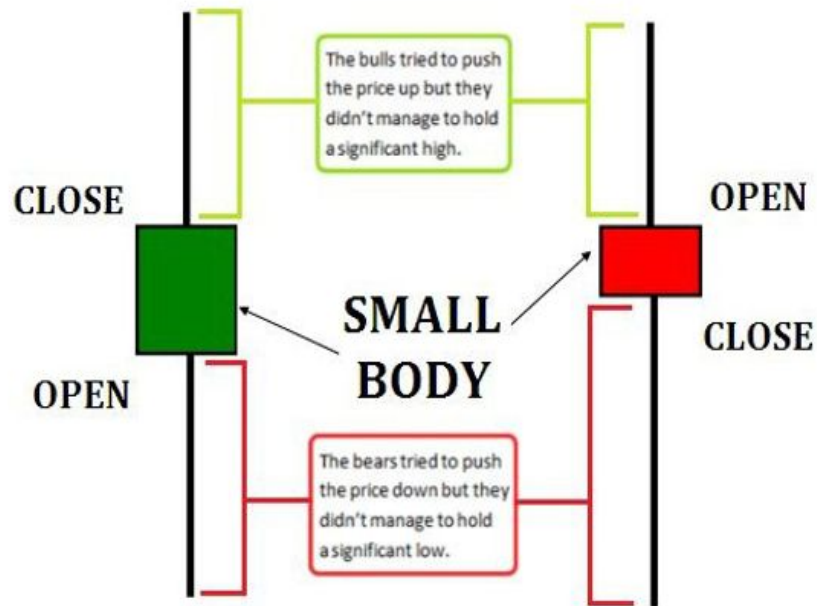
How to use the Marubozu?

Depending on where a Marubozu is located and what color it is, you can make predictions:

- If a White/Green Marubozu occurs at the end of an uptrend, a continuation is likely.
- If a White/Green Marubozu occurs at the end of a downtrend, a reversal is likely.
- If a Black/Red Marubozu occurs at the end of a downtrend, a continuation is likely.
- If a Black/Red Marubozu occurs at the end of an uptrend, a reversal is likely.

Spinning Top

SPINNING TOP

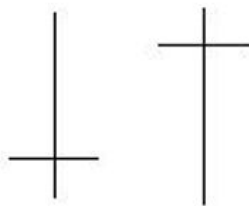


How to use Spinning Top?

- Since buyers and sellers both pushed the price, but couldn't maintain it, the pattern shows indecision and that more sideways movement could follow.
- Following a strong move higher or lower, a spinning top shows that the trend traders may be losing conviction. For example, following a strong up move, a spinning top shows buyers may be losing some of their control and a reversal to the downside could be near.
- Spinning tops, and nearly all candlestick patterns, require confirmation. If a spinning top could be the start of a reversal, the next candle should confirm. If the spinning top is showing indecision, then the next candle should also move sideways within the range.

Doji

Doji



© StockCharts.com



How to use a Doji?

Similar to a Spinning Top (Why?)

Hammer



How to use the Hammer?

- The hammer candlestick shows sellers came into the market during the period but by the close the selling had been absorbed and buyers had pushed the price back to near the open.
- The close can be above or below the open, although the close should be near the open in order for the real body to remain small.
- The lower shadow should be at least two times the height of the real body.
- Hammer candlesticks indicate a potential price reversal to the upside.

Hanging Man formation



How to use the Hanging Man?

Similar to a hammer but occurs at the end of an uptrend. A red hanging man is a stronger signal in this case as opposed to a Hammer which is a bullish reversal.

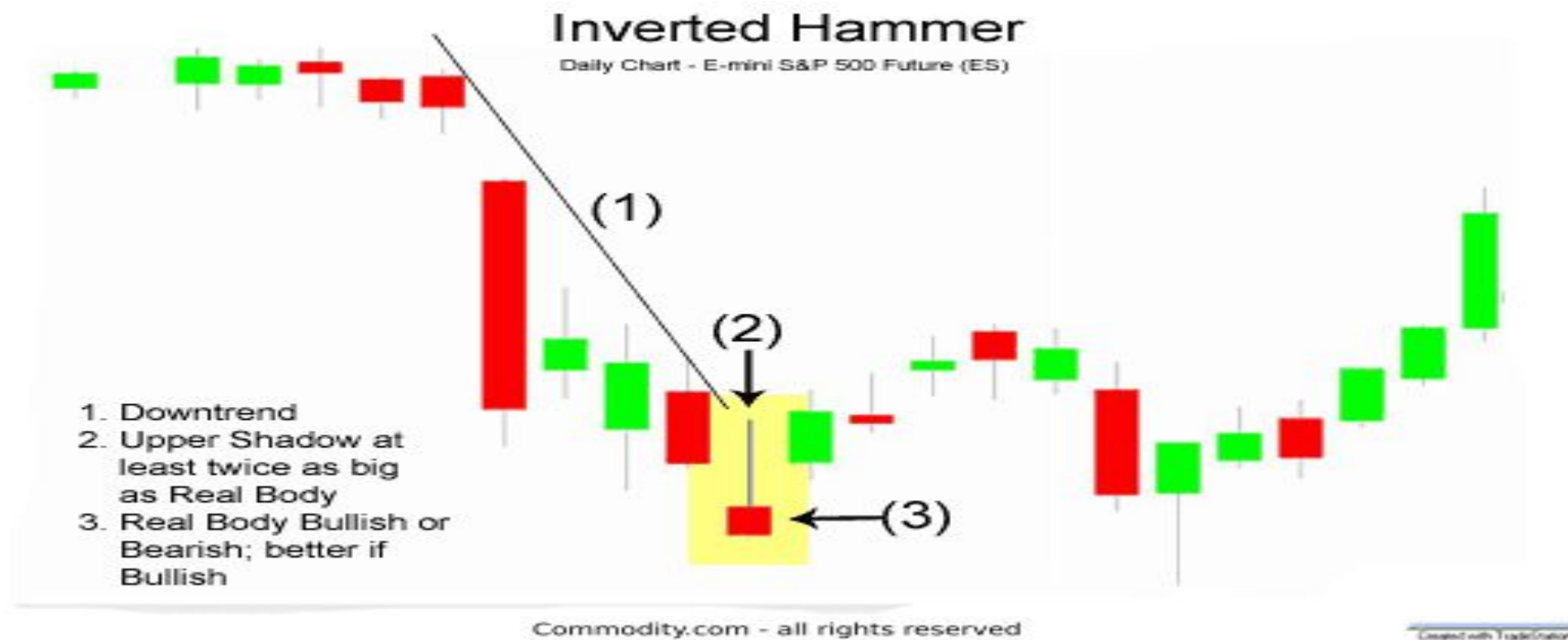
Explore

You will see the Shooting Star and the Inverted Hammer pattern now. Try and reason yourself as to why they work.

Shooting Star

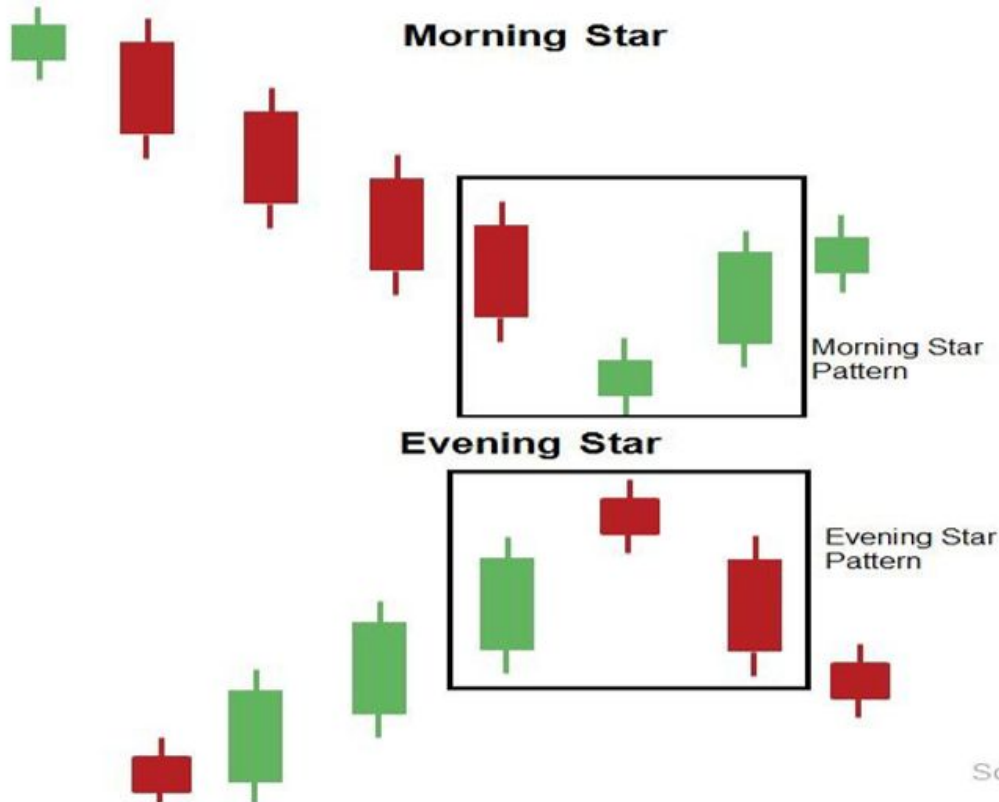


Inverted Hammer /

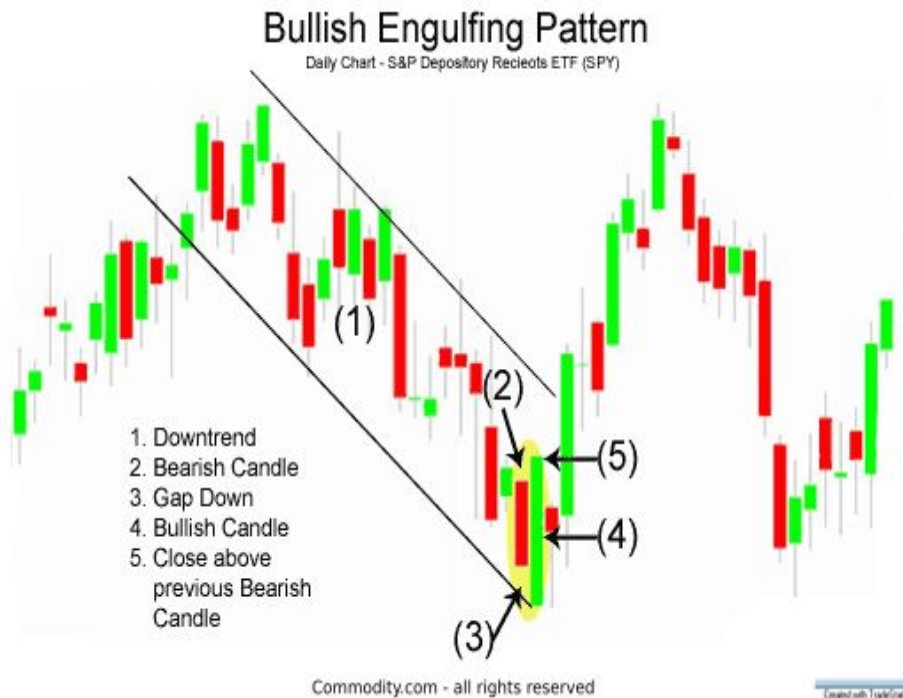


Multiple Candlestick Patterns

Morning Star and Evening Star



Bullish Engulfing



Bearish Engulfing



Bullish Harami

Reliance Industries Ltd: Bullish Harami Pattern Formation



Bearish Harami

Educomp Solutions Ltd: Bearish Harami Pattern Formation

