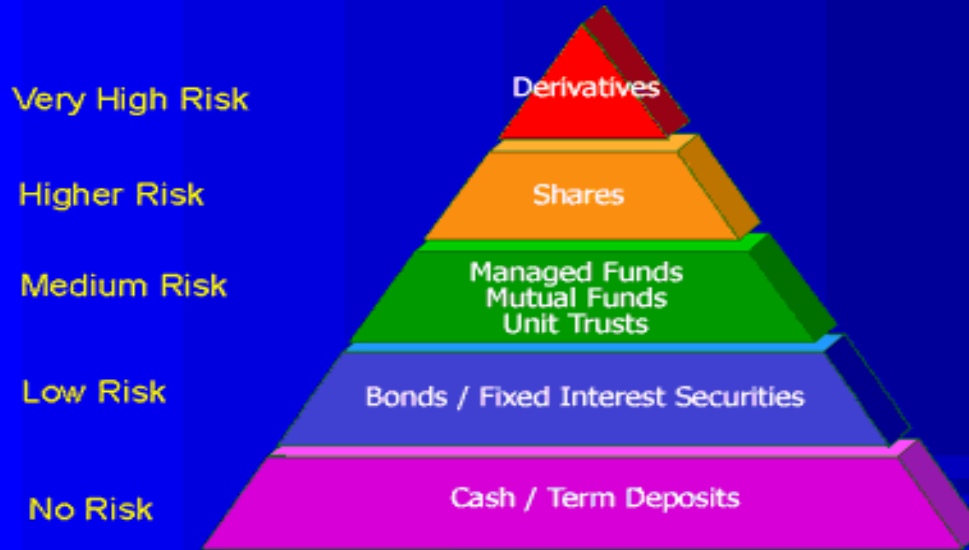# Basic Technical Analysis

Amit Rajderkar

Agenda

- Investments
- Share Market
- How to invest
- Selecting Broker
- Fundamental Analysis
- Technical Analysis
  - Charts
  - Understanding Trend
  - Support & Resistance
  - Candlesticks
  - Price Patterns
  - Technical Indicators
- Strategies

Investments

- Invest to secure your future
- The corpus that you intend to build at the end of the defined period is sensitive to the rate of return the investment generates. A small variation to rate can have a big impact on the corpus
- Choose an instrument that best suits your risk and return appetite
- Equity should be a part of your investment if you want to beat the inflation in the long run

Investments

The Investment Risk Pyramid.

Very High Risk — Derivatives

Higher Risk — Shares

Medium Risk — Managed Funds / Mutual Funds / Unit Trusts

Low Risk — Bonds / Fixed Interest Securities

No Risk — Cash / Term Deposits

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Why to Invest in Stock Market

- Liquidity
- Flexibility of amount invested
- Operated under high level of regulatory framework to safeguard investor rights
- Technology based investment (data available before investment)
- High returns
- Capital growth
- Dividend (profit sharing)

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Common mistakes while investing in Stock Markets

- Lack of knowledge
- Unrealistic expectation
- Following the Herd
- Indiscipline in the investment approach
- Getting panicked by the losses
- Buying scrips at 52-week low prices
- Poor Money management

Common Investor Mistakes
And How to avoid them

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Share Market

It is a place where <u>shares</u> of pubic listed companies are traded

Capital Market

- A platform where individuals and institutions buy and sell financial securities.

- Combination of Primary Market & Secondary Market

- Primary: For new issue of Shares, debentures & bonds where investors apply directly to the issuer for allotment and pay application money to issuer's account.
- Transactions in Primary Market results in new capital formation.
- Such capital formation is raised through IPOs (Initial Public Offer), FPO (Further Public Offer) or Rights issue

- Secondary: It's a place where investors buy and sell Securities from other investors. This buy/sell transactions are done through Stock Exchanges (NSE/BSE)

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Key Players in Secondary Market

- *SEBI*
  - The Securities and Exchange Board of India (SEBI) is the most important regulatory body of the securities market in the Republic of India.

- *Depository (NSDL & CDSL)*
  - The National Securities Depository Ltd (NSDL) and the Central Depository Services India Ltd (CDSL) are both share depositories in India.
  - What they do is just like a bank. While a bank holds your cash and fixed deposits, they hold shares, debentures, bonds etc., for all shareholders in the electronic form.

- *Depository Participants (DP)*
  - Depository Participant (DP) is described as an Agent (law) of the depository. They are the intermediaries between the depository and the investors

Market Index

- It's a number which measures the change in set of values over a period of time

- Index represents the change in value of a set of stocks which constitute index

- Free-float Market Capitalization – Method for index calculation

Major Index in India

- CNX Nifty (Nifty 50)
- SENSEX (Sensitive Index)
- Sectoral Index:
  - Bank Nifty
  - Nifty Auto
  - Nifty IT
  - Nifty Financial Services
  - Nifty Media
  - Nifty Pharma
  - Nifty Pvt Bank
  - Nifty PSU Bank
  - Nifty Reality

Profile –
Investor, Swing Trader, Intra-day Trader

Investor		Trader		
Conservative	Moderately Conservative	Moderately Aggressive	Aggressive	Very Aggressive

Selecting Broker

Factors	Full-Service Brokers	Discount Brokers
Personalize Local Services	They have large branch/franchise network and offer personal services. In other words; they have their time and place.	They have none or few branch / franchise. They are online brokers having couple of offices in metro cities.
Add-on Services	They offer research reports, personal recommendations, funding, extended margins and many other add-on services.	They are online brokers focused mainly on trading. They don't offer research, funding and other add-on services.
3-in-1 account	Many offers 3-in-1 account for seamless transactions. This includes trading account, demat and bank account.	Only trading account is offered. Customer has to open/use demat & bank account from other companies.
Minimum Brokerage	They charge minimum brokerage.	No minimum brokerage. Helps trading in very small quantity or in penny stocks.
Target Customers	People, who need help from broker giving them stock tips, manage their portfolio, seeking diversification and the right asset allocation.	They are mainly for 'do-it-yourself' traders. They serve traders seeking low-cost execution.

http://www.chittorgarh.com/article/broking_industry_in_india/97/

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How to Invest
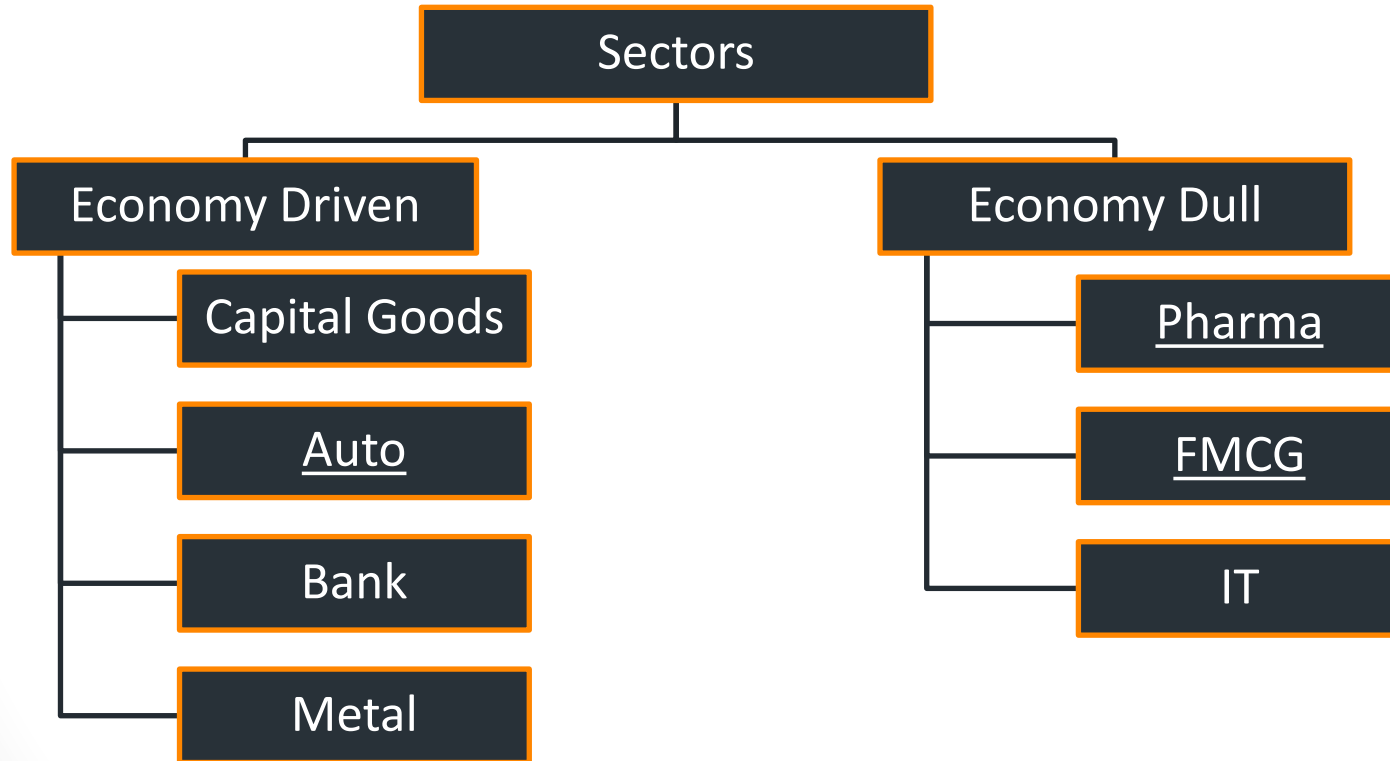
Fundamental Analysis

- Top Down Approach:

Important Fundamental to Check

- Operative Revenue (Net Sales)
- Operative Profit
- PAT / PBT
- Cash Flow
- Debt to Equity Ratio
- ROCE
- RONW
- Promotor's Holdings
- FII / MF holdings
- Competition

Market Capitalization

- Current market value of Company's shares.
  - Large Cap : market cap of Rs 10,000 crore or more
  - Mid Cap : market cap between Rs 2k crore and 10,000 crore
  - Small Cap : less than Rs 2k crore market cap

Sectors


```
                    ┌─────────────┐
                    │   Sectors   │
                    └──────┬──────┘
          ┌────────────────┴────────────────┐
┌───────────────────┐             ┌───────────────────┐
│  Economy Driven   │             │   Economy Dull    │
└───────────────────┘             └───────────────────┘
   ┌──────────────┐                  ┌──────────────┐
   │ Capital Goods│                  │    Pharma    │
   └──────────────┘                  └──────────────┘
   ┌──────────────┐                  ┌──────────────┐
   │     Auto     │                  │     FMCG     │
   └──────────────┘                  └──────────────┘
   ┌──────────────┐                  ┌──────────────┐
   │     Bank     │                  │      IT      │
   └──────────────┘                  └──────────────┘
   ┌──────────────┐
   │    Metal     │
   └──────────────┘
```

Nifty PE (price to earnings ratio)

- price to earnings ratio is broadly used to identify how cheap or expensive a particular stock or Index
  - https://www.nseindia.com/products/content/equities/indices/historical_pepb.htm
  - https://equityfriend.com/investment-charts/nifty-pe-chart-nifty-pb-chart-nifty-dividend-yield-chart.html
  - https://nifty-pe-ratio.com/

Valuation	Nifty PE Ratio range	Investment Decision
Very Expensive	25 to 30	It'a a rare event and screaming Sell. Search for shorting opportunities.
Expensive	20 to 25	Book 80% Profit and wait for better entry levels
Average	15 to 20	Buy or Hold
Inexpensive	12 to 15	Screaming Buy
Extremely Inexpensive	Below 12	Rare event. Screaming Buy

Technical Analysis

- Technical analysis is the art of predicting future price movement based on past Price action, Volume on chart and applying various studies and indicators to it.

- Very effective to determine entry, stop-loss and target levels.

- The two most common forms of technical analysis are chart patterns and technical (statistical) indicators.

- Technical Analysis is effectively an indirect study of Investor behavior and its effect on the subsequent price action based on an examination of past price movements.

- Technical analysis is applicable to stocks, Indices, Commodities, Currency, or any tradable instrument where the price is influenced by the forces of supply and demand.

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Technical Analysis Rules

- Price moves in trend
- Price Discounts everything
- History repeats itself

How Market Moves

- ## Dow Theory
  - ### Primary Trend
  - ### Secondary Trend
  - ### Intermediate Trend

Bull Market
Accumulation
Big Move
Excess

Bear Market
Distribution
Big Move
Despair
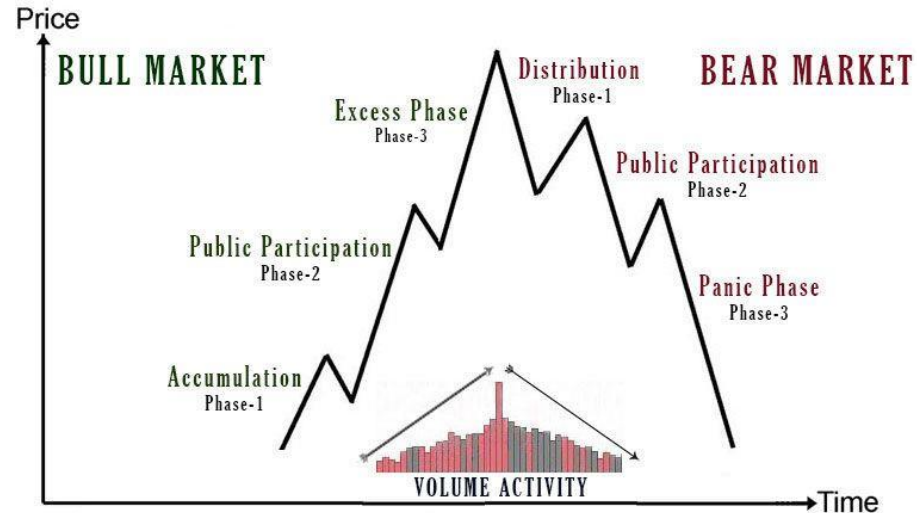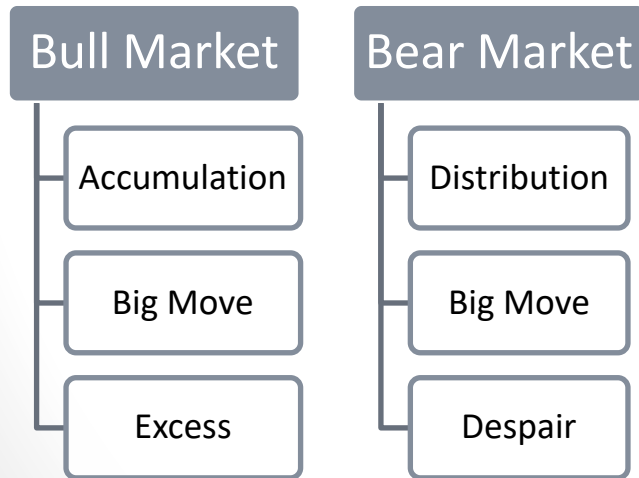
Dow Theory

- Six basic principles of Dow Theory
  - The market has three movements
  - Market trends have three phases
  - The stock market discounts all news
  - Stock market averages must confirm each other
  - Trends are confirmed by volume
  - Trends continue until definitive signals prove that they have ended

Dow Theory
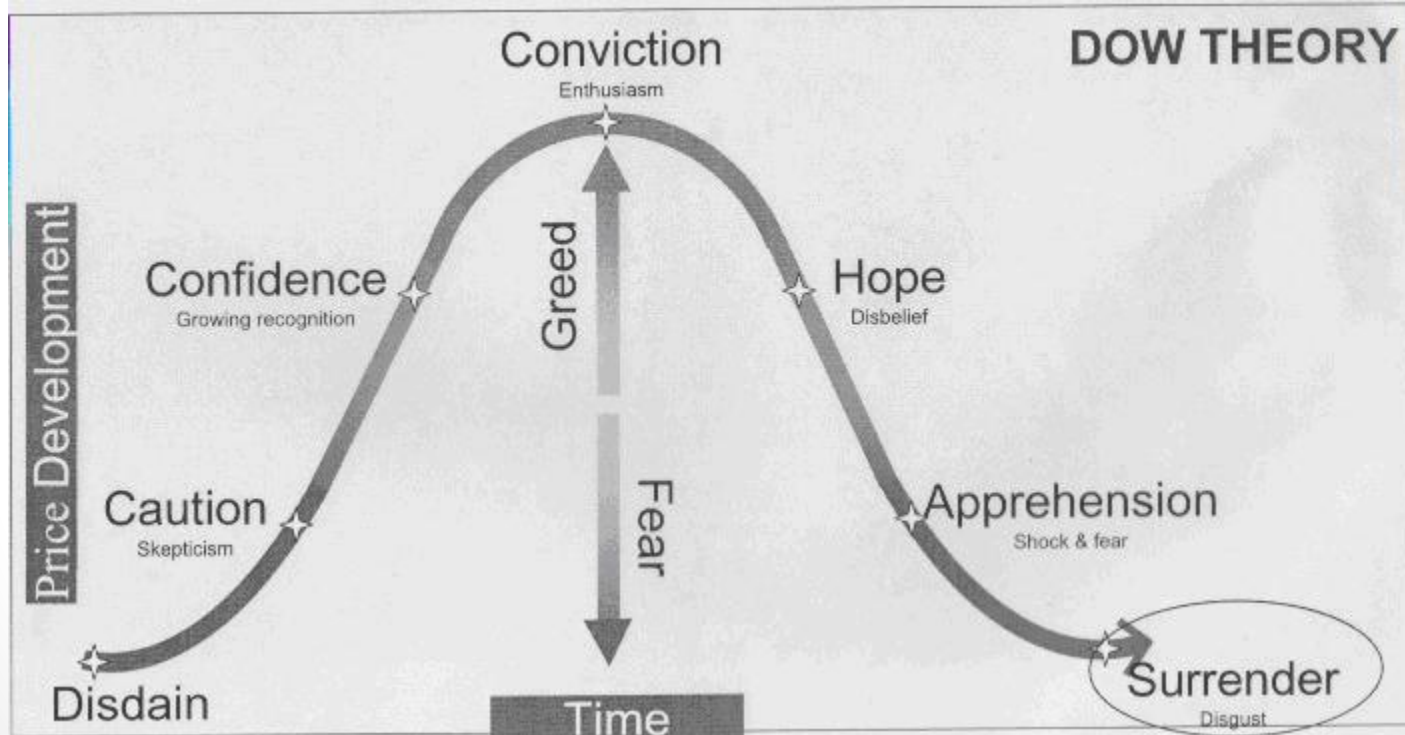
Greed & Fear

Chart's Types

- Line
- Bar
- Candlesticks
- Heikin Ashi :
  - Heikin Ashi charts are similar to candlestick charts in that the color of the candlestick denotes the direction the price is moving. HA charts average price moves, creating a smoother appearance. Because the HA price bars are averaged, they don't show the exact open and close prices for a particular time period
- Renko (ATR Based) :
  - Renko charts filter out minor price movements. Renko charts are created by setting a "box size." A box on the Renko chart forms once the price has moved that amount, but not before

Chart Timeframes

- Time Frame
  - Intra day : (1, 5, 15, 30, 60 Mins)
  - Daily : (One candle for a day)
  - Weekly : (One candle for a Week)
  - Monthly : (One candle for a Month)

Candlesticks

Bullish Candle

High

Close

Open

Low

Bullish:
Buyers Are In Control

Bearish Candle

High

Open

Close

Low
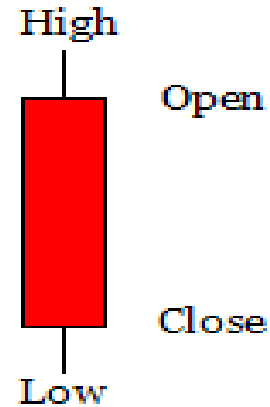
Bearish:
Sellers Are In Control

Single Candlestick Patterns

Single Candlestick Patterns

Downtrend

"Hammer"-if appears during downtrend

OR

Uptrend

"Hanging man" - if appears during uptrend

OR

"Shooting Star" - if appears during an uptrend

Uptrend

OR

"Inverted Hammer" - if appears during a downtrend

Downtrend

OR

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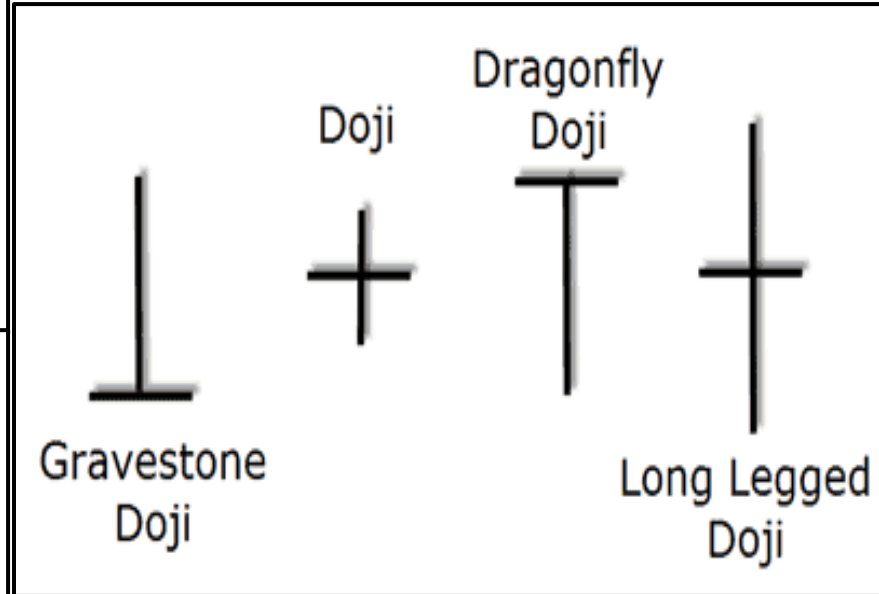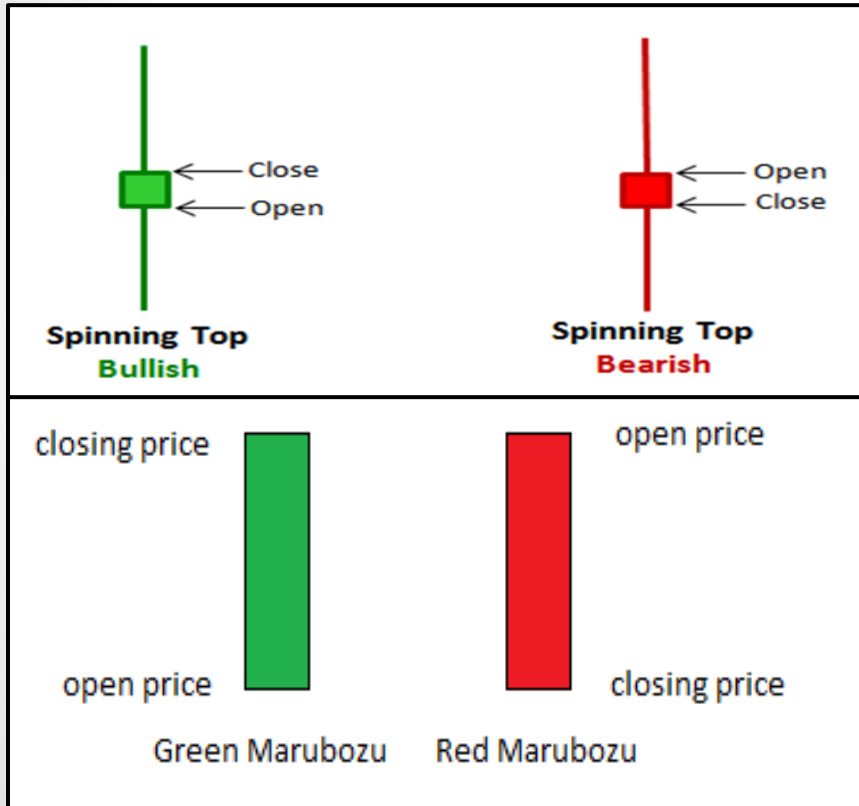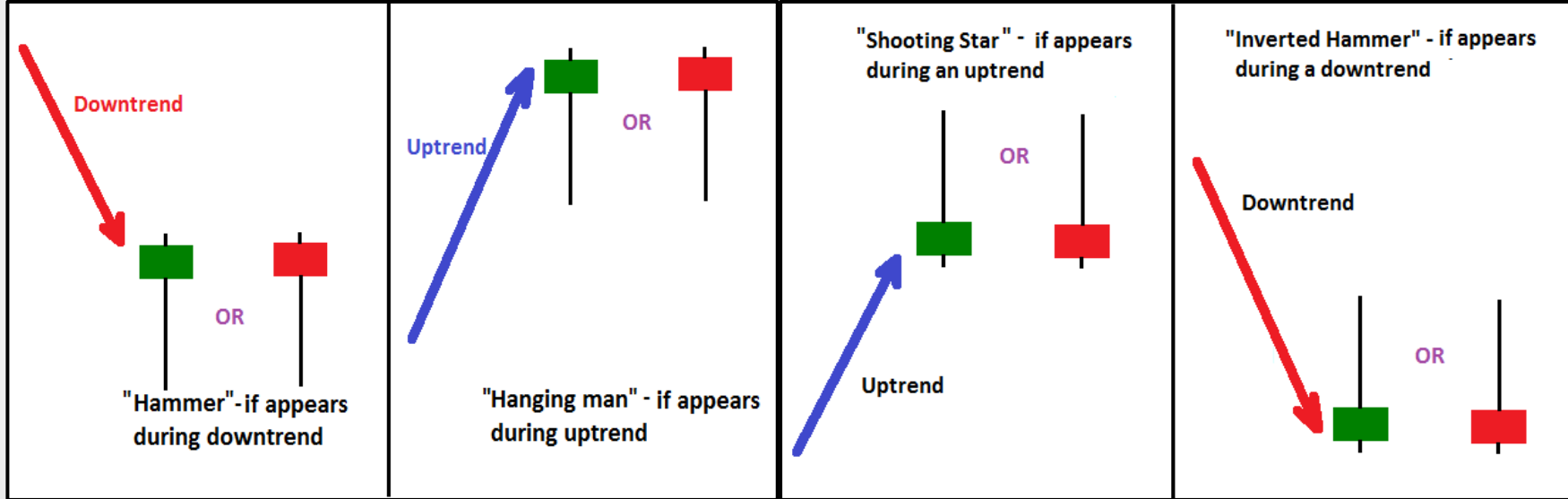
2 Candlestick Patterns

Bearish Engulfing Pattern

Gap Up

Close of Day 1

Open of Day 1

Open of Day 2

Bears Reject Gap Up!

Close of Day 2 Lower than Close of Day 1

Bullish Candle

Bearish Candle
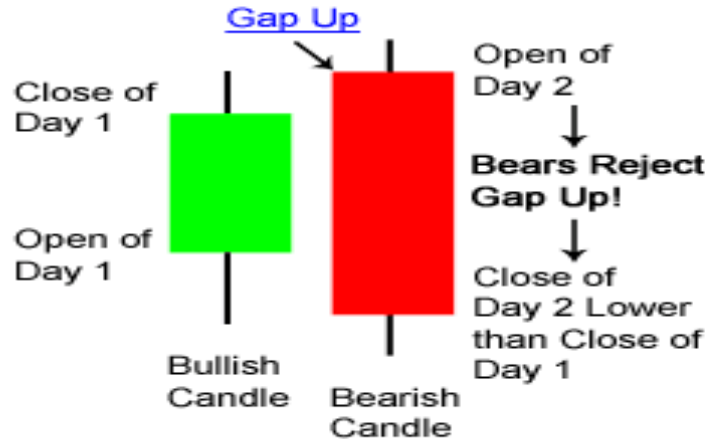
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Bullish Engulfing Pattern

Bearish Candle

Bullish Candle

Open of Day 1

Close of Day 1

Close of Day 2 Higher than Open of Day 1

Bulls Reject Gap Down!

Open of Day 2
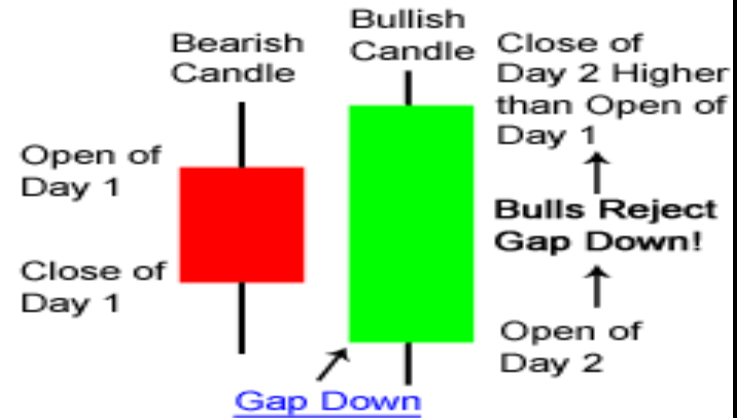
Gap Down

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2 Candlestick Patterns

Harami Pattern

Bearish — Bullish

2 Candlestick Patterns

Dark Cloud Cover

Gap Up

Close of Day 1

50%

Open of Day 1

Bullish Candle

Open of Day 2

Bears at least **50% Retracement of Day 1's Gains**

Close of Day 2 down greater than 50% of Day 1's Bull Candle

Bearish Candle

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Piercing Pattern

Bearish Candle

Open of Day 1

50%

Close of Day 1

Bullish Candle

Close of Day 2 greater than 50% of Day 1's Bear Candle

Bulls at least **50% Retracement of Day 1's Losses**

Open of Day 2

Gap Down

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3 Candlestick Patterns

Evening Star   Morning Star   Three White Soldiers   Three Black Crows

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5 Candlestick Patterns

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Gap Up / Gap Down

The Evening Star

Gap Up

Gap Down

Large bullish candle

Large Bearish Candle

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Gap Up / Gap Down

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Island / Cluster Reversal

Island / Cluster Reversal

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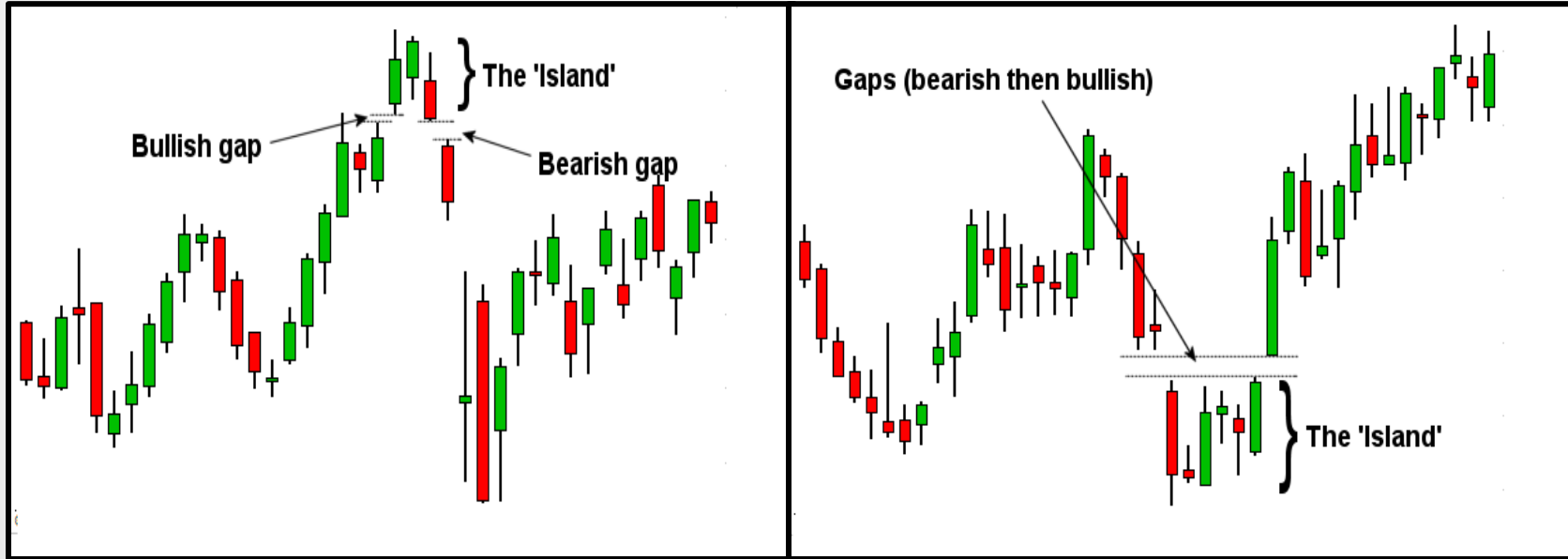
Candlesticks Signals
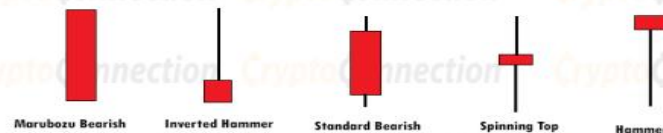
Trend Analysis

- Up Trend
- Down Trend
- Up Trend Channel
- Down Trend Channel
- Multiple Trend Lines

BULL MARKET
Optimism
Prices Going Up

BEAR MARKET
Pessimism
Prices Going Down

Support & Resistance

- Support
  - Support is the price level at which demand is thought to be strong enough to prevent the price from declining further.

- Resistance
  - Resistance is the price level at which selling is thought to be strong enough to prevent the price from rising further

- Support Equals Resistance
  - Another principle of technical analysis stipulates that support can turn into resistance and vice versa
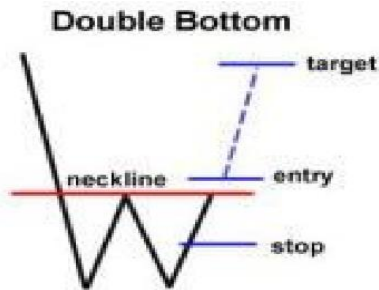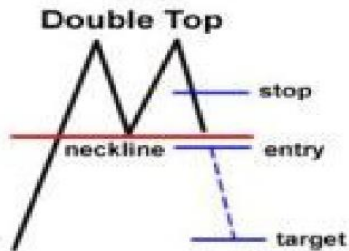
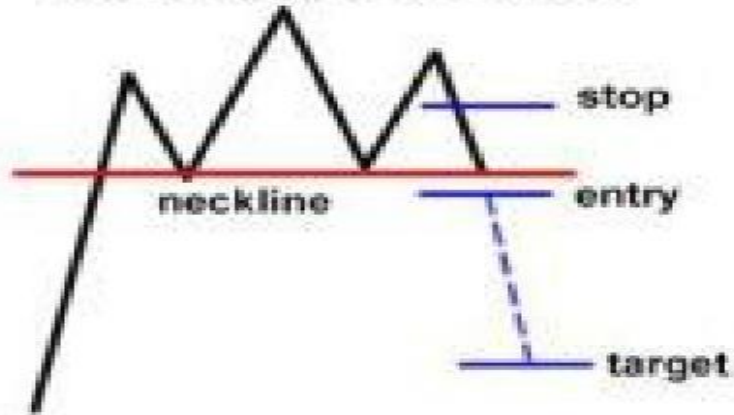# Support & Resistance

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Price Patterns

1. Double top / Bottom (Bullish / Bearish Trend Reversal)
2. Triple Top / Bottom (Bullish / Bearish Trend Reversal)
3. Rounding Top (Bearish)
4. Rounding Bottom (Bullish)
5. Cup & Handle (bullish trend continuation)
6. Head & Shoulder (Bullish Trend reversal)
7. Inverse Head & Shoulder (Bearish Trend reversal)
8. Ascending Triangle (Bullish Trend Continuation)
9. Descending Triangle (Bearish Trend Continuation)
10. Symmetrical Triangle (Trend continuation)
11. Saucers (Bearish Trend reversal)
12. Flag (Bullish / Bearish)
13. Pennant Pattern (Bullish / Bearish) (Trend continuation)
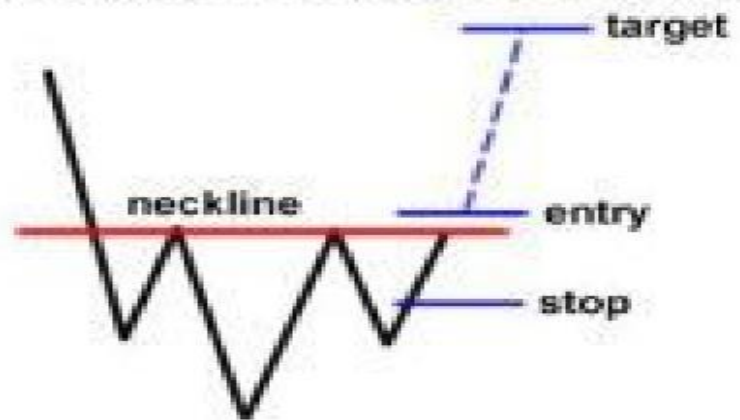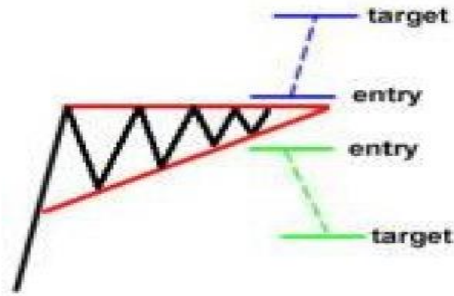14. Wedge (Rising / Falling)

Price Patterns

Price Patterns

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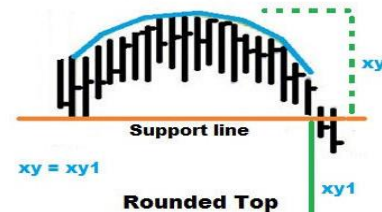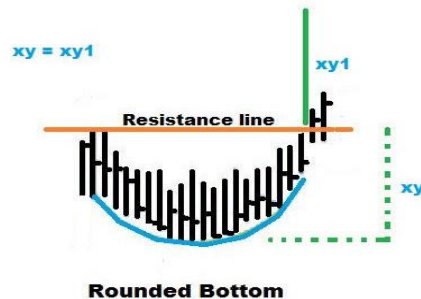
Price Patterns

Ascending Triangle

target
entry
entry
target

Descending Triangle

target
entry
entry
target

Symmetrical Triangle

target
entry
entry
target
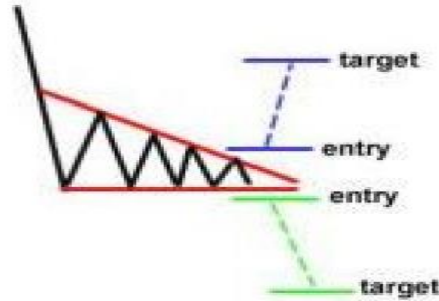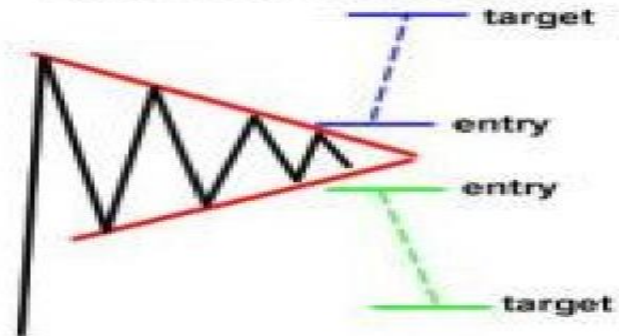
Reversal Rising Wedge
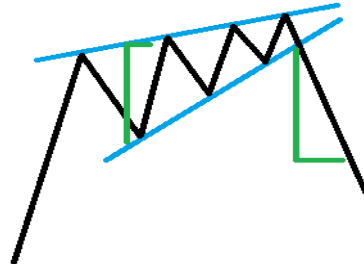
Reversal Falling Wedge
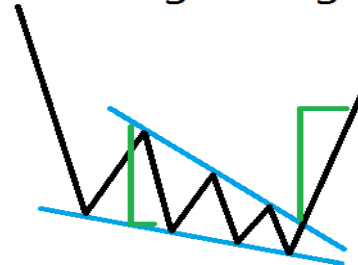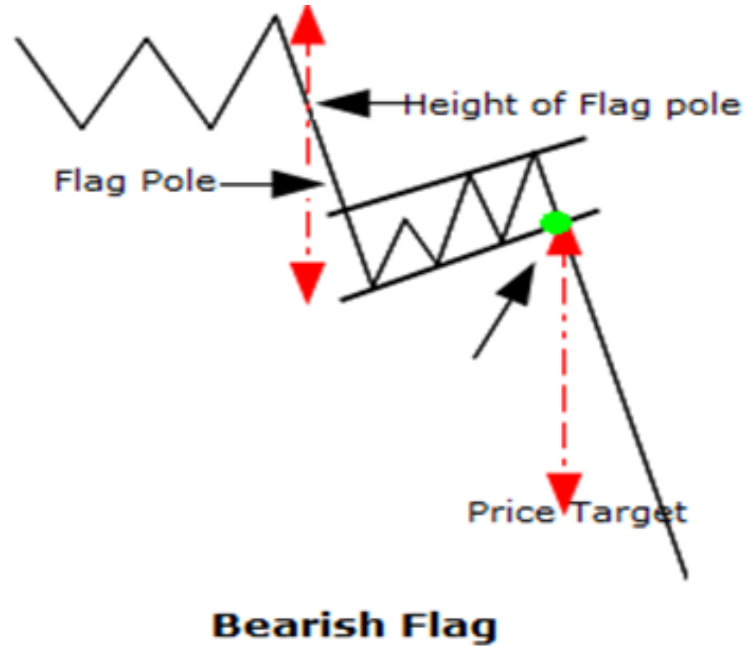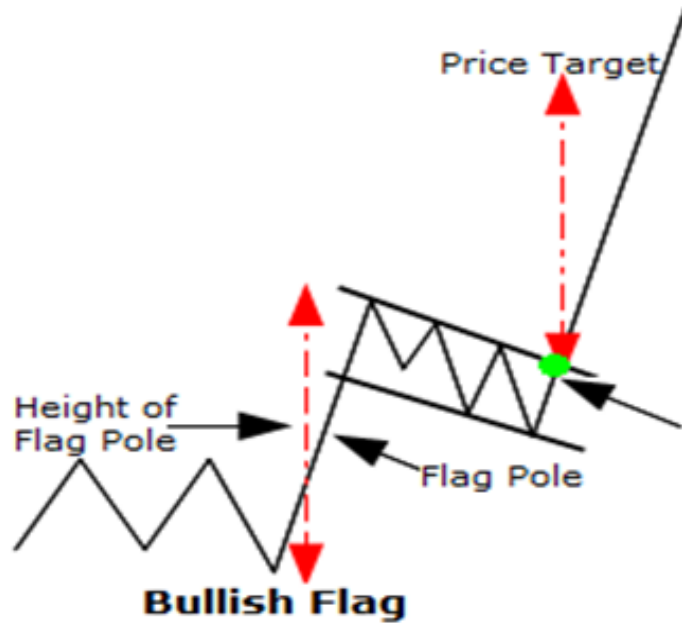
Price Patterns

Identify the signals / patterns

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Identify the signals / patterns

NIFTYBANK-INDEX · 1D · NSE O24786.90 H25124.60 L24784.90 C24972.45 −106.15 (−0.42%)

Identify the signals / patterns

BAJAJ FINANCE LIMITED · 1D · NSE O4229.00 H4252.95 L4125.15 C4152.60 −79.15 (−1.87%)

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Identify the signals / patterns

Technical Indicators

- Indicators represent a statistical approach to technical analysis. By looking at money flow, trends, volatility, and momentum, they provide a <u>secondary measure</u> to actual price movements and help traders **confirm** the quality of chart patterns **or** <u>form their own buy or sell signals</u>.

- There are two primary types of indicators:

  - Leading Indicators: Leading indicators precede price movements and try to predict the future. These indicators are most helpful during periods of sideways or non-trending price movements since they can help identify breakouts or breakdowns.

  - Lagging Indicators: Lagging indicators follow price movements and act as a confirmation tool. These indicators are most useful during trending periods where they can be used to confirm that a trend is still in placing or if it's weakening.

Technical Indicators

- Volume
  - In **technical analysis**, **volume** measures the number of a stock's shares that are traded on a stock exchange in a day or a period of time. **Volume** is important because it confirms trend directions

SI No	Price	Volume	What is the expectation?
01	Increases	Increases	Bullish
02	Increases	Decreases	Caution – weak hands buying
03	Decreases	Increases	Bearish
04	Decreases	Decreases	Caution – weak hands selling

Technical Indicators

- Support & Resistance
  - Support and resistance levels are psychologically-important levels where a lot of buyers and/or sellers are willing to trade the stock. When the trend lines are broken, the market psychology shifts and new levels of support and resistance are established.

Technical Indicators

- Moving Average (Short, Medium & Long term)
  - Moving averages are trend indicators and are frequently used due to their simplicity and effectiveness
  - The simple moving average (SMA) gives equal weightage to all data points in the series
  - An exponential moving average (EMA) scales the data according to its newness. Recent data gets the maximum weightage and the oldest gets the least weightage
  - For all practical purposes, use an EMA as opposed to SMA. This is because the EMA gives more weightage to the most recent data points

Technical Indicators

- MACD : Moving Average Convergence and Divergence
  - MACD is still considered as one of the most reliable indicators by momentum traders
  - MACD is all about the convergence and divergence of the two moving averages. Convergence occurs when the two moving averages move towards each other, and a divergence occurs when the moving averages move away from each other
  - MACD is a trend following system

Technical Indicators

- RSI
  - Relative strength Index, is a very popular indicator .
  - RSI is a leading momentum indicator which helps in identifying a trend reversal.
  - RSI indicator oscillates between 0 and 100, and based on the latest indicator reading, the expectations on the markets are set.
  - RSI is to help to identify <u>oversold</u> and <u>overbought</u> price areas.
  - Overbought implies that the positive momentum in the stock is so high that it may not be sustainable for long and hence there could be a correction.
  - Likewise, an oversold position indicates that the negative momentum is high leading to a possible reversal.

Technical Indicators

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Technical Indicators

- Bollinger Bands
  - Bollinger bands are trading bands developed by John Bollinger.
  - It consists of a 20 period simple moving average with upper and lower bands. The upper band is 2 standard deviation above the moving average and similarly lower band is 2 standard deviation below the moving average.
  - This makes these bands more dynamic and adaptive to volatility.

  Interpretation of Bollinger Bands
  1. Big move in price is witnessed on either side when bands tightens/contracts as volatility lessens.
  2. The upper band act as area of resistance and lower band act as area of support.
  3. When prices move outside the band, it signifies breakout, hence continuation of the trend.
  4. Bottoms and tops made outside the band, followed by tops and bottoms made inside the band suggests reversal of the trend.

Technical Tools

- Fibonacci Retracements -

Fibonacci retracement is a method of technical analysis for determining support and resistance levels. Fibonacci retracement is based on the concept that markets will retrace a predictable portion of a move, after which they will continue to move in the original direction.

Technical Tools

- Fibonacci Retracements -
- Important Fibonacci Retracements levels are 23.6%, 38.2%, 50%, 61.8% and 100%
  - If price retrace up to 23.6% levels then, target would be 4 times the length of retracement
  - If price retrace up to 38.2% levels then, target would be 2.5 times the length of retracement
  - If price retrace up to 50% levels then, target would be 1.5 times the length of retracement
  - If price retrace up to 61.8% levels then, target would be 1.25 times the length of retracement

Combining Candlesticks with Technical Analysis

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Strategies

- Moving Average crossover
- MACD Crossover
- RSI Divergence
- Candle stick pattern at support / resistance
- Price Pattern (Breakouts)
- Heiken Ashi, MA and PSAR

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Important Sites & Apps

- https://money.rediff.com/index.html
- www.moneycontrol.com
- www.marketsmojo.com
- https://in.investing.com (Good Charting Tool)
- https://in.tradingview.com/ (Good Charting Tool with limited features in free version)
- https://economictimes.indiatimes.com (News, Fundamentals and Charts)
- https://web.stockedge.com/
- https://www.stockaxis.com (Good for Fundamental Data)
- https://www.reliancesmartmoney.com
- Apps (android / ios):
  - ETMarkets
  - Tradingview
  - Stockedge (Good for Fundamental Data)
  - Moneycontrol