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**What is Technical Analysis?**

In the field of financial markets Technical Analysis is basically Chart Analysis i.e. most of the time you will be busy reading financial charts. These charts can be Line chart, Bar chart or the most popular Candlestick chart. Examples of financial charts:

1.

2.

3.

The job here is to read the information or data present on the financial charts such as Price, Volumes etc and interpret them to forecast the direction of the market.

**3 Principles of Technical Analysis :-**

1. Technical Analysis factors in everything.
2. Price moves in trends.
3. History repeats itself.

**Technical Analysis factors in everything: -**

It means that the price movement on the charts includes everything that affects the company and its stocks. So if prices of a stock are moving upwards that tells you something good is happening in the company. It may be a Government policy decision that positively affects the sales of the company or some management decision or insider news etc. Whatever it may be, as a technical analysists we believe that price movement includes any reason/factor that affects the stock price. And with technical analysis we can catch the early moves of a price movement and benefit from it. How? We will cover it later in the tutorial.

Further as a retail investor you may not have the exact information that is causing the price movement, as initially vital information is only available with the big players and information comes to the small investors only at the fag end and by that time most price movement has already happened. But technical analysis gives edge to small players

Example of a price breakout: (may be tata steel)

**Price moves in Trends: -**

This principle assumes that prices always move in a particular direction which is called Trend (we will cover trend in detail later). It means that prices do not move in a chaotic manner and have a certain pattern of movement. There are only 3 trends/patterns in which a price moves.

1. If prices are moving higher and higher it is called an Uptrend and it is known as bullish market.
2. If prices are sliding lower and lower it is called Downtrend and known as a Bearish market.
3. If prices are stagnant and are moving within a price range and are not going anywhere, we call it Sideways Market.

This assumption of trend is vital, as without it you cannot take position in markets.

**History repeats itself: -**

It means what happened in the past will happen in the future. Say in past a stock of XYZ company fell from a level of Rs 2000 so we assume that in future when the stock price reaches a level of Rs 2000 again then it has a high probability that stock may recede from that level.

So basically in technical analysis we spend our time in studying historic data that is repetitive and has predictive values. It means we analyse such patterns on the charts which gets repeated every now & then and can gives us clues in which direction market moves from that point onwards.

This is the very reason why we religiously study Candlestick Patterns and Price Patterns because they have predictive values, and they tell us to a certain degree in which direction prices may go.

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