Technical Analysis Workshop Series

Session One
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Agenda

• Introduction
• Financial Markets & Business Cycle Model
• Philosophy of Technical Analysis
• Dow Theory
• Q & A
INTRODUCTION
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<th>SEMESTER 1</th>
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<td>Trend Indicators:</td>
<td>Bollinger Bands</td>
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<td>Parabolic SAR</td>
<td>Commodity Channel Index (CCI)</td>
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<td>Standard Deviation</td>
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<td>WK 3</td>
<td>Philosophy of Technical Analysis</td>
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<td>Financial Markets &amp; Business Cycle Model</td>
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<td>Dow theory</td>
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<td>WK 4</td>
<td>Japanese Candlesticks &amp; Chart Construction</td>
<td>Oscillators:</td>
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<td>Support &amp; Resistance</td>
<td>Average True Range</td>
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<td>Trendlines &amp; Channels</td>
<td>Moving Average Convergence Divergence (MACD)</td>
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<td>Volume &amp; Breadth</td>
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<td>Fractals</td>
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<td>WK 8</td>
<td>1, 2, 3 Price-Bars Patterns</td>
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<td>Ichimoku Kinko Hyo</td>
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<td>Traders’ Interview</td>
<td>Trading Strategies</td>
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<td>WK 11</td>
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<td>Traders’ Interview</td>
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Details

• THURSDAYS 6:15 – 7:30 pm
• Print your notes if you need
FINANCIAL MARKETS & BUSINESS CYCLE MODEL
FINANCIAL MARKETS & BUSINESS CYCLE MODEL

• Important to understand the interrelationship of equities, bonds & commodities markets

• Provide a useful framework for identifying major trends & reversals in each market.
FINANCIAL MARKETS & BUSINESS CYCLE MODEL

Equilibrium

Economy is growing

Economy is contracting
FINANCIAL MARKETS & BUSINESS CYCLE MODEL

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
<th>Stage 5</th>
<th>Stage 6</th>
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<tr>
<td>Recovery</td>
<td>Recession</td>
<td>Commodities</td>
<td>Bonds</td>
<td>Stocks</td>
<td>Commodities</td>
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- Bonds
- Stocks
- Commodities
INTRODUCTION TO TECHNICAL ANALYSIS
INTRODUCTION TO TECHNICAL ANALYSIS

• The study of market action, primarily through the use of charts, for the purpose of forecasting future price trends.
### DIFFERENCES BETWEEN FUNDAMENTAL & TECHNICAL ANALYSIS

<table>
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<tr>
<th>FUNDAMENTAL ANALYSIS</th>
<th>TECHNICAL ANALYSIS</th>
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<tr>
<td>Focuses on the economic forces of Demand &amp; Supply that causes prices to move</td>
<td>Analysis using past data of Demand &amp; Supply</td>
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<tr>
<td>Finding the intrinsic value of the market/asset</td>
<td>Study of historical graphs is stressed</td>
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<tr>
<td>Characteristics of a company is employed in the analysis</td>
<td>Identify a trend at a relatively early stage &amp; ride on that trend until the weight of the evidence shows or proves that the trend has reversed</td>
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<tr>
<td>Effects of economic factors on a stock such as earning reports, cash flow, etc are concerned</td>
<td>Deals in probabilities, never certainties</td>
</tr>
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</table>
PHILOSOPHY OF TECHNICAL ANALYSIS

• Price, volume & time are the key data for analysis
• Market action discounts everything
• Prices move in trends
• History repeats itself
• Technical Analysis can be applied to different trading mediums/markets/assets
MARKET ACTION DISCOUNTS EVERYTHING

• **EVERYTHING** is reflected in the price of that particular market.

• Thus, a study of price action is all that is required

• Price action should reflect shifts of Demand & Supply
PRICES MOVES IN TRENDS
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PRICES MOVES IN TRENDS
HISTORY REPEATS ITSELF

- Attributed to market psychology
- Chart patterns reflect certain pictures that reveal bullish/bearish psychology of the market
HISTORY REPEATS ITSELF
HISTORY REPEATS ITSELF
APPLICATION OF TECHNICAL ANALYSIS TO DIFFERENT ASSET CLASSES

[Stock chart of Amazon.com, Inc. (AMZN) from 3-Mar-2000 to 2000, showing price movements with arrows indicating upward trends.]
APPLICATION OF TECHNICAL ANALYSIS TO DIFFERENT ASSET CLASSES
DOW THEORY
CHARLES H. DOW (1851-1902)

- American Journalist
- Founded *The Wall Street Journal* & Co-founded *Dow Jones & Company*
- Developed a series of principles for understanding & analyzing market behavior
DOW THEORY

• The market is in an upward trend if one of its averages (industrial or transportation) advances above a previous important high.

• It is accompanied by a similar advance in the other.
DOW THEORY

• Dow created the Dow Jones Industrial Index & Dow Jones Rail Index

• Accurate reflection of the business conditions within the economy then
6 BASIC TENETS

1. The Averages discount everything
2. The market has 3 trends
3. Major trends have 3 phases
4. The Averages must confirm each other
5. Volume must confirm the trend
6. A trend is assumed to be in effect until it gives definite signals that it has reversed
1. THE AVERAGES DISCOUNT EVERYTHING

• Similar to what was explained earlier

• All information is discounted into the markets & reflected in the prices of stocks & indexes

• The risks of unpredictable events are also priced in.
2. THE MARKET HAS 3 TRENDS
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Case study 1
HL and HH formed for uptrend. LH and LL formed for downtrend.
2. THE MARKET HAS 3 TRENDS

Case study 2
Uptrend if price makes HH
Downtrend if price makes LL

At this point (HL), it is not confirmed if there is a HL until price continues upwards.
2. THE MARKET HAS 3 TRENDS

1. Primary Trend
2. Secondary Trend
3. Minor Trend

*The greater the time period a Trend comprises, the more important the Trend*
3. MAJOR TRENDS HAVE 3 PHASES

- Primary Uptrend
  1. Accumulation
  2. Public participation
  3. Excess

- Primary Downtrend
  1. Distribution
  2. Public participation
  3. Panic
3. MAJOR TRENDS HAVE 3 PHASES
4. THE AVERAGES MUST CONFIRM EACH OTHER

- Major reversal of primary trend should be confirmed by both the DJIA & DJRA
- Need not to occur simultaneously but a shorter time in between would provide a stronger confirmation
5. VOLUME MUST CONFIRM THE TREND

- ↑ when price moves with the trend
- ↓ when price moves opposite with trend
5. VOLUME MUST CONFIRM THE TREND
6. A TREND IS ASSUMED TO BE IN EFFECT UNTIL IT GIVES DEFINITE SIGNAL THAT IT HAS REVERSED

- The foundation of modern trend-following approaches
- Newton’s law
Q & A
SUMMARY

• Important to understand the interrelationship of equities, bonds & commodities markets
• Philosophy of TA
• 6 Basic Tenets of Dow Theory