Shree Tisai Consultant Private limited

Technical analysis & Charting

The Foundation of technical analysis is the Chart.

Charts

Mainly there are 2 types of charts

1. Line Chart
2. Candlestick Chart

Line charts

A chart shown below is the Line chart is the simplest type of chart. As shown in the chart the single line represents the stocks closing price on each day. Dates are displayed along the bottom of the chart and prices are displayed on the side(s). Line charts are typically displayed using stocks closing prices.

Candlestick charts

A candlestick chart displays stocks open high, low, and closing price.

These type of charts are the most popular type of all charts.

As shown below the top of each vertical bar represents the highest price of the stock and the bottom of the bar represents the lowest price of the stock it reached on that day. A closing price (last price) is displayed on the right side of the bar.

The red bar indicates that stock has closed lower then its open price and white bar indicates that the stock has closed above its open price. At the bottom you can see time frame

Support and Resistance

Support and Resistance prices are very important in stock market and in technical analysis.

Support - The support level is considered when the stock is falling down. The support is the level at which the stock price gets support when the stock is falling down, and if the support breaks then that stock may witness further down movement.

Resistance - The Resistance is taken into picture when stock price is moving up. The resistance level is the price at which stock price get stoppage and if this stoppage/resistance breaks then further upside is expected in that stock price.

Generally, stocks comes to support and resistance points and get constant before further movement and further movement either down side or upside depends on buyers expectation and other technical aspects.

The breaking of support and resistance levels can also be triggered by fundamental changes, and that is up to investor expectations (fundamental changes like changes in profits, expansion, takeover, management etc).

Supply and demand

There is nothing strange about support and resistance levels. It is just supply and demand. The supply is the number of shares that sellers are willing to supply (sell) at a given price. The demand is the number of shares that buyers are willing to buy at a given price. The investor expectations keeps on changing and so do the prices of stocks. A breakout above a resistance level is evidence of an upward move as more buyers (demand) are willing to buy at higher prices. Similarly, the failure of a support level indicates that more supply (seller) is available and ready to sell at lower levels. The Basic foundation of technical analysis tools is in the concept of supply and demand. So Charts provide us the best view and analysis of these levels in action.

Traders Regret (unhappy) Level

After the break out of a support/resistance level, it is common for stock traders to think on the new price levels, whether this price is suitable or not which results in further upward or downward movement. So in other words we can call this as traders regret. So due to this the price may come back to support/resistance level. In such scenarios one of the two things can happen. Either the stock prices will move back to their previous level OR investors/traders will accept the new price and the stock price will keep moving up in the direction of breakout

How to understand what is going to happen and when?

A breakout generally happens with the support of huge volumes. If the price breaks through the support/resistance level with a large increase in volume and the traders regret period is on relatively low volume then this indicates that the new price up lift will keep ongoing.
Conversely, if the breakout is on moderate volume and the traders regret period is on increased volume then this indicates that very few investor expectations have changed and hence return to the original price. Changes in price are the result of changes in investor expectations of the stocks future price.

Trends

In the earlier chapter, we saw how support and resistance levels can be penetrated by a change in investor expectations which results in shifts of the supply/demand and hence change in stock price. This type of a change is always based on News.
In this TRENDS section, we will see what is trend and how it influences stock prices.
A trend represents a consistent change in prices. A trend is different from support/resistance levels. Trends represent change, whereas support/resistance levels represent barriers to change.
Upper Trend = A rising trend is defined as stock prices keep touching higher prices. A rising trend can be thought of as a rising support level and the bulls are in controls which are pushing the stock prices higher and higher.
Falling trend = It is defined as stock prices keep touching lower prices. A falling trend can be thought of as a falling resistance level and bears are in controls which are pushing the stock prices lower and lower.
The break out takes place when investor's expectations change in support with increase in volumes.
As in support/resistance, in trend lines also Volumes plays a major role in continuing the trend or in break out of the trend.

Moving Averages

Moving averages are one of the oldest and most popular technical analysis tool. This section describes the basic of moving average and interpretation.
Nowadays you get moving averages readily available on most of the websites.
To brief you moving average is calculated by adding the closing prices of a stock for most recent 15 days and then dividing by 15 the result what you get is the 15 day moving average.

How to trade on moving average

Suppose If the stock price is above its 25 day moving average, it means that investor's current expectations (the current price of the stock) are higher than their average expectations over the last 25 days, and that investors are becoming increasingly bullish on this stock and result is that the stock price may go up.
Conversely, if today's price is below then its 25 day moving average, it shows that current expectations are below average expectations over the last 25 days and this may bring stock price lower.
The moving average is used to observe changes in prices. Investors typically buy when a stock price rises above its moving average and sell when the price falls below its moving average.

Indicators

Indicators are used to predict or analyze future changes in stock price.
There are hundreds of indicators but in this section we will discussed the indicators which are most widely used and important ones.

MACD

This is one of the widely used indicator. MACD stands for Moving Average Convergence Divergence.
This indicator is based on moving averages
Nowadays MACD is readily available on any web sites. No need to sit and calculate. But just to understand let us brief about it.

The MACD is calculated by subtracting a 26-day moving average (long term) of a security's price from a 12-day moving average (short term) of its price. The result is that MACD is an indicator that goes above and below zero.

How to trade on MACD indicator?

Have a look on following chart of MACD -
Red line is short term moving average and blue line is long term moving average.
When the short term moving average crosses above the long term moving average (as shown in following chart) in the **upward direction**, it means investor expectations are becoming bullish and there may be rise in stock price. As it is shown in following chart with green lines how price increases.
When the short term moving average crosses below the long term moving average (as shown in following chart) in the **downward direction**, it means investor expectations are becoming bearish and there may be decrease in stock price. As it shown in following chart with red lines lines how orice decreases.

Relative Strength Index (RSI)

The RSI is another one of the most used and well-known leading momentum indicators in technical analysis. The main use of RSI is used to find whether the stock is overbought or oversold.
The RSI indicator is plotted in a range of between 0 and 100. If RSI is reached above 70 then it is considered that stock is overbought and if it reaches below 30 then it is considered that the stock is oversold.
The bullish signal

How to trade on RSI Indicator

Basically the RSI is a price-following indicator used to look for a divergence in which the stock is making a new high, but the RSI is failing to exceed its previous high. This divergence is an indication of an impending reversal. When the RSI then turns down and starts falling.
To put more light, have a look on following chart.

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