Bij Investment Consultants

Basics of Technical Analysis

Main Purpose

Money Making Only in the form of

1. Regular Income
2. Capital Growth

Requirements for Money Making in SM

1) **Confidence to Trade**
2) Burning – Wildly Important Goal (WIG)
3) Basic Operational Knowledge
4) Knowledge of Different Segments
5) Associated Risks
6) Minimum 1 Strategy
7) Proper Money Management and Risk Management
8) List of Success & Mistakes - Experience

Introduction

- The methods used to analyze securities and make investment decisions fall into two very broad categories: **Fundamental Analysis and Technical Analysis**.

- Fundamental analysis involves analyzing the **characteristics of a company** in order to estimate its value.

- Technical analysis takes a completely different approach; it doesn't care one bit about the "value" of a company or a commodity. Technicians (sometimes called chartists) are only interested in **the price movements in the market**.

Definition

- **"Technical analysis is the study of market action, primarily through the use of charts, for the purpose of forecasting future price trends."**

- The term **"<u>Market Action</u>"** includes the three principal sources of information available to the technician- **Price, Volume and Open Interest**. (Open Interest is used only in futures and options.)

- The term **"<u>Price Action</u>"** which is often used, seems too narrow because most technicians include volume and open interest as an integral part of their market analysis.

The Basic Assumptions

- Technical analysis is **a method of evaluating securities by analyzing the statistics generated by market activity**, such as past prices and volume.
- Technical analysts do not attempt to measure a security's intrinsic value, but instead **use charts** and other tools to identify patterns that can suggest future activity.

- The field of technical analysis is based on **three assumptions**:

1. The Market discounts everything.

2. Price moves in trends.

3. History tends to repeat itself.

The Basic Assumptions

1. The Market Discounts Everything

- A major criticism of technical analysis is that it **only considers price movement**, ignoring the fundamental factors of the company. However, technical analysis assumes that, at any given time, a stock's **price reflects everything** that has or could affect the company - including fundamental factors.

- Technical analysts believe that the company's fundamentals, along with broader economic factors and market psychology, **are all priced into the stock**, removing the need to actually consider these factors separately. This only leaves the analysis of price movement, which technical theory views as **a product of the supply and demand** for a particular stock in the market.

The Basic Assumptions

2. Price Moves in Trends

- In technical analysis, price movements are believed to follow trends.

- This means that **after a trend has been established, the future price movement is more likely to be in the same direction** as the trend than to be against it.

- Most technical trading strategies are based on this assumption.

The Basic Assumptions

3. History Tends To Repeat Itself

- Another important idea in technical analysis is that history tends to repeat itself, mainly in terms of price movement. The **repetitive nature of price movements** is attributed to market psychology; in other words, market participants tend to provide a consistent reaction to similar market stimuli over time.

- Technical analysis **uses chart patterns to analyze market movements and understand trends**. Although many of these charts have been used for more than 100 years, they are still believed to be relevant because they illustrate patterns in price movements that often repeat themselves.

The Basic Assumptions

Not Just for Stocks

- Technical analysis can be used on any security with historical trading data. This **includes stocks, futures and commodities, fixed-income securities, forex, etc.**

- These concepts can be applied to any type of security. In fact, technical analysis is **more frequently associated with commodities and forex**, where the participants are predominantly traders.

Chart Basics

Introduction

- In technical analysis, charts are similar to the charts that you see in any business setting.

- A chart is simply **a graphical representation** of a series of prices over a set time frame.

- For example, a chart may show a stock's price movement over a one-year period, where each point on the graph represents the closing price for each day the stock is traded.

Chart Basics

Types of Charts

- There are many types of charts that are used by investors and traders depending on the information that they are seeking and their individual skill levels.

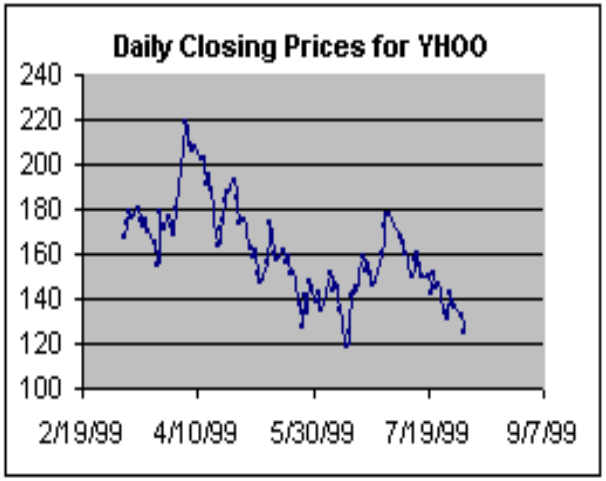
- **The main chart types are:**

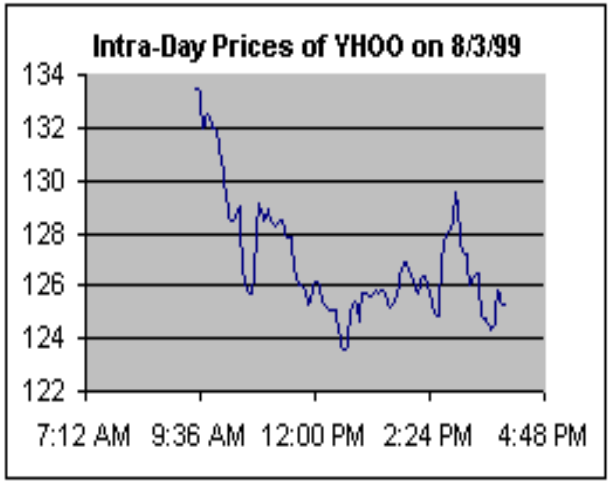
1. The Line Chart,
2. The Bar Chart,
3. The Candlestick Chart

Chart Basics

Types of Charts

Line Chart



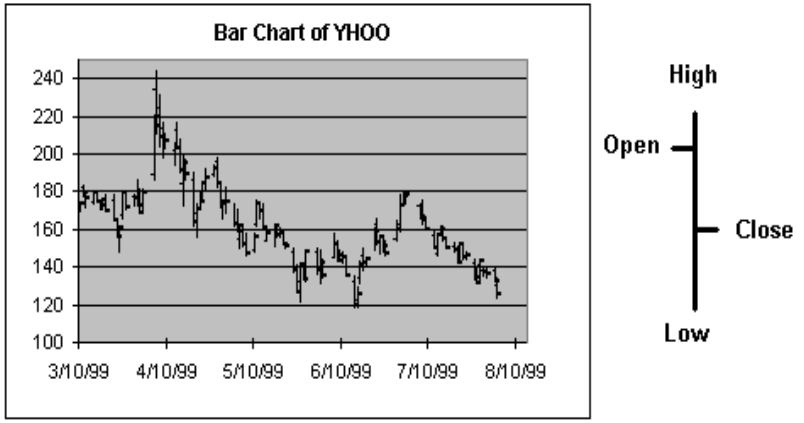


- The most basic of the four charts is the line chart because it **represents only the closing prices over a set period of time.**
- The line is <u>formed by connecting the closing prices over the time frame</u>. Line charts *do not provide visual information of the trading range* for the individual points such as the high, low and opening prices.
- However, the <u>closing price is often considered to be the most important</u> price in stock data compared to the high and low for the day and this is why it is the only value used in line charts.

Chart Basics

Types of Charts

Bar Chart or OHLC Chart



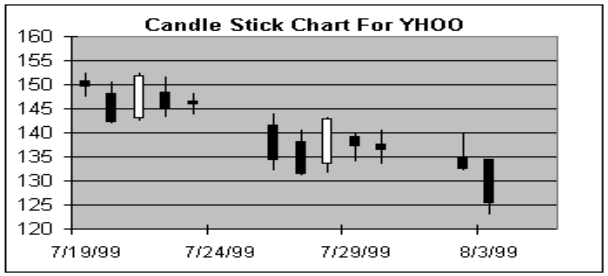
The chart is **made up of a series of vertical lines** that represent each data point. This vertical line **represents the high and low for the trading period, along with the closing price.** The close and open are represented on the vertical line by a horizontal dash.

- The opening price on a bar chart is illustrated by the dash that is located on the left side of the vertical bar.
- The close is represented by the dash on the right.
- If the <u>left dash (open) is lower than the right dash (close) then the bar will be shaded Green</u>, representing an up period for the stock, which means it has gained value.
- A bar that is colored <u>Red signals that the stock has gone down in value over that period</u>. When this is the case, the dash on the right (close) is lower than the dash on the left (open).

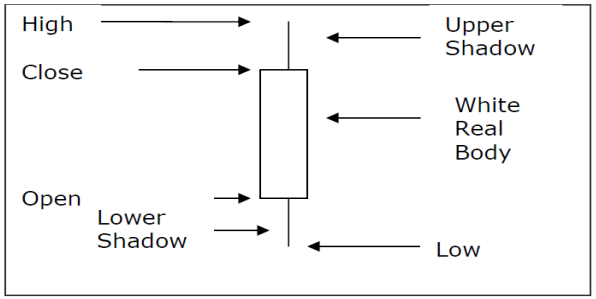
Chart Basics

Types of Charts

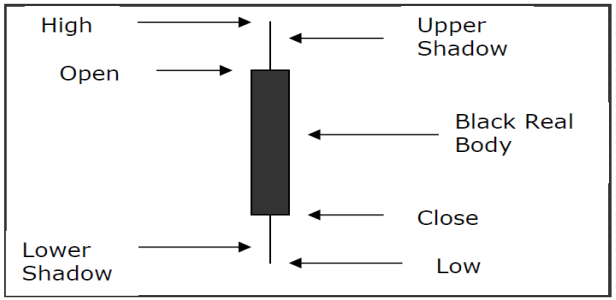
Candlestick Charts



Four elements needed to construct a Candlestick Chart, The **Open, High, Low and Closing Price** for a given time period.



- The Body of the candlestick chart is known as the **real body**, and represents the range between the open and closing prices.



- A Black or filled-in body highlights that the close during that time period was lower than the open (usually considered **Bearish**). When the body is open or white, it shows the close was higher than the open (usually considered **Bullish**)
- The slim straight line above and/or below the real body is known as the **Upper/Lower Shadow or Wick**, representing the high/low price limits for the period.

Chart Basics

Chart Properties

The Time Scale

- The Time Scale refers to **the Range of Dates at the Bottom of the Chart**, which can vary from Decades to Seconds.
- The most frequently used time scales are **Intraday, Daily, Weekly, Monthly, Quarterly and Annually**.
- The shorter the time frame, the more detailed the chart.
- Each data point can represent the closing price of the period or show the open, the high, the low and the close depending on the chart used.

Chart Basics

Chart Properties

The Time Scale

- Intraday charts plot price movement within the period of one day. This means that the time scale could be as short as five minutes or could cover the whole trading day from the opening bell to the closing bell.
- Daily charts are comprised of a series of price movements in which each price point on the chart is **a full day's trading** condensed into one point.
- These data points are spread out over **weekly, monthly and even yearly time scales to monitor both short-term and intermediate trends** in price movement.

Chart Basics

Chart Properties

The Price Scale and Price Point Properties

- The price scale is on the right-hand side of the chart.
- It shows a stock's current price and compares it to past data points. This may seem like a simple concept in that the price scale goes from lower prices to higher prices as you move along the scale from the bottom to the top. The problem, however, is in the structure of the scale itself.
- A scale can either be constructed in a linear (arithmetic) or logarithmic way, and both of these options are available on most charting services.

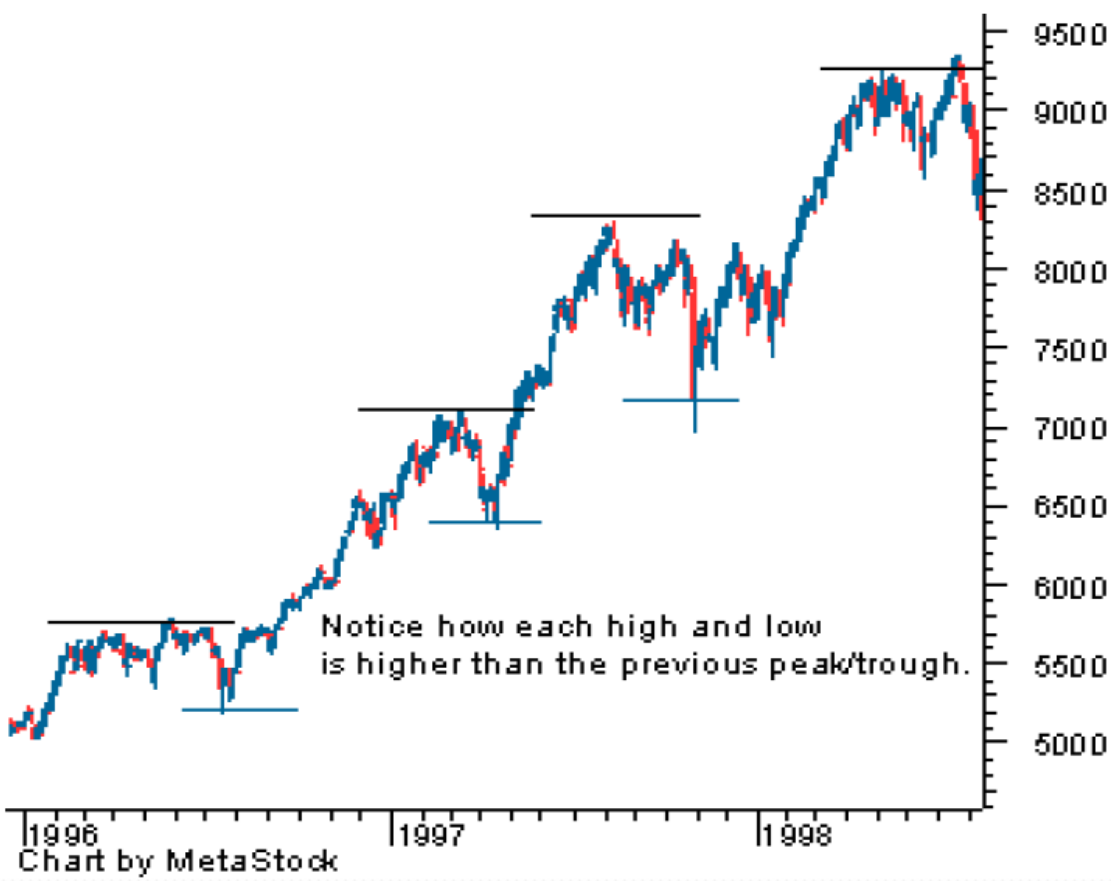
Three Major Trends

The Market Has Three-Trends

- An important part of Technical theory is distinguishing the overall direction of the market. To do this, the theory uses Trend Analysis.
- First, it's important to note that **while the Market tends to move in a general Direction or Trend, it doesn't do so in a Straight Line**.
- The market will rally up to a High (Peak) and then sell off to a Low (Trough), but will generally move in one direction.

Three Major Trends

The Market Has Three-Trends

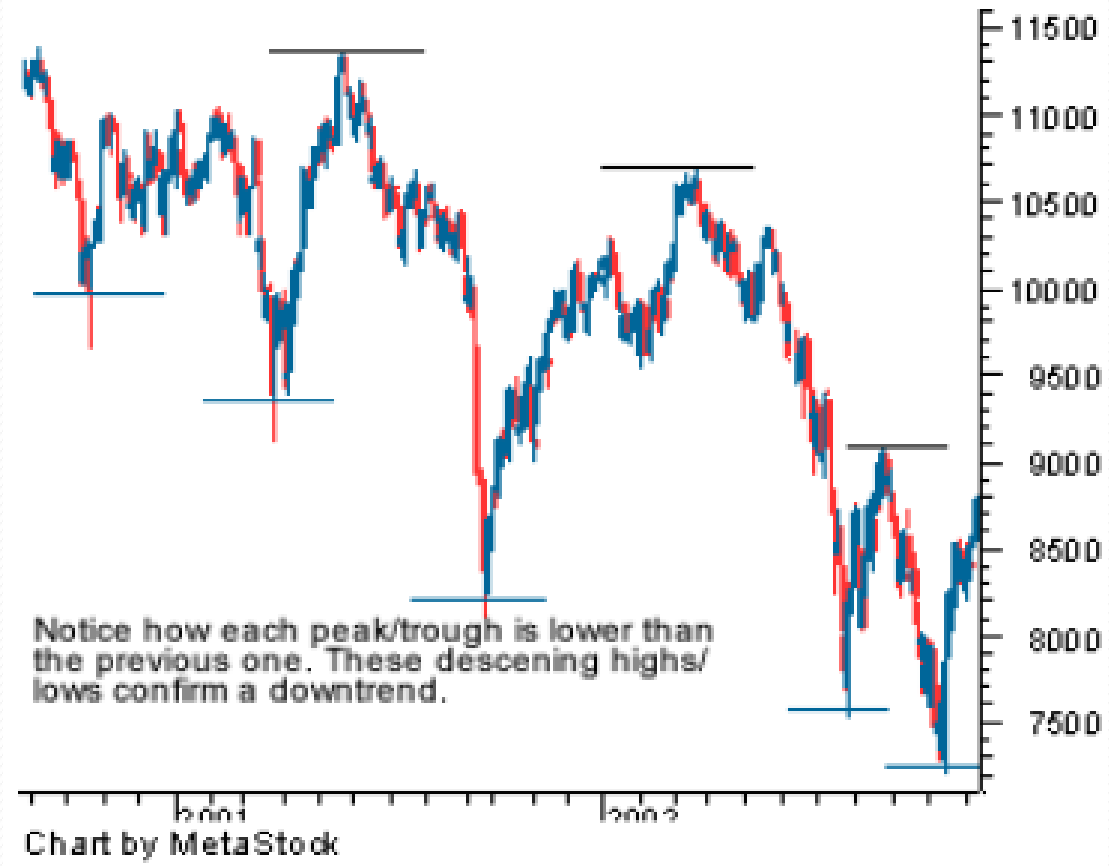


Uptrend

- An upward trend is broken up into several Rallies, where each Rally has a High and a Low.
- For a market to be considered in an Uptrend, *each Peak in the rally must reach a Higher Level than the Previous rally's Peak, and each Low in the rally must be Higher than the Previous rally's Low.*

Three Major Trends

The Market Has Three-Trends



Downtrend

- A Downward Trend is broken up into **several Sell-offs**, in which each Sell-off also has a High and a Low.
- To be considered a Downtrend, each new low in the *Sell-off must be Lower than the Previous Sell-off's* low and the *Peak in the Sell-off must be Lower then the Peak in the Previous Sell-off*.

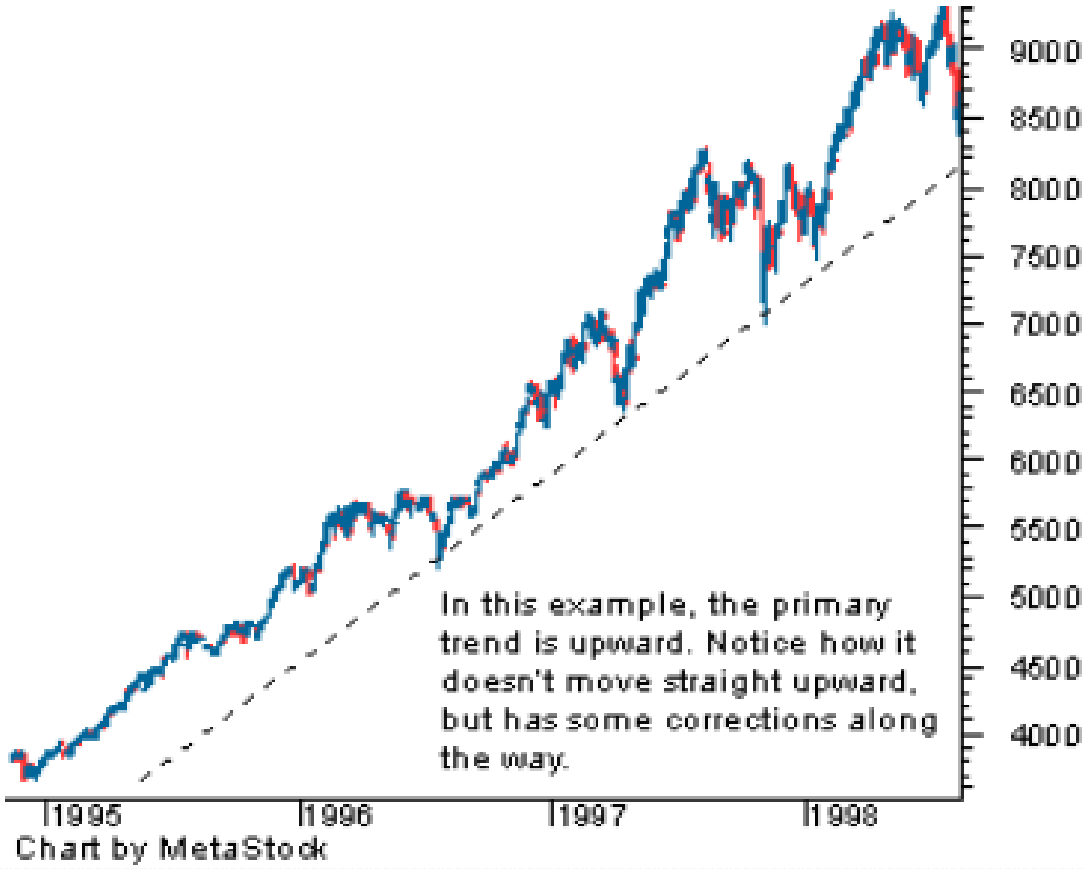
Three Major Trends

The Market Has Three-Trends

- Technical Theory identifies Three Trends within the Market:
  - Primary Trend
  - Secondary Trend
  - Minor Trend
- **Primary Trend** is the largest trend Lasting for more than a Year,
- **Secondary Trend** is an intermediate trend that Lasts Three Weeks to Three Months and is often associated with a *movement against the primary trend*.
- ***Minor Trend*** *often Lasts less than Three Weeks* and is *associated with the movements in the intermediate trend*.

Three Major Trends

The Market Has Three-Trends



An Uptrend with corrections

Primary Trend

- The Primary Trend **is the Major Trend of the Market**, which makes it the most important one to determine.
- This is because the overriding Trend is the one that affects the movements in stock prices.
- The primary trend will also **impact the secondary and minor trends** within the market.

Three Major Trends

The Market Has Three-Trends

A) Primary Trend

- Regardless of trend length, the primary trend remains in effect until there is a confirmed reversal.

- For example, if in an Uptrend the price closes below the low of a previously established Trough, it could be a sign that the market is headed Lower, and not Higher.

- When reviewing Trends, one of the most difficult things to determine is how long the price movement within a primary trend will last before it reverses. The most important aspect is to identify the direction of this trend and **to trade with it, and not against it**, until the weight of evidence suggests that the primary trend has reversed.

Three Major Trends

The Market Has Three-Trends

B) Secondary, or Intermediate, Trend

- In Dow theory, a Primary Trend is the main direction in which the market is moving. Conversely, a Secondary Trend moves in the Opposite Direction of the Primary Trend, or as a **Correction to the Primary Trend.**

- For example, an Upward Primary Trend will be composed of Secondary Downward Trends. This is the movement from a consecutively Higher High to a consecutively Lower High. In a Primary Downward Trend the Secondary Trend will be an Upward move, or a Rally. This is the **movement from a consecutively Lower Low to a consecutively Higher Low.**

Three Major Trends

The Market Has Three-Trends

An Uptrend with Corrections

Secondary Trend

- Notice how the Short-term Highs (shown by the Horizontal Lines) **fail to create successively Higher Peaks, suggesting that a Short-term Downtrend is present**.
- Since the retracement does not fall below the October Low, traders would use this to confirm the validity of the correction within a Primary Uptrend.

Three Major Trends

The Market Has Three-Trends

B) Secondary, or Intermediate, Trend

- In general, a Secondary, or Intermediate Trend **typically lasts between Three Weeks and Three Months**, while the retracement of the Secondary Trend generally ranges between **One-third to Two-thirds of the Primary Trend's movement**.

- For Example, if the Primary Upward Trend moved the DJIA from 10,000 to 12,500 (2,500 points), the Secondary Trend would be expected to send the DJIA down at least 833 points (One-third of 2,500).

- Another important characteristic of a Secondary Trend is that its moves are often **more Volatile than those of the Primary move**.

Three Major Trends

The Market Has Three-Trends

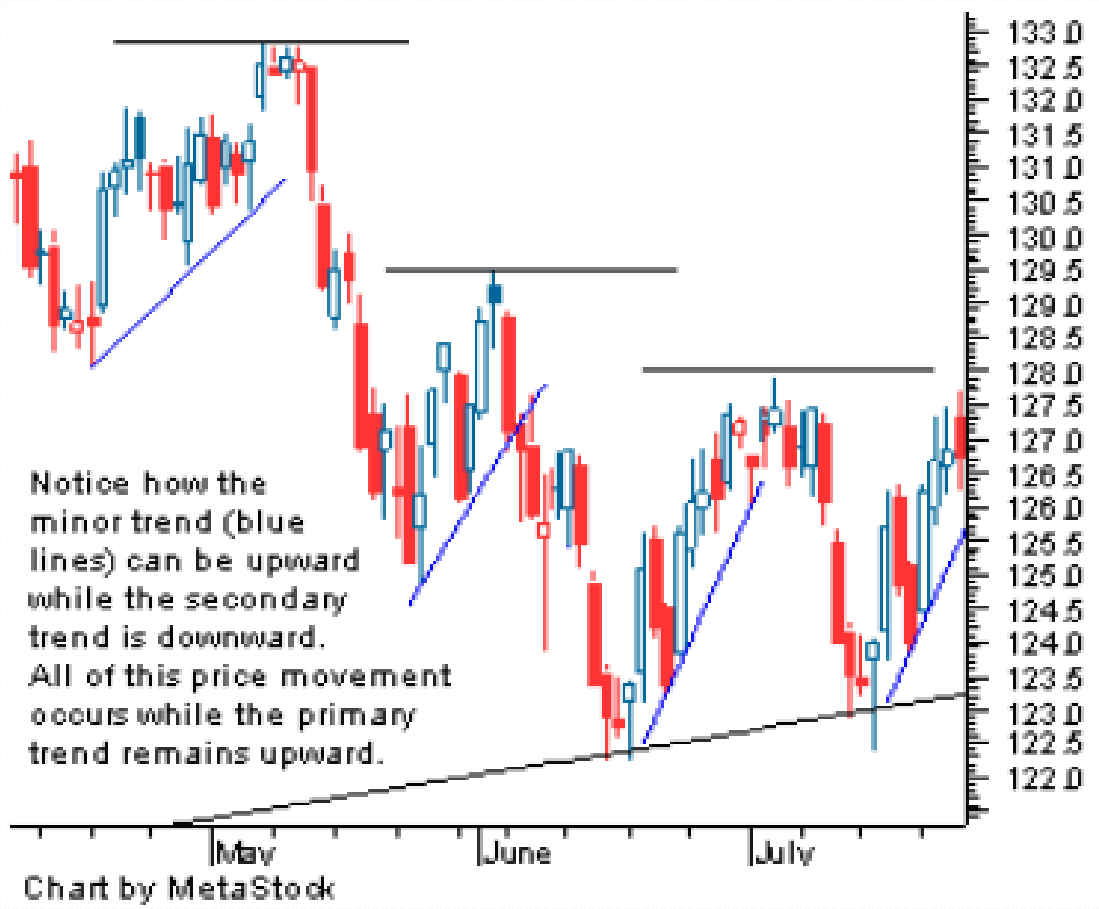


Figure : Minor Trend

Minor Trend

- Minor Trend is defined as a market movement **lasting less than Three Weeks**.
- The Minor Trend is generally the <u>Corrective moves within a Secondary Move</u>, or those moves that **go against the direction of the Secondary Trend**.

Three Major Trends

The Market Has Three-Trends

C) Minor Trend

- Due to its Short-term Nature and the **Longer-term focus** of Technical Theory, the Minor Trend is **not of Major concern to Technical Theory followers.** But this doesn't mean it is completely irrelevant; the Minor Trend is watched with the large picture in mind, as these short-term price movements are a part of both the Primary and Secondary Trends.

- Most proponents of Technical theory focus their attention on the Primary and Secondary Trends, as **Minor Trends tend to include a considerable amount of noise.** If too much focus is placed on minor trends, it can to lead to Irrational Trading, as traders get distracted by short-term volatility and lose sight of the bigger picture.

- Stated simply, **the Greater the Time Period a Trend comprises, the more important the Trend.**

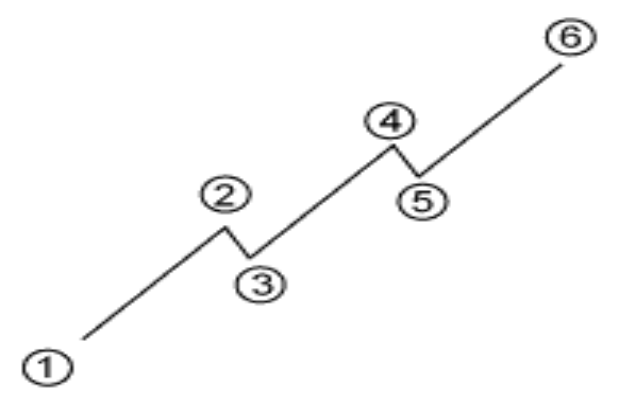
Peak and Trough Analysis

Signals and Identification of Trends

- One **difficult aspect of implementing Technical Theory** is the accurate identification of Trend Reversals.
- The main techniques used to identify Trend Reversals in Technical Theory is **Peak-and-Trough Analysis**.
- A **Peak** is defined as **the Highest Price** of a market movement, while a **Trough** is seen as **Lowest Price** of a market movement.
- Technical Theory assumes that the market doesn't move in a straight line but from highs (Peaks) to lows (Troughs), with the overall moves of the market trending in a direction.

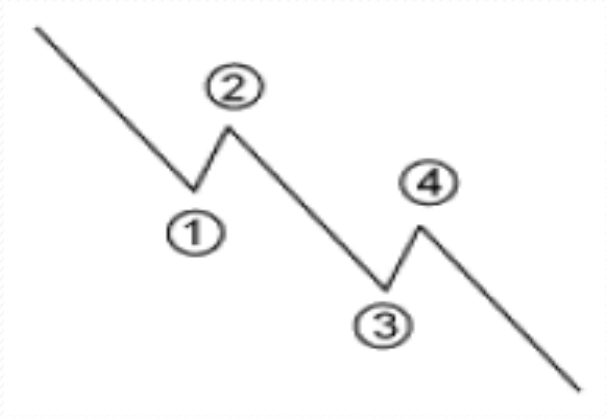
Peak and Trough Analysis

Signals and Identification of Trends



- Upward Trend

- An Upward Trend is a series of **successively Higher Peaks and Higher Troughs.**



- Downward Trend

- A Downward Trend is a series of **successively Lower Peaks and Lower Troughs.**

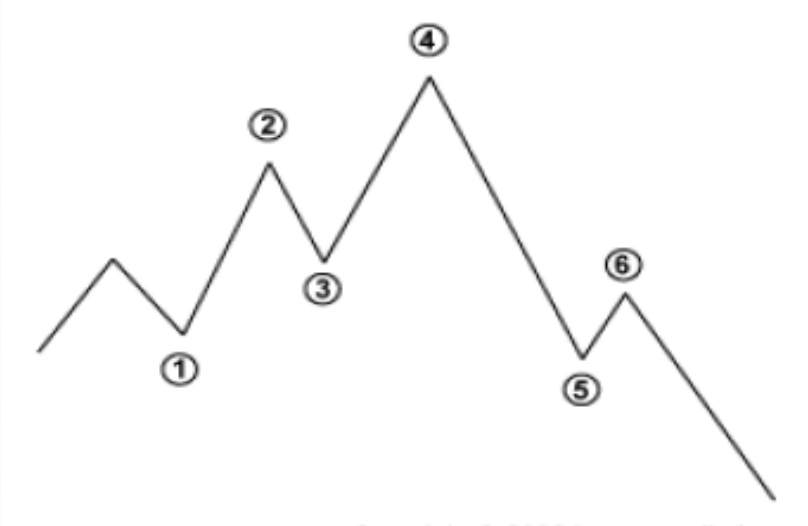
Peak and Trough Analysis

Signals and Identification of Trends

- The Technical Theory contends that a trend remains in effect until there is a clear sign that the trend has reversed.
- Much like **Newton's First Law of Motion**, an object in motion tends to move in a single direction until a force disrupts that movement.
- Similarly, **the Market will continue to move in a Primary Direction until a force**, such as a change in business conditions, is strong enough to change the direction of this Primary move.
- A **Reversal in the Primary Trend is signaled** when the <u>market is unable to create another successive Peak and Trough</u> in the direction of the Primary Trend.

Peak and Trough Analysis

Signals and Identification of Trends

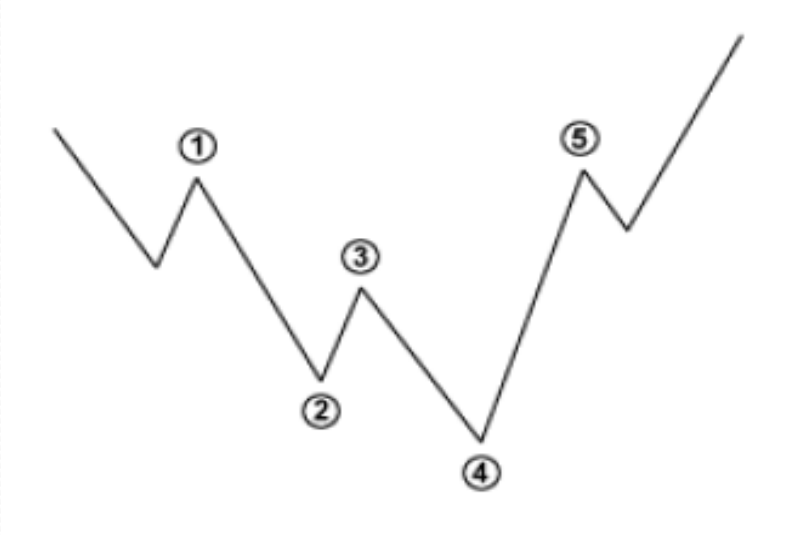


Upward Trend Reversal

- For an Uptrend, a reversal would be signaled by an inability to reach a new High followed by the inability to reach a Higher Low.
- In this situation, the market has gone from **a period of successively Higher Highs and Lows to successively Lower Highs and Lows**, which are the components of a Downward Primary Trend.

Peak and Trough Analysis

Signals and Identification of Trends



Downward Trend Reversal

- The Reversal of a Downward Primary Trend occurs <u>when the market no longer falls to Lower Lows and Highs</u>.

- This happens when the Market establishes **a Peak that is Higher than the Previous Peak followed by a Trough that is Higher than the Previous Trough**, which are the components of an Upward Trend.

Trend Line Analysis

Types of Trend

1. Uptrends
2. Downtrends
3. Sideways/Range bound-Flat / Horizontal Trends

- As the names imply, when each successive peak and trough is higher, it's referred to as an upward trend.
- If the peaks and troughs are getting lower, it's a downtrend.
- When there is little movement up or down in the peaks and troughs, it's a sideways or horizontal trend. If you want to get really technical, you might even say that a sideways trend is actually not a trend on its own, but a lack of a well-defined trend in either direction.

Trend Line Analysis

Classification-Direction of Trend

A Trend of any direction can be classified as a

- Long-Term / Major / Primary Trend
- Medium-Term / Intermediate Trend
- Short-Term Trend.

In terms of the stock market, a major trend is generally categorized as one **lasting longer than a year**. A long-term trend is composed of several intermediate trends, which often **move against the direction of the major trend**.

Trend Line Analysis

Classification of Trend

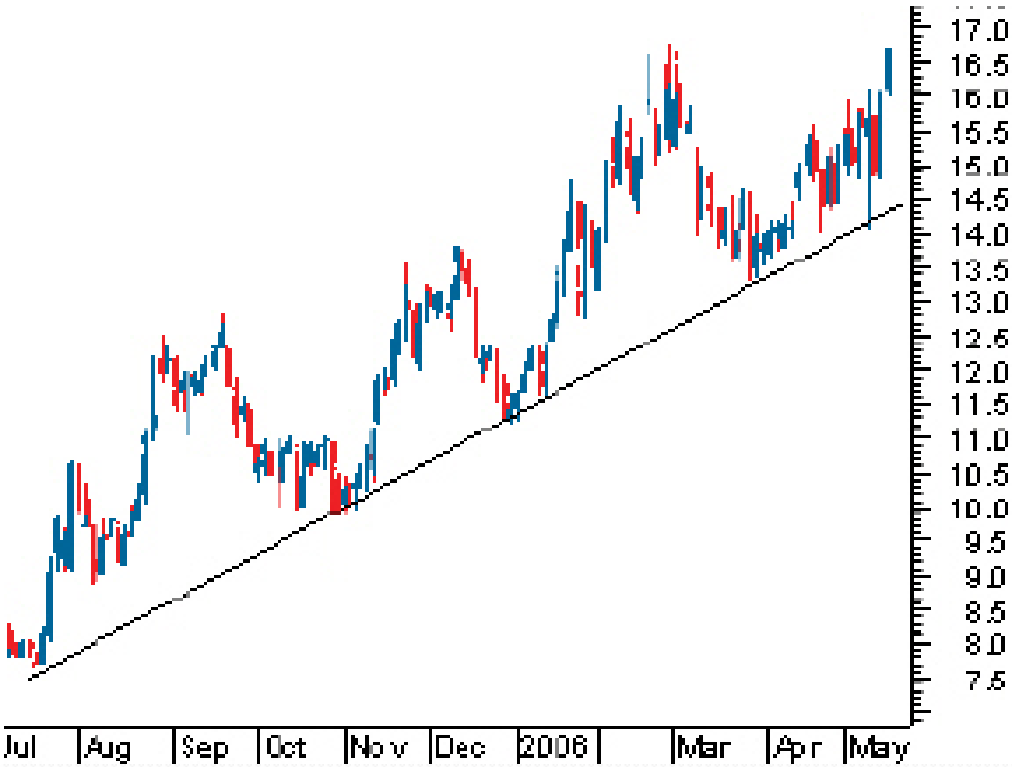
Direction

- An Intermediate Trend is considered to <u>last between One and Three Months</u> and a near-term trend is anything <u>less than a Month</u>. If the major trend is upward and there is a Downward Correction in price movement followed by a continuation of the Uptrend, the **Correction** is considered to be an Intermediate Trend.

- The short-term trends are **components of both Major and Intermediate Trends**. Take a look a Figure to get a sense of how these three Trend lengths might look.

Trend Line Analysis

Trendlines

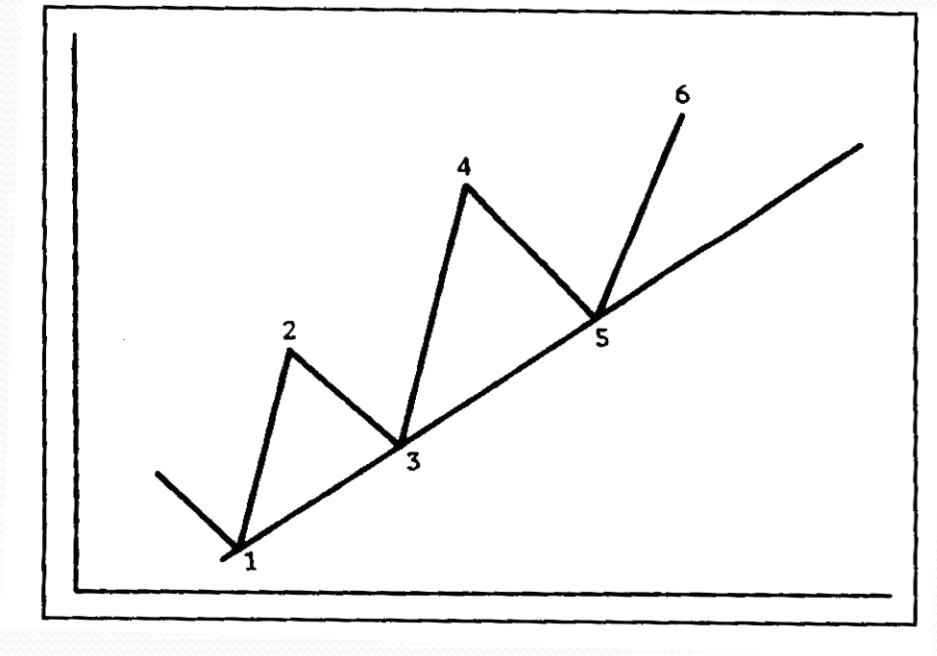


- A Trendline is a simple Charting Technique that adds a line to a chart to represent the Trend in the Market or a stock.
- Drawing a Trendline is as simple as drawing a Straight Line that follows a general Trend.

- These lines are used to clearly show the Trend and are also used in the Identification of Trend Reversals. As you can see in Figure, an Upward Trendline is drawn at the Lows of an Upward Trend.

Trend Line Analysis

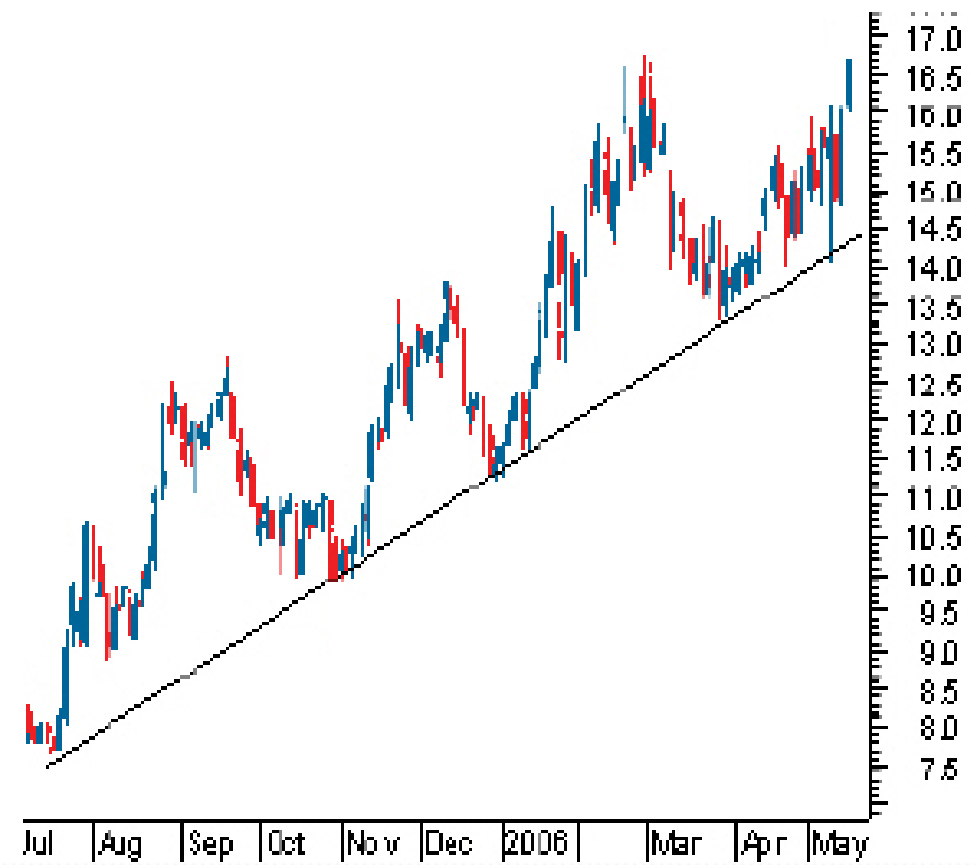
Trendlines



- This line represents the Support the stock has every time it moves from a High to a Low.
- Notice how the price is propped up by this Support.
- This type of Trendline helps traders to anticipate the point at which a stock's price will begin moving upwards again.
- Similarly, a Downward Trendline is drawn at the Highs of the Downward Trend.
- This line represents the Resistance Level that a stock faces every time the price moves from a Low to a High.

Trend Line Analysis

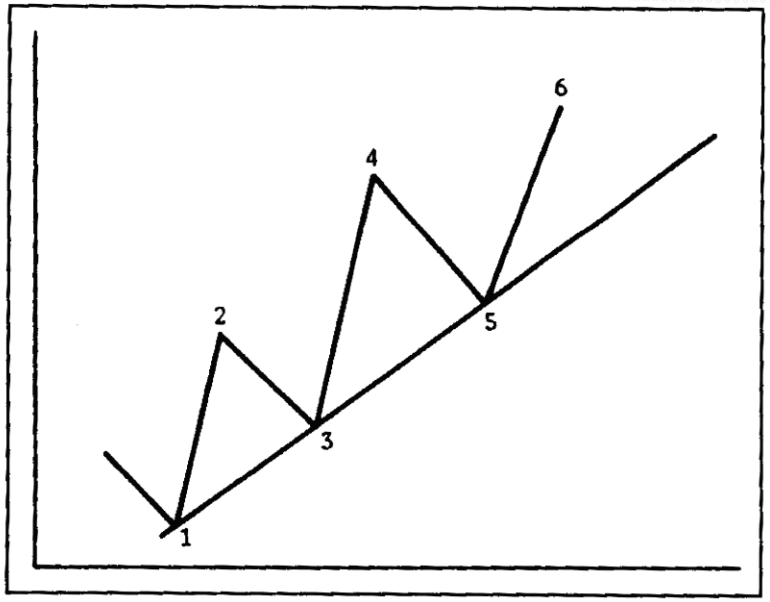
How Trendlines Are Drawn?



- A straight line is mathematically determined by any two points along it.
- In order to draw a Trendline, therefore, we require Two determining points/Two established Top Reversal Points to fix a down Trendline and Two established Bottom Reversal points to fix an up Trendline.

Trend Line Analysis

How Trendlines Are Drawn?

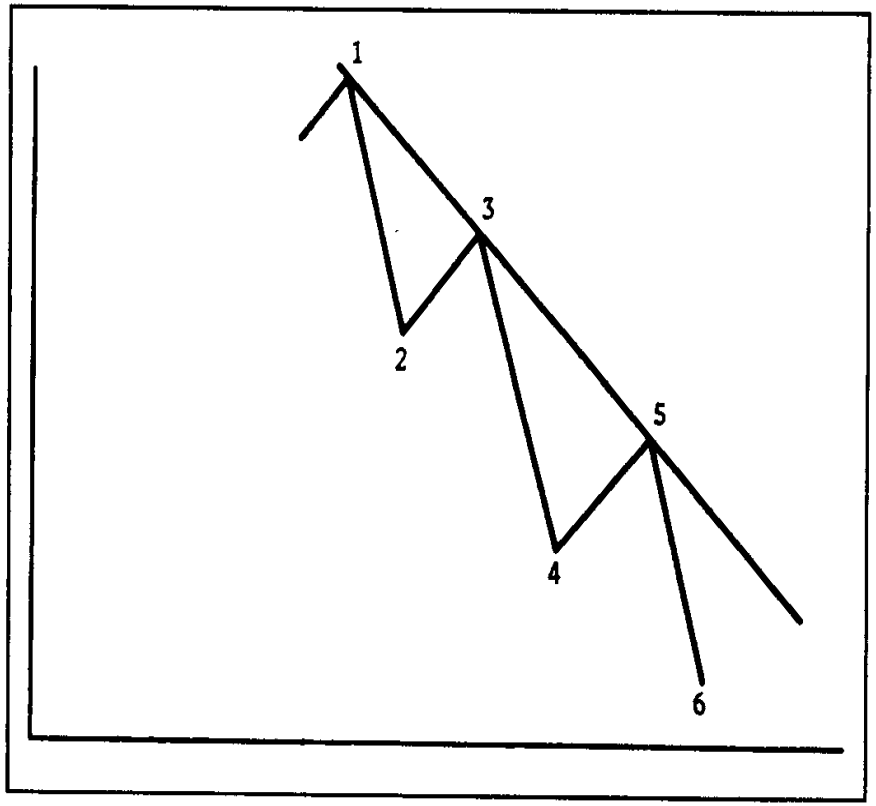


Up Trend

- As you can see in Figure, an **Upward Trendline is drawn at the Lows** of an Upward Trend. The up Trendline is drawn under the Rising Reaction Lows.
- A tentative Trendline is first **drawn under Two successively Higher Lows** (points 1 and 3), but <u>needs a Third Test to confirm the validity of the Trendline</u> (point 5).
- This **line represents the Support** the stock has every time it moves from a High to a low. Notice how the price is propped up by this Support. This type of Trendline helps <u>traders to anticipate the point at which a stock's price will begin moving upwards again</u>.

Trend Line Analysis

How Trendlines Are Drawn?

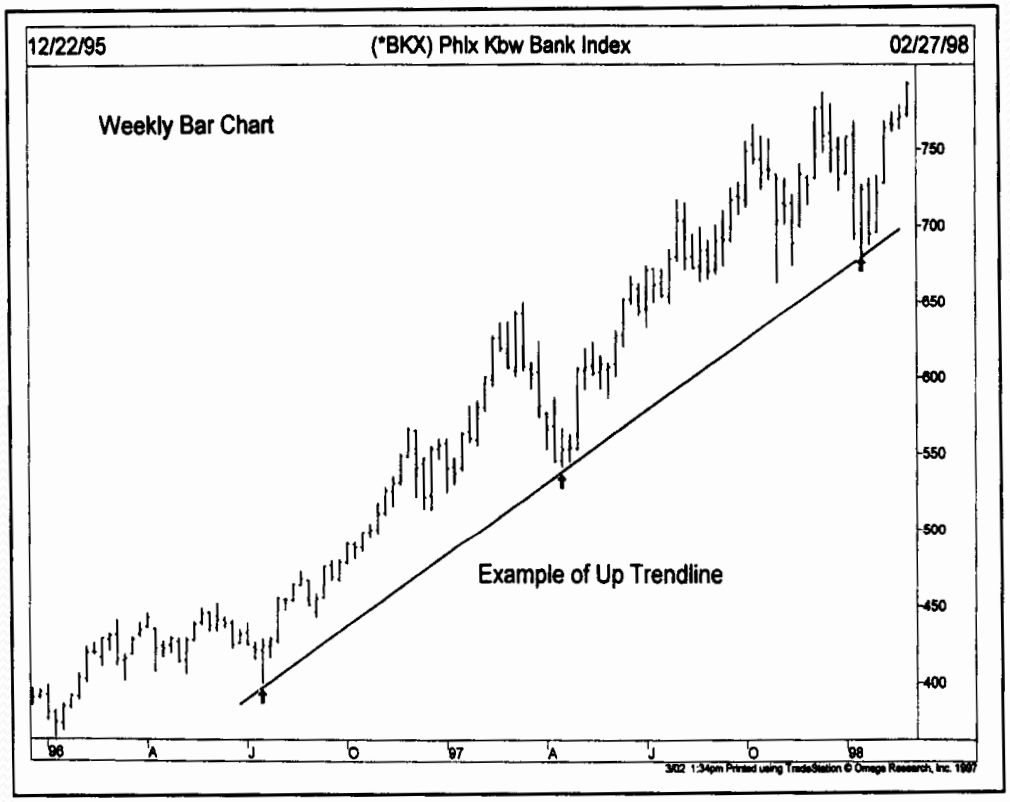


Down Trend

- A Downward Trendline is **drawn at the Highs of the Downward Trend**.
- A Down Trendline is **drawn over the successively Lower Rally Highs**.
- The Tentative Down Trendline needs two points (1 and 3) to be drawn and a third test (5) to confirm its validity.
- This **Line represents the Resistance** level that a stock faces every time the price moves from a Low to a High.

Trend Line Analysis

How Trendlines Are Drawn?



Up Trend

- Long Term up Trendline at work.
- The up **Trendline was drawn upward and to the right** along the first two reaction lows (see arrows).
- The third low at the start of 1998 bounced right off the rising Trendline, thereby keeping the Uptrend intact.

Trend Line Analysis

Guidelines for correct line:

1. There must be evidence of a Trend. This means that, for an up Trendline to be drawn, there must be **at least Two Reaction Lows with the Second Low Higher than the first**.

- Of course, it always takes two points to draw any straight line. In Uptrend Figure, for example, only after prices have begun to move higher from point 3 is the chartist reasonably confident that a reaction low has been formed, and only then can a tentative up Trendline be drawn under points 1 and 3.

Trend Line Analysis

Guidelines for correct line:

2. Methods for Confirming Top or Bottom: Some chartists require that the peak at point 2 be penetrated to confirm the uptrend before drawing the Trendline.

- Other only require a 50% retracement of wave 2-3, or that prices approach the top of wave 2.
- While the criteria may differ, the main point to remember is that the chartist wants to be reasonably sure that a reaction low has been formed before identifying a valid reaction low.
- Once two ascending lows have been identified, a straight line is drawn connecting the lows and projected up and to the right.

Trend Line Analysis

Tentative versus the Valid Trendline

- So far, all we have is a Tentative Trendline. In order to confirm the validity of a Trendline, however, that line should be touched a third time with prices bouncing off of it.
- Therefore, in Uptrend figure, the successful test of the up Trendline at point 5 confirmed the validity of that line.
- Downtrend Figure shows a downtrend, but the rules are same. The successful test of the Trendline occurs at point 5.
- To summarize, two points are needed to draw the Trendline, and a Third point to make it a valid Trendline.

Trend Line Analysis

How to Use the Trendline

- Once the third point has been confirmed and the trend proceeds in its original direction, that Trendline becomes very useful in a variety of ways.

- One of the basic concepts of trend is that a trend in motion will tend to remain in motion. As a corollary to that, once a trend assumes a certain slope or rate of speed, as identified by the Trendline, it will usually maintain the same slope.

- The Trendline then helps not only to determine the extremities of the corrective phases, but may be even more importantly, tells us when that trend is changing.

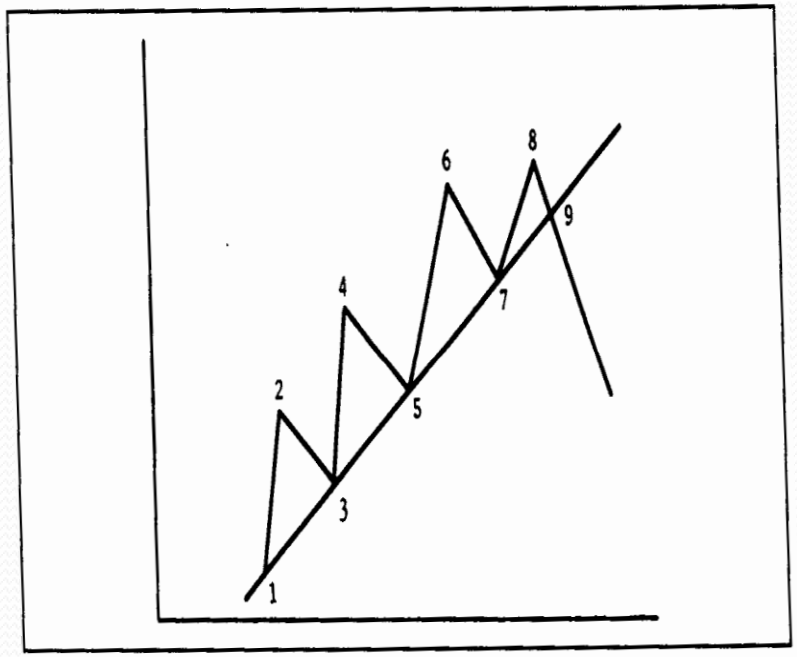
Trend Line Analysis

How to Use the Trendline

- In an uptrend, for example, the inevitable corrective dip will often touch or come very close to the up Trendline.
- Because the intent of the trader is to buy dips in an uptrend, that Trendline provides a Support boundary under the market that can be used as a buying area.
- A Down Trendline can be used as a Resistance area for selling purposes. (see figure Uptrend and Downtrend)

Trend Line Analysis

How to Use the Trendline

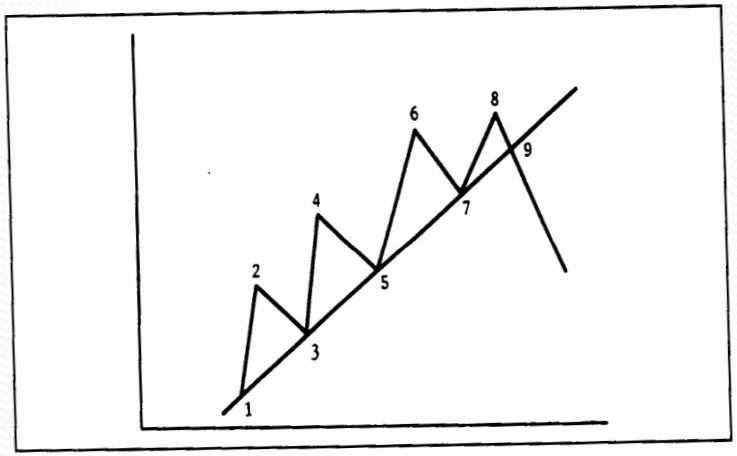


Violation of Up Trend

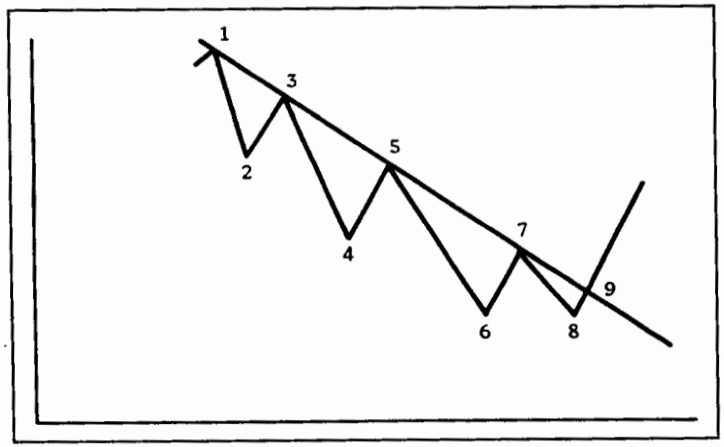
- As long as the Trendline is not violated, it can be used to determine buying and selling areas.
- However, at point 9 in figure the violation of the Trendline signals a trend change, calling for liquidation of all positions in the direction of the previous trend.
- Very often, the breaking of the Trendline is one of the best early warning of a change in trend.

Trend Line Analysis

How to Use the Trendline



Violation of Up Trend



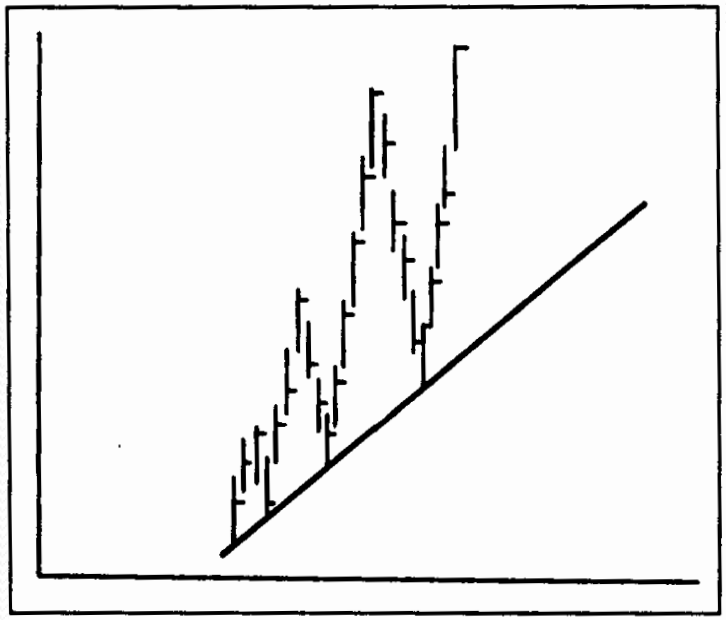
Violation of Down Trend

- Once the up Trendline has been established, subsequent dips near the line can be used as buying areas, Points 5 and 7 in this example could have been used for new or additional longs.
- The breaking of the Trendline at point 9 called for liquidation of all longs by signaling a Downside Trend Reversal.
- If Down Trendline has been established, Points 5 and 7 could have been used as selling areas. The breaking of the Trendline at point 9 signaled an Upside Trend Reversal.

Trend Line Analysis

Validating a Trend Line

Trendline Should Include All Price Action



- Trendlines on bar charts should be drawn over or under the entire day's price range. Some chartists prefer to draw the Trendline by connecting only the closing prices, but that is not the more standard procedure.

- The closing price may very well be the most important price of the day, but it still represents only a small sample of that day's activity. The technique of including the day's price range takes into account all of the activity and is the more common usage.

Trend Line Analysis

Validating a Trend Line- Tests of Authority

A. The Number of Times it has been "Tested" or contacted without Breaking:

- The greater the number of bottoms that have developed at (or very near) a Trendline in the course of a series of Minor up waves, the greater the importance of that line in the technical sense.
- With each successive "test," the significance of the line is increased.
- A first and tentative up Trendline can be drawn as soon as two bottoms have formed, the second higher than the first, but if prices move back to that line a third time, make a third bottom there and start a renewed advance, then the validity of that line as a true definition of the trend has been confirmed by the action of the market.

Trend Line Analysis

Validating a Trend Line- Tests of Authority

B. The Length of the line :

- The longer it has held without being penetrated downside by prices, the greater its technical significance.
- This principle, however, requires some qualification. If your Trendline is drawn from two original bottoms which are very close together in time—say, less than a week apart—it is subject to error; it may be too steep or (more often) too flat.
- If the latter, prices may move away from it and stay high above it for a long time; they may then turn down and have declined well along in an Intermediate correction before the Trendline thus drawn is reached.

Trend Line Analysis

Validating a Trend Line- Tests of Authority

B. The Length of the line :

- But if the Trendline has been drawn from bottoms which are far enough apart to have developed as independent wave components of the trend you are trying to define, with a good rally and "Open Water" between them, then it is more apt to be the true Trendline.
- Greater weight should be given to the number of bottoms that have formed on a Trendline (Test A) than to its length alone (Test B).

Trend Line Analysis

Validating a Trend Line- Tests of Authority

C. The Angle of the Trendline

- The angle of the Trendline (to the horizontal) is also, to some degree, a criterion of its validity as a true delimiter of Intermediate trend.

- A **very Steep** line can easily be broken by a brief sidewise consolidation move—as, for example, by a compact Flag forming on an advance of the "mast" type—only to have prices shoot up again in another extensive advance. Such **steep lines are of little forecasting value** to the technician.

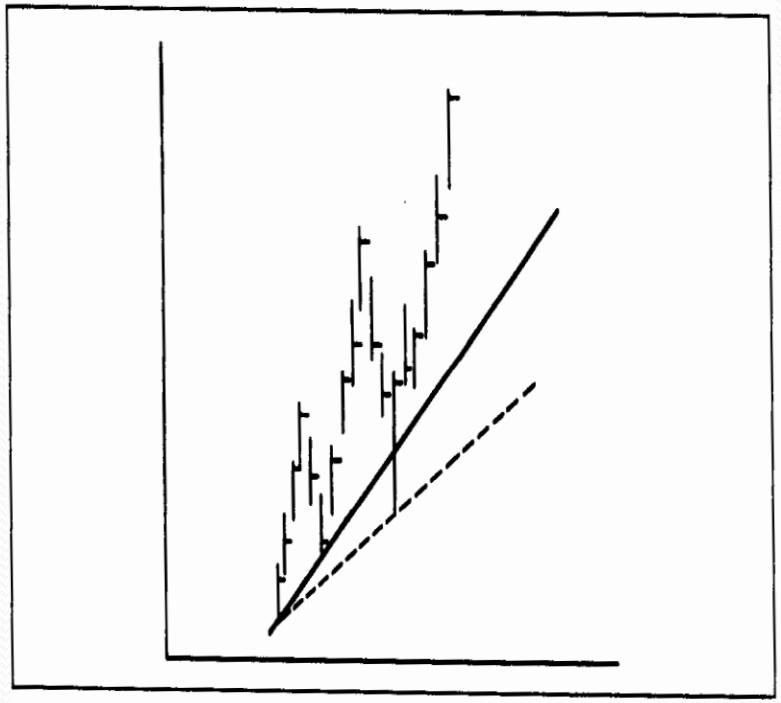
- **The Flatter**, more nearly horizontal the Trendline, the more important it is technically and, in consequence, the **greater the significance of any downside breaks through it**.

- Trendline having **45 Degree** considered good for decision making.

Trend Line Analysis

Validity of Penetration

How to Handle Small Trendline Penetrations



- Sometimes prices will violate a Trendline on an intraday basis, but then close in the direction of the original trend, leaving the analyst in some doubt as to whether or not the Trendline has actually been broken.
- Figure shows how such a situation might look. Price did dip under the Trendline during the day, but closed back above the up Trendline. Should the Trendline be redrawn?

Trend Line Analysis

Validity of Penetration

How to Handle Small Trendline Penetrations

- Sometimes an intraday violation of a Trendline will leave the chartist in doubt as to whether the original Trendline is still valid or if a new line should be drawn.
- A compromise is to keep the original Trendline, but **draw a new dotted line** until it can be better determined which the truer line is.
- However, there's no hard and fast rule to follow in such a situation. Sometimes <u>it is best to ignore the minor breach</u>, especially if subsequent market action proves that the original line is still valid.

Trend Line Analysis

Validity of Penetration

What Constitutes a Valid Breaking of a Trendline?

- As a general rule, **a close beyond the Trendline** is more significant than just an intraday penetration.

- Most technicians employ a variety of time and price filters in an attempt to isolate valid Trendline penetrations and eliminate bad signals or "**Whipsaws**."

- One example of a price filter is the **3% penetration criteria.** This price filter is used mainly for the breaking of longer term trendlines, but requires that the Trendline be broken, on a closing basis, by at least 3%. (The 3% rule doesn't apply to some financial futures, such as the interest rate markets.)

Trend Line Analysis

Validity of Penetration

What Constitutes a Valid Breaking of a Trendline?

- An alternative to **a price filter is a time filter**.

- A common time filter is the **Two Day Rule**. In other words, to have a valid breaking of a Trendline, prices must close beyond the Trendline for two successive days. To break an up Trendline, therefore, prices must close under the Trendline tow days in a row. A one day violation would not count.

- The **1-3% rule** and the two day rule are also applied to the breaking of important support and resistance levels, not just to major trendlines.

- Another filter would require **a Friday Close** beyond a major breakout point to ensure a weekly signal.

Trend Line Analysis

Validity of Penetration

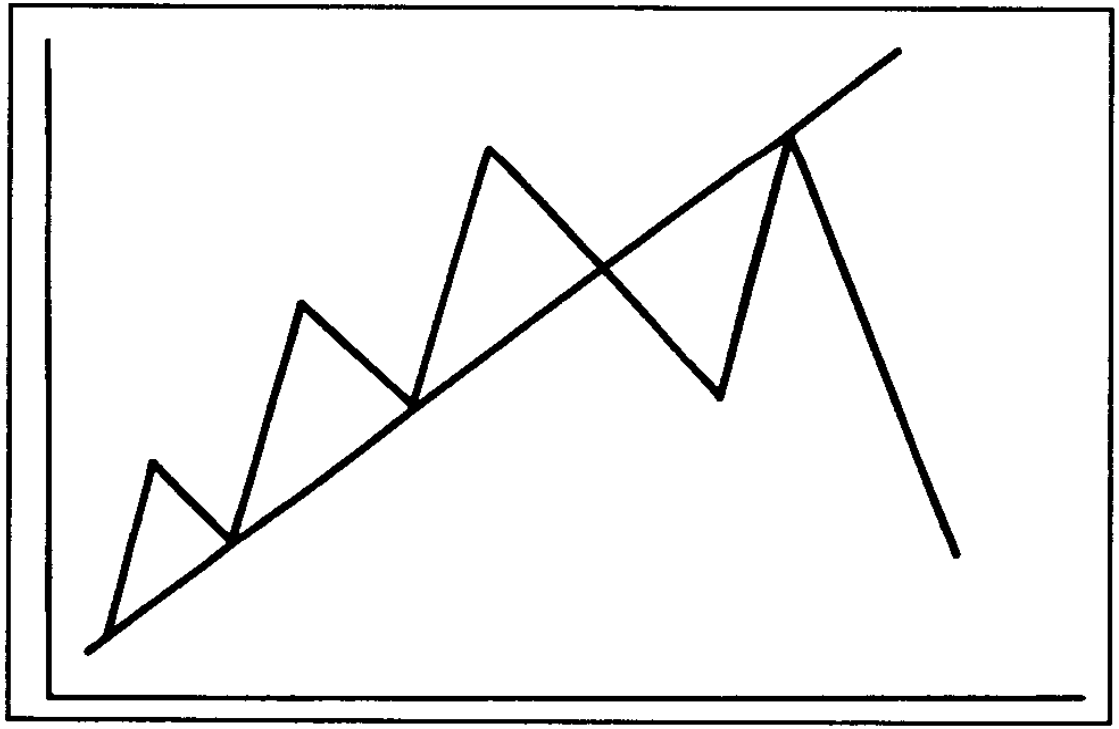
How Trendlines Reverse Roles

- It was mentioned earlier that Support and Resistance levels became the opposite once violated. The same principle holds true of Trendlines.
- In other words, an up Trendline (a Support Line) will usually become a resistance line once it's decisively broken.
- A down Trendline (a Resistance Line) will often become a Support line once it's decisively broken.
- This is why it's usually a good idea to project all Trendlines as far out to the right on the chart as possible even after they've been broken.
- It's surprising how often old Trendlines act as Support and Resistance lines again in the future, but in the opposite role.

Trend Line Analysis

Validity of Penetration

How Trendlines Reverse Roles

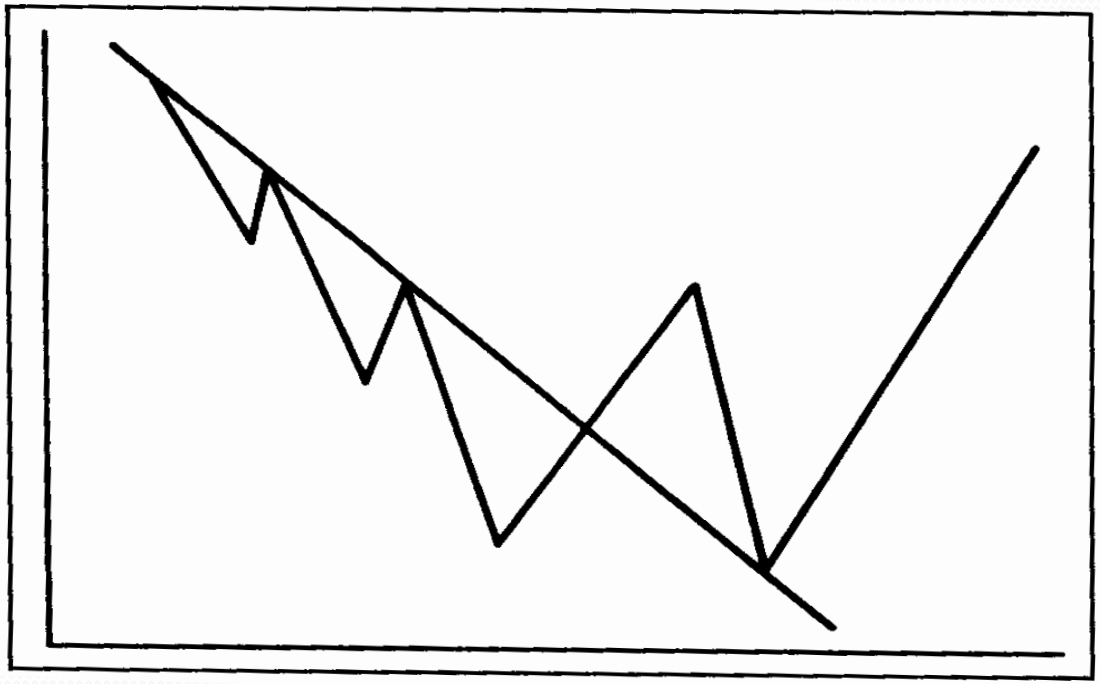


- A Rising Support line becoming Resistance. Usually a Support line will function as Resistance barrier on subsequent rallies, after it has been broken on the downside.

Trend Line Analysis

Validity of Penetration

How Trendlines Reverse Roles

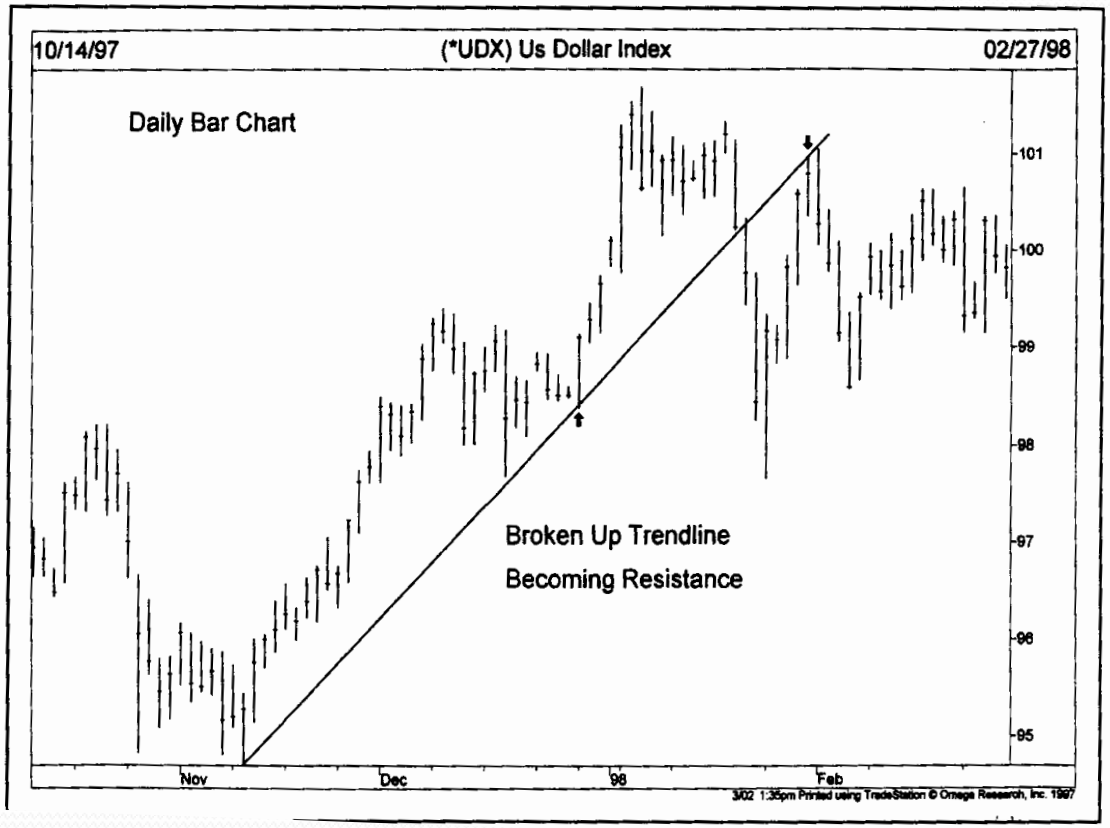


- A falling Resistance line becoming Support. Very often a down Trendline will become a Support line once it's been broken on the upside.

Trend Line Analysis

Validity of Penetration

How Trendlines Reverse Roles



- On this chart, the broken up Trendline became a Resistance barrier on the following rally attempt.

Trend Line Analysis

Validity of Penetration

Measuring Implication of Trendlines

- Trendlines can be used to help determine price objectives.
- Some of the price objectives addressed that are derived from various price patterns are similar to the one we'll cover here with Trendlines.
- Stated briefly, once a Trendline is broken, prices will usually move a distance beyond the Trendline equal to the vertical distance that prices achieved on the other side of the line, prior to the trend reversal.
- In other words, if in the prior uptrend, prices moved 50 above the up Trendline (measured vertically), then prices would be expected to drop that same 50 below the Trendline after it's broken.

Channel Line Analysis

The Channel Line

- The channel line, or the return line as it is sometimes called, is another useful variation of the Trendline technique.
- Sometimes prices trend between two parallel lines-the basic Trendline and the channel line.
- Obviously, when this is the case and when the analyst recognizes that a channel exists, this knowledge can be used to profitable advantage.
- A channel, or channel lines, is the addition of two parallel Trendlines that act as strong areas of support and resistance.

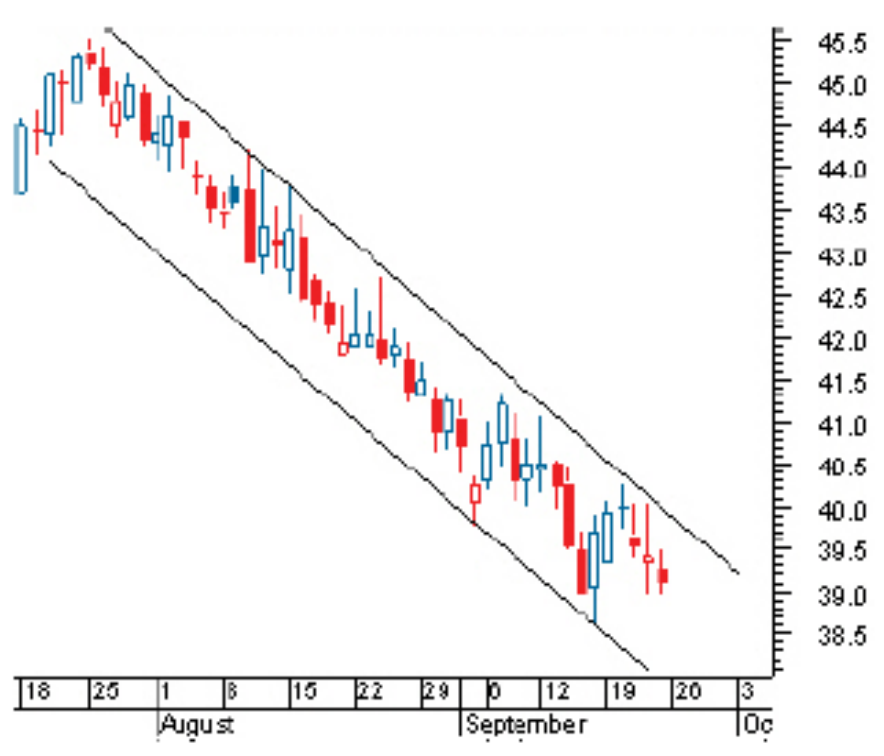
Channel Line Analysis

The Channel Line

- The upper Trendline connects a series of highs, while the lower Trendline connects a series of lows.
- A channel can slope Upward, Downward or Sideways but, regardless of the direction, the interpretation remains the same.
- Traders will expect a given security to trade between the two levels of support and resistance until it breaks beyond one of the levels, in which case traders can expect a sharp move in the direction of the break.
- Along with clearly displaying the trend, channels are mainly used to illustrate important areas of Support and Resistance.

Channel Line Analysis

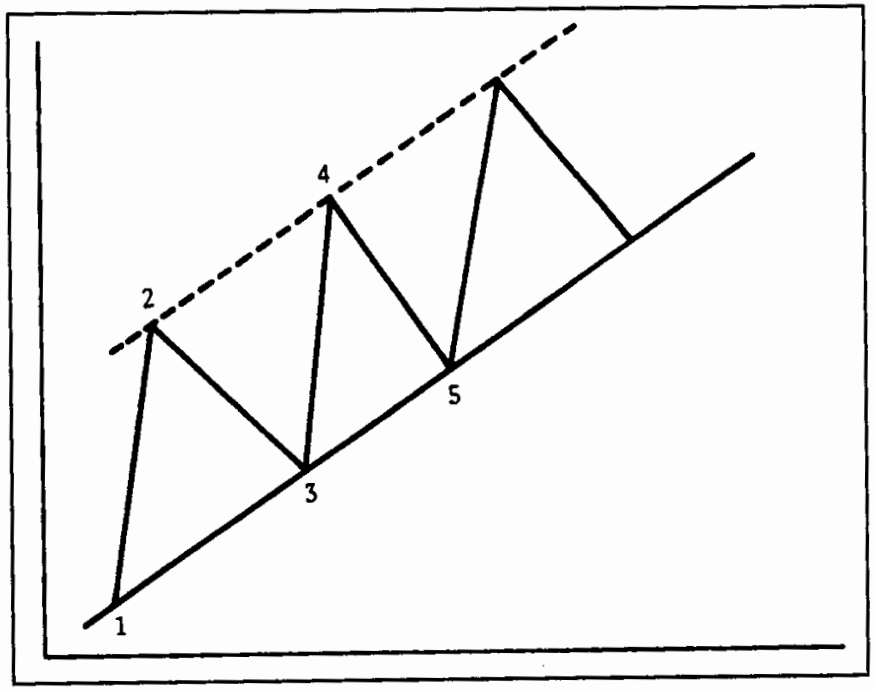
The Channel Line



- Figure illustrates a descending channel on a stock chart; the upper Trendline has been placed on the highs and the lower Trendline is on the lows.
- The price has bounced off of these lines several times, and has remained range-bound for several months.
- As long as the price does not fall below the lower line or move beyond the upper resistance, the range-bound downtrend is expected to continue.

Channel Line Analysis

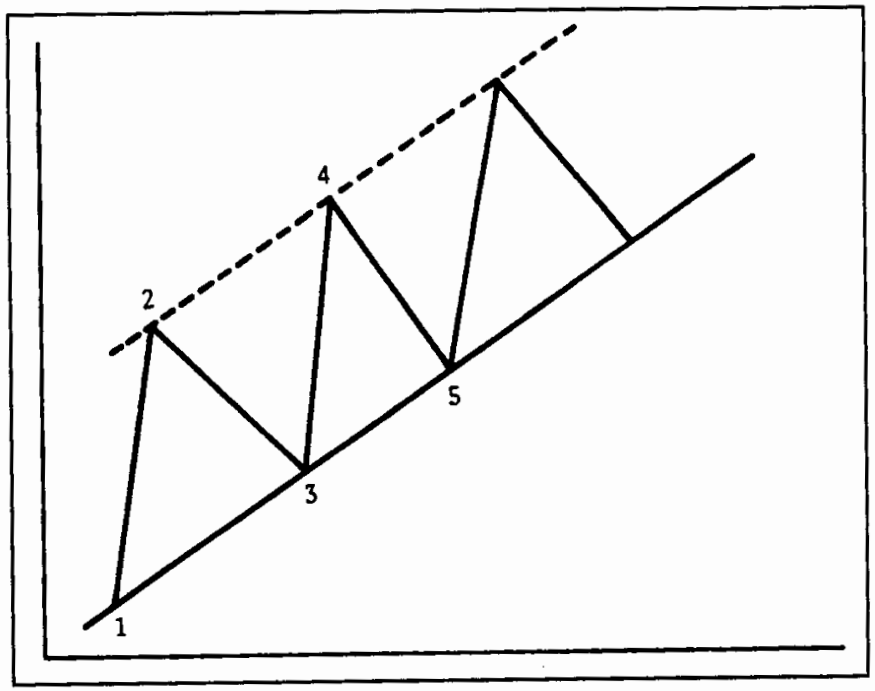
Drawing a Channel



- The drawing of the channel line is relatively simple. In an uptrend, first draw the basic up Trendline along the lows.
- Then draw a dotted line from the fist prominent peak (point 2), which is parallel to the basic up Trendline.
- Both lines move up to the right, forming a channel.

Channel Line Analysis

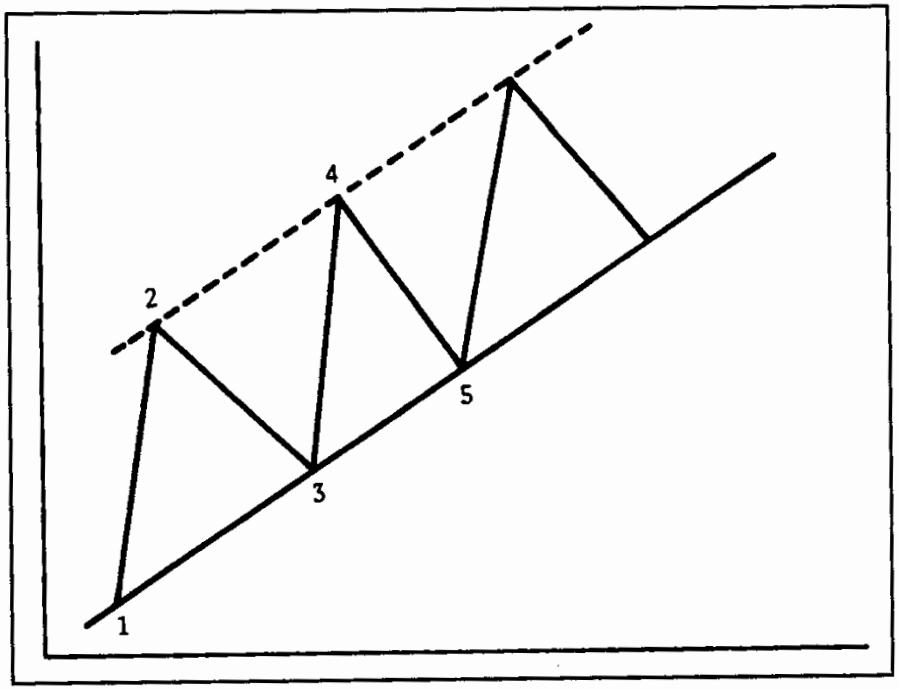
Drawing a Channel



- If the next rally reaches and backs off from the channel line (at point 4), then a channel may exist.
- If prices then drop back to the original Trendline (at point 5), then a channel probably does exist.
- The same holds true for a downtrend, but of course in the opposite direction.

Channel Line Analysis

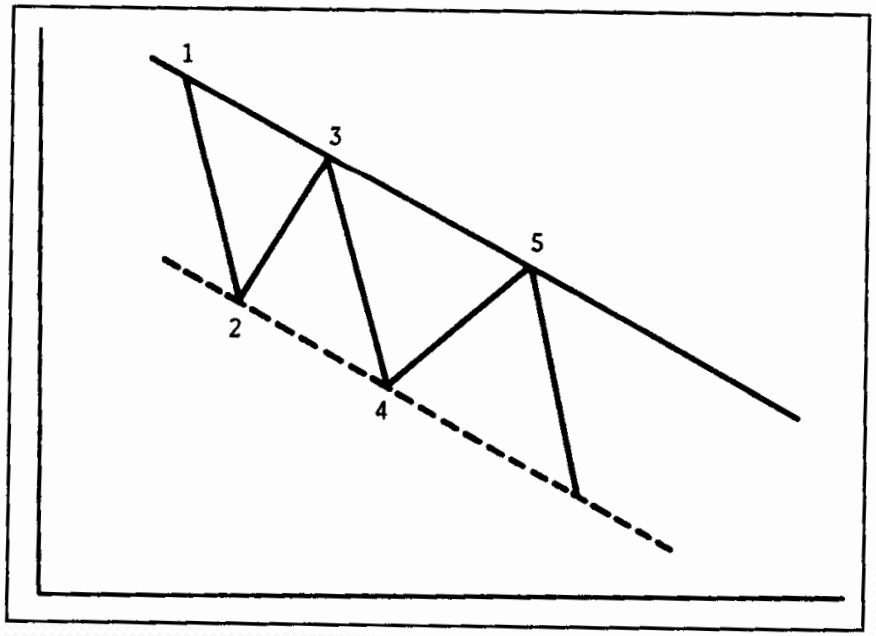
Drawing a Channel



- Example of a trend channel.
- Once the basic up Trendline is drawn (below points 1 and 3) a channel, or return, line (dotted line) can be projected over the first peak at 2, which is parallel to the basic up Trendline.

Channel Line Analysis

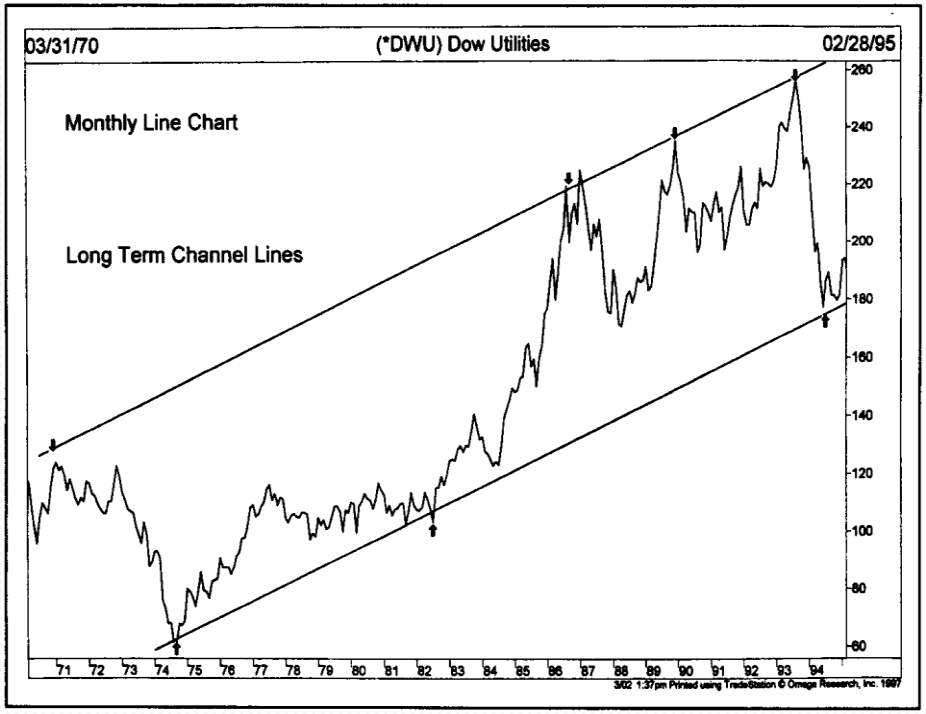
Drawing a Channel



- A Trend Channel in a Downtrend.
- The Channel is projected Downward from the first low at point 2, parallel to the down Trendline along the 1 and 3 peaks. Prices will often remain within such a Trend Channel.

Channel Line Analysis

Using a Channel



- Notice how prices fluctuated between the upper and lower parallel channels over a period of 25 years.
- The 1987, 1989, and 1993 tops occurred right at the upper channel line.
- The 1994 bottom bounced off the lower Trendline.

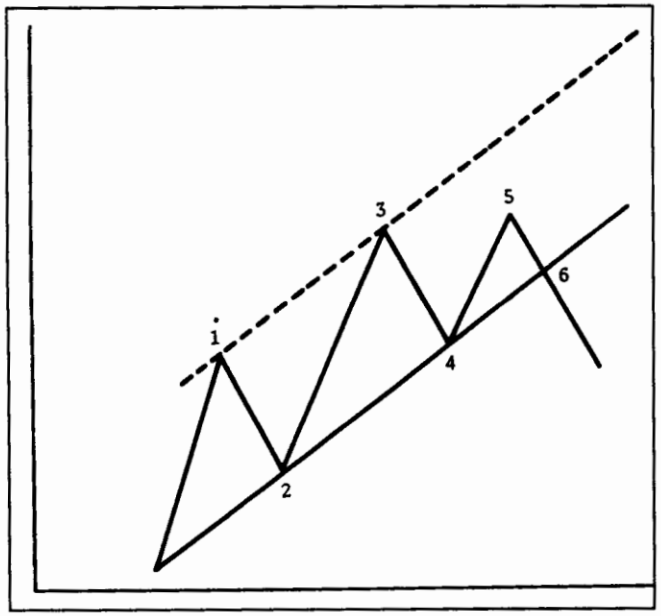
Channel Line Analysis

Using a Channel

- The reader should immediately see the value of such a situation. The basic up Trendline can be used for the initiation of new long positions.
- The channel line can be used for short term profit taking.
- More aggressive traders might even use the channel line to initiate a countertrend short position, although trading in the opposite direction of the prevailing trend can be a dangerous and usually costly tactic.
- As in the case of the basic Trendline, the longer the channel remains intact and the more often it is successfully tested, the more important and reliable it becomes.

Channel Line Analysis

Using a Channel



- The breaking of the major *Trendline* indicated an important change in trend. But the breaking of a *Rising Channel* line has exactly the opposite meaning, and signals an acceleration of the existing trend. Some traders view the clearing of the upper line is in an uptrend as a reason to add to long positions.

- The failure to reach the upper end of the channel is often the channel is often an early warning that the lower line will be broken.

- Notice the failure to reach the upper line at point 5 is followed by the breaking of the basic up Trendline at point 6.

Channel Line Analysis

Using a Channel

- Another way to use the channel technique is **to spot failures to reach the channel line**, usually a sign of a weakening trend.

- In above figure, the failure of prices to reach the top of the channel (at point 5) may be an early warning that the trend is turning, and increases the odds that the other line (the basic up Trendline) will be broken.

- As a general rule of thumb, the failure of any move within an established price channel to reach one side of the channel usually indicates that the trend is shifting, and increase the likelihood that the other side of the channel will be broken.

Channel Line Analysis

Using a Channel

- The channel can also be used to adjust the basic Trendline.
- If prices move above a projected rising channel line by a significant amount, it usually indicates a strengthening trend.
- Some chartist then draw a steeper basic up Trendline from the last reaction low parallel to the new channel line (as demonstrated in figure 1). Often, the new steeper support line function better that the old flatter line.
- Similarly, the failure of an uptrend to reach the upper end of a channel justifies the drawing of a new support line under the last reaction low parallel to the new resistance line over the past two peaks (as shown in figure2)

Channel Line Analysis

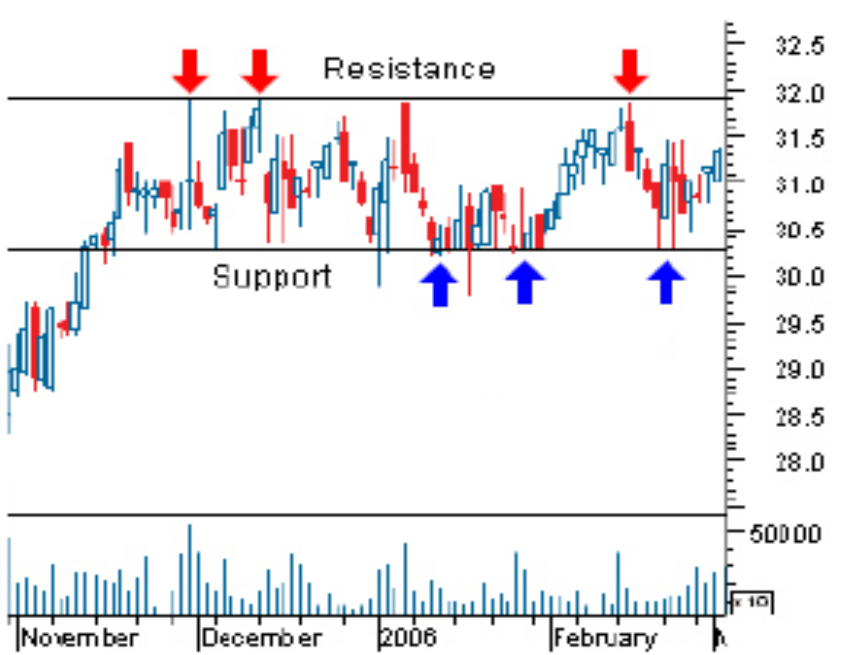
Measuring Implications

- Channel lines have measuring implication. Once a breakout occurs from an existing price channel, prices usually travel **a distance equal to the width of the channel.** Therefore, the user has to simply measure the width of the channel and then project that amount from the point at which either Trendline is broken.

- It should always be kempt in mind, however, that of the two lines, the **basic Trendline is by far the more important and the more reliable**. The channel line is **a secondary use of the Trendline technique**. But the use of the channel line works often enough to justify its inclusion in the chartist's toolkit.

Support Resistance Analysis

Introduction



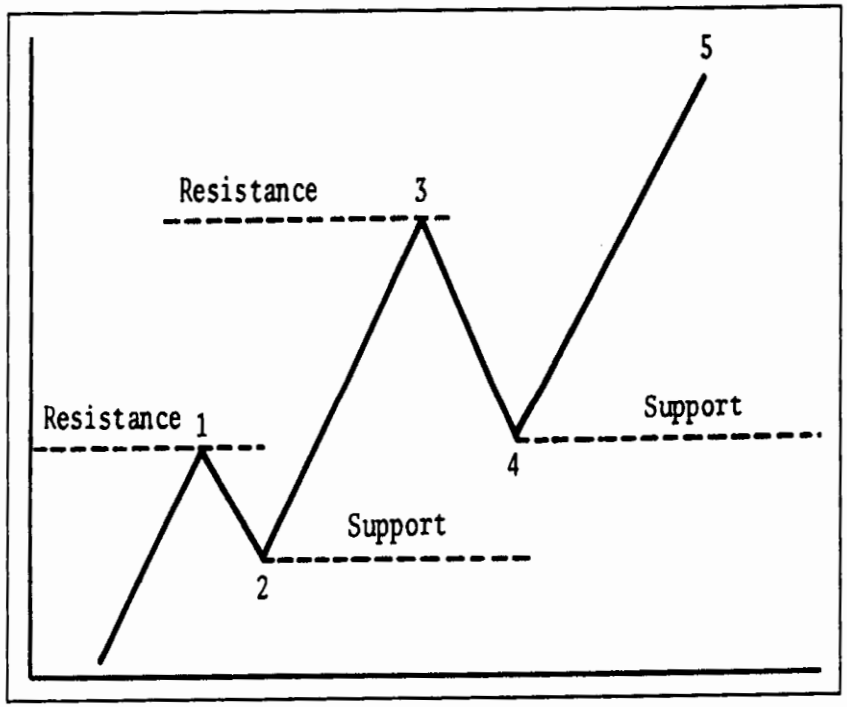
Support and Resistance

- We often hear technical analysts talk about the ongoing battle between the bulls and the bears, or the struggle between buyers (demand) and sellers (supply).
- This is revealed by the prices a security seldom moves above (resistance) or below (support).

- **Support** is the price level through which a stock or market seldom falls (illustrated by the blue arrows). **Resistance**, on the other hand, is the price level that a stock or market seldom surpasses (illustrated by the red arrows).

Support Resistance Analysis

Definition



Uptrend-Support and Resistance

- **The Troughs, or reaction lows, are called support.**
- Support is a level at which bulls (i.e., buyers) take control over the prices and prevent them from falling lower.
- It indicates that support is a level or area on the chart under the market where buying interest is sufficiently strong to overcome selling pressure.
- As a result, a decline is halted and price turn back up again. Usually a support level is identified beforehand by a previous reaction low. In Figure, points 2 and 4 represent support levels in an uptrend.

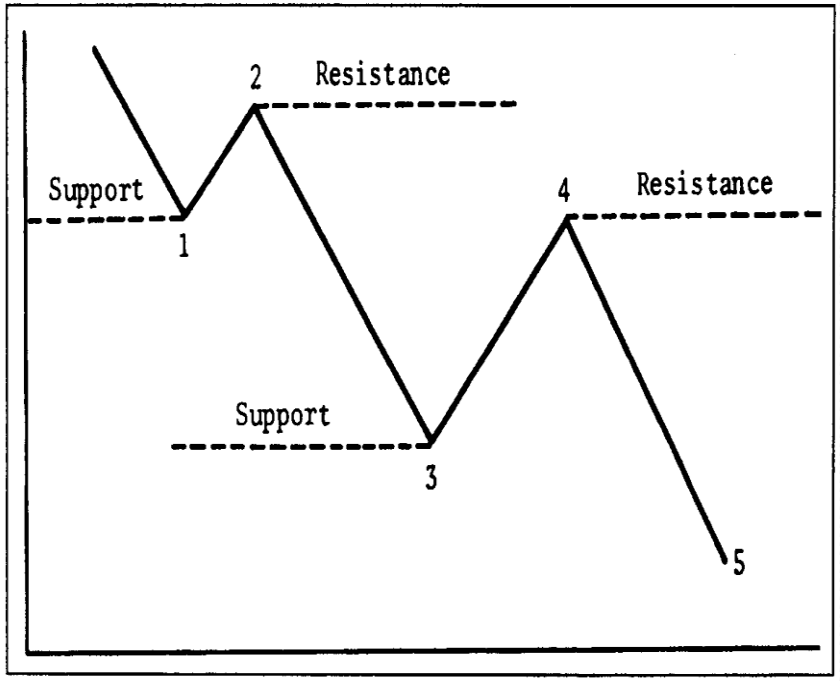
Support Resistance Analysis

Definition

- Resistance, on the other hand, is the point at which **sellers (bears) take control of prices** and prevent them from rising higher.
- It represents a price level or area over the market where **selling pressure overcomes buying pressure** and a price advance is turned back.
- Usually a resistance level is **identified by a previous peak**. In Uptrend figure, points 1 and 3 are resistance levels.
- In an uptrend, the support and resistance levels **show an ascending pattern**.

Support Resistance Analysis

Definition



Downtrend-Support and Resistance

- Figure shows support and resistance in a downtrend.
- Figure Downtrend shows a downtrend with descending peaks and troughs.
- In the downtrend, points 1 and 3 are support levels under the market and points 2 and 4 are resistance levels of the market.

- **Support** levels indicate the price where the most of investors believe that prices will move higher. **Resistance** levels indicate the price at which the most of investors feel prices will move lower.

Support Resistance Analysis

Definition

- A solid grasp of the concept of support and resistance is necessary for a full understanding of the concept of trend.
- For an uptrend to continue, each successive low (support level) must be higher than the one preceding it.
- Each rally high (resistance level) must be higher than the one before it.
- If the corrective dip in an uptrend comes all the way down to the previous low, it may be an early warning that the uptrend is ending or at least moving from an uptrend to a sideways trend.

Support Resistance Analysis

Definition

- If the Support level is violated, then a Trend Reversal from up to down is likely.
- Each time a previous Resistance Peak is being tested, the uptrend is in an especially critical phase.
- Failure to exceed a previous Peak in an Uptrend, or the ability of prices to bounce off the previous support low in a Downtrend, is usually the first warning that the existing trend is changing.

Support Resistance Analysis

Why does Support and Resistance happen?

- These support and resistance levels are seen important in terms of market psychology and supply and demand.
- Support and resistance levels are the levels at which a lot of traders are willing to buy the stock (in the case of a support) or sell it (in the case of resistance).
- When these Trendlines are broken, the supply and demand and the psychology behind the stock's movements is thought to have shifted, in which case new levels of support and resistance will likely be established.

Support Resistance Analysis

Supply and Demand

- Supply/demand lines show what the supply and demand will be at a given price.
- The supply line shows **the quantity** (i.e., the number of shares) that sellers are willing to supply at a given price. When prices increase, the quantity of sellers also increases as more investors are willing to sell at these higher prices.
- The demand line shows **the number of shares** that buyers are willing to buy at a given price. When prices increase, the quantity of buyers decreases as a fewer investors are willing to buy at higher prices.

Support Resistance Analysis

Traders' Remorse

- After a support/resistance level has been broken through, it is common for traders to ask themselves about to what extent new prices represent the facts.

- For Example, after a breakout above a resistance level, buyers and sellers may both question the validity of the new price and may decide to sell.

- This creates a phenomenon that is referred to as **"Traders' Remorse"**: prices return to a Support / Resistance level following a price breakout.

Support Resistance Analysis

Traders' Remorse

- The price action following this remorseful period is crucial.
- One of two things can happen:

- Investors will Reject the new price thinking that the new price is not warranted, in this case prices will move back to their previous level;

- Investors will Accept the new price, in this case prices will continue to move in the direction of the breaking through.

- In case number one, following traders' remorse, the consensus of expectations is that a new higher price is not warranted, a classic **"Bull Trap"** (or **False Breakout**) is created.

Support Resistance Analysis

Traders' Remorse

- For Example, the prices broke through a certain resistance level (luring in a herd of bulls who expected prices to move higher), and then prices dropped back to below the resistance level leaving the bulls holding overpriced stock.

- Similar sentiment creates **a <u>Bear Trap</u>**. Prices drop below a support level long enough to get the bears to sell (or sell short) and then bounce back above the support level leaving the bears out of the market.

- Secondly, following Traders' Remorse is that investors' expectations may change causing the new price to be accepted. In this case, <u>prices will continue to move in the direction of the penetration</u>.

Support Resistance Analysis

Traders' Remorse

- A good way to quantify expectations following a breakout is with the volume associated with the price breakout.
- If prices break through the support/resistance level with a large increase in volume and the traders' remorse period is on relatively low volume, it implies that the new expectations will rule (a minority of investors are remorseful).
- Conversely, if the breakout is on moderate volume and the "Remorseful" period is on increased volume, it implies that very few investor expectations have changed and a return to the original expectations (i.e., original prices) is warranted.

Support Resistance Analysis

Psychology-1 behind Support and Resistance

- To illustrate, let's divide the market participants into three categories- the longs, the shorts, and the uncommitted.
- The Longs are those traders who have already purchased contracts.
- The Shorts are those who have already committed themselves to the sell side.
- The Uncommitted are those who have either gotten out of the market or remain undecided as to which side to enter.
- Let's assume that a market starts to move higher from a support area where prices have been fluctuating for some time.

Support Resistance Analysis

Psychology-1 behind Support and Resistance

- The Longs (those who bought near the support area) are delighted, but regret not having bought more.
- If the market would dip back near that support area again, they could add to their long position.
- The Shorts now realize (or strongly suspect) that they are on the wrong side of the market. (How far the market has moved away from that Support area will greatly influence these decisions, but we'll come back to that point a bit later.)The shorts are hoping (and praying) for a dip back to that area where they went short so they can get out of the market where they got in (their break even point).

Support Resistance Analysis

Psychology-1 behind Support and Resistance

- Those sitting on the sidelines can be divided into two groups

- those who never had a position

- those who, for one reason or another, liquidated previously held long positions in the support area.

- The latter groups are, of course, mad at themselves for liquidating their longs prematurely and are hoping for another chance to reinstate those longs near where they sold them.

- The final group, the undecided, now realizes that prices are going higher and resolve to enter the market on the long side on the next good buying opportunity.

Support Resistance Analysis

Psychology-1 behind Support and Resistance

- All four groups are resolved to "Buy the Next Dip."
- They all have a "Vested Interest" in that support area under the market.
- Naturally, if prices do decline near that support, renewed buying by all four groups will materialize to push prices up.
- The more trading that takes place in that support area, the more significant it becomes because more participants have a vested interest in that area.

Support Resistance Analysis

Psychology-1 behind Support and Resistance

- Importance of support or resistance area can be determined By:

a) The amount of time spent there,

b) Volume,

c) How recently the trading took place

d) Number of Touch Points

e) Big Volatility Candle

- The longer the period of time that prices trade in a support or resistance area, the more significant that area becomes.

Support Resistance Analysis

Psychology-1 behind Support and Resistance

- For Example, if prices trade sideways for three weeks in a congestion area before moving higher, that support area would be more important than if only three days of trading had occurred.
- Volume is another way to measure the significance of support and resistance.
- If a support level is formed on heavy volume, this would indicate that a large number of units changed hands, and would mark that support level as more important than if very little trading had taken place.

Support Resistance Analysis

Psychology-1 behind Support and Resistance

- A third way to determine the significance of a support or resistance area is how recently the trading took place.
- Because we are dealing with the reaction of traders to market movement and to positions that they have already taken or failed to take, it stands to reason that **the more recent the activity, the more potent it becomes**.
- If there are more Number Touch points on particular Support or Resistance zone its considered most important than one or two.
- Big candle with high volume also a Good Support or Resistance.

Support Resistance Analysis

Psychology-2 behind Support and Resistance

- Now let's turn the tables and imagine that, instead of moving higher, prices move lower.
- In the previous example, because prices advanced, the combined reaction of the market participants caused each downside reaction to be met with additional buying (thereby creating new support).
- However, if prices start to drop and move below the previous support area; the reaction becomes just the opposite.
- All those who bought in the support area now realize that they made a mistake.

Support Resistance Analysis

Psychology-2 behind Support and Resistance

- For futures traders, their brokers are now calling frantically for more margin money.
- Because of the highly leveraged nature of futures trading, traders cannot sit with losses very long.
- They must put up additional margin money or liquidate their losing positions.
- What created the previous support in the first place was the predominance of buy orders under the market.
- Now, however, <u>all of the previous buy orders under the market have become sell orders over the market</u>.

Support Resistance Analysis

Psychology-2 behind Support and Resistance

- Now Support has become Resistance.
- The more significant that previous support area was-that is, the more recent and the more trading that took place there-the more potent it now becomes as a resistance are.
- All of the factors that created support by the three categories of participants-the Longs, the shorts, and the uncommitted-will now function to put a ceiling over prices on subsequent rallies or bounces.

Support Resistance Analysis

Psychology behind Support and Resistance

- It is useful once in a while to pause and reflect on why the price patterns used by chartists, and concepts like support and resistance, actually do work.
- These patterns work because they provide pictures of what the market participants are actually doing and enable us to determine their reactions to market events.
- Chart analysis is actually a study of human psychology and the reactions of traders to changing market conditions.
- The pictures on the charts have sound psychological reasons, therefore support and resistance levels can be identified on price charts and they can be used to help predict market movements.

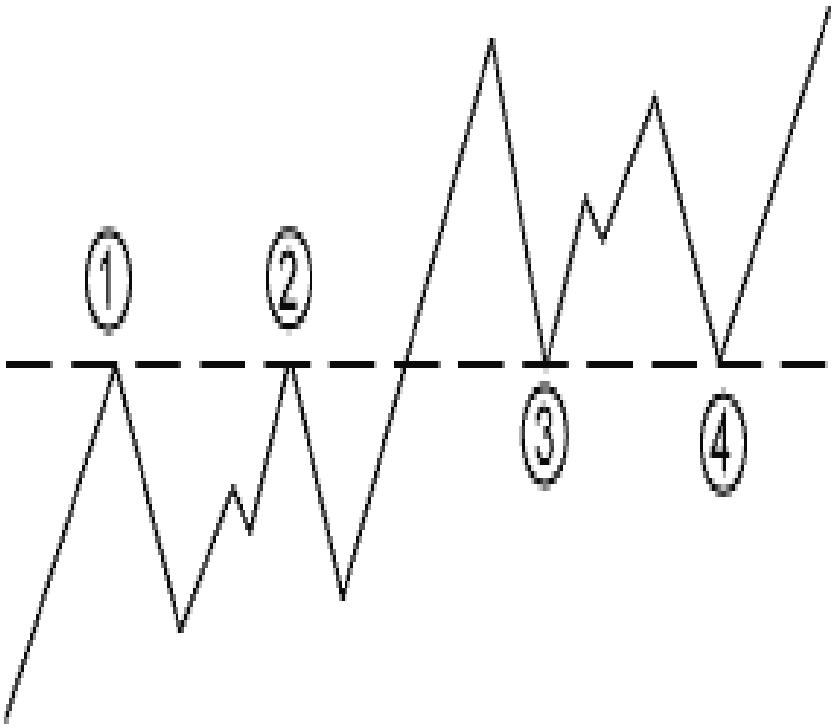
Support Resistance Analysis

Role Reversal

- So far we've defined "Support" as a previous low and "Resistance" as a previous high.
- Whenever a Support or Resistance level is penetrated by a significant amount, they reverse their roles and become the opposite.
- If the price falls below a Support level, that level will become Resistance. If the price rises above a Resistance level, it will often become Support.
- As the price moves past a level of support or resistance, it is thought that supply and demand has shifted, causing the breached level to reverse its role.

Support Resistance Analysis

Role Reversal



- For a true reversal to occur, however, it is important that the price make a strong move through either the support or resistance.
- For Example, as you can see in Figure, the dotted line is shown as a level of resistance that has prevented the price from heading higher on two previous occasions (Points 1 and 2).
- However, once the resistance is broken, it becomes a level of support (shown by Points 3 and 4) by propping up the price and preventing it from heading lower again.

Support Resistance Analysis

Role Reversal

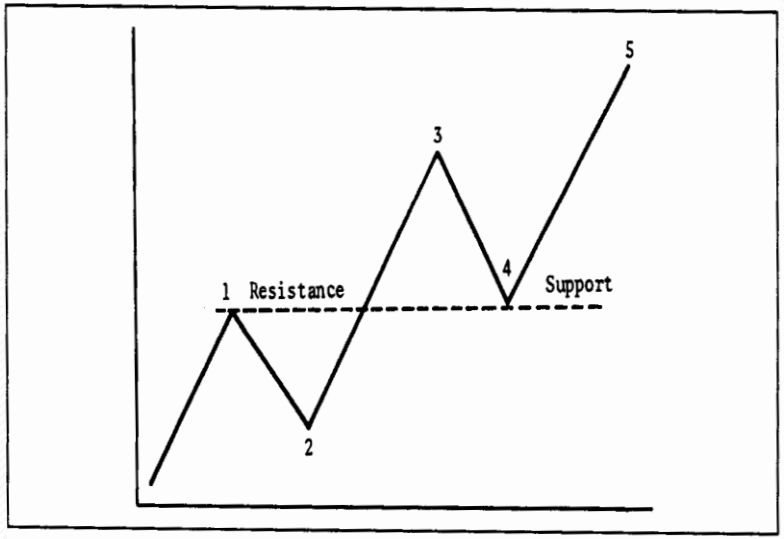
Resistance becomes support

- A Resistant level, penetrated by a significant margin, becomes a Support level.
- The reason for it is that a new "generation" of bulls appears who refused to buy when prices were low. Now they are anxious to buy at any time the prices return to the previous level.
- Similarly, when prices drop below a support level, that level often becomes a resistance level that prices have a difficult time breaking through.
- When prices approach the previous support level, investors seek to limit their losses by selling.

Support Resistance Analysis

Role Reversal

Resistance becomes support

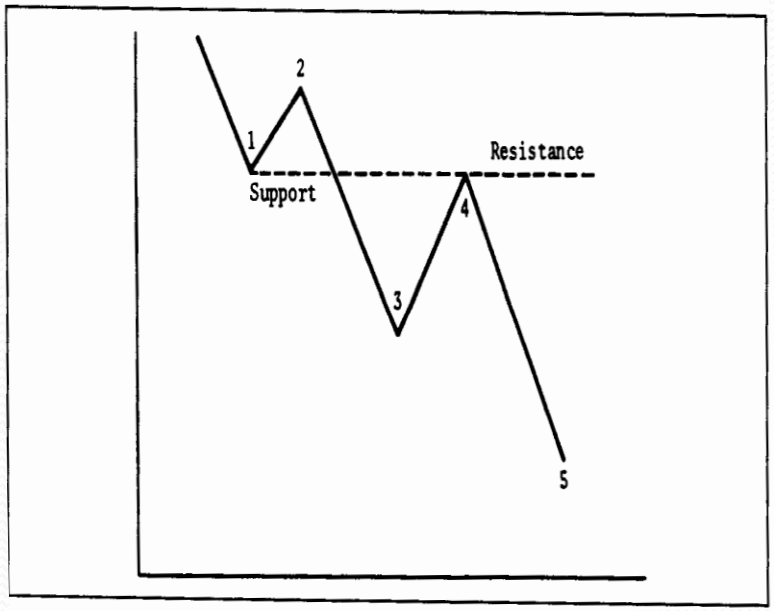


- Notice that as prices are rising in figure, the reaction at point 4 stops at or above the top of the peak at point 1.
- That previous peak at point 1 had been a resistance level. But once it was decisively penetrated by wave 3, that previous resistance peak became a support level.
- All of the previous selling near the top of Wave 1 (creating the resistance level) has now become buying under the market.

Support Resistance Analysis

Role Reversal

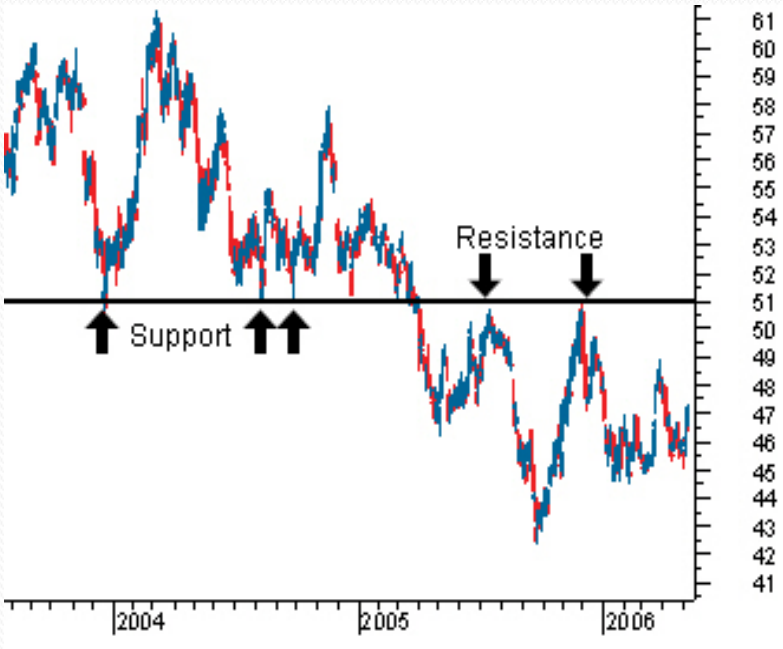
Support Becomes Resistance



- A support level, penetrated by a significant margin, becomes a resistance level. In figure, showing declining prices.
- Point 1 (Which had been a previous support level under the market) has now become a resistance level over the market acting as a ceiling at point 4.

Support Resistance Analysis

Role Reversal

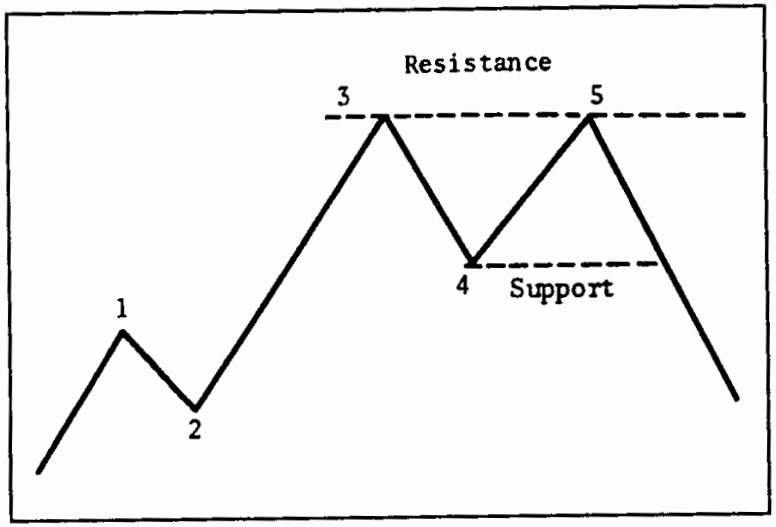


- Many traders who begin using technical analysis find this concept hard to believe and don't realize that this phenomenon occurs rather frequently, even with some of the most well-known companies.
- For example, as you can see in Figure, this phenomenon is evident on the Wal-Mart Stores Inc.
- (WMT) chart between 2003 and 2006. Notice how the role of the $51 level changes from a strong level of support to a level of resistance.

Support Resistance Analysis

Role Reversal

Support and Resistance as a Trend Reversal

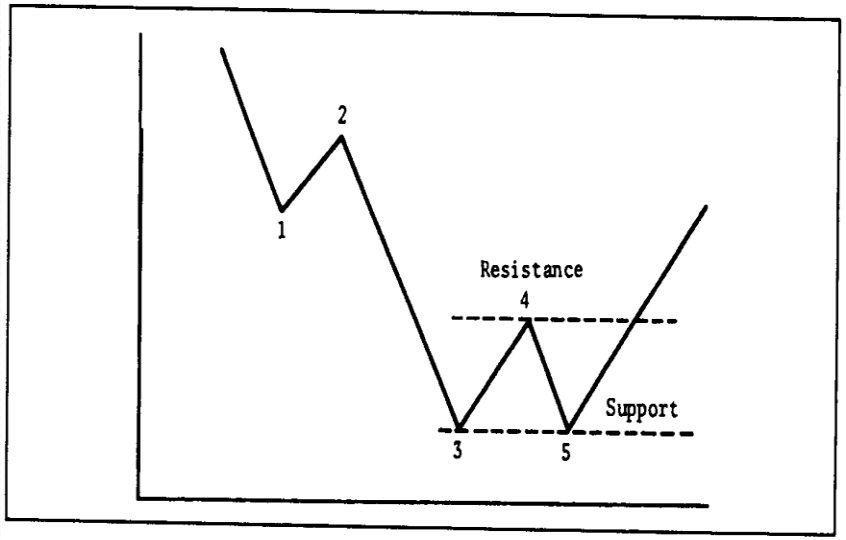


- Example of an Uptrend Reversal.
- The failure of prices at point 5 to exceed the previous peak at point 3 followed by a downside violation of the previous low at point 4 constitute a downside trend reversal.
- This type of pattern is called a double top.

Support Resistance Analysis

Role Reversal

Support and Resistance as a Trend Reversal

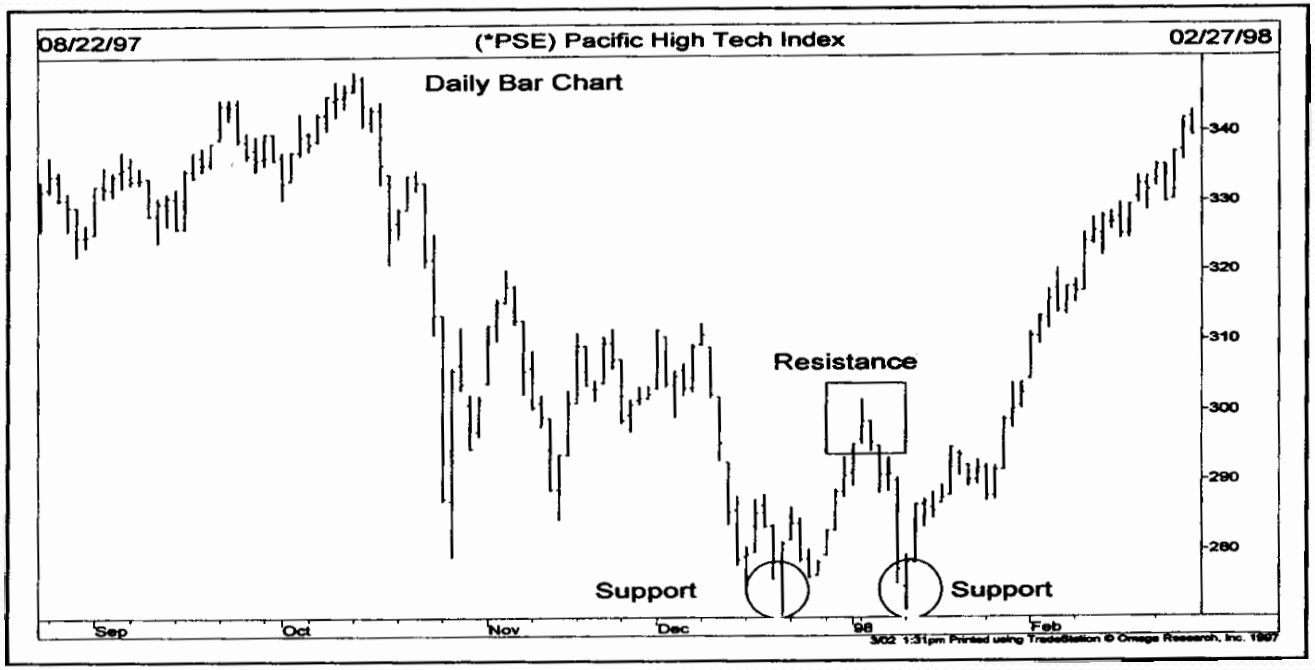


- Example of a Bottom Reversal Pattern.
- Usually the first sign of a bottom is the ability of prices at point 5 to hold above the previous low at point 3.
- The bottom is confined when the peak at 4 is overcome.

Support Resistance Analysis

Role Reversal

Support and Resistance as a Trend Reversal



- Example of a Bottom Reversal.

- During January 1998 prices retested the December support low and bounced off it, forming a second support level

Support Resistance Analysis

The Importance of
Support and Resistance

- Support and resistance analysis is an important part of trends because it can be used to make trading decisions and identify when a trend is reversing.
- For example, if a trader identifies an important level of resistance that has been tested several times but never broken, he or she may decide to take profits as the security moves toward this point because it is unlikely that it will move past this level.
- Support and resistance levels both test and confirm trends and need to be monitored by anyone who uses technical analysis.

Support Resistance Analysis

The Importance of
Support and Resistance

- As long as the price of the share remains between these levels of support and resistance, the trend is likely to continue.
- It is important to note, however, that a break beyond a level of support or resistance does not always have to be a reversal.
- For Example, if a price moved above the resistance levels of an upward trending channel, the trend has accelerated, not reversed.
- This means that the price appreciation is expected to be faster than it was in the channel.
- Being aware of these important support and resistance points should affect the way that we trade a stock.

Support Resistance Analysis

The Importance of
Support and Resistance

- Traders should avoid placing orders at these major points, as the area around them is usually marked by a lot of volatility.
- If you feel confident about making a trade near a support or resistance level, it is important that you follow this simple rule: **do not place orders directly at the support or resistance level.**
- This is because in many cases, the price never actually reaches the whole number, but flirts with it instead.
- So if you're bullish on a stock that is moving toward an important support level, do not place the trade at the support level. Instead, place it above the support level, but within a few points. On the other hand, if you are placing stops or short selling, set up your trade price at or below the level of support.

Support Resistance Analysis

Round Numbers and Support and Resistance

- One type of universal support and resistance that tends to be seen across a large number of securities is round numbers.
- Round numbers like 10, 20, 35, 50, 100 and 1,000 tend be important in support and resistance levels because they often **represent the major psychological turning points at which many traders will make buy or sell decisions**.

Support Resistance Analysis

Round Numbers and Support and Resistance

- Buyers will often purchase large amounts of stock once the price starts to fall toward a major round number such as $50, which makes it more difficult for shares to fall below the level.
- On the other hand, sellers start to sell off a stock as it moves toward a round number peak, making it difficult to move past this upper level as well.
- It is the increased buying and selling pressure at these levels that makes them important points of support and resistance and, in many cases, major psychological points as well.

Price Gap Analysis

- A Gap in a chart is essentially **an empty space** between one trading period and the previous trading period.
- They usually form because of an important and material event that affects the security, such as an earnings surprise or a merger agreement.
- This happens when there is a large-enough difference in the opening price of a trading period where that price and the subsequent price moves do not fall within the range of the previous trading period.
- Gap price movements can be found on bar charts and candlestick charts but will not be found on point-and-figure or basic line charts. The reason for this is that every point on both point-and-figure charts and line charts are connected.

Price Gap Analysis

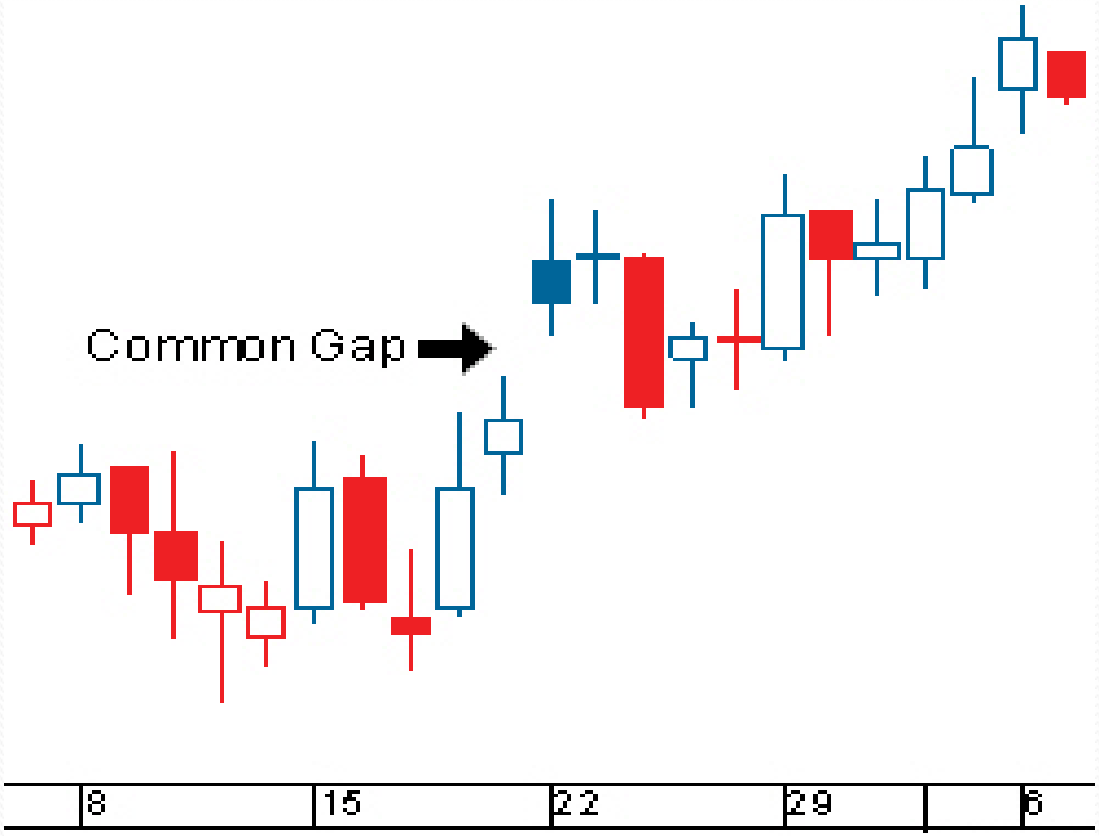
Gap

- If the price of a company's stock is trading near ` 40 and the next trading period opens at ` 45, there would be a large gap up on the chart between these two periods, as shown by the figure.

Price Gap Analysis

- It is often said when referring to gaps that they will always fill, meaning that the price will move back and cover at least the empty trading range. However, before you enter a trade that profits the covering, note that this doesn't always happen and can often take some time to fill.
- There are four main types of gaps:
  1. Common
  2. Breakaway
  3. Runaway (Measuring),
  4. Exhaustion.
- Each is the same in structure, differing only in their location in the trend and subsequent meaning for chartists.

Price Gap Analysis

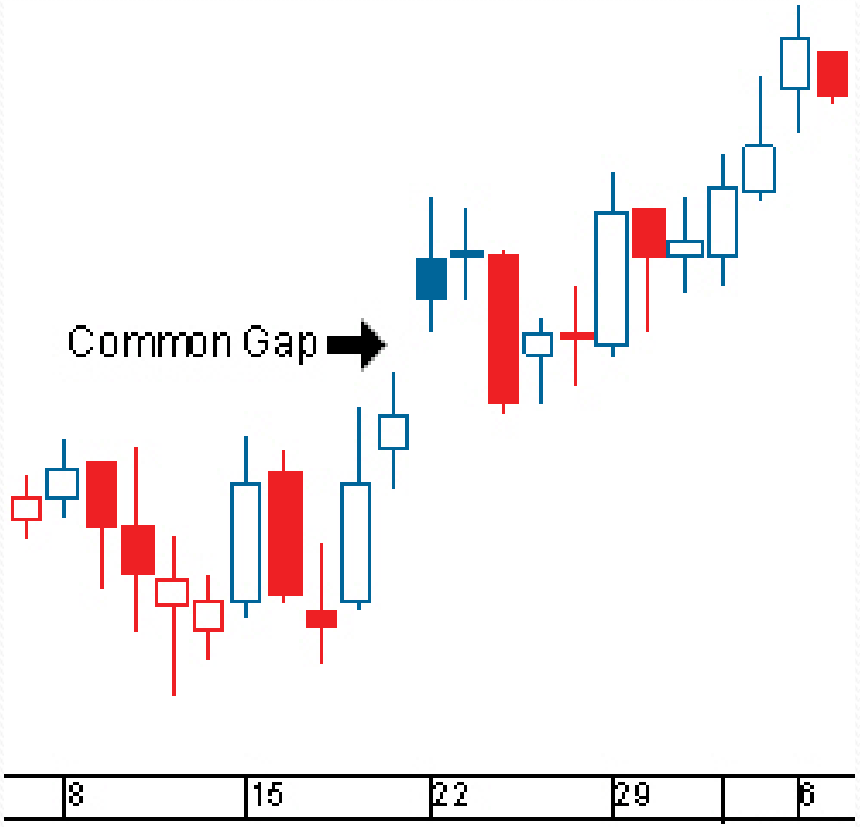


Common Gap

a. Common Gap

- The common gap occurs often in the price movements of a security. For this reason, it's not as important as the other gap movements but is still worth noting.

Price Gap Analysis



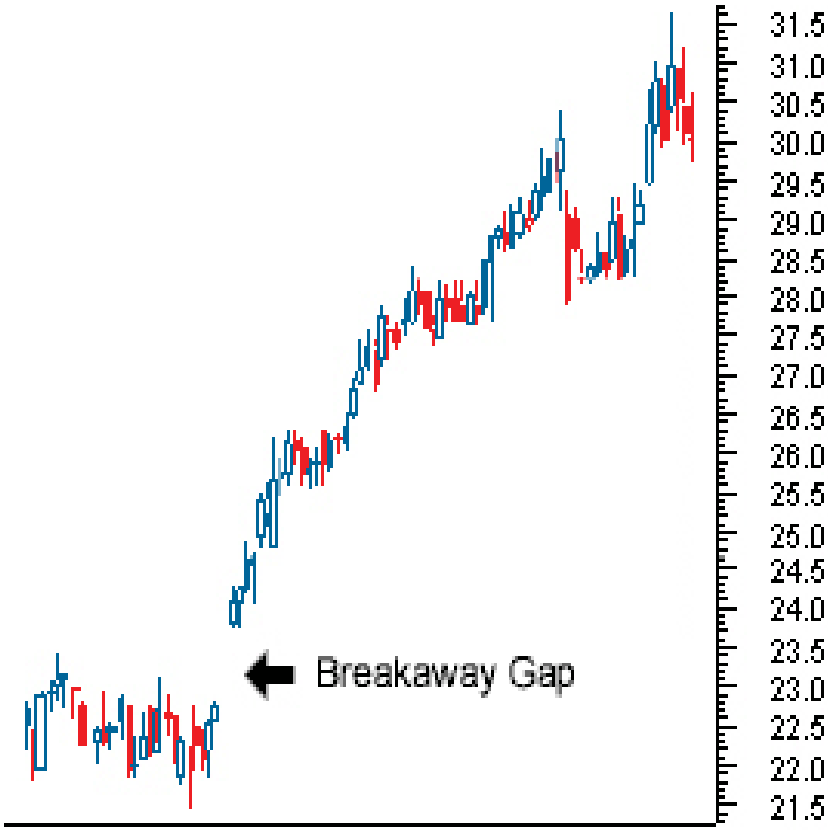
Common Gap

a. Common Gap

- These types of gaps often occur when a **security is trading in a range** and will often **be small in terms of the gap's price movement**. They can be a result of commonly occurring events, such as low-volume trading days or after an announcement of a stock split.
- These gaps **often fill quickly**, moving back to the pre-gap price range.

Price Gap Analysis

b. Breakaway Gap



Breakaway Gap

- A breakaway gap occurs at the beginning of a market move - usually after the security has traded in a consolidation pattern, which happens when the price is non-trending within a bounded range.
- It is referred to as a breakaway gap as the gap moves the security out of a non-trending pattern into a trending pattern.

Price Gap Analysis

b. Breakaway Gap

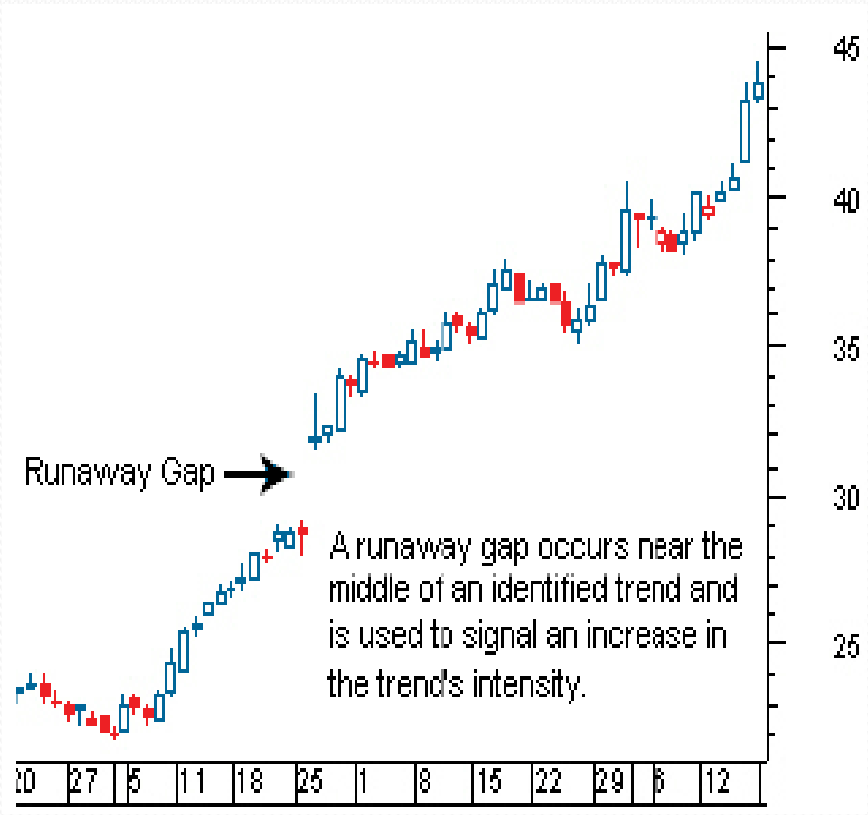
- A strong breakaway gap out of a period of consolidation is considered to be much stronger than a non-gap move out.
- The gap gives an indication of a large increase in sentiment in the direction of the gap, which will likely last for some time, leading to an extended move.
- The strength of this gap (and the accuracy of its signal) can be confirmed by looking at that volume during the gap.
- The greater the volume out of the gap, the more likely the security will continue in the direction of the gap, also reducing the chances of it being filled.

Price Gap Analysis

b. Breakaway Gap

- While the breakaway gap generally doesn't fill like the common gap, it will in some cases.
- The gap will often provide support or resistance for the resulting move.
- For an upward breakaway gap, the lowest point of the second candlestick provides support.
- A downward breakaway gap provides resistance for a move back up at the highest price in the second candlestick.
- The breakaway gap is a good sign that the new trend has started.

Price Gap Analysis



Runaway (or measuring) Gap

c. Runaway Gap (Measuring Gap)

- A runaway gap is **found around the middle of a trend**, usually after the price has already made a strong move. It is **a healthy sign that the current trend will continue as it indicates continued**, and even increasing, interest in the security.

Price Gap Analysis

c. Runaway Gap (Measuring Gap)

- After a security has made a strong move, many of the traders that have been on the sideline waiting for a better entry or exit point decide that it may not be coming and if they wait any longer they will miss the trade.
- It is this increased buying or selling that creates the runaway gap and continuation of the trend.
- Volume in a runaway gap is not as important as it is for a breakaway gap but generally should be marked with average volume.

Price Gap Analysis

c. Runaway Gap (Measuring Gap)

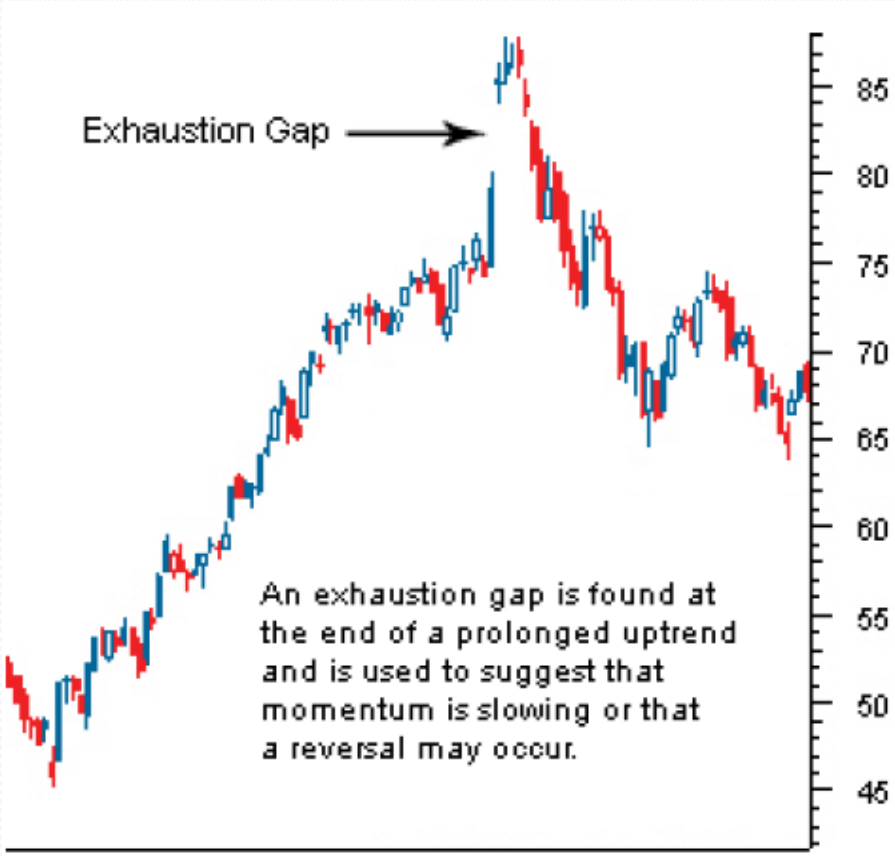
- If the volume is too extreme, it *could signal that the runaway gap is actually an exhaustion gap*, which signals the end of a trend.
- The runaway gap forms support or resistance in the exact same manner as the breakaway gap.
- Likewise, the **measuring gap does not often fill**, and there's cause for concern if the price breaks through the support or resistance, as it is a sign that the trend is weakening - and could even signal that this is an exhaustion gap and not a runaway gap.

Price Gap Analysis

d. Exhaustion Gap

- The exhaustion gap usually coincides with an irrational market philosophy, such as the security being touted as "a can't-miss opportunity" or conversely as something to "avoid at all costs".
- To identify this as an exhaustion gap or the last large move in the trend, the gap should be marked with a large amount of volume.
- The strength of this signal is also increased when it occurs after the security has already made a substantial move.

Price Gap Analysis



Runaway (or measuring) Gap

d. Exhaustion Gap

- Because the exhaustion gap **signals a trend reversal**, the gap is expected to fill.
- After the exhaustion gap, the price will often move sideways before eventually moving against the prior trend.
- Once the price fills the gap, the pattern is considered to be complete and **signals that the trend will reverse**.

Requirements For Profiting

- **System Should be Ready**
  - Computer
  - Internet with adequate Speed
  - Fully Funded Trading Account
- **Person Should be Ready**
  - Physically and Mentally
- **Market Must be Ready**
  - Volatility must be there

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 1: Selecting a Market

Step 2: Selecting a Timeframe

Step 3: Risk Management

Step 4: Money Management

Step 5: Defining Entry Points

Step 6: Defining Exit Points

Step 7: Evaluating Trading Strategy

Step 8: Improving Trading Strategy

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 1 : Selecting a Market

Main Markets:

- Stocks,
- Futures
  - Equities,
  - Commodities,
  - Forex,
- Options
  - Equities and Forex

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 2 : Selecting Time Frame

- Popular intraday timeframes are 60-minute, 30-minute, 15-minute, 10- minute, 5-minute, 3-minute, and 1-minute.
- When we select a Smaller Timeframe (less than 60 minutes), usually results in average Low Profit per trade, but get More Trading Opportunities.
- When trading on a Larger Timeframe, results in average Bigger Profit per trade, but will have Fewer Trading Opportunities.
- Smaller Timeframes mean smaller profits, but usually smaller risk, too.

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 2 : Selecting Time Frame

Key Timeframes:

- **Intraday** : 5Min-15Min-60Min
- **Short Term** : 1 Day – 12 Weeks
- **Medium Term** : 3 – 18 Months
- **Long Term** : More than 18 Months

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 3 : Risk Management

Defining Risk:

This risk broadly divided into two components

- **Specific Risk or Unsystematic Risk and**
- **Market Risk or Systematic Risk.**

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 3 : Risk Management

Specific or Unsystematic Risk

- Specific Risk or Unsystematic Risk is the component of price risk that is unique to particular events of the Company and/or Industry.
- This Risk is inseparable from investing in the securities.
- This **Risk could be reduced to a certain extent by Diversifying the portfolio**.

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 3 : Risk Management

Defining Risk:

Specific Risk mitigation using Diversification by Stock Selection based on Market Cap

- Blue Chip or Large Cap Stocks – by Market Cap First 50-100
- Midcap Stocks – From 101-250
- Small Cap Stocks – From 251-500
- Micro Cap Stocks – After 501

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 3 : Risk Management

Market Risk or Systematic Risk

- The Non-diversifiable portion or the Market Risk-called Systematic Risk.
- Variability in a security's Total Returns that are **directly associated with overall movements in the general Market or Economy** is called Systematic Risk. Thus, every portfolio is exposed to Market Risk.

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 3 : Risk Management

Market Risk or Systematic Risk

- This Risk is Separable from Investment and Tradable in the Market with the help of Index-based Derivatives.
- When this particular Risk is Hedged Perfectly with the help of Index-based Derivatives, only Specific risk of the Portfolio remains.
- Therefore, we may say that Total Price Risk in Investment in securities is the sum of Systematic Risk or Market Risk and Unsystematic Risk or Specific Risk.

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 4 : Money Management

Defining Money Management:

- Money Management refers to
  - How much Money we place in each trade based on our risk profile,
  - How many Shares or positions we hold at any one time and Stop loss Rules.
- As per most successful Traders and Investors, one should never put at Risk more than 2-3% of total capital in any one stock or trade.

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 4 : Money Management

Defining Money Management:

- For Lowering Risk, one need to invest money in small slices of 10-20% of Total Capital.
- For Lowering Risk Level, Less in Percentage Terms one should place in any trade.
- **Sample Rules Money and Risk Management:**
  - For Each Trade Investment will be 10% of Total Capital.
  - Stop loss for Trade will be 10%.

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 4 : Money Management

Defining Money Management:

- **For Example:** We have Rs. 100000 to invest and want to invest all Capital.
- For diversification need to invest capital in small slices say Rs. 10000 and keeping stop loss of 10%, so if stock falls and wee need to sell at stop loss then loss per scrip will be Rs. 1000 which will be 1% of Total capital which falls within our allowable risk level of no more than 2% loss of Total Capital.

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 4 : Money Management

Position Size for Trader or Investor:

- While constructing portfolio, number of stocks should be between 5-12.
- **For Investor**, the number should be between 8-12.
- **For Trader** it should be closer to 5, Trader should not have lots of stocks with small amount invested in each, as it consumes lots of tracking time and increase distractions.

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 4 : Money Management

Smaller number of stocks reduces Risk and Increases Returns because:

- Smaller Portfolios are **Easier to Manage** and represent Lower Risk. The more stocks increases the work stress to manage risk levels.
- It is far **Easier to Select** a small number of stocks that are rising in price and therefore result in increased Returns.
- **Transaction Cost** in buying and selling will be less as Small Portfolio will have fewer transactions.

Trading Plan

Key Elements of a Successful Trading Plan

Develop Own Day Trading Strategy

Step 5 :Entry Strategy

Major Entry Strategies

1. **Breakouts**
2. **Over Bought – Over Sold**
3. **Signal based Trading**

Trading Plan

Step 5 :Entry Strategy

Develop Own Day Trading Strategy

A. Breakouts

1. Trendline
2. Channel Line-Sup/Res- M Top / W Bottom
3. Volume

B. Pullbacks-Bounces – Catching Secondary Trend

C. Trend V/s. Counter Trend Trading

D. Gap Trading

E. Other

1. Bar Chart Pattern

a. New High and Close below Previous Close-Sell
b. New Low and Close above Previous Close-Buy

2. Day High Volume BS at 50% Strategy

Trading Plan

Step 6 : Exit Strategy

Develop Own Day Trading Strategy

Defining Exit Points

The saying: “A Monkey can enter a trade, but money is made (and lost) when we EXIT it.”

- Most traders are right about the direction of the market when they enter a trade, but they end up taking a loss because they fail to capture profits at the right time.
- Knowing HOW and WHEN to exit a trade will ultimately determine our success or failure as a trader.

Trading Plan

Develop Own Day Trading Strategy

Step 6 : Exit Strategy

Defining Exit Points

There are three different exit rules we should apply:

- Stop loss rules **to Protect our Capital**.
- Profit-taking exits **to Realize our Gains**.
- **Time-stops to get us out of a trade** and free our capital <u>if the market is not moving at all</u>.

Trading Plan

Step 6 : Exit Strategy

Develop Own Day Trading Strategy

Defining Exit Points

Stop loss and profit-taking exit rules followed by four ways:

- A **Fixed Rupees** amount (e.g. Rs.5,000)
- A **Percentage** of the current price (e.g. 1% of the entry price)
- A percentage of the **Volatility** (e.g. 50% of the average daily movement)
- Based on Technical Analysis (e.g. **Prior Peak and Trough, Trendline Break, Sup-Res Levels, Heavy Volume**, etc.)

Trading Plan

Develop Own Day Trading Strategy

Step 6 : Exit Strategy

Defining Exit Points

Stop Losses

- A stop loss is used to limit the potential loss if the trade goes against trade. It's the level at which we'll close a trade on the basis that it has **gone too far in the 'Wrong' direction**.

Always use stop losses!

- If we don't apply stop losses in our trading, we won't be trading for long – we'll end up wiping out our trading balance in no time. It can be too easy for a Rs. 300 loss to become a Rs. 5,000 loss.
- A good trader will know when to take a small loss and go on to the next trade.

Trading Plan

Develop Own Day Trading Strategy

Step 7 : Strategy Evaluation

1. Back-Testing

- Back-testing is a method of testing which will run our strategy against prior time periods. Basically, we're performing a simulation: we use our strategy with relevant past data to test its effectiveness.
- By using the historical data, we're **saving a ton of time**; if we try to test strategy by applying it to the time periods yet to come, it might take our years.
- The effectiveness of back-testing relies on the theory that what has happened in the **past WILL happen again in the future**.

Trading Plan

Develop Own Day Trading Strategy

Step 7 : Strategy Evaluation

Evaluating Strategy

2. Paper Trading

- Paper trading is a method of “Risk-Free” trading. Basically, set up a dummy account, through which we can test our trading strategy with paper money.

- **Two Methods:**

A. We can pretend to buy and sell stocks, bonds, commodities, etc., and keep track of our profits and losses on paper.

B. We can open an account online, usually through broker.

Trading Plan

Step 8 : Strategy Improvement

Develop Own Day Trading Strategy

- There is a difference between “Improving” and “Curve-fitting” a system.
- You can improve your system by **Testing different Exit Methods**. If you’re using a Fixed Stop, try a trailing Stop Instead.
- **Add a Time-stop** and evaluate the results again.
- Don’t look only at the net profit; look also at the profit factor, the average profit per trade, and the maximum drawdown.

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle #1: Use Few Rules – Make It Easy to Understand

- The best trading systems have **less than Ten Rules**. The more rules we have, the more likely that we've "curve-fitted" our trading strategy to past data, and such an over-optimized system is very unlikely to produce profits in real markets.

- It's important that our rules are **easy to understand and execute**. The markets can behave very wildly and move very fast, and we won't have time to calculate complicated formulas in order to make a trading decision.

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle #2: Trade Electronic and Liquid Markets

- Always trade Electronic Markets, because commissions are lower and order receive instant fills.

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle #3: Have Realistic Expectations

- Losses are part of our business. A trading system that doesn't have losses is "too good to be true."
- A robust trading system have
  - A Winning Percentage of 60-80%
  - A Reward to Risk Ratio or Profit Factor of 1.3-2.5
  - A Maximum Drawdown of 10-20% of the yearly profit

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle 4: Maintain a Healthy Balance Between Risk and Reward

- We can make a lot of money if we're risking a lot, but if we do, the Risk of ruin is also high. We need to find a healthy balance between Risk and Reward.
- Make sure our trading strategy is using small stop losses and that our profit targets are bigger than our stop losses.
- Stay away from strategies that have a small profit target of only Rs.1000 and a stop loss of Rs. 10,000.
- The perfect balance between Risk and Reward is 1:1.5 or more – i.e. for every Rupee risk one should be able to make at least Rs. 1.50.

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle #5: Find a System That Produces at Least Five Trades per Month

- The higher trading frequency, the smaller chances of having a losing month.
- If we have a trading strategy that has a winning percentage of 70%, but only produces one trade per month, then one loser is enough to have a losing month.
- If our trading strategy produces five trades per week, then we have on average 20 trades per month. If we have a winning percentage of 70%, then our chances of a winning month are extremely high.

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle #6: Start Small – Grow Big

- A good trading system allows to start with one or two contracts, increasing position as our trading account grows.
- This is in contrast to many "**Martingale**" trading systems, which require increasing position sizes when we are in a losing streak.
- In this strategy: double our contracts every time we lose, and one winner will win back all the money we previously lost.
- In **Pyramiding** Trading System increase position size in only trade which is profitable. Continuously Adding position as long as the Trend Accelerates but at Decreasing Rate.

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle #7: Automate Your Exits

- **Emotions and human errors** are the most common mistakes that traders make. We have to avoid these mistakes by any means necessary, especially when the market starts to move fast.
- We might experience panic and indecision, but if we give in to those emotions, we'll suffer a much greater loss than we had originally planned for.
- Our exit points should be easy to determine. The best solution for our exit points is the use of "**Bracket Orders**", which allows to attach a profit target and a stop loss to entry.

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle #8: Have a High Percentage of Winning Trades

- Your trading strategy should produce more winners than 50%. There's no doubt that trading strategies with smaller winning percentages can be profitable, too, but the psychological pressure is enormous.

- Taking 7 losers out of 10 trades, and not doubting that system, takes a great deal of discipline, and many traders can't stand the pressure. After the sixth loser, they'll start "improving" the strategy, or stop trading it completely.

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle #9: Test Strategy on at Least 200 Trades

- The more trades we use in our back-testing (without curve-fitting), the higher the probability that our trading strategy will succeed in the future. Look at the following table:

Number of Trades	50	100	200	300	500
<>Margin of Error	14%	10%	7%	6%	4%

- The more trades we have in our back-testing, the smaller the margin of error, and the higher the probability of producing profits in the future.

- We need at least 40 trades for a valid performance report.

Trading Rules

10 Principles-Making Sure that Trading Plan Works

Principle #10: Choose a Valid Back-Testing Period

- Do not make the mistake of back-testing trading strategy on the pit contract.
- When futures contracts start trading electronically, they attract a different kind of trader than their pit-traded counterparts; therefore, the characteristics of the two markets can be very, very different.
- Faster fills and lower commissions allow a different kind of trading strategy, and the markets will behave differently than during the times when only pit traders traded them.

Trading more than having Strategy

Trading is more than having Strategy

There's More To Trading Than Just Having a Strategy

- We understand that a good trading strategy is one of the **single most important factors** when it comes to trading.
- With a proven, reliable strategy, we'll **have a map** for our trading future and a guideline for our success. We'll have a plan.
- Most traders just open a trading account and **start trading, without a clue** as to what they're getting themselves into.
- Only a few of them have a trading strategy, and because of that, many of them fail.

Trading more than having Strategy

Trading is more than having Strategy

- According to a report from the North American Securities Administrators Association (NASAA):
- "Only 11.5% [of traders] might profitably trade [the markets]. At least 70% of traders lose money in the markets…70% of public traders will not only lose, but will almost certainly lose everything they invest."
- At least 70% will lose everything they invest. And only 11.5% of traders will actually succeed. That's just slightly over 1 in 10. Not great odds.

Trading more than having Strategy

Trading is more than having Strategy

The Ralph Vince Experiment

- Mr. Vince took 40 Ph.D.s and set them up to trade with a computer game.
- Now, these 40 people all had doctorates, but Mr. Vince made sure that none of their doctorates involved any sort of background in statistics or trading.
- In the game, each of them were given Rs. 1,00,000 and 100 trades, with a 60% winning percentage.
- When they won, they won the amount of money they risked. When they lost, they lost the amount of money they risked.

Trading more than having Strategy

Trading is more than having Strategy

The Ralph Vince Experiment

- So, after all 40 had completed their 100 trades, Only 2 doctorates out of 40 were able to make money. The other 38 failed to succeed.
- 95% of the candidates lost out. And why?
- Because they fell into the age-old traps:
  - Poor Money Management,
  - Lack of Discipline,
  - Experience.
  - Gambler's Fallacy,
  - Guidance, and

Trading Mistakes

- If we know the pitfalls of trading, then it becomes easier to avoid them.
- There are two types of mistakes : A. Small B. Big Mistakes

A. Small Mistakes:

- Buying a security when intending to sell it, simply because pushing the wrong button.
- May be buying the wrong stock, just because there's a typo when we enter the symbol.
- Another possibility is placing the wrong order because entering a buy order at Rs. 213.5 instead of Rs. 21.35.

Trading Mistakes

B. Big Mistakes: MUST be avoided if want success as a trader.

- **For Example**, one of the biggest trading mistakes that we could ever make is to try to learn and understand everything about trading…and then **never actually START to trade**.

- Many aspiring traders who have read countless books, have developed dozens of trading strategies, and who have analyzed a number of markets; but they've failed to pull the trigger when it comes to real trading.

- A part of our education is our knowledge and experience. If we want to make money with trading, then have to take the plunge and get started.

Trading Mistakes

What Exactly Is "Risk?"

Risk means "Not Having Control."

For Example, If we're driving a car on the highway, then we're at risk. All motorists are required to have a formal education and successfully **test** their driving skills before they are allowed to drive a car. Cars are equipped with certain security features, such as **seat belts, airbags, anti-brake systems, and – let's not forget – a Steering Wheel**.

We should have a formal education and prove our skills before we start to trade. We should take the time to learn about the markets and develop a strategy before "hitting the open road."

Trading Mistakes

We can also apply certain “Security Features.” Two of the most important are having **a Trading Strategy** and **using Stop Losses**.

Don’t Trade to get Rich Quick.

- That’s the most important principle when it comes to controlling risk. If day trading was easy, everyone in the world.
- Being aware of the challenges is the first step in avoiding them.
- Think about the car driving example again: if we know that driving on icy roads is dangerous, we can try to avoid traveling in that particular weather condition. But, if we don’t know about ice and the hazard it poses, we might just get into our car and drive like normal, then we realize the danger when we feel our vehicle slipping on road.

Trading Mistakes

The Seven Mistakes of Traders and How to Avoid Them

Mistake #1: Struggling To Identify the Direction of the Market

- Traders use very **complicated formulas, indicators, and systems** to identify a trend. They'll plot so many indicators on the screen that they can't even see the prices anymore.
- They think that **the more complicated a system is, the better it should "predict" the trends**.
- As a result, they completely **lose sight of the basic principle**: buy when the market is going up and sell when the market is going down.

Trading Mistakes

The Seven Mistakes of Traders and How to Avoid Them

Mistake #2: Not Taking Profits

- By their very nature, traders are greedy. After all, everyone want to make money. A lot of money. And making it fast. "**Get rich quick**," right? they'll never have to work again for their entire life. They want to do it in one trade, and that's when they lose.

- **Trading success comes from *consistency***, not from a trading "grand slam."

- Therefore, we MUST know when to exit with a profit. Resist the temptation to stay in "just a little longer, for just a little more."

Trading Mistakes

The Seven Mistakes of Traders and How to Avoid Them

Mistake #3: Not Limiting Losses

- The only way to make a fortune with trading is to actually **stay in the game**, and it's hard to stay when already have lost all the dough.
- **Losses are a part of business**. The key to trading success is to limit losses. Too many traders are giving a trade way too much "room," to losses, which can shrink an account down by 20%, 30%, and sometimes even 40%. Set small losses.
- Average Loss should be smaller than Average Win, because then we'll be making profits even if your winning percentage is only 50%.
- **Always know when to exit a trade**.

Trading Mistakes

The Seven Mistakes of Traders and
How to Avoid Them

Mistake #4: Trading the Wrong Market

- Too many traders are fixed on only one market; they trade ONLY in Nifty, or Stocks, or certain Commodity or Forex, etc.
- Here's another key to trading success: **TRADE A MARKET THAT IS MOVING**, either up or down.
- One should Buy when the market goes Up and Sell when the market goes Down.
- So stay away from a market that is choppy or just moving sideways, and start trading a market with nice trends.

Trading Mistakes

The Seven Mistakes of Traders and How to Avoid Them

Mistake #5: Lack of a Trading Strategy

- We MUST have a solid trading strategy. Having a trading strategy is probably the single most important thing you can do in order to succeed with trading. Having a trading strategy means having a pre-defined set of rules that you have developed for your day trading.
- It means knowing what you're doing instead of just gambling.
- Too many people start off day trading without a strategy, with a day trading strategy, we're way ahead of the crowd, and we can increase our chances of making money with trading.

Trading Mistakes

The Seven Mistakes of Traders and
How to Avoid Them

Mistake #6: Not Controlling Emotions

Main Emotions of Traders

- **Greed** – "I'm sure the market will continue rising, and I'll make Lakhs!"
- **Fear** – "Please…. I don't want to experience another loss."
- **Panic** – "Oh no, the market is moving fast. Why? What should I do? The sky is falling…!"
- **Indecision** – "Should I enter this trade? Or should I wait? Ok, now I'm in a trade: should I take profits? Or not yet? Hmm, the trade goes against me: should I get out now, or should I give it a little bit more room?"

Trading Mistakes

The Seven Mistakes of Traders and
How to Avoid Them

Mistake #6: Not Controlling Emotions

Main Emotions of Traders

- **Over Excitement** – “Hey, I made money!”
- In order to become a successful trader, we have to **have control over our emotions**. The best strategies and tools are useless if we lose(panic) our head while you’re in a trade.
- We need to remain calm and execute our strategy.
- **Remain *Calm, Cool, and Relaxed***. Control emotions – don’t let them control us.

Trading Mistakes

The Seven Mistakes of Traders and
How to Avoid Them

Mistake #7: Overtrading

- Many traders think that **"Quantity" is better than "Quality**." They believe that if they just throw enough punches, one will eventually hit. They trade like maniacs and make their broker rich.

- 3 Reasons for Overtrading:

a) Greed

- We followed our plan and made the profits that we were looking for. But the market keeps going up. We think, "I should have stayed in this trade," so we jump right back in. And then we realize that WE were the one who just bought the high of the day.

Trading Mistakes

The Seven Mistakes of Traders and
How to Avoid Them

Mistake #7: Overtrading

3 Reasons for Overtrading:

b) Revenge

- We lost money. The market has been mean to you. “Market” just took out our stop and now keeps moving in our direction. So we want to get back at it.

- We keep trading, thinking, “The next trade will make back all the money we lost so far, and that will hurt them.” Believe me: the market is ALWAYS stronger, and it will be WE who gets the bloody nose.

Trading Mistakes

The Seven Mistakes of Traders and How to Avoid Them

Mistake #7: Overtrading

3 Reasons for Overtrading:

c) Boredom

- There are some days when the ducks simply don't line up.
- We're watching the markets and it's like watching paint dry: **Nothing Moves**. We wait…and wait…and wait…and suddenly just get that **"itch" to trade**.
- **We think, "If we don't trade, we won't make any money!"** and we jump into a trade immediately. Of course, the trade isn't according to our plan, and we end up with a loss.

The Trader's Psychology

Successful Trader…

1. Do not blame.
2. Have a system.
3. Have patience.
4. Do not overtrade.
5. Realize that nothing is 100% foolproof.
6. Do not stay in a losing trade.
7. Do not rush into trades.
8. Stick to a successful strategy.

The Trader's Psychology

Successful Trader…

9. Have the ability to adapt.
10. Know what type of trader they are.
11. Bank on consistent profits.
12. Take action.
13. Use successful systems.
14. Recognize a "Good" trade.
15. Take time off.
16. Do not fear losses.

Trading Secrets

Three “Secrets” to Day Trading Success

Secret 1: Trade the Right Market

The right market is a trending market. As we know, money is made in trends – either up or down

Secret 2: Trade in the Right Direction

Buy when the market is going up and sell when the market is going down.

Secret 3: Always Know When To Exit A Trade

It is essential that to know when it’s the right time to exit with a profit AND when it’s the right time to exit with a loss.

Final Check List

- Finalize Monetary Goal and Believe You Will Be Profiting Definitely!!
- Check Primary Trend and Secondary Trend on Weekly and Daily Chart
- Draw Important Trendlines over Weekly and Daily Charts.
- Draw Important Reference Lines or Parallel Lines to Trendline.
- Draw Important Sup-Res Lines on Weekly and Daily Charts.
- Identify Overbought or Oversold Levels on Weekly and Daily Charts.
- Identify Bar or Candle wise Buying Selling Pressure.
- Finally deciding to trade based on Breakout / OB-OS / Signal to Trade.
- Defining Entry and Exit points.
- Keep Control Over Emotions and Win the Bull Bear Battle!

The Trader's Attitude

The "Law of Attraction" says that

"You get what you think about."

Here's how to avoid Negative Emotions and to have a Positive Attitude.

Read every Morning:

1. I am a Disciplined Trader who follows his Trading Plan.
2. I am Cool and Relaxed when I am trading.
3. I am having Control of My Emotions.
4. **I am a Profitable Trader.**

I promise, you WILL notice a DIFFERENCE…

Thank You

All The Best!