

# Introduction to Technical Analysis – A Guide to Trend

## 1.0 Introduction

The art of investing in stocks boils down to answering two important questions:

**Which stock?**  
**When do I buy and/or sell?**

Answer these two questions successfully and you'll have a winning trade. But... where do we begin? How do we objectively analyze a prospective investment? In this guide we will be only covering the use of trend and trend indicators to help you with your system.

If you are completely new to technical analysis and trading, it is advised that you start with a paper trading system. The first step to assembling a trading system is to develop a checklist for your entry and exit conditions.

Trend Analysis Checklist:		
Stock:	Buy / Sell	Date:
Indicator	Confirming:	Negating:
<i>Trending Market?</i>		
Trendlines - Long term		
Trendlines - Mid term		
Trendlines - Short term		
20,50,100 day MA's		
MACD		
<i>Bands</i>		
Bollinger Band		
Keltner Channel		
Price Channel		
Parabolic SAR		
<i>Volume</i>		
Volume Trend		
Results		
News/Observations		

A simple table like the one above is a good start to creating a checklist. Simply add up the number of positive aspects and negative aspects. This will give you a points system to base your decisions on. The requirements to enter and exit should evolve from this basic table to suit your risk and rewards needs.

Is it above or below its 50 & 100 day Moving Averages? Above or below 50 week MA? - if the price is above all of these it is likely breaking new ground in an uptrend. If it is breaking down through one of these, or bouncing off of one of them, that too is significant. If the 50 day crosses up through the 100 day, that also is considered bullish.

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MACD - positive or negative?

- Positive MACD is indicative of an uptrending market.

Trendlines - long-term, mid-term, short-term - up or down?

- Draw these trendlines to determine the direction of the trend. I always suggest going with the long-term trend - if it is up... buy; if it is down... sell. If it is sideways... stand aside.

Moving Averages - 20 & 50 day - trending up or down? Which one is above or below?

- In an uptrending market, the 20-day should be above the 50 day, and trending upwards.

Volume

- Is volume itself trending up or down? Have upward moves in price been accompanied by upward thrusts in volume?

What about the pattern? Bullish? Bearish? Any significant patterns emerging: new breakouts?

Trendlines, Dow Theory, Support -- Resistance, Triangles

- Are there any significant patterns emerging? Any gaps as the price makes a jump? Any breakouts past a significant level of support or resistance (trendlines)?

Price Channel

- Has the price broken through the upper channel recently? Has it closed above the channel? These would be considered bullish signs.

Parabolic SAR

- Is SAR below the price and uptrending?

These are some of the indicators that we will cover in the following guide. Throughout this guide it is advisable that you start building and applying your check list. Test your system out on tips, news, screening, etc. The rest of this guide will help you fill out the confirming or negating portions of your checklist.

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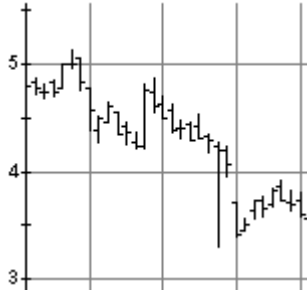
## 1.0.1 Chart types

Before we start on trend analysis we will need to briefly cover what types of charts are available to the trader.

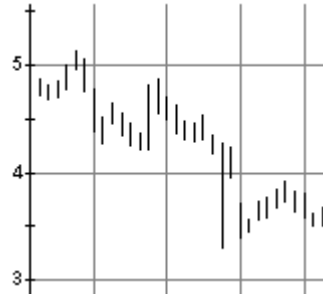
The following chart types are the most commonly used.

### Bar (high/low/open/close and high/low):

The typical bar chart is composed of four values. The price close, open, high and low for the minute, day, week, etc. This chart is the most common type of chart.

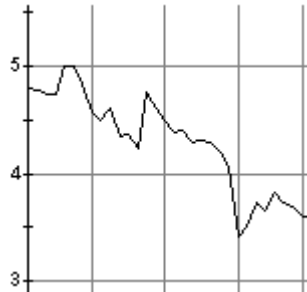


In this case of a bar chart, each bar is only composed of the high and the low. Both cases of bar charts include time as a factor.



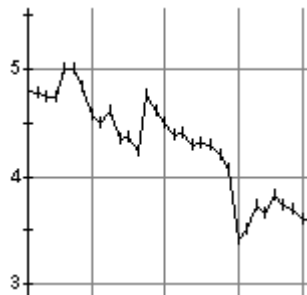
### Line:

The line represents the closing prices only for a given time. This tends to smooth out daily fluctuations in price, sometimes giving a better picture of the overall trend.



### Line tick:

Line charts can also include tick marks for specific time periods (ie: minutes, days, weeks, etc.).



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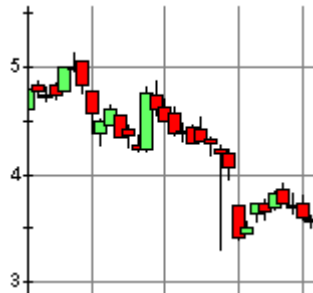
## Point and figure:

Point and figure show price changes with X columns for rising prices and O columns for declining prices. Unlike the other basic charts, time itself is not a factor. Point and figure charts plot only the direction of a price move and the change in value. Proponents believe this gives them a clearer view of the underlying actions of supply and demand.



## Candlesticks:

Candlestick charting has been in use in Japan for the last 300 years and has received world wide recognition. Each candlestick is composed of four values, the high, low, open and close. The advantage to this form of charting is that it provides more visual information about the trading day as well as many trading signals to help decision making.



These charts provide the "background" or "foundation" for most of the common indicators. In most cases indicators are shown superimposed on the price chart itself or in a separate chart below the price chart. Most of the analytical tools compare the action of an indicator against that of the price. The indicators that we will be covering will be predominately derived from the movement of price (i.e. trend indicators).