TECHNICAL ANALYSIS

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Partner
SJ Tutorials

TECHNICAL ANALYSIS IS A METHOD TO FORECAST THE FUTURE OF ANY SECURITY USING :-

1. PRICE
2. VOLUME
3. OPEN INTEREST

IT IS THE STUDY OF THE MARKET ACTION THROUGH THE HELP OF CHARTS AND OTHER TECHNICAL INDICATORS TO FORECAST THE TREND.

ASSUMPTIONS OF TECHNICAL ANALYSIS :-

1. THE MARKET DISCOUNTS EVERYTHING
2. PRICE MOVES IN TRENDS
3. HISTORY TENDS TO REPEAT ITSELF

Black Monday

THE BASIS OF TECHNICAL ANALYSIS IS ON VARIOUS THEORIES SUCH AS :-

1. DOW THEORY
2. ELLIOT WAVE THEORY

DOW THEORY

In 1897, Charles Dow developed two broad market averages. The "Industrial Average" included 12 blue-chip stocks and the "Rail Average" was comprised of 20 railroad enterprises. These are now known as the Dow Jones Industrial Average and the Dow Jones Transportation Average.

The Dow Theory is the common ancestor to most principles of modern technical analysis.

Interestingly, the Theory itself originally focused on using general stock market trends as a barometer for general business conditions. It was not originally intended to forecast stock prices. However, subsequent work has focused almost exclusively on this use of the Theory.

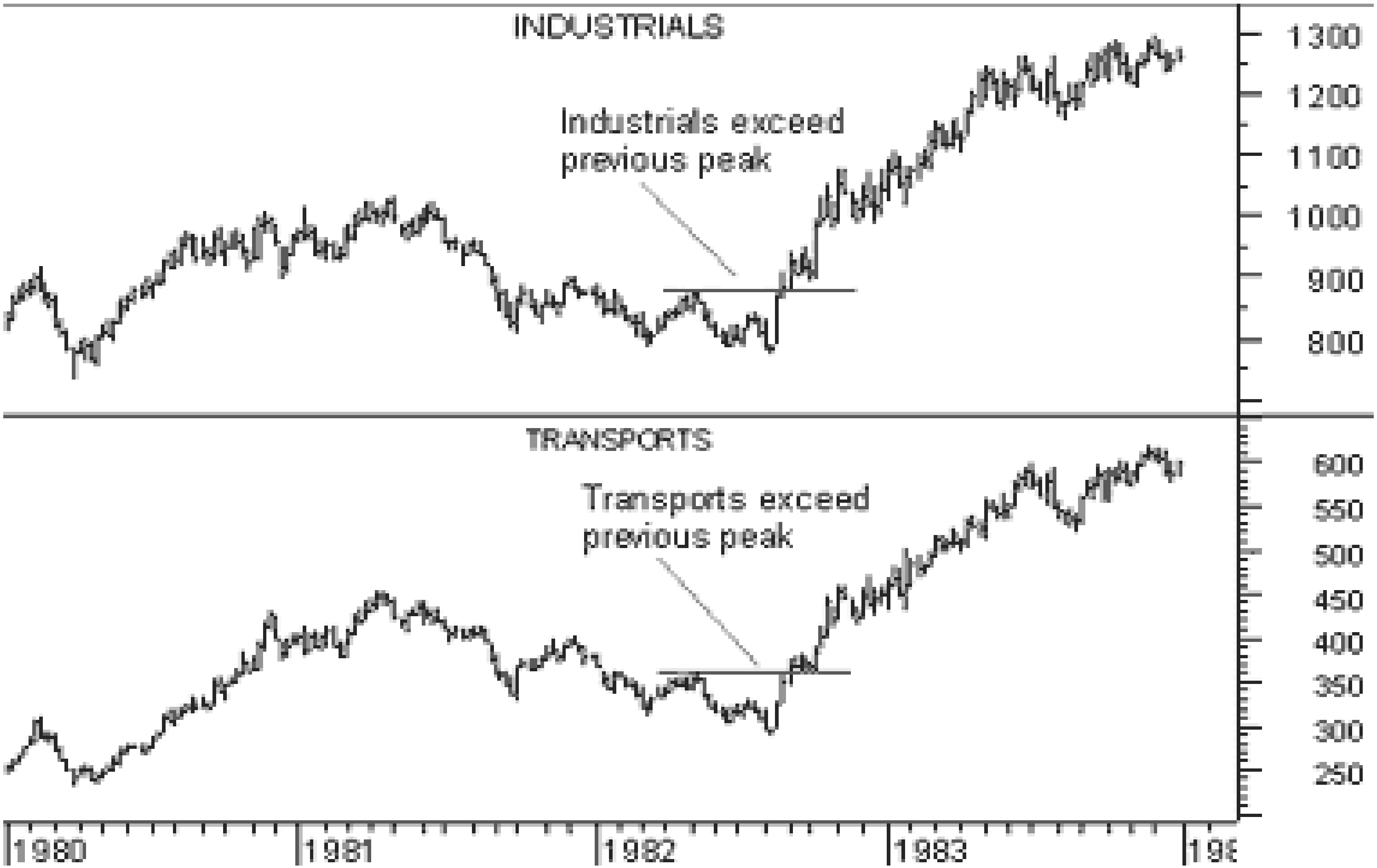
Six assumptions of the Dow theory:-

1. **The Averages Discount Everything.**

2. The Market Is Comprised of Three Trends.

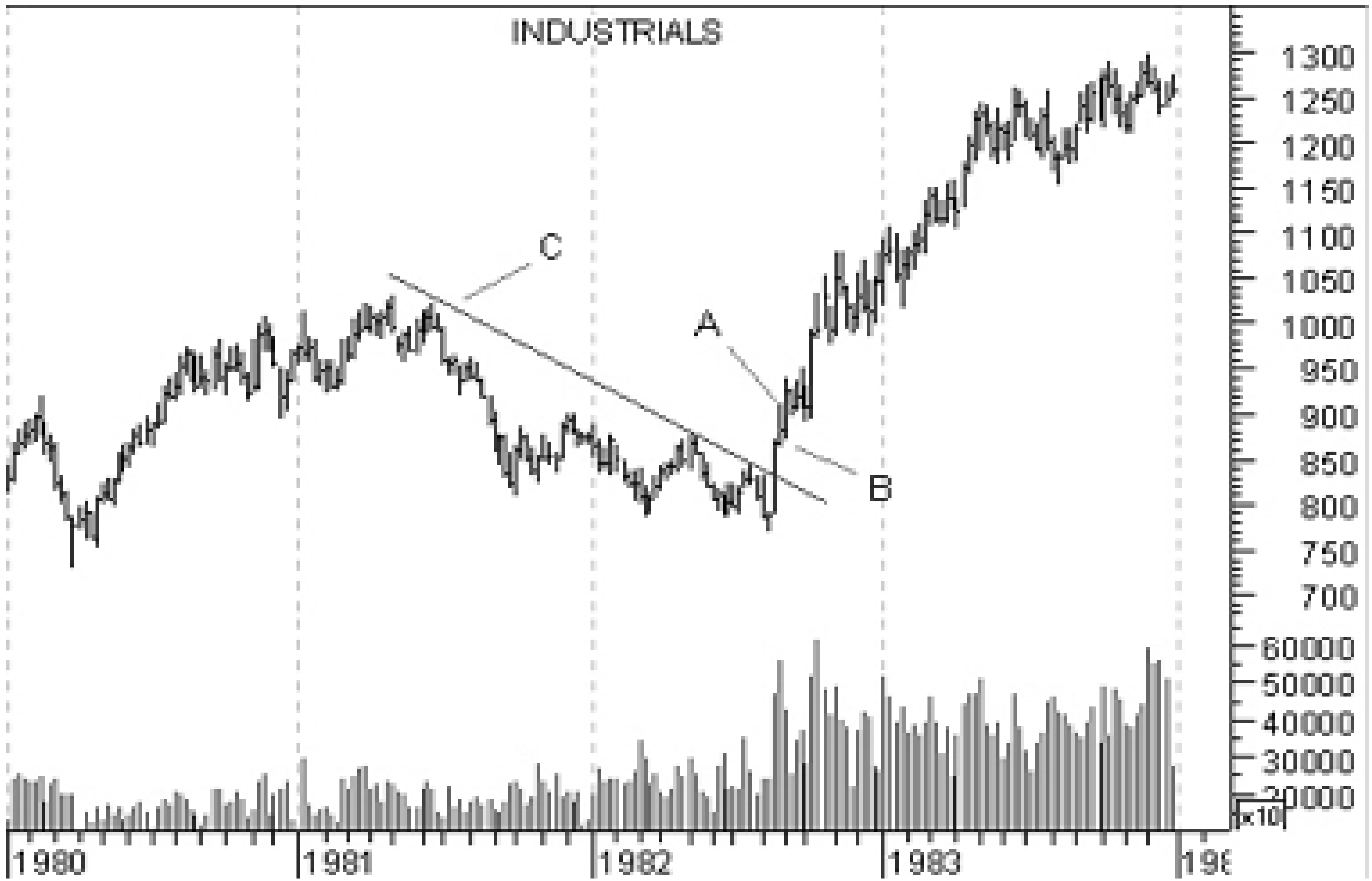
3. Primary Trends Have Three Phases.

4. The Averages Must Confirm Each Other.



5. The Volume Confirms the Trend.

6. A Trend Remains Intact Until It Gives a Definite Reversal Signal.



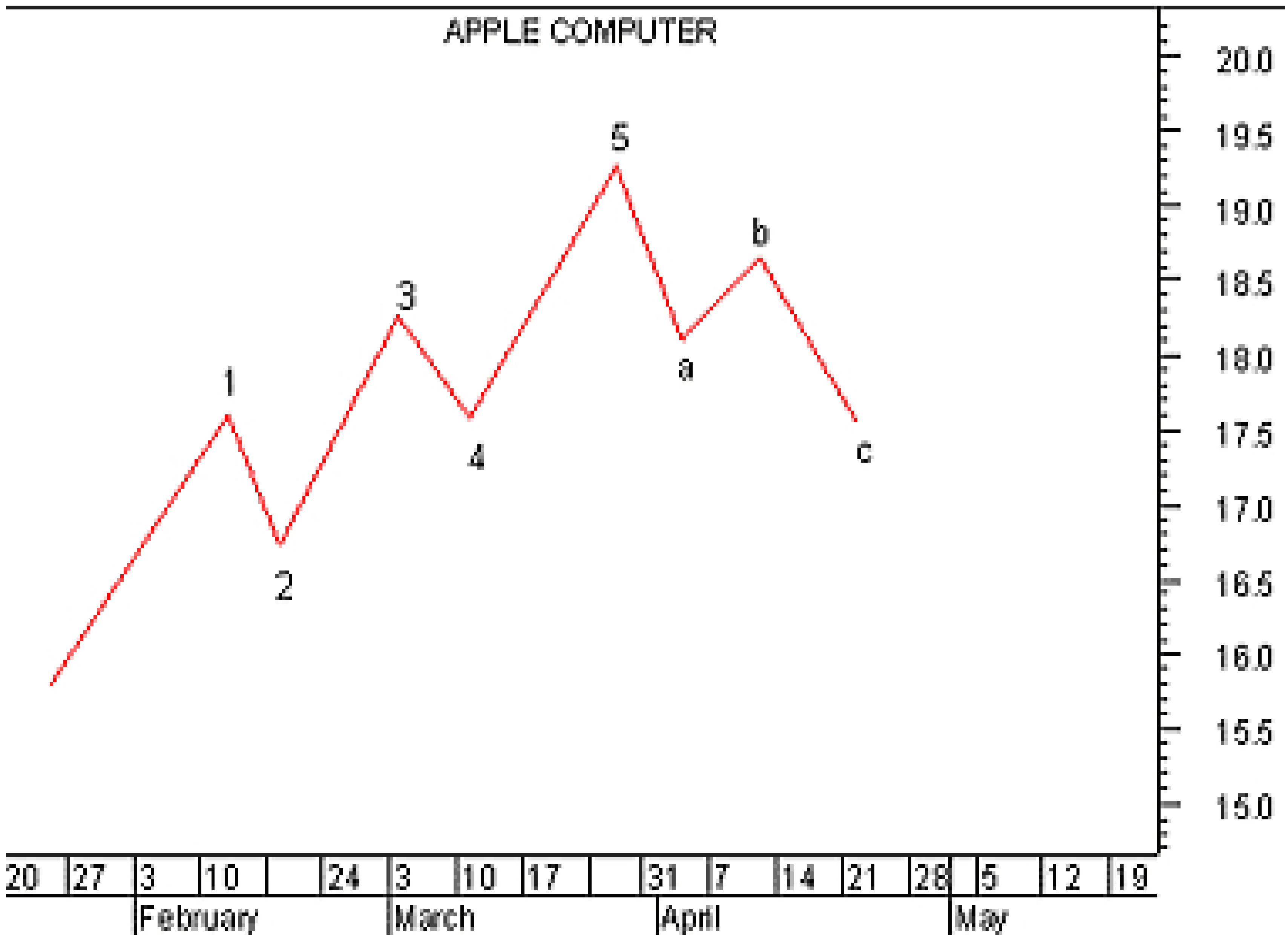
CRITICISMS OF DOW THEORY:

- Dow theory generally misses 20% to 25% of a move before generating a signal.
- Use of closing prices (Line charts).
- Signals in Dow theory are generally generated during the second phase of the uptrend.
- It was primarily used as an indicator of Economy which was substituted to stocks and other underlying assets.
- Subjectivity and difficulty in distinguishing the various phases of trends.

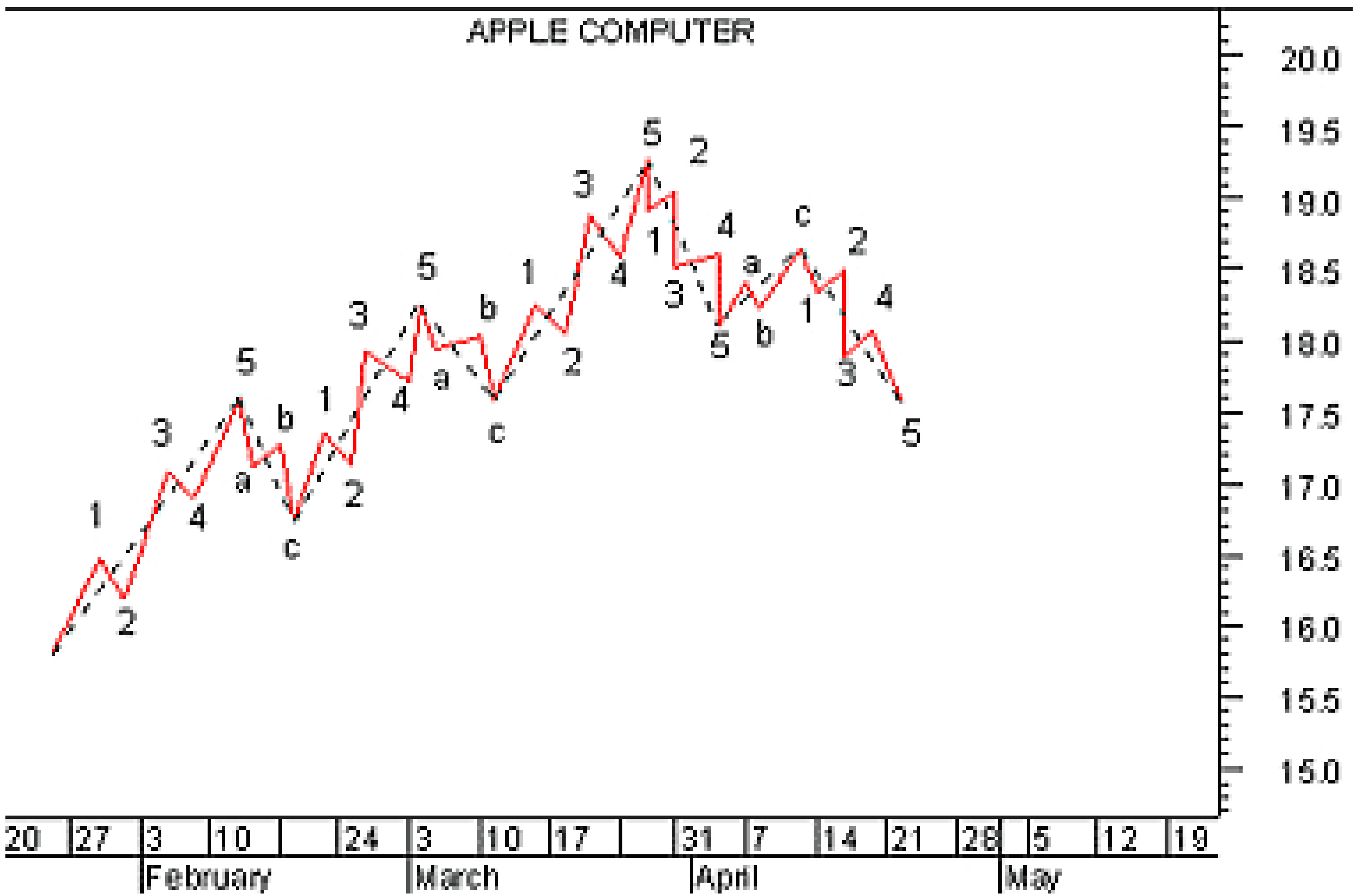
ELLIOT WAVE THEORY

The Elliott Wave Theory is named after Ralph Nelson Elliott.

The underlying forces behind the Elliott Wave Theory are of building up and tearing down. The basic concepts of the Elliott Wave Theory are listed below.
Action is followed by reaction.
There are five waves in the direction of the main trend followed by three corrective waves (a "5-3" move).
A 5-3 move completes a cycle. This 5-3 move then becomes two subdivisions of the next higher 5-3 wave.
The underlying 5-3 pattern remains constant, though the time span of each may vary.
The basic pattern is made up of eight waves (five up and three down) which are labeled 1, 2, 3, 4, 5, a, b, and c on the following chart.


APPLE COMPUTER
20.0
19.5
19.0
18.5
18.0
17.5
17.0
16.5
16.0
15.5
15.0
1
2
3
4
5
a
b
c
20
27
3
10
24
3
10
17
31
7
14
21
28
5
12
19
February
March
April
May

The following chart shows how 5-3 waves are comprised of smaller cycles.



ELLIOTT THEORY:

- **Waves 1, 3 and 5 are called Rising or Impulsive Waves and Waves 2 and 4 are called Declining Waves.**
- **After the 5 Wave advance, the 3 Wave Correction begins. (represented by a, b, c)**
- **The Basic Pattern:**

0-1 is called Wave 1, (Impulsive Wave)

1-2 is called Wave 2, (Declining Wave)

2-3 is called Wave 3, (Impulsive Wave)

3-4 is called Wave 4, (Declining Wave)

4-5 is called Wave 5, (Impulsive Wave)

5-a is Wave a, a-b is Wave b, and b-c is Wave c.

TYPES OF CHARTS

1. LINE CHART
2. BAR CHART
3. CANDLE-STICK CHART

LINE CHART

13
1305
1300
1295
1290
1285
1280
1275
1270
1265
1260
1255
1250
1245
2006
February
March
April
May
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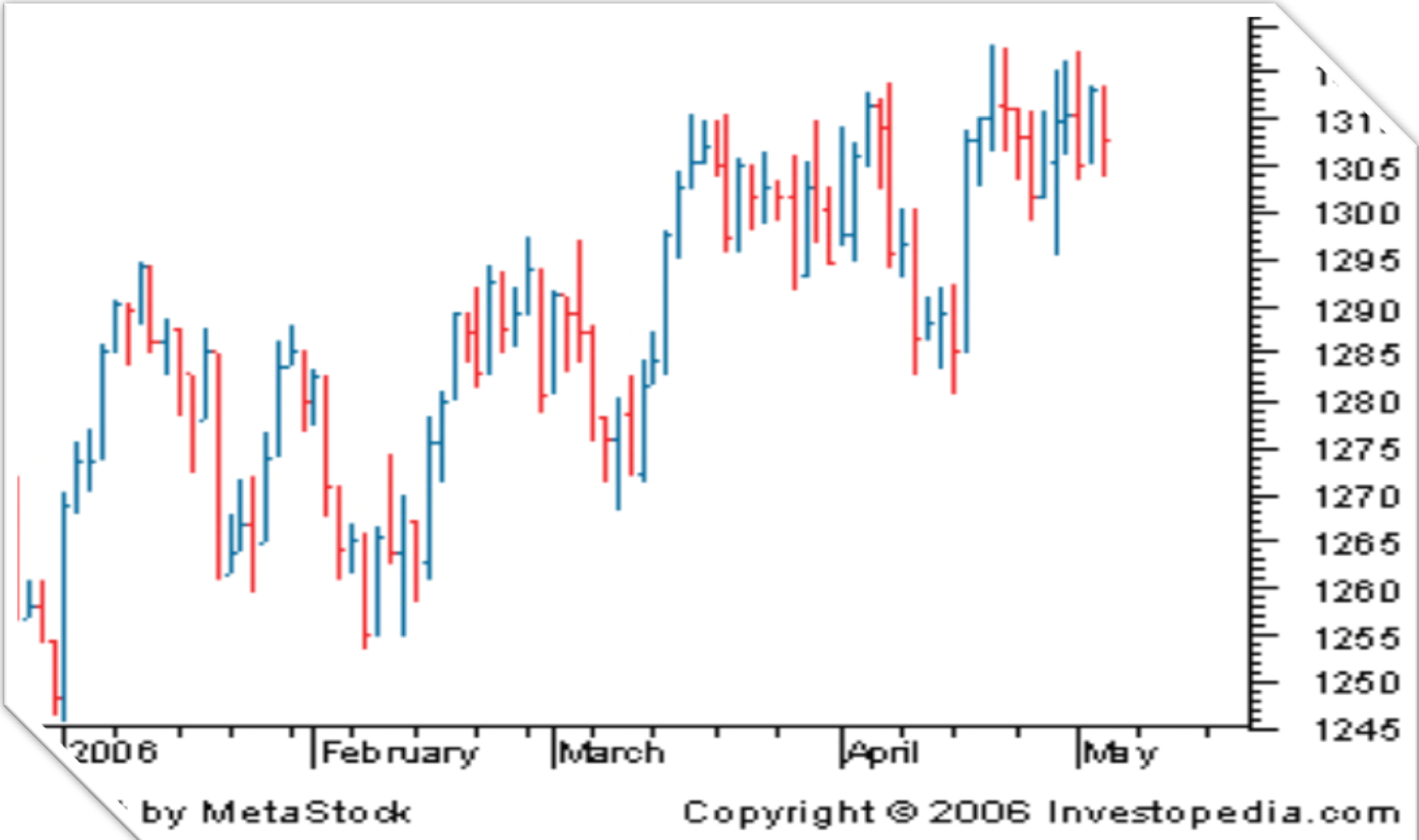
BAR CHART


1245
1250
1255
1260
1265
1270
1275
1280
1285
1290
1295
1300
1305
2006
February
March
April
May
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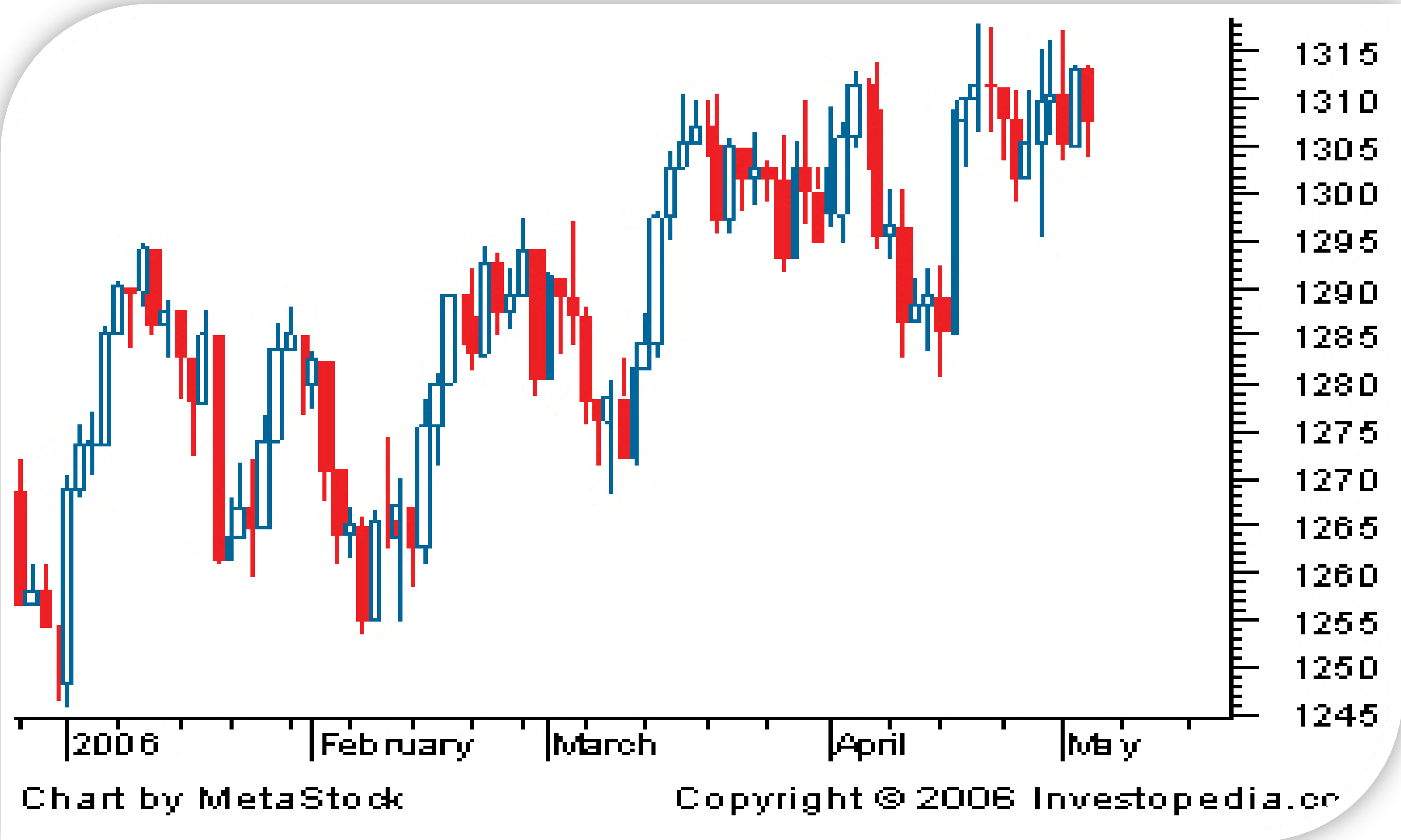
CANDLE-STICK CHART



Arithmetic Vs Logarithmic Scale

On an Arithmetic Scale, Price change shows an equal distance for each unit of price change whereas in an Logarithmic Scale, Price change shows an equal distance for equal percentage change.

ARITHMETIC CHART

LOGARITHMIC CHART

MOVEMENT INDICATORS

THERE ARE VARIOUS INDICATORS IN TECHNICAL ANALYSIS AMONGST WHICH WE WILL DISCUSS SOME HERE.

1. SUPPORT AND RESISTANCE
2. TRENDS
3. MOVING AVERAGES
4. MACD (MOVING AVERAGE CONVERGENCE DIVERGENCE)
5. BOLLINGER BANDS
6. FIBONACCI STUDEIS
7. OPTION ANALYSIS
8. RELATIVE STRENGTH INDEX

SUPPORT AND RESISTANCE

SUPPORT

THE PRICE AT WHICH MAJORITY OF THE TRADERS FEEL THAT THE PRICES WILL MOVE HIGHER IS KNOWN AS A SUPPORT LEVEL.
IT IS THE PRICE WHERE THE TRADERS FEEL THAT PRICES WONT FALL ANYMORE AND WILL TAKE A U-TURN.

RESISTANCE

THE PRICE AT WHICH MAJORITY OF THE TRADERS FEEL THAT THE PRICES WILL MOVE LOWER IS KNOWN AS A RESISTANCE LEVEL.

IT IS THE PRICE WHERE THE TRADERS FEEL THAT PRICES WONT RISE ANYMORE AND WILL TAKE A U-TURN.

SUPPORT AND RESISTANCE

More the trading that takes place in the Support or Resistance area, more significant it becomes.

Amount of time spent in the support or resistance area is a sign of better confirmation.

Volume also acts as a pivotal point in determination of better future prices and confirms better the support or resistance levels.

TRENDS

A TREND REPRESENTS A CONSISTENT CHANGE IN PRICE.

WHEN A TREND BREAKS IT IS KNOWN AS A BREAKOUT. THE PRICE THEN GENERALLY MOVES TOWARDS THE DIRECTION OF THE BREAKOUT.

THERE ARE THREE KINDS OF TRENDS :-

1. UPWARD TREND
2. DOWNWARD TREND
3. SIDEWAYS TREND

TRENDS ARE AMONGST THE MOST SEEN PATTERNS ON A CHART

UPWARD TREND

IT IS A BULLISH TREND COMPRISING OF A SERIES OF HIGHER PEAKS AND TROUGHS

DOWNWARD TREND

IT IS A BEARISH TREND COMPRISING OF A SERIES OF LOWER PEAKS AND TROUGHS

SIDEWAYS TREND

IT IS A SERIES OF HORIZONTAL PEAKS AND TROUGHS. IT IS ADVISABLE NOT TO INVEST IN STOCKS SHOWING SUCH A CHART PATTERN.

(c) Chartink.com
TATASTEEL (Daily) 422.7
Vol: 4.156M
Moving Avg (21) C -> 387.62
Moving Avg (10) C -> 406.21
SIDEWAYS
DOWNWARDS
UPWARDS
RSI (14) -> 79.52
MACD (26, 12) -> 21.61
EXP (9) -> 20.48
Divergence -> 1.13
Jan 12
Mar
May
Jul
Sep
Nov
Jan 13
Mar
May
Jul
Sep
Nov

MOVING AVERAGES

It is a simple trend analysis technique which averages out the prices for a particular period of time.

In short it is a Curving Trend line which helps in identifying the beginning of a new trend line or end of a old trend line.

It is only an indicator tool and not a leading tool. It only reacts and never anticipates.

MOVING AVERAGES

Moving averages can be Simple or Weighted

When the Closing Prices move above the Moving Average, a Buy signal is generated and if it moves below the moving average, a Sell signal is generated.

A Shorter period Moving average gives an early signal in comparison to longer period average, it also generates lots of noise and whipsaws.

Using 2 averages to generate signals is called as “Double Cross Over Technique”.

A Buy Signal is generated when the Shorter one crosses the longer one and vice-versa.
5 and 20days (Popular among future traders), 10 and 50 days (Popular among stock traders) moving averages are considered to be very popular cross over periods.

MOVING AVERAGES

Using 3 averages to generate signals is called as “Triple Cross Over Technique”.

4-9-18 days moving averages are considered to be very popular Triple Cross over periods.

The shorter the moving average period, more closer they move towards the price. Thus in an uptrend, 4 day average should be higher than 9 day average, and 9 day higher than 18 day average and vice-versa in a down trend.


CapitaCharts - [Chart5 - NIFTY - NSE]
File Edit View Insert Format Query Tools Window Help
NIFTY - NSE (4302.40, 4329.15, 4280.60, 4320.70, 0.00), MAvg (4277.67), MAvg (4240.06), MAvg (4258.56)
4700 4600 4500 4400 4300 4200 4100 4000 3900 3800 3700 3600 3500
Volume (410972256.00)
60000 50000 40000 30000 20000 10000
x10000
06 09 13 16 21 28 03 10 13 17 20 25 03 08 10 15 18 22 25 30 05 08 12 15 20 26 29 03 06 11 13 18 24 27 01 03 08 14 21 24
March April May June July August
For Help, press F1
start
Adobe Reader - [Mur...
Microsoft PowerPoint ...
CapitaCharts - [Chart...
11:38 PM

RSI (14) -> 35.92
MACD (26, 12) -> 0.64
EXP (9) -> 1.37
Divergence -> -0.72
275.1
35.92
-0.7
Jan 13
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

MACD

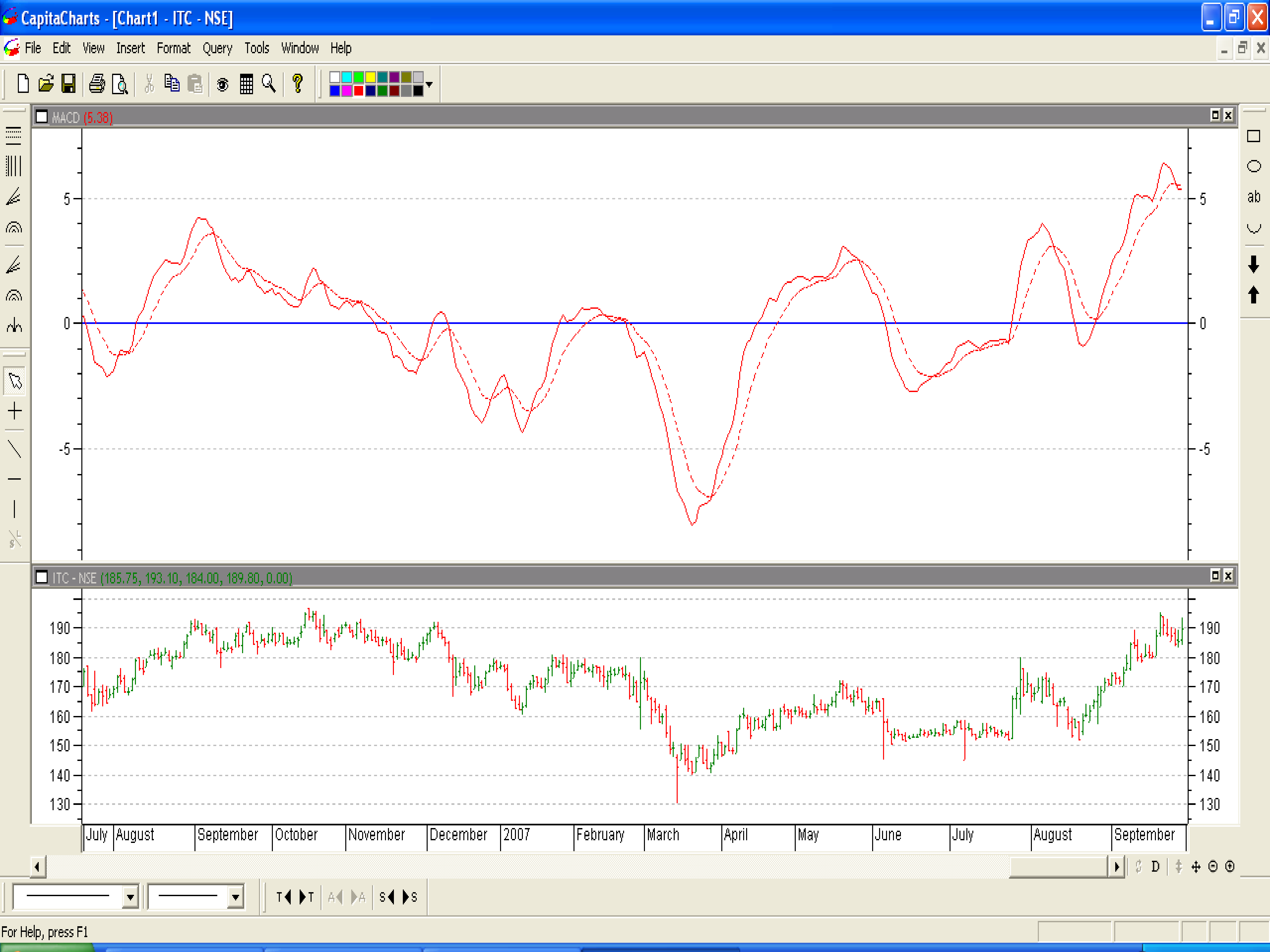
MOVING AVERAGE CONVERGENCE DIVERGENCE

THE MACD IS A TREND-FOLLOWING MOMENTUM INDICATOR THAT SHOWS THE RELATIONSHIP BETWEEN TWO MOVING AVERAGES.

THE MACD IS THE DIFFERENCE BETWEEN A 26-DAY AND 12-DAY MOVING AVERAGE. A 9 DAY MOVING AVERAGE KNOWN AS THE SIGNAL LINE IS PLOTTED ON TOP OF THE MACD TO SHOW THE BUY AND SELL OPPORTUNITIES.

THE BASIC MACD TRADING RULE IS TO SELL WHEN THE MACD FALLS BELOW ITS SIGNAL LINE AND BUY WHEN IT RISES ABOVE THE SIGNAL LINE.

AN INDICATION THAT AN END TO THE CURRENT TREND MAY BE NEAR OCCURS WHEN THE MACD DIVERGES FROM THE SECURITY. A BEARISH DIVERGENCE OCCURS WHEN THE MACD IS MAKING NEW LOWS WHILE THE PRICES FAIL TO REACH A THE LOW. THE EXACT OPPOSITE HAPPENS DURING A BULLISH DIVERGENCE.



CapitaCharts - [Chart1 - ITC - NSE]
File Edit View Insert Format Query Tools Window Help
MACD (5.38)
5
0
-5
ITC - NSE (185.75, 193.10, 184.00, 189.80, 0.00)
190
180
170
160
150
140
130
July August September October November December 2007 February March April May June July August September
For Help, press F1

OPTION ANLYSIS

- Option analysis can be done by analysing the open interest of calls and puts.
- Higher the open interest, higher the support or resistance.
- Change in open interest is one of the most important tool for option analysis.

CALLS											PUTS									
OI	Chng in OI	Volume	IV	LTP	Net Chng	Bid Qty	Bid Price	Ask Price	Ask Qty	Strike Price	Bid Qty	Bid Price	Ask Price	Ask Qty	Net Chng	LTP	IV	Volume	Chng in OI	OI
-	-	-	-	-	-	-	-	-	-	260.00	-	-	0.40	1,000	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	270.00	-	-	1.00	500	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	280.00	-	-	1.00	500	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	290.00	-	-	1.00	500	-	-	-	-	-	-
-	-	-	-	-	-	2,000	89.10	-	-	300.00	-	-	0.95	500	-	-	-	-	-	-
-	-	-	-	-	-	2,000	78.90	-	-	310.00	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,000	68.70	-	-	320.00	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,000	58.50	-	-	330.00	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,000	46.50	-	-	340.00	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,000	36.70	-	-	350.00	20,000	0.05	-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,000	31.90	-	-	355.00	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,000	26.90	-	-	360.00	1,000	0.35	1.75	1,500	-	-	-	-	-	4,500
-	-	-	-	-	-	1,500	32.90	40.75	1,500	365.00	-	-	-	-	-	-	-	-	-	-
1,000	-	-	-	-	-	500	30.45	34.40	2,000	370.00	500	0.60	0.90	500	-0.95	0.90	24.78	6	500	21,000
-	-	-	-	-	-	500	26.05	28.30	1,500	375.00	16,000	0.85	1.65	10,500	-	-	-	-	-	500
10,500	-500	7	24.38	24.30	7.80	1,000	23.15	23.60	500	380.00	500	2.00	2.15	13,000	-2.10	2.00	23.26	40	1,000	98,500
-	-	-	-	-	-	2,000	17.70	21.50	2,000	385.00	16,000	2.55	3.50	15,500	-2.10	2.90	23.51	2	-1,000	500
70,000	6,000	119	22.08	15.25	4.20	500	15.05	15.90	14,000	390.00	7,500	4.25	4.55	13,000	-3.00	4.45	24.02	89	14,000	84,500
15,500	-1,500	18	23.73	13.30	4.80	16,000	11.40	14.25	16,500	395.00	16,500	5.60	6.95	16,000	-4.90	6.00	23.66	15	5,000	7,500
336,500	26,500	707	23.31	10.00	3.20	15,000	9.55	9.95	500	400.00	13,000	8.25	9.10	2,500	-4.75	8.25	23.96	70	12,500	46,000
10,000	-	23	24.62	8.40	3.25	16,000	6.75	8.05	500	405.00	16,000	10.40	12.30	16,000	-0.35	10.40	22.92	1	-	2,500
209,000	26,000	335	23.59	5.50	1.65	14,000	5.65	5.95	500	410.00	16,000	12.65	14.65	11,500	-4.10	15.60	28.78	5	-500	20,000
5,500	2,000	9	23.31	4.30	1.30	16,000	3.80	5.35	15,500	415.00	16,000	17.30	19.30	16,000	-	-	-	-	-	500
270,000	3,500	249	24.11	3.40	1.10	12,000	3.25	3.40	1,000	420.00	16,500	20.60	22.15	9,500	-	-	-	-	-	5,000
1,000	-	-	-	-	-	500	1.50	3.70	2,500	425.00	1,500	24.85	27.55	1,500	-	-	-	-	-	-
187,500	2,000	26	25.89	2.00	0.60	500	1.55	2.00	5,500	430.00	2,000	27.85	31.65	1,500	-	-	-	-	-	500
-	-	-	-	-	-	500	0.70	-	-	435.00	1,500	32.05	38.25	1,500	-	-	-	-	-	-

FIBONACCI STUDIES

- The following series of Fibonacci numbers 1,2,3,5,8,13,21,34,55,89,144…… as the following salient features:

a) The sum of any 2 consecutive numbers equals the next highest number.

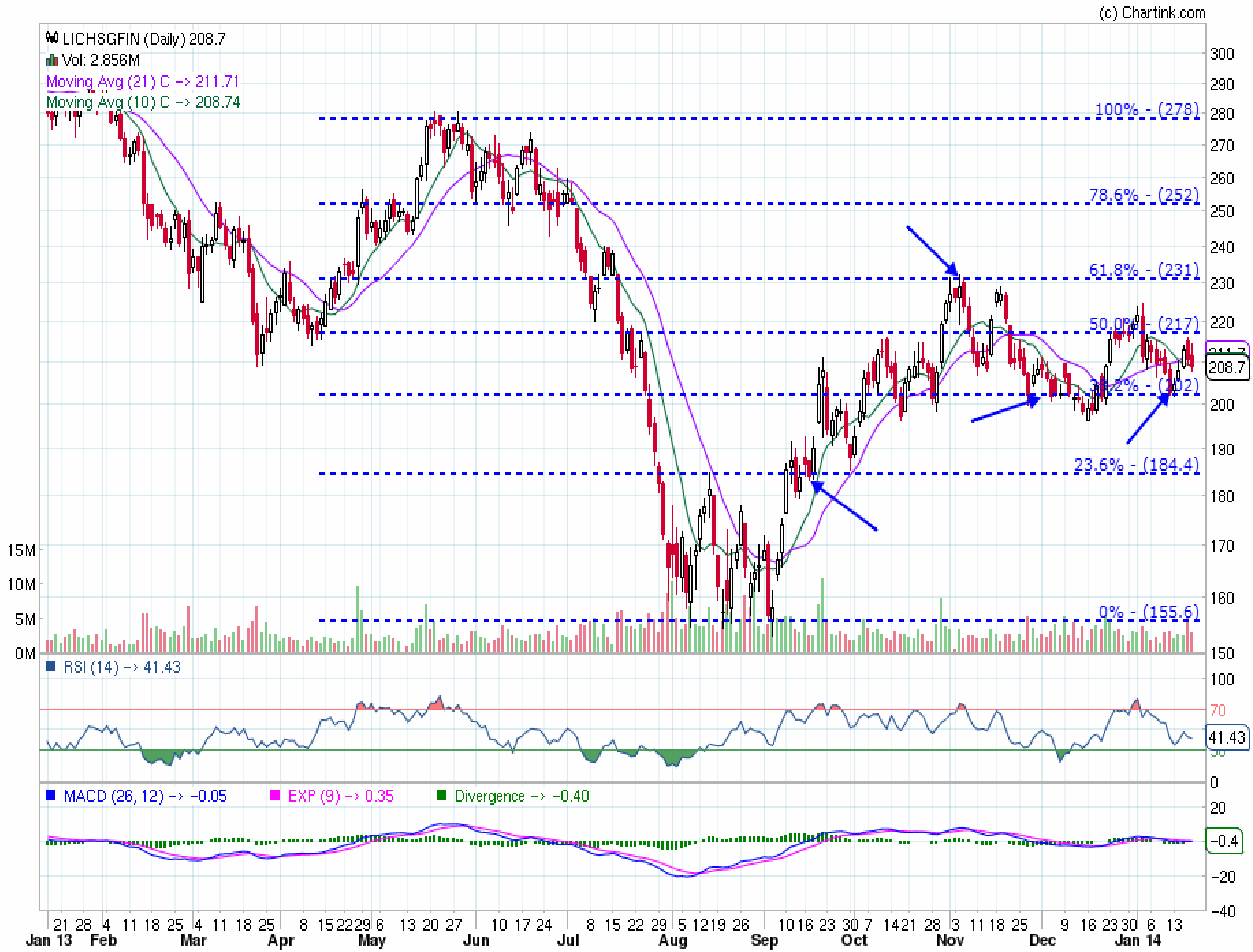
b) The ratio of any number to its next higher number approximates to 0.618.

c) The ratio of any number to its next lowest number approximates to 1.618.

d) The ratio of alternate number approaches to 2.618 or its inverse 0.382.

FIBONACCI STUDIES

- The most commonly used percentage retracements are 61.8%, 38% and 50%.
- In a strong trend, a minimum retracement is usually around 38% and in a weak trend, the maximum retracement is around 62%. (Retracements are measured from bottom of an uptrend to the top of an uptrend and vice-versa)
- The diagram on the next slide has some areas of retracements marked with arrows. These retracements provide nice supports and resistances.



(c) Chartink.com
LICHSGFIN (Daily) 208.7
Vol: 2.856M
Moving Avg (21) C -> 211.71
Moving Avg (10) C -> 208.74
100% - (278)
78.6% - (252)
61.8% - (231)
50.0% - (217)
38.2% - (202)
23.6% - (184.4)
0% - (155.6)
208.7
RSI (14) -> 41.43
70
41.43
MACD (26, 12) -> -0.05
EXP (9) -> 0.35
Divergence -> -0.40
-0.4
Jan 13
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan 14

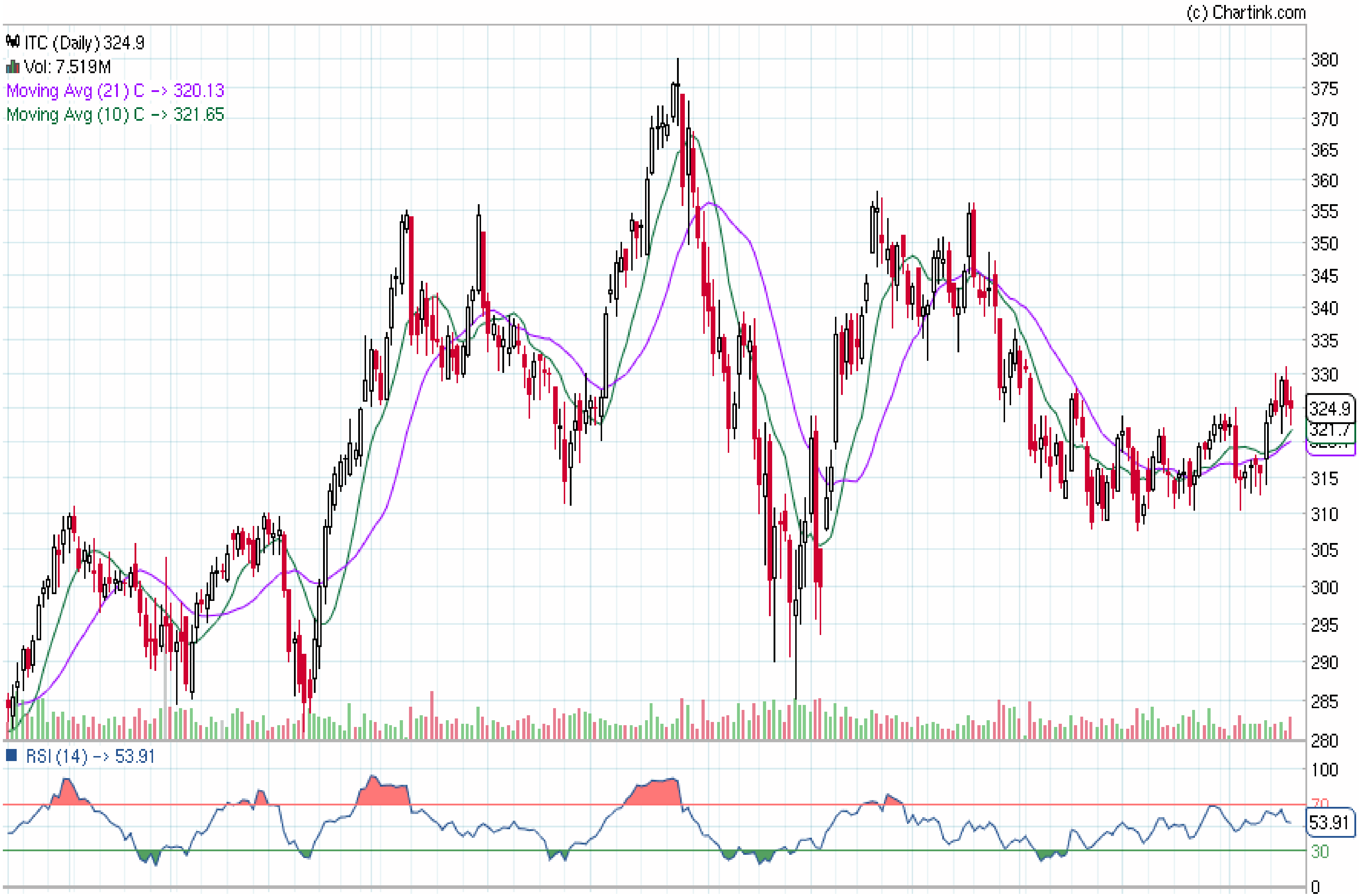
BOLLINGER BANDS

- Developed by John Bollinger.
- Using Standard deviation, Upper and Lower bands are fixed above and below the moving average. Generally they are plotted around a 20 day moving average and standard deviation on the either side covers at around 95% of the price data.
- Prices are said to be overextended if they touch the upper band and are considered to be oversold if they touch the lower band.
- As standard deviation is a measure of volatility, the bands are self adjusting, widening during volatile markets and contracting during calmer markets.
- Sharp price changes tend to occur after the bands tighten, as volatility lessens.
- Bottoms and tops made outside the bands followed by bottoms and tops made inside the band call for a trend reversal.
- A move that originates at one band tends to go all the way to the other band. This observation is useful when projecting price targets.


(c) Chartink.com
SUNPHARMA (Daily) 594
Vol: 1.277M
Moving Avg (20) C -> 586.35
Bollinger (20, 2) -> 557.7 - 615.0
Moving Avg (21) C -> 586.19
Moving Avg (10) C -> 599.59
594.0
660
640
620
560
540
520
500
480
460
440
420
400
380
360
340
8.0M
6.0M
4.0M
2.0M
0.0M
21 28 4 11 18 25 4 11 18 25 8 15 22 29 6 13 20 27 10 17 24 8 15 22 29 5 12 19 26 10 16 23 30 7 14 21 28 3 11 18 25 9 16 23 30 6 13
Jan 13 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 14

RELATIVE STRENGTH INDEX

- RSI technique was developed by J.Welles Wilder.
- It is the most popular and trusted Oscillator tool used by most of the traders.
- RSI = 100 – 100 / (1+RS)
- RS = $\frac{\text{Average of x days UP close}}{\text{Average of x days DOWN close}}$
- 14days is popularly used for the calculation of RSI and 14weeks in case of a Weekly chart being used.
- The RSI usually tops above 70 and bottoms below 30. Thus above 70 it is in an overbought position and below 30 it is in an oversold position.
- It is one of the strongest technical indicator and a widely used one.



(c) Chartink.com
ITC (Daily) 324.9
Vol: 7.519M
Moving Avg (21) C -> 320.13
Moving Avg (10) C -> 321.65
RSI (14) -> 53.91
380
375
370
365
360
355
350
345
340
335
330
324.9
321.7
315
310
305
300
295
290
285
280
100
70
53.91
30
0

VARIOUS CHART PATTERNS

The various chart patterns that we will study include:

- Head and Shoulders
- Inverse Head and Shoulders
- Triangles
- Double/Triple top
- Double/Triple Bottom
- Wedges
- Flags
- Cup and Saucer
- Hammer and Hanging Man
- Doji
- Shooting Star
- Engulfing
- Harami

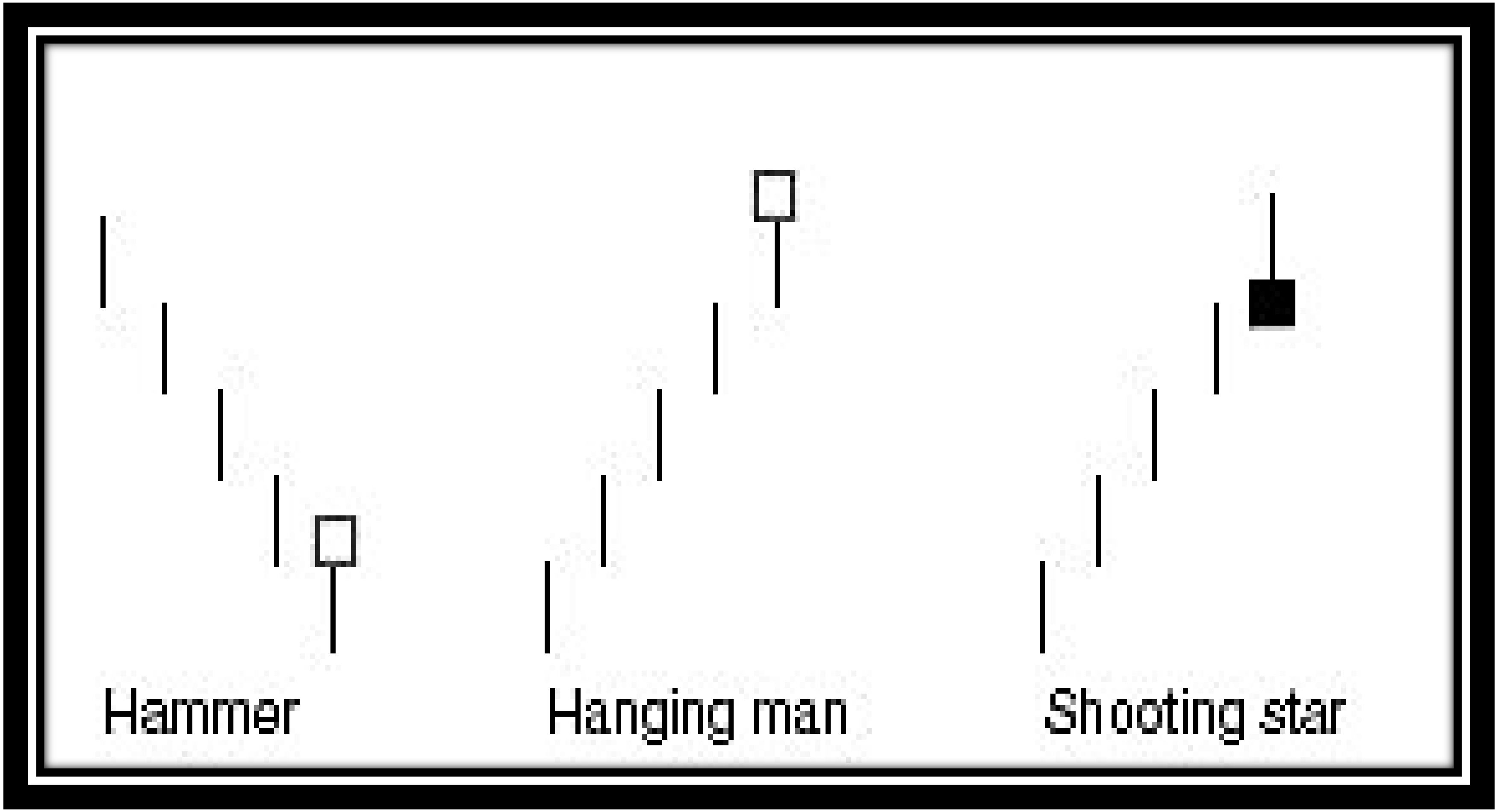
HAMMER AND HANGING MAN

- The Hammer and Hanging man candles have small real body (whether green or red) and should have long single sided shadow.
- An HAMMER appears on a down trend at or near the bottom which suggests that the market is hammering out a base.
- An HANGING MAN appears on an uptrend at or near the top which suggests that the market is creating a top. One must wait for a close under the Hanging man’s real body before becoming BEARISH.


CapitaCharts - [Chart1 - Praj Inds. - NSE]
File Edit View Insert Format Query Tools Window Help
Praj Inds. - NSE (211.25, 237.85, 209.75, 234.75, 0.00)
260
250
240
230
220
210
200
190
180
170
160
150
Volume (4471219.00)
50000
x100
A
S
O
N
D
For Help, press F1
Candlestick Nison....
Microsoft PowerP...
CapitaCharts - [Ch...
07:27

SHOOTING STAR

- A Shooting Star is a top reversal line just like the Hanging man. A Shooting Star displays a long upper shadow and its small real body is at or near the lows of the session.
- A Shooting Star shows trouble overhead. Because of the Shooting Stars long bearish upper shadow, we don’t need any confirmation like the Hanging man.
- A Shooting Star is a bearish reversal signal and it must appear during a rally (Uptrend).


Hammer
Hanging man
Shooting star

THE DANGEROUS DOJI

- The DOJI is a session in which the Opening and Closing prices are the same. It resembles a Cross.
- Like a Spinning Top, Doji indicate a market in complete balance between Supply and Demand.
- Doji represents market at a juncture of indecision and it can be an early warning that the preceding rally is losing steam.

THE DANGEROUS DOJI

- Doji's are extremely powerful in calling market tops, (especially after a long white candle) but however sometimes lose signal in calling the market bottoms.
- A close over the Doji's high is a signal that bulls have regained strength.
- The Doji's are more powerful when they occur rarely compare to its past history on a particular chart.

THE DANGEROUS DOJI

<u>THE DRAGON FLY DOJI:</u>

- It forms with the Open and Close near or at the high's of the candle. This candle signal's bullish implications. It resembles a Hammer without a real body.
- Doji's are generally not important at the declines, but however Dragon Fly is an exception. In a oversold market, Dragon fly Doji is a bullish signal.

<u>OTHER DOJIS:</u>

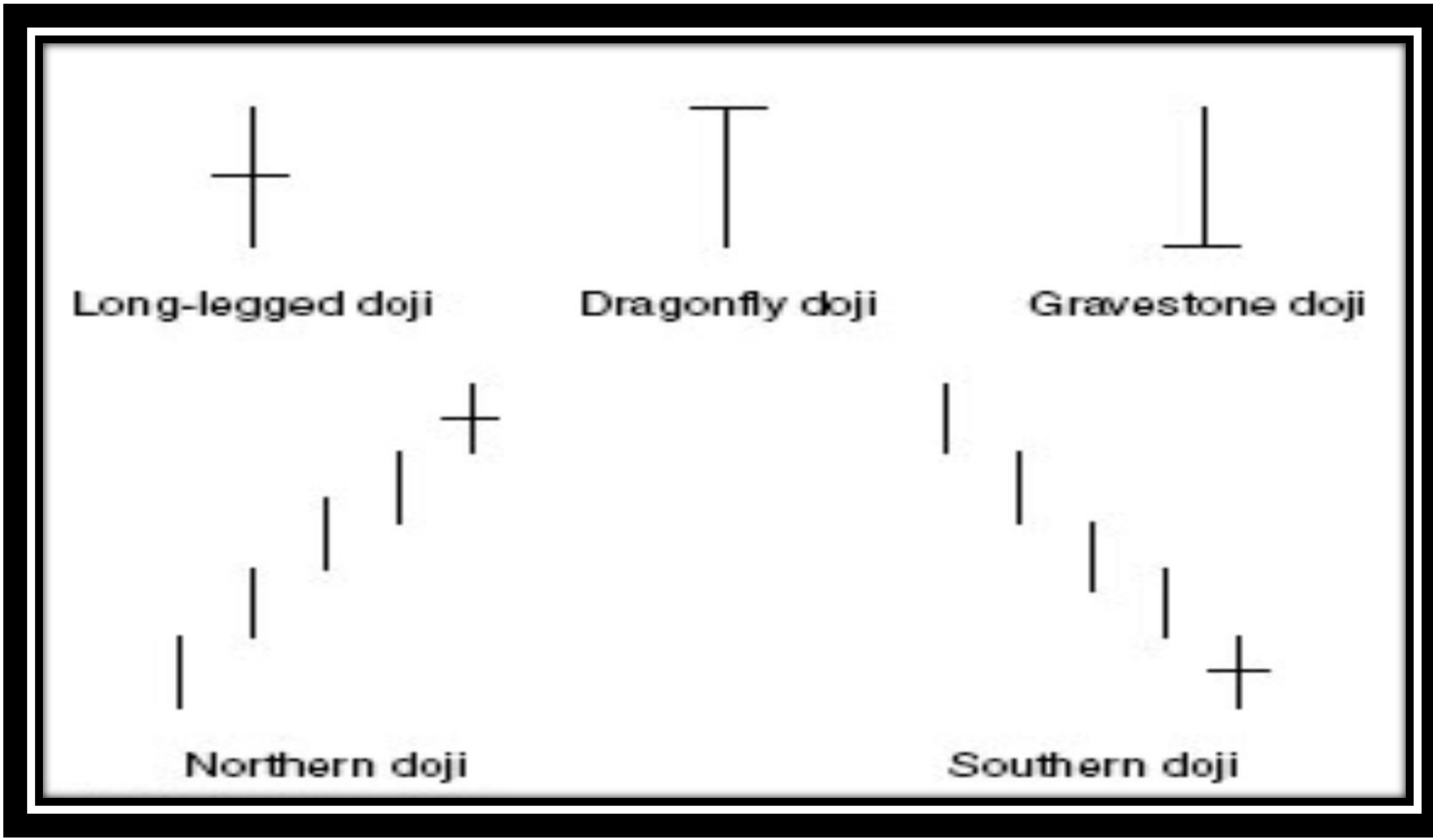
- Doji's with longer upper and lower shadows are called as Long Legged Doji's.
- A Doji appearing on a rally is called as Northern Doji and that on a decline is called Southern Doji.

THE DANGEROUS DOJI

THE GRAVE STONE DOJI:

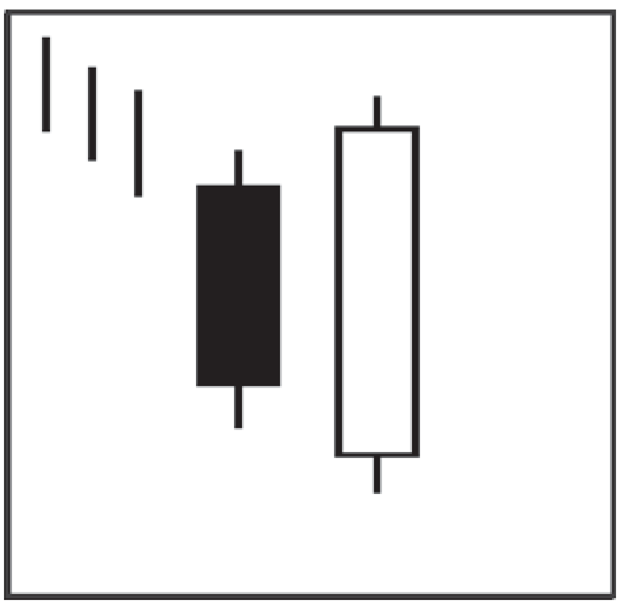
- It is the bearish counter part to the Dragon fly Doji. The Grave Stone Doji’s Open, Close and low resides at the bottom of the candle.
- Grave Stone Doji’s are extremely powerful in calling top reversals. If a Grave stone Doji appears on a market top and the next candle falls to the downside, it confirms the earlier Doji’s Signal of market topping.

TYPES OF DOJI'S



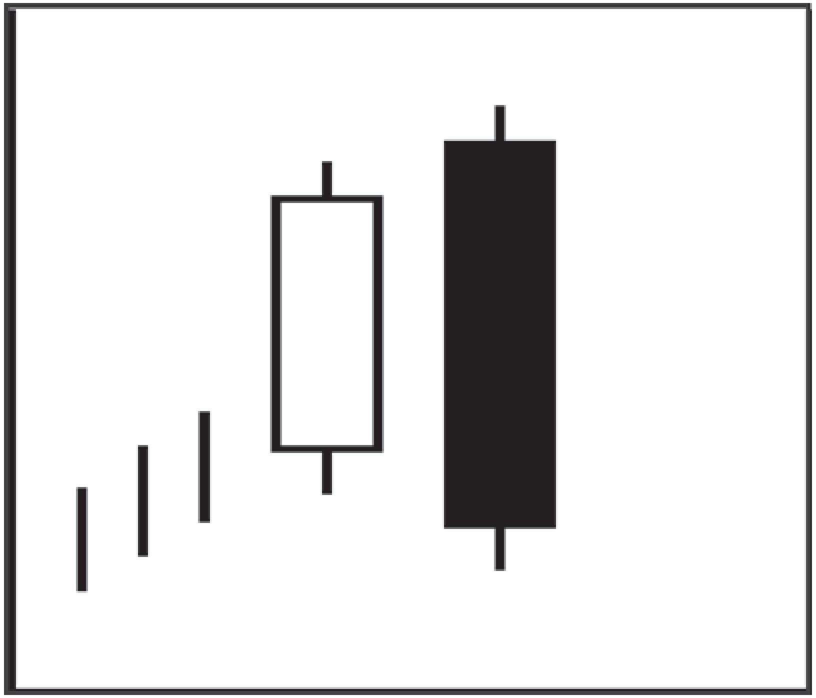
Bullish Engulfing

- A “**bullish engulfing pattern**” consists of a large white real body that engulfs a small black real body during a downtrend. It signifies that the buyers are overwhelming the sellers.
- The Engulfing pattern is a major reversal pattern comprised of two opposite colored bodies. This Bullish Pattern is formed after a downtrend. It is formed when a small black candlestick is followed by a large white candlestick that completely eclipses the previous day candlestick. It opens lower that the previous day’s close and closes higher than the previous day’s open.



Bearish Engulfing

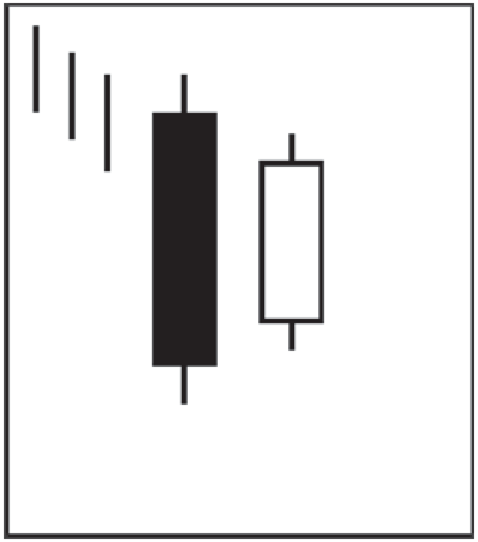
- A “**bearish engulfing pattern**”, occurs when the sellers are overwhelming the buyers. This pattern consists of a small white candlestick with short shadows or tails followed by a large black candlestick that eclipses or “engulfs” the small white one.



9:08
CL MONTHLY BAR
© 1989 CQG INC.
O= 1620
H= 1620
L= 1595
L= 1600v
Δ= +6
4000
3000
2000
1000
Bearish Engulfing Patterns
Bullish Engulfing Patterns
6/ 1/90
O= 1750
H= 1794
L= 1590
C= 1600
1985
1986
1987
1988
1989
1990

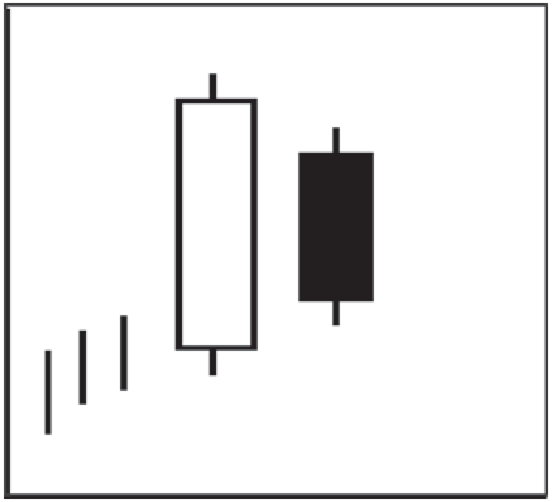
BULLISH HARAMI

- The Harami is a commonly observed phenomenon. The pattern is composed of a two candle formation in a down-trending market. The color first candle is the same as that of current trend. The first body in the pattern is longer than the second one. The open and the close occur inside the open and the close of the previous day. Its presence indicates that the trend is over.



BEARISH HARAMI

- Bearish Harami is a two candlestick pattern composed of small black real body contained within a prior relatively long white real body. The body of the first candle is the same color as that of the current trend. The open and the close occur inside the open and the close of the previous day. Its presence indicates that the trend is over.
- For a reversal signal, confirmation is needed. The next day should show weakness.



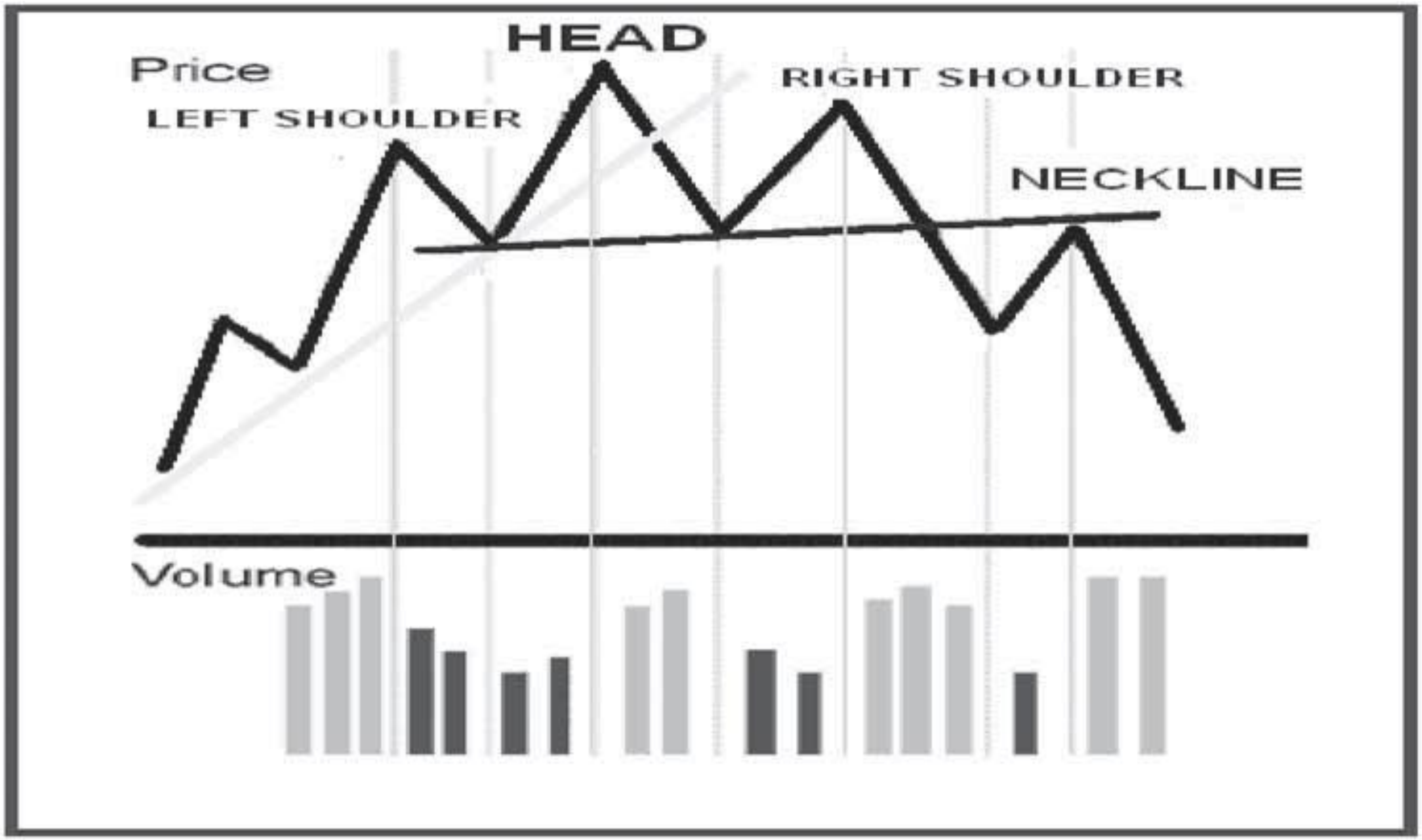
O= 3514
H= 3522
L= 3476
L= 3482
Δ= -34
Bearish
Engulfing
Pattern
Harami
6/15/90
O= 3514
H= 3522
L= 3476
C= 3482
3800
3700
3600
3500
Apr
May
Jun
12
19
26
2
9
16
23
30
7
14
21
29
4
11

HEAD AND SHOULDERS

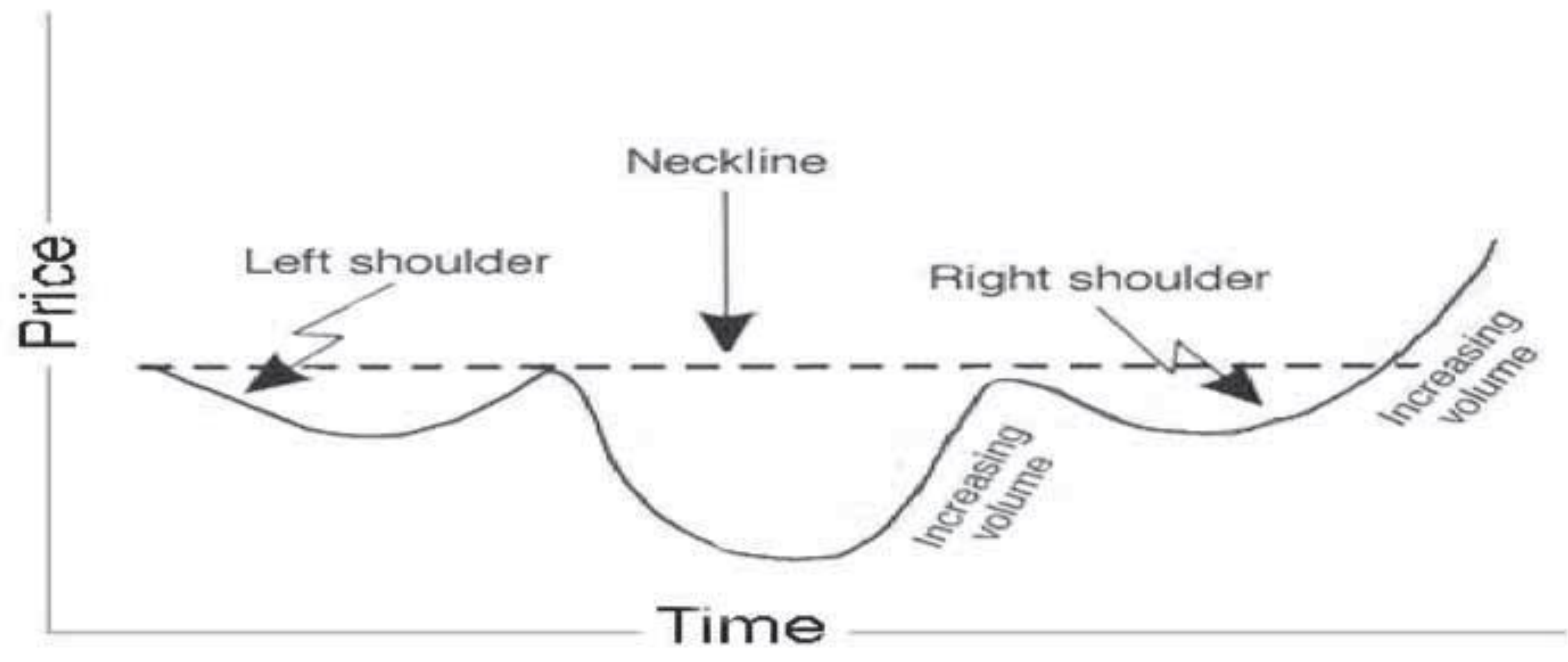
- It is a Bearish Signal.

- A Head and Shoulders (Top) is a reversal pattern which occurs following an extended uptrend forms and its completion marks a trend reversal. The pattern contains three successive peaks with the middle peak (head) being the highest and the two outside peaks (shoulders) being low and roughly equal. The reaction lows of each peak can be connected to form support, or a neckline.

- As the head and shoulders pattern unfolds, volume plays an important role in confirmation. Ideally, but not always, volume during the advance of the left shoulder should be higher than during the advance of the head. These decreases in volume along with new highs that form the head serve as a warning sign. The next warning sign comes when volume increases on the decline from the peak of the head. Final confirmation comes when volume further increases during the decline of the right shoulder.


HEAD
Price
RIGHT SHOULDER
LEFT SHOULDER
NECKLINE
Volume

INVERSE HEAD AND SHOULDERS



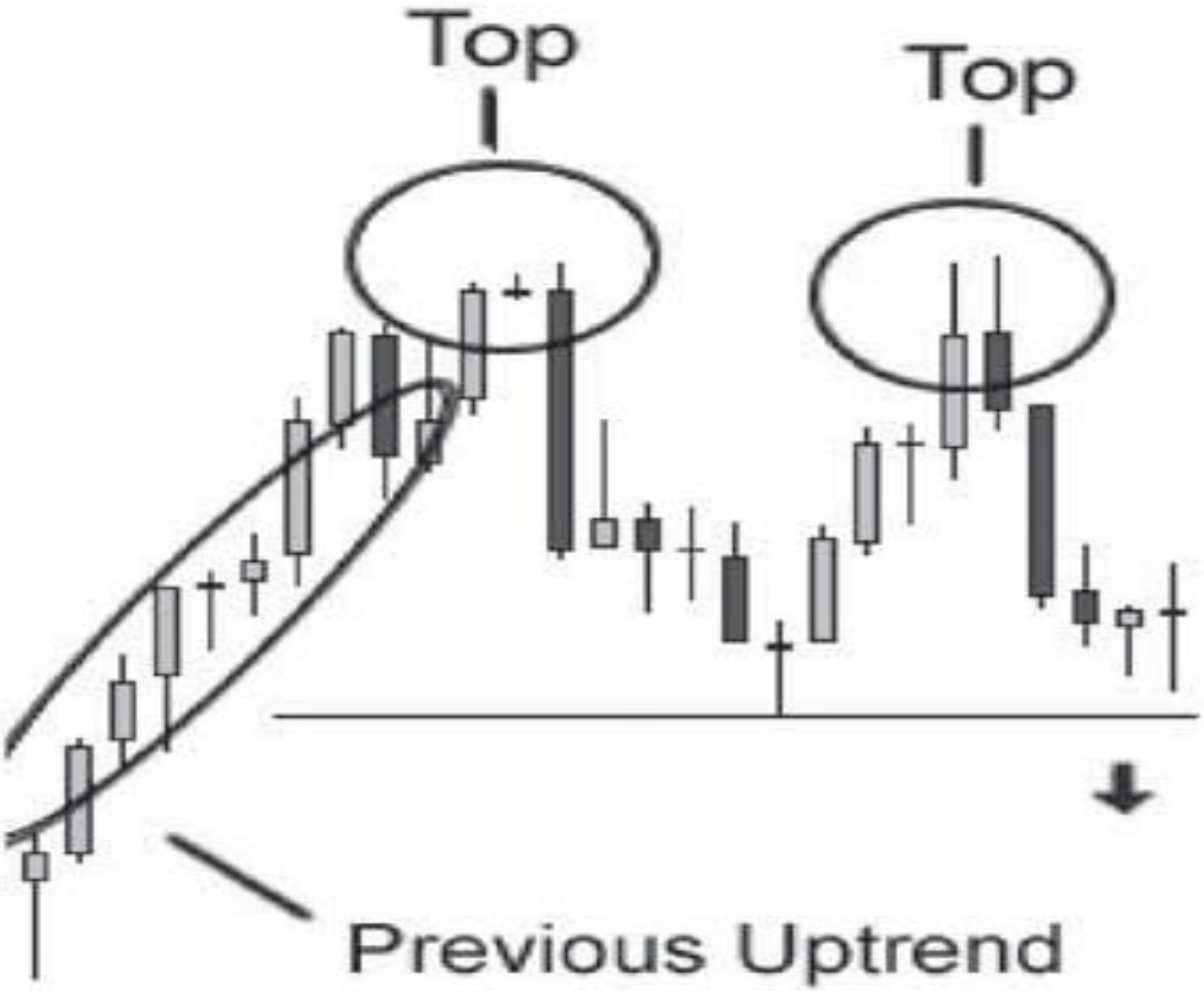
DOUBLE/TRIPLE TOP

- The double top resembles the letter “**M**”.

- It is a term used in technical analysis to describe the rise of a stock, a drop and another rise roughly of the same level as the previous top and finally followed by another drop. A double top is a reversal pattern which occurs following an extended uptrend. This name is given to the pair of peaks which is formed when price is unable to reach a new high. It is desirable to sell when the price breaks below the reaction low that is formed between the two peaks.

- Broken support becomes potential resistance and there is sometimes a test of this newfound resistance level with a reaction rally.

Double Top



1
2
UNSUSTAINABLE RISE
BHEL (DAILY) DOUBLE TOP
June
July
August
September
October
November
December
2008
February
March
April

DOUBLE/TRIPLE BOTTOM

- It is used to describe a drop in the value of a stock (index), bounces back and then another drop to the similar level as the previous low and finally rebounds again. A double bottom is a reversal pattern which occurs following an extended downtrend. The buy signal is when price breaks above the reaction high which is formed between the two lows.

- A double bottom pattern becomes official when the reaction high is penetrated to the upside, ideally accompanied by expanding volume.

CRUDE OIL (NYMEX) DOUBLE BOTTOM
122
121
120
119
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111
110
109
108
107
106
105
104
103
102
101
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31
7
14
21
28
5
November
December
2008
February
March
April
May

TRIANGLES

- There are 3 types of triangles, namely:

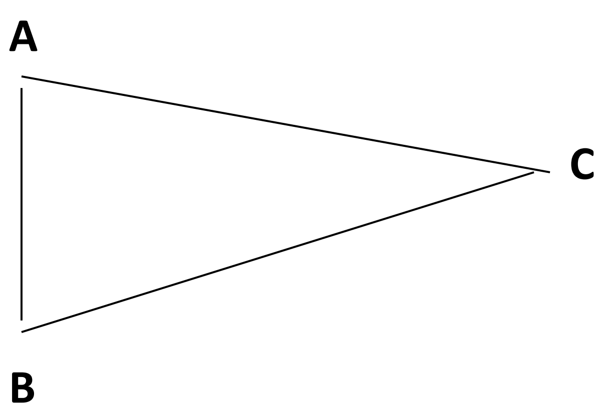
a) SYMMETRICAL TRIANGLES.

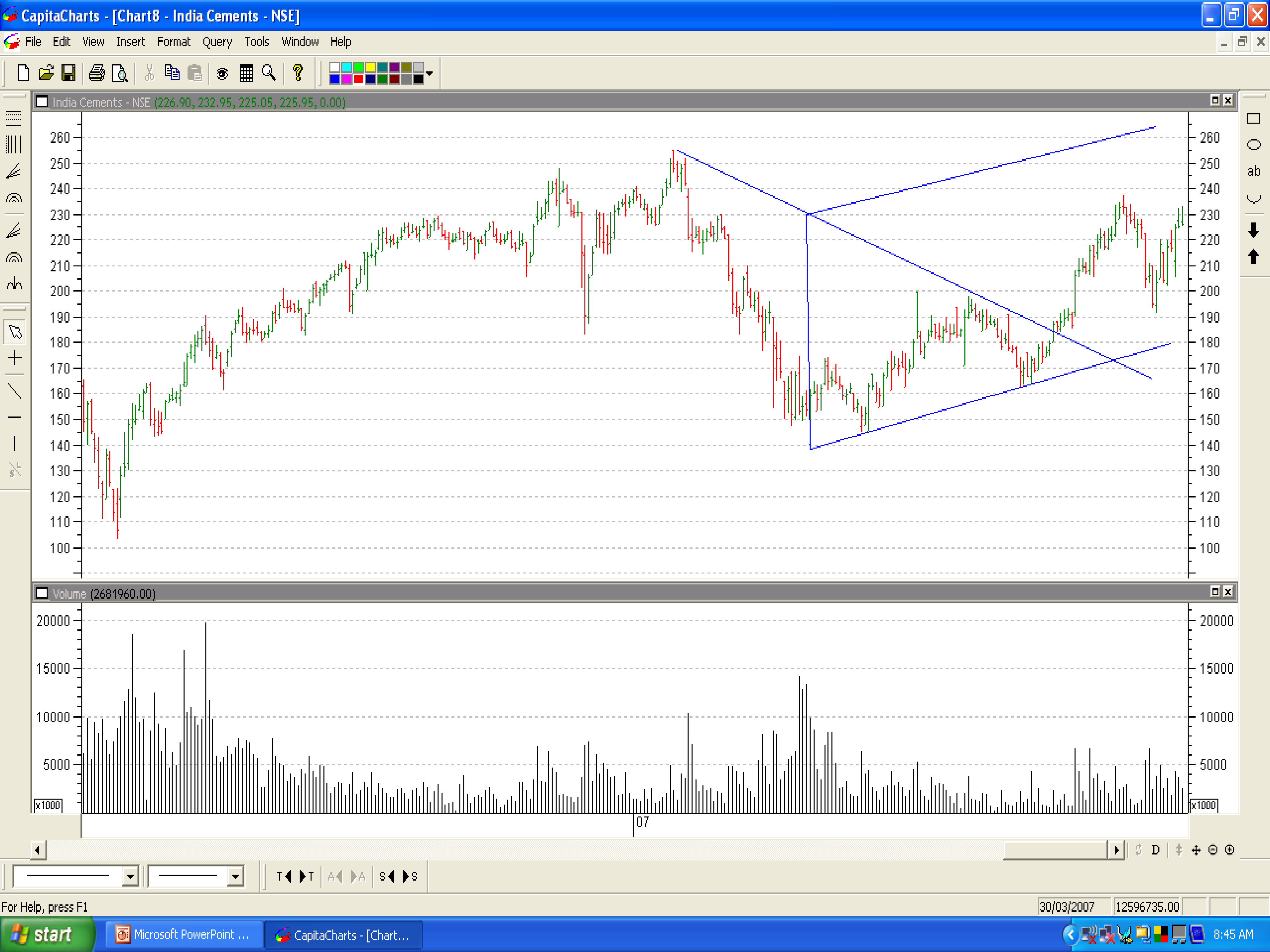
b) DESCENDING TRIANGLES.

c) ASCENDING TRIANGLES.

SYMMETRICAL TRIANGLES:

- Symmetric Triangles are also called as "COILS"
- These triangles show 2 Converging trend lines, the Upper line descending and the Lower line ascending.
- The Vertical line measuring the height of the pattern is referred to as "BASE". (AB)
- The point of intersection of the above 2 trend lines is called as the "APEX". (C)
- A close outside either of the trend lines, completes the pattern.

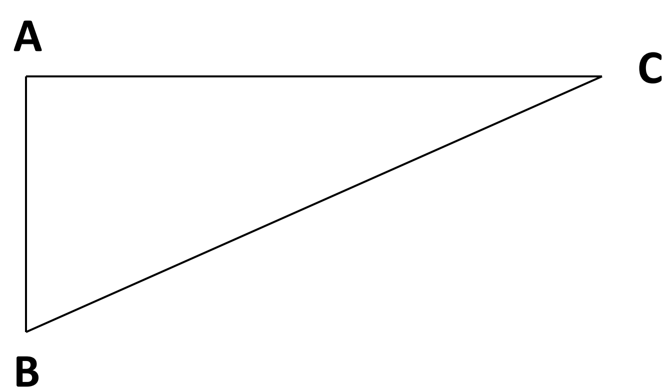




CapitaCharts - [Chart8 - India Cements - NSE]
File Edit View Insert Format Query Tools Window Help
India Cements - NSE (226.90, 232.95, 225.05, 225.95, 0.00)
Volume (2681960.00)
07
For Help, press F1
30/03/2007
12596735.00
start
Microsoft PowerPoint ...
CapitaCharts - [Chart...
8:45 AM

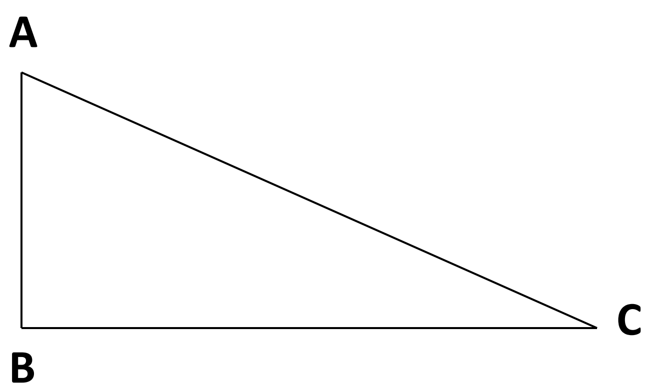
ASCENDING TRIANGLES:

- It is similar to that of a Symmetric Triangle with a rising lower line except for the flat or horizontal Upper line.
- The Vertical line measuring the height of the pattern is referred to as "BASE".
- The point of intersection of the above 2 trend lines is called as the "APEX".
- A close outside either of the trend lines, completes the pattern.
- This is generally a "Bullish Pattern".



DESCENDING TRIANGLES:

- It is similar to that of a Symmetric Triangle with a declining Upper line except for the flat or horizontal Down line.
- The Vertical line measuring the height of the pattern is referred to as "BASE".
- The point of intersection of the above 2 trend lines is called as the "APEX".
- A close outside either of the trend lines, completes the pattern.
- This is generally a "Bearish Pattern".



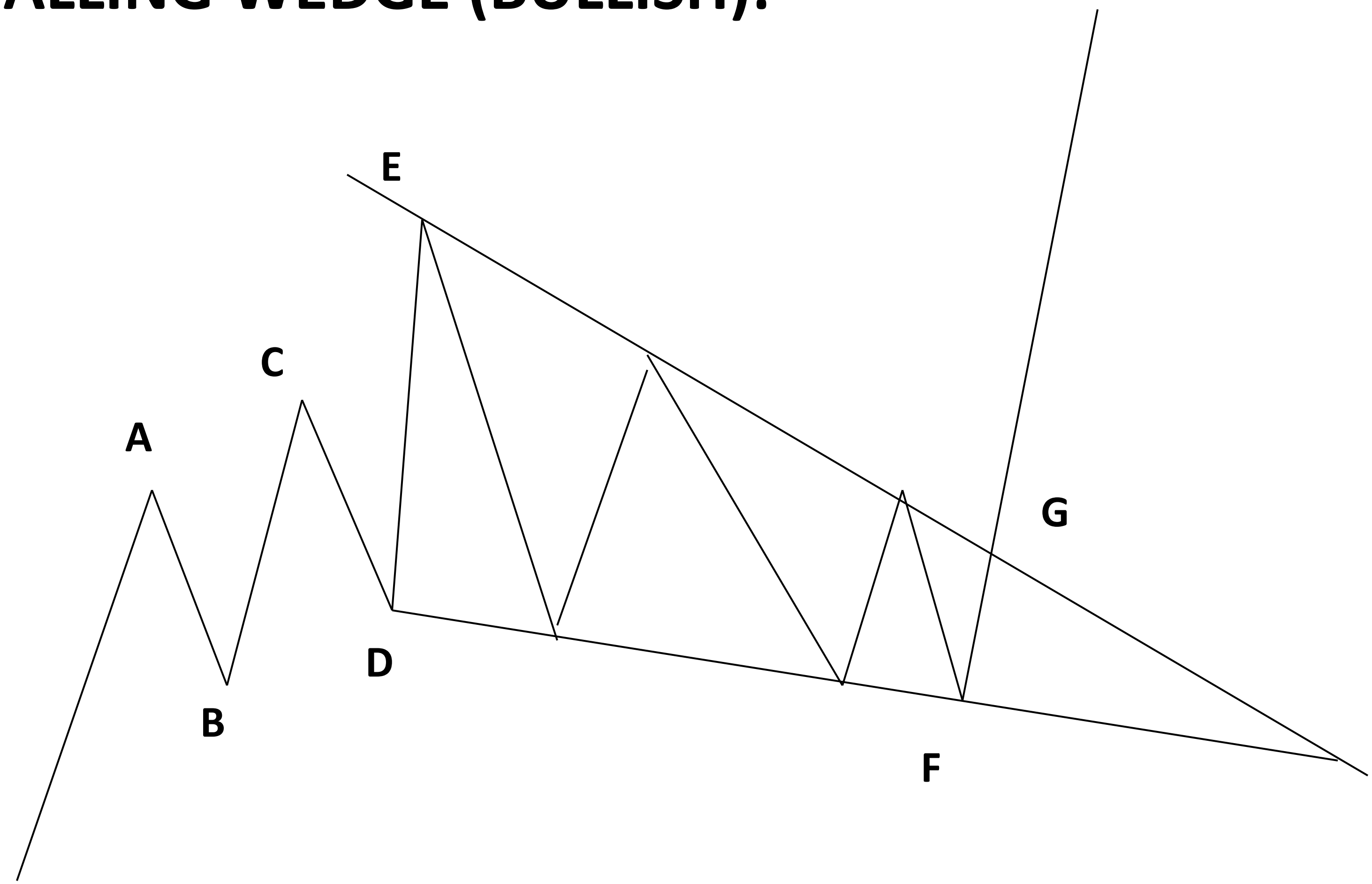
WEDGES

- A Wedge is similar to that of a symmetric triangle both in terms of its shape and time except for its slant.
- A Wedge usually lasts more than 1 month but not more than 3 months.
- A Wedge has a noticeable slant either to the upside or the downside which is opposite to that of prior trend i.e. it slants against the previous trend.
- Wedges often occur within the existing trend and are usually continuation patterns. However appearance of wedge at the top or bottom signifies reversal of the trend.
- A Wedge can either be a falling Wedge or a raising Wedge.

WEDGES

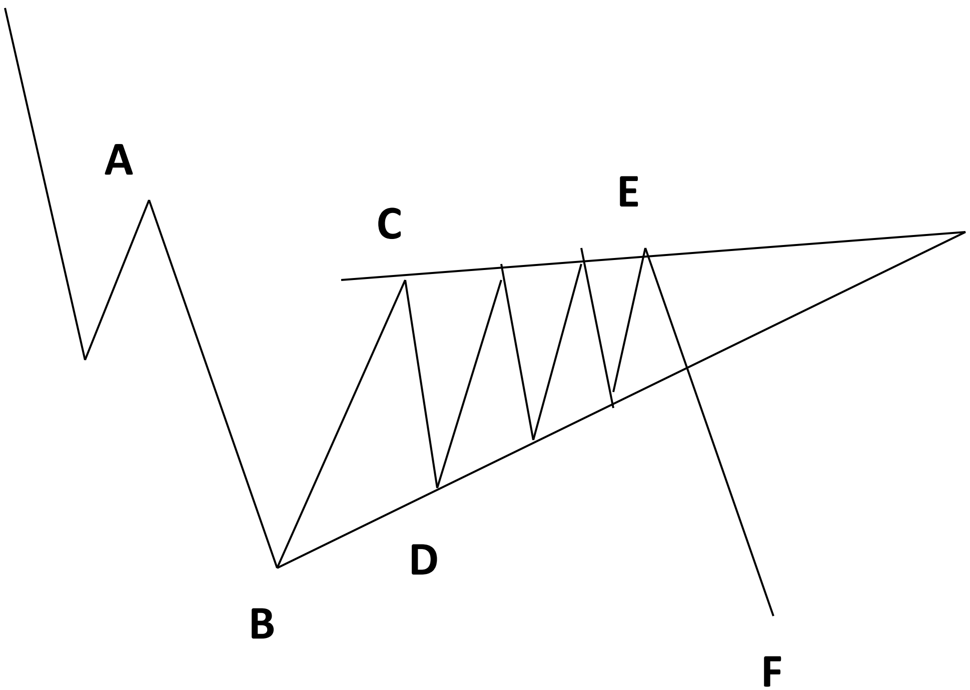
- A Falling Wedge is considered to be bullish and a raising wedge bearish.
- A raising wedge at the end of a top is an early signal of beginning of a down trend.
- A falling wedge at the bottom signifies end of the bear trend.
- Whether a Wedge appear at the middle or end of the move, the general rule of raising wedge is a bearish signal and a falling wedge is a bullish signal should be kept in mind.

FALLING WEDGE (BULLISH):

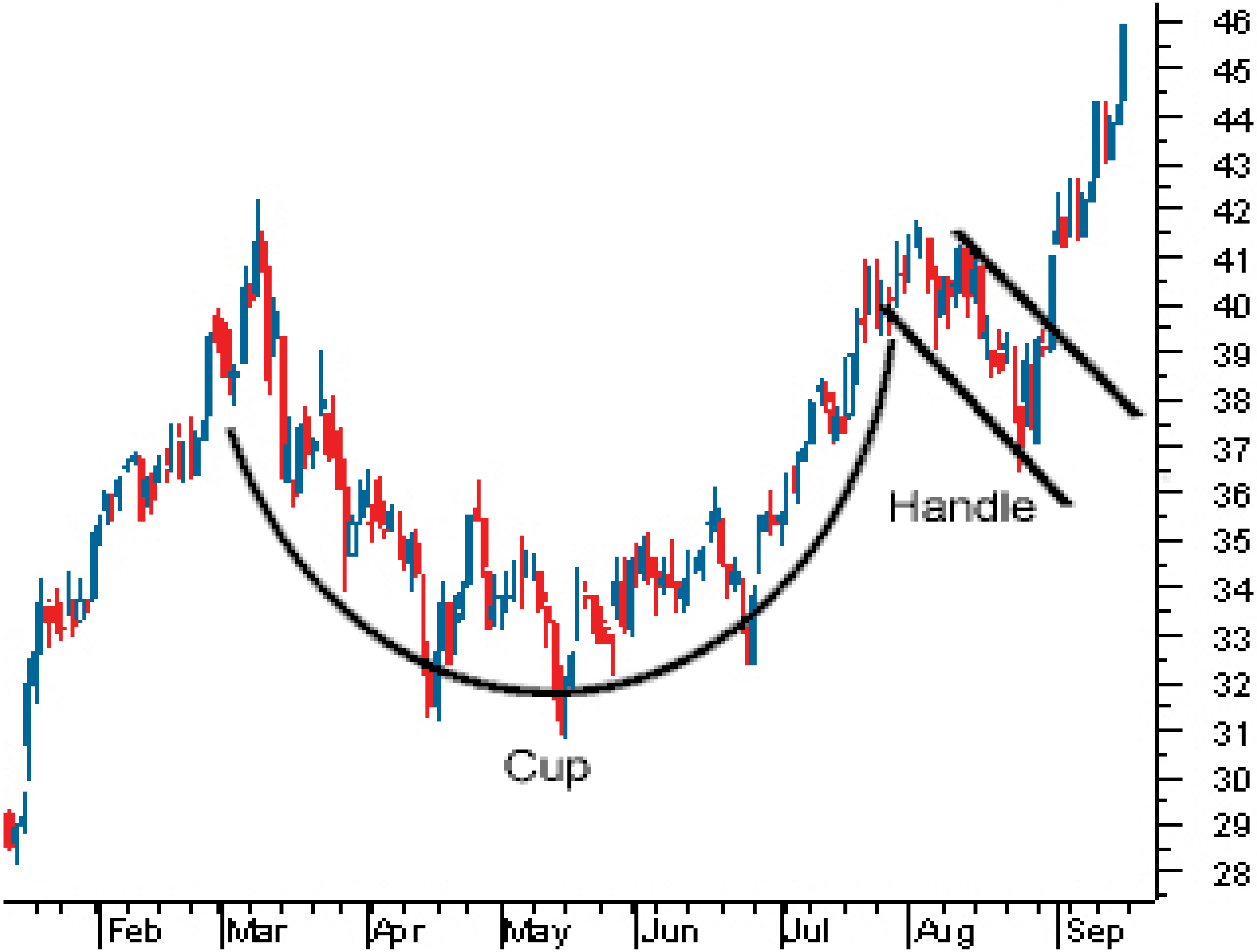


CapitaCharts - [Chart2 - Bhartiya Intl. - NSE]
File Edit View Insert Format Query Tools Window Help
Bhartiya Intl. - NSE (95.00, 95.00, 88.20, 90.35, 0.00)
250
200
150
100
50
Volume (592.00)
70000
60000
50000
40000
30000
20000
10000
x10
May Jun Jul Aug Sep Oct Nov Dec 2006 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2007 Feb Mar Apr May Jun Jul Aug
For Help, press F1
02/07/2007
68.28
start
CapitaCharts - [Chart...
7:48 PM

RAISING WEDGE (BEARISH):



CUP AND HANDLE



Source: Chart by MetaStock

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