

Two rules: Do not fall in love with stocks. Let winners roll and cut losers early.
Fundamental analysis tells you what to buy and technical analysis tells you when to buy.

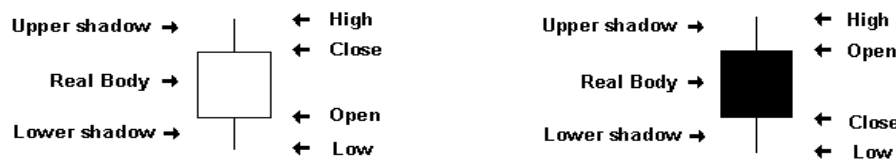
Technical Analysis is a security analysis methodology for forecasting the direction of prices through the study of past market data, primarily price and volume.

Suggested Textbook: *Getting Started in Technical Analysis* by J. D. Schwager, Wiley (0-471-29542-6)

Goals: Long – “Buy Low and Sell High” or “Buy High and Sell Higher”
Short – “Sell High and Buy Low” or “Sell Low and Buy Lower”

Before making any stock investing decision, always check technical chart using this link <https://stockcharts.com/sc3/ui/?s=AAPL> and setting the following parameters:

- Type in ticker symbol
- Set “Chart Type” as Candlesticks



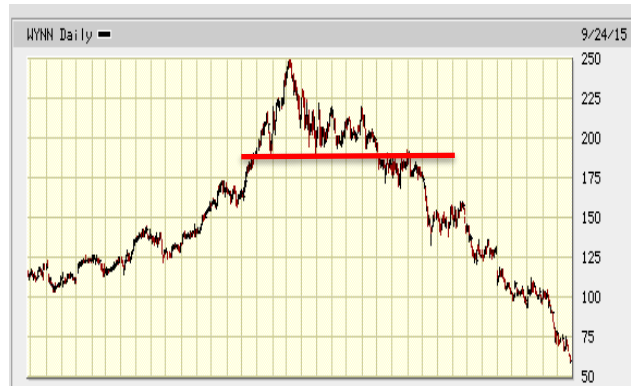
- “Moving Average”: SMA 50 & 200; Indicators: MACD, Relative Strength Index, and Volume
- Time frame: 3 months, 6 months, 1 year, 3~5 years
- Always find out why there are gaps or big price/volume changes by checking headline news

1. Indicators

- SMA (simple moving average) vs. EMA (exponential moving average) – SMA gives equal weight to each price, where EMA reacts faster to recent price changes than SMA.
- RSI (relative strength index) - a momentum indicator that compares the magnitude of recent price gains to recent price losses to determine overbought (RSI>70) and oversold (RSI<30) conditions of a stock.
- MACD (moving average convergence divergence) - a trend-following momentum indicator that shows the relationship between two moving averages of prices. Pay attention to the crossovers of both moving averages.
- Money Flow - If more shares were bought throughout the day on the uptick than the downtick, net money flow is positive because more investors were willing to pay a premium for the stock. If money flow is negative when a stock's price is rising, this could spell trouble. Many traders watch for opportunities that arise when money flow moves in the opposite direction as the price. This divergence can often be a leading indicator of a change in the current trend.

2. Define Trend

- Uptrend–Higher highs (HH) & higher lows (HL) Downtrend–Lower highs (LH) & lower lows (LL)
- Buy stocks in an uptrend (after corrections), but not in a downtrend (wait for first HH)

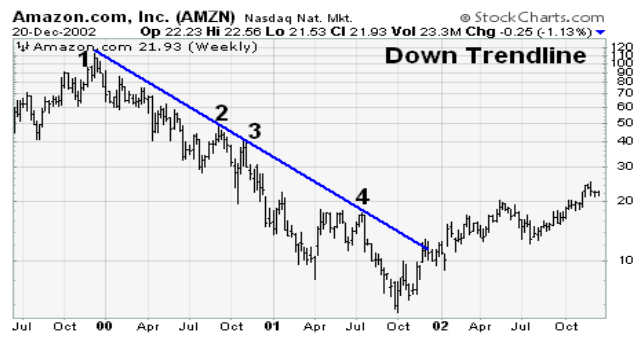


3. Major Chart Patterns

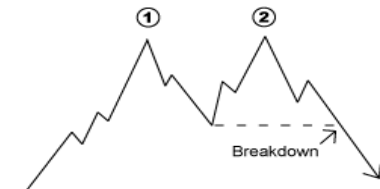
- Trading Range (Resistance and Support Lines) or Flabase– Look for breakouts



- Trend Lines



- Double (Triple) Tops and Bottoms (W)
- Double Top Pattern**



Double Top Pattern
A small trough is surrounded by two equal peaks.

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Double Bottom Pattern



Double Bottom Pattern
A small peak is surrounded by two equal troughs.

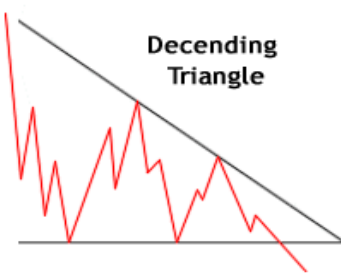
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- Cup and Handle**

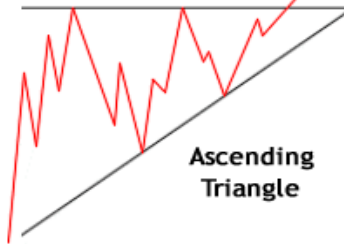


- Triangles**

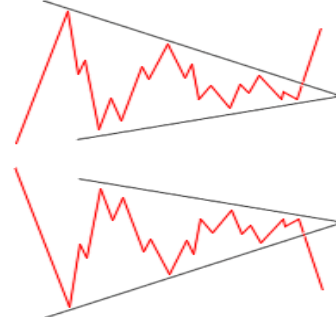
- Descending Triangle Pattern**



- Ascending Triangle Pattern**



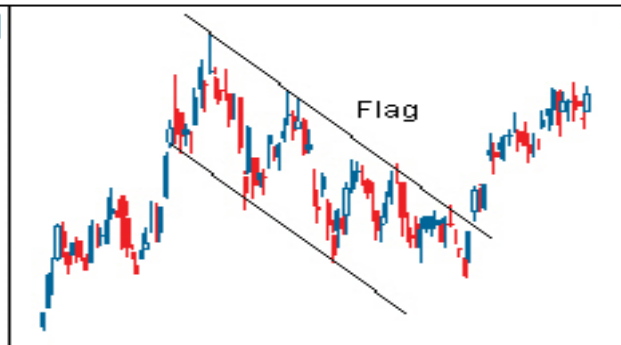
- Symmetrical Triangles**



- Flag and Pennant**

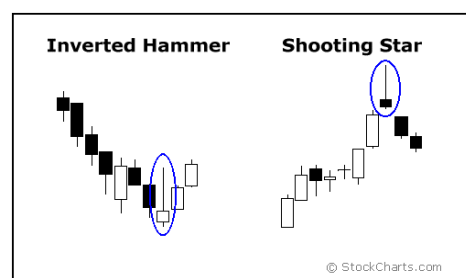
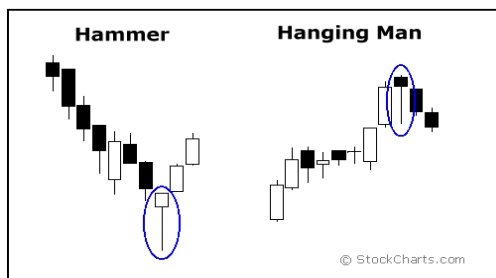
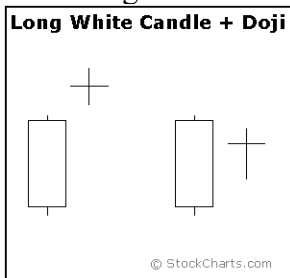


Chart by MetaStock

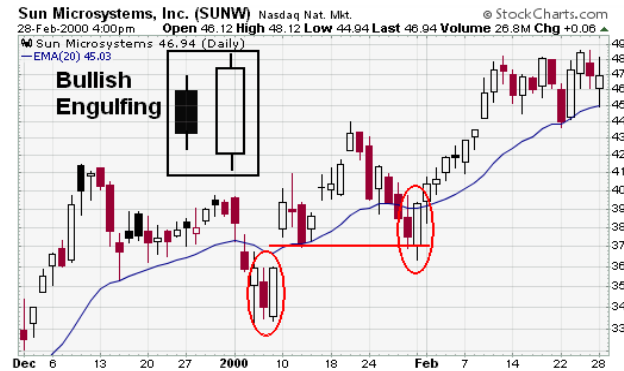
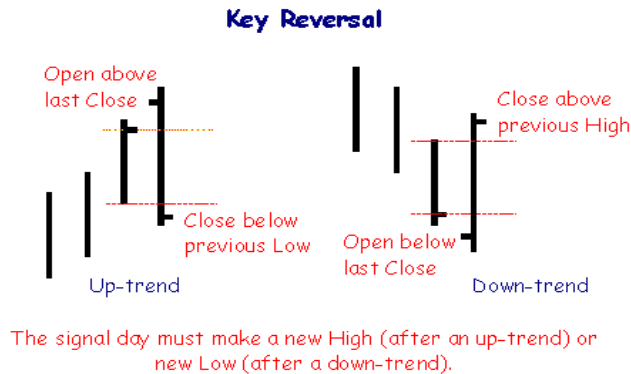


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- Dojis – formed when the opening price and the closing price are equal, signifying indecision between bulls and bears. Doji's are often found during periods of resting after a significant move higher or lower.



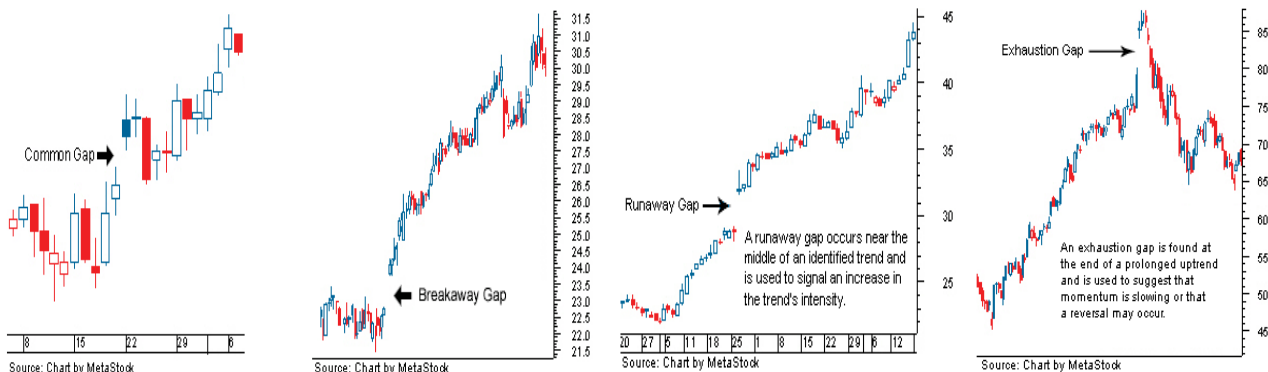
- Hammer and Hanging Man – occurs when a stock trades significantly lower than its opening, but rallies later in the day to close either above or close to its opening price. Hammer is a bullish reversal pattern that forms after a decline. Hanging man is a bearish reversal pattern that can also mark a top.
- Inverted Hammer and Shooting Star – These candlesticks mark potential trend reversals, but require confirmation before action.
- Reversals



- Head and Shoulders



- Gaps



A few caveats:

- **We are not only technical analysts.** Our decision to own a stock is based on fundamental analyses of both the company and the broader economic picture. If we like the fundamentals, technical analysis can then help provide some guidance on when to buy. We're not looking at exotic tools and indicators, we just want to identify entry points.
- **Context is important.** Look at company news, geopolitical or regulatory events, and market dynamics. Don't look at the charts or levels in a vacuum. Rather, as you analyze the daily news flow, ask yourself what it means for multiples, sentiment, and earnings revisions. Charts are just one (small) part of your research.
- **Check the volume.** Trading volume is your lie detector. You want to see volume pick up at key support levels to show there is serious demand for the stock, enough to overwhelm the selling pressure. Heavier volumes provide more confidence. Volume can be viewed simply by selecting the indicator on your trading platform and should be compared to its historical average.