Technical Analysis

As an approach to investment analysis, technical analysis is radically different from fundamental analysis. While the fundamental analyst believes that the market is 90 percent logical and 10 percent psychological, the technical analyst assumes that it is 90 percent psychological and 10 percent logical. Technical analysts don't evaluate a large number of fundamental factors relating to the company, the industry, and the economy. Instead, they analyze internal market data with the help of charts game as an exercise in anticipating the behavior of market participants. They look at charts to understand what the market participants have been doing and believe that this provides a basis for predicting future behavior.

WHAT IS TECHNICAL ANALYSIS!

Technical analysis involves a study of market generated data like prices and volume to determine the future direction of price movement. In his book *Technical Analysis Explained*, Martin J. Pring explains:

"The technical approach to investing is essentially a reflection of the idea that prices move in trends which are determined by the changing attitudes of investors toward a variety of economic, monetary, political and psychological forces. The art of technical analysis – for it is an art – is to identify trend changes at an early stage and to maintain an investment posture until the weight of the evidence indicated that the trend has been reversed."

Basic Premises

The Basic premises underlying technical analysis, as articulated by Robert. A. Levy, are as follow.

1. Market prices are determined by the interaction of supply and demand forces.
2. Supply and demand are influenced by a variety of factors, both rational and irrational. These include fundamental factors as well as psychological factors.
3. Barring minor deviations, stock prices tend to move in fairly persistent trends.
4. Shifts in demand and supply bring about changes in trends.
5. Irrespective of why they occur, shifts in demand and supply can be detected with the help of charts of market action.
6. Because of the persistence of trends and patterns, analysis of part market data can be used to predict futures price behavior.

Basic Concepts Underlying Chart Analysis

The basic concepts underlying chat analysis are: (a) persistent of trends; (b) relationship between volume and trend; and (c) resistance and support levels.

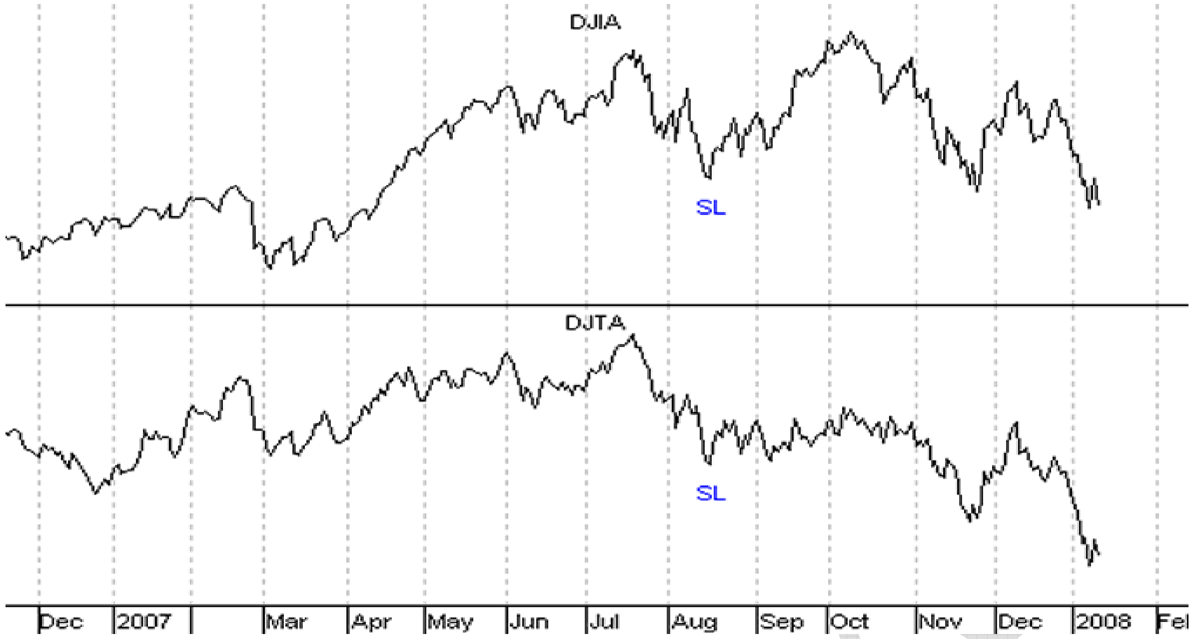
Trends: The key belief of the chartist is that stock prices tend to move in fairly persistent trends. Stock price behavior is characterized by inertia: the price movement continues along a certain path (up, down or sideways) until it meets an opposing force, arising out of an altered supply-demand relationship.

Relationship between Volume and Trends: Chartists believe that generally volume and trend of hand in hand. When a major upturn begins, the volume of trading increases as the price advances and decreases as the price declines. In a major downturn, the opposite happens: the volume of trading increases as the price declines and decreases as the prices rallies.

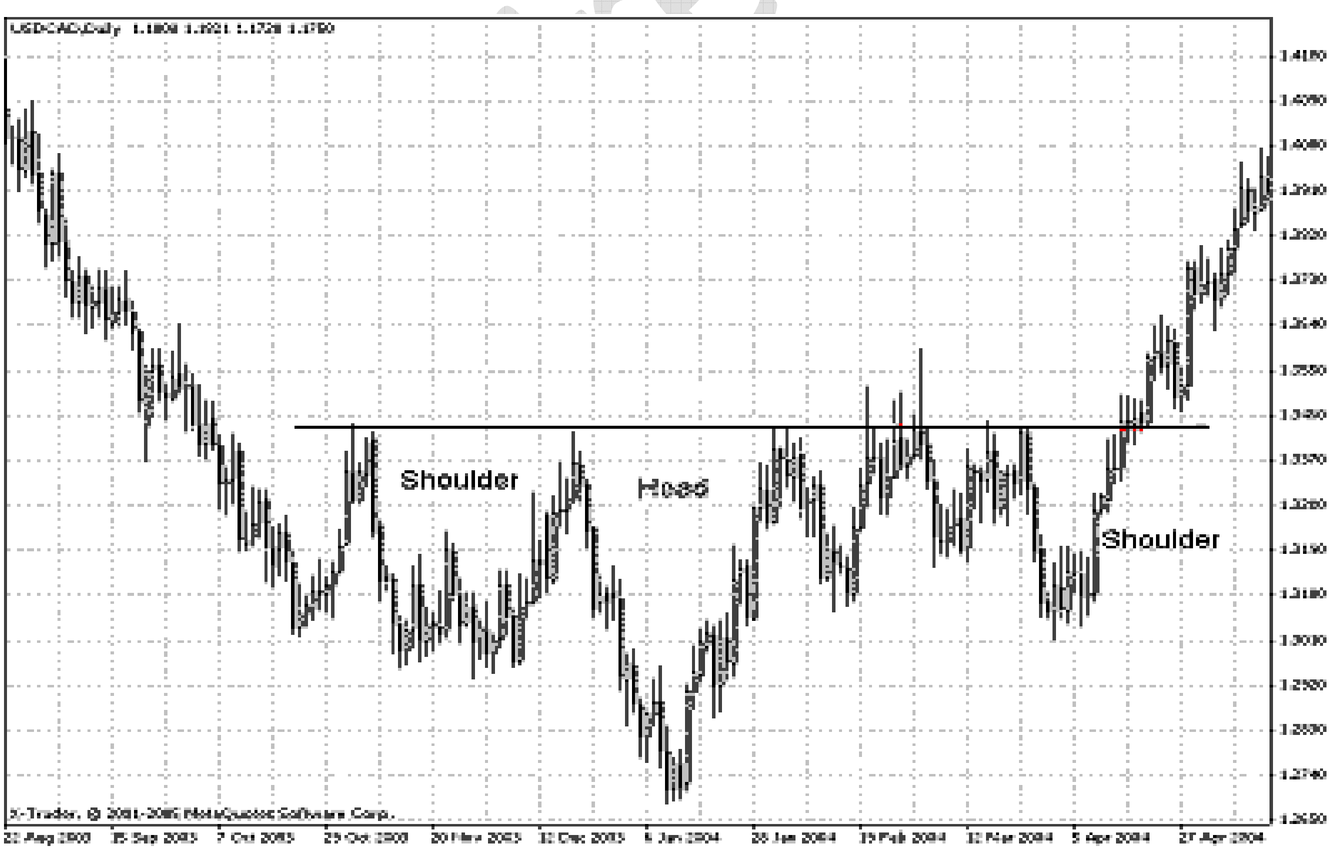
Support and Resistance Levels: Chartists assume that it difficult for the price of a share to rise above a certain level called the resistance level and fall below a certain level called a *support level.* Why? The explanation for the first claim goes as follows. If investors find that prices fall after their purchases, they continue to hang on to their shares in the hope of recovery. And when the price rebounds to the level of their purchase price, they tend to sell and heave a sigh of relief as they break even. Such a behavioral tendency on the part of investors stimulates considerable supply when the price rebounds to the level at which substantial purchases were made by the investors .As a result, the share is not likely to rise above this level, the *resistance level.*

The level at which a declining share may evoke a substantial increase in demand is called the *support level.* This typically represents the level from which the share rose previously with large trading volumes. As the price falls to this level, there is a lot of demand from several quarters: those to partake in the earlier advance; short-sellers who, having shod short, at higher levels, want to book profits by squaring their position; and value-oriented investors.

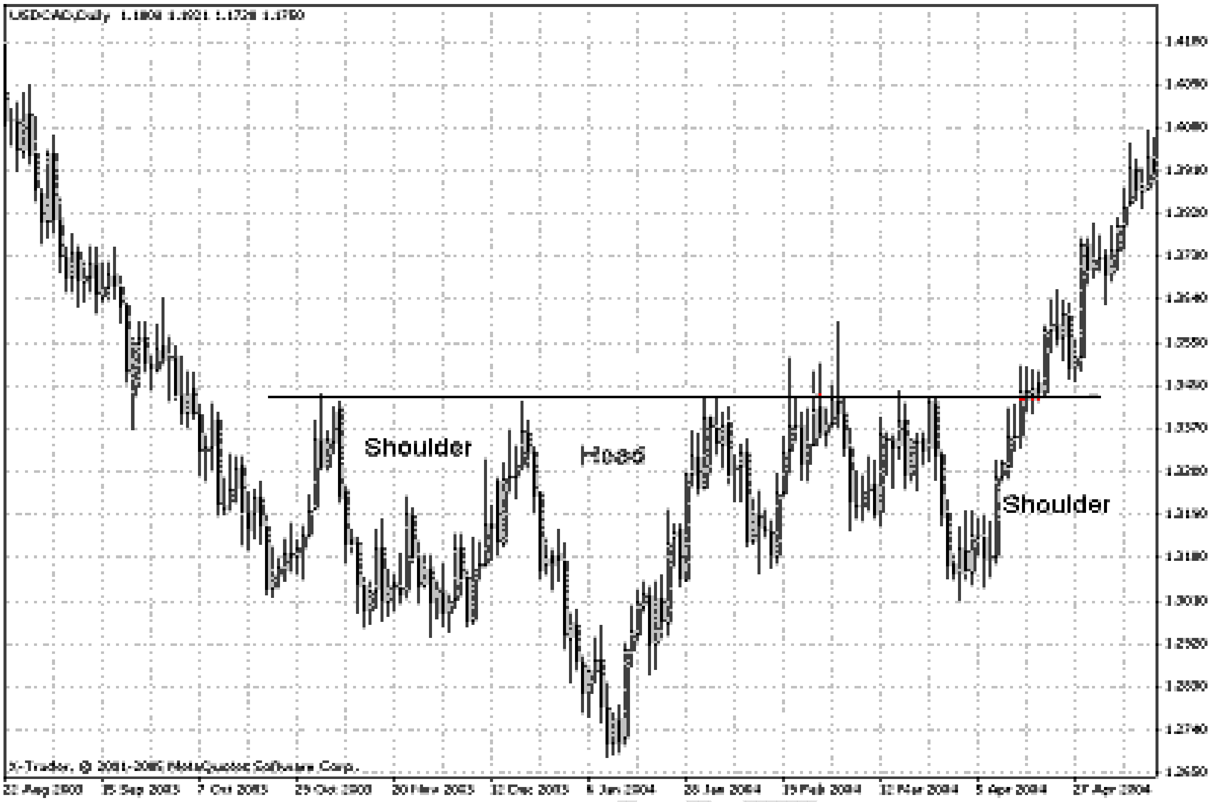
Bar and Line Charts



A. Head and Shoulder chart

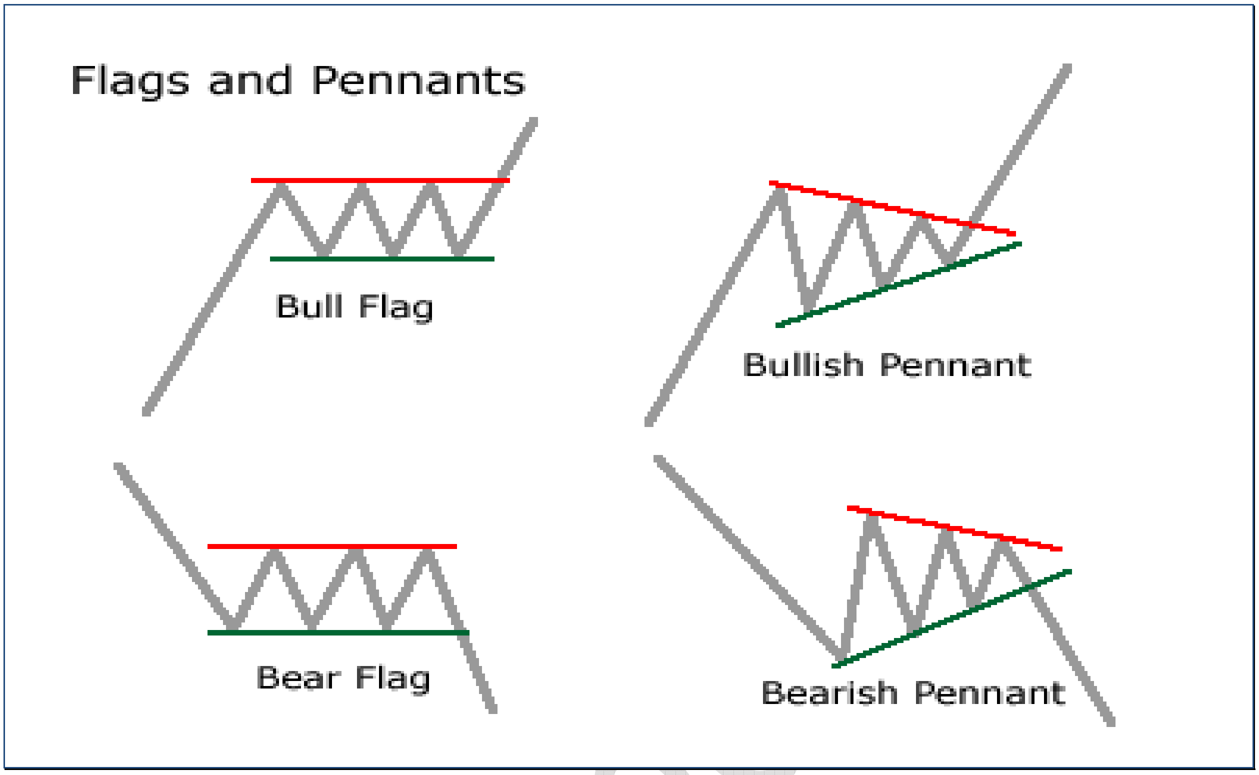


B. Inverse Head and Shoulder Chart



C. Triangle or Coil

D. Flag and Pennant Chart



E. Double Top Chart

F. Double Bottom

Support
Zoom
0.9880
0.9870
0.9865
0.9855
0.9845
0.9840
0.9830
0.9820
0.9810
0.9800
11:00 15:00 19:00 23:00 07:00 11:00 15:00 19:00 23:00 03:00 07:00 11:00 15:00
11/22/07 23 25 26