

Types of stock analysis: Technical analysis



TRADING TERMINAL.COM
FROM BEAR BULL TRADERS

Presented by:

Technical analysis: basics

Technical analysis is a trading skill. It is used to identify trading opportunities by analyzing past details representing trading activity.

Compared to *fundamental analysis*, which attempts to determine a stock's value based on business results such as sales and earnings, **technical analysis** focuses on the importance and speed of price movement and price levels, and volume of transactions within a time frame and at certain price levels.



Technical analysis: basics

Technical analysts rely on *past trading activity data and price changes of shares*. This data is then used to estimate probability of stock's future direction of the move, timing of the move, how large will the price movement be, trends and patterns.

Technical analysis will gather information on past **price levels** and **volume information** to predict with a certain probability what the future price movement could be.



Technical analysis: basics

When analyzing a stock of interest, **Technical analysts** will rely on past trading activity data. In particular, technical analyst will identify important price levels, price changes or stalling of shares.

Technical analysts are in hunt for stock prices that are currently priced below or above previous important price levels.



Technical analysis: basics

Technical analysis is used to make an informed decision on when to **buy**, **sell**, or hold your shares.

Investments based on **Technical analysis** care and want to profit from short-term price fluctuations.



Technical analysis: basics

If **technical analysts** identifies a stock whose shares are being traded at price below previous important price levels at higher volume, they will **initiate or recommend buying** those shares.



Technical analysis: basics

If **technical analysts** identifies a stock whose shares are being traded at price higher than previous important price levels at higher volume, they will **initiate or recommend selling** those shares.



Technical analysis: basics

Technical analysis includes analysis of charts, indicators, patterns, Level 2, Time & Sales, and other available information to identify important price levels, trends and predict future price movements.

NOTE: we will cover all of these. Here we are just introducing some new terms.



Technical analysis: basics

Technical analysis at its core tries to understand following:

- 1) Is the **supply** provided by **sellers** of shares of a certain stock prevalent at current moment in the market?
- 2) At what price level (or area) was significant **supply** provided in the **past**.
- 3) Is the **demand** provided by **buyers** of shares for certain stock prevalent at current moment in the market?
- 4) At what price level (or area) was there a strong **demand** provided in the **past**.



Technical analysis: basics

Technical analysis allows traders to make informed decisions very quickly.

At fast pace, traders can decide to enter into a **buy** or **sell** trade or not at all; to set **risk parameters** and **estimate profit targets**.

No need to wait for quarterly or annual reports to make trading decisions.



Technical analysis

Advantages of technical analysis: short-term focus, possibility to fast re-invest capital and compound gains, informed decision making, risk management, identifying short term moves over and over again, in-depth analysis of important price levels, possible superior returns.

Limitations of Technical analysis: are hindsight bias, subjectivity, time consuming, there are often some false signals, it is not foolproof, higher volatility in price, short-time investment exposed to multiple risk offsets, emotional rollercoaster, probability based.

Technical analysis

CRITICAL NOTE:

There is no technical analysis tool or component (e.g. indicator, oscillator, pattern,...) that will allow you to make profit after profit, win after win. If someone tells you, they are liars. There is no magical technical tool that will be able to predict with 100% certainty when and where the price will move. As mark Douglas said "Anything can happen at any time in the stock market." This is one of the foundations that we need to accept today and engrave it into us as we move along.

However, as it is evidenced with many traders and mentors at BBT and around the globe, it is possible to develop a strategy supported by right mindset that will result in a consistent profit over time. It is a skill to be built! So lets start from basics of price movement action and psychology behind it.