Further facts on technical analysis

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Presented by: Roko

Technical analysis: basics

Technical analysis indicates psychology behind price trends.

Strong move of **price up** indicates **optimism** and **excitement**, and shows **demand** pressure from ***buyers***.

Strong price **move down** indicates **pessimism** and **fear**, and shows **supply** pressure from **sellers**.



Technical analysis: basics

Technical analysis is based on objective measures relying on both price levels and volume changes.

As we will see, these can be analyzed and tracked by various tools, scanners and indicators.

Technical analysis uses historical, past price and volume data to assess probability of future price levels.

Technical analysis allows traders to quickly make informed decisions because it utilizes patterns of *human behavior*. Let's see a brief, simple example...

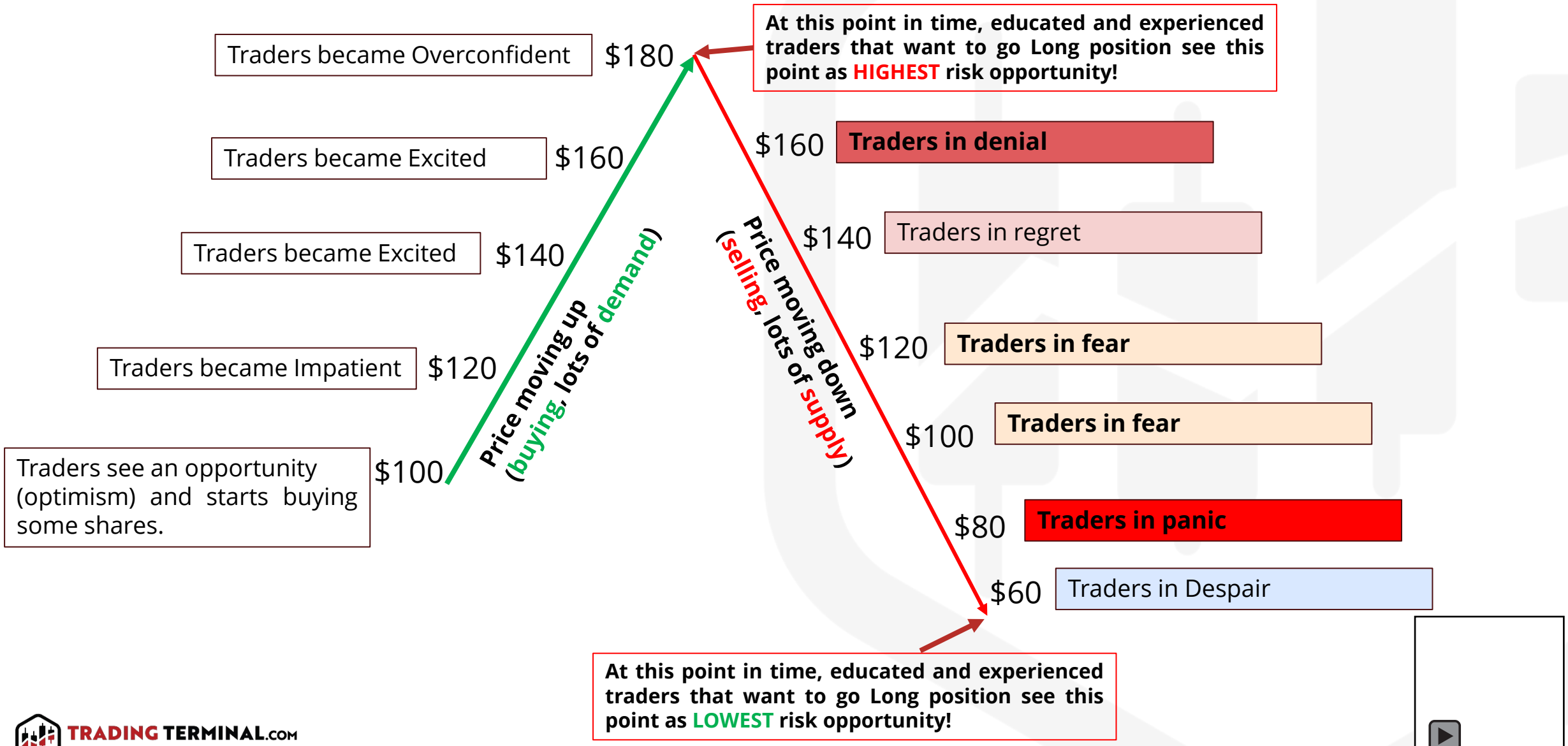


Technical analysis: simple example with psychology denoted



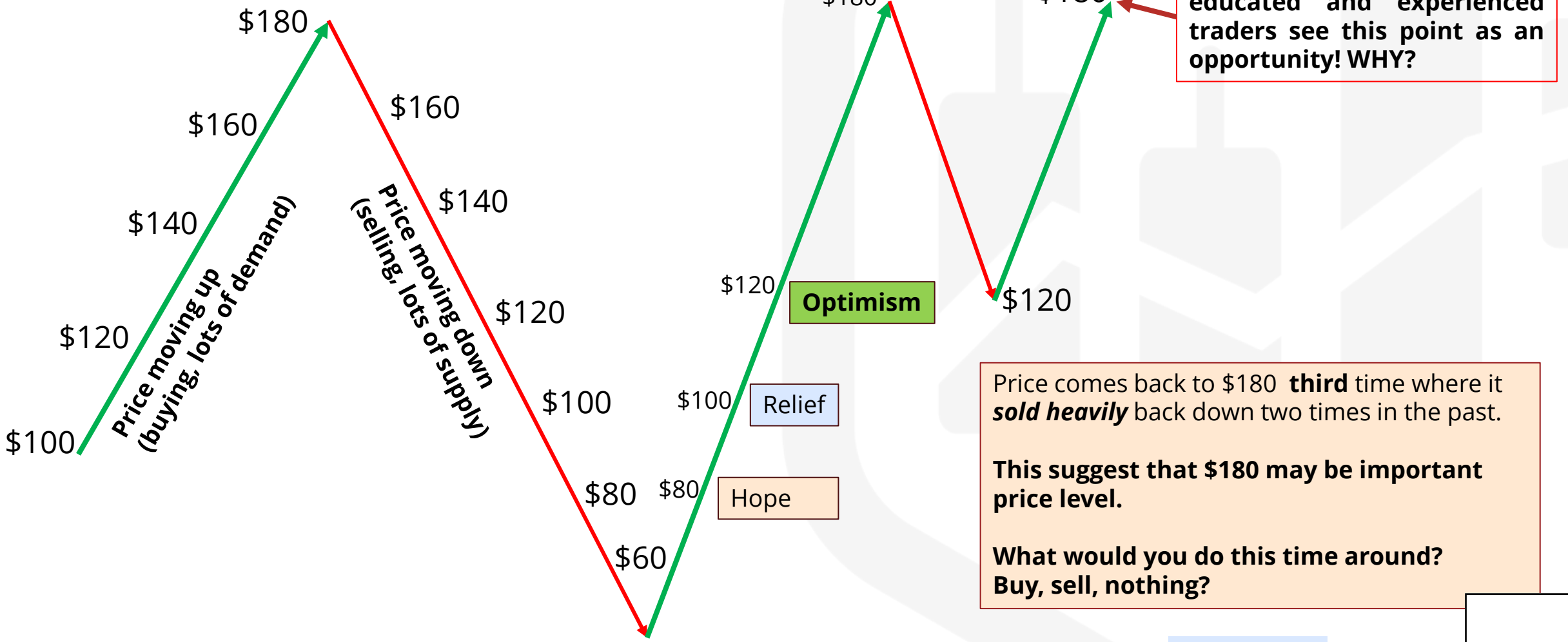
Price can go only higher from here, right?
Wrong.

Technical analysis: simple example with psychology denoted



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Technical analysis: simple example



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Technical analysis: simple example

Price comes back to $180 third time where it sold heavily back down two times in the past.
This suggest that $180 may be important price level.

What would you do this time around?
Buy, sell, nothing?

Why?

Correct answer:

We don't know. *Do not assume, guess or anticipate!*

Have plan for every scenario! Use if-then statements:

If it breaks up through $180 what will you do?
If it pulls back from $180, what will you do?
If it stalls at $180, what will you do?

CRITICAL NOTE: **You do not have to be right every time to be consistently profitable.**

Technical analysis

Technical analysis can be applied to different time-frames, from minute to hourly charts, even to daily or weekly charts.

Importantly, **price action behaviors** that were noted in one time frame can also be found in other, *longer or shorter*, time frames.



Thus, technical analysis can be used to identify **short-term** and **longer-term** trends.