



CAPITAL  
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# TECHNICAL ANALYSIS

Capademy Tutorial Series



## What is technical analysis

Technical analysis deals with the study and anticipation of the price movement of financial security like stock, index, ETF, Forex, etc. by analyzing prior price movements and patterns. Technical analysis involves the study of different types of charts, chart patterns, as well as trend-following indicators and oscillators.

### Assumptions in technical analysis

Technical analysis work on two fundamental premises which forms the framework for technical analysis,

1. **market discount everything** – this assumption tells us that markets are efficient; therefore, the market price reflects the sum of all available information. For example, there could be an employee in the company who is buying the company's stocks in large quantities in anticipation of the launch of new products or good quarterly earnings. The price will react to his action as demand increased, thus giving a signal to the technical analyst that there could be a good buy.
2. **price moves in trend**- the market price moves are not random; perhaps it seems like, but they are not. It moves in a pattern and trends that tend to repeat over time. That's why technical analyst often refers to the phrase that "history tends to repeat itself."

### What are chart and its types

Charts are used to display the movement of price in the most comprehensible ways. Each trading day has four data points i.e., Open(O), High(H), Low(L), and Close(C), which are displayed by a chart. There are three types of charts commonly used by a technical analyst.

1. Line chart
2. Bar chart
3. Japanese Candlestick chart

Japanese Candlestick chart is commonly known as the candlestick chart. This is the most comprehensive chart and widely used by most of the traders. There are two types of candlestick- bullish candle, which is of green colour, and the bearish candle, which is of red colour. Candlestick determines the current stage of the market at a glance just by looking at the length and colour of the candle. The candlestick displays different types of pattern on different time frames, which can provide critical information about the market.

### Indicators

An indicator is a tool that helps a trader to analyze the price movement of a security. Indicators were introduced to the world by successful traders. These are based on pre-set logic; which traders use in their study to arrive at a trading decision.

Indicators are classified into two broad categories, namely leading and lagging — the leading indicator, also known as oscillators, as they oscillate within a bounded range. A leading indicator leads the price, therefore, giving a signal of a reversal or a new trend in advance, for example, RSI, MACD histogram, stochastic. On the other hand, a lagging indicator lags the price, therefore, giving a signal after the occurrence of a reversal or a new trend — for example, moving averages, Bollinger bands.

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## **Conclusion**

In general, technical analysis is a practice of studying price trends, chart patterns, resistance and support levels with the help of hundreds of different indicators like MACD, RSI, MOVING AVERAGE, etc. to gauge the future movement in the market and overall sentiment behind the price movement. However, it is interesting to note that no single indicator has ever been found to be entirely conclusive.

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