Technical Analysis – Part 3

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Programma

- Korte introductie

- De basis van Technische Analyse deel 3

- POLL: Van de volgende indicatoren gebruik ik voornamelijk.....

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Technical Analysis – Part 3

- *Part 1 Trading Psychology/Investor's sentiment Road map*

- *Part 2*

  - *Chart types and what they can tell us*

  - *Dow Trend theory*

  - *Traditional Technical Patterns*

- **Part 3**

  - Studies and Indicators

    - Moving Averages

    - Volume

    - RSI

    - Bollinger Bands

    - MACD

  - Time frames, Important points and the Secret to successful investing

Simple Moving Averages - SMA

- Simple Moving Averages are the most common and popular form of moving average. A Simple Moving Average is calculated by adding values over a set number of periods and then dividing the sum by the total number of values.

- As with other types of moving averages, Simple Moving Averages smooth the data by removing "noise" over the selected period. The ability to smooth data makes them a useful tool in identifying price trends and trend reversals.

- Moving Averages are Lagging Indicators

- Trend-following strategies

- Support and resistance

- **Golden** and **Death** cross: Crossing of a short and long moving average when they are **both** rising / falling

SMA – Trend and Support

EUR/USD - Daily

21,55 and 200 SMA

Support

SMA - Crosses

EUR/USD - Daily

21,55 and 200 SMA

21/55 SMA Death Cross

55/200 SMA Death Cross

NOT Golden Cross

21/55 SMA Golden Cross

SMA - Near Golden Crosses & Trend

Apple - Weekly

21,55 and 200 SMA

21/200 SMA Golden Cross

55 SMA trend support

55/200 near SMA Golden Cross
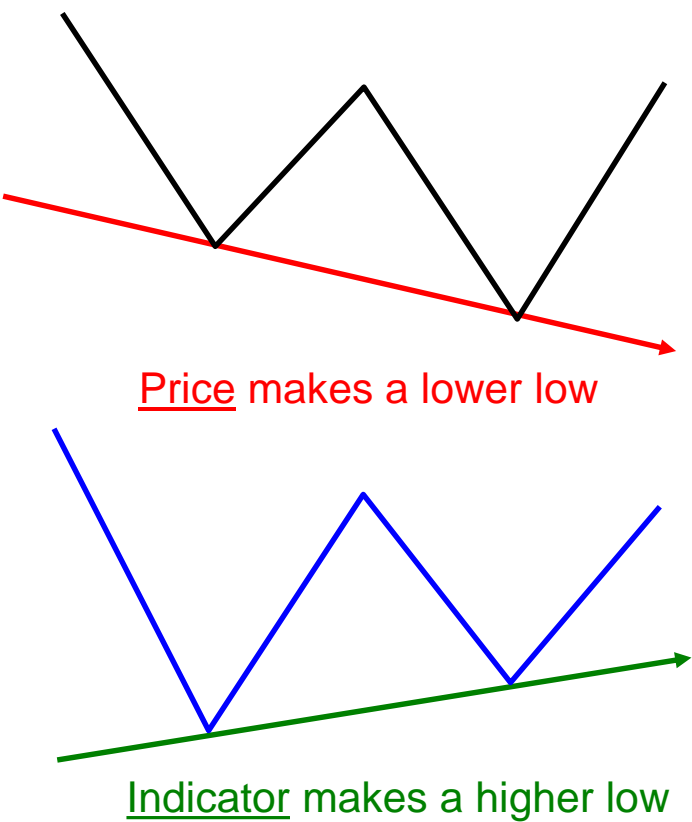– usually more powerful

Divergence

Bearish Divergence

Price makes a higher high

Indicator makes a lower high

Bullish Divergence

Price makes a lower low

Indicator makes a higher low
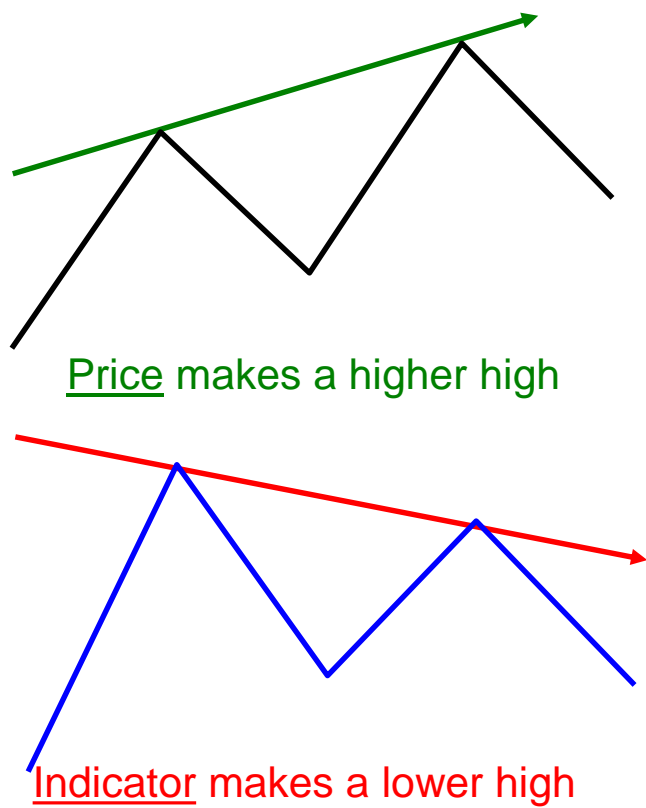
Volume

- Price and volume cannot be separated. There is no market without price movement, and there is no price movement without volume.

- The Volume represents balance of supply and demand that moves prices higher or lower.

- Big volume surges indicate critical changes in the balance of supply and demand, thus changes in market sentiment and the coming of market reversals.

Volume

Volume

Apple- weekly

Confidential
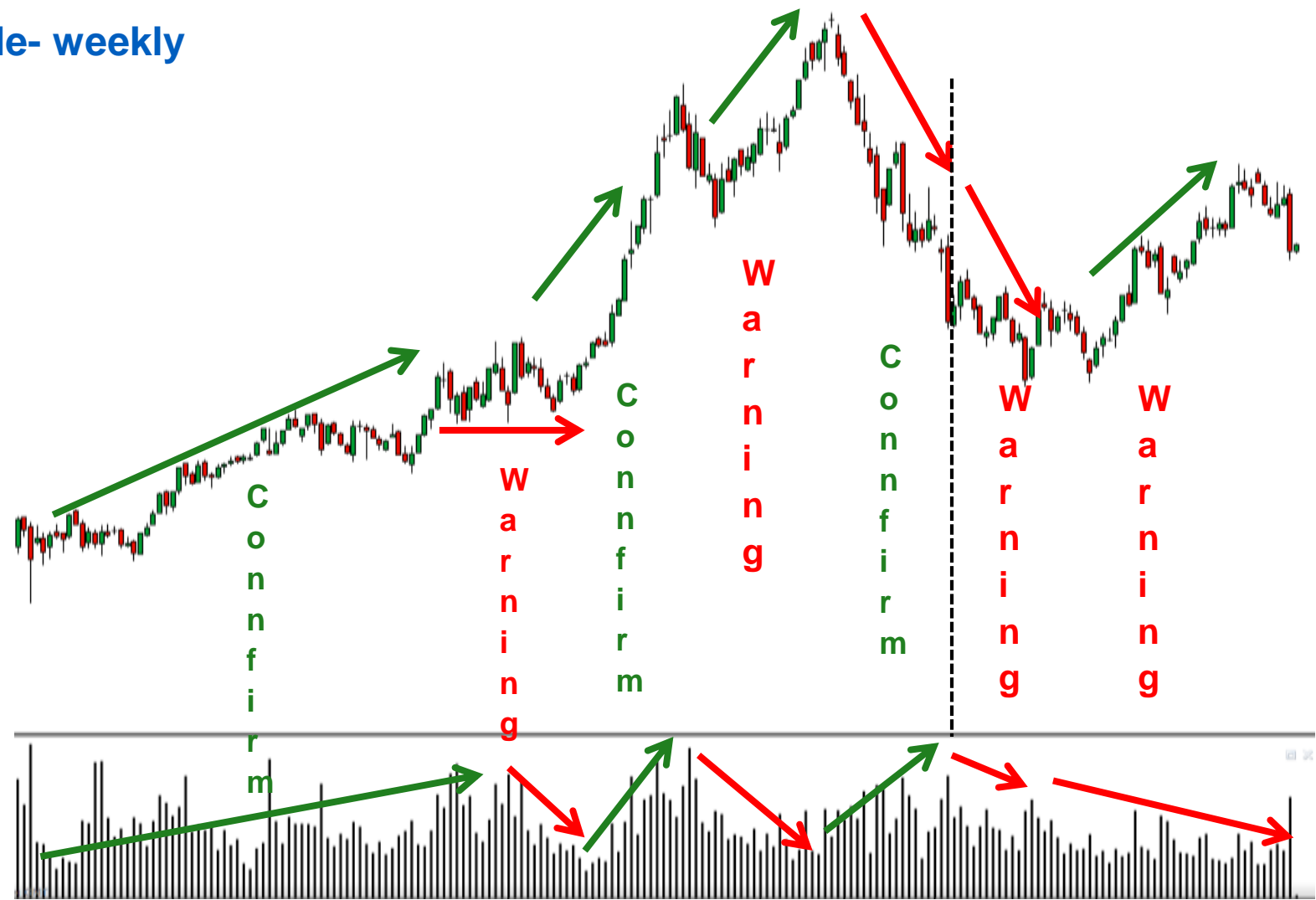
Relative Strength Index - RSI

The Relative Strength Index (RSI), an oscillator introduced by J. Welles Wilder, Jr.,

- An internal strength indicator as it compares the price of a security relative to itself. It measures the relative strength of price gains on days that the security closes above the previous day's close to price losses on day's that the security closes below the previous days close.
  The RSI is a momentum indicator that measures the magnitude of recent price changes (the ratio of higher closes to lower closes) to evaluate overbought or oversold conditions in the price of a stock or other asset. The RSI is displayed as an oscillator between values of 0 to 100.

Tops and Bottoms

- The RSI overbought/oversold indications are 70 and 30 respectively. Buy signals are triggered when RSI is in an oversold area, below 30, potentially meaning that the security is about to reach its low for this trend, and sell signals are triggered when RSI is in an overbought area, above 70, potentially signaling a market top. <u>RSI often forms these tops and bottoms before the underlying market, which can signal an impending reversal.</u>

Relative Strength Index - RSI

Trend

- When the RSI crosses 60 and is moving in the 40-80 range it can be considered to indicate a bullish trend. When RSI crosses below 40 and is moving in the 20-60 range it can be considered to indicate a bearish trend.

Support and Resistance

- Levels of support and resistance are usually highlighted in the RSI before they are highlighted in the price chart. Support/Resistance lines are drawn on RSI as they are on a price chart.

Divergence

- When the price records a new high/low that is not confirmed by a new high/low in the RSI.

RSI

Overbought or oversold doesn't guarantee the trend will reverse. Still chance/risk of further rise or fall!

Trends: Bullish and Bearish trends
Draw trend lines and find pattern on RSI. Often clearer on RSI.

Divergence (bearish) gets "traded out" by a new peak in price and RSI is recorded even though RSI has not been below 40
Divergence can also be reset by RSI closing above/below 60/40

Apple - Weekly

Bearish Divergence

Still "14 % Risk" of further rise – and it did !

Divergence "traded out"

No Divergence

Bearish Divergence

RSI 86 - overbought

Bullish Divergence

Bullish - 60

Bearish - 40

Below 40 – Bearish trend

RSI 24.9 - oversold

Above 60 – Bullish trend/sentiment

Below 40 – Bearish trend/Sentiment

Draw trend lines on RSI

Volatility & Bollinger Bands by John Bollinger

- Bollinger Bands are plotted standard deviations around a moving average

- Standard deviation is a measure of volatility, and the bands are self-adjusting i.e., they widen when volatility increases and contract when volatility decreases

- Sharp price changes tend to occur after the bands have tightened, as volatility lessens

- The closer the price moves to either the upper or lower band the more overbought or oversold it is. However, it is not necessarily a reversal signal. According to Bollinger, the bands should contain approx. 90% of price action, which makes a move outside the bands significant

- Bollinger Bands are typically drawn two standard deviations from a 20-day (21) simple moving average for intermediate-term analysis, 10 days for short term with 1.5 standard deviations, and 50 (55) for long-term studies with 2.5 standard deviations

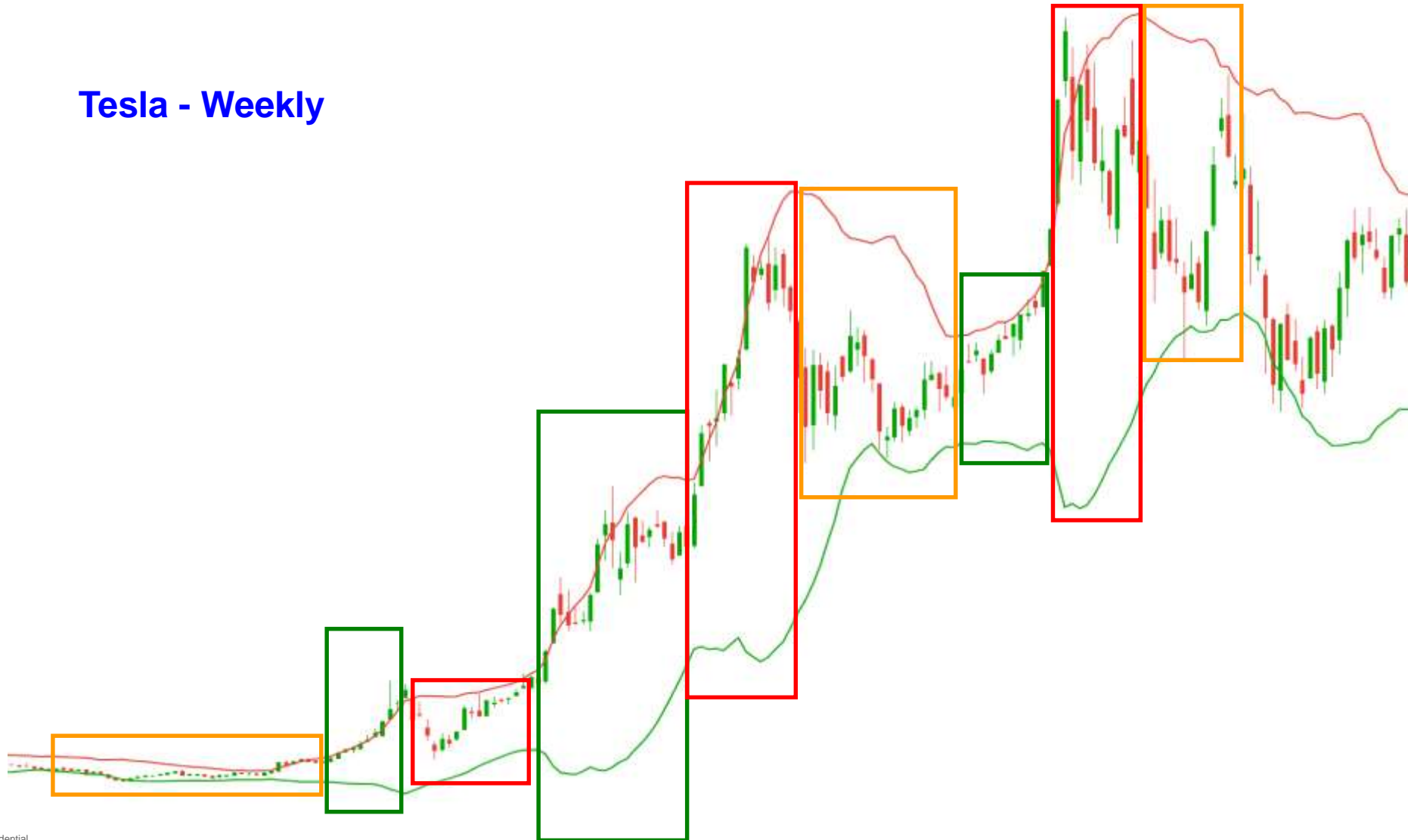- Default 20 days and 2 standard deviations

Volatility

Bollinger Bands – Stages of trends
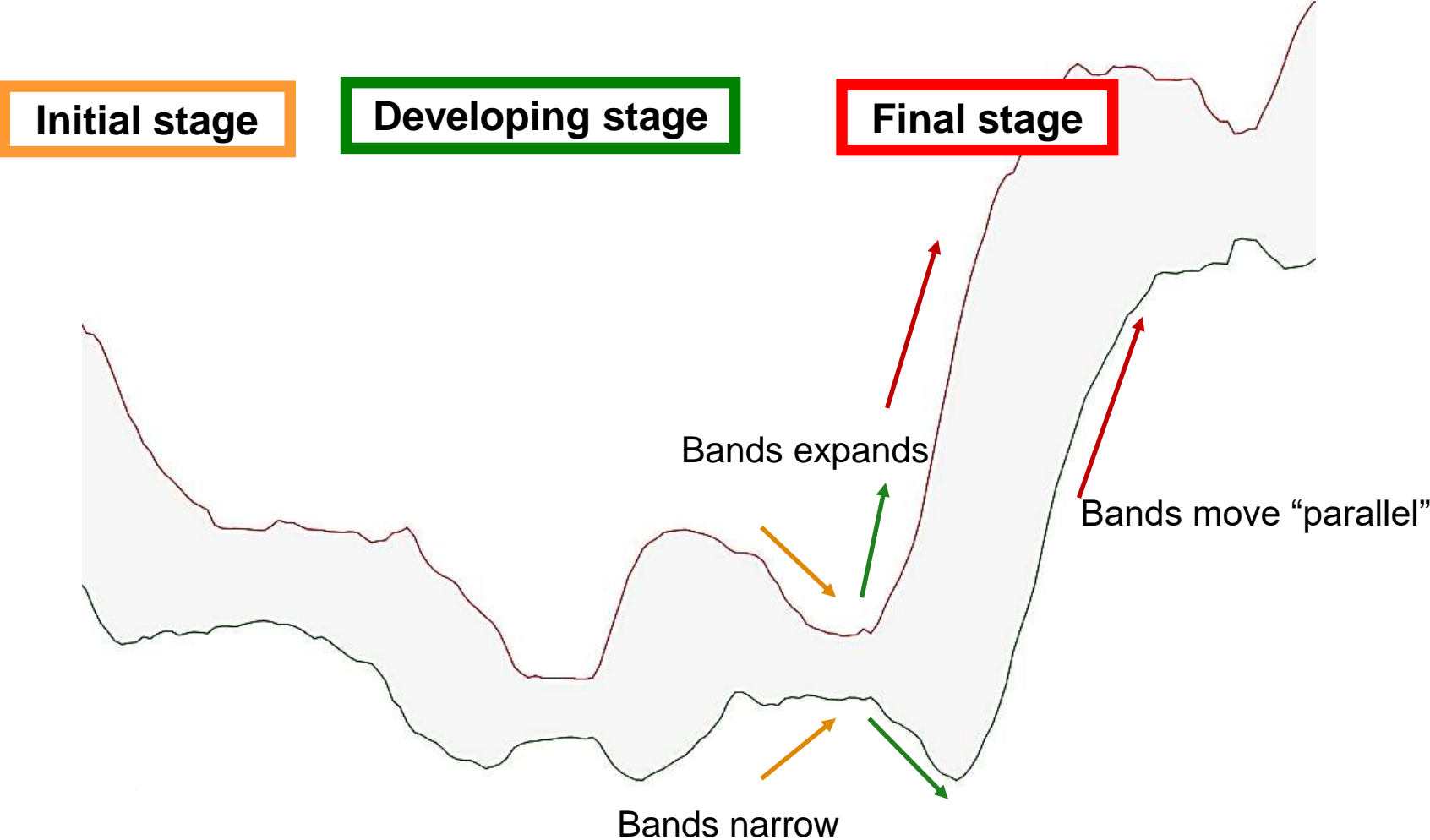
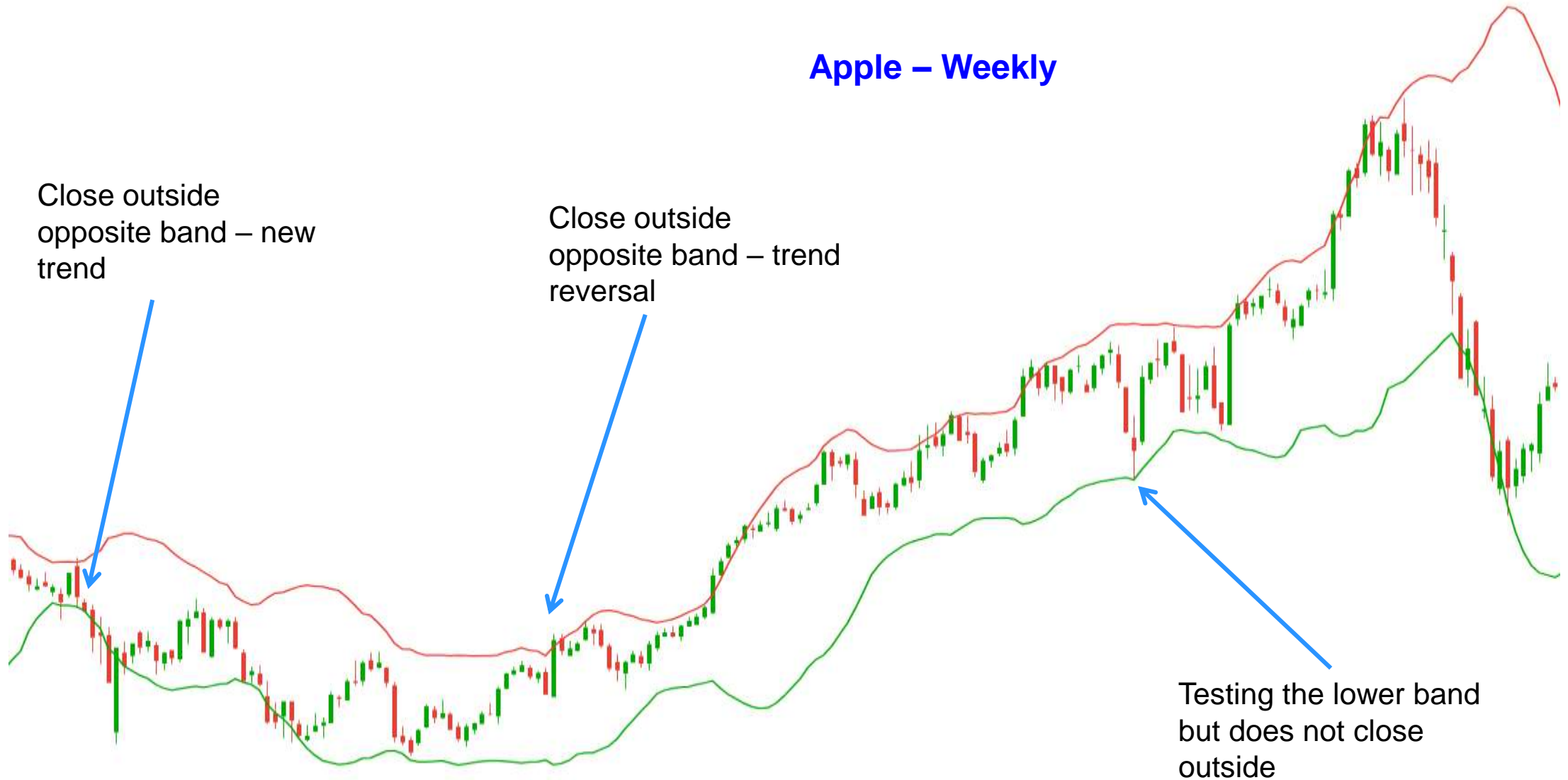# Bollinger Bands - Stages of Trends

Tesla - Weekly

Bollinger Bands – Walking the band

- Trend continues as long as price follows one of the bands and doesn't close outside the other

- It is not necessarily a reversal signal if price moves outside of the band

- A sharp move to (and penetrate) the upper band is a sign of strength

- A sharp move towards the lower band shows weakness

- Overbought (oversold) can go on for a long time extending a trend

- Indication of continuous trend – price close above lower band

Bollinger Bands – Walking the band

Apple – Weekly

Close outside opposite band – new trend

Close outside opposite band – trend reversal

Testing the lower band but does not close outside
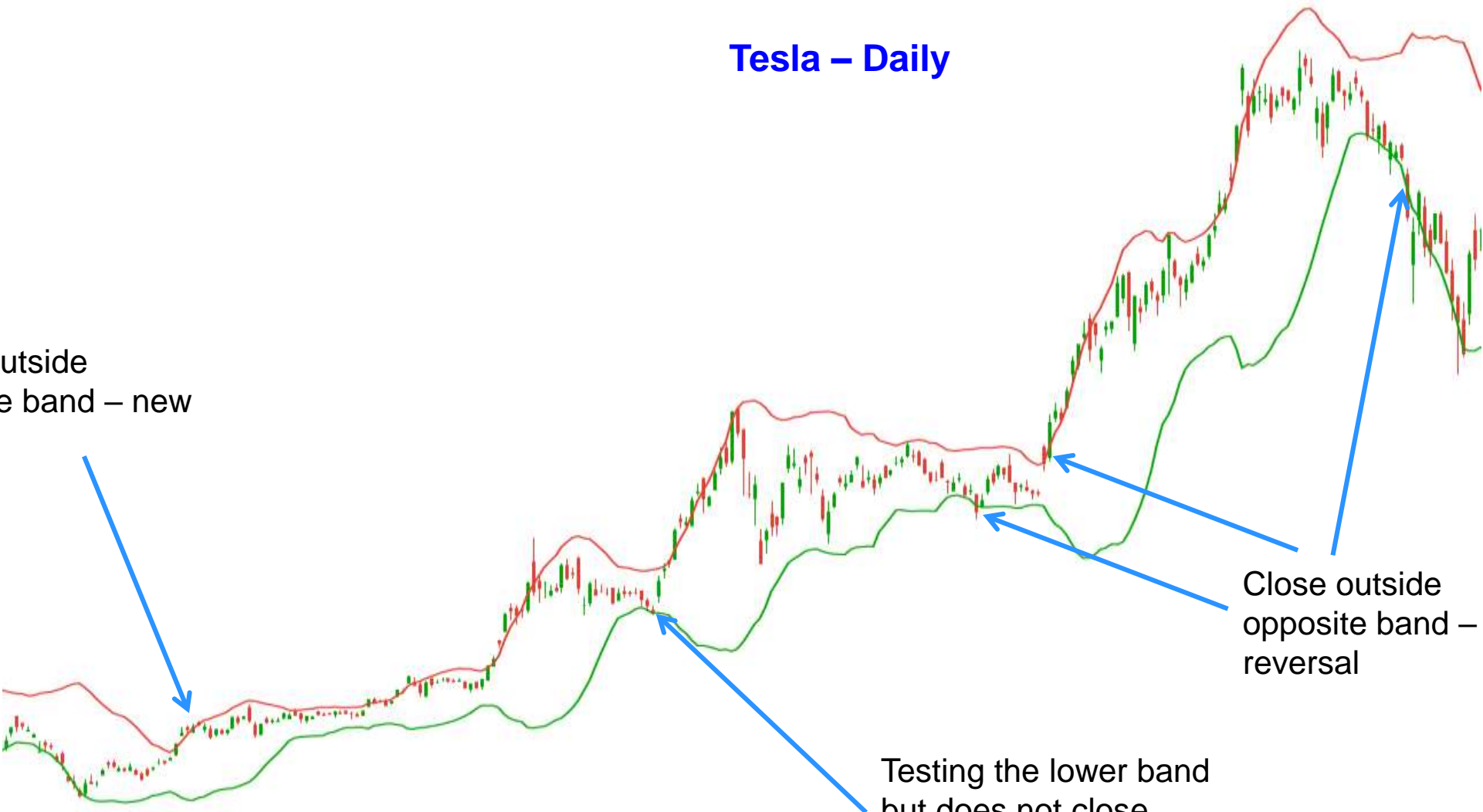
Bollinger Bands – Walking the band

Tesla – Daily

Close outside opposite band – new trend

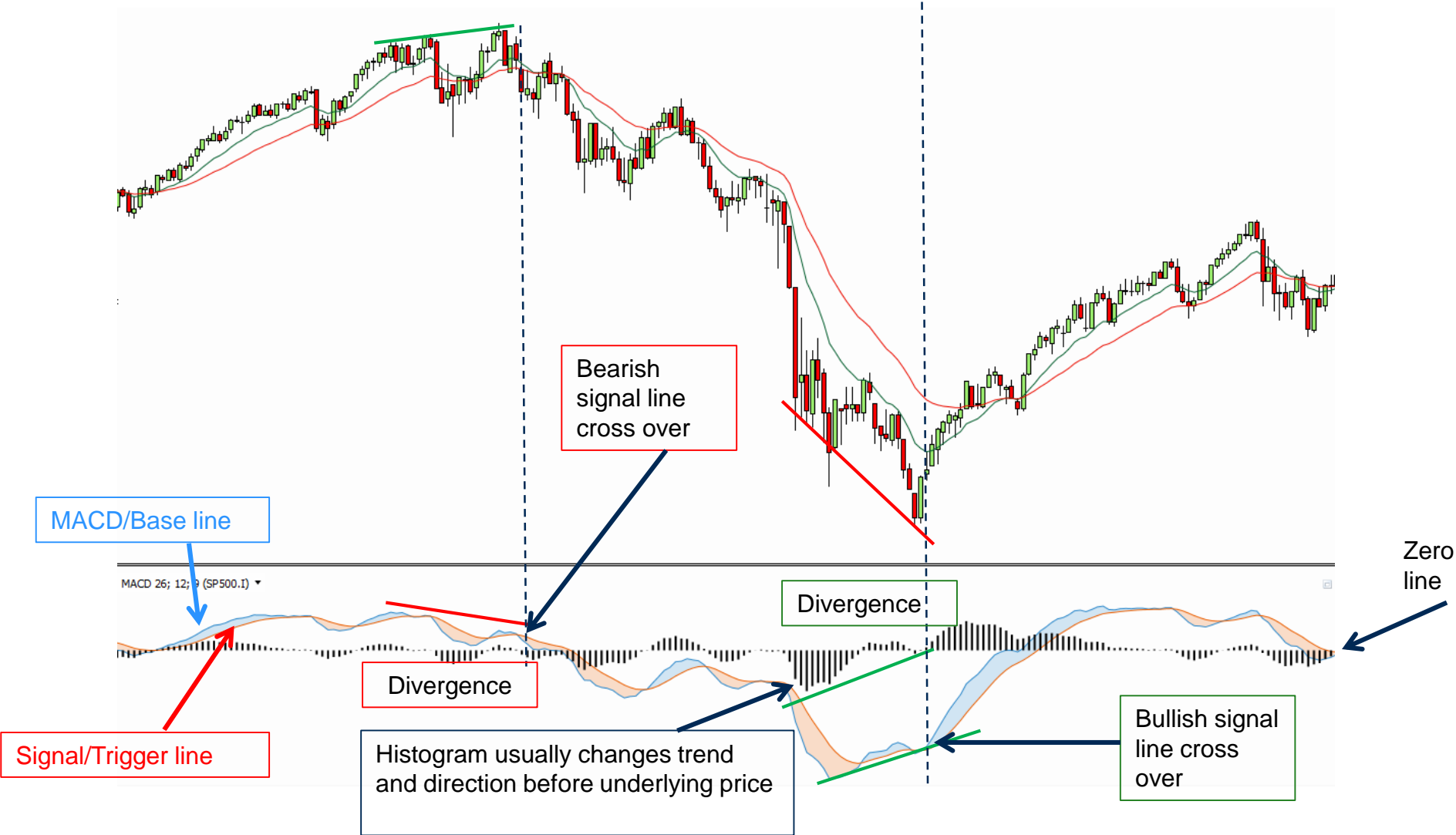Close outside opposite band – trend reversal

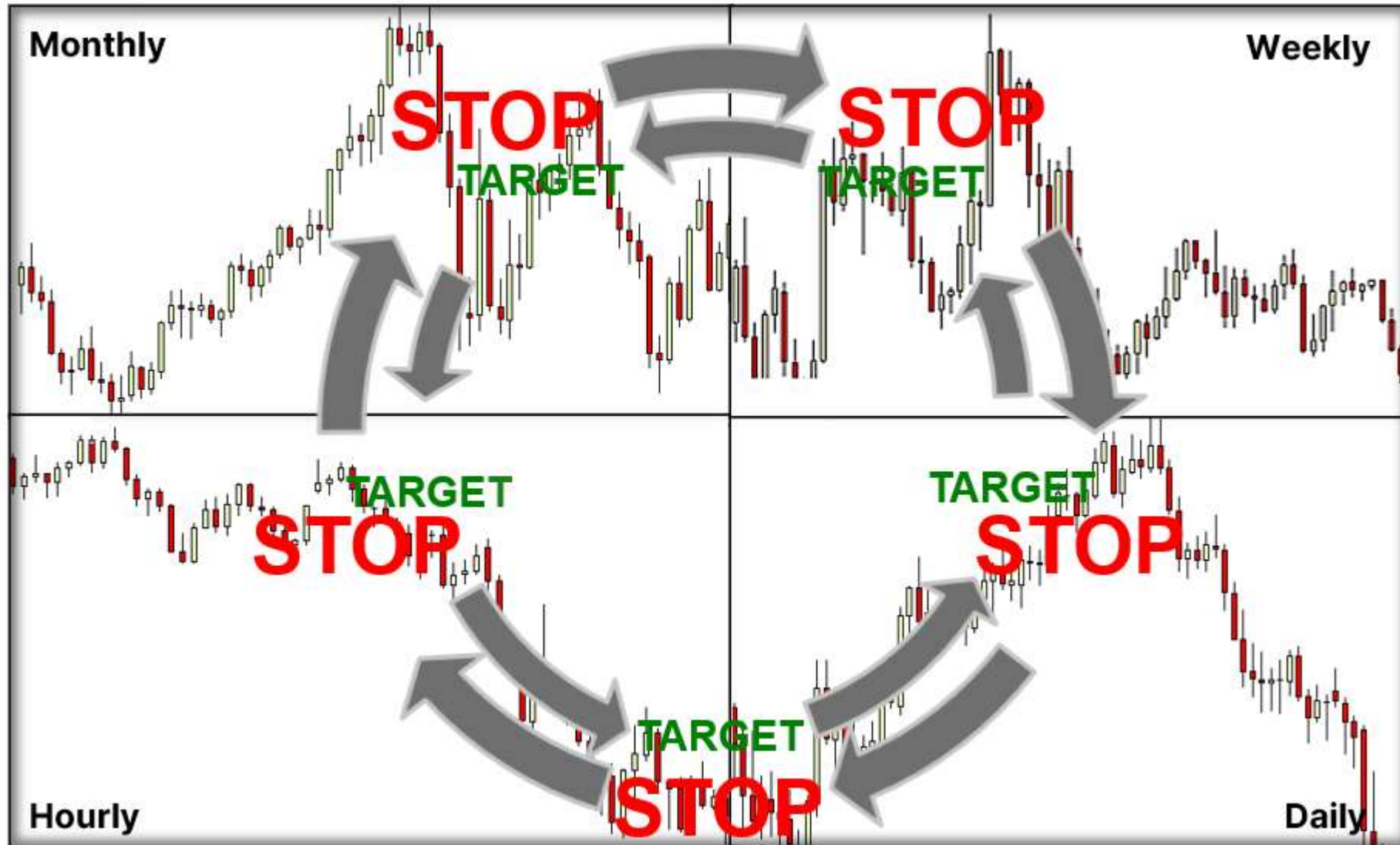Testing the lower band but does not close outside

MACD

- Moving Average Convergence/Divergence momentum and trend following oscillator

- MACD Line (Base) consists of two Exponential Moving Averages (EMA). Default 12 and 26

- Subtracting the longer moving average from the shorter moving average. Closing prices used

- A Signal line (Trigger) is added and basically just a 9 period EMA. Used to signal buy or sell

- MACD fluctuates above and below the zero line while the two moving averages diverge and cross

- MACD can be used for divergence like RSI but not used for overbought and oversold

- MACD histogram swings around the zero line and is positive when the MACD line is above the Signal line and negative when below

MACD – Divergence & Cross overs

Bearish signal line cross over

Divergence

MACD/Base line

Signal/Trigger line

Divergence

Histogram usually changes trend and direction before underlying price

Bullish signal line cross over

Zero line

MACD 26; 12; 9 (SP500.I)

Timeframes

- Get a general feel for the direction or TREND of the market – use weekly and monthly

- Use daily charts for short term trading

- Use 30 minute or 15 (5 or even 1) minute charts for day-trading

Important points

- Always set your <u>charts</u> in the same way

  - Your eye will be trained to understand quickly the information presented.

- Always place your indicators in the same order.

  - You won't have to remember which indicator is where

  - Keep your information consistent

- Always use the same colours

- **When trading or investing**

- Spot the trend - Highs and lows

- Look for Retracement

- Confirmation

- Have a Strategy and keep Trading/investor Journal

- Believe what you see

- Be patient !

When things go wrong/price against you

•Admit it!

•Don't change your trading horizon or your stop loss strategy

•Stop looking for new justifications

•**Take the loss – First cut is the cheapest!**

The secret to successful trading/investing

- If the stop is too far away for your liking find something else to invest in or wait for entry
- **Risk/Reward Ratio** is not interesting. You can have a R/R ratio of 1:9 and still lose money!