A Fidelity Investments Webinar Series

Getting Started with Technical Analysis

BROKERAGE: TECHNICAL ANALYSIS

Upcoming Webinars

Getting Started with Technical Analysis

Learn the assumptions that guide technical analysis, and get to know the basics of trend trading.

Understanding Indicators in Technical Analysis

Identify the various types of technical indicators including, trend, momentum, volume, and support and resistance.

Identifying Chart Patterns with Technical Analysis

Use charts and learn chart patterns through specific examples of important patterns in bar and candlestick charts.

Managing Risk with Technical Analysis

Manage your trading risk with a range of confirmation methods.

About Our Co-Author

Charles D. Kirkpatrick II, CMT

Charles D. Kirkpatrick II, CMT, is president of Kirkpatrick & Company, Inc., a technical analysis research firm that publishes the Market Strategist investment newsletter.
A past instructor in finance at the School of Business Administration, Fort Lewis College and Adjunct Professor of Finance at Brandeis University International Business School, he is a two-time winner of the Market Technicians Association's prestigious Charles H. Dow Award for research in technical analysis, winner of the MTA Annual Award in 2008 for "outstanding contributions to the field
of technical analysis," and winner in 2012 of the Mike Epstein Award from the MTA Educational Foundation for "long-term sponsorship of Technical Analysis in Academia."

He is a Chartered Market Technician, a past member of the board of directors of the Market Technicians Association, past editor of the Journal of Technical Analysis, past board member and vice-president of the
Market Technicians Association Educational Foundation and a member
of the American Association of Professional Technicians (AAPTA). He co-authored Technical Analysis: The Complete Source for Financial Market Technicians, the primary textbook for the CMT program and for university graduate courses on technical analysis, authored Beat the Market, and most recently, Time the Markets: Using Technical Analysis to Interpret Economic Data.

He is a graduate of Phillips Exeter Academy, Harvard College (AB) and the Wharton School (MBA) and lives with his wife in Maine.

Defining Technical Analysis

Charts, Chart Types, and Chart Construction

Best Practices for Trend Traders

Basics of Trend Analysis

Agenda

Defining Technical Analysis

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Fundamental Analysis &Technical Analysis

Two Common Types of Analysis

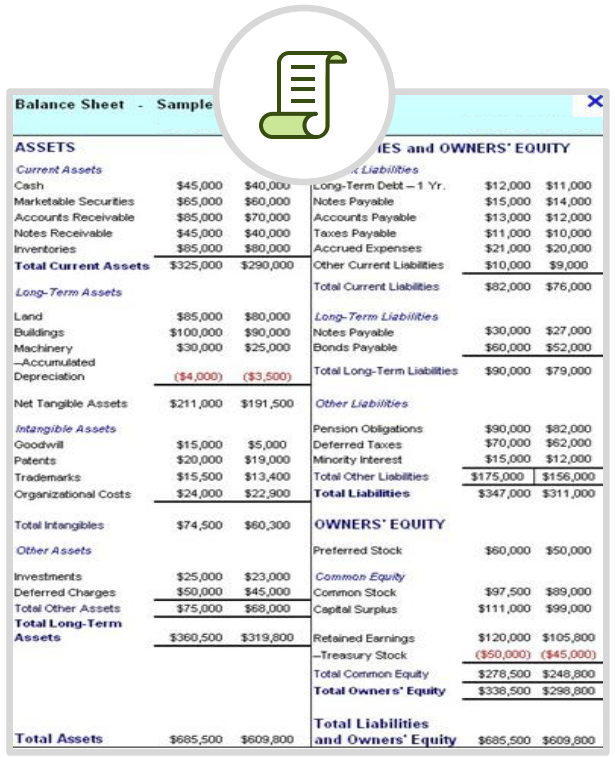
Balance Sheet - Sample

ASSETS			...IES and OWNERS' EQUITY		
Current Assets			*...t Liabilities*		
Cash	$45,000	$40,000	Long-Term Debt – 1 Yr.	$12,000	$11,000
Marketable Securities	$65,000	$60,000	Notes Payable	$15,000	$14,000
Accounts Receivable	$85,000	$70,000	Accounts Payable	$13,000	$12,000
Notes Receivable	$45,000	$40,000	Taxes Payable	$11,000	$10,000
Inventories	$85,000	$80,000	Accrued Expenses	$21,000	$20,000
Total Current Assets	$325,000	$290,000	Other Current Liabilities	$10,000	$9,000
			Total Current Liabilities	$82,000	$76,000
Long-Term Assets					
Land	$85,000	$80,000	*Long-Term Liabilities*		
Buildings	$100,000	$90,000	Notes Payable	$30,000	$27,000
Machinery	$30,000	$25,000	Bonds Payable	$60,000	$52,000
–Accumulated Depreciation	($4,000)	($3,500)	Total Long-Term Liabilities	$90,000	$79,000
Net Tangible Assets	$211,000	$191,500	*Other Liabilities*		
Intangible Assets			Pension Obligations	$90,000	$82,000
Goodwill	$15,000	$5,000	Deferred Taxes	$70,000	$62,000
Patents	$20,000	$19,000	Minority Interest	$15,000	$12,000
Trademarks	$15,500	$13,400	Total Other Liabilities	$175,000	$156,000
Organizational Costs	$24,000	$22,900	**Total Liabilities**	$347,000	$311,000
Total Intangibles	$74,500	$60,300	**OWNERS' EQUITY**		
Other Assets			Preferred Stock	$60,000	$50,000
Investments	$25,000	$23,000	*Common Equity*		
Deferred Charges	$50,000	$45,000	Common Stock	$97,500	$89,000
Total Other Assets	$75,000	$68,000	Capital Surplus	$111,000	$99,000
Total Long-Term Assets	$360,500	$319,800	Retained Earnings	$120,000	$105,800
			–Treasury Stock	($50,000)	($45,000)
			Total Common Equity	$278,500	$248,800
			Total Owners' Equity	$338,500	$298,800
Total Assets	$685,500	$609,800	**Total Liabilities and Owners' Equity**	$685,500	$609,800

Fundamental Analysis

Technical Analysis

Defining Fundamental Analysis



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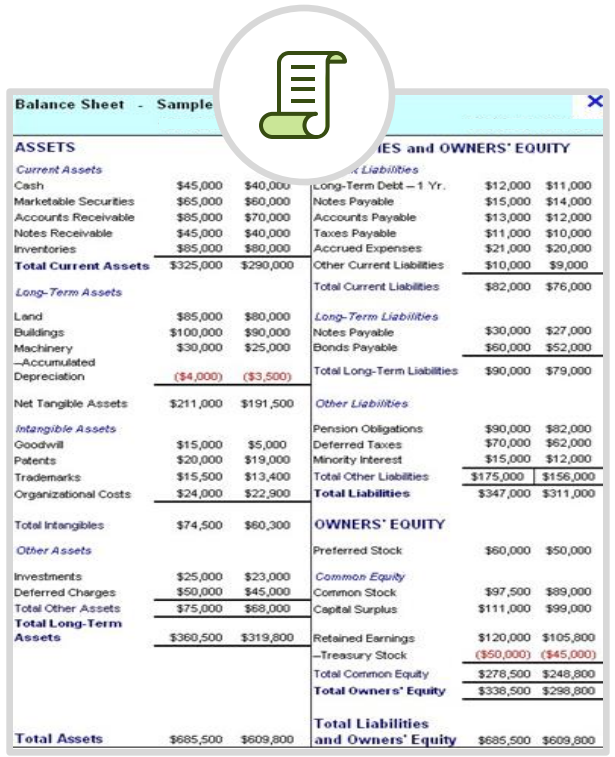
Definition

Fundamental analysts study companies using measures such as:

- Quality of management
- Labor relations
- Inventory control
- PE ratio and EPS growth rates
- Return on equity and assets

Defining Fundamental Analysis



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Limits

Fundamental analysis does not help you with:

- Timing of the investment
- Making the selling decision
- Quantifying the risk vs. reward

Defining Technical Analysis

Definition

Technical analysis primarily studies historical market data. It also:

- Focuses on the supply-and-demand dynamic expressed via stock prices
- Visualizes shifts in supply-and-demand which can be seen in chart patterns
- Accounts for the emotional aspects of the marketplace
- Quantifies the capital risk of trading and investment decisions
- Does not try to predict the future

Defining Technical Analysis

Limits

Technical analysis is still not a perfect investment method and has limits:

- Patterns, trends, and indicators are never precise, and charts require human interpretation
- Technical traders are susceptible to the same emotions and cognitive biases as all other investors

Defining Technical Analysis

Assumptions

- Prices in freely traded markets are determined by the economic principles of supply-and-demand
- Price discounts everything
- Prices are nonrandom but not necessarily predictable
- Prices have direction and tend to travel in observable trends
- Behavior and history in the marketplace will repeat itself
- Price patterns summarizing behavior are “fractal”

Charts, Chart Types, and Chart Construction

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Charts, Chart Types, & Chart Construction

Overview

Analyze price behavior

Easily visualize the patterns and trends within data

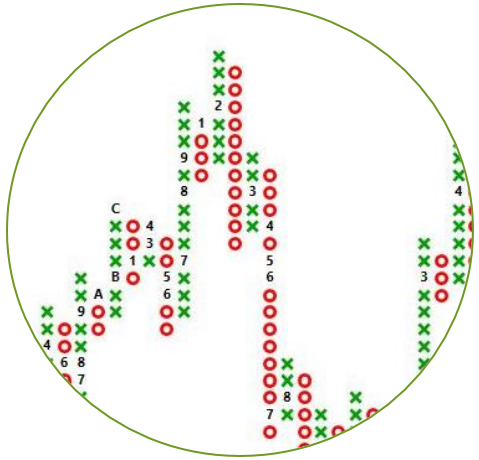
Charts, Chart Types, & Chart Construction

Overview

Line Chart

Bar Chart

Candlestick Chart



Point & Figure Chart

Chart Types

Bar Charts

Visualizes

- Open, High, Low, Close
- Volume for a specific time interval

Advantages

- Most common
- Easy to read
- Provides full range of trading for time interval

Chart Types

Candlestick Charts

Visualizes

- Open, High, Low, Close
- Volume for a specific time interval

Advantages

- Gaining popularity
- More visual than a bar chart
- Uses color to show differences between open and close prices

Chart Construction

Reversal Points

When a price is rising, stops, and then declines, the price at which the rise halted is a "reversal point."

- In this situation, the reversal point is called a **"peak"** and is important because it is where buyers were overcome by sellers.
- When a price is declining, stops, and then rises, the price at which the decline halted is a reversal point called a **"trough."** It is the price at which sellers were overcome by buyers.
- Reversal points are the foundations of trends, trend lines, channels, patterns, and support and resistance.

The Value of Reversal Points

The longer the trend, the more important the reversal point

Reversal point importance is determined by the length of the trend before and after the peak or trough.

Basics of Trend Analysis

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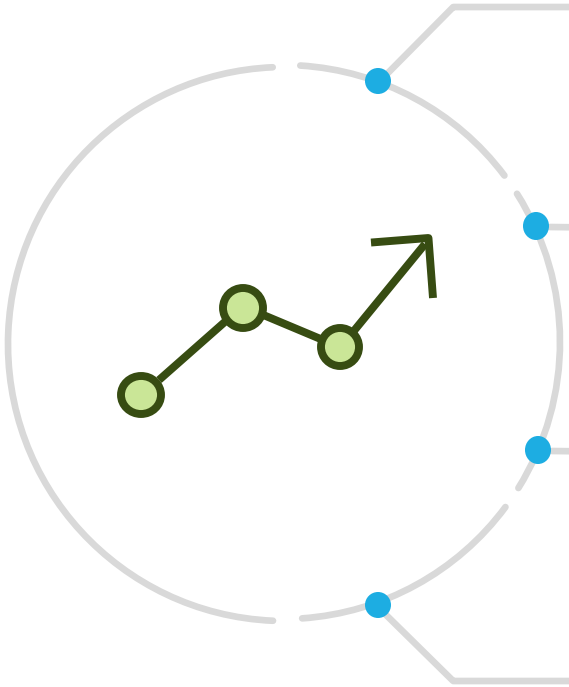
The Value of Trends



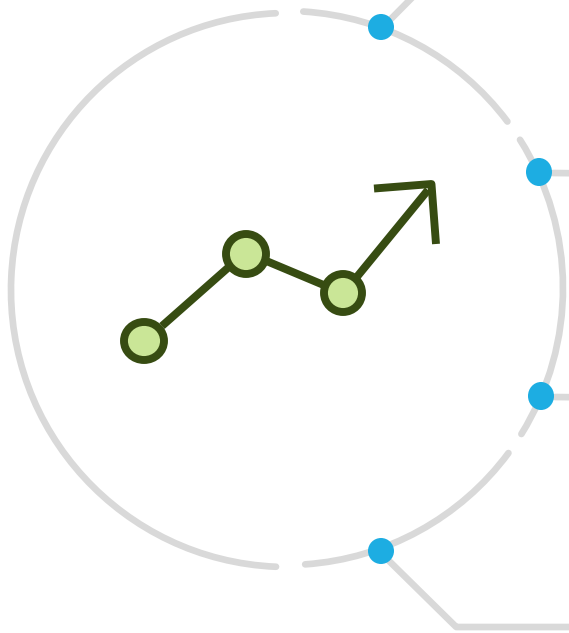
Technical analysis is based on the principles of trends

Trends arise from the interaction of buyers and sellers

Profit is made from a trend in prices

A trend's direction is described by the relative location of peaks and troughs

Assumptions about Trends



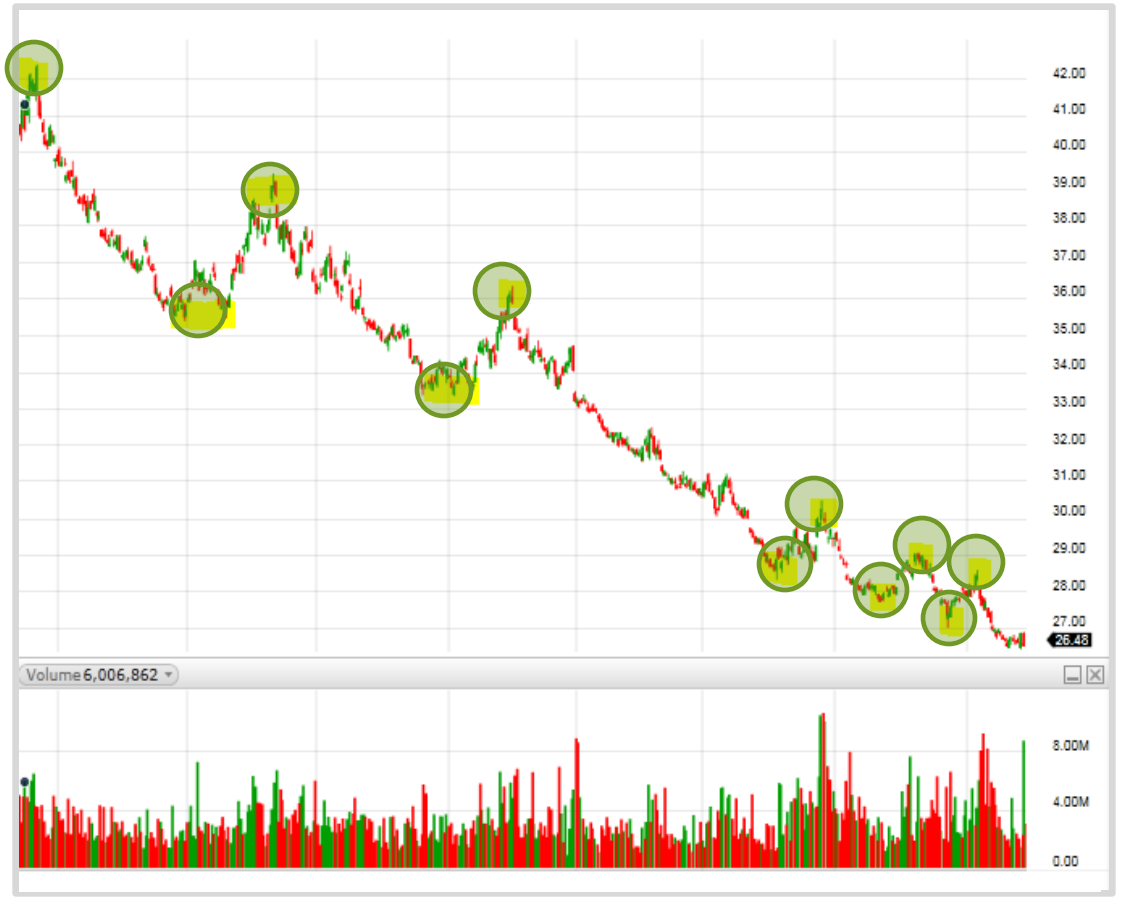
- Trends continue rather than reverse
- Trends are influenced by the next longer and the next shorter trend
- Trends are fractal, meaning that although they occur over different time periods, their behavior is the same
- Trends are not mechanical methods that can easily be programmed and tested on computers

Uptrend

An uptrend has successively higher peaks and higher troughs.

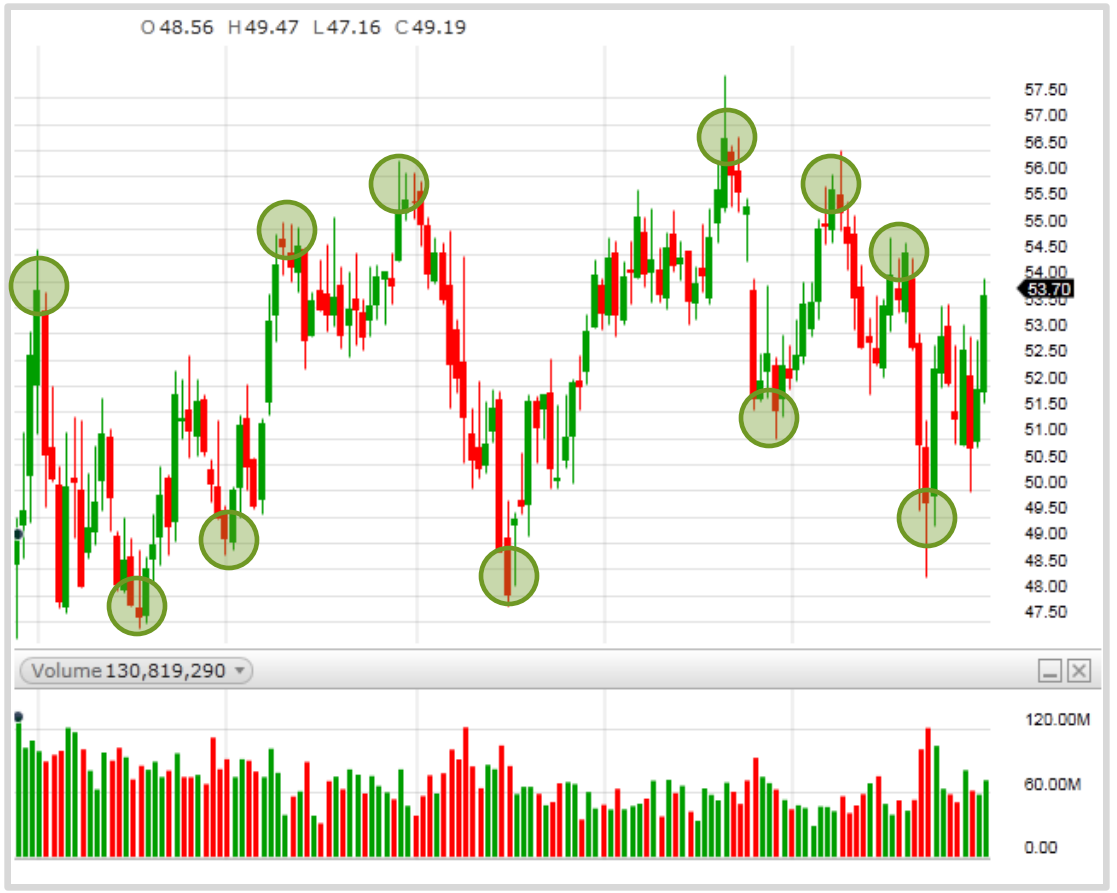
Downtrend

A downward trend has successively lower peaks and lower troughs.



Sideways Trend

A sideways trend is a period with no clear direction in prices.



From Trend to Trend Line

Definition

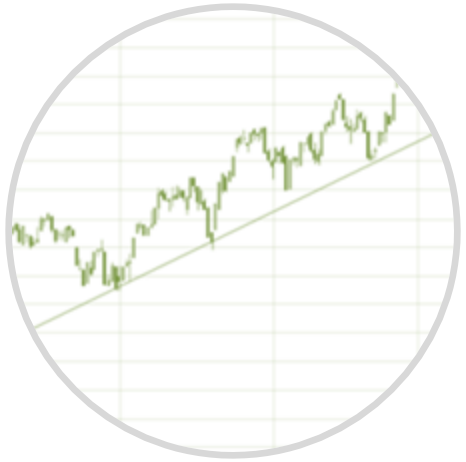
A trend is a direction; a trend line is an attempt to define and use that direction.

How do we draw trend lines?

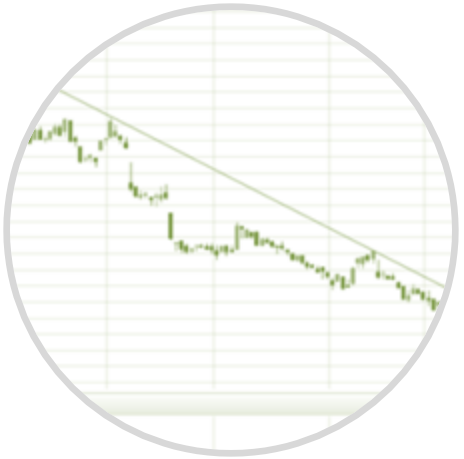
- From peak to peak
- From trough to trough

Types of Trend Lines

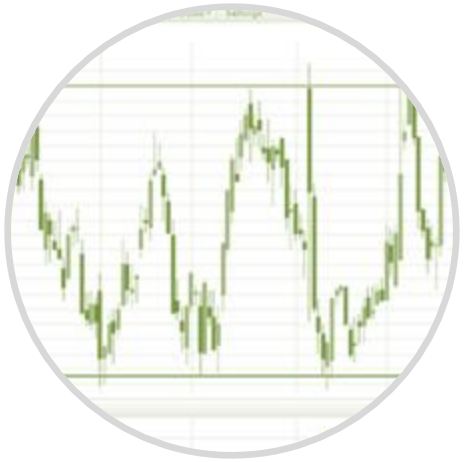
Overview



Upward Sloping



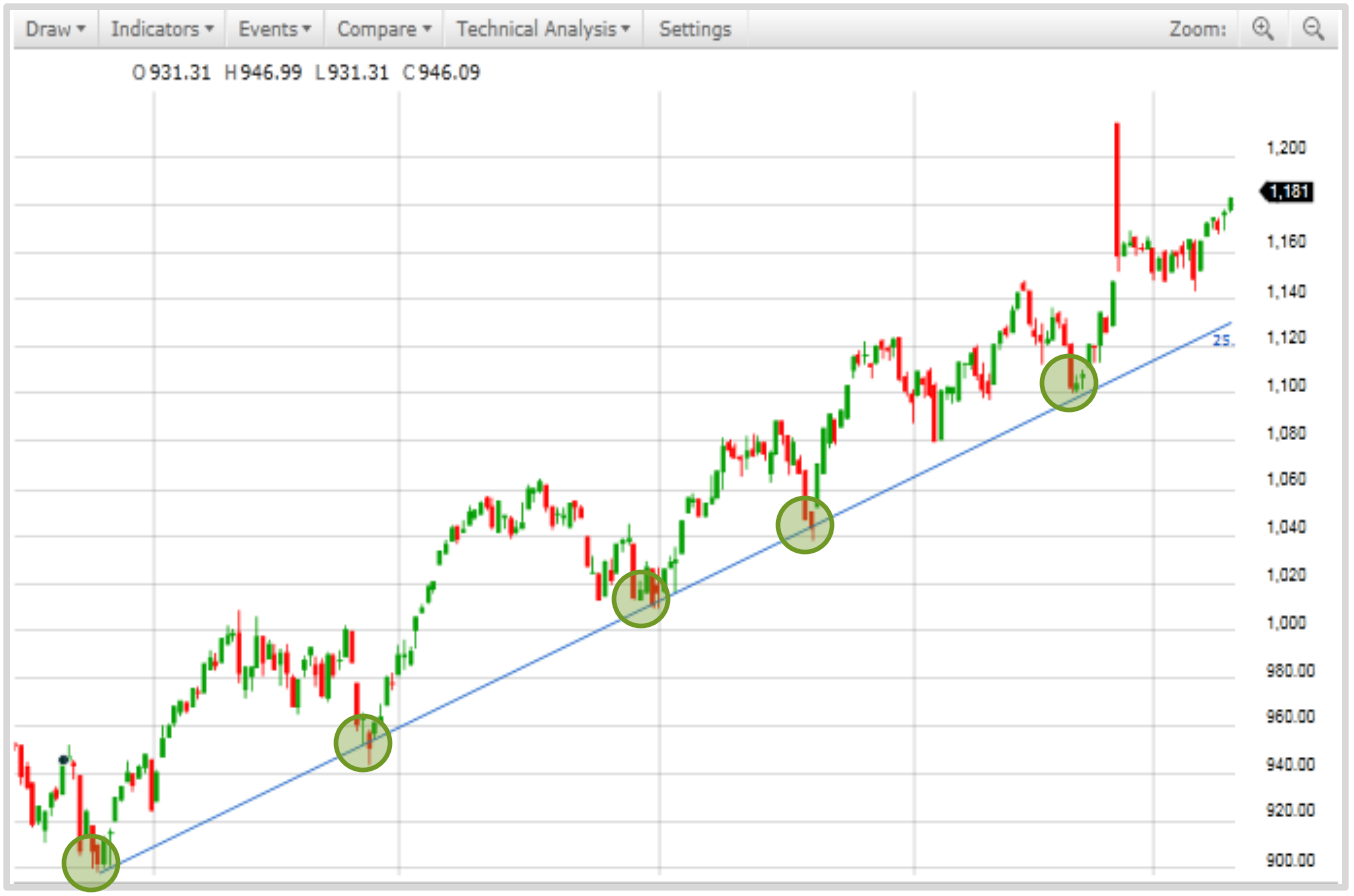
Downward Sloping



Support and Resistance

Upward Sloping

A line connecting trough to higher trough



Downward Sloping

A line connecting peak to lower peak

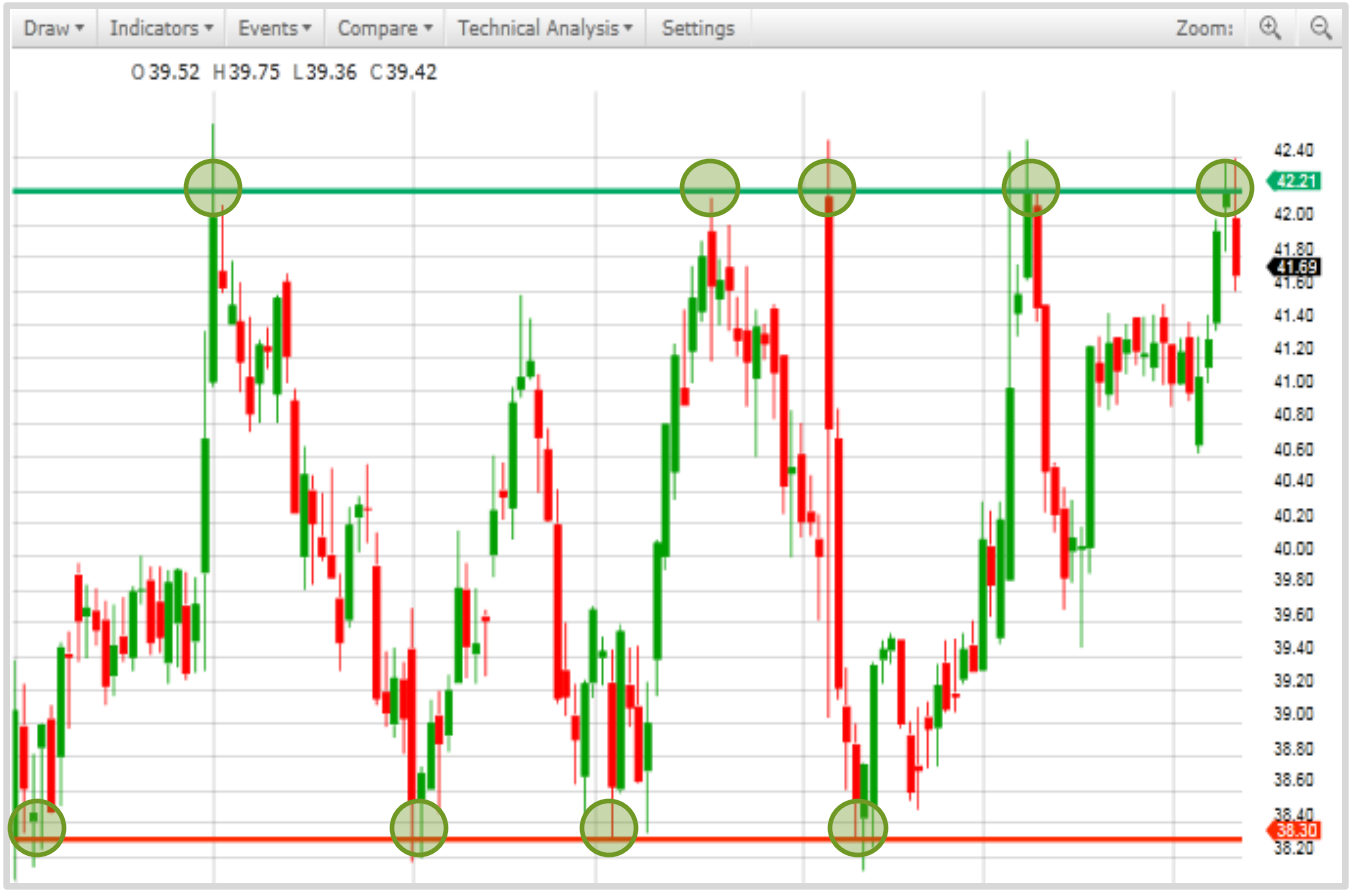
Support and Resistance

Support

Horizontal line drawn through troughs at the same price level

Resistance

Horizontal line drawn through peaks at the same price level



Profiting from a Trading Range

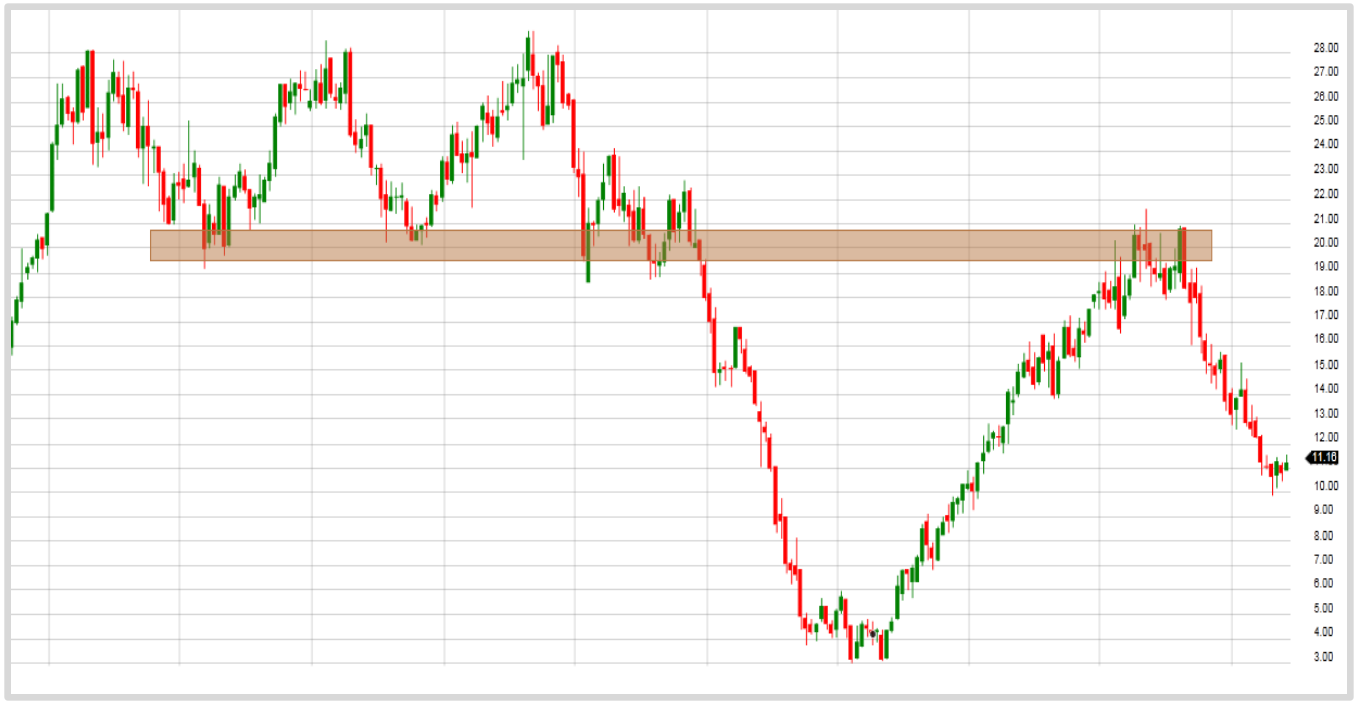
Green points are candles that hit support and resistance levels on close.

Red are intraday and do not close at support and resistance.

When Support Becomes Resistance

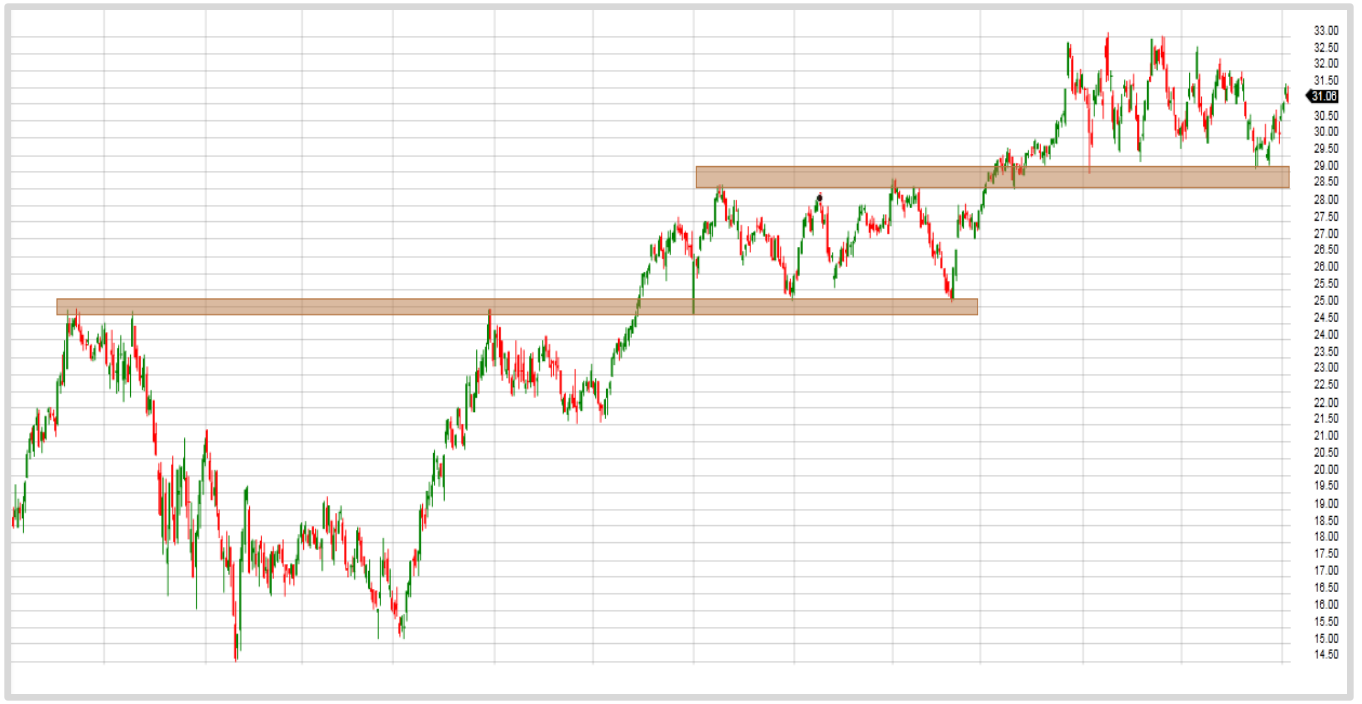
Once the price breaks through support, that support becomes future resistance.

When the price eventually rallies back to that level, it hits selling pressure
and reverses back down again.



When Resistance Becomes Support

When resistance is penetrated, it can become support



Best Practices for Trend Traders

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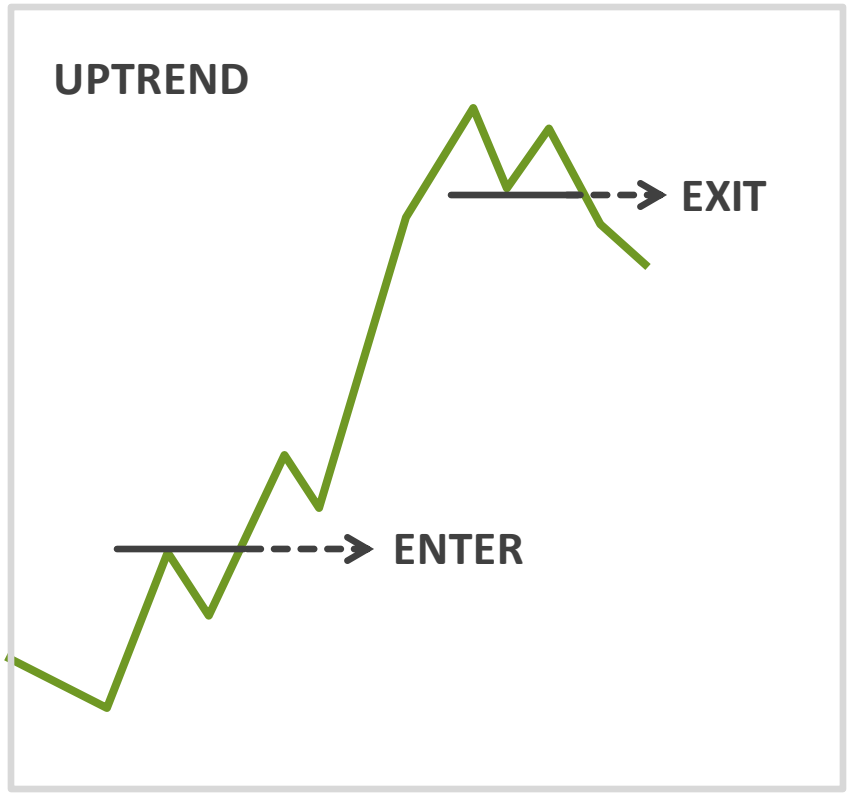
Trend Trading

Best Practices

Determine:

- Strategy and conditions for entering/exiting trade
- Need of confirmation
- Triggers that will cause the entry to be executed
- Specific risk involved

Strategies for Trend Investors



Entry and Exit Strategies

Entry strategy

- Consider buying when chart patterns demonstrate a new trend

Exit strategy

- Consider selling when the trend reverses or appears to have ended

When investors using technical analysis execute these two strategies successfully, they may make a profit.

Entry Strategy

Exit Strategy

The trend line crosses previous troughs.

A trigger could be a breakout below the rising trend line.

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Visit the Fidelity Learning Center

Learn more about putting technical analysis to work for you

Read: Access the Technical Indicator Guide

Watch: Check out videos that define core technical concepts

Attend: Register for monthly webinars

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Important Information

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Investing involves risk, including risk of loss.

Technical analysis focuses on market action – specifically, volume and price. Technical analysis is only one approach to analyzing stocks. When considering what stocks to buy or sell, you should use the approach that you're most comfortable with. As with all your investments, you must make your own determination whether an investment in any particular security or securities is right for you based on your investment objectives, risk tolerance, and financial situation. Past performance is no guarantee of future results.

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