TRANSCRIPT

Practical uses for technical analysis

Trey Jarrell: Thanks, everyone, for joining us here today for our practical uses of technical analysis. My name is Trey Jarrell, and Brett Yoder is with us here today as well, and this is a topic that's very exciting for us, one that's near and dear to our hearts on the trading strategy desk team. I would like to do a quick introduction to our group and what we do here and some of the other resources we offer, and talk a little bit about what we're going to be covering in today's class, and we'll get to the meat of the presentation after that. Our strategy desk team here at Fidelity was really designed with helping you and helping traders with coming up with and managing your individual trading plan and trading process. So technical analysis is a big area of focus for us, and one of the benefits of technical analysis, really helps with our timing mechanisms here. But we also help with other areas on the strategy desk, if you happen to be more into the fundamental side of things, or if you need help with some advanced tools, or if you'd like to dive into option strategies, these are all areas that we help clients out with.

Aside from the webinar we're doing today, Brett and myself also host a number of online coaching sessions; we do a number of these every single day. These topics will range from everything I just mentioned about we cover.

We also do some live sessions covering different market events, a briefing in the morning and afternoon, but a great way to continue on with some of the learning that you're going to pick up here today.

I'll mention one other resource in the Learning Center. We do have some classrooms for beginners. We do a number of different classrooms on these topics here as well. Every month, we actually do a four-week classroom on technical analysis. I'd like to bring this up now if you leave today's session and you feel like you need a little bit more, when it comes to technical, we've got four hours of that dedicated every month. Check out those classes, it's a great resource here for you as well.

So moving along, how we really have the session laid out, there is a deck available to download here, but when it comes to practical uses, this is really going to be all about demonstration. We want to take you through some of the tools, primarily our chart, our primary tool for technicians. Before we get into the chart, Brett and I want to set some expectations. We're going to have a discussion about some of the key components of a trading system, some of the assumptions we have when using technical analysis. From there, we're going to move on and talk about some individual indicators, and really our goal here is to talk about complete trading system, what components do we have to put together to use technical analysis for our day-to-day use.

As, in our demonstration portion, we're actually going to be doing this in Active Trader Pro, as our trading platform. If you have not downloaded or used Active Trader Pro, highly encourage you to. By all means, if you want to kind of go along with us, it's always a good start to using it. You can download this on Fidelity.com/ATP, just go to fidelity.com/atp or if you're already on fidelity.com go to the search bar, type in "ATP." You can download the platform, and we'll be walking you though that platform as we go through with today's presentation.

So with that, why don't we get started talking about some of the assumptions. I will turn it over to Brett to introduce himself and get us started.

Brett Yoder: Perfect, Trey. Thanks so much, it's definitely a pleasure to be here. Exactly as Trey had said, technical analysis, I think we all share an affinity for that here on the desk, because it seems to be the most on-off or straightforward way that you can go about analyzing the market. So one, the question of the webinar today, the practical uses of technical analysis, is going to be the practical use of any analysis. We need to establish a reason why we're going to trade. We need to have a clear understanding of why this particular time on this particular asset, it makes sense for us to risk our capital, and what sort of expectation we have based off of the return.

So technical analysis, what is it? Of course, it's a study of primarily three different components, and really two, but we'll definitely talk about the third as well. One, it's the study of price. So input number one for technical analysis is going to be price. Input number two is time, i.e. that's where we get our chart from. That's where we see the price plotted out over a certain period of time and where we can make some of these assumptions. The third input is going to be volume, but really the entire world of technical analysis is focused just on those three things, what's the current price, how does the price relate back to what it was previously et cetera. How can we quantify the value of that price, is it overbought, oversold, and these kinds of ways that we can analyze it, over what time period from seasonal analysis to business cycle analysis, et cetera, so based off of time, and then obviously volume, there's that indicator of, well how contested is this price? Is this a price that the market just blew through and continued to trade past, or is it a price where a lot of people were uncertain on the price, a lot of buyers and a lot of sellers at the same point?

So with that, that's technical analysis, and we expect you to understand that going into this hour. Our primary tools then of course is going to be charting and using the chart, as well as different indicators that can measure price, measure time, measure volume and how they relate price, time, and volume back to each other. And I definitely want to establish the fact that absolutely nothing, either that we present, or that is presented is perfect. Analysis is simply that; we're trying to make sense of the free marketplace. We're trying to make sense of something that can't be made sense of. But what we can use technical analysis for is the idea of what is going to make sense to us, meaning if we're going to put our assets at risk based off of our chart, based off the indicators that we're looking at, we will give ourselves the ability to say, OK, well our thought was that the price is going to continue to go up. It didn't, so we've enacted a little bit of risk management. We've given ourselves the trend that we're going to be trading, right, and when that trend is broken, our idea is no longer intact. So we're giving ourselves a reason to not trade once our assets are at risk.

And just as well, we're giving ourselves a price target for, if the price continues to go up, what sort of return are we going after to make the trade worth it? And we're going to get into all that, kind of front-running a little bit of the system conversation that Trey's going to have.

But the last assumption that I want to talk about is the idea that technical analysis, because it just has those three inputs, price, time, and volume, it can truly be applied to anything as those same inputs. So it doesn't matter if I'm 1-A stock, it doesn't matter if I'm on an ETF, or any other different type of asset. If it has a price, if it is priced over time, if it is traded, this type of analysis can be applied to that.

So moving on just to one of the last things I want to talk about is the idea of assumptions that we have using technical analysis. That's what technical analysis was, right, very subjective; it's based off of what you want to look at, but it is based off of those three inputs. So what assumptions are we making that would allow technical analysis to be true if you want to use that word, right? If you want to use it as a believable guide for your strategy. One, you have to assume that price discounts everything, and in the true nature of the word discounts, price includes all known information. So I personally believe the market is very smart and very efficient. So with that, the current price that a stock is trading at is going to include all known information, all what-ifs, all situations. The only thing it's not going to include is exogenous effects, right? We can't help a certain geopolitical issue, or a certain natural disaster, for that matter, right? Those things are not included in the price in any form of analysis. But price itself, I'm saying, includes all the fundamentals, includes all of the possibilities of that company. So price discounts everything.

And then the second assumption is the idea that prices tend to move in one direction for a certain period of time; i.e. prices trend. And we can identify those trends. So prices doesn't just jump from one valuation to another; price has a nice little walk up to that valuation or walk down to the lower valuation.

And with that, just a couple of comments then about the overall market itself, one, we're in that supply-and-demand market it's that free marketplace of a lot of people buy, the price goes up; a lot of people sell, the price goes down. Again, so it's a supply-and-demand market, we're trying to make sense of that. And then, two, the herd mentality of the market, right? If one person has a great idea and they tell a couple of people, and those two people tell again a couple of people, you have this exponential effect of everybody thinking it's a great idea. So as far as these trends go, I mean sometimes one person will start to trade, and then more people will trade, and more people will trade, and then people will start to sell and then more people will sell, and more people will sell, but there's this herd mentality, or mob mentality to the market.

And those two points really talk about the overall behavior that we see as people buying and selling, and we see price movement. So there's that behavioral aspect of the market. With that, think about the behavioral aspect of ourselves too, right? When we get into a trade, if you have traded before, once you build yourself up to the point you actually want to get into the trade, you're dealing with a certain set of emotions getting to that point, right? You're trying to make sense of whatever analysis that you have done, or whatever you've heard from your friends, et cetera. But you have that emotional setup to the point where you actually put your assets at risk, and the moment that your money is at risk you have an entirely different world of emotions that attack you. From, well OK, was it the right decision, was it not the right decision, the indecision that you may have. You're at a loss, should you get out? And you lose this idea of the whole reason why you got into the trade in the first place, to then now you're at this stagnant point, or maybe you're too quick to act to get out of a trade, but it's our personal behavior, behavioral finance that drives us into the trade. That is where we take the base of technical analysis, using that as our stage to put our assets at risk and hopefully make some money, to then being able to fight our emotions as we go through the trading process, why we say definitely here on the strategy desk, and Trey, I'm sure you'll come right along with me on this, but the idea of being systematic with the way that we trade, or articulating our different steps. So Trey, why don't you talk to us a little bit about a system?

Trey Jarrell: Yeah, that's really the key to it, right? Brett talked about this kind of emotional decision-making. What we're trying to do with technical analysis when we create this system is we're going to do our best to take out some of that emotion. And to do that, really, it's going to be building a system around a certain set of rules, right? Now the rules that you use, they are going to vary a little bit. There's no perfect system. Brett and I talked to a number of different traders, day in and day out, and everyone has a little bit of a different style, right? We talk to plenty of people that like to be in-and-out in the course of a day. Some people like to think about it through weeks or years. There's no wrong style of trading; it's just very important that regardless of our style, we need to have a set of rules in place for how we're making those decisions.

So when we think about the different parts, different rules, what actually needs to be in our system, well really the first thing we should be thinking about is how we're going to choose what we're going to trade, right? How are we going to choose between stocks or ETFs or whatever asset class that we're trying to trade. What we're going to show in the demo today is one of the ways of doing that, and this is obviously focusing primarily on technical, however, right, if you use other methods of analysis to find our securities, that's perfectly OK. We have a lot of traders that we speak to that like to combine things like fundamentals and technical together in a system, right? Maybe you're finding your stocks from a fundamental basis, and technical might come into play from that regard in how you're deciding when to purchase, and when to sell.

Which kind of leads to the second rule, the second part of our system. We have to have that input for how we're making our entry and exit points. We're going to walk you through some of the indicators for driving some of those entries. But when we're thinking about trading, really the more important part of the system, the one that we want to make sure that we've really thought out ahead of time is the exit strategy, right? How are we going to get out of a position. You can make a mistake on an entry, but if you're very tight with your exit and you're able to realize a mistake quickly and get out, it might become just a minor error, minor mistake. Failing to have that appropriate exit strategy here could really compound a bad entry if you let that loss continue to run. So you know, when we think about the exit, we really have two different points in mind. We want to have a profit target. This is going to be, if our stock continues to rise, for example, at what point are we going to get out? And that could be based off a set of indicators, a percentage profit target, or even a key price level that you're looking at as we go through the example, we'll talk about a few of those. And to the downside, right, the really important one: when are we going to get out if we're wrong? Right, we're following the signal to get in. You know, if the stock immediately goes down, what parameters do we want to follow to exit that position? Right, again, this could be based off the same indicators you're using, could be an important price point like a support level. Could be a percentage of risk that you're willing to take as well. Right, and that percentage of risk kind of brings to the next part of the system, is your position sizing. How much money do you want to allocate to any individual trade? Now as investors, if we are doing some individual trading, one of the first thoughts we want to have is how much do we actually want to trade as compared to our overall portfolio. That's going to vary from person to person, depending on where you are in life, depending on what goals you have saving for. Once you've decided how much of your total portfolio you want to dedicate to trading, we need to decide how much we want to risk on any given trade, right? Generally, this is going to be a small percentage; I'd say there's not a right answer. Some of us have different tolerances for risk and how we approach that. But this should absolutely be something that in your mind, you're thinking about before trading, right? How much am I willing to risk? This is where that kind of percentage loss comes in, right? If a position goes against us, at what point am I going to get out? This is an area that's very helpful to do the math on ahead of time when you're opening up a stock position, right, whether it's a hundred shares or a thousand shares and you're thinking about, hey, what if it drops to this price level, calculate what that is in real-term loss on your portfolio. Right, make sure you're comfortable with that. If not, maybe you need to lessen that position size, but this should be a very key part of the system that you've thought through here ahead of time.

Really the last thing I'd mention in terms of the system, right, when you're coming into, we use the word "traders" quite a bit. I like to think of us really as risk managers, right? That's really the approach that we should be taking when it comes to placing trades, when it comes to using this technical analysis, what are we trying to do? How are we going to be successful? We're going to be successful if we're managing our risk appropriately. When a trade goes against us, we have to be able to take some of that emotion out of it, realize that, hey, we were wrong; that's OK. We don't want to let these losers sit in the account for years and years, right, if our objective is to get in and out of a trade in a couple of days or a couple of weeks, you know, we don't want to find ourselves in that situation having thought a lot about that exit point here before time is going to help you out with that.

You know with that, Brett, why don't we go to you. I know we're ready to kind of jump into some demonstration here today. I know you've got Active Trader Pro pulled up here and let's talk about some of the different pillars of technical analysis here next.

Brett Yoder: Yeah, let's definitely do it, because when we get to the chart and looking at price and looking at volume and looking at time, how do we determine the current level? I mean, it is like I said before, kind of alluding to this point that we're at right now, how do we quantify that this is an area of support, an area of resistance, a good or higher value compared to anything else? We have to actually look at the data set and do some analysis.

So with that there's four main thoughts that go into analyzing that one dataset of price, time, and volume, and with that, it's broken down into price trend, momentum, and then volume. We add an extra one on the end; we call it volatility, and measuring the volatility of the price movement. But let's just walk through those pillars and talk about what we're looking at. One is a study of price. The study of price in and of itself, if you looked at any one of these candles, and this is just a filled candlestick chart on the S&P 500, but if you looked at any one of these candles, you're seeing four pieces of information. You're seeing where the opening was for the timeframe, what the high and the lower was designated by the wicks of the candle, and then the closing price, which is the closing of the body of the candle. Now if it's a red candle, that means our open was up higher. Let me grab my crosshair tool real quick, we have the higher open here, this will be the trading on the 31st, where we open around 3,014, and we closed around 2980. Of course I know that because it's a red candle, and the beginning of my body is going to be the open, while the bottom of my body will be my close because red designates the price traded down for that day. On the other side of it, here on the 13th of August, we had an open around 2881 and a close around 2923. So on any one candle, we have these four different price points, and we can determine, you know, look at a candle where there's very little volatility or price movement up and down, i.e. here on June the 17th, with a low of 2879 and a high of 2894, very small range, a little 15-point range on that day, compared to say, this date here, August the 5th, where we're seeing a range of 2898 down to 2822, or 76 points, so we can visually inspect the difference, and we can also then look at just the day before, or a couple of days before. Or, if the price continued to seem to bounce off of a certain level, or pivot, meaning the price came down during this timeframe and then changed and went up, we can then do this historical analysis to see at what points did the price change direction. And based off of those historic points, the pivot points in the market, we can then designate or talk about trend, or the idea of trend. Now, trend is either up, down, or sideways, right? We know that, bullish, bearish, or a consolidation. So what helps us then is understanding that our trend lines could be sloping up for appreciation, sloping down for depreciation, or horizontal for the consolidation. Horizontal support and resistance is actually brought to us here by the technical analysis tab, and a group called Recognia. It's a firm we bring in for technical analysis on our stocks, and let me just switch up to a different symbol here so we can get the technical analysis displayed. And here you say this horizontal support and resistance based off of the algorithm that Recognia runs. They say from a horizontal or consolidation area, the points that we should be looking on IVV which is just a proxy for the S&P500 is a resistance zone of 302.49 and a support zone of 292.3. So there's price analysis, how the price is moving, how the priced during a single bar, and in this case, we're looking at daily bars. So that's pillar number one, being able to analyze price.

And then overlays on our chart, meaning indicators that are laid just here on top. Pillar number two then would be the idea of actually identifying trend itself. Is there a certain way that we could define what a trend is? Many indicators can help us with that. Today, we're going to showcase exponential moving averages, or EMAs, and what a moving average does is it takes a certain amount of frequencies, in this case days, and then averages them, sometimes with a simple calculation, which would just be adding them all together and then dividing it by the amount that you've added together. Right, in this case, an exponential moving average adds just a little bit of weight to that very last or most recent data point. So you get a little bit of weight in, or a weighted moving average; that's what an EMA is. But when we average price, we're eliminating the chop, or the noise, in the actual price itself, and we're seeing just a general flow going up and a general flow going down. Therefore, if we have a positive slope on our line, that means specifically that we're in a bullish trend. If we have a negative slope, or a downtrend, right, there we see it. And it's very easy then to see. In combination with just a slope, you can actually have multiple, like I've added both the 20 and the 50 EMA to our chart here. Within that, I can just look at when the moving averages crossed over each other. The 20 period is going to be faster, or follow the price a lot closer than what the 50 period would. Why, because I have 50 data points here and I only have 20 in my 20. So we call it the fast and the slow average. So if there is the fast average crossing from above to below the slow average, we take that as a bearish sign. Why? Because price movement, to make that fast average move faster than the slower average, was at an even higher amplitude, but even faster down. So here the price went down; that made our fast go down and then gave us a cross here a few days later. So that's one way to measure trend; that's how we'll be measuring trend today to try to demonstrate this system.

The next is going to be the idea of momentum. Momentum, or acceleration, if you will, is going to be how fast this price changed from maybe the price before. What was the actual difference in price? So now we're not measuring price per se, but now we're measuring the difference, or the change in price. That's what relative strength index does; that's the RSI indicator. Now the math is a little bit different here, and Trey will show us a great example later of the technical indicator guide where you can see the math. But what you're seeing in relative strength index is that measurement of change, right, momentum study here, so we can see as price goes down, that's pushing our relative strength down as well. When the price moves a little bit too fast, if we see price continually moving up during this May figure, RSI actually says, well that's a little bit too fast based on off the way that you would use it. Relative strength index takes the data points and then not only looks at the momentum, positive or negative, but then normalizes the data as an oscillator to give it a range of 0-100, so it is a range-bound indicator; in this base this understudy, this different line chart that we have compared to our price chart. And as prices move too far in one direction, you get these outlier values on RSI, anything above 70, considered to be overbought, anything below 30 considered to be oversold. So then you can make determinations based off of the overall trend and current trading, based off of the slope of the line of RSI, based off of the level of RSI, so a little bit different here where you can actually use the level of RSI.

We're going to skip volume; we'll talk about that in a second, but I do want to add one last, and this is called ATR for Average True Range. Average True Range is a measurement of volatility in a stock, truly measures the range or the difference between the previous close and then the current trading time frame that you're looking at. It's average, because it's looking at 14 in this case of those trading ranges, or true ranges. So here we have the amount that historically this IVV symbol has traded up or down to give us that volatility figure, and we'll use that and we'll incorporate that into this idea of how much risk should I take. As Trey mentioned, risk management is definitely what we lead as far as the most important aspect of a trading system, how are you going to measure your risk? You could even talk about how position-sizing is also a way of measuring risk, you know? If you don't want to take a lot of risk, trade a smaller size. If you want to measure out your risk, great. Here's one way that you're going to do it. The benefit of a system are having known inputs and if we were to articulate them, let's say that for this example, we wanted to be a long-trader. So we only want to buy when we feel the price will continue to move up. So go back to just current price here. So what would quantify, our thought, what sort of evidence do we need to say yes, the price will continue to go up, and what would we set as a safeguard to make sure that if the price doesn't go up, when would we see that that's enough, enough is enough? So translating this into the idea of the system. We have price movement up and down, the noise, if you will, the chop. We have the trend. We know and talked about if the 20 is above the 50, then that is positive price movement. A trading signal might be when the 20 crosses the 50 from below to above, so maybe we want to use that as a trigger to our trade as an actual buy signal. With RSI, we understand that it's a normalized indicator, from the sense that the value's between 0 and 100, so maybe we only want to trade values that are above 50. Or maybe we're waiting for a countertrend play, so when the market gets sold off pretty heavy, like the selloff that we had in July to August, and we got this less than 30 level, this oversold level, maybe we want to use that as our trade trigger. How are we going to measure that risk? Well during that timeframe, this IVV was trading at about $2 range, $3 range. Maybe we want to use that as how much leeway we'll give our trade to go against us.

So let's move forward with that as far as our example, and Trey, let's go back to you, and let's talk about the efficiency of a trading system. What are some ways that we could use these articulated steps to decide if we want to actually get into a certain stock or not?

Trey Jarrell: Yeah, great segue there, Brett. And we've got the key components of a system here. We're thinking about a technical system, looking at trend, momentum, we're looking at important price points, volatility. We're trying to put all this together to help us determining is it a good time to enter in this security, and then these were all going to come into play when we think about the exit side. So you know, thinking about the first part of a trading system, right, we need to have a method for choosing which investments that we are going to consider for trading, right? So if we're looking at technical system, we'll look at a screen actually based on technical, and the tool that I want to pull up here is our filters tool, here specifically. In active trader pro, this is going to be under the quotes and watchlist menu, and filters. And when this window comes up, you'll notice there's a couple of different tabs that you can select from on this tool. Right, by default, tab is going to be "markets." This is some of the ones that I'm sure a lot of you are familiar with, our most active, new highs, new lows can be one place for us to start looking for ideas. But if we are using a technical system, we can actually jump right over to the technical tab here, and we'll see we have a few pre-built scans right in this tool that we can use.

Now a couple of things on this tool, once you click "technicals" below that to the left, the first dropdown menu, these are all the different scans that are actually built into this tool. So Brett talked earlier about the use of trend, right, their first four are various up-and-down trend indicators, right, we talked abut the moving average system here, right, we've got scans for that. Also, RSI, Bollinger band, continuing down the list So, if you're going through here, if you find that one particular method of generating technical ideas isn't working for you, it maybe doesn't fit your style, keep in mind there's quite a few different scans that you can actually come through and select here.

So why don't we look at the moving average crossover to the upside here, we talked about that indicator first. Moving average, crossovers, right, this is going to be a trend system here that we use. Now next, just to the right of that first menu that you clicked, the moving average crossover, there's a second dropdown. So not only is moving average crossover available, you can actually build this to different time parameters here as well. So the first one here is a 20/50; this is what Brett plotted on that chart, looks back at the 20- and 50-day periods. There's also a 2200 or a 5200, right. You might be looking at a 5200 if you like to have a longer-term type of view on your securities. The other side of this too is you will see there's also entries for volume right, first three are 15% volume; second three are 30% higher volume, right? So volume is another indicator that we can actually use when making technical decisions, right? The idea behind volume is if, say we're in an upward trend and we're seeing heightened volume, well that's letting us know we have more people participating in that upside move, right? Might be additional confirmation for us that that move could potentially be continuing. Now volume, in terms of the indicators, probably not the most important or most looked at, but it is some additional confirmation, some additional weight we can use in our decision-making.

So, why don't we just stick with the first one here, the 20/50 on 15% higher volume, and if you take a look at the list, right, we've got a long list of securities on here, right? You have many that you could select from. Is this still being an idea generation tool, any of these you select is only giving us one part of that full system, right? We're only looking at the 20/50 crossover. We want to take this analysis and include a couple of other components in it, the ones that Brett showed us. Brett, why don't we jump in on here? We've got INTF, I'll pull one randomly from the list here, and we'll pull that up on the chart. So if you're following through this filter, right, you click this, we'll build into your chart here in Active Trader Pro for you. Now, the filters told us we have 20/50-day crossover, and as a reminder, the 20 going above the 50 is considered a bullish sign from a technical standpoint. Right, we've got higher volume also helping us confirm. But what are we seeing here with other indicators and price points, right? What other areas might we want to be looking at?

Right, so one of the other ones here, and actually great, Brett's on the volume on here too and this is great to point this out, right. You can see the big increase in volume here today over the last few days, right? That's what's populating on here, and that's why it's continued on the scan for, right, the crossover just hasn't happened. We're also seeing some carry-through with volume, right? What's happening here with momentum, right? What are we look at from that RSI standpoint? Brett, if you want to jump back a timeframe here just a little bit, because I want to show what we're looking at, we talked about these 30 and 70 levels, overbought, oversold. If we look back just about a month or so, you see INTF actually peaked up at this level right around 26, and at that time, RSI was right about the 70 point, and it actually pulled back. Right, now in this recent uptrend over the last week or so, RSI has started to come up. What we're seeing happen in price, but hasn't quite overtaken that previous level here, right? So reaching a higher high in price and failing to reach that in RSI is a divergence, and it could be kind of a red flag here for us as Brett's illustrating here with that downward trendline. So that might be something for thinking about our system, hey, we've got the crossover, but we're not necessarily getting the confirmation here from momentum.

You know, one other thing I want to take a look at too, and it's always important to understand, are there any important price levels here as well, is let's just check what's happening with the support and resistance here also, and we can do the Recognia scan for that for those support and resistance levels. And kind of the interesting point is this plotting on the chart, the green line at the top is a resistance point. Right, so what happened after this initial crossover on the 2050, the price came up and actually touched this recent resistance, right? And it's the same point that it was at about a month or so ago. You see it hit this level and actually reversed off of it. Right, if you were thinking about an entry in this position, this is a level that you'd want to be weary of. Looks what happening, we're hitting the level, but we failed to break through; it's actually reversing off of it, right? So we're not getting that confirmation here in this case of that additional breakout here from the resistance level that we're looking at.

You know, once you go through this, I'd say one other thing that can be helpful, if you have found a position on here that you are looking to enter is think about it from that risk standpoint as well. We're talking about the regular chart right now, but also like to take a look at the Trade Armor tool here for a moment. And where this is going to be helpful, you know, if you do decide to enter, right, now starting to think about our exits, exit to the downside, that 20 crossing back below that 50 day could be another potential area that we'd want to be paying attention to. We may also want to look at some other support levels here as well. Now we've got one plotted on the chart here already; that's the blue line that Brett's hovering from Recognia, we could add some additional points to that, which I think this kind of speaks back to different timeframes and different trade styles here in the Trade Armor tool. But those different levels below are going to help us I think really start to think about things from that gain/loss perspective, right, when you're thinking about your position size, how much you're going to be putting into the trade. Start to think about that from the loss standpoint, right? If I'm wrong on this trade, how much do I actually stand to lose? And what the Trade Armor tool will do at the bottom right is you can actually see, blue, point that Brett has here is a potential stop-order below the price. If you actually drop down to that level, what's your loss looking like? In this case, right, pretty tight, $50, you might be OK to stand that here. If you have a longer-term view and you're looking at some lower supports, right, that loss is going to be bigger. Put in the quantity of shares you're thinking about, this is going to allow you to maybe visualize those gain-loss standpoints here ahead of time, and I think really help with driving your decision here as well. So, I'll pause there for a moment; Brett, I don't know if you have any additional thoughts, or maybe we can jump through another example here next.

Brett Yoder: Yeah, absolutely. So going into it, depending on what that system was, maybe it was that crossover, and that was the driving factor. Well the average right now is above. And the reason why we look at momentum and look at a couple different ways to study, is to get what Trey talked about, that confirmation. Right, we're wanting to confirm that this idea is now good. So then we're one, looking at the trend indicator that was the trigger, momentum is giving us a cautionary flag here, because that momentum was not matched by the price, and as price falls back down, we'll see momentum again fall as well. The price analysis then as far as the support and resistance goes, that's almost confirmed here that maybe this isn't the best time to go into a long trade. But there's that one last step then of identifying. So we talked about the Trade Armor and the idea of picking a point down at the bottom. Well we want to be as scientific as we can about this point. We want to have it fall it right in to our entries and exits, right? We want to have it fall into our system and be articulated. So maybe it's just only losing one percent. Well that would then, we'd start with the Trade Armor tool, look and see what a one percent loss would be based off of how big we want to trade, in this case 500 shares, a one percent loss means this INTF trading down to 25.53. So then we can go back and see and analyze is it 25.53 make sense? Well it would be right under the support line, so support would be broken, leading us to believe the price would continue to trend to find its new consolidation value, its new price that's going to be heavily contested. And that could be one way that we actually sit and set this up.

Another could be then just straight based off of the indicators themselves. So again, the moving average crossover that Trey just talked about, that's undetermined. We don't know when that crossover would happen, nor what the price would be when the crossover would happen. We would be waiting in our system day-to-day. Now identify, going back to that idea of our own emotions. Are you someone that is OK with that, just watching an indicator that's historically based, as time passes, you'll get an exit at some point. Are you OK with that? If you're not OK with that, maybe you're on that, establish the value right at the beginning, like with Trade Armor. OK, and just because our system led with the moving averages, your system doesn't have to. Your system could be purely price-based. So how would that sound, or how would that be different? Well since the price is right in between support and resistance, right, support at the bottom, resistance at the top, the entry then would either be to trade, as it's bouncing off the support or breaking out of resistance on the long side, or trade pre-emptively into the break of support or wait for the breakout from support to the downside. So depending on what's driving your system, you might not actually be at a trade decision when you pull up a scan.

But the importance here and what we want to demonstrate is the idea that as long as it is articulated or written down or you know what your system is, you know what the inputs are, you can go right back through the list and do this all over again. So I'm going to go back to our filters, we're on technicals, still with the moving averages driving us, this is symbol WAL picked just because it's the very first on the line. And let's run through the exact same process. Moving averages are crossing over; we know that's already going to happen. That's the filter that we ran. Now we get to look for our confirmations. So going to momentum, what do we have? We have a price breakout, and we're just going to use the crosshairs here real quick, with price breakout today right around this 47.64 level. We also had that price touched almost right on September 13th. Look at our RSI levels, Trey talked about that divergence where RSI wasn't confirming on the other symbol, because the momentum just wasn't as strong. Well let's look down now. One, a quick look here, and we can say, well the RSI level approximately 63 before, and I love the crosshairs because it automatically gives us this horizontal line. So what are we looking at today, almost the same price level, almost the exact same RSI over 64 at this point. So we're having the same RSI. How is this leading into, as far as momentum is concerned? Well, the RSI is certainly going up; it went up ever since our pivot that we had down here at 42.62. So as far as momentum is concerned, how that fall into our system? How does it fall into the way that you want to interpret it? Do we want it to be confirming or not? Are we looking for RSI to go up even higher before a trade would be entered or not, et cetera, right? With support and resistance, so our price analysis. Well here very recently going back to the beginning of October, support was broken. But then came right back up. Now we're right back in the range. We were in the range since the 11th, and then today, now we have a breakout above. As far as October the 17th. So we have the driving indicator, the moving average. We're articulated the confirmation; we're going to be looking at RSI; we're going to be looking at price breakouts, right? How do we then determine our trade? How do you go about setting how much you need to make to have the trade make sense? How do you temper that with how much you're willing to risk? If you ever do take us up on the opportunity to speak to us over the phone with a phone appointment or attend some of our classes, we spend a lot of time talking about that idea of risk and reward, because however much risk we're going to take, determines how much reward that we should be getting, if we want to be risk-first. If we identify an amount of reward that we're wanting to go after that would dictate how much risk we're willing to take, following under the theory, or the idea that we always need to maintain some level of risk and reward as a ratio. You'll hear people talk about, you know, one-to-one risk and reward, a two-to-one, a three-to-one. It sounds very, very subjective based off of your intent. But it can most certainly go into your trading system to drive where that stop would be, if you did have a bullish trade here and say OK, well yeah, we are going to go up. How are you going to determine how far it will go up? Well the reason why I said technical analysis and one of its practical uses is to display when our trade would be wrong. Well if we were bullish going from this price breakout, and the moving average crossover and everything I talked about, we would certainly be wrong if the price traded back down. Well to what level? We've already identified the resistance that it is trading above. So, is it breaking that resistance and coming back down into the range? It's one possible example. If it was, let's go with that, and we'll talk about this 46 level. So, current price 47.81 dropping down below into this range at some point, for the ease of using a round number, let's use 46. Go back into Trade Armor. Now I have WAL. I've set up the same kind of trade order, again this is our trade bracket order. And within that, we're saying the stop would be right around 46. Well if I always wanted to trade 300 shares, that would give me $500 worth of risk. So what price would I need to achieve to get that 2:1, to get that 1:1 $500 worth of risk to $500 worth of reward? 500 to 1,000, 500 to 1500, et cetera? You can come in here and start to change around your limits. So if we went to a price of around 51, now we have almost that 2:1, a little bit low. Maybe we jump and go 52, and you can absolutely sit down and do the hard math and figure out exactly what it ends up being. This is right around 51.25 or so. Then we can go back to our system. Well, does our trade make sense at 51.25? So we can plot an additional line and draw it out, et cetera.

But what we're not doing, and I want to stress this, Trey, just right before we go back to you, what we're not doing is worrying about WAL, well why did it trade up? What's the news? What happened fundamentally? Why should I do this? Why shouldn't I do this? All of those emotions that go into a trade build-up can be completely put to bed if you buy into the idea of a technical system, because the technicals are what drive you. You articulate your risk, you understand the reward that you're going after. And it comes with this real big acceptance of the fact that you're never going to win every trade; you're going to have losers. And the idea of keeping that risk and reward ratio in line with how often you are right and how often you are wrong should ultimately leave you with a winning proposition here; we should be growing our assets, we should be pushing forward with that. But there's such a wide world of indicators that you can use and different resources that we even have available, Trey. I wonder if we can take a second and talk about those additional resources and different things that we can look at, and then maybe we can finish up with some final thoughts.

Trey Jarrell: Yeah, absolutely, Brett. And I think we have probably a couple of different types of learners and clients out there. Some of you may be seeing this, and really want to dive into the details, create your own system, make adjustments to your indicators. I want to show a resource for that, and some of you that may find, hey this is interesting; I'd like to use it, but kind of a lot of legwork going in and doing the analysis for ourselves.

We'll start with the first resource to help out that first group here which is under the help menu in Active Trade Pro. And once we go to help, we're going to go to the learning center, and in learning center, we're going to go to the technical indicator guide. Now you can also find this technical indicator guide on Fidelity.com as well as the link Brett is taking us to now, we'll show you. What this tool is, this is a list of all of the indicators that we have available for you at Fidelity, right? All the indicators we talked about today are EMA or RSI, or ATR, right? They're all in this guide. If you want to learn more about those, maybe you're the type of person that likes to get into the calculations, you want to know where the math is coming from, all of that's in there as well as the practical uses of these different indicators, right? Where this is going to be helpful, you may have been sitting here watching it. You're looking and saying well this RSI is too slow for me, right? It's not working for me. Well, that doesn't mean that we should remove momentum from our system. It just means we should find a momentum indicator that maybe more aligns with our trading style. You'll notice in the indicator guide, you can actually sort by type, if you click "momentum," for example, it's going to show you all of the momentum indicators that are available with a great runthrough for those.

The second thing I want to show everyone here too is if you like the idea of using the technicals but don't want to go through and do your own charting, we've actually got a great research report that's available here from Trading Central that can be a big help. We're going to go back to the news and research menu and then stocks, and why don't we go ahead; we'll use this example that Brett had, the WAL. Once you put the symbol on here on the left-hand side, this is going to bring us to our stock research page. On the stock research page, we can actually go down, there's a section at the very bottom here for research reports. I did the research reports; we have a number of analyst firms are available. A lot of analysts actually look at things from more of a fundamental basis, but one of the firms we partner with, Trading Central, actually does look at stocks from a technical standpoint here as well, and they give some details to their system, so as Brett's got us pulled up here, you'll see the firm name on the right, "Trading Central," and on the left hand side is the actual report that you can click. This will pop up a PDF here for you, and give you their actual technical view on a stock. So right now, they're looking at Western Alliance here, and maybe a consolidated short-term, range-bound medium-term. But as you go down a lot of the concepts that we talked about, support and resistance, Trading Central has published, these are the levels that they think might be important to pay attention to, right? As we actually go down, they have a picture of their chart. This is a very similar trading system to the one we just showed with a couple of differences, right? Rather than looking at an exponential moving average, they build a simple moving average, right? Rather than looking at ATR for volatility indicators, they're using Bollinger band as a volatility indicator. They are also looking at RSI, and then using MACD, MACD is a trend-following system that incorporates components of momentum, but it is based on exponential moving averages here over different periods as well.

The important thing, if you look at their actual chart, they're giving you at this point where they're looking at from a technical standpoint, right, they're expecting that upside breakout, and they're actually drawing a couple of potential levels, here 48.10 being the first one, 49.50 being the next one. If you wanted to really have a way to come in, see all the work done by somebody else, you could do that. What I would encourage you, if you're going this route, the next step, go back to the Trade Armor like Brett showed us, right? Put those targets in that tool, based on your trade size. See if that benefits the risk-reward ratio that you're looking for. But really the key component, hopefully this today give you the idea of a couple of different technical systems. You can think about, use these systems here, but be flexible, right, to align this with your own trading style here, but I think technical certainly can be a very helpful tool for helping us with planning our entries and exits and becoming better risk managers.

END OF AUDIO FILE