

TRANSCRIPT

Technical analysis in Active Trader Pro®

Sam Shore: Welcome to everyone on behalf of Trey and myself. My name is Sam Shore here with our Trading Strategy Desk at Fidelity, and really at Fidelity, our Trading Strategy Desk is here to help active investors who are looking to utilize their own trading process, and really our goal is to help with honing that training process and incorporating with Fidelity's tools into that process to hopefully make it easier to conduct and more effective in your trade.

Now, we do help with a number of webinars like this. Also, we have a variety of coaching sessions that we offer every day throughout the day, usually between three and five different sessions a day that are accessible through that resource link, or if you go to [Fidelity.com/coaching](https://www.fidelity.com/coaching), and we have sessions on technical analysis, on different indicators, on different tools that we offer, as well as a daily morning market and after-market briefing. Also, if you're someone who's new to technical analysis or new to utilizing Active Trader Pro, we offer introductory survey courses on both of these topics that are four weeks long, and you can access those at [Fidelity.com/classroom](https://www.fidelity.com/classroom), so [Fidelity.com/coaching](https://www.fidelity.com/coaching) and [Fidelity.com/classroom](https://www.fidelity.com/classroom), really a wide variety of events to be able to attend on a daily basis, quite frankly.

Now, the important things that we want to remember as we're going forward is really what is the end goal for today. And it's to figure out what are ways that we can utilize technical analysis, and we'll be going through our examples in Active Trader Pro to help us make better decisions. A lot of times, you'll hear us refer to this as part of our trading plan, and the things that we're really touching on with respect to that trading plan when we're utilizing technical analysis are what conditions would we look to enter a trade, what conditions would we look to exit a trade, and it can help us come up with ideas of, well given these conditions for exit, how much capital are we risking per trade? And can get an idea of at what point would we be exiting if we wind up being wrong? That big risk management piece, which is really one of the most difficult parts of traders to come to grips with, because at the end of the day, that risk management moment in time is often the time where we're admitting that we're wrong. We might have lost money; maybe we're not making as much money as we were before, and we're deciding to exit a trade in order to avoid additional losses.

I do want to make mention for those who aren't familiar with Active Trader Pro, certainly you don't necessarily need to already have it installed to be able to follow along with us this afternoon, but if you're wanting to download and

install Active Trader Pro, you are able to download the software from Fidelity.com, either by doing to Fidelity.com/ATP, that's Alpha Tom Paul, so the acronym for Active Trader Pro, or on Fidelity.com, if you click on the Accounts & Trade button in the upper left hand corner, there will also be a link to Active Trader Pro. You have to download the install files; you see the screenshot there on the slide of the sort of big blue button to click on, and it will then prompt you whether you're looking to install it on a Mac or a PC computer.

I do want to make mention that it is only available on Mac or PC operating systems, and it does require the full version of the operating system, so unfortunately, if you're utilizing a tablet that's not the full version of MacOS or the full version of Windows, it won't run on that platform, but certainly for those platforms, we do offer Fidelity apps that are able to pull up charts, quotes, place trades, so on and so forth, so you can apply some of these concepts, but we're going to be walking through using ActiveTraderPro today.

So, the rest of our session, certainly you can download the slides to take home as a resource if you'd like, but really we want to hop in and start actually taking a look at these tools in Active Trader Pro. So I'm going to allow Trey to sort of

take us forward at this point, and show us Active Trader Pro, and start taking a look at some of the navigation of charting in Active Trader Pro.

Trey Jarrell: Yeah, thank you Sam. Thanks everyone for joining us here today. We are always excited to talk about the charts here. Sam and myself both chartered market technicians, certainly an area that we love to spend time on. I've got my screenshare coming up. And for those of you that haven't downloaded Active Trader Pro as Sam mentioned, with technical analysis, this is a field that really benefits from experience, and you get that experience from looking at charts. So I encourage you, start to use charts at home, follow along with these techniques, right, and it can really help with those entry and exit points I hear along the way.

So I've got Active Trader Pro pulled up here, and today, we're looking at SPY as a symbol here, and this is a proxy for the S&P 500. We wanted to pull up something that hopefully everybody is familiar with, an index that I know many of you track. Of course there are many other ways to track or trade the S&P; we just happened to pick this one here as it's one of the more liquid options that are available out there. So we'll use this through the bulk of our presentation here today, just to highlight some historical examples of some of the things that we can pay attention to with charts. With technical analysis, of

course, you can apply this to indexes, to various ETFs, to individual stocks, so these concepts will apply here, depending on how you're actually looking to invest or trade.

I want to start out just a couple of moments here on basic navigation of the chart, and then we're going to dive in to some of the specific technical signals here as well. All right, if this happens to be your first time, I've already got a chart pulled up here. But if you're looking at a blank screen on Active Trader Pro, you can access the charts from the charts menu here, and if it is your first time, the only selection you have done here is a new chart which will pull up a nice blank new chart for you. This is our test account we use, so there are some prebuilt charts in here, but by all means, just click "new chart" to get started where I am at here right now.

A couple other things to point out here at the chart, the menu that we're going to be going through here today, or going to be adding to how to add various drawing tools, indicators, events, comparison, technical analysis, so you'll find all these here at the top left, when we're looking at the chart itself, you'll notice a few things here, our price access is going to be on the right-hand side, right, indicating where this current security is right now and allow us to see where some of these levels have been from a price standpoint in the past. Our

bottom access here is going to be representing time, and we can adjust which time frames and frequencies that we're using on our chart by taking a look at the bottom left. You'll notice right now we're on a two-year chart. That's looking at a daily frequency. If we wanted to change to a different timeframe, we could bring it in simply by changing it here. We could update our frequency to many other frequencies, right?

So a question that'll come up quite a bit, and I'm sure many of you may have asked it already is, when we're thinking about technical analysis, right, what timeframe should I be looking at? Now your timeframe, this is actually something that's going to vary from trader to trader. Right, one year, two-year daily charts, typically they're going to help us understand more intermediate- or longer-term trends. But the concepts that we're going to talk about today, if you're someone that trades in and out throughout the day, or through a couple of days, all these concepts apply. You may just be using some of these other shorter-term frequencies that you can find in here in Active Trader Pro.

One other thing I do want to take just a quick moment on, we do have a venue at the top here for settings, and I think this is always one of the best places to start on the chart. Take a moment to set your chart type and set up a few of the selections on here that can make things a little bit easier to read. Now

through today's presentation, we'll be focusing on candlesticks, right, candlesticks allow us to see the open, high, low, close price on a given frequency or given period, but there are other selections on here. Line or mountain charts, right, will plot just to closing price. OHLC is another way to view that, Open High Low Close, point and figure charts available in here as well. We're on a linear chart, right, if you're looking very long-term charts, logarithmic allows you to change your chart from a price point on the right axis, for example a percentage point.

We also have a few other interesting things in here to show and hide. You'll notice that we can add volume. We can add a line to show our previous close or price volume distribution. Right, a popular tool on here is Tabs, which will actually allow you to build in multiple charts in one instance of our chart here. And we can also add extended hours. Right, if you're someone that likes to track securities in pre- or post-market, you have that ability to make those selections in here as well.

The rest, on the right-hand side, these are mostly visual. If you can change the colors of your candlesticks, the gridline opacity, right, if you'd like to use lighter or darker shading, you can do that. And the watermark opacity will allow you

to see a symbol in the background; however if you don't like that, have it all the way to left. It'll free up some space in the middle of your chart.

So let's go ahead and apply these settings here, and we'll take a look here from a nice at-scratch perspective, and let's take a moment to talk about the draw tools right here. Right, so we're going to go to the very first menu at the top-left here, and we won't go through every single thing in the draw, really want to focus on a couple of tools here in particular, and I want to start out with what are known as support and resistance. So when we study charts and technical analysis, many clients that we speak to, when you hear about technical analysis, really the first thing you want to jump into is indicators, right? What's this indicator doing, right? What's trend, right? And we're going to talk about those today. But I think what's often overlooked is this idea of studying price itself, right? What are some important price points on the chart that we need to be paying attention to? Right, our indicators may help us with additional evidence for when to buy at some of these potential price points, but allows us to really point out maybe some historical areas that are significant, that may be significant again.

Let me go to concepts or to current time here as well. The way we zoom on the charts here in Active Trader Pro, is at the top right we have a magnifying

glass with a plus sign. I'm going to click this to zoom it. I'll take a quick moment and zoom into this period. Going back here a little ways, back to 2019, and what we want to look at here is some potential support and resistance levels, right? When we say support or resistance, these are levels where we see often reversals on the chart, in a level where generally sentiment between buyers and sellers is changing. Right, so the way we can actually plot these lines is let's take a look; you'll see this is a resistance line. It's a horizontal line; you see the arrow pointing down, which means we are drawing this line above a price point. Right, and we want to start with our chart from left to right here. You know, what's happening coming in, right? We have an upward trend, right, reverses and comes back down. Right, so I'm going to go ahead and plot a resistance line here right, at this first reversal point, selected the resistance from the dropdown menu. Now I'm just simply going to click this point on the chart, right? We can click this line again to modify if you wanted to change the color, if you wanted to peg this to a specific value, or even update the line thickness, I'll do that now so you can see a little bit clearer here.

And why this is important, right, is if we follow this trend, we see the price reversed here, right? It came back down, we approached it again here in September, a couple of days where it couldn't get through, approached it

again, couldn't get through, pulled back, and eventually we approached this level and broke through. Right, so if we're using support and resistance for signal generation, right, breaking through these levels, that can be used as a signal.

On resistance line that we see here, price breaking above is considered a bullish signal. Now support is going to be the same concept of resistance, rather than looking at a point above our price, right, we're looking at a price point below. I'm going to head back to the draw menu and you'll see our support is listed over here, on the right-hand side. It's the horizontal line with price pointing up, and I'm going to draw a line through this general area down here at the bottom. Right, so after we reverse off of that resistance, you see a couple of points where price tended to hit; we had some piercings through here, but ultimately this is an area where buyers came in and managed to propel the security back up, right? You have a couple of touches here, again here in August, again here at the end of August, and a close one here back in October, right, all of these proven to be some interesting points on the chart where price is reversing.

Right now support levels are going to be important when we're thinking about our risk management. Right, if we were entering, or in a long position, and

price actually breaks below support, right, this can be seen as a bearish signal, right, and maybe a potential exit point for us. Right, Sam talked a little bit in the introduction about the importance of capital management, how much we're allocating to a trade. Looking at things like support levels can help you with that decision. Right, if you're entering a trade anywhere in this range and you go that, well, if we break below, say around this 284 level, this is an area I'm going to exit, you have an idea of how much potentially you have at risk on this trade, which is going to help you out with understanding on this given trade, right, maybe how much capital I'm going to put in to begin with, right. So it can give us some very important signals here along the way.

Now support and resistance, there's never a singular one level we're looking at, right, in multiple time frames, you may see multiple different levels, right? Some of you may be looking at this chart and saying, you know, if we look at this period through, all through August, well what happened here? We had multiple reversals right here in the middle at 294 for example, before it finally broke up. Right, so these are points of reversal, right, can apply to any time frame, and you can pay attention to multiple different levels looking up and down the chart.

So another concept in support and resistance is also going to build this into the idea of trend, are what are going to be known as trend lines. One of our main concepts of technical analysis, right, is capturing this idea of trend. We have a belief that markets, or securities do tend to trend, and what we're trying to do is capture as much of that trend as possible, right? So if we notice an upward trend, we're looking to enter, and we're looking to stay in that trade as long as that upward trend is persistent. Right, if that trend begins to fail, right, if we're noticing an end, that can be used as an exit point here for us. Trend lines are another way for us to identify trends and think about our exits I hear along the way.

Going to take a quick moment here, going to switch over to NASDAQ 100 as a quick example, because I want to show a period of, kind of a nice chop example of kind of a perfect definition of a trend line I hear at one point. I want to look at a period that probably we're all familiar with, which is this bounceback that we had from the bottoms back in March. Right, so what happens in an upward trend? Right, prices don't tend to go up every single day. Right we have those pullbacks along the way. And what you'll notice here, you know, with our NASDAQ is every one of these reversals, right, they seem to come back to some similar points, right, points that we could simply draw a diagonal line to maybe give us a potential support for our trend. Right,

the way we're going to do that, I'm going to head back to the draw menu, and we're going to select a trendline. So this is one, it's a diagonal line with two circles on the end, kind of shaped like a barbell. The way our trendline is going to work is we can pick a point on our chart, simply plot this over, and try and connect as many points here as possible. Right, now to draw a trendline, we need to be able to connect at least two points; however the more points that we're drawing, the more significant we have to this line. In Active Trader Pro, once you have a trendline established on here, right, if you left click this, just like we clicked our support and resistance, you know, we do have an ability to come in here to modify our color, to modify our line thickness. But what's really powerful with this is we also have the ability to extend this line to the left and right, which allows us to continue and follow this line in the future. It may be a level that has lost significance, but certainly potentially, it could come back into play in the future, so having that habit of extending it to the right will continue to plot that point on the chart, right?

But what are we looking at here, right? What happened here with NDX as we came through this upward trend, right? As you noticed, all these times we had price that pulled back, touched our line. Same concept as support, right, it held this area as support. You know, what may be a signal for us, that potential quick upward trend is ending. Well ultimately, if we break below that

level, right, we can use this as a potential exit point here along the way, and what happened? Right, eventually we did have a strong pullback; it broke through. Now we know, as following from charts and markets, right, that this didn't necessarily mean that the market reversed or went into a downward trend. Right, but since then, right, it's been kind of coming sideways, back and forth. Right, you notice I extended this out to the right. And what happened on that uptrend, back in, or that upward move back in October. Right, this prior level of support actually became a resistance point, right, so we're seeing significant from this point here again. I think this is one of the real powerful things with trendlines, right, if we're thinking about trying to capture trends, right, and we want to get out; we want to have the exit strategy, tight exit strategy in place, right, this is certainly one way that we can accomplish that, right? Now this is drawn in an upward trend. Right, trendlines can apply to downward trends here as well. The big difference is we're going to plotting this as a resistance; we're going to plot above our current prices here, and I'm going to go back to a short, quick downward trend that we had back in February and March, and just use the same idea. Right, let's plot some of these points here going across the tops of these candlesticks, right, as we had this downward trend. Right, we were having reversals; you'd have periods where buyers came in, managed to push price up. Right, and we have multiple touches here on this trendline. Eventually, right, price was able to

cross above this, and in this case, right, they'd actually work out to be the beginning of a new upward trend. Right, so it can be a very powerful tool here for our analysis, right. So just to reiterate, we need at least two touches to help identify the trend, but the more significance, again this can be applied to really any type of timeframe. Right, so if you are following this on, you know, minute-by-minute frequency, right, you'll notice that these trends can persist intraday, they can persist on our longer-term periods, right, we could pull up a ten-year chart and draw trendlines there, so you can always use this concept here in different time frames.

So with that, now trendlines, you may be looking at this, it is a little bit of extra work, right, so there are luckily some other ways that we can think about identifying trends, which brings us over to indicators, right, if you'd like more of that systematic type of approach where we have some calculations in place, rather than manually drawing lines, that's where indicators can come in. So, Sam, I will turn back to you to take us through the next section.

Sam Shore: Great. And the thing that I always like to make sure that we have front of mind whenever we're talking about indicators is remembering at the end of the day every indicator is just a derivative of price and/or volume. And so, they're visualization of what we're already seeing pricewise on the chart. Now

like Trey mentioned, there's a calculation that's applied to it so that it can be plotted on the chart for us so that we can get the picture on the price chart, or if it's a technical study that appears below the chart, we can have the window with the study below the chart, but at the end of the day, it's just an aid that we're able to use. If all of our minds were sort of supercomputers, so to speak, we would never use an indicator, because we'd be able to have that visualization for our minds automatically.

Now I'll admit, my math skills are not quite that good. Certainly wouldn't call my brain a supercomputer by any stretch, and so these different indicators can be utilized in lieu of that, to give us that visualization. Now, the common question we always get whenever someone asks about indicators is, which is the best indicator? And it's important to remember that question, really is a question without an answer. There's no singular best. Indicators, generally speaking, are grouped into four different groupings. And those groupings are based on the aspect of price and/or volume that they're helping us visualize, and those groupings are going to be trend, momentum, volatility, and volume. And there's no best indicator of each of those groupings, but whenever we're going in and using indicators, we would want to try to avoid using multiple indicators of the same type. So typically, most traders would not use eight different trend indicators, but no momentum or volume indicator. Generally,

you're wanting to use one or two indicators of each type so that we're looking at these multiple different aspects of price and volume action.

So one of the very, very common types of analysis that Trey was even just taking us through with trendlines is looking at trend. And if you're ever having trouble drawing trendlines, or maybe you're switching through multiple different charts, and so you're wanting basically a visual aid in drawing those trendlines, there is an indicator that can help with that, referred to as a moving average, and it's just looking at the average price of the security in question, in this case SPY, over a set period of time.

So let's go ahead and add a moving average to our chart. We'll click on "indicator," and then to add indicators, we can either scroll left or right to find our desired indicator, so if you scroll to the right, and we can click on simple moving average, and it will add it to the chart, or immediately beneath where it says Indicators, if you know the name of the indicator that you're looking for, you can start to type the name or abbreviation for it, and it will narrow down that list to save you sort of a scrolling left and right. So let's actually add a second simple moving average to our chart.

Now, whenever we add a simple moving average to our chart, it's going to default to being twenty periods, and the reason why I say "periods," a lot of times people think it says 20; that's got to be 20 days, is whenever we're charting, we have the ability to specify what one period is, what one candle represents. So on this chart right now, our frequency is daily, so every candle represents one day. And so the moving average we have right now is in fact the 20-day simple moving average. But if we were to switch our frequency to one-minute, or ten-minute, or 60-minute, or weekly, monthly, hopefully you get the idea by now, it is going to be 20 of that period. And so if we made it 20 years -- or I just made our frequency yearly, then our periods would mean a 20-year moving average. Or if we click on weekly, let's go ahead and do that. Now it's a 20-week simple moving average, and you'll notice the value of the moving average has changed. Whenever we're utilizing technical analysis, be it trendlines, be it support and resistance level, be it indicators, we've got to remember the time frame that we're looking at needs to be commensurate with our intended trading horizon. So if you're looking at a two-year chart with weekly candles, you are likely not trading intraday because there's no information that can really aid in that intraday trading decision with a chart like this. Conversely if we were looking at a chart of just today with one minute candle, you're probably not measuring your trading horizon in weeks, because

all of that movement from one minute to the next is probably noise in terms, as opposed to a single, the signal, in terms of your trading decision.

So let's go ahead and switch it back to be a daily frequency. And when we're looking at the chart, we'll notice we have these little color swatches up at the top for our moving averages, and we can actually adjust the calculation period, as well as of course the color and thickness of the line and so forth of each of those. So if we click on one of them, it'll give us a little menu. Then we click "modify," and then we can change the period of that moving average. So let's go ahead and make that period 50, so now we'll have a 20-period and a 50-period simple moving average. And since it's on a daily frequency, that means 20 days and 50 days.

Now, we've talked about adding it to the chart, changing the time frame. Let's talk about the actual usage, what are the signals that we generate from a moving average? And so, let's talk about our 20-day simple moving average first. With a moving average, if you see price going above and staying above the moving average, especially when the moving average is positively sloping, that's going to typically be indicative of an uptrend. And so if the moving average is positively-sloping, price breaks up above it. Traders might use that as part of their entry signal. Conversely, when they see price break down

below that moving average, especially if that moving average is not positively sloping, or starting to negatively slope, if you own the security, that might be a situation where that's part of your exit signal, or maybe if you were looking to sell short a security, that might be your entry signal if you're someone who trades both long and short as part of your strategy.

Now with our chart here, you'll actually notice, we have two moving averages. And traders will utilize two moving averages to get a gauge of trend on multiple different timeframes. And the signal that a trader would look for is when we see the shorter, or quote, frequently called "faster" simple moving average, cross above the slower, or longer-period moving average. And you'll notice on this chart, that happens several times, most recently, but also happened back in that sort of May or late April timeframe. And so when we're using multiple moving averages, that cross above of the faster moving average is seen as our sort of bullish signal. The cross below of the faster moving average moving below the slower moving average, is going to be our bearish signal. And we'll see there in red, we've circled what that bearish signal would look like, the faster moving average crossing below the slower, and in green, we have our sort of bullish signals, which is the faster moving average moving above that slower moving average.

So, as I mentioned, moving averages are a gauge of trend, and can be used in place or in addition to trend lines that we were talking about before. But let's talk about those other types of moving averages as well. So for instance, let's say we want to add a momentum-style indicator. So if we click "indicators," and a common momentum-style indicator is going to be what's commonly called RSI, the Relative Strength Index. So we'll go ahead and either scroll the RSI, or type it in the upper corner there, but for RSI, let's go ahead and click it, and it will add it to the chart, and it actually adds it down below the chart.

These are one of these technical studies that appear below the chart. What this gives us a gauge of is the average size of move, up versus down, over the period that's indicated. So you'll notice the period here is 14, which since we have it on a daily frequency is 14 days. And what we're wanting to see on the RSI chart is sort of one of two things are going to be sort of our typical signal. The first would be the trend of RSI confirming what we're seeing in the trend of price. So a great example of this is sort of after that simple moving average crossover that we had in May, we'll see the RSI trended up at the same time that we saw price trend up.

Now, if we see a divergence of these two, so let's say price is trending up, and we have the RSI trending down, that's the type of warning signal that maybe this trend will be unable to persist. So that doesn't mean, oh my goodness, we

must sell then, but that sort of puts the yellow signal on our traffic signal for us to have an idea of maybe we want to have a stop loss in place, maybe we want to be thinking about, well where might we be wanting to exit the security, and have those sort of points in mind. And we've seen example of that here prior to the decline in March where we saw several days, or really weeks, over which RSI was unable to make a higher high on our RSI chart.

Now I mentioned there are two types of signals that we look for on RSI. So I mentioned the first one there of looking at the trend of RSI being the same as the trend of the stock. The second type of signal that traders will often look for is when RSI reaches extreme. And typically, those extreme levels are above 70 or below 30. And they're frequently referred to for about 70 to be overbought, and below 30 to be oversold. And what we would be looking for for our signal would be price coming out of an overbought or oversold level. So we'll see in the late February/early March time frame, RSI went into those oversold levels below 30, and then came above that level and stayed above that level over the next few weeks, so that would be sort of our bullish signal coming out of that extreme oversold.

Now we see sort of the opposite several times here on the sort of right half of the chart in January and we'll call it the beginning of September, where price

went into those overbought levels, and then came down below those overbought levels. The thing that's important that I think a lot of people knew the technical analysis oftentimes neglect or forget is the signal is it reversing out of these levels, not going into an extreme level, because if we were in an extreme uptrend, or extreme downtrend, the security could stay in that overbought or that oversold level for a prolonged period of time. If a stock was going up and up and up and up and up, day after day after day, it would not be abnormal to see the RSI above 70 for a prolonged period of time. The thing that would be a signal or of concern would be coming out of that extreme level, so like we've circled there in red, toward the right-hand side of the chart.

Now, we've talked through our two types of indicators; we have two more to go. Remember we have volatility and volume. So for volume, we'll go up to "indicator," and it's actually one of the first few alphabetically is going to be average volume. It'll be abbreviated there as AV. And you'll see when we add this to the chart, it adds our volume bars back to the bottom of the chart, which we could also add or remove when we were in the settings. So, we're able to take a look at, are we seeing above-average volume, and over what periods of time? And traders will often use volume as an indicator that they're closely pairing with trends, with the premise being that for the trend to persist,

that we need to have continuing average, or above-average volume for that trend to keep moving. Think of it as fuel to the fire; if we don't have more fuel, if there are no more buyers who are willing to come in and keep propelling the stock higher, well that doesn't mean that the stock has to reverse immediately, but that's another one of those sort of warning signs that we might want to be looking for if we're looking at an upward price trend, and we see all of a sudden, volume is dropping off appreciably. Well, that's going to be cause for concern.

Now, a lot of times we see highs or lows on a price chart, that can be accompanied with a spike in volume. And so we want to be looking at the trend of volume over time, not just what the volume do on a singular day. Very important to be remembering.

Now, with our chart here, we have one more type of indicator that we'd want to add, and we're going to add a volatility indicator. And the volatility indicator we're going to add is called Average True Range. It's abbreviated there as ATR. And so, for Average True Range, this is trying to give us an indicator of what is the swing, so we can think of this from high-to-low, the magnitude of price move, over with our daily chart an average day. And so, we can use this to help with engaging our risk on a trade. If we're looking at

this chart and see on an average day this security have moved over the past 14 trading days by roughly seven dollars, \$6.99, then if we're going to be in a trade, we can say well, if we have one day average move, and it's entirely against us, maybe we can use that for where we're going to place a stop loss order, so that can help us quantify that risk management in our trade.

Alternatively, remember, different people can have different trading horizons, if our trading horizon is a lot shorter, maybe we can use half the Average True Range, or a quarter of the Average True Range. Conversely, if our trading horizon is much longer, maybe we use twice the Average True Range. And the reason why we might want to use Average True Range instead of saying, well, every stock we're going to use \$7 as our level, is different stocks, different securities, exchange-traded funds and so forth have different levels of volatility. And so using something like Average True Range allows us to adjust our risk, or really keep our risk the same, but adjust our stop, to sort of normalize that risk across different securities. And so, certainly we have a bit of a busy chart here. We have, four, five different indicators up on the chart. The thing we want to be cautious of is if we're starting to add lots more than this, because we realize we have our indicators of our different types, and so if we're adding more than this, what is the added information that we're getting? If we're adding another indicator, we might want to think about, can we

remove one of the indicators that we already have on the chart as we're going forward? And with these indicators, we want to be taking sort of a weight of the evidence approach. Remember several times I mentioned, well this is sort of our yellow light on the traffic signal. It's not that one of these would have a sort of a big red stop sign, but we've got to look at, well, is the picture that we're getting from using these different indicators confirming each other? Is it uncertain? Is it confirming that we need to be getting out of the security? What's going on? And so I think that's important as we're going forward and using these different indicators.

So we've taken a look at these indicators. Let's take a look at some of the other tools, and some of the comparisons we can view between different securities when we're working at a chart in Active Trader Pro.

Trey Jarrell: Yeah, absolutely, Sam. And remember, for those of you out there, if this is your first foray into technical analysis, this is all about reaction, right? We're talking about reacting at specific points, right? It's not about predicting the future, or you know, is tomorrow up or down, but hopefully you're gaining from this. These are criteria that we can use to create specific entries and specific exits. So we did a brief overview of these indicators. I would just like to point out too, if you wanted to learn more about any of these, we've got a

great guide in our learning center here under Help and Learning Center for technical indicator guide, which does break these down; it'll actually show you the calculation, show you the signals that Sam walked us through here, so if you need a little additional study, great next step here for you.

So let's talk quickly about two other menus on here, and just to clean things up, I'll add a new tab here for everyone just in a moment. I showed how we add these tabs; this is another chart that we can build in looking at the same symbol over here for us starting with a blank default chart. And I'm going to switch the example. So this is a test account that we have here. The test account actually holds two or three stocks. For the next one, I want to show how this actually works on a stock versus an ETF, so I'll pick one of the ones that just happens to be in this account, which is Citigroup, and I'm going to take a look at a longer-term chart for just a moment. And what we want to focus on here up at the top is this Events menu. Right, Events is going to allow us to identify on the chart when certain events have happened. So up here, we'll have things like splits. If a stock split occur, it will show us the date, what the ratio for that split was. We can see dividends, earnings, as well as tax lots.

I'm going to do these one at a time so we don't busy up the chart too much, but we'll start with a dividend here, and you'll notice, back on our chart, this

will now highlight every dividend that's actually paid. We can hover our mouse over it, see what the X-date, pay-date, and amount was, right? So great information to have on the chart. We can do the same things for earnings, right? We'll identify on the chart those earnings announcements, when they took place, and what that earnings per share number was.

Right, this can be beneficial in technical analysis, right? If you are studying price, we're studying to how price reacts to certain things, to certain news, to certain changes, right? So earnings, earnings or announcements where we see price reacting. So this allows you to get a good understanding, right, maybe before putting on a trade, what's happened through some of those past earnings dates here as well.

And one that I'll show here real quick, I think this one's very interesting from a technical standpoint, but more so from a trade discipline standpoint, under events, there's a selection on here for tax lots. But what tax lots will do is it will actually plot on the chart when you actually bought or sold a security, right? So if we look back here, and this is why I wanted to take one from our test account, you see that we've had ten shares of Citigroup here since, you know, 2011. Right, we can come back, hover over here, it will give us the details of

that particular trade, what was your cost-per-trade and what your gain or loss is.

Why I said this is important for discipline is we can look back at our indicators on the chart and see where are disciplined that day, right? Where are basing our trade off of our particular analysis, or, right, were we being emotional and trading off a news item, perhaps? Right, so it allows you kind of come back, see when you make those decisions, and hold yourself accountable for those, so great little tool here.

Um, but more, uh, back to the strict idea of technical analysis here, we're going to talk about the Compare menu here, and as the name suggests, you know, all this is doing is allowing us to compare securities against each other. Now we can use this tool to compare, say a stock to an index, or a stock to its sector, or sector to industry. Possibilities are endless here. Many traders will use it to compare two stocks maybe in similar areas. And what we're trying to find here is maybe this idea of relative strength. Or is a certain security overperforming or underperforming against its peers here.

I'm going to take a quick moment, before we do a comparison example, we'll bring things in a little bit here, short-term chart. We'll go back to the S&P 500,

and we're going to go back to the compare. You'll notice you do have the ability to add the DOW, NASDAQ, or S&P for quick comparisons, or you could actually enter in a specific symbol that you'd like to do a comparison on.

Right, now one of the common uses of comparison analysis, like this, is looking at, like, something like a sector rotation strategy, right, where sector rotation strategy generally builds around this idea of a diversified portfolio. Right, you hold every sector in a given index, but you may overweight or underweight based on areas of the market you think might overperform and underperform.

Right, so let's go ahead and add a sector on here. I'm going to just take a look at, we'll look at utilities here for our example today. Of course, there are 11 different sectors out there to choose from. This one, I found this a little interesting, has been very close to what the S&P have been doing for a lot of periods, so I think that there's some interesting examples here about an indicator that I'm going to add in just a moment.

So what we see in the chart here now, S&P is going to be reflected by the candlesticks; this dark blue line is going to give us the utility sector for the S&P 500 over this time. And we can track through here and see how well the sector has done over this time period; in this case, you see a little bit behind

percentagewise, but, see similar movements here with the market as we see some of these rebounds and pullbacks.

Now there is an indicator that compliments this comparison that I'm going to add onto the chart here. So we are going to go back to the indicators for just a moment. And what I want to scroll over to is, it's known as the relative strength comparison. Right, and all this indicator is a very simple calculation for dividing the price of one of these securities from the other, to give us an idea of through these periods of time, which one is actually outperforming or overperforming against the other. Right, and what we're really focusing on with this indicator, right, is the direction of the trend. Right, so through this period of time, right, we see S&P going up, and you see, you know, utilities going up here as well, but what's happening, right? S&P's going up at a faster pace, and that's what's reflected in this relative strength comparison. Right, it is outperforming, here in this case, against utilities. You know what's happened since its peak in September. Right, if we were just looking at price side-by-side, you say, well utilities doesn't seem to really be doing much through this period of time, say through September, right. But when we actually compare it to the S&P, S&P was going down through this period. Right, so you see the utilities actually outperforming here, right, or S&P

underperforming against the sector. Right, so it just allows us to identify maybe these areas of strength or weakness in our portfolio.

Now all those concepts that we talked about when we went through indicators, things like moving averages, things like trendlines, that can all be applied to these tools down here at the bottom. Right, so if you wanted to maybe try and filter out some of the choppiness that you see on indicator, you could have something like a simple moving average. Notice this dropdown, we have the ability to add indicator. We could simply move down here, select simple moving average, now we have just a little bit of a relatively smoother version here of that relative strength comparison, and this could even be used to generate signals here for us as well, right, as we see those changes here in strength and weakness, when we do these comparisons. Right, we can draw trendlines, we can draw support/resistance lines, so all of that additional work can be done, even on some of these indicators. And this will apply to all the ones that Sam showed us too, right, our RSI, for example, or ATR, you can add those additional drawings down here at the bottom.

So, just another useful tool that you can build in here, right, very interesting piece of analysis. We're looking at a sector versus the market today, but again, you can really apply this to many different concepts: industry versus sector,

stock versus industry, stock versus stock, stock versus market, the list goes on and on, but the idea is paying attention to this idea of strength here as well.

So let me stop there with the comparison. I know we've got about ten minutes left, but there's one definitely important tool that we wanted to show, for those of you that were interested in a little bit further on maybe indicators or some other types of analysis such as patterns here for example as well.

Sam Shore: Yeah, it looks like we've had even some people asking about this as we've been moving forward, and certainly it's the next button in our sort of menu here moving from left to right, is the technical analysis button. So if we click on that technical analysis button, we'll see we have three selections to choose from. We can choose patterns and events, support and resistance, and stock. And really, we'll talk about support and resistance from stocks first. These are ways that we can algorithmically generate some of these levels that we've been talking about in the past.

So if we click on Support and Resistance first, we'll notice automatically on our chart our support and resistance levels that are added. If we want to change the horizon used for either of those levels, if we click on either the support or the resistance level, left click, and we'll see we get a little shadow around it, we

can modify, or delete it, but to modify it, we can choose our trading horizon. And so a lot of people ask many times, well, should I use the automatically-generated one? Should I draw my own support/resistance levels? How should I apply these? And I think what's important to remember is many times, this can function as an aid, but drawing your own levels can also help you with being most applicable to your timeframe. And so, it really comes down to that question of trading horizon.

We'll leave this at intermediate-term for now and hit apply, and then go back up to our technical analysis menu, and we can actually add in a suggested stop level. So if we go up to technical analysis, click on "stocks," we'll see we get a purple line added to our chart. That purple line is also generated, just like the support and resistance line, computer-generated by Recognia, and we can also go in and modify that stock level. If we click on that purple line, we can choose modify or delete, or choose modify, and we can choose if we want that stop above or below the current price, depending on whether our strategy is a long strategy, one where we own stock, or whether we're short. So we're someone who's shorting stock, and we can go and adjust the distance from the current price. Traders will often refer to this as the tightness of that stock. Tight, medium, or loose, and this is going to be based on how volatile that security is, and this can give us some additional ideas that we can pair with the

analysis that we're doing, or where to put our stop when we're going in and placing a trade on the security.

So these are some really handy tools. They are primarily going to look at weekly and daily frequencies, so if you find yourself trading much shorter timeframes than that, you're probably going to be going in and drawing your own level. That being said, it can always be handy to be cognizant of what these price levels are, even if you're trading on those shorter duration.

So we'll go ahead and hit apply here, and we can see it plots this level just a little bit below where it also identifies that support level. And so, if we were looking to place a stop loss order, we might go in and place that order down there.

Now, if we go back up to our technical analysis menu, we'll notice there's one more that we hadn't clicked on yet, which is going to be Patterns and Events, so we'll go ahead and click on that. And a couple things I want us to make note of before we start clicking on anything. First is, we'll see it also uses the same trading horizons: short, intermediate, and long. Let's go ahead and click on all three, because we want to make sure we get a number of a results as we're going through our example here.

And then we have two different tabs that we can use. We'll stick with the active events, so let me let you know what both of these are. Active events are things based on indicator levels or patterns that have already been triggered. So it means the price threshold has been reached for the pattern to be complete. Anticipated events are going to be if the stock were to trade to or beyond a given level, then we would have another pattern or signal being generated based on one of these different groupings of signals we can set up. We can see we can choose from all the different groupings below. For simplicity's sake, let's hit select all, but certainly if you wanted to find just classic patterns, or just candlestick patterns, you can set it up as such, and then we'll go ahead and hit apply.

It'll add for us another area at the bottom of the chart, and you'll with each of these different icons, several of them look different based on the type of pattern or event that's being identified. Is it a technical indicator? Is it a classic pattern? Is it an oscillator? Is it a candlestick pattern, what have you, and then when you put your mouse over any of them, it'll let you know what that pattern is. Green is going to bullish; red is going to be bearish. With our mouse over one of those patterns, so you'll see we have it over MACD right now, it lets us know when this pattern, or when this event was triggered. If we want to learn

more about it, we can hit View Details, or let's actually go ahead and hit Add to Chart, and it will plot that event on the chart for us, so we'll see it adds MACD, and it puts a little box around where that crossover occurred. And so, these are additional ways that you can see what else is going on that might not have been included in your primary, or sort of top-level pass over the security with an eye toward that weight-of-the-evidence approach, and learning some more about different types of events. If we put our mouse over one of the events again, you'll notice if we don't hit Add to Chart, but instead, we hit to View Details of that event, it'll bring up a little dialogue for us where we can read more about what that event means, what type of indicator it is, is it trend, is it momentum, is it a price pattern, what might be levels of relevance based upon that, where might we exit a trade if that's what we're using to base our entry upon, and we can also of course click to learn more about that event.

So we've spent a lot of time going through different ways and tools you can set up your chart, but one of the great and powerful things about Active Trader Pro is you can customize your chart the way that you want, and then you don't have to do it every time that you go into that chart. So you can actually go in and save your chart so that every time you pull up a chart on a different stock, it has all of your desired indicators already on the chart for you, and sort of simplify the workload for you as you're going forward.

Trey Jarrell: Yeah, and the way you do that too, if everyone's following along, you'll see that floppy disk icon. You'll come down and select Save Chart. This will allow you to select those criteria, name your chart, and save it. So if you've been following along at home, you've added all these indicators, right, make sure you take the time to do so here as well.

END OF AUDIO FILE

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