TRANSCRIPT

# Trade with the trend: Understanding price movements

*Presenters: Konstantin Vrandopulo & Trey Jarrell*

**Konstantin Vrandopulo:** Welcome everybody. I'm Konstantin Vrandopulo with Fidelity Trading Strategy Desk, and alongside me my esteemed colleague, Trey Jarrell. We are excited to spend the next hour with you, this is the third session of the day, "Trading with the trend." We understand that many of you in the audience have attended session one and two, were inquiring about well, you know, we've learned maybe about how to find the investments that we're interested in buying, how do we go about figuring out where we actually buy them, at what points? If there was going to be a pullback, you know, what about the identification of whether or not trend is actually broken or not? Well you're in the right place, ladies and gentlemen.

We're excited for this next hour because that's exactly what we will be covering today. Of course, Fidelity's Trading Strategy Desk focuses on these topics every single day, we run coaching coverage sessions on equity trading, derivatives trading, technical analysis, utility of Fidelity tools and resources, including Active Trader Pro. We are doing morning market briefings, as well as afternoon market briefings, for those of you who want to better understand what drives market performance on a daily basis.

Trey, I want to turn it over to you sir, thank you so much for presenting with me, I know that I am excited for this particular session, I live and breathe technical analysis every single day. I am also, you know, a proponent of a multifaceted investment approach, I like to look at, you know, the top down macroeconomic level, but it always comes down, right, to hey, exactly, when should I buy, if I was going to buy, what should I be looking for? So, let's introduce technical analysis to the audience members.

**Trey Jarrell:** Yeah, absolutely, thanks Konstantin, and thanks everyone for joining us here again. Also, very excited here, technical analysis, hopefully you see it through this, certainly an area Konstantin and I have a lot of passion for here when we go through, you know, our charts here on this session. With technical analysis, this is definitely a field where, you know, actually getting into the charts, you know, seeing us draw, seeing us go though examples, is really the best way to learn, so vast majority of our session, we're going to spend in Active Trader Pro. We just want to set the stage here for a moment about what is technical analysis here. Obviously, this is going to be a little different approach than maybe that fundamental, you know, background here that we covered a little bit more in the first two sessions.

I also want to mention here as well, if this happens to be your first sort of foray into technical analysis, and you know, this class maybe begins to pique your interest here and you'd like to learn more about technicals, as Konstantin mentioned, we have a ton of great classes here at Fidelity.com/coaching. I'd also point out in our Learning Center, if you go to the upcoming events on the left-hand side, our Strategy Desk classrooms, we actually have four-week classrooms that are dedicated to very specific topics, technical analysis being one of those here. So if you do want that deeper dive, check out that class, again, news and research, Learning Center, go to upcoming events, classrooms, go to technical analysis, there are still spots in our June class, if June doesn't work for you, you can sign up for July or August. But give you that deeper dive, and certainly an area we could spend hours upon hours on, more than the hour that we have here today, unfortunately, but tons of information out there here for you.

So, as we jump into today's presentation here, thinking about what exactly is technical analysis, and really what we're studying here is we're studying essentially past price, or past volume, or potentially a combination of both, right? We're looking at, you know, things that have happened to help us determine, you know, how we can really begin to create a strategy or plan.

Now with technical analysis, we'll go back to economics 101. At the end of the day, right, if you're buying a stock, or selling a stock, right, the behavior of those market participants, you know, is going to determine what's happening here with prices over time. We see the demand increasing, right? Buyers are willing to be more aggressive, this is going to lead us into that upward type of trending environment. More on that as we move along, right? If sellers are much more aggressive, well you know we've seen what happens, right? This is driving prices down, right? So, we're following these interactions between buyers and sellers, you know, measuring how that supply and demand is changing over time. You know, this is going to account for, you know, even those emotional aspects here of the marketplace.

And really, the most important part, the biggest, you know, reason why we spend so much time on technical analysis, you know, our team, the Trading Strategy Desk, our whole goal is to help you with identifying a strategy, identifying a plan, and creating a process for how we buy and sell securities, how we actually make those decisions, and this is really one of the biggest benefits of technical analysis, right? It can be very specific, create very specific entry signals, very specific exit signals, help us understand that timing component here. Right? It is not trying to predict the future, right? This is a very important part of it, right? It's identifying buy and sell signals, you know, we're never going to pull up a chart and say, you know, this is definitely going up, or definitely going down, right, that's not the idea. We're looking for these interactions between buyers and sellers, we're looking for key levels and indicators, and we are reacting, not predicting, right? We're reacting off of what we're seeing in price and trying to capture these trends here along the way.

So technical analysis, right, like all methods, does have its limits, right? There's no perfect system. If there was, then we'd spend all of our team teaching just that, right, but everyone has a little bit of a different style, different way to approach things. So, it definitely benefits there to be different methods of analysis out there. So as we go through technical analysis, and you'll see this here today, we're going to begin to do some drawing on charts, we'll draw support lines, draw trend lines, a lot of this is coming from our experience, we're looking at things that, you know, we've identified in charts, particular patterns here as well. So, because there is that aspect of human interaction, right, this could vary, right? You could show Konstantin and I both the same chart, and we could both leave with technically two different levels that we may pay attention to, or two different opinions, right, maybe based on different timeframes or different areas of importance. So, we have to come, you know, into this with that methodology, right, there is a difference in how we might interpret that particular data.

Of course, like all methods of investing, you know, technical traders are also going to be susceptible to some of those same emotions and cognitive biases you see in other areas.  I think what's really helpful with technicals, if we do take the time to really build out that system that works for us, it is going to help us reduce that.  It's going to help us be more disciplined, take away some of that emotional attachment, because we're going at this with very specific points that we're looking for, right?  Very specific indicators that we're following, here to help us with that decision-making process.  So, while we can let the emotions take over, this type of setup, I think, will help us maintain a lot of that discipline.

So, we do have to come into this with just a couple of assumptions here as well.  First, right, we do have to believe that you know, we are in freely traded markets, and that they are guided by the principles of supply and demand, right?  That's what we're trying to study with technical analysis, we have to have that belief here in that particular system for this to work.  And you know, one of the, you know, very important phrases here in technical analysis, you'll likely hear us use this in every presentation, right, we're building this on the assumption that price discounts everything. So, for those of you that may have come into this session, have only ever looked at fundamentals, right, studying a company's balance sheet here, right? Studying how well the management's doing, right? And certainly, a very popular approach, nothing wrong with that approach, but the question I'd ask is after you've done all that research, what do you do? Well, you have to make a decision, right? You're deciding whether you're buying, or selling, or holding. Right? Once you've made that decision, that's now reflecting on the tape. So, all of this information is out here, and everyone's using it to make a decision. What we're studying with technical analysis, right, is that decision, is that change in hands between buyers and sellers, right? We're focusing on what is actually happening with price here along the way.

The other assumption, right, prices are nonrandom here, right? Very important. So, we're not necessarily, you know, trying to make predictions. When we say nonrandom, right, if a stock's trading at $100, right, well we don't expect it to open at $1,000 the next day, and you know, $1 the next day, right? Prices tend to trend, they tend to follow some of these specific trends and patterns here, as well. You know, without that major type of announcement happening overnight, we wouldn't expect prices to be bouncing and fluctuating, you know, completely random here.

We are going to be studying the idea of trend, that's the purpose of today's class, right? And I think we'll show plenty of examples of that, the idea that stocks, that sectors, that the overall market, right, do tend to fall in trends. Trends can move upward, downward, or non-trending, or some may refer to a sideways type of trend. Right, we have to have that assumption, and that's what we're ultimately trying to take advantage of here with technical analysis.

And you know, I think Sam had mentioned this in the first session here as well, you know, history doesn't necessarily repeat itself, but often it rhymes. This is this idea here as well with technical analysis, right? That behavior in the marketplace, this interaction between buyers and sellers, some of these price points will come back into play again in the future, and that's why we need to be paying attention to them.

You know and finally on here as well, you know, we use this term in technical analysis, fractal, to help us understand timeframes in trading. So, you know, amongst our audience in here, there are going to be those of you that may like to trade minute by minute, right? You're opening a trade, you may close it out, you know, 10 minutes later. There may be those of you that, you know, like to hold a trade for a couple of weeks, and swing trade. There may be those of you that look at it even longer term, a typical stock might be held one, two, three years.  So, it's very important, these concepts that we're discussing, these can actually be applied to any timeframe, right?  So, trends can persist in the short-term, intermediate, long-term.  So, you can actually really customize a technical strategy, based on your own timeframe.  So, I think a really great question to ask yourself is, you know, you're watching us draw charts, and you know, maybe we see an entry signal yesterday, or you know, and a sell signal today.  You know, if you're not comfortable with buying and selling a stock that short of a timeframe, you can adjust your timeframe, right?  So, these concepts can apply, maybe you're looking at a weekly chart, or a monthly chart, instead of a daily chart here.  So, this information can still be useful to you.  It'll just change around your timeframe.  And we'll show you that as we go through the chart and go through a few different examples.

But I think that's enough of the history of technical analysis.  As we mentioned, really the best way to learn is to start doing it here, right Konstantin?

**Konstantin Vrandopulo:** I think so, Trey.  Most definitely.  And we will, you know, start off by using an example from the prior session, and then of course throughout, as we're building on these concepts, we're going to be utilizing some of the solicited symbols from the audience, so I assure you we'll do our absolute best to cover as many of these as possible through the prism of what is the topic at hand here today.

So looking at this financial index ETF, and you know again, to Trey's point a little bit earlier, the thought of the fact that price discounts everything, meaning that we are looking at a chart as true imprints of past money that has been exchanged, right, for this asset.  Every single moment of the day, every minute, every hour of the trading day, market participants that are engaging in this asset class are trying to figure out what a fair value for it is, right?  And that's what we're seeing in the chart.  So, it's truly, you know, a shadow, right, an imprint of money going in or out of an asset class.

So here we have a one-year chart of the Fidelity MSCI Financial Index ETF. And I just wanted to mention that I am looking at it in Active Trader Pro, and my settings are currently set to candlesticks filled.  So, let me go ahead and mention what the differences are.  So, what is a filled candlestick type of a formation?  And what information is provided in each candlestick?  Well, if we are looking at a line chart, just imagine, if I connected the close to close values of all of these trading days here, we would have basically a mountain line on the chart.

And what benefit does a candlestick provide? A candlestick provides the benefit of the range for that day. It's telling us, as I'm hovering over this candle right here, it's telling me in the top left-hand side corner, information about that candle. So, I know what my open was for that day, what the opening print was, which was $43.46. I know what my low of the day was, which was 42.95. I know what the high was, 43.54. And the close, 42.99. Now the color of the candlestick is going to be determined based on whether or not that security on that day closed lower than it opened, or higher than it opened. If it closed lower than it opened, then the candlestick would be red. If it closed higher than it opened that day, it would be green. And very important distinction here Trey is that candlesticks are not basing their colors on the prior day's close. Remember, they're basing their colors on the opening value. Close higher than they open, or the lower, lower than the open. Perfect.

So, zooming back out, this is a one-year daily chart of FNCL. What are we observing here, ladies and gentlemen? Well, we can clearly see that price action through, you know, several months of the summer and late fall was not at all the same as since the election, right, or since the first week of November. Nonetheless, the price of this underlying has gone from the absolute bottom left quadrant of my chart into the upper right quadrant. So, it clearly can't be bad, right? If it, if I have my pricing axis on the right-hand side, the further it goes into the right-hand side of my chart, right, the better the performance obviously is.  So, it's easily observable.

Now we have gathered here today to discuss the concept of trend.  So, the idea is, if something is actually trending, and it's trending with a lot of momentum, right, in an upward fashion, then what should we expect to occur?  We should expect buyers, right, to be the predominant force behind the action, and this idea of Trey, you know, there's more buyers than sellers, and that's the reason why something is up on the day, is kind of a nonsense, you know, idea.  Because obviously for every buyer there has to be a seller, the idea at an auction is always sellers are going to be willing to sell to you, but only at incrementally higher prices, if they're seeing demand overwhelming supply.

And vice versa, right?  If something is down trend, downward trending, the supply is the predominant force in the market.  Meaning buyers are there, but they're only willing to buy at incrementally lower prices as the sellers are willing to accept lower and lower bids.  All right?

So, we're identifying here a trend, and so how do we do that?  Well each time that the underlying, let's say, goes higher, it prints a higher high, and each time that it tucks in, or it pulls back, it prints a higher low than the prior time. Rinse repeat, right? Each time that it goes up, it prints a higher high, and each time that it pulls down it prints a higher low. So, this symbolism of higher highs and higher lows is the definition of an up trend. And you're obviously buying something in an uptrend with the expectation that a higher high would eventually be made. Okay?

Now, from the perspective of down trending markets, or sideways trending markets, can we be, right, in a timeframe, as Sam pointed out to us, you know, very clearly at the end of his presentation, is there a possibility that the market or individual sector could go through a corrective phase, does it have to necessarily correct, crash, or pull down, or break its trend? Or could it correct through time? Well it most definitely could correct through time; price does have that ability. If price corrects through time, we identify those timeframes, right? Trendless markets. So effectively you are ping-ponging between very specific levels of peaks and very specific levels of troughs along the way.

So down below here, in the bottom left-hand side quadrant, I have a trendless market with a lot of volatility. Post the breakout, out of this area, right, I am getting a very significant, momentous trending market.

So, what I'm going to do, Trey, is I'm going to draw a trend line, and draw trend lines many different ways, but this is the way that I would recommend drawing them.  I use the trend line drawing tool from the swing of the bat method, all right?  I'm not going to create, you know, a specific criteria for well, I am only going to be connecting the wicks of my candles, or only the bodies, or only the closes of my candles.

But what I'm going to do is, this is where it's part art, right, part science, is that I'm going to try to draw a trend line through as many touches as I possibly can throughout the period.  And what I'm going to do, right, is once I've gotten that swing of the bat method, right, swinging the bat until you're hitting more and more of those prices, touching the line, I'm just going to click on the line, and I'm going to extend it to the right, I'm going to create something like this with the perspective, right, that this, something that is currently up trending, has the propensity to potentially continue.

Now this is a very steep trend line, ladies and gentlemen, right?  You can clearly see that.  I mean the underlying security, you know, in the beginning of November, was trading at, I mean, 35 and a half, $36 a share, and is trading at $53.  So, let's go ahead and measure the move from the breakout level here. So, what is the move to the current level?  Well it's up around 47, 48 percent since the breakout.  So clearly it is a very steep trend line, and the idea here is that today's action, right, based on the trend line that I drew, is actually testing this level where the underlying has held in the past.  In order for the bulls to maintain short-term control in this underlying, we would expect, we would want a bounce to come off of this level, and eventually of course, make a higher high against the prior touches above here, right?  If that continues, we would expect it to continue to go up into the upper right-hand side quarter, making higher highs, and each time that it tucks in, making higher lows.  It is on the verge potentially, right, of breaking this momentous trend, and we need to be paying attention.

So again, Trey, going to turn it back over to you, the idea of momentous trends and you know, using a linear equation, you know, as we're solving for the slope of this line, sometimes underlyings go into parabolic ascents.  And so, we need to figure out, instead of having to change the slope of the line and draw different trend lines, right, as the underlying continues higher, what else could we do?  Could we use a trend indicator that would be following the price along, regardless of, you know, its propensity to go higher, right?  To a point where maybe I would have to start using a quadratic equation to solve for a slope.  Well if I do have to use a quadratic equation to solve for a slope of a trend, then maybe a trend line, a simple moving average, would be a good tool for that.  Trey, over to you sir.

**Trey Jarrell:** Yeah, absolutely Konstantin.  Let's take a look at this particular indicator here, and kind of great segue into it.  You know, one of the downsides that I think of drawing the individual trend lines, as you can see, right, it does take a little bit of work, it does take a little bit of interpretation here as well.  If you're trading a small basket of securities and names, that absolutely may be a great method for you.  If you're trying to analyze, you know, 50 different stocks a day, for example, it can be a little overwhelming, I hear, at times.  So, this is where a technical indicator can help out.  Indicator, again, remember we are studying price history when we look at a particular indicator, it's helping us interpret that particular data, but it is identifying the trend.  And it's also going to help us with thinking about our entry and exit signals over time as well.

So, we're going to build out, you know, a couple of different parts of a moving average system here.  We'll run with this same example here, financials, and we'll go through a couple other examples after we get through a few of these concepts here as well.  I'm going to head up to the indicators here for a moment.  Once we're in indicators, this is a left to right scroll, we're going to go over here and take a look at the simple moving average here.  We're going to go ahead and plot this on the chart.  Once we add our simple moving average, which will be pictured here, we will see at the top of our chart, we have this SMA 20, very important to focus on this 20 here for a moment, because this is identifying what period our moving average is actually looking at.  So, we are on a daily frequency chart, or SMA 20 means that we are looking back for the past 20 days.

So, the name simple moving average, right, kind of gives away what the calculation is.  We are simply looking at an average of closing prices over the past 20 days.  So the past 20-day average is plotted on our chart, right, the next day comes, we're going to have a new closing price, our 21st day is going to fall off, we're going to take that average and plot it on a chart, and this goes on every single day, right?  So that average as it's plotted is going to be moving.  So very simple calculation, with the indicator hopefully you could see has a lot of uses here that begin to add some power into that.

So, 20 period that we have on here, relatively shorter term, we're looking back roughly a calendar month here, or the past four weeks, in trading days.  First and foremost, the simple moving average can help us identify the direction of the trend, and we can do that simply by paying attention to the slope of our line.  So, you'll notice our line sloping up right now, that tells us simply we're in an upward trend.  You know, if we have a period where our line is turning down, why don't we go back to the big one here for a moment, back in March of 2020, you see this line sloping down, indicating a downward trend, and we will run into those periods where, you know, the line may be sideways for a while, indicating a potential non-trend, you know, where we begin to see price just hovering back and forth over our average.

So that's really going to be our first use of this, right, helping us identify direction.  Hopefully from Konstantin's example, you know, we see that in price anyway, right?  Price going from left to right, it starts at the bottom, ends at the top, we have a good idea coming into this that we're in an upward trend.  So, where we get some of the other uses of moving averages, is this really begins to help us think about entry and exit signals.  So, this general idea of support and resistance here that we looked at in that diagonal trend line, you'll notice with this security, this moving average, right, at times, can actually act as a support level here for us, right?  So, pay attention to this most recent upward trend, where you've had this steep move up in prices, you know, as prices have retreated, what levels are they coming down to?  Well we had this period here, four different candles back in April, where price came down, held our 20-period moving average before continuing its upward trend.  Again, another couple of touches here back in May, another couple of touches here on the 19th, here, and today right, actually, very timely, price coming down right at that 20-period moving average.  So, this is acting as a level of support here for us on this maybe shorter-term type of trend period.

Now if we have, you know, are thinking about buying or selling a particular security, right, we can really start to pay attention to what's happening with price at these moving averages.  We can generate entry and exit signals as price is going above or below our moving average.  So, our entry signal, if you look at that, by price crossing above our moving average, an exit signal would be generated by price crossing below a moving average.  Right?

So look at a quick example here, you know, where we had this turndown here in price, back in January, had a price that came below our 20, if you were simply using this moving average, you'd exit here, avoid some of this drawdown that took place, you know, and buy back here a couple of weeks later as price began to come back above.  Right?  So the importance of this, right, we're thinking about it from, you know, that drawdown, right, we've avoided that risk on our portfolio, right, we're not trying to, you know, buy at all-time highs, or excuse me, buy at all-time lows, and sell at all-time highs. We're simply trying to enter a security that's showing us that it's trending, right?  So, we're trying to capture that trend.

In a non-trending environment, right, if it trades sideways, you know, we may be exiting just simply because of the opportunity cost, right? We could be looking at something else, or putting that capital into play for something that is benefiting from a trend, right? So, this is the type of move that you're trying to capture, you're riding these upward trends.

So, thinking about it from an entry, again, price crossing above entry, price crossing below exit, and where we can get a little bit more advanced with moving averages is, we can actually begin to incorporate other timeframes. So, this 20-period that's default is a relatively shorter-term type of timeframe, as you can see, quite a few entries and exits, a little bit more noise happening here with price. If you're trading on that longer-term timeframe, we can build in a couple of other moving averages.

I'm going to add two on here for a moment, probably our two most common, which are going to be the 50-period and 200-period simple moving averages. We're going to head back to the indicators, right? We're going to go to simple moving average, we're going to click this again. I'm going to come back in here one more time, select our simple moving average now at the top, and we see we have three different periods on here. Now we can modify those timeframes just by clicking our simple moving average, selecting modify, let's make this the 200, we're going to go over to our green, we're going to select modify, and we're going to change this to a 50-period simple moving average. Right?

So, what have we done here? Right, we're now thinking about this from the same type of system, price crossing above or below. But the amount of entries and exits that we're creating, type of trend we're following, has certainly changed. Right, all three of these lines are pointing up, so our 20-period sloping up, 50 sloping up, 200 sloping up. Letting us know on three different timeframes whether we're short, intermediate, or longer term, that we're benefiting from an upward trend.

Right, now if you trade on more of a month to month, or a few months at a time, you know, price crossing below this 20 may not be that significant for you. Right, if we see through here it has crossed quite a few times, now let's pay attention to our other moving averages, so our 50-period. Right, you've only had one touch of this average really in the last six months. You know, so letting us know that that intermediate trend has stayed intact, this was something you were holding based on an intermediate timeframe, right, if price actually begins to reverse, begins to come back down below this, right, this could be thought of as an exit strategy for you.  Right?

Same with our 200-period moving average, you'll notice this is very different, right, price is very much further away from here, we're looking back at 200, you know, pieces of data.  This moving average is going to be much slower, right? The price information that's happening today has very little impact here, right? It's only one piece of the last 200, so you're going to see these much slower, longer curves, maybe let's bring this back on a longer-term chart here for a moment.  You know, much less frequent signals, those signals can be very powerful here, as well.  Right?  If you are simply looking at this 200 crossover here, right, you haven't really generated much.  You would have sold the FNCL maybe back in February, right, pretty timely exit.  You had price bounce back and actually fail to break above this here in June before coming down, and eventually, right, we start to see price crossing above it, indicating this new trend that actually took place.  Right?  So very powerful system here, even with the simplicity of the calculation, every easy process to use for our entries and exits.

Last thing I want to mention on the moving average systems here as well though, a very common system here is to actually look at crossovers in the moving averages themselves, right? So as one moving average crosses over the other, we can actually utilize this as a buy and sell signal, right? So these are going to be a little less frequent than price, and as you probably noticed on here, you know, if we were thinking about this period that took place back here in October and November, you know, what happened is price crossed above that 200, right? It didn't cross right above it and, you know, head right to that trend, you had a lot of volatility, a lot of back and forth before it finally moved through. So, some traders, because of that, may want to see a little bit more evidence that that trend is reversing. This is where something like the moving average crossover take place.

Right, now this 50 and 200-period crossover, probably one of our most common, known as the golden cross here. The idea is if our 50-period crosses above our 200-period, it generates an entry signal for us. Right, as you can see, a big difference between this is, you know, on our chart, we've only got two crossovers here the last two years, right? So, a lot less noise around some of these components, price crossed above that -- our 50 crossed above that 200 back here in October, right? Since then, it's stayed well above that point. Right, if we were trading off of that signal, we'd still be holding this particular security.

You will see a little bit of a lag here of course, if we were paying attention to this as a sell signal, by the time that 50 actually crossed below that 200, right, a lot of that downtrend has already taken place. So very important when we're thinking about this from the sell side, right, prices tend to react much more quickly on the downside, that 200 piece is past data, right, takes a long time to compute and begin to show in the chart. So, in this case, really would have been a fantastic, easy entry, a tough exit here as well, right, as you wouldn't have avoided that drawdown. And while we won't get into too much of it today, this is where other parts of technical analysis can begin to help you out, incorporating things like momentum, volatility, volume, to help you with other signals here. Maybe anticipate some of these price moves a little bit sooner.

So, see now I'll stop there with the moving average system, I know we had maybe one or two other components that we wanted to build in before we jumped into a few of the audience examples.

**Konstantin Vrandopulo:** Yeah Trey, here's the thing, right? As investors of our money, as individuals who are, you know, looking for opportunities, what is important to us? Well, it's important to identify or generate an idea, it's important for us to get familiar with exactly what it is that we're trying to buy, or what we're trying to own. Right? Getting familiar with the sector, the industry, the individual company, and all things that could potentially be affecting that individual company if that's what you decided on, right? An individual security. Second thing is, what is the price doing? Is it trending, or is it not, right? And thirdly, asking yourself a question of what am I going to do based on what I'm seeing in the chart, right? So, you've decided okay, I am thinking about putting my money at risk. Once you've done that, the only job that's left at that point is to manage risk. Okay? So, Trey, let me jump in here and again, I'll screenshare the support resistance idea, and how confluences of different types of events could actually help you identify potential areas of interest. Again, we're not using charts for predictive purposes. We're using them to react to what much bigger forces in the market with much larger money amounts are doing, right? And we're trying to ride the wave, or you know, get onboard, effectively, right?

So, let's take a look at this. So, support resistance from the trend identification perspective, again we're looking at this FNCL, what I've done is I've taken a bit of a liberty of identifying horizontal support resistance levels. So, let's look at this idea here. Well, if something comes up, and clearly finds a most recent momentous peak and sells off, off of that level, and then comes back again to that level, what should we be thinking about? Let's say that we don't have this part, okay, of the chart printed yet. This part of the chart we didn't have yet, let's just imagine that for a single second, all right? What should we, how should we position, how our expectations should be managed? Well, I know that it's an up-trending security, and it has made a higher low against the trend line that we drew. If you don't have a position yet, and you were too worried that this trend might be actually over, and this is sort of a failure, you know, coming type of a scenario, where would you have been buying? You would have been buying on the breakout through the prior high that got tested, and created a lower high, right? So, on the breakout right here, that would have been a pretty good risk/reward to say I am willing to be long this security, so long as what used to be resistance is now acting as a level of support. So, it gives you a way to say I am potentially trading a breakout to a brand new all-time high, and I'm going to be managing risk below, and I know exactly where that's going.

The current situation, right, where we are right now, what are we seeing? A touch, not very different from what we saw in March, a touch of a brand new high, which was $54.60, a tuck in, right, and a knock on the door of that, you know, relative level. So, if it is, in fact, going to come down and test this trend line that we drew kind of from the ref standpoint of view, through swing of the bat method, what would the bulls like to see? Obviously if it comes in and tests this trend line, and bounces, you would want to see the resistance broken that gives you the green light to say okay, what has been transpiring will most likely continue, I hope for higher highs, and the continuation of this trend, so long as what used to be resistance, this level at 54.50, $54, acts as a level of support.  Right?  So, you manage risk while hoping to make money on the upside from the continuation of trend.

If, however, trend is broken -- and this is the thing, we have no idea what financials are going to do.  If this trend breaks, and let's say that the most recent lows that we saw, right, are undercut.  What should your expectation be?  Well if price starts getting accepted below the trend line and below the most recent lows, you would be looking for what happens if the price travels to this area that used to be resistance, now should be potentially acting as a level of support.

So you do this homework, right, on horizontal levels and extensions, ahead of time, if you don't feel comfortable buying right here, which you know, today was a pretty bad day for financials, down 1 percent, it's kind of in no man's land, trying to figure out where we're going through this choppy action.  Well, above the resistance point should be a clear signal.  Below the trend line, below the support level, right, you would be looking for the next potential level of support.  And again, you would only be engaging in this name from the long side if you were getting confidence from the marketplace that in fact what was supposed to hold, or what was supposed to happen, is transpiring. If it's not, you manage risk.

So hopefully that answers, you know, the questions of, you know, we don't have the benefit of hindsight, nobody does, you have to have a way to make decisions, right? Efficiently, effectively, and what the market does is something that we're going to find out together at the same time. Right? You have to react. Trey, do we have some algorithms that help us identify support resistance levels if we're not comfortable with the topic of these pivot points, right? Of reversal points before, some of which have drawn on this chart. Absolutely.

You can click on technical analysis at the top of the chart, click on support resistance, and our friends at Recognia Technical Analysis are going to provide some levels of interest for you. Now I did not look at those levels before I drew mine. Do they exactly correlate to what Recognia's algorithm figured out, that is important, right, from the computer trading standpoint of view? Not exactly, but there are relevant areas, right? And I am a big fan, Trey, of not using support resistance as absolute values, but rather as areas of importance, given the fact that there are millions of market participants in any given day who try to figure out what a fair price for an asset is. Is it going to be hey, you know what, 49.84 is that exact support, and if that doesn't hold, right, if it goes down by a few pennies, support is broken.

Thinking about horizontal areas of interest as areas, not as absolute levels. Very important. You could be thinking about trend lines in a similar fashion, right? They're, you know, when there's clear evidence of either one of them breaking, you should be reacting. You should be doing something about it.

Trey, I know that there were quite a few individual sectors and industries that folks wanted us to take a look at. So let's look at some of the examples from the audience, and maybe break down, you know, the, the themes, right, the core concepts of technical analysis, and apply it to those underlyings that the customers want to look at.

**Trey Jarrell:** Yeah, absolutely Konstantin, here. And to mention on the support and resistance, you know, think about these as price targets and loss targets. We get the question all the time, how do I set a stop loss, where do I know to potentially exit? And you know, that's what this is giving us, right? That's what we're identifying here, potential points. If you're looking at this chart and you've identified support at 49.84, if you're looking at your position and, you know, maybe you're not comfortable with a loss down to that point, that may be a sign of where we just need to think about position size, and position management here.

Right, if you're a much longer term trader, you may be willing to withstand some of these shorter supports, right, going down to 52 on something you've held for, you know, since the bottom, you know, may not be that relevant, you may be paying more attention to the trend. But these are giving us levels of importance, right? They're giving us good takeaways, things that we can be paying attention to, areas to alert us, hey we're showing trend reversing, maybe stalling, is there something else I can begin to utilize that capital on, right? Is there something better I could be putting my money into that is showing that actual trend taking place here as well?

So, let's go ahead and we'll grab a couple of these examples here as well, Konstantin. I'll steal the screen back here from you for a moment...

**Konstantin Vrandopulo:** Before you do sir, I just wanted to say, the confluences of things, right, trend line, support resistance horizontally, as well as let's say a moving average, I just added the 50-day moving average, again, to my chart, I just wanted to show you, where does it correlate to, where does it coincide, what does it coincide with?  Well this horizontal support, right?  So how important does that become if the price was to break short-term trend here, and was to come down to this level, it would be very important, right, from the intermediate standpoint of view, for that area of 51-ish, 51 and maybe around 49 to hold.  If it doesn't, it's starting to tell you that on the intermediate term basis, maybe the trend is starting to slow down, at least the momentum within it has slowed down, maybe it would be an area where you want to manage risk against.

**Trey Jarrell:** Perfect Konstantin, thank you.  So, let's go ahead, I'll switch back to my screen here for a moment.  Audience was kind enough to send in a number of symbols here for us with some questions about charts, so next 15 minutes we will go through a few of those examples, so we do appreciate you sending those in here for us.

Why don't we start with Tesla here?  The question was what would be a reasonable entry point to add to an existing position here.  So why don't we start with the moving average system here, you know, we'll take a look at some of that horizontal support here as well.  You know, if you were holding this position on the long-term, you know, we've got our three moving averages up here.  You know, what's maybe something that sticks out to you right away?

Well, let's look at this long-term moving average, right, our 200 period. You know, we've had some recent touches right in here, right? Price certainly came down quite a it from its high, starting to gyrate back and forth, a little sideways activity, but recently, you know, price has been struggling here, this moving average. This is a very important part from a technical standpoint. You know, if you're looking at potentially holding this long, this is a level you'd want to see it continue to hold. Right, if you're looking to potentially enter, you know, we want to start to see some of these other levels begin to be overtaken, showing us that maybe our trend can continue its upward, maybe we can overtake that intermediate or short-term periods here.

All right? So, did -- and this is, you know, Konstantin made a great point, we're not often focused on this exact penny. Once we get to some of these moving averages, right, not every example is going to be price hitting this and immediately bouncing, or hitting, and going straight down. Very often, you'll see this move, right, this volatility just back and forth around this moving average, you know, until price begins to come in and break one way or the other. So, absolutely a level that you're paying attention to. Can it hold here, right? And can it begin to overtake some of these particular levels.

Another thing to pay attention to with this chart here is let's think about that horizontal support and resistance for a moment, and actually on the 200-period moving average, right, look at how this did work last time, back in March of 2020, right after that selloff where I did actually hit that perfect, kind of that textbook example, before it continued on.  Right, price broke above that 50 and 20 for, you know, really that start of that, you know, really ultralong trend that took place.  So, you can see the significance here historically.  But you know, if we focus on it from just a horizontal perspective here, you know, train your eyes, right, where have we seen reversals in price here in the past?

Well after that last major selloff, where did it start, right around here, 550.  So, this is an area where this point, and could be for many different reasons, could be based on valuation, you know, but this is an area where buyers are beginning to take interest.  It could be based on, you know, the activity here at this last level, that was able to reverse the stock, right?  So, you had three really significant touches here, right?  The first initial pullback, back here in December, again here in March, right?  And again, here on the 19th of May, right, price came back to this 550 held, and continued to rise up from there. So, this is showing us certainly a significant level of support, and you know, if price can't hold this, you know, we start to pay attention to the further level, right? What are some other potential support levels as we think about that potential exit here as well?

Right, one last, you know, kind of thing to pay attention to. Is this maybe recent downward movement that we've had here? We'll draw the trend line here that Konstantin showed us, but from the downward perspective, right, can act as a resistance level in a downward trend, right? So as price is coming down, and as we see these recoveries, right, we're coming up and testing this trend line, multiple touches, one, two, three. Again, here in April, touches, touches, but can't break back above that. Price is beginning to consolidate; it's beginning to constrict.

We saw this with Tesla before, right, back in September/October, right, you had this period where price sloping down, you had buyers coming in and holding the support. You know, eventually sideways price action leads to a breakout, right? What you're waiting for at this point is which way does that breakout occur, right? Breaking above some of these prior points is certainly going to be seen as a potential bullish signal, price breaking below, you know, we consider that a bearish signal. And again, at this point, you're not making a prediction, you're deciding on these levels, and we're thinking about reacting accordingly, you know, as we approach some of these points. So, any additional thoughts on this Tesla chart here, Konstantin?

**Konstantin Vrandopulo:** Trey, absolutely. I mean, you know, drawing the trend line, for example, if you draw the trend line in that symmetrical triangle and connect it out, Trey, from September, October, and November, and kind of extend it to the right, you know, the up trend line and extend it to the right, you would see that the most recent bounce, even though that we took out the 200-day simple moving average, we pretty much bounced right on it, you know, depending on how accurately you tag it. But you know, extending those levels into the right, into the future, it might actually come in, you know, into play going forward. So, I just wanted to mention that, number one.

Number two Trey, on the Tesla chart, that was a good question about like how do you use technical analysis during an earnings season? The reality is, during an earnings season, there's literally information that's coming out about a company that has been previously nonpublic. Right? So, it's substantial and nonpublic. And any time that there's an earnings announcement, there are obviously going to be expectations of what those earnings are going to be, based on the analyst coverage, right, of all of the investment banks as collaboratively, right, or whatever their price targets are, whatever their expectation is. And it's always the, the matter of well, what will the firm actually report versus what was expected?

Reality is, Trey, it's always a binary event. And if you add earnings onto this chart, it's very interesting to me that in Tesla's case, Trey, the earnings announcements were actually the catalysts that sent the stock lower off of the trend line. Right? So, like, it was a potential moment for the chart to change its trajectory, or to change its trend. And in one case, at the absolute peak, it became an absolute peak, right? That up trend didn't have to end; it could have continued. But it ended on that binary event, and it started, we started seeing lower lows from there.

The most recent event, right, we could have broken out on this binary event if it was positive, the reaction could have been positive, could have been broken, could have broken the down trend line, could have gone higher. But instead we went lower, right? That was the catalyst that sent it lower, the continuation of the down trend. So, earnings are dates that you need to be absolutely aware of, right? But there's no way for us to predict what the price will do. Once the firm reports, and in some cases, let's face it ladies and gentlemen, if the firm reports good numbers, sometimes prices come down, right? And if prices, if stocks or companies report good numbers from time to time, the reaction is contrary, right? Based on maybe more positive outlooks for forward earnings potential, forward revenue generation if they don't have earnings. So, it's a tough thing to gauge, right? There's no price discovery there yet, we have to wait for the next candle, for the next bar.

Trey, I'll take the screen here from you for just a moment, I wanted to talk about gold, and I'm going to introduce, you know, this concept. So, there were a few comments of folks wanting to look at gold, so we'll look at GLD, which is an ETF that's trying to track the performance over gold. Again, obviously right, GLD being an ETF, it has an expense ratio, it has a tracking error, so it's not one for one, or exact correlation to price of gold in and of itself. Gold is a future contract that obviously trades through the night, so there could be potentially a lot of gaps, right, in a commodity tracking ETF, due to the overnight futures action. But here we are.

I took the liberty of drawing a few trend lines, and what are we seeing ladies and gentlemen? The predominant trend in gold since August of 2020, right, has been lower. It has been printing lower lows and lower highs, up until very recently, and we can clearly see that it's starting to break out. So, I'm going to zoom in here, and I am going to take the liberty of drawing an up-trend line that is very, very steep right now.

And again, this is a circumstance where you have to kind of use, you know, multiple trend lines to identify what is currently happening, this is the perfect example of something going parabolic, right? Like if I want to solve for the slope, I have to continually, from the linear standpoint of view, change the slope of the line. Right? It is going up so fast, and so quickly, with so much momentum, that I have to change the slope of my trend line.

Now obviously, very positive picture here. What I would advise doing is when you're following a very short-term momentous market of this sort, I would advise you to look at the five-day simple moving average. That usually, in very strong momentous markets, tends to act as a level of support in up trends, and a level of resistance in down trends. This is five days' worth of action, ladies and gentlemen. Now I'm just pointing this out to show you how quickly, right, a short-term momentum or trend identifying moving average could be useful. It is supported during very momentous up trends by buyers, and of course, right, during momentous down trends, it is supported by sellers. They're effectively taking action against that five-day simple moving average.

So, it could be one way to kind of, you know, really speed things up, again, from the intermediate and long-term standpoint of view, what's happening to gold is obviously quite positive, and if I was doing support resistance identification, trying to figure out where those potential areas of supply could be, well, we could kind of look at prior prices here, right? Hundred and eighty-two to 183 level, it's touched twice, that would be a level of interest for us. Probably some of these, you know, maybe gaps, right, that are unfilled so far, looks like we're trying to fill them as we speak. So, a gap here, extend that to the right, well we're trying to fill that gap, right? So maybe going in and looking at the top of that gap as a potential area of interest for us.

So again, multiple ways of analyzing things, but from the perspective of a clear intermediate and long-term trend change, it's evident here, gold is breaking out. Trey, I'm going to do this, I'm going to introduce the relative strength comparison here. And if you wanted one more example, the relative strength comparison is a very simple indicator that takes the value of one security and divides it by the value of the other. So, we have a numerator value, and we have a denominator value. What I'm going to do is, I'm going to compare my chart to DXY, which is the basket of currencies against the U.S. dollar, against the greenback. Now granted, I know that obviously a major portion of that basket, right, in DXY, is the euro. But it is clearly showing you that it has an inverse relationship, right, gold versus the dollar, as of late, most definitely, and you're looking at this trend line, not being afraid, right, to draw a trend line on the relative strength chart and watch this like a hawk. If gold finds a little bit of resistance and starts to come down to maybe test the 200-day simple moving average that it just crossed through, or this trend line that we drew, what happens to the relationship, if this relationship starts to break down, and the dollar starts to strengthen, we want to make sure that we're managing risk.  Right?

For short-term traders, of course.  For intermediate traders, everything is looking pretty snazzy right now.  Trey, back over to you, sir.

**Trey Jarrell:** Yeah, I think I got time for this last question here, I know we're pushing up to time, but I'll try to squeeze it in.  Excellent question here, too.  How do we decide which moving average to use?  The question included the 10, 20, 50, 100 here, so a couple of levels we didn't talk about here, the 10 and 100. You know, a couple kind of important points on here.  First and foremost, ask yourself how active you'd like to be trading, right?  How often are you willing to make those entry and exit signals?  So, first of all, we had another question, if we could look at XLE, so thanks for sending that in, certainly the first two classes on sectors, very timely here.  If we were using a 200-period moving average over the last year, you'd have placed one trade, right?  You would have bought here, and you'd still be in it.  All right, very slow, very longer-term type of investing setup.  If you were trading off of a 50-period, well you would have entered back here in November, really your first significant exit would have been here in April, right, about six months.

If you were using the 20-period, you know, you're needing to pay attention a lot closer.  Right?  We've got multiple entries and exits, right?  You would have sold here, bought here, sold, bought, sold, bought.  Right?  So, you're going to be entering and exiting much quicker.  So, I think you have to be honest with yourself, you know, how often am I willing to place trades?  That's going to be a very important part of it.  But keep in mind, even if you're trading on a shorter term, we still want to be aware of what's happening on the intermediate and longer-term trend.  Right?

So, you know, what's influencing our 20-period?  Well you know, if we come down and approach our 50 or 200, those levels are still significant, so decide on, you know, maybe your shorter term period, but I think it's still worthwhile to include an intermediate and longer term outlook.  And you can apply this on different timeframes.  If you happen to be someone who's, you know, trading in and out of the day, well you can still use the concept of trend line, and support and resistance, you're probably not using a daily frequency.  You might be using a minute frequency.

And keep in mind too, aside from -- moving averages is one trend indicator, there are a ton out there, if you're trading on, you know, more of a couple of weeks at a time, you may find interesting something like MACD. If you look at, you know, signals to generate a little quicker react, if you're using exponential instead of simple. So, there are a lot of different indicators, it's important to find the one that fits into your timeframe.

I'll mention here, under the help menu in Active Trader Pro and our Learning Center, we do have a technical indicator guide that writes up these definitions, here various indicators can be very helpful. Of course, in our coaching sessions that Konstantin, myself, and the rest of our group instruct at Fidelity.com/coaching, we do a ton of classes on very specific indicators, so great way to learn about a few of those others that are out there here as well.

So, sorry I took us a minute past here, Konstantin, I'll kick it back to you to close us off, sir.

**Konstantin Vrandopulo:** Yeah Trey, I mean three most important things, right? Know what it is that you're trying to own, identify a trend, manage risk. Those are, you know, the important factors. And I say that, I would say that the third one, right, is probably the most important. That's the only thing that we can actually control.  Managing risk against our expectations and you know, the last question was you know, how do you decide when the trend is over, when it's stopping?  Well clearly, price acceptance below moving averages or below the trend line that we've discussed, right, is going to show you.  It's going to prove to you that that trend is, in fact, violated.  So that's how you manage risk, you manage risk against those levels by, most importantly Trey, knowing your timeframe, right?  There's going to be some of you who are day traders, swing traders, intermediate term traders.  Figure out your timeframe and manage your expectations accordingly.

Thank you very much everybody for joining us, we certainly enjoyed it.  We're looking forward to seeing more of you in our daily coaching sessions, Fidelity.com/coaching.  Thank you for spending the past three hours with us, we will make sure to come back with more alive and engaging content week after week, month after month.  Take care everybody, until next time.

**Trey Jarrell:** Thank you.

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