

Applied Technical Analysis

for Advanced Learners
and Practitioners



Indranarain Ramlall



**APPLIED
TECHNICAL
ANALYSIS FOR
ADVANCED
LEARNERS AND
PRACTITIONERS**

In Charts We Trust

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BY

INDRANARAIN RAMLALL

University of Mauritius, Mauritius



United Kingdom – North America – Japan
India – Malaysia – China

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Dedicated to my parents, God and to all hard working souls.

“Strength does not come from physical capacity. It comes from an indomitable will.”

— Mahatma Gandhi

Preface

This book constitutes the result of a consistent and rigorous work I have undertaken for more than seven years in an attempt to master various tools which fall under the purview of technical analysis. I began to show interest in the field of technical analysis for the first time when I got introduced to technical analysis tools during my tenure as financial analyst/fund manager in one of the largest fund management company in Mauritius. The thirst for more knowledge and mastery of the technical analysis tools became more pressing and fascinating when I got accustomed to on-the-shelf technical analysis tools embedded in Reuters system at the Bank of Mauritius. With time, I consolidated my knowledge and experience with readings from different sources. When I realized that what I had could be produced as a book to the whole world, I decided to publish my work as a book. And this is how this book got its existence.

Despite the fact that many books prevail in technical analysis, I found that most of the books linger too much about the authors' experience in lieu of unleashing real objective analysis of the various techniques under discussions. For instance, a 200-page book may actually contain only around 40–50 pages of real information value. Such a shortcoming acted as the main motive behind the present book. In essence, the book has been written with each page containing instant value information to thereby assist in direct and effective knowledge dissemination. This is a key distinctive feature of the book relative to other books on technical

analysis. Beyond that, the book addresses all key features of technical analysis. Most importantly, a chapter is dedicated to technical analysis programming using R. Readers who do not even understand R can simply copy the commands and use them in a learning by experiencing approach. If another title were to be used for this book, it could have been called: Pearls of Technical Analysis as the book weaves through various techniques and tools of technical analysis and bring them under one single roof. For instance, very detailed analysis is provided pertaining to the Elliott Wave theory so that readers can master them quickly.

In a nutshell, this book is the fruit of a long-term study of technical analysis by the author. The book can be used both by new and advanced learners. The book has been written in such a way that there is not only a comprehensive coverage of the tool but also fully applied and discussed examples to enshrine the assimilation process. The book can also be used as a quick referenced manual for traders, practitioners, and researchers. Bullet points are widely used to ensure effective knowledge transmission and to shun off superfluous readings chiefly when time optimisation is widely considered as key in today's evolving world.

To me, technical analysis is not so different compared to astrology. While the former is employed to predict asset prices, the latter is used to determine the future events in a life of an individual. Such a state of affairs can best be captured by the golden ratio which permeates nearly each and every aspect of the way nature and man operates.

I believe to have attained a certain level of "self-chartism" accomplishment after completing the book and welcome comments and suggestions. Same can be sent to iiramii3@gmail.com or i.ramlall@uom.ac.mu.

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Dr. Indranarain Ramlall

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Main Features of Technical Analysis



Key concepts covered:

Aspects of technical analysis
Benefits of technical analysis
Limitations of technical analysis
Main tools of technical analysis
Some general information on trading strategies
Moving average
Intermarket analysis

The Trend is your friend

A market, up or down, is more significant if related with heavy volume.

Technical analysis assumes that prices already capture impacts of fundamentals so that only study of prices matters.

The power of technical analysis relies heavily on the extent to which the market is liquid.

Bond prices are positively related to stock market indices.

80–90 per cent of people in futures/options do not make money.

Introduction

As at date, many books exist in the area of technical analysis. Technical analysis points out that the best source of information to beat the market is the price itself. The purpose of this book is to introduce the concept of technical analysis, in a more succinct and practical way, to the readers. Focus is being laid on covering both the concepts and the practical applications. A chapter of this

book is also based on programming technical analysis tools. The first chapter is based on covering the key aspects of technical analysis. To make the readers accustomed to the concepts easily, the key features are specified in bullet points. As a matter of fact, most technical analysis books linger on the experience or historical events experienced by the authors that the core concepts are either missed out or mentioned in a rather unstressed or evasive manner so much so that a 200-page book contains only 40 pages of vital information. This book utterly differs from such conventional books as it probes into the core concepts and practical application so that each page embodies solid reading value.

The chief mistake that many traders make is to focus on too many technical indicators. Consequently, they are always in quest of another indicator once a used indicator does not pay off. This is not utterly misleading. The best approach is to cling to few major technical indicators and use them as a common set of tools to beat the market. This means to never use only one technical indicator but say some 5–6 technical indicators and initiate trades based on convergence of results obtained, that is to buy if most of the indicators recommend a buying position.

One of the biggest mistakes individual investors make is to simultaneously follow too many technical indicators.

The following points capture some of the main features which characterise technical analysis.

Your best teacher in trading is your experience.

Sometimes, your experience can best shape your trades relative to chart patterns.

Two enemies of any trader are fear and greed.

Hope and greed are the two main ingredients which feed price bubbles.

The trend is your friend because investors always trade in the direction of the trend.

However, if you go with the herd, you might get trampled.

As the Wall Street saying goes: 'The crowd is right in the trends and wrong at the ends'.

Best policy is to always cling to a set of tools: momentum, stochastics, leading, lagging and sentiment indicators, triggering a full-fledged analysis.

Set your trades based on a totalitarian rule: converging results obtained from various indicators.

Finally preset your entry and exit positions under sound money management by always using proper stop loss.

On balance, option buyers lose about 90 per cent of the time. Options crowd is most often wrong.

Buy at market bottoms and sell at market tops = contrarian investment strategy.

Contrarians make money by going against the crowd at key inflection points.

In financial markets, it is the reaction to news which matters than the news itself.

Before trading, it is important to wait for price confirmation.

When the charts say buy-we go long. When they say sell-we go short the market. If it is not saying anything, we do not trade.

Key Aspects of Technical Analysis

- The first recorded use of technical analysis was in Japan in 1700s.
- Dow Theory constitutes the theoretical foundation of technical analysis based on the formation of three major trend types:
 - (a) Major trend: one year to many years
 - (b) Secondary trend: many weeks to several months
 - (c) Minor trend: from a week to several weeks.