

TECHNICAL ANALYSIS



WHAT IS TECHNICAL ANALYSIS?

- Studying stock price graphs and a few momentum oscillators.
- Based entirely on prices
- Do not include Balance Sheets, P&L Accounts (fundamental analysis)
- The assumption being that the markets are efficient and all possible price sensitive information is built into the price graph of a security / index.
- Exclusive use of historical data.

ASSUMPTIONS OF TECHNICAL ANALYSIS

1. Market discounts everything

- Only considers price movements, ignores fundamental factors.
- Assumes stock price reflects everything.
- All fundamentals are priced into the stock.

2. Prices moves in trends

- Price movements are assumed to follow particular trend.
- Most technical strategies are based on this assumption.

3. History trends to repeat itself

- Market participants provide consistent reaction to similar market stimuli over time.

DOW THEORY

The Dow theory on stock price movement is a form of technical analysis.

The theory was derived from 255 wall street journal editorials written by Charles h. Dow , journalist, founder and first editor of *the Wall Street journal* and co-founder of Dow jones and company.

Hypothesis:- Dow Theory is based on the hypothesis that the stock market doesnot perform on a random basis. Rather, it is guided by some specific trends.

Three types of specific trends have been named in Dow Theory

- **PRIMARY TREND:-** primary movement or major trend may last from less than a year to several years. It can be bullish or bearish.
- **SECONDARY TREND:-** primary movement or major trend may last from less than a year to several years. It can be bullish or bearish.
- **MINOR TREND:-** day to day trend or movements in prices over few days. It is of very short duration.

IYT

SMA 50
SMA 200
SMA 20

10 Jan 14

O:132.41 H:133.79 L:132.37 C:133.77

Vol:182.32K

+1.66 (1.26%)

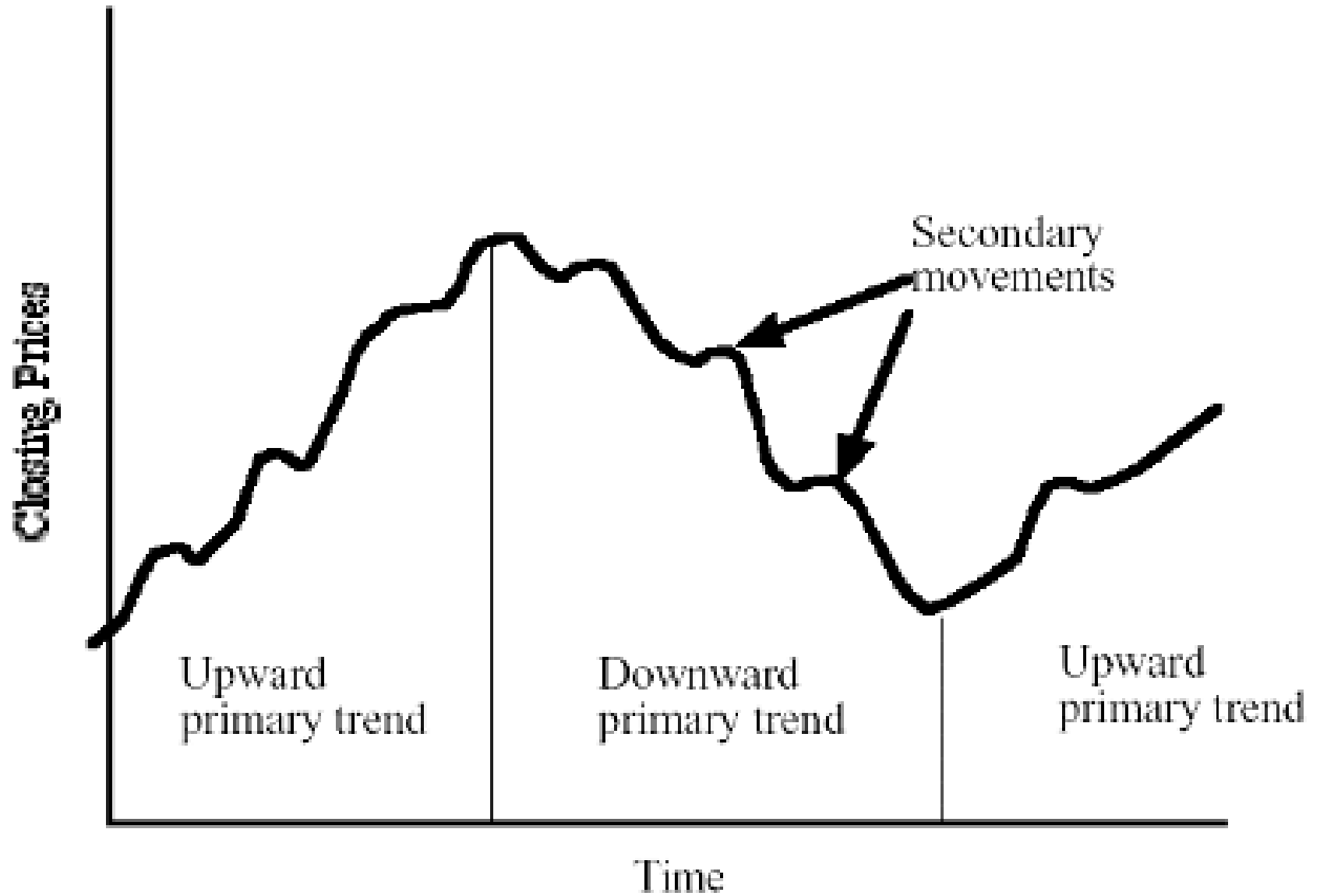
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IYT [NYSE]

iShares Dow Jones Transportation Average

Financial | Exchange Traded Fund | USA



BASIC ASSUMPTIONS

- Market price determined by demand and supply forces.
- Prices move in trend for long periods.
- Reversal or shift in price trends may occur.
- Charts and graphs can predict change in demand and supply forces.
- Price patterns tend to repeat themselves.

