

“TECHNICAL ANALYSIS”

T.A = Technical Analysis
 F.S = Financial Statements
 C.F = Cash Flows
 ROC = Rate of Change
 RSI = Relative Strength Index

S.D = Standard Deviations
 M.A = Moving Average
 M.V = Market Value
 MACD = Moving Average
 Convergence/Divergence

13. a

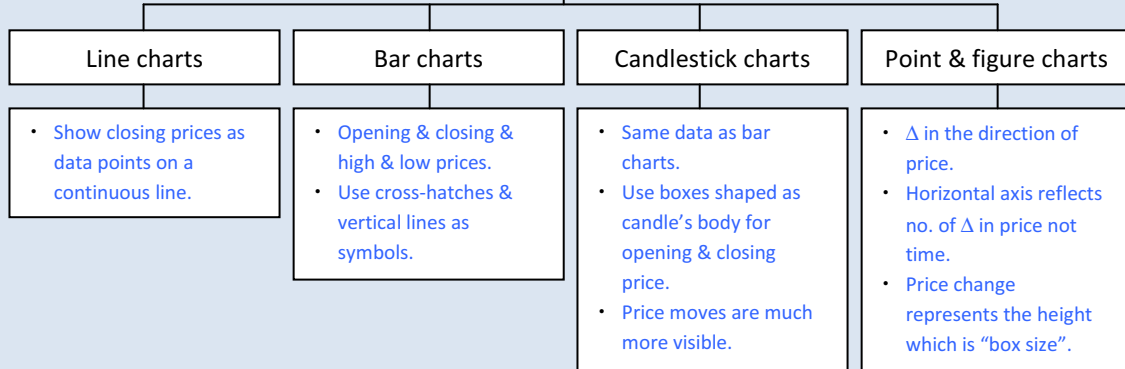
- Study of collective market sentiment.
- Prices are determined by interaction of supply & demand.
- Key assumption of T.A is that EMH does not hold.
- Usefulness is limited in illiquid markets as well as markets subject to large outside manipulation.

Comparison	
Technical Analysis	Fundamental Analysis
• Share price & trading volume	• Intrinsic value
• Data is observable	• Use F.S & other information
• Can applied on assets without C.F	

13. b

- Charts of price & volume.
- Exponential price change ⇒ charts on a log scale.
- Time interval reflects horizon of interest.

Types of price charts



Relative strength analysis

- Assets closing price Benchmark value.
- ↑ in trend, asset is outperforming & vice versa.

Volume Chart

- Usually included at the bottom of many charts.
- Volume on vertical axis.

13. c

Trend in prices

Uptrend

- Reaching higher highs & retracing higher lows.
- Show, demand is ↑.
- Trend line connects increasing lows.
- Breakdown below uptrend line (significant price change).

Downtrend

- Lower lows & retracing lower highs.
- Show, supply is ↑.
- Trend line connects decreasing highs.
- Breakdown above downtrend line (significant price change).

Support Level

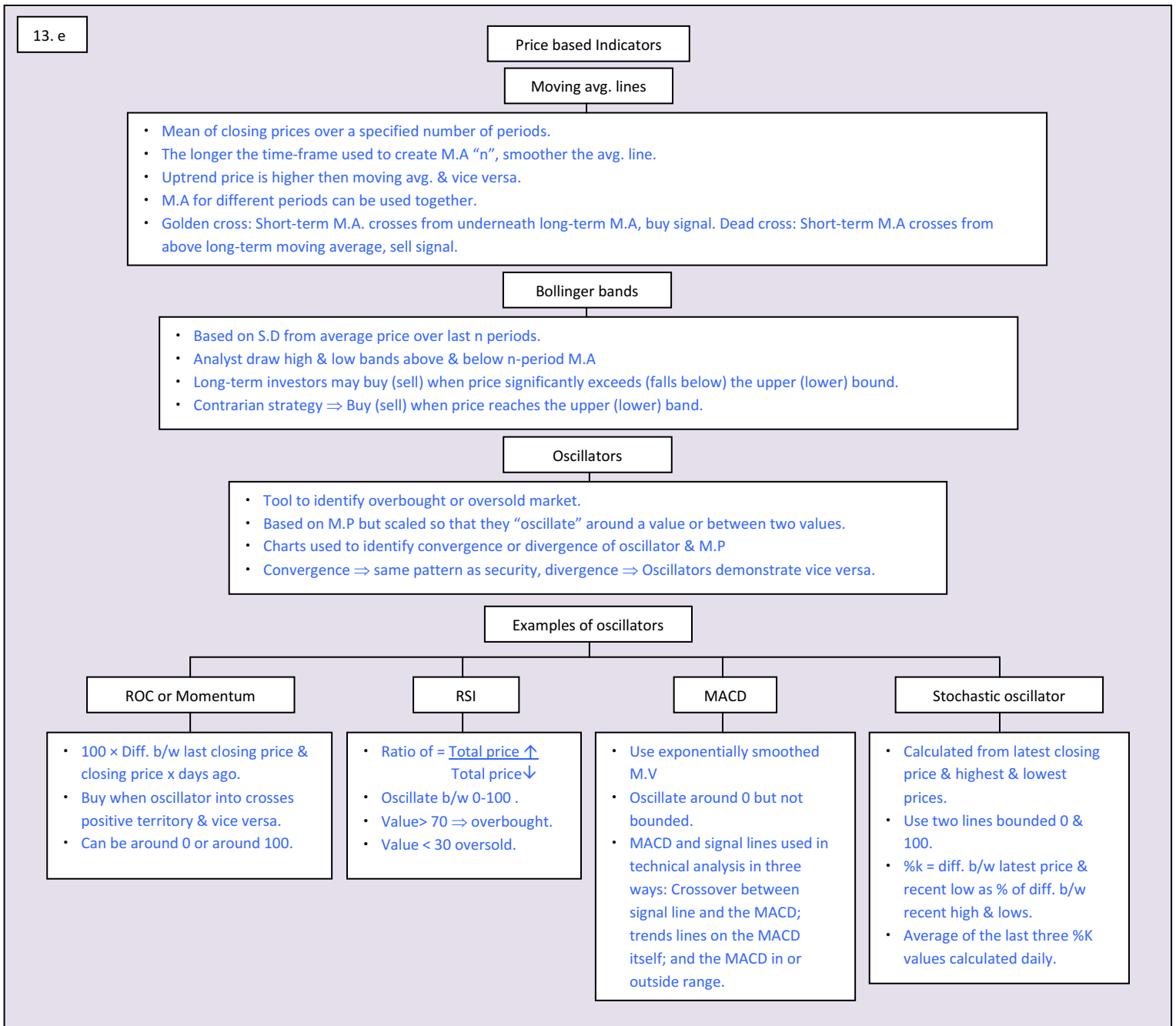
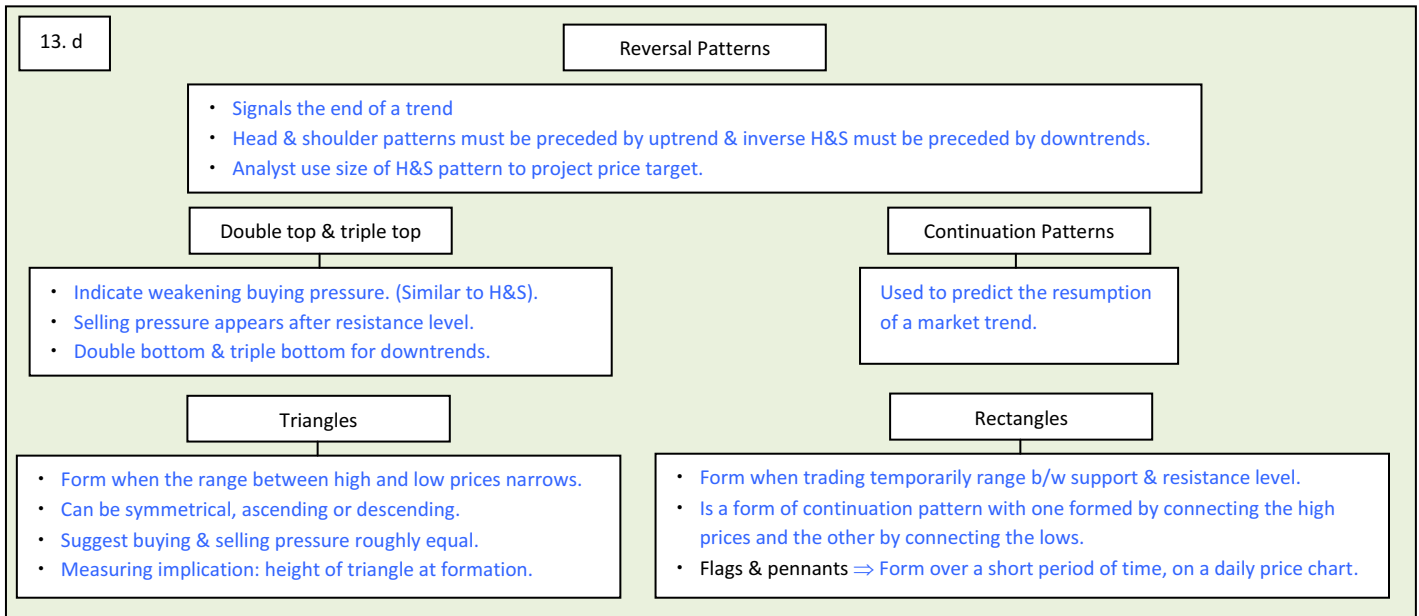
Price range in which buying activity is sufficient to stop decline in price.

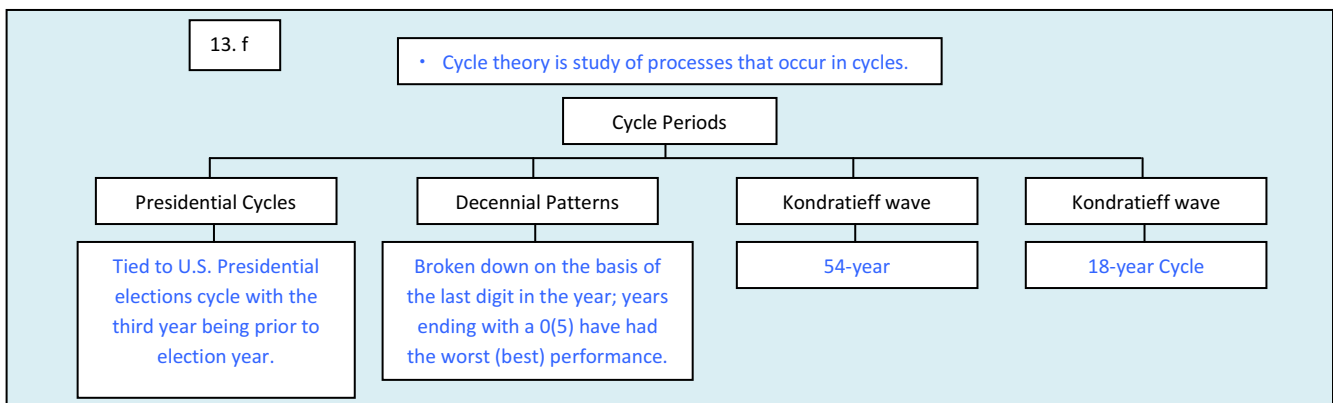
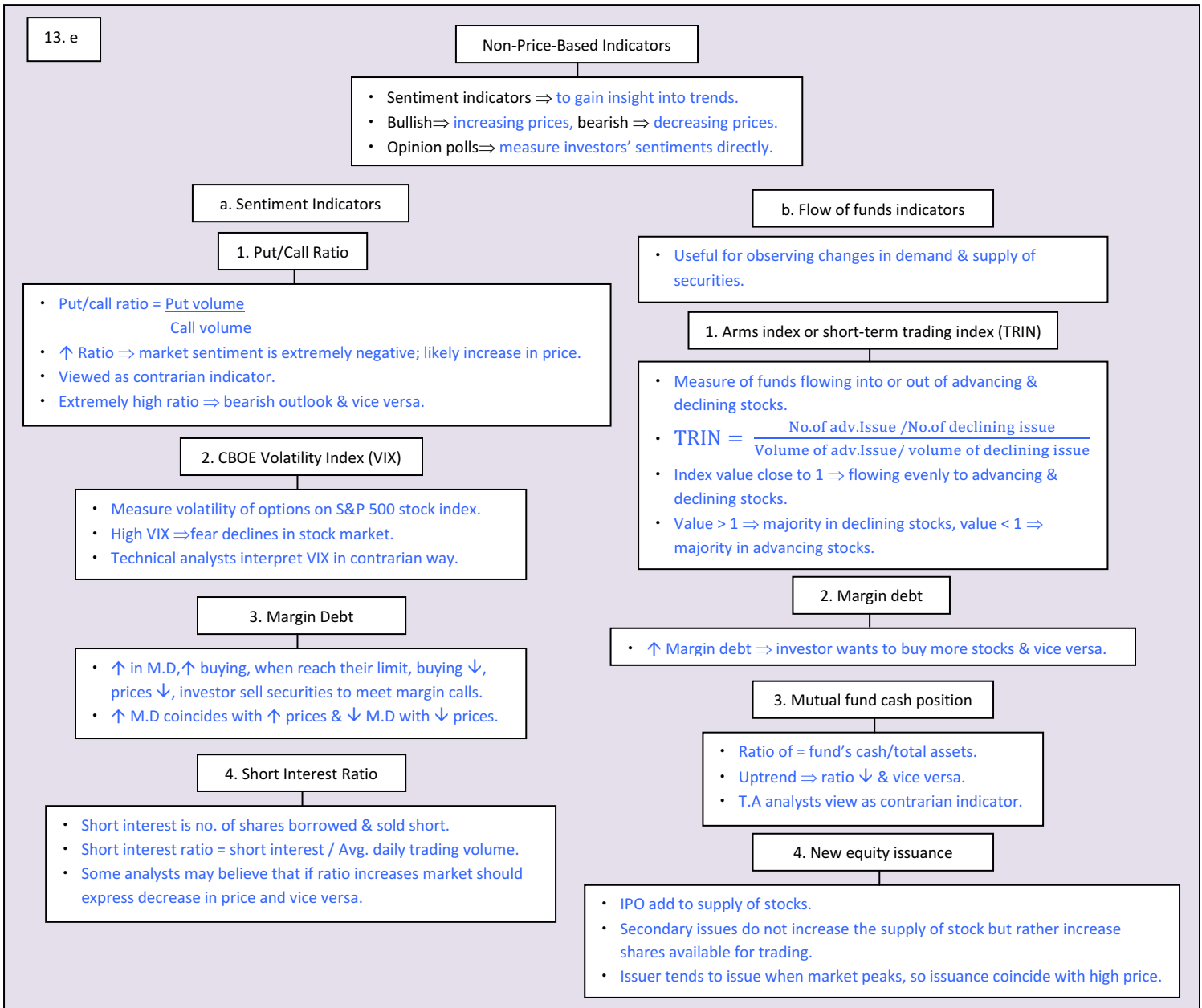
Change in polarity

- Breached resistance levels become support levels & vice versa.

Resistance Level

Price range in which selling activity is sufficient to stop rise in price.





13. g

Elliott wave theory

- Financial market prices \Rightarrow described by interconnected set of cycles.
- Waves \Rightarrow chart patterns, uptrend \Rightarrow 5 upward waves, 3 downwards & vice versa in downtrend.
- Ratios of the size of the subsequent wave \Rightarrow Fibonacci ratios.
- Fibonacci sequence starts with the numbers 0, 1 and 1, and the each subsequent number in the sequence number in the sequence is the sum of the two previous numbers.
- Ratio of 0.618 and 1.618 used to project price targets.

13. h

Intermarket analysis

- Analysis of interrelationship among M.V of asset classes (e.g. stocks, bonds)
- Relative strength ratio \Rightarrow to identify outperforming asset class, then assets within class.