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PRICE ACTION SIMPLIFIED

TECHNICAL ANALYSIS FOR PRICE CHARTS

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CONTENTS

CHAPTER 01 TRADING AND TYPES

Stock trading refers to the buying and selling of shares in a particular company; if you own the stock, you own a piece of the company.

Trading is essentially the exchange of goods and services between two entities. It is the basic principle which forms the core of all economic societies and financial activities.
Trade governs the wheels of progress in any society and allows for wealth creation. A place where any form of trade takes shape is called a market. Depending on the kind of products, the market is defined. For instance, a place where stock trading takes place is called the stock market.

TYPES OF TRADING

- **SCALPING**
- **DAY TRADING**
- **SWING TRADING**
- **MOMENTUM TRADING**

SCALPING -

It is also known as micro-trading. Scalping and day-trading are both subsets of intraday trading. Scalping involves reaping small profits repeatedly ranging from a dozen to a hundred profits in a single market day.

However, every transaction does not yield profits, and in some cases, a trader’s gross losses might exceed the gains. The holding period of securities, in this case, is shorter compared to day-trading, i.e. individuals hold stocks spanning a maximum of a few minutes.

This feature allows for the frequency of transactions. Similar to day-trading, scalping requires market experience, proficiency, awareness of market fluctuations, and prompt transactions.

DAY TRADING -

This form of trade involves purchasing and selling stocks in a single day. In the case of day trading, individuals hold stocks for a few minutes or hours. A trader involved in such trade needs to close his/her transactions prior to the day’s market closure.

Day trading requires proficiency in market matters, a thorough understanding of market volatility, and a keen sense regarding the up and down in stock values. Therefore, it is performed mostly by experienced investors or traders.

SWING TRADING -

This style of stock market trading is used to capitalise on short-term stock trends and patterns. Swing trading is used to earn gains from stock within a few days of purchasing it; ideally one to seven days. Traders technically analyse the stocks to gauge the movement patterns they are following for the proper execution of their investment objectives.

MOMENTUM TRADING -

In the case of momentum trading, a trader exploits a stock’s momentum, i.e. a substantial value movement of stock, either upwards or downwards. A trader tries to capitalise on such momentum by identifying the stocks that are either breaking out or will break out.

In case of upward momentum, the trader sells the stocks he/she is holding, thus yielding higher than average returns. In case of downward movement, the trader purchases a considerable volume of stocks to sell when its price increases.

CHAPTER 02 **WHY PRICE ACTION?**

Price action can be simply defined as the action that you take when the stock reaches a specific price or the action you take when the price comes in our specific target zone. It can be either buy or sell

The price action trader bases their trades on predictions of whether buying demand is greater than the supply of sellers – and therefore the price is poised to head higher – or vice versa. In the Forex market, this means that a trader will endeavour to buy (or “go long on”) a currency pair when the base currency, the one quoted first, is likely to appreciate against the counter currency, the one listed second; conversely, they will sell (or “go short on”) a currency pair wherein they expect the counter currency to appreciate relative to the base currency. In order to make these predictions, price action traders interpret the confluence of many factors, particularly trends, candlestick patterns, and price levels known as “support and resistance.” This guide is intended to provide an introduction to these interpretive factors, to the risk management practices essential to profitable trading, and lastly, some examples of real trades that demonstrate these ideas in action.

the best way to identify the target price is to identify the support and resistance points.
the support price is a price at which one can expect more buyers than sellers likewise, the resistance price is a price at which one can expect more sellers than buyers. On a standalone basis, traders can use S&R to identify the entry points for trade as well.

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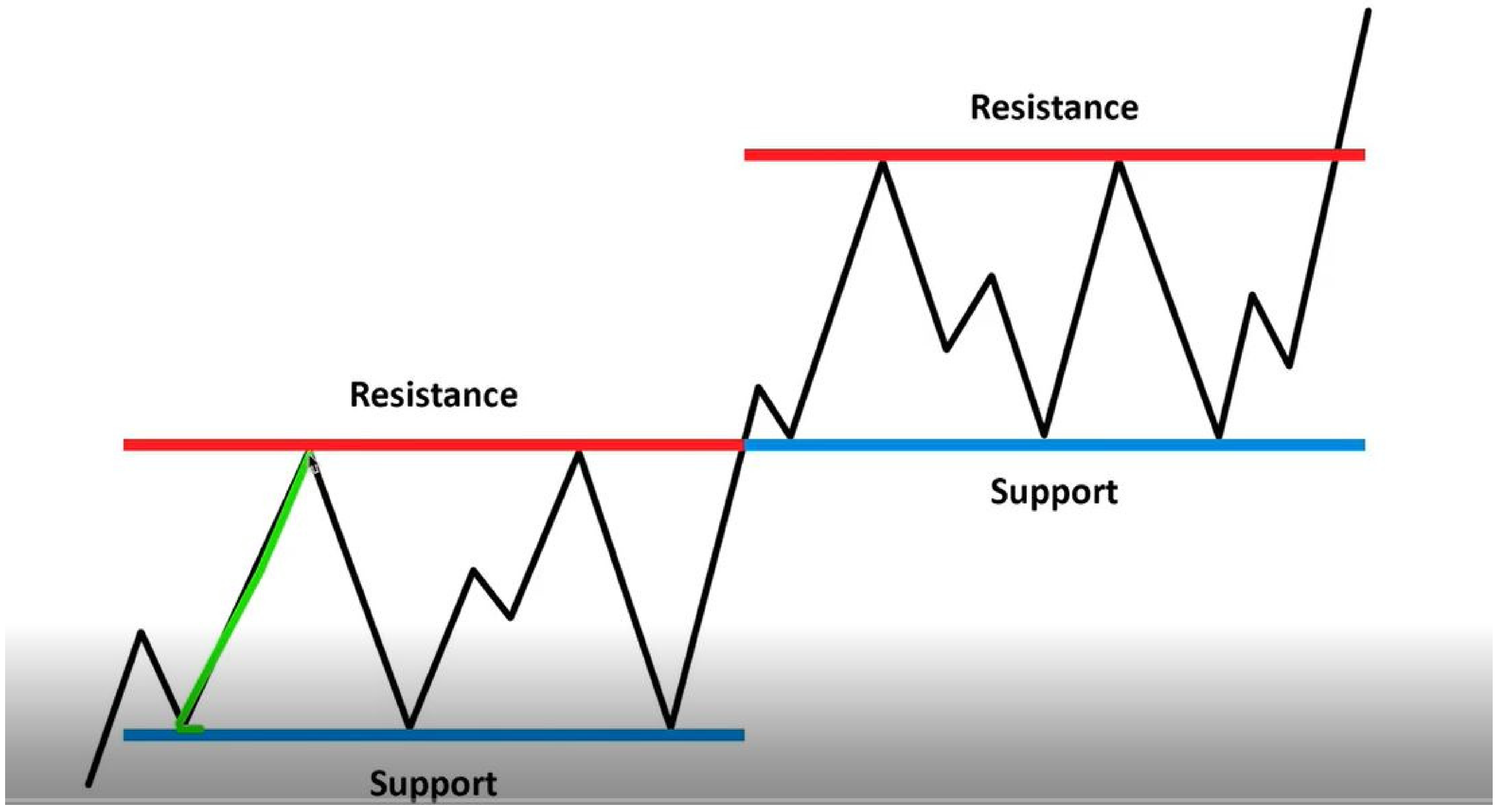


S&R Construction -

STEP-1 - LOAD POINTS -

For short term S&R load at least 3-6 months of data points.
for Long term S&R load at least 12-18months of data points.

STEP-2- IDENTIFY AT LEAST 3 PRICE ACTION ZONES-

- Hesitated to move up further after a brief up move.

- Hesitated to move down further after a brief down move

WHAT ARE POSSIBILITIES THAT CAN HAPPEN WHEN THE PRICE REACHES THESE LEVELS

1. THE STOCK CAN **REJECT** FROM THERE
2. THE STOCK CAN **BREAK** THEM
3. THE STOCK CAN PUSH THROUGH THEM BY JUST ENOUGH TO STOP YOU OUT BEFORE IT REVERSES WHICH IS A FALSE BREAKOUT.

CHAPTER 04 PATTERNS

- Patterns are the distinctive formations created by the movements of security prices on a chart and are the foundation of technical analysis.
- A pattern is identified by a line that connects common price points, such as closing prices or highs or lows, during a specific period of time.
- Technical analysts and chartists seek to identify patterns as a way to anticipate the future direction of a security's price.
- These patterns can be as simple as trendlines and as complex as double head-and-shoulders formations.

There are two types of patterns -

- candlestick pattern
- chart pattern

CANDLESTICK PATTERN -

Candlestick charts are a technical tool that packs data for multiple time frames into single price bars.

TYPES OF CANDLESTICK PATTERN -

- SINGLE CANDLESTICK PATTERN
- MULTI CANDLESTICK PATTERN

SINGLE CANDLESTICK -

As the name suggests, a single candlestick pattern is formed by just one candle. So as you can imagine, the trading signal is generated based on 1 day's trading action. The trades based on a single candlestick pattern can be extremely profitable provided the pattern has been identified and executed correctly.
One needs to pay some attention to the length of the candle while trading based on candlestick patterns. The length signifies the range for the day. In general, the longer the candle, the more intense is the buying or selling activity. If the candles are short, it can be concluded that the trading action was subdued.
There are many single candlestick patterns -

1. MARUBOZU
2. DOJI
3. SPINNING TOP
4. PAPER UMBRELLA
5. SHOOTING STAR

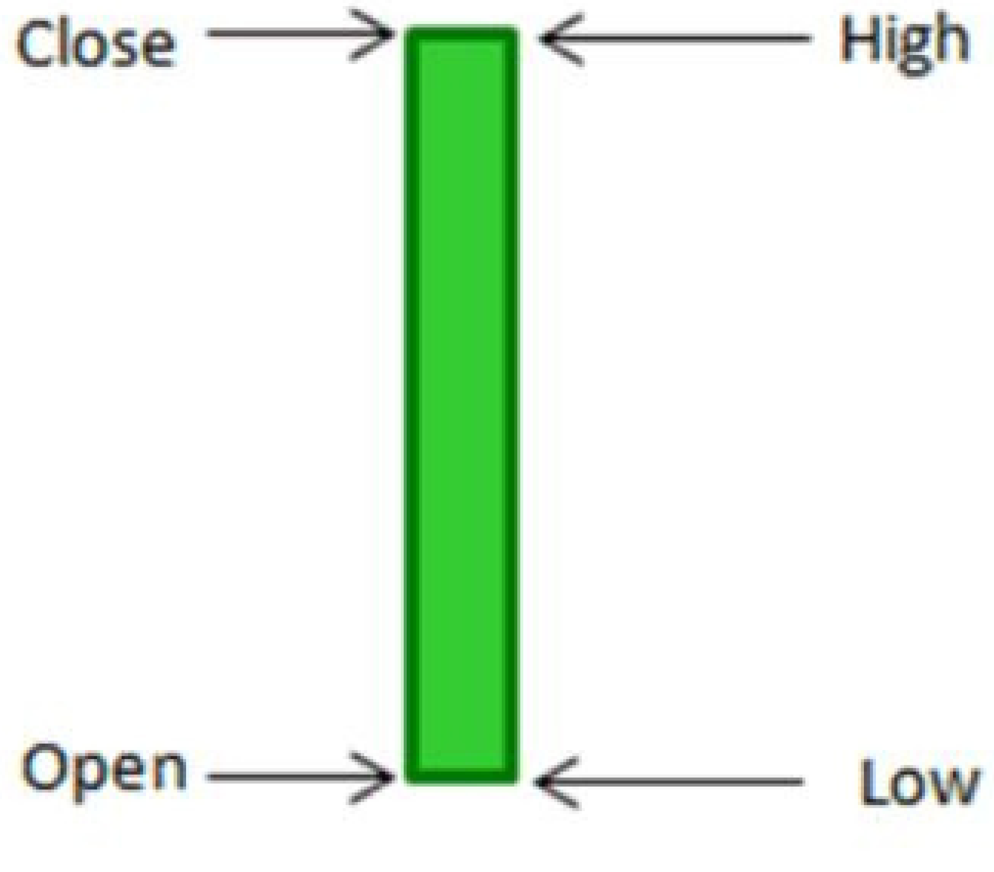
MARUBOZU -

The Marubozu is the first single candlestick pattern that we will understand. The word Marubozu means "Bald" in Japanese.

There are two types of marubozu – the bullish marubozu and the bearish marubozu

BULLISH MARUBOZU -

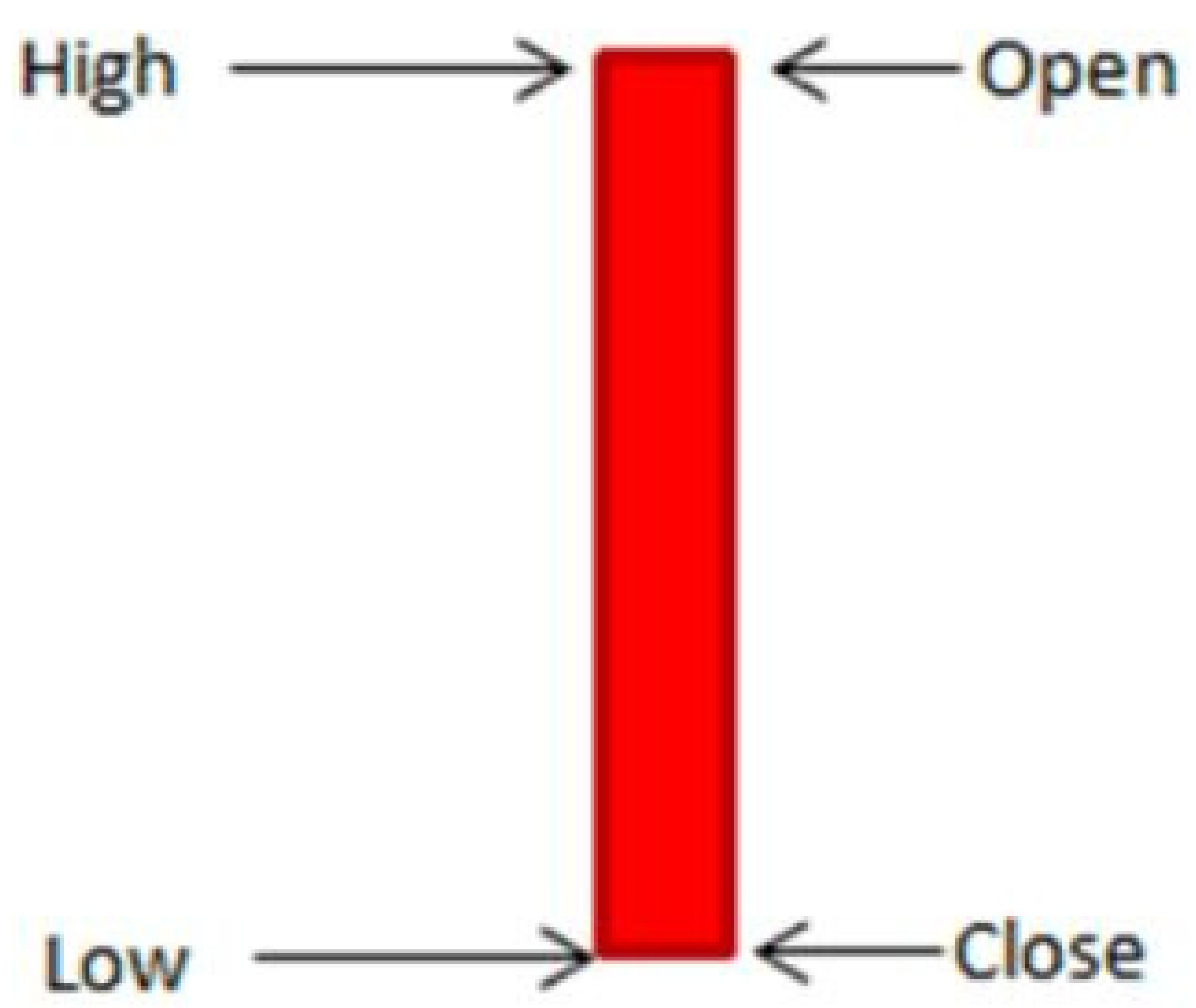
A bullish marubozu indicates that there is so much buying interest in the stock that the market participants were willing to buy the stock at every price point during the day, so much so that the stock closed near its high point for the day. It does not matter what the prior trend has been, the action on the marubozu day suggests that the sentiment has changed and the stock is now bullish. The expectation is that with this sudden change in sentiment, there is a surge of bullishness, and this bullish sentiment will continue over the next few trading sessions. Hence a trader should look at buying opportunities with the occurrence of a bullish marubozu. The buying price should be around the closing price of the marubozu.



BEARISH MARUBOZU -

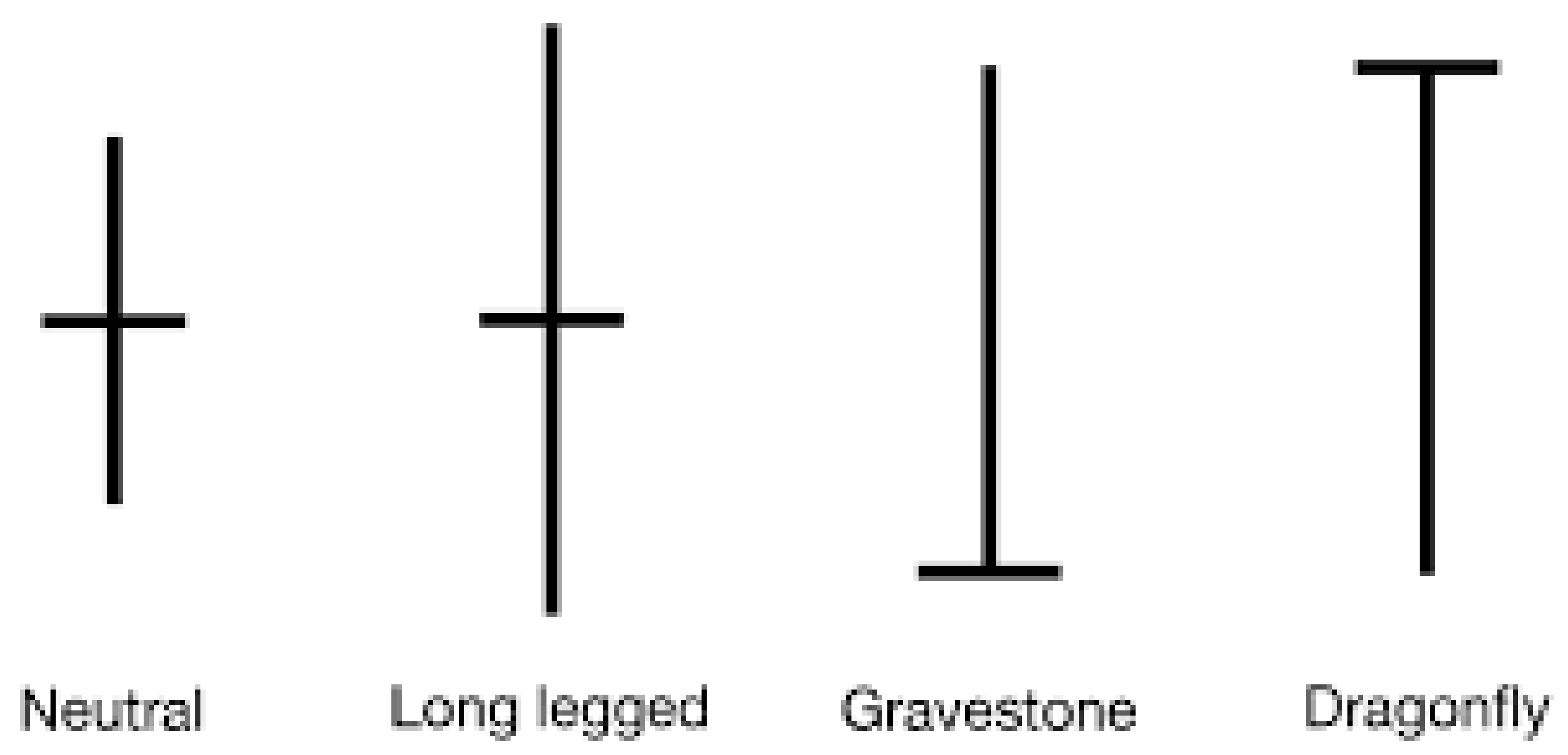
A bearish marubozu indicates that there is so much selling pressure in the stock that the market participants actually sold at every price point during the day, so much so that the stock closed near its low point of the day. It does not matter what the prior trend has been, the action on the marubozu day suggests that the sentiment has changed and the stock is now bearish.

The expectation is that this sudden change in sentiment will be carried forward over the next few trading sessions, and hence one should look at shorting opportunities. The selling price should be around the closing price of the marubozu.



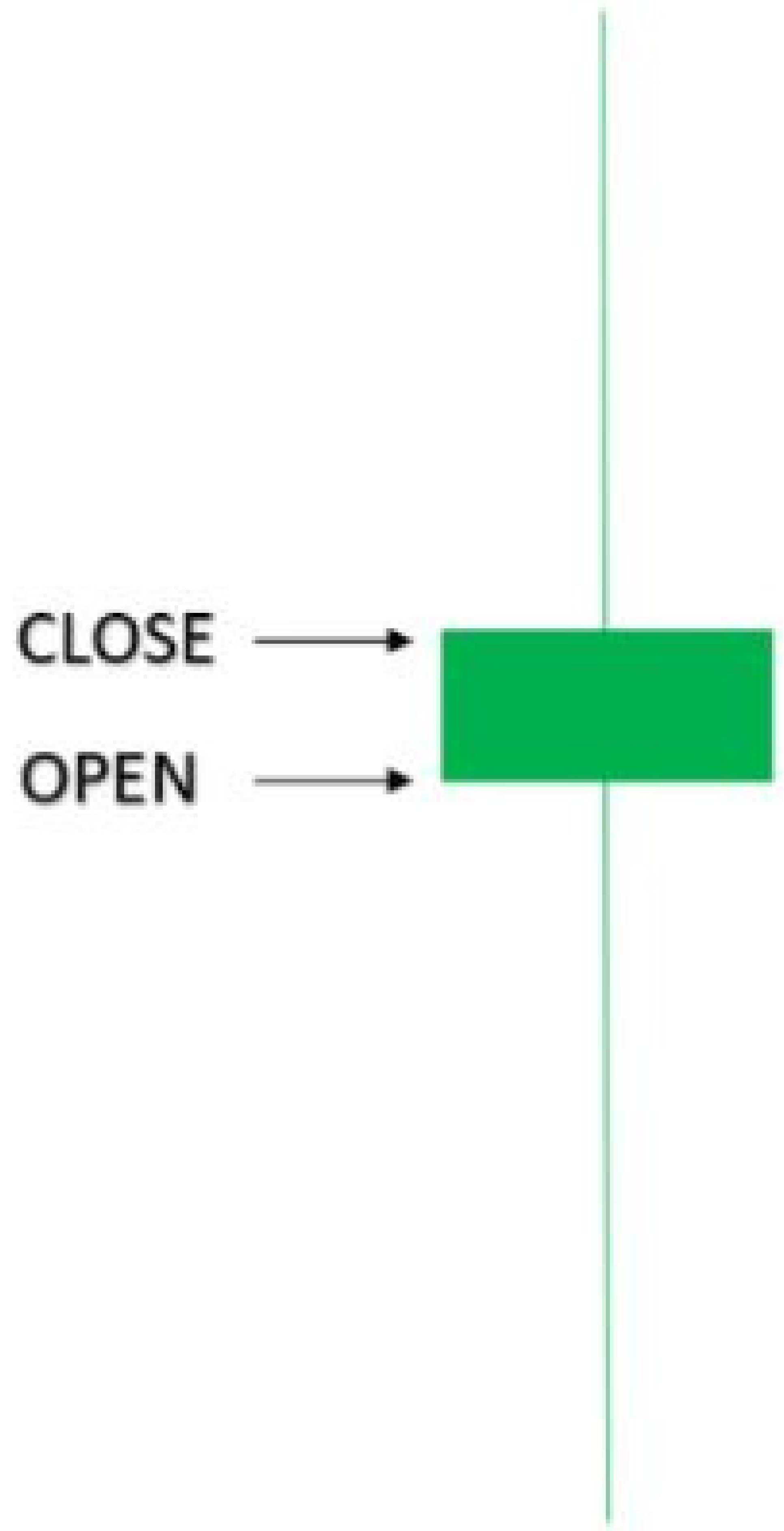
DOJI -

A Doji is a name for a session in which the candlestick has an open and close that are virtually equal and are often components in patterns.



- Doji also conveys indecision in the market. By definition, dojis do not have a real body. However, in reality, even if a wafer-thin body appears, it is acceptable. Doji formations come in three major types: gravestone; long-legged; and dragonfly.

SPINNING TOP -
The spinning top is a very interesting candlestick. Unlike the Marubuzo, it does not give the trader a trading signal with a specific entry or an exit point. However, the spinning top gives out useful information concerning the current situation in the market. The trader can use this information to position himself in the market. The colour of the candle does not matter.



PAPER UMBRELLA -
The paper umbrella is a single candlestick pattern that helps traders in setting up directional trades. The interpretation of the paper umbrella changes based on where it appears on the chart. A paper umbrella consists of two trend reversal patterns, namely the hanging man and the hammer. The hanging man pattern is bearish, and the hammer pattern is relatively bullish. A paper umbrella is characterized by a long lower shadow with a small upper body.
If the paper umbrella appears at the bottom end of a downward rally, it is called the '**Hammer**'.
If the paper umbrella appears at the top end of an uptrend rally, it is called the '**Hanging Man**'.colour of the candle does not matter.

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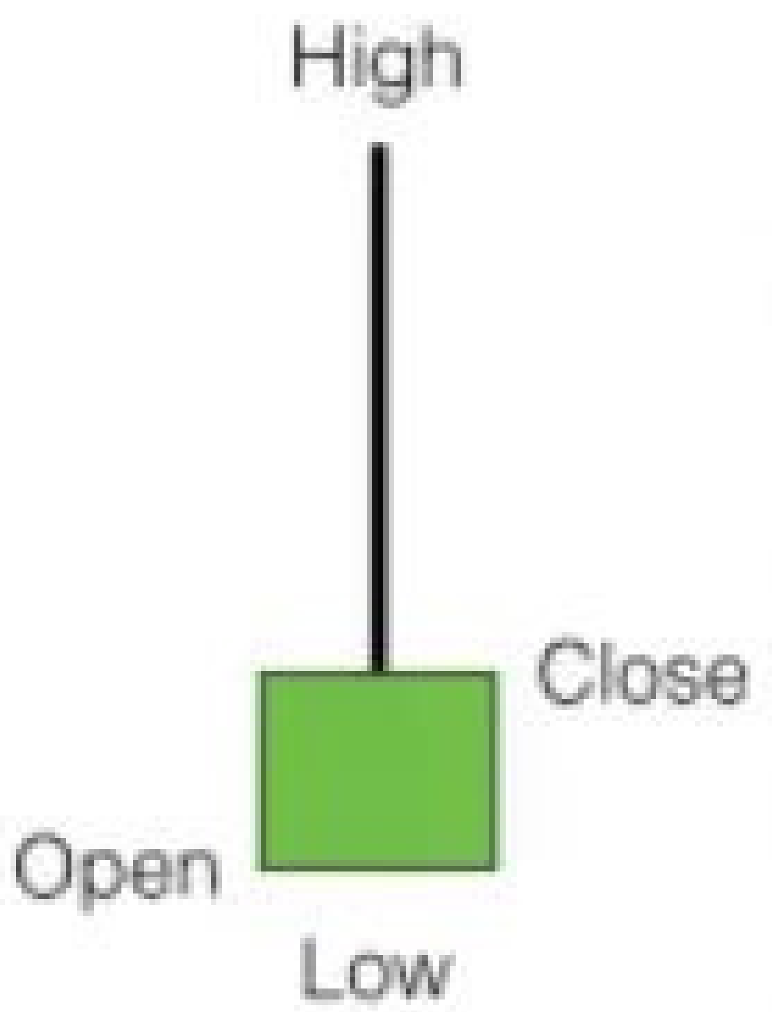


MULTI CANDLESTICKS -

As the name suggests, a multi candlestick pattern is formed by more than one candle. So as you can imagine, the trading signal is generated based on 2 or more day’s trading action.

There are many Multi candlestick patterns

- ENGULFING PATTERN
- HARAMI PATTERN
- MORNING STAR PATTERN
- EVENING STAR PATTERN

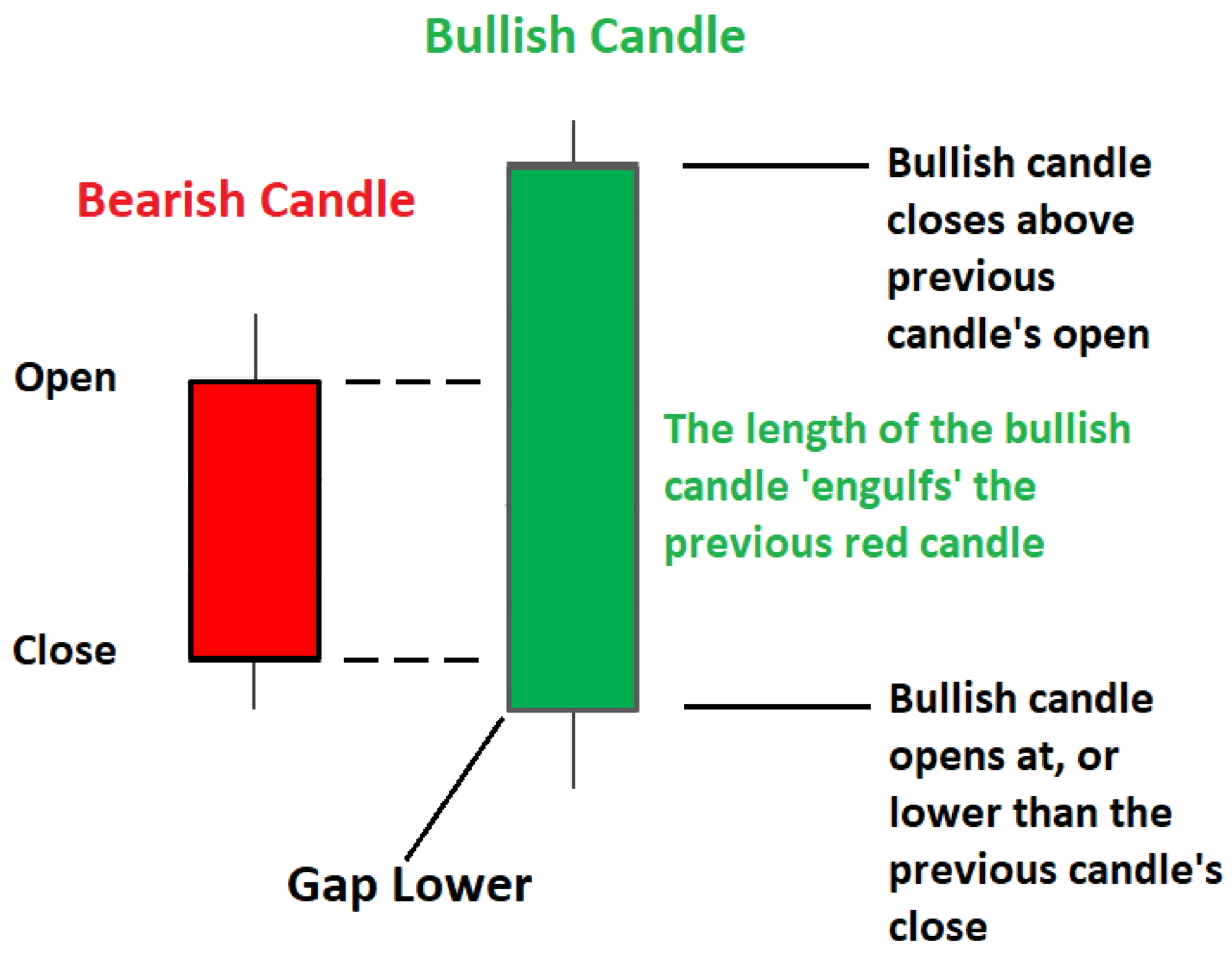
ENGULFING PATTERN -

Engulfing pattern needs at least 2 trading sessions to evolve.

there are two types of engulfing patterns-

Bullish engulfing pattern -

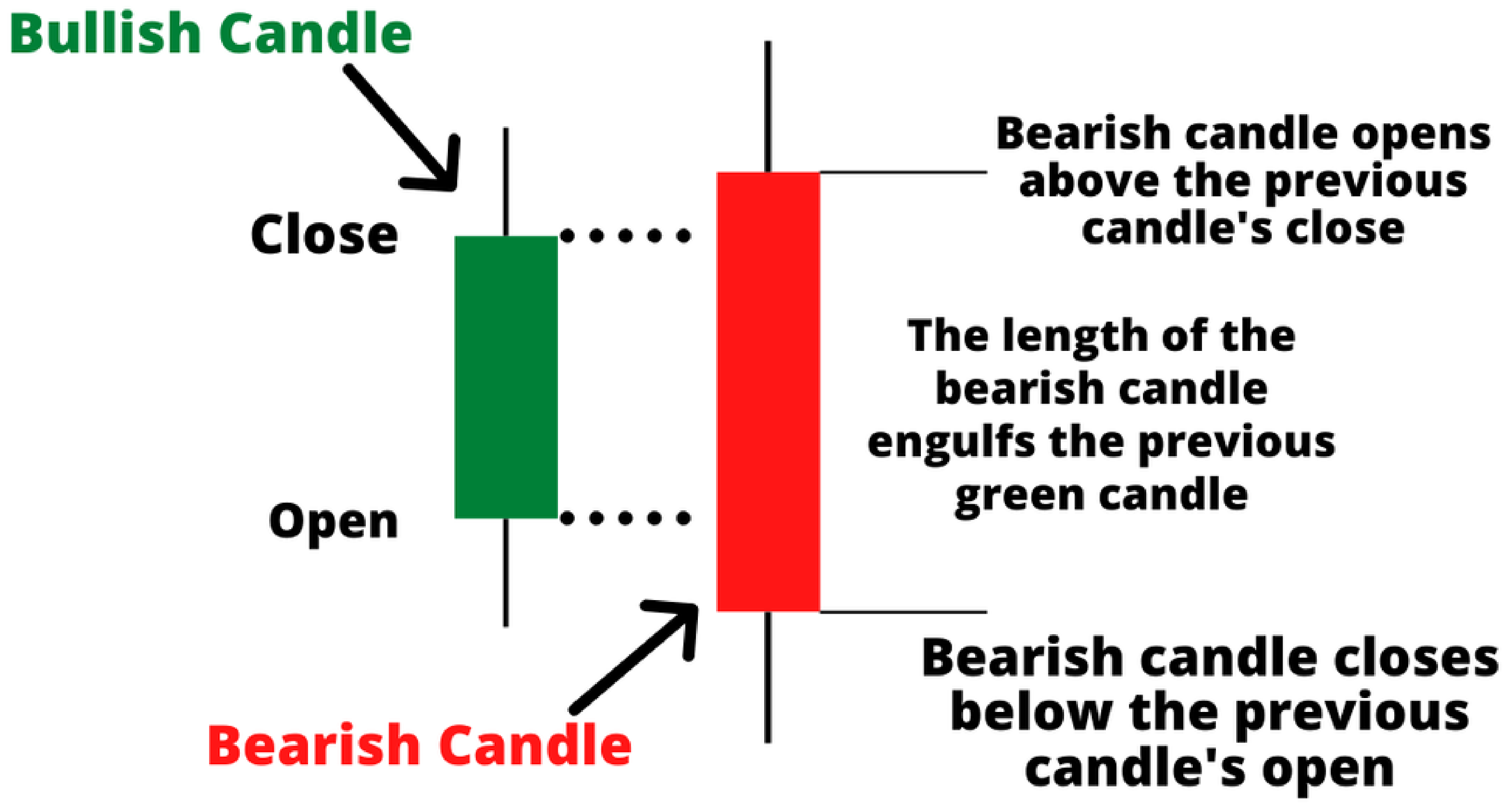
As the name says it is a bullish candle.



The bullish engulfing pattern is a two candlestick pattern that appears at the bottom of the downtrend. As the name suggests, this is a bullish pattern that prompts the trader to go long. The two-day bullish engulfing pattern is encircled in the chart below. The prerequisites for the pattern are as follows:

1. The prior trend should be a downtrend
2. The first day of the pattern (P1) should be a red candle reconfirming the bearishness in the market
3. The candle on the 2nd day of the pattern (P2) should be blue, long enough to engulf the red candle

BEARISH ENGULFING PATTERN - As the name says it is a bearish candle. The bearish engulfing pattern is a two candlestick pattern that appears at the top end of the trend, making it a bearish pattern.

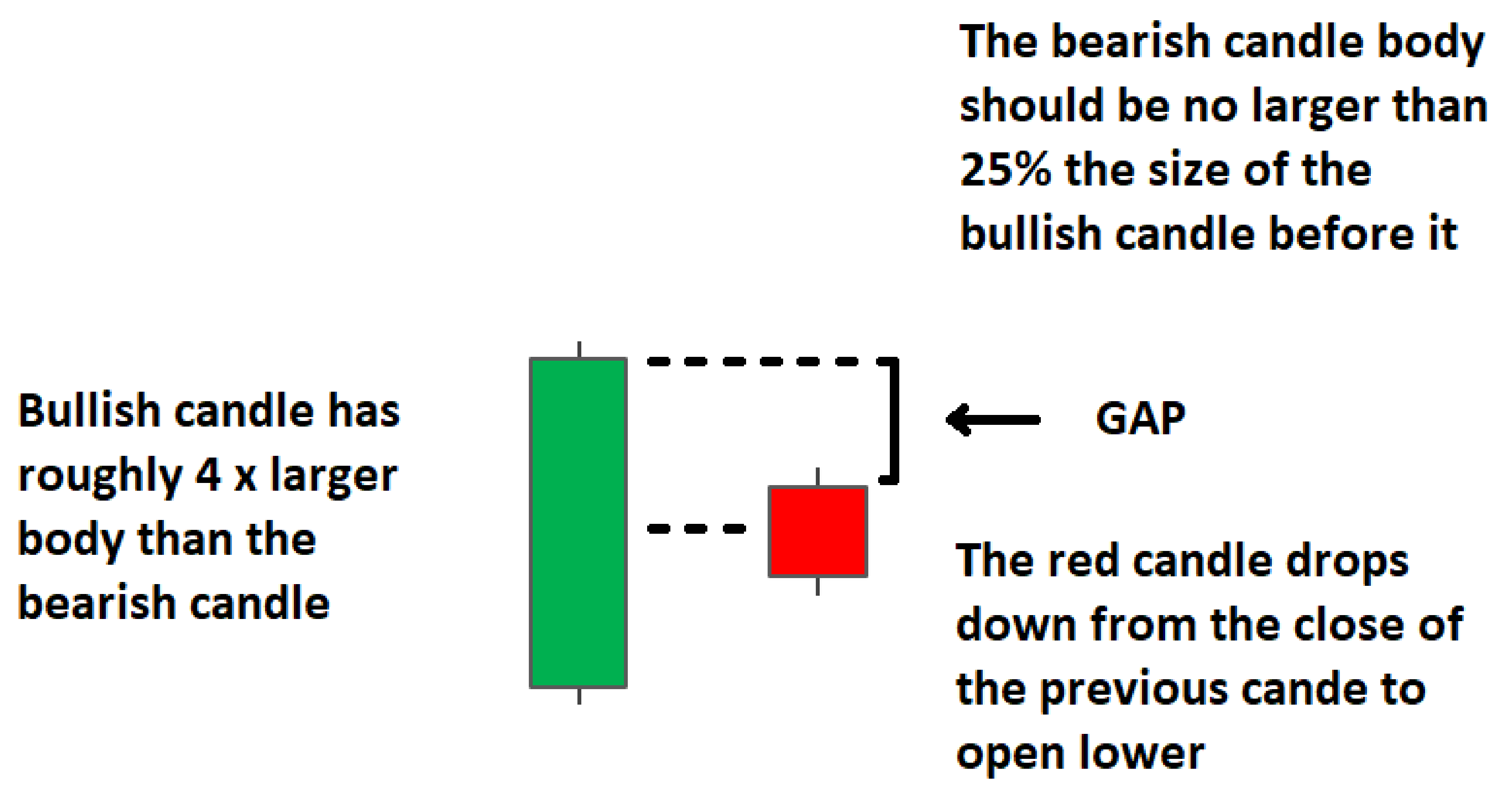


HARAMI PATTERN -

Harami is a two candle pattern. The first candle is usually long, and the second candle has a small body. The second candle is generally opposite in colour to the first candle. On the appearance of the harami pattern, a trend reversal is possible. There are two types of harami patterns – the bullish harami and the bearish harami

The Bullish Harami-

As the name suggests, the bullish harami is a bullish pattern appearing at the bottom end of the chart. The bullish harami pattern evolves over a two day period, similar to the engulfing pattern.



The bearish harami - **The bearish harami pattern appears at the top end of an uptrend, allowing the trader to initiate a short trade.**

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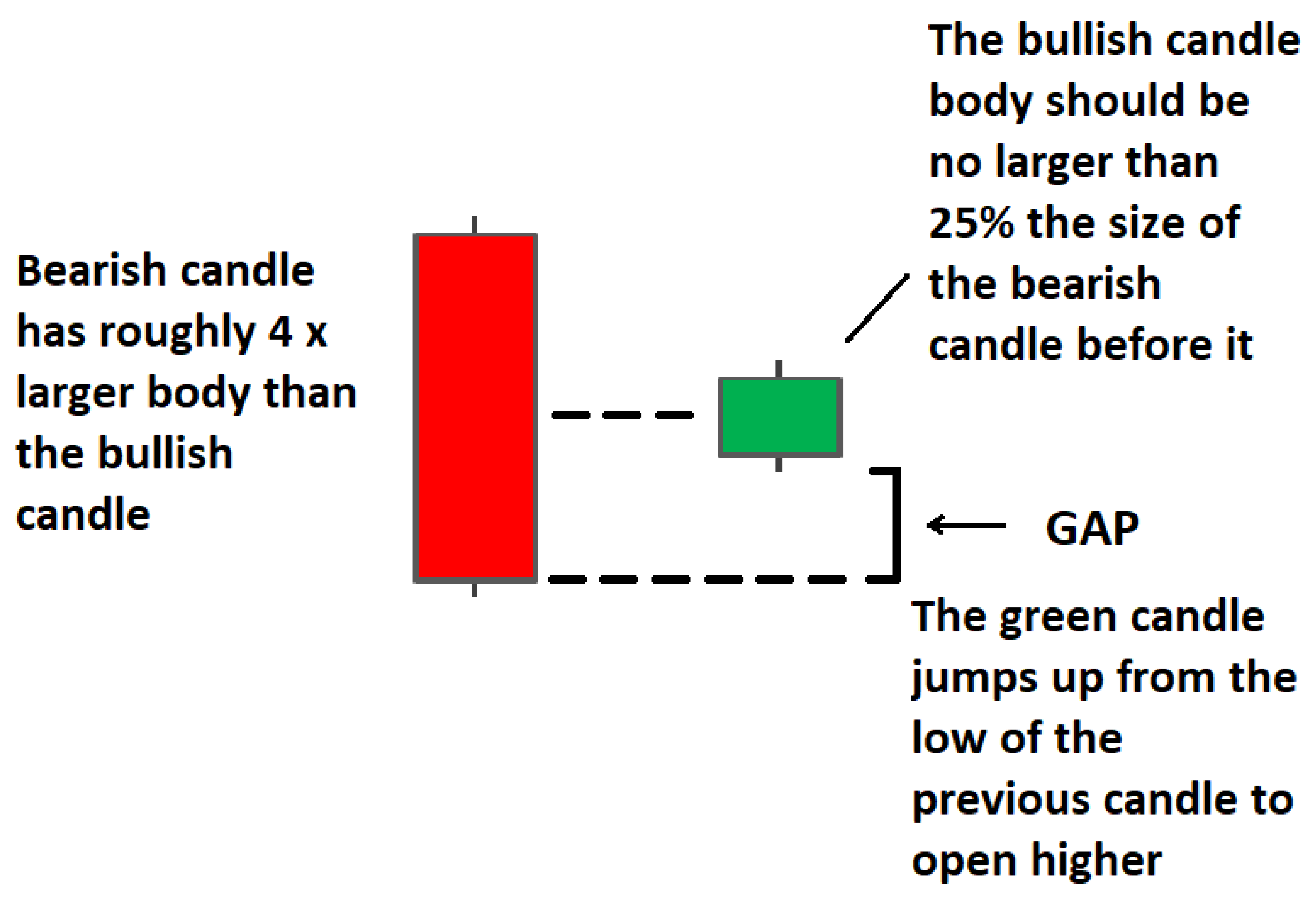
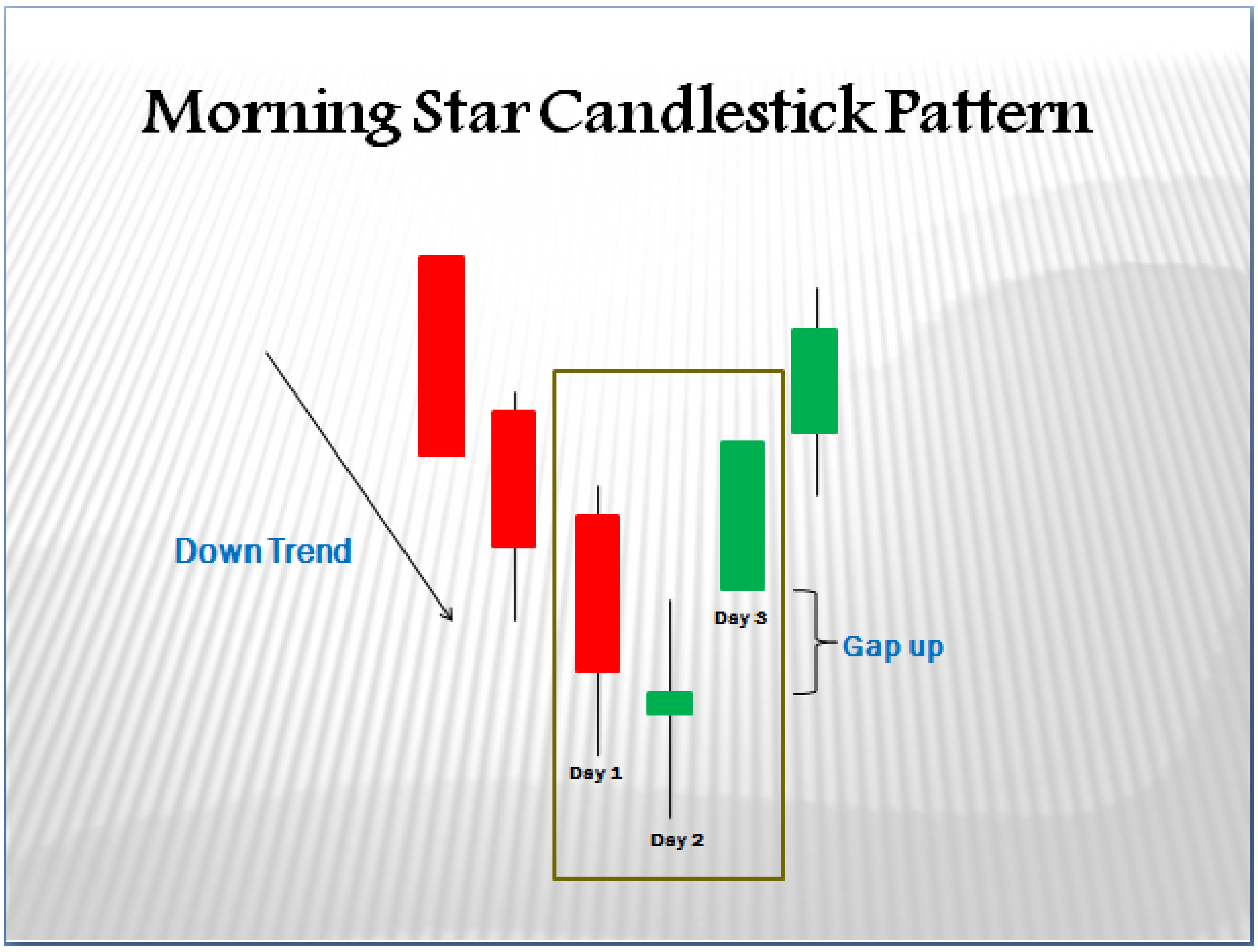


the Morning Star-

The morning star is a bullish candlestick pattern that evolves over a three day period. It is a downtrend reversal pattern. The pattern is formed by combining 3 consecutive candlesticks. The morning star appears at the bottom end of a downtrend.



The evening star -

The evening star is the last candlestick pattern that we would learn in this module. The evening star is a bearish equivalent of the morning star. The evening star appears at the top end of an uptrend. Like the morning star, the evening star is a three candle formation and evolves over three trading sessions.

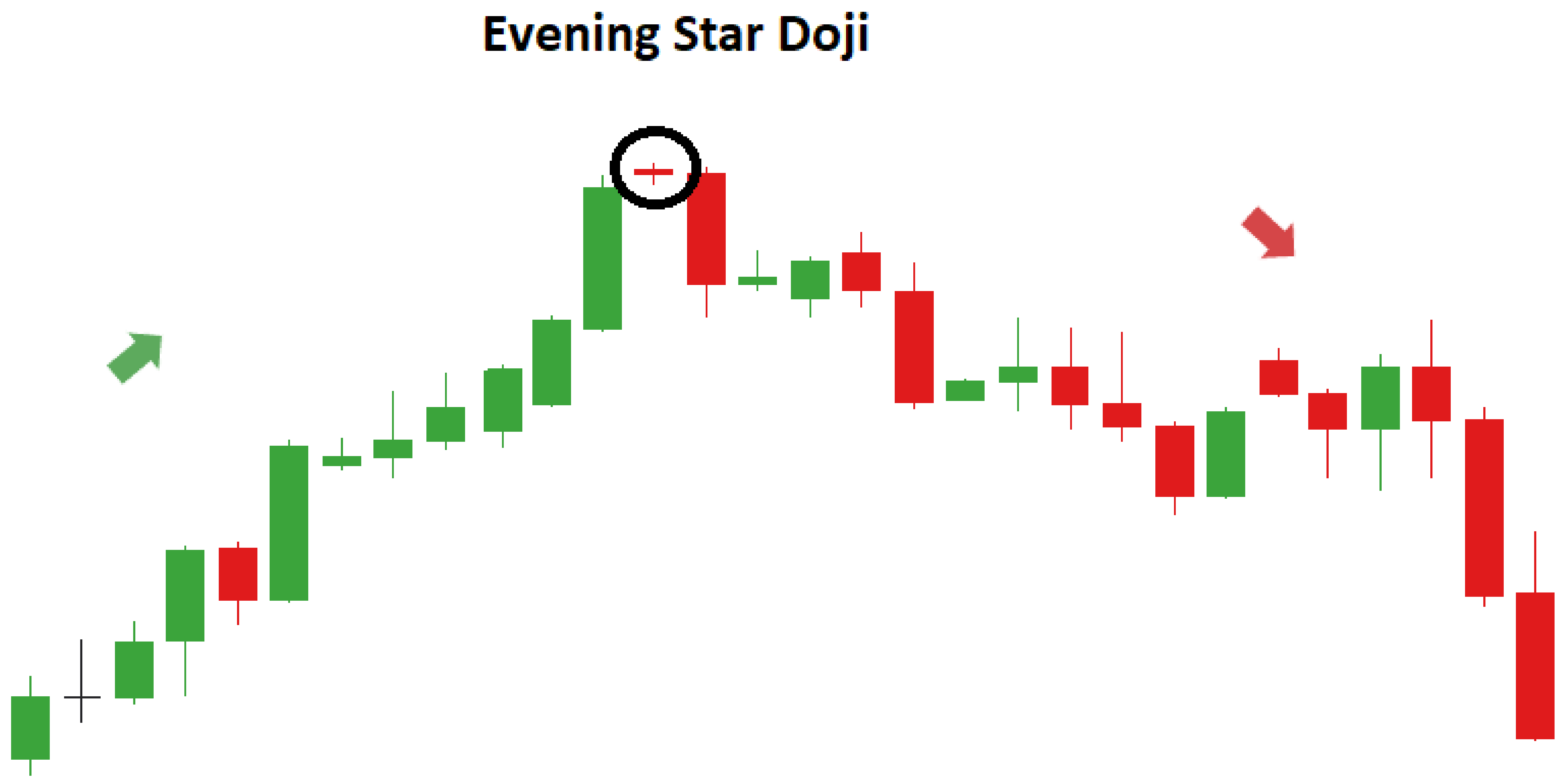


CHART PATTERNS -

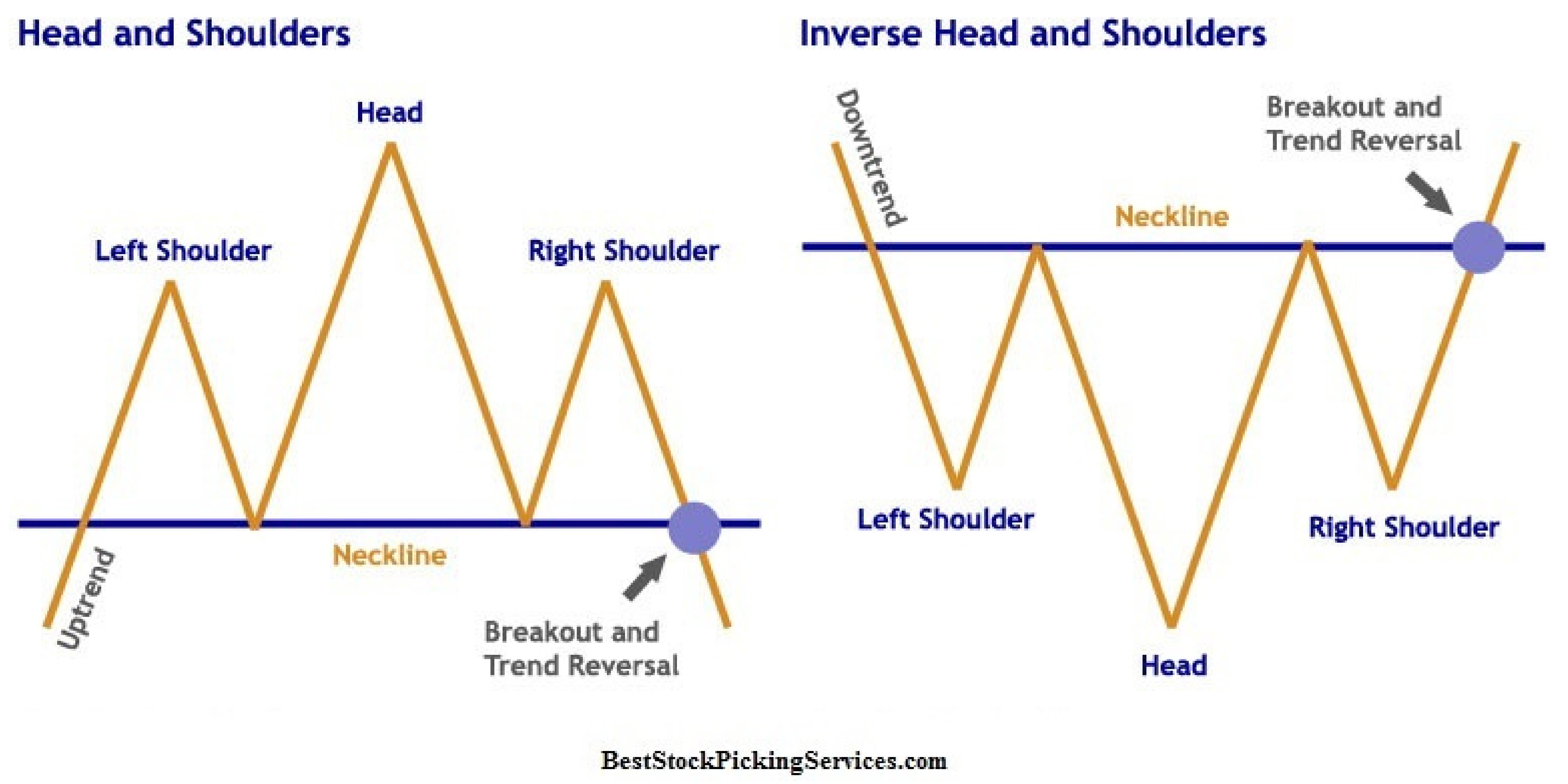
there are many types of patterns, some of them are

1. HEAD AND SHOULDERS PATTERN
2. TRIANGLE PATTERN
3. FLAG PATTERN
4. DOUBLE TOP
5. DOUBLE BOTTOM
6. TRIPLE TOP
7. TRIPLE BOTTOM
8. CUP AND HANDLE PATTERN
9. RISING WEDGE PATTERN
10. FALLING PATTERN

HEAD AND SHOULDERS PATTERN -

A head and shoulders pattern is a chart formation that appears as a baseline with three peaks, the outside two are close in height and the middle is highest. A head and shoulders pattern describes a specific chart formation that predicts a bullish-to-bearish trend reversal in technical analysis.

There are two types of head and shoulder pattern

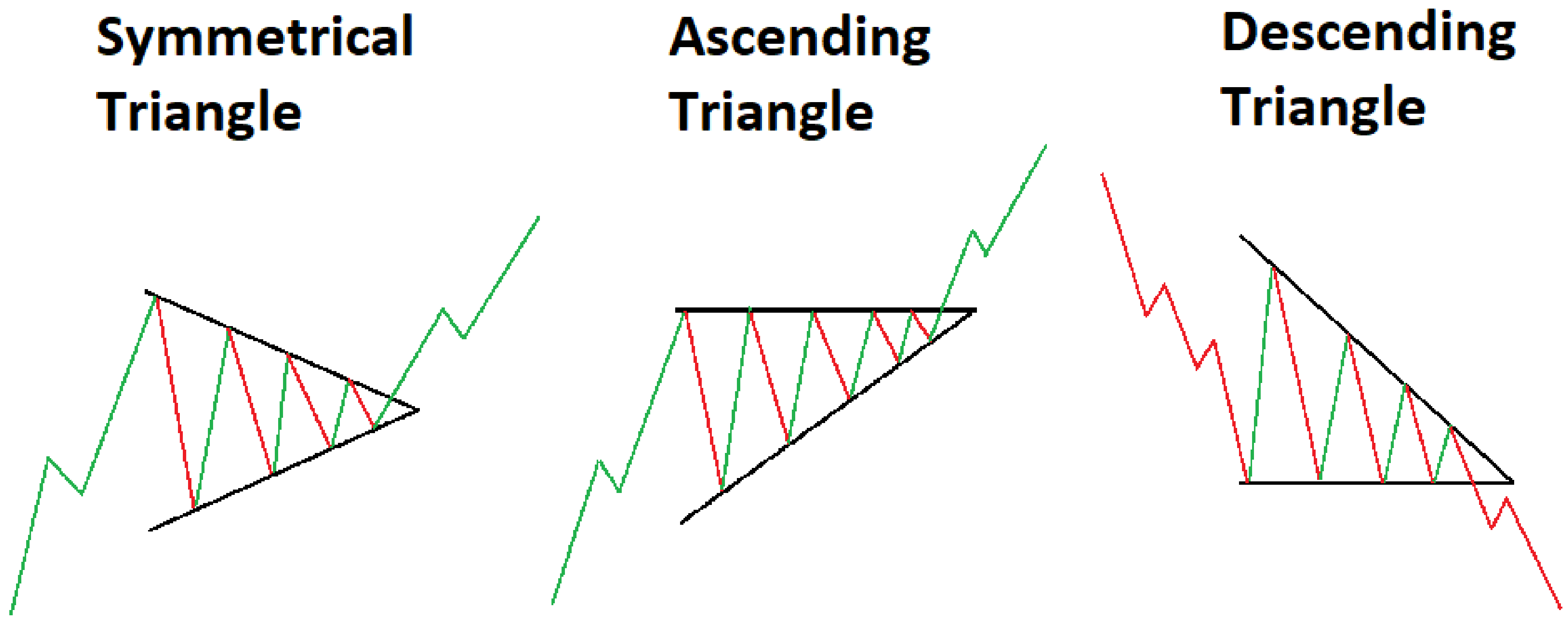


In the above figure, we can see two patterns, the one on the right is an inverted head and shoulder pattern.

The head and shoulders pattern is believed to be one of the most reliable trend reversal patterns. It is one of several top patterns that signal, with varying degrees of accuracy, that an upward trend is nearing its end.

TRIANGLE PATTERN

A triangle is a chart pattern, depicted by drawing trendlines along a converging price range, that connotes a pause in the prevailing trend. Technical analysts categorize triangles as continuation patterns.



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As you see in the above figure there are three patterns, the first one is a symmetrical triangle, the second one is ascending triangle and the third one is descending triangle.

Ascending Triangle: An ascending triangle is a breakout pattern that forms when the price breaches the upper horizontal trendline with rising volume. It is a bullish formation. The upper trendline must be horizontal, indicating nearly identical highs, which form a resistance level. The lower trendline is rising diagonally, indicating higher lows as buyers patiently step up their bids. Eventually, the buyers lose patience and rush into the security above the resistance price, which triggers more buying as the uptrend resumes. The upper trendline, which was formerly a resistance level, now becomes support

- Descending Triangle: A descending triangle is an inverted version of the ascending triangle and considered a breakdown pattern. The lower trendline should be horizontal, connecting near-identical lows. The upper trendline declines diagonally toward the apex. The breakdown occurs when the price collapses through the lower horizontal trendline support as a downtrend resumes. The lower trendline, which was support, now becomes resistance.
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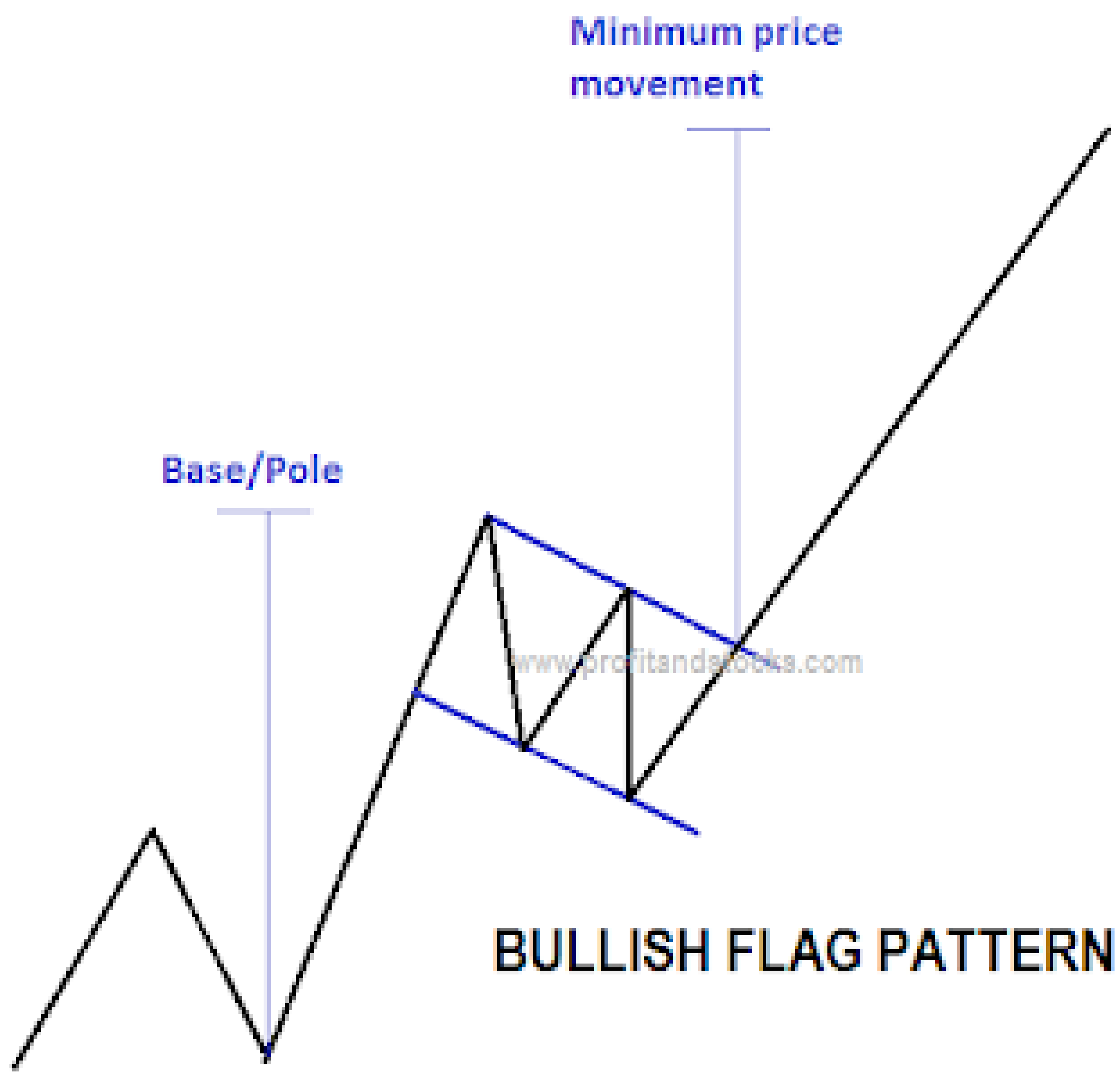
- Symmetrical Triangle: A symmetrical triangle is composed of a diagonal falling upper trendline and a diagonally rising lower trendline. As the price moves toward the apex, it will inevitably breach the upper trendline for a breakout and uptrend on rising prices or breach the lower trendline forming a breakdown and downtrend with falling prices.

FLAG PATTERN

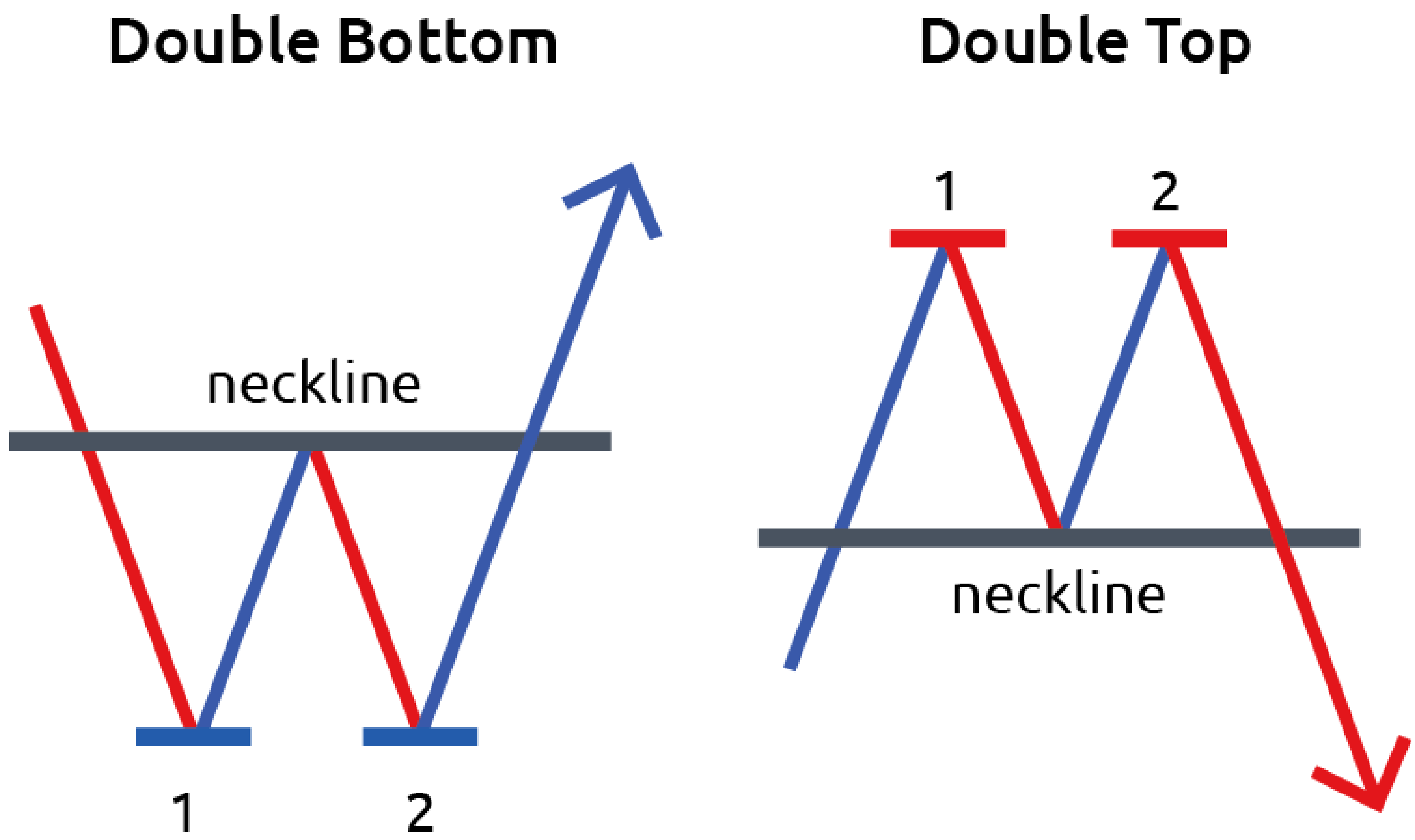
a flag is a price pattern that, in a shorter time frame, moves counter to the prevailing price trend observed in a longer time frame on a price chart.



It is named because of the way it reminds the viewer of a flag on a flagpole. The flag pattern is used to identify the possible continuation of a previous trend from a point at which price has drifted against that same trend.

DOUBLE TOP AND BOTTOM -

Double top and bottom patterns are chart patterns that occur when the underlying investment moves in a similar pattern to the letter "W" (double bottom) or "M" (double top). Double top and bottom analysis is used in technical analysis to explain movements in a security or other investment and can be used as part of a trading strategy to exploit recurring patterns.

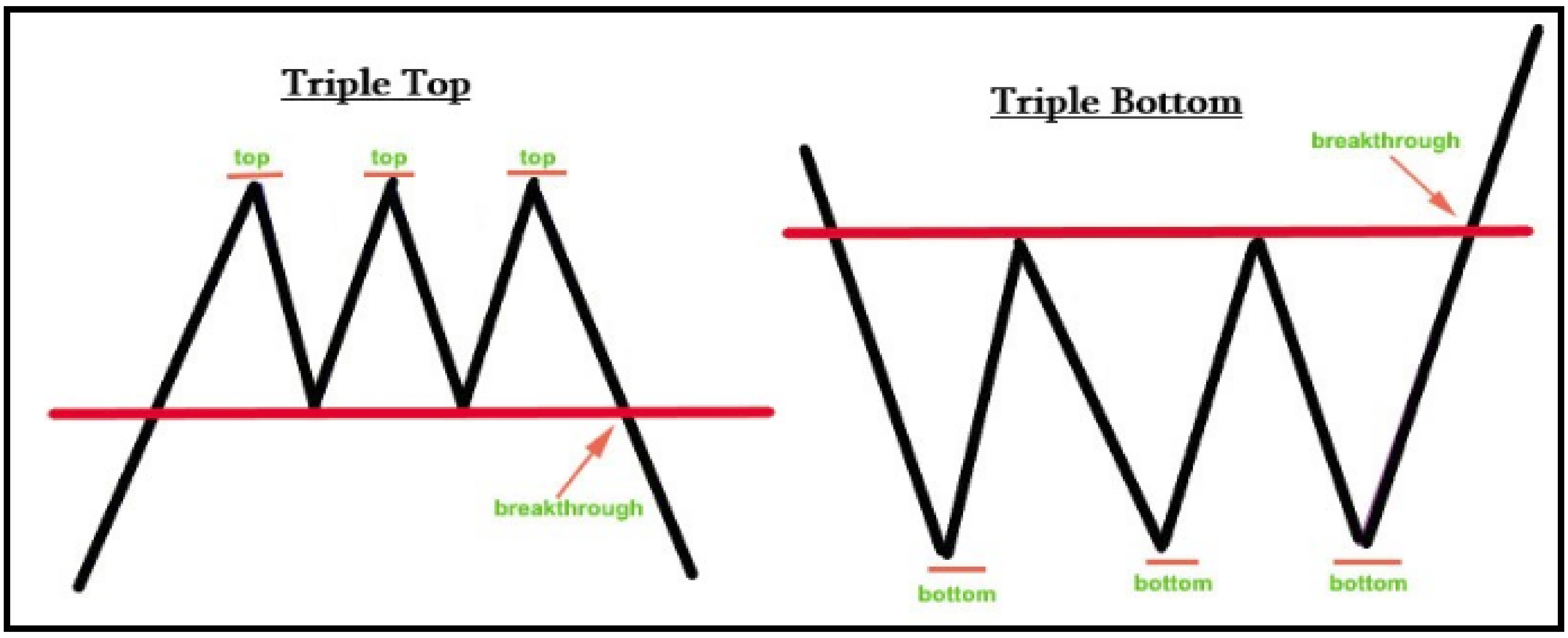


DOUBLE TOP AND BOTTOM PATTERNS TYPICALLY EVOLVE OVER A LONGER PERIOD OF TIME AND DO NOT ALWAYS PRESENT AN IDEAL VISION OF A PATTERN BECAUSE THE SHIFTS IN PRICES DON'T NECESSARILY RESEMBLE A CLEAR "M" OR "W". WHEN REVIEWING THE CHART PATTERN, IT IS IMPORTANT FOR INVESTORS TO NOTE THAT THE PEAKS AND TROUGHS DO NOT HAVE TO REACH THE SAME POINTS IN ORDER FOR THE "M" OR "W" PATTERN TO APPEAR.

Double top and bottom patterns are formed from consecutive rounding tops and bottoms. These patterns are often used in conjunction with other indicators since rounding patterns, in general, can easily lead to fakeouts or mistaking reversal trends.

TRIPLE TOP AND BOTTOM -

Triple tops and bottoms are extensions of double tops and bottoms. If the double tops and bottoms resemble an "M" or "W," the triple tops and bottoms bear a resemblance to the cursive "M" or "W": three pushes up (in a triple top) or three pushes down (for a triple bottom). These price patterns represent multiple failed attempts to break through an area of support or resistance. In a triple top, the price makes three tries to break above an established area of resistance, fails and recedes. A triple bottom, in contrast, occurs when the price makes three stabs at breaking through a support level, fails and bounces back up.



CUP AND HANDLE PATTERN -

A cup and handle price pattern on a security's price chart is a technical indicator that resembles a cup with a handle, where the cup is in the shape of a "u" and the handle has a slight downward drift. The cup and handle is considered a bullish signal, with the right-hand side of the pattern typically experiencing lower trading volume. The pattern's formation may be as short as seven weeks or as long as 65 weeks.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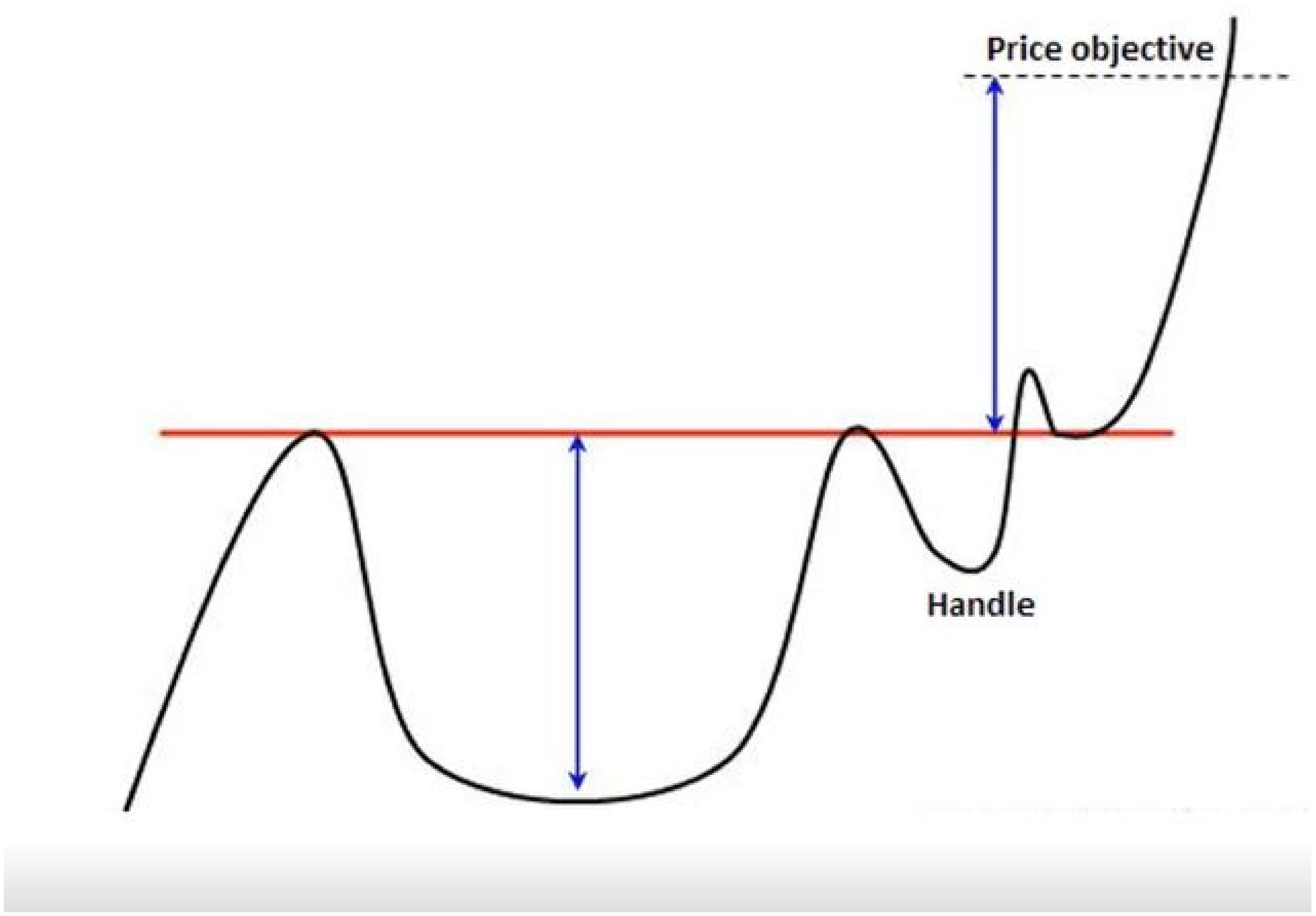
Price objective
Handle

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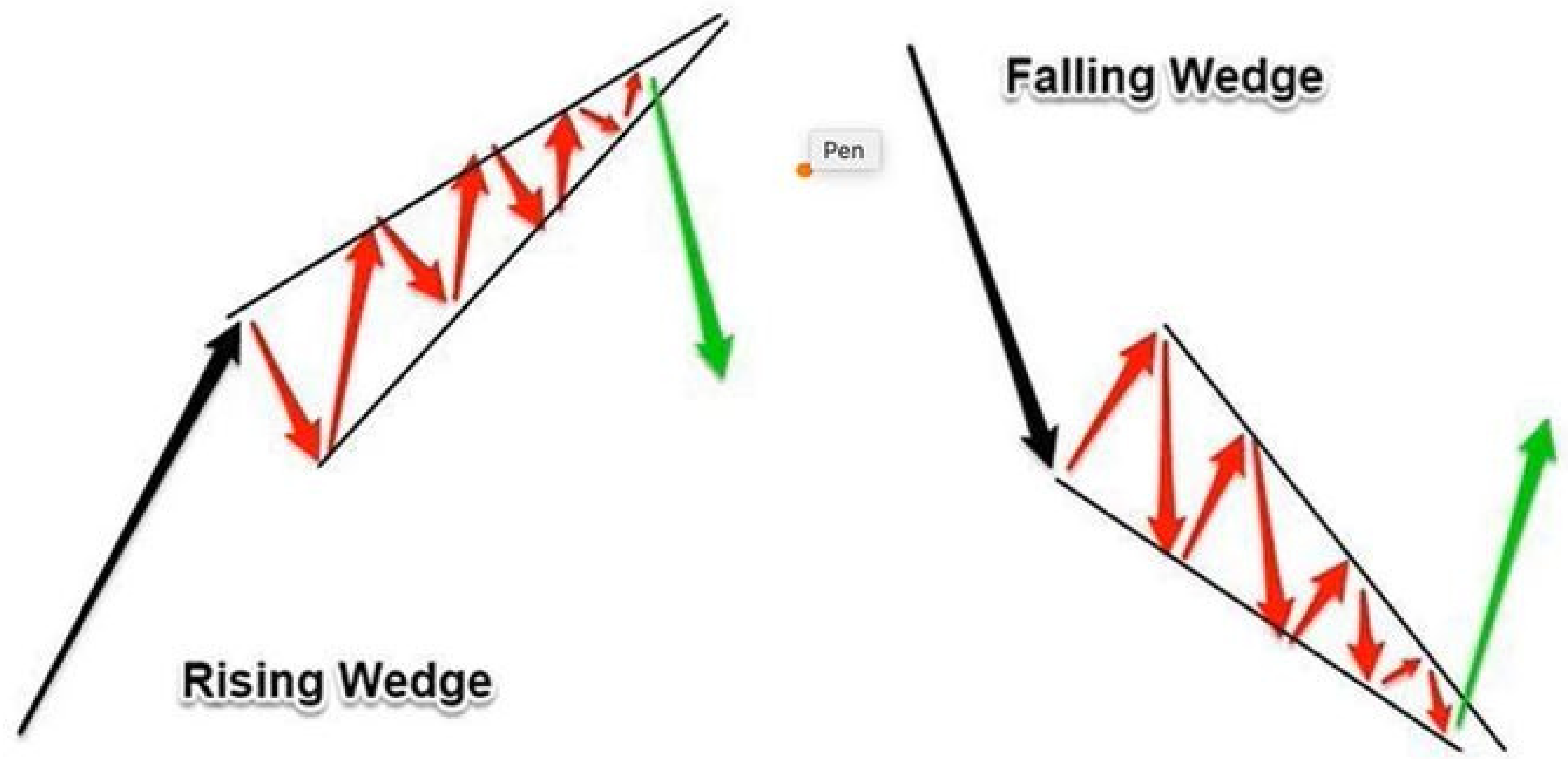
WEDGE PATTERN -

There are two types of a wedge pattern, rising wedge and falling wedge pattern

RISING WEDGE -

This usually occurs when a security’s price has been rising over time, but it can also occur in the midst of a downward trend as well.



FALLING WEDGE -

When a security's price has been falling over time, a wedge pattern can occur just as the trend makes its final downward move. The trend lines drawn above the highs and below the lows on the price chart pattern can converge as the price slide loses momentum and buyers step in to slow the rate of decline. Before the lines converge, the price may breakout above the upper trend line.

Risk management techniques vary based on how you are positioned in the market. For example, if you have a single position in the market, then your approach to risk management is very different compared to the risk management techniques of multiple positions, which is again completely different compared to the risk management techniques of a portfolio.

Risk is inseparable from return. Every investment involves some degree of risk, which is considered close to zero in the case of a U.S. T-bill or very high for something such as emerging-market equities or real estate in highly inflationary markets. Risk is quantifiable both in absolute and in relative terms. A solid understanding of risk in its different forms can help investors to better understand the opportunities, trade-offs, and costs involved with different investment approaches.

Understanding Risk Management

Risk management occurs everywhere in the realm of finance. It occurs when an investor buys U.S. Treasury bonds over corporate bonds, when a fund manager hedges his currency exposure with currency derivatives, and when a bank performs a credit check on an individual before issuing a personal line of credit. Stockbrokers use financial instruments like options and futures, and money managers use strategies like portfolio diversification, asset allocation and position sizing to mitigate or effectively manage risk.

Inadequate risk management can result in severe consequences for companies, individuals, and the economy. For example, the subprime mortgage meltdown in 2008 that helped trigger the Great Recession stemmed from bad risk-management decisions, such as lenders who extended mortgages to individuals with poor credit; investment firms who bought, packaged, and resold these mortgages; and funds that invested excessively in the repackaged, but still risky, mortgage-backed securities (MBS).

Multiple time frame analysis, or multi-time frame analysis, is the process of viewing the same Stock pair under different time frames. Usually, the larger time frame is used to establish a longer-term trend, while a shorter time frame is used to spot ideal entries into the market.
The rules of thumb is to use a ratio of 1:4 or 1:6 when switching between time frames. The logic behind this approach is to be able to uncover the smaller, intricate movements in the price for well-timed entries into the market. That being said, it is of little use to focus on extremely small time frames because most of the price movement has little bearing on the overall trade and can lead to unnecessary stress when the market seems to be moving quickly.
Considering an example, when viewing the trend on an hourly chart, traders can zoom into the 10-minute chart (1:6) or the 15-minute chart (1:4) for suitable entries. The 10 or 15-minute chart provides an indication of shorter-term developments and the hourly chart is where the trade’s progress can be monitored going forward.

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