

# Introduction To Applying Technical Analysis

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**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON SLIDE 54**



- 
- Technical Analysis is the study of price action

# Studying Historical Price Action



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# Basic Tenets Behind Technical Analysis

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- The market discounts everything
- Prices move in trends
- History tends to repeats itself
- Human behaviour/psychology is repetitive

# So What Are We Really Trying To Do?

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- Technical Analysis is the study of price action - historical
- This is possible because historical price action has proved to contain a repetitive element
- Allows one to tap into the **PSYCHOLOGICAL** make-up of the market.
- Observing conditions that signal strength or weakness in a trend
- Improve the timing element in detecting changes in market dynamics
- Effective execution and management of trades - **PLAN THE TRADE AND TRADE THE PLAN!**
- Preserving capital - risk management is key!

# A Focus On Price



- Imagine ignoring all fundamental events and allow the market to deal with current and future market moving information
- The price level then summarises the result of all these decision makers
- Providing us with a summary of the day's events at any point in time, and more.....
- ***FEAR*** and ***GREED***

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# Disciplined Approach-Tools & Applications

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- Studying the psychological element of price
  - Trends and trendlines
  - Price patterns
  - Candlestick analysis
  - Elliott wave analysis
- Momentum
- Moving Averages
- Fibonacci retracements
- Establishing a directional bias
- Planning a trade
- Trading the plan

# Technical Versus Fundamental Analysis

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- An economist studies factors that markets to move such as:
  - Interest rates
  - Corporate profits
  - Central bank decision
  - Commodity supply issues
  - Geopolitical concerns
- Economic analysis therefore focuses on factors affecting the supply/demand curves
- These can be difficult to identify and evaluate – what is the market really thinking?

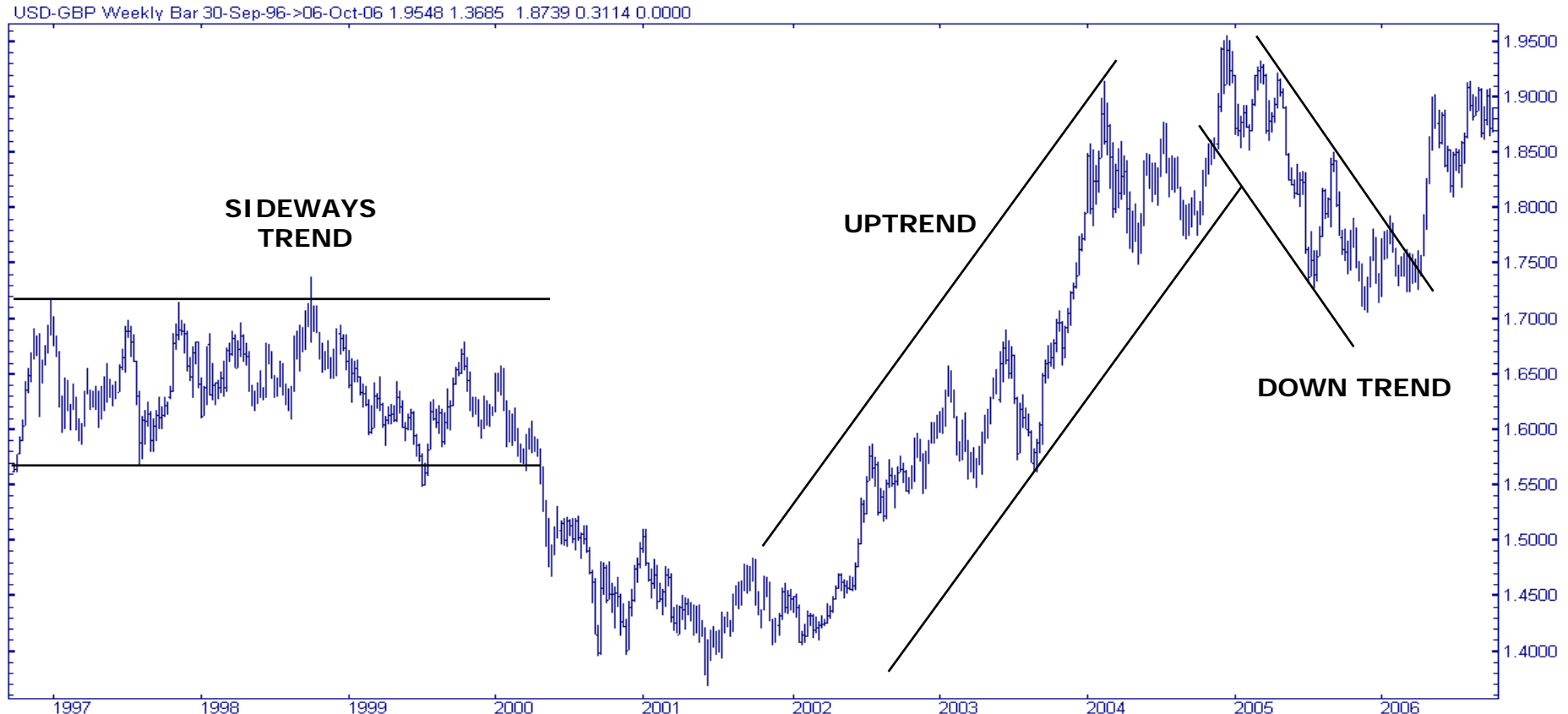


# How Can Technical Analysis Help Me?

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- It can increase trading **flexibility and adaptability**
- The technical trader has the ability to select trending markets and therefore **select the better trading opportunities**
- Technical analysis **improves timing when entering/exiting positions**. Identifies risk levels as well forcing a disciplined approach to the market
- Assists in **managing risk**
- Technical analysis can be applied to **multiple time frames**
- Helps you to **achieve superior returns**

# Know Your Trend – There Are 3 Types Of Trends



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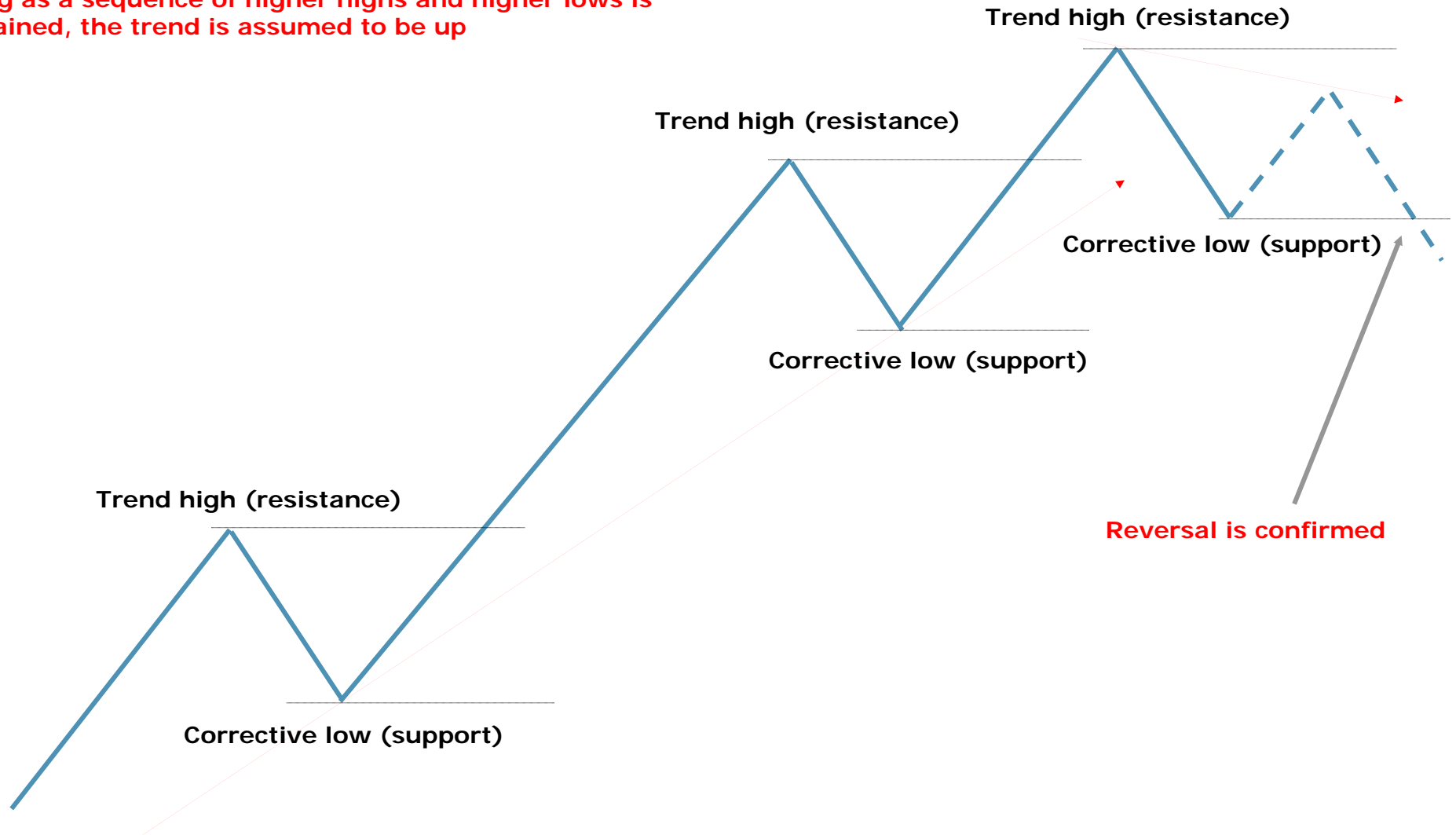
# Definition Of A Trend

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- An uptrend is a sequence of higher highs and higher lows
- A downtrend is a sequence of lower lows and lower highs

# Understanding A Trend

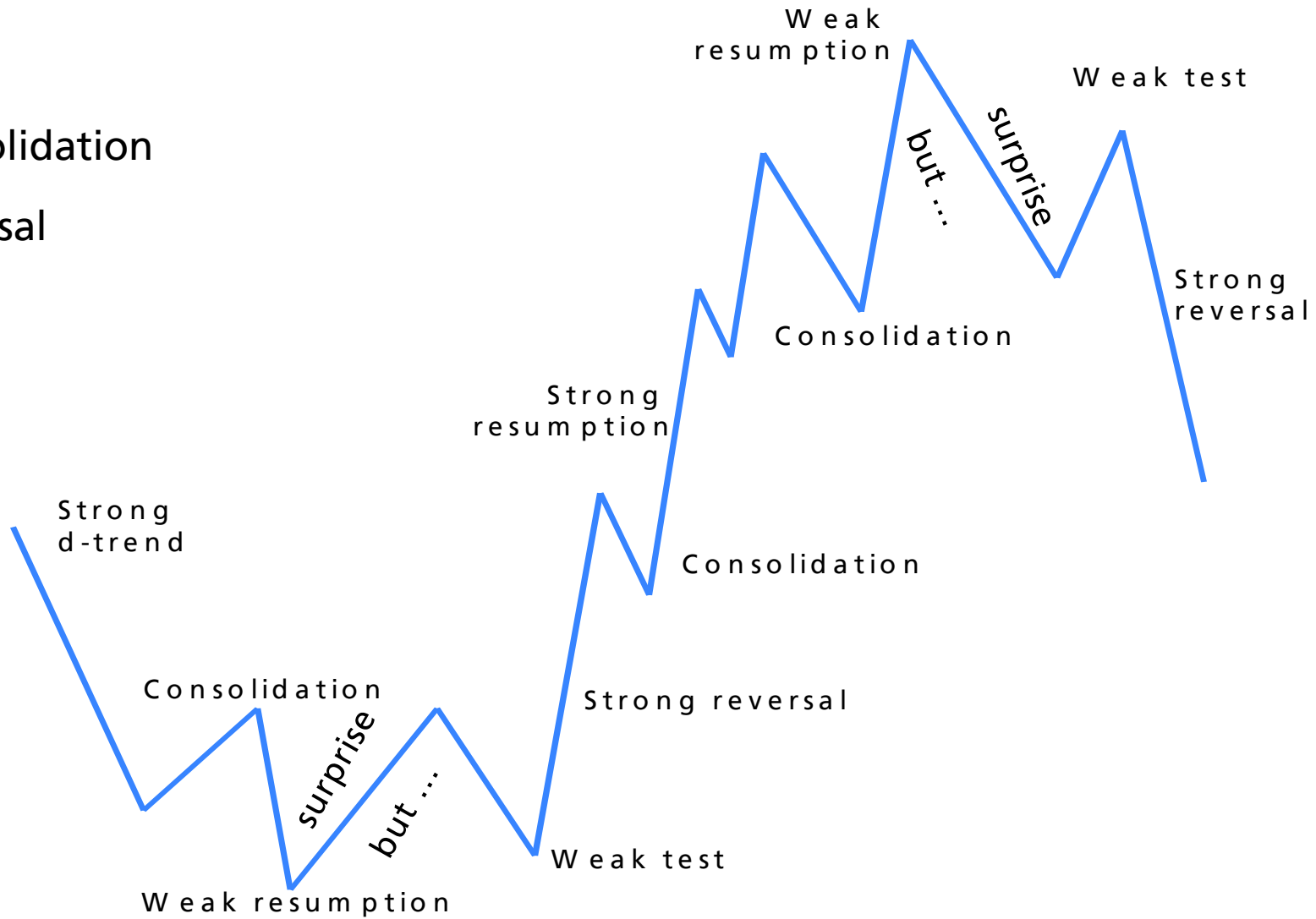
As long as a sequence of higher highs and higher lows is maintained, the trend is assumed to be up



# Anatomy of Price Action

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- Trend
- Consolidation
- Reversal



**Market will always be in one of these 3 modes**

# Successful Trend Definition Is Essential

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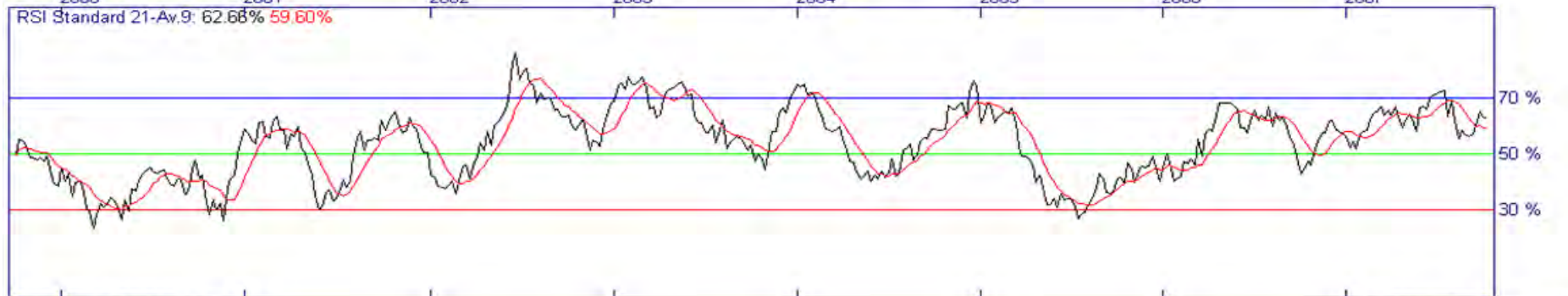
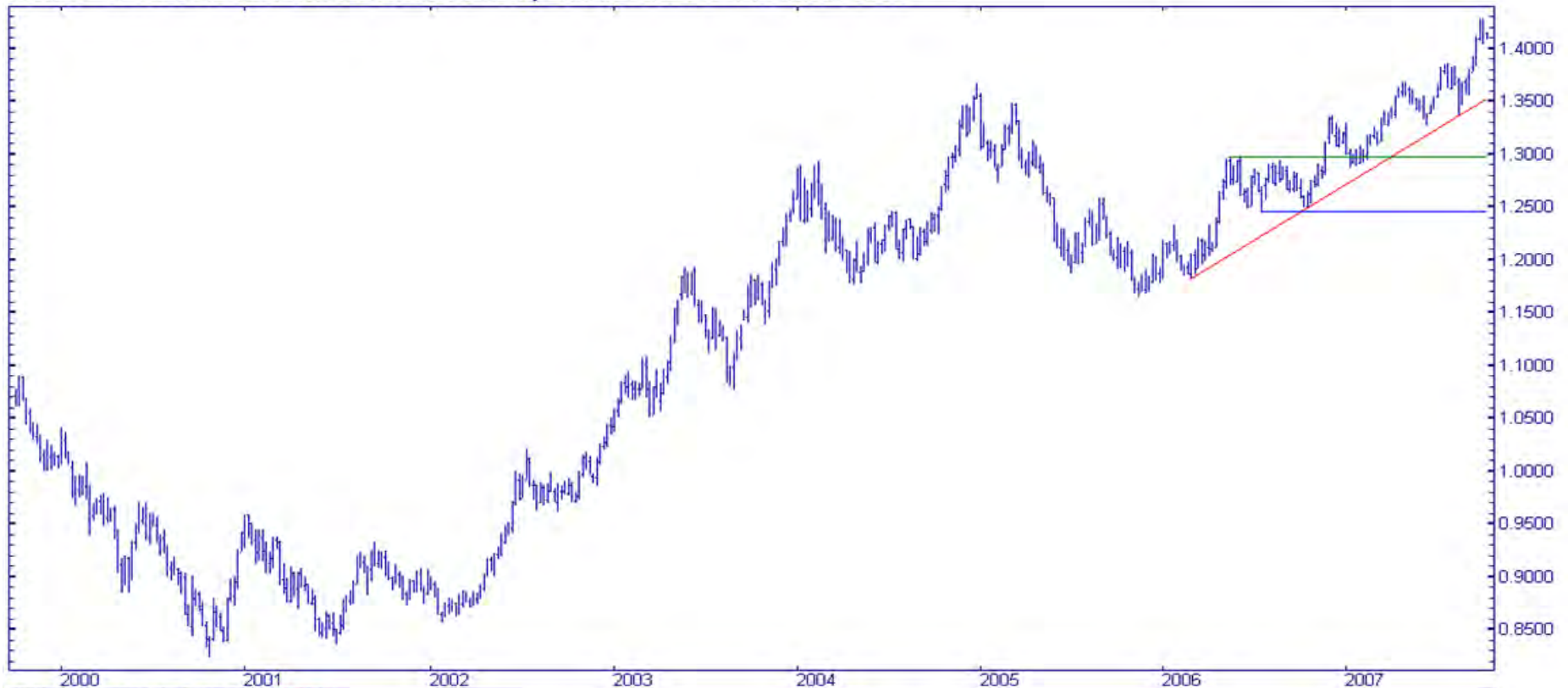
- Assess underlying direction of the trend
  - Flat / Up / Down
- Expression of underlying view for risk management – are you a bull or a bear?
- Detection of risk levels - for protection
- Where do reversals develop – shift in sentiment

# Test - Trend Definition Is Essential



# Trend Definition Is Essential

Preset 89 - 04-Oct-99->12-Oct-07 EUR-USD 22:00/22:00 Weekly Bar 1.4281 0.8232 © 1.4091 0.3379 0.0000



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# Ground Rules

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- A trend is defined by a series of highs and lows – higher highs and higher lows confirm an uptrend, lower lows and lower highs a downtrend – **never forget this**
- In a bear market the trend must be defined through the prior highs - resistance
- In a bull market the trend must be defined through the lows - support
- The more times the trend line is tested, the more valid the line is
- Identifying trend support / resistance is key
- The trend is your friend..... Until it reverses!

# Trendlines And Channels

## FTSE Weekly Chart

Preset 122 - 25-Mar-02->30-Mar-07 FTSE100 Weekly Bar 6451.4 3278.7 © 6298.9 1048.4 0.0

**A trendline is a representation of the trend, a best fit line against either support (uptrend) or resistance (downtrend)**



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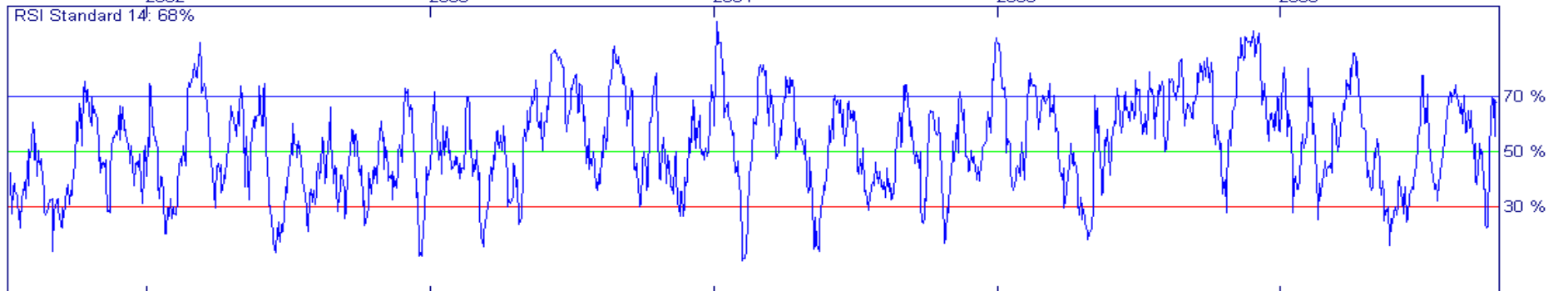
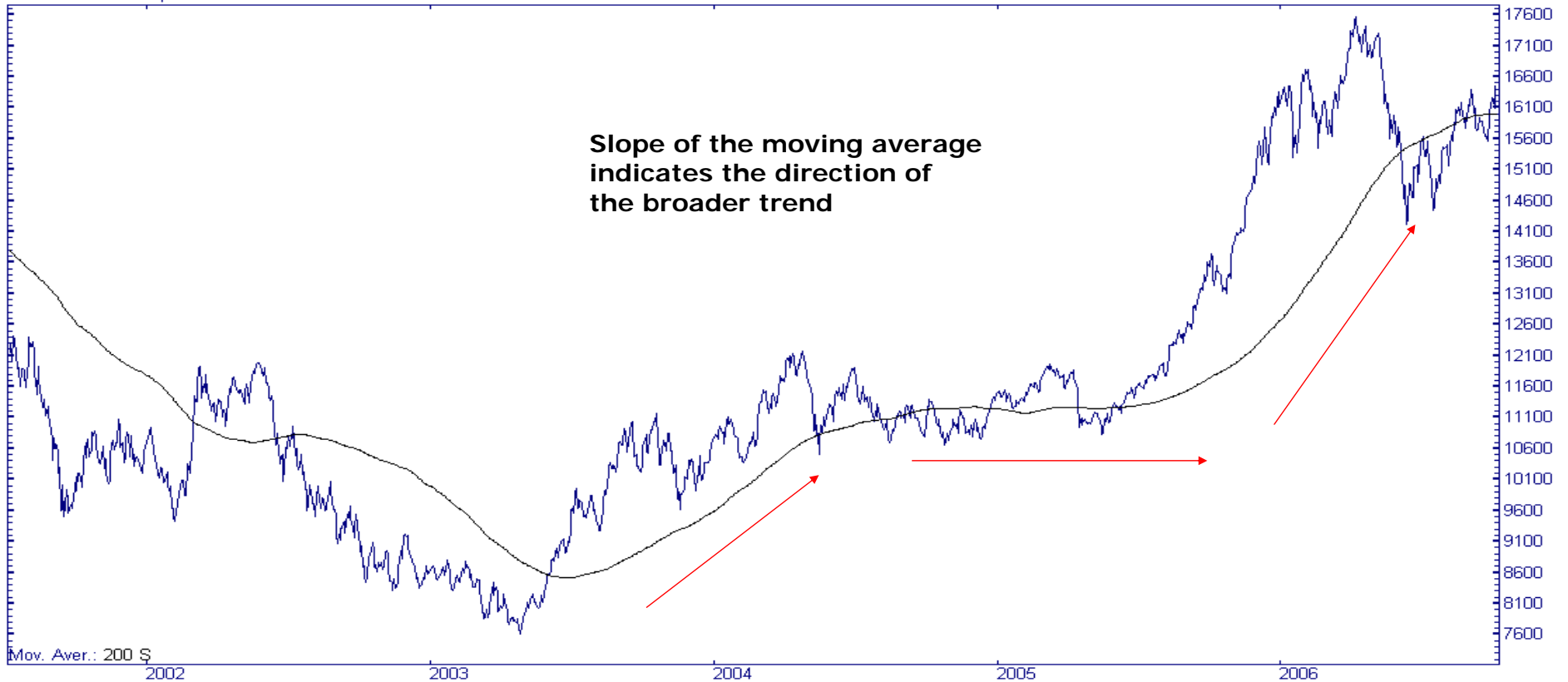
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# Noise Reduction With Moving Averages

Index NIKKEI Daily Line Chart 09-Jul-01->09-Oct-06 17563 7608



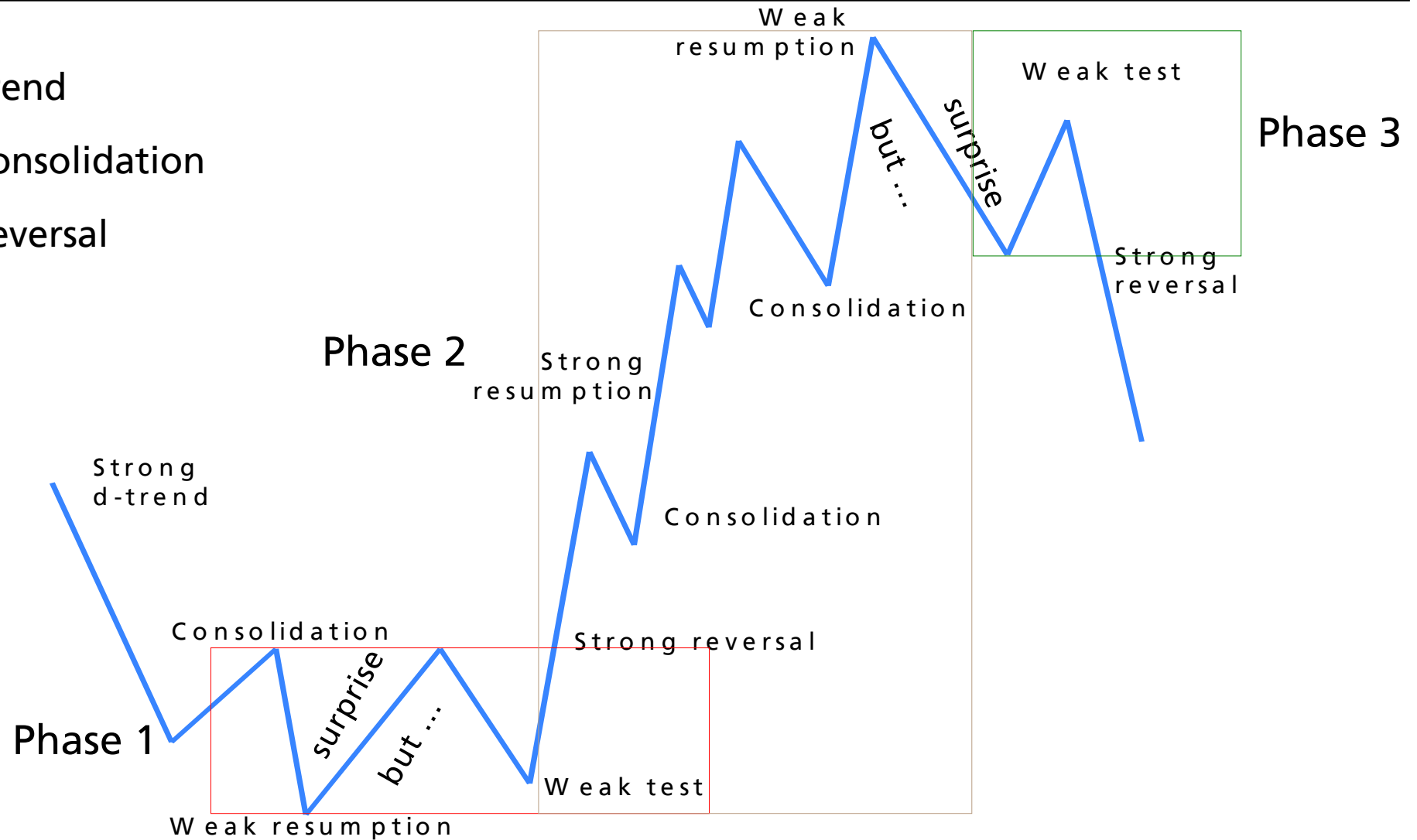
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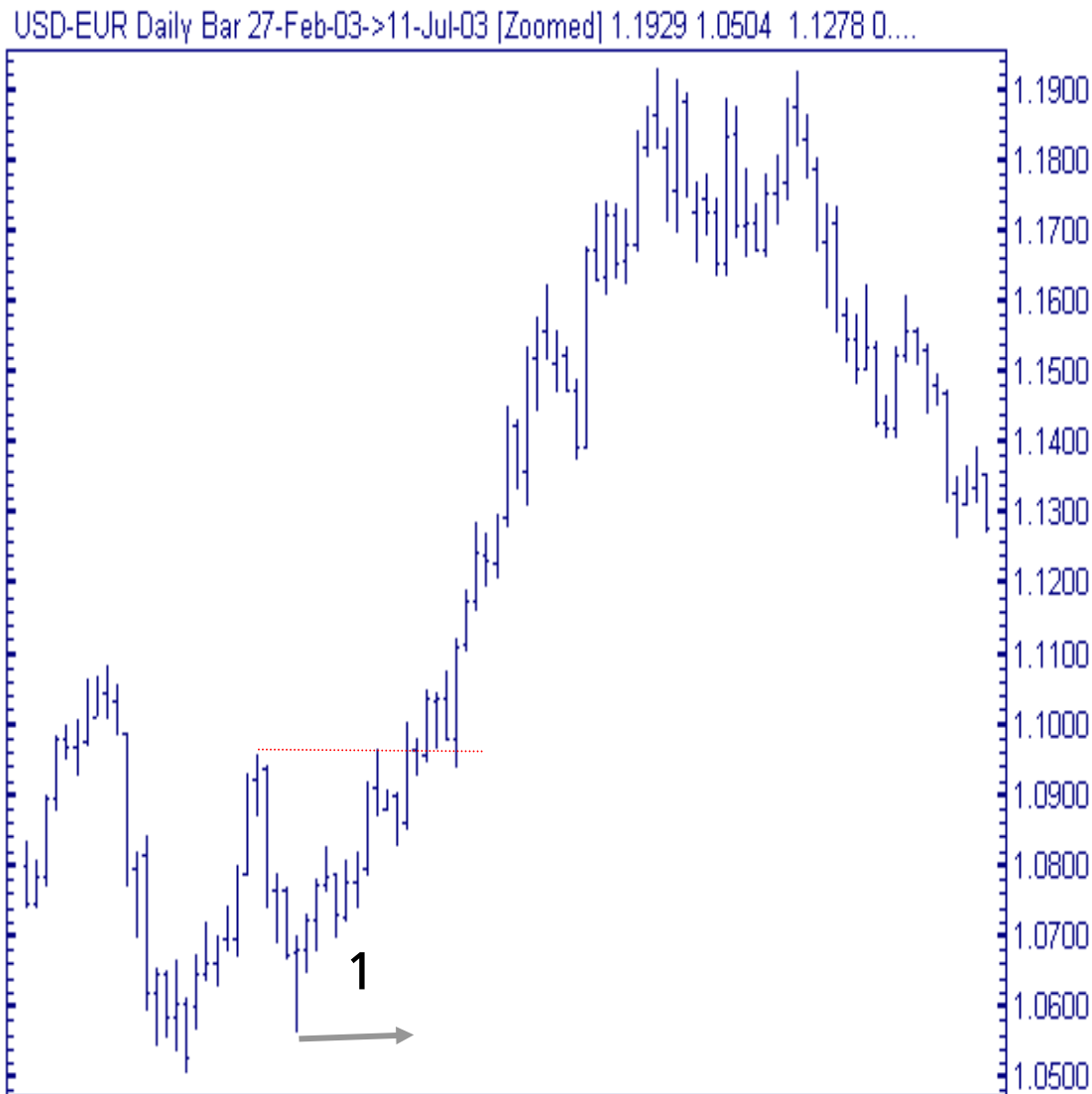
# Anatomy of Price Action – 3 Phases

- Trend
- Consolidation
- Reversal



**Market will always be in one of these 3 modes**

# Three Phases - Phase 1



- A trend is very difficult to detect at this stage
- Very few traders and investors will actually open positions in this phase
- Economic news and cycles are generally still bad but improving
- No public participation
- Most traders will still be trying to sell into the rallies

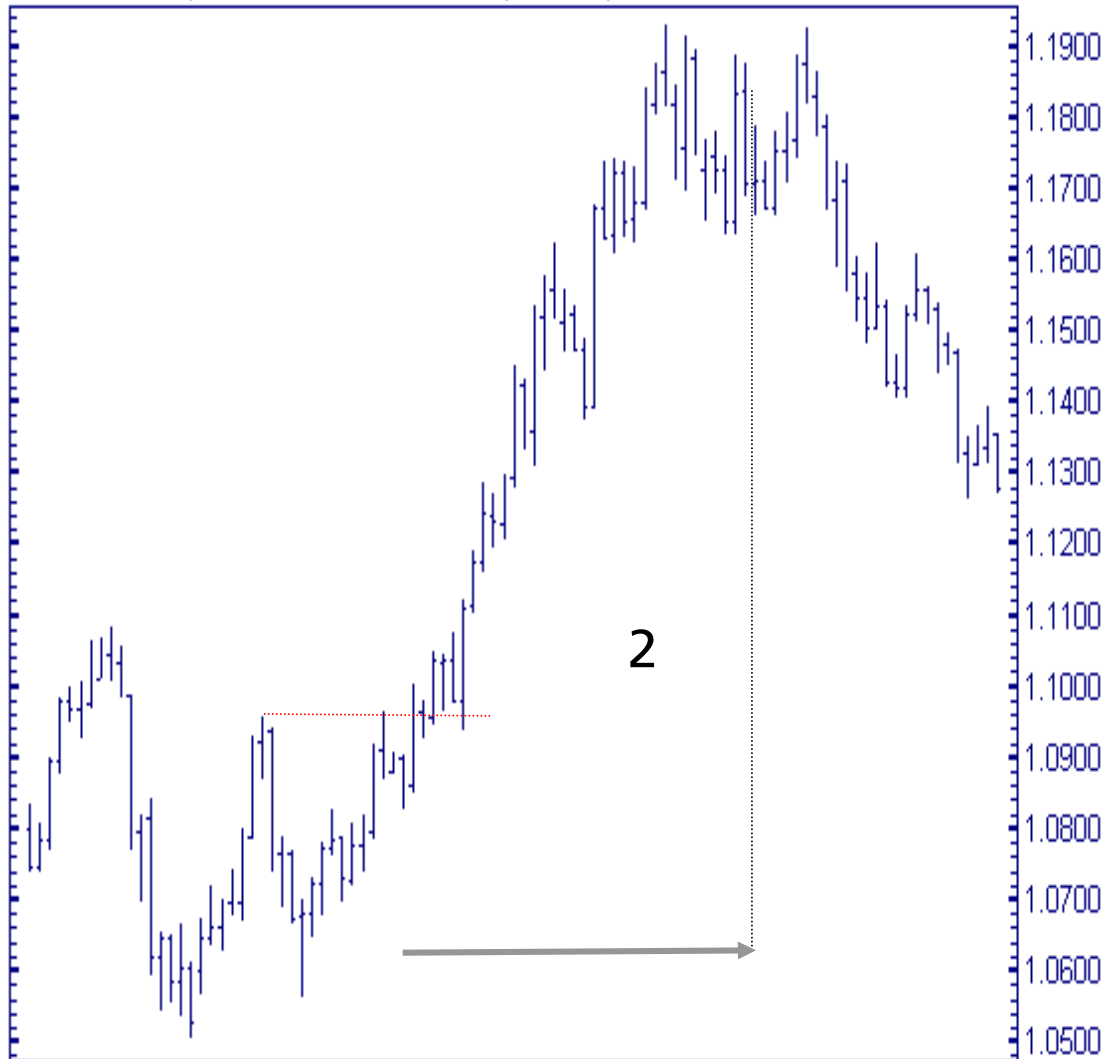
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# Phase 2

USD-EUR Daily Bar 27-Feb-03->11-Jul-03 [Zoomed] 1.1929 1.0504 1.1278 0...



- Market exceeds previous high and trend is identified
- Traders begin to buy as bearish sentiment fades
- Economic news generally improving
- Media starts to report a new bull phase
- Public begins to participate
- Traders are now buying the dips
- Is the most powerful phase of the three and most profits are generated in this phase

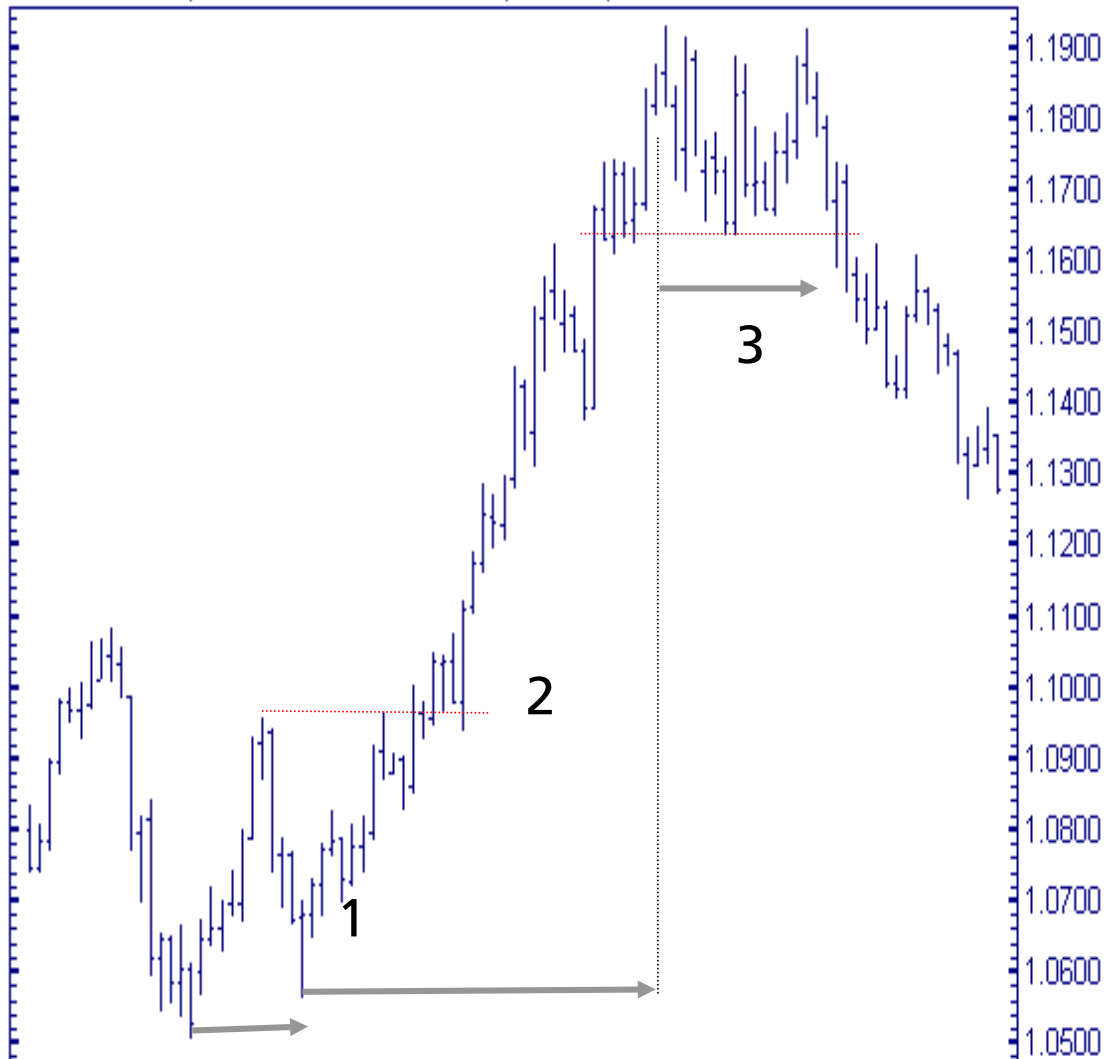
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# Phase 3

USD-EUR Daily Bar 27-Feb-03->11-Jul-03 [Zoomed] 1.1929 1.0504 1.1278 0....



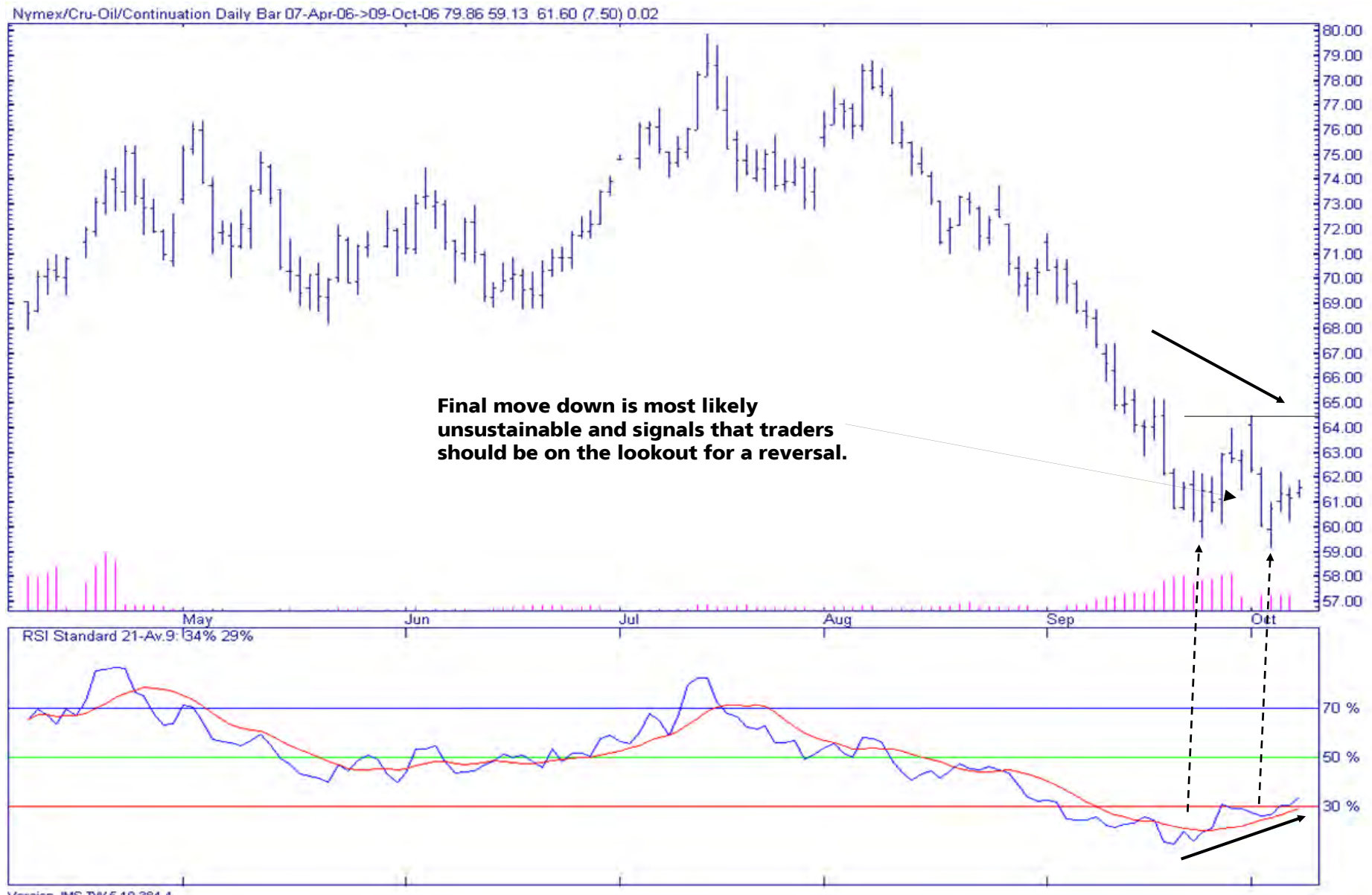
- ◆ Market once again exceeds previous top as trend is confirmed
- ◆ Fear of intervention makes traders wary
- ◆ Fundamental factors peaking
- ◆ Media still reporting positive news but now wondering how far we can go
- ◆ Increased public participation
- ◆ A few scares and profit taking causes concern stops are raised
- ◆ Blow off occurs as stops triggered
- ◆ Generally the weakest of the three phases

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# Divergence Between Price And Momentum





# Define Trend And Risk Parameter



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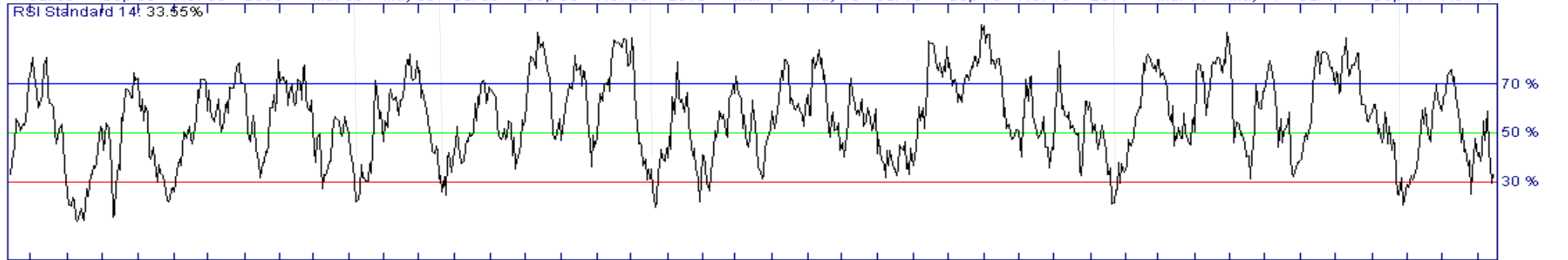
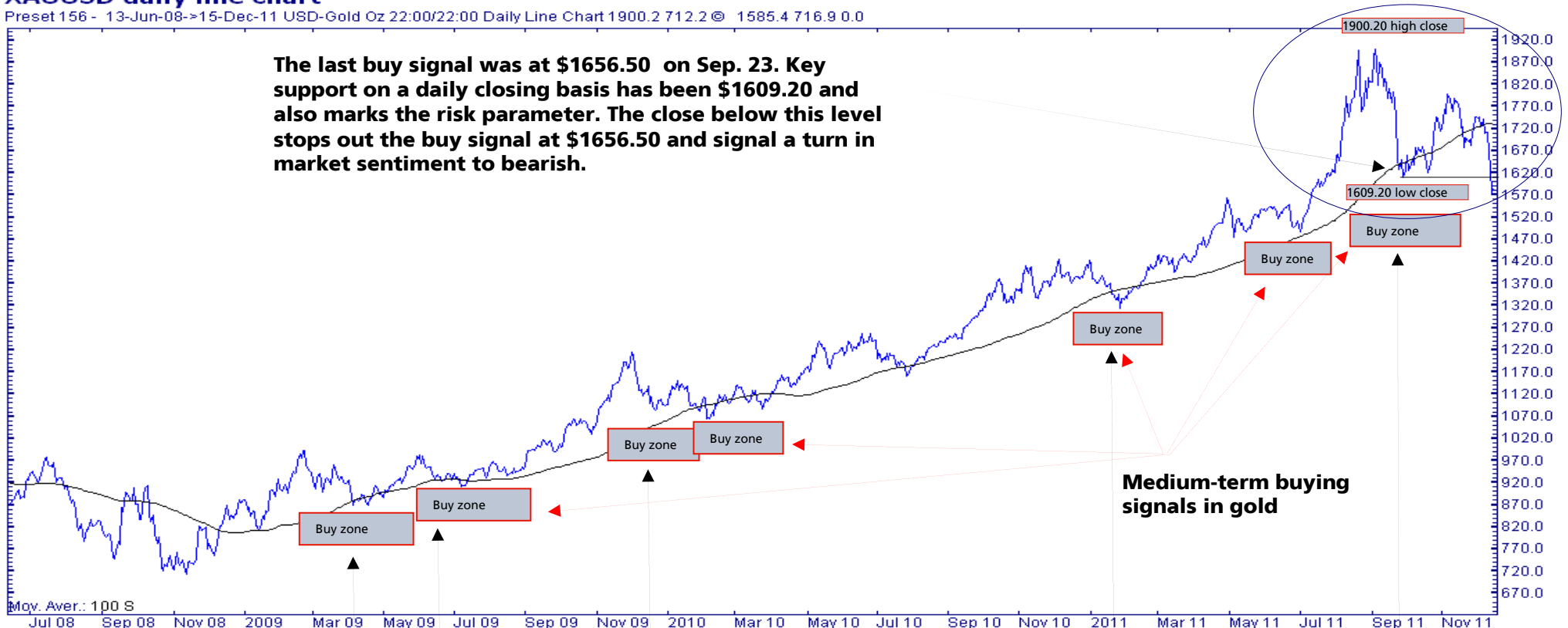
- 
- Putting all this to the test

# Define Trend And Risk Parameter

## XAUUSD daily line chart

Preset 156 - 13-Jun-08->15-Dec-11 USD-Gold Oz 22:00/22:00 Daily Line Chart 1900.2 712.2 © 1585.4 716.9 0.0

The last buy signal was at \$1656.50 on Sep. 23. Key support on a daily closing basis has been \$1609.20 and also marks the risk parameter. The close below this level stops out the buy signal at \$1656.50 and signal a turn in market sentiment to bearish.



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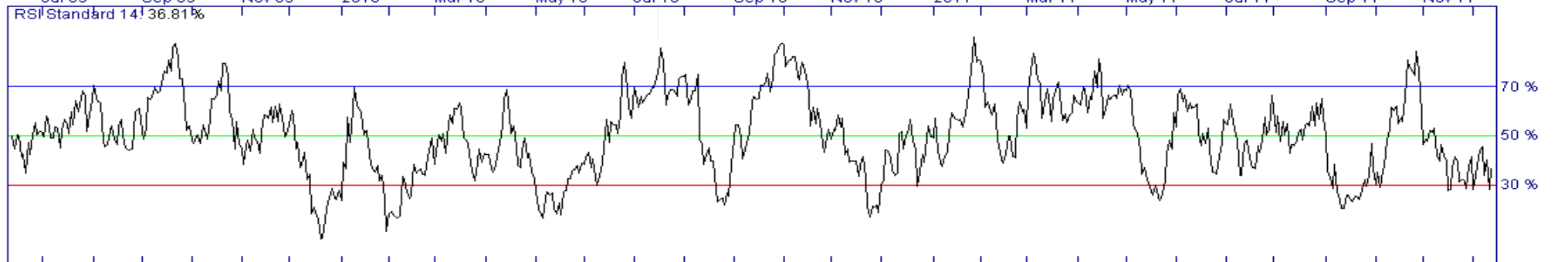
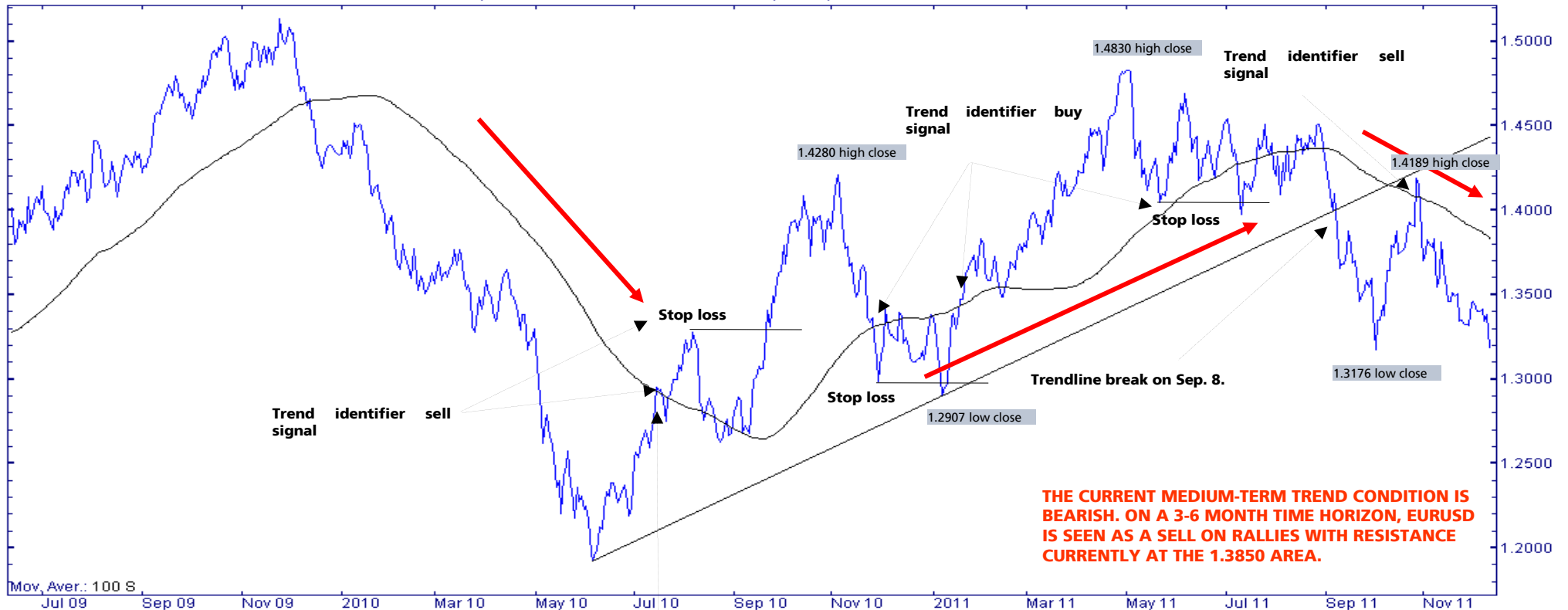
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# Trading The Trend And Risk Parameter

## EURUSD daily line chart

Preset 90 - 12-Jun-09->13-Dec-11 EUR-USD 22:00/22:00 Daily Line Chart 1.5136 1.1923 © 1.3193 (0.0919) 0.0000



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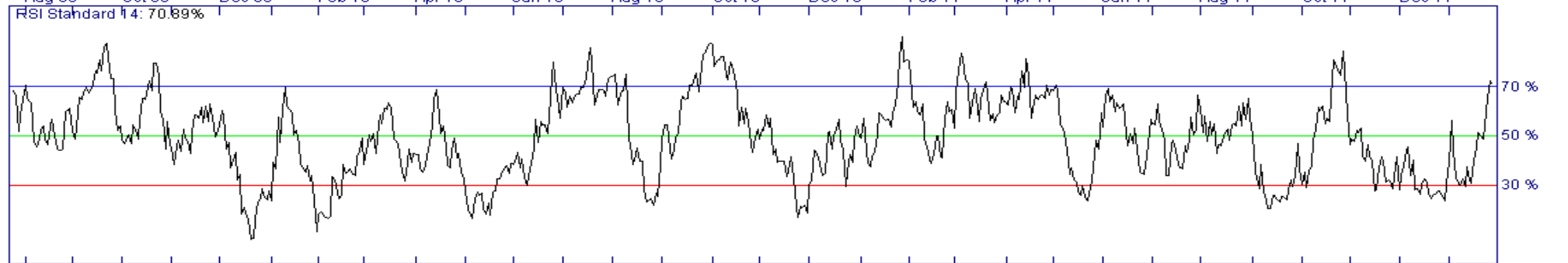
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# Define Trend And Risk Parameter

## EURUSD daily line chart

Preset 90 - 27-Jul-09->27-Jan-12 EUR-USD 22:00/22:00 Daily Line Chart 1.5136 1.1923 © 1.3131 (0.1094) 0.0000



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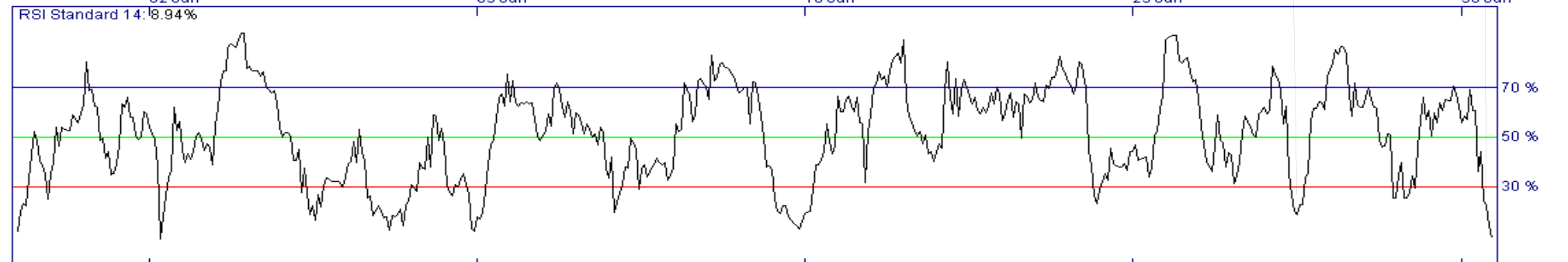
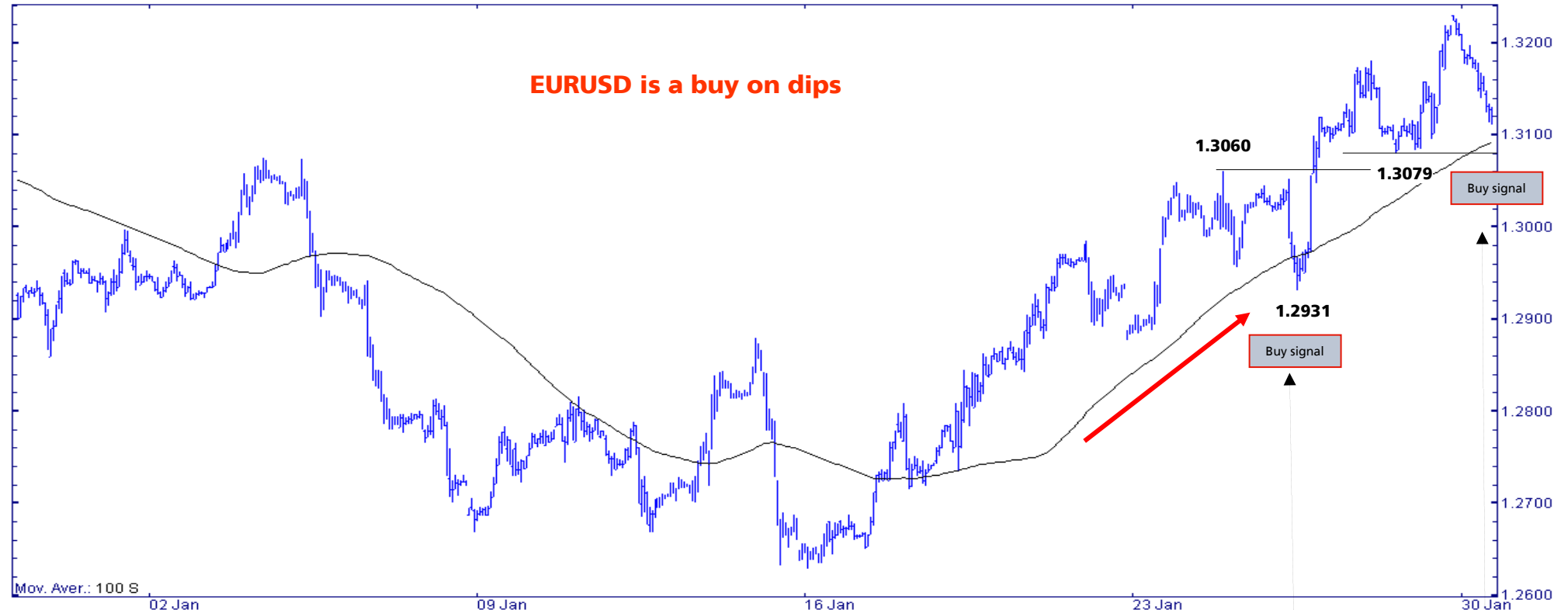
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# Define Trend And Risk Parameter

## EURUSD 60-min bar chart

Preset 284 - 29-Dec-11->30-Jan-12 EUR-USD Hourly Bar 1.3229 1.2628 © 1.3125 0.0199 0.0000



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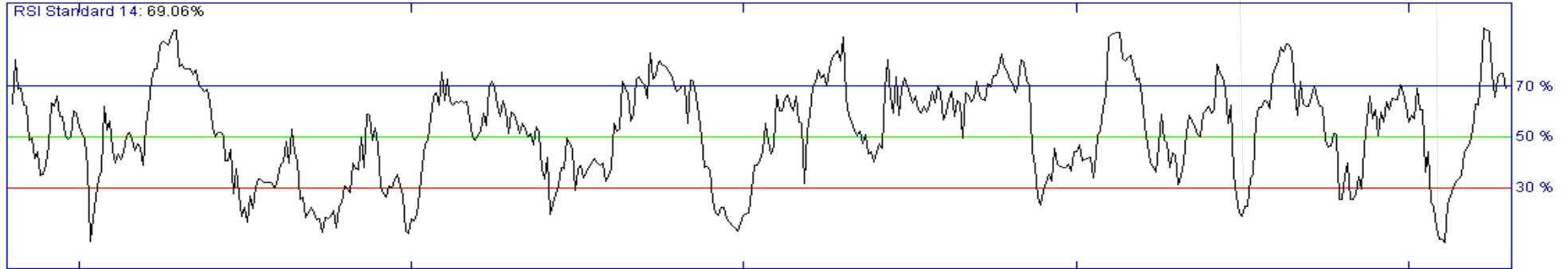
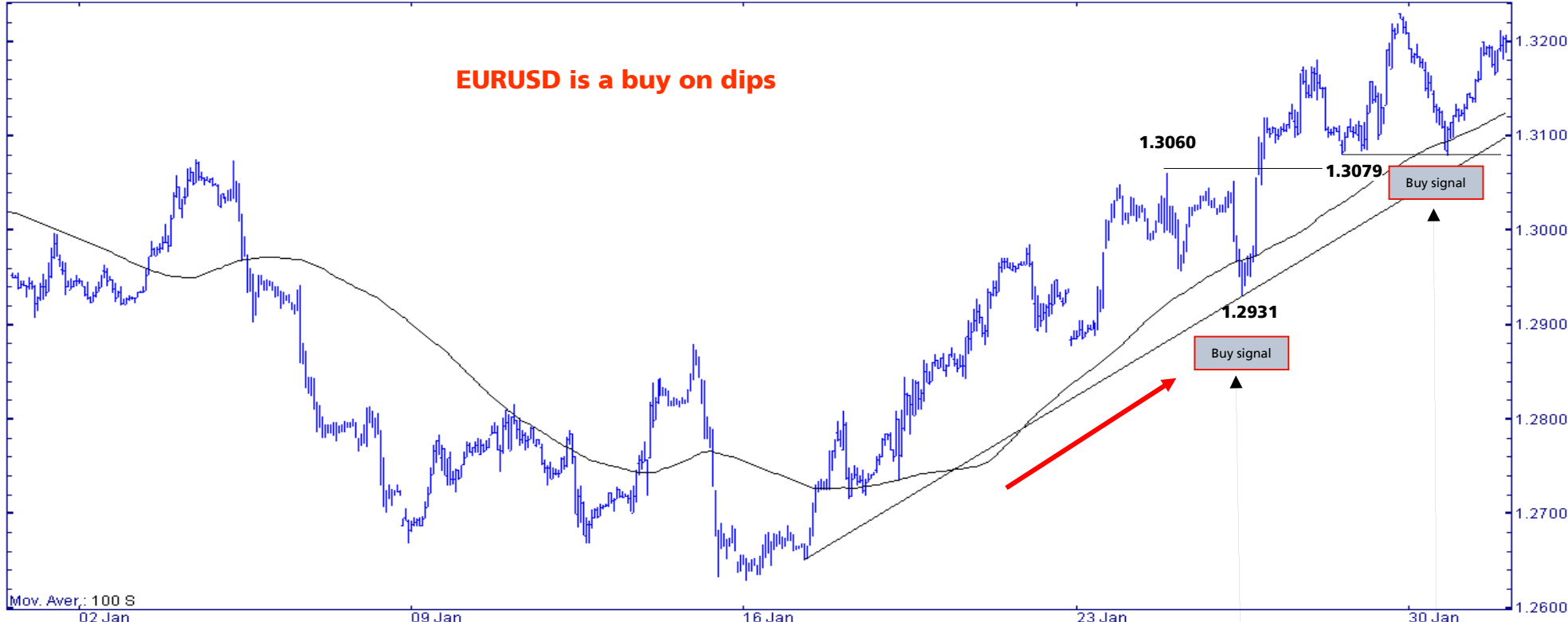
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# Define Trend And Risk Parameter

## EURUSD 60-min bar chart

Preset 284 - 30-Dec-11->31-Jan-12 EUR-USD Hourly Bar 1.3229 1.2628 © 1.3196 0.0243 0.0000



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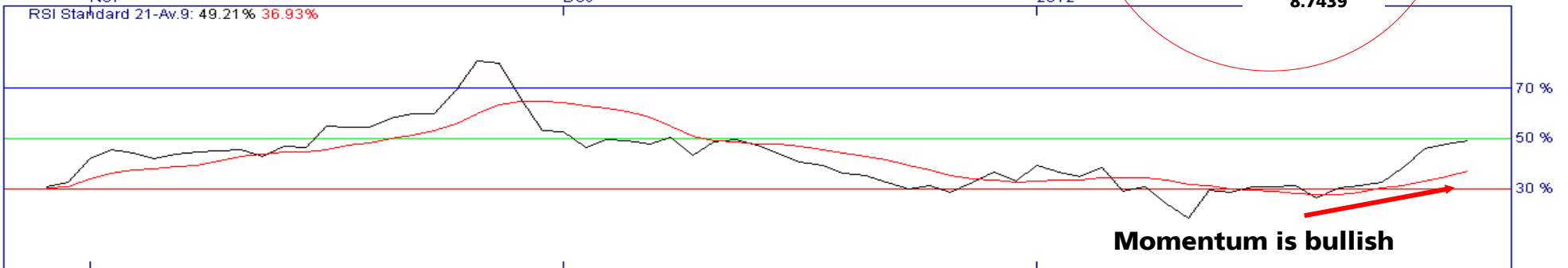
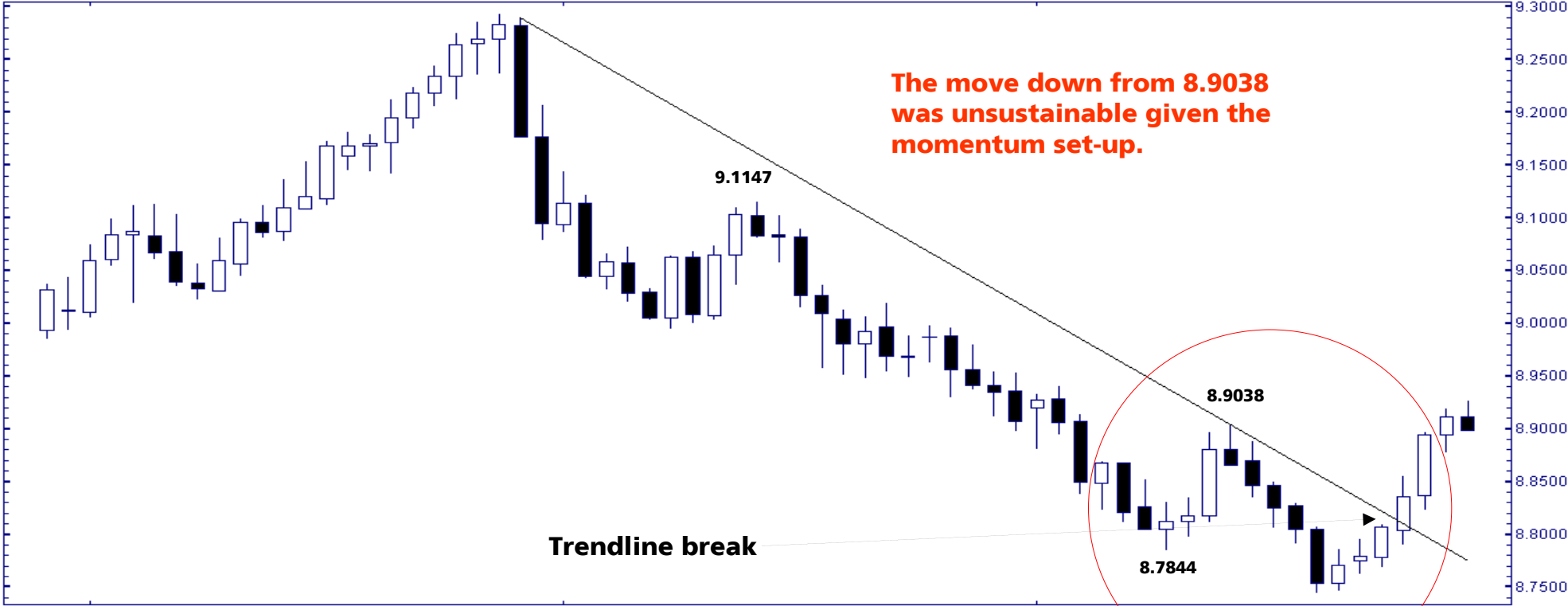
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# Define Trend Condition With Momentum

## EURSEK daily candle chart

Preset 87 - 28-Oct-11->30-Jan-12 SEK-EUR 22:00/22:00 9.2933 9.933 8.7439 © 8.8985 (0.0948) 0.0000



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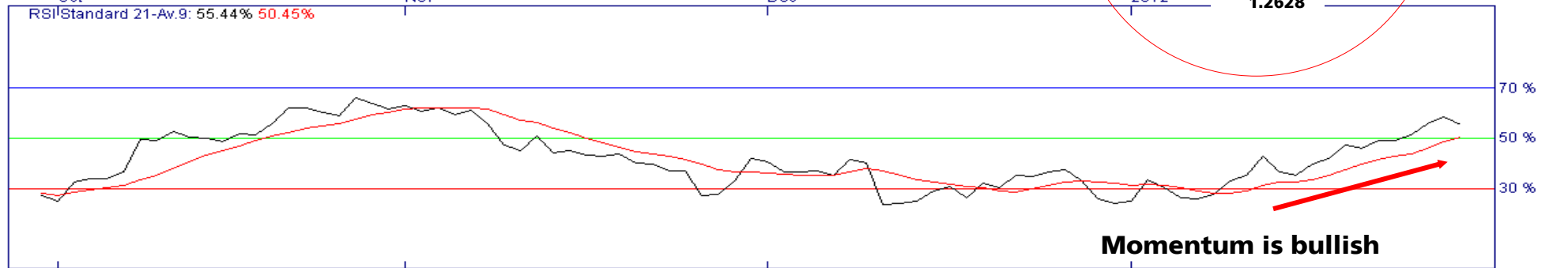




# Define Trend Condition With Momentum

## EURUSD daily candle chart

Preset 91 - 30-Sep-11->30-Jan-12 EUR-USD 22:00/22:00 Daily Candle 1.4245 1.2628 © 1.3118 (0.0478) 0.0000



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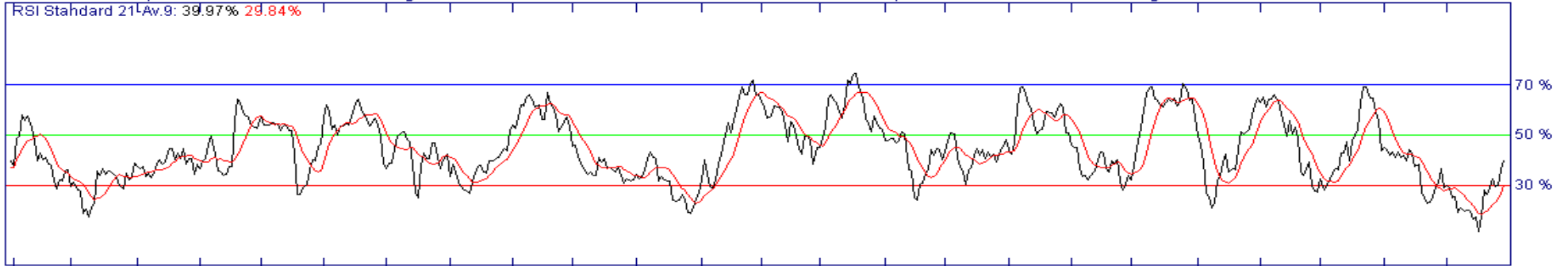
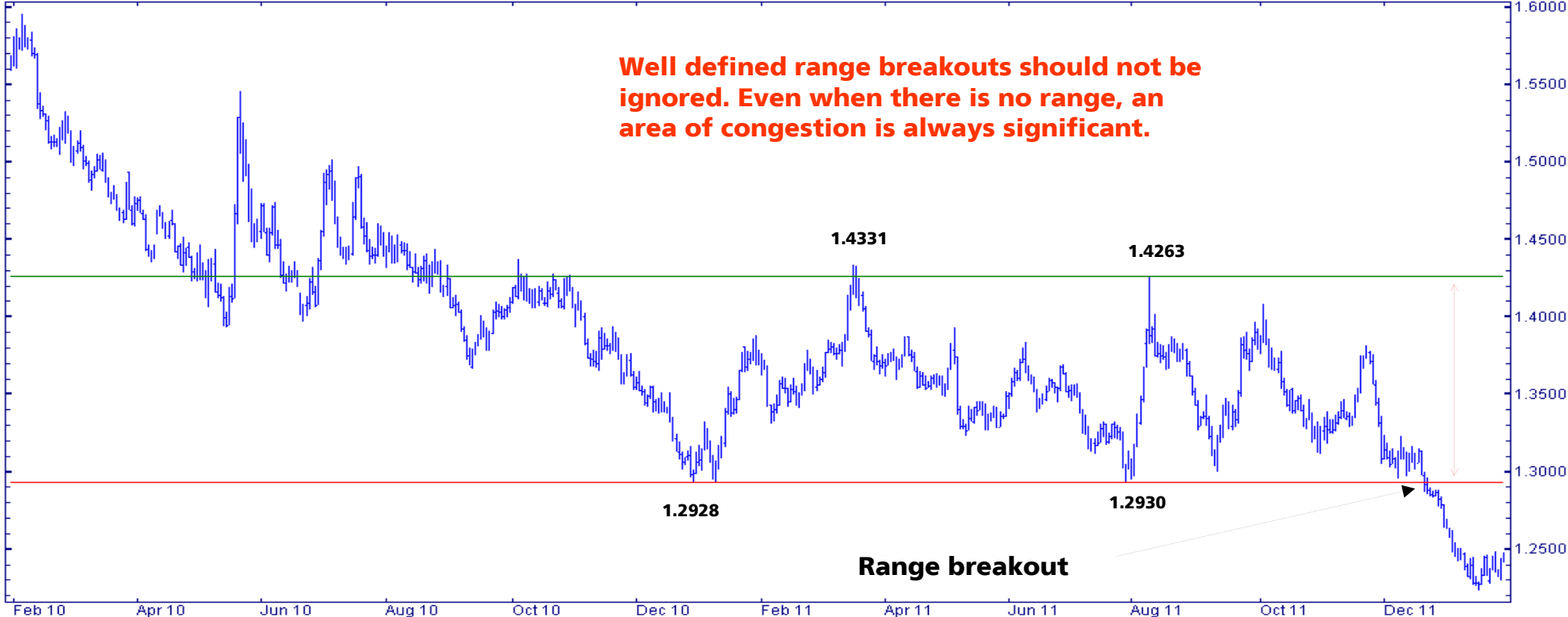
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# Define Trend And Risk Parameter

## EURAUD daily bar chart

Preset 272 - 29-Jan-10->30-Jan-12 AUD-EUR 22:00/22:00 Daily Bar 1.5955 1.2230 © 1.2428 (0.3191) 0.0000



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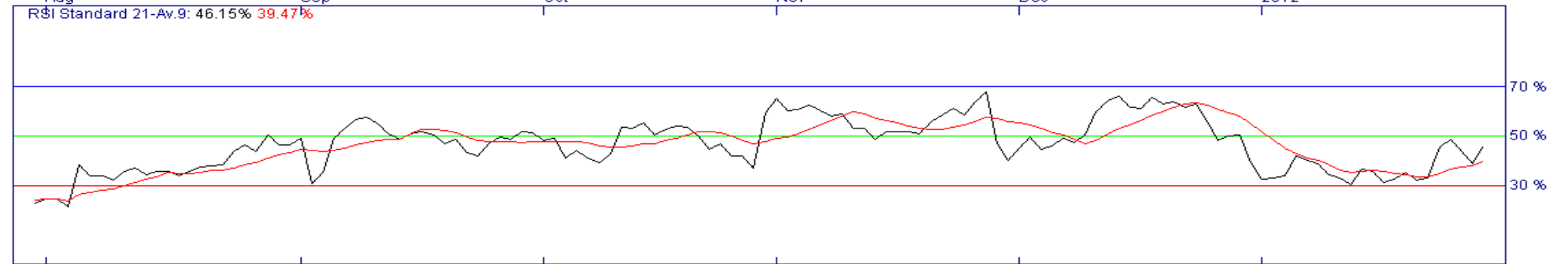
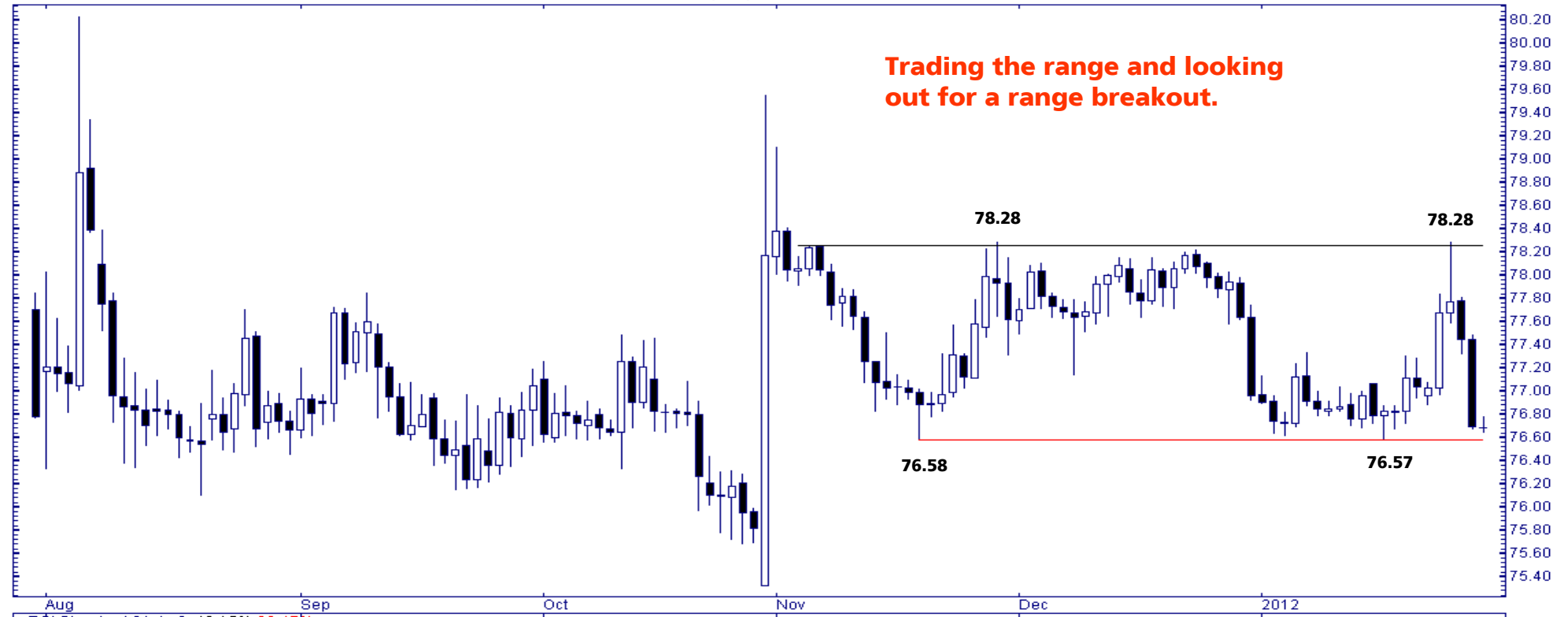
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# Define Trend And Risk Parameter

## USDJPY daily candle chart

Preset 145 - 29-Jul-11->30-Jan-12 USD-JPY 22:00/22:00 Daily Candle 80.23 75.32 @ 76.68 (1.02) 0.00



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# Where The Next Trends Will Come From

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**February 2012**

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# EURUSD

## Section 1

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# EURUSD – Is The Broad Correction Over?

## EURUSD weekly bar chart

Preset 89 - 31-Jan-00->03-Feb-12 EUR-USD 22:00/22:00 Weekly Bar 1.6039 0.8232 © 1.3190 0.3398 0.0000



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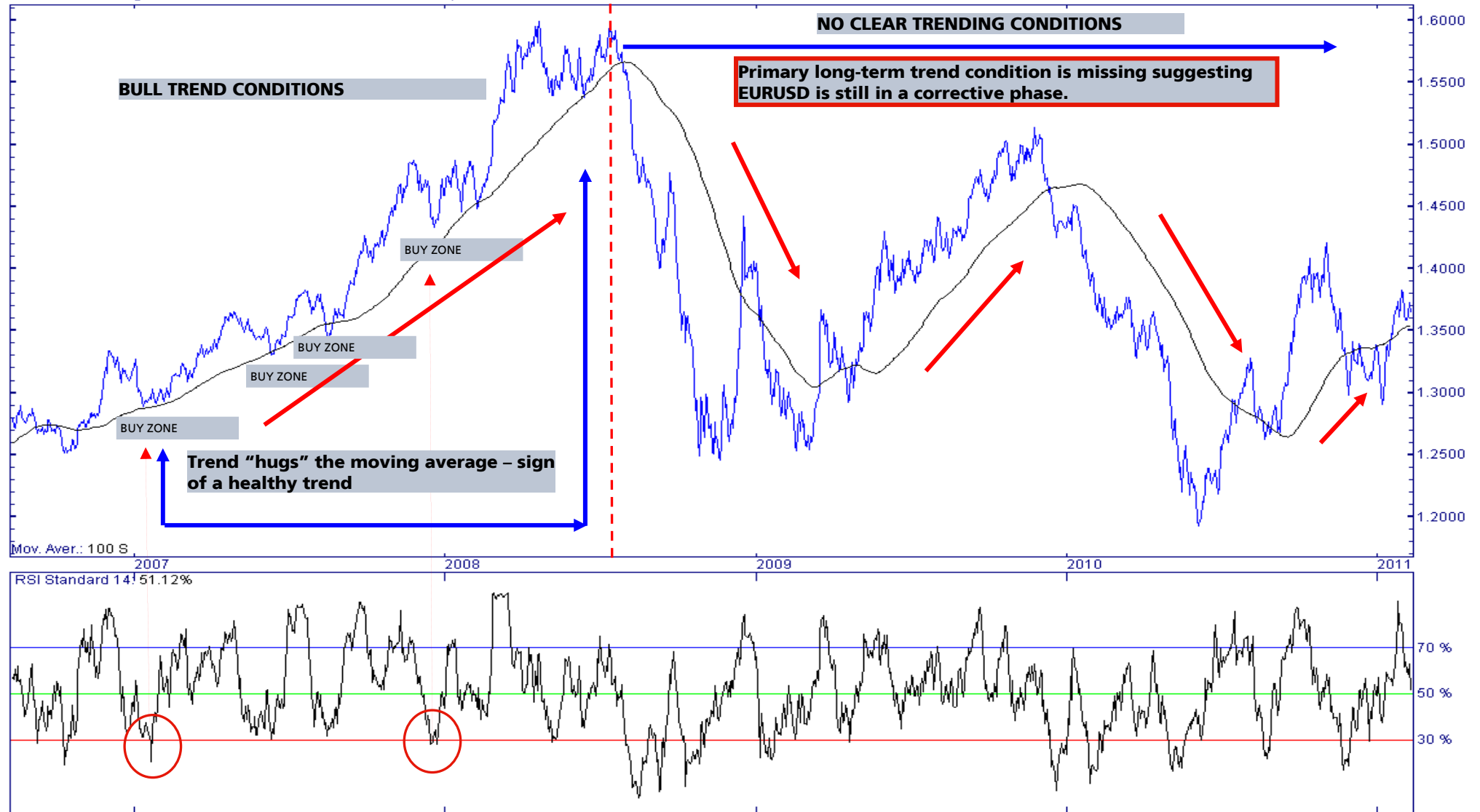
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# Theory: EURUSD – The Trend Identifier Approach

## EURUSD daily line chart

Preset 90 - 10-Aug-06->10-Feb-11 EUR-USD 22:00/22:00 Daily Line Chart 1.5993 1.1923 © 1.3642 0.0782 0.0000



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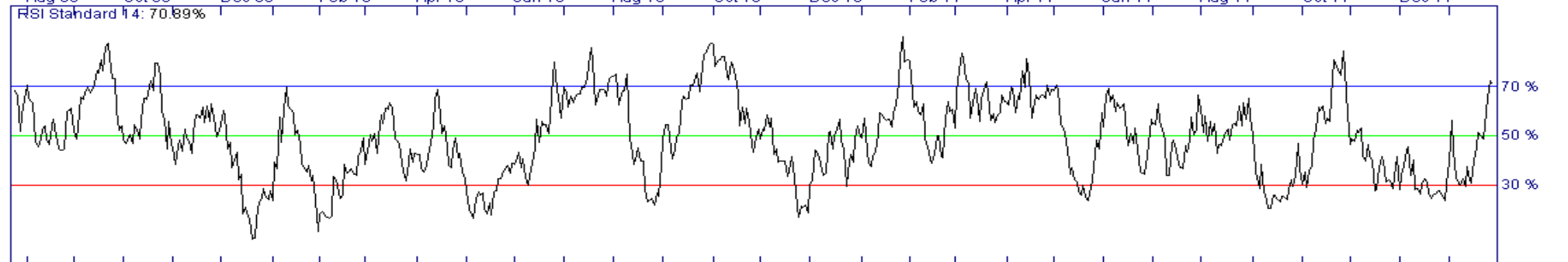
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# Define Trend And Risk Parameter

## EURUSD daily line chart

Preset 90 - 27-Jul-09->27-Jan-12 EUR-USD 22:00/22:00 Daily Line Chart 1.5136 1.1923 © 1.3131 (0.1094) 0.0000



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Section 2

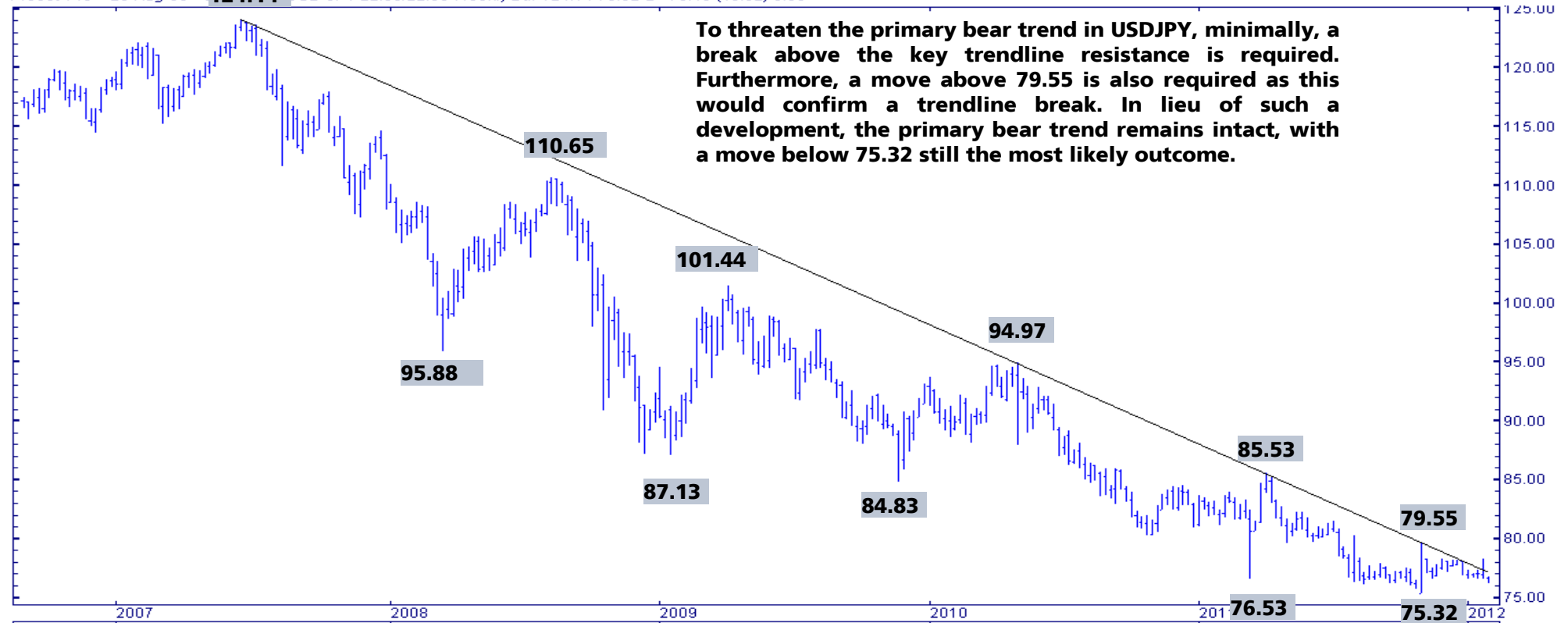
JPY

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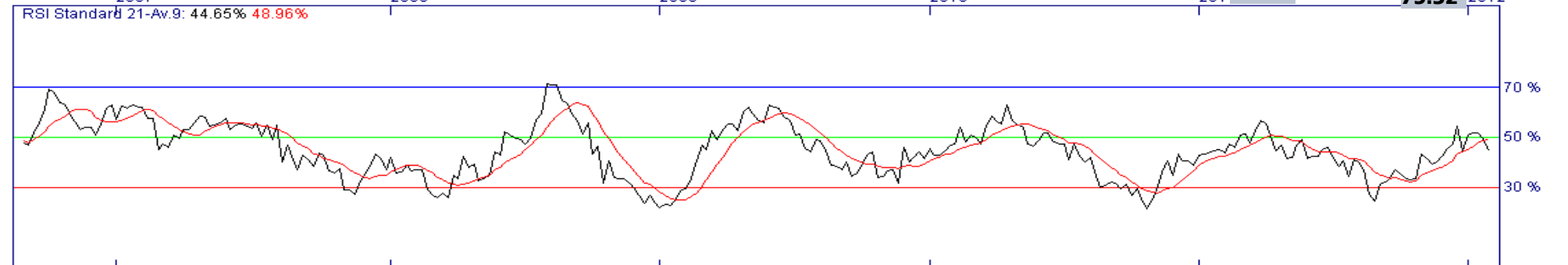
# USDJPY – Trading Below 54-Month Trendline

## USDJPY weekly bar chart

Preset 143 - 28-Aug-06->124.14 JSD-JPY 22:00/22:00 Weekly Bar 124.14 75.32 © 76.40 (40.82) 0.00



To threaten the primary bear trend in USDJPY, minimally, a break above the key trendline resistance is required. Furthermore, a move above 79.55 is also required as this would confirm a trendline break. In lieu of such a development, the primary bear trend remains intact, with a move below 75.32 still the most likely outcome.



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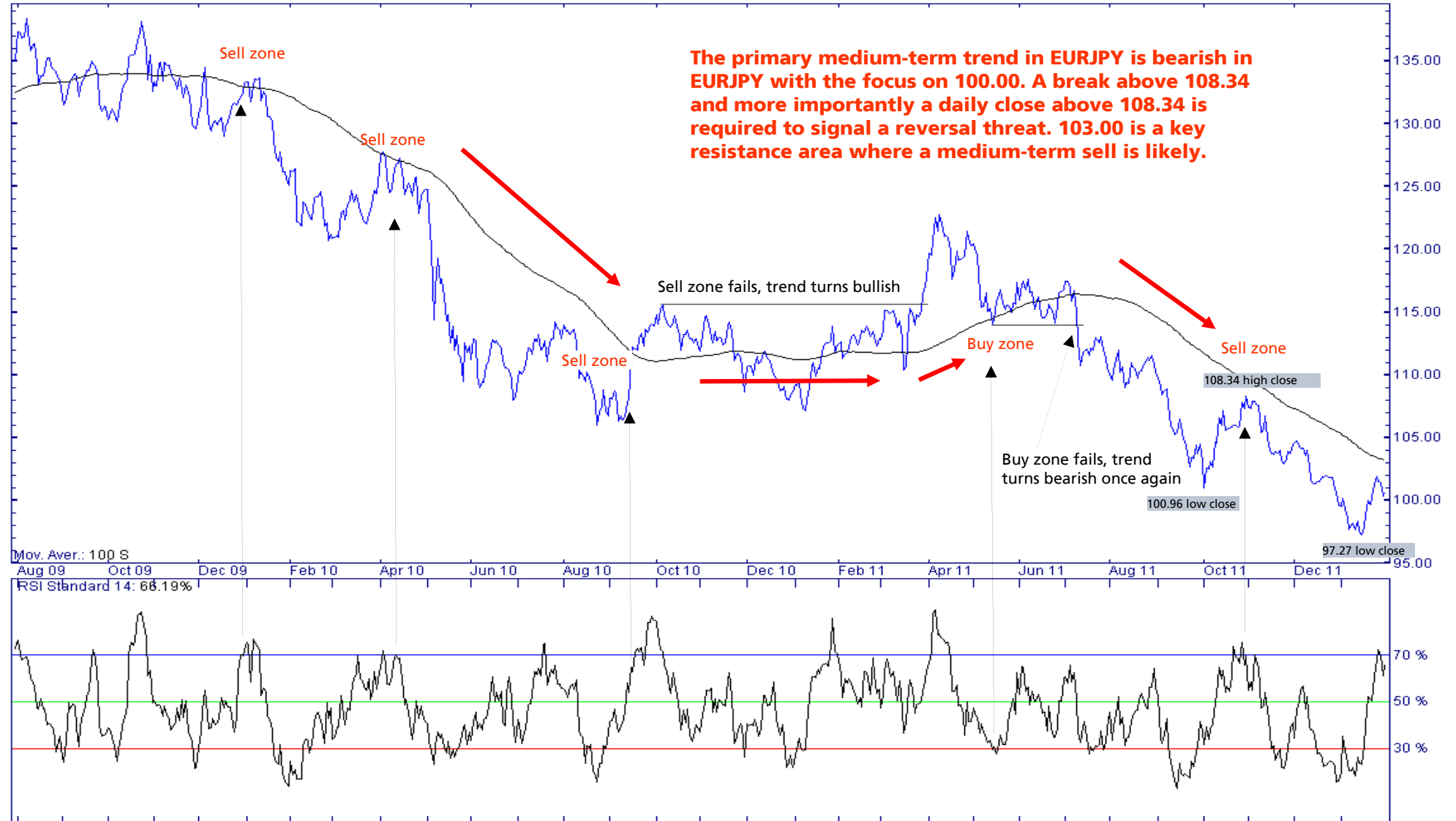
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# EURJPY – Bear Threat Still Dominates

## EURJPY daily line chart

Preset 78 - 31-Jul-09->31-Jan-12 JPY-EUR 22:00/22:00 Daily Line Chart 138.39 97.27 © 100.62 (33.92) 0.00



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Section 3

# GBP

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# GBPUSD – 3 To 6 Month Outlook, Trend Is Bearish

## GBPUSD daily line chart

Preset 12 - 31-Jul-09->01-Feb-12 GBP-USD 22:00/22:00 Daily Line Chart 1.6989 1.4335 © 1.5747 (0.0750) 0.0000



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# EURGBP – Bears In Control

## EURGBP daily bar chart

Preset 75 - 01-Mar-10->01-Feb-12 GBP-EUR 22:00/22:00 Daily Bar 0.9150 0.8069 © 0.8335 (0.0654) 0.0000



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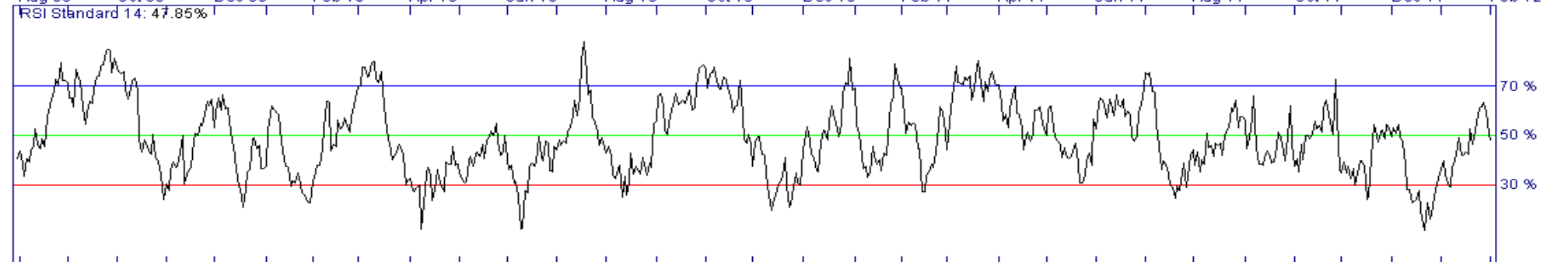
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# EURGBP – Trend Identifier Is Bearish

## EURGBP daily line chart

Preset 74 - 31-Jul-09->01-Feb-12 GBP-EUR 22:00/22:00 Daily Line Chart 0.9351 0.8090 © 0.8333 (0.0199) 0.0000



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Section 4

# GOLD

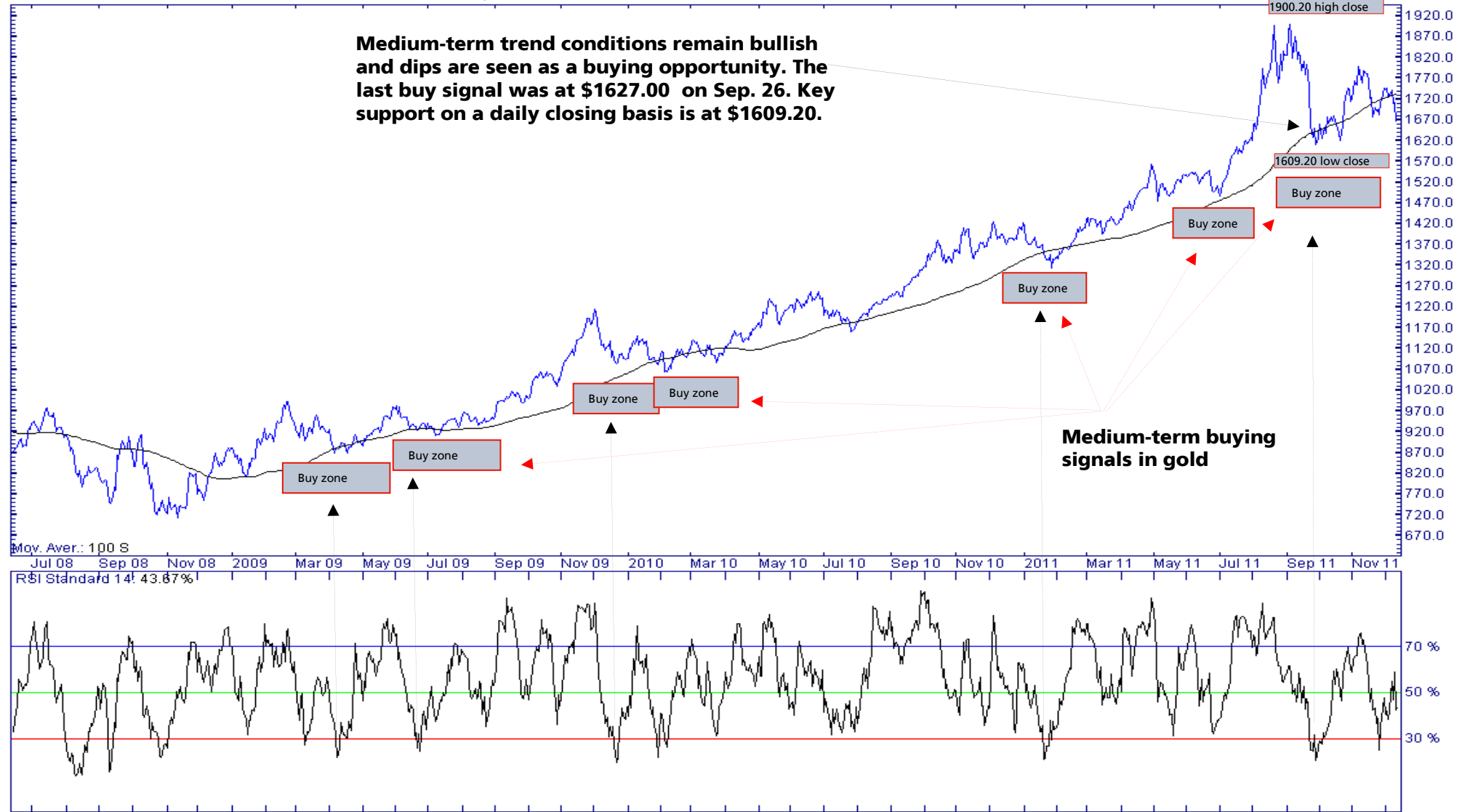
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# Gold – Primary Bull Trend Intact: Early Dec.

## XAUUSD daily line chart

Preset 156 - 13-Jun-08->13-Dec-11 USD-Gold Oz 22:00/22:00 Daily Line Chart 1900.2 712.2 © 1666.0 797.5 0.0



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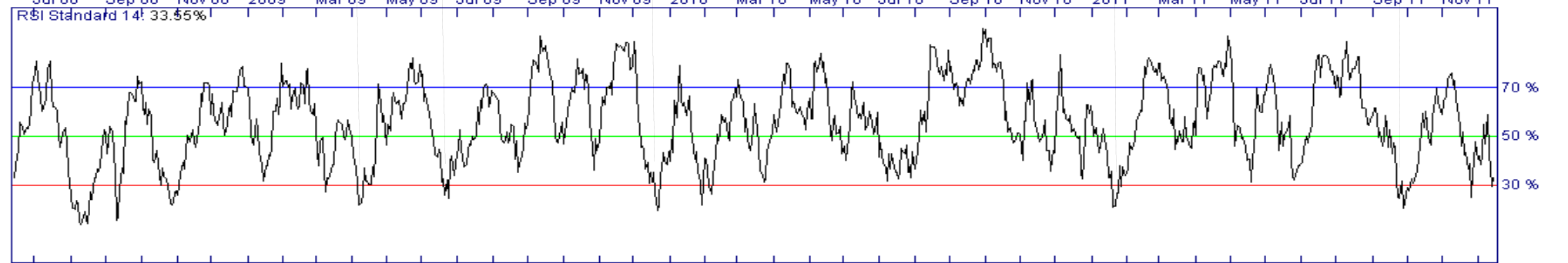
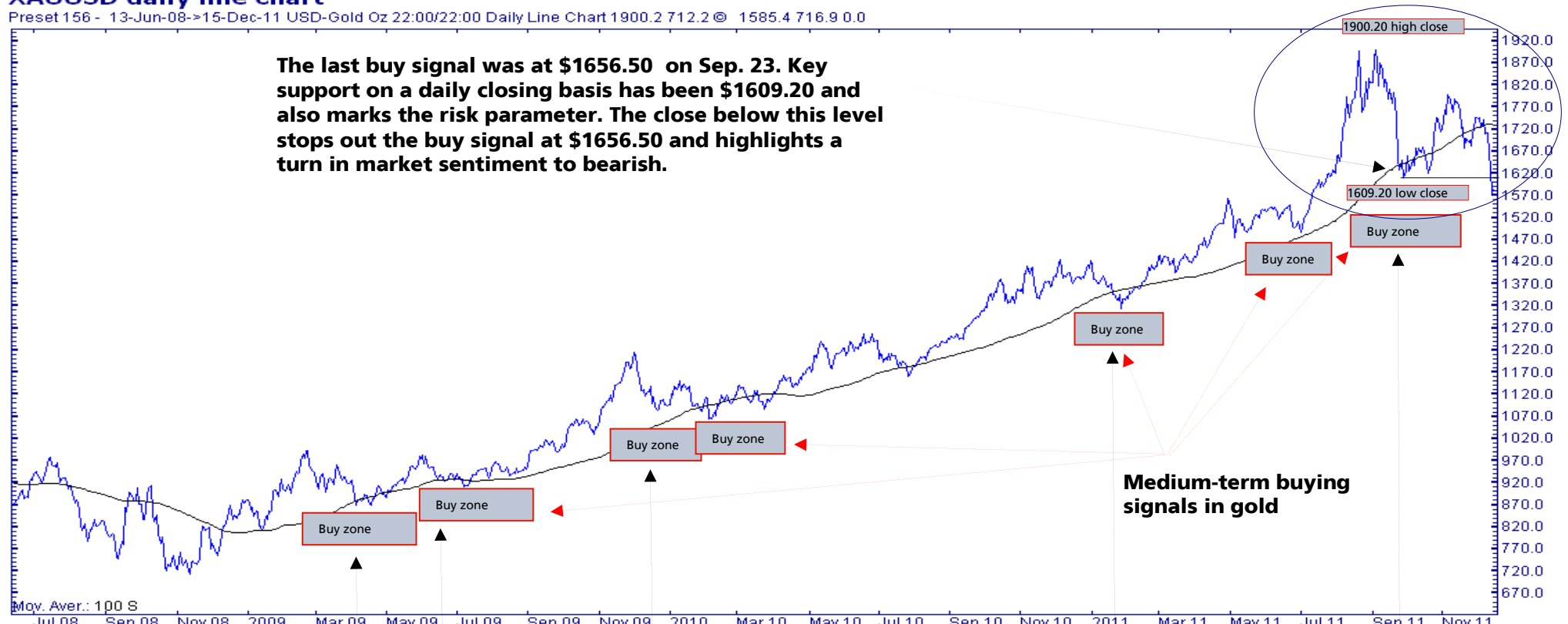


# Gold – Primary Bull Trend Threatened

## XAUUSD daily line chart

Preset 156 - 13-Jun-08->15-Dec-11 USD-Gold Oz 22:00/22:00 Daily Line Chart 1900.2 712.2 © 1585.4 716.9 0.0

The last buy signal was at \$1656.50 on Sep. 23. Key support on a daily closing basis has been \$1609.20 and also marks the risk parameter. The close below this level stops out the buy signal at \$1656.50 and highlights a turn in market sentiment to bearish.



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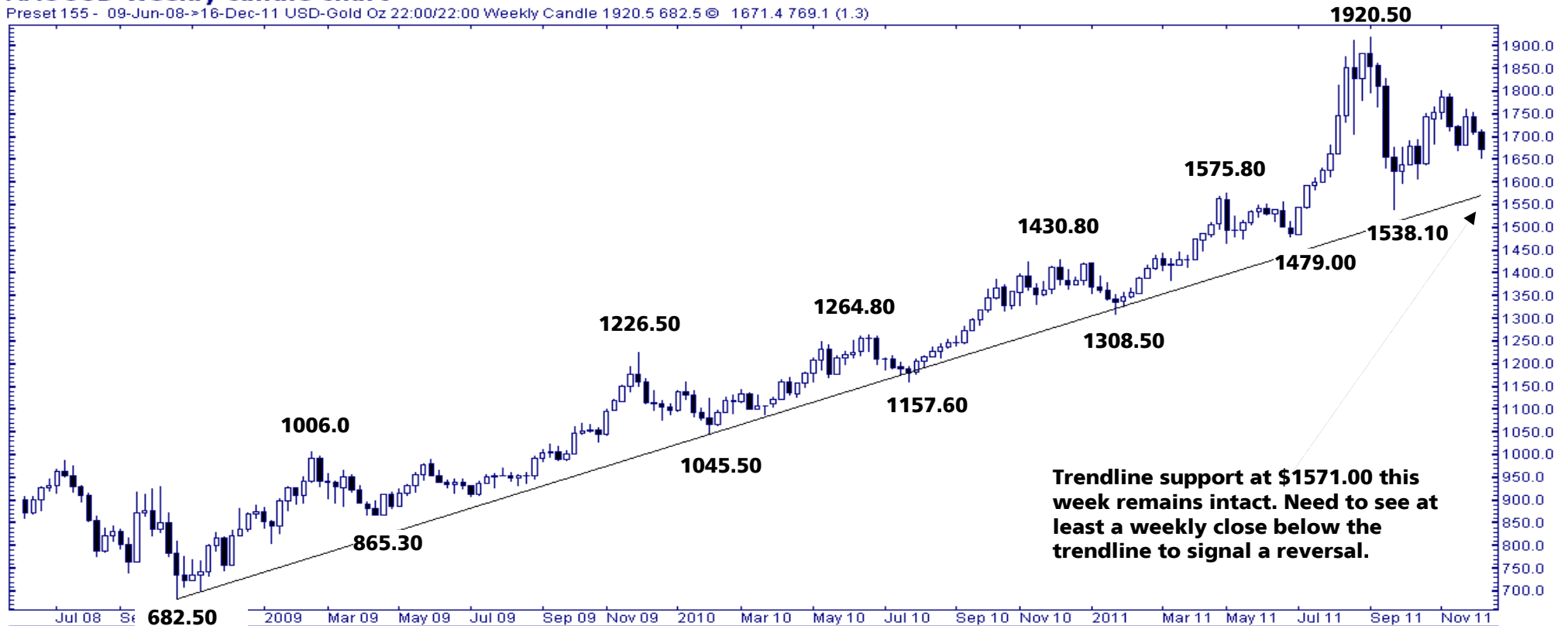
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# Gold – Trendline Support: Mid Dec.

## XAUUSD weekly candle chart

Preset 155 - 09-Jun-08->16-Dec-11 USD-Gold Oz 22:00/22:00 Weekly Candle 1920.5 682.5 © 1671.4 769.1 (1.3)



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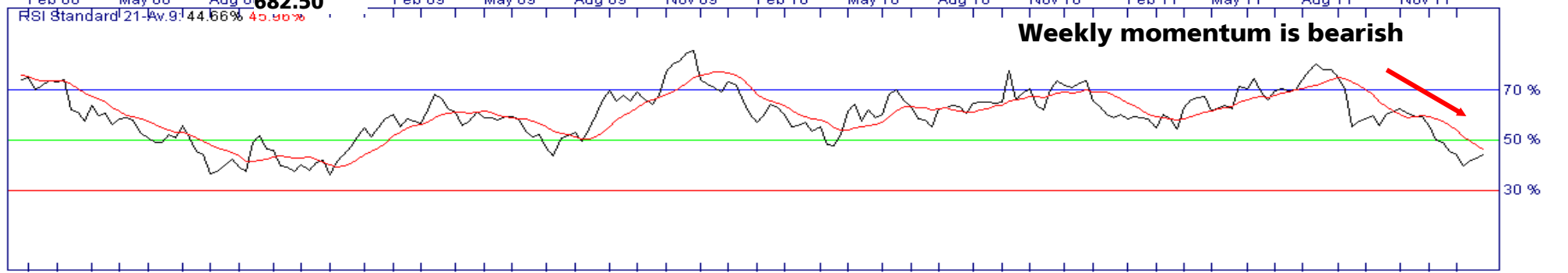
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# Gold – Trendline Support

## EURGBP daily candle chart

Preset 155 - 28-Jan-08->03-Feb-12 USD-Gold Oz 22:00/22:00 Weekly Candle 1920.5 682.5 @ 1746.8 832.8 0.0



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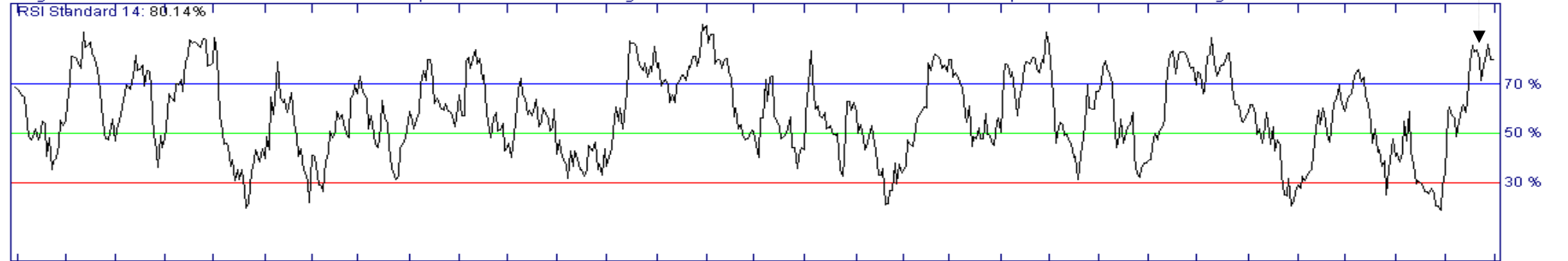
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# Gold – Primary Bull Trend Threatened

## Gold daily line chart

Preset 156 - 31-Jul-09->01-Feb-12 USD-Gold Oz 22:00/22:00 Daily Line Chart 1900.2 934.6 © 1746.3 811.9 0.0



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