

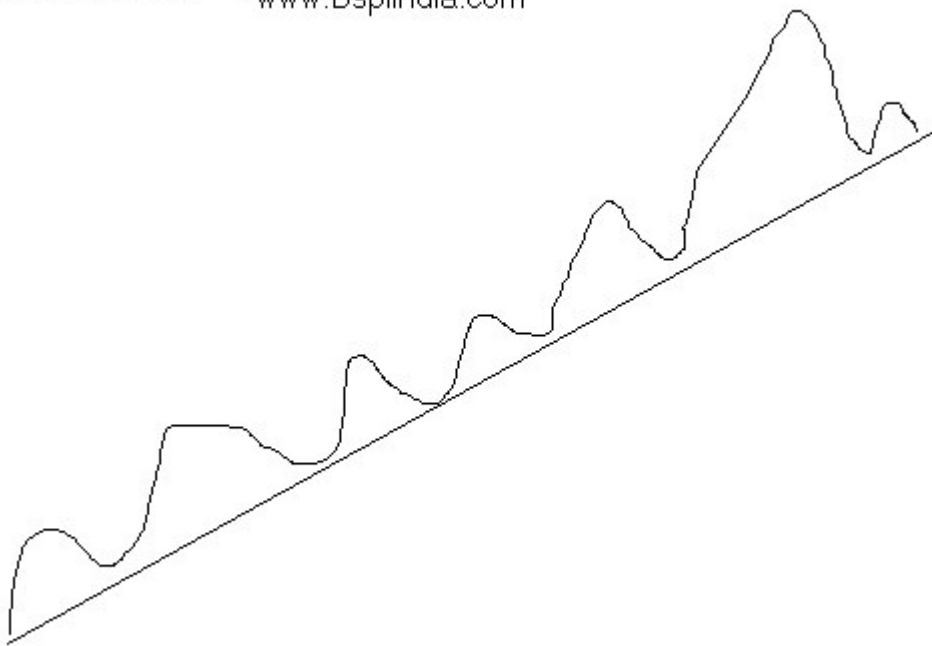
Technical analysis explained – II

December 02, 2003

Last week we saw how technicals are helpful in identifying profitable opportunities and some simplistic rules were listed. This week, I would want my readers to upgrade their skills and know about a few common patterns which are reliable indicators in making price forecasts. If a market player is to keep these patterns in mind, one's profitability can simply be multiplied by a factor of 3 overnight !!

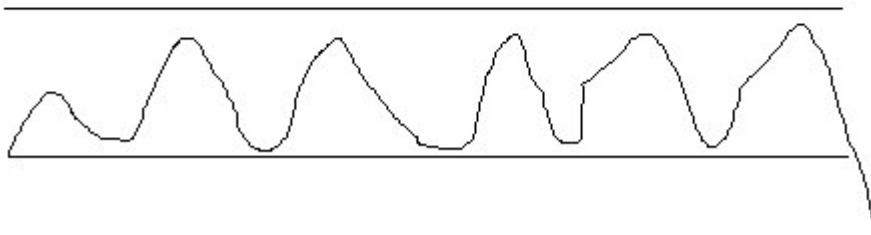
Trendlines – these are the simplest indicator and a traders best friend. As the name itself suggests, these are lines that are derived from connecting tops (to forecast resistance levels) and bottoms (to forecast support levels). The most important thing to remember about trendlines is their duration. The longer the duration of a trendline without it being violated, the more is it's validity. For example, a trendline drawn on daily charts and spanning a fortnight is not as affective as a trendline drawn on a weekly chart and spans 8 weeks !! Once a trendline is drawn, it has room for modification as the markets are not perfect and a proper trendline is the one which covers as many tops / bottoms as possible. A trader should stick to his long / short position as long as a trendline is not violated.

Basic trendline - www.Bsplindia.com



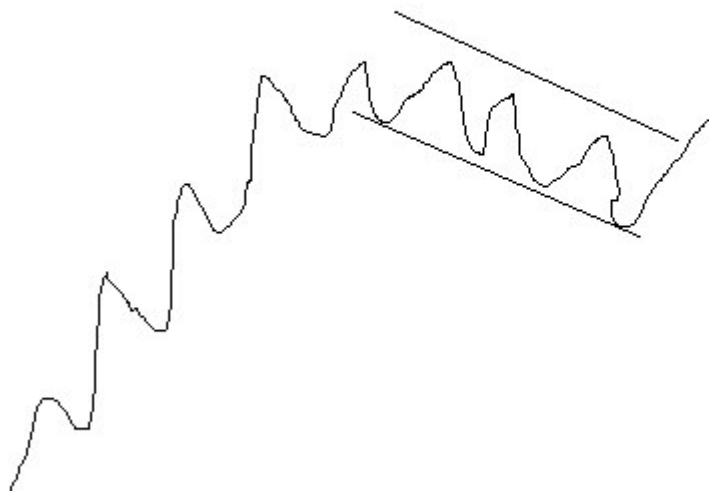
Channels – these are simple formations where two parallel lines can be drawn and within which the scrip moves. As with a trendline, the longer the duration, the more significant is it's validity. A breakout above / below a channel with high volumes signals a breakout / breakdown in the direction of the underlying security. A channel is useful for traders and investors alike. Traders can buy at the lower trendline and sell near the upper trend, short at the higher end and go long again at the lower trendline. Investors can buy once a breakout / breakdown as the case maybe. The longer the duration of the channel, the higher will be the price swing in the security.

Channel - breakdown - bearish
- www.Bsplindia.com



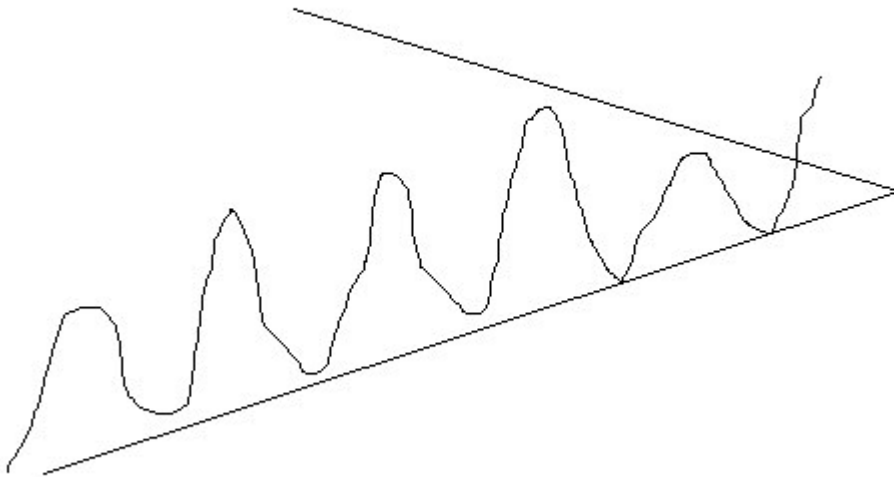
Flags – these are formations which are called “measuring moves”. A flag is formed when a scrip rallies and then pauses / corrects in a downward direction. It makes lower bottoms & tops and appears like a sloping flag furling on a mast. It is important to note that in this formation, the flag must be made in the opposite direction of the mast. Also to be noted is the fact that this pattern is confirmed only after a breakout is achieved from the flag formation – that too with higher volumes. This move is simple yet effective – it gives tremendous measuring powers to a trader as it is historically noted that flags are made at half time in an upmove or downmove.

Flag formation - bullish breakout - www.Bsplindia.com



Triangles – sometimes we notice that a stock is trading in a narrow trading range and seems to get more and more restrained in its fluctuation. In effect, the movement is narrowing down. This narrowing convergence of the price-line can be plotted with trendlines that join to resemble a triangle. The outlook of the triangle depends on its hypotenuse. If it is upward sloping, the triangle is bullish and vice versa. A triangle is a breakout pattern and signals a direction seeking move of a scrip. Again a breakout with volumes will determine the completion of the pattern. A buy or sell decision on breakout will yield superior profits.

Bullish triangle - www.Bsplindia.com



Now that you have mastered some of these rudimentary yet effective techniques, discipline and dedication is needed in avoiding temptations to pre-empt the pattern and act only **after** the pattern is confirmed by a breakout / breakdown is achieved. Many a profitable trade has turned into a disaster because the trader succumbed to the temptation of taking a short cut to profits. Then again the wisdom of keeping stop losses cannot be emphasized enough.

Till then, have a profitable day !!

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