Being A Technical Analyst

One of the main ways traders approach the market is that of technical analysis. A technical analyst doesn't look at income statements, balance sheets, company policies, or anything fundamental about the company. The technician looks at the actual history of trading and price of a security or index. This is usually done in the form of a chart. The security can be a stock, future, index, currency or a sector. It is flexible enough to work on anything that is traded in the financial markets.

The technical analyst believes that the market price reflects all known information about the individual security. It includes all public and insider information and reflects all the different investor opinions regarding that security.

Just as fundamental analysis looks at the past to help make a decision, technical analysis also incorporates the past to aid in the decision making process. However, the technical analyst believes that securities move in trends and these trends continue until something happens to change that trend. With trends, patterns and levels are detectable.

The tools of the technical analyst are indicators, patterns and systems. These tools are applied to charts. Moving averages, support and resistance lines, envelopes, Bollinger bands and momentum are all examples of indicators. These indicators help tell a story and just as a doctor looks at x-rays to help him make a decision, an analyst looks at charts to help him make a decision.

Many people believe that to buy and hold is the right strategy for owning securities and this is fine in some circumstances. It can also be beneficial to buy and sell the same security many times in a given period.

ABC.inc might be a company you want to own for the long term and that's fine. However, there's nothing wrong with buying at 50, selling at 67 and buying it back at 55. There's also nothing wrong with buying at 50, selling at 67, shorting the security at about 67 then closing your short at 55 and buying it back. In the previous example you have made your money work a little more efficiently. In the case of buying and holding you only make money when the security goes up. Why not make money when the security goes up, comes down, and goes back up again. This way, your money has worked harder for you. Technical analysis can help in predicting turning points and direction in prices.

Before applying technical analysis make sure you thoroughly understand the principals that you are applying. Read as much as you can and find a few forms of technical analysis that you feel comfortable with. Remember you only need to find one thing that works in order to make money.

Good Trading

Best Regards
Mark McRae