

Western India Regional Council of The Institute of Chartered Accountants of India (WIRC - WICASA)

Technical Analysis Discussion Papers on Equity Market



Speaker : Keyur Furia

Webinar on Technical Analysis on Equity Market

Organized by WICASA – WIRC

Date : 20th April, 2022

Time : 5 pm to 8 pm

Speaker : Keyur Furia

Content of Discussion Papers

- What is Fundamental analysis ?
- What is Technical analysis ?
- How Technical analysis is different from Fundamental analysis ?
- Basics of Candlesticks
- Understanding Trends in Market
- Understanding Resistance & Support
- Discussing live case studies charts of Blue chip companies
- Synchronizing different time frames studies
- Super Trend Indicator

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What is Fundamental Analysis ?

Fundamental analysis is a method of assessing a company's financial health and prospects by analysing its intrinsic value. It is study of various factors determining its real value.

Goals of Fundamental analysis is to identify undervalued or overvalued stocks. Fundamental analysis takes into account a company's broader economic environment, as well as macroeconomic factors that may affect its business. We study Qualitative & Quantitative factors such as Business Model, Competitors, Management, Governance, Products range, Business Plans, Company History, Laws applicable.

Components of Fundamental Analysis

Economic analysis

Industry analysis

Company analysis

Examples: Tata Companies, MRF, Reliance



What is Technical Analysis ?

- It is the organized & systematic study of charts of the past price actions of a particular item with a view to ascertaining its expected future behaviour.
- It is a study of Demand & Supply in market to ascertain the trend and direction.
- It is a systematic study of past price action to ascertain the expected future price and price behaviour.
- Technical Analysis deals in Probabilities and never certainties, it is all about understanding the underlying pressures of buying and selling for a given script or market in different situations.

Technical Analysis is answers of.

- Whether to BUY or SELL or HOLD or IGNORE?
- It also gives us the entry, exit points. Expected prices in next week, next month, and next year.

Basic Assumptions in Technical Analysis:

- All the information is already factored in the price.
- History repeats itself
- Prices moves in trend

Other observations about Technical Analysis are:

- There is enough liquidity in the market
- Buyers & Sellers are available at all prices.
- Any unforeseen event/information will change the price or even trend.

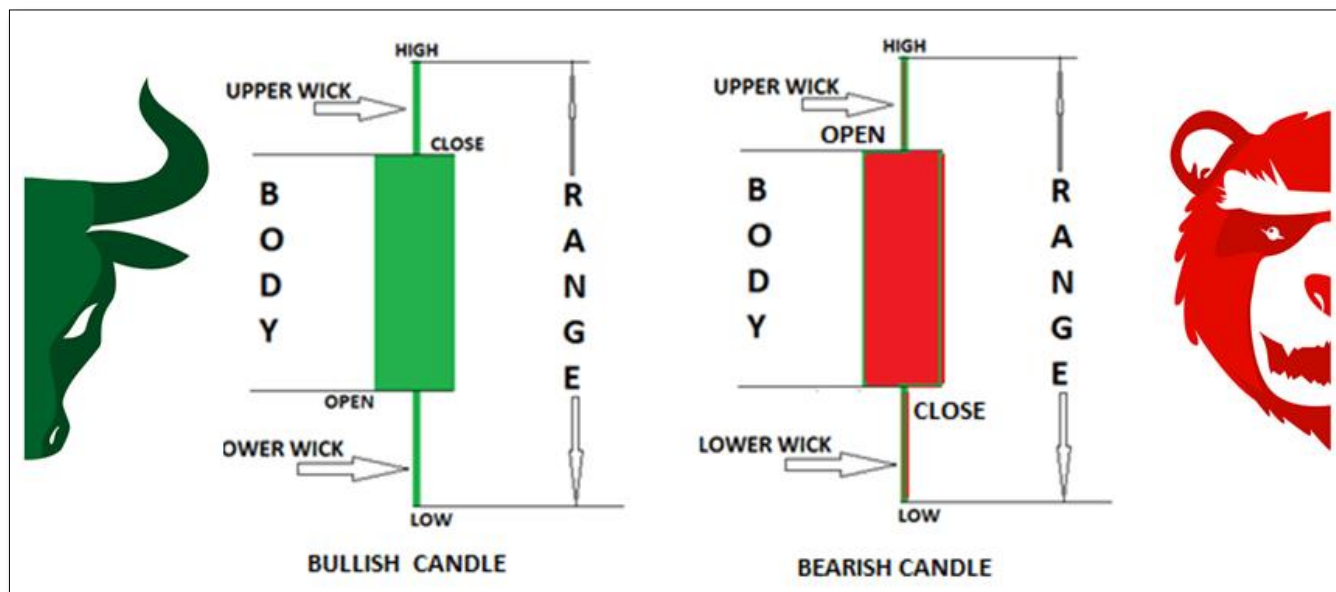
What is Technical Chart ?

A chart is a graphical representation of a series of prices over a set time frame. Technical Analysis is done by plotting graphs of price movement of a stock. It analyses demand and supply zones and helps to take better entry and exits

Understanding Candlestick

The candlesticks are the reflections of what buyers and sellers are doing. What extent they move the price and the strength behind the move. Candles tells you who is in control but do not tell you about the strength of buyer or sellers behind the move, candle with volume shows that. A candlestick shows an asset's price movement over a set amount of time. This can be anywhere from a minute to a day, depending on the price chart.

Candlesticks are originated from Japanese rice merchants and traders to track market prices and daily momentum hundreds of years before becoming popularized in the United States. Candlesticks can be used by traders for looking chart & price patterns.



Components of Candlestick:

Open Price: Open price tells us where the balance between buyers and sellers at the opening of that period, the opening value is the first trade of the day, the open represents the desired position of investors to begin the day.

High Price: The high is the highest point the stock traded during the session. The high is the furthest point the bulls were able to push the stock higher before sellers regained control to push the stock back down. The high represents a stronghold for sellers and a resistance area to buyers.

Low Price: The low is the lowest point the stock traded during the session. The low is the furthest point the bears were able to force down the stock before buyers regained control to push the stock up. The low represents an area where enough demand existed to prevent the price from moving lower.

Closing Price: Close price tells us where the balance point was at the end of the period. The close is the last price agreed between buyers and sellers ending the trading session. The close is the market's final evaluation. A lot can happen between one close to the next close. The close represents investors' sentiments and convictions of investors at the end of the day. It is the position investors desire to hold after-hours when investors are unable to trade with liquidity until the next session opens.

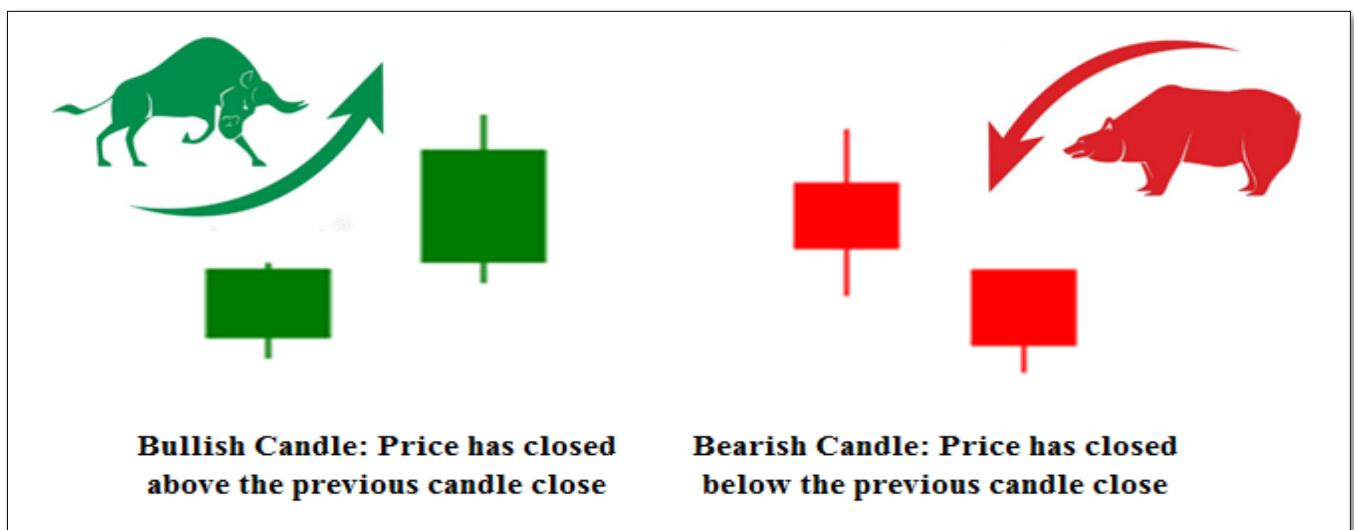
Change in Price: The change is the difference between close to close. The difference in the closing value one day versus the closing value next day. When this difference is positive, it tells us that

demand is outweighing supply. When this difference is negative, it tells us that supply is increasing beyond demand.

Range: The range is the spread of values within which the stock traded throughout the day. The range spans between the bar's highest point and the same bar's lowest point.

How to read Candlesticks with colours?

The colour of a candlestick is used to indicate the way in which a market has previously moved or is currently moving. From the above example, you can see that the chart will be green if the close price is higher than the open price, and will be red if the close price is lower than the open price. As such, the colour of a candlestick is a good indicator of whether a market was bullish or bearish during the given period.



Important points to remember:

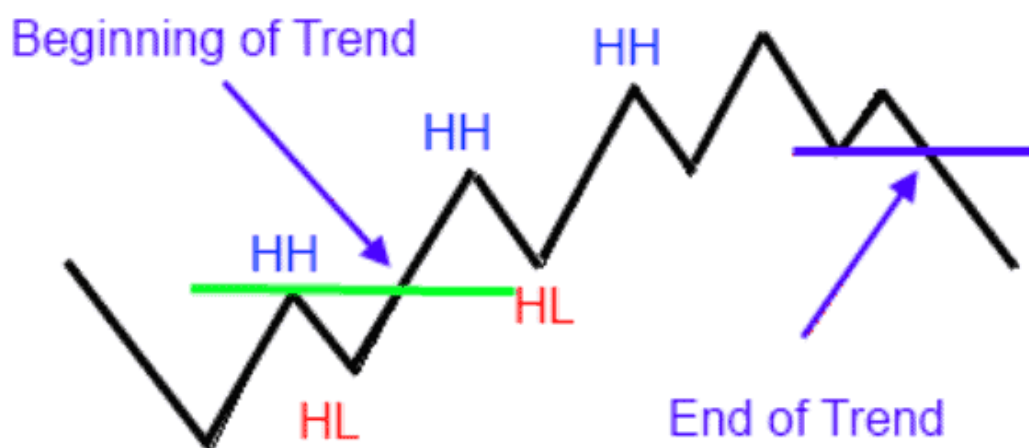
- The length of any wick, either to the top or bottom of the candle is ALWAYS the first point of focus because it instantly shows, strength, weakness, and indecision, and most important where SMART-MONEY enter.
- If no wick is created, then this signals strong market sentiment in the direction of the closing price. SMART-MONEY active there. When a particular timeframe DON'T make sense then move to the next higher time frame for the big picture or lower timeframe for the microstructure of move.
- A wide-body represents strong market sentiment and a narrow body present weak market sentiment. Narrow body with the heavy volume either Smart Money observing for continuous of move or Smart Money enter on the opposite direction.
- Volume validates price. First, see what CANDLESTICK is telling then validated by volume, is it validating or not with the CANDLESTICK price action.
- Candlestick should analyze the context of the move. You should never try and read the market looking at one day's action in isolation. Always read the market phase-by-phase and then read the latest day's action into the phase.

Identification of Trend

Stock moves in one direction or the other also known as Trend.

There are 3 trends in which any stock moves. These Trend are as follows.

1. **UP Trend (Bullish):** Stock makes new highs which are higher than the previous highs. Also it makes the lows which are higher than previous lows.
2. **Down Trend (Bearish):** Stock makes highs which are lower than the previous highs. Also it makes lows which are lower than previous lows.
3. **Consolidation (Sideways):** Stock does not make either high or lows. It becomes range bound for particular period & swing between channels. No new highs or lows are made.



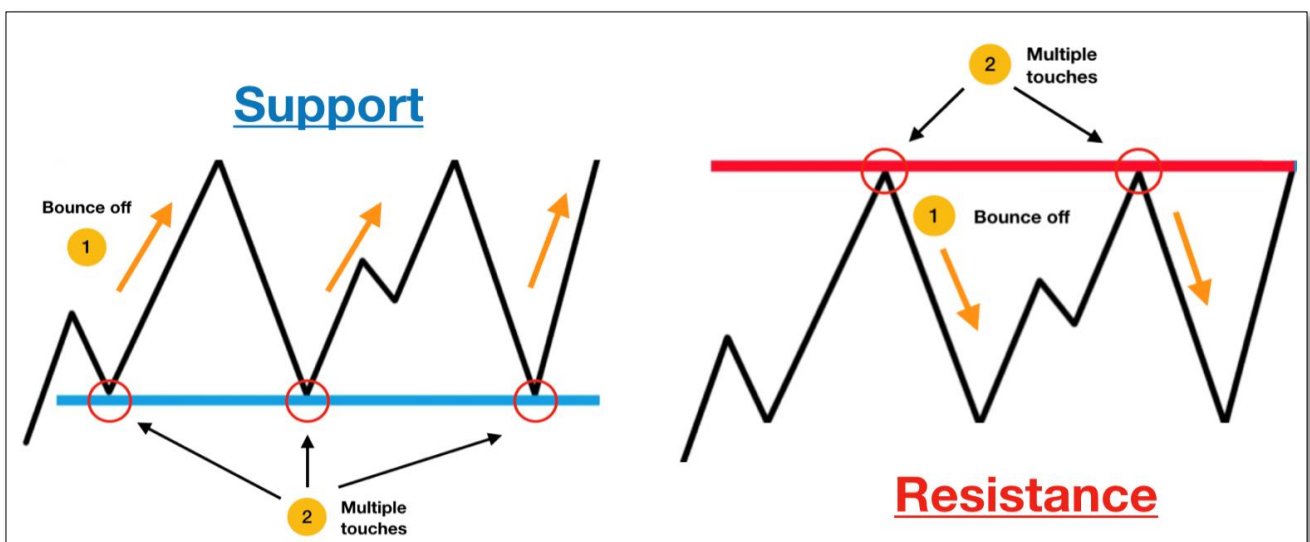
Resistance & Support



Resistance & Support are undoubtedly the biggest and important concepts in Technical analysis.

Resistance is the point on which Supply pressure is expected to come. Resistance simply means to resist or stop or refuse to accept. It acts like a hurdle for price to break it. Resistance levels are characteristically found at the upper levels of uptrend or sideways market. If a trader identifies an important level of resistance that has been tested several times but never broken, he or she may decide to take profits as the security moves toward this point because it is unlikely that it will move past this level. If a stock goes past the resistance with volumes, then it's called breakout. This means fresh uptrend in the stock.

Resistance is the level at which supply is strong enough to stop the stock from moving higher. The rationale is that as the price rises and approaches resistance, sellers (supply) become more inclined to sell and buyers (demand) become less willing to buy. Resistance is something which stops the price from rising further. The resistance level is always above the current market price.

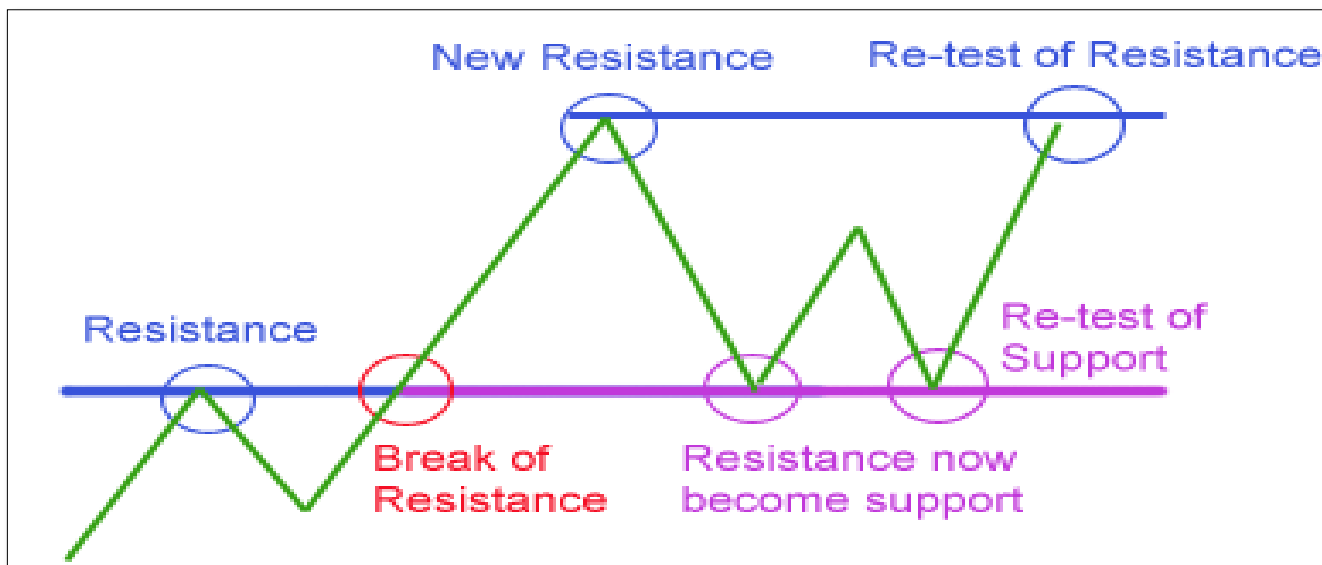


Support or support level refers to the price level below which, historically, a stock has had difficulty falling. It is the level at which buyers tend to enter the stock. It is a Price level at which sufficient demand is expected to occur and stop the prices from falling temporary or permanently. Support and resistance analysis is an important part of trends because it can be used to make trading decisions and identify when a trend is reversing.

Support is something that prevents the price from falling further. The support level is a price point on the chart where the trader expects maximum demand (in terms of buying) coming into the stock/index. Whenever the price falls to the support line, it is likely to bounce back. The support level is **always below** the current market price. There is a maximum likely hood that the price could fall till the support, consolidate, absorb all the demand, and then start to move upwards. The support is one of the critical technical level market participants look for in a falling market. The support often acts as a trigger to buy.

Support and Resistance role reversal

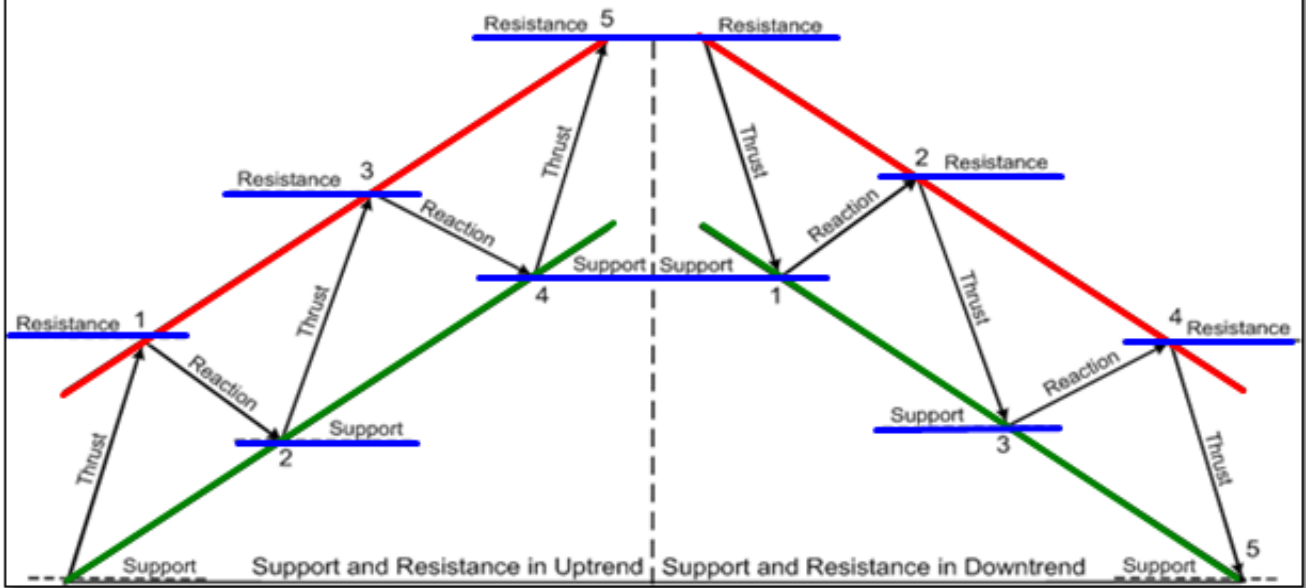
A key concept of technical analysis is that when a resistance or support level is broken, its role is reversed. If the price falls below a support level, that level will become resistance. If the price rises above a resistance level, it will often become support. As the price moves past a level of support or resistance, it is thought that supply and demand has shifted, causing the breached level to reverse its role. Resistance of one time becomes support of another time period and vice versa.



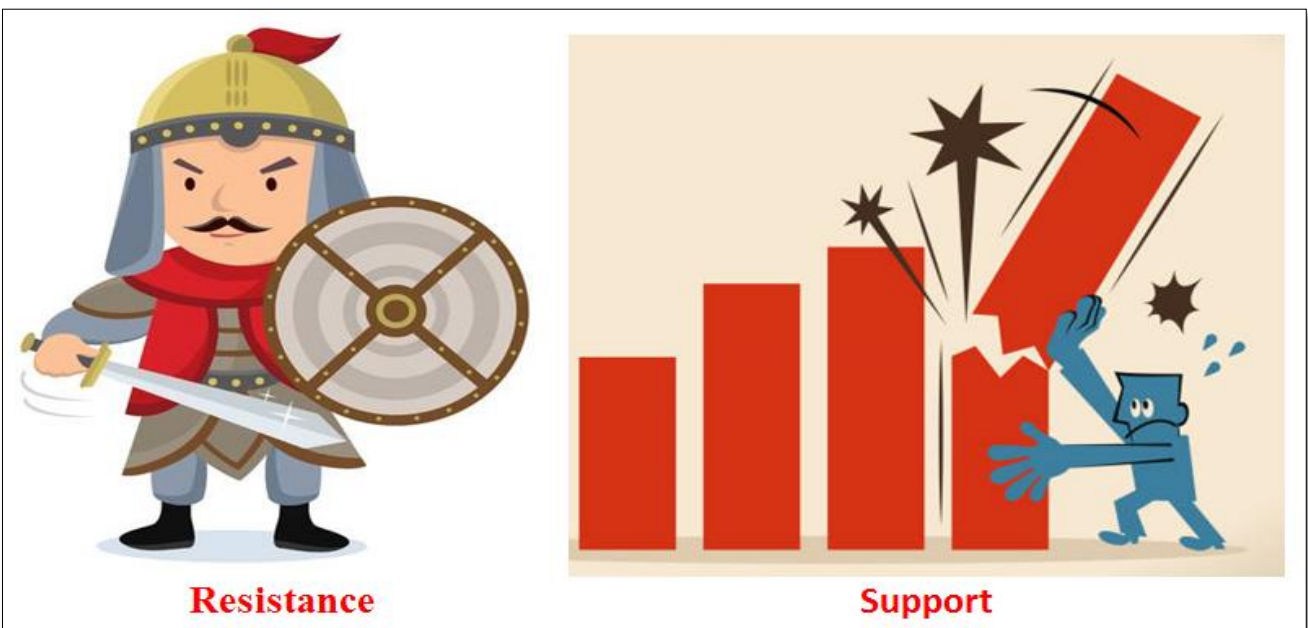
Where you have price rejection it is your resistance or support levels



Support and Resistance in Uptrend and Downtrend

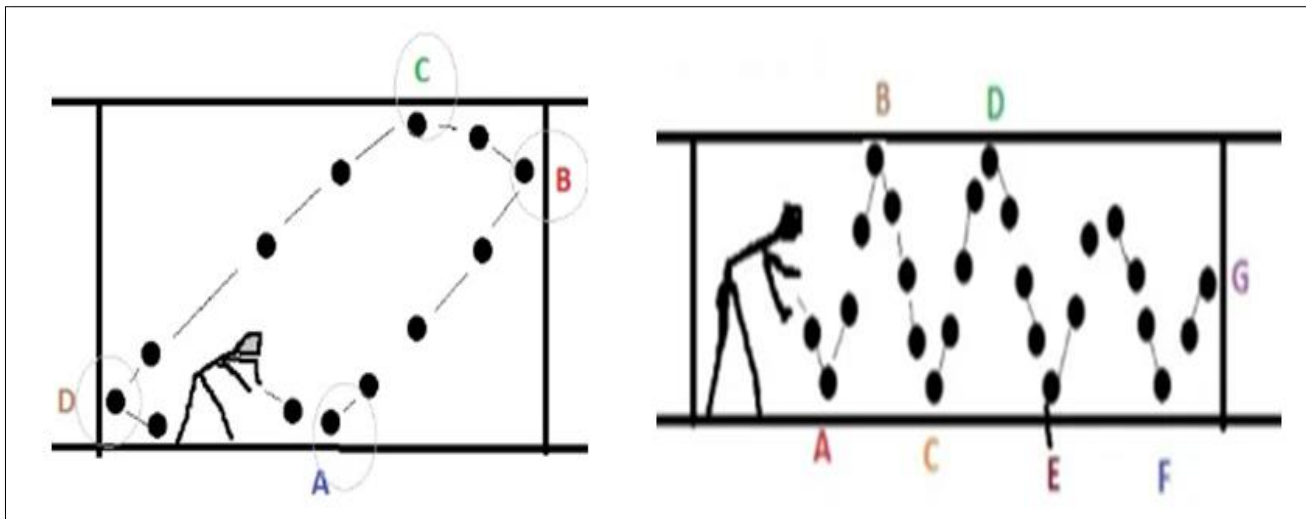


Moving averages may also be used as dynamic indicators of areas of support and resistance

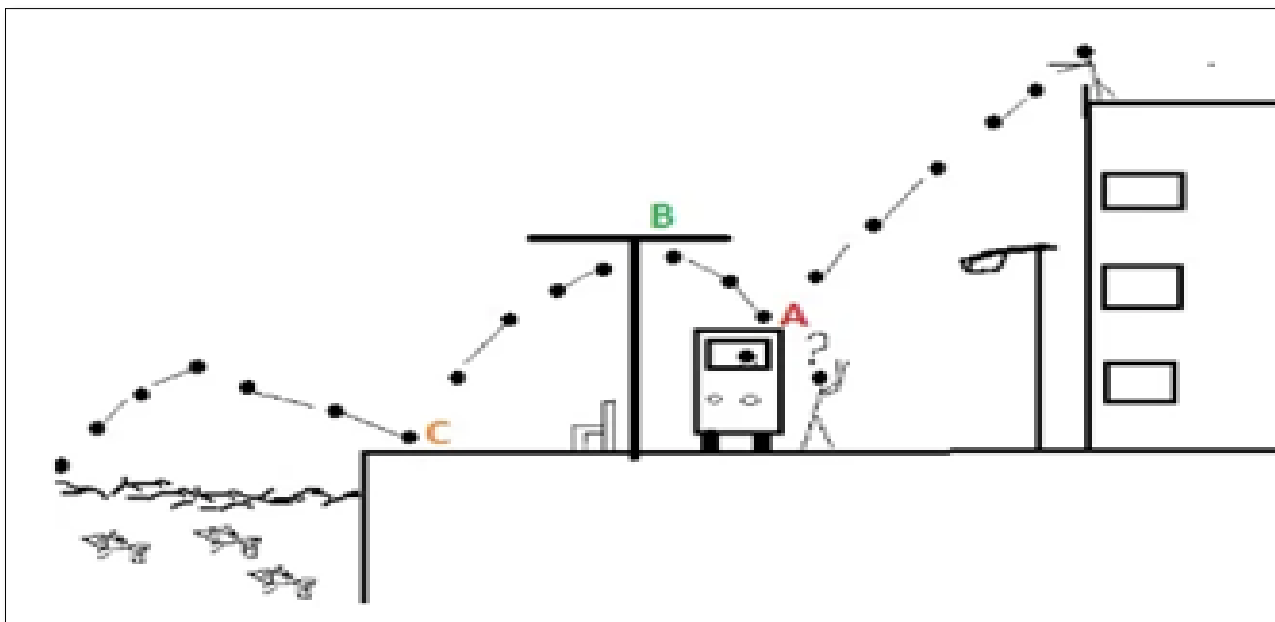


Support is a floor, while resistance is the ceiling. Let's imagine a boy in a room throws a football to the ground with a great force. In the 1st picture, point A is the support while point C is the resistance.

In the 2nd picture below, let's imagine a man, bigger than the boy, throws another ball with a powerful force across a hall, points A, C, E, and F are the supports while point B and D are the resistance to the ball. When price moves and leaves a V shape behind, a support is formed, while when price moves and leaves an inverted V shape behind, a resistance is formed.



Let's imagine a scenario, where a boy tries to throw a football from a tall story building to a man on the street at a bus terminal by the seaside as shown in the image below. The boy misses the target but the ball bounced on the bus below, hitting the ceiling of the terminal roof and dropping on the floor before bouncing away into the sea.



In the diagram above, points A and C are the supports while point B is the resistance to the ball.

In a trending market, price moves in a staircase pattern. Higher highs or swing highs form the resistance level while higher lows or swing lows form the support in a bullish trend. On the other hand, lower lows or swing lows form the support level while lower highs or swing highs form the resistance in a bearish trend.

Super Trend Indicator

A Super Trend is a trend following indicator similar to moving averages. It is plotted on price and the current trend can simply be determined by its placement vis-a-vis price. It is a very simple indicator and is constructed with the help of just two parameters- period and multiplier. Super trend is simple and easy to use indicator and gives a precise reading about an ongoing trend. It is built with two parameters, namely period and multiplier.

The Buy and Sell signal modify once the indicator crosses over the closing price. When the Super trend closes above the Price, a Buy signal is generated, and when the Super trend closes below the Price, a Sell signal is generated. A 'Super trend' indicator can be used on equities, futures or forex, and also on daily, weekly and hourly charts as well but normally, it is unsuccessful in a sideways moving market. A 'Super trend' also acts as a strong support or resistance and it also provides a trailing stop loss for the existing trade.



"Rule No.1: Never lose money. Rule No.2: Never forget rule No.1." – Warren Buffet

"One has to be approximately right than precisely wrong" – Keyur Furia

"No price is too low for a bear or too high for a bull" - Unknown Trader

Stock Market is like Roller Coaster



Equity Market is the Game of "P" - P for Profit

- P** Possibilities
- P** Probabilities
- P** Predictions
- P** Patience
- P** Passion
- P** Price Action
- P** Planning

