How to use this guide

This reference guide is a tool to assist you in your learning during and after the Technical Analysis workshop.

During the Workshop
• Follow along with the presenter—the slides are in the guide.

After the Workshop
• Continue using the guide as a reference of all you’ve learned.

Keep the conversation going

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Technical Analysis

James Boyd & Scott Thompson

TD Ameritrade
Today’s Goals:

- Learning to see the market like a technician.
- Practicing sample investing strategies:
  - Identify sample watch list criteria.
  - Identify sample entries/exits.
  - Calculate position size and select scaling strategies to manage risk.
Workshop Agenda

Technical Analysis

- Learn to See Like a Technician
  - Trends
  - Support/resistance
  - Candles and price patterns

- Bull Flags
Learn to See Like a Technician
Goals for this section:

- Learn to read a chart like a technician:
  - Identify up, down, and sideways trends.
  - Identify support and resistance levels.
  - Interpret price momentum with candle patterns.
  - Identify bounces and breakouts.

- Learn the mindset and temperament of a technician.
When you’re a technician, reality is what you see.
A Foundation of Technical Analysis

**Hardware:**
- Trend
- Support and resistance
- Momentum
- Bounces and breakouts
- Price targets
- Reversal = New trend
- Rules rule

**Software:**
- Focus
- Consistency
- Discipline
- Belief: You can be a great trader
Trend: The Direction of Trading

Uptrend

Downtrend

Sideways Trend
The Anatomy of a Trend

- Supply and demand
- Institutional buyers
- Continuation and reversal
Trend and Time Frame

A trend depends on the time frame you’re analyzing.
Support and Resistance

These are the highs and lows inside the trend. Support is an area of demand; resistance is an area of supply.

Diagonal: Connect at least two highs or lows.

Horizontal: Draw a line at just one high or low.
Momentum

- You can spot trend changes by analyzing momentum in candles.
- This can help you track institutional behavior.
- Pay attention to the candles as price approaches support or resistance.
Candlestick Fundamentals

- Candle fill indicates who won—buyers or sellers.
- The length of the candle body indicates the strength of the buying or selling.
- A nonexistent body signals equilibrium between buyers and sellers.
- A long wick signals a failed move.
- A small body signals indecision and possibly transition.
What Does This Tell Us About Momentum?
Candlestick Reversal Patterns

Bullish

- Hammer
- Inverted Hammer
- Piercing Line
- Bullish Engulfing
- Bullish Harami
- Morning Star

Bearish

- Hanging Man
- Shooting Star
- Dark Cloud Cover
- Bearish Engulfing
- Bearish Harami
- Evening Star
Candlestick Continuation Patterns

**Bullish**
- Rising Three Methods
- Bullish Gap
- Bullish Separating Lines

**Bearish**
- Falling Three Methods
- Bearish Gap
- Bearish Separating Lines
Bullish Price Patterns

Reversal

- Double Bottom

- Triple Bottom

- Head and Shoulders Bottom

Continuation

- Flag

- Pennant

- Wedge

- Rectangle

- Ascending Triangle
Bearish Price Patterns

Reversal
- Double Top
- Triple Top
- Head and Shoulders Top

Continuation
- Flag
- Pennant
- Wedge
- Rectangle
- Descending Triangle
Some moments to enter can be better than others.

In technical analysis, these are bounces and breakouts.
Bounces

A bounce occurs when price meets support or resistance and rebounds in the opposite direction.

- **Support Bounce:**
  - Bullish entry, bearish exit
  - CAHOLD: Close above high of low day

- **Resistance Bounce:**
  - Bearish entry, bullish exit
  - CBLOHD: Close below low of high day
Breaks

A breakout occurs when price penetrates a level of support or resistance.

- **Support Break:**
  - Bullish exit
  - Bearish entry

- **Resistance Break:**
  - Bearish exit
  - Bullish entry
Price Targets

Every trade should have an off-ramp.
Reversal = New Trend

The trend is your friend...

...only as long as it keeps going.
Rules Rule

Identify the Trend

10 min.

- Practice identifying the trend as a class.
- Pay attention to the time frame for each example.
- Remember to focus on the highs and lows.
Chart Sample #1

What is the current intermediate-term trend?
Chart Sample #1–Answer

What is the **current** intermediate-term trend?
Chart Sample #2

What is the **current** short-term trend?
Chart Sample #2–Answer

What is the **current** short-term trend?
Chart Sample #3

What is the current intermediate-term trend?
What is the current intermediate-term trend?
Chart Sample #4

What is the current long-term trend?
Chart Sample #4–Answer

What is the **current** long-term trend?
Chart Sample #5

What is the **current** short-term trend?
Chart Sample #5–Answer

What is the **current** short-term trend?

- **Graph Description:**
  - The chart shows a stock price over time with a focus on the trend from 2015 to 2016.
  - The price range is from 45.00 to 65.00.
  - The trend line indicates a possible upward movement starting from early 2016.

- **Key Points:**
  - The price dropped significantly from 2015 to early 2016.
  - There is a notable upward trend from late 2015 to 2016.
  - The price stabilizes and shows a positive trend after mid-2016.

- **Conclusion:**
  - The current short-term trend suggests an upward movement from early 2016.

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**Technical Analysis Workshop**

39
Chart Sample #6

What is the **current** long-term trend?
Chart Sample #6–Answer

What is the current long-term trend?
Goals recap:

- Learn to read a chart like a technician.
  - Identify up, down, and sideways trends.
  - Identify support and resistance levels.
  - Interpret price momentum with candle patterns.
  - Identify bounces and breakouts.
- Learn the mindset and temperament of a technician.
Workshop Agenda
Technical Analysis

 ✓ Learn to See Like a Technician
   ✓ Trends
   ✓ Support/resistance
   ✓ Candles and price patterns

▪ Bull Flags
Bull Flags
Goals for this section:

- Review sample investing plan.
- Evaluate current market conditions.
- Search for and evaluate securities that meet criteria.
- Calculate position size and plan exits.
- Practice placing bull flag paper trades.
Objective

To explore trading short-term rallies in an intermediate-term uptrend using bull flag and pennant price patterns.
Bull Flags

- Continuation pattern
- Short term: Three days to four weeks in length
- Construction:
  - Strong initial move (flagpole)
  - Short sideways trend with parallel support and resistance
Pennants

- Continuation pattern
- Short term: Three days to four weeks in length
- Construction:
  - Strong initial move (flagpole)
  - Sideways trend with converging support and resistance
Setting a Price Target

Lowest Point in the Pattern + Height of Flagpole = Price Target
Bull Flag Setup

- With a stop limit order, you risk missing the market altogether. In a fast-moving market, it might be impossible to execute an order at the stop limit price or better, so you might not have the protection you sought.

- A stop market order will not guarantee an execution at or near the activation price. Once activated, they compete with other incoming market orders.
To Enter, or Not to Enter

- How to find the lowest low—CAHOLD
- When to enter
Position Sizing

1. Determine acceptable portfolio risk.
   \[
   \text{Total Portfolio} \times \text{Percent at Risk} = \text{Portfolio Risk}
   \]
   \[
   \text{\$50,000.00} \times 1\% = \text{\$500.00}
   \]

2. Calculate number of shares.
   \[
   \text{Entry Price} - \text{Stop Level} = \text{Trade Risk}
   \]
   \[
   \text{Portfolio Risk} \div \text{Trade Risk} = \text{Number of Shares}
   \]
Potential Outcomes

When scaling in, consider using dollar amounts.

**WHEN A TRADE GOES WELL**

$3,000

**WHEN A TRADE DOESN'T GO WELL**

Enter $1,000

Enter $1,000

Scaling strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential returns.
Evaluating Current Conditions

- Is the market bullish?
- Is the market bearish?
- Is the market neutral?
Let’s Try It

- Choose two stocks that meet your sample watch list criteria.
- Analyze for potential entry signals.
- Calculate position size.
- Plan exits.
- Purchase stocks in paperMoney®.
Execute the Strategy
30 min.

- Find two more stocks with entry signals.
- Share with a partner.
- Choose the trade with the best setup.
- Place that trade in paperMoney®.
- Enter it in the trade log.
Goals recap:

- Review sample investing plan.
- Evaluate current market conditions.
- Search for and evaluate securities that meet your criteria.
- Calculate position size and plan exits.
- Practice placing bull flag paper trades.
Evaluating Performance
**Return/Risk Ratio**

This ratio tells you how much return you’ve earned for each dollar risked on a trade.

\[
\frac{\text{Average Winner}}{\text{Average Loser}} = \text{Return/Risk}
\]

\[
\frac{6.99}{2.00} = 3.50:1
\]

A return/risk ratio greater than one is favorable because it means your wins typically outweigh your losses. A ratio below one means your losses typically outweigh your wins.
Start Today

- Keep a trading journal.
- For each paper trade, include:
  - Strategy or plan used
  - Entry and exit prices and dates
  - Stop
  - Profit/loss
  - Market conditions
  - Commissions and fees
  - Notes
Workshop Agenda
Technical Analysis

✓ Learn to See Like a Technician
  ✓ Trends
  ✓ Support/Resistance
  ✓ Candles and Price Patterns

✓ Bull Flags
Wrap-Up
Let’s Quickly Review

- What plan would you use?
- Can you see the entries?
- What’s your exit plan?
Let’s Quickly Review

- What plan would you use?
- Can you see the entries?
- What’s your exit plan?