

# BASICS - TECHNICAL ANALYSIS

*Understanding psychology behind stock markets...*

Bangalore Investors Group - Discussion Meeting

2 July 2017

By Vivek Mashrani

 [vivek.mashrani@gmail.com](mailto:vivek.mashrani@gmail.com)

 @MashraniVivek



# Discussion Topics

---

- Market building blocks and market cycles
- Human psychology – Greed and Fear
- Time horizons and Trends
- Complementing with Fundamental analysis
- Underlying thesis of Technical analysis
- Types of charts
- Key indicators
- How I use Technical Analysis
- Examples

# Market building blocks

---

Traders and Speculators

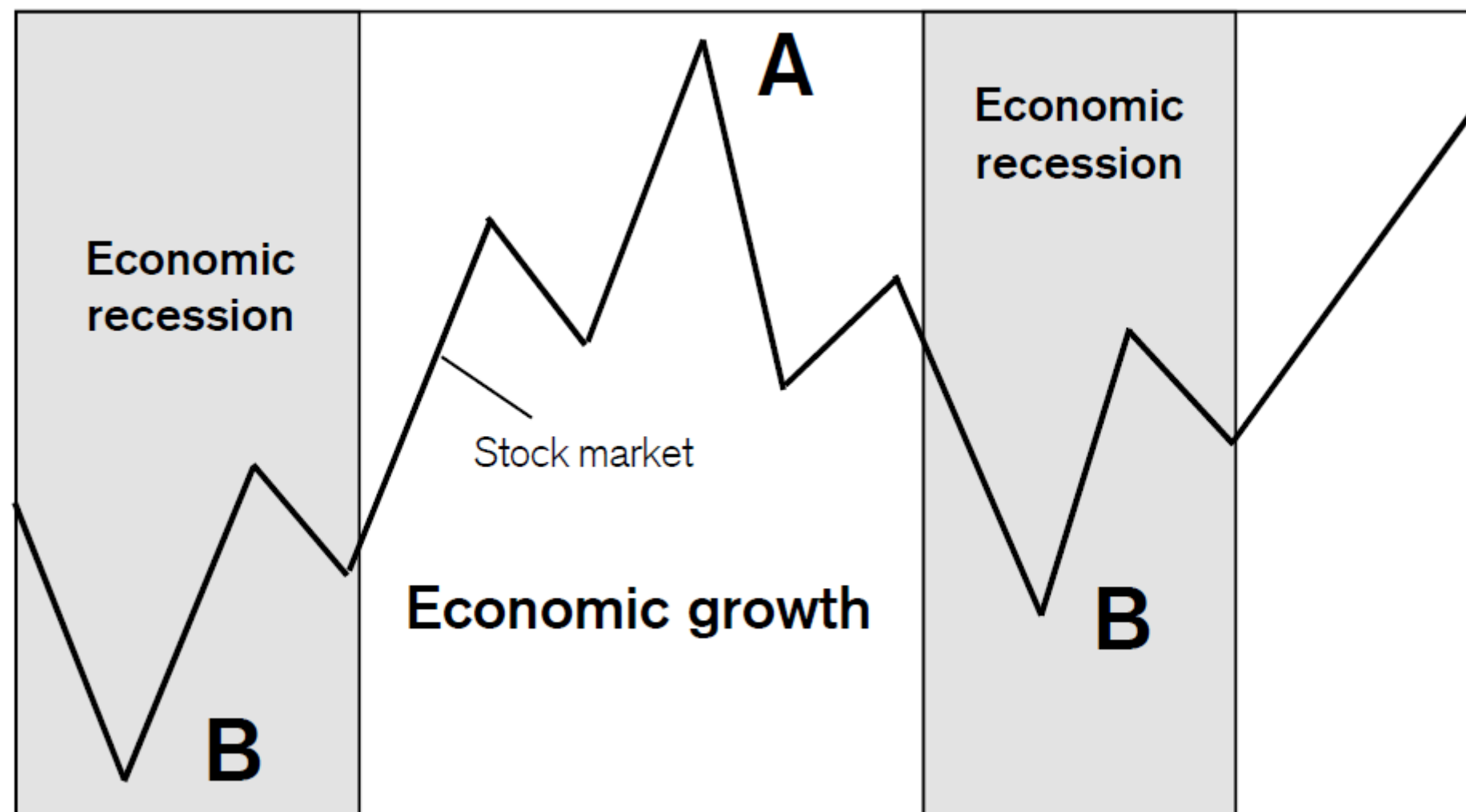


```
graph TD; A[Traders and Speculators] --> B[Investors]; B --> C[Arbitrageurs];
```

Investors

Arbitrageurs

# Market pre-emptes fundamental data

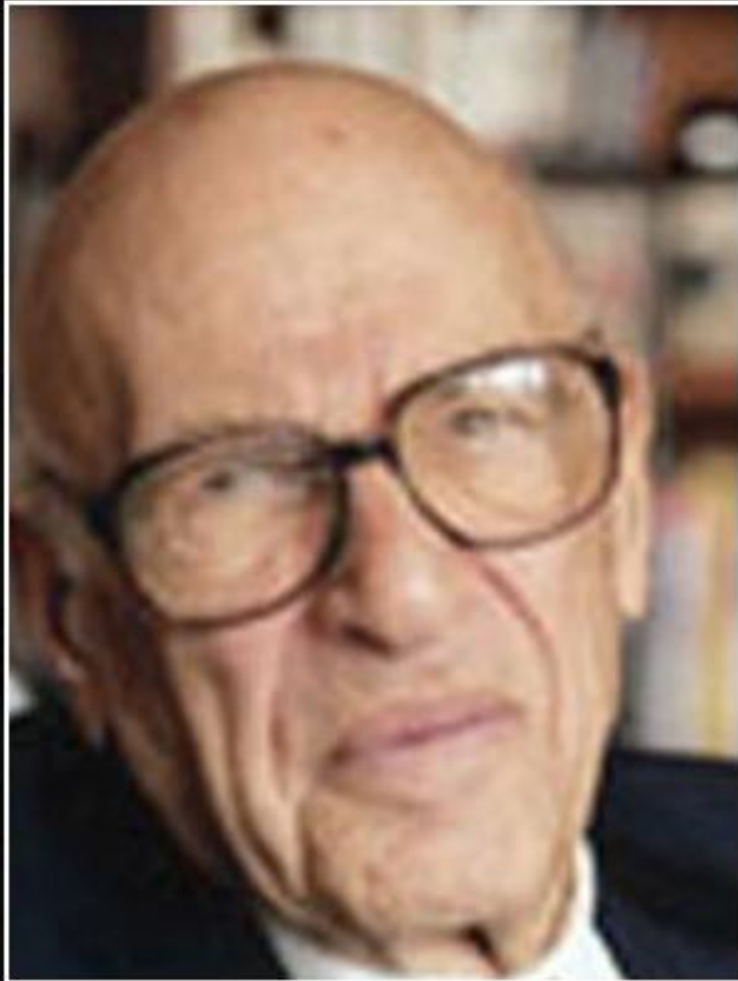


# Is market always rational?





# Identifying trend is important



Fear and greed are probably the  
worst emotions to have in  
connection with the purchase and  
sale of stocks.

— *Walter Schloss* —

AZ QUOTES

# Foundation of Technical Analysis...

“Since all human actions obey laws, as fixed as those of geometry, psychology should be studied in geometrical form, and with mathematical objectivity...”

**EVERYTHING IN NATURE  
IS A CAUSE FROM  
WHICH THERE FLOWS  
SOME EFFECT**

BARUCH SPINOZA



- Spinoza

# Does history repeat? – Fibonacci and nature

<https://www.youtube.com/watch?v=nt2O1MAJj6o>

1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144,  
233, 377, 610, 987, 1597, 2584.....

$$1+1=2$$

$$2+1=3$$

$$3+2=5$$

$$5+3=8$$

$$8+5=13$$

$$13+8=21$$

$$21+13=34$$

$$34+21=55$$

$$55+34=89$$

$$89+55=144$$

$$144+89=233$$

$$233+144=377$$

$$377+233=610$$

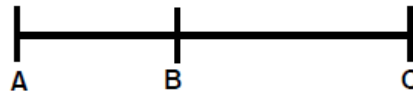
etc.....

$$1.618 = 3/2, 5/3, 8/5, 13/8,$$

.....

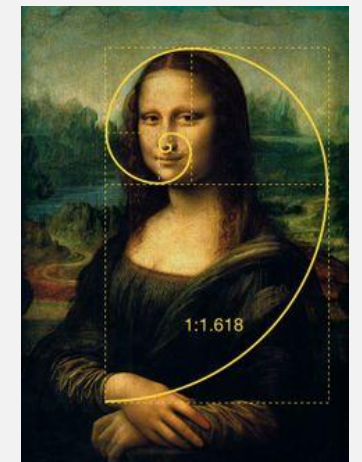
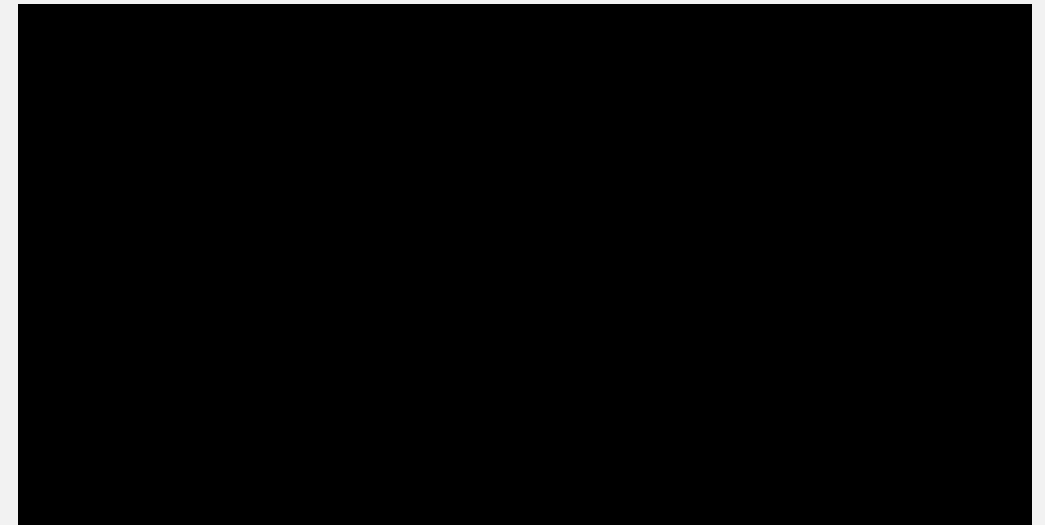
$$0.618 = 2/3, 3/5, 5/8, 8/13,$$

.....



$$AB/BC=BC/AC=0.618$$

Any length can be divided so the ratio between the smaller part and the larger part is equivalent to the ratio between the larger part and the whole. The ratio is always 0.618.





# Eliot wave theory – cloning the human nature...

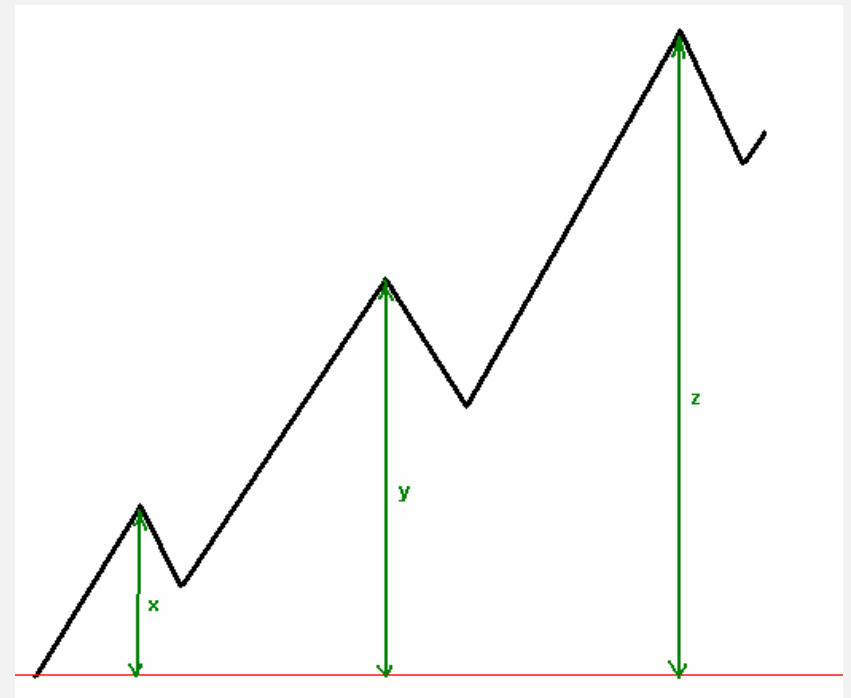


$$x/y = 0.618$$

$$y/x = 1.618$$

$$z/x = 2.618$$

Reciprocal of  
 $2.618 = 0.382$



# Dow theory and technical analysis premises

Price discounts everything

Price movements are not totally random

WHAT is more important than WHY

Market action discounts everything >> Demand - supply

Price moves in trends

History repeats itself

To materialize information – one has to put money on the table...



Technical analysis gives strong indications of action based on insider information ahead of news

**Examples:** Volume spurts, sudden break-outs, moving averages, momentum

# Three pillars of technical analysis



Results in change in demand and supply...which is captured by TECHNICAL ANALYSIS...



# It's a confluence of demand and supply - WAR

Doji

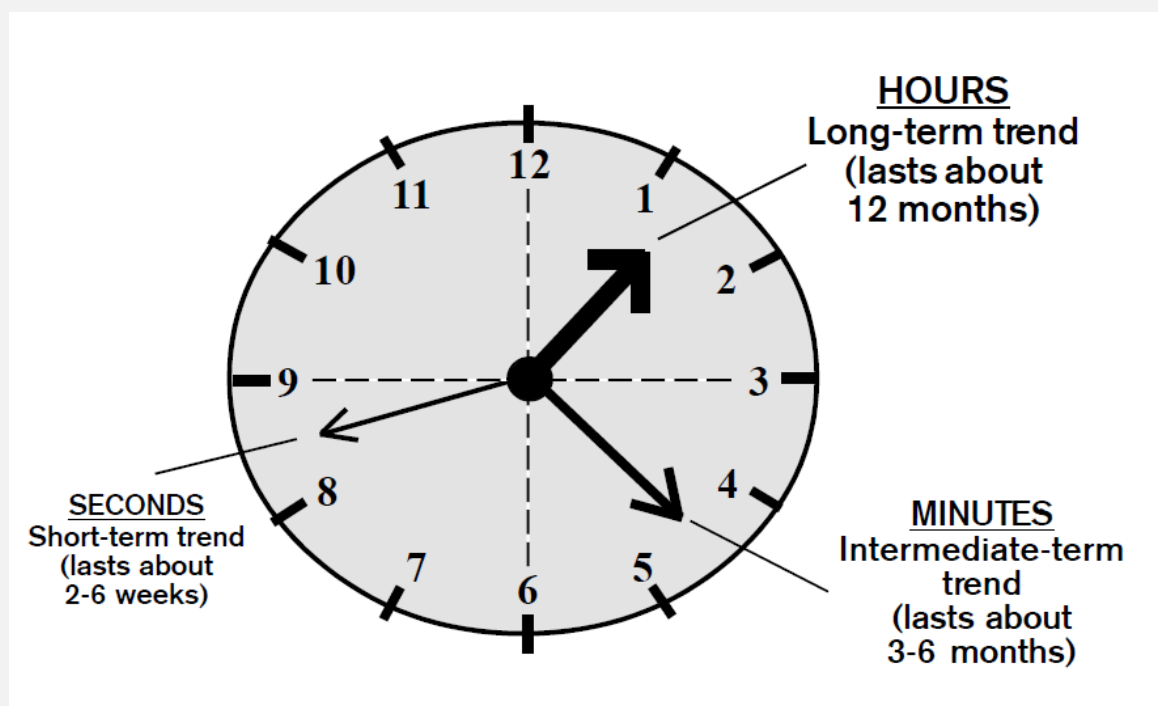


Bearish engulfing pattern





# Time horizons and Trends



Long

- Growing GDP expectations

Medium

- GST impact expectations

Short

- Result season expectations

Unfortunately most technical analysts only focus on intra-day and short term...!!!

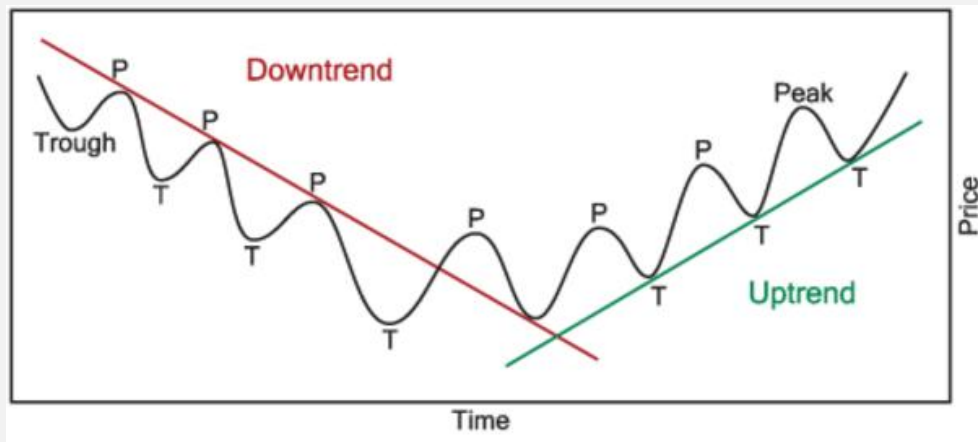
# TRENDLINES

- A **TRENDLINE** is a straight line that connects two or more low or high price points and then extends into the future to act as a line of support or resistance

Downtrend

Uptrend

Sideways



# Complementing with fundamental analysis...

## Mean reverting

- Cyclical sectors like metals, agro, sugar, tea etc.

## Trending upwards

- Compounders which has long term upward trend

## Trending downwards

- Junk stocks like Suzlon, JP associates, Unitech etc.

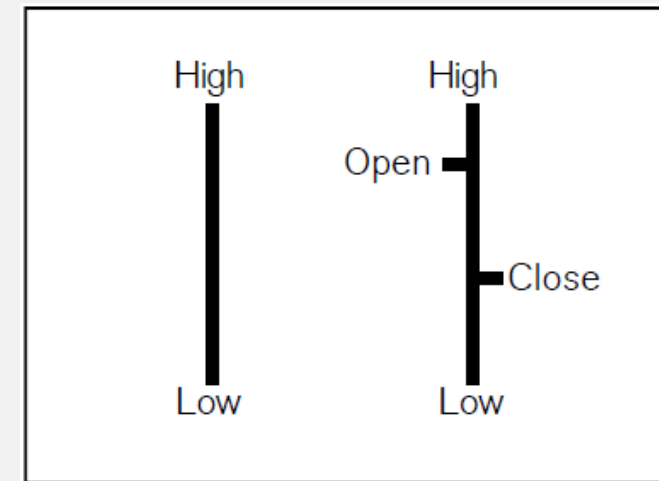
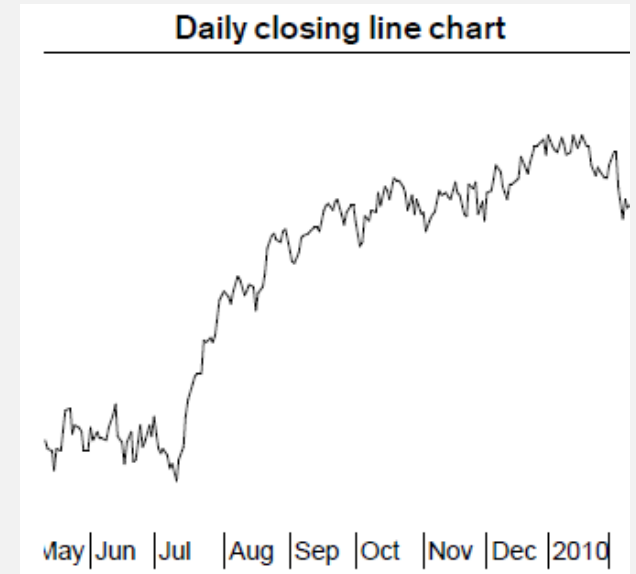
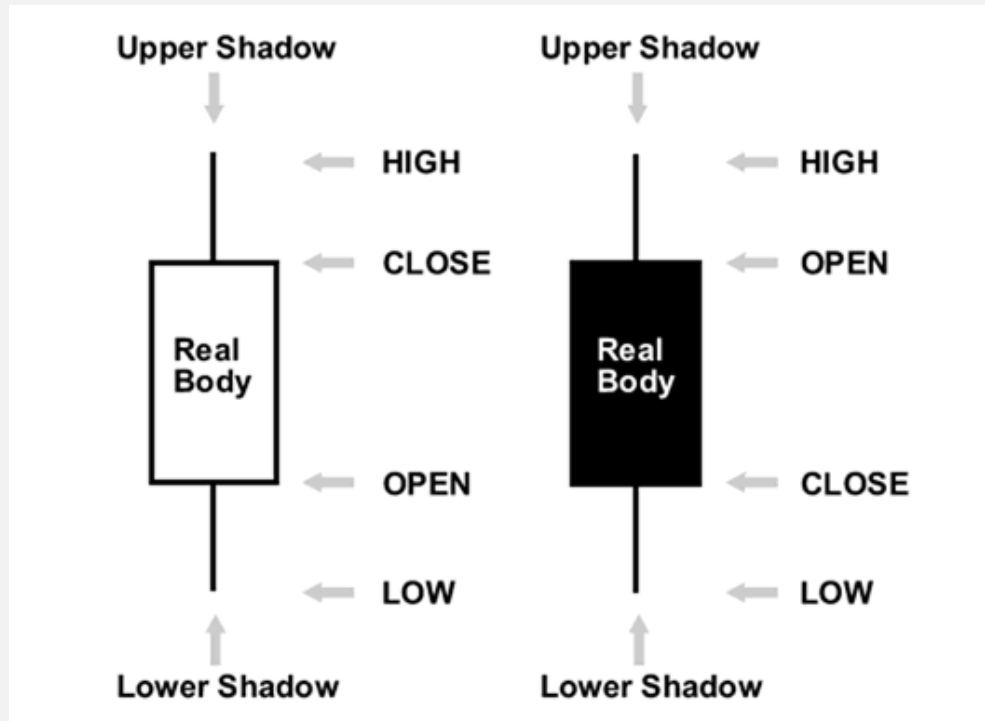
**Common dilemma in fundamental analysis:** Selling too early; Not riding the trend

Valuation remaining expensive for prolonged period of time

Technical analysis adds additional dimension for buying and selling stocks

# Type of charts

- Line chart
- Candlesticks chart
- Bar chart



# Key indicators

---

- Support and Resistance lines
- Trend lines and Bollinger bands
- Fibonacci retracements
- Moving averages
- Momentum indicators
- Continuation and Reversal patterns
- Gaps
- Various combinations – VERY POWERFUL!!



# The way I use Technical Analysis...

- Blend with Fundamental analysis; We know the story – Technical analysis helps identify trigger to this story (people call it INFLECTION POINT these days!!)
- Have 70-80% core portfolio; 20-30% tactical which is used for short term play + Technical triggers + IPOs + Buybacks etc.
- Periodically verify for long term trends for core portfolio (Fundamental analysis - we say HEADWINDS and TAILWINDS!!)
- Look for long term break-outs, reversal patterns to see any twist in story (Fundamental analysis – we say TURNAROUND STORIES!!)

It is very much possible to use Technical Analysis for long term investing!!

# Examples

Like we try to find Multi-baggers in Fundamental analysis...there are profitable situations we need to find in Technical analysis...



# BEPL – strong break-outs



# Shilpi Cable – almost all bearish signals!!



# Vedanta – Trend repeats in cyclical stocks





# V-Guard – Simple channel + volume breakout



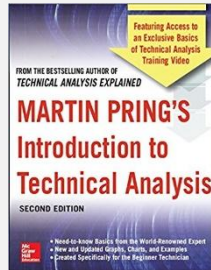
# Sunteck Realty – Triggers for when to buy the trend!!



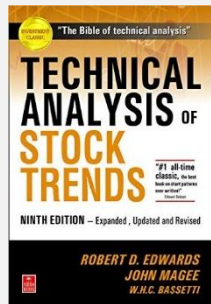
# United Spirits – Technical spirits screaming to sell!!



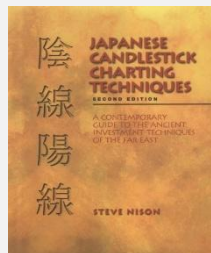
# Suggested further readings & tools (with hyperlinks)



## [Introduction to Technical analysis by Martin Pring](#)



## [Technical analysis of stock trends by Robert Edwards](#)



## [Japanese Candlestick charting by Steve Nison](#)



# References

---

- Credit Suisse – Global Technical Research
- Karvy on Technical analysis
- Technical analysis explained by Martin Pring
- Stockcharts.com
- Chartink.com (like a screener)
- Notes of my Guru Prof. Sanjay Ved
- ChartNexus.com



# DISCLAIMER

---

- This presentation is solely for discussion and knowledge sharing purpose
- Examples shown are for understanding concepts and should not be considered as stock recommendations
- Please do your own research and due diligence for any investment actions and/or consult an investment advisor for the same
- Author is not liable for any claims arising from use of the data provided neither there is any guarantee for accuracy of data
- I have no vested interest in the tools that have been recommended; These are the ones I am comfortable using them