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Chapter 1 : Is Technical Analysis For Real? | Wall Street Oasis

While technical analysis can be performed on any chart, fundamental analysis, or the study of the actual components of the economy that represents a currency, can be quite a bit more subjective.

DCF is a direct valuation technique that values a company by projecting its future cash flows and then using the Net Present Value NPV method to value those cash flows. In a DCF analysis, the cash flows are projected by using a series of assumptions about how the business will perform in the future, and then forecasting how this business performance translates into the cash flow generated by the businessâ€"the one thing investors care the most about. DCF should be used in many cases because it attempts to measure the value created by a business directly and precisely. It is thus the most theoretically correct valuation method available: DCF is probably the most broadly used valuation technique, simply because of its theoretical underpinnings and its ability to be used in almost all scenarios. However, DCF is fraught with potential perils. If even one key assumption is off significantly, it can lead to a wildly different valuation. This is quite possible, given that DCF involves predicting future events forecasting , and even the best forecasters will generally be off by some amount. Therefore, DCF should generally only be done alongside other valuation techniques, lest a questionable assumption or two lead to a result that is substantially different from what market forces are indicating. When doing a DCF analysis, a useful checklist of things to do has a mnemonic that is easy to remember: Validate key assumptions for projections. Sensitize variables driving projections to build a valuation range. When performing a DCF analysis, a series of assumptions and projections will need to be made. Ultimately, all of these inputs will boil down to three main components that drive the valuation result from a DCF analysis. Free Cash Flow Projections: The cost of capital Debt and Equity for the business. This rate, which acts like an interest rate on future Cash inflows, is used to convert them into current dollar equivalents. The value of a business at the end of the projection period typical for a DCF analysis is either a 5-year projection period or, occasionally, a year projection period. The DCF valuation of the business is simply equal to the sum of the discounted projected Free Cash Flow amounts, plus the discounted Terminal Value amount. There is no exact answer for deriving Free Cash Flow projections. It is very easy to increase or decrease the valuation from a DCF substantially by changing the assumptions, which is why it is so important to be thoughtful when specifying the inputs. We will discuss WACC calculations in detail later in this chapter. Terminal Value is the value of the business that derives from Cash flows generated after the year-by-year projection period. It is determined as a function of the Cash flows generated in the final projection period, plus an assumed permanent growth rate for those cash flows, plus an assumed discount rate or exit multiple. More is discussed on calculating Terminal Value later in this chapter. An Unlevered DCF involves the following steps: Value obtained is the Enterprise Value of the business. By comparison, a Levered DCF involves the following steps: Value obtained is the Equity Value aka Market Value of the business. UFCF is the industry norm, because it allows for an apples-to-apples comparison of the Cash flows produced by different companies. This means that the LFCF analysis will need to be re-run if a different capital structure is assumed. In effect, UFCF allows the analyst to separate the Cash flows produced by the business from the structure of the ownership and liabilities of the business. Which is more sensitive part of a DCF model: Free Cash Flows or Discount Rate? The analyst should test several reasonable assumption scenarios to derive a reasonable valuation range. Making important assumptions based upon insufficient research. Lack of footnotes and details documenting the thought process and research process behind the assumptions chosen. The further these numbers are projected out, the less visibility the forecaster will have in other words, later projection periods will typically be subject to the most estimation error. Terminal Value is calculated using one of two methods: Note that if the Perpetuity Method is used, the Discount Rate from the following step will be needed. Use Net Present Value: Here is a graphical representation of these DCF Steps: The following sources can help provide needed information to produce a high-quality DCF analysis: The Risk Free Rate: The benchmark rate used is generally that of the year bond. The Department of the Treasury http: For European companies, use the relevant rate from Euro-denominated government bonds. If the Beta is not published, it can be estimated by means of a simple linear regression. The Market Risk Premium is a measure of the degree to which investors expect to be compensated for owning risky equity securities, rather than risk-free, fixed-rate investments such as in government bonds. It is calculated using the Capital Asset Pricing Model, which assumes that the ONLY source of risk that demands compensation is overall market risk as measured by Beta rather than idiosyncratic or stock-specific risk. This model is generally used to determine the Cost of Equity for a company. Estimates of the Market Risk Premium are available from Morningstar, and can also be estimated using historical returns on government bond investments vs. However, keep in mind that these projections are often on the optimistic side. If using internal estimates, be sure to note how they were generated and for what purpose. Confirm historical financials for accuracy. In order to calculate Free Cash Flow projections, you must first collect historical financial results. This derives a much more accurate representation of the Cash that a company generates than does pure Net Income: The good news is that these Cash flow figures are the least difficult to project, because the closer we are to an event, the more visibility we have about that event. The bad news, of course, is that any error in projecting these figures will have a large impact on the output of the analysis. FCF is derived by projecting the line items of the Income Statement and often Balance Sheet for a company, line by line. Year-over-year growth projections are the most common mechanism, but the more granularity used, the better. For example, being able to project out unit growth and pricing per unit is better than a simple year-over-year growth projection for the Sales number as a whole. It can be found by incorporating the relevant line items from the Balance Sheet. Use historical patterns and common sense to evaluate this line itemâ€”most OWC items are driven by Sales of the company. Thus, growth in these items should at least to some extent be a function of Sales growth. The assumptions driving these projections are critical to the credibility of the output. Below, we will walk you through a simple example of how to do this. In order to increase accuracy for this assumption, remember to study management projections, sell-side projections, and internal estimates. Also remember that more granularity, where possible, is better. As Revenue grows, we increased the gross profit margin by shrinking COGS as a percentage of Revenue because of the concept of economies of scale at the company as the company grows it should experience at least some improved utilization of existing equipment and human resources, increased purchasing power, increased pricing power, etc. In many cases, we would include it and back it out later. Kept constant as a percentage of Revenue This is a direct output of our Revenue and cost assumptions. Depreciation and Capital Expenditures Depreciation is a non-Cash expense, meaning the company books Depreciation as an expense on the income statement for GAAP Generally Accepted Accounting Principles purposes but in reality, no Cash was actually spent. It is an expense of Capital Expenditures made in prior years. Similarly, CapEx must be subtracted out, because it does not appear in the Income Statement, but it is an actual Cash expense. It should be noted that Amortization acts in much the same way as Depreciation, but is used to expense non-Fixed Assets rather than Fixed Assets. An example of this would be Amortization on the value of a patent purchased when acquiring a company that owned it. In this case, it is projected as 5. Use last twelve months LTM, also referred to as trailing twelve months, or TTM tax rate in order to project future tax rates. Subtracted out, as this represents Cash needed to fund new and existing assets. It is not expensed on the Income Statement, as these purchased assets will be used to support operations in upcoming years for the business and is thus gradually expensed, via Depreciation, in those years. Note that net of inflation, CapEx and Depreciation should converge over time, provided that the company is not growing rapidly. This is subtracted out, as it represents investments in short-term net operating assets needed to fund Revenue growth. Now we can apply the formula: The formula for calculating Present Value PV is as follows: We will go into more detail on determining the discount rate, r, in the WACC section of this chapter. The difference between Present Value and Net Present Value is simply to incorporate any cash outflows that might occur in the scenario. Terminal Value Terminal Value represents the value of the cash flows after the projection period. Projections only go out so far in the DCF i. The

Terminal Value is based on the cash flows of the business in a normalized environment. These multiples can be derived using multiples prevalent among comparable companies. Assumes that the Free Cash Flows of the business grow in perpetuity at a given rate. The Perpetuity Method uses the Gordon Formula: This will be demonstrated with an example shortly. As a sanity check, you can use the terminal method to back into an assumed growth rate for the business, which should be similar to the growth rate used in the perpetuity method. Examples of this calculation are discussed later in this section. For this exercise, we are assuming a range of 6. The result equals the Enterprise Value of the company as of the end of the projection period.

Chapter 2 : Why Technical Analysis is % Bullshit - F.S. Comeau

Try to ask some Investor: "Fundamental Analysis vs Technical Analysis"? Most of them will probably tell you that combination of both analysis is the best way to go. While most analysts on Wall Street focus on the fundamental side, major brokerage firms now employ technical analysis as well.

Fundamental analysis maintains that markets may incorrectly price a security in the short run but that the "correct" price will eventually be reached. Profits can be made by purchasing the wrongly priced security and then waiting for the market to recognize its "mistake" and reprice the security. Technical analysis maintains that all information is reflected already in the price of a security. Technical analysts look at trends and believe that sentiment changes predate and predict trend changes. Technical analysts also evaluate historical trends to predict future price movement. For example, many fundamental investors use technicals for deciding entry and exit points. Similarly, a large proportion of technical investors use fundamentals to limit their universe of possible stock to "good" companies. For explanations of these paradigms, see the discussions at efficient-market hypothesis , random walk hypothesis , capital asset pricing model , Fed model Theory of Equity Valuation, market-based valuation , and behavioral finance. Industry analysis Company analysis The intrinsic value of the shares is determined based upon these three analyses. It is this value that is considered the true value of the share. If the intrinsic value is higher than the market price, buying the share is recommended. If it is equal to market price, it is recommended to hold the share; and if it is less than the market price, then one should sell the shares. Use by different portfolio styles[edit] Investors may also use fundamental analysis within different portfolio management styles. Fundamental analysis lets them find "good" companies, so they lower their risk and the probability of wipe-out. The values they follow come from fundamental analysis. Managers may use fundamental analysis to correctly value "good" and "bad" companies. Managers may also consider the economic cycle in determining whether conditions are "right" to buy fundamentally suitable companies. Contrarian investors hold that "in the short run, the market is a voting machine, not a weighing machine". Managers may use fundamental analysis to determine future growth rates for buying high priced growth stocks. Managers may include fundamental factors along with technical factors in computer models quantitative analysis. Top-down and bottom-up approaches[edit] Investors using fundamental analysis can use either a top-down or bottom-up approach. The top-down investor starts their analysis with global economics, including both international and national economic indicators. These may include GDP growth rates, inflation , interest rates , exchange rates , productivity , and energy prices. Only then do they refine their search to the best business in the area being studied. It looks at dividends paid, operating cash flow , new equity issues and capital financing. The earnings estimates and growth rate projections published widely by Thomson Reuters and others can be considered either "fundamental" they are facts or "technical" they are investor sentiment based on perception of their validity. Determined growth rates of income and cash and risk levels to determine the discount rate are used in various valuation models. The foremost is the discounted cash flow model, which calculates the present value of the future: The amount of debt a company possesses is also a major consideration in determining its health. The multiple accepted is adjusted for expected growth which is not built into the model. Growth estimates are incorporated into the PEG ratio. Its validity depends on the length of time analysts believe the growth will continue. Computer modelling of stock prices has now replaced much of the subjective interpretation of fundamental data along with technical data in the industry. Since about the year , a new job role has been invented with computers now able to crunch vast amounts of data. Automation[edit] The process of fundamental analysis has significantly dropped in difficulty over the past 10 years. Fundamental analysis is one of the most time consuming forms of analysis. Furthermore, with the fast paced trading style of the 21st century, where markets are dominated by HFT firms and day traders, it is difficult to keep up with the market in a timely fashion. One way to go about cutting down analysis time, is to subscribe to either free or paid screening services. Screening services will allow you to search the entire market for stocks that match the quantitative fields you are looking for. These types of software then automatically give you results, hence cutting down on time spent sifting through SEC filings. Reference - Fundamental Analysis Software for more information on fundamental analysis software. Criticisms[edit] Economists such as Burton Malkiel suggest that neither fundamental analysis nor technical analysis is useful in outperforming the markets [6]. This is especially true of low liquidity markets or securities.

Chapter 3 : Fundamental Analysis vs Technical Analysis | Side by Side Comparison

example, some fundamental analysts use technical analysis techniques to figure out the best time to enter into an undervalued security. Oftentimes, this situation occurs when the security is severely oversold.

An investor may rank companies based on these valuation ratios. Those at the high end may be considered overvalued, while those at the low end may constitute relatively good value. Putting it All Together After all is said and done, an investor will be left with a handful of companies that stand out from the pack. Over the course of the analysis process, an understanding will develop of which companies stand out as potential leaders and innovators. In addition, other companies would be considered laggards and unpredictable. The final step of the fundamental analysis process is to synthesize all data, analysis, and understanding into actual picks. Strengths of Fundamental Analysis Long-term Trends Fundamental analysis is good for long-term investments based on very long-term trends. The ability to identify and predict long-term economic, demographic, technological or consumer trends can benefit patient investors who pick the right industry groups or companies. Value Spotting Sound fundamental analysis will help identify companies that represent a good value. Some of the most legendary investors think long-term and value. Fundamental analysis can help uncover companies with valuable assets, a strong balance sheet, stable earnings, and staying power. Business Acumen One of the most obvious, but less tangible, rewards of fundamental analysis is the development of a thorough understanding of the business. After such painstaking research and analysis, an investor will be familiar with the key revenue and profit drivers behind a company. Earnings and earnings expectations can be potent drivers of equity prices. Even some technicians will agree to that. A good understanding can help investors avoid companies that are prone to shortfalls and identify those that continue to deliver. In addition to understanding the business, fundamental analysis allows investors to develop an understanding of the key value drivers and companies within an industry. By studying these groups, investors can better position themselves to identify opportunities that are high-risk tech , low-risk utilities , growth oriented computer , value driven oil , non-cyclical consumer staples , cyclical transportation or income-oriented high yield. Business can change rapidly and with it the revenue mix of a company. This happened to many of the pure Internet retailers, which were not really Internet companies, but plain retailers. Weaknesses of Fundamental Analysis Time Constraints Fundamental analysis may offer excellent insights, but it can be extraordinarily time-consuming. Time-consuming models often produce valuations that are contradictory to the current price prevailing on Wall Street. When this happens, the analyst basically claims that the whole street has got it wrong. This is not to say that there are not misunderstood companies out there, but it seems quite brash to imply that the market price, and hence Wall Street, is wrong. For this reason, a different technique and model is required for different industries and different companies. This can get quite time-consuming, which can limit the amount of research that can be performed. A subscription-based model may work great for an Internet Service Provider ISP , but is not likely to be the best model to value an oil company. Subjectivity Fair value is based on assumptions. Any changes to growth or multiplier assumptions can greatly alter the ultimate valuation. Fundamental analysts are generally aware of this and use sensitivity analysis to present a base-case valuation, an average-case valuation, and a worst-case valuation. However, even on a worst-case valuation, most models are almost always bullish, the only question is how much so. The chart below shows how stubbornly bullish many fundamental analysts can be. Analyst Bias The majority of the information that goes into the analysis comes from the company itself. Companies employ investor relations managers specifically to handle the analyst community and release information. Only buy-side analysts tend to venture past the company statistics. Buy-side analysts work for mutual funds and money managers. These brokers are also involved in underwriting and investment banking for the companies. Even though there are restrictions in place to prevent a conflict of interest, brokers have an ongoing relationship with the company under analysis. When reading these reports, it is important to take into consideration any biases a sell-side analyst may have.

The buy-side analyst, on the other hand, is analyzing the company purely from an investment standpoint for a portfolio manager. If there is a relationship with the company, it is usually on different terms. In some cases, this may be as a large shareholder. Definition of Fair Value When market valuations extend beyond historical norms, there is pressure to adjust growth and multiplier assumptions to compensate. If Wall Street values a stock at 50 times earnings and the current assumption is 30 times, the analyst would be pressured to revise this assumption higher. There is an old Wall Street adage: Just as stock prices fluctuate, so too do growth and multiplier assumptions. Are we to believe Wall Street and the stock price or the analyst and market assumptions? It used to be that free cash flow or earnings were used with a multiplier to arrive at a fair value. However, because so many companies were and are losing money, it has become popular to value a business as a multiple of its revenues. This would seem to be OK, except that the multiple was higher than the PE of many stocks! Some companies were considered bargains at 30 times revenues. Conclusions Fundamental analysis can be valuable, but it should be approached with caution. If you are reading research written by a sell-side analyst, it is important to be familiar with the analyst behind the report. We all have personal biases, and every analyst has some sort of bias. There is nothing wrong with this, and the research can still be of great value. Learn what the ratings mean and the track record of an analyst before jumping off the deep end. Corporate statements and press releases offer good information, but they should be read with a healthy degree of skepticism to separate the facts from the spin. Investors should become skilled readers to weed out the important information and ignore the hype.

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Chapter 4 : Discounted Cash Flow Analysis | Street Of Walls

In technical analysis, it is the overall direction of these highs and lows that constitute a trend. An uptrend is classified as a series of higher highs and higher lows, while a downtrend consists.

Technical analysis is the art of looking at this graph and thinking: Technical analysis has ZERO scientific value. Therefore, I should bet on red! It has ZERO scientific validity. You know all those quacks selling crystals to cure cancer or pretending that there are vibrations that put you in harmony with the universe? Technical analysts are the Wall Street version of those guys, albeit maybe a little less dangerous maybe. Every analyst who actively promotes Technical Analysis as a way to earn a return higher than the market on a risk-adjusted basis is a moron. TA has never worked and never will. If you seriously think you can look at a chart and guess in which direction the product is moving with any degree of certainty higher than the average, you are wrong. Do you honestly think beating the market is that simple? If it was this easy, everyone would do it. Period Technical Analysis is the kind of thing you can learn in an hour. A single proprietary trading firm can have enough computers to fill your house ten times and then some. The firm had been operating been for more than ten years. That gives you an idea of how just well-equipped and well-capitalized these guys is. These guys have no problem investing millions to cut their ping from 2s to 1. These people can backtest millions of strategies in real time by the time you blink your eyes. Do you really think your stupid moving average crap can compete with them? If you do, go get interned somewhere, because you are basically insane. Technical Analysis is to Trading what Astrology is to Science Many years ago, some great men looked at the sky and thought to themselves: I see a Taurus! I see a Sagittarius! What do you see here? What do you see in the graph above? It looks like this: This chart basically looks exactly like the emoticon above. And if you look carefully, the shrugging emoticon is sloped to the right, meaning a crash is about to happen: It was basically like printing free money. Take a look at this article from Investopedia, a serious website on investing if there ever is such a thing: The part on moving average I could tolerate, but that? Of course they managed to find a case where it worked. But what about this one: I mean, just look at this crap: And because the neckline is skewed, this means the stock is going up? Did I follow this right? Technical analysis has one advantage: My first girlfriend failed her grade 10 maths and somehow managed to end up with a masters in biology. This is supposedly a class of people who graduated high school and saw derivatives, integers, matrices and so on. And this was for a maths degree! I remember when I first saw the proof to Black-Scholes. I think I was in undergrad and the teacher saw this: Is this really how math work? And here comes technical analysis. You click a button and bam, moving averages appear. And patterns are even more simple. Every little peak is perfectly correlated. This is basically a sign from the Illuminatis. If only I had known that five years agoâ€¦ Technical analysis is easy to sell to idiots. This makes trading look trivial: Stock falls below its day moving average? RSI is too low? A triangle is forming? If it breaks out of it on the upper side, buy, down side, sell! As long as you can click a button, you can apply technical analysis. Never, ever, ever, EVER. What people say and what people actually do are two different things, guys. In fact, people do it all the time. I could very well repeat my performance for two, three, four, maybe five days in a row. At this point, if I was dumb, I would probably believe my system is working. A guy who had been trading successfully for two and a half year got fired for losing half his portfolio in three days. This is a mistake! I studied graphing, charting, pivot points, candlesticks, you name it, I save it. Thankfully, I never actually did trade using them. I would have been humiliated if I had actually followed through that bullshit, I mean, I consider myself smarter than that. Still, I wasted a ton of very precious time actually learning about this crap. If you really had a system that allowed you to print free money trading stocks, would you share it?

Chapter 5 : Fundamental Analysis [ChartSchool]

Fundamental Analysis and Technical Analysis (FA and TA) go hand-in-hand in guiding the forex trader to potential opportunities under ever changing market conditions. Both beginner and veteran traders can benefit from the material that follows, but veterans have learned to make one important distinction.

Forextraders Brought to you by: In this brief guide we will try to provide you with a step-by-step plan for analyzing the global economic environment and deciding on which currency to buy or sell. Introductory Comments Fundamental Analysis and Technical Analysis FA and TA go hand-in-hand in guiding the forex trader to potential opportunities under ever changing market conditions. Both beginner and veteran traders can benefit from the material that follows, but veterans have learned to make one important distinction. They do not spend an inordinate amount of time on the FA side of the equation, primarily because they do not have the resources, access to key information, or the ability to read and assimilate the mountains of data that are made public on a daily basis. Large banks, hedge funds, and institutional investors have those resources, but even they have a difficult time arriving at correct predictions on how market forces will evolve. The advice is simply to use FA to determine a general feel for market directions, the interplay of key variables, and existing monetary policy differences to suggest which currency pairs offer the greatest opportunities at a point in time. The objective of every trader is to assess market conditions daily, and then to modify his strategy accordingly. FA and TA are your tools for achieving this goal each and every trading day. Study the macroeconomic arena To build our wealth, we must create an analytical structure. To create the structure, we must first establish its basis. The basis of our analysis will involve the study of macroeconomics at the global scale. We must establish the background at the highest level to be able to filter the data and reach at the dynamics of currency pairs at the lowest level. In doing so, we will examine cyclical dynamics, the monetary policies of major central banks and a few other indicators. The first phase is relatively straightforward, since during a boom volatility falls, and liquidity becomes abundant on a global scale; during a bust the opposite happens. Decide on the phase of the cycle. We must first determine the phase of the economic cycle on a global scale. But they are still safe, because market actors often refuse to acknowledge the importance of these data until they are confirmed by falling industrial production and rising unemployment â€" developments that come quite late in the phase of the cycle. Examine technological innovations, political environment, emerging market fundamentals Upon deciding the phase of the cycle, we will try to determine the dynamics that can enhance productivity and create a period of non-inflationary economic expansion on a global scale. When emerging economies adopt the new technologies of the developed world, and create a new basis of industrial production, productivity will increase, and will sustain growth without creating inflation. The details of this subject can be studied further in our section on fundamental analysis. The global political environment also has a great influence on international currency fluctuations for obvious reasons. The high inflation era of the s, for instance, was caused by a number of political events influencing economic fundamentals. Similarly, hyperinflation in Germany in the aftermath of the first World War was also caused by political developments that perverted the natural course of economic events. Conclude the first Step: Productivity gains will ensure a growing global environment a boom phase until the technological innovations are fully absorbed; but they are greatly prone to creating bubbles. If the cycle is going through the bust phase, all speculative activity must be curbed. If the cycle is going through the boom phase, it is time to build our risk portfolio and manage our risk allocations through correlation studies and money management methods. Study global monetary environment In the second step, we move from the generalized studies of the first step to a more specific discussion of the developed world economies. In the first step we examined the factors that influence the economic state of all nations. Study the interest rate policies of major global powers In light of their past behavior we will examine the policy biases of major central banks, such as the Bank of Japan, the Federal Reserve, and the ECB. Our study will take into account the policy biases and legal mandates of these institutions, along with their independence. By studying and clarifying their policy biases, we can have an idea on money supply growth, which will help us decide such variables as emerging market growth potentials, stock market volatility, and the interest rate expectations in a local market, which can translate into critical rate differentials when compared to other countries. Compare money supply expansion and credit standards with the previous period Once we understand the policies of global central banks, we must compare these policies with their precursors, and decide on their possible impact on the global economy. Easy money coming out of a recession is normal, and if credit channels are functioning, it should alert us to increase the risk tolerance of our portfolio. Conversely, tight monetary policy, following a period of economic boom, would mean that the global economy will go through a period of reorganization, which would lead us to reduce the risk tolerance of our portfolio. A continued period of lax monetary policy low rates would imply that the forex market will develop risk bubbles, that is, currencies of nations with weak fundamentals will appreciate way beyond their equilibrium value, which is a contrarian trade opportunity for shorting them. So, as currencies of nations with strong fundamentals appreciate way beyond their equilibrium value, we will have another contrarian trade opportunity for shorting their currencies. Exploding bubbles, commodity shocks and major political events can create exceptions to the above scenario. Analyze the VIX, developed market loan default rates of corporate and private sectors We are aware of the phase of the cycle, but we must also find a way for determining the volatility tolerance of our portfolio. Stock market volatility and the loan default statistics of corporations have an important role in determining forex market volatility, as low risk perception in the economy at large allows all actors to increase leverage and liquidity, which leads to a generally safer environment for forex traders. Of course, like everything else in the markets, low or high volatility are temporary phenomena. The trader must not only analyze present volatility but also its causes, the actors that help reduce it, and the factors that can neutralize their impact on the markets. Knowledge of these will allow us to react quickly to market shocks, and help us reduce our losses when they inevitably occur eventually. Conclude the second step: This step will allow us to understand where in the cycle we are. Toward the peak of the boom phase, VIX, default rates and interest rates will all be quite low, allowing us maximal profit from the risky positions we had assumed for example by longing the AUD, while shorting the yen. Conversely, towards the peak of the bust phase, all those value will register extremes; and by expressing a negative view of risk in our portfolio, we will be able to protect our capital; and while pocketing good profits as other financial actors reach the same conclusions with us. We will simplify the process here, but the most important indicators that must be studied are: Examine the interest rate differentials of nations In light of unemployment statistics, capital expenditure and output gap, since most of the time markets attach the greatest importance to interest rate differentials between currencies, we must form an opinion on the direction of central bank interest rates. This can be done by studying unemployment statistics and the output gap. As capacity constraints in an economy increase and unemployment falls, labor market shortages create wage pressures which are eventually translated into higher prices and inflation in an economy. Similarly, by following these values the trader can form an opinion on where the interest rates will go. Compare the balance of payments of the currencies The balance of payments of a nation is like the balance sheet of a company. We will study the balance sheets of nations in terms of current and capital account situation. We discussed these matters in previous texts, and the reader can examine them for a better understanding of balance of payments dynamics. Trade the third step: During the growth phase of the cycle, economic actors favor risk, thus currencies with stronger fundamentals are prone to be sold in favor of those who choose to attract capital through higher interest rates. Thus, during the boom phase or at the beginning of it, we will sell currencies with strong fundamentals offering low interest rates, and buy the currencies offering high interest rates to compensate for weaker fundamentals. During the bust phase, we will buy currencies offering low interest rates with a strong balance of payments, and sell currencies that offer high interest rates but are built on a weak balance of payments situation. Thus, we will choose currency pairs which offer the greatest imbalances to the trader, and will either enter long-term counter trend positions with low leverage, or we will await the market to confirm our analysis with its actions. Concluding Remarks

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Fundamental Analysis can be very complex and time consuming. It is truly an academic exercise, but a general understanding of its principles in a given situation will help point you to where you may have your greatest potential for gain. First, the UK economy seemed to be recovering more quickly than the U. The belief was that austerity measures were working, and the consensus was that the U. K would raise interest rates ahead of other nations. As the frontrunner from an FA perspective, the Pound soon appreciated markedly versus its rivals. When economic data failed to support these expectations, the Pound fell like a rock. Europe, however, suffered from low growth, low inflation, recessionary tendencies, and a potential quantitative easing necessity. The Euro, as a result, also fell like a rock. In both cases, a general knowledge of Fundamental Analysis would have guided the trader to currency pairs that offered the highest potential for gain. Your goal is to understand how the market is changing, and fundamental information drives those changes. Spend your time wisely, however, in order to reserve as much time as you can for trading.

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Chapter 6 : A Step-by-step Guide to Fundamental Analysis of the Currency Market

You can try CapitalVia Global Research Limited (Investment Advisor) is a pure play financial market research and consulting company.. The company was founded in with the objective of offering unbiased technical analysis, for the trading community, by experienced professionals to create a conducive environment.

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Chapter 7 : How to Combine Technical and Fundamental Analysis

On the technical side, your choice includes day, day and day moving averages, day high/low, day high/low, week high/low, beta, average true range - lots of different ways of.

Identify which Securities interest you! This is the first and the major step that you will take. Identify the best suited Strategy. Not all the stocks will fit into the same strategy. Identifying the best strategy for the selected stocks is important. Select a Trading Account You need a right trading account with the required support, functionality and cost. There are lot of free tools available. As a novice trader you can try them first to know their features. Always Paper Trade first! To jump into the Trading Jungle without any prior knowledge is a big mistake. I would suggest you to atleast spend a month, testing your system with end of day market data. Select few stocks that meet your technical indicators requirements. See how they are doing each day. Set Stop Loss Holding a losing Trade will dig a deeper hole for you. Set a Stop loss no matter what Stock you choose. Use of Analytical methods: The methods and approaches used in Fundamental analysis are based on sound Financial data. This eliminates the room for personal bias. Fundamental analysis also considers long term economic, demographic, technologic and consumer trends. Systematic approach for deducing the Value: Rigorous accounting and financial analysis, helps to gauge better understanding of everything. Carrying out Industry analysis, financial modeling and valuation, is not a cup of tea. It can get complicated and may need lot of hard work to start with. Assumptions play a vital role in forecasting the financials. So it is important to consider the best and the worst case scenario. Unexpected negative economic, political or legislative changes, may cause problems. Gives insights on Volume Trend: Thusit tells you a lot about Traders Sentiments. You can actually judge how the overall market is working. Usually High demand push up the prices, and high supply push down the prices. Tells you when to Enter and Exit: Technical analysis is able to tell you when to enter or exitfrom the GAME. Price reflects all the known information about an asset. Prices may increase or decrease, but ultimately the current price is the balancing point for all information. Patterns give you direction: You can use patterns as a guide to direct your buy and sell decisions. Too many Indicators spoil the Charts: Too many indicators can produce confusing signals which may affect your analysis. Technical analysis does not take into account the underlying fundamentals of a company. This can prove risky in case of long time frames. Snapshot of Fundamental Analysis vs Technical Analysis.

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Chapter 8 : Technical analysis - Wikipedia

Fundamental analysis, in accounting and finance, is the analysis of a business's financial statements (usually to analyze the business's assets, liabilities, and earnings); health; and competitors and markets.

History[edit] The principles of technical analysis are derived from hundreds of years of financial market data. In Asia, technical analysis is said to be a method developed by Homma Munehisa during the early 18th century which evolved into the use of candlestick techniques , and is today a technical analysis charting tool. In , Robert D. Edwards and John Magee published Technical Analysis of Stock Trends which is widely considered to be one of the seminal works of the discipline. It is exclusively concerned with trend analysis and chart patterns and remains in use to the present. Early technical analysis was almost exclusively the analysis of charts because the processing power of computers was not available for the modern degree of statistical analysis. Charles Dow reportedly originated a form of point and figure chart analysis. Dow theory is based on the collected writings of Dow Jones co-founder and editor Charles Dow, and inspired the use and development of modern technical analysis at the end of the 19th century. Other pioneers of analysis techniques include Ralph Nelson Elliott , William Delbert Gann and Richard Wyckoff who developed their respective techniques in the early 20th century. More technical tools and theories have been developed and enhanced in recent decades, with an increasing emphasis on computer-assisted techniques using specially designed computer software. General description[edit] Fundamental analysts examine earnings, dividends, assets, quality, ratio, new products, research and the like. Technicians employ many methods, tools and techniques as well, one of which is the use of charts. Using charts, technical analysts seek to identify price patterns and market trends in financial markets and attempt to exploit those patterns. These indicators are used to help assess whether an asset is trending, and if it is, the probability of its direction and of continuation. Examples include the moving average , relative strength index , and MACD. There are many techniques in technical analysis. Adherents of different techniques for example, Candlestick analysis -the oldest form of technical analysis developed by a Japanese grain trader-, Harmonics , Dow theory , and Elliott wave theory may ignore the other approaches, yet many traders combine elements from more than one technique. Some technical analysts use subjective judgment to decide which pattern s a particular instrument reflects at a given time and what the interpretation of that pattern should be. Others employ a strictly mechanical or systematic approach to pattern identification and interpretation. Contrasting with technical analysis is fundamental analysis , the study of economic factors that influence the way investors price financial markets. Technical analysis holds that prices already reflect all the underlying fundamental factors. Uncovering the trends is what technical indicators are designed to do, although neither technical nor fundamental indicators are perfect. Some traders use technical or fundamental analysis exclusively, while others use both types to make trading decisions. Technical analysis stands in contrast to the fundamental analysis approach to security and stock analysis. Multiple encompasses the psychology generally abounding, i. Technical analysis analyzes price, volume, psychology, money flow and other market information, whereas fundamental analysis looks at the facts of the company, market, currency or commodity. Most large brokerage, trading group, or financial institutions will typically have both a technical analysis and fundamental analysis team. In the s and s it was widely dismissed by academics. In a recent review, Irwin and Park [13] reported that 56 of 95 modern studies found that it produces positive results but noted that many of the positive results were rendered dubious by issues such as data snooping , so that the evidence in support of technical analysis was inconclusive; it is still considered by many academics to be pseudoscience. It is believed that price action tends to repeat itself due to the collective, patterned behavior of investors. Hence technical analysis focuses on identifiable price trends and conditions. Prices move in trends[edit] See also: Market trend Technical analysts believe that prices trend directionally, i. The basic definition of a price trend was originally put forward by Dow theory. A technical analyst or trend follower recognizing this trend would look for opportunities to sell this security. AOL consistently moves downward in price. Each time the stock rose, sellers would enter the market and sell the stock; hence the "zig-zag" movement in the price. The series of "lower highs" and "lower lows" is a tell tale sign of a stock in a down trend. Each time the stock moved higher, it could not reach the level of its previous relative high price. Note that the sequence of lower lows and lower highs did not begin until August. Then AOL makes a low price that does not pierce the relative low set earlier in the month. Later in the same month, the stock makes a relative high equal to the most recent relative high. In this a technician sees strong indications that the down trend is at least pausing and possibly ending, and would likely stop actively selling the stock at that point. History tends to repeat itself[edit] Technical analysts believe that investors collectively repeat the behavior of the investors that preceded them. To a technician, the emotions in the market may be irrational, but they exist. Because investor behavior repeats itself so often, technicians believe that recognizable and predictable price patterns will develop on a chart. These surveys gauge the attitude of market participants, specifically whether they are bearish or bullish. Technicians use these surveys to help determine whether a trend will continue or if a reversal could develop; they are most likely to anticipate a change when the surveys report extreme investor sentiment. And because most investors are bullish and invested, one assumes that few buyers remain. This leaves more potential sellers than buyers, despite the bullish sentiment. This suggests that prices will trend down, and is an example of contrarian trading. Chan have suggested that there is statistical evidence of association relationships between some of the index composite stocks whereas there is no evidence for such a relationship between some index composite others. They show that the price behavior of these Hang Seng index composite stocks is easier to understand than that of the index. A body of knowledge is central to the field as a way of defining how and why technical analysis may work. It can then be used by academia, as well as regulatory bodies, in developing proper research and standards for the field. They are artificial intelligence adaptive software systems that have been inspired by how biological neural networks work. They are used because they can learn to detect complex patterns in data. In mathematical terms, they are universal function approximators , [36] [37] meaning that given the right data and configured correctly, they can capture and model any input-output relationships. As ANNs are essentially non-linear statistical models, their accuracy and prediction capabilities can be both mathematically and empirically tested. In various studies, authors have claimed that neural networks used for generating trading signals given various technical and fundamental inputs have significantly outperformed buy-hold strategies as well as traditional linear technical analysis methods when combined with rule-based expert systems. However, large-scale application is problematic because of the problem of matching the correct neural topology to the market being studied. Backtesting[edit] Systematic trading is most often employed after testing an investment strategy on historic data. This is known as backtesting. Backtesting is most often performed for technical indicators, but can be applied to most investment strategies e. While traditional backtesting was done by hand, this was usually only performed on human-selected stocks, and was thus prone to prior knowledge in stock selection. With the advent of computers, backtesting can be performed on entire exchanges over decades of historic data in very short amounts of time. The use of computers does have its drawbacks, being limited to algorithms that a computer can perform. Several trading strategies rely on human interpretation, [41] and are unsuitable for computer processing. Combination with other market forecast methods[edit] John Murphy states that the principal sources of information available to technicians are price, volume and open interest. However, many technical analysts reach outside pure technical analysis, combining other market forecast methods with their technical work. One advocate for this approach is John Bollinger , who coined the term rational analysis in the middle s for the intersection of technical analysis and fundamental analysis. Technical analysis is also often combined with quantitative analysis and economics. For example, neural networks may be used to help identify intermarket relationships. Methods vary greatly, and different technical analysts can sometimes make contradictory predictions from the same data. Many investors claim that they experience positive returns, but academic appraisals often find that it has little predictive power. Technical trading strategies were found to be effective in the Chinese marketplace by a recent study that states, "Finally, we find significant positive returns on buy trades generated by the contrarian version of the moving-average crossover rule, the channel breakout rule, and the Bollinger band trading rule, after accounting for transaction costs of 0. Subsequently, a comprehensive study of the question by Amsterdam economist Gerwin Griffioen concludes that: Moreover, for sufficiently high transaction costs it is found, by estimating CAPMs , that technical trading shows no statistically significant risk-corrected out-of-sample forecasting power for almost all of the stock market indices. Technical analysis, also known as "charting", has been a part of financial practice for many decades, but this discipline has not received the same level of academic scrutiny and acceptance as more traditional approaches such as fundamental analysis. In this paper, we propose a systematic and automatic approach to technical pattern recognition using nonparametric kernel regression , and apply this method to a large number of U. Lo wrote that "several academic studies suggest that Market entry signals have been tested by comparing conditional returns i. For the period from Jan. Efficient-market hypothesis[edit] The efficient-market hypothesis EMH contradicts the basic tenets of technical analysis by stating that past prices cannot be used to profitably predict future prices. Thus it holds that technical analysis cannot be effective. Economist Eugene Fama published the seminal paper on the EMH in the Journal of Finance in , and said "In short, the evidence in support of the efficient markets model is extensive, and somewhat uniquely in economics contradictory evidence is sparse. Because future stock prices can be strongly influenced by investor expectations, technicians claim it only follows that past prices influence future prices. Technicians have long said that irrational human behavior influences stock prices, and that this behavior leads to predictable outcomes. By considering the impact of emotions, cognitive errors, irrational preferences, and the dynamics of group behavior, behavioral finance offers succinct explanations of excess market volatility as well as the excess returns earned by stale information strategies In his book A Random Walk Down Wall Street, Princeton economist Burton Malkiel said that technical forecasting tools such as pattern analysis must ultimately be self-defeating: Malkiel has compared technical analysis to " astrology ". In a paper, Andrew Lo back-analyzed data from U. The random walk index attempts to determine when the market is in a strong uptrend or downtrend by measuring price ranges over N and how it differs from what would be expected by a random walk randomly going up or down. The greater the range suggests a stronger trend. Some of the patterns such as a triangle continuation or reversal pattern can be generated with the assumption of two distinct groups of investors with different assessments of valuation. The major assumptions of the models are that the finiteness of assets and the use of trend as well as valuation in decision making. Many of the patterns follow as mathematically logical consequences of these assumptions. One of the problems with conventional technical analysis has been the difficulty of specifying the patterns in a manner that permits objective testing. Japanese candlestick patterns involve patterns of a few days that are within an uptrend or downtrend.

Chapter 9 : Fundamental Analysis: A Brief Introduction To Valuation

Essentially, by using both fundamental and technical analysis, shorter-term traders and longer-term investors may be able to improve their chances of success by using fundamental factors to select the candidate and technical factors to dictate the ideal entry or exit price.

One of them is an approach known as Technical Analysis. Using this method, traders can get a better understanding of the market sentiment and isolate significant trends in the market. This data can be used to make more educated predictions and wiser trades. Tech analysis considers the history of a coin with price charts and trading volumes, no matter what the coin or project does. As opposed to technical analysis, fundamental analysis is more focused on establishing if a coin is over or under valued. To get a better idea of technical analysis, it is crucial to understand the fundamental ideas of Dow Theory that tech analysis is based on: The market considers everything in its pricing. All existing, prior, and upcoming details have already been integrated into current asset prices. With regards to Bitcoin and crypto, this would be comprised of multiple variables like current, past, and future demand, and any regulations that impact the crypto market. The existing price is a response to all the current details, which includes the expectations and knowledge of each coin traded in the market. Technicians interpret what the price is suggesting about market sentiment to make calculated wise predictions about future pricing. Rather, they often follow trends, which may either be long or short-term. Technicians try to isolate and profit from trends using technical analysis. Technicians are more focused on the price of a coin than each variable that produces a movement in its price. Although multiple aspects could have influenced the price of a coin to move in a specific direction, Technicians assertively review supply and demand. History tends to get repeated. It is possible to predict market psychology. Traders sometimes react the same way when presented with similar stimuli. Trend Lines Trend lines, or the typical direction that a coin is moving towards, can be most beneficial for traders of crypto. That said, isolating these trends can be easier said than done. Crypto assets might be substantially volatile, and watching a Bitcoin or crypto price movement chart will probably reveal a selection of highs and lows that form a linear pattern. With that in mind, Technicians understand that they can overlook the volatility and find an upward trend upon seeing a series of higher highs, and vice versa â€” they can identify a downtrend when they see a series of lower lows. Traders should be mindful that trends come in many forms, including intermediate, long and short term trend lines. How to do it perfectly? Now place your line exactly there. Now correct your line. This explain was for Coinigy charts, but should work well with other chart applications. Resistance and support levels As there are trend lines, there are also horizontal lines that express levels of support and resistance. By identifying the values of these levels, we can draw conclusions about the current supply and demand of the coin. At a support level, there seems to be a considerable amount of traders who are willing to buy the coin a large demand , i. The large demand usually stops the decline and sometimes even changes the momentum to an upward trend. A level of resistance is exactly the opposite â€” an area where many sellers wait patiently with their orders, forming a large supply zone. There is often a situation in which trade-offs can be between support and resistance levels: This opportunity usually takes place when lateral movement is identified. So what happens during breakout of resistance or support level? There is high probability that this is an indicator which is strengthening the existing trend. Further reinforcement of the trend is obtained when the resistance level becomes support level, and being tested from above shortly after the breakout. Hence, we must use some more indicators, such as trading volume, to identify the trend. Moving averages Another technical analysis tool for crypto currencies and technical analysis in general, in order to simplify trend recognition, is called moving averages. A moving average is based on the average price of the coin over a certain period of time. For example, a moving average of a given day will be calculated according to the price of the coin for each of the 20 trading days prior to that day. Connecting all moving averages forms a line. It is also important to recognize the exponential moving average EMA , a moving average that gives more weight in its calculation to the price values of the last few days than the previous days. An example is the calculation coefficient of the last five trading days of EMA 15 days will be twice that of the previous ten days. In the following graph we can see a practical example: If a day moving average crosses above a day moving average it might tell us a positive trend is coming. Trading Volume Trading volume plays an important role in identifying trends. Significant trends are accompanied by a high trading volume, while weak trends are accompanied by a low trading volume. When a coin goes down it is advisable to check the volume which accompanied the decline. A long-term trend of healthy growth is accompanied by a high volume of increases and a low volume of declines. It is also important to see that volume is rising over time. If the volume is decreasing during increases, the upward trend is likely to come to an end, and vice versa during a down trend. Not on the technical analysis alone Using technical analysis, traders can identify trends and market sentiment and they also have the ability to make wiser investment decisions. However, there are a number of key points to consider: Technical analysis is a practical method that weighs past prices of certain coins and their trading volume. When considering entering a trade, it is not recommended that you only rely on technical analysis. Especially in the field of crypto, a field that often generates news, there are fundamental factors that have a significant impact on the market such as regulations, ETF certificates, mining hash, etc. From Theory to Implementation: How to start and identify trends? In order to get started, we need an analytics tool that draws graphs quickly and easily. The well-known graph and charting service, with wide variety of options. Mostly free, except from premium paid features. Coinigy provides a comprehensive charting service among all trading coins and crypto exchanges. You can register following this link and get 30 days free trial. This guide had presented the basic concepts in technical analysis among crypto. It is recommended that you deepen your knowledge in the field if you wish to implement tech analysis: In our following featured article you will read about 8 tips for trading crypto. Some touch the technical aspect. We recently published an advanced guide for crypto technical analysis. Be the first to know about our price analysis, crypto news and trading tips: Follow us on Telegram or subscribe to our weekly newsletter. More news for you: