

# Technical Analysis for the Fundamental Investor

This presentation gives an overview technical investing, as well as a sampling of technical methods that can be used with Stock Rover.

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# Overview of Presentation

- Why Use Technical Analysis?
- Fundamental vs. Technical Analysis
- Basic Theory of Technical Analysis
- Some Technical Analysis Vocabulary:
  - Chart Patterns
  - Trends
  - Indicators and Oscillators
  - Divergence
  - Support and Resistance
- Technical Analysis in Stock Rover
  - Candlesticks
  - Chart Patterns
  - Moving Averages
  - Bollinger Bands
  - RSI/MFI
  - MACD
  - Volume by Price
  - Volume
  - Screening on technicals

# Why Use Technical Analysis?

- When used properly, it can help to predict future price movement by looking at:
  - Chart patterns
  - Trends and trend reversals
  - Divergence
  - The overbought and oversold conditions of a stock
  - Support and resistance levels
- And, it's easy to do in Stock Rover!
  - You can create a fantasy portfolio to practice your technical analysis before committing capital

# Fundamental vs. Technical Analysis

## Fundamental Investors...

- Try to measure a company's intrinsic value
- Look at financial statements
- Look at a longer time period (months, years)
- Buy assets that they believe will increase in value

## Technical Investors...

- Believe a stock's price contains everything
- Look at charts (price & volume)
- Look at a shorter time period (weeks, days)
- Buy in order to sell at a greater price

# You *can* use both!

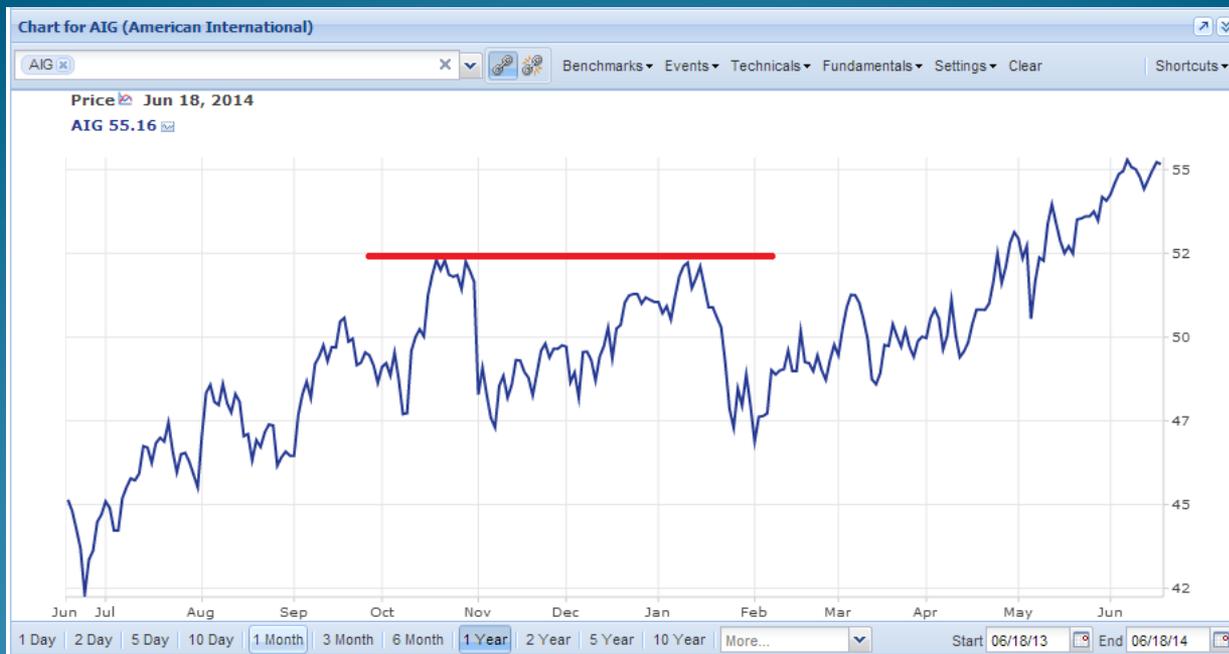
- Despite the debate, you can use both methods together
- For example, using both methods you can...
  - Find a time to enter an undervalued security
  - Track reactions to fundamental news (i.e. earnings reports)
- Even if you don't identify as a technical trader, you can still use technicals as one (of many) research tools

# The Theory of Technical Analysis

- The market discounts everything
  - The market is perfectly efficient
  - All relevant information is reflected in price
- Price moves in trends
  - The length of the trend can vary, and several trends can be occurring at once (long-term upward trend with shorter downward trends in between)
- History tends to repeat itself
  - Investors tend to react in the same way to the same price movements
  - There are the same price patterns observed over and over

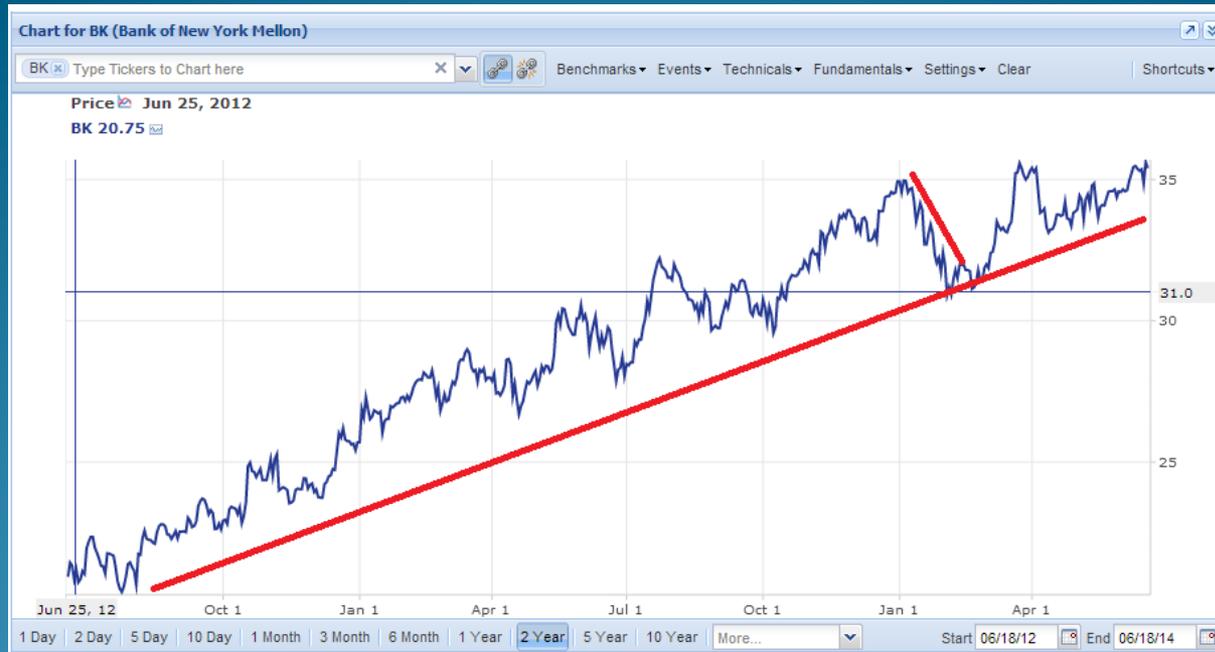
# Technical Vocabulary: Chart Patterns

- A distinct formation in a stock chart that creates a trading signal
  - Below you can see a “double top”
- There are a lot of chart patterns that technical analysts use



# Technical Vocabulary: Trends

- The general direction in which a security is headed
- They can vary in length
- You can have trends within trends
  - Shown below is a long-term uptrend with some intermediate downtrends in between



# Technical Vocabulary: Indicators and Oscillators

- Calculations based on price (and volume) that measure trends, volatility, momentum, etc.
- Used with price charts, not on their own, to confirm the price movement
- Better for short-term analysis (a week or two)
- In Stock Rover, we have the Relative Strength Index (RSI), the Money Flow Index (MFI), and the Moving Average Convergence Divergence (MACD)

# Divergence

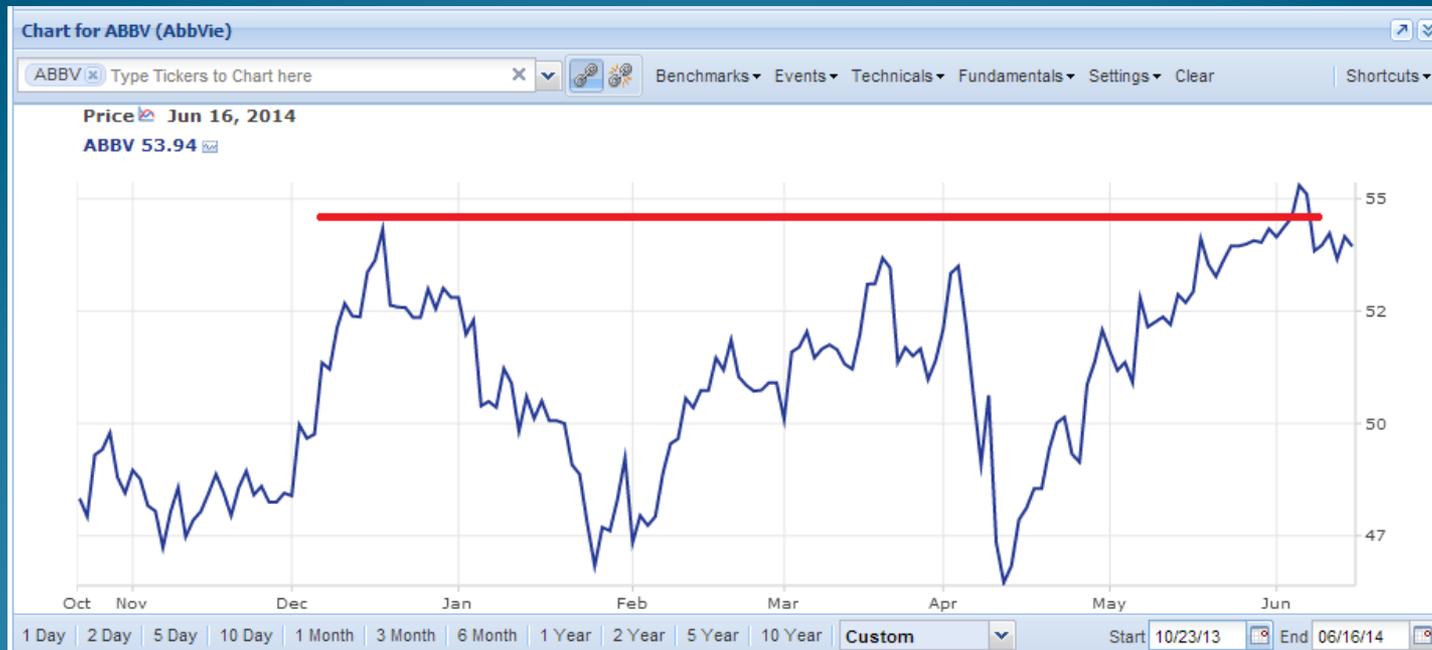
- Divergence occurs when the direction of a price trend and an indicator are moving in opposite directions
  - i.e. price is going up but volume is going down
- They can help signal trend reversals



Here, the price is going up but the MFI is going down—this could signal a trend reversal

# Support and Resistance Levels

- A price at which a stock has trouble going below or above
  - If it won't go below the price, you've found a support
  - If it won't go above, you've found a resistance (shown below)
- They arise because of crowd mentality around a stock price perceived to be important—almost self-fulfilling
- There tends to be a lot of volatility around these price levels



# Technical Analysis in Stock Rover

- Charting:
  - Candlesticks
  - Chart patterns
  - Moving averages
  - Bollinger Bands
  - RSI/MFI
  - MACD
  - Volume
  - Volume by Price
  - Scroll through charts
- Screening:
  - Moving Averages
  - Bollinger Bands
  - RSI/MFI
  - Volume
  - Price versus  $n$ -day average
  - Range