CONTENTS

Acknowledgments	xvii
About the Author	xix
Preface	xxi
About This Book	xxv
How to Get the Most from This Book	xxxi
Part I	
A FEW THINGS YOU'LL NEED TO KNOW BEFORE YOU BEGIN	1
1	
REQUIRED BACKGROUND	3
The Past	3
Technical Market Theory	6
The Pillars of Technical Analysis	10
For Fundamentalists	10

\sim	
,	
L	
_	

WHAT IS TECHNICAL ANALYSIS?	13
Components	14
What Is the Market?	16
3	
WHAT IS A CHART?	19
A Picture Is Worth a Thousand Words	19
What Good Is That?	20
Tea Leaves? Crystal Ball?	21
What About Earnings?	22
Conclusion	23
4	
JARGON YOU CANNOT AVOID	25
Bar Chart	25
Support and Resistance	26
Trends	27
Consolidation, Congestion, Correction	29
Breakout	29
Continuation Patterns	30
Reversal Patterns	31
Moving Averages	31
Momentum	31
Divergence	32

Part II	
THE CORE OF CHART ANALYSIS	33
5	
CONCEPTS	35
What Is Really Going on to Form the Charts?	35
Indecision and Alignment of Needs	36
Taking the Easy Way Out	37
The Herding Effect	37
Markets Are Scalable	40
6	
WHAT ARE SUPPLY AND DEMAND	
IN THE MARKETS?	4 1
What Causes Support and Resistance Levels to Be Penetrated?	42
Perceptions Are Reality	43
7	
THE TREND IS YOUR FRIEND	
AND SO ARE TRENDLINES	4 7
Trendlines	47

Fan Lines

47

O	
O	

SEE THE FOREST AND THE TREES	55
Less Is More	55
Multiple Time Frames	57
Moving Averages	58
9	
CHART PATTERNS—WHEN THE	
MARKET NEEDS A REST	63
Rectangles	64
Triangles	65
Flags	66
Cup with Handle	67
10	
CHART PATTERNS—WHEN THE MARKET	
IS CHANGING ITS MIND	73
Head and Shoulders	73
Double Tops and Bottoms	76
One-Day Reversals	78
Triangles and Rectangles	79
Rounded Tops and Bottoms	79
Spikes	80

CHART PATTERNS—EXPLOSIONS	83
Breakaway Gaps	83
Continuation Gaps	85
Exhaustion Gaps	85
Other Gaps	87
12	
CORRECTIONS IN PERSPECTIVE	89
The Right Way	89
The Wrong Way	91
Part III	
TECHNICAL ANALYSIS IN THE REAL WORLD	95
13	
WHAT IS THERE OTHER THAN PRICE?	97
The Big Picture	98
Does the Market Have Bad Breadth?	98
Sectors and Industry Groups	102
Momentum	103
Divergence	104

14	
VOLUME	109
Accumulation and Distribution	110
Cumulative Volume	111
15	
TIME	117
Proportion	117
Cycles	119
16	
SENTIMENT	121
Sentiment Indicators	121
Measuring Expectations That Drive Markets	123
Subjective	128
Social Mood	129
17	
FUNDAMENTAL ANALYSIS REALLY	
IS TECHNICAL ANALYSIS	131
Intermarket Analysis	132
The Major Markets	132
Intramarket Relationships	135

135

Prove It!

JUST WHAT MAKES A STOCK (BOND,	
COMMODITY) LOOK GOOD?	137
Trend and Momentum	138
Volume	141
Relative Strength (the Market, Sectors, and	
Individual Stocks)	142
Sector Selection	147
Basing and Breakouts	148
19	
RISK VERSUS REWARD—IS THIS STOCK	
REALLY WORTH IT?	149
How Can Potential Profit Be Measured?	149
Is That a Good Trade?	153
Sometimes the Best Trade Is the One You Don't Make	157
20	
THIS ISN'T BRAIN SURGERY	161
Technician's License	161
Let the Market Talk	164
Theme and Variation	167
In the Real World Nothing Is Texthook so Stay Flexible	171

Part IV	
THE ACTUAL PROCESS OF INVESTING	175
21	
OK, NOW DO IT!	177
The Questions	177
No Fear	178
22	
HOW TO KNOW IF YOU ARE WRONG	183
Invalidating a Trendline	183
23	
SOMETIMES BEING WRONG IS GOOD	187
Failure That Forewarns	187
Failure That Cuts Losses	189
Summary	190
24	
WHEN TO SELL	191
The Trend Is at Its End	191
Price Objective Is Reached	200
Stop Is Hit	20 1
Would You Buy It Right Now, at Its Current Price?	202

25	
BEAR MARKETS	203
What Happens in a Bear Market?	204
26	
A WORD ABOUT YOUR EGO	209
Remember Why You Are Investing	209
Part V	
TOOLS AND CASE STUDIES	211
27	
WHAT DO I REALLY NEED TO GET STARTED?	213
Real-Time Data	213
Charting Software	214
Internet	217
Your Child's Geometry Tools	217
28	
BUILDING YOUR TECHNICAL TOOLBOX	219
Technical Tasks	219

Tools for Each Technical Task

Combination Tools

221

29	
FINAL ADVICE	225
30	
CASE STUDY—THE PERFECT WORLD	227
Are Conditions Favorable for Equity Assets?	228
What Sectors of the Market Are Good?	231
What Stocks Within the Good Sectors Are the Best to Buy?	231
Risk Assessment	232
Pull the Trigger	233
31	
CASE STUDY—THE REAL WORLD	235
32	
CASE STUDY—BIZARRO WORLD	249
33	
HOW GOOD IS YOUR BROKER'S STOCK?	253
When Your Broker's Recommendation Looks	
Like Nothing Special	253
Breakout Warning	255
Confirmation Required	256
What Makes a Stock Look Good?	256
Compare It to the Market	257
Compare Them to Each Other	257

Part VI	
FURTHER ON DOWN THE ROAD	259
34	
INTRODUCTION TO CANDLESTICKS	261
Reading Candlesticks	262
Basic Candlestick Shapes	263
Reversal Indicators	264
Continuation Indicators	266
Dojis	267
Trading with Candlesticks	267
35	
CYCLES	271
What Is a Cycle?	271
Summary	274
36	
ELLIOTT WAVES	275
Introduction	275
37	
TECHNICAL TERMS YOU MAY HAVE HEARD	279
Open Interest	279
Bollinger Bands	280
Relative Strenoth Index (RSI)	281

Stochastics	282
RSI Versus Stochastics	283
Fan Lines	285
Fibonacci Retracements	286
MACD	288
Tick	292
Trin (Arms Index)	292
Pivot Points	293
Point and Figure	293
38	
DEBUNKING THE TV ANALYST	299
FUN WITH JARGON	303
Double Reverse Whirligig	303
Bear Trap	303
Dead-Cat Bounce	304
Whipsaw	307
Catapult	308
Saucers	309
Candlestick Terms	309
CLOSING THOUGHTS	311
INDEX	313