## **CONTENTS**

	About the Authorsxxv
Pa	rt I: Introduction
1	Introduction to Technical Analysis
2	THE BASIC PRINCIPLE OF TECHNICAL ANALYSIS— THE TREND9
	How Does the Technical Analyst Make Money?
	Trends Develop from Supply and Demand14 What Trends Are There?
	What Other Assumptions Do Technical Analysts Make?17
	Conclusion

3	HISTORY OF TECHNICAL ANALYSIS23
	Early Financial Markets and Exchanges23
	Modern Technical Analysis26
	Current Advances in Technical Analysis30
4	THE TECHNICAL ANALYSIS CONTROVERSY33
	Do Markets Follow a Random Walk?
	Fat Tails
	Can Past Patterns Be Used to Predict the Future?40
	What About Market Efficiency?41
	New Information42 Are Investors Rational?46
	Will Arbitrage Keep Prices in Equilibrium?47
	Behavioral Finance and Technical Analysis49
	Pragmatic Criticisms of Technical Analysis50
	What Is the Empirical Support for Technical Analysis?
	Conclusion
	Review Questions53
Pa	rt II: Markets and Market Indicators
5	AN OVERVIEW OF MARKETS57
	In What Types of Markets Can Technical Analysis Be Used? 58
	Types of Contracts
	Swaps and Forwards66

How	Does a Market Work?	66
Who	Are the Market Players?	68
	Is the Market Measured?	
	Price-Weighted Average	
	Market Capitalization Weighted Average Equally Weighted (or Geometric) Average	
Con	clusion	
	ew Questions	
Dov	v Theory	75
Dow	Theory Theorems	78
	The Primary Trend	
	The Secondary TrendThe Minor Trend	
	Concept of Confirmation	
	Importance of Volume	
Criti	icisms of the Dow Theory	85
Con	clusion	86
	ew Questions	
Sen'	TIMENT	89
Wha	nt Is Sentiment?	90
Mar	ket Players and Sentiment	91
	Does Human Bias Affect Decision Making?	
Crov	wd Behavior and the Concept of Contrary Opinion	95
How	Is Sentiment of Uninformed Players Measured?	96
	Sentiment Indicators Based on Options and Volatility	
	Polls	
	Other Measures of Contrary OpinionUnquantifiable Contrary Indicators	
	Historical Indicators	

How Is the Sentiment of Informed Players Name Insiders	<b>Measured?118</b>
Sentiment in Other Markets	124
Treasury Bond Futures Put/Call Ratio	
Treasury Bond COT Data	125
Treasury Bond Primary Dealer Positions	
T-Bill Rate Expectations by Money Market I	Fund Managers126
Hulbert Gold Sentiment Index	128
Conclusion	128
Review Questions	129
MEASURING MARKET STRENGTH	131
Market Breadth	
The Breadth Line or Advance-Decline Line.	
Double Negative Divergence	
Traditional Advance-Decline Methods That	
Profitable	
Advance-Decline Line to Its 32-Week Simple	
Breadth Differences	
Breadth Ratios	
Breadth Thrust	
Summary of Breadth Indicators	
Up and Down Volume Indicators	
The Arms Index	
Ninety Percent Downside Days (NPDD)	
10-to-1 Up Volume Days and 9-to-1 Down V	•
Net New Highs and Net New Lows	
New Highs Versus New Lows	155
High Low Logic Index	
Hindenburg Omen	157
Using Moving Averages	
Number of Stocks above Their 30-Week Mov	
Very Short-Term Indicators	159
Breadth and New Highs to New Lows	
Net Ticks	
Conclusion	161
Review Questions	
	<del></del>

TEMPORAL PATTERNS AND CYCLES	•••••
Periods Longer than Four Years	• • • • •
Kondratieff Waves, or K-Waves	
34-Year Historical Cycles	
Decennial Pattern	• • • • • • • • • • • • • • • • • • • •
Periods of Four Years or Less	
Four-Year or Presidential Cycle	
Election Year Pattern	
Seasonal Patterns	
January Signals	
January Barometer	
January Effect	
Events	
Conclusion	• • • • •
Review Questions	
FLOW OF FUNDS	•••••
Funds in the Marketplace	••••
Funds in the Marketplace  Money Market Funds	• • • • •
Funds in the Marketplace	• • • •
Funds in the Marketplace	• • • •
Funds in the Marketplace  Money Market Funds  Margin Debt	• • • • •
Funds in the Marketplace  Money Market Funds  Margin Debt  Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets  Money Supply	• • • •
Funds in the Marketplace  Money Market Funds  Margin Debt  Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets	• • • • •
Funds in the Marketplace  Money Market Funds  Margin Debt  Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets  Money Supply	• • • •
Funds in the Marketplace  Money Market Funds  Margin Debt  Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets  Money Supply  Bank Loans  The Cost of Funds  Short-Term Interest Rates	• • • • •
Funds in the Marketplace  Money Market Funds  Margin Debt Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets Money Supply Bank Loans  The Cost of Funds  Short-Term Interest Rates Long-Term Interest Rates (or Inversely, the Bond Market)	t)
Funds in the Marketplace  Money Market Funds  Margin Debt  Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets  Money Supply  Bank Loans  The Cost of Funds  Short-Term Interest Rates  Long-Term Interest Rates (or Inversely, the Bond Market Money Velocity.	t)
Funds in the Marketplace  Money Market Funds  Margin Debt Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets Money Supply Bank Loans  The Cost of Funds  Short-Term Interest Rates Long-Term Interest Rates (or Inversely, the Bond Market Money Velocity Misery Index	t)
Funds in the Marketplace  Money Market Funds  Margin Debt  Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets  Money Supply  Bank Loans  The Cost of Funds  Short-Term Interest Rates  Long-Term Interest Rates (or Inversely, the Bond Market Money Velocity  Misery Index  Fed Policy	t)
Funds in the Marketplace  Money Market Funds  Margin Debt Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets Money Supply Bank Loans  The Cost of Funds Short-Term Interest Rates Long-Term Interest Rates (or Inversely, the Bond Market Money Velocity Misery Index  Fed Policy Fed Policy Futures	<i>t</i> )
Funds in the Marketplace  Money Market Funds  Margin Debt  Secondary Offerings  Funds Outside the Security Market.  Household Financial Assets  Money Supply  Bank Loans  The Cost of Funds  Short-Term Interest Rates  Long-Term Interest Rates (or Inversely, the Bond Market Money Velocity  Misery Index  Fed Policy	<i>t</i> )

	Conclusion  Review Questions	
Par	t III: Trend Analysis	
11	HISTORY AND CONSTRUCTION OF CHARTS	199
	History of Charting	201
	What Data Is Needed to Construct a Chart?	
	What Types of Charts Do Analysts Use?  Line Charts	207
	What Type of Scale Should Be Used?	<b>213</b>
	Point-and-Figure Charts One-Box (Point) Reversal Box Size Multibox Reversal Time Arithmetic Scale Logarithmic Scale	216 217 217 218 220
	Conclusion	
	Review Questions	221
12	TRENDS—THE BASICS	223
	Trend—The Key to Profits	224
	Trend Terminology	225
	Basis of Trend Analysis—Dow Theory	225
	How Does Investor Psychology Impact Trends?	226
	How Is the Trend Determined?  Peaks and Troughs	

What I	g a Trading Range	230
minut 1	s Support and Resistance?	230
Why $D$	o Support and Resistance Occur?	230
What A	About Round Numbers?	232
How A	re Important Reversal Points Determined?	232
How D	Oo Analysts Use Trading Ranges?	236
Directional	Trends (Up and Down)	237
What I	s a Directional Trend?	238
How Is	s an Uptrend Spotted?	238
Chann	els	243
Interna	al Trend Lines	244
Retrac	ements	245
Pullba	cks and Throwbacks	247
Other Types	s of Trend Lines	247
Trend I	Lines on Point-and-Figure Charts	248
	Lines	
	vs Pitchfork	
	Fan Lines	
Conclusion		251
	estions	
_	S, STOPS, AND RETRACEMENTS	
Breakout	rs, Stops, and Retracements	255
BREAKOUT Breakouts	s, Stops, and Retracements	255
BREAKOUT  Breakouts  How Is	S, STOPS, AND RETRACEMENTS	255 255
BREAKOUT  Breakouts  How Is  Can a	S, STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?	255255256262
BREAKOUT  Breakouts  How Is  Can a	S, STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?	255256262263
Breakouts  How Is  Can a  Stops	S. STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?	255256262263263
Breakouts  How Is  Can a  Stops  What A  Change	S., STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?  Are Entry and Exit Stops?	255255256262263263
Breakouts  How Is  Can a  Stops  What A  Chang What A	S., STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?  Are Entry and Exit Stops?  Ing Stop Orders	255255256262263264264
Breakouts  How Is  Can a  Stops  What A  Chang What A  What A	S., STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?  Are Entry and Exit Stops?  ing Stop Orders  Are Protective Stops?  Are Trailing Stops?	255255262263263264264
Breakouts  How Is  Can a  Stops  What A  Chang  What A  What A  What A	S., STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?  Are Entry and Exit Stops?  Ing Stop Orders  Are Protective Stops?  Are Trailing Stops?	255255256263264264264265268
Breakouts  How Is  Can a  Stops  What A  Chang  What A  What A  What A  What A	Serial Stops, AND RETRACEMENTS	255255256263264264264265268
Breakouts  How Is Can a  Stops  What A Chang What A What A What A What A	S., STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?  Are Entry and Exit Stops?  Are Protective Stops?  Are Trailing Stops?  Are Time Stops?  Are Money Stops?  Are Money Stops?  An Stops Be Used with Breakouts?	255255256262263264264265268269
Breakouts  How Is  Can a  Stops  What A  Chang  What A  What A  What A  What A  Using A	S., STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?  Are Entry and Exit Stops?  Are Protective Stops?  Are Trailing Stops?  Are Trailing Stops?  Are Money Stops?  Are Money Stops?  Stops Be Used with Breakouts?	255255256262263264264265269269
Breakouts  How Is  Can a  Stops  What A  Chang  What A  What A	S., STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?  Are Entry and Exit Stops?  Are Protective Stops?  Are Trailing Stops?  Are Time Stops?  Are Money Stops?	255255255262263264264265269269269
Breakouts  How Is  Can a  Stops  What A  Chang  What A  Could be a  Waiting Calcula	S., STOPS, AND RETRACEMENTS  Breakout Confirmed?  Breakout Be Anticipated?  Are Entry and Exit Stops?  Are Protective Stops?  Are Trailing Stops?  Are Trailing Stops?  Are Money Stops?  Are Money Stops?  Stops Be Used with Breakouts?	255255256263263264265269269269269

Conclusion Review Questions	
Moving Averages	
What Is a Moving Average?	
How Is a Simple Moving Average Calculated?	
Length of Moving Average	
Using Multiple Moving Averages	
What Other Types of Moving Averages Are Used?	
The Linearly Weighted Moving Average (LWMA)	
The Exponentially Smoothed Moving Average (EMA)	
Wilder Method	
Geometric Moving Average (GMA) Triangular Moving Average	
Variable EMAs	
Strategies for Using Moving Averages	
Determining Trend	
Determining Support and Resistance	
Determining Price Extremes	
Giving Specific Signals	
What Is Directional Movement?	
Constructing Directional Movement Indicators	
Using Directional Movement Indicators	
What Are Envelopes, Channels, and Bands?	
Percentage Envelopes	
Bands Trading Strategies Using Bands and Envelopes	
Channel	
Conclusion	
Review Questions	

## **Part IV: Chart Pattern Analysis**

What Is a Pattern?	
Common Pattern Characteristics	
<b>Do Patterns Exist?</b> Behavioral Finance and Pattern Recognition	
Computers and Pattern Recognition	
Market Structure and Pattern Recognition	
Bar Charts and Patterns	
How Profitable Are Patterns?	
Classic Bar Chart Patterns	
Double Top and Double Bottom	
Rectangle (Also "Trading Range" or "Box")	
Triple Top and Triple Bottom	
Standard Triangles	
Descending Triangle	
Ascending Triangle	
Symmetrical Triangle (Also "Coil" or "Isosceles Triangle").	
Broadening Patterns	
Diamond Top	
Wedge and Climax	•••
Patterns with Rounded Edges—Rounding and Head-and-	
Shoulders	
Head-and-Shoulders	
Shorter Continuation Trading Patterns—Flags and Pennants (Also "Half-Mast Formation")	
Long-Term Bar Chart Patterns with the Best Performance and the Lowest Risk of Failure	
Conclusion	
Povious Augstions	. •

POINT-AND-FIGURE CHART PATTERNS	335
What Is Different About a Point-and-Figure Chart?	336
Time and Volume Omitted	336
Continuous Price Flow Necessary	336
"Old" and "New" Methods	
History of Point-and-Figure Charting	337
One-Box Reversal Point-and-Figure Charts	339
Area")	
Trend Lines in One-Box Charts	
The Count in a One-Point Chart	
Head-and-Shoulders Pattern	343
The FulcrumAction Points	344344 241
Three-Point (or Box) Reversal Point-and-Figure Charts	345
Trend Lines with Three-Box Charts	
The Count Using Three-Box Reversal Charts	347 318
Other PatternsOther Patterns gor Three-Box Reversal Charis	
Conclusion	
Review Questions	357
SHORT-TERM PATTERNS	359
Pattern Construction and Determination	362
Traditional Short-Term Patterns	362
Gaps	
Spike (or Wide-Range or Large-Range Bar)	
Dead Cat Bounce (DCB)	
Island Reversal	373
One- and Two-Bar Reversal Patterns	
Multiple Bar Patterns	
Volatility Patterns	
Intraday Patterns	386
Summary of Short-Term Patterns	389

	Candlestick Patterns	390
	One- and Two-Bar Candlestick Patterns	
	Multiple Bar Patterns	
	Candlestick Pattern Results	
	Conclusion	402
	Review Questions	402
t	V: Trend Confirmation	
	Confirmation	407
	Analysis Methods	408
	Overbought/Oversold	
	Failure Swings	
	Divergences	
	Reversals	
	Trend ID Crossovers	
	Classic Patterns	
	Volume Confirmation	
	What Is Volume?	
	How Is Volume Portrayed?	
	Do Volume Statistics Contain Valuable Information?	
	How Are Volume Statistics Used?	
	Which Indexes and Oscillators Incorporate Volume?	
	Volume Spikes	
	Examples of Volume Spikes	
	Open Interest	
	What Is Open Interest?	
	Price Confirmation	
	What is Momentum?	
	Specific Indexes and Oscillators	
	Conclusion	
	Review Questions	
	keview Questions	445

## **Part VI: Other Technical Methods and Rules**

What Are Cycles?	• • • • • • • • • • • •
Other Aspects of Cycle Analysis	
Translation	
How Can Cycles Be Found in Market Data?	
Fourier Analysis (Spectral Analysis)	
Maximum Entropy Spectral Analysis	
Simpler (and More Practical) Methods	
Projections	
Projecting Period	
Projecting Amplitude	
Conclusion	
Review Questions	
ELLIOTT, FIBONACCI, AND GANN Elliott Wave Theory (EWT)	••••••
ELLIOTT, FIBONACCI, AND GANN Elliott Wave Theory (EWT)	••••••
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)  Ralph Nelson Elliott	•••••••
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)  Ralph Nelson Elliott  Basic Elliott Wave Theory	••••••
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)  Ralph Nelson Elliott  Basic Elliott Wave Theory  Impulse Waves  Corrective Waves	
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)	
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)	
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)  Ralph Nelson Elliott  Basic Elliott Wave Theory  Impulse Waves  Corrective Waves  Guidelines and General Characteristics in EWT.  Projected Targets and Retracements  Alternatives to EWT	
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)	
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)	
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT).  Ralph Nelson Elliott	
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)	
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)  Ralph Nelson Elliott  Basic Elliott Wave Theory  Impulse Waves  Corrective Waves  Guidelines and General Characteristics in EWT.  Projected Targets and Retracements  Alternatives to EWT  Using EWT  The Fibonacci Sequence  Fibonacci Sequence  The Golden Ratio	
ELLIOTT, FIBONACCI, AND GANN  Elliott Wave Theory (EWT)	

## **Part VII: Selection**

21	SELECTION OF MARKETS AND ISSUES: TRADING AND INVESTING		
	Which Issues Should I Select for Trading?		
	Choosing Between Futures Markets and Stock Markets	504	
	Which Issues Should I Select for Investing?		
	Top-Down Analysis		
	Secular Emphasis		
	Cyclical Emphasis		
	Stock Market Industry Sectors		
	Bottom Up—Specific Stock Selection and Relative Strength		
	Academic Studies of Relative Strength		
	Measuring Relative Strength		
	Examples of How Selected Professionals Screen for Favorable		
	Stocks	520	
	William O'Neil CANSLIM Method		
	James P. O'Shaughnessy MethodCharles D. Kirkpatrick Method		
	Value Line Method		
	Richard D. Wyckoff Method		
	Conclusion	525	
	Review Questions	525	
Par	t VIII: System Testing and Management		
22	System Design and Testing	529	
	Why Are Systems Necessary?		
	How Do I Design a System?	532	
	Requirements for Designing a System		
	Understanding Risk	533	

	Initial Decisions	
	Types of Technical Systems	535
	How Do I Test a System?	538
	Special Data Problems for Futures Systems	539
	Testing Methods and Tools Test Parameter Ranges	540
	-	
	Optimization	546
	Methods of Optimizing  Measuring System Results for Robustness	
	Conclusion	
	Review Questions	
	Review Questions	••••••
23	MONEY AND RISK MANAGEMENT	559
	Risk and Money Management	560
	Testing Money-Management Strategies	561
	Money-Management Risks	
	Concepts	
	Reward to Risk	
	Normal Risks Unusual Risks	
	Money-Management Risk Strategies	
	Monitoring Systems and Portfolios	577
	If Everything Goes Wrong	577
	Conclusion	577
	Review Questions	578
Pa	rt IX: Appendices	
A	Basic Statistics	581
	Returns	
	Probability and Statistics	582

	Descriptive Statistics	583
	Measures of Central Tendency	
	Measures of Dispersion	
	Relationships Between Variables	
	Inferential Statistics	591
	Modern Portfolio Theory	594
	Performance Measurement	600
	Advanced Statistical Methods	602
	Artificial Intelligence	603
	Review Questions	604
В	Types of Orders and Other Trader Terminolo	OGY607
	An Order Ticket	609
Віві	LIOGRAPHY	611
Indi	EX	637