


# Technical Analysis



# Market Analysis

- Financial Market
- Profits
- Data Analysis
- Methods 
  - Fundamental Analysis
  - Technical Analysis

# Fundamental Analysis

- Publicly available data
- Financial Statements
- Analysis Methods
- Roadmap
- Valuation Methods
- Calculation of Intrinsic Value

# Technical Analysis

- Clubbing of all Information  
(Price , Volume , Interest , Time , Trends)
- Patterns
- Principles (Art + Science)
- Astrology
- DD – SS Analysis
- Quick & Easy Method
- No calculation of Intrinsic Value

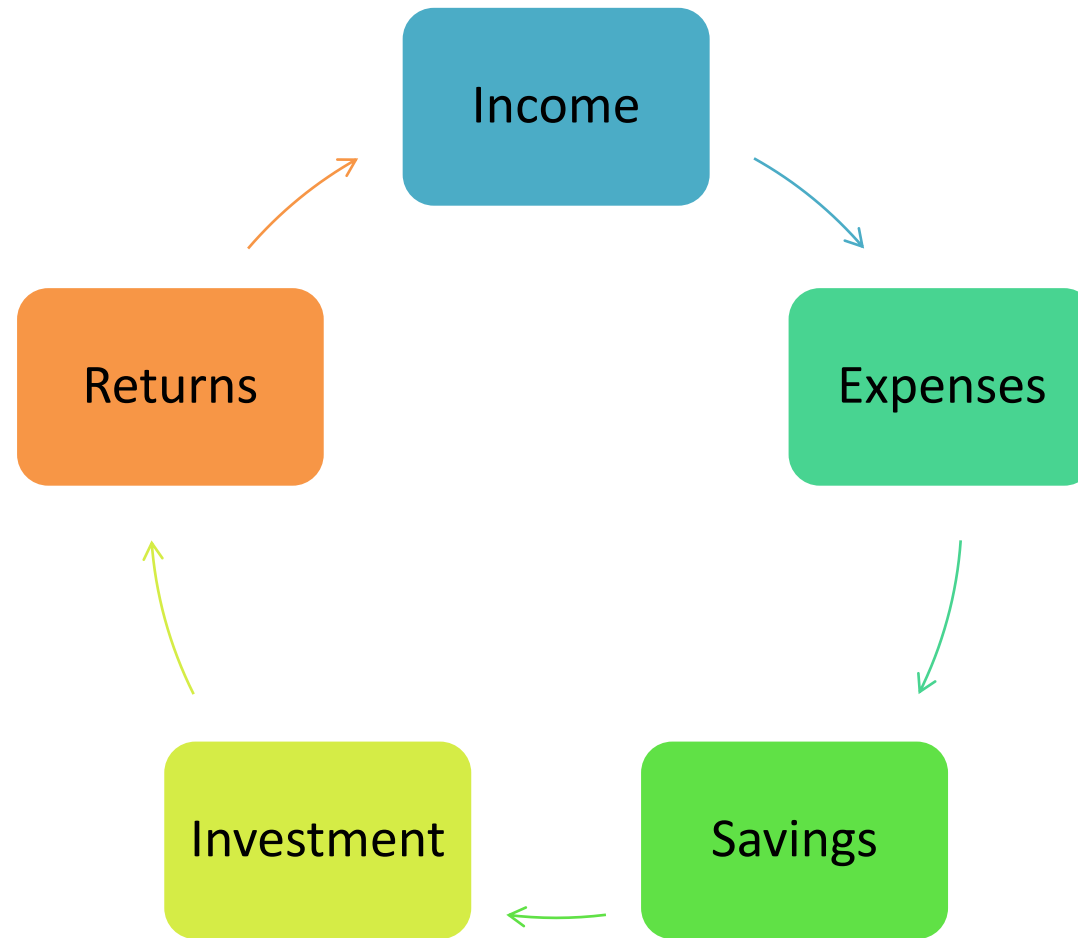
# FA V/s. TA

Particulars	Fundamental Analysis	Technical Analysis
Methods	Examination of Financial Statement	Examination of Price , Movements , Volume & Market.
Time Horizon	Long term view	Short term view
Function	For investment Purpose.	For Trading Purpose
Source of Information	Data Collection from Various Sources	Data Collection from charts & market trends.
Goal	Find Intrinsic Value	Find right time to enter & exit market.
Decision ( Buy /Sell)	Buy : $IV < MV$ Sell : $IV > MV$	Buy : Upward Trend Sell : Downward Trend
Vision	Backward + Forward	Backward

# What is Technical Analysis ?

- *Technical Analysis is the study of market action, primarily through the use of charts, for the purpose of forecasting future price trends. John Murphy*
- *Technical Analysis is the science of recording, usually in graphic form, the actual history of trading (price changes, volume of transactions, etc.) in a certain stock or in “the Averages” and then deducing from that pictured history the probable future trend. Edward & McGee.*
- Basically ***Technical Analysis is study of Price and Volume***

# Investment Cycle



# Investors ?

- Risk Averse Investors
- Risk Seeker Investors
- Risk Neutral Investors

Investors

Speculator / Speculating

Gambling / Gambler



# Is Technical Analysis a Holy Grail (Magic Formula) to make Money?

- TA is one of the methods used to study price action.
- It is Not a Holy Grail, there is no magic formula for making money in markets using TA.
- Without appropriate risk management, TA is like driving a luxury car without brakes.

# Premises /Rationale /Philosophy of Technical Analysis (TA).

- The three premises on which the technical approach is based:
  1. Market action discounts everything.
  2. Price moves in trends.
  3. History repeats itself.

# Advantages of TA

Universal  
Applicability

Not Just for  
Stocks

Focus on Price

Demand  
Supply  
Analysis

Support &  
Resistance

Historical Price  
Clarity

Helps to Enter  
& Exit Security

# Limitation of TA

Biasness

Different  
Interpretation

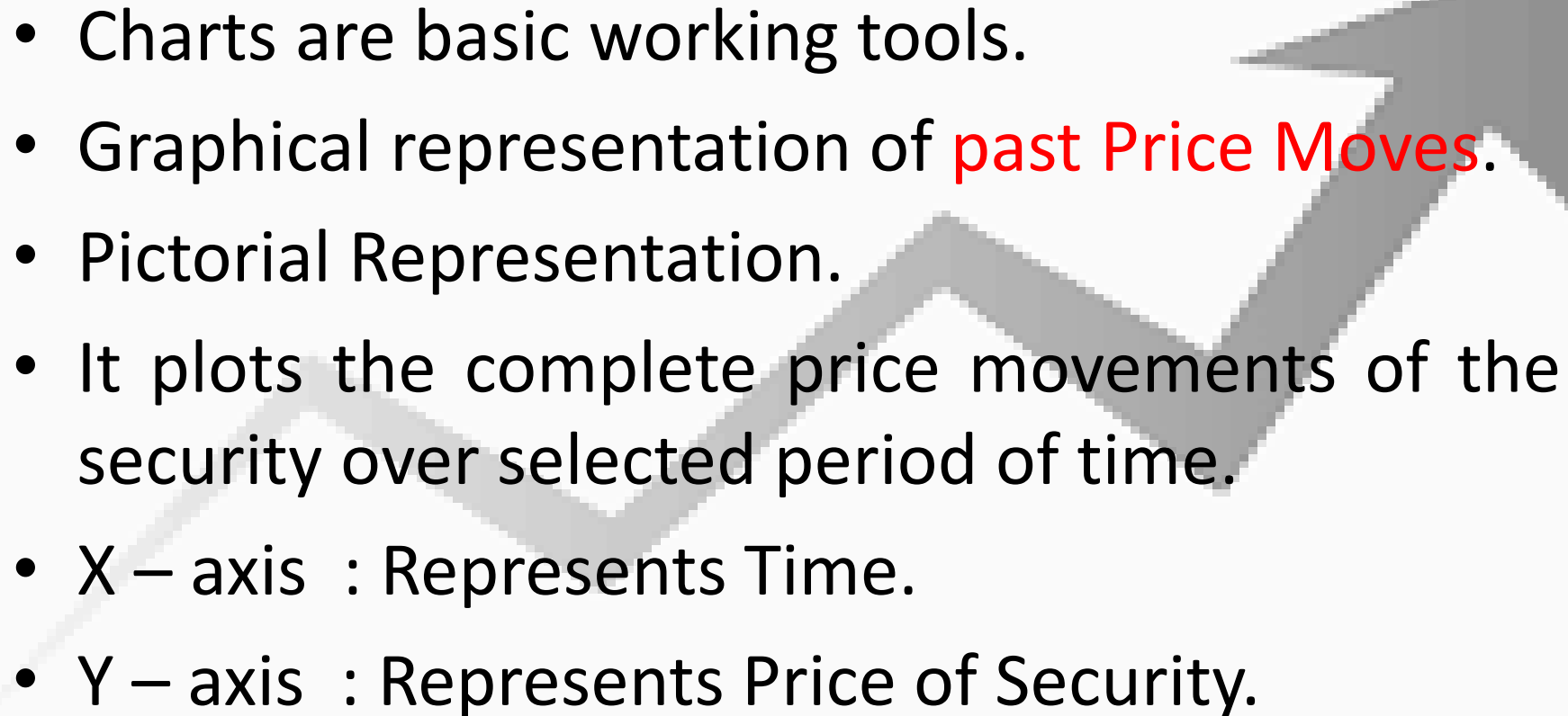
Too Late

Always new level  
due to different  
time frames

Trader's  
Remorse

Historical Prices

# Charts

- Charts are basic working tools.
  - Graphical representation of **past Price Moves**.
  - Pictorial Representation.
  - It plots the complete price movements of the security over selected period of time.
  - X – axis : Represents Time.
  - Y – axis : Represents Price of Security.
- 

# Line Charts

- Formed by Connecting the Dots, which represents Closing Price.
- Very important in analysing the trend & breakouts in case of pattern system.
- Provides Clear Visual Illustrations.
- Very useful when studying long term trend & Corrections.

# Line Charts

## Tata Consultancy Services Limited

NSE: TCS

+ Follow

TATA CONSULTANCY SERVICES

OVERVIEW

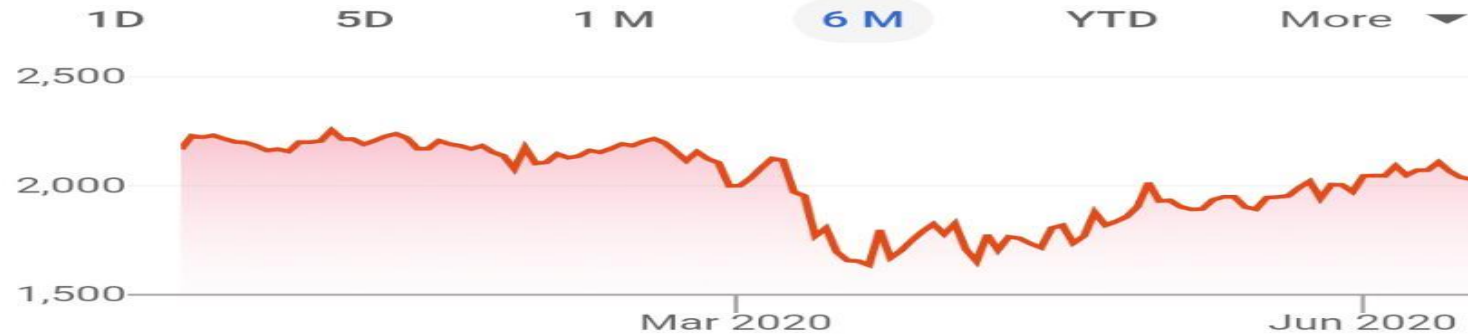
NEWS

COMPARE

FINANCIALS

2,040.70 INR -7.10 (0.35%) ↓

18 Jun, 3:09 pm IST · Disclaimer

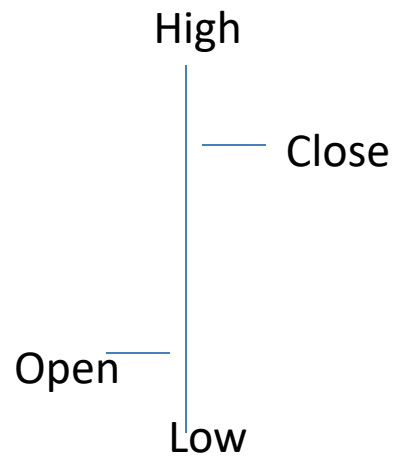


Open	2,045.00
High	2,059.20
Low	2,025.20

Mkt cap	7.66T
P/E ratio	23.68
Div yield	1.62%

# Bar Chart

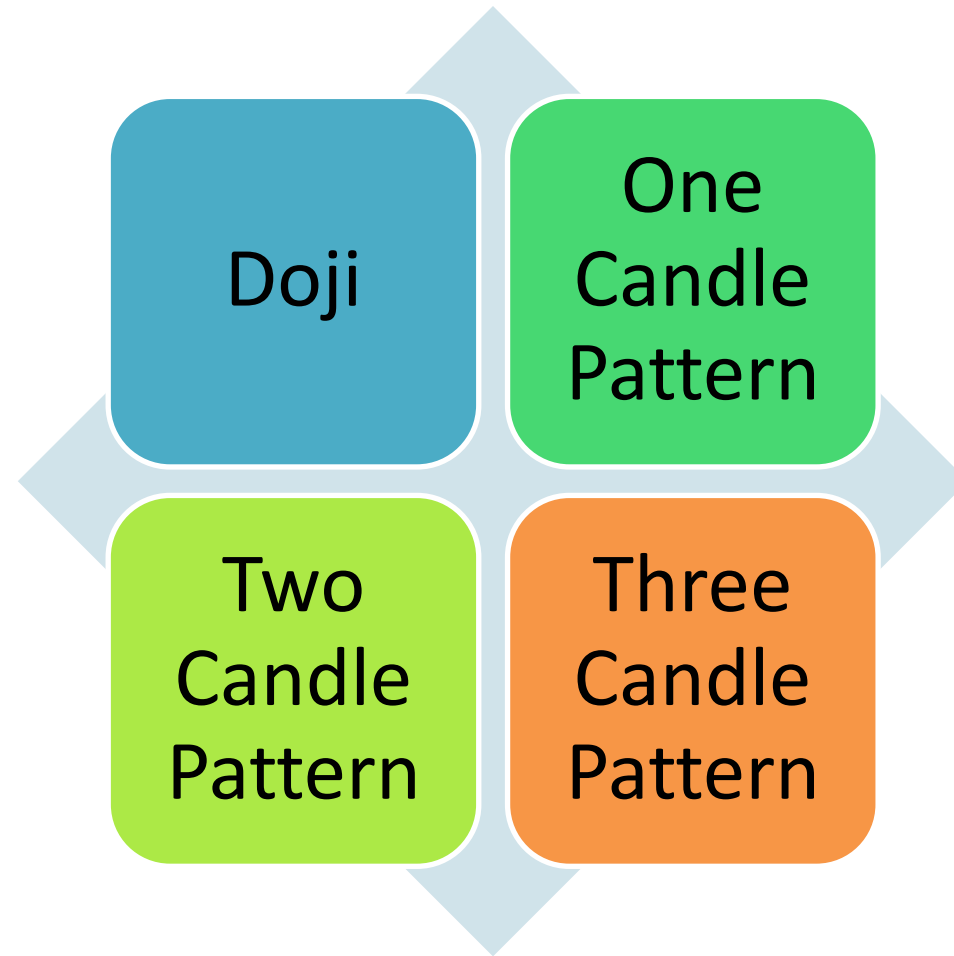
- Bar Chart shows 4 Pieces of Information :
  1. Opening Price
  2. Closing Price
  3. High Price
  4. Low Price



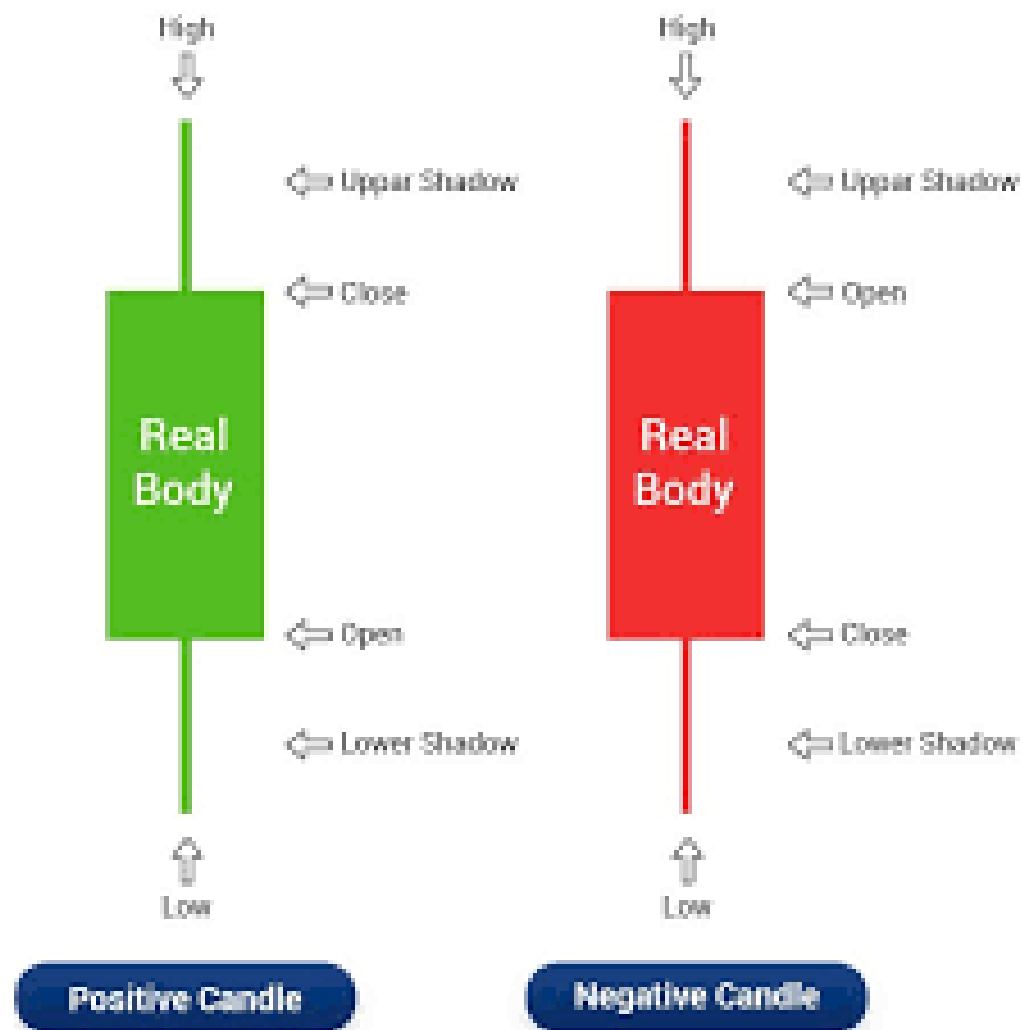
# Candle Stick Chart

- Originated in Japan.
- Mid 1600s (Rice Future)
- Similar to Bar Charts.
- In place of vertical line, it has Rectangular Box.
- This box is called as Body.
- Gives information for:  
Opening Price, Closing Price,  
High Price & Low Price.

# Candle Stick Chart (TYPES)



# Candle Stick Chart

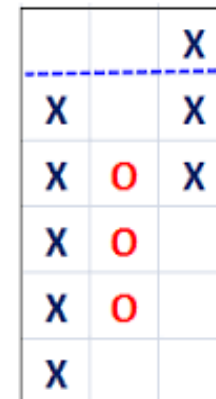


# Candle Stick Chart

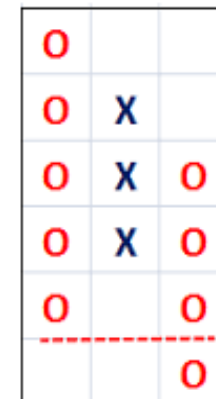


# Point & Figure Charts

- An interesting & accurate method of price analysis.
- X : represents Price Rise.
- O : represents Price Fall.
- All information are provided in Box Sheet.
- Little tedious to Construct.
- Time is not a factor in P & F Charts.



Double top buy



Double bottom sell

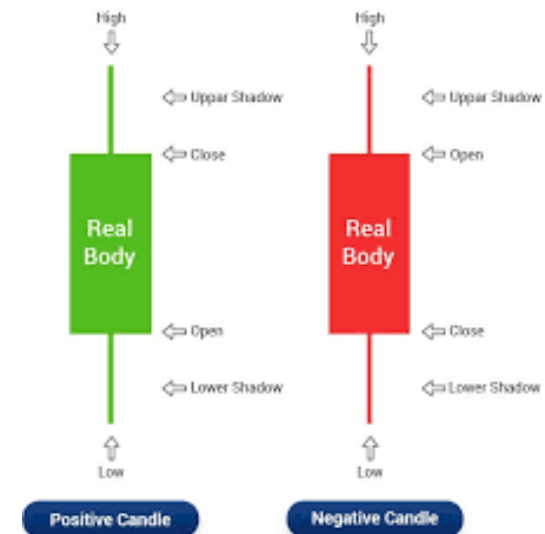




# Candlestick Pattern Analysis

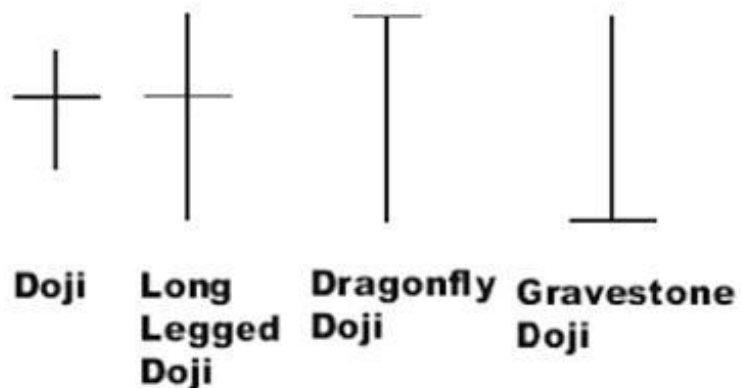
# Introduction

- Japanese Candlestick offers a quick picture into the psychology of short term trading, studying the effect & not cause.
- Based on Single Candle to Combination of Candles.

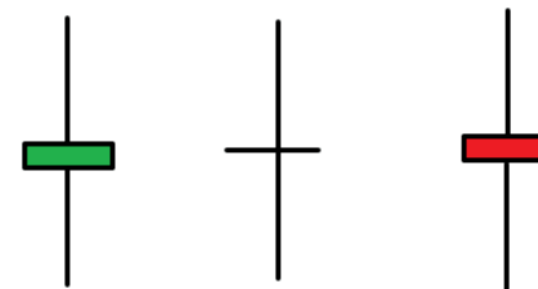


# Doji

- Where Opening Price and the Closing Price are same. (Almost Same)
- Represents Confusion or Indecisiveness.
- Serves as a Reversal Pattern of the existing trend.
- Possible Pause of present trend.
- Between Bulls & Bears.
- Doji : Warning Sign & Surprise.



## DOJI CANDLESTICKS



# Candle Stick Chart (TYPES)

## One Candle Pattern

- Hammer
- Inverted Hammer
- Hanging Man
- Shooting Star

## Two Candle Pattern

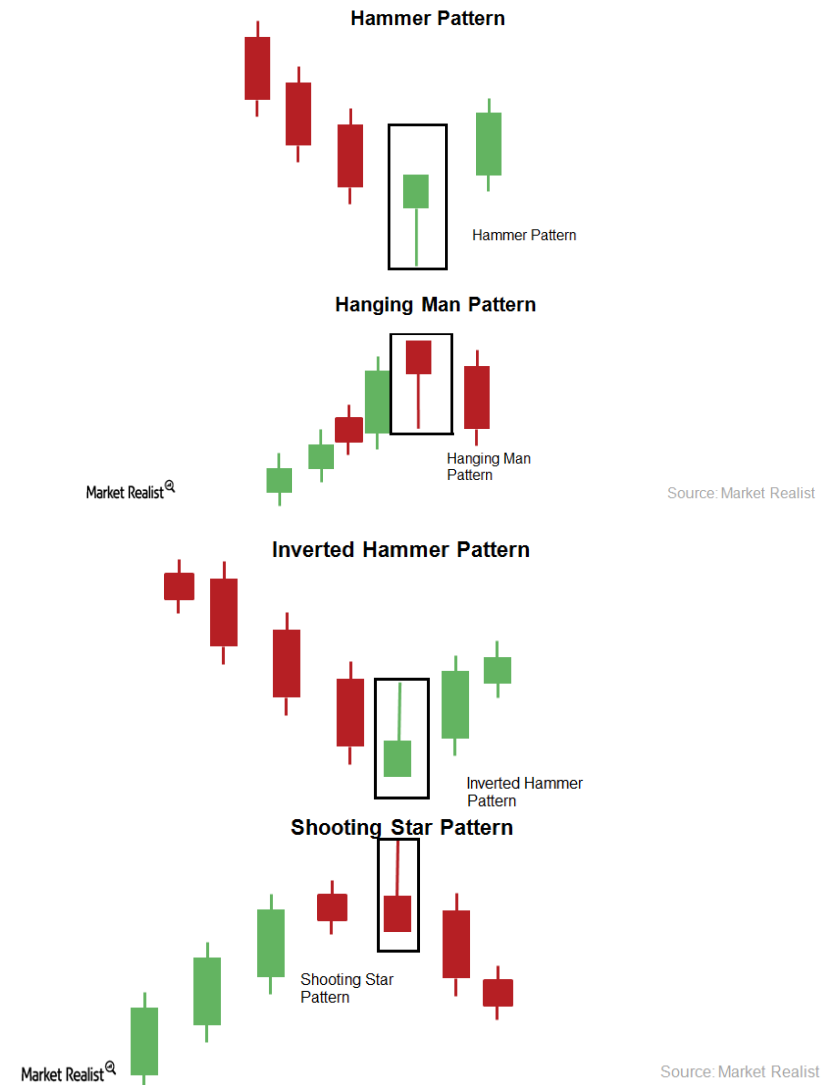
- Bullish Engulfing
- Bearish Engulfing
- Bullish Piercing
- Bearish Piercing
- Bullish Harami
- Bearish Harami
- Morning Star Pattern
- Evening Star Pattern

## Three Candle Pattern

- Three White Soldiers
- Three Black Soldiers

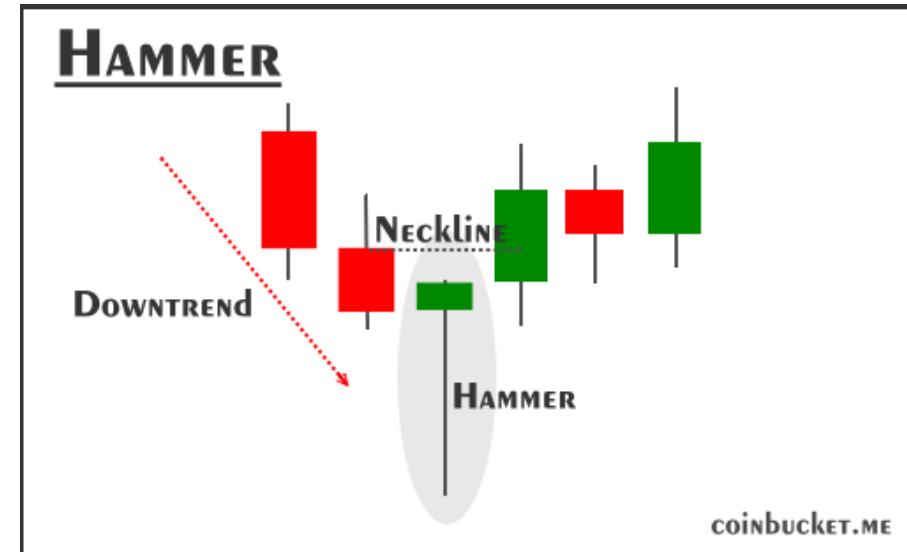
# One Candle Pattern

- Known as “Umbrella Lines”
- Types:
  1. Hammer
  2. Inverted Hammer
  3. Hanging Man
  4. Shooting Star



# Hammer

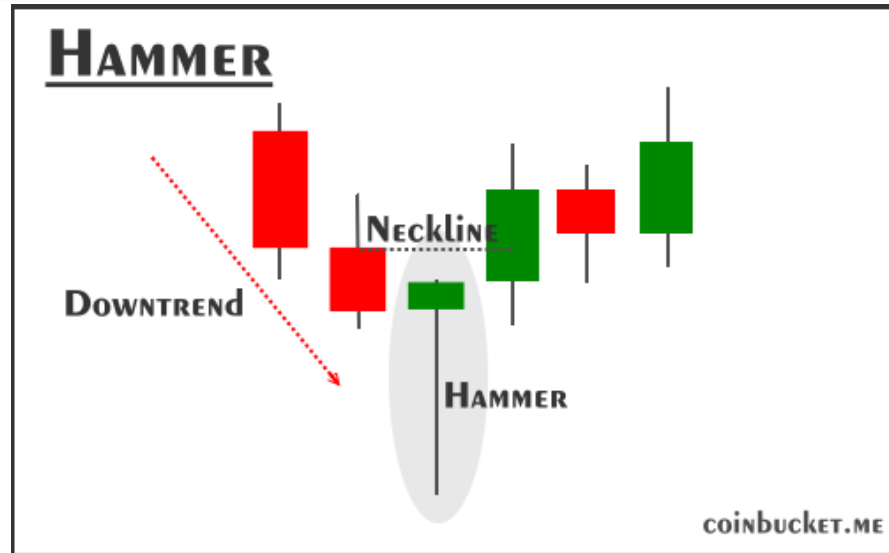
- Occurs in a Downtrend.
- When Bull try to step into rally.



- **Criteria:**

1. The lower shadow of hammer has to be minimum two or three times the length of body.
2. Longer the lower shadow, higher is the potential of reversal happening.
3. There should be no upper shadow or very small upper shadow.
4. Colour of the real body in hammer has less significance but a green body has slightly more bullish implications than the red body.

# Hammer

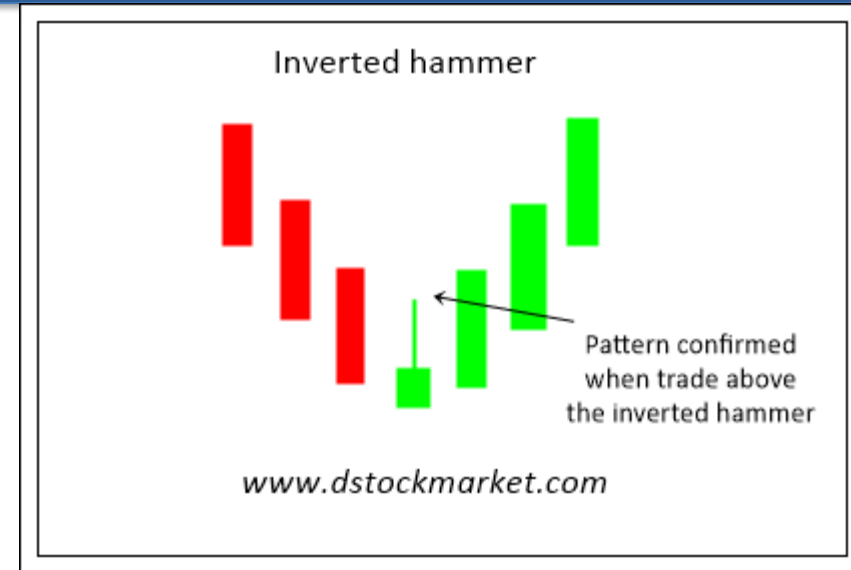


- **Criteria:**

5. A strong positive candle on the following day is required to confirm as a reversal pattern.
6. Large Volume on the hammer formation day sets up for strong reversal day.
7. A gap down from the previous day's close sets up for a stronger reversal move, provided the next day opens higher.

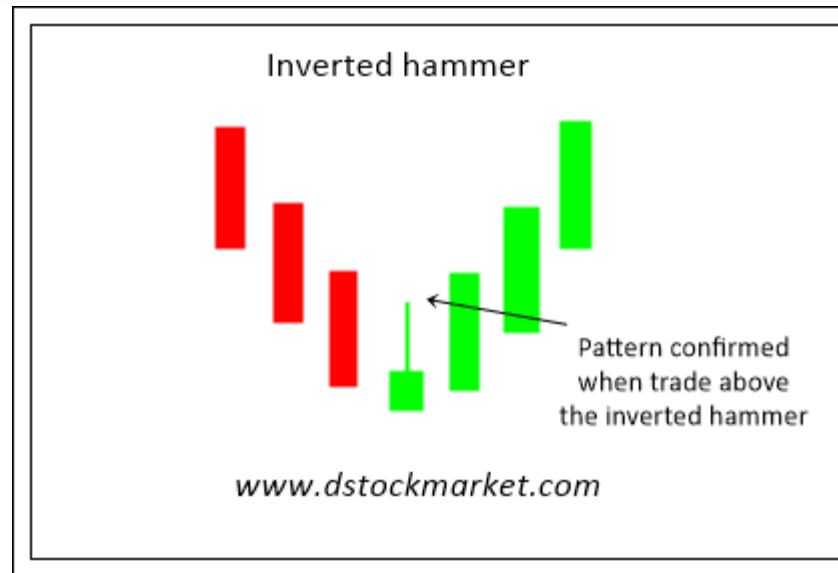
# Inverted hammer

- Occurs in Downtrend.
- Upside down of Hammer.
- Bulls probably try to steps into rally.



- **Criteria:**
  1. The Higher shadow of hammer has to be minimum two or three times the length of body.
  2. Longer the Higher shadow, higher is the potential of reversal happening.
  3. There should be no Lower shadow or very small Lower shadow.
  4. Colour of the real body in hammer has less significance but a green body has slightly more bullish implications than the red body.

# Inverted hammer

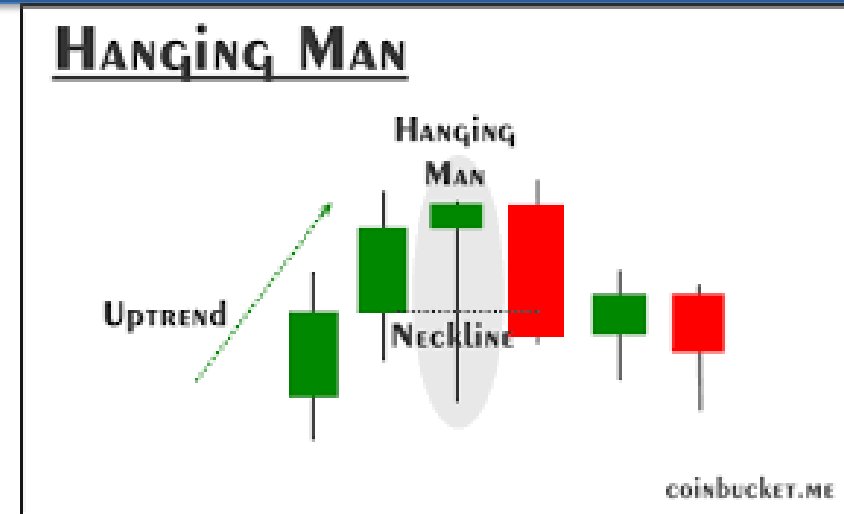


- **Criteria:**

5. A strong Bullish candle on the following day is required to confirm as a reversal pattern.
6. Large Volume on the inverted hammer formation day sets up for strong reversal day.
7. A gap down from the previous day's close sets up for a stronger reversal move, provided the next day opens higher.

# Hanging Man

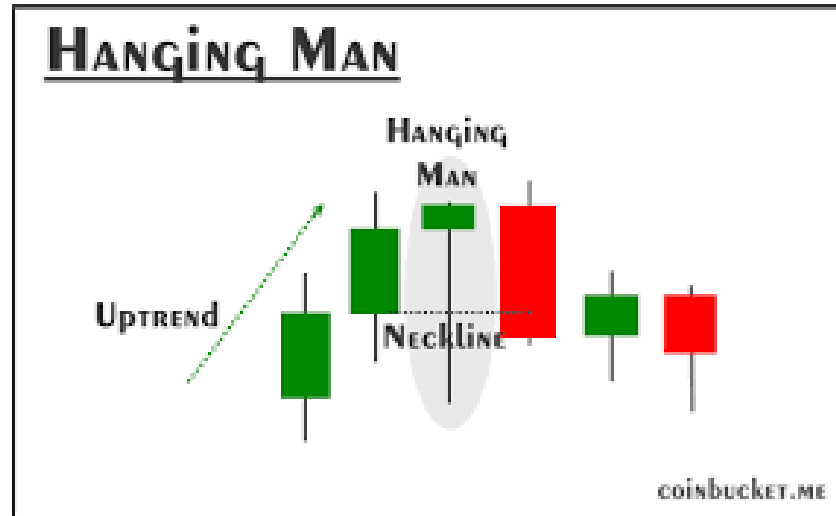
- Occurs in Uptrend.
- Bears probably try to step into rally.



- **Criteria:**

1. The Lower shadow of hammer has to be minimum two or three times the length of body.
2. Longer the Lower shadow, higher is the potential of reversal happening.
3. There should be no Upper shadow or very small Upper shadow.
4. Colour of the real body in hammer has less significance but a red body has slightly more bearish implications than the green body.

# Hanging Man



- **Criteria:**

5. A strong Bearish candle on the following day is required to confirm as a reversal pattern.
6. Large Volume on the Hanging Man formation day sets up for strong reversal day.
7. A gap up from the previous day's close sets up for a stronger reversal move, provided the next day opens Lower.

# Shooting Star

- Occurs in Uptrend.
- Upside down of Hanging Man.
- Bears probably try to steps into rally.



- **Criteria:**

1. The Higher shadow of hammer has to be minimum two or three times the length of body.
2. Longer the Higher shadow, higher is the potential of reversal happening.
3. There should be no Lower shadow or very small Lower shadow.
4. Colour of the real body in hammer has less significance but a red body has slightly more bearish implications than the green body.

# Shooting Star

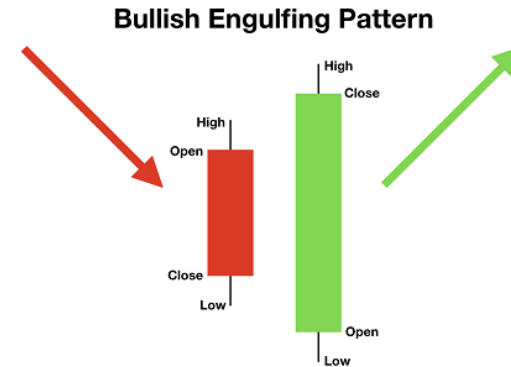


- **Criteria:**

5. A strong Bearish candle on the following day is required to confirm as a reversal pattern.
6. Large Volume on the Shooting Star formation day sets up for strong reversal day.
7. A gap Up from the previous day's close sets up for a stronger reversal move, provided the next day opens Lower.

# Bullish Engulfing

- Turns up at the end of the downtrend.
- The bullish green candle engulfs the previous red candle completely.

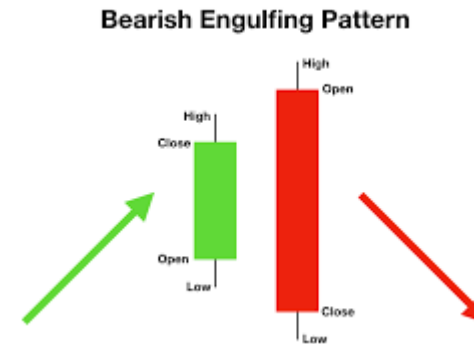


## Criteria :

- Candlestick body of the previous day is completely covered by the next day's candlestick.
- Previous price rally has to be downtrend, even if for short term.
- If the first candle is small enough & the second candle is large in size that gives a very strong confirmation of the reverse rally.
- Large volume on the engulfing day increases the probability of reversal.
- After engulfing candle, a strong bullish candle serves as a confirmation of beginning of uptrend.

# Bearish Engulfing

- Turns up at the end of the uptrend.
- The bearish red candle engulfs the previous green candle completely.



## Criteria :

- Candlestick body of the previous day is completely covered by the next day's candlestick.
- Previous price rally has to be uptrend, even if for short term.
- If the first candle is small enough & the second candle is large in size that gives a very strong confirmation of the reverse rally.
- Large volume on the engulfing day increases the probability of reversal.
- After engulfing candle, a strong bearish candle serves as a confirmation of beginning of downtrend.

# Bullish Piercing

- Green Candle opens gap down & pullbacks beyond mid of the previous red candle.



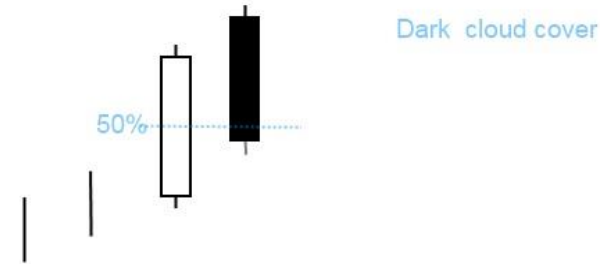
**Bullish Piercing Pattern**

## Criteria:

- The downtrend has to be evident for a good period.
- The body of the first candle is red, the body of the second candle is green.
- A long red candle occurs at the end of the trend.
- The second day opens lower than the trading of the prior day.
- If the gap between second day opening & first day closing is more, the reversal seems more strong.
- The green candle closes more than halfway up the red candle.
- Higher the green candle closes compared to red candle, stronger the reversal.
- Large volume during pattern, specially second candle increases the significance of reversal.

# Bearish Piercing

- Red Candle opens gap down & pullbacks beyond mid of the previous Green candle.

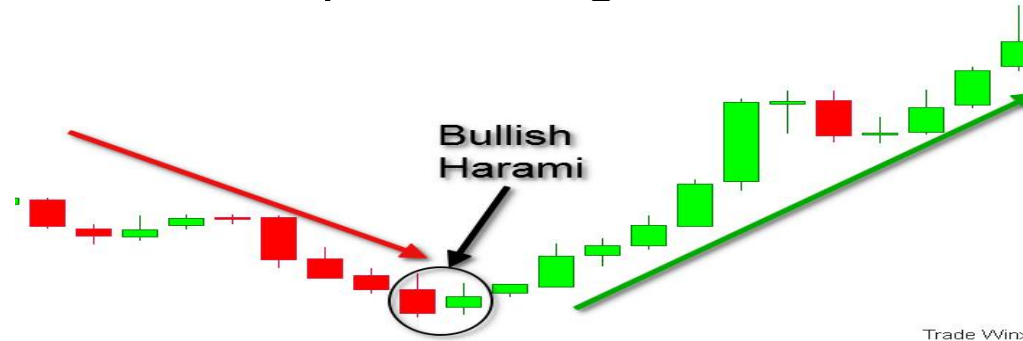


## Criteria:

- The uptrend has to been evident for a good period.
- The body of the first candle is green, the body of the second candle is red.
- A long green candle occurs at the end of the trend.
- The second day opens higher than the trading of the prior day.
- If the gap between second day opening & first day closing is more, the reversal seems more strong.
- The red candle closes more than halfway up the green candle.
- Lower the red candle closes compared to green candle, stronger the reversal.
- Large volume during pattern, specially second candle increases the significance of reversal.

# Bullish Harami

- Harami in Japanese means Pregnant Lady.
- A big red candle, which is followed by the small green candle at the bottom of the trend.

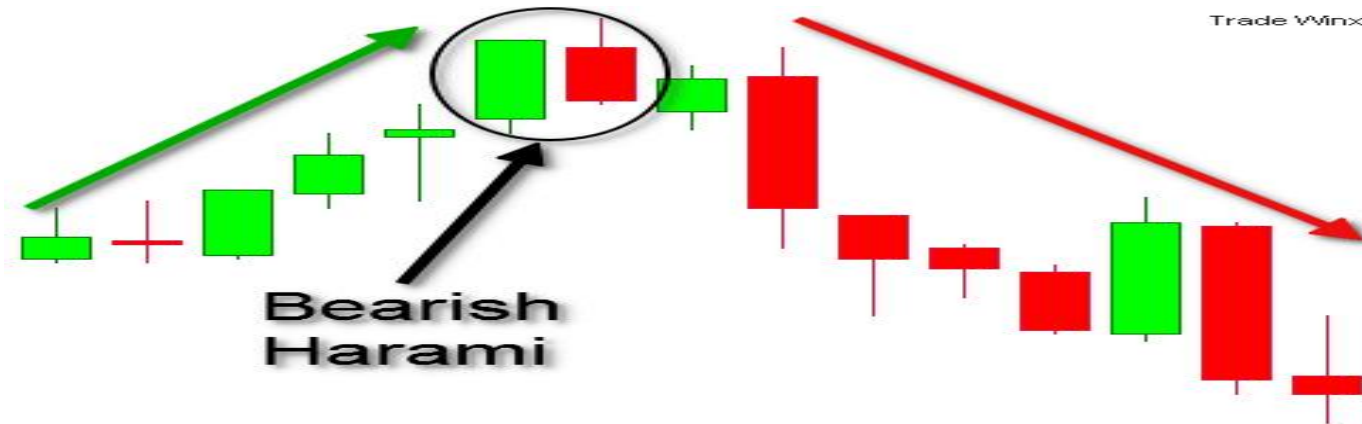


## Criteria:

- The first candle is red in body, the body of the second candle is green.
- The downtrend has been evident for a good period.
- A long red candle occurs at the end of the trend.
- The second day opens higher than the close of the previous day & close lower than the open of the prior day.
- A reversal signal, further confirmation is required to indicate that the trend is changed.
- Reversal is more forceful when the size of both candles is large.

# Bearish Harami

- A big green candle, which is followed by the small red candle at the top of the trend.

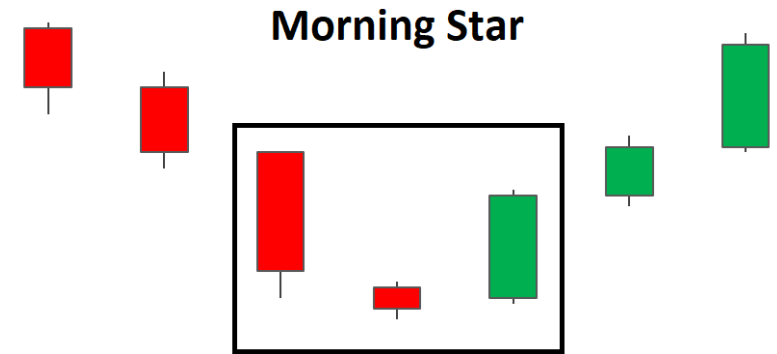


## Criteria:

- The first candle is green in body, the body of the second candle is red.
- The uptrend has been evident for a good period.
- A long green candle occurs at the end of the trend.
- The second day opens lower than the close of the previous day & close above than the open of the prior day.
- A reversal signal, further confirmation is required to indicate that the trend is changed.
- Reversal is more forceful when the size of both candles is large.

# Morning Star

- A bullish 3 candle bottom reversal pattern.
- Found at the bottom of the downtrend.
- Formed by a long red candle, followed by a gap down small green candle & a clear gap up bullish decisive green candle, which closes well into the first red candle.

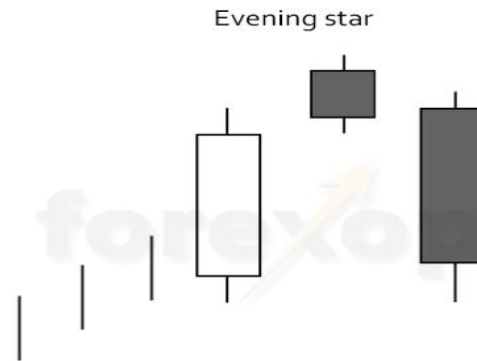


## Criteria:

- There should be persistent down trend.
- Body of the first candle is red, signifying continuous down trend.
- Second candle is indecision candle, with a preferably gap down opening and narrow range.
- Third day is a clear reversal day, strong green candles, with a gap up opening.
- Third candle should close at least half way of the first red candle.
- More indecision the star candle indicates more chances of reversal.
- Gap before and after the star day candle is highly desirable for reliable reversal.
- Huge volume on star candle day and following strong bullish day adds to confirmation.

# Evening Star

- A bearish 3 candle bottom reversal pattern.
- Found at the top of the uptrend.
- Formed by a long green candle, followed by a gap down small red candle & a clear gap up bearish decisive red candle, which closes well into the first green candle.

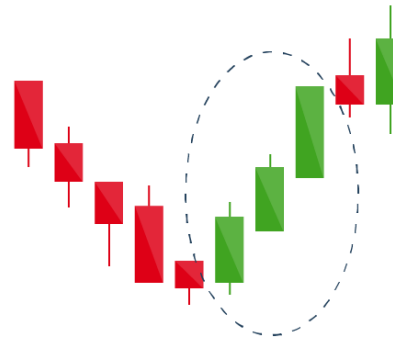


## Criteria:

- There should be persistent up trend.
- Body of the first candle is green, signifying continuous up trend.
- Second candle is indecision candle, with a preferably gap down opening and narrow range.
- Third day is a clear reversal day, strong red candles, with a gap down opening.
- Third candle should close at least half way of the first green candle.
- More indecision the star candle indicates more chances of reversal.
- Gap before and after the star day candle is highly desirable for reliable reversal.
- Huge volume on star candle day and following strong bearish day adds to confirmation.

# Three White Soldiers

- Down trend reversal pattern.
- Found at the bottom of trend
- Shows decisive buying & potential change in trend reversal.

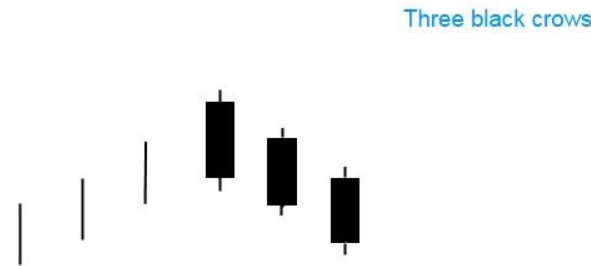


## Criteria:

- There has to be a persistent down trend before pattern formation.
- Has to occur at the bottom of the downtrend for super positive rally.
- First candle should open gap down compared to previous downtrend.
- Larger the size of candle, more reliable is the candle pattern.
- Every subsequent candle must open within previous candle body, leaving no gap, giving buying opportunity.
- Heavy volume above average can make pattern even more reliable.

# Three Black Soldiers

- Up trend reversal pattern.
- Found at the top of trend
- Shows decisive selling & potential change in trend reversal.



## Criteria:

- There has to be a persistent up trend before pattern formation.
- Has to occur at the top of the uptrend for negative rally.
- First candle should open gap down compared to previous uptrend.
- Larger the size of candle, more reliable is the candle pattern.
- Every subsequent candle must open within previous candle body, leaving no gap, giving selling opportunity.
- Heavy volume above average can make pattern even more reliable.

# Benefits of Candle Stick Charts

- They are easy to comprehend.
- Patterns are easy to identify.
- They can be used in conjunction with other Indicators.
- Provide a much more detailed description of the occurrences and happenings in the market, and interactions between buyers and sellers as compared to traditional charts which provide minimal information.
- They allow us to understand the sentiment of Investors and the values being determined by the market.

# Benefits of Candle Stick Charts

- The colour and length of candles helps determine if the market is Bearish (weakening) or Bullish (growing) at a glance.
- They indicate market turning points early and estimate the direction of the market.
- Overall, Candlesticks provide unique insights.
- They display reversal patterns which cannot be seen in other types of charts.
- They can be used in all kinds of markets.
- Candlestick Patterns are highly accurate in predicting market trends.

# 4 Reasons to Trade With Candlestick Charts

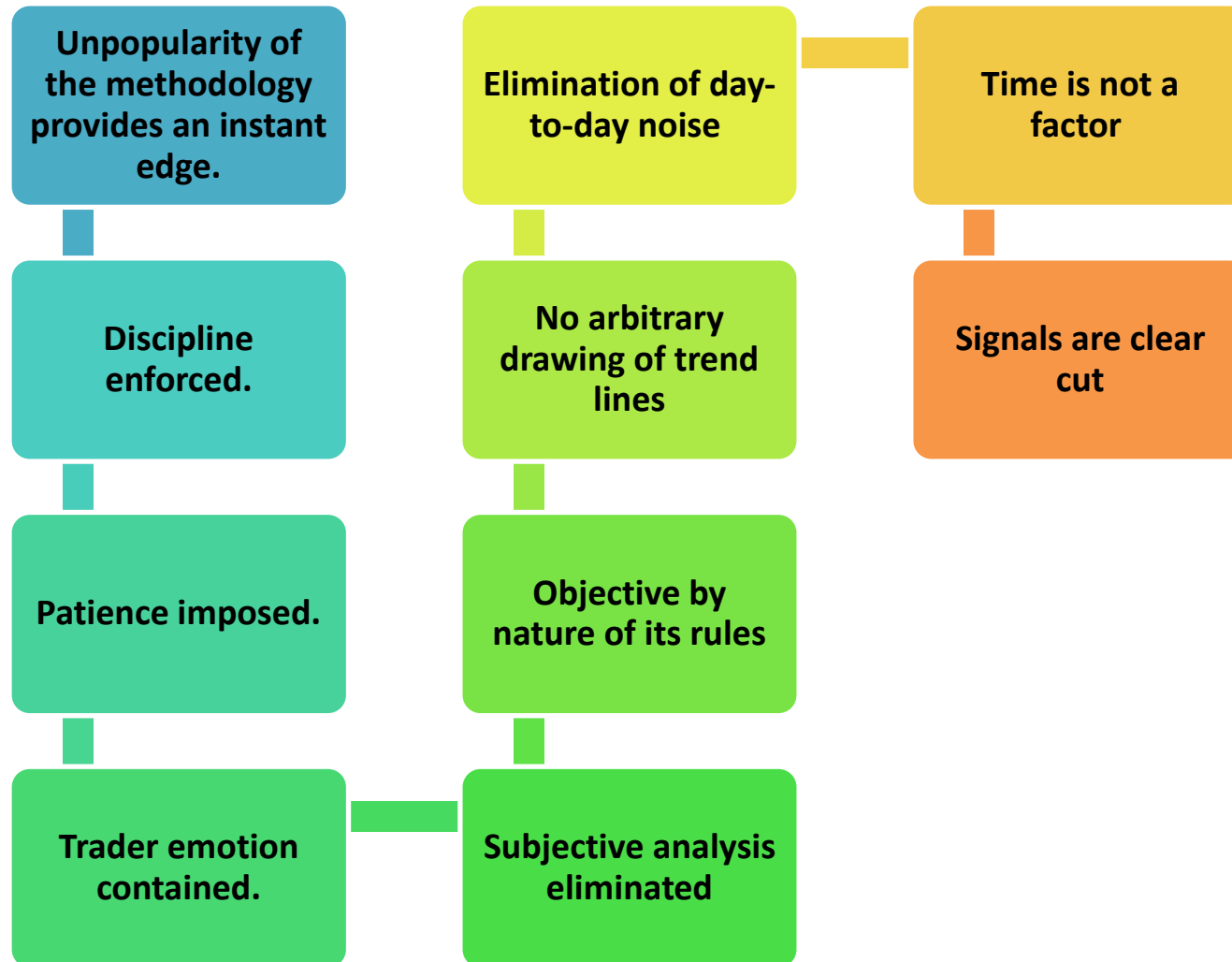
**Easy to Understand**

**A Psychological Portrait**

**Superior to Traditional Charts**

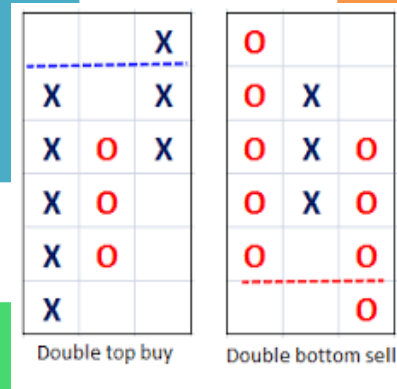
**A Proven Technique for 250 Years**

# Point & Figure Charts (Advantages)



# Point & Figure Charts (Limitations)

Signal generation is dependant on box size scale and reversal method.



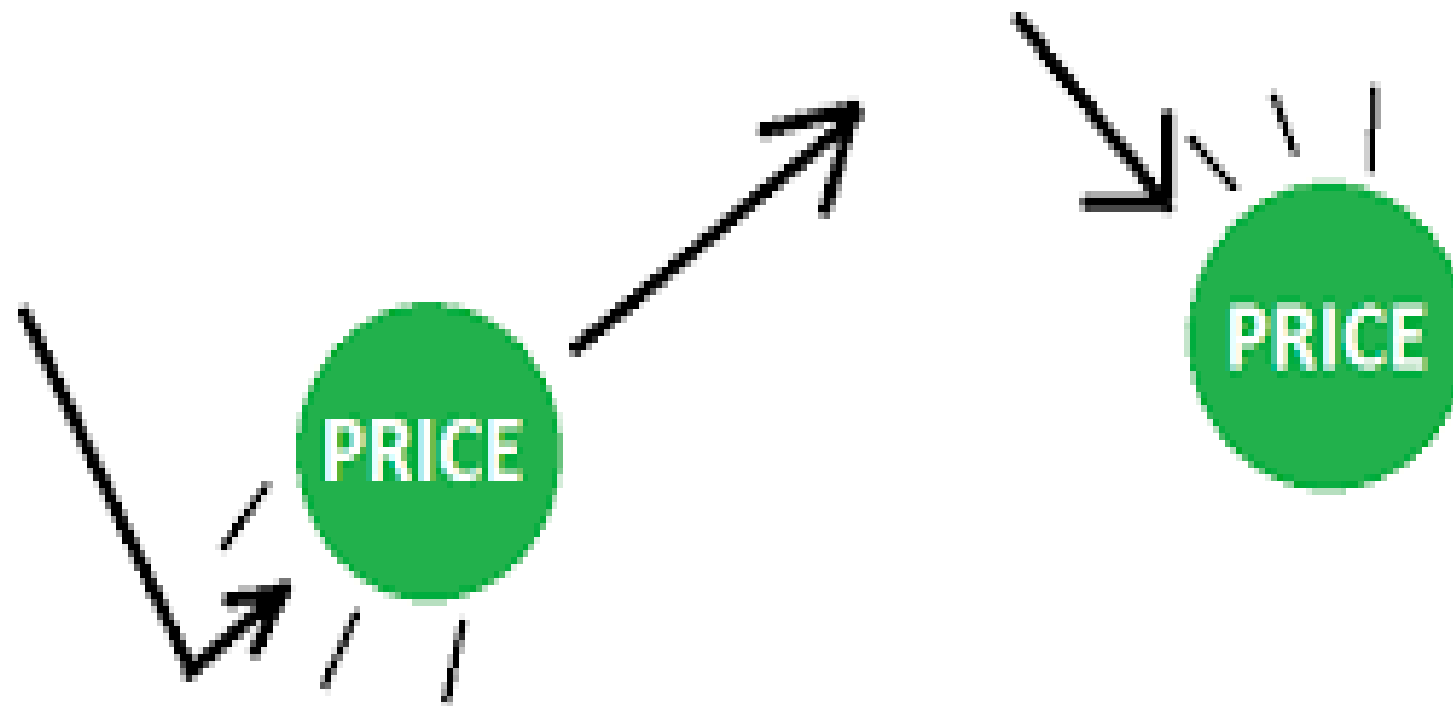
learning the art of Point and Figure takes time!

No volume on a Point and Figure chart.

Point and Figure charting may be perceived as dull



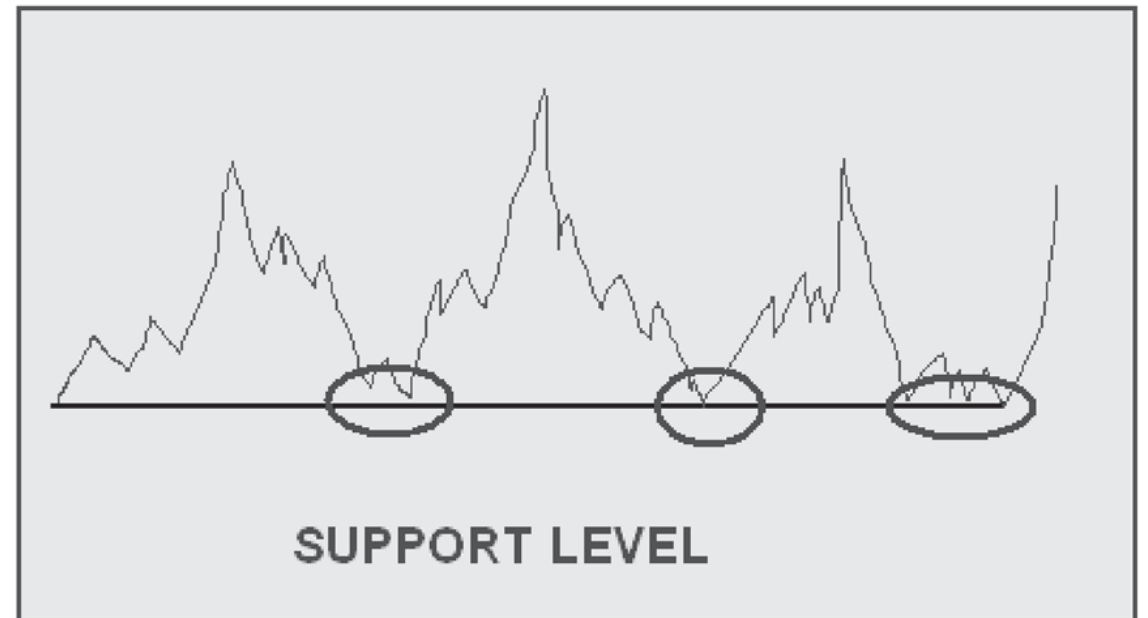
RESISTANCE



SUPPORT

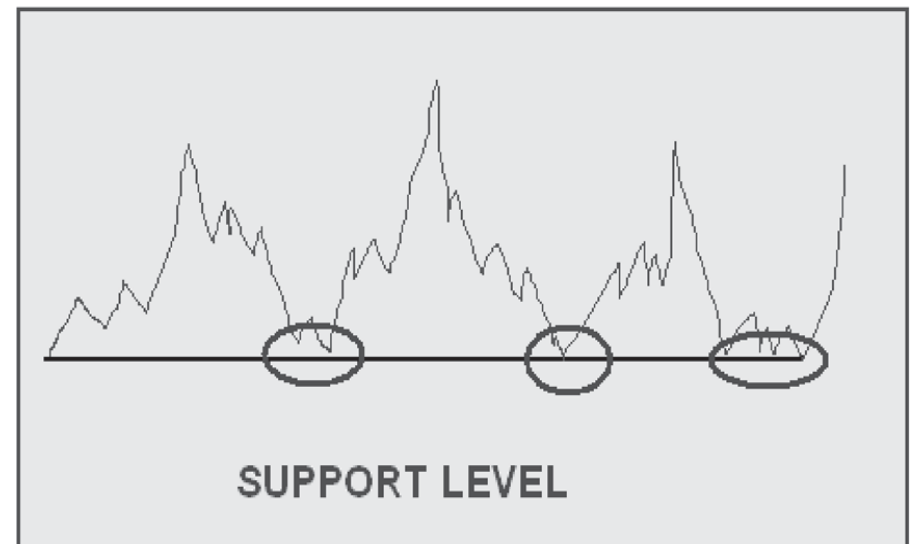
# Support Line

- Refers to that level below which a stock's price will not fall.
- Level at which there is a sufficient amount of demand to stop & possibly, for time being, turn a downtrend higher.
- A pullback or even a trend reversal.



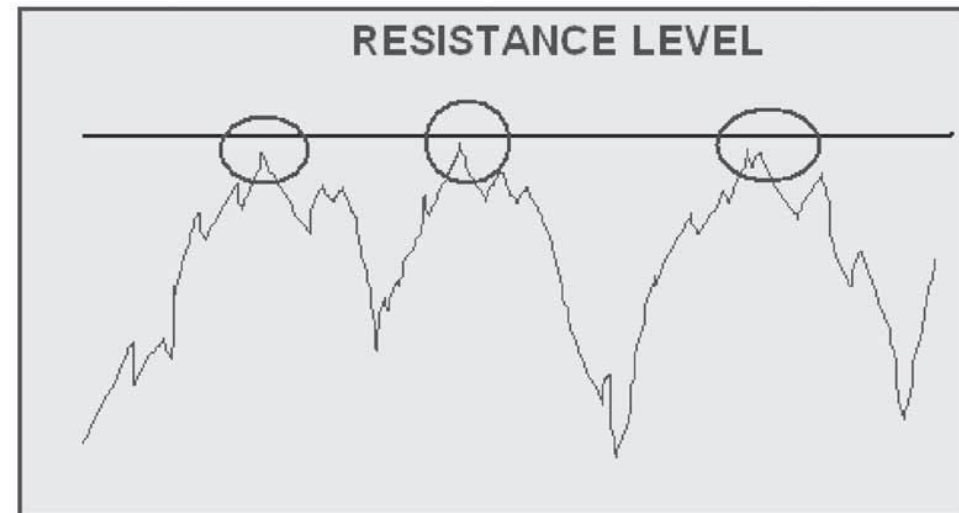
# Support

- Price level where the price halt from falling down.
- A pause or make base formation for the next up rally.
- Buyer find great buying opportunity.
- Create Demand, which may overcome supply.
- Buyer are more inclined to Buy.
- Seller are less inclined to sell.



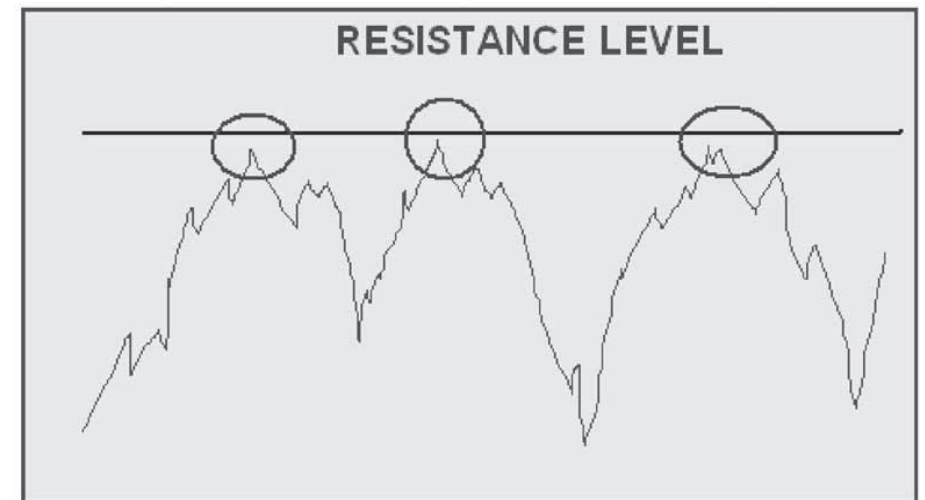
# Resistance Line

- Refers to a line beyond which stock's price will not increase.
- Price level at which a sufficient supply of stock is available to stop & possibly, for time being, blow off an uptrend in price.



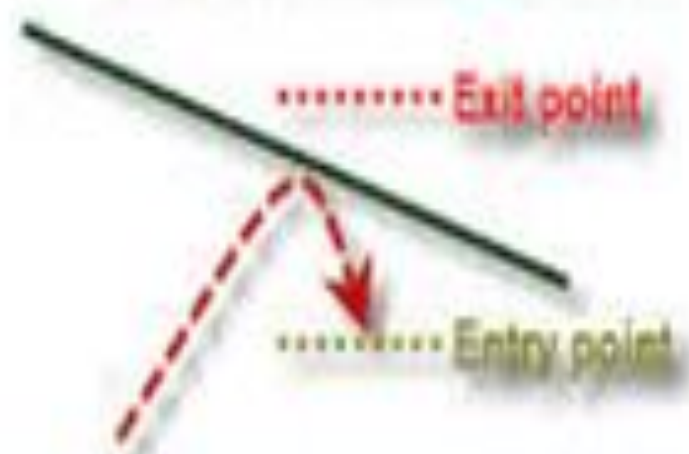
# Resistance

- Price level where price halt from rising up.
- Take a pause or distribution pattern for the next down rally.
- Buyer may think of taking out profit from long position.
- Seller may push price lower.
- Bears may take a toll by bringing price down.
- Supply is more than the demand.





Trendline as resistance



# Role of Support & Resistance

- Very Common Phenomena.
- Price continuously stop at certain level.
- Level is strong signalling.

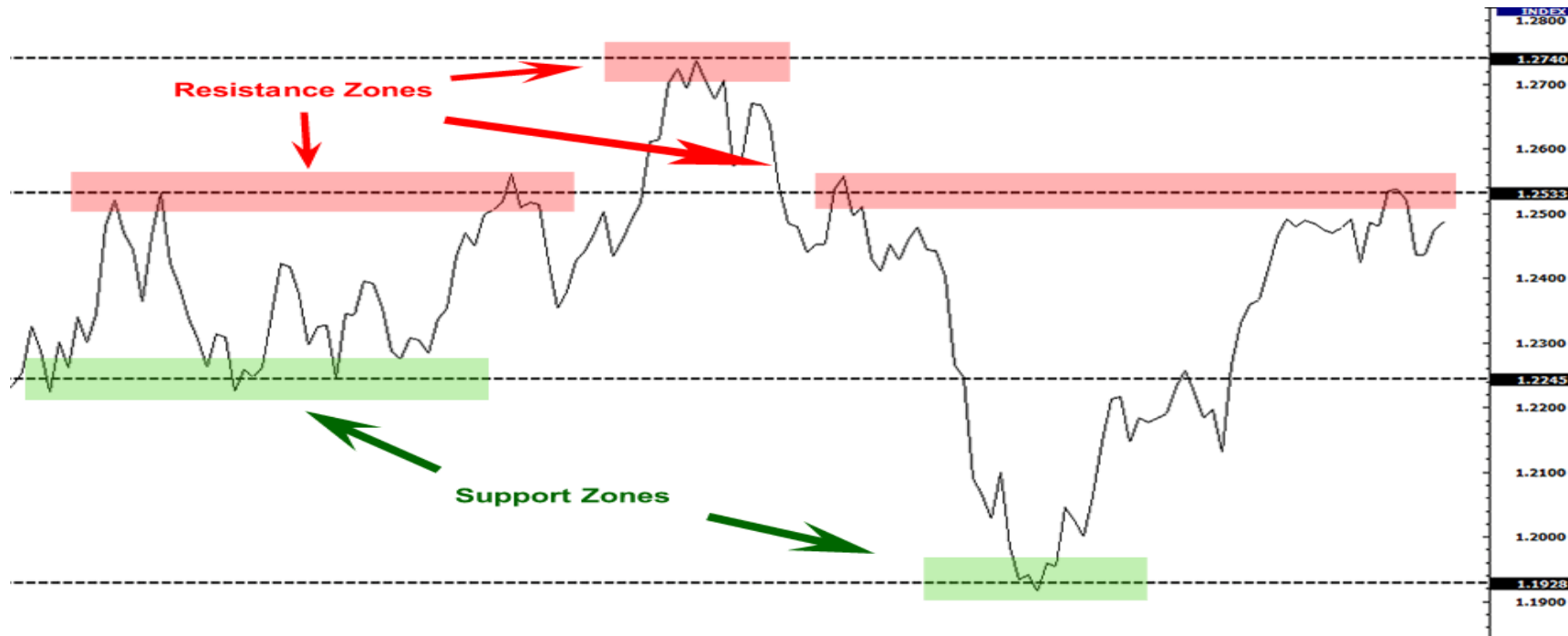


# Role of Support & Resistance

- Buyer : Convinced not to buy stock. (RL)
- Fundamental Shifts & Support Valuation.
- Re-rating, Volatility , Price valuation.
- Role Reversal : “Mark”

# Support & Resistance Zone

- TA is a subjective concept.
- No fixed rules & regulations all the time.
- Based on passed happening, Behaviour & Reaction of Participants, Price Levels.



# Support & Resistance Zone

- Never a case.
- Deals with range of levels near the actual found level.
- Marking/ Highlighting zone also covers price spikes.
- Performance can be improved if one gives importance to SL & RL.

# Importance of SL & RL

- TA : Market has a Memory.
- SL & RL are a key component of this memory.
- “Tend” to remember previous levels.
- Price fluctuation creates chaos.
- Research based is used to build positions.
- Zone : Volume increases , Line becomes important , Easy to visualise , Positions.
- Stop Loss Levels or Target Levels

# Key takeaways

- S&R are price points on the chart.
- **Support** is a price point below the current market price that indicate buying interest.
- **Resistance** is a price point above the current market price that indicate selling interest.
- To identify S&R, place a horizontal line in such a way that it connects at least 3 price action zones, well spaced in time. The more number of price action zones (well spaced in time) the horizontal line connects, the stronger is S&R.

# Key takeaways

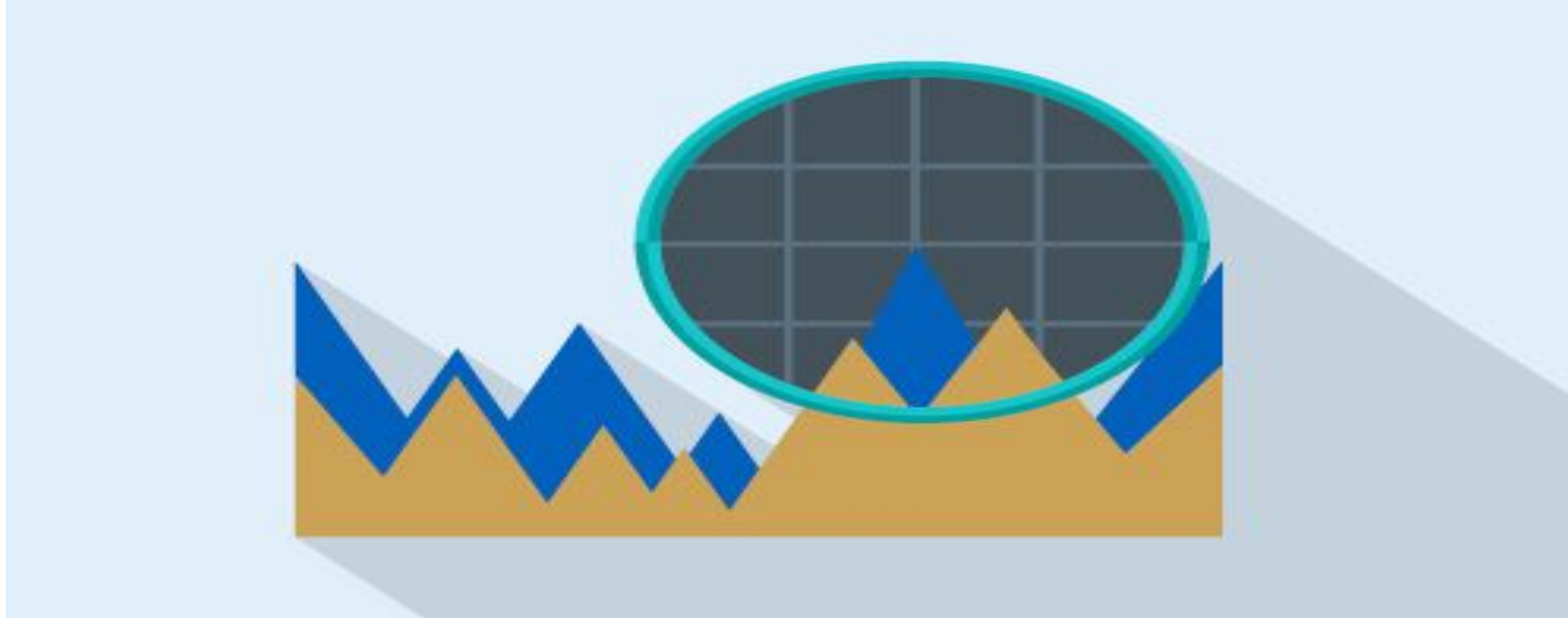
- S&R can be used to **identify targets** for the trade.
- For a long trade : look for the immediate resistance level.
- For a short trade : look for the immediate support level.
- Lastly, comply with the checklist for optimal trading results.



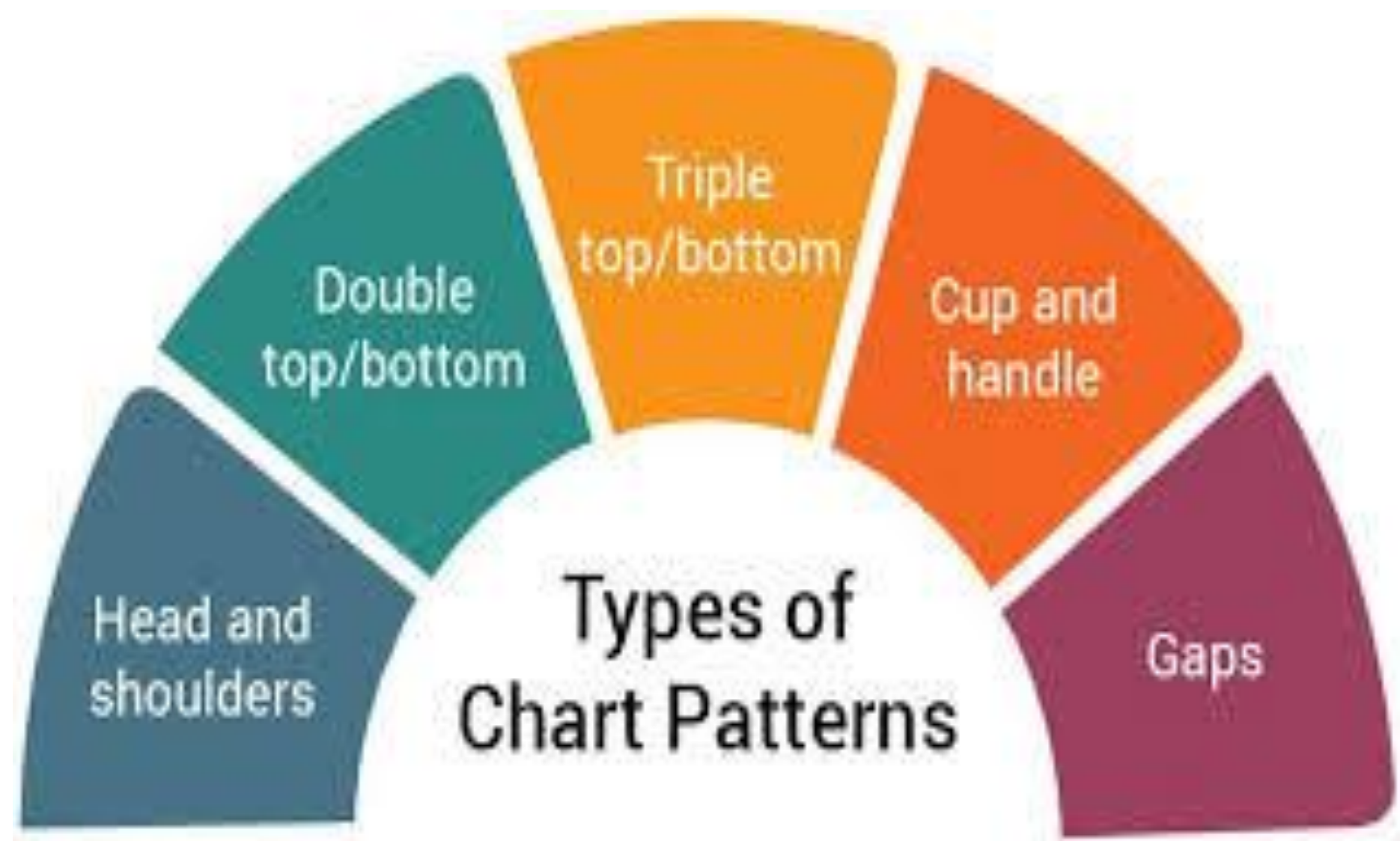
# Chart Patterns

# Introduction

- Patterns ?
- Lots of Importance in Analysis.
- Based on : History, Market Participants Behaviour & Past Patterns.
- Decisions : Entry & Exit Points, Supports & Resistance, Expected Future Trends.
- Warning Signs for Future Reversals.



- No Thumb Rules.
- No Restrictions on Price to Behave.
- Pattern Breakouts.
- Needs Flexibility
- Minimize Losses & Maximize Profitability.



Head and  
shoulders

Double  
top/bottom

Triple  
top/bottom

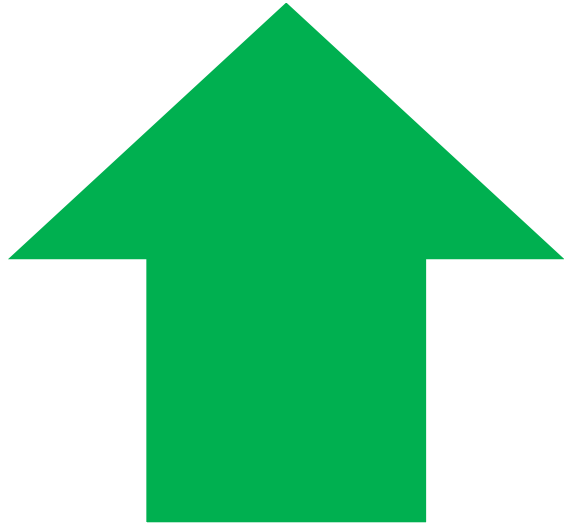
Cup and  
handle

Gaps

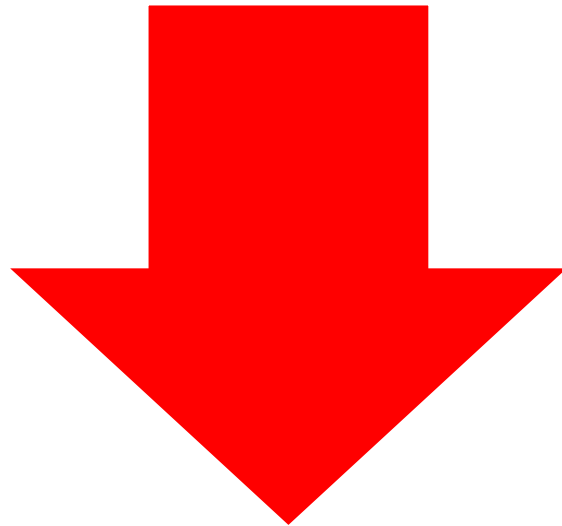
# Types of Chart Patterns

# Trends

- A trend is the overall direction of a market or an asset's price.
- A trend is the general direction of the price of a market.
- Uptrend are marked by rising data points.
- Downtrends are marked by falling data points.
- Price action, trend lines, and technical indicators are all tools that can help identify the trend and warn when it is reversing.



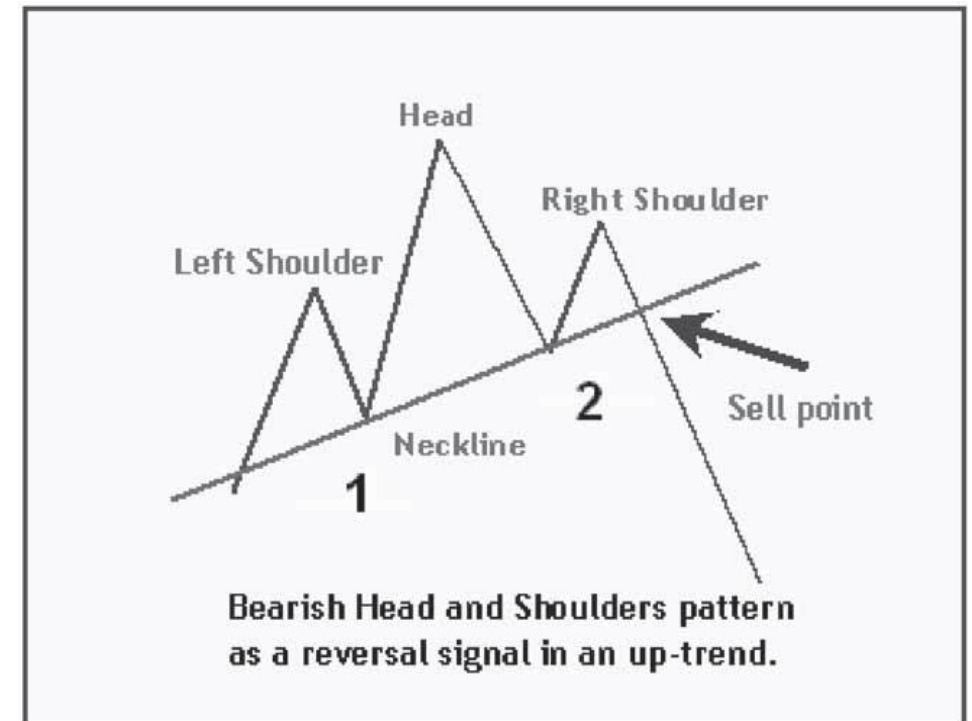
**TOPS or  
PEAKS**



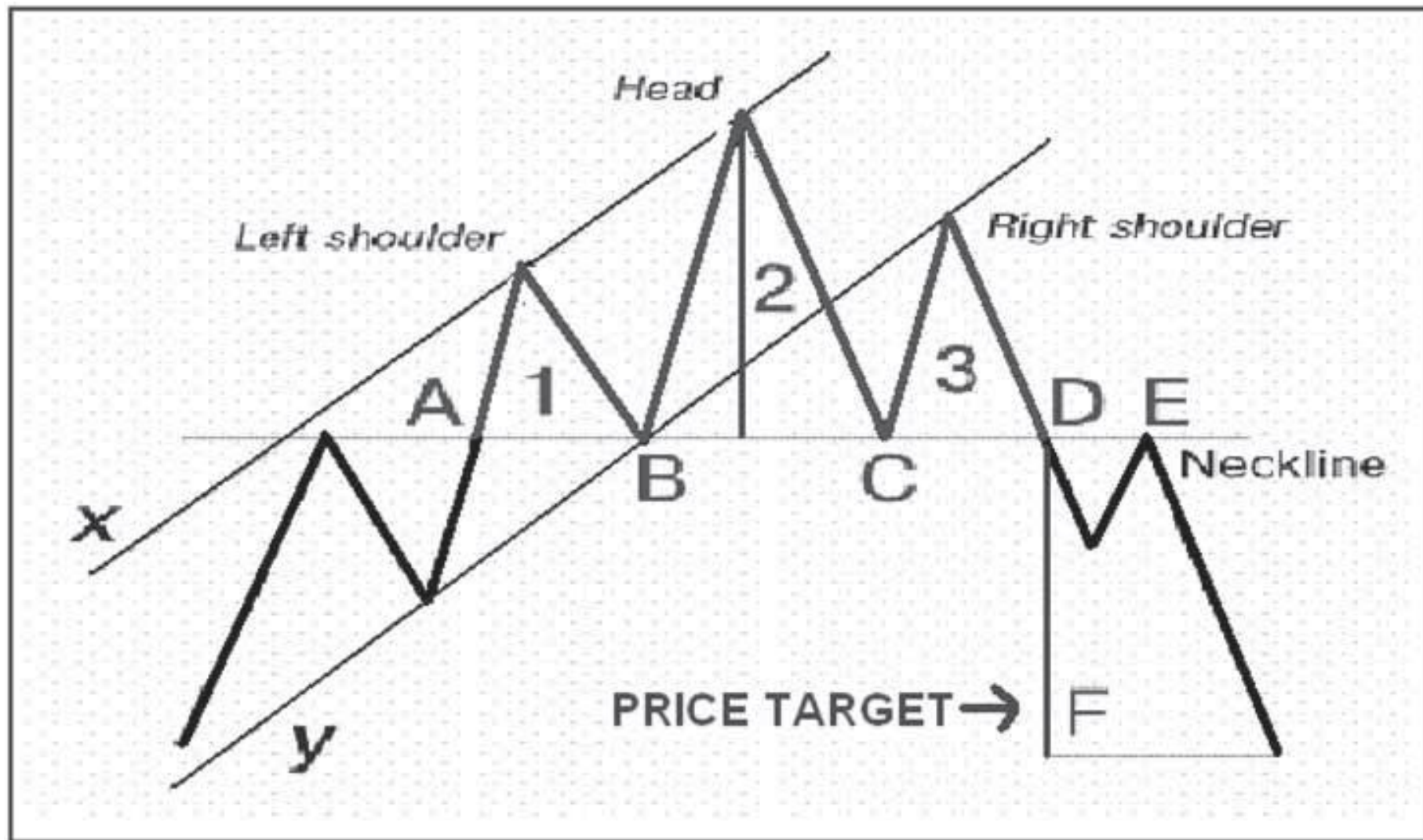
**BOTTOMS  
or TROUGHS**

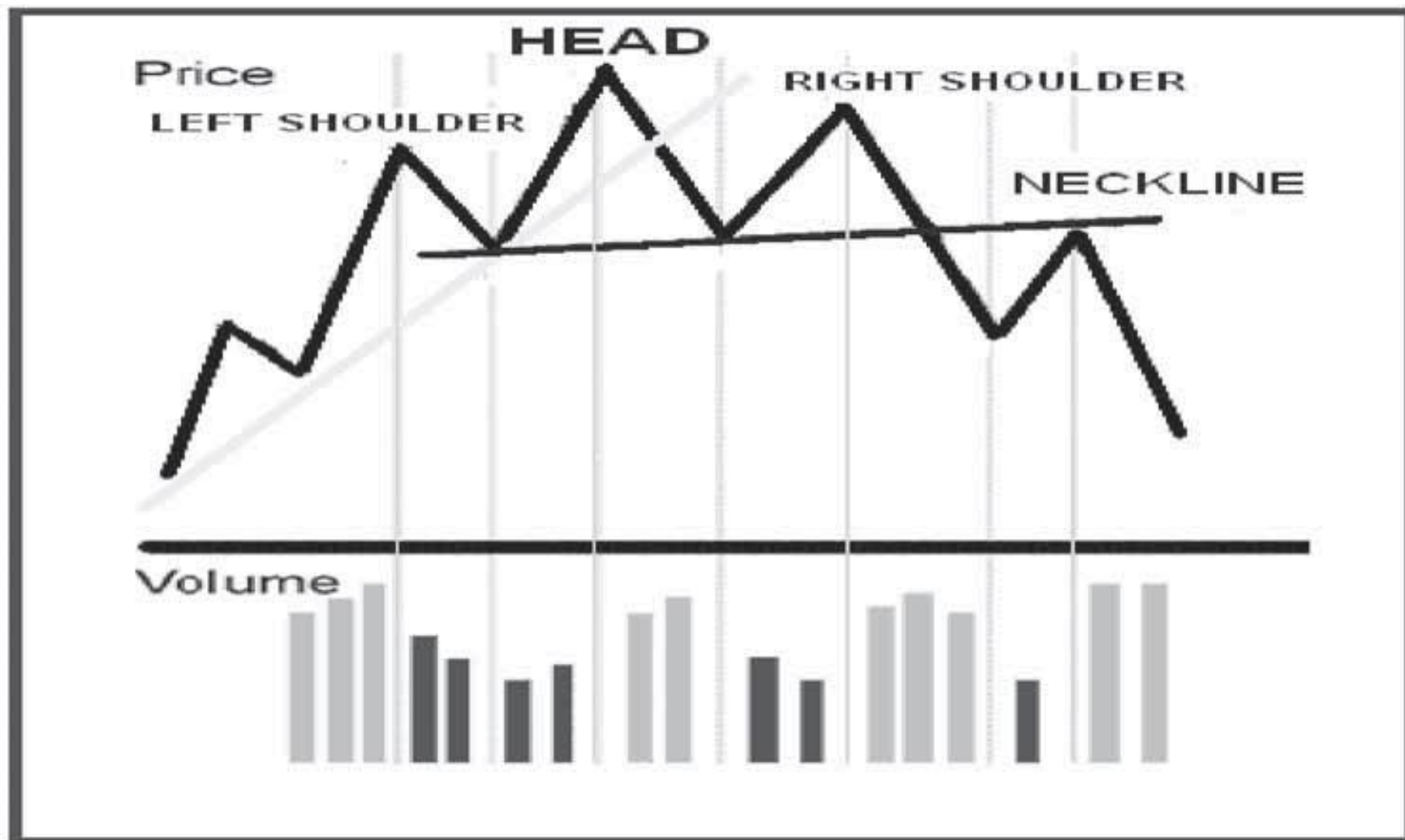
# Head & Shoulder Top

- Pattern has 3 different Peaks.
- 2 Smaller & 1 Larger (Centre)
- Appears at the Top of the trend.
- Highly Reliable Reversal Pattern.



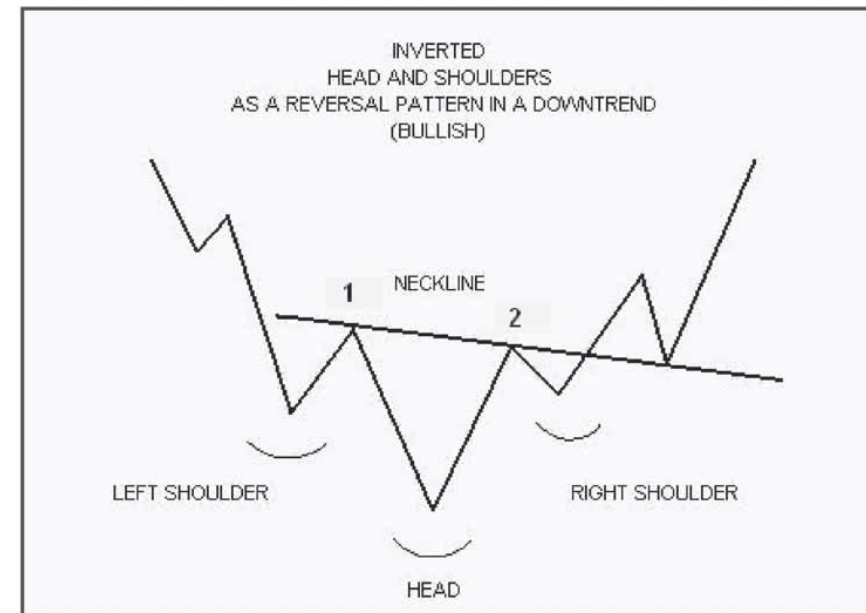




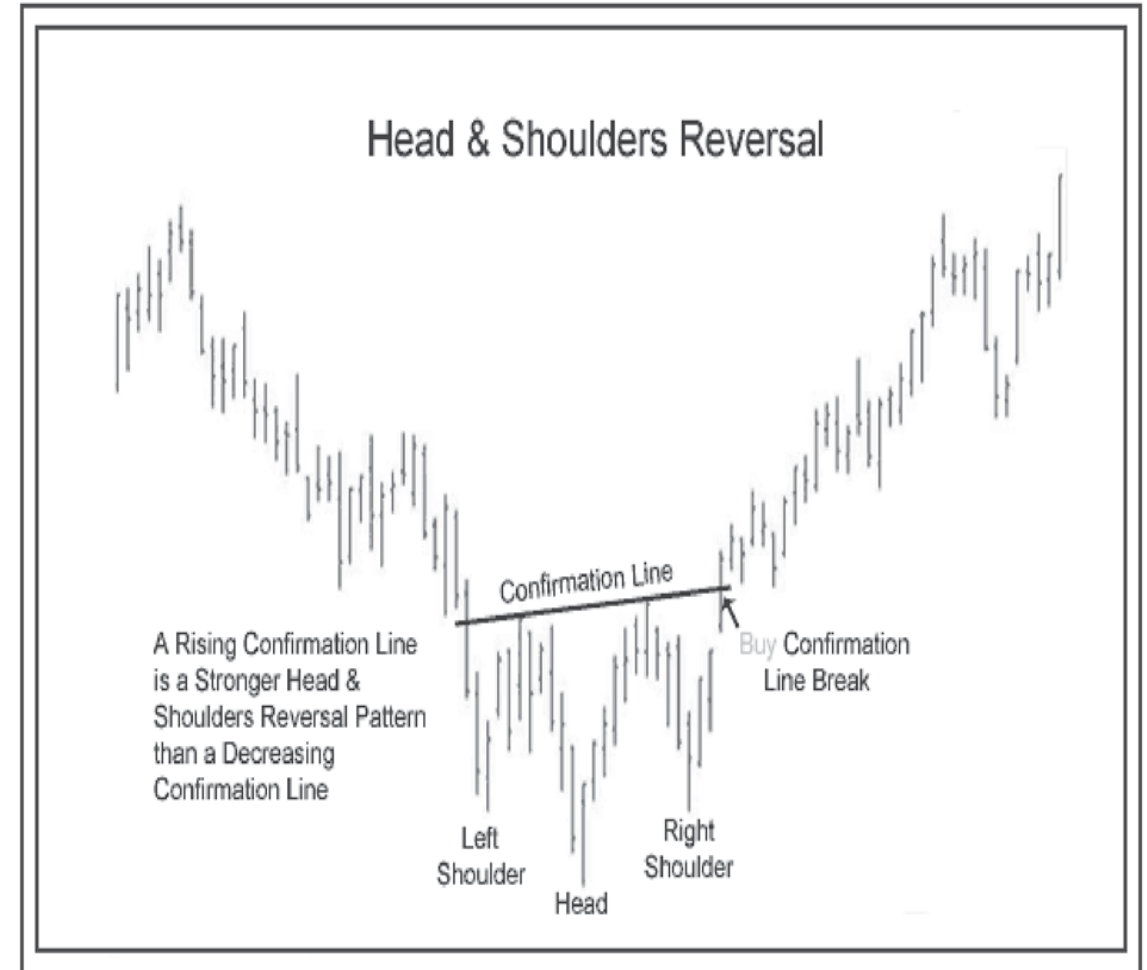
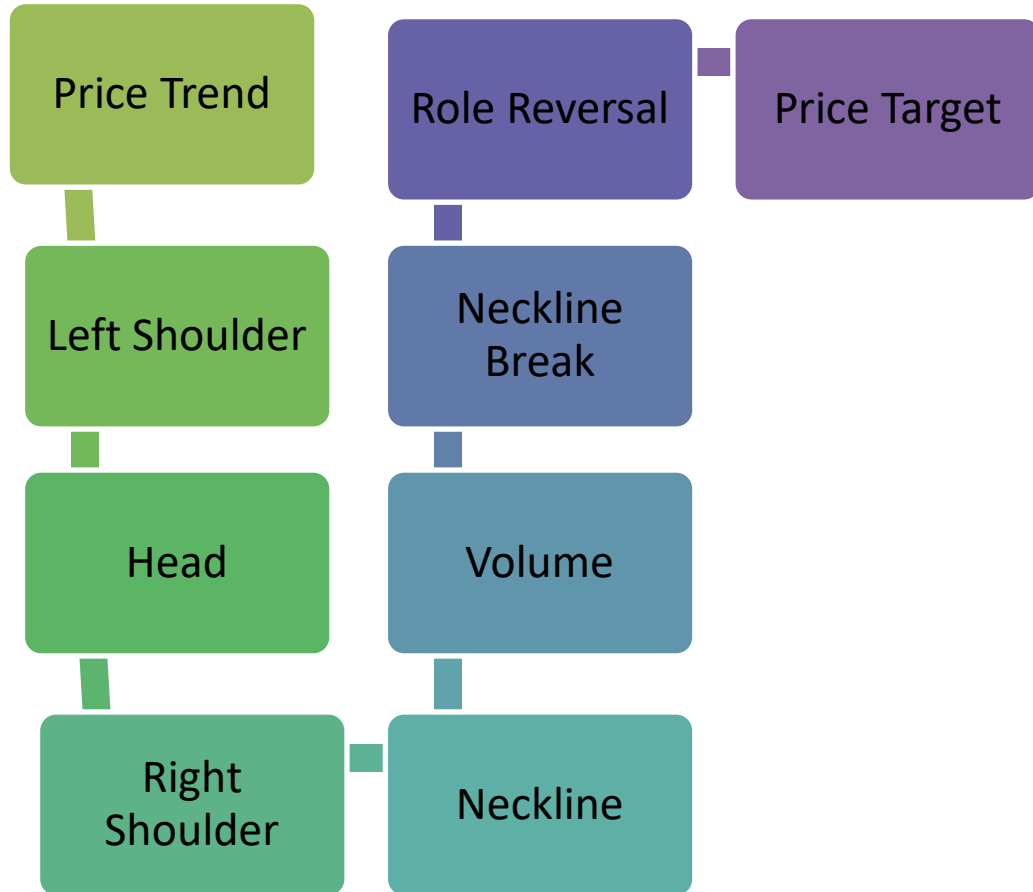


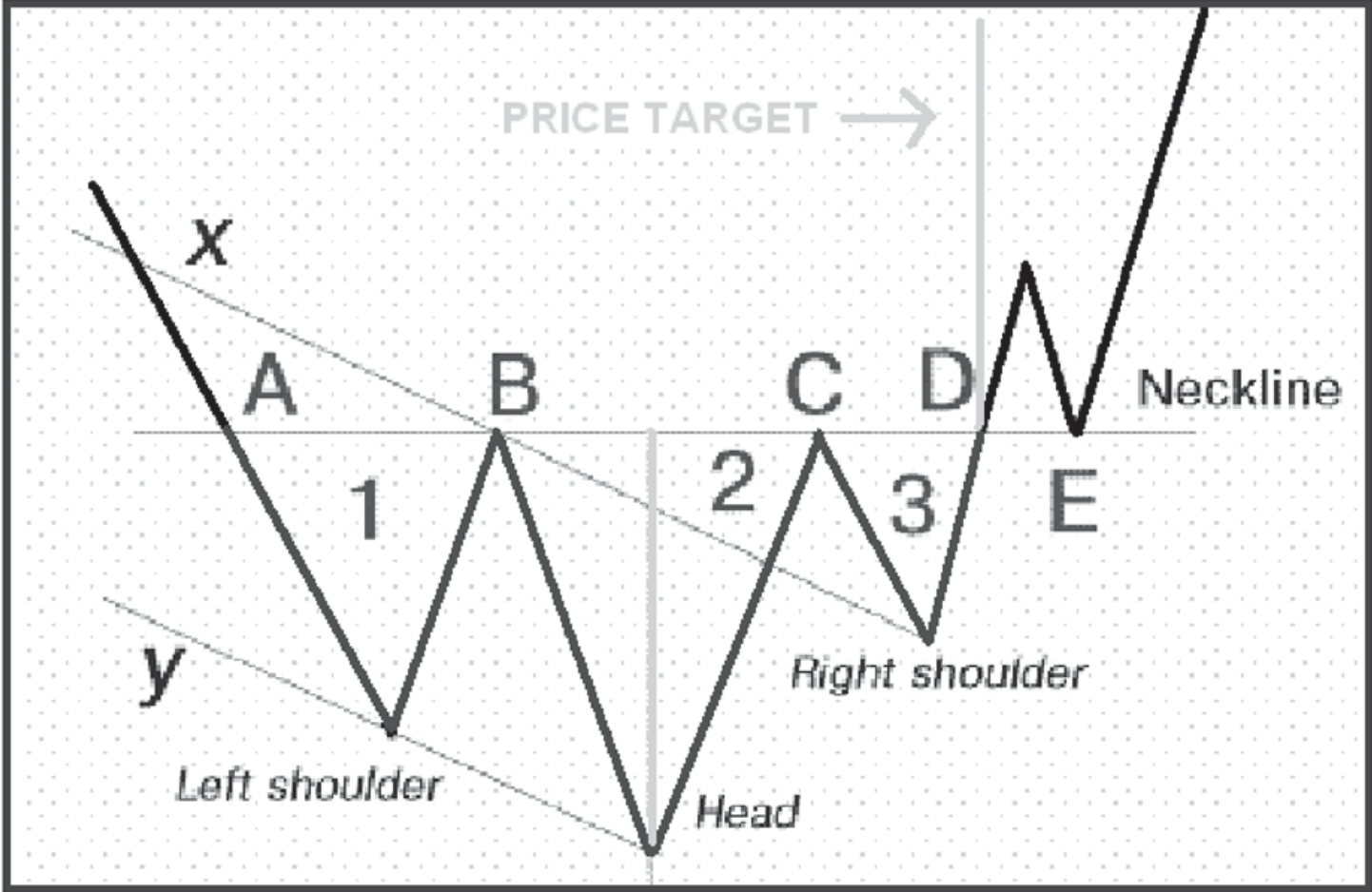
# Inverted Head & Shoulder

- Inverse Head & Shoulders
- Pattern appears at the bottom of Trend.
- Clear indication of Downtrend, Price Fall.
- Price fails to surpass previous bottoms & Bounce back.
- Price breakthrough neckline & continues.



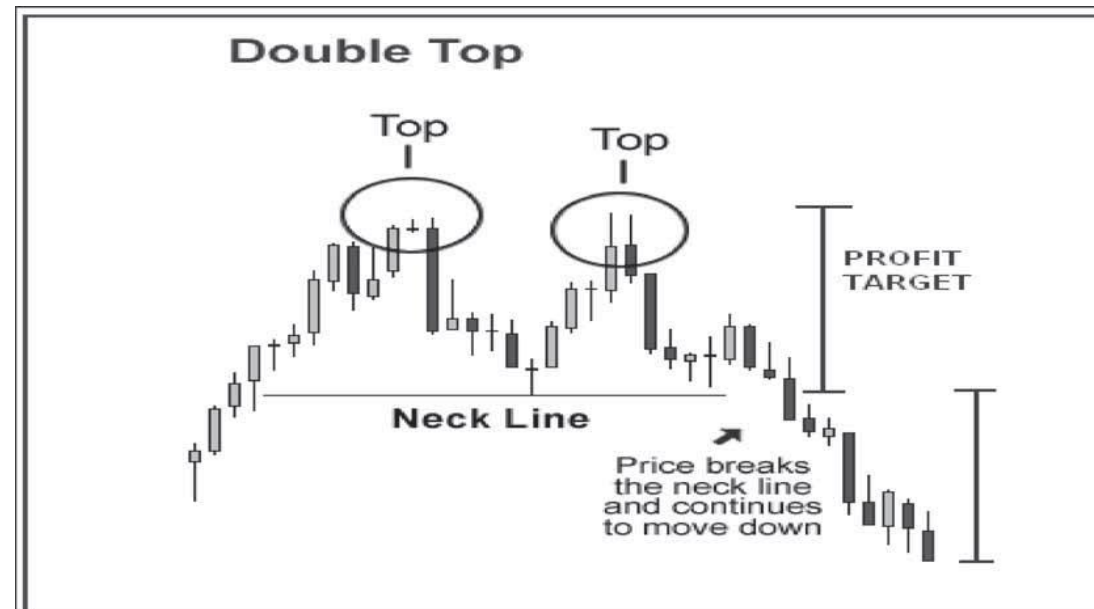
# Pattern





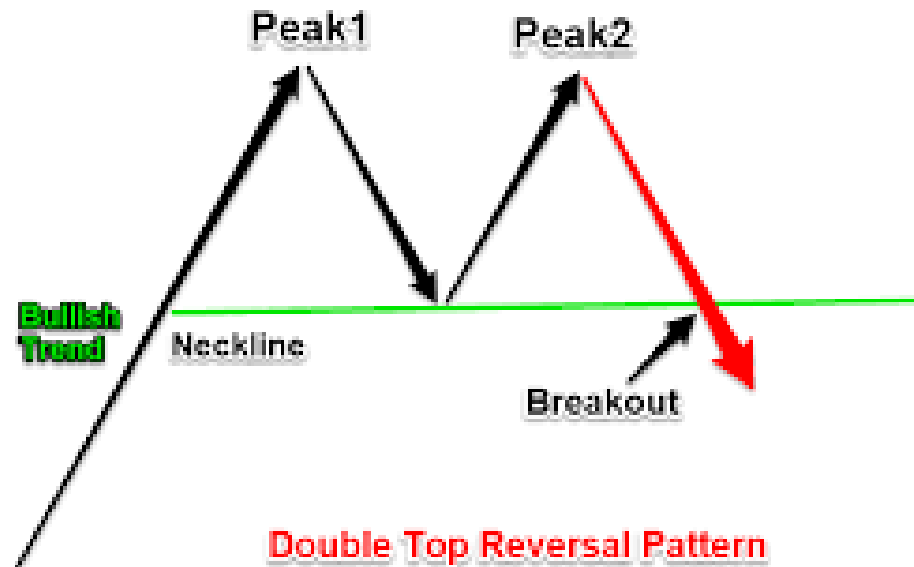
# Double Top

- Formed at the Top of the Uptrend.
- Making pair of Peaks.
- Price are not able to sustain at the Top Level.
- Persistent Selling Pressure on Price.
- M Shape.
- Indication to sell triggered.

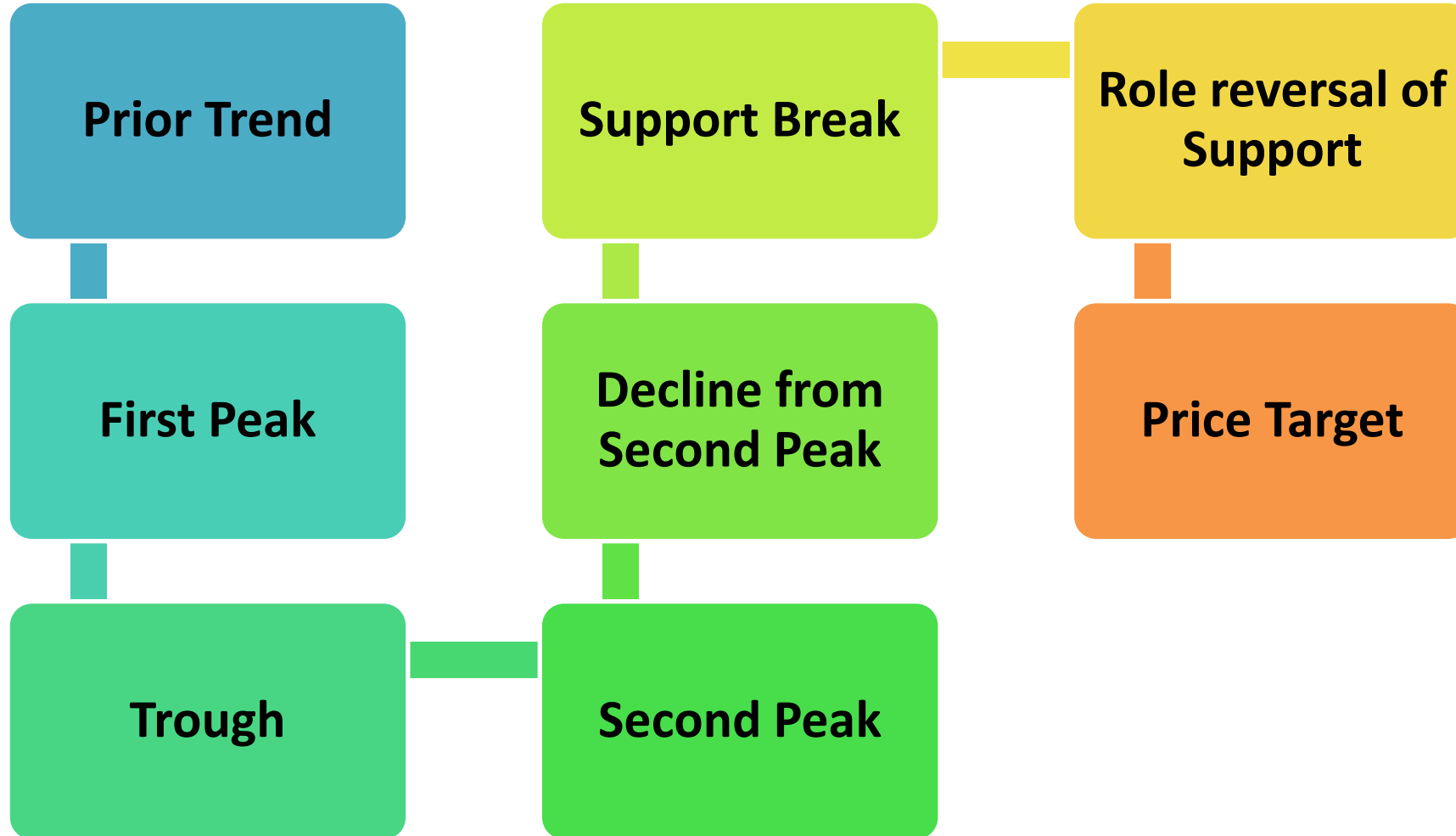


# Appearance

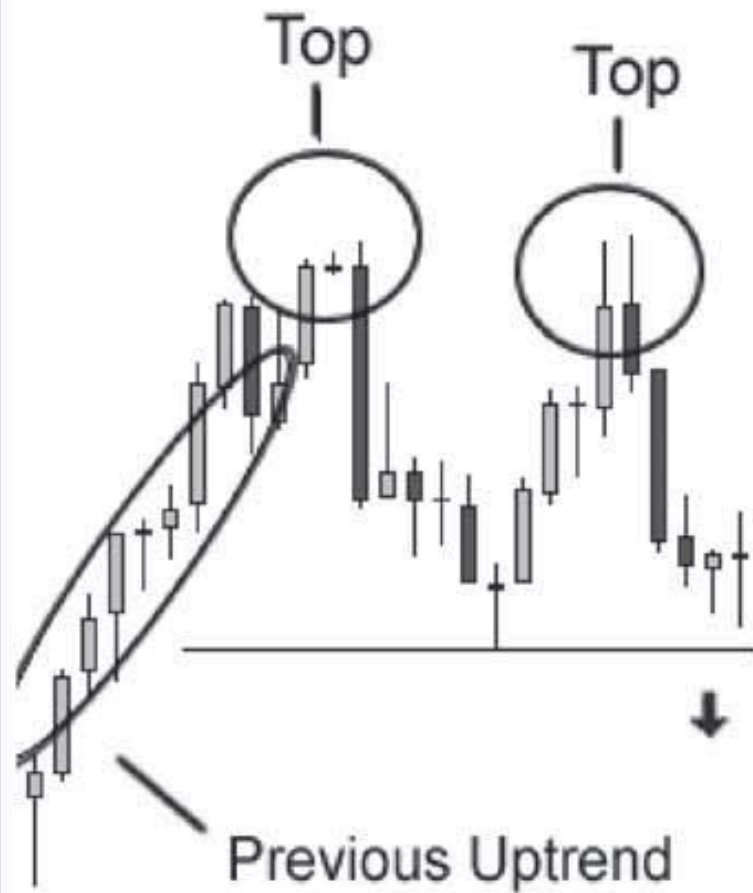
- Price move higher in up trend & take a pause in the rally.
- First Peak: Enough participation in market.
- Second Peak: Volumes dries up.
- Volume Behaviour Confirms pattern.



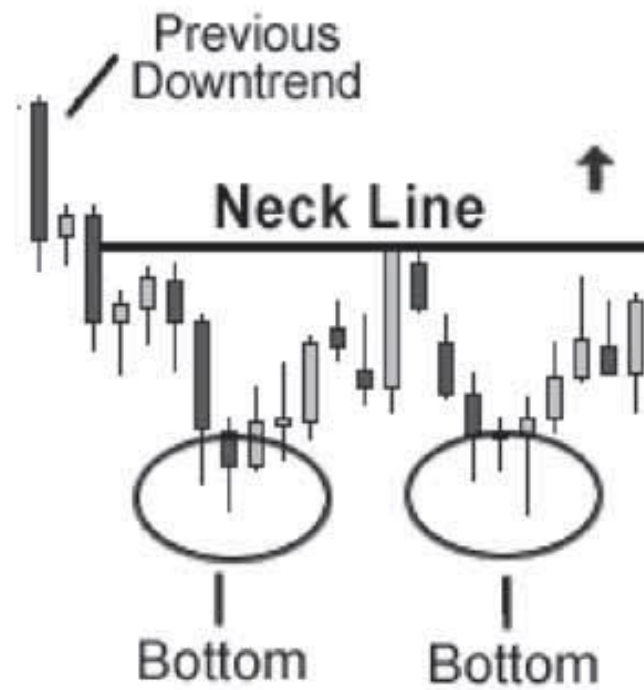
# Formation



## Double Top

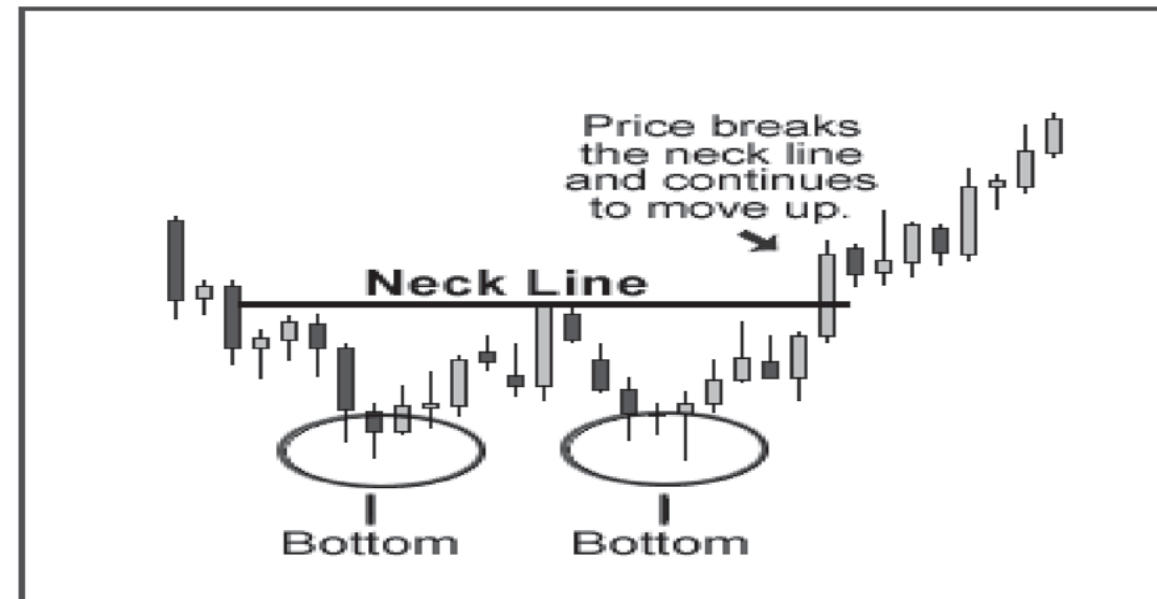


## Double Bottom



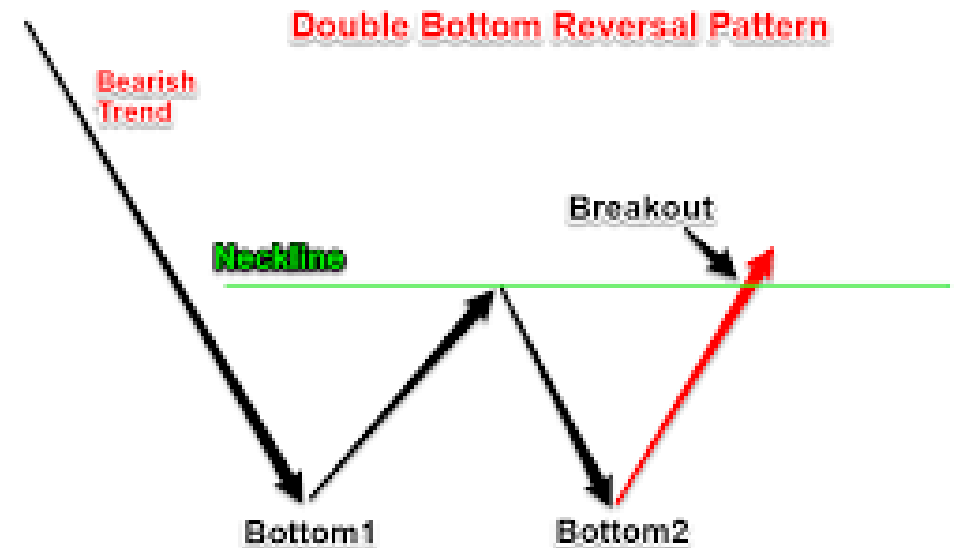
# Double Bottom

- Formed at the bottom of the downtrend.
- Making pair of trough.
- Price are not able to sustain at the Bottom Level.
- Persistent Buying Pressure on Price.
- W Shape.
- Indication to Buy is triggered.

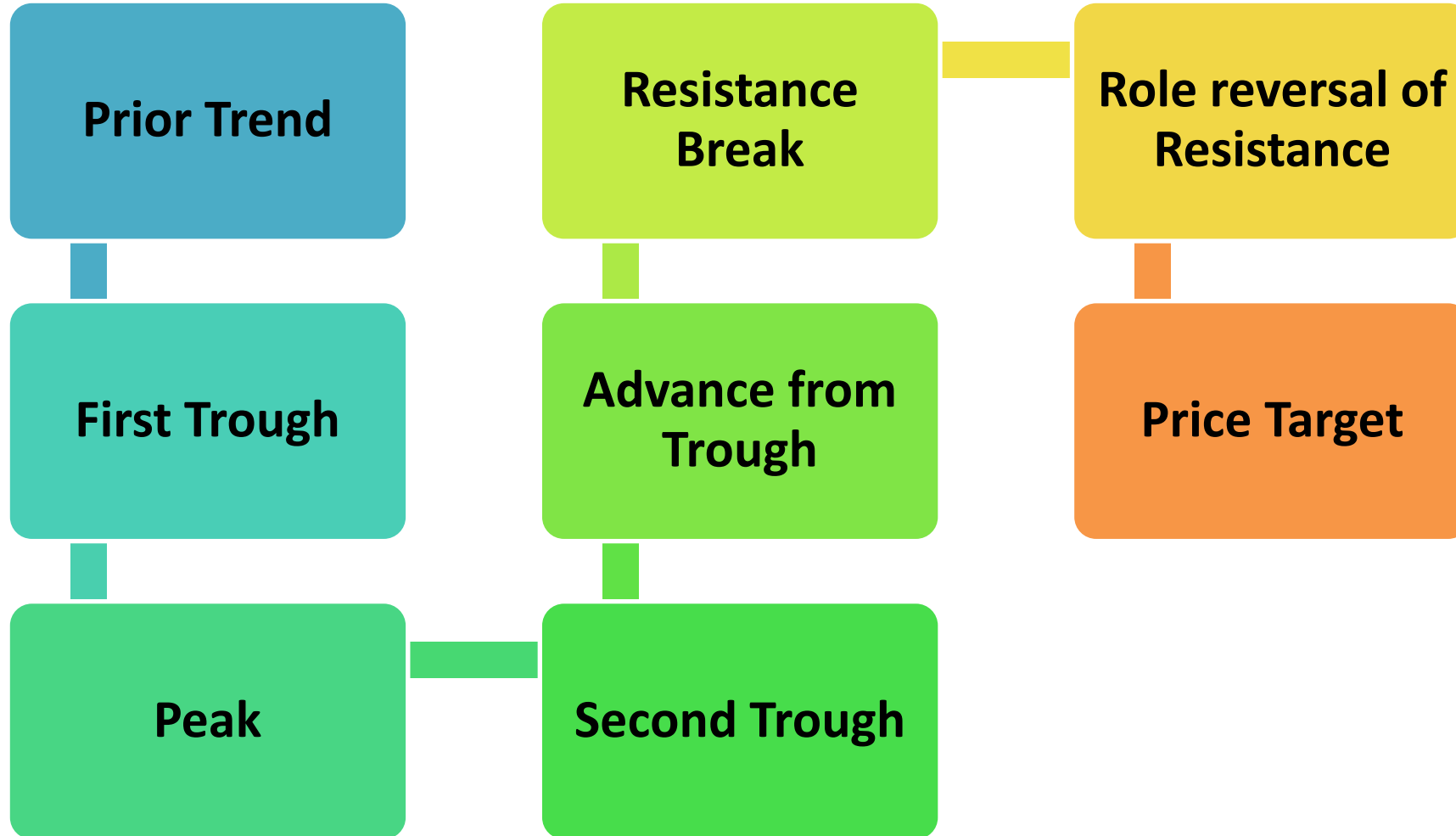


# Appearance

- Price move Lower in downtrend & take a pause in the rally.
- First trough: Enough participation in market.
- Second trough: Volumes dries up.
- Volume Behaviour Confirms pattern.

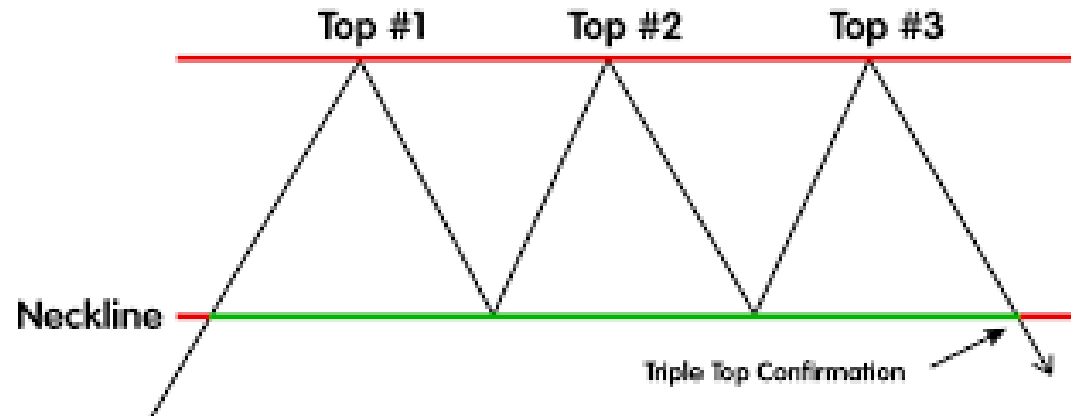


# Formation

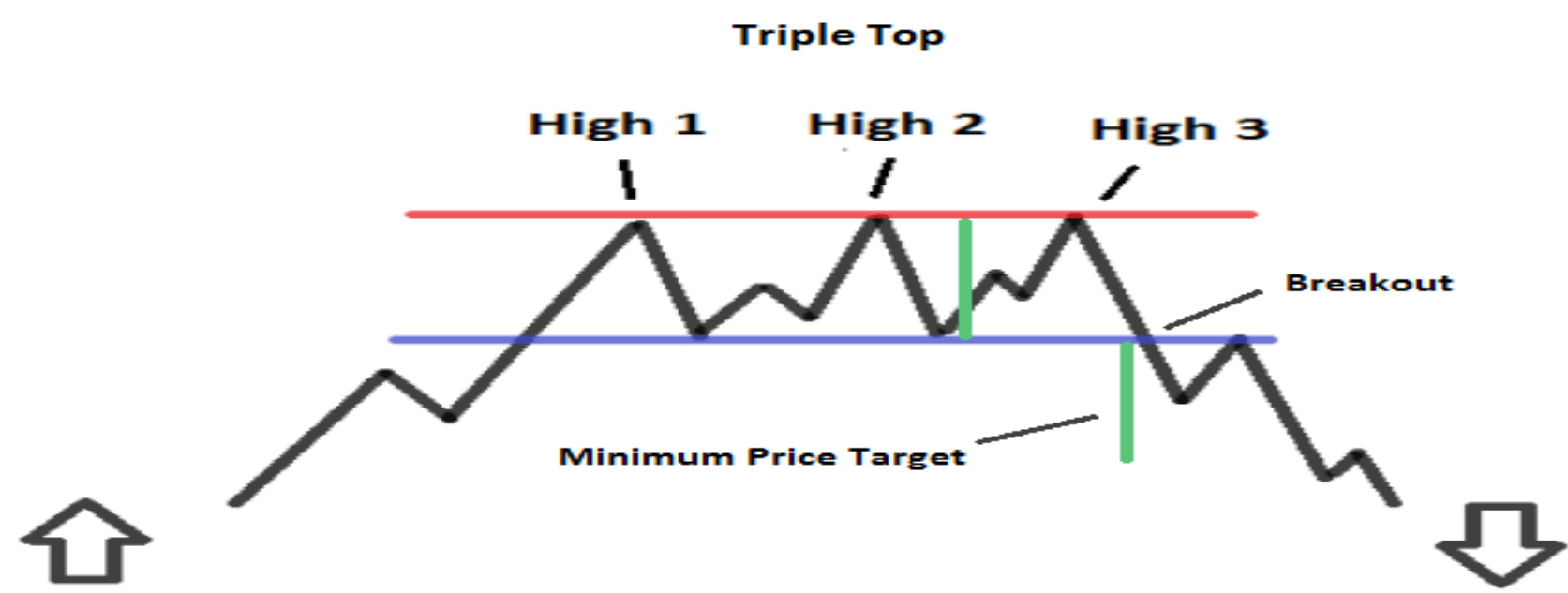
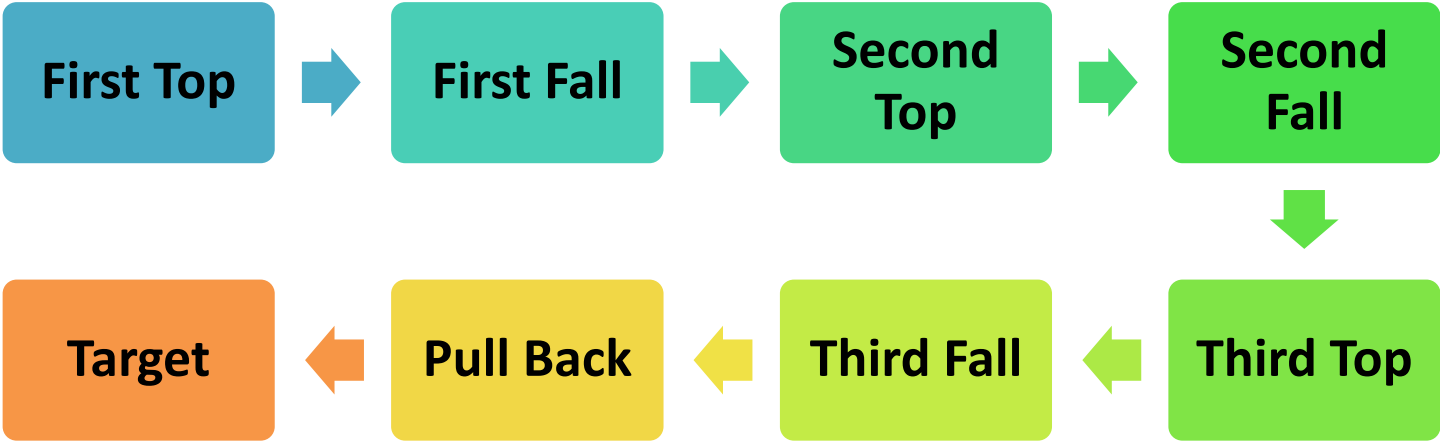


# Triple Top

- Pattern: Price makes 3 similar price level top.
- Pattern found at the top of Uptrend.
- Positive Rally (Northward)
- Misunderstanding among participants.
- Neckline = Support Line
- Trigger Selling

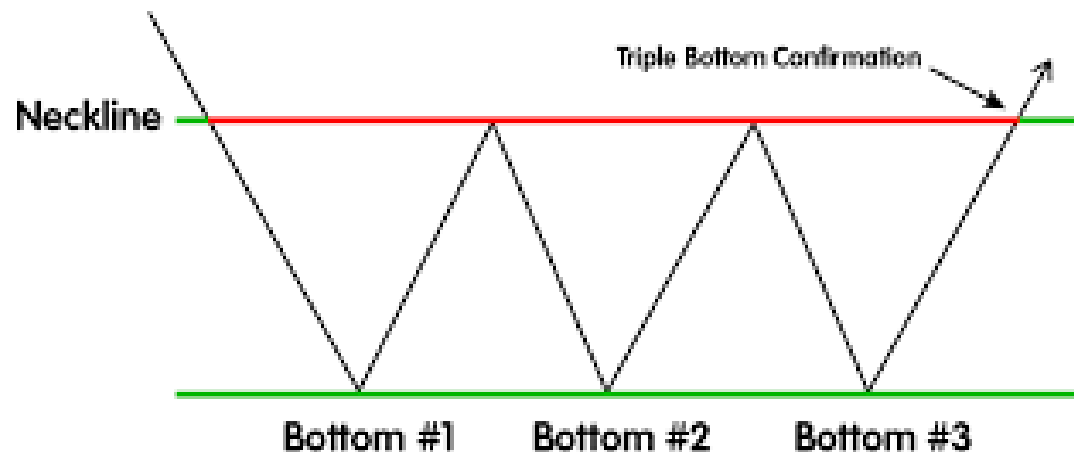


# Formation

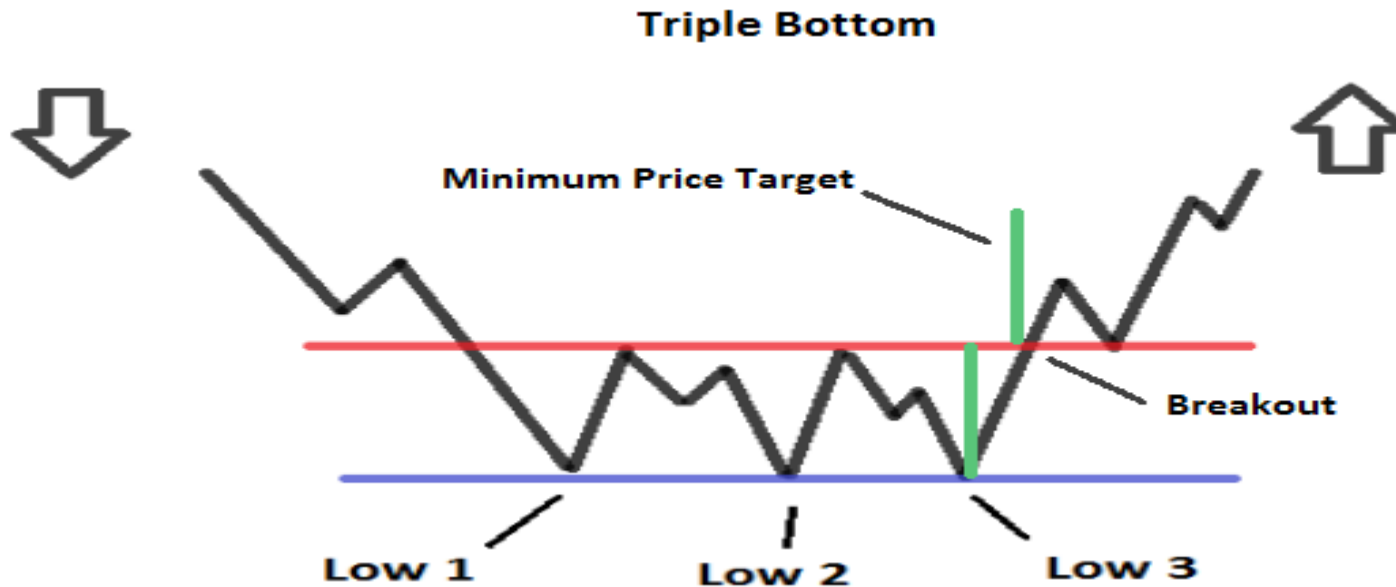
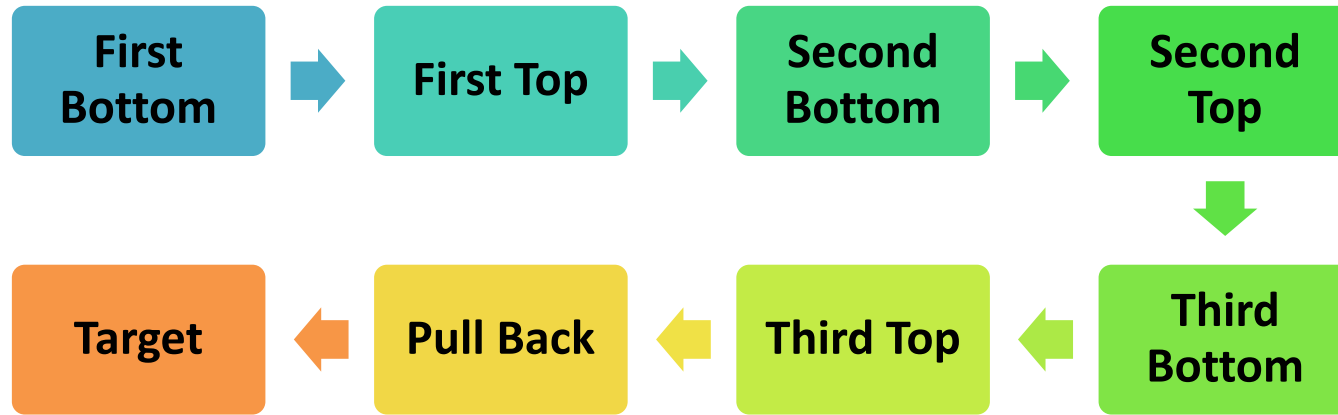


# Triple Bottom

- Pattern: Price makes 3 similar price level Bottom.
- Pattern found at the bottom of downtrend.
- Negative Rally (Southward)
- Misunderstanding among participants.
- Neckline = Resistance Line
- Trigger Buying Call.

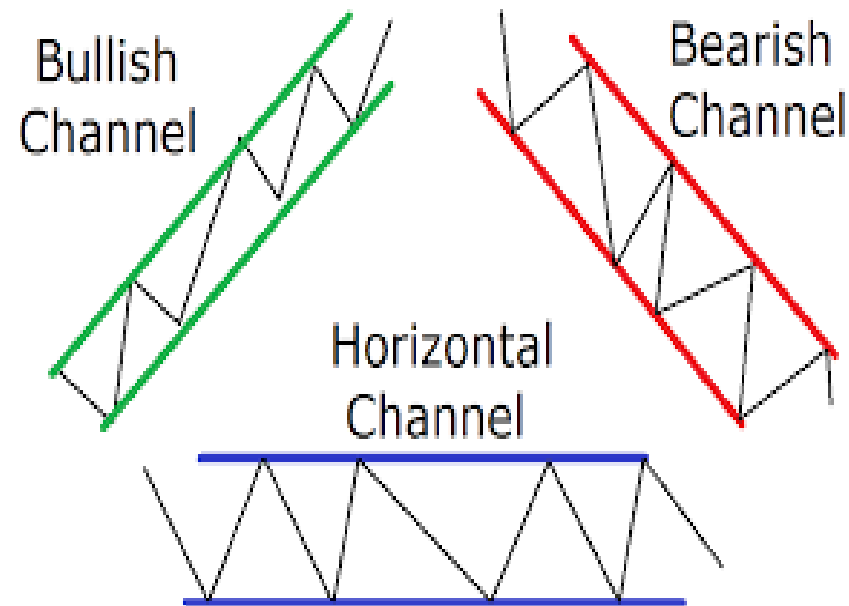


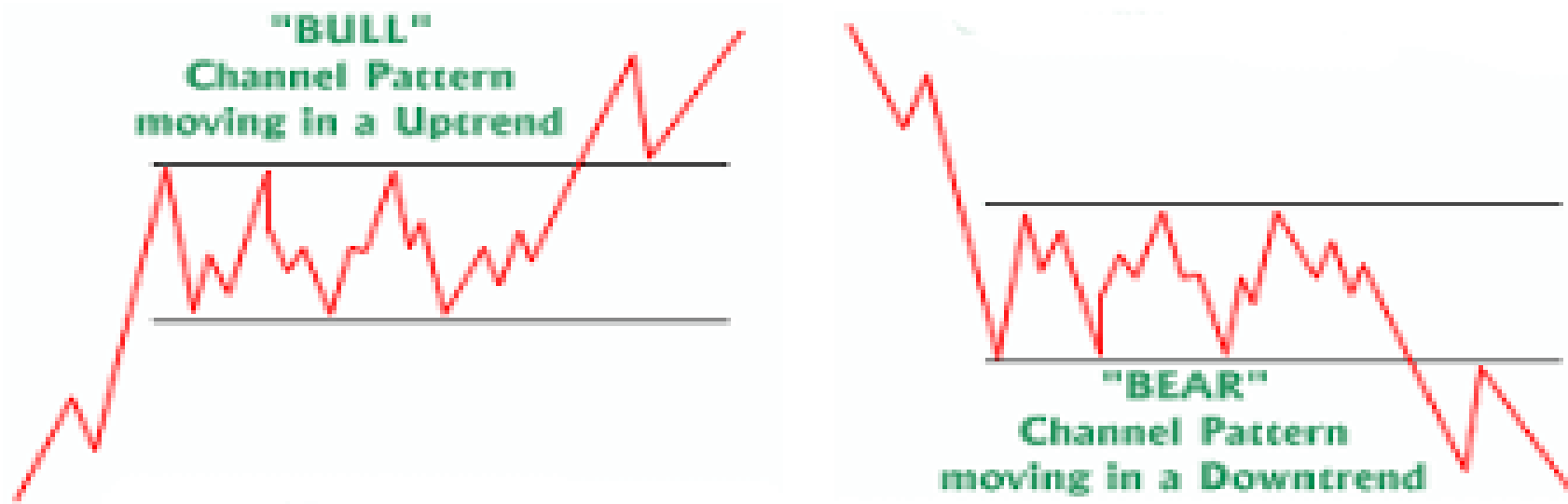
# Formation



# Channels

- It is kind of consolidation of the price in the narrow range.
- Can be seen in any phase of the market.
- Directions : Up Channel, Down Channel & Sideway Channel
- It is difficult to tag price formation.

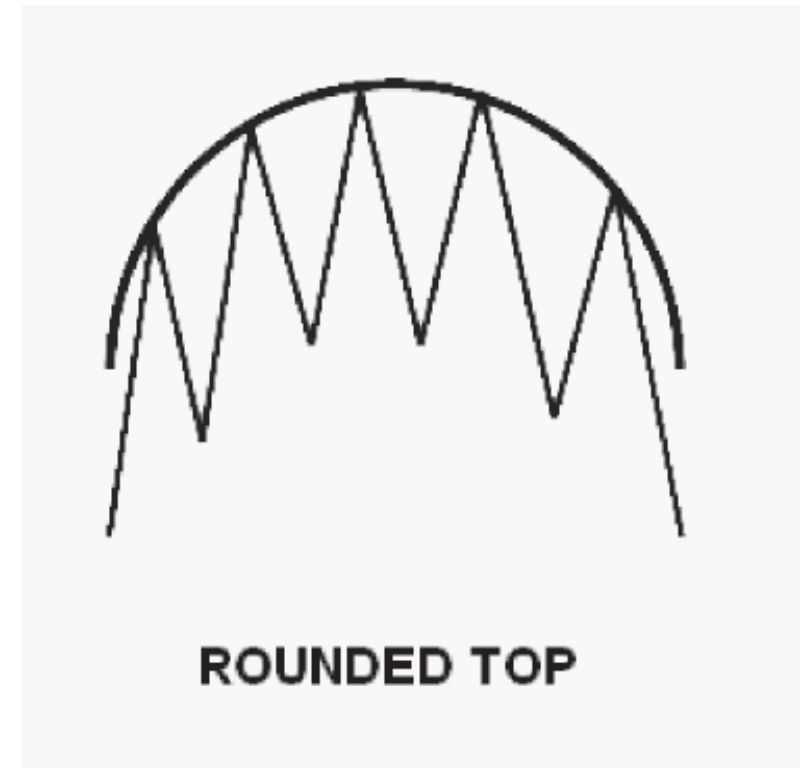




- Channel is confirmed only on failure of pattern.
- Basis of Channel : Support & Resistance zones.
- Channels are great helps traders to take active trading decisions. (Short as well as Medium term)
- It helps investors to take call on weather to accumulate immediately or later.

# Rounded Top

- Appears at the top of the up trend.
- Shows distribution & potential fall in prices going forwards.
- Price gradually shifts from Bullish to Bearish.
- Very difficult to evaluate. (Confusion)
- Volume Behaviour.



# Rounded Bottom

- Appears at the bottom of the trend.
- Price stops falling in a persistent down trend.
- Smart money silently captures stock.
- Shows distribution & potential rise in prices going forwards.
- Price shifts from Bearish to Bullish.
- Volume plays a vital role.



# Cup & Handle Formation

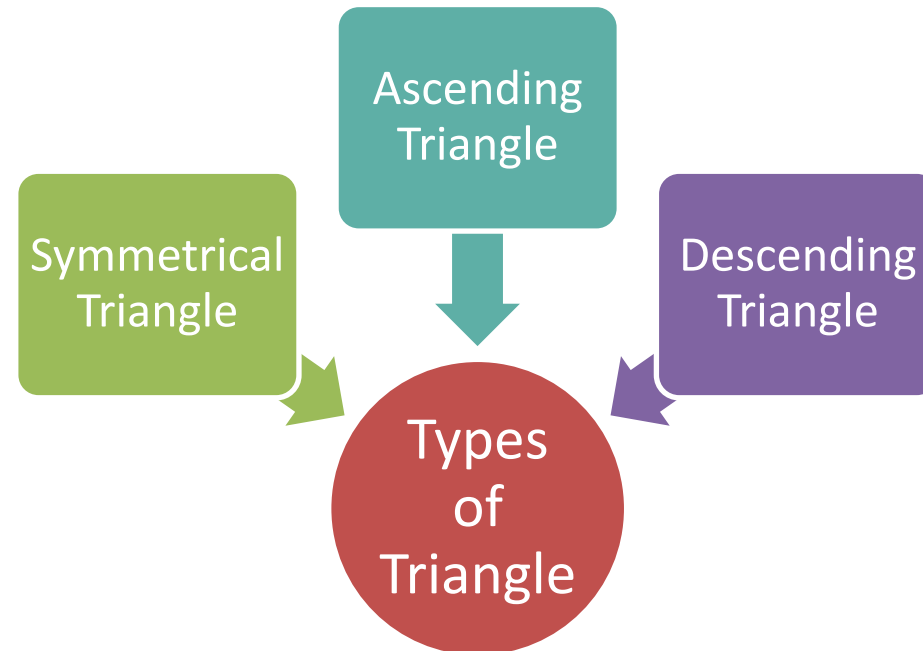
- Classic Curve Continuation Pattern.
- Price makes curve formation & halts at the earlier high of the beginning.
- Then takes a small dip & re begins the rally.
- Seen in Up as well as Down Trends.
- Gives enough time to react.





# Triangles

- Triangle is a consolidation of Price.
- The pattern can be continuation of existing trend or reversal.



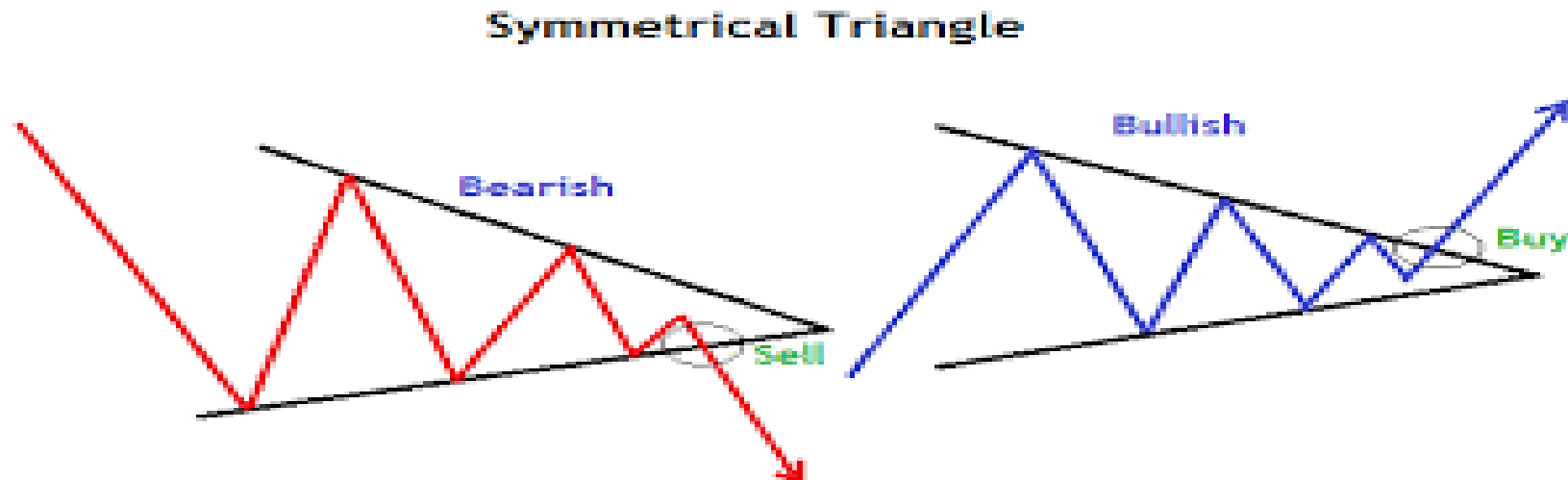
# Symmetrical Triangle

Price continue to form highest bottom & lower tops.

Both lines of the triangle coverage towards each other.

Breakout : Thrust Level.

Directional Moves.



# Ascending Triangle

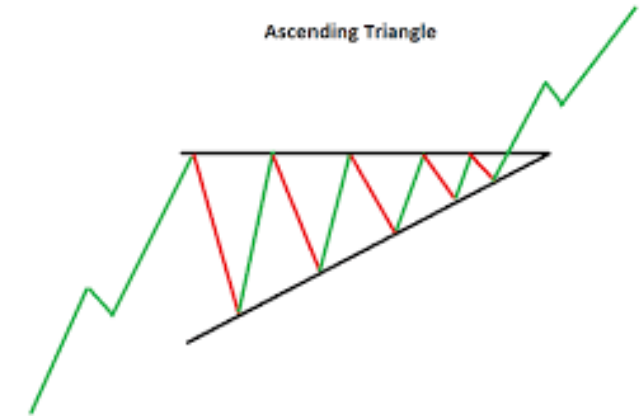
Price takes a pause in an uptrend & continue uptrend on breakout.

Price continuously make higher bottom but fails to make higher top.

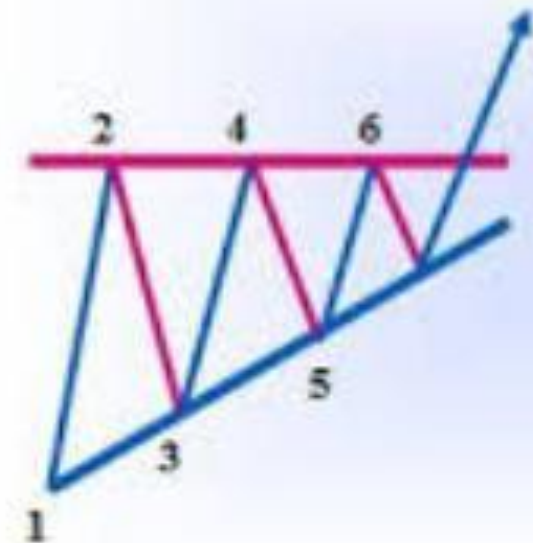
Creates RL at Top.

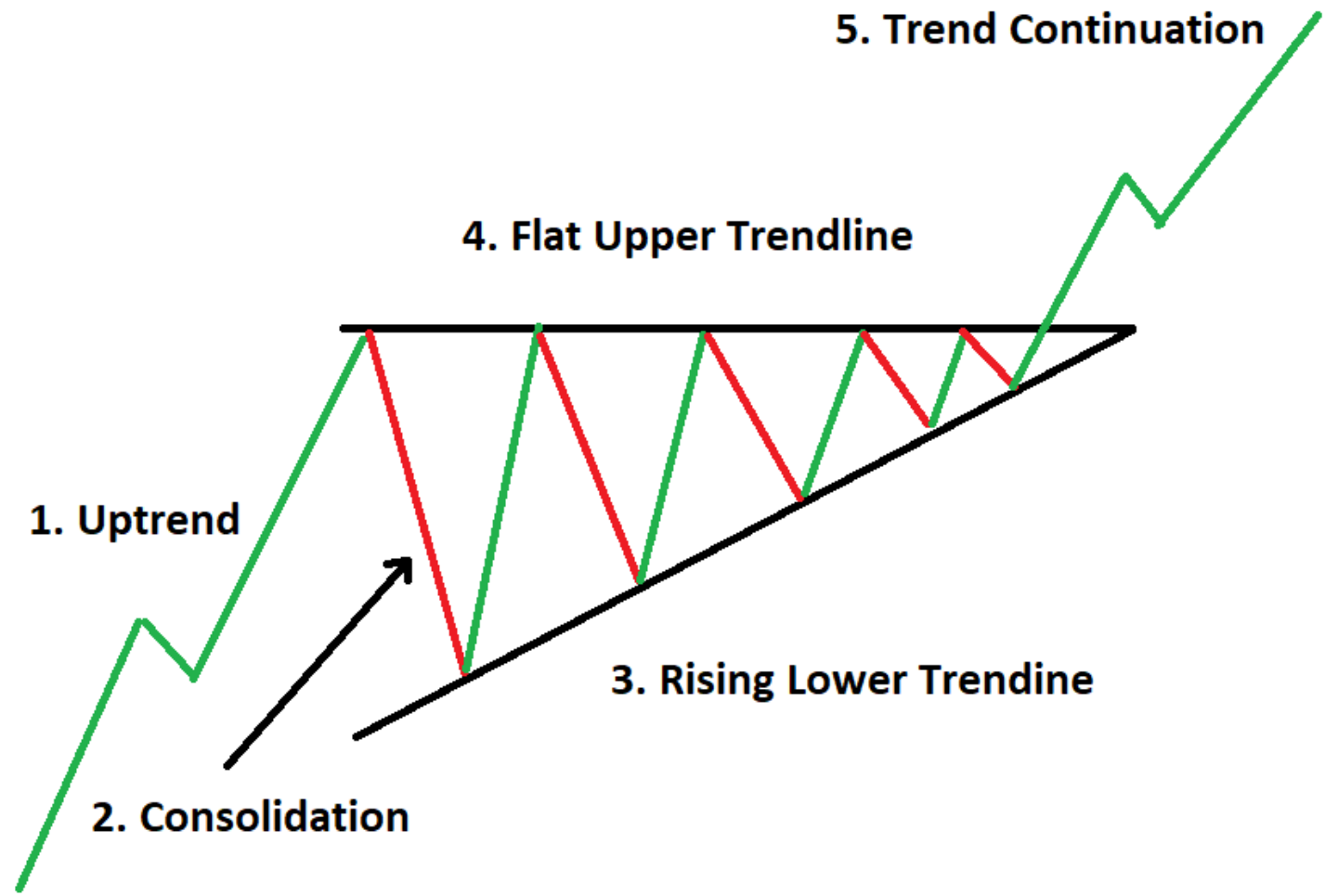
Good DD in Market.

Occurs : Fundamentals of the stock are positive on long term, Result or announcement awaited.



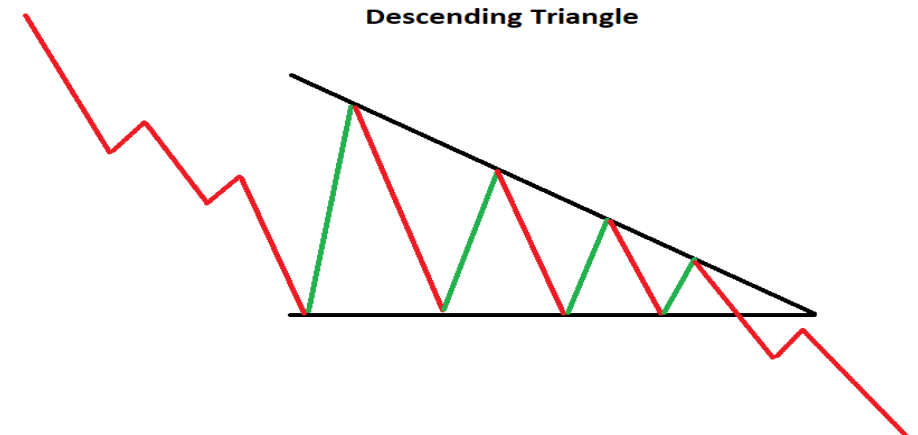
Ascending Triangle

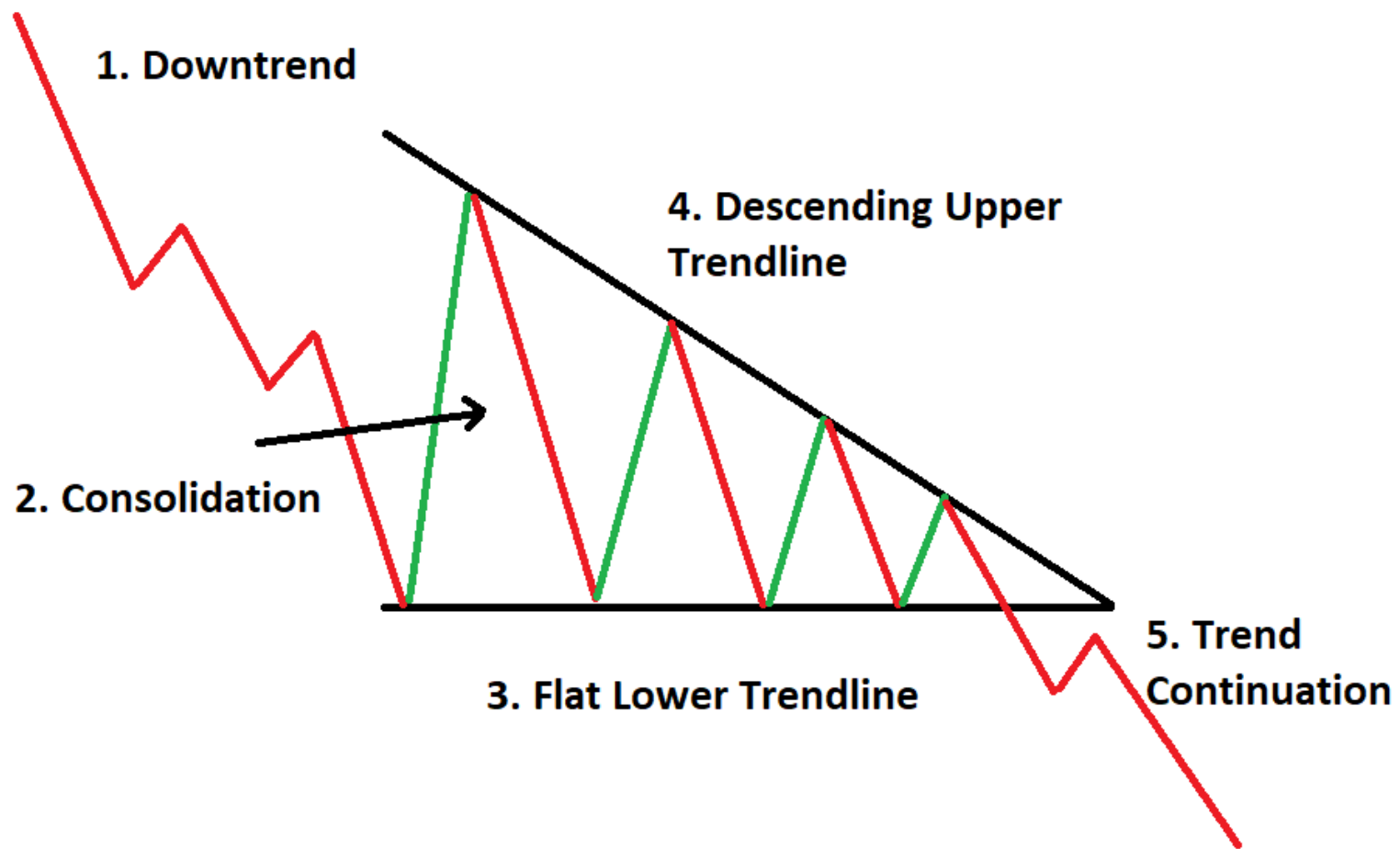




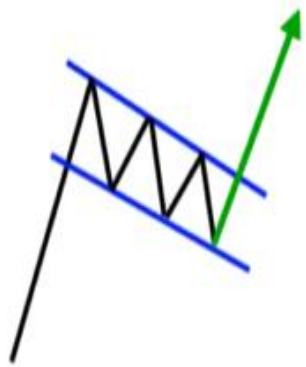
# Descending Triangle

- Price is expected to continue its downfall after a temporary pause.
- Selling pressure is clearly visible.
- Price continuously make higher top but fails to make higher bottom.

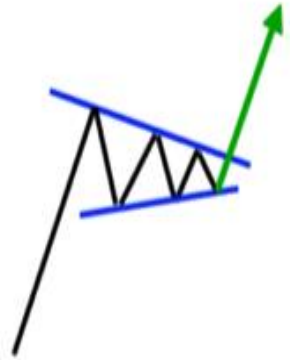




# Flag & Pennant



**Bullish Flag Pattern**



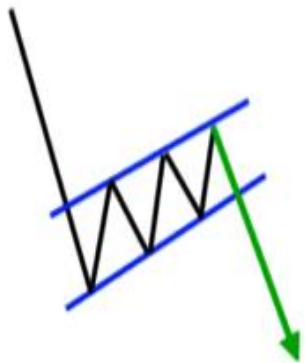
**Bullish Pennant Pattern**

Appears with pause in present rally, small consolidation & rally continuation on breakout.

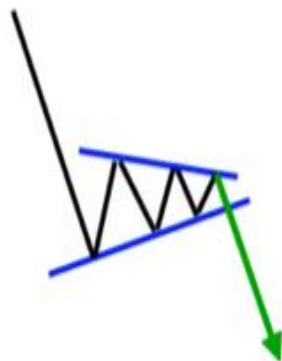
Good time to catch rally.

Flag : Rectangle Channel

Pennant : Symmetrical Channel



**Bearish Flag Pattern**



**Bearish Pennant Pattern**

# Gap Theory

- A gap is an area on a price chart in which there were no trades.
- Occurs after the close of the market & next day's open.
- Type : Gap up & Gap down.
- Reason : News (+ve / -ve )
- Represents happening of event & psychology.

## Types

Common  
Gap

Breakaway  
Gap

Runaway  
Gap

Exhaustion  
Gap

# Gaps can be classified into four groups:

**Breakaway Gap** occur at the end of a price pattern and signal the beginning of a new trend.

**Exhaustion Gap** occur near the end of a price pattern and signal a final attempt to hit new highs or lows.

**Common Gap** cannot be placed in a price pattern – they simply represent an area where the price has gapped.

**Continuation gaps**, also known as runaway gaps, occur in the middle of a price pattern and signal a rush of buyers or sellers who share a common belief in the underlying stock's future direction.

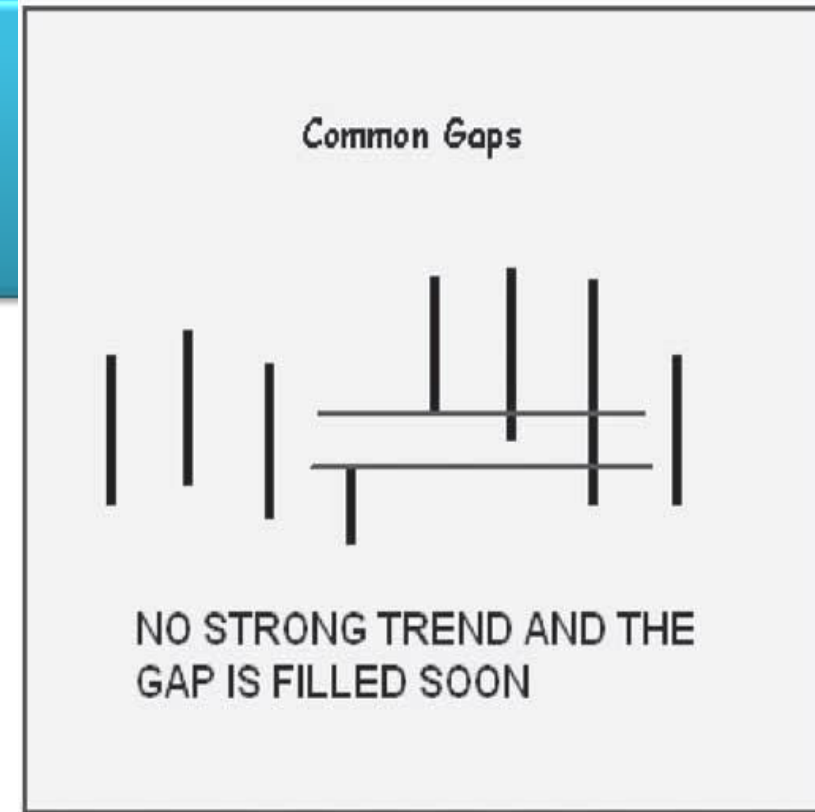
Gaps are spaces on a chart that emerge when the price of the financial instrument significantly changes with little or no trading in-between.

Gaps occur unexpectedly as the perceived value of the investment changes, due to underlying fundamental or technical factors.

Gaps are classified as breakaway, exhaustion, common, or continuation, based on when they occur in a price pattern and what they signal.

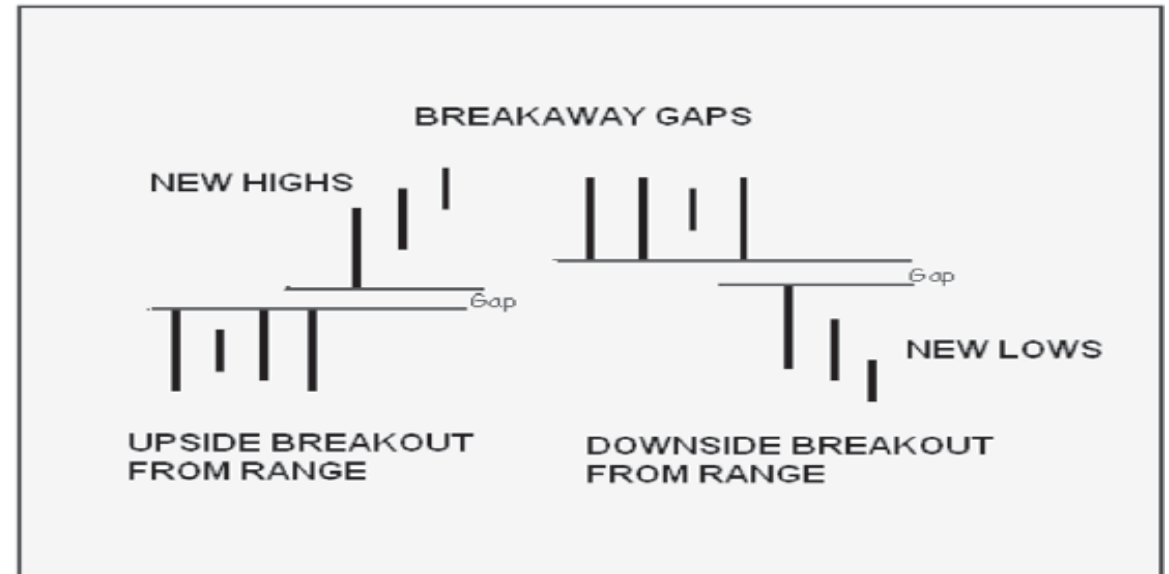
# Common Gap

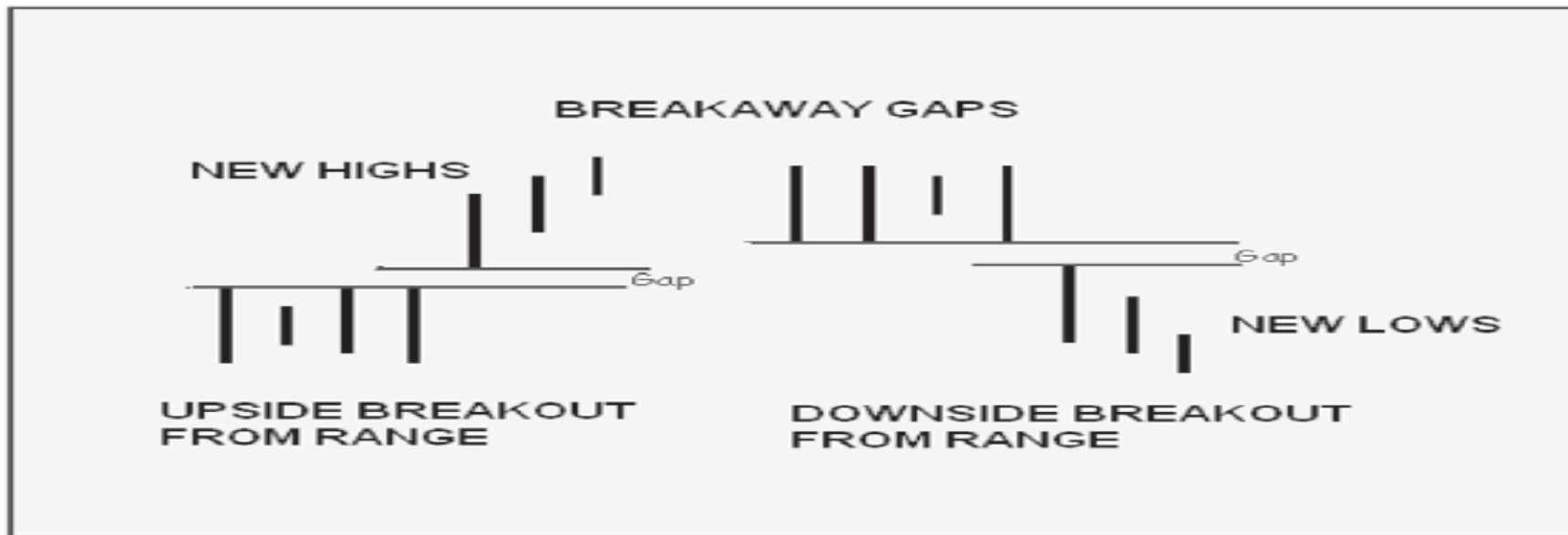
- Called as Trading Gap.
- It is uneventful.
- Occurs in inactive market.
- Closed within few days.
- Price retraces till the blank space created by gap, known as filling the gap.
- Awareness of gap is good, but it doesn't provide opportunity.



# Breakaway Gap

- Occurs when the price action is breaking out of their trading range / area.
- A congestion area is just a price range in which market traded.
- Breakout : When Market has enthusiasm , More power in Demand / Supply.
- Channel formation





- Volume should pick up significantly.
- Volume should happen after Gap & not before.
- Point of Breakout:  
 Upside : New Support Line  
 Downside : New Resistance Line
- Investor should not wait for the gap to fill in order to create position.

# Runaway Gap

- Also called as Measuring Gap.
- Gap that caused by increased interest in the stock.
- Participation who couldn't get into rally.
- Panic State among participants.
- Significant NEWS events , Change in fundamentals.





- Downtrend : Increased liquidation of stock.
- Panic will lead to sell pressure.
- Price continue to fall to find buyers.
- \* Frequently seen in Futures Market.
- \* Caution : While trading between Runaway & Common Gap.

# Exhaustion Gap

- Appears at the end of good up or down trend.
- Final stage to end rally.
- Its a first signal of the end of that move.
- High Volume & Large Price.



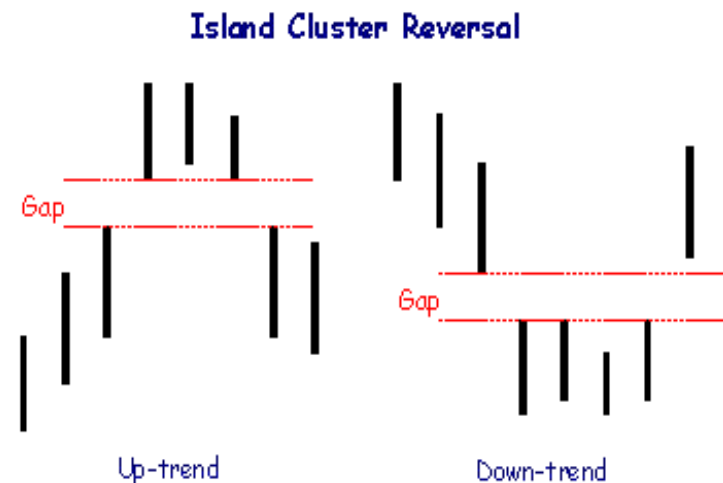
# Exhaustion Gap

- Selling Position : To liquidate holding.
- Quickly filled as price reverse their trend.
- Bull Trend : Bullish Euphoria.
- Price drop & significant change in trend occurs.



# Island Cluster

- Exhaustion gap which is followed by a breakaway gap in opposite direction.
- One of the strongest reversal pattern.
- Gap up opening in up trend form an Island.
- With rally , gaps get filled.
- Price remains in consolidation.



# Conclusion

- Gap has lot of importance in Technical Analysis.
- One of the strongest Reversal .
- Technical followers cant afford to ignore the gap theory.

# Here are the key things you will want to remember when trading gaps

Once a stock has started to fill the gap, it will rarely stop, because there is often no immediate support or resistance.

Exhaustion gaps and continuation gaps predict the price moving in two different directions – be sure you correctly classify the gap you are going to play.

Retail Investors are the ones who usually exhibit irrational exuberance; however, institutional investors may play along to help their portfolios, so be careful when using this indicator and wait for the price to start to break before taking a position.

Be sure to watch the volume. High Volume should be present in breakaway gaps, while low volume should occur in exhaustion gaps.

The trade must always be in the overall direction of the price (check hourly charts).

The price must retrace to the original resistance level. This will indicate the gap has been filled, and the price has returned to prior resistance turned support.

There must be a candle signifying a continuation of the price in the direction of the gap. This will help ensure the support will remain intact.

Gaps are risky—due to low liquidity and high volatility—but if properly traded, they offer opportunities for quick profits.