

# Technician's Mini-manual

*Tools to help take you, the small independent investor, from where you are now to where you want to be...*



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## INTRODUCTION TO TECHNICAL ANALYSIS

Technical Analysis defined	What is a trend
What is a trending market	What is a correction
The importance of trading rules	How can we use corrections to our advantage

### Technician's Tools

5 Page Mini-Manual	Latest Rational Investor Newsletter
Chart Book	Latest Technical Alerts

### Interactive Charting Workshop

Learn new terms	See the market from a technical perspective
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*Leave with a basic set of tools to help you see the market from a different perspective.*

## Technician's Terms

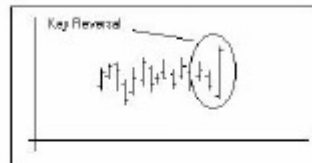
- Time-frame** Different investors look at different time frames. Long term investors concentrate on longer time frames while day-traders focus on very short time frames. Some popular time frames include: quarterly, monthly, weekly, daily, 60 minutes, 30 minutes, 15 minutes, 10 minutes, 5 minutes, 1 minute and tick-by-tick.
- Trend** A trend in simplest terms is the tendency of a given object to move in one specific direction over a given time frame. For our purposes, we primarily look at trends in price, but also look at momentum, sentiment and volume for directional tendencies too. Trends over time can be expressed as long-term, intermediate-term, and short-term trends.
- Trend-line** If a trend is the direction something is moving in, then a trend-line is a visual indication of that direction. Usually the trend-line is drawn off the two most significant recent extremes.
- Support** The point in which demand outweighs supply in the market-place and prices cannot move lower.
- Resistance** The point in which supply outweighs demand in the market-place and prices cannot move higher.
- Market Bottom** A market is said to have 'bottomed' when resistance has been broken and a new trend-line has been defined.
- Market Top** A market is said to have 'topped' when support has been broken and a new trend line has been defined.
- Trading range** A market is said to be in a trading range when neither support nor resistance can be broken. The market then drifts between these two points until some fundamental news changes the supply/demand dynamic.

**Technician's Terms con't**

<b>Breakout</b>	A market is said to have 'broken out' if price is above or below the previous trading range. Ideally this is accompanied by heavy volume. If volume is poor it may be a false breakout and prices may come back into the previous trading range.
<b>Momentum</b>	The tendency of an issue to continue its current trend. Momentum Investors believe an issue will continue to head in the same established trend because of the inertia that is behind it. The idea relies on the belief that there are a large number of investors in the market who will buy on further confirmation of the trend. Momentum investors do not necessarily believe an issue will do well in the long run, but they do think that in the short run people will continue to buy as they have in the immediate past.
<b>Contrarian</b>	An investor who does the opposite of what most investors are doing. According to contrarian opinion, if everyone is certain that something is going to happen, it won't. This is because most people who say the market will go up are fully invested so they have no more purchasing power, which means the market is at its peak. When people predict decline they have already sold out, so the market can only go up. Contrarian investing shares many qualities with value investing. The difference is, contrarian stocks aren't just cheap, they are also actively disliked by investors. That can make them risky but potentially lucrative investments.
<b>Macro &amp; Micro applicability</b>	Because charts reveal real supply and demand for any given asset, chart analysis is relevant and important in studying the largest of currencies to the smallest of companies. Should demand outweigh supply, prices will rise which will become apparent on the chart. Similarly, should supply suddenly outweigh demand, prices will fall which will also be apparent on the chart. It's the significant moves through historical resistance and support levels, which are clearly seen on price charts, that makes them so valuable.

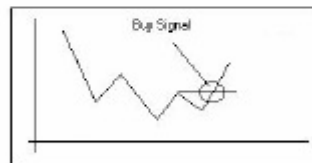
## Market Bottoms

### Bullish Key Reversal



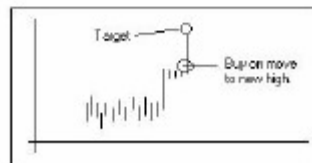
A bullish key reversal (or engulfing pattern) usually occurs at the end of a down move and is an indication demand is growing. The previous two days are completely engulfed. The open is below the two previous day's lows and the close is higher than the two previous day's highs.

### Double Bottom



The double bottom is a major reversal pattern that forms after an extended down-trend. As its name implies, the pattern is made up of two consecutive troughs that are roughly equal, with a moderate peak in between.

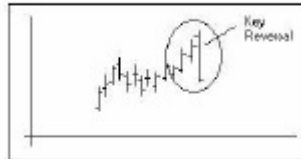
### Flag-pole



Flags and Pennants are short-term continuation patterns that mark a small consolidation before the previous move resumes. These patterns are usually preceded by a sharp advance or decline with heavy volume, and mark a mid-point of the move.

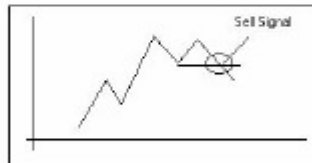
## Market Tops

### Bearish Key Reversal



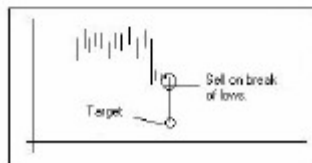
A bearish key reversal (or engulfing pattern) usually occurs at the end of an up move and is an indication demand is waning. The previous two days are completely engulfed. The open is above the two previous day's highs and the close is lower than the two previous day's lows.

### Double Top



The double top is a major reversal pattern that forms after an extended up-trend. As its name implies, the pattern is made up of two consecutive peaks that are roughly equal, with a moderate trough in between.

### Inverted Flag-pole



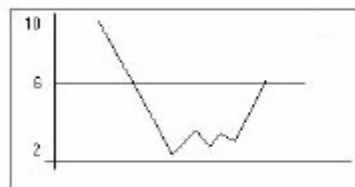
Flags and Pennants are short-term continuation patterns that mark a small consolidation before the previous move resumes. These patterns are usually preceded by a sharp advance or decline with heavy volume, and mark a mid-point of the move.

## Retracements

### *The 50% Rule*

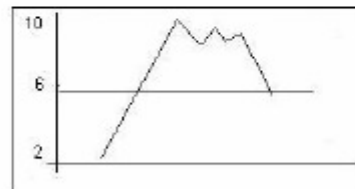
Based loosely on Fibonacci retracements, the 50% rule is a simple guide to determining where a market may move should the current trend reverse. Take the most recent high and add it to the most recent low, then divide the result by two. The rule is valid for both up and down markets.

Bullish 50% level



50% Retracement  
 $10 + 2 = 12 / 2 = 6$

Bearish 50% level



50% Retracement  
 $10 + 2 = 12 / 2 = 6$

#### > 50% retracement

The next key support level is 66% of the previous move. Should a market find support below the 50% level it is an indication the current trend is in doubt.

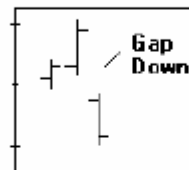
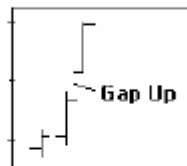
#### < 50% retracement

The first key support level is 33% of the previous move. Should a market find support above the 50% level, it is an indication the current trend is strong.

## Retracements II

### Gaps

Gaps happen during periods of market indecision. When a market gaps higher it means short term demand is far greater than supply. This often occurs when bullish news is revealed. When a market gaps lower it means supply far exceeds demand and usually occurs when bearish news is revealed.



Because gaps can represent extreme bullishness or bearishness the market will often come back to that point at some point in the future. This leads to the time tested rule *gaps like to be filled in*. It may take weeks, months or even years for a trend to reverse but once they do, a point where the market has gapped is a good target to use when estimating where a market may retrace to.

**Bullish Gap filled**



**Bearish Gap filled**





## Fundamental Stock Screens

(Companies with earnings)

### C.A.N.S.L.I.M.

Developed by William J. O'Neil, founder of Investor's Business Daily, this model looks for high growth stocks that display strong leadership while still relatively unknown.

- C** Current Quarterly Earnings up (> 20% y-o-y)
- A** Annual Earnings up (> 25% y-o-y)
- N** New Products/Management (catalyst)
- S** Supply of Stock (5 to 25 million shares outstanding)
- L** Leader (outperform at least 80% of rest of market)
- I** Institutional Ownership (5 to 20% maximum)
- M** Market Direction (don't fight the broader market)

### G.A.R.P.

*"if I am going to buy a growth stock and I know I am going to have to pay a premium, how much is too much?"* One approach that can help with growth stock valuations is known by its acronym, GARP (growth at a reasonable price). The criteria are as follow:

1. Stocks with sustainable growth rates
2. Limited variability in 5 year earnings stream
3. P/E multiple less than growth rate of earnings where PEG ratio is less than 1.00

One should be willing to accept a high P/E if the company's earnings are growing at a high annual rate, but also to have to conviction not to buy if the P/E is more. GARP investors may spend many months waiting for a market correction so that valuations come down to an acceptable range.



## Fundamental Stock Screens

(Companies with NO earnings)

### CDNX Venture Capital Model

Value is very hard to find the venture capital market. How can one judge a stock to have intrinsic value if the *venture* is in its infancy with no earnings? The most basic rule for success (as in almost any speculative endeavor) is to *follow the smart money*. This model looks for situations where the 'smart money' is buying venture capital ideas when no-one else is interested. The criteria are as follows:

1. Look for a consolidation of company stock (sometimes called a rollback)
2. Shares for debt. announcements by the company
3. Options to directors of the company
4. New product or service

Start by looking for consolidations. Unfortunately (for current shareholders) this is often the final swan song of a failed venture. Fortunately (for prospective investors) it is often the beginning of a new venture. Next, look for 'Shares-for-debt' announcement from these consolidated companies. If an individual who is a debtor of the company converts their debt into shares it is sign there is perceived value. Next, look for 'Options-to-Directors' announcements. Stock is often granted to senior staff through options. The exercise price of these options is often another sign of potential intrinsic value. Finally, go and kick the tires. What is it they are up to? Is it an area of the market that interests you? If so, you may be getting in at or near the 'ground floor'.

## Trading Rules

1. Use a system. Some sort of analytical approach that gives you a reason to buy, a specific risk threshold and a realistic target before you enter the trade.
2. Never risk more than 5% of your 'stake' (the total amount of money you have to work with) on any one single investment.

*Establishing both a routine and a strict adherence to money management ensures one can always stay in the game.*







**Brian D. Beamish FMA, FCSI**

<http://www.the-rational-investor.com>

[the\\_rational\\_investor@yahoo.com](mailto:the_rational_investor@yahoo.com)

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