CJ Investment Mini-Lessons

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Mini-Lesson: Technical Analysis

Technical analysis attempts to provide *investible* insight into market movements through the study of market statistics. The underlying principle is that investing behavior tends to fall into predictable patterns and that the study and analysis of market statistics can provide clues as to what can happen in three investible time frames:

- Short term – minutes to days
- Intermediate term – days to weeks
- Long term – months to years

The primary tool of the technical analyst is called a *chart*. Charts almost always graphically display price and volume data and their movements. Price and volume data is considered raw data for the technical analyst.

Often, charts also contain mathematical derivations of the raw data called *indicators*. Indicators attempt to detect movements, trends, and turning points hard to detect from observation of the raw data. Indicators can be applied to both individual stocks and to market indices. One example of an indicator is a moving average. Comparisons of price movements to moving averages of different lengths of those same prices can be revealing. Common moving average lengths are 50 and 200 day simple moving averages.

Other indicators include various oscillators, trend following indicators, and market indicators. With the advent of PC's, the universe of technical indicators has dramatically expanded. Psychological indicators of market sentiment would also be considered indicators, although they are not necessarily derived from price and volume data.

Finally, there are some investors/brokers who contend that human behavior, even in large groups, is too unpredictable for technical analysis to work. These are generally the same folks who say, "You can't time the Market." While not a stand-alone tool, I believe technical analysis to be important to disciplined investing. Technical analysis requires a large investment of time and effort to learn. Still, I think the effort and time are worthwhile, as do most good investors. As Robert Rhea put it, "The investor who studies values may be well informed as to the worth and earning power of certain corporations, but if he does not understand market trends he will be an unsuccessful speculator." Robert Rhea, The Dow Theory, 1993, Fraser Publishing Co.

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