

Kase Standard Mini-Trading Lessons Series – Lesson 1.5 – Defining Technical Analysis (Conclusion)

Technical analysis requires some use of mathematics, graphs, and statistics. Many people interested in studying technical analysis are subsequently dismayed when they encounter numbers and charts.

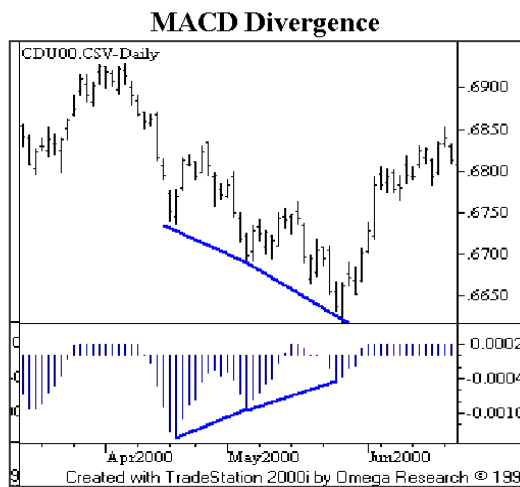
A math, engineering, science or accounting degree is not required to make use of technical analysis, but an mathematically orientated view of reality is helpful.

Technical analysis is often considered an easy way to make a lot of money and become a hotshot trader. Although it is certainly a means to success, there is no fast track. Success in technical analysis, like any endeavor, will take basic talent, hard work, confidence and commitment.

The Three Aspects Of Technical Analysis

Technical analysis has three basic applications: instrument selection, technical trading, and forecasting

When selecting an instrument, a technical trader could use divergences, which are indications of market turns. If a divergence setup occurs, it is likely that the market is getting ready to turn. If a trader wanted to look at the 1,000 most active stocks and pick the stock most likely to take a sharp turn, they could use the MACD or RSI to look for divergence setups.



Picking instruments only applies to those who have a choice of what to trade. Some traders, such as institutional or corporate traders have to trade certain instruments given the type of business they are in. For example, a natural gas producer trades natural gas, not IBM.

Technical trading is often called market economy. “Trading” is the actual execution of trades using

technical indicators and the strategy derived from using technical analysis.

In analysis or forecasting, Kase looks at what the market direction will be, the extent of how far the market will travel, the risk in the market, and how volatile the market will be.

The analogy that Kase likes to use in technical analysis relates it to cartography or map drawing: the analyst is drawing a map of how to get from point A to point B. Analysis is the planning, that is, the strategizing phase that is done when the market is closed.

Conclusion

Technical analysis only studies charts. All factors influencing the market are reflected price change.

Technical analysis can help someone become a better trader, but the benefits of technical analysis do not stop there. Technical analysis also improves risk management and projects important levels of support and resistance.

The next section examines the differences between forecasting methods and trading strategies, specifically focusing on charts and indicators used for trading.