

TECHNICAL ANALYSIS FOR EVERYONE

A course designed just for you who want to become a trader!

"Imagine that the financial markets are like a river: instead of water,
you see money, which is transferred from those who understand
things first to those who discover them late.
The flood only overwhelms the inattentive."



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TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 1

**Basic and foundations of
technical analysis**





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PROGRAM

10 LESSONS

1. **Basics and Origins of Technical Analysis: The DOW Theory**
2. Charts and prices: the main ways to visualize price developments
3. Defining a trend and trending: how to spot and follow them profitably
4. The main chart configurations: supports, resistances and pullbacks
5. Figures of reversal or continuation of a trend: we learn to recognize and exploit them
6. Volumes and moving averages: strengths and weaknesses
7. The main indicators and oscillators: how to choose the most useful and suitable for each market condition
8. Charts and time: the right time frame for our operational analysis
9. Intermarket analysis: we learn to define the dominant drivers and trends in the market
10. Leverage, money and risk management: how to control and monitor the sustainability of your investments



Lesson

1

Basics and Fundamentals of Technical Analysis



The origins of Technical Analysis date back to the early 1900s and can be traced back to the famous "Dow Theory".

Charles Dow

he was one of the founders of Dow Jones and Company, the Wall Street Journal, and inventor of the Dow Jones Industrial Average index.



Market Cycles: Dow Theory

- ✦ Charles Dow (1851-1902) founded Dow Jones & *The Wall Street Journal*
- ✦ Dow noticed that prices on markets follow both long-term and short-term trends
- ✦ Short-term trends are reactionary and won't necessarily derail long-term trend



Source: Library of Congress



Basics and Fundamentals of Technical Analysis

From the very beginning, Dow's studies led to the first graphical representations of financial market trends.



Basics and Fundamentals of Technical Analysis

From a series of acute observations,
Dow's theory
a set of observations from which the fundamental
concepts of what would become

Technical analysis.



Basics and Fundamentals of Technical Analysis

The purpose of technical analysis is to "predict" the performance of the financial markets and to allow those who follow it to buy and sell stocks, bonds and other financial instruments at what should be statistically the most propitious time.



Basics and Fundamentals of Technical Analysis

Technical analysis is based on three fundamental principles:

1. Prices "discount" everything
2. The market moves in a "trend"
3. History repeats itself.



Basics and Fundamentals of Technical Analysis

1. Prices "discount" everything

The underlying assumption is that prices reflect/contain all the information available on the market, even that which is only available to a small group of people.



Basics and Fundamentals of Technical Analysis

1. Prices "discount" everything

This is the reason why the technical analyst does not bother to delve into the fundamental data, and not only because he considers them manipulable or not current, but simply because he believes they are already reflected/contained in prices.



Basics and Fundamentals of Technical Analysis

2. *The market moves in a "trend»*

The market does not move in a completely random or erratic way but follows trends, "trends".

A trend will be valid until there are clear signs of exhaustion or reversal.



Basics and Fundamentals of Technical Analysis

2. *The market moves in a "trend»*

The objective of the technical analyst is therefore to identify the trend currently in place in order to take positions consistent with the direction of the trend itself.



Basics and Fundamentals of Technical Analysis

2. *The market moves in a "trend»*

The technical analyst does not pretend to buy on the lows or sell on the highs, preferring to "settle" for "being able to work/ride" a good part of the current trend.



Basics and Fundamentals of Technical Analysis

2. *The market moves in a "trend»*

The primary objective is always the
"Maximising profits and optimising losses"



Basics and Fundamentals of Technical Analysis

3. History "repeats itself»

History tends to repeat itself because the "actors/operators" are always the same, i.e. human beings who want to gain, are afraid of losing, and who consequently act/operate sometimes even frantically caught up in alternating phases of enthusiasm and fear...



Basics and Fundamentals of Technical Analysis

3. *History repeats itself*

In this sense, the past can also provide us with useful indications for future market developments.



Basics and Fundamentals of Technical Analysis

3. *History repeats itself*

Thanks to the analysis of time series graphs, it is possible to identify "patterns", i.e.

Configurations/chart patterns that tend to repeat themselves more likely in a specific direction, and which will therefore help the technical analyst in formulating statistically well-founded forecasts.



Basics and Fundamentals of Technical Analysis

CONCLUSIONS

The goal of technical analysis is not to reach a level of absolute predictive infallibility, always "guessing" what will happen on the markets, but to formulate forecasts that 7 times out of 10 turn out to be correct, or at least to provide operational indications to move with rationality and discipline even in the presence of particularly difficult and dangerous markets.



Basics and Fundamentals of Technical Analysis

CONCLUSIONS

...make predictions that turn out to be correct 7 times out of 10...

Infallibility does not belong to the earthly world, much less to trading... ;-)



Basics and Fundamentals of Technical Analysis

CONCLUSIONS

...The technical analyst bases his studies on the conviction that stock market prices already incorporate all those fundamental, political, and above all psychological factors that have determined and will determine their performance...



Basics and Fundamentals of Technical Analysis

CONCLUSIONS

The precise objective of Technical Analysis is therefore to try to be on the right side at the right time, in order to minimize losses and maximize profits as much as possible.



Basics and Fundamentals of Technical Analysis

CONCLUSIONS

In fact, Technical Analysis makes it possible to identify entry (BUY) and exit (SELL) levels from the market that are often surprisingly precise and/or ideal/attractive in terms of "risk/return", all thanks to increasingly precise and sophisticated techniques that allow you to identify with extreme precision the right and precise "moment" to intervene in the market

«TIMING IS ALL»



Basics and Fundamentals of Technical Analysis

«TIMING IS ALL»



The biggest competitor in Technical Analysis?

Surely the fundamental analysis... Talk...



Basics and Fundamentals of Technical Analysis

TECHNICAL ANALYSIS vs FUNDAMENTAL ANALYSIS

Fundamental analysis has nothing to do with charts and prices!

This type of approach starts from the observation of complex macro-economic data that are not always easy to find.



Fundamental analysis

Fundamental analysts study the causes of market movements, while technical analysts study their effects.

Through fundamental analysis you can get the same results as technical analysis, but in a way that is much more complicated and less flexible to apply and, above all, less timely!

It only takes a few minutes to analyse a stock on a chart: evaluating a company's balance sheet is much more complicated, especially when the data is unclear, assuming you have access to this data...



TECHNICAL ANALYSIS vs FUNDAMENTAL ANALYSIS

To be able to apply fundamental analysis, it is not enough to have simple charts available, but it is necessary to build substantial data streams based on news, rumors related to the markets such as potential acquisitions and mergers of companies, information, studies and/or rumors on potential economic crises, political events, conflicts and factors that can influence the performance of any investment



Basics and Fundamentals of Technical Analysis

TECHNICAL ANALYSIS vs FUNDAMENTAL ANALYSIS

In this case, it is not science and mathematics that come into play, but the ability to read events that can influence market trends. Clearly, you have to follow every piece of news consistently.



Basics and Fundamentals of Technical Analysis

TECHNICAL ANALYSIS vs FUNDAMENTAL ANALYSIS

THEORETICALLY, EVERYTHING IS FEASIBLE!!
BUT ONLY THEORETICALLY....



Basics and Fundamentals of Technical Analysis

TECHNICAL ANALYSIS vs FUNDAMENTAL ANALYSIS

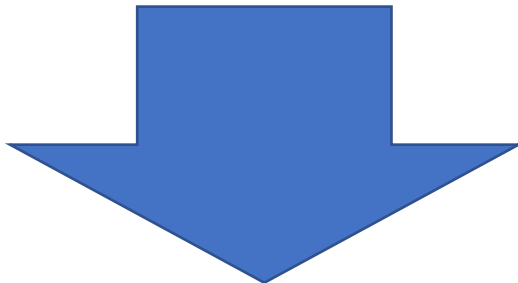
The truth is that "TIMING" is only a mere hope in fundamental analysis, which "always" suffers from an impressive delay in deciphering what is "already happening"...



Basics and Fundamentals of Technical Analysis

TECHNICAL ANALYSIS vs FUNDAMENTAL ANALYSIS

The “lag” of fundamental analysis:
A sensational and recent case as a concrete and easily
verifiable example...





Analisi | BORSA



Aeffe in rally dopo l'accordo di licenza con Chiara Ferragni

di Flavia Carletti



Intesa con Velmar, società del gruppo specializzata nella produzione e distribuzione globale delle collezioni intimo e beachwear

25 novembre 2020



The day after the news, AEFEE scored a +20%!!
Would you have bought after the mega rise with news now "taken for granted"?

Or would you rather have done it before the hike?
And it would have been possible to do it thanks to fundamental analysis?

NO

What if I chose to use Technical analysis?

YES



The graph of AEFFE few days before the news...

An interesting "DOUBLE TOP" scored before the news...





As technical analysis teaches, a double top follows a decisive "textbook" descent...





Which, as it happens, stops by creating a textbook "double minimum"...





At this point you could have consulted two people:

1. The Fundamental Analyst
2. The Technical Analyst...



The first (fundamental analyst) will justify what happened
"after" studying the macro data, the news and the
supporting motivations...

In practice, "he stayed at the window"!!



The second (technical analyst) had already 'tried to predict' price developments and saw in the double top an 'IMMEDIATE' possibility of intervening downwards and, likewise, in the 'double bottom' an 'IMMEDIATE' possibility of intervening on the upside!!
The first observes, evaluates and "then decides"...

Meanwhile, the second one earns!! ;-)



And in fact, the stock is starting to rise again...
By violating an obvious "dynamic resistance" to the upside...





But that's not all...

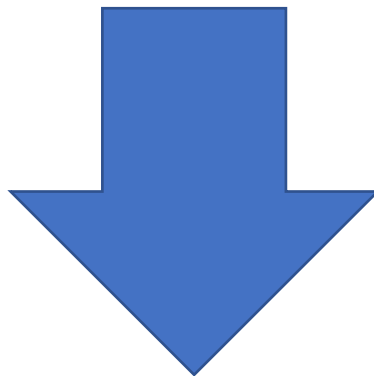
At this point, albeit with different timelines, both the technical analyst and the fundamental analyst should have positioned themselves to the upside...

But which of the two can already outline where the quotations could go?



The fundamental analyst needs data, balance sheets, to listen to Ferragni, Fedez...

The technical analyst... It already has it all!!





And in fact, the stock "magically" and despite a day of high volatility (+20%!!) stops where?

On the projection of the two highs from which the decline started, i.e. on a new "extraordinary"

TRIPLE MAXIMUM!!





The AEFFE chart "today"!!





TECHNICAL ANALYSIS Vs FUNDAMENTAL ANALYSIS

THE WINNER IS...



CONCLUSIONS

There is one aspect that perhaps more than others strongly differentiates Technical Analysis from Fundamental Analysis:

Technical Analysis considers the market as a mechanism that is anything but rational and efficient, believing that emotional and irrational factors such as greed, hope, fear, are always present in both supply and demand (on the other hand, those who determine supply and demand are human beings who, as such, tend to repeat similar behaviours over time)....



CONCLUSIONS...

Fundamental analysis is definitely lagging behind!!
It's an approach that's clearly unrelated to price charts.

The analyst comes to determine his pre-operative conclusions only when he has all the elements to say whether the price, he sees through his trading platform is, according to his analysis, a price that underestimates or overestimates the real value of the stock.



CONCLUSIONS...

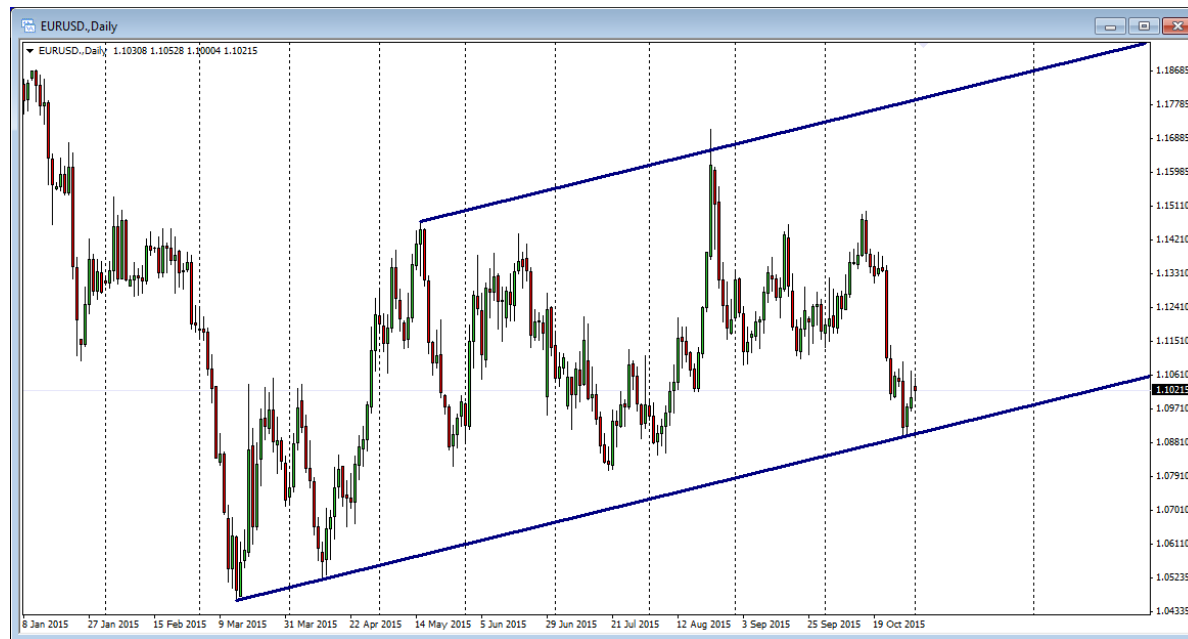
Ultimately, the fundamental analyst risks always lagging behind historical price trends and will lose most of the chances of realizing gains and performance that go hand in hand with a correct timing of intervention



TIMING IS ALL!!!



Chart analysis is an area of technical analysis that aims to make price predictions by means of the study of charts, without having to resort to the analysis of motivations external to the price itself





By studying the charts, technical analysts are able to understand which direction the market intends to take

Prices move within the trend: a trend is more likely to have a continuous trend, rather than a sharp reversal

The knowledge of the main indicators and oscillators, their use, their peculiarities and their limits, together with trendlines, supports and resistances, is essential for any trader



Ultimately, technical analysis can never give the certainty of a rise or fall in prices; However, it will be able to provide a fairly accurate picture of the likely scenarios within which a financial instrument will move

On many occasions it is what makes the difference between a trade closed at a loss and one closed at a profit



AND IF I STILL HAVEN'T BEEN ABLE TO CONVINCE YOU OF THE
GOODNESS OF THIS APPROACH...

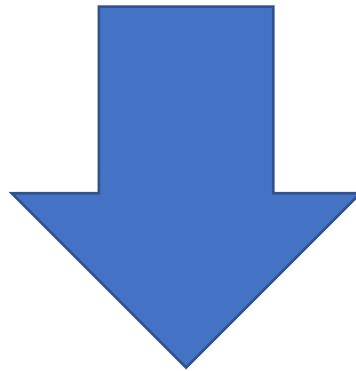
LET'S TAKE A LOOK AT SOME RECENT AND THEORETICALLY
COMPLICATED CASES...

A WORD FROM THE GRAPHIC DESIGNERS!



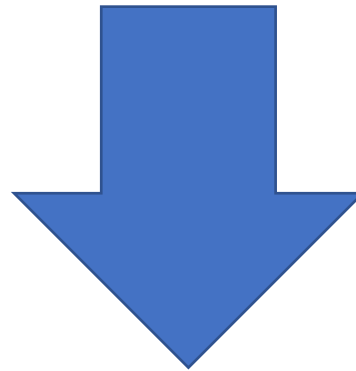
GENERALI
BITCOIN
TESLA

...





GENERALI





GENERALI: Can anyone tell me why it stopped at 21.55?

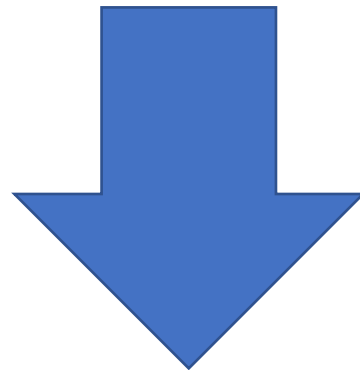




GENERALI: Can anyone tell me why it stopped at 21.55?

The answer: because at that level it touched "millimeter" a trendline of resistance that formed from two decreasing highs dating back to 2020 and 2007!!

For those who "don't know" technical analysis, we will talk about "randomness", for us it is the famous "third point of contact"!!



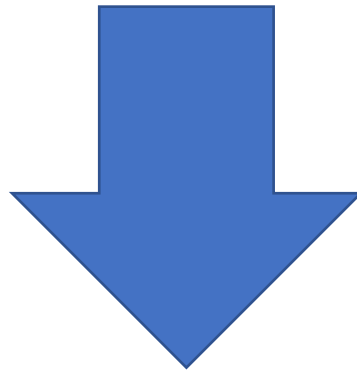


GENERALI: Third point of contact of the resistance trendline at 21.55!!





BITCOIN





BITCOIN: Can anyone tell me why it started up again at 33,000?

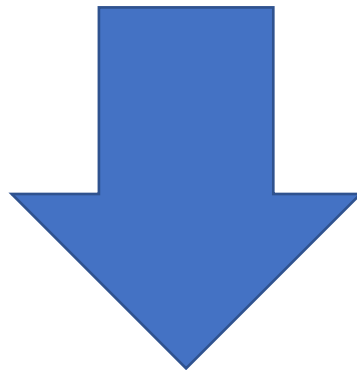




BITCOIN: Can anyone tell me why it started up again at 33,000?

The answer: because after the formation of the two all-time highs in the 65,000 and 69,000 area, a "perfect parallel channel" was then formed with the lows at 28,500 and 33,000 then!!

For those who do not "know" technical analysis, we will speak of "randomness", for us it is the famous "parallel channel of the trend" in progress!!



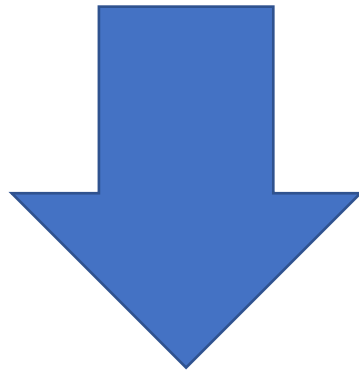


BITCOIN: Perfect parallel channel with lower base support at 33,000!!





TESLA





TESLA: Can anyone tell me why it fell violently after the highs at 1150?

pietropaciello ha pubblicato su TradingView.com il Apr 09, 2022 17:50 UTC+2

Tesla, Inc., 1D, NASDAQ O - Aper:1043.21 H - Max:1048.44 L - Min:1022.44 C - Chius:1025.49 -31.77 (-3.00%)



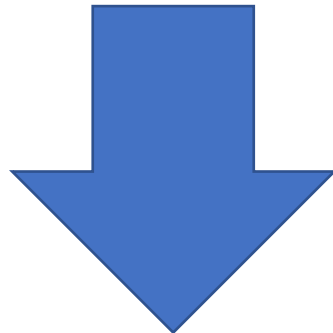


TESLA: Can anyone tell me why it fell violently after the highs at 1150?

The answer: because after the formation of two lower highs, a good technical analyst derives a potential trendline of resistance and expects "action and reactivity" at the hypothetical third point of contact.

Do you prepare "before" for the potential event!!

For those who "don't know" technical analysis, we will talk about "randomness", for us it is the famous third point of contact of a trendline!!





TESLA: Third point of contact of the resistance trendline at 1150!!



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LESSON 2

Charts and Prices: The Main Forms of Price Evolution Visualization





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Lesson 2

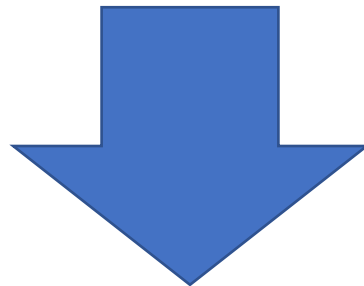
**Charts and prices: the main forms of visualizing
price evolution**



Charts & Pricing

How to Create a Chart...

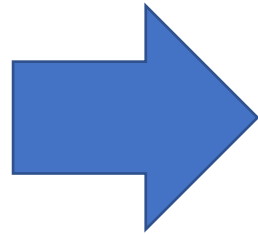
A simple exercise that will take you back in time...





Charts & Pricing

Write the price
of each day on
the vertical
axis...
Combine the
detected prices
and you should
get...



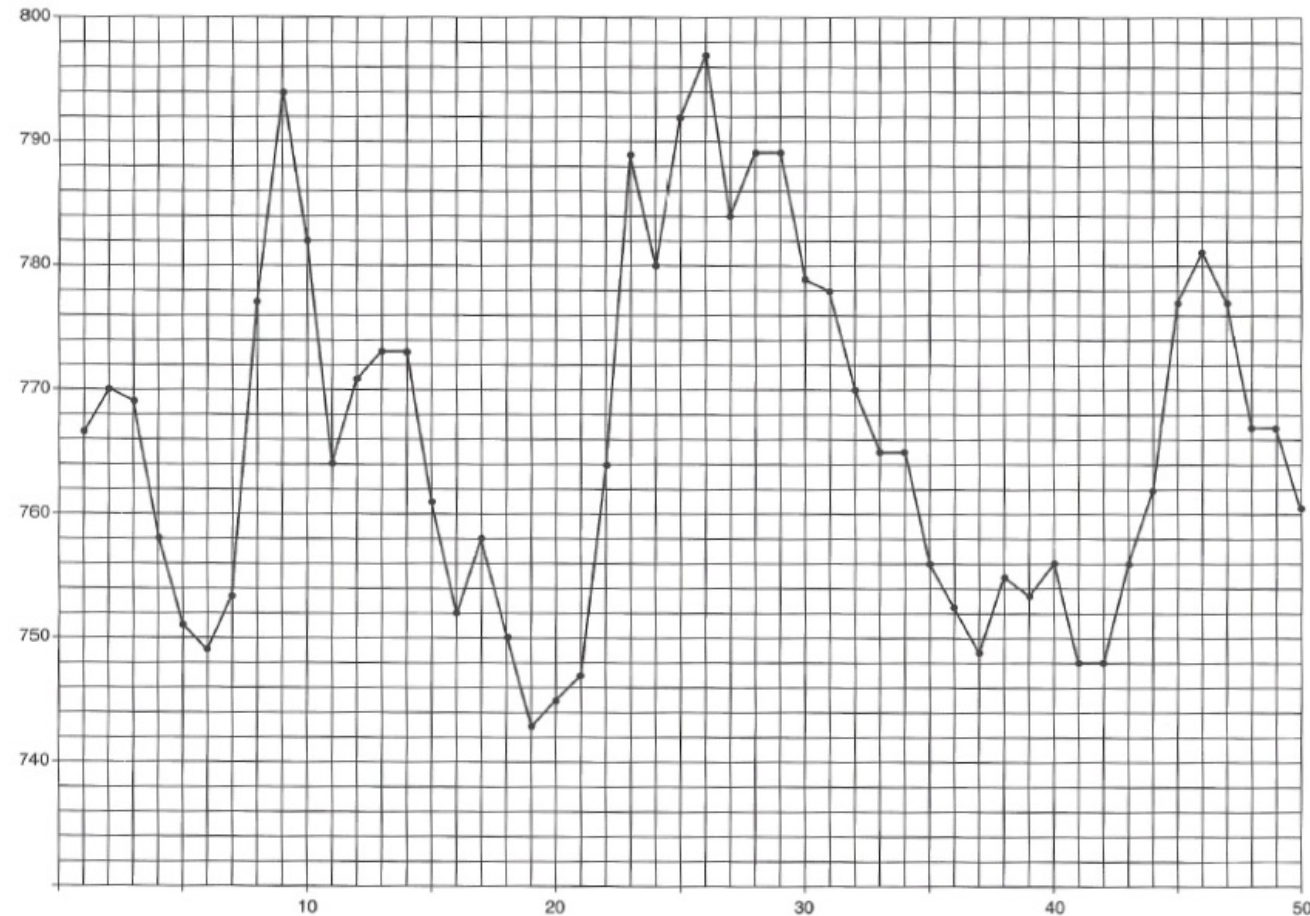
Giorno	Prezzo dell'azione	Giorno	Prezzo dell'azione
1	766,5	26	797
2	770	27	784
3	769	28	789
4	758	29	789
5	751	30	779
6	749	31	778
7	753,5	32	770
8	777	33	765
9	794	34	765
10	782	35	756
11	764	36	750,5
12	771	37	747
13	773	38	755
14	773	39	751,5
15	761	40	756
16	752	41	746
17	758	42	746
18	750	43	756
19	743	44	762
20	745	45	777
21	747	46	781
22	764	47	777
23	789	48	767
24	780	49	767
25	792	50	760,5



Charts & Pricing

A chart of a
stock's prices...
"Charles DOW"!!

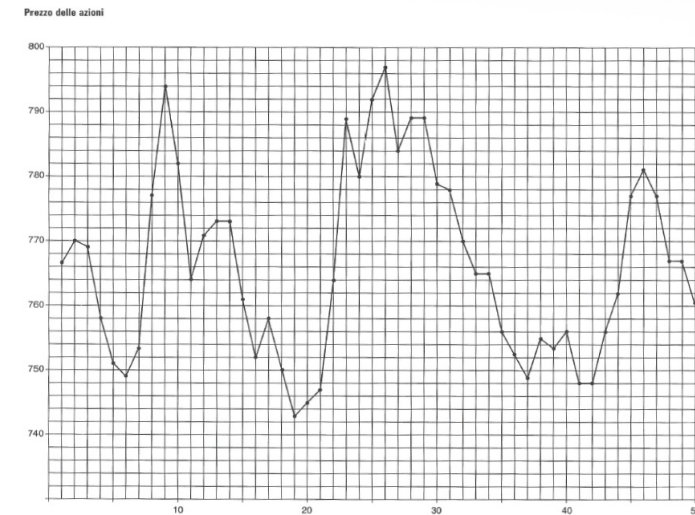
Prezzo delle azioni





Charts & Pricing

Giorno	Prezzo dell'azione	Giorno	Prezzo dell'azione
1	766,5	26	797
2	770	27	784
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5	751	30	779
6	749	31	778
7	753,5	32	770
8	777	33	765
9	794	34	765
10	782	35	756
11	764	36	750,5
12	771	37	747
13	773	38	755
14	773	39	751,5
15	761	40	756
16	752	41	746
17	758	42	746
18	750	43	756
19	743	44	762
20	745	45	777
21	747	46	781
22	764	47	777
23	789	48	767
24	780	49	767
25	792	50	760,5





Charts & Pricing

Line Chart

Bar Chart

Japanese Candles



Charts & Pricing





Charts & Pricing

"LINE" chart

The line chart is the most basic. The line shown in the chart "connects closing prices" over the displayed time period.

The line chart is now used almost exclusively on "daily" dynamics and, although it is also possible to select other references (open/close...), most traders focus on the closing price, which is considered the most important.

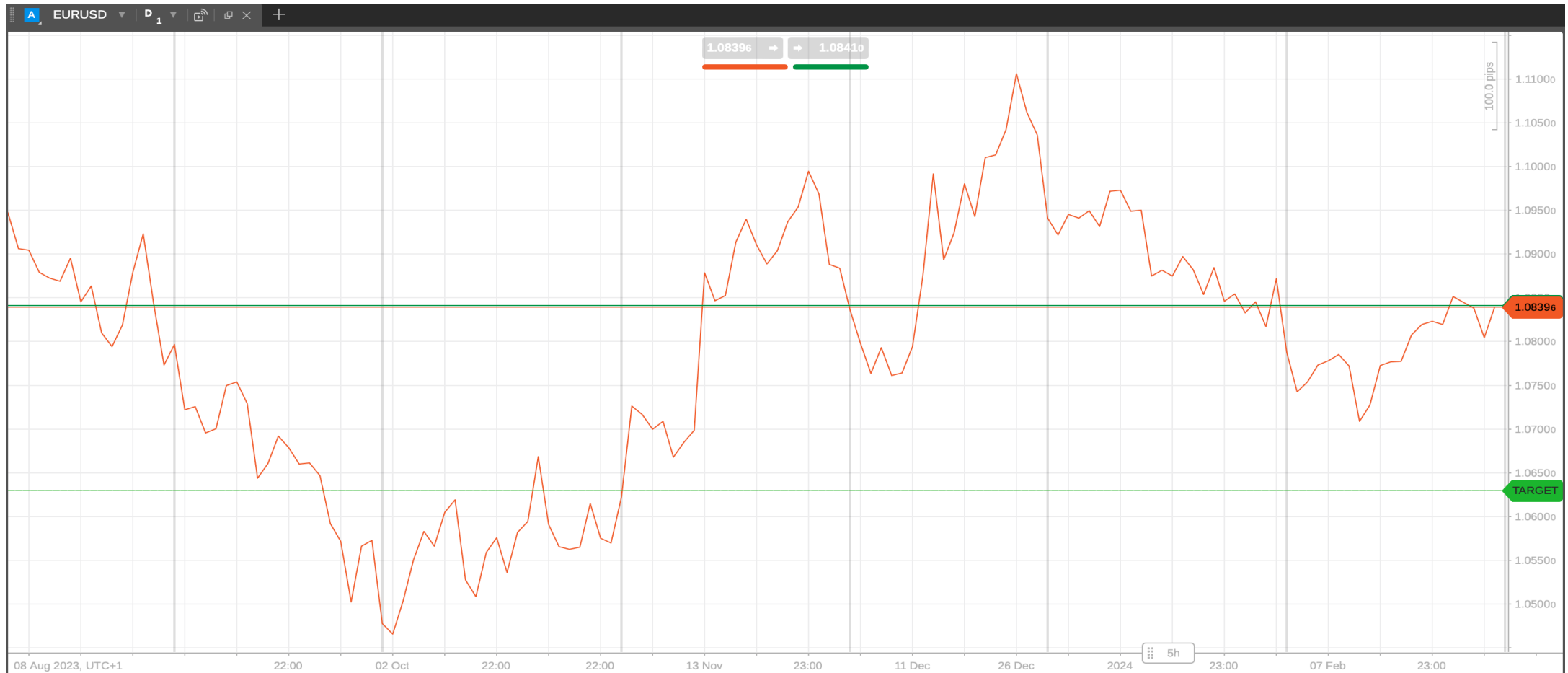
The obvious limitation of this type of chart is that it deprives the trader of very important additional information about price activity (open/high/low/close).





Charts & Pricing

"LINE" chart





Charts & Pricing

Chart with «BARRE»

Each vertical bar shows the opening, high, low and closing price of the considered candle based on the time frame used:

1. The top and extreme of the bar indicates the maximum price
2. The bottom and extreme part of the bar indicates the minimum price
3. The mark on the left of the bar indicates the opening price
4. The mark on the right of the bar indicates the closing price



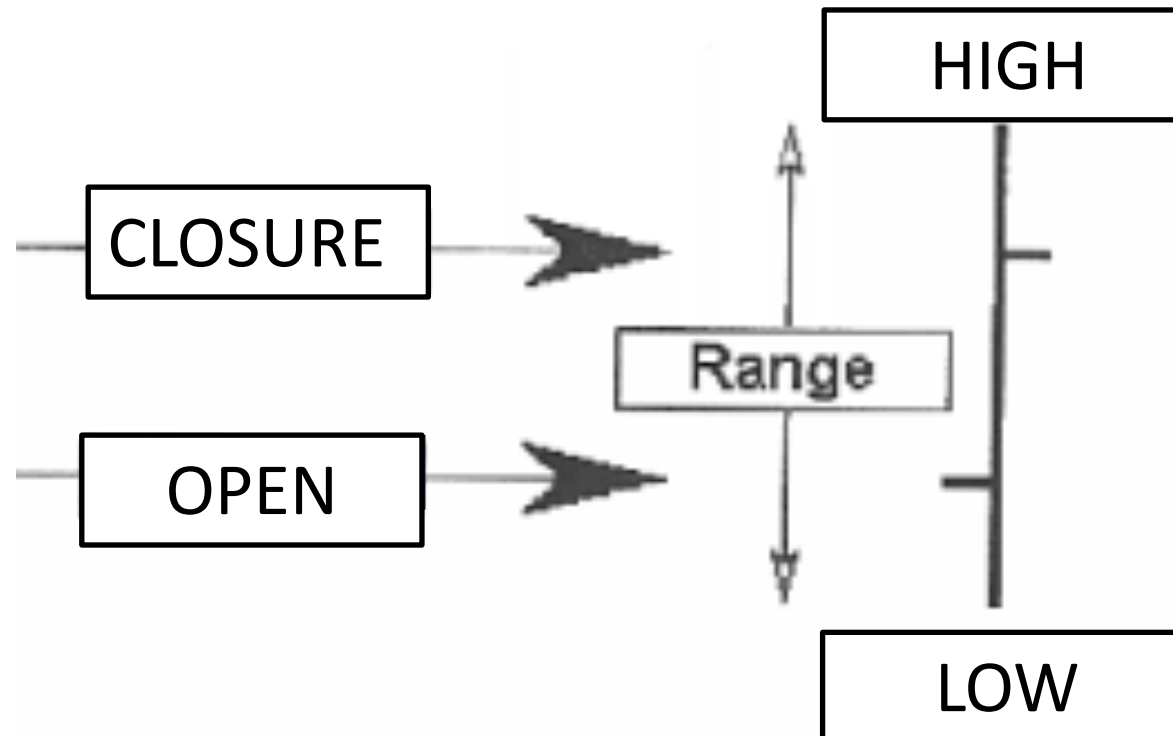


Charts & Pricing Chart with «BARRE»





Charts & Pricing Chart with «BARRE»



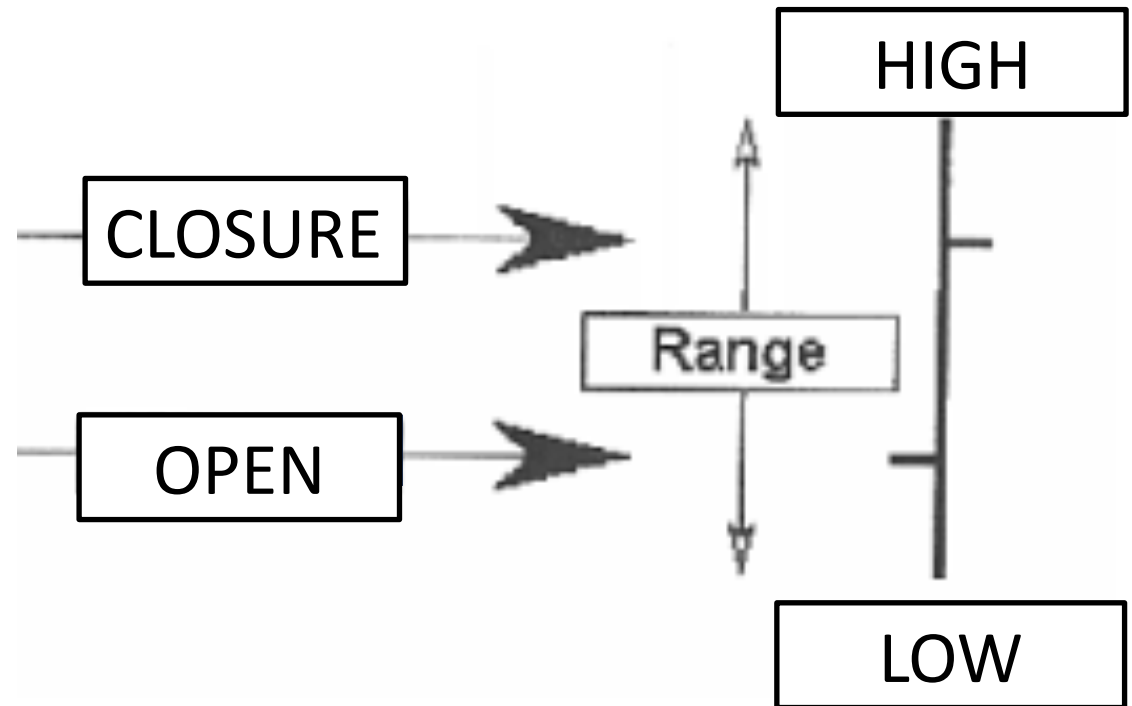


Charts & Pricing

Chart with «BARRE»

Each observed period is represented by a bar that is larger the greater the price range between the minimum and the high; The notch on the left marks the opening price, the notch on the right marks the closing price.

Compared to the line chart, there is the presence of no-trading zones, the Price Gaps, important signals to assess the quality of an ongoing movement.





Charts & Pricing

Chart «CANDLESTICKS/JAPANESE CANDLESTICKS»

The Japanese candlestick chart is closely related to the bar chart, as it also represents the four main prices: high, low, open, and close.

Depending on whether the opening is higher or lower than the close, the "body" of the candlestick will take on a different color, making it even more intuitive and immediate to recognize patterns and technical figures than bar charts.





Charts & Pricing

Chart «CANDLESTICKS/JAPANESE CANDLESTICKS»



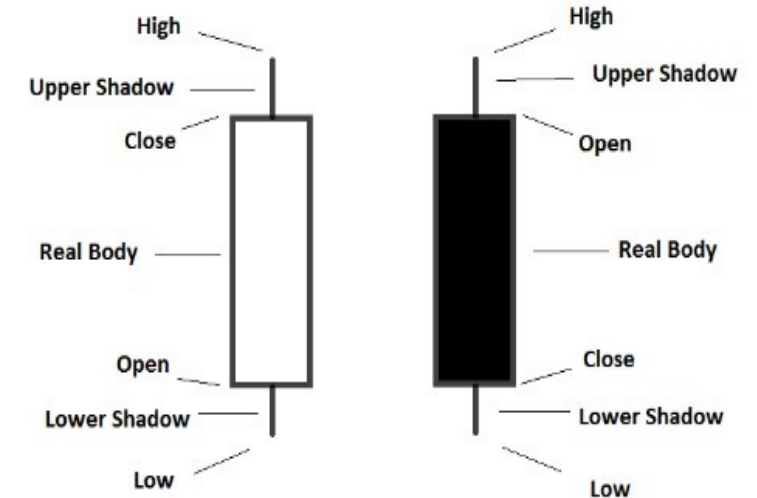


Charts & Pricing

Chart «CANDLESTICKS/JAPANESE CANDLESTICKS»

Each candle consists of two parts (the body and the shadows):

- The "BODY" is the thick part of the candle and represents the opening and closing
- The thin lines above and below the body are the "shadows" (SHADOWS) and represent the extremes (max/min) of the observed prices.
- The upper shadow (above the body) measures the maximum price of the session, while the lower shadow (under the body) measure the minimum one.



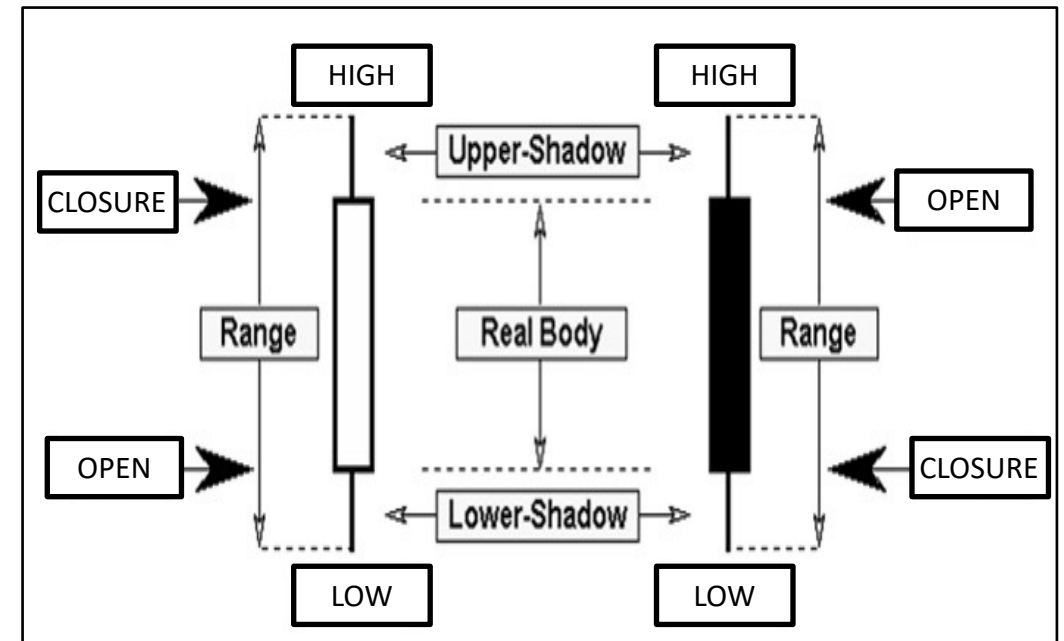


Charts & Pricing

Chart «CANDLESTICKS/JAPANESE CANDLESTICKS»

Candlestick analysis is the most widely used methodology for studying price movements and can be applied to any form of technical analysis and any time horizon.

The candlestick chart, better than others, highlights the four prices of a session (open, low, high, close), giving a much more precise overview than that of the bar chart.

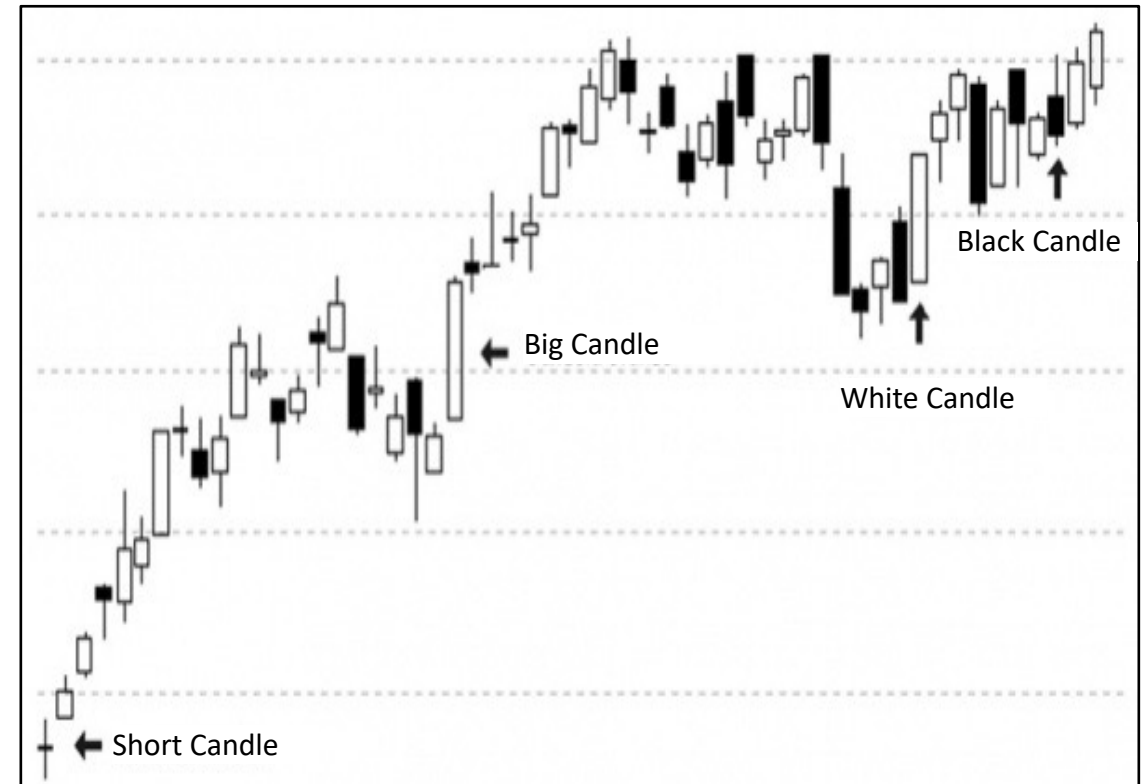




Charts & Pricing

Chart «CANDLESTICKS/JAPANESE CANDLESTICKS»

In a candlestick chart, if the close is higher than the open, the body of the candlestick will be white; If the close is less than the opening, the body will be black. All candlestick patterns fall into four different primary categories, from which all the others are derived: white candlesticks, black candlesticks, large candlesticks, small candlesticks





Charts & Pricing

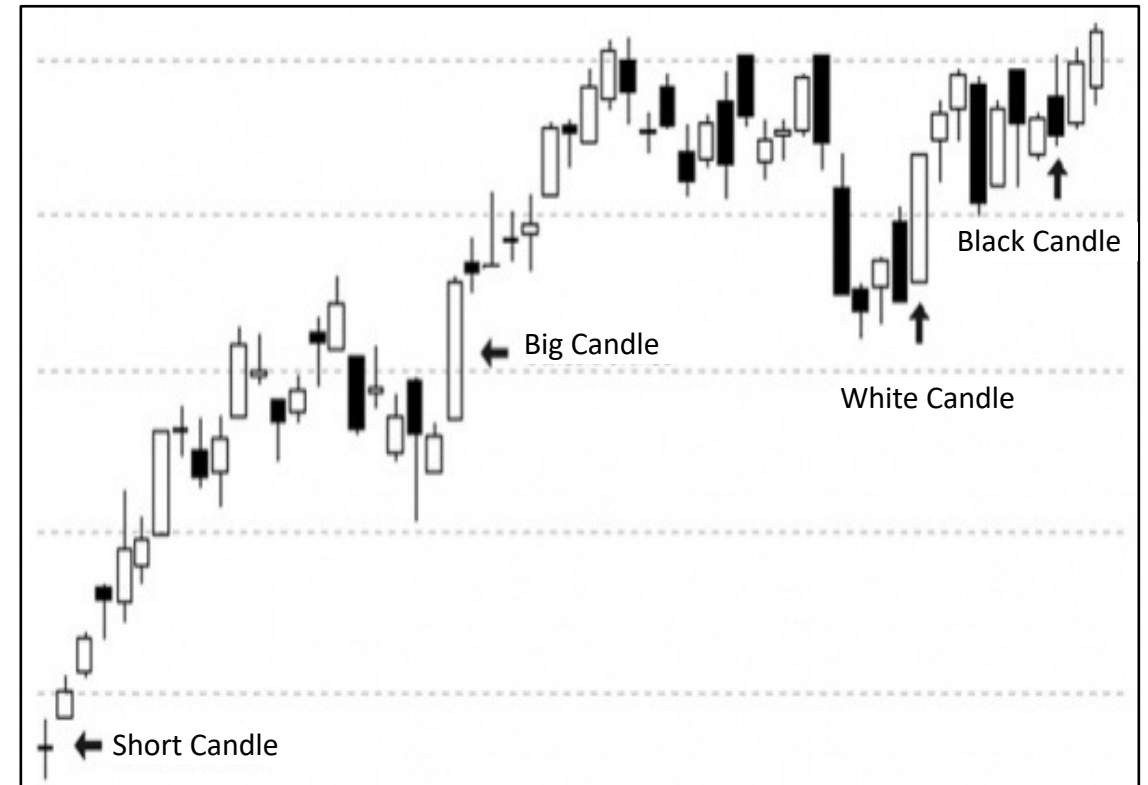
Chart «CANDLESTICKS/JAPANESE CANDLESTICKS»

A **white candlestick** indicates that there has been an increase in buyers' pressure on sellers within the observed session.

A **black candlestick**, on the other hand, indicates that sellers have taken over their buyers within the observed session.

A **large candle** expresses a hard-fought battle between sellers and buyers.

A **small candlestick** is the symptom of an indecisive market, without too much directionality and conviction; When it is accompanied by low volumes, it represents a stalemate between buyers and sellers.

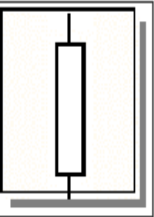
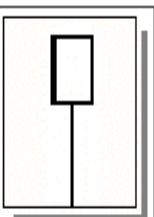
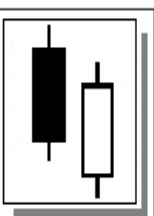




Charts & Pricing

Chart «CANDLESTICKS/JAPANESE CANDLESTICKS»

Aboard are the most well-known patterns, which can be obtained by examining two or three successive candlesticks.

	Long white line (bianca)
	Hammer (martello) / Hanging Man (Impiccato)
	Piercing Line



Charts & Pricing

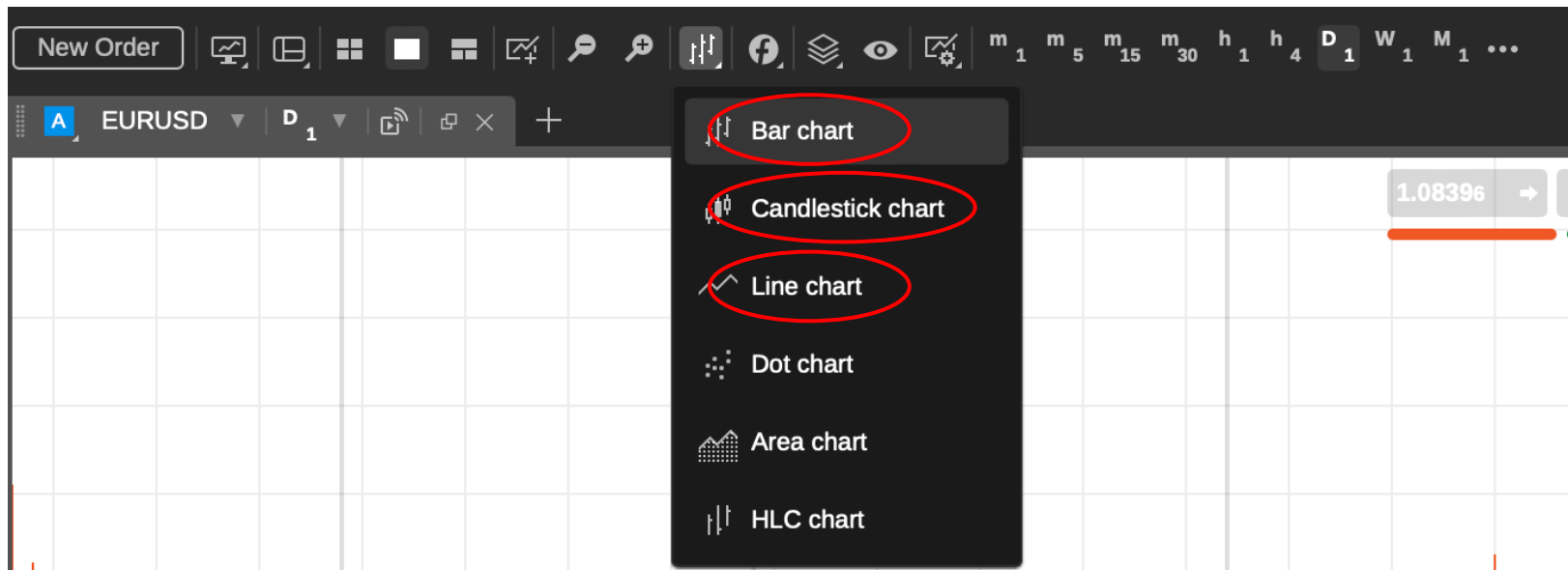
Chart «CANDLESTICKS/JAPANESE CANDLESTICKS»

Aboard are the most well-known patterns, which can be obtained by examining two or three successive candlesticks.

	Long white line (bianca)
	Hammer (martello) / Hanging Man (Impiccato)
	Piercing Line
	Bullish Engulfing Lines
	Morning Star (Stella del mattino)
	Bullish Doji Star



Charts & Pricing





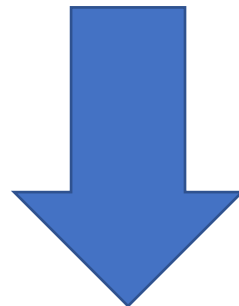
Charts & Pricing

Line Chart

Bar Chart

Japanese Candles

IN SUMMARY...





Charts & Pricing

Line charts

Line charts highlight only the closing price and are, in fact, continuous lines; The aperture, minimum and maximum values of the observation period are missing.





Charts & Pricing

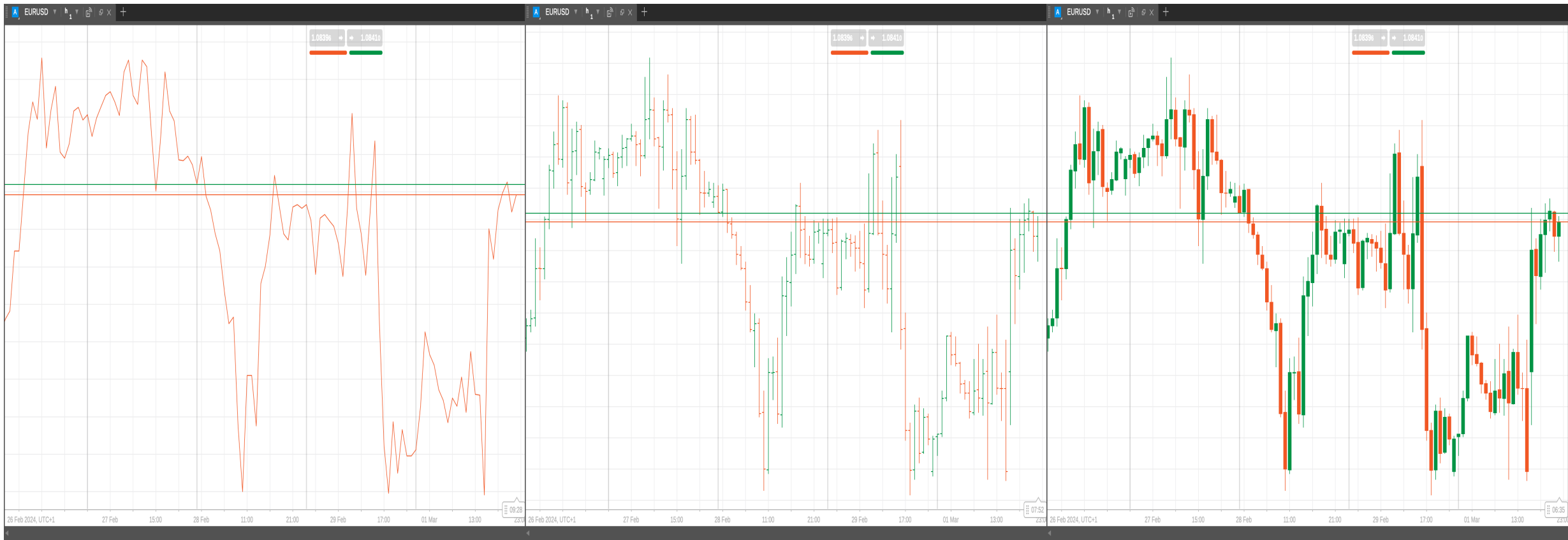
Bar charts

Bar charts, compared to line charts, contain more information: the minimum, the maximum, and the opening value. This type of chart is best suited to correctly highlight support or resistance bands.





Charts & Pricing ULTIMATELY... **CANDLESTICK THE BEST OVERALL**



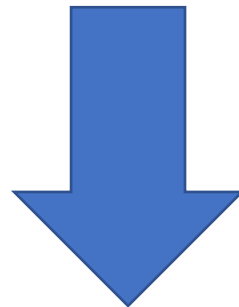


Charts & Pricing

ULTIMATELY...

CANDLESTICK THE BEST OVERALL

LET'S FIND OUT WHY...





Charts & Pricing

Line Chart / Bar Chart / Japan Candlesticks

**THE DIFFERENCES ARE NOTICEABLE WHEN PLOTTING
TRENDLINES!!**





Charts & Pricing

Line Chart: Selecting a Trend...



But will the selected touchpoints also be reflected on bar charts or candlesticks?



Charts & Pricing

But will the touchpoints you selections also reflect on bar charts or candlesticks?

DEFINITELY NOT!! Nor on the bar ones...





Charts & Pricing

But will the touchpoints you selections also reflect on bar charts or candlesticks?

DEFINITELY NOT!! Nor on those candlesticks...





Charts & Pricing

A GOOD TECHNICAL ANALYST STARTS FROM THE ASSUMPTION OF HAVING A CLEAR AND CLEAN VIEW OF THE CHARTS, WITHOUT BEING DISTRACTED BY TOO MANY ELEMENTS THAT RATHER THAN HELPING THE PERCEPTION OF THE CURRENT PRICE DYNAMICS MAKE IT CHAOTIC AND CONFUSING...



Charts & Pricing

STARTING WITH SIMPLE PRICES

THE JAPANESE CANDLESTICK DISPLAY

«CANDLESTICK»

IT DEFINITELY SEEMS THE MOST APPROPRIATE...



Charts & Pricing

ONLY THE "CANDLESTICK" GRAPHIC GIVES US VARIOUS AND VALUABLE INFORMATION AT A GLANCE:

- 1. OPEN, CLOSE AND DAILY RANGE**
- 2. PARTICULAR PATTERNS AND VISUAL ALARMS BASED ON THE BODY OF THE SINGLE OR TWO OR MORE CANDLES**
- 3. DIRECTIONALITY AND VOLATILITY...**



Charts & Pricing

**WE WILL LEARN TO ACCURATELY AND EASILY IDENTIFY
THE MOST SENSITIVE AREAS OF PRICES AND MARKET
TRENDS...**



Charts & Pricing

**WE WILL LEARN TO IMMEDIATELY DISTINGUISH
MOVEMENTS THAT ARE “CONSISTENT” WITH THE
DOMINANT TREND OR ITS REVERSAL...**



Charts & Pricing

**WE'LL LEARN HOW TO DODGE THE TRAPS OF FALSE
BREAKOUT MOVES...**





Charts & Pricing

**BUT FIRST OF ALL WE WILL READ THE GRAPHS IN THE
MOST COMPLETE WAY EVER:
JAPANESE CANDLESTICKS**



TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 3

DOW Theory

**The definition of a trend and a tendency:
how to identify and follow them
profitably**





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PROGRAM

10 LESSONS

1. Basics and Origins of Technical Analysis: The DOW Theory
2. Charts and prices: the main ways to visualize price developments
3. **Defining a trend and trending: how to spot and follow them profitably**
4. The main chart configurations: supports, resistances and pullbacks
5. Figures of reversal or continuation of a trend: we learn to recognize and exploit them
6. Volumes and moving averages: strengths and weaknesses
7. The main indicators and oscillators: how to choose the most useful and suitable for each market condition
8. Charts and time: the right time frame for our operational analysis
9. Intermarket analysis: we learn to define the dominant drivers and trends in the market
10. Leverage, money and risk management: how to control and monitor the sustainability of your investments



Lesson 3

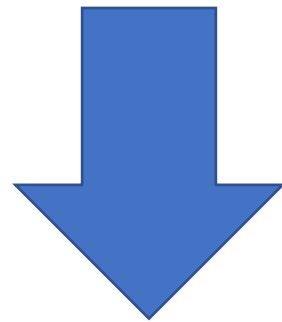
The DOW's Theory

The definition of a trend and a tendency: how to identify
and follow them profitably



Dow's Theory

The origins of Technical Analysis are to be found in the theory of Charles Dow, which he developed at the beginning of the 20th century, according to the 3 founding principles





Dow's Theory

«3» FOUNDING PRINCIPLES

1. the existence of market trends
2. the idea that prices incorporate all relevant information about the security in question
3. History repeats itself, and therefore it will be possible to predict the dynamics of the markets by studying their past



Dow's Theory

Technical Analysis has developed on the foundations laid by Dow, incorporating tools and approaches that are also very different from each other.

It's still growing, and it's going to grow again.

If it is true that history sometimes repeats itself (one of the fundamental principles of Technical Analysis), in fact, it is also true that markets are always changing and tools and analyses must be adapted to new conditions.



The Fundamentals of Dow Theory

An uptrend can be considered to be in place until each upward impulse leads to new highs and each correction ends up at a lower low than the previous one.



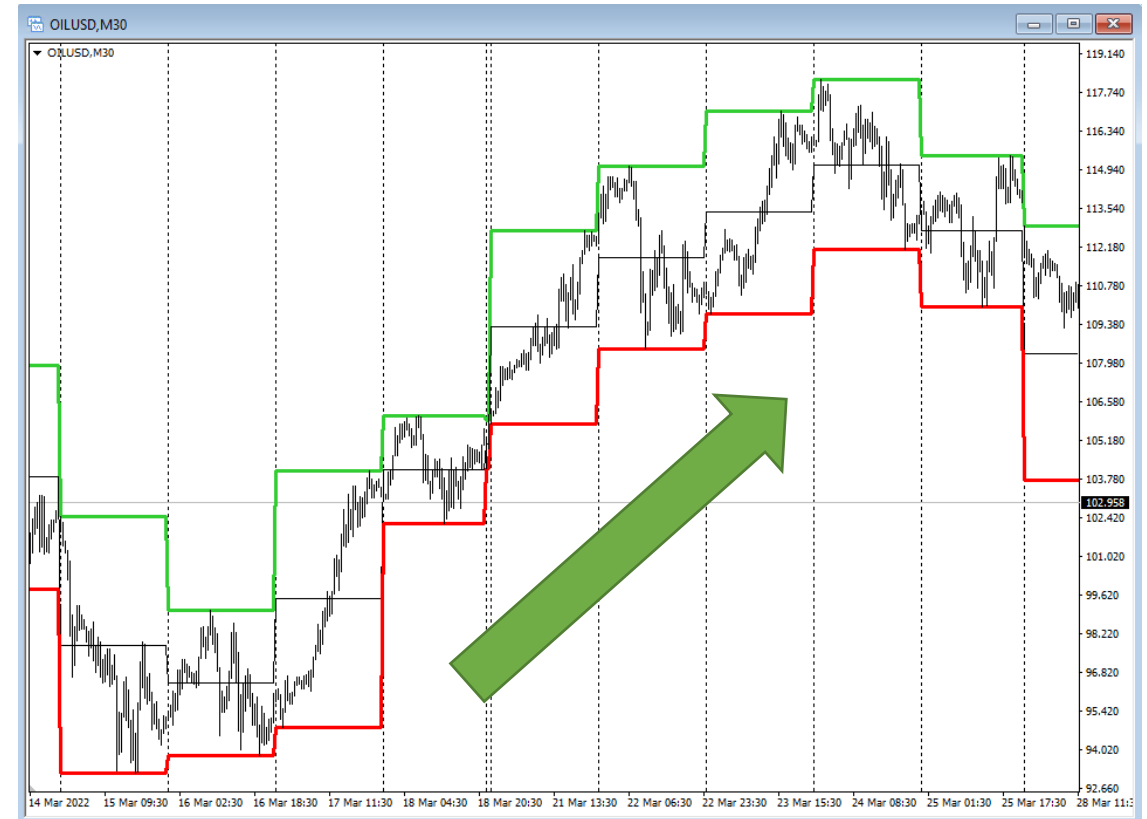
The Fundamentals of Dow Theory

An uptrend can be considered to be in place until each upward impulse leads to new highs and each correction ends up at a lower low than the previous one.

UPTREND

=

RISING LOWS AND HIGHS





The Fundamentals of Dow Theory

In an uptrend, however, there is an absolute reference to monitor: if it is true that the ideal sequence sees increasing lows and highs, it will only be the break of the sequence of rising lows that will interrupt the trend.

UPTREND

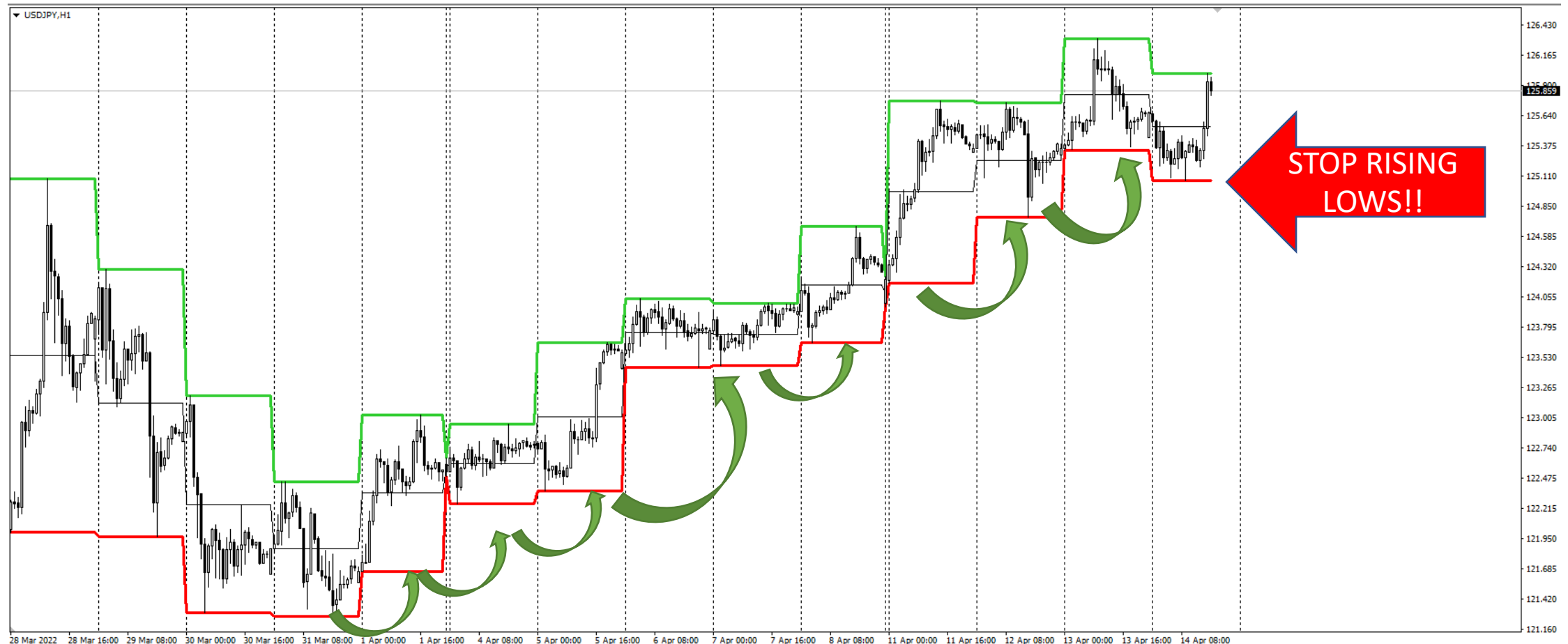
=

EVER-INCREASING LOWS





UPTREND = EVERLASTING LOWS





The Fundamentals of Dow Theory

A downtrend can be considered ongoing until each downward impulse leads to new lows and each rebound/recovery ends up at a lower high than the previous one.



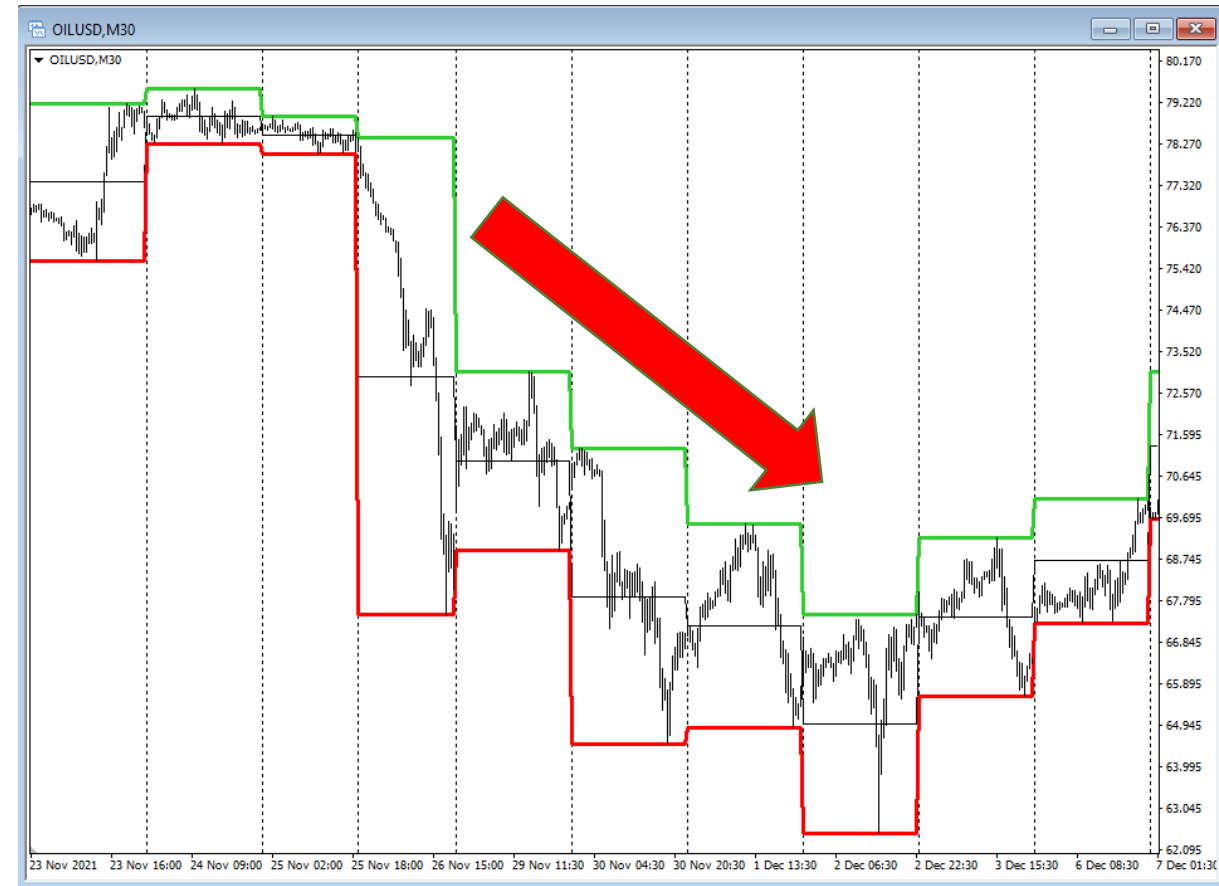
The Fundamentals of Dow Theory

A downtrend can be considered ongoing until each downward impulse leads to new lows and each correction/rebound stops at a lower high than the previous one.

BEARISH TREND

=

LOWER HIGHS AND LOWER LOWS





The Fundamentals of Dow Theory

In a bearish trend, however, there is an absolute reference to monitor: if it is true that the ideal sequence sees lower highs and lows, it will only be the break of the sequence of decreasing highs that will interrupt the trend.

BEARISH TREND

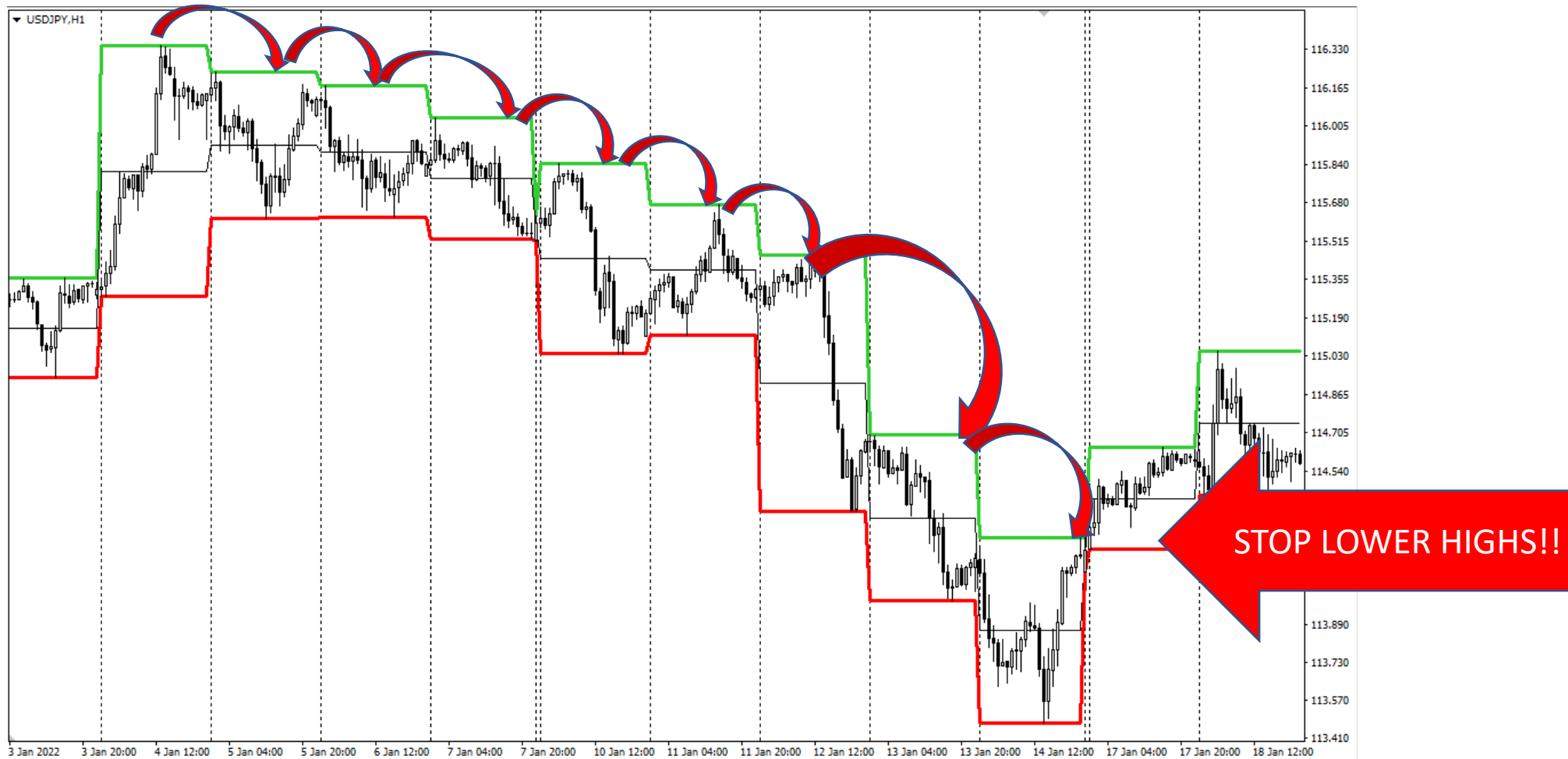
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EVER-DECREASING HIGHS





BEARISH TREND= EVER-DECREASING HIGHS





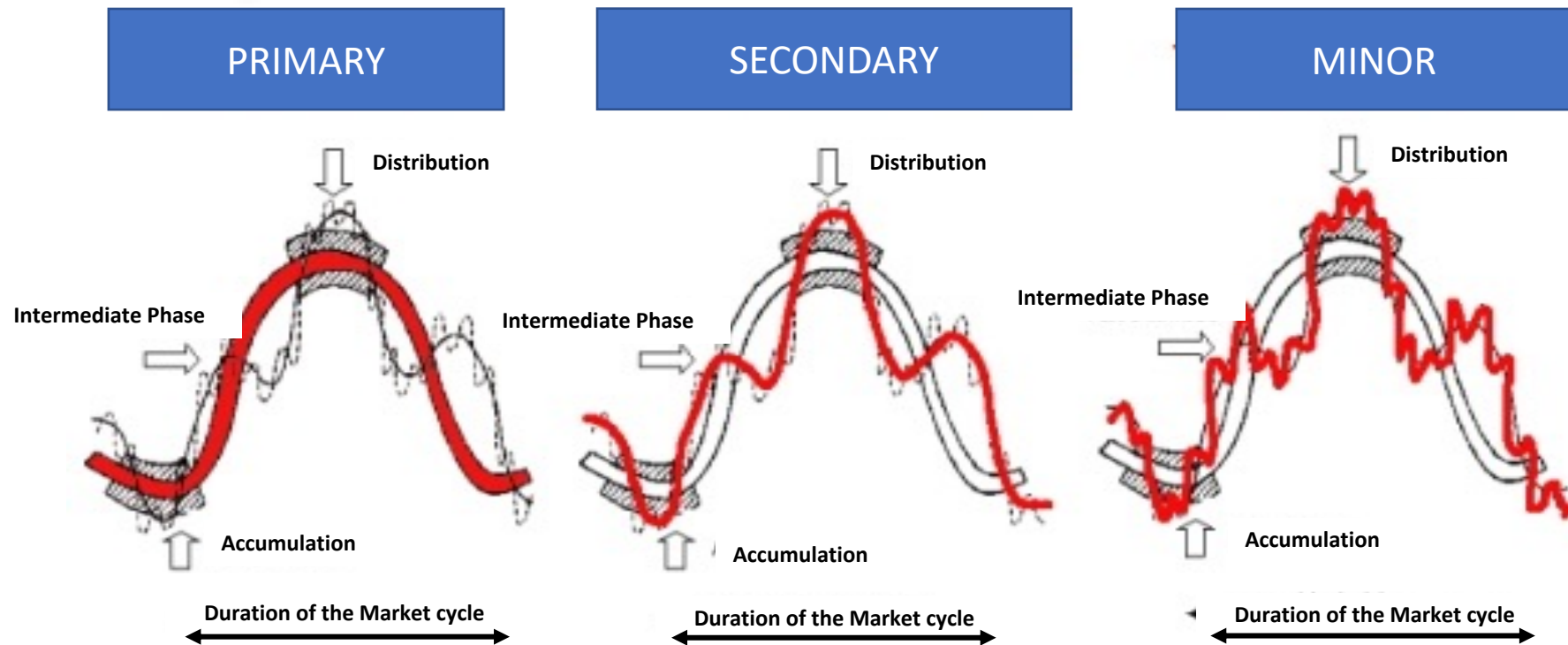
The Fundamentals of Dow Theory

The market has three trends:

1. Primary (Tide)
2. Secondary (waves)
3. Minor (wave breakers).



THE 3 MARKET TRENDS





The Fundamentals of Dow Theory

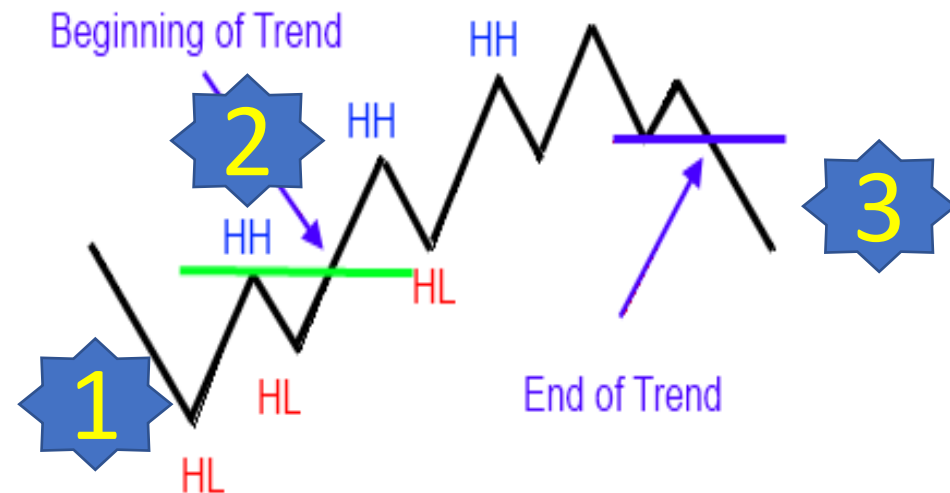
The primary trend has three phases:

1. **accumulation** (purchase by the well-informed);
2. **public participation** (buying of the masses, prices rise quickly);
3. **distribution** (the well-informed begin to sell, unlike the masses).



1. Accumulation
2. Public Participation
3. Distribution

Dow Theory Trend Definition





CONCLUSIONS...

The Fundamental Concepts of the Trend

From the fundamental principle of Dow theory:

1. Prices move according to a trend;
2. It is the job of the technical analyst to identify these trends and follow them.
3. The market trend is the direction of the subsequent highs/lows.



Dow's Theory 1

1. The market is made up of three types of trends:
 - primary trends (in the long run);
 - secondary trends (in the medium term);
 - minor trends (in the short term).



Dow's Theory

1

The primary trend is the deepest trend and can last even more than a year, while the secondary trend is an intermediate trend that lasts from three weeks to three months and is often associated with a movement against the primary trend. Finally, the minor trend often lasts less than three weeks and is associated with the movements of the intermediate trend.





Dow's Theory 1

Regardless of the duration of a trend, the primary trend remains active until there is a confirmed reversal setup.



Dow's Theory

1

Regardless of the duration of the trend, the primary trend remains active until there is a confirmed reversal.





Dow's Theory

1

Regardless of the duration of a trend, the primary trend remains active until there is a confirmed reversal.

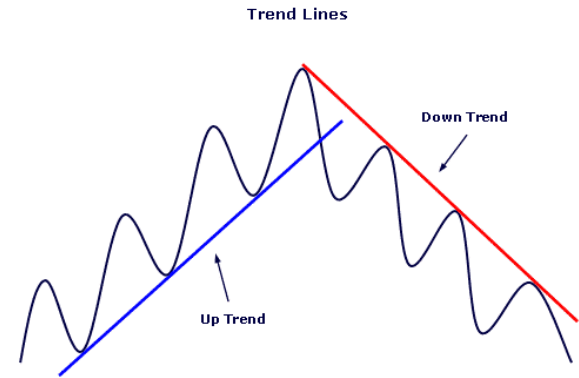
In trend analysis, one of the most difficult things to determine is how long the price movement will stay within a primary trend before it reverses direction.



Dow's Theory

1

Regardless of the duration of a trend, the primary trend remains active until there is a confirmed reversal.

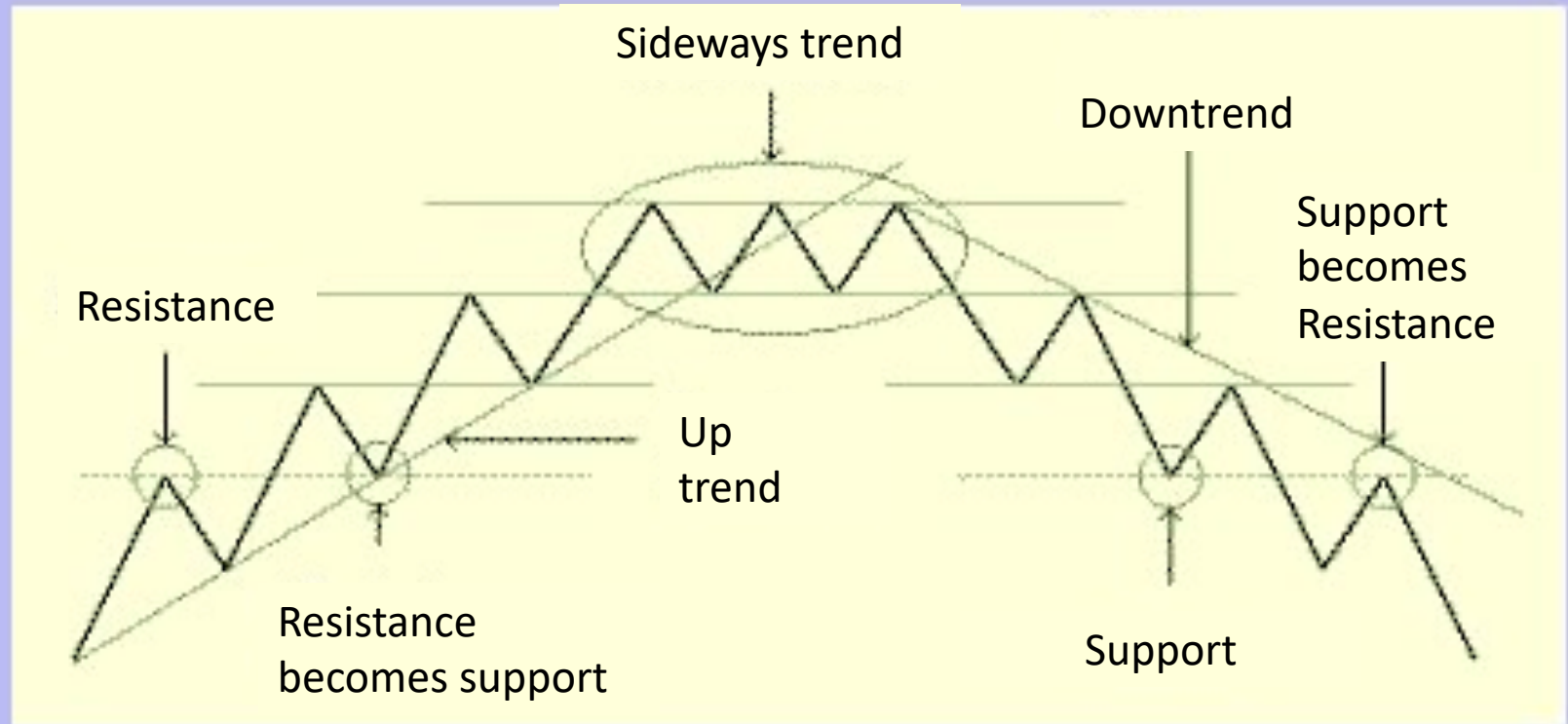


The most important thing is to identify the direction of this trend and position yourself in favor of it – and not against it – until signals suggest that the primary trend has reversed!



As we will learn later, the market is much easier to interpret than you might think, you just need to look for the right things and not be distracted by unnecessary details...

Trend Identification





Dow's Theory 2

The trends are divided into four phases:

1. Accumulation - only "strong hands" invest.



Dow's Theory 2

2. Speculation - strong mass participation and high bullish volatility (uptrend).



Dow's Theory

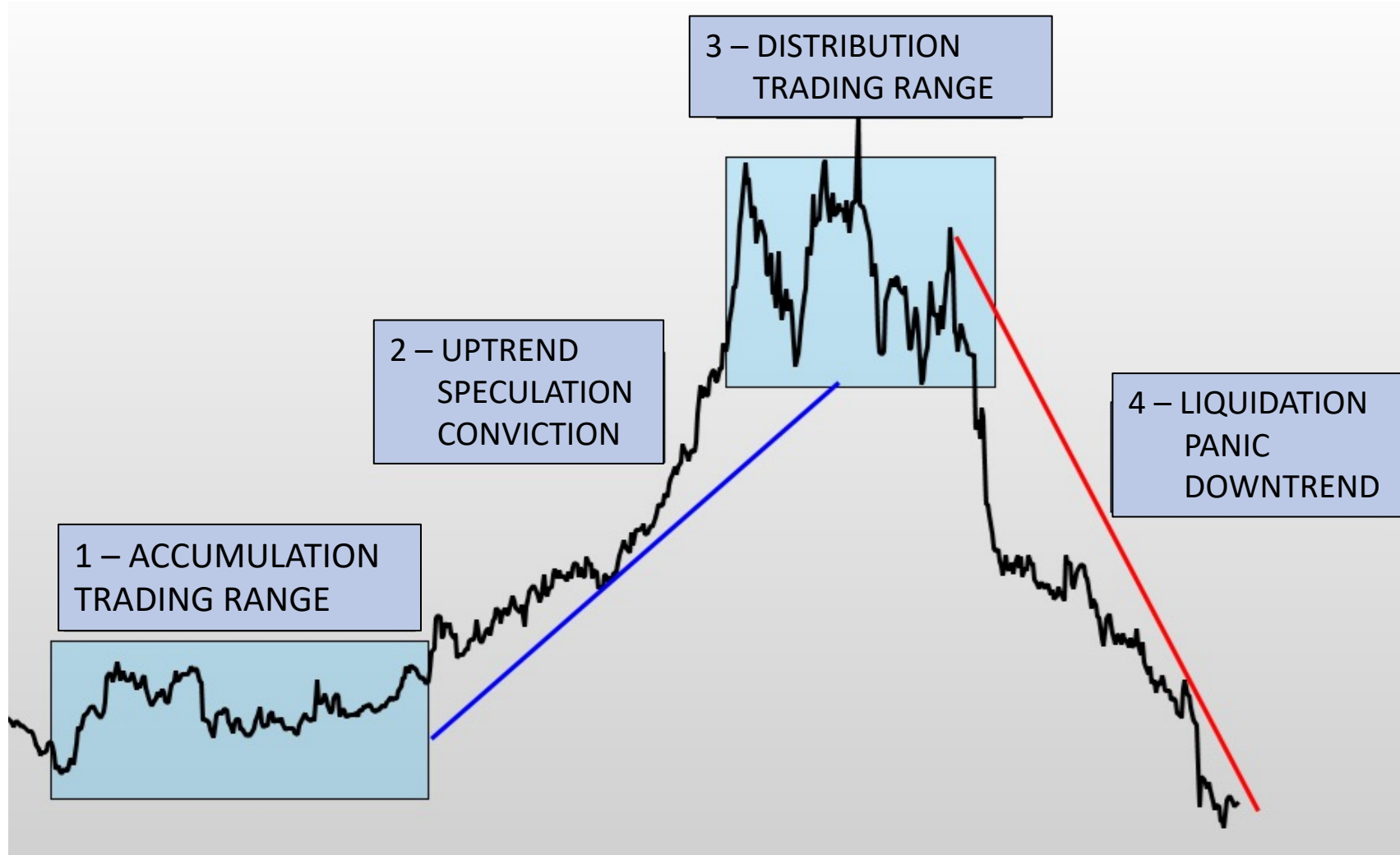
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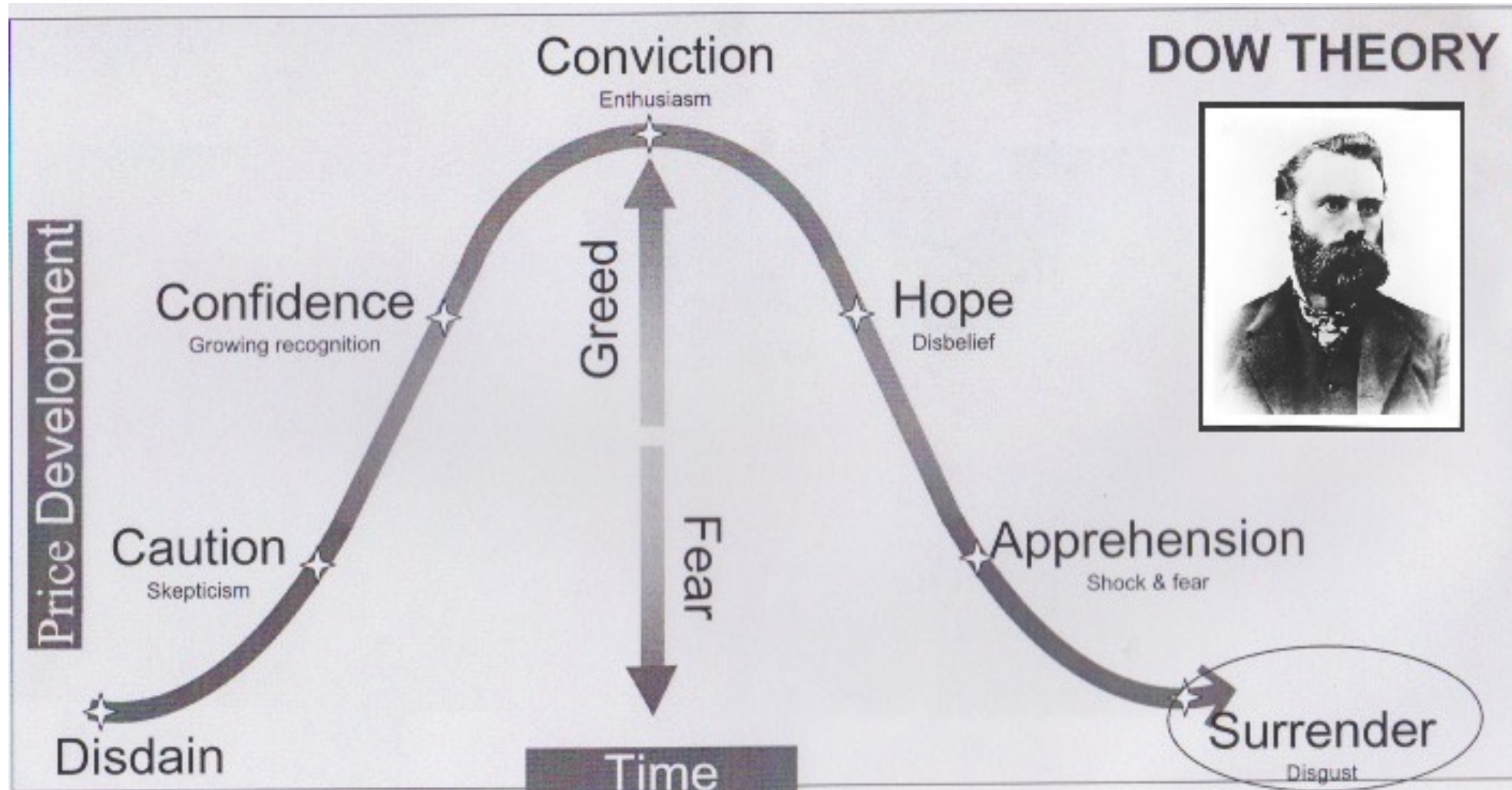
3. Distribution - the "strong hands" sell to the public, the price stops, moves sideways and begins to fall.



Dow's Theory 2

4. Liquidation and panic - (down) the price is no longer supported by the strong hands that continue to sell at the... oxen park. The masses begin to sell in panic. (downtrend).







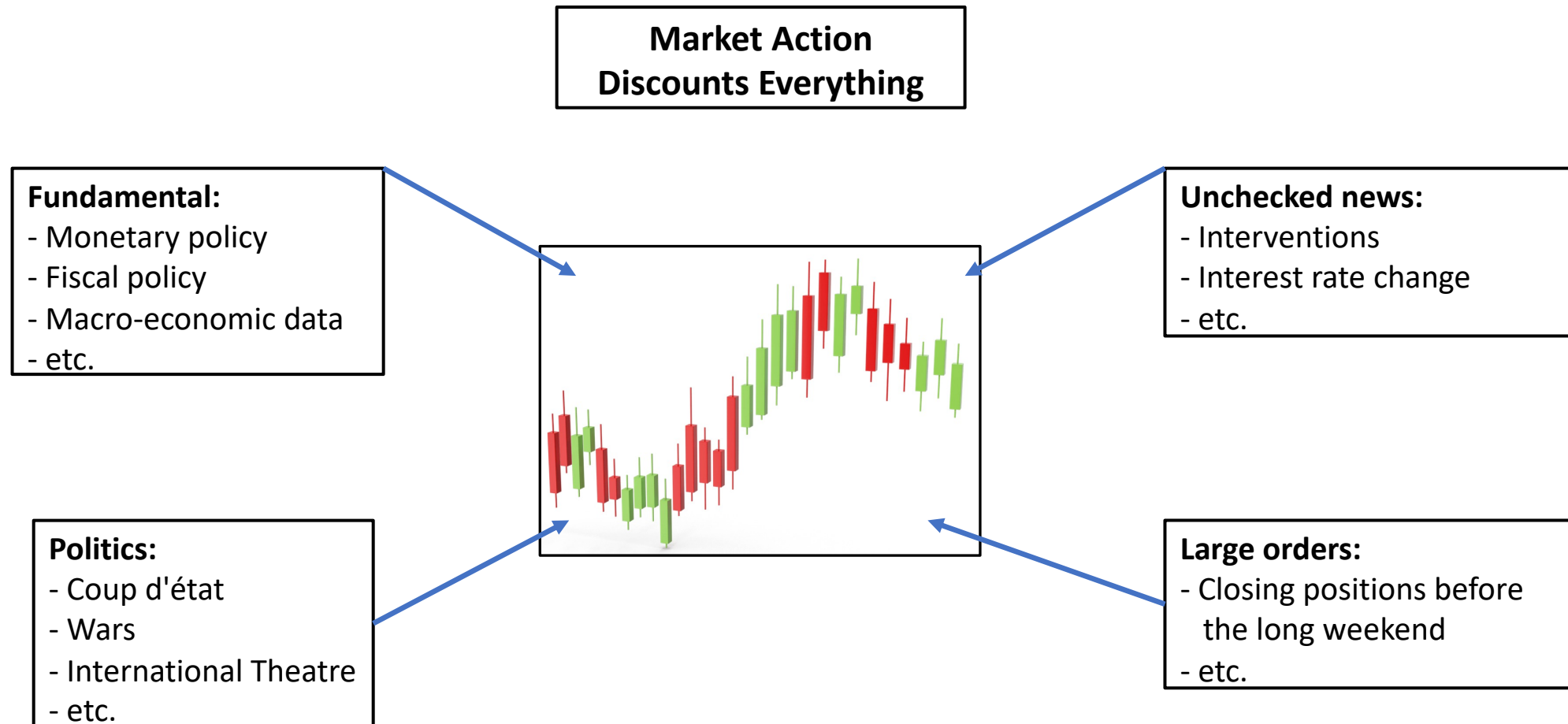
Dow's Theory

3

The stock market discounts all the news: stock prices quickly and comprehensively incorporate and reflect all the information about them.



Dow's Theory 3





Dow's Theory

4

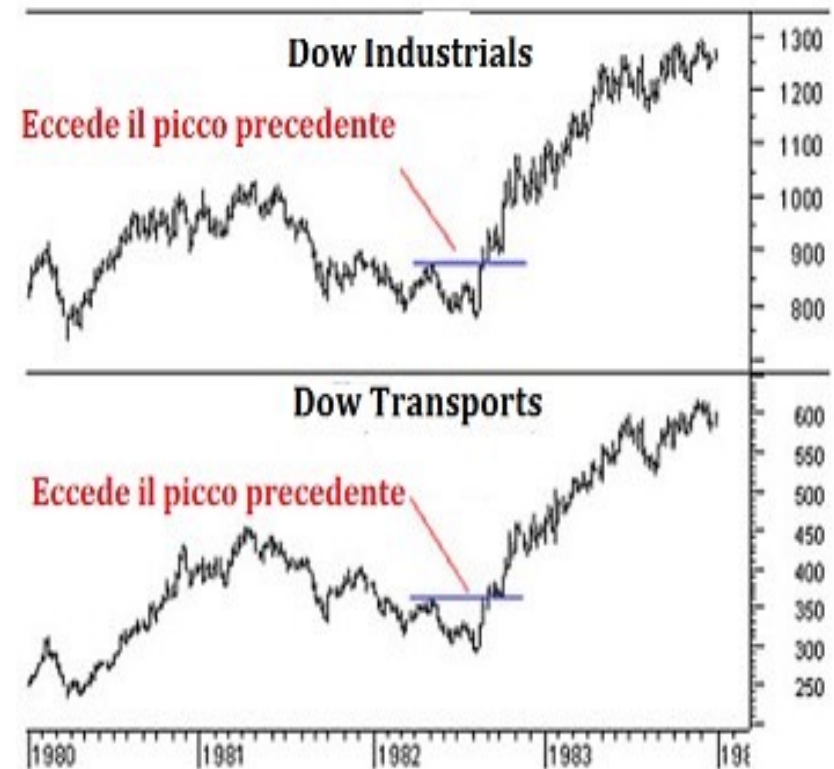
Stock market indices must confirm each other



During a bull market, prices rise, affecting both the companies that are engaged in the production of the goods and those that transport the goods themselves.

The history of the American stock market remains the best testimony to how logical and true this principle is.

Ultimately, if the Dow Jones Industrial Average shows a primary expansionary phase, it can only be considered valid if the Dow Jones Transportation also exhibits an expansionary phase at the same time.





The indices must confirm each other...

Analysing Dow's theory, what emerges very strongly is precisely the importance of the trend of industrial and transport indices: this principle is based on a logical aspect that demonstrates how the stock market is a sort of barometer to measure the conditions of the economy.



Dow's Theory

5

Volumes must confirm the trend



Volume confirms the trend

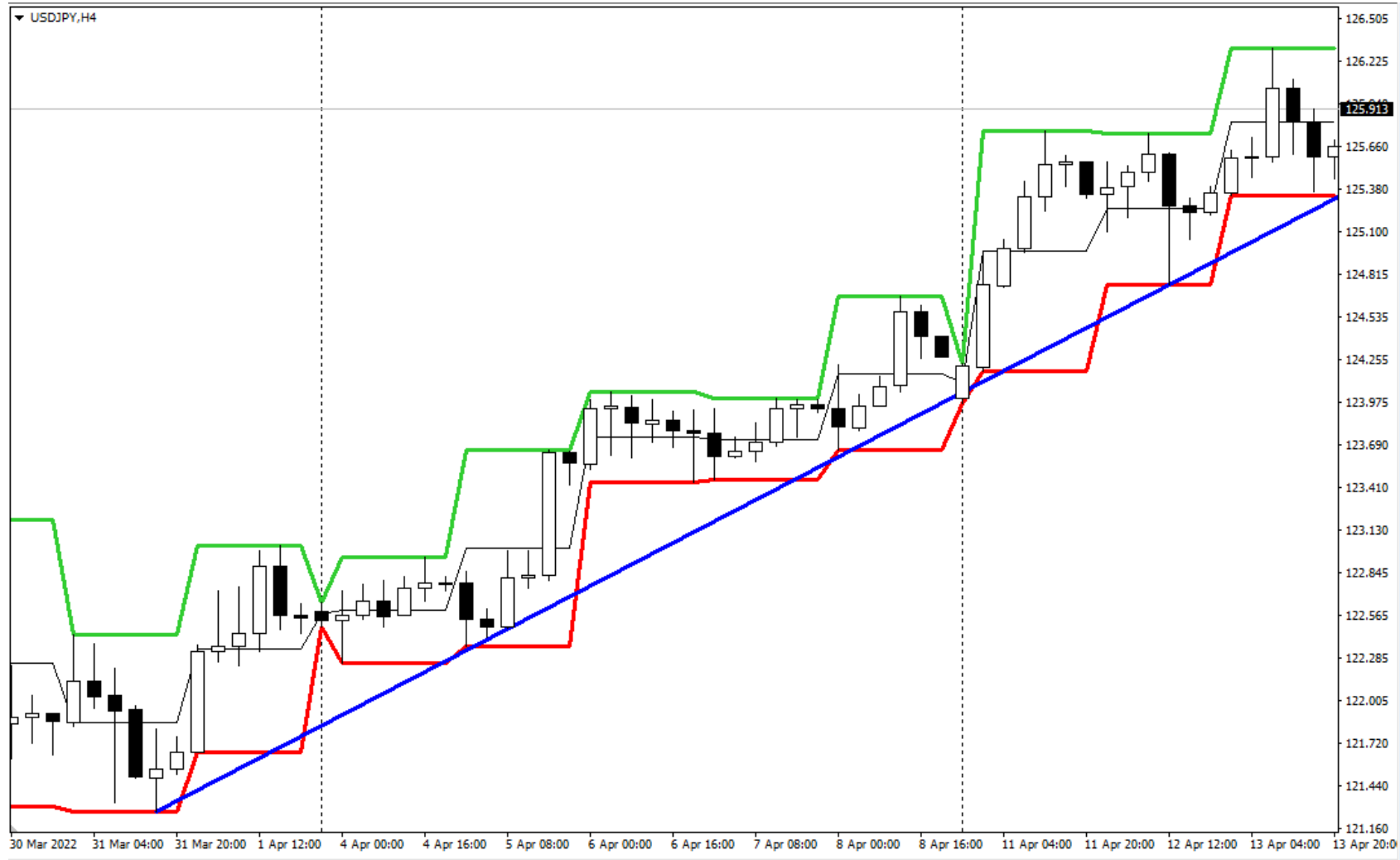




Dow's Theory

6

The trend remains confirmed until a clear reversal





IN DEFINITION

1.

From the fundamental principle of Dow's theory
"prices move according to a trend"



IN DEFINITION

2.

It is the job of the technical analyst to spot these trends and follow them.



IN DEFINITION

3.

The market trend is the direction of the subsequent highs/lows.



The Trend
Is Your Friend

TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 4

**The main graphic configurations:
supports, resistances and pullbacks**





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Lesson 4

**The main graphic configurations:
supports, resistances and pullbacks**



Let's take a look at some basic steps...

The Fundamental Concepts of the Trend

From the fundamental principle of Dow's theory, «prices move according to a trend»

It is the job of the technical analyst to spot these trends and follow them.

The market trend is the direction of the subsequent highs/lows.



The Fundamental Concepts of the Trend

The trend has three directions:

bullish, if the series of highs/lows is increasing;

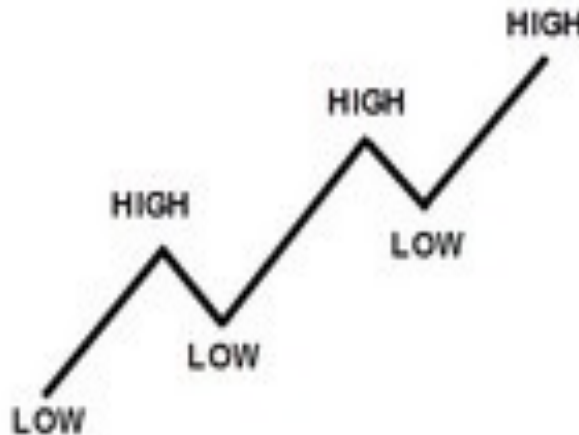


Figura 1: trend rialzista



The Fundamental Concepts of the Trend

- bearish, if the streak is descending

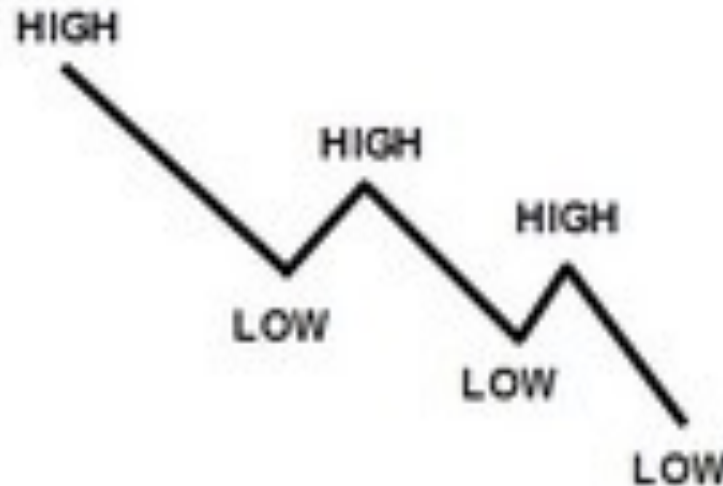


Figura 2: trend ribaistita



The Fundamental Concepts of the Trend

- side, if the series is horizontal.

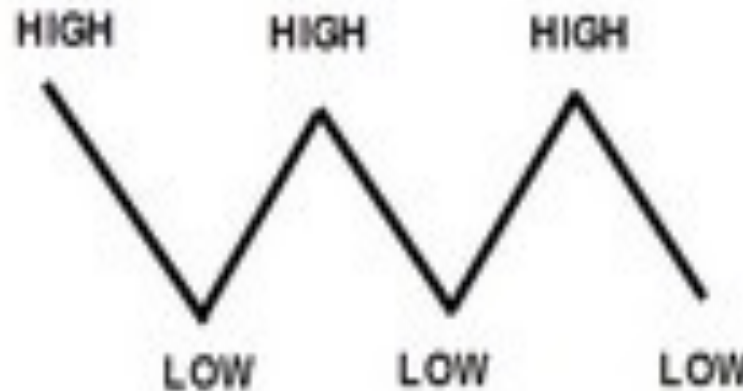


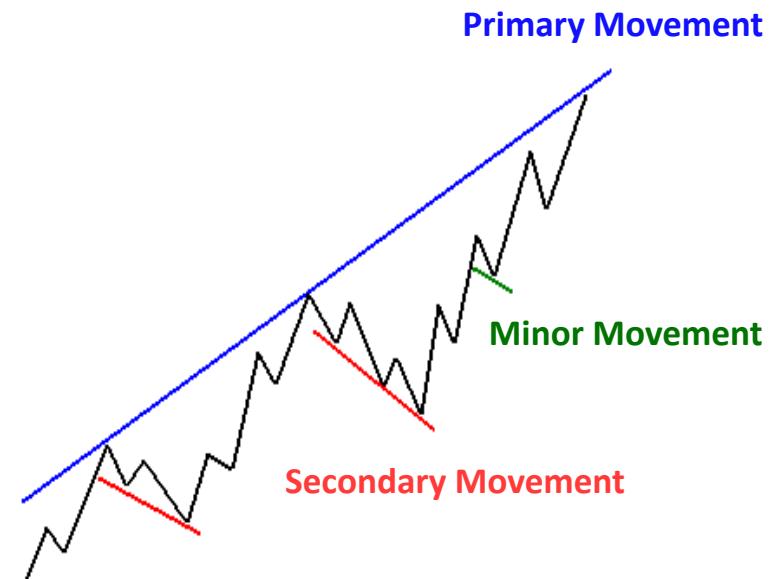
Figure 21 trend lateral



The Fundamental Concepts of the Trend

The trend has three classifications:

- primary;
- secondary (intermediate);
- minor (short-lived).





The Fundamental Concepts of the Trend

Each trend is part of the next trend and includes smaller trends.

In an upward secondary trend, minor trends (short-term corrections) are used to enter a position consistent with the dominant trend.



The Fundamental Concepts of the Trend

If in an uptrend the correction reaches the previous low, it could be the beginning of a sideways trend.

If in an uptrend the previous low is breached, it will be a trend reversal from bullish to bearish.



The Fundamental Concepts of the Trend

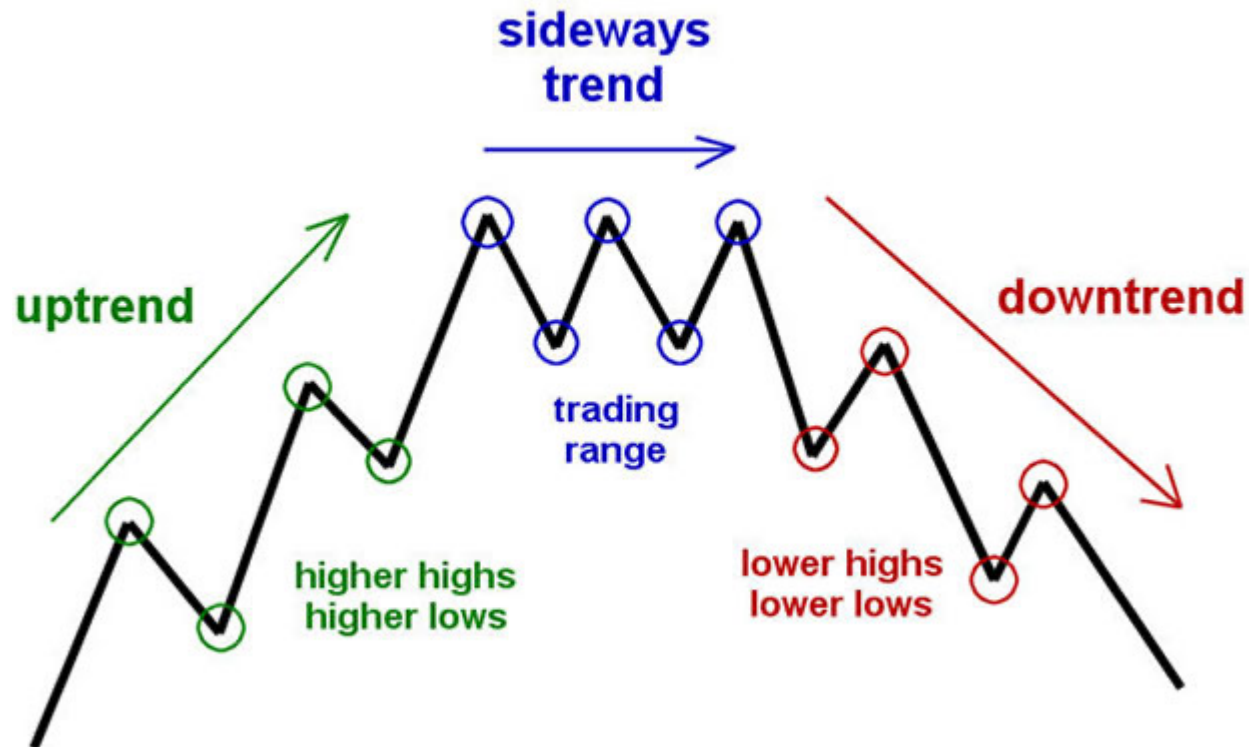
Based on its strength, the trend is defined

- linear (prices grow uniformly over time);
- exponential (prices rise violently, typical of the terminal phases of movements).

Not all movements are created equal; generally, downtrends are faster than uptrends.



Types of Trends

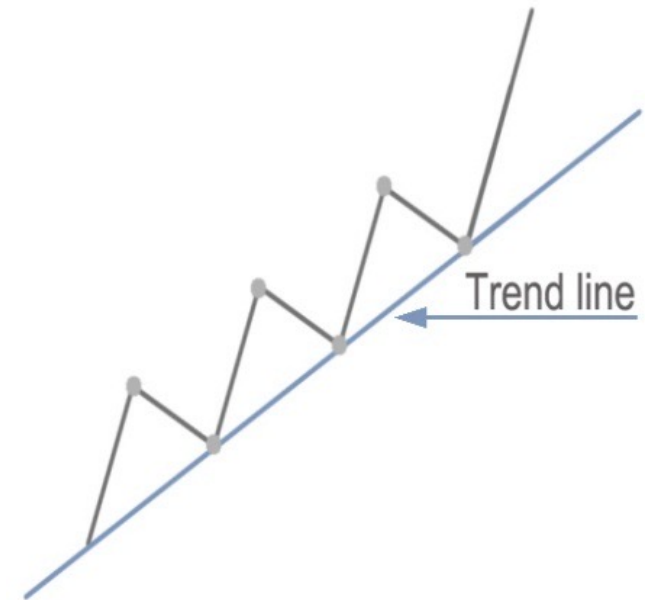




The Trendlines

Trendlines are dynamic (oblique) support/resistance lines.

To draw a trendline, two points are needed (minimum in an uptrend, maximum in a downtrend), a third to confirm its validity.





The Trendlines

After locating the third point, it will be possible to trade when prices reach the trendline.

As with static layers:

- when a resistance trendline is breached, it becomes a support trendline, and vice versa;
- The more a trendline is touched without being breached, the more important it is.



The Trendlines

Normally, a trendline is plotted on the highs/lows of the candlestick and not on the opening/closing prices.

A trendline that is too "flat" highlights a vulnerable trend that is difficult to sustain over time.

Similarly, a trendline that is too "steep" highlights a trend that is difficult to sustain over time, as prices are moving too quickly.



The Trendlines

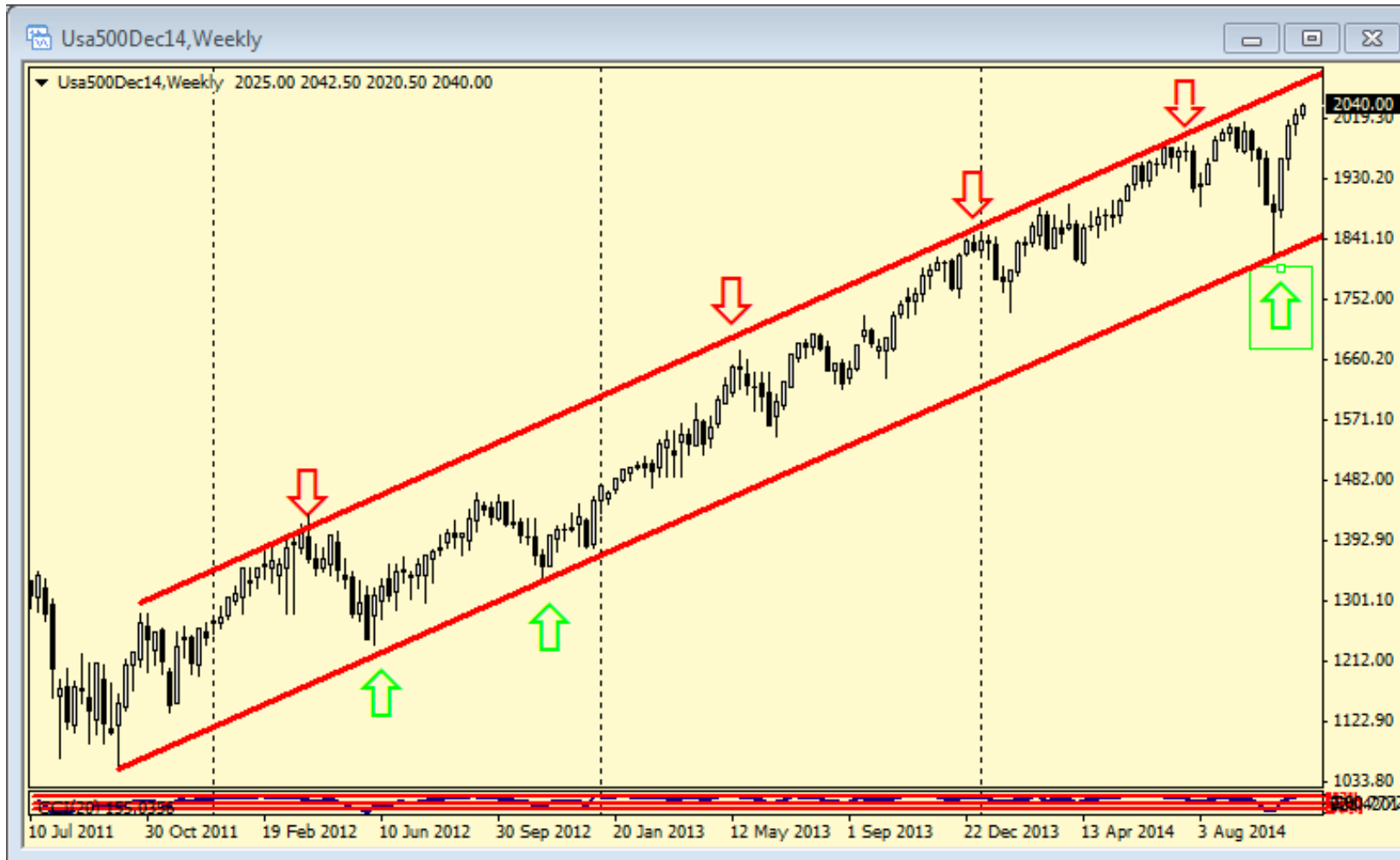
A trendline plotted on a weekly chart is more important than a trendline plotted on a daily chart, but less important than a trendline plotted on a monthly chart.

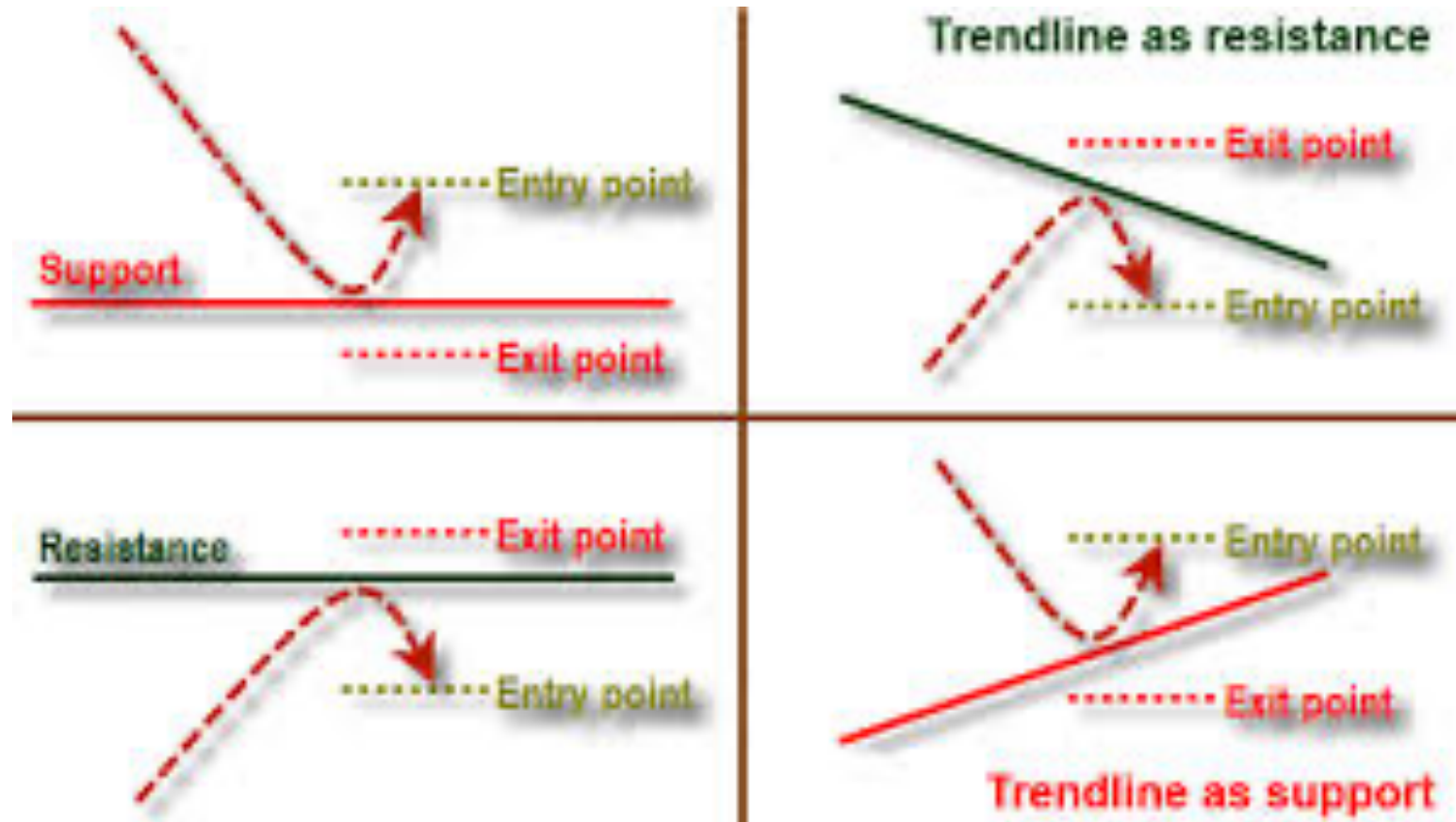
A trendline obtained by joining two lows that follow each other a few days apart has reduced reliability compared to a trendline obtained by joining peaks that occur at a considerable distance of time.







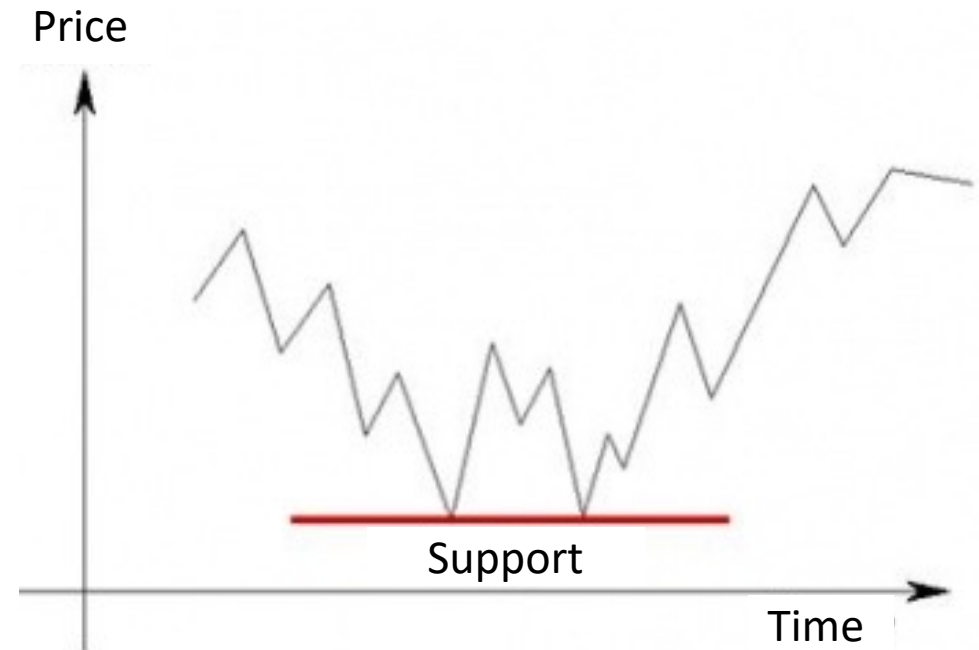






Supports and Resistances

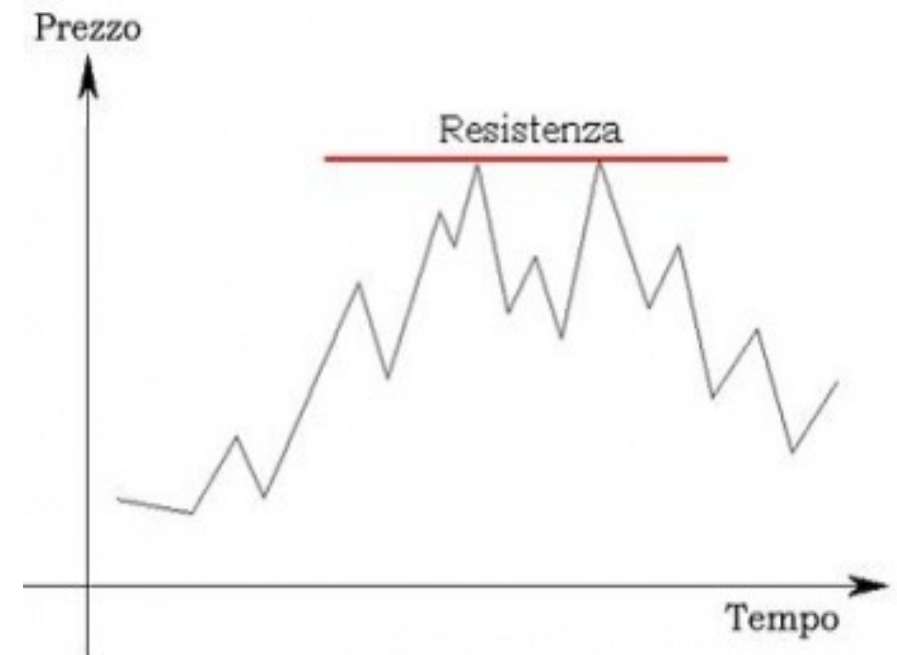
Support is the price level at which there is a concentration of demand that prevents prices from falling for a significant period of time.





Supports and Resistances

Resistance is the price level at which there is an increase in sales volumes sufficient to counter buying volumes, so as to prevent prices from rising for a certain period of time.





Supports and Resistances

Support/resistance lines can be drawn either horizontally or obliquely.

SUPPORT



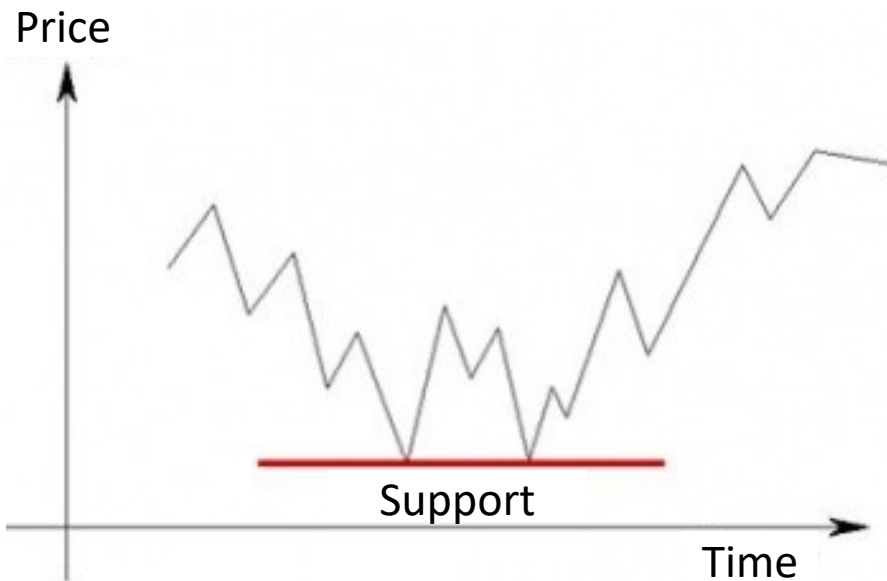
RESISTANCE



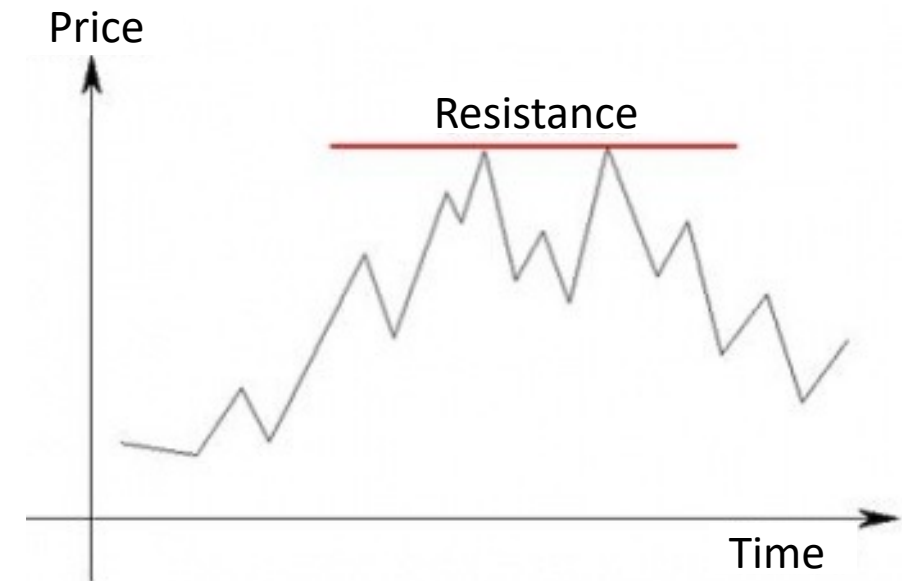


Supports and Resistances

Horizontal support/resistance lines are called static.



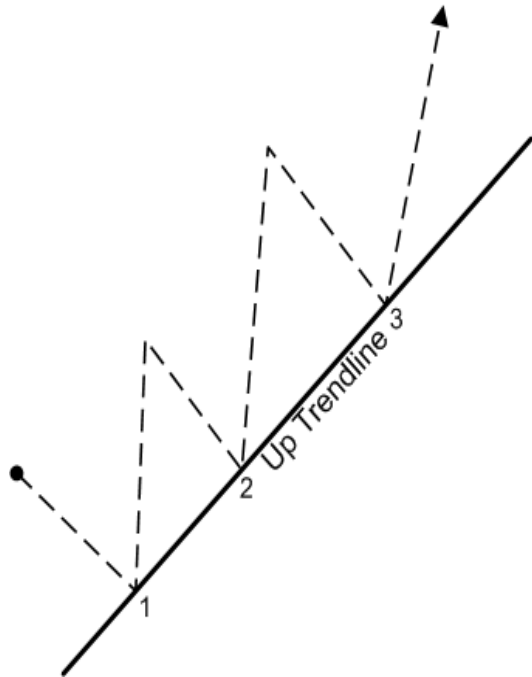
Support/Resistance
"STATIC"



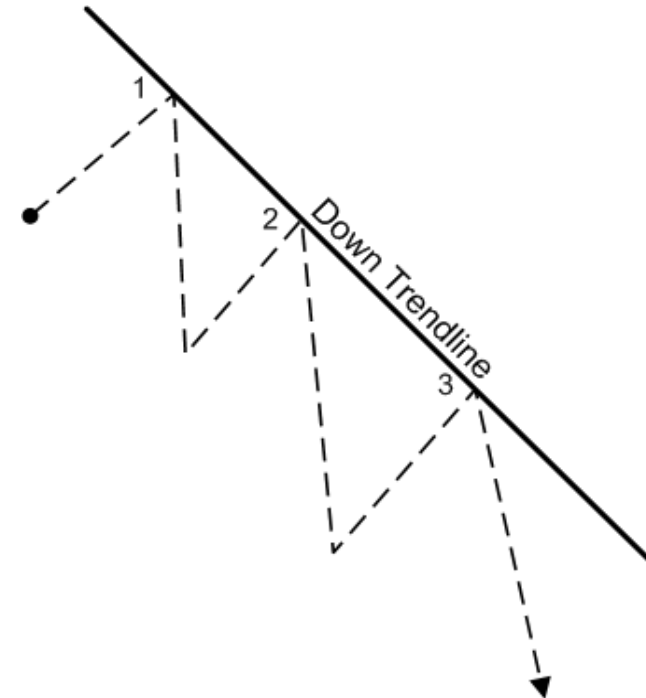


Supports and Resistances

Slanted support/resistance lines (trendlines) are called dynamic.



Support/Resistance
"DYNAMIC"

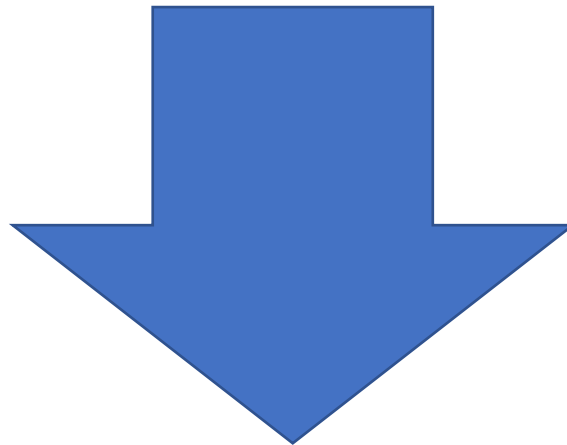




SUPPORTS & RESISTANCE

Let's move on to the "practice"...

Let's look for them together on the market!!





SUPPORTS & RESISTANCE





SUPPORTI & RESISTANCE





SUPPORTS & RESISTANCE





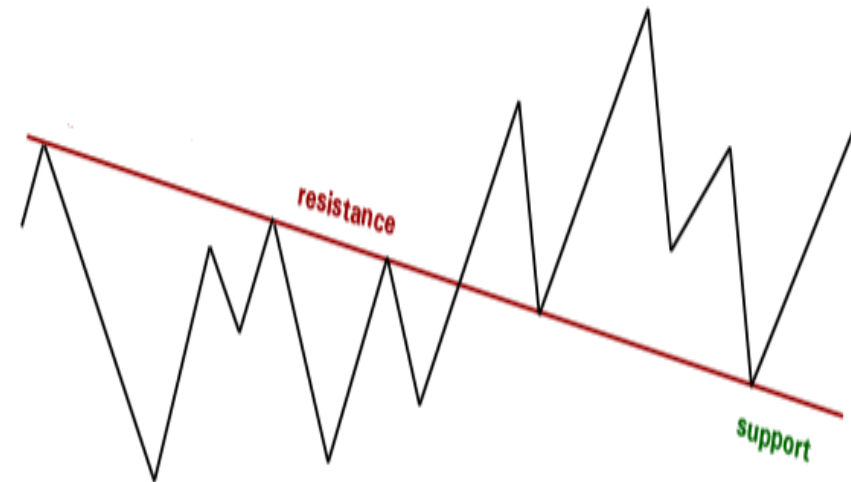
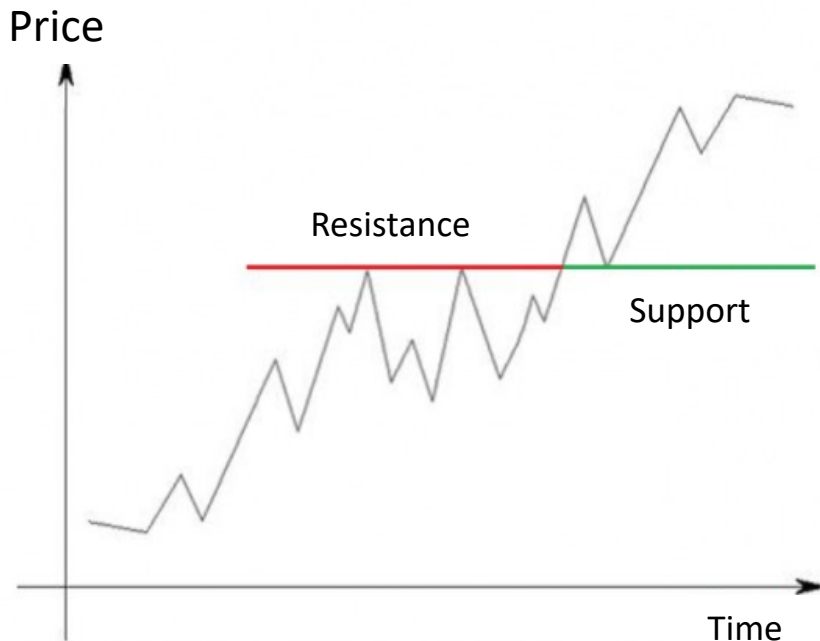
SUPPORTS & RESISTANCE





Supports and Resistances

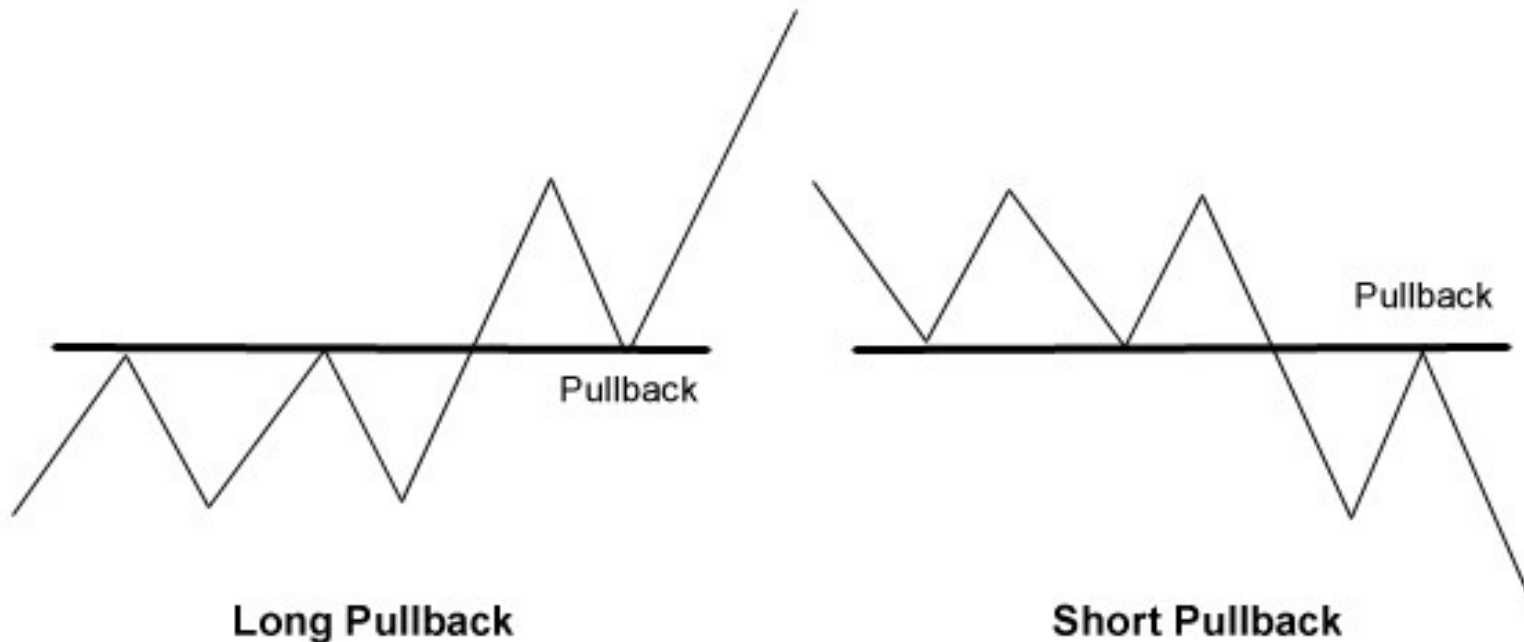
When a resistance is breached, it becomes a support level;
When a support is broken, it becomes a resistance.





Supports and Resistances

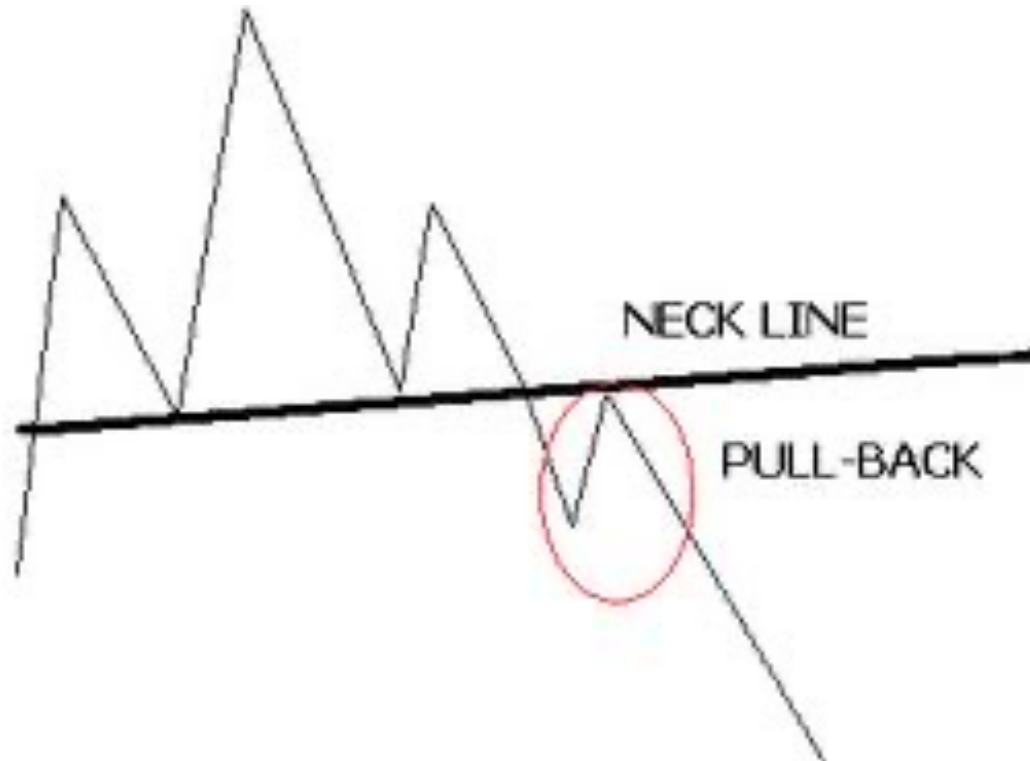
Pullback concept: "temporary" return to a support or resistance level after it has been pierced.





Supports and Resistances

Bearish pullback





Supports and Resistances

Bearish Pullback after static support breach





Supports and Resistances

Bearish Pullback after dynamic support breach





Supports and Resistances

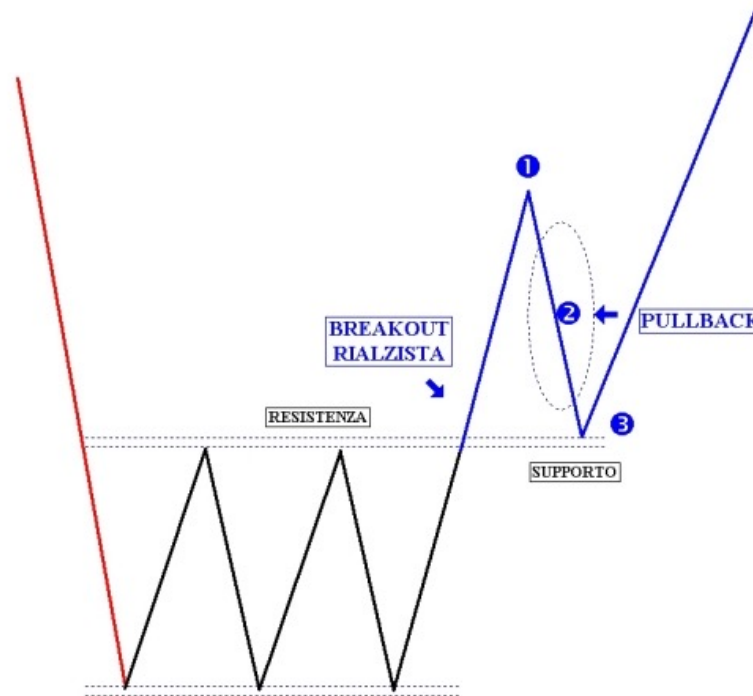
Bearish Pullback after dynamic support breach





Supports and Resistances

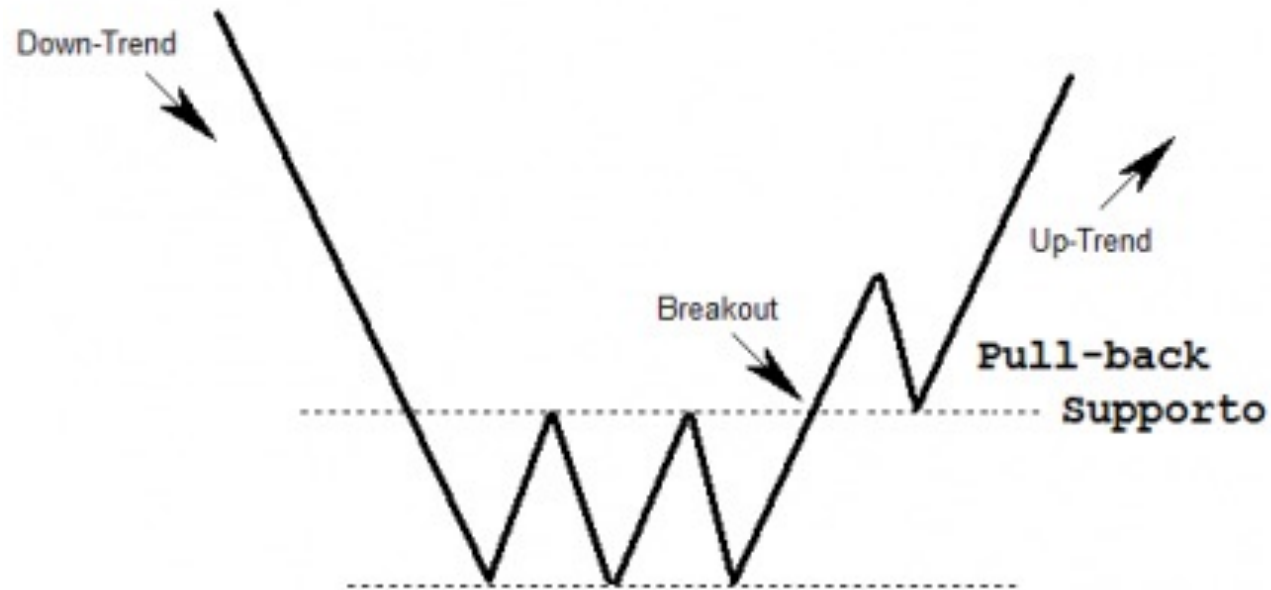
Bullish pullback





Supports and Resistances

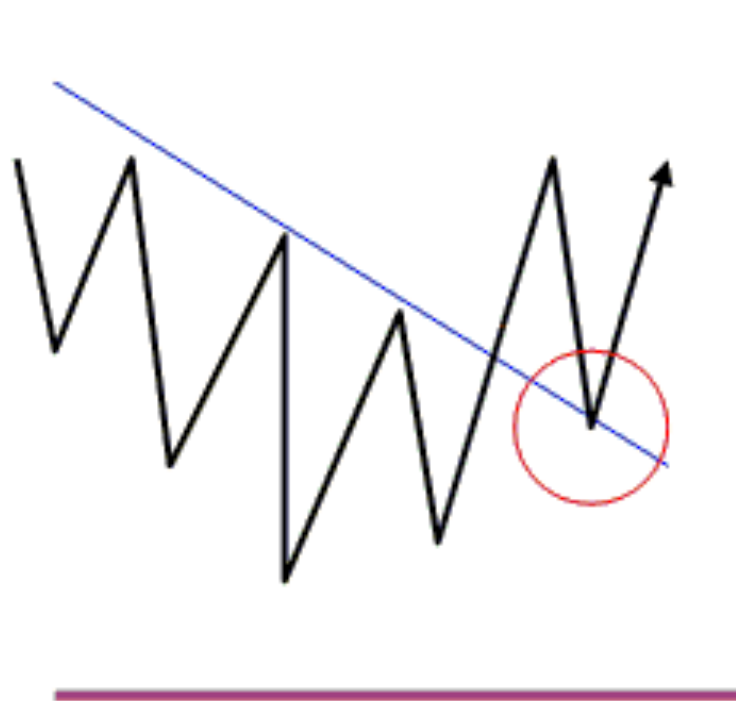
Bullish pullback after breach of static resistance





Supports and Resistances

Bullish pullback after breach of dynamic resistance

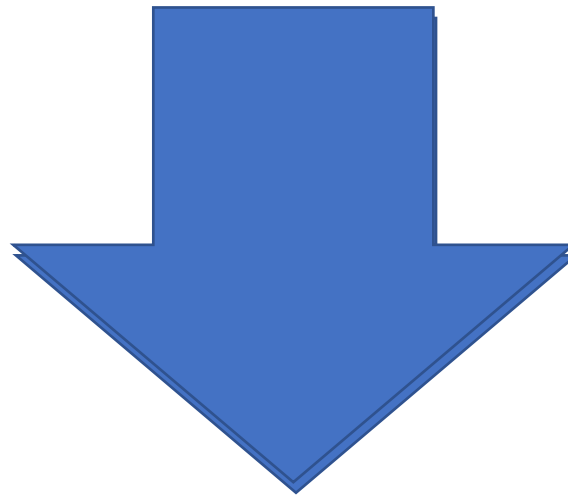




BULLISH & BEARISH PULLBACKS

Let's move on to the "practice"...

Let's look for them together on the market!!



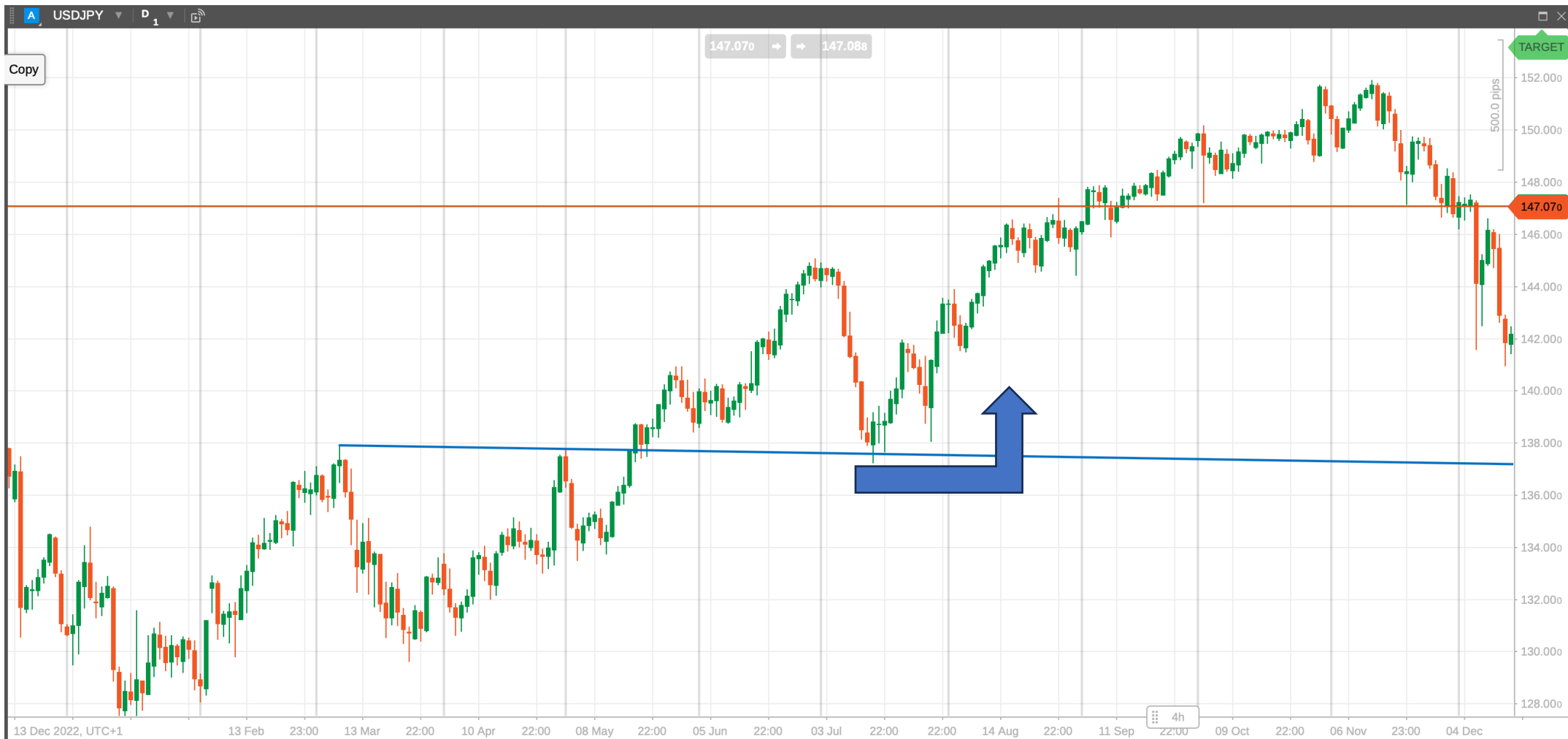


BULLISH & BEARISH PULLBACKS



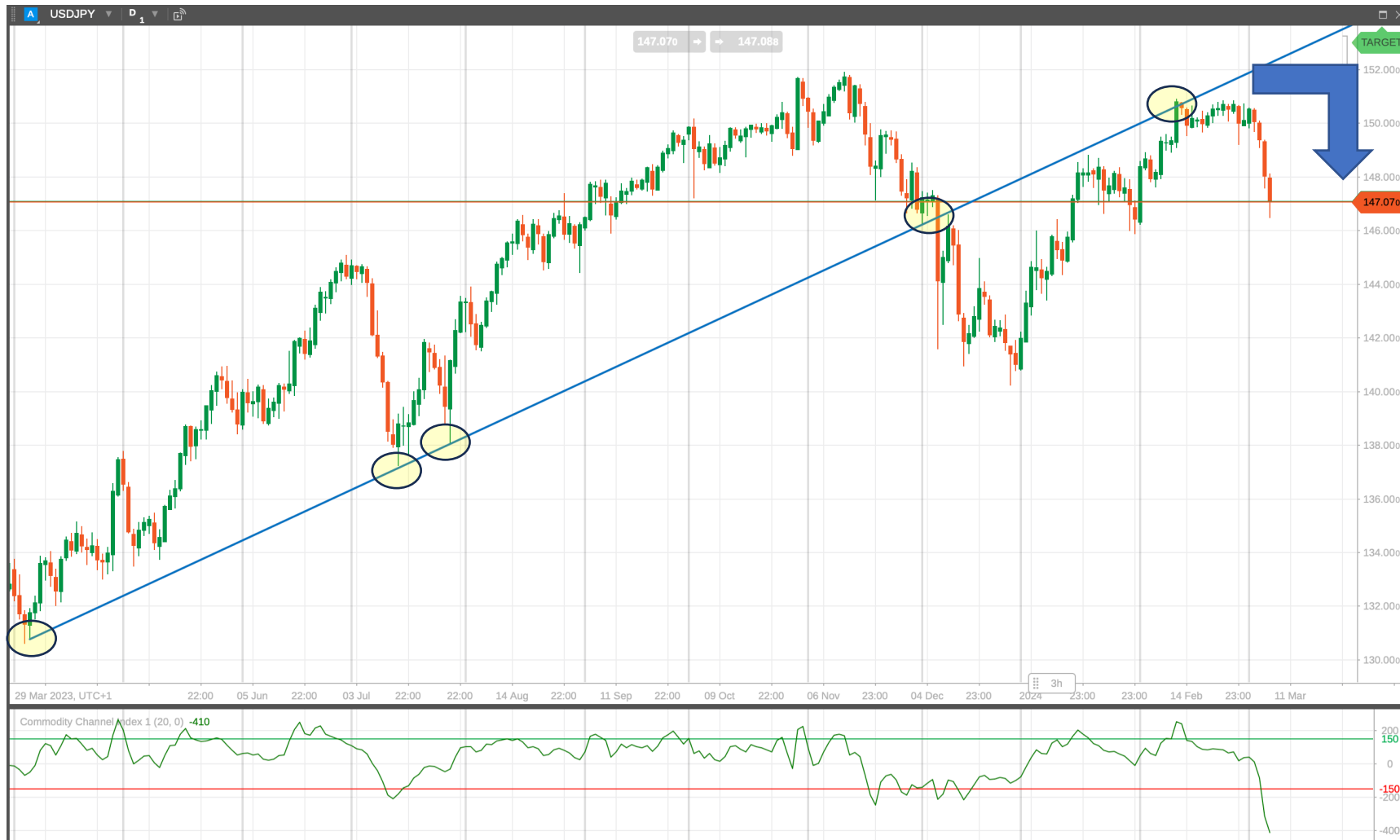


BULLISH & BEARISH PULLBACKS





BULLISH & BEARISH PULLBACKS





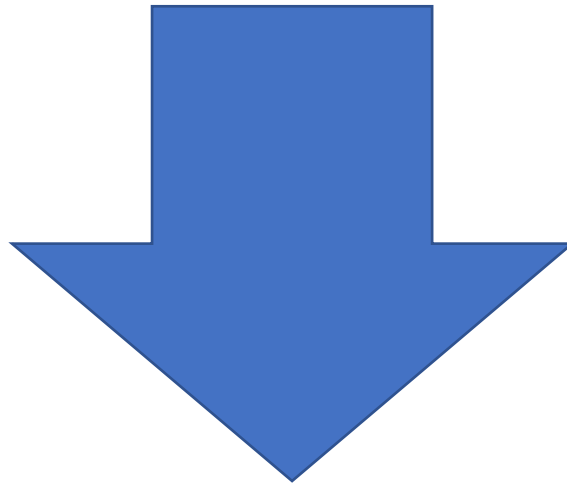
BULLISH & BEARISH PULLBACKS





SUPPORTS & RESISTANCES

CONCLUSIONS...





Supports and Resistances

The longer the time that prices move around support/resistance levels, the greater the value of these levels compared to those formed in a shorter time frame.



Supports and Resistances

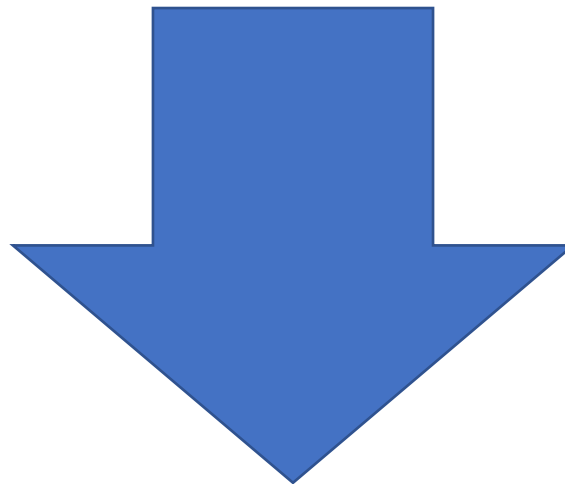
A newer support/resistance level is more important than a level further back in time.



Supports and Resistances

Round numbers act as psychological levels of support/resistance.

So what...





Supports and Resistances

It is not convenient to place orders in correspondence with round numbers: if you want to take a long position, it is better to place the order just above a round number; If you want to take a short position, it is best to place the order just below a round number.

- **StopLoss** on **long** positions, they should be placed under a round number.
- **StopLoss** on **short** positions, they should be placed above a round number.

TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 5

**Figures of reversal or continuation of a
trend:**

**let's learn to recognize them and
exploit them**





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PROGRAM

10 LESSONS

1. Basics and Origins of Technical Analysis: The DOW Theory
2. Charts and prices: the main ways to visualize price developments
3. Defining a trend and trending: how to spot and follow them profitably
4. The main chart configurations: supports, resistances and pullbacks
5. **Figures of reversal or continuation of a trend: we learn to recognize and exploit them**
6. Volumes and moving averages: strengths and weaknesses
7. The main indicators and oscillators: how to choose the most useful and suitable for each market condition
8. Charts and time: the right time frame for our operational analysis
9. Intermarket analysis: we learn to define the dominant drivers and trends in the market
10. Leverage, money and risk management: how to control and monitor the sustainability of your investments



Lesson 5

**Pattern of reversal or continuation of a trend:
let's learn to recognize them and exploit them**



Inversion Figures

The eternal battle between buyers and
sellers...



Inversion Figures

From a technical point of view, the reversal patterns represent the phases of transition from one trend to another and are indicated by precise graphic configurations, the completion of which sanctions the reversal of a trend, often of primary importance.

The most recognizable reversal patterns are:

Head & Shoulders
Double Top and Double Bottom
Triple Top and Triple Bottom
Bullish divergence
Bearish divergence.



Head and Shoulder

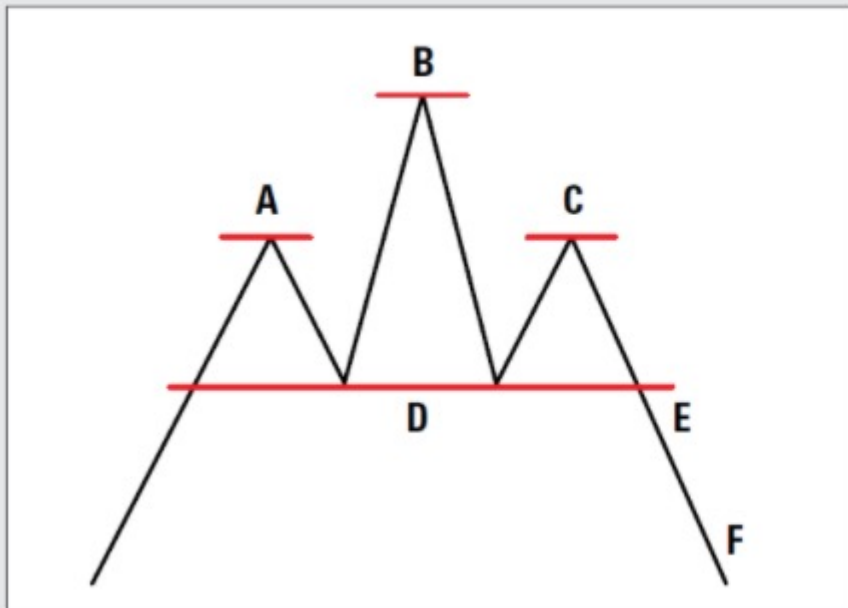


FIGURE - head and shoulders

- A - Left shoulder
- B - Head
- C - Right shoulder
- D - Neckline
- E - Breakout point
- F - Price projection

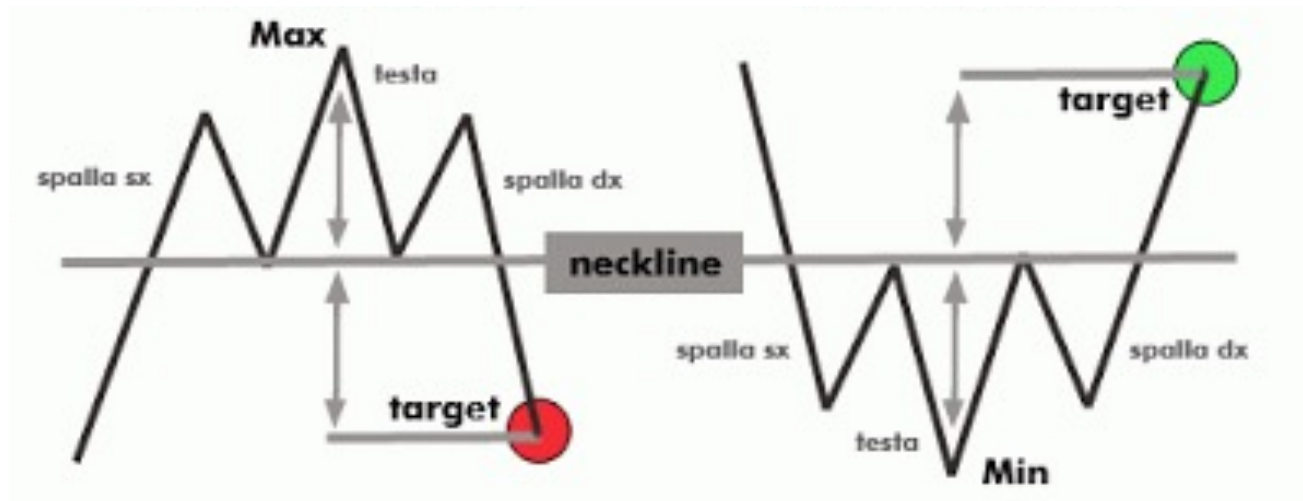


Head & Shoulders

Head & Shoulders

Bearish

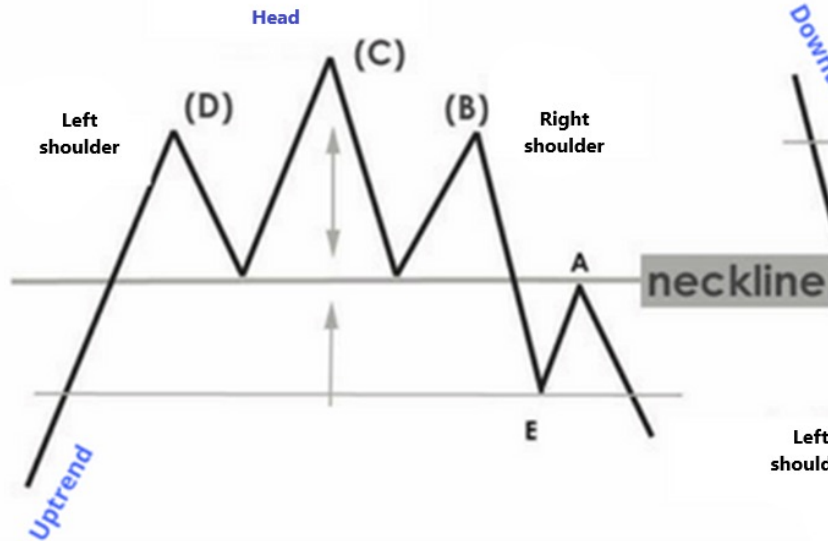
Bullish



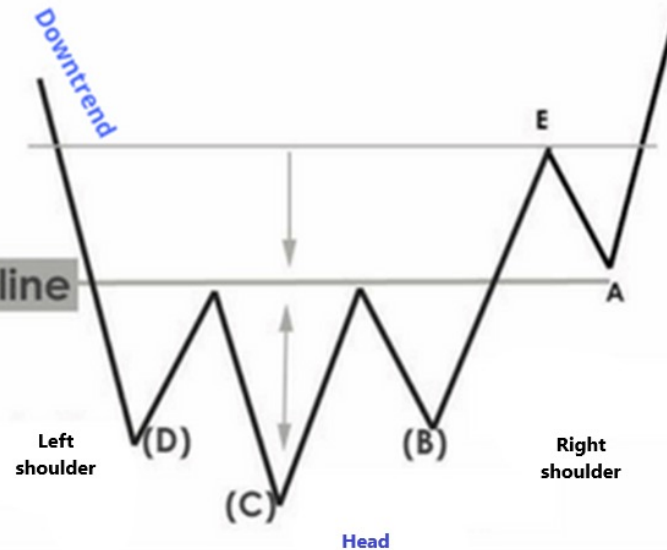


Head and Shoulder

BULLISH



BEARISH





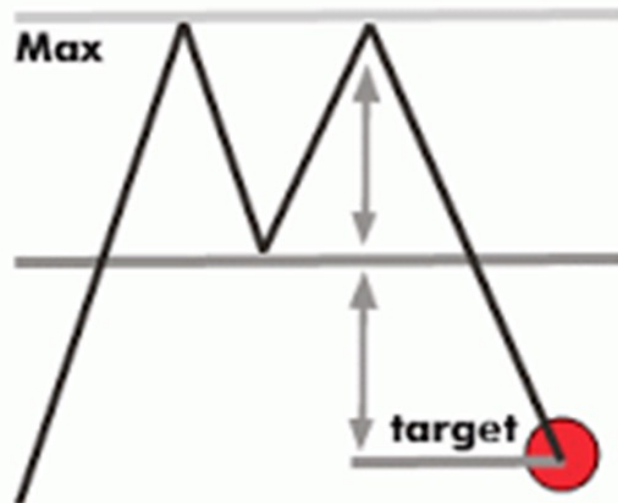
Head and Shoulder



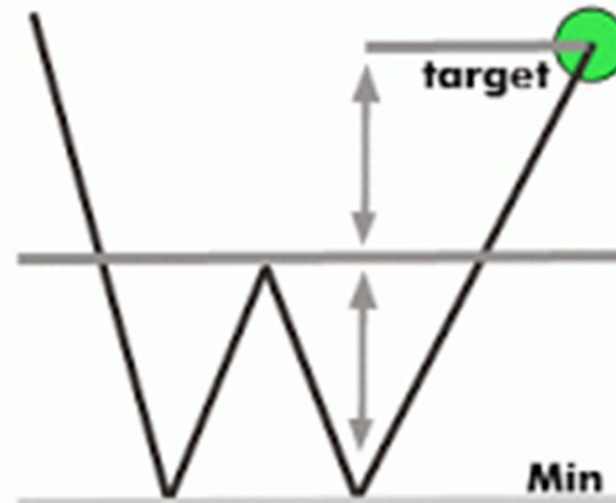


Double High and Double Low

**DOUBLE
HIGH**

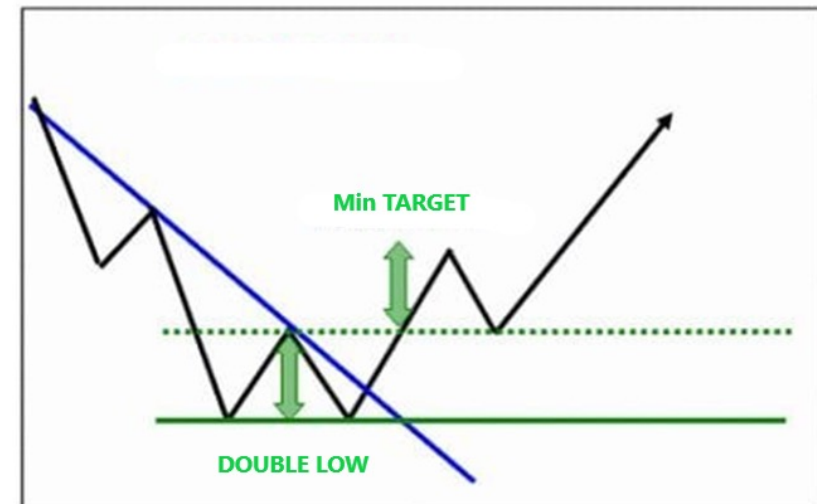
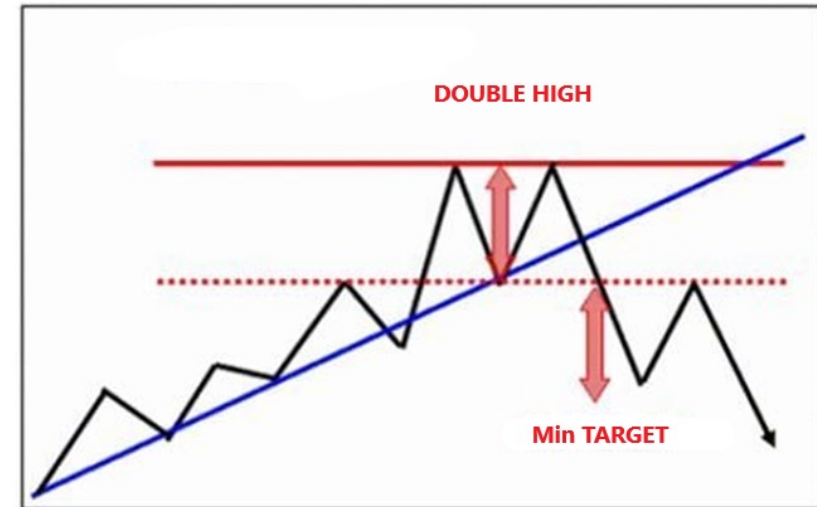


**DOUBLE
LOW**





Double High and Double Low

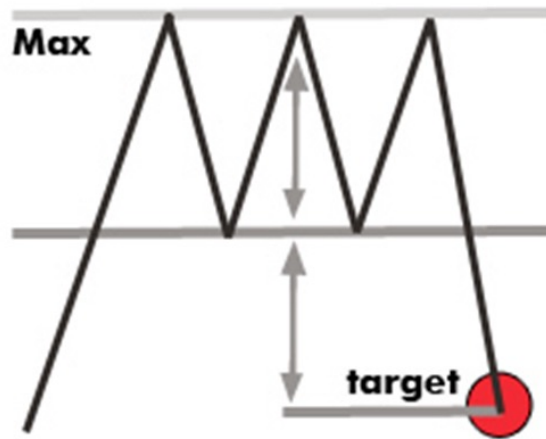




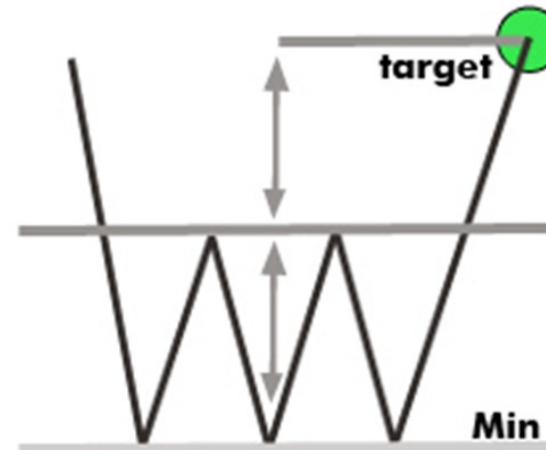
Triple High and Triple Low

TRIPLE

HIGH

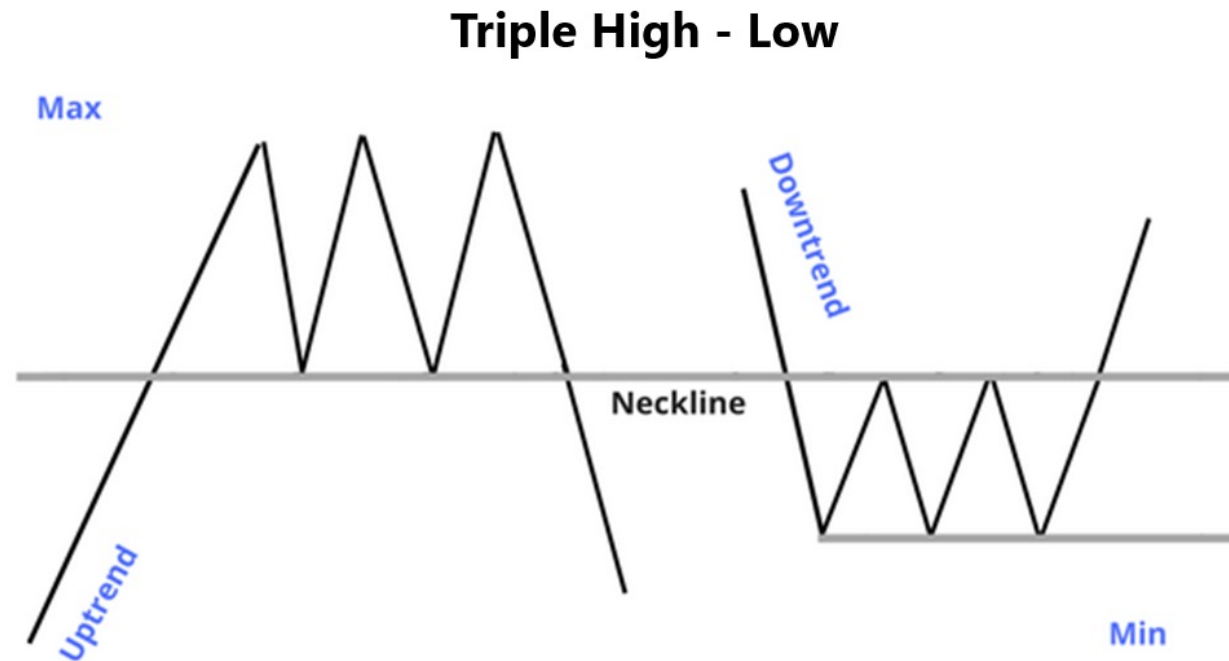


LOW



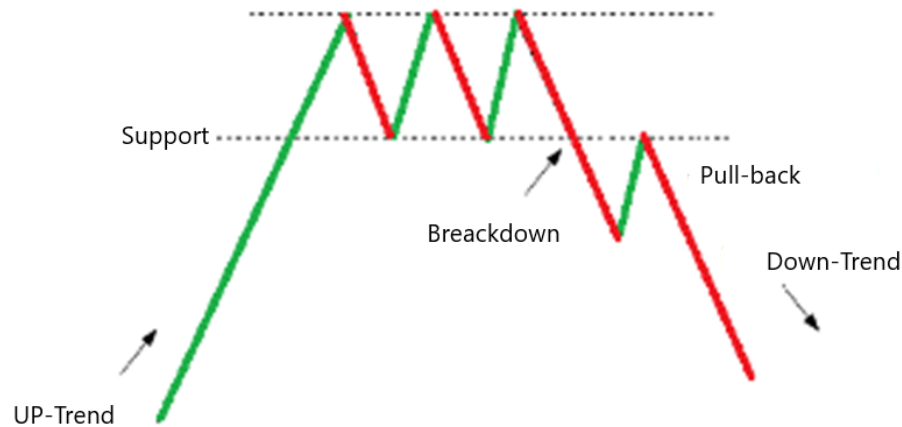


Triple High and Triple Low

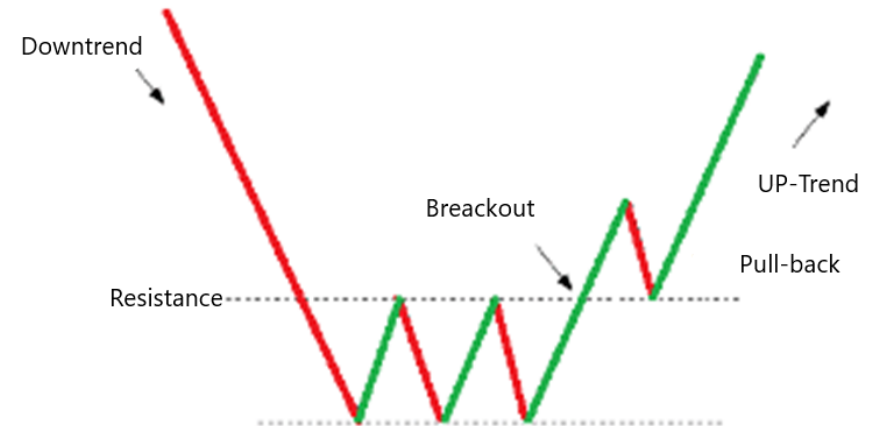




Triple High and Triple Low



Triple High (Bearish)



Triple Low (Bullish)



Reversion Figures

However, not everything is always so simple and regular...

In the «TRIANGLES» for example...



Reversing triangles

The battle between buyers and sellers is not as regular as in the triple top, triple bottom or reversal rectangles, here the bullish and bearish forces compress their volatility with the passage of time and then cause a violation of the trading range and the start of a new directional movement. The real discriminating factor is the size of the figure configuration and its temporal extension.

Usually an extended configuration is a reverse configuration while a small one is a continuation, a feature that applies to any graphic figure.

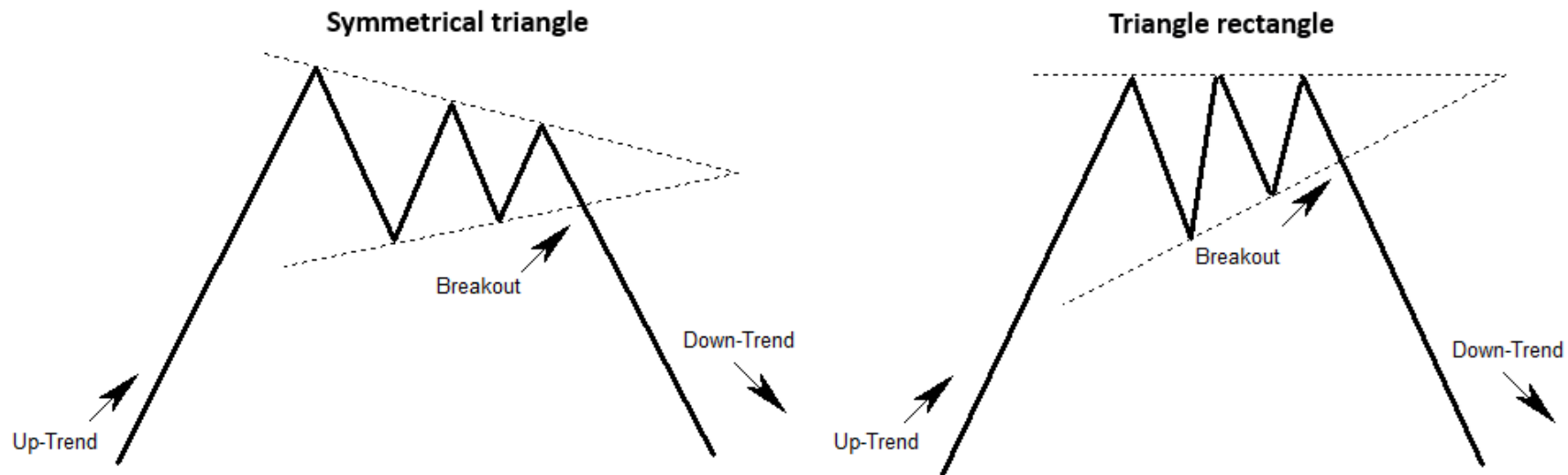
In the light of these elements, once a triangle has been traced, is it still worth anticipating its signal?





Reversing triangles

Generally no, the disciplined trader will always have to wait for the figure to break in one of the two directions and never anticipate the supposed bullish or bearish implications.

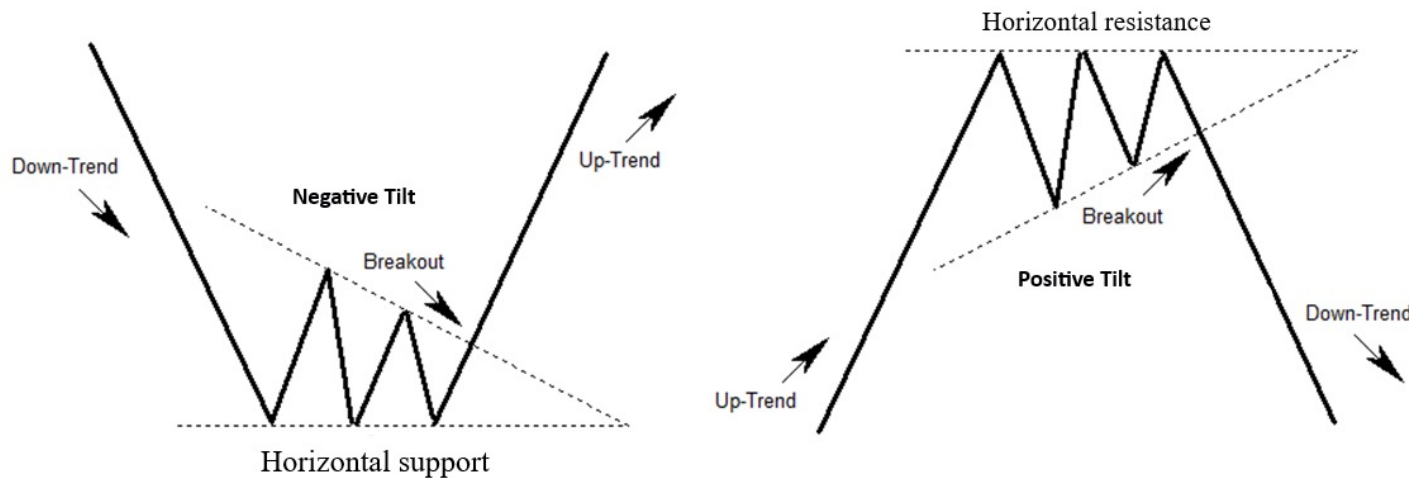




Reversing triangles

In practice, what differentiates symmetrical triangles from right triangles is the level reached by the second reaction.

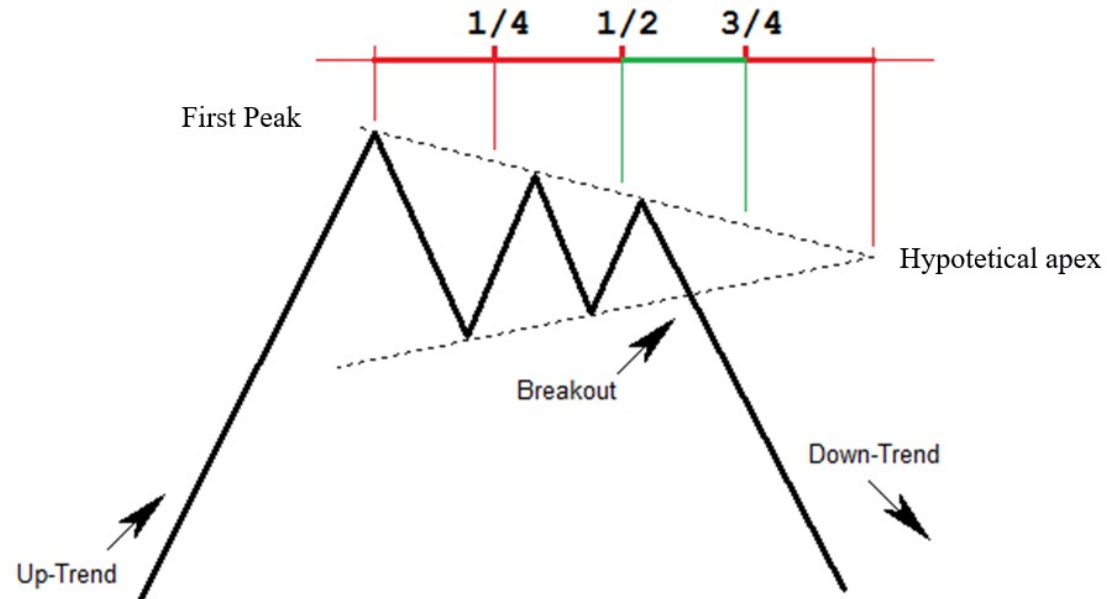
Symmetrical triangles have their own dividing lines sloping differently, one positively, the other negatively, while the right triangle has one of the two lines substantially horizontal.





Reversing triangles – the breaking point

A basic requirement for evaluating triangles is the breaking point of the figure which, in order to be reliable, it must necessarily take place between half and three-quarters of its development, measured from the first peak to the hypothetical peak. The break-up must trigger interest from the market and therefore the volumes must increase.





Reversing triangles – the pull-back

It is not uncommon for prices in triangles to return to the outer lines once the break has taken place, creating a **pull-back**. These moves must occur at lower volumes than those that characterized the breakout, and provide additional entry opportunities.

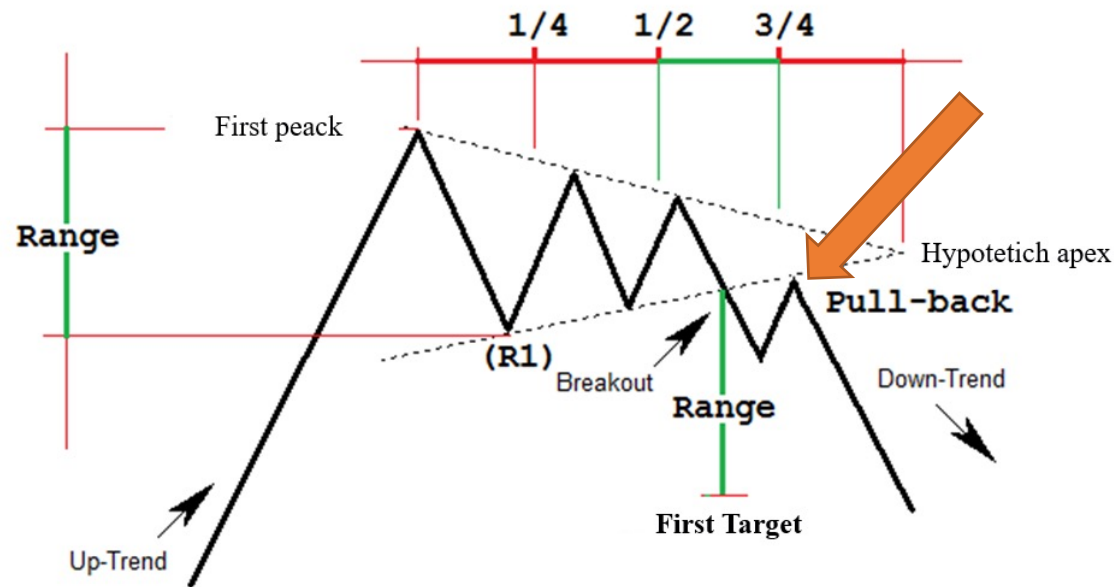
If, on the other hand, the pull-back occurs with sustained volumes and, perhaps as a result of a weak break that occurred with low volumes, the signal becomes dangerous both for those who have opened positions and for those who wish to do so in the pull-back.

In any case, when a pull-back is formed and prices touch the outer boundaries of the figure, the quotations must move away with speed and recovering volumes, even if, in downward breaks, the presence of sustained volumes is a less stringent condition.



Reversing triangles – the pull-back

In any case, when a pull-back is formed and prices touch the outer boundaries of the figure, the quotations must move away with speed and recovering volumes, even if, in downward breaks, the presence of sustained volumes is a less stringent condition.





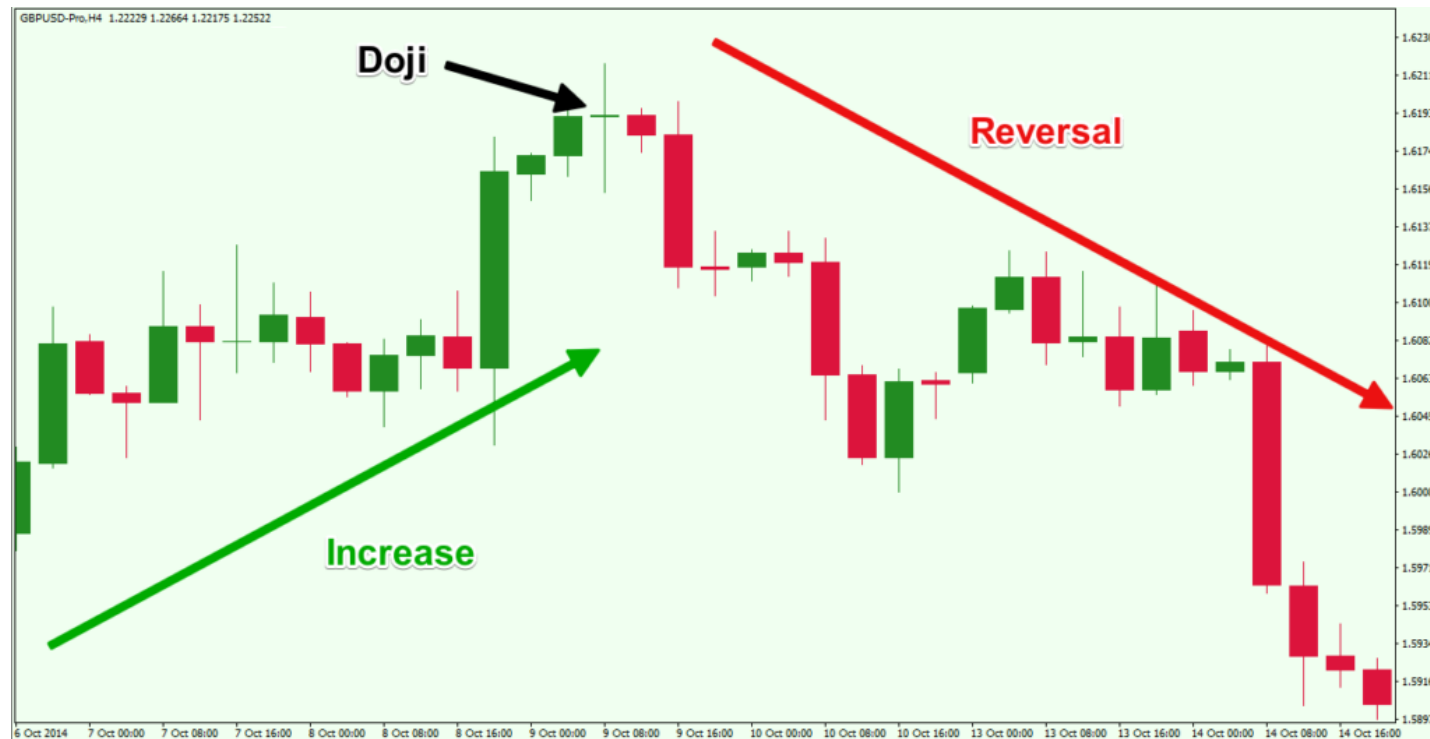
Reversal Figures

As an alternative to the figures represented, all of which are "graphically justifiable", alternative inversion figures can be identified thanks to the study and interpretation of some "CANDLESTICK" configurations



Reversal Figures

«Doji Candle»





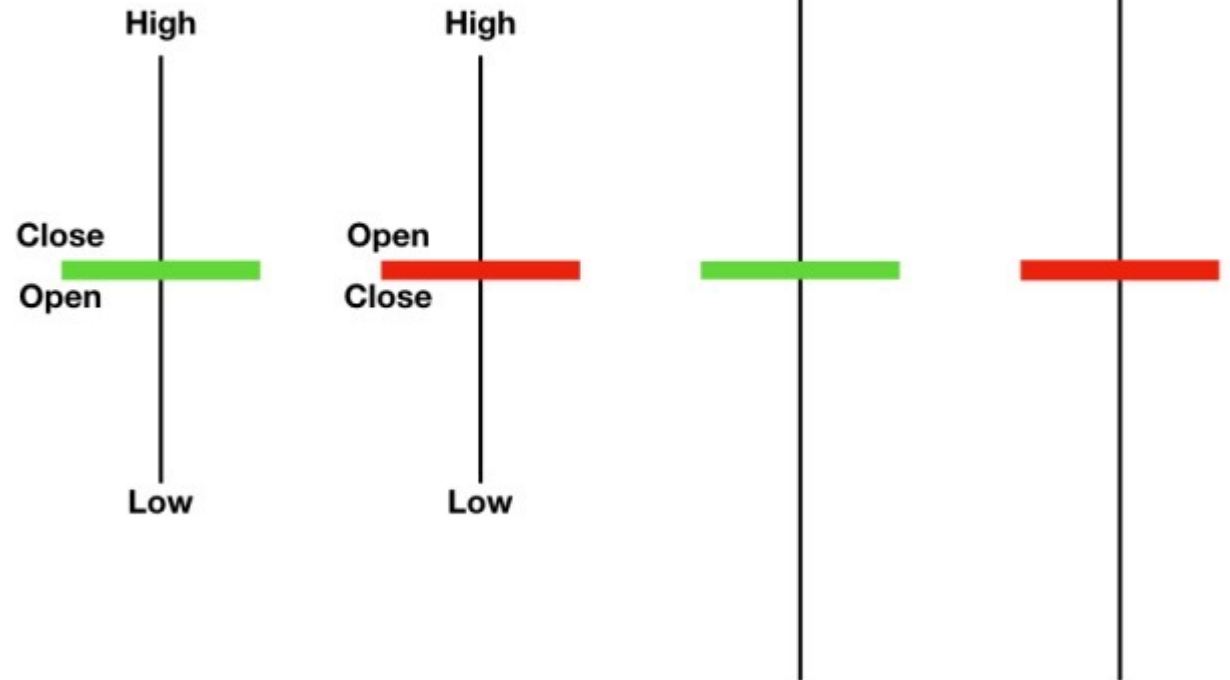
Reversal Figures

«Doji Candle»

The Doji candlestick is one of the most popular candlestick reversal patterns, and its structure is easily recognizable.

The Doji candle, a structure characterized by a single candle, is formed when the opening and closing prices of a bar coincide.

Doji Candlesticks





Reversal Figures

«Doji Candle»

At first glance, the Doji candle "has no body and looks like a cross."

It is typically associated with indecision or the exhaustion phase of the bullish or bearish "momentum" in the market.

The candlestick represents the inability of traders to continue to exert pressure on prices in the same direction as they had been in the same direction as they had been until it appeared.

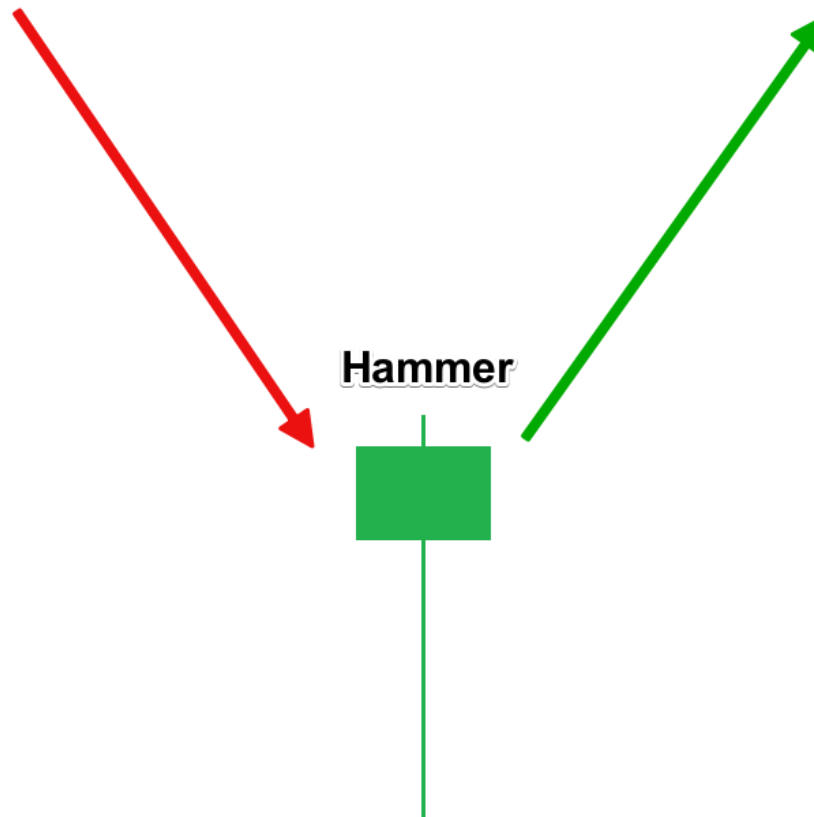
The forces between bearish and bullish therefore tend to "stabilize" and eventually reverse direction.

When it forms after a prolonged trend movement, it can also anticipate a strong reversal signal.



Reversal Figures

«Hammer»





Reversal Figures

«Hammer»

The "Hammer" candlestick is also a single-candlestick configuration and often anticipates a trend reversal.

The main feature is to have a very small body, a small or non-existent upper shadow, and a very long lower shadow.

Bullish Hammer

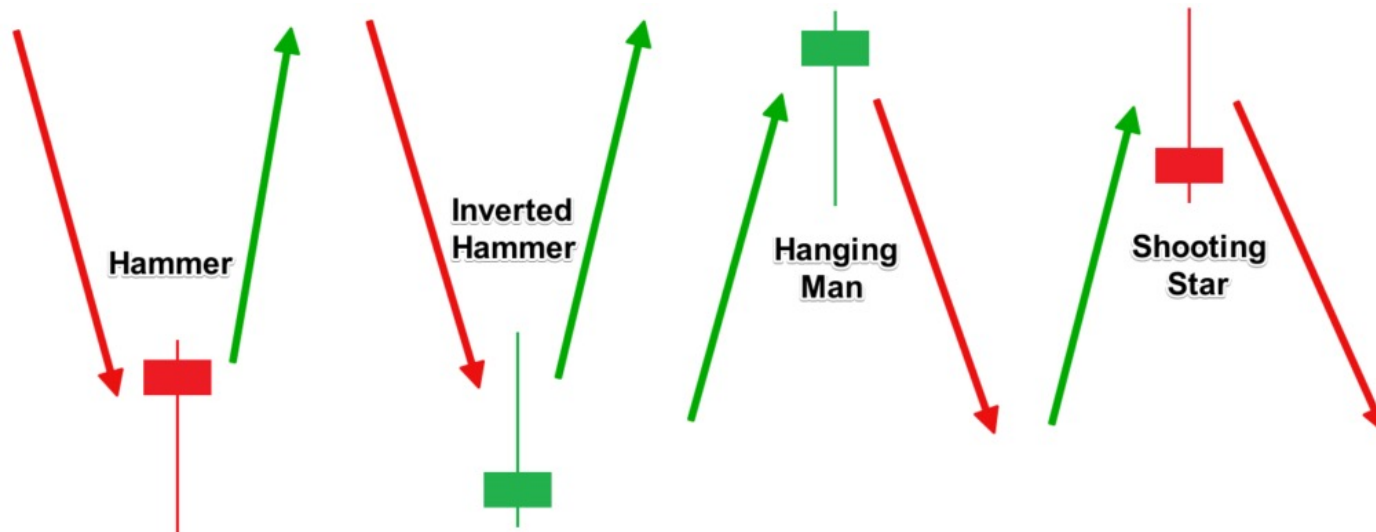




Reversal Figures

«Hammer/Shooting Star»

There are "4 variants" very similar among the "Hammer" candles and are closely linked to the structure of the trend that precedes its formation:



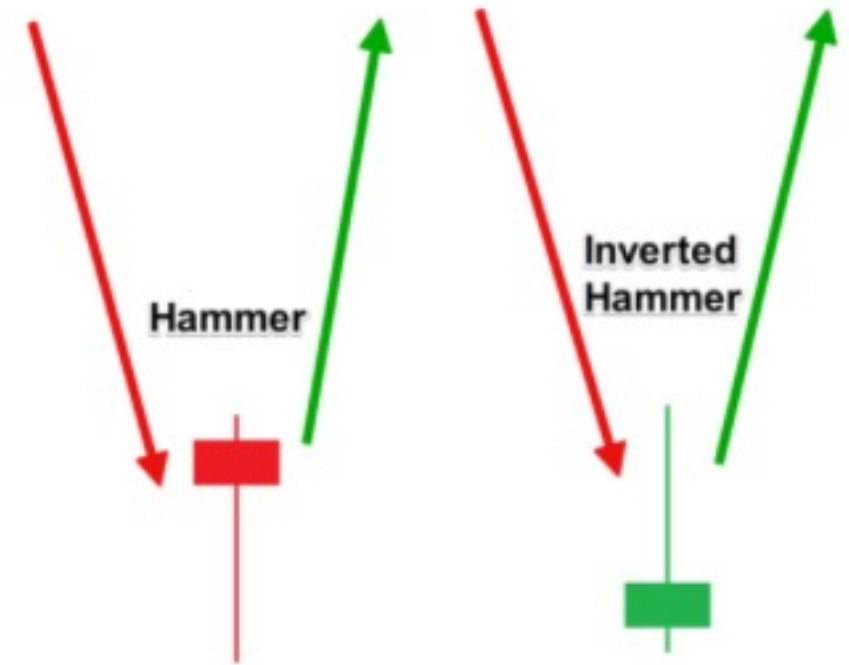


Reversal Figures

«Hammer» - BULLISH

In the first 2 variants, the Hammer candlestick occurs at the end of an obvious bearish trend, which then reverses in a bullish price movement.

The difference between the two candlesticks is that in the second case, the longer shadow is positioned in the opposite direction and this formation is called an "Inverted Hammer".





Reversal Figures

« Hammer – BEARISH »

In this case, we are in the presence of a configuration that appears to be at the peak of a bullish movement.

The «Hanging Man» or «Shooting Star» candlestick anticipates the transition from an uptrend to a downtrend.

If the long shadow is at the lower end, you have the classic feeling of a man (the market...) «Hanged».





Reversal Figures

«Hammer» – Shooting Star BEARISH





Reversal Figures «Engulfing pattern»





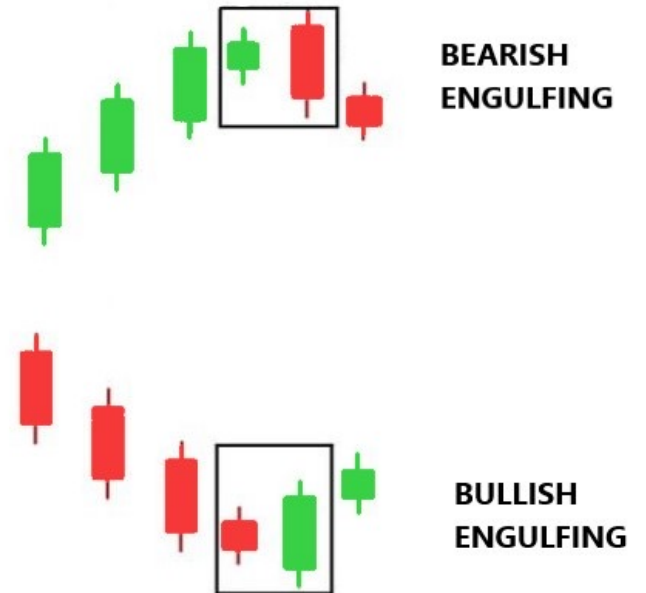
Reversal Figures

«Engulfing Pattern»

The next pattern we'll discuss is the Engulfing pattern, a double candlestick setup.

The engulfing formation consists of an initial candle, which is completely "swallowed" by the next immediate candle.

In practical terms, the body of the second candle plug completely covers the entire body of the first candle plug





Reversal Figures *«Engulfing Pattern»*





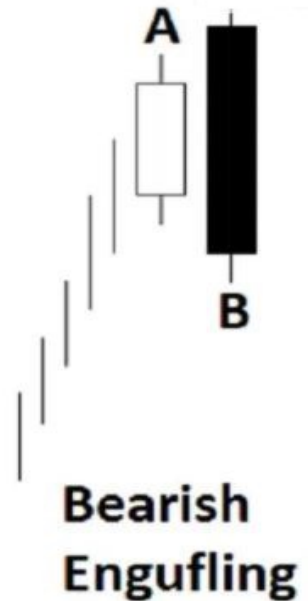
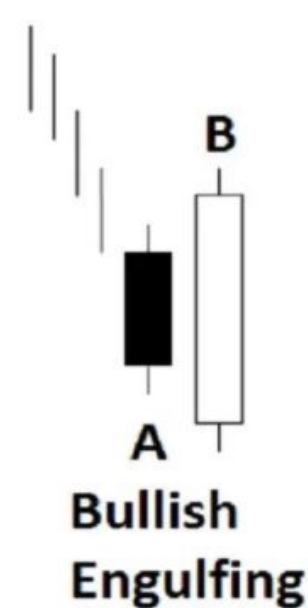
Reversal Figures

«Engulfing Pattern»

There are two types of engulfing patterns: bullish and bearish.

Bullish engulfing appears at the end of a downtrend and signals that the trend may be reversed to the upside. The first candle of the bullish Engulfing should be bearish. The second candle, the engulfing candle, should be bullish and should completely contain the body of the first candle.

The characteristic of the bearish Engulfing pattern is just the opposite. It is located at the end of an uptrend and starts with a bullish candle, the body of which is completely engulfed by the next largest bearish candle.





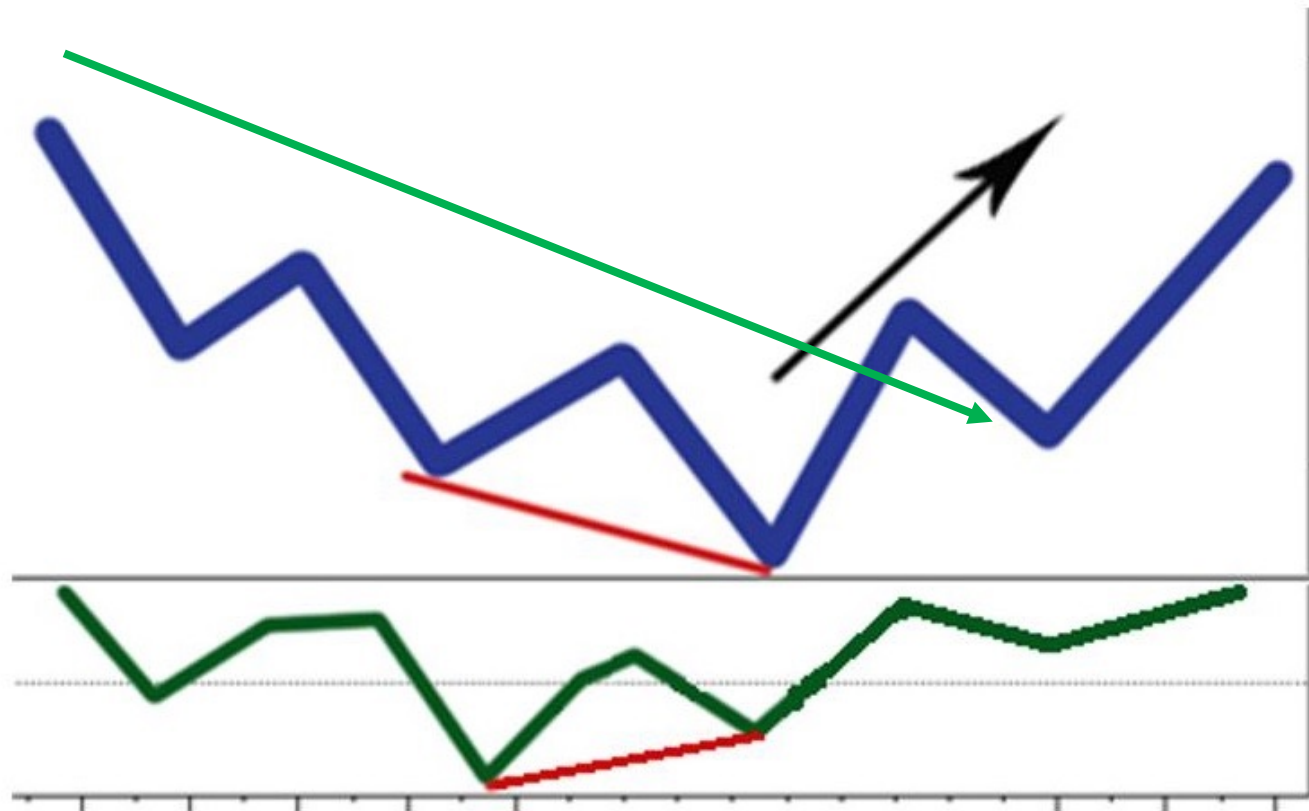
Reversal Figures

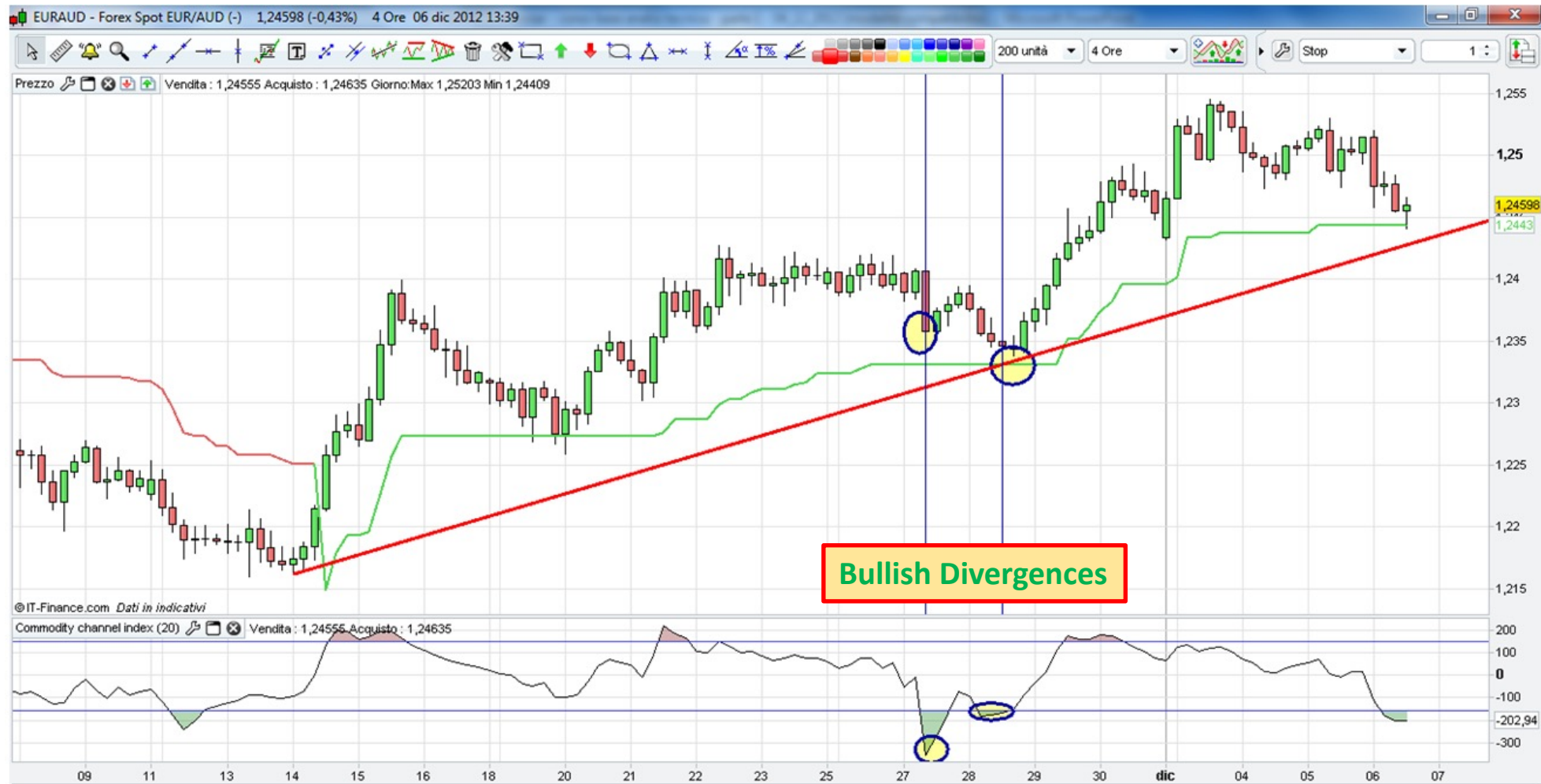


DIVERGENCES...



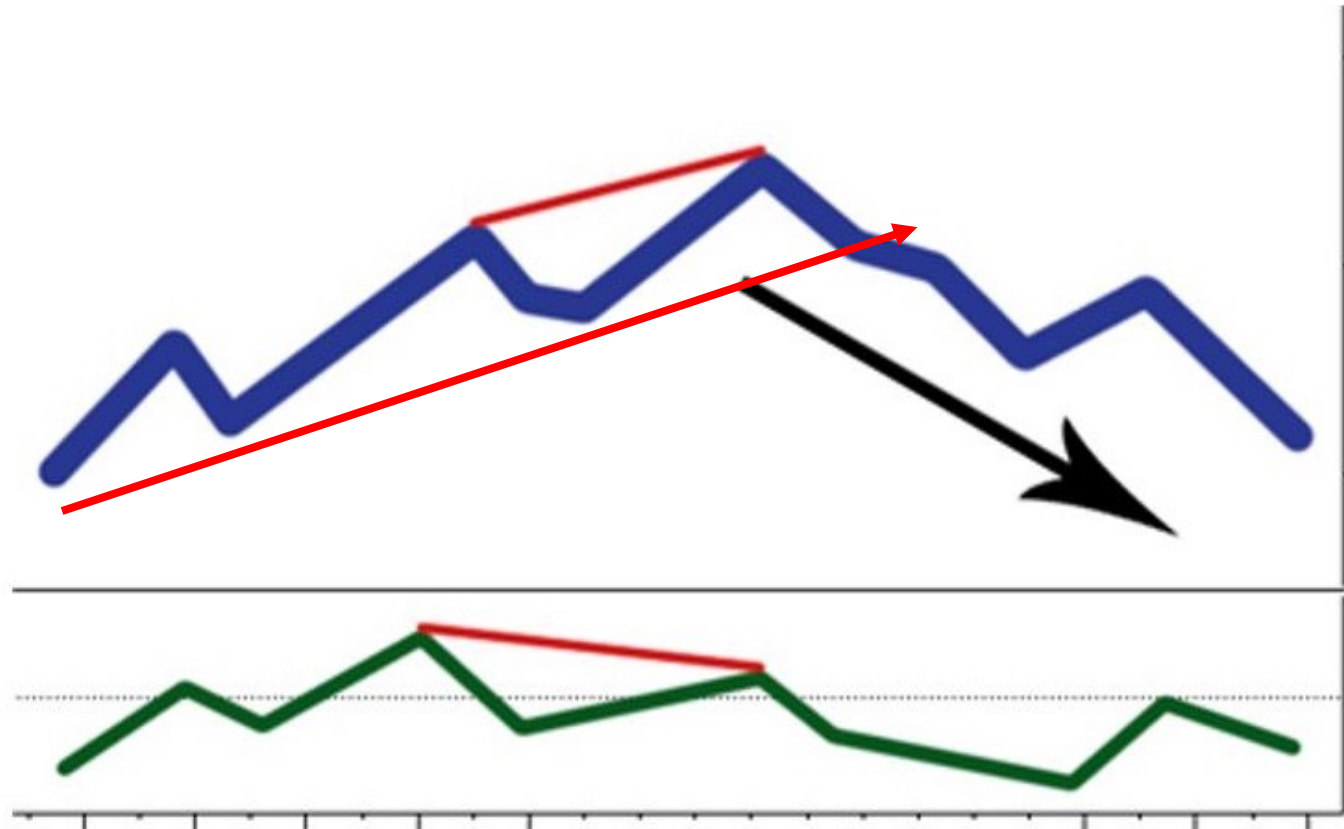
BULLISH DIVERGENCE







BEARISH DIVERGENCE







Bullish and Bearish Divergences: Why Use the CCI?

CCI vs INDICATORS/OSCILLATORS

EASIER TO INTERPRET

MORE SUITABLE FOR FOLLOWING A TREND

AND

ANTICIPATING ITS REVERSAL SIGNALS

LESS HYPERACTIVE THAN OTHER INDICATORS/OSCILLATORS

AT A GLANCE

CCI IS SIMPLER, MORE INTUITIVE AND MORE EFFICIENT



Bullish and Bearish Divergences: why use the CCI?





Bullish and Bearish Divergences: why use the CCI?





Continuations Pattern

Trend is your friend...



Continuations Patterns

When we talk about continuation figures, we are referring to *Consolidation graphic formations.*

Particular graphic configurations that simply represent a moment of *pause* in the evolution of the main trend.



Continuations Patterns

Usually these patterns occur at a time of decreasing trading volumes.

After this price stalemate, however, the trend continues, and it resumes operating with greater strength.

The most classic continuation figures are:

Triangle

Rectangle

Flag

Wedge



Continuations Patterns

TRIANGLE

Graphical configuration represented
from two converging trendlines
at a common point called the "apex"



Continuations Patterns

TRIANGLE

The two main configurations:

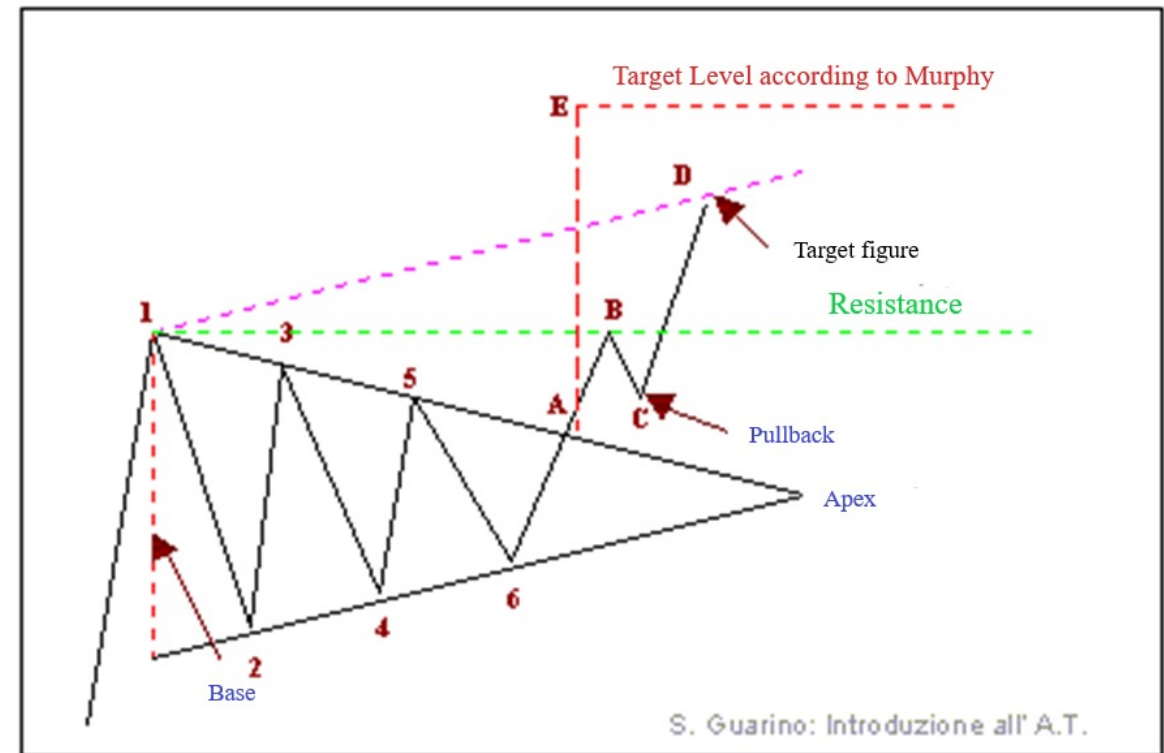
1. SYMMETRICAL TRIANGLE
2. RIGHT TRIANGLE



Continuations Patterns

SYMMETRICAL TRIANGLE (or ACUTE...)

The symmetrical triangle is one of the most well-known continuation figures and graphically represents the phase of momentary slowdown of the main trend, which will then resume its path





Continuations Patterns

SYMMETRICAL TRIANGLE (or ACUTE...)

In most symmetrical triangles, there are generally six points of contact, three decreasing on the upper line and three increasing on the lower line.

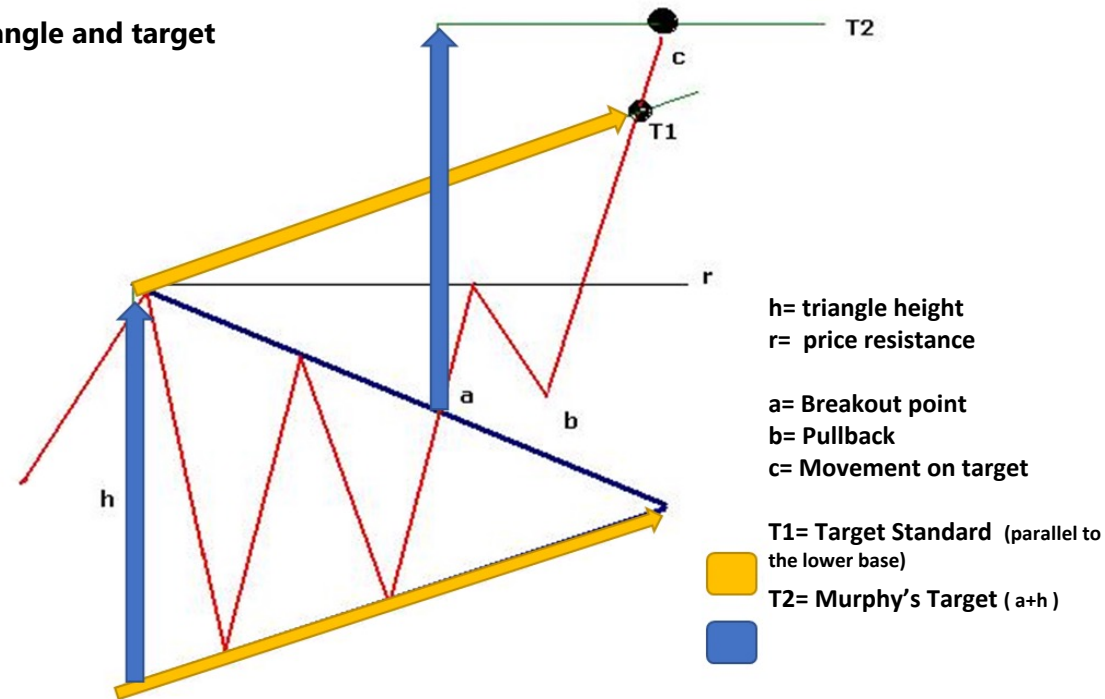
This generates five references before the chart exits the triangular congestion, which is often followed by a pullback attempt before the final recovery.



Continuations Patterns

SYMMETRICAL TRIANGLE (or ACUTE...)- THE TARGET???

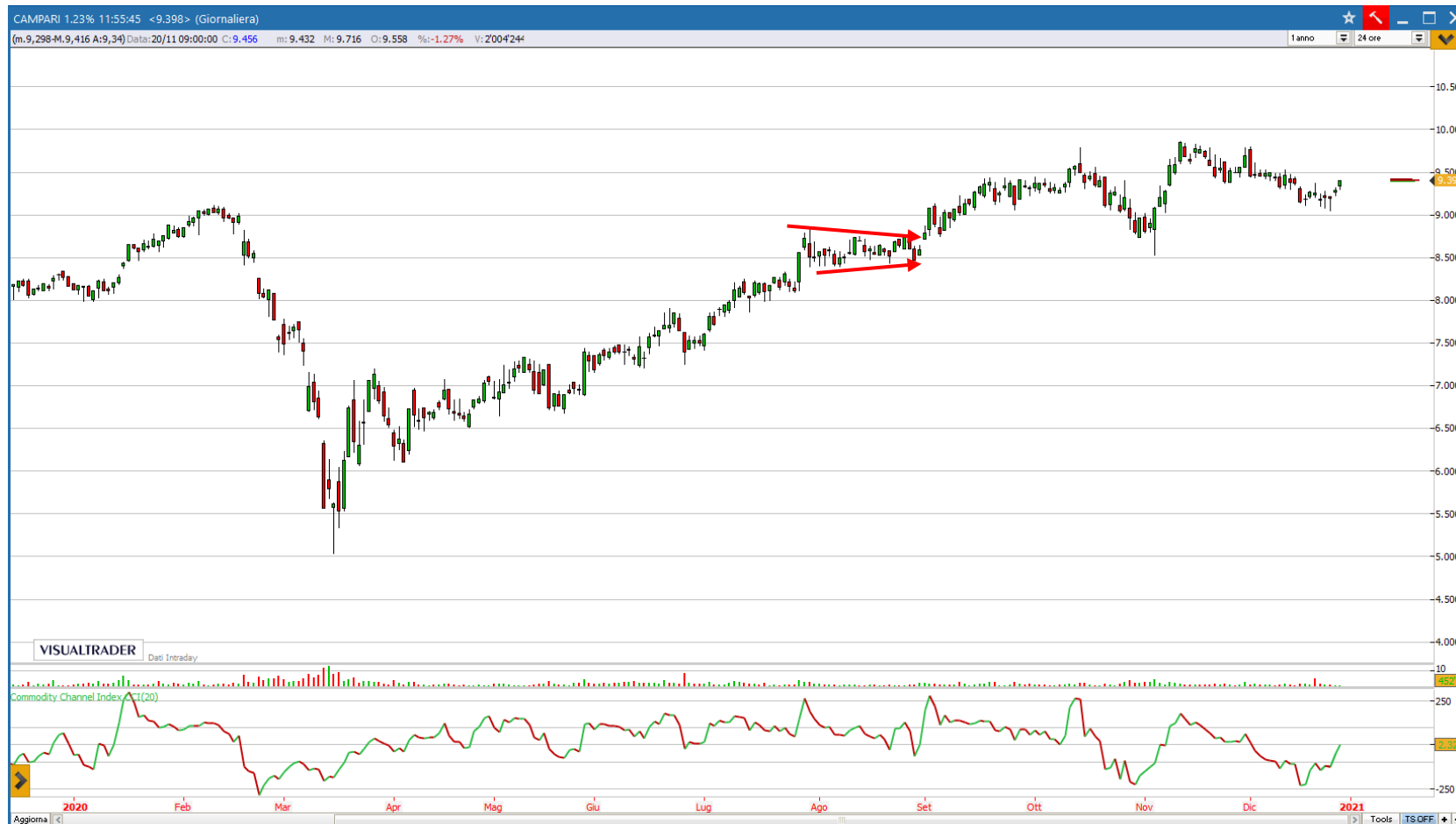
Symmetrical triangle and target





Continuations Patterns

REAL-WORLD EXAMPLES – SYMMETRICAL TRIANGLE

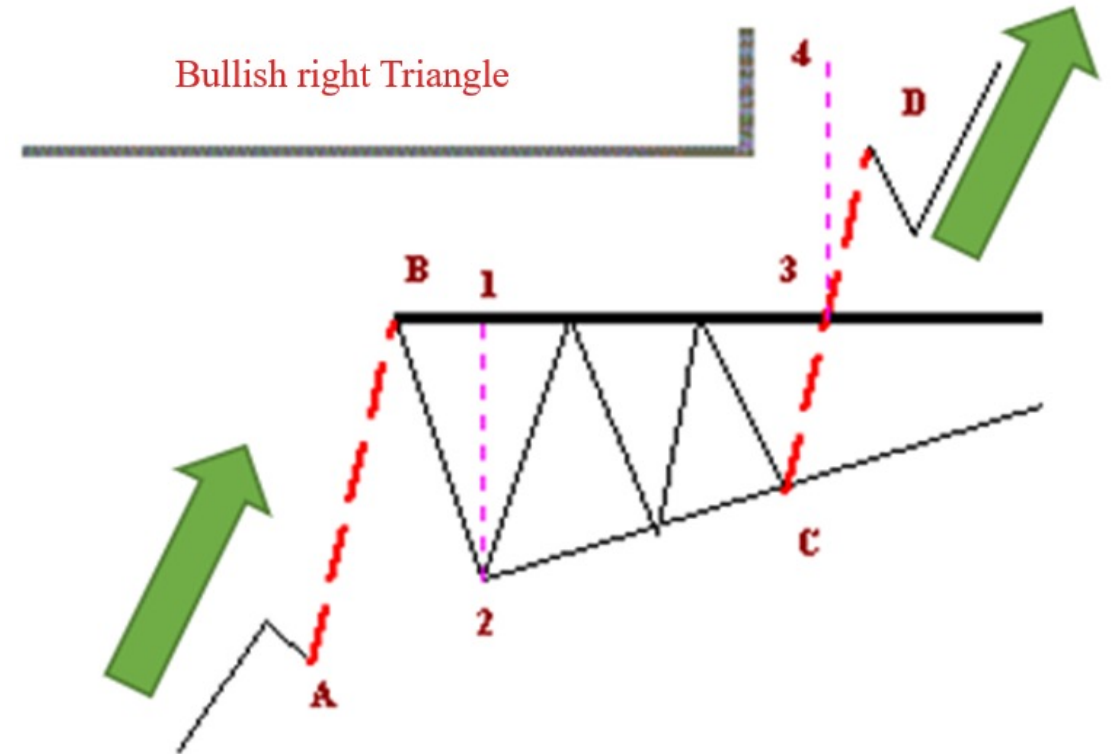




Continuations Patterns

BULLISH RIGHT TRIANGLE

They are characterized by a figure whose upper side is represented by a "static" or almost horizontal resistance, while the lower side is inclined upwards due to the formation of a series of increasing lows.

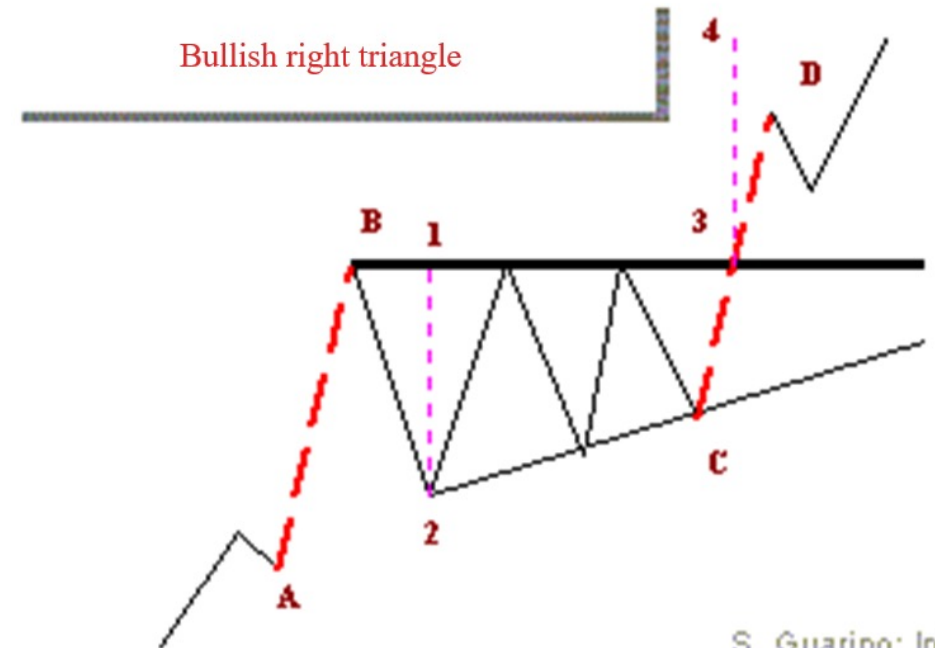




Continuations Patterns

BULLISH RIGHT TRIANGLE

In a bullish phase, UPTREND, prices "enter" the triangle from below and will "probably" exit from the opposite (upper) side to the upside... The violation of the "static" resistance (upper side of the triangle, etc.) represents the "bullish trigger point".



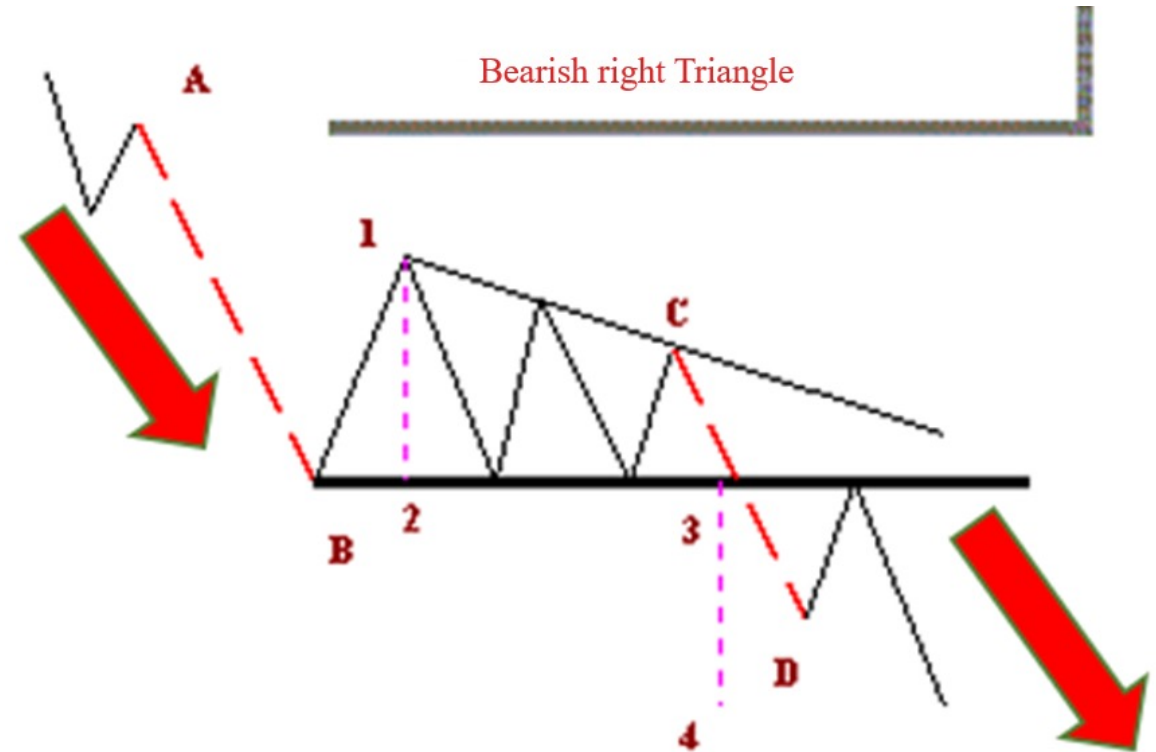
S. Guarino: Intro



Continuations Patterns

BEARISH RIGHT TRIANGLE

They are characterized by a figure whose lower side is represented by a "static" or almost horizontal support, while the upper one is inclined downwards due to the formation of a series of decreasing maxima.



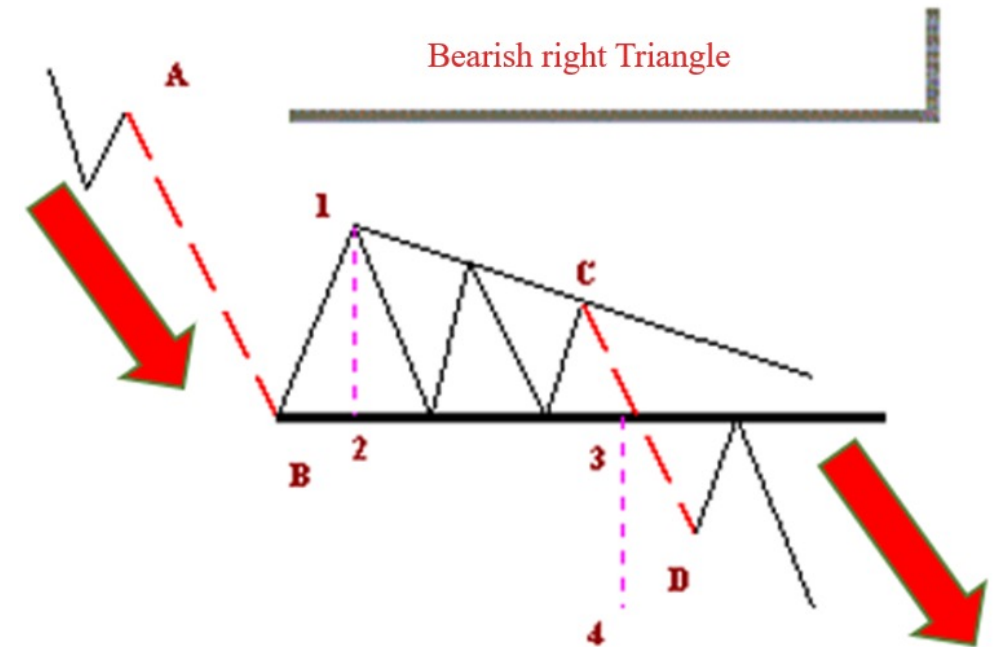


Continuations Patterns

BEARISH RIGHT TRIANGLE

In a bearish phase, DOWNTREND, prices enter the triangle from above and will "probably" exit from the opposite (lower...) downward side...

The violation of the «static» support (lower side of the triangle...) represents the «bearish trigger point».





Continuations Patterns

RECTANGLE

Graphic configuration characterized by two horizontal trendlines.

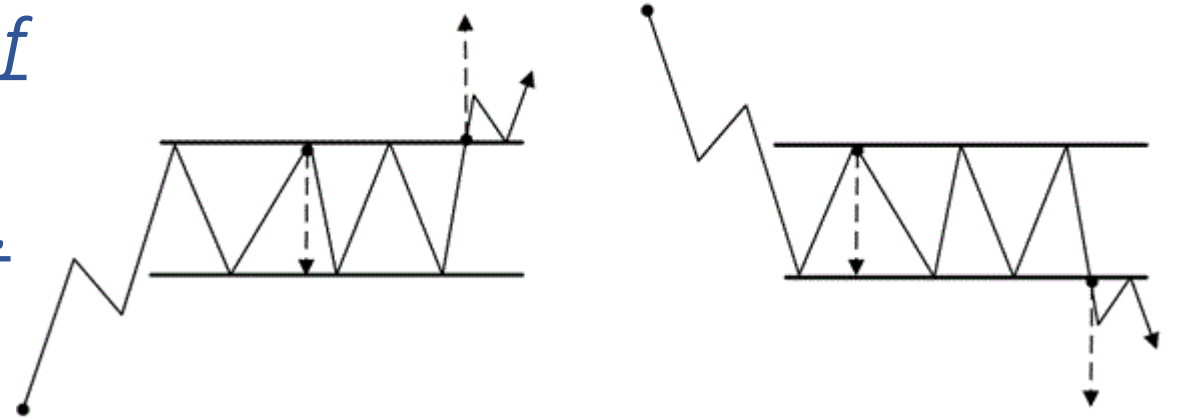
The upper line indicates the classic "static" resistance level, while the lower line indicates the "static" support level.



Continuations Patterns

RECTANGLE

The rectangle represents the classic area of market congestion and a moment of substantial indecision of the current trend. Once the congestion phase is over, prices return to move in line with the trend in place before the congestion started.

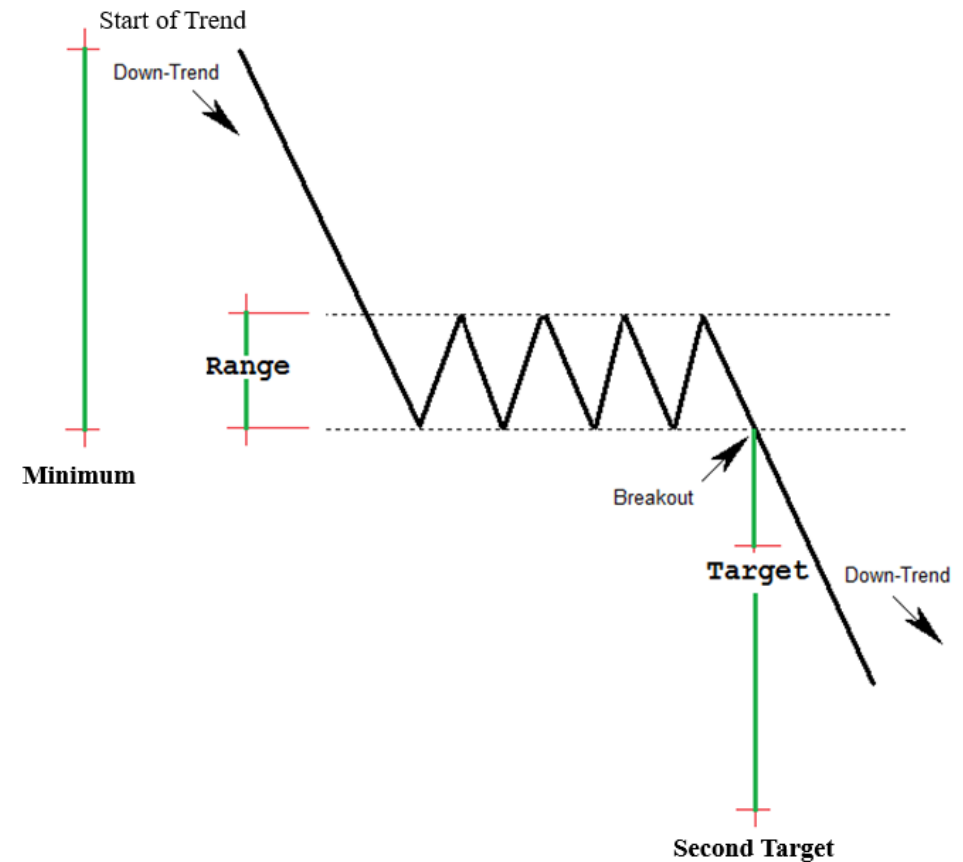




Continuations Patterns

RECTANGLES – POTENTIAL STRATEGIES...

1. Wait for the break of the pattern (always confirmed by growing volumes) and re-follow the dominant trend.





Continuations Patterns

RECTANGLES – POTENTIAL STRATEGIES...

1. Wait for the pattern to break (always confirmed by growing volumes) and re-follow the dominant trend.

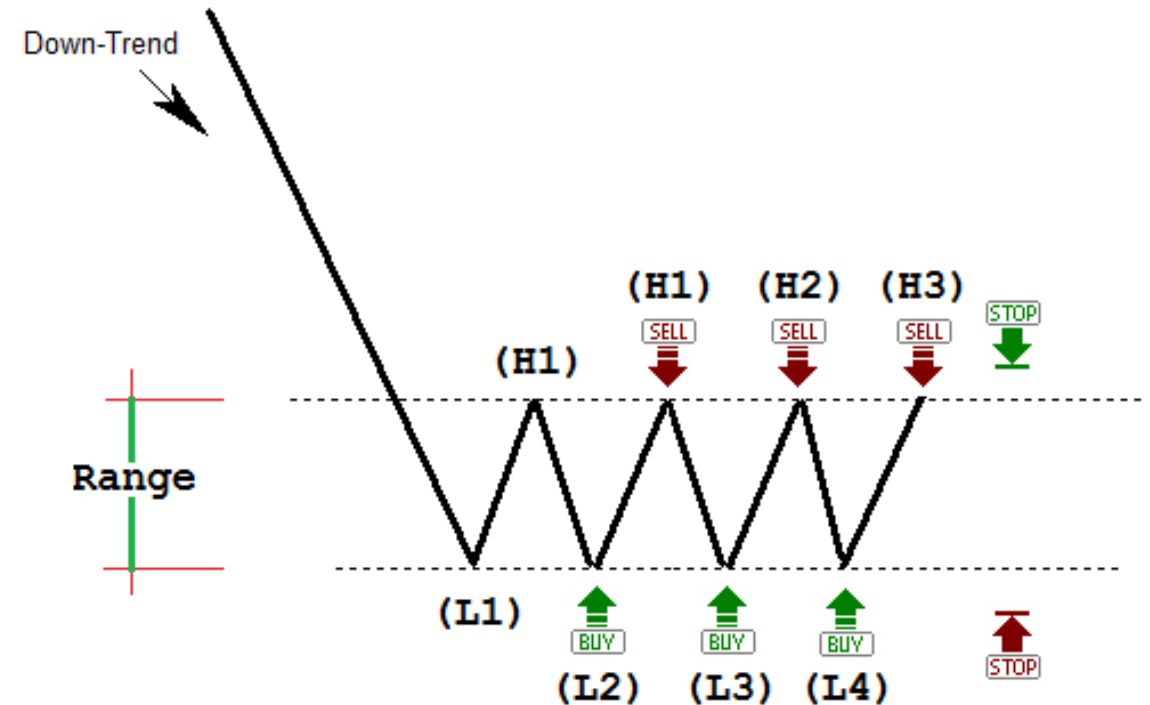




Continuations Patterns

RECTANGLES – POTENTIAL STRATEGIES...

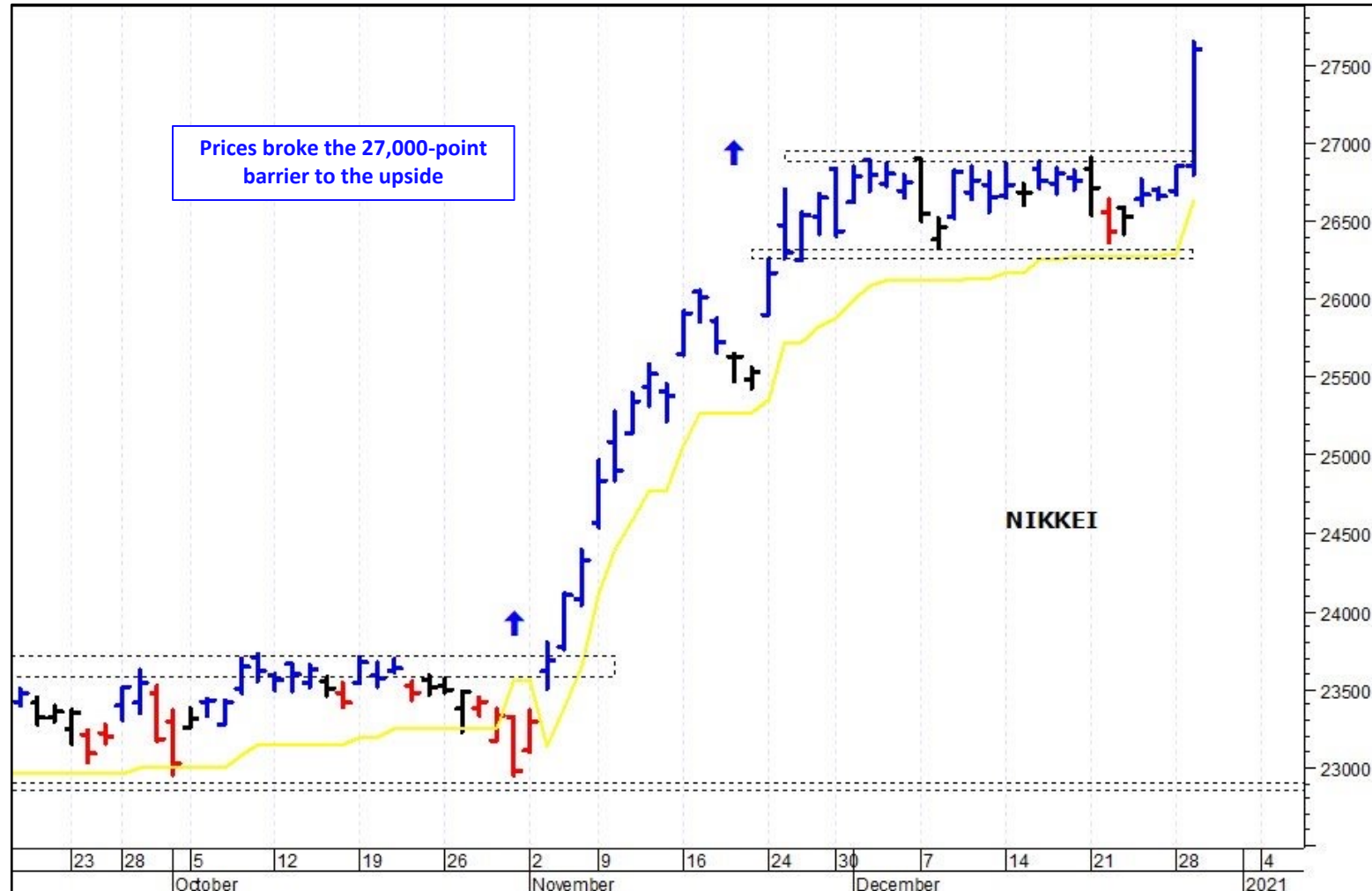
- Buy at the lows of the pattern at the support and sell at the highs of the pattern and vice versa.





Continuations Patterns

REAL-WORLD EXAMPLES- RECTANGLE





Continuations Patterns

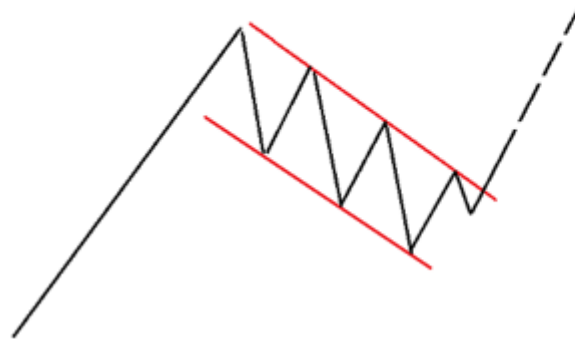
Flag



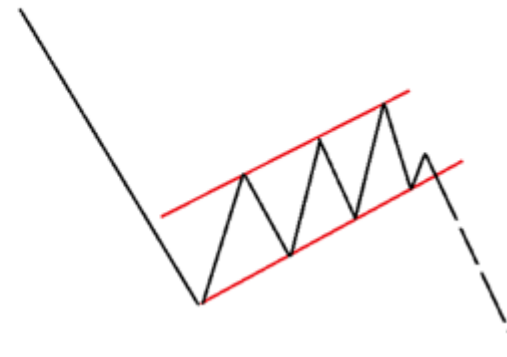
Continuations Patterns

Flag

Bull-flag



Bear-flag

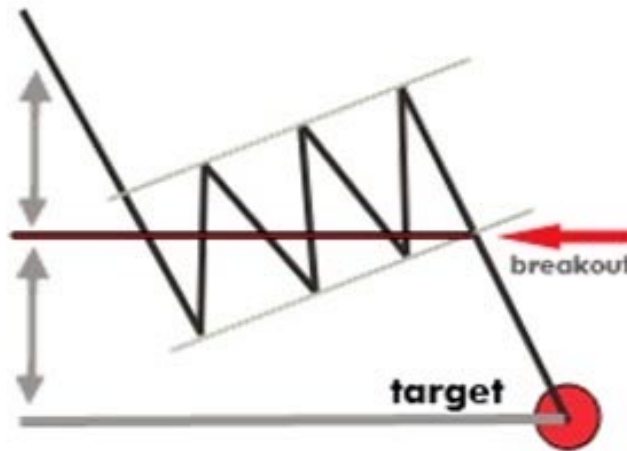




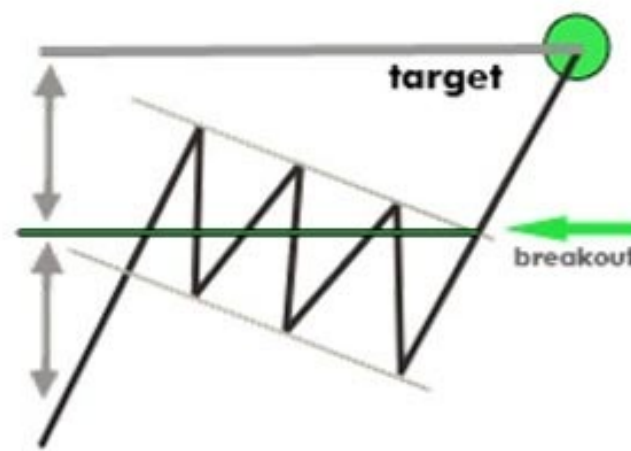
Continuations Patterns

Flag

Bear

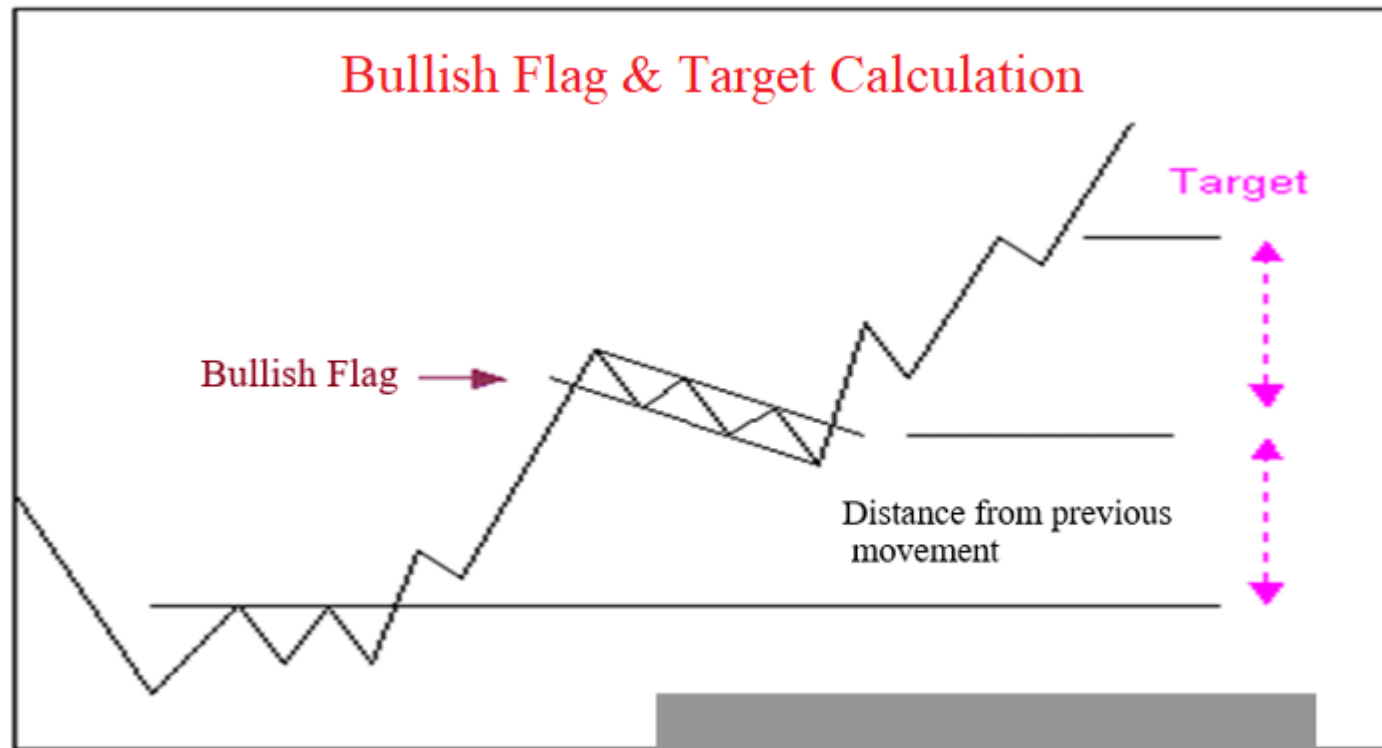


Bull





Continuations Patterns Flag





Continuations Patterns

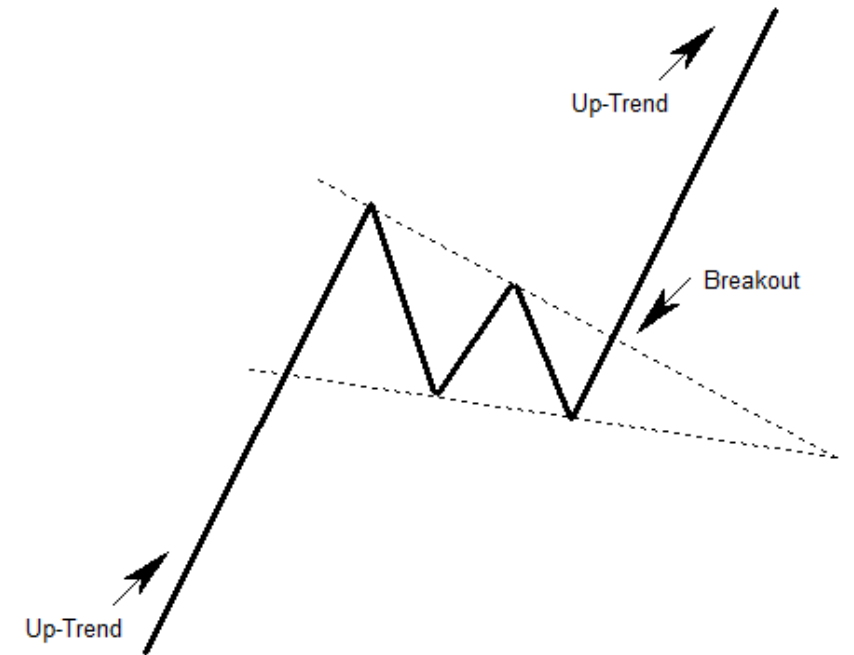
WEDGE



Continuations Patterns

WEDGE

Graphical price continuation configuration very similar to triangles, of which it maintains the same technical characteristics.





Continuations Patterns

WEDGE

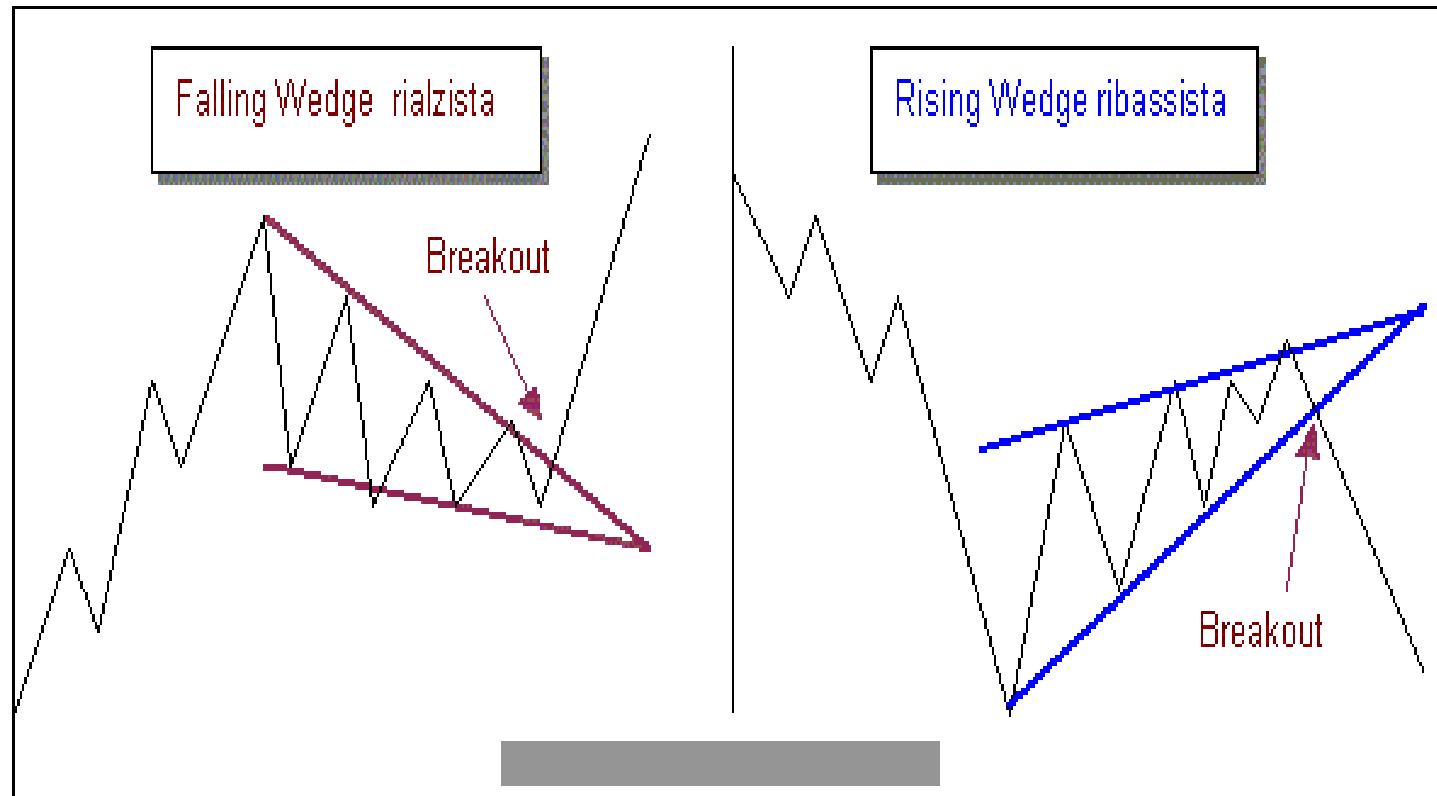
Features in common with triangles:

1. The volumes decrease as you get closer to the cusp, and then explode at the moment of rupture
2. The longer the duration of pattern formation, the greater the violence and extent of the pattern).



Continuations Patterns

WEDGE





Continuations Patterns REAL-WORLD EXAMPLES– BULLISH WEDGE





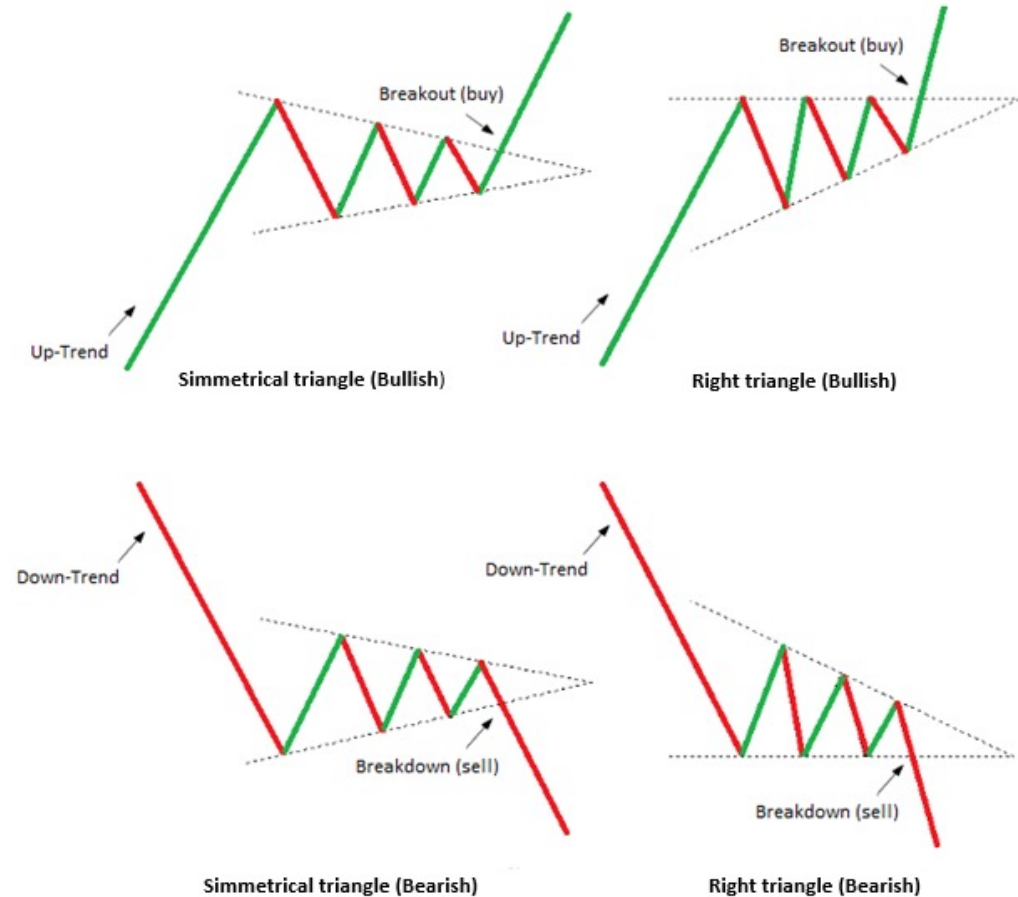
Continuations Patterns

SUM UP...



Continuations Patterns

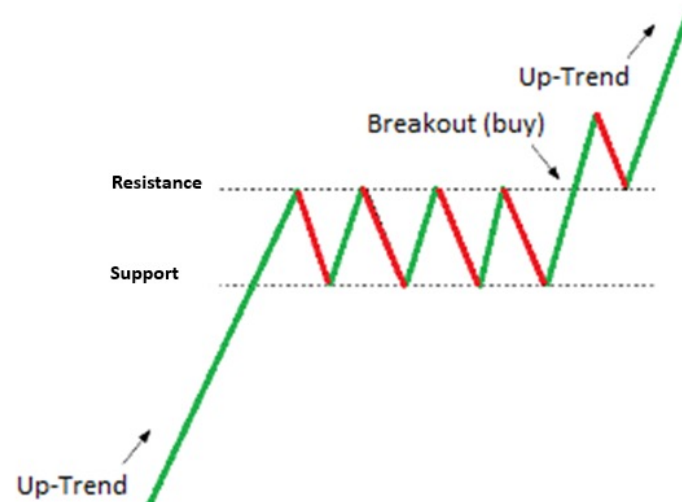
TRIANGLES



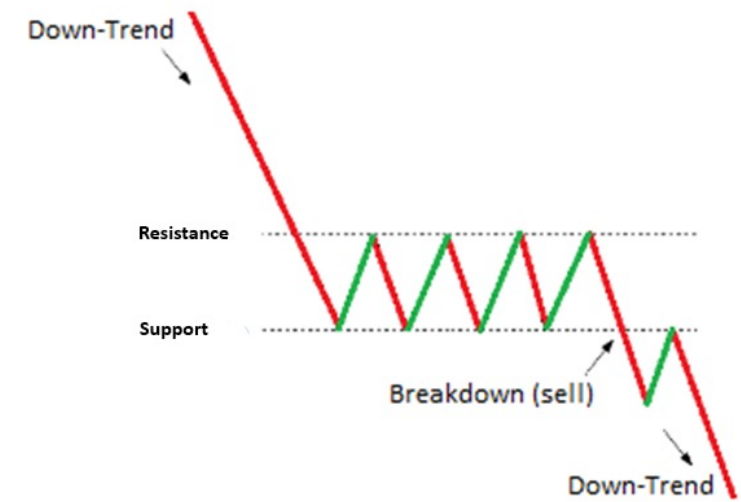


Continuations Patterns

RECTANGLES



Bullish triangle

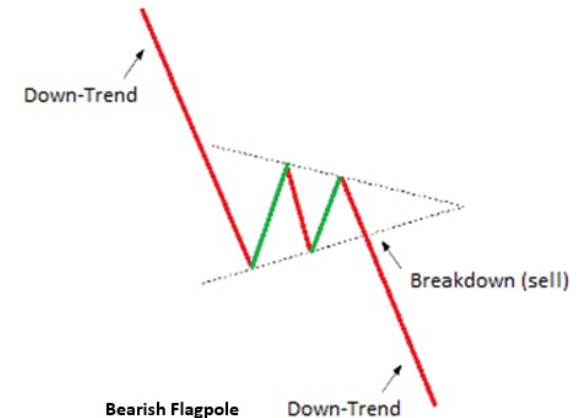
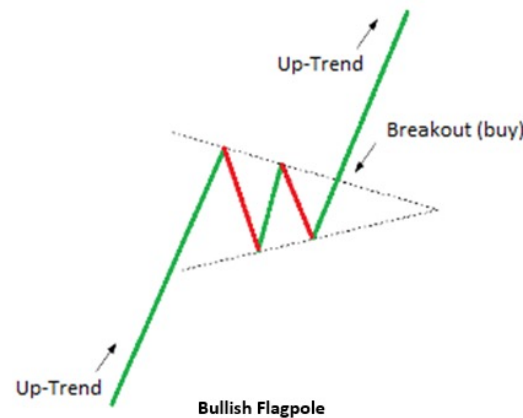
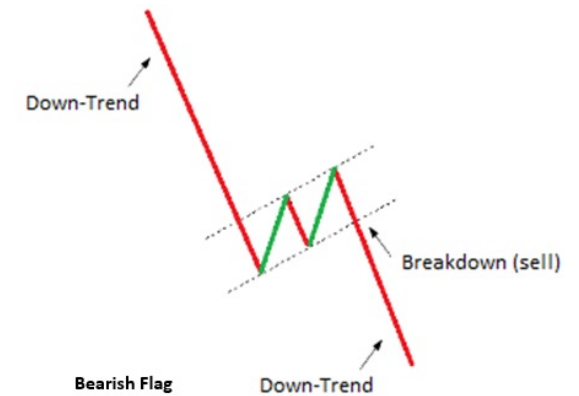
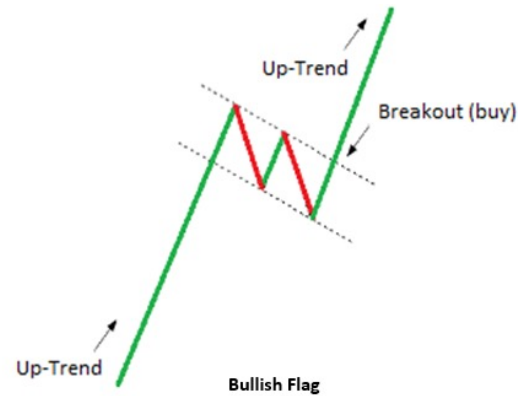


Bearish triangle



Continuations Patterns

FLAGS & PENNANTS



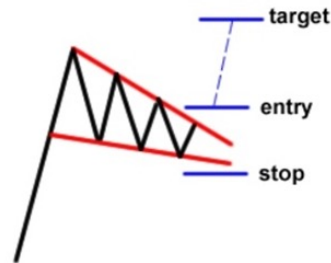


Continuations Patterns

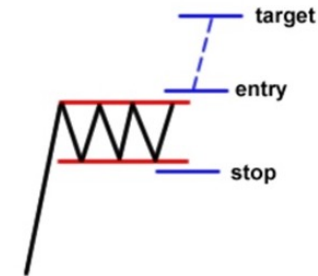
**THE MOST
FREQUENT...**

Pattern di continuazione

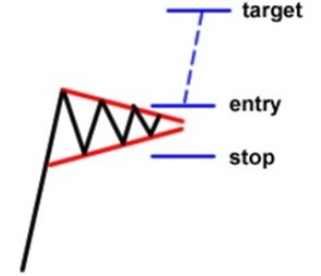
Dropping Wedge



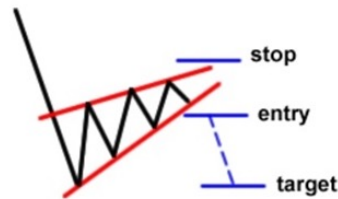
Bullish rectangle



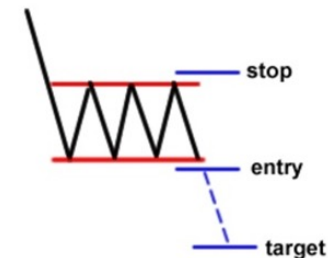
Bullish pennant



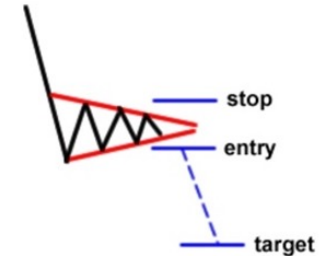
Rising Wedge



Bearish rectangle



Bearish pennant





Reversal and Continuation Patterns

**Don't focus too much on the
"perfection" of the figures you are
looking at...**



Reversal and Continuation Patterns

**From theory to practice, from
simple chart patterns to real
charts, there will always be a
difference...**



Reversal and Continuation Patterns

**Focus on the "logic" of these
patterns!!**



Reversal and Continuation Patterns

Charts are nothing more than the practical representation of the psychology and emotions that guide the behaviour and operations of any investor.

;-)

TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 6

**Volumes and moving averages:
strengths and weaknesses**





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PROGRAM

10 LESSONS

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2. Charts and prices: the main ways to visualize price developments
3. Defining a trend and trending: how to spot and follow them profitably
4. The main chart configurations: supports, resistances and pullbacks
5. Figures of reversal or continuation of a trend: we learn to recognize and exploit them
6. **Volumes and moving averages: strengths and weaknesses**
7. The main indicators and oscillators: how to choose the most useful and suitable for each market condition
8. Charts and time: the right time frame for our operational analysis
9. Intermarket analysis: we learn to define the dominant drivers and trends in the market
10. Leverage, money and risk management: how to control and monitor the sustainability of your investments



Lesson 6

**Volumes and moving averages:
strengths and weaknesses**



Volumes: general rules of interpretation



«Volumes»

Number of transactions carried out during a certain period of time on a given financial instrument



Volumes: general rules of interpretation

Volumes must be analysed in close correlation with price trends and for this reason they are represented by a histogram positioned in correspondence with the bar to which they refer





Volumes: general rules of interpretation

Normally, the volumes traded are represented by a bar chart positioned below the price chart, with the height of the bars highlighting how many stocks or contracts have been traded in the period/time-frame being analysed.





Volumes: general rules of interpretation

Generally, traded volumes expand during phases of price growth and contract during those of decline: a lack of reaction of volumes that do not expand in rising phases and do not decrease in falling phases is one of the most sought-after signs of potential "trend reversal" and taken into account by operators...



Volumes: general rules of interpretation

In an uptrend, volumes must increase during bullish phases and decrease during correction phases





Volumes: general rules of interpretation

In an uptrend, volumes must increase during bullish phases and decrease during correction phases





Volumes: general rules of interpretation

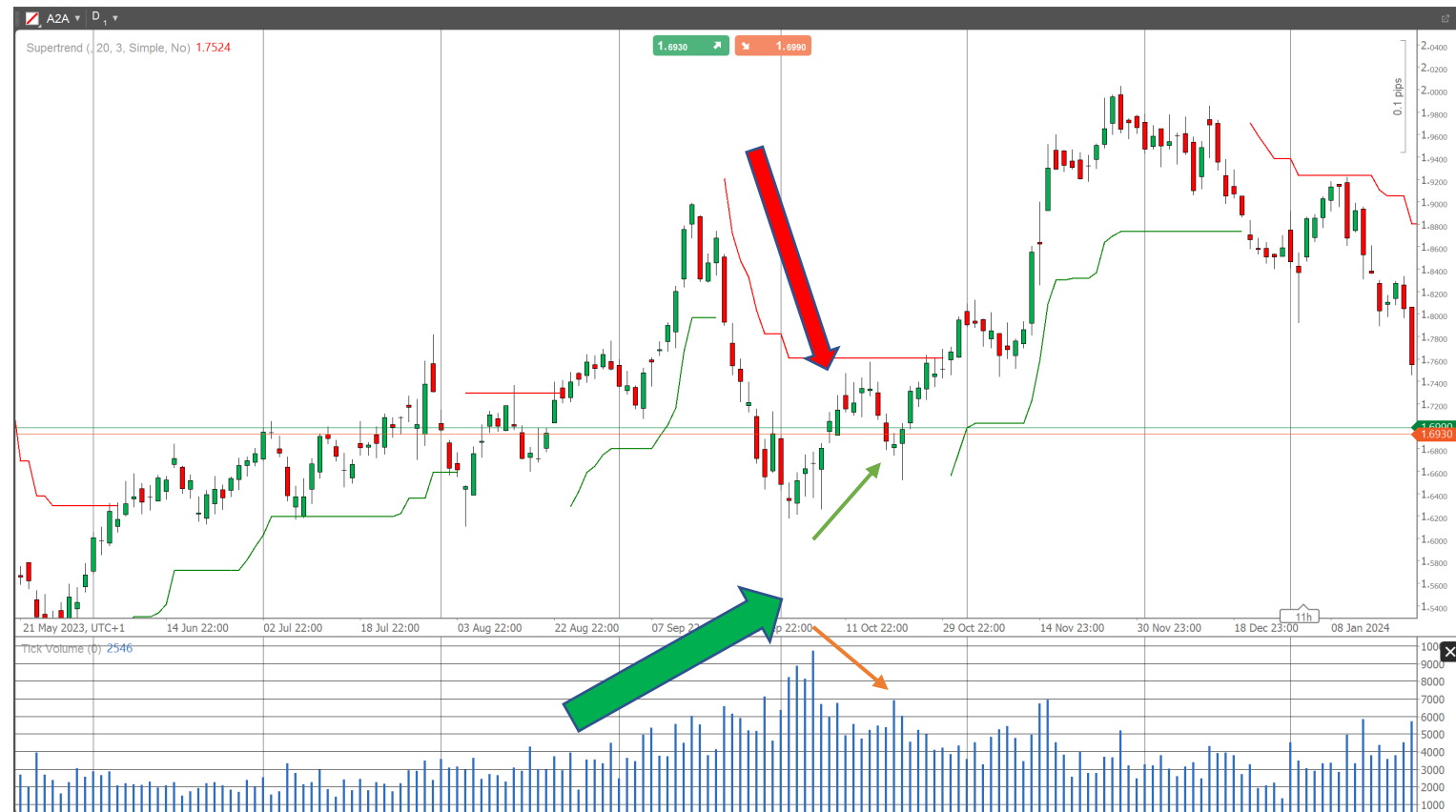
In a downtrend, volumes must increase during downturns and decrease during upwards/rebounds





Volumes: general rules of interpretation

In a downtrend, volumes must increase during downturns and decrease during upwards/rebounds





Volumes: general rules of interpretation

A "classic" method for analyzing and interpreting traded volumes is that in a bullish or bearish market phase characterized by evident directionality (trend)

Volumes must follow the trend itself



Volumes: general rules of interpretation

IN SUMMARY:

*Volumes on the stock exchange always
accompany prices*

*Volumes are a precursor of future price
movements*



Volumes: general rules of interpretation

THE 3 FACTORS TO CONSIDER WHEN ANALYZING STOCK MARKET VOLUMES

- 1 - VOLUMES MUST ACCOMPANY PRICES IN UPTRENDS
- 2 - VOLUMES IN DOWNTRENDS ARE USUALLY LOW
- 3 - VOLUME/PRICE DIVERGENCES ARE WARNING SIGNS



Volumes: general rules of interpretation

1 - VOLUMES MUST ACCOMPANY PRICES IN UPTRENDS





Volumes: general rules of interpretation

2 - VOLUMES IN DOWNTRENDS ARE USUALLY LOW

Volumes in downtrends are "usually" lower than those traded during uptrends.

Unlike uptrends where volumes must support the increase in prices, in bearish trends prices can also fall due to the simple lack of buyers.

Few trades and prices that fall because they are not supported by purchase demands.



Volumes: general rules of interpretation

3 - VOLUME/PRICE DIVERGENCES ARE WARNING SIGNS

Divergences in volume/price analysis should lead us to suspect that a trend change could take place in the future.

If as prices rise, volumes tend to decrease, there is a bearish divergence, vice versa for price declines, if volumes increase while prices fall, we are faced with a bullish divergence.



Volumes: general rules of interpretation

VOLUMES MUST CONFIRM TREND REVERSALS

Movement	Volumes	Signal
Positive	High	Buy
Positive	Low	-
Negative	High	Sell
Negative	Low	-

If prices go up and volumes are high, the trend is very reliable as there are many buyers.

On the other hand, if prices are rising significantly but volumes are low, the trend is unreliable because demand is low.



Volumes: general rules of interpretation

VOLUMES: INVERSION FIGURES

Current Trends	Volumes	Signal
Positive on the highs	Decreasing	Sell
Positive – Stable prices	High	Sell
Negative on the lows	High	Buy
Negative – Stable prices	Decreasing	Buy

1. Decreasing volumes near a high/decreasing near a low
2. Peak volumes near a maximum
3. Peak volumes near a minimum



Volumes: general rules of interpretation

VOLUMES: OPERATIONAL AND INTERPRETATION ISSUES

The main problem is that if you analyse CFD's charts (currencies, indices and more...) the volumes detected on the platform only concern those traded by the broker's own clients...
Only the broker's clients and their trades are counted in the chart.





Volumes: general rules of interpretation

VOLUMES: OPERATIONAL AND INTERPRETATION ISSUES

But we all know that...

Financial markets are much more liquid and larger than those that synthesize the operations of the clients of a single broker!!
The FOREX market, for example, sees trillions of dollars traded every day, and your broker -whatever it is- will not come to account for even 1% of these trades!!





Volumes: general rules of interpretation

VOLUMES: OPERATIONAL AND INTERPRETATION ISSUES

This factor causes no small problems for investors, who are usually completely oblivious to how their broker is actually calculating trading volumes.

If the calculation is done on the small circle of customers, it means that you are not getting reliable numbers and that you risk having completely wrong clues on which to base your analysis.



Volumes: general rules of interpretation

VOLUMES: OPERATIONAL AND INTERPRETATION ISSUES

How to avoid this problem?

1. By working only on listed and non-"OTC" securities where the overall market volumes are official and unique for everyone



Volumes: general rules of interpretation

VOLUMES: OPERATIONAL AND INTERPRETATION ISSUES

How to avoid this problem?

2. Use a very popular broker so that you can rely on the fact that your clients' volumes are sufficiently representative of the total market volumes.



Volumes: general rules of interpretation

VOLUMES: OPERATIONAL AND INTERPRETATION ISSUES

The second option, which is less 'precise' than the first, nevertheless appears to be the only one that is actually viable.



Moving averages: strengths and weaknesses



Moving averages: strengths and weaknesses

«Moving Averages»

Mathematical measurements to «smooth» out erratic price fluctuations

In traditional technical analysis, moving averages are algorithms that allow you to derive a synthetic indicator of the price trend of any financial instrument.



Moving averages: strengths and weaknesses

From a mathematical point of view, this indicator is an «average» of a certain amount of data (prices...) with respect to a «moving» time window that considers only the latest 'N' measurements in chronological order

A 200-day moving average, for example, takes into account the values of the last 200 sessions and is recalculated every day, adding the last data and excluding the most remote from the calculation, so that there are always only 200 prices considered.



Moving averages: strengths and weaknesses

In fact, in the calculation of a moving average, the number of elements (prices) is fixed, while the time window considered is "floating" because the oldest data in the series is replaced every day with the most recent/new one.

This mathematical procedure causes the average to move progressively with the trend of the price of the security being calculated...



Moving averages: strengths and weaknesses

Generally, the calculation of a moving average takes into account the closing prices, But the maximums, minimums, or opening values of the session can also be used.

This reasoning also applies to the timeframes used: a moving average can also be calculated on a chart with weekly, monthly, hourly candlesticks. In this case, the 'N' periods considered by each moving average will concern the time frame summarized by the single candlestick or bar of the chart.



Moving averages: strengths and weaknesses

Main Types of Moving Averages

Simple Moving Average

Weighted Moving Average

Exponential Moving Average



Moving averages: strengths and weaknesses

Simple Moving Average

$$SMA = \frac{1}{N} \sum_{i=1}^N C_i$$

The Simple Moving Average

hence the acronym SMA, is a classic arithmetic average of the price. It is calculated by adding the closing prices of N time periods and dividing the result obtained by N.



Moving averages: strengths and weaknesses

Simple Moving Average

The simplicity of calculation, however, hides an obvious limitation/defect:

The simple moving average assigns the same relevance to each individual price, so the last measured value will take on the same weight as the first in the series...

This "defect" is resolved by the "weighted moving average" that we will see later...



Moving averages: strengths and weaknesses

Simple Moving Average

Simple moving averages are constructed by adding the closing data for a period defined by the analyst and then dividing the data obtained by the number of days considered.

$$M_t = (P_t + P_{t-1} + P_{t-2} + \dots + P_{t-n+1}) / n$$

M_t = Moving Average Value at Time T

p = Price or value of the benchmark index

n = number of observations (moving average amplitude).



Moving averages: strengths and weaknesses

Simple Moving Average

To get the following points, simply add the last quote and subtract the first one from the sum obtained the previous day.

$$M_{t+1} = M_t + (P_{t+1} - P_{t-n+1}) / n$$

M_{t+1} = Moving average value of the last day.



Moving averages: strengths and weaknesses

Simple Moving Average

The result is a representation that eliminates the annoying "noise" that is typical instead of the erratic and nervous fluctuations of simple prices.

Such a function tends to dampen price erratic and this effect is all the more noticeable the longer the moving average.

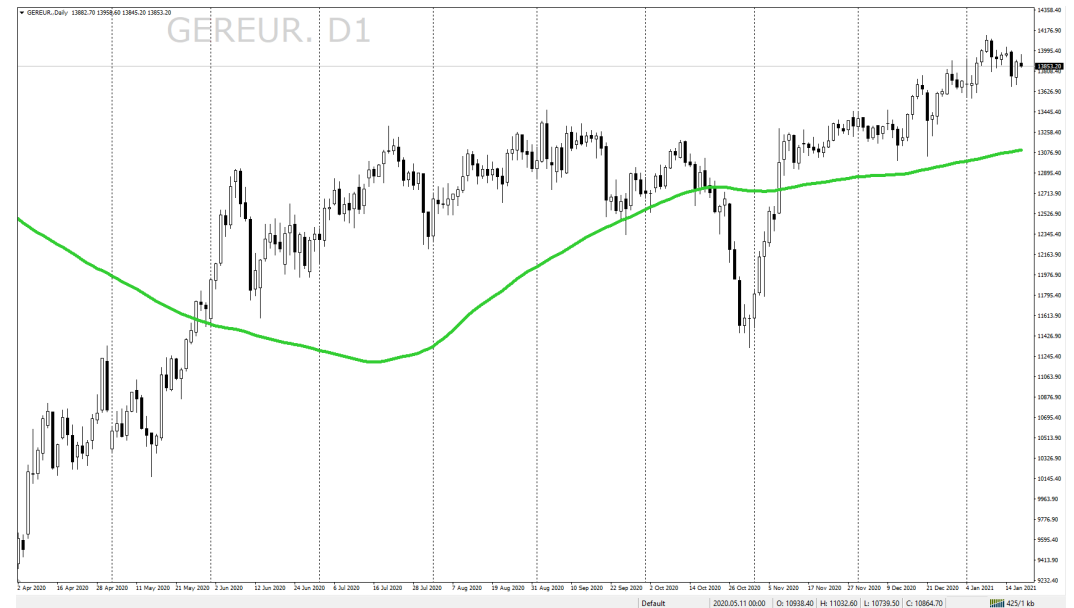


Moving averages: strengths and weaknesses

Simple Moving Average

Its graphical representation is a curve that follows the price line with a much more regular trend, as the so-called speculative peaks are eliminated.

DAX INDEX DAILY (SMA 100)





Moving averages: strengths and weaknesses

Simple Moving Average

One of the main objectives of using moving averages is to «eliminate the random elements that enter into the formation of the price by causing exasperation in the movements».

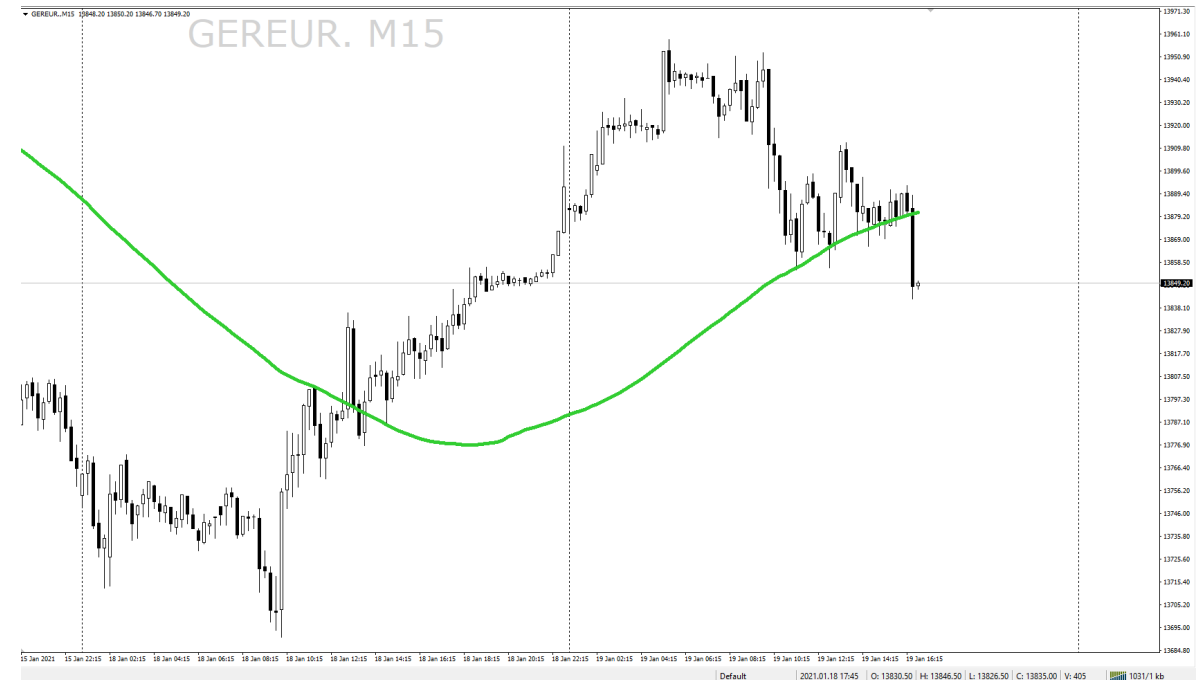


Moving averages: strengths and weaknesses

Simple Moving Average

The assumption is therefore that these perturbations are «dampened» by the moving averages.

DAX INDEX M15 (SMA 100)





Moving averages: strengths and weaknesses

Simple Moving Average

One of the biggest problems with the simple moving average is that all the values entered for the calculation of the average have the same weight. This problem is felt when using 50- or 100-period moving averages that tend to delay the trend reversal with respect to the underlying.





Simple Moving Average

One of the biggest problems with the simple moving average is that all the values entered for the calculation of the average have the same weight. This problem is felt when using **50** - or **100** -period moving averages that tend to delay the trend reversal with respect to the underlying.



DEFINITELY "LATE"
ENTRIES



Simple Moving Average «SMA 100»





Moving averages: strengths and weaknesses

Weighted Moving Average «WMA»

Weighted Moving Average

hence the acronym WMA, it is a classic arithmetic average of the price that assigns greater weight to the most recent data and less to those more distant in time.+

$$WMA = (C_1 \cdot 1 + C_2 \cdot 2 + C_3 \cdot 3 + \dots + C_n \cdot n) / (1 + 2 + 3 + \dots + n)$$



Moving averages: strengths and weaknesses

Weighted Moving Average «WMA»

Taking a 10-period moving average as an example, the close of the tenth and final day is multiplied by 10, the close of the previous day (ninth) by nine, that of the eighth day by eight, and so on.

The total will then be divided by the sum of the multiples: in our case $1+2+3+\dots+10=55$. The average is therefore much more reactive to recent events, while "dampening" past swings.



Moving averages: strengths and weaknesses

Weighted Moving Average «WMA»

Ultimately

The weighted moving average exceeds the limit presented for the simple moving average, as it 'overweights' the most recent values.



Weighted Moving Average «WMA»

DAX INDEX DAILY (WMA
100)

Comparison between

SMA 100 e WMA 100





Moving averages: strengths and weaknesses

Exponential Moving Average «EMA»

The Exponential Moving Average hence the acronym EMA, calculates all the data of the time series of a price, with an exponentially decreasing weighting.

- $$EMA(i) = EMA(i-1) + SF * [P(i) - EMA(i-1)]$$



Moving averages: strengths and weaknesses

Exponential Moving Average «EMA»

The weighting of the first data in the series will be lower over time until it becomes infinitesimal, but it will always be part of the calculation. Essentially, the entire history of the stock is taken into account when calculating the EMA.

- $$EMA(i) = EMA(i-1) + SF * [P(i) - EMA(i-1)]$$



Moving averages: strengths and weaknesses

Exponential Moving Average «EMA»

Ultimately

The exponential moving average is always more reactive than the simple one but, above all, it tends to move very close – almost adherent – to the price trend, thus being particularly effective for trading activities based on the crossing of 2 or more moving averages.



Exponential Moving Average «EMA»

DAX INDEX DAILY (EMA 100)

Comparison between
SMA 100 e WMA 100 e
EMA 100





Moving averages: strengths and weaknesses

WHICH ONE TO CHOOSE?



Moving averages: strengths and weaknesses

WHICH ONE TO CHOOSE?

The choice of which moving average to use is personal and must adapt to your operational needs, which are different for each trader.

If you want to use a moving average as a dynamic support or resistance level, then the 200-period SMA is ideal.

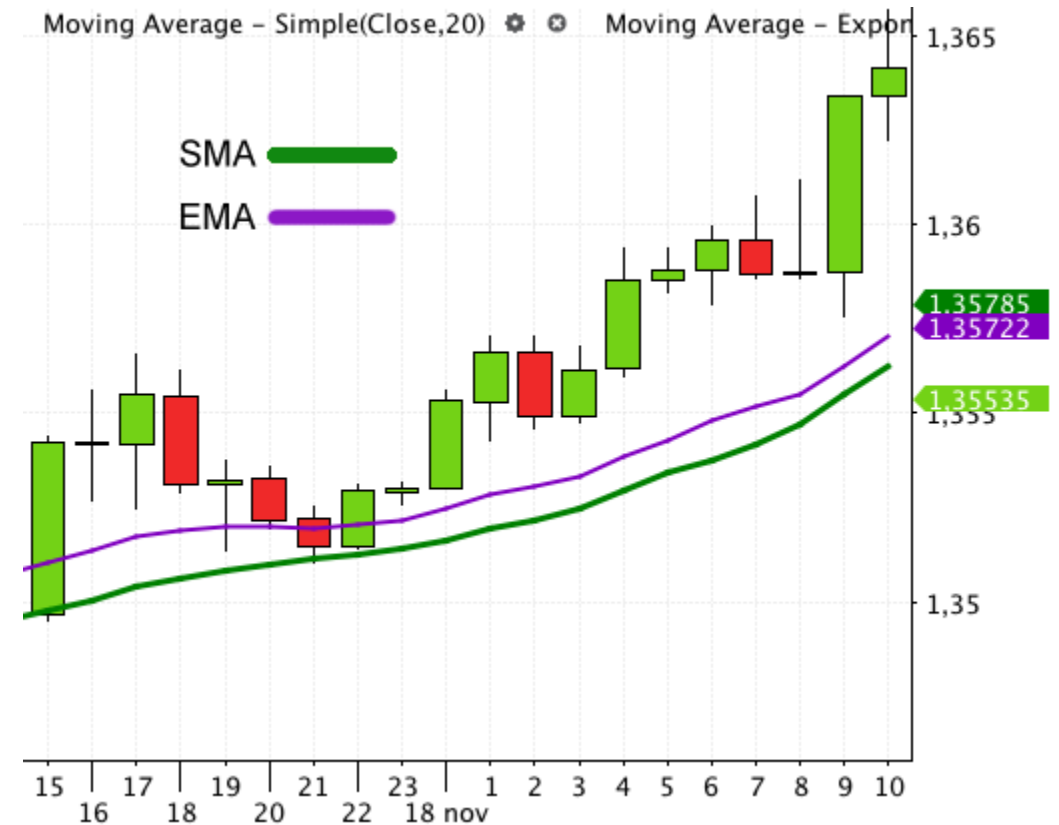
If, on the other hand, you are looking for an average to use for price/average crosses, then an EMA or WMA may be better, as the reactions and consequently the number of signals will be greater.

Mixes of averages, such as a long-term SMA and a short-term EMA, can also be used to provide an operational filter to enter the market.



Moving averages: strengths and weaknesses

An extremely useful function of moving averages is to provide dynamic zones of support and resistance.





Moving averages: strengths and weaknesses

It is therefore possible to operate on the seal
(trend following strategies)

or on the break of a moving average, be it simple, weighted or exponential, as would be done with the classic supports and resistances derived from the price in a discretionary way.



Moving averages: strengths and weaknesses

Consider that a longer average (e.g. a 200-period SMA) will give much more reliable dynamic support/resistance levels than a faster one (50 SMA).



Moving averages: strengths and weaknesses

Identify operational signals for the management of speculative positions

Price/Average Crossings





**Moving averages:
strengths and
weaknesses**

**Identify operational
signals for the
management of
speculative positions
"crossover" between
two mediums.**





Moving averages: strengths and weaknesses

Technical analysis uses moving averages to:

1. Identify areas of support/resistance
2. Regularising the 'smoothing' time series
3. Identify operational signals for the management of speculative positions.

TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 7

**The main indicators and oscillators:
how to choose the most useful and suitable ones in every
market condition**





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Lesson 7

**The main indicators and oscillators:
how to choose the most useful and suitable ones in
every market condition**



DEFINITION

Oscillators and indicators are the result of a series of mathematical procedures and/or calculations applied to any numerical series representative of the performance of a financial instrument



The use of indicators and oscillators, therefore, "complements" price analysis by helping us to "measure the strength and consistency of a possible trend"



Widely used by technical analysts, they represent an "aid" to the always effective and fundamental analysis of prices.



Basics and Fundamentals of Technical
Analysis
Prices "discount" everything



INDICATORS & OSCILLATORS

=

complementary support to trading
activities, support for graphical analysis,
which remains the most important
forecasting/operational tool



The origins...

They were born in the 70s in the United States and are the result of mathematical elaborations and formulas applied to a numerical series that replicates the market values of a given financial asset



The origins...

They are the result of simple, or sometimes complex and articulated formulas, but experience teaches us that the most immediate and elementary formulas are very often more reliable than the advanced ones...



THE INDICATORS

Indicators are free to move within a chart
without any limit.

The indicators do not have any delimitation
in their deviation dynamics.



THE INDICATORS

Moving averages are the most classic example of an indicator, with their values "free to fluctuate in the chart without fixed points and without constraints".



THE INDICATORS

The values of the moving averages, in fact,
are free to extend on the chart to infinity
without any ceiling/limit to the value
measured by them



THE OSCILLATORS

Oscillators are "constrained/bounded"
within a predefined range of oscillation...



THE OSCILLATORS

The RSI (Relative Strength Index) is a typical example of an oscillator, characterized by the constraint of a mathematical measurement "forced to develop within a fixed range" ($>0 <100$)



THE OSCILLATORS

The RSI (Relative Strength Index) is
Used to identify oversold or overbought
areas
of prices

0 = OVERSOLD

100 = OVERBOUGHT



CONCLUSIONS ON INDICATORS AND OSCILLATORS

1.

The indicators follow the current trend directly on the price

2.

Oscillators move in a predefined range (or above or below a predefined level) and... «oscillate»



CONCLUSIONS ON INDICATORS AND OSCILLATORS

3.

Indicators work best in well-defined market dynamics (TRENDS)

4.

Oscillators work best in sideways market dynamics (TRADING RANGE)



CONCLUSIONS ON INDICATORS AND OSCILLATORS

5.

Some oscillators are structured on a logic of "crossing the zero line or signal line" instead of the classic overbought/oversold areas



OSCILLATORS

HOW TO USE THEM



OSCILLATORS - HOW TO USE THEM

Oscillators are best at measuring sideways phases and trend phases, representing a potential "alert" on the current dynamics/trends



OSCILLATORS - HOW TO USE THEM

Oscillators are used to identify 2 specific price trend logics:

1. Extreme Overbought/Oversold Levels
2. Divergences...



OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels

Levels at which it is possible to assume a probable correction and/or rebound of prices that appear "pulled"



OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels

OVERBOUGHT= The oscillator transits at the upper end of the predefined range and it signals to us that current prices are excessively "pulled" upwards, hence the probable triggering of a downward correction



OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels

OVERSOLD= The oscillator transits at the low end of the predefined range and it signals that current prices are excessively "pulled" downwards, hence the probable triggering of an upward correction



OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels

TRIVIALY...

Oscillators tell us about the excess buying or selling
of a given financial instrument





OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels

PRICES →



OSCILLATOR →





OSCILLATORS - HOW TO USE THEM

1. Extreme Overbought/Oversold Levels



Prices tend to rise to the upside or fall to the bottom when the oscillator reaches the extreme overbought/oversold zones



OSCILLATORS - HOW TO USE THEM



BUGS!!!

The oscillator could also "hover" in the extreme zones for a long time without the price reversing course... On the other hand, it signals the strength and persistence of the current trend!!



OSCILLATORS - HOW TO USE THEM

2. Divergences...

–

If the price makes new highs while the oscillator does not go beyond the previous high, in this case we will speak of a «bearish divergence»



OSCILLATORS - HOW TO USE THEM

2. Divergences...

-

If the price makes new lows while the oscillator fails to go lower than the previous low, we will speak of a «bullish divergence»



OSCILLATORS - HOW TO USE THEM

2. Divergences...

-

TRIVIALY

BEARISH DIVERGENCE: The price makes higher highs while the oscillator makes lower highs



OSCILLATORS - HOW TO USE THEM

2. Divergences...

-

TRIVIALY

BULLISH DIVERGENCE: The price makes lower lows while the oscillator makes higher highs



OSCILLATORS - HOW TO USE THEM



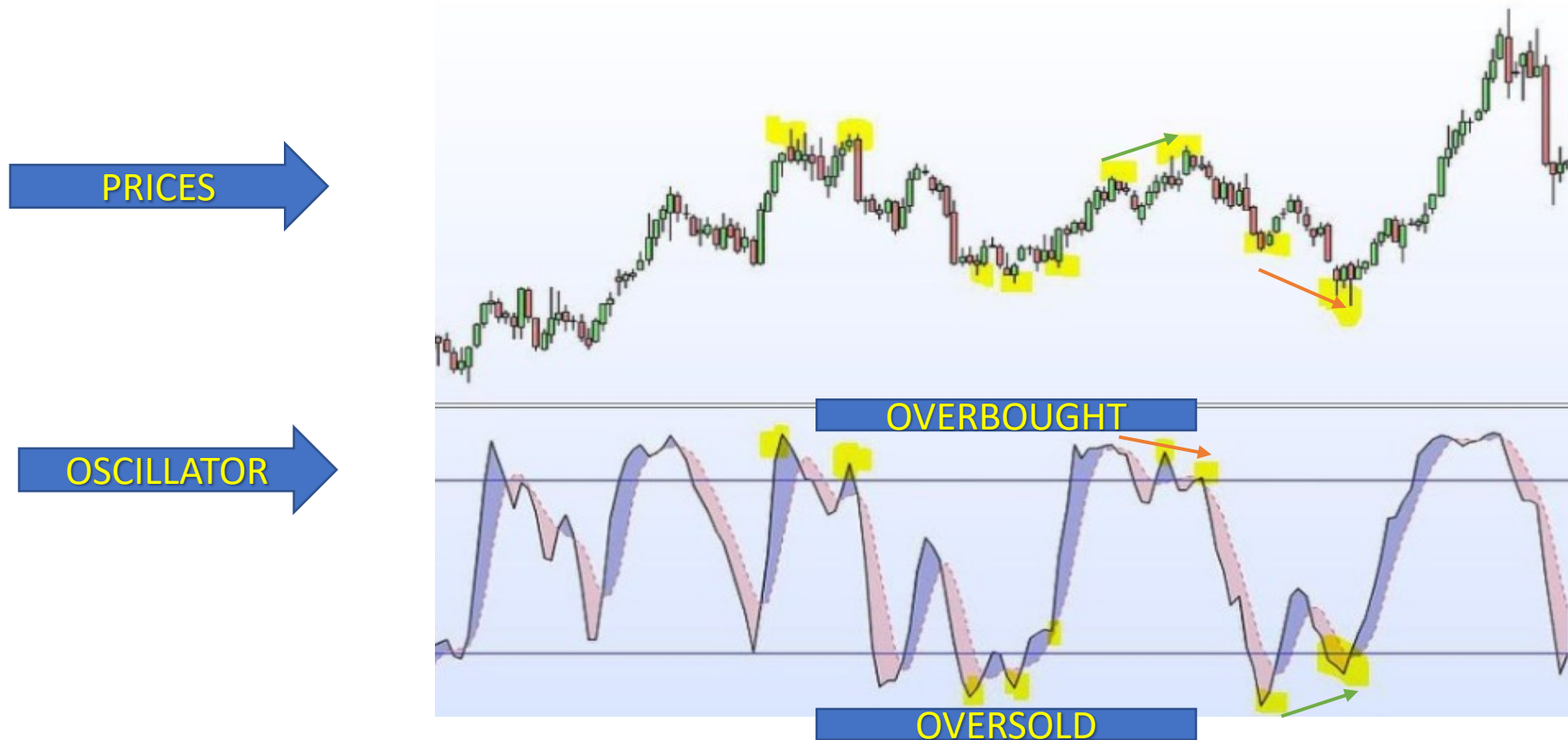
Divergences are to be found in the
"extreme bands" of the oscillator's default
range!!





OSCILLATORS - HOW TO USE THEM

2. Divergences...





OSCILLATORS - HOW TO USE THEM

2. Divergences...



The oscillator signalled on multiple occasions that there was a situation of "excess" on prices and that a **trend reversal** was on the way...



OSCILLATORS - HOW TO USE THEM

2. Divergences...



Thanks to the bullish and bearish divergences highlighted, it was possible to identify situations of excess with a **high probability** of an imminent **trend reversal**

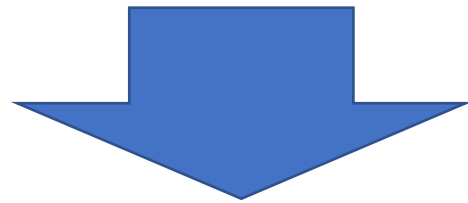


THE MAIN INDICATORS & OSCILLATORS



KEY INDICATORS

Where can I find a reliable selection among the hundreds in existence?



On your trading platform
You'll find everything you need!!



KEY INDICATORS

LET'S SEE THEM TOGETHER!!

Stochastic

Relative Strength Index (RSI)

MACD (Moving Average Convergence/Divergence)

Commodity Channel Index (CCI)

Average True Range (ATR)

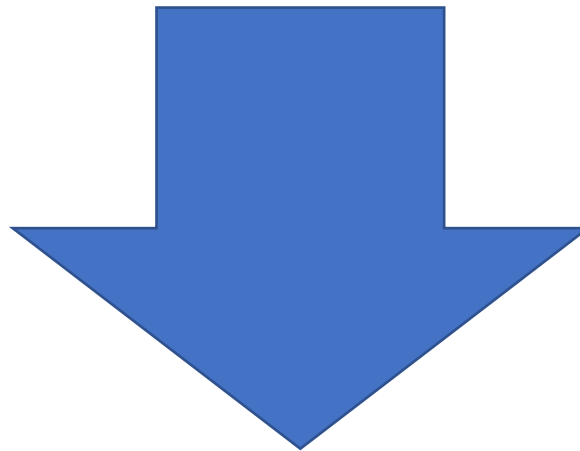
and many more...



KEY INDICATORS

LET'S SEE THEM TOGETHER!!

Stochastic





KEY INDICATORS - STOCHASTIC

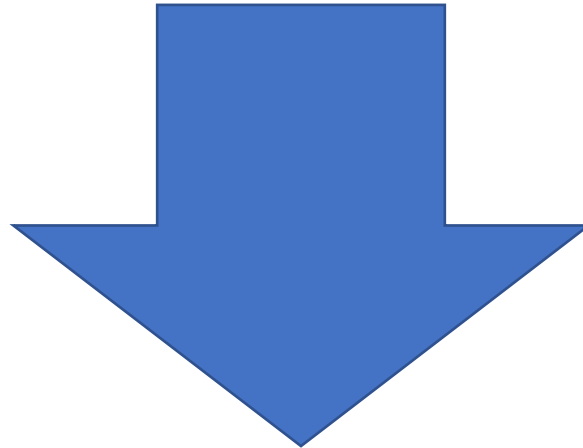




KEY INDICATORS

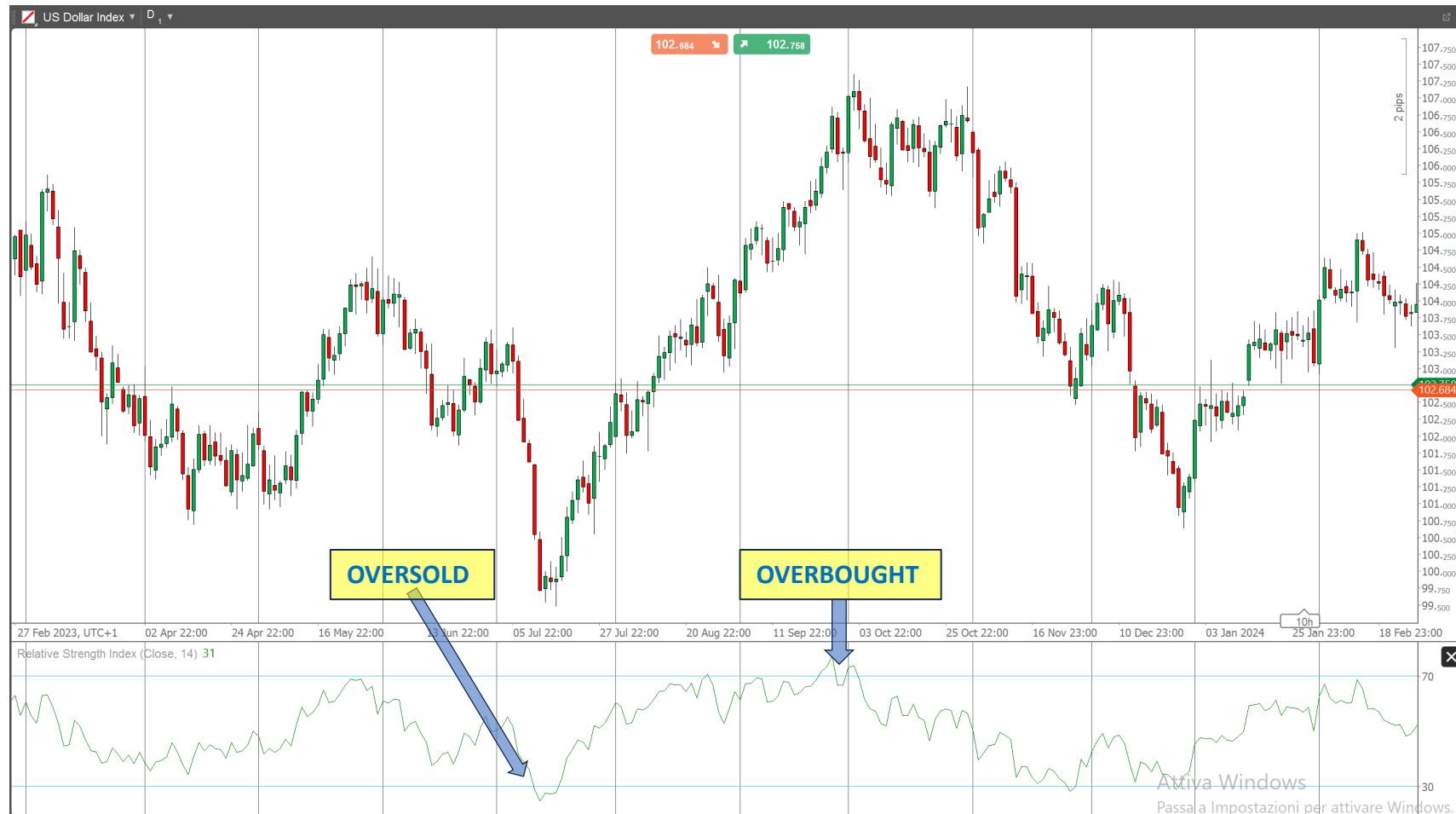
LET'S SEE THEM TOGETHER!!

Relative Strength Index (RSI)





KEY INDICATORS– RELATIVE STRENGTH INDEX (RSI)

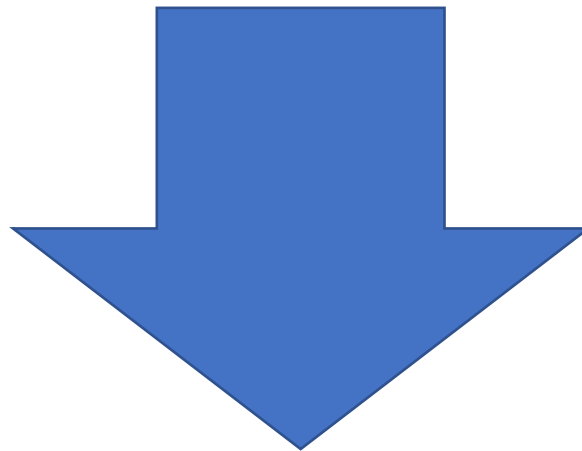




KEY INDICATORS

LET'S SEE THEM TOGETHER!!

MACD (Moving Average Convergence/Divergence)





KEY INDICATORS– MACD

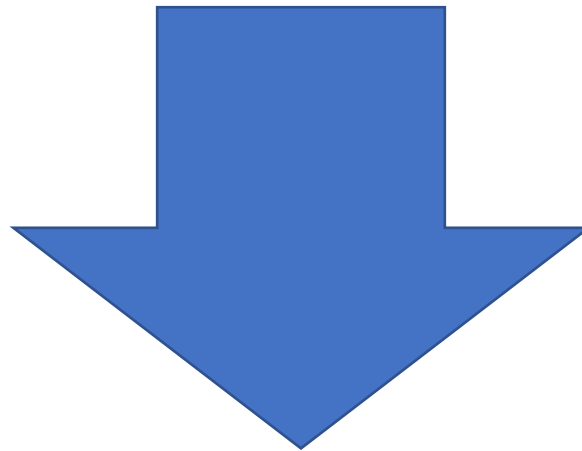




KEY INDICATORS

LET'S SEE THEM TOGETHER!!

Commodity Channel Index (CCI)





KEY INDICATORS– CCI

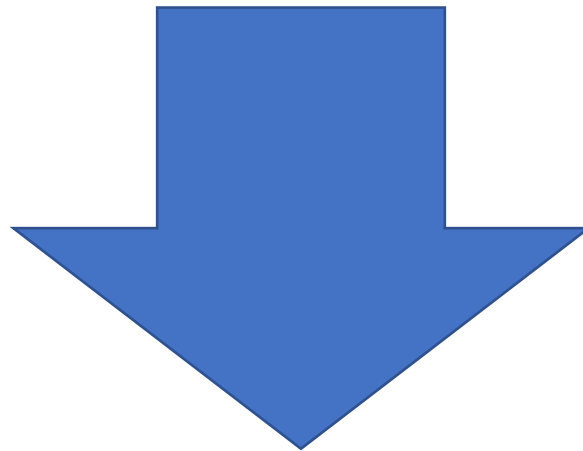




KEY INDICATORS

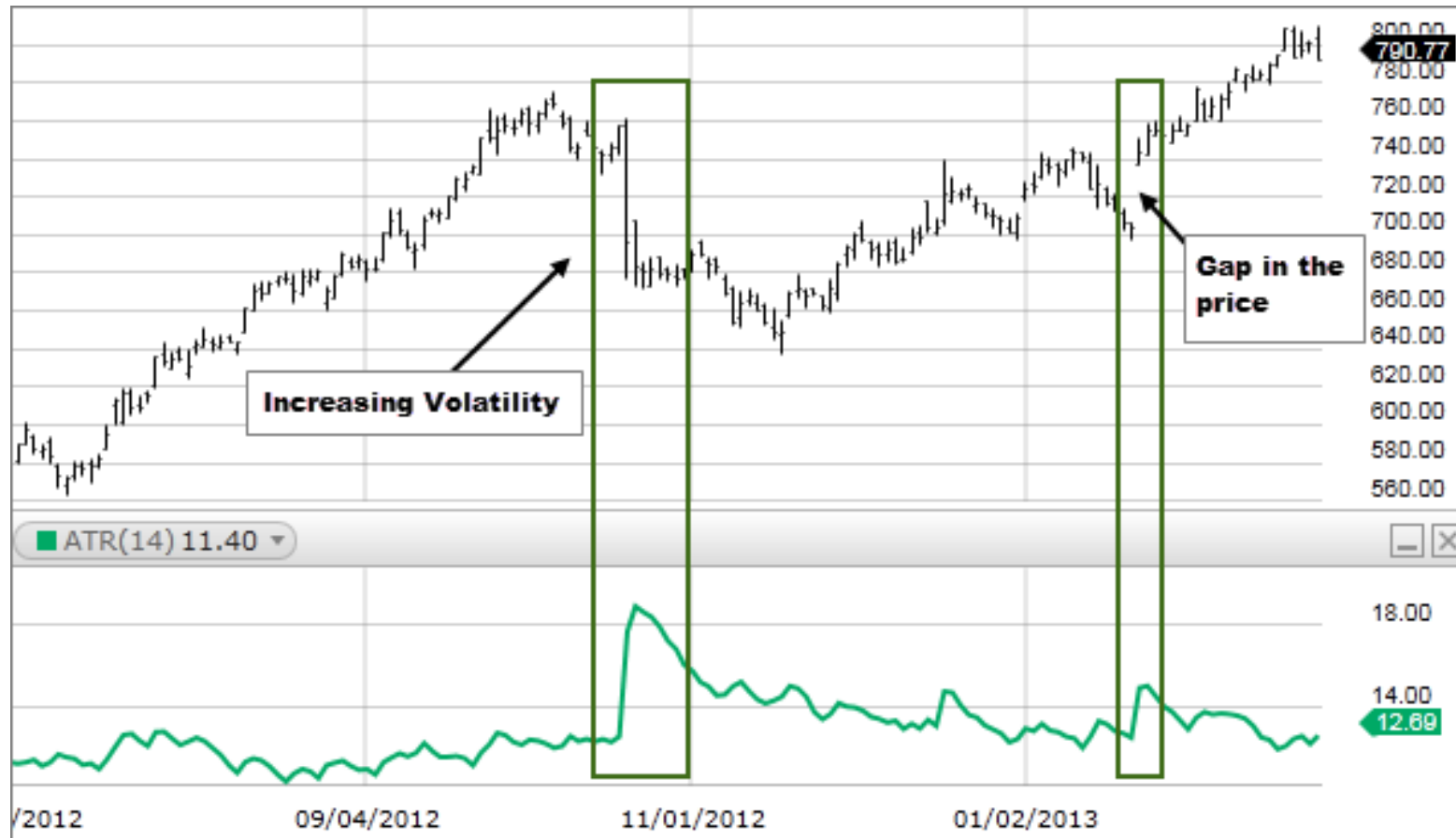
LET'S SEE THEM TOGETHER!!

Average True Range (ATR)





KEY INDICATORS– ATR



TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 8

**Charts and time:
the correct time frame for our
operational analysis**





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8. **Charts and time: the right time frame for our operational analysis**
9. Intermarket analysis: we learn to define the dominant drivers and trends in the market
10. Leverage, money and risk management: how to control and monitor the sustainability of your investments



Lesson 8

Charts and time:

the correct time frame for our operational analysis



**How to filter out "market noise"
and use
The "right" operational time
frame**



THERE IS NO SUCH THING AS THE PERFECT INDICATOR
THERE IS NO SUCH THING AS THE PERFECT TRADING SYSTEM
THERE IS NO PERFECT SETTING/PARAMETER
THERE IS NO SUCH THING AS A PERFECT TIME FRAME
....

DIVERSIFY SETUP PARAMETERS
DIVERSIFY INTERVENTION TIME FRAMES
DIVERSIFY AND FRACTIONATE YOUR INVESTED CAPITAL



DIVERSIFY AND FRACTIONATE RISK



«Choosing the Operating Time Frame»

Selection of time axis on which to observe the evolution of prices and, above all, apply your own trading strategies



«Market noise»

Unpredictable/non-measurable volatility phases that punctually appear on the markets and with different impact depending on whether you are operating on a short, medium or long-term chart



«Time frames too low?»



Market noise



Macro-economic events/potentially disastrous
news



«Market noise»

Impact given «US NFP» on EURUSD (5-minute time frame...)





«Market noise»

Impact given «NFP US» on EURUSD (15-minute time frame...)





«Market Noise»

Impact given «US NFP» on EURUSD (60-minute time frame...)





«Market Noise»

Impact given «US NFP» on EURUSD (H4 time frame...)





«Market Noise»

Impact given «US NFP» on EURUSD (time frame DAILY...)





«Market Noise»

Total impact given «US NFP» on EURUSD





Market noise?
Only on time frames that are too low...

Low time frames = noise and confusion... and
emotional stress...





Market noise?

Only on time frames that are too low...

Medium-high time frame = permanence of the
primary trend, neutrality on news etc...





Time frame – Considerations/suggestions

Vulnerability

It is essential that each of us knows in which market context we are going to operate: more or less vulnerable to external events hand in hand with the greater or lesser speed of the charts used to trade.



Time frame – Considerations/suggestions

Unsustainability

The greater timeliness of the fastest charts is certainly appreciable in intraday trading and in the absence of external disturbing factors, but it becomes decidedly a harbinger of great disappointment and unsustainable in the medium to long term.



Time frame – Considerations/suggestions

Graphic reference validity

Use charts that have a minimum of logic and readability, i.e. at 4 hours or better still daily: in this case, the identified support/resistance levels recover logic and effectiveness and are decidedly less vulnerable in the presence of any external disturbances.





Time frame – Considerations/suggestions

Graphic reference validity

The problem of "market noise", the fear of incoming news and many other factors of doubt and stress are therefore practically eliminated, giving us back sustainable trading both in economic and psychological terms.



Time frame – Considerations/suggestions

Seeking balance between economic and psychological capital

Short-term trading is unsustainable due to the excessive number of operations and related costs: a time frame of 5/15 minutes would involve such a high number of transactions as to constitute an insurmountable burden in terms of costs on the eventual final balance!



Time frame – Considerations/suggestions

Seeking balance between economic and psychological capital

How many very short traders are really able to offset transaction costs with operating results?

Very few, trust me...
;-)



Time frame – Conclusions

Ultimately, the advice is to operate on a time frame "adequate", adopting fairly efficient "operational filters", in order to operate as much as possible in line with the underlying directionality of the market.



Time frame – Conclusions

Avoid intervening in both directions of the market (LONG/SHORT),
an activity that especially during prolonged sideways phases
enriches only one person: your broker!



Time frame

LET'S GET DOWN TO BUSINESS
AND WE APPLY THE TECHNIQUES AND
KNOWLEDGE WE HAVE ACQUIRED...





Time frame

HOW CAN WE
DO YOU WANT TO "FILTER" THE
MARKET NOISE AND APPLY THE
CORRECT TIME FRAME?





Time frame

DO THE LESSONS DEVELOPED GIVE YOU
ANY IDEAS?



Time frame

DOW THEORY???

RISING HIGHS AND LOWS and/or
DO DECREASING SUGGEST ANYTHING
TO YOU?



Time frame

TRENDLINES???

DOES APPLYING THEM ON DIFFERENT
TIME FRAMES and/or LEVELS SUGGEST
ANYTHING TO YOU?



Time frame

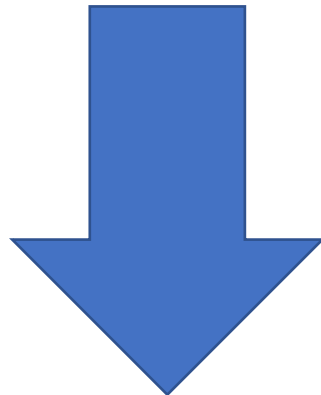
MOVING AVERAGES???

DOES APPLYING THEM WITH
DIFFERENT "SPEEDS" and/or TIME
FRAMES SUGGEST ANYTHING TO YOU?



Time frame

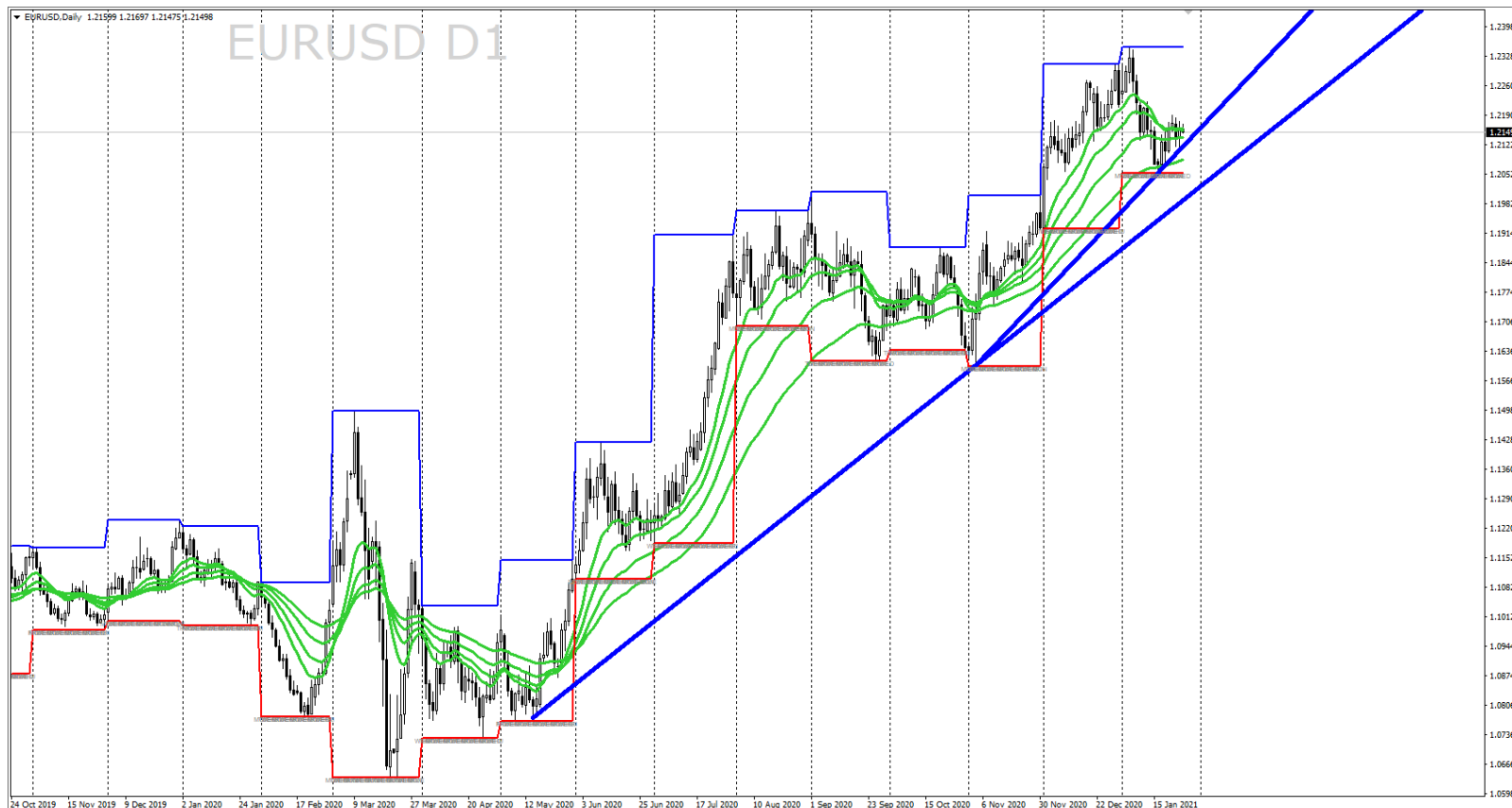
REAL-WORLD EXAMPLES!!!





Time frame

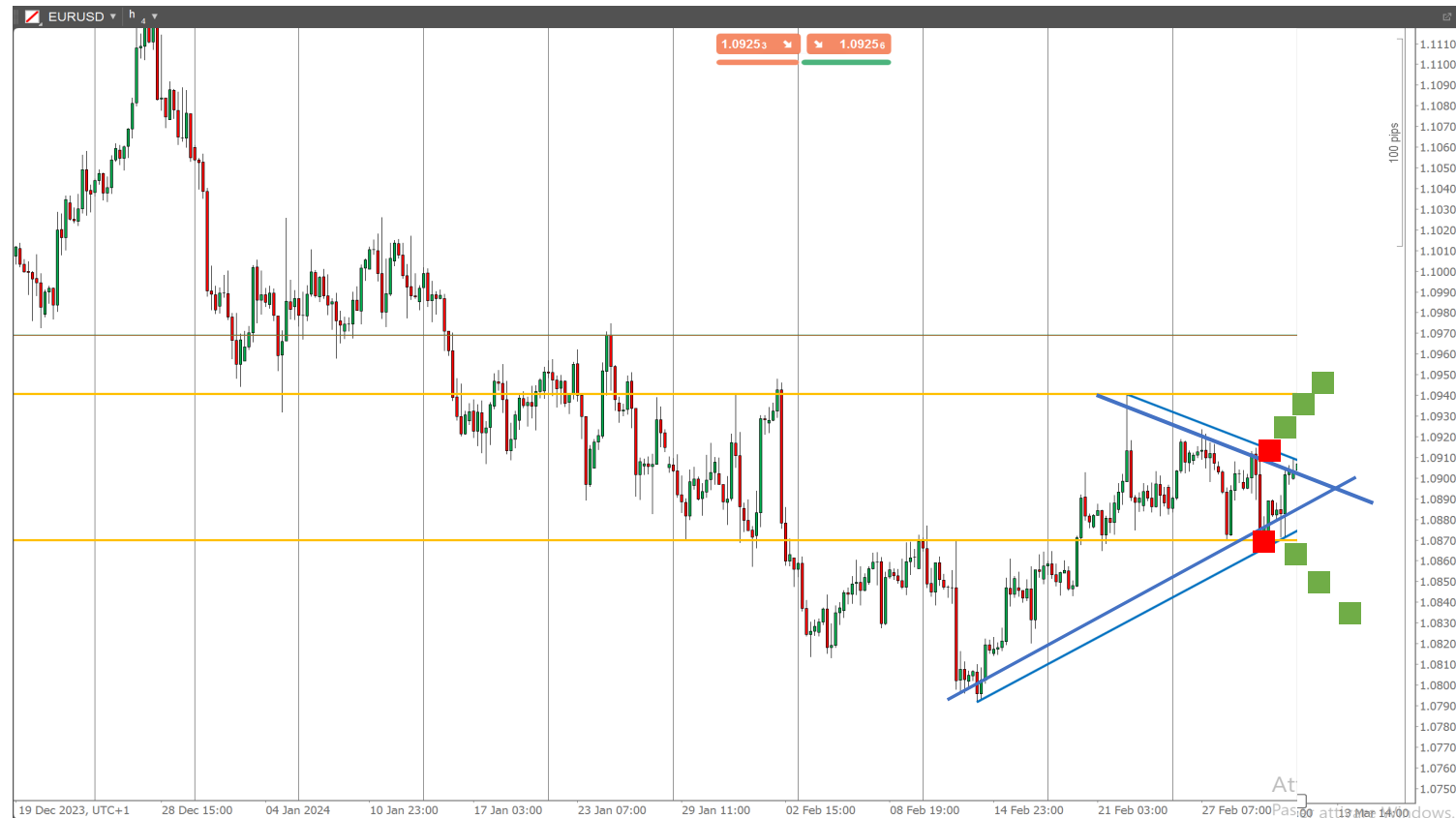
REAL-WORLD EXAMPLES!!!





Time frame

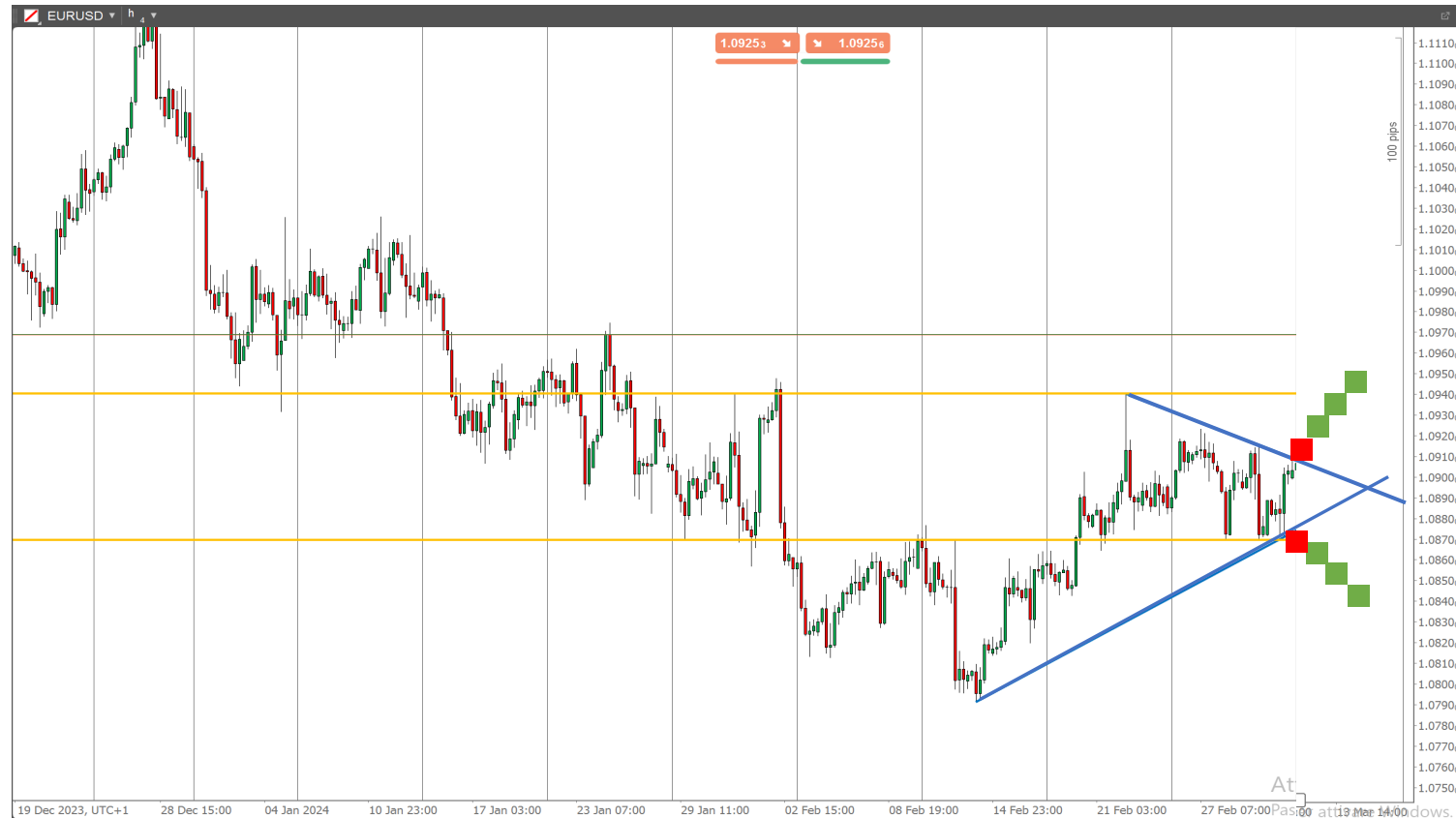
REAL-WORLD EXAMPLES!!!





Time frame

REAL-WORLD EXAMPLES!!!





Time frame

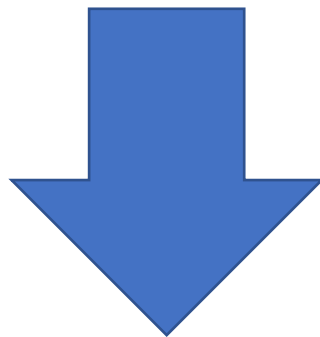
REAL-WORLD EXAMPLES!!!





Time frame

BUT THERE ARE ALSO "ALGORITHMS"
DESIGNED FOR THIS, I'LL GIVE YOU ONE
OF THEM...





Time frame – Solutions: The Supertrend

- The Supertrend significantly reduces the background noise of the market
- Filters out less significant changes than other indicators
- On the other hand, it is less timely in signaling changes in direction/reversal



«Market Noise + SUPERTREND FILTER»

Impact given «US NFP» on EURUSD (5-minute time frame...)





«Market Noise + SUPERTREND FILTER»

Impact given «NFP US» on EURUSD (15-minute time frame...)





«Market Noise + SUPERTREND FILTER»

Impact given «US NFP» on EURUSD (H1 time frame)





«Market Noise + SUPERTREND FILTER»

Impact given «US NFP» on EURUSD (H4 time frame...)





«Market Noise + SUPERTREND FILTER»

Impact given 'US NFP' on EURUSD(time frame DAILY)





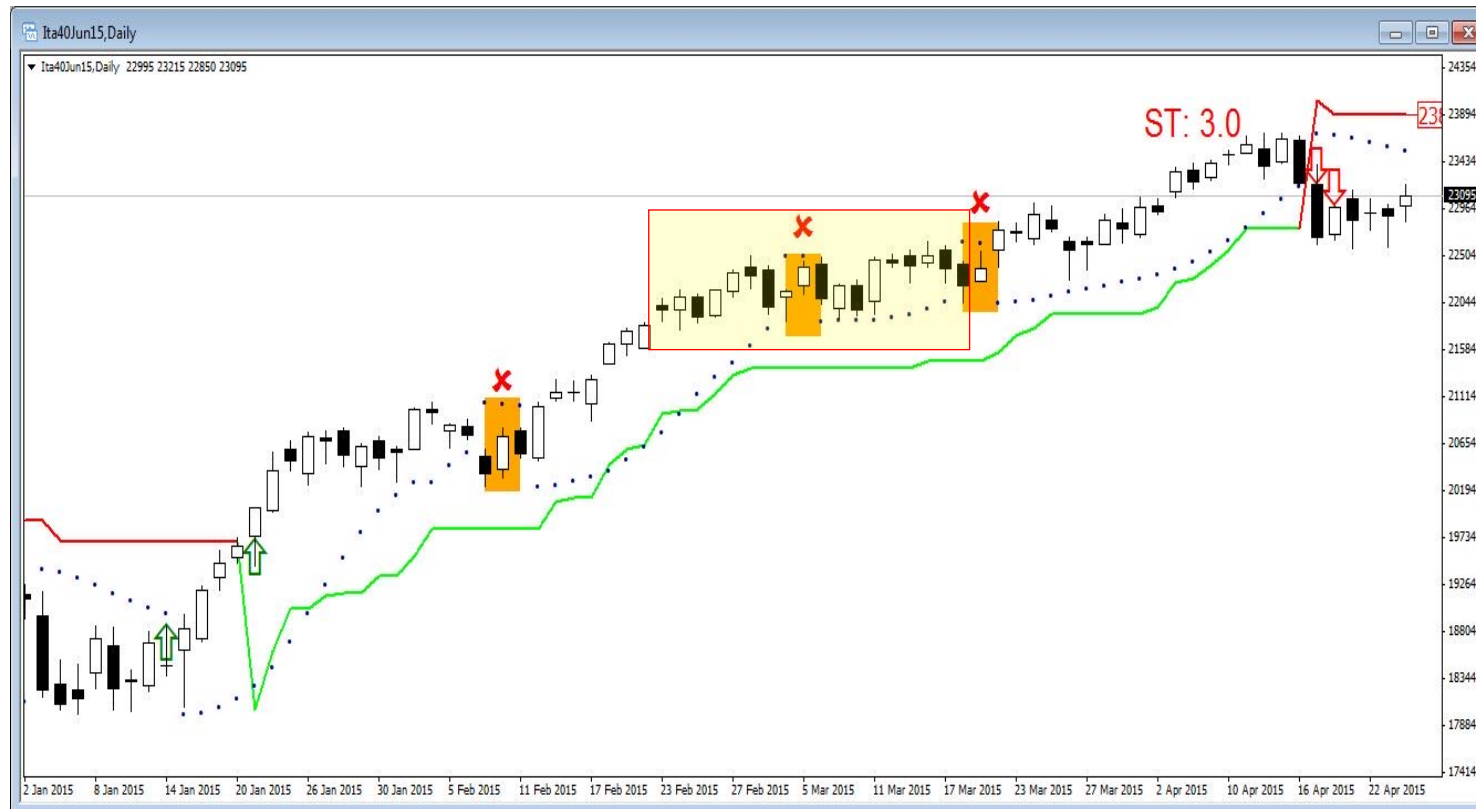
«Market Noise + SUPERTREND FILTER» Total impact given «US NFP» on EURUSD





Time frame – Solutions: the Supertrend

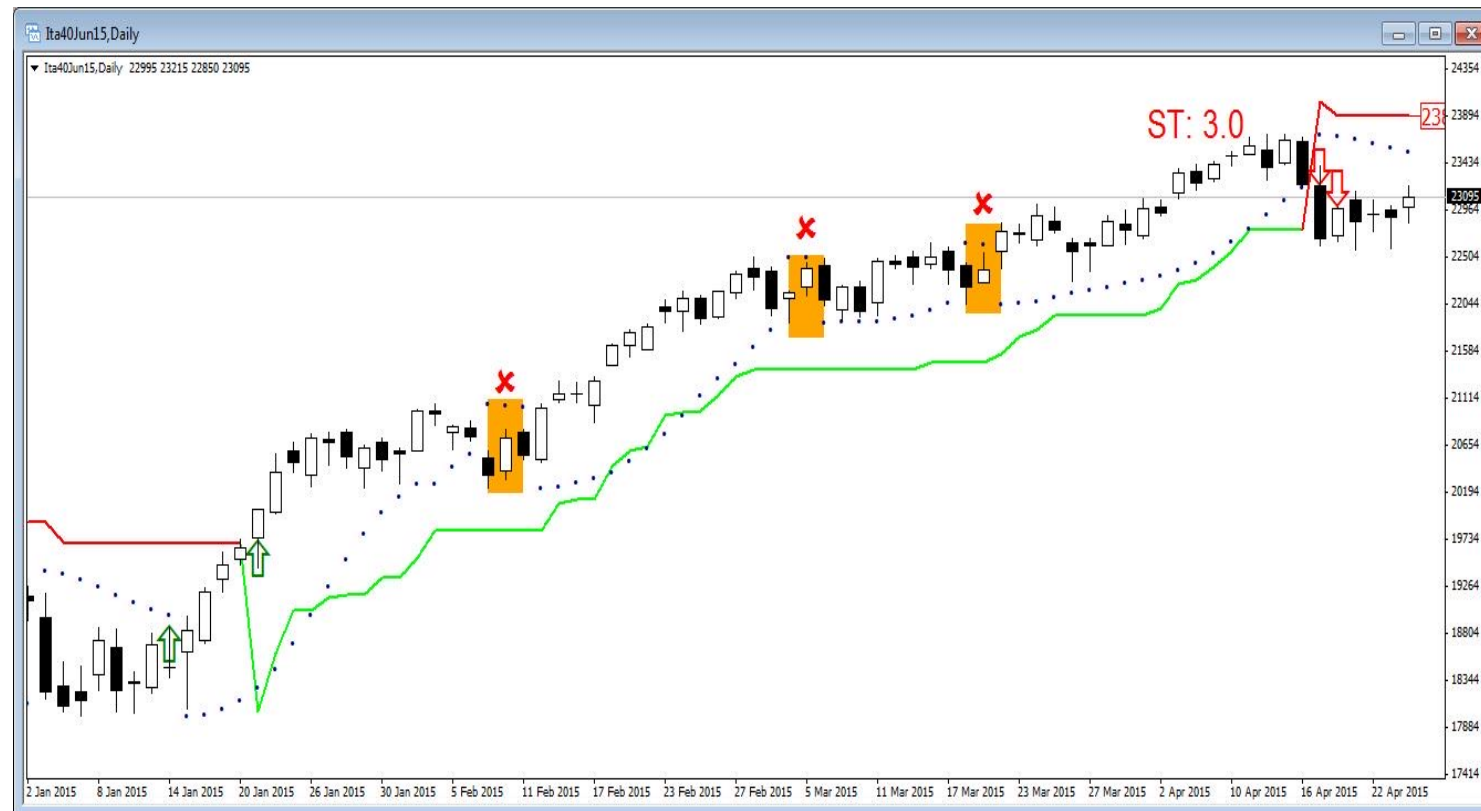
Laterality is no longer a problem...





Time frame – Solutions: the Supertrend

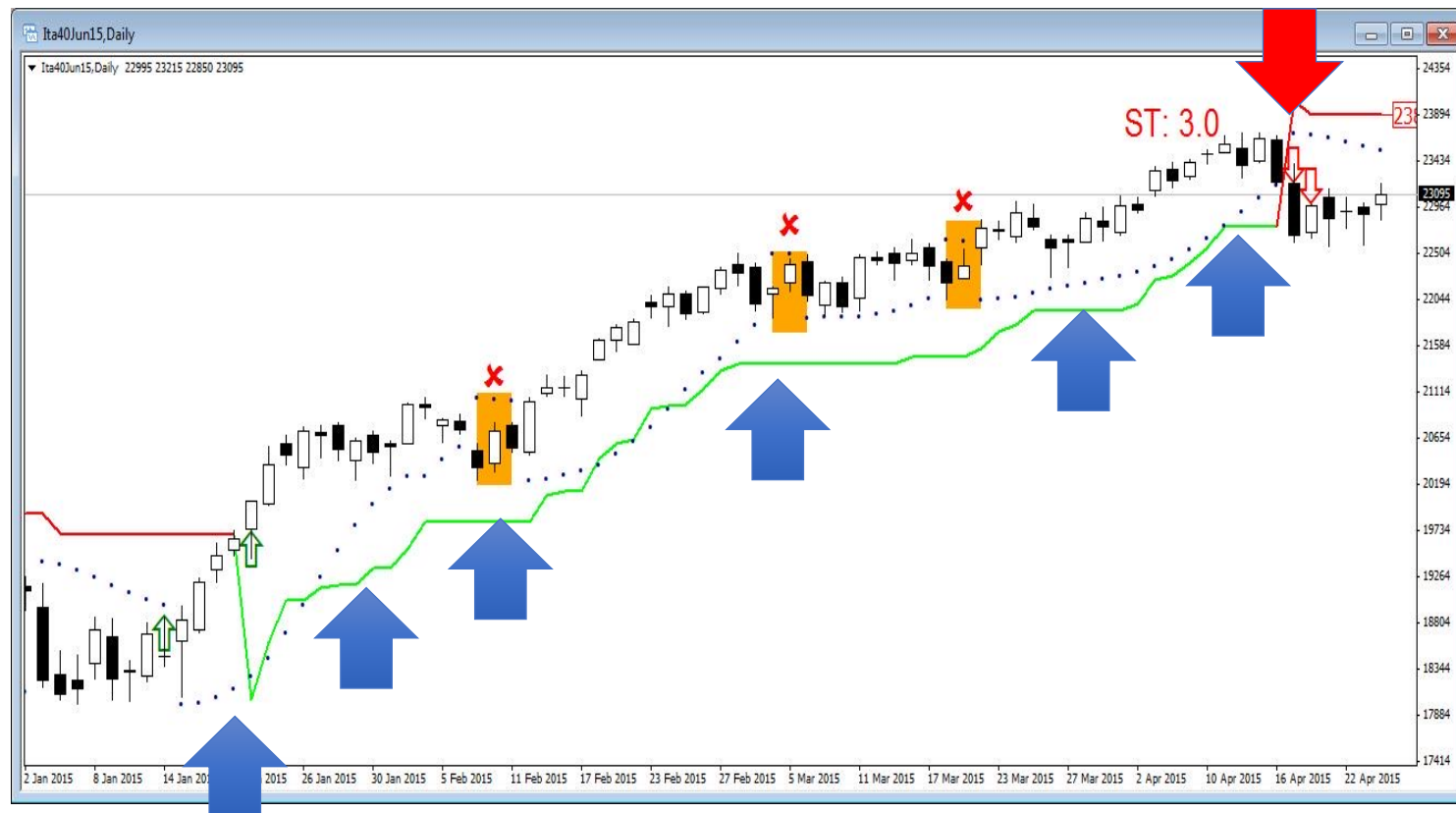
No more inputs far from minimums and maximums...





Time frame – Solutions: the Supertrend

But as a «trailing stop», it's perhaps unbeatable!



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LESSON 9

Intermarket analysis:

**We learn to define the dominant drivers and trends in the
market**





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Lesson 9

Intermarket analysis:

**We learn to define the dominant drivers and trends in
the market**



Intermarket technical analysis

«The intermarket analysis stems from the observation of the close links between the various markets.

No market is an island and each is closely connected to the local and global economy in an inextricable relationship that envelops and systematizes the relationships between stock, bond, commodity and currency markets».



Intermarket technical analysis

The intermarket analysis examines the correlations between "four major asset classes":

- Stocks;
- Bonds;
- Commodities;
- Currencies.



Intermarket technical analysis

«Intermarket analysis therefore seeks to understand the condition of the business cycle given the condition of trends in stock exchanges, bonds, commodities and currencies.»





Intermarket technical analysis

«How to measure the overall scenario on a daily basis, to decide which operational directionality (long/short) will be the most suitable for trading in the short, medium and long term»



Intermarket Technical Analysis: the Origins...

«The first notions of intermarket analysis were developed and disseminated by **John Murphy**, who for over 25 years developed his own theories on the links between the various markets.

« **Intermarket Technical Analysis** » - (1991)



Intermarket Technical Analysis: The Origins...

For Murphy, intermarket relationships depend first and foremost on the dynamics of inflation or deflation.

In a "normal" inflationary environment, stocks and bonds are positively correlated.

This means that both are moving in the same direction.



Intermarket Technical Analysis: the Origins...

Inflation and deflation

Inflation:

this is a phenomenon whereby the purchase prices of products and services generally tend to increase over time.



Intermarket Technical Analysis: the Origins...

Inflation and deflation

Deflation:

This is a phenomenon whereby the purchase prices of products and services generally tend to fall over time.



Intermarket Technical Analysis: the Origins...

Inflation and deflation

Economists pay particular attention to the phenomena of inflation and deflation in order to understand the causes and develop interventions that allow them to be controlled and their effects on the real economy.



Intermarket Technical Analysis: The Origins...

These are the key intermarket relationships in a «normal» inflationary environment:

- Positive bond-to-securities ratio
- Bonds change direction before stocks (typically)
- Inverse relationship between bonds and commodities (when one goes up, the other goes down)
- Inverse Relationship Between the U.S. Dollar and Commodities



Intermarket Technical Analysis: the Origins...

In an inflationary environment, the stock market reacts positively to falling interest rates (rising bond prices).

Low interest rates stimulate economic activity and increase corporate profits.



Intermarket Technical Analysis: the Origins...

Intermarket relationships during a deflationary environment are basically the same except one: stocks and bonds are inversely correlated in this case. This means that stocks rise when bonds fall, and vice versa;

In practice, the performance of equities has a positive correlation with interest rates.



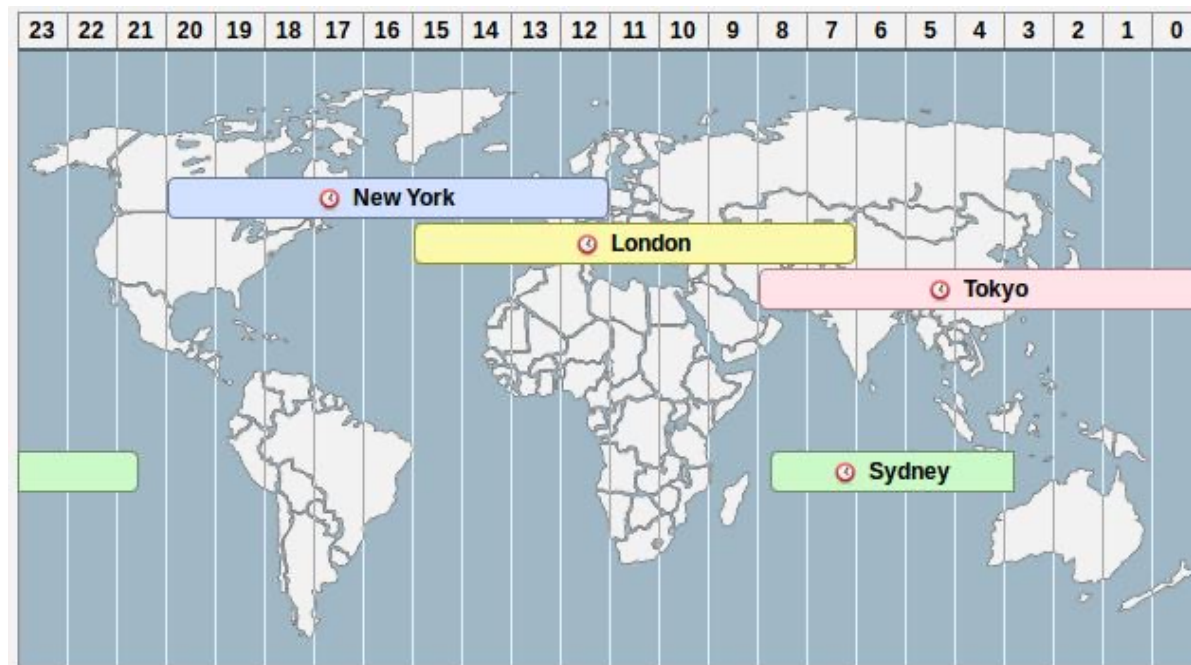
Intermarket Technical Analysis: The Origins...

Summary of key intermarket relationships during a
deflationary environment:

- Inverse Relationship Between Bonds and Stocks
- Inverse relationship between Commodities and Bonds
- Positive Equity-Commodity Ratio
- Inverse Relationship Between the U.S. Dollar and Commodities



The alternation of financial markets





INTERMARKET TECHNICAL ANALYSIS: THE ALTERNATION OF THE MAJOR STOCK MARKETS

8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	1	2	3	4	5	6	7
		P	A	R	I	S																	
		L	O	N	D	R	E	S															
						N	E	W		Y	O	R	K										
																	S	I	D	N	E	Y	
P	O	R	E																S	I	N	G	A
																		T	O	K	I	O	



INTERMARKET TECHNICAL ANALYSIS: THE ALTERNATION OF THE MAIN CURRENCY MARKETS

The global forex market is open 24 hours



GMT	20	22	0	2	4	6	8	10	12	14	16	18	20	22
Wellington														
Tokyo														
Singapore														
Bahrain														
Zurich														
London														
New York														

*Above table shows active markets for each time period



INTERMARKET ANALYSIS

"PREVENTIVE"

Structuring an overall intermarket framework, with a clear and immediate understanding of how markets are moving as a whole, is an essential starting point before any investment decision, whether intended for the short or long term.



INTERMARKET ANALYSIS "PREVENTIVE"

FINANCIAL INSTRUMENTS TO BE EVALUATED

USDJPY & EURUSD => DOLLAR STRENGTH
OIL & COMMODITIES=> DOLLAR STRENGTH
DAX & S&P500 => RISK APPETITE



RISK ON / RISK OFF ???



RISK ON / RISK OFF

Risk ON: good prospects for the future of the economy, liquidity parked on non-risky instruments returns to the market.

Liquidity is back in circulation; less risky positions are relieved and stocks and risky financial instruments in general are bought again.

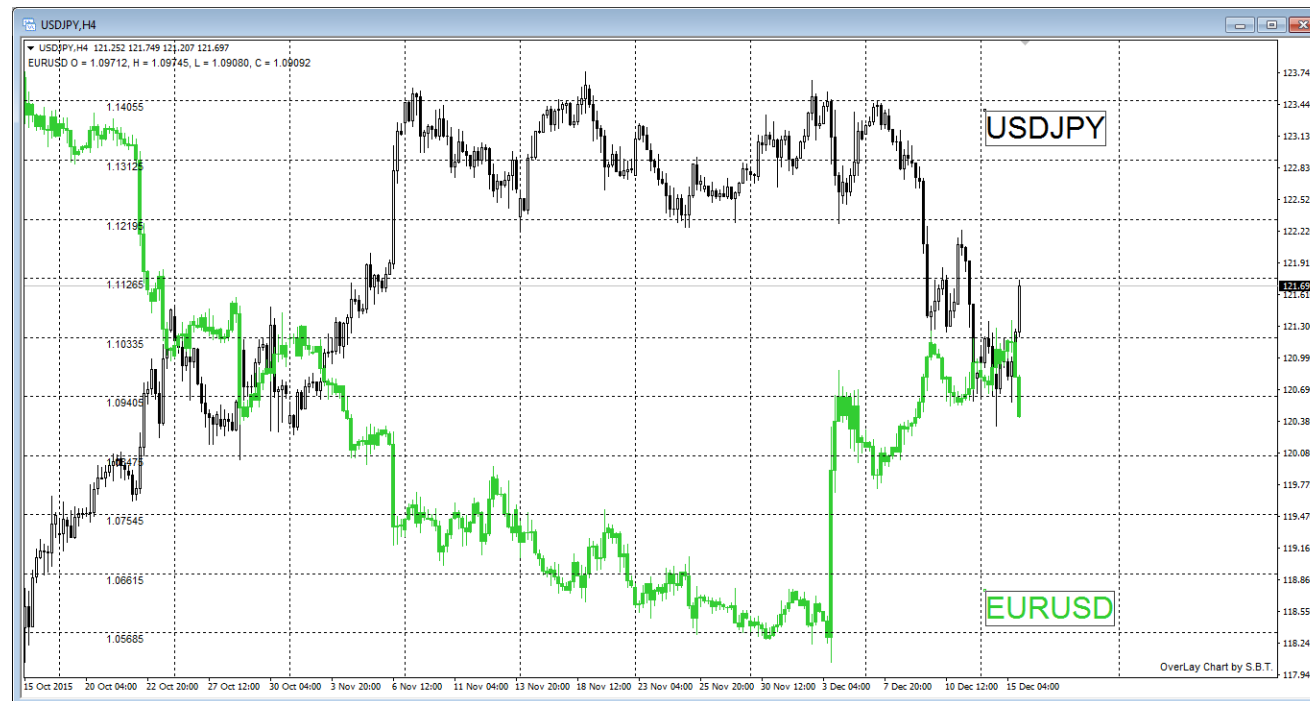
Risk OFF: traders-have doubts about the future of the economy, about the ability of the markets to perform and consequently "exit the market".

Liquidation of risk on equity markets and risk in general and shift-parking of liquidity on cash, bonds, precious metals



"PREVENTIVE" INTERMARKET ANALYSIS GRAPHICAL CORRELATION

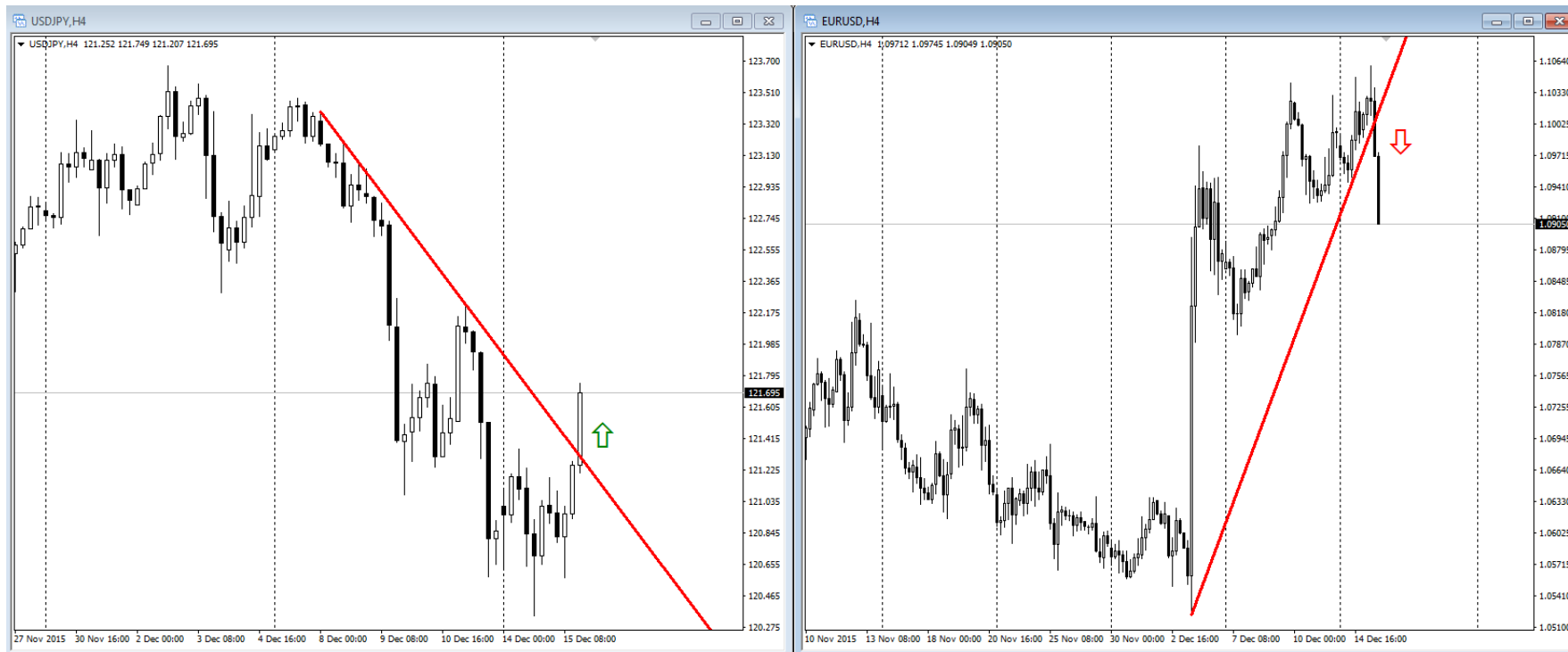
USDJPY & EURUSD => DOLLAR STRENGTH





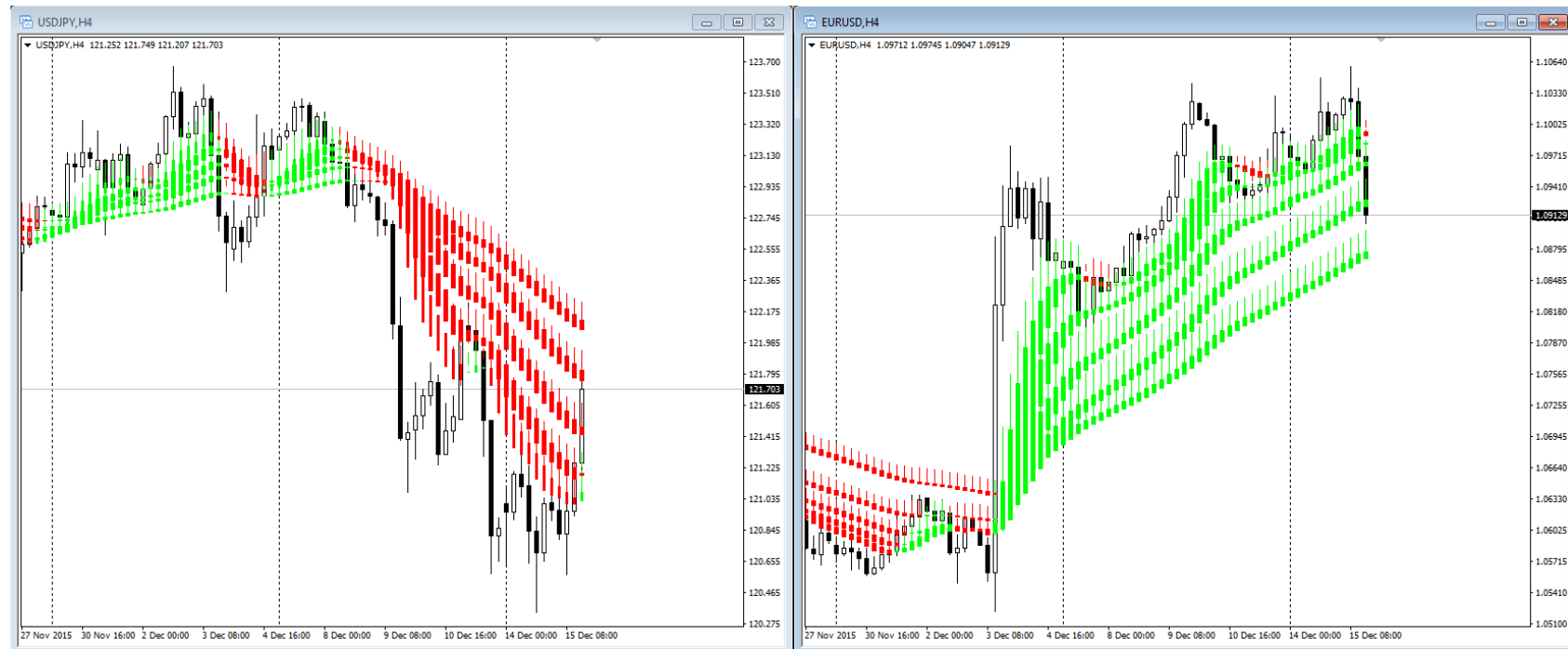
"PREVENTIVE" INTERMARKET ANALYSIS GRAPHICAL CORRELATION

USDJPY & EURUSD => DOLLAR STRENGTH





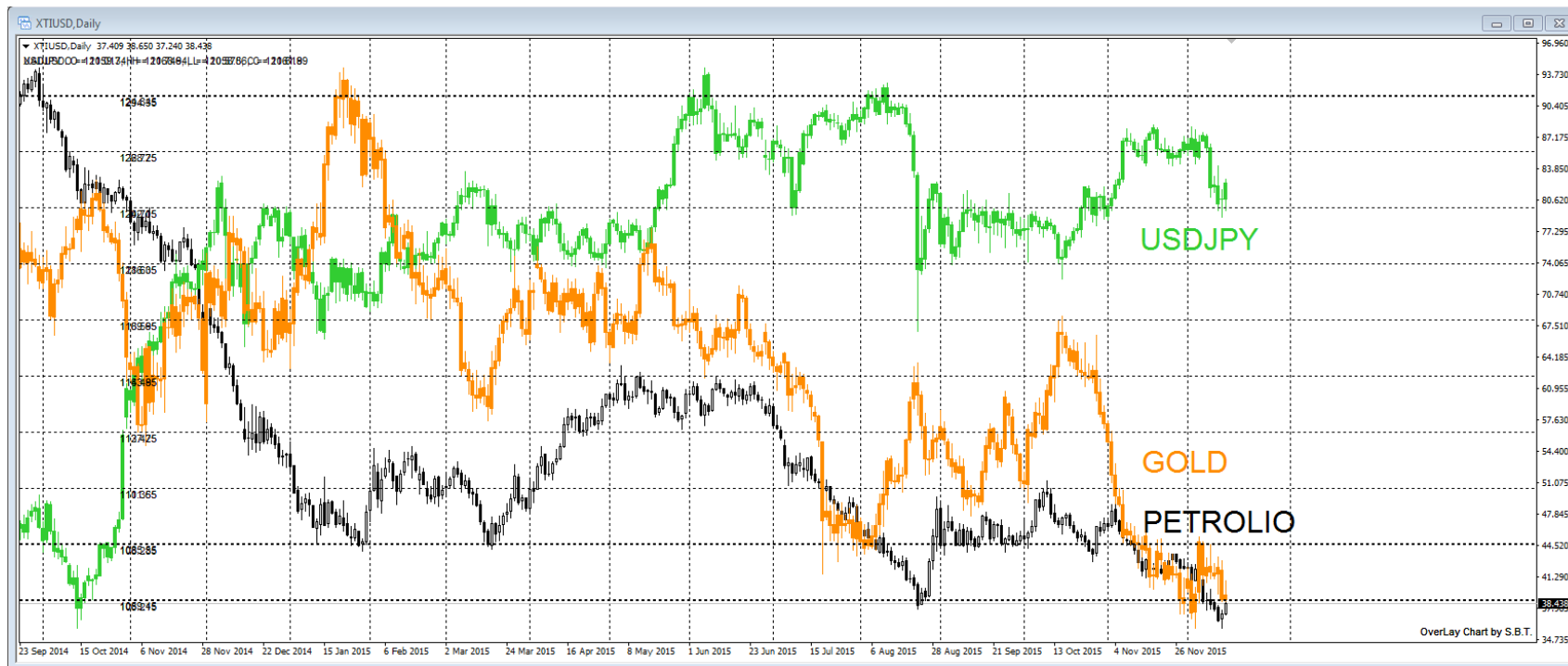
"PREVENTIVE" INTERMARKET ANALYSIS ALGORITHMIC/MATHEMATICAL CORRELATION USDJPY & EURUSD => DOLLAR STRENGTH





"PREVENTIVE" INTERMARKET ANALYSIS GRAPHICAL CORRELATION

OIL & COMMODITIES=> DOLLAR STRENGTH





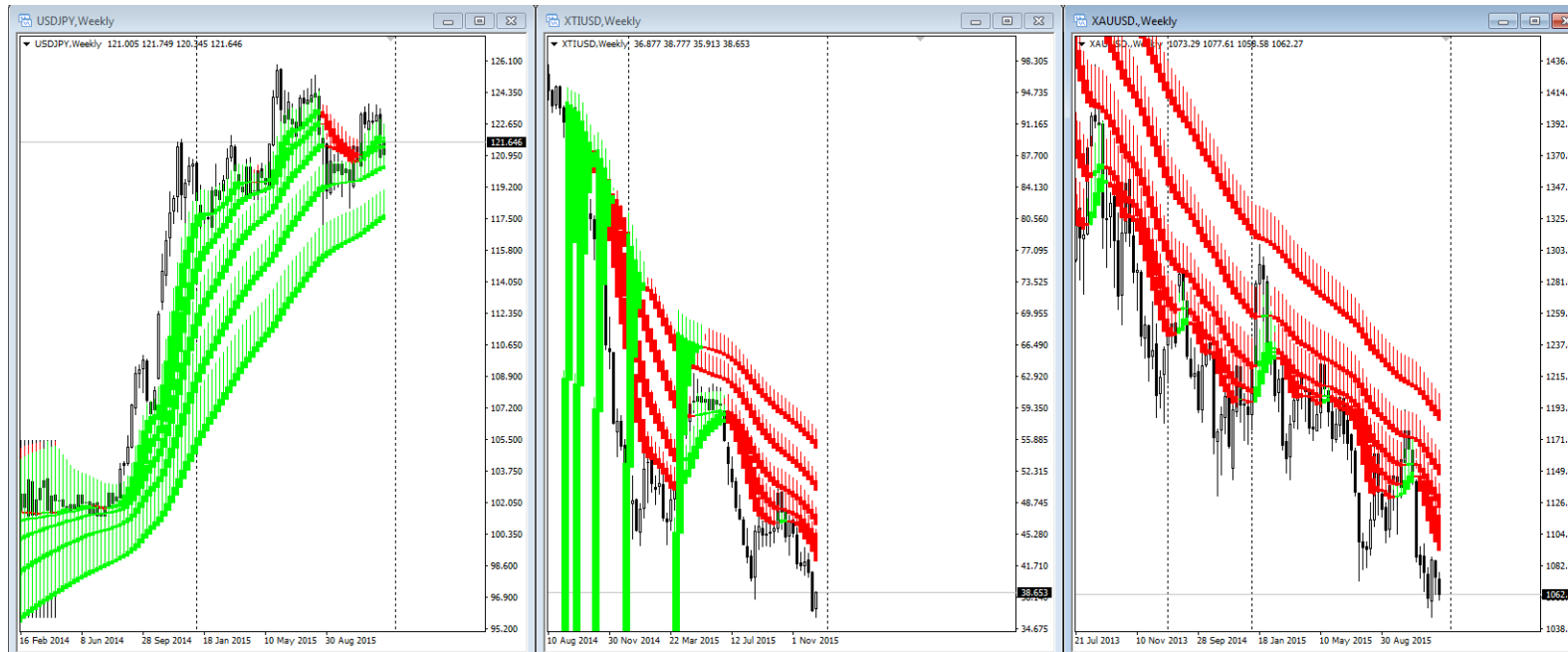
"PREVENTIVE" INTERMARKET ANALYSIS GRAPHIC EVIDENCE OIL & COMMODITIES=> DOLLAR STRENGTH





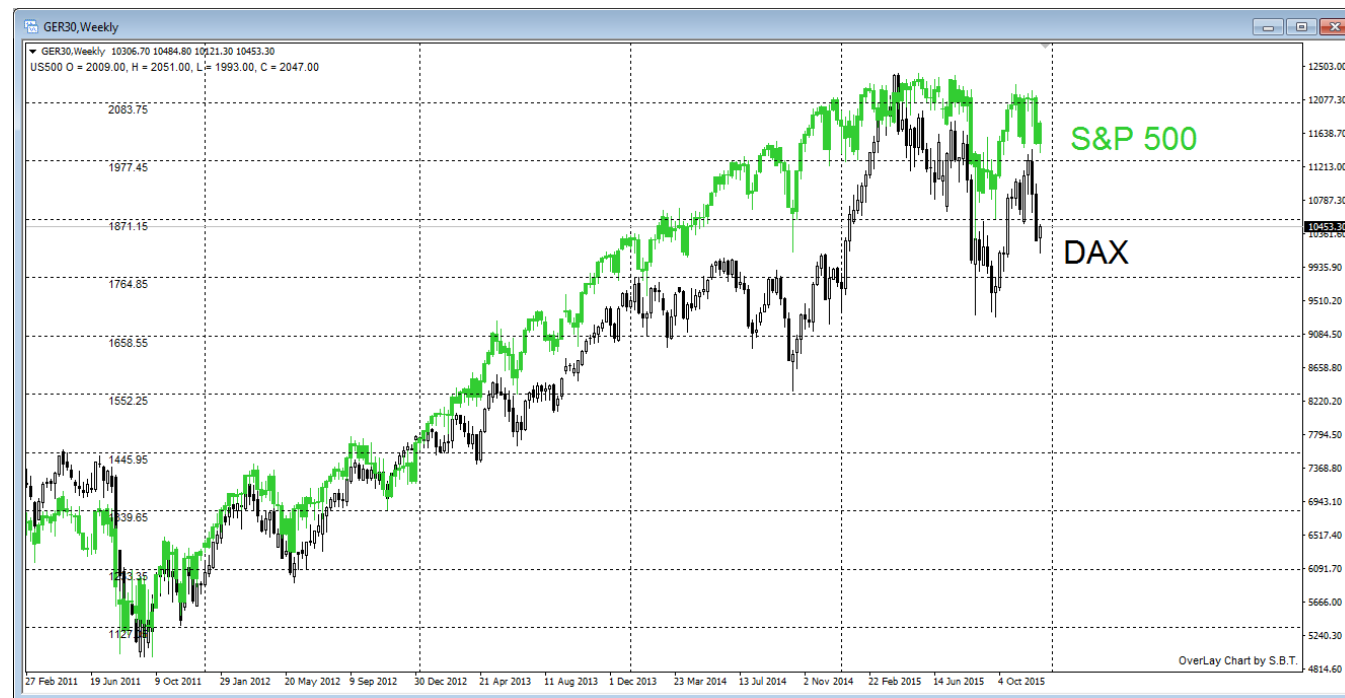
"PREVENTIVE" INTERMARKET ANALYSIS MATHEMATICAL/ALGORITHMIC CORRELATION

USDJPY & EURUSD & GOLD => DOLLAR STRENGTH





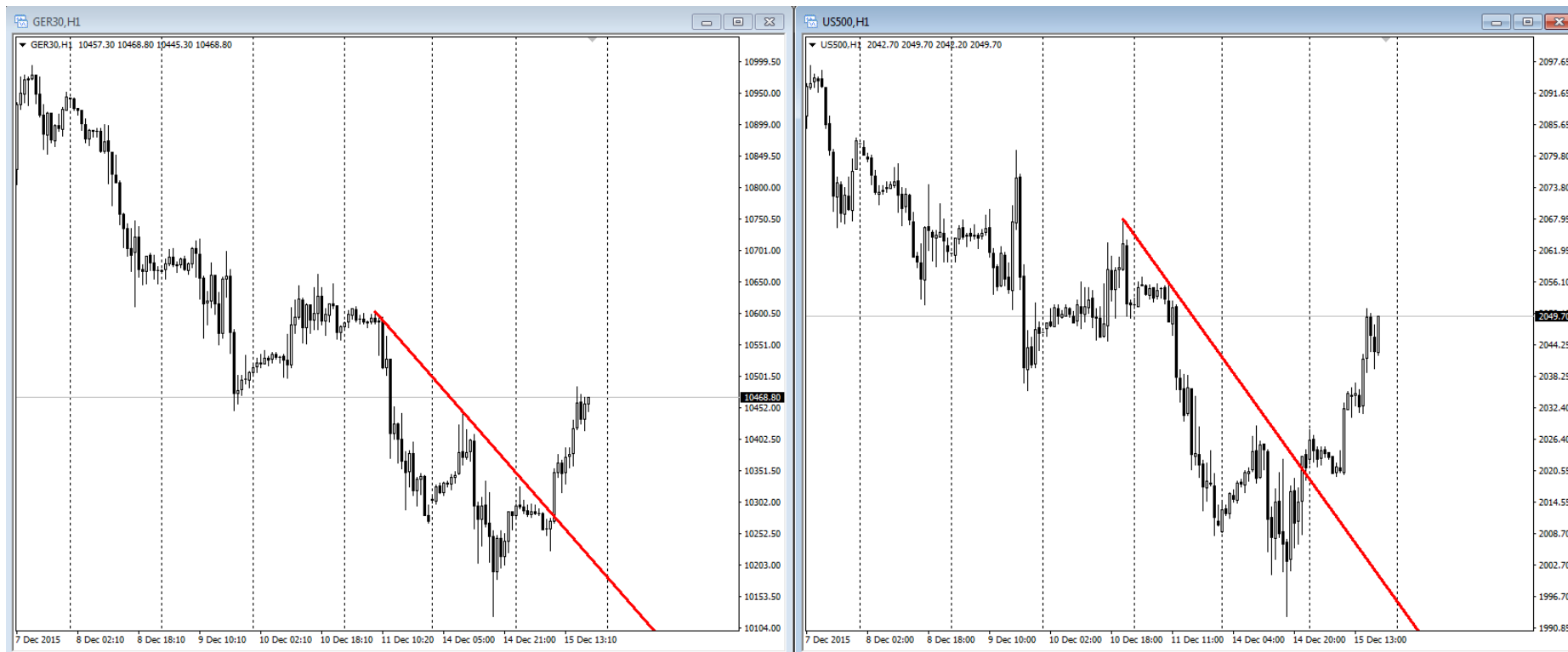
"PREVENTIVE" INTERMARKET ANALYSIS GRAPHICAL CORRELATION DAX & S&P500 => RISK APPETITE





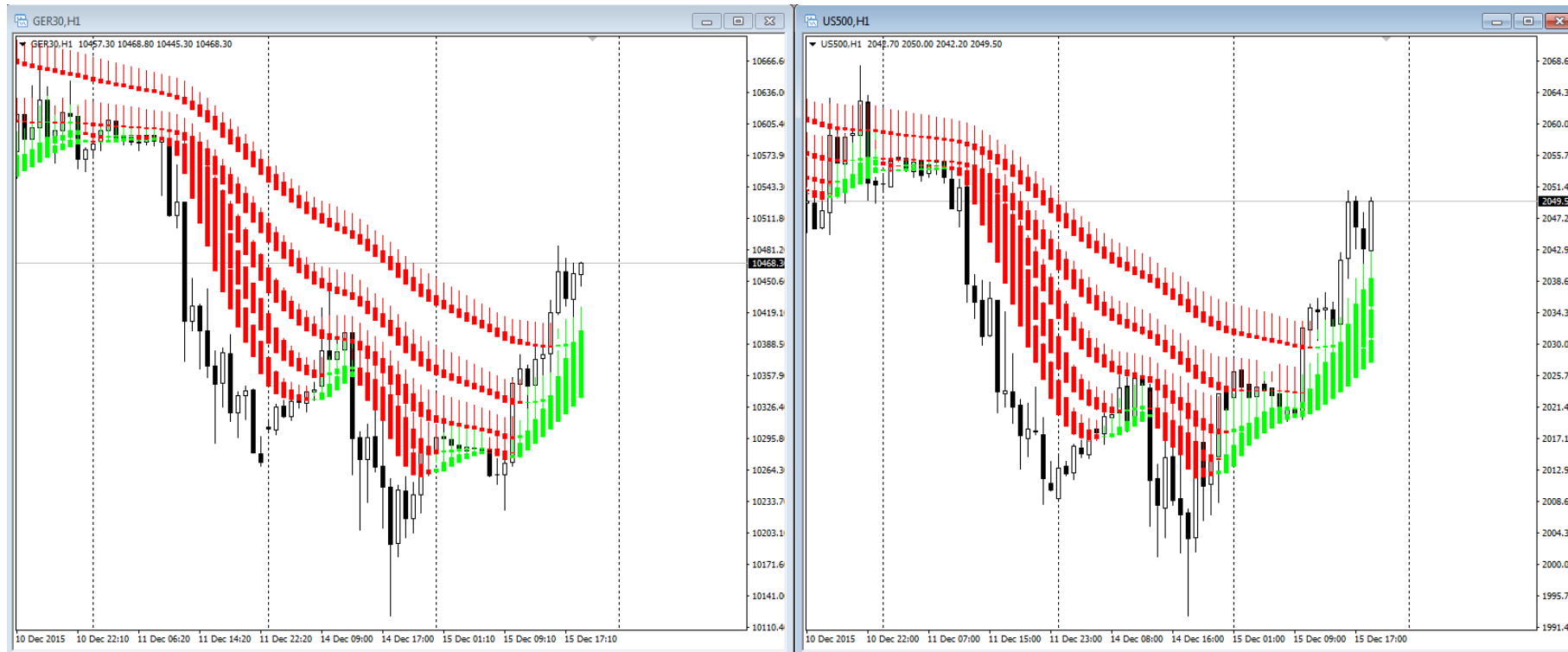
"PREVENTIVE" INTERMARKET ANALYSIS GRAPHIC EVIDENCE

DAX & S&P500 => RISK APPETITE



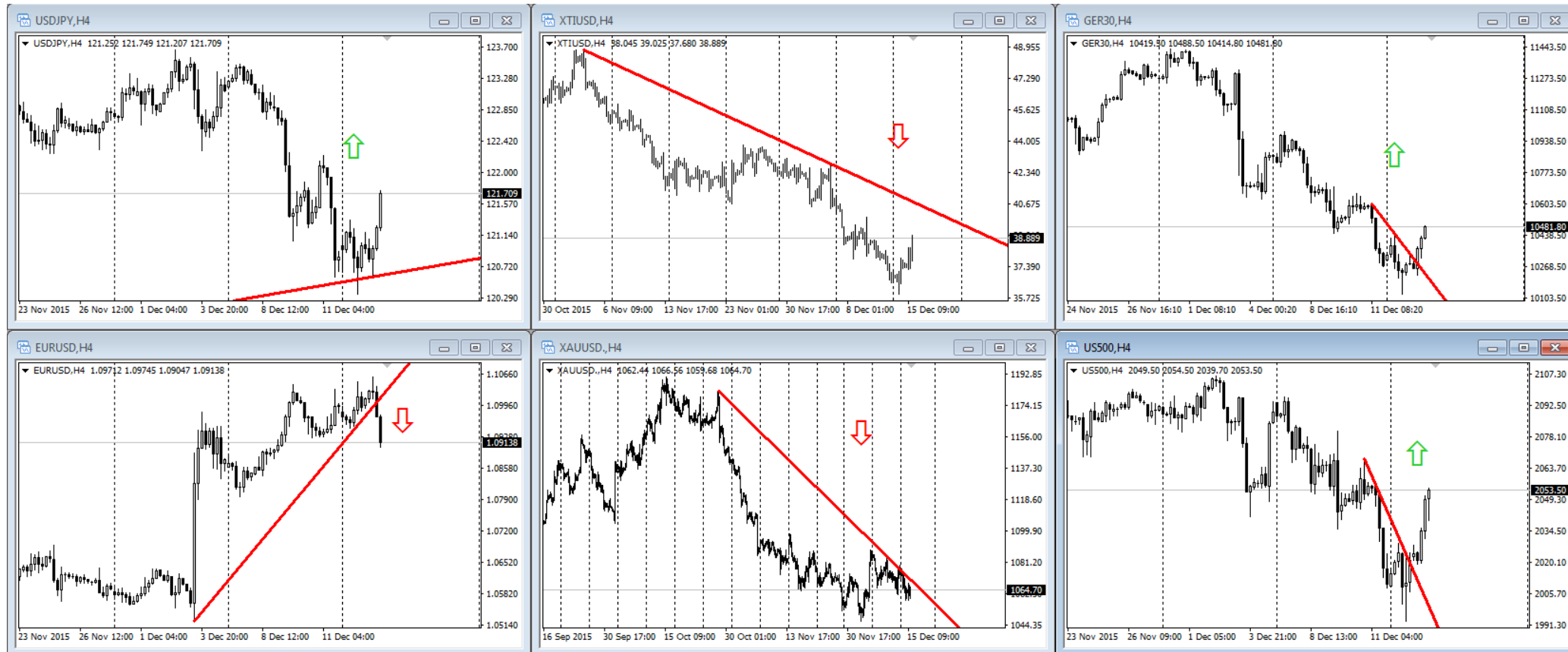


"PREVENTIVE" INTERMARKET ANALYSIS MATHEMATICAL/ALGORITHMIC CORRELATION DAX & S&P500 => RISK APPETITE





RISK ON or RISK OFF?





“PREVENTIVE” INTERMARKET ANALYSIS DEVALUATION AS A LAST RESORT FOR CENTRAL BANKS

The massive injection of liquidity by Central Banks has led to the creation of a *zero-interest economy* by the three main international trading platforms: the USA, China-Japan, and Europe.

The only weapon in the possession of Central Banks to relaunch the economic cycles of the areas of competence is the

competitive currency devaluation

that is, the desired and controlled weakening of the local currency in order to relaunch exports heavily and quickly.



"PREVENTIVE" INTERMARKET ANALYSIS CONCLUSIONS 1

Does the USDJPY exchange rate, the currency most correlated to the performance of the stock markets, confirm the direction of Wall Street's closing or does it show a slowdown or a danger of reversal?

And, as a result, will it be appropriate to trade higher or lower on equity markets in the next European session?

By carrying out this first check-analysis in a few seconds you will have built the first support for a good trading session.





Competitive currency devaluation – JPY and NIKKEI... CONFIRMATIONS?

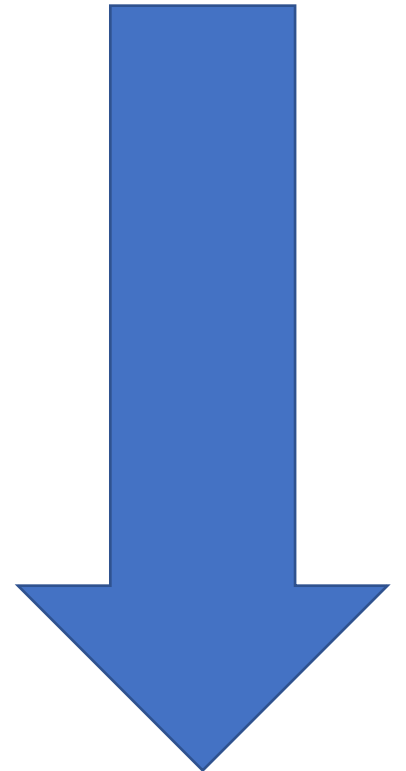




"PREVENTIVE" INTERMARKET ANALYSIS CONCLUSIONS 2

The shift of liquidity away from GOLD to riskier markets, namely the US S&P 500 stock market, is evident.

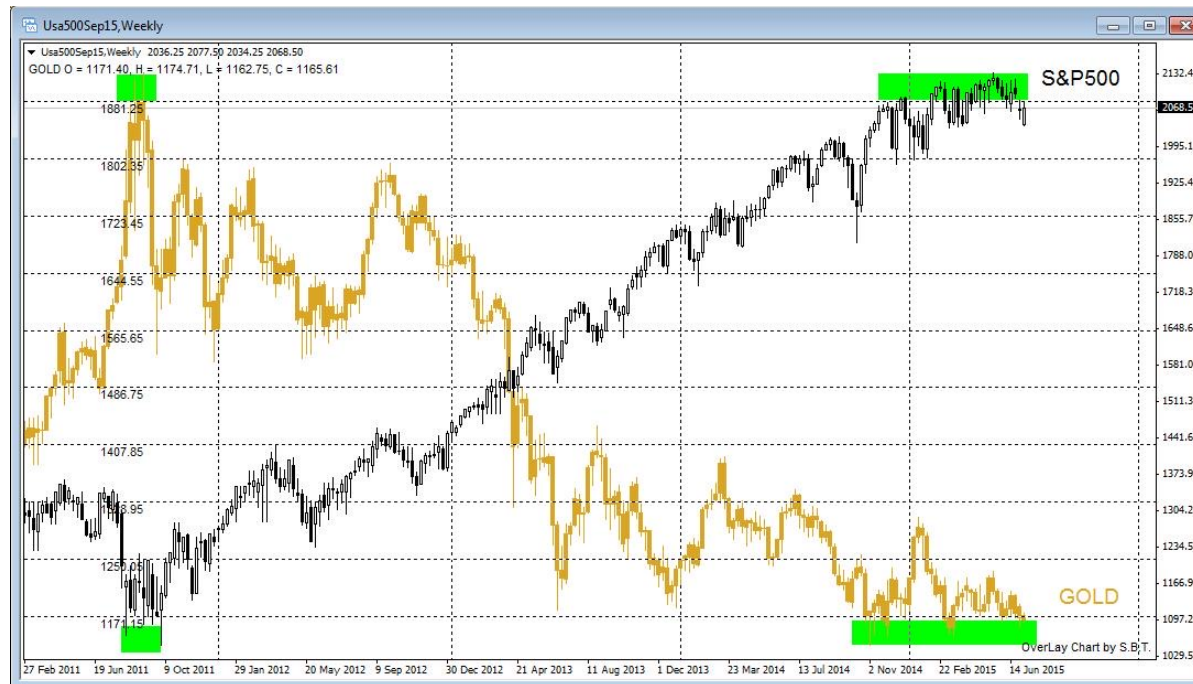
The outflow/shift of liquidity from less risky or otherwise notoriously protective markets (safe haven assets), to risky markets such as equity markets, has always characterized the transition from a risk-off phase to a risk-on phase and vice versa.





"PREVENTIVE" INTERMARKET ANALYSIS CONCLUSIONS 2

The shift of liquidity away from GOLD to riskier markets, i.e. the US stock market S&P 500 is evident.





"PREVENTIVE" INTERMARKET ANALYSIS CONCLUSIONS 3

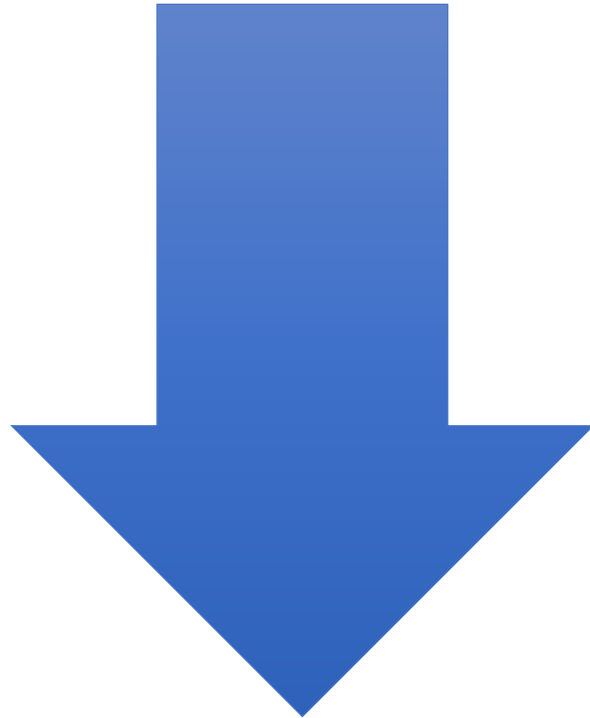
Intermarket analysis is certainly not the final solution to performing in the markets.

It is clear, however, that the food for thought highlighted and the practical representation of the form and contents of our daily process of intermarket analysis should have strengthened in you too how simple and all in all rapid it can be to be able to acquire information on the correlations in place on the various financial instruments, to the benefit of the ability to identify the potential "preys" of our company with a greater probability of success. daily trading activity.



INTERMARKET CORRELATIONS

Why are we interested in them?





INTERMARKET CORRELATIONS

“Negative” correlations



DAX INDEX & BUND

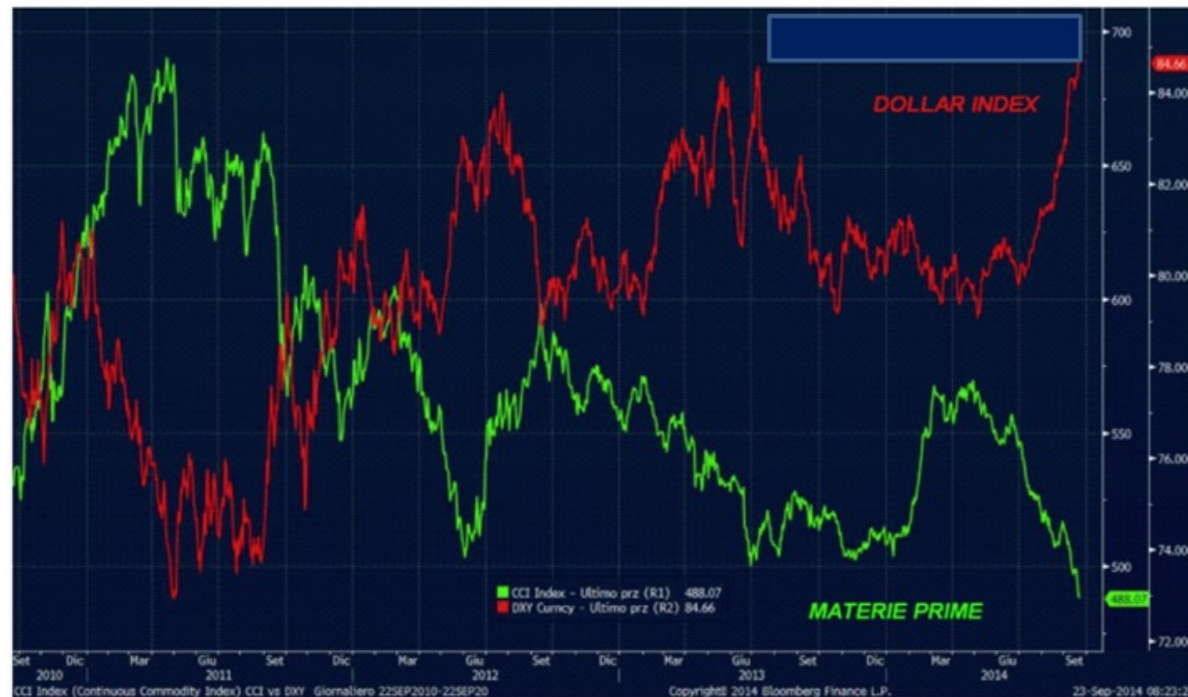
Stocks & bonds, a more than obvious "negative" (or inverse...) correlation





US DOLLAR & commodities...

"negative" correlation...





US DOLLAR & commodities... "negative" correlation...





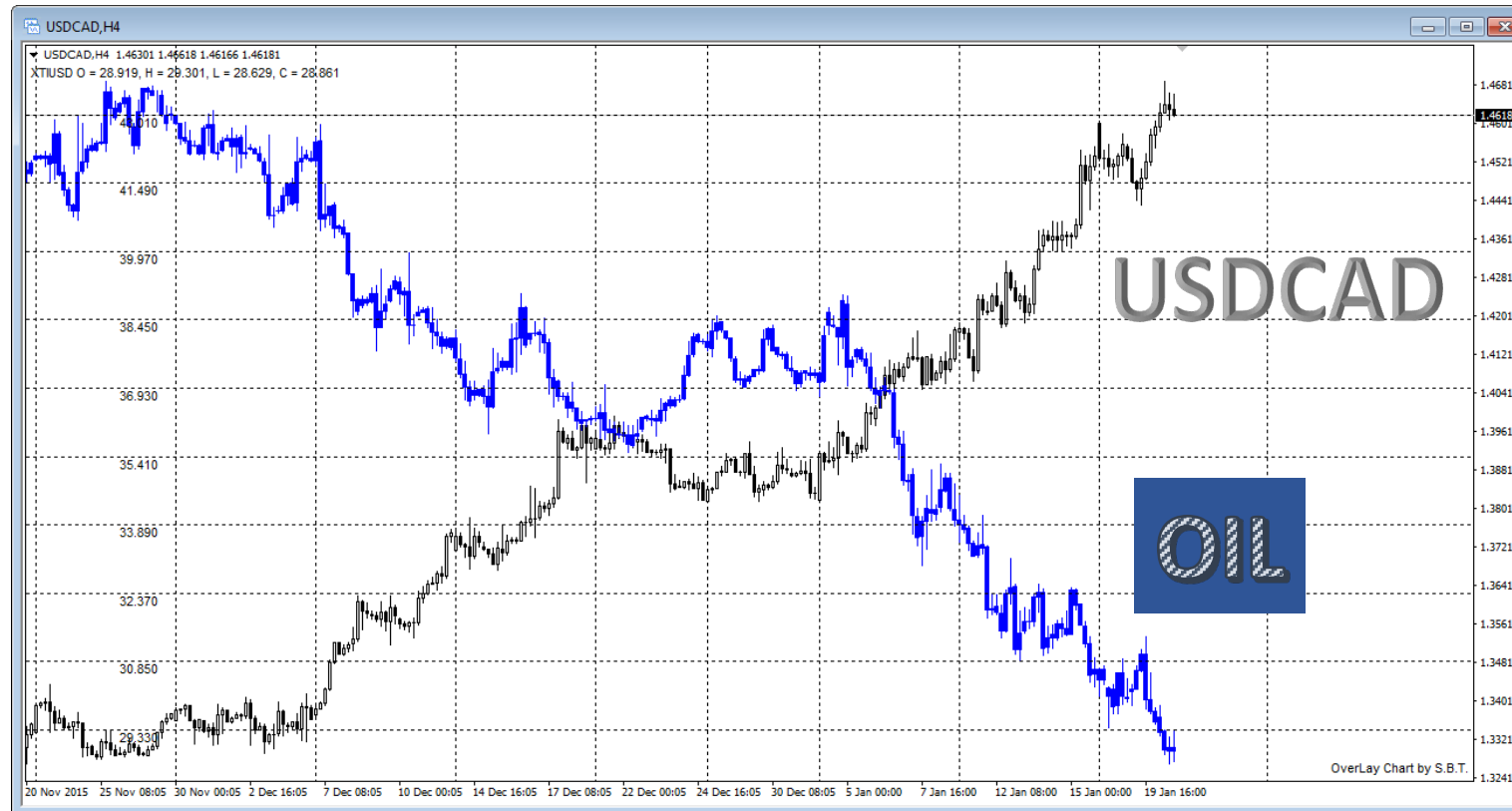
S&P 500 & commodities...

Can "safe-haven assets" go up if there is a high appetite for risk?
"negative" correlation...





USDCAD & oil... "negative" correlation...





USDJPY & EURUSD...

Dollar in the numerator against JPY and in the denominator with EURO and of course...
"negative" correlation...





INTERMARKET CORRELATIONS

"Positive" correlations



Intesa San Paolo vs Unicredit: direct and perfect correlation!!





USDJPY & NIKKEI STOCK INDEX



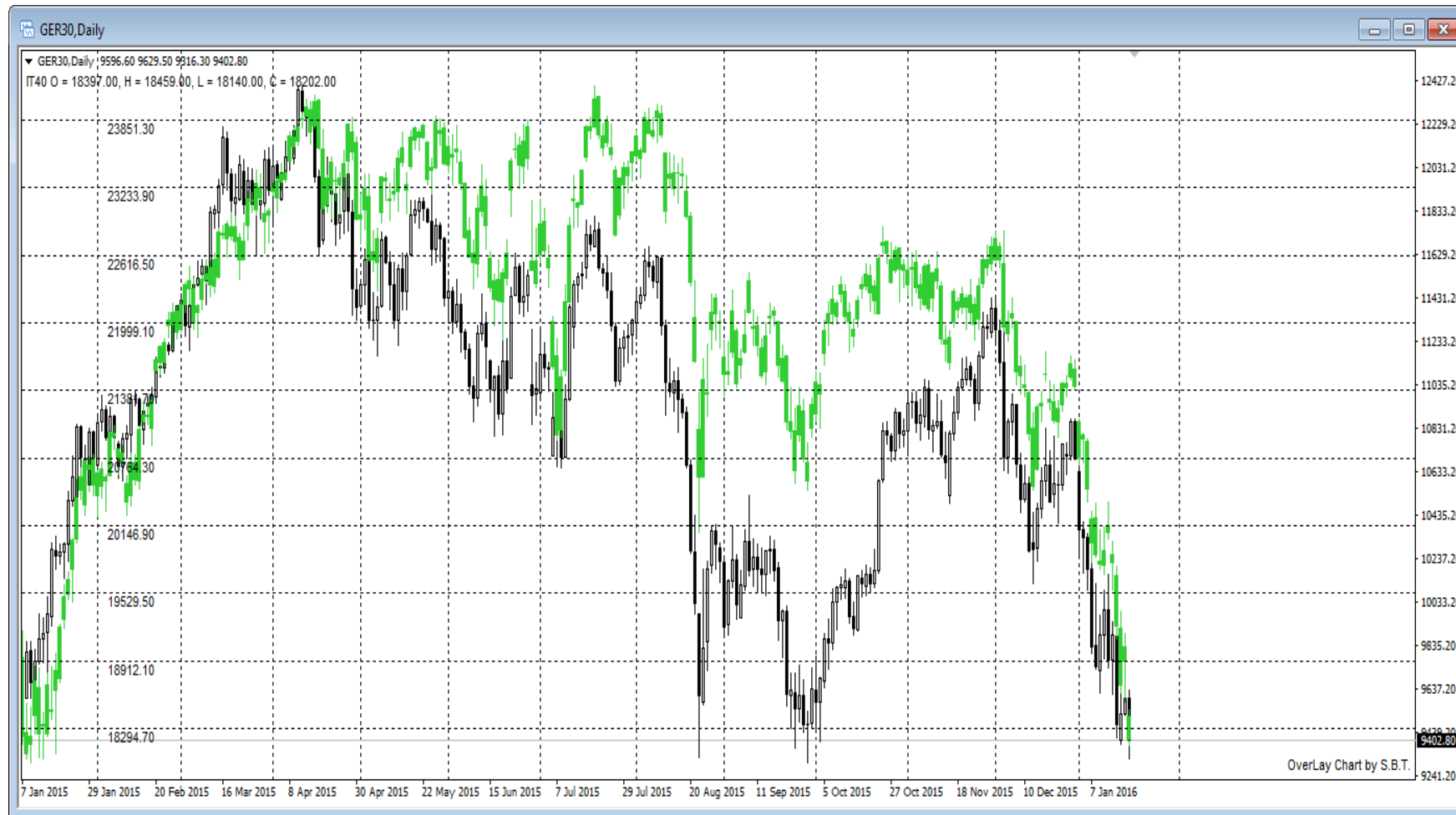


DOLLAR AND STOCK EXCHANGES...





DAX & FTSE MIB...



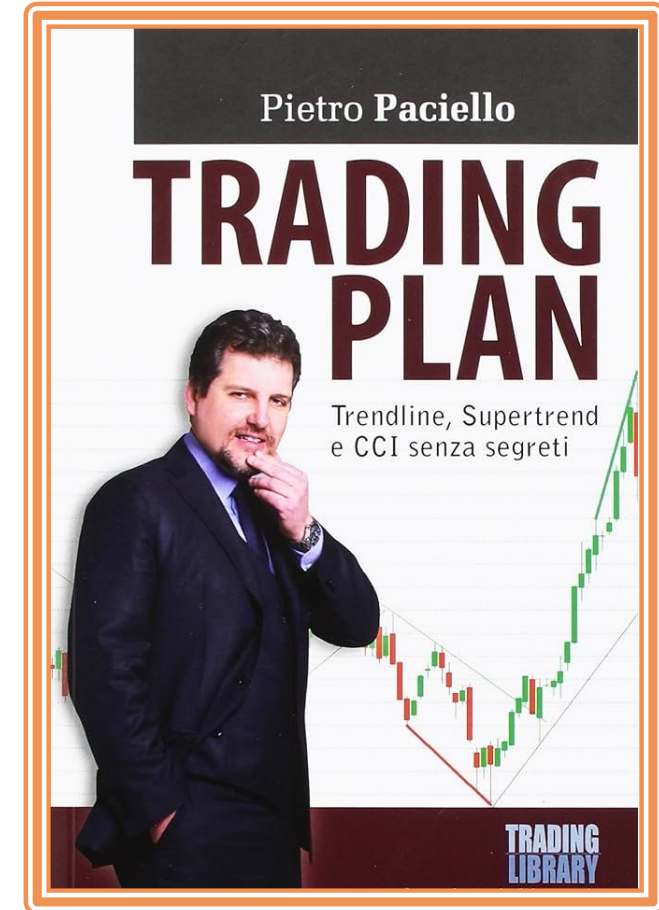


«Correlations don't last forever, they must always be verified in the short, medium and long term!!»



If there's one thing I've learned after so many years of study and application (and after so many mistakes) is that trading is not that complicated and that simple and linear processes of analysis, decision and intervention are enough to arrive at a good deal in a short time.
sustainability of any investment strategy.

Pietro Paciello «Trading Plan»





RISK ON or RISK OFF?

Risk ON: good prospects for the future of the economy, liquidity parked on non-risky instruments returns to the market.

Liquidity is back in circulation; less risky positions are relieved and stocks and risky financial instruments in general are bought again.

Risk OFF: traders have doubts about the future of the economy, about the ability of the markets to perform and consequently "exit the market".

Liquidation of risk on equity markets and risk in general and shift-parking of liquidity on cash, bonds, precious metals



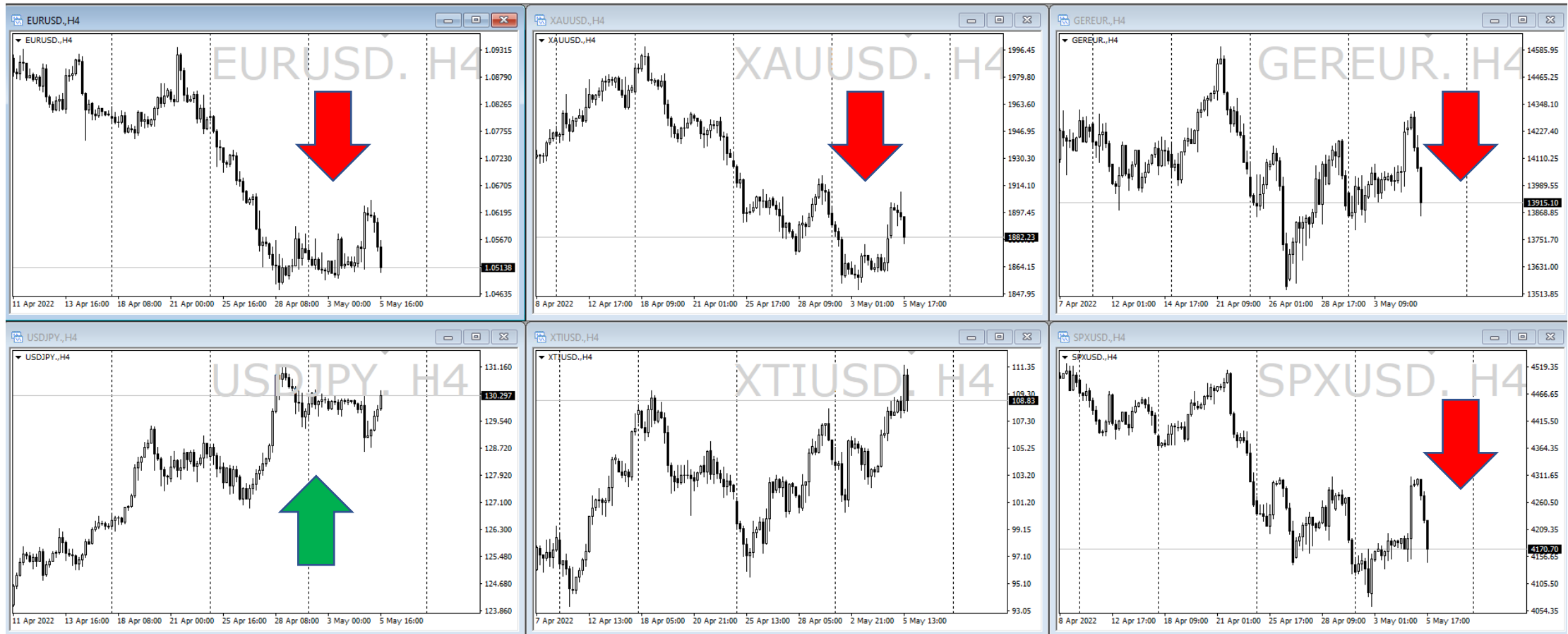
RISK ON or **RISK OFF?**

**ARE ENOUGH
6 CHARTS
TO GET TO DETERMINE
"WITH GOOD APPROXIMATION"
THE STATE OF AFFAIRS...**





RISK ON or **RISK OFF?** Let's try to see it together...





THE TRADER'S KIT

- Preventive intermarket analysis (risk on/risk off);
- Clean price chart with only three additional elements/indicators;
- Using medium to high time frames;
- Automate operations;
- Basic, simple and sustainable money management.

TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 10

**Leverage, money & risk management:
how to control and monitor the sustainability of your
investments**





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PROGRAM

10 LESSONS

1. Basics and Origins of Technical Analysis: The DOW Theory
2. Charts and prices: the main ways to visualize price developments
3. Defining a trend and trending: how to spot and follow them profitably
4. The main chart configurations: supports, resistances and pullbacks
5. Figures of reversal or continuation of a trend: we learn to recognize and exploit them
6. Volumes and moving averages: strengths and weaknesses
7. The main indicators and oscillators: how to choose the most useful and suitable for each market condition
8. Charts and time: the right time frame for our operational analysis
9. Intermarket analysis: we learn to define the dominant drivers and trends in the market
10. Leverage, money and risk management: how to control and monitor the sustainability of your investments



Lesson 10

**Leverage, money & risk management:
how to control and monitor the sustainability of your
investments**



Leverage





Leverage

**CONSOB**COMMISSIONE NAZIONALE
PER LE SOCIETÀ
E LA BORSA

Autorità italiana per la vigilanza dei mercati finanziari

Sistema finanziario

Guida all'investimento

Nozioni e strumenti

Truffe e abusivismi

Forme di tutela

Approfondimenti

Sei in: CONSOB / EDUCAZIONE FINANZIARIA / SISTEMA FINANZIARIO / SOFISTICAZIONE DELLA FINANZA / LA LEVA FINANZIARIA /

SISTEMA FINANZIARIO

DAL BARATTO ALLA FINANZA

**SOFISTICAZIONE DELLA
FINANZA**

L'uso dei derivati finanziari

La leva finanziaria

La "securitisation"

REGOLAMENTAZIONE
FINANZIARIA

ATTUALITÀ E PROSPETTIVE

LA LEVA FINANZIARIA

Attraverso l'utilizzo della leva finanziaria (o "leverage") un soggetto ha la possibilità di acquistare o vendere attività finanziarie per un ammontare superiore al capitale posseduto e, conseguentemente, di beneficiare di un rendimento potenziale maggiore rispetto a quello derivante da un investimento diretto nel sottostante e, di converso, di esporsi al rischio di perdite molto significative.

Come funziona?

Vediamo come funziona il concetto di leva partendo da un caso semplice. Ipotizziamo di avere 100 € a disposizione da investire in un titolo. Poniamo che le aspettative di guadagno o perdita siano pari al 30%: se le cose vanno bene, avremo 130 €, in caso contrario, avremo 70 €. Questa è una semplice speculazione in cui scommettiamo su un determinato evento.

Nel caso in cui decidessimo di rischiare di più investendo, oltre ai nostri 100 €, anche altri 900 € presi in prestito, allora l'investimento assumerebbe un'articolazione diversa poiché utilizziamo una leva finanziaria di 10 a 1 (investiamo 1000 € avendo un capitale iniziale unicamente di 100). Se le cose andranno bene e il titolo sale del 30%, riceveremo 1300 €, restituiamo i 900 € presi in prestito con un guadagno di 300 € su un capitale iniziale di 100. Otteniamo, quindi, un profitto del 300% con un titolo che in sé dava un 30% di rendimento. Ovviamente sui 900 € presi in prestito dovremo pagare un interesse, ma il principio generale rimane valido: la leva finanziaria permette di aumentare i possibili guadagni.

**Cos'è la leva finanziaria?**



Leverage

«Through the use of leverage, a person has the opportunity to buy or sell financial assets for an amount greater than the capital held and, consequently, to benefit from a potential return greater than that deriving from a direct investment in the underlying and, conversely, to expose himself to the risk of very significant losses»



Leverage

«Let's see how the concept of leverage works starting with a simple case.

Let's say you have €100 available to invest in a stock. Let's say your gain or loss expectations are 30%: if things go well, you'll get €130, if not, you'll get €70.

This is a simple speculation where we bet on a certain event»



Leverage

«In the event that we decide to take more risk by investing, in addition to our €100, also another €900 borrowed, then the investment would take on a different articulation since we would use a leverage of 10 to 1 (we invest €1000 having an initial capital of only €100).

If things go well and the stock goes up by 30%, we will earn €300 on an initial capital of €100!!

So we'd make a 300% profit on a stock that was performing 30% return.»

Leverage allows you to increase possible gains but also to amplify losses!!



Leverage

"The potential of using leverage is clear. But be careful: the leverage multiplier effect, described with the previous examples, also works in case the investment goes wrong.

In our example, if the stock depreciated by 30%, we would have a loss of €300 on an initial capital of €100, and we would go into debt (-€200)!!

In percentage terms, the loss would therefore be 300% against a 30% decrease in the value of the stock."

Leverage is likely to increase possible losses!!



Leverage

Another element to keep in mind is that «*the different financial levers can be combined*»:

In this way, speculative trades are carried out using leverage squared with obvious repercussions on possible potential losses or gains'



MONEY MANAGEMENT - THE BASICS





MONEY MANAGEMENT - THE BASICS

- Win ratio (Profitability...)
- Risk Reward (average profit to average loss ratio)
- Distribution of returns(MAX Profit/Loss)
- Risk Reward Ratio (Ratio of expected profit (target) to potential loss (Stop loss))
- Profit Factor (Gross Profit to Loss Ratio)
- Max Drawdown (Percentage loss from a maximum value reached to a subsequent minimum value)
- Time at market (Average duration of trades)
- Number of trades



WIN RATIO = Profitability

RATIO OF TRANSACTIONS CLOSED AT A LOSS TO TRANSACTIONS CLOSED AT A PROFIT

STANDARD PROFITABILITY? COIN TOSS AT 50%!!
"Optimal" minimum starting ratio:

RATIO ½ (STOP -100 / PROFIT +200)									
-100	-100	-100	-100	-100	200	200	200	200	200
TOTAL STOP = -500					TOTAL PROFIT = +1000				
MATHEMATICAL RESULT = +500									
Note: Tobin tax, capital gains, commissions, slippage, etc., who pays them?									
"REAL" RESULT = +300/+350									



Risk Reward Ratio

(Average Profit to Average Loss Ratio)

A Risk/Reward 1:1 It's the **bare minimum** to be able to invest in a trade, but not yet enough to provide us with a good advantage over losses. But to increase your chances of making up for your losses, you need to aim for an **R/R of at least 1:2**, which means earning twice as much as you risk.

Earnings Forecast	Loss Forecast	Ratio
20 pips	40 pips	1:2
50 pips	100 pips	1:2
60 pips	90 pips	1:1.5
40 pips	40 pips	1:1
70 pips	35 pips	2:1
90 pips	30 pips	3:1



FUNDAMENTAL OPERATIONAL PREMISE

CORRECT PROFIT & LOSS RATIO ANALYSIS

TOTAL TRADES WITH 50% WIN PERCENTAGE

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

PROFIT TRADES 5

LOSS-MAKING TRADES 5

1	1	1	1	1	-1	-1	-1	-1	-1
---	---	---	---	---	----	----	----	----	----

Total profit +5 Total loss -5 Result=0 **INDEFENSIBLE !!!**

Minimum number of trades per break-even = 3!

2	2	2	2	2	-1	-1	-1	-1	-1
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Total profit +10 Total loss -5 Result=+5 **ACCEPTABLE !!!**

Minimum number of trades per break-even = 2!

3	3	3	3	3	-1	-1	-1	-1	-1
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Total profit +15 Total loss -5 Result=+10 **EXCELLENCE !!!**



A basic «TRADING PLAN»



Leverage

The decision-making
process...





Leverage...

The decision-making process...

1) TECHNICAL/GRAPHICAL ANALYSIS



2) RISK ANALYSIS



3) ENTRY SIZE



Leverage... Decision making...

1 - TECHNICAL/CHART ANALYSIS



1.1 – BUY/SELL PRICE

1.2 – STOP/TARGET “CHART”

2 – RISK MANAGEMENT
BALANCE €
RISK %

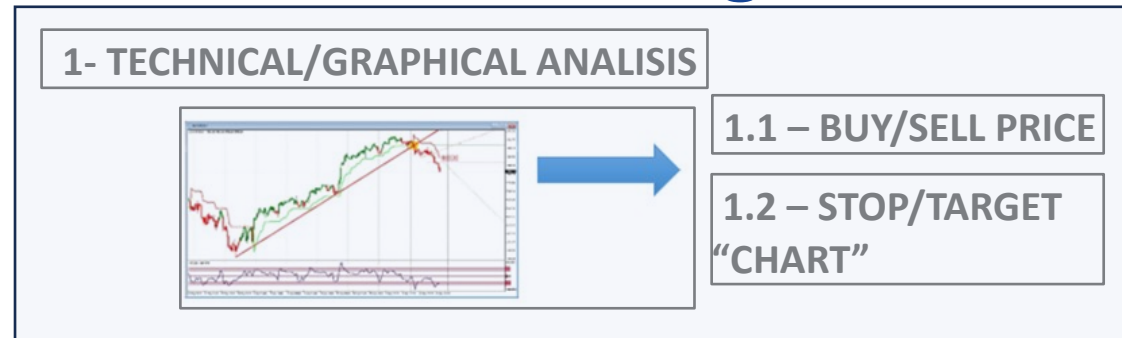
2.1 – STOP/TARGET
“€/ %”

3 – SIZE/LOTS!!!



Leverage...

Decision making... «1»



Through a correct and in-depth technical/graphic study I define the three essential levels of each trade:

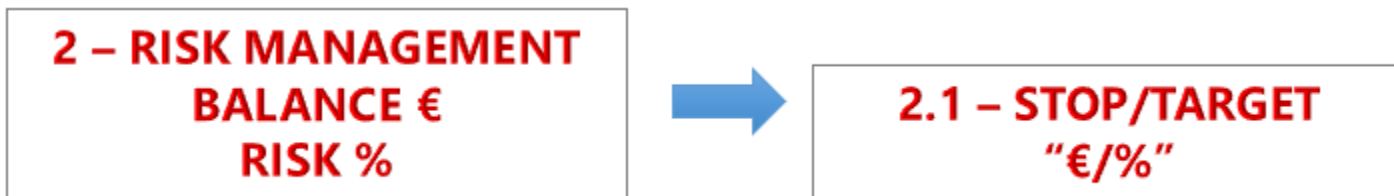
Entry Price (LONG o SHORT)

- STOP LOSS
- TARGET



Leverage...

The decision-making process... «2»



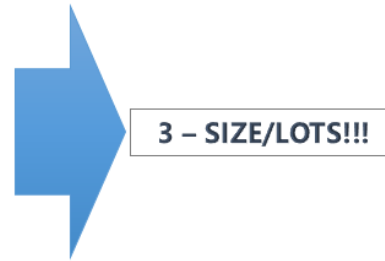
Once the potential entry levels and the relative stop and "graphic" target values have been defined, we check their performance.

SUSTAINABILITY in terms of relationship
Risk/Reward



Leverage...

The decision-making process... «3»



Verified the full "compatibility" of the objectives identified after the technical/graphic study and their sustainability in terms of Risk/Reward...

I ENTER THE MARKET POSITION with the correct **SIZE/LOTS!!**



TRADING PLAN

basic, ultimately...

- 1 – Identify technical-graphic level for stop loss/target
+
2 – Establish the risk in capital line (€) and/or in percentage (%)
=
3 – Correctly measured inlet size/lots



Risk management and performance control



MONEY MANAGEMENT

WHAT IS IT ?

Money management is a " technique " aimed at maximizing profits and potentially reducing losses.





MONEY MANAGEMENT

«Money management» techniques aimed at

profit Maximization

and

potential loss reduction

A set of rules for the

efficient asset management



MONEY MANAGEMENT

Money management consists of two fundamental and inseparable areas: risk management and position sizing.

1. **RISK MANAGEMENT:** Analyze the risk associated with the position taken on the market
1. **POSITION SIZING:** It identifies the capital to be invested in each individual transaction opened on the market and the distribution of capital among the various portfolio assets.



MONEY MANAGEMENT

Proper risk management

Its sole purpose is to

Profit Maximization

and minimizing losses

regardless of the trading system used.



Money Management

It's not «if and where to put the stop loss», even if the stop loss is still linked...

It's not even tracking positions once they've been opened...

It's not about the technique of exiting in profit with the trailing stop or the take profit...



Money Management

Money Management is the discipline that studies the monetary entity of the ideal trade, that is, it defines how much money can be risked in each individual trade



Money Management

Much has been written about Money Management and even more has been said: in this course a few simple indications will be given to be able to make the most of it in order to be able to

»survive first and perform second"
on the markets for as long as possible.



Money management, the "8 key elements"

1. Availability of «adequate» capital in relation to the financial instrument used
2. Default risk max 2/3% per single trade



Money management, the «8 key elements»

3. **Stop-Loss** always in the car
4. **Definition of the maximum risk for the portfolio = drawdown**
(If all the set stop-losses are triggered at the same time, the trader must retain a sufficient amount of capital to continue trading in the market)



Money management, the "8 key elements"

5. Quantification of risk through a correct **calculation of risk/reward** (for each unit of risk, a target of 2-3 units of return must be calculated)
6. **In-depth knowledge of the market** in which you intend to invest



Money management, the "8 key elements"

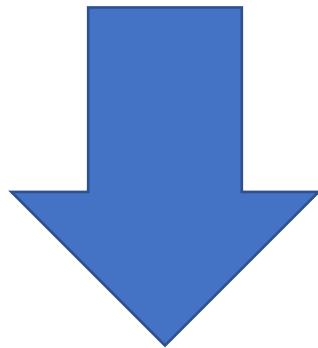
7. Result of a single "independent" transaction from that of the previous operation
8. Partial take-profit, closing a portion of the open positions in case of profit



Money management

«A FEW SIMPLE RULES»

SOMETHING TO KEEP IN MIND...





“Money management”: it is based on 4 important pillars

A. Position sizing: max 2% of my account

B. Stop loss:

- Always on the platform;
- Always protected from support or resistance levels

C. Take profit:

- Always on the platform;
- Always "catchable" by prices, therefore positioned "before" supports or resistances

D. Risk/reward ratio:

- Always minimum 1 (risk) to 2 (return): this means that the pips risked are at most half of those expected as a gain





The «Golden Rules» of Money Management

- *Trend is your friend*

The trend is your friend!!

Operate, as far as possible, in accordance with the
direction of the

current trends= *trend follower* approach



The «Golden Rules» of Money Management

- *put at risk, for each trade, always the same percentage of your portfolio*

If the operation you intend to undertake should include a higher stop loss is better to desist from putting it into practice!



The «Golden Rules» of Money Management

- *Only carry out operations that involve a report*

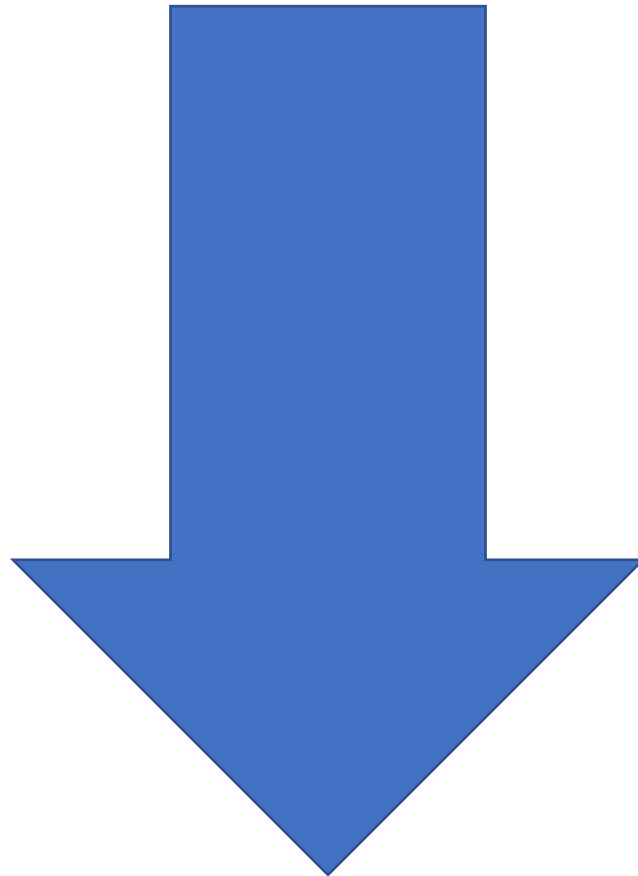
Stop Loss (risk) / Take Profit (yield) not less than 1/2

The take profit (potential gain) for each individual trade must be at least twice the stop loss level

If not... DESIST!!!



SIMPLY...





NEVER FORGET THE... «SUSTAINABILITY»

CORRECT PROFIT & LOSS RATIO ANALYSIS

TOTAL TRADES WITH 50% WIN PERCENTAGE

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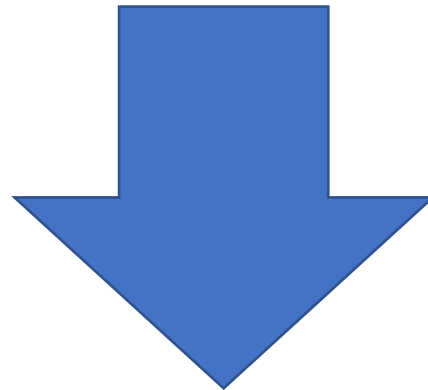
3	3	3	3	3	-1	-1	-1	-1	-1
---	---	---	---	---	----	----	----	----	----

Total profit +15 Total loss -5 Result=+10 **EXCELLENCE !!!**



FOR LOVERS OF THEORY...

THE MOST FAMOUS MONEY & RISK
MANAGEMENT ...MODELS!!





Position sizing optimization models

Kelly's Formula

Larry Williams Formula



Kelly's Formula

Used to calculate the share of capital to be used in each individual operation (F), given the asset available.

$$F = W - (1 - W) / R$$

Where, **W** is the probability that each individual trade will result in a positive outcome.

It is obtained by dividing the number of operations that generated a profit by the total operations carried out (positive and negative).

R is the ratio between winning trades and losing trades, i.e. the average value of trades closed at a profit (average of profits) divided by the average value of trades closed at a loss (average of losses).

The equation produces as a result a number less than 1 which represents the size of the position that should be taken on the market, i.e. the percentage of the portfolio to be allocated in each single operation.

However, Kelly's formula neglects important evaluation parameters such as the drawdown of the system, the number of losing trades and market volatility.



Kelly's Formula

The Kelly Formula is one of the most widely used in the financial world to optimize risk control. John Kelly, A pilot in the U.S. Air Force, he is remembered more than for his exploits in the skies, for his contribution in developing a decisive formula for every investment activity:

risk management.

Thanks to Kelly's formula, we are now able to evaluate the correct "volume/size" to use.

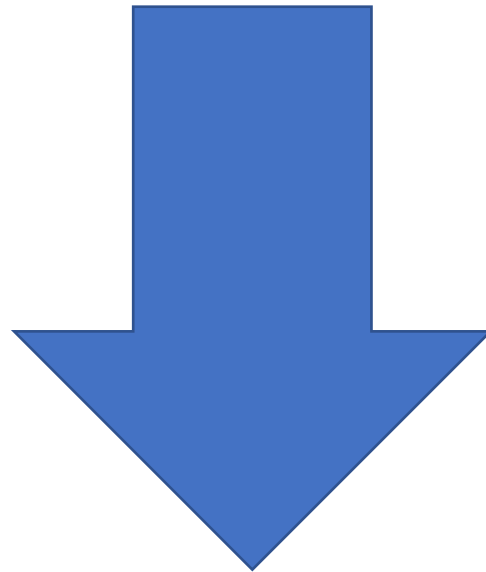
Its undisputed merit was to associate a concrete and easy-to-determine value with the concept of risk, transforming its formula into a valuable resource for money management.



Kelly's formula

Kelly's formula, mathematically, is as follows:

$$W - ((1 - W) / R)$$





Kelly's formula

$$W - ((1 - W) / R)$$

W is the probability of winning.

This value is obtained by dividing the number of winning trades (on the asset in question) by the total number of trades (on the same asset).



Kelly's formula

$$W - ((1 - W) / R)$$

R It is the ratio of the average win to the average loss.

Thanks to Kelly's formula, we measure the maximum profit of each trade, relating it to the probability of winning, the average win and the average loss.



Kelly's formula

$$W - ((1 - W) / R)$$

Obviously, in order to perform Kelly's formula, it is necessary to have an adequate historical/statistical series, i.e. characterized by a sufficient number of operations.

Probability of winning, average win and average loss, in fact, must be "derived" from the historical data that every trader has and that every trader should check continuously...



Kelly's formula

EXERCISE: Try to process the data on an EXCEL sheet...





Larry Williams formula

Evolution of Kelly's formula, calculates the number of contracts/shares for the position to be taken on the market as a function of the percentage of risk: this parameter is random because the average risk tolerance is a subjective parameter that will lead to different results if modified.

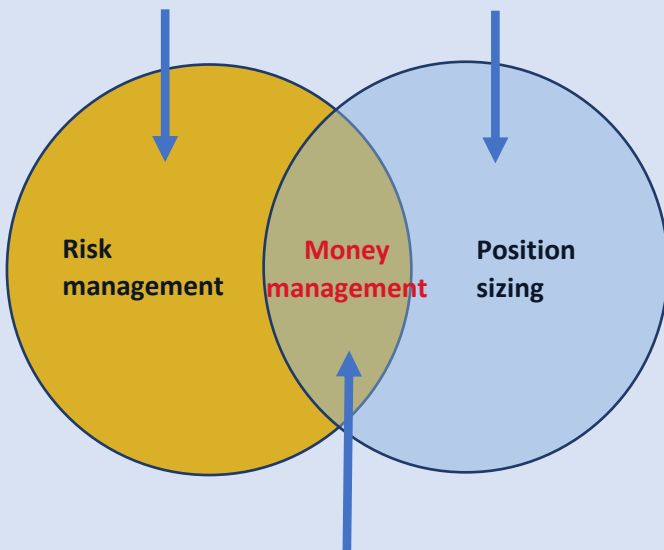
$$F = (\text{Capital} \times \text{Risk}\%) / \text{maximum drawdown}$$

Where the drawdown represents the amount of money you can lose in trading, as a percentage of your available capital.



Analysis of the risk associated with the position taken on the market

Selection of the capital to be invested in each individual operation and distribution of the capital among the various assets



Aims to maximize profit and minimize losses

The Larry Williams Formula

Calculate the number of contracts /stocks for the position to be taken on the market according to the percentage of risk

$$F = \frac{(\text{capital} \times \% \text{ risk})}{\text{max drawdown}}$$

Amount of money you can lose in trading

Exemple

A trader with an available capital of 100000 Euros decides to risk a maximum of 2%.
The maximum drawdown is 600 Euro

$$\text{Position sizing} = \frac{(100000 \times 2\%)}{600} = 3,33 \text{ contracts/stocks}$$

The Larry Williams Formula

If a trader with an available capital of 100,000 euros decides to risk a maximum of 2% in each single operation, considering that his trading system had a maximum statistical drawdown of 600 euros, the position sizing calculation becomes:

$$F = (100,000 \times 2\%) / 600 = 3.33 \text{ contracts/stocks}$$



Larry Williams formula

$$F = (\text{Capital} \times \text{Risk}\%) / \text{maximum drawdown}$$

Larry Williams' Formula, if used with rather small risk percentages (from 1 to 5%), is by far one of the most conservative and prudent Money Management Techniques



Williams formula

EXERCISE: Try to process the data on an EXCEL sheet...





Kelly or Williams?

CONCLUSIONS...

What is the best Money Management technique?

The answer to this question is not simple, as it depends on a "subjective" factor, i.e. the needs and risk appetite that are different for each of us...

In a "progressive" learning path, however, we could identify peculiarities or preferences...



Kelly or Williams?

CONCLUSIONS...

You are a novice investor?

It could prove to be a winning choice to use one of the techniques that prove to be quite prudent in the start-up phase, such as that of Larry Williams, which contains a parameter that is in direct correlation with the capital available in the equity phase.



Kelly or Williams?

CONCLUSIONS...

You have gained sufficient experience and knowledge?

If you have accumulated an adequate historical base, it may be time to switch to a more professional technique, where the priority becomes the preservation of capital and not the accumulation of additional profits. And then it would be time for Larry Williams' method.

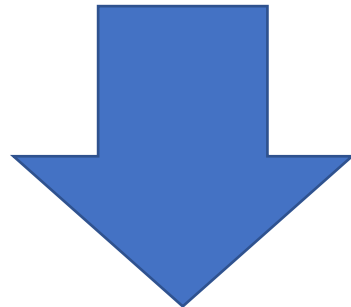


Kelly or Williams?

CONCLUSIONS...

IN ANY CASE, NEVER FORGET THAT YOU WILL ONLY ACHIEVE SUCCESS WHEN
YOU KNOW HOW TO CONTROL THE DIFFERENT VARIABLES AT PLAY

KEEPING IN MIND THAT...





THERE IS NO SUCH THING AS THE PERFECT INDICATOR

THERE IS NO SUCH THING AS THE PERFECT TRADING SYSTEM

THERE IS NO PERFECT SETTING/PARAMETER

THERE IS NO SUCH THING AS A PERFECT TIME FRAME



DIVERSIFY AND FRACTIONATE RISK
IT'S ALWAYS THE «SOLUTION»