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SHARECHARTING.COM.AU

AN INTRODUCTION TO SHARE TRADING AND TECHNICAL ANALYSIS

MODULE 3

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- Fibonacci and Gann numbers

'CUP AND HANDLE' OR 'RESISTANCE BREAK' SHORT-TERM TRADING TECHNIQUE

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INTRODUCTION

This module contains theory that will allow you to better understand how to predict the likely future directions of price in both a short and medium term.

Most of the material involves explaining support and resistance levels and how we can trade certain resistance patterns. We also touch on Elliott Wave Theory, which interprets specific chart patterns.

While somewhat shorter than other modules that is in part due to this module's importance as it introduces a short-term trading technique incorporating more complex concepts that readers need to understand before moving on.

SUPPORT AND RESISTANCE

The underlying driver of this theory is that history repeats and a price level that has been a significant resistance to price moving higher in the past is likely to be a support level that stops price moving lower in the future.

Resistance and support are the same thing depending on which way price is moving – a level that repeatedly stops or pauses a falling price is called support (it 'supports' a falling price from going lower). A level that repeatedly stops or pauses rising prices is resistance (it 'resists' price going higher). It is important to understand that a resistance level will almost certainly also be a support level when price falls back to that level – and vice versa.

We say history repeats and that's particularly true in charting. A price level that proved to be a significant support/resistance 5 years ago is almost certainly still a level that will stop or pause rising or falling prices. Why that might be so given changes in share prices and economic fortunes, is a question I can't answer and have chosen to file away under "What Is the Meaning Of Life?!"

If a chartist can identify levels of support and resistance they are invaluable in setting targets where price may change trend.

Natural levels of support & resistance

An interesting point is that in most stocks, support and resistance levels (called 'natural' levels of support and resistance) appear at regular intervals of price. If we look at the section of TCL's chart