



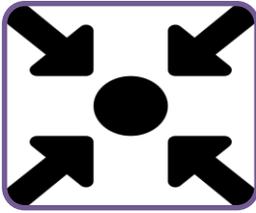
## Understanding Technical Analysis 101

If you are a first time trader, you might probably be wondering how the professional traders access the market and gain the desired profit. Like the stock markets, any futures traders will also rely on the two main approach: fundamental and technical analysis to analyze and evaluate the futures market. While many traders analyze the market based on fundamental factors like industry data or economic outlook, technical analysis seeks to predict price movements by examining the historical data, mainly price and volume.

Fundamental Analysis	VS	Technical analysis
Evaluation method by measuring the intrinsic value of the asset	<b>Definition</b> 	Statistical method by finding pattern and predict future movements based on past market data
Industry data, economic outlook and competitors' performance	<b>Methodology</b> 	Price movement and market psychology
Long term approach	<b>Time Horizon</b> 	Short term approach
To find the intrinsic value of the financial instrument	<b>Main Goal</b> 	To find the right time to enter or exit based on the past and current trend

## Basis of Technical Analysis

Technical analysis is the study of chart patterns and statistical figures to understand market trends. There are several assumptions in using the technical analysis.



### Market Factors in Everything

- Technical analysis assumes that, at any given time, an asset's price reflects everything that has or could affect the asset, including the fundamental factors.
- This removes the need to consider other factors in analyzing the market.



### Price Moves in Trends

- Technical analysis is based on the idea that each chart has its own unique trend whereby price move in trend.
- Every move in the price may provide some indication on the next move.



### History Tends to Repeat Itself

- Technical analysis also assumes that price movements often repeat themselves based on market psychology where the market participants will show a similar behaviour to similar trading catalyst over time.

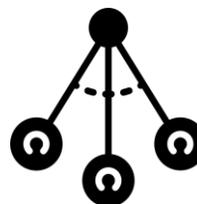
## Types of Technical Indicators



**Candlestick Chart  
Patterns  
Indicators**



**Trend Indicators**



**Momentum  
Indicators**



**Volatility  
Indicators**

## Candlestick Chart Pattern Indicators

Perhaps, the most basic indicator that every trader uses in a technical analysis is recognising the pattern of candlestick chart of an asset. Each candlestick consists of a real body and two shadows. Traders usually observe the formation of candlestick to identify a **continuation** or **reversal** pattern.

### Example : Doji Candlestick



- Doji candlestick is a type of candlestick which can be identified through a narrow body with either long upper or lower shadows.
- Basically, doji candlestick is formed when the opening and closing price of the asset are equal in value to signify the indecision in market direction.
- However, a doji candlestick can also be considered as a sign of price reversal pattern where **a doji candlestick that is formed at the bottom often signals a potential price reversal upward** like the chart shown above.
- Meanwhile, **a doji candlestick that is formed at the top of an upward trend usually indicates a price reversal to the downside.**

## Trend Indicator

A type of technical indicator that is used to gauge the direction and strength of a trend. By using averaging to establish the baseline, any price movement that passes above or below the average, indicates a bullish or bearish trend, respectively.

Example : Moving Average Convergence Divergence (MACD)

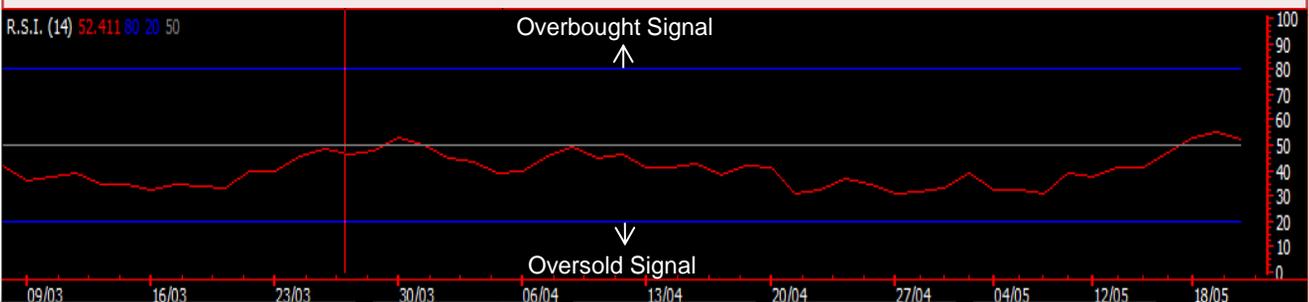


- Shows a relationship between two moving averages of an asset's price which are the MACD and signal line.
- The MACD line, which is calculated by subtracting two exponential moving averages (EMA), is used to determine the upward or downward momentum.
- Meanwhile, the signal line, which is the EMA of the MACD line, serves as the benchmark line to indicate the change of price direction.
- Technically, it is a **buy signal when the MACD crosses above the signal line** and a **sell signal when the MACD crosses below the signal line**.

## Momentum Indicators

Momentum indicator is measured by comparing the current closing price to previous closing prices of the asset. If there is a divergence between price and a momentum indicator, it can signal a change in future prices of the asset.

Example : Relative Strength Index (RSI)



- A type of momentum indicator that is plotted on a separate scale from 0 to 100 that identifies overbought and oversold conditions in the market.
- Generally, readings **over 70 indicate an overbought market** and readings **below 30 indicate an oversold market**.

## Volatility Indicator

An indicator that gauges the rate of price movement based on a change in the highest and lowest historical prices. Besides showing the potential next price direction, this indicators can also be used to determine the “loudness” of the market for the asset.

### Example : Bollinger Bands



- A volatility indicator that consists a simple moving average and 2 lines plotted at 2 standard deviations on either side of the central moving average line.
- The two lines will form a band to indicate the “loudness” of the market where a **narrow band shows a quiet market** while a **wide band indicates a loud market**.
- Apart from that, the Bollinger band can also signal the potential future price movement where **the breakout of candlestick below the bottom band will signal that the move will generally continue in a downtrend**.
- Otherwise, **if the candlestick breakout above the top band, the move will generally continue in an uptrend**.

## **KENANGA FUTURES SDN BHD** (353603-X)

Level 6, Kenanga Tower,  
237 Jalan Tun Razak,  
50400 Kuala Lumpur,  
Malaysia.

Tel: (603) 2172 3888  
Fax: (603) 2172 2729  
Email: [futures@kenanga.com.my](mailto:futures@kenanga.com.my)  
Website: [www.kenangafutures.com.my](http://www.kenangafutures.com.my)

kenanga



### **Disclaimer:**

This document has been prepared solely for the use of the recipient. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means without the prior written permission from Kenanga Futures Sdn Bhd. Although care has been taken to ensure the accuracy of the information contained herein, Kenanga Futures Sdn Bhd does not warrant or represent expressly or impliedly as to the accuracy or completeness of the information. This information does not constitute financial or trading advice; neither does it make any recommendation regarding product(s) mentioned herein. Kenanga Futures Sdn Bhd does not accept any liability for any trading and financial decisions of the reader or third party on the basis of this information. All applicable laws, rules, and regulations, from local and foreign authorities, must be adhered to when accessing and trading on the respective markets.