

Investtalk *InfoSheet*: Technical Analysis

There are two very broad ways to look at companies and their stock prices.

One, and the most important, is studying the **fundamentals** of a company - its earnings, its growth and its profits. The other is a study of the movement of its stock price. This is called **technical** analysis. When stocks move within a specific range or pattern it becomes inevitable that they will break out to either the up or downside. The study of this movement is nothing more than a prediction that past patterns will repeat themselves - that investors and traders tend to do the same thing at certain prices based on what they did before at those same prices. These patterns that tend to repeat is not a reflection of science rather it is more of an art and all you can say is that they tend to be true.

Some stocks appear to be more predictable in their patterns than others so look for those that fall within this category. The most common patterns are stocks that form a double bottom or double top. When the price goes down once to a certain level and then does it again, this is called support (at the bottom) and resistance (at the top) if it goes up. Once you see this you can with reasonable certainty assume it will do it again. Once the top or bottom is broken the pattern is no longer reliable. You can do the same thing with a trend line, up or down.

However, technical analysis goes way beyond just looking at stock prices and how they move. It also looks for patterns of volume of stocks traded when the price moves. Increases and decrease of volume is measured and scrutinized in many different ways. The speed of price appreciation or depreciation based on the number of shares bought and sold is just as important as the price movement itself.

There are hundreds of different studies that the technical analyst can apply. None of these truly give you certainty. Again it is an art, a sophisticated art, but an art none the less.

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