

# Introduction To StockCentral Charts Part 1

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## References

- } For purposes of this presentation, I will be using charts from StockCentral.com
- } FREE educational information, available at [www.stockcharts.com](http://www.stockcharts.com), will be helpful for TA background and related charting information
- } Tip: Before you buy any books on technical analysis, visit the Chart School at StockCharts to get as much information as possible as this will help you make better, more cost effective book selections



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## Prologue

- } The investor of today does not profit from yesterday's growth ~ Warren Buffett
- } You don't need to time the markets; you need to time the valuations of individual stocks ~ Vitaliy Katsenelson



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## Topics To Be Covered

- } Part 1 of this webinar will cover StockCentral's new charting capability
- } Topics:
  - Introduction to fundamental and technical analysis
  - Overall description of charting at StockCentral
  - Scaling and Events
  - Time periods on charts
  - Types of charts
  - Candlestick charts
  - Introduction to Candlesticks
  - Volume



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## Introduction

- } Fundamental Analysis (FA) and Technical Analysis (TA) are not mutually exclusive methods
- } Technical analysis is more than just a methodology for timing the overall market
- } Charting is just one form of technical analysis
- } Many investors combine aspects of both FA and TA to obtain greater insights
- } TA helps overcome data staleness issues
- } TA provides sanity check v. analysts' estimates
- } TA reflects current market opinion of value



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# StockCentral Charts

- } Charts at StockCentral.com have many familiar features to other charting sites
- } StockCentral site is uncluttered, more inviting
- } StockCentral charts show:
  - Price chart types (line, candlestick, OHLC)
  - Volume
  - Overlays (SMA, EMA, Bollinger Bands, RSI, MACD)
  - Events (Splits, Dividends)
  - Settings (Semi-log)
  - Time frames, discrete or date range

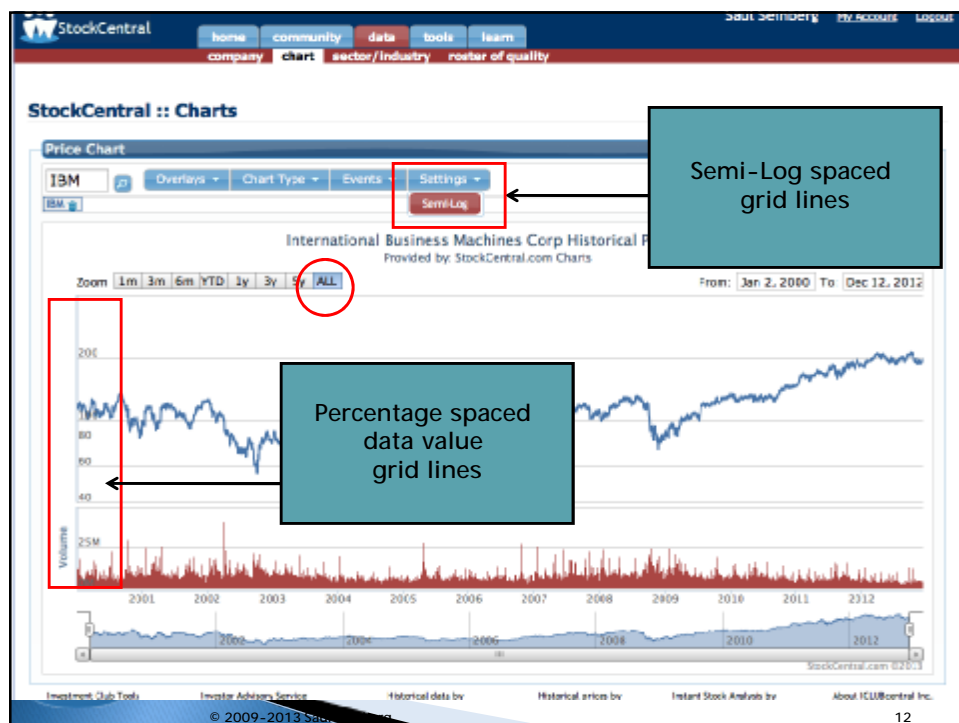


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# StockCentral Charts

## Questions?



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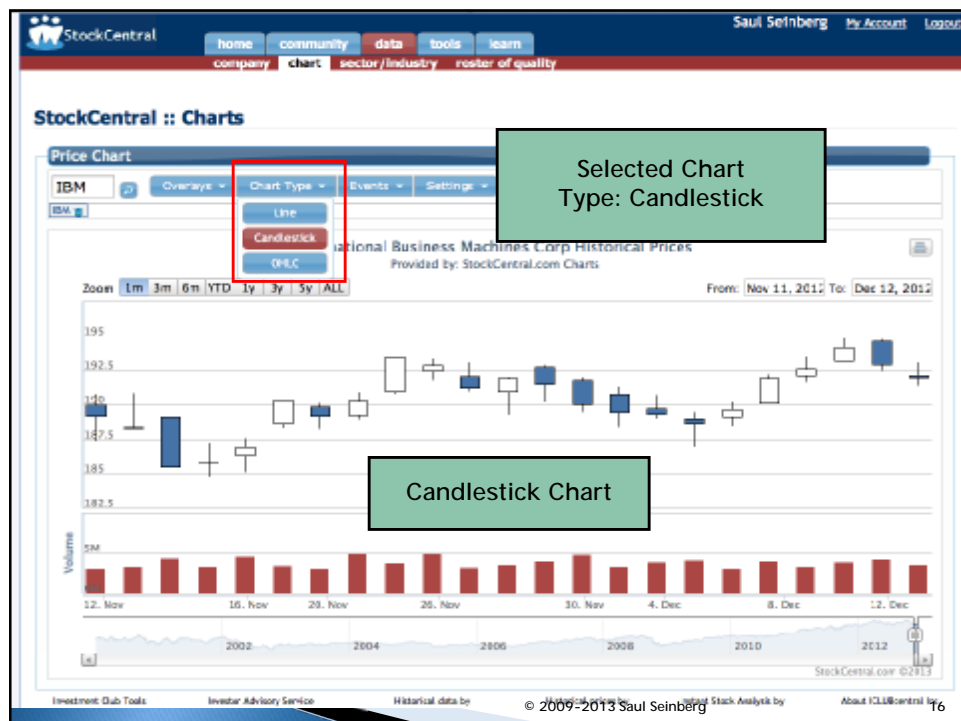
## Chart Types

- } Charts in Section 1 of SSG are familiar to us
- } StockCentral charts are of four main types:
  - Bar chart (was the traditional TA approach)
  - Candlestick chart (now the most popular)
  - Line chart (SSG uses these)
  - Point & Figure charts
- } Candlestick charts have become the default choice for investors

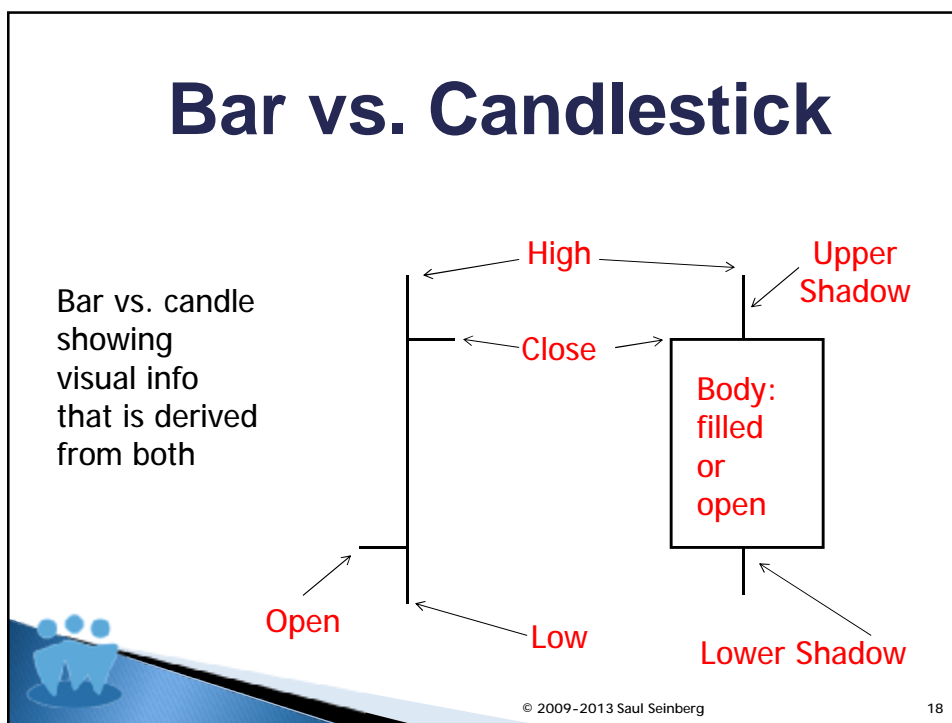
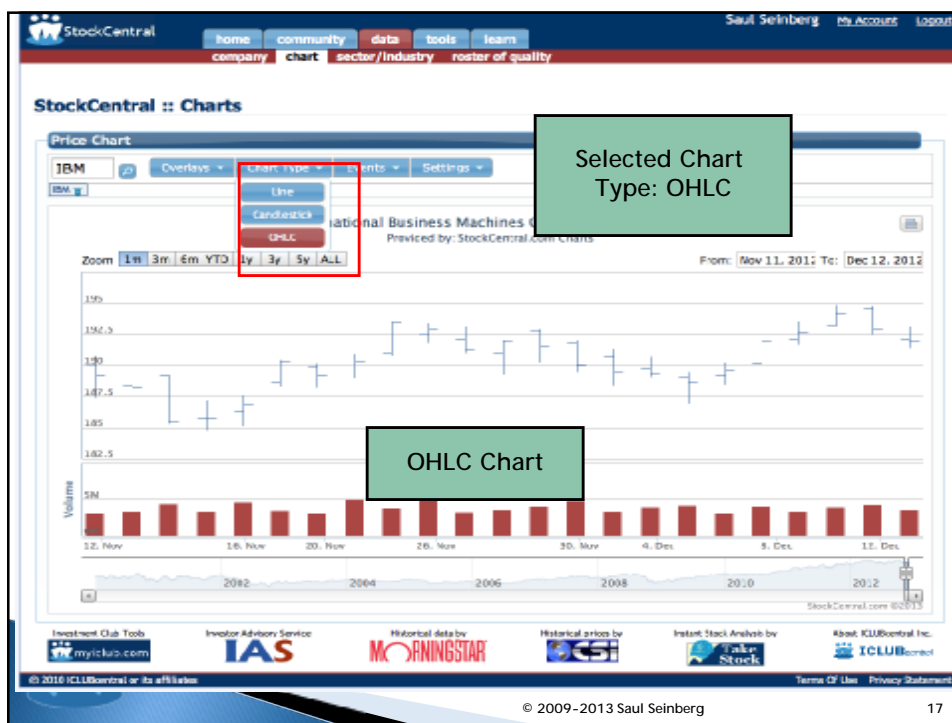


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## Candlesticks

- } Charting began with line charts followed by PnF
- } Line charts used closing prices
- } High, low and opening prices added to bar charts along with closing prices
- } Candlesticks and bar charts both use same data items so switch from bar charts to candlesticks was relatively easy for traders and charting services
- } Popularity of candlesticks in the West began in the 1980s



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## Candlesticks

- } Candlestick charting believed introduced in Japan in mid-1700s
- } Homma, a rice trader, discovered, that rice prices were strongly influenced by the emotions of traders trying to anticipate changes in the market
- } Homma observed that this emotional response created differences between intrinsic value of rice and its market price



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## Candlesticks

- } This difference between fundamental value and price is still applicable in today's stock market
- } Candlesticks are now universally used to measure emotionally driven share prices
- } Experts believe that candlestick charting was initially used in the West around 1850
- } Candlesticks now widely used in online sites and software around the world as the default chart



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## Candlesticks

- } Candlestick charts have short to intermediate term applicability, minutes to perhaps three months
- } Candlestick charting is helpful with both general stock trading and in option trading
- } Candlestick can be difficult to understand, but rewards for their use can be significant
- } Candlesticks can be tied to western charting techniques which significantly increases their value



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## Charts for IBM



Typical candlestick and OCHL charts showing how IBM's share price performed over same 1 month period in late 2012 time frame

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## Candlestick Elements

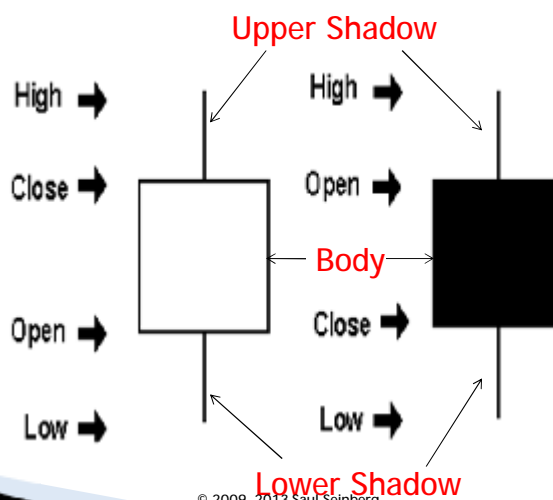
- } A candlestick, also called a candle line, is determined by using the values of a stock's open, close, high and low prices
- } A candlestick consists of a real body and, if present, lines above and below the body, called shadows
- } At StockCentral.com, an up day (where close is higher than open) is shown with a white or open body
- } At StockCentral.com, a down day (where close is lower than open) is shown with a blue or filled body

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## Candlestick Elements

Candlesticks for both higher and lower closes. The candle period can be minutes, hours, days, weeks or longer



## Candlestick Bodies

- } The body of a candlestick, depending on the difference between the open and close, can be short, long or even zero (when open = close)
- } Long bodies indicate intense buying or selling pressure
- } Short bodies show little or no price movement because buyers and sellers are uncertain
- } Short bodies often appear in consolidation phases when stock prices are sluggish

## Candlestick Bodies

- } A long white candlestick shows strong buying pressure indicating that prices advanced significantly in a session; buyers were aggressive
- } While long white candlesticks are generally bullish, their importance and effect depends on their position within the broader technical picture
- } After an extended decline, a long white candlestick can mark a potential turning point or the start of a support level



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## Candlestick Bodies

- } Long black candlesticks show strong selling pressure and indicate that prices declined significantly in a session, sellers were aggressive
- } While long black candlesticks are generally bearish, their importance and effect depends on their position within the broader technical picture
- } After an extended decline, a long black candlestick can mark a potential turning point or the start of a resistance level



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## Candlestick Shadows

- } The upper and lower shadows on candlesticks provide important information about price changes during a trading session
- } The top of an upper shadows represents the session high and the bottom of a lower shadow represents the session low
- } Candlesticks with short shadows indicate that trading action was confined close to the body
- } Candlestick with long shadows show that prices extended well past the body and away from the open and the close



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## Candlestick Patterns

- } Candlestick patterns consist of one or more individual candlesticks
- } Candlestick patterns fall into one of two types
  - Continuation patterns – trend expected to continue
  - Reversal patterns – trend expected to reverse, reversal can be moderate or severe
- } Many candlestick practitioners require that a candlestick pattern be confirmed by a following candlestick pattern or a western style indicator
- } Intersession candle patterns are not complete

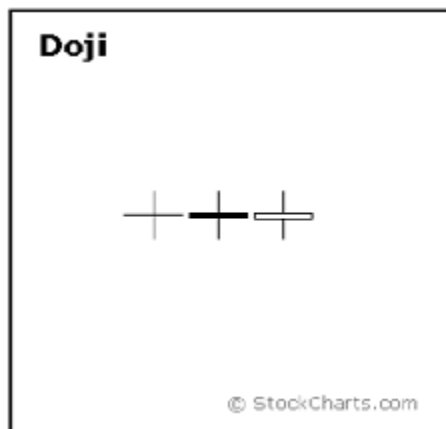


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## Doji

A doji is a candle line that has close or equal opening and closing prices. Dojis convey indecision and are considered to be important although not as much when they occur in isolation.



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## Doji

- } Doji in isolation are not sufficient to signal a reversal, but always warrant investigation
- } The relevance of a doji depends on the preceding trend or preceding candlesticks; a doji takes meaning from its context
- } Doji are warning signals, but don't guaranty that price is about to change
- } After an advance, or in combination with a long white candlestick, a following doji signals that buying pressure is starting to weaken
- } After a decline, or in combination with a long black candlestick, a following doji signals that selling pressure is starting to diminish

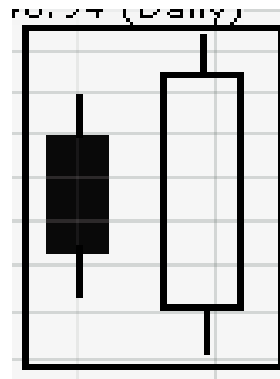
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## Bullish Engulfing Pattern

- Two candlestick pattern
- Smaller filled candle on left
- Taller, open engulfing candle on right
- Shadows not included, it's filled body that is engulfed
- This a reversal pattern, but there must be a trend to reverse



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## Bullish Engulfing Pattern

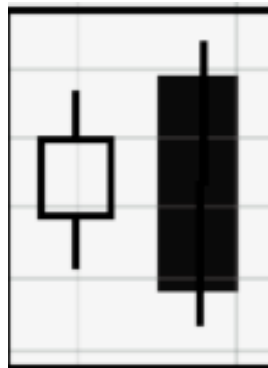
- } The bullish engulfing pattern is made up of two candlesticks, the first is a filled candle that's adjacent to an open candle
- } Generally, the taller the open candlestick, the greater the degree of engulfing and the more bullish the reversal will be
- } Bullish engulfing gives best results in downtrend
- } If buyers tighten their grip and stay committed, bullish confirmation will occur as strength continues and the price rise will persist

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## Bearish Engulfing Pattern

- Two candlestick pattern
- Smaller white or open candle on left
- Taller, black or filled engulfing candle on right
- Shadows not included; it's open body that is engulfed
- This a reversal pattern, but there must be a trend to reverse



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## Bearish Engulfing Pattern

- } The bearish engulfing pattern consists of two candles, the first is an open candle adjacent to a filled candle
- } Generally, the taller the filled candlestick, the greater the degree of engulfing and the more bearish the reversal will be
- } Bearish engulfing gives best results in uptrend
- } If sellers tighten their grip and stay committed, bearish confirmation will occur as weakness continues and the price drop will persist



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## Candlestick Strengths

- } Candlestick charts are superior to bar charts because they provide more impactful visual insights into the psychology of a trading session
- } Messages from a candlestick chart are immediate and vibrant while those from a bar chart are definitely more muted
- } Since both types of charts include the same information, candlesticks can be used with popular technical analysis tools such as moving averages, trendlines, MACD and RSI



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## Candlestick Strengths

- } Candlesticks, over time, make analysis quicker and more efficient
- } Although not perfect in this respect, candlesticks are particularly useful in signaling trend changes
- } Candlestick signals are often earlier than those generated by conventional indicators
- } Candlesticks are an excellent swing-trading tool and very helpful in option trading



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## Candlestick Weaknesses

- } Candlesticks are time limited and not useful for growth investors except at time a buy, hold or sell decision needs to be made
- } Some candlestick users require confirmation
- } Candlesticks patterns and charts by themselves do not provide price targets that are available in other forms of charting
- } Candlesticks don't indicate when price movement took place during a session
- } Candlesticks hard to read in long term charts



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## Candlestick References

- } Getting Started in Candlestick Charting by Tina Logan, Wiley Publishing, 2008
- } Candlestick Charting Explained by Gregory Morris, Irwin Publishing, 1995
- } The Candlestick Course, Steve Nison, Wiley Publishing, 2003
- } ChartSchool at StockCharts



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## Volume Analysis

- } Volume most often used as a confirmatory indicator
- } Signals based solely on volume have not been reliable
- } Typically, above-average volume indicates that buying or selling is occurring with conviction
- } Below-average volume indicates that buying or selling is occurring without conviction



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## Volume Analysis

- } It's important to remain aware of what average volume is for a stock you follow
- } It's difficult to always eyeball the level of volume in some time periods, but it's an effort that will be rewarded
- } Being aware of volume over time allows an investor to see how a stock's volume has behaved relative to price action or signals given by an indicator



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# JKHY Volume Analysis



# CLF Volume Analysis



# StockCentral Charts

## Questions?



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