

VectorVest

Understanding Technical Analysis

Technical Analysis

- Technicians study the price / volume behavior of a company's stock and relate them to the future price behavior of the stock.
- Fundamentalists study a company's business and financial performance, assess the value for the stock and assume that the stock's price will eventually reflect its value.
- VectorVest's approach is to marry the two.
 - Favor the companies that demonstrate strong fundamentals

Technical Analysis

- Charts are a key tool for the technical analyst
- A graphic picture of price action over time
- Can be used to illustrate any time frame because each bar represents a unit of time
 - Intraday, Daily, Weekly

ProTrader

- VectorVest ProTrader is a plug-in module that offers a wide variety of technical analysis indicators, searches and graphics.
- It is unique because it provides the ability to use both fundamental and technical indicators in searching and analyzing stocks.

Technical Analysis Indicators

- RSI
- MACD
- Support and Resistance

Relative Strength Index (RSI)

Description:

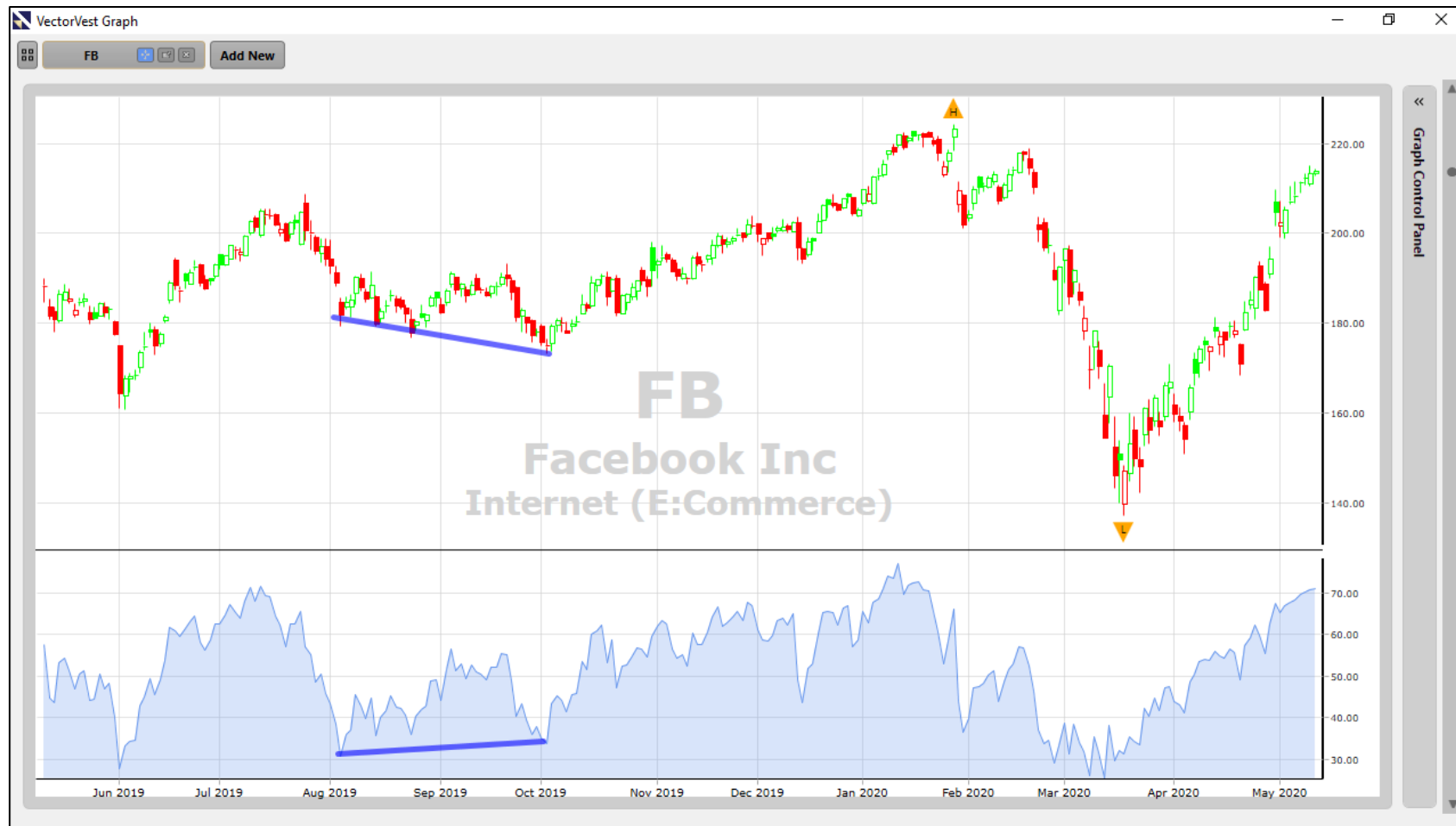
- Widely used Oscillator, developed by J. Welles Wilder, Jr.
- Designed to identify overbought and oversold conditions.
- It was scaled to oscillate from 0 to 100.

Relative Strength Index (RSI)

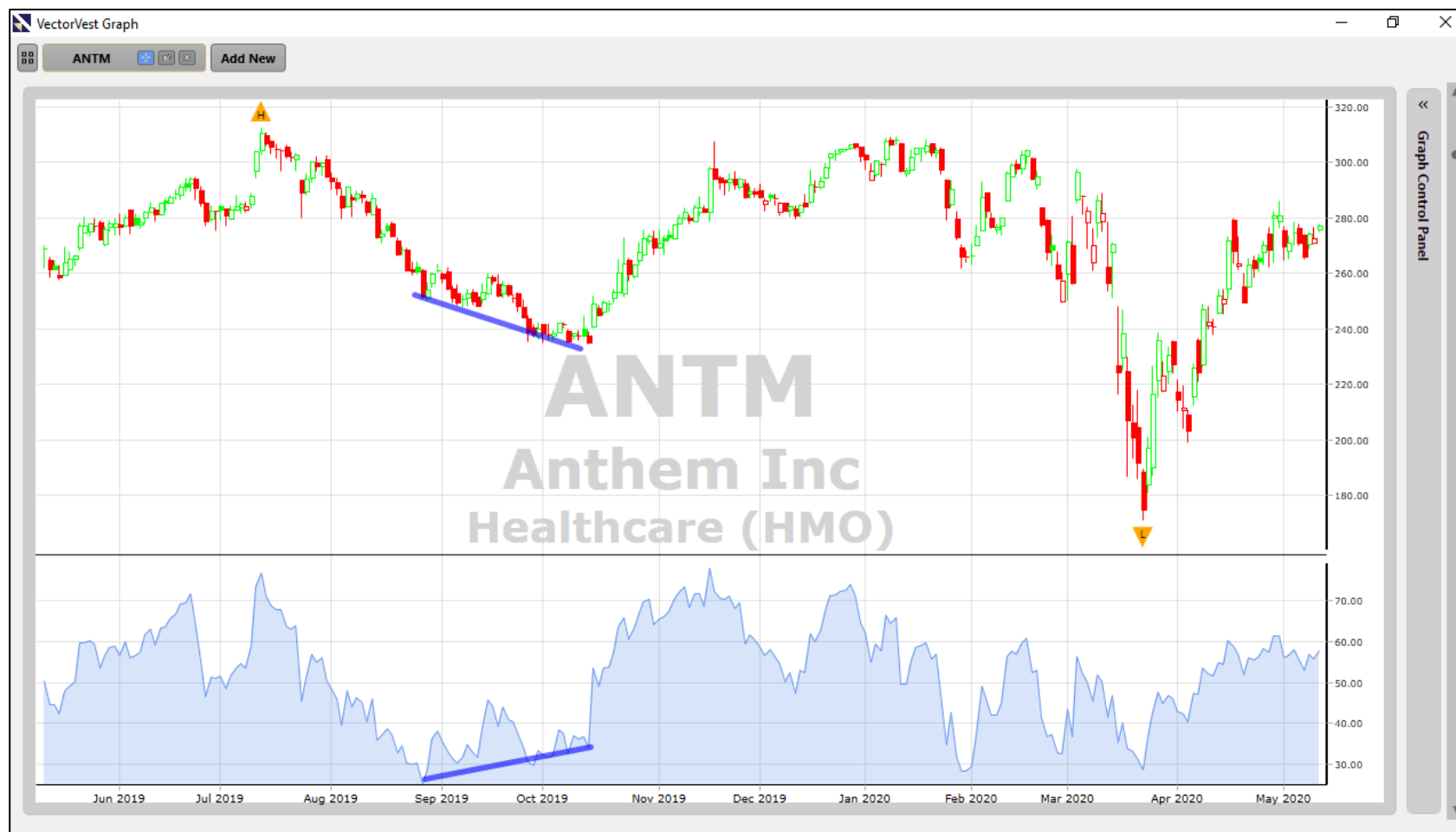
Interpretation: Industry Standard (14 period)

- An RSI level above 70 usually indicates an overbought level.
- An RSI level below 30 usually indicates an oversold level.
- Watch for bullish or bearish divergences to identify trend changes.

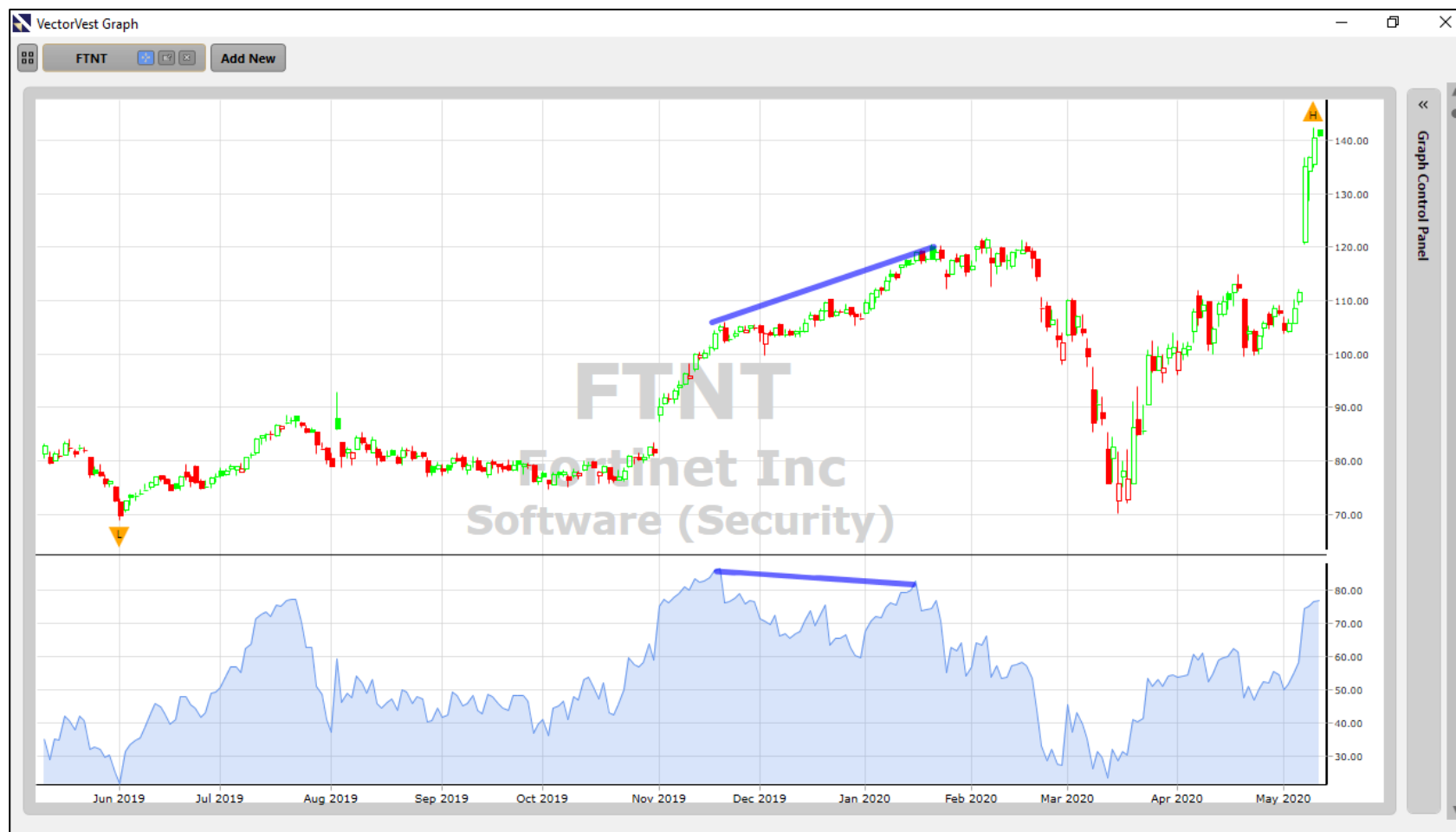
RSI Bullish Divergence (FB)



RSI Bullish Divergence (ANTM)



RSI Bearish Divergence (FTNT)



RSI Bearish Divergence (SPGI)



Modifying RSI Signals

Increasing the length of the lookback period:

- Decreases sensitivity
- Decreases number of signals
- Increases stability of signals

Decreasing the length of the lookback period:

- Increases sensitivity
- Increases number of signals
- Decreases stability of signals

Technical Analysis

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Moving Average Convergence – Divergence (MACD)

Description:

- Developed by Gerald Appel
- Integrates positive features of both:
 - Trend following
 - Oscillators
- MACD – can measure momentum and indicate a trend
- Reference: Schwager, J.D. *Schwager on Futures: Technical Analysis*. New York: John Wiley & Sons, Inc., 1966, p. 538.

MACD Description

Description (cont'd):

- MACD indicator consists of two lines derived from three EMAs
 - MACD line – difference between a fast EMA (e.g., 12-day) and a slow EMA (e.g., 26-day)
 - Signal line – an EMA (e.g., 9-day) of the MACD line
- Histogram – MACD line minus the signal line

MACD Crossover

Interpretation:

– Crossover:

- Buy signal – when MACD rises above its signal line
- Sell signal – when MACD falls below its signal line

– Divergence:

- When the price diverges from the MACD, it signals an end of the current trend.

– Dramatic Rise:

- When the shorter moving average moves away from the longer moving average it indicates an overbought or oversold condition and the price will return to normal levels soon.

Technical Analysis

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Peaks and Valleys

- Price movements occur as a series of peaks and valleys
- Price peaks (highs) represent resistance
- Price valleys (lows) represent support

Support & Resistance Definitions

Support – the price area under the market where buying pressure overcomes or equals selling pressure

- Price decline is stopped (Floor)
- Prices begin to rise or move sideways

Support & Resistance Definitions (Cont)

Resistance – the price area over the market where selling pressure overcomes or equals buying pressure

- Price advance is stopped (Ceiling)
- Prices begin to fall or move sideways

Support-Resistance Reversals

- What had been resistance becomes support.
What had been support becomes resistance.
- Are created by breakouts and retests
 - Breakout = Upside or downside movement from a price range or price pattern
 - Retest = Movement toward a breakout area

S/R Trading Zones

- Identify price zones rather than specific price levels
- Successful retests indicate the strength of the support-resistance zones

Mission Statement

Our Mission is to provide the best stock market guidance available anywhere at any price.

VectorVest

Important Contact Information

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