Practical Technical Analysis and Market Notes

(This is from the market notes and technical analysis of our Portfolio Manager)

Technical Analysis vs Fundamental Analysis

One common misconception surrounding technical analysis is that its proponents believe that fundamentals of an underlying asset (i.e., supply and demand) don not affect the price of the asset. This is far from the truth. In fact, technical analysis is really an indirect study of the fundamentals. The major difference between technical and fundamental analysis is that the technician studies the effects of supply and demand – that is, price, volume, sentiment and open interest over time – while the fundamental analyst studies the causes of price movements.

Studying the fundamentals (and the long-term technicals) can give an investor a sense of the long-term price prospects for an asset, which might be the first step in an investment decision-making process. However, when one gets further into the decision-making process to the point of deciding when and at what level to actually enter or exit a market, technical analysis is essential, particularly when trading derivative markets.

While having a solid understanding of all the fundamental factors is important, it does not ensure successful market timing. In fact, many fundamental analysts are quite poor market timers because tend to ignore the behavioural aspect of supply and demand analysis.

Technical Analysis Methodologies:

(1) Cycle Analysis
This is to determine the big market cycle and the current phase of the cycle. This is very important in determining whether to be in market and what asset to invest.

(2) Chart Analysis
This is to determine relative strength of the market/sector and stocks.

(3) Quantitative Analysis
There are two general categories of statistical tools: moving averages and oscillators. They are very helpful tool to use together with chart analysis for trend identification and market timing.

(4) Sentiment Analysis
Sentiment is the emotion or psychology of investors. The sentiment indicators are mainly used as Contrarian indicators.