



How to Read Stock Charts & Patterns Definitive Guide

*A Step by Step Definitive Guide to How to Read A Stock Chart
Covering Stock Charts Types, Indicators, Volume, Patterns & Drawing
Trend-Lines.*



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How to Read Stock Charts & Patterns Definitive Guide

Step by Step Definitive Guide to How To Read A Stock Chart Covering Stock Charts Types, Indicators, Volume, Patterns & Drawing Trend-Lines

As a financial technical analyst, with the International Federation of Technical Analysts (IFTA) I am actually certified in how to read stock charts. So I hope you enjoy this in-depth definitive guide to reading and understanding stock charts, patterns and indicators.

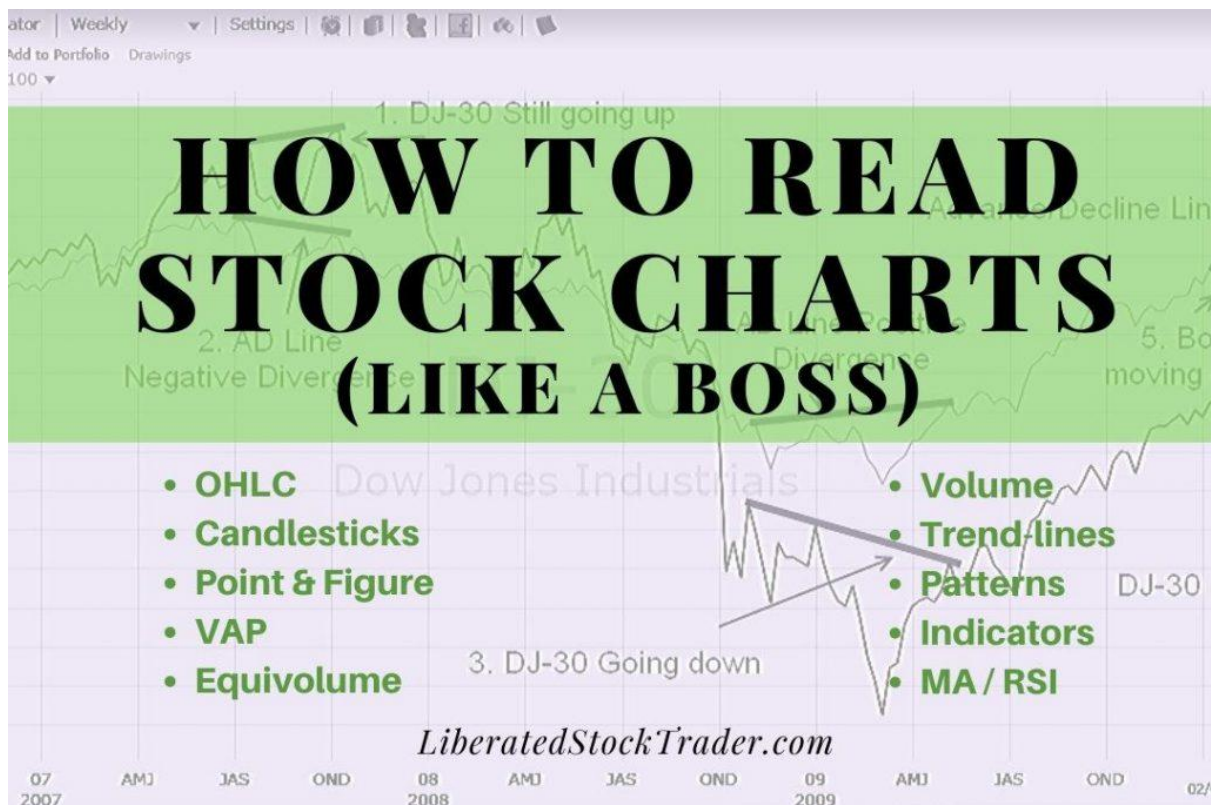
What is a Stock Chart?

A stock chart is a visual representation of the current and historical stock prices displayed on an X & Y axis graph. Stock charts allow you to see the past and present price performance of a company's shares. Important to stock charts are volume and price indicators and the ability to see historical price patterns and trends, to predict future price movement.

Understanding Stock Charts

To understand stock charts, you need to understand how supply and demand work in a marketplace. This is why the volume indicator and the stock price movement are the critical elements in interpreting stock charts effectively. For example, when the price rises on increased trading volume, you can expect the price to continue higher.

All of this will be covered in the section on volume and supply and demand.



How to Read Stock Charts & Indicators

How to Read Stock Charts

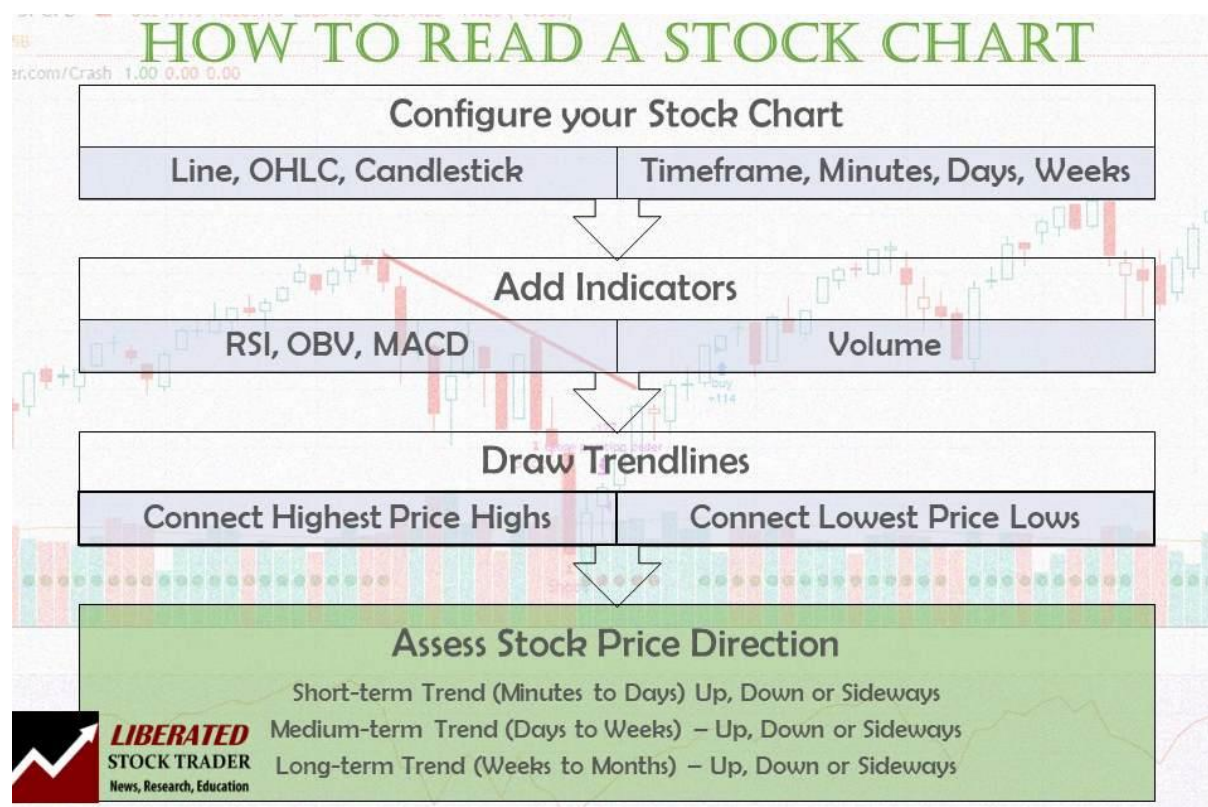
You can read stock charts using [Stock Charting Software](#) that performs the data collection and calculations for you. You need to understand, stock prices, timeframes, supply and demand, chart patterns, volumes and how stock chart indicators are calculated. We cover the 8 different stock chart types, indicators & patterns in this guide.

This section is all about understanding a basic stock chart. Known as [Technical Analysis](#) or stock chart analysis, chart reading enables us to visualize a stock not through numbers, but through patterns. It enables us to get to know the stock, see its history, learn its personality and make a value judgment on its future.

We will start with a basic price chart and move on to technical indicators and how to assess their importance and meaning in future sessions.

How to Read a Stock Chart in 6 Steps

1. Choose the chart type you want to use
2. Choose the timeframe, days for short-term trading, weeks for long-term investing
3. Add relevant indicators e.g. RSI, OBV, MACD
4. Add the Volume indicator
5. Draw trendlines linking price highs & price lows
6. Compare volume and price direction to assess future direction



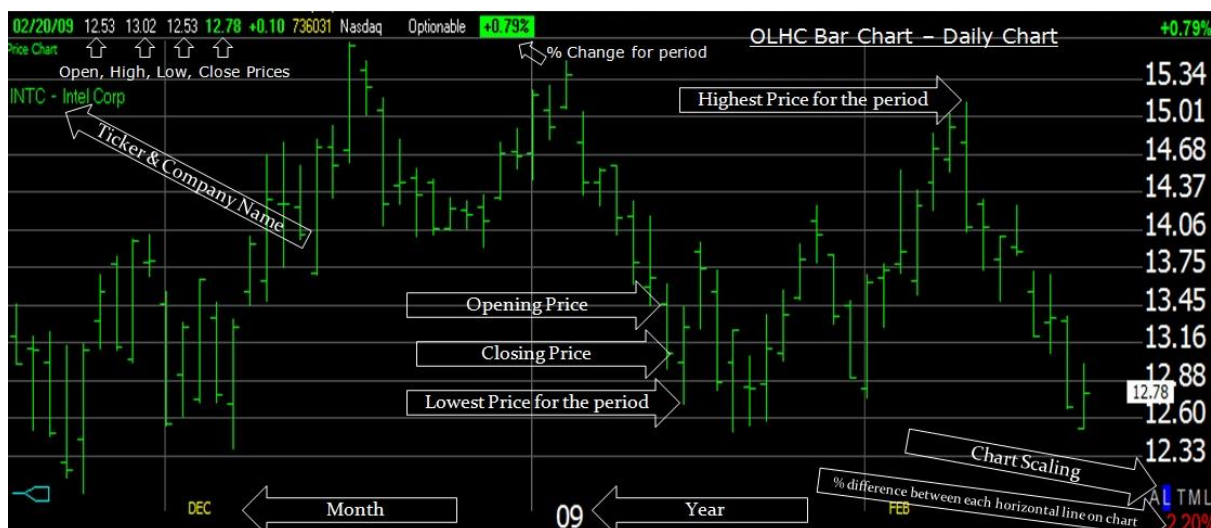
How to Read a Stock Chart -- 6 Step Process

Core Elements of a Stock Chart

- Ticker & Company Name: What company stock price are you looking at
- Chart Type: What chart are you using? Bar, Line, Candlestick
- Time Frames: Daily, Weekly, Monthly or Yearly
- Chart Scaling: What scale is price using, Percent, Fixed, Algorithmic or Logarithmic
- Price Bars: Indicate the Open, High, Low and Close of the price for the day

This is a historical price chart of Intel Corp. (Ticker: INTC) once you understand what each of these arrows means you are ready to step forward into the technical indicators section.

Understanding a Stock Price Chart -- Open, High, Low, Close, TimeFrame, Ticker & Scaling



[TC2000 chart courtesy of Worden Brothers, Inc.](#)

This chart is in the format of a Daily "Open High Low Close" OLHC bar chart, mapped to the Logarithmic Scale.

Ticker & Company Name

The ticker (INTC) is the unique abbreviated stock reference code, all stocks have a unique Ticker so they can be easily found and referenced.

Chart Type

There are many different [types of charts](#) available to use, this one is an OLHC Chart which means “Open, High, Low, Close”. OHLC refers to the bar itself. The opening price is the left-sided dash, High is the top of the vertical line, Low is the bottom of the line, and Close is the right-sided horizontal dash. Read more about [stock prices](#)

Time Frames

Time-frames are always plotted along the bottom of the chart and can be anything from 1 minute per bar (intraday) to 1 year per bar. This chart shows a Daily chart which means each bar equals 1 day.

Chart Scaling

Chart Scaling is very important, most professional chart readers use the “Logarithmic Scale” meaning each unit along the right-sided Y-Axis, is the same percentage apart, this makes it very easy for you to see on the price chart what percentage a stock moves on any given day in history.



If the bottom right-hand side of the chart shows a 2.20%, this is the % between each of the horizontal Plotlines

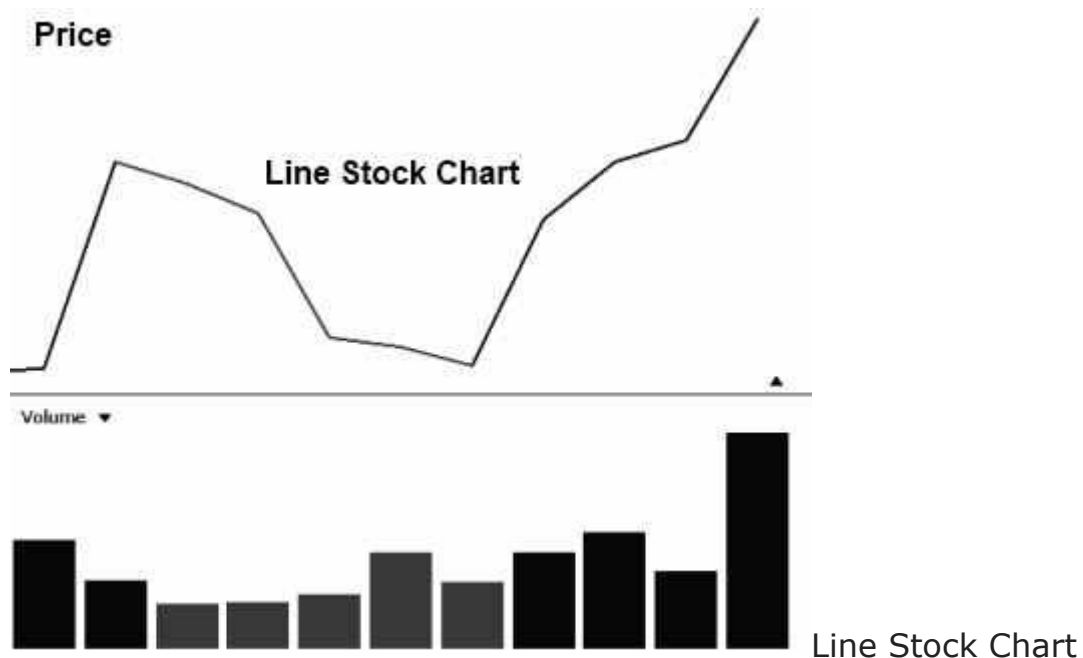
Arithmetic Scale.

The other key scale is the **"Arithmetic Scale"**, which shows a fixed price in the Vertical Y-Axis, in this example the scale increments every 50 cents, \$12.50, \$13.00, etc.

How to Read Different Stock Charts

Stock charts come in many shapes and sizes. From the differences in the bars to the different concepts applied to the chart itself. Here you will find a reference guide to the many types of charts available with an overview of their potential uses.

1. Line Stock Chart



This is one of the most basic charts, probably giving the least amount of information. The line in the top pane is drawn using the close price for each unit of time. So if this is a daily line chart, the close price for the day is used. If this is a 5-minute chart, then the close price for every 5 minutes of trading is used.

The Positives of Line Stock Charts

A very simple view of the price movement. Good to use when comparing the performance of many stocks on the same chart.

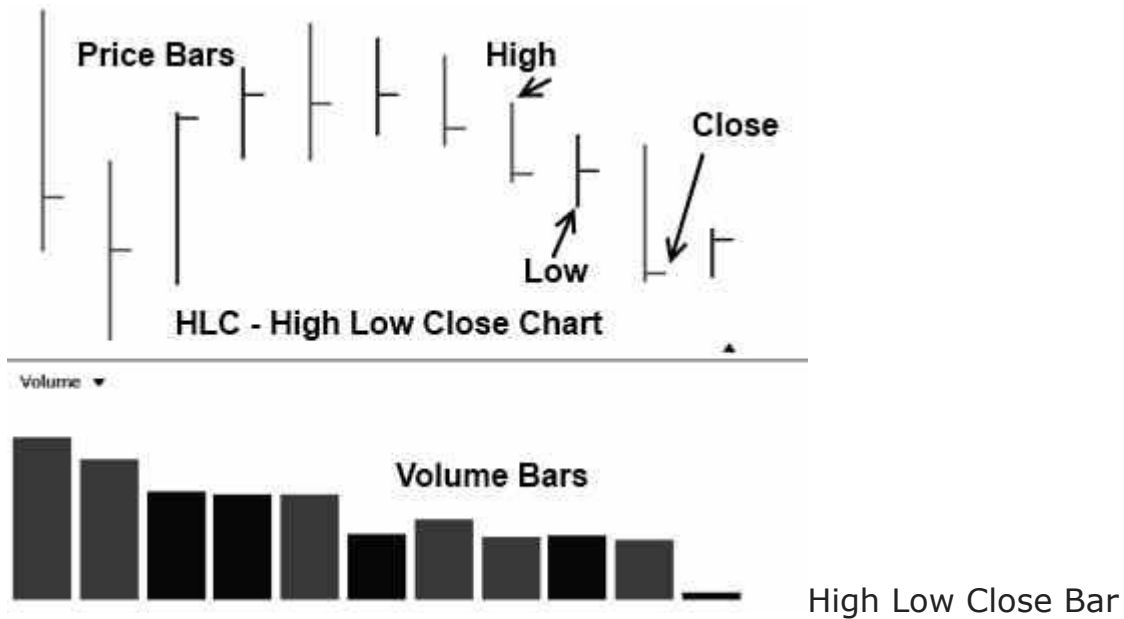
The Negatives of Line Stock Charts

It does not show the Price Open / High / Low for the trading period. The trading range for the day is important in price based decision making as it indicates bullish or bearish momentum.

Stock Charting Services With Line Charts

- [TradingView](#) -- Our Number 1 Stock Charting & Analysis Package
- [Stock Rover](#) -- The Best For Value & Dividend Stock Screening
- [TC2000](#) -- Best For US Trading & Stock Analysis
- [TrendSpider](#) -- Best For Automated Technical Analysis

2. High Low Close Bar Stock Chart (HLC)



(HLC) Chart

Using bars is a step up from the line chart as it allows us to plot additional useful data on the chart. Here we have each bar representing a trading period with the price High, Low and Close represented. Refer to the diagram.

The Positives of High Low Close Bar Charts

More information is available, showing the range of the days trading, meaning did the stock price close near its high (bullish) or near its low (bearish).

The Negatives of High Low Close Bar Charts

No opening price is reflected in this chart. The opening price is important as it allows us to immediately see if the price gapped up or down on open, and also where the closing price is in relation to the opening price.

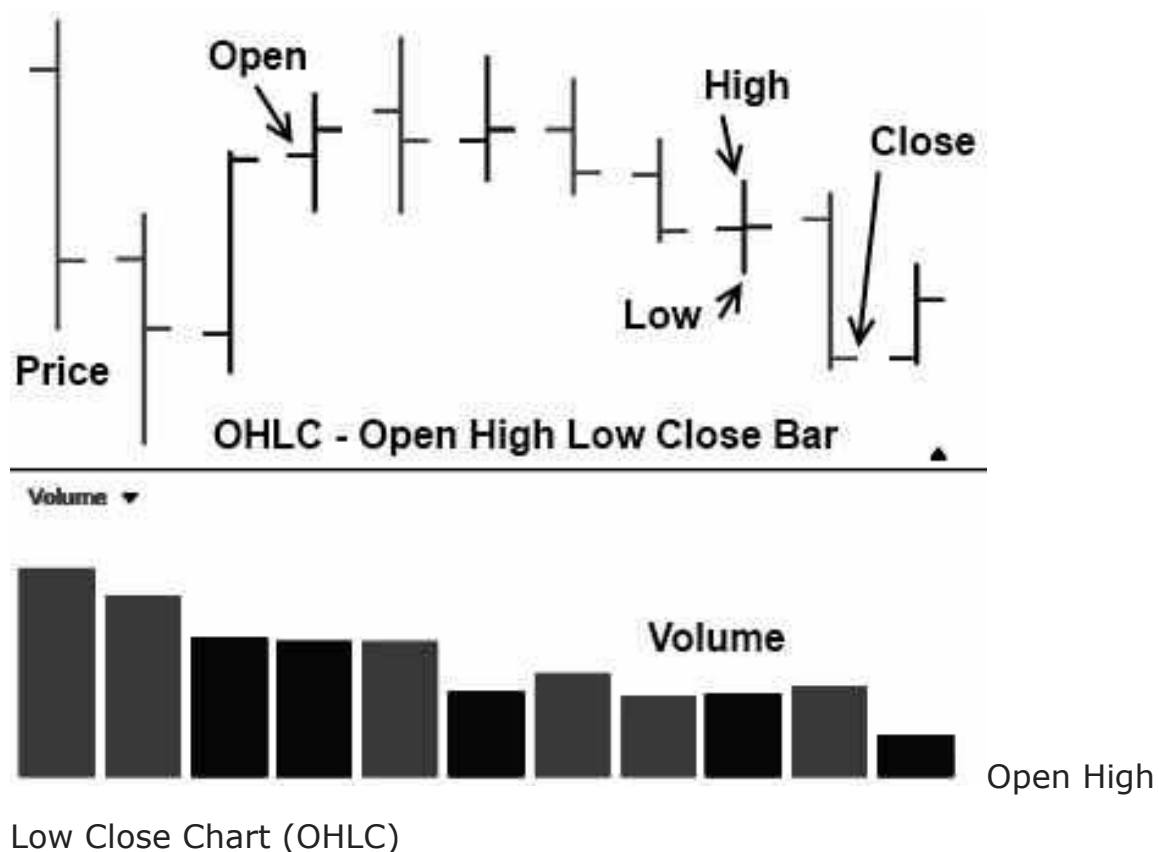
Stock Charting Services With Line Charts

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3. Open High Low Close Bar Stock Chart (OHLC)

The complete bar chart. The chart of choice for those who like to use bar charts. Here we see the range of the day's trading including the open price and the close price.



The Positives of Open High Low Close Bar Charts

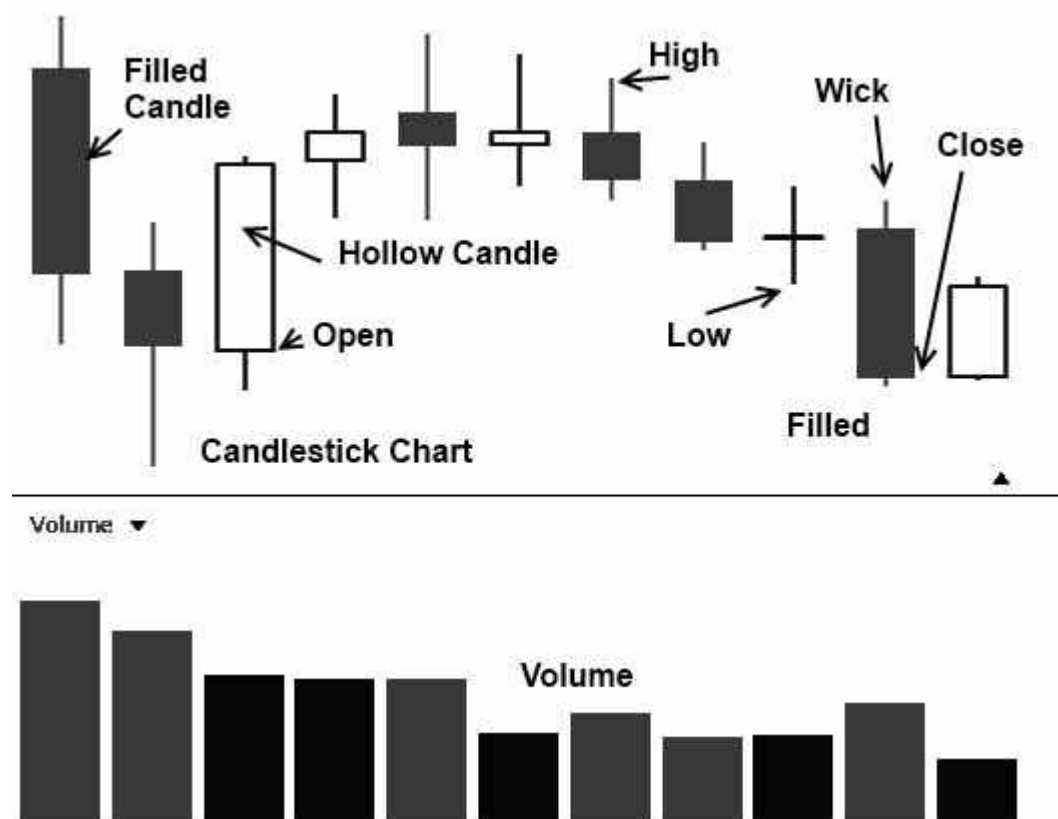
We can see instantly if the trading period closed higher or lower than the open. We can also see the length of the bar, which shows us the volatility or the strength of the trend.

The Negatives of Open High Low Close Bar Charts

There are few downsides to this chart type and it is used by many investors and traders. Most chart packages also allow you to color the up days green and the down days red. For those who prefer even more information in the price chart, the following charts can also be used.

4. Japanese Candlestick Charts

Used widely in Japan and gaining a strong foothold in the rest of the world the Japanese Candlestick chart gives an excellent insight into current and future price movement. Named Candlesticks because they look like candlesticks with a wick and the main body.



Japanese Candlestick Chart

The Positives of Japanese Candlestick Charts

Gives an excellent view of the Open, High, Low and close of the price. Pictorially illuminating and easy to see trends. There is a full reference below of 1 bar to 4 bar patterns which help us to make judgments on the future direction of price. They connect psychology with the price pattern.

The Negatives of Japanese Candlestick Charts

Although Candlesticks have many advantages, they can seem like information overload to the beginner. There are also many [Candlestick patterns](#) to learn.

Further Reading on Japanese Candlesticks.

- [Candlestick Charts](#)
- [Bullish Candlestick Patterns](#)
- Learn Candlesticks in the [Liberated Stock Trader PRO Training](#)

Stock Charting Services With Candlesticks Charts

- [TradingView](#) -- Our Number 1 Stock Charting & Analysis Package
- [Stock Rover](#) -- The Best For Value & Dividend Stock Screening
- [TC2000](#) -- Best For US Trading & Stock Analysis
- [TrendSpider](#) -- Best For Automated Technical Analysis

Stock Charts Using Volume

The use of [volume in technical analysis](#) is important as volume allows us an insight into the supply and demand situation. The following charts incorporate volume into the price window to provide additional information.

5. Volume at Price (VAP) Stock Chart



Chart

The [price at volume chart](#) is an exciting new development, as instead of showing volume for a certain time period, it shows us the volume of trades at a specific price level.

This enables us to see at what price level most of the market participants believe the stock is fairly priced.

The Positives of the Volume at Price Chart

Innovative and intuitive, this method of charting combined with standard volume bars can enable you to see market psychology both in time and price. It is also easy to see volume increasing as price rises, this is a very bullish sign.

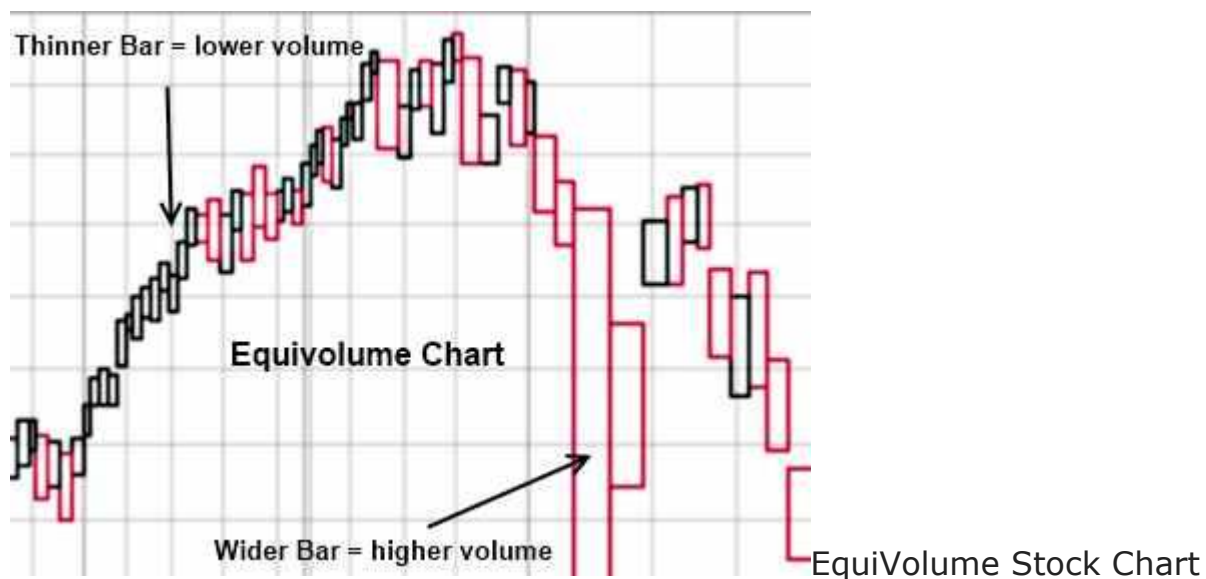
The Negatives of the Volume at Price Chart

Not all stock charting packages offer this type of indicator

Stock Charting Services With Volume at Price Charts

- [TradingView](#) -- Our Number 1 Stock Charting & Analysis Package
- [TC2000](#) -- Best For US Trading & Stock Analysis

6. EquiVolume Stock Charts



EquiVolume Charts attempt to provide the solution of Volume at Price in a different way. Instead of plotting volume in separate bars, it is in fact incorporated into the price bars themselves.

The wider the price bar, the more shares were traded during that period.

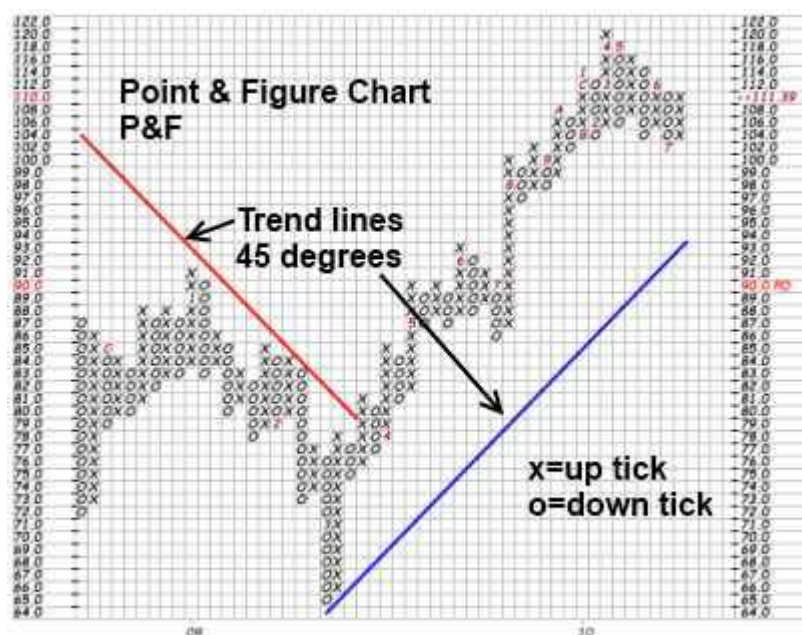
The Positives of Equivolume Stock Charts

Visually impressive and extremely easy to interpret.

The Negatives of Equivolume Stock Charts

This type of chart can distort the timeline running across the bottom of the chart. This makes drawing accurate trend lines more challenging. Few Stock Charting service providers offer EquiVolume. I would not recommend using EquiVolume as a tool.

7. Point and Figure (P&F) Charts



Point & Figure Stock

Chart (P&F)

There are a few other types of charts that you probably have never heard of before. They are however quite useful and you would be required to learn them if you wanted to become a Certified Technical Analyst.

Point & Figure Charts are very unusual as they feature no timeline along the bottom horizontal axis. The Chart is made up only of price swings. The vertical price bar is arithmetic and shows only units of price.

A "0" is plotted if the price moves down a whole price unit (for example 50 cents). Then when the price changes direction and starts to move upwards an "X" is marked in each box. This filters out smaller price moves and enables us to focus on trend quality.

Trend lines are always plotted either horizontally or at 45-degree angles.

The Positives of Point & Figure Stock Charts

An excellent tool for doing price target calculations. Simple to learn and interpret, few price patterns to learn.

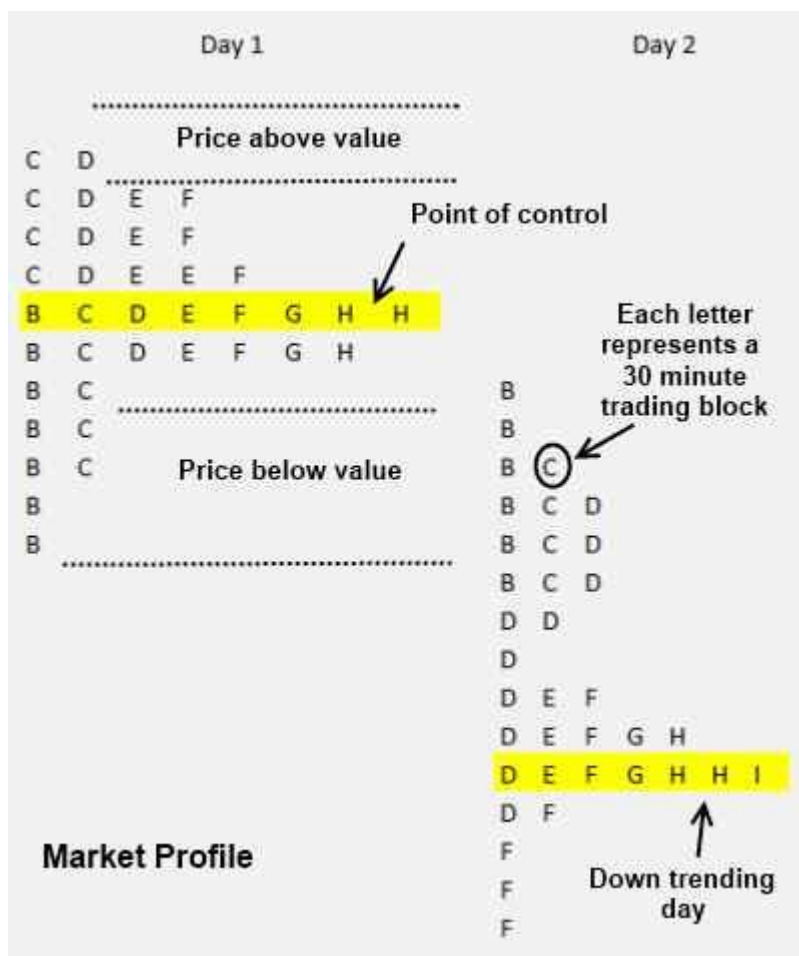
The Negatives of Point & Figure Stock Charts

Learning this type of charting can be easiest when performing the charting by hand. That means you marking the "X" and "O" on a piece of paper. This can also be very time-consuming. Few services offer Point and Figure Charts, however, [StockCharts.com](https://www.stockcharts.com) offer a free Point and Figure Charting Service that is well worth investigating.

Stock Charting Services With Line Charts

- [TradingView](https://www.tradingview.com) -- Our Number 1 Stock Charting & Analysis Package

8. Market Profile Stock Charts



Market Profile Chart --

Old School and Cool

Developed in the 1980s by Chicago Board Of Trade Pitt Trader J. Peter Stiedlmayer. The letters on the chart show time units. "A" represents the first 30 minutes of trading, "B" represents the second 30 minutes of trading.

The point of control is the area (price range) at which the most trades occur during the day.

The value areas are the price range at which 70% of the action happens. When the price is above and below the value areas this represents a possible ideal buying or selling point.

The Positives of Market Profile Stock Charts

People who use market profile charts become evangelists to the cause. They believe it offers unique insights into buy and sell opportunities. It can be a good option if you are a quick-fire day trader.

The Negatives of Market Profile Stock Charts

It can require quite an effort in order to learn how to use them, and very few stock chart services offer this type of charting.

- **Further Reading: [8 Important Types of Stock Chart + Pro's & Cons](#)**

How to Read Stock Chart Patterns

The first example in this module will show you the head and shoulders pattern. We will then discuss the other patterns that exist.

Head and Shoulders Pattern

What does a Head and Shoulder Pattern look like? The importance of the head and shoulders pattern should not be under-estimated. One of the most reliable patterns in technical analysis yet one of the most misunderstood.

Here we discuss the famous head and shoulders price pattern. Understood to be one of the most predictive patterns the Head and Shoulders pattern has some unique characteristics.

However you do need to know what you are looking for.

A Head & Shoulders Pattern has the following traits.

- Two shoulders.

- A high point, the head, in between the shoulders.
- The volume should confirm the pattern.



So what lessons can we learn from the chart?

1. This is the left shoulder
2. This is the head
3. This is the right shoulder
4. This is the neckline, using a trend-line connect the low from both sides of the head through the outer price lines.
5. The left shoulder was formed on increasing volume. This is to be expected.
6. In the forming of the head we see a significant decrease in volume.
7. In the right shoulder we see also decreasing volume
8. The price failed to exceed the previous peak

All of the above conditions of the Head & Shoulders pattern here are consistent with text book descriptions. See the classic book Technical Analysis of the Financial Markets by John J Murphy as a reference.

The Head and Shoulders pattern is said to be confirmed on a break of the neckline, this is about to occur / has occurred in the final price bar in July.



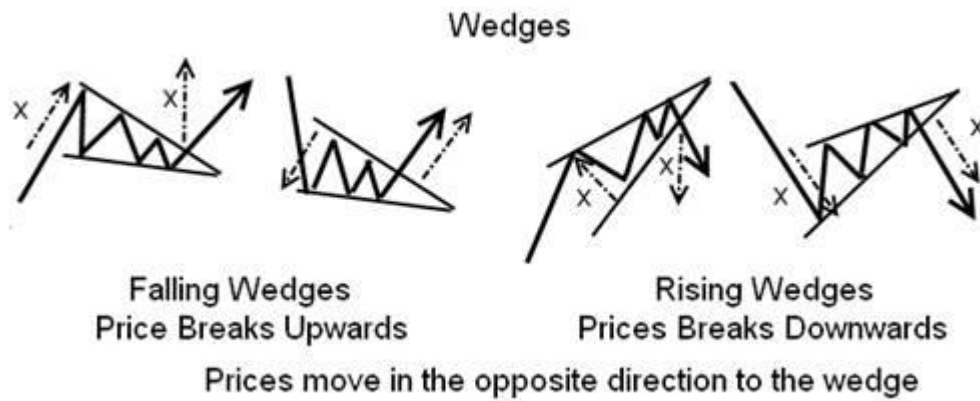
Megaphone Chart Pattern

Here we have a Megaphone Top. This is a rare pattern that occurs usually at major tops. You can see that the swings get larger at each bounce, suggesting uncertainty and volatility until finally, the price breaks out downward on increased volume.

Wedge Chart Pattern

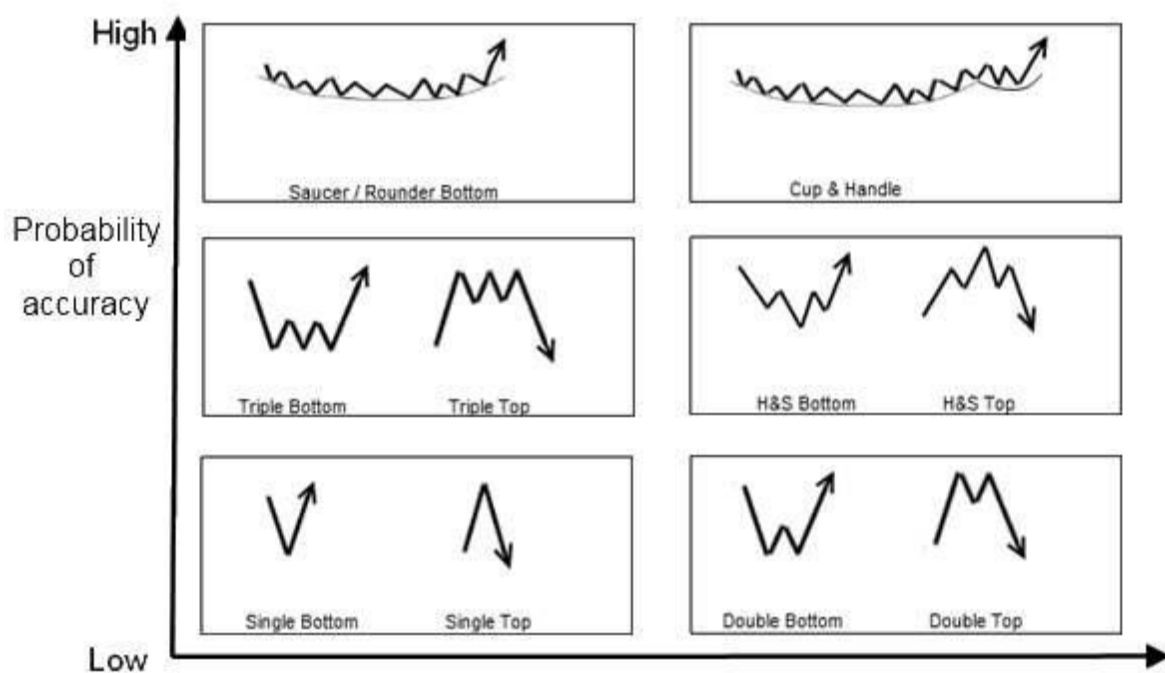
Wedges have a very different character to triangles in the fact that they point in the exact opposite direction to the breakout. Both of the edges of the wedge point in the same direction, either upward or downwards. In the image below we can see that the falling wedges signify an upward breakout.

The rising wedge signals a downward break out.



Stock Chart Pattern Accuracy

The following diagram shows us the most common reversal patterns and their relative probability of accuracy.



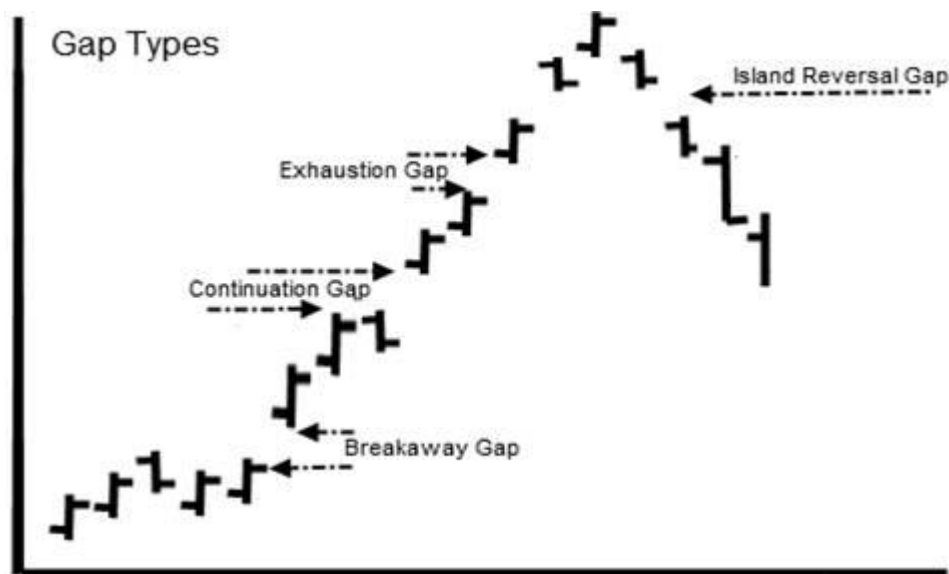
Stock Chart Pattern Accuracy -- Graph

Price patterns and trend lines share the same characteristics. The longer they are, the more important they are. The more a price pattern touches a trend line and reverses the more important that line is. In this diagram,

we see that the accuracy of a Triple Top is more than that of a Single Top. Why? Because price touches the resistance level more times.

Gaps in Stock Chart Patterns

Another very important pattern that signals continuation is the “gap.” A gap occurs when the price of a stock during a given period is significantly higher or lower than the price range of that stock for the previous period. The price did not overlap at all over the two periods. This leaves what is known as a “gap” in the price chart. A “gap up” in the stock price is a show of strength. This tells us that the demand for the stock was so strong on the open that it jumped many points higher. The opposite is true for a “gap down.” This signifies weakness as the stock gaps down usually due to aggressive selling.



The Breakaway Gap

The Breakaway Gap usually occurs when a stock is moving in a normal way through a price range or channel, then the demand for the stock suddenly explodes and the stock “gaps out” of the current trend. This is a

sign of strength and a very bullish sign with a “gap up.” A breakaway gap to the downside is a sure sign of weakness.

The Continuation Gap

The Continuation Gap is another sign of strength showing that demand is still strong and the trend will continue, this often confirms the initial “breakaway gap.”

The Exhaustion Gap

The Exhaustion Gap can be the second or third gap and occurs during a very strong upsurge in price. This is a warning, as it might signify that the stock has over extended itself and may be due a change in trend or a pull back. The opposite is true for an exhaustion gap on the downside which might signal a bottom is near.

The Island Gap

The Island Gap occurs when demand is so high that price and the market participants drive the price up to unacceptable levels and the demand dries up rapidly. This sudden oversupply causes the stock to plummet as all demand is satiated. Of course, too much supply with no demand causes falling prices.

Quick Tip: Gaps are important signs of serious shifts in supply and demand. If surges in demand outstrip the supply, prices rise to convince people on the sidelines to sell. Downside gaps indicate supply is outstripping demand, causing prices to fall.

This might seem all very theoretical, so here are gaps in action.

Examples of Stock Chart Gaps

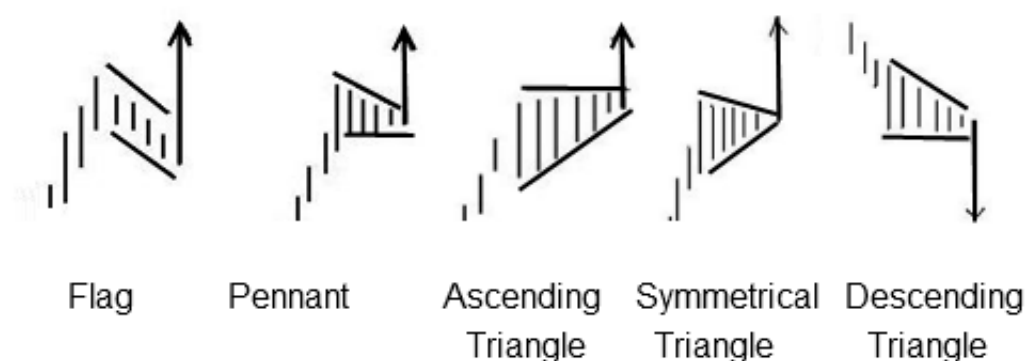
Here we can see clearly how gaps can occur in stocks. STEC provides a perfect example of how understanding gaps is critical to trading success.



Stock Chart Continuation Patterns

Continuation patterns occur during a price move and are visual representations of consolidation or periods of rest before price continues its trend, be that upwards or downwards.

Continuation Patterns



5

Types of Stock Chart Continuation Patterns

Image courtesy of [Liberated Stock Trader PRO Training](#). All rights reserved

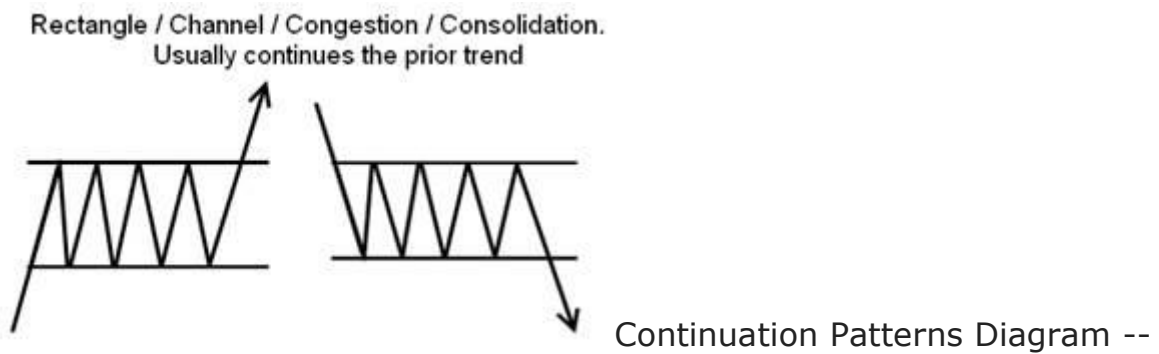


Image courtesy of Liberated Stock Trader PRO Training.

All of these triangles are essentially continuation patterns. They should give you some confidence that the trend will continue. Always be aware that if the price breaks out in the wrong direction due to a shock (e.g. bad earnings or bad news) you should be prepared to act.

A very common continuation pattern is the Rectangle, or more commonly known as a "channel" or "trading range." The price should normally break out in the same direction as the previous trend.

- **Further Reading: [Liberated Stock Trader PRO -- 16 Hours of In-depth Video Lessons + Print Book](#)**

How to Read Stock Chart Indicators

Indicators are lines that get plotted on a stock chart to make it simpler for you to understand the history, and perhaps the future direction of a stock. Stock chart indicators consist of 2 key data points, price, and volume. However, it is also possible to map fundamental financial data such as [EPS](#) or [PE ratio](#) onto a chart.

Indicators may seem like something only Einstein himself can master, but here everything is within reach, in just a few minutes you will have a solid understanding of a very important concept.

Chart Indicators: Moving Averages

What are Moving Averages?

Moving averages are the staple diet of any chart reader, and enable you to visualize changes in trend in price. Moving Averages or “MA” are a simple mathematical calculation that takes the average price (mean) for a given period and plots this on a chart.

Day	Price \$	MA 5 day
1	2	
2	3	
3	4	
4	5	
5	5	3.8
6	5	4.4
7	5	4.8
8	6	5.2
9	8	5.8
10	9	6.6

Moving Average Calculation

Sheet

So the average price for the first 5 days = 3.8.

The key here is when we use 2 or 3 moving averages together **we see visually when the lines cross** a stock’s trend is changing and it may be time to look seriously at buying or selling a given stock.

Using 3 Moving Averages Together

Below you can see a standard chart with 3 moving averages plotted.

MA50 (RED) – this is the moving average of the last 50 periods (in this case days – it is a daily chart)

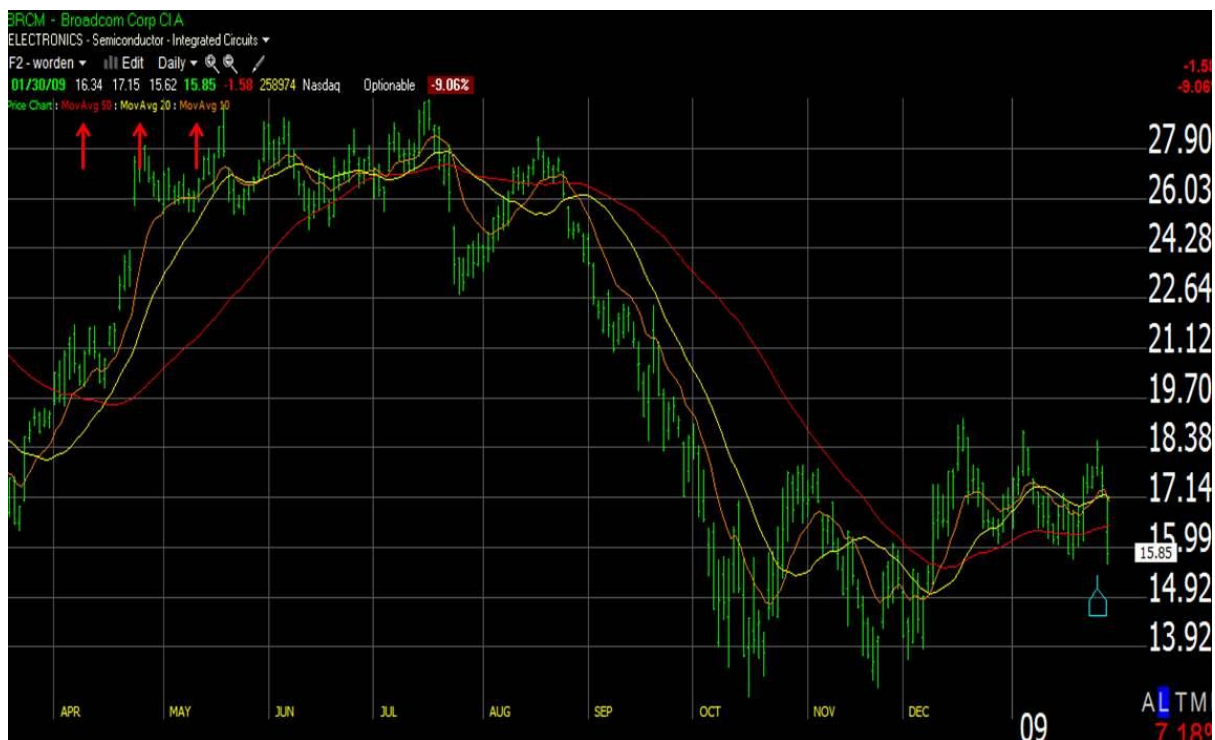
MA20 (Yellow) – this is the Moving Average of the last 20 days

MA10 (Orange) – this is the Moving Average of the last 10 days

The secret is the combination of the indicators.

What do you see here? Take a long look!

- Where do the lines cross?
- What happens to the Stock price after the lines cross?
- What happens to the overall trend when the lines cross?



3 Line Moving Average Chart

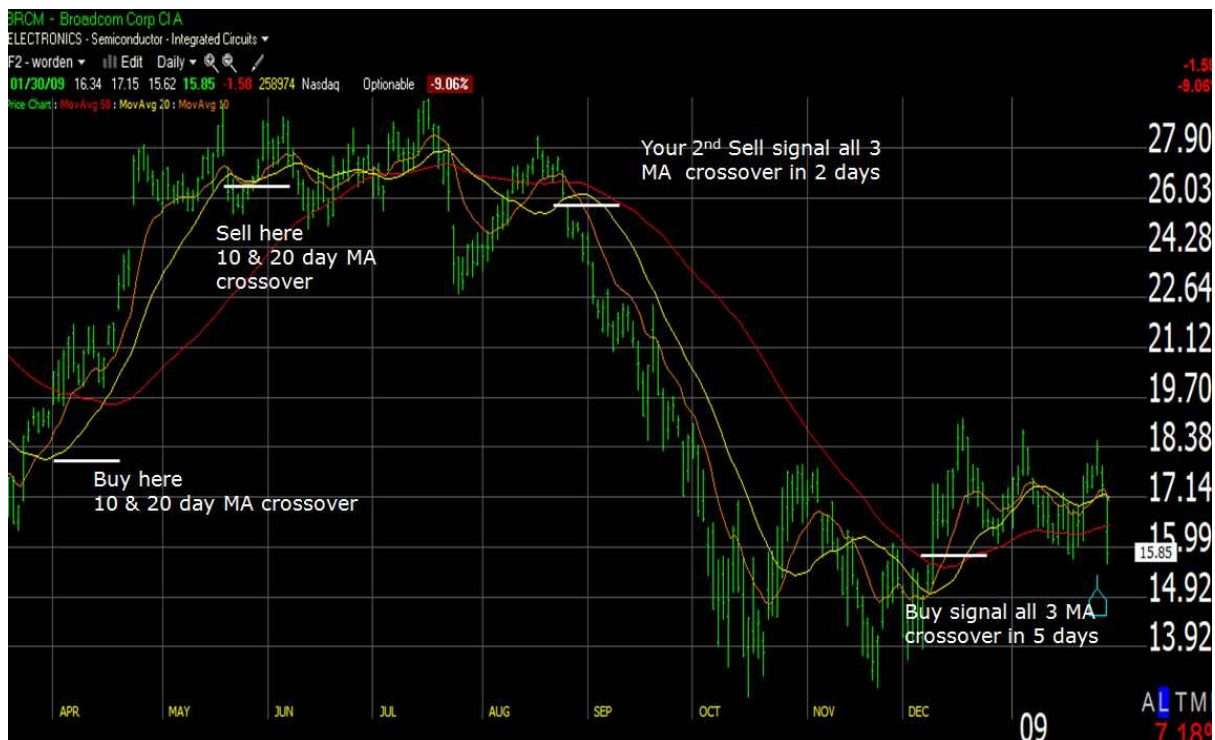
How to use Moving Averages to signal BUY and SELL opportunities?

Here we are using 3 Moving averages you could use 2, however, 2 is the minimum. You can set different moving average timeframes, common ones are :

10:20:50:200 day MA's

If you are trading more on a short-term use the lower Moving Averages.

If you buy and hold a stock for 6 months or more, use longer averages.



3 Line Moving Average Chart -- 4 Point Analysis

As you can see, **when the MA's cross this is the pivotal point** that signals a change in trend.

Of course, you can backtest the moving averages to see if they work on a previous timeline (by scrolling backward in the chart). Use them as a minimum indicator to help you envisage when a stock is going to move in your favor, or move against you.

Moving averages are an excellent indicator as they are based on price, and price as we know is the most important of all indicators.

What Did You Learn About Moving Averages?

Moving Averages are the core and most fundamental element of Technical Stock Chart Analysis. Using one MA is good using 3 a lot better.

Focus on the moving average lines crossing each other and the price crossing up or down through the moving average lines.

Chart Indicators: Volume

What is the Volume Stock Chart Indicator & Is It Important? How to Analyze Volume & Interpret Supply & Demand with our Quick Reference Guide

What does Volume mean in Stocks?

Volume in stocks refers to the total number of shares traded for a particular period of time. If 2 million shares are traded in a day, the trading volume for the day is 2 million.

What Does Volume Mean in Stocks?

Volume is usually expressed as a series of vertical bars at the bottom of a chart. If 20 shares were traded, then the bar will show 20,000. Often a Volume Chart -- will show Red Bars when the stock price has decreased for the day, and Green Bars for when the price rises for the day.

Is the Volume Indicator Important?

Yes, Volume indicators in technical analysis are considered important, second only to stock price itself. When you combine the stock price movement with the increases or decreases in volume it provides a fascinating insight into the sentiment of the market.

For example, if the stock price is going up and the volume is going down that indicates that there fewer people buying at a higher price. This means a change in demand and a potential change in the direction of the stock price.

Understanding Trading Volume

Look at the chart below and read further for a description of the key concepts here. The Chart maps Price, Moving Averages 10 & 30, and volume (Red for Negative, Green for Positive).



Stock Chart with Volume: How to Read the Stock Chart Volume Indicator

3 Key Steps Referenced in the Volume Chart.

1 -- Price Direction Changes Upwards -- Surge In Volume

Here at point 1, we see a huge change in the direction of price, it was proceeding in a downward direction, then suddenly there was a spike in volume over 2 weeks, this is known as a "blow off bottom".

It indicates, that a key price has been found, where the sellers have lost enough that they need to sell the stock, and the buyers have seen the price decrease enough so that they see real value in the Stock. Of course, other factors contribute, like good news or earnings results. Whatever happened volume increased!

2 -- Price Direction Change Down -- Surge In Volume

The stock here increases from \$20 to \$38 in the following 3 months, a **90% increase**, but how would we know this was about to happen. Well, buying at the time the moving averages crossed over would have been a good option, it would not have provided the full 90%, but it would have **produced 40%**, which by anyone's reckoning is an excellent result. However here we see a monster **"Blow off Top"**, the huge red Spike, this is a very strong sign, to sell as soon as possible.

From stage 2 we see the stock move in a sideways pattern and eventually decrease back down to \$19, the ride is well and truly over. However, you would not own the stock, as you would have sold when the moving averages crossed.

The stock price starts to increase in mid-November 2008, but volume tells us nothing.

WHY? Indicators do not tell us something 100% of the time, but when they do we need to recognize it. The moving averages cross at \$25, a good time to buy.

3 -- Huge Volume and Price Increasing

Here we see massive buying; the volume goes through the roof. Important to note here is we are comparing volume for the stock in comparison to its history. This is the second biggest volume surge of the year for Netflix and is significant.

Why did it take off? We should always seek enlightenment!

It reported excellent earnings, and because of the recession, people were switching from buying bigger ticket items such as Cars and Plasma TV's to staying at home and renting Movies. Netflix reported a massive increase in new members.

In the chart, this note shows that the price **"Gapped Up"**. What does this mean? This means that the stock price in extended-hours trading was so strong that the Opening Price on the following day was significantly higher than even the High for the previous day, thus showing a gap in the price pattern in the chart.

Warning: Some volatile stocks show a lot of Gaps in price. While gaps in price might sound good when they gap upwards, if they gap down against you then they are very bad. Avoid stocks with any history of strong negative gapping. As gaps do not give you the opportunity to sell at the price you want to.

Volume Summary

Volume is important and reading it should become second nature. Especially when searching for winning stocks, we ideally should look for stocks with increased volume so we have more chance of a quicker, less risk win.

- **Further Reading: [Stock Chart Volume Indicator. 3 Step Analysis + Guide](#)**

Is it Good to Have High Volume in Stocks?

It depends. High volume when the price is decreasing means there is a large sell-off happening. High volume when the stock price is going up means there is a rally in the stock price and there a large demand for the stock.

What is a Good Volume in Stock?

Try to stick to trading stocks with at least \$1 million traded per day. That means $(\text{Stock Price} * \text{Volume}) = \$ \text{Volume Traded}$. There is another easy

way to see if a stock has enough volume. If you see large gaps between the open and closing price for any stock it means there is not enough liquidity in the stock. This means not enough volume.

Penny Stocks often do not have enough volume. For example, if the stock price is \$1 and the volume is 5,000 that means only \$5000 of stocks is traded in a single day, that is simply not for a fair and equitable market.

Volume -- Supply & Demand

There are some important characteristics of volume and price in the marketplace. It is all about the direction of price movement compared to the increases or decreases in volume. **In short, it is about Buyers and Sellers.**

Price Up–Volume Up Stock Price moves higher on increased volume.

This is bullish as it shows us that more participants are interested in selling the stock at higher prices and that most importantly more people are interested in buying the stock at those higher prices. In an uptrend this signals the trend will continue, in a downtrend, this signals a possible correction or change in the trend's short-term direction to upwards.

Price Up–Volume Down in an uptrend this is very bearish as it suggests that although prices are rising there are fewer participants suggesting people are backing away from the higher prices. This also infers that the trend is weakening. In a downtrend, it suggests a continuance of the downtrend.

Price Down–Volume Up in a downtrend this may signal that a change in trend is likely, as we saw with the "Blow off bottom" there might be a huge selling climax, then the trend adjusts from down to sideways or

down to up. In an uptrend, this may indicate a crisis, panic selling or simply when a stock is going out of favor. The pressure is on the sell-side and to sell they have to accept lower prices. A strong negative signal!

Price Down–Volume Down in a downtrend this can suggest that the retreat is slowing or beginning to end as there are fewer people interested in buying or selling the stock at these prices. In an uptrend, this may indicate the stock is stopping for breath or due a pullback before continuing on its upward trajectory. Volume tends to trend in the same direction as the price trend, so PDVD also suggests a continuation of the main downtrend, or a pullback and possible continuation of an uptrend.

So you see not only the price but the direction of both price and volume is important. This is where the Price Volume Indicators play an important role.

- For the most comprehensive training on [all major stock chart indicators and technical analysis check out our PRO Training](#)

RSI Stock Chart Indicator

Here we have a very popular indicator called **Relative Strength Index, or Wilders RSI**. Developed by J Welles Wilder, this indicator measures the strength of any stock by comparing it's average net up closing day prices versus its average net down closing prices, for the period set. It enables you to see if a stock is overbought or oversold.

How Is Relative Strength Indicator Calculated?

RSI fluctuates between 0 and 100, 0= Oversold, and 100 being overbought. It is a **leading indicator** and can be used to predict future trend changes using positive or negative divergences compared to price.

Divergences are one of the most powerful ways to use most indicators. The fact that it is a leading indicator, as opposed to Moving Averages which are lagging, and can thus indicate future directional changes.

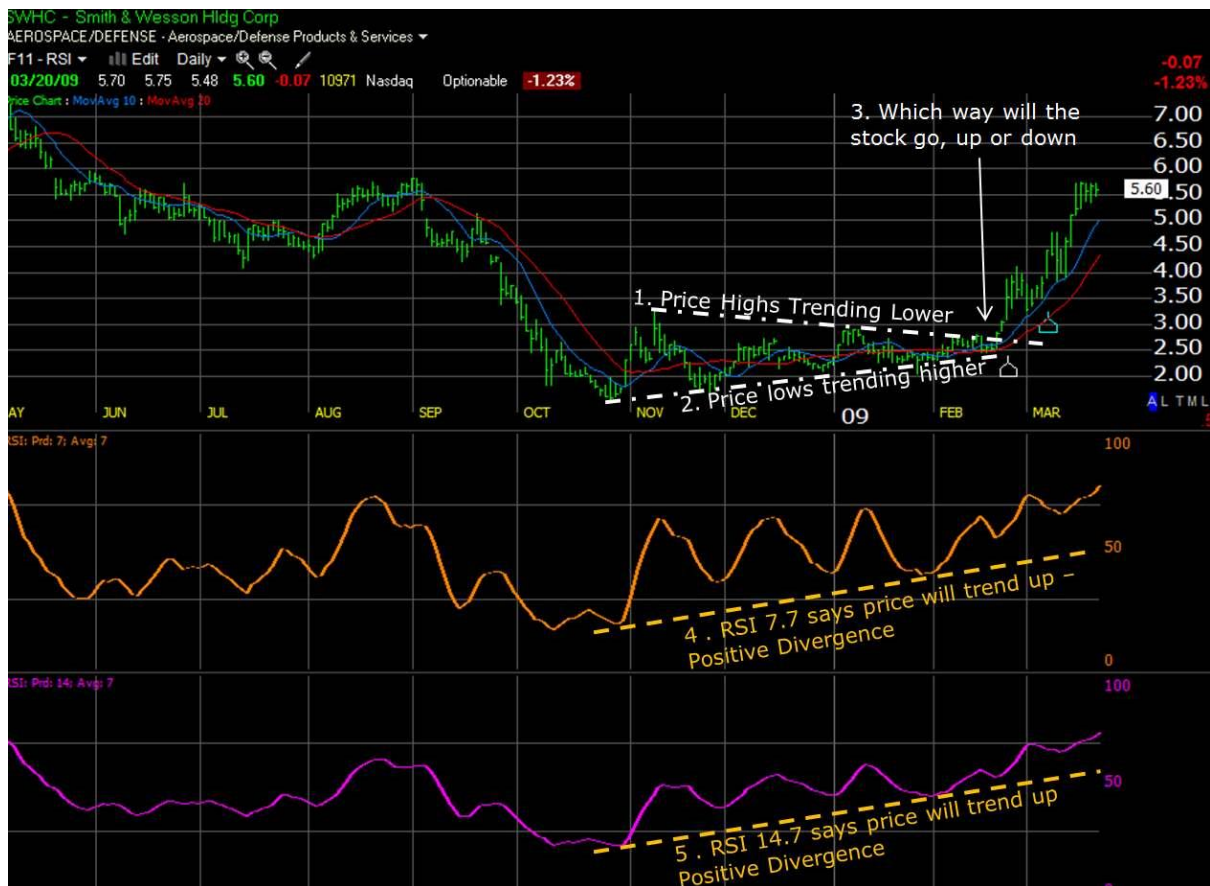
Relative Strength 5 Step Detailed Analysis

The chart below is of Smith & Wesson (SWHC), a stock I bought back in 2009, and the chart shows clearly how RSI can be used to clearly predict future trend changes.

Using RSI on 2 settings shows how shorter and longer-term settings can show a different line, but the same answer, therefore confirming each other.

- The shorter-term setting (7 Periods Prices:7 Periods Smoothing)
- The longer-term setting (14 Periods Prices:7 Periods Smoothing).

Review the chart, and read below the 5 key points explaining usage.



RSI Stock Chart Indicator -- 5 Point Analysis -- Detailed Example Chart

[TC2000 chart courtesy of Worden Brothers, Inc.](#)

1. Here you can see the **price highs trending downward** from the period November 2008 to February 2009
 2. Here we see the **price lows trending higher** for the same period.
 3. So we see the forming of a **Price Pennant**, but which way will the Stock price go. Up or Down. For the answer, we refer to the leading indicator RSI
 4. The RSI (7:7) Orange line, tells is as early as the beginning of January 2009 that we are seeing a stronger upward momentum in RSI, although this is not reflected in the Price, it is the underlying action.
 5. The RSI (14:7) also confirms the shorter timeframe RSI settings but gives us a smoother line which can be easier to interpret.
- Finally, in mid-February, the stock price bursts through the price

high trend Line (point 1 above) and the stock proceeds to **double in Price (100%) in 5 weeks.**

What a great result, and what proof that RSI has real meaning and application.

However, if RSI is telling you nothing important, then please use other indicators, or move on to review another stock where the indicators will tell you something.

To control your investment, your money and your destiny takes hard work, but the fruit will be sweet. Long live the Liberated thinker, long live the Liberated Stock Trader.

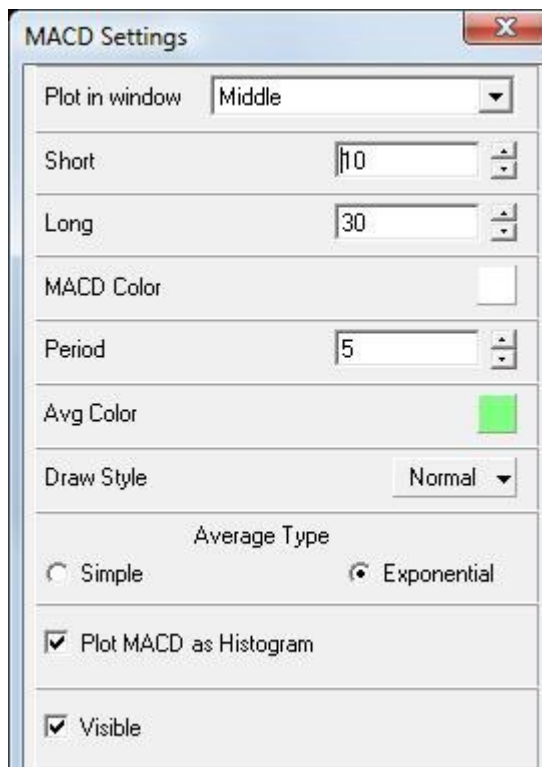
MACD Stock Chart Indicator

MACD or Moving Average Convergence Divergence is a great way to assess a stock price direction.

What is MACD?

MACD was developed by Gerald Appel as a means of easily showing the Moving Averages of a stock in a way that could show the strength of the difference of the Moving Averages. For example, if the 10 & 20 day moving averages for a stock, move away from each other as the stock is going up, this means the stock is gaining strength.

MACD Usage



MACD Settings

Short = the shorter Moving Average e.g 10

Long = the longer moving average e.g. 20 or 30 etc

Period = the Moving average of the difference of the Short and Long above.

Use short MACD configuration for shorter term trading 5-35-5, or longer configurations for longer term trading 12-26-9 is popular, also 10-30-5.

Experiment, and also view charts on different timeframes to test if the indicator is true from different angles.

This could go on and on, however, I will suggest now we move to a more practical use of MACD viewing it in real life on a real stock.

Please be aware, sometimes MACD does not tell you anything about a stock, but in many cases it does. As always, if the indicators tell you

nothing there is probably nothing to be told move on and look for other stocks.

How to Use MACD

Take a look at the Netflix (NFLX) Learning Chart below.

Here we have a MACD configured of 10, 30, 5 Simple, and this is a 2 Day (per bar) Chart



MACD Detailed Example Chart

[TC2000 chart courtesy of Worden Brothers, Inc.](#)

Step 1 -- Price Growing

The stock price is in growth mode almost doubling in the first quarter.

Step 2 -- Negative Divergence

The trick with MACD is to look at the trend it is a powerful indicator when you compare the direction of the MACD Mountains with the Price Movement.

Point 2 illustrates, that although the price doubled in 2008 we saw the MACD make lower lows "negative divergence".

We see here a change in the MACD from positive to negative and the large mountain (below the Zero Line) forms. MACD is an oscillating indicator and as such is always tied to the Zero line in the middle.

Step 3 -- Price declining

Here we see a strong decline in price for the rest of 2008 until November. Using a trend line to show this helps us visualize the direction easier.

Step 4 -- Positive Divergence

At the same time the price is declining we actually see a longer-term Positive Divergence occurring from June to December. This essentially means that the "Gas in the tank of the sellers is slowly reducing".

However, we should not have waited until December to buy the stock that would have been way too late. Instead, we would look to Point 5.

Step 5 -- Buy Signal

MACD broke through the line of resistance: here we see the MACD breaking strongly past its previous high. I plotted a Trend Line in Orange to show this clearly.

If you had used MACD as your **BUY SIGNAL**, you would have netted **56% in 4 months**.

Please do not think I searched through hundreds of charts to find a good example to demonstrate here. I did not; this was a stock in my watch list, and indeed bought based on this lesson. As you can see the dates are up to end of January 2009 in this historical example.

Fibonacci Stock Chart Indicator

There are many ardent investors who follow the Fibonacci principles almost religiously across the globe. Indeed, when you take a close look at the application of these scientific observations you may be compelled to take it seriously.

For this analysis example, we will use Fibonacci Retracement and apply it to the 2007 to 2008 Financial Crisis. In fact, we will take a look at the charts a few years later in 2011.

What are Fibonacci Numbers In the Stock Market?

Fibonacci numbers are revered in mathematics as the numbers that describe the natural world. The Sequence is simply the sum of any two numbers equals the next in the sequence.

1,1,2,3,5,8,13,21,34,55,89 etc.....

$$1+1=2$$

$$1+2=3$$

$$2+3=5$$

The theory behind Fibonacci is that this mathematical pattern can be used to predict the waves of a trend. The most important numbers seem to be in percentage terms 38, 50, 62.

Therefore, if a trend moves from \$1 to 100\$, it may retrace (go back down) to 1 of 3 important levels. \$62, \$50, \$38.

Applying Fibonacci on a Chart

This is a long-term weekly chart of the S&P500, it stretches back 5 years to 2007 from 2011. This enables us to get some perspective of the Financial Crisis in 2007, and compare that to what happened later.



SP-500 Market Technical Analysis Fibonacci Retracement

You can use Fibonacci Retracement on any chart by following these instructions.

- Select the Fibonacci Retracement Tool in your charting package
- Select the Lowest Point on the chart in this case **Point 1**
- Drag your mouse to the highest point on the chart in the future, in this case **Point 2**

You should then see the important Retracement levels are drawn (the Grey Dotted Lines)

Important Points to Note

1. In the 4.5 years since October 2007, the market has failed to reach an all-time high of 1,550.
2. In 2008 when the market broke down through 1,100 points, the market collapsed.

The Market Moves Down

1. The retracement line at 38.2%, is equal to 1,125 points in the index. This is currently a support line.
2. Any drop through this area could see a further drop to 1,000 points, the 50% retracement line
3. The next drop zone could be 950 points, the 61.8% retracement line. This maps back to 2009 /2009 perfectly.

The Market Moves Up

We can see that the 21.6% retracement line at circa 1,225 is providing resistance. A strong move up through this area would be positive.

How to Draw Trend-Lines on Stock Charts

Knowing How to Draw a Stock Chart Trend Line is Critical To Your Success in Stock Trading.

What is a Stock Price Trend?

If someone asked you today, "Is the stock market in an uptrend, downtrend or a lateral consolidation", what would you answer?

Knowing the answer to this key question is important for the stock market or even an individual stock. Why?

If you buy a stock (go long) in an uptrend you are more likely to make money on it. There is a simple way to see for yourself if the market is heading upwards or downwards.

First, let's examine what types of trend exist:

Types of stock price trend:

- Uptrend: The stock or index is moving up, making new highs or higher highs
- Downtrend: The stock or index is moving downwards making lower lows
- Sideways consolidation: neither making significant new highs or new lows

There are also time-frames to consider in evaluating a trend, for this we will refer to Charles Dow's classification in [Dow Theory](#).

Types of Stock Trend Time-Frames:

- Short Term: Days to weeks
- Medium Term: Weeks to months
- Long Term: Months to years

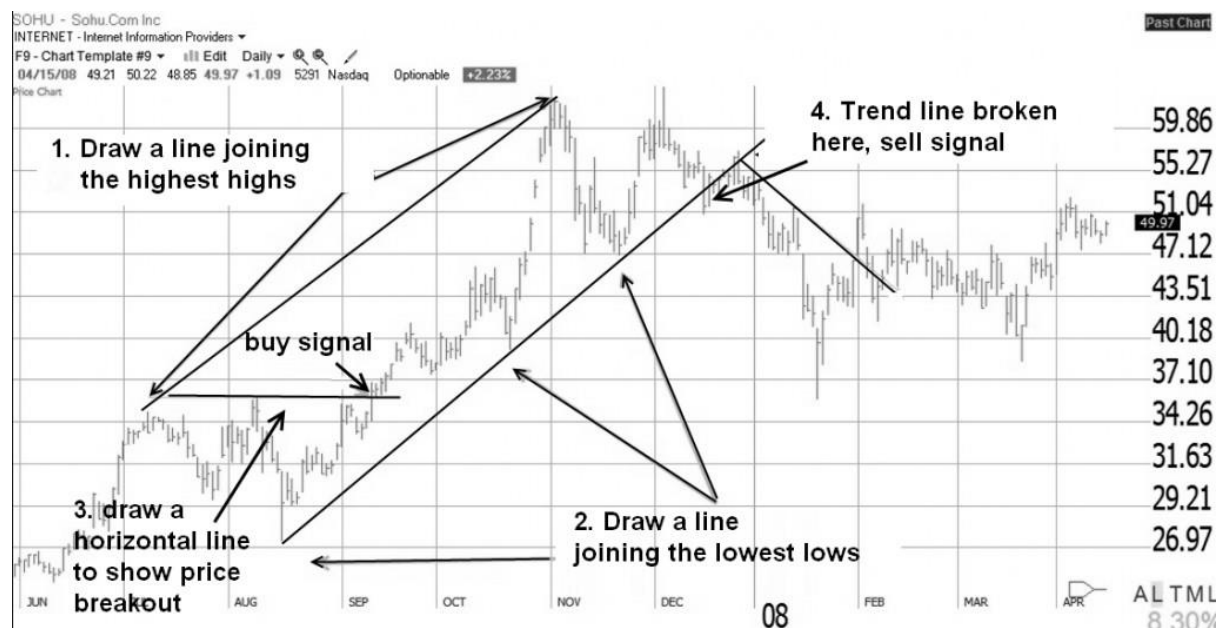
By combining the above terms, you could be specific about the market trend. For example, you could say the market is in a short-term uptrend, but a long-term down-trend. But isn't that contradictory, the market being in both an uptrend and a downtrend at the same time?

Not really it makes perfect sense.

The Following Examples are an excerpt from the [Liberated Stock Trader Academy Book and Training Course](#). Chapter 7, Section 2.

Drawing trend lines is one of the most important skills of technical analysts, trend lines represent important areas of support and resistance. Once you have this skill, charts come to life and start to signal their message to you.

3 Steps to Drawing your First Trend-lines



Soho Primary Uptrend 2009 Trend Lines

1. Drawing UpTrends

1. To evaluate an upward trend draw a line joining the highest highs
2. For the floor of the uptrend draw a line connecting the lowest lows. The price here bounces 3 times off the bottom line but then proceeds higher.
3. A trend line is drawn to show that price has moved strongly past the previous high this is a BUY Signal at \$35.50.
4. Finally, the price is exhausted and falls through the bottom resistance line at \$51. This break of the upward support line is a sell signal.

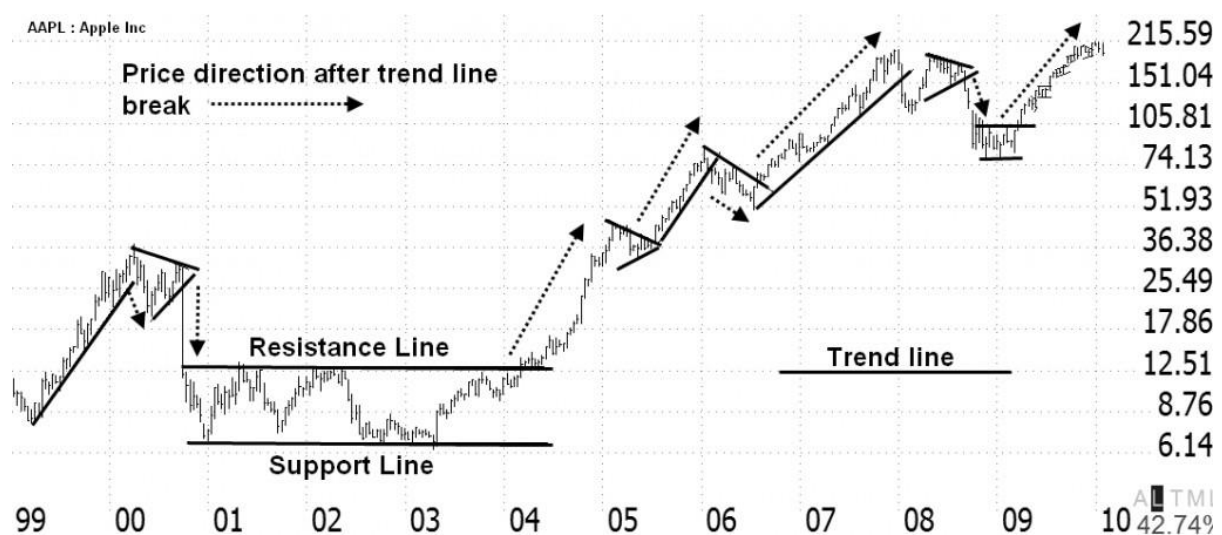
Quick Tip: The more bounces off a trend line the stronger the trend.

Buying and selling based on the trend lines are shown here would have bagged you a 49% win. Alas, life is never that easy and showing this in retrospect does mean we have the benefit of hindsight.

2. Drawing Support & Resistance Trend Lines

It is very important you practice drawing trend line as much as possible, after a while you will get used to it and it will become second nature.

Here is another example of how to draw trend lines. This is a chart of Ticker: AAPL Apple Inc. it shows how to draw trend lines in a downward price move and an upward price move.



Notice that the trend line above the price is called resistance and the trend line below price is called support. When price breaks up through resistance it moves higher, this could potentially be a buy signal. When the price breaks down through the support trend line it moves lower, this could potentially be a sell signal.

Quick Tip: The longer the trend line is in place or acts as support or resistance, the stronger the trend and the bigger the move when the trend line is broken.

Look again at the chart of Apple Inc. See how Apple was in a sideways consolidation from 2001 through to 2004. When it eventually broke out of that channel upwards through resistance the stock took off making over 1600% gain.

Chapter 7 of the PRO Training delves deeper into the technical analysis to enable you to make Buy and Sell decisions using trend lines, spot the most important patterns and trends, discusses the importance of Price Gaps, Triangles, and Wedges.

3. Drawing Trend Lines to Recognise Stock Chart Patterns

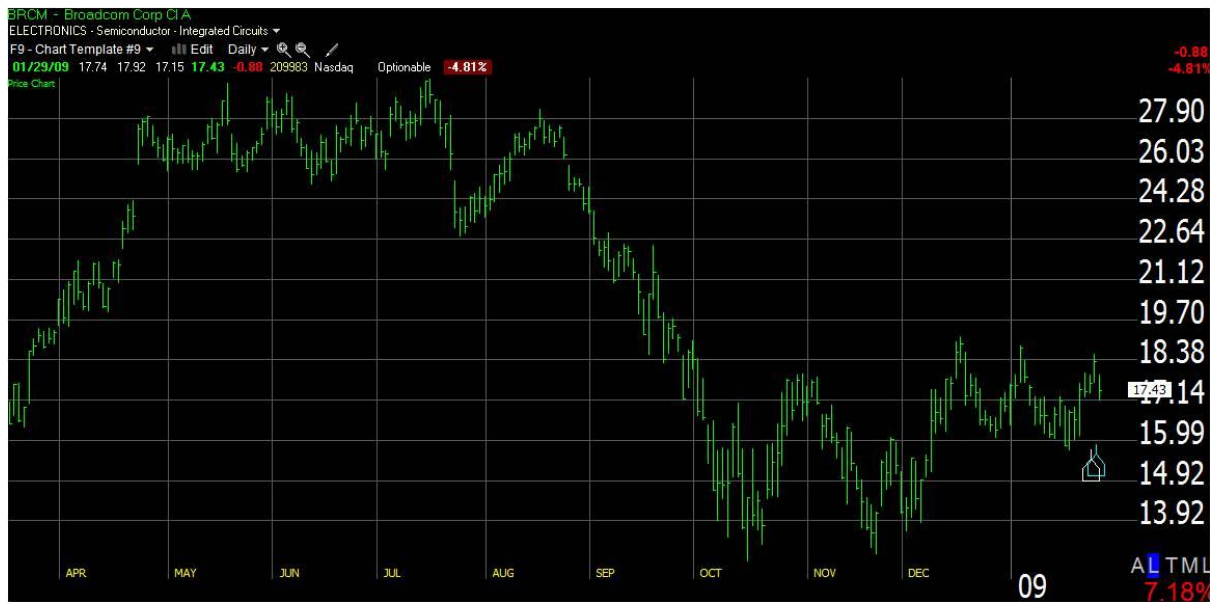
If you cannot draw a Trend-line you should not invest in the stock market!

In this example, we will examine how to look at price movement and use it to evaluate the stock.

Price is known as the most important indicator and so it should be when it boils down to it the most important thing is the price.

Here we can see a chart of Broadcom (BRCM), one of the darlings of the tech bubble in 2000.

Where will you draw the trend lines?



Take a look at this Stock Chart, where would you draw the Trend Lines?
Take a moment to think about where you would draw the trend lines before you scroll down to the chart where I have drawn them.

Support & Resistance and a Double Bottom Pattern Trendlines

A chart can really come alive when we add trend lines. The graphic below shows BRCM, with trend lines, superimposed.



Follow This Process to Draw the Trend Lines

1. Starting from left to right we see from mid-April to July, the stock starts to move in a sideways pattern, known as **"Channeling"**.
2. The two red lines show the **"trading range"**; this is the range between which the stock price fluctuates.
3. The upper line is known as the Ceiling or the **"Line Of Resistance"**, and the lower the Floor or **"Support"**. Both lines show where the number of sellers equals that of buyers.
4. When the stock price falls through the support line it means the trend has changed, and new market impetus has affected the stock. If you owned this stock in April and enjoyed the corresponding price rise this break would be a strong **"Sell Signal"** to the trained eye.
5. The stock consequently dropped in 2 days, but also had the good courtesy to rise again over the following month to give anyone slow on the uptake another chance to Sell. It broke through the previous support line, but was not strong enough to make it to the upper ceiling of the channel. If you had not got out this time you would have suffered a punishing **50% loss**. Enough to make a grown man weep!
6. The next significant point to note, is in mid-October, when the stock bounces at about \$13, clearly oversold and proceeds to make a very nice looking **"Double Bottom"** or **"W"** bottom.
7. Chartists the world over recognize the double bottom and those that like to buy on Bottoms would have done. This clearly happened as the stock moved up 38% in 3 weeks.

Video: How To Draw Trendlines

Stock Charts, Drawing Trend Lines, Live Stock Market Seminar

Watch this video on YouTube

Please excuse the sound quality -- it was a live broadcast.

Using Trend-lines to make Buy and Sell Decisions

So we have seen the Sideways Channel and the W bottom. But how do we know when a stock is going to take off?

The truth is we never really know.

All we can do is make judgments based on what we see. Do not forget we are only buying Stocks of companies that have

- Excellent Earnings per Share
- Strong acceleration in the growth of Earning per Share
- Excellent Revenue growth

So we are in essence giving ourselves a great head start and reducing our overall risk.

4 Step Guide to Using Trend Lines for Buy & Sell Decisions



4 Step Guide to Using Trend Lines for Buy & Sell Decisions

4 Steps to Draw the Trend Lines on the Chart

1. To evaluate an upward trend **draw a line joining the highest highs**
2. For the floor of the uptrend **draw a line connecting the lowest lows**. The price here bounces 3 times of the bottom trendline but then proceeds higher. **The more bounces off a trend line the stronger the trend.**
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4. Finally, the price is exhausted and falls through the **bottom resistance line at \$53**.

Buying and selling based on the trend lines, here, would have netted you a tasty **49%**.

Alas, life is never that easy, and showing this in retrospect does mean we have the benefit of hindsight. This is why the finest minds of Wall St.

have a whole host of other technical indicators that accompany price to enable you to assess trend quality.

How to Read Stock Charts Summary

Now you know how to read stock charts, understand volume and stock chart indicators. But what is next?

Take your skills to the next level with our [5 Star Amazon Rated Liberated Stock Trader Pro Stock Market Training Course](#)