

PROP TRADING

PROP TRADING

PROP TRADING

PROP

# TECHNICAL ANALYSIS ESSENTIALS

PROP TRADING

PROP TRADING

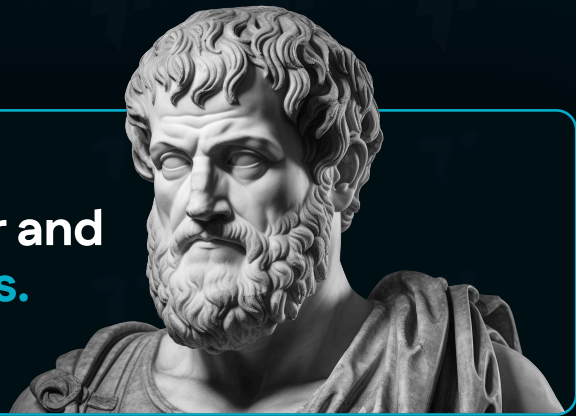
PROP TRADING

PROP



**Education is the key  
to understanding market behavior and  
making informed trading decisions.**

— Aristotle



## INTRODUCTION

Investing in financial markets requires both knowledge and strategy. This eBook covers the basics of fundamental and technical analysis, providing traders with the tools to interpret market trends and make better decisions.

### 1. WHAT IS FUNDAMENTAL ANALYSIS?

Fundamental analysis evaluates **the intrinsic value of a security** by examining both **macroeconomic and microeconomic factors**.



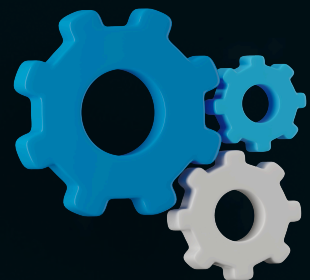
#### Macro Factors:



**Overall economic  
conditions**



**Government  
policies**



**Industry  
trends**

## Micro Factors:



A company's **financial performance** (revenues, profits, growth projections)

The goal is to determine whether a security is undervalued or overvalued by comparing its intrinsic value to its market price.

## Economic Calendar

An economic calendar helps traders **track events** that can impact **financial markets**, such as:



- **Interest rate decisions** (e.g., Federal Reserve announcements)
- **Employment data** (e.g., payroll numbers, unemployment rates)
- **Economic indicators** (e.g., GDP, Consumer Price Index)

The calendar includes event schedules and volatility levels, **helping traders prepare for market movements.**



## 2. WHAT IS TECHNICAL ANALYSIS

Technical analysis involves predicting future price movements **based on historical data**. Its core assumptions are:

01

### Market Discounts Everything:

All available information is already reflected in the price.

02

### Prices Move in Trends:

Past price patterns tend to repeat.

03

**History Repeats Itself:** Price movements are influenced by crowd psychology and often follow predictable patterns.

### Support and Resistance

Support and resistance levels are critical in identifying price reversal points or pauses.

- **Support Level:** A 'floor' that prevents prices from falling further.
- **Resistance Level:** A 'ceiling' that limits price increases.

### Key Insights:

- Broken support can **become new resistance**, and vice versa.
- Psychological levels like round numbers (**e.g., \$50, \$100**) often **act as support or resistance**.



## Trends

Trends help traders identify the market's overall direction, which is essential for strategy development.



### Types of Trends:

- **Uptrend:** Prices consistently make higher highs and higher lows, signaling bullish sentiment.
- **Downtrend:** Prices make lower highs and lower lows, signaling bearish sentiment.
- **Sideways Trend:** Prices move within a narrow range, indicating market indecision.



### Chart Time Frames

Different time frames help provide context for analyzing market behavior and identifying trends.

### Examples of Time Frame Usage:

- **Intraday Traders:** 60-minute charts for main trends and 5-minute charts for immediate trends.
- **Swing Traders:** Daily charts for trends and weekly charts for confirmation.
- **Long-Term Investors:** Weekly or monthly charts for major trends and daily charts for entry points.

### 3. WHAT IS A TECHNICAL INDICATOR?

Technical indicators are mathematical tools that **analyze price and volume data to predict market movements.**



#### Types of Indicators:

- **Overlays:** Indicators that appear directly on price charts (e.g., Moving Averages, Bollinger Bands).
- **Oscillators:** Indicators that appear above or below the chart to show momentum (e.g., RSI, MACD).

#### Key Indicators:

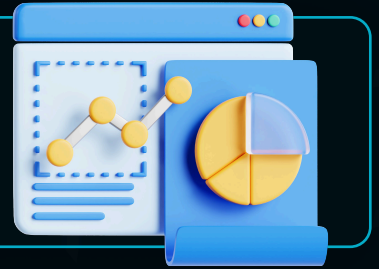
##### Moving Averages (MA)

Moving averages smooth out price data to identify trends and key levels.

- **Simple Moving Average (SMA):** The arithmetic mean of prices over a specific period (e.g., 20, 50, or 200 days).
- **Exponential Moving Average (EMA):** Gives more weight to recent prices, making it more responsive to trend changes.

## MACD (Moving Average Convergence Divergence)

The MACD tracks momentum and identifies trend reversals using two EMAs (12-day and 26-day).



- **MACD Line:** The difference between the 12-day and 26-day EMAs.
- **Signal Line:** A 9-day EMA of the MACD Line.
- **Histogram:** Visualizes the gap between the MACD Line and Signal Line.



## Bollinger Bands®

A volatility indicator that places bands around a moving average.

- **Narrow Bands:** Indicate low volatility, often preceding significant price movements.
- **Wide Bands:** Indicate high volatility, signaling potential trend exhaustion.

## RSI (Relative Strength Index)

Measures the strength of price movements on a scale of 0 to 100.

0 to 100

- **70+:** Overbought, signaling a potential price correction.
- **30-:** Oversold, signaling a potential price rebound.

# CONCLUSION

By combining insights from both fundamental and technical analysis, traders can gain a comprehensive understanding of market movements. Mastering trends, support/resistance levels, and key indicators helps traders anticipate market opportunities and manage risks effectively.

