

Technical Analysis for the Advanced

DISCLAIMER

- Neither Enhance Your Options Pty Ltd, nor any of its affiliates, directors or agents are a financial advisory service, nor a registered financial advisor and does not provide financial advice whatsoever in any financial products.
- You understand and acknowledge that there is a very high degree of risk involved in trading securities and derivatives.
- In particular, trading leveraged instruments such as Futures, Contracts for Difference or Spread Betting can amplify the losses as well as gains achieved due to market price fluctuations and you may lose more than your original investment.
- All methods, techniques, charts or analysis presented in this presentation are for educational purposes only.
- The information provided should not be construed in any way as a recommendations to buy or sell any financial instrument. You should always consult with your registered financial advisor and tax advisor to determine the suitability of any investment to your particular financial situation.
- Enhance Your Options Pty Ltd and its affiliates, directors or agents will not be held liable or responsible for your investment decisions.
- You agree not to re-publish, re-distribute or share any information from this presentation, or the enhanceyouroptions.com.au website.
- Paul McLaren
- Enhance Your Options Pty Ltd © 2016
- ACN 602983255; ABN 94602983255

Introduction: Assumed Concepts

Concepts

- Resistance — a price level that may prompt a net increase of selling activity
- Support — a price level that may prompt a net increase of buying activity
- Breakout — the concept whereby prices forcefully penetrate an area of prior support or resistance, usually, but not always, accompanied by an increase in volume.
- Trending — the phenomenon by which price movement tends to persist in one direction for an extended period of time
- Chart pattern — distinctive pattern created by the movement of security prices on a chart

Types of Indicators

Types of Indicators

Price-based indicators

These indicators are generally shown below or above the main price chart.

- Average Directional Index (ADX)
- MACD
- Relative Strength Index (RSI)
- Stochastic Oscillator

Volume-based indicators

- Accumulation/Distribution index
- On-balance Volume

Comparison of Indicators and Oscillators

Indicator / Oscillators	Price	Price-Volume	Leading / Lagging
Oscillator (Momentum)	Stochastic Oscillator		Leading
Oscillator (Momentum)	Relative Strength Index (RSI)		Leading
Indicator (Trend)	Average Directional Index (ADX)		Lagging
Oscillator (Trend)	MACD		Lagging
Indicator (Trend)		Accumulation / Distribution index	Lagging
Indicator (Trend)		On-Balance Volume	Lagging

Indicators and Oscillators

Indicators and Oscillators: What is an Indicator?

- Indicators are calculations based on the price and the volume of a security that measure such things as money flow, trends, volatility and momentum.
 1. Confirms price movement and the quality of chart patterns,
 2. Provides buy and sell signals.
- Leading indicators
 - precedes price movements, giving them a predictive nature
 - strongest in trading ranges
- Lagging indicators - a confirmation tool because it follows price movement
- Used in two ways:
 1. Crossovers - when one indicator (incl price) crosses another
 2. Divergence - when one indicator (incl price) moves counter to another

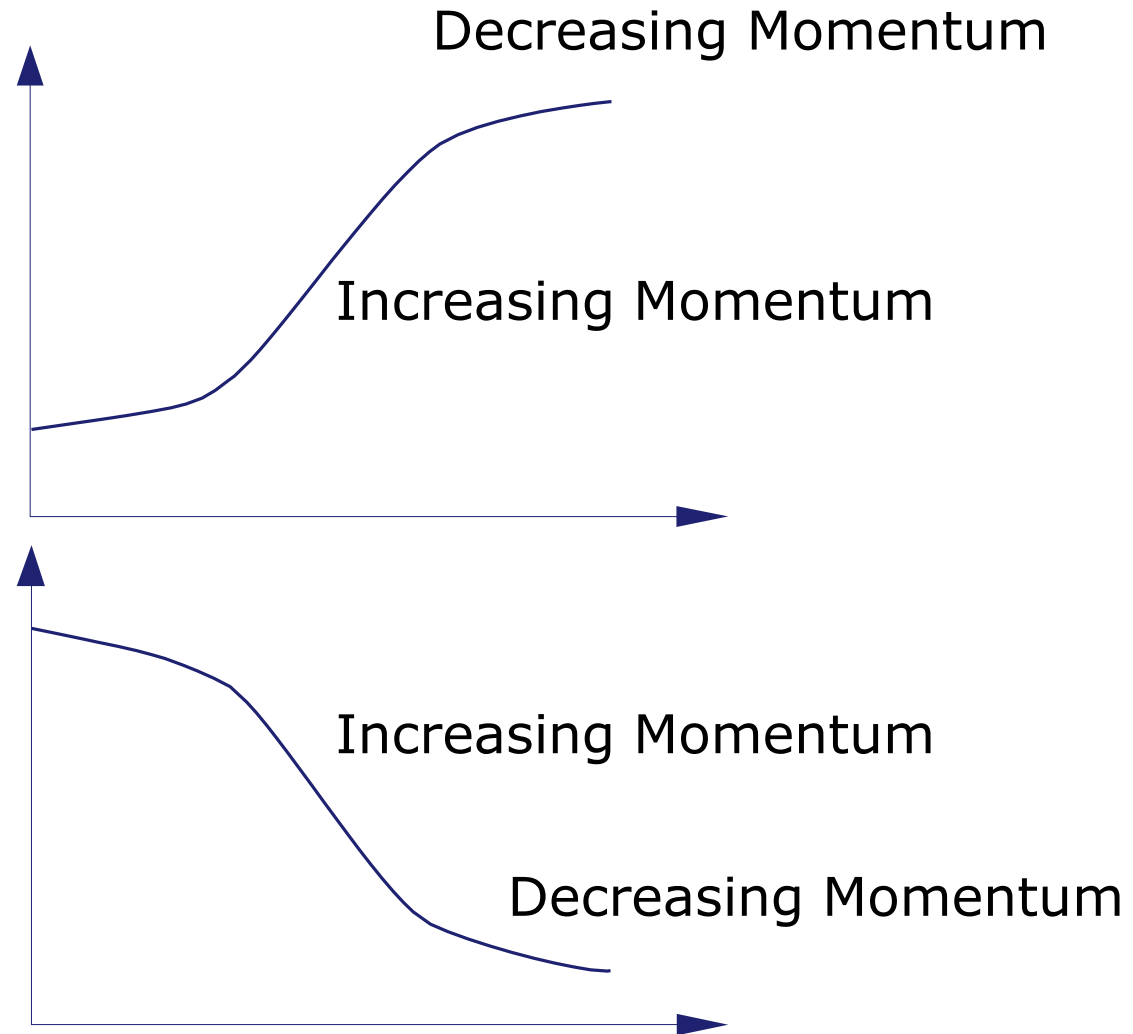
Indicators and Oscillators: What is an Oscillator?

- An indicator that swings back and forth across a reference line that is usually zero.
- May swing within set boundaries, such as 0 and 100.
- Almost always calculated as values unrelated to the price scale.
- Usually plotted in a sub-chart below the price chart, which allows convenient comparison between price and the oscillator.
- Useful in trends, but their primary use is in trading range markets.

Introduction: Momentum Oscillators

- Momentum is the rate of acceleration of a security's price or volume.
- In technical analysis, momentum is considered an oscillator and is used to help identify trend lines.
- They tend to be leading or coincident indicators.
- Used to trade the swings within, and to warn of the end of trends.
- However, their main use is in trading ranges, where trend following indicators are too slow to detect the shorter term swings.

Introduction: Momentum Oscillators



MOMENTUM OSCILLATOR: Relative Strength Index

Presented on a chart above or below the price chart i.e. different y-scale

The indicator has an upper line at 70, a lower line at 30, and a dashed mid-line at 50.

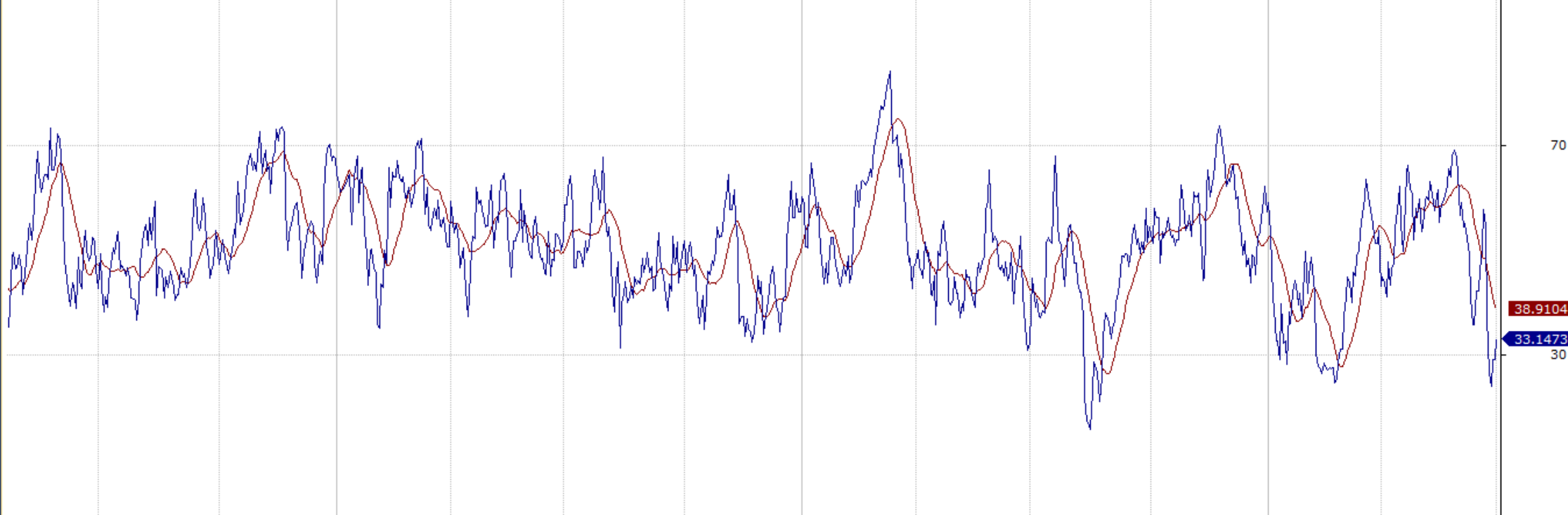
TRADING RULES FOR RANGING MARKETS

- Rule 1: Go long when RSI has fallen below 30 and rises back above it
- Rule 2: Go short when RSI has risen above 70 and falls back below it
- Rule 3: Go long on bullish divergences, where the first trough is below 30. (If the divergence forms a failure swing, it is an even stronger signal)
- Rule 4: Go short on bearish divergences, where the first peak is above 70. (If the divergence forms a failure swing, it is an even stronger signal)

CPU - Daily 1/07/2016 Open 9.24, Hi 9.36, Lo 9.23, Close 9.29 (1.3%)



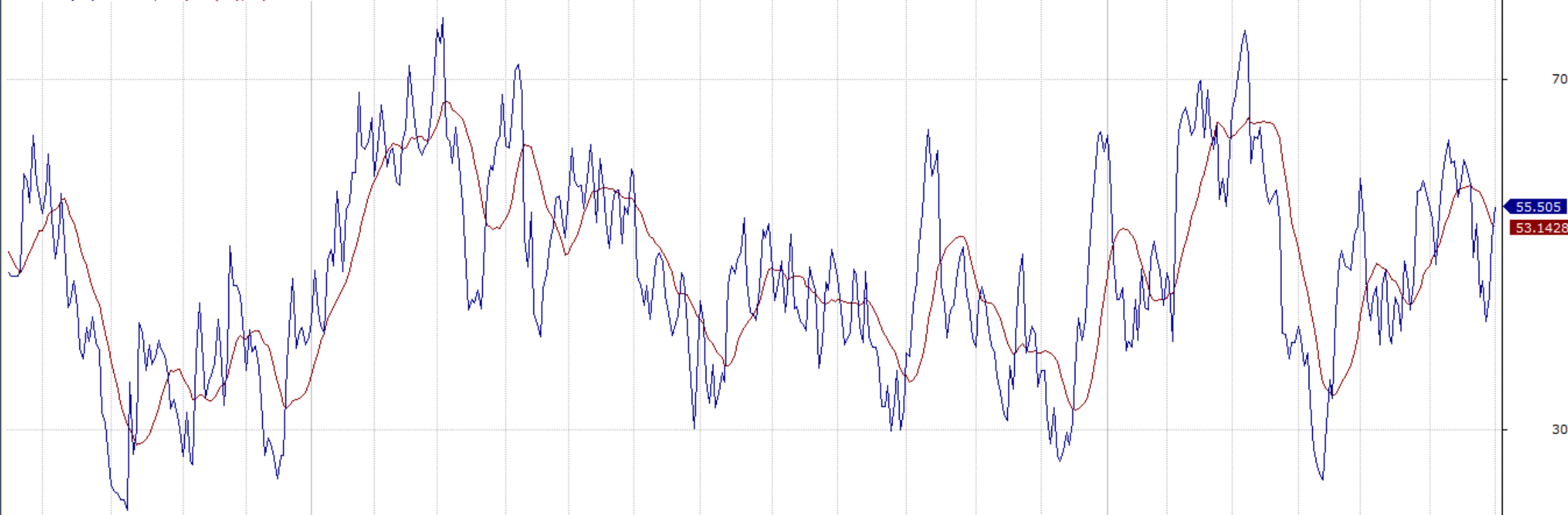
CPU - RSI(14) = 33.15, MA(RSI(14),14) = 38.91



ILU - Daily 1/07/2016 Open 6.5, Hi 6.77, Lo 6.5, Close 6.64 (2.3%)



ILU - RSI(14) = 55.50, MA(RSI(14),14) = 53.14



MOMENTUM OSCILLATOR: Stochastic Oscillator

Presented on a chart above or below the price chart i.e. different y-scale

The indicator has an upper line at 80, a lower line at 20, and a dashed mid-line at 50.

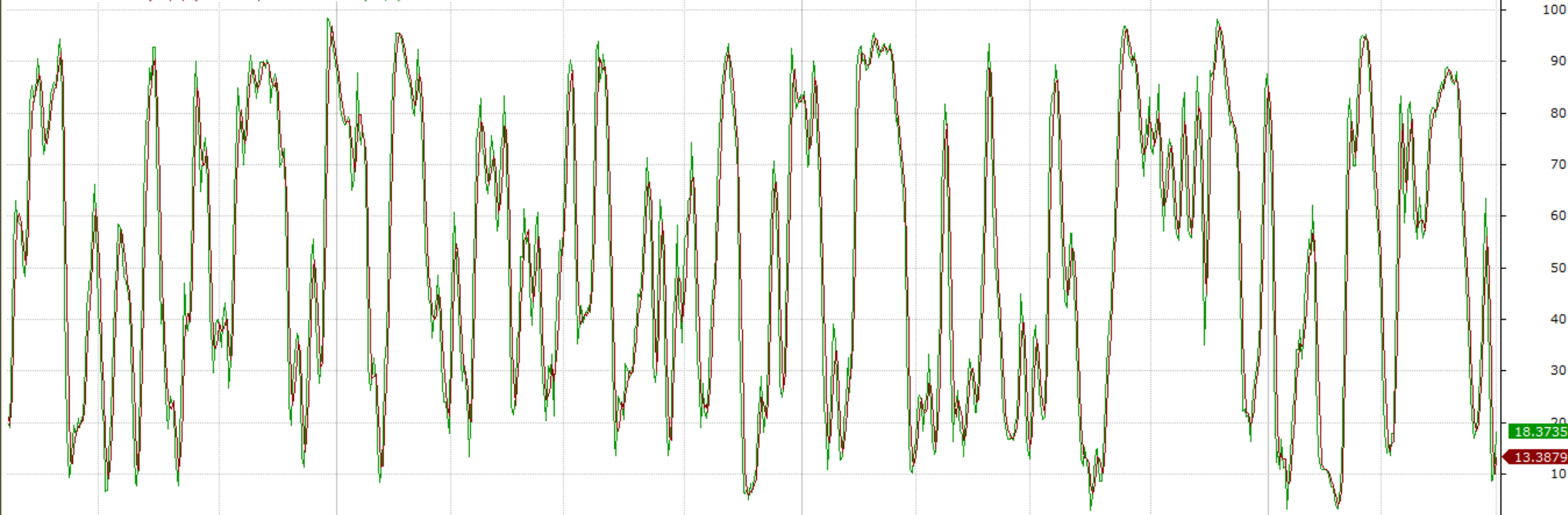
TRADING RULES FOR RANGING MARKETS

- Buy to Open (Go Long): On bullish divergences, especially where the first trough is below 20
- Sell to Open (Go Short): On bearish divergences, especially where the first peak is above 80

CPU - Daily 1/07/2016 Open 9.24, Hi 9.36, Lo 9.23, Close 9.29 (1.3%)



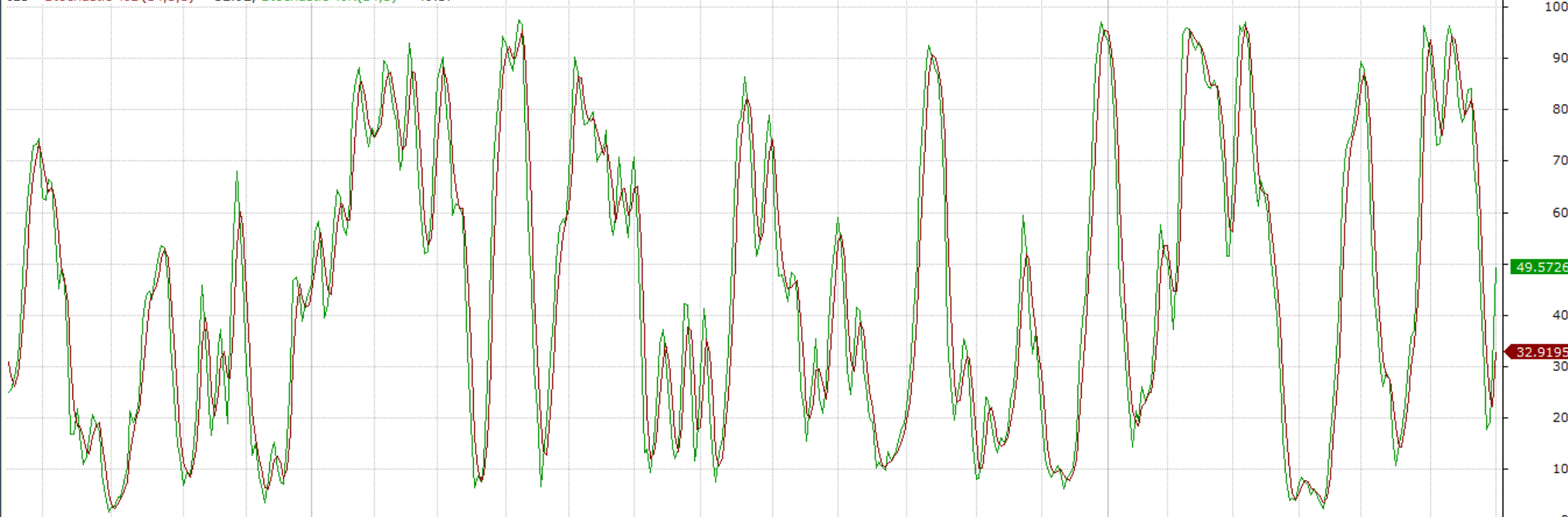
CPU - Stochastic %D(14,3,3) = 13.39, Stochastic %K(14,3) = 18.37



ILU - Daily 1/07/2016 Open 6.5, Hi 6.77, Lo 6.5, Close 6.64 (2.3%)



ILU - Stochastic %D(14,3,3) = 32.92, Stochastic %K(14,3) = 49.57



TREND OSCILLATOR: MACD (Histogram)

The MACD oscillates above and below a zero line, but with no limit.

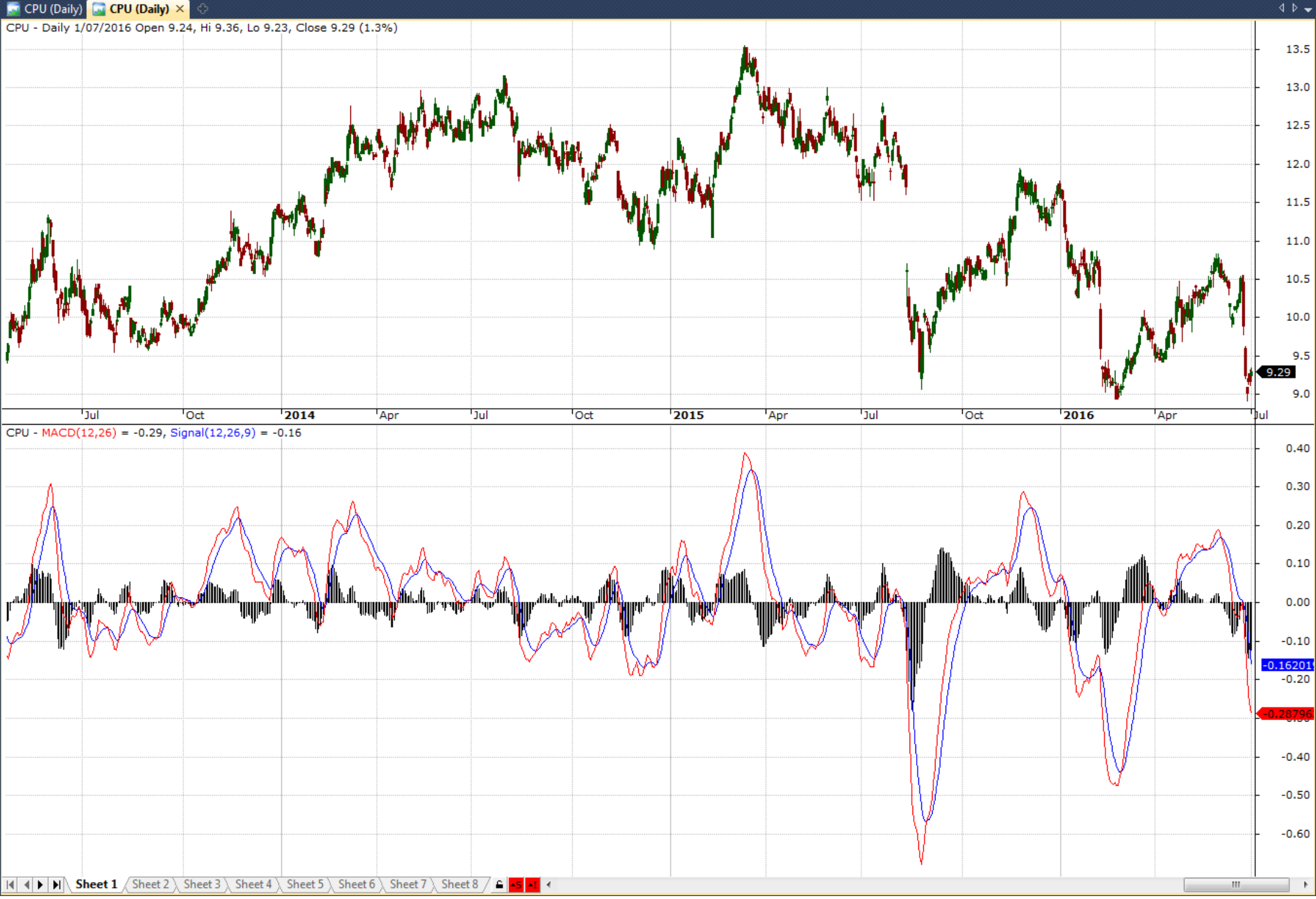
The MACD histogram is an indicator derived from the MACD indicator.

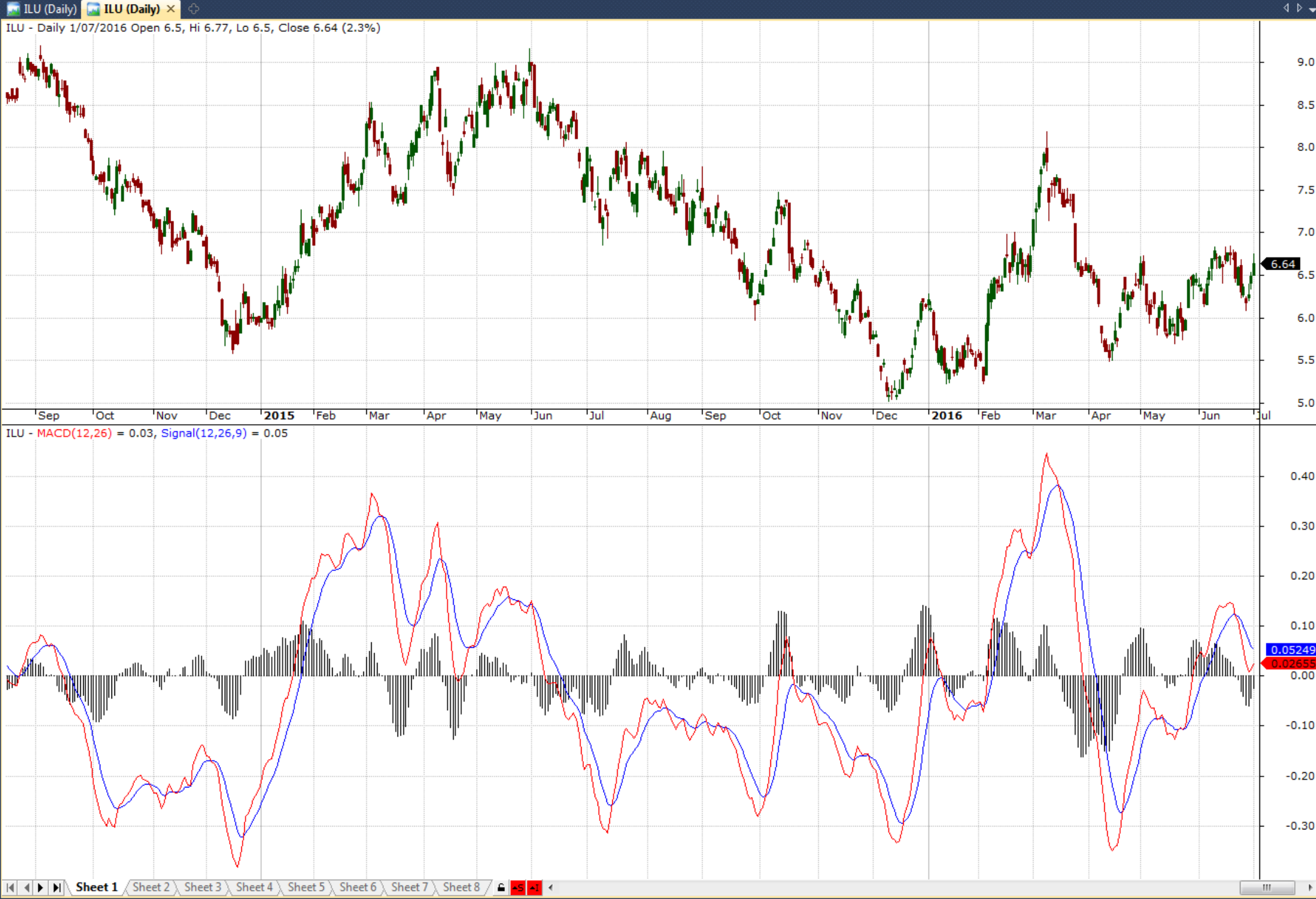
It provides earlier signals than the more lagging standard MACD.

The histogram shows when a crossing occurs.

TRADING RULES FOR TRENDING MARKETS

- Buy to Open (Go Long): When the MACD histogram turns above the zero line
- Sell to Close: When the MACD (fast) line crosses from above to below the signal (slow) line.
- Sell to Open (Go Short): When the MACD histogram turns below the zero line
- Buy to Close: When the MACD (fast) line crosses from below to above the signal (slow) line.





TREND INDICATOR: Average Directional Index (ADX)

The ADX does not indicate trend direction, only trend strength.

Ranges between 0 and 100.

- below 20 indicate trend weakness
- above 40 indicate trend strength
- above 50 is an extremely strong trend.

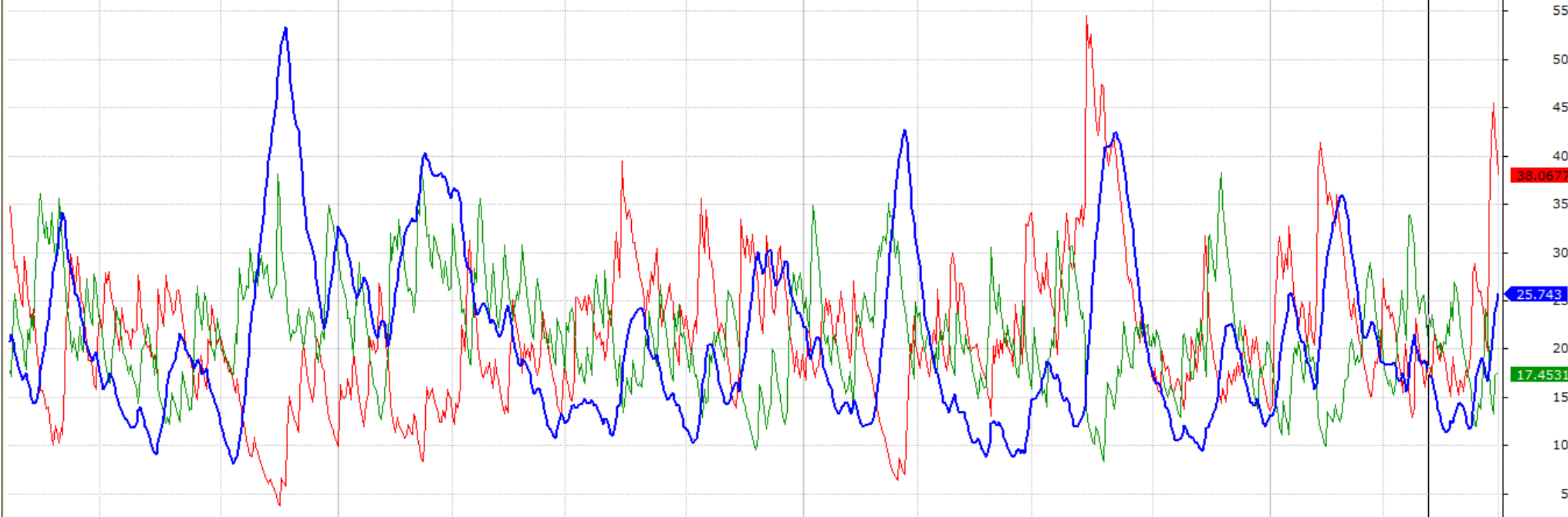
TRADING RULES FOR TRENDING MARKETS

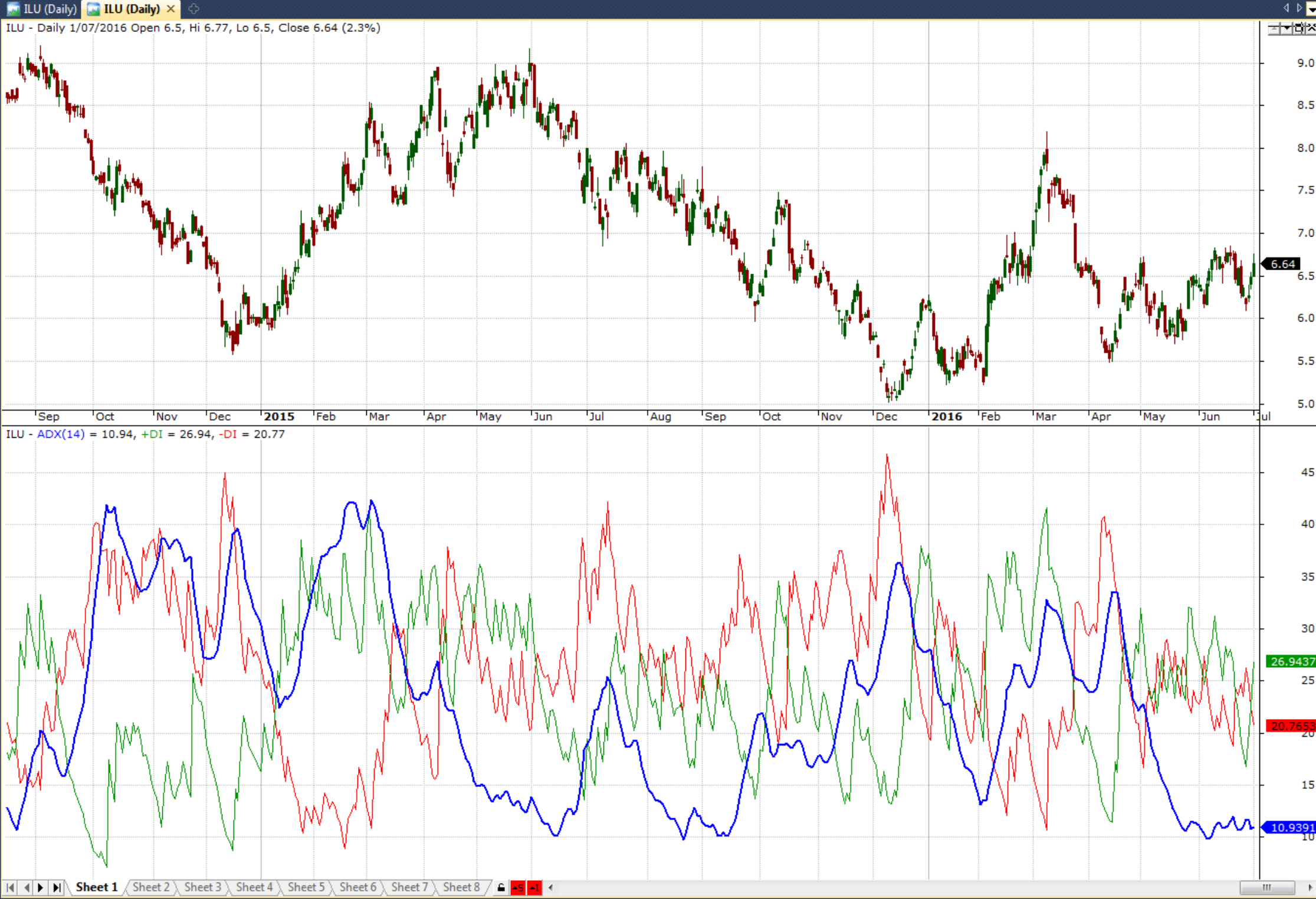
- Buy to Open (Go Long): When +DI crosses from below to above -DI
- Sell to Open (Go Short): When -DI crosses from below to above +DI.

CPU - Daily 1/07/2016 Open 9.24, Hi 9.36, Lo 9.23, Close 9.29 (1.3%)



CPU - ADX(14) = 25.74, +DI = 17.45, -DI = 38.07





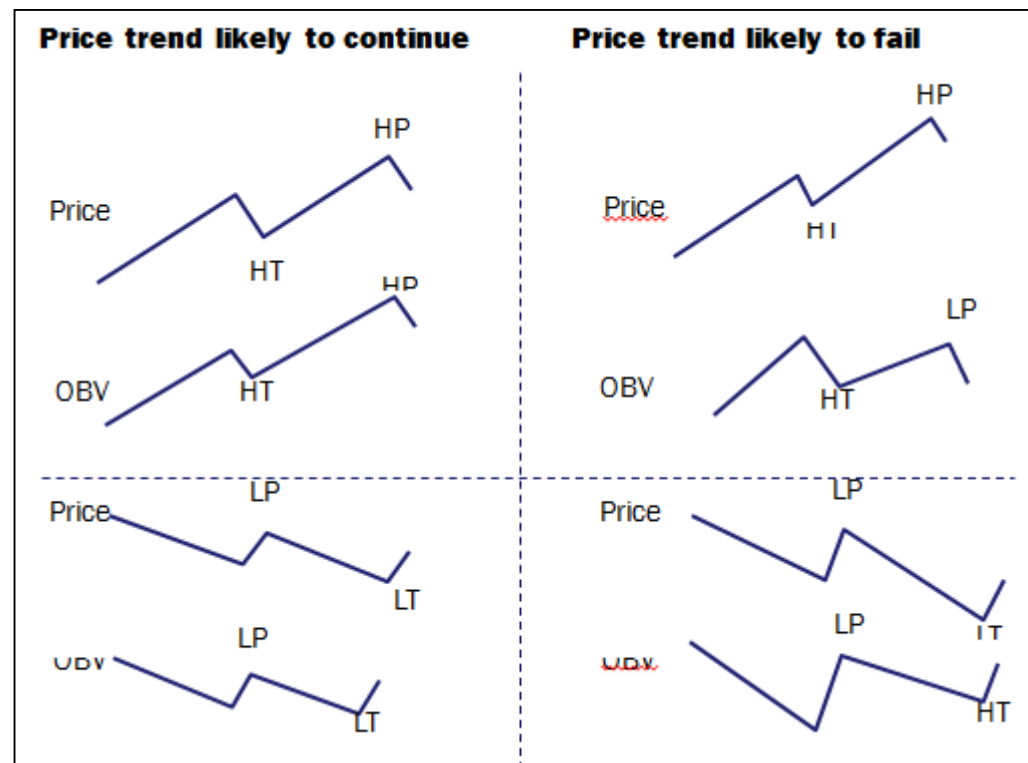
TREND INDICATOR– On-Balance Volume

OBV is generally used to confirm price moves, with the important factor being the direction of the indicator

When OBV confirms price

- Uptrend - both making higher peaks and higher troughs
- Downtrend - both making lower peaks and lower troughs

The trend is likely to continue.



When OBV does not confirm price

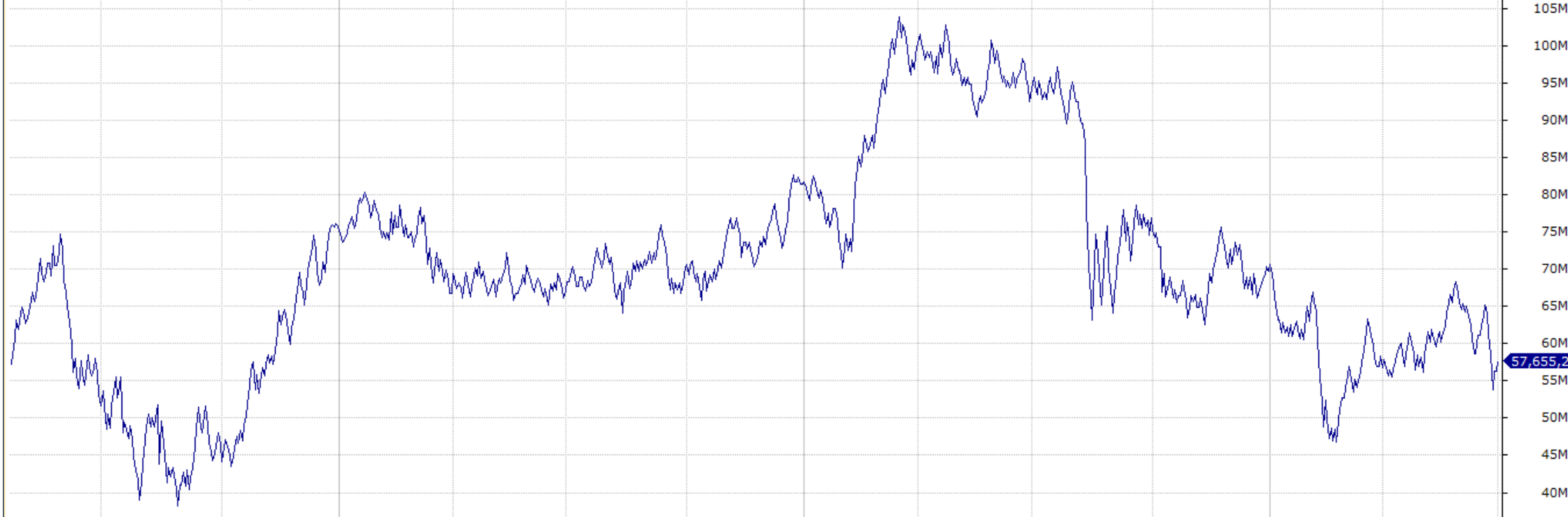
- Uptrend - price making higher peaks and higher troughs, but OBV not
- Downtrend - price making lower peaks and lower troughs, but OBV not

The trend is likely to fail.

CPU - Daily 1/07/2016 Open 9.24, Hi 9.36, Lo 9.23, Close 9.29 (1.3%)



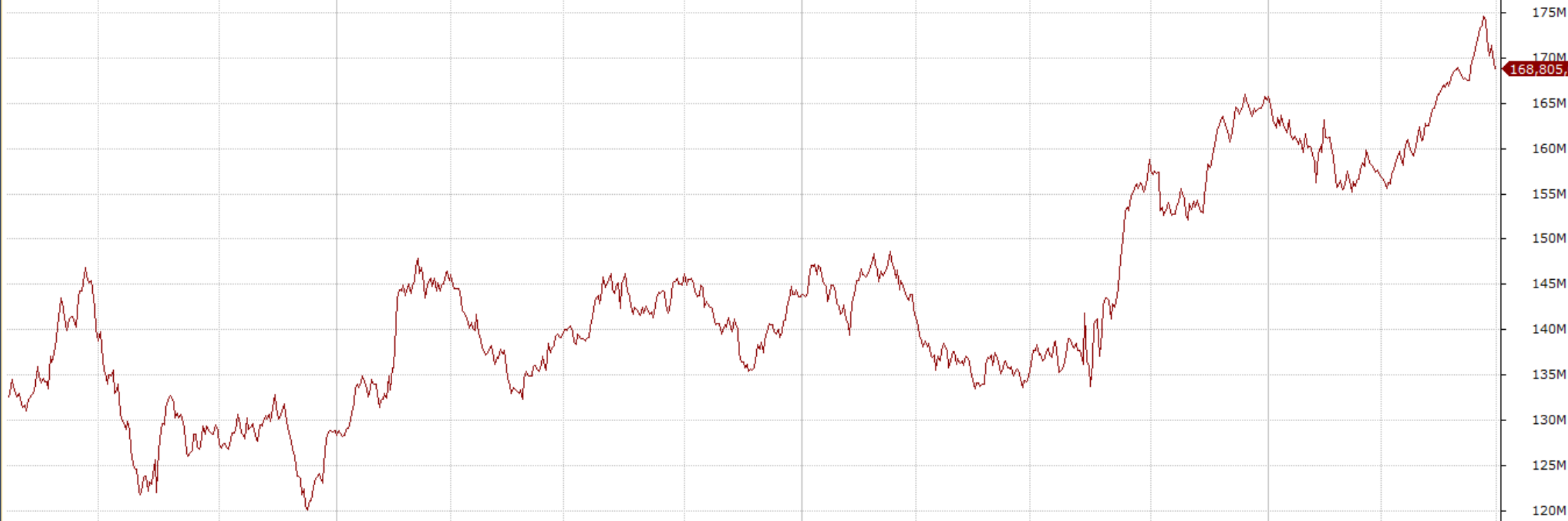
CPU - On Balance Volume = 57,655,200.00



CPU - Daily 1/07/2016 Open 9.24, Hi 9.36, Lo 9.23, Close 9.29 (1.3%)



CPU - Accumulation Distribution Index = 168,805.024.00



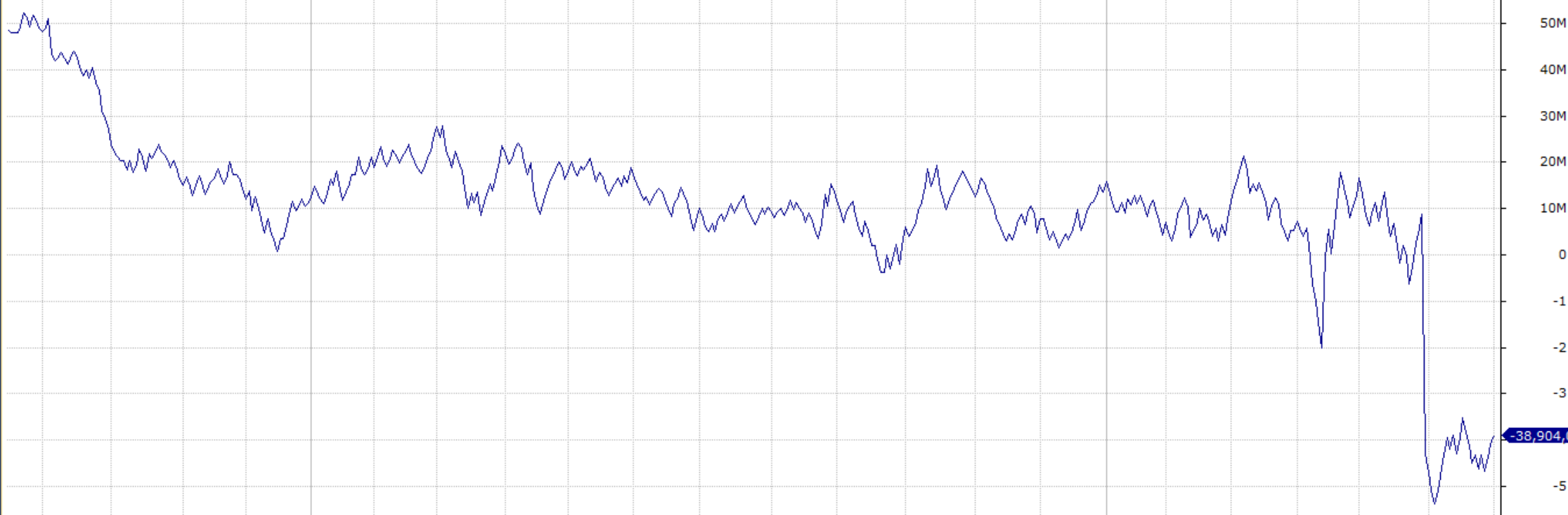
INDICATORS: Accumulation/Distribution Index

The Accumulation / Distribution Index is similar to On Balance Volume, in that it confirms the trend

ILU - Daily 1/07/2016 Open 6.5, Hi 6.77, Lo 6.5, Close 6.64 (2.3%)



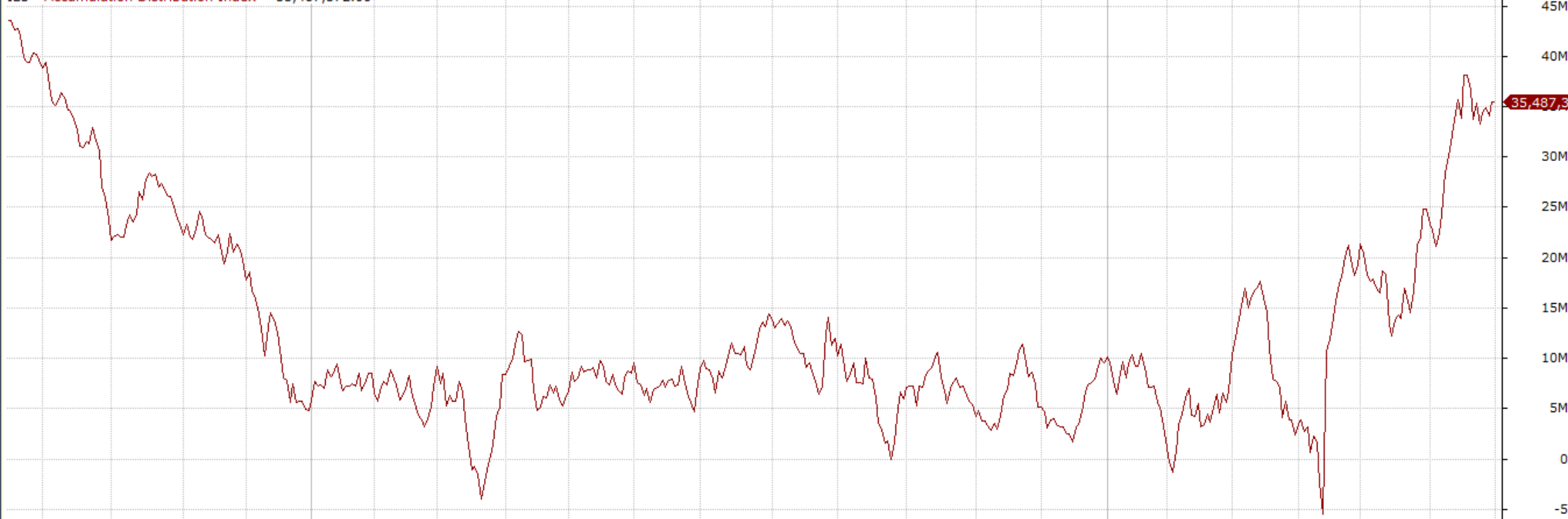
ILU - On Balance Volume = -38,904,072.00

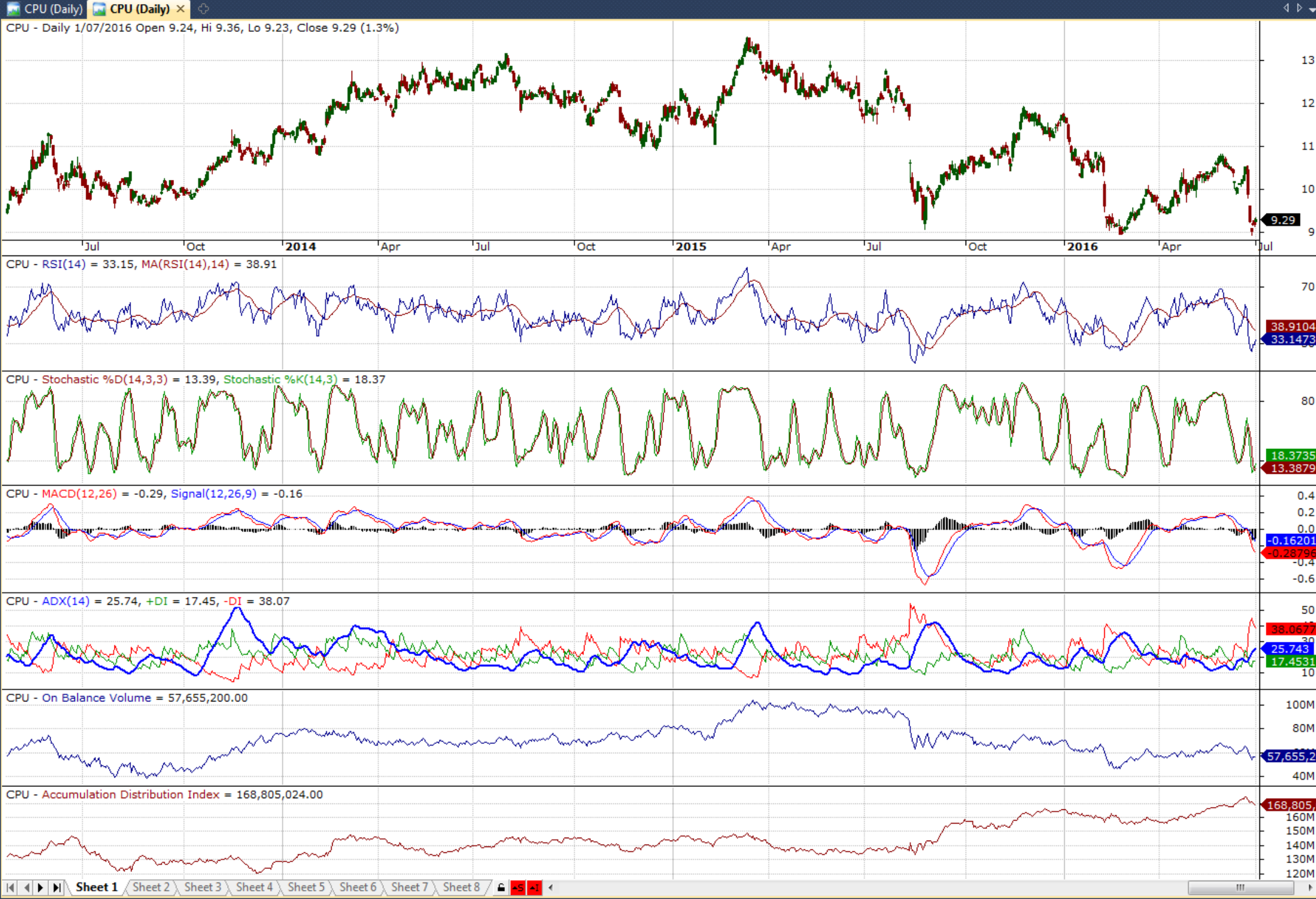


ILU - Daily 1/07/2016 Open 6.5, Hi 6.77, Lo 6.5, Close 6.64 (2.3%)



ILU - Accumulation Distribution Index = 35,487,372.00







Any Questions?

Thank you!