



Technical Analysis Trading Strategies



Technical analysis is the prediction of price movement on a chart of a particular currency pair and other markets. It evaluates securities and identifies trading opportunities by gathering information by analyzing statistics from trading activity.

Using the information you gather from your technical analysis, you can find and make high probability trades.

This post goes through exactly what technical analysis is and how you can use it in your own trading to start making trades with different strategies.

What is Technical Analysis?

Technical analysis trading focuses on charts and graphs and how the different price movements on these charts play out.

Understanding these charts and graphs will help you evaluate securities (or Forex pairs and other markets) and forecast the future by analyzing statistics and the [price action](#).

Technical analysis traders have a core assumption that the price is always correct. Technical analysis traders are not looking at what could happen with the fundamentals because they believe that all known possible fundamental information is already factored into the current price.

Some of the most popular technical analysis strategies include using raw price action, indicators such as [moving averages](#) and the MACD, and other strategies such as swing and trend trading.



Technical Analysis vs Fundamental Analysis

Most traders who are investing over the longer term are using fundamentals. This means that they are looking at and evaluating the overall value of a stock, Forex pair, or other markets. These investors are taking into account everything from potential upcoming announcements, balance sheets, and what the potential future value could be.

Technical analysis, on the other hand, is not taking into account these pieces of information. A trader using technical analysis will be using their charts and other statistics to make their trades. The information the technical analysis trader takes into account includes price trends, indicator information, and a range of different chart patterns that could help them find where the price is moving next.

Getting Started in Technical Analysis

Getting started with technical analysis trading is very easy.

Whilst it is easy, that does not mean there is not a lot to learn and that you will be constantly be testing and perfecting new methods.

The best way to get started is to get a free set of [demo trading charts](#) and beginning to practice some simple technical analysis strategies in a no-risk environment.

With a demo account, you can practice your technical analysis without risking any real money and start to use more advanced strategies like the ones we go through below.

Mastering Technical Analysis

There is a lot to master when it comes to becoming a technical analysis trader. You can choose to use just raw price action, a combination of price action and indicators, or a range of different strategies altogether.

No matter what strategy you decide to use, you will need to keep some things in mind that include;

- You will need to have a solid risk to reward ratio trading strategy.
- You will need a strategy that can handle losses and make money overall.
- You will need a strict rule set that is easy to follow and replicate.
- You will need to track your trading and constantly improve as the markets change.

One of the hardest parts of trading technical analysis is that it can be hard to develop a clear rule set for making your trades. This is crucial, so you begin to create consistent and repeatable results in your trading.

One way you can do this is with a clear trading plan.

Another thing to keep in mind with technical analysis is that you will not win all of your trades. The goal is to have a system that can handle losses, but it consistently makes you money at the end of the month.

The Best Technical Analysis Indicators

Moving Averages

Moving averages are one of the most popular indicators in the world for technical analysis. You can use moving averages for smoothing out the overall price action to find clear trends and dynamic support and resistance.

When you combine [multiple moving averages](#) on your chart, you can also find high-quality trade signals.

At its simplest, the moving average shows you the overall price for a certain period of time. For example, if using 14-period moving averages, then you will see the average price for the last 14 periods plotted as a line on your chart. This can show you the overall direction price has been moving in on that time frame.

The two most common moving averages are the SMA: simple moving average and the EMA: exponential moving average.



MACD

The [MACD](#) is another hugely popular indicator used in many different markets by technical analysis traders.

The MACD is used to find new trends or momentum.

The MACD has three main part that is;

- MACD line: is created by taking a longer-term EMA and subtracting it from a shorter-term EMA
- Signal line: used to generate buy and sell signals.
- Histogram: measures the distance between MACD and its signal line.



Fibonacci Tool

The [Fibonacci tool](#) is an indicator you can use to both make and manage your trades.

Fibonacci is formed with a set of key ratio numbers that include 23.6%, 38.2%, 50%, 61.8%, and 100%.

These key levels will often work as important support or resistance levels as they are heavily watched and trades by many participants in the market.

In the example below price is in a trend lower. After making a retracement back higher, we can see the price move into the 61.8% Fibonacci level, where it finds resistance and sells back lower with the trend.

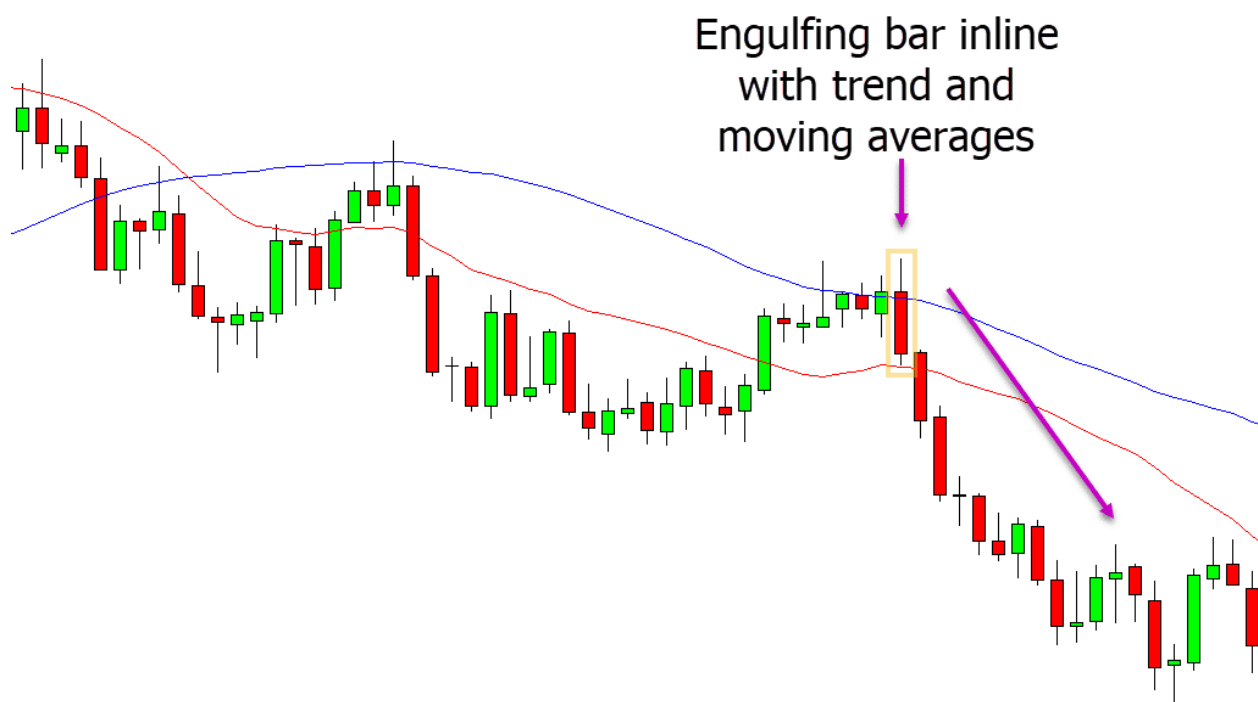


Advanced Technical Analysis

Some of the most advanced technical analysis strategies involve combining different methods and strategies. These include combining multiple indicators or combining indicators with price action strategies.

In the example below, we are combining multiple moving averages with price action signals.

As the chart example shows, we have a moving average crossover that shows us that there is a trend lower. Price then forms a [bearish engulfing bar](#) that is a bearish price action signal and is a signal to make short trades with the trend lower. This is just one example of how you can combine strategies for more advanced technical analysis.



The Best Technical Analysis Books

Technical Analysis For Dummies - Barbara Rockefeller

There are a lot of books out there that discuss technical analysis. If you are new to the markets and are not familiar with technical analysis, then 'Technical Analysis For Dummies' is a good starting point.

This book has been updated over time and goes through everything from;

- How to find trends with indicators
- How to read market sentiment
- How to use different charting strategies

Technical Analysis Explained - Martin J. Pring

Many refer to this book as the bible of technical analysis because of the huge range of information it goes through an extensive content on technical analysis.

Martin Pring is widely known in the trading world, and this book is for the trader looking to take their technical analysis more seriously and is past the beginner stage.

