



Trade Like a Pro

Technical Analysis is the forecasting of future financial price movements based on an examination of past price movements. Like weather forecasting, technical analysis does not result in absolute predictions. Instead, it can help investors anticipate what is "likely" to happen to prices over time. Technical analysis uses a variety of charts to show prices over time. Traders often develop their own strategies based on their observations of market patterns and trends, frequently adapting their approaches as they gain more experience. Chart patterns, indicators, and volume analysis are some of the tools used in this practice.

Technical analysis can be applied to stocks, indices, commodities, futures, or any tradable instrument where the forces of supply and demand influence the price. Price refers to any combination of the open, high, low, or close for a given security over a specific period.

The period can be intraday (1-minute, 5-minute, 10-minute, 15-minute, 30-minute, or hourly), daily, weekly, or monthly, and can span a few hours or many years. The period you choose will depend on the type of trader you want to be, i.e., are you comfortable holding a security for a few minutes, hours, days, or weeks? This is a question you will have to address upfront. However, the answer will likely surface once you begin trading and get a feel for the markets.

Ultimately, trading success often involves continuous learning, adapting to market conditions, and managing risk effectively.

Traders and investors widely use technical analysis. It is often combined with fundamental analysis to provide a more comprehensive market view. However, this analysis method is not foolproof, and market conditions can be unpredictable. While technical analysis focuses on price action, combining it with fundamental analysis, which considers economic factors, financial statements, and industry conditions, can offer a more rounded view.

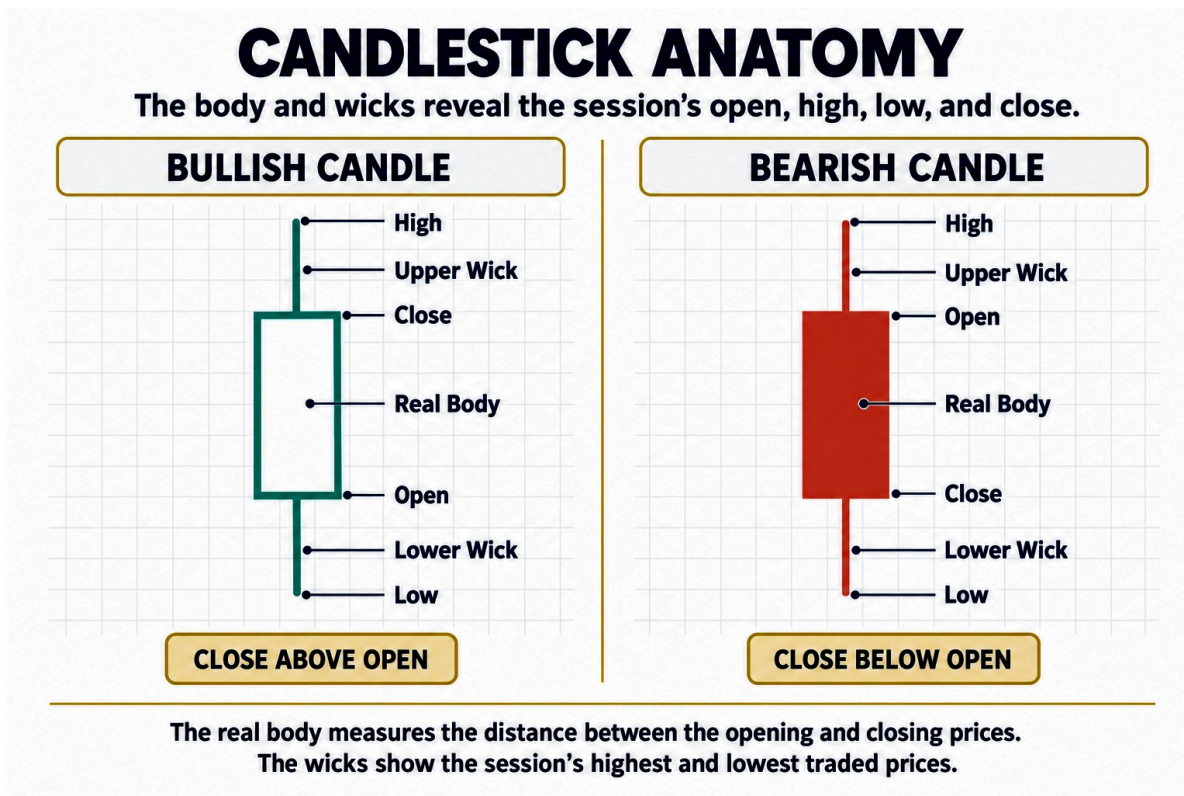
1. **Charts:** The primary technical analysis tools are charts that display price movements over time. Standard charts include line charts, bar charts, and candlestick charts. Candlestick charts are popular as they provide more information, such as opening and closing prices.
2. **Trends:** Identifying whether a market is in an uptrend, downtrend, or ranging (sideways) is crucial. Trends are defined by higher highs and higher lows (uptrend), lower highs and lower lows (downtrend), or a lack of direction (ranging).
3. **Support and Resistance:** Support refers to price levels at which a stock tends to stop falling and may bounce back up, while resistance refers to the levels at which prices stop rising and may reverse

downward. These levels can be derived from historical price points.

4. **Indicators and Oscillators:** Various mathematical formulas and plots are used to analyze market conditions. Common examples include Moving Averages, the Relative Strength Index (RSI), and the Moving Average Convergence Divergence (MACD). These tools help traders identify potential entry and exit points based on price momentum.
5. **Volume Analysis:** Volume refers to the number of shares or contracts traded in a security or market during a period. Analyzing volume helps traders understand whether a price movement is strong or weak; for instance, a price rise on low volume may not be sustainable.
6. **Chart Patterns:** Price patterns, such as head-and-shoulders, double tops, bottoms, flags, and triangles, can indicate future price movements. Recognizing these patterns can help traders predict market action.
7. **Risk Management:** Technical analysis also includes strategies for managing risk, such as setting stop-loss orders to limit potential losses and determining the trade size based on the trader's risk tolerance.

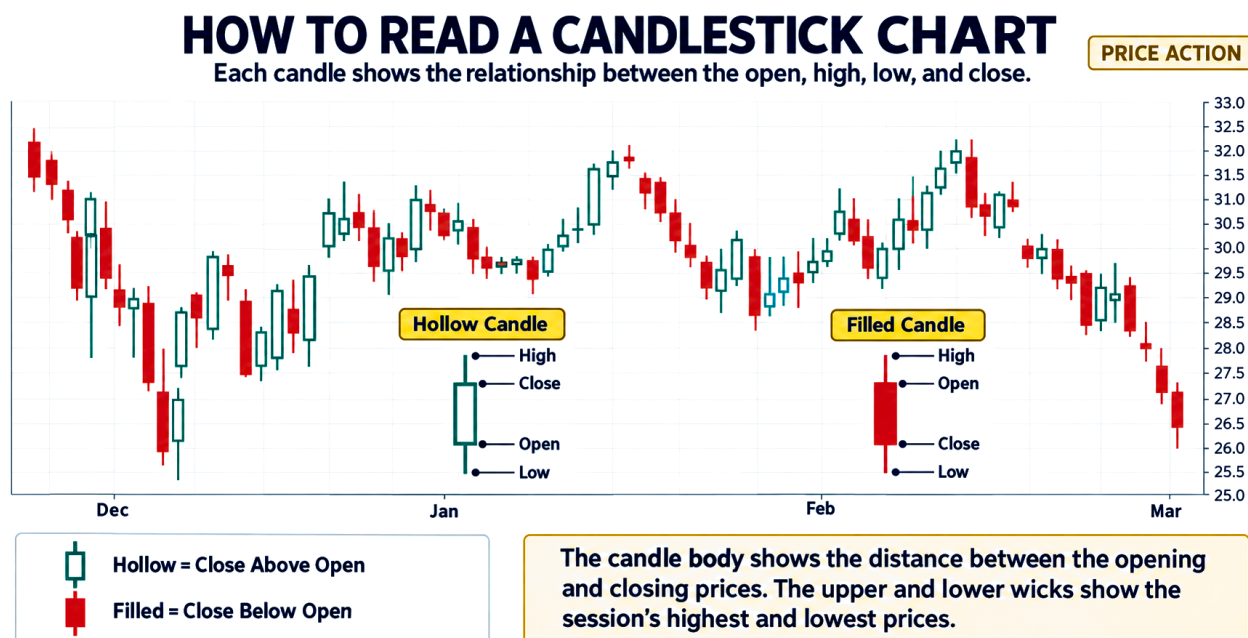
These are the critical Tools for your Analysis.

Reading Candles



Take a few minutes to study the chart to the right. Like reading a book, you should be able to quickly read the high, low, open, and close of each candle without much effort. Of course, this takes time, but it is an essential first step to becoming a great trader.

To create a candlestick chart, you must have a data set that contains open, high, low, and close values for each period you want to display. The hollow or filled portion of the candlestick is called "the body" (also referred to as "the real body"). The long, thin lines above and below the body represent the high/low range and are called "shadows" (also referred to as "wicks" and "tails"). The top of the upper shadow marks the high, and the bottom of the lower shadow marks the low. If the stock closes higher than its opening price, draw a hollow candlestick, with the bottom of the body representing the opening price and the top representing the closing price. If the stock closes lower than its opening price, draw a filled candlestick, with the top and bottom of the body representing the opening and closing prices.



Support and Resistance

When starting, the most important thing to remember is that price movements are not entirely random. The levels and patterns I will show you can be used repeatedly in any market. Once you become proficient, you can read a chart and determine the likely outcome within seconds.

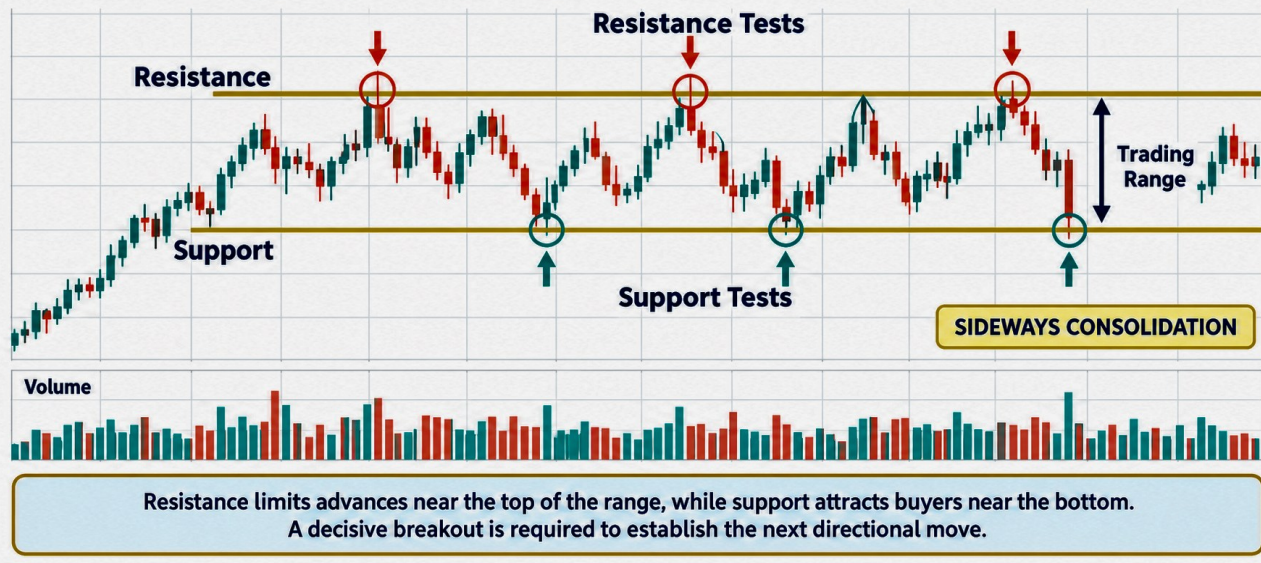
Below is an excellent example of support and resistance levels (I will call these SR levels). Notice how the price repeatedly respects these levels. This type of SR pattern is also known as a channel. Channels can be directional (uptrend or downtrend), flat, or lateral, as in the image below.

So why does this happen?

These support and resistance levels reflect market psychology and supply and demand. Support and resistance levels are the levels at which many traders are willing to buy the stock (in the case of support) or sell it (in the case of resistance). When these trend lines are broken, the supply and demand and the psychology behind the stock's movements are thought to have shifted; in this case, additional support and resistance levels will likely be established.

SUPPORT AND RESISTANCE TRADING RANGE

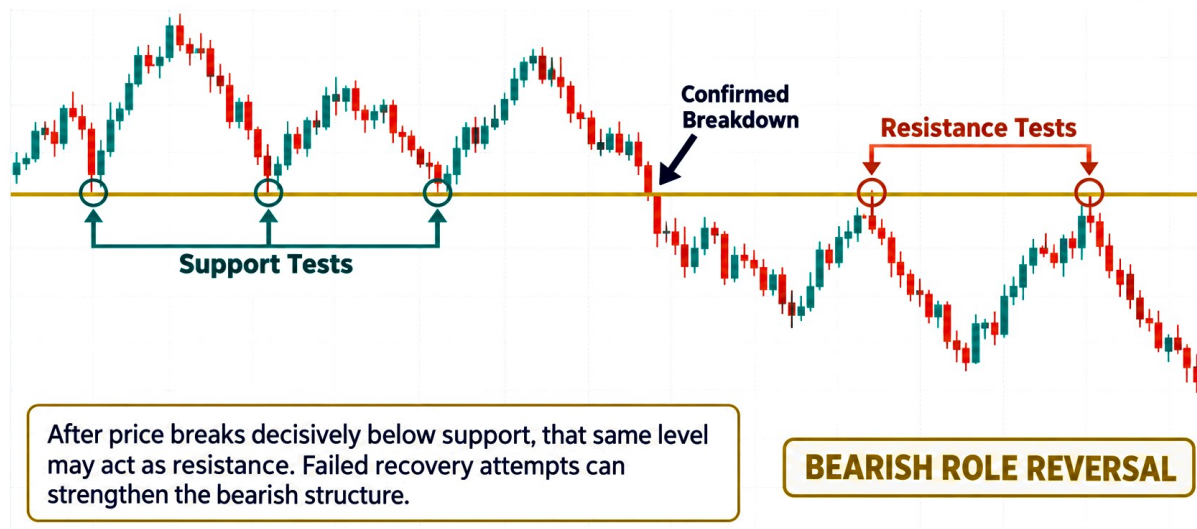
Repeated price reactions define the boundaries of a sideways market.



Below is an excellent example of an SR level often called “support turned resistance.” In this case, a dedicated support level quickly becomes resistance when the price breaks through to the downside.

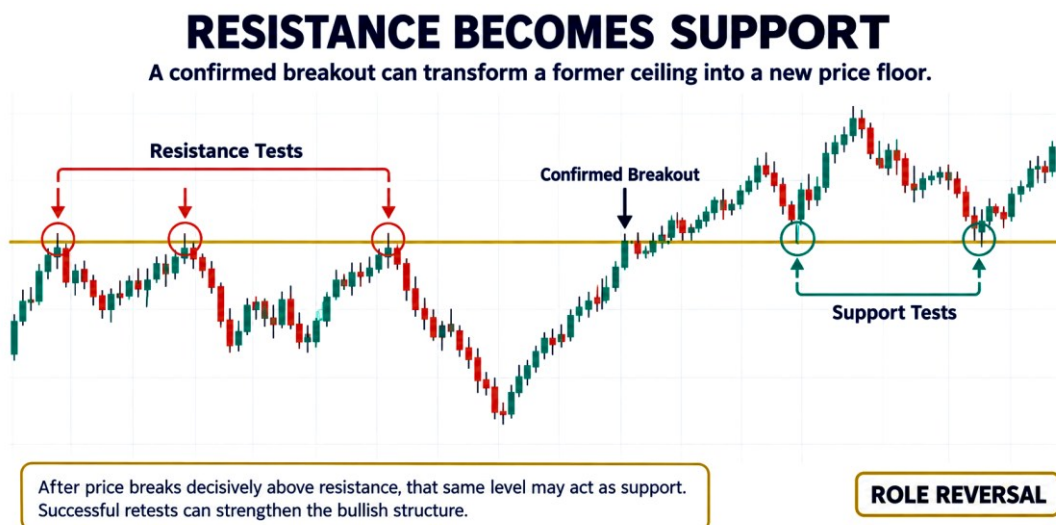
SUPPORT BECOMES RESISTANCE

A confirmed breakdown can transform a former price floor into a new ceiling.



Many traders who begin using technical analysis find this concept hard to believe and need to realize it happens relatively often, even with some of the most well-known companies. For example, as you can see from the image to the left, this support-turned-resistance formation is evident on the Wal-Mart Stores Inc. (WMT) chart between 2003 and 2006. Notice how the role of the \$51 level changes from a strong level of support to a level of resistance.

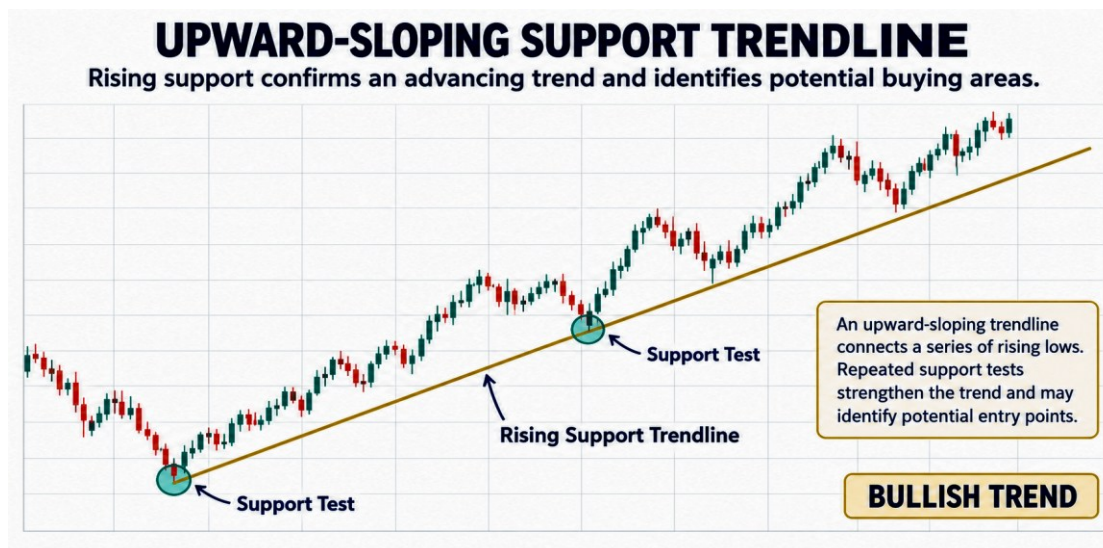
This concept works the same way in a resistance-turned-support scenario, where price breaks above a strong resistance level and it then becomes support. Generally, as a trader, you want to find a “first-time back” situation where a former resistance level is now acting as support for the first time. The first time back to an SR level is generally the best chance to trade from solid support.



Mind the Trend

As a trader, you have probably heard the adage that it is best to trade with the trend, or the more famous saying, “the trend is your friend.” This is sound advice as long as you know and can accept that the trend can end, at which point the trend is *not* your friend.

So, the critical question is, how can we determine the direction of the trend? I believe in the KIS rule, “Keep it simple.” Many traders will show you methods of determining the trend using moving averages, Moving Average Convergence Divergence (MACD), etc. I do not like these methods because they are too subjective and lag too much. Instead, I like to “keep it simple.” Please look at the image below to see what I mean. Could you quickly identify the trend and determine a likely direction of travel?

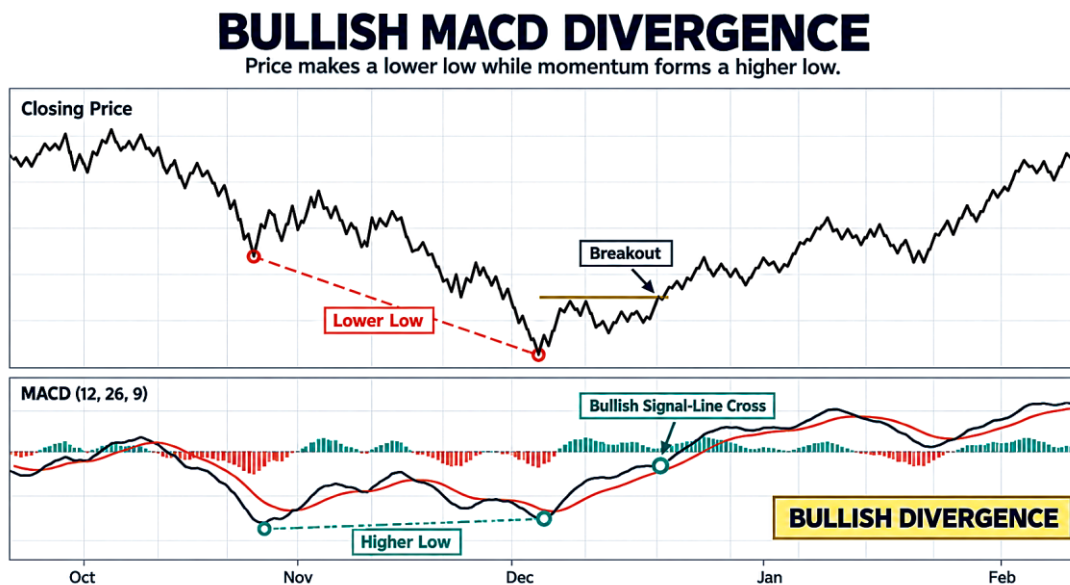


Now that we have identified the trend, we need to determine how likely the price is to continue in that direction. We can use several methods, including:

MACD Negative Divergence

One of my favorite ways to identify a trend reversal is with the MACD indicator, probably *the* most famous indicator. Divergences form when the MACD diverges from the price action of the underlying security. A bullish divergence forms when a security records a lower low and the MACD forms a higher low. The lower security level affirms the current downtrend, but the higher low in the MACD shows less downside momentum. Despite less downside momentum, downside momentum still outpaces upside momentum as long as the MACD remains in negative territory. Slowing downside momentum can sometimes foreshadow a trend reversal or a sizable rally.

The following chart shows Google (GOOG) as an example of a bullish divergence from October to November 20xx. First, notice that we are using closing prices to identify the divergence. The MACD's moving averages are based on closing prices, so we should also use closing prices for the security. Second, there were clear reaction lows (troughs) as both Google and its MACD Line bounced in October and late November. Third, notice that the MACD formed a higher low, while Google formed a lower low in November. The MACD ended with a bullish divergence and a signal line crossover in early December. Google confirmed a reversal with a resistance breakout.



Pin Bars and Outside Bars

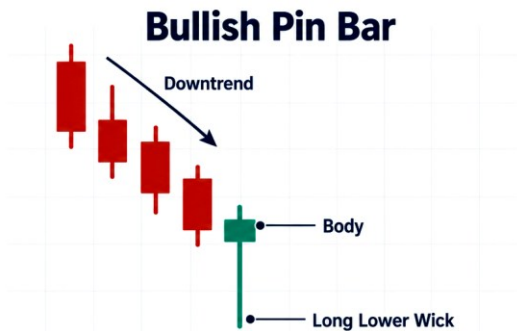
The two most crucial price action patterns to recognize are pin bars and outside bars. Both these patterns can signal a long-term price change.

The pin bar is short for Pinocchio bar and tells the trader that the market could change direction.

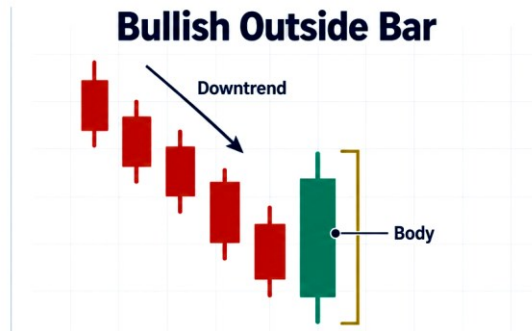
An outside bar is a price action pattern in which the current candlestick fully engulfs

the previous candlestick(s). The high and low of the current candlestick go beyond the previous candle. This pattern is a strong reversal and can be highly effective when combined with support and resistance.

BULLISH REVERSAL PATTERNS



Price moves below the previous close, then retraces and finishes with its close inside the previous candle. The long lower wick signals strong rejection and a potential bullish reversal.



A bullish candle fully engulfs the previous candle's range. When it forms after a decline and has room to advance, it can provide a strong indication of a potential reversal.

Exhaustion Gaps

In technical analysis, an exhaustion gap is a price gap on a chart that usually appears during a strong, significant price move, often at the end of a prevailing trend, either an uptrend or a downtrend. It is an early warning sign that the current uptrend is losing steam and is ready for a significant reversal, typically found after a long trend (either bullish or bearish). This was followed by increased trading volume, indicating strong market participation. Often leads to a rapid price change, followed by consolidation or reversal.

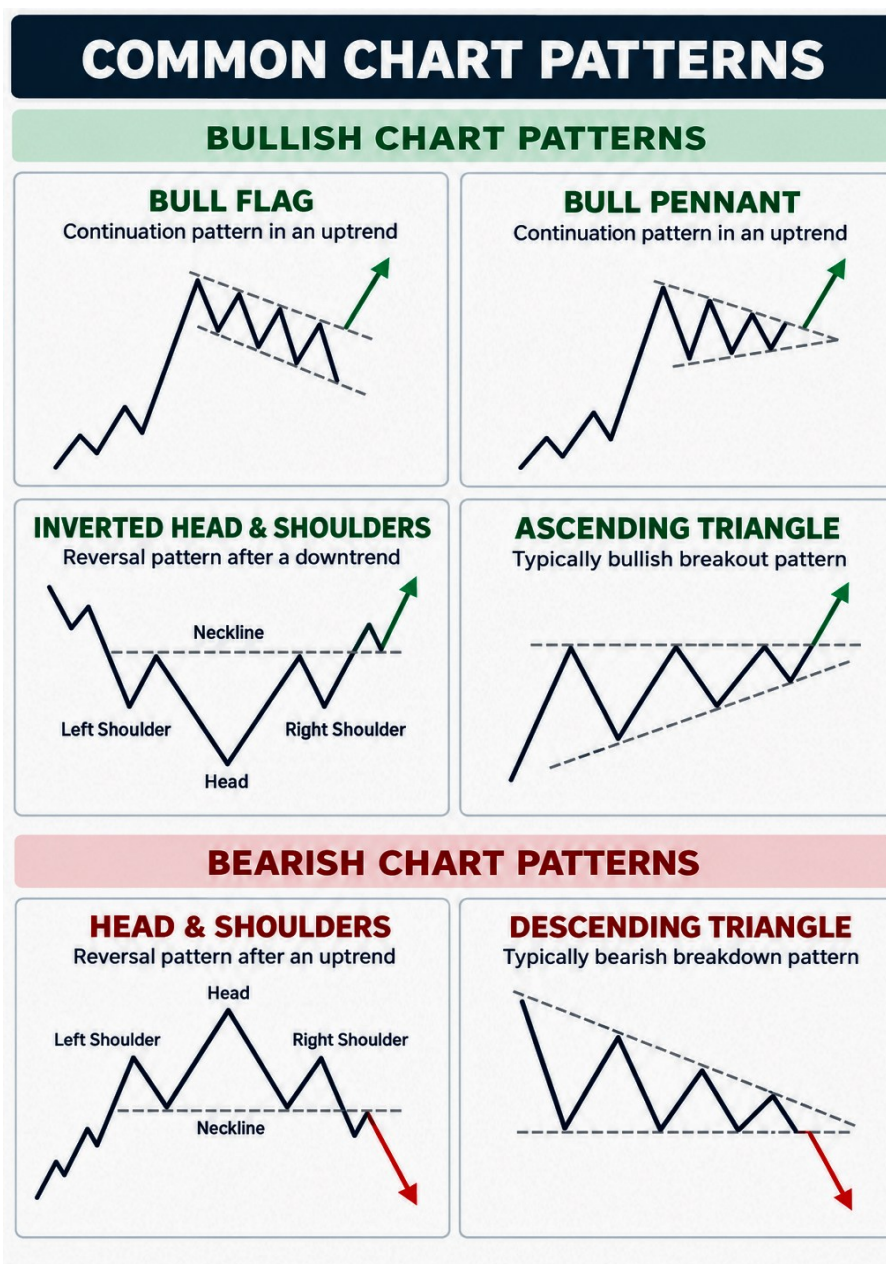
EXHAUSTION GAPS



Support and Resistance

The above methods of identifying possible trend reversals should always be combined with support and resistance levels. Without support and resistance, these formations may show nothing more than a coincidence in price action. These methods, like any other trading method, show only what is “likely” to happen and never predict the future with certainty.

The above methods of identifying possible trend reversals should always be combined with support and resistance levels. Without support and resistance, these formations may show nothing more than a coincidence in price action. These methods, like any other trading method, show only what is “likely” to happen and are never exact predictions of the future.



Conclusion

A thorough understanding of support and resistance is essential for anyone using technical analysis to evaluate market behavior. These levels identify price areas where the balance between buyers and sellers may shift, offering traders a framework for assessing potential entries, exits, profit targets, and risk.

Support and resistance should not be treated as exact prices or guaranteed turning points. They are better viewed as zones where meaningful buying or selling activity has previously occurred. When a security approaches support, traders should watch for evidence that buyers are regaining control, such as increasing volume, improving momentum, bullish candlestick formations, or repeated rejection of lower prices. Likewise, when price approaches resistance, weakening momentum, heavier selling volume, or repeated failures to move higher may indicate that upward momentum is losing strength.

However, prices do not always reverse at these levels. A decisive breakout above resistance may signal renewed buying strength and the beginning of a sustained upward move. Conversely, a confirmed break below support may indicate deteriorating demand and increased downside risk. Former resistance can also become new support after a breakout, while broken support may become resistance during a subsequent recovery. Recognizing these shifts helps traders adjust their expectations as market conditions evolve.

Confirmation is critical. Acting solely because price has reached a support or resistance level can expose traders to false breakouts, temporary reversals, and emotionally driven decisions. Stronger analysis combines price levels with trading volume, trend direction, momentum indicators, candlestick behavior, chart patterns, and broader market conditions. The more independent signals that support the same conclusion, the stronger the trading setup may be—although no combination of indicators can eliminate risk.

Risk management remains the foundation of every sound trading strategy. Even a technically strong setup can fail because markets are influenced by earnings announcements, economic data, geopolitical developments, changing investor sentiment, and unexpected company-specific events. Traders should therefore define their entry price, profit objective, stop-loss level, and acceptable position size before entering a trade. No single position should be large enough to cause significant portfolio damage if the market moves in the opposite direction.

Successful trading is not simply about selecting the right analytical tools. It requires discipline, patience, continuous learning, and the ability to adapt when the evidence changes. Technical analysis provides a structured way to evaluate probabilities—not certainty. Its purpose is not to predict every market movement correctly, but to help traders make more informed decisions, manage downside exposure, and pursue opportunities where the potential reward reasonably justifies the risk.

By combining support and resistance analysis with the chart patterns, indicators, and trading methods presented in this eBook, traders can develop a more complete and disciplined approach to the market. Mastering these concepts can improve timing, strengthen risk control, and reduce the influence of fear, greed, and impulsive decision-making.

The ultimate objective is not to win every trade. It is to develop a repeatable process that protects capital, identifies favorable opportunities, and produces consistent decision-making over time. Confidence should come from preparation, discipline, and adherence to a well-defined strategy—not from believing any technical signal is infallible.

Technical Analysis #1 is coming soon.

About StockWatchIndex (SWI)

StockWatchIndex (SWI) publishes websites, newsletters, White Papers, and market research designed to inform, educate, and empower investors navigating today's fast-moving financial markets. SWI also provides market-awareness and strategic consulting services to emerging public companies seeking to strengthen their market presence. These services may include investor-relations support, expanded access to syndicated relationships, and market exposure through SWI's extensive subscriber and social media networks. SWI works closely with its corporate clients to support long-term shareholder value, establish realistic business and market objectives, and develop measurable performance benchmarks for monitoring progress.

Important Disclaimer

This SWI White Paper and all related newsletters, websites, research reports, and publications are provided solely for informational and educational purposes. Nothing contained in these materials constitutes financial, investment, legal, or tax advice; an offer or solicitation to buy or sell any security; or a recommendation or endorsement of any company, security, investment strategy, or transaction. SWI is not a registered investment adviser or broker-dealer. Users remain solely responsible for their investment and trading decisions. They should conduct their own independent due diligence and consult qualified financial, legal, and tax professionals before making any investment decision. Although SWI makes reasonable efforts to provide accurate and timely information, portions of its content may be obtained from companies, financial databases, public filings, news services, and other third-party sources. All information is provided "as is" and "as available," without any representation or warranty, express or implied, regarding its accuracy, completeness, reliability, or timeliness.

SWI assumes no responsibility or liability for inaccurate, incomplete, outdated, or unavailable information, or for any loss or damage resulting from the use of, or reliance upon, its publications. By using this information, the reader acknowledges and agrees that SWI is not responsible for any investment, trading, or financial decision made by the reader.

© Copyright StockWatchIndex, LLC 2026

rpoertner@dynamicmarketconcepts.com



Please feel free to redistribute to your friends and colleagues.

