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Study Syllabus

Current Assignment

Section I: Theory and History of Technical Analysis
The Basic Principle of Technical Analysis — The Trend

Time Spent: 00:02 Remaining Time: 44:58 Grade: 0%

Syllabus Assignments: 44 | Overdue: 0

CMT Curriculum Level I 2021		Average Score			
Section I: Theory and History of Technical Analysis 7 days		0%			
Assignment Title	Due	Est. Time	Your Time	Points	Score
1. The Basic Principle of Technical Analysis — The Trend	1/24/21	45:00	00:02	0/91	-
2. Dow Theory	1/24/21	50:00	00:00	0/91	-
3. Introduction to Charts Part 1	1/31/21	30:00	00:00	0/91	-

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The Basic Principle of Technical Analysis — The Trend

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Upon completion of this course, you will be able to:

- Define what is meant by a trend.
- Explain why determining the trend is important to analysts.
- Identify primary, secondary, short-term, and intraday trends.
- Describe the basic beliefs behind the art of technical analysis.
- Define "fractal" as used in describing price action.

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Level 1 Curriculum - Exam Plan - The Basic Principles of Technical Analysis - The Trend

Study Guide

The Basic Principles of Technical Analysis - The Trend

Theory and History of Technical Analysis

My L1K seemed to be a series of errors and accidents. Not when I look back, I see a pattern.

Research - Foundations

Centuries of work in interpreting and understanding the movement of prices in financial markets brings us to today's technical analysis. Works on paper and observation by French, British, and American, have all given rise to the growth and refinement of quantitative and descriptive information networks. Yet the goals remain the same: identify the trend as early as possible, capture on it for as long as possible, and manage the risk along the way.

It is traditional to examine price, volume, and indicator information in charts. To this day, understanding how and why charts are constructed as they are is critical and only in the last few decades has the need for a person to draw and interpret large amounts of data, but also to the most modern application of quantitative technical analysis.

The various conceptions of the core concept of "trend" and its components as used in technical analysis. This includes information on the fractal nature of price action, an important principle in the application of technical analysis across time horizons. Charting - data visualization as practiced by technicians since before it became known as such - is introduced here with additional chart variations covered in the next section.

Of course, no discussion of the history of technical analysis would be complete without a primer on the work of Charles Dow and his successors, who gave us what we know as Dow Theory.

The Basic Principles of Technical Analysis - The Trend

From Charles D. Kippenhahn and Julia R. Daskalopoulou, *Technical Analysis: The Complete Resource for Financial Market Technicians*, 3rd Edition (2014) Taylor, Francis Group Publications, Inc. 2015, Chapter 1

The art of technical analysis - for it is an art - is to identify trend changes at an early stage and to maintain an investment position until the weight of the evidence indicates that the trend has reversed. (Price, 2002)

Technical analysis is based on one major assumption: Freely-traded, market prices, in general, trend in trends.

Based on this assumption, traders and investors hope to buy a security at the beginning of an upward trend at a low price, ride the trend, and sell the security when the trend ends at a higher price. Although this strategy sounds simple, implementing it is a challenging exercise.

For example, what length trend are we discussing? The trend in stock prices since the Great Depression? The trend in gold prices since 1867? The trend in the Dow Jones Industrial Average (DJIA) that occurred in the year 2000? The trend in stock prices during the year 2008? Trends exist in all lengths, from long-term trends that occur over decades to short-term trends that occur from minute to minute.

Trends of different lengths tend to have the same characteristics. In other words, a trend in annual data will behave the same as a trend in five-minute data. Investors must choose which trend is most important for them based on their investment objectives, their personal preferences, and the amount of time they can devote to watching market prices. One investor might be more concerned about the business cycle trend that occurs over several years. Another investor might be more concerned about the trend over the next six months, and a third investor might be most concerned about the intraday trend. Although individual investors and traders have investment time horizons that vary greatly, they can use the same basic methods of analyzing trends because of the commonality that exist among trends of different lengths.

Trends are obvious in hindsight, but identify, we would like to spot a new trend right at its beginning, buy, open to, and sell. However, this ideal never happens, except by luck. The technical analyst always runs the risk of buying the beginning of a trend too late and missing potential profits. The analyst who does not spot the ending of the trend holds the security past the price peak and fails to capture all the profits that were possible. On the other hand, if the analyst thinks the trend has ended before it ends and sells too early, the analyst has lost potential profits. The technical analyst then needs a lot of time and discipline attempting to spot as early as possible when a trend is beginning and ending. This is the reason for studying charts, moving averages, oscillators, support and resistance, and all of the other techniques we explore in this curriculum.

The fact that market prices trend has been known for thousands of years. Academics have disagreed that markets tend to trend because if it were true, it would spell the end of financial markets. However, most academic work has shown that the well-known models have many problems when applied to the behavior of real markets. Academics and others traditionally have turned to technical analysis as if it were a cure, as it turns out, however, the almost religious belief in the Efficient Markets Hypothesis has become a self-fulfilling prophecy in that the enormous amount of academic research in this field, technical analysis is very old, developed through practical experience with the trading markets, and has resulted in some usable techniques for those following it.

How Does the Technical Analyst Make Money?

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