Do you know why Forex traders make informed decisions? Here is why

- **Attributes of online Forex technical analysis**

Technical analysis is a projectile technique that tries to give a future insight into the future market performance based on the examination of the current and past data of the relevant market.

This technique is used by most traders to get a comprehensive insight into a price history of any investment. Critically to note, even the most seasoned traders have to checkouts for example on the charts and other market indicators as confirmatory tests for their trading moves.

- **Reasons for Technical analysis**

Technical analysis helps in identification of the points of entry and exit the market more strategically-made possible through examination of volume charts, price charts combined with mathematical forms of market data.

It is useful to discipline and reduces the market sentiments. Technical analysis achieves this by creating an emotionless plan and goal oriented moves which lead to sober market checkouts of major market impressions for more informed decisions to trade.

However, there are underlying assumptions made by the technical analysts for effective analysis. These include

- ✓ Prices are trendy - the changes in prices are not haphazard, but they tend to follow a particular direction making it easier for the analyst to depict a trend out of the prices that remain for sustainable timeframe enough to do so.
- ✓ The market essentials, for example, market moods are shown in the price data in the market.
- ✓ Predictability and regularity of the history of prices – the famous saying that history repeats itself is true for this case. The history brings out the market signals which have to be unearthed by the analyst from the past market signals and they help to predict the future.

The core of the analysis

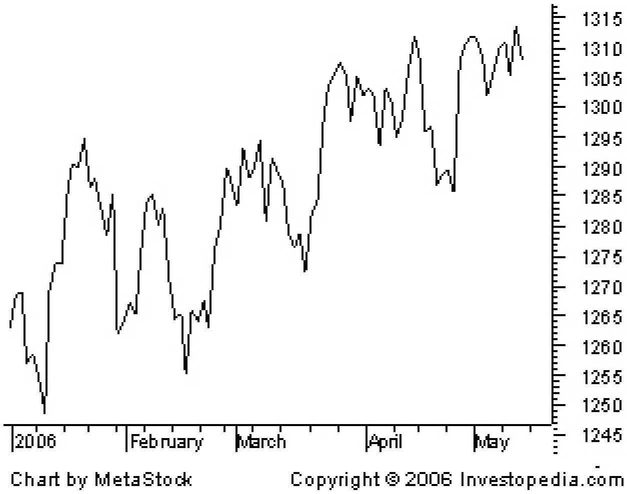
The analysis is divided into charts and technical indicators. Though charts have a good story to narrate, they are, however, cumbersome with time in their understanding and that’s where the technical indicators come in to play.

First, we discuss the charts:

1. Line charts

They show only the closing prices over a period of time which forms a line after which a line is formed by connecting the closing prices in the time frame.

The closing price is a very fundamental price in the market.

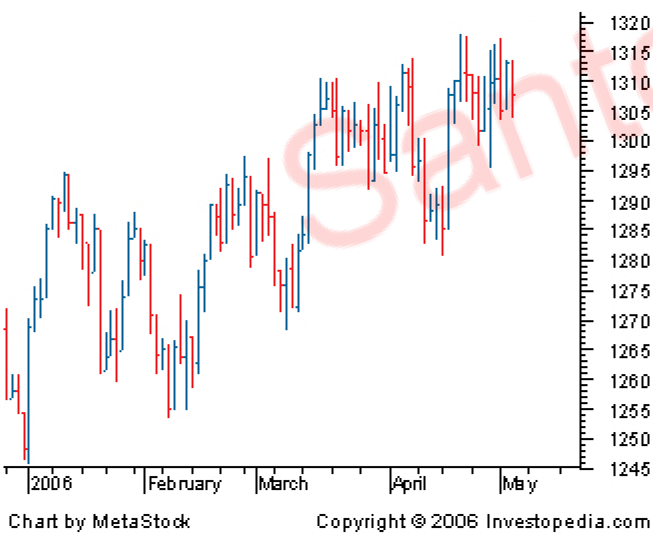


2. Bar charts

They have a time scale of one minute to as long as a number of years.

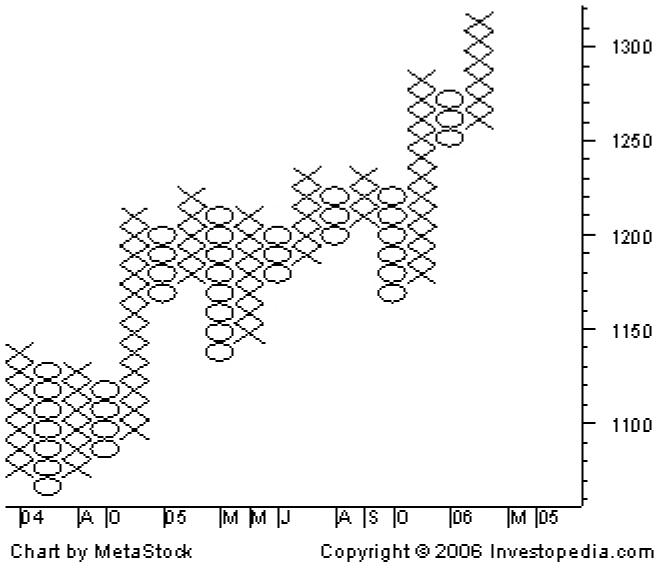
They are an expansion of line charts.They show price action with each bar representing a time frame e.g. one minute, a day, and 2 years and so on.

They combine highs and lows, closing and opening prices.



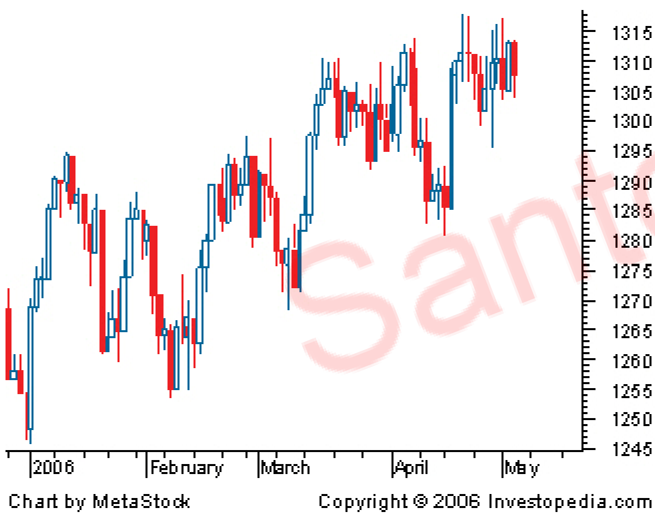
3. Point and figure charts

They are timeless scaled charts used to associate a particular day with a specific price action. They mark changes in price direction.



4. Candlestick charts

They are a representation of high and lows, opening, and closing prices all in a particular period of time. They have an advantage of giving a detailed visual picture to the user.

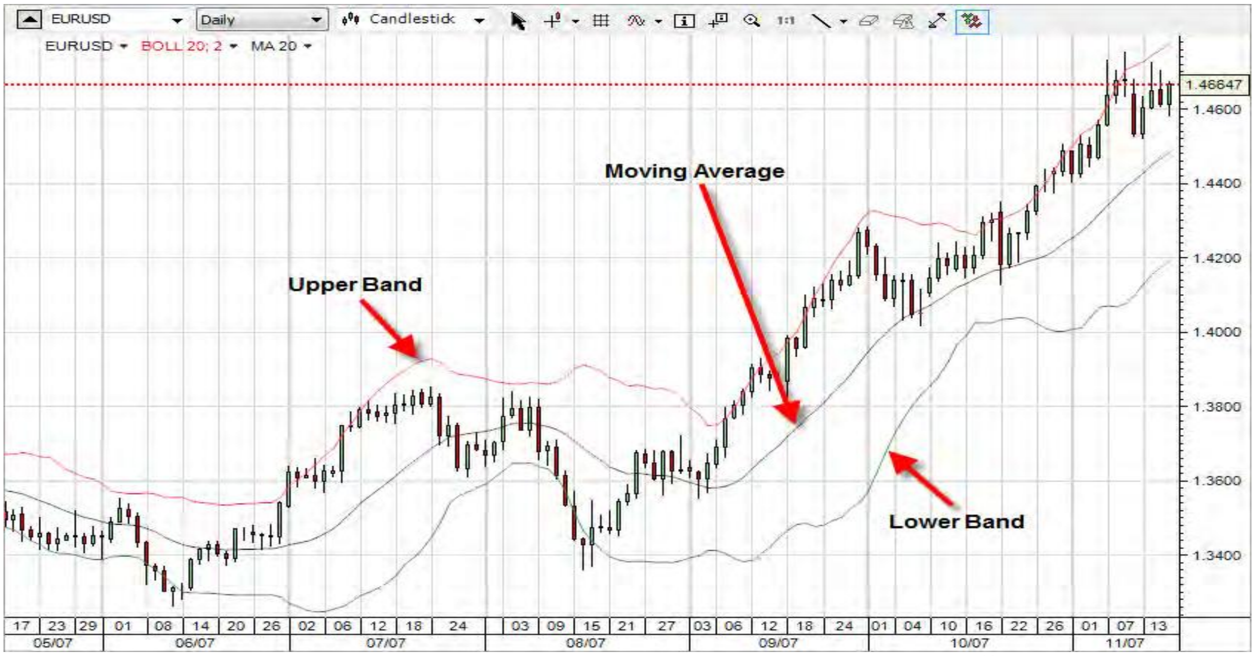


Following the disadvantage of charts in that some become very hard to understand, this calls for interpreters. The interpretations of the charts in the forex market involve the use of tools called technical indicators.

They look at price information; translate it into easy and simple to understand signals that are useful in knowing the time of buying and selling. They are based on mathematical equations to produce a value that is afterward plotted on the charts. These indicators include;

a) Trending indicators

They are used to give a smooth indication of the direction of the market e.g. moving averages, Bollinger bands. They also show entry and exit signals



b) Oscillating indicators

They determine how strong the current trend is. When the oscillating indicator moves too high then the currency pair is overbought and the vice versa is true. They include commodity channel index (CCI), slow stochastic, moving average convergence divergence (MACD), relative strength index (RSI).

c) Volume indicators

They indicate the volume of the trade and their information is provided by the banks.

Finally, what is the difference between technical and fundamental analysis?

POINT OF DIFFERENCE	TECHNICAL ANALYSIS	FUNDAMENTAL ANALYSIS
FACTOR CONSIDERED	Considers at the price movements of the security	Uses economic factors called fundamentals
TOOLS	Charts, lines	Financial statements e.g. balance sheets
TIME FRAME	Short-term and middle-term oriented	Long-term orientation
USAGE	Trading	Investing