A visual image speaks simply . . . Nick Radge . Photo: JIM RICE

Now's the time to plot winning strategies

Technical analysis is a cheap and simple tool that can bring worthwhile rewards for diligent traders, writes Shane Nichols.

Wild swings in the bear markets are creating opportunities, but traders need to be able to time entry and exits of their positions skilfully.

This is not a time for fundamental analysis. Instead, good traders are using technical analysis and the best are coming out ahead, as market movements create plenty of action.

These users of technical analysis will be sophisticated but even novices can use this period — which so far has run more than a year and may well last another year or two — to begin an education that really every good trader needs to survive and prosper.

Technical analysis sounds daunting but it needn't be. Powerful insight, as the philosophers and mathematicians point out, often reduces to a simple, elegant theorem.

''Over 95 per cent of clients are using technical analysis,'' says Matthew Press, senior dealer with CFD provider First Prudential Markets in Sydney. ''They like the simplicity — it's cheap, simple and anyone with eyes and a pencil can do it.''

Nick Radge, a former Macquarie Bank director turned trader and mentor who founded *The Chartist* newsletter, is equally emphatic. ''Charting can be remarkably simple. Simple is best. Simple works.''

So how does a novice get started?

''A first building block is the basic understanding of a simple line chart, being able to plot the closing prices of any security or index,'' says Press.

''The other nice thing about technical analysis is that it can be used across all indices or asset classes — anything that needs to be graphically or visually expressed.

''Some people have a memory that can understand and assess movement in prices; others are more visual and can see a particular pattern on the line chart.''

Understanding how a trend is, such as a downward sloping chart could indicate a bear market, is the first thing for a novice, says Press. And then it's a matter of the individual becoming more of a student as to what's available, ''to learn charting techniques such as candlesticks and what they may do, to much more advanced analysis whereby you take price and volume and interpret it in a different way''.

''I think for a beginner it's understanding the interaction between basic closing prices, then to look at more in-depth intraday pricing such as open high/low close charts and then adding simple indicators such as moving averages, and then developing further, moving into volume and more technical analysis systems that you can purchase.''

Most CFD providers have a platform that offers free basic charting tools. Press says the WEB-IRESS system on FP Markets' platform is popular with clients.

Metastock is popular with his more sophisticated traders, and ''for those who are very advanced there are applications that allow them to write their own code to enable them to look at particular things they're interested in.''

''It may be a particular spike in volume based on a particular time and a particular event, and that's where it can get much more advanced.''

The Chartist's Radge, who has experience as a hedge fund manager, makes the point that although there's much focus on charts for intraday trading, charts are a basic tool whether your time-frame as a trader is in seconds or months or years.

''It's remarkably simple to use charts to capture long-term trends,'' Radge says.

To show how simply and effectively a trader can beat a market, he points to the example of a 52-week chart.

''When a stock makes a 52-week high you buy it; when it makes a 52-week low you sell.

''It would have enabled you to capture the major trend between the 2003 bear market low and ride the trend all the way to the 2008 high, and get you out, not at the top but certainly at a lot better position than the vast majority of people have found themselves in.''

''Take Suncorp,'' Radge says. ''It made a high of around $21 but using that simple method you would have got out at around $17 — you haven't got the absolute high point, but you're not riding it at $5 now!

''You think of Babcock and Brown, General Property Trust — any stock and the same principles apply.

''Something as simple as that, and you can plot the chart — the 52-week high and 52-week low — and away you go. And it works just as well over an index.''

Radge emphasises that although some technical analysis such as Gann theory has predictive elements, classical technical analysis is not about forecasting — that's what fundamental analysis tries to do — but is about identifying anomalies. It shows you what he calls the right/wrong point.

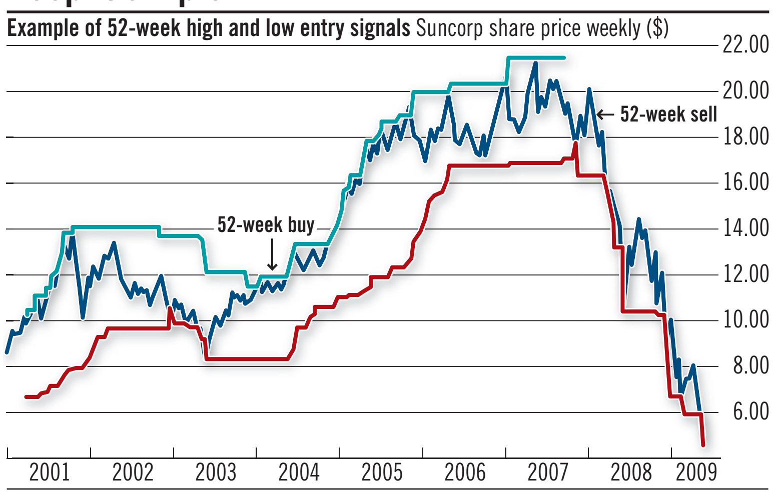
As he explains: ''We can use charts as a blueprint for what might happen. If we have a chart pattern where eight times out of nine the market moves lower, but in this instance where the market moves above the chart pattern, then you know you're incorrect.

''If the chart pattern does what it's supposed to do, then it shouldn't go above X or go below Y. If it does move beyond those points then you know you're wrong.

''That's the more important aspect of tech analysis: it tells you at what point you're wrong and you can then take appropriate action.''

Keep it simple

Example of 52-week high and low entry signals Suncorp share price weekly ($)



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