Welcome to the first issue of the Chart Pattern Secrets Newsletter.

We hope that you find it useful and are able to implement some of the ideas into your own trading methodology. Chart patterns can provide an interesting insight into potential price action and form an integral part of successful trading strategies.

Contents:

This issue contains the following:

Next Issue:

Look out in your inbox for the next issue of the Chart Pattern Secrets Newsletter. In it, we will discover the The importance of **trends** in technical analysis and how **self-confidence** is such an integral part of a successful trader.

Introduction to Technical Analysis

There are two main streams of thought when it comes to analysis of potential companies to purchase. They are fundamental and technical analysis. Fundamental analysis is heavily used by traditional stockbrokers and fund managers, and involves an assessment made on a company's operations.

Various factors and information will be considered in a fundamental assessment, including profit, outlook for the industry the company operates in, forecast profit, key personnel in senior appointments, the members of the board of directors, the main sources of revenue and whether they can be consistently relied upon in the future and plans for business growth, to name a few.

There are a number of key financial statements that can assist with this level of analysis and they can include:

- Cash flow statement
- Statement of financial position (balance sheet)
- Statement of financial performance (profit and loss)

All of these statements would be found within an Annual Report to shareholders.

Technical analysis is the study of actual movements in the price of a share. Despite what people may otherwise tell you, there are only two things that move share prices. They are supply and demand - nothing more and nothing less.

If there is more demand than supply for something, then the price shall rise. Conversely, if there is more supply than demand for something, then the price shall fall.

What causes the demand and supply in the Sharemarket could be discussed for hours. Is it profit statements? Is it dividend payments? Is it a fancy logo with a dazzling advertising campaign? No one can be absolutely sure at any point why people may be buying and selling shares. Herein lies the beauty of technical analysis.

At no time does technical analysis attempt to determine why there might be supply and demand, only that there are certain levels of supply and demand. By studying actual movements in the share price, we can go a long way to determining what the present demand and supply for that share is and therefore performing analysis on its potential for reward.

For a technical analyst, it is assumed that all fundamental and economic influences on a share price are already taken into consideration in the market, so they simply monitor the price action. Many technical analysts go as far as suggesting that fundamentals are not important and are not worth considering at all. The strength in technical analysis is that you are buying and selling the share price, not profit statements or performance ratios like the P/E ratio or return on equity figures.

The Right Mindset for Successful Trading

In his book, 'Trade Your Way to Financial Freedom', the renowned American psychologist Dr Van Tharp discusses in several parts how important your psychology or mindset is to your trading success. He graphically depicts the significance of your psychology using a pie chart and explaining that there are three 'Ingredients to Trading'. They are System, Money Management and Psychology. In the pie chart, the System is 10%, Money Management is 30% and the remaining 60% is psychology.

Why does a psychologist who has spent his entire professional life counseling traders of all experience levels say that so much of your trading hinges on your psychology?

The key is that your mind drives everything you do in your life and trading is no exception. Your emotions are a part of who you are and your decision making process. Decision making is a large part of trading, as you need to make decisions often and many of them are difficult decisions. Furthermore, people like to break rules, even ones they set themselves. There are some simple trading rules that have stood the test of time, and will always work yet most people cannot follow them.

It is essential that you realise how important it is that you demand of yourself the highest level of discipline to ensure you implement the requirements of your trading plan ruthlessly and follow some of the time tested trading rules.

Trading is like running a business and anyone who has run a business successfully will tell you that emotions should have little place in your decision making. Although because of money and your natural instincts, many people cannot remove their emotions from their trading, sufficiently.

Books like 'Market Wizards' by Jack Schwager and other similar texts illustrate how successful traders have found a trading methodology that they are very comfortable with. None of them have found any magic solution to trading but they all clearly possess an inner confidence in their own ability to follow rules and their own trading plan. To develop a solid trading plan requires commitment and discipline, but more importantly time to sit down and work through it methodically. At the end of the day, if you are not comfortable with the way you approach the market, then you will likely drift away from your plan and fall into bad habits. In this situation, it is highly probable that you will lose money.

If you want to trade well and therefore develop a trading plan and follow it, you need to convince yourself that it is something you really want to do. Commit to it and there really shouldn't be anything stopping you developing a robust trading plan that will over the long run be profitable. Do you have a trading plan? Have you fully committed yourself to following it? Remember that in trading, if you fail to plan, you are in fact planning to fail.

Comments / Feedback:

Any comments on the contents of this publication or suggestions for future publications will be warmly welcomed. Please email to cpfinder@tradingxl.com.au, fax to +61 3 9870 1738 or phone us on +61 3 8802 0593.

Disclaimer:

This publication is not, and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment. Any securities discussed in this publication are unsolicited general information only. Trading Excellence did not take into account the investment objectives, financial situation and particular needs of any particular person; and before making an investment decision on the basis of the information, the investor or prospective investor needs to consider, with or without the assistance of a securities adviser, whether the information is appropriate in light of the particular investment needs, objectives and financial circumstances of the investor or prospective investor.