Twitter Thread by Professor



Professor
@DillikiBiili

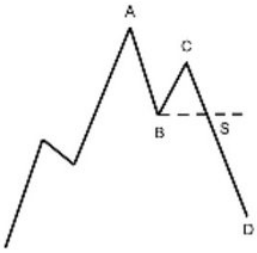
So friends here is the thread on the recommended pathway for new entrants in the stock market.

Here I will share what I believe are essentials for anybody who is interested in stock markets and the resources to learn them, its from my experience and by no means exhaustive..

First the very basic : The Dow theory, Everybody must have basic understanding of it and must learn to observe High Highs, Higher Lows, Lower Highs and Lowers lows on charts and their implications.

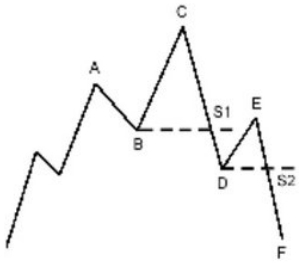
https://t.co/MGKzygn1YW

Even those who are more inclined towards fundamental side can also benefit from Dow theory, as it can hint start & end of Bull/Bear runs thereby indication entry and exits.



Failure Swing.

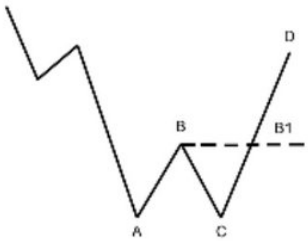
The failure of the peak at C to overcome A, followed by the violation of the low at B, constitutes a "sell" signal at S.



Nonfailure Swing.

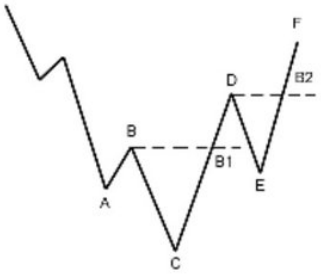
Notice that C exceeds A before D falling below B. Some Dow theorists would see a "sell" signal at S1, while others would need to see a lower high at E before turning bearish at S2.

Dow only took in consideration closing prices. Averages had to close higher than a previous peak or lower than a previous trough to be significant. Intraday penetrations did not count.



Failure Swing Bottom.

The "buy" signal takes place when point B is exceeded (at Bl).



Nonfailure Swing Bottom.

"Buy" signals occur at points B1 or B2.

Next basic is Wyckoff's Theory. It tells how accumulation and distribution happens with regularity and how the market actually moves.

https://t.co/72M2DCPJHZ

Dow theory is old but gold...

https://t.co/uqJRvfkxb5

> Old is Gold....
>
> this Bharti Airtel chart is a true copy of the Wyckoff Pattern propounded in 1931..... pic.twitter.com/tQ1PNebq7d
>
> — Professor (@DillikiBiili) January 23, 2020

How Wyckoff theory can help in stock market

https://t.co/wWlpBplAYX

With the basics, out of the way we'll now see some basics of Technical Analysis.

First concepts to be learned are finding support and resistance on charts or price levels.

https://t.co/Q5njGt26zv

The support and resistance (S&R) are specific price points on a chart expected to attract the maximum amount of either buying or selling, hence they are very important levels on chart.

For breakouts, they are very very important !

https://t.co/kHK064D5z1

Time for a video on basics of Technical Analysis. If you need only one, this is it.

https://t.co/0qUaenJmAF

Trendlines are also important. Just one important point, horizontal trend lines are more effective than sloping trendlines, because a breakout from horizonal levels is high probability breakout as compared to a breakout from sloping trendline.

https://t.co/rWVkIEAphx

When we know how to draw trendlines and Support & Resitance (They are also trendlines only) we can move to Chart patterns that are formed by combining trendlines and few more inputs.

Here are most important ones.

https://t.co/KIITvSWsj0

I would complete the Technical Analysis part with this gift from @nooreshtech Sir who is an accomplished Technical Analyst.

This is his workbook on Technical Analysis https://t.co/2GrnycldWf

No need to buy expensive books on Technical Analysis.

Now we'll see indicators, they are of 4 types:

Trend indicators : For direction and strength

Momentum indicators : For the speed of price movement

Volatility Indicators : For measuring fluctuations

Volume Indicators : For measuring strength of trend based on volume traded

Indicators introduction : A picture is worth thousand words

Types of

TECHNICAL INDICATORS



CATEGORIES OF INDICATORS



LEADING

LAGGING

TYPES OF TECHNICAL INDICATORS



TREND INDICATORS

	LEADING	LAGGING
MOVING AVERAGES		✓
MOVING AVERAGE CONVERGENCE DIVERGENCE (MACD)		✓
PARABOLIC STOP AND REVERSE(PARABOLIC SAR)	✓	

MOMENTUM INDICATORS



	LEADING	LAGGING
STOCHASTIC OSCILLATOR	✓	
COMMODITY CHANNEL INDEX (CCI)	✓	
RELATIVE STRENGTH INDEX (RSI)	✓	

VOLATILITY INDICATORS



	LEADING	LAGGING
BOLLINGER BANDS		✓
AVERAGE TRUE RANGE		✓
STANDARD DEVIATION		✓

VOLUME INDICATORS



	LEADING	LAGGING
CHAIKIN OSCILLATOR	✓	
ON-BALANCE VOLUME (OBV)	✓	
VOLUME RATE OF CHANGE		✓

TIPS ON HOW TO USE TECHNICAL INDICATORS



TIP #1

TIP #2

TIP #3

TIP #4

Some important indicators:

https://t.co/Y4RShkuBFO

A very important tool is Bollinger Band. This incorporates moving average and statistics and can produce wonderful results in the hands of a deft person.

Thanks @bbands for this excellent tool.

https://t.co/W0UatdqXRw

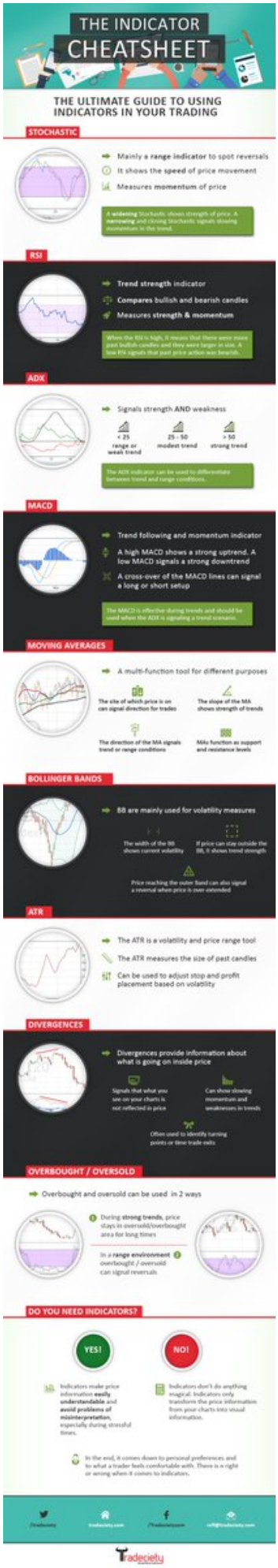
Often there is a tendency of overloading the chart with too many indicators ! Keep them to bare minimum. Remove one by one till you can’t remove any further.



Another important point worth highlighting is combination of wrong indicators. If somebody uses RSI, MACD and Stochastic then what he/she will see is same view across all the indicators giving a false sense of confirmation by all 3 indicators. They belong to the same category.

So combine a trend indicator with momentum indicator and you are all set. Find your own combination.

An indicator cheat sheet is here


THE INDICATOR
CHEATSHEET
THE ULTIMATE GUIDE TO USING INDICATORS IN YOUR TRADING
STOCHASTIC
Mainly a range indicator to spot reversals
It shows the speed of price movement
Measures momentum of price
A widening Stochastic shows strength of price. A narrowing and closing Stochastic signals slowing momentum in the trend.
RSI
Trend strength indicator
Compares bullish and bearish candles
Measures strength & momentum
When the RSI is high, it means that there were more past bullish candles and they were larger in size. A low RSI signals that past price action was bearish.
ADX
Signals strength AND weakness
< 25 range or weak trend
25 - 50 modest trend
> 50 strong trend
The ADX indicator can be used to differentiate between trend and range conditions.
MACD
Trend following and momentum indicator
A high MACD shows a strong uptrend. A low MACD signals a strong downtrend
A cross-over of the MACD lines can signal a long or short setup
The MACD is effective during trends and should be used when the ADX is signaling a trend scenario.
MOVING AVERAGES
A multi-function tool for different purposes
The site of which price is on can signal direction for trades
The slope of the MA shows strength of trends
The direction of the MA signals trend or range conditions
MAs function as support and resistance levels
BOLLINGER BANDS
BB are mainly used for volatility measures
The width of the BB shows current volatility
If price can stay outside the BB, it shows trend strength
Price reaching the outer Band can also signal a reversal when price is over-extended
ATR
The ATR is a volatility and price range tool
The ATR measures the size of past candles
Can be used to adjust stop and profit placement based on volatility
DIVERGENCES
Divergences provide information about what is going on inside price
Signals that what you see on your charts is not reflected in price
Can show slowing momentum and weaknesses in trends
Often used to identify turning points or time trade exits
OVERBOUGHT / OVERSOLD
Overbought and oversold can be used in 2 ways
During strong trends, price stays in oversold/overbought area for long times
In a range environment overbought / oversold can signal reversals
DO YOU NEED INDICATORS?
YES!
NO!
Indicators make price information easily understandable and avoid problems of misinterpretation, especially during stressful times.
Indicators don't do anything magical. Indicators only transform the price information from your charts into visual information.
In the end, it comes down to personal preferences and to what a trader feels comfortable with. There is a right or wrong when it comes to indicators.
/tradeciety
tradeciety.com
/tradeciety.com
tradeciety

After having fun with all the girlfriends/boyfriends there comes a time when everybody has to settle. Similarly after experimenting with all the indicators there comes a time when the trader decides that Price Action is best and instead of all these indicators i must focus on PA

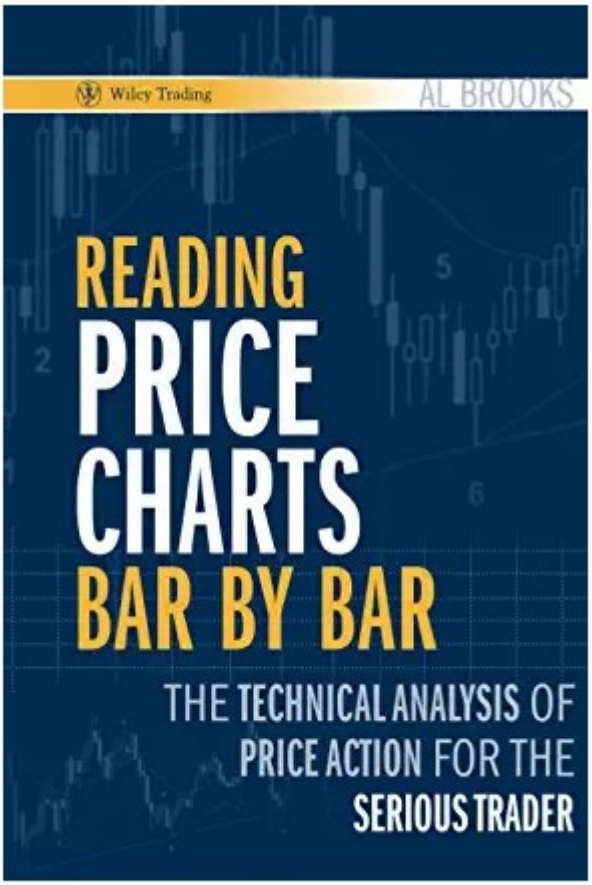
All the indicators/oscillators are based on either price or volume or a combination of both.

So once a person sees this light, he shifts to another gear increasingly trades on price Action, only occasionally taking support of indicators.

https://t.co/TSZXAMe196

Those who want to do a deep dive in price Action, may read these books.

Caution : These are only for advance readers.



Now coming to my Bread & Butter : Breakout Trading.

Accumulation, Distribution and Breakouts are regular feature in markets. One or the other is always happening in some stocks.

In Roaring Bull markets, Breakouts increase as now a days we are seeing daily.

Breakouts often happen after long consolidations. Longer the consolidation, stronger the breakout.

And the breakout may be in upside or downside both. If it happens after accumulation, it will be a bullish breakout and after distribution, it'll be bearish breakout.

And Breakouts are not only for trading, they make solid base for investing. If a fundamental investor enters a stock on breakout than it may give many successive breakouts and can reach stratospheric levels.

I simple love breakouts.

https://t.co/2rCmYFK1Yr

Legends on Breakouts

I don't buy stocks on a scale down; I buy on a scale up. — Jesse Livermore

Whatever method you use to enter trades, the most critical thing is that if there is a major trend, your approach should assure that you get in that trend. — Richard Dennis

If I were buying, my point would be above the market. I try to identify a point at which I expect the market momentum to be strong in the direction of the trade. — Ed Seykota

Opening range Breakout is a very popular strategy and it can be used in Stocks as well as Indices.

Wait for first 45 minutes, let the market settle and an opening range get formed. Now if any candle opens above or below this range, take trade in the direction of breakout.