Market Technicians Association, Inc.
Professionals Managing Market Risk • Incorporated in 1973
61 Broadway • Suite 514 • New York, NY 10006 • 646/652-3300 • *fax* 646/652-3322 • www.mta.org

What is technical analysis, and how can it help my investing?
And, what is a Chartered Market Technician?

A Report for Individual Investors
Produced by the Market Technicians Association

If you have ever bought a stock, bond, or mutual fund only to watch it go down and then vowed to sell it once you "broke even," you might benefit from learning more about how **technical analysts** evaluate the markets. A "technician," also popularly—but narrowly—known as a "chartist," looks to take the emotion out of investing by applying rules that usually apply to almost every investment that fluctuates in price in a free market.

A **fundamental analyst** looks at the assets, profits, and the business trends of a company and derives an estimate of fair value for the stock. If the stock price is lower than this expected value, the stock should be bought. If the stock is trading higher than what the fundamental analyst believes it to be worth, the stock should either not be bought or sold. The problem with focusing only on valuations is that over-valued stocks can get more over-valued and undervalued stocks can stay undervalued.

Very often, technical analysts will skip analyzing the company's prospects and values and *assume that the market is doing that for them because the stock price reflects everything already publicly known and expected about the company and its prospects*. Technical analysis, instead, seeks to forecast future prices of investments and markets by analyzing past trading action. In general, a technician believes that people have predictable mental short cuts of reacting to action in the markets (known as heuristics in cognitive psychology). Technicians seek to profit by anticipating the mass psychological biases of buyers and sellers in a broad range of markets.

What are some examples of technical analysis in action? Financial news networks and investors quoted in newspapers and magazines often talk about "support and resistance levels". A support level is where a stock or even a stock market stopped a decline and reversed direction back up, often on higher than average volume. The support level is believed to be a price where investors stand ready to buy after a decline. A resistance level is the opposite: a stock or market goes up to a certain price and then stalls or declines. Technicians use these levels frequently to determine attractive buying and selling points. The higher the volume at a turning point, the more potent the support or resistance becomes.

Another powerful technical tool is trend analysis. Technicians believe that a trend is expected to continue unless significant evidence indicates otherwise. In other words, cut your losses short and let your winners run. This runs contrary to human instinct; most investors are happy to take almost any profit while waiting for their losers to turn around. And if that loser does go up, they might quickly sell it at break-even rather than waiting to see if it can turn into a profit!

The history of technical analysis of financial markets and security prices dates back over 200 years to when Japanese nobility traded paper coupons against future rice harvests. The rice coupons' price often changed rapidly even when there was no change in the weather or any news about the size of the expected harvest. These changes in price were captured on charts, and these charts were studied very carefully. Eventually, traders began to use chart patterns to anticipate a change in price.

Since then, markets have become larger and global in scope, new ways to trade securities have been introduced, and the number of securities and derivatives has exploded. Yet, the basic tenets of technical analysis endure: prices change because of the fear and greed that investors were born with, and by focusing on indicators of this fear or greed a technician can form an actionable plan to invest, whether for the very short term or the very long.

Analysts awarded the Chartered Market Technician (CMT) designation by the Market Technicians Association have achieved a high level of technical proficiency in the discipline. The CMT designation reflects education, industry experience, peer review, and a commitment to abide by a Code of Ethics. A CMT has successfully passed three exams totaling ten hours of proctored test time covering a very broad range of technical topics. Recommended study time is 100-150 hours of independent study per level. The CMT program is administered by the Market Technicians Association, a non-profit organization of professional and independent technical analysts, many of whom are internationally-known strategists and academics. If a CMT charterholder violates the MTA's Code of Ethics, he or she may be censured, suspended, or even lose the right to use the CMT designation.

For more information about technical analysis or hiring a Market Technician Association member to assist your investing needs, please email cmt@mta.org . For information about joining the Market Technicians Association and the Chartered Market Technician Program, please go to www.mta.org.