

## **TECHNICAL ANALYSIS GLOSSARY**

### **A**

**ABC:** Elliott Wave terminology for a three-wave countertrend price movement. Wave **A** is the first price wave against the trend of the market. Wave **B** is a corrective wave to wave **A**. Wave **C** is the final price move to complete the countertrend price move.

**Accumulation:** The process where excess supply of an issue is absorbed by increasing demand from buyers. Prices usually rise afterwards.

**Advance/Decline Line:** Each day's declining issues are subtracted from the day's advancing issues. The difference is added to (subtracted from if negative) a running total or sum.

**Alpha:** The premium that an investment portfolio earns above a given point of reference; an issue with a positive alpha is outperforming the market based on its own merits, as opposed to an issue with a negative alpha, which is underperforming the market based on its own merits. A measure of stock performance independent of the market.

**Ascending Triangle (or Rising Triangle):** A chart formation produced by a series of lows, each successively higher than the last, and a series of highs that are at approximately the same level. It is considered a bullish formation when volume increases on the ascending legs. When a breakout through the level of the highs is made, the pattern is completed.

**Astrophysical Cycle:** Any earthly cycle, such as a market cycle, that has been scientifically related to the physics of the planetary system.

**Apex:** The point of intersection of two trendlines. A new trend may develop as prices approach the intersection.

**Average Balance Volume Line:** A simple moving average applied to the tick volume based on a comparison of the current previous period's closes.

**Average Directional Movement Index (ADX):** Indicator developed by J. Welles Wilder to measure market trend intensity.

## B

**Back Testing:** Optimizing a moving average or trading strategy on historical data.

**Bar Charts:** Graphical displays of a trading period characterized by vertical lines connecting the high and low prices, the open and close are marked as ticks respectively to the left and right of the bar. Time is marked on the horizontal axis at the bottom. Also at the bottom, the volume of trading for each period is indicated vertically as a histogram.

**Base:** This chart pattern is formed after a decline by a considerable amount of trading occurring within a relatively narrow price range. The formation is completed when an upside breakout occurs.

**Bearish:** A longer period of time when prices in the market are generally declining.

**Bear Market:** When the longer-term trend of an issue is down.

**Bear Trap:** A false move to the downside that does not start a new downtrend. It is the final reaction prior to an advance, hence “trapping the bears.”

**Bellwether:** An issue viewed as a leader in the market, e.g. “as MobiNil goes, so goes the market”.

**Beta (Coefficient):** A measure of the market/nondiversifiable risk associated with any given security in the market. A ratio of an individual’s stock historical returns to the historical returns of the stock market.

**Blow off:** A sharp price rise accompanied by extraordinary volume; usually leads to an opposite move.

**Bottom:** The low point in a down move.

**Bottom Reversal:** The change in the direction of price movement/trend, which occurs at stock market bottoms.

**Breadth:** A measurement calculated by comparing the number of advancing issues to the number of declining issues.

**Breadth Ratio:** Computed by dividing the number of advances by the numbers of declines over a given time period.

**Breakaway Gap:** Usually, a high-volume move out of a consolidation pattern without trading at the previous period's levels.

**Breakdown:** A price drop below a significant support level or out of a consolidation pattern.

**Breakout:** An upward move exceeding a previously recorded high, resistance level, or through a bullish trendline or some other criteria, often on high volume.

**Broadening Top:** A reversal pattern marked by a succession of at least three generally higher highs alternating with successively lower lows. Occurs after a notable price rise. The pattern is completed by a third breakdown, normally to a significantly lower low.

**Bullish:** Generally a longer period of time in which prices rise.

**Bull Trap:** Occurs when in a bear market prices suddenly rise, luring in bulls taking long positions before resuming the downtrend.

## C

**Candlestick Charts:** A charting technique developed in Japan in the 1700s. The high and low for the time period are described as shadow and plotted as a single line. The price range between the open and the close is plotted as a box or rectangle on the line. If the market closes above the open, the body of the box is white or empty. If the close is below the open, the body of the box or rectangle is black or filled.

**Channels:** The area between two parallel trendlines, the upper trendline connecting most of the important price peaks or closes and the lower trendline connecting the important lows or closes.

**Charts:** Graphical representation of price, volume and/or other data over a period of time. Commonly used in technical analysis are Bar Charts, Line Charts, Point and Figure Charts and Candlestick Charts.

**Climax or Selling Climax:** The end of a protracted period of selling, characterized by high volume, forced margin selling, extreme degrees of negative market breadth and panic. A climax marks the end of one of the late phases of a decline with an abrupt reversal.

**Confirmation:** Occurs when the action of one indicator or technical tool backs the action of another.

**Congestion Area:** A price area where previous heavy volume trading has occurred. It is considered a likely area to find support or resistance in the future.

**Consolidation:** A generally lateral period of trading in terms of price. It is usually an interruption of an ongoing uptrend or downtrend, as opposed to a reversal type of pattern

**Continuation Pattern:** A consolidation that temporarily interrupts a rally or declines and sets the stage for another move in the same direction.

**Correction:** A price swing opposite in direction to that of the main trend.

**Correction Wave:** A wave or cycle of waves moving against the current impulse trend's direction.

**Count:** A point and figure technique used to estimate a price objective or target up or down.

**Countermove:** A price bar showing movement opposite to the direction of the prior time period; a retracement.

**Cycle:** A variation where a point of observation returns to its origin.

# D

**Daily Range:** The difference between the high and low price during one trading day.

**Demand:** Buying interest from investors. Theoretically, creates support.

**Descending Triangle:** A continuation pattern with bearish implication. Volume is normally higher at the lows and decreases as the upper, downsloping trendline is approached. A break below the lower horizontal line of the pattern, on increased volume completes the pattern and reaffirms the downtrend in progress.

**Distribution:** The process where demand is absorbed by expanding supply. Prices usually fall afterwards.

**Divergence:** Occurs when one indicator moving, not in conjunction or agreement with another indicator. Such nonconfirmations often signal reversals.

**Doji:** A session in which the open and close are the same (or almost the same). Different varieties of doji lines (such as gravestone or long-legged Doji) depend on where opening and close are in relation to the entire range. Doji lines are among the most important individual candlestick lines. They are also components of important candlestick patterns.

**Double Bottom:** A reversal type chart pattern distinguished by two successive declines, both terminating at approximately the same level. When completed, accomplished by a rise on volume above the high between the two lows, the pattern often resembles the letter **W**.

**Double Top:** A reversal type chart pattern (the observe of the Double Bottom) which resembles the letter **M**.

**Dow Theory:** A description of market behavior, invented by Charles Dow, which divided price moves into three types of trends: major (lasting from months to years), intermediate (weeks to months) and minor (days to weeks). A primary corollary is that of mutual confirmation of moves by both the Industrial Average and the Transportation Average.

**Downside Volume:** A period's summary of the volume transacted in all stocks, which fell in that period.

## E-K

**Efficient market Theory:** All known information is already discounted by the market and reflected in the price due to market participants acting upon the information.

**Elliott Wave Theory:** A theory of market behavior published by Ralph Nelson Elliott in the 1930s. According to the theory, the stock market follows a pattern of five waves up and three waves down to form a complete cycle.

**Engulfing pattern:** In candlestick terminology, a multiple candlestick line pattern; a major reversal signal with two opposing-color real bodies making up the pattern.

**Envelope:** Lines surrounding an index or indicator that is, trading bands.

**Equilibrium Market:** A price region that represents a balance between demand and supply.

**Evening Star Pattern:** The bearish counterpart of the morning star pattern; a top reversal, it should be acted upon if it arises after an uptrend.

**Ex-Dividend Date:** The day on or after which the right to receive a current dividend is not automatically transferred to a buyer.

**Extension:** In the Elliott Wave Theory, refers to a major move in the same direction of the primary trend where the length is mostly a Fibonacci percentage of a previous major move.

**Expiration:** The last day on which an option can be traded.

**Fade:** Selling a rising price or buying a falling price. A trader fading an up opening would be short, for example.

**Failure Swings:** The inability of price to reaffirm a new high in an uptrend or a new low in a downtrend.

**Failure:** In Elliott wave theory, a five-wave pattern of movement in which the fifth impulse wave fails to move above the end of the third, or in which the fifth wave does not contain the five subwaves.

**Fibonacci Ratio:** The relationship between two numbers in the fibonacci sequence. The sequence for the first three numbers is 0.618,1.0,and 1.618 in general terms the fibonacci series is 1,1,2,3,5,8,13,21,34,55,69,ect.

**Flag:** A brief consolidation pattern within a steep advance (or decline) generally in the form of a compact rectangle, tilted against the prevailing trend, and resembling a flag.

**Float:** The number of shares currently available for trading.

**Formation:** a recognized, technically significant chart pattern.

**Frequency:** The number of complete cycles observed per time period ( i.e.; cycles per year).

**Frequency Component:** That part of a time series that may be represented as a cycle.

**Fundamental Analysis:** The analytical method by which only the sales, earnings and the value of a given tradable's assets may be considered.

**Fundamentals:** The theory that holds that stock market activity may be predictable by looking at the relative data and statistics of a stock as well as the management of the company in question and its earnings.

**Gann's Square of 9:** A trading tool that relates numbers, such as a stock price, to degrees on a circle.

**Golden Mean or Golden Ratio:** The ratio of any two consecutive numbers in the Fibonacci sequence, known as phi and equal to 0.618; a proportion that is an important phenomenon in music, art, architect and biology.

**Golden Section:** Any length divided so that the ratio of the smaller to the larger part is equivalent to the ratio between the larger part and the whole and is always 0.618.

**Harami:** In candlestick terminology, a small real body contained within a relatively long real body.

**Head and Shoulders Top:** A pattern characterized by a series of three peaks, the first and third being lower than the middle. Volume, heavy on the first peak, declines on the next two. Completion is marked by the breaking of the “neckline” ( an extension of the line connecting the troughs between the three peaks) accompanied by heavy volume. An inverse head and shoulders is the same pattern upside down volume increase through the pattern.

**Historical Data:** A series of past daily, weekly or monthly market prices (open, high, low, close, volume and open interest).

**Impulse:** A sharply defined change in a series of input data being studied, such as market prices or volume.

**Impulse wave:** A wave or cycle of waves that carries the current trend further in the same direction.

**Index:** An average or other technical device, usually numerical, used to monitor or predict market moves.

**Indicators:** A subset of market measuring tools used specifically for monitoring and forecasting.

**Inside Day:** A period in which the total range of prices is within the range of the pervious period’s price range.

**Intermarket Analysis:** Observing the price movement of one market for the purpose of evaluating a different market.

**Intermediate Term:** Refers to a period of time often measured in terms of weeks or months.

**Island Reversal:** A trading range where there is an exhaustion gap up, then prices trade in a narrow range for a few days, and then there is a breakaway gap down. This leaves a sort of island of prices in the middle. The reverse happens at an island bottom reversal.

**Irregular Flat:** A type of Elliott wave correction that has a 3-3-5 wave pattern, where the B wave terminates beyond the start of wave A. A “flat” is in progress, implying that a larger pattern is developing. It will contain waves of one higher degree than the A-B-C waves just completed.

**January Effect:** The tendency for securities prices to recover in January after tax-related selling is completed before the year-end.

## L-O

**Limit Order:** An order to buy or sell when a price is fixed.

**Limit Up, Limit Down:** Commodity exchange restrictions on the maximum upward or downward movements permitted in the price for a commodity during any trading session day.

**Line Formation:** A sideways chart pattern that unfolds within a very narrow price range. The price swings are so limited, a line can often be drawn across the chart covering the prices, hence the name.

**Liquidity:** A general term used to indicate how easily transaction can be executed at or near a given price in a given issue or market. It often relates to the number of dollars required to effect a given price change. A liquid stock can absorb more buying (selling) before a significant price change occurs than can an illiquid stock.

**Long:** Establishing ownership of the responsibilities of a buyer of a tradable; holding securities in anticipation of a price increase in that securities.

**Long Term:** Refers to a period of time often measured in terms of months or years.

**Margin:** In stock trading, an account in which purchase of stock may be financed with borrowed money; in futures trading, the deposit placed with the clearinghouse to assure fulfillment the contract. This amount varies daily and is settled in cash.

**Marked to Market:** At the end of each business day the open positions carried in an account held at a brokerage firm are credited or debited funds based on the settlement price of the open positions that day.

**Market Maker:** A broker or bank continually prepared to make a two-way price to purchase or sell for a security or currency.

**Market Order:** Instruction to the broker to immediately sell to the best available bid or to buy from the best available offer.

**Market Risk:** The uncertainty of returns attributable to fluctuation of the entire market.

**Market Sentiment:** Crowd psychology, typically a measurement of bullish or bearish attitudes among investors and traders.

**Market Timing:** Using analytical tools to devise entry and exit methods.

**Mean:** When the sum of the values is divided by the number of observations.

**Mean Return:** The average monthly total return of a stock. The total return is price change added to dividends.

**Measured Move:** The tendency of some stocks to move in equal or similar price distance before starting a consolidation phase.

**Momentum:** The strength or sustainability of a market move as measured by both volume and price.

**Momentum Indicator:** A market indicator utilizing price and volume statistics for predicting the strength and weakness of a current market and any overbought or oversold conditions, and to note turning points within the market.

**Monowave:** In Elliott wave theory, a single wave within a range of waves.

**Most Active Stocks:** A list of those stocks, which have traded the most shares during a given period.

**Moving Average:** A continuous smoothing technique computed by averaging a series of numbers (price, volume, ect.) progressively over a period of time. Often plotted on a chart with the raw data.

**Moving Average Crossover:** The point where the various moving average lines intersect each other or the price line on a moving average price bar chart. Technicians use crossovers to signal price-based buy and sell opportunities.

**Moving Average Convergence/ Divergence (MACD):** The crossing of two exponentially smoothed moving averages that are plotted above and below a zero line. The crossover, movement through the zero line, and divergences generate buy and sell signals.

**Narrow Range Day:** A trading day with a smaller price range relative to the previous day's price range.

**Non-Trend Day:** A narrow range day lacking any discernible movement in either direction.

**On Balance Volume:** A price/volume type of indicator where the volume for the period is added to a cumulative total if the price rose and subtracted if the price fell. No entry is made if the price was unchanged.

**Open Trades:** Current trades that are still held active in the customer's account.

**Open Range:** The range of prices that occur during the first 30 seconds to five minutes of trading depending on the preferences of the individual analyst.

**Oscillator:** Technical indicator used to identify overbought and oversold price regions. An indicator that detrends data, such as price.

**Overbought / oversold Indicator:** An indicator that attempts to define when prices have moved too far and too fast in either direction and thus are vulnerable to a reaction.

**Overbought:** A market condition wherein a stock, group or markets has recently extended or exceeded its normal range of movement on the upside. The condition implies a near term reversal is imminent.

**Oversold:** A market condition wherein a stock, group or markets has recently extended or exceeded its normal range of movement on the downside. The condition implies a near term reversal is imminent.

## P-R

**Pattern:** A distinctive formation created on a chart by the up and down movement of prices. For example, head and shoulders, triangle, and double top.

**Pennant:** A brief triangular consolidation.

**Pivot Point:** The average of the high, low and close of a given period. Acts as support and resistance. Another, definition for the Pivot Point is the bottom or top of the first pullback after a major market move.

**50% Principle (one-half retracement):** After a sustained move in price, this principle holds that a normal correction can be expected to retrace one-half of the advance (or decline) before resuming the main trend.

**Point and Figure Chart:** A method of charting in which only price changes (of a specific unit) and the direction of change are the variables. Time and volume dimensions are disregarded. Price data are plotted on graph paper. New columns are begun when a reversal by at least one unit can be recorded. Advances are marked with "X"s, while declines by "O"s.

**Pullback or Trader's Remorse:** A relatively rapid return, after a breakout, to the boundary area of the preceding pattern. It is usually characterized by light volume.

**Rally or Reaction:** Price movement in the opposite direction to a issue's overall trend.

**Range:** The difference between the high and low price during a given period.

**Relative Strength:** Price performance of a stock or group of stocks compared to a given norm, such as the CMA or MWTA.

**Relative Strength Index:** An indicator invented by J. Welles Wilder and used to ascertain overbought/oversold and divergent situations.

**Resistance:** A supply of stock waiting to be sold at a price above the current level. Significant trading at that level has previously created a pattern which suggests there would be resistance to the price moving significantly above that level without a great deal of stock changing hands.

**Retracement:** In the Elliott Wave Theory, refers to a minor move against the primary trend where the length is mostly a Fibonacci percentage of the previous move.

**Reversal:** A shift in the direction of the price movement caused by a change in demand and/or supply. Generally the longer the reversal pattern takes to develop, the more serious its implications.

**Running Market:** A market wherein prices are changing rapidly in one direction with very few or no changes in the opposite direction.

## S

**Saucer:** A gently curved chart formation resembling a saucer. The formation takes an extended period to complete, occasionally as much as half a year. A similar pattern is traced by the volume, which accompanies it.

**Seasonal Trend:** A consistent but short-lived rise or drop in market activity that occurs due to predictable changes in climate or calendar.

**Selling Short:** Selling a security and then borrowing the security for delivery with the intent of replacing the security at a lower price. In futures trading, selling short is to assume the responsibility of the seller vs. the buyer in the establishment of the futures contract between parties.

**Sensitivity:** The rate of change of the moving average in response to the movement of the underlying data. The most sensitive period is that in which the rate of change of the moving average is fastest in response to change in the sinewave.

**Sentiment Indicators:** Indicators, which attempt to gauge individual investor and/or professional attitudes towards the market. Monitoring the degree of optimism or pessimism present is a major tenet of technical analysis.

**Settlement:** The price at which all outstanding positions in a stock or commodity are marked to market. Typically, the closing price.

**Shaved Candlestick:** In candlestick charting, when the shadows of a candle which mark the area between the real body and the extremes and gives the appearance of being wicks are absent.

**Short Term:** Refers to a period of time often measured in terms of days or weeks.

**Simple Moving Average:** The arithmetic mean or average of a series of prices over a period of time. The longer the period of time studied (that is, the larger the denominator of the average), the less impact an individual data point has on the average.

**Spike:** A chart pattern revealing a sudden or extreme move to a new high or low. These formations are followed by an equally extreme move in the opposite direction.

**Standard Deviation:** The positive square root of the expected value of the square of the difference between a random variable and its mean. A measure of the fluctuation in a stock's monthly return over the preceding year.

**Stochastic Oscillator:** An overbought / oversold indicator that compares today's price to a preset window of high and low prices. These data are then transformed into a range between zero and 100 and then smoothed.

**Stops:** Buy stops are orders that are placed at a predetermined price over the current price of market. The order becomes a "buy at the market" order if the market is at or above the price of the stop order. Sell stops are orders that are placed with a predetermined price below the current price. Sell-stop orders become "sell at the market" orders if the market trades at or below the price of the stop order.

**Stop Loss:** The risk management technique in which the trade is liquidated to halt any further decline in value.

**Support Level:** An area or price level where a price decline may be expected to be halted (or to slow) by an increase in demand.

## T

**Technical Analysis:** A form of market analysis that studies demand and supply for securities and commodities based on trading volume and price studies. Using charts and modeling techniques, technicians attempt to identify price trends in a market.

**Test:** The movement of a stock or an average toward a previously established support or resistance level. It will respect the area reinforcing the support or resistance available there, or penetrate and initiate a new technical event such as breakout.

**Three Percent Rule:** This is often used as a guideline to determine if a breakout or breakdown is valid. The price should move at least 3% above or below the respective level for the move to be regarded as valid.

**Top or Tops:** A period of distribution. The high point of an upward move or one of several recognized reversal patterns.

**Trend:** A move in price either upward or downward characterized by a series of higher lows and higher highs (uptrends) or lower highs and lower lows (downtrend).

**Trailing Stop:** A stop-loss order that follows the prevailing price trend.

**Trend Day:** A day in which the price of a futures contract moves consistently away from the opening range and does not return to the opening range prior to the close.

**Trend-Following:** Moving in the direction of the prevailing price movement.

**Trend Market:** Price moves in a single direction, generally closing at an extreme for the day.

**Trendless:** Price movement that vacillates to the degree that a clear trend cannot be identified.

**Trendline:** A line, which is drawn through successive maximum price movements, i.e., through a series of two or more successively lower peaks (downtrend) or successively higher troughs (uptrend). The more instances of contact, the more the line is reinforced.

**Triangle:** Narrowing of a trading range formed by a series of lower highs as well as higher lows. The pattern is completed by an often-sharp high volume break through either of the converging trendlines.

**Triple Top:** Similar to a double top, though much rarer, but with three peaks instead of two. The pattern is completed when the price declines below the second reaction low.

**Turning Point:** The approximate time at which there is a change in trend.

**Tweezers Bottoms and Tops:** Candlestick formations. Both candles must have identical highs and lows. Significant when found at contract highs or lows, and can indicate a breakout.

# U- Z

**Upside Volume:** The total volume of all advancing issues over a given period of time.

**Upthrust:** Occurs when price moves above a pivot top and a widespread reversal ensues as follows:

a) Two previous closes are revised, b) Close is below pivot top, c) Close is below and mid-range, d) Daily price range is greater than the previous day's range.

**Volatility:** A measure of a stock's tendency to move up and down in price, based on its daily price history over the latest 12 months.

**V Pattern:** A price pattern resembling the letter **V**, characterized by a sharp downward move followed immediately by a rapid upward progression, which is often accompanied by heavier volume.

**Wave:** In Elliott wave theory, a sustained move by a market's price in one direction as determined by the reversal points that initiated and terminated it.

**Wave Cycle:** An impulse wave followed by a correction wave, the impulse wave being made up of five smaller, numbered waves of alternating direction designated 1,2,3,4 and 5 , and the correction wave being composed of three smaller alternating waves designated a,b and c.

**Wedge:** Similar to the triangle but with both converging trendlines, trending sharply in the same direction. An upward or downward slanting triangle (rising wedge, falling wedge). It can be either a continuation pattern or a reversal pattern.

**Zigzag:** In a bull market, an Elliott three-wave pattern that subdivides into a 5-3-5 pattern with the top of wave B noticeably lower than the start of wave A. In a bear market, this pattern will be inverted.