

Chart Your Future

Forecast the markets with the use of technical analysis, both an art and a science which can make a real difference to your investments. BY BC LOW

SINCE ANCIENT TIMES, human civilisation has always been in love with gold. In 2008, gold price broke the US\$1,000 per ounce barrier and climbed to \$1,920 in September 2011. By March this year, it had retreated back to \$1,600. The world held its breath in anticipation of where gold price was headed to next.

If you were a technical analyst, armed with historical charts and the right technical analysis techniques, you might have predicted that the price of gold was headed for the doldrums — \$1,180 by the end of the second quarter of 2013.

On the other hand, your predictions could also have turned out awry — as with every financial technique, nothing is failsafe. Yet, understanding and applying technical analysis can help the average investor go a long way.

Basically, the methodology involves using charts to forecast a market's future trends, and the timing and price levels of future peak and troughs. Charts, to the technical analyst, are what crystal balls are to the clairvoyant, albeit with a lot more scientific-backing than fortune-telling.

Technical analysis can be used to forecast various markets including stock, commodity and currency, just to name a few. But does it actually work? As investors, we all know market direction is notoriously

difficult to anticipate. Various technical analysts have been correct, but many have been far from it; what matters is how often an accurate prediction is made.

In using technical analysis, practitioners need to identify three important aspects about a market in order to make a buy-or-sell decision — the current trend, when the market will turn and the probable highs and lows at the turn. The million-dollar question is: How?

Instead of one simple answer, there are several. Imagine it to be a toolbox that contains different technical indicators — at the simplest, it can be a straight line drawn on a chart to a mathematical formula such as a moving average of the price, to something as exotic as the Fibonacci sequence (a series of numbers that follow a specific order).

Every technical indicator is different and cannot satisfy an investor's needs in the same way. Some do more; others do less.

Pick your indicators and know them well; don't over-expect, accept their limitations. In the end, it is about looking for a few good indicators that work for you with each of the three aspects of trend, timing and price — “a few good men”, so to speak.

However, technical analysis doesn't work all the time, especially when markets are thin and illiquid. **It is best applied in large**



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and transparent markets, such as the major currencies, stocks and leading stock indices. Nevertheless, there will be times when even the most transparent markets do not send clear signals for a period of time. But with the right toolbox and more time, clarity in a market's direction will return.

Be careful not to confuse the methodology with trading. Technical analysis is an analytical tool to aid investment, but once you are “in” the market, emotions come into

play and you may be sorely tempted to ignore new technical signals that arise to reverse your position, especially when it is at a loss. When this happens, investors tend to blame the charts and shoot the messenger.

One of the most common misunderstandings is that it is only good for the short term. The reason for this is that up to now, investors, and even technicians, are simply not aware that technical analysis can provide long-term views of markets.

The decision to use technical analysis in investments is a catch-22. If you do not believe it works, you will not use it. If you do not learn to use it, it will never work for you. If you decide that you want to learn more about it, there are plenty of resources both online and in print. But effort and aptitude are very important. A determined effort to learn and practise technical analysis can yield good returns in the long run. It can leap-frog your entry into a world

that is exciting and promising.

Financial markets offer opportunities for huge profits or losses. But you will always want to know when they will give you money or take it away — technical analysis will be your best friend then. ■

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