Methodology

Technical analysis is at the heart of TRADING CENTRAL's expertise. Our methodology is proven. Our chartist and quantitative approach allows us to intervene on different investment horizons.

- **Market psychology**

TRADING CENTRAL technical analysis gives a view that is deliberately anticipatory, and not historical, with the objective of answering the following questions:
- What is the direction of the market?
- Where are our targets?
- What are the levels of supports and resistances?
- What are the risks that the anticipated scenario is not realized ("alternative scenario")?

All our charts have an arrow that illustrates either bullish or bearish anticipation. The amplitude of the anticipated movement depends on the investment horizon.

- **Technical analysis, assessment and anticipation tool**

Our team of analysts uses technical and chartist analysis to draw an opinion and make decisions. The preferred chartist elements are:

- chartist trend patterns (channels, trend lines)
- consolidation patterns (triangles, rectangles, wedges, etc ...)
- supports and resistances
- divergence on indicators
- Japanese candlesticks
- gaps
- moving averages
- Bollinger Bands

- **The Top Down approach: trading in the direction of the trend**

An efficient method of stock picking is to adopt a top down trend tracking approach. The analysis focuses first on the general trend of the market, and secondly on the sectors that make it up. Then, one or more stocks of the sector having the attention are selected.

The choice of one sector over another within the same market can be done by analyzing the ratio of the sector to the market. The sectors likely to "outperform", that is to say to do better than the market, are favored.

How to select a stock?
As for the analysis of the most efficient sectors compared to the market, for the choice of stocks, the ratio of stock price to the sector is used. The idea is to position oneself to buy or sell on a stock in the direction of the market, and its sector, to maximize its chances of winning.

When analysts determine that the market is bearish, they look for sectors that underperform the market (that is, perform less well than the market) and select a stock in the sector that underperform the sector. Conversely, if they are in a rising market, they look at sectors that outperform (whose performance is better than the market) to choose the stock to buy by measuring the strength of the sector.

The Sector / Index Report
To measure the strength of a sector, the sector / index ratio is analyzed graphically. When this ratio increases, it means that the sector outperforms the index. If it falls, the sector underperforms the index.

Choose a stock and take a position
When the analysts have determined the general trend of the indices and the sector that will optimize this directional (which will most outperform when looking for long positions, underperform when looking for short positions), the last step is to find in the selected sectors, the best asset or assets to buy or sell. Thus, they choose a stock that is from a technical point of view likely to be bullish, if they are in a bull market and vice versa, a downside if they are in a bear market.

The ratio "stock price / sector"
The stock price / sector ratio is a good tool to know the performance of a company on the market. On a chart, if the curve of the company is above that of the sector, it is because the company has outperformed the sector.

- **Controlling market risks: money management, or how to survive on the stock market in the long term**

Before any recommendation, analysts evaluate the potential for gain and the potential for loss. They analyze the reward / risk ratio. This ratio corresponds to the ratio of the expectation of gain to the maximum loss accepted on a position.

The higher the ratio, the more the trading opportunity will offer a significant gain compared to the risk taken:
IF the reward / risk ratio is less than 1: the anticipated gain is less than the allowed loss. In this case, opening a trading position is not interesting.
Analysts are looking for entry points (buying or selling) that meet the condition of a risk return ratio greater than or equal to 3.

The reward / risk ratio allows the investor to make smart bets and stand out. If at each investment, the potential gain is greater than three times the assumed loss, even if you have 50% success rate, the capital will not decrease if the initial investment plan is respected.

Objective: to do better than the market with derivatives
When analysts have chosen an asset (a stock for example) and they anticipate that it will underperform its sector and the index, in a downward market, they are looking for a product (for example an option) that could replicate this decline with leverage.

Leverage provides superior returns and the best results. These products are called "derivatives". Be careful however, the risks taken are also more important and it is therefore necessary to control them.

Definitions:

Technical Analysis: The technical analysis starts with a fairly simple financial principle: at a time T, the price of an asset accurately reflects all the information available on the asset, all of its history. This is because time is considered continuous; any change in the price leads to the determination of a new level which itself will be the base of reference for new variations. Therefore, it is possible to rely on the evolution of prices to try to determine the most likely future developments. A more complete definition is available here [https://private.tradingcentral.com/index.asp?p=university&language=en]

Investment Horizons: more information on this link

Market trend: TRADING CENTRAL identifies 3 possible market directions: bullish anticipation, bearish anticipation, neutral anticipation. See below

Bullish or bearish expectation: terms synonymous with bullish or bearish trend.

- A bullish trend is an upward movement in which successive peaks and bottoms are higher and higher

- A bearish trend is a downward movement in which successive peaks and bottoms are lower and lower
- A neutral trend: corresponds to an anticipation that is neither bullish nor bearish also called trading range. It is a waiting phase during which the directional market is not clearly defined.

Targets: When the identified trend is bullish, the targets are the first two resistances. In the case where the trend is bearish, the targets are the first two supports.

Supports and resistances. On the charts, the levels in green are resistances, those in red are supports. Only one is in blue, this is the key level of the analysis: the **pivot point**.

There are 3 main categories of supports and resistances:
A / horizontal levels
A level is considered a horizontal support because at each price attempt (at least two) to break through this level, they fail and a rebound occurs.
We can reciprocally find psychological levels on the rise, preventing the rise of the asset beyond certain levels: it is then resistances.

The existence of such pattern is due to the principle of market memory. In fact, investors remember past turning points and are thus able, as they approach these levels, to position themselves accordingly. These anticipations become self-fulfilling, and further strengthen the value of support or resistance. In the case of a support, it is the buyers who exercise their memory and take over, while it is the sellers who win in the case of resistance. We can then see configurations like the one reproduced here, with levels (supports or resistances) that have already been crossed and acting either as support or as resistance.

B / trend lines
If such patterns are quite easy to identify on a horizontal plane, because often corresponding to psychological thresholds, it is not the same in the case of supports and oblique resistances, that is to say trend lines.
Indeed, it is often possible to draw oblique lines on which prices struck (resistance) or bounce (support).
It is even often possible to identify parallel combinations of these lines, forming channels, upward or downward. The course comes up against the top of the channel and rest on the bottom of it.

These tendencies are often extremely powerful and reflect the memory of the markets since channels can be valid simultaneously in the long and short term. The power of these trends explains why their end (the channel is said to be "broken", generally down for a bullish channel and up for a downtrend channel) is often accompanied by high volatility and can trigger a trend reversal.

C / Fibonacci projections and retracements
Another category of reference levels exists. They are based on the length of previous trends and are grouped under the heading "Fibonacci projections and retracement". This name refers to a set of mathematical and graphical considerations, based on the sequence of the same name. This one, formalized by the famous Italian mathematician of the 13th century, consists of the following way:

Any term in the sequence is expressed as the sum of the two preceding terms (i.e. $U_{n+2} = U_{n+1} + U_n$), the first two terms being 1 and 1 (i.e. $U_0 = U_1 = 1$).

The first terms of this series are: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55... This series has many interesting properties, the most useful in the field of technical analysis concerning the limit of two consecutive terms of this series. The ratio (U_{n+1} / U_n) indeed tends towards the gold ratio (around 0.618) to infinitely large n.

In the field of finance, this ratio and its fractions are used to determine levels of resistance and support as well as objectives. The main proportions involved are 38.2%, 50% and 61.8%. They are used to determine what are called "retracements" or “projection”.

Pivot Point: Level of support or resistance in blue on the charts.
The pivot point serves as the theoretical stop & reverses i.e. if the level is broken; it is considered that the preferred scenario is invalidated and that the alternative scenario should develop.

Our pivot points are placed on key points: which can be chartist levels (horizontal supports and resistances, trend lines or pattern targets) but also retracements and projections based on Fibonacci numbers.
NB: it is not a point calculated on the highest, lowest and opening price (method called "pivot points" based on the classical method, Woodie, moving average or Fibonacci) but of a level of invalidation of the analysis determined by the analysts of TRADING CENTRAL.

Preferred scenario: most likely market direction with respect to technical conditions. This scenario is illustrated on the chart by a directional arrow. It is invalidated in the event of breakage of the pivot point, level in blue on our charts.

Alternative scenario: in the case where the **pivot point** is broke, the preferred scenario is invalidated and it is the alternative scenario that is now the most likely to be realized

The definitions of the **technical analysis specific terms** listed below are available here [https://private.tradingcentral.com/index.asp?p=university&language=en]

- chartist trend patterns (channels, trend lines)
- consolidation patterns (triangles, rectangles, wedges, etc ...)
- supports and resistances
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