

THE TRADER



Time to get on with it Technical analysis is still going strong

My editor knows me very well. Not one to try and steer me in any direction, or stamp a house view on his writers, he realises I do not respond well to micro-management. Very occasionally he does bring an article to my attention – usually something amusing, a classic video clip, a face to a name. This summer he lent me a book he thought I'd find interesting. I've eventually finished it and what a gem it is!

Called *Beginners Please*, subtitled 'for those who want to invest profitably' – stating the bleeding obvious – its cover with briefcase and bowler hat, teddy bear and toy bull do it no favours. First printed by T&A Constable Ltd for the *Investors Chronicle* in 1955, mine is the 1973 edition which takes account of decimalisation and the 1971 and 1973 finance acts.

'The Japanese were using candlestick charts to trade commodity markets as early as the 1700s'

The inside flap stresses features to look out for such as a fully revised taxation section (my eyes glaze over), reviews of specialised investments, and chapter seven on 'chart reading' – which I leap to. At only 36 pages long, including 10 good charts, it's the ideal primer for a complete novice. *Investors Chronicle* was, and still is, ahead of the curve.

The first page reminds us that Charles Dow, who developed the Dow Theory of chart analysis, created and avidly watched the Industrials and Rails indices since 1897 because "the average reflects in its price level all that is generally known about

the outlook for business in general, and expresses all the hopes and fears for the prospects of the individual companies of which it is composed". Technical analysis, as it is now usually called, is nothing new and has been adopted by many for ages. In fact, the Japanese were using candlestick charts to trade commodity markets as early as the 1700s.

Much to my delight as I read on, six sections were penned by David S Fuller of Chart Analysis Ltd – for this magazine. As a new graduate, when my handwriting was still legible, I went to one of their regular

conferences; I still have the notes I took because he explained charting so well. I immediately 'got' it, have been a fan ever since, and consider David my guru.

"The fundamental analyst studies earnings and trends," he writes, "and should know how a share or industry group has performed when various conditions have applied. If we substitute 'price' for 'earnings', the previous sentence will apply to technical analysis as well. Both forms of analysis leave considerable leeway for individual interpretation and judgement. Anyone seeking performance in an increasingly competitive market place who relies on [just] one of the two forms of analysis... is denying himself a key investment tool".

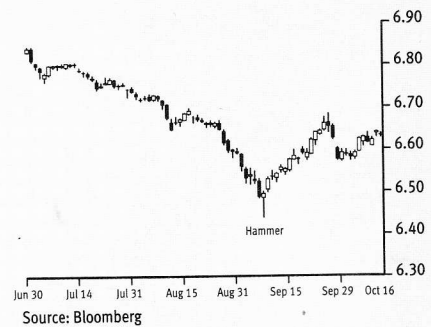
I certainly agree with him that, because price changes are more volatile than changes in underlying value, technical analysis is key to timing. It is also an efficient use of one's time and relevant to current conditions. I've picked four time frames of the Chinese yuan exchange rate per US dollar where you can see that the chart pinpoints the exact time of a significant recent change in trend. A V-shaped reversal on 8 September's four-hourly chart, forms a hammer on the daily chart, a quasi-hammer on the weekly chart, and strong hammer on the monthly chart. Fractals!

email: nicole.elliott@ft.com

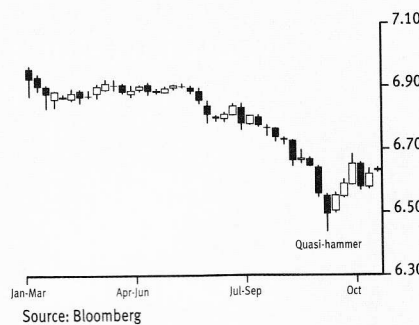
Yuan 4 hourly chart



Yuan daily chart



Yuan weekly chart



Yuan monthly chart

