V Skills

Skills for a secure future

Certified Technical Analyst

Sample Material

V-Skills Certifications

A Government of India

&

Government of NCT Delhi Initiative

V-Skills

Skills for a secure future

1. MARKET BASICS

1.1 Stock Market Terminology

Before commencing with the topic of technical analysis, one must have a good understanding of the basic terminology used in this field. Short definitions of a few common terms used by professionals and the industry are as follows.

- ✓ Stock market: A stock market is a place for trading of a company stocks and derivatives at an agreed price. It is the place or a platform where stocks are bought and sold.
- ✓ Stock exchange: It facilitates trading for brokers and traders. A broker acts as a mediator between an exchange and a trader.
- ✓ Stocks and shares: ‘Stocks’ and ‘shares’ are commonly interchanged terms. While both of the terms refer to the share in the ownership of the company, there is a small distinction. ‘Stock’ is a general term describing the ownership certificate of any company, while ‘shares’ refers to the ownership certificate of a particular company. For instance, if one says that he own ‘stocks’ it refers to the overall ownership in one or more companies but when he says that he owns ‘shares’, he is referring to a particular company's stocks.
- ✓ Bull: The investor or trader who buys shares in the expectation that the market price of the company's share will increase.
- ✓ Bear: The investors or traders who sell stocks first at higher price and then purchases it at lower price to earn profit.
- ✓ Bull market: Market condition when the market is rising and buyers are more than the sellers. This trend is called ‘bullish.’
- ✓ Bear market: Market situation where the price of the securities is falling for a prolonged period. The market is called bear market and this trend is called ‘bearish.’
- ✓ Correction: A correction takes place when market indices rise rapidly for few days and then retrace the gains.
- ✓ Closing price: The last trading price of a security at the end of trading day/session.
- ✓ Circuit breaker: When price of a stock increases or decreases by a certain percentage in a particular day, it hits the circuit breaker. When the circuit breaker is hit, trading in that stock is ceased for some time or that whole particular day depending on the fluctuation.
- ✓ Day trading or intraday trading: Day trading is buying and selling a security on the same day. In day trading the traders square off their positions on the same day.

- Long: Buying a stock means to go long on the stock. Traders, who expect the price of security to rise up, go for long.
- Short- Short selling means selling of borrowed stock in an expectation that the price will drop and then one will buy it back at cheaper rate.
- Stop loss- Stop loss is used to limit the possible loss of trader. It is the price where a trader exits his or her position in case of adverse price movement. A good stock advisory always provide stock tips along with the stop loss.

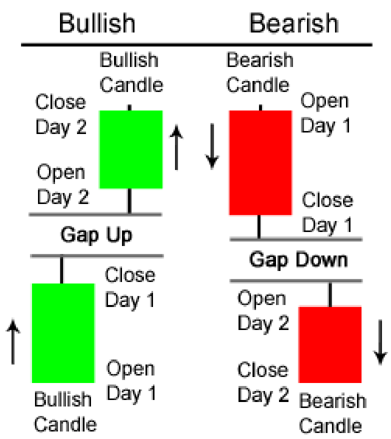
1.2 Price Movements

- Tree Shakes: When a market maker is trying to fill a large institutional buy order, sometimes they may not have enough shares. To fix this, they start to gradually drop the share price in order to give the illusion that the company has a problem. Weak share holders will sell up, and the market maker continues to drop the price until enough weak holders have relinquished their shares. The market maker then fulfils its large order and returns the share price to where it started.
- Falling Knife: Normally for reasons such as a profit warning, or a change in market conditions, the future outlook of the company less profitable than originally expected. Hence when a novice investor sees a rapidly falling share price, he or she may see it as an opportunity to buy cheap whereas in reality, the share price may fall further. Traders should therefore avoid catching a falling knife.
- Trend is your friend: It is good practice to follow the trend of a share price by studying the moving average. An arithmetic or simple moving average (SMA) plotted on a chart shows the mean average of the share price over the period it is measured. It provides for a good indicator of the general trend of a share price. Sometimes there may be a share price moving upwards hinting people to buy, but if the SMA is in a downtrend this can be a sign that reversal could take place.

1.3 Share Price Chart

- Gaps: A gap is the space between the closing price of the previous day and the opening price of the current day. It can be either up or down and represent a mark-up or mark-down of a share price when the market opens.

For example, news of a profit warning might lead to a gap down i.e. the opening market price may be substantially lower than the previous day's closing price. Conversely, good news premarket such as a takeover bid or financial results better than expectations might lead to the share price being marked up before market opening.



✓ Dead Cat Bounce (DCB): The chart shows a prevailing trend downwards, sometimes steep. This is followed by a small rally, but the direction turns downward again. The second sell-off is sustained, and resumes the original downtrend. Some people call the dead cat bounce a "sucker rally."