Understanding Forex Technical Analysis For Successful Trading

Understanding Forex Technical Analysis for Successful Trading

Price Charts contain information regarding FOREX prices at specific time intervals. Intervals range anywhere from one minute to several years. Prices are usually displayed in the form of line graphs, and occasionally the change over each given time period is depicted in the form of a bar graph or candlestick graph.

Line graphs are useful for providing a broad overview of price fluctuations over time. They display the closing price at the end of the given time period. Line graphs possess several advantages when compared to other types of graphs: they are are quite easy to understand and they are useful for finding patterns over a long period of time. However, a key disadvantage is that they lack the degree of detail possessed by bar and candlestick graphs.

In contrast, **bar graphs** provide a greater amount of information than line graphs. The length of each bar demonstrates the price difference for the specific time interval - a longer bar indicates a bigger separation between high prices and low ones. Furthermore, each bar contains two tabs. The left tab on a given bar displays the price at the beginning of an interval, while the right tab demonstrates the price at the end of an interval. Using this system, it is easy to see price fluctuations over a given time interval, and to understand specifics of the variation in price. At times, it can be difficult to read bar graphs which have been condensed and printed on paper, but most computerized graphs usually possess a zoom feature, which makes it easy to see the specifics.

Candlestick graphs originated in Japan, where they were frequently used in order to analyze rice sales. These resemble bar charts in that they indicate prices at the beginning and end of a certain time interval, as well as the peak and low prices over that interval. Furthermore, these charts are color coded, which assists in the ease of understanding. Green candlesticks are associated with increasing prices, while red candlesticks demonstrate decreasing prices.

Candlestick shapes - these shapes, when viewed in comparison with neighboring candlesticks, provide information regarding market fluctuation. This information is helpful in analyzing graphs. Different shapes of candlesticks come as a result of several values: price diffusion, and the disparity between prices at the beginning and end of a given interval. Candlestick patterns have been dubbed names which correlate with their physical shapes; names including 'morning star' and 'dark cloud cover'.

When an individual learns these shapes, he or she is easily able to find them on a graph, and utilize this information in identifying tendencies in the current market.

Price graphs are frequently supplemented with various technical indicators. Many of these technical indicators fall into various differing categories. Some of these categories include trend indicators, strength indicators, volatility indicators, and cycle indicators. Each of these indicators is a tool which can be used to predict fluctuations in the market.

Common technical indicators frequently used in FOREX are as follows:

Average Directional Movement Index or ADX for short - this is utilized in to demonstrate if a market is entering an upward or downward trend, and to indicate the strength of the give trend. For the scale usually used by this index, results above 25 indicate a trend with a greater strength than usual.

Moving Average Convergence/Divergence or MACD for short - this demonstrates the current momentum of the market, as well as displaying the relationship between two fluid averages. A strong market is usually demonstrated when the MACD crosses over the signal line.

Stochastic Oscillator - this demonstrates the strength or weakness of a given market by way of comparing a given ending price to a price range over a specific time interval. A stochastic value under 20 demonstrates a currency that is oversold, while a stochastic value over 80 demonstrates a currency that is overbought.

Relative Strength Indicator or RSI for short - this is a scale from 1-100 which indicates the peak and low prices over a specific time interval. A price which falls below 30 is indicative of an oversold commodity, while a price above 70 is indicative of an overbought commodity.

Moving Average - this refers to the average price over a specific time period when that price is compared with other average prices during the same interval. For instance, ending prices over a 6 day interval would have a moving average of the total of the 6 ending prices divided by 6.

Bollinger Bands - these are bands which contain the great majority of a currency's current value. These bands consist of three horizontal lines. The top and bottom lines display fluctuations in price, while the middle line demonstrates the mean price. During time periods when the price is very volatile, the disparity between upper and lower bands increases. Overbought or oversold times are indicated when a bar or candlestick comes into contact with a Bollinger band.