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How to Buy & Sell Stocks Using Technical Analysis

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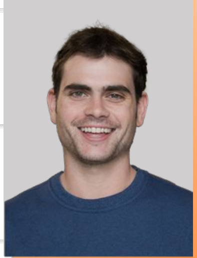
Carolyn Bao

VP @ Moomoo



Aaron Bry

Benzinga

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Our speakers

Carolyn Bao
Vice President @ moomoo

Aaron Bry
Trader / Content Producer @Benzinga

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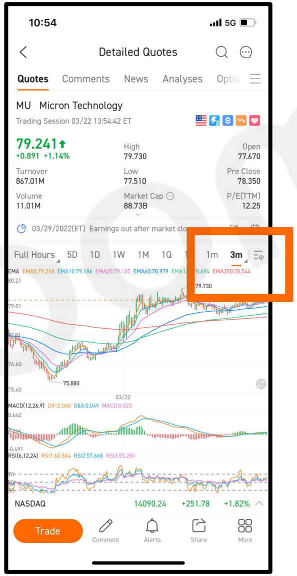
Technical analysis is the study of market action, through the use of charts, for the purpose of forecasting future price trends

But first, let's talk about charts

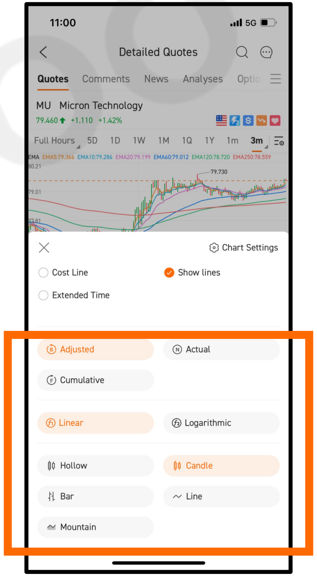
Bar charts and candlesticks are some of the most widely used charts in technical analysis

Moomoo gives you the choice to pick from several types of charts:

- Linear or logarithmic
- Hollow
- Bar
- Candle
- Line
- Mountain



ON 'DETAILED QUOTES' SCREEN



PICK THE CHART TYPE YOU'D LIKE TO USE

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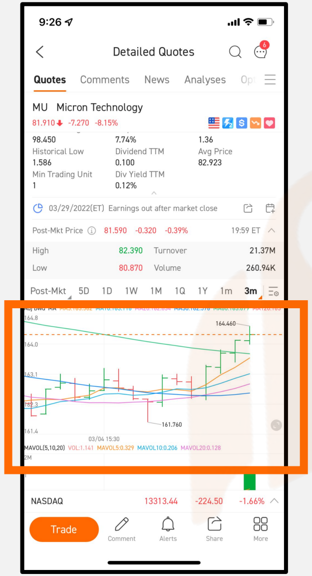
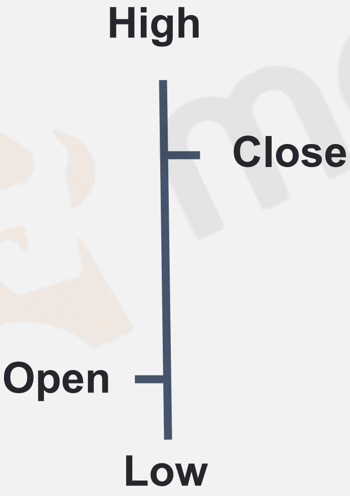
Bar Chart

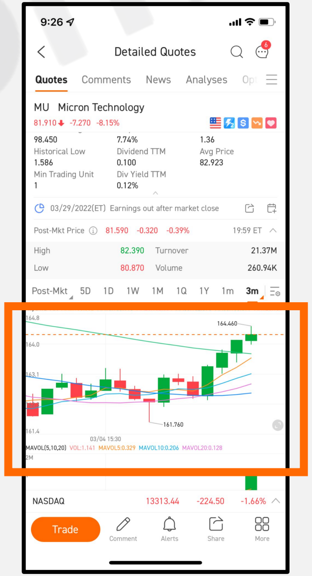
Each time period’s range is represented by a vertical bar that shows the open, close, high and low prices for the day





Candlestick

Similar to the bar chart. A thin line shows the day’s price range from the high to the low. A wider part of the bar called the “real body” shows the distance between the open and the closing price



Green shows that the close was higher than the open

Red shows that the open was higher than the close

Technical analysis has three main components

1 Price Patterns

1.1 Reversal trends
1.2 Continuation trends

2 Volume

As a secondary indicator

3 Technical Indicators

3.1 Moving Average
3.2 Bollinger Bands
3.3 RSI Index
3.4 MACD

1

Price patterns

Formations which appear on price charts of stocks, that may be classified into various categories (e.g. reversal and continuation), and provide bullish or bearish price signals

1 Major price patterns: Reversal and Continuation
Here are Reversals patterns

1.1 Reversal patterns indicate a major trend reversal could be in progress, and most commonly include:

1. The head and shoulders
2. Triple tops and bottoms
3. Double tops and bottoms
4. Spike or V tops and bottoms
5. Saucer pattern

The head and shoulders top

This is the most important pattern, and the basis for the others. Seen when a series of ascending peaks and troughs in a major uptrend gradually begin to lose momentum, support levels are broken and a new downtrend is established.

AAPL 2021/12 - 3/15/22

PRO TIP

Points common to reversal patterns

- The existence of a prior trend
- The breaking of an important trendline is often the first signal of an impending reversal
- The larger the pattern, the greater the potential subsequent move
- Topping patterns tend to be shorter in duration and more volatile than bottoms
- Volume tends to be more important on the upside

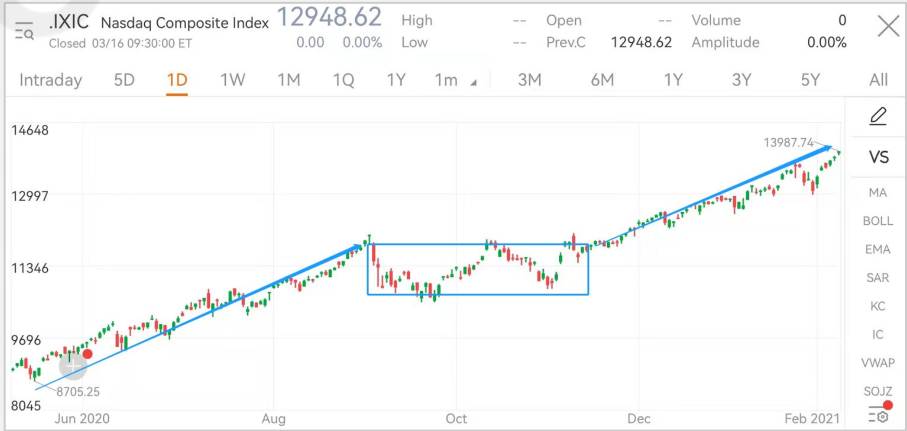
1 Major price patterns: reversal and continuation Here are Continuation patterns

1.2 Continuation patterns tend to be shorter in duration than reversal trends, and often include:

1. Triangles
2. Flags and pennants
3. The wedge formation
4. The rectangle formation

Continuation of present trend

For example: A rectangle occurs when the price is moving between horizontal support and resistance levels.The rectangle ends when there is a breakout, and the price moves out of the rectangle.

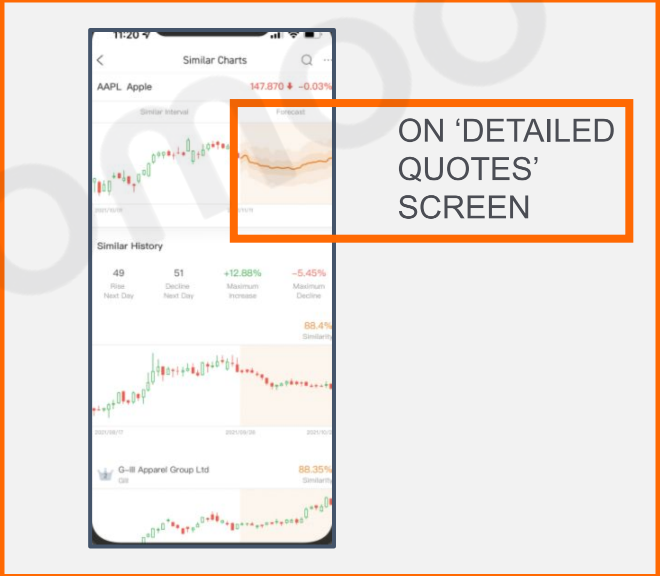


IXIC 2020/06 - 2021/02

Analyzing stock charts is complicated, even for experienced technical traders

🏆 LEVEL UP

Moomoo’s **Similar Charts feature** helps guide technical traders on what pattern is most likely to emerge, based on past trends*



*Past performance does not guarantee future results.

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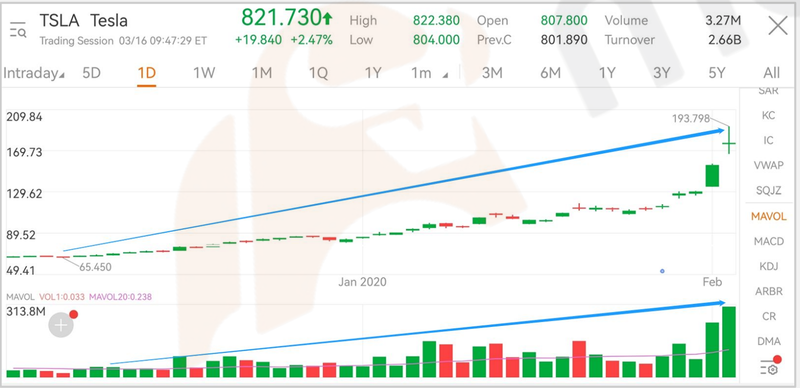
Volume

Volume is an important secondary indicator in technical analysis, after price movements.

2 Continuation of present trend

If volume of stocks being traded is increasing, then the current price trend may continue in its present direction, up or down.

Protip: Look for the bars to get higher over time e.g. green bars that get progressively higher represent a continuing uptrend.

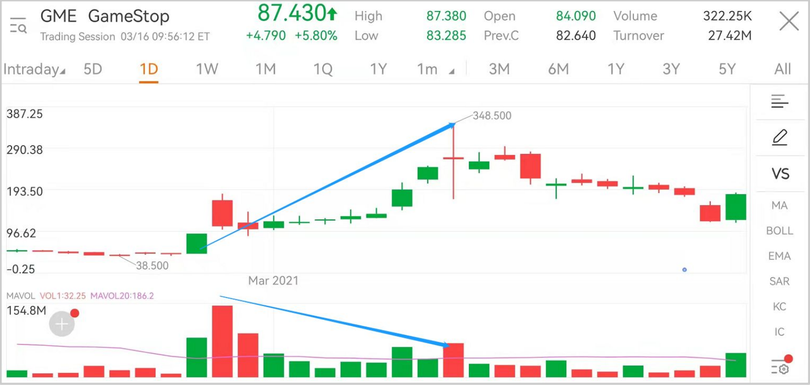


TSLA 2019/12 - 2020/02

Reversal of current price trend

If volume of stocks being traded is declining, it may be a warning that the current price trend is coming to an end.

Protip: Look for the bars to get progressively shorter over time e.g. green bars becoming shorter means that the uptrend may be coming to an end.



GME 2021/02 - 2021/02

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Technical indicators

Unlike chart analysis, technical indicators such as Moving Averages are generally less vulnerable to misinterpretation

3 3.1 The Moving Average is one of the most commonly used technical indicator to analyze a price trend

The moving average is used to determine the direction of a trend. It sums up the price of a financial security over a specific time period. Known as a lagging indicator because it trails the price action of the underlying asset to produce a signal or show the direction of a given trend

The Simple Moving Average is the most commonly used, along with closing price.

When the closing price moves above the MA, a buy signal is generated. It's a sell signal when prices move below the MA.

In this example NVDA's shorter Moving Averages (5 day MA and 10 day MA respectively) are moving below the longer duration MAs, indicating that the stock price may move into a downtrend.

3 3.2 Bollinger Bands display "bands" within which a price is expected to be contained, as the market expands (band broadens) and contracts (band narrows)

In this example NVDA price is approaching the lower channel indicating that the stock may be oversold.

Bollinger Bands consist of a centerline which is a simple MA and price "bands" that are two standard deviations from the centerline, and within which the price is expected to move.

The price is considered overbought when it touches the upper band, and oversold when it toucher the lower band.

Standard Deviation measures the range of a investment's performance. The greater the standard deviation, the greater the investment's volatility.

PRO TIP

- While a shorter MA generates more false signals, it gives trend signals earlier in the move.
- Hence, the longer averages work better as long as the trend remains in force. A shorter average is better when the trend is reversing.
- To capture the advantages of both types of MA, experienced technical traders often prefer using two averages. When the shorter average crosses above the longer, a buy signal is produced. The two most popular combinations are: 5 and 20 day averages, and 10 and 50 day averages.
- MAs works best when the market is in a trending phase, but are not very helpful when the price move sideways. Oscillators work well during these trendless periods.

PRO TIP

Oscillators are most helpful during these conditions:

- The market is trendless or moving sideways
- There are short-term market extremes, by alerting traders to overbought or oversold market conditions
- Alerting traders when a trend is losing momentum, before it becomes evident in the price action

Popular oscillator indicators include the Relative Strength Index (RSI) and the Moving Average Convergence/Divergence indicator (MACD).

3 3.3 RSI is a range-bound* oscillator that measures stock price change momentum

The higher the RSI value, the stronger the bullish trend. As it moved closer to 100, the RSI indicates that on average, gains > losses during that time period.

The RSI indicates an overbought market when it moves closer to 70 or 80, and an oversold market when it moves below 30.

In this example, NVDA's RSI indicator is moving below the 30 line, indicating oversold conditions, which is normal in a bear market.

*RSI's value fluctuates between 0 and 100 depending on the performance of the underlying security, and is calculated based on prior periods' average gains vs. losses.

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3.4 The MACD helps traders determine if a bullish or bearish price pattern is becoming stronger/weaker

In this example as of 3/18/22 NVDA is showing a neutral buy zone as the stock is neither oversold or overbought

The MACD is calculated by subtracting the 26-period exponential moving average (EMA) from the 12-period EMA.

Since it's based on a Moving Average that uses the most recent price changes, it is considered a reliable indicator of whether an overbought or oversold trend is becoming stronger or weaker.

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