momentum
securities

The essentials of technical analysis

Understanding trend, direction and recurring price behaviour

GUIDE 1
Start with the trends

Technical analysis begins with a practical question:

What is the price trend, and is that trend still intact?

By examining price behaviour on a chart, investors can build a more structured view of market direction and recognise when conditions may be changing.

What technical analysis aims to achieve

1 Establish direction
Determine whether price is generally moving upwards, downwards or sideways.

2 Assess whether the trend remains intact
Use observable chart evidence to judge whether the existing direction is continuing.

3 Recognise a possible change
Look for evidence that price behaviour is no longer following the established structure.

4 Support disciplined decisions
Use a repeatable process rather than reacting to isolated market movements.

Important distinction:
Technical analysis does not predict outcomes with certainty. It offers a structured way to interpret price behaviour and manage uncertainty.

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1. Begin with the broader trend

The first task is to establish the market's dominant direction. In this simplified example, price generally advances over time and remains above a rising trend line.

1 Zoom out

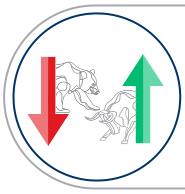
Review enough chart history to see the broader movement rather than focusing only on the latest price change.

2 Identify the direction

Ask whether the overall path is rising, falling or moving within a range.

3 Use a trend line as a visual guide

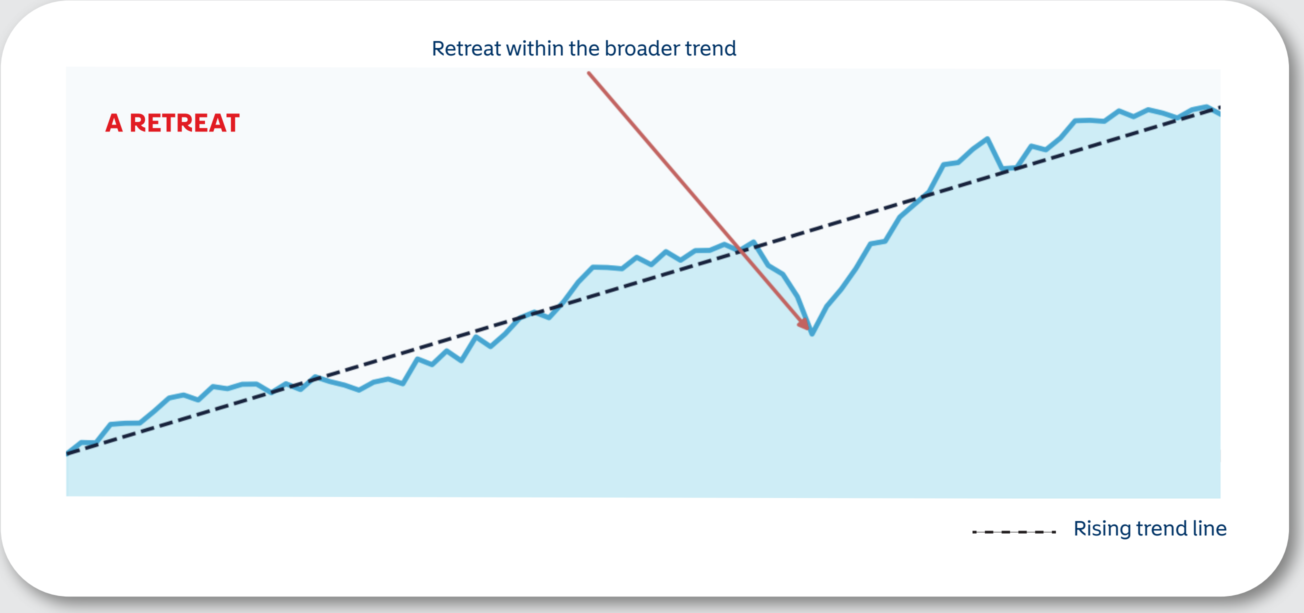
A trend line can help make the direction easier to see, but it should be considered alongside the price structure.



Key idea:
The trend provides context. A short-term fall may look different when viewed within a longer-term rise.

2. Separate a retreat from a trend change

Prices rarely move in a straight line. Even within a broader uptrend, price may retreat before continuing. The key is to assess the retreat in the context of the established trend.



1 Locate the retreat

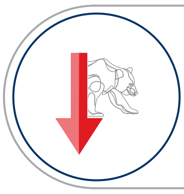
Identify where price moves against the prevailing direction.

2 Compare it with previous movements

Consider whether the retreat is consistent with earlier fluctuations or materially different.

3 Check the broader structure

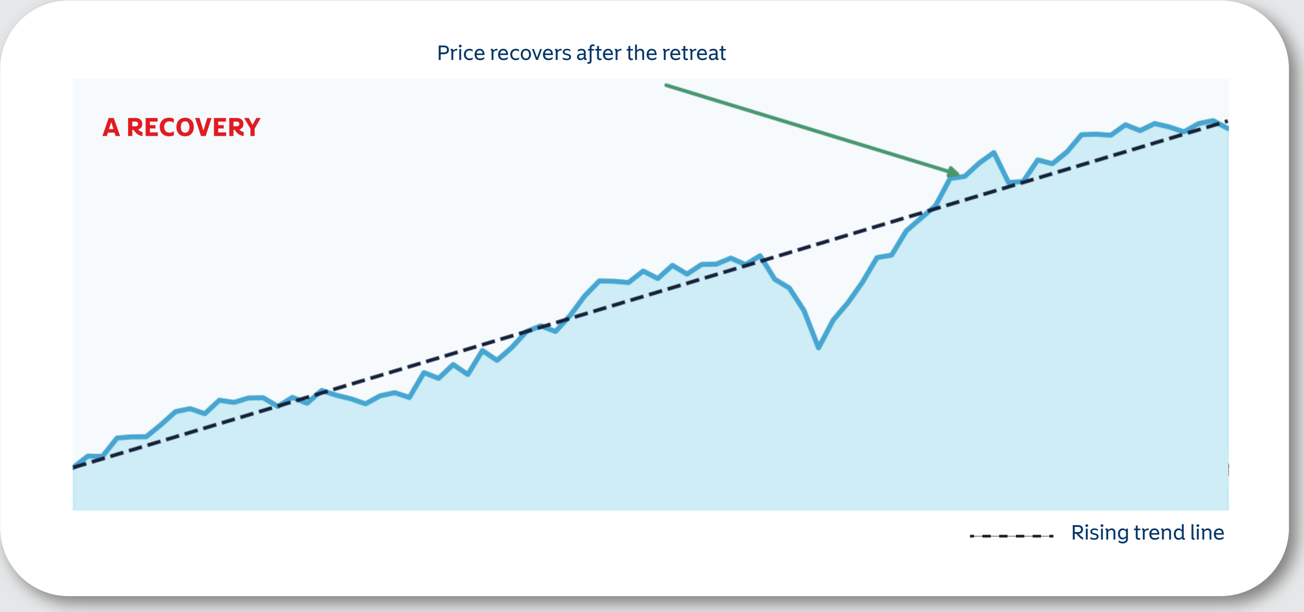
Assess whether the established trend line and sequence of turning points remain broadly intact.



Avoid a common mistake:
Do not treat every downward movement as a new downtrend. First test it against the wider chart structure.

3. Look for evidence of recovery or change

After a retreat, price may recover and resume the broader direction. Alternatively, the established structure may weaken. Technical analysis is therefore an ongoing process of observation and reassessment.



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Practical principle:
Let the chart provide evidence. Avoid deciding in advance what the market must do.

Why recurring price behaviour matters

Technical analysis studies recurring price behaviour. Market movements do not repeat in exactly the same way, but similar structures may appear over time. Recognising these structures can help investors interpret the relationship between current price action and previous chart behaviour.

Your four-question chart routine

1 What is the broader direction?
Up, down or sideways?

2 Is price moving with or against that direction?
Distinguish continuation from a temporary counter-move.

3 Does the established structure remain intact?
Compare current price action with the trend line and prior turning points.

4 What evidence would change the view?
Define the chart behaviour that would indicate weakening, recovery or reversal.

In summary

Essential element	What it contributes
Trend	The central focus of technical analysis
Direction	Establish whether prices are moving up, down or sideways
Context	Interpret short-term moves within the broader structure
Patterns	Use recurring behaviour as evidence, not certainty