

“STOCK GAME”- My Chartist Method

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1. Chartist Method

1.1 Introduction

Chartist Method is very easy to understand but still you need practice to become expert in it. Chartist Method is largely dependent upon relationship between Stock Price and Volume. Future price trend of stock can be suggested on its volume.

Others things being equal, price of stock is influenced by supply and demand for that stock. Chartist Method just studies **supply** and **demand** in a market in an attempt to determine what direction, or trend, will continue in the future. Thus, Chartist Method doesn't attempt to measure a stock's intrinsic value, but instead use charts and other tools to identify **patterns** that can suggest future activity.

But as stock market is stock market, one should be updated with News regarding company, economy and other things which may influence stock market, otherwise, chartist method may go wrong and you may book loss.

Thus, one should go for study of:

1. Chartist Method: Relation between supply and demand.
2. Effects of whole economy

One has to combine these two studies and decide best buy point and sell point.

Chartist Method is bolstered by its two approaches that one should keep in mind while analysing stocks pattern. It's become challenging because you have to use all aspects at one time.

These two approaches are;

- Basic Up & Down approach
- Further Fall & Up approach

Chartist Method is useful for only trading which may carry for intraday or for maximum 5 days and not for long term investment. It is quickest way to understand pattern of stock and guess future of price of stock. Chartist Method understands behaviour of traders and shows if any possibilities of increasing or decreasing price of stock.

1.2: Basic Up & Down approach

Basic up & down is based on simple rule of stock market, i.e. Stock that go down must come up and vice versa. Chartist's first approach Basic up & down says, there is direct relationship between stock price and its volume.

When it is Basic Up & Down approach:

Basic Down: High Stock Price is supported by High Numbers of Volume

&

Basic Up: Low Stock price is supported by Low Numbers of Volume

Basic Up & Down approach is useful when market is more volatile i.e. when there are instant up and down. However, it's very rare to see such stock pattern. But it can be effectively used as base for approach Further Fall & Up approach.

Let's see, what Price & Volume pattern you understand from this chart:



Basic Up & Down Fig.1

Ok, let's make it easier. Now, chart pattern is drawn by Red and Green direction lines.



Basic up & Down Fig. 2

In Fig.2 you can clearly see pattern of Price & Volume. There is direct relationship between price and volume, which means, price is moving with volume. This is basic pattern of stock price and volume. When stock goes up more traders get interested in it and thus numbers of volume go up and vice versa. Thus, if you bought stock when it is undervalued, you could have booked profit. And if someone of you had booked loss, then think, if you have sold this on its peak point.

According to Basic Up & Down approach,

Best Selling Point is where stock price is up and its volume on peak point.

Best Buying point is where stock price is low and its volume on trough point.

See the charts on next page for selling and buying points through Basic Up & Down approach:



Basic Up & Down fig.3



Intra-day Basic Up & Down Fig.4

Chartist Method's approaches are more useful for short period of time. In better way, I can say, one should use chartist method in intraday trading, as one can make huge money in just half hour.

According to Basic Up & Down approach,

Best Selling Point is where stock price is up and its volume on peak point.

Best Buying point is where stock price is low and its volume on trough point.

1.3: Further fall & Up approach

We just discussed Basic Up & Down approach, where stock's price moves with its volume, i.e. High price is supported with high volume and low price is supported with High Volume.

But what if, the situation got completely opposite. Yes, then we are talking about Further fall & Further Up. Unlike, Basic Up & Down approach, here is indirect relationship between Price and Volume.

When it is Further Fall & Up approach:

Further Fall: High stock price is supported with low numbers of volume.

&

Further Up: Low stock price is supported with high numbers of volume.

E.g. Further up:



Further Fall & Up Fig.5

In fig.5, See Further Up Buying Point, i.e. On 13 September, stock price is low but which is supported with high volume, this is situation of Further Up. This is best buying point because its price is low and volume is on peak.

According to Further Up & Down approach,

Best Buying Point is where stock price is low and its volume is on peak point.

Best Selling Point is where stock price is high and its volume is on trough point.

The best selling point in fig. 5 is after 13 September, where price of stock is going up and volume is on trough. Thus, this indicates stock is going to fall soon. This is Selling point. You can see it in fig.6



Further Fall & Up fig.6

You can see Stock has started falling after 9 October, because price of stock is increasing & Volume is getting low; this is selling point according to Further Fall approach.

In some cases, stock will go up for long time even when its volume is lowering and even it won't fall. But it will be just Gambling in eye of Chartist Method.

Further Up is buying point according to Further Fall & Up approach, where stock price is low and its volume is high. See fig. 7



Further Fall & Up approach fig.7

Here you can see Buying point is on 10 October, price of stock is undervalued or decreased at Rs. 411 but its volume has gone up at its peak. Thus, this is **Further up** situation which is nothing but **buying point** according to Further Fall & Up approach.

And just from next day, stock has started going up till 15 October.

According to Further Up & Down approach, **Selling Point is where stock price is high and its volume is on low.**

On 15 October there is **selling point** because price of stock has increased but volume is lowering. This is selling point because this is **further fall** situation. You can see, stock has been fallen after 15 October.

1.4 Cases:

There are different cases where I chartist method is used:



HDFC Bank Fig.8



Hindustan Unilever Ltd Fig.9



ITC Ltd. Fig.10



Sun Pharmaceuticals Industries Ltd. Fig.11

1.5 Conclusion

Chartist Method study supply and demand in a market in an attempt to determine what direction, or trend, will continue in the future. Chartist Method uses two approaches; Basic Up & Down approach and Further Fall & Up approach.

According to Basic Up & Down approach,

Best Selling Point is where stock price is up and its volume on peak point.

Best Buying point is where stock price is low and its volume on trough point.

According to Further Fall & Up approach,

Best Buying Point is where stock price is low and its volume is on peak point.

Best Selling Point is where stock price is high and its volume is on trough point.

Chartist Method gives simple way to understand how stock performing, it helps to understand behavior of traders. As stock market is full of uncertainty and risky, one cannot nullify their effect but can try to minimize it. Chartist Method is largely structured to minimize this uncertainty and risk.

As Stock Market is Stock Market, No method can give assured future price for any stock. But they may show future possible price by analyzing chart pattern of stocks. And chartist Method is widely successful in it.

As I already mentioned, just technical analysis is not enough, you should update regarding business or economic news which my influence market. Whether, news is bad or good, one should know how to cash it, because at every transaction one sells and one buys it, one earn and one loss.

As successful traders, you should learn to control your lust and try to minimize risk, even if you earn less, it doesn't matter, but you should not book a loss.

1.6 Reference

Chart Images are taken from 'Yahoo Finance India, Interactive Chart' and then edited.