LEARNING MADE EASY

Stock Charts

for dummies®
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Build and use a variety of charts

Organize and manage your charts for greater trading success

Increase profits and minimize risk

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and Lita Epstein, MBA

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Contents at a Glance

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Introduction

So you've familiarized yourself with the world of investing and you're ready to dive in, or perhaps you're already in the market but looking for more tools to improve your stock picking and portfolio management. Great! Charting gives you a way to visualize trends in the market. You can help improve your visualization with various tools that we show you how to use in this book, such as overlays and indicators. You also get to explore many different chart types, including candlestick charts, bar charts, line charts, and area charts, as well as discover the pros and cons of each chart type.

Beyond the basics, we introduce you to various strategies you can use to organize and manage your charts to make your stock trading easier and more successful. Yes, you'll still risk taking a loss when trading stocks, but with these tools we can help you minimize losses if one of your stocks takes an unexpected dive.

About This Book

First we introduce you to the basics of getting started in the world of stock charting. Then we take you on a tour of the most common charts that are used by traders. After you understand how to build these charts, we focus on chart settings and how the various options can impact your trading decision making. Finally we discuss how you can organize and manage your charts to trade more effectively and efficiently.

When you feel comfortable with stock charting, it's time to develop your own style. We show you how to put all you've learned into building a trading style using charts to improve your stock trading decision making.

You don't have to read this book from cover to cover (but we won't mind if you do!); simply find the topic you're interested in, read up on it, and put away the book until you need it again. And you can skip anything that's marked with the Technical Stuff icon or included in a shaded box called a sidebar; such information is interesting but not crucial to understanding a given topic.

Within this book, you may note that some web addresses break across two lines of text. If you're reading this book in print and want to visit one of these web pages, simply key in the web address exactly as it's noted in the text, pretending as though the line break doesn't exist. If you're reading this as an e-book, you've got it easy — just click the web address to be taken directly to the web page.

Foolish Assumptions

We've made a number of assumptions about your basic knowledge and stock-trading abilities. We assume that you're not completely new to the world of investing in stocks and that you're familiar with the stock market and its basic language. Although we review many key terms and phrases as we explore the basics of charting, if everything you read sounds totally new to you, you probably need to read a basic book on investing in stocks before trying to move on to the more technical world of charting.

We also assume that you know how to operate a computer and use the Internet. If you don't have high-speed access to the Internet now, be sure you have it before you try to trade stocks. Many of the resources we recommend in this book are available online, but you need high-speed access to be able to work with many of these valuable tools.

Icons Used in This Book

For Dummies books use little pictures, called icons, to flag certain chunks of text. Here's what they actually mean:

TIP

Watch for these little flags to get ideas on how to improve your charting skills or where to find other useful resources.

REMEMBER

We mark information that's particularly important for you to remember with this icon.

WARNING

If you read the charts wrong, mistakes can be made. A minor mistake can cost you a bunch of money, so we use this icon to point out particularly perilous areas.

TECHNICAL STUFF

We use this icon to point out information that's interesting but not crucial to your understanding of the topic at hand.

Beyond the Book

In addition to the material in the print or e-book you're reading right now, this product also comes with some access-anywhere goodies on the web. When you just want a quick reminder of charting basics, go to `www.dummies.com` and search for "Stock Charts For Dummies Cheat Sheet" in the Search box. There you'll find explanations on how to find key chart settings, various chart types you can use, key decision-making tools you can add to charts, and how to use charts for spotting trends.

Where to Go from Here

You're ready to enter the exciting world of charting. You can start anywhere in this book. Each of the chapters is self-contained. But if you're totally new to charting, starting with Chapter 1 is the best way to understand the basics. If you already know the basics, you may want to start with Part 3 on using charts to make investing decisions. Remember, though, to have fun and enjoy your trip.

1

Getting Started with Stock Charts

IN THIS PART . . .

Begin with the basics of building your stock charts.

Use charting to minimize your emotional response to the ups and downs of the market.

IN THIS CHAPTER

- » Keeping your emotions in check as you invest
- » Getting different views of charting
- » Making decisions with charting tools
- » Organizing and managing trends for your stocks
- » Tweaking your personal stock charts

Chapter 1
Brushing Up on Stock Charting Basics

You can find hundreds of books talking about technical analysis and stock charting, but if you don't build your stock charts properly to do that analysis, you could end up getting the wrong information. In this book we introduce you to the various types of stock charts out there, as well as the tools you can use to make these charts work even better for you when you're trying to make stock buying and selling decisions. This chapter gives you the basics.

Minimizing the Emotional Roller Coaster of Investing

Before you even start working with charts, it's important to understand how your emotions can help make good and bad stock purchase and sale decisions. In Chapter 2, we discuss the key emotional drivers of stock trading decisions and what economic forces drive those decisions (such as changes within a company and the effect of institutional investors). We also explain how building charts can help you track stock price changes and control emotions, and we provide some fundamentals on index charts and trends.

REMEMBER

Getting a better understanding of your own emotional reactions to these key factors that can impact the movement of stocks can help you make better business decisions based on facts rather than emotions.

Viewing Stocks from Varying Perspectives

Not all charts look the same or are meant to give you the same information. In Part 2 we introduce you to the key types of charts — candlestick charts, bar charts, line charts, and area charts. We show you how to build these charts using tools on StockCharts.com (`www.StockCharts.com`). Click the green button on the home page that says, "Free 1-Month Trial," and you'll have one month to try out the members-only sections of `www.StockCharts.com` for free.

REMEMBER

All chartists should know how to build these critical chart types:

- **Candlestick charts:** These charts give you a detailed view of key stock information daily: open, high, low, and close.
- **Bar charts:** These charts give you less detail than a candlestick chart does — only the opening price and the closing price — but they can be easier to read than candlestick charts.
- **Line charts:** These charts show you the stock price trend with a simple line, which makes it easier to view a stock's trend over a long period of time.
- **Area charts:** These charts show you the same information as a line chart, but they can be more dramatic because the area below the line is a solid color. They are most commonly found on TV financial news.

Discovering All the Tools You Can Use with Your Charts

As you become more familiar with the types of charts, you'll find out that many variables can make the chart look different and offer you different information. Some of the key variables include

- **Time frames:** In Chapter 8 we discuss the critical time periods you can set for various types of decision making and how each of these time frames impacts the information you see on the chart. Choosing the wrong time frame for the decision you're trying to make could lead to a bad decision.
- **Using a price chart:** With the proper tools, a price chart can help you determine the trends in the stock market. In Chapter 9, we show you how to spot uptrends and downtrends in a stock price, help you determine volatility and its impact on price, and give you suggestions about what to do if a stock isn't trending. We also talk about the various types of bases you may find in a stock chart and how these bases can impact your decision making. You'll also find information about determining whether a stock price is likely to start falling.
- **Using overlays:** Overlays are powerful tools that make it easier for you to read a stock chart. We don't introduce every type of overlay, just the ones that are good for beginning chartists to use. In Chapter 10, we introduce you to some handy overlays to help you get started. One of the most common is moving averages. Actually, you can find overlays for many types of moving averages. We introduce the key ones and explain the information they can show when they are used. We also introduce Keltner channels and Bollinger Bands.
- **Using indicators:** Indicators are another type of tool you can add to a chart. There are many types of indicators; we introduce you to the best ones for beginners in Chapters 11 and 12. You find momentum indicators and how to use them, as well as various types of indicators to determine the strength of a stock.

Getting Organized with Your Charts

After you're familiar with the various types of charts and tools available, it's time for you to start organizing how the charts can help you with your stock investing or trading decisions. Check out the following:

- In Chapter 13, we introduce you to the power of organizing your choices by industry groups and/or sectors. This task enables you to improve your stock picking.
- We show you how to keep track of what's going on with your stocks in Chapter 14. This task lets you better manage your stock portfolio.

- Chapter 15 focuses on various types of indexes you can use in your charts to help you compare your stocks to the broader market. This task enables you to better analyze how your portfolio is doing versus the broader market.
- Chapter 16 gives you strategies for doing a weekly check of the stocks you're holding or watching. This task helps you more efficiently track your portfolio.

Customizing Your Charts

After you have a good handle on what tools you like to use consistently for various types of decisions you need to make, you'll want to save these various chart styles to make it easier to use them again and again. In Part 5, we show you how to customize your charts and save the ones you like. You find out how to personalize your charts by seeing how various combinations of indicators and overlays can help support your personal trading style.

Putting Everything Together

Ultimately, it's time to take everything you've learned and put it all together to help you make better buying and selling decisions. We discuss some strategies in Part 6 that help you use your charts to gauge the market's direction as well as identify leading sectors and the best stocks in those sectors. You can use these techniques to narrow your focus to the sectors in which you want to invest or trade. We also show you how to build your charts to more effectively use these tools in order to improve your investing or trading results.

REMEMBER

We can't guarantee that you'll always sell stock for a profit, but we do believe using the tools we show you in this book will help you improve your buy and sell decisions. You find tips for how to pull together everything discussed to make good use of stock charts in the future and help you better understand how to use the information discussed in books like *Trading For Dummies*, 4th Edition, by Lita Epstein, MBA, and Grayson D. Roze and *Technical Analysis For Dummies*, 3rd Edition, by Barbara Rockefeller (both published by Wiley).

IN THIS CHAPTER

» Preparing to own stocks

» Evaluating individual stocks and index charts

» Seeing trends

Chapter 2
Using Charts to Minimize Your Emotional Roller Coaster

To minimize the risks of owning stocks, you need to develop strategies for reducing your emotional reactions to the ups and downs of the market. Instead, think of your portfolio purely as a business at which you want to make money. Don't fall in love with any part of your portfolio. With the help of the fundamentals in this chapter, you can use stock charts to take the emotions out of your decision making.

Getting Ready for the Emotions of Owning a Stock

One of the hardest things to do is to watch your money invested in stocks drop in value on any given day for any reason. This emotional turmoil is one of the difficult parts of investing or trading in the stock market, especially for new entrants.

In the following sections, we describe two important actions you can take to prepare yourself for this turmoil: understanding a few basics of the stock market and arming yourself with information to level the playing field.

Understanding a few market basics

The benefit of the stock market is that you can make your stock work for you by managing your portfolio. After you get comfortable with the little swings in the market, investing gets easier. Investors are inclined to worry about big market drops as they can do tremendous damage to a portfolio. Interestingly enough, most brokers don't move you out of a falling stock market either. To compound that market turbulence, the news commentators try to report on stocks like they would any crisis every day, creating a lot of uncertainty. You need to find ways to address this uncertainty. One way to do that is to understand more about the markets and how to read the trends using stock charts. In the following sections, we explain a few things that can impact a stock's price movement and how you can address them with minimal emotion.

REMEMBER

By controlling your own investments or even following along with a broker's investment choices, you can have an understanding of the macro part of the economy. While you may not move out of harm's way when the market is set up to fail immediately, you can at least understand when to be more cautious. You may also recognize which *sectors* (different areas of the economy, such as finance or energy) of the economy are breaking down. This recognition can help you avoid these potholes.

News noise

If you turn on any financial TV show, you find people reporting news about stocks in almost the same way they would a sporting event. As you become more accustomed to working with charts, you'll find most of the news to be just noise, with maybe a few bits of information you can use as further research with your charting.

A great example of news noise is gross domestic product (GDP). *Gross domestic product* is how much economic activity is happening in the economy. You continually hear that an economy is growing fast or slow. However, the stock market doesn't speed up or slow down based on this news. When the economy and the stock market are compared side by side, it is clear that one does not predict or follow the other. In the United States, the GDP has ranged from positive 5 percent growth (which is huge) in some quarters, to negative growth in other quarters. The stock market does not reflect this huge variance.

If a country's GDP were soaring at 4 percent over two quarters, you would think the stock market would be too. If a country is sporting 4 percent GDP but the stock market has been going lower for the same six months, the GDP is not a timely clue for investors to use for investing. Over long periods of time, if the country's economic output is improving, the stock market is probably improving.

Changes inside a company

Stocks are also hit by other forces that you as the owner of shares in an individual company may be unaware of. Changes in government policy toward the company, internal problems in the company, or changes in sales of finished products for the company can have a positive or negative effect on the stock, long before any announcement.

For example, suppliers have insider knowledge about how things are going at the companies they supply. They can quickly determine whether a company is increasing or decreasing its order size. They may notice the first signs of a company in trouble, because the bills are being paid more slowly or the company is cutting down on standing orders.

The employees within the company may also have a better feel for what is happening inside a company or industry. While it is illegal to trade your own company stock or tell other people to trade with insider knowledge, there is no law against buying your competitors' stock just before a quarterly or annual report on earnings if you see the industry improving. These outside forces can be a long way from your scope of knowledge. The larger the company, the harder it is to know about all the pieces.

Reading reports by analysts may give you some hint of what they are expecting to see in the upcoming quarterly or annual company reporting. You can never know for sure what is going to happen until it is formally announced by a company, but the financial press certainly may alert you to the possibility of a major news story regarding a particular company or its stock.

Institutional investors

Institutional investors are large investors that buy millions of dollars of shares in individual stocks. They may be fund managers like Fidelity, hedge funds, large family trusts, or huge brokers with big clients.

TECHNICAL STUFF

With millions of dollars at stake, some investment companies go to extreme lengths to keep track of activity. Here are a few examples:

- They interview every management member they can for clues. One concern about this is that the company leadership isn't going to tell you to sell the shares. They will always find something on which to put a positive spin.

- Some large investors use satellites to track vehicle traffic at box stores like Lowes and Home Depot. If they think the volume is improving in various parts of the country, they've obtained powerful knowledge that the average retail investor doesn't have.
- For holiday shopping seasons, institutional investors buy traffic-flow monitoring data from survey companies that place employees in malls to count customer traffic. They compare that store-level knowledge with the car volume from the satellite monitoring companies. Then they try to figure out who is getting the sales and who is not.

While a company stock may still jump up or down on an earnings announcement, lots of serious investors are willing to make sure they have a good idea as to whether the company is going to have a good number.

For an investor without helicopters, satellites, money, interview suppliers, and management teams to disperse, these tactics can all sound a little overwhelming, but don't let them scare you. You can level the playing field by being nimble and using different sources of data, as you find out in the next section.

Leveling the playing field

Framing a range of how well a company is doing can help an individual investor. Is the company doing better now than last month or a year ago? How can you gather that information? Are things improving? How can you follow this information? You get a couple of ideas in the following sections.

Tracking institutional investors

If large institutional investors are buying up the stock, that's probably a good clue. Conversely, if they are selling the stock, that is still a clue, just not a positive one. They're not really interested in telling everyone else what they are doing, but they do have to release their current holdings in a stock, and this information can be timely.

For a stock to move up in price, it needs the large institutional investors to start investing in the stock. If enough large institutional investors are trying to buy up the stock, this action pushes the price higher. As the price goes higher, most investors are happy to keep owning the stock because they are making money. Conversely, when large institutions want to sell their position and there aren't enough buyers, this pushes the stock down.

TIP

The key for tracking moves by institutional investors is trading volume. In Chapter 3, we talk about how to display volume on charts. When these investors are making a big move in a stock, whether buying or selling, the volume of trades goes up. If they are selling, you will likely see a downward trend in stock price.

If they are buying, you will likely see an upward trend in stock price. You find discussions about volume throughout this book.

Studying pressures on stock prices

When a stock sale takes place, a buyer is buying the shares from a seller. When more investors are trying to buy shares than sell shares over a short period, this pushes the price up. You may hear that there can't be more buyers than sellers — that the numbers are equal. But the number of people with the desire to buy can be higher than the number of people with the desire to sell. The way that comes into balance is through the buyer raising his bid to buy the shares. The imbalance is where you see the price forced to trade higher, so the seller is motivated to let the shares be sold to a buyer who is willing to pay more.

Understanding that stocks trading higher in price are probably moving higher because there are more buyers than sellers is an important piece of knowledge. You have a way to see that actually happening. Using a stock chart can give you this information.

REMEMBER

While you can't keep track of a stock price in your head for every stock in the market, you can use the history of the stock price, and this information can be shown on a stock chart. A stock price moving up is the sum of all known information about the stock at any given time by investors. Some may have more information or less information, but the price of the stock reflects a balance between buyers' and sellers' opinions. Throughout this book, we show you how to take advantage of the history you can see in charts to help you make better buying and selling decisions.

Building a Chart to Track and Control Emotions

Stock charts create a frame of reference for the current price. Is the price above the previous high prices for the last year? Is the price at the lowest price of the year? Is the price wobbling within a range and not really doing anything significant?

Throughout this book, we show you how to use various types of charts and their tools to help you better understand market trends and make better trading and investing decisions. Using charts not only helps keep your emotions in check as you invest but also helps you track emotions and opinions that investors have about particular stocks.

Figure 2-1 shows a stock chart using a price bar to represent the trading range for a day (see Chapter 5 for an introduction to bar charts). The top of the bar represents the high and the bottom of the bar represents the low. The little tab on the left is where the price started in the morning, and the little tab on the right is where the price closed at the end of trading. The stock shown is Cabot Oil and Gas (COG).

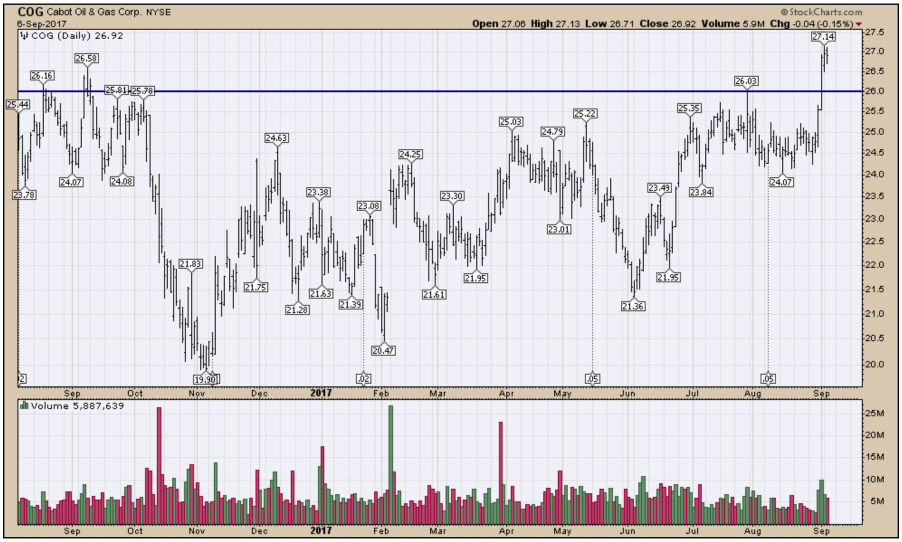

FIGURE 2-1: A stock chart showing new highs.

Chart courtesy of StockCharts.com

Around September 1, 2017, the price pushed up above $26 to new highs. It had pushed up against this level a few times before and fallen back. Eventually, enough buyers took an interest in the stock to push it above $26. You can also see that the volume (depicted in the bottom panel) was around 5 million shares a day as a rough average for most of August. All of a sudden, the volume accelerated, and three trading days had a total volume of roughly 22 million, or more than 7 million shares a day. That extra volume of 7 million shares at $26/share is probably not a household investor buying shares. That totals over $182 million.

Using the chart, you can very quickly see the previous lows and highs on the chart. Because the stock is trading in the top right corner at fresh one-year highs, the stock looks to be hitting the ceiling of the chart.

TECHNICAL STUFF

Charting software fills the chart using the previous highs and previous lows. To do this, it adjusts the scale. As the stock price continues higher, the software adjusts the scale to accommodate the latest price information and fill the space vertically.

By using charts, you can see the broad picture of all the investors, and the price action shows you that they were buying more stock as the price made new highs. Without doing any investigating into the company's earnings or the products it's selling, your first clue is that opinions are getting more optimistic, a trend that is showing up in large institutional-size investing.

After you have a frame of reference for the price on the right-hand side of the chart, you can look back through the history to see other pieces of information. When and how did the stock bottom out? What was the size of the trading range for the year? Are the price bars changing in size? You can see that the stock has been moving higher on a jagged path since the lowest price in November 2016.

Checking Out Index Charts

Charts based on a particular index help you visualize how a group of stocks are affected by price changes in the market. Figure 2-1 shows a daily stock chart for one particular stock. Figure 2-2 shows the daily chart for a group of 30 stocks added together to represent an average. Making up this index are some banks; brokers; insurance, computer hardware, computer software, and energy companies; and others. This is called the Dow Jones Industrial Average (commonly called the Dow). The ticker symbol is $INDU on `StockCharts.com`. The companies in the index are chosen by the Dow Jones Company. By keeping track of the general price direction for some of the largest stocks in the United States, you can determine whether the stock market is moving higher or lower.

The chart of the index shows that the Dow has been rising quickly and moving from the bottom left to the top right. The last price on the right is near all-time highs. While the market doesn't go up every day, the general trend is up.

The chart of Cabot Oil and Gas in Figure 2-1 was not nearly as great-looking for the last year, but the recent price action is improving. As the economy rolls along, some sectors improve and others fall behind. Then management in those companies tries to get more efficient to improve the company performance. This cycle continues every day but takes time to play out. If all the companies are struggling to make higher profits, the index reflects this weakness in investor opinion. By keeping track of the index, you get a picture for the broader group of stocks.

The following sections provide just a few examples of stock indexes you can follow.

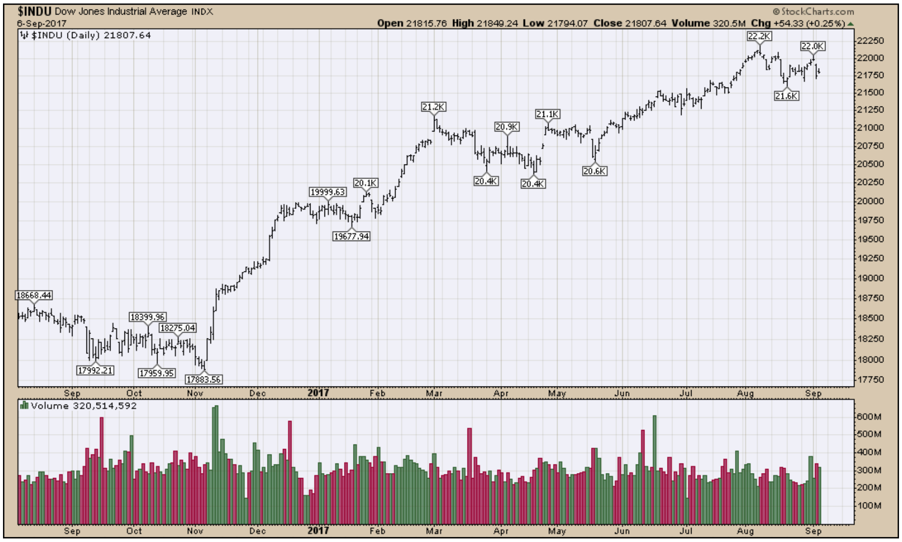

FIGURE 2-2: An index chart.

Chart courtesy of StockCharts.com

Indexes around the world

You can track various indexes around the globe. Table 2-1 notes the key ones to track.

TABLE 2-1

Key Indexes to Track

Index Name	Ticker Symbol
Dow Jones Industrial Average 30 Stocks	$INDU
S&P 500 list of 500 major U.S. companies	$SPX
S&P 100 List of the Top 100 U.S. Companies	$OEX
NASDAQ 100 list of top stocks on the NASDAQ	$NDX
Index for all the stocks on the NYSE	$NYA
Index for all the stocks on the NASDAQ	$COMPQ
Russell 1000 holds the largest 1,000 companies	$RUI
Russell 2000 holds about 2,000 small-cap companies	$RUT
Canadian Stock Exchange	$TSX
London Stock Exchange	$FTSE

There are indexes for the entire world. There are indexes for each country and for each geographic region. There are commodity indexes, currency indexes, and bond indexes as well. There are charts for comparing currencies; for example, the $USDCAD compares the U.S. dollar exchange rate to the Canadian dollar. You can put together a chart of your favorite indexes based on the types of stocks in which you choose to invest.

REMEMBER

Charts of the indexes can give you a sense of the value relative to the past. By using indexes around the world, you can evaluate the investor sentiment toward those asset classes without doing in-depth, fundamental analysis of resources written in a foreign language.

Commodity indexes

A commodity is any basic good that can be sold on the market, such as energy products (like oil and gas) and farm products (like wheat and corn). When you see the long-term price chart of 19 different commodities shown in Figure 2-3, what does that chart tell you very quickly? The scale across the bottom is measured in years from 1968 to 2017. The price is only the end-of-month price, which communicates what you want to know without the daily trading details. The price on the commodity index ($CRB) broke to new 45-year lows in 2016. Why are the commodities that the world has been built on at the lowest prices in 45 years? In one picture, the chart has probably altered your perception of what is going on in the world. Without doing thousands of hours of research into each commodity, you can see a significant change in the world based on investor attitudes to those asset classes.

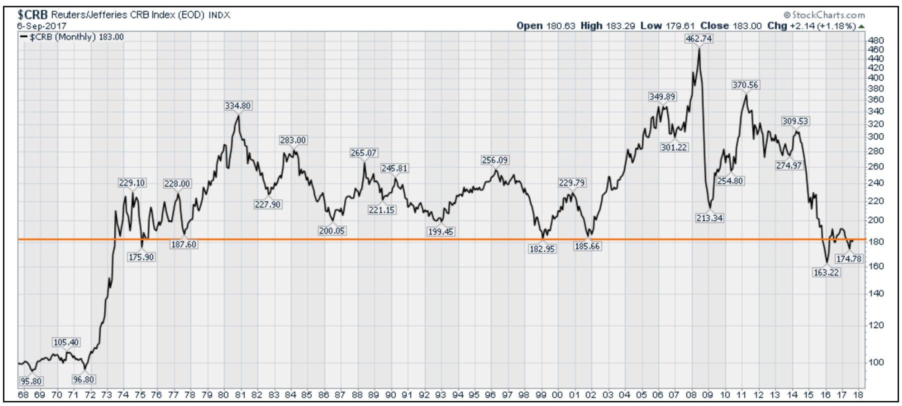

FIGURE 2-3: The commodities ($CRB) index.

Chart courtesy of StockCharts.com

The S&P 500

The main stock index that all investors worldwide pay attention to is the S&P 500. This is really the best anchor point from which to view the U.S. market and the main index that all other markets are compared to.

What makes it such an important anchor is the number of companies inside the index and the broad cross section of the economy. Figure 2-4 displays three years of information, but each price bar represents one week. What also makes the S&P 500 information so valuable is that no specific sector of the economy is too large within the index.

FIGURE 2-4: The S&P 500 ($SPX) index.

Chart courtesy of StockCharts.com

REMEMBER

For investors, understanding the direction of the S&P 500 ($SPX) is the best way to gauge the broad economy.

Defining Trends

The contrast between the four charts in this chapter gives you a glimpse of the value of using charts to help you make trading or investing decisions. On each chart, there are trends where you see the price move in a general direction for a period of time. Trends can last a few days, weeks, or months. Understanding these trends and the direction in which the market is moving helps reduce your anxiety about trading and minimize the emotional roller coaster of investing. When you feel anxious about a trade, take the time to review your charts and determine whether the change you see in the trend differs from your original plan for trading the stock. Then you can make a less emotional decision about whether to buy, hold, or sell the stock.

On Figure 2-4, a trend line has been drawn in to highlight the uptrend. Making money using charts usually involves defining a new uptrend and recognizing the end of the trend. (See Chapter 9 for more about uptrends and downtrends.)

The horizontal line on the chart shows an area where the stock market couldn't make higher highs. Until the price broke above that area, the market was stalled. When the index started to make higher highs, you can see that the uptrend was strong and continued for a period of time.

The right edge of the chart shows the price rubbing against this slanted trend line drawn in by connecting the lows on the chart. With trends in stocks and indexes, you can use charts to help you enter and exit the market.