

# [Technical analysis in relation to a security or index of currency](https://assignbuster.com/technical-analysis-in-relation-to-a-security-or-index-of-currency/)

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Task Technical Analysis In Relation To a Security or Index of Currency Introduction Technical analysis focuses on the financialinstrument data in the market with the intention of forecasting upcoming price adjustments. The technical analysis takes in account only price action of the market trends that makes it simpler and easy for traders in the Forex exchange; therefore, it is a significant to analyze shorter-term price movements. The technical analysis is crucial to traders because it offers information on the price movement in the market that make safer for traders to invest in the market. The significant thing to note about the technical analysis is that it works only because the investors believe it works and functions accordingly causing the action predicted (Stevens, 2002, p. 8). Currency analysis The technical analysis will help the investor to tell what price range the currency spent most of the day. Meanwhile, it will explain where did the currency break out the congestion and start upward trend. Chen (2011, p. 201) indicates that technical analysis uses price charts to give a clear understanding of the downs and ups of the currency in the exchange market. Meanwhile, technical analysis gives a prediction about the future price movements, by analyzing past price trends; hence, it is based on mere assumptions. It does not mean in case the currency experienced depreciation in past years; it will not gain value in present or future years. Therefore, the technical analysis fails to answer why currency is appreciated or depreciated, and it gives room to conclude there are various factors that are attributed to the currency changes. According to Chen (2011, p. 202), technical analysis has six price areas that can be used to forecast the prospect of the currency in the exchange market. These fields include open, close, high, low, volume and open interests, and they are used to predict the direction of the market (Chen, 2011, p. 200). We shall use different technical analysis method to analyze the trend of the currency in the exchange market and the impacts upon the investors. Most of the investors focus on the closing price of the currency, which they assume as the most beneficial for investment. A large trading volume in the charts suggests that there is high interest, liquidity in the market and the low volume indicate the dangers in the market, and traders should stay away from the market (Luca, 2004, p. 18). In a low volume market, the investors only get an entry price, but they face considerable challenges when they try to exit the market. According to Luca (2004, p. 17), despite the significant of the volume in the market, it is only used in equities and futures and not for the foreign exchanges of the currencies. In the chart below, there are the currencies' trends of JPY versus USD where each bar represents one week of prices. It is obvious that the currencies are constantly moving in a single direction even if there are insignificant movements in the other direction. For instance, the currency pair is trending up more than it is trending down, and these indicate appreciable chance that the Forex cross is trending in a major movement. The chart indicates that the dollar is depreciating against the yen during the period in the prediction. In the technical analysis, the years represent the data of currencies trend in the same direction because the factors that affect the prices of currencies can be an effect for the years. The movement of the price of currency is considered increasing, when price is above the moving average, and decreasing, when the price is below the moving average (Luca, 2004, p. 19). Source: http://www. mydaytradingtutor. com/currency-technical-analysis. htm According to Northington (2009, P. 115), investors who specialize in the spot trading can use the above chart because it shows the flexibility regarding the currencies. Therefore, traders should focus on interpreting the chart to identify when it is the best time to invest, and not to focus on producing the chart. The interpreting of the charts enhances the investors’ confidence because it makes it easy to recognize their entry and exit levels. The market information on the currency is always priced into the market prices since they are based on the human information. Therefore, the traders are constantly adjusting to accommodate the relevant information about the currencies situation in the Forex. According to Chen (2010, p. 20), the significant trend is the primary trend because it composes of three phases that include accumulation, public participation and the excess. When an increasing movement occurs after the simple moving average, it indicates that the wise traders should begin to exchange the currency in the exchange market. The Public Participation Phase is the longest phase and starts when investors commence to identify the new up movement. Northington (2009, p. 120) indicates that many investors feel that currencies are likely to respond well to the technical analysis than the securities; hence, the trend tends to be more continuous. The Forex market is more liquid than the security market because the currencies are not likely to be manipulated. Finally, the technical analysis can be used to analyze the strength of the currencies in the Forex market and analyze its impacts on the traders (Luca, 2004, p. 20). Conclusion In the modern history of the financial markets, many investors have used the technical analysis constantly in their trading and have realized it success. Currently, the technical analysis is done with the help of computers and automated systems by many institutions and individual traders. According to Chen (2010, p. 17), the technical method faces challenges because it is based on public, available information that make forecasting extremely difficult for investors. Finally, the technical analysis is flexible because it uses price charts to give an understanding of the downs and ups of the currency in the exchange market. References Chen, J., 2010. Essentials of Technical Analysis for Financial Markets. New York: John Wiley and Sons Inc. Luca, C., 2004. Technical Analysis Applications. New York: McGraw Hill Press. Northington, K. 2009. Volatility-based technical analysis: strategies for trading the invisible. Canada: John Wiley and Sons Inc. Stevens, L., 2002. Essential technical analysis: tools and techniques to spot market trends. New York: John Wiley and Sons Inc. http://www. mydaytradingtutor. com/currency-technical-analysis. htm