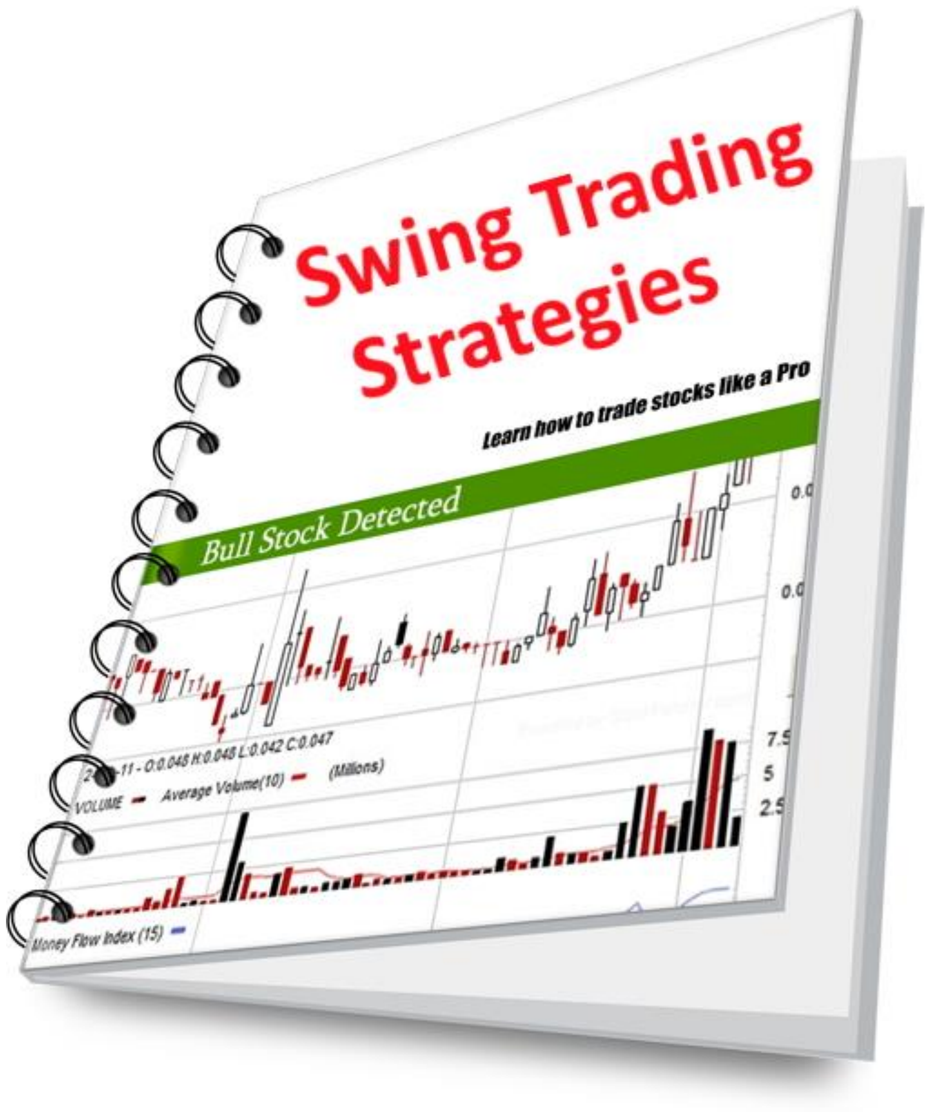


https://stock-screener.org

Disclaimer

The information provided is not to be considered as a recommendation to buy certain stocks and is provided solely as an information resource to help traders make their own decisions. Past performance is no guarantee of future success. It is important to note that no system or methodology has ever been developed that can guarantee profits or ensure freedom from losses. No representation or implication is being made that using this eBook will provide information that guarantees profits or ensures freedom from losses.

What is swing trading?

Swing trading is a short term trading method used for trading a variety of investments, such as stocks, bonds, commodities, options, and currencies. Unlike day trading where positions typically last only one day, swing trading positions usually range from two to five days, but can last as long as two or three weeks. Swing traders use technical analysis and disregard fundamental analysis. They aren’t interested in the intrinsic value of stocks, but rather they look for stocks with short-term momentum that can allow them to capture gains in just a few days.

Introducing Technical Analysis

Technical analysis is the study of past market data, through the use of charts, to predict a security’s future price. Unlike fundamental analysis, technical analysis does not focus on studying a company’s financial statements and earnings to determine a company’s intrinsic value, or its actual worth. Instead, technical analysts use charts and technical indicators to identify patterns that can suggest future price movements. They disregard the underlying data that causes the price movements and focus on what the market is valuing the stock at.

The charts themselves do not cause market action, but rather, they indicate the actions of the marketplace and what has already happened. Charts reflect trades by all market participants, such as buyers, sellers, and even insiders. Analyzing charts means that you are analyzing the behavior of all these traders. Each price on the charts reflects the actions or lack of actions by all the traders in the market.

Technical analysis can be applied to any security with historical trading data. This includes stocks, futures and commodities, fixed-income insecurities, forex and more. Although we will usually analyze stocks in our examples, keep in mind that these concepts can also be used on other types of securities.

For further clarifications, see how technical analysis is different from fundamental analysis.

Technical Analysis Assumption

In author Tony Plummer's book, The Psychology of Technical Analysis, he paraphrases a quote by Oscar Wilde by stating, "A technical analyst knows the price of everything, but the value of nothing." Technicians are more concerned with the "what" rather than the "why."

The study of technical analysis is based on three main assumptions:

1) The market discounts everything.

2) Prices move in trends.

3) History tends to repeats itself.

1) The market discounts everything

Technical analysis is based on the Dow Theory that the market discounts everything and that all past, current, and even future information, is reflected in the security's price. This information includes fundamental factors, psychological factors, and any recent news about the company.

Technicians believe that if everything is already reflected in the market price, then it is only necessary to study price charts. They believe that by studying price charts, you are indirectly studying the fundamentals of a company, as well as the psychology of the marketplace for that company. For example, if prices are going up, they assume that demand must be exceeding supply, indicating that the fundamentals are bullish. If prices are falling, they assume that supply must be exceeding demand, indicating that the fundamentals are bearish.

Since the market discounts everything, technicians ignore the factors that cause price movements and exclusively study price history and volume data.

2) Prices Move in Trends

Technicians believe that prices are not always random and tend to follow trends, such as an uptrend or downtrend. Most technical trading strategies are based on the assumption that once a trend has been established, the future price movement is more likely to be in the same direction as the trend than to be against it. Since technical analysis can be applied to many different time frames, it is possible to identify both short-term and long-term trends.

3) History tends to repeat itself

A study of history shows that set patterns tend to repeat themselves over long periods. The repetitive nature of price movements is attributed to market psychology, meaning traders tend to have a consistent reaction to similar market stimuli over time. Since investor behavior repeats itself so often, technicians believe that predictable price patterns will develop on charts.

By relying on price patterns, we can identify optimal trade entry and exit points. Recognizing trends in their early stages allows us to trade favorably in the direction of those trends until it shows signs of reversing.

How to Read Stock Charts

One glance at a stock chart might seem daunting. However, once you learn **how to read stock charts**, you will find it to be second nature. The nice thing about stock charts is you don't need a finance degree to analyze it. With enough practice, you will be able to understand it easily so that you can use it to making your trading decisions.

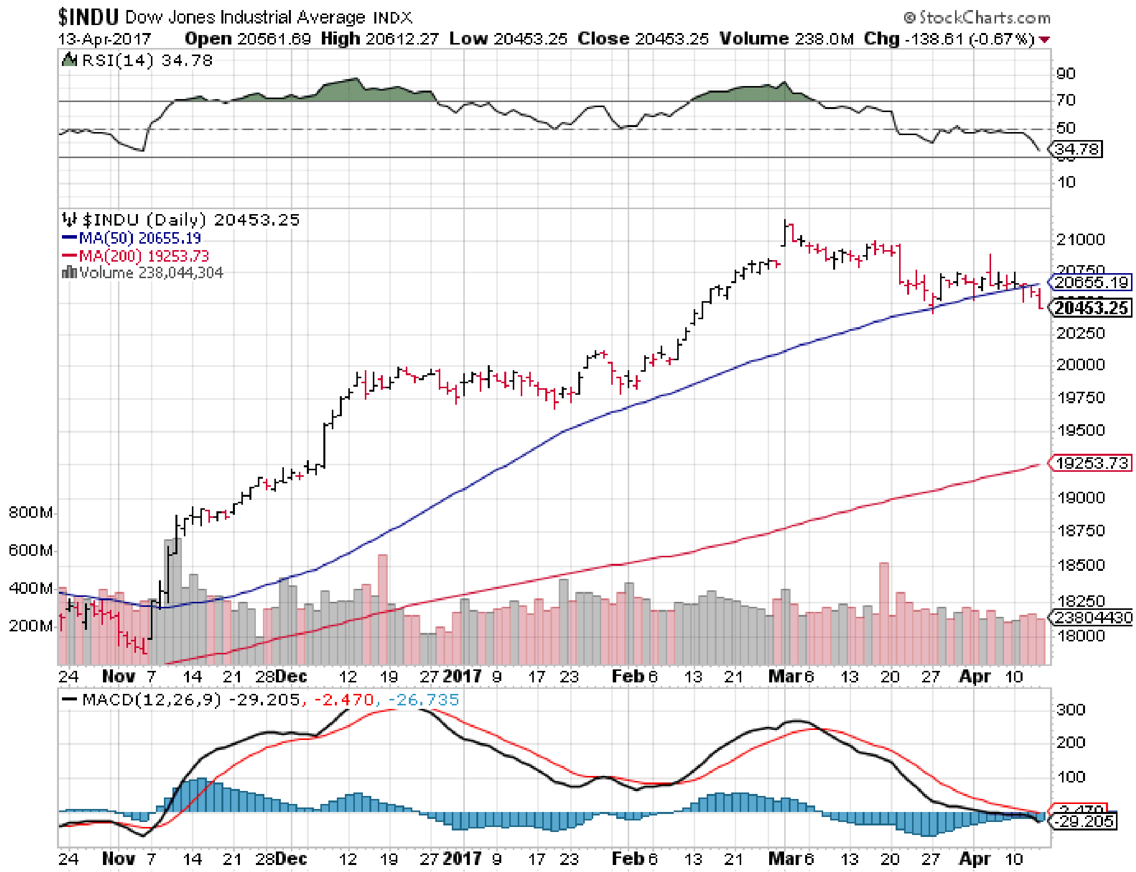
A price chart is a series of prices plotted over a specific time period. There are many different types of stock charts, such as bar, line, OHLC (open-high-low-close), **candlestick**, point-and-figure and more. They can all be viewed in different time frames, whether it's intraday, daily, weekly or monthly. Each type of stock chart displays various kinds of information and has its own advantages and disadvantages, but they all reveal valuable price and volume information.

A **stock chart** looks like a regular graph, where the price is plotted on the y-axis, or vertical axis, and the time is plotted on the x-axis, or horizontal axis.

Types of Stock Charts

Below are the most popular **stock charts**:

Bar Chart



One of the most popular charting methods is the OHLC chart, where the high, low, close and open prices are needed to form each price bar. The length of each vertical bar shows a stock's trading range for that time period. The top of the bar shows the highest price the stock was purchased for during that period, and the bottom of the bar shows the lowest price the stock was purchased for. A short horizontal line to the right side shows the closing price while a line to the left side shows the opening price.

It is also important to know the stock chart's time frame and the time that each price bar represents. On a daily stock chart, each price bar represents the high, low, open, and close prices of the security during that day. On a monthly chart, each price bar represents the prices the security traded during that month.

Line Chart

Line charts only show only the close of the day and do not show the open, high, and the low data points. Some traders think that the closing price is the most important. Line charts show less clutter, however they do not provide as much detail as the other charts.

Candlestick Charts

Candlestick charts show the open, high, low, and close prices. Many traders like this type of chart because its contrasting colors provide fast visual interpretations. The open and close prices are represented by horizontal lines and they form a box, called the body. White candles form when the close price is higher than the open price and black candles form when the open price is higher than the close price. The lines extending from the body are called shadows and represent the high and low. Here are the 10 most popular candlestick patterns.

Stock Chart Analysis

When you look at a stock chart, there are several questions that you should ask yourself. First, identify whether the stock is an uptrend or downtrend. If a stock is heading upwards toward the right corner of the chart, then the stock is in an uptrend. Likewise, if the stock is heading downwards, then the stock is in a downtrend.

Next, identify if there is a level of **support** or **resistance**. A support level is when the stock cannot drop past a certain price level and a resistance level is when the stock cannot break through a certain price level. The below chart shows Apple's stock trading in a trading channel, which is the space between an asset's support and resistance levels. The price stays within these levels until a breakout occurs.


AAPL Apple, Inc. Nasdaq GS
© StockCharts.com
13-Apr-2017
Open 141.91 High 142.38 Low 141.05 Close 141.05 Volume 17.8M Chg -0.75 (-0.53%)
RSI(14) 49.93
AAPL (Daily) 141.05
MA(50) 138.61
MA(200) 117.13
Volume 17,822,880
resistance
high volume
support
MACD(12,26,9) 1.230, 1.841, -0.611

The vertical lines at the bottom of stock charts show the stock's **volume**, or the number of shares traded during the specific time frame of the chart. A trading signal with high volume enhances that signal. For example, the stock finally broke out through that resistance level on February 1 on high volume. This high volume means that the buying interest is strong and that an uptrend is likely to occur. As you can see, the price is trended upwards toward the right corner of the chart for the next two months.

Some traders might make multiple trades when a stock is in a trading channel, buying when the price gets to the bottom of the channel and selling when the prices gets close to the top of the channel. This **trading strategy** is known as range-bound trading. By finding major support and resistance levels, traders can make profits on the price spread. They repeat this process of buying at support and selling at resistance until the stock breaks out from the channel.

Why do we study stock charts?

Technical analysts, or technicians, study stock charts to analyze price information and forecast future price movements. Knowing **how to read a stock chart** is a great advantage because they provide an easy-to-read illustration of a security's price movement over a specific time frame and can help you make better trading decisions. It is also essential for those interested in swing trading.

Swing Trading Strategies

One of the main appeals of **swing trading** is being able to capture significant gains in less than a week, and without having it to be a full-time job. Of course, you must still work hard to find these short-term opportunities to take advantage of. It is helpful to understand some of the **swing trading strategies** that successful traders use and it is important that you have a set of your own **trading strategies**.

First, let's briefly go over the definition of swing trading.

Swing Trading Methods

Markets often go nowhere. They usually rally a few days, decline a few days, pause and then rally again. Small swings in the markets are common and it is our interest to capture profits from these small swings.

Most of the swing trading strategies involve studying chart patterns to find trade entry and exit points. These strategies differ and there isn't any one "right" strategy. Every trader has his or her own preferred methods and strategies. Study and apply these strategies to different charts and see which ones work best for you. You can also have more than one strategy.

1. Trend Following Strategy

Most swing traders assume the "Trend is your friend." Trend following is the most popular type of **swing trading strategy** where you find a trending stock and trade along its trend. This strategy is used by both long-term investors and short-term traders. For the purpose of swing trading, the trend following strategy is used to spot patterns and trends that happen over a short period of time. For example, if the security is in an uptrend, the swing trader will be bullish and go long on the security by buying shares or call options. The trader plans to hold the security short-term and sell when he or she sees signs of reversals. Likewise, if the overall trend is down, then the trader will be bearish and can short shares or buy put options.

Drawing Trend Lines

It is helpful to know how to draw trend lines on a stock chart. A trend line is a straight line that connects at least two price points and acts as a line of support or resistance. An uptrend line has a positive slope and is formed by drawing the trend line along the lowest points in the trend without letting the line cross through prices. The second low point must be higher than the first low point in order to have a positive slope. A downtrend line has a negative slope and is formed by drawing the trend line along the highest points in the trend without letting the line cross through prices. The second high point must be lower than the first high point in order to have a negative slope.

You can apply trend lines to find securities with channel patterns. Channel patterns serve as a trading range and consist of two parallel trend lines, where the lower trend line acts as support and the upper trend line acts as resistance.

Trend Following Entry and Exit Points

Swing traders normally enter the market after the trend has established itself, betting that the trend will continue. Below is an example of a trade that I executed. The first green arrow is where I entered the trade. Microsoft was one of the stocks that I was watching and I saw that the uptrend validated itself, as indicated by the third orange circle. I typically wait for at least three to four points to hit my trend line to confirm the trend's validity before I make any action. As the price bounced up from the third circle, I bought shares. About a week later, the stock hit my target price and I got out.

How to Trade Channel Patterns

The strategy of trading channel patterns is to identify valid trends and trade in the direction of the trend. When the price touches the support trend line, or the lower trend line, of an ascending channel, a buy trade is signaled. When the price touches the resistance trend line, or the upper trend line, a short trade is signaled. It is also important to pay attention to the volume of the stock. If the stock breaks support with high volume, it is a greater indication that the trend is broken. However, if the stock breaks support with low volume, it is okay to hold a little longer since it could be a false breakout. If you choose to hold a little longer, make sure you have a stop loss.

2. Breakout Trading Strategy

Besides entering a trade in a channel pattern, you can also enter a trade when a breakout occurs from the channel. A breakout is when the price closes above or below the boundaries of the pattern.

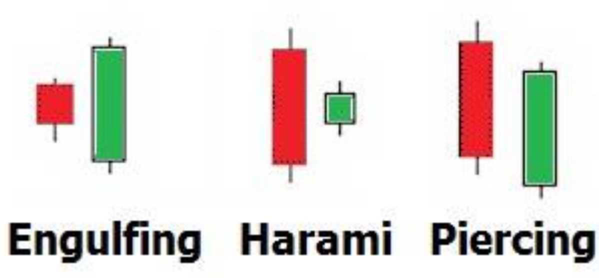
The below chart of Amazon stock shows a breakout from the uptrend. The increase in volume also signifies that the uptrend is broken and a downtrend might be imminent. Swing traders may see this as an opportunity to short this stock.

A breakout doesn't necessarily have to occur from an uptrend or downtrend pattern. For example, if a stock goes up and down in the $10-$15 range for a long time and then it breaks out from this range on high volume, it also signifies a breakout. Breakouts are also opportunities that I watch out for. However, you need to be careful of false breakouts. If the volume is weak, the price breakout might only be temporary and can pull back into that range.

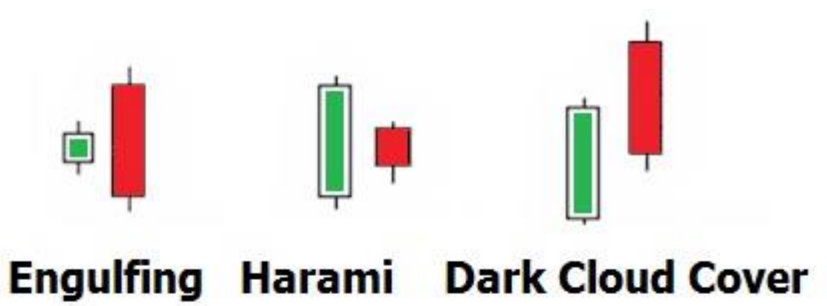
3. Japanese Candlestick Charting

The Japanese candlestick is a popular charting technique used for short-term outlooks. Candlestick charts displays the opening, close, high, and low prices for a security each day. Many traders find candlestick charts easier to look and more useful than traditional bar charts because it reveals more about a stock's price action. The shape and color of candlesticks help traders gauge the emotions around a stock by showing us if there is more buying (greed) than selling (fear). There are many candlestick patterns and it is important to understand what is happening in each pattern. Japanese candlesticks are a way of looking at prices and should be used with other technical indicators for them to be useful.

Bullish candlestick patterns – The below are examples of candlestick reversal patterns signaling a chance of a rally. For any of these patterns to signal a rally means that there must have been a preceding downtrend.



Bearish candlestick patterns – The below are examples of candlestick reversal patterns signaling a pullback. For any of these patterns to signal a sell means that there must have been a preceding uptrend.



These are a few of the popular swing trading strategies. It is important to use multiple indicators and not trade on any one technical concept in isolation. There is a higher chance for a profitable trade if many technical tools are signaling the same message. Regardless of the strategy and the technical indicators you use, you should always enter a trade with a clear trading plan. This means you should have a target price and a stop loss. Through analysis and experience, you can determine which swing trading strategies work best for you.

Signup Up Free

[Signup free](#) to use our advanced stock screener, get stock trading tips and ideas. Become a better and more profitable trader today.