

CHAPTER 54

TECHNICAL ANALYSIS

1. (B) the reversal of a downtrend.

Explanation

Inverse head and shoulders patterns typically occur after downtrends and indicate that the trend is going to reverse.

(Study Session 18, Module 54.1, LOS 54.f)

Related Material

[SchweserNotes - Book 5](#)

2. (C) 10-day moving average crosses above a 60-day moving average.

Explanation

When using moving averages to generate trading signals, a "golden cross" of a shorter-term average above a longer-term average is a buy signal, while a "dead cross" under the longer-term average is a sell signal.

(Study Session 18, Module 54.1, LOS 54.g)

Related Material

[SchweserNotes - Book 5](#)

3. (C) relative strength chart.

Explanation

Relative strength charts are useful for intermarket analysis because they illustrate the performance of one asset, sector, or index relative to another. Momentum indicators, such as stochastic oscillators and MACD oscillators, are generally used to analyze individual markets.

(Study Session 18, Module 54.1, LOS 54.h)

Related Material

[SchweserNotes - Book 5](#)

4. (C) lows.

Explanation

Trendlines connect the increasing low points on a price chart in an uptrend and the decreasing high points in a downtrend.

(Study Session 18, Module 54.1, LOS 54.e)

Related Material

[SchweserNotes - Book 5](#)

5. (C) standard deviation of recent price changes.

Explanation

To use Bollinger bands, an analyst will calculate the standard deviation of prices over some number of trading days, and typically will draw the bands two standard deviations above and below a moving average for the same number of days.

(Study Session 18, Module 54.1, LOS 54.g)

Related Material

[SchweserNotes - Book 5](#)

6. (B) supply and demand are driven by rational and irrational behavior.

Explanation

Technical analysts believe market prices are driven by both rational and irrational behavior among market participants.

(Study Session 18, Module 54.1, LOS 54.a)

Related Material

[SchweserNotes - Book 5](#)

7. (C) opening, high, low, and closing prices only.

Explanation

Candlestick charts require the open, high, low, and close for each trading period.

(Study Session 18, Module 54.1, LOS 54.d)

Related Material

[SchweserNotes - Book 5](#)

8. (B) market supply and demand forces.

Explanation

Other assumptions of technical analysis include: Supply and demand is driven by both rational and irrational behavior, security prices move in trends that persist for long periods of time, and while the causes of changes in supply and demand are difficult to determine, the actual shifts in supply and demand can be observed in market price behavior.

(Study Session 18, Module 54.1, LOS 54.a)

Related Material

[SchweserNotes - Book 5](#)

9. (C) ascending triangle pattern.

Explanation

Triangles are considered to be continuation patterns. An inverse head and shoulders pattern would most likely indicate the reversal of a downtrend, while a double top would most likely indicate the reversal of an uptrend.

(Study Session 18, Module 54.1, LOS 54.f)

Related Material

[SchweserNotes - Book 5](#)

10. (C) Patterns and cycles in market prices repeat in predictable ways.

Explanation

Technical analysis is based on three key principles:

- (1) Market prices reflect all known information.
- (2) Market prices exhibit trends and countertrends that tend to persist.
- (3) Market prices exhibit patterns and cycles that repeat themselves in predictable ways.

(Study Session 18, Module 54.1, LOS 54.a)

Related Material

[SchweserNotes - Book 5](#)

11. (B) head and shoulders pattern.

Explanation

Technical analysts believe head and shoulders (and inverse head and shoulders) patterns typically indicate a reversal of a price trend. Triangle and rectangle patterns typically suggest the price trend will continue in the same direction.

(Study Session 18, Module 54.1, LOS 54.f)

Related Material

[SchweserNotes - Book 5](#)

12. (C) support level.

Explanation

Support and resistance levels. Most stock prices remain relatively stable and fluctuate up and down from their true value. The lower limit to these fluctuations is called a support /eve/- the price range where a stock appears cheap and attracts buyers. The upper limit is called a resistance /eve/- the price range where a stock appears expensive and initiates selling. Consolidation refers to a period during which neither an uptrend nor a downtrend is occurring.

(Study Session 18, Module 54.1, LOS 54.e)

Related Material

[SchweserNotes - Book 5](#)

13. (B) A resistance level on a line chart is breached and later acts as a support level.

Explanation

"Change in polarity" refers to a perceived tendency for breached support levels to become resistance levels and breached resistance levels to become support levels.

(Study Session 18, Module 54.1, LOS 54.d)

Related Material

[SchweserNotes - Book 5](#)

14. (B) line chart.**Explanation**

Line charts are composed of closing prices for each trading day connected by lines. Bar charts require high and low prices for each trading day. Candlestick charts require the opening, high, low, and closing prices.

(Study Session 18, Module 54.1, LOS 54.d)

Related Material

[SchweserNotes - Book 5](#)

15. (A) the left shoulder, the head, and the right shoulder occur on decreasing volume.

volume decreases between the left shoulder and the head, then increases

Explanation

Decreasing volume on each of the high prices in a head and shoulders pattern (or each of the low prices in an inverse head and shoulders) suggests weakening in the supply and demand forces that were driving the price trend.

(Study Session 18, Module 54.1, LOS 54.f)

Related Material

[SchweserNotes - Book 5](#)

