



## What about Technical Analysis?

I wrote the following for a tradersforum at the beginning of 2011.

It surprises me that whole tribes of traders still have the illusion that by using technical analysis they are able to predict the direction of the market.

Let's say for the sake of the subject that today some brilliant mind came up with an indicator that indeed is able to predict the market. Let's call this indicator "moneymaker"! Now don't go running to the fridge to get that bottle of Dom Perignon just yet.

You open your chart and the following situations occur:

***A) At a certain point in time (let's call this "T") the moneymaker signals that the market is about to go up!***

You buy and with that you enter a long position. Smart move because the moneymaker signals a rising price and indeed the price goes up!

***B) At T+11 (or 19, 37 or 76) the moneymaker signals that the market is about to go down again.***

You sell and with that you close your long position and collect your profits. Well done, since the moneymaker just signalled a falling price and indeed the price drops. Profits in the pocket open that Dom Perignon the sabrage way (with a sword)! Or...

All seems very logic right?  
Now I have two questions for you:

***1. Who is dumb enough to sell in situation A?***

Would you sell? Who the f\*ck is going short while the moneymaker, the brilliant technical indicator indicates that prices are going to rise!? So you can buy all you want, but there is no seller!

***2. Who is dumb enough to buy in situation B?***

Would you buy? Who the h\*ll is going long while the moneymaker indicates that prices are falling!? So you can sell all you want, but there is no buyer!

If, yes **IF** technical analysis is able to predict the market, that same magical ability would kill the ability to predict the direction of the market by itself.

Technical Analysis is lagging data, present perfect tense, it's history and therefore exceptionally useless for trading!



***Some readers argued that not everybody sees the same and that traders interpret the indicators their own way. Very true! I wrote them the following.***

That's true, so each trader sees something different! Matthew uses a 12 tick breakout chart, Denise uses a point & figure chart, Victor uses a 10 minute candlestick chart, Pedro uses a 20 tick breakout chart, Donald uses a daily bar chart, Sophie uses a 60 minute candlestick chart, etc. etc. I don't think I need to go on.

Furthermore they all have different settings in the timeframe of their technical indicators. One has RSI over 7 periods, the other over 15 periods, MACD 24, 12 or 48, 32, Stochastics over 12, 16 or 52 periods, etc. etc.

Besides that there is virtually an unlimited number of indicators! But about 50 technical indicators are most common. The professionals (salespeople with their courses) tell you a combination of three is most solid. That's  $50 \times 50 \times 50 = 125000$  combinations! And that's without all the options of different chart types, chart settings and different settings on your technical indicators. Include those variables and that would add up to billions of combinations!

So every individual with his own settings for TA sees something different. Unfortunately one individual trader is not able to give the market a certain direction. And if everybody sees something different, there is no arguing about a possible self-fulfilling prophecy either! So what is the predictive value of TA...? Zero!

Quit following the advice on the use of TA that all the scammers on the internet try to give you in return for hundreds or thousands of dollars. They are the ones that failed in becoming profitable by trading. And now they are trying to make money by teaching you about technical indicators. Apart from the fact that it is useless, the info on TA is also to be found for free on the internet.

***Markets move at random and there is NO way to predict the market's next move.*** But that doesn't mean that there is no opportunity to make money trading!

Shaka,

Frits