

A Glossary of Terms Used in Technical Analysis

Introduction

The language of technical analysis can be difficult to understand. Although we have always tried to use as little jargon as possible, over the years we have discovered that many people do not know exactly what we mean when we say “reflex” or “divergence,” words which have precise technical meanings. One question we hear frequently is “Just what do you mean by ‘near term’?” Also, we use some terms differently from other technicians. This glossary should make our technical materials more accessible and useful to you.

Because this glossary is not intended to be a course in technical analysis, we have included a bibliography of technical and other market books which offer a good background on charting methods, market analysis techniques and trading philosophies. We have also included a list of technical indicators, which are discussed in several books. For bar chart interpretation, the most common charting technique, we highly recommend *The Technical Analysis of Stock Trends* by Edwards and Magee. Our favorite books on indicator interpretations are *Technical Analysis: The Complete Resource for Financial Market Technicians* by Charles D. Kirkpatrick and Julie R. Dahlquist, *Technical Analysis of the Financial Markets* by John J. Murphy and *Technical Analysis Explained* by Martin J. Pring.

Terms Used in Technical Analysis

Accumulation	Process by which an excess supply of stock is absorbed by an expanding demand that over a period of time has favorable effect on the price. Generally, it is a period of price equilibrium following a decline.
Advance-Decline Line	Number of stocks advancing divided by the number of stocks declining over a particular time period.
Advisory Services	Newsletters that comment upon and attempt to forecast the course of various markets. They tend to be trend followers and are often overly bullish at tops and overly bearish at bottoms.
Apex	Point of intersection of two trendlines; the usual connotation that some new trend may evolve as prices approach that intersection.
Arbitrage	Simultaneous buying in one market and selling in another market in order to take advantage of differences in price.
Back and Fill	Same as Consolidation. See also Stabilization.
Bar Chart	Price/time chart that depicts high, low and close data as bars on the vertical axis and time intervals on the horizontal axis. Volume is usually indicated also, as vertical bars on the bottom of the charts under the applicable price data.
Base	Period of accumulation (see above). Also called “Bottom.”
Bear Market	A long period of time, often a year or more, when the general trend of securities prices is down.
Bear Trap	A false move to the downside that does not initiate a new downtrend, but is actually the final reaction prior to a sustained advance, hence “trapping the bears.”
Block	A single transaction of large number of shares. The NYSE defines transactions of 10,000 shares or more as blocks.
Blow Off	The final phase of an uptrend, ending a mark-up phase, when prices rise very rapidly usually on high volume, leading to a sharp reaction. See “Climax.”
Breadth	Net number of stocks advancing versus declining. When advances exceed declines, breadth is positive; when the reverse is true, breadth is negative.
Breakdown	Like “Breakout,” but used to refer to the downside.
Breakout	When stock’s price or volume exceeds previously recorded high or low (or resistance or support level) or some other predetermined criteria. Also called “Penetration.”
Bull Market	A long period of time, usually a year or more, when the general trend of securities prices is up.
Bull Trap	A false move to the upside that does not initiate a new uptrend, but is actually the final rally before a sustained decline, hence “trapping the bulls.”
Churning	Hesitation in a trend, usually leading to a reaction. Volume is normally relatively high (after an advance), with limited price progress.
Climax	(Climatic lowpoint or climactic highpoint). A sudden end to a trend, accompanied by high volatility and high relative volume.

Concession or Spread	Price differential between trades when blocks of stock are involved.
Confirmation	Two or more trend or momentum measures extending their trends to new highs (or lows) at the same time. The implication is confidence that the trend will continue. Often said of the Dow Jones Industrial Average versus the Dow Jones Transportation Average.
Consolidation	A pause in a trend with the expectation the trend will be resumed in the same direction. Usually considerably shorter in time than Stabilization.
Continuation Pattern	Consolidation phase that temporarily interrupts an up or down move and sets the stage for another move in the same direction later on, usually of short duration.
Correction	A movement in the opposite direction of a trend that does not break or reverse that trend. Usually longer in time than a reflex rally or reflex reaction.
Discount	The amount by which the price of an option or future falls below the theoretical value, representing the degree of pessimism of market participants.
Distribution	Process in which demand for a stock is overcome by an expanding supply, which over a period of time has an unfavorable effect on the price of a stock. It is generally a period of trend neutrality in price, but often has high volatility.
Divergence	One measure failing to extend its trend to a new high (or low) while another measure does. This leads to less confidence in continuing the trend. Often said of the Dow Jones Industrial Average versus the Dow Jones Transportation Average. Opposite of confirmation.
Downtick	A transaction that occurs at a lower price than the previous transaction.
Extended	When a stock has advanced or declined to, or in excess of, its trend parameters and a consolidation is anticipated.
Failsafe Point	See “Stop Point.”
Financial Futures	Futures contracts based on financial instruments such as U.S. Treasury Bonds, Fed Funds and other interest rate-sensitive issues, currencies and stock market indices.
Futures Contract	Exchange-traded contracts that give the holder the obligation to buy or receive a certain amount of a product at a specific price on a specific date. Futures are used by business as a hedge against unfavorable price changes and by speculators who hope to profit from such changes.
Gap	When a stock’s high and low prices on a given day do not overlap the stock’s high and low of the previous day. When a gap initiates a trend, it is called a breakaway gap; an exhaustion gap ends or reverses a trend, and measuring gaps usually duplicate the most recent move before the gap.
Insiders	Officers, directors, shareholders and others privy to non-public information that affects a company’s stock.
Liquidation	Phase following distribution, when prices decline relatively easily.
Liquidity	Ability of the market to absorb significant increases in volume with minor price fluctuations.
Long Term	More than six months; usually one complete bull-bear cycle, normally averaging four to five years.
Market Analysis (or Technical Analysis)	The study of supply/demand relationships, investor psychology, monetary changes, and the study of price and volume movements of the market as a whole, and individual stocks in particular, in order to determine the probability of direction and degree of future price movements. Whereas fundamental analysis is concerned with the company (and its sales, earnings, products, management, etc.), technical analysis is concerned only with the stock of the company (i.e., the changes in the supply/demand relationship for the stock in the market place).
Mark Up	Phase following accumulation when prices rise relatively easily.
Medium or Intermediate Term	Five weeks to six months; usually three to five months.
Momentum Indicators	Market indicators generally related to price and volume, which attempt to determine overbought and oversold conditions and the underlying strength or weakness of current market trends. Most are moving averages.
Moving Average	Average of price or volume over a period of time that is used to smooth trends of minor fluctuations.
Near Term	(Also Short Term) Up to two months; usually three to five weeks.
Odd Lot	Unit of stock less than 100 shares.
Odd Lot Shorts	Units of usually less than 100 shares that are sold short. Since these are usually traded by trend-following individuals (as opposed to institutions) who join a trend very late, a high ratio of odd lot short sales to odd lot sales often signals a market bottom. Conversely, a low ratio of odd lot shorts often signals an impending market top.

Odd-Lotter	Any unformed trader (who may also trade in round lots).
On-Balance Volume	A cumulative volume figure, the direction of which depends on price movement; ie, a positive change in price indicates the volume for that particular time interval is positive; a negative price change indicates negative volume.
Opening Block	The first transaction of the day in a particular stock, which usually represents an accumulation of individual buy and sell orders but that appears on the tape as a single block.
Option	The right (but not the obligation) to buy or sell specific quantity of a specific security at a certain price within a specific time. An option giving the buyer the right to purchase a security at a fixed price is a “call” option; a option giving the buyer the right to sell the security at a fixed price is a “put” option.
Oscillator	Indicator that measures the strength of momentum (or sentiment) activity by moving to a positive or negative extreme around zero. Moving averages are usually used for the calculations.
Overbought	Recently extended or exceeded trend parameters on the upside.
Oversold	Recently extended or exceeded trend parameters on the downside
Penetration	See “Breakout.”
Point and Figure	A method of recording price activity without reference to time that is concerned only with price trends and changes in price trends.
Premium	The amount by which the price of an option or future exceeds the theoretical value, representing the degree of optimism of market participants.
Price Potential or Objective	Technical appraisal of a stock’s future value. May be near-, medium- or long-term; an upper or lower boundary of a trend channel; a point and figure projection; or the next significant support or resistance level.
Primary Offering	A public sale of newly issued stock.
Program Trading (or Program Activity)	Buying or selling packages of stocks. Often done by institutions making a strategy change or index funds moving into or out of the market. When such trading in stocks is accompanied by offsetting trades in index futures, index options or stock options, it is called arbitrage program activity.
Protection Point	See “Stop Point.”
Pullback	See “Reflex Reaction.”
Questionable	Deteriorating; said of a trading range when a support violation is anticipated.
Rebuilding	See “Stabilization.”
Reflex Rally or Reflex Reaction	Movement against a stock’s trend that does not break or reverse the trend buy merely corrects an overbought or oversold condition. Also called “Pullback.”
Relative Strength Line	The line that represents a stock’s (or group’s) price performance compared with a broad market index (or a group or another stock). It is computed by dividing the price of a stock by the market index for each time period and plotting a line of the resulting ratios.
Resistance	A price level at which selling is expected to exceed demand and temporarily stop or reverse an advance. Opposite of “Support.”
Reversal Pattern	A characteristic pattern that signals the end of an up or down move.
Secondary Distribution	A public sale of an already existing block of stock, usually sold by an insider or other large holder.
Secular Trend	The trend that encompasses two or more cyclical trends (also two or more economic cycles) and often lasts 10 to 20 years or more. Also called the “Super Cycle.”
Sentiment Indicators	Indicators that are used to try to gauge changes in the psychology underlying investment decisions.
Shakeout	A sharp reaction (usually in an uptrend or base) that temporarily violates a trendline or support level, but quickly reverses to the original trend. Traders are “shaken out” of long positions on the violation but stronger holders (investors) retain their positions.
Short Covering	The purchase of previously shorted stock.
Short Selling	Selling stock that is not owned (usually borrowed), normally in anticipation of a price decline.
Stabilization	A period of sideways price action, usually before a trend is reversed. Sometimes called basing or accumulation after a decline, and top formation or a distribution after an advance. Also call “Rebuilding.”

Stop Point	The price level which, if exceeded (on the downside in a long position; on the upside in a short position), breaks the trend or negates a reversal pattern. That point is usually below a support level or just above a resistance level. Sometimes called “Failsafe Point” or “Protection Point.”
Support	A price level at which buying is expected to increase enough to temporarily stop or reverse a decline. Opposite of “Resistance.”
Testing	Consolidation with the expectation that a support (or resistance) level will hold.
Theoretical Value	The worth of an option or future, calculated by considering (1) the difference between the option’s or future’s exercise price and the price of the underlying asset (stock, commodity, currency or index) and (2) the time value of money. Also called “Underlying Value.”
Ticks	Net of upticks minus downticks.
Tick Volume	Similar to on-balance volume except that the base is not a time period but an individual transaction; e.g., for any one day the net tick volume is computed by subtracting the total volume that occurred on downticks from the total volume that occurred on upticks.
Top	Period of distribution.
Trading Index	The ratio of the advance/decline ratio to the upside/downside volume ratio. The index is favorable or overbought when significantly less than 1.00, and unfavorable or oversold when significantly more than 1.00. Extremes are noted below 0.50 and greater than 2.00.
Trading Range	Upper and lower boundaries of a stock’s or index’s price range. Normally, a neutral or horizontal trend is implied.
Trend Channel	Two parallel trendlines that contain between them all or virtually all of the price movement data.
Trendline	Line that connects two or more points on a chart and represents the slope of movement.
Upside/Downside Volume Ratio	Number of shares traded in advancing stocks divided by the number of shares traded in declining stocks over a particular time period.
Uptick	A transaction that occurs at a higher price than previous transaction.
Volatility	Degree in intraday or interday fluctuation, not necessarily correlated with price movements over time.
Volume	Total trading activity in a stock or group of stocks for a specific time period, usually represented as vertical bars at the bottom of a bar chart.
Wedge	A pattern of rising tops and rising bottoms in an uptrend or declining tops and declining bottoms in a downtrend, where only marginal progress is made, usually leading to a trend reversal.
Zero Downtick	A transaction that occurs at the same price as the previous transaction, but lower than the last different price.
Zero Uptick	A transaction that occurs at the same price as the previous transaction, but higher than the last different price.

Definitions of Market Indices

Dow Jones Averages

The four Dow Jones Averages (Industrials, Transportation, Utilities and Composite) are arithmetic averages. **All of the component’s price changes have equal dollar value in the respective average.** The averages are calculated by adding the prices of the component stocks and then dividing by a divisor which is adjusted for stock splits. The DJ Industrial Average was divisor was 0.14585278 as of January 27, 2003. Since the divisor is less than 1.00, it is effectively a multiplier; i.e., a one-point rise in each of the 30 stocks (or 30 points) would result in an 205.69 point rise for the average (30 divided by 0.14585278). (Source: Dow Jones & Co., Inc.)

Russell Indices

The **Russell 3000 Index** is composed of 3,000 large U.S. Companies, as **determined by market capitalization.** This portfolio of securities represents approximately 98% of the entire investable U.S equity market.

The **Russell 1000 Index** consists of the 1,000 largest companies in the Russell 3000 Index. This is the large-cap (market-oriented) index since it represents the universe of stocks from which most active money managers typically select. **The Russell 1000 is very highly correlated with the S&P 500 Index.** The market capitalization for the Russell 1000 (as of January 27, 2003) is \$8.78 trillion.

The **Russell 2000 Index** consists of the smallest 2,000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. **This is the small-cap index** that is widely regarded in the industry and the premier measure of small cap stocks. (Source: The Frank Russell Company)

Value Line Averages	The Value Line Averages reflect the average price change of nearly 1,700 stocks. The difference between the Value Line Composite Index and the Value Line Arithmetic Index lies in the mathematical technique used to calculate the average price change of the stocks in each index. The original Value Line Composite Index is geometrically averaged; the Value Line Arithmetic Index is arithmetically averaged. (Source: The Value Line Investment Survey)
NYSE Composite Index	Developed in 1966 and revised in 2002, the index is a measure of changes in the aggregate market value of NYSE common stocks adjusted to eliminate the effects of capitalization changes, new listings and delistings. The market value of each stock is obtained by multiplying its price per share by the number of shares listed. The aggregate market value, which is the sum of the individual market values, is expressed as a relative of the base period market value. This base value was set at 5,000 on the base date of December 31, 2002. (Source: New York Stock Exchange)
Standard & Poor's Stock Price Indices	Generally defined as a "base-weighted aggregate" expressed in relatives with the average value for the base period (1941-1943) equal to 10. Each component stock is weighted by its shares outstanding multiplied by its price to give the current market value. The market values are added together to obtain their group value, which is then expressed in terms relative to the base period market value. (Source: Standard & Poor's)

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* A complete listing of books on technical analysis and related subjects is available on the Foundation's Web site at www.mtaef.org

Technical Market Indicators

Technical indicators fall into several categories. This listing show how these indicators are broken down.

A. Sentiment

1. Advisory Service Sentiment
2. Blocks
 - a. Block uptick/downtick ratio
 - b. Block concessions
 - c. Block volume
3. Dividend Yields
4. In-house Data (Consumer Activity)
 - a. Cash account activity
 - b. Margin account activity
 - c. Institutional activity
 - d. Option activity
 - e. Shorting activity
 - f. Foreign business activity
5. Short Sales Activity
 - a. Member and nonmember short sale ratio
 - b. Specialist and total short sale ratio
 - c. NYSE total short interest
 - d. NYSE short interest ratio
 - e. AMEX total short interest
 - f. AMEX short interest ratio
6. Odd-lot Buy/Sell Ratio and Short Sale Ratio
7. Options Ratios
 - a. Put/call ratios
 - b. Premiums
8. Price/Earnings Multiples

B. Momentum

1. Advance/Decline Statistics
 - a. 10-day breadth
 - b. Cumulative breadth
 1. Common stock only
 2. DJIA breadth
 3. Glamour stocks
2. Market Averages
 - a. Dow Jones Averages
 - b. AMEX Market Value Index
 - c. NASDAQ Composite Index
 - d. NYSE Composite Index
 - e. Confirmations and Divergences
 - f. Composite Trend Indicator (CTI)
3. Cycles
 - a. Moving averages
 - b. Rates of change
 - c. Least squares
 - d. Composite Momentum Indicator (CMI)
 - e. Secular Trends
4. New Highs and New Lows
5. Relative Strength
 - a. Individual stocks relative to the market
 - b. Industry groups relative to the market
 - c. Major market segments

6. Trading Index
7. Volatility
8. NYSE, AMEX and OTC Volume
 - a. Total
 - b. Upside, downside and net upside
 - c. Major market segments

C. Speculation

1. Low Price and High Grade Stock Activity
2. OTC and AMEX Relative Volume
3. Most Active Stocks
 - a. Net advances
 - b. Relative volume
 - c. Average price

D. Supply and Demand

1. Foreign Purchases of U.S. Equities
2. Individual Household Activity
3. Insider Transactions
4. Cash
5. Institutional Activity
 - a. Cash
 - b. Life insurance companies
 - c. Other insurance companies
 - d. State and local government retirement funds
 - e. Private pension funds
6. Change in Supply of Equities Outstanding
7. Margin Requirements for Stocks
8. Mutual Funds Statistics
 - a. Mutual fund cash as a % of net assets
 - b. Net purchases of common stock
 - c. Aggressive growth funds liquidity ratio
 - d. Money market funds, total assets quarterly
 - e. Sales and redemptions of mutual funds
9. Net Treasury Shares Repurchased
10. Secondary Distributions
11. New Equity Financing
12. Seasonal Influences

E. Miscellaneous Trends

1. Commodity Markets: Gold and other Metals, Grains and Misc.
2. Foreign Stock Markets
3. The Dollar
4. Foreign Currencies
5. Economic Statistics



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