SIAW JUN KIT

UPDATED EDITION

BEHIND A TRUE TRADER

VICTORY OF 100 BATTLES IN THE FINANCIAL MARKET

Kanyin® PUBLICATIONS

QUOTE

"Unleash the potential of self-trading,
Discover the secret behind a TRUE trader."

- Siaw Jun Kit

DEDICATION

My parents did not give me an empire, but my dad taught me that it takes perseverance and courage to be a man; my mum gave me endless care and inspiration; and my only elder brother led me to the understanding of the importance of analytical thinking, which has shaped me to who I am today. I could not have asked for more, THANK YOU from the bottom of my heart.

– 7th April 2019

QUOTE

"Living up to an expectation is a crime, you must simply outperform it."

- Siaw Jun Kit

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CHAPTER 1

DISCOVERING TECHNICAL ANALYSIS

A Chart Speaks for Itself

There are two types of trading analysis – the Technical Analysis (Demand and Supply) and the Fundamental Analysis (in-depth analysis of the financial market news such as macroeconomics, microeconomics, market outlooks, qualitative and quantitative factors – computing the intrinsic values of a particular stock or foreign exchange rates as the topmost priority).

The essentials of Technical Analysis are shown even in the price charts of the financial market over the past hundred years. They can be classified into two main elements: price and volume. This is a methodology of making judgments and projections of an investment vehicle's future price based on historical data projection, therefore determining whether or not it is fit to enter the market. If yes, to 'buy' or to 'sell'; and if not, to plan for the right time to enter the market while preparing a sophisticated exit plan when the analysis is incorrect. In a nutshell, the common belief that financial statements must be examined is a myth. As stated from the chapter title above – A Chart Speaks for Itself.

WHO is a Technical Analyst?

We often address a Technical Analyst as a Technician. He or she is a person who exploits past price movements – from price actions, trading volumes, price patterns, and chart relationships for future use. A mature technical analyst believes that price patterns will fail at times and result in losses, thus constantly seeking for and focusing on highly reliable patterns that traders all around the world are keeping an eye out for. With that said, a skilled or experienced technical analyst never seeks patterns that most retail traders all around the globe are looking for, but patterns that institutional traders are eyeing for instead.

HOW does Technical Analysis Work?

To perform technical analysis, traders start with plain charts showing historical price and volumes (shown in terms of trends and candlesticks) – the study of highs and lows, market opens and closes, and the transformation of candlesticks. The combination mentioned will reveal a trend which can be divided into three types: uptrend (bullish), downtrend (bearish), and sideways (the bulls and bears are equally aggressive) – this gives us an idea of the market's future behaviour as a whole.

WHY does Technical Analysis Matter?

Technical analysis is based on the belief that past market cycles can forecast future trends of the market as a whole. Hence, if a trader correctly analysed the chart's "hint", there is a high possibility that he or she can make consistent positive returns from the market. Technical analysts are said to be risk-averse as they place heavy emphasis on the accuracy of entry points, the correct density of volumes, and evaluating high precision exit plan.

Most traders tend to believe that in the early stages of trading, they should distinguish themselves to be either technical traders or fundamental traders. After moving on to the intermediate stage of trading, many believe that they are top-grade traders by combining both technical and fundamental analysis. However, there is no right or wrong in opting to be a hybrid trader, or to be a technical or fundamental trader – which is to solely stand on one side of the aspect. But as far as precise entries and exits in the market are concerned, it can only be achieved through technical analysis.

Cons of Technical Analysis

Nothing is perfect. Even a sharp and powerful weapon comes with disadvantages. Take a sniper rifle for example, it is able to shoot from extremely long distances with very high accuracy. But its downside is its heavy weight (inconvenient in terms of portability) and that it can be used only if the situation permits. Technical analysis too has its downsides, but fortunately, the cons are visible and are easy to identify. As long as you know how to recognize them, technical analysis will grant you significant advantage in your journey ahead.

Lagging Signal

Some say trading requires nimble reactions. This concept is partially correct as analysis can be done upfront while executions on trading can be made by setting pending orders (order that is awaiting to be executed, thus it is not considered an instant position yet. It can, for example, be an order that states that you do not want to buy before the price of a particular financial instrument reaches a certain point). However, the signals derived from technical analysis (scalper and day traders) can be delayed. Putting aside the distance and time required for the information to reach your country, technical analysts require a combination of signals formed together as a set, in order for them to decide whether or not to take the trade, often resulting in delayed entries. People often criticise Dow’s Theory too, which will be discussed further in the book later.

External Interference

Technical analysis is indeed quite a subjective field as each individuals’ view and perspective are different. At certain point, some traders may analyse formation in an opposite way, for example, Breakouts as a 'False Breakout', while others may see it as a 'Perfect Breakout' (the topic 'Breakout' will be discussed in detail later). Quick changes in timeframes may have an adverse impact on trading results. For example, what is displayed on a chart may seem like a signal to enter the market. However, this information is something I would term 'noise', which is something that can only be validated at a higher timeframe. Thus, in a smaller timeframe, it makes it difficult for traders to read signals with high accuracy for long term trades (the topic 'Types of Traders' will discuss extensively on preferred timeframe in Chapter 5: Types of Traders). Having that said, it is possible to increase trading accuracy by upping the number of indicators used. However, although it is like a panacea using indicators to improve entry accuracy, it directly means that it reduces the number of trading signals to enter the market.

Signals Confusion

In some cases, one out of many technical analysis modus operandi will indicate a buy signal while the other shows a sell signal. These mixed signals will cause confusion and therefore affect decisions in trading. Most traders who fall under the second stage of trading (the stages of trading will be explained in Chapter 7: Four Stages/Level of Traders) would start to become aware of this matter, thus applying a combination of several technical indicators, chart patterns, trading volumes, moving averages, and even blend in fundamental analysis to better determine entry and exit points. As a matter of fact, as long as traders are able to identify when to deploy particular technical skills while foregoing the others, the confusion is able to resolve.

Controversial Conclusions

A glass half-filled with water may be seen both half empty and half full. Using this as the baseline of perception, it accurately describes technical analysis as it is a static theory that can be used widely. However, some traders may have their own interpretation of an analysis, while others may interpret it the exact opposite way. What is interesting is that traders from both perceptions can argue their points of views with very logical explanations. A technical analyst must understand that there is no analysis with 100% accuracy. Technical analysts' opinions may contradict one another's points of views, even if identical tools are used for the analysis at the same time.

How to Integrate the Cons and Advance Strategically

The downside of technical analysis is that there are strong evidence suggesting that figures, data, information and postulates do not work accurately all the time. Indeed, all technical analysts see the same build of figures and the formation of chart patterns. But in the end, some may fail due to external factors such as the hidden volume of trades, market depth, or institutional order flows that negates an accurate analysis. In a nutshell, theory often diverge from reality. Each and every tool has its own characteristics and usage, but it is not always applicable in every situation. As a mature technical analyst, our priority is to know which skills and tools are suitable to apply at the right time and place. With adequate experience, in-depth research of the market, and continuous trial and error among instruments, an optimal strategy can be born.

CHAPTER 2

HISTORY OF TECHNICAL ANALYSIS

Conventional Technical Analysis

Technical analysis is one of the oldest methods of analysing and forecasting charts with incomplete historical records. Many historians believe that Japan is the place where these principles were founded, which is why the candlesticks we use today are commonly known as the "Japanese Candlesticks". Traders, as well as investors in the early days of Japan, applied technical analysis particularly for the trading of Silver.

Amsterdam-based merchant Joseph De La Vega's name appeared in the accounts of the Dutch financial markets in the 17th century. Apart from Japan, many other countries in the Asian region believed that technical analysis was developed by Homma Munehisa during the mid-18th century, as the people then started using technical charting tools. From the 1920s to 1930s, several books were published by Richard W. Schabacker, which carried on the efforts and legacy of William Peter Hamilton and Charles Dow. Then in 1948, Robert D. Edwards and John Magee published ***Technical Analysis of Stock Trends (1948).*** The rules and knowledge from this book were widely applied in the stock market and were considered to be a seminal work of the industry. Technical traders all around the world have made it clear that classic trading methods, such as market trend analysis and chart patterns, are residues from this past.

Moreover, the industry bible, ***Technical Analysis***, written by John Magee, noted that he was one of the very first people to make trades solely based on a chart's historical patterns. One thing I admire about him was his ability to achieve a state of congruence although he was applying everything from averages, trading volumes, market depth, to basically every possible tool that could be graphed onto paper. He was able to identify possible patterns such as Flags, Triangles, Head and Shoulders that remained popular even today. Hats off to him for refusing to include fundamental news that could have possibly interfered or clashed with his trading signals. To me, he is the most disciplined technical analyst I ever knew.

Contemporary Technical Analysis

Dow's Theory is said to be the most prominent advocate of technical analysis, reintroduced and recommended in the modern days of trading. Charles Dow (1851– 1902) is considered by many to be the pillar of "modern" technical analysis. He also co-founded and acted as the editor of Dow Jones Industrial Average (stock index), and subsequently founded ***The Wall Street Journal***, a financial and business paper that is seen as the benchmark that all other financial papers are measured against. Other pioneers of technical analysis include Richard Wyckoff, Ralph Nelson Elliot and William Delbert Gann, who introduced their stipulated techniques for point-and-figure analysis after Charles Dow in the early 20th century.

I would like to give credit to Charles Dow who set the stage for technical analysis, as he recorded the importance of volumes (the highs and lows of the average daily trades) and how Weekly and Monthly candlesticks affect market movements, which also explain how some chart patterns could be used to predict future movements.

The fact that many historical characters explored markets of higher volatility using technical analysis proves the worth of the modern-era technical analysis. Today, this theory is like a concept or a core theory of applying movements in the past to project the future. For instance, on top of Dow's measurements, Hamilton added a few rules that he tailored to confirm railroad averages and the industrial average's direction. With that, he was able to predict ***the Great Depression*** in 1929, 3 days before it happened!

Overall, the advent of computers has greatly contributed to the promotion of growth and advancement of technical tools, indicators, and exclusively designed software to aid market traders for better trading performances. Unlike the early days, due to the limited facility where traders were only allowed to plot price and volumes on "mahjong" papers, deciding with that paper analysis whether to 'buy' or 'sell'; 'long' or 'short'.

Omissions in History

There is bound to be criticism in history like this. Ralph Nelson Elliot, William Delbert Gann, and Jesse Livermore were the first few who made technical analysis as their top faith. But does anyone know how their stories ended? (This criticism is not aimed at historical characters, but towards human behaviour.)

Livermore died broke, Elliot was labelled a "tweaking" technical analyst whose theories were too difficult to be applied and backtested, while Gann's theory was not conceptually useful. This begs the question – does a technical analyst's lack of success have direct relationship with incompetence? The truth is that Livermore willingly spent his life studying technical analysis and achieved his life's highest self-realisation – trading.

"Your own self-realisation is the greatest service you can render the world."

– Ramana Maharshi

Is "tweaking" your analysis the correct thing to do? The right thing to consider should be rationalising the diversification of instruments to an easier and more understandable trading strategy. And what does it mean when we say that Gann's theory was not conceptually useful? What we should consider instead is the incompetency and inflexibility of traders to blend a "static" theory into a "constantly" changing market.

"There is no such thing as poor analysis, only inflexible traders."

– Siaw Jun Kit

The Bottom Line of History
Step into The Past; Back to The Future

Every time an investor (technical or fundamental) talks about getting into the market, exit plans, averages, and the concerns about yesterday's highs and lows, they are paying homage to the men mentioned above as they are the ones who laid the foundation and techniques we all use today.