

AN OUTLINE OF

# BASIC TRADING



*Draft under revision*

**AN  
OUTLINE  
OF  
BASIC  
TRADING**

*In the name of  
Allah, the  
Most  
Gracious, the  
Most  
Merciful.*

# Dedication

*To the soul of my dear beloved brother, Mohammed Ali Alawi (Al-Amoudi) Al-Hamid.*

# Introduction

**In the name of God, the Most Gracious, the Most Merciful.**

**All praise is due to Allah, the Lord of all the worlds, and peace and blessings be upon the noblest of prophets and messengers, our master Muhammad, and upon his family and companions.**

**After that:**

**This book, "An Outline of Basic Trading," was written between Monday, June 26, 2023, and Wednesday, June 28, 2023. It is designed to help people understand the financial market. The first chapter covers the basics of technical analysis, followed by the subsequent chapters discussing bullish and bearish candlesticks. The following chapter focuses on indicators, and finally, the book concludes with a chapter on fundamental analysis.**

**By delving into these essential aspects of trading, readers will acquire valuable insights and knowledge to navigate the intricacies of the financial market.**

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## ❖ Basics

### ➤ What Is Technical Analysis

It is the study of statistics generated by the market activity of both past prices and the volume of securities to forecast price direction. Technical analysis uses tools to help them identify the price movements similar to technical indicators that include the moving average, relative strength index (RSI), and the stochastic oscillator. Also, they use various chart patterns to forecast price movements like head and shoulders and triangles which are used to identify buying and selling opportunities.

### ➤ Key Terms Used in Technical Analysis

Some commonly used terms of technical analysis include:

1. **Trend:** The market or security direction can be up, down, or sideways.
2. **Support and resistance:** Levels where the price has either difficulty falling below (support) or rising above (resistance).
3. **Moving average:** This is the sum price over a sum of days. It helps investors to identify potential entry and exit points.
4. **Indicators:** They are calculations of mathematical used to forecast price i.e., moving average convergence divergence (MACD).
5. **Chart Patterns:** They are specific formation on a price chart that helps to predict price movements.
6. **Asset Price:** Current price of an asset that is sold for.
7. **Asset Value:** Value is based on the underlying fundamentals of an asset. Therefore, some investors buy assets when they are trading at a lower price than their intrinsic value.

However, knowing these can help investors, thus technical analysis is not a perfect science, thus it is a useful tool helping to identify the price.

### ➤ The Limitations of Technical Analysis

There are some limitations of technical analysis that investors should consider and be aware of:

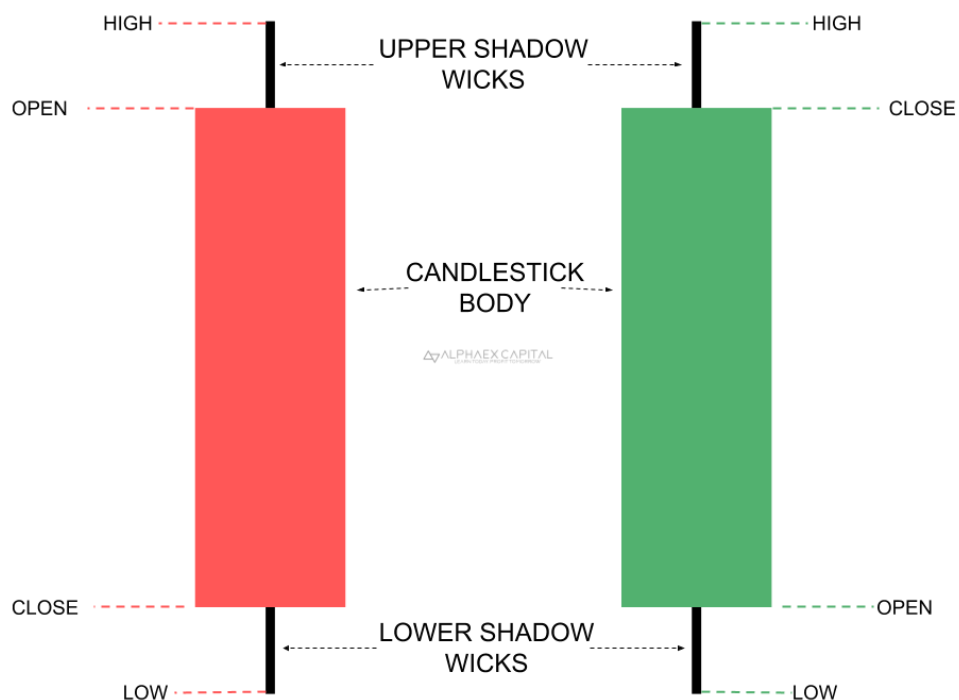
1. It is based on assumptions derived from past price and volume data. However, the market can change fast and unexpectedly leading to shifts in trends. Hence, making investment decisions should not rely upon technical analysis solo.

2. It looks at the past, hence, not taking into account external factors such as current market news, economic news, and global events.
3. It is a subject of interpretation that different traders use different methods which could lead to different conclusions. Hence, when making investment decisions, it is important to understand assumptions and methods used in the technical analysis and to consider multiple sources of information.

It has some limitations, but it is useful. It is based on the assumption that past market trends will continue, though it does not include external factors and it is subject to interpretation, therefore, it is only one tool in the decision-making process and investors should not rely on it solely.

### ➤ How To Read Candlestick Patterns

A candlestick chart is a chart of candles representing stock price action that includes prices opened, closed, and highest and lowest for a specific period. Hence, the period depends on the timeframe chosen. The timeframe could be daily, more and less i.e., weekly and hourly. Moreover, candlesticks components could help traders forecast the price movement and where it might go, for instance, a price decline could be indicated if the candle closed far lower than its open price. See the next image for the candlestick design.



Some important components of the candlestick are:

**Open Price:** is where the first price is traded during the frame-time.

**Close Price:** is where the last price traded during the frame-time.

**High Price:** The wick/ shadow upper top shows the highest price traded during the period.

**Low Price:** The wick/ shadow bottom lower shows the lowest price traded during the period.

**The Wick:** also known as shadows is the extreme in price for that period.

**Direction:** black and white or green and red or other colors showing the direction of price. For example, if the price closed above-opened price of a candle, then the price moved upwards, and it shows green color.

**Range:** the range of a candle is the difference between the highest and lowest price. Hence, the highest price – lowest = range.

#### ➤ Charting On Different Time Frames

By using different time frames a trader can have a better understanding of price movement and make better investment decisions. The time frame of technical analysis ranges from one minute to a year time spans. Here are some of the most common time frames used by technical analysis:

- **1-minute chart:** It shows the price movements of an asset over one minute period. It is used to identify short-term trends and potential entry and exit points.
- **5-minute chart:** Shows price movements of an asset over a five-minute period. This chart provides a wider view of short-term trends and can be used within a one-minute frame to make trading decisions.
- **15-minute chart:** It shows the price movement of an asset over a 15-minute period. It could be used for longer-term trades to identify the trends and to find potential support and resistance levels.
- **30-minute chart:** It shows the price movement of an asset over a 15-minute period. It could be used for longer-term trades to identify the trends and to find potential support and resistance levels.
- **1-hour chart:** It shows the price movement of an asset over a one-hour period. It could be used for longer-term trades to identify the trends and to find potential support and resistance levels.

- **4-hour chart:** It shows the price movement of an asset over a four-hour period. It could be used for longer-term trades to identify the trends and to find potential support and resistance levels.
- **Daily chart:** It shows the price movement of an asset over a one-day period. It could be used for longer-term trades to identify the trends and to find potential support and resistance levels.
- **Weekly chart:** It shows the price movement of an asset over a week period. It could be used for longer-term trades to identify the trends and to find potential support and resistance levels.
- **Monthly chart:** It shows the price movement of an asset over a monthly period. It could be used for longer-term trades to identify the trends and to find potential support and resistance levels.

However, the time frame that is used depends on the trader's personal style. Day traders, those who open and close the position on the same day, prefer to use a shorter time frame to analyze the price action. While long-term traders who hold positions in the market overnight prefer longer time frames. The price movements of a 15-minute time span are important for day traders that are looking to profit from the price swings that happen on that day.

#### ➤ How To Identify Up & Down Trends

It is crucial to be able to identify the trend's direction so that the decision maker can make sound and informed decisions about trading assets. There are two trends, ups and downs, known as a bull and bear market. A bull market is a period of time when the price of an asset is moving upwards which can be seen on the price chart as a series of higher highs and higher lows. The downtrend or bear market is the opposite where the price of an asset generally moves downwards and it can be seen on the charts as a series of lower highs and lower lows.

To identify the trends there are a few keys to look for. First, the overall direction of the price movement whether it is upwards or downwards. Next, look for the support and resistance levels. In the bull market, the price will find a support level and bounce back from it which could be found as a horizontal line on the chart where the price consistently finds support and then continues to rise. In the bear market, the price will find a resistance level where it bounces back down from its

which could be found as a horizontal line in the chart where the price finds resistance and then continues to fall.

To conclude, to make an informed decision about the trend traders must look at the overall direction of the price movement, the slope of the trend line, and support and resistance levels. Therefore, a better decision process to identify when the best time is to sell and buy an asset.

### ➤ Support & Resistance

Support and resistance are key concepts in technical analysis that are used to know the limits of the price of a security or an asset. Understanding these two concepts can help traders to make a sound decision identifying selling and buying time and where to enter and exit the position. The next paragraphs will explore what support and resistance are, how they work, and how they are used in trading.

#### **Support:**

Support is like the floor or the ground of the price level where buying pressure is strong enough to hold and prevent the price from falling further. From an economic view is where demand is greater than the supply of the asset. However, when the price reaches the support level of an asset, traders take advantage of it as they assume it will bounce back. For example, ABC stock has been trading in a range between \$40 and \$50 for several weeks. In this case, if the price falls to \$45 and bounces back up, 45\$ can be considered as the new support level and traders may use this level as a buying opportunity, assuming further price increase from this point. Thus, for some others to be sure and in the save zone they will use \$40 as an entry-level.

#### **Resistance:**

Resistance is the opposite of the support level, the sky or roof of the price where selling pressure is strong enough to prevent further price increases. Thus, from an economic view is where the demand for an asset is less than the supply for the same asset. More supply in the market makes its price fall. Therefore, when the price reaches the resistance level traders take advantage of the higher price as a selling opportunity as they assume the price will fall from this level. For example, imagine that ABC now Is trading between \$50 and \$60. In case the price rose to \$65 and then fell back, the \$65 level could be considered as a resistance level where traders see this as a selling opportunity assuming the price will continue to fall.

#### **How to identify support and resistance level:**

They could be identified by using a variety of techniques such as trend lines, moving averages, and Fibonacci retracements. Also, it could be identified by chart patterns like double bottoms and head and shoulders. Furthermore, it is important to look at areas where the price has reversed its direction multiple times in the past while identifying the support and resistance level. The more times it bounced from the level the stronger the level is.

### **Using support and resistance in trading:**

Support and resistance are used in many applications and strategies. The most common strategy is range trading which is to buy and sell at those levels. Buy when it reaches support (floor) and sells when the price reaches the sky (resistance).

Next, use the support and resistance breakout. A breakout is when the price goes beyond these levels, above resistance or below support, including a potential trend reversal. However, some traders take this as a signal to enter a trade with the direction of the breakout.

Traders should know that these two levels are not always precise, and the asset could breakout through them, or it may pierce a level before reversing course. Hence, using other risk management strategies and technical analysis indicators in conjunction with this strategy.

### ➤ Elliott wave theory

Elliott wave theory is a method to analyze financial markets including stocks, forex, and commodities. Ralph Nelson Elliott developed this theory in the 1930s which is based on the idea that market trends move in waves or repetitive patterns, therefore, it can be predicted for the purpose to trade and trading accordingly. This theory is based on the idea that human psychology plays an important role in the price movement of the financial market. Emotions like fear, greed, and euphoria drive market trends, according to Elliott.

### **The five-core principle of Elliott's theory:**

1. Waves are the market movements that are the market moves in a series of waves which could be categorized into two broad categories – impulsive and corrective waves.
2. Elliott believed that the market follows a specific pattern, repetitive patterns, that could be identified and used in trading.
3. The fractal nature of waves that means the same patterns could be observed in different time frames.

4. Alternate direction of waves, in the five patterns, 1, 3, and 5 with the trend direction while waves 2 and 4 are a counter-trend.
5. The Fibonacci ratio is related to the waves and Elliott believed that specific Fibonacci ratios are related to market waves similar to 0.618, 1.618, and 2.618.

### **How it is applied to trading in the stock market.**

This theory could be used to know the movement of the stock market. As it suggests, market trends move in waves. Therefore, five waves were in the trend direction while three waves followed the five waves which are corrective waves. This pattern could be used to identify trading opportunities. For example, after identifying the first wave of an upward trend, traders may expect two more impulsive waves to follow, each followed by a corrective wave. This information could be helpful to enter a trade with a trend direction including a stop loss below the previous low. Also, it is used to identify reversal points in the market. For example, after five pattern waves are complete, a trader could expect three corrective patterns to follow. Therefore, if these three corrective patterns fail to reach the last wave's low it indicates a sign of trend reversal potential. Hence to correct the position, enter a short or exit a long position.

This theory is not foolproof, thus, it could be challenging to apply it. Thus, market movements sometimes could be erratic also unpredictable which indicates difficulties with trend identification and trading the pattern accurately. Hence, market movements do not always follow the expected patterns. Therefore, using it in conjunction with fundamental analysis and technical tools to make a sound trading decision.

## ❖ Bullish Candlestick Patterns

### ➤ Hammer

Pattern Type: Bullish

The hammer happens in a downtrend that signals a reversal trend which indicates bulls are about to take over, however, after the hammer it is a must to have a reversal trend confirmation which means that the price starting to increase.

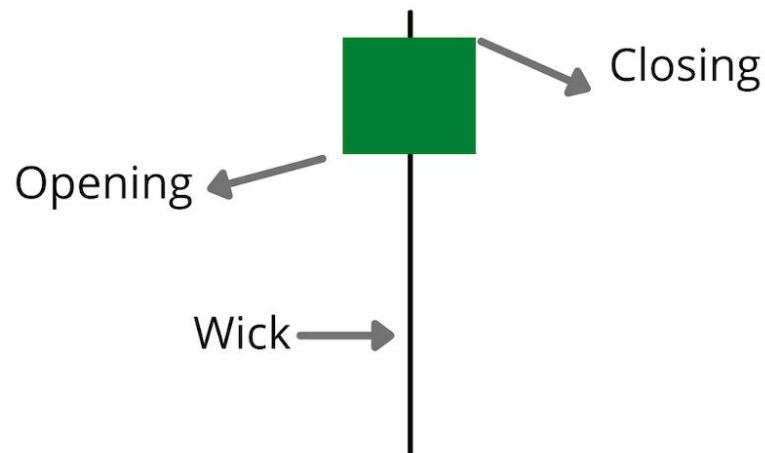
### **What the pattern looks like**

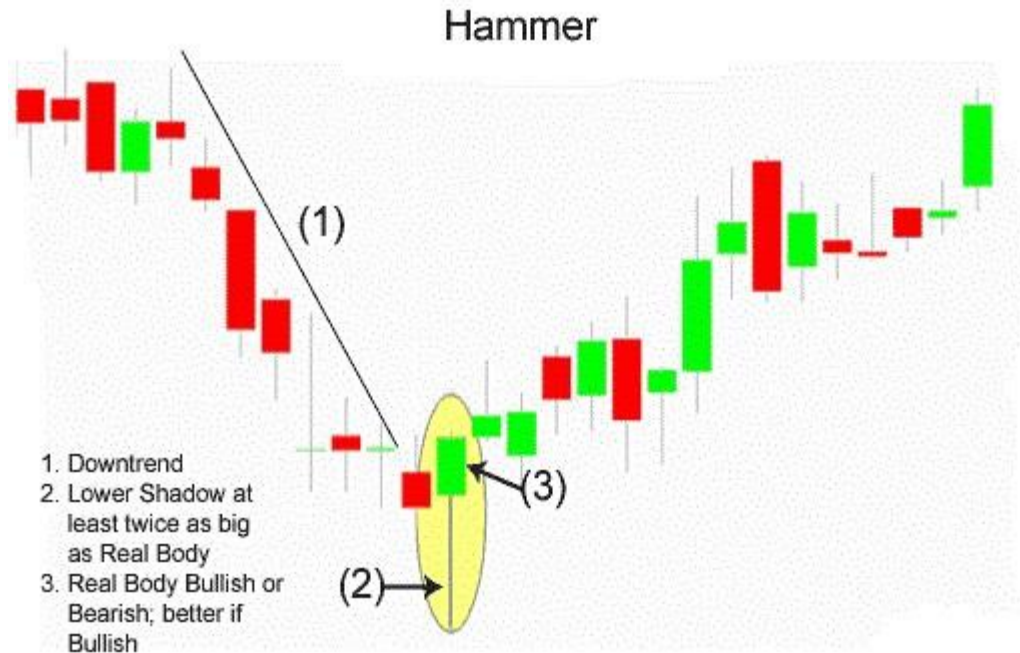
The hammer pattern includes a short real body, a small/non-existent upper wick/shadow, and a lower wick/shadow that is at least twice the size of the real body.

## Pattern Psychology

The previous trend is a downtrend, price making lower low. Also, selling pressure that makes the price fall is exerted by sellers. Therefore, when this candle appears it indicates that bulls are back in the market and they started to increase buying pressure making the price increase so that bears lost control of the price and they are unable to bring it down. Therefore, in case the price maintains its strength thus, in the next session traders can enter a buy position. See what a hammer should look like and an example of a hammer in the graph below.

### Bullish Hammer Candlestick





#### ➤ Morning Star

Pattern Type: Bullish

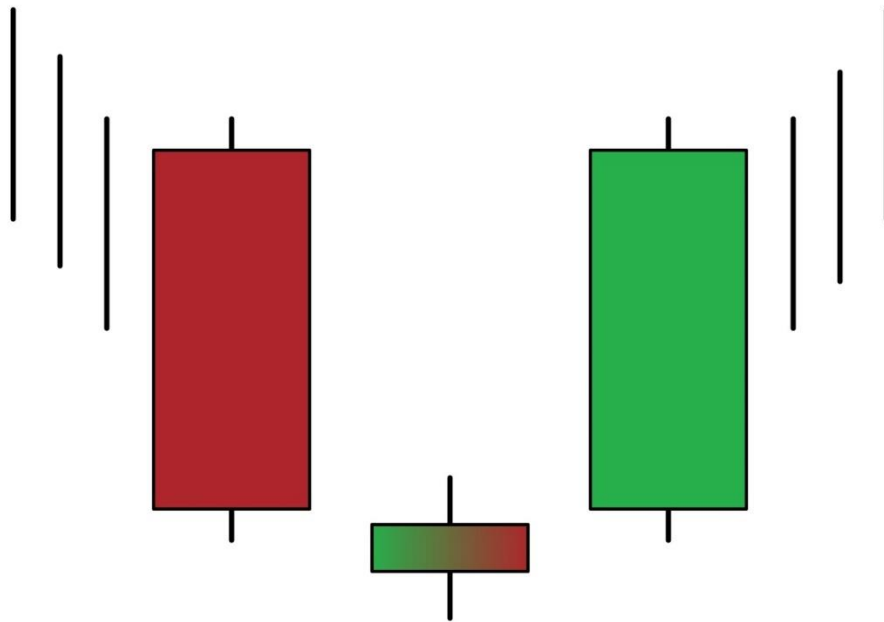
The Morning Star happens after a downtrend which means that the price is making a lower low and there is exerted seller made the selling pressure. This pattern indicates an upward climb; thus, it signals a reversal trend of the price. Treaders should look for confirmation indeed occurring after the appearance of the morning star.

#### **What the pattern looks like**

It is made of three candles, a red candle tall with a big body, a smaller green or red candle with a short real body and long wicks, and a third green candle tall with a big real body.

#### **Pattern Psychology**

The middle candle of the morning star shows a moment in the market where the buyers take control and sellers give them control. However, the third long green candle confirms the reversal which could mark the start of a new uptrend. See what a morning star looks like and an example of it in the graph below.



The first candle is made out of a long bearish, the second is made out of a short bearish or bullish with long wicks, and the third candle is made out of a long bullish.



## ➤ Three White Soldiers

Pattern Type: Bullish

The three white soldiers are a bullish pattern that is found in a downtrend, meaning lower low with high selling pressure, though, this pattern is used to indicate a reversal direction of the trend. This pattern of three white/green soldiers when confirmed with other indicators like the relative strength index is considered a reliable reversal pattern.

### **What the pattern looks like**

It is made of three candles, consecutive green, with long real bodies. Each of them opens with the last previous price and closes with exceeds the previous high. Their wicks should not be long.

### **Pattern Psychology**

This pattern indicates a strong change in market sentiment as the candle is closed with small wicks which indicates that the buyer managed to keep the price at the top of the range during the session. See what three white soldiers look like and an example in the graph.

### **Three White Soldiers**





## ➤ Bullish Engulfing

Pattern Type: Bullish

When the day closes with a small red candle and it is followed the next day by a large green candle that eats the red, the body completely overlaps or engulfs the previous day's body.

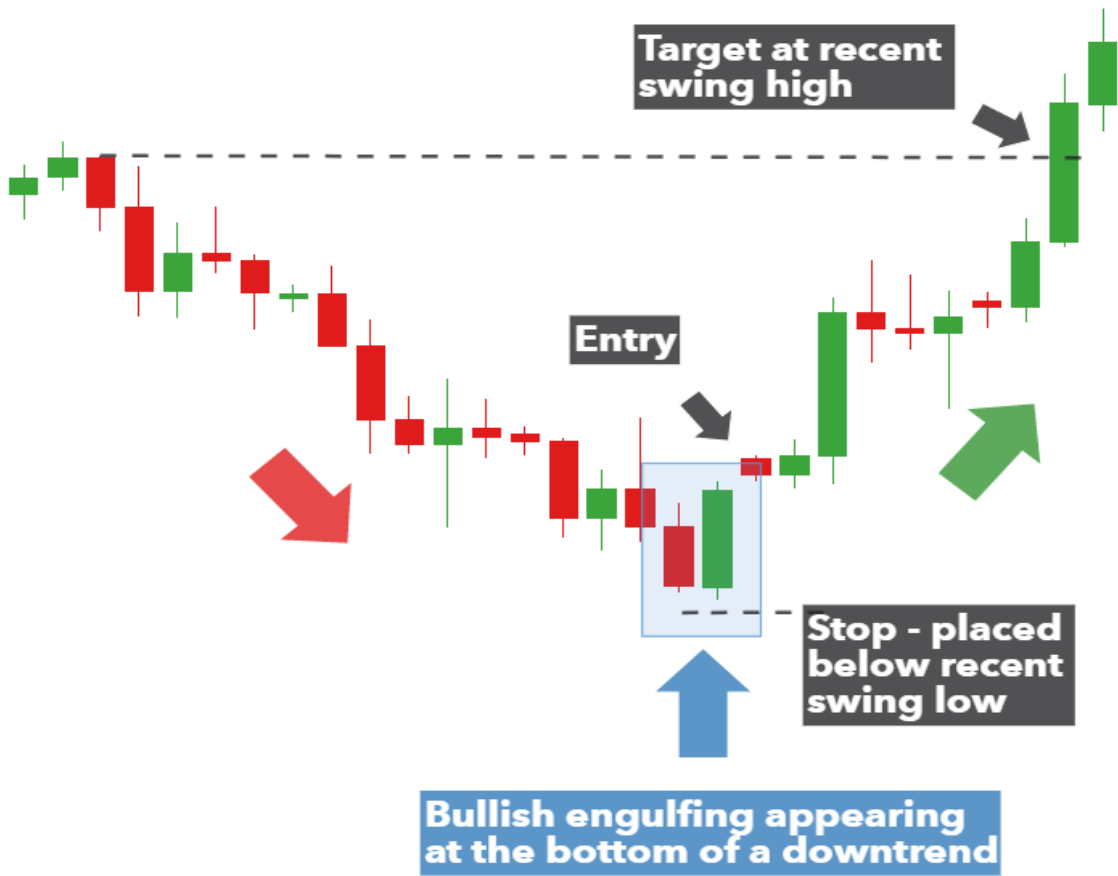
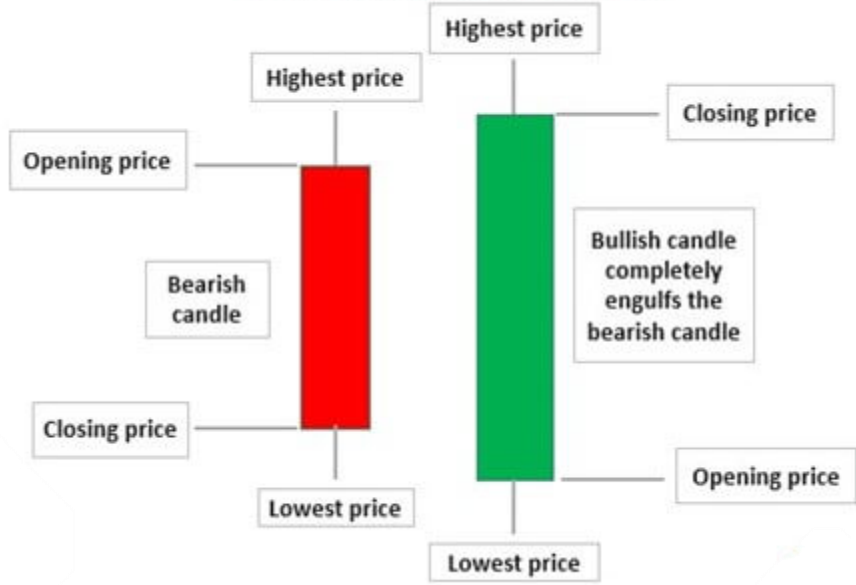
### What the pattern looks like

When a small red candle of bearish followed by a large green bullish trend, the body of green engulfs the previous day's candlestick.

### Pattern Psychology

It is an increase that is unexpected in buying interest, driving the price up to close higher than the previous opening creating the large green candle which indicates the bull's attempt to prevent the price from falling further which lead thereby to a successful reversing of the trend. See what it looks like and an example in the graph below.

# Bullish Engulfing Pattern



## ➤ Bullish Three Line Strike

Pattern Type: Bullish

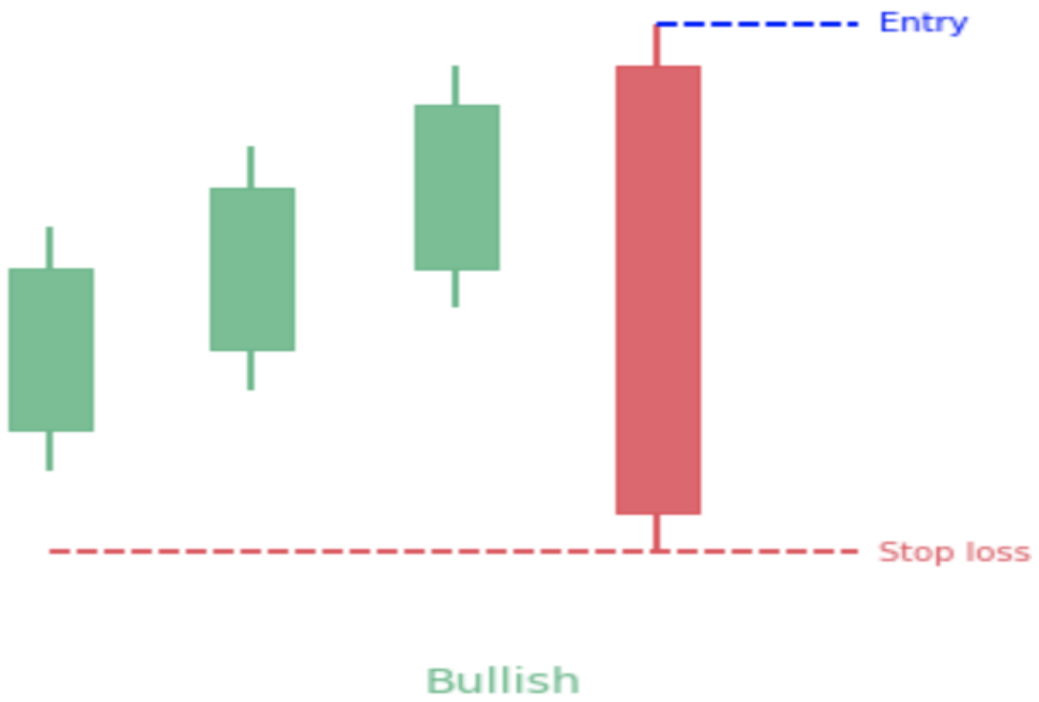
It is one of the most famous and effective trading strategies on the globe. The bullish three-line strikes are indicating a bullish reversal shortly which is a pattern of four candles.

### **What the pattern looks like**

It is four candlesticks; the first three candles are bullish, and the last candle is bearish. The first three close higher while the fourth candle closes below the pattern, a negative candle. It is interpreted as a bullish three-line strike marking a pullback in the bullish trend that soon turns up again.

### **Pattern Psychology**

As the market is bullish and this sentiment leads to the belief in ascending prices, therefore, the market forms the first three bullish candles. Next, when the market goes up for quite a long time, the asset is overbought. Thereafter, as the market went up so much, the traders started to sell their position in anticipation of a pullback. Hence, the market sentiment becomes more bearish. When the next candle opens, we see that traders pushed the price downwards in one, long candle. However, as this move in price was sudden and violent, the majority of traders were still bullish about the market given the rising trend. Therefore, as a result, the price continues to move higher afterward. See what the bullish three-line strike looks like and an example below.



# THREE LINE STRIKE



## ➤ Three Inside Up

Pattern Type: Bullish

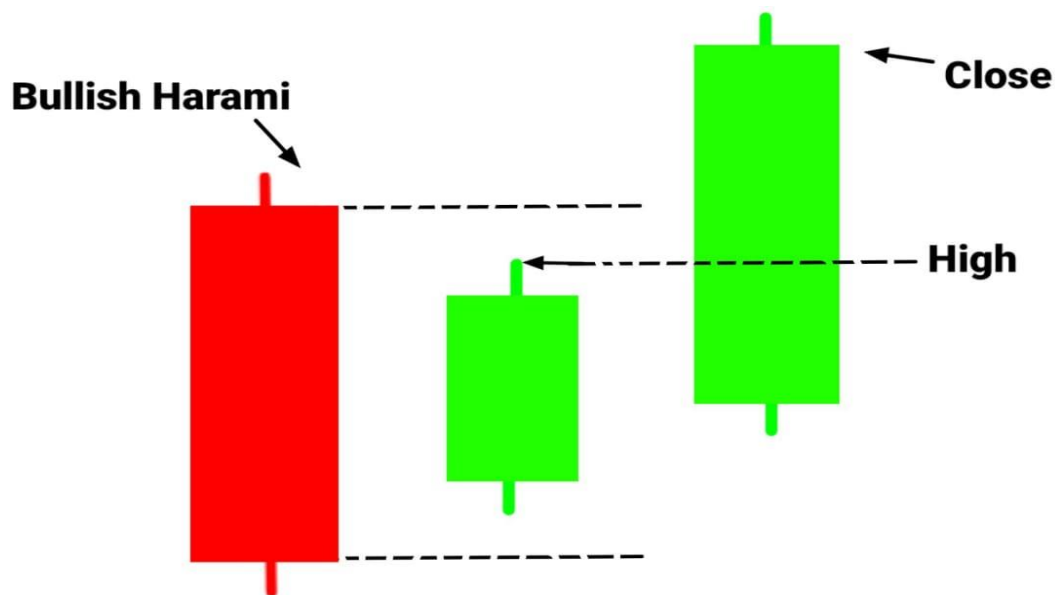
Three inside up are considered and classified as a bullish reversal. As it is a short-term movement it may not always reflect any big or slight change. It is advocated to use and adopt the three candle up/down patterns when considering the general trendline.

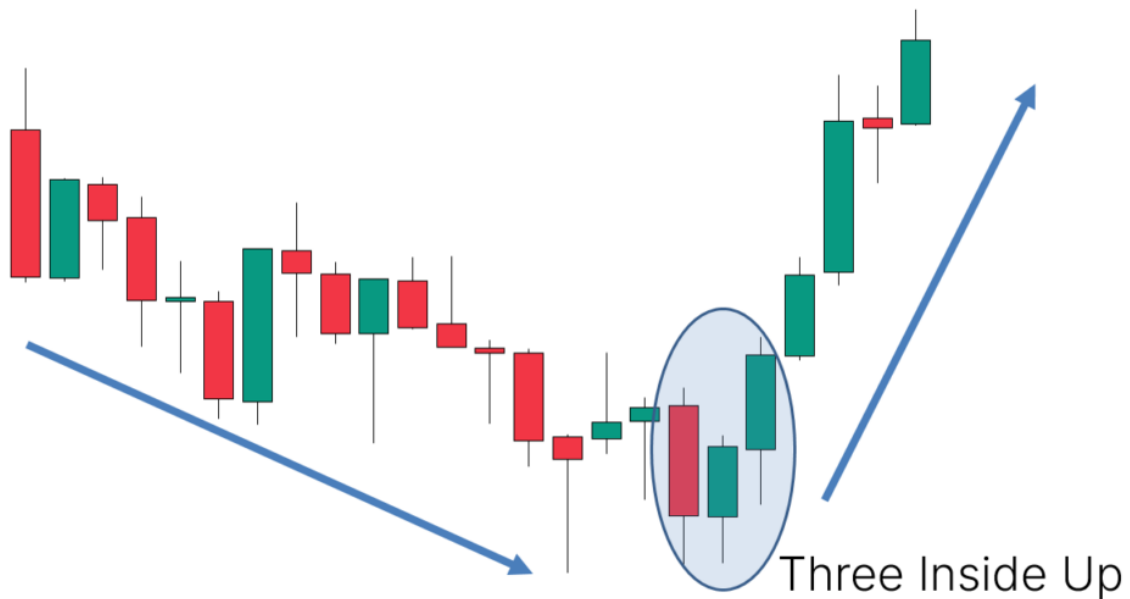
### What the pattern looks like

It consists of three inside-up candles. A bearish long candle, a bullish short candle that opens and close inside the first candle, and a bullish long candle that closes higher than the first candle opens.

### Pattern Psychology

The asset price is moving downward showing control of the bearish over the market. The first candle closes favorably with the trend with a long body that shows bears dominating the market and that the price and/or trend will continue. However, the second candle starts with a gap-up. Therefore, bears leave their trend which is considered a sudden up move in the middle of a strong decline. Thus, it is close to the boundaries of the first candle but its close high (green) which means a red flag for sellers. The third candle is also green which completes the general bullish trend that indicates a long new position for traders. See what the three inside up look like and an example below.





### ➤ Dragonfly Doji

Pattern Type: Bullish

Dragonfly Doji provides insight into the behavior of financial markets. It is used by traders and analysts to predict price movements. Thus, it is a single candlestick. The next paragraphs will explore its characteristics, interpretation, and trading strategies.

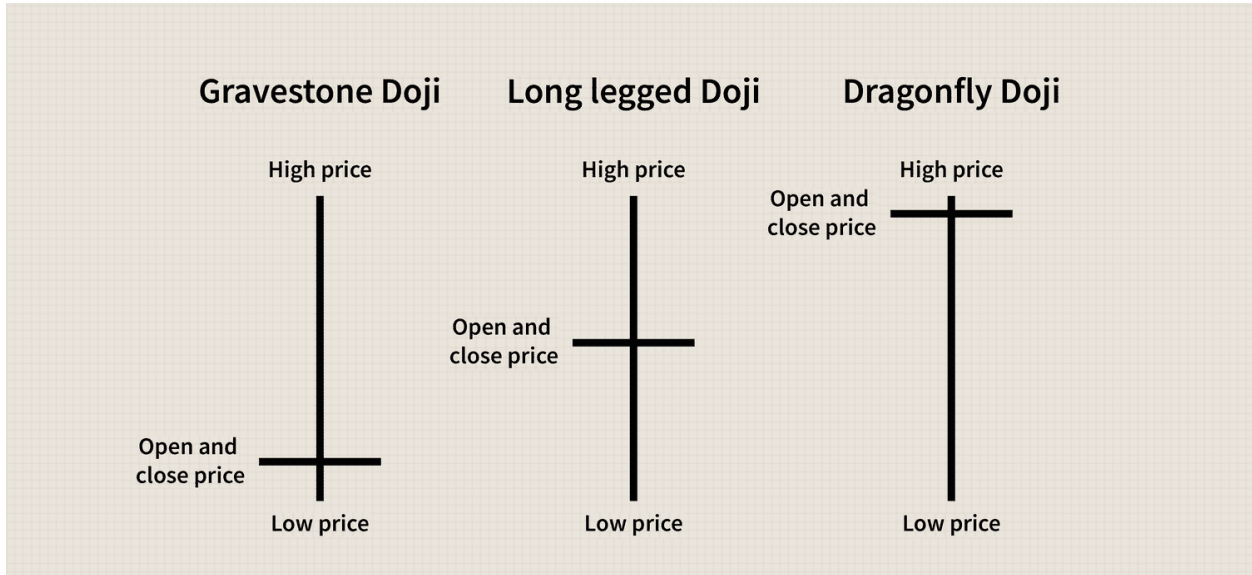
#### **What the pattern looks like**

When open, closed and high prices of a candlestick are all on the same level, the Dragonfly Doji formed, a small body with a long lower shadow. Thus, it is in the shape of a “T” or “+” sign, when the upper shadow is absent indicates bulls controlled the market during the session.

#### **Pattern Psychology**

First of all, the small body indicates a state of equilibrium between buyers and sellers which represents indecision and uncertainty in the market. Secondly, a lower long shadow signifies a strong reaction to the price from lower levels. This indicates that the bears tried to push the price, but bulls took control and drove the price up during the session. Lastly, no upper shadow indicates the absence of significant selling pressure. Which indicates bulls’ domination of the session and

preventing the price from moving higher. See what Dragonfly Doji looks like and an example below.



## ➤ Piercing Line

Pattern Type: Bullish

The piercing line indicates a potential reversal of a downtrend. It is two candles, the first bearish followed by a bullish which opens below the previous day's close, thus, it closes above its midpoint. These patterns indicate that bulls take control of the market.

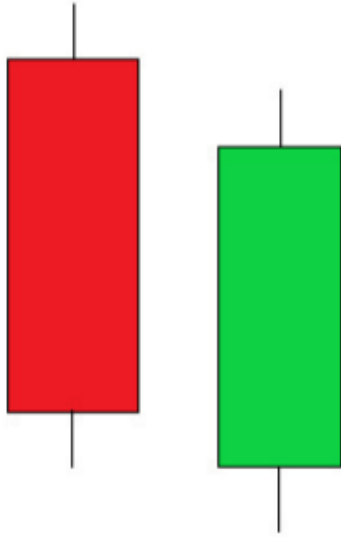
### **What the pattern looks like**

Traders must spot and observe two consecutive candlesticks to identify the piercing line. The first candlestick represents a downward trend which is a red or black bearish candle. While the second candle is bullish, which is green or white, that is representing an upward trend. Though, the bullish candle opens lower than the previous day's close and closes above the midpoint of the previous bearish candle.

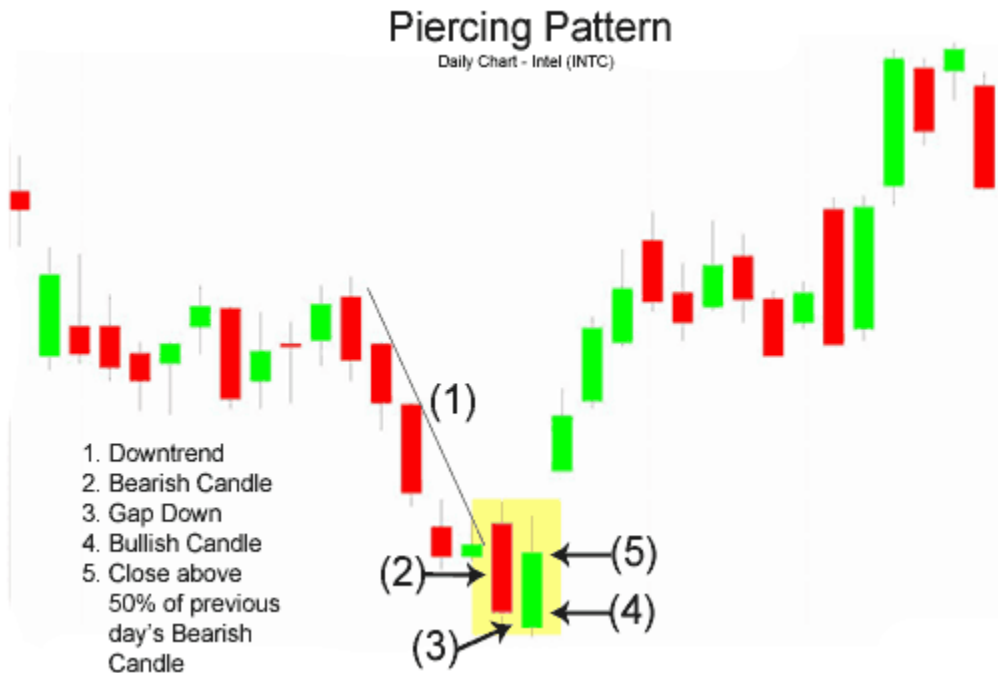
### **Pattern Psychology**

First, the piercing line pattern shows and reflects a change or shift in the psychology of traders. Therefore, as the market is in a downward trend, a strong bearish sentiment that sellers drive the price lower is shown in the first candle of the pattern that reinforces this sentiment. However, the second bullish candle opens lower than the close of the previous day. This made buyers optimistic, and they believe that sellers are exhausted, thus the bullish candle gains momentum and closes above the previous day's midpoint which shows that bulls are back to take control. Moreover, as the bulls gain momentum and strength it indicates a potential reversal of the downtrend. This leads sellers to change their sentiment about the market and cover their short position or become more inclined to buy. This pattern is interpreted as a signal of a long position or buying opportunity, anticipating an increase in price, upward movement, and bullish trend reversal. See what it looks like and an example of it below.

# Piercing Line Pattern



- Two candle Pattern
- Trend Reversal Pattern
- Effective if found during down trend
- 1st Candle: **Red (Bearish)**
- 2nd Candle: **Green (Bullish)**
- Both candles should be big
- **Green** candle opens below **Red** candle.
- **Green** candle closes slightly below the top of **Red** candle.



## ❖ Bearish Candlestick Patterns

- Evening Star

Pattern Type: Bearish

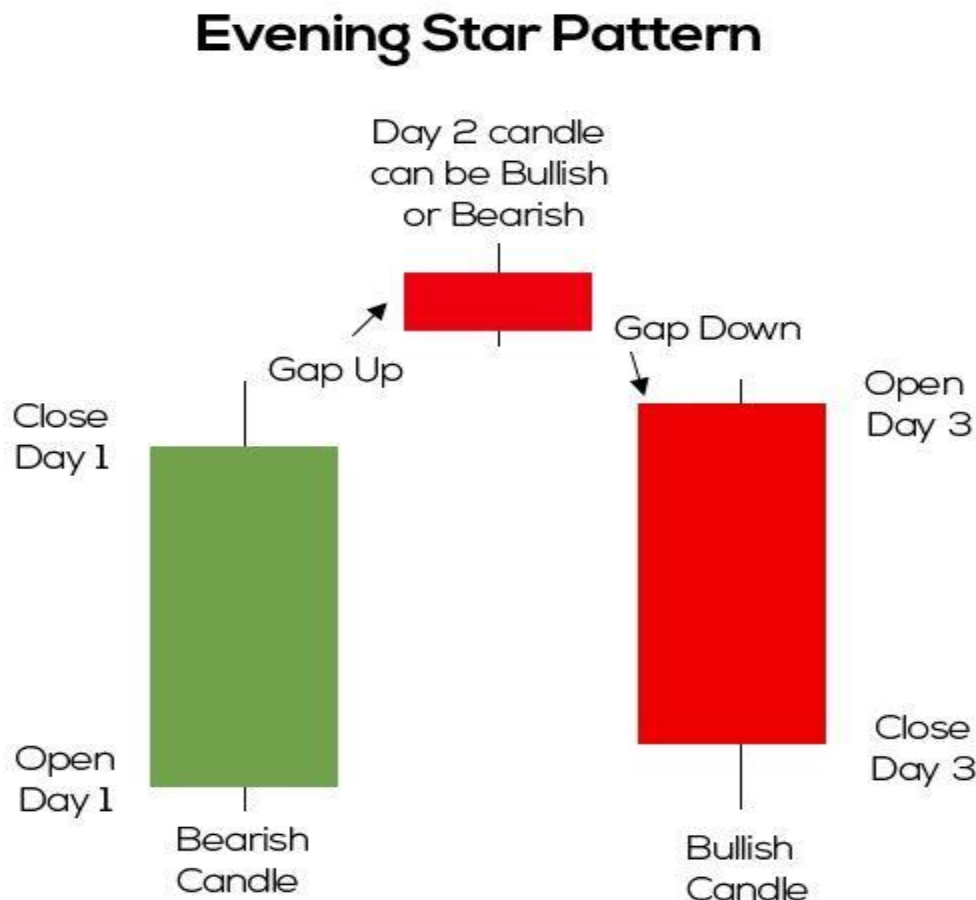
This pattern forms an upward trend, hence, the price was making higher highs and there was high buying pressure. Thus, it indicates a reversal thus the star of price falling.

### What the pattern looks like

Three candles, green tall with a big body, a smaller green or red with a short real body and long wicks, and a third candle red tall with a big real body.

### Pattern Psychology

This pattern is rare, although it is considered a reliable technical indicator by traders. However, the mid candle with a short real body captures a moment in that buyers give sellers control. The third red candle confirms the reversal and can mark a new downtrend moment of an asset. See what it looks like and an example below.



The candles are patterned like morning stars with 1 big difference. While the morning star is bullish the evening star is bearishly made of three candles. The first candle is long bullish, the second candle is short bullish or bearish with long wicks, and the third candle is made out of a long bearish candle.





### ➤ Three Black Crows

Pattern Type: Bearish

This pattern forms an upward trend, hence, the price was making higher highs and there was high buying pressure. Thus, it indicates a reversal trend downward. This pattern is considered reliable when used and confirmed with other technical indicators like the relative strength index.

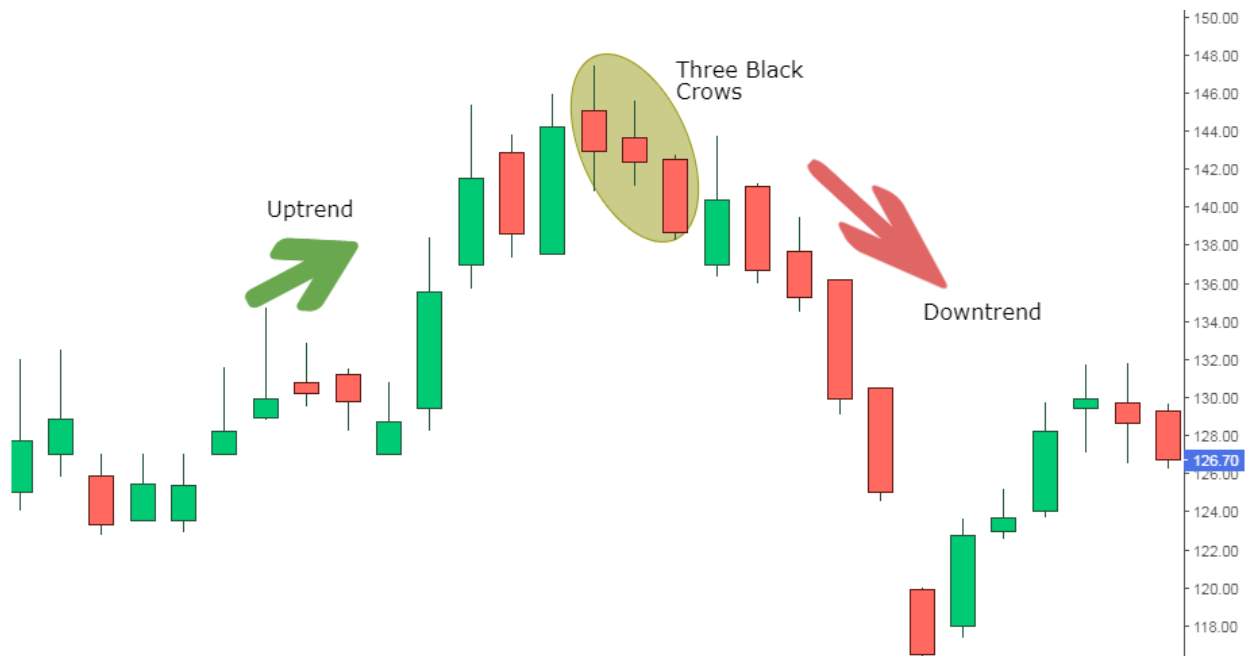
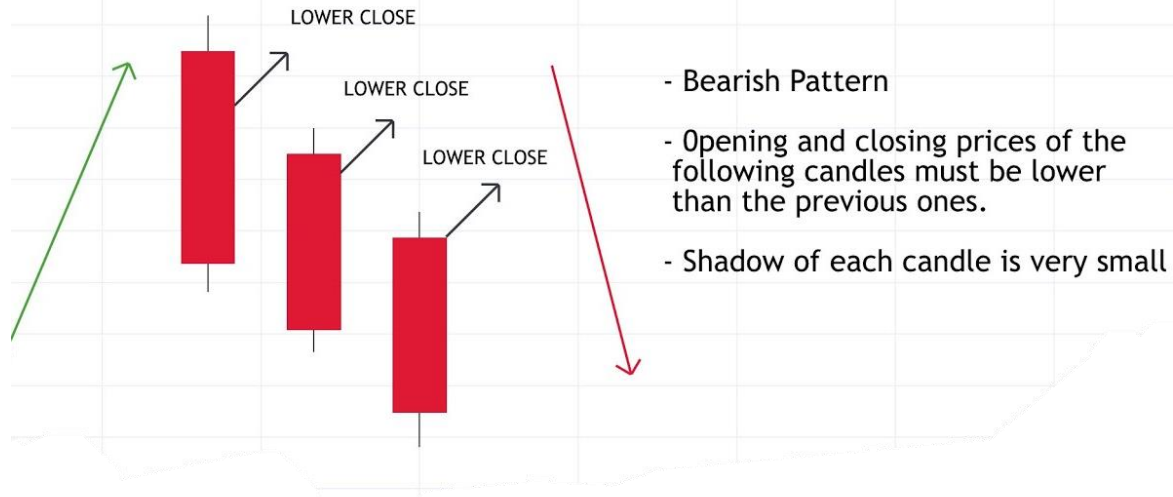
#### **What the pattern looks like**

It is made of three candles, consecutive red, with long real bodies. Each of them opens with the last previous price and closes below the previous close. Their wicks should not be long.

#### **Pattern Psychology**

This pattern indicates a strong change in market sentiment as the candle is closed with small wicks which indicates that the sellers managed to keep the price at the top of the range during the session. See what it looks like and an example in the graph.

## Three Black Crows Candlestick Pattern



➤ Hanging Man

Pattern Type: Bearish

The hanging man was found at the end of an upward trend. Hence, prices were making higher highs and there was strong buying pressure. Thus, it suggests the power of control lost by bulls and bears might be about to take control of the market. Thus, after the hanging man appears it must be confirmed that the price started to move down to confirm the reversal pattern.

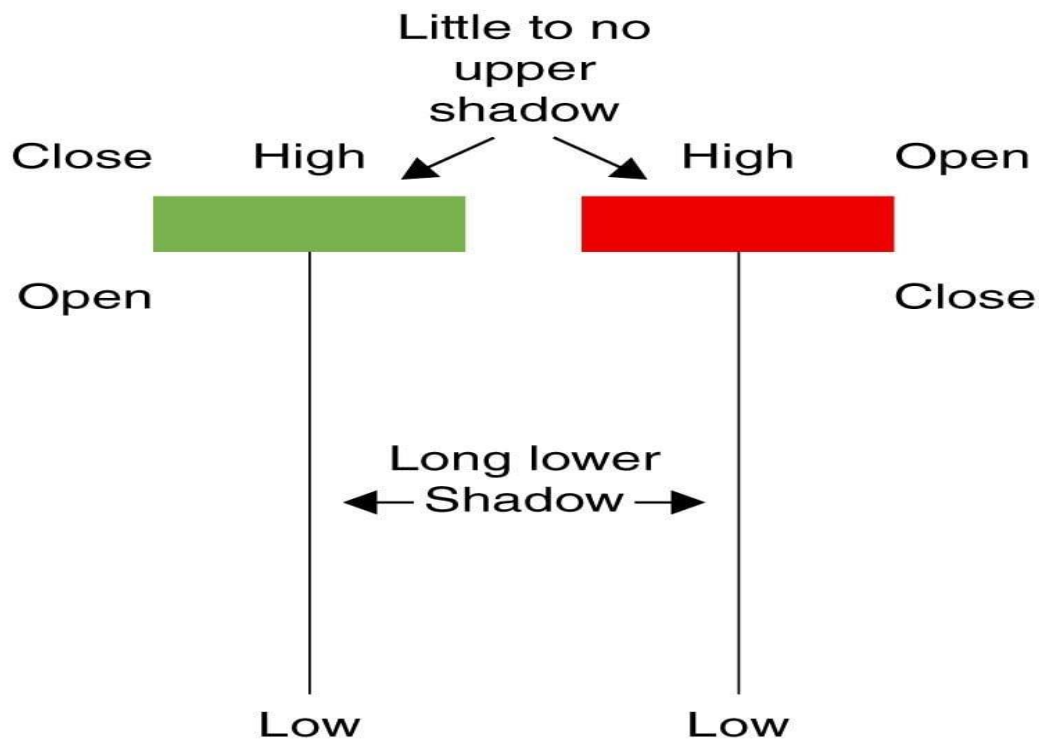
### What the pattern looks like

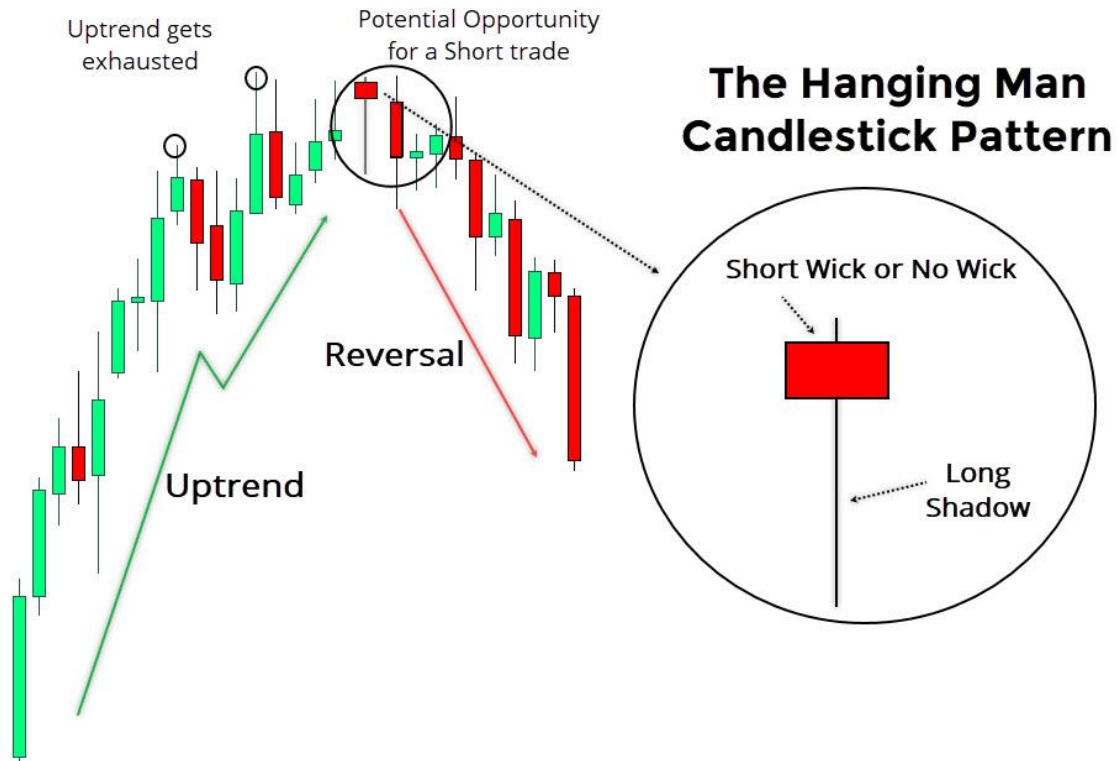
The hanging man is a short real body, a small/non-existent upper wick/shadow, and a lower wick/shadow that is at least twice the size of the real body.

### Pattern Psychology

The previous trend is an uptrend, price making higher high. Therefore, when this candle appears it indicates that bulls lost in the market and demand increased and therefore, pushed the price higher, increasing selling on this day, thus, buyer managed to bring the price near to the open price, however, the initial sell-off indicates that investors concluded that the price has peaked. See the below figures of what it looks like and an example.

## Hanging Man Pattern





## ➤ Shooting star

Pattern Type: Bearish

When a candle opens and rises significantly and then closes near the open price, the shooting star is formed. Hence, the highest price distance from the opening price is twice its body, thus, it is happening at the end of an upward trend that signals a reversal bearish trend.

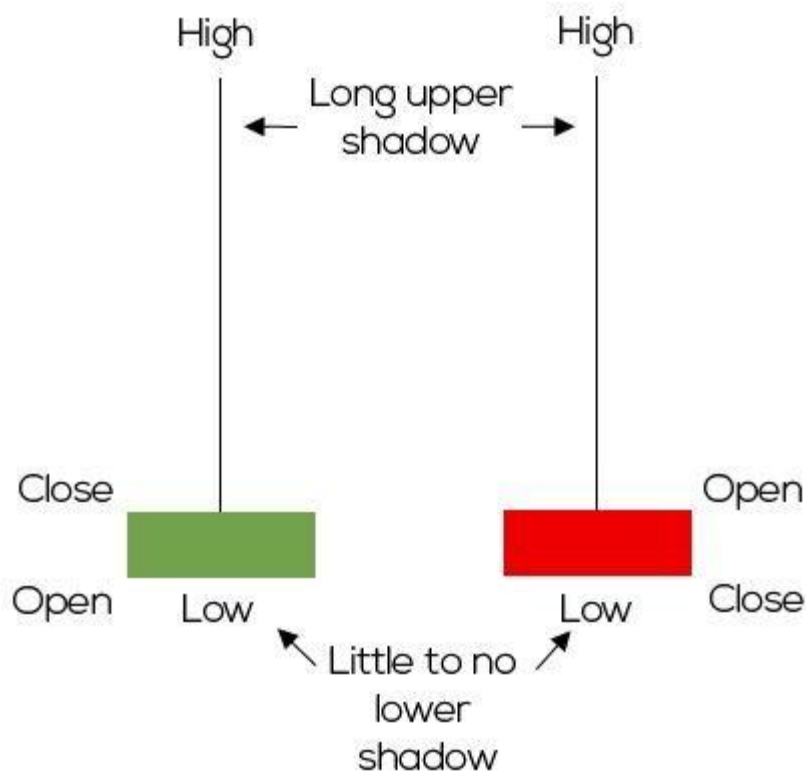
### What the pattern looks like

Long upper shadow, a bearish candle, little or no lower shadow with a small real body near the low of the day which appears after an uptrend.

### Pattern Psychology

High pressure from buyers drove the shadow high, thus, encountered selling pressure that drive it back down to close near its opened price. Thus, it is seen as a reversal sign as it has occurred in an upward trend. See the below figures of what it looks like and an example.

## Shooting Star Pattern





#### ➤ Bearish Engulfing

Pattern Type: Bearish

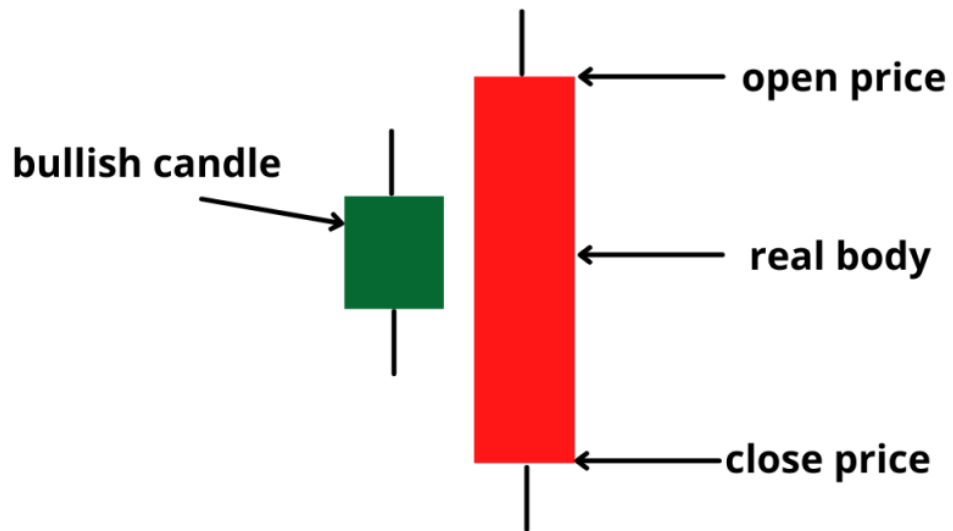
When a candle opens and rises significantly and then closes near the open price, the shooting star is formed. Hence, the highest price distance from the opening price is twice its body, thus, it is happening at the end of an upward trend that signals a reversal bearish trend.

#### **What the pattern looks like**

When a small green candle of bullish followed by a large red bearish trend shows a bearish trend, the body of red engulfs the previous day's candlestick.

#### **Pattern Psychology**

It is an increase that is unexpected in selling interest, driving the price low to close lower than the previous opening creating the large red candle which indicates the bear's attempt to prevent the price from rising further which leads thereby to a successful reversing of the trend. See what it looks like and an example in the graph below.



## Bearish Engulfing Bar



## ➤ Bearish Three Line Strike

Pattern Type: Bullish

It is one of the most famous and effective trading strategies on the globe. It is the counterpart to the bullish three-line strikes, indicating a bearish reversal soon that is a pattern of four candles.

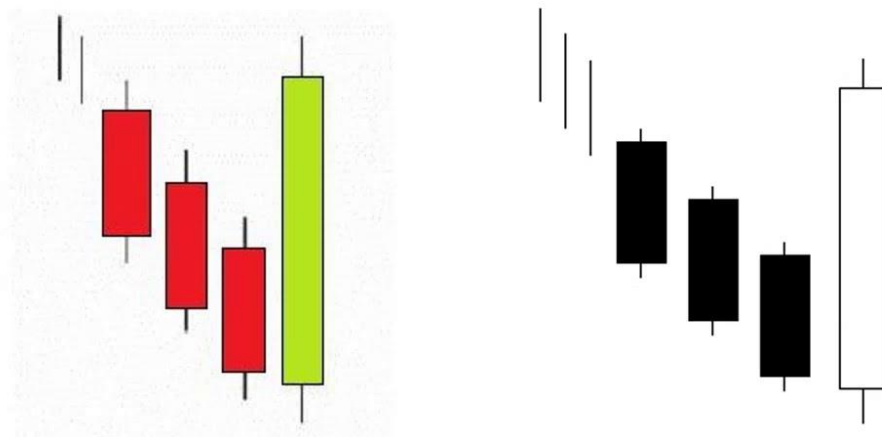
### What the pattern looks like

It is four candlesticks; the first three candles are bearish, and the last candle is bullish. The first three close lower while the fourth candle closes above the pattern, a positive candle. It is interpreted as a bearish three-line strike marking a pullback bearish trend that soon turns up again.

### Pattern Psychology

As the market is bearish and this sentiment leads to the belief in descending prices, therefore, the market forms the first three bearish candles. Next, when the market goes down for quite a long time, the asset is oversold. Thereafter, as the market has gone down so much, the traders started to buy their position in anticipation of a pullback. Hence, the market sentiment becomes more bullish. When the next candle opens, we see that traders pushed the price upwards in one, long candle. However, as this move in price was sudden and violent, the majority of traders were still bearish about the market given the decreasing trend. Therefore, as a result, the price continues to move downward afterward. See what the bearish three-line strike looks like and an example below.

## Bearish Three-Line Strike





However, sometimes it is the opposite, upward, so traders need other tools to confirm the trend, hence, set stop loss at the fourth red shadow low of the pattern in the bullish and in the bearish the opposite is true. See the next figures.



➤ Three Inside Down

Pattern Type: Bearish

Three inside down are considered and classified as bearish reversals. As it is a short-term movement it may not always reflect any big or slight change. It is advocated to use and adopt the three candle up/down patterns when considering the general trendline.

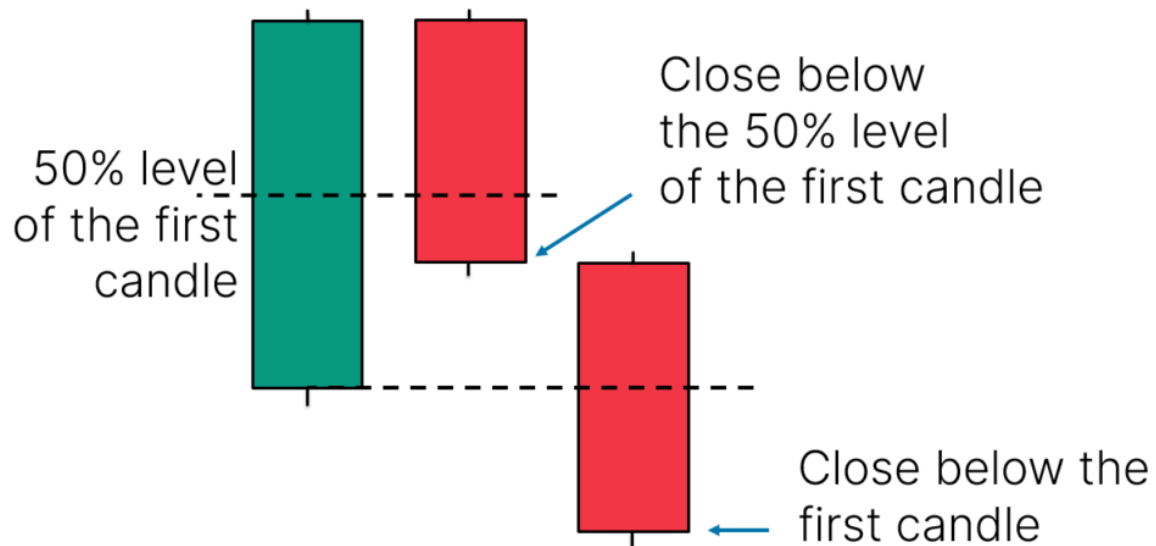
**What the pattern looks like**

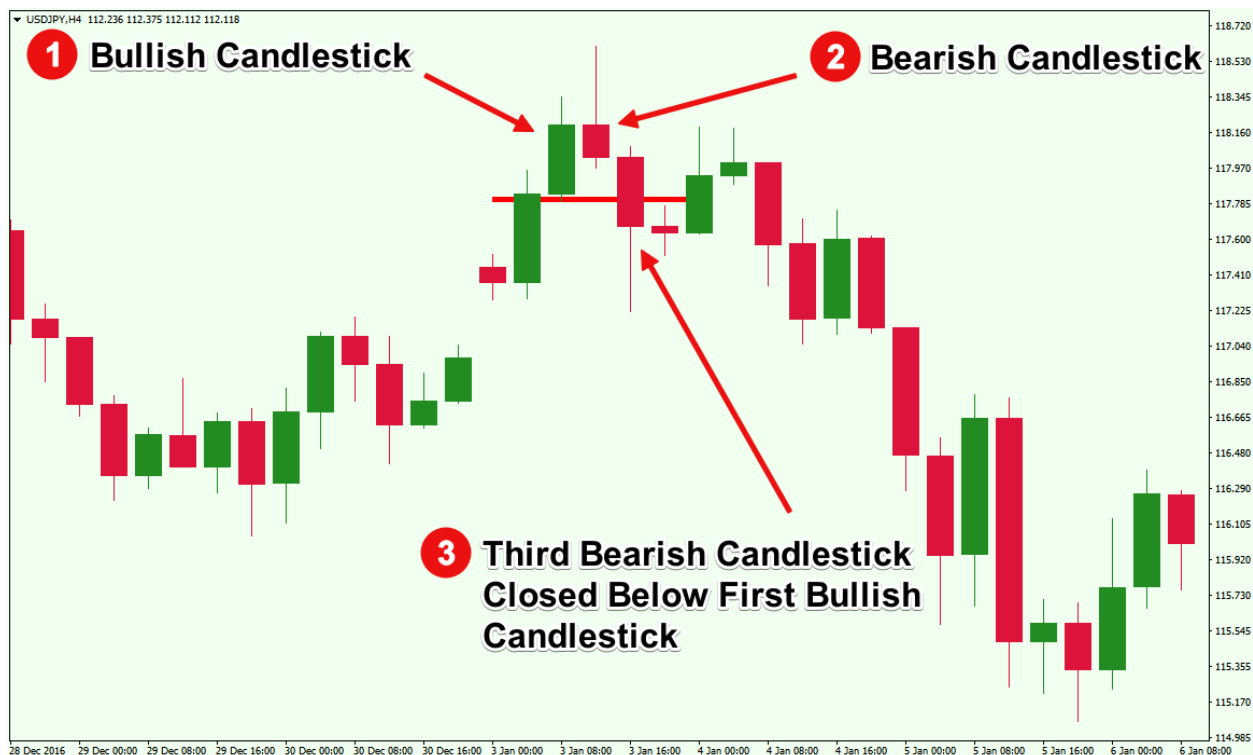
It consists of three inside-down candles. A bullish long candle, a bearish short candle that opens and closes inside the first candle, and a bearish long candle that closes lower than the first open.

### Pattern Psychology

The asset price moving upward showing control of the bulls over the market. The first candle closes favorably with the trend with a long body that shows bulls dominating the market and that the price and/or trend will continue. However, the second candle starts with a gap down. Therefore, bulls leave their trend which is considered as a sudden down move in the middle of a strong rise. In the meantime, bears enter the market and take charge of the session, therefore, pushing the price further through the gap-down opening. See what the three inside down look like and an example below.

### Three Inside Down





## ➤ Gravestone Doji

Pattern Type: Bearish

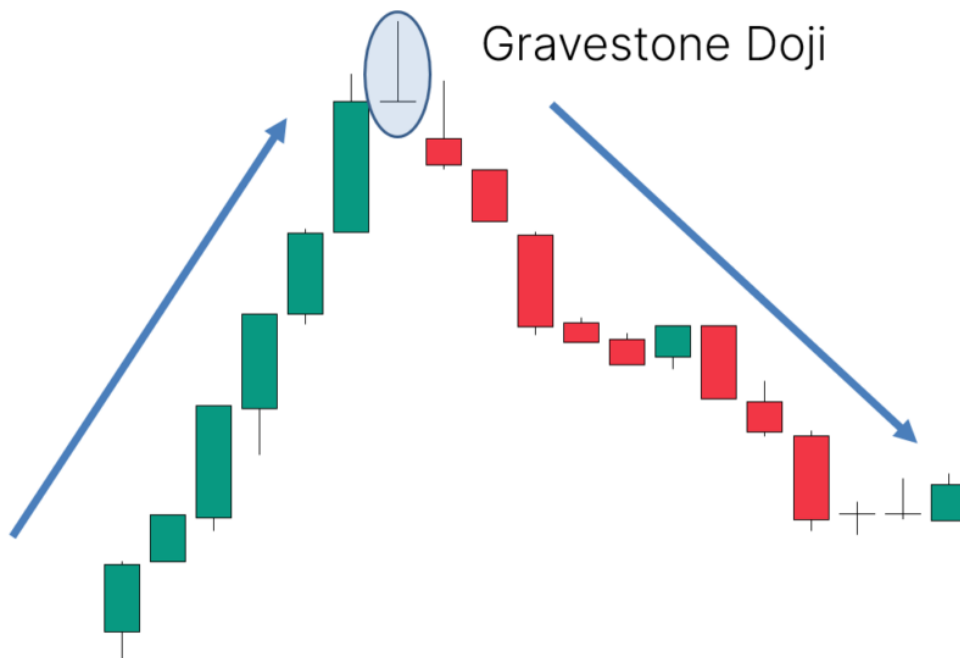
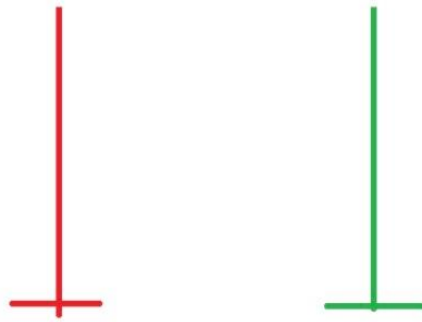
Through this candle, insightful information about the financial market could be optioned. It is a single candle.

### What the pattern looks like

Long tail or shadow with a small body that opens, close and low price all are in the same level. It is an inverted “T” or upside-down gravestone. Hence, bears control the market as shown by the absence of the lower shadow.

### Pattern Psychology

Its characteristics of it have significant implications on the market psychologically and can be interpreted as the small body suggesting a state of equilibrium between buyers and sellers which indicates uncertainty in the market. The long tail or shadow indicates the strong price rejection from the higher level which indicates that bulls try to push the price, but bears stepped and take control of the market pushing the price back down thus selling pressure outweighed buying during the session. Finally, the absence of the lower tail or shadows indicates bear control which prevents the price from moving lower. See the below figures for how it looks like and an example.



➤ Dark Cloud Cover

Pattern Type: Bearish

This candle signals a reversal of an uptrend. It is a bullish candle followed by a bearish that opens above the previous day's close and closes below its midpoint. Thus, it indicates bears are back in control.

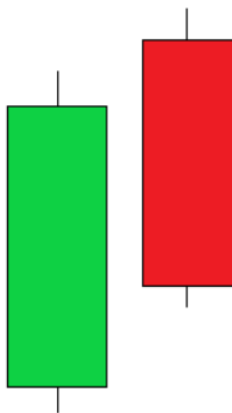
### What the pattern looks like

Two consecutive candles, the first bullish followed by bearish opens above and closes below the midpoint of the previous day's, thus the first candle indicated buyers in control while the second shows that bears are back in control.

### Pattern Psychology

This pattern reflects shifts in trader psychology. Initially, the sentiment is a bullish trend, with buyers pushing prices high, thus as the second opens even higher given the impression of bullish momentum will continue. Thus, when the second candle closes below the midpoint of the first candle, it reverses the upward trend. Thus, bears overpower bulls in the market. Hence buyers may start to take profit or become cautious which leads to a potential reversal in sentiment. Thus, this pattern indicates and suggests that bears could drive the price down and take control of the market, therefore traders may consider a short position as they anticipate a bearish trend reversal. See what it looks like and an example below.

## Dark Cloud Cover Pattern



- **Two candle Pattern**
- **Trend Reversal Pattern**
- **Effective if found during uptrend**
- **1st Candle: Green (Bullish)**
- **2nd Candle: Red (Bearish)**
- **Both candles should be big.**
- **Red candle opens above Green candle.**
- **Red candle closes slightly above the bottom of green candle.**

# Dark Cloud Cover



## ❖ Indicators

### ➤ Moving Average

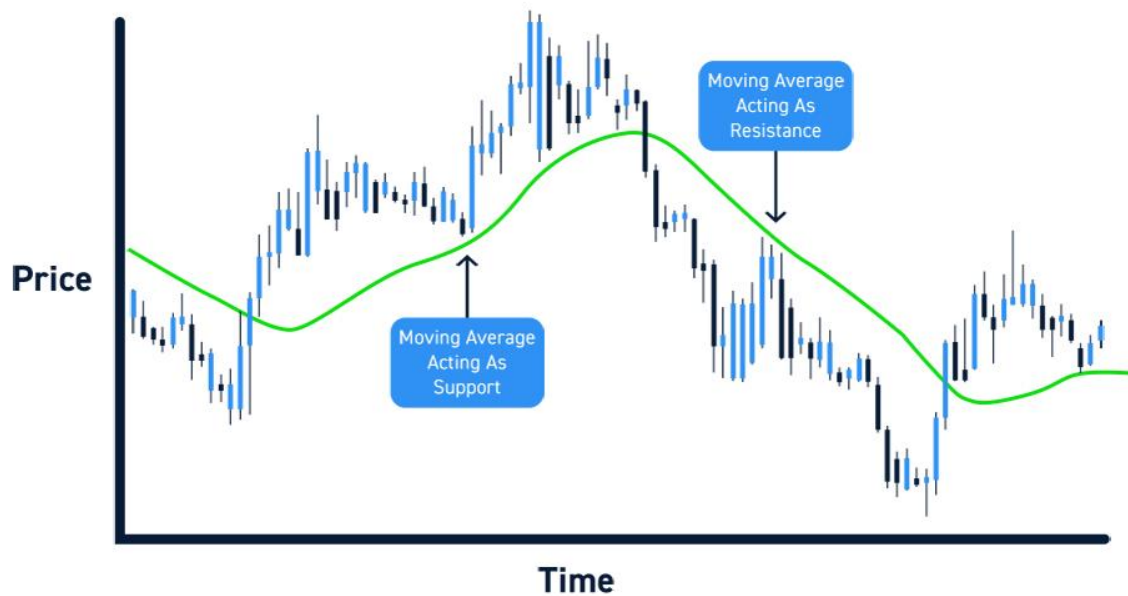
One of the most commonly used indicators represents the average value of an asset price over a certain period. This indicator helps traders, investors, and firms to make informed decisions. Two main types of moving averages. Simple (SMAs) and exponential moving averages (EMAs). SMAs calculated by taking the average price of an asset closing and divided it by a period. For example, the 50-day moving average is calculated by the sum of 50 days' closing price by the number 50. Moreover, EMAs add more weight to recent prices, hence the price is more responsive to recent change. Therefore, this could enhance the indicators for short-term trends. Thus, it is calculated by adding the percentage of the current period to the previous period's moving average.

There are many ways to use the moving average in technical analysis. For example, to identify the overall trend of an asset. It is an uptrend if the asset price is above the moving average and a downtrend if the price is below the moving average.

Next, the moving average provides a buy and sell signal. A buy signal is generated when asset prices cross above their moving average, and it is a selling signal if it crosses below it.

Though, it is used to identify support and resistance levels. Hence, the moving average acts as a support when the asset price is going up which find support at the moving average. Also, the moving average acts as a resistance level at the time that the asset price is falling therefore, it finds resistance at the moving average. See the next figures for the moving average.

## Moving Averages To Find Support And Resistance





➤ On Balance Volume

The on-balance volume (OBV) shows the overall flow of money in and out of an asset through the use of volume data. The idea of it is that volume precedes price, therefore, a rise in volume is

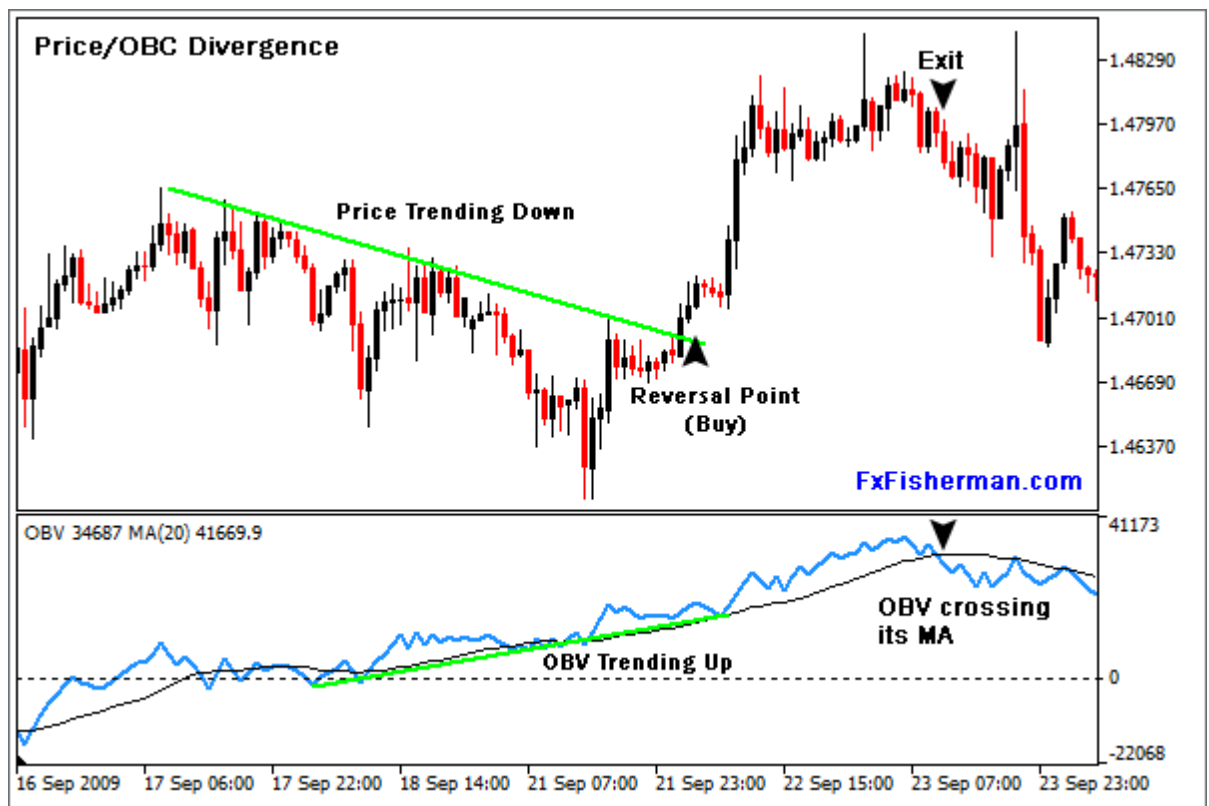
an early sign of change in price. OBV can be used in many ways like to confirm price trends, buying and selling opportunities and to find divergences between price and volume.

For example, it can be used to confirm the price trend, if the price of an asset is trending upward, OBV is also increasing, it is a confirmation of an upwards trend. Similarly, in case the asset price is a downtrend and OBV is falling, thus, this could be interpreted as confirmation of a downtrend.

Next, OBV is a potential buy and sell signal, a buy signal is when OBV rises above a previous high, and a sell is when its falls below the previous high.

Also, to identify divergences between price and volume. Therefore, in case the price of an asset makes a new high, but OBV is not, this could be interpreted as the uptrend losing momentum and a potential sell signal. Similarly, in case the price of an asset is making a new low and OBV is not it could be a sign that the downward trend is losing momentum and a potential buy signal. See the next figures.





➤ Relative Strength Index

The Relative Strength Index (RSI) shows the overall strength of asset price movements. It is an index that computes the ratio of the average gains of an asset over a period to the average losses over that period. RIS is a bounded oscillator which means its ranges from 0 to 100.

Therefore, a reading below 30 is oversold while above 70 is considered overbought. Furthermore, it is used to identify reversal points, one of its main uses, in an asset price. For example, if the RSI is above 70 and starts to fall it could indicate that the asset is overbought and that a sell-off is imminent. Similarly, when it is below 30 and starts to increase it may indicate that the asset is oversold and a rally is coming. See the figures below.



# DIVERGENCE CHEAT SHEET

|         | BULLISH (compare <u>lows</u> )   |            | BEARISH (compare <u>highs</u> )   |             |
|---------|--|------------|---|-------------|
| REGULAR | <p>PRICE</p>  <ul style="list-style-type: none"> <li>Price is making <b>lower lows</b>.</li> </ul>          | BUY SIGNAL | <p>PRICE</p>  <ul style="list-style-type: none"> <li>Price is making <b>higher highs</b>.</li> </ul>         | SELL SIGNAL |
|         | <p>INDICATOR</p>  <ul style="list-style-type: none"> <li>Indicator is making <b>higher lows</b>.</li> </ul> |            | <p>INDICATOR</p>  <ul style="list-style-type: none"> <li>Indicator is making <b>lower highs</b>.</li> </ul>  |             |
| HIDDEN  | <p>PRICE</p>  <ul style="list-style-type: none"> <li>Price is making <b>higher lows</b>.</li> </ul>         | BUY SIGNAL | <p>PRICE</p>  <ul style="list-style-type: none"> <li>Price is making <b>lower highs</b>.</li> </ul>          | SELL SIGNAL |
|         | <p>INDICATOR</p>  <ul style="list-style-type: none"> <li>Indicator is making <b>lower lows</b>.</li> </ul>  |            | <p>INDICATOR</p>  <ul style="list-style-type: none"> <li>Indicator is making <b>higher highs</b>.</li> </ul> |             |



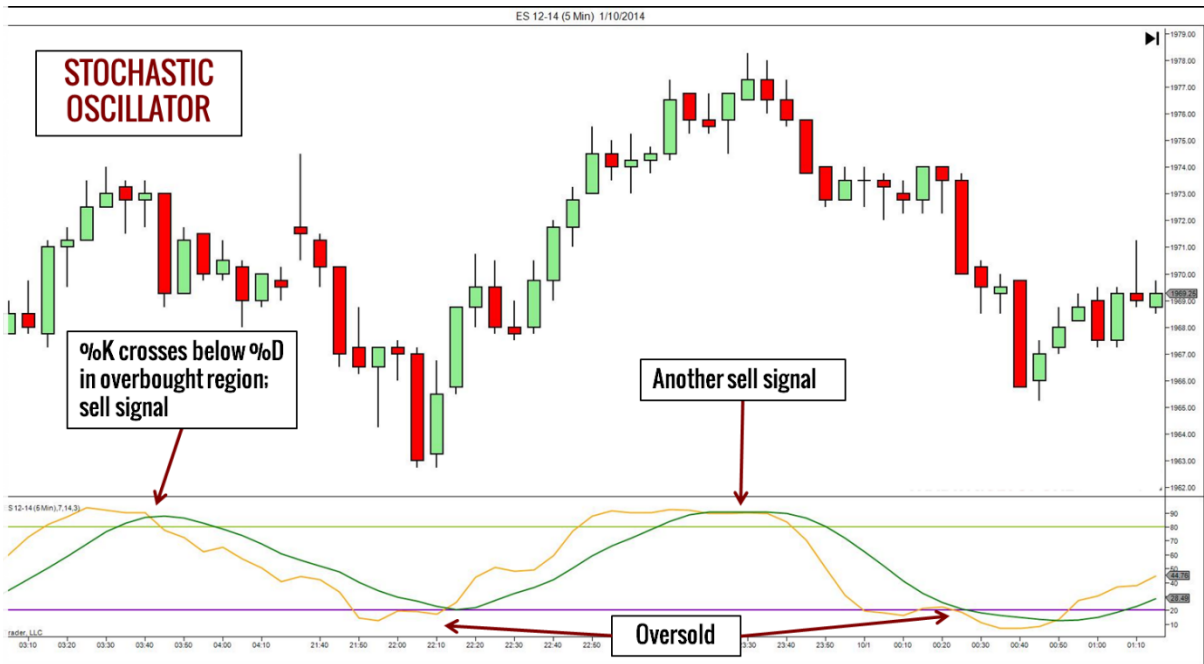


### ➤ Stochastic Oscillator

The stochastic oscillator is one of the technical indicators that use the closing price of a security to provide information about where is the price relative to its price range over a given period. Thus, identifying potential overbought or oversold conditions in the asset. It is calculated by, first finding the asset's highest high and lowest low of a period. For instance, in 14 days, need to find its highest high and lowest low. After finding this information it is calculated by using this formula:

$$\text{Stochastic Oscillator} = (\text{current closing price} - \text{lowest low}) / (\text{highest high} - \text{lowest low}) * 100$$

Though, it represents a percentage value of the current closing price relative to the high and low prices over a period. The value is plotted in a chart as a line with upper 80% and lower 20% reference levels. However, when the value is above 80% it is considered overbought while it is oversold when it is below 20%. Furthermore, this represents that the asset may be due for a price correction, thus, can help to find potential entry and exit points in the market. Also, it is a lagging indicator which means it is based on historical data, therefore, may not necessarily forecast price movement. See the below figure.



### ➤ Bollinger Bands

Bollinger Bands measure asset volatility. It is an upper standard deviation band and a lower one also with SMA in the middle. Thus, the first step is to calculate the SMA of an asset, for example, the SMA 20 days of an asset which is the average price for 20 day period for an asset. Then calculate the upper and lower bands by the following formula:

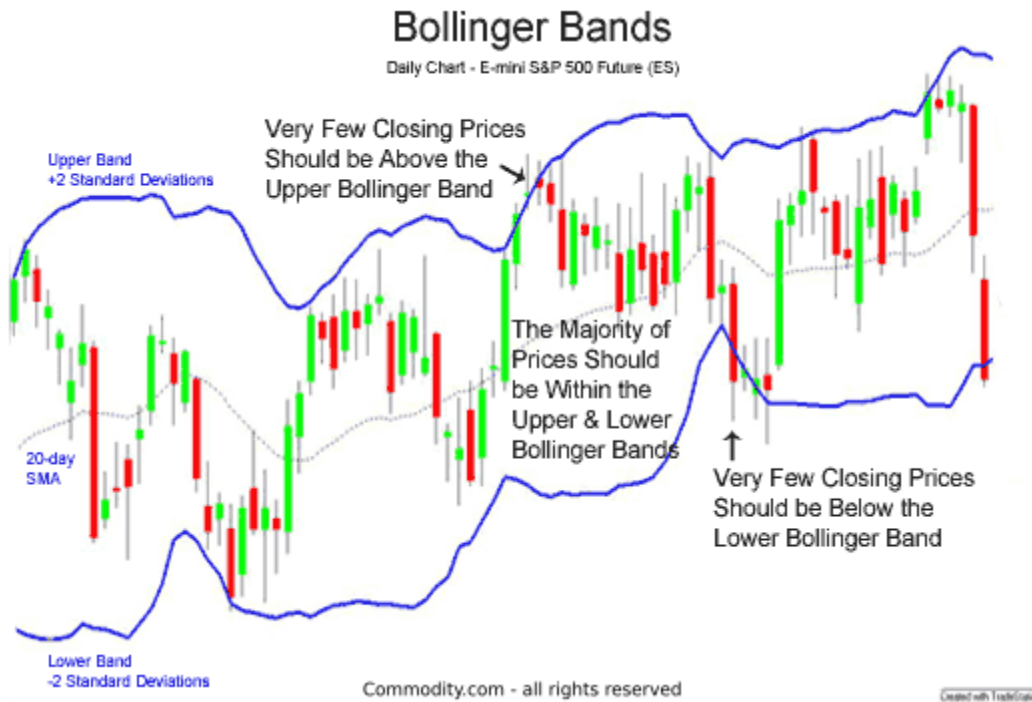
$$\text{Upper Band} = \text{SMA} + (2 \times \text{Sd})$$

$$\text{Lower Band} = \text{SMA} - (2 \times \text{Standard Deviation})$$

Therefore, Sd measures how much the closing price deviates from SMA. As known Sd is the square root of the sum of the squares of the differences between each closing price and the SMA, divided by the number of closing prices.

Therefore, the next step after the calculation is to plot them on the chart with the SMA. The chart result would look like an envelope or a band that envelops the price movement of an asset. Thus, it is used as well to find out about overbought or sold security. When the price at the upper band is considered overbought and the opposite is true. Hence, the asset may be due for a price correction, therefore can be used to know entry and exit points in the market. Moreover, it is used to identify periods of low volatility and breakout potential also. Hence, when the bands

are tight and near to each other, low volatility, when the price breaks out of the bands it could be a signal of a potential trend change. See the figures below.

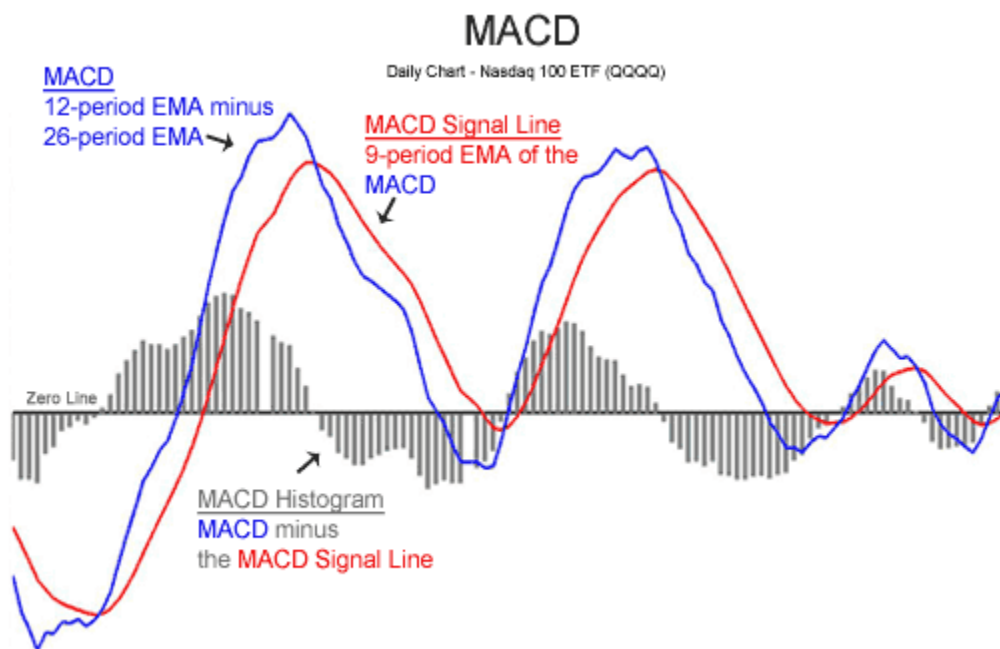


#### ➤ MACD

Moving Average Convergence Divergence (MACD) shows the changes in the direction of an asset and its trend strength. Its name came from that It is said either to be converging towards or diverging away from the signal line. MACD is easy to calculate and use, it is a 12-period

exponential moving average (EMA) minus 26-period EMA. The resulting number is plotted in a chart with a nine-period EMA of the MACD which is called the signal line.

This indicator can help identify entry and exit points in the market. For instance, a bullish signal is when the MACD line crosses above the signal line, hence asset's trend becomes stronger and it is a buying opportunity. Conversely, MACD crosses below the signal line which is a bearish signal as a sign of the asset's trend becoming weaker and sell time opportunity. Also, it gives information about asset trend strength, therefore, when MACD moves further from the signal line indicated a strong trend, while when it moves near it is a weak sign of the trend. Hence, it is a lagging trend, meaning that is based on historical data and it is slower to respond to market changes. See the below figure.



### ➤ Fibonacci Retracement

This indicator is used to indicate support and resistance through the use of horizontal lines. Hence, the Fibonacci sequence derived these levels, thus, however, they are used in conjunction with trend lines to indicate points of entry and exit in the market. The definition of the Fibonacci sequence is a series of numbers where each number is the sum of the prior two numbers. One of the most famous sequences starts with 0 and 1. The subsequent numbers are 0, 1, 1, 2, 3, 5, 8, 13, 21, ...etc.

However, technical analysis uses these numbers to create on the chart the horizontal lines which reflect the areas of potential support and resistance levels. These levels were calculated by taking a significant high and low and divided them by Fibonacci vertical distance ratios of 23.6%, 38.2%, 50%, 61.8%, and 100%. For example, assets' significant high and low are \$100 and \$50 respectively. Thus, the 23.6% retracement level is calculated as follows:

$$\$100 - \$50 = \$50$$

$$\$50 \times 23.6\% = \$11.80$$

$$\$100 - \$11.80 = \$88.20$$

This shows that the retracement of 23.6% level for the asset is \$88.20.

Therefore, these levels are plotted in the chart horizontally to identify areas of support and resistance. Hence, an upward trend of an asset encounters resistance at the 23.6% retracement level is a good time for a short position. Note, these levels will change as prices high and low change. See the below figure example.



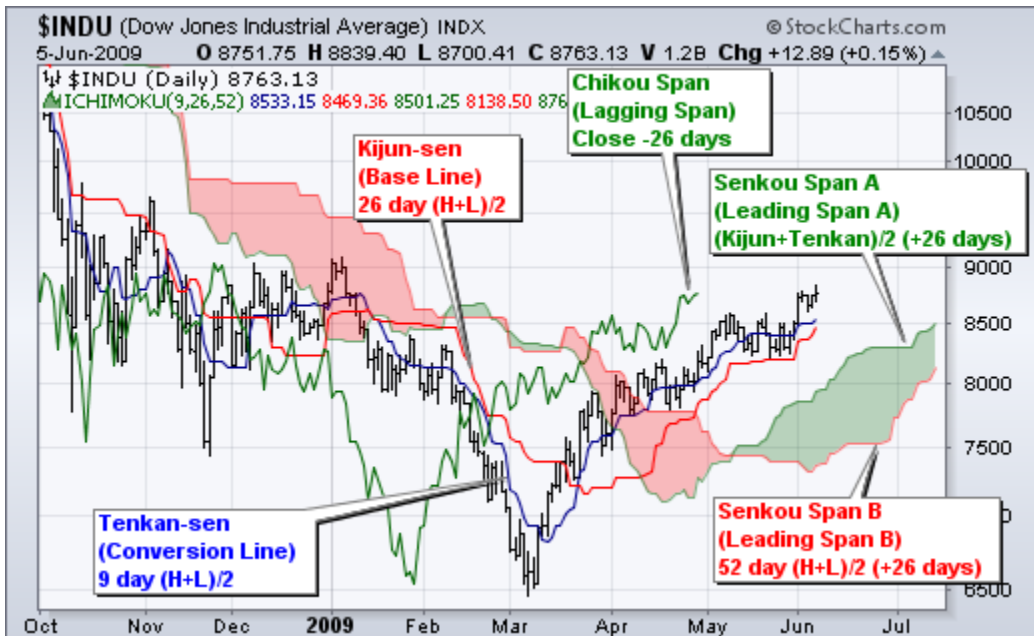
### ➤ Ichimoku Cloud

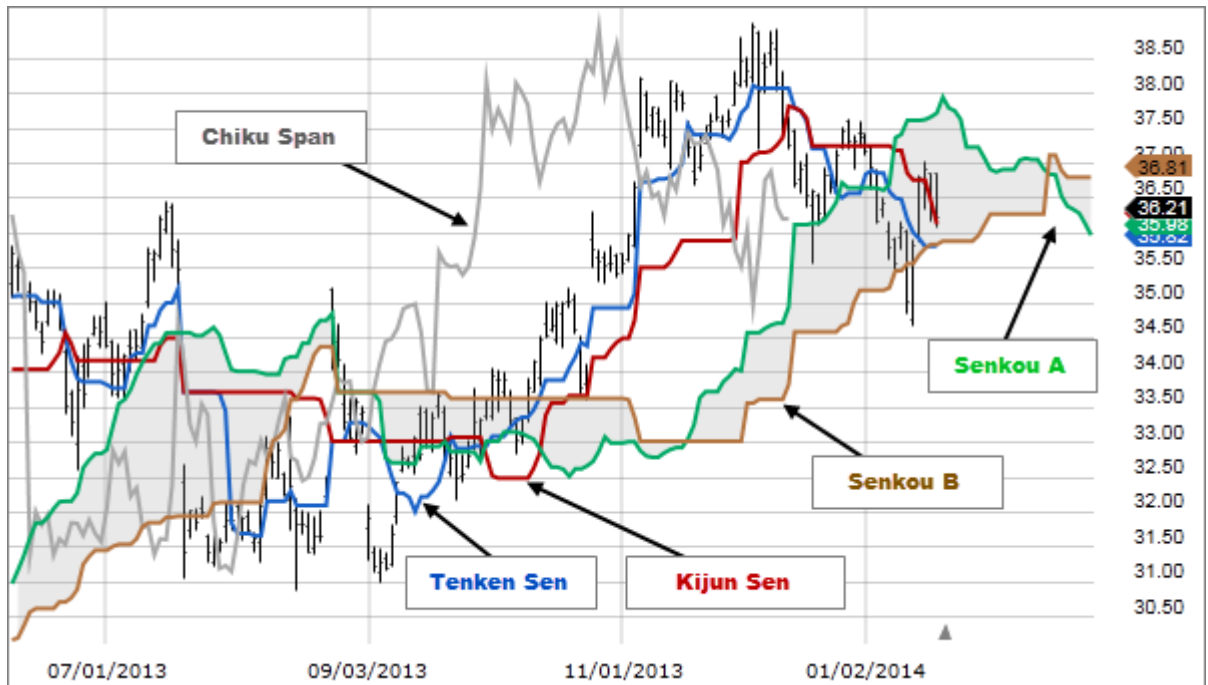
This is also known as Ichimoku Kinko Hyo which is also to identify support and resistance which is comprised of five lines that are used to measure the momentum and trend of security.

This tool could be used for stocks, currencies, and commodities which provide a clear and concise view of the market and could be used to generate trading signals.

It consists of five lines which are as follows, the first line is the Tenkan-sen line, the moving average of the high and low over the past nine periods. The second line is the Kijun-sen same as the prior line except it is 26 period. The third line is Senkou Span A which is the average of Kijun-sen plotted 26 periods ahead. The fourth line is Senkou Span B which is a moving average of high and low over the past 52 periods that is plotted ahead 26 periods. Finally, the fifth line is the Chikou Span line which is the closing price plotted 26 periods behind.

To use this tool or indicator, investors must know the trend of the asset. For example, it is an uptrend when Tenkan-sen is above the Kijun-sen line, and the opposite stand true. After knowing the trend, Senkou Span A and B used to find support and resistance. For example, if the price is above Senkou Span A and B, the area between them is a support, and if the price is below them the area between them is resistance. Moreover, Chikou Span could be used to generate trading signals, if the line is above or below the current price, when above it is a bullish sign, and bearish when it is under the current price. See the figure below.





## ❖ Fundamentals

### ➤ Fundamental Analysis Basics

Fundamental analysis is the way to measure the intrinsic value of a firm or an asset by looking at and examining its underlying economic and financial factors. Therefore, investors use this method to make informed decisions about companies, stocks, bonds, and other securities.

Some of the basic concepts to understand fundamentals analysis are economic factors, financial statements, earnings, valuation ratios, and industry analysis.

First, the economic condition affects a company's performance, for example, when a company depends on consumer spending it could be affected by an unemployment rate increase, and/or disposable income. Therefore, to get a sense of the overall health of an economy, investors could use some of the economic indicators similar to GDP, inflation, and employment data.

To know the financial position of a company investors could look at the financial statements of that company. Thus, these financial statements include assets, liabilities, revenues, and expenses. For example, a balance sheet provides information about a firm's assets and liabilities at a specific point in time. Thus, an income statement shows company revenues and expenses

over a period of time such as yearly or quarterly. Moreover, the cash flow statement shows the company's inflow and outflow cash.

Next, the net income of the company or its earnings is a measure of the company's profitability. Hence, net income equals revenues minus expenses, thus, this earning of a firm is important due to the fact that it affects a firm's stock price and dividends. Therefore, in case a company earns more than expected, its stock price could increase.

Also, valuation ratios help to compare the stock price to its revenues or other financial metrics. For example, the P/E ratio, price-to-earning, is used to compare a firm's stock price to its earnings per share (EPS). P/E high means the stocks of a company are overvalued and low indicates it is under value. Some other ratios like P/B and P/S, price-to-book and price-to-sales respectively. P/B compares stocks price to book value and P/S compares stocks price to sales per share.

Moreover, the overall health of industries should be considered by investors. For example, the forecast of supply and demand, competition, and regulatory environment. Hence investors should consider the growth potential of the industry, the competitive landscape, and challenges or risks.

By using the above, investors can make a sound decision using fundamental analysis to whether buy, sell or hold stocks. Fundamental analysis is useful for long-term investors in identifying firms with strong financial fundamentals that could be well-positioned for growth.

#### ➤ Financial Statements

Financial statements are three main types that provide information about a firm's financial performance and position which are the balance sheet, the income statement, and the statement of cash flows.

The balance sheet is a statement of financial position that includes information about the company's assets, liabilities, and equity at a specific point in time. Cash investments and property are types of assets and resources owned by the firm. The obligation of the firm is known as its liabilities, what the firm owes such as loans and taxes. Finally, the difference

between the assets and liabilities is the firm's equity which represents the ownership interest of the firm's shareholders.

The income statement represents the profit or loss statement that shows revenues and expenses at a specific point in time. For example, a year or a month. When a firm sells products, it is called money revenues and the expense is the cost to generate these revenues such as cost of goods sold and interest expense. The net income or loss is the difference between revenues and expenses.

The cash flow statement shows the difference and changes in the company inflows and outflows during a period of time. It includes three sections which are cash flows from operating activities which is the firm's day-to-day operation such as selling products and paying bills. Cash flow from investing activities includes the investment of the firm in long-term assets like property and equipment and the sale of those assets. The third is the cash flows from financing activities that include the firm's financing transactions such as borrowing money or issuing stocks.

To read and understand these financial statements it is important to understand some concepts like liquidity, solvency, leverage, and profitability. Liquidity indicates the ability of a firm to pay its short-term debts and obligations. High liquidity means the firm has a lot of cash and other assets that are converted to cash easily such as accounts receivable and inventory. Therefore, low liquidity shows that the firm has difficulty paying its short-term debt and obligations. The next term to be understood is solvency, which refers to the firm's ability to meet its long-term debt or obligations. Hence, high solvency means the firm has a strong position financially, which indicates a healthy balance between assets and liabilities. Next, leverage is the firm's using debt to finance its operations and growth. When a firm has a lot of debt compared to equity means that the firm with high leverage. It is risky due that the firm may not be able to pay its debt back. Finally, the profitability term refers to the ability of a firm to generate profits. When a company's profitability is high that indicates the firm generates a lot of revenue and has low expenses which leads to high net income.

To conclude, looking at and analyzing financial statements could help in understanding to gain a better view of a company's financial health, therefore, making better decisions about investing or to involve in business with a company.

### ➤ Company Fundamentals

The key characteristics to determine a company's health and performance are the company fundamentals. Investors, traders, and analysts need to understand these fundamentals in order to evaluate their potential for the purpose of long-term investment or business partnership. Some of several key elements to consider when analyzing a firm's fundamentals are revenue, earnings, assets, liabilities, cash flow, and valuation.

Revenue is the sum of money total amount of a firm that is generated through sales of goods and services that is a key indicator of its overall health and financial position as well as its growth potential. Earnings or net income is what is left after deducting all its expenses, which is important in measuring its profitability and evaluating its performance over time. Assets are a company's resources that it owns and uses in order to make a profit including physical and intangible assets similar to factories or equipment and patents or trademarks respectively. Liabilities are what the company owes, its obligations such as debt and leases, which is important when evaluating its financial health as more debt may burden the firm's ability to generate revenue and grow. Cash flow is the movement into and out of the firm's money, hence, positive cash flow indicates that the firm makes money more than it spends. Finally, valuation is to determine the worth of the company which includes several methods including price-to-earnings ratio (P/E), price-to-sales (P/S), and discounted cash flow (DCF) analysis.

To make a more informed decision that is sound about whether to invest or get involved in a partnership with a company these fundamentals should be understood by investors, traders, and analysts. Thus, fundamentals analysis is only one aspect of the investment process that other factors like industry trends and macroeconomics should be considered.

### ➤ Industry Analysis

The analysis of an industry is an essential element of fundamental analysis. The industry analysis purpose is to evaluate the industry attractiveness and profitability of that sector. Therefore, this type of analysis involves some steps like examining the current and future trends,

opportunities, competitiveness, and risk that may affect industry growth. There are seven steps to follow when conducting an industry analysis to ensure a comprehensive understanding of the industry's potential profitability and growth prospects. These steps are defining the industry, collecting industry data, analyzing industry structure, understanding industry trends, analyzing industry competition, evaluating the industry's economic environment, and considering future prospects.

The first step is to know the sector or industry that the individual analyzing which will help in getting better ideas of the players and competitors in the industry, thus, to understand the scope of the analysis. For example, sub-sectors of the automotive industry are luxury, electric, and commercial vehicles.

After the first step, time to collect data that is relative to the industry similar to the industry size, market share, growth rate, and other relevant information. These reports are obtained from government reports, industry reports, and industry associations.

Therefore, to look at the industry structure and analysis it to know the key players and their share in the market. Know what the barriers of entry i.e., regulatory requirements, patents, and economies of scale impact the industry competitiveness.

Consequently, what is the current trend of the market and whether it is temporary or will have a long-term impact. Moreover, look at how government regulations, technological advancements, and other elements drive the market and trend.

Competition to be analyzed, thus, there are many types to do so, however, look at the competitive landscape to determine key players, analyze their strengths and weaknesses, and their position in the market. Look at the pricing strategies and product offerings of these players and how they impact the industry.

Next, the evaluation of the industry's economic environment through the analysis of macroeconomic factors that affect the industry including inflation, interest rate, and GDP growth. Therefore, ask how these factors affect industry growth and performance.

Finally, always keep in mind the future prospects, therefore, through the analysis evaluate the industry's potential growth and profitability and consider future trends' impact as well as

technological advancement. Moreover, potential disruptors to the industry like new entrants and changes in consumer behavior.

With these steps, investors can have a better view and understanding of the market in general and gain a comprehensive understanding of the industry's growth and profitability. Thus, this information can enhance decision-making and build a strong and informed investment decision, therefore, identifying opportunities within the industry.

#### ➤ Valuation Techniques

Discount Cash Flow (DCF) and Comparable Company Analysis (CCA) are the most common methods in valuation that are used by investors to determine the company's worth. Thus, both approaches take into consideration various factors that contribute to the company's value like market trend, industry analysis, financial performance, and more.

DCF is the calculation of the present value of a firm's cash flows. The valuation methods are built on the assumption that a company's value is determined by the future cash flows it forecasts or generates. This approach is widely used since it takes into account the time value of money with the expected growth rate of a firm. The first step in DCF analysis is to project the firm's cash flows over a number of years. This information is usually based on the past performance of the company, industry trends, and market trends. After this step is the calculation of the terminal value of the company which is the company value at the end of the projection period. The last step is to discount the projected cash flows and terminal value to the present value using a discount rate that reflects the risk associated with the investment. However, this method requires many assumptions and estimates that could be hard to predict which indicates its accuracy depends on the quality of the projections and the discount rate. Thus, an advantage of this system is that is linked to its operation and growth that is based on the company's future cash flows.

CCA is a valuation approach that compares similar firms within the same sectors or industry which is based on the assumption that firms in one industry share similar characteristics, therefore, the valuation of one firm can be compared to another. CCA is often used as a complementary to the DCF method. The CCA process includes identifying similar firms within the same industry and collecting data about operations and finance. Example of data is revenue,

net income, EBITDA, and multiples like P/E ratio, P/S, and EV/EBITDA ratio. However, after this calculate the average multiples of similar firms and use them to the firm being valued. Therefore, it is easier than DCF, hence simple to use. And also, provides a market-based valuation that is less subjective than DCF. However, some of its limitations assume similar firms have similar risk profiles, growth rates, and business models and exclude unique characteristics and future growth potential.

Valuation methods, approaches, and systems are important tools to determine the worth of a company. Both approaches of DCF and CCA have their pros and cons. Hence, CCA is more suitable for mature firms while DCF is more suitable for firms with unique characteristics. Therefore, a comprehensive valuation needs a combination of both systems and to take into consideration various factors that contribute to the firm value.

#### ➤ Accounting Principles

Accounting principles are rules used to make sure of the readability and accuracy of financial reporting. This principle guides accounting and provides its foundation. Some of the key accounting principles are revenue recognition, inventory valuation, and depreciation.

Revenue recognition is one of the accounting principles that outline how and when revenue should be recorded. This principle of recording revenues states that revenues should be recognized at the moment it is earned and when it is realized which means they should be recorded once the goods or services have been delivered or performed, therefore, payment is either received or can be reasonably expected to be received. For instance, when a firm sells products or services it should be recognized as revenue only when the products or services are delivered to the customer and that payment is received or expected in the near future. However, this principle ensures revenue is neither overstated nor understated and that the financial statements accurately reflect the company's performance.

Inventory valuation is another accounting principle that defines the process of recording inventory and how it is calculated. Hence, it is very important as it affects the profitability of the company and its financial position. Some of these methods of inventory valuation are First-In-First-Out (FIFO), Last-In-First-Out (LIFO), and Weighted Average Cost. Hence, the oldest inventory was recorded first, the newest recorded first, and the average cost of all inventory

items respectively. Therefore, each of these methods has advantages and disadvantages, therefore, businesses should choose the method that fits them and their reporting of financial requirements.

Depreciation allows firms to spread the cost of long-term assets over their useful life. Hence, equipment and similar assets lose value over time, therefore it should be recognized in the financial statements. There are several methods to calculate depreciation, however, firms need to choose the method to use including, straight-line depreciation, declining balance depreciation, and units of production depreciation. Furthermore, the first method spreads the cost of an asset over its useful life, while the second allows for a larger amount of deduction in the early year and the last method is based on the amount of usage by the asset.

Accounting principles are important and using different methods, or methods they considered to be unethical, can affect the readability of financial statements. These principles provide the frameworks of reporting, therefore, ensure transparency and consistency of financial statements. Firms must adhere to these principles to maintain credibility and reputation with investors and stakeholders, therefore, providing a clear picture of the firm's financial performance.

#### ➤ Market Analysis

Fundamentals analysis is a method of evaluation of the intrinsic value of an asset by analyzing its underlying economic factors and financial factors. Market analysis is a key component of fundamental analysis that involves broader market conditions analysis which affects the asset being evaluated. Market analysis is important due it provides a macroeconomic perspective on the asset. Through market analysis trends can be identified, market risk can be assessed, and also market analysis helps to forecast potential development which could impact the asset value. This type of analysis involves examining a wide range of both economic and financial factors that could impact security. Some of these factors could include macroeconomic indicators such as interest rates, inflation, GDP, and employment data. Thus, the fundamental analysis could look at specific industry trends and examine them, also it could examine regulatory development as well.

When conducting market analysis in fundamental analysis individuals should first gather data. This first step may include economic indicators gathering industry report news articles and some other sources of information about the market. The second step is to identify the market trends that may affect the asset i.e., the security of a tech firm, the analyst could examine trends in the tech industry like new product launches and changes in consumer demand. Thirdly, to assess any potential risks associated with these trends i.e., pharmaceutical firm security, the analyst could look and examine risks associated with regulatory policy changes and competition increases from generic drug manufacturers. Finally, the last step is to forecast the potential development of the market that could impact the asset or security i.e., in the case of a security of utility firm, the analyst could forecast changes in energy price potential and regulatory policies that could impact the firm's revenues.

Therefore, the market analysis after it is conducted by a fundamental analyst, he/she can incorporate their finding into the investment decision. For instance, in case there is a significant risk identified in the market associated with the security, they could choose to avoid such a risky investment. Conversely, if the analysis shows market trends that indicate potential growth opportunities, they could choose to invest in that security or asset.

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All information mentioned in the book for the purpose of analysis should be used in conjunction with other tools. In other words, consider both technical analysis, fundamental and investment strategies.

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