UNIVERSITY OF MARYLAND

Constructing Bar Charts

Fundamental analysis relies on basic supply and demand data to project commodity prices. technical analysis makes little to no use of fundamental commodity data, but instead relies c indicators about the price action in the market to project prices. This chapter discusses som elements of technical analysis which can help make hedging and forward pricing decisions.

One of the most basic pieces of information used in technical analysis is the bar chart. Bar c a seismograph to measure the hidden forces going on in a market. Since price resolves all m pressures, no market moving information can go unhidden in a price chart. Many traders bu based totally on charts. By examining bar charts, traders hope to pick-out significant marke for market turning points, and develop price forecasts.

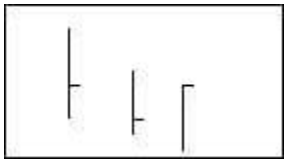
This type of analysis is referred to as technical analysis. This is in contrast to fundamental a utilizes supply and demand information to forecast price direction. Just as a good carpenter wide variety of tools to master his craft, we too rely on a wide array of both technical and f methods to develop our price projections and make marketing decisions.

For technical analysts, the bar chart is probably the most valued tool for commodity futures bar chart is both a time and price chart. The vertical axis or y-axis, shows the price scale an horizontal or x-axis shows the time scale. Bar charts can run from as short a time period as to as long as a monthly graph of prices. The choice of a time period for a bar chart depends of time that a trend is trying to be identified. The most commonly used bar charts are daily where weekly bar charts are used to identify longer term trends than a daily bar chart.

For a daily bar chart, each bar represents the three most important prices for any give

1. The highest point on the bar chart shows the highest price traded on a given day.
2. The lowest point on the bar chart shows the lowest price traded on a given day.
3. The closing price (also called the settlement price) is represented by a horizontal dash high-low bar.

The example below illustrates three trading days. In day 2, the market closed lower than on day 3 close was higher than day 2. By examining the high-low lines, we see a somewhat dif about the trading activity on each day. Both day 2 and day 3 had consecutively lower highs lows. This formation is part of a downward trend and even though the price on day 3 close on day 2, a chart analyst would conclude that because the bars were trending lower, the ma on a downward trend.



Weekends are not shown on a bar chart and on weekdays when the exchange is closed, the left blank.

Technical analysis interprets the predictive meaning of zigs and zags on charts. Technical ar not worry about the fundamental reason that could cause a zig to become a zag. The techni accepts that the market itself will be the first news of some major weather scare or new buy

Do charts and technical analysis really work? The common explanation is that charts work l traders make them work. If an uptrend breaks, chartist rush to sell. The resulting downtren old rule to sell when an uptrend breaks.

If you had a choice of trading only on fundamentals or on charts, your trading would be mo based on charts. Our philosophy, like the carpenter, is to use any and every tool that will he better price.

Next Topic

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