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A Review paper on Technical Analysis

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Abstract: Any investment in the stock market is aimed at maximizing gains while minimizing associated risk, as it is in any rising and flourishing economy. As a consequence, several research using various soft-computing methods and algorithms have been performed on stock-market estimation using technical Analysis .Several studies have been published in the last five decades exploring the importance of technical analysis. The main objective of this research study to understand the concept of technical analysis and to analyses the available literature on the technical analysis. The present study provides the collection, classification, coding and summarize of available literature on technical analysis in stock market which may be helpful for researchers, analysts, academicians and practitioners when studying the existing research work as well as considering future on the technical analysis.

Key Words: Technical Analysis, Literature, Stock prices etc,

Introduction: In financial markets, technical analysis provides a framework for informing investment management decisions by applying a supply and demand methodology to market prices. Technical analysts employ a disciplined, systematic approach that seeks to minimize the impact of behavioral biases and emotions that could adversely affect investment performance.

Technical analysis is a tool for predicting future price movements of securities after properly identifying pattern in prices and volumes in stocks. Technical research often generates charts of historical prices and then attempts to identify trends in order to forecast the future to a large extent. The idea is that prices have different geometric regularities that, once detected, tell the trader what is likely to happen next. Technical analysis uses a variety of methods, such as the relative strength index, regression, exponential moving average, charts, Dow Theory, wave theory, and others, to create models and trading rules dependent on the price and volume of transactions.

Technical research evaluates equity shares by analyzing historical stock prices and volume as a result of market performance. Technical analysts don't look at a stock's intrinsic value; instead, they use charts and other tools to identify patterns that may lead to profitable trading. Exactly, since there are many investment strategies based on different kinds of technical projections. The exclusive use of historical price and volume data by technical analysts distinguishes them from fundamental analysts. The three assumptions that underpin technical analysis are:

1. **Market Discounts Everything:** Technical analysis assumes that every information has impact on stock prices of securities. Market prices reflect all information available about a stock and its prospects for the future. The market as a mechanism is extremely effective at discounting something that has the potential to influence prices. And unanticipated developments, such as new competition, legal or financial challenges, a business merger, a founder's death, and so on, are easily priced into the stock.

2. **Price Moves in trend:** In technical analysis, price movements are believed to follow a price trend. Once a trend has been established, the future price movements are more likely to be in same direction as the trend than to be against it. Analysis of past market data can be used to predict the future price behavior.

3. **History Repeat itself:** Technical analysis is based on the assumption that history repeat itself, mainly in terms of price movements.

Objectives of the Study: The objectives of the studies are as follows.

1. To understand the concept of technical analysis in stock market.
2. To analyze the literature on the technical analysis.

Data Collection: The present study is based on the research conducted by author authors .in this present paper secondary data has been used and it was collected from various journals, websites and previous studies done by others**.**

Review literature: The review of previous research studies is very essential and valuable to give the right direction of any study. It explores the new developments in the subject matter of the research study. It helps the researcher in formulating research methodology comprising research problem, research objectives, hypothesis and selection of variables to be studied. It explains what has actually been done in previous studies and what remains yet to be done on the specific subject.

Hudson, Dempsey, and Keasey (1996) investigated whether technical trading rules would forecast the stock market in the United Kingdom. Their paper also looked at whether technical analysis could provide investors with higher returns in a high-cost trading scenario. Study also concluded that although the technical trading rules investigated have predictive potential in terms of UK data, their use does not enable investors to make excessive returns in the case of expensive trading.

Wong, Manzurand Chew (2003) looked at the importance of technical research in predicting when to enter and exit the stock market. Test statistics are used to evaluate the performance of the Moving Average, the most well-known pattern follower, and the Relative Strength Index, the most widely used counter-trend predictor. The findings, based on Singapore data, showed that the indicators can be used to generate a substantial positive return. It was concluded that members of SES enjoy substantial profits by applying technical analysis.

Chong and Ng (2008) applied two oscillators namely, Moving Average Convergence Divergence (MACD) and the Relative Strength Index (RSI) to know that whether they are profitable or not. The RSI and MACD rules will yield better returns than the buy-and-hold approach in most situations, according to 60-year data from the London Stock Exchange FT30 Index.

Bettman, Sault and Schultz (2009). Proposed an equity valuation model that combined fundamental and technical analysis, recognizing their complementary rather than substitutive potential. Testing demonstrated the complimentary existence of fundamental and technical analysis, demonstrating that, although each performs well on its own, models that combine the two have superior explanatory capacity. While their conclusions are related, though their results are specific to stock valuation, they have implications for other valuation activities as well.

Veronika Caljkusic (2011) studied the right approach to make valuation of the stock and to predicting the moment in which investors should take action buying and selling decisions by using different approaches and methods during a certain period of time

Hon-Snir (2011) explored that the Investors use financial statements and support and resistance levels as a primary instrument for their investing behavior. For several years, investors relied on a variety of tools to assist them in making stock buying and selling decisions. Fundamental and technical analysis is two sets of methods widely used by investors.

Bhupesh (2013) suggests a hybrid approach consisting of self-organizing maps and selective technical indicators for stock picking and access point investing in stocks.

Pandya (2013) presented a research study on information technology sector with the application of technical analysis. He conducted in-depth research for Technical Analysis of the stocks of selected companies in the Information Technology field, in order to aid portfolio decisions in this domain, which is one of the most upcoming and growing sectors in the Indian economy.

Boobalan (2014) conducted out technical analysis on the shares of industry-selected firms to aid investment decisions in the Indian market this study's technical analysis would not provide absolute forecasts about the future in terms of forecasting.

Peachavanish (2016) suggests a cluster analysis-based approach for identifying a group of stocks with the best trend and movement characteristics at any given time, and hence are more likely to outperform the market over a short period of time.

Scope for Future Research: The paper discussed the literature review of technical analysis on share market. We need to do more empirical research to re- examine and robustness of technical analysis in stock market while making investment decision. The present study only includes the literature of technical analysis; researchers further can do research on fundamental analysis and also can do on combining of fundamental and technical analysis. Also a comparative study on the strength of fundamental and technical analysis in stock markets, forex, Commodity market and Derivative markets could be undertaken as future course of research to understand the significant difference exist, in the investing behavior of the investors in the two different types of analysis on different markets. This all provides great opportunities to the researchers to look into the area with new outlook and other perspectives as well.

Conclusion: This paper provides an overview of technical analysis and stressing out the importance and role of technical analysis in investment decisions. Though technical analysis is based on the past prices and past events of the securities, they cannot however guarantee the future price of the securities. The application of technical analysis tells about the short term trend of the market movements. The investors can trade for short term on the basis of trends of price and volume of securities for short run and they can also earn handsome amount of profit with the application of technical analysis techniques. Technical analysis is mastering the art of profiting in all market conditions, whether the market is going upside or downside. Knowledge of the financial markets is essential for profitability, and the focus should be on Managing trading risk, with technical analysis assisting investors in maintaining leverage. The literature review highlights of work of various researchers and provides the proper understanding of technical analysis. At the end we can say that the stock market has just one hand, which is not the bull or bear side, but the right side, where technical analysis can be used to determine, when to buy and when to sell the stocks.

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