

## **What is technical analysis?**

*Technical analysis is a mathematical technique that is used to predict the price movements of a stock. Learn how it works.*

Fundamental and technical analysis are two common methods investors and traders use in order to predict the future movements of a given stock. We have a separate article detailing how fundamental analysis works. Now let us understand what technical analysis is, and how it works.

### **Technical analysis: The concept**

Technical analysis is a method of forecasting a stock's future performance by studying its past performance. It does not take into consideration the intrinsic or fundamental value of the company. The analysis is done simply on the basis of certain assumptions, which may or may not be accurate.

### **The methodology**

Through technical analysis, traders and investors study how the market behaves when the stock price reaches a certain level. This method is based on three main assumptions:

- Stock price includes all the factors
- Stock price follows certain trends
- History repeats itself

Let us understand these assumptions in detail, as they form the foundation of technical analysis.

In the first assumption, it is assumed that the stock price, at any given moment, reflects whatever the company and the surrounding factors have to offer. This includes the company's fundamentals, market psychology, previous performances, etc. The price, this method assumes, is the summation of all the factors. This assumption, hence also eliminates the need for separate research.

The second assumption is that the stock price will follow a particular trend. This means that once the market behaves in a specific manner in response to an event at a given price, it will follow the same trend in the future as well.

Lastly, technical analysts believe that history repeats itself. This denotes that what has happened in the past (related to price moments) is likely to happen again, irrespective of the market conditions or the economic outlook.

After these three assumptions are factored in, the analysts examine previous price charts, and come to a conclusion about the stock's future price movements.