Technical Analysis

Test ID: 7658803

Question #1 of 32

Question ID: 413430

A value of 0.8 in the short-term Trading Index (TRIN) *most likely* indicates that:

- ✓ **A) trading volume is heavier in advancing issues than in declining issues.**
- ✗ **B)** more investors expect price decreases than increases in the short term.
- ✗ **C)** the market is overbought.

Explanation

The TRIN or Arms index is a flow of funds indicator. Values less than one indicate more trading volume in advancing stocks than in declining stocks, while values greater than one mean more volume is in declining stocks than in advancing stocks.

Question #2 of 32

Question ID: 413439

An Elliott wave theorist who forecasts prices based on Fibonacci ratios is *most likely* to predict that a corrective wave will be:

- ✓ **A) five-eighths the size of the impulse wave.**
- ✗ **B)** four-ninths the size of the impulse wave.
- ✗ **C)** six-elevenths the size of the impulse wave.

Explanation

The sequence of Fibonacci numbers is 0, 1, 1, 2, 3, 5, 8, 13... . Five-eighths is a Fibonacci ratio.

Question #3 of 32

Question ID: 413423

A support level is the price range at which a technical analyst would expect the:

- ✗ **A) supply of a stock to decrease substantially.**
- ✗ **B)** demand for a stock to decrease substantially.
- ✓ **C)** demand for a stock to increase substantially.

Explanation

Support and resistance levels. Most stock prices remain relatively stable and fluctuate up and down from their true value. The lower limit to these fluctuations is called a *support level* - the price range where a stock appears cheap and attracts buyers. The upper limit is called a *resistance level* - the price range where a stock appears expensive and initiates selling.

Generally, a support level will develop after a stock has experienced a steady decline from a higher price level. Technicians believe that, at some price below the recent peak, other investors will buy who did not buy prior to the first price increase and have been waiting for a small reversal to get into the stock. When the price reaches this support price, demand surges and price and volume begin to increase again.

Question #4 of 32

Question ID: 413414

One of the underlying assumptions of technical analysis is that supply and demand is driven by:

✓ **A)** **both rational and irrational behavior.**

✗ **B)** rational behavior during calm markets and irrational behavior during volatile markets.

✗ **C)** rational behavior only.

Explanation

Successful technical analysis assumes both rational and irrational behavior during all market conditions.

Question #5 of 32

Question ID: 413421

The resistance level signifies the price at which a stock's supply would be expected to:

✗ **A)** **decrease substantially.**

✓ **B)** increase substantially.

✗ **C)** cause the stock price to "break out".

Explanation

Support and resistance levels. Most stock prices remain relatively stable and fluctuate up and down from their true value. The lower limit to these fluctuations is called a *support level* - the price range where a stock appears cheap and attracts buyers. The upper limit is called a *resistance level* - the price range where a stock appears expensive and initiates selling.

Generally, a resistance level tends to develop after a stock has experienced a steady decline from a higher price level. Technicians believe that the decline in price will cause some investors who acquired the stock at a higher price to look for an opportunity to sell it near their break-even points. Therefore, the supply of stock owned by investors is overhanging the market. When the price rebounds to the target price set by these investors, this overhanging supply of stock comes to the market and dramatically reverses the price increase on heavy volume.

Question #6 of 32

Question ID: 413417

Point and figure charts are *most likely* to illustrate:

✗ **A)** **significant increases or decreases in volume.**

✓ **B)** changes of direction in price trends.

✗ **C)** the length of time over which trends persist.

Explanation

A point-and-figure chart includes only significant price changes, regardless of their timing or volume. The technician determines what price interval to record as significiant (the box size) and when to note changes of direction in prices (the reversal size). Point and figure charts do not show volume and are not scaled to even time periods.

Question #7 of 32

Question ID: 413438

Elliott wave theory describes the typical pattern of price movements as:

- ✗ **A)** **five waves with the direction of the trend, followed by four waves against the direction of the trend.**
- ✓ **B)** five waves with the direction of the trend, followed by three waves against the direction of the trend.
- ✗ **C)** four waves with the direction of the trend, followed by three waves against the direction of the trend.

Explanation

According to Elliott wave theory, prices tend to move in five waves with the direction of the trend and three waves against the direction of the trend.

Question #8 of 32

Question ID: 413432

Which of the following would a technical analyst *most likely* interpret as a "sell" signal?

- ✓ **A)** **%K line crosses below the %D line.**
- ✗ **B)** Rate of change oscillator begins decreasing.
- ✗ **C)** Signal line crosses below the MACD line.

Explanation

The %K and %D lines refer to stochastic oscillators. The %K line is calculated based on the highest and lowest prices reached in a selected number of days, and the %D line is a moving average of the %K line. Used as trading signals, crossovers of the %K line above the %D line are buy signals and crossovers below the %D line are sell signals.

With a moving average convergence/divergence oscillator, a sell signal is indicated when the MACD line crosses below the signal line, which is a moving average of the MACD line. If a rate of change oscillator is used to generate signals, these would typically be indicated when the oscillator crosses above or below the level around which it fluctuates (either 0 or 100).

Question #9 of 32

Question ID: 413411

Which of the following is *least likely* an underlying assumption of technical analysis?

- ✓ **A)** **Markets are efficient and all known information is reflected in prices.**
- ✗ **B)** Supply and demand for a stock is driven by rational and irrational behavior.
- ✗ **C)** Prices are determined by supply and demand.

Explanation

For technical analysis to succeed, markets must have some inefficiency in order for trends to develop.

Question #10 of 32

Question ID: 413413

One of the assumptions of technical analysis is:

✗ **A)** **all analysts have all current information.**

✗ **B)** the market is efficient.

✓ **C)** supply and demand are driven by rational and irrational behavior.

Explanation

The market is driven by rational and irrational behavior.

Question #11 of 32

Question ID: 413441

When technical analysts say a stock has good "relative strength," they mean the:

✓ **A)** **ratio of the price of the stock to a market index has trended upward.**

✗ **B)** stock has performed well compared to other stocks in the same risk category as measured by beta.

✗ **C)** recent trading volume in the stock has exceeded the normal trading volume.

Explanation

This is the definition of relative strength. When the ratio of the stock price to the market price increases over time, the stock is out-performing the market.

Question #12 of 32

Question ID: 413427

A trend is *most likely* to continue if the price chart displays a(n):

✓ **A)** **ascending triangle pattern.**

✗ **B)** inverse head and shoulders pattern.

✗ **C)** double top.

Explanation

Triangles are considered to be continuation patterns. An inverse head and shoulders pattern would most likely indicate the reversal of a downtrend, while a double top would most likely indicate the reversal of an uptrend.

Question #13 of 32

Question ID: 413431

Bollinger bands are drawn based on the:

✗ **A)** **difference between two smoothed moving averages.**

✓ **B)** standard deviation of recent price changes.

✗ **C)** high and low prices in a recent period.

Explanation

To use Bollinger bands, an analyst will calculate the standard deviation of prices over some number of trading days, and typically will draw the bands two standard deviations above and below a moving average for the same number of days.

Question #14 of 32

Question ID: 413436

A technical analyst who identifies a decennial pattern and a Kondratieff wave *most likely*:

- ✗ **A)** **is analyzing a daily or intraday price chart.**
- ✗ **B)** associates these phenomena with U.S. presidential elections.
- ✓ **C)** believes market prices move in cycles.

Explanation

The decennial pattern and the Kondratieff wave are cycles of ten and 54 years, respectively. A technical analyst would be most likely to use these cycles to interpret long-term charts of monthly or annual data. Presidential elections in the United States are a possible explanation for a four-year cycle.

Question #15 of 32

Question ID: 413424

After trending upward for several weeks, the price of Vibex, Inc. stock reaches a high of $54 before falling to $48 over the following week. The stock then rallies to $57 but then declines again to $48. The following week, the stock increases to $52 on light volume before ending the week at $46. A technical analyst observing this pattern would be *most likely* to predict that Vibex stock will:

- ✗ **A)** **increase to $50.**
- ✗ **B)** decrease to $37.
- ✓ **C)** decrease to $39.

Explanation

The pattern described here is a head and shoulders top with the head at $57 and the neckline at $48. The size of the pattern is $57 − $48 = $9. The price target for the ensuing downtrend equals the size of the head and shoulders pattern and is measured from the neckline: $48 − $9 = $39.

Question #16 of 32

Question ID: 413412

A technical analyst believes stock prices are primarily driven by:

- ✓ **A)** **market supply and demand forces.**
- ✗ **B)** specialist trading.
- ✗ **C)** the random walk hypothesis.

Explanation

Other assumptions of technical analysis include: Supply and demand is driven by both rational and *irrational* behavior, security prices move in trends that persist for long periods of time, and while the cause for changes in supply and demand are difficult to determine, the actual shifts in supply and demand can be observed in market price behavior.

Question #17 of 32

Question ID: 413433

Which of the following would a technical analyst *most likely* interpret as a "buy" signal?

✓ **A)** **10-day moving average crosses above a 60-day moving average.**

✗ **B)** 30-day moving average crosses above a 5-day moving average.

✗ **C)** 20-day moving average crosses below a 100-day moving average.

Explanation

When using moving averages to generate trading signals, a "golden cross" of a shorter-term average above a longer-term average is a buy signal, while a "dead cross" under the longer-term average is a sell signal.

Question #18 of 32

Question ID: 413435

Technical analysts who use cycles define a Kondratieff wave as a cycle of:

✗ **A)** **18 years.**

✗ **B)** 10 years.

✓ **C)** 54 years.

Explanation

The Kondratieff wave is a 54-year cycle that some technical analysts believe exists for equity market prices.

Question #19 of 32

Question ID: 413419

Which of the following technical analysis observations *most likely* represents a change in polarity?

✗ **A)** **Bars on a candlestick chart change from empty to filled.**

✓ **B)** A resistance level on a line chart is breached and later acts as a support level.

✗ **C)** Following an "X" column, a point-and-figure chart begins a new "O" column.

Explanation

"Change in polarity" refers to a perceived tendency for breached support levels to become resistance levels and breached resistance levels to become support levels.

Question #20 of 32

Question ID: 413410

The advantages of using technical analysis include:

- ✗ **A) complete objectivity.**
- ✓ **B)** the incorporation of psychological reasons behind price changes.
- ✗ **C)** ease in interpreting reasons behind stock price trends.

Explanation

Technical analysis avoids having to use fundamental data and adjusting for accounting problems, incorporates psychological as well as economic reasons behind price changes, and tells WHEN to buy; not WHY investors are buying. Drawbacks include subjective interpretation of charts and graphs.

Question #21 of 32

Question ID: 413416

Constructing a candlestick chart requires data on:

- ✓ **A) opening, high, low, and closing prices only.**
- ✗ **B)** opening, high, low, and closing prices, and trading volume.
- ✗ **C)** high, low, and closing prices only.

Explanation

Candlestick charts require the open, high, low, and close for each trading period.

Question #22 of 32

Question ID: 413415

A technical analysis chart that illustrates only the closing prices of a security on each trading day is *best* described as a:

- ✓ **A) line chart.**
- ✗ **B)** bar chart.
- ✗ **C)** point and figure chart.

Explanation

Line charts are composed of closing prices for each trading day connected by lines. Bar charts require high and low prices for each trading day. Point and figure charts do not necessarily show each trading day's closing price.

Question #23 of 32

Question ID: 413437

Technical analysts who employ Elliott Wave Theory are *most likely* to use Fibonacci numbers to forecast the:

- ✗ **A) number of subwaves within a larger wave.**
- ✓ **B)** sizes of waves.
- ✗ **C)** timing of wave direction changes.

Explanation

In Elliott Wave Theory, the sizes of waves are believed to correspond to ratios of Fibonacci numbers. Technical analysts who employ this theory may use Fibonacci ratios to estimate price targets.

Question #24 of 32

Question ID: 413440

The *most* appropriate tool to use for intermarket analysis of two different asset classes is a:

✗ **A)** **moving average convergence/divergence chart.**

✓ **B)** relative strength chart.

✗ **C)** stochastic oscillator.

Explanation

Relative strength charts are useful for intermarket analysis because they illustrate the performance of one asset, sector, or index relative to another. Momentum indicators, such as stochastic oscillators and MACD oscillators, are generally used to analyze individual markets.

Question #25 of 32

Question ID: 413425

A head and shoulders pattern is *most likely* to precede a reversal in trend if:

✗ **A)** **volume decreases between the left shoulder and the head, then increases between the head and the right shoulder.**

✗ **B)** the left shoulder, the head, and the right shoulder occur on increasing volume.

✓ **C)** the left shoulder, the head, and the right shoulder occur on decreasing volume.

Explanation

Decreasing volume on each of the high prices in a head and shoulders pattern (or each of the low prices in an inverse head and shoulders) suggests weakening in the supply and demand forces that were driving the price trend.

Question #26 of 32

Question ID: 413426

An inverse head and shoulders pattern *most likely* indicates:

✗ **A)** **the reversal of an uptrend.**

✗ **B)** the continuation of a downtrend.

✓ **C)** the reversal of a downtrend.

Explanation

Inverse head and shoulders patterns typically occur after downtrends and indicate that the trend is going to reverse.

Question #27 of 32

Question ID: 413420

The trend line for a stock in an uptrend is constructed by drawing a straight line through the:

✓ **A) lows.**

✗ **B)** highs.

✗ **C)** periodic averages.

Explanation

Trendlines connect the increasing low points on a price chart in an uptrend and the decreasing high points in a downtrend.

Question #28 of 32

Question ID: 413418

When a relative strength ratio (stock price over market price) is increasing, the stock is:

✗ **A) underperforming the index.**

✗ **B)** tracking the index.

✓ **C)** outperforming the index.

Explanation

Relative strength: When prices of an individual stock or industry change, it is difficult to tell if the change is stock specific or caused by market movements. If two variables are changing at the same rate, the ratio created by dividing one of the variables by the other will remain constant. This is called the *relative strength ratio.*

> *Relative Strength* = Stock Price / Market Price

- If the ratio increases over time the stock is out-performing the market (a + trend)
- If the ratio declines over time the stock is under-performing the market (a - trend).

Question #29 of 32

Question ID: 484168

The point where technicians expect a substantial increase in the demand for a stock to occur is called a:

✗ **A) break-out point.**

✗ **B)** resistance level.

✓ **C)** support level.

Explanation

Support and resistance levels. Most stock prices remain relatively stable and fluctuate up and down from their true value. The lower limit to these fluctuations is called a *support level* - the price range where a stock appears cheap and attracts buyers. The upper limit is called a *resistance level* - the price range where a stock appears expensive and initiates selling. A breakout occurs when the price breaches a support or resistance level and thus may indicate either an increase or a decrease in demand for a stock.

Question #30 of 32

Question ID: 413434

A technical analyst examining the past 12 months of daily price data for evidence of cycles is *most likely* to identify:

✗ **A) Kondratieff waves.**

✗ **B)** decennial patterns.

✓ **C)** impulse waves.

Explanation

Impulse and corrective waves in Elliott wave theory vary in length and can be as short as a few minutes. Decennial patterns refer to ten-year cycles. The Kondratieff wave refers to a 54-year cycle.

Question #31 of 32

Question ID: 413429

Closing prices for a commodity were 21.4 on Monday, 22.2 on Tuesday, 21.8 on Wednesday, 22.4 on Thursday, and 23.2 on Friday. The five-day standard deviation is 0.7 and the 30-day standard deviation is 1.0. On Friday, five-day Bollinger bands using two standard deviations are *closest* to:

✗ **A) 24.2 and 20.2.**

✗ **B)** 24.6 and 21.8.

✓ **C)** 23.6 and 20.8.

Explanation

Bollinger bands are drawn a chosen number of standard deviations above and below a moving average, where the moving average and the standard deviation are calculated using the same number of periods. The 5-day moving average is (21.4 + 22.2 + 21.8 + 22.4 + 23.2) / 5 = 22.2. Using two 5-day standard deviations, the upper band on Friday is 22.2 + 2(0.7) = 23.6 and the lower band is 22.2 − 2(0.7) = 20.8.

Question #32 of 32

Question ID: 413428

A trend is *most likely* to reverse if the price chart displays a:

✓ **A) head and shoulders pattern.**

✗ **B)** rectangle pattern.

✗ **C)** descending triangle pattern.

Explanation

Head and shoulders (and inverse head and shoulders) patterns typically indicate a reversal of a price trend. Triangle and rectangle patterns typically suggest the price trend will continue in the same direction.