

Volume 8, Issue 2 (II)

April - June 2021

ISSN 2394 - 7780

International Journal of

Advance and Innovative Research

(Conference Special)

(Part - 1)

Indian Academicians and Researchers Association

www.laraedu.com



Thakur Educational Trust's (Regd.)
THAKUR COLLEGE OF SCIENCE & COMMERCE



AUTONOMOUS COLLEGE, PERMANENTLY AFFILIATED TO UNIVERSITY OF MUMBAI
NAAC Accredited Grade 'A' (3rd Cycle) & ISO 9001: 2015 (Certified)
Best College Award by University of Mumbai for the Year 2018-2019

**DEPARTMENT OF BOTANY,
ENVIRONMENTAL STUDIES AND IQAC**

In Collaboration With

University of Mumbai & Supported By NABARD



Organises

One Day National Level Multidisciplinary Conference on

SUSTAINABLE DEVELOPMENT- A GREEN APPROACH

on Saturday, 6th March 2021.

[PEER REVIEWED] ISSN NO: 2394-7780 [VOLUME-I]

SPECIAL ISSUE OF INTERNATIONAL JOURNAL OF ADVANCE AND INNOVATIVE RESEARCH

CONFERENCE CHAIRPERSON

Dr. (Mrs.) C. T. Chakraborty, Principal, TCSC

CONFERENCE CONVENOR

Dr. C. P. Shukla

(Head, Department of Botany)

ORGANIZING SECRETARY

Dr. Vinit Vaidya

(Asst. Professor, Department of Botany)

CONFERENCE CO-CONVENOR

Dr. (Mrs.) Priti Gupta

(Head, Department of Environmental Studies)

CONFERENCE CO-ORDINATOR

Mr. Sushil Shinde

(Asst. Professor, Department of Botany)

EDITORIAL BOARD

Dr. Tazyn Rahman, Editor in Chief-IARA

Dr. Akhter Alam, IARA

Dr. Nishikant Jha and Dr. C. P. Shukla, Thakur College of Science & Commerce

STUDY OF THE TRADING STRATEGIES IN THE TRENDING MARKET USING CANDLESTICK CHARTS IN TECHNICAL ANALYSIS

Manju Singhania¹ and Jinal Vishal Lathia²

¹Thakur College of Science & Commerce, Kandivali (E), Mumbai

²Prahladrai Dalmia Lions College of Commerce and Economics, Sunder Nagar, Malad West, Mumbai

ABSTRACT

Technical analysis is an important tool in the financial market that provides a clear idea about the current market situation and helps the investors make correct investment decisions. Technical analysis is a means of examining and predicting price movements in the financial markets, by using historical price charts and market statistics. It is based on the idea that if a trader can identify previous market patterns, they can form a fairly accurate prediction of future price trajectories. Technical Analysis can be used to make the correct financial decision of buying and selling securities. Analysis Used for Stocks Maximization of return on stocks with minimal risk is the aim of every astute investor. Technical analysis is widely used by forex, equity, and commodity traders, to determine the short term as well as the long term trends of the market. The scope of technical analysis is increasing every day, as more and more people are trying to learn the skills of technical analysis to earn good returns. The main chart types used by technical analysts are the line chart, bar chart and candlestick chart. Charts can also be displayed on an arithmetic or logarithmic scale. Objective of this research is to find out the effectiveness of candlestick charts to make investment decisions in trending markets as per price action analysis.

H1- candlestick chart is effective to make investment decisions in the trending market.

H0- candlestick chart is not effective to make investment decisions in the trending market.

price action analysis in candlestick chart will be used for analysis

Key Words: Trading Strategies, trending market, candlestick charts, Technical Analysis

INTRODUCTION-

Trading strategies are framed based on the analysis of the market. Analysis means forecasting the price of the shares on the basis of past trends of the company.

There are two type of Analysis

- 1) Fundamental Analysis
- 2) Technical Analysis

FUNDAMENTAL ANALYSIS

Fundamental analysis is a method used by investors to identify the intrinsic value of a stock. This is done by using various qualitative and quantitative factors such as the company's revenues, profit margins, return on equity, future growth potential and other metrics. The main purpose of this method is to identify companies that are fundamentally strong in order to invest in them for the long term.

Technical Analysis

- Technical analysis is a means of examining and predicting price movements in the financial markets, by using historical price charts and market statistics. It is based on the idea that if a trader/Investor can identify previous market patterns, they can form a fairly accurate prediction of future price trajectories.
- Technical analysis uses historical price and volume statistics to make an investment decision. It concentrates mainly on the market's actions and reactions but never considers the fundamental changes related to the stock or the index in the market.

An Overview of Chart Types Used in Technical Analysis

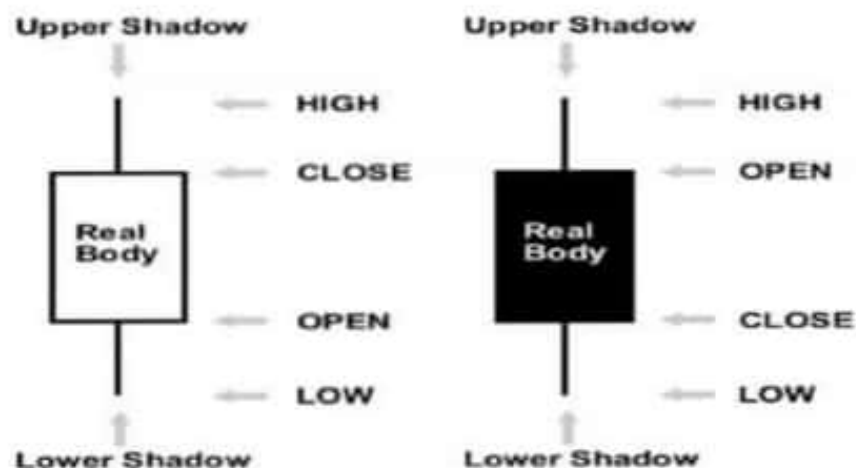
One of the main methods used by technical analysts to forecast security prices is by the recognition of patterns and trends of security prices, and the easiest way to spot patterns and trends is through the use of charts.

Charts are graphical displays of price information of securities over time. Market volatility can also be easily gleaned from charts. Charts also help technical analysts to decide on entrance and exit points, and at what prices to place stops to reduce risk.

The main chart types used by technical analysts are the line chart, bar chart and candlestick chart.

Candlestick Charts

In candlestick chart, the main component of the chart representing prices looks like a candlestick with a thick body called the **real body**, and usually a line extending above and below it, called the **upper shadow** and **lower shadow**, respectively. The top of the upper shadow represents the high price, while the bottom of the lower shadow represents the low price.



The candlestick chart emphasizes opening and closing prices. The top represents the opening or closing price depends on the color of the real body — if it is **Green/White**, then the top represents the close; **Red/Black**, or some other dark color, indicates that the top was the opening price. The length of the real body shows the difference between the opening and closing prices. Obviously, Green/White real bodies indicate bullishness, while Red/Black real bodies indicate bearishness, and their pattern is easily observable in a candlestick chart.

- **Objective of Research:** To find out the effectiveness of candlestick charts to make investment decisions in markets as per Price Action Analysis.
- **Hypothesis1:** Price Action Analysis in Candlestick chart is effective to make Investment decisions in Trending Market.
- **Hypothesis0:** Price Action Analysis in Candlestick chart is not effective to make Investment decisions in Trending Market.

LITERATURE REVIEW

1. Siriporn Thammakesorn and Ohm Sornil 2019 *J. Phys.: Conf. Ser.* 1195 012008 Generating Trading Strategies Based on Candlestick Chart Pattern Characteristics. Study is based on Indicators like MACD, RSI, STO, ADX, EMA but does not give full proof 100% results of Entry and Exit point.
2. George Joseph¹, Saranya G Das², Amrudha Romeo³ A Study On The Formation Of Candlestick Patterns With Reference To Nifty Index For The Past Five Years : Study is based on Candlestick patterns with Indicators but does not give full proof 100% results of Entry and Exit point .

Research Methodology: Analytical Method is used with the help of Secondary Data of Various Companies mentioned below and Charts being taken from Investing.com website.

RESEARCH ANALYSIS OF TRENDING MARKET AND HOW TO TRADE IT.

The Market structure

Through price action analysis, one can experience two types of Markets - Trending market, Ranging or choppy market.

An Investor or trader has to identify every market and how to trade it. One does not need to trade all the markets in the same way; one needs to study how the market moves and how traders behave in the market. The market structure is the study of market behavior.

1. Trending market:

Trending Market is a repetitive pattern of higher high and higher low in up trending market; and lower high and lower low in a down trending market.



This can be explain with the help of the Monthly chart of TCS Ltd.



By observing the above chart, an investor can buy a TCS stock in the month of June as soon as it breaches the May month High i.e level of Rs 2032 . And Stop Loss will be May Month Low i.e level of Rs 1865. Then an Investor can keep a time frame of monthly candlestick chart and accordingly should fill the below presented table

Month	High	Low	Trend	Position	Stop Loss
April	2032	1650	Not predicted	No Position	---
May	2032	1865	HL	No Position	---
June	2132	1981	HH,HL	Buy	1865
July	2358	2080	HH,HL	Hold Buy position	1981
August	2328	2216	HL,HL	Hold Buy position	2080
September	2555	2241	HH,HL	Hold Buy position	2216
October	2885	2492	HH,HL	Hold Buy position	2241
November	2744	2600	HL	Hold Buy position	2492
December	2952	2624	HH,HL	Hold Buy position	2600
Jan '21	3340	2879	HH,HL	Hold Buy position	2624
24 th Feb '21	3003	2921	---	---	---

Prediction/ Analysis suggest that an investor can hold TCS stock till it does not breach the previous month low. In above case if TCS stock breaches the January month low of Rs 2879 then it is preferable to square off the position i.e. to sell the stock.

Here if Investor sells for @Rs 2879 also then too one gets a return of 40% approximately which is far more better than a return from any asset class .

As you can see in the example above, the market is making a series of higher highs and higher lows which indicates that the market is up trending.

You don't need indicators to decide if it is bullish or bearish, just a visual observation of price action is quite enough to get an idea about the market trend.

Let's see another research of the downtrend market.



The example above shows a bearish market, as one can see there are Series of Lower High and Lower Low which indicate Downtrend.



By observing the above Monthly chart of Yes Bank ,it has given us a clear view of Price action analysis of Downtrend i.e If an investor held a position till month of August' 18 where High is 404 and Low is 336.25. Then subsequently in the month of September'18 it had made LH of 348 and LL of 165. Here if an investor had exited the stock at 336.25 (Previous month Low) then it was the correct time to exit. Currently As per Feb Month Data it has MPS of Rs 15 only.

Other Example of Hero Motor Company Stock



Similarly, we can see various company charts and Price Action Analysis of HDFC Bank, Sun Pharma, JK paper Ltd.

Tabular Presentation:

Sun Pharma Ltd

Month	High	Low	Trend	Position	Stop Loss
Oct	529	452	Observed	---	---
Nov	526	459	Observed	---	---
Dec	599	512	HH, HL	Buy Position	459
Jan '21	628	550	HH, HL	Hold Buy Position	512
24th Feb '21	609	595.85	---	Hold Buy Position	550

HDFC BANK Ltd

Month	High	Low	Trend	Position	Stop Loss
Oct	1251	1090	Observed	---	---
Nov	1464	1177.50	HH, HL	Buy Position	1090
Dec	1449	1345	HL	Hold Buy Position	1177.50
Jan '21	1511	1346	HH,HL	Hold Buy Position	1345
24th Feb '21	1613	1516.25	---	Hold Buy Position	1346

JK PAPER Ltd

Month	High	Low	Trend	Position	Stop Loss
Oct	94.45	86.30	Observed	---	---
Nov	100	86.35	HH, HL	Buy Position	86.30
Dec	118	96.25	HL,HL	Hold Buy Position	86.35
Jan '21	134.45	106.35	HH,HL	Hold Buy Position	96.25
19th Feb '21	379	360.50	---	Hold Buy Position	106.35

OBSERVATION AND FINDINGS/ RESULTS AND DISCUSSIONS:

1. After the study of the trading strategies in the Trending market using candlestick charts for the following month selected, it is being found that Price Action Analysis is 95% effective to earn a profit for a long term trade in the trending Market.
2. Entry / Exit point is easily identified by the above mentioned analysis of trending market.

CONCLUSION:

With the help of Price Action Analysis an Investor can earn good returns in the Trending Market. This strategy is 95% fruitful for Investment in long term Point of View as it helps to know the Entry Point, Exit Point and the most important , an investor knows the amount of Loss , if incur, prior to the investment.

REFERENCES:

1. www.Investing.com
2. www.Chartink.com
3. www.NSE.com
4. Candlestick Forum.com
5. Reference Book Candlestick Trading Bible