IZVIRNI ZNANSTVENI ČLANEK – ORIGINAL SCIENTIFIC PAPER

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"SELL WHEN THE VIOLINS ARE PLAYING – BUY WHEN THE CANNONS RUMBLE". CASE STUDY: TECHNICAL ANALYSIS AND CHARTISTS

"Prodajaj ob zvoku violin – kupuj ob bobnenju topov" – študija primera: tehnična analiza in čartisti

Abstract

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The focus of this analysis is the answer to the following question: how to choose between two main strategies in order to optimally manage money on the stock exchange. The first group of analytics prefer fundamental approach and second group prefers technical analysis. The philosophy of fundamental analytics is to take into consideration economic climate in the country where the stocks are traded as well as global relationships that can create fluctuation of the stock value for the company in question. The second group of analytics, called technical analytics or chartists base their strategies upon action on the stock market and investor's demand. Knowing how to read the stock tables, and understanding the investment quotes are essential for investment success. Key words: Bear's Market, Bull's Market, fundamental analysis, technical analysis, astro-economists.

Izvleček:

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Pričujoča analiza odgovarja na vprašanje, kako izbrati me dvema glavnima strategijama za optimalno upravljanje z denarjem na borzi. Prvi skupini analitikov je bližje temeljni pristop, medtem ko ima druga skupina raje tehnično analizo. Temeljni analitiki izhajajo iz filozofije, da je potrebno upoštevati gospodarsko klimo države, v kateri se trguje z delnicami, kot tudi globalne odnose, ki lahko povzročijo nihanje vrednosti delnice določenega podjetja. Strategije druge skupine analitikov, to je tehničnih analitikov oziroma čartistov, temeljijo na dogajanju na borzi in povpraševanju vlagateljev. Osnovni koncept vrednotenja izhaja iz analize dolgoročnih grafov delnic, ki so potencialna investicija. Za uspešno investiranje je bistvenega pomena, da vemo, kako se tabele delnic berejo in da razumemo kotacije. Ključne besede: medvedji trg, bikovski trg, temeljna analiza, tehnična analiza, astro-ekonomisti

JEL: G11, G15

1 Introduction

Famous saying "Sell when the violins are playing, buy when the cannons rumble" reflects two different strategies of money management. Those are short and long term positions. The major idea behind market timing is the buying low and selling high. Market timers believe that they can successfully predict the behavior of the market regarding the price movement of stocks. This makes timing the market the opposite of the buy and hold strategy. If an investor is to time the market, he/she should familiarize themselves with such tools as technical and fundamental analysis as well as even intuition. Most financial experts are against "timing the market" because it is difficult to identify whether a particular stock price has reached its peak or bottom. It may eventually go even higher or lower. Additionally, with the trades that are often executed under this strategy, commission fees will greatly reduce your profits especially of you make frequent trades of small amounts. Another disadvantage of "timing the market" is that in theory over the long-term the market goes up. Therefore, it is better to stay fully invested during the time in order not to miss the long-term stock rewards. Since all of the stock market activity is actually based on speculations of when to buy and when to get out, the above sentences reflects the entire philosophy that moves this powerful global economic factor.

Short term investors buy stocks that are active, have news and forecasts for near future and speculate on those factors that the stocks will quickly raise in value. 95% of the stock market are short term investors. For example, in June 2009 Baidu, leading Chinese search engine, similar to Google jumped from $3 to $300 in one month. The reason for such dramatic increase in value was precisely that short term investors had very high demand for that particular stock. Long term investors look for growth at reasonable price that represents a combination between the value and growth investing strategies. Therefore, applying this strategy will involve the search of a stock that is both undervalued and has a potential for future growth. One may find it difficult to find such a stock due to the opposing characteristics of growth and value investing. However, it is not unattainable. Investors applying this strategy use the PEG (price-to-earnings-growth) ratio as an indicator for a stock that possesses a growth potential at a price that is below the real value of the company.

Successful investors need two main things - the knowledge and the right trading platform. However, due to the dynamics of the market the investor can never be sure that money is invested in the right stock. This investing strategy elaborates on the idea that the market will continue to expand due to its capitalist nature. As a result, it assumes that the stock prices will continue to rise and shareholders will enjoy higher dividends. The market fluctuations and inflation levels are smoothed over the long-term. The advantage of long term investing strategy is that an investor pays less commission fees and taxes since they

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trade less, hold the stocks for a long time and don't trade on frequent basis. The major idea behind market timing is the buying low and selling high. Market timers believe that they can successfully predict the behavior of the market regarding the price movement of stocks. This makes timing the market the opposite of the buy and hold strategy. If you are to time the market, you should familiarize yourself with such tools as technical and fundamental analysis as well as even intuition.

Most financial experts are against timing the market because it is difficult to identify whether a particular stock price has reached its peak or bottom. It may eventually go even higher or lower. Additionally, with the often trades that are executed under this strategy commission fees will greatly reduce your profits especially of you make frequent trades of small amounts. Another disadvantage of timing the market is that in theory over the long-term the market goes up. Therefore, it is better to stay fully invested during the time in order not to miss the long-term stock rewards. To conclude, every investor that decides to be a part of the stock market, speculates and lives in uncertainty whether he did a good job investing in certain stock. They all know that there are many other and safer ways of investing money like buying gold, real estate or simply investing money with banks that give high return on the investment. This way of thinking is positive because chances of loosing in these kind of investments are minimal, unless we are talking about non-democratic countries where no investments are safe. Proven fact is that stock market brings the highest return on investment most of the time, but is proportional to the risk involved. The question remains is it better to invest in precious metals or in high risk stocks where the risk reaches maximum. Is it better to invest in stock of small, growing companies, or in companies that manufacture for wide range of people that strategically take into consideration demographics and ethnic facts. To be more precise, all corporations in the world take into consideration that the favorite Muslim color is green. There is 1,2 billion Muslims living in the world, and goods that are widely used in these countries sell better if they have green in them. Therefore, every investor speculates, when they decide to purchase because of a certain effect.

There is often a dilemma: whether to take into account the companies that are engaged in space research or nanotechnology? Or to invest in the renowned corporation Pfitzer, not only because of Viagra, but also for their strength in world wide medical manufacturing. An investor may also invest in technology-intensive industries, or in shares of General Electric, the largest corporation producing engines for commercial and military aircrafts and the most powerful transnational corporation in 2008 (Ratner, p. 6). As of 2004, shares and bonds of Rolls-Royce hold the second place in the wold's market in production of engines for commercial and military aircrafts in the world and their net profit increased by 76 percent (Michaels et al, p. A4). Investing in convertible bonds creates slightly less risk, but it is still considered that an investment in that group is upper middle risk. Choosing medium risk but average earnings involves investing in mutual funds, precious metals, overseas stocks, corporate bond funds, etc. Another attractive investments are treasury bonds, cash funds, the state agency funds but those are believed to carry a higher risk. Ultimatum, the investor wonders if it is wise to invest savings (that are always hard earned) in the area of low risk, such as investment in government securities such as savings bonds, certificates of deposit, certificates of cash funds, etc.

Therefore, whenever a potential investor has a dilemma on this topic, he speculates. However, the main advice is still: "Sell when the violins are playing ...." And what does that mean? This means that it is important to recognize the top of the stock exchange cycle, when everything is in the state of waltz, because as history has shown it is to be expected that the "violins will stop playing, and that will bring a decline to the markets. We must know that the economic boom is unfavorable for the stock market, and that the economic stagnation is favorable for the development of courses.

2 Bear season

So, soon the bear season is approaching a period of stagnation in stock market growth. It is hard to analyze why the bear season starts: whether due to expectations that the central bank will increase interest, or because of human psychology a most important factor according to by Andes Kostolany. He claimed that for him the most educational book was the Psychology of Peoples written by Gustave Le Bon. In his book, the French sociologist and the first scientist in history dealt with the mass psychology. He concluded that "feelings overcome reasonong" when a multitude of individuals group together for various motives. Feelings overcome reasoning as indeed almost everywhere, so too the Stock Exchange.

When the situation changes, when the brokers on the stock exchanges are issuing so-called sell orders, things on the market generally go bad. But, for some investors this is the best scenario. Bear time! The above-mentioned commands of sell now are used primarily in cases of panic, when investors want to stop their losses. In this situation, as a rule, investors, mainly speculators, command their broker: "Sell now at any cost!". Of course, such action in masses creates a major decline in stock market's value. The skill of a good investor is to sell before the stock markets decline. However when investors sell at any price they have lost the opportunity to cash in at the right time. As we all know timing is everything. This applies to the stock market by every meaning of the word. So, the stock market is dropping, but still there is no reason to panic. Stocks must be sold immediately, because at the closing it might be too late. But, the question remains whether you may then have a chance to sell high and buy low later. Unfortunately this does not work, not even in theory. Stock markets allow a short sale, (process to sell at the peak and buy cheap) - only when that stock being sold are in position of "up-ticking." Therefore, only then, it is permissive to find buyers. Any other way is illegal and stock market officials closely monitor the stock market activity, exchange rates, and speculators on the stock exchange floor.

If the investor is late because of indecision, if he thinks that will be next minute, next hour, or that the end of the day will reach the stabilization of stock value, but stocks continue to fall, the investor missed the chance to cash in. In rare cases and very unlikely scenario, the investor looses a chance of a lifetime. Return is no longer there when the stock market touches the bottom, called bust by George Soros.

The second advise for investors is to: "... buy when cannons rumble." This refers to a scenario diametrically opposite to the previous one. In this instance, while the stock market is at it's lowest, there are still some investors that want to sell at any cost in order to save whatever is left in value, and those investors that recognize the opportunity to buy. When the stock market reaches it's bottom, the stock exchange is like a war zone. The cannons rumble, collateral damage is enormous, "people are loosing their heads".

Statement that "people are loosing their head can be supported by following incident:

On Tuesday, 29th October 1929 New York Stock Exchange sold 16,410,030 shares which created a collapse of the stock market. Investors who lost everything, wearing black suits (mandatory to be present on the floor of the stock exchange) started to check in to the legendary Hotel Waldorf-Astoria on Lexington Avenue, near St. Patrick's Cathedral. They requested rooms on higher floors - and from those rooms they jumped over the balconies and windows to Lexington Ave. committing suicide. After the beginning of the suicide trend new guests that would arrive at the Waldorf in black suits were asked, "Do you want a room for sleeping or jumping?". They felt that for those that wanted to end their life, rooms on the higher floors would be more convenient. The stock exchange crash created loss of many lives. October 29th, 1929 was not the only example. Japan took a hit in 1921 and 1922. After a long economic crisis Tokyo Stock Exchange investors lost majority of their investments and committed suicide samurai way. Japanese themselves say that it is for centuries a tradition in their country to perform harakiri because of business failure.

We can conclude that in the history of the stock exchange people lost their lives because of the stock exchange. The speculators on the stock exchange often use the saying: "it cannot rain forever, after rain, sun comes out" . After the tribulation, when the stock values are at the lowest, and demand is weak, comes a new era created by brave investors that are willing to risk in tough times. They are buying in a situation when "the cannons are still rumbling." At that time the central bank drops interest rates in order to shift money from the banking and insurance systems to the stock exchange. Money is made cheaper in order to encourage investment. In this situation brave investors go against the trend. Market-makers find those who want to buy, or who want to "be long".

This is a beginning of sporadic phase to purchase effects. This coincides with bullish optimism, and the psychology of the crowd is positive. Money hidden in real estate, precious metals or stashed away in the piggy banks begins to come to the stock market. This is the ultimate moment to buy before the increase in exchange rates. Chances are high that it is a good time to buy cheap and later sell at the profit. And this is a period signaling slight increase in courses. And that will change the situation on the stock exchange. Commands such as: "Buy at the ongoing price" are coming on the trading podium and every hour stocks gain more and more in value. And every day more and more money is going in the market and stocks are on the up-rise. Courses are increasing, so now those who bought when the cannons were rumbling or who have purchased immediately after the cannons stopped rumbling can now sell their effects at profit. Profit that is a result of a good assessment of the situation. However, as time flows, there is more and more investors who are trying to buy cheap and sell expensive.

But, the invisible hand of Adam Smith, little by little results in asymmetry of the stock exchange. Still, strong demand generates action. Optimism rules stock exchange. Top of the cycle is almost reached. Everything looks great. "Violins are playing" and most investors think that the trend will not stop. However even under these circumstances there are investors that start selling their effects. They appear to go against the trend. Central bank raises interest rate to "cool off the economy". Speculators, as a swarm of fish, start selling. In fact, the economist John Maynarda Keynes compared speculators with a swarm of fish that swim in one direction and then suddenly and often without reason, suddenly change. So, on the stock exchange comes the balance between demand and offerings and this is the end of the incoming stock exchange cycle. Everything is moving in opposite direction.

Decisive factors of the stock market are: short, medium and long-term factors.

i. Short-term decisive factors for the stock market are those that are related to daily events, short news, and even gossip. In regards to the stock market there is a saying: "Buy fact - sell gossip," which means: Learn the status of fact, advertise the wrong information, so that the interests of competitors turn away from certain securities. It is considered that the events are not factors that influence the price effects, but the psychological reactions of the audience. The optimistic investors buy, and pessimists sell.

   First example: after the 11th September 2001.in New York when Al Quaida attacked the World Trade

Center's North Tower, and then South Tower and later the Pentagon, stock prices of companies in tourism, entertainment and airlines have fallen drastically in all the major stock exchanges. However, money shifted into companies that produce defense weapons and food industry.

Second example: on Monday, 27th December 2004, a day after a huge tidal wave Tsunami killed over 300 thousand people, at all effective exchanges in Mumbai, Colombo, Jakarta, Bangkok, Kuala Lumpur, Manila and Tokyo, felt drastic decline in value of stocks in the airline industry, tourism and entertainment.

ii. Medium term factors for the stock market are those related to inflation, short-term interest rates, liquidity in the capital market, exchange rate and export. In this part the key role is the central bank. The fiscal policy is crucial, and if a fiscal policy concept is in question, it is a subject to the approval of parliament that requires procedure and time. However, monetary and fiscal policy have a crucial role in this scenario. In fact, if the interest rate is higher when the currency is stable large investors such as institutional investors prefer to buy bonds rather than stocks. However, if the interest rate is lower, institutional investors prefer to buy stocks, because of their hope for higher dividends. Basically, the fact is that stock exchange has more liquid assets if interest rates are lower. Low interest rates give impetus to the economy, which increases profit of the companies. This is particularly reflected in the stock market. This can be noted only after a certain time (time leg). It is considered that after it takes six months to a year, before the decline of prices of shares. Mainly a euphoric situation on the stock exchange - postpones the decline. But when the fall happens, it happens unexpectedly and suddenly. It is important to note that the described relationship between bonds and shares is valid only when there is no inflation. Specifically, in the economy without inflation, the central bank may cut interest rates. Anyway, here we are not particularly looking into institutional investors, but we must take into account that they are the leaders of investment. They are always followed by smaller investors.

iii. Long-term factors for the stock market are those related to assessing the future development of the economy. Therefore, privatization, liberalization and macro-stability are factors for the climate that will attract investment, including investors from abroad. However, in the context of long-term interest rates, it is important to underline that the central bank has little influence (Stiglitz, p. 67).

In fact, the long-term interest rates include the loans and bonds with maturities greater than five or ten years. These long-term interest rates are determined by supply and demand of prices, and yields on bonds on a national or international stock exchanges.

3 Samuelson's Theorem

However, the situation in society, politics, the ruling party, applies to foreign countries and new trade agreements with important partner countries and their markets. Those factors are all reflection on the shape of central bank, the one that has the role of keeping the balance of cash and purchasing funds through manipulation of interest rates in times of inflation and deflation, economic trends, or contraction. We must constantly bear in mind that the stock market wants political stability, and that international politics can affect the critical question: whether to invest more capital in regular commodities or war industry? Long time ago, Paul Anthony Samuelson portrayed investment alternatives that are in the competence of the creators of economic and development policies. Investments that are seen as the result of decisions: whether to invest in butter or guns? In this context, the synonymous for butter are the non military stocks, and guns represent investments in the military-industrial complex. This economic complex strives on political tension. Investors fear for their own safety, and therefore invest their money in companies that produce tanks, planes, trucks. Shares of such companies are called defensive stocks. The proof are the investors in capitalist countries in different stages of the Cold War, when they considered the likely conflict with the Soviet Union and after September 11th 2001 in the US, when they announced a war on "axis of evil". This concept is known as Samuelson's theorem. The focus of alternative possibilities of production of butter in millions of pounds and production of thousands of guns. He marked: "The costs of obtaining some additional number of guns can be calculated as the amount of additional butter, which we have to give up."

We again arrive to the beginning of the story: "Sell when the violins are playing - buy when canons rumble." Never forget: the stock market really has anticipative power of predicting trends! As if politicians get the bill for their failures in the past. Therefore, all politicians constantly take into account how will the stock market react to their actions now and in the future. However, regardless of whether the priority is to sell or buy, it is necessary to maintain a vision and a positive psycho-physical condition, which is hard to combine. Each investor in the stock market has his own strategy in the proceedings of so-called cash management. In deciding which strategy to apply, investors rely on their stock brokers. However, the majority in the stock market are the investors who decide independently. Individual brokers, generally speaking, use simple strategies, but collective brokers or brokerage houses use a complex strategy. It is important to say that by strategy we mean the process of predicting the future situation on the stock market, both in terms of future trends in general, and the prediction of certain securities prices in particular.

In fact, the point is that all investors in the stock market are trying to discover the trends and directions of the price movements of specific securities. That applies to investors that buy for themselves, and to brokers that buy for their clients. All of them analyze the market, trying to discover the trend. Brokers do it to sell information to their customers. When clients invest money in those securities that brokers anticipate will be a good deal it means that brokers will charge the client a commission. Speculators and traders are trying to discover the trend, since the discovery is proportional to their earnings. But we must underline that recognizing the trend is the most difficult task in the stock market. The majority is still in the area opposite the trend. Since everyone makes money on the stock exchange with stocks that are in trend, most of the investors loose money. In order to discover the trend, investors use different methods. In this context, methods mean analytical forms. For example, there are investors who only analyze stock quotes at home. Cable connected with a special TV stations they can watch special financial programs containing present situation on the markets, where stock experts advise viewers with respect to the direction and type of investment. Some speculators rent a Reuters database, Quick, Tele-course, Topic, etc. In addition, computerized information services provided by telephone to the homes of subscribers almost immediately inform them when an event happens on the stock exchange. Based on this, anyone who wants it - in the case of special programs and pays for it - has a direct insight into what happens during the 24 hours on the stock exchanges in the "magic triangle", dominated by London, New York, Chicago and Tokyo. Due to time difference the investors who wish to invest their money successfully get very little sleep. Sleeping is a real luxury for them!

On the other hand, brokerage companies and investment banks analyze the market with entire teams of experts. These teams are not only economists analyzing the state of the economy, but also lawyers that analyze the potential and future changes in corporate or tax law, sociologists, that analyze possible reaction of consumers, and even doctors: to analyze how the new product affects the health industry. In addition to human resources they get help from the latest communication technology. The largest transnational corporations and transnational banks keep in touch via leased satellite channels in order to control the global system.

4 Technical analysis and chartists

In the introduction it was said that there are two analysis, fundamental and technical. Technical analysts are called chartists (English chart - chart, graph, map). According to them, the change in prices of securities are based on the stock activity, as well as their mood to invest in stock markets. The main tools that affect their analysis are:

– table price of securities, and

– other statistical indicators.

Chartists contemplate the tables and statistics (chart watching) to determine the price trend. For them it is not important business of the company whose securities are traded. They are not interested in national or international economic environment. They predict the behavior of securities on the stock exchange, based on the models' "figures and letters ".

But, despite the fact that the fundamentalists and chartists use different methods to forecast the price movements of securities, they agree in one: their task is to predict the price movements of securities in the present, based on analytical data from the past.

Technical analysis can be defined as the analysis that is conducted forecasting future price trends for individual securities based on analysis of their past and current pricing fluctuations. Consequently, the supply and demand of specific securities is the focus of this analysis. It is considered that the mentioned price movements of securities in the present, provides forecasts of its price in the future. According to this theory, the directions of price movement of securities can be determined only through analysis of rates and other statistical data related to a specific security. They consider that prices of securities contain and reflect the impact of all the information pertaining to a specific security (McCafferty et al, p. 174).

Technical analysts primarily pay attention to the history of securities. They assess the position of these securities through past, in order to estimate the future price movements of the same securities. It is believed that past levels of prices is key to the future level of prices. Therefore, the basis of the analysis are the stock prices. Investors rely on the analysis of price movements, the amount of trading, as well as the factors of supply and demand. They believe that all of the charts are correct, as the price trends are repeated with a large degree of consistency. Chartists see the same indicators and expect the same results. When it happens in masses, the market is behaving in accordance with the wishes of the majority. It is believed that because the market has anticipating function, chartists can see the direction of the so-called price through the table, or diagram. That is their main guideline. They believe that technical analysis proves the first movement of the trend, in order to identify with fundamental analysis. Factors of supply and demand are still first drivers of the overall activity in the markets.

In fact, this kind of prognostic analysis is used mostly by individual investors - especially speculators. Intellectual father of this analysis is Charles Dow, a famous American publisher of financial publications. It was he who co-founded Dow Jones & Company and famous financial daily paper Wall Street Journal. He apparently first realized that there was "rhythm in the movement of the market and individual stocks." If you are ahead of that pace, he said, "it can at least give investors the opportunity to fight for victory." He used the method of moving average, which is only valid for a certain period of four, five, six or twelve days. In fact, this is a study of a series of price, i.e. the study of the average in the recent past, in order to discover the trend for the future. This means that detects a trend that would be formed soon. Moving trend is, in fact, an example where the combination of price series gives calculated averages. The rule is to calculate ten-day moving average. If for example we take a ten-day moving average, we calculate ten days of closing price that is a price of the security, which is formed due to supply and demand for specific securities.

It is believed that chartists that are involved in the stock markets "don't rely on facts, but the trends." The highest profits are gained by those who predict what will happen to the securities market in the next few hours. It is said that they lead the "herd" and the highest earnings. Thus, technical analysts believe that investors and their behavior determines prices of securities on stock exchanges. Chartists use eight rules of technical analysis of trading. These are:

- when the trend is established, it is certain that it will be continued,
- the longer the chart is, the more reliable the trends are,
- the higher volume of trade is, the trend is of greater significance,
- growing trend in the market, when prices move fast and far, created falling trading volume and price increase,
- descending trend in the market, trading volume is higher when the price slightly fall,
- if the market is in a growing trend, the volume of trading before falls before trend changes direction into downward trend,
- trading in the downward trend increases before the change in a growing trend, market test their trend lines by using the so-called. blank entry,
- the steeper the trend line is, the trend becomes more unstable, and will change direction.

5 Trend lines in six diagrams

Thus, the key category is the trend line. Prices mostly follow a straight line, but if the line shifts, the price quickly returns to baseline. Dealers usually say: "The trend is your friend". It simply means that prices will go in the established direction, until there is a reason for the change of direction.

We will mention six diagrams, which are most popular among chartists and are the most common tools of technical analysis. In fact, it's about line between at least two points in the chart price.

Prices are kept to the straight line, where customers will continue to buy. This is perhaps the most common and most accompanied by graphic formations. Traders believe that this trend will increase prices. Exchange is "growing" and bulls are doing fine.

Prices are kept to the straight line, where the sellers continue to sell. Investors believe that this trend will make prices fall. Exchange "fall", which corresponds to the bears

Diagram 1: *Uptrend Formation*

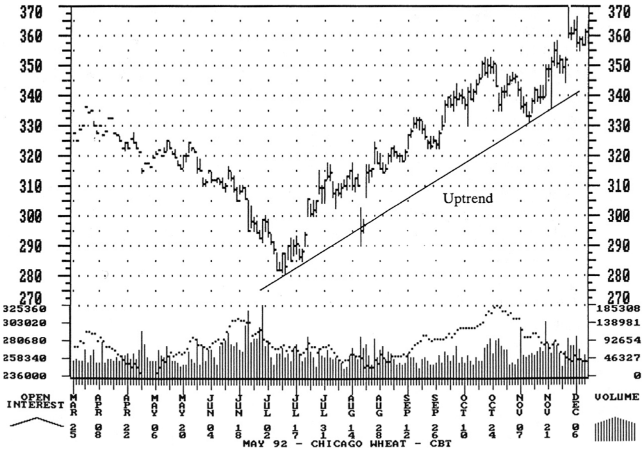
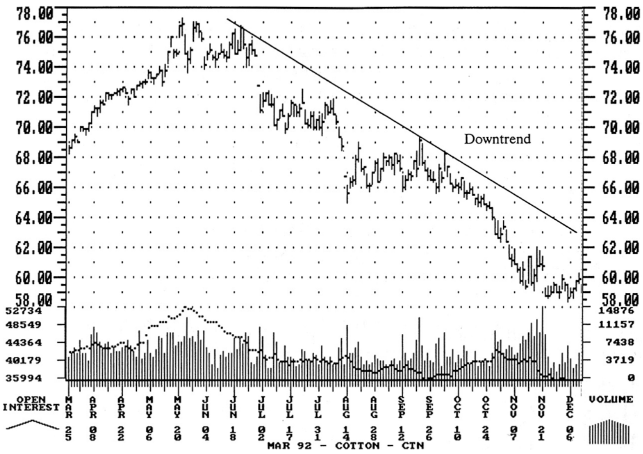


Diagram 2: *Downtrend Formation*



expecting this kind of situation. For all the time in bulls market, "they were watching someone else's money." Now comes their time.

Specifically, the end of bear market does not automatically start bulls market, and vice versa. Sometimes markets move from the side, or lateral, sometimes slightly fluctuate up and down. This happens as long as investors do not understand what is what, until they decide what they want. Do they want to be long or short. This trend is present until the bulls or bears prevail. In fact, it would be more accurate to say that the period of interregnum sideways trend. Here we see the market that varies, going from the side, or sideways.

The formation is developed when the line of established trend is interrupted. However, prices are still moving in the same direction, forming a new line of trend. This also happens when you reach a permanent price increase, which leads to the so-called overheating of business. Each line following the trend becomes steeper than the previous line. As prices reach peak, the trend line becomes steeper. This is a warning for the more experienced traders that inevitably changes in trend are coming. Trend signals investors to think about the direction of prices.

Diagram 3: *Sideways Trend*

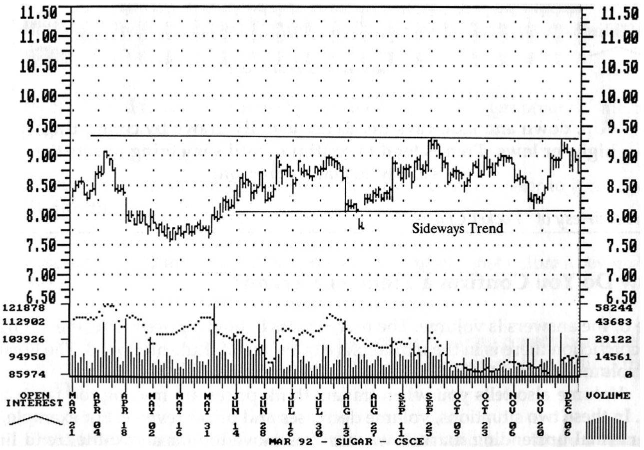


Diagram 5: *Rounded Bottom Formation*

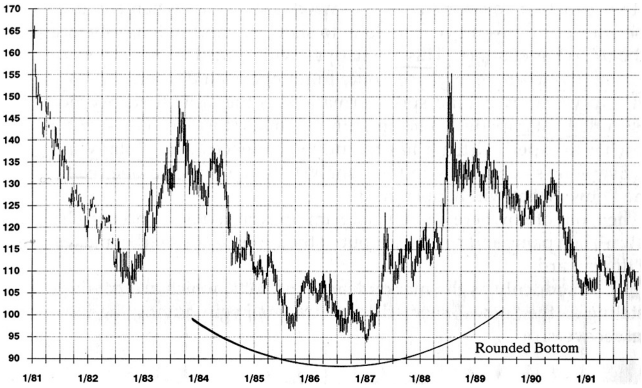


Diagram 4: *Fan Formation*

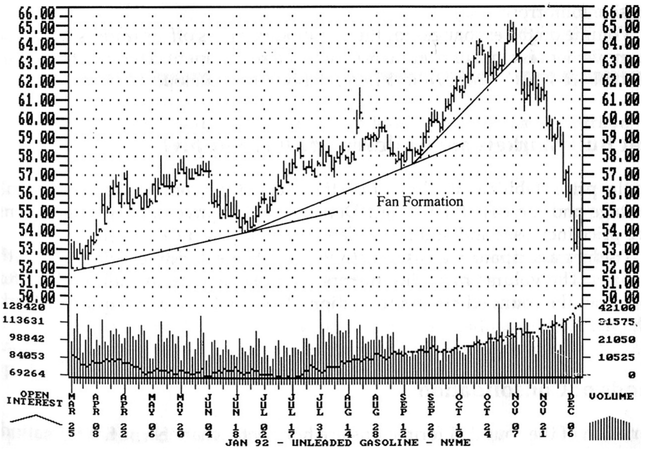
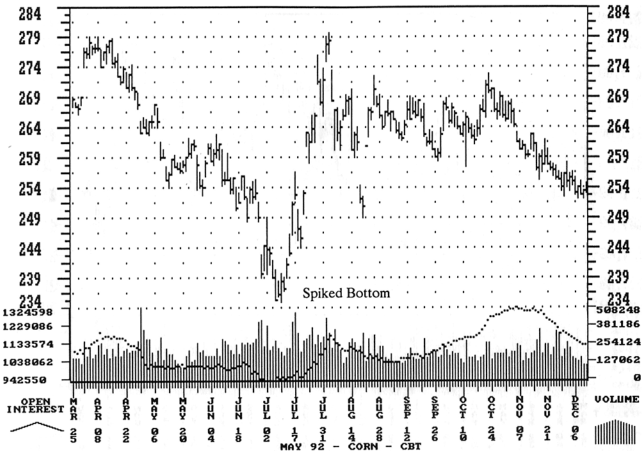


Diagram 6: *Spiked Bottom Formation*



For chartists, this is a dream formation that it is easy to recognize. It is a precursor of the large price increase. This formation signals upcoming long-term price shifts, which enables a decision to be reached on time. Formation begins with the moment when prices start to go down, hit the bottom, then the price increases. Prices rise due to increased supply. Investors start buying with little hesitation, believing that the prices will soon, at the end of the exchange or just tomorrow, begin to fall. However, it is often that this formation is a messenger of a significant price movement, a movement that pushes the prices up or down. Some analysts call this trend trading platform. Specifically, buyers and sellers are neutral, as long as something positive or negative does not "hit" the market up or down. This point is often the case the main encouragement.

Formation is unpredictable and contrary to the previous situation. Namely, unlike the previous examples, which are predictable, this formation is unpredictable. Attack comes without warning, and this formation is unknown even for the most experienced. Therefore, this formation is characterized by the fact that prices begin to fall without notice. The same is true with the increase in price. This shift can happen in one day, and can be expected for several days. In fact, one can not know whether the price is quite fallen to the bottom unless there is a trend line break. This happens at the so-called spiked bottom formation, when the market drops sharply down, and then again falls even lower. Worst case "abyss." Namely, the psychology of "crowd" behind the spiked bottom formation days is identical to the psychology of "herd", which causes a stampede, "herd." The market is unstable and does not know what to expect. Nobody knows what will happen. Then suddenly information comes and investors panic. The market is going downhill. But suddenly investors get new information, which may encourage them to purchase.

6 Instead of a conclusion: Astro-economists

Astro-economists are investors in the stock exchanges that use some unscientific methods, and para-psychological disciplines, so-called. Chamber of astrology. This astrology become popular among investors in the 1980s (Lynch, p. 39). Among the methods used in this "emerging discipline" is so-called astro-method. This is the method used by the so-called astro-economists, who with the help of tables, computers, personal horoscope clients and client companies horoscope, horoscope and the state and the currency of the client (sic!), make planetary charts. They read them from the trend of price of certain securities. At New York Stock Exchange brokers told us that they traded for investors who would advise psychics when to buy securities and which ones to sell. Some of those investors are dedicated to Mars Cycle and the interpretation of stars and sunspots, which are the basis for the analysis of economic cycles. In past centuries those techniques were practiced by French physician and economist Clement Jiglar and English economist, statistician and philosopher William Stanley Jevons. In the U.S. - where this method is the most popular there is a special publication for those who have confidence in these methods. The publication is called Astro Market Letter.

However, money cannot be managed in the long-term capital stock based solely on technical analysis. The investors must take into account at least five areas of indicators of fundamental analysis. These are: yield, dividend-pay-out ratio, debt-equity ratio, price-earnings ratio - P / E ratio and price to sales ratio - PRS. And at the very end, when the question is raised: "What is the best strategy?" - After the experience on the stock exchanges of London, New York and Chicago - we think that the best strategy is "Sell when the violins are playing, buy when the canons rumble".

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