

Using Charts to Determine Trends

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Even a casual observer of financial markets notices the propensity to use charts and graphs to interpret the financial results of any market or time period. Every analysis uses them as a basis to demonstrate what has happened in the past with the

idea that this information can be used to help predict future trends. Despite their constant use to convey vast amounts of information, most observers get little from them except to notice a start point and an end point to determine if it was an “up” or “down” day. While this easy visual reference does do that well, if that were the only purpose a simple open and close price that is also included would be all that is needed to demonstrate an up or down for any time period.

Volatility

While knowing that there is more information to be derived from that in a chart, it is the complexity of many of these charts that make many would be investors shy away from their use. ***To understand financial charting, one must also understand the terms of what is being charted and what information that will convey.*** This is the first step to chart analyses for financial forecasting. While the actual name of the chart may remain a mystery, if you see the key and it is diagramming cost per unit vs. time period you can deduce it is showing not only the increase and decrease in value,

but the volatility based on how often the up or down changes in any time period.

This is the reason charts are used as opposed to simply numbers at the beginning or end. [Volatility](#) is what allows an investor to predict how rapidly things change in any field measured to assign risk as well as to determine potential for profit. While large changes means there is more potential risk on an investment, little or no change means there is little potential for profit as well as most profits in investing are derived from the fluctuation in pricing.

Comparison

When comparing multiple different things, the charts are instrumental. It is not enough to know just the prices of different things to make sound investments. To make investments based on more than guessing, you need to know how one thing reacts to another. A common example of this would be to show how the rate of [inflation is effecting the stock market](#). If it shows that nearly every time inflation goes up, a particular stock trends up as well, then you have information that you can use to forecast. Looking at that chart and seeing on the news that inflation is getting higher would be actionable information to allow you to consider purchasing that stock to realize a profit. Separate numbers of inflation rate and stock price alone will not allow you to do that.

Advance Chart Types

After the basics, charts are used to show advanced concepts. These include known economic principles that have been proven over time. The proper way to use these involves being able to identify the principle. This is what separates the experts from the merely informed. While it may take years of practice and substantial background to be able to identify these patterns and trends, there is [charting software](#) available now that will allow you to put your

own data (or pull it from other sources) and not only make the chart, but identify the trend that is taking place to forecast where the chart will move in the future. It is this knowledge that makes charts of such value to the investor.

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