Technical Analysis in Forex: Principles, Support & Resistance + Key Indicators

Technical analysis relies on historical price and volume data to forecast future **market movements**.

This method focuses on **price behavior** and **employs various tools**, including price patterns, **trendlines** and **channels**, **indicators**, and **support and resistance** levels.



Review of the classical technical analysis style along with its principles, patterns, and indicators

What Is Technical Analysis and What Is It Used For?

Technical analysis is a data-driven approach to studying asset price changes and forecasting **market trends**, based on the analysis of **price charts**, **volume fluctuations**, and **historical market** patterns.

It assumes that all information affecting the price is reflected in past data and price behavior.

This method is applicable in various **financial markets**, including **Forex Market**, **cryptocurrencies**, **stock markets**, and **commodities**.

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Technical analysis combines price patterns, indicators, trendlines, and support/resistance concepts to assess future **price movements** probabilistically.

Advantages and Disadvantages of Technical Analysis

Classical technical analysis enables traders to identify optimal entry and exit points, enhance **risk management**, and better evaluate price trends. However, it also has drawbacks. **Technical analysispros and cons:**

Advantages	Disadvantages
Predicting price trends using patterns and indicators	Potential for false signals due to reliance on past data
Quick decision-making across multiple timeframes	Ineffectiveness in low-volatility, illiquid markets
Broad applicability across Forex, stocks, crypto, and commodities	Susceptibility to trader emotions and impulsive decisions
No need for fundamental data, focus on price behavior	Requires deep experience and knowledge to accurately interpret signals
Can be combined with other methods like price action and smart money analysis	-

Core Principles of Classical Technical Analysis

Classical technical analysis is founded on concepts that allow traders to deeply **understand market dynamics**:

- Understanding **price structures**
- Analyzing **reversal** and **continuation patterns**
- **Support** and **resistance levels**

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Price Patterns and Market Behavior

Price patterns reflect the collective psychology of traders and are divided into two main categories:

1. **Reversal Patterns:** These indicate a **potential trend** change and include patterns like double tops/bottoms, head and shoulders, and **V-shaped formations**. These can help identify key turning points based on price data;



Reversal patterns are a core component of classical technical analysis to detect trend changes

2. **Continuation Patterns:** These signify the continuation of an existing trend and include patterns like **triangles**, flags, and rectangles. Identifying these allows traders to enter trades in the direction of the **prevailing trend**.

Trendlines and Price Channels

Trendlines determine the general direction of market movement. Uptrends are marked by **higher highs** and **higher lows**, while downtrends are characterized by **lower highs** and **lower lows**.

In contrast, range-bound markets lack a clear trend, and prices oscillate within a defined range.

A **price channel** forms when prices fluctuate between two parallel lines, which often act as **dynamic support** and **resistance levels**.

These tools help identify trend direction, retracement levels, and **potential breakout points**.

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Identifying trendlines and price channels in EUR/USD chart using classical technical analysis

Support and Resistance in Technical Analysis

Support and resistance levels represent zones where supply and demand dynamics shift.

Support is where **demandincreases** and prevents further decline, while **resistance** is where **supplyincreases** and restricts price rise.

These levels are used to identify **entry and exit** points. In classical **technical analysis**, support and resistance play a crucial role in defining price structure and identifying valid breakouts.



Evaluating support and resistance levels is one of the most important methods for identifying trade entry and exit points

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Key Tools in Technical Analysis

To analyze price charts and determine market direction, several tools are essential:

- **Indicators**
- **Moving averages**
- **Volume**

Classical Indicators and Their Application

Indicators are tools used in **technical analysis** to evaluate trend strength, assess volatility, and **identify potential** entry and exit points. **Best Classical indicators**:

- **Relative Strength Index (RSI):** Measures overbought/oversold conditions;
- **Moving Average Convergence Divergence (MACD):** Analyzes momentum and trend reversal signals;
- **Harmonic pattern indicators:** Used to identify and draw harmonic patterns like Gartley, Bat, and Butterfly;
- **Bollinger Bands:** Identify unusual market volatility.



Classical indicators like RSI and MACD are essential tools to confirm trends in technical analysis

Moving Averages and Trend Identification

Moving averages play a vital role in identifying price trends and offer a clearer view of overall **market direction** by filtering short-term price fluctuations. **Typesofmoving averages**:

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- **Simple Moving Average (SMA):** Calculates the average price over a specific period and is useful for identifying long-term trends. Price above **SMA, signals** an uptrend; below SMA, it suggests a downtrend;
- **Exponential Moving Average (EMA):** Gives more weight to recent prices and reacts faster to market changes, making it suitable for **short-term** and scalping strategies.



Applying moving averages to identify price trends in classical technical analysis

Both types of moving averages can act as **dynamic support/resistance** levels and offer more precise signals when combined with other tools.

Volume and Its Role in Technical Analysis

Volume is a key metric for confirming trends and **spotting market** reversals. A volume increase during a breakout of **key levels signals** confirmation. Volume-related tools include:

- **On-Balance Volume (OBV):** Analyzes the relationship between **volume** and **pricetrend**;
- **Money Flow Index (MFI):** Combines **volume** and **pricemovement**.

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Volume plays a key role in technical analysis; A spike in volume during a breakout confirms the price movement

Classical Technical Analysis vs Other Analytical Styles

Classical **technical analysis** is based on statistical principles and repeating patterns, while other methods like **Price Action**, **Smart Money**, and **ICT style** focus on liquidity behavior, market structure, and price manipulation.

Technical vs Fundamental Analysis

Technical analysis focuses on **price patterns** and **volume**, whereas fundamental analysis assesses intrinsic asset value using **economic indicators**, **company earnings**, and **interest rates**.

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Features	Technical Analysis	Fundamental Analysis
Basis of Analysis	Price data, charts, and volume	Economic, financial factors and related news
Main Objective	Predict short-term price movements and entry/exit points	Determine intrinsic asset value in the long term
Tools Used	Indicators, chart patterns, trendlines, candlesticks	Financial reports, interest rates, inflation, company earnings, economic policy
Timeframe	Short- to medium-term	Medium- to long-term
Market Types	All financial markets (Forex, stocks, crypto, commodities)	Mainly stocks and national currencies
News Sensitivity	Short-term reaction to news and price fluctuations	Long-term impact from economic/fundamental factors
Application	Day trading, scalping, swing trading	Long-term investments and strategic analysis

Classical Technical Analysis vs Price Action

Price Action focuses solely on raw **price movements** and avoids using indicators. In contrast, classical **technical analysis** employs various tools to determine market direction.

Features	Technical Analysis	Price Action

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Basis of Analysis	Price data, indicators, charts, volume	Raw price behavior and candlestick movements
Main Objective	Forecast trends and entry/exit points with supportive tools	Understand price behavior and make decisions based on patterns
Tools	Indicators (MACD, RSI, EMA), trendlines, chart patterns	Candlesticks, support/resistance, supply/demand zones
Chart Presentation	Typically, with indicators and tools	Clean charts (no indicators) for direct observation
Reaction Speed	Somewhat delayed due to reliance on indicators	Quick reaction to price changes
Complexity Level	Suitable for all levels (beginner to advanced)	Requires deep market behavior understanding and practice
Reaction Speed	Somewhat delayed due to reliance on indicators	Quick reaction to price changes

Classical Technical Analysis vs Smart Money and ICT Styles

Classical technical analysis is based on studying past price data and chart patterns. In contrast, **Smart Money and ICT** (Inner Circle Trader) strategies focus on **liquidity, institutional order flow**, and **marketmanipulation**.

Features	Classical Technical Analysis	ICT & Smart Money Styles

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Basis of Analysis	Chart patterns, trendlines, support/resistance	Institutional behavior, market liquidity, market structure
Main Objective	Predict price movements using repetitive patterns	Identify hidden liquidity and enter at key market turning points
Tools	Indicators, chart patterns, support/resistance levels	Order blocks, liquidity zones, FVGs, ICT market models
Chart Presentation	Price charts with indicators	Clean charts with focus on liquidity zones, order blocks, structural breaks
Reaction Speed	Slower due to indicator lag	Fast response to key level breaks and liquidity zones
Complexity Level	Suitable for all levels (beginner to advanced)	More complex, requiring deep understanding of market structure and institutions
Usage	Short, medium, and long-term trades	Intraday, scalping, and precise swing trading

Top Trading Strategies in Technical Analysis

Technical analysis is not only useful for identifying **trends and key levels** but also for developing diverse strategies for market entry and exit. Strategies are based on concepts like **price patterns**, indicators, volume, and price behavior.

Price Pattern Strategies

Price patterns are among the most effective tools **in technical analysis**. Common strategies include:

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- **Breakout Strategy:** Traders wait for price to break key support/resistance levels and enter after confirmation;
- **Reversal Strategy:** Based on identifying reversal patterns like head and shoulders or double tops/bottoms;
- **Range Trading Strategy:** Effective in sideways markets where price oscillates within horizontal channels.



Entering trades in classical technical analysis using the breakout strategy

Risk Management and Stop Loss in Technical Analysis

Risk management and defining stop loss are essential in every strategy. Key **techniques include**:

- **Stop Loss Based on Support/Resistance:** Stops are set near key levels to exit if price breaks against the trade;
- **Using ATR (Average True Range):** Helps place dynamic stop loss based on market volatility;
- **Risk/Reward Ratio:** A favorable ratio (e.g., 1:2 or more) ensures long-term profitability.

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Conclusion

Classical technical analysis offers a structured framework for identifying market trends and key levels.

Through tools like price patterns, indicators, **moving averages**, and **volume**, traders can build various strategies such as breakout, and reversal strategies.

However, to improve accuracy and reduce **analytical** errors, traders should also consider **complementary factors** like price zones, liquidity, and institutional behavior.

Integrating these with classical methods enables a deeper understanding of **market structure** and better decision-making.

source:

1.our website link :
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