

Does Technical Analysis Work – You Bet It Does

Out the gate, if it's not already clear in the title of the article, [technical analysis](#) does work.

I am living proof of that fact.

Now, the real question is why are you even asking that question. Well, in this article we are going to first uncover why there is doubt in the financial world and then we will touch on proof that it works.

So Why Even Ask the Question?



Ask the Question

You have to go back to the root of technical analysis to

uncover the hesitation from the trading community.

First off, [technical analysis goes all the way back to the 1700s](#) – yes these early speculators were way ahead of their time. The concepts of charting stocks did not gain any steam in the US until the early 20th century with the Dow Theory.

My personal favorite of the early technicians is Richard D. Wyckoff which based his entire methodology on [price and volume action](#). This approach still holds up in today's markets.

While I admire Richard's early works, the broad market and public did not pay much attention to it at all. Technicians were viewed as a joke pushing magic.

It wasn't until the 1980s and really the 1990s until technical analysis became more mainstream knowledge. A lot of this had to do with the improved processing speed of computers and the ability to crunch lots of data and display it in a visual format.

Remember, the technicians of the old days had to do all of this by hand.

At the end of the day, again guys and gals running around with hand made graphs were thought of as pikers.

Well, this stigma still exists in some fashion in today's investment community, hence the question does technical analysis really work?

Proof That Technical Analysis Works

Hedge Fund Industry Continues to Grow

The proof is not in the fact I personally have benefited from technical analysis. Don't take my word for it.

If you need proof, then look no further than the hedge fund

industry.

You would need to be living under a rock to have missed how the industry has been growing. According to the pensions and investments company,

According to the [hedge fund research company](#), hedge funds hit another peak of assets under management – 3.24 trillion in 2018.

How Do You Think They Are Making This Money?

Do you think hedge funds are only looking at balance sheets and quarterly financial statements to gain an edge?

Of course not. Have you ever heard of a show called [Billions](#)?

These hedge funds have automated trading strategies, algorithms, and teams of quant analysts studying the market looking for an edge.

Although it's not considered a form of technical analysis, you better believe it is at the end of the day.

Why Do People Think Technical Analysis Fails?

Trading the markets is hard – really hard. People love throwing out the stat that over 90% of traders fail. This is true, but it's a little misleading.

The reason people lose is that they don't put in the work.

Well, it's the same with technical analysis. For example, I studied breakout charts to no end, but the market shifted and making a dollar was like pulling teeth.

Then I realized the issue was the chart pattern. The market

was going in a cycle of opening strongly, only to roll over by 10:30 am.

This market behavior produced [pullback long setups](#) in the morning.

So, when I was struggling with the [breakouts](#), did that mean technical analysis was a lost cause? Nope, it just means I did not interpret the market environment correctly.

Is Technical Analysis Accurate?



Accuracy

The accuracy of the analysis is going to come down to the individual trader. I can provide two traders with the same day trading tools, yet one of them may have an accuracy rate multiples of the other trader.

How can this be? How can two traders both have the same

information yet one yields better results?

This comes down to sheer skill and experience. It has taken me four years to get to the point where it goes beyond just knowing technical analysis.

You also need to know how to apply the rules to real-time market conditions.

Where is Technical Analysis Prone to Failure?

The one area I have seen technicals struggle is in extremely volatile markets. These are securities like penny stocks that can move 20% or more in a matter of minutes.

Now, you, of course, can still master this market with other analysis tools, but [oscillators](#) and other technical indicators have a tough time forecasting future price action based on past performance.



High Volatility Stocks

Other than this, the failure is within us, not the indicators.

For example, traders may rely on a technical indicator or system like Elliott Wave to forecast price targets. Well what happens if the price never reaches the target?

Is the system somehow flawed?

Possibly, but it is more likely that you need to take the generic strategies 10 levels deeper to uncover what works in today's trading environment.

It's never the charts, it's always you the trader.

How We Can Help

[Tradingsim](#) will allow you to practice trading 24/7. Why is this important?

I don't care how many books or courses you take on trading – you have to put on trades. The spoils of the game go to those with the most experience.

So, if you treat trading like a hobby and read one or two books on technical analysis, then you are likely to develop an opinion that technical analysis does not work.

However, if you are willing to put in the hard work of refining your strategies, you will come to a more positive conclusion about technical analysis.