“TO STUDY FACTORS THAT INFLUENCE THE ACCURACY OF TECHNICAL ANALYSIS WHEN INVESTING IN STOCK MARKET”

MOHD FAZREL BIN HASAN

2009668194

BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

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DECLARATION OF ORIGINAL WORK

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FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

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I, MOHD FAZREL BIN HASAN, (I/C Number: 880316-10-5465)

Hereby, declare that:

- This work has not previously been accepted in substance for any degree, locally or overseas, and is not being concurrently submitted for this degree or any other degrees.

- This project-paper is the result of my independent work and investigation, except where otherwise stated.

- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: __________________________ Date: _______________________

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CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

According to (Joseph de la Vega, 1688), over hundreds of years the principal of technical analysis have derive from the observation of financial markets. In the 17th century the oldest known hints of technical analysis appear in Joseph de la Vega's accounts of the Dutch markets. In Asia, candlestick techniques or main charting tool nowadays is developed by Homma Munehisa during early 18th century and become the oldest example of technical analysis (Nison Steve, 1991).

In the 1920s and 1930s Richard W. Schabacker published several books which continued the work of Dow and William Peter Hamilton: Stock Market Theory and Practice, Technical Market Analysis. At the end of his life he was joined by his brother in law, Robert D. Edwards who finished his last book. In 1948 Edwards and John Magee published Technical Analysis of Stock Trends which is widely considered to be one of the seminal works of the discipline. It is exclusively concerned with trend analysis and chart patterns and remains in use to the present.

Technical analysis is contrasted with fundamental analysis, who try to calculate the true underlying value of the stock by analyzing dividends, growth, interest rates and others factors. Technical analysis is the study of charts and patterns of past price movements is and the attempt to forecast the future market movements. It makes use of stock prices, trading volumes and other market data to formulate rules. So, they use charts centered on stock price movements and they was believed that these movements produced certain formation that indicated when the time was right to buy or sell a particular stock. (Zetty Zahureen, 2009)

1.1 BACKGROUND OF STUDY

From author, (Dominic Hawker, 2004**)** said that rather than dwell upon the wonders of the Phoenician market for olive oil forwards, or the ancient Japanese and Chinese history of rice trading, this story starting with one Charles Dow, inventor of the first stock market index in 1884. After he noticed that by the time important corporate news entered the public domain, Charles Dow invented point and figure chart then the share price had moved, due not least to insider trading. Next, he has watched open market in US then him writing down prices in his laptop, looking for clues about market action. After that, Charles Dow still cannot find answer regarding to price movement. Therefore, he decides to plot price action in graphic form.

Charles Dow also wrote a series of articles for the Wall Street Journal in the latter years of the 19th century. This body of work became known as "Dow Theory" and formed the initial basis for what we know as technical analysis today. The most important concepts that Mr. Dow recognized were that prices reflect the current balance of supply and demand example like the hopes and fears of investor and most importantly, an imbalance of supply and demand causes prices to form recognizable trends, up and down.

In 1940s to 1950s, additional pioneers of technical analysis such as Bill Jiler, Robert Edwares, John Magee, Alexander Wheelan and Abe Cohen were making steady progress, not only in the types of charts used to show trends, but also techniques for analyzing price action.