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G91-1051 Charting the Markets (Introduction and Bar Charts)

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NebGuide
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Charting the Markets (Introduction and Bar Charts)

This NebGuide focuses on the basics of the bar chart as it depicts market trends on a continuing basis.

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This is the first in a series of nine NebGuides dealing with different technical aspects of a market. The series is designed to give producers an opportunity to explore the basics of charting as a marketing approach, and to allow individuals to determine if they are interested in learning more about it.

These marketing NebGuides also are designed as a handy reference packet to aid in understanding what radio announcers and commodity brokers are saying about movements of the market.

Charting the Markets

Efficient, effective marketing is and will continue to be a key factor in assuring profitability of an agricultural enterprise. Astute livestock and crop producers continually strive to improve their marketing skills, recognizing that sound, timely decisions can mean the difference between profit and loss.

The broad concept of marketing includes two schools of thought: ***fundamentals*** and the ***technical analysis*** of the market place.

Fundamentalists study supply and demand of a product and the underlying economic conditions that impact supply and demand. These factors include, but are not limited to, world crop conditions, government programs and world population.

Technical analysts, commonly called ***chartists***, study past formations and trends and assume that in the future, price formations will reoccur in a similar manner. Based on this assumption, these analysts use chart formations as signals to enter and exit the market.

It can be argued that supply and demand in a given market situation eventually determines average price levels. But it also can be argued that technical trading determines what happens to prices in the short run.

Remember: the one certain thing about markets is that they are uncertain in an ever-changing environment. This dynamism makes price forecasting difficult and challenging. However, learning to chart, follow and interpret charts can aid producer in many ways.

Consider charts as a visual road map of past price movements. The essential market figures are the high, low and close. Charts reveal the basic movement of the daily markets that could influence the next day's markets. Because charting forces users to stay on top of the market on a daily basis, it places them in a better position to determine if the timing is right to enter or leave the market.

General awareness of the market helps producers determine when the charts begin to identify coming changes in the fundamentals. An example would be knowing there will be a "short" crop before official statistics are released.

Any market analysis effort has disadvantages. Many producers have difficulty finding the time to chart the markets and properly analyze the signals. Another disadvantage is the amount of information that must be accumulated and digested.

Producers must determine the reliability of various market signals and which signals to use in decision-making. Relying on only one signal to make a pricing decision can be dangerous, so producers must learn to conduct more than one form of technical analysis. For other aspects of technical analysis, see NebGuides *G91-1052, Market Trends*; *G91-1053, Buy-Sell Signals*; *G91-1054, Gaps in the Market*; *G91-1055, Moving Averages*; *G91-1056, Support and Resistance Lines*; *G91-1057, Volume and Open Interest*; *G91-1058, Relative Strength Indicators*; and *G91-1059, Point and Figure Charting*.

Bar Charts

This NebGuide focuses on the basics of the most commonly used chart, the bar chart, which depicts market trends on a continuing basis, daily and weekly. The basics presented here are the same for other types of charts -- moving averages, relative strength indices and point and figure charts -- that will be covered in other NebGuides.

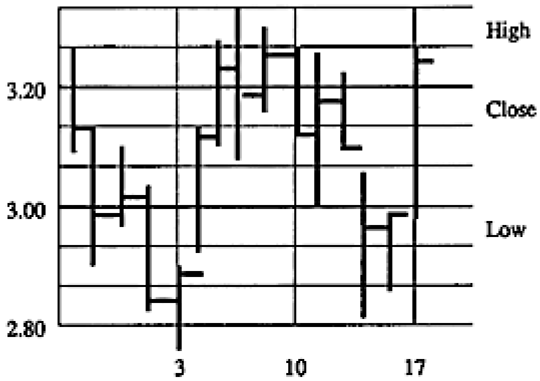
Producers need a basic understanding of the futures market and the commodities traded in the various commodity exchanges before charting begins. The prices used for charting agricultural products come from the Chicago Board of Trade (CBT), Chicago Mercantile Exchange (CME), Kansas City Board of Trade (KCBT), and the Minneapolis Grain Exchange (MGE).

You start with some basic materials and a source of prices. Basic materials include charting paper, colored pencils, a ruler or straight-edge, a protractor for measuring angles, and a compass for measuring distance. These can be purchased at any school or office supply outlet.

The source of prices gives the high, low and close of each day's market. This information can be obtained from daily newspapers, major radio and television stations with agricultural programming, and electronic/computerized data services.

The high, low and close for any given day are plotted on the daily bar chart, or the same information is entered on a weekly continuation chart.

The plot is shown in the following illustration (*Figure 1*). Each day is represented by a vertical line (high and low), and one horizontal line (close).



It is critical that bar charts be plotted accurately. The exact position of the high, low or close determines which charting rules to follow or **which indicators are developing.**

For example, when the tracking for a day has a higher high, lower low and closes lower than the previous day, it is clear an indicator has developed. It is a key reversal downward. This signals a move down in the market probably is underway. One wrong plot could mean missing this indicator, resulting in misguided market dealings.

Producers should keep both weekly and daily bar charts. If you keep only one chart, keep the weekly chart because it gives the signals for major moves in the market. This chart is not very time-consuming: simply take the high, low and close for the week -- found in most newspapers' Saturday editions -- and plot once a week.

Conclusions

Charting is a beginning in an effort to improve your skills in market analysis. It is not difficult, but is relatively time-consuming. It forces the user to be more aware of the markets. Materials required to do bar charts are not costly or sophisticated, but accuracy is a "must" for the chart to be a trusted, useful tool in developing pricing strategies.

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