



Daily & Weekly Charts

STO Close @ 7.07 on Apr 9th, 2021.

The Daily and Weekly Charts illustrate an uptrend that began for STO in November last year is now showing some signs of weakening bias. Long term Resistance around the 7.40 mark is evident on the Weekly Chart.

Toolbox

Support and Resistance

MACD – Moving Average Convergence Divergence





Support and Resistance

Support and Resistance levels are fundamental concepts to be applied in Chart Analysis. A basic approach to understanding them is as follows.

Support develops in areas where buyers step into the market and outnumber sellers thus providing a floor level in price.

Resistance develops in areas where sellers step into the market and outnumber buyers thus providing a ceiling level in price.

Support and Resistance levels typically develop over time and may reflect prices where participants have acted (and have memory of their actions) in the past. Value at these levels could be considered to be approaching 'fair' by the market for a period of time. The balance of probability increases that these levels will continue to act in this way until broken thus allowing buy and sell decisions to be made within this framework.

As price moves above and below such levels, it can often accelerate until it reaches the next respective level. What was Resistance can often then in turn become Support and vice versa when price breaks through these levels.

In fast moving markets it is important to note that these levels can become quite fluid.

Probability Framework

The often volatile price moves of STO between areas of Support and Resistance give a good example of these principles in action on the Chart above.

The Weekly Chart previously referenced highlights longer term Resistance around the 7.40 level currently in play and this may prove to be quite strong due to the rapid fall through this level at the start of the pandemic sell-off.

Price has developed some short term support just above the 7.00 level over the last month.

Some bearish pressure has developed over more recent days again and a possible down sloping Triangle Pattern is evidence of this. This Chart Pattern will be discussed in future tutorials but if the Support at 7.00 fails, there is a high probability the next level of Support around 6.70 will be tested quickly. Bearish Traders and Investors will be looking for this move to develop.

On the other hand, a strong reversal in fortunes and move above Resistance at 7.40 are the conditions bullish Traders and Investors will be looking for to signal resumption of the uptrend.



MACD – Moving Average Convergence Divergence

The Moving Average Convergence Divergence (MACD) indicator builds on from the concepts developed in Moving Average Crossover analysis.

The MACD is typically built with a 12-day EMA and 26-day EMA to form the Moving Average Crossover data points.

The MACD then plots the relationship between the two moving averages (or distance between them) as a solid blue line on the indicator in a separate window below. We have chosen to use a histogram for easier graphical representation.

When the histogram moves from negative to positive this coincides with a bullish crossover of the two moving averages on the price chart above. When the histogram moves from positive to negative this coincides with a bearish crossover of the two moving averages.

A 9-day EMA is then plotted in the MACD indicator window as a red Signal line. This is an average of the MACD value itself over that period. The Signal line gives an early indication of the change in movement of the MACD, and the crossover points may be used as signals by some Traders.

The MACD acts to negate the typical lagging response of Moving Average Crossover analysis. The MACD clearly illustrates the widening or narrowing gap between the averages in advance of a crossover occurring. The relationship of the MACD with the red Signal line then provides an early warning system that this movement is speeding up when compared to the recent time period.

Probability Framework

The STO Chart above has our MACD indicator in the lower window offering some bearish signals that any Traders and Investors holding long positions would be cautious of.

The blue MACD histogram dropped below the red Signal line on the 11th of March, as highlighted by the left pink vertical marker. This signals to Traders and Investors that the gap between the Moving Averages displayed on the Chart above is now beginning to narrow at a faster rate than that over the previous 9-day average period.

The second pink vertical marker on the 31st of March highlights the day the MACD histogram itself turned negative representing the bearish crossover of the Moving Averages in the Chart above.

In this instance the Signal line has given an early indication of this weakness. Price has since moved below the medium term uptrend line.



Combined Probability Framework

The uptrend that began for STO in November last year is now showing some signs of weakening bias.

Price has moved gradually below the medium term uptrend line (red) on the Chart above, as bearish pressure from Resistance around the 7.40 level has developed.

The short term group of Guppy MMAs have compressed and started to cross over the longer term group. Support has been maintained by the Investors represented by the longer term group to date, but the averages are showing signs of narrowing.

Price has developed some short term support just above the 7.00 level over the last month. Some bearish pressure has developed over more recent days again, and a possible down sloping Triangle Pattern is evidence of this. If the Support at 7.00 fails, there is a high probability the next level of Support around 6.70 will be tested quickly. Bearish Traders and Investors will be looking for this move to develop.

The MACD indicator has developed some bearish signals also that promote more caution as discussed in the relevant notes.

A strong reversal in fortune and price move above Resistance at 7.40 are the conditions bullish Traders and Investors will be looking for to signal resumption of the uptrend, but at present the Chart indicates this remains a lower probability outcome.

