

Solution

1. With contrarian technical indicators, you look for signs that a group or groups of investors are pushing stocks in one direction (buying or selling) with the intent of doing the opposite. Which of the following are contrarian indicators (and why)?
 - a. Investor sentiment (from a survey)
 - b. Institutional investment net buying (buying minus selling) of stocks
 - c. Number of initial public offerings
 - d. Number/Value of acquisition deals
 - e. All of the above**

Explanation: Each of the above measures how bullish/bearish each group feels about the market – (a) for individual investors, (b) for institutions, (c) for private business owners and (d) for publicly traded companies.

2. Some technical trading rules try to detect shifts in demand and supply. Which of the following can be viewed as a precursor to a shift down in demand (and thus of declining stock prices in the future)?
 - a. An increase in trading volume accompanying an increase in the stock price
 - b. An increase in trading volume accompanying a decrease in stock price
 - c. A stock price movement that breaches the resistance line
 - d. A stock price movement that breaches the support line**
 - e. An increase in the number of stocks that advance relative to stocks that decrease in price.

Explanation: When the stock price breaches the support line, it is viewed as a sign that the stock will keep going down further.

3. Assume that you believe that markets learn slowly and that you use relative strength in stock prices (stock price is high today, relative to the price in a prior period) and volume shifts as your technical indicators. Which of the following combinations would make you most bullish on a stock?
 - a. A stock has high relative strength and declining trading volume.
 - b. A stock has high relative strength and stable trading volume
 - c. A stock has high relative strength and increasing trading volume.**
 - d. A stock has low relative strength and declining trading volume.
 - e. A stock has low relative strength and stable trading volume.
 - f. A stock has low relative strength and increasing trading volume.

Explanation: Stocks that have gone up the most and with increasing trading volume seem to be more likely to keep going up further.

4. With technical trading rules that follow informed investors, you track the groups of investors that you believe either know more than you do or pick stocks better than you do and try to replicate what they do. Which of the following would be a bearish indicator?

- a. Specialist short selling on a stock decreases, relative to prior periods.
- b. Specialist short selling on a stock increases, relative to prior periods.**
- c. Insider buying increases on a stock
- d. Insiders exercise fewer options than in prior time periods

Explanation: When specialists increase short selling, it may be because they have advance information or at least an inkling of bad news coming out in the future. To the extent that you view specialists as experts who know more, this is a bearish sign.

5. If you are an intrinsic value investor, you cannot have any use for technical indicators in investing.
- a. True
 - b. False**

Explanation: You can be primarily an intrinsic value investor, picking which stocks to buy and sell based on intrinsic value, but you can use technical indicators to decide when you will buy or sell these stocks.