



Technical Analysis: 3 Concepts That Work—and 3 That Don't

A DTS Educational Event

by Paul Lange

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How to Use This PDF

- The original presentation slide appears on the left.
- Where explanation is helpful, the Key Takeaways appear in the red panel on the right.
- The takeaways summarize the actual teaching point - not just the topic shown on the slide.

Understanding the Economy

Original slide

2

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“Don't Work”

Understanding the Economy

Example 1:

Every financial show loves the Fed Meetings.
Also called FOMC Meetings. FOMC is short for-

Federal Open Market Committee.



It normally meets eight times per year, about once every six weeks. Additional unscheduled meetings can be held when necessary.

What do we learn from that?

Financial shows will have panels of experts and discuss the topic for hours. The premise is that you will gain an edge by knowing the odds of a rate increase, because that rate increase will hurt the stock market.

Key Takeaways

- Common belief: Fed rate hikes are bad for the stock market.
- The question is not what sounds logical. The question is what the market actually did.

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The Facts – Historical Study

How does the stock market react to rate hikes by the FED?

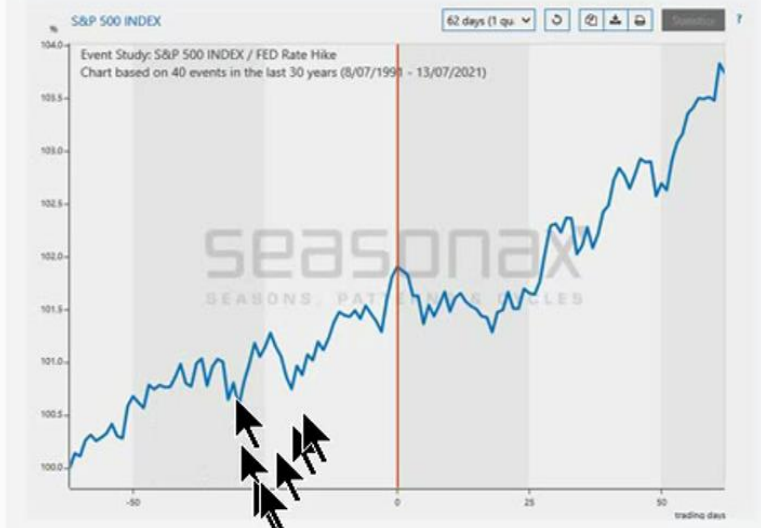
seasonax

The chart below shows the average performance of the S&P 500 Index over the 62 trading days before and after rate hikes by the Fed. The chart was calculated over the past 30 years, during which 40 rate hikes have been implemented. The horizontal scale shows the number of days before and after the Fed announced a rate hike, the vertical scale the average move of the index in percentage points. The vertical orange line marks the day of the rate hike.

Performance of the S&P 500 Index 62 days before and after a rate hike in the past 30 years

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Performance of the S&P 500 Index 62 days before and after a rate hike in the past 30 years



<https://www.seasonax.com/how-does-the-stock-market-react-to-rate-hikes-by-the-fed/>

Key Takeaways

- The historical study shows the S&P 500 rallied through Fed rate hikes.
- That is the opposite of what most people expect.
- The shocking result is not that the market was unpredictable - it is that the market did the opposite of the common belief.

Inflation - What Actually Happened?

Original slide

4

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Ahh – It is Inflation We Are Worried About



Key Takeaways

- Consumer prices increased 29.5% from June 2020 through June 2026.
- During that same high-inflation period, the market roughly tripled.
- Again, the actual market result was the opposite of what many people would expect from the economic headline.

Moving Average Mayhem

Original slide

5

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2

Moving Average Mayhem

One stock, six time frames. What are these moving averages telling you?

20ma 20ma



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Key Takeaways

- One stock is shown in six different time frames - and the moving averages tell six different stories.
- Moving averages are only guidelines to trends.
- They do not tell you whether a valid trade exists.

Moving Averages on a Support Play

Original slide

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Moving Average Mayhem

One stock, six time frames. What are these moving averages telling you?

~~40~~ma 20ma

For this trade, and for many others, the MAs are meaningless.

So obviously it does not matter if they are simple, weighted, or exponential.

Nor does the number matter.

And “crossing” is just silly.

I use them as a guide to the trend, and they are NEVER part of an “entry”.



Entry

Time	Stock	L / S	Entries	Stops	Exits	% exit	Time	R units	@Risk \$500.00	Trade Total
10.00	TAL	L	11.72	11.54	12.02	50%	12.35	1.7	\$416.67	
		L	11.72	11.54	11.98	50%	14.55	1.4	\$361.11	\$777.78

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Key Takeaways

- On any kind of support play, the moving averages will never look sensible.
- If moving averages were treated as a rule, this valid trade would appear impossible.
- The specific moving-average number does not matter.

Foresight - Many Small Concepts Add Up

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7

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2

Moving Average Mayhem

One stock, six time frames. What are these moving averages telling you?

~~40~~ma 20ma



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Key Takeaways

- Many small concepts add up to make a trade.
- A quarterback may receive a play from the bench, but that is not automatically the play he runs.
- After reading the defense, he may change the play completely. A trader must react to the setup actually in front of them.

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3

Look to the Left for Support

You likely and naturally would think of using support to go long.

I like to see the failure of what others may call support as a reason to enter short, as happened yesterday.

Was PLD “holding support” or eating up buyers?



Key Takeaways

- From this narrow view, the repeated lows look like obvious support.
- But support only means buyers are matching sellers at that moment.
- The larger picture may show that buyers are only temporarily holding the area.

What Happened to That “Support”?

Original slide

9

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3

Look to the Left for Support



And while support implies that “some buyers” are there, it says nothing about the fact that there may be five times more sellers there.



Key Takeaways

- Once sellers outnumbered buyers, the apparent support gave way.
- This was not after-the-fact analysis - the break of that support was actually traded.
- “Look to the left” is not enough to identify valid support.

Interaction of the Appropriate Time Frames

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1

Interaction of the Appropriate Time Frames

These are the same charts from the moving average slide...

How many small concepts add up to make this a trade?



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Key Takeaways

- These are the same charts shown in the moving-average section.
- The trade came from the interaction of the appropriate time frames - not from a moving-average signal.
- Again, many small concepts add up to make the trade.

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2

Understanding “Expectancy”

Rather than the simple concept of reward-to-risk

You see a lot of talk about needing a 3:1 reward-to-risk ratio—or whatever—or you cannot take the trade. This is nonsense.

Reward-to-risk before you take the trade means comparing your potential target with your potential stop.



Your target...



Divided by..
Your stop...

Your stop is generally more exact. It is based on price action already visible on the chart.

Your target is a WILD guess even to the best traders!

Key Takeaways

- A reward-to-risk number by itself does not tell you whether a trade is good.
- The probability of reaching the target and the probability of hitting the stop both matter.

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2

Understanding “Expectancy”

Rather than the simple concept of reward-to-risk

Would you take a 1:1 trade if you “knew” it had a 75% chance of getting there?

Would you take a 3:1 trade if it only had a 20% chance of getting there?



Your target...



Divided by..
Your stop...

Break-Even Trade Scenarios

R-R	BA
1:1	50%
2:1	33.3%
3:1	25%
4:1	20%

Most traders that “demand” a 3-1 end up with less than 1 Sharpe, so what is the point?

Key Takeaways

- A 1:1 trade can be excellent if the probability is high enough.
- A 3:1 trade can be poor if the probability is too low.
- Expectancy combines the size of wins and losses with how often each occurs.

Ignore the “Mickey-Mouse” Sayings and Rules

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3

Understanding How Charts Really Work

Ignore the “Mickey-Mouse” sayings and rules

Topping tails are bearish and bottoming tails are bullish.

Dojis are reversal or indecision bars

You can't go long when the market is red on the day (or reverse)



Key Takeaways

- Topping tails are not necessarily bearish, and bottoming tails are not necessarily bullish.
- Dojis are not necessarily reversal or indecision bars.
- A red market does not automatically mean you cannot take a long trade.

A Red Daily Bar Can Be Misleading

Original slide

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3

Understanding How Charts Really Work

Ignore the "Mickey-Mouse" sayings and rules

A red bar on today's daily chart...



Bullish or bearish?

Just means...



Day Breaks...

Market Opens



PERFECT

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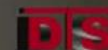


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Key Takeaways

- Mid-morning, today's daily bar can be red while the stock is still in a powerful overall uptrend.
- The appearance of the bar depends on where you start and stop measuring the pullbacks.
- One bar's color does not define the larger move.

Bonus Slide



Sally sends you her trading summary for the day...

Trade 1	+200
Trade 2	+150
Trade 3	+50
Trade 4	+50
Trade 5	-500
Total	-50



Any advice??

Key Takeaways

- You cannot properly analyze a trading record from the totals alone.
- You need to see the actual trades and how each one developed.

Would a \$100 Loss Limit Help Sally?

Original slide

Bonus Slide



Limit losses to \$100?

Any advice??

Trade 1	+200
Trade 2	+150
Trade 3	+50
Trade 4	+50
Trade 5	-500
Total	-50

\$100 limit

Trade 1	-100
Trade 2	-100
Trade 3	-100
Trade 4	-100
Trade 5	-100
Total	-500

Key Takeaways

- Limiting every loss to \$100 may sound disciplined.
- But in this example, that rule could have turned a \$50 losing day into a \$500 losing day.
- A trading rule cannot be evaluated without seeing the trades.

These Six Concepts Are Only a Small Sample

- There are many things that simply do not work in trading - yet traders keep going back to them.
- There are also many key concepts a trader must understand in order to trade well.
- These were only a few of the key concepts, selected from comments and questions that Paul regularly receives.
- The list on both sides is much longer.