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Breaking Down the Barriers

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For many investors, technical analysis remains a foreboding practice with a mixed track record and baffling methodology.

London-based technical analysts, once known as chartists, say there is still widespread prejudice against their ideas in Europe, while U.S. markets have long embraced their methods.

"In this country, chartists sold themselves as magic gurus. In effect they packaged themselves on the lunatic fringe," said Robin Griffiths, Head of Technical Analysis at James Capel and a former Chairman of the Society of Technical Analysts in London.

"Now they are trying to break into the old bastions," Griffiths said.

"There is a bias towards economists in London and a stubborn prejudice against technical analysts," said Stuart Frost, a Treasury Analyst at Natwest Markets here. "The big problem is that the infrastructure isn't in place here to educate traders, particularly when compared with the U.S."

Analysts say this is especially true of Gann and Elliott Wave Analysis which requires a high degree of technical training.

"Other areas of technical analysis have caught on but Gann and Elliott Wave just hasn't transferred well from the U.S.," said Elli Gifford, Director of Investment Research of Cambridge, whose firm offers one of a limited number of technical analysis courses in and around London:

"Candlesticks are currently popular precisely because you don't have to be a trained technical analyst to read the charts," she added.

Candlesticks are the oldest charting method, developed in the Japanese Rice Market more than 250 years ago but popularised in the west only in the late 1980s.

More graphic than the bars used in western-style charting, candles show the area between opening and closing levels as a "body", which is left clear if prices rise and shaded if prices fall. Patterns are used to spot short-term reversal signals.

The theory developed by the Texan W. D. Gann at the turn of the century uses cycles and focuses on time as well as price action.

While Gann believed strongly in money management

rules and the use of stop losses, he also stepped into a more mystical realm, using astrology and moon phases in his chart patterns.

"A lot of people don't understand Gann and therefore think it's of no use," said Juliette Clarke, a Strategic Dealer at Baring Brothers in London. "They think your charts are based on a full moon...it's really a matter of educating people."

Analysts using Gann techniques say the method attracted a following in last year's bull market because it helped investors to chart price objectives where no previous trading history existed.

But they say the return of the bear market has frightened away most of last year's enthusiasts and Gann analysts find themselves in a shrinking minority.

"Short of flying them over from the U.S., Gann and Elliott Wave Analysts are very difficult to find," commented Gifford of Investment Research.

Elliott Wave Analysis, which gained some popularity in the 1980s, now faces a similarly recalcitrant audience here.

Ralph Elliott, who developed the wave principle in 1938, discovered a basic pattern throughout the stock market of a five wave advance followed by a three wave decline. Tracking the pattern in various markets has proved extraordinarily complex, and in some cases, extraordinarily successful.

"Gann and Elliott Wave are fascinating when they calculate reversal but too many people have been disillusioned with the results," Gifford added.

Anne Whitby, current Chairman of the Society and Managing Director of Chart Analysis, argues that the equity market is most resistant to technical analysis while markets such as foreign exchange and bond futures have proved more receptive.

"The level of acceptance in the currency, commodities and bond markets is relatively high here," she said. "It's in equities that traders are more set in their ways and are more reluctant to take technical analysis seriously."

She argues that it is not a dearth of educational opportunities that have thwarted potential Gann and Elliott Wave practitioners, but rather a disenchanting clientele.

"There is an element of fashion in all of this. Styles come and go even in charting," she said.