The Astrology of Finance: The Re-Birth of Technical Analysis

Chris D'Souza

Abstract

That technical analysis is back in vogue indicates a certain uneasiness.

Financial astrology (also known as business astrology, economic astrology, and/or astro-economics) is a practice of relating the movements of celestial bodies to events in financial markets. The use of astrology in any context is not empirically based in the conventional sense and its use in predicting financial markets is at odds with standard economic and financial theory.

Similarly, What technical analysis tells you about market circumstances may be its true value. When the economy is strong, profits are great, and stocks are rising steadily, no one pays attention to the attractive charts that chartists produce. The same is true during a furious bear market when prices will plummet through any and all levels that technical experts are prone to depict. Investors who are unhappy about the path of the markets will grab for the simple reassurance of an eye-catching graphic, much like people who are restless about the direction of their life are more likely to get interested in astrology.

What Is Financial Astrology?

Financial astrology (also known as business astrology, economic astrology, and/or astro-economics) is a practice of relating the movements of celestial bodies to events in financial markets. The use of astrology in any context is not empirically based in the conventional sense and its use in predicting financial markets is at odds with standard economic and financial theory.

For those who believe, however, astrology has played an important role in predicting key events throughout history. Almost every race and culture has looked to the skies, from the Egyptians in the first century to American bankers in the 20th. In today's culture, however, astrology is associated more with the horoscope section found in women's interest magazines.

The believers say the study of the skies goes far beyond that; it is a complex and deep topic with many disciplines and variations. To understand financial astrology, professional astrologers have to develop an in-depth knowledge of:

- The zodiac houses and how each one represents a set of traits and qualities
- How the planets are represented in different cultures and the influence they have
- Retrograde cycles
- How it all applies to people, businesses and markets

That information is then combined and analyzed by them to determine:

- The best dates to make an investment
- What markets are worth exploring and when
- Which dates and markets should be avoided
- When to launch a new product or store.

Unfortunately, as with astrology in general, predictions are vague and hard dates are rarely given. Critics have pointed out that some astrological events that have been used in predictions occur so rarely that they may have never happened before within a human lifetime, thus having no precedent on which to predict results.

However, another form of Financial Astrology, i.e. not looking at the movement of planets, but instead the movement of stock prices, or Technical Analysis is now back in vogue amongst some investors.

Why did markets fluctuate?

The majority of analysts, investors, and even financial journalists will look for news first. Maybe the employment statistics that were released, a company disclosing it was being purchased, or a central banker delivering a dismal speech. But there is a small, devoted sect of "chartists" or "technical analysts" who think they can predict how stocks, bonds, and currencies will move by creating and analysing charts.

They employ numerous, different, and oddly termed techniques. A *'death cross'* occurs when the price of an asset's short-term moving average drops below its long-term moving average.
The concept behind *'Fibonacci retracement levels'* is that an asset with rising value will eventually decrease before rising once more. Such reversals are meant to come to an end at Fibonacci number levels, such as a 61.8% decline.

The '*ichimoku cloud',"* which Japanese traders adore, is created by darkening the region between two averages of high and low prices during the course of the previous week, month, or two months. Price above the cloud is good; price below the cloud is bad. In the words of Princeton economist *Burton Malkiel*, author of *"A Random Walk Down Wall Street"*, reveals that a true chartist simply need this knowledge and, does not even care to know what business or industry a company is in, as long as he or she can study its chart.

Because of how the S&P 500, the most important indicator of American stocks, has fluctuated recently, these tactics, while being somewhat bizarre, have gained attention. On June 17th, the index hit a low of 3,637 before starting to rise. It reached its intraday high on August 16 at roughly 4,325, just a few points below its 200-day moving average of 4,326—a reportedly crucial technical mark. At such levels, "resistance" is intended to be encountered by an asset whose value has decreased yet its price is increasing. When an asset fails to "break through" a resistance barrier, chartists are concerned because it suggests a rally in a bear market rather than a bull market. And this time, it certainly seems to have been the case: since August 16th, stock prices have fallen by about 8%.

Many common investors utilise trend-following in one form or another. Successful quantitative funds like AQR Capital Management use factor investing, for which *Eugene Fama and Kenneth French* were awarded the Nobel Prize. It dissects returns into its constituent parts, such as "size" (small companies earn greater returns than bigger organisations) or "quality" (low-debt, stable enterprises get better returns than riskier ones). *Momentum* is another such aspect; rising equities have a propensity to continue increasing. But compared to simply gazing at a price chart, their strategy is a little more advanced. The algorithms used by AQR frequently mix elements like momentum with others. They might invest in, let us say, a high-quality, tiny business whose stock price has lately increased.

Despite this, it is understandable why chartists are so preoccupied with levels and patterns. Even if there is no discernible difference between a euro's value at $1.000 and $0.9999, these "big figures" on the foreign exchange market take on significance. This is both symbolic and real in that customers frequently place orders close to round values and derivatives are frequently offered at round "strike prices." Because of this, it will require far more action for the euro to decline from $1.00 to $0.9999 than from $1.0487 to $1.0485. Investors look to see where other investors are placing their orders before placing their own. In order to close a transaction that moves against them at a reasonable level, they can use that to help them place a stop-loss order. Technical levels start to matter when enough investors use them to guide their conduct.

Summary

What technical analysis tells you about market circumstances may be its true value. When the economy is strong, profits are great, and stocks are rising steadily, no one pays attention to the attractive charts that chartists produce. The same is true during a furious bear market when prices will plummet through any and all levels that technical experts are prone to depict. Investors who are unhappy about the path of the markets will grab for the simple reassurance of an eye-catching graphic, much like people who are restless about the direction of their life are more likely to get interested in astrology.

Some people may not understand what is really going on if they attribute the end of the summer rally to a technological tripwire. Perhaps professional astrologers can create their own technical signal, combining planets and stock process, as it becomes increasingly obvious that nobody knows why the markets are moving the more frequently every time a chartist analysis arrives in the mailbox.