FOREX LEARNING
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INTRODUCTION TO TREND AND ANALYSIS

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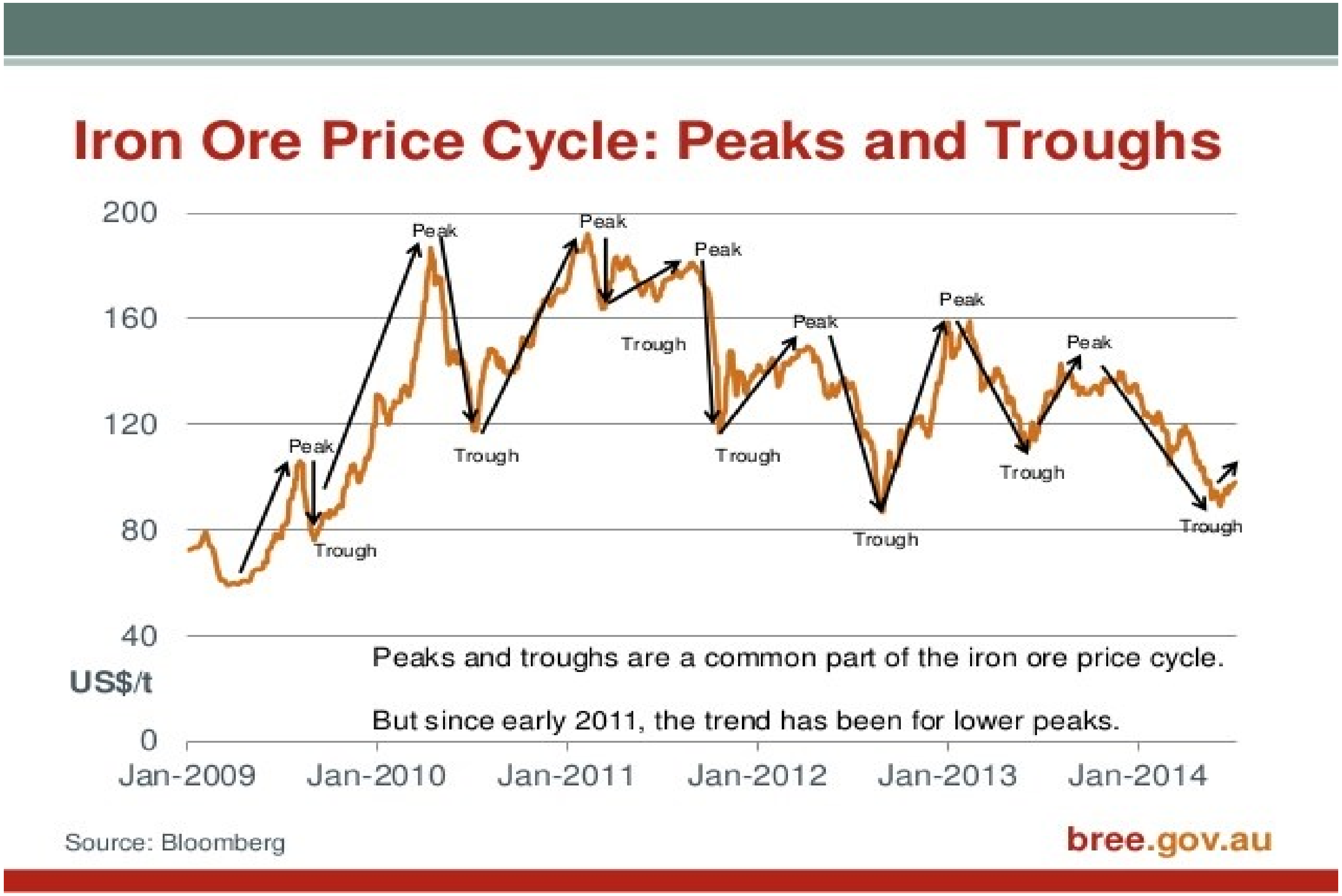
TRENDS AND ANALYSIS

TREND DEFINITION: A pattern of gradual change in a condition, output, or process, or an average or general tendency of a series of data points to move in a certain direction over time, represented by a line or curve on a graph.

An uptrend always has higher highs and higher lows, if there are non of the above then there is no uptrend. A higher high is also know as a peak and a higher low as a trough

A downtrend always has lower lows and lower highs, if there are non of the above then there is no uptrend. A lower high is known as a peak and lower low as a trough

PEAKS & TROUGHS



UPTREND


13615292: XM.COM-Real 9 - [GOLDmicro,H1]
File View Insert Charts Tools Window Help
New Order
AutoTrading
M1 M5 M15 M30 H1 H4 D1 W1 MN
Market Watch: 15:15:17
Symbol Bid Ask
GOLDmicro,H1 1247.79 1249.22 1247.33 1248.93
HIGHER HIGH
HIGHER LOW
HIGHER HIGH
HIGHER LOW
HIGHER HIGH
HIGHER LOW
HIGHER HIGH
HIGHER LOW
HIGHER HIGH
HIGHER LOW
HIGHER HIGH
HIGHER LOW
Symbols Tick Chart
For Help, press F1
Default

DOWNTREND


13615292: XM.COM-Real 9 - [GOLDmicro,H1]
File View Insert Charts Tools Window Help
New Order
AutoTrading
Market Watch: 14:54:45
GOLDmicro,H1 1245.24 1247.71 1244.47 1247.64
LOWER HIGHER
LOWER LOW
LOWER HIGH
LOWER LOW
LOWER HIGH
LOWER LOW
LOWER HIGH
LOWER LOW
LOWER HIGH
LOWER LOW
LOWER LOW

TAKING ADVANTAGE OF TRENDS

- "Buy low, sell high" is famous investing adage about taking advantage of the market's propensity to overshoot on the downside and upside. Although it is very simple, it is difficult to execute. It is easy to say whether a certain price is low or high in retrospect, but in the moment, it is monumentally difficult. Prices affect the psychology and emotions of market participants. For this reason, "buy low, sell high" can be challenging to implement consistently.
- By selling highest you get the advantage of selling with a profit even when you have bought also high. By buying real low, you get the profit of not having to sell at a certain margin. You can wait till profit goes really high.
- There are famous examples of the market being driven to extremes, whether it is high prices during market bubbles or low prices during market panics. These proved to be excellent opportunities to buy low and sell high. However, there have been countless times when the market keeps trending in one direction, punishing those looking to buy low or sell high. What look like high prices one day may look like low prices another day.
- Traders and investors must have a certain objective method to determine if prices are high or low. Humans are conditioned to follow the crowd. There is inherent difficulty in consistently buying low and selling high. When prices are low, sentiment tends to be overwhelmingly negative towards a stock. Many bullish holders are forced to dump their shares. Similarly, when price is high, it is difficult to conceive of letting go of a winner.
- "Buy low, sell high" is misleading in some ways, as lows and highs only become clear in retrospect. There is always a bull who considers a stock price to be low and a bear who considers it high. Often, both sides make compelling arguments. The challenge for investors and traders is to determine which stocks are being driven to extremes by fundamentals and which are being driven by emotions. Mean-reversion strategies are more likely to work when price moves are driven by emotions.

TAKING ADVANTAGE OF DOWNTRENDS

ALWAYS SELL ON LOWER HIGHS

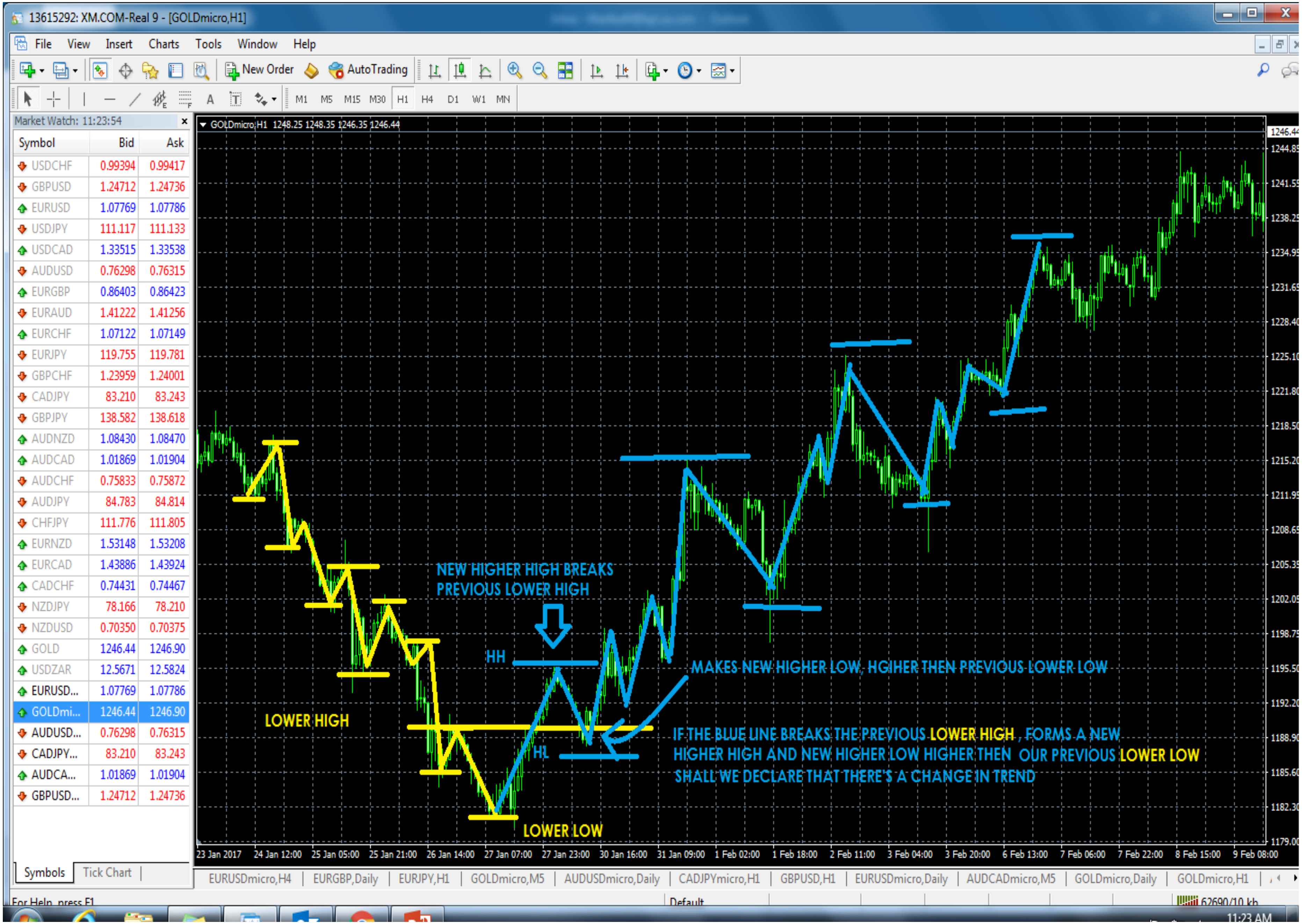
TAKING ADVANTAGE OF AN UPTREND
ALWAYS BUY ON HIGHER LOWS

Determining change in trends without indicators

1. **The Highs and Lows Tell the (Whole) Story**

- we’re only interested in using the swing highs and lows to identify a possible change in trend. In the chart below, the first higher high was the first sign that the downtrend was beginning to fatigue. But it wasn’t until the first higher low that we had a telling indication that the current trend had reversed. Keep in mind that trend changes won’t always be this obvious. But the signs are always there; you may just have to look a bit harder to find them in some instances. For that, we need the highs and lows to interact with a key level in a way that offers a favourable setup. In other words, we need to turn the price action you see in the chart above into actionable information. The trend shall only validate when price makes a higher low, our first higher high is just an indication but not a validation.

CHANGE IN TREND USING HIGHERS AND LOWS



HIGHS & LOWS EXAMPLE

Determining change in trends without indicators

2. Distance Between Subsequent Retests: A Killer Way to Determine Trend Strength

Now that we have discussed how to use swing highs and lows to gauge the strength of a trend, let's add a key level into the mix. There is a common (and costly) misconception among traders in all markets where technical analysis is a traditional method of trading. Someone at some point in time came up with the notion that support and resistance levels become stronger with each additional retest. I hate to be the bearer of bad news, but that's a complete and utter fallacy.

Multiple retests of the same level make that level more visible, they do not make it stronger.

And visible and strong are by no means synonymous. Think about it, if this were true – that a level became stronger with each additional retest – it would theoretically never break. Because if it didn't break on the third retest, why would it break on the sixth when it's supposedly twice as strong?

It doesn't add up. So if we can agree that multiple retests of a given level do not make it stronger, we can naturally conclude that it makes the level weaker, right? Well, not quite. While a market that continually revisits the same area *can* eventually break through, we don't have enough data to conclude that it is *likely*. For that, we turn to (you guessed it), highs and lows. More specifically, the relationship the highs and lows have with our key level. The illustration below shows a trending market that is respecting a trend line, however, the distance between each retest has become shorter over time. Why does this happen?

In short, it's the market telling you that demand is drying up. When it comes to supply and demand, as prices move higher, demand naturally begins to run thin as traders a less willing to buy at higher prices.

At the same time, supply increases as market participants unwind their positions to book profits.

In the case of the illustrations below, that demand is drying up more quickly with each subsequent rally from trend line support. Thus, we get a market that begins spending more time trying to keep its head above water than making higher highs.

Of course, this concept also applies to a bearish trend where demand increases and supply decreases as prices drop.

CHANGE IN TREND USING TREND LINE SUPPORT

TREND LINE SUPPORT EXAMPLE

Determining change in trends without indicators

3. Channel breakouts or Clustering Price Action: An Early Warning Sign

- Last but not least is when price action clusters near a key level I call this a channel breakout. In some ways, this is a combination of the two techniques we just discussed. It is when a market begins to put constant pressure on a key level over a short period. At any rate, the idea here is to watch how the market responds to support or resistance within a given period. The setup works best in strongly trending markets and occurs where price has consolidated within a clearly defined range sandwiched between both a support and resistance level. Finally price builds up enough energy to breakout of the channel, most often continuing in the direction from which it entered the channel to continue the dominant trend.

CHANGE IN TREND USING CHANNELS

CHANNEL EXAMPLE

CONCLUSION

Determining the strength of a trend doesn't need to be a complex operation. Something as simple as the three techniques discussed above are all you need to gauge whether a trend is likely to continue or break down. Keep in mind that all three techniques above are as useful in bearish markets as they are in bullish markets. The charts and patterns above were only used to maintain a consistent theme throughout the lesson, but the techniques discussed above can be utilized in any market and on any time frame. The best thing any trader can do for themselves whether they are attempting to decipher trend strength or identify key levels is to get back to basics. Every market has its story to tell, and every story can be translated using swing highs and lows. As I often say, your job as a trader is not to know what will happen next. Rather, your job is to gather the clues the market leaves behind and assemble them in a way that stacks the odds in your favor; and every possible clue is born from the natural ebb and flow of the market.

WEBSITE

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