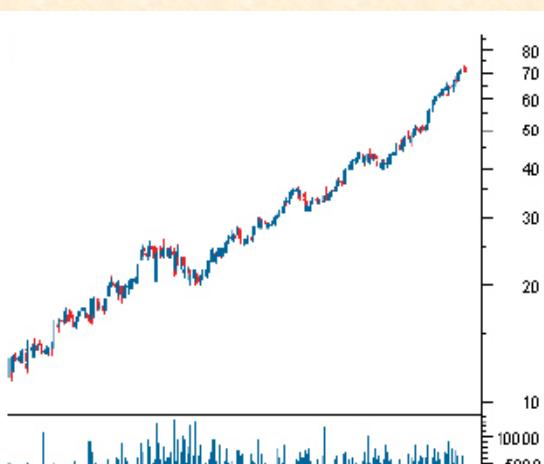


Big Investment Consultants

Basic Concepts

BASIC CONCEPTS

Trend Line Analysis



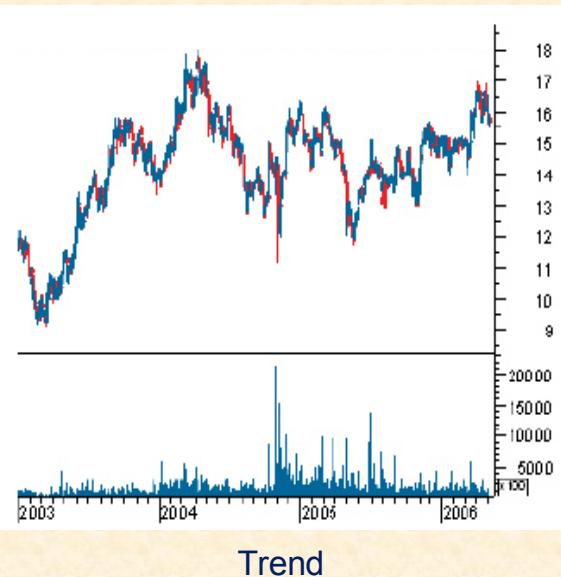
Trend

- One of the most important concepts in technical analysis is that of trend.
- The meaning in finance isn't all that different from the general definition of the term - a trend is really nothing more than the **general direction in which a security or market is headed**. Take a look at the chart.
- It isn't hard to see that the trend in Figure is up. However, it's not always this easy to see a trend.

2

BASIC CONCEPTS

Trend Line Analysis

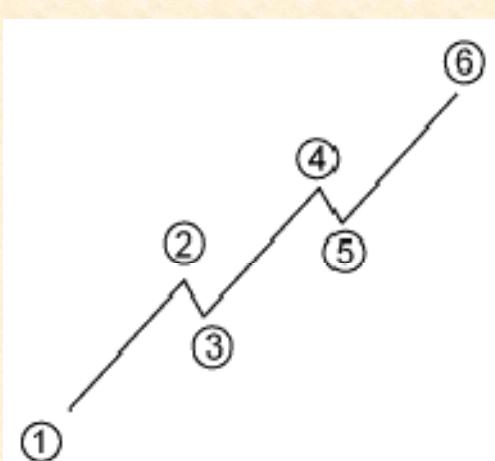


Trend

3

BASIC CONCEPTS

Definition



Uptrend

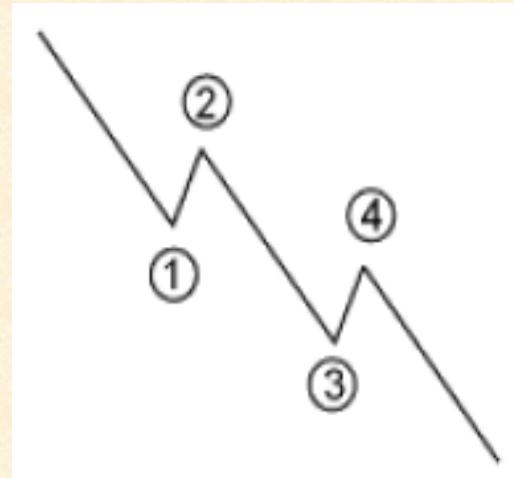
Trend Line Analysis

- Unfortunately, trends are not always easy to see. In any given chart, you will probably notice that prices do not tend to move in a straight line in any direction, but rather in a series of highs and lows.
- In technical analysis, **it is the movement of the highs and lows** that constitutes a trend.
- **For example, an uptrend** is classified as a series of higher highs and higher lows, while a downtrend is one of lower lows and lower highs.

4

BASIC CONCEPTS

Trend Line Analysis



Down Trend

- ◆ A downward trend is a series of successively lower peaks and lower troughs.

5

BASIC CONCEPTS

Types of Trend

Trend Line Analysis

1. Uptrends
 2. Downtrends
 3. Sideways/Range bound-Flat / Horizontal Trends
- ◆ As the names imply, when each successive peak and trough is higher, it's referred to as an upward trend.
 - ◆ If the peaks and troughs are getting lower, it's a downtrend.
 - ◆ When there is little movement up or down in the peaks and troughs, it's a sideways or horizontal trend. If you want to get really technical, you might even say that a sideways trend is actually not a trend on its own, but a lack of a well-defined trend in either direction.

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BASIC CONCEPTS

Classification-Direction of Trend

Trend Line Analysis

A Trend of any direction can be classified as a

- ✿ Long-Term / Major / Primary Trend
- ✿ Medium-Term / Intermediate Trend
- ✿ Short-Term Trend.

In terms of the stock market, a major trend is generally categorized as one **lasting longer than a year**. A long-term trend is composed of several intermediate trends, which often **move against the direction of the major trend**.

7

BASIC CONCEPTS

Classification of Trend

Trend Line Analysis



✿ An intermediate trend is considered to last between one and three months and a near-term trend is anything less than a month. If the major trend is upward and there is a downward correction in price movement followed by a continuation of the uptrend, the **correction** is considered to be an intermediate trend.

✿ The short-term trends are **components of both major and intermediate trends**. Take a look a Figure to get a sense of how these three trend lengths might look.

8

BASIC CONCEPTS

Trendlines



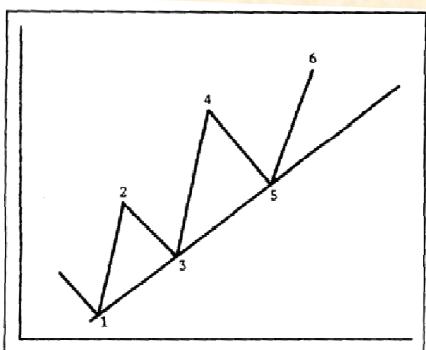
Trend Line Analysis

- A trendline is a simple charting technique that adds a line to a chart to represent the trend in the market or a stock.
- Drawing a trendline is as simple as drawing a straight line that follows a general trend.
- These lines are used to clearly show the trend and are also used in the identification of trend reversals. As you can see in Figure, an upward trendline is drawn at the lows of an upward trend.

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BASIC CONCEPTS

Trendlines



Trend Line Analysis

- This line represents the support the stock has every time it moves from a high to a low.
- Notice how the price is propped up by this support.
- This type of trendline helps traders to anticipate the point at which a stock's price will begin moving upwards again.

- Similarly, a downward trendline is drawn at the highs of the downward trend.
- This line represents the resistance level that a stock faces every time the price moves from a low to a high.

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BASIC CONCEPTS

How Trendlines Are Drawn



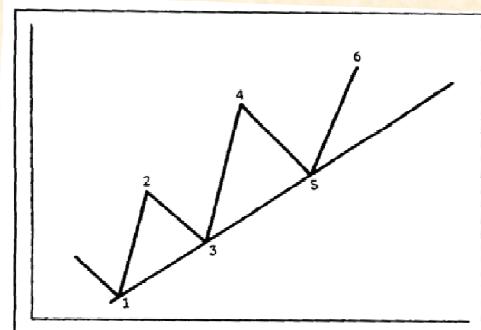
Trend Line Analysis

- A straight line is mathematically determined by any two points along it.
- In order to draw a trendline, therefore, we require two determining points—two established top reversal points to fix a down trendline and two established Bottom reversal points to fix an up Trendline.

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BASIC CONCEPTS

How Trendlines Are Drawn



Up Trend

Trend Line Analysis

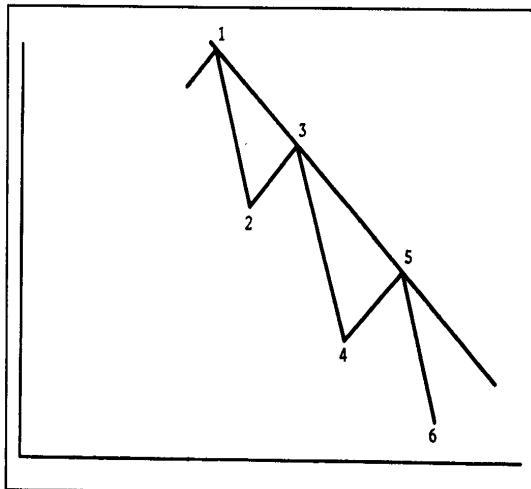
- As you can see in Figure, an upward trendline is drawn at the lows of an upward trend. The up trendline is drawn under the rising reaction lows.
- A tentative trendline is first drawn under two successively higher lows (points 1 and 3), but needs a third test to confirm the validity of the trendline (point 5).

- This line represents the support the stock has every time it moves from a high to a low. Notice how the price is propped up by this support. This type of trendline helps traders to anticipate the point at which a stock's price will begin moving upwards again.

12

BASIC CONCEPTS

How Trendlines Are Drawn



Down Trend

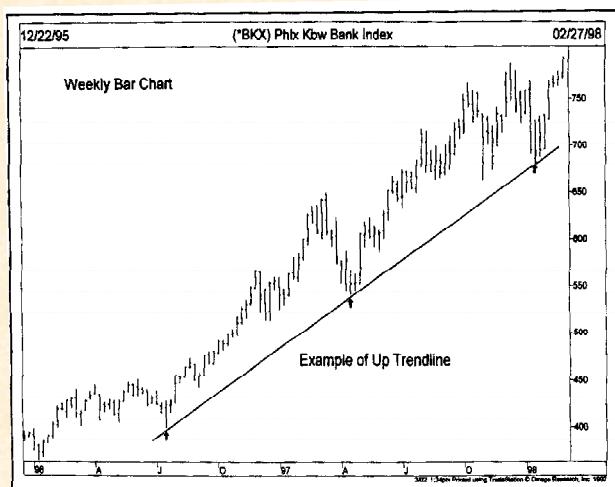
Trend Line Analysis

- A downward trendline is drawn at the highs of the downward trend.
- A down trendline is drawn over the successively lower rally highs.
- The tentative down trendline needs two points (1 and 3) to be drawn and a third test (5) to confirm its validity.
- This line represents the resistance level that a stock faces every time the price moves from a low to a high.

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BASIC CONCEPTS

How Trendlines Are Drawn



Up Trend

Trend Line Analysis

- Long term up trendline at work.
- The up trendline was drawn upward and to the right along the first two reaction lows (see arrows).
- The third low at the start of 1998 bounced right off the rising trendline, thereby keeping the uptrend intact.

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BASIC CONCEPTS

Guidelines for correct line:

Trend Line Analysis

1. There must be evidence of a trend. This means that, for an up trendline to be drawn, there must be at least two reaction lows with the second low higher than the first.
- ✿ Of course, it always takes two points to draw any straight line. In Uptrend Figure, for example, only after prices have begun to move higher from point 3 is the chartist reasonably confident that a reaction low has been formed, and only then can a tentative up trendline be drawn under points 1 and 3.

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BASIC CONCEPTS

Guidelines for correct line:

Trend Line Analysis

2. Some chartists require that the peak at point 2 be penetrated to confirm the uptrend before drawing the trendline.
- ✿ Other only require a 50% retracement of wave 2-3, or that prices approach the top of wave 2.
- ✿ While the criteria may differ, the main point to remember is that the chartist wants to be reasonably sure that a reaction low has been formed before identifying a valid reaction low.
- ✿ Once two ascending lows have been identified, a straight line is drawn connecting the lows and projected up and to the right.

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BASIC CONCEPTS

Tentative versus the Valid Trendline

Trend Line Analysis

- ✿ So far, all we have is a tentative trendline. In order to confirm the validity of a trendline, however, that line should be touched a third time with prices bouncing off of it.
- ✿ Therefore, in Uptrend figure, the successful test of the up trendline at point 5 confirmed the validity of that line.
- ✿ Downtrend Figure shows a downtrend, but the rules are same. The successful test of the trendline occurs at point 5.
- ✿ To summarize, two points are needed to draw the trendline, and a third point to make it a valid trendline.

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BASIC CONCEPTS

How to Use the Trendline

Trend Line Analysis

- ✿ Once the third point has been confirmed and the trend proceeds in its original direction, that trendline becomes very useful in a variety of ways.
- ✿ One of the basic concepts of trend is that a trend in motion will tend to remain in motion. As a corollary to that, once a trend assumes a certain slope or rate of speed, as identified by the trendline, it will usually maintain the same slope.
- ✿ The trendline then helps not only to determine the extremities of the corrective phases, but may be even more importantly, tells us when that trend is changing.

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BASIC CONCEPTS

How to Use the Trendline

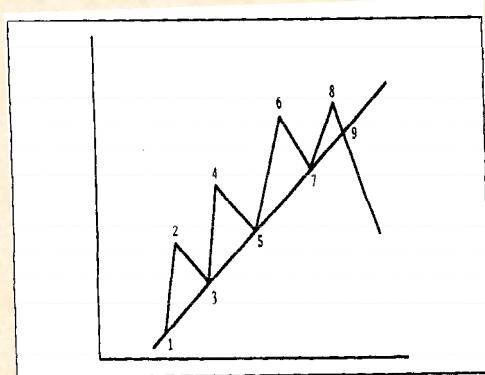
Trend Line Analysis

- ✿ In an uptrend, for example, the inevitable corrective dip will often touch or come very close to the up trendline.
- ✿ Because the intent of the trader is to buy dips in an uptrend, that trendline provides a support boundary under the market that can be used as a buying area.
- ✿ A down trendline can be used as a resistance area for selling purposes. (see figure Uptrend and Downtrend)

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BASIC CONCEPTS

How to Use the Trendline



Violation of Up Trend

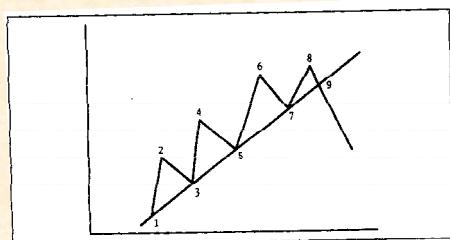
Trend Line Analysis

- ✿ As long as the trendline is not violated, it can be used to determine buying and selling areas.
- ✿ However, at point 9 in figure the violation of the trendline signals a trend change, calling for liquidation of all positions in the direction of the previous trend.
- ✿ Very often, the breaking of the trendline is one of the best early warning of a change in trend.

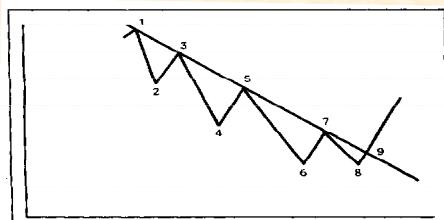
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BASIC CONCEPTS

How to Use the Trendline



Violation of Up Trend



Violation of Down Trend

Trend Line Analysis

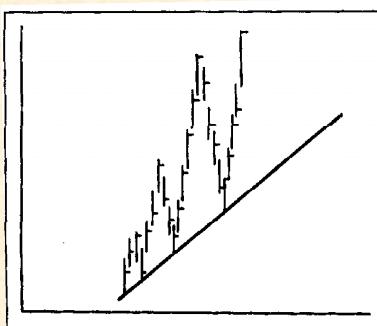
- ➊ Once the up trendline has been established, subsequent dips near the line can be used as buying areas, Points 5 and 7 in this example could have been used for new or additional longs. The breaking of the trendline at point 9 called for liquidation of all longs by signaling a downside trend reversal.
- ➋ Points 5 and 7 could have been used as selling areas. The breaking of the trendline at point 9 signaled an upside trend reversal.

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BASIC CONCEPTS

Validating a Trend Line

Trendline Should Include All Price Action



Trend Line Analysis

- ➊ Trendlines on bar charts should be drawn over or under the entire day's price range. Some chartists prefer to draw the trendline by connecting only the closing prices, but that is not the more standard procedure.
- ➋ The closing price may very well be the most important price of the day, but it still represents only a small sample of that day's activity. The technique of including the day's price range takes into account all of the activity and is the more common usage.

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BASIC CONCEPTS

Validating a Trend Line- Tests of Authority

Trend Line Analysis

A. The number of times it has been "tested" or contacted without breaking:

- ✿ The greater the number of bottoms that have developed at (or very near) a trendline in the course of a series of Minor up waves, the greater the importance of that line in the technical sense.
- ✿ With each successive "test," the significance of the line is increased.
- ✿ A first and tentative up trendline can be drawn as soon as two bottoms have formed, the second higher than the first, but if prices move back to that line a third time, make a third bottom there and start a renewed advance, then the validity of that line as a true definition of the trend has been confirmed by the action of the market.

BASIC CONCEPTS

Validating a Trend Line- Tests of Authority

Trend Line Analysis

B. The Length of the line :

- ✿ The longer it has held without being penetrated downside by prices, the greater its technical significance.
- ✿ This principle, however, requires some qualification. If your trendline is drawn from two original bottoms which are very close together in time—say, less than a week apart—it is subject to error; it may be too steep or (more often) too flat.
- ✿ If the latter, prices may move away from it and stay high above it for a long time; they may then turn down and have declined well along in an Intermediate correction before the trendline thus drawn is reached.

BASIC CONCEPTS

Validating a Trend Line- Tests of Authority

Trend Line Analysis

B. The Length of the line :

- ✿ But if the trendline has been drawn from bottoms which are far enough apart to have developed as independent wave components of the trend you are trying to define, with a good rally and "open water" between them, then it is more apt to be the true trendline.
- ✿ Greater weight should be given to the number of bottoms that have formed on a trendline (Test A) than to its length alone (Test B).

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BASIC CONCEPTS

Validating a Trend Line- Tests of Authority

Trend Line Analysis

C. The angle of the trendline

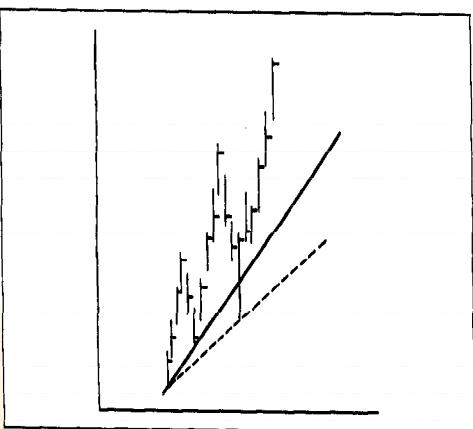
- ✿ The angle of the trendline (to the horizontal) is also, to some degree, a criterion of its validity as a true delimiter of Intermediate trend.
- ✿ A very steep line can easily be broken by a brief sidewise consolidation move—as, for example, by a compact Flag forming on an advance of the "mast" type—only to have prices shoot up again in another extensive advance. Such steep lines are of little forecasting value to the technician.
- ✿ The flatter, more nearly horizontal the trendline, the more important it is technically and, in consequence, the greater the significance of any downside breaks through it.

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BASIC CONCEPTS

Validity of Penetration

How to Handle Small Trendline Penetrations



Trend Line Analysis

- ➊ Sometimes prices will violate a trendline on an intraday basis, but then close in the direction of the original trend, leaving the analyst in some doubt as to whether or not the trendline has actually been broken.
- ➋ Figure shows how such a situation might look. Price did dip under the trendline during the day, but closed back above the up trendline. Should the trendline be redrawn?

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BASIC CONCEPTS

Validity of Penetration

How to Handle Small Trendline Penetrations

Trend Line Analysis

- ➊ Sometimes an intraday violation of a trendline will leave the chartist in doubt as to whether the original trendline is still valid or if a new line should be drawn.
- ➋ A compromise is to keep the original trendline, but **draw a new dotted line** until it can be better determined which the truer line is.
- ➌ However, there's no hard and fast rule to follow in such a situation. Sometimes it is best to ignore the minor breach, especially if subsequent market action proves that the original line is still valid.

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BASIC CONCEPTS

Validity of Penetration

Trend Line Analysis

What Constitutes a Valid Breaking of a Trendline?

- As a general rule, **a close beyond the trendline** is more significant than just an intraday penetration.
- Most technicians employ a variety of time and price filters in an attempt to isolate valid trendline penetrations and eliminate bad signals or “whipsaws.” One example of a price filter is the **3% penetration criteria**. This price filter is used mainly for the breaking of longer term trendlines, but requires that the trendline be broken, on a closing basis, by at least 3%. (The 3% rule doesn’t apply to some financial futures, such as the interest rate markets.)²⁹

BASIC CONCEPTS

Validity of Penetration

Trend Line Analysis

What Constitutes a Valid Breaking of a Trendline?

- An alternative to a **price filter** is a **time filter**.
- A common time filter is the **two day rule**. In other words, to have a valid breaking of a trendline, prices must close beyond the trendline for two successive days. To break an up trendline, therefore, prices must close under the trendline tow days in a row. A one day violation would not count.
- The **1-3% rule** and the two day rule are also applied to the breaking of important support and resistance levels, not just to major trendlines.
- Another filter would require a **Friday Close** beyond a major breakout point to ensure a weekly signal.

BASIC CONCEPTS

Validity of Penetration

Trend Line Analysis

How Trendlines Reverse Roles

- It was mentioned earlier that support and resistance levels became the opposite once violated. The same principle holds true of trendlines.
- In other words, an up trendline (a Support Line) will usually become a resistance line once it's decisively broken.
- A down trendline (a Resistance Line) will often become a support line once it's decisively broken.
- This is why it's usually a good idea to project all trendlines as far out to the right on the chart as possible even after they've been broken.
- It's surprising how often old trendlines act as support and resistance lines again in the future, but in the opposite role.

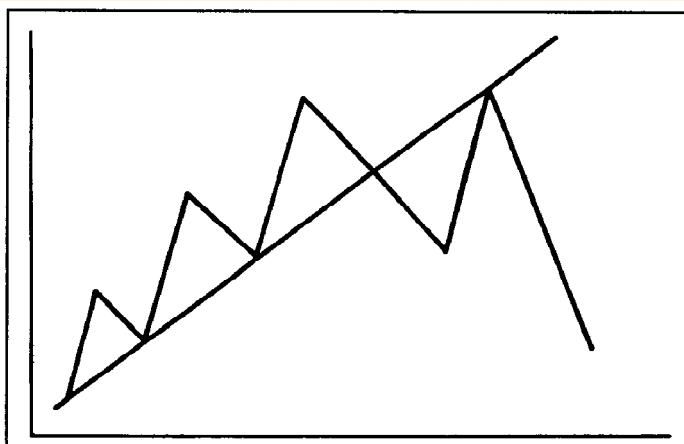
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BASIC CONCEPTS

Validity of Penetration

Trend Line Analysis

How Trendlines Reverse Roles



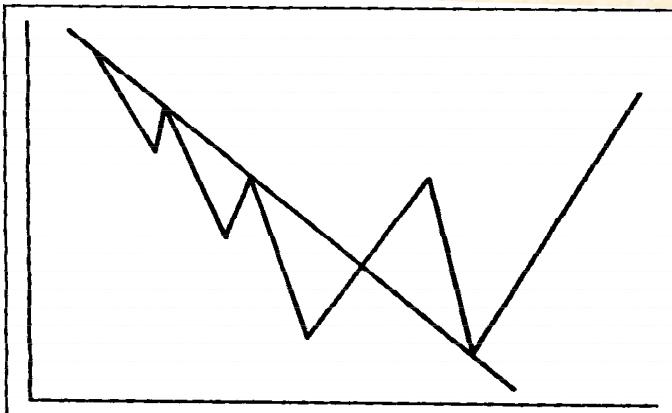
- A rising support line becoming resistance. Usually a support line will function as resistance barrier on subsequent rallies, after it has been broken on the downside.

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BASIC CONCEPTS

Validity of Penetration

How Trendlines Reverse Roles



Trend Line Analysis

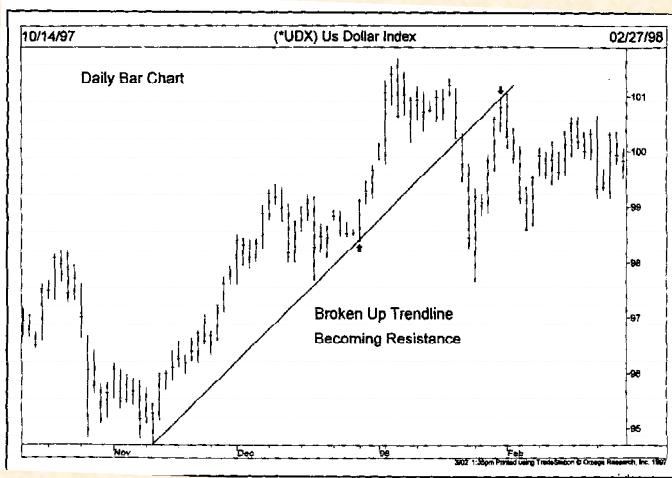
- A falling resistance line becoming support. Very often a down trendline will become a support line once it's been broken on the upside.

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BASIC CONCEPTS

Validity of Penetration

How Trendlines Reverse Roles



Trend Line Analysis

- On this chart, the broken up trendline became a resistance barrier on the following rally attempt.

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BASIC CONCEPTS

Validity of Penetration

Trend Line Analysis

Measuring Implication of Trendlines

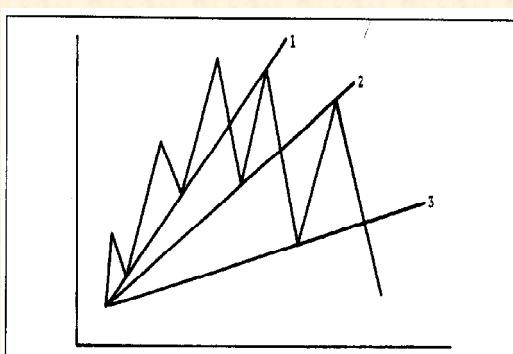
- ✿ Trendlines can be used to help determine price objectives.
- ✿ Some of the price objectives addressed that are derived from various price patterns are similar to the one we'll cover here with trendlines.
- ✿ Stated briefly, once a trendline is broken, prices will usually move a distance beyond the trendline equal to the vertical distance that prices achieved on the other side of the line, prior to the trend reversal.
- ✿ In other words, if in the prior uptrend, prices moved 50 above the up trendline (measured vertically), then prices would be expected to drop that same 50 below the trendline after it's broken.

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BASIC CONCEPTS

THE FAN PRINCIPLE

Trend Line Analysis

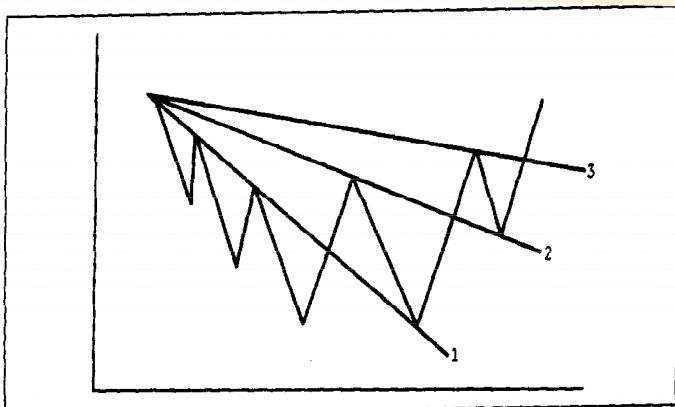


- ✿ Sometimes after the violation of an up trendline, prices will decline a bit before rallying back to the bottom of the old up trendline (now a resistance line).
- ✿ In figure, notice how prices rallied to but failed to penetrate line 1.
- ✿ A second trendline (line 2) can now be drawn, which is also broken.
- ✿ After another failed rally attempt, a third line is drawn (line 3). The breaking of that third trendline is usually an indication that prices are headed lower.

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BASIC CONCEPTS

THE FAN PRINCIPLE



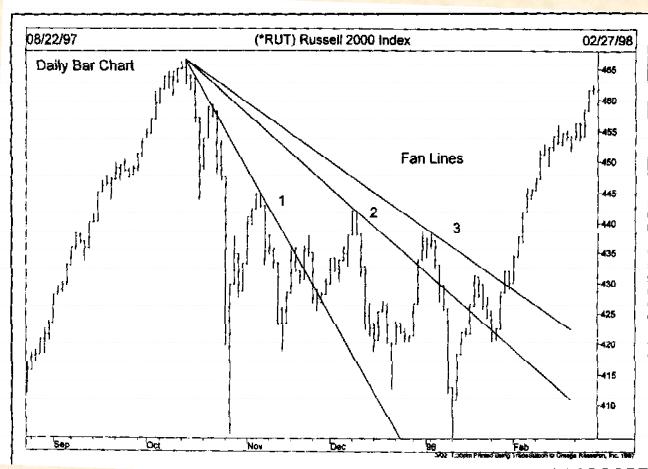
Trend Line Analysis

- In Figure, the breaking of the third down trendline (line 3) constitutes a new uptrend signal.

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BASIC CONCEPTS

THE FAN PRINCIPLE



Trend Line Analysis

- Fan lines are drawn along successive peaks as shown in this chart.
- The breaking of the third fan line usually signals the start of the uptrend.

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BASIC CONCEPTS

THE FAN PRINCIPLE

Trend Line Analysis

The Relative Steepness of the Trendline

- The relative steepness of the trendline is also important.
- In general, most important up trendlines tend to approximate an average slope of 45 degrees.
- Some chartists simply draw a 45 degree line on the chart from a prominent high or low and use this as a major trendline.
- The 45 degree line was one of the techniques favored by W.D Gann.
- Such a line reflects a situation where prices are advancing or declining at such a rate that price and time are in perfect balance.

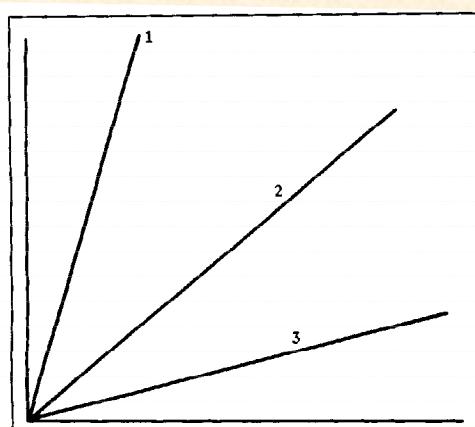
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BASIC CONCEPTS

THE FAN PRINCIPLE

Trend Line Analysis

The Relative Steepness of the Trendline



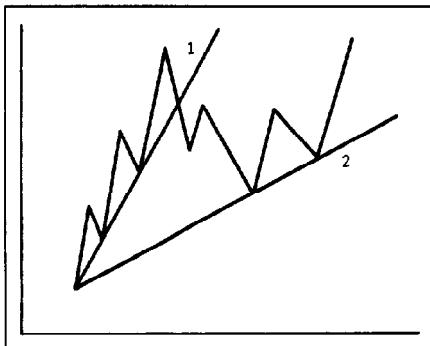
- If a trendline is too steep (see line 1), it usually indicates that prices are advancing too rapidly and that the current steep ascent will not be sustained.
- The breaking of that steep trendline may be just a reaction back to a more sustainable slope closer to the 45 degree line (line 2).
- If a trendline is too flat (see line 3), it may indicate that the uptrend is too weak and not to be trusted.

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BASIC CONCEPTS

AMENDMENT OF TRENDLINES

How to Adjust Trendlines



Trend Line Analysis

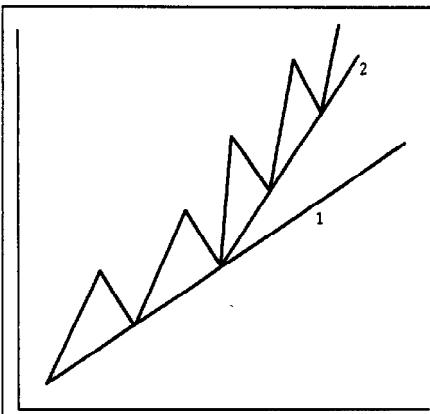
- Some times trendlines have to be adjusted to fit a slowing or an accelerating trend. For example, as shown in the previous case, if a steep trendline is broken, a slower trendline might have to be drawn.
- If the original trendline is too flat, it may have to be redrawn at a steeper angle.
- Figure shows a situation where the breaking of the steeper trendline (line 1) necessitated the drawing of a slower line (line 2).

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BASIC CONCEPTS

AMENDMENT OF TRENDLINES

How to Adjust Trendlines



Trend Line Analysis

- In Figure, the original trendline (line 1) is too flat and has to be redrawn at steeper angle (line 2).
- The uptrend accelerated, requiring a steeper line. A trendline that is too far away from the price action is obviously of little use in tracking the trend.
- In the case of an accelerating trend, sometimes several trendlines may have to be drawn at increasingly steeper angles.

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BASIC CONCEPTS

AMENDMENT OF TRENDLINES

Trend Line Analysis

How to Adjust Trendlines

- However, where steeper trendlines become necessary, it is best to resort to another tool- the moving average- which is the same as a curvilinear trendline.
- One of the advantages of having access to several different types of technical indicators is being able to choose the one most appropriate for a given situation.
- All of the techniques covered; work well in certain situations, but not so well in others.
- By having an arsenal of tools to fall back on, the technician can quickly switch from one tool to another that might work better in a given situation.

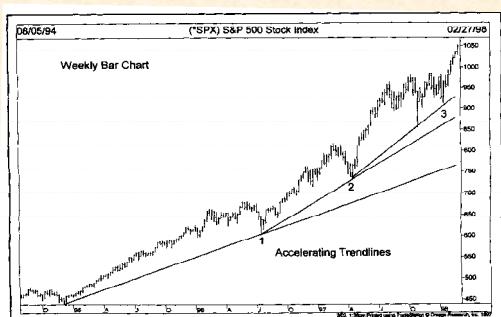
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BASIC CONCEPTS

AMENDMENT OF TRENDLINES

Trend Line Analysis

How to Adjust Trendlines



- An accelerated trend is one of those cases where a moving average would be more useful than a series of steeper and steeper trendlines.
- Just as there are several different degrees of trend in effect at any one time, so is there a need for different trendlines to measure those various trends.

- A major up trendline, for example, would connect the low points of the major uptrend, while a shorter and more sensitive line might be used for secondary swings.

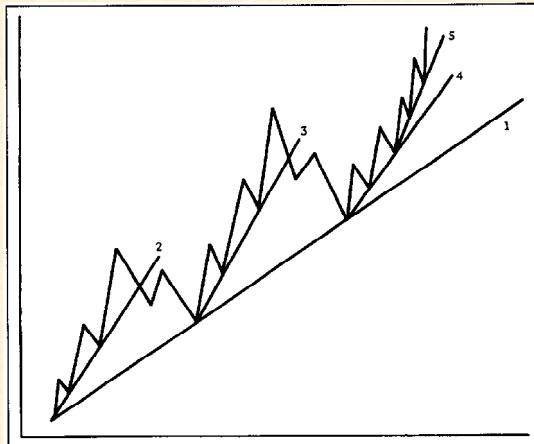
- An even shorter line can measure the short term movements.

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BASIC CONCEPTS

AMENDMENT OF TRENDLINES

How to Adjust Trendlines



Trend Line Analysis

- Different trendlines are used to define the different degrees of trend.
- Line 1 in the example is the major up trendline, defining the major trend.
- Lines 2, 3, and 4 define the intermediate uptrends.
- Finally, line 5 defines a shorter term advance within the last intermediate uptrend. Technicians use many different trendlines on the same chart.

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BASIC CONCEPTS

Channels

The Channel Line

Trend Line Analysis

- The channel line, or the return line as it is sometimes called, is another useful variation of the trendline technique.
- Sometimes prices trend between two parallel lines—the basic trendline and the channel line.
- Obviously, when this is the case and when the analyst recognizes that a channel exists, this knowledge can be used to profitable advantage.
- A channel, or channel lines, is the addition of two parallel trendlines that act as strong areas of support and resistance.

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BASIC CONCEPTS

Channels

Trend Line Analysis

The Channel Line

- The upper trendline connects a series of highs, while the lower trendline connects a series of lows.
- A channel can slope upward, downward or sideways but, regardless of the direction, the interpretation remains the same.
- Traders will expect a given security to trade between the two levels of support and resistance until it breaks beyond one of the levels, in which case traders can expect a sharp move in the direction of the break.
- Along with clearly displaying the trend, channels are mainly used to illustrate important areas of support and resistance.

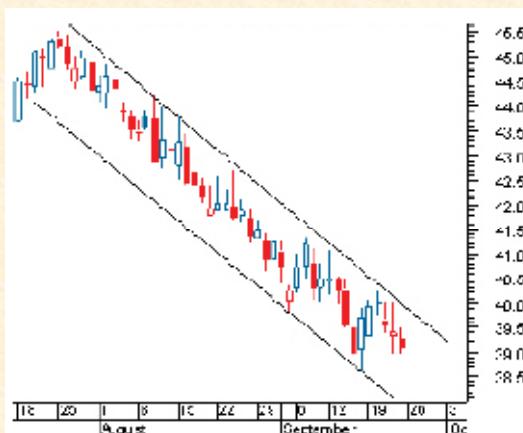
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BASIC CONCEPTS

Channels

Trend Line Analysis

The Channel Line



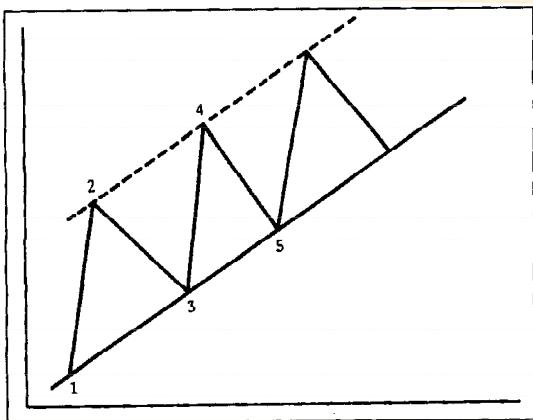
- Figure illustrates a descending channel on a stock chart; the upper trendline has been placed on the highs and the lower trendline is on the lows.
- The price has bounced off of these lines several times, and has remained range-bound for several months.
- As long as the price does not fall below the lower line or move beyond the upper resistance, the range-bound downtrend is expected to continue.

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BASIC CONCEPTS

Channels

Drawing a Channel



Trend Line Analysis

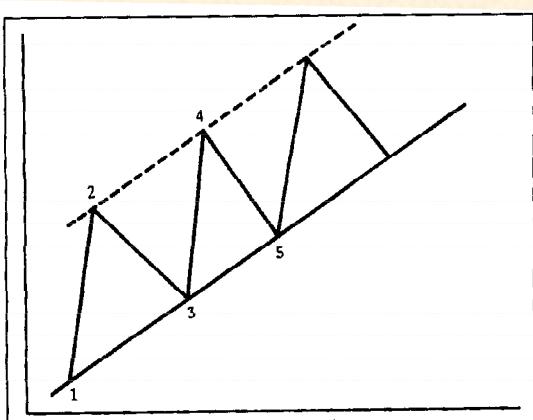
- ➊ The drawing of the channel line is relatively simple. In an uptrend, first draw the basic up trendline along the lows.
- ➋ Then draw a dotted line from the first prominent peak (point 2), which is parallel to the basic up trendline.
- ➌ Both lines move up to the right, forming a channel.

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BASIC CONCEPTS

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Trend Line Analysis

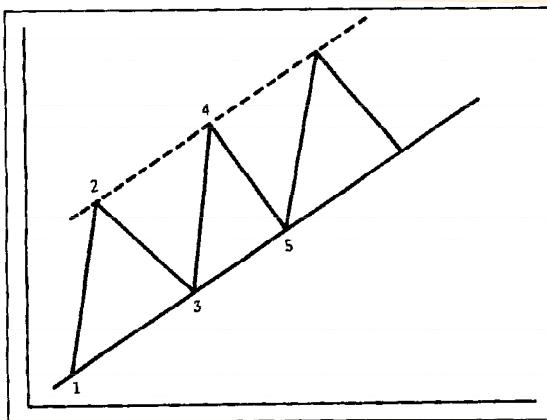
- ➊ If the next rally reaches and backs off from the channel line (at point 4), then a channel may exist.
- ➋ If prices then drop back to the original trendline (at point 5), then a channel probably does exist.
- ➌ The same holds true for a downtrend, but of course in the opposite direction.

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Trend Line Analysis

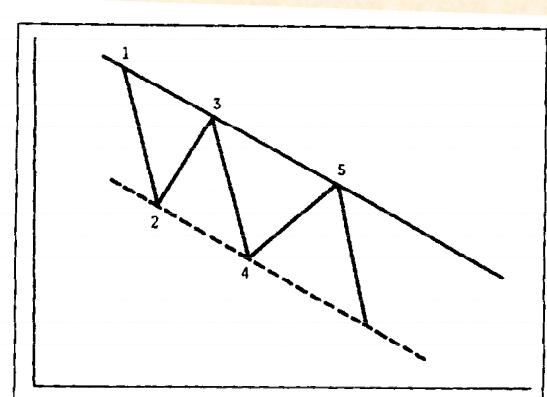
- ✿ Example of a trend channel.
- ✿ Once the basic up trendline is drawn (below points 1 and 3) a channel, or return, line (dotted line) can be projected over the first peak at 2, which is parallel to the basic up trendline.

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Trend Line Analysis

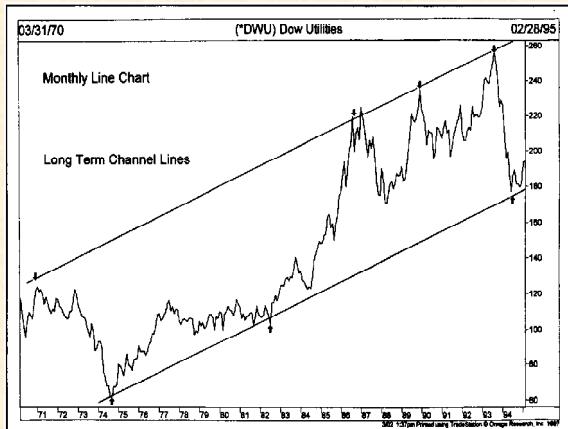
- ✿ A trend channel in a downtrend.
- ✿ The channel is projected downward from the first low at point 2, parallel to the down trendline along the 1 and 3 peaks. Prices will often remain within such a trend channel.

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BASIC CONCEPTS

Channels

Using a Channel



Trend Line Analysis

- ✿ Notice how prices fluctuated between the upper and lower parallel channels over a period of 25 years.
- ✿ The 1987, 1989, and 1993 tops occurred right at the upper channel line.
- ✿ The 1994 bottom bounced off the lower trendline.

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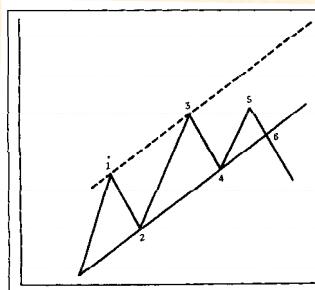
- ✿ The reader should immediately see the value of such a situation. The basic up trendline can be used for the initiation of new long positions.
- ✿ The channel line can be used for short term profit taking.
- ✿ More aggressive traders might even use the channel line to initiate a countertrend short position, although trading in the opposite direction of the prevailing trend can be a dangerous and usually costly tactic.
- ✿ As in the case of the basic trendline, the longer the channel remains intact and the more often it is successfully tested, the more important and reliable it becomes.

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BASIC CONCEPTS

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Trend Line Analysis

- The breaking of the major trendline indicated an important change in trend. But the breaking of a rising channel line has exactly the opposite meaning, and signals an acceleration of the existing trend. Some traders view the clearing of the upper line in an uptrend as a reason to add to long positions.
- The failure to reach the upper end of the channel is often the channel is often an early warning that the lower line will be broken.
- Notice the failure to reach the upper line at point 5 is followed by the breaking of the basic up trendline at point 6.

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BASIC CONCEPTS

Channels

Using a Channel

Trend Line Analysis

- Another way to use the channel technique is to spot failures to reach the channel line, usually a sign of a weakening trend.
- In above figure, the failure of prices to reach the top of the channel (at point 5) may be an early warning that the trend is turning, and increases the odds that the other line (the basic up trendline) will be broken.
- As a general rule of thumb, the failure of any move within an established price channel to reach one side of the channel usually indicates that the trend is shifting, and increase the likelihood that the other side of the channel will be broken.

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BASIC CONCEPTS

Channels

Using a Channel

- The channel can also be used to adjust the basic trendline.
- If prices move above a projected rising channel line by a significant amount, it usually indicates a strengthening trend.
- Some chartist then draw a steeper basic up trendline from the last reaction low parallel to the new channel line (as demonstrated in figure 1). Often, the new steeper support line function better than the old flatter line.
- Similarly, the failure of an uptrend to reach the upper end of a channel justifies the drawing of a new support line under the last reaction low parallel to the new resistance line over the past two peaks (as shown in figure2)

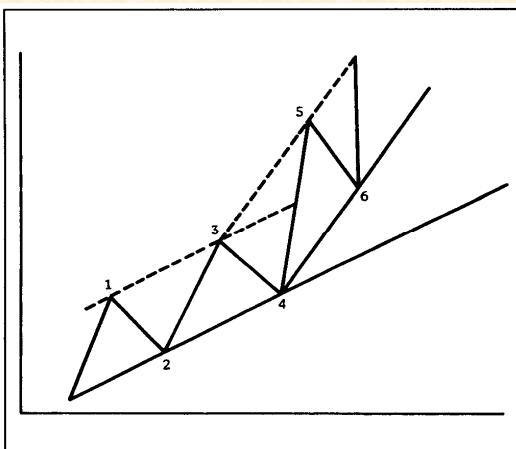
Trend Line Analysis

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BASIC CONCEPTS

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Trend Line Analysis

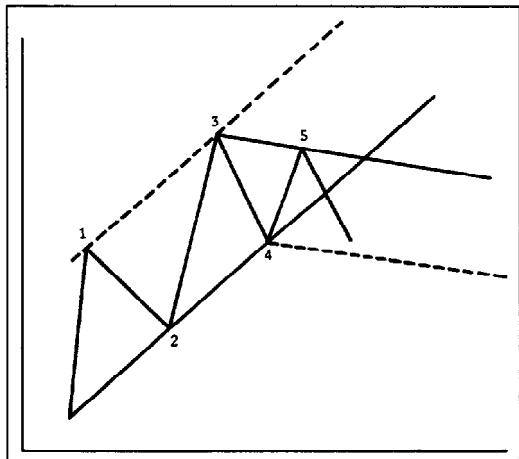
- When the upper channel line is broken (as in wave 5), many chartist will redraw the basic up trendline parallel to the new upper channel line.
- In other words, line 4-6 is drawn parallel to line 3-5. Because the uptrend is accelerating, it stands to reason that the basic up trendline will do likewise.

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Trend Line Analysis

- When prices fall to reach the upper channel line, and a down trendline is drawn over the two declining peaks (line 3-5), a tentative channel line can be drawn from the low at point 4 parallel to line 3-5.
- The lower channel line sometimes indicates where initial support will be evident.

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BASIC CONCEPTS

Channels

Measuring Implications

Trend Line Analysis

- Channel lines have measuring implication. Once a breakout occurs from an existing price channel, prices usually travel **a distance equal to the width of the channel**. Therefore, the user has to simply measure the width of the channel and then project that amount from the point at which either trendline is broken.
- It should always be kept in mind, however, that of the two lines, the **basic trendline is by far the more important and the more reliable**. The channel line is a **secondary use of the trendline technique**. But the use of the channel line works often enough to justify its inclusion in the chartist's toolkit.

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THANK YOU

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