

Non-Trend Lines

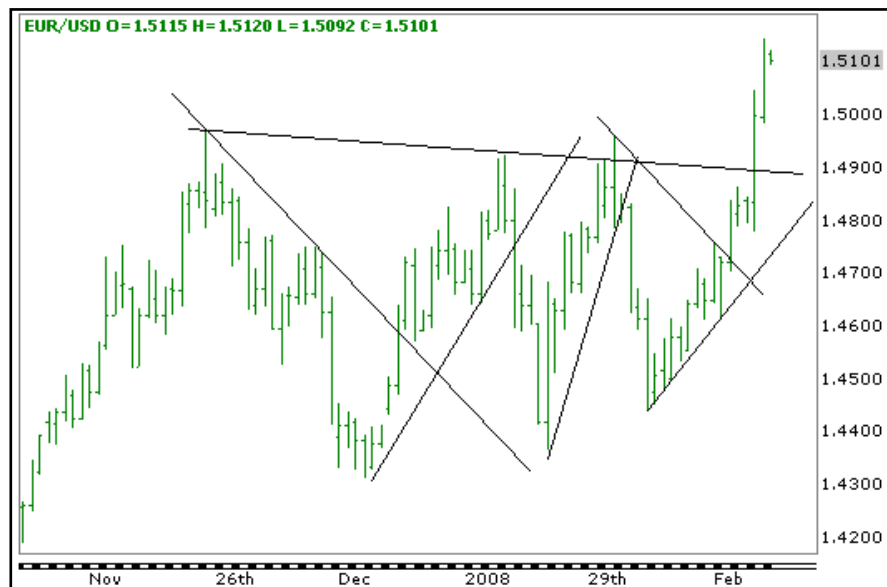
Some trend lines are figments of the imagination

No, no, there're no such things as non trend lines. It's more that many analysts tend to try and invent them.

I was looking through some analysis the other day and I saw something rather like this:

It sure looks impressive but actually none of those lines actually produce any real information – except they prove that the lines were broken after they were drawn. Before that the lines are so flaky that it is often pure luck if they work...

Now I wouldn't mind so much but there are no trends at all in that chart which makes the process of drawing a trend line rather fruitless... What's more, in nearly all cases there are so many lines drawn it's a wonder that anyone knows what they mean or how to trade them.



Take a look at this same chart:



Very clearly the first raising black "trend" line was drawn after the event. Or maybe it wasn't but then whoever drew the line would have presumably drawn the one in red also. That ended up as a complete mess as price broke below the line, then back up and then reversed lower again. What use is that?

The blue line isn't even drawn on a trend...

Trend lines are there to help you make trades and identify stop losses. It is therefore important to understand when to draw a trend line and what it is telling you.

(1) First of all is a very simple rule that will make you look differently at price.

Uptrend = A sequence of higher highs and higher lows

Downtrend = A sequence of lower lows and lower highs

Until you get this you don't have a trend. To be honest some of the moves in the chart did see just those characteristics. However, you wouldn't draw a trend line on the daily chart but on the hourly or 4-hourly. In that way it would be useful.

Consider the blue line in the chart. It has been drawn across three peaks but not all rising/falling and the swing lows are erratic as well. It isn't a trend.

(2) You can only put more trust in a trend line once it has touched the price extreme 3 times or more. Think of it. How many lines could you draw if you only had to allow for two touches?

Goodness knows – but a heck of a lot.

Seriously, relying on a trend line which has only seen two touches (and one of those from an extreme on the chart) is very, very risky.

(3) Don't expect to draw many trend lines. I draw very few as there are a limited number that actually provide any good trading opportunities. If you can see rising lows and highs (or vice versa) but there is no way you can link three lows, then don't do it. What good will it do? Rely then on break of the last major low (or high.)

(4) A good trend line will provide you with a clear trading opportunity and possibly two. When a correctly drawn trend line breaks it will do so, see follow-through and in the correction back to test the trend line. You can trade on the first breach and again on the trend line retest.

Look at how the uptrend prior to the consolidation touched price on 4 occasions and on breach it dipped then moved back high to retest the trend line from where we saw a sizeable decline. Make life easy for yourself and use trend lines with reason and logic. It'll help profitability greatly.



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