

Drawing Trend Lines

One of the most remarkable and consistent features of stock market charts is the tendency of prices to move in a particular direction - up, down or sideways - for a prolonged period of time. This movement is referred to as a trend. **Trend lines** can be superimposed upon any chart in order to emphasise the direction of the market. As a basic rule, **Trend lines** must join three points before one attempts to extend them. The more points that can be joined, the stronger the trend!

Trends form in response to underlying fundamental sentiment. When you are identifying a trend, you are identifying a symptom of inner market sentiment and not just lines.

Trend lines work very well with bar charts but can be used with success in line charts and point and figure charts. There are a few market cliches that are worth remembering:

The trend is your friend - Don't buck the trend

It follows that once you establish the direction or trend of the market you should "stay with your friend". If you "buck the trend" you could obviously lose money by trying to go against the direction of the market.

Make it a rule to invest or trade with the trend, not against it.

There are only three ways a market can trend, namely:

Upward (Bull)

Trend - this is an upward trend in price. There may be temporary dips in the trend, but the overall trend is up. The line is always drawn connecting the lowest points.

Downward (Bear)

Trend - a major downward trend in the share price. Although there may be temporary rises in price, the major trend is down.



Sideways Trend (Congestion) - is when a share price bounces around within a certain limited range without any clear signal of the direction it will take in the future. When drawing a sideways trend line it is usual to connect the low points if it occurs following a prolonged rise, and the high points following a long decline.

The purpose of this workbook is not to teach you how to identify trends, but to show you the mechanics of using your program to draw them. As you become experienced in technical analysis, you will find the drawing of trend-lines invaluable in clearly identifying **Channels, Support & Resistance Levels, Pull-backs, Fan Patterns, Break-Outs, Rallies, Corrections,** and a whole host of other chart patterns.

A Practical Exercise in Drawing Trend Lines




What follows is a step by step guide in drawing the trend lines you see on the chart below:





As we look at this chart, it is clear that from early to mid 1997, SAGE moved up in a channel. From August 1997 to year-end, it moved down in a channel. Since the beginning of 1998, it has moved up strongly. After this exercise you may want to continue analysing this share and drawing in the trends from 1998 (where this example leaves off) to date.


First, when drawing trend-lines, it's preferable that the graph data be in Bar Chart mode (if the item you are viewing has High/Low data). If the range of data being displayed covers more than 200-300% increase/decrease, it probably will be better to display the data using log scaling (see the document on 'Types of Charts and the Scaling').

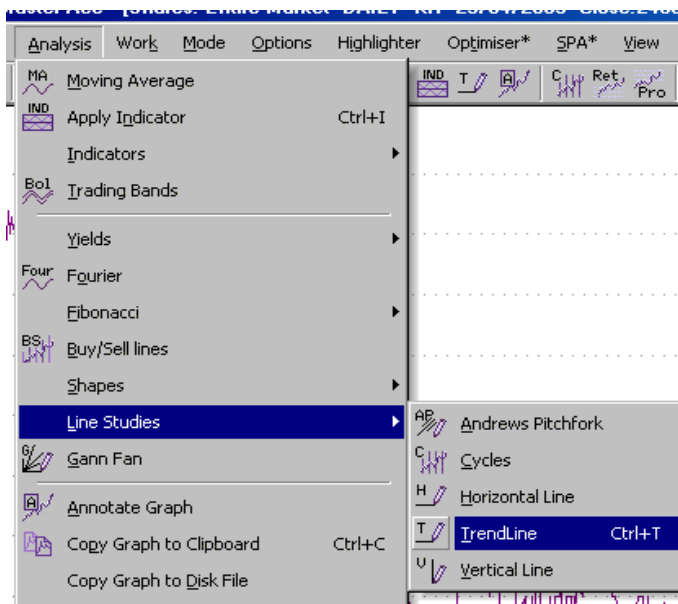



Call up a graph (in this example we will be using SAGE-GRP) and since you will be drawing trend lines, it also makes sense to maximise the chart (by clicking the centre of these three buttons    which are at the top right of the graph screen). Now select the Bar Chart mode. Looking at the two examples of the

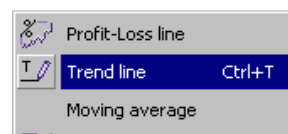
Bar Chart button () shown on the left, note that in the first one the button is out, showing that Bar Chart mode is NOT turned on. The Line Chart button() is clicked in, showing that the Line Chart mode is selected. The second example shows the Bar Chart button selected, or clicked in, and thus Bar Chart mode is selected. This button will therefore toggle the displayed data between Line Chart mode and Bar Chart mode.


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Now to draw the trend line. You have **FOUR** different methods of selecting the Trend Line drawing mode. First, you could select the **TrendLine** option of the Analysis menu. Secondly, you could use the keystrokes Ctrl-T. Thirdly, you could click on the Trend Line button () or fourthly, you could use the right mouse button to call up some of the options available to you.



To use this fourth method, you must right click in a blank space of the graph screen. If you are over another object (such that your cursor has changed shape from it's default shape), right clicking will bring up the options you can perform on that object and not the menu shown here. You want your cursor to look like this  when you right click.



Regardless of the method used, once you are in Trend Line drawing mode, your cursor will change to the Line Drawing Cursor shown here. 

Move the pointer so that the tip of the pen is where you want to start drawing from, left click and drag your mouse. Keep the left mouse button down till you have drawn the line to the desired position. Release your mouse button and you have a trend line.




As in the example shown here, your trend line will have a square box at each end. They are its "handles" and also show you that this is the currently active trend line. Do not worry if you have not drawn the trend line exactly where you want it as it can easily be moved. If it is not long enough or is too long, this too can easily be changed.

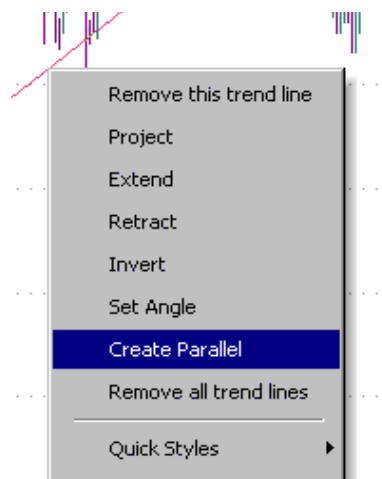
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NB : If you have more than one graph on your screen and IF you use the Menu, Ctrl-T or the Trend Line Button to enter into Trend Line drawing mode, the graph on which you want to draw the trend line MUST be the currently active graph. When you select Trend Line Mode, the program sets up the currently active graph for the trend line and you may experience unpredictable results if you try and draw somewhere else.

The Active Graph is the one that has a dark box around its share name in the top left corner of the graph

 To change the position of a trend line, move the mouse cursor over the end of the trend line until it changes to the following shape. Once it has done this, hold down the left mouse button. The cursor will now change to the “fine” cross hatch (⊕) shape. Whilst holding down the left mouse button, drag that end of the line to its new position. If you need to change the position of the other end of the line, follow the same procedure at that end of the line.

If you need to draw a number of trend lines, repeat the above procedure. If you would like to draw a trend line that is parallel to an existing trend line, move over the trend line such that either the cross hatch cursor (⊕), or the move parallel hand cursor (☞) is displayed. Right click and you will have this menu. Select the “Create Parallel” option. Another trend line will be displayed that is parallel to the trend line you were over when you right clicked. Depending on where the original trend line was, the parallel trend line will be either above or below it.






In the adjacent example that is drawn on SAGE, we now have two trend lines drawn.

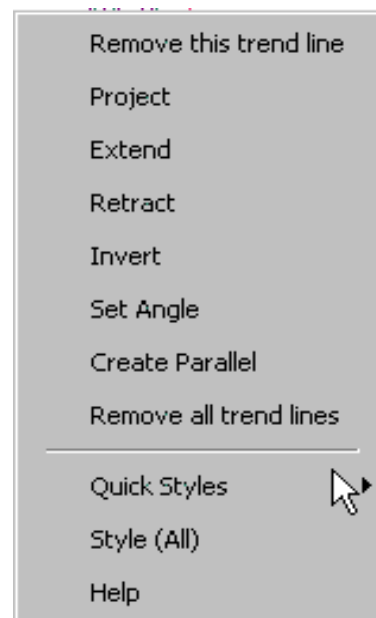
The second trend line (created as a parallel trend line of the first) has its handles displayed (the little squares at each end of the line) to indicate that it is the active trend line. Obviously, the newly created trend line will in all likelihood not be in the exact position you need it. If you move over either of its handles, you will be able to move that end, but now it will not be parallel to the original trend line.



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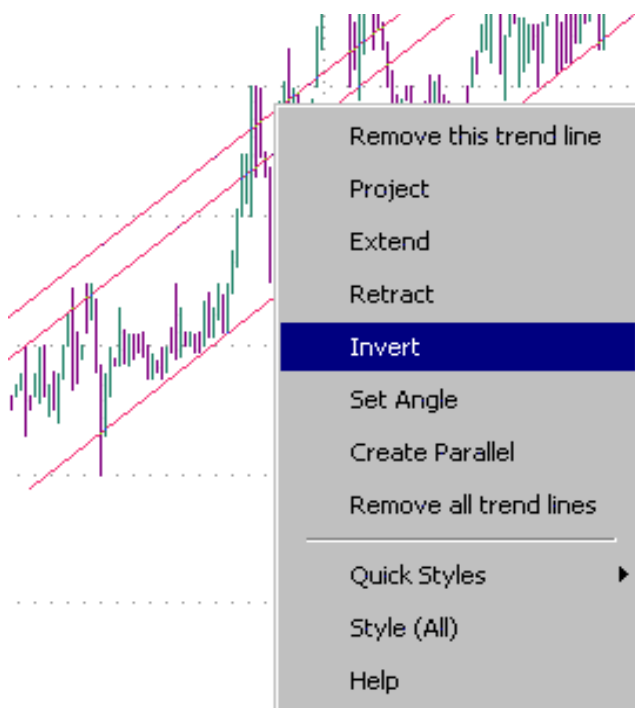
If you want to move a trend line (even one you drew free-hand) and do not want to change its angle or gradient, move over any part of the line, except at the very ends. Your cursor will change shape to that of the hand (). Click and drag the trend line to the desired place. As you do so, it remains at the same angle it was drawn at (or if created as a parallel trend line, parallel to the original).

If at any stage you made a mistake and want to delete a trend line completely (i.e. you did not want to resize or move it elsewhere), move the mouse cursor over the trend line until the cursor changes to either shape ( or ). Next, click on the right mouse button which brings up the following options for you. Choose the “Remove this trend line” option and the trend line will be removed. If a trend line is active, you can also press the “Delete” key on the keyboard.




If you wanted to change the colour, line style or thickness of the trend line, use this same method to display the above menu and select the “Quick Style” option. Change to the desired style (see document on ‘Themes Manager’ for more details).

Often, a market changes from moving in an upward channel, to a downward channel, that is the inverted (or mirror) angle of the up-ward one (and vice-versa for a changing downward channel). With the example of SAGE, draw another parallel trend line, and then move over this new trend line and select the “Invert” option as shown opposite.



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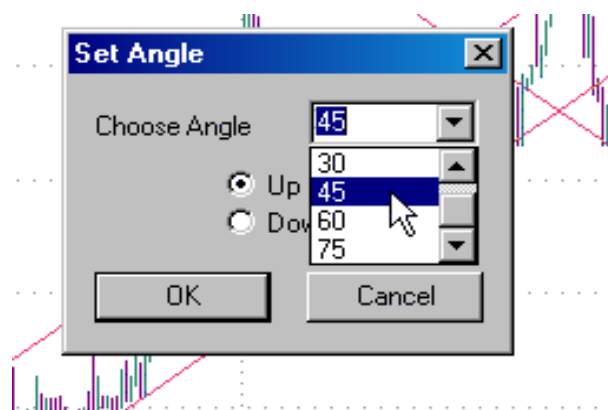
The selected trend line will be inverted or mirrored. Once you have done this, you will most likely also need to position it in the desired place. Do this using the move parallel trend line () method discussed previously. Your screen will now look like the screen shown here. Next, make another trend line parallel to this inverted one and move it to the desired position.




You should now have the trend lines shown in the example on page 2.

As you work further on this example, you will note that although the market moved up and down in complementary channels during 1997, the up and down channels of later years, are at different angles. The angle of the 'ups' do still complement the successive 'downs'.

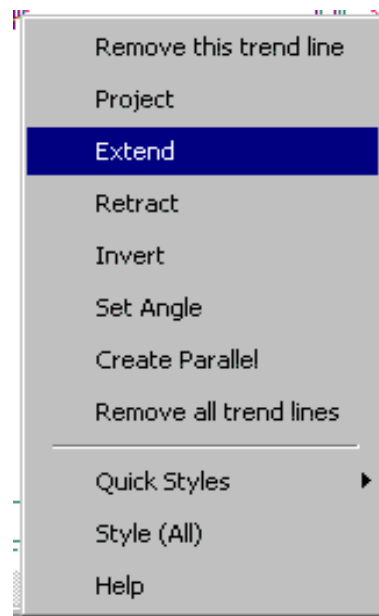
There are times when you may want to draw a fixed angle trend line. If you are drawing Fan Lines, these are often done at 30° and 60°. To change the angle of any existing trend line to the required value, right click over a trend line and select the "Set Angle" option. You will have the Set Angle dialog box displayed as shown here. Choose the required angle from the drop down menu or type in a specific one.



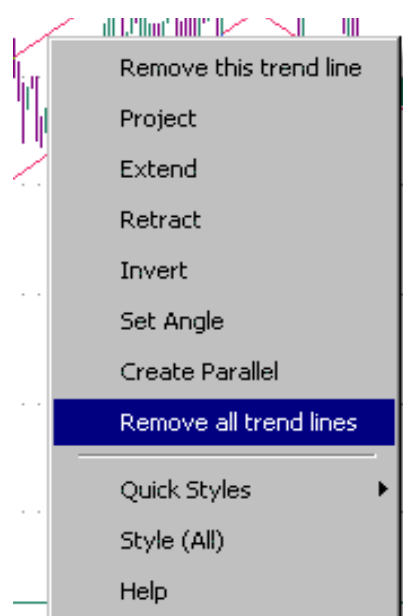
Use the "Move Parallel Trend line" () method as discussed previously when moving fixed angle lines if you want them to retain their angle.

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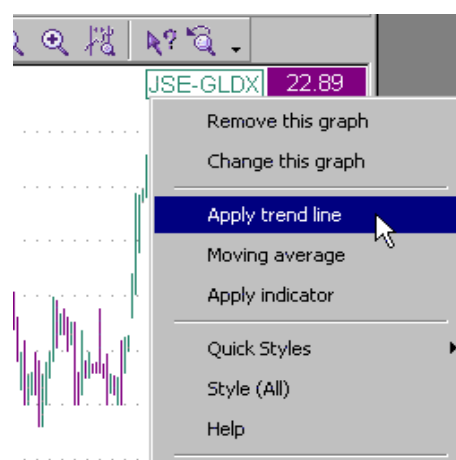
If you need to increase or decrease the length of either a Fixed Angle trend line or that of a Parallel trend line, you cannot really just move over one end and drag it to the desired size. Doing so will very likely change the angle (even if only fractionally). Rather right click and choose either the Extend or Retract option as shown here. This will increase or decrease the trend line length by about 5% each time you select the option. If the trend line is currently selected (i.e. the two handles are displayed at each end), pressing the “+” or “-“ key of your keyboard will increase or decrease the length of the trend line.



The last feature to discuss is the “Remove all trend lines” option. As mentioned previously, you can remove the currently active trend-line either with the “Delete” key and/or with a selection from the right-click menu. However, if you have drawn a number of trend-lines and you want to remove all of them and just start again, right click over any of the trend-lines and select the last option, namely “Remove all trend lines”. All the trend-lines on the current screen will be removed, and you can start again.



In the section on displaying graphs, and also in the section on displaying indicators, you will learn how to overlay a graph and/or indicator. If you then want to draw a trend line on this overlaid graph, rather than the main graph, you cannot just right-click anywhere on the screen or use the trend-line button. In such instances you must right click over the overlaid chart’s name (as shown above) and then select the “Apply trend line” option. The trend line now drawn is attached to the overlaid graph and not the main graph. This is particularly important if you intend to save this screen layout with a view to observing the charts at some future date.



Finally, for more help on trend lines in general, select the “Help” option listed here or using the Context Sensitive cursor, click on a trend line.

Trend Line Projection Information

One of the main reasons for drawing trend lines is to show areas of support and resistance. These lines are usually extended into the future. It is anticipated that prices will rise and stop at Resistance lines, or fall until Support is found. Your Market Master program assists you in establishing what these price targets may be.

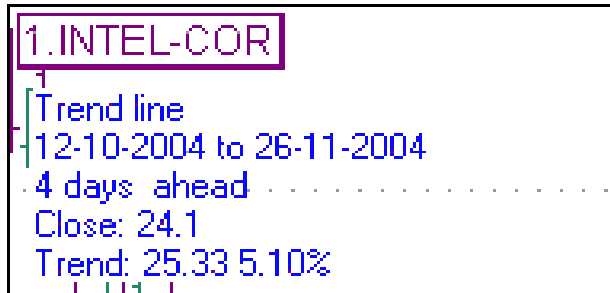
Looking at the graph of Intel Corp. shown here, the share is on support.



If it rises, since it has moved in the drawn channel for the last few weeks, it would be expected that resistance would be found at the top line. What price value would this be?

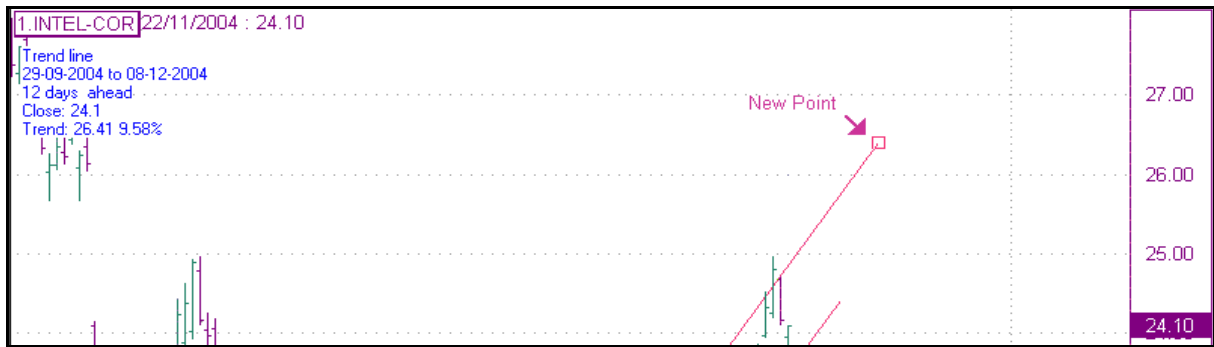
In the example here we have extended the top trend line (the Resistance line) into the future by 4 days. We have clicked on the line to select it (the two handles appear at each end to show it is selected).

In the top corner of the chart under the share name, important information about the trend line is displayed as reproduced here. The drawn trend line starts on 12 October 2004 and its end point is projected to 26 November 2004 (at the time this chart was displayed, the share only had data up till 22 November 2004). The end point of the trend line is thus 4 days ahead of the charts data. The latest close shown on the chart is 24.10 and the 4-day ahead trend line point is 25.33, some 5% up for the current close.



We thus determine that if the share rises off its current support, it can rise about 5% over the next 4 days before reaching resistance. If you extended the trend line further into the future, the target value would be re-adjusted accordingly as shown next:

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We have moved the end point out 12 days into the future (08 December 2004). The point is 26.41 or some 9.58% up from current close.