TRENDS AND CHANNELS

KEDIA ADVISORY

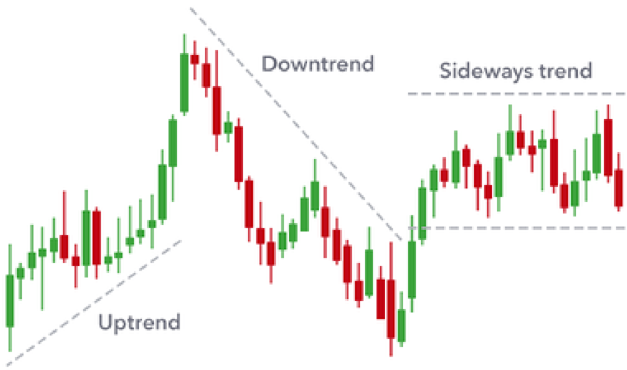
In the last section, we saw how certain price levels act like glass floors or ceilings. However, glass can be broken, and support and resistance lines do not hold true forever. Let's look at what you might see when the price does manage to pass through these barriers.

There are three types of market trend:

Uptrend : For a market to be in an uptrend, each successive peak must be higher than the last, and each trough must also be higher than the preceding one.

Downtrend : For a market to be in a downtrend, there must be a series of successively lower peaks and lower troughs.

Sideways trend: In a sideways trend, there's no clear pattern to the peaks and troughs, with the price generally oscillating in a fairly narrow range between support and resistance levels.



Trends are fairly easy to plot on a chart - all you need to do is connect two major peaks or two major troughs with a line. If you've drawn them correctly, trend lines will often act similarly to support and resistance levels. However, you should note that:

- It only takes two peaks or troughs to draw a trend line, but it takes three to confirm the trend
- Just like support and resistance levels, the more times the trend line is tested, the stronger it is said to be
- Steeper trend lines tend to be unreliable and break easily

CHANNELS

Channels are an extension of trend lines and are another way of identifying buying and selling areas on a chart. To create a channel, you must draw two trend lines - one joining peaks and one joining troughs.

Once drawn, the bottom of the channel can be used as a buying area, while the top can be employed as a selling area (unless you're looking to profit from breakouts of course, where the reverse holds true).