

Trend Analysis

...including why trend lines occur

There are primary trends, intermediate trends, linear trends, exponential trends, rising trends and falling trends. This talk is about understanding the significance of all these different trends.



by Alan Hull

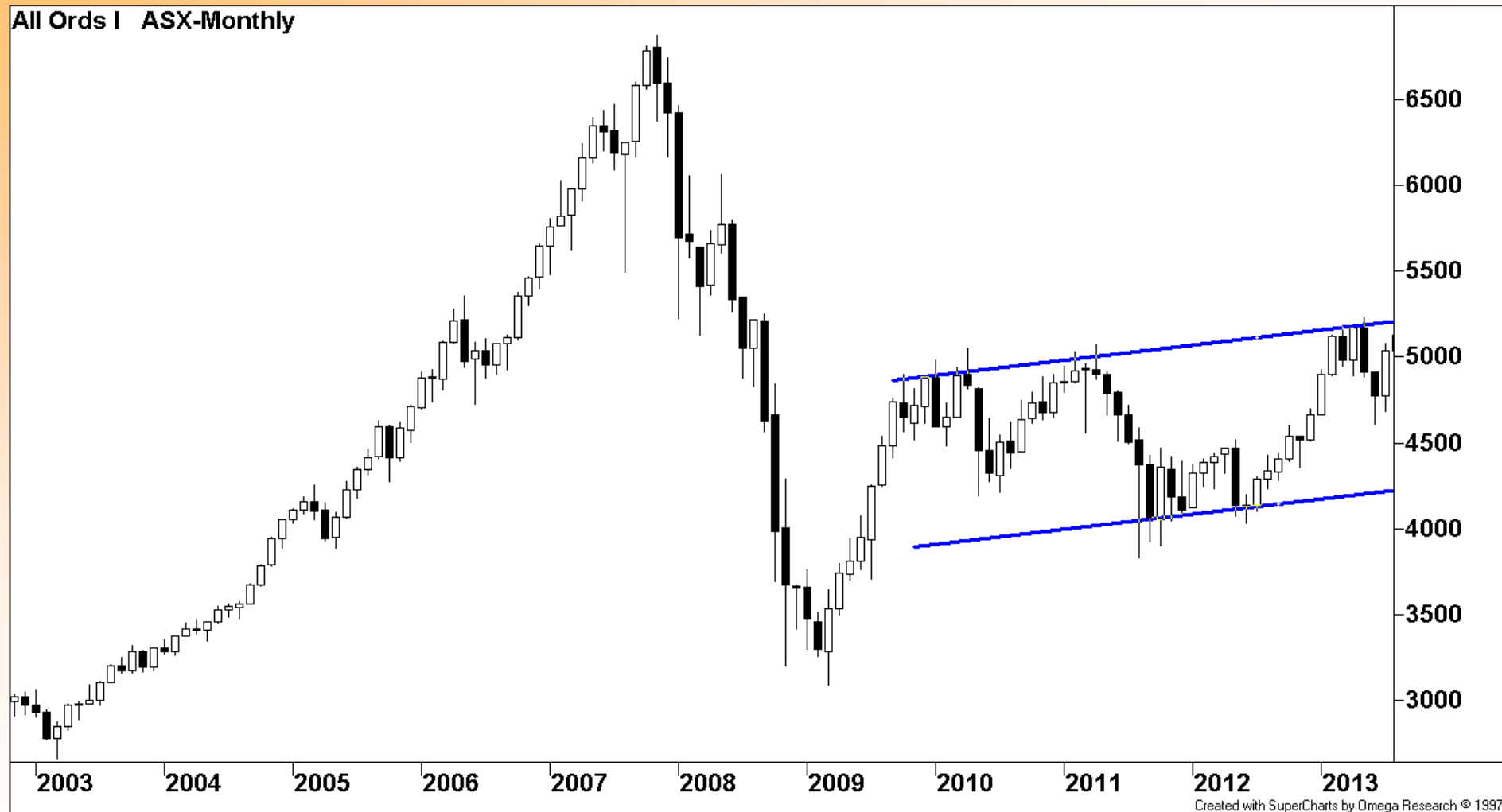
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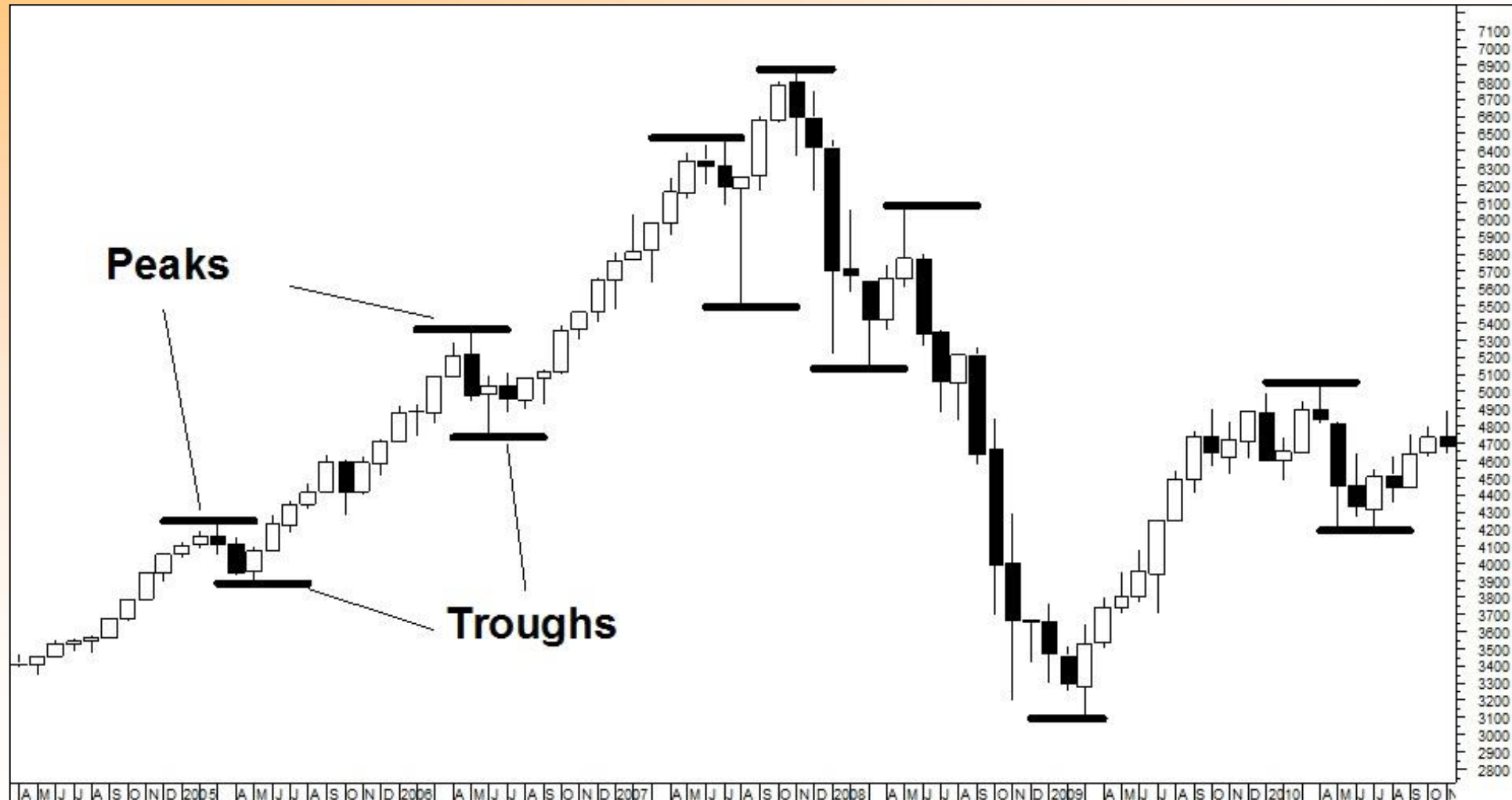
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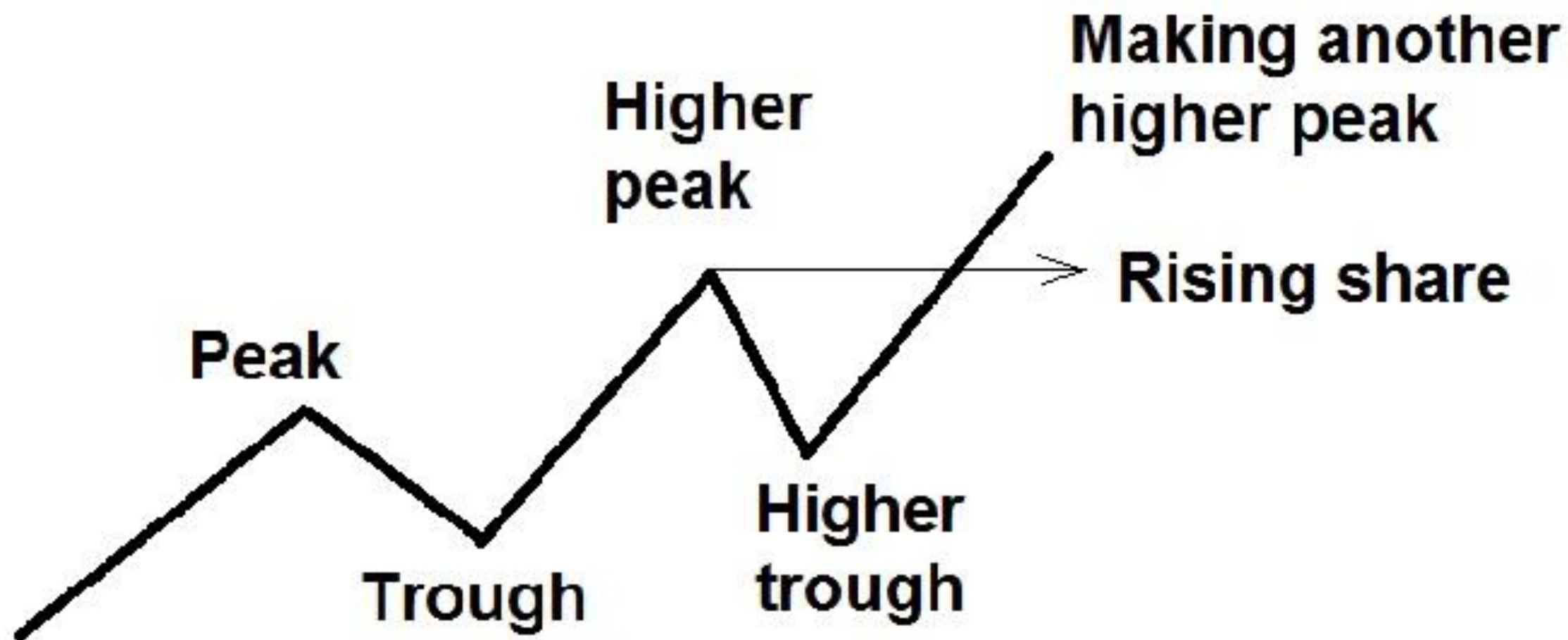
What is a trend? change in value with respect to time



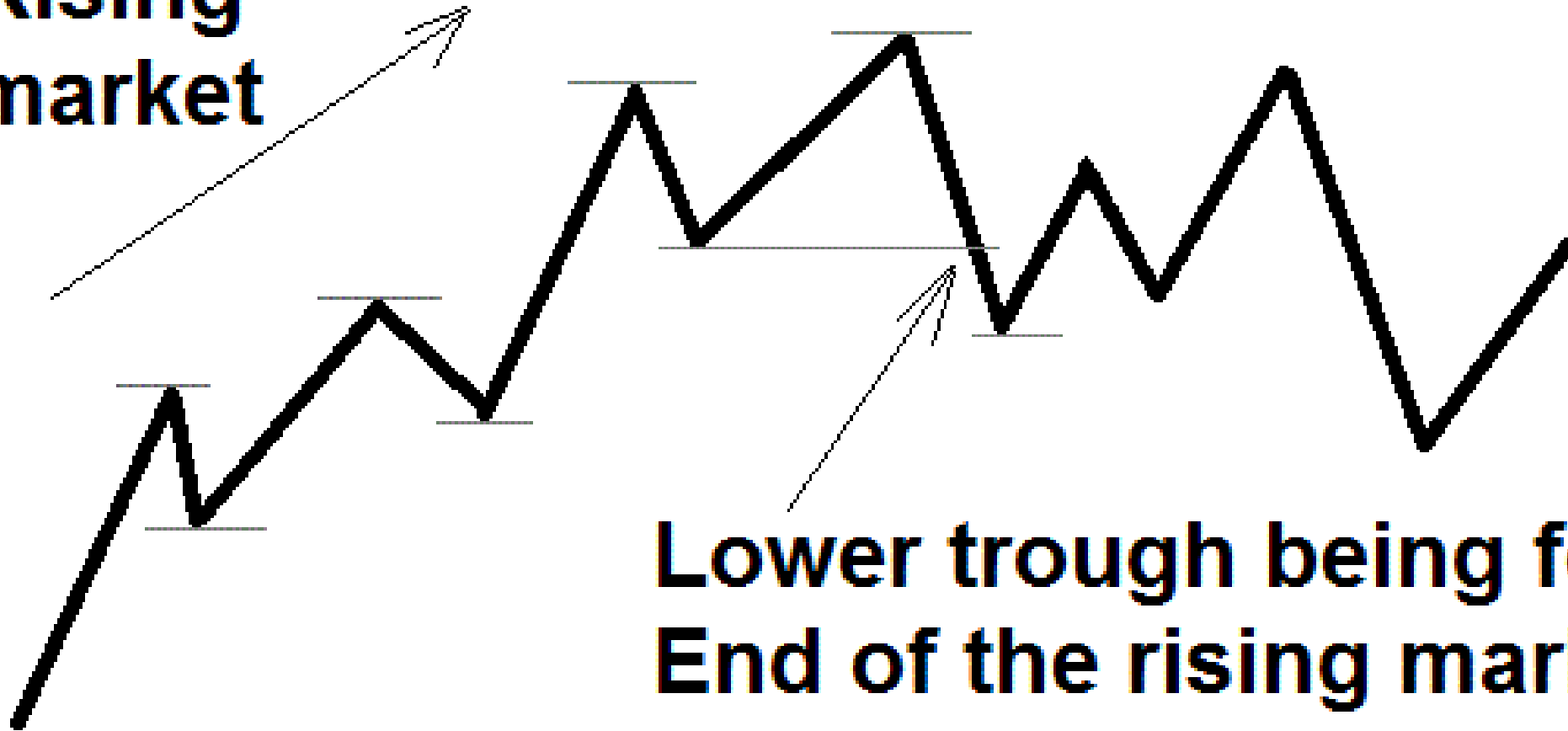
Direction of a trend can be up, down or sideways

Over 3 decades of trading the best method I know
for determining trend direction is Dow Theory...

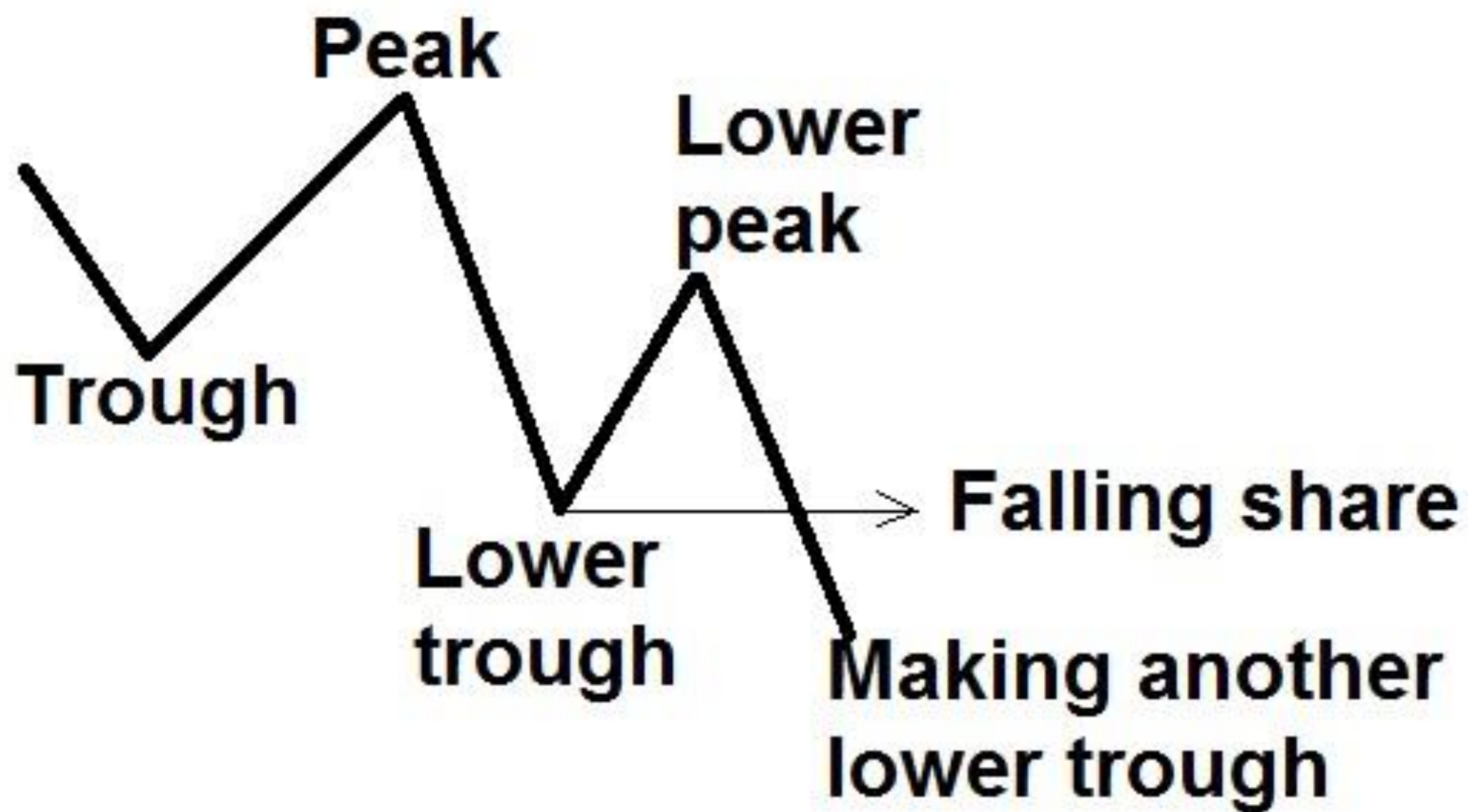




**Rising
market**



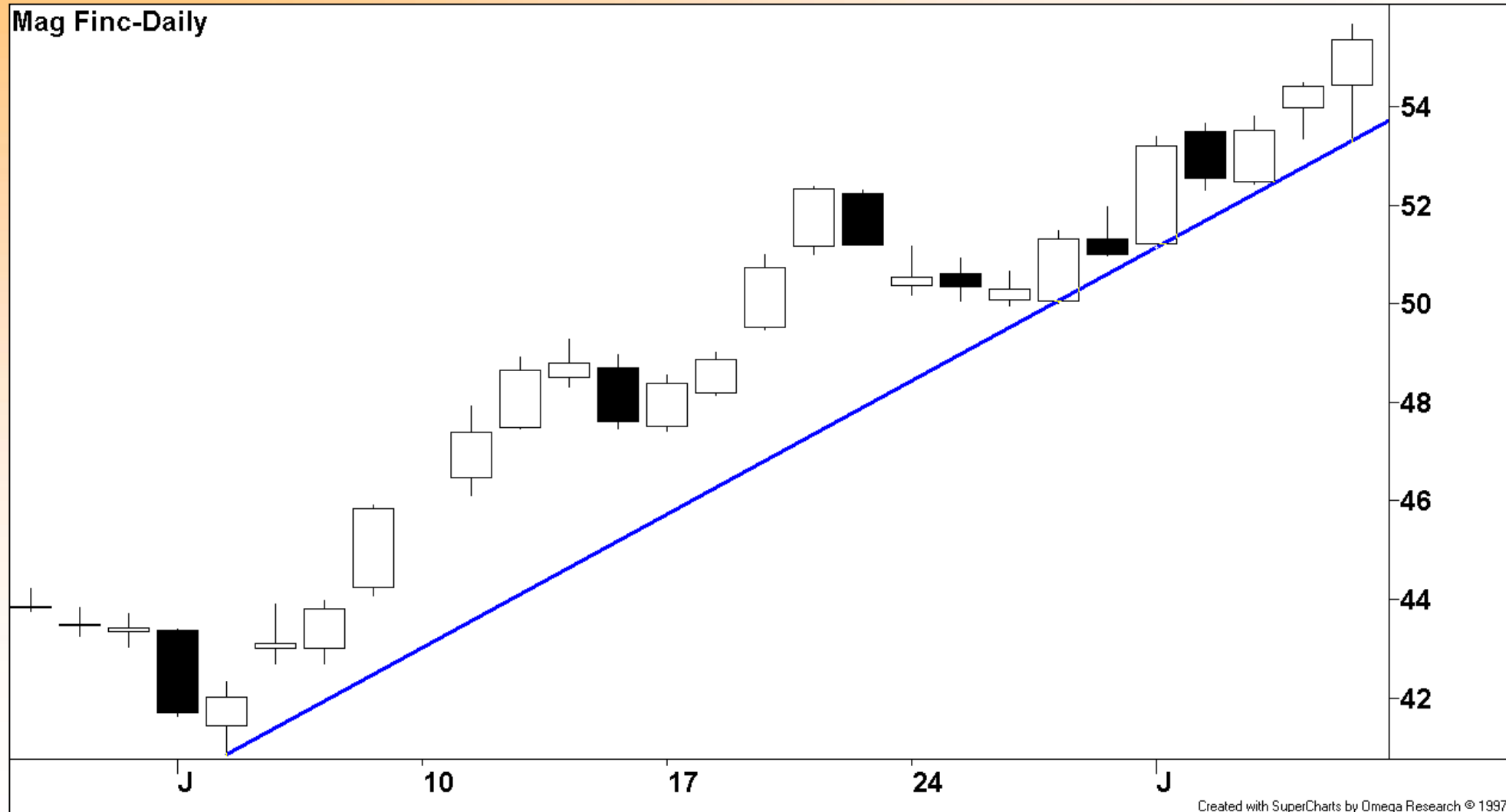
**Lower trough being formed
End of the rising market**



What is a linear trend? A trend that can be defined by straight lines - typically linear trends are channels



A single trend line must have at least three touch points and cannot cut through the body of a candle



Channels require 4 touch points, with at least 2 on each parallel trend line...beware of over precision



Linear trends can be either rising or falling trends



Trendlines provide both support and resistance



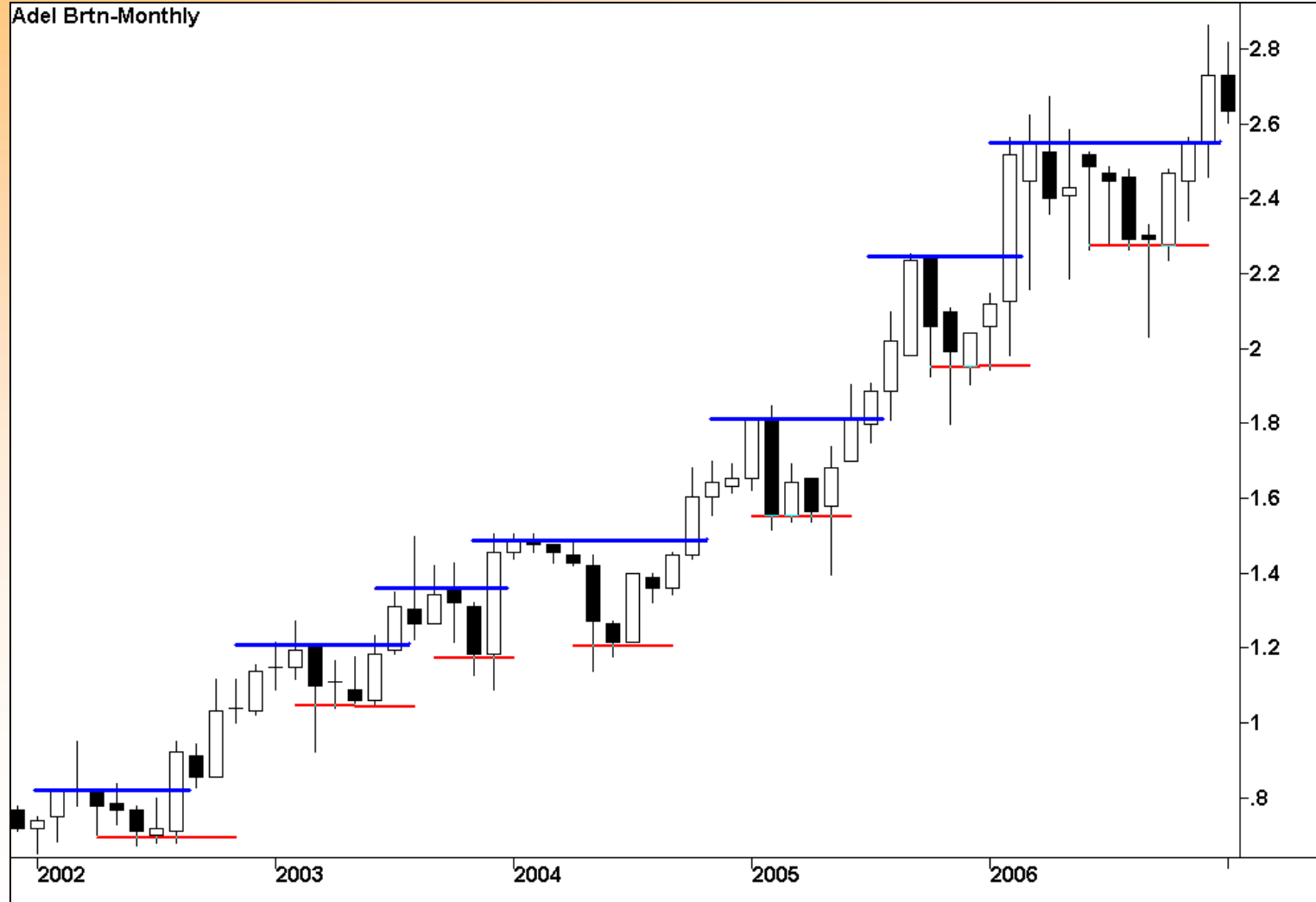
But a rising trendline provides mainly support

And a falling trendline provides mainly resistance

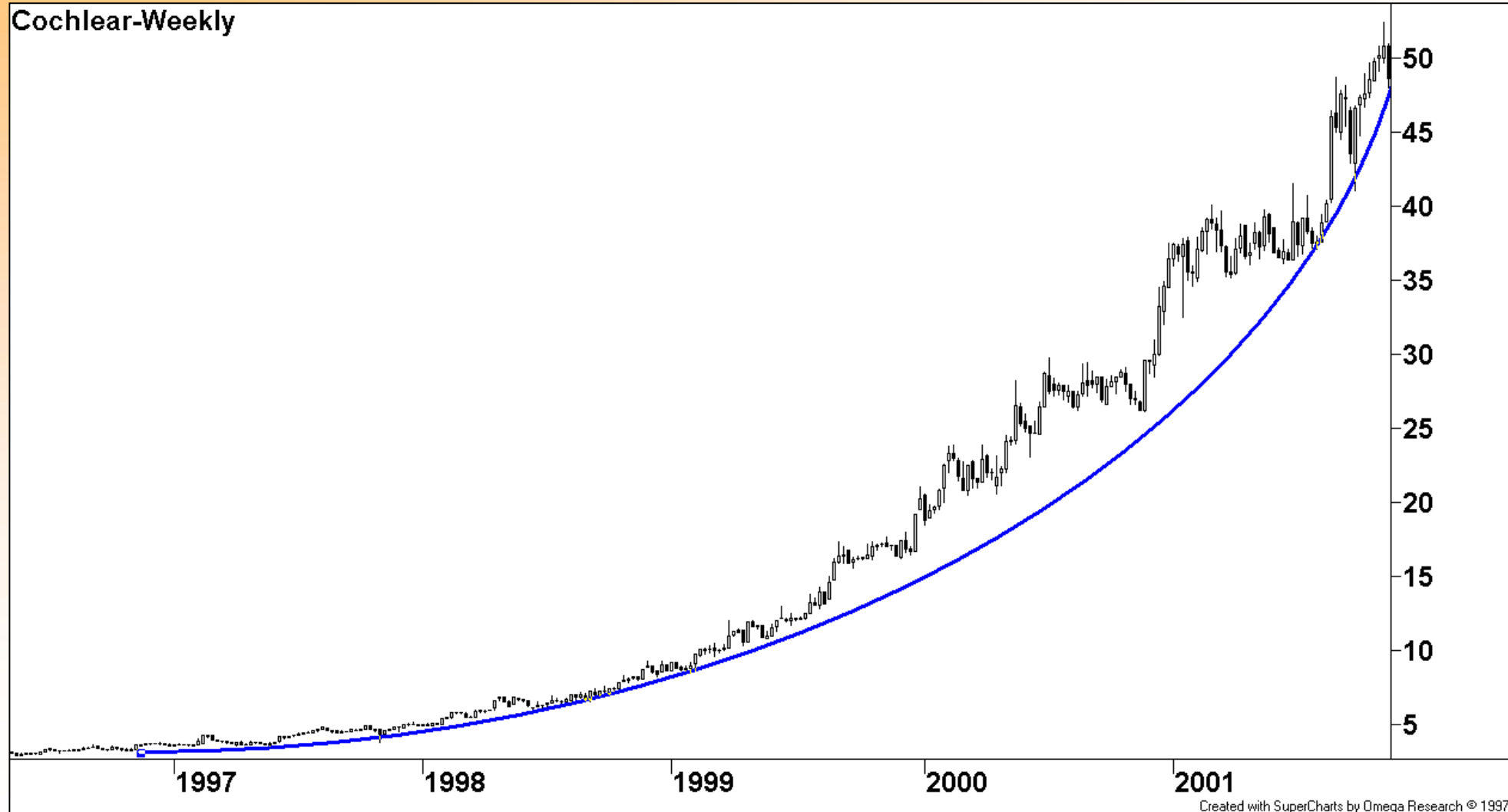


Dow Theory can be used as a trailing stop loss

- a linear trend should not make a lower trough



What is an exponential trend? A trend where the change in price is accelerating over time



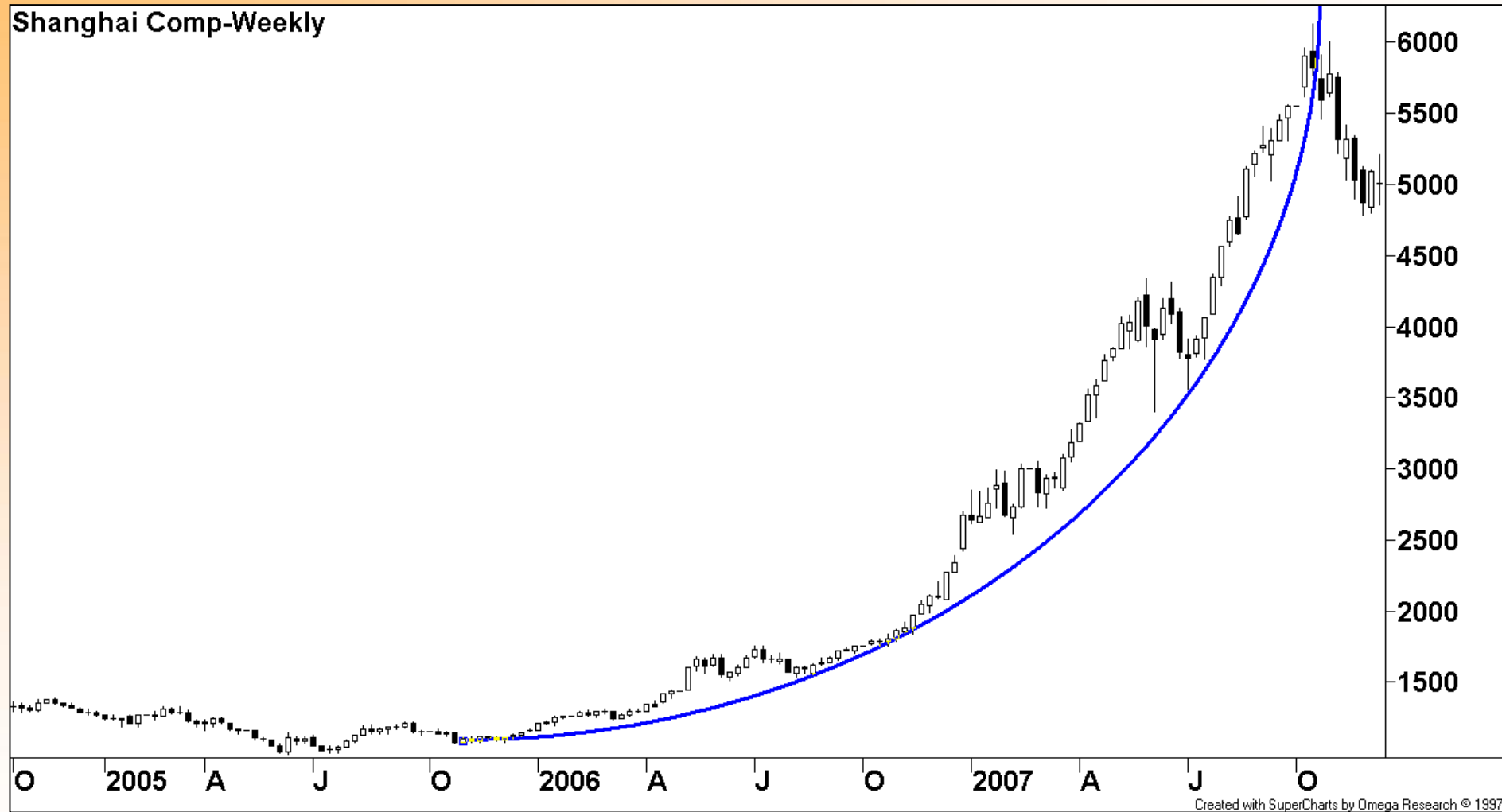
There are both rising and falling exponential trends



Initial trends are often exponential trends...



Often the fundamentals aren't fully known...



...because the possibilities aren't fully known

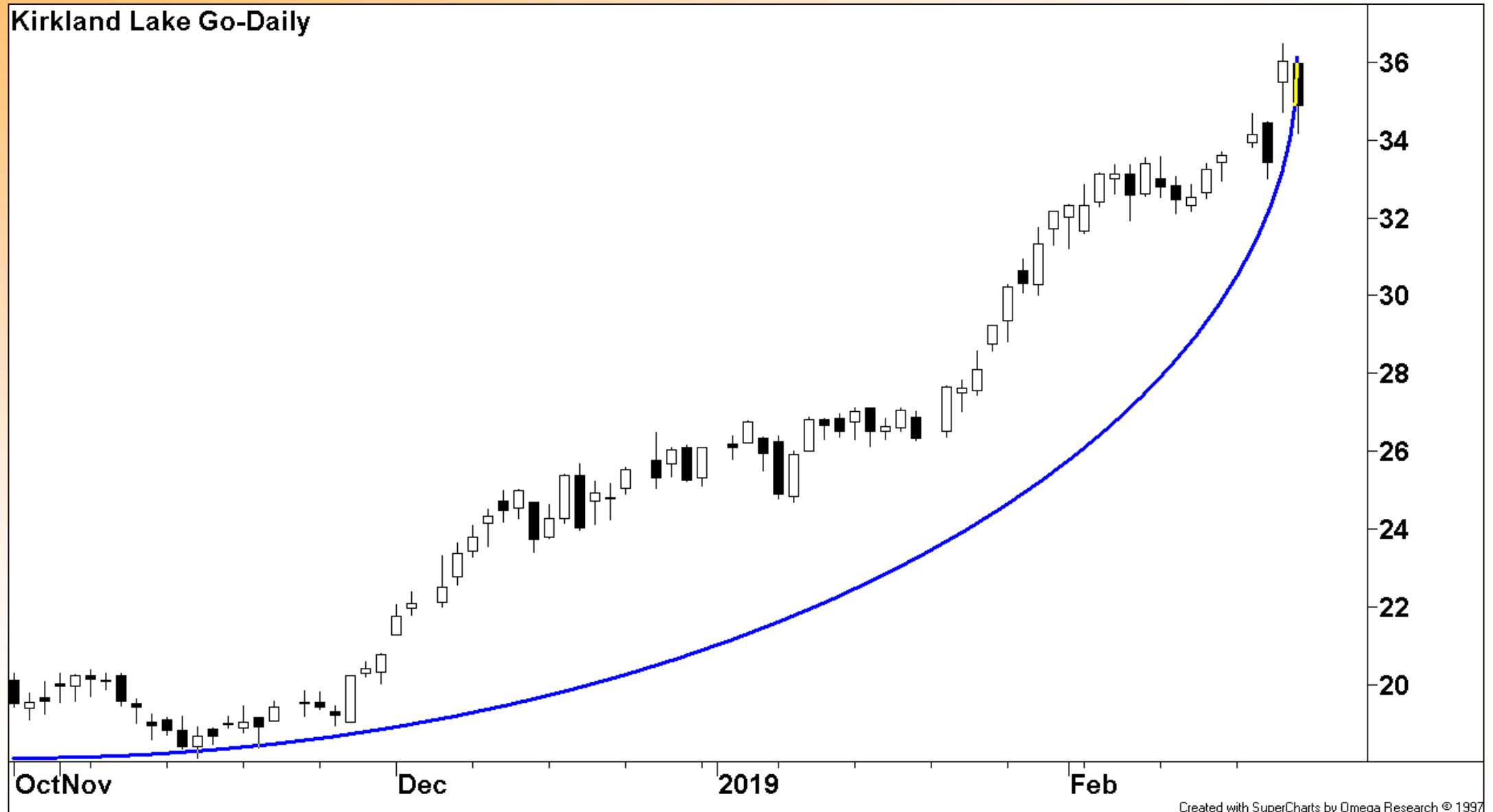
So price feedback (sentiment) is driving the trend...



Cwlth Bank-Monthly



These are a universal phenomenon - KL (NYSE)...



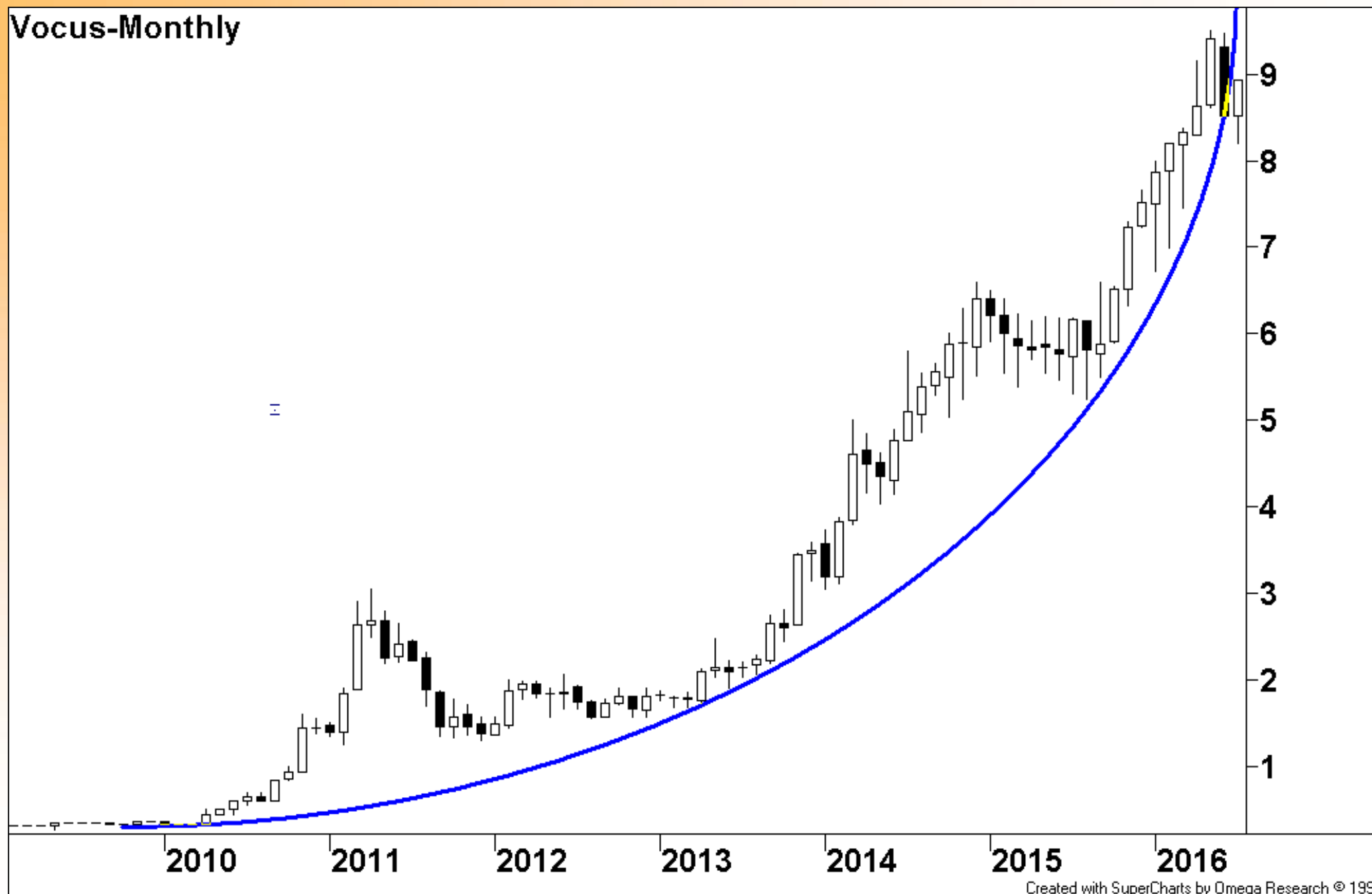
Cintas Corporati-Weekly



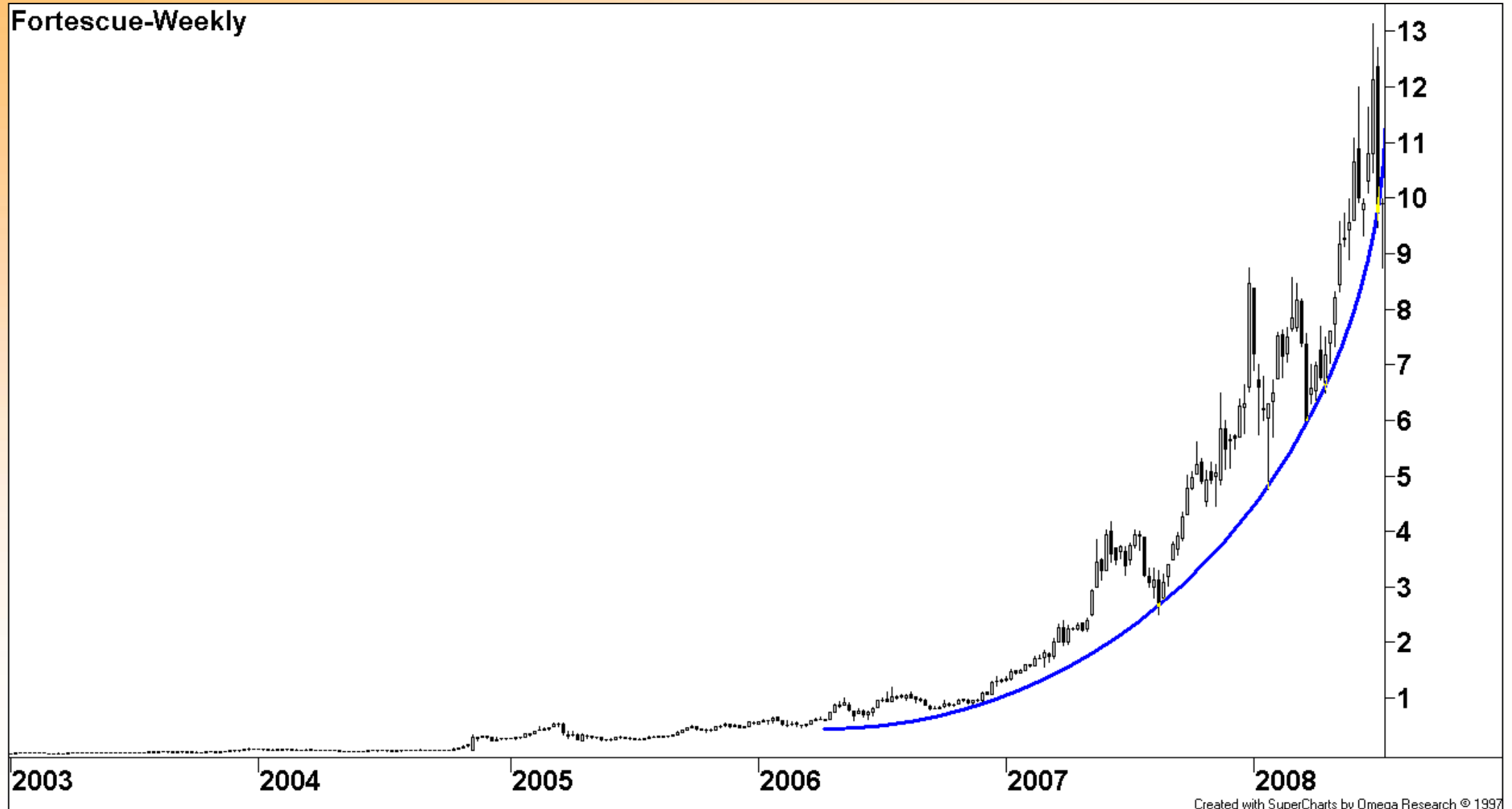
A2 MILK COMPANY-Weekly



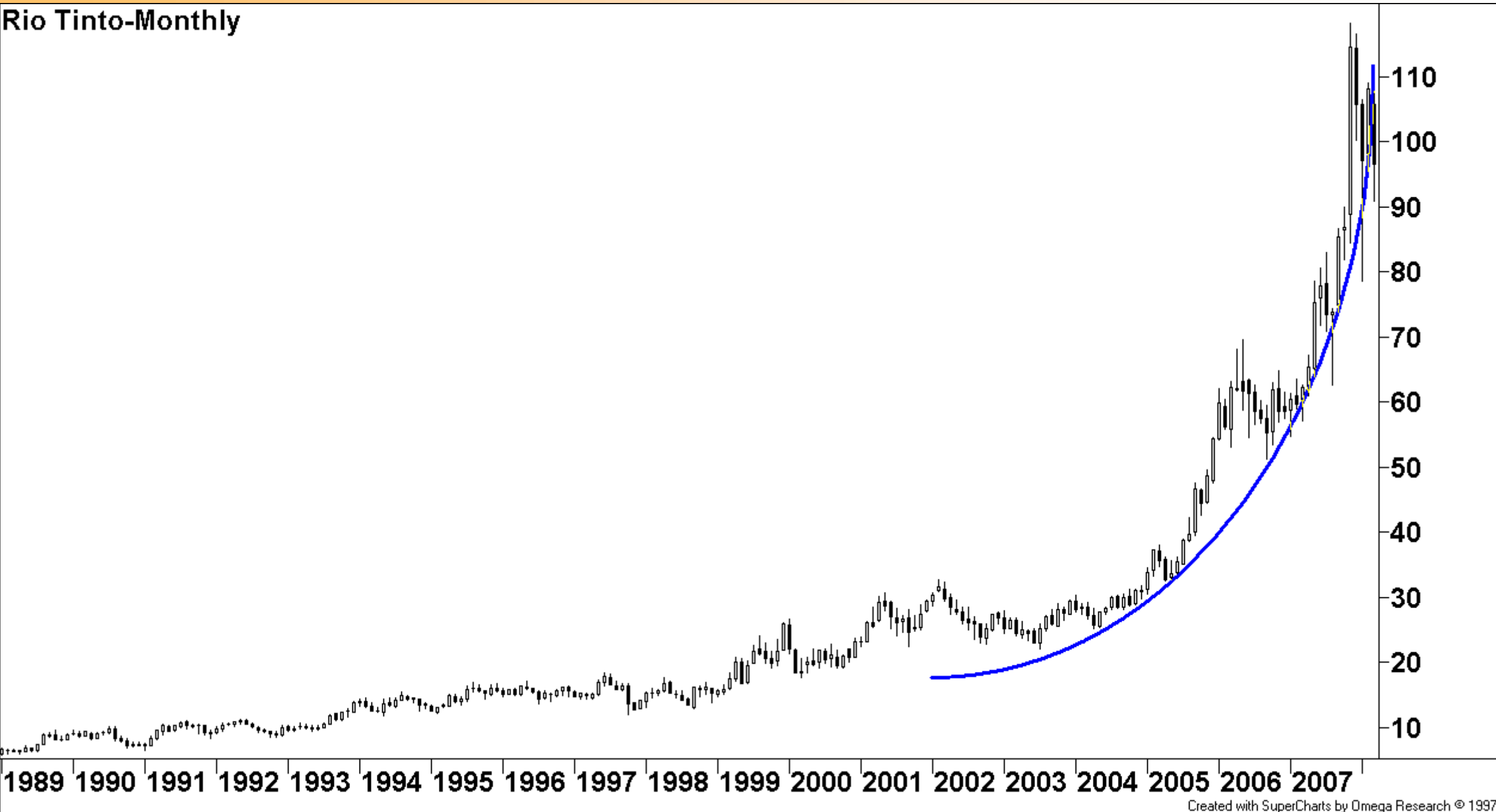
Vocus-Monthly



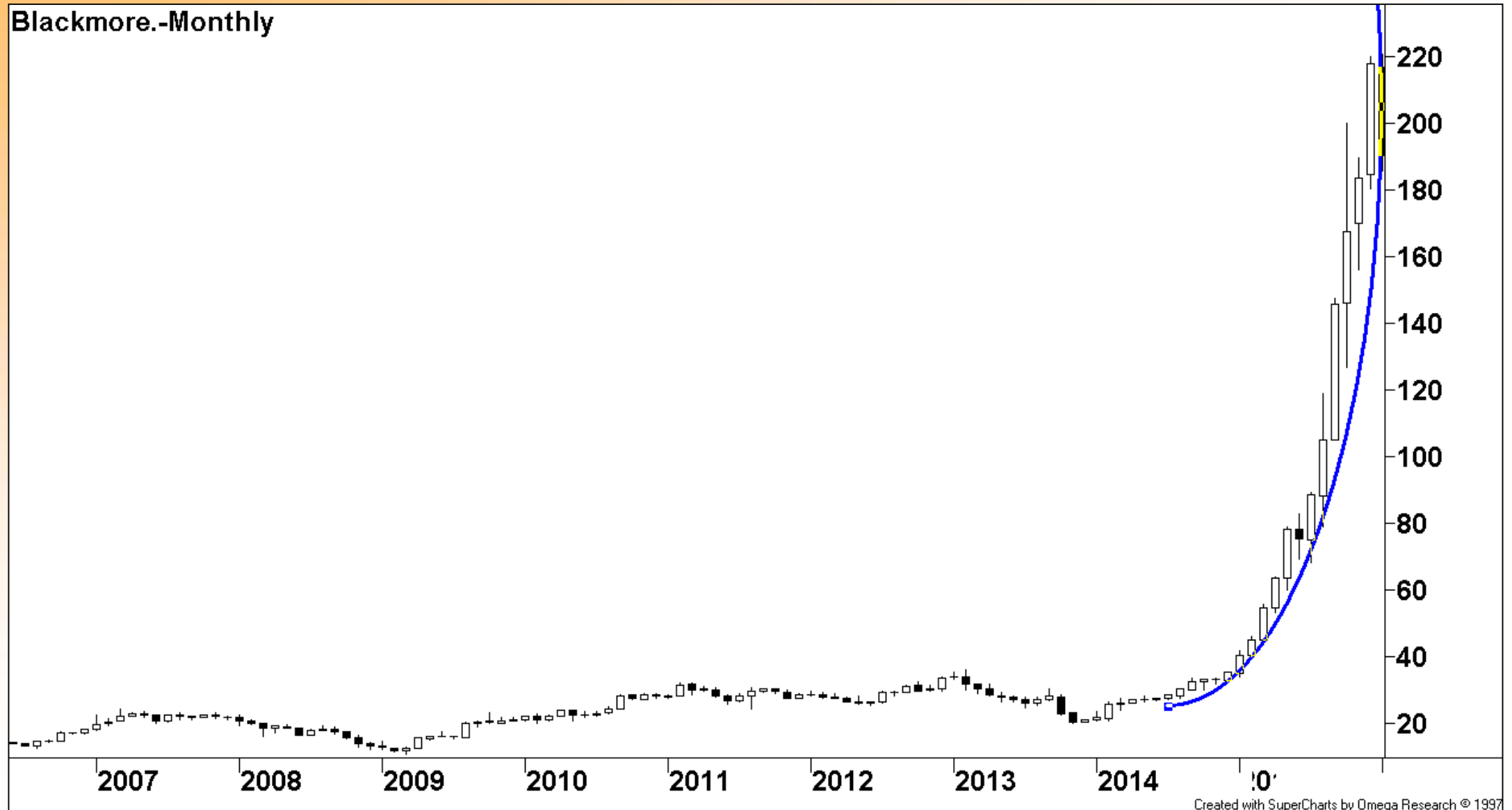
Initial exponential trends can have a delayed start



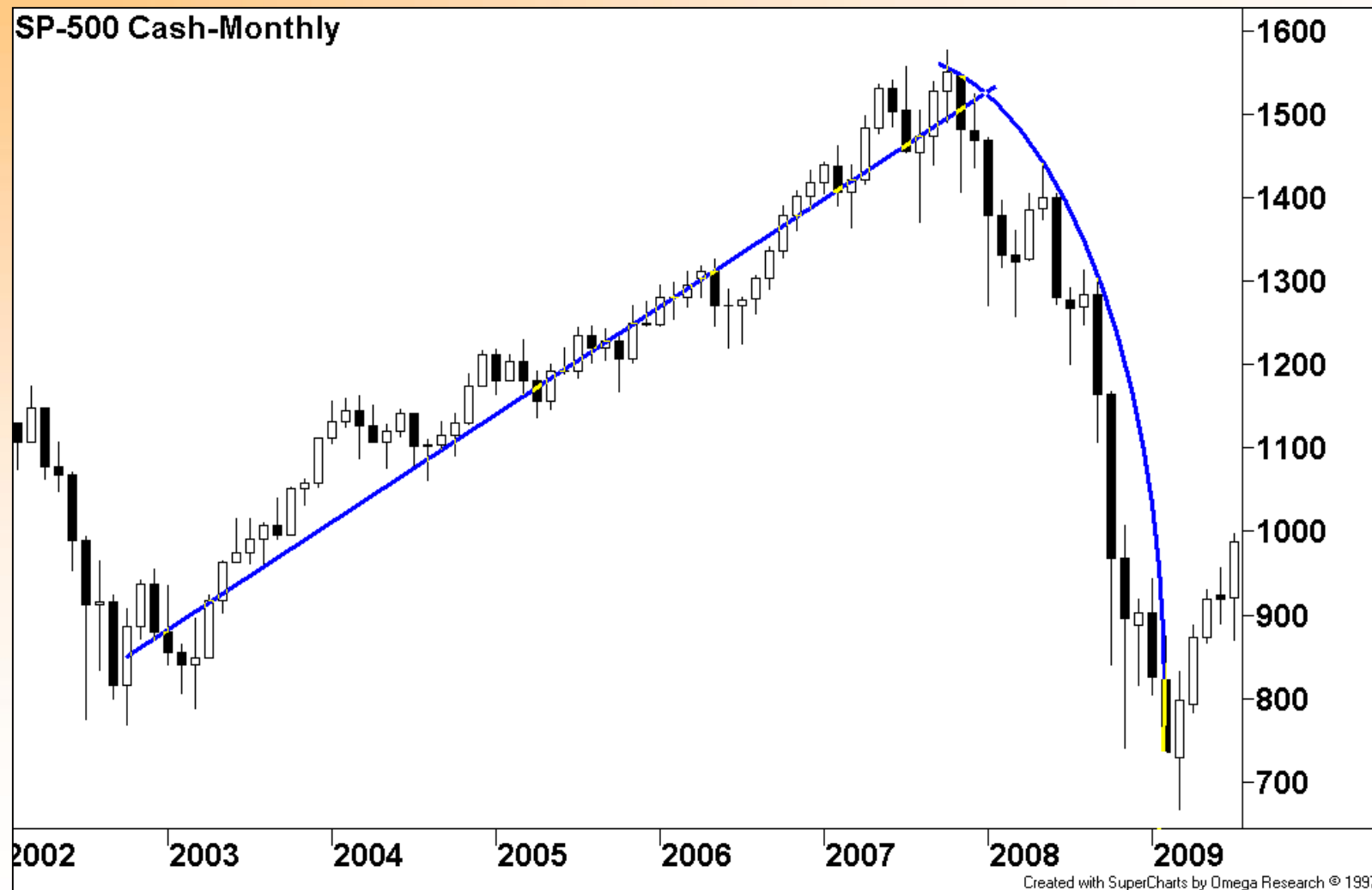
Rio Tinto-Monthly



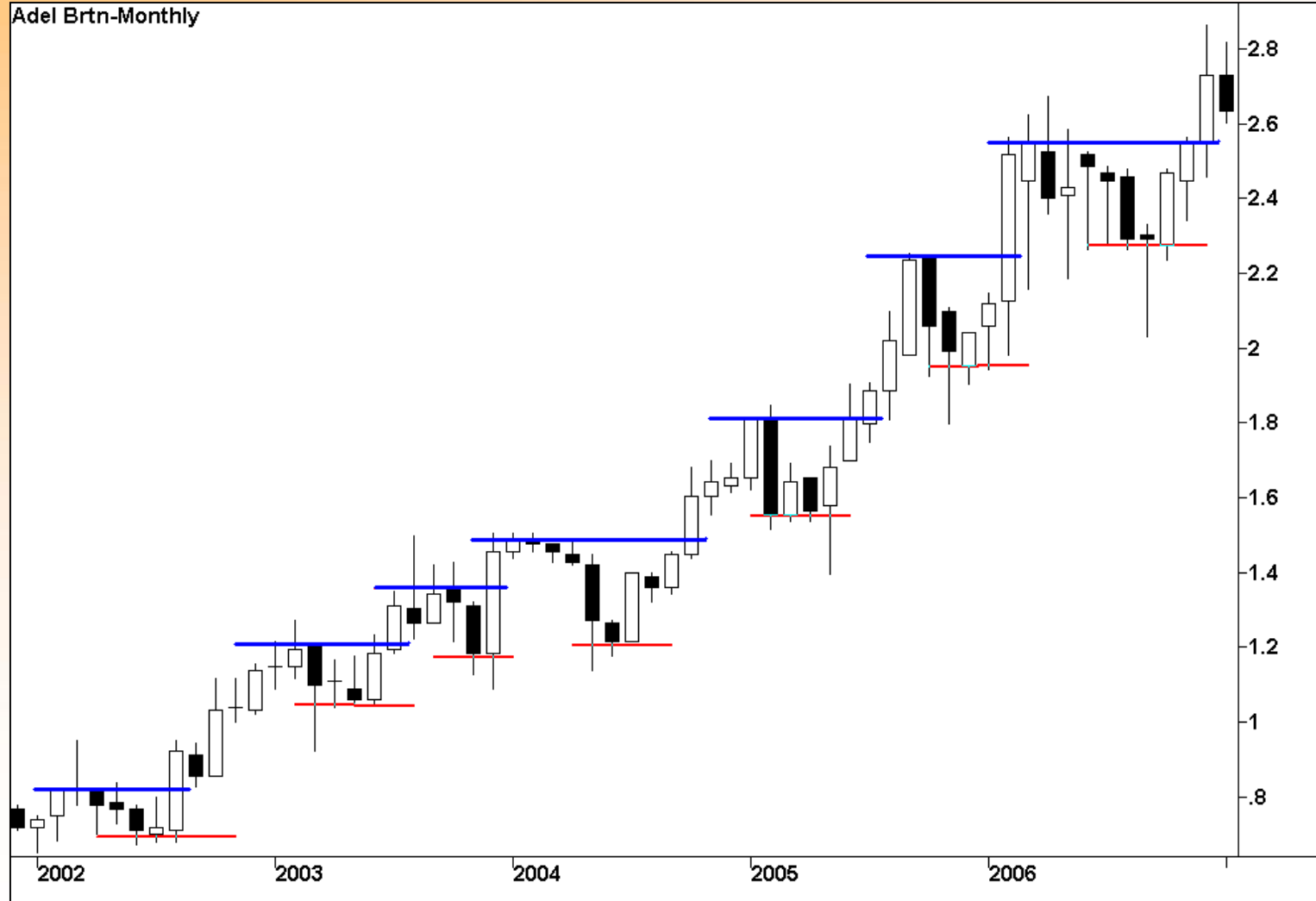
Exponential trends require technical management



Falling markets are commonly exponential because they are sentiment driven - such as the 2008 GFC...



Dow Theory can be used as a trailing stop loss - exponential trends shouldn't make lower troughs



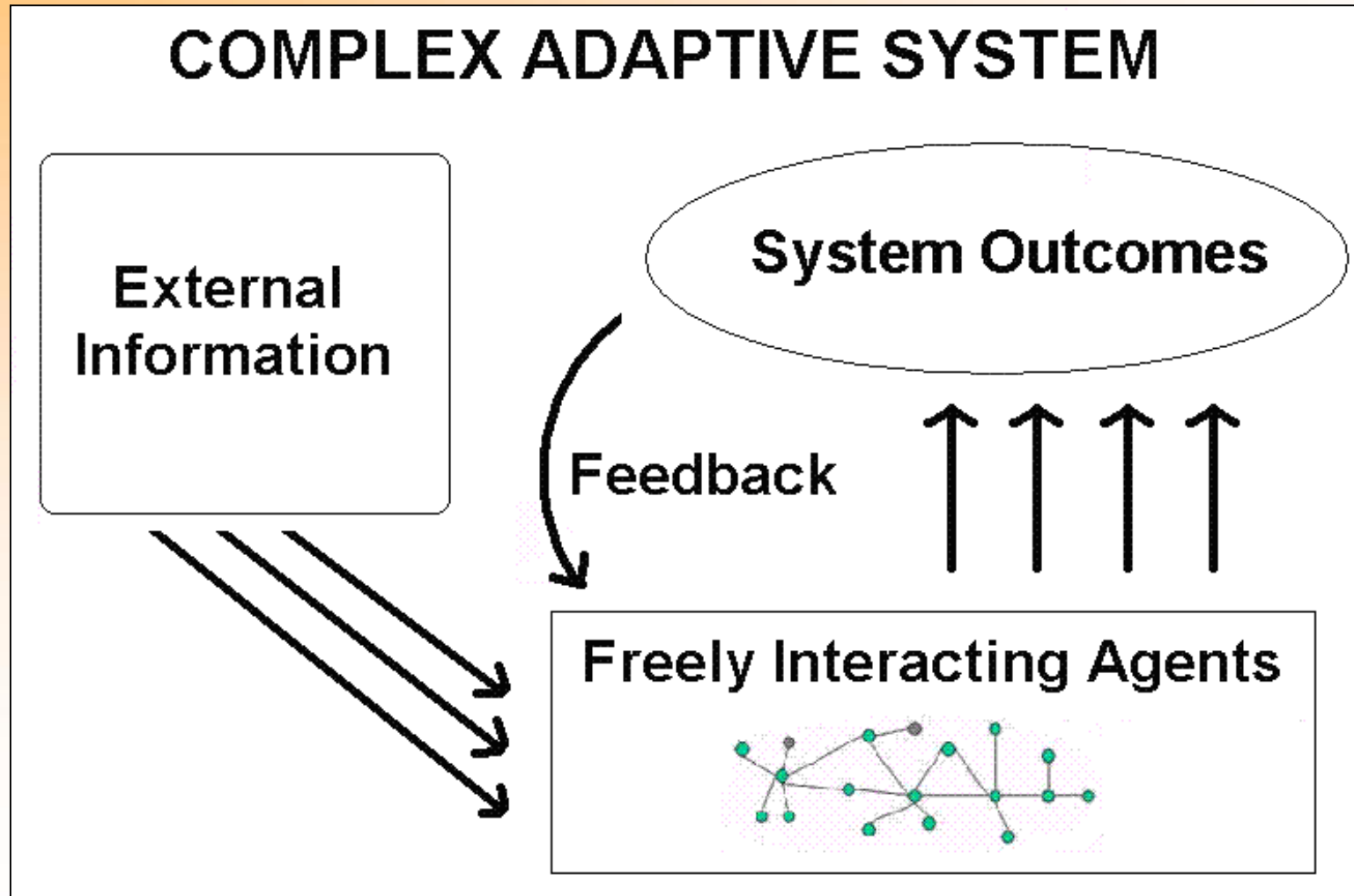
There is a link between fundamentals & linearity...



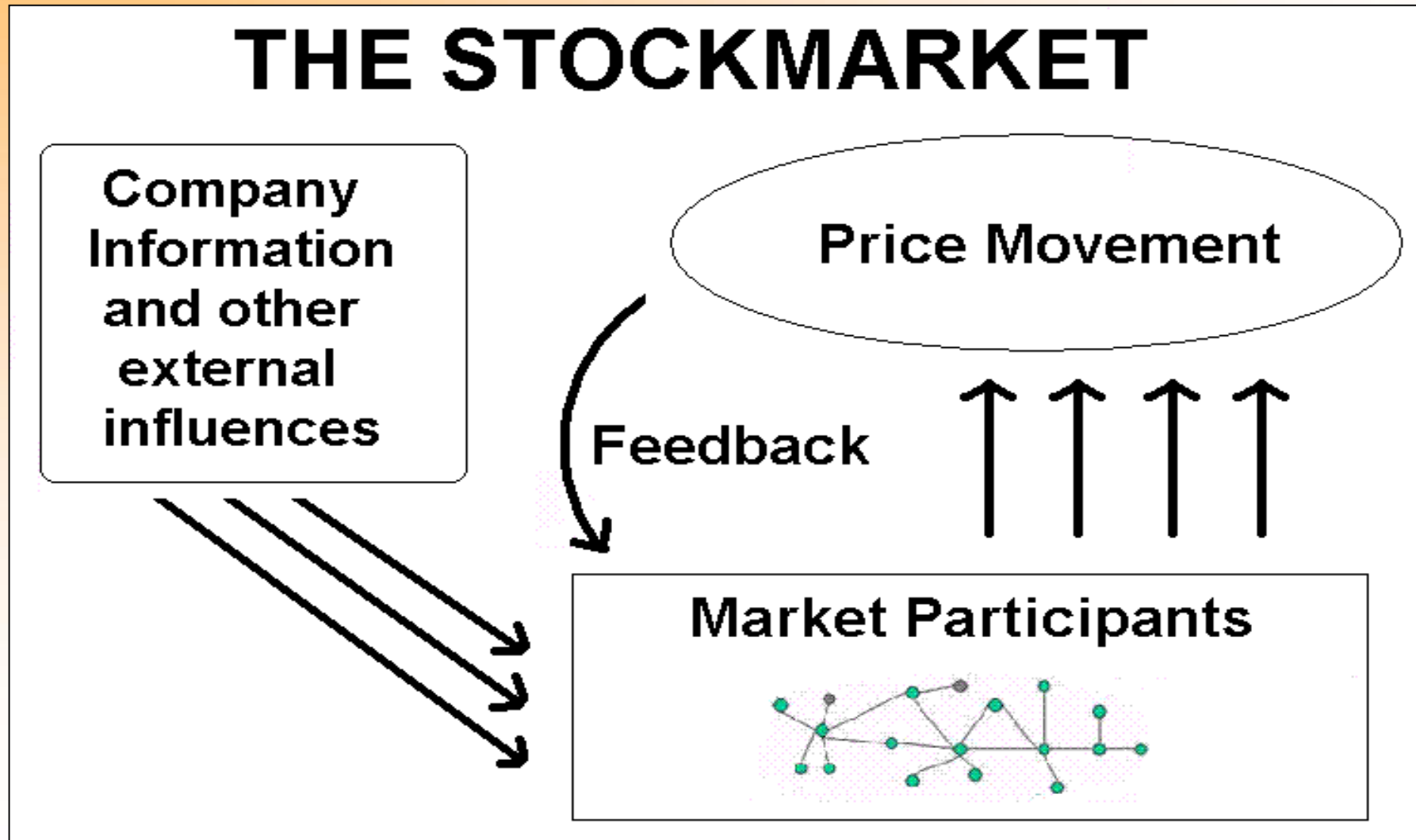
And a link between sentiment & exponential growth



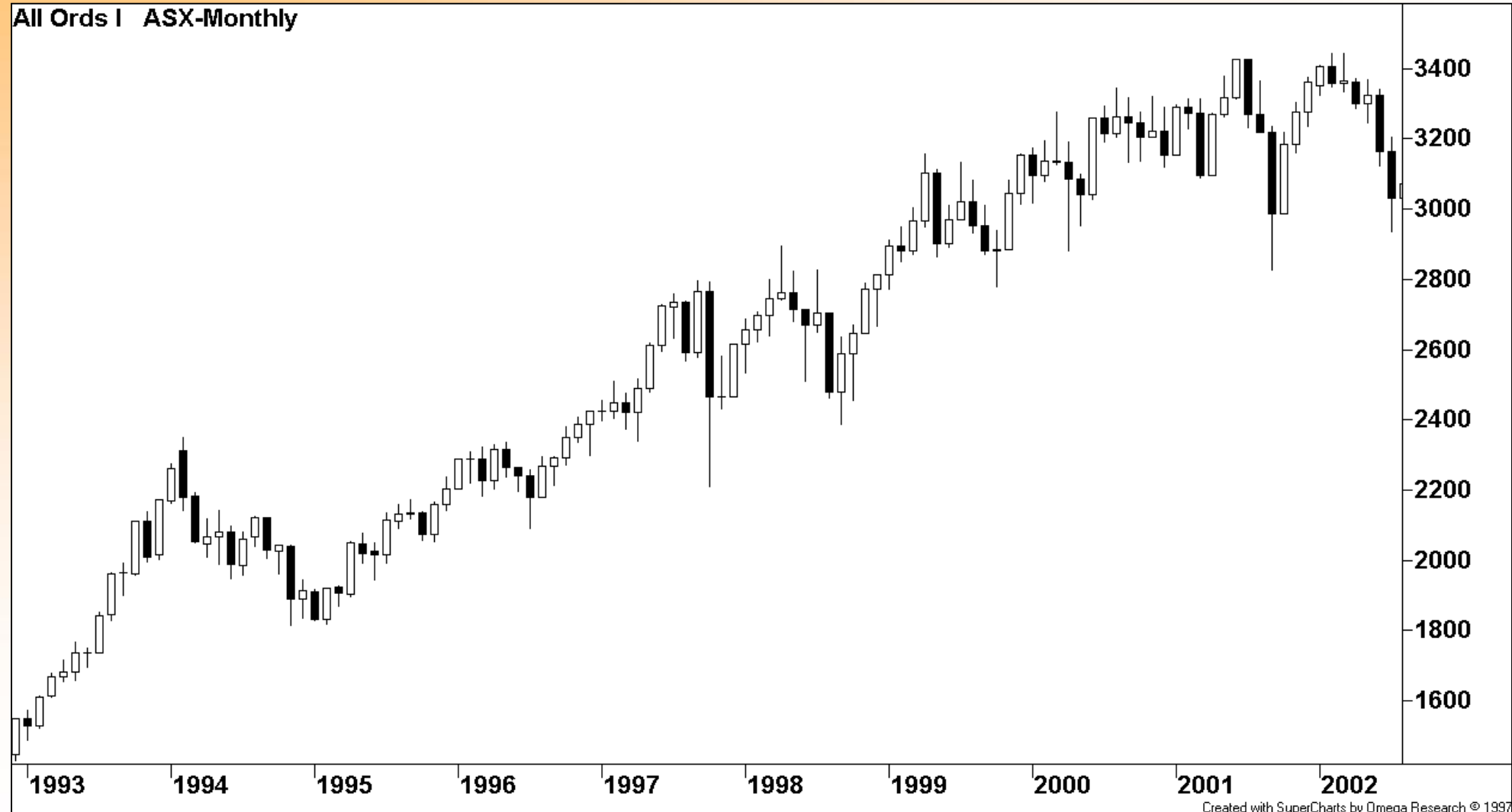
Many structures are complex adaptive systems - ant colonies - traffic - the eco system & financial markets



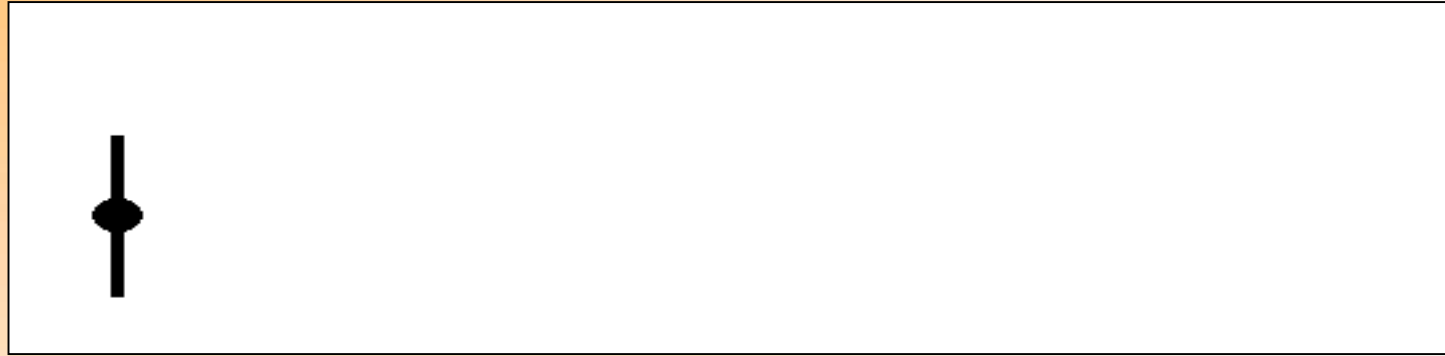
There are 2 key influences at work and exponential growth occurs because of the price feedback loop



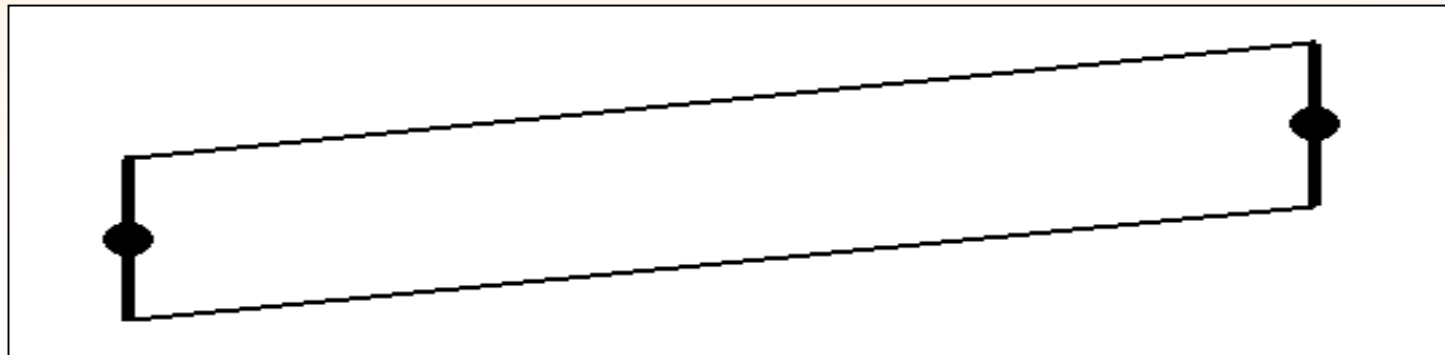
But why do we see linearity? Because when rational investors & traders are in control, they want linearity



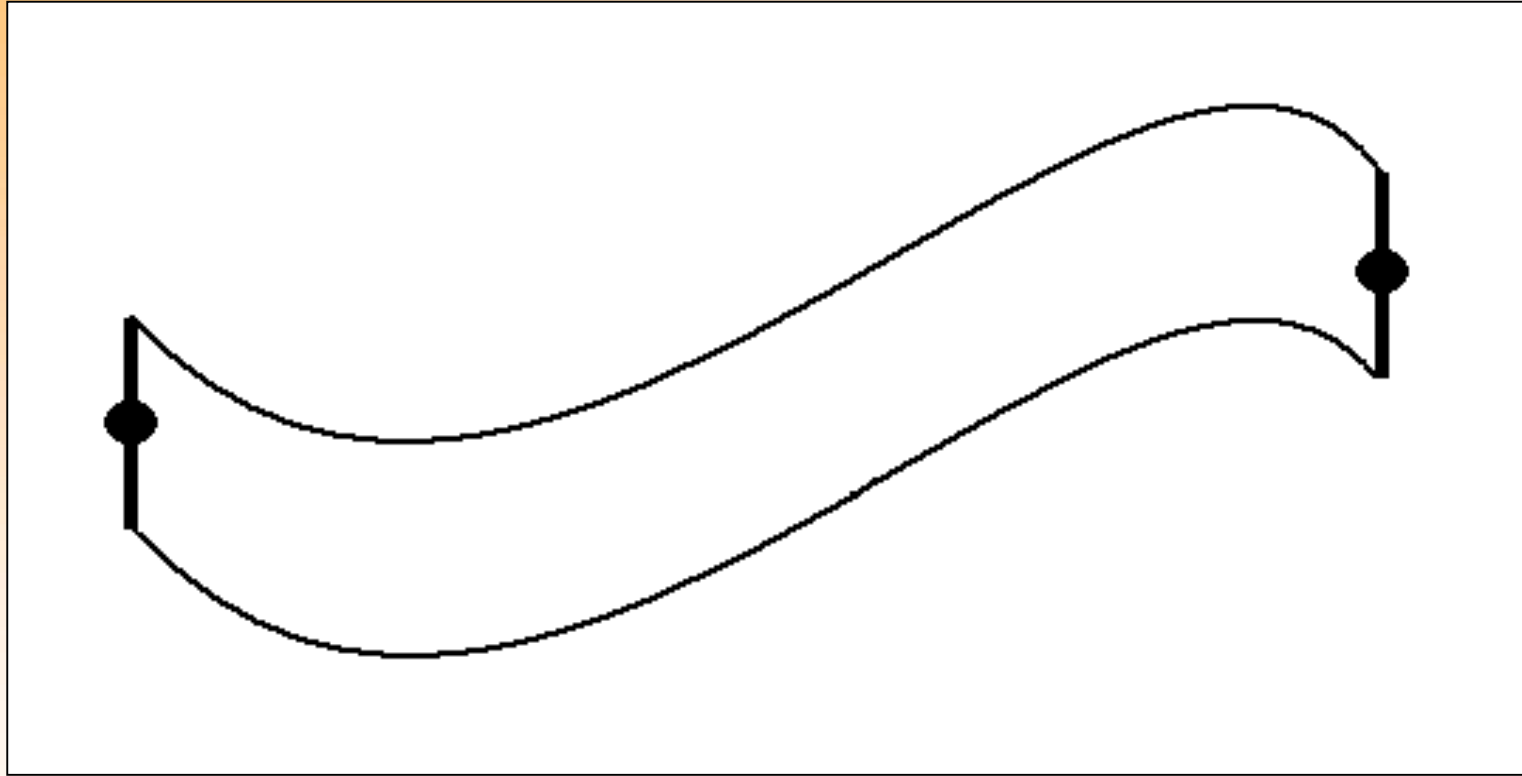
If you purchase an asset, wouldn't you want it to be valued at a fair price...give or take a small margin?



And of course you would want the price of your asset to steadily rise with the passage of time

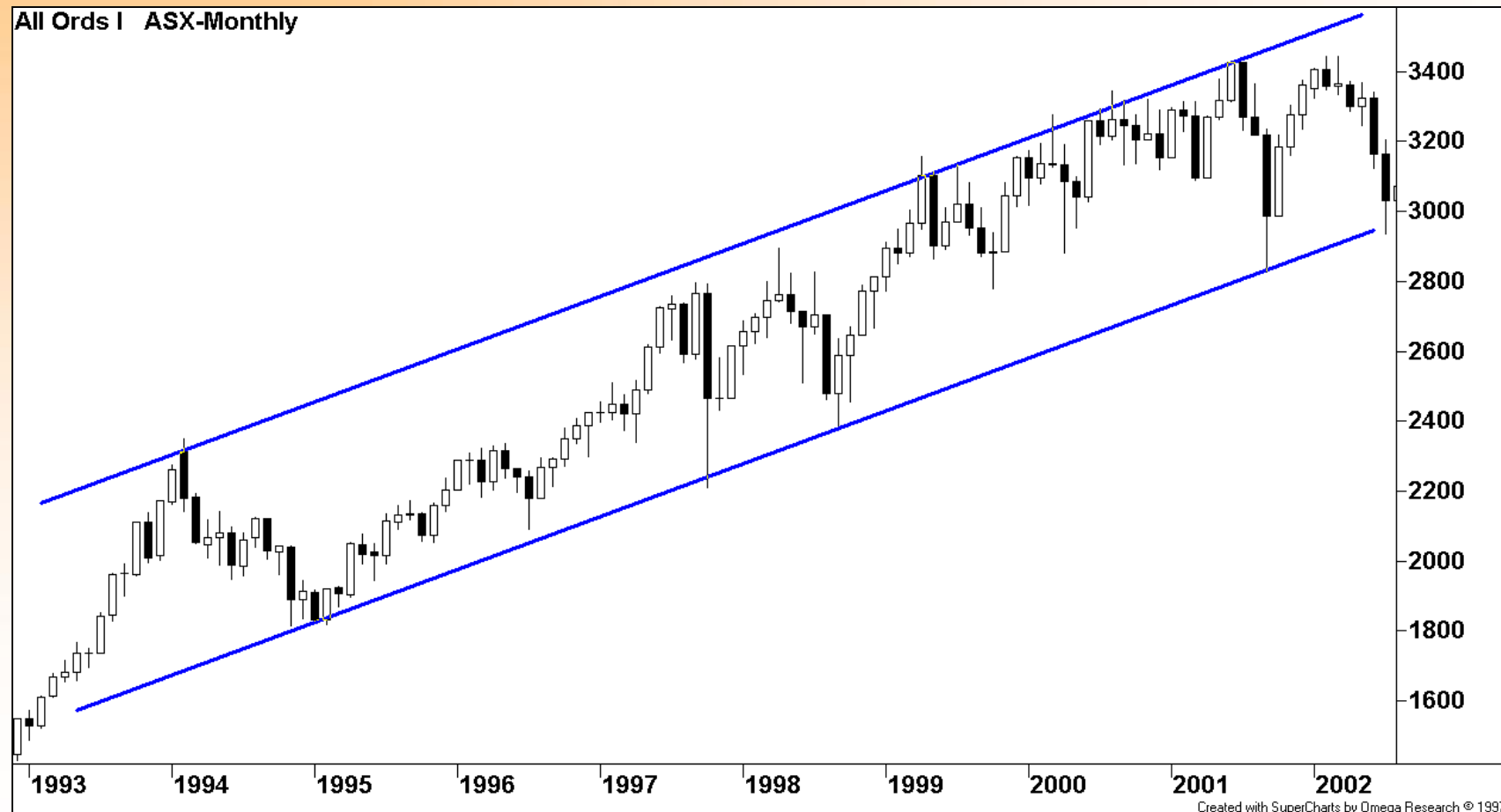


And we want the extremes (the passage) of price activity to behave in a predictable, 'Linear' manner



Human beings are very comfortable with linearity, which we subconsciously impose on the markets

Now take another look at the chart of the All Ordinaries index and marvel at how 2 parallel lines captures nearly 10 years of market activity



And markets will change mode...over and over again

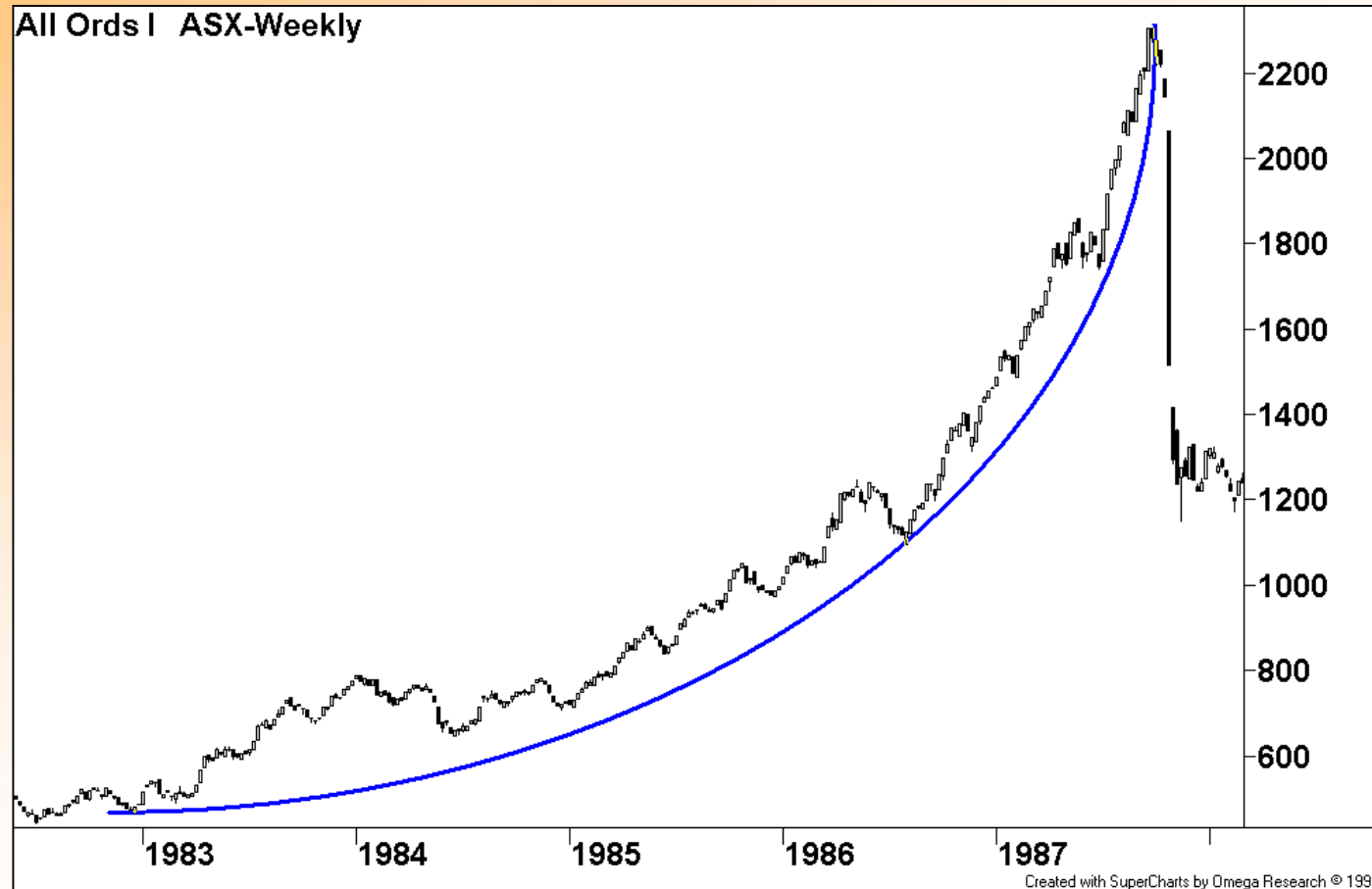


So if the primary trend (the largest trend you can see) is linear then you are investing in a rational market..



These markets can be traded with fundamentals

But if the primary trend is exponential then you're dealing with a market that's not primarily rational



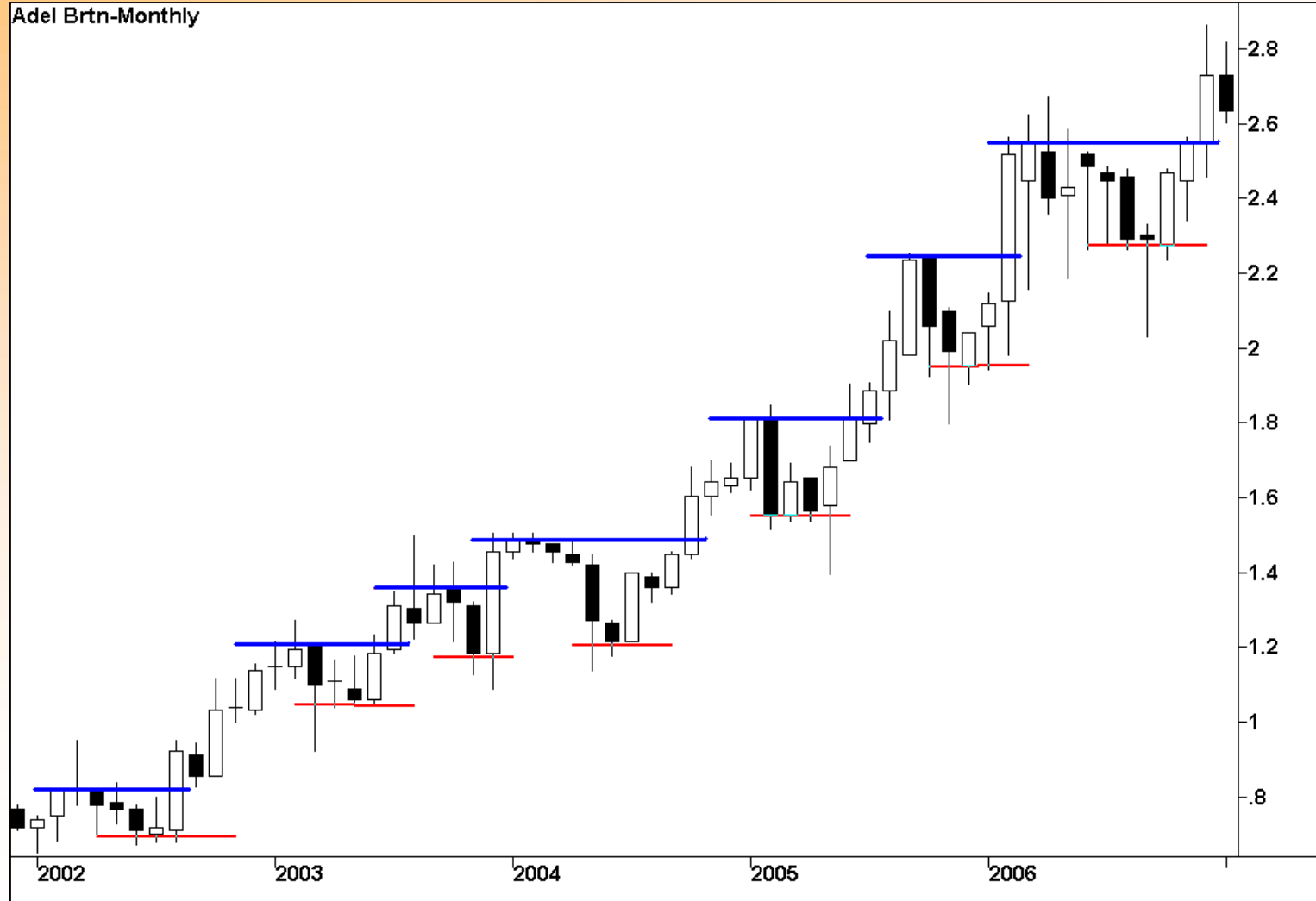
These markets definitely need a technical approach

**...because they have a nasty habit of crashing
as they are not fundamentally underpinned**

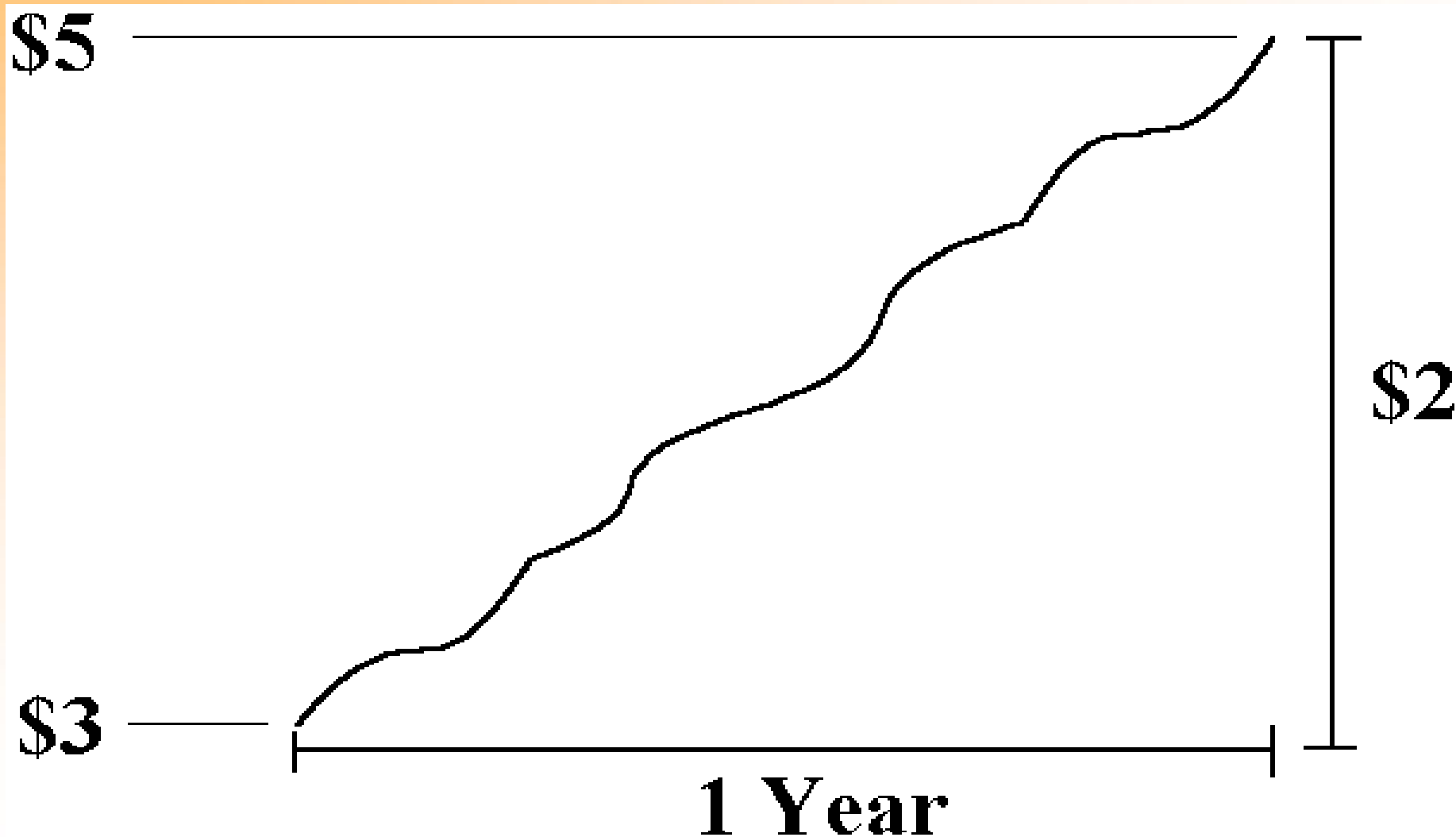


Hence markets more often than not, fail upwards

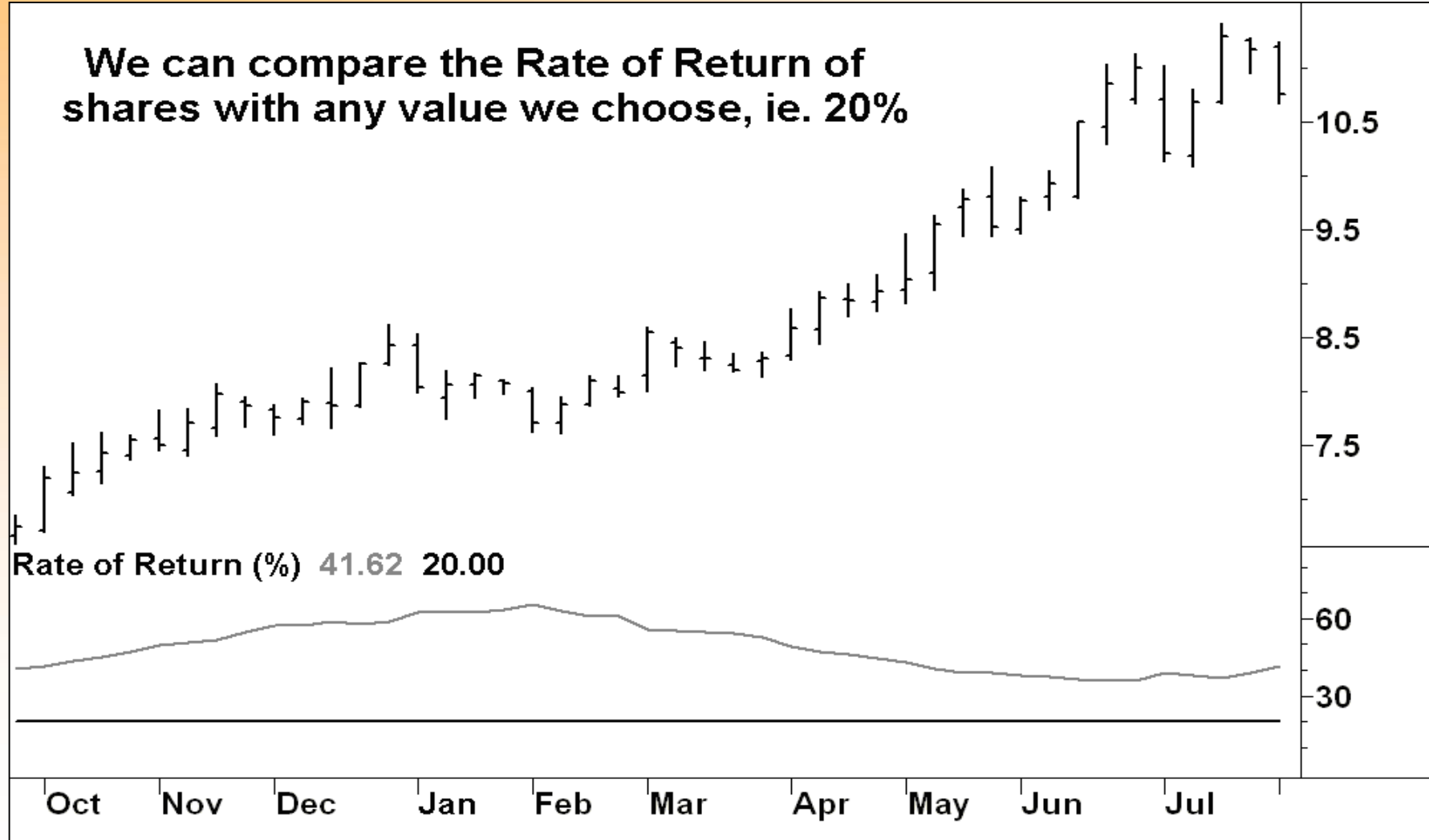
As already stated, Dow Theory can be used as a trailing stop loss for all trends - it's universal



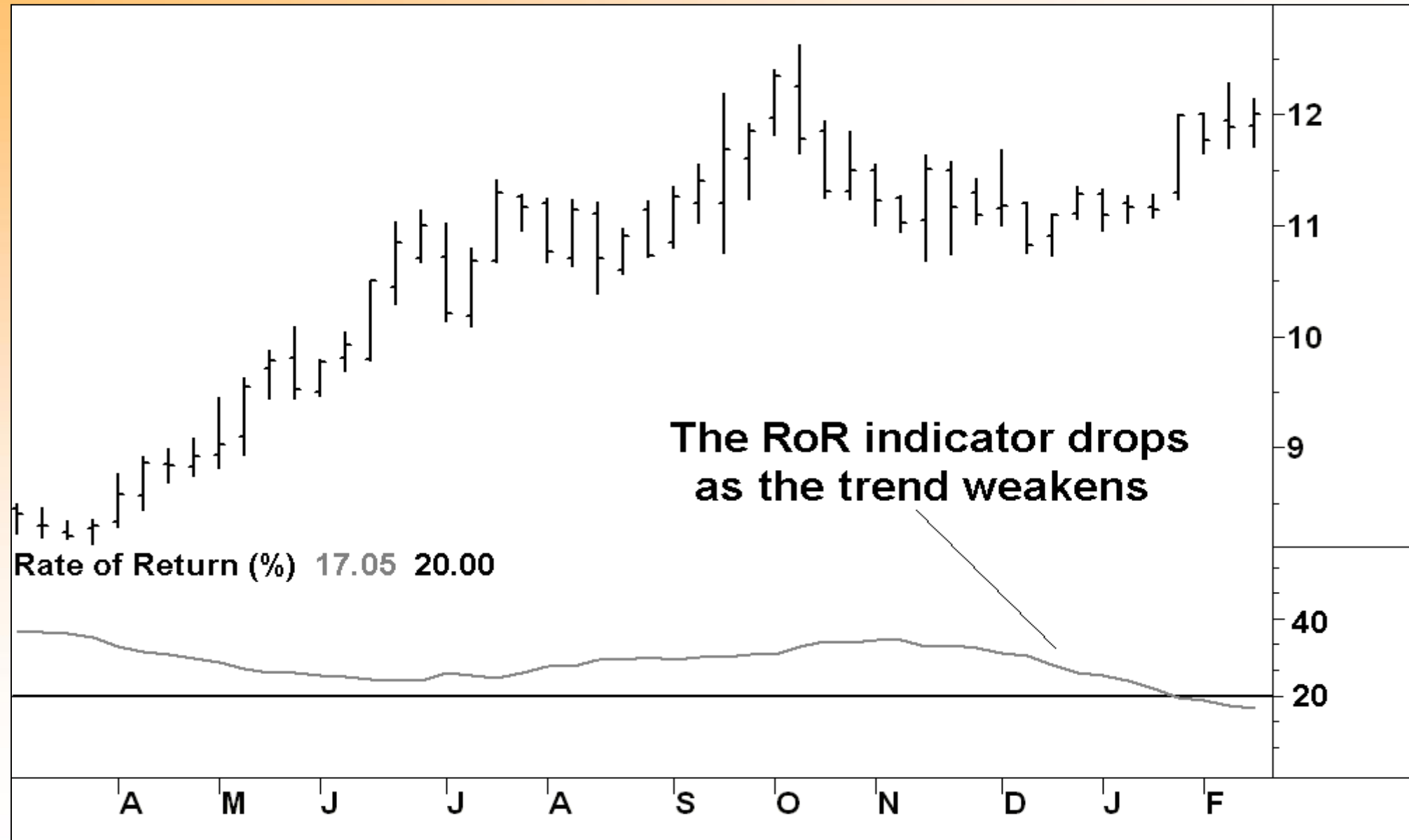
But one limitation of using Dow Theory to analyse trends is that it's polarized...it can't compare trends



The Rate of Return indicator can measure & compare the profitability of different trends & set a benchmark



And provides the bonus of a time based stop loss...



And what came first the chicken or the egg? Initial trends are often exponential because a market has not yet developed into a complex adaptive system



The Sunday Traders Club

On the first Sunday of every second month, traders & investors who use my products & services and others can meet to network with each other. There is no joining fee and attendance is on a casual basis where newcomers are always welcome. It is held at the Wantirna Club, near Knox City. For further enquiries or to be added to our mailing list, please send an email to me at alan@actvest.com

Dates	Sunday the 3rd of February 2019
	Sunday the 7th of April 2019
	Sunday the 2nd of June 2019
	Sunday the 4th of August 2019
	Sunday the 6th of October 2019
	Sunday the 1st of December 2019

