SECTION 3 – Trending Tools

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Trends

Most people have heard of that overused phrase, "the trend is your friend." This next section is all about using the automated trending tools in TradeGuider to keep you on the right side of the market. Drawing manual trends has already been covered in the **Getting Started** manual (Step 7 – Drawing a Line Study.) We're going to start our tour with a very useful feature to show the Last Active Trend.

The Last Active Trend

Knowing the current trend direction, along with the trend boundaries (often referred to as a *trend channel*), is a useful starting point in your analysis. The chart below shows a trend channel that has been automatically calculated by the TradeGuider software:

The boundaries of the trend channel are shown by the dotted blue line. The following points are useful observations that will help you to judge potential moves:

• The chart above shows that *strength appearing* (denoted by the green rectangle) at the *bottom of a trend channel* is usually a significant event that *results in an upward price move*.

• Similarly, if weakness appears (denoted by red indicators) at the top of a trend channel, this normally indicates that a downward price move is imminent.

• Irrespective of whether an indicator is present or not, prices are usually seen to bounce off the sides of channel.

• If prices break out of the channel, *especially if they gap over the channel boundaries*, this is normally *indicative of an explosive move in the direction of the gap*. In the example on the previous page, prices are seen to gap down, over the bottom of the channel in an effort to quickly break through the support level. The price moves downward in a steep and determined move to the downside.   This principle is just as applicable if a gap to the upside is witnessed.

Tip
For more detailed information regarding the use of trend channels, refer to the **TradeGuider Primer**.

Displaying the Last Active Trend

To draw the last active trend:

• Select **Trends > Last Active Trend** from the menu.

You should immediately see a trend channel superimposed over the chart.   If this isn't the case, it could be that you need to adjust the sensitivity for this feature.   To adjust the sensitivity:

•   Select **Trends > Sensitivity** from the menu.

•   Use the spin control to change the sensitivity level from 1 to 20, where 1 is the least sensitive and 20 is the most sensitive.
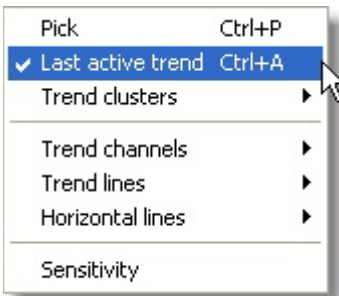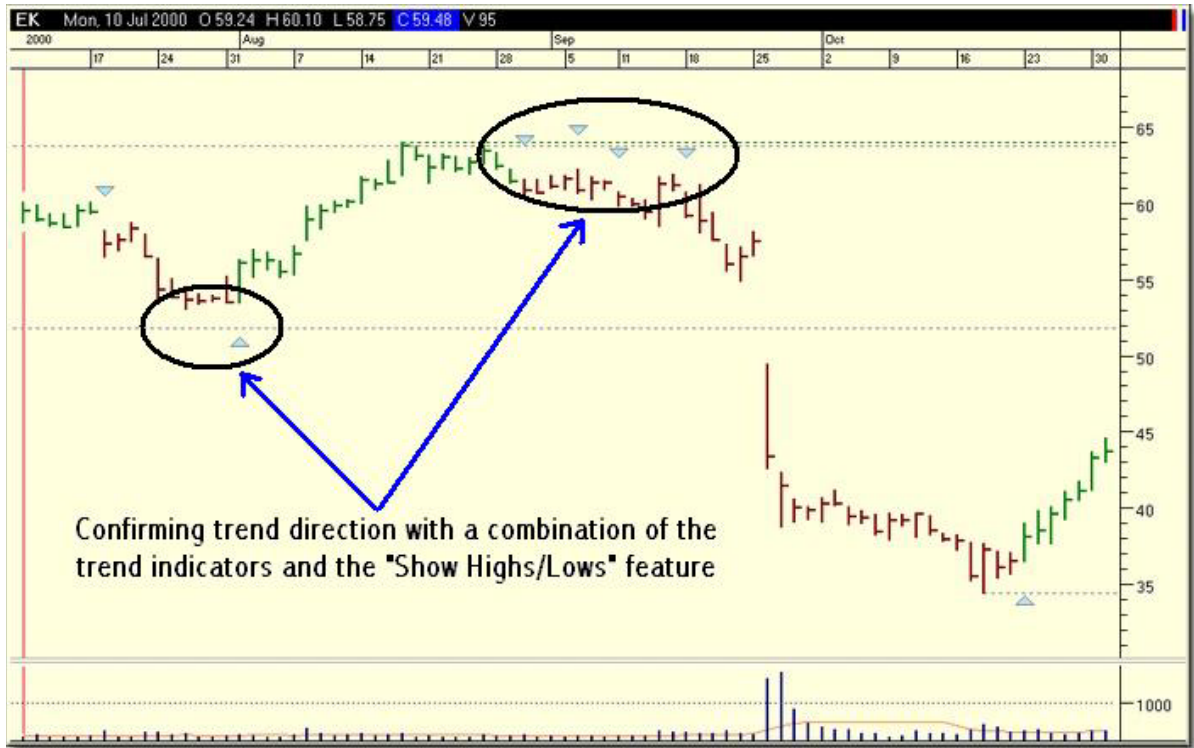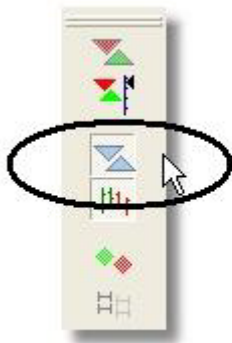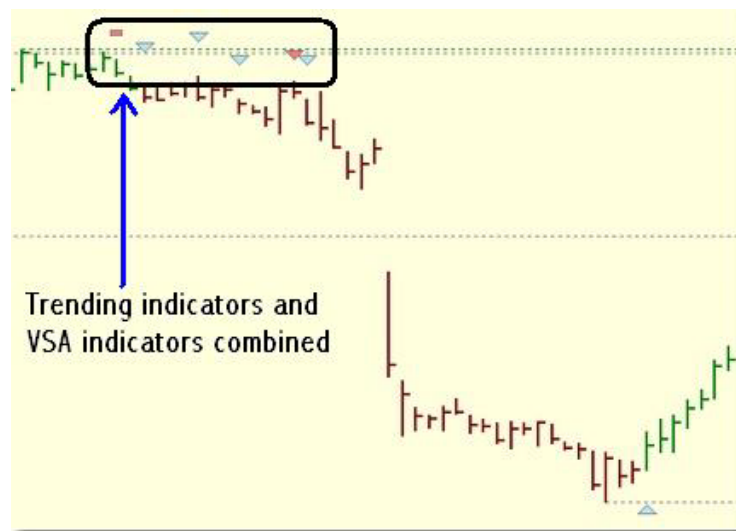
The Trend Indicators

TradeGuider has a volatility-based, trend break-out system, which displays blue indicators when trends breach an automatically calculated price level.

The effectiveness of the trend indicators can be improved by combining them with other systems, such as the "Show Highs & Lows" feature (see below.)

Confirming trend direction with a combination of the trend indicators and the "Show Highs/Lows" feature

… or, you could add the volume spread analysis (red/green) indicators for an extra dimension that takes volume into account.

Trending indicators and VSA indicators combined

Displaying the Trend Indicators

To display the trend indicators, click the **trend indicator** button, which can be found on the *Analysis* toolbar.

If the trend indicator button is pressed again, the blue trend indicators are turned off.

Short Term Trend Changes - The Diamonds

If you're an active trader, you should find the 'diamonds' particularly useful as a simple and quick visual guide as to whether the trend is up (green), down (red), or about to change (white). The diamonds are an attempt to normalise and smooth the price action. Whatever your trading style, it's a flexible indicator that can be set up to aid you in 'scalping' or swing trading on intraday charts, position trading on daily charts, or ev en in medium/long term investing on weekly or monthly charts.

Apart from the changing colour of the diamonds, one of the great things about this indicator is the way it levels out, as prices become slow to progress. If prices sudde nly surge forward, this indicator will also accelerate upwards or downwards, smoothing out the fluctuations caused by minor corrections or reactions.

The chart below shows what the diamond indicator looks like when it's superimposed over a chart.


In common with other tools and indicators in TradeGuider, the diamonds can be used on an individual basis, but they are more effective when used as part of a trading set-up, in combination with other features. We shall be looking at a suggested set-up later on in this guide.

Interpreting Trend Status Using the Diamonds

When attempting to trade with the trend, one question that has always posed a problem is, "How do I know when a trend is in progress?" And similarly, "How do I know when a trend has reversed?" The diamond indicators can be used in a definitive and objective way to answer these questions, helping you to trade in a more informed and less emotional way. Below is a brief description of the definition for a trend, a pause in trending, and a trend reversal.

1. Trend in Progress

The graphic below shows a *downward* trending market. This is characterised by the following:
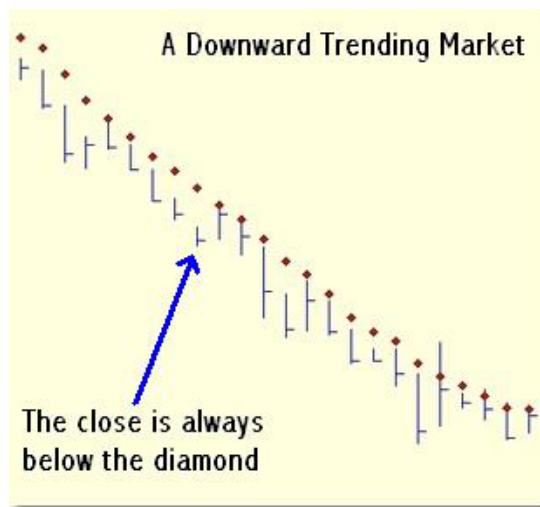
- Red diamonds
- Falling diamonds
- Closing price below the diamonds

The graphic below shows an *upward* trending market. This is characterised by the following:

- Green diamonds
- Rising diamonds
- Closing price is above the diamonds

2. Trend is Stalling

The graphic below shows a *pause in a downward trending market*. This is characterised by the diamonds turning colour from red to white:
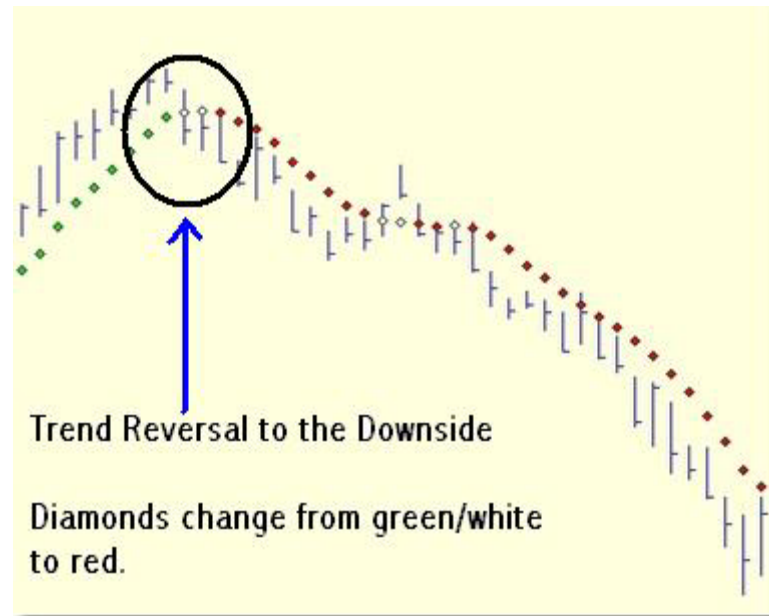

The graphic below shows a *pause in an upward trending market*. This is characterised by the diamonds turning colour from green to white:
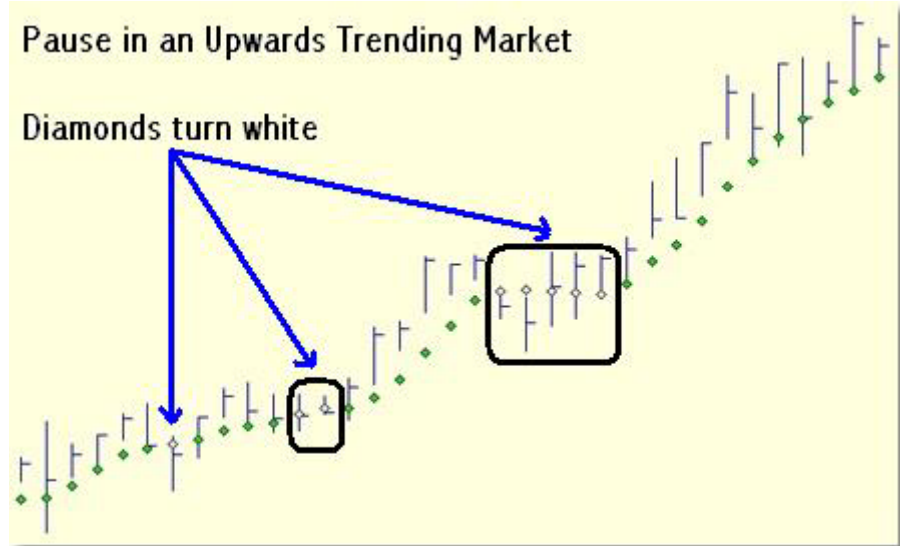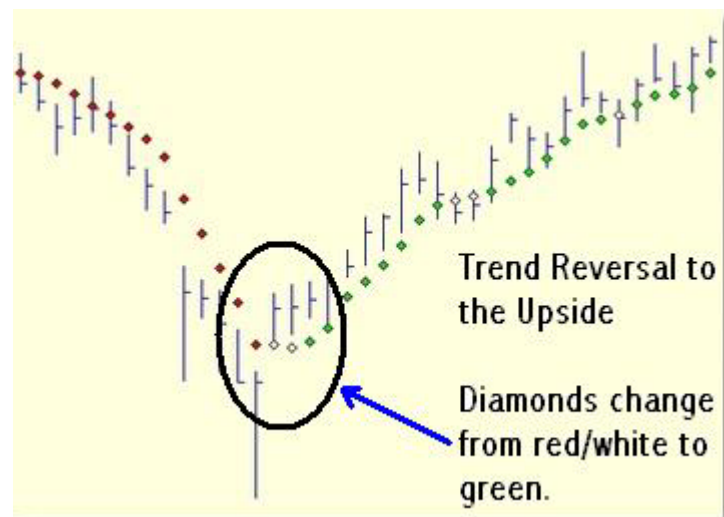
3. Trend is Reversing

The graphic below shows a *trend reversal from long to short*. This is characterised by the diamonds turning colour from green/white to red:


The graphic below shows a *trend reversal from short to long*. This is characterised by the diamonds turning colour from red/white to green:

Taking an Overall View of the Diamonds

The next graphic shows the diamonds operating over an extended period of time. You can see very graphically how this indicator can help you to recognise when a trend is changing from one direction to another. Moreover, you can also see how the colours tend to lock onto the trend and absorb minor adverse moves that are against the trend.
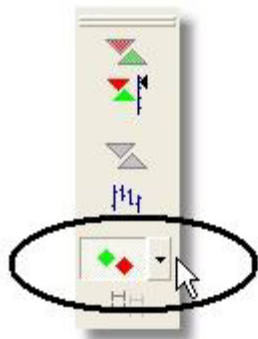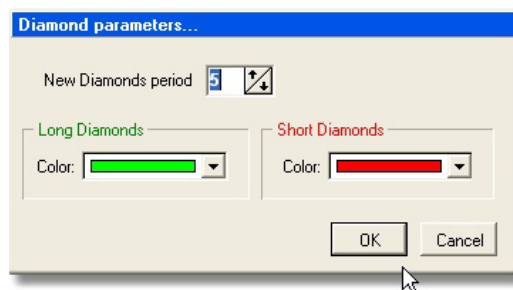

Displaying the Diamond Indicators

To display the trend indicators, click the **diamonds** button, which can be found on the *Analysis* toolbar.

If the diamonds indicator button is pressed again, the diamonds are turned off.

It's possible to change the setting of the diamonds to take into account your own personal preferences. To adjust the settings, click the small black triangle that appears next to the diamond button. Change the Period setting using the spin control. The larger the number, the more smoothing (and lag) will be introduced.

Tip

When using the Diamond Indicators, you'll achieve better results from markets that trend in a consistent way – look at the major currency pairs and the bonds (T-bonds etc.)

Medium Term Trend Changes – Bar Colouring

There is a second trending system in TradeGuider that is designed to be a lot more insensitive to minor trend changes.   It's a volatility-driven system which takes into account how much a market moves.   The more a market moves, the more forgiving the system becomes to adverse price excursions against the trend.   However, if a market isn't that volatile, the trending system becomes more responsive to movement.   Have a look at the chart below for an example of this system in action:


As can be seen from this chart, this type of trending system is more forgiving with regards to adverse moves, or a temporary slowing of price momentum (unlike trending systems that are based on moving averages.)

This system can be used in conjunction with other features (according to your preferences), as part of an overall trading set-up.   A suggested set-up is demonstrated later in this guide.

Displaying the Trend Bar Colouring System

To display the trend bars, click the **trend bar** button, which can be found on the *Analysis* toolbar.
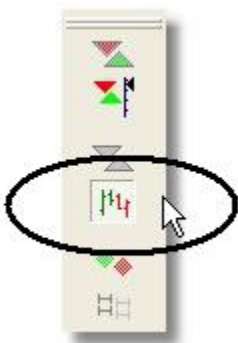
Trend Clusters

Trend clusters are discussed in the TradeGuider Primer in some depth.   Basically, these areas are an extension of support and resistance, but applied to trends, rather than highs and lows.   Where historical trend lines intersect, we call this a 'trend cluster', and display a rectangular block on the chart to signify this.   Trend clusters represent strong areas of resistive price levels.   The chart below shows the clusters and the highs/lows features display together.

There are a number of things to look out for when using the cluster facility:

When the price is in the vicinity of a trend cluster, there will be a good chance that price action will retreat from the cluster, on narrowing spreads and a reduction of volume.

If the prices break past the cluster, they will tend to continue in the same direction, until further support or resistance is encountered.   There are examples of this sort of thing happening in the chart on the previous page.

In situations where the clusters and the show high/lows feature are displayed at the same price level, one can assume that there is a greater possibility of prices reversing.

Prices can often be seen to meander between a narrow, confined area, such as in the chart below.

On occasion, the price will punch straight through the cluster on a wide spread with significantly increased volume (see chart below.)

When prices are in the vicinity of a cluster, they will normally be extremely resistive to price penetration – see the rectangular area that is shown top centre in the following chart for an example of this sort of observation.

Displaying Trend Clusters

To display trend clusters, click the **cluster** drawing tool as shown in the toolbar below:
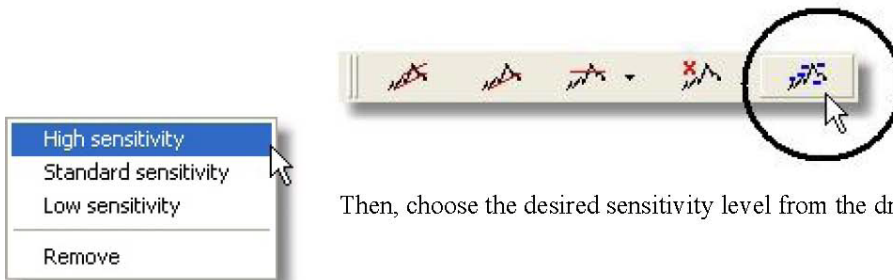
Then, choose the desired sensitivity level from the drop-down menu.

Tip
For more detailed information regarding the use of trend clusters, refer to the **TradeGuider Primer**.

If the *trend bar* button is pressed again, the coloured bars will be turned off.