

SECTION 5

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andreybbrv@gmail.com

andreybbrv@yandex.ru

Skype: andreybbrv

Drawing Tools



Line studies help you to see trends and patterns in a chart, which can give you an edge

Have a look at this chart: Where are the support and resistance levels? To answer this question, we need to draw trend lines to make it easier for us to visualize where they are. To make the line studies easily accessible, a Drawing Toolbar is displayed at the top of the screen. Each of the line studies can be accessed with a single mouse click.

To learn what a particular button does, hold the mouse motionless for about a second over any button, and a “ScreenTip” will appear showing the name of the button.

Drawing a trend line

Click the **New trend line** button.

The Status Bar at the bottom of the screen is replaced by the **Trend Drawing Wizard**.

Choose the base points (2 highs or 2 lows) by clicking on the first point and dragging the mouse cursor to the second point (or click the button to use the Trend Wizard).

Use Wizard

Cancel or <Esc>

The Trend Drawing Wizard is designed to help the complete novice draw trend lines, channels, or horizontal support and resistance lines. Rather than go through all the steps in the wizard, we are going to learn the point and drag method, which is a quicker way to draw a trend.

If you are new to technical analysis, you need to understand the basics of trend drawing before starting to draw the line. To properly draw a trend line, the following principles must be applied:

To draw a line of support,

The line must pass through at least two lows, where the line is not penetrated by the price.



This picture shows a perfect example of support in action. Note how the price touches the trend line and rebounds several times.

To draw a line of resistance

The line must pass through at least two highs, where the line is not penetrated by the price. Here we can see an example of resistance. The price bounces off of the line on a number of occasions.

Try not to be too strict when drawing trend lines, as there will be many instances where you can't apply the principles exactly. Drawing trend lines is a bit of an art which takes practice. It doesn't matter if a high or low doesn't quite touch the line, as long as it is in close proximity to it. Similarly, sometimes prices will slightly penetrate the line, but as long as they retrace, the trend line is still valid.

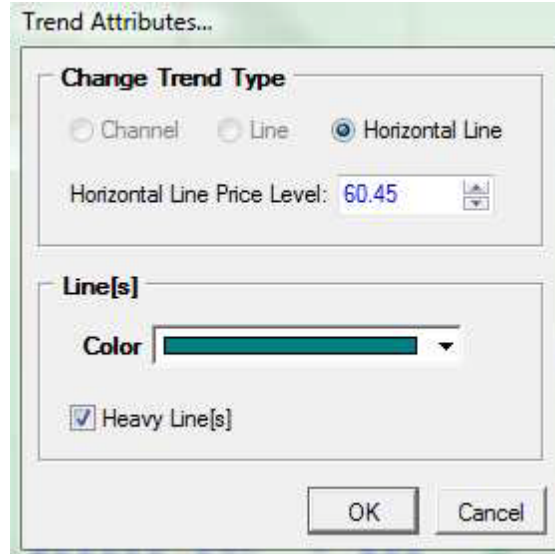


3. To draw the trend line, position the mouse crosshair at the starting point of the line, this is usually the first point of support or resistance. Then **click and hold** the left mouse button whilst moving the mouse crosshair to the end point, which is normally the last point of support or resistance. The trend line will stretch as you move the mouse.

4. Now release the left mouse button to anchor the trend line. The trend line is plotted and flashes to differentiate it from other line studies which you may have previously drawn on the chart. The Trend Attributes dialogue box is shown, which enables you to change the color and style of the line if you wish. For now, click the **OK** button to complete the process.

After carrying out this procedure for the support and resistance lines, you will be able to clearly visualize what is happening to the price action on your chart.

In the example below, we can see that a 'wedge' pattern has formed. The price that people are prepared to pay for this stock has narrowed over the course of time. Prices have now reached a point where they are severely congested. In this situation the price can break away explosively to the upside (or downside.)



Drawing a Trend Channel

Trend channels are another popular line study. A trend channel is drawn to highlight a trading range, where prices are contained within a 'channel'. This is a particularly good study for highlighting overbought and oversold levels. To draw a trend channel, follow the steps below:

Click the New Trend Channel button.

Choose the base points (2 highs or 2 lows) by clicking on the first point and dragging the button to use the Trend Wizard). Use Wizard Cancel or <Esc>

The Status Bar at the bottom of the screen is replaced by the Trend Drawing Wizard. The Trend Drawing Wizard is invoked. We'll skip using the wizard and use the point and drag method instead, which was used in the previous section to draw a trend. If you are unfamiliar with technical analysis, you need to understand the basics of how to draw a trend channel before starting to draw the line. To properly draw a trend channel, the following principles must be applied:

To draw an upwards trend channel, the bottom line must pass through at least two lows and the top line must be drawn from an intervening high.



This picture shows a good example of an upwards trend channel. Note how the price touches the bottom trend line and rebounds from it. A parallel line is drawn from the intervening high to show the expected resistance level. The inner quarter lines also provide support and resistance areas.

To draw a downwards trend channel, the top line must pass through at least two highs and the bottom line must be drawn from an intervening low.

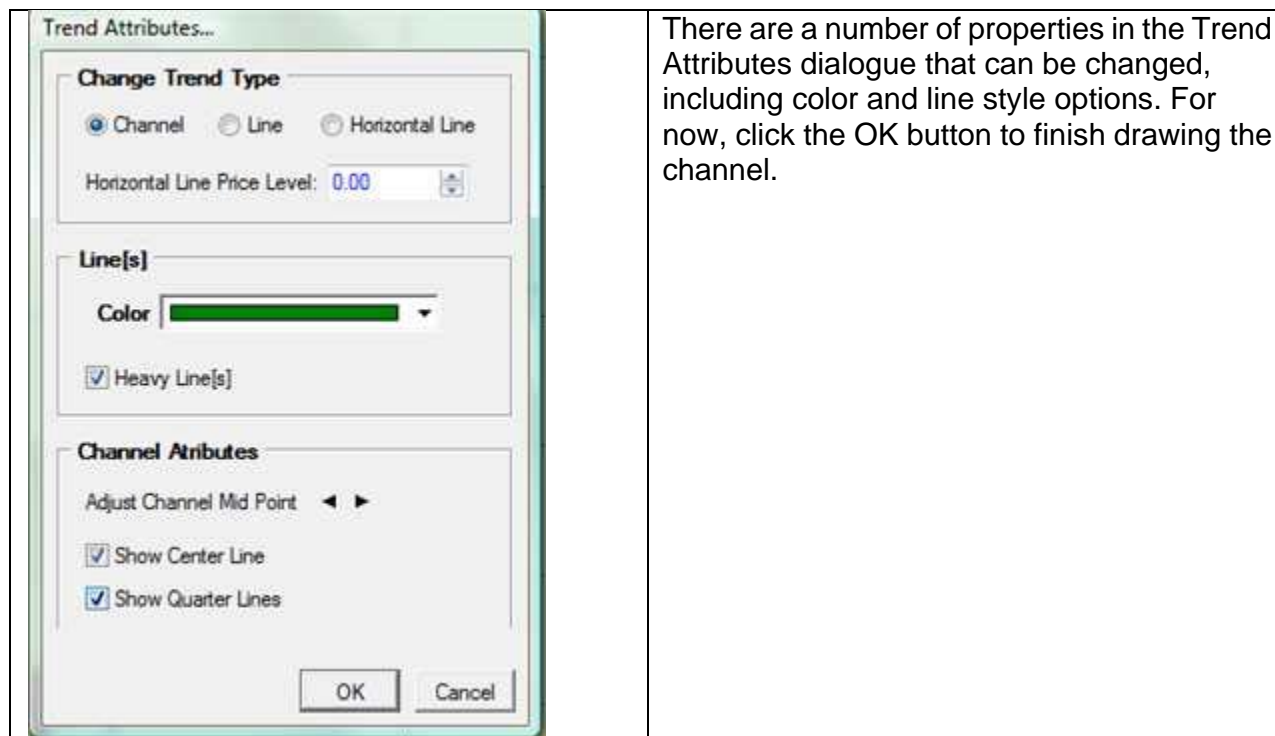


Here we can see a downward trend channel. The price touches the top trend line three times and rebounds from it. A parallel line is drawn from the intervening low to show the projected support level. The above chart shows how the price is contained within the bounds of the channel and refuses to penetrate through the support level.

3. To draw the trend channel, position the mouse crosshair at the starting point of the line, this is usually the first point of support or resistance. Then click and hold the left mouse button whilst moving the mouse crosshair to the end point, which is normally the last point of support or resistance. The trend line will stretch as you move the mouse.

4. Now release the left mouse button to anchor the trend line. The trend channel is plotted and flashes to differentiate it from other line studies that you may have previously drawn on the chart. The Trend Attributes dialogue box is shown, which enables you to change the color and style of the line if you wish.

The mid-point (i.e. the intervening high or low) is automatically selected by TradeGuider. If you prefer to select this manually, click on the left and right arrows to move the midpoint left or right.



There are a number of properties in the Trend Attributes dialogue that can be changed, including color and line style options. For now, click the OK button to finish drawing the channel.

In this next example, we can see a clear and well defined trend channel (sometimes referred to as a trading channel.) You will notice that the top and bottom quarters of the channel have also been plotted -these lines often act as support and resistance within the confines of a channel. Note how well the top and bottom quarters (dashed lines) act as either support or resistance. Eventually the price breaks out of the channel, but retraces soon after, using the top line of the old channel as support.

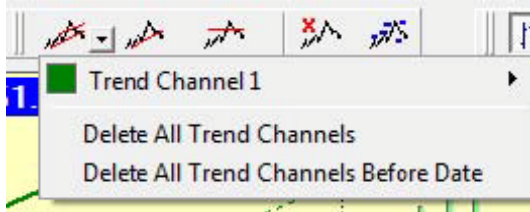


Modifying a Line Study

Previously we drew a trend channel - this exercise will show you how to change the properties of the channel to reflect your preferences:

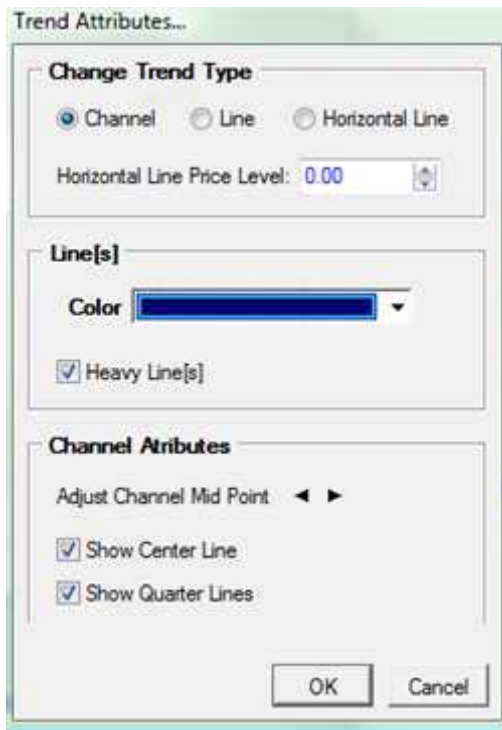
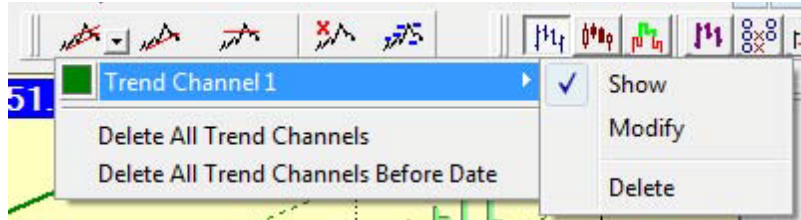
Position the mouse on the small downward facing triangle next to the Trend Channel button and click it with the left mouse button.





The Trend Channel menu is shown, which lists all the trend channels that have been drawn on the current chart. The channels are listed by color and number to make it easy for you to identify the one that needs to be changed. Select the channel that needs to be changed and then click the left mouse button. In this case it is Trend Channel 1.

Within the sub-menu, select Modify. The Trend Attributes dialogue is displayed.



Make the following changes:

- a) Select **blue** as the **Line Color**.
- b) Select **Heavy Line(s)** to make the upper and lower trend lines more darker.
- c) Select **Show Center Line** to display a line that runs down the centre of the trend

channel d) Select **Show Quarter Lines** to

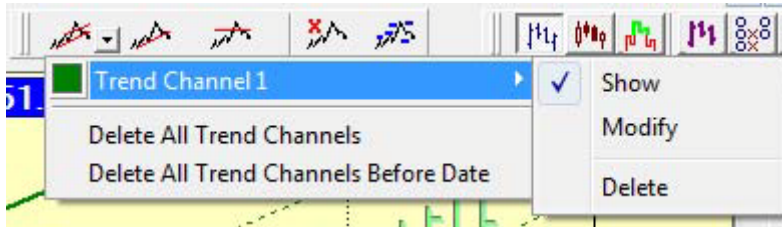
display the top and bottom quarters.

Click on the **OK** button to finish the task.

In a short space of time, you have learned how to change the properties of a technical analysis tool and line study. To change a property, all you need to remember is to click the small downward facing triangle that appears on any button on the toolbars.

Deleting a Line Study

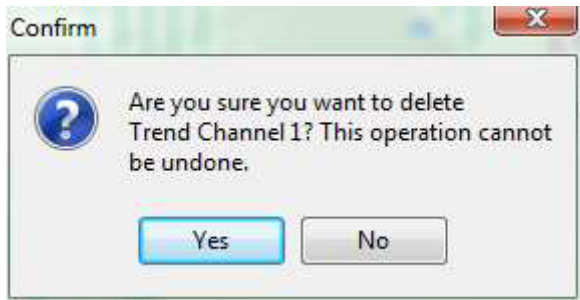
Earlier in this manual, we drew a trend channel. This exercise will show you how to delete it from the chart: Position the mouse on the small downward facing triangle next to the Trend Channel button and click it with the left mouse button



The Trend Channel menu is shown, which lists all the trend channels that have been drawn on the current chart. The channels are listed by color and number to make it easy for you to identify them. Select the channel that needs to be deleted and then click the left mouse button.

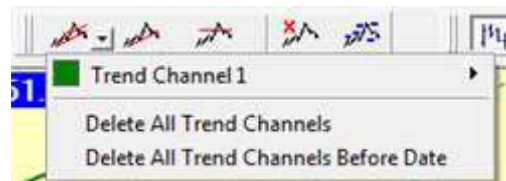
Select Delete from the submenu pictured above.

TradeGuider will prompt you to confirm the deletion of the trend channel. Select Yes to complete the operation.



The **Trend Channel** menu offers two more options to delete channels from a chart.

- a) Delete All Trend Channels
- b) Delete All Trend Channels Before Date



If you would like to temporarily hide line studies, do not select the Show option on the respective line study menu.