

Trend Lines

A key to understanding Market Continuations and Reversals

Trend-lines are a very useful tool for technical financial analysis. It's important to be able to identify possible trends and then confirm them. A trend-line is a straight line that connects various price points and extends into the future as a line of support or resistance

Trend-lines span peaks and valleys that are the high and low points on a financial data chart. The more points you have, the more solid your data becomes. When a trend-line is broken, a significant move in a new direction is probably going to take place. Strategists pay special attention to trend-lines and the breaks that occur in order to plan their market positions.

Taking the time and making the effort to learn the details of this financial tool is important to understanding the principles of price movements and market behavior.

Upward trends are generally drawn across the low points of a graph, whereas downwards trends are drawn across the high points. Trend lines can be used in a variety of ways to study the past price behavior of a security.

Importantly, trend lines also tell us something about market sentiment: when the market is bullish or bearish on a security; and when the market has changed it's view regarding the price of a stock, commodity or index.

A broken trend-line lets us identify when price action is starting to reverse. The more touches of the line by price, the more important a break in the trend-line becomes to technical analysts.

Once price moves to the trend-line and then reverses against it, we conclude the market is continuing to find either support or resistance at that price point.

