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Lesson 2: Trendlines, Support and Resistance I

Basic Descriptions of the Market

(1) Directional move

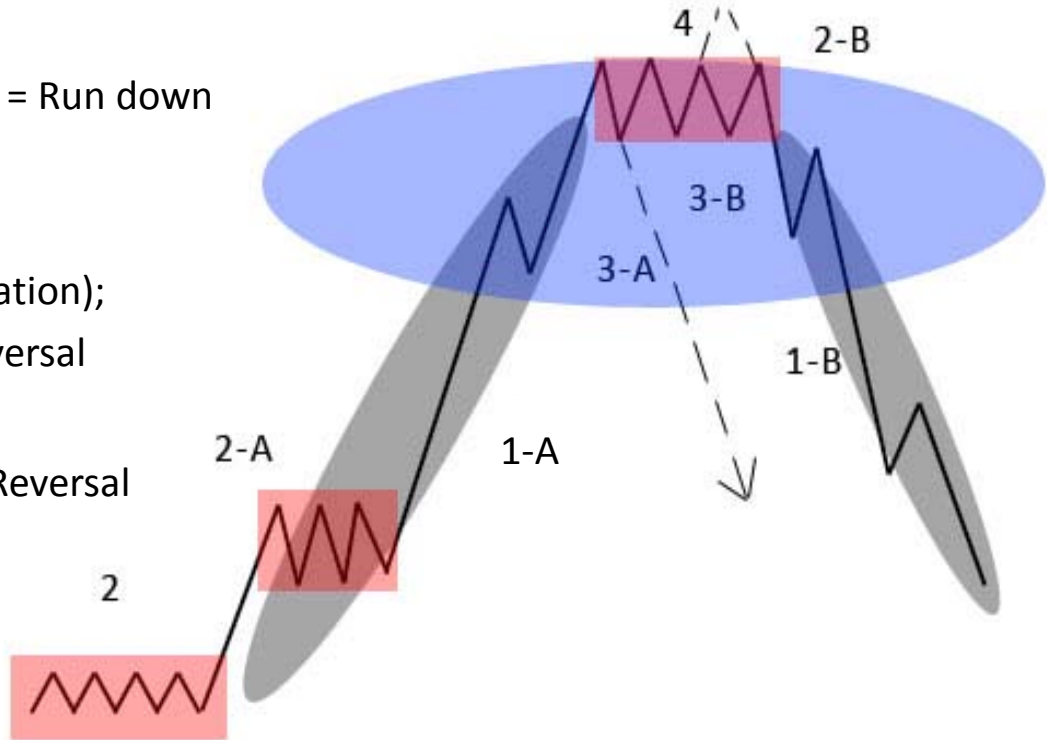
- **(1-A)** = Run up vs. **(1-B)** = Run down

(2) Consolidation

- **(2-A)** Consolidation-Continuation (Accumulation);
- **(2-B)** Consolidation-Reversal (Distribution)

(3) 3-A[Sharp]/3-B[Consolidation] Reversal

(4) Clear-out

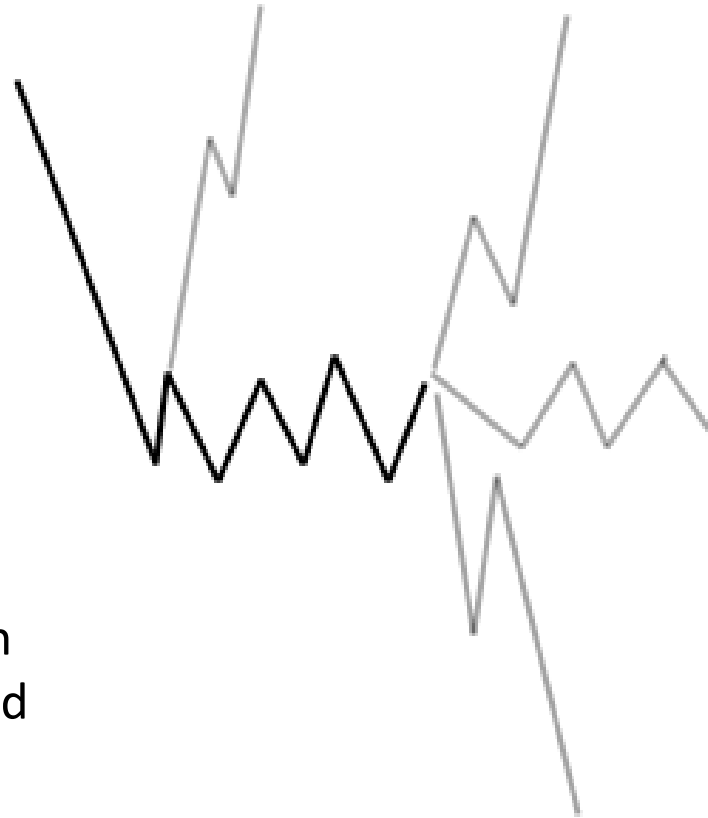


Uncertainty

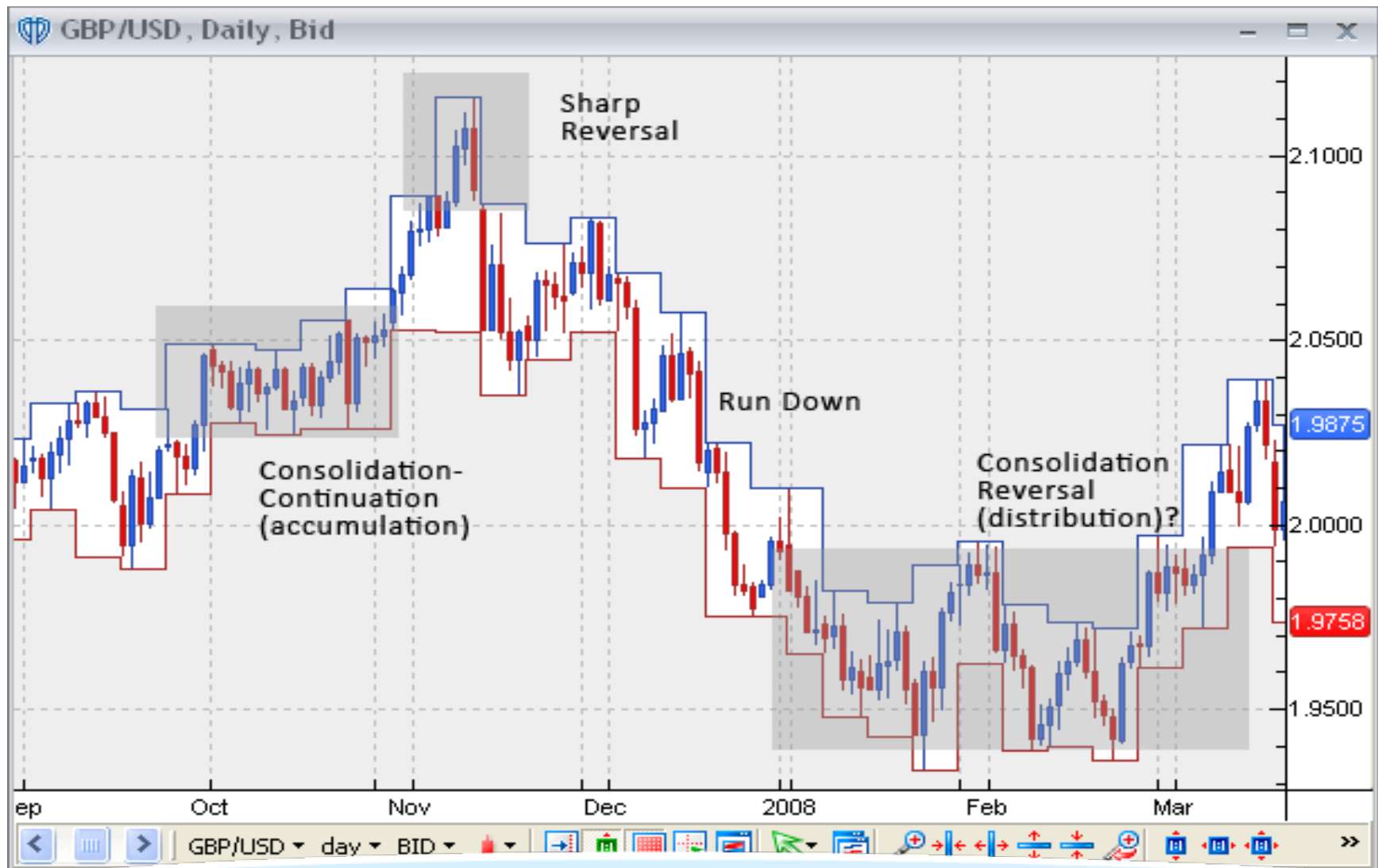
Is this a continuation consolidation? Or is it a reversal consolidation?

Reversals may be sharp at times and at other times, may follow a period of consolidation

Consolidations vary in sizes and time covered



Real example of market actions



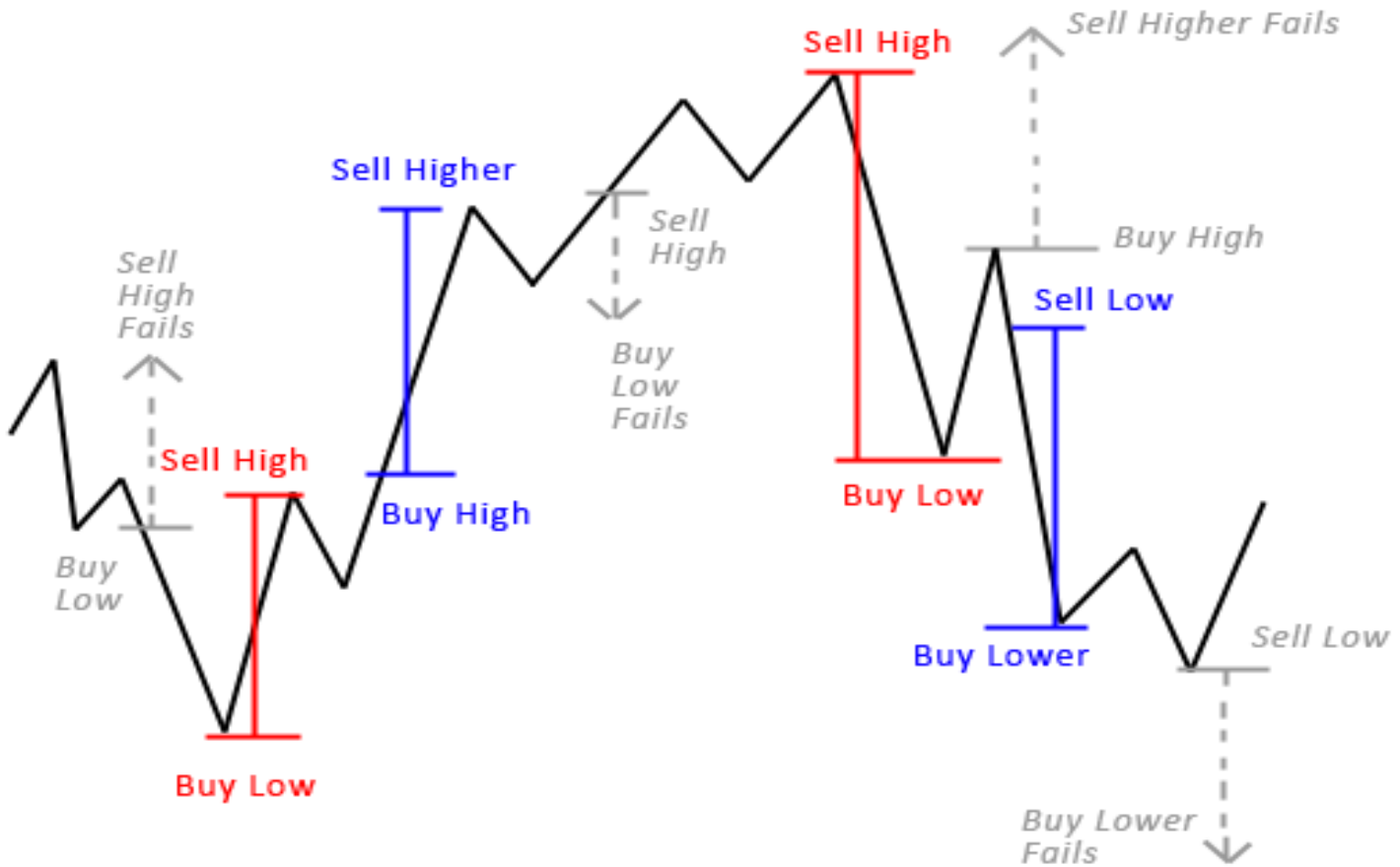
Uncertainty of Market Action



Basic Trading Concepts:

Buy Low – Sell High / Sell High – Buy Low (Countertrend)

Buy High – Sell Higher / Sell Low – Buy Lower (Trend Following)



Basis of Technical Analysis: The Trend

- Definition: A simple trend can be defined by 4 points (2 tops and 2 bottoms).

2 Successively HIGHER tops and bottoms = UPTREND



2 Successively LOWER tops and bottoms = DOWNTREND

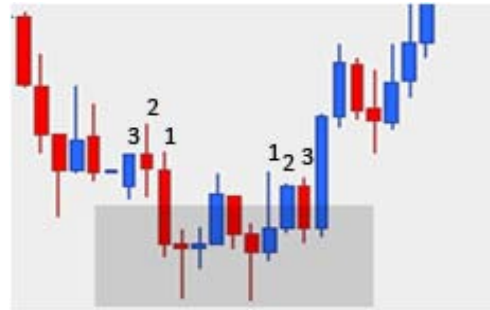
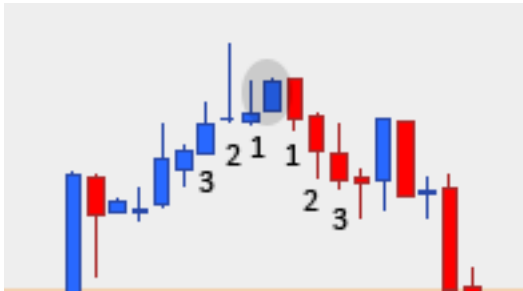


What is a Top or Bottom?

- The trader sets a rule for himself to define tops and bottoms (reversal points)
One set of criteria commonly used is:

- 3 higher closes before and 3 higher after (a bottom)
- 3 lower closes before and 3 lower after (a top)

For example.... You may consider these reversal points...

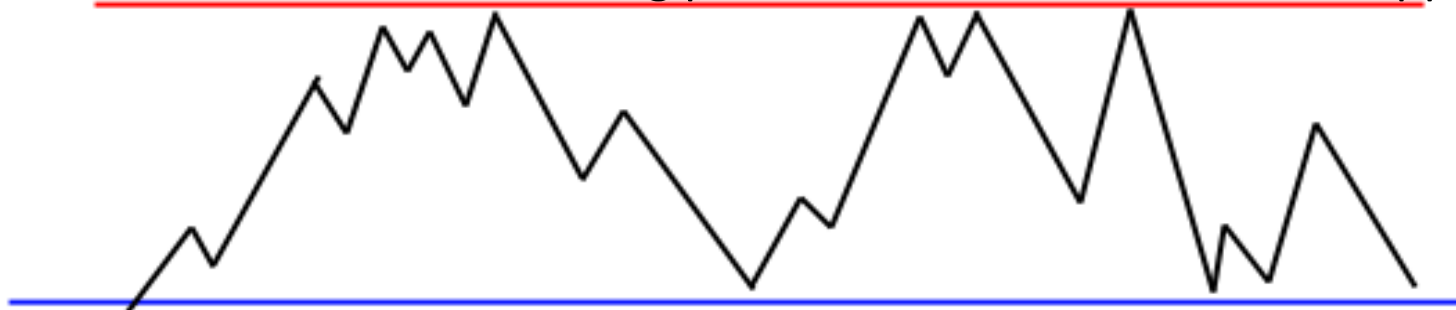


...but not this



Support & Resistance

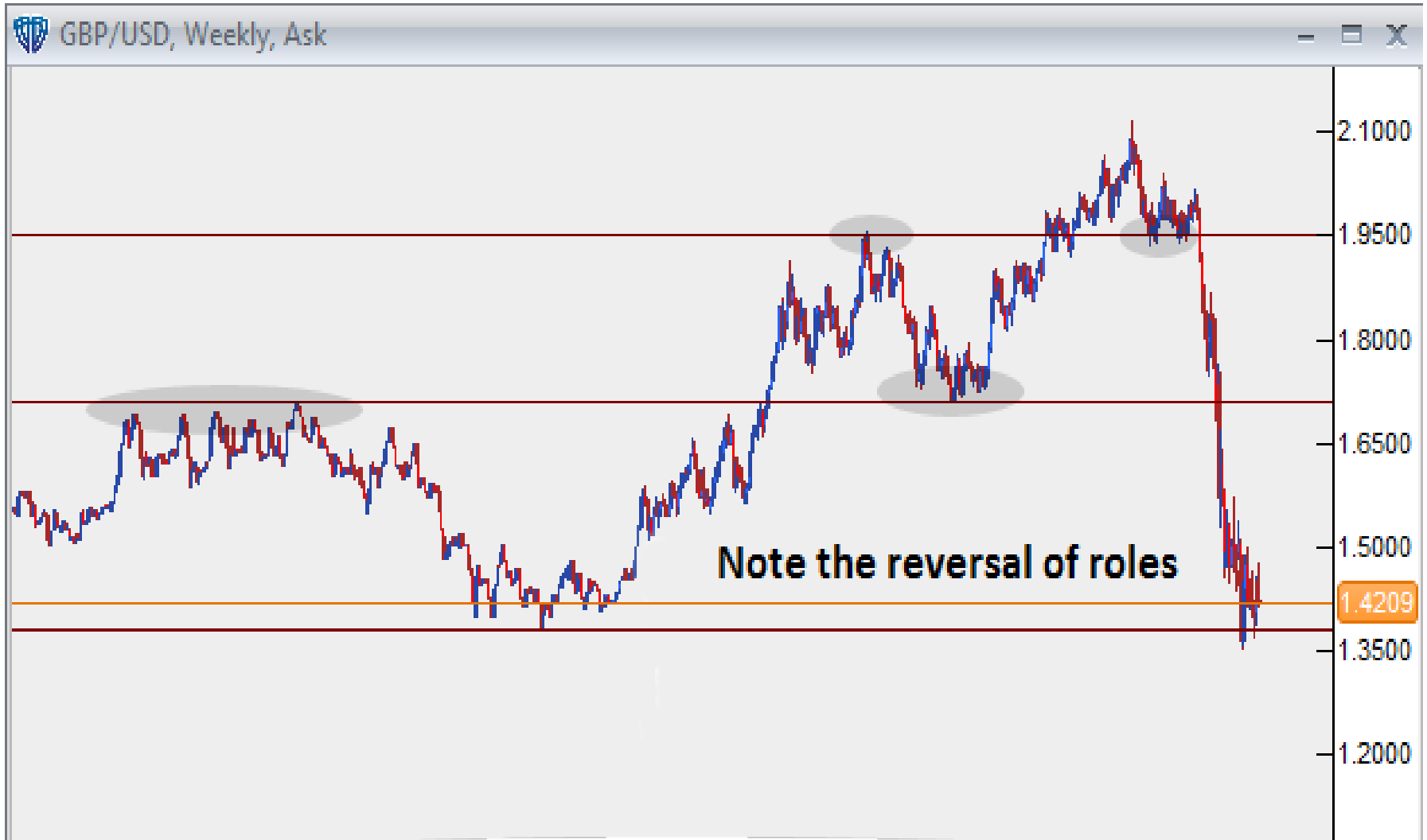
Resistance: Level of selling pressure due to abundance of supply



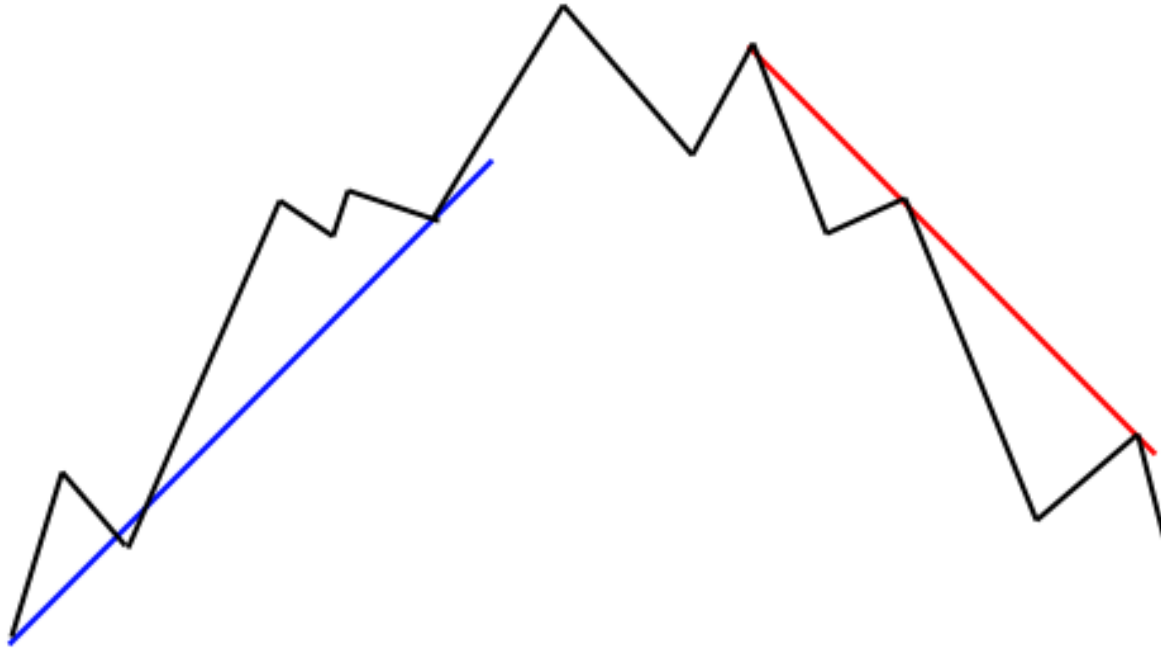
Support: Level of buying pressure due to heavy demand

**Show on live chart*

Support & Resistance: Example



Trendlines

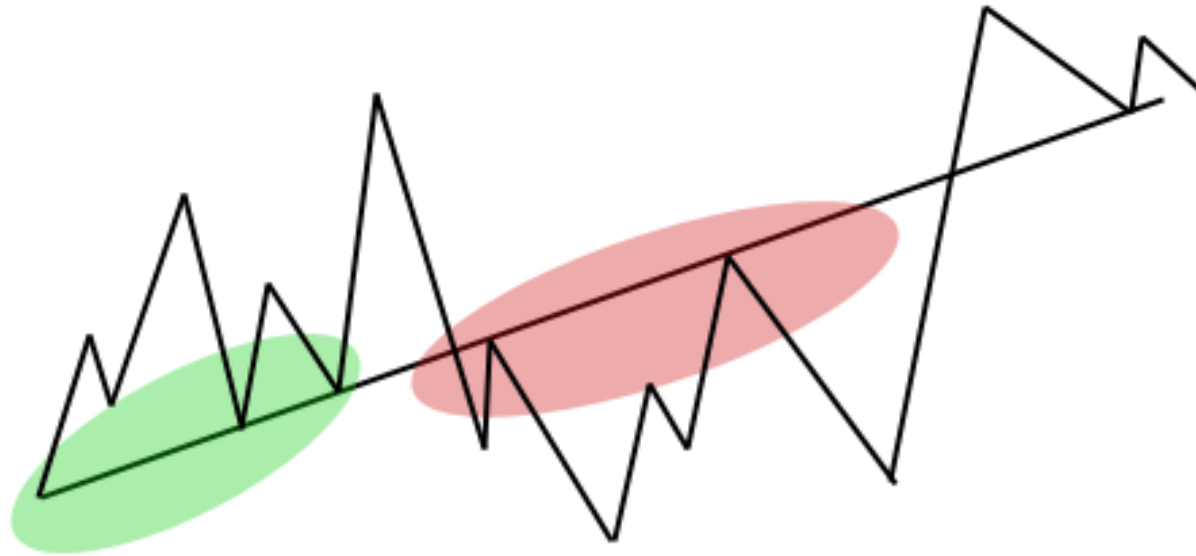


...another way of identifying support and resistance areas (they don't have to be horizontal)

Powerline

Support is Support and Resistance is Resistance until broken

A powerline is a level where support may turn into resistance and vice versa. Why does this happen? What does that say about slope of the powerline?



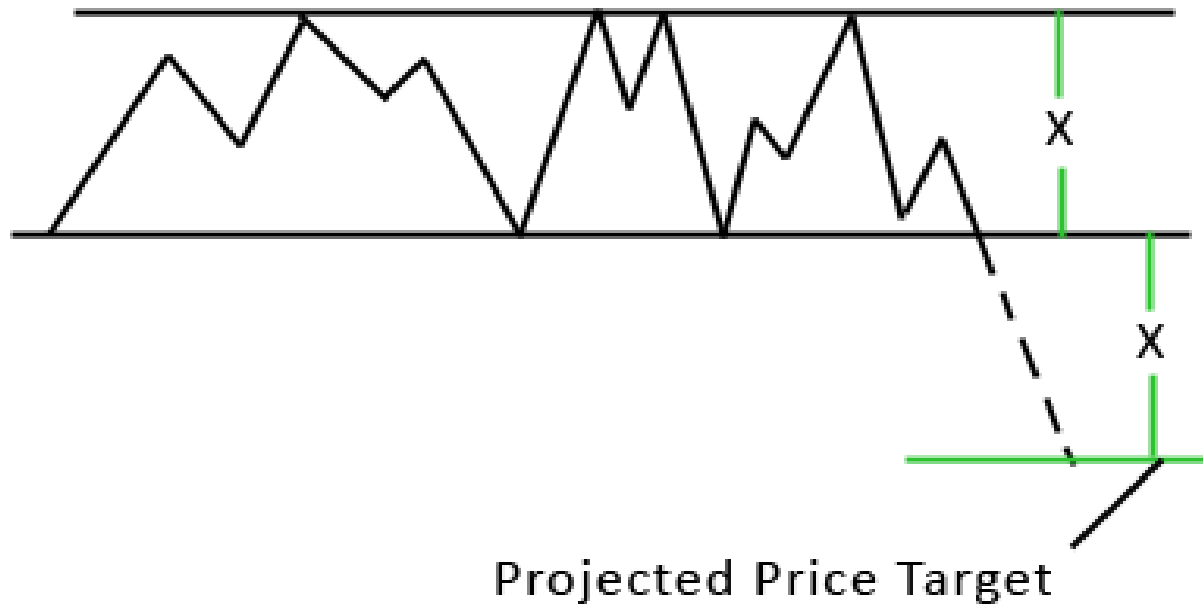
Channels



Channel Break: Trend Signal



Channel Break Target Methodology



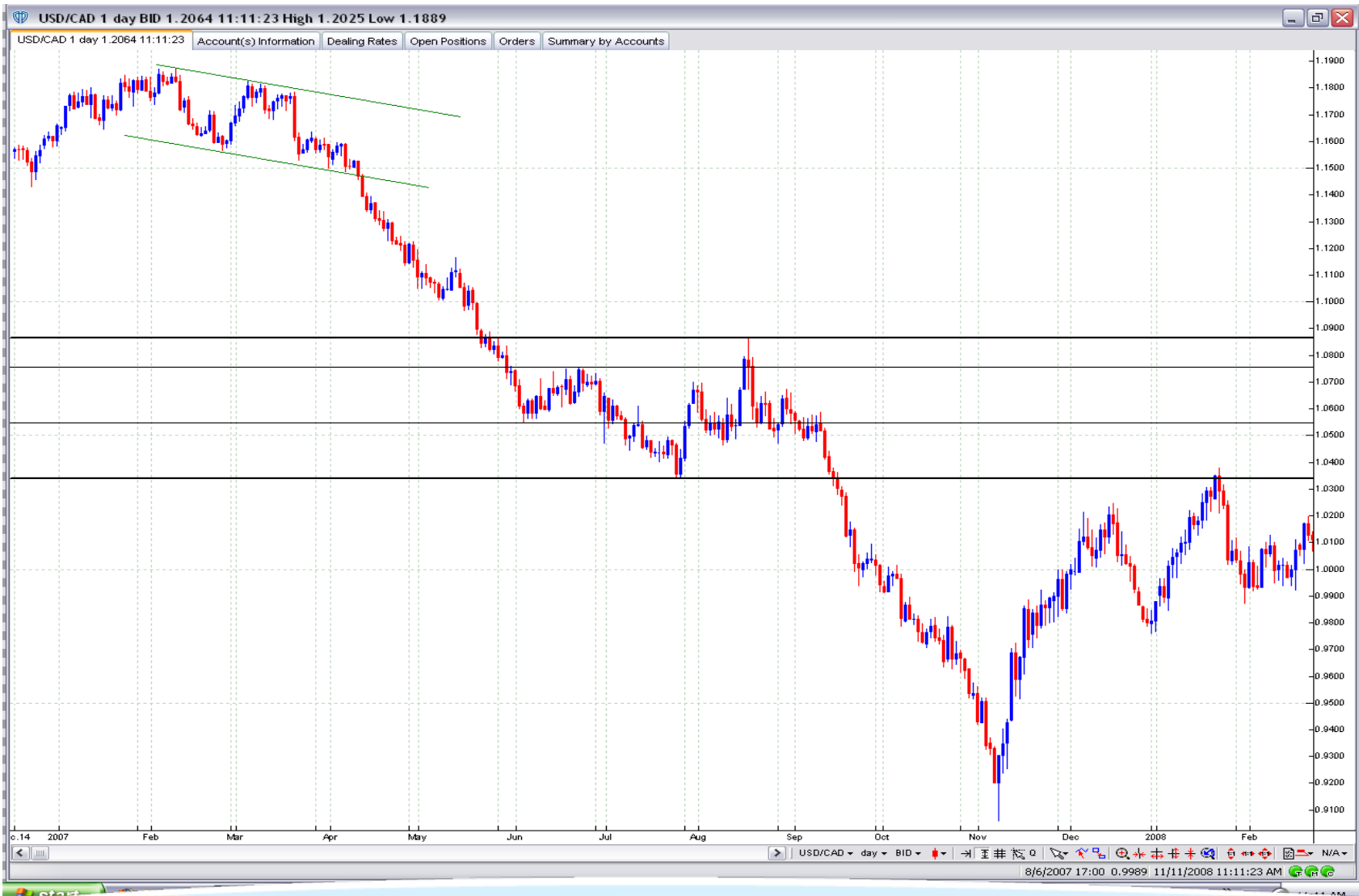
Channel Break Price Target



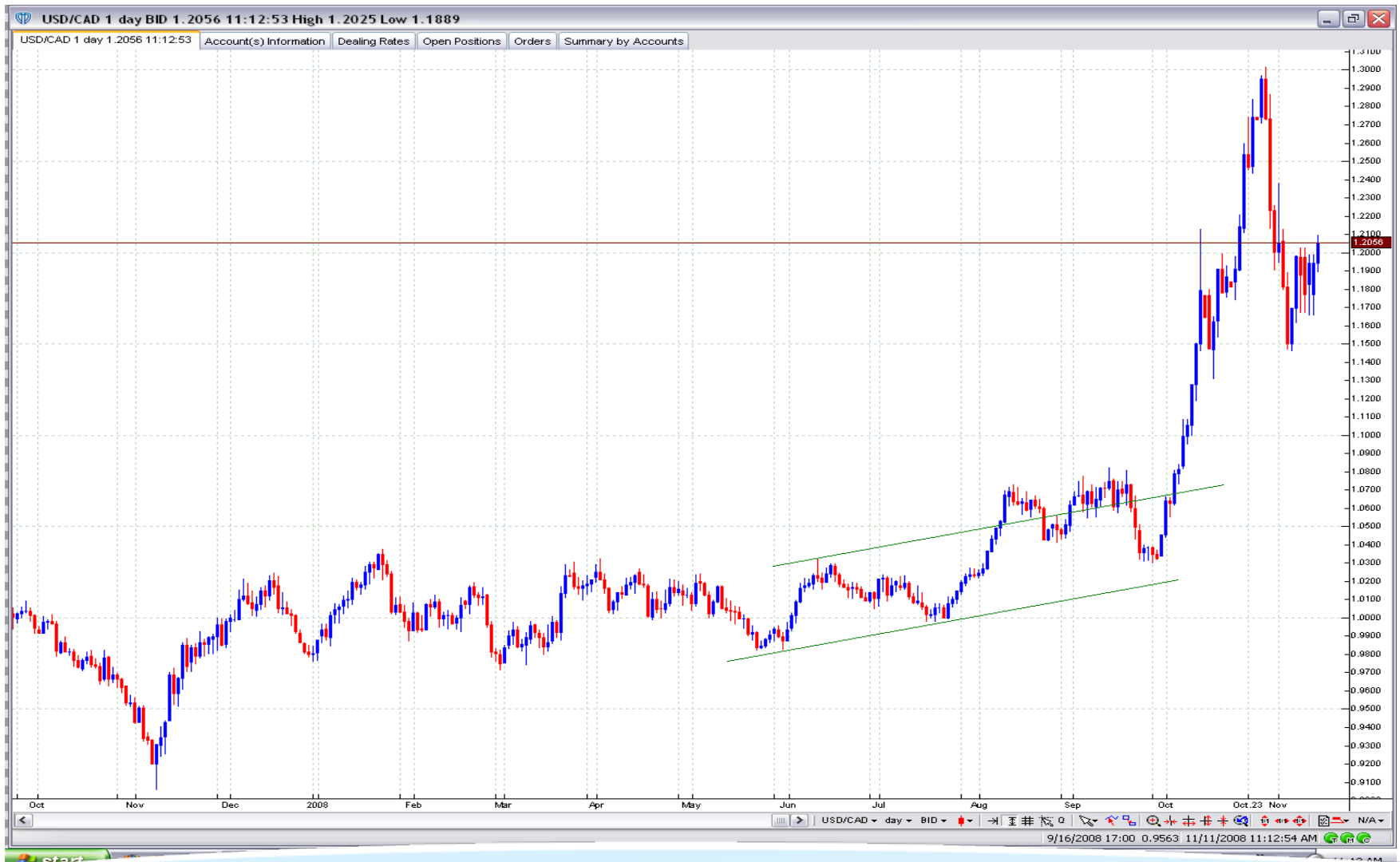
Target Met



Expanding the Channel



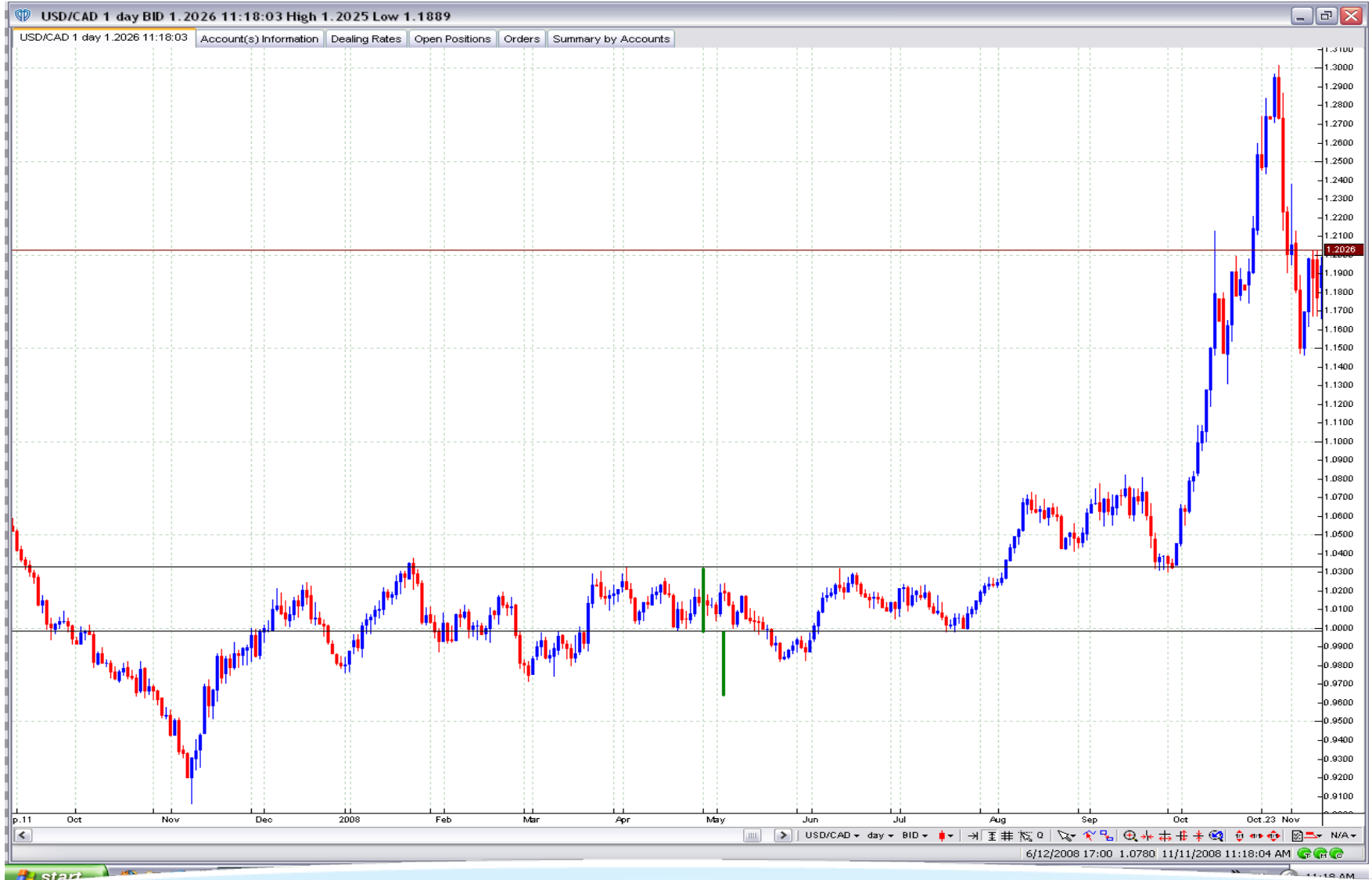
Up-channel Breakout



Channel Adjustment



False Signal (Whipsaw)



Another Whipsaw



Target Not Reached



