INTRODUCTION TO SUPPORT & RESISTANCE, TRENDLINES

15th September 2016
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Agenda

• Recap on Basic Candlestick Patterns
• Support & Resistance
• Trends
• Trendlines
• Application of Concepts
Bulls & Bears, Long & Short

L-USD
Long
Up
Short
Down
What is a Candlestick?

- A chart that displays the high, low, opening and closing prices for a security at a given time interval.
6 Candlestick Patterns

<table>
<thead>
<tr>
<th>Candlestick Pattern</th>
<th>Diagram</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hammer (after a downtrend)</td>
<td><img src="hammer.png" alt="Diagram" /></td>
<td>Suggests Bullish Momentum/ Buying Pressure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Go Long!</td>
</tr>
<tr>
<td>Shooting Star (after a uptrend)</td>
<td><img src="shooting_star.png" alt="Diagram" /></td>
<td>Suggests Bearish Momentum/ Selling Pressure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Go Short!</td>
</tr>
<tr>
<td>Doji</td>
<td><img src="doji.png" alt="Diagram" /></td>
<td>Suggests indecision and trepidation between buyers and sellers</td>
</tr>
</tbody>
</table>
# 6 Candlestick Patterns

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<tr>
<th>Candlestick Pattern</th>
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<tbody>
<tr>
<td>Marubozu (‘ShavenTop’)</td>
<td><img src="#" alt="Diagram" /></td>
<td>Suggests that bulls / bears controlled the price from open to close</td>
</tr>
<tr>
<td>Bullish Engulfing Pattern</td>
<td><img src="#" alt="Diagram" /></td>
<td>Suggests higher than average volumes and strong Bullish Momentum</td>
</tr>
<tr>
<td>Bearish Engulfing Pattern</td>
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What is Support & Resistance?

Support & Resistance, Trendlines
15th September 2016
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What is Support & Resistance?

High High High High High High High High
Low Low Low Low Low Low Low Low

Support

Resistance
What is Support & Resistance?

**Resistance**
- Price level where selling pressure is thought to be strong enough to prevent the price from rising further.

**Support**
- Price level where buying pressure is thought to be strong enough to prevent the price from declining further.
Drawing Support & Resistance Lines

**Support**

- Established when at least 2 lowest lows made by candlesticks at around the same price level
Drawing Support & Resistance Lines

Resistance

- Established when at least 2 highest highs are made by candlesticks at around the same price level
Support & Resistance can BREAK!

Support & Resistance, Trendlines
15th September 2016

Gerald Koh & James Iau
Global Macro Department

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Resistance Turned Support

When resistance is broken, it may become support
Support & Resistance as Zones

Price closed below 1.4700 support but eventually rose above it.
Strength of Support & Resistance

Major resistance. Tested many times.

Minor resistance

Minor support

Strong support
Summary

Resistance

Support
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What is a Trend?

• The **general direction** in which a security or market is headed

![Chart: USD/CAD, M, U.S. Dollar/Canadian Dollar]
What is a Trend?

3 directions

- Uptrend
- Downtrend
- Sideways Trend
What is a Trend?

• Uptrend

  ▪ Series of higher highs and higher lows
What is a Trend?

- **Downtrend**
  - Series of lower highs and lower lows
**What is a Trend?**

- **Sideways trend**
  - Series of horizontal highs and lows
“Trading capital is limited, but trading opportunities are infinite.”
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What is a Trendline?

- Straight lines drawn along successive reaction peaks and troughs
- Gauge the direction of an asset
- Gauge the areas of support and resistance of a trend in motion

*Note: Trendlines are **NOT** the same as Support/Resistance lines*
What Can Trendlines Do?

- Determine validity of trends
- Indicator of market changes
  - Steepness of trendline
  - Trendline penetration
What is a Trendline?

- Up trendline
- Straight line drawn upward to the right along successive higher highs
What is a Trendline?

- Down trendline
- Straight line drawn over successively lower highs
Determining Validity of Trends

- **TWO** factors:
  - First, the longer a trend has been **intact**, the more valid it is (the **duration** of the trend)
  - Second, the number of times it has been **tested**
Trendlines as Indicators – Steepness of Trendline

• Basic concepts:

• **Most** major trendlines approximate an average slope of 45°

• If trendline is **too steep**, usually prices are rising too rapidly and is **unsustainable** – likely to drop below the trendline

• If trendline is **too flat**, may be that trend is too weak – not to be trusted
Trendlines as Indicators – Steepness of Trendline

- Trendline adjustment:

- Breaking of steep trendline
Trendlines as Indicators – Steepness of Trendline

- Trendline adjustment:
- Acceleration of trendline
Trendlines as Indicators – Trendline Penetration

- Basic concept: A trend in motion tends to remain in motion

Hence, trendline breaks indicate important changes:
Trendlines as Indicators – Trendline Penetration

• In the penetration of a trendline, there are **THREE** scenarios:

  1. Market adjustments
2. Intraday small market violations
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Application of Trendlines

• 1-2-3 Trend Change
• The Fan Principle
• Channel line
Application of Trendlines – 1-2-3 Trend Change

• Application method invented by Victor Sperandeo
• Published in his book: Trader Vic: Methods of a Wall Street Master
Application of Trendlines – 1-2-3 Trend Change

• Indicates trend change
• Can be used on any time frame
Application of Trendlines – 1-2-3 Trend Change

• Step 1: Identity the trendline break
• Step 2: Price test the new peak
• Step 3: Observe subsequent price closing
Application of Trendlines – 1-2-3 Trend Change

Published on TradingView.com, September 15, 2015 10:59 UTC
FX:JPN225 17908 ▼ −64 (−0.36%) O:17885 H:17933 L:17878 C:17908

Nikkei 225 index of Japanese listed shares, 30, FXCM
Vol (20)

1 2 3
A B

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Application of Trendlines – 1-2-3 Trend Change

Nikkei 225 index of Japanese listed shares, 30, FXCM

Published on TradingView.com, September 15, 2015 11:12 UTC
FX:JPN225 17893 ▼ -79 (-0.44%) O:17910 H:17913 L:17893 C:17893
Application of Trendlines – The Fan Principle

- Alternative application to 1-2-3 Trend Change
- Greater confirmation of validity of change but takes longer time
Application of Trendlines – The Fan Principle

Published on TradingView.com, September 15, 2015 11:49 UTC
FX:XAUUSD 1105.24 ▼ -3.35 (-0.3%) O:1107.25 H:1110.44 L:1102.45 C:1105.24

Gold/U.S. Dollar, W, FXCM

1 2 3
Application of Trendlines – The Fan Principle

Published on TradingView.com, September 15, 2015 11:41 UTC

FTSE 100 index of UK listed shares, D, FXCM

1. Support & Resistance, Trendlines
3. Published on TradingView.com, September 15, 2015 11:41 UTC
Application of Trendlines – Channel Line

- When a channel exists in the trend
- Where prices trend between 2 parallel lines
- The channel lines become gauged limits of the trend
- Can be used in any time frame
Application of Trendlines – Channel Line

• Consists of the **Base Trendline** and a **Channel Line**

Uptrend: Downtrend:
Application of Trendlines – Channel Line

- When prices reach touch the Basic Trendline or the Channel Line, buy and sell signals are given.
Extra Takeaway

• The market is never perfect – practice and learn through experience!

• Check out www.tradingview.com
Recap & Conclusion

• Support & Resistance

• Trends & Trendlines

• Conceptual Application of Trendlines

• Next week: Chart Patterns
THANK YOU!
SEE YOU NEXT WEEK 😊