Wiley Trading Series

PROFITING FROM MARKET TRENDS

SIMPLE TOOLS AND TECHNIQUES FOR MASTERING TREND ANALYSIS

TINA LOGAN

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Profiting from Market Trends

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Simple Tools and Techniques for
Mastering Trend Analysis

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CONTENTS

PREFACE

During trending phases, market participants can really boost their returns. Thus, analyzing trends effectively is one of the most important and relevant skills a trader can develop. That's what you will learn from this unique book. You'll be shown how a trend begins and progresses through its life span offering traders myriad opportunities to generate profits. You'll learn how to monitor the strength of a trend in order to take full advantage of it while it lasts, and recognize signs that suggest when it may be coming to an end.

The principal purpose of this instruction is to help novices build a strong base of knowledge in trend analysis in order to increase profitability. This book is a crucial part of the charting instruction I offer, and is part of the foundation from which successful trading strategies may be developed and implemented. This text will help you progress down the path to becoming a master trader.

The primary reasons for learning how to analyze trends efficiently are threefold:

1. To generate profits by implementing strategies that take advantage of a trend.
2. To protect the initial capital invested, as well as the gains accrued during a trend.
3. To prepare to participate in a new trend in the opposite direction when a trend reversal occurs.

Understanding how trends evolve is very important because a large number of trading strategies are designed to capitalize on lucrative trending phases. By carefully reviewing this instruction, beginner to intermediate-level traders will gain the knowledge and understanding of market movement that will help them successfully implement various strategies they may be shown, or to develop their own unique strategies if they choose.

What Makes This Book So Valuable?

I want to thank you in advance for putting your confidence in me to help you develop or expand your charting knowledge and trading skills. I realize this book is not only an investment of your money, but also of your time. I understand and respect the value of both. Therefore, you can rest assured that I have worked tirelessly for several years developing my training content in a manner worthy of your investment.

This is not just another technical analysis reference book. Rather, it is a lively publication that reveals my passion for the subject matter and capitalizes on the following training characteristics I am known for:

- *It's an easy read*—Although the content is technical, and gets progressively more advanced as the chapters unfold, it is easy to understand and it keeps the readers engaged.
- *Well-organized material*—The content of each chapter is categorized in ways to make it easy to learn. Each chapter builds upon the prior chapter with smooth transitions from one topic to the next.
- *Details matter*—The content goes far beyond just the broad strokes of technical analysis. You will appreciate the fine details and nuances, combined with plenty of helpful chart illustrations.
- *Application of the content*—You will be shown how to apply the information provided. Throughout the book you'll be given suggestions for applying your newfound knowledge to generate profits and protect capital.

Definitions are provided and technical topics are dissected, but I strive to put a conversational tone to my writing. I write for you like I'd talk to you if we were sitting elbow to elbow at my trading desk analyzing charts, including injecting a bit of geeky trader humor where appropriate. I tell you about my chart analysis and trading activities, and share with you some of the struggles I've experienced, and lessons learned, during my years in this industry.

Who Will Benefit from This Book?

This book will appeal to intermediate-level traders, many of whom, in spite of having some knowledge and experience, struggle to achieve consistent success. They just can't quite get their arms around it all and get their trading activities running smoothly. If this describes you, I believe you'll find this instruction provides important pieces of the puzzle that you've been missing.

For newcomers to the stock market, this book will prove to be invaluable. It will save them a significant amount of time and frustration; and for most, it will save them a lot of money that otherwise would be lost in the marketplace. The biggest danger to beginners is that they'll lose their capital and/or confidence before they learn what they need to know. And unfortunately, they don't know yet what they don't know! Analyzing trends effectively is one of the skills that most novices don't realize the importance of early in their trading careers; so it is my job to see to it that they acquire this critical knowledge early on.

It took me many years to develop my knowledge. But you can shave several months, and for some of you a few to several years, off your own learning curve by carefully studying, and then applying with discipline, the information presented in this book.

I make no apologies for defining technical terms and describing concepts that experienced traders might consider familiar territory. In fact, advanced traders may find parts of this book to be elementary relative to their level of knowledge. My primary audience is beginner to intermediate-level traders, so I feel I must direct my instruction in a manner that assures their understanding of it.

With that said, even highly skilled chartists who read this book should appreciate the painstaking attention to detail and earnest approach to providing important insights for readers of all skill levels. Seasoned technicians understand the value in acquiring at least one helpful trading tip or tool that adds to their knowledge, or helps to make or save them time or money. It can pay for the price of a book, seminar, or other training resource many times over.

Format of This Instruction

This book is broken into two segments, each containing several chapters:

- Part I: Trend Development
- Part II: Putting Trend Analysis to Work

Part I outlines in detail some key tenets of charting, and provides fairly simple yet effective tools and techniques for analyzing trends in general. That is, the information applies to the charts of stocks, indices, sectors, and so on. Those chapters provide the important foundation of knowledge for analyzing trends, which sets the stage for more advanced discussion in the later chapters.

Part II puts those analysis techniques, plus some additional tools, to work demonstrating how to analyze the charts of market averages to help guide your overall trading activities. Chapter 11 includes one of the most extensive case studies you will likely ever come across. It is a detailed analysis of the current bull market, which has been included in order to really drill the information into your brain.

To help you absorb the wealth of information included in this text, and to make it easier for you to remember the concepts, bulleted and numbered lists, and tables, have been included throughout for quick reference.

During your review of the chapters, you should notice that certain concepts are reiterated, sometimes several times throughout the book. That is not done because I forgot that I already mentioned it in a prior chapter! But rather, because repeatedly bringing important concepts back into the discussion helps readers retain the information. A concept stated one way may not be assimilated; but the reader may fully understand it, and/or recognize its importance, when it is stated again later with a different example or when applying that information.

Since I use candlesticks in lieu of standard bar charts, I often refer to a specific candlestick line or pattern throughout this text. Those who are new to candlestick charting will find this aids in their understanding of the sentiment they reveal, as well as learning to recognize some of the reversal patterns that often form on charts. Those of you who read my first book, *Getting Started in Candlestick Charting* (John Wiley & Sons, 2008), will appreciate that I've included plenty of candlestick references that will build upon that instruction. *Note:* The terms *candles* and *candlesticks* are often used to refer to candlestick charting.

Time Frames

Most of the charting concepts and analysis techniques described are demonstrated utilizing the daily time frame. However, they may also be applied to other time frames. Short-, intermediate-, and long-term trends form on charts from yearly down to one minute; as do pullbacks, corrections, reversal patterns, and periods of consolidation. The implication is the same as the concepts shown on the daily charts, but relative to the time frame being analyzed. For instance, a short-term trend on the daily chart may last for several days, whereas on the hourly chart, a short-term trend may last for several hours.

Chart Examples

In the first several chapters, the chart examples provided are of clean and orderly trends and patterns. That was done intentionally to make sure readers fully absorb the concepts. However, in real-time analysis not all trends and patterns are ideally formed or shaped. Thus, as readers progress to the later chapters, not-so-clean examples, and variations, may be observed.

In many of the chart illustrations, only price bars are shown. That is, they may not have volume bars or technical indicators displayed. This should not be construed to mean that I do not utilize volume or indicators. I do use those tools regularly. However, when introducing a concept, I want readers to hone in on the price action being described and not be distracted by other technical tools. When indicators or volume are discussed, those chart examples will include them since they will be significant to that particular discussion.

All chart examples within this text are produced by TC2000®, which is a registered trademark of Worden Brothers, Inc., Five Oaks Office Park, 4905 Pine Cone Drive, Durham, NC 27707; phone (800) 776-4940 or (919) 408-0542, www.worden.com. Version 7 of the platform (known to long time users as TeleChart®) was used for ease of instruction and in order to perform the multi-year analysis required for completion of the extensive case study in Chapter 11. TC2000 users may also wish to explore version 12 of the platform, which, while it includes limited historical data, incorporates some new tools and features.

Chart Symbols

The symbols for charts of stocks and exchange-traded funds (ETFs) that are illustrated are universal. However, the symbols for the index charts shown may vary from one charting platform to another. For instance, in TC2000, the symbol for the Dow Jones Industrial Average is DJ-30. On the popular website StockCharts.com, the symbol is $INDU.

For many indices, the core of the symbol is common to all platforms, but there may be additional lettering or characters before or after it. For instance, the symbol for the Philadelphia Housing Sector Index in TC2000 is HGX--X and is $HGX on StockCharts.com. The Philadelphia Semiconductor Sector Index is SOX--X in TC2000 and $SOX on StockCharts.com.

Additional Information

Readers should be aware of the following:

- The discussion in this book, and the illustrations, represent the U.S. stock market. However, trends occur in all markets as they are necessary for a market's long-term survival. Thus, the basic precepts of trend analysis can be used for a wide range of trading instruments.
- The pronoun *he* is used generically to reference traders of either gender. No offense is intended to lady traders, for I am one myself.
- The terms *trader* and *investor* may be used generically throughout the text to refer to all market participants, whether they be active traders or long-term investors. However, when applied specifically, as a general rule traders tend to take a more active role than investors.
- The word *price* is used generically to refer either to prices of stocks or values of indices shown in the price column.
- When a topic is introduced, if there is more than one term that tends to be used, I provide the various labels that I am aware of. This helps beginners avoid confusion since they may come across different labels in various texts.
- The terms *index* and *average* may be used interchangeably throughout this book in reference to the chart of an index or market average.

ACKNOWLEDGMENTS

I've had the great fortune of being influenced and motivated by several remarkable individuals during my life's journey. I wish I could thank them all sufficiently, but how does one do so with mere words? Those individuals who have left an imprint on my life range from family members and friends to special teachers from high school, college, and beyond. And if not for the years I spent working at the Anthony Robbins Companies, I'm certain I would not have become a trader, for it was there that my interest in the stock market was first sparked. From there, I had the privilege of working with Chris Manning of Manning Advanced Trading Seminars for a few years, which was an integral step in helping me develop a strong knowledge base of technical analysis.

There are many trading books on my shelf that I could not imagine parting with. I wish to thank the authors of those great, classic books—including works by Victor Sperandeo, Steve Nison, Alan Farley, Dr. Alexander Elder, Dr. Van Tharp, Thomas Bulkowski, Oliver Velez, Gregory Morris, John Murphy, Martin Pring, and Martin Zweig. The contributions they have made to me, and to so many others, by sharing their vast knowledge and insights are very much appreciated. Special recognition goes to Herbert Otto, a skilled trader and chartist with more than four decades of experience. I was fortunate to be introduced to him in the trading community over 10 years ago and have gleaned much from his vast knowledge and trading wisdom.

I would like to thank my family, of course, and my close friends for their seemingly never-ending patience and support. They may not understand why I'm so obsessed with the stock market and helping others navigate in

this business, but they respect that I feel compelled to do so. I must recognize three of my great, long time friends, Jelaine Whipple, Debbie Hagan, and Michelle Becker. They have stood by me without wavering through all my challenges and successes over the years. Thanks goes to Billie Sandoval and Solveig Perry, who care enough to give me a gentle push, and sometimes even a good shove, just when I need it most.

Thank you to the fine folks at John Wiley & Sons, especially my editor, Kevin Commins, who agreed it was time for me to write another book (what was I thinking?). Special thanks to Senior Development Editor, Meg Freeborn, for patiently waiting and waiting for the manuscript and for fielding my many questions. Thanks also go to Tiffany Charbonier and her colleagues for their contributions, including designing the fantastic cover, and to Steven Kyritz for guiding me through the final editing process. It really takes tremendous teamwork and persistence to get a book to its finale.

PART I

Trend Development

Introduction to Trend Analysis

Markets move in trends. This phenomenon is one of the major organizing principles of market behavior and one of the tenets of the Dow Theory. Some well-known axioms have been coined over the decades regarding market trends, such as "The trend is your friend" and "Don't fight the trend." Numerous trading and investment strategies have been developed around the fact that markets move in trends. Most traders find it easier to profit when a market is trending than while it is in a period of prolonged consolidation.

What Is a Market Trend?

A simplistic definition of a market trend is a directional price move—either up or down. An uptrend is a price move that starts from a specific low point. A downtrend is a price move starting from a certain high point.

Traders ask many questions about the trend, such as the following:

- Which direction is it moving?
- How long might it last?
- How strong is it?
- How can I spot opportunities to participate in a trend's movement?
- What signs should I look for that suggest the trend may be weakening or changing direction?

- Is this a good time to get aboard the trend?
- When should I exit the trend?

My answers to these questions fill the chapters of this book. The charting tools and techniques described herein are intended for the purpose of identifying and participating in a trend, gauging its strength, and responding to changes in its direction. In my opinion, these trend analysis tasks are *among the most important activities* an active trader or investor will perform.

Trends are an integral part of market analysis, whether it is technical analysis, fundamental analysis, or analyzing market breadth. Although the primary focus of this book is analyzing *price trends*, in market analysis the word "trend" is not limited to describing price movement. It may also be used to refer to other analysis concepts. Following are some examples where an analyst may notice an upward or downward trend, or a change in trend direction:

- A trend in volume.
- A trend in the market internals. For example, the number of stocks making new highs versus new lows.
- A trend in the number of stocks meeting the criteria of a specific filter (e.g., the number of stocks trading above or below their 200-period moving average).
- A trend in the quarterly earnings growth rate of a company.
- A trend in the growth rate of the economy or the employment numbers.

It's All About the Trend

A common challenge for aspiring traders is that they don't fully understand the essential constructs of technical analysis (charting) before attempting to move on to more advanced study and practice. I fell into that trap myself early in my trading career. When I first began my charting studies many years ago, I felt a bit overwhelmed. I found I was spinning my wheels and feeling that there was so much to learn. I was studying various charting-related topics—gaps, support-resistance, candlesticks, chart patterns, technical indicators, and so on—each in isolation. That is, I studied each area of charting as if it was a stand-alone topic. Hence, it is not surprising I felt overwhelmed. There are so many *different* topics to learn, or so I thought.

Then one day I had one of those crucial "aha moments." I realized that all those topics I had been studying were actually directly related to the development of market trends. It was then that I recognized the study of trends is the *primary role* of technical analysis. It was so much easier to really understand and implement the various charting concepts when I put them *in the context of how they contributed to the development of a trend*. That realization simplified and streamlined my studies; and significantly impacted my trading activities and strategy development going forward.

Most everything in technical analysis relates to the concept of trends in some fashion; you'll see that clearly demonstrated throughout this book. Table 1.1 lists several charting concepts directly related to the start, advancement, or conclusion of a trend.

TABLE 1.1 **Trend Development**

Charting Topic	Role in Trend Analysis
Gaps	Gaps often occur at the beginning (breakaway gap), middle (continuation gap), or end (exhaustion gap) of a trend. Those gaps reflect the start, acceleration, or end of a trend, respectively. Morning gaps play a significant role in short-term trends.
Volume and Volatility	Both volume and volatility often tend to increase during trending periods and decrease during periods of consolidation.
Classic Reversal Patterns	It is common to see a reversal pattern form at the end of a trend. For instance, a double top or head-and-shoulders top may form at the end of an uptrend. The inverse of those patterns may form at the end of a downtrend. Such patterns signal a potential trend reversal.
Classic Continuation Patterns	Continuation patterns may form within a trend stalling its movement for a short period of time (e.g., a flag or pennant) or for a longer duration (e.g., a triangle or trading range).
Candlestick Lines and Patterns	Candlestick lines reveal the sentiment of market participants as a trend develops. A bearish or bullish candlestick reversal pattern may form at the end of an up or down trend, respectively.
Price Swings	Minor, wavelike price movements create the peaks and bottoms that are the building blocks of intermediate-term trends. Those price swings may provide opportunities for short-term trades and profit-taking opportunities for long-term positions.
Corrections	Corrections are retracements of the prior trend.
Trendlines	Trendlines are used to determine the direction, slope, and duration of a trend (sloped lines), as well as to highlight support and resistance areas (horizontal lines). The break of a strong trendline can provide an important signal about the potential continuation or reversal of a trend.

(*Continued*)

TABLE 1.1 *(Continued)*

Charting Topic	Role in Trend Analysis
Technical Indicators	There are many technical indicators designed for analyzing trends (e.g., to determine the direction and/or momentum of a trend). Some indicators can help identify when a trend may be weakening. For example, a divergence between price and a strong indicator may occur, warning of a potential trend reversal.
Market Indicators	Experienced traders may consult market breadth readings (market internals) to gauge the day-to-day strength of the market trend, as well as cumulative market indicators for monitoring longer trends.
Trading Strategies	Many trading strategies are developed around the fact that markets trend. Trend-following strategies take advantage of a trending market. The success of setups traded, and strategies employed, at any given time may depend greatly on the trend (or lack of) of the broad market.

Profiting from Market Trends

Because the phenomenon of trends is so pivotal, much of technical analysis is devoted to the identification of trends and gauging their strength, so chartists can implement appropriate trading strategies. A significant amount of the chart analysis I perform is dedicated to monitoring the trends of the stocks I trade, as well as the major market averages, sectors, and industry groups.

Clearly, it is essential to learn how to analyze trends effectively in order to become a proficient chartist, and for determining which trading methods to employ. Listed below are some of the key skills traders should learn in order to achieve those goals. Helping you develop those skills, and subsequently profiting from market trends, is the primary purpose of this book.

- Identify a trend as early as possible in its development in order to profit from as much of that trend's movement as possible.
- Determine a trend's strength and potential duration. Continually monitor the strength of the trend.
- Recognize technical events and price formations that occur within a trend that may offer trading opportunities.
- Understand the concept of support and resistance and its role in a trend's evolution.
- Identify signs that a trend may be weakening or reversing direction in order to protect profits and/or get aboard a new trend when a change in direction occurs.

Let's Build a Clock

I've been providing private tutoring for traders for almost 12 years. I've sat side-by-side with numerous traders of varying skill levels. I'm sure if you asked any of them, or the hundreds of individuals who have read my books, e-books, or attended my webinars, they'd tell you I'm ridiculously organized, very detail oriented, and probably too verbose. A client once said to me, "I asked you what time it is and you showed me how to build a clock!" I'd say he summed up my training style. I err on the side of providing tremendous detail rather than risk leaving questions unanswered.

As you review this book, I hope you'll appreciate the pains taken to ensure that readers are provided the fine points needed to actually put the information to work. But if, after reading all the chapters at least once, you find anything confusing, you are welcome to e-mail me your question at tina@tinalogan.com. Please keep inquiries to a question or two and not a lengthy questionnaire, or I'll challenge whether you've reviewed the material enough times! But with that said, I am accessible and attempt to respond to e-mails in a timely manner.

Repeated Study Leads to Proficiency

It has been said that "Repetition is the mother of skill." There is a lot of information in this text. Therefore, I encourage readers to review the content over and over again, as many times as it takes to absorb the information. Afterward, put that knowledge to work through vigorous application using real-time analysis, and effective trade selection and management, in order to generate profits.

There are several great trading books on my shelves that I've reviewed many times each. A couple of them have broken spines due to so much use. Thus, I wouldn't ask you to do anything I haven't done, or wouldn't be willing to do. True understanding of the content comes from repeated study and persistent application.

Develop a Strong Foundation of Knowledge

The first book I wrote was *Getting Started in Candlestick Charting* (John Wiley & Sons, 2008). I'm hooked on candlesticks and cannot imagine going back to using a standard bar chart. It is my opinion that candlesticks should be utilized in conjunction with other technical events that develop on charts.

Candlestick charts are used exclusively in the illustrations provided in this publication. You'll see references to specific candlestick lines (e.g., the size of a bar's body), and several commonly formed reversal patterns are identified. If you don't already have some familiarity with the basics of candlesticks, I suggest a quick review of Part I of *Getting Started in Candlestick Charting*.

A brief introduction to Western chart analysis was provided in *Getting Started in Candlestick Charting*. In *Profiting from Market Trends,* you'll see some of those core tenets of chart analysis revisited, but covered much more extensively here. This book delves deeply into trend analysis, and adds the important task of continually monitoring the trend of the broad market. As the title suggests, a thorough understanding of trends, and utilizing that information regularly in analysis and trading strategy development, can result in significant profits for those who do so with consistency and discipline.

There is much to learn in order to become a skilled chartist and a master trader. Enthusiastic students of the markets can quickly become overwhelmed and discouraged if they fail to develop a crucial knowledge base of chart analysis. The markets are unforgiving to those who dive in without adequate knowledge. Be patient and committed to your study of the material in this book and you'll reap the rewards that attract, but elude, so many who attempt to extract profits from the markets.

Trend Direction

The trend indicates the direction the market is moving. There are only two directions in which markets can trend—up or down. There will also be phases where no trend is present and price moves primarily sideways for a period of time. Those trendless periods are often referred to as consolidation, or a trading range.

Personally, I like to stay informed as to the fundamental reasons why the market may be trending or consolidating; and I find that doing so helps to explain certain charting phenomena. However, it is not necessary to know what's driving the market up or down *in order to profit* from that trend. In his book *The Visual Investor* (John Wiley & Sons, 1996, p. 5), John Murphy states, "Knowing the reasons behind a stock's movement is interesting, but not critical. If your stock goes up on a given day, they won't take the money away from you if you don't know why it went up. And if you can explain why it went down, they won't give you back your lost money." He goes on to say, "The trick to visual investing is learning to tell the difference between what is going up and what is going down." Making that determination is the focus of this chapter.

A stock's price, or a market's value, cannot trend, nor can it move sideways, without the movement being imprinted on its chart. The effective analysis of that movement, and taking prudent action based upon it, can give a trader an edge. This chapter provides instruction on how to quickly and easily determine the direction of the trend. Following are three simple charting concepts that will be used to determine trend direction:

1. Price peaks and bottoms
2. Moving averages
3. Trendlines

Price Peaks and Bottoms

Price peaks and bottoms are pivots that form on charts. They show where price turned resulting in at least a temporary change in direction. Peaks and bottoms may be simple in their concept and construct, but don't underestimate their importance. They play a significant role in the development of trends, as well as in the selection and management of trades.

A peak is formed after an advance when price stops making higher highs from one bar to the next and makes a lower high. A peak consists of three bars with the middle bar's *high* being higher than the highs of the bars on either side of it (Figure 2.1). The very high of that middle bar indicates the precise point where price stopped its rise followed by a change in direction.

A bottom is formed after a decline when price stops making lower lows from one bar to the next and makes a higher low. It consists of three bars with the middle bar's *low* being lower than the lows of the bars on either side of it (Figure 2.2). The very low of that middle bar indicates the precise point where price stopped its decline followed by a change in direction.

There are instances, though infrequent, when the pivoting action is formed from more than three bars. After a price advance, the high of two or more *consecutive* bars may be exactly the same price. In candlestick charting this is referred to as a Tweezers Top. As long as there are lower highs on each side of those consecutive highs, there is a peak present. After a price decline, if the low of two or more consecutive bars is exactly the same price it is a Tweezers Bottom. As long as there are higher lows on each side of those consecutive lows, a bottom is present. Figure 2.3 shows a Tweezers Bottom. The bars numbered 1 through 3 have exactly the same low with higher lows on either side.

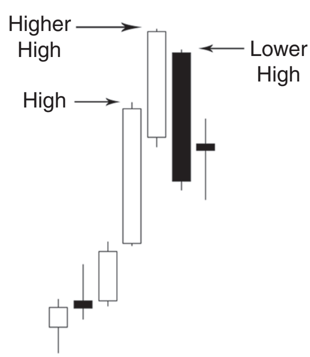

FIGURE 2.1 Peak

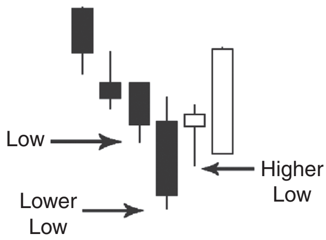

FIGURE 2.2 Bottom

These price pivots are basic elements of charting; however, many novices are not clear on their construct. That may be partially due to the fact that there are several different terms used to label those turning points. When I first began my study of technical analysis, I was not aware that a peak and a swing high were the same thing; so I set out to find the definitions for each term. After some frustration, I realized what was called a swing high in one text was called a peak in another and a rally high in yet another! To help you avoid the same confusion, listed below are all the terms I am aware of:

- A peak may also be referred to by any of the following terms: swing high, pivot high, reaction high, rally high, rally top, rally peak, top, or fractal.
- A bottom may also be referred to by any of the following terms: swing low, pivot low, reaction low, rally low, trough, valley, or fractal.

Note: I may refer to a peak or a bottom as a pivot because of the pivoting action that occurs when one is formed. However, that reference should not be confused with pivot point*s* as defined on the website www.investopedia.com or with pivot point analysis, such as the techniques described in John Person's book *Candlestick and Pivot Point Trading Triggers* (John Wiley & Sons, 2007).

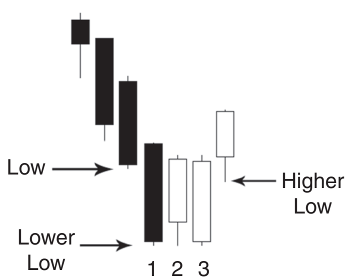

FIGURE 2.3 Tweezers Bottom

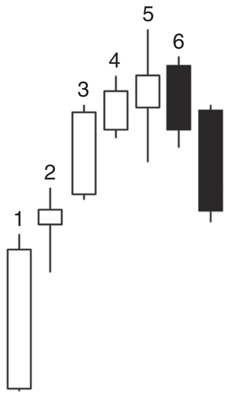

FIGURE 2.4 A Peak Was Formed on Bar 6

It is important to understand the difference between a peak and the high of a price bar. The high of a price bar is the highest price reached during a single, daily trading session; or during one time increment on other time frames. If a stock is making higher highs from one bar to the next (numbers 1 through 5 in Figure 2.4), there is no peak until a lower high is formed (bar 6). Likewise, there is a difference between a bottom and a low of a price bar. The low of a price bar is the lowest price reached during the trading period. If a stock is making lower lows from one bar to the next (numbers 1 through 6 in Figure 2.5), there is no bottom until a higher low is formed (bar 7).

I recall once listening to an audio presentation created by a well-known trainer in this industry. He indicated the definition of an uptrend was one making "higher highs and higher lows." I've also seen a similar definition in a few books on technical analysis. It occurred to me that, even though the statement was "higher highs and higher lows," an experienced trader would interpret that to mean higher *swing highs* (peaks) and higher *swing lows* (bottoms). This may seem like an obvious conclusion to a seasoned chartist; however, new chartists may not know enough yet to make that important distinction.

If inexperienced chartists were to take the words "higher highs and higher lows" literally, they might interpret the rise shown in the boxed area of Peabody Energy (BTU) in Figure 2.6 as an uptrend. The stock did indeed make higher highs and higher lows from one bar to the next for a short period of time from March 5 to 8, 2013 (refer to the arrows in Figure 2.6). However, as the bigger picture of the chart clearly shows, this stock is in a downtrend. The stock was forming lower peaks and lower bottoms. The price advance

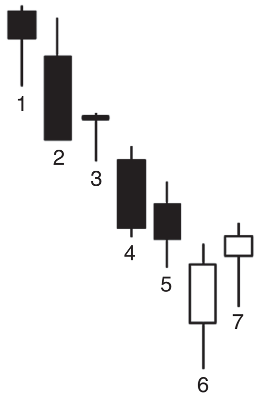

FIGURE 2.5 **A Bottom Was Formed on Bar 7**

that occurred from March 5 to 8 was just a temporary relief rally. That is, it was a short-term uptrend within the longer downtrend. If I were asked the direction of the trend in Figure 2.6, I'd respond, "The short-term trend shown at the right edge of the chart is up, but the intermediate-term trend is down." The downtrend continued (not shown) after that relief rally. In Chapter 3 you'll learn more about short-, intermediate-, and long-term trends.

FIGURE 2.6 **A Relief Rally within a Downtrend**
Source: TC2000® chart courtesy of Worden Brothers, Inc.

Hopefully, this emphasizes the importance of making sure to be clear on the *semantics* and the *context* when learning about charting concepts. Read the text carefully and look closely at the accompanying chart or illustration if one is provided. Make sure you really understand what the author is attempting to get across to the readers. For example, if it is stated that price has made a new high, the author may be referring to one of the following:

- A new high of day—The highest price reached during a single daily trading session.
- A new swing high (peak)—A pivot that forms after a price advance (see Figure 2.1).
- A new 52-week high—The highest price reached in the past year.
- A new all-time high—The highest price ever achieved by that stock or index.

Price Pivots Are the Building Blocks of Trends

Throughout this book you'll see how price pivots play an important role in the development of a trend. As price moves up and down in the general direction of the trend, a series of peaks and bottoms will form on the chart (Figure 2.7). Some of those price pivots will be prominent (obvious to

FIGURE 2.7 Peaks and Bottoms Form within a Trend
Source: TC2000® chart courtesy of Worden Brothers, Inc.