TRENDLINES

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Trendlines are used to identify support and resistance levels on custom chart patterns. We find ut the asset price gaining support and resistance based on which we enter trades. Trendlines help in figuring out the levels where bulls and bears might be present in abundance even when a fixed chart pattern is not being formed.

HOW IT WORKS ?

With chart patterns, we can find bulls and bears at fixed levels. With trendlines, we try to find the levels where bulls and bears are found. We do so by seeing the levels at which the asset price met with support and met resistance earlier. We expect the trend to continue and bulls and bears to be present at the same levels.

There will either be a reversal of the price at these levels if the support or resistance holds up. However, after multiple attempts, the price eventually does overcome resistance or support. In such cases, there is a continuation in the price trend.

HOW DO WE USE IT?

DETERMINING TARGETS

We can use trendlines to determine the price target of trades that we are involved in. For instance, if we long an asset, we can use the resistance level based on trendlines as the price target. If we short an asset, we can use support levels as the target price where we aim to book profits. This is because there is a good chance that there might be a reversion at these levels and we might lose out on the profits. The final decision depends on the strategy that we have created for an entry and exit signal.

BREAKOUTS

The next use of trendlines is to accept new trades based on breakouts. Whenever the asset price breaks out of the support or resistance, we can say that the trend should be expected to continue. The reason for this is the fact that whenever a breakout takes place, the momentum in the price has to be enough to overcome the resistance or support level and once that has been done, we can expect the price to move further along as the opposition strength has also gone down after the breakout. We will enter trades based on these breakouts in a manner very similar to the trades that we had been entering based on chart patterns.

HOW TO IDENTIFY TRENDLINES ?

The biggest challenge is to identify trendlines. We will do so by connecting the recent highs and recent lows with one another. Whenever we see a straight line forming, we can say that these are trendlines i.e. support and resistance levels fall along these lines. More the number of recent highs on a particular line, the stronger is the resistance at this level as the line has been tested multiple times. This will give us the resistance line.

Similarly, more the number of recent lows on a particular line, stronger is that support line as it has been tested multiple times. Also, resistance levels can become support levels after a breaking out and vice versa.

It is pretty common for analysts to fall in trouble for overdoing trendlines. They try to read too much into the lines in an attempt to identify patterns even in the absence of such support or resistance. We will be careful of this and identify trendlines only when there is a pattern that exists.

Source - Trading View

This is how we identify trendlines. We connect the recent highs and recent lows and the line on which they fall are the lines of support and resistance. We see that in this case, by connecting different highs and lows, we have formed an ascending triangle. We will wait for the breakout on either side and take the trade accordingly. Trendlines and chart patterns work in the same manner and often we will recognize chart patterns using trendlines.

Source - Trading View

By connecting the recent highs and recent lows, we have identified the support and resistance levels for the asset. These can be used to identify price targets if we are already short or long the asset.

Source - Trading View

In this case, by connecting different highs and lows, we have formed an ascending triangle. We will wait for the breakout on either side and enter the trade accordingly.

NSE:PARAGMILK, 1D 119.85 ▼ −1.05 (−0.87%) O:121.00 H:123.00 L:118.00 C:119.85

PARAG MILK FOODS, 1D, NSE

Resistance

Support

Source - Trading View

These are yet another trendlines set. They have together formed an ascending wedge and we will treat them accordingly now. This is a long term resistance and support trendline and each of them has been tested multiple times. As a result, we can say that these are strong resistance and support levels.

NSE:HEROMOTOCO, 1D 3163.15 ▼ −39.85 (−1.24%) O:3200.00 H:3217.55 L:3082.25 C:3163.15

HERO MOTOCORP LTD, 1D, NSE

Resistance

Support

Source - Trading View

We obtained the resistance level by connecting the highs of the asset price. There is a breakout in August where the bulls overpower the bears. Following this, the resistance line has now started acting as a support level and has been tested multiple times and has gained strength. So, we see that trendlines can be used in multiple ways to understand support and resistance levels.

NSE:ONGC, 1D 96.65 ▼ −4.75 (−4.68%) O:101.40 H:101.85 L:96.05 C:96.65

OIL & NATURAL GAS, 1D, NSE
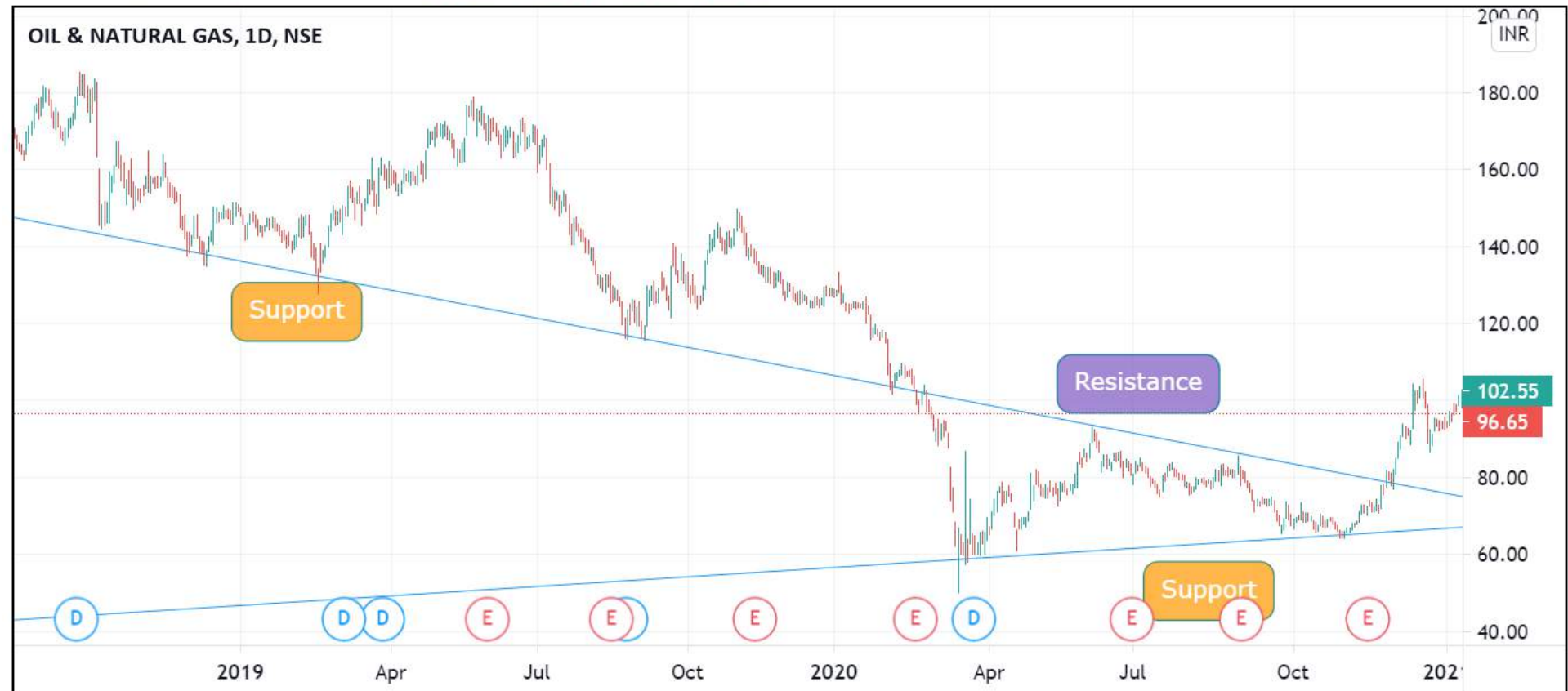
Source - Trading View

This is yet another example where support turned into resistance. There was a breakout in March and we would have gone short on the asset-based on support breakout. The month of November saw another breakout. We would have gone long here. The trendlines together had formed a symmetric wedge formation here.

NSE:BPCL, 1D 409.55 ▼ −5.05 (−1.22%) O:414.00 H:416.90 L:402.00 C:409.55

BHARAT PETROL CORP, 1D, NSE

Resistance

This also becomes a Triangle

Support

Source - Trading View

This is yet another example where the support and resistance lines together form a symmetric triangle. We will now treat it as a triangle rather than trendlines. With practice, we shall be able to identify these trendlines and chart patterns and use them to great effect to take trading calls. An analyst should spend time here and go through many charts and try to spot the resistance and support at different times and also identify different chart patterns.