



Trending Markets – What You Will Learn

Ready to dive in and get started on how to read the market.

We will be focusing on market movements and trends:

- Basic market movements – 3 ways only
- Defining Trends
- Breakdown of a Trend
- What are Runs and Retracements
- Trend Strengths and Weaknesses

3 Market Movements

Let's start with market movement?

Here are the basics of the basics – markets move in three ways and three ways only!

1. Up – when the price is going higher and higher
2. Down – when the price is going lower and lower
3. Sideways – when the price is stuck between two points and is bouncing off of them for a period of time

Once you truly understand this, you are well on your way.

Normally when we hear trending markets it usually means the market is moving in one direction.



The market can have a trend up – market trending up





The market can have a trend down – market trending down





The market can be trending sideways.]



Important to note – when you are day trading think of precision! Like a doctor working with a scalpel, you need to look at the entire picture. For example, when you are looking at a trend, don't look at the middle of it but see it from where it starts to where it ends. It's crucial to start forming good habits from the beginning. And being precise will get you far.

You will hear terms such as 'Trend traders' but that usually refers to traders trading a trend either heading up or heading down. Sideways trending markets are the hardest to trade and with the least probabilities of winning (for beginners I don't recommend sideways markets for trading).



Anatomy of a Trend

We are going to be breaking the trend up into chunks to get the full understanding of what is happening.

3 Main Components of a Trend:

When reading the markets it's all about movement, about the direction of the trend and most importantly understanding the essence of the trend. Once you can read the signs of what a trend is doing, you are more equipped to get into trades that will go in the right direction at the right time.



- **The beginning of a trend** – this is usually strength gaining – this is the best time to hop on the trade bandwagon
- **The middle of the trend** – runs with weak retracements – helps gauge what the trend is up to and if taking more trades, or staying in the trade you are in is the right decision



- **The end of a trend** – exhaustion – when there is a lot of consolidation, slowdown, this is the transition area. It is called the end of a trend because here the trend can go into 2 different directions, it can either continue or shift to a new direction and start a new trend.

Dissecting the Trend

Now that we know the components of the overall trend, the most important part is looking at what actually happens within a trend so we understand what is truly happening.

The Dissection of a Trending Market

The market will never move in a straight line up or down. Every type of movement you see on your charts is either trending up, trending down or trending sideways.

For us to understand the fundamental elements of the market, we must understand the vital components of a trending market.

The Key Components of a Trend either up or down:

Run – this is when the market is going in one direction. It can be a strong run, or slow and steady. As long as the highs are higher and the lows are higher if going up. And as long as the lows are lower and the highs are lower for a downward trend.



There are 2 different runs that you need to understand:

Strong Run – this is showing us that the market is gaining speed in the direction and, with weak retracement (explanation below) shows us that it will continue. Strong runs also have sharp angles to them.





Weak Run – this is a slowdown in the trend. This means that the trend is either slowing down ready to change direction or simply taking a breather before continuing on it's way.





Retracement (Pullback) – Every run retraces, or corrects itself, by going in the opposite direction of the run. We need to understand the strength of the retracement. Is it a small retracement and the market is simply taking a breather before it continues in the same direction. Or is the market correcting itself with a deeper retracement and slowdown? Maybe even about to change direction altogether.



The market moves due to people's emotions. Fear usually makes them panic and that's why you will see the market run faster going down, then going up.

Runs usually occur because everyone is hopping on the bandwagon of the trend.

Retracements occur when people want to get out of their positions. Most commonly, retracements are smaller than the run. Retracements are important to watch closely because this is the place for the best entries or, could be, the worst.

Deeper retracements are places where indecision is coming in. Doubt that the trend will continue and traders are getting out of their positions that were going with the trend, and new traders are coming in and buying positions for the trend going in the opposite



direction. When this happens, this gives the retracements strength to continue in the new direction and a new trend has begun to form.

Our goal is to watch the strength of the runs and retracements to see when there are slowdowns and shifts in direction. As individual day traders our goal is to go with the flow, movement, momentum of the market and get on the right side of the trend.

Understanding Trend Strengths and Weaknesses

Now let's dig even deeper into a trending market.

A trend (up or down) can be strong with strong runs and weak retracements.

A trend can also be slow and steady, not real strength but still making higher highs or lower lows. This type of trend has retracements that can be deeper yet holding its course.

What are higher highs and higher lows – this happens in a trending up market. This is when the last pivot on the upside is higher than the pivot before it. And the last pivot on the bottom is higher than the last low.

What are lower lows and lower highs – this happens in a trending down market. This is when the last pivot on the bottom is lower than the previous one. And the last pivot on the other side.



TheTraderChick





Momentum helps us understand the strength. If it's strong, chances are when there will be slow downs (retracements) it will continue in the same direction. Keeping the momentum going.





Important to note, with slower trends and weaker momentum, the probabilities are much higher for a change in direction. We need to be vigilant of this.



Trending market can also go sideways. You won't always have a trend going up or down, there will be times when it will go sideways, also known as a channel, or a consolidation. This has no momentum.

Momentum is when you are picking up speed and flowing in a certain direction.



Assignment Time – Practicing What We Learned

Now it's time to go over and truly understand market movement with all its components. Without this fundamental understanding it will be hard to move on to the next step.

Assignment time!

Please send your assignments to this email – make sure you write exactly what you are sending, so I know what I'm reviewing:

thetraderchick@gmail.com

Market Movements

1. Uptrend
2. Down-trend
3. Sideways trend

Trend Breakdown

1. Beginning of a trend
2. Middle of a trend (body)
3. End of a trend

Anatomy of a Trend – take a trending market (doesn't matter if it's going up or down)

1. Strong runs in a trend
2. Weak runs in a trend
3. Weak retracements
4. Strong/deep retracements
5. Slowdowns in a trend – sideways movement