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Charts, trends, and channels in

TECHNICAL ANALYSIS

are things that every trader should know.

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WHAT YOU WILL READ IN THIS BOOK:

In the vast realm of financial markets, the forex market is a dynamic field that involves many opportunities and challenges. From this perspective, technical analysis emerges as a powerful tool and provides insights into market behavior through the window of charts and trends.

At the heart of technical analysis lie two pillars: Charts and trends. Charts serve as a visual representation of price movements over time, providing a glimpse into the complex dance between supply and demand. From iconic candlesticks to the minimalist elegance of line charts, each chart reveals a unique perspective of market dynamics and provides traders with valuable insights into the logic behind the price movements.

Nevertheless, charts tell us only about a part of the story. The true essence of technical analysis lies in deciphering the underlying trends that shape market behavior. Whether it is identifying the relentless movement of an uptrend, the ominous dip of a downtrend, or the calmness of a neutral (suffering) trend, understanding and interpreting these trends is essential to making informed trading decisions.

In this eBook, we will talk about the standard charts used in technical analysis, their features and applications, as well as the types of trends that every trader at any level of expertise should learn.

INTRODUCING THE TYPES OF CHARTS IN FOREX

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INTRODUCING THE TYPES OF CHARTS IN FOREX

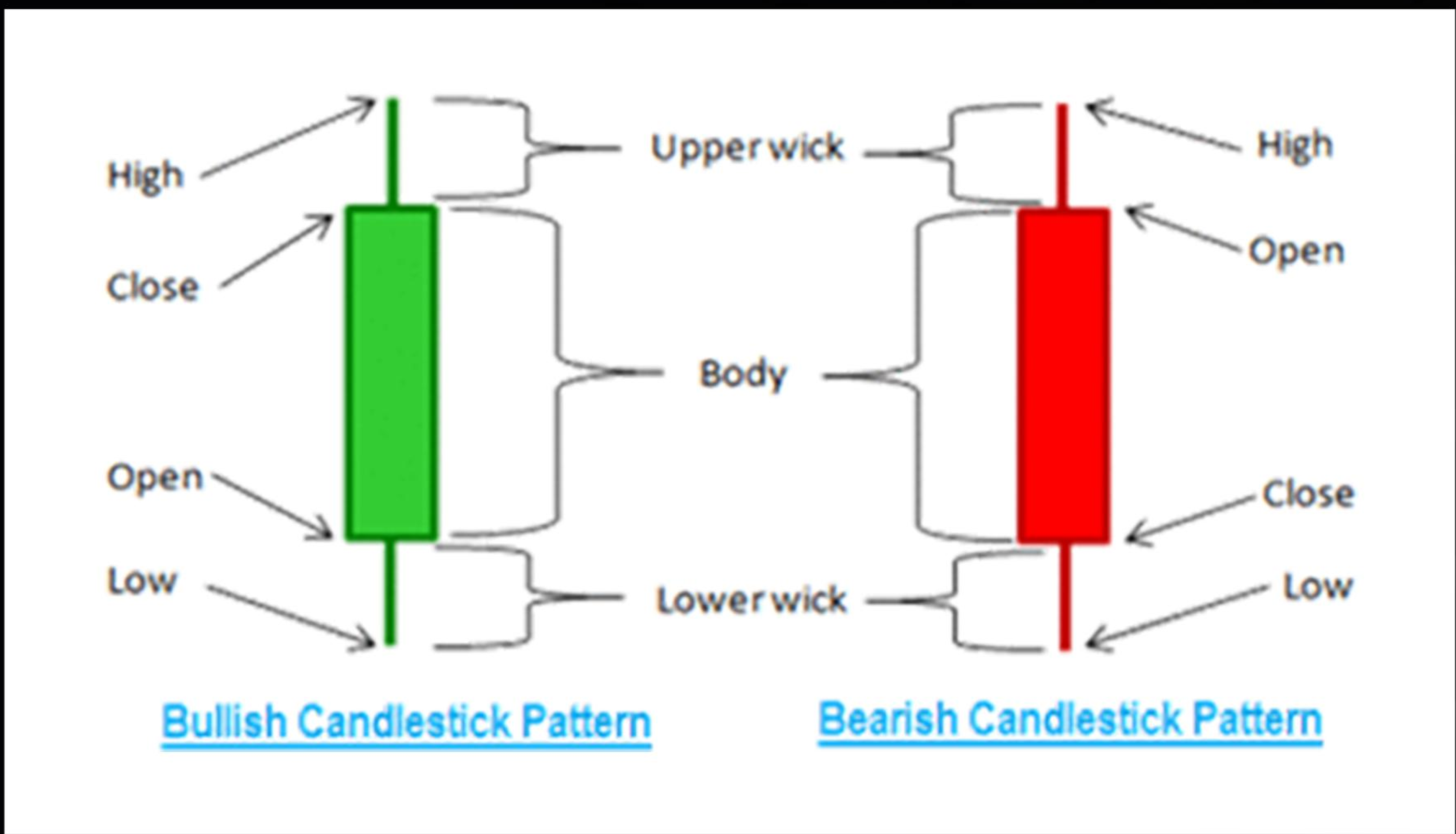
Japanese candlestick chart

Rice traders first introduced candlestick charts in Japan in the IVth century. This graphical method was later compiled and revised by Steve Nison and published as a book in the nineties.

Japanese candlesticks represent four types of data regarding the price: the highest price of the candle, the lowest price, the opening price, and the closing price. Price candles are either bullish, bearish, or neutral.

- If the opening price of the candle is below the closing price, the candle is bullish.
- If the opening price is above the closing price, the candlestick is bearish.
- If the opening and closing prices are at the same level (or have a small distance from each other), the candlestick is a neutral price, which indicates the equal power of buyers and sellers.

Candlestick charts are widely used in the forex, stock, and crypto markets. You can easily recognize the buying and selling pressure by studying the price of the candle. A glance at price candles can reveal beneficial information about the strength of buyers and sellers and help you quickly determine whether the market is in the hands of sellers or buyers.

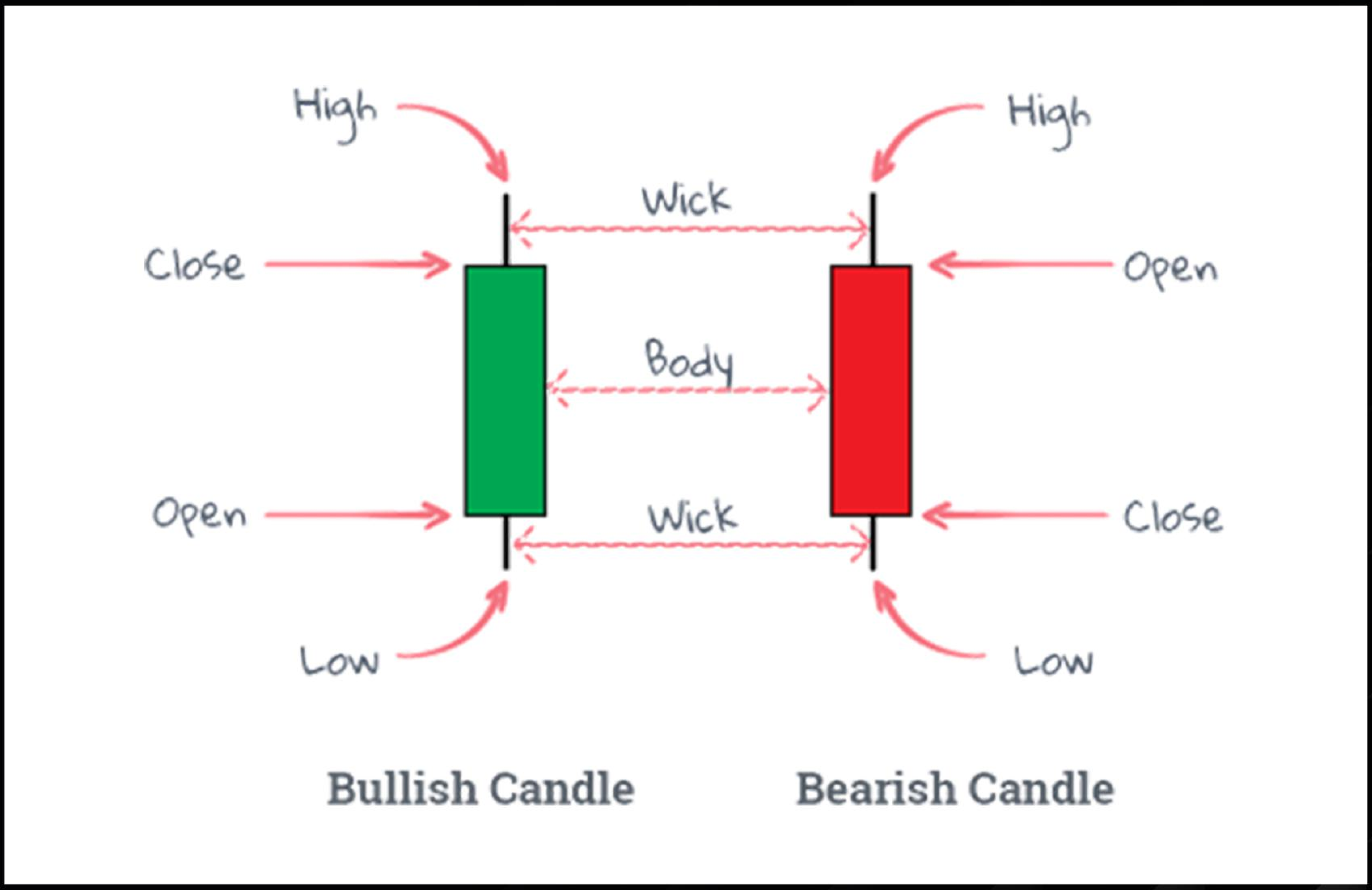


INTRODUCING THE TYPES OF CHARTS IN FOREX

The unique features of this chart help traders to find out about the reverse or the continuation of a trend.
Additionally, the open and close prices of candles on long-term charts (such as daily or weekly) are usually used as support and resistance levels for intraday trading.

The opening and closing prices of Japanese candlesticks and the highs and lows created by these candles are used to assess market breaks. The length (body) of the candles also shows the behavior of the market. Long bullish candles indicate that more buyers are in the market.

Long bearish candles also indicate that sellers have found a reason to sell the currency. Short candles indicate there are doubts in the market, which means that investors have doubts about the market trend. This factor can be the first sign of market reversal.
The lower and upper sequences of Japanese candlesticks indicate the bottom and the top of the price, which are used to examine and study market behavior. If the upper trail of the candlestick is long, it means that the buyers pushed the price up, but it was the sellers who eventually took over the market and pushed the price down. On the other hand, if the lower trail of the candle is long, it means that the sellers tried their best to lower the price, but in the end, it was the buyers who took over the market.



INTRODUCING THE TYPES OF CHARTS IN FOREX

Japanese candles have many different patterns: single, double, and multi-candle patterns. These candlestick patterns are very useful for long-term and intraday trading. Single candlestick patterns are patterns that include only one Japanese candlestick. These patterns can indicate the continuation or the reversal of the trend. Two candlestick patterns are also suitable for detecting the return or continuation of the trend.

The only difference between binary patterns is that the first candlestick is used to determine the reversal or continuation of the trend, and the second candlestick confirms or violates this reversal or continuation signal. That is, by using the second candle, we determine whether the reverse or continuation of the trend shown by the first candle is true or not.

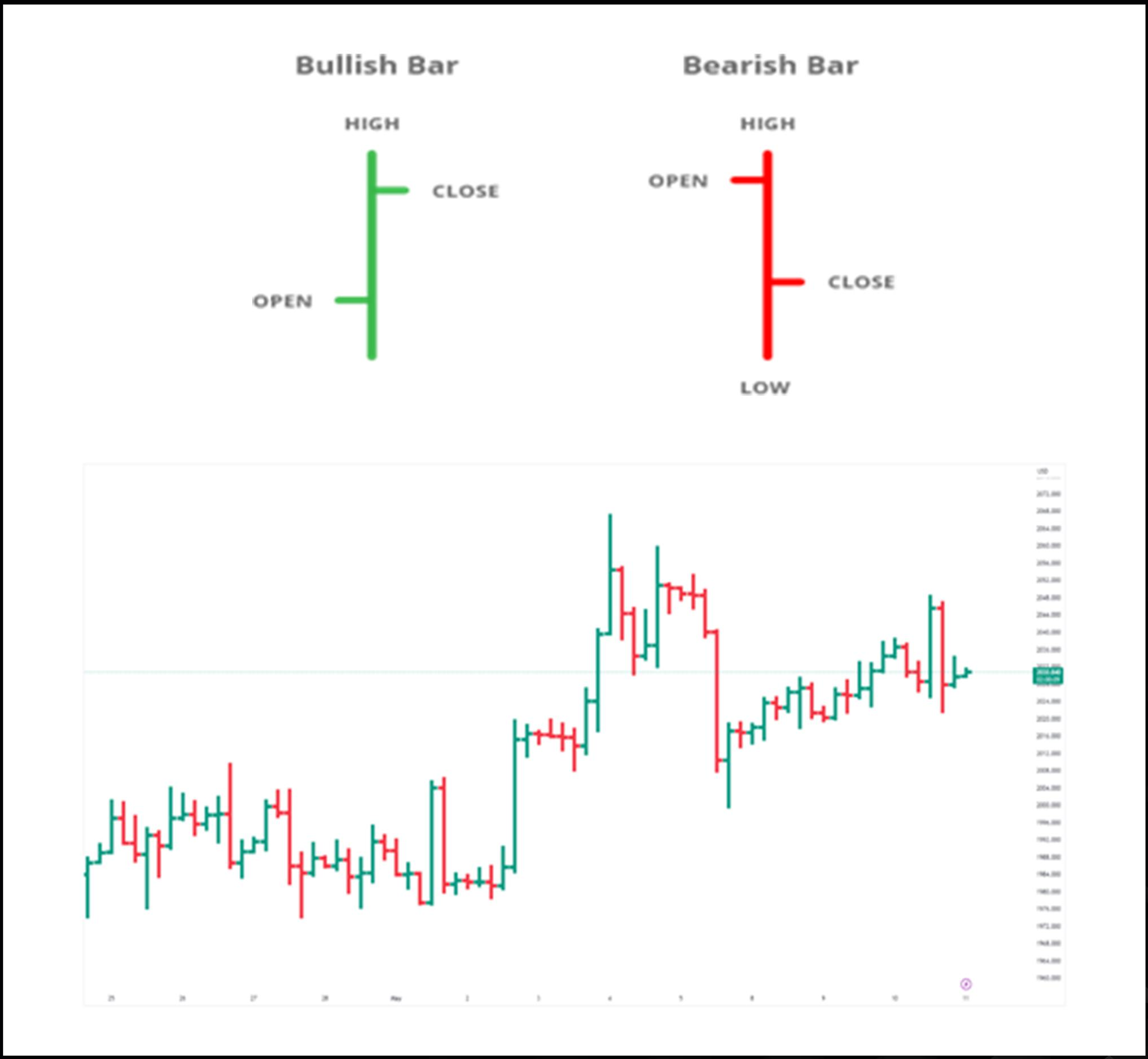
Multi-candle patterns are a bit more complicated. Multi-candle patterns usually consist of three-price candles. This pattern is mostly used in long-term trading. Multi-candle patterns are less frequently seen in the market than other patterns, but they have high certainty.

It should be said that you should not trade based only on candlestick patterns. Rather, these patterns should be used as an effective tool to understand market behavior and increase the probability of successful transactions.

INTRODUCING THE TYPES OF CHARTS IN FOREX

Bar chart

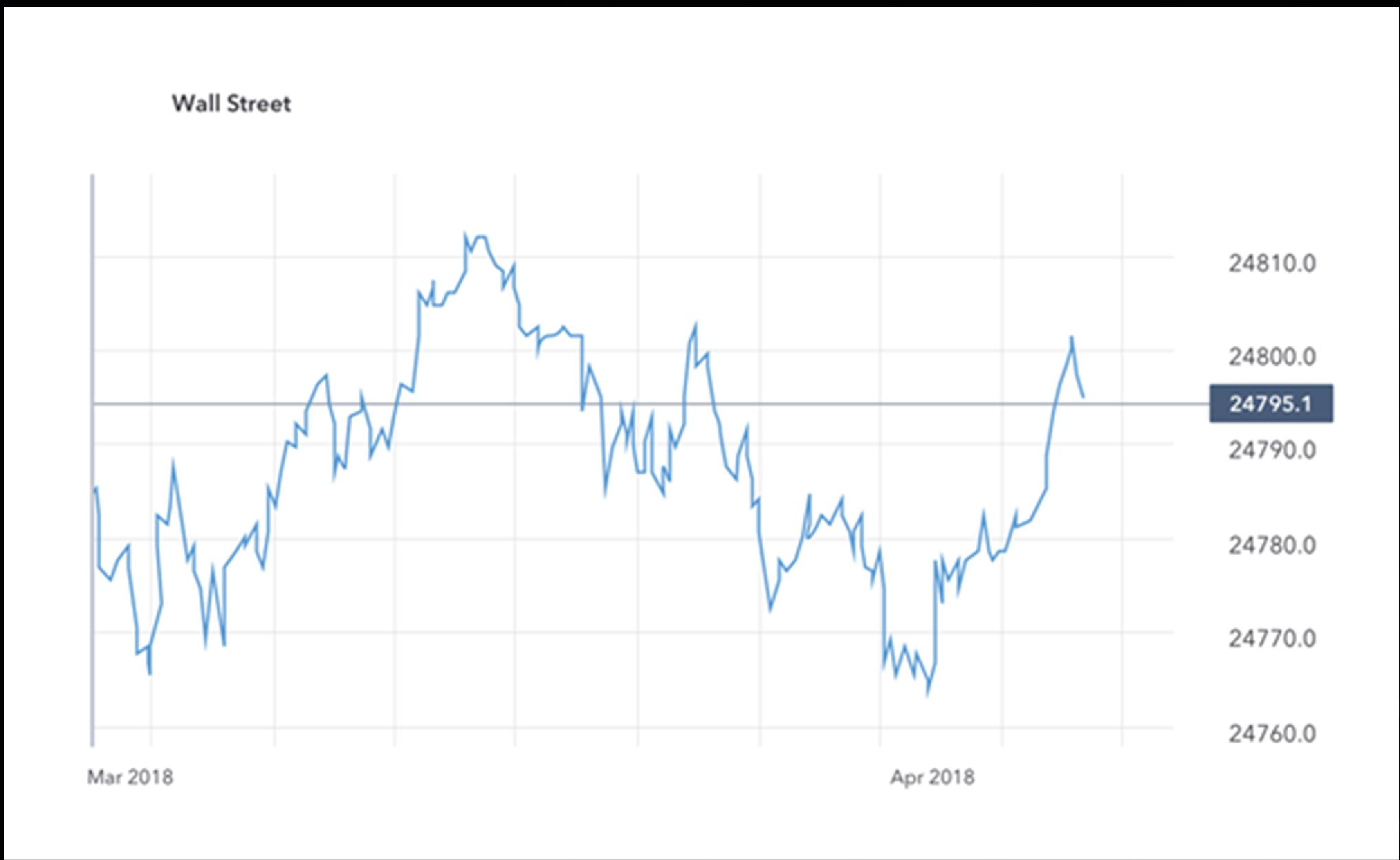
Bar charts, also known as bars, are one of the best tools for analyzing forex currency pairs. This very simple and quick chart can show the highs and lows along with the opening and closing prices. This type of chart uses vertical bars to display price data for each bar. The opening price of the load is displayed by a short line on the left side of the bar. The short line on the right of the bar represents the closing price.



INTRODUCING THE TYPES OF CHARTS IN FOREX

Linear graph

A line graph, as the name suggests, shows a line. The linear graph is the simplest type of price-time chart. A line graph consists of connecting points. Each point appears in the price chart only when the final price is set. That is, until the final price appears, a new point will not be recorded, and the end of the line chart can be closed in any way. Usually, the closing price or Close is used to draw a line chart. This chart does not show the main fluctuations of the market and only shows the closing price. So, it provides less information compared to other charts. Usually, this chart is easy to read, and many traders use this type of chart to study the market regardless of minor fluctuations. A time chart shows price movement (not volatility) over time and is useful for assessing the overall market performance.



INTRODUCTION OF VARIOUS TRENDS AND TRENDS IN FINANCIAL MARKETS

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Classification of types of trends

Trends move in three directions: **1: Upward trend, 2: Downward trend, and 3: Neutral trend.**

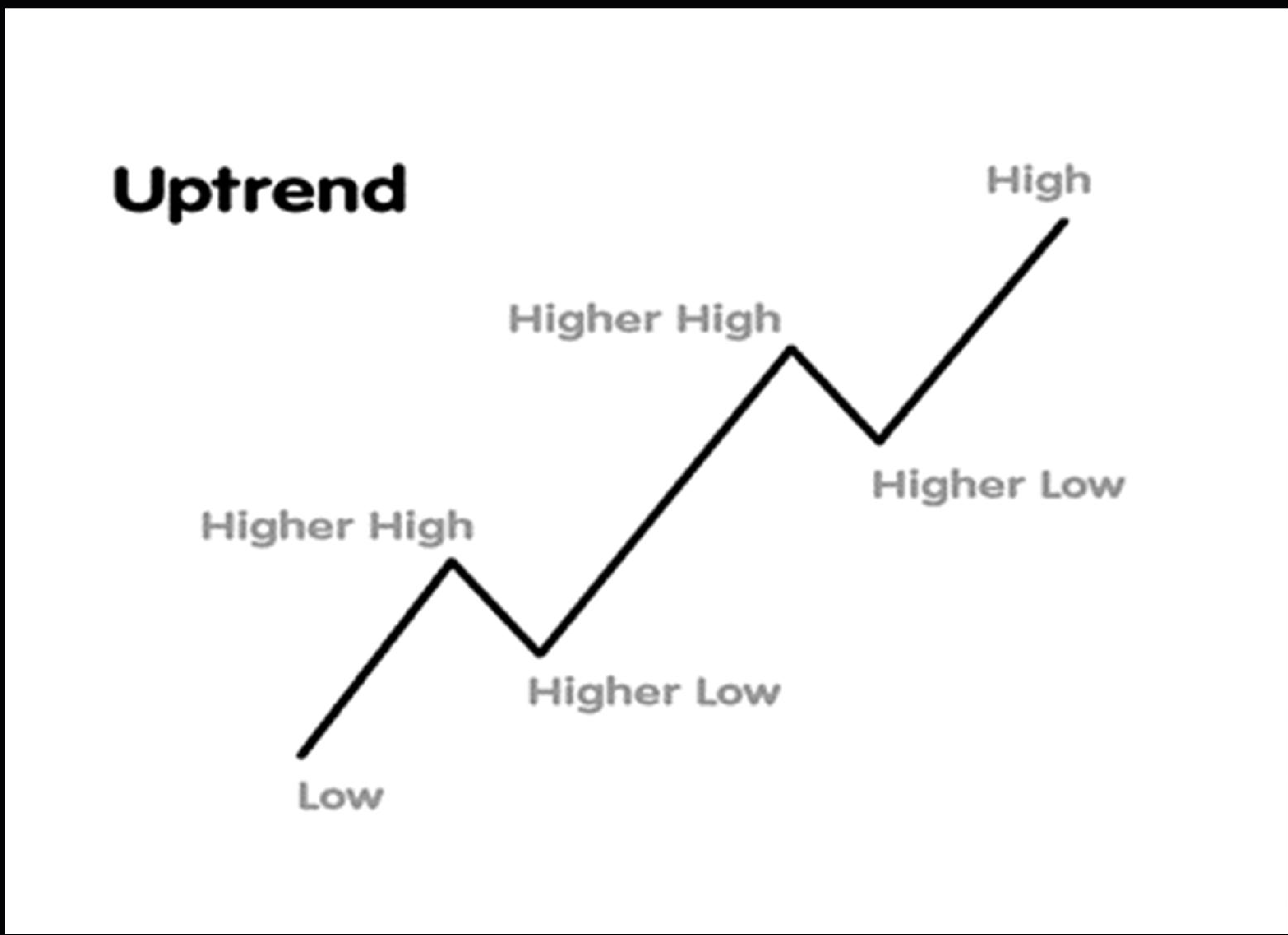
1. In the upward trend, the price tends to strengthen and rise more than it tends to weaken. The best thing to do in an uptrend is to buy and wait for the end of the uptrend.

2. In the downward trend, the price tends to weaken and decrease more than it tends to strengthen. The best thing to do in a downtrend is to sell and wait for the end of the downtrend. (In one-way markets, selling means staying silent and watching.)

3. The neutral trend expresses the equal power of buyers and sellers at a particular time. In neutral trends, the trader should watch until one group of buyers or sellers prevails, or take advantage of the slight upward and downward trends of the market and the price moves sideways.

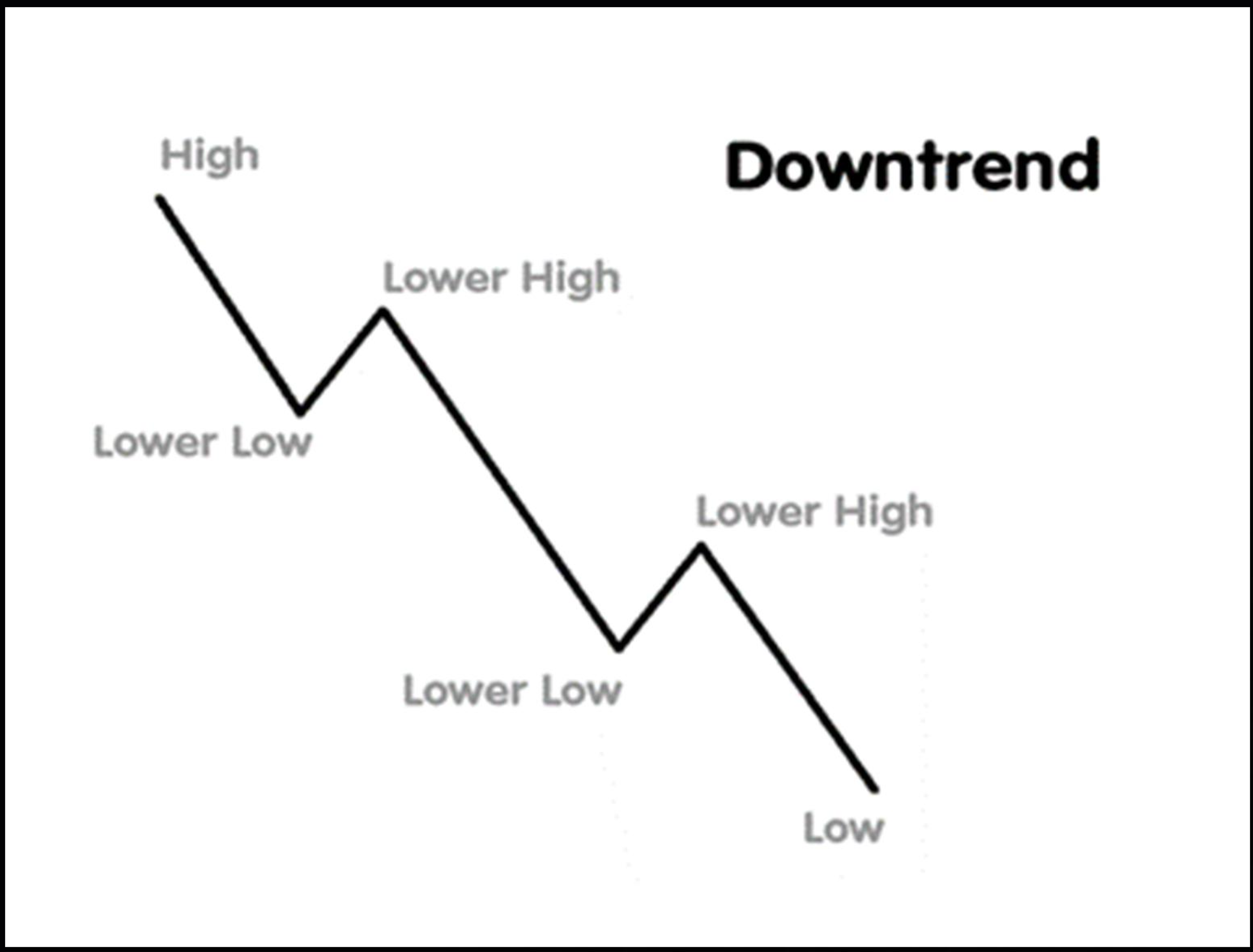
Upward trend

With the rise in prices, we see new price ceilings and floors that are at higher levels than the previous ones. To better understand the concept, look at the diagram below. Although this method of determining the market trend seems simple, it is the most important and reliable method.



Downward trend

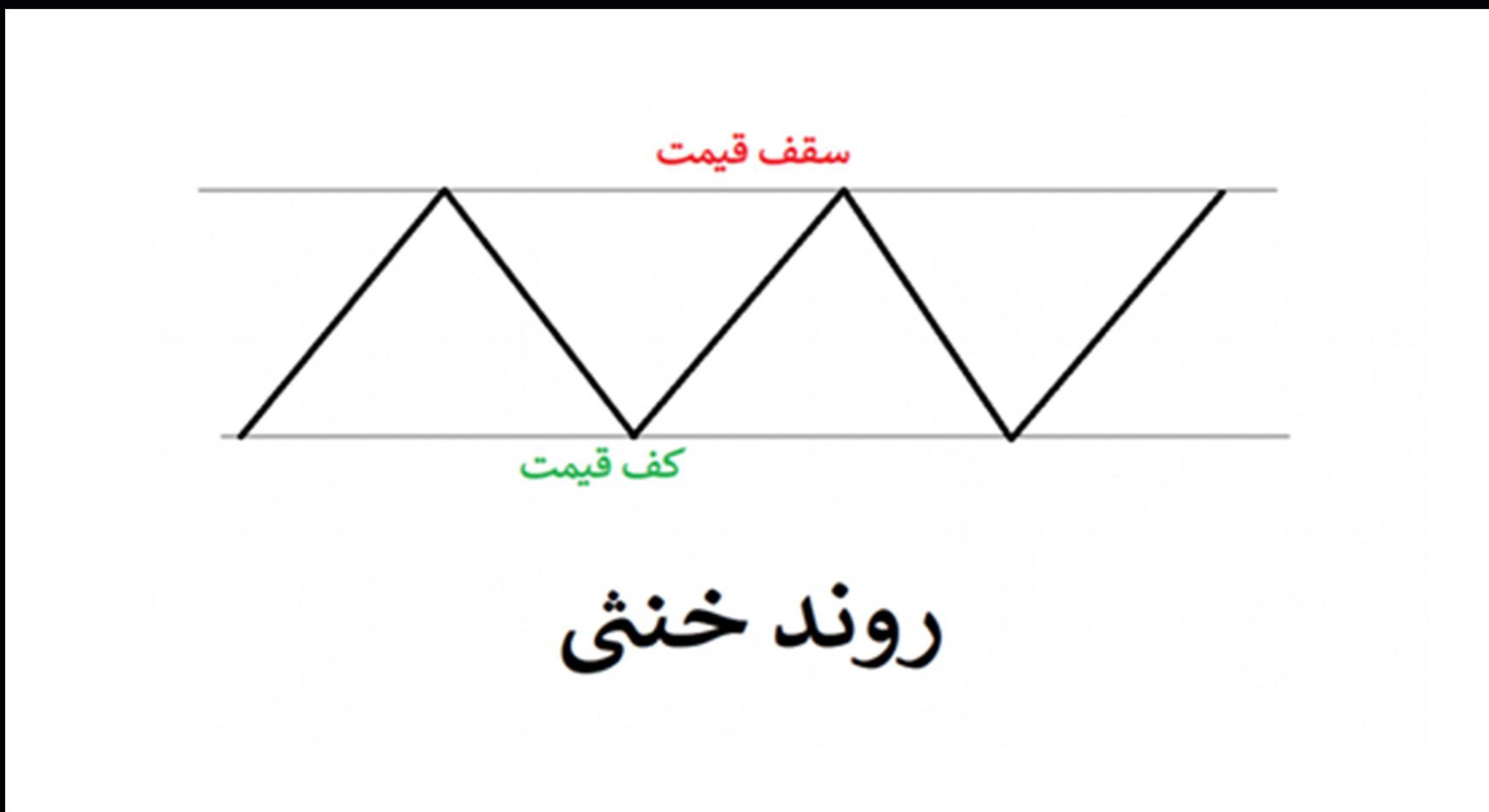
In the downward trend, we see new price floors and ceilings that are lower than the previous ones. Look at the diagram below to better digest the concept. Although this method of determining the market trend seems simple, it is the most important and reliable method.



Neutral trend

The Neutral trend plays a key role in technical analysis. The market trend shows who has the power. Buyers or sellers? If the power of buyers and sellers is equal, most likely, the market is trendless or neutral.

Pay attention to the diagram below. The market has hit the bottom of the swing range or the support range several times, and the ceiling of the swing range or the resistance range has been touched by the market several times. Whenever you see such conditions in the market, you can confidently say that the market is trendless or neutral.



Time trends

Apart from the price, the duration of a trend is also important. Until now, there has not been a dominant definition for the time division of trends among traders. However, the dominant division refers to three categories: 1: Long-term trend, 2: Medium-term trend, and 3: Short-term trend.

For this division, the long-term trend lasts for more than six months or one year. The medium-term trend lasts for more than one month to a year, and the short-term trend lasts for less than a month. Although intraday trends are smaller than the short-term trends that we defined, most traders classify intraday trends as short-term trends.

Another thing about trends is their wave-like movements. Each trend in its time frame consists of several smaller trends, and in a larger time frame, it is a part of the more significant trend wave. Therefore, when it comes to the trend, determining the time frame of the trend is also important.

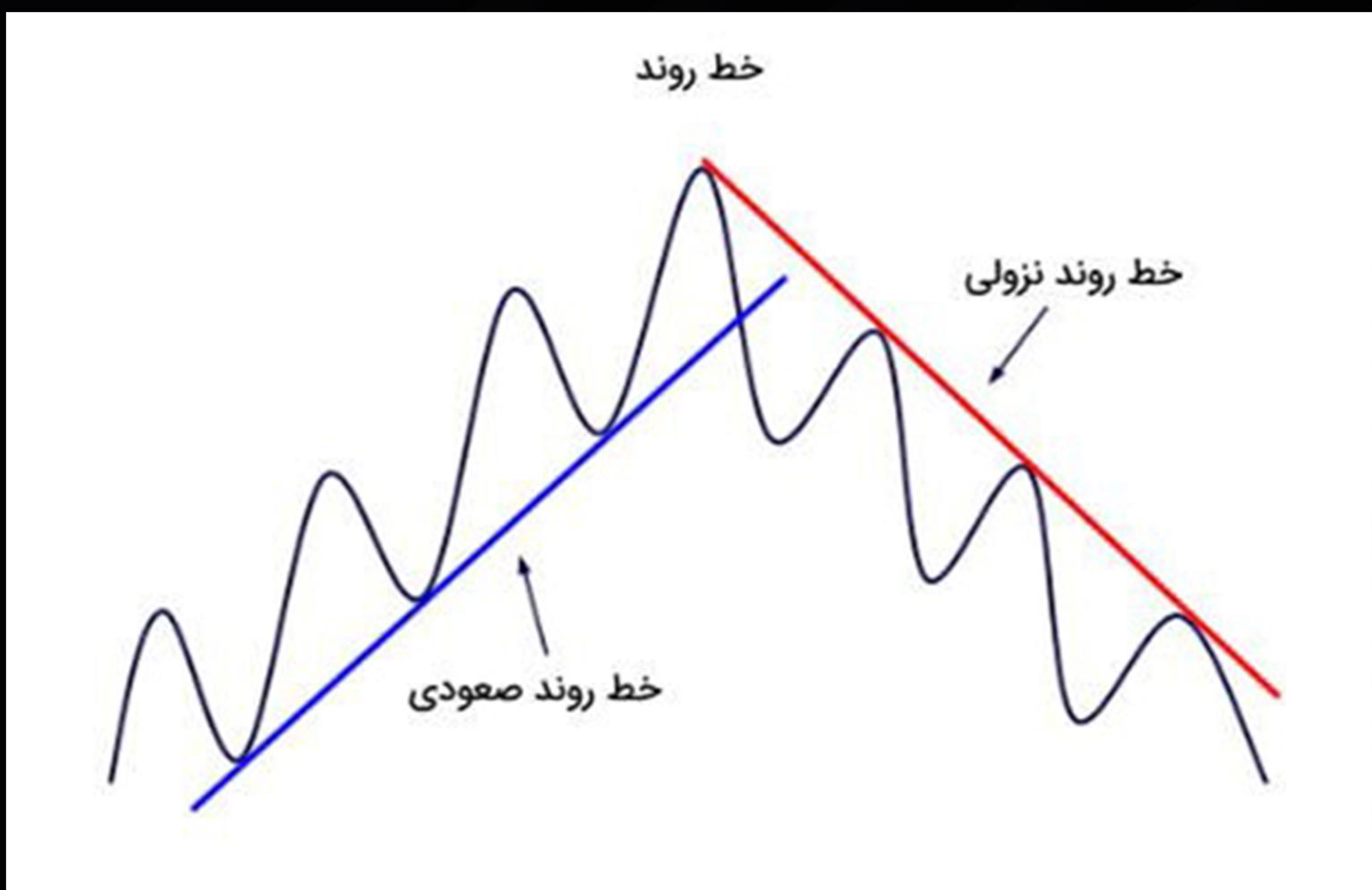
INTRODUCTION OF VARIOUS TRENDS AND TRENDS IN FINANCIAL MARKETS

Types of trend lines

In general, there are two types of trend lines. Ascending trend line and descending trend line. The upward trend line is enough to connect the two recent price floors of the market and extend the drawn line. In the downward trend line, you should connect the two recent price ceilings and extend the line. Trendline theory is based on the premise that the market will react to the trendline as long as it is not broken. Sometimes, the market will hit an uptrend line and bounce right back up. In the downward trend line, the opposite will happen.

Uptrend line: Uptrend line is a straight line drawn to the right and up, connecting two or more low points. The second low point in the drawing of the upward trend line must be higher than the initial point. Uptrend lines act as support levels and show that even as prices rise, demand is more significant than supply.

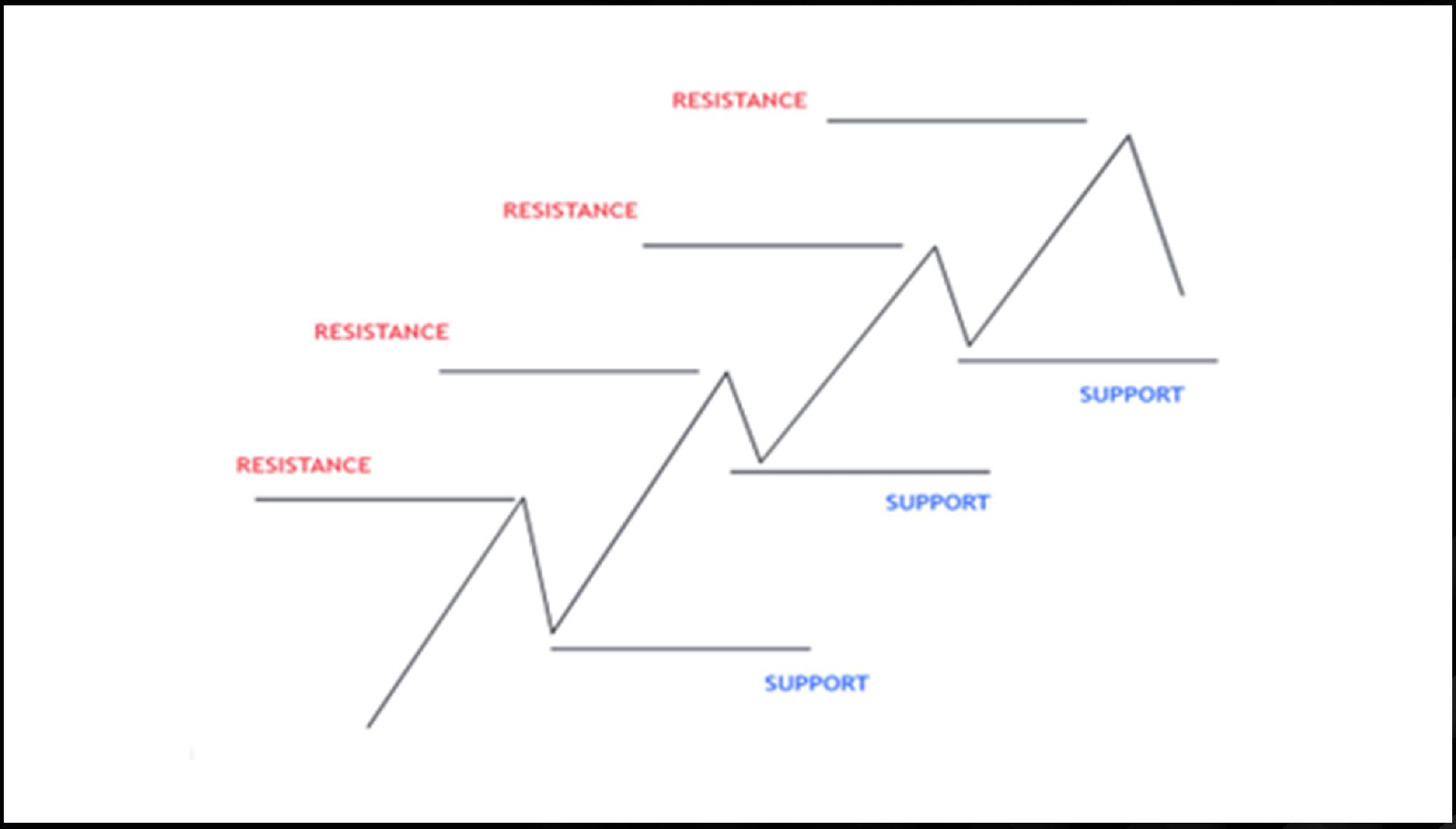
Downtrend Line: A downtrend line is a straight line drawn to the right and down and connects two or more high points. The height of the second point must be lower than the first point so that the trend line has a downward slope.
Downtrend lines act as resistance lines and show that even as the price declines, supply is greater than demand. As long as prices remain below the trendline, the downtrend is considered intact.



The principles of working with the trend line, how to draw, and the degree of importance

As mentioned in the previous sections, the trends are a series of overtaking waves of one price direction over the opposite direction. If you look carefully at the figure below, you will see that the upward trend is a set of smaller trends, and the sum and size of the downward trends are smaller than the upward trends. Therefore, the dominant trend is upward. In other words, we see that in the upward trend, the new resistances are higher than the previous resistances, but the price does not reach the previous support in the support lines. The opposite of this state is defined as the downward trend.

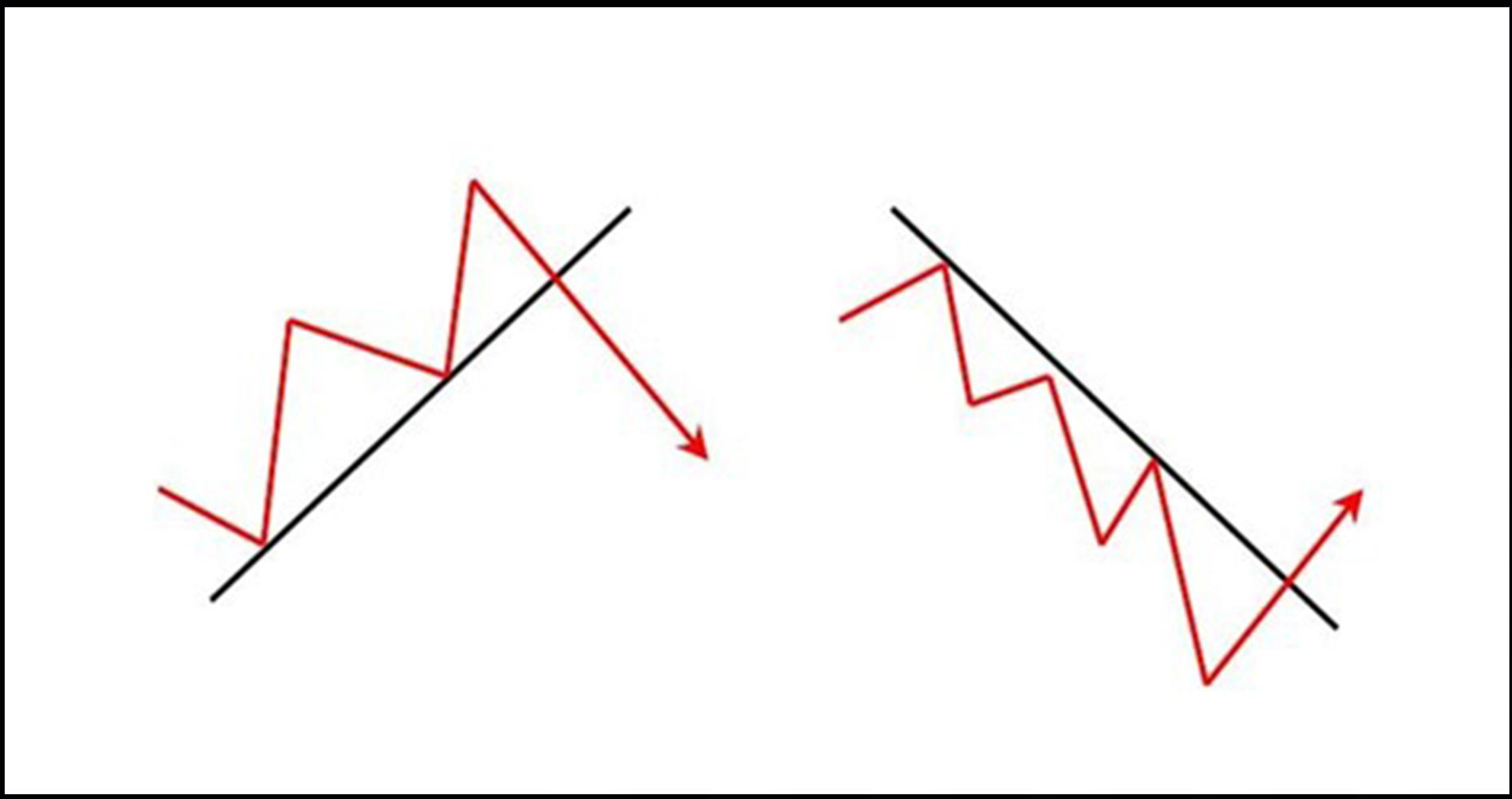
As long as we are in an upward trend, the price floors (supports) should not reach a price lower than the previous one, and in a downward trend, the price ceilings (resistances) should not reach a price higher than the previous one. This point is the most important principle of identifying and applying the trend. If the ceilings or floors reach their previous position, they basically indicate that either the slope of the dominant trend has decreased or that trend has ended and we have a new trend ahead.



INTRODUCTION OF VARIOUS TRENDS AND TRENDS IN FINANCIAL MARKETS

To draw an upward trend, we connect at least two price floors (support), and the upward trend remains until the price passes along this drawing line. To draw a downward trend, we connect at least two price ceilings (resistance), and the downward trend remains until the price does not pass along this drawing line.

The validity of a trend is determined by the number of times the price meets the trend line, the amount of time the price remains in the trend, and the slope of the trend, and if each of the above three parameters is greater and greater, it is more important to ensure the dominant trend. Will find.



Trendline trading strategy

or ceilings to each other, you can witness a valid trend line. Among the practical strategies of the trend line, the following can be mentioned:

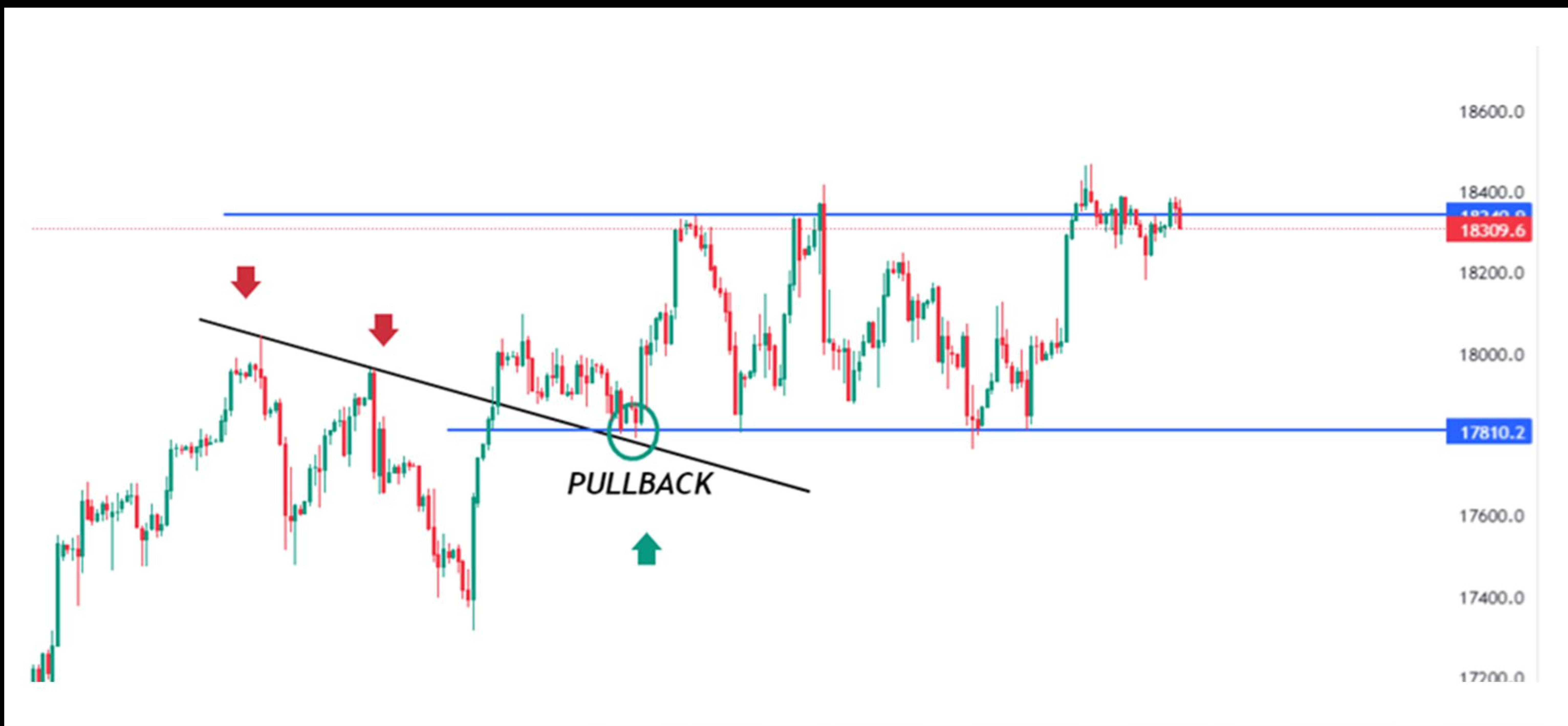
1. Break and Retest strategy

2. Trendline Flag strategy

Break and Retest Strategy

The strategy of breaking the trend line and returning to it is shared. In general, when using this strategy, you should wait for the price to break and cross it when you find a valid trend line. Of course, sometimes the price continues to move after breaking the line and does not return to the broken trend line. But if the price returns to the broken trend line, you can enter to a position. Regarding the time, you can refer to the lower timeframes and enter the trade by getting more confirmations, or you can do the trade in the same timeframe that you have drawn the trend line.

The trend line acts as a signal to enter the trade, and it can also be used to determine the loss limit. The stop loss is usually placed on the opposite side of the trend line so that the trend line acts as a buffer between the entry point and the stop loss.



Trendline Flag Strategy

A "breakout and reversal" scenario can be considered a trade against the direction of the trend or a trade at the beginning of a new trend. But the "flag" is a trading scenario in the direction of the trend.

In the flag strategy, there should be an established trend; then, you should wait for the price to form a range or pullback to a support or resistance area. If you can identify the price pullback with the trend line, then when this trend line is broken, you can enter the trade in the direction of the main trend.

As you can see in the image below, the price initially showed a downward trend, then stopped for a while and formed a flag with a clear trend line. In this example, we can also see the traders' point of view very well; the price has moved down sharply in a short period, and this bullish flag pattern only shows a weak tendency to move up. Comparing the intensity of price movements and trends will help you a lot in determining how likely a trend line is to break. In this example, the bearish trend is much stronger than the bullish flag pattern, and as a result, the probability that the price will continue its downward trend again is much higher.

TYPES OF PRICE CHANNELS

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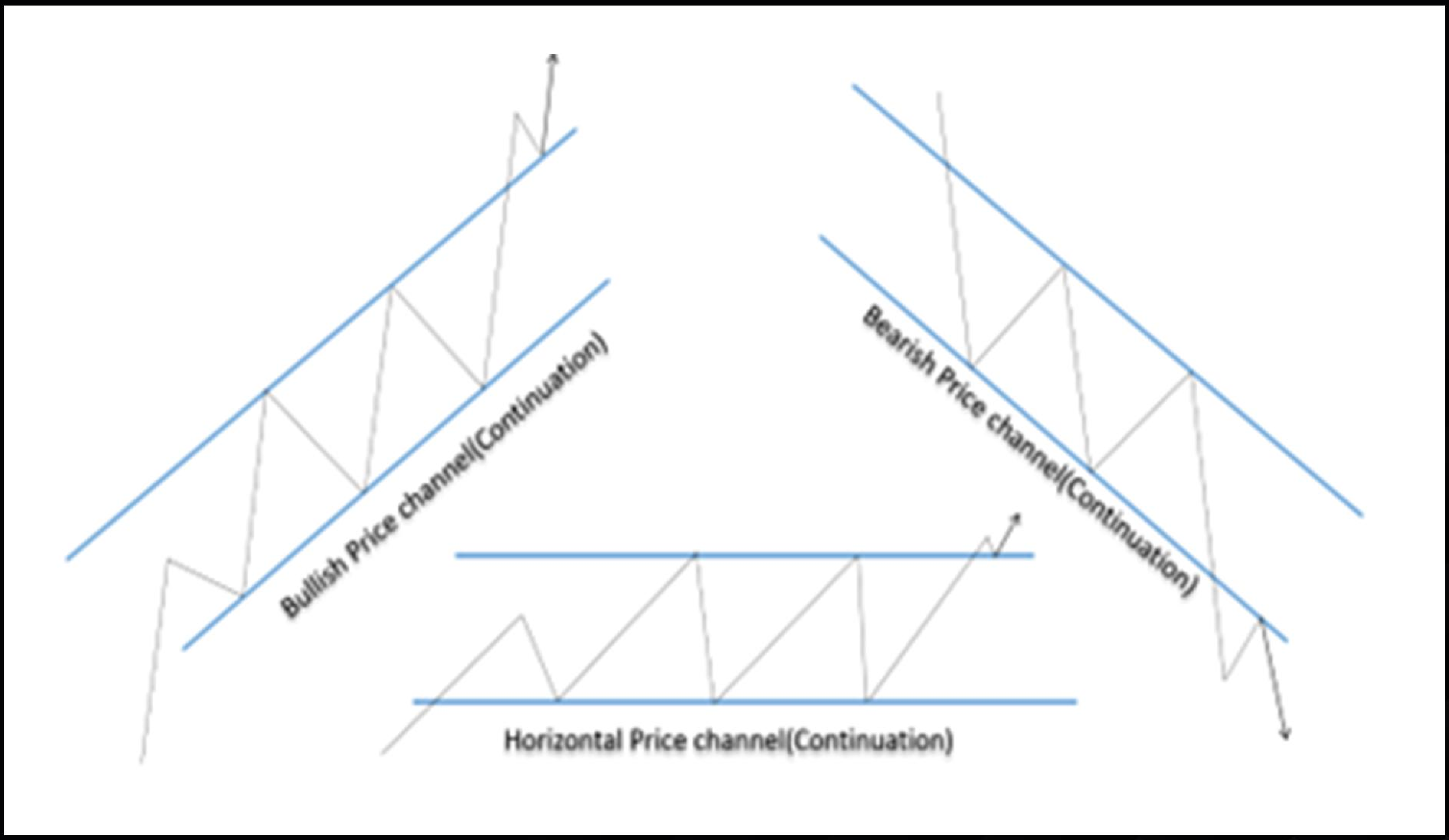
TYPES OF PRICE CHANNELS

Usually, trends tend to move within a specific price channel, which means that just as the slope of the trend line can change the role of the trend if it changes, the exit of the market from its channel can also cause changes in the trend and its slope. To draw the channel line, a line of the last price in the channel should be drawn parallel to the trend line. For the trend line, it was definitely necessary to consider two points for the trend, but in the channel line, there is no need for two price collision points, and only one point can be used, assuming parallel use of the trend line. Do not forget that the channel line is a function of the trend line, and the channel line is never drawn before the trend line.

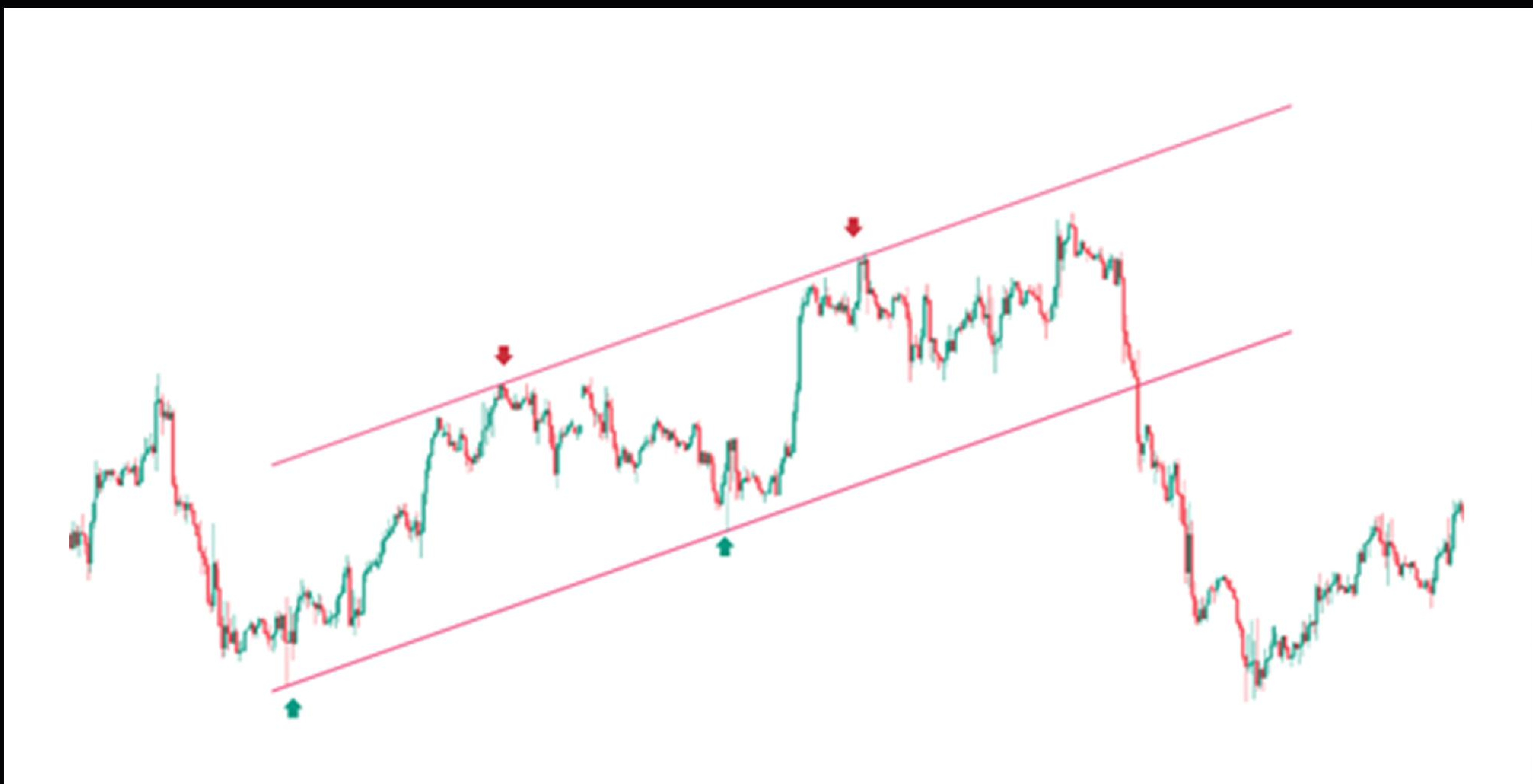


TYPES OF PRICE CHANNELS

Ascending channel

An ascending channel is actually the same as an ascending market, with only one difference. In addition to the price factors being in a specific direction, the peaks are also parallel to the valleys.

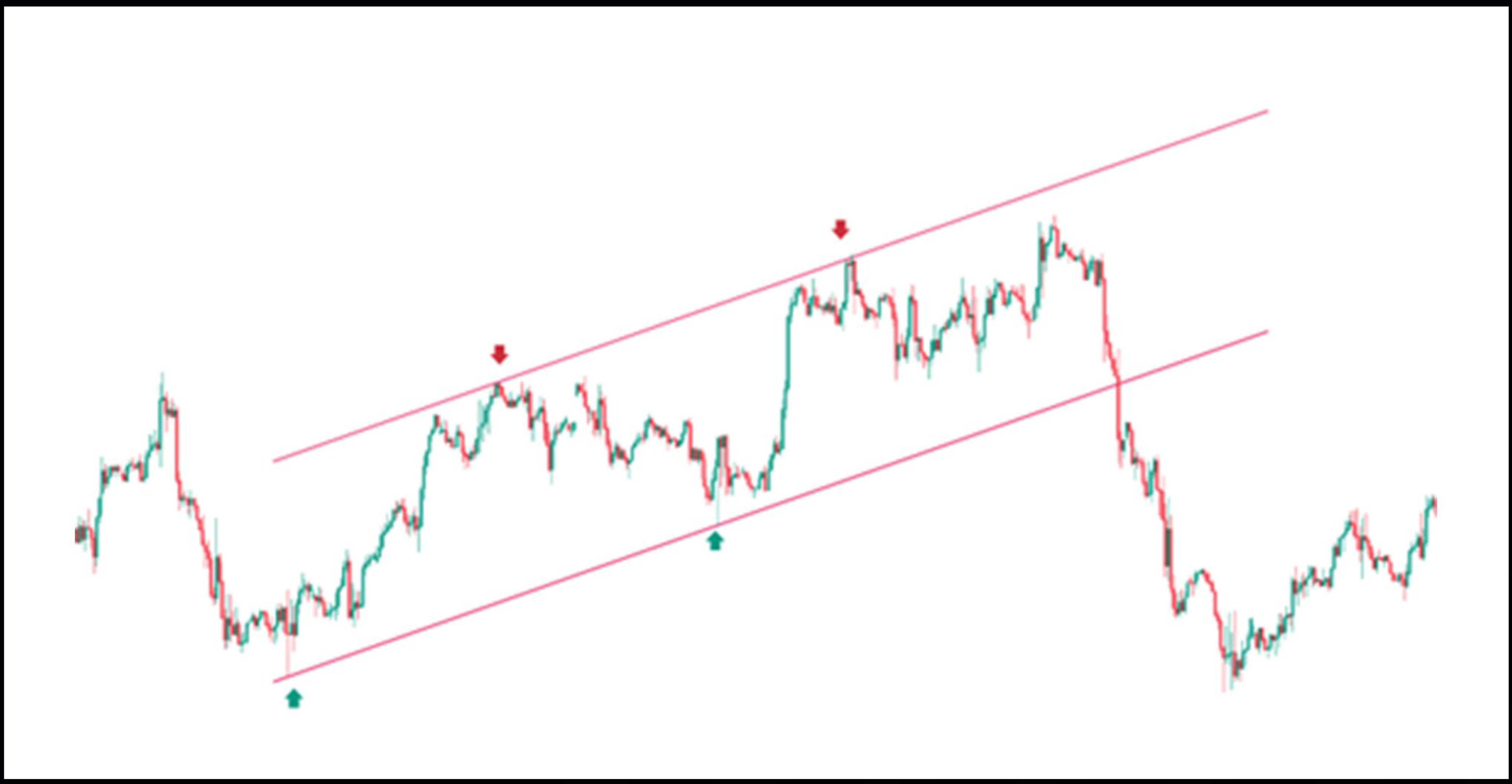
The biggest advantage of the ascending channel compared to the ascending trend line is that in the ascending channel, we know approximately the possible position of the formation of peaks. Therefore, we can sell when the price approaches the upper side of the channel and save our profit. Then, we can wait until the price approaches the bottom of the ascending channel, buy again, and enter the market.



TYPES OF PRICE CHANNELS

Descending channel

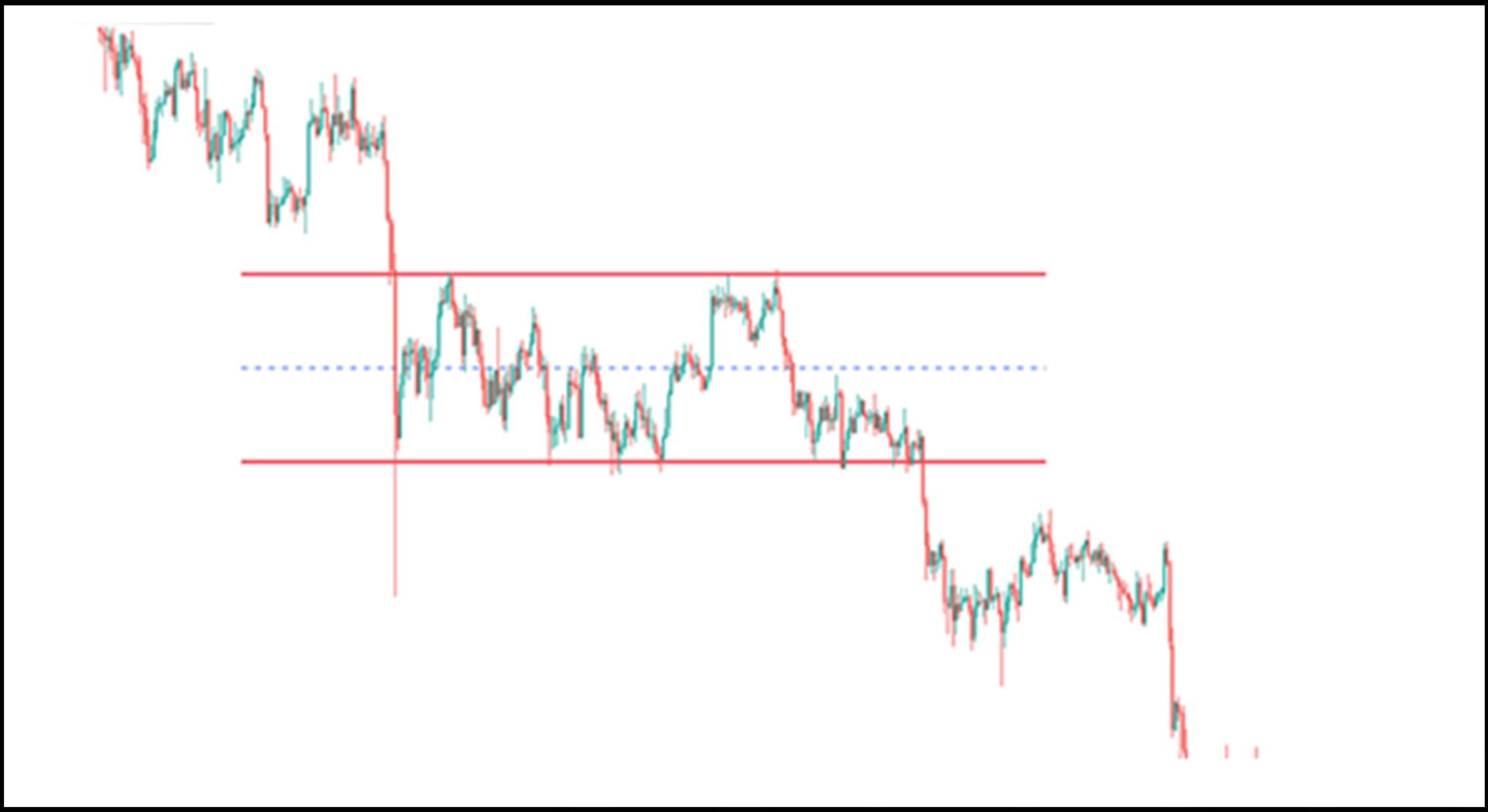
In this channel, the slope of the graph, which consists of two parallel lines, is negative, and the trend will be downward. In this type of channel, the price of ceilings and floors are lower than their previous ones. So, the channel pattern is bearish when the slope of the trend line is negative and in a downward direction.



TYPES OF PRICE CHANNELS

Horizontal or neutral channel

A neutral channel means that the price outcome is zero and the ceilings and floors are the same size as the previous ones. This channel is one of the most accessible types of channels for trading in the financial markets.



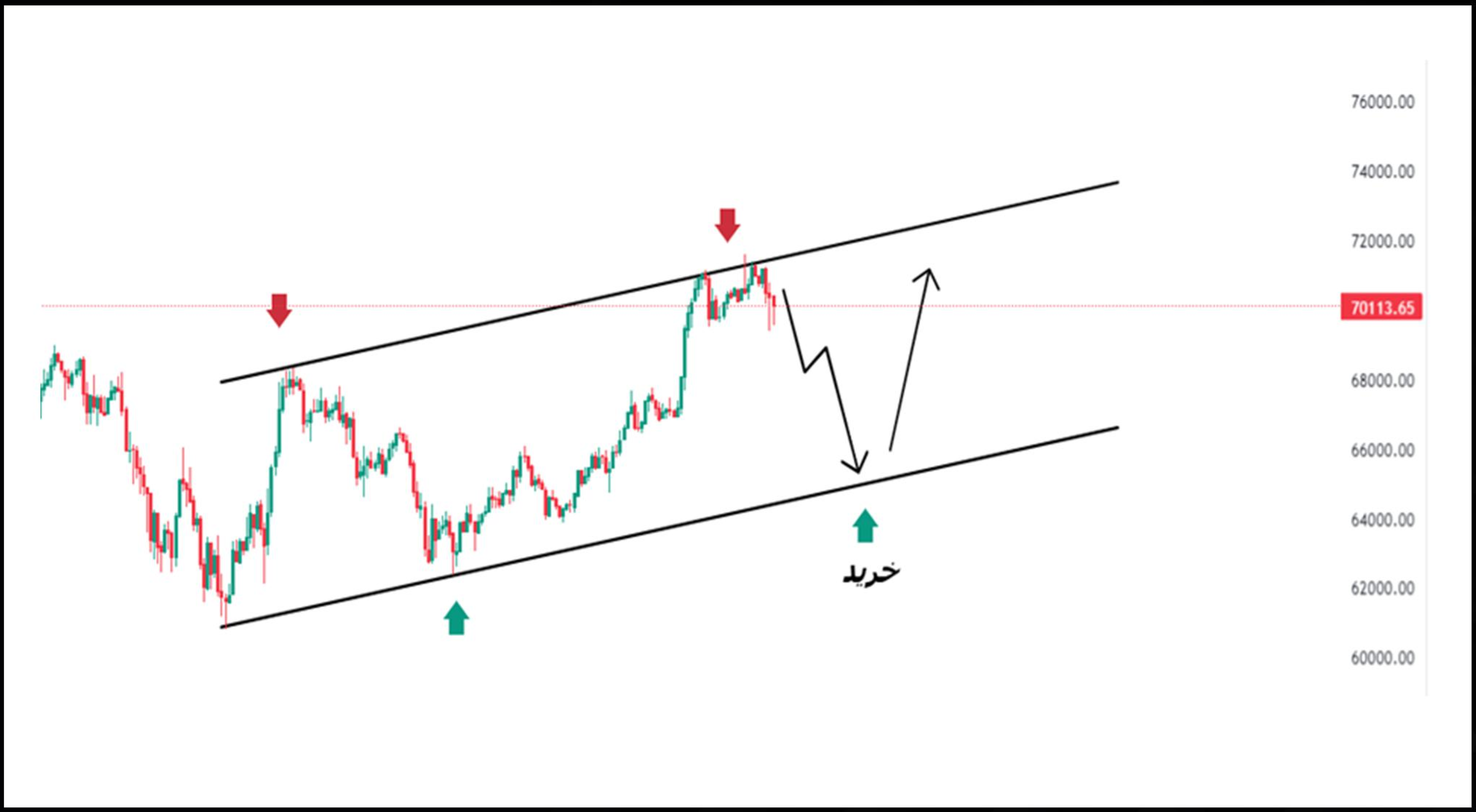
TYPES OF PRICE CHANNELS

Channel trading techniques

Various trading strategies have been created based on the rules governing the concept of channels and their characteristics, some of which we will describe below.

Trading the channel

One of the channel trading techniques is trading the channel, In which we buy at the bottom of the channel (support) and sell at the top of the channel (resistance).
However, in this type of technique, you should pay attention to several factors! The first and most important point in this type of technique is that we should not trade against the trend of the channel. For example, if the channel is ascending, we look for buying positions at the bottom of the channel, but if the channel is descending in a downward trend, it is better not to buy at the bottom of the channel.



TYPES OF PRICE CHANNELS

Channel trading techniques

Trading after channel failure

Another technique that can be used in trading using the channel is trading after the channel has broken. In this technique, when the top of the channel is broken, you can look for buying positions, and when the bottom of the channel is broken, you can look for selling positions.

In this method, after the channel is broken both upwards and downwards, the price will usually grow at least as much as the width of the broken channel.

ANDREW'S PITCHFORK

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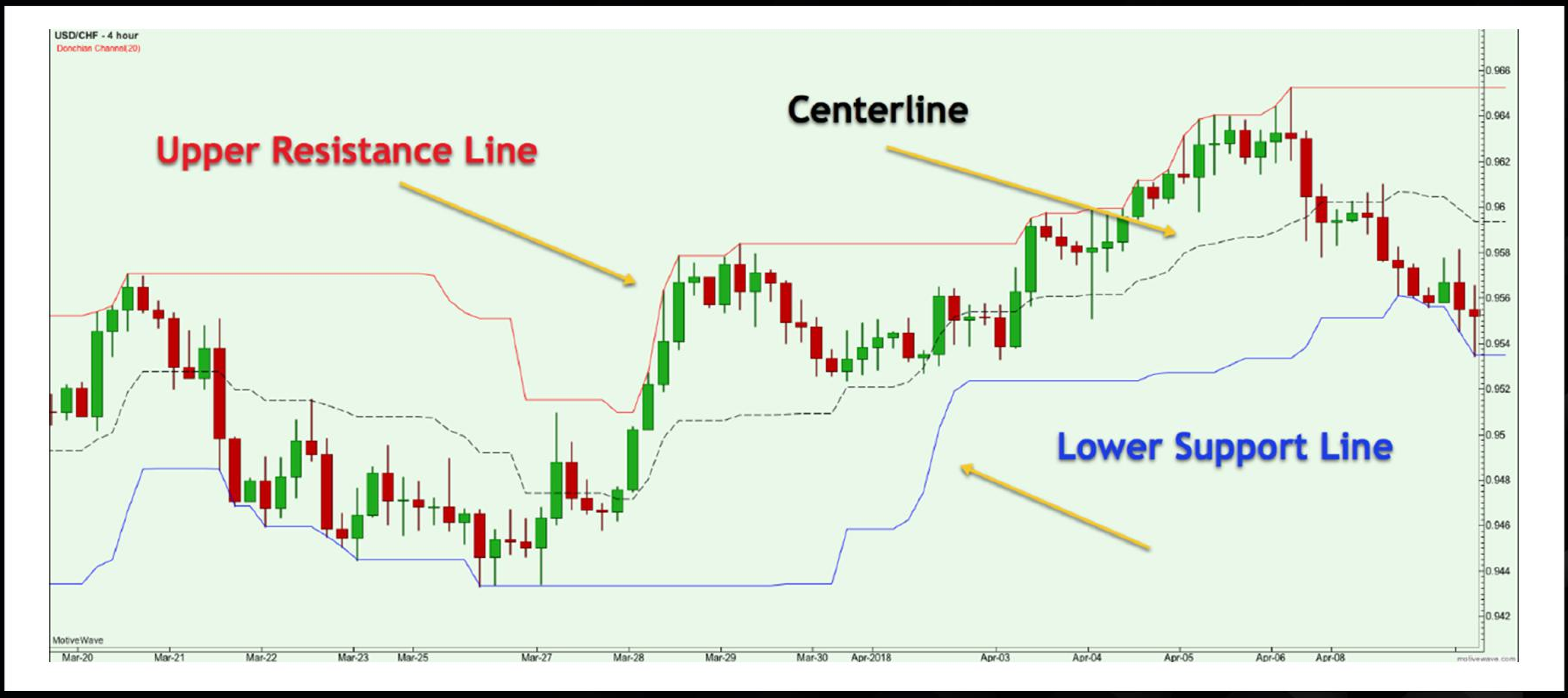
ANDREW'S PITCHFORK

Introduction

Several indicators have been developed based on the concepts of channels, which traders and analysts use to identify trends and potential reversal points in the market. Some of them are:

Bollinger Bands: Bollinger bands consist of a moving average line in the center, with two bands drawn above and below the moving average. The width of the bands varies based on market volatility and is usually determined by the standard deviation of the price data.

Donchian Channels: These channels draw the highest highs and lowest lows in a given period, creating channels that indicate potential support and resistance levels.



ANDREW'S PITCHFORK

Introduction

As you can see, Bollinger Bands and Donchian channels look similar, but these two indicators have fundamental differences. Among these differences, the following can be mentioned:

- The width of the Bollinger Bands is adjusted based on market fluctuations. During periods of high volatility, the bands widen, and during periods of low volatility, the bands contract, but Donchian channels do not directly account for volatility. Instead, they show absolute highs and lows over a given period and provide a visual representation of the range within which prices have moved.

- Bollinger Bands are often used to identify swings and potential reversal points. When bands contract, they may show a period of low volatility, potentially indicating a future increase in volatility and price movement. Conversely, when bands expand, they may show a period of high volatility. In this case, Donchian channels are usually used to identify the direction and strength of a trend. A break above the upper channel may indicate an uptrend, while a break below the lower channel may indicate a downtrend.

- When using Bollinger Bands, traders often use price action techniques to identify potential signals for overbought or oversold conditions when the price touches or crosses the upper or lower bands, respectively. Additionally, periods of contraction followed by expansion may indicate potential opportunities for failure.

ANDREW'S PITCHFORK

Regression Channels: These channels use linear regression to plot the channel that best fits the price data. This method helps to identify the general trend and potential reversal points.

Andrews' Pitchfork: This tool uses three parallel trend lines to identify potential support and resistance levels. Andrew's Pitchfork is based on the idea that price tends to move back to the average within the channel. In this chapter, we talk specifically about this tool.

ANDREW'S PITCHFORK

Parabolic SAR: Although not a traditional channel indicator, the Parabolic SAR creates points above or below the price and indicates potential reversal points. Traders can use these points as a channel to guide their trading decisions.

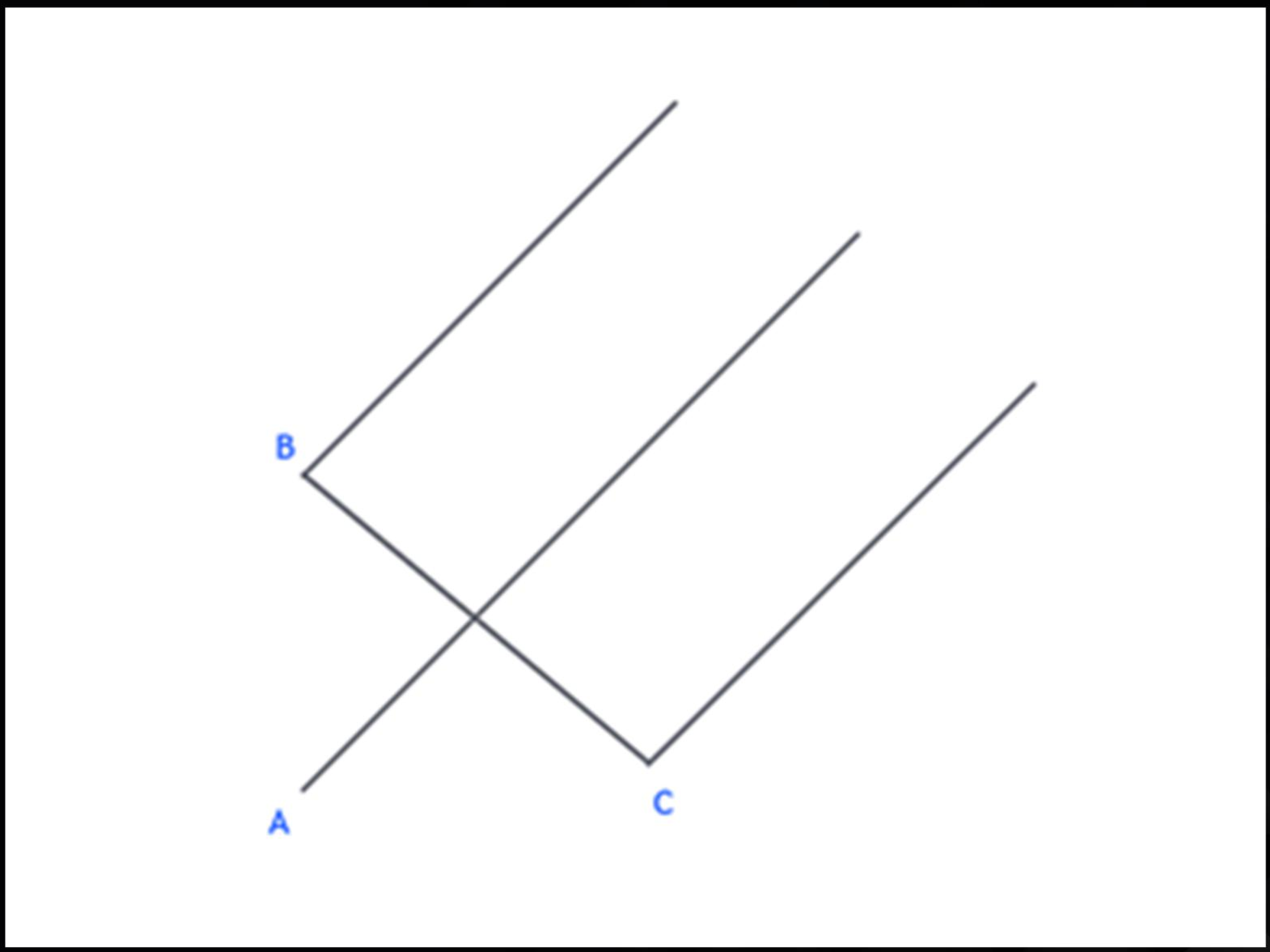
ANDREW'S PITCHFORK

What is an Andrew's Pitchfork?

Alan Andrews invented the Andrew's Pitchfork. This fork is a technical indicator that is used to determine the limits of support and resistance. The appearance of this fork is similar to two parallel channels. Andrew's Pitchfork consists of three parallel trend lines (middle line, upper line, and lower line). Andrew's Pitchfork is drawn in one of the following two ways:

Floor - Ceiling - Floor
Ceiling - Floor - Ceiling

This indicator is used to identify possible support/resistance levels and breakout levels. The trend lines of this index are drawn by choosing three turning points (starting points of downward/upward movements). Once points A, B, and C are in place, a straight line is drawn from point A, and up and down trend lines are drawn parallel to the middle line from points B and C.

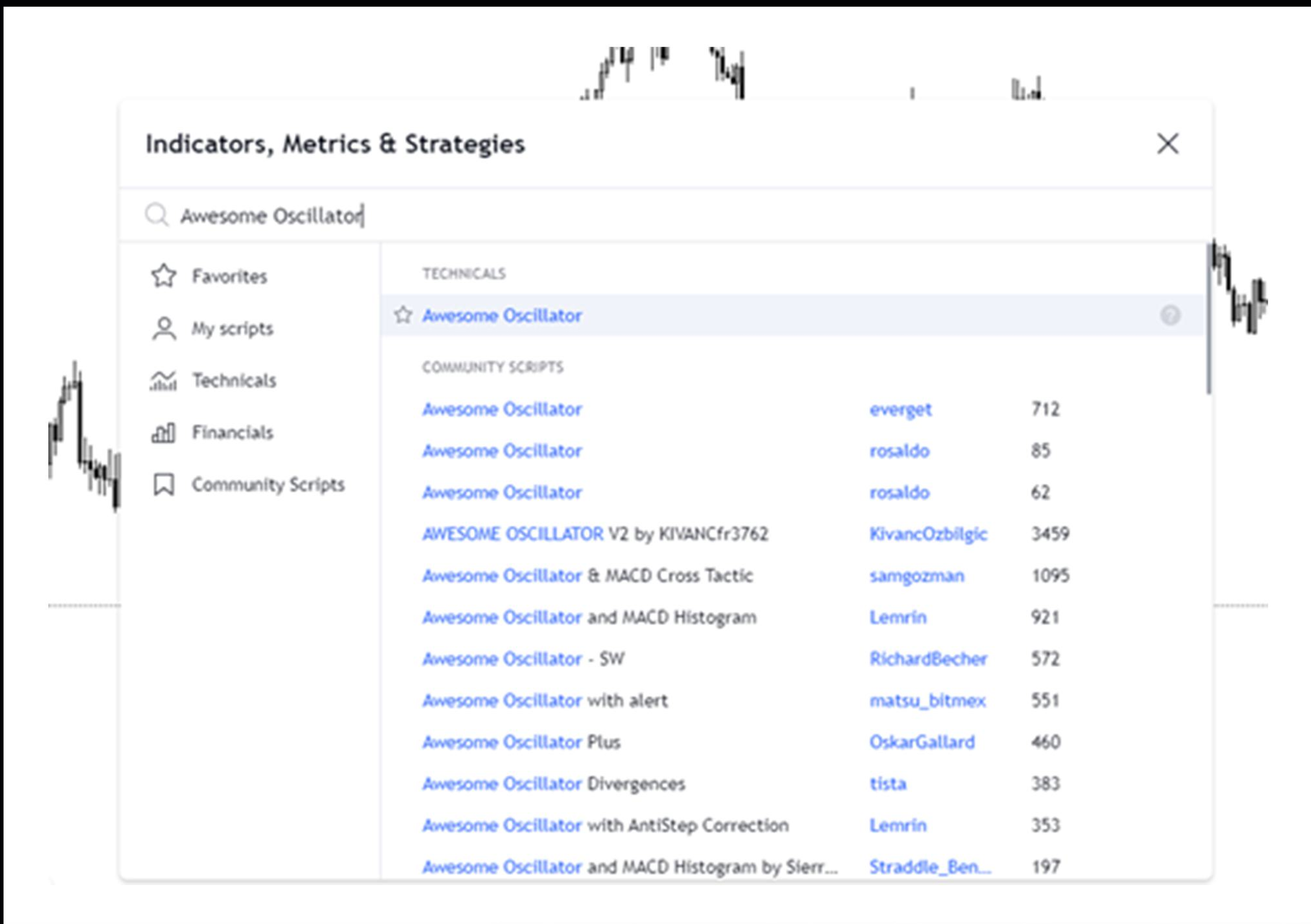


ANDREW'S PITCHFORK

Andrew's Pitchfork drawing with the Awesome Oscillator indicator

Now, let's discuss how to find turning points. To draw the fork, we need three pivot points. Turning point means: It is the point where the price changes its direction or direction. These points can be easily found in the market. Dr. Andrews used the breakout of important price levels to find these points. But we can use Bill Williams Awesome Oscillator, better known as the AO indicator, for more confidence.

To add the AO indicator, do the following:



ANDREW'S PITCHFORK

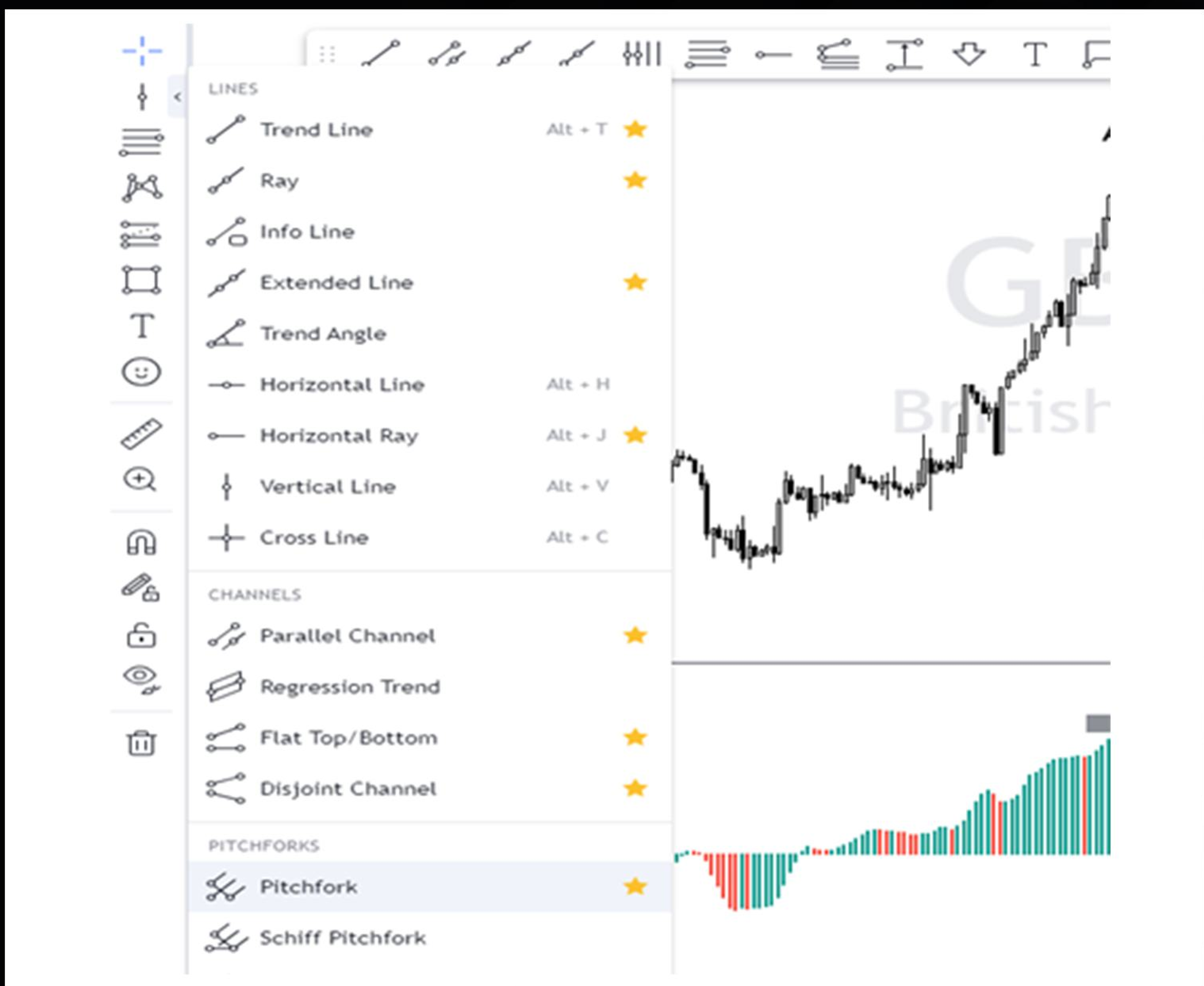
Finding pivot points with the Awesome Oscillator indicator

After adding the indicator to the price chart, we look at the phases and changes of the AO to get the pivot points. This oscillator has two positive and negative phases, which are used to measure market movement and usually to confirm trends or predict market returns.

As you can see in the above picture, there is a price peak/floor in each positive or negative phase. Using the AO indicator, you can find the price peaks and troughs where the market changes the trend with the change of direction to draw a fork.

ANDREW'S PITCHFORK

According to the diagram above, we have found points A, B, and C using the AO indicator. So we can draw the Andrew's Pitchfork. To draw the Pitchfork, you can select Andrew's Pitchfork from the insert menu.



After determining the turning points with the AO indicator, we select Andrew's Pitchfork, as shown in the image above. Then, we click on each of the points A, B, and C to draw the fork.

ANDREW'S PITCHFORK

According to the image below, you can see that after entering the fork, GBPUSD encountered support from the middle trend line and returned to the upper trend line. After drawing Andrew's Pitchfork, it is time to draw the trigger line of the fork. The trigger line connects and extends from point A to each of two points, B and C. We wait for fork failure to draw the trigger line. In the chart above, the currency pair has broken the upper trend line, so to draw the trigger line, we connect the new trend line from point A to point B. The trigger line tells us what level the market's first price target is after the breakout of the fork.

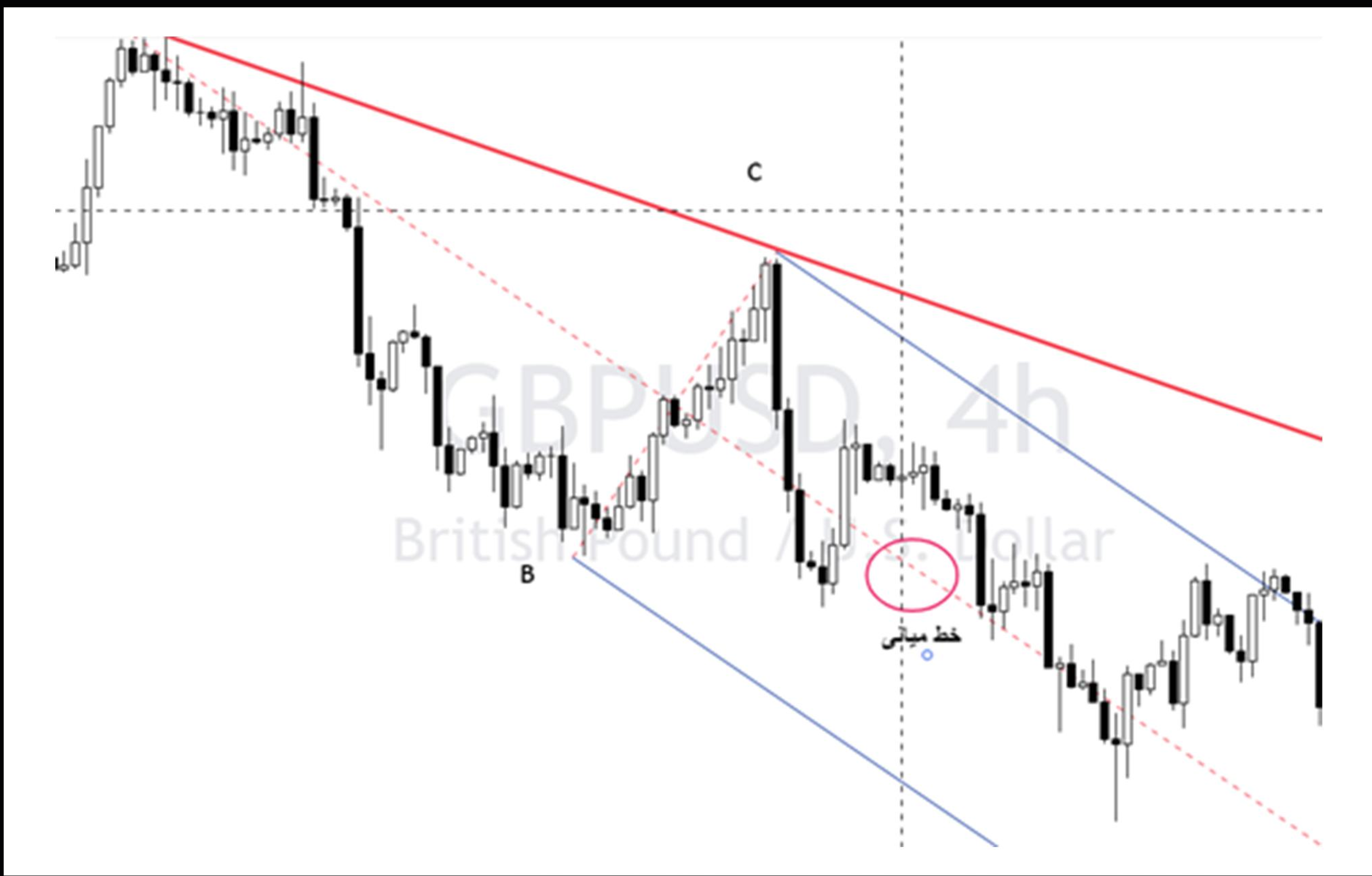
ANDREW'S PITCHFORK

In the four-hour chart of GBPUSD, after drawing the downward fork, the currency pair has broken the upper trend line and moved to the trigger line. Remember that in a bearish fork, the uptrend line and the trigger line are important.

ANDREW'S PITCHFORK

What is the middle line of the fork?

The middle line is the bisector of a certain channel or price range. The middle line of the fork acts as an important support or resistance area so that reversal signals or pivot points occur around this line. So, if the price breaks the middle line upwards, the parallel line will be the next target of the market. Also, if the price closes below the trend line, the lower parallel line will be the target of the market.



ANDREW'S PITCHFORK

The principles of the Andrew's Pitchfork

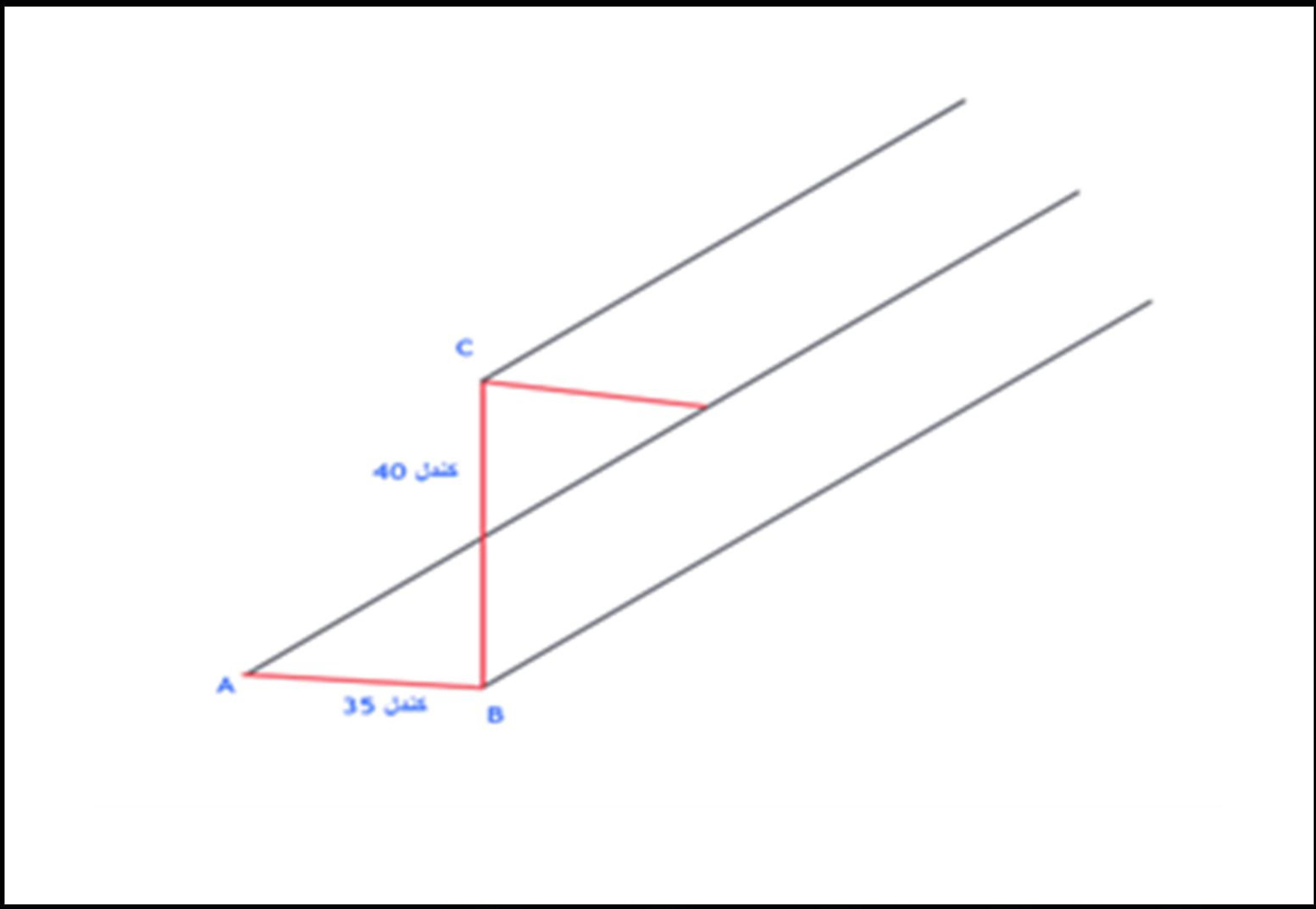
The price touches the middle line of the fork in most cases (more than 80% of cases). Most of the time, the market changes direction by touching the middle line of the fork. The price can touch the middle line more than once, and usually, after the price hits the middle line, the market fluctuates.

If the price fails (20% of the time) to touch the middle line of the fork, then the market is willing to make a larger wave against the direction of the fork. This means that if the market has formed an upward fork but does not touch the middle line, there is a possibility that we will witness the start of a new downward rally in the market.

ANDREW'S PITCHFORK

Detecting the time required for the price to reach the middle line

Suppose we have drawn Andrew's Pitchfork from three pivot points; it is enough to determine the time it takes for the market to reach the middle line from the third point: the number of market price candles between the first and second points and then the number of candles between the second and second points. Let's count the third. Finally, we choose the larger number to get the maximum time required for the price to reach the middle line from the third point.



For example, there are 35 price candles between points A and B and 40 candles between points B and C in the image above. Since the number 40 is greater than 35, the market is expected to reach the midline after 40 price candles.

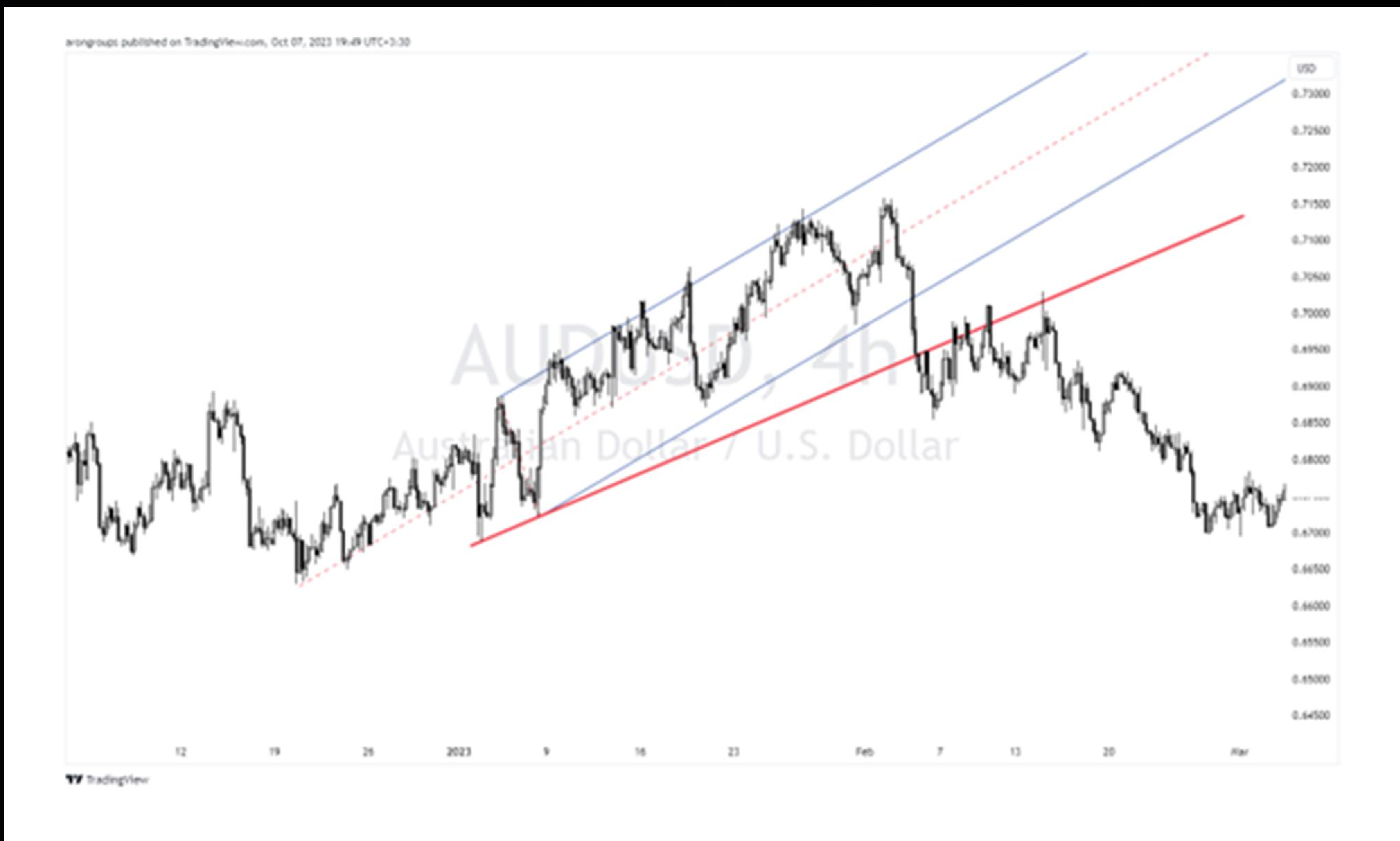
If the price does not reach the middle line during this time, we must conclude that the market is not in a good situation. Thus, we have to wait until the market trend is clear and then decide to enter the market.

ANDREW'S PITCHFORK

Fork trading signals

1. The market reaches the middle line of the fork, and the price forms a reversal candle in response to this line. Meanwhile, if the RSI indicator is also in the overbought/sold zone, you can think about a buy/sell transaction.
2. The market hits the middle line. The resistance/support of this line causes the market to return to the lower/upper trend line, and then one of these lines is broken. In this case, you can look for a buy/sell transaction.
3. After touching the middle line, the market returns to the upper/lower trend line, but it cannot break one of these lines, and after the formation of the return candle, the market fluctuates within the fork. For example, if the market hits the lower trend line, the candlestick pin forms a bullish bar, in which case you can enter a buy transaction, which will be the middle line of the first price target.
4. The price does not reach the middle line (fourth principle); in this case, it is better to wait until the upper/lower line is broken along with the trigger line of the fork; in this case, it can be said that a trading signal has been issued.

You can see that the market has not reached the middle line in the ascending fork in the four-hour chart of AUDUSD, and the currency pair has fallen after breaking the lower line and the trigger line.



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