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## Overview of Objectives

**What is a Trend Line? What is a channel?**

- Basic description

**Guidelines for plotting and drawing Trend Lines**

- How to determine "touch points"
- Where to start your line and direction of drawing
- Understanding your trend line
- Adjusting your trend line
- Using your barriers

**Guidelines for plotting Channels**

- Finding reference points
- Recognizing price action within the channel
- "Throw over" and "Throw under"

**Using Trend Lines and channels in different timeframes**

- Determining entries, exits and stop loss levels with lines and channels

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## What is a Trend Line?

A **Trend Line** is a straight diagonal line (up or down) connecting the extremes in a price movement on a chart of a Stock, Commodity, Forex Pair or any other security or product traded on an open market. We identify diagonal lines as Trend Lines and horizontal lines as Barriers.

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For demonstration purposes we will be reviewing on FX Trek Candlestick Charts in the Forex Market, remembering that all markets move in a similar fashion and the information provided here crosses over all markets. Also note that all charting services will have a drawing tool.

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## What is a Channel?

- A **Channel** is when both the highs and lows in a trend are defined by **Trend Lines**.

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This is a very well defined Channel on the EUR/USD Pair. You will find that as you draw more and more Trend lines and Channels that most are easily identifiable and quite defined.

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Of course it's easy to see where the lines belong after the market has moved. The challenge is in defining where to draw the line(s) prior to the move, to use in forecasting. Let's start with single **Trend Lines**.

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## Guidelines for Drawing Trend Lines

- **Trend lines** can be used to potentially confirm where a breakout and reversal will take place. This can be extremely useful and provide great entry and exit points for a trade and can be drawn on any time frame. One Hour Candle Charts would be the best starting point. When **Trend Lines** are used in conjunction with **Barriers** they can give great indication for confirmation or trend direction changes.

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To draw a **Trend Line**, simply draw across two connecting highs or lows of a new move. Trends will tend to morph and grow as they mature.



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As the move matures you may need to adjust your lines as the trend shifts. As it does mature it will respect the **Trend Lines** you've drawn.

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Two (2) well-defined hits usually predict the continuing move. You will also see that there are often **Trend Lines** and **Channels** within the larger move. When using a single **Trend Line**, always draw to the right of the trend as this will indicate a direction change on the breakout.




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As the Trend extends you can now use the **Trend Line** as an indicator to stay in the trade, exit a trade or to enter one on the break of the line.




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## Adjusting your Trend Line

Be prepared to adjust your line according to the new lows that are registered.  
Taking care not to enter an opposing trade if the breakouts are not confirmed.



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Use other indicators and Barriers. These Trends run 100, 200, 300 pips and more, so giving up 30 or 40 Pips to confirm is very valuable.



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## Adjusting your Trend Line

If you find the Trend Line is not appearing to be struck for confirmation or is being breached and then the price returns into the Channel; then redraw the line to incorporate the obvious price action.



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## Using Barriers



Using **Barriers** to confirm a break is recommended at the point where the price breaches the line. Look for a **Barrier** that was tested just inside the trend line or right at the cross section of **Barrier** and **Trend Line**. Use this barrier as the confirmation that the price action has indeed shifted and changed direction.

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Notice how the **Trend Line** is respected, even on the opposite side.

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## Drawing Channels

- Diagonal **Channels** are the most common chart pattern on any traded security, commodity, or Currency Pair. There is an easy way to identify **Channels** in their early stages. A little practice is all it takes.
- All that's needed to start are three reference points. Either in what appears as a new upward or downward move.

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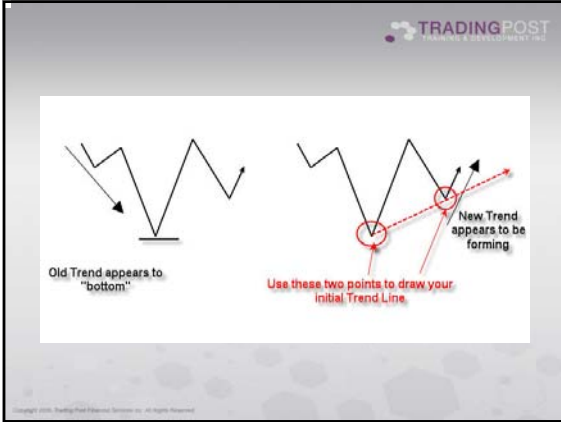
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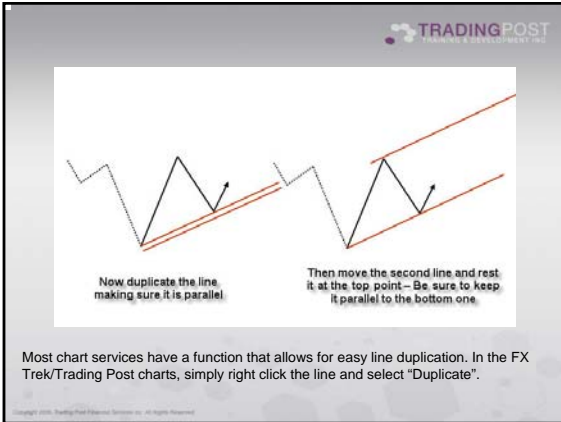
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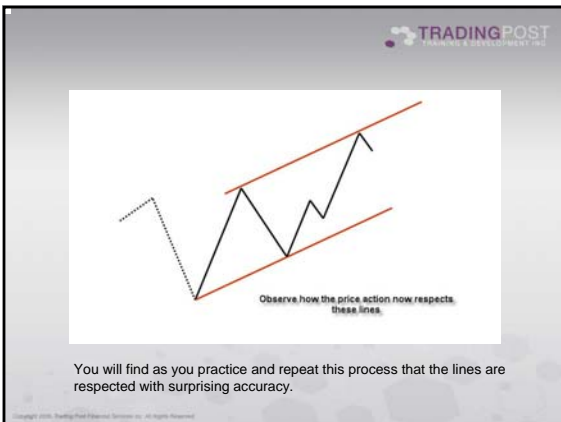
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These point provide good places for Buys

Whereas a break of the lower line would provide a potential sell opportunity

Remember that some re-drawing of the lines can be useful. As the Channel matures add and redraw lines as it seems appropriate. We recommend you keep your original lines as these will almost always come back into play.

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Using these two points, a line was drawn, duplicated and moved to the top

Here are some examples on live charts. Practice this yourself and you will soon see how surprisingly the price patterns fall within the lines created earlier, at the very beginning of a "Trend".

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**"Throw Over" and "Throw Under"**

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Throw-Over

Throw-Under

There will be occasional "Throw Over" and "Throw Under" so be sure to use a good stop-loss discipline and be patient and enter when you're certain the "Break" has occurred. Use the Trend Lines to help determine your stop-loss and target.

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Notice how the original lines predicted the channel with the exception of the extremes. Throw-Over and Throw-Under does not always occur, however it is best to expect this to happen as the Channel matures.

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## Using your Trend Lines and Channels

- Practice drawing your Trend Lines on live charts in different time periods, over and over again
- Observe and select possible entry points – at the bottom of an uptrend and the top of a downtrend
- Watch for “throw-overs” or “throw-underers” – when these occur in the direction of the **Channel!** this is a strong signal for reversal. (The time outside the Channel is usually limited.)
- Use your **Trend Lines** and **Channels** to help you set your target and stop-loss

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The screenshot shows a trading software window titled "USDPY1 (w. 30 day)". The chart displays price data for USDPY1 with a 30-day window. The chart includes a legend for "unsmoothed 30 day" (green), "smoothed" (red), and "30 day" (blue). The chart shows a price movement that is labeled "Channel direction" with a green arrow pointing upwards. A red circle highlights a peak in the price, labeled "Throw-over and reversal" with a black arrow pointing downwards. The chart also shows a dashed line representing a trend or channel. The price scale on the right ranges from 114.00 to 116.00. The time scale at the bottom ranges from 22:00 to 17:00. The status bar at the bottom shows the current price as 115.88 and the previous day's price as 115.88.

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