0dteTraders.com

Trading Trendlines (Structure)

What are Trendlines?

Trendlines connect price points to visually represent the direction and strength of a market trend. Widely used in technical analysis, they help traders identify trends, support and resistance levels, and potential reversals.

There are two main types of trendlines:

Uptrend Line: Drawn by connecting a series of higher lows in an upward direction, signaling that the market is in a bullish trend.

Downtrend Line: Drawn by connecting a series of lower highs in a downward direction, signaling that the market is in a bearish trend.

How to Draw Trendlines

- **Start with the First Point:** Select the most obvious significant low (for an uptrend) or high (for a downtrend) as your starting point.
- **Ensure Touchpoints:** Ideally, the trendline should touch at least two significant points (such as lows for an uptrend or highs for a downtrend) to confirm the trend’s validity.
- **Extend the Line:** Once you've drawn the trendline, extend it to the right, projecting the trend into the future. This can help predict potential price levels where the trend may continue or reverse.
- **Adjust as Needed:** Trends evolve, so periodically adjust your trendlines as new highs or lows form.

Types of Trendlines

- **Trending Trendlines:** These follow the overall market direction (e.g., drawing an uptrend line in a bullish market). They are considered more reliable and carry more significance.
- **Counter-Trend Trendlines:** These are drawn against the prevailing market trend (e.g., drawing a downward line in a bullish market). These can be used for continuation entries or market reversals.
- **Horizontal Trendline:** These connect a series of equal highs or lows, often indicating key support or resistance levels. They represent a range-bound market where the price moves sideways.

Ranking the Significance of Trendlines

Trendlines vary in significance depending on their timeframe—generally, the higher the timeframe, the more significant the trendline.

- **Weekly Trendlines:** Most significant, representing long-term trends. A break signals a major trend shift.
- **Daily Trendlines:** Important for medium-term trends. Breaks can indicate changes in price direction over weeks or months.
- **Intraday Trendlines:** Least significant, focusing on short-term movements. Prone to noise, they are useful for quick trades but not reliable for long-term trends. The higher the timeframe, the more significant—15 minutes is greater than 5 minutes, and 5 minutes is greater than 1 minute.

Regardless of the timeframe, the same logic and approach apply.

Trade Entry

There are two main types of entry:

Break Entry: When the price breaks above (uptrend) or below (downtrend) a trendline, it signals a potential trend reversal.

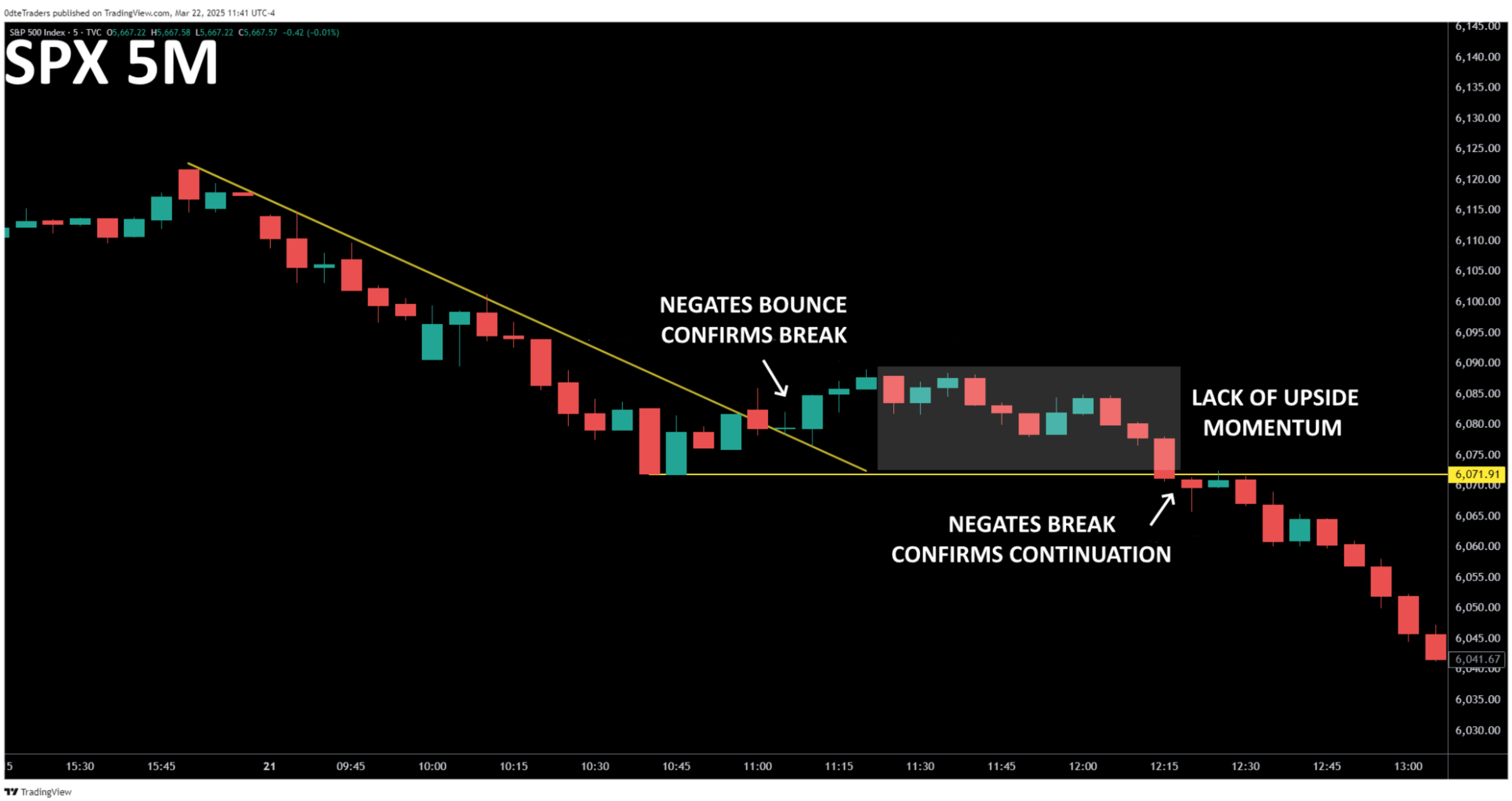
Bounce Entry: When the price touches and bounces off a trendline, it suggests the trend is still valid. In an uptrend, this is a buy signal; in a downtrend, it's a sell signal.

Avoiding False Breaks

- **Clean Break:** Price should move beyond the trendline with a strong candlestick, such as an engulfing pattern, closing above (for an uptrend) or below (for a downtrend) the trendline.
- **Confirmation Candle:** After a clean break, a subsequent full-body candle should also close above/below the trendline to confirm the break.
- **Retest:** Price may retest the break candle, trendline, or previous high/low after the break. This doesn't negate the break, but the longer it takes for momentum to accelerate in the direction of the trendline break, the more prone it is to failure.

Trade Negation

- **Break Negation:** When the price false breaks the trendline (moves beyond it temporarily) but then re-enters the trendline or takes out the previous high (in an uptrend) or low (in a downtrend), it signals the continuation of the trend. This negates the initial break and suggests that the original trend is still intact.
- **Bounce Negation:** When the price cleanly breaks the trendline, closing above (in an uptrend) or below (in a downtrend) the trendline, it signals a potential trend reversal. This negates the bounce and indicates that the trend may be shifting or losing strength.



Trading Tips for Trendline Trading

- Strong intraday trendlines typically span 2–3 hours.
- Steeper trendlines often indicate a stronger trend, but they may also be more vulnerable to sudden reversals. Watch for trends that become too steep and look for signs of exhaustion.
- Counter-trend pullbacks against the main trend tend to be shorter. The shorter and shallower the pullback, the stronger the main trend.
- The market tends to pivot at specific times, such as the Euro close, around noon, and later in the afternoon around 1:30–2:00. Breaks at these times add confluence to the setup.
- Pay attention to candlestick patterns around trendlines and support/resistance levels, looking for bottoming/reversal candles such as hammers, morning stars, engulfing, or piercing patterns.
- If multiple trendlines (from different angles or time frames) align at a similar price point, it can signal a stronger support/resistance level.
- Analyze multiple time frames to confirm the validity of a trendline. For example, if a trendline is drawn on a 15-minute chart, check the 1-hour and 4-hour charts to see if the trend is consistent across them.
- If you enter before a trendline break, the break can serve as a confirmation signal, providing a point to add risk.
- There are only three things the market can do after a downward trendline break: form a higher low, a double bottom, or a lower low.
- There are only three things the market can do after an uptrend trendline break: form a lower high, a double top, or a higher high.
- Sometimes, it's better to wait for a clear confirmation of a trendline break or retest rather than jumping in too early. Patience can help filter out false signals.
- **Avoid overcomplicating trendlines.** They should be simple and obvious and are most commonly observed in trending markets. Therefore, they are not always present or significant in range-bound or choppy markets.

A Huge Trendline Myth

Many believe that a trendline becomes stronger the more times it touches the price without breaking. The idea is that a trendline tested multiple times is more likely to hold as support or resistance.

The Reality: The sooner you can recognize and trade a trend, the higher the probability of a favorable outcome. A trendline break often occurs on the fourth or fifth test, as demand/supply imbalances shift, often trapping inexperienced traders who are late to the trend, while experienced traders are preparing for the break and trend change.

Confluence of Trendlines with Other Indicators

Confluence refers to the alignment of multiple signals or indicators that support the same trading decision. These may include technical indicators (such as Slow Stochastics, MACD, etc.) and key price levels (support/resistance). When these factors align, they increase the probability of a successful trade. In other words, the more variables that confirm the setup, the stronger the signal becomes.

Below, we will highlight six setups that combine trendlines with our cycles and levels.

Bullish Break Reversal

- **Market Conditions:** Bearish, but nearing exhaustion
- **Major Support Level:** Price has tested or is near a major gamma support level or zone.
- **Cycle Low:** Price is in oversold territory (ideally on both the 5-minute and 15-minute timeframe)
- **Break of Trendline:** Price breaks above a significant downsloping trendline.

Bullish Trendline Bounce

- **Market Conditions:** Bullish, with a strong trend/momentum.
- **Cycle Low:** Price is in overbought territory, best used on the 1-minute timeframe.
- **Bounce off Trendline:** Price touches an upsloping trendline.

Bullish Break Continuation

- **Market Conditions:** Bullish, moderate uptrend.
- **Major Support Level:** Price has tested or is near a gamma support level or zone.
- **Cycle Low:** Price is in oversold territory.
- **Break of Trendline:** Price breaks above a counter-trend, downsloping trendline.

Bearish Break Reversal

- **Market Conditions:** Bullish, but nearing exhaustion.
- **Major Resistance Level:** Price has tested or is near a major gamma resistance level or zone.
- **Cycle High:** Price is in overbought territory (ideally on both the 5-minute and 15-minute timeframe).
- **Break of Trendline:** Price breaks below an upsloping trendline. There are two upsloping trends. Sometimes, when the market is nearing exhaustion, there is often an accelerated trendline. This can be used as an entry indicator.

Bearish Trendline Bounce

- **Market Conditions:** Bearish, with a strong trend/momentum.
- **Cycle High:** Price is in overbought territory, best used on the 1-minute timeframe.
- **Bounce off Trendline:** Price touches a downsloping trendline.

Bearish Break Continuation

- **Market Conditions:** Bearish, moderate downtrend.
- **Major Resistance Level:** Price has tested or is near a gamma resistance level or zone.
- **Cycle High:** Price is in overbought territory.
- **Break of Trendline:** Price breaks below a counter-trend, upsloping trendline.

0DTETRADERS.COM