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Trend, Trace and Trigger

A K.I.S.S. Method for Applying Technical Analysis

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Trend, Trace and Trigger

A K.I.S.S. Method for Applying Technical Analysis

- Everything you need is already in the chart.
- Smart money has already shown its hand in price action.
- The market has already cast its vote.
- The trend is your friend until it ends
- Trend, Trace & Trigger
  - A Simple Framework for Smarter Trading Decisions
  - Step 1: Identify the trend
  - Step 2: Trace areas of potential support and resistance
  - Step 3: Use a trigger for entry

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- Step 1: Identifying the Trend
- Identify the primary direction:

  Higher highs & higher lows = Uptrend

  Lower highs & lower lows = Downtrend

  Sideways = Rangebound
- Trend lines are arbitrary, Moving Averages are complete
- Moving Averages give a host of information about trends in a quick glance

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- What is a Moving Average?
  - A moving average is the average of a stock or index's closing price over the last X amount of periods.
  - The most commonly used are the 50-day and 200-day Simple Moving Averages
  - Simple Moving Averages are calculated using end of day prices and represent the average of all these EOD prices over the period. EX. 50-day SMA is the average closing price over the last 50 trading days.
  - There are several different ways to calculate moving averages including Exponential Moving Averages and Weighted Moving Averages which use recent values as more substantial than past values.
  - For simplicity, here we will stick to Simple Moving Averages

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- Why use the 50-day and the 200-day moving average?
  - Different moving averages give different trends
  - The higher the number, the longer back in time the moving average goes
  - A 200-day moving average would be a long-term moving average, while a 50-day is more of an intermediate-term moving average

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- Remember General Form from Algebra: $y = mX + b$
  - Moving Average include several bits of information. As important as the "y" in the equation is the slope of the equation or "m"
  - When the slope is positive, the trend is turning positive
  - When the slope is negative, the trend is turning negative
  - When the slope is zero, the trend is range-bound

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- Where is price currently in relation to the moving average?
  - Current price above, the stock is in an uptrend
  - Current price below the MA, the stock is in downtrend
- Where are the moving averages in relation to each other?
  - If the short-term moving average is above the long-term average, the trend is positive
  - If the short-term moving average is below the long-term average, the trend is negative

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Strong Uptrend:
50-day Positively sloped, beneath price
200-day Positively sloped, beneath price
Short-term average above long-term average

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Downtrend:
50-day Negatively sloped, above price
200-day Positively sloped, above price
Short-term average below long-term average

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Strong downtrend:
50-day Negatively sloped, above price
200-day Negatively sloped, above price
Short-term average below long-term average

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- Step 2 Trace areas of potential support and resistance
  - Previous 52-week highs and lows
  - Swing highs and lows
  - Fibonacci Retracements off large moves
  - Gaps
  - Moving Averages

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Fibonacci Retracement
Take big move from high to low
Use percentages of the move
Popular are 38.2%, 50%, 61.8%

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Gap up
Top of the gap becomes initial support
Gaps tend to fill over time
Bottom of gap support after fill

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Gap up
Top becomes support early
Gap gets filled with bottom support late

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- Step 3: Use a trigger for entry
  - An emotionless, technical indicator that tells you when to enter
  - The moment price confirms momentum is returning
  - No trigger = No trade

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- Overbought/Oversold Indicators
  - Market move in cycles
  - Extremes often precede reversals or pauses
  - These tools help manage timing, not prediction
- What Does Overbought Mean?
  - Price has moved too far, too fast
  - Momentum is stretched
  - Risk of consolidation or pullback increases
- What Does Oversold Mean?
  - Selling pressure has reached exhaustion
  - Fear dominates price action
  - Risk/reward improves for bounces

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- Key Overbought/Oversold Indicators
  - Relative Strength Index (RSI)
  - Stochastic Oscillator
  - Percent of Stocks Above 200-Day
  - Moving Average Distance

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- Introducing RSI
  - Momentum Oscillator developed by J Welles Wilder
  - Measure speed and magnitude of price moves
- How RSI is Calculated
  - Formula scaled from 0 to 100
  - Momentum-based, not price-based
  - RSI > 70 = Overbought
  - RSI < 30 = Oversold
  - Guidelines, not rules

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RSI in Strong Trends
Uptrends often hold RSI above 40
Downtrends often cap RSI near 60
Extremes shift with the trend

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- RSI as a Trigger
  - RSI refines entries
  - Never trade on RSI alone
  - Pair with Trend & Trace for a complete system

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Long-term Uptrend
Move to Support at 38.2% Fib
RSI Trigger to entry

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Rangebound Trend
Gap Support
Near 61.8% Fib
Oversold RSI
Enter when RSI crosses back over 30

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Long-term and short-term downtrend
Coming to Gap Support
Oversold
No Trade, due to trend

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Long-term uptrend
Short-term downtrend
200-day support coming
RSI nearing Oversold
Patience pays

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A K.I.S.S. Method for Applying Technical Analysis

- Common Mistakes Avoided
  - Chasing breakouts: There is no retrace so pass on entry
  - Fighting trends: Big reward but risks are bigger. Win probability low
  - Overtrading chop
- Final Takeaway
  - Simple. Repeatable. Effective
  - Let price do the talking