



# Brainy's Articles on Technical Analysis

## Trends and Trendlines

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### Introduction

In terms of Technical Analysis, the notion of a “trend” is a very basic and essential principle that needs to be understood. When we look at the sample price chart in Figure 1 below, we can see clearly that the share price of UGL had started near the lower left corner of this chart at about \$8.50, and reached around \$14 some 16 months later. In the simplest terms this shows a *rising trend* (also referred to as an *uptrend*).

It can be said that if a rising trend can be identified for a share price, then the trend is in place until it is confirmed to have finished (one tenet of Dow Theory). Further to this, one of the investment principles followed by chartists is that if we invest with the trend, then there is a greater likelihood of a profit (not guaranteed, but a higher chance).

This Article in Brainy's series on Technical Analysis (number TA-3205) provides an overview of the concept of a *trend*, and the idea of the all-important *trendlines*.

### What is a “trend”?

A trend can be confirmed by identifying the *peaks* and *troughs* on a chart, and looking for a succession of *Higher Peaks* and *Higher Troughs* for an *uptrend*, or *Lower Peaks* and *Lower Troughs* for a *downtrend*. This is demonstrated in the sample price chart of UGL in Figure 1 below. In practise, many people interchange the terms *High* and *Peak*, and the terms *Trough* and *Low*.

It can be said that on a price chart, the share price must be in one of three states — either a rising trend, or a falling trend, or in no trend. When no trend can be observed, the price is said to be range-trading — basically in a sideways pattern.

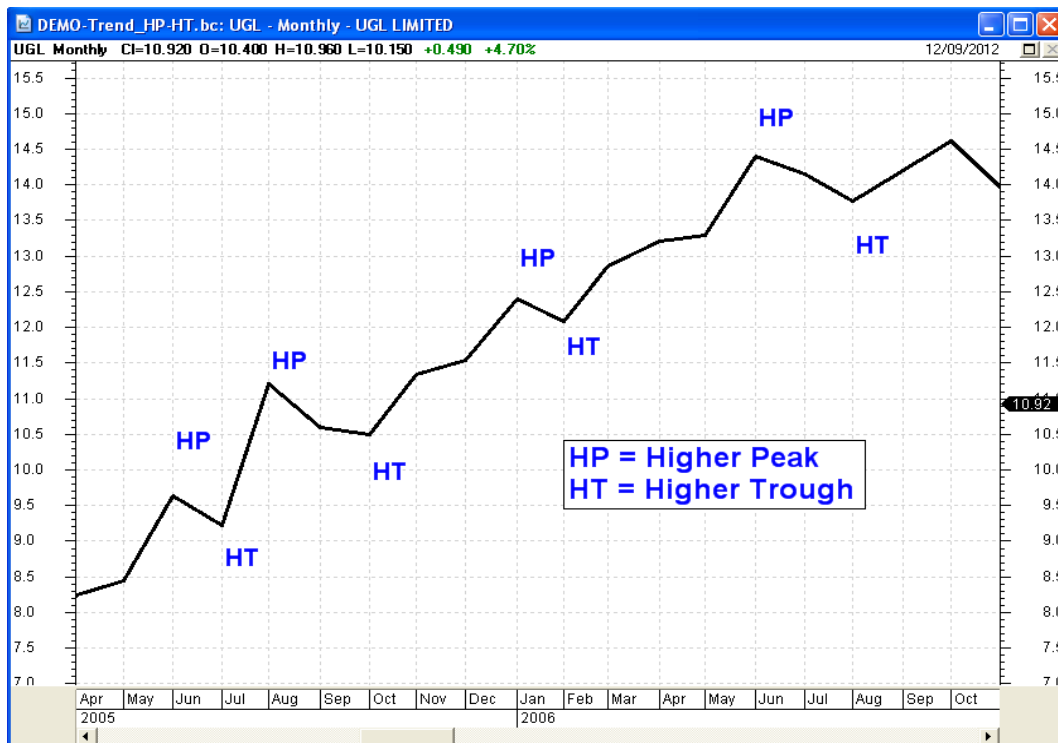


Figure 1: A rising trend in share price for UGL in 2005-2006.

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