



# Brainy's Articles on Technical Analysis

## Trends — Primary, Secondary and Brainy's "3Ways Rule"

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### Introduction

In Brainy's Article TA-3200, "*Trends and Trendlines*", we took an introductory look at the concept of a *trend*. An up trend being a series of Higher Highs (HH), and Higher Lows (HL), while a down trend is a series of Lower Highs (LH) and Lower Lows (LL).

In this article in Brainy's series on Technical Analysis, number TA-3210, "*Trends — Primary, Secondary*", we look at trends in more detail, and relate the concept to some of the principles of Dow Theory (which is discussed in Article TA-2200, "*Dow Theory*").

In this article we also discuss Brainy's "3Ways Rule in 3Times" and provide some real-life examples that help to demonstrate the concept and relate it to Dow Theory. For introductory information about the "3Ways Rule", it is suggested to peruse Article ST-6120, "*Trends are important — the 3Ways Rule*".

### Overview

**Dow Theory** — The points of Dow Theory that are relevant here are:

- "*The market has three main movements*" — Primary Trend, Secondary Reaction (or Secondary Trend) and daily fluctuations.
- "*Primary movements (market trends) have three phases*".
- "*Trends exist until definitive signals prove that they have ended*".

For an initial discussion of each of these, refer to Article TA-2200, "*Dow Theory*".

**Brainy's 3Ways Rule (in 3Times)** — The first portion of the 3Ways Rule is explained in Article ST-6120 — the notion that a market or stock can be trading in one of 3 "ways". That is, a stock or a market index can be in an up trend, or a down trend, or in no trend.

The second portion of the 3Ways Rule "*...in 3 Times*" is explained in this article below. By understanding the 3Ways Rule, and in particular the ideas relating to *3Times*, then you will be able to understand the bigger picture in the market, and in particular the big-picture trend that is in place. By investing or trading with the bigger trend, investors and traders should be able to be more successful.

### Primary trends

When considering an investment in the share market, an understanding of whether the *Primary Trend* is up, down, or sideways, is important.

Figure 1 at right shows the All Ordinaries index (XAO) over a 7 year period from 2003.

The upward leg over a 4 year period until late 2007 is clearly a bull market, and is the *Primary Trend* that was in place over that period.

The same chart also shows the bear market of 2007-9 in



Figure 1: The Primary trend - two examples.