The Trendline Ebook Guide

Trendlines are a great trading concept and tool, but they are more than just some lines that you throw onto your charts and then expect something to happen when price gets there. Trendlines provide information about market structure, bullish and bearish sentiment, the momentum of trends and the phase of price movements. The following screenshot gives a first indication of the universal applicability of trendlines. In this ebook you will learn how to identify and interpret the clues trendlines provide so that you can make better trading decisions.

How to draw and use trendlines 101

It is advisable to wait for three confirmed points of contacts before you start putting further attention to a trendline. Most traders make the mistake and connect the first two highs or lows and then get overly excited once price gets there again. However, a trendline is only confirmed if you can get three points of contacts. Whereas connecting two random points is possible at any time at any chart, three points of contacts are no mere coincidence anymore.

The next question that always comes up is whether you should use the candle-wicks or the candle-bodies to draw the trendlines! The answer is “confluence”. Whenever you get the best and the most contact points and confluence around your trendline, that’s how you draw it. There are no fixed rules about whether wicks or bodies are better. Whether it is horizontal support and resistance lines or trendlines, the same
principles apply; you should never trade off of single lines on your charts. Price always moves in zones.

The screenshot below shows two trendlines, the upper one only connected the first two highs but it missed all the following price action. The lower trendline was drawn after three points of contacts and does not only focus on the wicks – it captured price action much clearer.

**Upper and lower trendlines**

The next question that comes up is whether you draw trendlines connecting the lows or the highs. The answer is very straight forward:

There is no right or wrong and it does not really matter whether you use the highs or the lows. The only exception is spotting trend breaks; to spot trend breaks, you have to connect the highs in a downtrend and the lows in an uptrend.

The screenshot below shows that during downtrends, we used the highs to draw trendlines and the lows during uptrends. However, in later examples we will switch to a different approach – it always depends on what you want to analyze and how YOU feel most comfortable. As with all trading indicators and tools, they are not meant to provide signals, but to help you analyze market data and price action.
The slope and angles of trendlines – trend strength

The slope – or the angle – of trendlines immediately tells you how strong a trend is. A large angle on a lower trendline in an uptrend means that the lows are rising significantly fast and that the momentum is high. The screenshot below shows an uptrend with steadily increasing angles of trendlines. The trend is gaining momentum and the trendlines visualize it perfectly.
The next screenshot shows the opposite; a downtrend with multiple trendlines that show decreasing angles. Obviously, the trend is losing momentum.

The break of a market structure
Now we can slowly start putting it all together to make more sense of the charts. The screenshot below shows a market with several confirmed trendlines – all have more than 3 points of contacts as indicated by the green checkmarks.
A trend is a market structure (other market structures are ranges or consolidations). The trendline confirms the trend market structure through validating higher lows. **A break of a market structure is a break of a trendline.** The screenshot below shows the always repeating market cycles:

**Trend – trendline support – break of market structure – new trend – new trendline – break of resistance**

The next screenshot shows a similar market behavior. The large red arrows show the longer-term trends. However, in the meantime, you can observe the short-term cycles repeating themselves over and over again; trend – break – new trend…

Trendlines alone may not be sufficient as a stand-alone trading system, but they are a great addition in your arsenal and trendlines can help you interpret market structure on a whole new level.

**The trendline-flip**
When talking about trendlines we can’t miss the support-and-resistance-flip. This is a pattern which you can observe frequently and it is worth paying attention to. Trading is all about building confluence and stacking the odds in your favor and the trendline-flip is a great tool to build additional confluence.

The screenshot below shows when support turned into resistance and vice versa. The trendline flip is ideal for conservative traders who do not want to trade the initial breakout of a trendline, but are looking for additional confirmation.
How to use trendlines – putting it all together
Trendlines are a universal trading tool and they offer different information. You can use trendlines in many different ways and we have summarized the most important facts about trendlines:

- Always wait for 3 points of contacts to draw a valid trendline
- It does not matter if you use candle bodies or wicks to draw trendlines
- When drawing trendlines, there is no right or wrong. It has to make sense to you
- The angle of a trendline shows how fast a trend is moving
- Multiple trendlines in a trend provide information about slowing or gaining momentum
- The market cycle of: trend – break – new trend can be observed using trendlines