



Trendfans and Trendline Breaks
By
Albert Yang

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Welcome back!

Hi and thank you for purchasing this ebook, "Trendfans and Trendline Breaks". This is the follow-up to the first book "Trends and Trendlines". If you have not read the first book, STOP RIGHT NOW. This book assumes you have and that you are clear about MY version of how to draw a trendline correctly. This is paramount and if you do not know, then go ahead and buy the book "Trend and Trendlines" from <http://www.priceactionforex.com> and read it first. This book will NOT cover what was covered in the first book, but is dependent upon it. Throughout this book, I will use the two words "break" and "breach" interchangeably.

If you thought my first book was terse and to the point, this one is even more so! I have charts charts and more charts. When you are done, you should know how to draw a trendfan and how to identify trendline breaks.

With that, let's begin!

What is a Trendfan?

Since the title of this book is called "Trendfans and Trendline Breaks" let us start with the obvious of questions. What is a trendfan?

I am not sure, but I might be the originator of that word, "Trendfan", it is much easier to show you what it is than to explain it in words.



This is a trendfan. It is simply a bunch of progressive trends linked together.

If you have read my first book, "Trends and Trendlines" you will be familiar with my definition of how to draw a trendline, and thus you will be able to build your own trendfans in a matter of seconds. This trendfan above is a composite of 7 progressive trendlines drawn in succession.

How to Draw a Trendfan

A trendfan is quite easy to build.

We start with our definition of a trendline, and draw that onto the chart. I've highlighted the endpoints in the graph for you.



This as taught to you in my first book, is the correct trendline to be drawn for this graph. Again, if you have not read my first book "Trends and Trendlines" then STOP RIGHT NOW and buy it from <http://www.priceactionforex.com> because if you don't know how I define a trend, all of this will be impossible for you to do.

To build a trendfan, you simply start drawing a trendline again, but instead of using the highest high or lowest low in the picture, you start with the end point of the first trendline.

This is a Trendfan to current price. One of the two types of usage you will learn in this book.

In the next few pages, I will show you how the trendfan is drawn, progressively. Explaining in words is not nearly as clear as showing it in pictures. We start with the highest high, and draw a trendline as I taught in my previous book. At that point, we use the endpoint, to start our next trendline, progressing towards the high of the current price. We keep “daisy-chaining” the trendlines until we have reached the high of the current bar. I have numbered the charts for you.









We have arrived at our current price from the highest high. As you can see, each end point of a trendline is used as the starting point of the next trendline, and that line is progressed until you reach the current bar.

What makes the trendfan so powerful is that, as the graph above shows, you can see the accelerated progression of the trend in this case. If at any point in time, the trend falters, then the trend is unstable. You can see in the picture above, that the fan is relatively smooth, and evenly spread. This is a GOOD trend, and a trendfan shows it.

Trendline Breaks

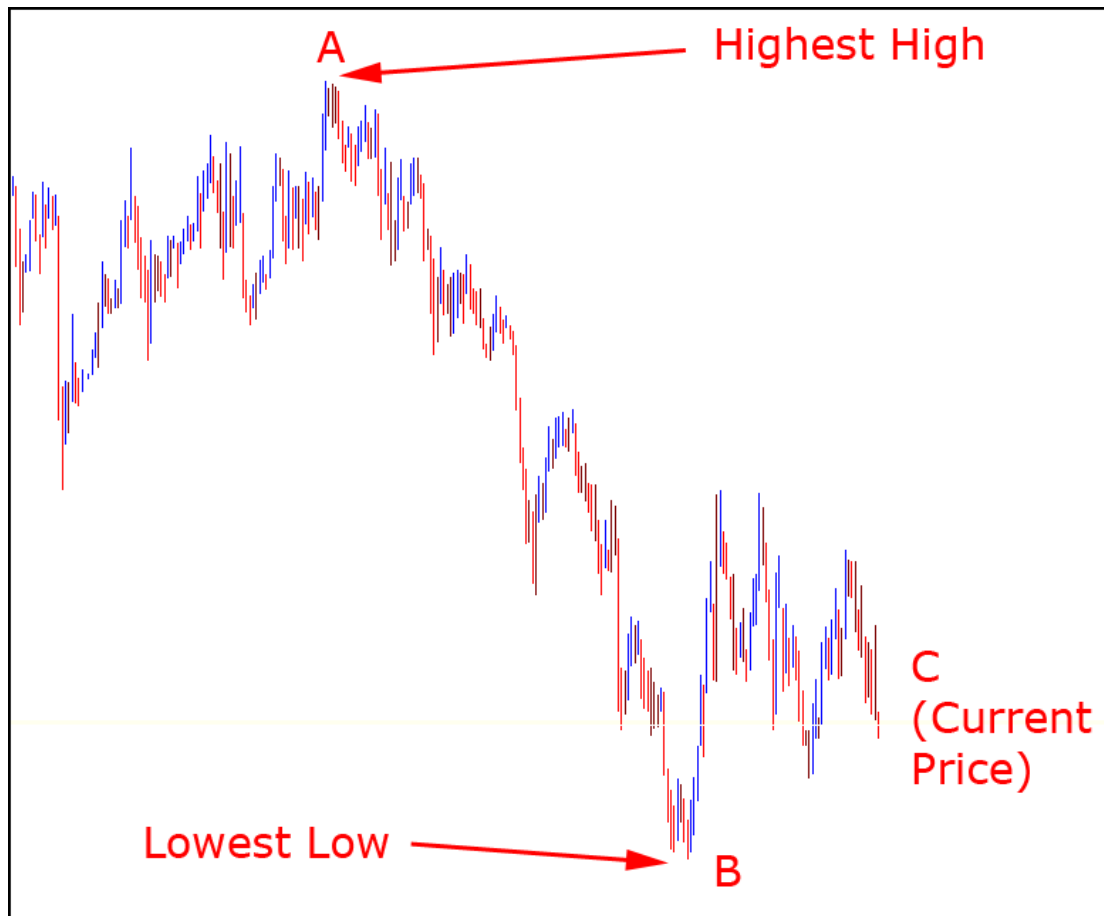
From my previous book, if you have not noticed, by my definition of how to draw a trendline, you will NEVER get a trendline break. Here, I teach you how to draw a correct trendline break using a trendfan.



We will be using the chart above.

What we will draw is a trendfan from extreme to extreme (highest high to lowest low, or lowest low to highest high.)

I have marked the highest high in the chart as "A", lowest low in the chart as "B" and the current price as "C".

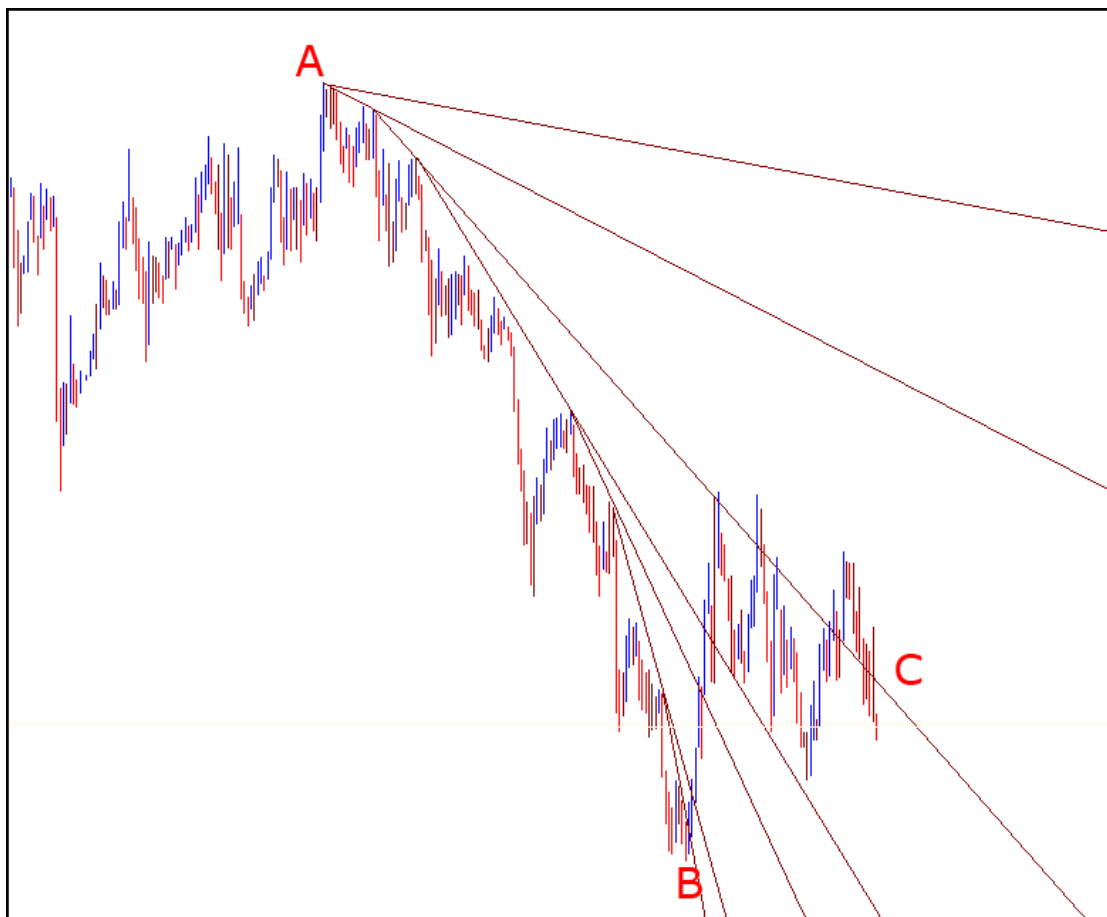


Now, let us consider the time. A is to the LEFT of B, meaning the highest high was OLDER in time, and thus, we had a downtrend. So we are looking at a downtrend, with a trendline break to the horizontal or upside.

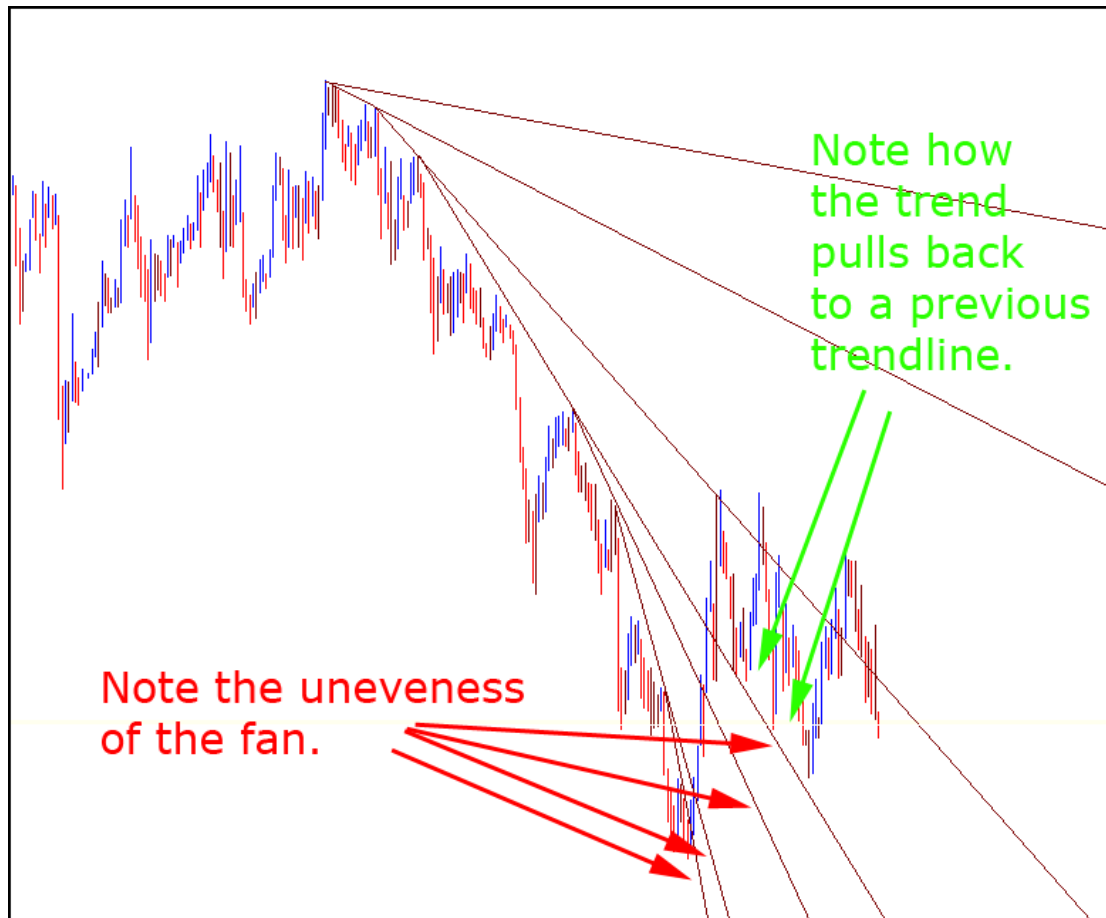
Trendline Break Drawing

We begin with A as our endpoint. We begin to draw trendlines, but instead of towards C, our current price, we draw it towards the high of the bar "B" (the lowest low on the chart). We probably will not be able to get there with only 1 line, and thus we call upon the trendfan.

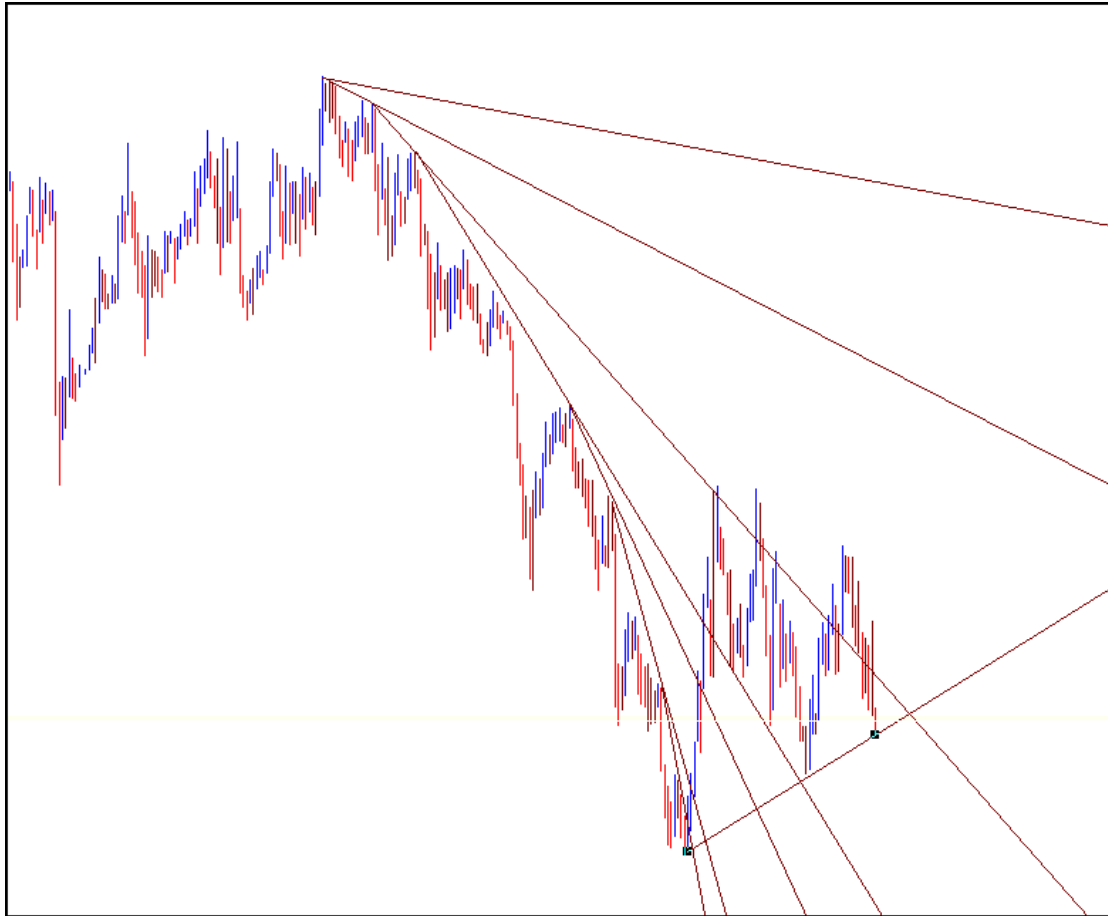
We draw a trendfan from the highest high "A" to the lowest low "B" in the manner taught by my first book "Trends and Trendlines". When we do, this is the picture we get.



Above is what our trendfan from the highest high to lowest low looks like.

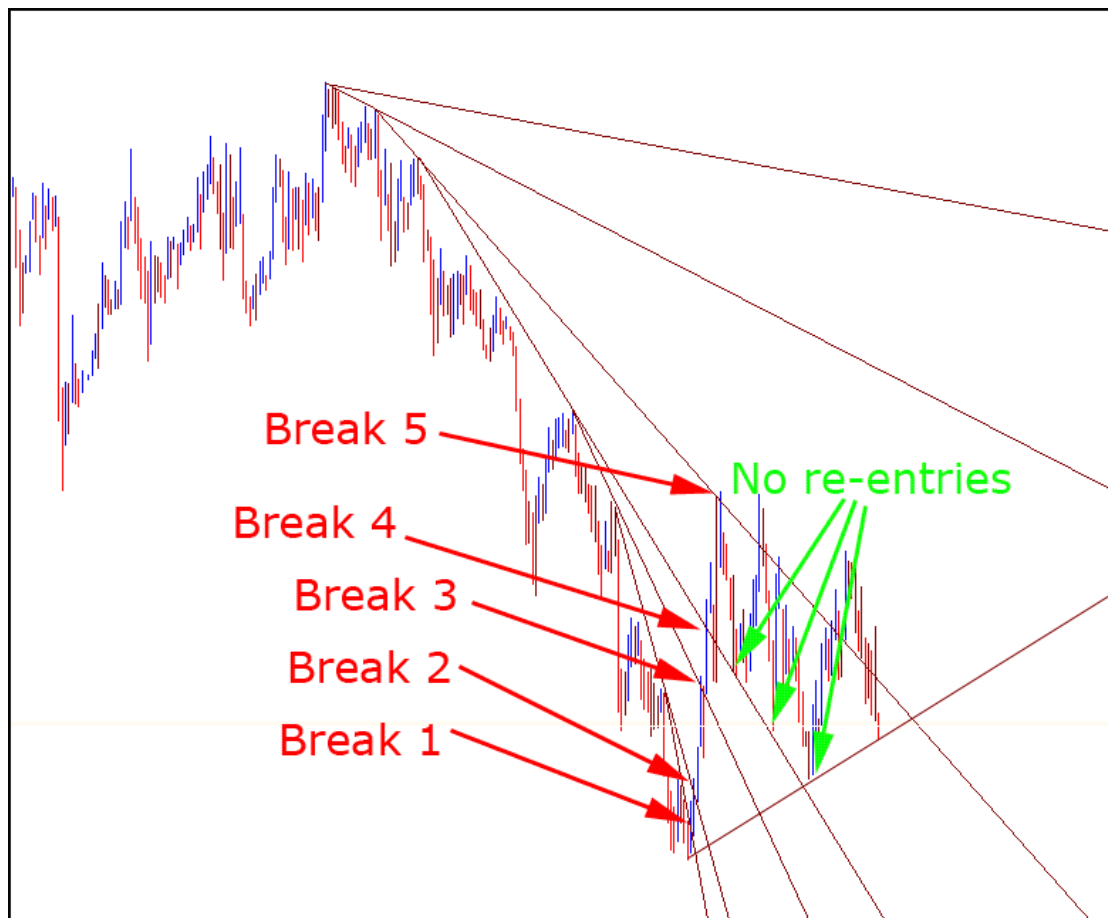


Note the unevenness of the trendfan towards the end. Also note, that the price pulled back up and then rode downwards along a previous trendline for a while.



We go ahead and add an upwards trendline, from the lowest low to the current point, and this is what we get.

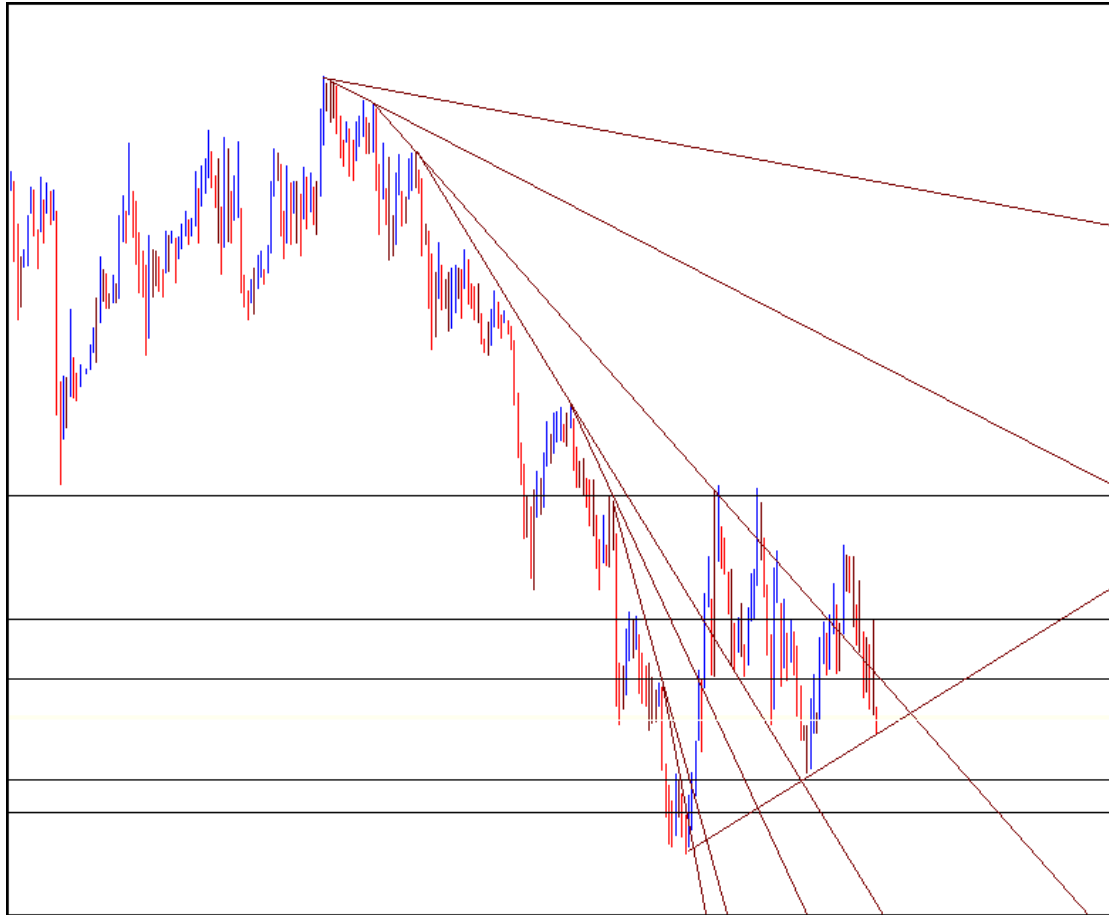
I will mark out the trendline breaks for you.



Note that there were no re-entries and it rode along one of the trendlines at 3 points as marked in green.

Note also that we are approaching a decision point as the trendline from Break 5 is headed towards our uptrend trendline.

Let me go ahead and mark out breakpoints as support and resistance levels (horizontal lines) for you.



This is what it looks like. Let's dissect this diagram in detail.

I will mark relevant and "interesting" things to take note of.



Here, we see that on the downturn, level 2 is not broken. It almost kisses it, and then goes back up. We now have an established level 2 as a strong support level.

At this point, if you are looking to "short" the market, I wouldn't until the price broke level 2. We have seen it try once, and failed.



Here, we see that we have a twice formed top from our level 5 point, and thus giving us a triple top at this level (Line 5). This will be a major resistance level. If you are short, a few pips above this would be an ideal location for a SL.

Important things to note:

Because you are drawing lines towards the high of the lowest low bar, to the right of the lowest low will almost always certainly break that first level trendline. We know that, and so level 2 is our point of reference for trendline break.

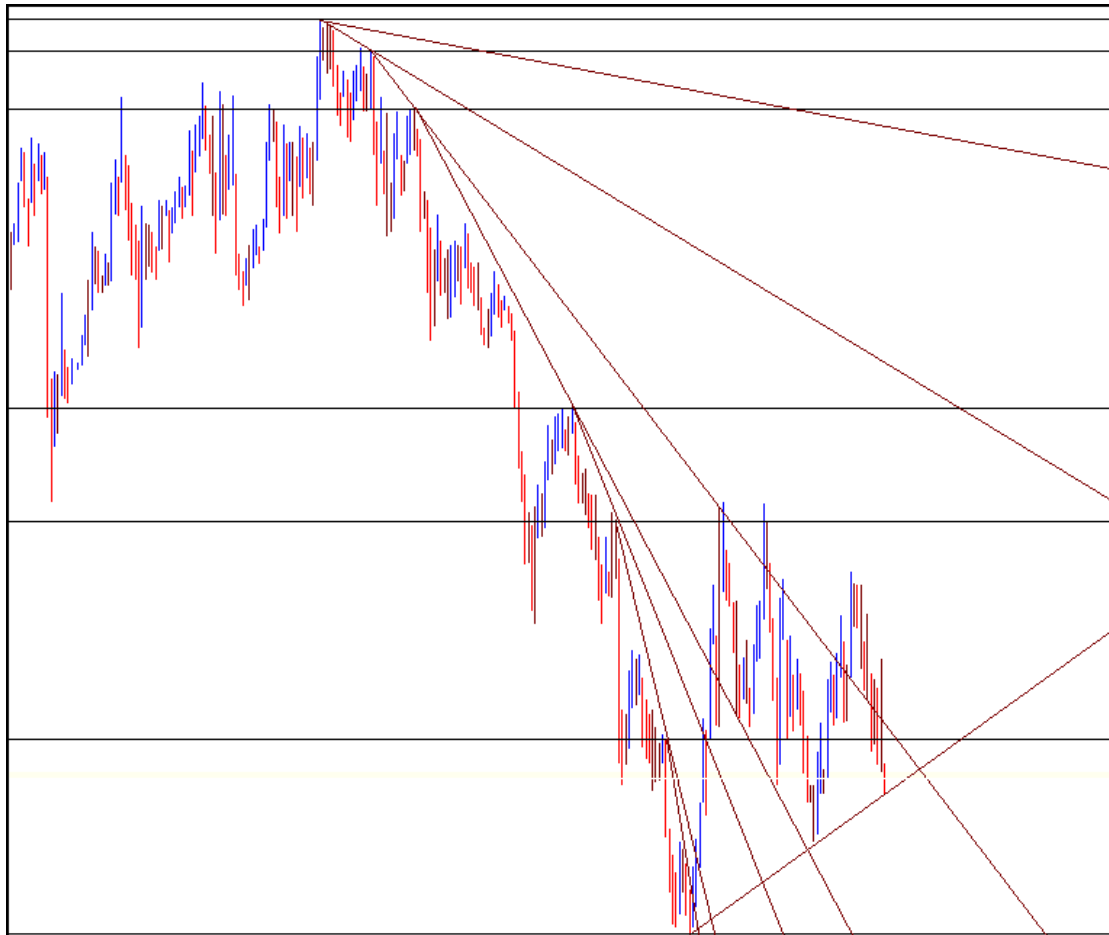
If this doesn't make sense to you, draw a few of these on a few charts, and it will make sense.

Trendfans points as Support and Resistance

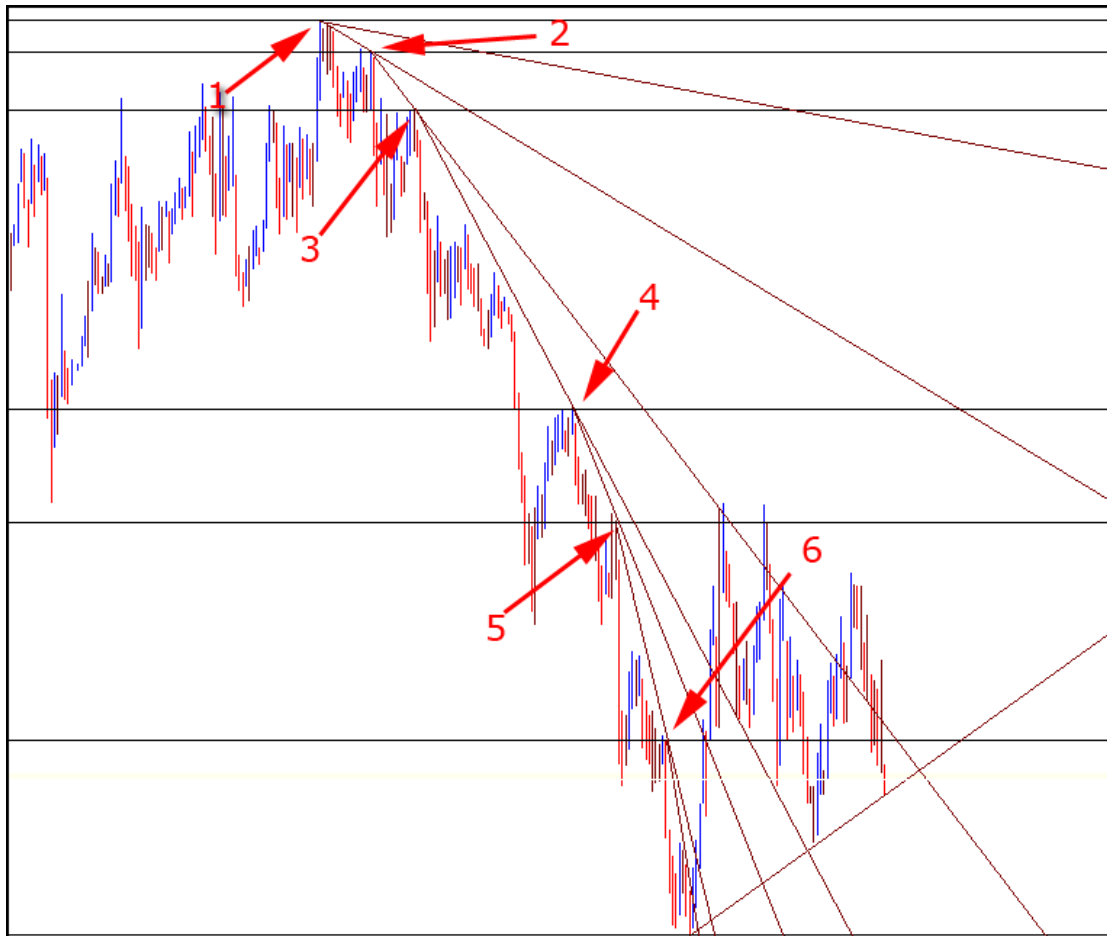
Levels

One of the things we find out is that the points used for Trendfans are **NATURAL** support and resistance points.

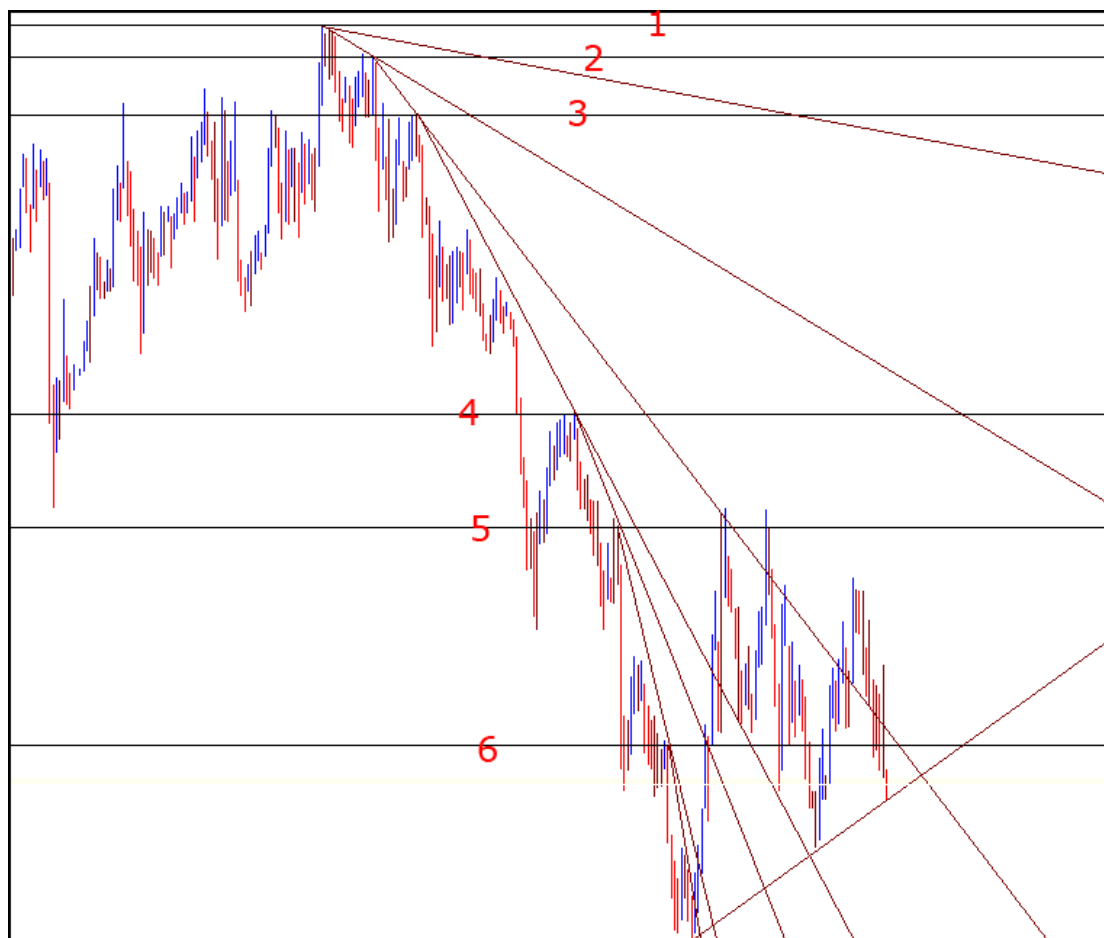
So let's revisit our last chart, but this time, instead of breakpoints being marked, Trendfan points are marked.



I'll go ahead and mark the points of contact in red arrows for you.



And just for clarity, I will mark the LINES with numbers.



I personally prefer these as levels to use for stops. Every time a level is breached, coming back from a breached level gets harder and harder. That said, it is also true that breaching a level gets harder and harder.

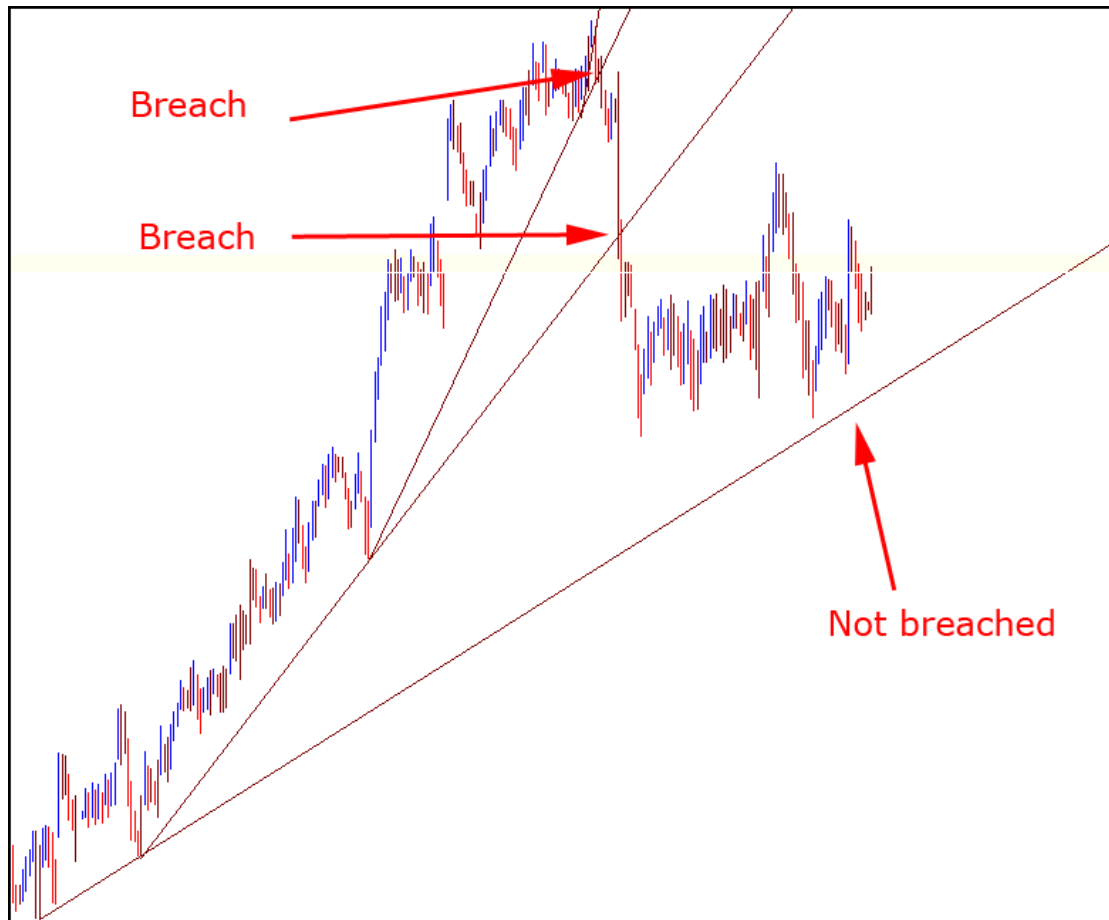
So now we have seen, a horizontal line drawn through the breakpoints of a trendfan used as support and resistance levels. We have also seen horizontal lines drawn through the trendfan points used as support and resistance levels.

I personally prefer to use these levels vs. something such as Fibonacci levels. These make more sense, and have more technical analysis to back it up than fib levels.

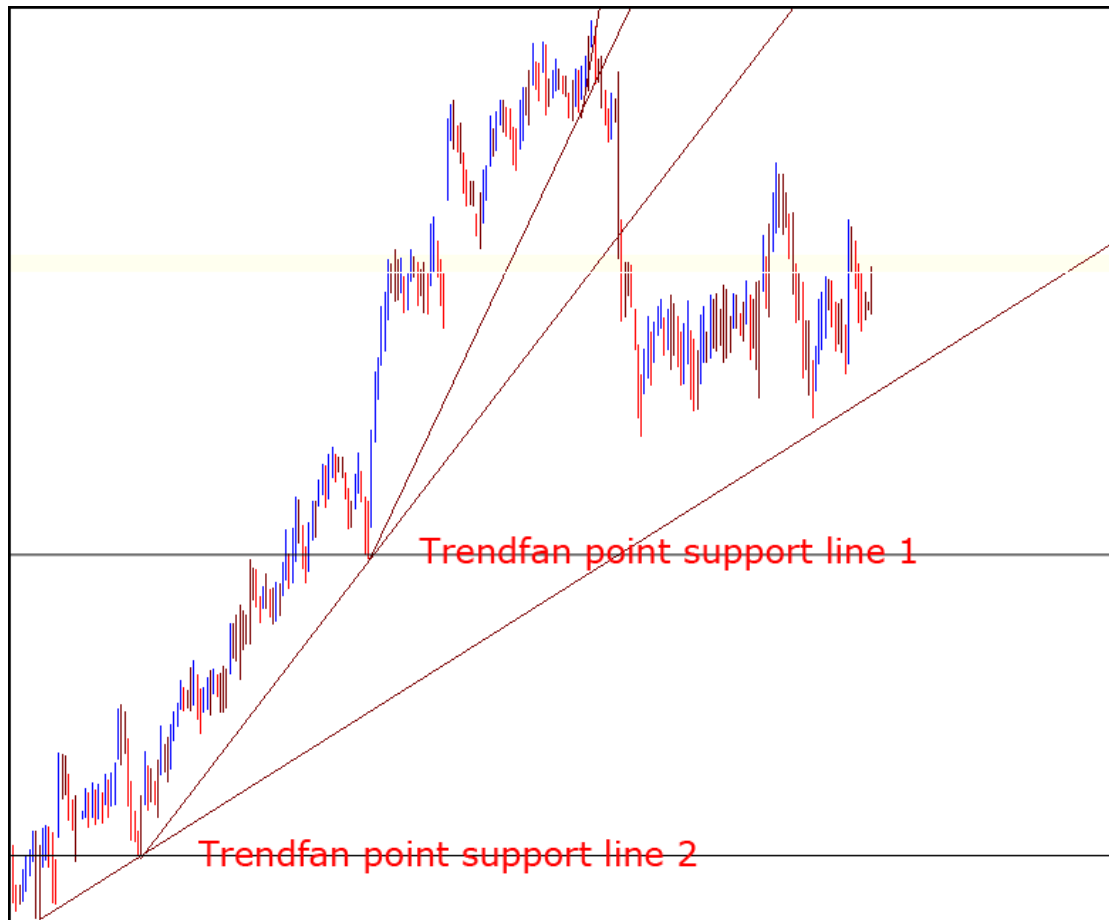
Here is another trendfan example of trendfan to trendline break.



You will note that after the break of the two subsequent trendlines, the trend is back on course with the original trendline.



We take a look at trendfan points as support lines.



If you are looking for “logical” places to put your stops, then these are great choices.

We take trendfan break points as our resistance lines to watch for:

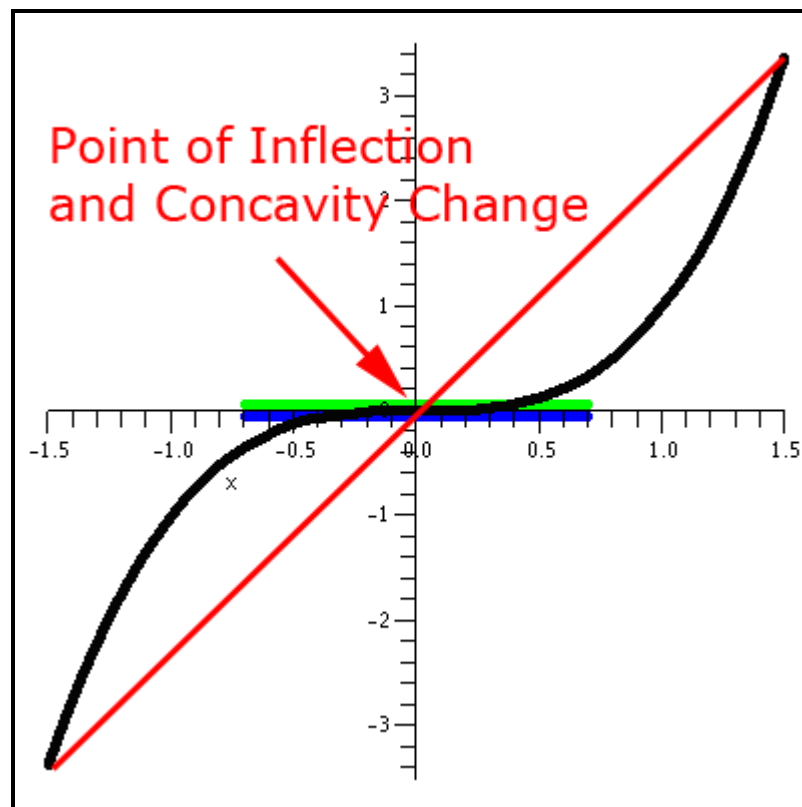


Note on this graph, I have marked "1" as the highest high point.

Note also that the line I have marked "S" as the major support line. If this line were to be breached at any time, it would mean that our uptrend probably is turning.

Calculus Note:

For you hardcore nerds and math geeks, here is some tidbit of calculus information. If the price moves horizontally, and crosses the major support line, without dipping down, this is equivalent to a calculus "inflection point", in which there is not necessarily a change in price, but there is a change in concavity (2nd order derivative).



While calculus and 2nd order derivatives are beyond the scope of this book, it really helps if you understand higher orders of math. If you've never learned calculus but are serious about trading for a living, I highly recommend you sign up for a calculus class at your local college or junior college or get someone to teach you. I taught myself calculus from nothing but an old college calculus book. Yes, it's doable.

Avoiding the confusion

At this point, some of you might be confused, so let me clarify. We have a trendfan, and it can be used one of two ways (I will call them Type 1 and Type 2).

Type 1)

We can use a trendfan to draw either from highest high to lowest low (depending on which occurred first in our graph) and create for ourselves, a trendfan that is broken at some point. This is a trendfan with a trendline break.

- I If we have highest high to the left of lowest low on the graph, then we fan from highest high to lowest low (down slope) with a breach either horizontally or upwards.
- I If we have a lowest low to the left of highest high on the graph, then we fan from lowest low to highest high (up slope) with a breach either horizontally or downwards.
- I If our current price is the highest high on the chart, then we will have no breaches.
- I Similarly, if our current price is the lowest low on the chart, then we will have no breaches.

Type 2)

We can also draw from highest high or lowest low to current price, and use it as an indication of how "smooth" or choppy the current trend is. This is best used when the current price is the highest high, or lowest low on the chart. But you don't have to. You can fan from point highest high, and lowest low.

Let me put the two types of trendfan usage on successive charts so you can compare:

Type 1: Trendfan with Trendline Break



Here we have a lowest low to the left of the highest high, and so we have an uptrend with a break. We trendfan from the lowest low, upwards towards the low of the highest high.

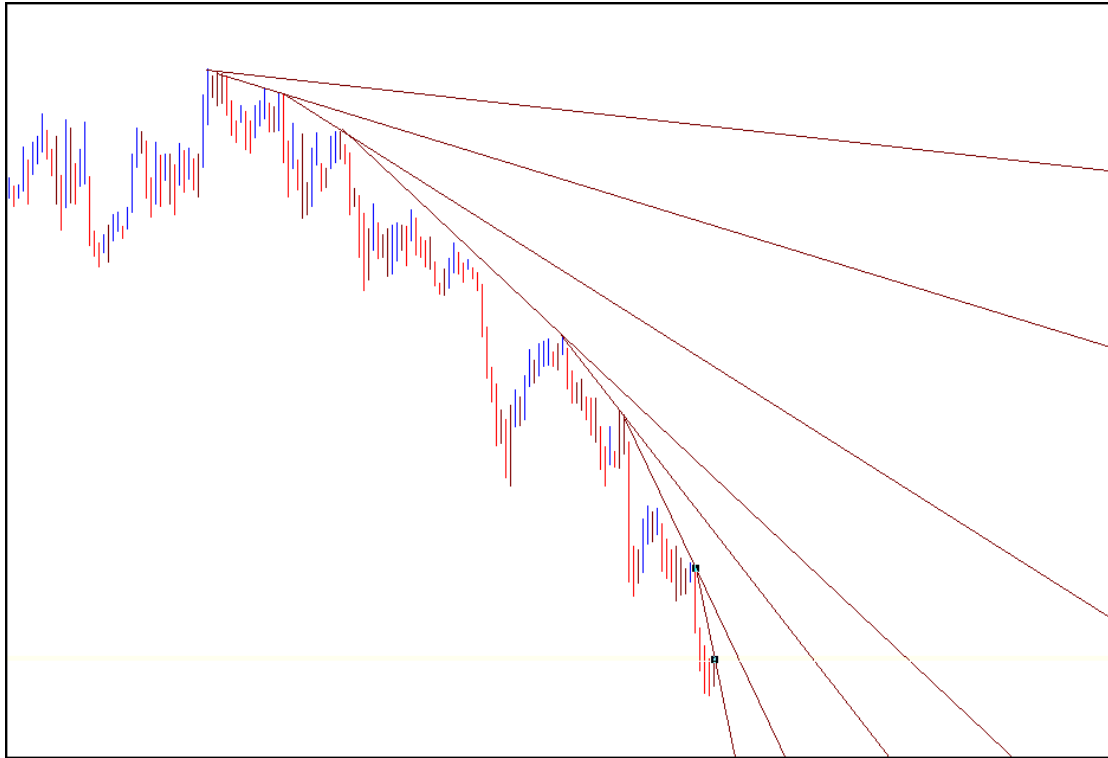
Type 2: Trendfan to current price as trend smoothness indicator



This is a single side trendfan to current price. Here, we have a trendfan from lowest low to current price.

If there are sharp turns in the angle of the trendfan, but the progression is smooth, then that's probably a good trend. If the progression is haphazard at best, then the trend is not so steady.

Below is an example of a smooth trend as shown by the trendfan.



Below is an example of a not so smooth trend as shown by a trendfan.



If the current price is either the highest high or lowest low on the chart, then a type 1 trendfan and a type 2 trendfan will both look the same as there will be no breaches.

Double Trendfans

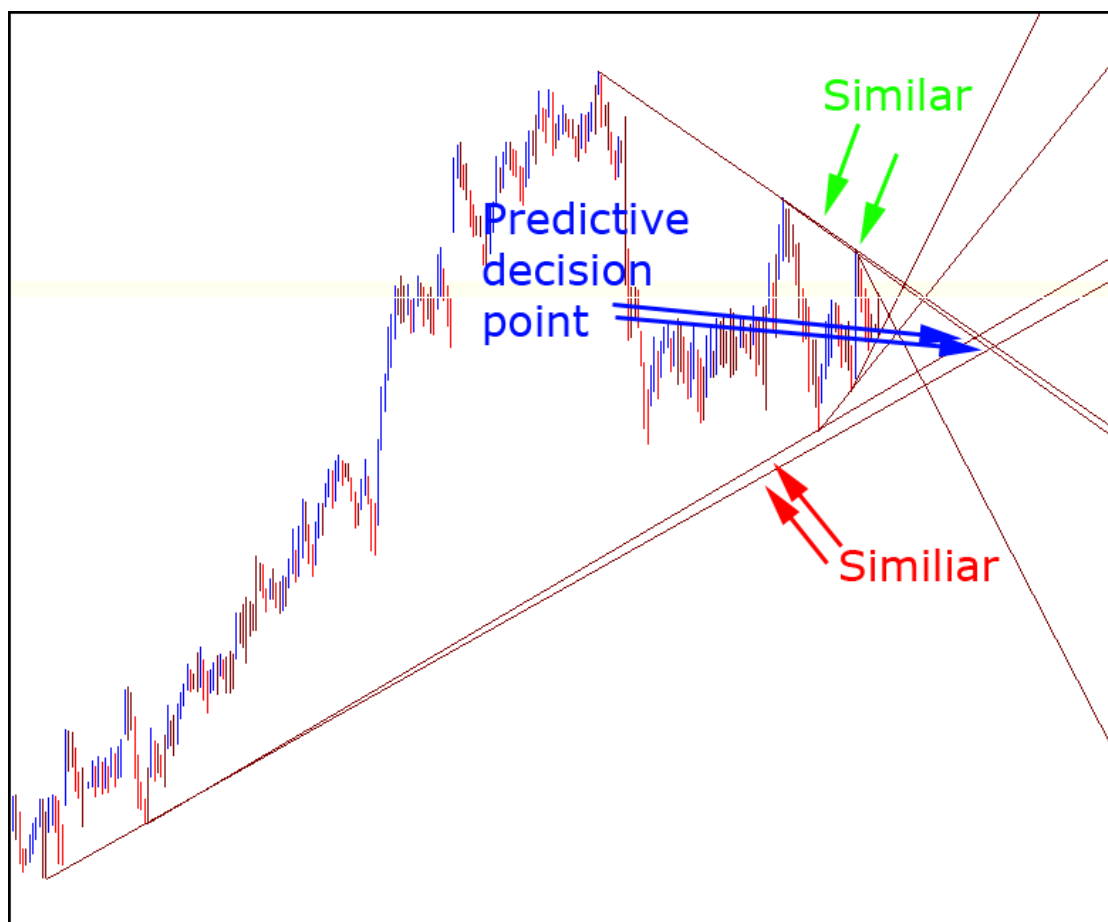
Here we see a chart we've previously marked with a trendfan, but this time, I have a trendfan from lowest low to current price, *AS WELL AS* a trendfan from highest high to current price.



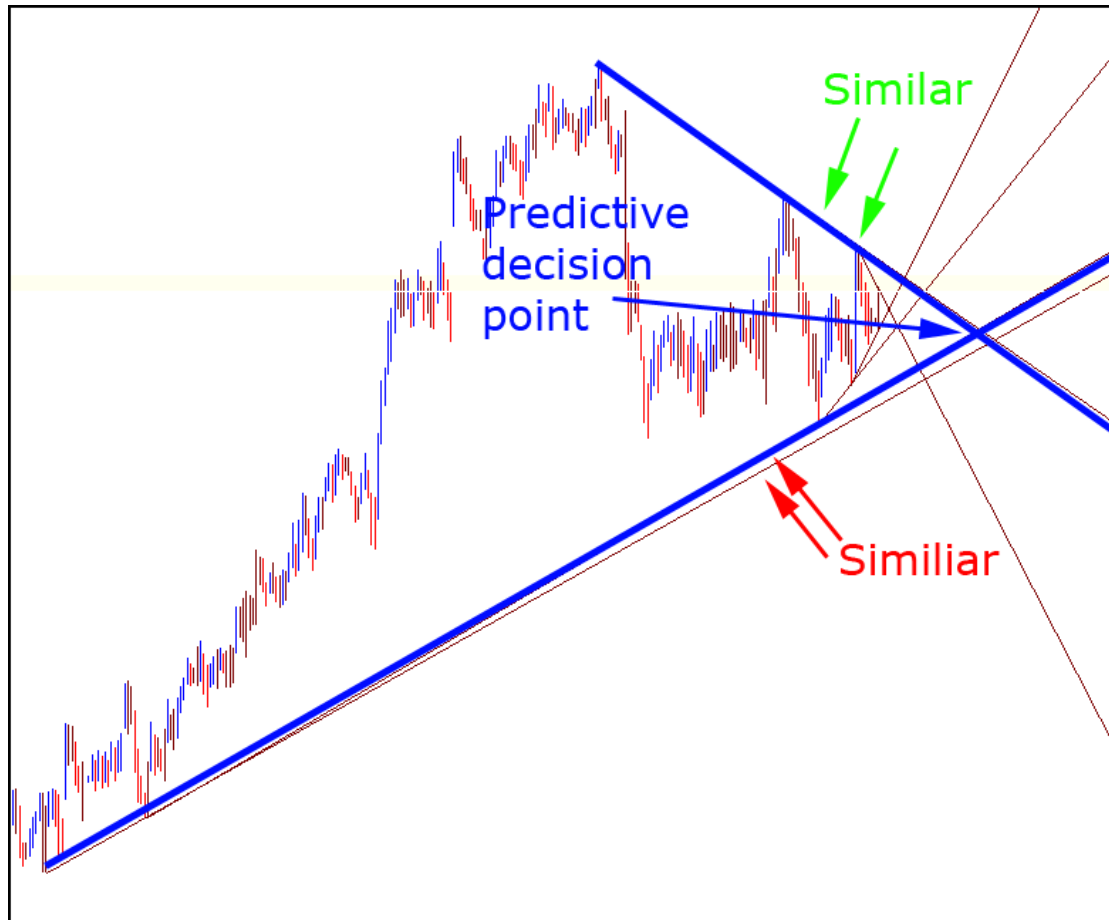
Learning from all this

When you draw a trendfan, what you are looking for is similarities in angles and slopes.

In our example above of the double trendfan, we see that there were a pair of upslope lines and a pair of downslope lines in our trendfan that were quite close. This would indicate these to be the REAL support and resistance lines. If we use them then as our trendlines, we then build a wedge/pennant/flag and thus generate for ourselves a predictive decision point.



I've gone ahead and overlaid thick blue lines to form the predictive wedge.



As price approaches this predictive point, we assume there will be a breakout either upwards or downwards, breaching one of the trendlines.

Conclusion

At this point, you should be intimately familiar with how to draw a trendfan. You should also be familiar with how to draw a trendfan so it leads to a trendline break.

At this point, you have learned how to use a trendfan to:

- I See how "smooth" a trend
- I Draw a trendfan so you can see trendline breaks
- I Use trendfan points as major support and resistance levels
- I Use trendfan break points as major support and resistance levels
- I Use double trendfans to create decision points

It is my hope that these will become useful tools in your trading war-chest. If you are confused, just review the examples and screenshots I have posted above. As with anything, the more you practice drawing trendlines and trendfans and trendline breaks; the easier it gets.

Trendfans points, and trendline break points create natural and usable support and resistance points. When combined, trendfans create multiple wedges/pennants/flags that become critical decision points. The more you practice with these, the better you will get at identifying critical levels of support and resistance.

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