
Technical Analysis V: Trending and Ranging Markets

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In Trending Markets

The existence of a trend in any market depends on a series of relative highs and lows.

Two consecutive relative highs, each above the previous relative high, and

two relative lows above the previous low would constitute a tentative up-trend.

A third relative high would confirm the trend.

The chart below illustrates a up-trend of EUR/USD:

The continuation of a trend depends on the successive rallies reaching a greater price than the previous ones. Traders can buy at relative lows and profit from the rest of the trend. Or traders can speculate the reverse of the trend and sell at relative highs. If an

up-trend establishes a relative high and the subsequent rally fails to break through to a higher price, then the up-trend is in doubt. A series of decreasing relative lows would be necessary to determine that the market trend had reversed to a downtrend. More likely, the market will be range bound for a period.

In Range Bound Markets

Markets do not always move in trends. They spend a lot of time in ranges, fluctuating between established highs and lows. Often a range bound market is considered to have a sideways trend, since it is neither moving upwards to new highs or down to new lows. If the short-term trend is that of a sideways market, it is sometimes called a consolidation range. The price during a consolidation period is simply building up support for a continued move in the original direction. See the following chart: