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3 – Stage Trend Line Signal

I think you will like this lesson. It's a simple trading technique that can be used in almost any market and is suited for all time frames. I call it the 3-stage trend line signal.

This is a reversal signal so you will want the pattern to develop before you decide to take action. I have found it to be quite reliable as a stand-alone method and also just as an additional confirmation signal.

What you are trying to do is find the reversal point of the market you are following. Let's say you can see that there is an uptrend and you are expecting the market to top and want to get short when this happens. By using the 3-stage trend signal it will get you into a position early in the reversal.

For Short Entry

For the first stage of the set up, you draw a trend line (T1) along the bottoms of two recently formed valleys (support areas).

The next stage of the set up is when the market begins to pick up momentum and you draw a second trend line (T2) along the bottom of the last two most recently formed valley's (support areas). You can usually tell when its time to draw a T2 as the market will move away from T1 sharply. As the market pulls back but doesn't reach T1 that is the time to add the next line.

The last stage of the set up is when the market really start to pick up speed and this is often an exhaust move and a third trend line (T3) is drawn. This move should have the same characteristics as T2. We are now ready for a trade.

Once T3 has been broken - enter the market short on the break of the trend line. Your stop can be placed above the most resent resistance high, which if we got our timing right will be the top of the move. Now all we need is a target.

The target should be T 1. You will be amazed just how often support forms at T1. As you exit the market at T1, continue to monitor what happens. If the market finds support and heads back up then you can wait for another opportunity to form. If the market continues to break through T1 then this is a strong indication that the whole trend might be reversing and you may want to consider entering short again.



For The Long Entry.

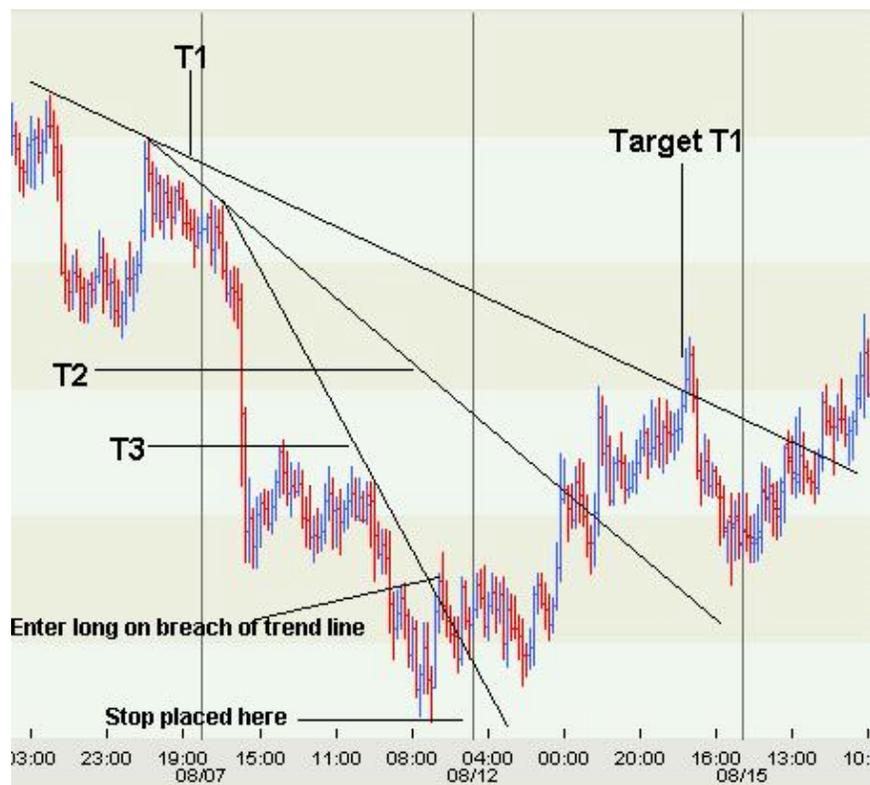
For the first stage of the set up you draw a trend line (T1) along the top of the two recently formed peaks (resistance areas).

The next stage of the set up is when the market begins to pick up momentum and you draw a second trend line (T2) along the top of the last two most recently formed peaks (resistance areas). You can usually tell when its time to draw a T2 as the market will move away from T1 sharply. As the market rallies back but doesn't reach T1 that is the time to add the next line.

The last stage of the set up is when the market really start to pick up speed and this is often an exhaust move and a third trend line (T3) is drawn. This move should have the same characteristics as T2. We are now ready for a trade.

Once T3 has been broken - enter the market long on a break of the trend line. Your stop can be placed below the most recent support low, which if we got our timing right will be the bottom of the move. Now all we need is a target.

The target should be T1. You will be amazed just how often resistance forms at T1. As you exit the market at T1, continue to monitor what happens. If the market finds resistance and heads back down then you can wait for another opportunity to form. If the market continues to break through T1 then this is a strong indication that the whole trend might be reversing and you may want to consider entering long again.



As you scan the market for possible set ups you will notice that there are plenty of T1 and T2's that can be drawn, but fewer T3's. This is what makes the set up more reliable- the fact that there is fewer of them. There will be lots of opportunities just keep your eye's open.

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Good Trading

Best Regards
Mark McRae

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