Brainy's Articles on

Share Trading

Trends are important
(the *3Ways Rule*)

Introduction

It is quite astounding that many people will buy, or hold, an investment that is confirmed to be deteriorating in price. It might be the shares in a perceived blue chip company, and these shares might be in a confirmed down trend, rapidly falling in value. Many astute investors and traders will have a pre-determined cut-off value for these shares, and if the market price falls below the cut-off value, then they quickly "cut it loose". By doing this they protect any profits they have already made, or they limit their losses.

Many people will hold onto the investment for what seems to be a very good reason. Some people believe that the stock is cheap, so they think they should be buying more of it. Some people are convinced that they are in it for the long haul, so they think they should just sit tight.

Many people believe that it is the "time in the market" that is important, because we can't "time the market". Well, that is a myth. It is possible to "time the market". Some self-intentioned professionals spread mis-truths to further their own cause. If you were a fund manager, and you were rewarded based on the amount of the funds under your management, you would want more people to invest in your fund, and to leave the funds there for the long term, regardless of the fund performance. And if you paid yourself based on the size of the fund, regardless of fund performance, you would be well rewarded. Now that is not to say that fund managers do this, because there are many who don't.

Where is this discussion leading?

Well, it is so easy to determine whether the value of a financial instrument is trending up, or down. And this makes it not very difficult for almost anyone to make some of their own decisions about whether to invest, or divest.

So, this article in Brainy's series on Share Trading (number ST-6120), takes a look at the importance of trends, and how to more easily identify the important trends. A new way to look at this topic is to understand Brainy's own "***3Ways Rule (in 3Times)***". Understanding this rule can go a long way to helping to unlock the mystery of trends in financial instruments like shares. Also refer to Brainy's Article TA-3210 for detailed information about Primary and Secondary Trends.

The 3Ways Rule (in 3Times)

Brainy's "3Ways Rule (in 3Times)" states the following:

> In the share market, any stock or index will be trading in one of 3 "ways" — in an up trend, or in a down trend, or no trend — and this can apply in 3 time frames.

Let's declare from the outset that this rule is not much more than another way to look at Dow Theory; but a way that is easy to remember (simply picture the logo).

To keep the rule simple, it refers to share market stocks and indexes. However, this rule also applies equally well to a lot more than this. It can apply to any financial instrument which you can view in a price chart form — including: options, currencies, CFDs, warrants, futures contracts and commodities. In this eBook article, any reference to stocks, or the index, should apply equally to other financial instruments.

The simple mono-colour version of the 3Ways Rule logo is shown at right. An explanation of the elements in this logo, and a more advanced colour version, are included and discussed in the following pages.

In basic and simple terms, the key elements of this logo are the three zig-zag lines which each represent the different possible trending scenarios.

The rule also refers to "3Times". This is explained in detail in the following pages.

Unfortunately,
the remaining pages of this article
are not available for free.

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and the Introduction and Overview pages.

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