SAFETY ▪ STRENGTH ▪ STABILITY
UNIT TRUST CORPORATION

ADVISORY SERVICES DEPARTMENT

Newsletter

www.ttutc.com/advisory-services

Q2 2018 | Issue 14

IDENTIFYING MARKET TRENDS

Technical indicators are mathematical calculations that can be applied to a stock's past pattern, e.g. price or volume. They are mainly used by active traders as the computed results can alert the trader to a trend, help to predict future prices or confirm the results suggested by another technical indicator.

The study of market trends is one of the most important concepts in technical analysis. Being able to correctly identify market trends is essential as it uses past information to help determine the future price of a security or market. It is important to identify and understand trends so that you can trade with rather than against them. However, experts advise that you do not use this alone; it should be combined with fundamental analysis of the security which includes macroeconomic factors such as the overall economy and industry conditions as well as microeconomic factors such as financial conditions and company management.

It is essential to note that the price of a security rarely moves in one direction for long. Rather, it is constantly moving both up and down. As a result of this movement, trends in price develop and can indicate if buying is more powerful than selling, or vice versa.

Continued from page 1

A trend is the general direction of the market or of the price of a security. There is no specified minimum amount of time required for a direction to be considered a trend. However, the longer the direction is maintained, the more notable the trend.

The most common way to identify trends is to use trendlines, which connect a series of highs or lows. Trendlines help you determine when trends are underway, when price is stagnant – and not worth trading – and when the price direction may reverse. In order to create a trendline, there must be at least two points. However, more points in the trendline indicates more validity and strength of the trend. The three major trend types are:

1. Uptrend
2. Downtrend
3. Sideways Trend

Uptrends

Uptrends connect a series of higher lows, creating a key support level for future price movements.

In an uptrend, both the peaks (tops) and troughs (bottoms) keep successively rising. Therefore, on a daily basis, the price not only reaches a new high, but the price declines also manage to stay above former price lows. It is important to note that the high does not necessarily have to be a lifetime high; it could just be the highest value in the past few days, weeks or even months.

This steady rise indicates that the market has a positive sentiment. Therefore, the probability that the stock will appreciate is higher than it depreciating. As a result, more investors choose to buy, which in turn drives the price even higher. Similarly, when prices begin to decrease, investors tend to buy even before the stock falls to its previous level. This stops the price fall.

Downtrends

Downtrends connect a series of lower highs, creating a key resistance level for future price movements.

When the price of a security is constantly falling, it is said to be in a downtrend. Not only are successive peaks lower, successive troughs are also lower. Investors in the market are therefore convinced that the stock will continue to fall further. As such, investors use any appreciation in the price to sell their existing quota of shares. Generally, no further buying takes place at these levels.

Short-term investors usually steer clear of such investments as the likelihood of the price falling is still quite high. On the other hand, investors who are looking for long-term investments, are usually waiting for the perfect opportunity to buy, because even though the price might currently be depreciating, at some point in time, the trend will be reversed.

Sideways Trends

A sideways trend, also known as a neutral or horizontal trend, is the horizontal price movement that occurs when the forces of supply and demand are nearly equal. This often happens before the price reverses into a new trend or continues its previous trend.

In a sideways trend, a stock doesn't move notably in either direction during an extended period. Peaks and troughs continue to be constant and there is no significant move to help an investor decide whether or not to buy a stock.

Trendlines make an excellent tool if used effectively as they can be used to alert you of potential trade opportunities. Using price history to analyze the market is a powerful way to trade. Even basic trendline concepts can be transformed into excellent trading strategies. However, if they are used improperly, they become highly ineffective and as a result you may believe that prices have reversed when in reality they haven't or you may even assume that the trend is stronger than it really is.

It is important to remember that technical analysis is not an exact science and it is subject to interpretation. As with any discipline of analysis it takes work, dedication, and will power to become adept at it, just like anything that's worthwhile.

Popular Trend Indicator – Simple Moving Averages

To create a simple moving average (SMA), the closing price of the security for a specified number of time periods is added together and this total is then divided by the number of time periods. The SMA smooths out price data by creating a constantly updated average price. The SMA is customizable in the sense that it can be calculated for a different number of time periods.

Each average is connected to the next, creating a trend line. A 20-day SMA will show the short-term trend; the 50-day SMA will show the medium-term trend; and the 200-day SMA will show the long-term market trend.

Since SMAs are created by looking at what happened in the past, they are referred to as lagging indicators. Even though they do not directly tell us what will happen in the future, they still provide valuable insight on what the price might do.

When a price is in an uptrend, it is most likely to be above the moving average line. Similarly, when it's in a downtrend, it will be below the moving average. Therefore, a change in trend is observed when a price crosses a moving average line; it is known as a moving average crossover, and is a technical signal used by many traders to determine if to buy or sell a security.

Investment Checklist

Stock market trends are one of the most powerful technical tools which when properly applied to your fundamental analysis, can produce positive results. However, many investors still question if a series of price movements is an accurate representation of a trend if it is just a one-off anomaly. Use the following rules to help determine if the stock trend is valid:

- The number of data points – In order for a trend to be considered valid, there needs to be at least three points of contact.

- Direction – It is important to note the direction of the trend. As discussed, trends can move in three directions – up, down or sideways. However, if you study prices over long periods of time, often all three types of trends will appear on the same chart, over different time intervals.

- The slope of a trend is important because it indicates how much the price should move each day. Steep slopes will be unsustainable and will eventually correct. However, slopes that are too flat call into question both the validity of the trend and its predictive powers.

- The value of time – The amount of time determines the validity of a trend. Generally, monthly time series carry greater importance than weekly prices, which in turn supersede daily prices.

- The length of time the trend lasts – The longer a trend remains in force, the greater weight it carries.

Mail: Ms. Karrian Hepburn
Chief Customer Relationship Officer
c/o UTC Advisory Services
3rd Floor, UTC Financial Centre
82 Independence Square
Port of Spain

Tel: 624-8648 Ext. 8204

Email: yourwealthmanager@ttutc.com

www.ttutc.com/advisory-services

About the Advisory Services Department

The Advisory Services Department of the Trinidad and Tobago Unit Trust Corporation was established to serve our valued clients seeking financial and investment advice and solutions from a trusted service provider. We will assist you in enhancing your personal wealth and financial well-being by providing you with financial counselling, investment advice and solutions.

Partners for *Life*