

TECHNICAL ANALYSIS FOR EVERYONE

A COURSE DESIGNED JUST FOR YOU WHO WANT TO BECOME A TRADER!

LESSON 3

DOW Theory

**The definition of a trend and a tendency:
how to identify and follow them
profitably**





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PROGRAM

10 LESSONS

1. Basics and Origins of Technical Analysis: The DOW Theory
2. Charts and prices: the main ways to visualize price developments
3. **Defining a trend and trending: how to spot and follow them profitably**
4. The main chart configurations: supports, resistances and pullbacks
5. Figures of reversal or continuation of a trend: we learn to recognize and exploit them
6. Volumes and moving averages: strengths and weaknesses
7. The main indicators and oscillators: how to choose the most useful and suitable for each market condition
8. Charts and time: the right time frame for our operational analysis
9. Intermarket analysis: we learn to define the dominant drivers and trends in the market
10. Leverage, money and risk management: how to control and monitor the sustainability of your investments



Lesson

3

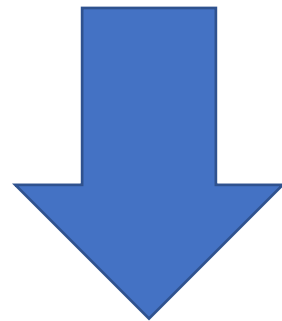
The DOW's Theory

**The definition of a trend and a tendency: how to identify
and follow them profitably**



Dow's Theory

The origins of Technical Analysis are to be found in the theory of Charles Dow, which he developed at the beginning of the 20th century, according to the 3 founding principles





Dow's Theory

«3» FOUNDING PRINCIPLES

1. the existence of market trends
2. the idea that prices incorporate all relevant information about the security in question
3. History repeats itself, and therefore it will be possible to predict the dynamics of the markets by studying their past



Dow's Theory

Technical Analysis has developed on the foundations laid by Dow, incorporating tools and approaches that are also very different from each other.

It's still growing, and it's going to grow again.

If it is true that history sometimes repeats itself (one of the fundamental principles of Technical Analysis), in fact, it is also true that markets are always changing and tools and analyses must be adapted to new conditions.



The Fundamentals of Dow Theory

An uptrend can be considered to be in place until each upward impulse leads to new highs and each correction ends up at a lower low than the previous one.



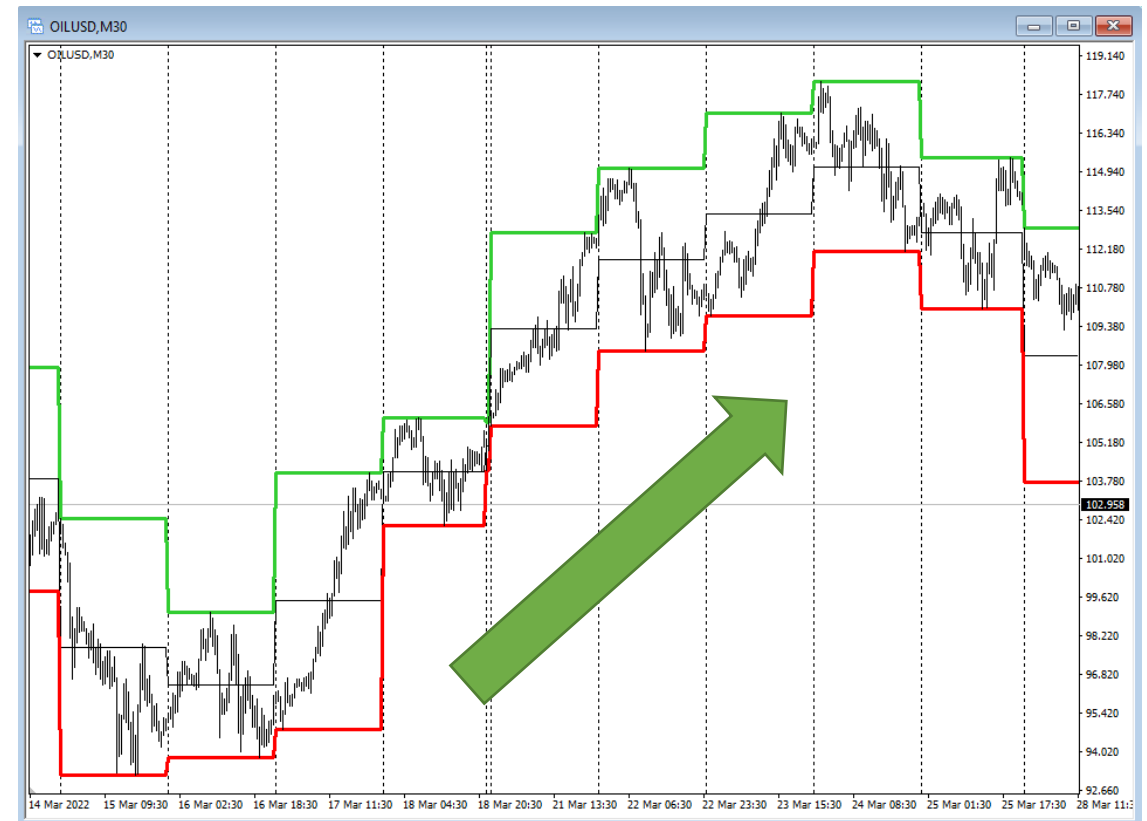
The Fundamentals of Dow Theory

An uptrend can be considered to be in place until each upward impulse leads to new highs and each correction ends up at a lower low than the previous one.

UPTREND

=

RISING LOWS AND HIGHS





The Fundamentals of Dow Theory

In an uptrend, however, there is an absolute reference to monitor: if it is true that the ideal sequence sees increasing lows and highs, it will only be the break of the sequence of rising lows that will interrupt the trend.

UPTREND

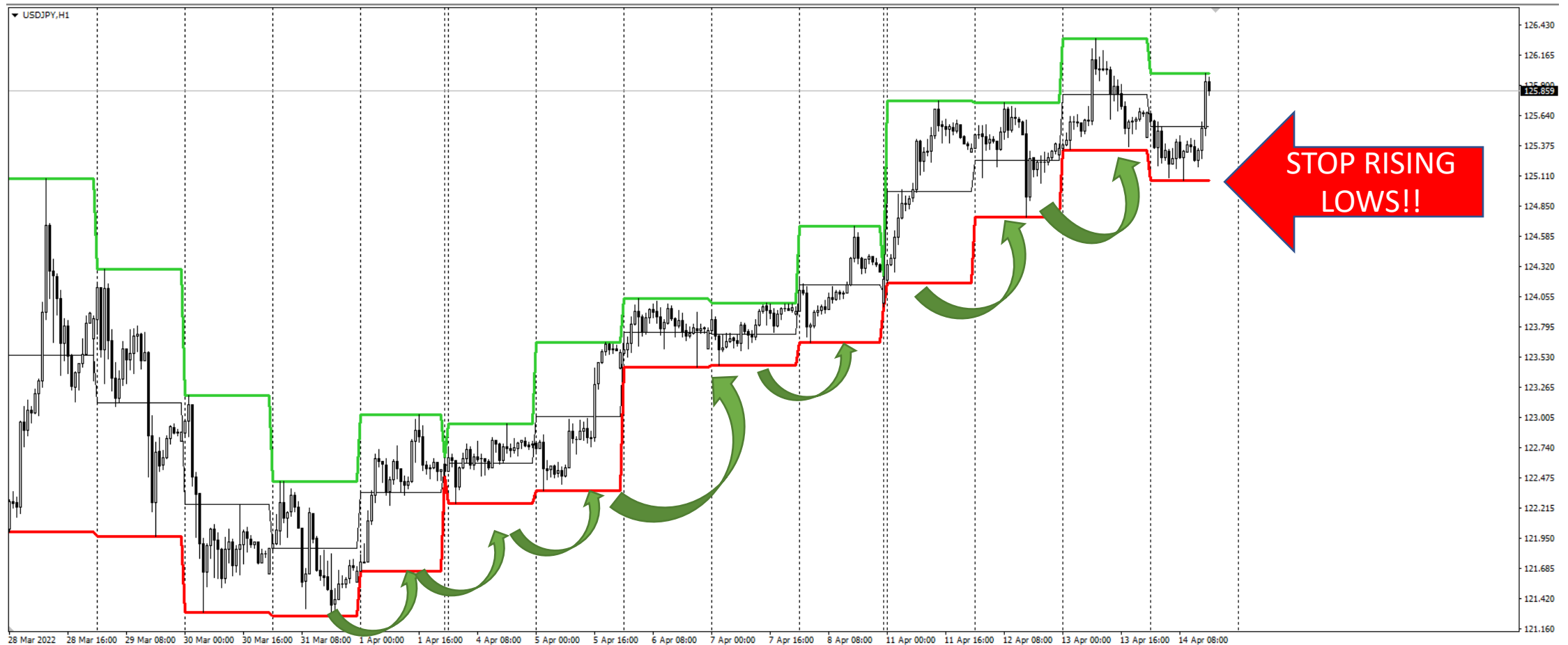
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EVER-INCREASING LOWS





UPTREND = EVERLASTING LOWS





The Fundamentals of Dow Theory

A downtrend can be considered ongoing until each downward impulse leads to new lows and each rebound/recovery ends up at a lower high than the previous one.



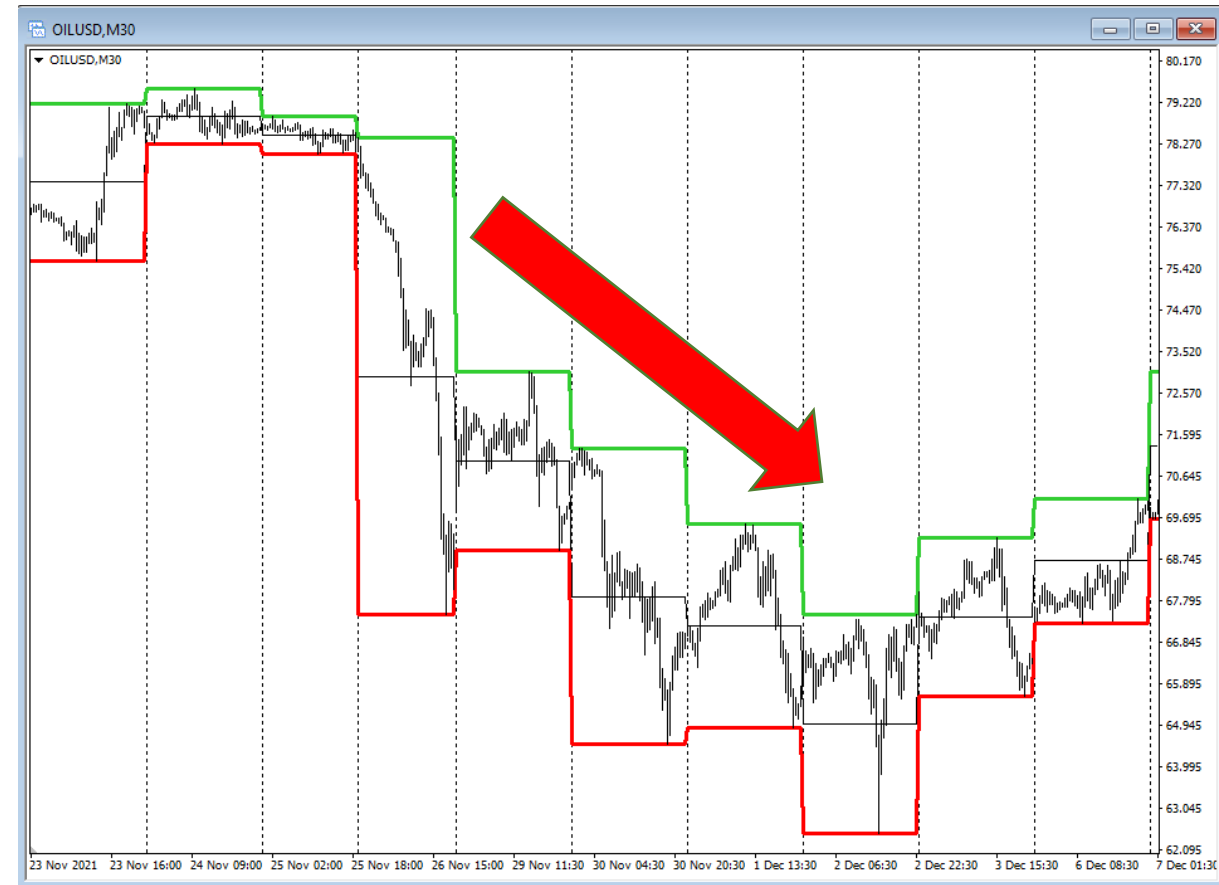
The Fundamentals of Dow Theory

A downtrend can be considered ongoing until each downward impulse leads to new lows and each correction/rebound stops at a lower high than the previous one.

BEARISH TREND

=

LOWER HIGHS AND LOWER LOWS





The Fundamentals of Dow Theory

In a bearish trend, however, there is an absolute reference to monitor: if it is true that the ideal sequence sees lower highs and lows, it will only be the break of the sequence of decreasing highs that will interrupt the trend.

BEARISH TREND

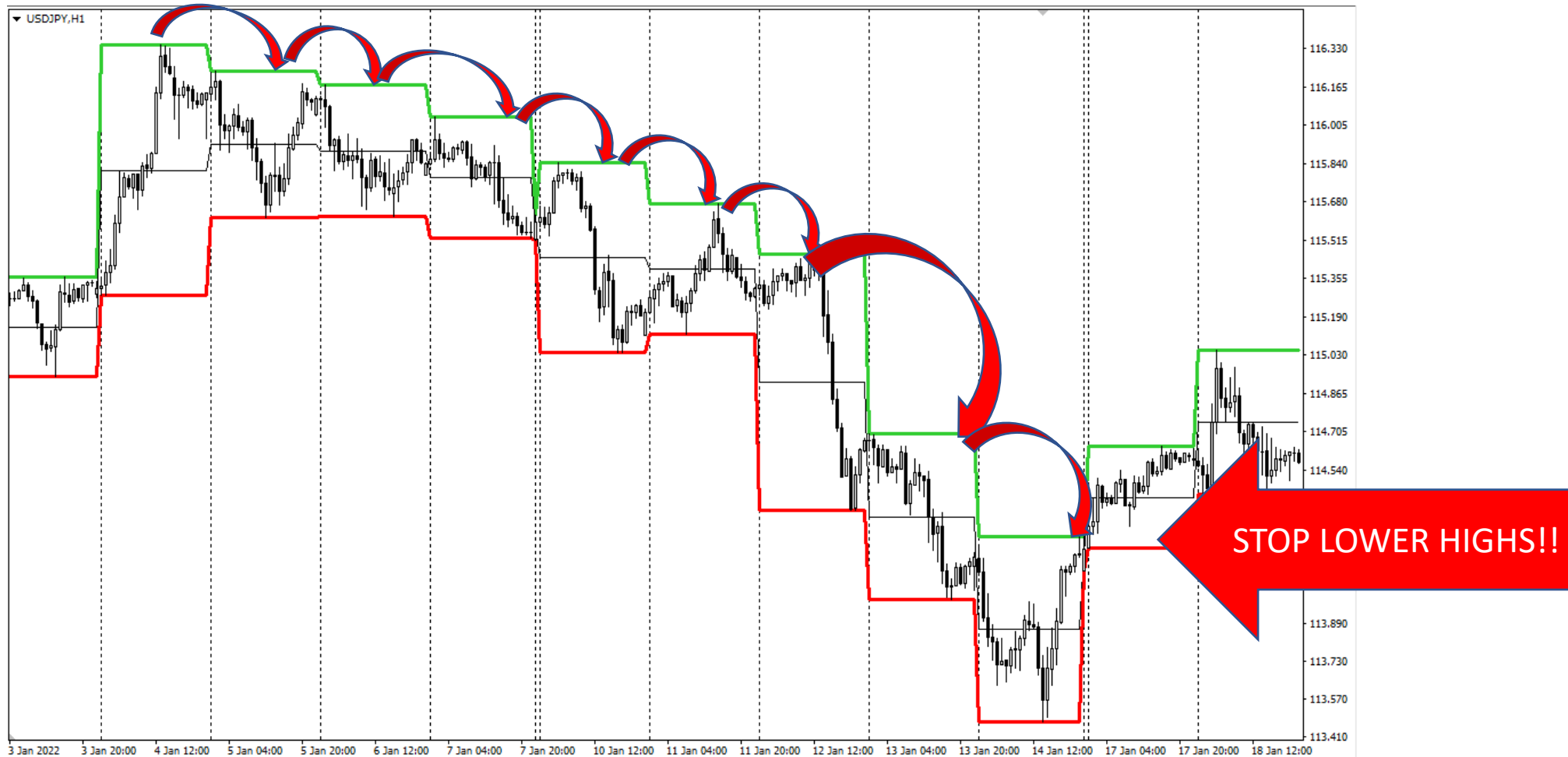
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EVER-DECREASING HIGHS





BEARISH TREND= EVER-DECREASING HIGHS





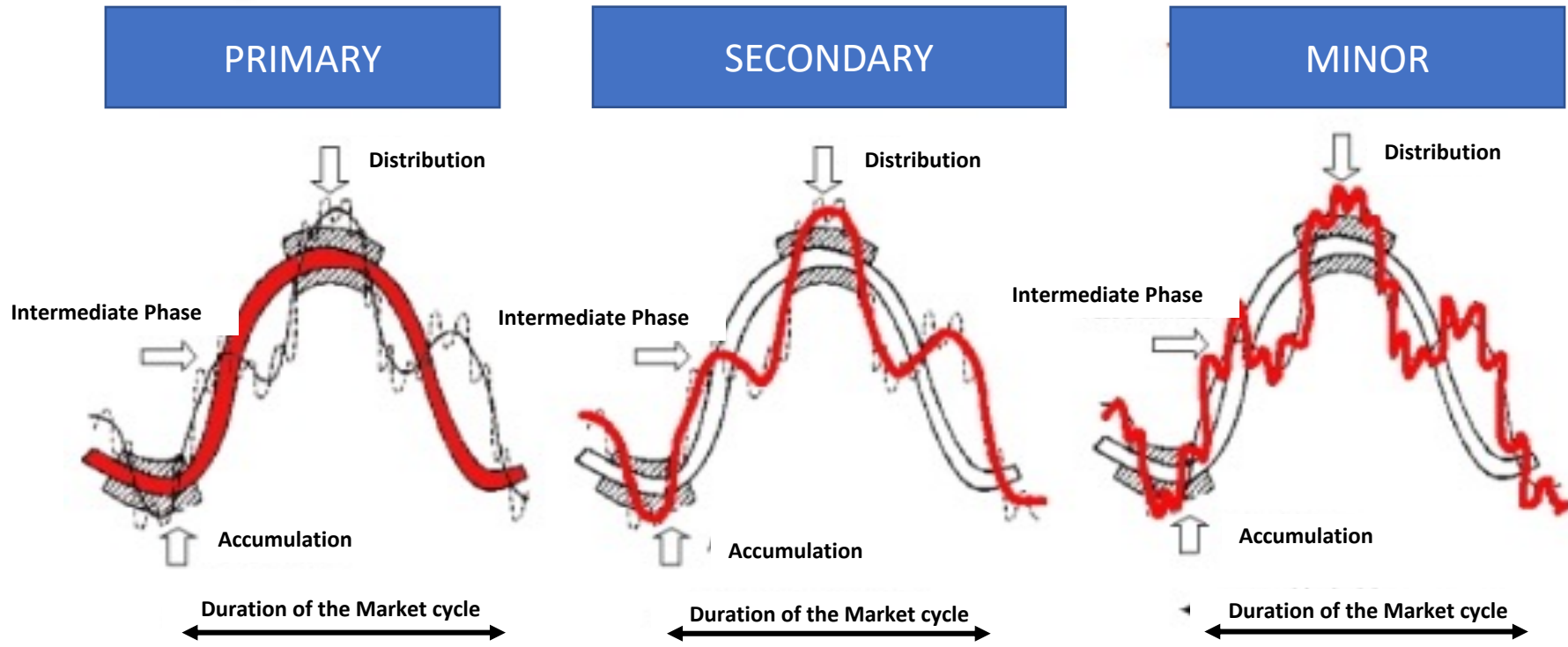
The Fundamentals of Dow Theory

The market has three trends:

1. Primary (Tide)
2. Secondary (waves)
3. Minor (wave breakers).



THE 3 MARKET TRENDS





The Fundamentals of Dow Theory

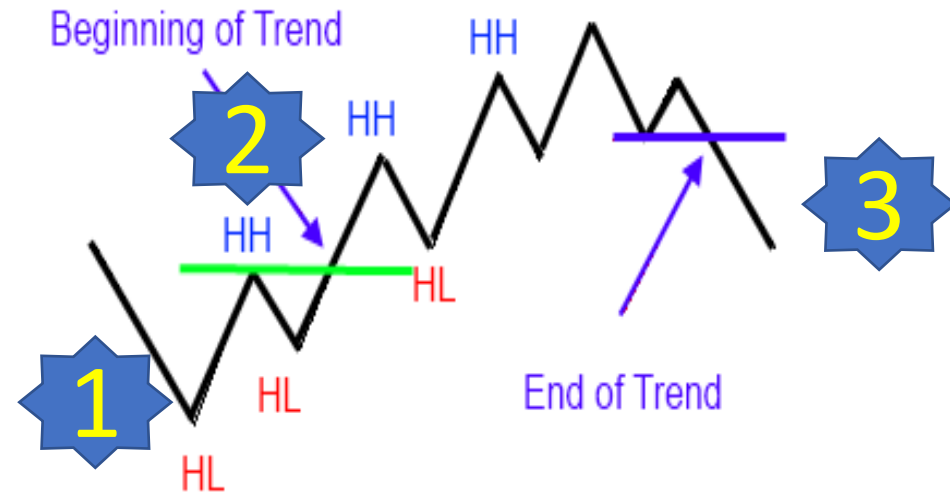
The primary trend has three phases:

1. **accumulation** (purchase by the well-informed);
2. **public participation** (buying of the masses, prices rise quickly);
3. **distribution** (the well-informed begin to sell, unlike the masses).



1. Accumulation
2. Public Participation
3. Distribution

Dow Theory Trend Definition





CONCLUSIONS...

The Fundamental Concepts of the Trend

From the fundamental principle of Dow theory:

1. Prices move according to a trend;
2. It is the job of the technical analyst to identify these trends and follow them.
3. The market trend is the direction of the subsequent highs/lows.



Dow's Theory

1

1. The market is made up of three types of trends:
 - primary trends (in the long run);
 - secondary trends (in the medium term);
 - minor trends (in the short term).



Dow's Theory

1

The primary trend is the deepest trend and can last even more than a year, while the secondary trend is an intermediate trend that lasts from three weeks to three months and is often associated with a movement against the primary trend. Finally, the minor trend often lasts less than three weeks and is associated with the movements of the intermediate trend.





Dow's Theory

1

Regardless of the duration of a trend, the primary trend remains active until there is a confirmed reversal setup.



Dow's Theory 1

Regardless of the duration of the trend, the primary trend remains active until there is a confirmed reversal.





Dow's Theory

1

Regardless of the duration of a trend, the primary trend remains active until there is a confirmed reversal.

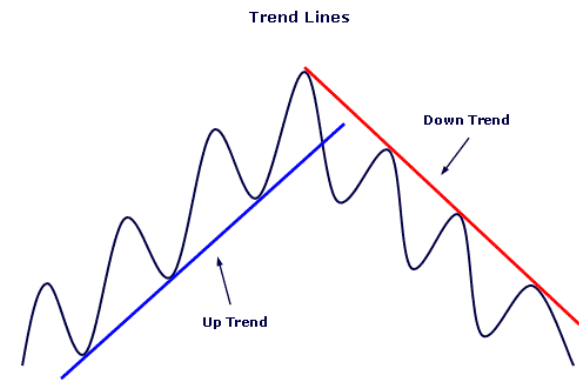
In trend analysis, one of the most difficult things to determine is how long the price movement will stay within a primary trend before it reverses direction.



Dow's Theory

1

Regardless of the duration of a trend, the primary trend remains active until there is a confirmed reversal.

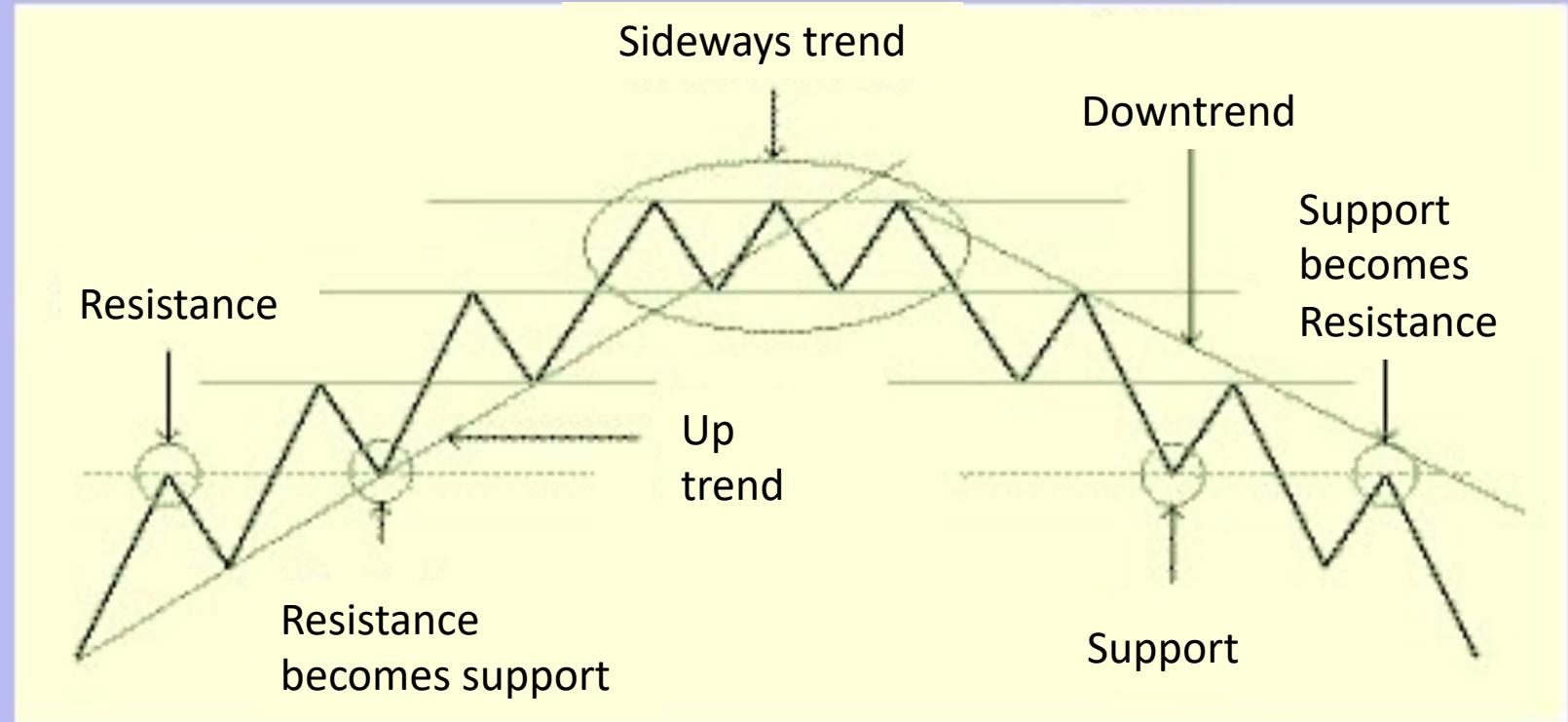


The most important thing is to identify the direction of this trend and position yourself in favor of it – and not against it – until signals suggest that the primary trend has reversed!



As we will learn later, the market is much easier to interpret than you might think, you just need to look for the right things and not be distracted by unnecessary details...

Trend Identification





Dow's Theory

2

The trends are divided into four phases:

1. Accumulation - only "strong hands" invest.



Dow's Theory

2

2. Speculation - strong mass participation and high bullish volatility (uptrend).



Dow's Theory

2

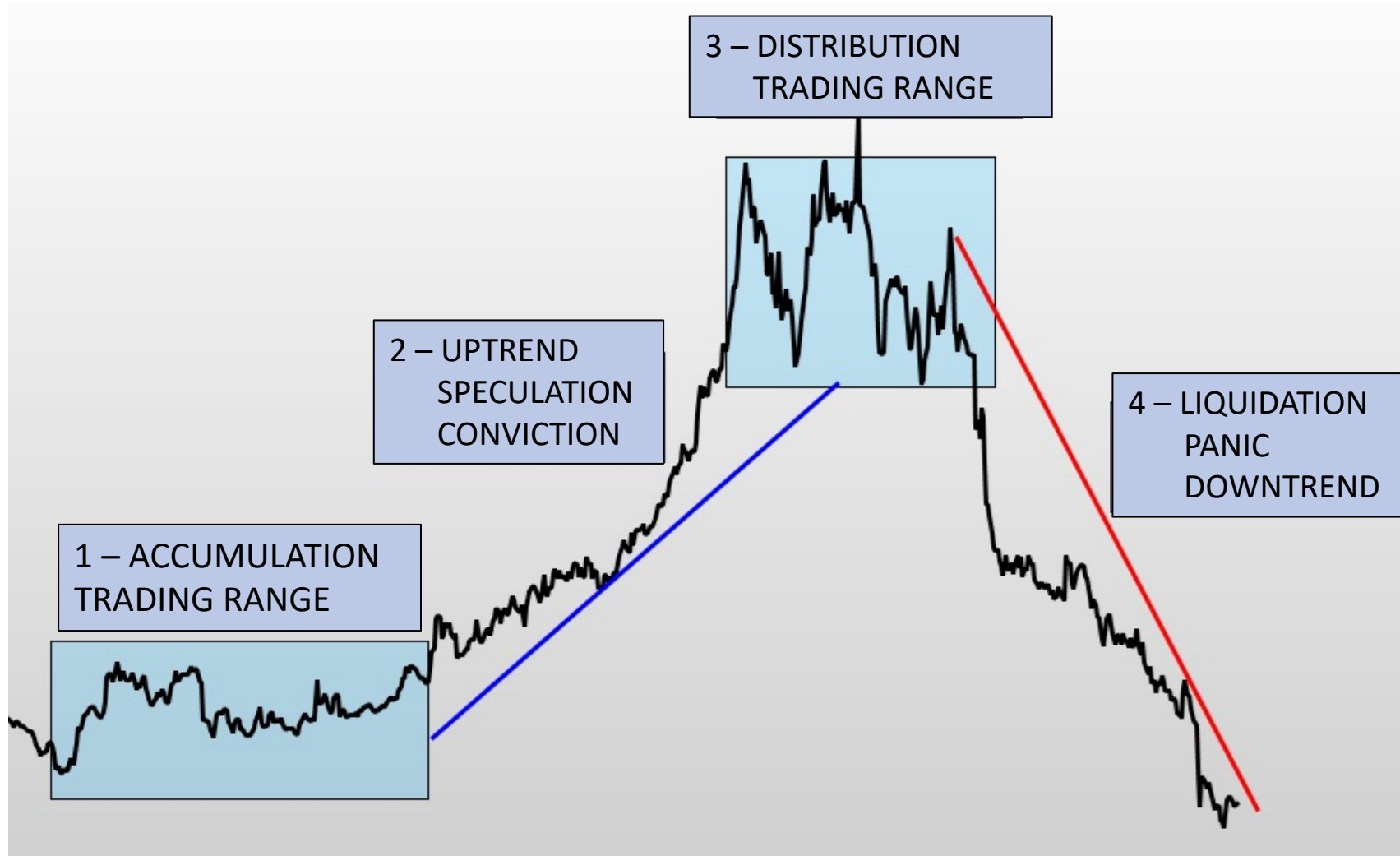
3. Distribution - the "strong hands" sell to the public, the price stops, moves sideways and begins to fall.

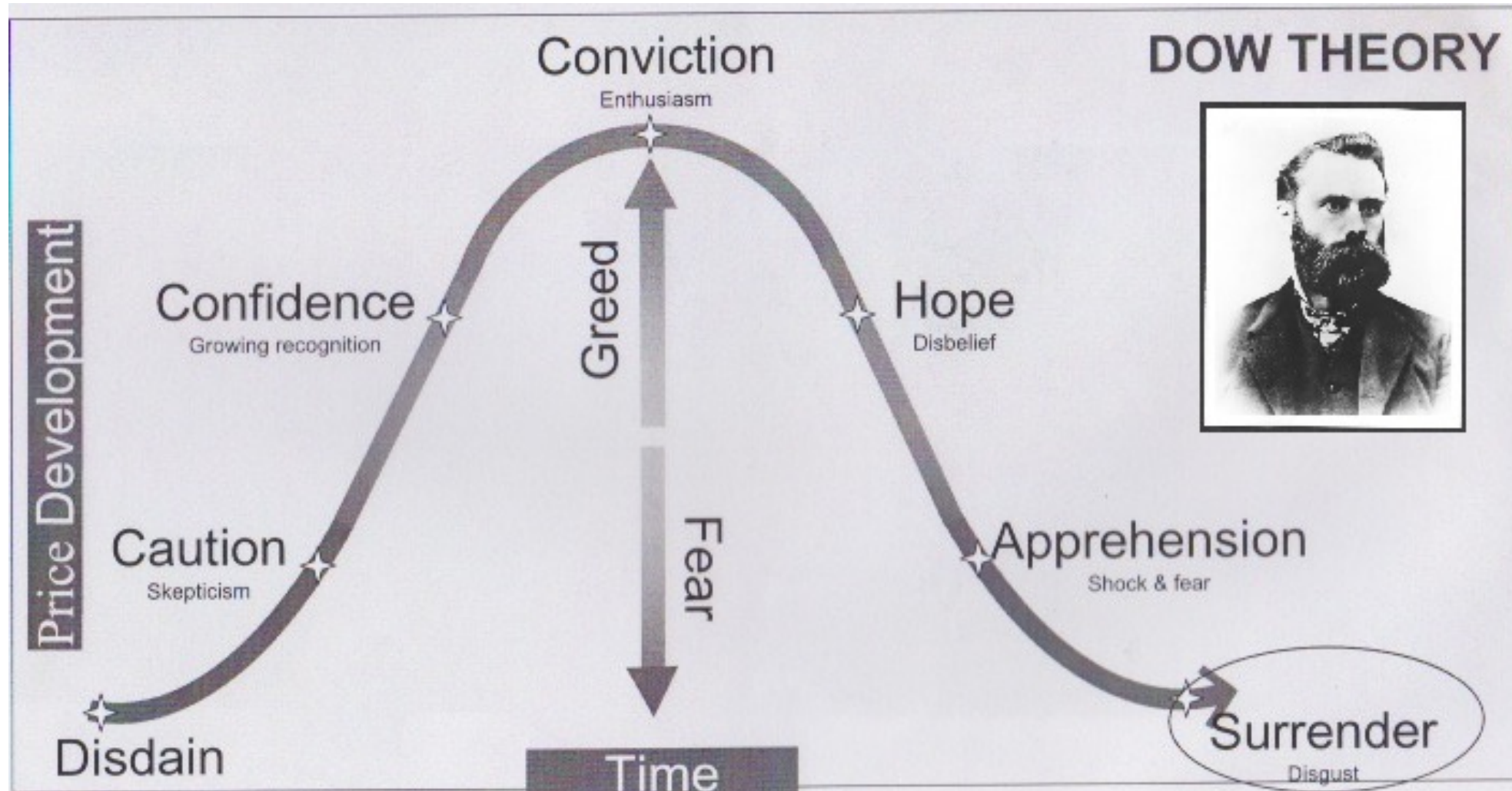


Dow's Theory

2

4. Liquidation and panic - (down) the price is no longer supported by the strong hands that continue to sell at the... oxen park. The masses begin to sell in panic. (downtrend).







Dow's Theory

3

The stock market discounts all the news: stock prices quickly and comprehensively incorporate and reflect all the information about them.



Dow's Theory 3

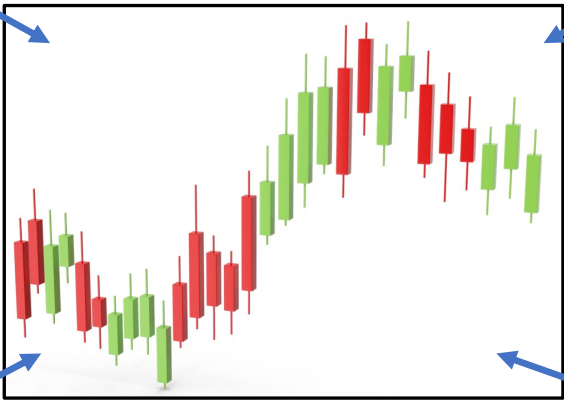
Market Action Discounts Everything

Fundamental:

- Monetary policy
- Fiscal policy
- Macro-economic data
- etc.

Unchecked news:

- Interventions
- Interest rate change
- etc.



Politics:

- Coup d'état
- Wars
- International Theatre
- etc.

Large orders:

- Closing positions before the long weekend
- etc.



Dow's Theory

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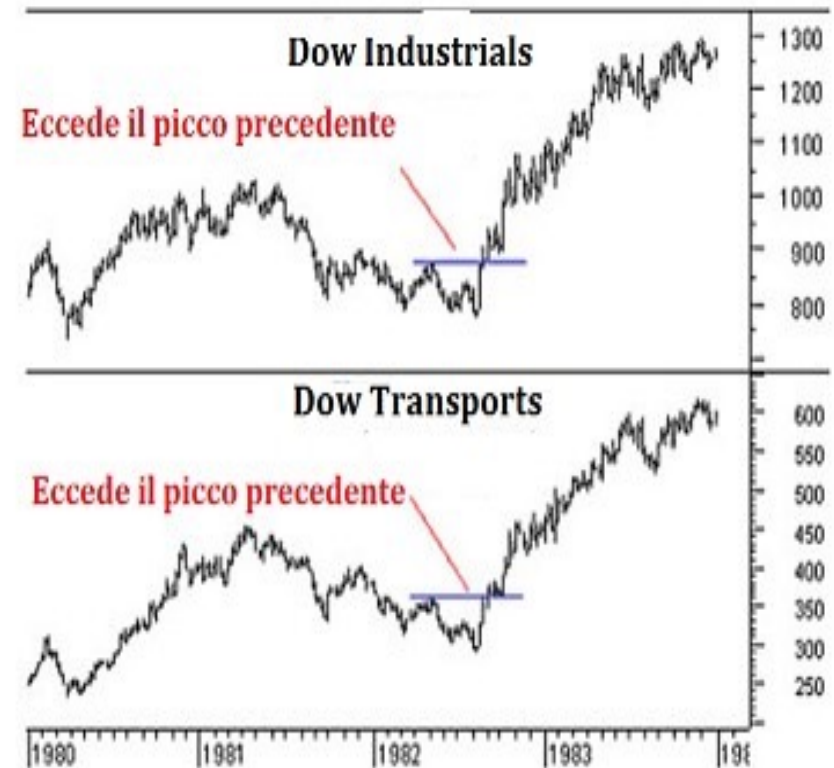
Stock market indices must confirm each other



During a bull market, prices rise, affecting both the companies that are engaged in the production of the goods and those that transport the goods themselves.

The history of the American stock market remains the best testimony to how logical and true this principle is.

Ultimately, if the Dow Jones Industrial Average shows a primary expansionary phase, it can only be considered valid if the Dow Jones Transportation also exhibits an expansionary phase at the same time.





The indices must confirm each other...

Analysing Dow's theory, what emerges very strongly is precisely the importance of the trend of industrial and transport indices: this principle is based on a logical aspect that demonstrates how the stock market is a sort of barometer to measure the conditions of the economy.



Dow's Theory

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Volumes must confirm the trend



Volume confirms the trend

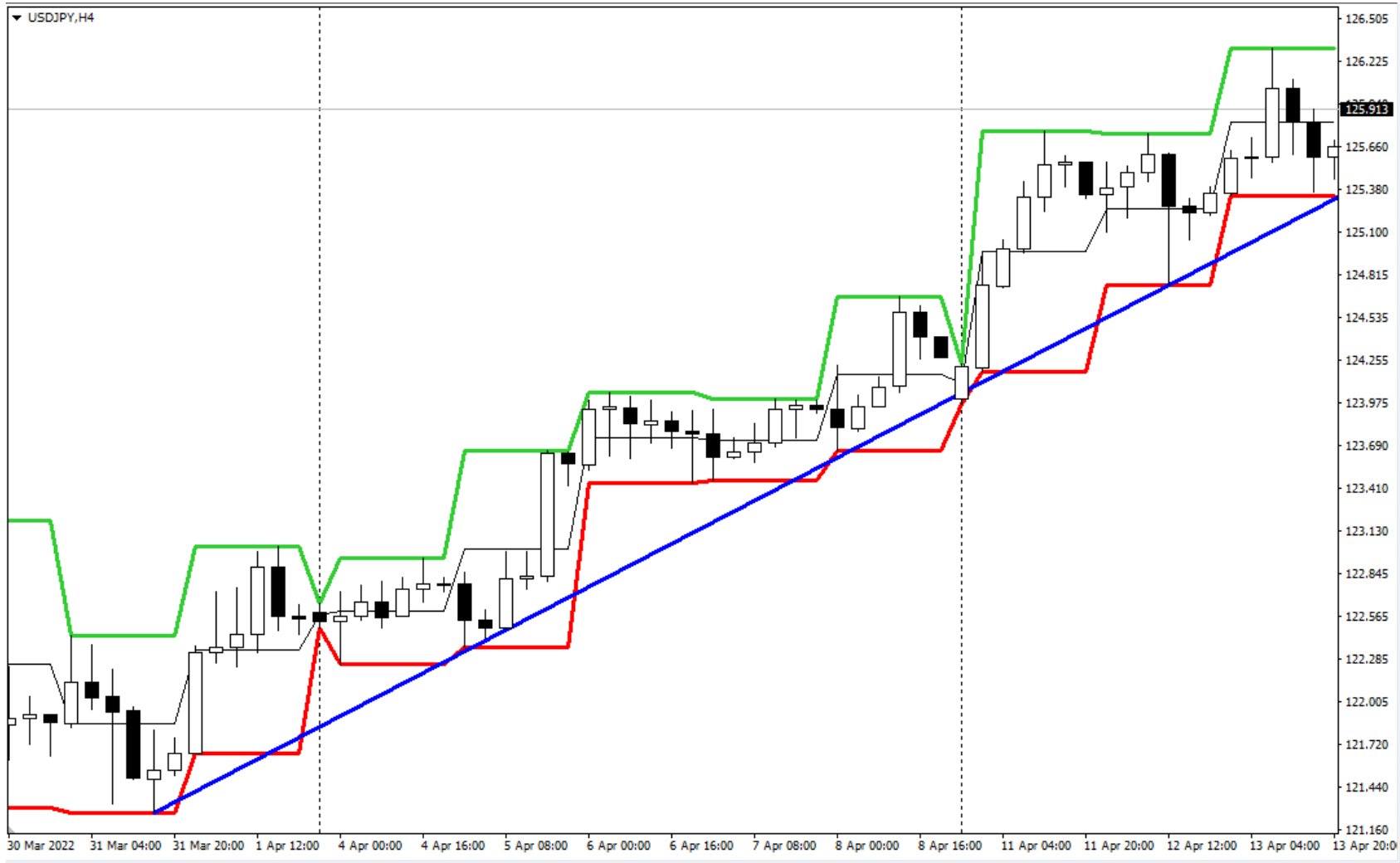




Dow's Theory

6

The trend remains confirmed until a clear reversal





IN DEFINITION

1.

From the fundamental principle of Dow's theory
"prices move according to a trend"



IN DEFINITION

2.

It is the job of the technical analyst to spot these trends and follow them.



IN DEFINITION

3.

The market trend is the direction of the subsequent highs/lows.



The Trend
Is Your Friend