TREND FOLLOWING SYSTEMS & TIME NEUTRAL CHARTS

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Characteristics of a Trending Market

1. **Substantial increase/decrease in price**
2. **Lasts for a considerable period of time**
3. **Sustained directional moves in price**
4. **Occasional and short–lived corrections.**
Trending Market

Trending & Quiet

Trending & Volatile

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TREND FOLLOWING SYSTEMS
Characteristics

1. Catches the wave of a trend and rides it until exhausted.
2. Low percentage of wins.
3. If designed properly then loses are frequent but small.
4. Need to be in the market all the time.
5. Psychologically difficult to follow because of frequent losses / drawdown.
6. Discipline and Patience yield huge profits.
7. Single / Double / Triple MAs are the most popular Trend Following Systems.
89-Day M A Band System

1. **Take two Exponential M As** -
   
   I. 89 day EMA of Highs &
   
   II. 89 day EMA of lows

2. **Trading signal** – Buy if the price closes above the band and exit if price closes below and vice versa for Sell.

3. Method works for all time frames – 5 minute charts to daily charts, Ideal Time Frame - 30 minute charts.

4. Use pull backs as additional Buy and Sell signals.

5. Use a Trailing MA of about 21 days (or any other period) to book profits.

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Dual M As System

MA1 – 13 Period-Trade definer
MA2 – 43 Period-Trend definer

Trading Rules -
1. Buy above MA2
2. Add position above MA1 (If MA1 > MA2)
3. Exit below MA2
4. Sell short below MA2
5. Add position below MA1 (If MA1 < MA2)
6. Exit above MA2
7. Ideal Time frame – Daily chart / 60 Minutes chart
Introduction

1. Chart consists of a “Line”.

2. **New white line** is added if **previous high is exceeded**.

3. **New black line** is added if **previous low is broken**.

4. If there neither a new high nor a new low - no line is drawn.
Construction

1. TLB charts are based on closing prices.

2. Line is constructed based on the relation of today’s close to yesterday’s High/ Low.

3. If today’s close is > yesterday’s high then plot a White line up to today’s high.

4. If today’s close is < yesterday’s low then plot a Black line up to today’s low.
Construction

1. As long as prices rise (decline) then plot more white (black) lines to the latest high (low).

2. When 3 white or black lines are formed then a trend is confirmed.

3. For a trend change the close has to move beyond the low (high) of three consecutive white (black) lines.
Three Line Break Chart

1. TLB charts deal only with closing prices and its relation to H/L.

2. Prices must close beyond the H/L for the new line to be drawn or for the existing line to be extended.
Trading the TLB Chart

BUY when Black line changes to White
SELL when White line changes to Black.
Three Line Break Chart

L&T – 60 M ins

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Three Line Break Chart

L&T - Weekly

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Trendlines and TLB Charts

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KAGI CHARTS
Introduction

1. Kagi charts are based on **closing prices**.

2. First step - Define the reversal size - ‘x’ points or ‘x’ %.

3. The price plot will change whenever prices change by ‘x’ points or more or ‘x’ % or more.

4. **When swing highs are crossed, lines will thicken.**

5. **When swing lows are crossed, lines will thin.**
Construction

1. If today’s price is higher than the base price by reversal amount or more, draw a thick line up to today’s closing price.

2. If today’s price is lower than the base price by reversal amount or more, draw a thin line down to today’s closing price.

3. If the difference between the current close and the base price is less than the reversal amount, no line is drawn.
Construction

1. If price continues in the same direction as the prior line, the line is extended in the same direction, no matter how small the move.

2. If the market changes direction by the reversal amount or more, a vertical line in the new direction is drawn in the next column.

3. Lines will thicken (thin) when previous swing highs (lows) are crossed.
Trading the Kagi Chart

Buy when the Kagi Line goes from thin to thick.

Sell when the Kagi Line goes from thick to thin.
Kagi Chart

L&T - Weekly

@TickersPlots NSE: L&T 30/June/2011 (Weekly 6 Year)
Kagi Chart

L&T – Daily

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Kagi Chart

1. In sideways trends there may be chances of getting whipsawed.

2. Trend lines may be drawn to Kagi charts.
Trendlines and Kagi Charts

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Introduction

1. This is **candle stick variant** of the **Point and Figure chart**.

2. It is also a variant of the **Three Line Break chart**.

3. Similar lines (or bricks) are drawn as in a Three Line Break chart, with some further definition of price moves.
Construction

1. Renko Charts use **closing prices**.

2. First step - **Define the price range** - a minimum amount of price move necessary to draw a renko brick.

3. **Rising lines** are denoted by **equal size white bricks**.

4. **Falling Lines** are denoted by **equal size black bricks**.
Construction

To draw Renko bricks –

1. Today’s close is compared with the high and low of the previous brick (white or black).

2. If closing price rises above the top of the previous brick by the box size or more, one or more white bricks are drawn in the next column.

3. If the closing price falls below the bottom of the previous brick by the box size or more, one or more black bricks are drawn in the next column.
Trading the TLB Chart

BUY when white bricks appear after black bricks

SELL when black bricks appear after white bricks
Renko Chart

L&T – Daily
Renko Chart

L&T - Weekly
Renko Chart

1. If the market moves up more than the amount required to draw one brick, but less than the amount required to draw two bricks, only one brick is drawn.

2. For example, in a two unit Renko chart, if the base price is 100 and the market moves to 103, then one white brick is drawn from the base price of 100 to 102. The rest of the move - from 102 to 103 – does not appear on the Renko chart.

3. Being a trend following system, it is liable to get whipsawed during sideways price action.
Advantages of R/ K/ TLB Charts

1. Trend is seen more clearly.
2. Filters out a lot of noise.
3. Support & Resistance are better defined.
4. Easier to define long-term trends.
5. Can be used for exits.
THANK YOU!

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