



Brainy's Articles on Technical Analysis

Trends — Primary, Secondary and Brainy's "3Ways Rule"

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Introduction

In Brainy's Article TA-3200, "*Trends and Trendlines*", we took an introductory look at the concept of a *trend*. An up trend being a series of Higher Highs (HH), and Higher Lows (HL), while a down trend is a series of Lower Highs (LH) and Lower Lows (LL).

In this article in Brainy's series on Technical Analysis, number TA-3210, "*Trends — Primary, Secondary*", we look at trends in more detail, and relate the concept to some of the principles of Dow Theory (which is discussed in Article TA-2200, "*Dow Theory*").

In this article we also discuss Brainy's "3Ways Rule in 3Times" and provide some real-life examples that help to demonstrate the concept and relate it to Dow Theory. For introductory information about the "3Ways Rule", it is suggested to peruse Article ST-6120, "*Trends are important — the 3Ways Rule*".

Overview

Dow Theory — The points of Dow Theory that are relevant here are:

- "The market has three main movements" — Primary Trend, Secondary Reaction (or Secondary Trend) and daily fluctuations.
- "Primary movements (market trends) have three phases".
- "Trends exist until definitive signals prove that they have ended".

For an initial discussion of each of these, refer to Article TA-2200, "*Dow Theory*".

Brainy's 3Ways Rule (in 3Times) — The first portion of the 3Ways Rule is explained in Article ST-6120 — the notion that a market or stock can be trading in one of 3 "ways". That is, a stock or a market index can be in an up trend, or a down trend, or in no trend.

The second portion of the 3Ways Rule "...in 3 Times" is explained in this article below. By understanding the 3Ways Rule, and in particular the ideas relating to 3Times, then you will be able to understand the bigger picture in the market, and in particular the big-picture trend that is in place. By investing or trading with the bigger trend, investors and traders should be able to be more successful.

Primary trends

When considering an investment in the share market, an understanding of whether the *Primary Trend* is up, down, or sideways, is important.

Figure 1 at right shows the All Ordinaries index (XAO) over a 7 year period from 2003.

The upward leg over a 4 year period until late 2007 is clearly a bull market, and is the *Primary Trend* that was in place over that period.

The same chart also shows the bear market of 2007-9 in



Figure 1: The Primary trend - two examples.



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