



# Brainy's Articles on Technical Analysis

## Trend strength

Article No:  
**TA-3220**  
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### Introduction

In Brainy's **Article TA-3200, "Trends and Trendlines"**, we looked at the notion of a *trend* in technical analysis terms. We looked at both the *uptrend*, and the *downtrend*, and how to correctly place a *trendline* onto the price chart. We also considered why it is useful to consider trends, and to remember the adage that "*the trend is your friend*".

Now if we are considering buying a stock while it is in a rising trend, we might have a view as to whether we should purchase while the trend is strong, or perhaps wait for a weakening of the trend (as can happen in a short-term retracement), and then buy on weakness when the trend appears to be strengthening again. To do this, it can be useful to be able to measure the *strength* of the trend — is it strong or is it weak?

This Article in Brainy's series on Technical Analysis (number TA-3220) considers the idea of the strength of a trend, and provides some discussion to help the reader make up their own mind about it's usefulness and how to apply it. In addition to the indicators and tools described below, there are additional trend-type indicators that are available in the BullCharts charting package. These will be described in another article in this series of Articles.

### Trend strength?

What do we actually mean by the term *trend strength*? The most obvious (and simple) reference to trend strength is when we talk about a stock having a strong rising trend, as compared to a weak rising trend. But is it useful to actually measure the strength of the trend, and if so, then how do we do this?

If we quickly eye-ball the daily price chart of CBA in Figure 1 below, we can see that the stock bottomed below \$25 in January 2009, then rose to almost \$60 in April 2010. During this period, the share price actually rose in a couple of different phases, with different trend strengths.

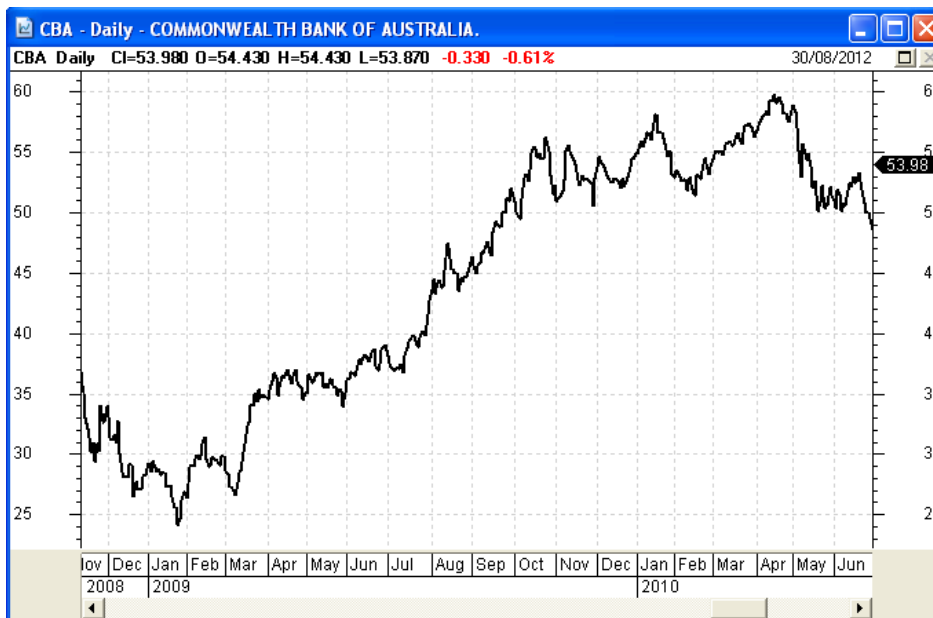


Figure 1: Daily price chart of CBA from December 2008 to June 2010.

In this Article below we look at some of the technical analysis chart tools that we can use to help us quickly form an opinion about *trend strength*, and how to measure this and quantify it by applying a number to the measure of the trend strength. These tools include: a simple trend line, a simple linear regression line, Alan Hull's ROAR indicator, Guppy's MMA indicator, and the ADX indicator.

In the notes over the page we use the same price chart shown in Figure 1, but with each of these chart tools applied so that we can see the message that they tell us.



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