Lecture №3

Types of Trends, Charts, and Formation Rules
Bull and Bear Speculations

Let us consider the main question of Forex and any other trading – how to earn money?

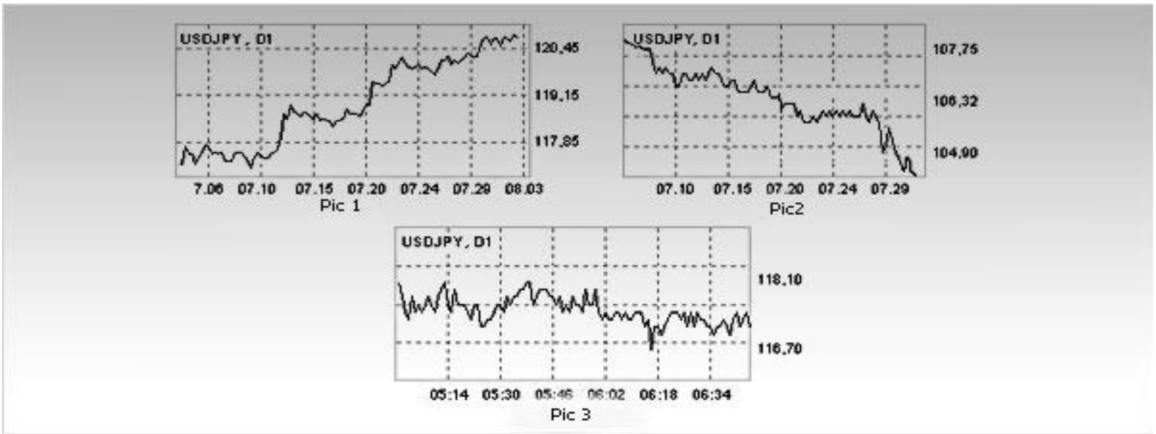
Prices tend to move - we can often observe in everyday life that the price for any product is rising, falling or keeping up at the same level, making insignificant fluctuations. Such features of prices are called **trends**. Obviously if prices are rising, then the trend is **ascending**. If they are falling, then it is **descending**. And if they don't change, then it is a **sideways** trend.

Just these very characteristics of price movement provide an opportunity to get profit. What should we do to earn money when prices are moving up? Probably buy this product (or as a finance professional would say, asset) and sell it when the price goes up to make a profit. What if the price moves down? In this case, sell the asset for a higher price and buy it when the price decreases.

The question of how to sell something you do not have is a peculiar one and we will talk about it during the next lessons. Now let's study the processes described above. Buying an asset and its further selling is called "**Bull speculation**" while selling with further buying of an asset is called "**Bear speculation**." The usage of "bull" and "bear" in describing markets comes from the way each animal attacks its opponent. That is, a bull thrusts its horns up into the air, and a bear swipes its paws down. These actions are metaphors for the movement of a market: if the trend is up, it is considered a bull market. And if the trend is down, it is considered a bear market.

We hope that after you downloaded the trading terminal SFX MetaTrader 4, you read and examined the manual. We shall use this program starting with this lecture for a more efficient study of the taught material and improving the practical skills.

So download the program and open the window with the chart of any currency pair.



At the first chart you can see gradually rising line. This movement is not unidirectional, it alternates with highs and lows, but is directed upwards. In this case the chart reflects the price change of 1 USD against JPY. Though the price of 1 USD was lower than 117.85 JPY before July 15, however by August 3 1 USD costs 120.45 JPY; that means an ascending (or bull) trend took place. That is why it is necessary to buy US Dollars for Japanese Yen – Bull Speculation. Let's count: if we buy 1 USD for 117.85 JPY and then sell for 120.45 JPY, then the difference would be 2.6 JPY or 0.02 USD. The absolute value of these figures does not impress, but if we suppose that dealing was executed with 100 000 USD, then the impression will be altogether different – 2000 USD of profit for 18 days is not that bad. Moreover it corresponds to 40.5 % of the annual profit. No bank gives you such interest.

There is another situation in the second chart. The line which reflects the price change of 1 USD against JPY is not unidirectional decreasing as well. It alternates with lows and highs so this situation makes us think it is descending or "bear" trend. For getting profit the trader should sell US Dollars for Japanese Yen, i.e. bear speculation.

In the third picture we can see that same chart line changing direction, fluctuating in a range between price levels 118.10 and 116.70. Such movement is called "flat." In this case there is a possibility to change the tactic from "bear" to "bull."

Moving in time the price marks different characteristics of its movement in a certain period of time. This period can be from one minute to 1 month or even one year. The most important characteristics are opening price, high, low, and closing price.

Opening price – the first price of an asset at the given period (for instance, hour, day, week).

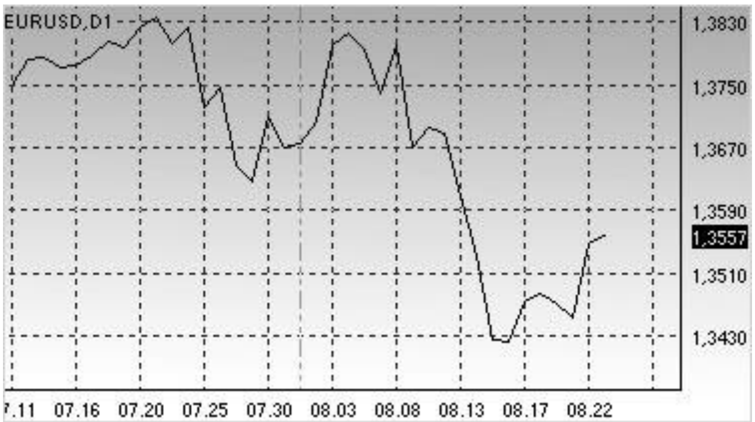
High – the maximum price of an asset in the given period.

Closing price – the last price of an asset at a given moment. Running ahead, we would like to note that this price is more often used for analysis and considered as more significant.

There are many scenarios of price fluctuation on a chart and we will consider the three most popular ones.

Line chart

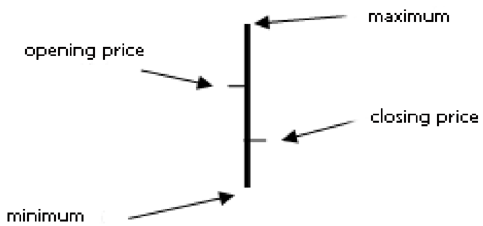
The line chart is the simplest one displaying the chart as a broken line which can be constructed according to one of the parameters – by opening price, closing price, highest price, lowest price and by middle price, which is counted by bipartition of the discrepancy between the highest and the lowest prices.



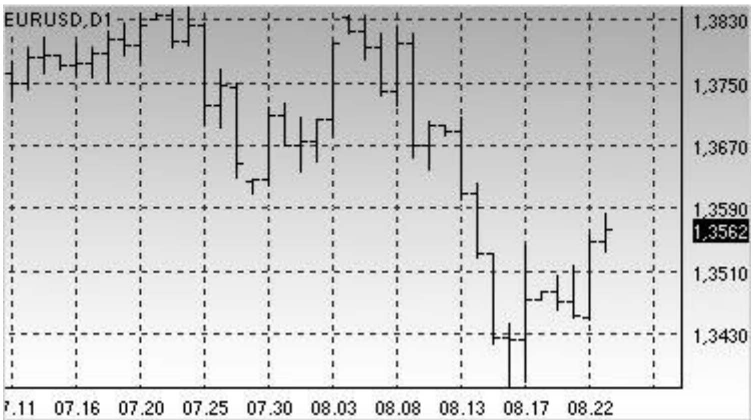
Picture 4: Line chart

Bar chart

A bar is a vertical line segment. The opening and closing prices are marked on the left and right side of this line. A notch on the left side represents the opening price, while one on the right side is the closing price. The highest point is the maximum and the lowest point of the bar is the minimum price.



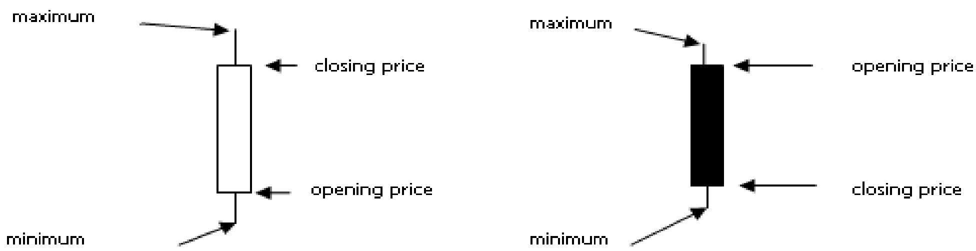
Pic. 5. Bar.



Picture 6: Bar chart

Candlesticks

A candlesticks chart resembles a sequence of candlesticks with wicks from both sides. The candlestick consists of a vertical rectangle, which is called a candlestick body, and two lines placed above and under that body. These lines are called shadows. If the closing price is higher than the opening one, then candlestick is white (hollow). If the closing price is lower than the opening one, then candlestick is black (filled). The end of the upper shadow shows the highest price of given period, and the end of the lower shadow – the minimum price.



Picture 6: Candlesticks.

The classic image of the candlesticks is presented at the schemes and charts given above. Such an image is used in the educational materials of these lectures.

Candlesticks are supposed to be viewed against a white background. If the color of the candlestick and background is the same, then the candlestick is hollow. If the color of the candlestick and background is different (the background is white, while the candlestick is black, or vice versa), then candlestick is filled.

So a hollow candlestick represents a rising market, and a filled one – falling.

Picture 7: Candlesticks.

Test questions:

1. What are bull and bear speculations? What cases are suitable for each strategy?
2. What types of price tendencies do you know?
3. What is the difference between Candlesticks and Bar charts?