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Trading with Divergence in Technical Analysis: Regular and Hidden Divergence

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Divergence in **technical analysis** is a tool used to **identify potential** changes in price trends. It utilizes indicators to detect **trend weakness** and determine optimal **entry and exit** points.



Using indicators (RSI, MACD, Stochastic) to identify divergence

What is Divergence in Technical Analysis?

Divergence occurs when the price of an asset moves in one direction, but **technical indicators** such as **RSI, MACD, Stochastic, or CCI** suggest a different path.

This discrepancy signals a potential weakening in the current trend and may indicate a trend reversal or reduced **momentum**; highlighting potential **entry or exit** opportunities.

Types of Divergence in Technical Analysis

Divergence is classified into two types:

- ⚡ **Regular Divergence**
- ⚡ **Hidden Divergence**

Regular Divergence

Occurs when price and a momentum indicator (e.g., RSI or MACD) move in opposite directions.

- ⚡ If the price makes a higher high but the indicator shows a **lower high**, a **bearish (negative) divergence** forms suggesting a potential **downward** reversal;
- ⚡ If the price makes a **lower low** while the indicator shows a **higher low**, a **bullish (positive) divergence** appears indicating a possible upward reversal.

This type is commonly seen at the end of **trends** and signals weakness in the current price move.

Hidden Divergence

Hidden Divergence signals trend continuation and often appears during market corrections.

- ⚡ For instance, if the price forms a **higher low** but the indicator shows a lower low, it's a **bullish hidden divergence**, suggesting the uptrend may continue.

How to Trade with Divergence?

Trading with Divergence involves multiple steps:

#1 Identifying Divergence

Use indicators like **RSI**, **MACD indicator**, or **Stochastic** to confirm Divergence by comparing highs and lows of the indicator with the price.

#2 Confirming Divergence

Validate signals using other tools such as candlestick patterns, trendlines, or Fibonacci levels.

#3 Entering the Trade

- ⚡ For **bullish Divergence**, consider entering a **buy** trade;
- ⚡ For **bearish Divergence**, consider entering a **sell** trade.

#4 Risk Management

Set a stop loss to limit potential losses if the market moves against the position. **Take-profit levels** can be aligned with key chart levels and **Fibonacci targets**.



How to trade using Divergence in Forex

Divergence in Forex and Other Markets

Divergence is widely used in the **Forex market** to analyze currency trends. Since Forex trading heavily relies on technical analysis, Divergence is a key tool for identifying potential **trend reversals**. It is also applied in **stocks, cryptocurrencies, and commodities**.

Conclusion

Divergence is a valuable technique in **technical analysis** for detecting trend shifts. It helps identify optimal **entry and exit** points and is most effective when combined with other tools, such as **MACD** and **RSI indicators**.

FAQs

What is Divergence in technical analysis, and how is it identified? ▼

Divergence occurs when the price of an asset and indicators like RSI or MACD move in opposite directions. This often signals a weakening trend and potential reversal.

How can Divergence be identified on charts? ▼

By analyzing price charts and comparing them with indicator behavior. If price is rising but the indicator is falling (or vice versa), Divergence exists.

What are the main types of Divergence? ▼

Regular and Hidden divergences.

Which indicators are useful for spotting Divergence? ▼

RSI, MACD, and Stochastic are commonly used to detect Divergence, as they compare price movements with momentum shifts.

When is divergence most reliable? ▼

Divergence is typically more reliable near key support or resistance levels, especially when confirmed by other technical signals such as candlestick patterns or volume.

Can divergence be used in short-term trading? ▼

Yes, divergence is widely used by short-term and scalp traders.

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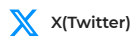


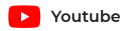
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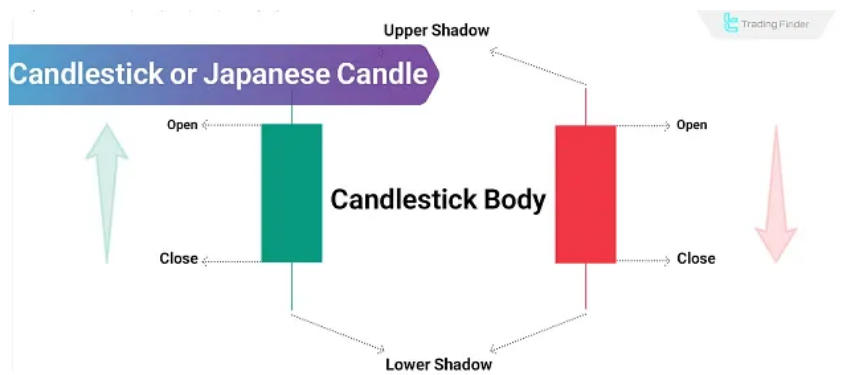
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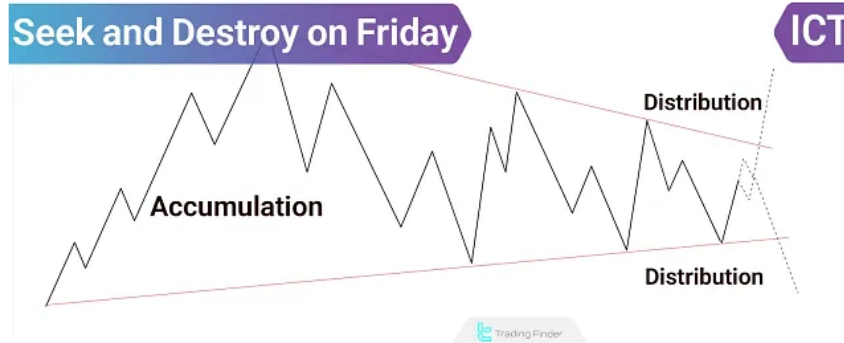
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