

■ 39. Triple Screen Trading System

I developed this system and first presented it to the public in an April 1986 article in *Futures* magazine. I've been using it for trading since 1985, and it stood the test of time. I continue to tweak it, adding or changing minor features, but its basic principle remains unchanged: making trading decisions using a sequence of timeframes and indicators.

Triple Screen applies three tests or screens to every trade. Many trades that seem attractive at first are rejected by one or another screen. The trades that pass the Triple Screen test are much more likely to succeed.

The Triple Screen combines trend-following indicators on long-term charts with counter-trend oscillators on the intermediate charts. It uses special entry techniques for buying or selling short as well as tight money management rules. The Triple Screen is more than a trading system: it is a method, a style of trading.

Trend-Following Indicators and Oscillators

Beginners often look for a magic bullet—a single indicator for making money. If they get lucky for a while, they feel as if they discovered the royal road to riches. When the magic dies, amateurs give back their profits with interest and look for another magic tool. The markets are too complex to be analyzed with a single indicator.

Different indicators give contradictory signals in the same market. Trend-following indicators rise during uptrends and give buy signals, while oscillators become overbought and give sell signals. Trend-following indicators turn down in downtrends and give signals to sell short but oscillators become oversold and give buy signals.

Trend-following indicators are profitable when markets are moving but lead to whipsaws in trading ranges. Oscillators are profitable in trading ranges, but give premature and dangerous signals when the markets begin to trend. Traders say: “The trend is your friend,” and “Let your profits run.” They also say: “Buy low, sell high.” But why sell if the trend is up? And how high is high?

Some traders try to average out the signals of trend-following indicators and oscillators, but those votes are easy to rig. Just as Republicans and Democrats in the United States keep redrawing electoral districts to create “safe” seats, traders keep selecting indicators that deliver the votes they want to see. If you use more trend-following tools, the vote will go one way, and if you use more oscillators, it’ll go the other way. A trader can always find a group of indicators telling him what he wants to hear.

The Triple Screen trading system is designed to filter out the disadvantages of trend-following indicators and oscillators, while preserving their strengths.

Choosing Timeframes—the Factor of Five

Another major dilemma is that the trend of any trading vehicle can be both up and down at the same time, depending on what charts you use. A daily chart may show an uptrend, while a weekly chart shows a downtrend, and vice versa. We need a system to handle conflicting signals in different timeframes.

Charles Dow, the author of the venerable Dow Theory, stated at the turn of the twentieth century that the stock market had three trends. The long-term trend lasted several years, the intermediate several months, and anything shorter than that was a minor trend. Robert Rhea, the great market technician of the 1930s, compared these three trends to a tide, a wave, and a ripple. He recommended trading in the direction of the tide, taking advantage of the waves, and ignoring the ripples.

Times have changed, and the markets have become more volatile. Computers are cheap, or even free; live data have created better opportunities to capitalize on faster moves. We need a more flexible definition of timeframes. The Triple Screen trading system is based on the observation that every timeframe relates to the larger and shorter ones by approximately a factor of five (see Chapter 32).

Begin by asking yourself, what's your favorite timeframe. Do you prefer working with the daily, 10-minute, or any other charts? Whatever timeframe is your favorite, the Triple Screen calls that the **intermediate** timeframe. The **long-term** timeframe is one order of magnitude longer. The **short-term** timeframe is one order of magnitude shorter. Once you select your intermediate timeframe, you may not look at it until you examine the longer-term timeframe and make your strategic decision there.

For example, if you want to carry a trade for several days or weeks, then your intermediate timeframe is likely to be defined by the daily charts. Weekly charts are one order of magnitude longer, and they'll determine the long-term timeframe for you. Hourly charts are one order of magnitude shorter, and they'll determine the short-term timeframe.

Day traders who hold their positions for less than an hour can use the same principle. For them, a 5-minute chart may define the intermediate timeframe, a 25-minute chart the long-term timeframe, and a 2-minute chart the short-term timeframe.

Triple Screen demands that you examine the long-term chart first. It allows you to trade only in the direction of the tide—the trend on the long-term chart. It uses the waves that go against the tide for entering positions. For example, when the weekly trend is up, daily declines create buying opportunities. When the weekly trend is down, daily rallies provide shorting opportunities.

First Screen—Market Tide

Triple Screen begins by analyzing the long-term chart, one order of magnitude greater than the one you plan to trade. Most traders pay attention only to the daily charts, with everybody watching the same few months of data. If you begin by analyzing weekly charts, your perspective will be five times greater than that of your competitors.

Begin by selecting your favorite timeframe and call it Intermediate. Do not even glance at your intermediate chart because it'll prejudice you. Go immediately to the timeframe one order of magnitude longer—your long-term chart. That's where you'll make your strategic decision to be a bull or a bear. After that, return to the intermediate timeframe and start making tactical decisions, such as where to enter and where to place a stop.

If you make the mistake of looking at the daily chart first, you'll be prejudiced by its patterns. First, make an unbiased decision on a long-term weekly chart before even glancing at the daily.

The original version of Triple Screen used the slope of weekly MACD-Histogram as its weekly trend-following indicator (Figure 39.1). It was very sensitive and gave many buy and sell signals. Later I switched to using the slope of a weekly exponential moving average as my main trend-following tool on long-term charts. After I invented the Impulse system (described in the following chapter), I began to use it for



FIGURE 39.1 Gold weekly, with 26- and 13-EMAs and MACD-Histogram (12-26-9).
(Chart by Stockcharts.com)

Using Weekly MACD-Histogram as the First Screen of Triple Screen

Triple Screen requires us to examine weekly charts before even looking at the dailies. The slope of MACD-Histogram is defined by the relationship between its two latest bars.

This indicator flashes a buy signal when its slope turns up and a sell signal when its slope turns down. The best buy signals occur when MACD-Histogram turns up from below its centerline. The best sell signals are given when its slope turns down from above its centerline (see Indicator Seasons in Chapter 32).

When the slope of MACD-Histogram turns up (arrows A, C, and E), it allows us to trade only from the long side or stand aside. When that slope turns down (arrows B and D), it allows us to trade only from the short side or stand aside.

Note that the buy signals at A and E are of better quality than at C—because the signal C occurred above the centerline. It is better to buy in spring than in summer. At the right edge of the chart, the uptrend is very strong because the signal E came from a bullish divergence: a double bottom of prices (A and E) was accompanied by a much shallower second bottom of the indicator.

the first screen of Triple Screen. The Impulse system combines the best features of the previous two methods. It is not quite as jumpy as MACD-Histogram but is faster to react than the slope of an EMA.

As you'll read in the next chapter, the Impulse system colors every bar green when it's bullish, red when bearish, and blue when neutral. The Impulse system doesn't tell you what to do. It's a censorship system that signals what you're prohibited from doing. When the Impulse system is red, it prohibits you from buying. When it is green, it prohibits you from shorting. Glancing at a weekly chart when you want to buy, you have to wait until it stops being red. Glancing at a weekly chart when you want to sell short, you have to make sure it isn't green. The blue Impulse permits you to trade either way.

Some traders use other indicators to identify major trends. Steve Notis wrote an article in *Futures* magazine showing how he used the Directional System as the first screen of Triple Screen. The principle is the same. You can use most trend-following

indicators, as long as you analyze the trend on the weekly charts first and then look for trades on the daily charts only in that direction.

Screen One Summary: Identify the weekly trend using a trend-following indicator and trade only in its direction.

A trader has three choices: buy, sell, or stand aside. The first screen of the Triple Screen trading system takes away one of those options. It acts as a censor who permits you only to buy or stand aside during major uptrends. It allows you only to sell short or stand aside during major downtrends. You have to swim with the tide or stay out of the water.

Second Screen—Market Wave

The second screen of Triple Screen identifies the wave that goes against the tide. When the weekly trend is up, daily declines point to buying opportunities. When the weekly trend is down, daily rallies point to shorting opportunities.

The second screen applies oscillators, described in a previous section, to the daily charts in order to identify deviations from the weekly trend. Oscillators give buy signals when markets decline and sell signals when they rise. The second screen of the Triple Screen allows you to take only those signals on the daily charts that put you in gear with the weekly trend.

Screen Two: Apply an oscillator to a daily chart. Use daily declines during weekly uptrends to find buying opportunities and daily rallies during weekly downtrends to find shorting opportunities. I like using Force Index, described in chapter 30, for the second screen, but other oscillators, such as RSI, Elder-ray, or Stochastic also perform well.

When the weekly trend is up, Triple Screen takes only buy signals from daily oscillators but doesn't short their sell signals. The 2-day EMA of Force Index gives buy signals when it falls below its zero line, as long as it doesn't fall to a new multi-week low. When the weekly trend is down, Force Index gives shorting signals when it rallies above its centerline, as long as it doesn't rise to a new multi-week high (Figure 39.2).

Other oscillators, such as Stochastic and RSI (see Chapters 26 and 27), give trading signals when they enter their buy or sell zones. For example, when weekly MACD-Histogram rises but daily Stochastic falls below 30, it identifies an oversold area, a buying opportunity. When the weekly MACD-Histogram declines but daily Stochastic rises above 70, it identifies an overbought area, a shorting opportunity.

Third Screen—Entry Technique

The Third Screen is your entry technique, and here you have quite a bit of latitude. You can go to an even shorter time-frame, especially if you have live data, or you can use the same intermediate timeframe.

In the original *Trading for a Living* I recommended looking for a ripple in the direction of the market tide: buying a breakout above the previous day's high for entering longs or shorting a breakdown below the previous day's low for entering shorts.



FIGURE 39.2 Gold daily, with 26- and 13-EMAs and 2-day Force Index. . (Chart by Stockcharts.com)

Daily Force Index—the Second Screen of Triple Screen

The 2-day EMA of Force index is one of several oscillators that can work for the second screen of the Triple Screen trading system. Force Index marks buying opportunities when it falls below its centerline. It marks selling opportunities when it rises above its centerline. When the weekly trend is up (marked here with a green horizontal bar), take only buy signals from the daily oscillator for entering long positions. When the weekly trend is down (marked by a red horizontal bar), take only sell signals for entering short positions.

Notice a bullish divergence, accompanied by a false downside breakout before the start of the uptrend (marked with a diagonal green arrow). At the right edge of the screen, Gold is flying, along with most gold stocks. I'm actively buying them—but not Gold ETFs. A Traders' Camp graduate from Australia wrote the other day: "I bought XAU ETF but it is being left far behind by NCM, our biggest Gold Miner. Is that the normal scenario for ETFs?" Yes, Sir!

The downside of that approach was that the stops were quite wide. Buying a breakout above the previous day's high and placing a stop below that day's low could mean a wide stop after a wide-range day, either putting a lot of money at risk or reducing position size. At other times, when the pre-breakout day was very narrow, placing the stop right below its low would expose that trade to the risk of being stopped out by market noise.

The breakout technique is still valid, but I seldom use it. With the wide availability of intraday data, I like to switch to 25-minute and 5-minute charts and use day-trading techniques for entering my swing trades. If you don't have access to live data and need to place an order in the morning, before leaving for the day, I recommend an alternative approach which I call "an average EMA penetration."

Almost every rally is penetrated by occasional pullbacks, and you want to measure how deeply those pullbacks drop below your fast EMA. Look at the daily chart for the past four to six weeks, and if it is in an uptrend, measure how deeply prices penetrate below their EMA during normal pullbacks (Figure 39.3).

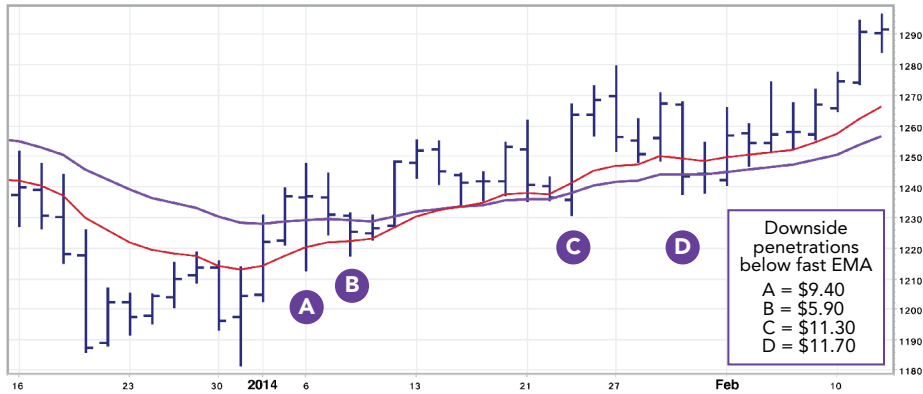


FIGURE 39.3 Gold daily, with 26- and 13-EMAs. (Chart by Stockcharts.com)

An Average Downside Penetration—the Third Screen of Triple Screen

Here we zoom in on the chart from Figure 39.2. We can sharpen Triple Screen buy signals by not waiting for the 2-day Force rally back above zero. We can use its declines below zero as alerts and then place our buy orders below value, using an average downside penetration.

- Calculate an average penetration
- Subtract yesterday's EMA level from today's and add this number to today's EMA: this will tell you where your EMA is likely to be tomorrow.
- Subtract your average penetration from your estimated EMA level for tomorrow and place your buy order there. You'll be fishing to buy at a bargain level, during a pullback—instead of paying a premium for buying a breakout.

In the example in Figure 39.3, prices dipped below their fast EMA (colored red) on four occasions. An average downside penetration was \$9.60. At the right edge of the screen, the 13-day EMA stands at \$1,266. Deducting the recent average downside penetration from that number suggests that if today sees a spell of panic selling, we should place our buy order approximately \$9 below the latest level of EMA. We can perform this calculation on a daily basis, until we finally get an opportunity to buy low. This is a much more peaceful approach than chasing runaway prices.

These rules are for buying during an uptrend. Reverse them for selling short in downtrends. Keep in mind though that downtrends tend to move twice as fast as uptrends.

Triple Screen Summary

Weekly Trend	Daily Trend	Action	Order
Up	Up	Stand aside	None
Up	Down	Go long	EMA penetration or an upside breakout
Down	Down	Stand aside	None
Down	Up	Go short	EMA penetration or a downside breakout

When the weekly trend is up and a daily oscillator declines, place a buy order below the fast EMA on the daily chart, at a level of an average downside penetra-

tion. Alternatively, place a buy order one tick above the high of the previous day. If prices rally, you will be stopped in long automatically when the rally takes out the previous day's high. If prices continue to decline, your buy-stop will not be touched. Lower your buy order the next day to the level one tick above the latest price bar. Keep lowering your buy-stop each day until stopped in or until the weekly indicator reverses and cancels its buy signal.

When the weekly trend is down, wait for a rally in a daily oscillator and place an order to sell short above the fast EMA on the daily chart, at a level of an average upside penetration. Alternatively, place an order to sell short one tick below the latest bar's low. As soon as the market turns down, you will be stopped in on the short side. If the rally continues, keep raising your sell order daily. The aim of a trailing sell-stop technique is to catch an intraday downside breakout from a daily uptrend in the direction of a weekly downtrend.

Triple Screen in Day-Trading

If you day-trade, you may select a 5-minute chart as your intermediate timeframe. Again, do not look at it, but go to a 25- or a 30-minute chart first, which will be your long-term chart. Make a strategic decision to be a bull or a bear on that longer-term chart, and then return to your intermediate chart to look for an entry and stop (Figure 39.4).

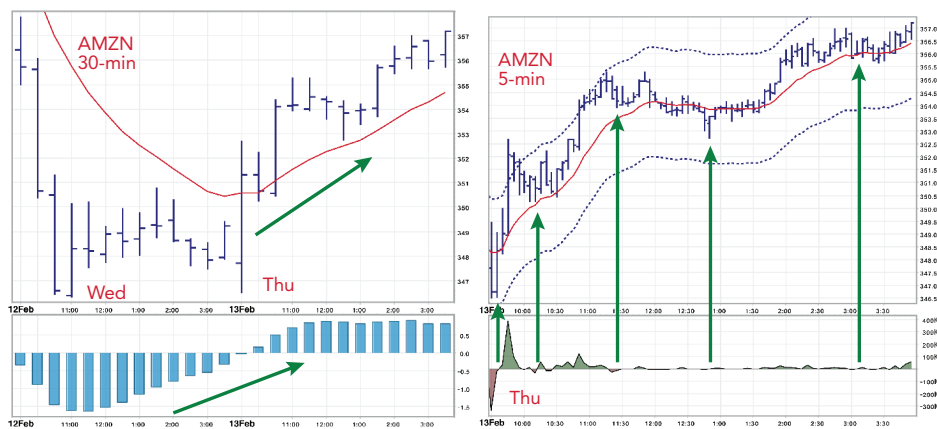


FIGURE 39.4 On the left: AMZN 30-min chart with a 13-bar EMA and 12-26-9 MACD-Histogram. On the right: AMZN 5-min chart with a 13-bar EMA, 0.6% channel, and 2-bar Force Index. (Charts by Stockcharts.com)

Triple Screen in Day-Trading

The shares of Amazon.com, Inc. (AMZN) are a popular trading vehicle, thanks to their volatility and liquidity. The principles of Triple Screen are the same here as on the longer-term charts. Here, a longer-term chart whose every bar represents 30 minutes of trading defines the long-term trend. With it rising, we turn to a short-term chart, whose every bar represents 5 minutes of trading. When its 2-bar Force Index dips below zero, it marks a wave that goes against the tide—an opportunity to buy at a lower price. A channel that contains approximately 95% of all prices helps set profit targets.

A neat combination of timeframes for day-trading stocks is a set of 39- and 8-minute charts. The U.S. stock market is open from 9:30 a.m. to 4 p.m.—six and a half hours or 390 minutes. Using a 39-minute chart as your long-term screen neatly divides each day into 10 bars. Make your strategic decision there, and then drop down to a chart that's 5 times faster—an 8-minute chart—for tactical decisions on entries and exits.

Don't mash together too many timeframes. If you're swing-trading, you can briefly use an intraday chart to time your entry, but then return to the daily charts. If you keep watching intraday charts, chances are they'll shake you out of the trade prematurely. If you day-trade, then the weekly chart is not really relevant, but you may take a quick look at the daily chart. The rule is this: select your favorite (intermediate) chart, pair it with a long-term chart that is 5 times longer, and go to work.

Stops and Profit Targets

Proper money management is essential for successful trading. A disciplined trader takes his profits at targets, cuts losses short, and outperforms those who keep hoping and hanging on to bad trades. Before you enter a trade, write down three numbers: the entry, the target, and the stop. Placing a trade without defining these three numbers is gambling.

Triple Screen calls for setting profit targets using long-term charts and stops on the charts of your intermediate timeframe. If you use weekly and daily charts, set profit targets on the weeklies but stops on the dailies. When buying a dip on a daily chart, the value zone on a weekly chart presents a good target. When day-trading and using a 25-minute and a 5-minute pair, set the profit target on a 25-minute chart and the stop on a 5-minute chart. This helps you aim at the greater results, while holding down the risk.

The Triple Screen trading system calls for placing fairly tight stops. Since it has you trading in the direction of the market tide, it doesn't give much room to losing trades. Get on with the tide—or get out. We'll return to this topic in Chapter 54, “How to Set Stops.”

■ 40. The Impulse System

The idea for the Impulse system came to me in the mid-1990s. I woke up in the middle of the night in a faraway hotel and sat up bolt upright in bed with the thought that I could describe any market move in any timeframe, using only two criteria: inertia and power. By combining them, I could find stocks and futures with both bullish inertia and bullish power and trade them long. I could also find stocks and futures with both bearish inertia and power and sell them short.

A good measure of the **inertia** of any trading vehicle is the slope of its fast EMA. A rising EMA reflects bullish inertia, while a falling EMA reflects bearish inertia. The **power** of any trend is reflected in the slope of MACD-Histogram. If its latest bar is higher than the previous bar (like the height of the letters m–M) or less deep than the previous bar (like the depth of the letters y–v), then the slope of MACD-Histogram

is rising, and the power is pushing up. If the latest bar of MACD-Histogram is lower than the previous one (like the depth of the letters v–y or the height of the letters M–m), then the slope is declining, and the power is pushing down. When we use MACD-Histogram to define power, it doesn't matter whether it's above or below zero: what matters is the relationship of the last two bars of MACD-Histogram.

It is relatively simple to program most software packages to color price bars or candles using the Impulse system. If both indicators are rising, the bar is green—bullish. If both are falling, the bar is red—bearish. When the two indicators move against one another, that bar is blue—neutral (Figure 40.1).

At first, I anticipated making this system automatic—buy green, short red, and cash checks on all colors. Backtesting the Impulse system threw cold water on that idea. The automatic system caught every single trend, but it got whipsawed during trading ranges, where it kept flipping between green and red.

I set the Impulse system aside, but kept thinking about it. A few years later it dawned on me: this wasn't an automatic trading system—it was a censorship system! It didn't tell me what to do—it told me what not to do. If either weekly or daily bar was red—no buying allowed. If either weekly or daily bar was green—no shorting permitted.

Ever since that discovery, I've been using the Impulse system for all my trades. I presented it to the public in my 2002 book *Come into My Trading Room*, which *Barron's* named a book of the year. The Impulse system is becoming increasingly popular worldwide, and its terminology has entered the language of trading.













The Impulse System						
EMA		MACD-H		Impulse	Yes	No
	+		=		Buy, stand aside	Short
	+		=		Short, stand aside	Long
	+		=		Long or short	
	+		=		Long or short	

FIGURE 40.1 The colors of the Impulse system.

- EMA rising & MACD-Histogram rising (especially below zero) = Impulse is green, bullish. Shorting prohibited, buying or standing aside permitted.
- EMA falling & MACD-Histogram falling (especially above zero) = Impulse is red, bearish. Buying prohibited, shorting or standing aside permitted.
- EMA rising & MACD-Histogram falling = Impulse is blue, neutral. Nothing is prohibited.
- EMA falling & MACD-Histogram rising = Impulse is blue, neutral. Nothing is prohibited.

And that's how I've been using the Impulse system ever since (Figure 40.2). It keeps me out of trouble. I may develop my trading plans based on any number of ideas, signals, or indicators—and then the Impulse system forces me to wait until it no longer prohibits an entry in the planned direction. In addition, the Impulse system helps me recognize when a trend starts weakening and suggests an exit.

Entries

Green and red bars of the Impulse system show when both inertia and power are pointing in the same direction. At a green bar, bulls are in charge and the uptrend is accelerating. At a red bar, bears are dominant and the downtrend is in full swing. A fast EMA and MACD-Histogram may stay in gear with each other for only a few bars, but that's when the market travels fast—the impulse is on!

Before you start applying the Impulse system to your favorite market, remember the Triple Screen's insistence on analyzing markets in more than one timeframe. Select your favorite timeframe and call it intermediate. Multiply it by five to define your long-term timeframe. If your favorite chart is daily, analyze the weekly chart first and make a strategic decision to be a bull or a bear. Use the Impulse system to decide when you're permitted to enter long or short positions.

- If you're a short-term momentum trader, you can buy as soon as both timeframes turn green and take profits as soon as one of them fades to blue.
- When trying to catch market turns, the best trading signals are given not by green or red but by the loss of green or red colors.

If a stock is falling, but your analysis indicates that a bottom is near, monitor the Impulse system on weekly and daily charts. If even one of them shows red, the downtrend is still in force and buying is not permitted. When both timeframes stop being red, they allow you to buy.

If you think that a stock is forming a top and is about to turn down, examine the Impulse system on both weekly and daily charts. If even one of them is green, it's a sign that the uptrend is still alive, and no shorting is permitted. When the green disappears from both timeframes, you may start shorting.

The shorter a timeframe, the more sensitive its signals: the Impulse on a daily chart almost always changes colors ahead of the weekly. When day-trading, the 5-minute chart changes colors ahead of a 25-minute chart. If my studies show that the market is bottoming and getting ready to turn up, I wait until the daily chart stops being red and turns blue or even green; then I start watching the weekly chart, which is still red. As soon as it turns from red to blue, it allows me to buy. This technique saves me from buying too soon, while the market is still declining.

I use the same approach to shorting. When I think that a top is forming and the daily Impulse stops being green and turns blue or even red, I closely monitor the weekly chart. As soon as it loses its green color, it permits me to go short. Waiting

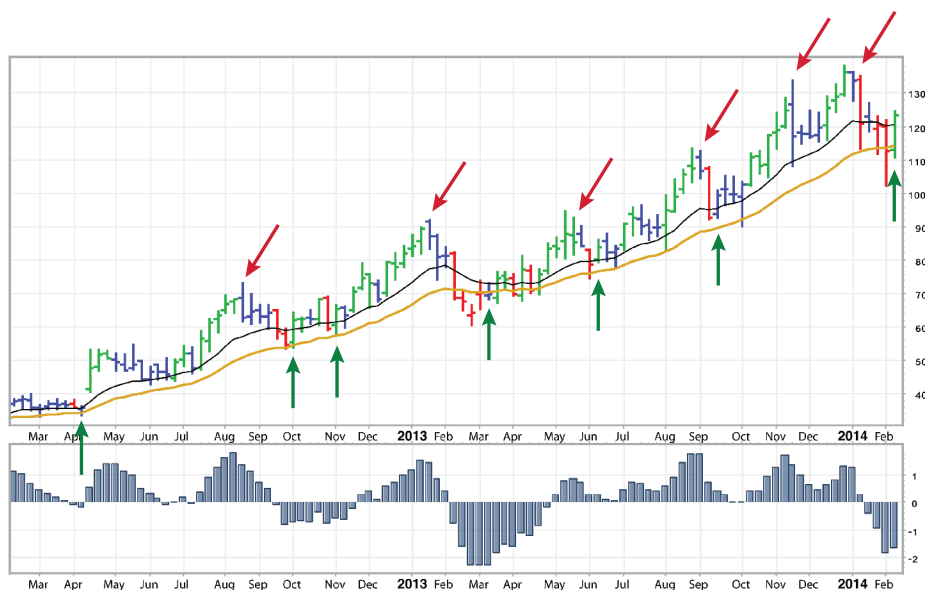


FIGURE 40.2 SSYS weekly with 13- and 26-week EMAs, 12-26-9 MACD-Histogram and the Impulse system. (Chart by Stockcharts.com)

The Impulse System

The Impulse system can sharpen any method of finding trades, whether technical or fundamental. Let's review an example, using the stock of Stratasys, Inc. (SSYS)—one of the two leading stocks in the additive manufacturing industry. In 2012, I published the world's first popular e-book on additive manufacturing in which I called for a boom in its stocks.

Vertical green arrows mark bars immediately following red bars. Red prohibits you from buying. The best time to buy is immediately following red's disappearance. You can see how those green arrows pick one intermediate bottom after another, including the buy signal at the right edge of the chart. Having an objective method gives you the confidence to buy as soon as a decline screeches to a halt.

The Impulse system also suggests good areas for profit taking. Slanted red arrows point to blue bars that occur after a series of green bars far away from value. They indicate that bulls are choking up—a good time to cash out and wait for the next buying opportunity.

for both timeframes to lose the color that is contrary to my plan helps ensure that I trade in gear with the market and not against it.

Remember, the Impulse system is a censorship system. It doesn't tell you what to do—but it clearly tells you what you're not allowed to do. You're not supposed to go against the censor.

Many programs for technical analysis include a feature called “conditional formatting.” It allows you color price bars or candles depending on the slope of the EMA and MACD-Histogram. A brilliant programmer in Chicago named John Bruns used this feature when he included the Impulse system in tool kits we call elder-disks¹.

¹These are available for various trading programs, listed at elder.com.

If you use a platform that doesn't permit conditional formatting, you can still use the Impulse system. Simply observe the slopes of the EMA and MACD-Histogram: their combination will tell you what should be the color of the latest bar.

If you know how to program, you can add more features to the Impulse system. You can test different EMA lengths or MACD settings, looking for those that work best in your market. A day trader can program sound alarms to monitor color changes in several markets without being glued to the screen.

Exits

If you're a short-term momentum trader, close out your trade as soon as the color of the Impulse system stops supporting the direction of your trade, even in one of the two timeframes. Usually, the daily MACD-Histogram turns ahead of the weekly. When it ticks down during an uptrend, it shows that the upside momentum is weakening. When the buy signal disappears, take profits without waiting for a sell signal.

Reverse this procedure in downtrends. Cover shorts as soon as the Impulse system stops being red, even in one of the two timeframes. The most dynamic part of the decline is over, and your momentum trade has fulfilled its goal.

The Impulse system encourages you to enter cautiously but exit fast. This is the professional approach to trading. Beginners tend to do the opposite; jump into trades and then take forever to exit, hoping for the market to turn their way.

A swing trader may stay in a trade, even if one of the timeframes turns blue. What he should never do is stay in a trade against the color. If you're long, and one of the timeframes turns red, it is time to sell and go back to the sidelines. If you're short, and the Impulse system turns green, it signals to cover your short position.

The Impulse system helps identify islands of order in the ocean of market chaos by showing when the crowd, usually so aimless and disorganized, becomes emotional and starts to run. You enter when a trend pattern emerges and exit when it starts to sink back into chaos.

Market prices tend to flow in channels, like rivers in their valleys. When a river touches the right edge of its valley, it turns left. When it touches the left rim of its valley, it turns right. When prices rally, they often seem to stop at an invisible ceiling. Their declines seem to stop at invisible floors. Channels help us anticipate where those support and resistance levels are likely to be encountered.

Support is where buyers buy with greater intensity than sellers sell. Resistance is where sellers sell with greater intensity than buyers buy (see Chapter 18). Channels show where to expect support and resistance in the future.

Channels help identify buying and selling opportunities and avoid bad trades. The original research into trading channels was conducted by J. M. Hurst and described in his 1970 book, *The Profit Magic of Stock Transaction Timing*.