Hidden Divergence

Hello there, you will be excited about the information contained in this report.

Isn’t it remarkable how people like us who are in the “Trading” business have taken frequently interesting words that are used each day and turned them around to meet our own needs?

Let me explain. Words such as ‘trend,’ and ‘line,’ for example are generally used together in a sentence. The first word in the sentence would be ‘trend,’ and it is an adjective that describes the next word, ‘line,’ which is a noun. In this example, they are two separate entities.

However, in the trading world, when both words are combined to read “trend line,” it becomes one entity because it is compounded into the word, ‘trendline.’ This word is only for those who can wrap their minds around the thought of using a word that cannot be found either in the dictionary or a part of the rules of the English Language.

The word, ‘Divergence,’ has the same connotation…

If you were to look in the major search engines such as Google, you would find that the word, “divergence” has nothing to do with trading. In the trading industry, however, the word, ‘divergence,’ has a whole meaning of its own.

We are about to explore it in ways that will help you to recognize and authenticate higher trade probabilities.

To increase your profit margin, you should utilize the resources and tools that you have available to you as it relates to a combination and formations of MACD and RSI divergent.

Warning: Do not be perplexed or be confused with the regular trendlines and the ones related to divergence.

When you are in the process of drawing a standard bullish trendline, you will have to connect the 'higher,' lows to connect them. On the other hand, when you are in the process of drawing the usual bearish trendlines, you have to connect the 'lower,' highs.

Let's look at the the different between this and divergence.

Hidden Divergence versus Divergence

Divergence

A lot of people like me get involved in day trading. I use various strategies in my day trading that include trendlines and other indicators, but divergence has equal significance when it comes to currency strength and weakness calculations.

Most of my trades close within a twenty four time frame after I enter the market. However, I have reached the realization that if divergence is understood and used in the right way, it can be the best trading asset that any trader can ask for especially if utilized at the higher time periods that include daily, weekly and monthly charts.

The Reason: The MACD indicator results in a stronger and more precise signal when the long term data calculations are made.

In the chart below, you will see the new lows in the series. The vertical lines that point downward, relate to the new lows that are located on the MACD indicator. However, you will notice, too, that the new MACD lows failed to reach a similar depth as the preceding low. Each of these lows was higher. There are a few things to note here:

- This is specifically known as bullish divergence
- Bullish is the adjective here to describe the type of divergence related to this chart. Bullish is considered by the indicator direction and not from the price chart.
- To be more precise, the opposite is true for **bearish** divergence when the price increases at the time when the indicator moves down.
- On the other hand, when the price moves decreases at the same time that the indicator is moving up, it is called **bullish** divergence.
    - The MACD expresses the probability for a market increase when the above price is reexamined for a previous low while coinciding with the increase in the MACD.

Below, we have an illustration of bearish (regular) divergence.

Additionally, the chart below shows the comparison between the MACD and the price chart. It gives you a warning of the reversal opportunity and trendline break confirmation identified by the color red on the price chart, on the MACD and the RSI.

You can find the divergence using other indicators even though the MACD is the ideal determinant when it comes to divergence. An example is shown in the RSI chart.

There is another divergence form that we will discuss in this lesson.

Hidden Divergence

Before we take a look at Hidden Divergence, let's consider something of significance here:

Divergence is an indicator of a possible repeat or reversal in the market. This kind of activity is in opposition to Hidden Divergence. Why? HD or Hidden Divergence is a confirmation of a continuous trend in the market.

Therefore, if you see anything that looks like HD, but it DOES NOT put you back into the trend, then it is not to be considered Hidden Divergence.

This means that bearish Hidden Divergence shows up in a market that has the trend going down, while conversely, the bullish Hidden Divergence shows up in a market that has the trend going up.

Therefore, it is safe to say that Hidden Divergence is the opposite of its corresponding part – the Divergence.

Now follow along with me…..

IF

- The displayed chart below reflects Bullish Divergence at the time when the price is extremely reduced while at the same time the matching indicator achieves higher lows.

AND

- The displayed Bearish Divergence at the time when the price shows an extreme high while the matching indicator achieves lower highs.

THEN

- In comparison, Bullish Hidden Divergence is shown at the time when the price gets to higher lows while the matching indicator achieves lower lows.

Be reminded: The initial trend (below) was bullish (red) and therefore the formation of the Hidden Divergence results in the potential for it to go back to a bullish trend.

When the hidden divergent indicator is corroborated with trendline breaks on the price chart and the RSI is backed up by an ensuing retraction to the price trendline even as the RSI has made its way into bullish terrain……

- We are not afraid to enter the long side of the market
- We have confidence to enter inside of the shaded area below because of its heightened possibility trade.

When you enter into the market, you will find that a protective stop appears right away below the previous low. This gives us a kind of secure net to reduce the risk aspect of only 30 pips.

The Bearish Hidden Divergence is shown when price gets to a lower high while the corresponding indicator achieves a higher high. This happens when there is a down trending market.

In the chart below, a price retraction matches with a “distinctive” higher high on the Stochastic oscillator. This indicates that there is a potential for the bearish move to continue.

With corroboration being given by a trendline break on the price chart with a later trendline break on the RSI matching up with the RSI left over in bearish terrain….

- Once more, we are not afraid to go back in the market on the short side.
- Put your protective stop a little above the past high and you will be more confident.

Here is a good "cheat sheet,' which you can use. Put it as close to your computer as possible so you can have it when you need it. That is what I did and it works for me.

Type of Divergence	Price	Oscillator	Trade
Standard	Higher High	Lower High	SELL
Standard	Lower Low	Higher Low	BUY
Hidden	Higher Low	Lower Low	BUY
Hidden	Lower High	Higher High	SELL