



Fishing with Trendlines

"There's a fine line between fishing and standing on the beach looking like an idiot." —W.C. Fields

Remember when you discovered your first trendline? No doubt that discovery led to your interest in and study of technical analysis. Remember your excitement at the realization of how much money you would have made if you had just recognized that trend and ridden it to completion? Remember when you finally

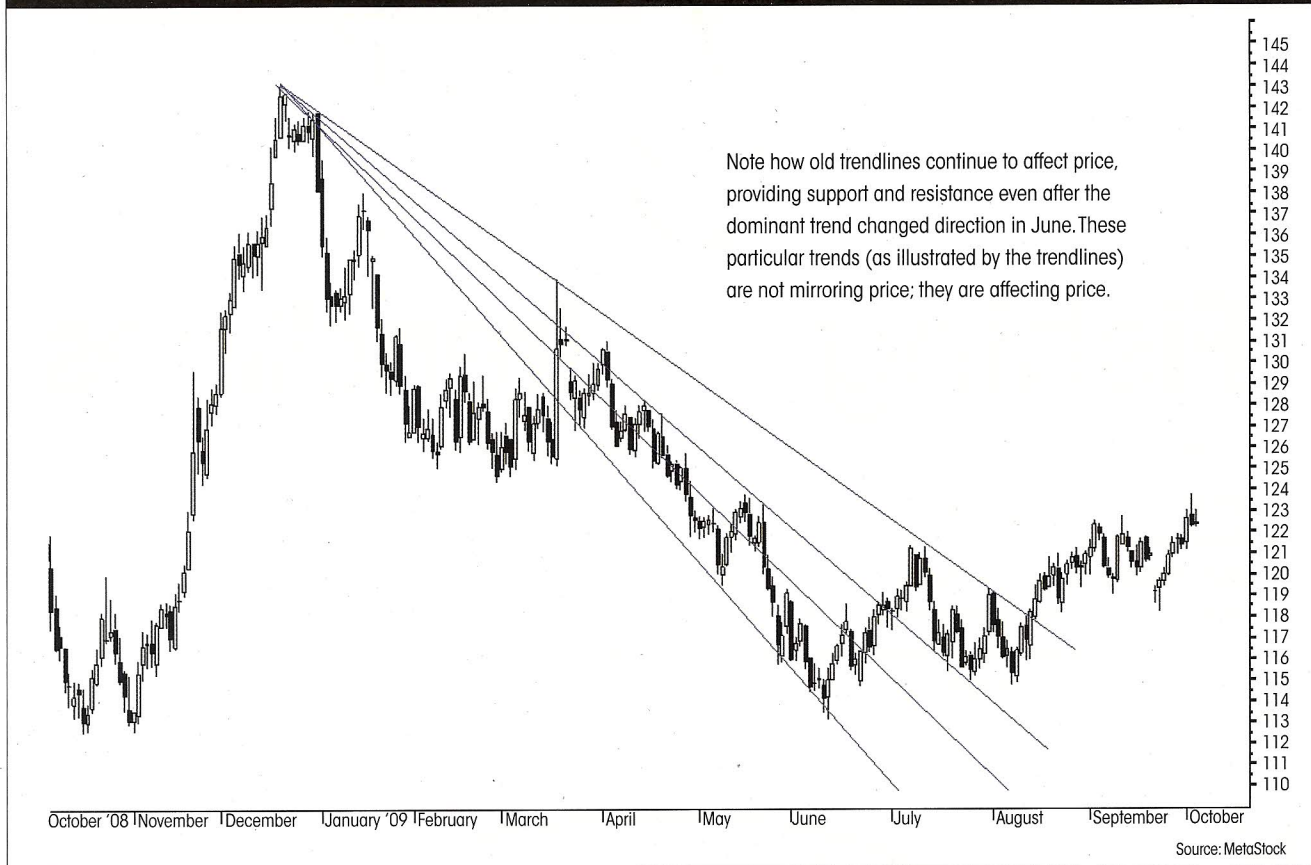
got up the nerve to put some money on a trend only to have it breached and your investment collapse?

Now, remember how sophisticated and smart you felt when you realized that extrapolating the future in a linear fashion was always doomed to failure? Those who bought tech stocks in 2000 and real

By Ed Carlson



FIGURE 1: 30-year U.S. Treasury Bond Continuation Contract



estate in 2007 were thinking in a linear fashion, but you have now reached a higher level of understanding and know that all things move in cycles.

But how do you determine the beginning and end of a cycle? How about taking another look at trendlines?

TRENDLINE GREEKS

The definition of trend is a line, and a line is defined by two points. The traditional use of trendlines is to reveal the trend in price as if price is reality and trendlines a mere tool. But what if it is the other way around? What if trend is reality and price should be used to find the trend?

Socrates, the Greek philosopher, spoke of the "Myth of the Cave," where unfortunate souls had been in chains their entire lives staring at shadows cast on a wall in front of them. Unable to look behind themselves to see people moving in front of the fire, which cast those shadows, they assumed that the shadows were reality.

Perhaps price is merely a shadow on the wall. It is an approximation of truth. Could price be an illusion and

some force of nature we call "trend" be reality? Clearly, our quest is to find the highs and lows in price, but to do so, we need to find the trend, or more appropriately, the true trends.

THINK ABOUT CYCLES

The easiest way to understand this concept is to remember how cycles work. Cycles exist within cycles. Different cycles become dominant at times, then others take over, and finally the first cycles reassert themselves. For the long bond (see Figure 1), in addition to several declining subtrends, perhaps the current advance is a trend contained within the larger declining trend.

You are not looking for just any trendline. The human eye can find as many possibilities for trendlines as it has time. I like to think that traders are searching for true trendlines.

So how do you find these true trendlines? I use Fibonacci structures. Traditionally, analysts have used Fibonacci retracements solely as a way to find support and resistance after a high and low have already been



