



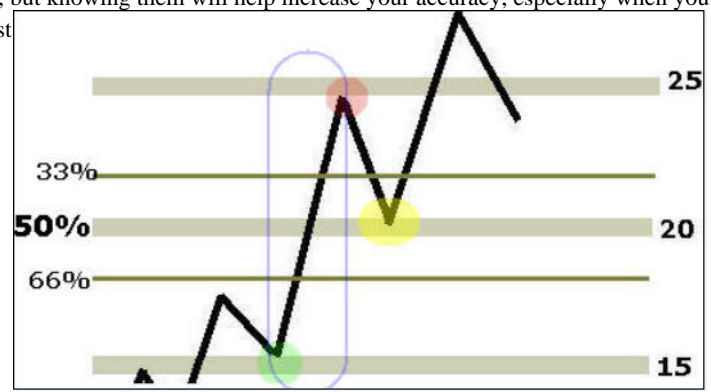
mediate term (i.e., weeks to
the stock market (which we've
a bullish position in, you might
ectors --but you want to buy them on a pullba
support level is exactly what it

sounds like -- a floor through which the stock has trouble breaking. The opposite term is resistance, which is a ceiling through which a stock has difficulty penetrating. When a stock is trading between these two levels, it is said to be in a trading channel.)

I have a number of simple indicators that I use to decide what to trade and when, some of which come in the form of popular [moving averages](#) and [trendlines](#).

But today I'm going to go over one of the most basic "Technical Analysis 101" principles that will lay down a foundation for understanding how far a stock is likely to retreat before the next bull run.

Don't forget, these are just the basics, but knowing them will help increase your accuracy, especially when you consider the following principle in conjunction with identification of past



The Secret is Not-So-Secret After All -- Just Trade the Trend!

Bottom line, you always want to trade in the direction of the trend. And a trend is obviously a series of zig-zags. These zig-zags move in the direction of the trend and then retrace before continuing in that same direction. (Like I said, it's technical analysis 101.)

While secondary parameters are set at 33% and 66% (as outlined in the chart above), the most-common percentage retracement before resumption is the (approximately) 50% retracement.

I know, this might sound absolutely crazy if this is your first time hearing it, but if you look at a bunch of stock or index charts after reading this article and apply these percentage retracement principles, you'll be absolutely amazed!

Two Steps Forward, One Step Back

The way that traders use this application, for example, would be to look for approximately a 5-point retracement after a stock advances by 10 points from a low to a new high (because 5 points is 50% of the 10-point gain).

So, when a stock trades 10 points higher from \$15 to \$25 and then reverses lower, traders would look for support around \$20.

Again, this is certainly not a strict rule, and the secondary parameters wouldn't have been set near 33% and 66% if it were. In fact, other theories