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Master The Channel Projection

Most traders know how to draw a channel but not many know you can use the information used to create the channel to find possible turning points in the market.

First lets look at the traditional channel. You would first identify a trend and draw a trend line. Next you duplicate the exact angle of that trend line and move it to a recent high in an up trend or a recent low in a down trend. This produces a channel. The idea is that as price approaches the upper channel line in an up trend we would expect to find sellers there and this would either reverse the trend or at least pause the trend for a time.

In a down trend you would expect the same thing. As price approaches the lower channel line you would expect to find buyers and for the trend to stop or temporarily pause for a time.

If price overshoots the channel line this can often signify an overbought situation in an up trend or an oversold condition in a down trend. This overshooting of the channel line signifies an exhaust of momentum in the market.

Now lets look at a slightly more unique way to use the channel. In the first chart the line labeled T1 is the original trend line. The line labeled T2 is this same line duplicated and moved forward to touch a high and containing all if not 95% of price action.

Now this is where it begins to get interesting. Most charting software will allow you to draw lines of varying length so if you draw a line connecting T1 to T2 this will give you the width of the channel. We will call this line T3.

If you duplicate T3 and in an up trend move it so that it is touching and below T1 you have a projection of where a retracement might halt. This line we shall call T4. You can then duplicate T1 and connect it to the lower part of T4 giving you a new line, which we will call T5.

It will amaze you how often price will stop at T5. At the very least you have an estimate of where price may retrace too.



On the second chart we have an established down trend with little retracement continuation patterns. By using the same process as above we can use the channel width as projected target points. In this way you can use the channel projection not only as a possible retracement level but all as a possible target level.



Good Trading

Best Regards
Mark McRae

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