As a trend trader, you want to position yourself along with the market trend. **A trend reversal is both your entry and your exit.**

This is why you must answer this question to the best of your ability. Focusing on finding the best reversals will put you on the path to trading success.

Conversely, each false reversal can cause you to miss potential trading setups. It will also have you scrambling to get back into the flow.

For a trend trader, the power of a multi-pronged approach is very real. With a set of varied tools, you can find reliable trend reversals with confirmation.

This brings us back to one important question: what are the best tools for a trend trader?

Like most traders, you probably have a general idea of how to find a reversal. For instance, you might rely on a moving average.

But, you don't want to stop there. There are two other things that you need to do:

- Learn about different types of trading tools: **price action, technical indicators, and volume tools**.
- Appreciate the power of including a variety of tools in your trend analysis.

With that in mind, let's review nine tools that you can combine to find the best trend reversals as a trend trader.

## #1: SWING PIVOTS

For examining price action, you need tools that are practical, simple, and useful. This is exactly what you get with swing pivots.

What are swing pivots?

Open any chart and you will see that price does not move in a straight line. It moves in waves. The start and end points of these waves are swing pivots.

I'll be the first to tell you that there are many ways to define a swing. At the same time, you should focus on one definition so that you don't get bogged down with too many choices.


**Once you've marked swing pivots on a chart, higher highs mean a bullish trend. Lower lows mean a bearish trend.**

# #2: TREND LINES

Trend lines are essential to a trend trader's search for reversals. A trend line defines and tracks a trend.

The basic signal of a trend reversal is when price breaks a trend line.

However, false breaks are common. Hence, the key is the magnitude of the trend line break.

You can draw trend lines by connecting swing pivots. Again, there are many ways of drawing a trend line. **But remember that your choice is less important than staying consistent.**


Many traders learn by drawing trend lines ex-post on historical charts. It gives the impression that perfect trend lines are easy to find.

Don't get into that trap. Instead, develop an objective method of drawing trend lines. Once that is done, you can draw them confidently in real-time.

# #3: PRICE CHANNELS

A price channel is formed by extending a parallel line from a trend line.

Most trends go through a channel phase. During that phase, price action bounces between the trend line and the parallel line. (The parallel line is also known as the channel line).

# TECHNICAL INDICATORS

While price action is useful, indicators can also help trend traders in finding reversals.

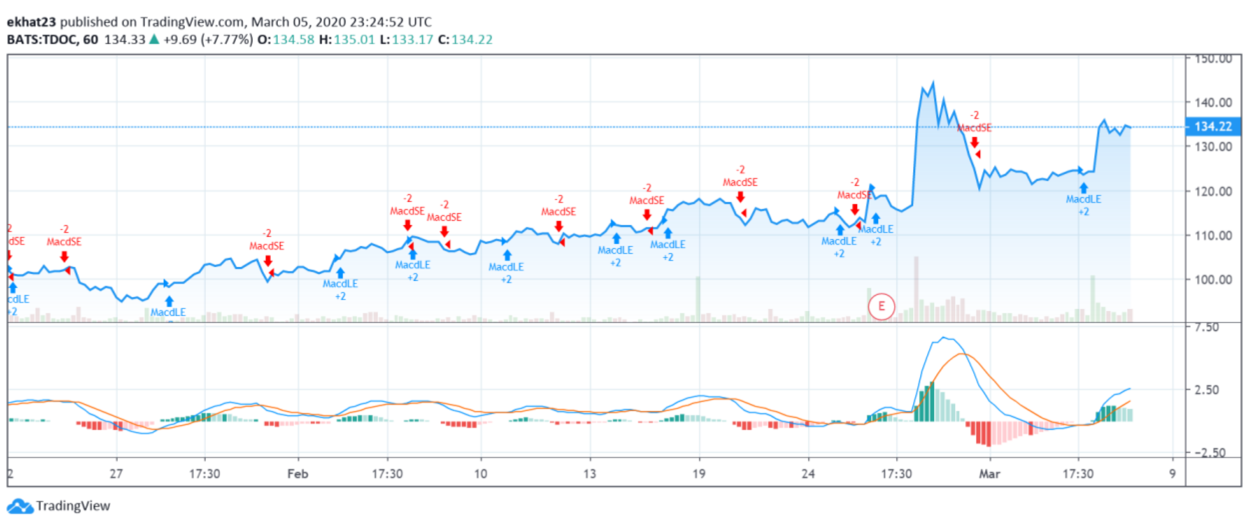
Technical indicators are also suitable for tracking a large set of instruments. You can easily set up clear criteria to scan for potential reversals.

## #5: MOVING AVERAGE CONVERGENCE DIVERGENCE (MACD)

As a trend strengthens, two moving averages of different periods will diverge. As a trend weakens, two moving averages will converge.

This is what Gerald Appel observed and used as the basis for the MACD indicator.

For trend traders, an impressive use of the MACD is for finding price divergences. A price divergence is a powerful reversal signal. It occurs when price and an oscillator disagree.




# VOLUME TOOLS

Volume are important confirmation tools.

However, as they do not relate to price action directly, they tend to give early signals that might be less reliable.

Nonetheless, when used correctly, they give the trend trader a chance to enter the market before everyone else.

## #7: VOLUME OSCILLATOR

The Volume Oscillator is a handy tool but you must be careful. As it is based on volume, you must interpret it differently from price oscillators like MACD and RSI.

Positive values do not mean that bullish prices are supported. They mean that the trend, in either direction, is healthy. Negative values mean that the trend is weak.

With this knowledge, trend traders can also use divergences to find potential reversals.

Using the Volume Oscillator well is more challenging than applying price oscillators. Practise more and you will be well-rewarded with a volume perspective to price action.


# CONCLUSION – TOOLS FOR TREND TRADERS

As a trend trader, you appreciate the importance of reliable reversal signals. But that's only half the battle.

If you're going to look for reversals, you should use an arsenal that includes both price and volume.

Also, don't throw indicators out of the window. Instead, learn to use them prudently with price action as your beacon.

As you've learnt, some tools anticipate a reversal while other confirm a reversal. While no tool is flawless, you can use them to your advantage.

For instance, you can put on a small position based on the anticipation of a reversal. Then, increase to your full position once the reversal is confirmed.

Spotting reversals is one of the toughest but most rewarding trading approach. This is why a trend trader needs the best tools available.

The same logic applies in a falling market. Climatic volume might have taken out all the sellers. Then, when there's no more sellers, the market can only rise.

You can spot extreme high volume bars in retrospect easily. However, in real time, you might hesitate in deciding how high is high.