Divergence

Regular Divergence

There are several kinds of Divergence, but the most widespread one is the Classic or Regular Divergence or, in other words, a reversal pattern. It is subdivided into the Bearish and the Bullish Divergence. The Bearish Divergence occurs when there is there is a trend reversal from up to down, i.e. when there are lower highs in the oscillator and higher highs in price. The Bullish Divergence occurs when there is there is a trend reversal from down to up, i.e. when there are higher lows in the oscillator and lower lows in price.

As a rule, the Regular Divergence shows that current direction of price movement may change and that a top or bottom could be very close.

Chart of Regular Divergence

Regular Divergence Indicators:
http://iticsoftware.com/divergence-indicators

Advanced Regular Divergence Indicators:
http://iticsoftware.com/advanced-divergence

Hidden Divergence

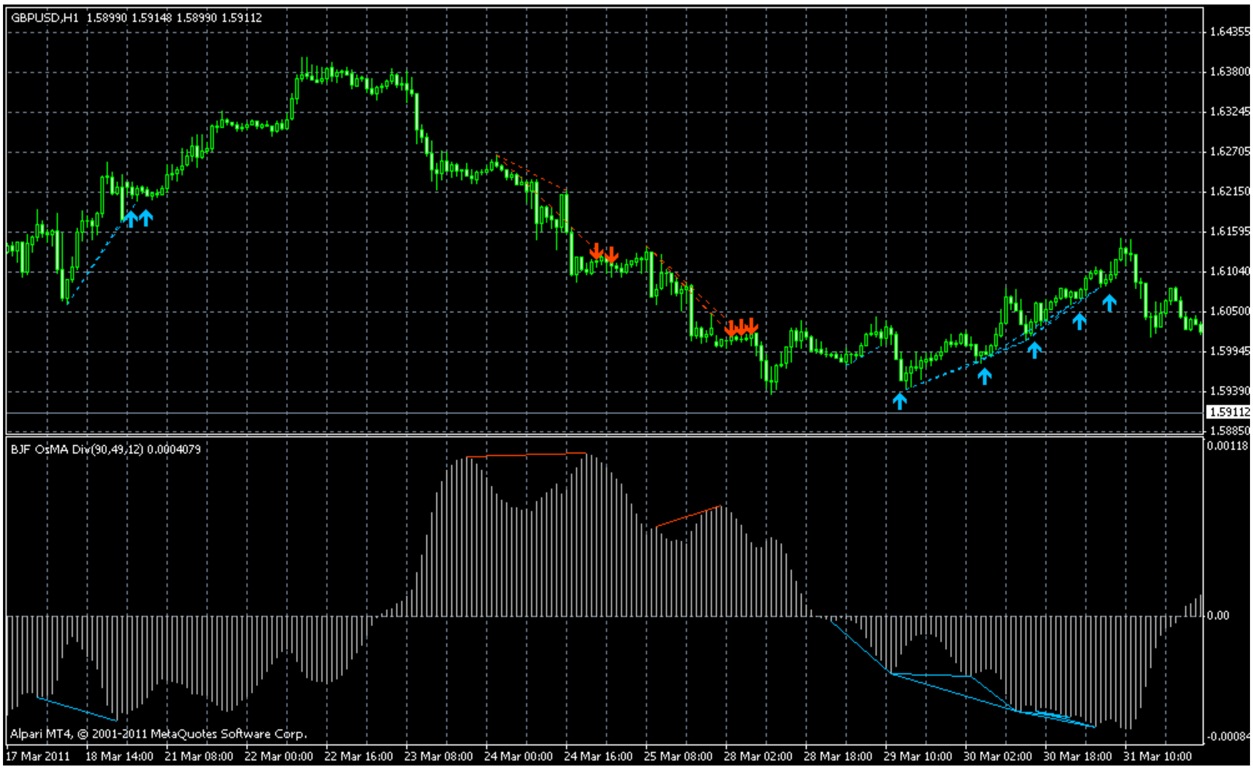
The Regular Divergence is used very often, but it is not the only one kind of divergence. There is another type of divergence – a Hidden Divergence. It is not as widespread as the Regular Divergence, but is much more effective. The main difference between the Regular Divergence and the Hidden Divergence is that the latter is a continuation pattern.

There are two subdivisions of the Hidden Divergence: the Bearish Hidden Divergence and the Bullish Hidden Divergence. The Bearish Hidden Divergence confirms, that price trend is down, i.e. there are higher highs in the oscillator and lower highs in price. The Bullish Hidden Divergence confirms, that price trend is up, i.e. there are lower lows in the oscillator and higher lows in price.

Hidden and Regular Divergences are two opposite kinds of Divergence, but Hidden Divergences are more useful for traders, because they can show him the exact entries in the direction of the trend. Hidden Divergences increase trader's chances of success, because they help traders to get into a prevailing trend. Moreover, Hidden Divergences help traders to find the precise entry, stop and exit levels in a trend. You must admit that it is much more attractive offer than an offer to use a risky investment strategy and try to "catch a falling knife". All traders know, that "the trend is your friend", so they will follow this simple, but useful rule.

Some traders may say that Hidden Divergences cause a so called "Catapult" or "Rubber band" effect in a trend. Here is a simple example: if price makes a pull-back, the indicator will make a larger pull-back and stretch beyond the mean; as a rule, the indicator should go back to its mean, and it reverts there, but with strong momentum; meanwhile, price suddenly reverts to its initial trend, and it causes strong moves. If a trader can find the precise entry to these moves, he will make a lot of money.

Chart of Hidden Divergence

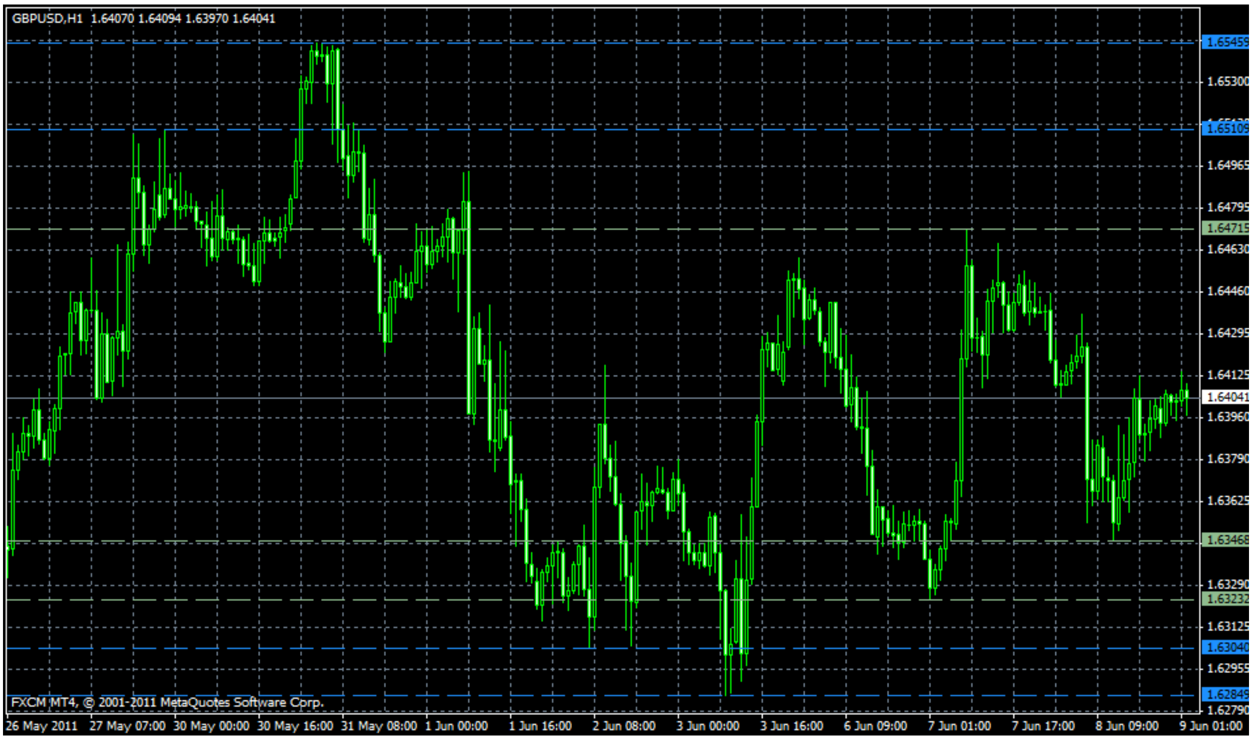


We can add possibility to show hidden (reverse) divergence for any our divergence indicator:
http://iticsoftware.com/hidden-divergence

Support and Resistance Lines

Support and resistance are terms used by technical traders to refer to specific price levels that have historically prevented traders from pushing the price of currency in a certain direction.

Chart of Support and Resistance Lines



Support/Resistance Lines Indicator:
http://iticsoftware.com/support-resistance

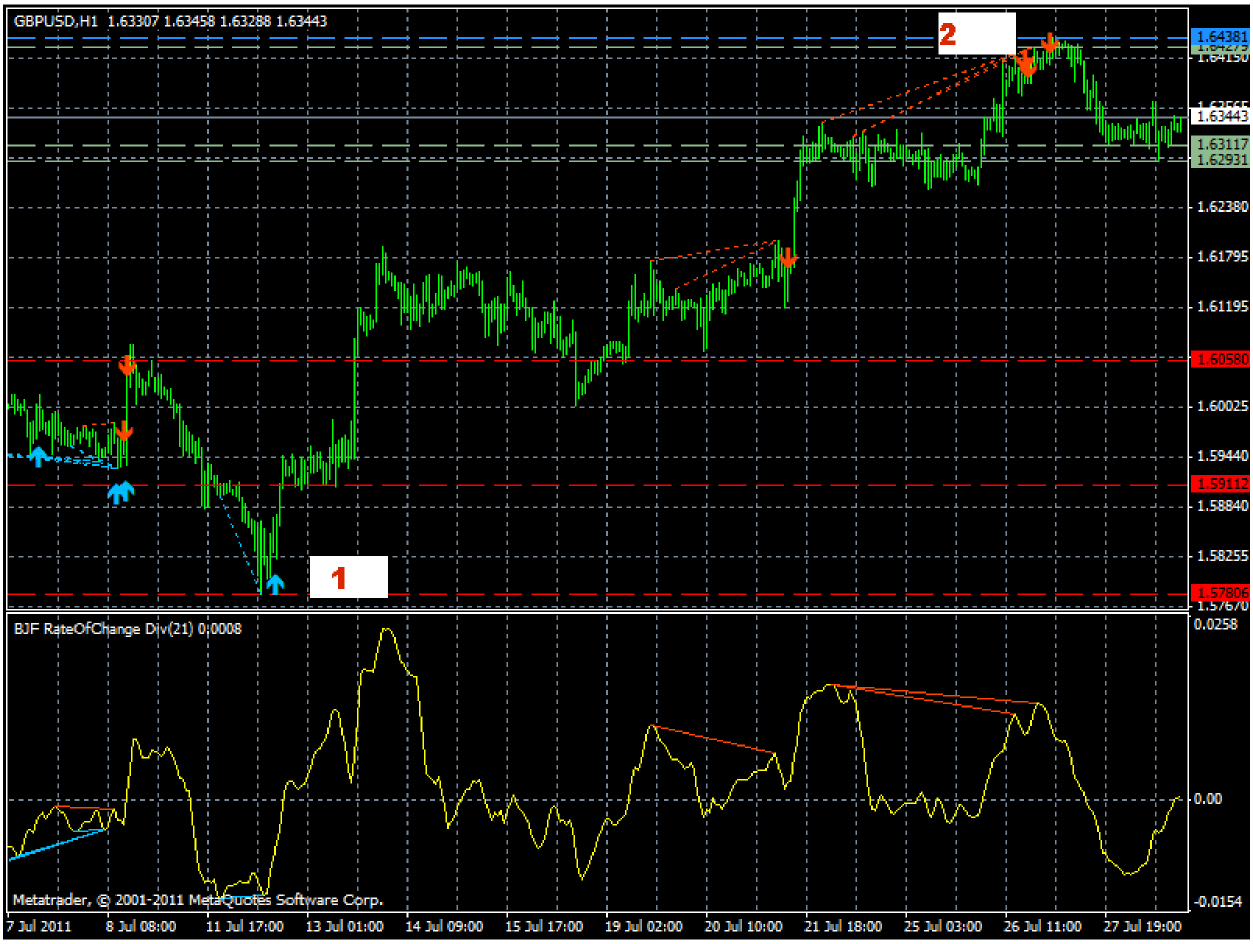
Trading the Hidden and Regular Divergence

Identifying a type of divergence and trading are two different things. You should find a correct entry, manage the trade and then exit this trade in due time. If you want to be a successful trader, you should always have a perfect, well-thought-out plan of trading, and you should always know the precise entries, exits and stops. Moreover, you should have well-weighed money management rules and be very discipline and patient to wait for the set-up and follow it precisely.

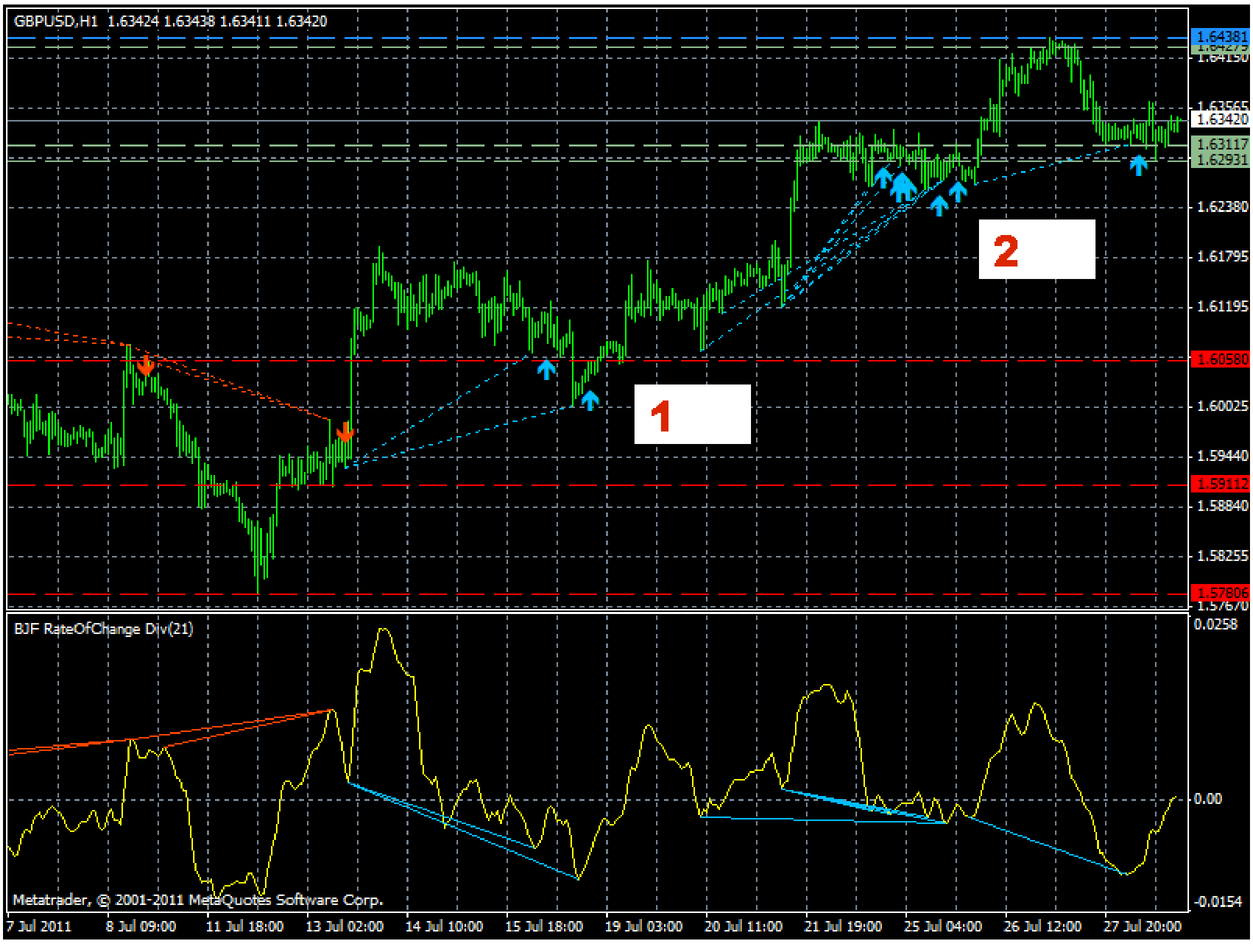
All traders know that no one can give you 100% guarantees of success and that sometimes you will make mistakes and lose money, too. It is inevitable. But, from the other hand, presence of a Trading plan is your “safety harness”, which often separates your success and failure. If you plan each trade carefully, your chances of success will rise manyfold in comparison to those who don't have a plan. You may not believe it, but profitability of your trades directly depends on such simple procedure as drafting a plan.

Trading Rules – Example

If you have a regular divergence, open order on the S/R level.
If you have a hidden divergence in the same direction with the position on the next S/R level – keep position
Etc.
If you have a regular divergence on the next S/R level – close position and open position in the opposite direction.



On this image, indicators shows only standard divergence
Point 1 – open position
Point 2 - close position and open position in the opposite direction



On this image, indicators shows only hidden divergence

Points 1 and 2 - keep position.

I hope this presentation can help you to gain that extra edge over the market.
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Please feel free to contact me about further information at: support@iticsoftware.com

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