C H A P T E R  **15**

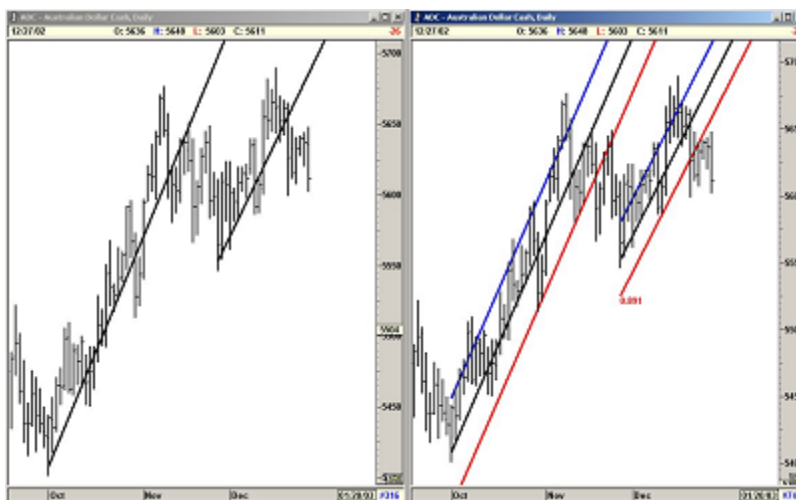# Regression Trend Channels

## Standard Deviation

This is a simple but very effective study. The idea is to draw an upper and lower channel by using a Standard Deviation of the prices. It is similar to the Bollinger Bands, which draw bands using standard deviations of a moving average. However, instead of using a moving average, we are simply using the Linear Regression line of a swing identified by you.

Figure 15-1a shows two market swings from low to high. The line drawn through the middle is a standard Linear Regression line *using the midpoints of the swing*.

Figure 15-1b shows the upper and lower channel drawn using 2 standard deviation of the Regression Line and the Midpoints.

The Regression Channel menu allows the user to calculate the Trend or Regression line by using the midpoint, high, low, etc. It also allows the user to set the amount of Standard Deviation for the Upper and Lower channels.

In addition, a Pearson's R is included, showing how well the Linear Regression fits the data.



**Figures 15-1a and b: Regression Trend Channels**

## *Using the Regression Trend Channels*

When the Market is trending or just trading with a bias in one direction, the Regression Trend Channels can be used to define the upper and lower boundaries of the market. As long as the momentum stays in the same direction, the market tends to stay within the channels. As soon as the market changes bias, the prices break the channel, signaling the end of the move.

The primary functions of the Regression Trend Channels are:

A)  Protecting profits inside a Wave 3.
B)  Entering at the end of a Wave 4 for the Fifth Wave.
C)  Protecting profits in a Fifth Wave and entering a trade in the opposite direction at the end of a Fifth Wave.

The following examples will make this very clear.
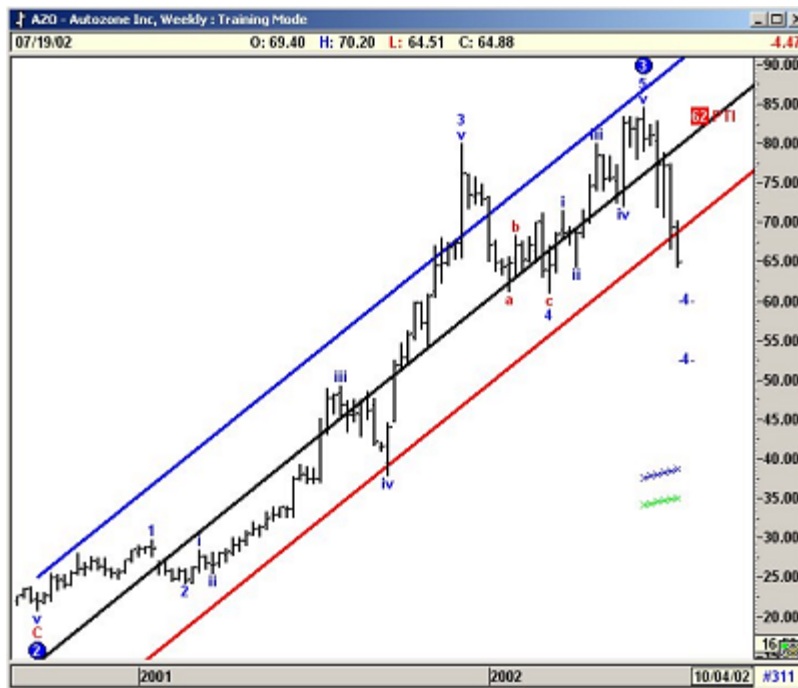
### Take Profits at the End of Wave 3



Figure 15-2a:  Using Regression Trend Channels

## Buy at the End of Wave 4



**Figure 15-2b: Using Regression Trend Channels**
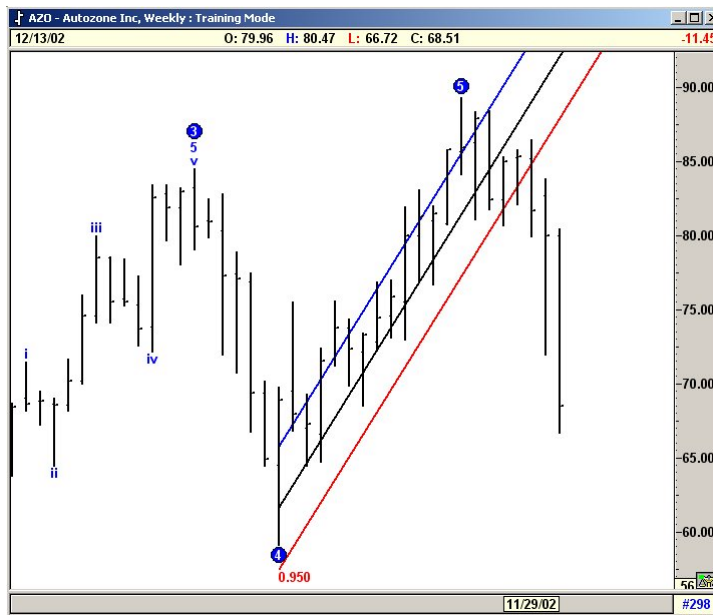
## Sell at the End of Wave 5



**Figure 15-2c: Using Regression Trend Channels**

# *Notes*