

Horizontal Lines Are Your Friend

By Sunny J. Harris

You have surely heard “the trend is your friend” many times over your trading life. While that may be true, markets only trend about 30% of the time and are thus in consolidation mode 70% of the time. So, the trend is your friend 30% of the time—what do you do about the other 70%?

I have found, in my 40+ years of trading and investing, that two types of horizontal lines far out-perform the simple trend following adage. Long ago I started calling my lines and indicators “attractors.” By choosing the word attractor, I not only include support and resistance, but the additional mean reversion indicators like moving averages and my SunnyBands and my Dynamic Moving Average (DMA). Further, I find that parallel channel lines work very well also. The trick is to blur your eyes and see “what is true.” When I’m doing that, I first look at the left of the chart, not the right. I am looking for configurations that have appeared in the past and might likely influence what is going on at the right side of the chart.

Let me start with some pictures. The first figure is a chart with no attractors on it, just raw data. See Figure 1.



FIGURE 1—Continuous contract of the eMini S&P 500, no lines

Take a look at Figure 1. Take a pen or pencil and mark on the chart what you see. I call this asking “what is true?” You might mark the trends, you might mark the consolidation periods, we each see something different when we look at a chart. As for me, I look for areas where price has stalled, either on the way up or on the way down. In the next figure I’ll show you the horizontal lines (attractors) I spotted. In three cases I dropped a horizontal line at a prominent peak. For the fourth line, on the far right of the chart, I dropped the line where price had made sort of a flat peak followed by higher highs and retracement back to the area where the flat high was. That’s a true attraction, where price is stalling on the way up and again on the way down. I call this situation “confluence.”



FIGURE 2—Attractors at turning points and stalls in the price movement

On the next chart I'll show you one of my favorite tools, Fibonacci retracement lines.

Although earlier discovered by Indian mathematicians, we attribute the Fibonacci sequence to Leonardo de Pisa aka Leonardo Bonacci and thus Fibonacci (the son of Bonacci). The well-known sequence is seeded with the values 1 and 1 and subsequent numbers are then constructed by adding together the previous two to form the next. For instance, $1 + 1 = 2$ and $1 + 2 = 3$ and $2 + 3 = 5$, resulting in the sequence 1, 1, 2, 3, 5 ... Of particular interest to traders are the ratios of adjacent numbers in the sequence. As one progresses in the sequence, the ratios converge upon 0.618 as can be seen in the Table 1.

Fibonacci Number	Ratio of Adjacent Numbers
1	
1	1
2	0.5
3	0.66666667
5	0.6
8	0.625
13	0.61538462
21	0.61904762
34	0.61764706
55	0.61818182
89	0.61797753
144	0.61805556
233	0.61802575
377	0.61803714

TABLE 1: Fibonacci Sequence and Ratios

If, instead of dividing adjacent numbers, we skip one and divide the first by the third and the second by the fourth, etc, we converge on the ratio 0.382. Taken together these two values form the basis of the Fibonacci retracement and extension lines we have available in most trading software packages. In Figure 3 I've dropped the Fibonacci lines on the chart, rather than draw horizontal lines. For this example, I chose the Covid Crash of 2020 for the high and low values.



FIGURE 3—Fibonacci Retracement & Extension Lines

Notice how often price “stumbles” when approaching and testing the Fibonacci lines. I call these lines attractors also. Price tends to make runs for the ratio levels and hesitate, pull back and then make its way on forward as it approaches each of the attractors. In my own trading I rely heavily on the Fibonacci lines, especially the 38.2% and 61.8% lines. In Figure 3 we see that price made a plateau the week of January 10, 2021 right at the 138.2% line, at a price of 3,833.40. The market neither moved up nor down that week, but stalled right at the Fibonacci line and then fell back to the 123.60% line. It’s more than remarkable; it’s prescient.

Another type horizontal line that is useful can be placed on an intraday chart to highlight the day’s opening, high and low. I call this quite simply “Day Open-Hi-Low.” The intraday low is a red line, the high is a green line and the open is a blue line. These are shown in Figure 4.

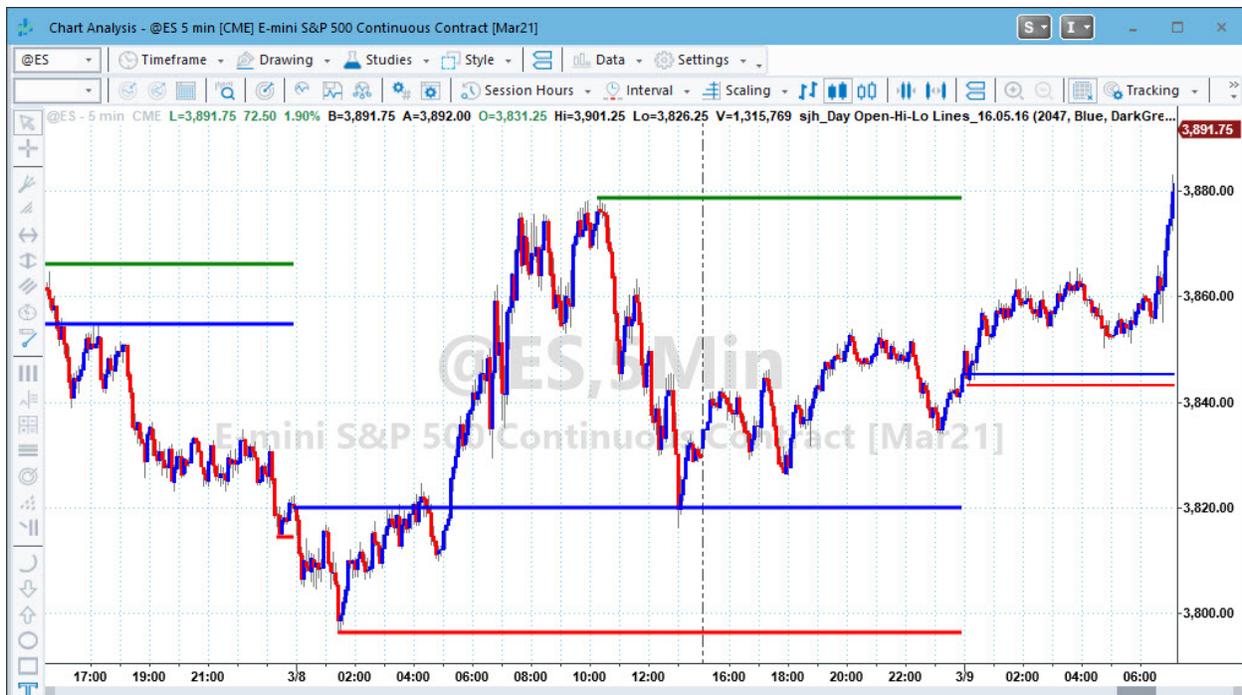


FIGURE 4—Open, High and Low Lines

Again, we see that the lines act as attractors with price touching the blue line (which denotes the day's opening price) at about 1:30am on 3/8/21, retracing back down from the line, and after making a new high it marches right back down to the blue line once again. I not only find it fascinating; I trade off of these lines real-time.

Adding another indicator to this chart, see Figure 5, makes the lines even more evident. I like to keep everything simple while I'm trading; I don't want to think about anything else but the trades. So, I color the day session red and blue and the 24-hour session cyan and magenta. This indicator is simply called "DaySessions," From Figure 5 we can see that the day session opens at 6:30am PST when the candles become red and blue, while the 24-hour session is in cyan and magenta candles.



FIGURE 5—Day Sessions and 24-Hour Sessions Painted Different Colors

With the chart colorized it is very apparent that the day session retraced right to the midnight opening price at the blue horizontal line. That was a 60-point short trade!

As I'm writing this article, I am trading the eMini S&P 500 and watching closely as price moves tentatively between the two horizontal lines. Notice that the range of the bars has narrowed and price is trying to find a direction.



FIGURE 6—Price Forming Between Two Horizontal Lines

Before I complete this article, price will have penetrated the lower line as traders exit their long positions before the final bell, or it will burst on out of the confinement in an attempt to position itself for another trading session. This is the beauty of horizontal lines. They highlight firm areas where when penetrated we know that price action has changed.

It is only a matter of minutes later now, and the direction of the breakout is clear. With a short entry on a stop right below the lower horizontal line, a quick \$500 per contract was available in 15 minutes' time. Figure 7 shows the current chart.



FIGURE 7—Breakout of the Horizontal Line

Having said I love Fibonacci lines, let's put them on this chart and see where price is likely going. See Figure 8.



FIGURE 8—Fibonacci Retracements on the Chart

Looking at this chart in real-time, we can see that price has either dropped hastily below the 23.6% line and will pop back up to it as support, or it will continue on down to the 38.2% retracement line, which is more likely. It is 2 minutes before the close and I'm betting on traders exiting their long positions to be flat for the next day. This is earnings season and lots of news comes out after the close of the market, making for surprises both to the up- and down-side, so it's riskier to hold positions overnight.

Take a look at the chart in Figure 8 again. It is now past closing time and the market is closed for 15 minutes before the night session begins. Look where the eMini ended! Right at the 38.2% line. It didn't exactly touch it, if I drew the lines right, but it was within millimeters. This leads me to think that it will complete the move when the market opens again in 15 minutes.

I have shown you what I do with horizontal lines, of several kinds. Of course, there are more uses than just these, but you can see that horizontal lines hold much promise. By themselves, with no other indicators, you have the beginnings of a hearty trading strategy. I have horizontal lines of attraction on all my charts and look to them to illuminate future price action.

If I were only allowed one indicator or tool on my trading chart, it would definitely be Fibonacci retracements and extensions. With that I know most of what I need to know.

If you have questions or comments, or just want to talk about the markets, here is my information:

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