

Wicked Stocks Support Series



How to Construct Speed Lines

Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.

Introduction

- Speed Lines offer a unique approach to understanding market trends and potential points of reversal.
- Rooted in the concept of trendlines and percentage retracements, they were pioneered by Edson Gould. This article breaks down the essential components of Speed Lines for ease of comprehension.



What Are Speed Lines?

- Speed Lines are a form of technical analysis that merges the principles of trendlines with the 1/3 and 2/3 percentage retracements. They measure the pace (or speed) at which a trend ascends or descends.

Origins of Speed Lines

- The Speed Line technique is an adaptation of the practice of splitting a trend into thirds. It bears resemblance to the percentage retracement method, but with a focus on the trend's rate of change.



Constructing an ascending Speed Line

In a Bullish Trend:

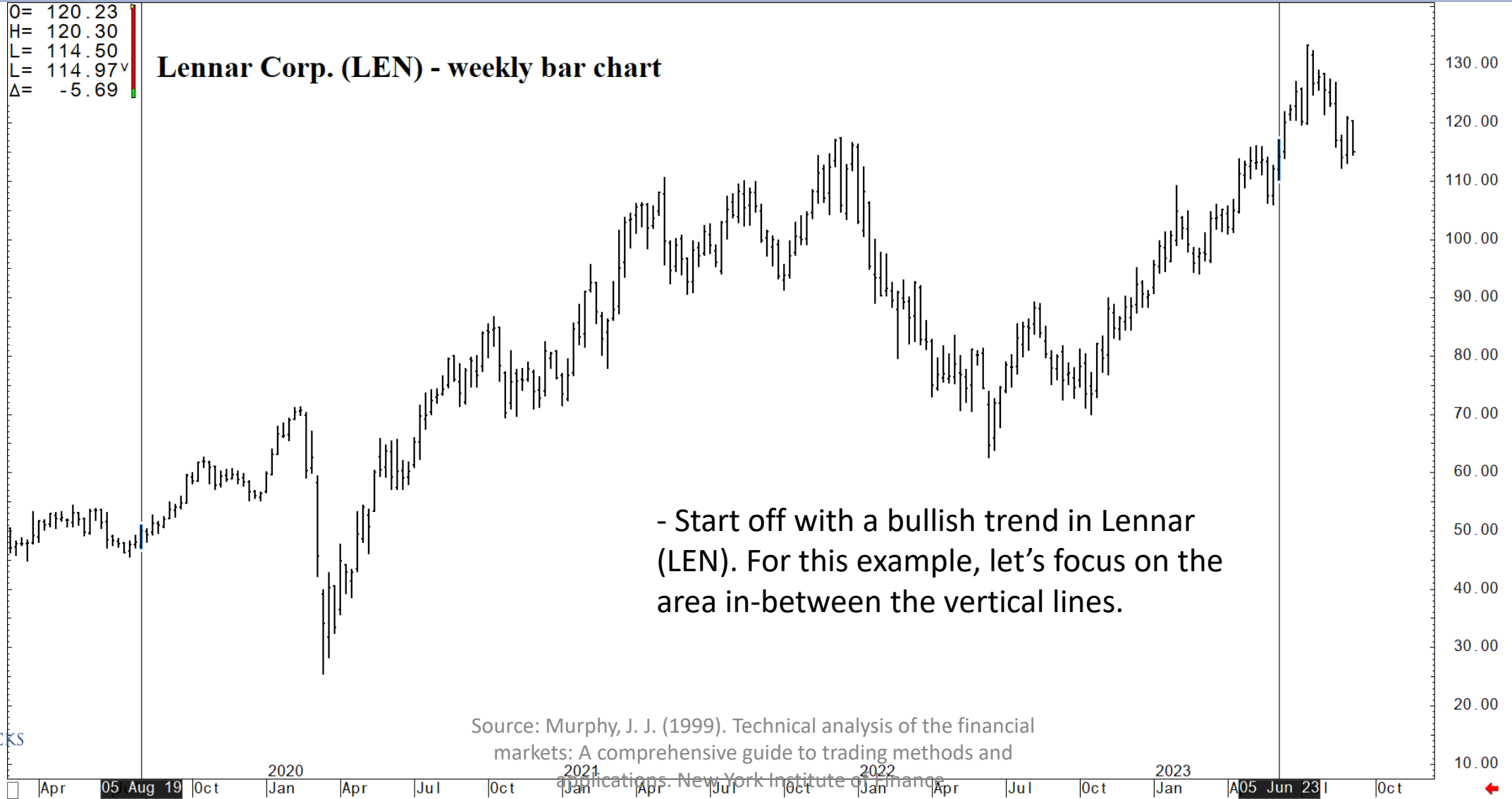
- 1.Starting Point:** Begin by identifying the highest point of the current uptrend.
- 2.Draw a Vertical Line:** From this high point, extend a vertical line downwards to the trend's starting point.
- 3.Divide the Line:** Split this vertical line into three equal sections, marking the one-third and two-thirds points.
- 4.Draw the Trendlines:** From the trend's starting point, draw two lines through the one-third and two-thirds markers.
- 5.Support:** In a bullish trend, the speedlines you draw will act as support.



Bullish Trend Example

O= 120.23
H= 120.30
L= 114.50
L= 114.97v
Δ= -5.69

Lennar Corp. (LEN) - weekly bar chart

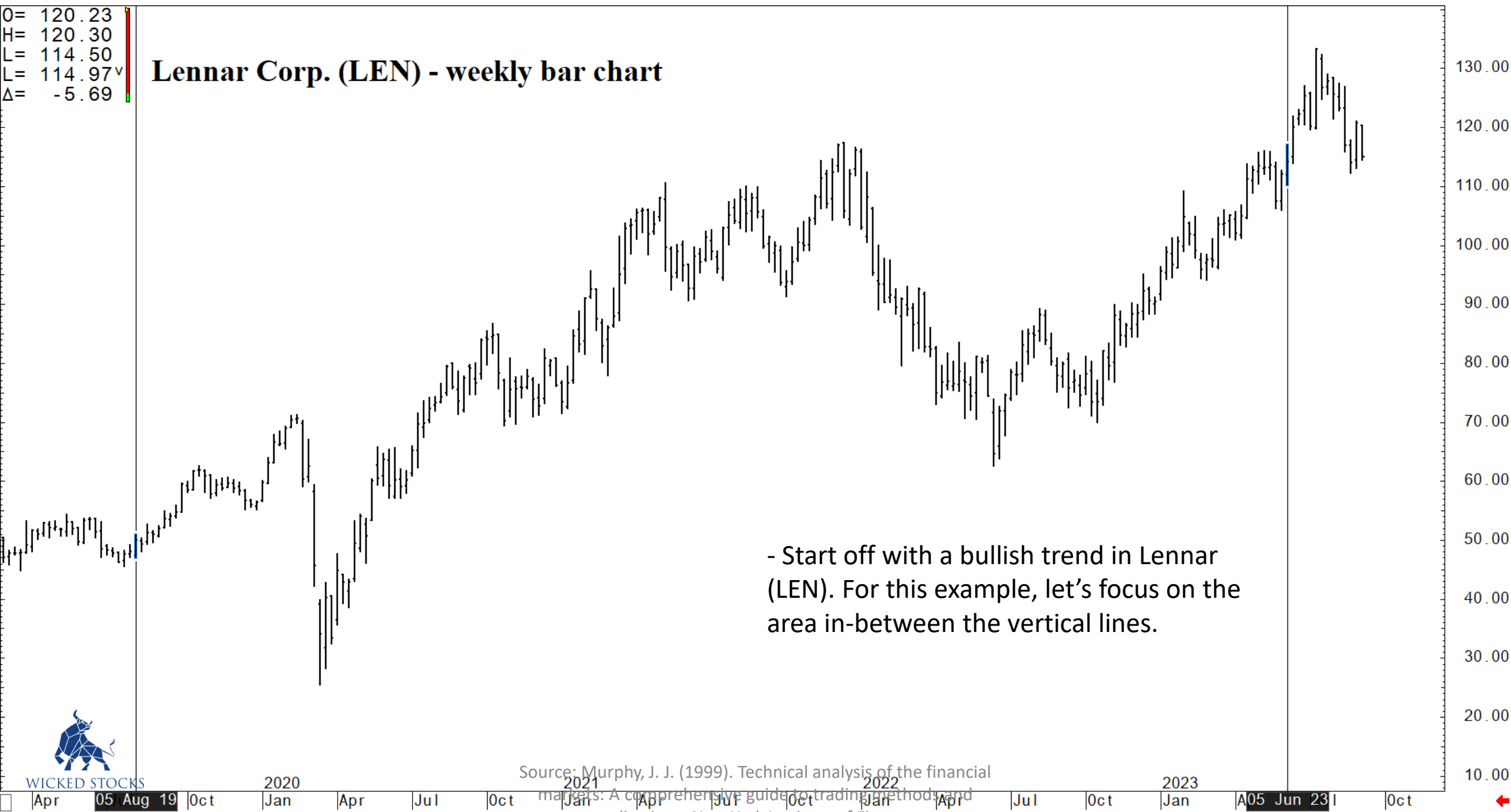


Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and



O= 120.23
H= 120.30
L= 114.50
L= 114.97v
Δ= -5.69

Lennar Corp. (LEN) - weekly bar chart



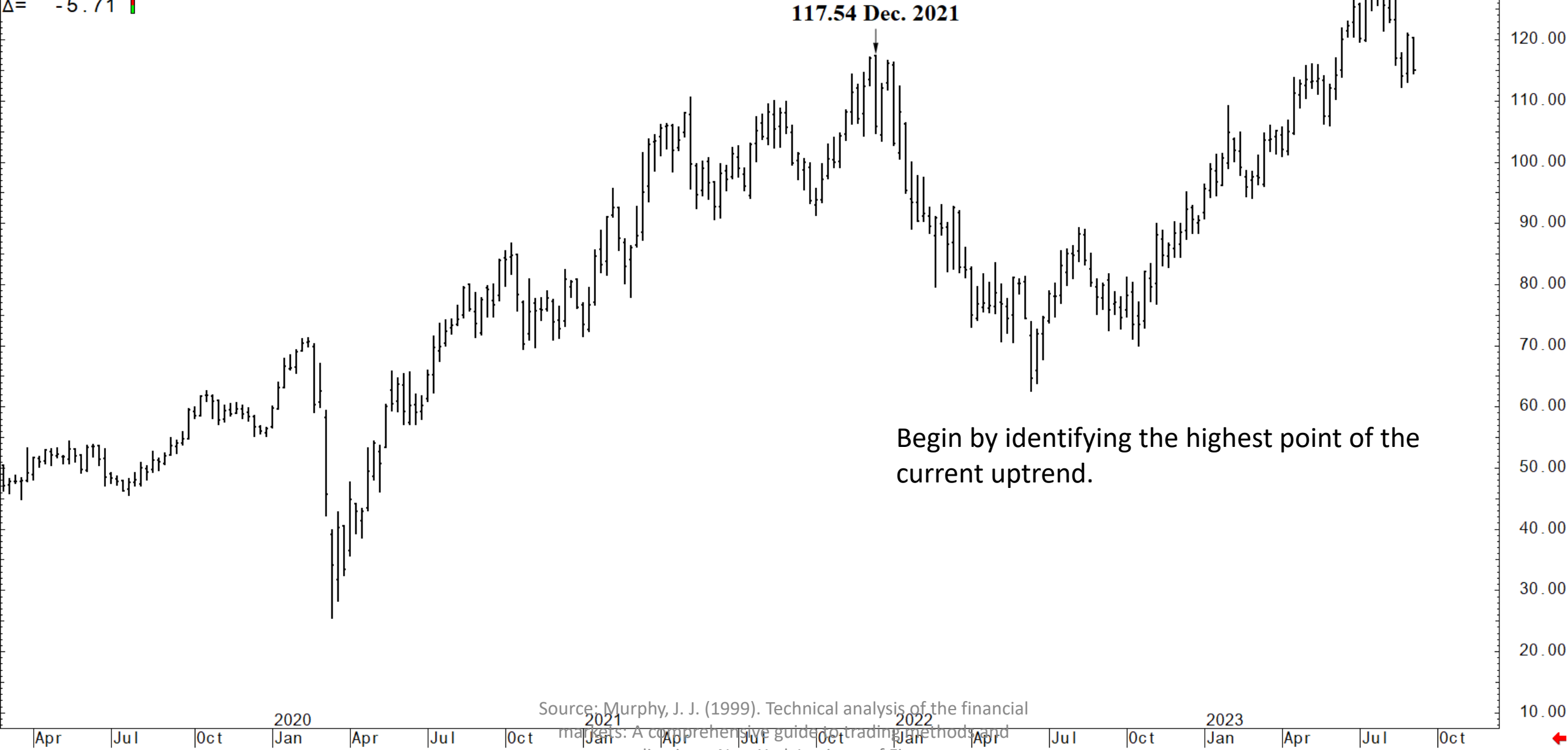
- Start off with a bullish trend in Lennar (LEN). For this example, let's focus on the area in-between the vertical lines.



Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.

O= 120.23
H= 120.30
L= 114.50
L= 114.95v
Δ= -5.71

Lennar Corp. (LEN) - weekly bar chart

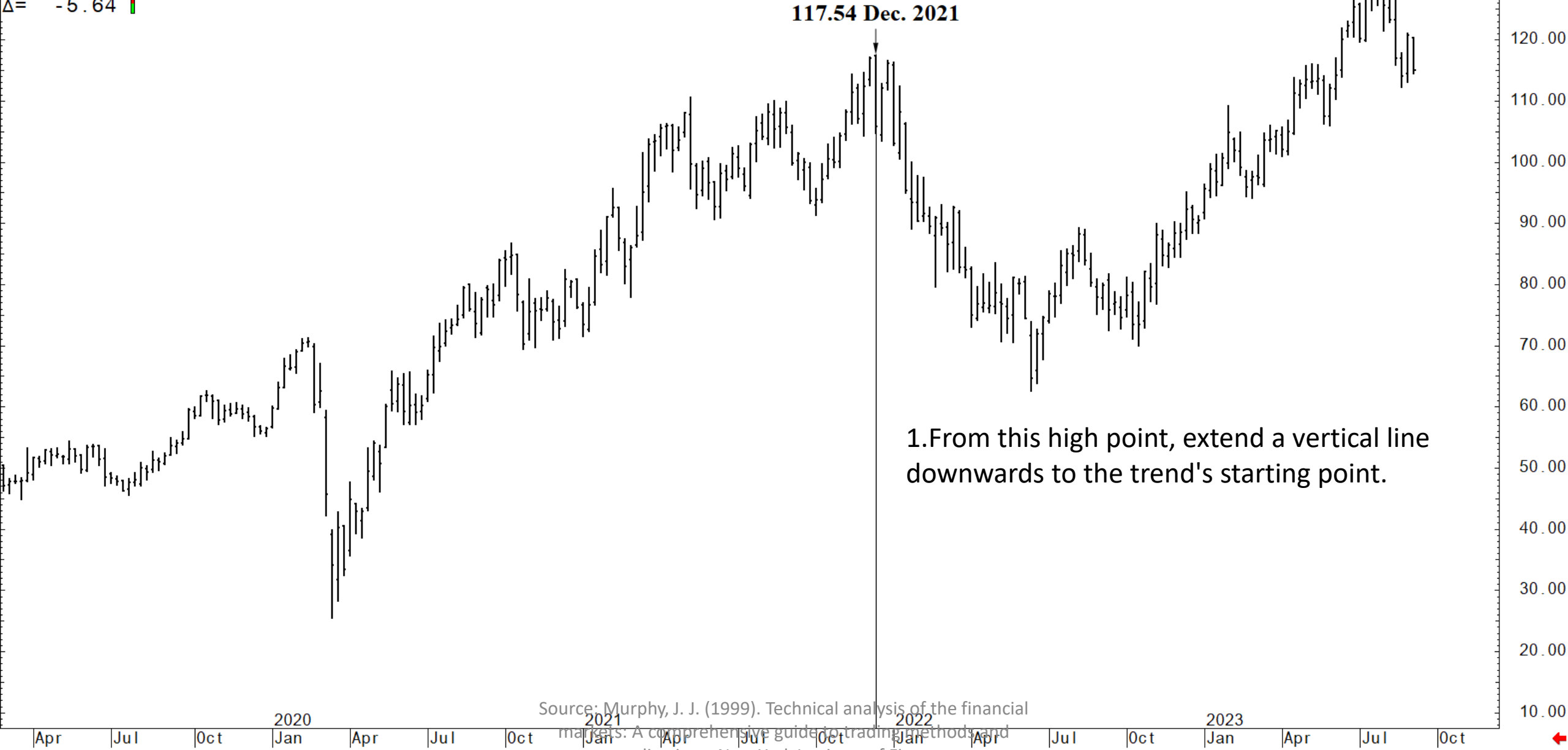


Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.



O= 120.23
H= 120.30
L= 114.50
L= 115.02
Δ= -5.64

Lennar Corp. (LEN) - weekly bar chart

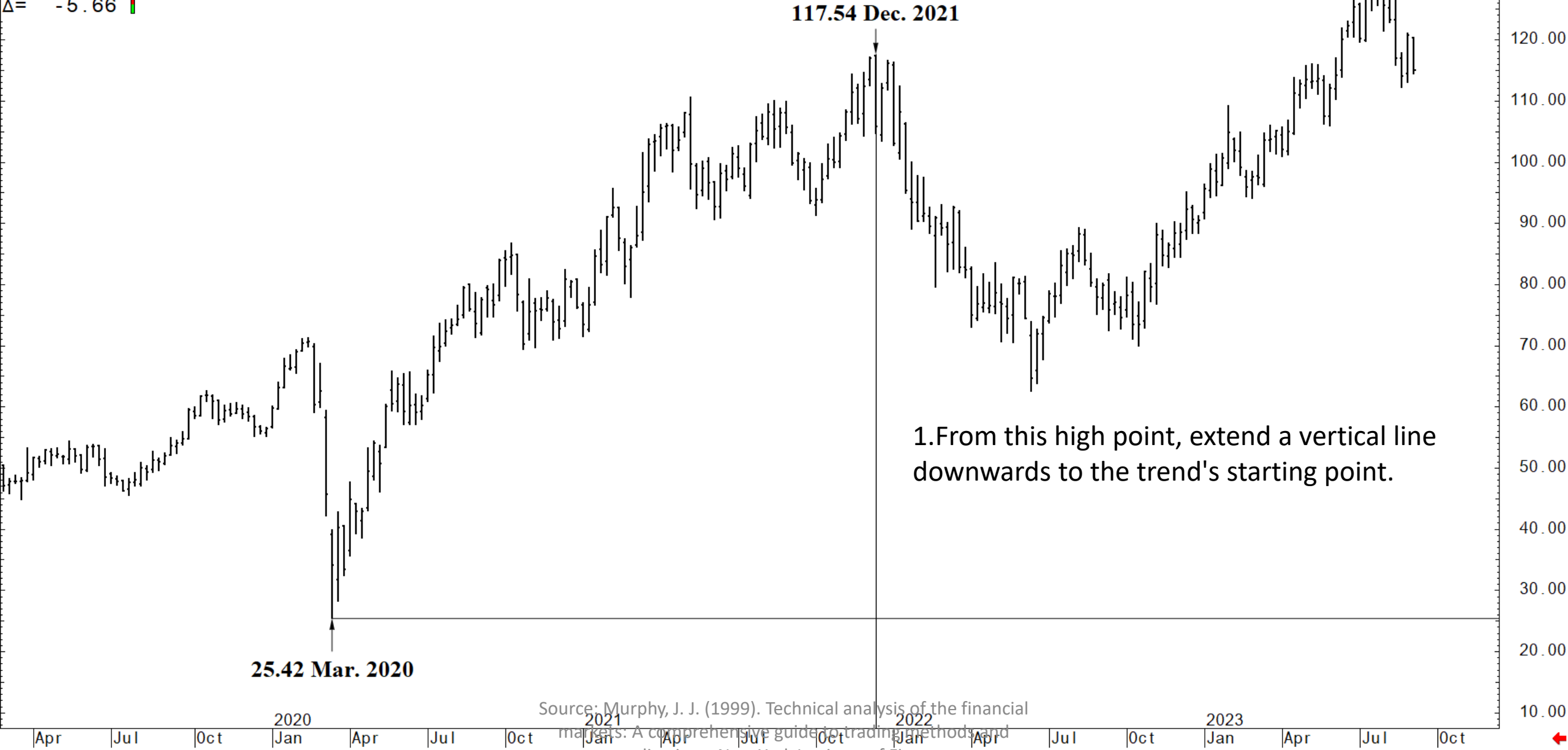


Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.



O= 120.23
H= 120.30
L= 114.50
L= 115.00v
Δ= -5.66

Lennar Corp. (LEN) - weekly bar chart

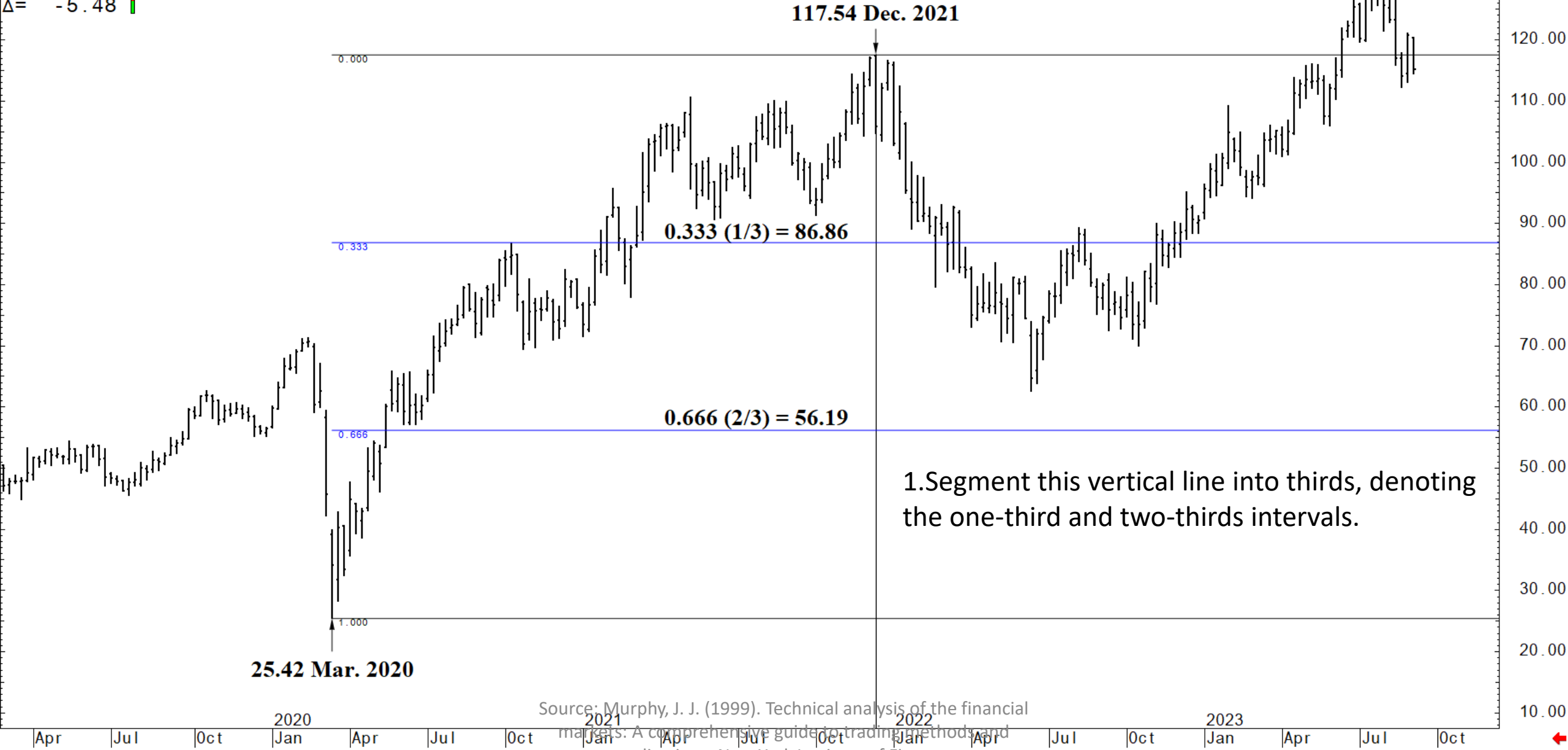


Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.



O= 120.23
H= 120.30
L= 114.50
L= 115.18^
Δ= -5.48

Lennar Corp. (LEN) - weekly bar chart



Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.

O= 120.23
H= 120.30
L= 114.50
L= 115.02^
Δ= -5.64

Lennar Corp. (LEN) - weekly bar chart



117.54 Dec. 2021

0.333 (1/3) = 86.86

0.666 (2/3) = 56.19

25.42 Mar. 2020

1. From the trend's starting point, draw two lines through the one-third and two-thirds markers.

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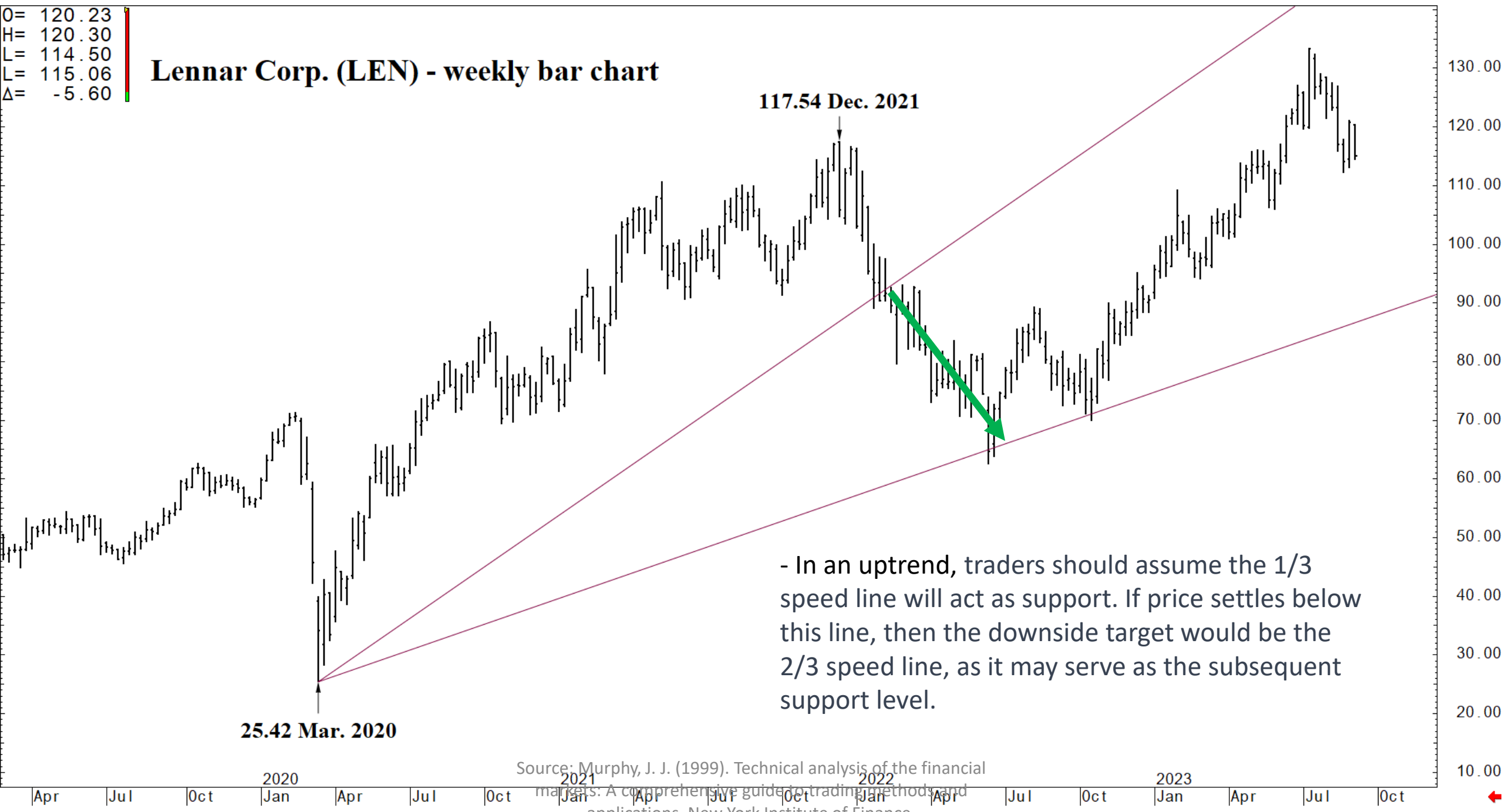
O= 120.23
H= 120.30
L= 114.50
L= 115.06
Δ= -5.60

Lennar Corp. (LEN) - weekly bar chart



O= 120.23
H= 120.30
L= 114.50
L= 115.06
Δ= -5.60

Lennar Corp. (LEN) - weekly bar chart



- In an uptrend, traders should assume the 1/3 speed line will act as support. If price settles below this line, then the downside target would be the 2/3 speed line, as it may serve as the subsequent support level.

Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.

O= 120.23
H= 120.30
L= 114.50
L= 115.06
Δ= -5.60

Lennar Corp. (LEN) - weekly bar chart



Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.

Constructing a Descending Speed Line

In a Bearish Trend:

- 1.Starting Point:** Identify the lowest point of the ongoing downtrend.
- 2.Draw a Vertical Line:** From this low point, extend a vertical line upwards to the point where the trend started.
- 3.Divide the Line:** Segment this vertical line into thirds, denoting the one-third and two-thirds intervals.
- 4.Draw the Trendlines:** Create lines starting from the onset of the trend, intersecting at the one-third and two-thirds markers on the vertical line.
- 5.Resistance:** In a bearish trend, your Speed lines will act as resistance



Bearish Trend Example



O= 101.97
H= 102.96
L= 101.52
L= 102.36 ✓
Δ= +0.65

NIKE Inc. (NKE) - weekly bar chart

- Start off with a bearish trend in NIKE (NKE)



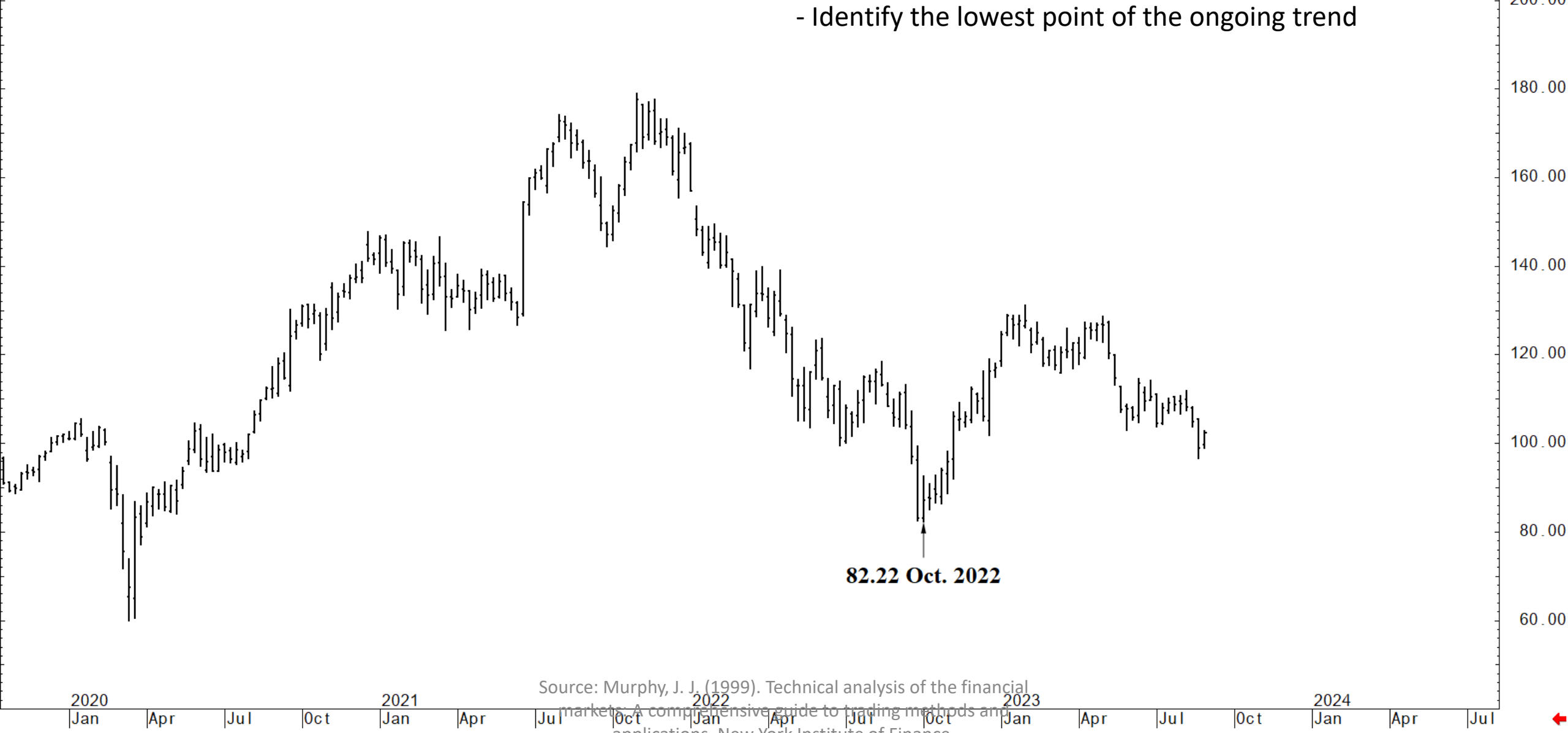
Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.



O= 101.97
H= 102.96
L= 101.52
L= 102.36 ✓
Δ= +0.65

NIKE Inc. (NKE) - weekly bar chart

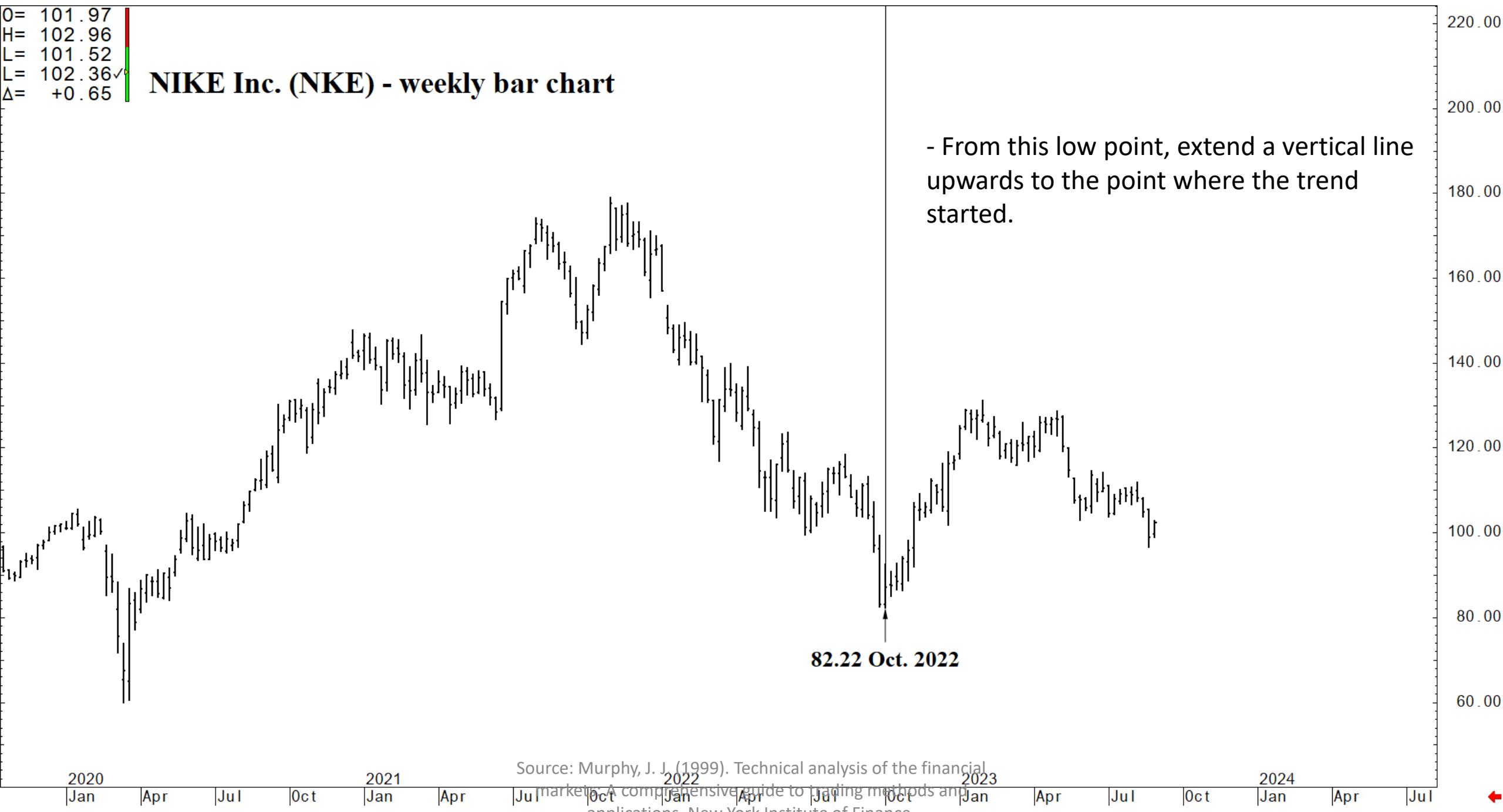
- Identify the lowest point of the ongoing trend



Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.

O= 101.97
H= 102.96
L= 101.52
L= 102.36 ✓
Δ= +0.65

NIKE Inc. (NKE) - weekly bar chart



- From this low point, extend a vertical line upwards to the point where the trend started.

82.22 Oct. 2022

Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.



O= 101.97
H= 102.96
L= 101.52
L= 102.36 ✓
Δ= +0.65

NIKE Inc. (NKE) - weekly bar chart



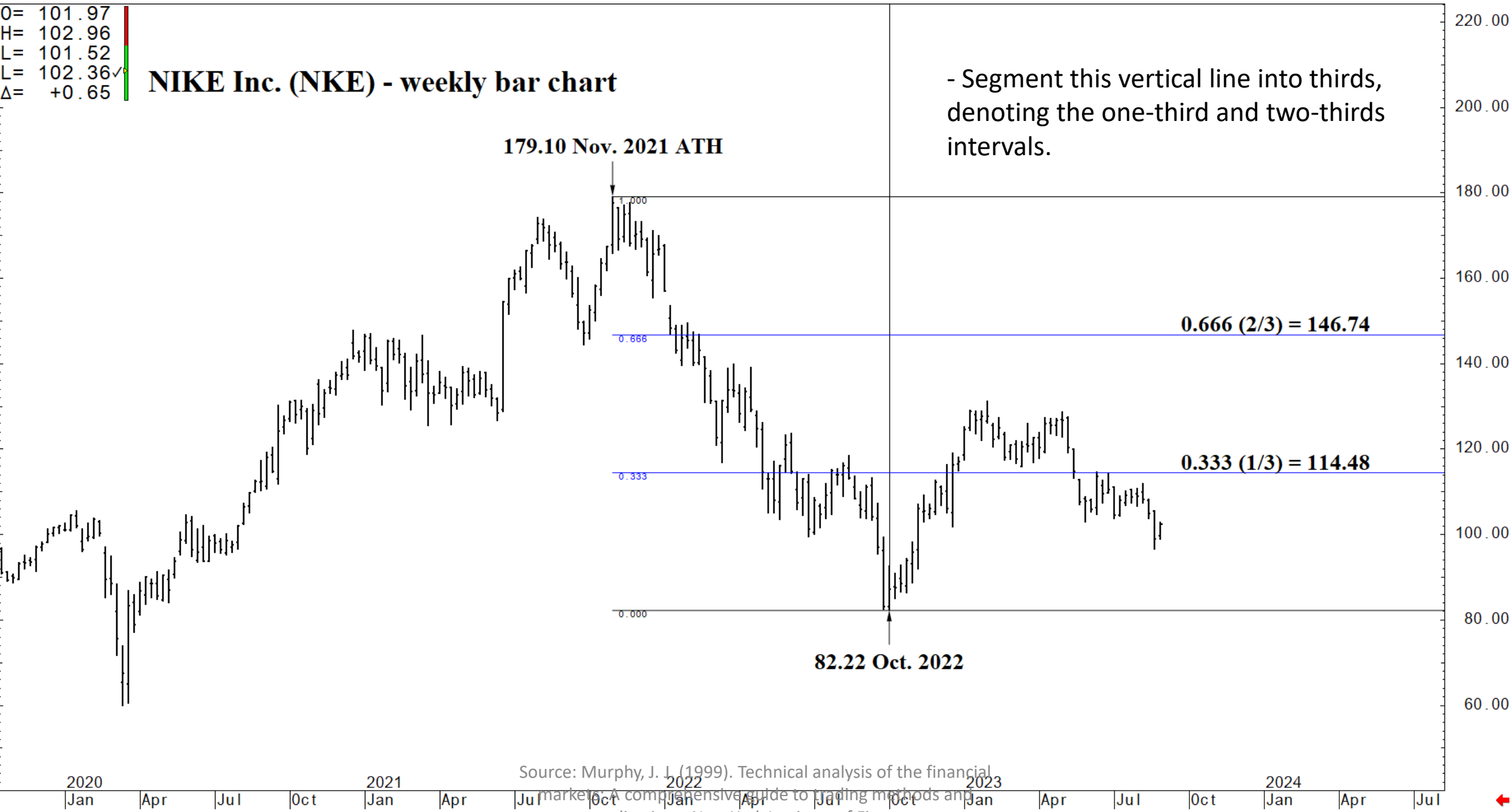
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O= 101.97
H= 102.96
L= 101.52
L= 102.36 ✓
Δ= +0.65

NIKE Inc. (NKE) - weekly bar chart

- Segment this vertical line into thirds, denoting the one-third and two-thirds intervals.



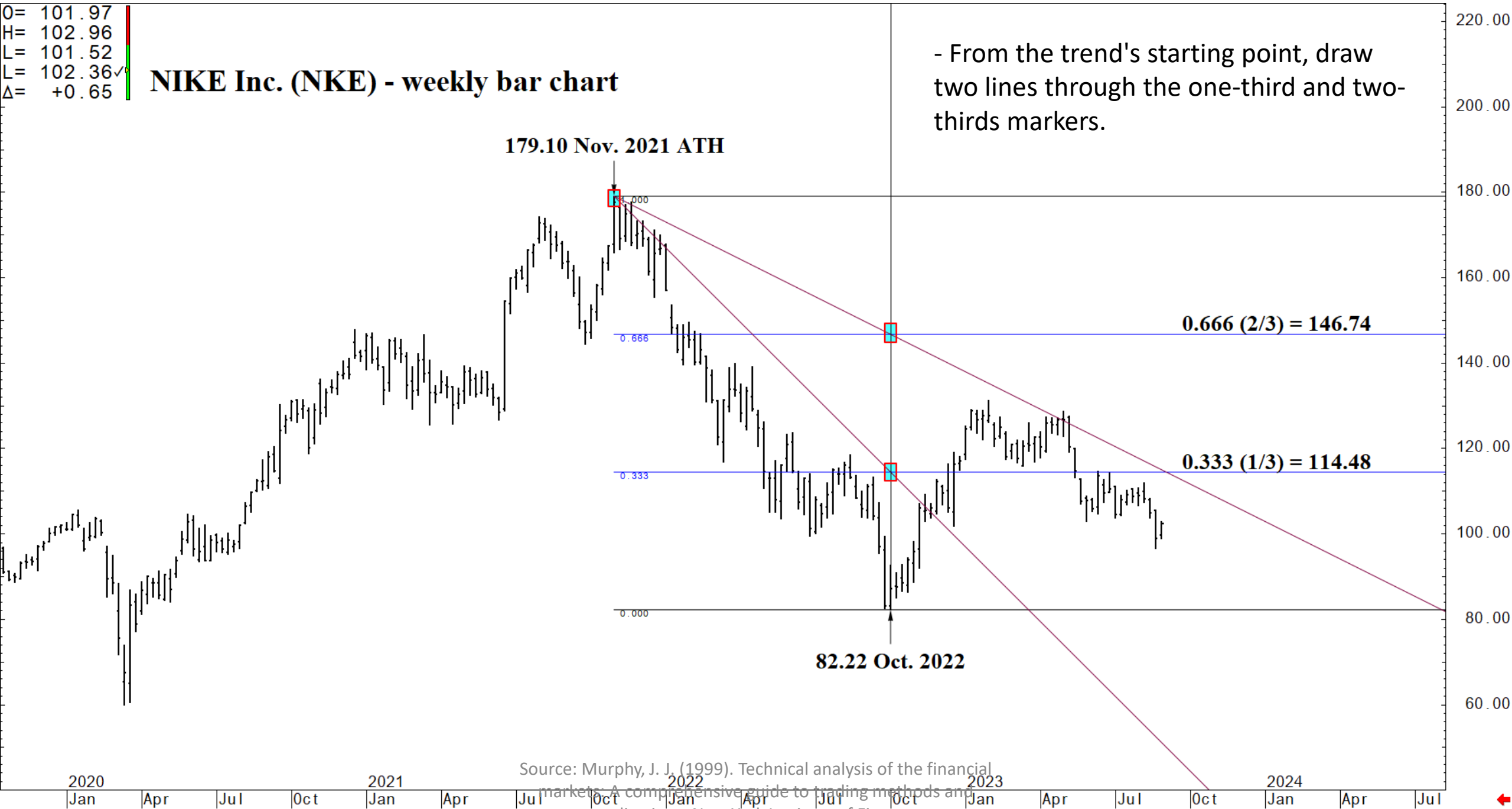
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O= 101.97
H= 102.96
L= 101.52
L= 102.36 ✓
Δ= +0.65

NIKE Inc. (NKE) - weekly bar chart

- From the trend's starting point, draw two lines through the one-third and two-thirds markers.



O= 101.97
H= 102.96
L= 101.52
L= 102.36 ✓
Δ= +0.65

NIKE Inc. (NKE) - weekly bar chart



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O= 101.97
H= 102.96
L= 101.52
L= 102.36 ✓
Δ= +0.65

NIKE Inc. (NKE) - weekly bar chart

- In a downtrend, traders should assume the 1/3 speed line will act as resistance. If price settles above this line, then the next upside target would be the 2/3 speed line, as it may serve as the subsequent resistance level.



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O= 101.97
H= 102.96
L= 101.52
L= 102.36 ✓
Δ= +0.65

NIKE Inc. (NKE) - weekly bar chart



- In a downtrend, closing above the 2/3 speed line signals a trend reversal, indicating bullish continuation.

179.10 Nov. 2021 ATH

82.22 Oct. 2022

Source: Murphy, J. J. (1999). Technical analysis of the financial markets: A comprehensive guide to trading methods and applications. New York Institute of Finance.

Significance of Speed Lines

- **Support and Resistance:** In an uptrend, these lines act as support during market corrections. If broken, they switch roles and become resistance lines.
- In a downtrend, these lines act as resistance during market corrections. If surpassed, they switch roles and become support lines.
- **Continuous Adjustment:** Whenever there's a new high in an uptrend (or a new low in a downtrend), the lines must be redrawn.
- **Intersection with Price Action:** Unlike other trendlines that are drawn below lows or above highs, speed lines sometimes intersects with price action.
- **Predicting Corrections:** During a bear trend, the upside moves are often contained by the descending 1/3 speed line. If it pushes through this resistance, speed line analysis dictates the descending 2/3 speed line to be the next objective. The opposite is true in a bull trend.



Relating Speed Lines to Other Concepts

- **Comparison to Fibonacci:** Speed line's division into thirds is reminiscent of Fibonacci retracements, which work with 38.2% and 61.8% levels.
- **Dow Theory:** This theory suggests that securities generally retrace between $1/3$ to $2/3$ of their prior movement during corrections. Using speed lines can help analysts predict where to expect resistance or support.



Relating Speed Lines to Other Concepts

- **Dynamic Application:** Speed lines can either be kept static or adjusted with new highs or lows, which can either narrow or broaden the lines and their potential support or resistance points.
- In the above examples, let's say the stocks rally to new highs or drop to new lows. Some technicians will keep the speed lines created and assume they will continue to act as support or resistance.
- At Wicked Stocks we adjust our speed lines with each new high or low created.
- This allows us to analyze the most recent trend created.

Concluding Thoughts

- As with any analytical tool, speed lines should not be used in isolation.
- They work best when combined with other technical analysis tools.
- They offer immediate insights into potential support or resistance levels, helping traders make informed decisions.



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