

Trending Stocks – 7 Things You Need to Know Before Investing

#1 – What is the Definition of a Trending Stock?

A trending stock is one that is increasing or decreasing in value on a defined slope.



Can you see how hard the stock is trending up and to the right?

When you see a trending stock, it should pop out at you like the above chart.

#2 – Structure of a Trending Stock

There are a few key components of a trending stock which will help you identify them quickly on the chart.

Higher Highs and Higher Lows

For stocks trending higher, you want to see a pattern of higher highs and higher lows. This means the stock is able to push to new highs with each new round of buying.

Then on [pullbacks](#) where traders are [taking profits](#), the stock does not breach the prior low. An easy way of thinking about this is to imagine you are looking at a staircase on a two-dimensional view and you are watching someone go up the stairs.

You will never have one stair below the prior one. This same logic applies to a trending stock.



Stairs Higher

Time is a Factor

The other key component often not discussed is time. What I mean by this is that the stock needs to move and move quickly if it is trending.

If traders are actively buying a stock, then they should not be able to stay range-bound for any extended period of time. The key thing here is you want the stock to have some level of momentum.

So, if you look at the stock and it is trending up, but it's a slow process, then you are better off looking for other opportunities.

#3 – How Long Can Stocks Trend?

This is a tough question to answer. If you are going to trade trending stocks, the first thing you need to realize is there are no limits on how high or low a stock can run.

Well, a stock can only run down to zero, but on the upside, there is no limit.

This doesn't mean you hold stocks until the end of time. What it means is that you need to define a system to uncover when a stock is no longer trending and until that rule is triggered should you look to get out of the position.

Otherwise, let the stock do the hard work and do not impede its progress by getting out too early.

#4 – Can you Find Trending Stocks Intraday?



Locate

The beautiful thing about the stock market is things happen on major and minor scales.

All of the pieces are moving at times in unison and other times in opposition, in hopes of finding the balance between bulls and bears.

So, it is completely possible to locate stocks that are trending on an intraday basis. Here are a few rules to apply to the filtering process.

The Move Starts in the Morning

The majority of trending stocks will start their move higher in the morning. This is because there is an inflow of volume and excitement on the open from some sort of news event.

This does not mean you can't find stocks that start trending higher in the middle of the day or in the afternoon. But, the [morning breakout](#) trades gives you the opportunity to ride the

move higher all day.



Intraday Trending Stock

The above chart is of the ticker IRWD. Notice the price expansion in the morning.

You want to see this level of price expansion between 9:30 and 10:30 am.

Again, time is an important element and you need to see things move quickly in your favor.

Midday Slow Down

The next thing you will notice is the stock will begin to roll over around lunch with low volume. This is another buying opportunity to open or add to an existing position.

How to Trade a Trending Stock

You can then place your stop right below the low of the midday and then use a [technical indicator](#) or [price action](#) to ride the

trend into the close.

#5 – What Are the Odds of Finding Trending Stocks?

In my experience markets only trend 20% of the time. Meaning if you are a [day trader](#) or [swing trader](#), you can expect the market to have sizeable moves either way 4 or 5 days out of the month on average.

Most of the time the market is more rangebound.

The challenge with finding trending stocks is that many stocks will demonstrate strong trending behaviors. However, as profit takers look to exit their position, stocks will fall back to their original breakout point.

This will lead to you giving back sizeable gains at times.

The part not discussed as much is what this can do to your psyche. Meaning you will start this cycle of seeing your account up, only to later see the gains evaporate.

This process over time can lead you to exit positions too early. Something about the market is that you will somehow exit the ones that will in fact break in your favor while holding on to the ones that don't have a shot.

You Need to Choose

So, I need to close out this section with one simple question. What kind of trader are you? Are you one that wants to ride the big trends all the way and give stocks room to bounce around until your target is hit?

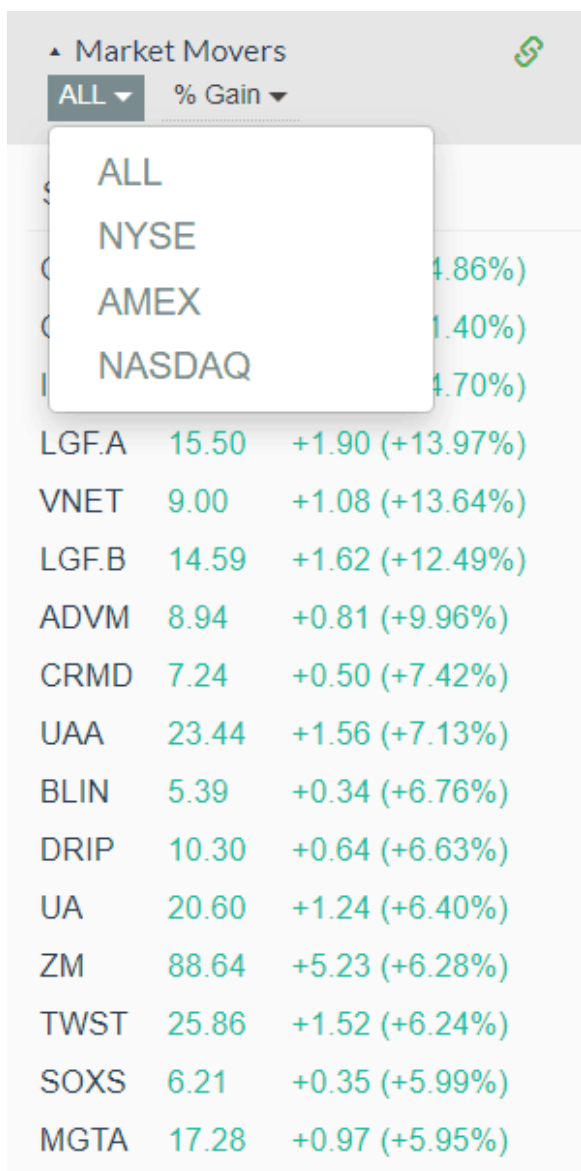
Or do you want to make your profits within the peaks and valleys and not concern yourself with having to find stocks that are trending hard in one direction?

You need to figure this piece out, in order to approach each trade with resolve and with clear boundaries and rules for how you will react to the stock's performance.

#6 – How Do You Find Trending Stocks?

The simple answer is you will need a scanner. The scanner can be as simple or complicated as you want to make it.

We are currently building out a scanner in [Tradingsim](#) that will have dozens of filters so you can locate the best trading opportunities within seconds.



The screenshot shows a 'Market Movers' section with a dropdown menu open. The dropdown menu lists 'ALL', 'NYSE', 'AMEX', and 'NASDAQ'. The main table displays a list of stocks with their current price, change, and percentage gain.

Market Movers		
	ALL	% Gain
	ALL	
	NYSE	4.86%
	AMEX	1.40%
	NASDAQ	4.70%
LGFA	15.50	+1.90 (+13.97%)
VNET	9.00	+1.08 (+13.64%)
LGFB	14.59	+1.62 (+12.49%)
ADVM	8.94	+0.81 (+9.96%)
CRMD	7.24	+0.50 (+7.42%)
UAA	23.44	+1.56 (+7.13%)
BLIN	5.39	+0.34 (+6.76%)
DRIP	10.30	+0.64 (+6.63%)
UA	20.60	+1.24 (+6.40%)
ZM	88.64	+5.23 (+6.28%)
TWST	25.86	+1.52 (+6.24%)
SOXS	6.21	+0.35 (+5.99%)
MGTA	17.28	+0.97 (+5.95%)

Trading Stocks Scanner

If you are swing trading, you may not need something as robust and a simple percentage gainers for the day/week will suffice.

#7 – What Indicators Can You Use to Find Trending Stocks?

There are a host of technical tools that can help you identify and trade trendings stocks. Thus far we have covered price action trading strategies where you can review the highs and lows on the chart.

Momentum Indicators

One of the best indicators for uncovering trending stocks are [momentum indicators](#). These indicators have been designed to uncover major shifts in a market or security in order to forecast a potential move.

So, for trending stocks, you want to find a momentum indicator that has a sharp move higher. You not only want to see the move higher, but you want it to come after an extended period of low volatility.



Expansion Before Stock Starts to Trend

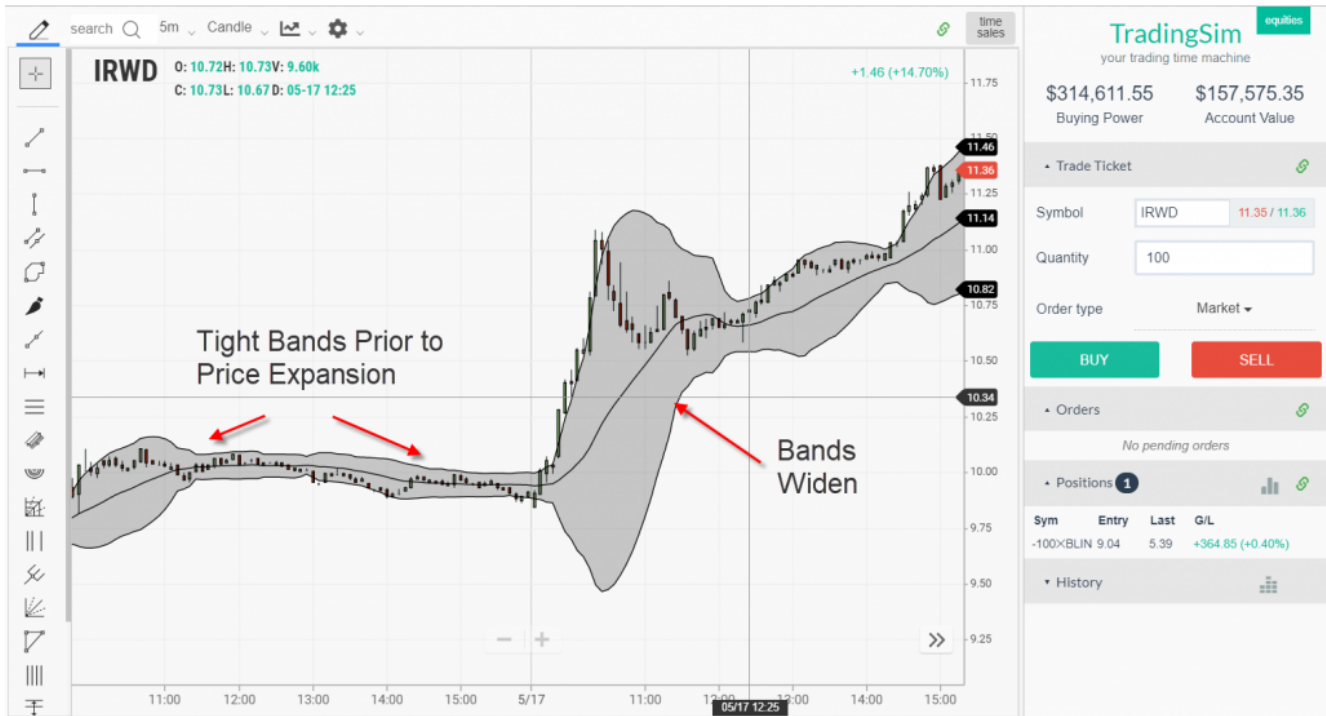
Volatility Indicators (Bollinger Bands)

Not to call out one indicator, but in this case, I think it's valid. [Bollinger Bands](#) are an on-chart [volatility indicator](#) which use a standard deviation of recent price action to forecast how far a stock can move higher or lower.

This is indicated directly on the chart in the form of bands.

Well, one strategy for identifying stocks that are set to make a strong move is to look for stocks that have consolidated tightly, and then have a sharp move higher.

Let's now take a look at the stock IRWD which we reviewed earlier in this article.



Consolidation Before Trend Starts

How Can Tradingsim Help?

The market is always doing one of three things: going up, going down or moving sideways. It's your job as a trader to figure out which way the market is trending and to trade accordingly.

[Tradingsim](#) can provide you the ability to identify stocks that are trending. You can then apply your own custom rules and strategies to identify the most optimal market conditions.

Photo Credit

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