Twitter Thread by Mohit Sharma



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Price Action trading is the ultimate form of trading. Dow Theory is of utmost importance when trading using Price Action.

Sharing these 6 Important Dow Theory lessons for free which is sold as a ■40,000 course.

■■ A Thread ■

It is a technical framework which explains markets movements based on certain rules called the Tenets of dow theory

The 6 tenets are listed below: ■

1. 3 TREND MARKET

a) Primary trends

• Main movements in the market

• Time frame is large (1yr or greater)

b) Secondary trends

• These trends are corrections in the primary trend

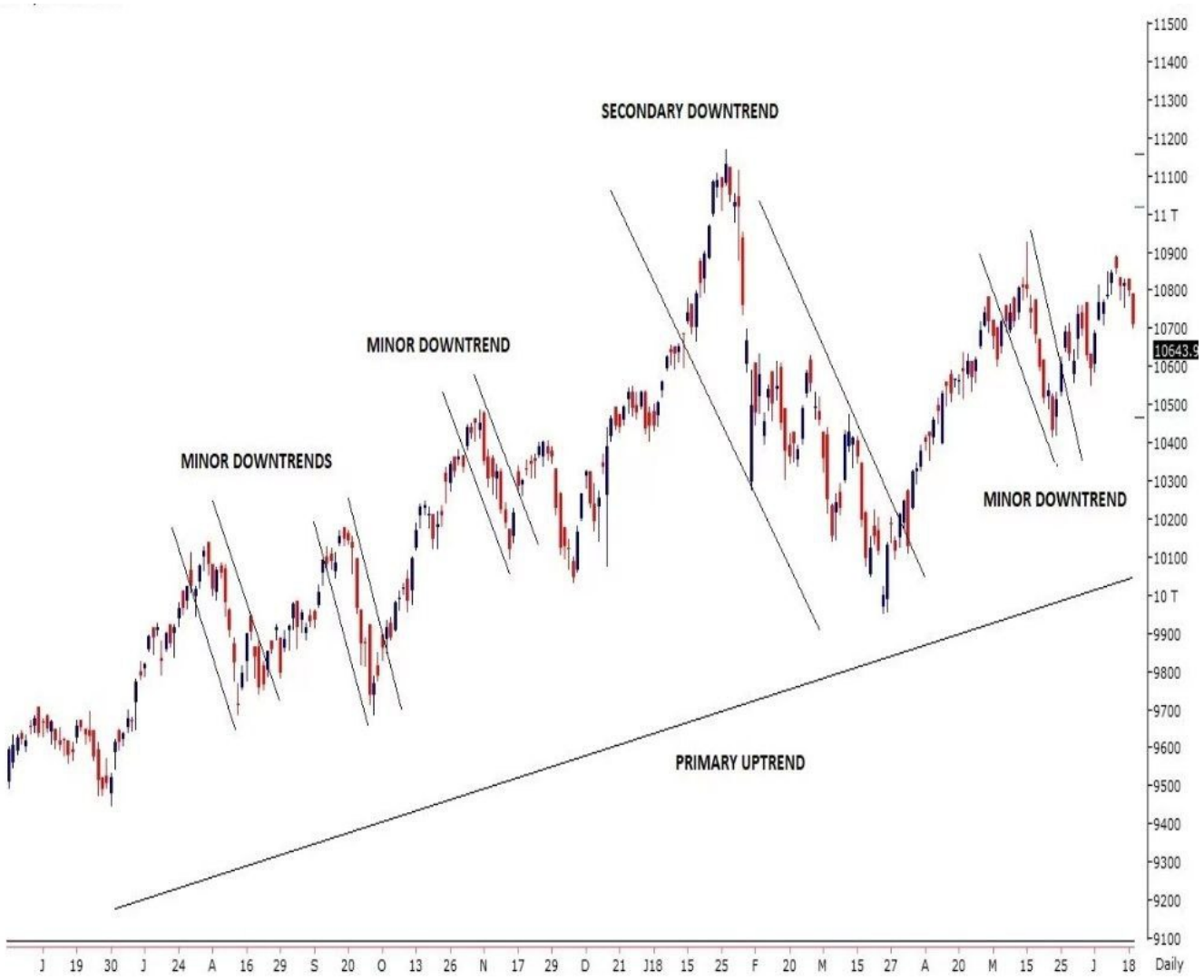
• Direction opposite to the primary trend

• Timeframe is small (few weeks to few months)

c) Minor trends

• Smallest and most insignificant trends

• Smallest time frame (few hours to few days)



2. MARKET DISCOUNTS EVERYTHING

This tenet is essentially made around the fact that the price of a stock incorporates all the information (any events, results, ratios, earning potential, etc.) about the stock.

Even future events are discounted as risk

3. VOLUME MUST CONFIRM THE PRIMARY TREND

Volume should increase if the price is moving in the direction of the primary trend and decrease if it is moving against it.

• Primary trend - Volume increases

• Secondary trend - volume decreases



4. THE INDICES CONFIRM EACH OTHER

This tenet suggests trend is considered to be concrete when all indices move in unison.

I.e indices move in the same direction

For example, trend cannot be classified as bullish if nifty midcap is moving up while other indices are going down

5. 3 PHASES OF PRIMARY TRENDS

a) Accumulation Phase

• Occurs after a downtrend

• Institutions start buying to accumulate stocks at low prices

• Giving the stock an upward nudge

b) Participation Phase

• Retail traders enter after seeing the stock getting stronger

• Price usually skyrockets during this phase

• Taking the stock to new highs

c) Distribution Phase

• Institutions start selling at highs

• While the retail traders are heavily invested

• The sell-off eventually reverses the trend



6. REVERSAL

This tenet states that the primary trend remains in effect until a clear reversal occurs

This could be accompanied with

• Low volume in the trend's direction

• High volume in secondary and minor trends

• Breaking of an imp level

• Breaking of a trendline, etc



IMP CONSIDERATION

Dow theory is based on closing prices and is not concerned about the intraday movements.

For a trend signal to be formed, the closing price has to signal the trend, not an intraday price movement.

That's all about Dow Theory and it's 6 important key lessons.
If you found this useful, please RT this tweet.

Also, for live trading and stock market related updates, you can join my Free Telegram Channel ■

https://t.co/GHfoJevtw1

I hope you've found this thread helpful. ❤■

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> — Mohit Sharma (@mohitsharmadl) November 25, 2022