Twitter Thread by Rahul Valand



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Thread :

Logarithmic v/s Linear scale chart.

Tried to capture the most important (but most ignored) concept in simplest language.

For many people, this is going to be an eye opener.

U may share this thread so that it can reach to maximum people of our traders community.

Story :

Assume that you have been recruited as an Engineer in 1990 in XYZ company with salary of 4 k.

Next year (i.e. 1991) you got 20% salary hike and now your salary is 4k + 20% % rise = 4.8K.

You got extremely happy due to salary increment of 800 INR.

Now after 30 years in 2021, Your salary is 1.2 lac and today your boss has approved salary hike of whooping 800 INR.

But wait, the strange thing is, You are not happy today.

Bt Why??

The reason is simple.

Hike of 800 INR in 1991 was 20% of salary and the same amount now is less than 1% of current salary.

I hope you got my point.

This is where the "Log" chart comes into the picture.

Log chart depicts the price (Y axis of chart) with unit spaced in percentage terms.

Means the distance between 1-100 is bigger than 1100-1200.

While in normal chart the distance between numbers/unit is uniform.

linear chart treats 800 INR in same way irrespective of year.

Refer chart of Asian paint and understand the importance of Log chart in bigger time frame.

The trendline support/resistance on higher timeframe with linear scale chart may give you false signal. (or may not give signal).

(Observe the no of arrow. Difference highlighted in box)



When to use which?

a) For short term / Intraday time frame: Linear chart
b) For long term time frame : Log chart

Bro Tip : Now onwards, Observe the Y axis of chart posted by twitter gurus and notice which one they are using on particular timeframe. i.e Log or linear.

Special thanks to @sanstocktrader & @heartwon who taught me this concept.