John Murphy's

10 Laws of Technical Trading

If you take a long hike without a map, you might still manage to make your way to the end successfully. Along the way, though, you'll probably waste energy, second-guessing each and every turn, and your odds of making a costly mistake will go way up.

The stock market works the same way. Without a roadmap, it's easy to get turned around, especially when prices are moving fast and headlines are pulling you in all directions. And just like hiking, the danger often shows up when you least expect it.

That's why it helps to start with a game plan before you put your money at risk. John Murphy's 10 Laws of Technical Trading are simple, practical rules that help you stay oriented, manage risk, and make confident investment decisions.

StockCharts.com

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Law #1: Map the Trends

Every chart analysis and trade decision begins with two key questions: Is there a trend, and if so, which direction is it pointing?

Most of us begin with a daily chart that goes back one year. Given that's already plenty of information to work with, it's likely that this is the timeframe you will use when buying and selling a stock. Before making any investment decisions, however, you'll need to analyze the chart from a broader context.

The market moves in layers: long-term, intermediate, and short-term trends. The big picture should guide your trade, like checking the full trail map before you focus on the next mile. With that in mind, start your analysis with a monthly or weekly chart that goes back several years, potentially even 10-20 years

Doing this may help you spot things you'd never notice on a one-year daily chart, such as:

- A "strong rally" that's really just a bear-market bounce in disguise.
- A "minor correction" testing a decades-old support level that's invisible on the daily chart.
- A trading range that's on the verge of breaking above weeks-long resistance.

On a daily chart, a trend might look bearish, but on a multi-week to multi-year view, it could be a normal dip within a bullish trend. Mapping trends across different timeframes keeps you from overreacting to market noise and helps you spot trends and key levels that aren't visible on a daily chart.

How to Apply Law #1

According to John Murphy, you should start your analysis with monthly or weekly charts that go back several years.

On StockCharts, one easy way to do this is to set up StyleButtons for daily, weekly, and monthly charts, so you can switch timeframes with one click.

> Try Creating StyleButtons: Our support page on ChartStyles & StyleButtons breaks this down step-by-step.

Monthly chart (20-year view): Carnival Corp. (CCL)

Looking at the monthly view in Figure 1, we see that CCL has been rising steadily since early September 2022. It's now facing the resistance of its 2021 high around $30. If price can punch through the previous high at $32 with a strong follow-through, the next major resistance zones sit near $50 and $64–66.

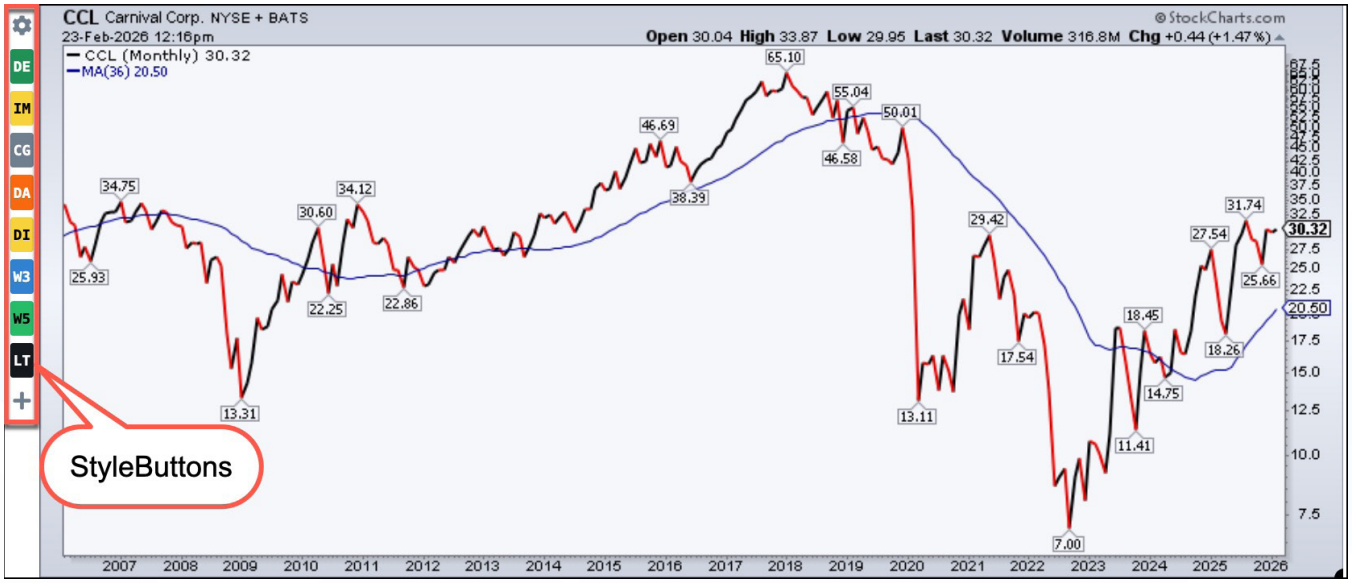


Figure 1: Monthly chart shows long-term uptrends and downtrends.

Weekly Chart (5-year view)

The five-year weekly view (Figure 2) confirms the broader uptrend that began in October 2022. The stock price has pulled back and, since July 2024, has retraced to either the 150-week or the 40-week moving average.

Figure 2: Weekly chart displays intermediate-term trends.

Daily Chart

The daily chart (Figure 3) shows CCL pulling back from its highest level in a year, an uptrend that began in April after a relatively steep drop. It is now at its 50-day Simple Moving Average (SMA), where it could bounce or dip further toward the 200-day SMA, akin to the price action seen between mid-November-December 2024. The stock is still within its broader uptrend.

Figure 3: Daily chart identifies pullbacks within the broader trend.

The point here is that by viewing the different time frames, you can determine whether the stock is in a trend and the levels of support and resistance.

To sum it up:

- Start your analysis by viewing monthly, weekly, and daily charts to identify the dominant trend.
- Unless you're going for a mean-reversion trade, always trade in the direction of the trend (it's like hiking with the wind at your back).
- Match the timeframe to your style. If you're day trading, let the daily chart set the bias; if you're swing trading, pay attention to the weekly chart; and if you're investing for the long term, check the weekly and monthly charts as well.

Now It's Your Turn!

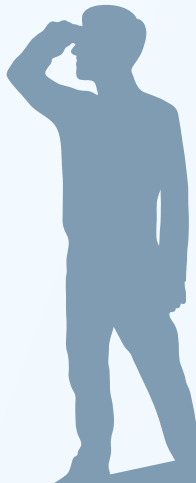
Pull up a chart of a stock you're considering as an investment. Then answer the following questions:

- **Trend Alignment:** On which timeframes (monthly, weekly, daily) do you see the stock trending up, down, or sideways? Are the trends aligned?
- **Context Shift:** Does your monthly view change how you interpret the daily action?
- **Support and Resistance:** Which levels are visible on the longer-term views? Which ones are near-term targets that could trigger a breakout or breakdown?
- **Trade Direction:** Based on the dominant trend, would you go long, short, or stay on the sidelines? If you find a trade entry, where would it be, and based on which timeframe?
- **Signal vs. Noise:** Is there any signal on the daily chart that turned out to be noise when viewed across all timeframes?

The more you practice mapping trends across timeframes, the more second-nature it becomes. Longer-term charts keep you grounded and help filter the noise, making your charting decisions more solid. Law #1 stands firm: before you attempt to ride a trend, you have to see if larger trends are working with or against your position.

Once you've figured out how to map the trend, the next question is simple: What do you do once you see the path clearly? Law #2 is all about aligning with the trend's direction.

Law #2:
Spot the Trend and Go for It



Murphy's second law ties into one of the oldest truths in technical trading: The trend is your friend until it ends.

A market either trends (up or down) or it doesn't. When it's not trending, it's moving sideways, fluctuating up and down but making no new highs or lows (i.e., going nowhere). The main idea is simple: follow the trend, don't fight it.

When a trend is taking place, some traders make the common mistake of going against it, even when they don't mean to. Here's how it plays out:

- Trader sees a rally and thinks "It's gone too far; it'll fall soon."
- Trader sees a selloff and thinks "It's down so much it can't go any lower."

The rest, along with a portion of their trading account, is history.

On the flip side, momentum tends to persist. Prices often go further than reason or emotion would predict. Your best bet is to go with the trend. Let the market, and not your bias, tell you when it's time to get in or out.

How to Apply Law #2

The topic of trend spotting is a big one, but we're not going to cover that right now. We'll assume you have your own method of identifying and confirming trend direction. Maybe you're using moving averages, drawing trendlines (something we'll cover in Law #5), or measuring swing points.

The point is to distinguish the long-term, intermediate-term, and short-term trends. Here's what you want to look at:

- Monthly charts reveal the long-term trend.
- Weekly charts capture the intermediate-term trend.
- Daily charts show the short-term trend.

If you're a day trader, you'll want to look at even shorter timeframes. But for now, let's stick with the ones bulleted above.

Once you've identified each timeframe, see if any of the trends agree in terms of direction. Find the trend that's most relevant to your timeframe and go in that direction, not against it.

> ***Expert Tip:*** If the long-term and intermediate-term trends are going in the same direction, and the short-term is moving against them, you might be looking at a pullback, not a trend reversal. A smart trader would use that pullback as an entry opportunity in the direction of the prevailing trend.

An Example: Gilead Sciences (GILD)

Figure 4: Uptrend following multi-year sideways movement.

From the 20-year monthly chart of Gilead Sciences in Figure 4, it's evident that, since mid-2015, the stock has been struggling. After a decline, it moved sideways. But in June 2024, the stock broke above its 36-month SMA and has been trending higher.

The five-year weekly chart (Figure 5) shows that since July 2024, GILD has remained above its 40-week SMA. More recently, the stock spiked higher with five consecutive up weeks. At the time of writing, the stock is showing signs of pulling back. Is it a good time to buy the dip?

Figure 5: Uptrend since July 2024; pullback in progress?

Law #2 suggests that you buy the dip if the trend is up. To time your entry, it's best to use a daily chart. In the daily chart (Figure 6), it's clear that GILD is getting close to its 21-day Exponential Moving Average (EMA), which could be an ideal support level.

Figure 6: Short-term pullback to 21-day EMA.

Even though the trend is up, you don't want to make the mistake of going against it. In other words, be careful not to assume that the stock can't go any lower. This is where it helps to add other indicators to your chart.

To sum it up, when the market's trending up:

- Buy dips near support levels (you'll have to use your preferred measure or indicator to determine where support may be).
- View pullbacks as potential entry points, not exit signals.
- The bounce should exhibit strong volume and follow through.

Want a deeper explanation of moving averages? Explore the ChartSchool page for this chart overlay.

Two Insider Tips to Consider

Insider Tip #1: Know when a trend actually ends.

Every trader talks about "riding the trend," but how do you know when that ride is over? It's important to use tools that define trend structure, like ZigZag, moving averages, or basic trendlines.

A caveat, though: None of these are perfect, and that's where your interpretive skills come into play. You might even use a few different methods to figure out whether your trend thesis is no longer valid.

Insider Tip #2: Be clear about which trend you're following.

The trend may be your friend until it ends, but which trend are you talking about? A trend in a five-minute chart? One-hour chart? Daily chart?

Every timeframe has its own version of "the end," so it's important to define your horizon and to see whether the broader time frame (like the daily chart to the one-hour chart) is also driving the trend you're looking at.

Here's what we covered so far: Law #1 taught you to map the terrain. Law #2 tells you to follow that path. Once you've spotted the trends, trade with, not against, the trend that's relevant to your timeframe.

And remember that the secret isn't jumping on a trend before it materializes. It's having the know-how, patience, and discipline to spot it and to stay with it until it completes.

Law #3:
Find the Low and High of It (Support & Resistance)

If you could spot where price is likely to bounce, stall, or reverse, you'd probably time entries and exits a lot better. That's Law #3: find support and resistance, plus the polarity principle, where broken resistance often becomes support, and vice versa.

Markets have "memory" because participants do. Traders and investors, human or algo, park orders and jump in or out at obvious landmarks.

The result: when price returns to a prior swing low, sometimes it bounces (support). At a prior swing high, sometimes it stalls and reverses (resistance). Think of it like a rubber ball: floors and ceilings can hold, until enough force (momentum) and mass (participation) drive a breakout.

Goal: On a chart, map the zones where decisions happen.

Look for Zones, Not Ticks

You'll hear, "Watch support at $30."

In practice, traders tend to act early, preempting a target level, or they act late, waiting to see what other traders and investors do. This turns a support level into a wider zone.

So, the main point: map the zone, not the tick.

> ***Expert Tip:*** Using the rectangle annotation tool, mark the zone of recent swing highs and lows. The more touches without a break, the more resilient the zone, until it breaks.

Let's take a look at an example. In the daily chart of Apple, Inc. (AAPL) in Figure 7, note the zones.

Figure 7: Support and resistance zones.

- **Support:** The yellow rectangles are support zones. Notice how prices tend to bounce off them? Also, notice how the bounce occurs within a zone (and not a single level).
- **Resistance:** You can see a similar dynamic in the red rectangles, marking resistance zones.

Now take a look at the chart of Sprouts Farmers Market (SFM) in Figure 8.

Figure 8: Resistance zones turning to support.

See how resistance (red arrows) turns into support (green)? That's polarity in action. If you're already in a trade and price pulls back, this level becomes your decision point: hold/add if it holds, cut or reassess if it breaks.

How To Apply Law #3

Here's how Law #3 applies across trending and non-trending conditions.

Uptrend Playbook

According to John Murphy, if you're looking to buy or add positions, it's best to do so near an anticipated support level. That could mean pre-empting a bounce at support; it could also mean waiting for the bounce and then opening your position.

- Look for either 1) previous support, or 2) a previous swing low, or 3) previous swing high to anticipate support.

Watch out for this: If price breaks and closes below any of these support zones, the uptrend may be invalidated.

Downtrend Playbook

Conversely, it's best to sell (to take profit or sell short) near a resistance level.

- Look for either 1) previous resistance, or 2) a previous swing high, or 3) a previous swing low (again, polarity) to anticipate resistance.

Non-Trending Playbook (or just stay away)

When price chops between support and resistance, treat the edges with caution.

- **Play the edges (optional):** If you fade, buy support, or sell resistance, trade small and carefully place your stop losses.
- **Respect the break:** If price breaks beyond the range, assume a new trend and close out your trade.
- **Think in zones:** In ranges, support/resistance can expand. Stops set just above/below a single line often get nicked before price snaps back.

> ***Expert Tip:*** Mark the range with rectangles. Place stops well outside the zone you've boxed to reduce whipsaw.

There are other ways to find support and resistance. Moving averages, Bollinger Bands, and Ichimoku Clouds are some chart overlays you can apply to charts to identify support and resistance levels. You can also use annotations such as trendlines and Fibonacci Retracements.

Let's go over a few rules of thumb that can help you with Law #3.

Rules of Thumb (Don't Ignore These)

- Support and resistance levels are often zones, not single price points.
- The more touches, the more important (or resilient) the level.
- If a resilient level breaks, expect a fast and strong move.
- Support and resistance zones that match on a weekly and daily timeframe will be much stronger than, say, smaller (and non-matching) support/resistance on an intraday chart.
- Volume confirms acceptance of a bounce or a breakout.
- Don't buy into resistance or sell into support until a price breakout proves it.
- The first pullback into a freshly broken level is a polarity test.

Two Insider Tips to Consider

Insider Tip #1: Anchor your levels to events.

Might an anticipated support or resistance level bounce or break coincide with an earnings report, FOMC announcement, or any other major economic report? If so, you have to interpret the nuance in the price action. Also, remember that market memory is strong when it comes to event-driven reference points.

Insider Tip #2: Stack confluence, not indicators.

Does a given support level match a higher timeframe (daily and weekly), coincide with a Fibonacci level, moving average, or trendline? If so, that might make the level a critical one to keep an eye on.

Law #3 gives you the "where" as in support and resistance levels are where important decisions and actions take place. Combine this with Laws #1 and #2, and you now have a practical framework for timing your entries and exits without having to overcomplicate your charts and, in turn, your decision-making.

Pull up a few charts and try using different methods to locate support and resistance. Observe how prices reacted around these zones and visualize what you might have done to take advantage of the situation leading up to the market response.

You often hear "buy the dip," but let's be honest; it's a lot easier said than done. How deep will the dip go before the trend resumes (if it resumes at all)? Where's the bounce hiding, and why there?

Law #4: Know How Far to Backtrack (Retracements)

A lot of forecasters try to guess these levels using fundamentals. Not the smartest move, since it ignores what traders actually do. And what do traders do? That's what John Murphy's Law #4 is all about. It's the law of the "giveback": how to measure it, how to trade it, and how to spot when the bounce might be worth a shot.

How should you position yourself to catch the next leg up before it decides it's done taking its break? And how do you know you're not catching a falling knife? Well, you simply measure it.

Let's start by checking out the chart of Apple Inc. (AAPL) in Figure 9.

Figure 9: Identifying previous highs and lows.

When price pulls back and then reverses to continue its main direction, that reversal may have been caused by a previous high or low, a moving average, a trendline, channel, or band. That's where measurement tools come in. One favorite among traders is the Fibonacci Retracement.

Note the red and green arrows in Figure 9. They could represent a previous support and/or resistance area. Or perhaps traders were looking to see if AAPL's pullback (up or down) reached the key Fib levels of 38.2%, 50%, and 61.8%. Look at the chart in Figure 10.

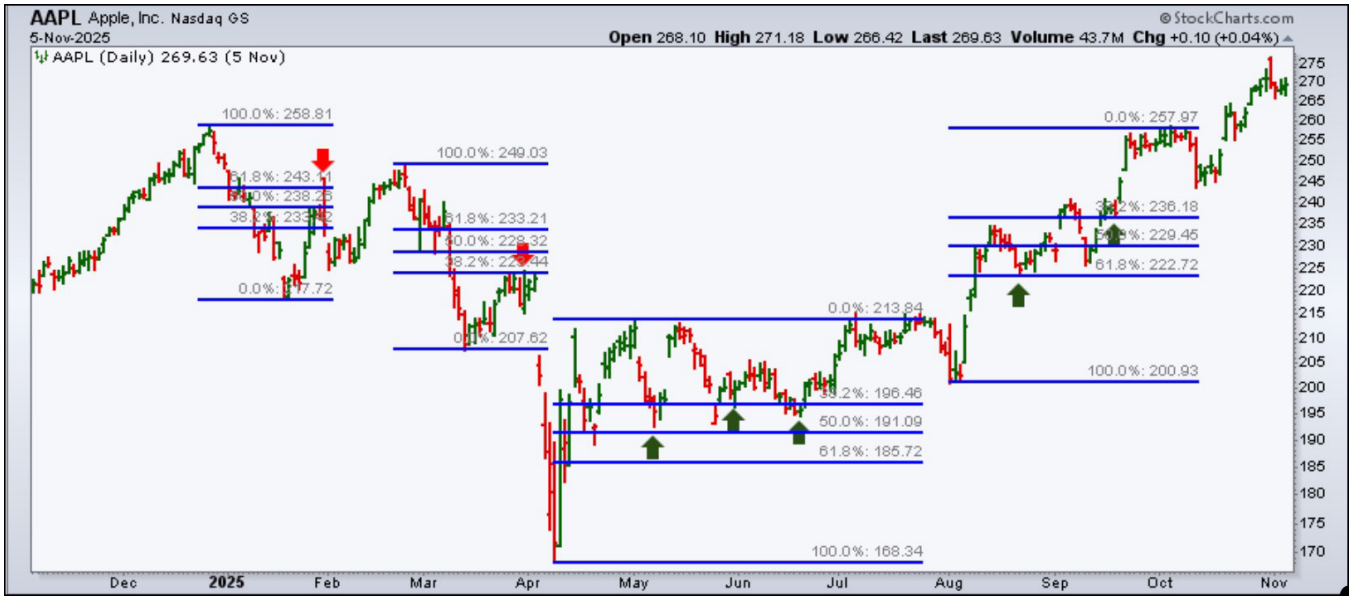


Figure 10: Fibonacci retracement levels align with previous highs and lows.

Notice how sellers (red arrows) and buyers (green arrows) jump in when price reaches one of these key Fib levels. It's likely many traders anticipated that bounce before price even got there.

Why Do Traders React to 38.2%, 50%, and 61.8%?

Surely, these can't be magic numbers. There has to be some logic to them, right?

Here's the skinny: These levels sit where several traders potentially jump in, so orders are clustered there. Add some trading psychology, and what you end up with are not magic numbers but legit reaction zones.

- **38.2% — the shallow test.** In a healthy trend, the first few pullback sessions don't give you a half-off sale, but bullish dip buyers (or bearish sellers, in a downtrend) are confident enough to prove their case early by jumping in. For most traders, however, it's a reversal alert zone. They're ready to jump in if the early buyers make a strong move.
- **50% — a tense equilibrium (not a Fibonacci ratio, but traders love it).** Old-school tape readers treat the halfway mark as a "fair fight." Imagine a pullback from an uptrend. The bulls are still profitable, but the bears who sold short at the top are equally profitable. It's like a tense equilibrium. One side is going to blink.
- **61.8% — "last line of defense" (golden ratio).** Go deeper than half and you'll get to the golden-ratio retrace. Many trend traders see this as the final place to buy a pullback before conceding to the opposite side and closing their position. That tension around 61.8% (open a position at or above, and close out a position or reverse below) concentrates a lot of orders at that level.

So, there you have it. There's no magic. Just human psychology and trading mechanics.

Try It Yourself

1. **Identify a Pullback.** Find a clear swing low to high (in an uptrend) or reverse in a downtrend, and a pullback.
2. **Measure the Move.** Using StockCharts' Fibonacci Retracement annotation tool, measure the move from low to high (in an uptrend) or high to low (in a downtrend).
3. **Watch Price Behavior**. Take note of what happened (or, if current, watch what happens) at the key levels of 38.2%, 50%, and 61.8%.

If you enter a position once price bounces at one of the key levels, placing a stop beyond the 61.8% level would be a wise thing to do in most cases. Look at market structure for support and resistance to fine-tune your stop level.

Add Fibonacci Retracements to your charts. Here's a simple guide in ChartSchool.

A Few Insider Tips

Fibonacci retracements are simple enough to use, but a few smart tweaks can supercharge your Fib game.

Insider Tip #1: Watch for confluence.

Key Fib levels are compelling enough for traders to take action. But if those levels coincide with a prior swing point or a trendline, that Fib level matters even more.

Insider Tip #2: Avoid "precision bias".

Traders react to zones, not exact numbers. So don't sweat it if price action pops a little above or below your Fib level. That's normal.

Insider Tip #3: Watch volume on the bounce.

Volume can confirm commitment, so a surge in volume near a key retracement level can signal renewed interest.

Law #4 gives you an actionable measuring stick for market corrections. It helps you spot objective entry zones instead of guessing whether a pullback is deep enough for a discount.

Most importantly, it helps you avoid catching falling knives. And if you do catch one, it shows you how to limit the cut. You'll know where to step in, where to step out, and when to stop hoping and start managing.

Once you've got that down, you're ready for Law #5—drawing the trendlines that connect it all together.

Law #5: Draw the Line (Trendlines)

Every chart tells a story. Without structure, however, that story can feel like noise, making it difficult to make logical decisions. Trendlines are like a map that help you sense the trend direction underneath the often volatile surface, showing where buyers and sellers may draw their invisible battle lines and how long those lines can hold.

John Murphy's Law #5, Draw the Line, shows you how trendlines turn messy price moves into clear, actionable insight.

Turning Market Noise in to a Map

If all you do is pay attention to financial news and economic reports, then the market will probably seem chaotic. But when you look at charts, there's a sense of order (and a lot of relief) once you can see whether a market is trending, in which direction, and for how long. One of the simplest ways to bring structure to a volatile, news-driven market is to draw a trendline, like the one in Figure 11.

Figure 11: Upward sloping trendline acts as a support level.

How to Draw Trendlines

When drawing a trendline, there are a few important rules to follow. The first is how to connect the dots the right way.

- **Uptrend:** Connect at least two higher lows to start the trendline. Three touches confirm the trendline is valid.
- **Downtrend:** Connect at least two lower highs to start the trendline. Again, three touches make the trendline valid.

That's the easy part. Now comes the more nuanced stuff.

Try adding trendlines to your charts.
Here are step-by-step instructions.

How to Interpret and Use Trendlines

Trendlines act as dynamic support and resistance. They reveal where buyers or sellers are likely to step in.

- **If price bounces against a trendline.** This signals trend continuation; momentum is intact.
- **If price breaks a trendline.** This is an early warning that the trend, or the momentum driving it, may be on the verge of a stall or reversal.

When a trendline breaks, treat it as a heads-up, not a trading signal. Look for confirmation through price action, support/resistance zones, or volume before acting on it.

Watch your timeframe. Trendlines on a weekly chart will give you a bigger-picture view by plotting a longer-term trend structure. Trendlines on a daily chart will show you the immediate trend, whether you're looking at the short-term or intermediate-term trend. Note that a trend on the daily chart can sometimes match the one seen on a weekly chart as well.

Mind the angles and spacing. If the trendline is too steep, what chartists call "parabolic," it often won't last; sharp moves can't stay vertical for long. If the points of contact between price and trendlines are too close, the move might be nothing more than noise. If the points are too far apart, then the relationship between price and trendline may be questionable.

In short, look for evenly spaced, reasonable angles. That's the sweet spot.

A Few Insider Tips for Working with Trendlines

Trendlines are more than measures and markers. They're decision triggers. Beyond tracing trends, you use trendlines to read what the market may do next. You then act on the developments whether price fulfills your forecast, or breaks it.

With that in mind, these Insider tips should help you when drawing and interpreting trendlines.

Insider Tip #1: Look at percentage price change.

Use the log scale when looking at a huge range in price or time. Percentage changes are more accurate and they keep trendlines more "honest" (or accurately represented) over time.

Insider Tip #2: Handling minor trendline breaches.

Sometimes you'll see spikes or wicks that throw off your line. That's when you draw an internal trendline, ignoring those outliers and connecting the main price clusters instead. It smooths out the story without distorting it.

Insider Tip #3: Redrawing trendlines.

You may have to redraw your trendline if the market structure changes; trendlines evolve.

Insider Tip #4: Creating channel lines.

Parallel your main trendline to create a channel; channels amplify market structure, but be sure to monitor both top and bottom lines.

Insider Tip #5: Identifying valid trendline breaks.

A trendline break with volume matters more than a break without.

A single line can tell you a lot about a market. It can show you where momentum lives, where sentiment shifts, and when it might be time to get in, get out, or just step back. Trendlines may be simple but are revealing and effective.

Law #6: Follow That Average (Moving Averages)

If trends are like the market's storyline, then moving averages are the narrator that keeps the story straight. It smooths out the noise, reveals the market's direction, and shows whether the trend narrative is strengthening, weakening, or just stuck.

A moving average (MA) smooths out recent prices to show which way money is flowing. No headline noise. No jerky movements. Just the trend, averaged out and distilled into a single line. Sometimes that trend is moving upward, downward, or oscillating sideways in a choppy manner.

A key point to bear in mind: Moving averages don't predict. They confirm. They lag price action, so they can't really tell you much about what's happening now, at this moment. However, they can help you see whether a trend is gaining steam or about to flatline.

Think of moving averages as waves created by price. When price rides above the wave, that's bullish. When it dips below, the wave's momentum can shift depending on what price does next. The reverse is true when the trend is downward.

Three Averages That Matter Most

John Murphy calls out the big three, and they're pretty much industry standards:

- 20-day — short-term trend
- 50-day — intermediate trend
- 200-day — major trend

You'll see these in many chart settings. Let's take a look at a chart in Figure 12 using this setting to see how it "narrates" the story using simple moving averages (SMAs).

Figure 12: Moving averages identify bullish, sideways, and bearish scenarios.

Notice how the three moving averages tell a different story in each section of the chart.

A— Strong Trend. The 20-, 50-, and 200-day SMAs are stacked in perfect bullish order and pulling upward like full sails. Price may wiggle around the 20-day, but it's essentially surfing the 50-day. That's classic strong-trend behavior.

B— Trend Goes Sideways. Now we're in chop city. Momentum stalls and price settles into a sideways fight between buyers and sellers. The 20-day SMA starts whipping above and below the 50-day as consolidation tightens. The 200-day still slopes upward, until price finally slips beneath all three SMAs.

C— Trend Reversal. Price breaks down hard, dragging all three SMAs into bearish alignment (20 below 50 below 200). When the 50-day drops under the 200-day, you get a Death Cross, a classic confirmation that the trend has flipped. It's the mirror image of the bullish setup you saw in section A.

Now, you've seen these MA combinations in a bullish, sideways, and bearish market scenario. You're probably wondering what other ways to apply them in your charting or trading. Let's get to that next.

How to Use Moving Averages

Let's get specific. Here are a few basic ways traders use moving averages.

1— Gauge Trend Strength

- **Rising price above a rising average** — uptrend intact
- **Falling price below a falling average** — downtrend intact
- **Slicing back and forth through a "flat" average** — range, consolidation, indecision

Note: Alignment between price and MA direction is often a stronger signal than just price or MA alone.

2— Trade Pullbacks Into the Moving Average

This is one of the simplest uses of an MA, but there are many variations and nuances to this. For instance, some traders like to use the 100-day or 200-day SMA, depending on their time frame. Others would rather use the exponential moving average (EMA) rather than the SMA.

So, be sure to experiment with your approach before trying it in a real market.

Uptrend:

- Buy dips toward the 20-, 50-, or 200-day MA.
- Confirmation = good bounce + strong volume.

Downtrend:

- Sell rallies into falling MAs.
- Confirmation = rejection candle (or bar) + declining volume on the bounce.

Again, there are many other tactical variations to this, so be sure to learn about them to find what best suits your approach.

3— Watch for MA Crossovers

You've heard the terms Golden Cross (bullish) and Death Cross (bearish) involving the 50-day and 200-day MAs.

Breaking these down to simpler terms, this is essentially what they indicate:

- **Bullish:** short MA crosses above long MA
- **Bearish:** short MA crosses below long MA

These are crossovers, and there are many popular combinations you can try:

- 5/20 — for faster action
- 20/50 — for swing traders
- 50/200 — for a longer-term signal

As John Murphy says, EMAs are usually more suitable for spotting moving average crossings.

Also, crossovers may not be used to nail bottoms or tops, but they do a great job confirming shifts in trend strength. Take a look at the example in Figure 13.

Figure 13: Moving average crossovers confirm shifts in trend direction.

This shows the price action using the 20-day and 50-day EMA.

After gapping down hard, GOOGL sliced through its trendline (dotted magenta line), and basically said, "This uptrend? I'm out." A few days later, the 20-day EMA dipped under the 50-day EMA, which is the chart's polite way of saying, "Yeah, the downtrend is official."

But sentiment shifted in April. Price stopped falling, moved sideways, and quietly started making higher lows. Then in May, we see a bullish EMA crossover, indicating a possible reversal.

After that, the stock price soared. Price stayed largely above the 20-day EMA, and the gap between the 20- and 50-day EMAs started stretching "full sail," indicating that the trend was gaining speed.

Let the averages "show you" when the trend is changing.

Two Insider Tips to Level This Up

Moving averages are quite straightforward, but using them well often means taking a nuanced approach. Here are just a few to consider.

Insider Tip #1: The slope sometimes matters more than the crossing.

Flat moving averages usually mean the market's unsure. A **rising** MA slope, even if price dips under it for a moment, might hint that the bigger trend is still intact. A **falling** slope says the opposite, even if price briefly pokes above it.

Remember, moving averages lag. So you need to judge whether a price touch or quick cross is just a pullback or the start of a trend change. That's where context comes in: trend structure, volume, and where price sits relative to recent swing points.

In other words: don't fixate on every tiny cross. Sometimes the slope tells you more than the actual crossover.

Insider Tip #2: EMAs weigh recent data more heavily.

EMAs are faster, more responsive, and possibly better for short-term traders. They tend to give earlier signals, but treat them with caution, because early signals can sometimes be fake-outs.

SMAs tend to be slightly slower, smoother, and less whippy. For a longer-term perspective on trend structure, SMAs might be more suitable (again, depending on the price action).

- If you take quicker, shorter-term trades, try EMAs.
- If you want less noise, stick to SMAs.

Try This Yourself

Pull up your favorite chart and toggle the 20/50/200-day moving averages. Try using SMAs and then EMAs. **Watch how differently you interpret the trend or trend strength.**

Soon, you'll figure out which one to use and how best to use them in a way that aligns with your own personal charting approach.

Moving averages aren't predictive indicators, but, if used correctly, they can help keep you on the right side of the trend. Use them to filter the noise, spot momentum shifts, and confirm what price action may be doing. MAs provide a certain angle of context to help keep your chart interpretations grounded. Try experimenting with them and, eventually, customize them to match your style.

Law #7: Learn the Turns (Oscillators)

Hiking a steep uphill slope will never be a straight line. There'll be sharp turns, drain dips, and downhills. Similarly, when markets trend in a given direction, they still fluctuate. It's as if price overshoots in one direction, stalls, snaps back, and continues in the same primary direction. These are like mini-cycles within a broad trend. And detecting these mini-cycles is where oscillators shine. So, while moving averages may tell you that a trend is still strong, oscillators hint at when a trend is getting "tired" and bent on taking a breather, or bound for a larger reversal.

There are opportunities in these turning points. And Law #7 in John Murphy's playbook is all about spotting them before price commits. Let's break down how, and when, to use them.

Why Do Oscillators Matter?

Oscillators are designed for one thing: to show you when momentum may be pushing its limits.

Traders have found other purposes for them, but, really, that's what they're designed to do. More specifically, they tell you when a market may be:

- Overbought — when buyers are losing steam
- Oversold — when sellers may be reaching burnout
- Diverging — when momentum disagrees with price's trajectory
- Flattening — when prices are sideways or range-bound

These are all in the domain of oscillators as most other indicators are either less effective or blindfolded when it comes to these potential turning points.

The Two Stars of the Show: RSI and Stochastics

The Relative Strength Index (RSI) and Stochastic Oscillator are two that Murphy highlights because they're generally effective, easy to read, and widely used.

If you're new to them, here's the quick rundown of the classic interpretations.

Relative Strength Index (RSI)

Scale: 0–100

Classic zones:

- **> 70 = Overbought**
- **< 30 = Oversold**

Best perks:

- Divergences (momentum disagrees with price)
- Failure swings (RSI turns before price does)
- Trend ranges (RSI behaves differently in bull vs. bear markets)

RSI gives clear and clean signals that can often seem understated.

For example, take the failure swing in the chart in Figure 14.

Figure 14: RSI turns before price.

The red rectangles illustrate a failure swing. In March RSI dips below 30 (an oversold low) and then bounces back. A few weeks later, WMT makes an even lower price low, but RSI doesn't. Instead, RSI holds above 30 and forms a higher low. That's your failure swing setup.

A few sessions later, RSI clears its previous peak, confirming the failure swing and signaling that momentum has shifted.

Stochastic Oscillator (%K / %D)

Scale: 0–100

Uses closing price relative to the recent high-low range

Classic zones:

- **> 80 = Overbought**
- **< 20 = Oversold**

Best perks:

- Very fast signals
- Excellent for trading ranges
- Divergences and bull or bear "set-ups."

Stochastics react earlier than RSI, sometimes too early. This wide trading range in the chart in Figure 15 is a suitable environment for the stochastic oscillator. But it isn't perfect.

Figure 15: Stochastic oscillator in a wide trading range.

Price is moving in a wide trading range, which is a perfect environment for one of Stochastics' classic uses. Overbought zones are marked by red rectangles, oversold zones in green. The red (sell) and green (buy) arrows line up with those stochastic levels.

But trading ranges can be messy. Prices often poke above prior highs or slip below prior lows before reversing.

The Actual Signal: Momentum Turns Before Price

John Murphy's core point is simple: **trend changes rarely begin with price. They begin with momentum weakening.**

Oscillators tend to post this early on.

Here's the typical reversal sequence:

1. RSI/Stochastics hit extreme levels
2. Momentum starts fading
3. Divergence shows up
4. Price finally cracks (or breaks out)

If you wait until Step 4, you're late.

Using These Oscillators the Smart Way

1— Always Start with the Bigger Trend

Oscillators tend to give you more false positives when you force them to call tops and bottoms. Listen to what they're saying, but don't force them to speak.

- **In an Uptrend:** Give more trust to oversold readings (ignore overbought noise)
- **In a Downtrend:** Trust overbought readings (ignore oversold noise)
- **In a Range-bound market:** Trust both

Follow this one rule, and you'll prevent around 80% of oscillator-related headaches.

2— Look for Divergences

- When price hits a new high but the oscillator hits a lower high, momentum may be fading.
- When price hits a new low but the oscillator hits a higher low, sellers may be tiring.
- Treat these as your "this might not last" signals and be ready to seize the opportunity when price turns.

3— Watch for Failure Swings

Murphy emphasized these because they're self-contained signals.

- **A bullish failure swing:** RSI drops below 30, rises, pulls back, stops above 30, surges past prior high.
- **A bearish failure swing**: RSI rises above 70, falls, rises again, stops below 70, falls below prior low.

In either case, it shows internal strength (or weakness) building before price confirms it.

Add these indicators to your charts.
Explore the ChartSchool page on Technical Indicators.

Think of Oscillators as an Early-Warning System

If moving averages are your "trend compass," these oscillators are your "turn detectors."

If you read them correctly, they can help you:

- Anticipate potential reversals early on
- Avoid chasing moves that are overstretched
- Time entries in pullbacks
- Trade ranges more effectively

Here's Murphy's subtext: Oscillators show you when the market is about to take a breather. Sometimes, the trend will continue, and sometimes, it will reverse. Either way, the RSI or Stochastic Oscillator will signal the move before it happens.

These oscillators won't predict the longer-term direction, but they do hint at a momentary turn. That alone can signal an opportunity to go long or short. If you can learn to spot weakening momentum early, you'll understand why Murphy treats these oscillators as one of the most important tools in the kit.

Law #8:
Know the Warning Signs (MACD)

Markets don't usually flip the other direction in one sudden move. They telegraph their intentions, and the signals start blinking before the turn hits.

John Murphy's Law #8 is about spotting those early shifts. And for that, he leans on the MACD — the Moving Average Convergence/Divergence oscillator. Most traders call it 'Mac-D.'

The MACD takes two trend-following indicators—the 12-day EMA and the 26-day EMA—and basically transforms them into a momentum oscillator. It shows you whether strength is increasing, decreasing, or starting to slip in the opposite direction.

Think of MACD as a warning sign. The trend might look fine, but the MACD is often the first to say, "Something's changing."

Law #8 is all about using the MACD to detect subtle shifts that often precede a larger trend change.

MACD's Three Warning Signs

There are three general warning signs that the MACD generates. Each one's a little different.

Warning Sign #1: Momentum Flip (Signal Line Crossovers)

The most common alert is the signal line crossover:

- **Bullish warning:** MACD turns up and crosses above the signal line.
- **Bearish warning:** MACD turns down and crosses below the signal line.

Check out these signals in the chart in Figure 16.

Figure 16: MACD crossovers act as cautionary signals.

What do the crossovers tell you about the price action?

To better understand what's going on, here are a few more nuances to consider:

- **A bullish crossover *below* zero** while price is declining warns that bearish momentum is fading.
- **A bearish crossover *above* zero** while price is rising warns that bullish momentum is weakening.

Caution! Crossovers at extremes can be misleading, as momentum slows after big moves.

In this chart, the MACD spends all its time above the zero line. In the case of bearish crossovers, notice how they warn that something is shifting toward weakness.

Warning Sign #2: Trend Shift (Centerline Crossovers)

Pay attention to the centerline (the zero line).

- **If MACD is above zero,** it indicates that the momentum is turning positive.
- **If MACD is below zero,** it suggests that momentum is turning negative.

Momentum flipping sides is among the strongest trend-warnings you can get from MACD. Centerline crossovers warn of big shifts:

- In strong trends, they can last months.
- In choppy markets, they can chop you to pieces.

John Murphy's framing: Use centerline crossovers to recognize when a prevailing trend is losing strength, or reversing entirely.

Warning Sign #3: Divergences (Momentum Disagrees With Price)

This is a classic signal for which the MACD is well known. Here's how it works:

- A **bullish divergence** forms when price makes a lower low, yet the MACD makes a higher low.
- A **bearish divergence** forms when price makes a higher high, yet the MACD makes a lower high.

Divergences warn you that directional move is no longer supported by momentum. Note the divergences highlighted by the blue trend lines in Figure 17.

Figure 17: Divergences between price and MACD.

What followed is a classic example—a rally after a bullish divergence, and a fall after a bearish divergence.

Important: Divergences are warnings, not predictions. Even if they're often consistent, never assume that the expected outcome is definite.

That's a lot of info. Let's boil this down to a simple checklist.

The MACD Warning System Checklist, Murphy-Style

Remember the basic principle: MACD warns. Price confirms.

1. **Check the Histogram First.** The shrinking bars warn that momentum is fading before the lines cross.
2. **Watch the Signal Line.** Crossovers warn of potential turns in momentum. Where it takes place — above or below zero — tells you how strong the warning is.
3. **Watch the Centerline.** Centerline crossovers often warn that trend momentum has flipped.
4. **Hunt for Divergences.** Divergences explicitly show you that price and momentum went their separate ways.
5. **Always Confirm with Price Structure.** Warnings become signals only when price agrees:
   - Breaks of support/resistance
   - Trendline breaks
   - Failed retests
   - Volume confirmation

The MACD is your early-warning system. It diagnoses trend health, flags momentum shifts, and, if used carefully, helps you spot entries and exits. Trends don't last forever, and price can continue driving forward even as momentum fades. These are the kinds of changes the MACD was designed to catch.

So pull up a chart, turn on the MACD, and start watching how momentum behaves before price tips its hand.

Law #9:
Trend or Not a Trend (Using ADX)

Is the market trending right now, or is it chopping sideways? More importantly, should you be riding a trend, trading a range, or standing aside? There may be many ways to figure this out, but John Murphy leans on one tool in particular: the Average Directional Movement Index line, which is an isolated component of the broader Average Directional Movement Index (ADX).

We'll focus on the ADX and use it the way Murphy suggests in Law #9: to follow its slope to better separate trends from sideways chop.

Law #9 is about using the ADX as a trend detector. In other words, use it to determine whether price is in a trending phase or a trading range.

Murphy's take is slightly different from the way Welles Wilder (the ADX's developer) approaches it.

It's not whether ADX is high or low that matters most. It's whether the ADX is rising or falling.

- **Rising ADX — a trend is strengthening**
- **Falling ADX — a trend is weakening or disappearing**

That simple slope, up or down, tells you which style of trading makes sense right now.

- **If it's trending,** you want to follow the trend.
- **If it's going sideways,** you want to either stay away or, if you're experienced enough, fade the tops and bottoms, taking a mean-reversion approach.

Where the ADX Comes From (Quick Context)

The ADX is derived from two directional indicators: +DI (upward pressure) and –DI (downward pressure). Those two show direction.

The ADX itself doesn't care about direction. It only answers one question: **How strong is this trend?** If the ADX is rising, the trend is gaining force. If it's falling, the trend is losing steam. We'll be focusing on just the ADX, rather than the +DI and -DI.

How Many Other Traders Use the ADX

Welles Wilder offered a simple rule of thumb: **above 25 = trending, below 20 = not trending.** In the chart in Figure 18, the 20–25 approach catches a meaningful trend, but also misses smaller trends and an earlier start.

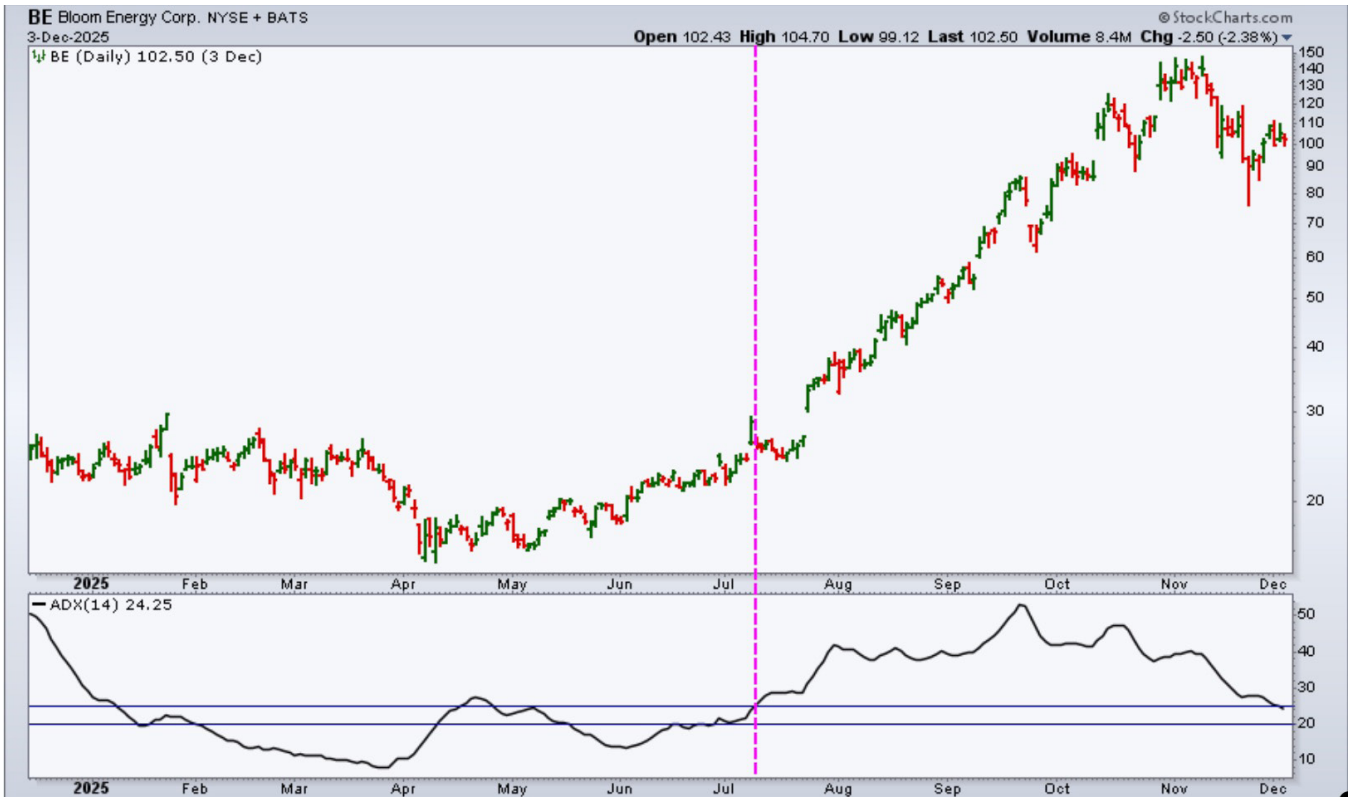


Figure 18: ADX catches meaningful trends.

The vertical magenta line marks the shift from "non-trending" to "trending."

This is a valid way to use ADX. Depending on the asset's volatility, some traders simplify this by just using the 20-line (instead of 20 and 25).

But Murphy takes a slightly different, and more dynamic, approach. Instead of focusing on where ADX sits, he focuses on *what it's doing*.

How Murphy Wants You to Read the ADX Line

Let's forget thresholds for a moment. Murphy's original guidance is about movement, not levels.

- **Rising ADX = trend strength is increasing**
- **Falling ADX = trend strength is fading**
- **Flat ADX = no meaningful trend**

Here's the same chart as in Figure 18, but using Murphy's rules (Figure 19).

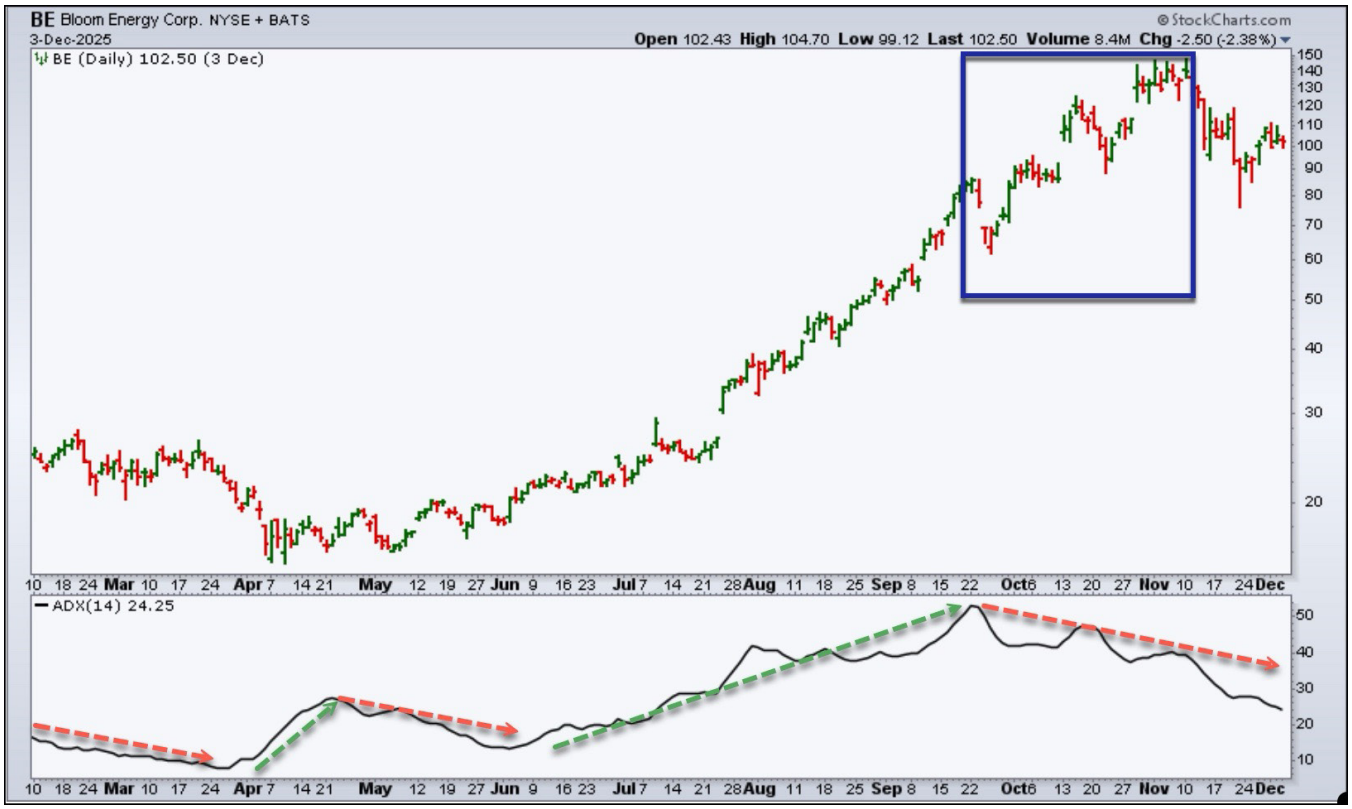


Figure 19: ADX indicates strengthening or weakening trends.

When the ADX is rising, it does a solid job of catching small and large trends.

That said, this is where judgment comes in. To stay with the uptrend, you had to remain flexible even as ADX eventually rolled over (blue rectangle). No indicator is perfect. Neither ADX approach will catch every move.

> ***Expert Tip:*** Don't Expect the ADX to Turn Quickly. ADX is smoothed, and it lags, which is why it's dependable for defining your trading environment.

John Murphy's Law #9 is your market environment filter. When ADX is rising, lean on tools and strategies that cater to trends, breakouts, and momentum. When ADX is falling, you might shift to oscillators, watch support/resistance, and possibly mean-reversion plays.

Murphy's intent is clear: **Use ADX to choose your strategy, not to fine-tune entries and exits.**

Law #10: Know the Confirming Signs (Volume)

Price can advance a bullish or bearish argument. But volume reveals the true conviction behind the case. That's the core of John Murphy's Law #10. A rally that isn't attracting buyers? A selloff nobody's committing to? A breakout nobody cares about? Those are moves on borrowed time.

Volume is the market's conviction meter and a reliable confirmation tool before pulling the trigger.

Volume tells you if a trend has real conviction behind it, or if price is simply drifting on leftover momentum. Watch it closely in four key moments:

- **Strong trends.** Volume fuels the move
- **Weak trends.** Volume dries up or contradicts price
- **Breakouts.** No volume = no trust
- **Reversals.** Volume often hints at the turn before price does

As OBV-creator Joseph Granville put it, "volume precedes price." Think of it as a sign that tells you if what's on your map checks out.

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How Murphy Wants You to Use Volume

1. In Trends, Volume Should Back the Move

- In an uptrend, rallies should have more volume (think "buying pressure")
- In a downtrend, selloffs should also have an increase in volume (selling pressure)
- When volume fades during a trend leg, the trend is running out of energy

2. Breakouts Need Volume

Murphy's rule: no volume, no trust.

- Breakout + strong volume = real
- Breakout + low volume = fake out risk
- Breakdown + strong volume = serious selling pressure
- Breakdown + weak volume = suspect move

Think of volume as the vote count behind every breakout.

3. Volume Warns of Trend Exhaustion

The best early warning signs aren't always in price. Sometimes, they're in volume:

- New highs on weak volume
- New lows on weak volume
- Rallies or selloffs getting quieter
- Patterns forming on declining volume

When volume fades, but price keeps inching forward, it hints at weakness that you should take seriously.

4. Volume Spikes Can Mark Turning Points

While volume is needed to continue driving strong trends, huge volume surges can also flag emotional extremes:

- **Blow-off tops.** Euphoric, vertical moves that often signal the last hurrah before a decline.
- **Selling climaxes.** Panic-driven dumps that often mark the beginning of a bottom before a recovery

Both cases signal exhaustion. You may see volume spike before price reverses; sometimes, you'll see it right at the turn.

Indicators That Confirm What Volume Is Really Saying

On-Balance Volume (OBV). Use this indicator to *confirm the broader trend*. The OBV is all about participation. It tells you if the crowd is backing the move.

Look at both volume and the (more cumulative) OBV in Figure 20.

Figure 20: OBV supports the uptrend.

Notice the spikes in volume at every major breakout point? That alone tells you something. But if you plot the OBV below it, it shows you how much, on a cumulative basis, volume supports the trend.

Chaikin Money Flow (CMF). Use this indicator to *spot quick shifts in money flow within the trend.* The CMF conveys buying and selling pressure. Because it calculates the position of the close within each bar, it's more sensitive to near-term price changes. Ultimately, it can tell you whether tug-of-war within the broader trend is shifting.

It's a little tricky and busy, but look at the volume, CMF, and price action in Figure 21.

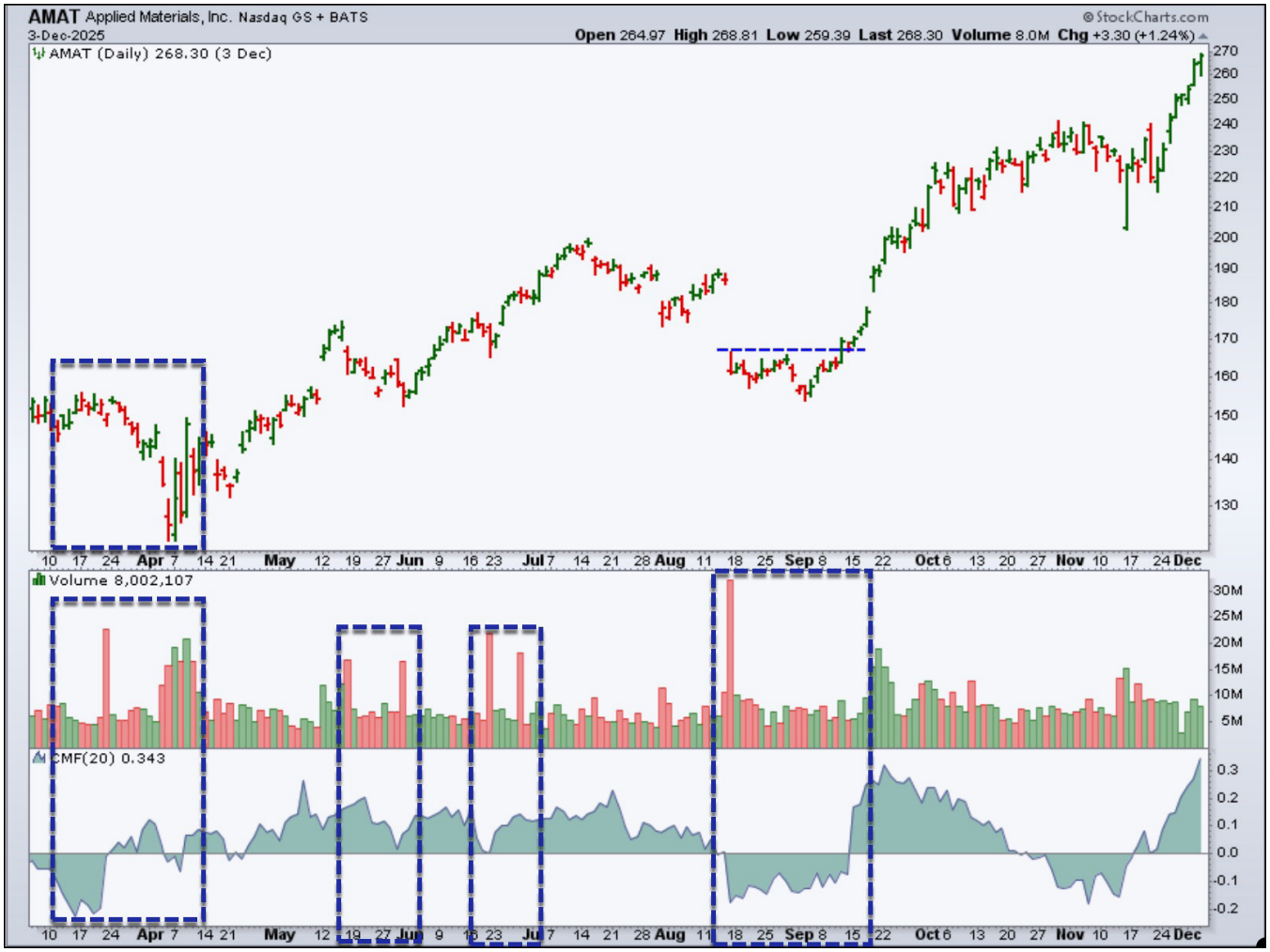

Figure 21: CMF indicates whether buyers or sellers have the edge.

When the CMF is above the zero line, buying pressure is dominant. Below zero, sellers have the edge.

Look at the price action in the blue dashed rectangle. See how CMF flips from selling to buying pressure while price makes a new low? That divergence was an early warning that the downtrend was about to bottom out and reverse.

Despite the sharp selling spikes in May and June, CMF stayed positive, confirming the strength of the uptrend. That trend got disrupted in August, then snapped back sharply in September as CMF turned positive again.

A Few Insiders Tips

Insider Tip #1: Watch volume trends, not just spikes.
The daily volume almost always looks jagged and messy. Indicators like the CMF or OBV show you, on a smoother, more continuous, or cumulative basis, whether money is flowing in or out.

Insider Tip #2: Volume precedes price.
When volume jumps before the breakout, pay close attention. Smart money sometimes moves early, and that can be your signal.

Insider Tip #3: Match volume behavior to trend context.
In a trend, follow volume expansions. In a consolidation, look for anomalies (big bursts, sudden drops). Volume indicators help you understand the bigger price structure; they don't predict price structure.

Insider Tip #4: Not every market behaves the same.
Stocks that trade in high volume, like mega-caps, might need larger spikes to signal significant moves. Less liquid stocks, on the other hand, may be subject to exaggerated moves and erratic volume signals.

In all cases, context matters more than absolute levels.

Volume is the final checkpoint in Murphy's 10 laws. It marks the difference between setups with real sponsorship and those running on wishful thinking.

Apply this law, and you'll optimize the previous nine.

The Five Questions That Bring the 10 Laws Together

After John Murphy's 10 Laws, a nagging question remains: Where do you begin once you've pulled up a chart? The answer begins with a sequence of more questions.

Murphy's Laws work because they focus on structure before timing; context before action. Let's combine all 10 Laws into a clear decision system that asks the right questions in the right order.

1. Is There a Trend at All?

Before you look for a setup, plot an indicator, or choose a strategy, you have to answer one structural question: Is the market trending, or is it rangebound? The importance of this distinction can't be overstated: it determines everything that follows.

Map the Trend and **Spot the Trend and Go With It** (Laws 1 and 2) establish directional bias across timeframes. Law 9 **(Trend or Not a Trend)** determines whether direction even matters right now.

2. Where Am I Within the Structure?

Once you've spotted a trend (or lack of one), the next question concerns where you are: Is it extended, corrective, or near a decision point?

Find the Low and High of It, Know How Far to Backtrack, and **Draw the Line** (Laws 3, 4, and 5) trace the market's memory. They remind you that a pullback isn't a weakness by default, and that a rally doesn't always signal strength. With that knowledge, you know when to avoid an extended move and when to take action.

You can better assess a pullback as an opportunity or warning. In short, you can anchor your decisions on structure rather than emotion.

3. Is the Trend Still Intact?

Markets typically don't reverse in an instant. They degrade. So, when price starts turning down, you need a filter to help see if the prevailing structure is still being respected. This is where Law 6, **Follow That Average** comes into play.

When a stock starts turning lower, the key is understanding what that decline means across the short-, intermediate-, and long-term trends.

4. Is Momentum Confirming the Move or Raising a Red Flag?

Momentum indicators may not tell you where price is going, but they tell you whether pressure is building in its favor, or fading.

Law 7, **Learn the Turns,** highlights oscillators that help identify potential conditions of overextension. Law 8, **Know the Warning Signs,** focuses on the MACD, which is a unique tool that bridges momentum and trend.

Used correctly, they can warn you before price reacts, confirm strength during continuation, or signal exhaustion before an advance turns. They also help assess whether a stock may be overbought, oversold, or quietly losing momentum.

5. Is Volume Confirming the Move?

At the end of your decision chain, it helps to confirm *if money is supporting the move.* Price can still move without conviction, but a healthy trend can't persist without real participation. And volume provides one of the clearest windows into market participation.

No matter what your setup might say, volume will either validate or undermine your thesis.

Law 10, **Know the Confirming Signs,** helps answer questions like: Is the breakout supported, or hollow? Is a trend strengthening, or tiring? Keep in mind that there's no sustainability without conviction, and price movements without volume are fragile.

And That's a Wrap

No journey is easy without a roadmap. In technical analysis, John Murphy's 10 Laws helps you stay grounded, so you're not reacting to every headline or price wiggle. These Laws keep you from wandering off course when things get foggy, and they help you make smarter decisions when you're at key forks along your journey.

Whether you're learning the basics in ChartSchool, creating a repeatable daily routine, or setting alerts for setups you care about, StockCharts is built to help.

Your goal isn't to predict every twist and turn. It's to stay grounded, manage risk, and grow your portfolio, one decision at a time.