



Trend Analysis & the PowerTrend System

by Chuck Hughes

Hi, I'm Chuck Hughes, and over my 30+ year career as a trader and 10-Time Trading Champion, I've learned one truth that never fails:

The trend is your friend—until the bend at the end.

But most traders don't know how to find a trend, how to measure its strength, or how to trade with it profitably. That's why I developed the PowerTrend System, a disciplined approach to identifying high-probability trades in any market.

What Is Trend Analysis — And Why Does It Work?

Over the decades I've spent in the markets, I've seen countless strategies come and go. But the one approach that has stood the test of time, and continues to deliver results year after year, is trend analysis.

Trend analysis is the process of identifying the direction and strength of a market's movement over time. Whether you're looking at a stock, ETF, index, or optionable security, prices tend to move in sustained patterns—either upward (an uptrend), downward (a downtrend), or sideways (a range or consolidation). In its simplest form, trend analysis helps us answer a basic but critical question:

"Is the price going up, down, or nowhere?"

And if it's going up, is it doing so with consistency and strength?

As traders, our job isn't to predict what will happen next. It's to identify what is already happening and position ourselves in alignment with that movement. Trend analysis allows us to do just that.

Why Does Trend Analysis Work?

Here's the reality: markets are not random. They're driven by human behavior, especially

the behavior of institutional investors with deep pockets and massive buying power.

When mutual funds, hedge funds, pension plans, and other large institutions decide to buy or sell a security, they rarely do it all at once. Their orders are executed in waves, over days, weeks, or even months. This creates sustained movement in one direction—what we call a trend.

Trend analysis works because:

It aligns you with institutional flows. You're riding the same wave that the "smart money" is creating.

It builds probability in your favor. Once a trend starts, it tends to continue until a clear catalyst reverses it.

It reduces noise. Instead of reacting to every market twitch, you focus on the dominant direction.

Let me put it plainly, stocks that are going up tend to keep going up—until they don't. Trend analysis helps you know when to get in and when to get out.

Most amateur traders lose money because they're constantly trying to pick tops and bottoms, or they chase noise instead of structure. Trend analysis flips that approach on its head. It says:

Follow the strength.

Stick with what's working.

Exit when the trend breaks.

This is the foundation of how I trade and how I've consistently outperformed for decades.

Confirming the Trend Using the PowerTrend System

To filter out the noise and confirm the trend, I rely on a proven, rules-based approach called

the **PowerTrend System**. This system is rooted in simplicity and long-term price action, making it especially effective for swing traders.

At the heart of the PowerTrend System is the relationship between a stock's monthly closing price and its 10-Month Simple Moving Average (SMA). The 10-Month SMA serves as a smoothed benchmark that reflects the stock's average price over nearly a full trading year. This timeframe helps eliminate day-to-day and week-to-week fluctuations that often lead to false signals.

Here's how we interpret the signals:

Buy Signal (Bullish Trend Confirmation):

When a stock's most recent monthly closing price is above its 10-Month SMA, it indicates that the long-term trend is positive. This condition confirms a PowerTrend Buy Signal, suggesting institutional buying pressure and upside momentum. Stocks meeting this criteria are candidates for bullish strategies such as long calls, vertical call spreads, or put credit spreads.



Sell Signal (Bearish Trend Confirmation):

Conversely, when a stock's monthly closing price is below its 10-Month SMA, the long-term trend is considered bearish. This condition generates a PowerTrend Sell Signal, which signals potential downside risk. These stocks can be considered for bearish strategies like long puts, vertical put spreads, or call credit spreads.



In addition to confirming the direction, the PowerTrend System has a built-in risk management advantage: it forces discipline. By waiting for a monthly close above or below the moving average, we reduce the chance of whipsaws caused by intraday or weekly volatility. The system only reacts when meaningful price action occurs over time, not due to a one-off news spike or short-lived breakout.

Ultimately, the PowerTrend System is not about predicting the future, it's about aligning your trading with what the trend is already doing. In my experience, this trend-following confirmation helps traders increase the probability of success in both bull and bear markets.

Confirming the Strength of a Trend with Momentum

Identifying and confirming a trend is step one, but here's the truth: Not all trends are created equal.

Some trends look good on the surface but lack force behind the move. Others are sharp and short-lived—nothing more than a price spike with no staying power. That's why, in the PowerTrend System, we don't just trade a trend because it *exists*. We trade a trend when it's backed by real momentum.

In simple terms, momentum measures the strength of the price movement. It tells us whether buyers are acting with conviction or just tiptoeing into the market.

Momentum helps answer critical questions like:

- Is this trend gaining steam or losing it?

- Are more participants entering the trade or stepping away?
- Is there energy behind this move or is it just noise?

Why Do We Use Momentum as a Filter?

Imagine two cars driving on the same road. Both are heading north (uptrend), but one is going 30 mph, and the other is going 80 mph. If you had to bet on which one gets to the destination faster, your money would go on the car with the greater momentum (80mph). The same idea applies in trading.

A trend without momentum is vulnerable. It's more likely to stall out or reverse. But a trend with rising momentum? That's the kind of move that can carry trades for days or weeks—and those are the trades we want to be in.

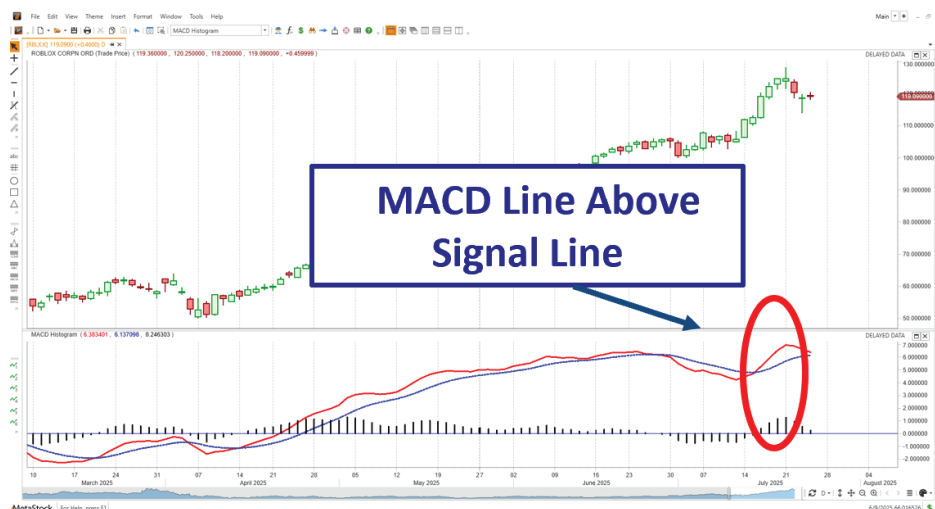
There are many ways to assess momentum, but in my experience, one tool stands above the rest: MACD (Moving Average Convergence Divergence).

MACD is a momentum indicator that compares two moving averages of price (the 12-day and 26-day EMAs), then plots a signal line (the 9-day EMA), and a histogram. What it gives us is a visual confirmation of whether momentum is accelerating or fading.

We use MACD to confirm the strength of the trend, or momentum, after we confirm the PowerTrend 'Buy Signal'.

What We Look for in the MACD:

MACD Line crossing above the Signal Line — this shows bullish momentum is starting to pick up.



When this occurs, it gives us a green light that the trend isn't just valid, it's powerful.

Trend + Momentum = High-Probability Setup

Think of trend as the direction of the wave, and momentum as the height and energy of that wave. You want both working together when you enter a trade. That's what makes momentum confirmation such a critical piece of the PowerTrend System. It helps us:

- Filter out weak, low-conviction trends
- Avoid “head fakes” and early reversals
- Focus only on the highest-probability trades

It's not about predicting the market, it's about following a proven system with discipline and confidence. Traders often fail because they lack a system. The PowerTrend System gives you a proven, rules-based framework for finding and trading high-probability setups.

I've used this system to win multiple trading championships, and you can apply the same methodology whether you trade stocks, ETFs, or options.

Stick with the trend. Confirm with momentum. Trade with confidence.

See you in the winner's circle.

– **Chuck Hughes**

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