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MEASURING BUSINESS CYCLES USING TREND ANALYSIS

Trend analysis is a technique employed by technical analyst in the financial industry to predict the future movements of a given asset. They employ historical data to determine the direction of the trend. The goal of this procedure is to identify attractive investment opportunities that are currently showing an upward trend; and of course, to identify downtrends too, so investors can get out before losing money.

Trend analysis tries to predict a trend, such as abull marketrun, and ride that trend until data suggests a trendreversal, such as a bull-to-bear market. Trend analysis is helpful because moving with trends, and not against them, will lead to profit for an investor.

By watching the general trends of the markets, a trader may be able to match purchases and sales of particular stocks, maximizing his or her potential for profits. At the same time, it is important to look at historical data in a larger context of conditions for the underlying company to understand if there are factors that may affect a stock's value irrespective of general market conditions or past performance. For example, a trader should look inside the financial conditions of the company, understand the market and technologies, and anticipate competitive pressures on the company within its sector. All of these tolls, as well as trend analysis, benefit a trader.

A trend is the general direction the market is taking during a specified period of time. Trends can be both upward and downward, relating to bullish and bearish markets, respectively. While there is no specified minimum amount of time required for a direction to be considered a trend, the longer the direction is maintained, the more notable the trend.

Trend analysis is the process of trying to look at current trends in order to predict future ones and is considered a form of comparative analysis. This can include attempting to determine whether a current market trend, such as gains in a particular market sector, is likely to continue, as well as whether a trend in one market area could result in a trend in another. Though an analysis may involve a large amount of data, there is no guarantee that the results will be correct.

There are three types of trend:

1. Uptrend. An uptrend orbull marketis when financial markets and assets – as with the broader economy level – move in the upward directions and keep increasing prices of the stock or the assets or even the size of the economy over the period of time. This is a time of booming where jobs get created, the economy moves into positive market and sentiments in the markets are favorable and the investment cycle has started.

2. Downtrend. A downtrend or bear market is when financial markets and assets prices – as with the broader economy level – move in the downward direction and prices of the stock or the assets or even the size of the economy keeps on decreasing over the period of time. This is the time when companies shut down the operation or shrink the production due to a slump in the sales. Jobs are lost and asset prices start declining, sentiment in the market is not favorable for further investment, investors run for the safe haven of the investment.

3. Sideways / horizontal Trend. A sideways/horizontal trend means assets prices or share prices – as with the broader economy level – are not moving in any direction, they are moving sideways, up for some time then down for some time. The direction of the trend cannot be decided this is the trend were investors are worrying about their investment and government is trying to push the economy in the uptrend. Generally sideways or horizontal trend is considered risky because when sentiments will be turned against cannot be predicted hence investors try to keep away in such a situation.

Trend analysis involves the collection of information from multiple time periods and plotting the information on a horizontal line for further review. The intent of this analysis is to spot actionable patterns in the presented information. In business, trend analysis is typically used in two ways, which are as follows (table 1).

Ways of trend analysis	*Characteristics*
Revenue and cost analysis	Revenue and cost information from a company's income statement can be arranged on a trend line for multiple reporting periods and examined for trends and inconsistencies. For example, a sudden spike in expense in one period followed by a sharp decline in the next period can indicate that an expense was booked twice in the first month. Thus, trend analysis is quite useful for examining preliminary financial statements for inaccuracies, to see if adjustments should be made before the statements are released for general use.
Investment analysis	An investor can create a trend line of historical share prices, and use this information to predict future changes in the price of a stock. The trend line can be associated with other information for which a cause-and-effect relationship may exist, to see if the causal relationship can be used as a predictor of future stock prices. Trend analysis can also be used for the entire stock market, to detect signs of a impending change from a bull to a bear market, or the reverse.

When trend analysis is being used to predict the future, keep in mind that the factors formerly impacting a data point may no longer be doing so to the same extent. This means that an extrapolation of a historical time series will not necessarily yield a valid prediction of the future. Thus, a considerable amount of additional research should accompany trend analysis when using it to make predictions.

The trend is a friend, is a well-known quote in trader’s fraternity. The trader makes a good profit by following the trend. Trend analysis is a not an easy task it required eyes on details and understanding of the market dynamics.

The trend analysis in accounting can be used by management or the analyst to forecast the future financial statement. Following blindly trend can turn out to be dangerous if a proper analysis of the past event is not done.