INDICATOR 7 *Trend strength*

ADX Explained: How to Tell if a Market Is Really Trending

Many indicators only work in trending markets. ADX answers the question you should ask first: is there actually a trend?



What it is

The Average Directional Index (ADX) was developed by J. Welles Wilder and published in 1978, together with the Directional Movement Index (DMI). ADX measures the **strength** of a trend, whether it's up or down. The two DMI lines, +DI and -DI, show the **direction**.

How it's calculated

- **+DI** measures how strongly price is pushing to new highs; **-DI** measures how strongly it's pushing to new lows. Both are smoothed over 14 periods and expressed relative to the average true range.
- **ADX** is a smoothed average of the difference between +DI and -DI, scaled from 0 to 100. The bigger the gap between the two lines, the higher the ADX.

Default settings

14 periods. A reading of 25 is the most common threshold.

How to read it

- **ADX below 20:** weak or no trend. The market is likely moving sideways.
- **ADX above 25:** a trend is in place. Above 40, it's strong.
- **Rising ADX:** the trend is getting stronger. **Falling ADX:** it's losing strength, even if prices still move in the same direction.

- **+DI above -DI:** buyers are in control. **-DI above +DI:** sellers are.

Three practical ways to use it

1. **Pick the right strategy.** When ADX is above 25, favour trend tools such as moving averages and MACD. When it's below 20, range tools such as the stochastic and Bollinger Bands tend to work better.
2. **DI crossovers with a filter.** A cross of +DI above -DI is a bullish signal, but it's more reliable when ADX is rising and above 20 to 25.
3. **Spotting tired trends.** When ADX peaks at a high level and starts to turn down, the trend may be entering a pause or consolidation. It's a cue to tighten stops rather than add to positions.

Common mistakes

- **Reading a high ADX as bullish.** A falling market with a strong trend also has a high ADX. Always check +DI and -DI for direction.
- **Expecting early signals.** ADX is heavily smoothed and slow to react.
- **Trading DI crossovers when ADX is low.** In flat markets, the lines cross often and mean little.

Works well with

- **Trend indicators** (moving averages, MACD) when ADX is high.
- **Oscillators** (RSI, stochastic) when ADX is low.

Quick summary

- ADX measures trend strength from 0 to 100; +DI and -DI show direction.
- Above 25 suggests a trend; below 20 suggests a range.
- Use it to decide which tools to trust, not as a stand-alone signal.

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