

Hidden Divergence

Regular vs Hidden Divergence

	Regular Divergence	Hidden Divergence
Signals	Potential reversal or consolidation	Potential continuation of existing trend
Bullish	Price: lower low, RSI: higher low	Price: higher low , RSI: lower low
Bearish	Price: higher high, RSI: lower high	Price: lower high , RSI: higher high
Context	Appears at the END of a trend	Appears WITHIN an established trend
Analogy	Body getting tired during a run — slowing down	Basketball team is down, but the players look energetic — comeback coming

Key distinction: Regular divergence = the trend is weakening and may reverse. Hidden divergence = despite a temporary pullback, the underlying momentum is intact and the trend should continue.

Hidden Bullish Divergence

Requirements

- Must already be in an established **uptrend** (HH/HL). You cannot have hidden bullish divergence without an existing uptrend
- Price makes a **higher low** (buyers stepping in higher — normal uptrend behaviour)
- RSI makes a **lower low** (indicator resets more deeply — but this actually means more fuel for the next leg up)

What It Means

Even though RSI made a lower low (which looks bearish in isolation), the price made a higher low (which is bullish). The RSI is resetting — reloading energy for continuation. Think of it as the market catching its breath before the next push.

Confirmation Process

Hidden bullish divergence alone is NOT a buy signal. You need:

1. Spot the hidden bullish divergence (higher low on price, lower low on RSI)
2. Wait for **divergence to turn into convergence** — RSI starts matching price again (both making HH/HL)
3. Wait for **change of market structure** — HH/HL breakout through resistance
4. Then take the trade — you're buying a confirmed continuation with hidden bullish as extra confluency

Without the confirmation, it's just POTENTIAL hidden bullish divergence. You keep an eye on it, and if market structure confirms, it becomes another green tick on your checklist.

Bitcoin COVID Bottom Example

From the \$4K COVID bottom through the bull run, hidden bullish divergence appeared repeatedly at each pullback: higher low on price, lower low on RSI, continuation upward. It happened multiple times in sequence — each time the trend continued. Eventually, hidden bullish stopped appearing and regular bearish divergence began, signalling the trend was transitioning from continuation to potential reversal.

Hidden Bearish Divergence

Requirements

- Must already be in an established **downtrend** (LL/LH)
- Price makes a **lower high** (sellers stepping in lower — normal downtrend behaviour)
- RSI makes a **higher high** (indicator rallies but price doesn't follow — fake rallies)

What It Means

Even though RSI made a higher high (which looks bullish in isolation), the price only made a lower high. The "rally" is fake — the underlying bearish momentum is intact. The trend should continue

down.

Confirmation

Same process as bullish but inverted:

1. Spot hidden bearish (lower high on price, higher high on RSI)
 2. Wait for divergence → convergence (RSI starts matching price — both making LL/LH)
 3. Wait for change of market structure — breakdown through support (e.g. descending triangle breakdown)
 4. Take the short or exit longs
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The Battle: Regular vs Hidden

This is the critical practical concept. Regular bullish divergence and hidden bearish divergence can appear at the same time, creating a battle:

- **Regular bullish** says "potential reversal upward"
- **Hidden bearish** says "continuation of downtrend"
- **Who wins?** Whichever one gets confirmed by market structure

NVX example: Price made a new low with bullish RSI divergence (potential reversal). But then on the next rally, hidden bearish appeared (continuation signal). The battle was settled when price broke below the support level — hidden bearish won, and the downtrend continued.

Key takeaway: Regular bullish divergence doesn't always mean reversal — it can just be a bounce. That bounce can then create hidden bearish divergence, which continues the trend lower. This is why you NEVER trade divergence alone. Market structure confirms the winner.

Similarly, hidden bullish can transition into regular bearish at a top. The trend was continuing (hidden bullish), then the final push showed regular bearish divergence, and the trend reversed. Knowing both types helps you see these transitions happening.

Hidden Divergence Across Waves (Elliott Wave Context)

When Can You Have Hidden Bullish?

- Only when you're in an uptrend (above the change of market structure point)
- Between **Wave 4 and Wave 2** — the zag zone pullbacks within the impulse
- Between **Wave A of the correction and Wave 4** — the larger degree pullback
- NOT from sub-waves of different degrees — the pullbacks must be comparable

The Rule

As markets zig and zag, you can find hidden bullish from one zag zone to the previous zag zone (same degree). When you get the bigger "two steps back" (correcting the whole three-step move), you can find hidden bullish from that larger pullback back to the previous larger pullback.

The minute market structure changes to bearish → hidden bullish is invalidated. You can't have hidden bullish in a downtrend. Once the downtrend establishes, you start looking for hidden bearish instead.

Trading Strategies with Hidden Divergence

As Breakout Confirmation

When trading a breakout:

- Volume confirms the move ✓
- Hidden bullish divergence on the pullback before the breakout ✓
- Two blinkers saying "this should keep going" = higher probability breakout

You could enter on the early signal (yellow), but it's confirmed once it breaks the high (purple). Looking back, you see hidden bullish was telling you it was going to continue.

With Candlestick Patterns

If you get a pivot with bullish candlestick patterns (engulfing, morning star, hammer) at a support level AND hidden bullish divergence → multiple confluency points all saying "bounce and continue."

With Fibonacci

Hidden divergence aligning with a Fibonacci retracement level (bouncing off the 382 or 500 of the prior move with hidden bullish) = confluence between two independent methods. Strengthens the signal significantly.

Stop Loss Placement

- **Hidden bullish:** Stop loss below the recent swing low (the higher low). If the trend is continuing, that higher low should hold. If it breaks, the continuation thesis is wrong
 - **Hidden bearish:** Stop loss above the recent swing high (the lower high). If the downtrend is continuing, that lower high should hold
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Rules & Guidelines

- **Hidden divergence is a CONTINUATION signal, not a reversal signal** — don't confuse the two
 - **Must have an established trend first** — hidden bullish requires existing uptrend, hidden bearish requires existing downtrend
 - **Never use standalone** — always combine with market structure, S/R, volume, Fibonacci, candlestick patterns. It's one tool in the toolbox
 - **Don't put all your weight on the newest tool.** Each week you learn something new — resist the urge to forget the foundational principles (market structure, S/R, reversal patterns). Those are ALWAYS primary
 - **Hidden bullish can transition into regular bearish** (and vice versa) — this is how trends evolve from continuation to reversal. Watch for these transitions
 - **Regular bullish can lead into hidden bearish** — a bounce on regular bullish divergence might just set up hidden bearish for continuation of the downtrend. Be careful assuming regular bullish = reversal confirmed
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