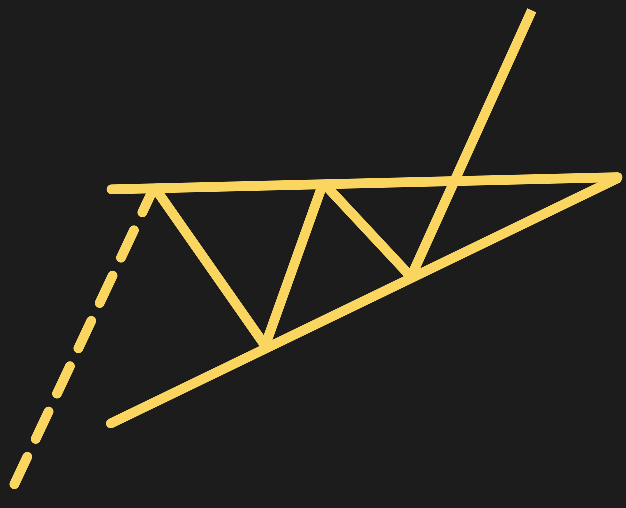
Present By StoxMee

PRICE ACTION PATTERNS



TRADE WITH PRICE ACTION PATTERNS

BY MR ANKYA

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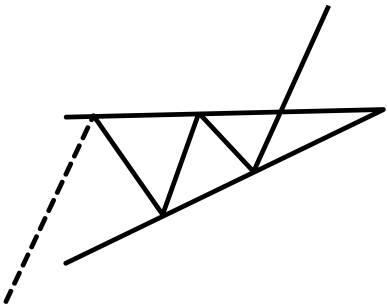
Bullish Patterns



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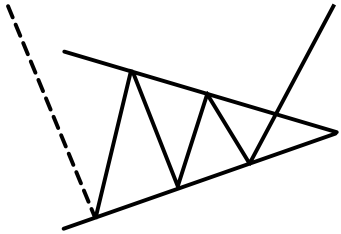

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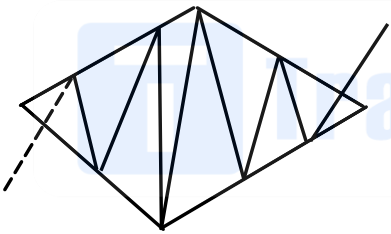
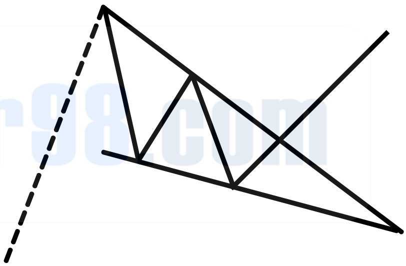


3. Continuation Diamond (Bullish)



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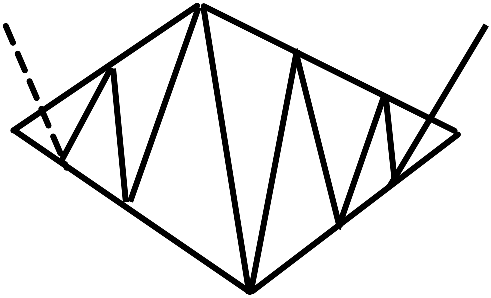
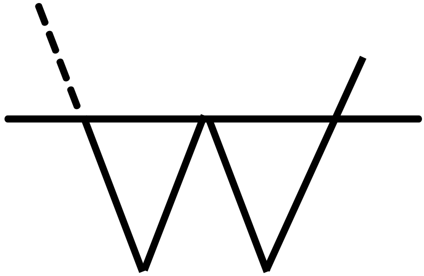
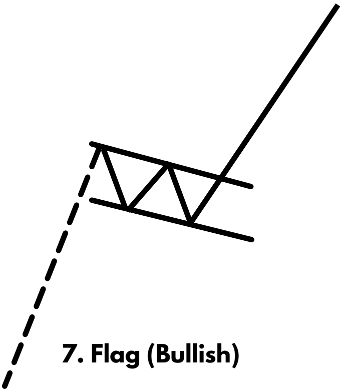


5. Diamond Bottom



6. Double Bottom

STOXMEE



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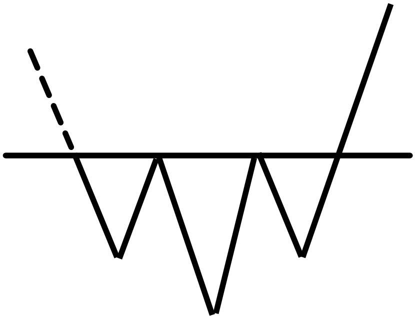
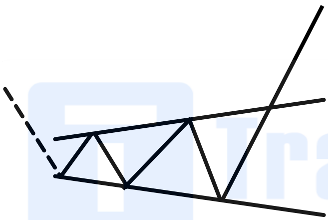
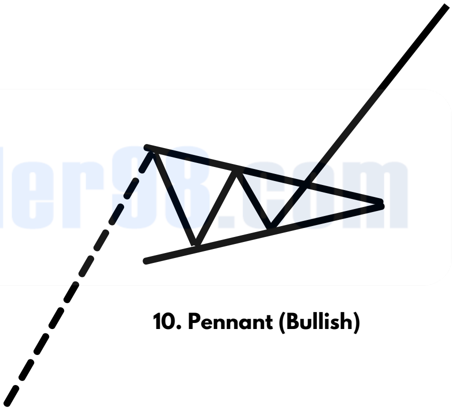


8. Head and Shoulders Bottom



9. Megaphone Bottom



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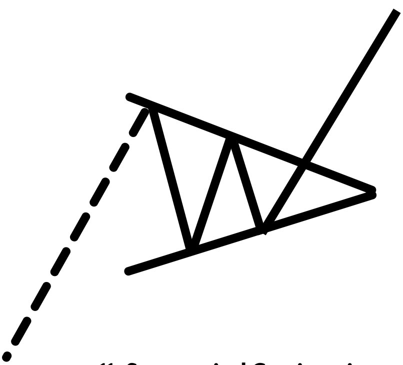
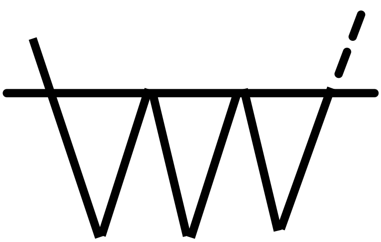
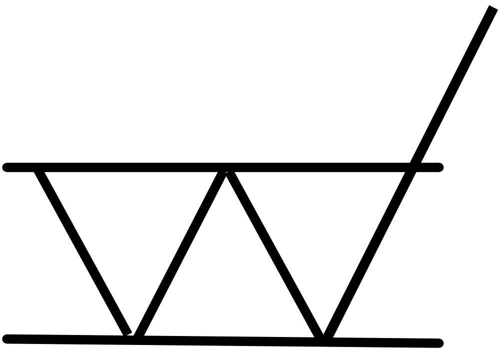


11. Symmetrical Continuation Triangle (Bullish)



12. Triple Bottom



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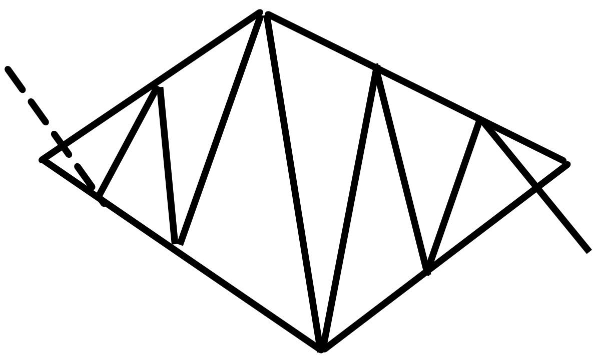
Bearish Patterns



1. Continuation Diamond (Bearish)

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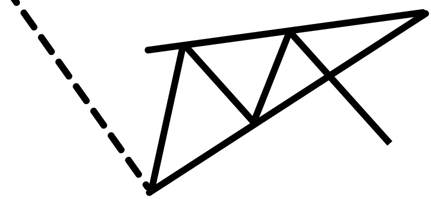

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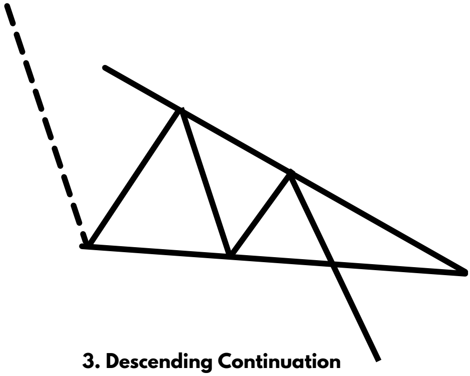

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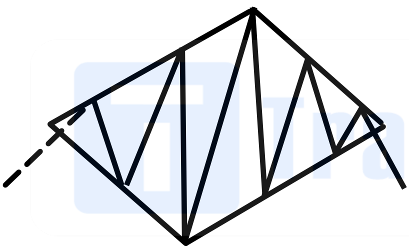
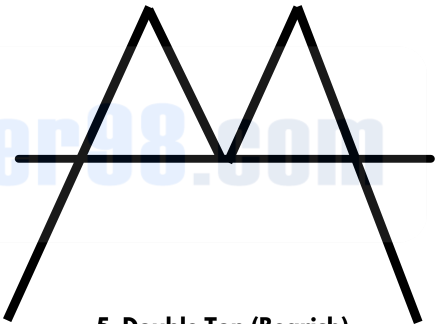


4. Diamond Top



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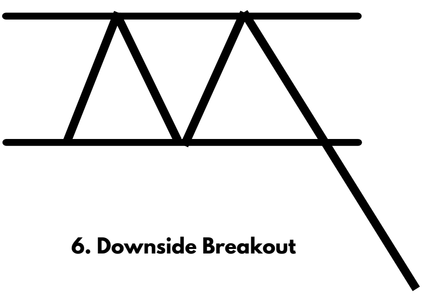
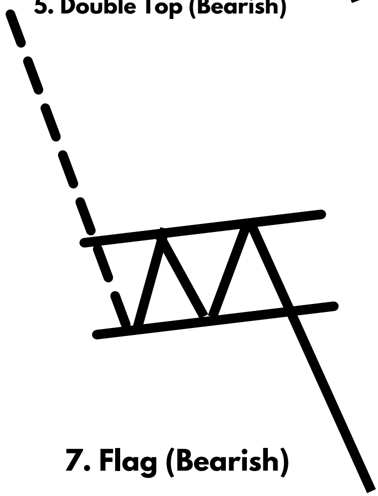
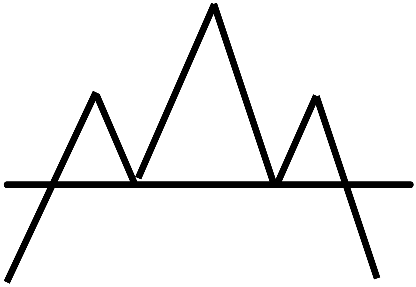


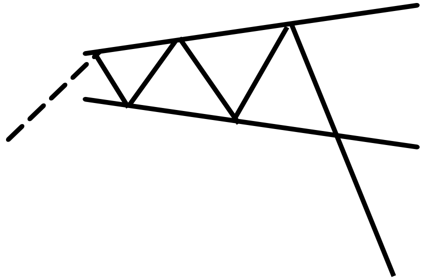
6. Downside Breakout



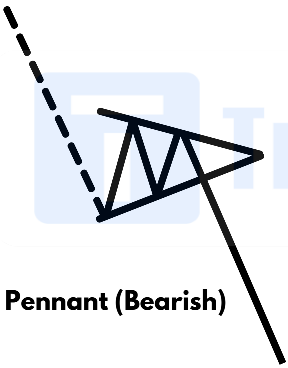
7. Flag (Bearish)



8. Head and Shoulders Top (Bearish)



9. Megaphone Top



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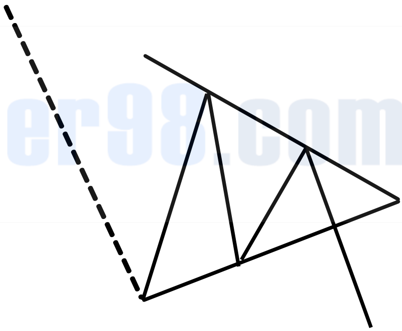
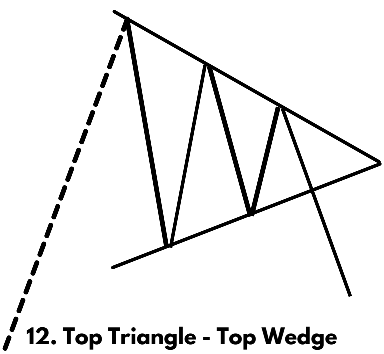
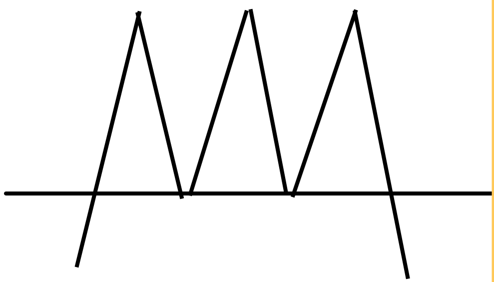


11. Symmetrical Continuation Triangle (Bearish)



12. Top Triangle - Top Wedge

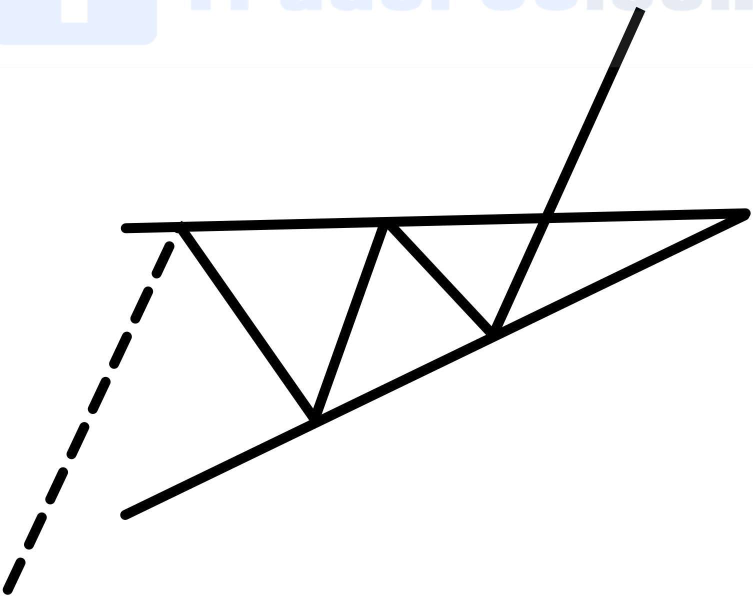


13. Triple Top

1. Ascending Continuation Triangle

An Ascending Continuation Triangle is considered a bullish signal. It indicates a possible continuation of the current uptrend.

An Ascending Continuation Triangle shows two converging trendlines. The lower trendline is rising and the upper trendline is horizontal. This pattern occurs because the lows are moving increasingly higher but the highs are maintaining a constant price level. The pattern will have two highs and two lows, all touching the trendlines.
This pattern is confirmed when the price breaks out of the triangle formation to close above the upper trendline



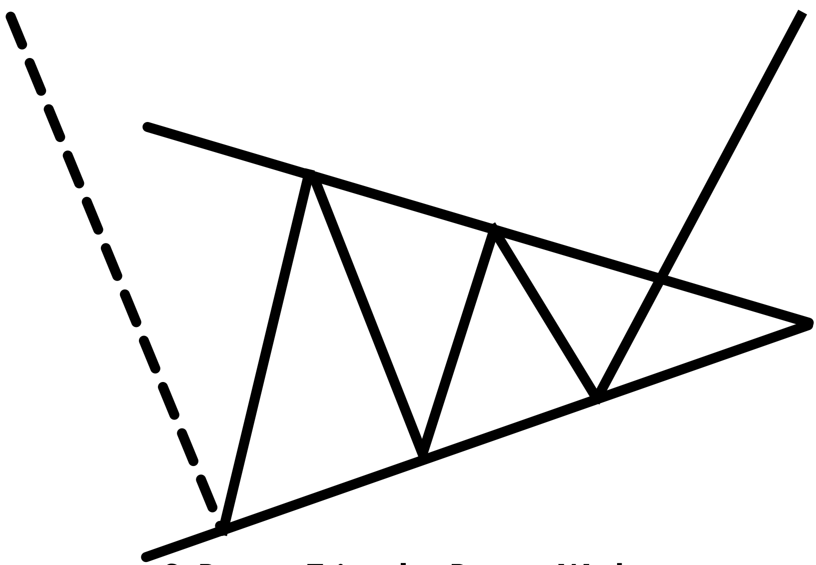
1. Ascending Continuation Triangle

Volume is an important factor to consider. Typically, volume follows a reliable pattern: volume should diminish as the price swings back and forth between an increasingly narrow range of highs and lows. However, when breakout occurs, there should be a noticeable increase in volume. If this volume picture is not clear, investors should be cautious about decisions based on this Triangle

2. Bottom Triangle - Bottom Wedge

Bottom Triangles and Bottom Wedges are considered to be bullish signals that mark a possible reversal of the current downtrend.

Bottom Triangles and Bottom Wedges make up a group of patterns which have the same general shape as Symmetrical Triangles, Wedges, Ascending Triangles and Descending Triangles. The difference is that these particular formations are reversal and not continuation patterns. These patterns have two converging trendlines. The pattern will display two highs touching the upper trendline and two lows touching the lower trendline. Contrary to Triangle formations, Wedges are characterized by their boundary trendlines both moving in the same direction. This pattern is confirmed when the price breaks upward out of the Bottom Triangle or Bottom Wedge formation to close above the upper trendline.



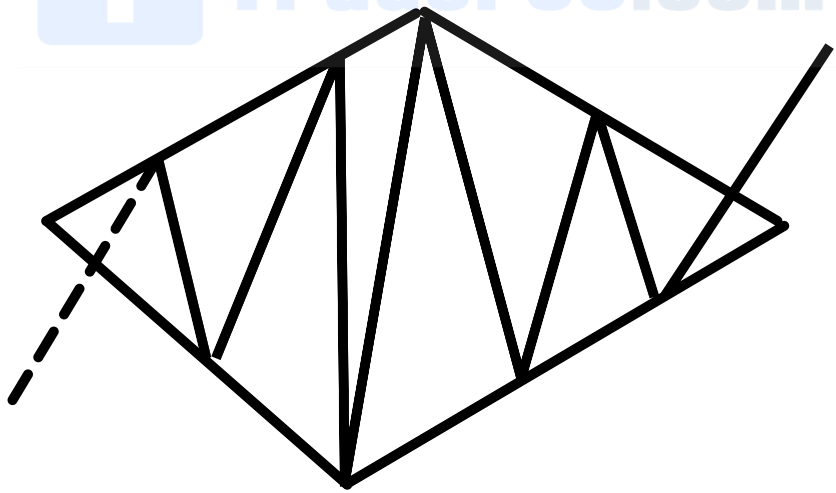
2. Bottom Triangle - Bottom Wedge

Volume is an important factor to consider. Typically, volume follows a reliable pattern: volume should diminish as the price swings back and forth between an increasingly narrow range of highs and lows. However, when the breakout occurs, there should be a noticeable increase in volume. If this volume picture is not clear, investors should be cautious about decisions based on the particular Triangle or Wedge pattern.

3. Continuation Diamond (Bullish)

A Continuation Diamond (Bullish) is considered a bullish signal, indicating that the current uptrend may continue

Diamond patterns usually form over several months in very active markets. Volume will remain high during the formation of this pattern. The Continuation Diamond (Bullish) pattern forms because prices create higher highs and lower lows in a broadening pattern. Then the trading range gradually narrows after the highs peak and the lows start trending upward. The Technical Event® occurs when prices break upward out of the diamond formation to continue the prior uptrend.



3. Continuation Diamond (Bullish)

Duration of Pattern

Consider the duration of the pattern and its relationship to your trading time horizons. The duration of the pattern is considered to be an indicator of the duration of the influence of this pattern. The longer the pattern the longer it will take for the price to move to its target. The shorter the pattern the sooner the price move. If you are considering a short-term trading opportunity, look for a pattern with a short duration. If you are considering a longer-term trading opportunity, look for a pattern with a longer duration.

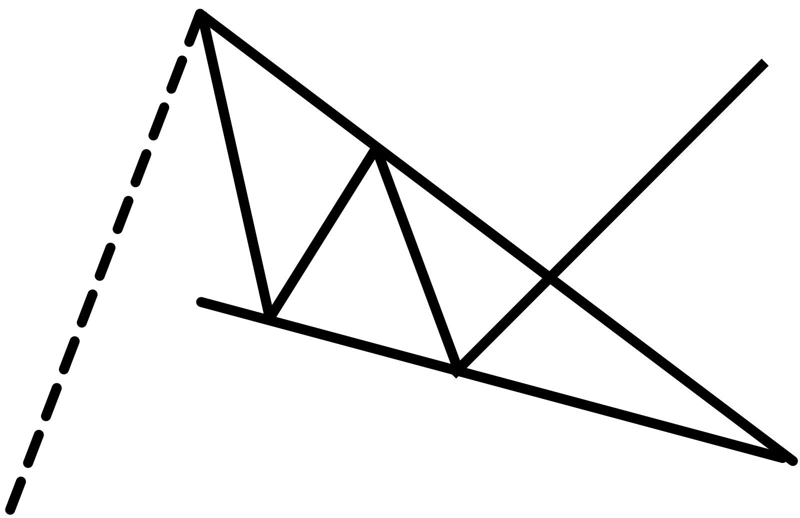
Target Price

The target price provides an important indication about the potential price move that this pattern indicates. Consider whether the target price for this pattern is sufficient to provide adequate returns after your costs (such as commissions) have been taken into account. A good rule of thumb is that the target price must indicate a potential return of greater than 5% before a pattern should be considered useful. However you must consider the current price and the volume of shares you intend to trade. Also, check that the target price has not already been achieved.

4. Continuation Wedge (Bullish)

A Continuation Wedge (Bullish) is considered a bullish signal. It indicates a possible continuation of the current uptrend.

A Continuation Wedge (Bullish) consists of two converging trend lines. The trend lines are slanted downward. Unlike the Triangles where the apex is pointed to the right, the apex of this pattern is slanted downwards at an angle. This is because prices edge steadily lower in a converging pattern i.e. there are lower highs and lower lows. A bullish signal occurs when prices break above the upper trendline. Over the weeks or months that this pattern forms the trend appears downward but the long-term range is still upward. Volume should diminish as the pattern forms.



4. Continuation Wedge (Bullish)

Pattern Duration

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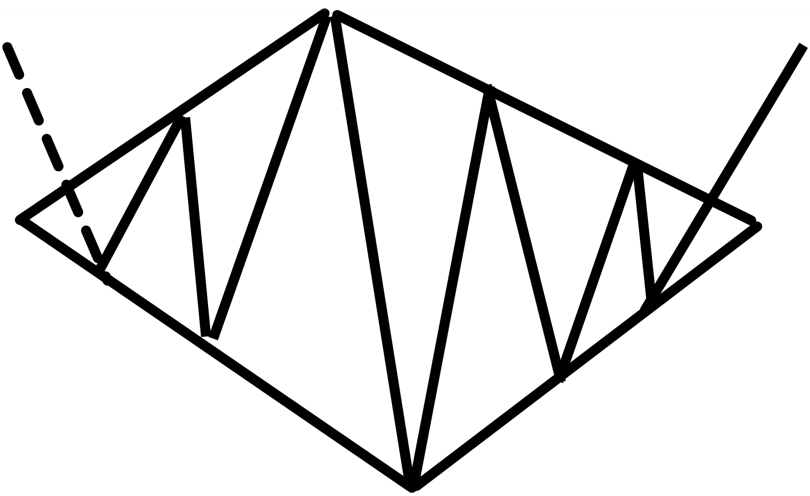
5. Diamond Bottom

A Diamond Bottom is considered a bullish signal, indicating a possible reversal of the current downtrend to a new uptrend

Diamond patterns usually form over several months in very active markets. Volume remains high during the formation of this pattern. The Diamond Bottom pattern occurs because prices create higher highs and lower lows in a broadening pattern. Then the trading range gradually narrows after the highs peak and the lows start trending upward. The Technical Event® occurs when prices break upward out of the diamond formation.



5. Diamond Bottom

Duration of Pattern

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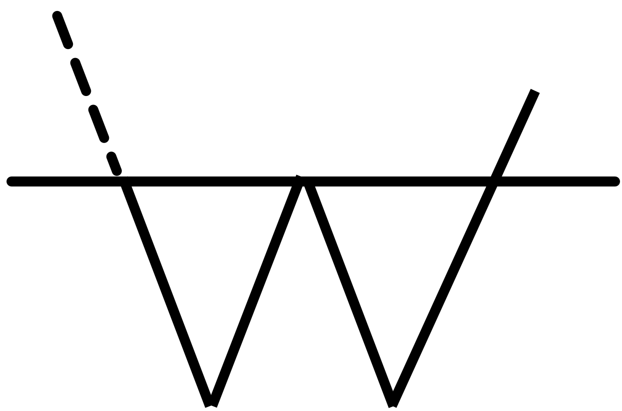
6. Double Bottom

A Double Bottom is considered a bullish signal, indicating a possible reversal of the current downtrend to a new uptrend.

Double Bottoms are considered to be among the most common of the patterns. Since, they seem to be so easy to identify, the Double Bottom should be approached with caution by the investor. The Double Bottom is a reversal pattern of a downward trend in a stock's price. The Double Bottom marks a downtrend in the process of becoming an uptrend. A Double Bottom occurs when prices form two distinct lows on a chart. A Double Bottom is only complete, however, when prices rise above the high end of the point that formed the second low. The two lows will be distinct. The pattern is complete when prices rise above the highest high in the formation. The highest high is called the "confirmation point".



6. Double Bottom

Analysts vary in their specific definitions of a Double Bottom. According to some, after the first bottom is formed, a rally of at least 10% should follow. That increase is measured from high to low. This should be followed by a second bottom. The second bottom returning back to the previous low (plus or minus 3%) should be on lower volume than the first. Other analysts maintain that the rise registered between the two bottoms should be at least 20% and the lows should be spaced at least a month apart. Sometimes the two lows comprising a Double Bottom are not at exactly the same price level. This does not necessarily render the pattern invalid. Analysts advise that if the second low varies in price from the first low by more than 3% or 4%, the pattern may be less reliable.

The bottoms will have a significant amount of time between them - ranging from a few weeks to a year depending on whether an investor is viewing a weekly chart or a daily chart. Generally, volume in a Double Bottom is usually higher on the left bottom than the right. Volume tends to be downward as the pattern forms. Volume does, however, pick up as the pattern hits its lows. Volume increases again when the pattern completes, breaking through the confirmation point

Important Characteristics

Following are important characteristic to look for in a Double Bottom.
Downtrend Preceding Double Bottom The Double Bottom is a reversal formation. It begins with prices in a downtrend.

Time between Bottoms

Analysts pay close attention to the "size" of the pattern - the duration of the interval between the two lows. Generally, the longer the time between the two lows, the more important the pattern is as a good reversal. Some analysts suggest that investors should look for patterns where at least one month elapses between the bottoms. It is not unusual for a few months to pass between the dates of the two bottoms

Increase from First Low

Some analysts argue the increase in price that occurs between the two bottoms should be consequential, amounting to approximately 20% of the price. Other analysts are not so definite or demanding concerning the price increase. For some, an increase of at least 10% is adequate. The rise between the lows tends to look rounded but it can also be irregular in shape. Volume Volume tends to be heaviest during the first low and lighter on the second. It is common to see volume pick up again at the time of breakout. Pullback after Breakout A pullback after the breakout is usual for a Double Bottom.

Trading Considerations

Duration of the Pattern

Target Price

The target price provides an important indication about the potential price move that this pattern indicates. Consider whether the target price for this pattern is sufficient to provide adequate returns after your costs (such as commissions) have been taken into account. A good rule of thumb is that the target price must indicate a potential return of greater than 5% before a pattern should be considered useful. However you must consider the current price and the volume of shares you intend to trade. Also, check that the target price has not already been achieved.

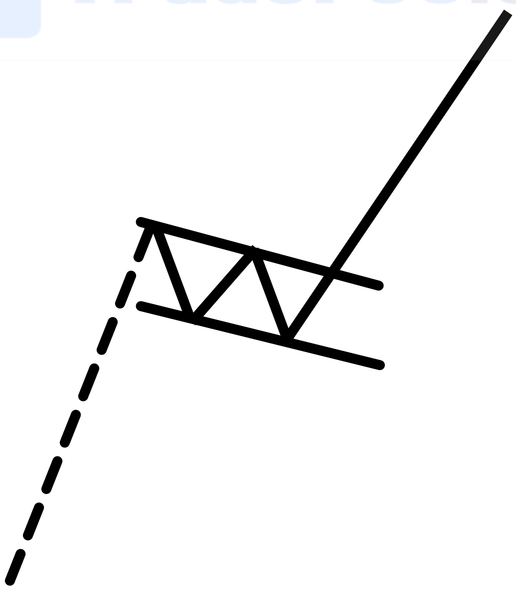
Inbound Trend

The inbound trend is an important characteristic of the pattern. A shallow inbound trend may indicate a period of consolidation before the price move indicated by the pattern begins. Look for an inbound trend that is longer than the duration of the pattern. A good rule of thumb is that the inbound trend should be at least two times the duration of the pattern.

7. Flag (Bullish)

A Flag (Bullish) is considered a bullish signal, indicating that the current uptrend may continue

A Flag (Bullish) follows a steep or nearly vertical rise in price, and consists of two parallel trendlines that form a rectangular flag shape. The Flag can be horizontal (as though the wind is blowing it), although it often has a slight downtrend. The vertical uptrend, that precedes a Flag, may occur because of buyers' reactions to a favorable company earnings announcement, or a new product launch. The sharp price increase is sometimes referred to as the "flagpole" or "mast".



7. Flag (Bullish)

The rectangular flag shape is the product of what technical analysts refer to as consolidation. Consolidation occurs when the price seems to bounce between an upper and lower price limit. This might occur, for example, in the days following a positive product announcement, when the excitement is starting to subside, and fewer buyers are willing to pay the high price that was commanded just a few days before. But, at the same time, sellers are unwilling to sell below a lower support limit.

A bullish signal occurs when the price rebounds beyond the upper trendline of the Flag formation, and continues the original upward price movement. This is considered a pattern confirmation.

When speaking about Flags, technical analysts may use jargon and refer to the flag as "flying at half mast". Visually, this reference is nothing like a flag at half-mast, such as on a day of national mourning. Instead, this term refers to the location of the flag - at the mid-point of what would otherwise be a continuous uptrend

Important Characteristics

Following are important characteristics for this pattern.

Trendlines

Flags are very similar to Pennants. However, with a Flag, the price trendlines tend to run parallel, whereas with a Pennant, the price trendlines tend to converge.

Volume

As the Flag develops, the volume tends to decrease. Following a positive product announcement, the price may have reached an unexpected high, and fewer buyers will be willing to buy. Interest in the stock may resume, however, as prices drop, and sellers begin to lower their price. The increased activity explains why you will often notice a sharp spike in volume at the end of a Flag. Duration of the Pattern Martin Pring notes in his book, Technical Analysis Explained that "Flags can form in a period as short as 5 days or as longs as 3 to 5 weeks." John J. Murphy identifies that Flags "often last no longer than one or two weeks."

Trading Considerations

Possibility of Price Reversal

In some rare cases, the price will break against the original price movement, and create a reversal trend. The pattern reversal may be signaled during the Flag formation by a sharp increase in volume, as opposed to the more typical decrease.

Duration of the Pattern

The duration of the pattern depends on the extent of the price fluctuations (consolidation). The greater the fluctuations, the longer a pattern will take to develop.

Target Price

It is commonly held that the length of the flagpole indicates the potential price increase. When the Flag completes, the price typically jumps to replicate the height of the original flagpole, while continuing in the direction of the inbound trend

8. Head and Shoulders Bottom

The Head and Shoulders bottom is a popular pattern with investors. This pattern marks a reversal of a downward trend in a financial instrument's price.

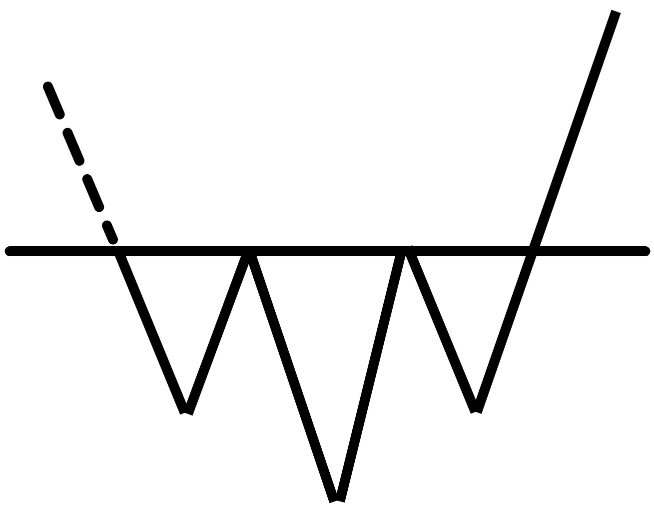
Volume is absolutely crucial to a Head and Shoulders Bottom. An investor will be looking for increasing volumes at the point of breakout. This increased volume definitively marks the end of the pattern and the reversal of a downward trend in the price of a stock.

A perfect example of the Head and Shoulders Bottom has three sharp low points created by three successive reactions in the price of the financial instrument. It is essential that this pattern form following a major downtrend in the financial instrument's price.

The first point - the left shoulder - occurs as the price of the financial instrument in a falling market hits a new low and then rises in a minor recovery. The second point - the head happens when prices fall from the high of the left shoulder to an even lower level and then rise again. The third point - the right shoulder - occurs when prices fall again but don't hit the low of the head. Prices then rise again once they have hit the low of the right shoulder. The lows of the shoulders are definitely higher than that of the head and, in a classic formation, are often roughly equal to one another.

The neckline is a key element of this pattern. The neckline is formed by drawing a line connecting the two high price points of the formation. The first high point occurs at the end of the left shoulder and beginning of the downtrend to the head. The second marks the end of the head and the beginning of the downturn to the right shoulder. The neckline usually points down in a Head and Shoulders Bottom, but on rare occasions can slope up.

The pattern is complete when the resistance marked by the neckline is "broken". This occurs when the price of the stock, rising from the low point of the right shoulder moves up through the neckline. Many technical analysts only consider the neckline "broken" if the stock closes above the neckline



8. Head and Shoulders Bottom

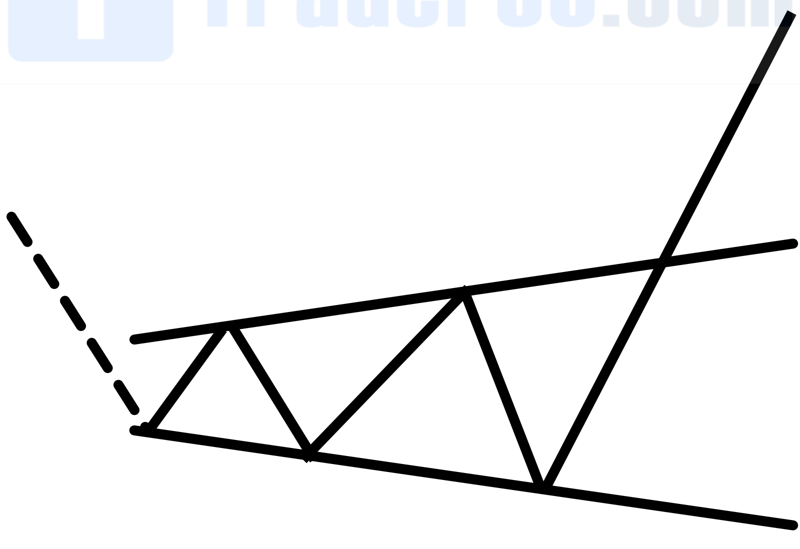
The volume sequence should progress beginning with relatively heavy volume as prices descend to form the low point of the left shoulder. Once again, volume spikes as the stock hits a new low to form the point of the head. It is possible that volume at the head may be slightly lower than at the left shoulder. When the right shoulder is forming, however, volume should be markedly lighter as the price of the stock once again moves lower.

It is most important to watch volume at the point where the neckline is broken. For a true reversal, experts agree that heavy volume is essential.

9. Megaphone Bottom

A Megaphone Bottom also known as a Broadening Bottom is considered a bullish signal, indicating that the current downtrend may reverse to form a new uptrend

This rare formation can be recognized by the successively higher highs and lower lows, which form after a downward move. Usually, two higher highs between three lower lows form the pattern, which is completed when prices break above the second higher high and do not fall below it. The pattern is completed when, usually on the third upswing within the pattern, prices break above the prior high but fail to fall below this level again.

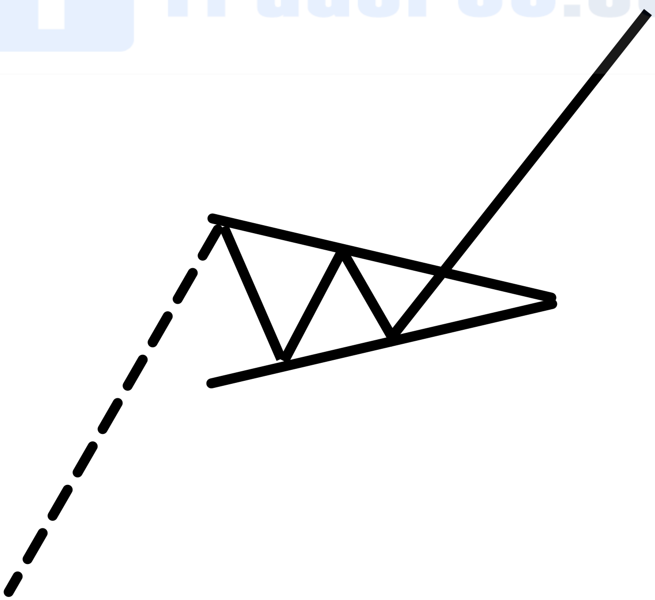


9. Megaphone Bottom

10. Pennant (Bullish)

A Pennant (Bullish) is considered a bullish signal, indicating that the current uptrend may continue.

A Pennant (Bullish) follows a steep or nearly vertical rise in price, and consists of two converging trendlines that form a narrow, tapering flag shape. The Pennant shape generally appears as a horizontal shape, rather than one with a downtrend or uptrend. Apart from its shape, the Pennant is similar in all respects to the Flag. The Pennant is also similar to the Symmetrical Triangle or Wedge continuation patterns however; the Pennant is typically shorter in duration and flies horizontally.



10. Pennant (Bullish)

Important Characteristics

Following are important characteristics for this pattern.

Trendlines

For Pennants, the price trendlines tend to converge. At the start of the Pennant, the price spikes, perhaps in response to a favorable product or earnings announcement. Following the price spike, the price fluctuations continue until they taper out and become decreasingly less volatile. This behavior appears on a price chart with the initial price spike forming what technical analysts refer to as the "mast" of the Pennant, followed by a triangular pennant shape.

Volume

As the Pennant develops, the volume tends to decrease. Martin Pring notes in his book, Technical Analysis Explained, "a pennant is in effect a very small triangle. If anything, volume tends to contract even more during the formation of a pennant than during that of a flag." However, as with Flags, when the Pennant completes you will often observe a sharp spike in volume.

Duration of the Pattern

In his book, Technical Analysis of the Financial Markets, John J. Murphy identifies that Pennants and Flags are relatively short-term and should be completed within one to three weeks. He also notes that by comparison, the bullish patterns take longer to develop than the related bearish patterns.

Trading Considerations

Possibility of Price Reversal

In some rare cases, the price will break against the original price movement, and create a reversal trend. The pattern reversal may be signaled during the Pennant formation by an increase in volume, as opposed to the more typical decrease.

Duration of the Pattern

The duration of the pattern depends on the extent of the price fluctuations (consolidation). The greater the fluctuations, the longer a pattern will take to develop.

Target Price

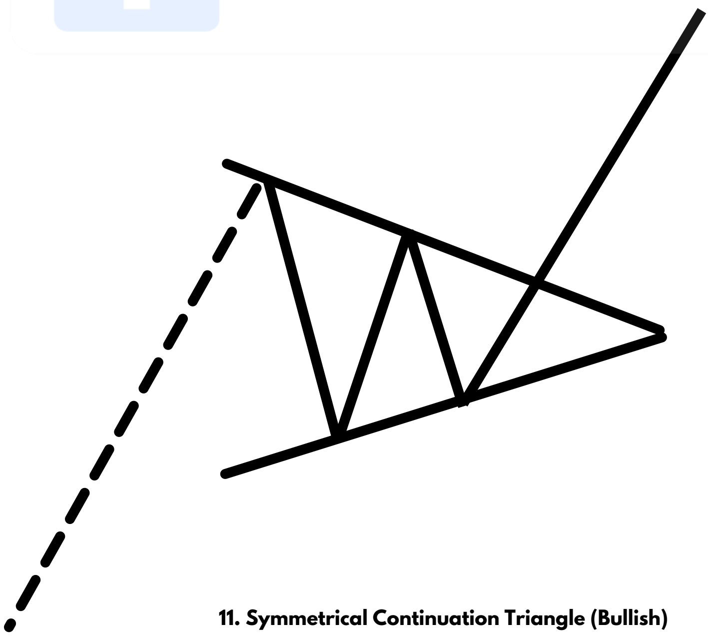
It is commonly held that the length of the mast indicates the potential price increase. Like the Flag, the Pennant is considered to be a pause in an uptrend. Following the Pennant, the price typically jumps to replicate the height of the mast, while continuing in the direction of the inbound trend

STOXMEE

11. Symmetrical Continuation Triangle (Bullish)

A Symmetrical Continuation Triangle (Bullish) is considered a bullish signal, indicating that the current uptrend may continue

A Symmetrical Continuation Triangle (Bullish) shows two converging trendlines, the lower one is ascending, the upper one is descending. The formation occurs because prices are reaching both lower highs and higher lows. The pattern will display two highs touching the upper (descending) trendline and two lows touching the lower (ascending) trendline. This pattern is confirmed when the price breaks out of the triangle formation to close above the upper (descending) trendline



11. Symmetrical Continuation Triangle (Bullish)

Volume is an important factor to consider. Typically, volume follows a reliable pattern: volume should diminish as the price swings back and forth between an increasingly narrow range of highs and lows. However, when the breakout occurs, there should be a noticeable increase in volume. If this volume picture is not clear, investors should be cautious about decisions based on this triangle

Important Characteristics

Following are important characteristics for this pattern

Occurrence of a Breakout

Technical analysts pay close attention to how long the Triangle takes to develop to its apex. The general rule is that prices should break out - clearly penetrate the upper trendline - somewhere between three quarters and two-thirds of the horizontal width of the formation. The break out, in other words, should occur well before the pattern reaches the apex of the Triangle. The closer the breakout occurs to the apex the less reliable the formation

Duration of the Triangle

The Triangle is a relatively short-term pattern. While long-term triangles do form, the most reliable triangles take between one and three months.

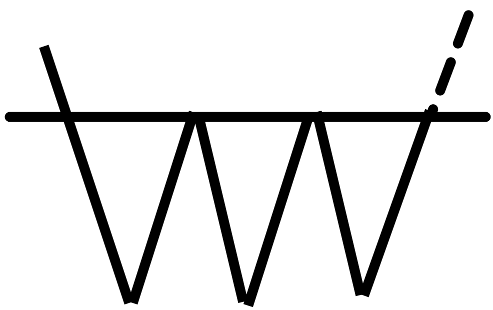
Volume

Investors should see volume decreasing as the pattern progresses toward the apex of the Triangle. At breakout, however, there should be a noticeable increase in volume.

12. Triple Bottom

A Triple Bottom is considered a bullish signal, indicating a possible reversal of the current downtrend to a new uptrend.

The Triple Bottom is composed of three sharp lows, all at about the same price level. Investors should note that the three lows tend to be sharp. While the three lows should be sharp and distinct, the highs of the pattern can appear to be rounded. The pattern is complete when prices rise above the highest high in the formation. The highest high is called the "confirmation point". The highs should be fairly rounded in shape, although it is not absolutely necessary for the validity of the pattern. The Triple Bottom is a reversal pattern and illustrates a downtrend in the process of becoming an uptrend. It is, therefore, vital to the validity of the pattern that it commence with prices moving in a downtrend.



12. Triple Bottom

Generally, volume in a Triple Bottom tends to trend downward as the pattern forms. Volume tends to be lighter on each successive low. Volume then picks up as prices rise above the confirmation point and break into the new upward trend.

An investor should not dismiss a Triple Bottom if volume does not display this pattern. The pattern can take several months to form and, during that time, volume can be irregular and unpredictable. Volume should be higher at the lows than on the days leading to the lows.

Important Characteristics

Following are important characteristics that should be noted for a Triple Bottom.

Duration of the Pattern

The Triple Bottom usually takes longer than other patterns to develop. The longer the pattern takes to form, the greater the significance of the price move once breakout occurs.

Need for a Downtrend

The Triple Bottom is a reversal pattern. This means it is essential to the validity of the pattern that it begins with a downward trend in a stock's price

Volume

It is typical to see volume diminish as the pattern progresses. This changes however, when breakout occurs. A valid breakout will be accompanied by a burst in volume. Certain experts are less concerned by seeing a steadily diminishing trend in volume as the pattern progresses through its three lows.

Pullback after Breakout

It is very common in the Triple Bottom to see a pullback after the breakout

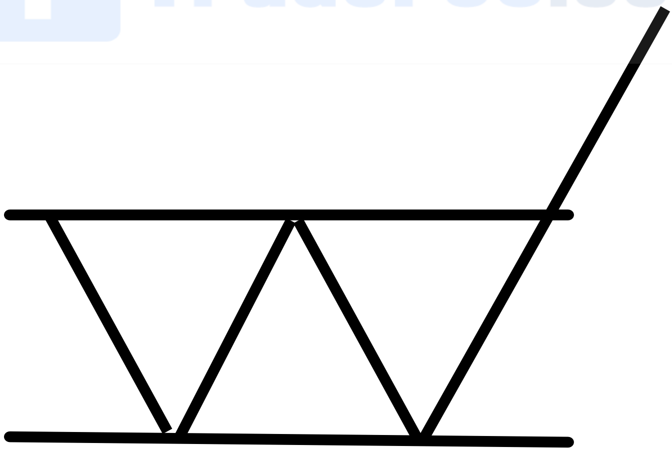
Symmetry

Investors looking for a valid Triple Bottom should be wary of a pattern that shows a lot of white space as it is developing. The pattern should display a fairly regular progression among the three, well-separated lows. The symmetry of this pattern is something that should catch your eye.

13. Upside Breakout

An Upside Breakout is considered a bullish signal, marking a breakout from a trading range to start a new uptrend.

An Upside Breakout occurs when the price of a financial instrument breaks out through the top of a trading range. This Technical Event® indicates that prices will rise explosively over a period of days or weeks as an almost vertical uptrend appears.



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Trading Considerations

Inbound

Trend The inbound trend is an important characteristic of the pattern. A shallow inbound trend may indicate a period of consolidation before the price move indicated by the pattern begins. Look for an inbound trend that is longer than the duration of the pattern. A good rule of thumb is that the inbound trend should be at least two times the duration of the pattern

Criteria that Support

Duration of Trading Range

The duration of the trading range for which the breakout occurred can provide an indication of the strength of the breakout. The longer the duration of the trading range the more significant the breakout

Narrowness of Trading Range

The "narrowness" of the trading range can also be used to gauge the breakout. To determine the narrowness of the trading range compare the upper boundary with the lower boundary of the trading range. If the trading range has a small difference between the upper and lower boundary (making it narrow) then the breakout is considered stronger and more reliable

Support or Resistance

Look for a region of support or resistance around the target price. A region of price consolidation or a strong Support and Resistance Line at or around the target price is a strong indicator that the price will move to that point.

Moving Average

Prices which quickly move 50% above the 200-day Moving Average strongly support this pattern.

Volume

A strong volume spike on the day of the pattern confirmation is a strong indicator in support of the potential for this pattern. The volume spike should be significantly above the average of the volume for the duration of the pattern. In addition, the volume during the duration of the pattern should be declining on average.

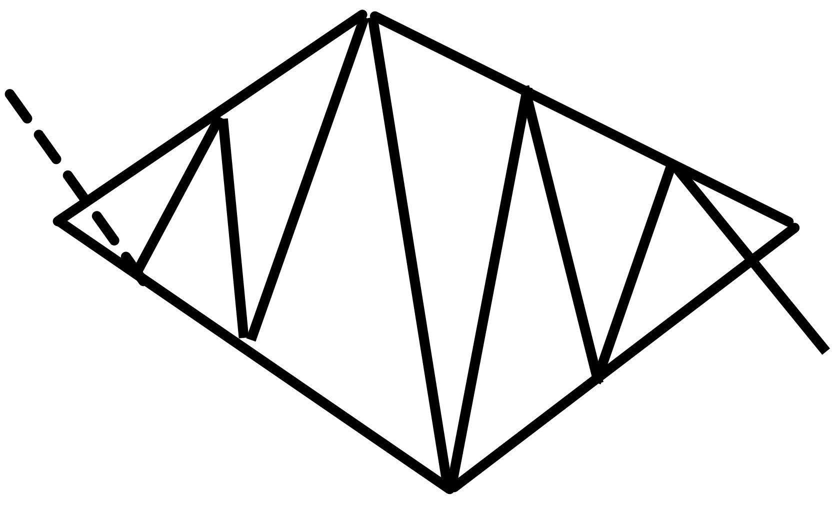
STOXMEE

BEARISH PATTERNS

1. Continuation Diamond (Bearish)

A Continuation Diamond (Bearish) is considered a bearish signal, indicating that the current downtrend may continue

Diamond patterns usually form over several months in very active markets. Volume remains high during the formation of this pattern. The Continuation Diamond (Bearish) indicates a possible continuation of a downtrend. The Continuation Diamond (Bearish) pattern occurs because prices create higher highs and lower lows in a broadening pattern. Then the trading range gradually narrows after the highs peak and the lows start trending upward. The Technical Event® occurs when prices break downward out of the diamond formation to continue the prior downtrend



1. Continuation Diamond (Bearish)

Trading Considerations

Duration of Pattern

Consider the duration of the pattern and its relationship to your trading time horizons. The duration of the pattern is considered to be an indicator of the duration of the influence of this pattern. The longer the pattern the longer it will take for the price to move to its target. The shorter the pattern the sooner the price move. If you are considering a short-term trading opportunity, look for a pattern with a short duration. If you are considering a longer-term trading opportunity, look for a pattern with a longer duration

Target Price

The target price provides an important indication about the potential price move that this pattern indicates. Consider whether the target price for this pattern is sufficient to provide adequate returns after your costs (such as commissions) have been taken into account. A good rule of thumb is that the target price must indicate a potential return of greater than 5% before a pattern should be considered useful. However you must consider the current price and the volume of shares you intend to trade. Also, check that the target price has not already been achieved.

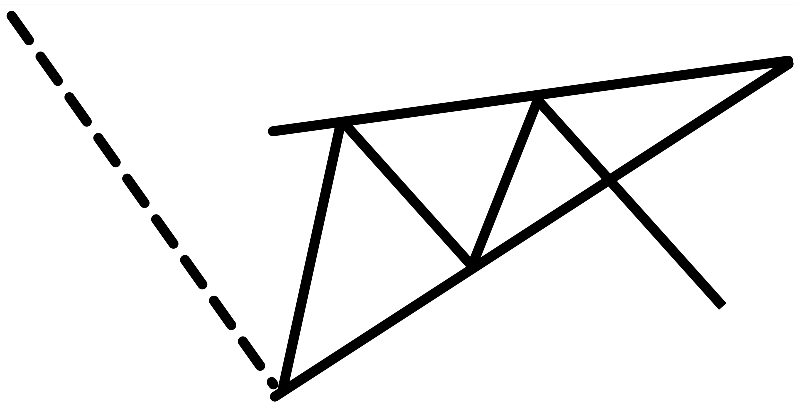
Inbound Trend

The inbound trend is an important characteristic of the pattern. A shallow inbound trend may indicate a period of consolidation before the price move indicated by the pattern begins. Look for an inbound trend that is longer than the duration of the pattern. A good rule of thumb is that the inbound trend should be at least 2 times the duration of the pattern.

2. Continuation Wedge (Bearish)

A Continuation Wedge (Bearish) is considered a bearish signal, indicating that the current downtrend may continue.

A Continuation Wedge (Bearish) consists of two converging trend lines. The trend lines are slanted upward. Unlike the Triangles where the apex is pointed to the right, the apex of this pattern is slanted upwards at an angle. This is because prices edge steadily higher in a converging pattern i.e. there are higher highs and higher lows. A bearish signal occurs when prices break below the lower trendline. Over the weeks or months that this pattern forms the trend appears upwards but the long-term range is still downward.



2. Continuation Wedge (Bearish)

Trading Considerations

Pattern Duration

Consider the duration of the pattern and its relationship to your trading time horizons. The duration of the pattern is considered to be an indicator of the duration of the influence of this pattern. The longer the pattern the longer it will take for the price to move to the Target. The shorter the pattern the sooner the price move. If you are considering a short-term trading opportunity, look for a pattern with a short duration. If you are considering a longer-term trading opportunity, look for a pattern with a longer duration

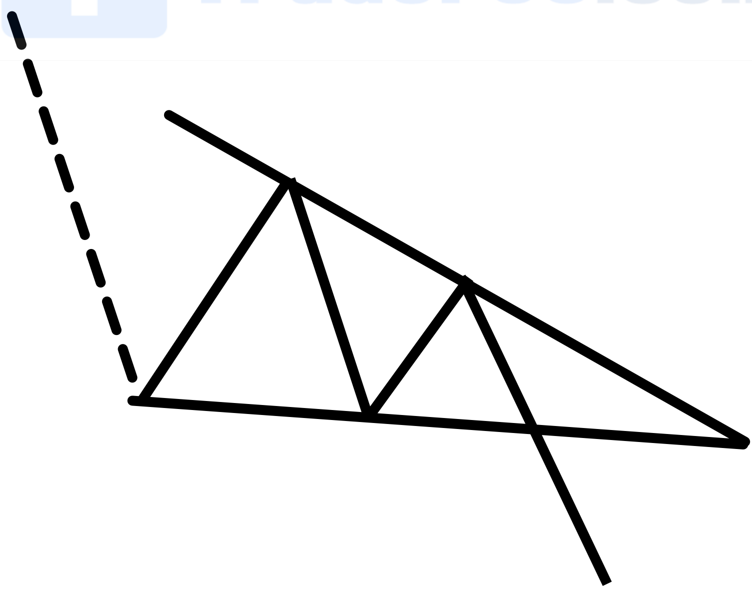
Target Price

The target price provides an important indication about the potential price move that this pattern indicates. Consider whether the target price for this pattern is sufficient to provide adequate returns after your costs (such as commissions) have been taken into account. A good rule of thumb is that the target price must indicate a potential return of greater than 5% before a pattern should be considered useful. However you must consider the current price and the volume of shares you intend to trade. Also, check that the target price has not already been achieved.

3. Descending Continuation Triangle

A Descending Continuation Triangle is considered a bearish signal, indicating that the current downtrend may continue.

A Descending Continuation Triangle features two converging trendlines. The bottom trendline is horizontal and the top trendline slopes downward. The pattern illustrates lows occurring at a constant price level, with highs moving constantly lower. The pattern displays two highs touching the upper trendline and two lows touching the lower trendline. This pattern is confirmed when the price breaks out of the triangle formation to close below the lower trendline.



3. Descending Continuation Triangle

Volume is an important factor to consider. Typically, volume follows a reliable pattern: volume should diminish as the price swings back and forth between an increasingly narrow range of highs and lows. However, when breakout occurs, there should be a noticeable increase in volume. If this volume picture is not clear, investors should be cautious about decisions made based on this pattern.

Important Characteristics

Following are important characteristics about this pattern

Occurrence of a Breakout

Technical analysts pay close attention to how long the Triangle takes to develop to its apex. The general rule is that prices should break out - clearly penetrate the lower trendline - somewhere between three quarters and two-thirds of the horizontal width of the formation. The break out, in other words, should occur well before the pattern reaches the apex of the Triangle. The closer the breakout occurs to the apex the less reliable the formation.

Duration of the Triangle

The Triangle is a relatively short-term pattern. It may take from one to three months to form.

Shape of Descending Triangle

The horizontal bottom trendline need not be completely horizontal.

Volume

Investors should see volume decreasing as the pattern progresses toward the apex of the Triangle. At breakout, however, there should be a noticeable increase in volume

Duration of Pattern

Consider the duration of the pattern and its relationship to your trading time horizons. The duration of the pattern is considered to be an indicator of the duration of the influence of this pattern. The longer the pattern the longer it will take for the price to reach its target. The shorter the pattern the sooner the price moves. If you are considering a short-term trading opportunity, look for a pattern with a short duration. If you are considering a longer-term trading opportunity, look for a pattern with a longer duration.

Target Price

The target price provides an important indication about the potential price move that this pattern indicates. Consider whether the target price for this pattern is sufficient to provide adequate returns after your costs (such as commissions) have been taken into account. A good rule of thumb is that the target price must indicate a potential return of greater than 5% before a pattern should be considered useful. However you must consider the current price and the volume of shares you intend to trade. Also, check that the target price has not already been achieved

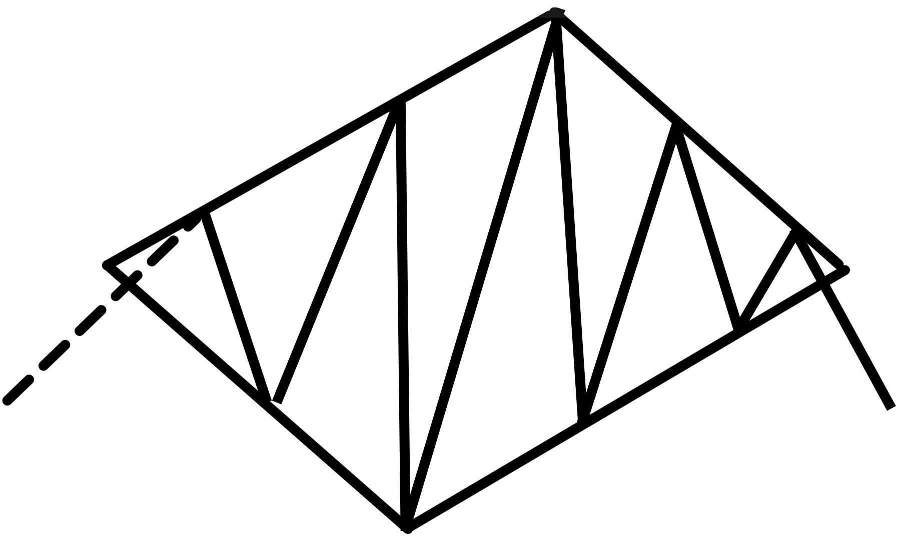
Inbound Trend

The inbound trend is an important characteristic of the pattern. A shallow inbound trend may indicate a period of consolidation before the price move indicated by the pattern begins. Look for an inbound trend that is longer than the duration of the pattern. A good rule of thumb is that the inbound trend should be at least 2 times the duration of the pattern

4. Diamond Top

A Diamond Top is considered a bearish signal, indicating a possible reversal of the current uptrend to a new downtrend.

Diamond patterns usually form over several months in very active markets. Volume remains high during the formation of this pattern. The Diamond Top indicates a reversal to a downtrend. The Diamond Top pattern occurs because prices create higher highs and lower lows in a broadening pattern. Then the trading range gradually narrows after the highs peak and the lows start trending upward. The Technical Event® occurs when prices break downward out of the diamond formation



4. Diamond Top

Duration of Pattern

Consider the duration of the pattern and its relationship to your trading time horizons. The duration of the pattern is considered to be an indicator of the duration of the influence of this pattern. The longer the pattern the longer it will take for the price to move to its target. The shorter the pattern the sooner the price move. If you are considering a short-term trading opportunity, look for a pattern with a short duration. If you are considering a longer-term trading opportunity, look for a pattern with a longer duration

Target Price

The target price provides an important indication about the potential price move that this pattern indicates. Consider whether the target price for this pattern is sufficient to provide adequate returns after your costs (such as commissions) have been taken into account. A good rule of thumb is that the target price must indicate a potential return of greater than 5% before a pattern should be considered useful. However you must consider the current price and the volume of shares you intend to trade. Also, check that the target price has not already been achieved.

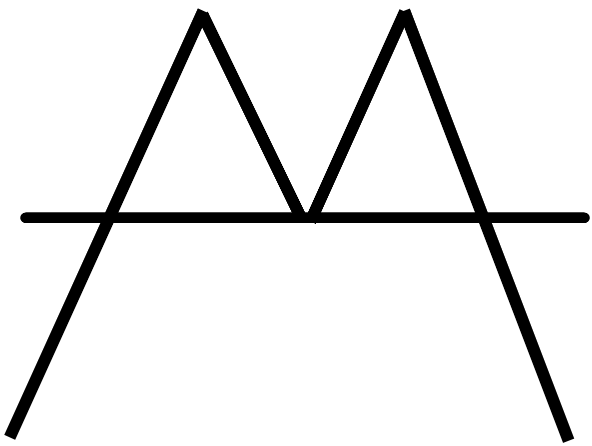
Inbound Trend

The inbound trend is an important characteristic of the pattern. A shallow inbound trend may indicate a period of consolidation before the price move indicated by the pattern begins. Look for an inbound trend that is longer than the duration of the pattern. A good rule of thumb is that the inbound trend should be at least 2 times the duration of the pattern

5. Double Top (Bearish)

A Double Top is considered a bearish signal, indicating a possible reversal of the current uptrend to a new downtrend.

Sometimes called an "M" formation because of the pattern it creates on the chart, the Double Top is one of the most frequently seen and common of the patterns. The Double Top is a reversal pattern of an upward trend in a financial instrument's price. The Double Top marks an uptrend in the process of becoming a downtrend. A Double Top consists of two well-defined, sharp peaks at approximately the same price level. The two tops are distinct and sharp. The pattern is complete when prices decline below the lowest low in the formation. The lowest low is called the "confirmation point".



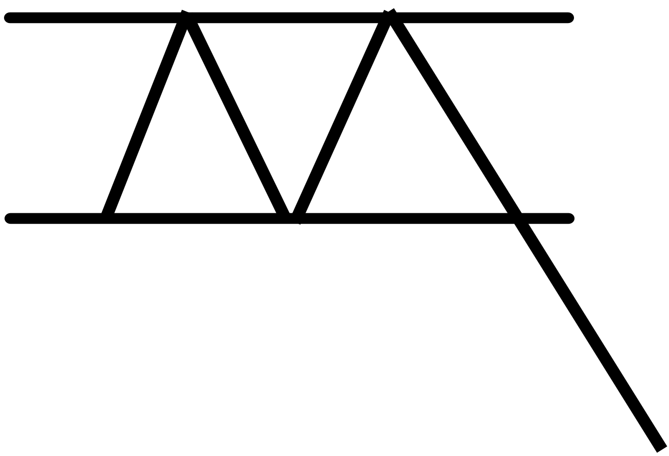
5. Double Top (Bearish)

Analysts vary in their specific definitions of a Double Top. According to some, after the first top is formed, a reaction of at least 10% should follow. That decline is measured from high to low. The second rally back to the previous high (plus or minus 3%) should be on lower volume than the first. Other analysts maintain that the decline registered between the two tops should be at least 20% and the peaks should be spaced at least a month apart. The pattern is comprised of two distinct tops that appear near the same price level.
Tops will have a significant amount of time between them - ranging from a few weeks to a year Generally, volume in a Double Top is usually higher on the left top than the right. Volume tends to be downward as the pattern forms. Volume does, however, pick up as the pattern hits its peaks. Volume increases again when the pattern completes, breaking through the confirmation point.

6. Downside Breakout

A Downside Breakout is considered a bearish signal, marking a breakout from a trading range to start a new downtrend

A Downside Breakout occurs when prices break out through the bottom of a trading range and descend quickly as a new downtrend forms. It appears that the market is being flooded with sell orders. There are usually gaps throughout this activity. This pattern can last for a few days to a few weeks.



6. Downside Breakout

Duration of Trading Range

The duration of the trading range for which the breakout occurred can provide an indication of the strength of the breakout. The longer the duration of the trading range the more significant the breakout.

Narrowness of Trading Range

The "narrowness" of the trading range can also be used to gauge the breakout. To determine the narrowness of the trading range, compare the upper boundary with the lower boundary of the trading range. If the trading range has a small difference between the upper and lower boundary (making it narrow) then the breakout is considered stronger and more reliable

Support and Resistance

Look for a region of support or resistance. A region of price consolidation or a strong Support and Resistance Line at or around the target price is a strong indicator that the price will move to that point

Moving Average Trend

Look at the direction of the Moving Average Trend. For short duration patterns use a 50 day Moving Average, for longer patterns use a 200 day Moving Average. The Moving Average should change direction during the duration of the pattern and should head in the direction indicated by the pattern.

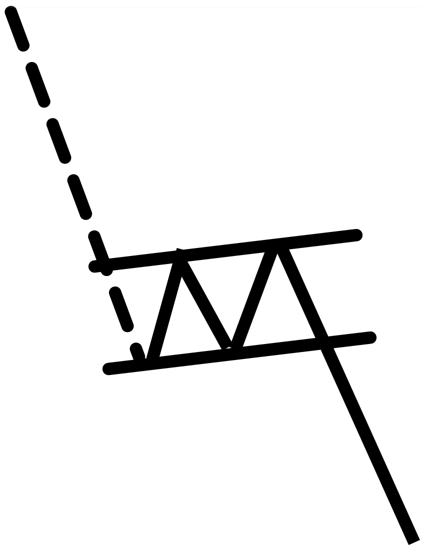
Volume

A strong volume spike on the day of the pattern confirmation is a strong indicator in support of the potential for this pattern. The volume spike should be significantly above the average of the volume for the duration of the pattern. In addition, the volume during the duration of the pattern should be declining on average.

7. Flag (Bearish)

A Flag (Bearish) is considered a bearish signal, indicating that the current downtrend may continue.

A Flag (Bearish) follows a steep or nearly vertical decline in price, and consists of two parallel trendlines that form a rectangular flag shape. The Flag can be horizontal (as though the wind is blowing it), although it often has a slight upward trend. The vertical downtrend, that precedes a Flag, may occur because of buyers' reactions to an unfavorable company announcement, such as a court case, or a sudden and unexpected departure of a CEO. The sharp price decrease is sometimes referred to as the "flagpole" or "mast"



7. Flag (Bearish)

The rectangular flag shape is the product of what technical analysts refer to as consolidation. Consolidation occurs when the price seems to bounce between an upper and lower price limit. The Flag (Bearish) pattern formation reflects the reaction of sellers who are willing to sell at a lower cost, and the influx of buyers who inadvertently drive up the price as they compete to buy at the best possible price.
A bearish signal occurs when the price rebounds beyond the lower trendline of the Flag formation, and continues the original downward price movement.
This is considered a pattern confirmation. When speaking about Flags, technical analysts may use jargon and refer to the flag as "flying at half mast". Visually, this reference is nothing like a flag at half-mast, such as on a day of national mourning. Instead, this term refers to the location of the flag - at the mid-point of what would otherwise be a continuous downtrend

Important Characteristics

Following are important characteristics for this pattern.

Trendlines

Flags are very similar to Pennants. However, with a Flag, the price trendlines tend to run parallel, whereas with a Pennant, the price trendlines tend to converge. John J. Murphy notes that a price drop below the lower trendline may indicate the resumption of the downtrend.

Volume

As the Flag develops, the volume tends to decrease. However, you will often notice a sharp spike in volume at the end of a Flag, whether it is bearish or bullish.

Duration of the Pattern

Martin Pring notes in his book, Technical Analysis Explained that "Flags can form in a period as short as 5 days or as longs as 3 to 5 weeks." John J. Murphy identifies that Flags "often last no longer than one or two weeks."

Trading Considerations

Possibility of Price Reversal

In some rare cases, the price will break against the original price movement, and create a reversal trend. The pattern reversal may be signaled during the Flag formation by a pattern of increasing volume, as opposed to the more typical decrease

Duration of the Pattern

The duration of the pattern depends on the extent of the price fluctuations (consolidation). The greater the fluctuations, the longer a pattern will take to develop

Target Price

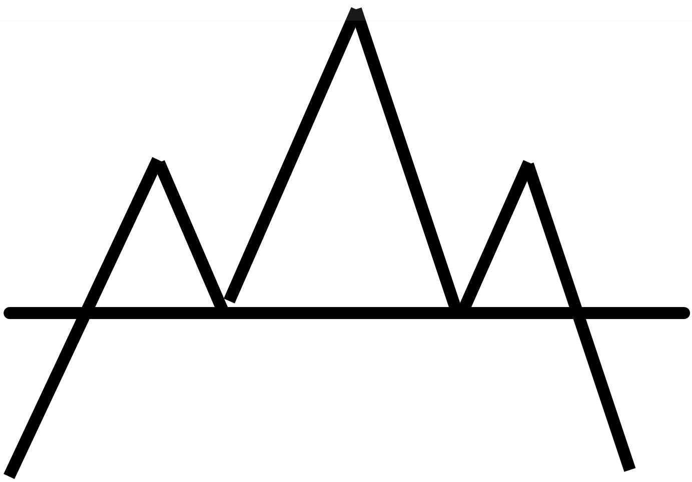
It is commonly held that the length of the flagpole indicates the potential price decrease. When the Flag completes, the price typically jumps to replicate the height of the original flagpole, while continuing in the direction of the inbound trend.

8. Head and Shoulders Top (Bearish)

A Head and Shoulders Top is considered a bearish signal. It indicates a possible reversal of the current uptrend to a new downtrend.

The Head and Shoulders Top is an extremely popular pattern among investors because it's one of the most reliable of all formations. It also appears to be an easy one to spot. Novice investors often make the mistake of seeing Head and Shoulders everywhere. Seasoned technical analysts will tell you that it is tough to spot the real occurrences.
The classic Head and Shoulders Top looks like a human head with shoulders on either side of the head. A perfect example of the pattern has three sharp high points, created by three successive rallies in the price of the financial instrument.
The first point - the left shoulder - occurs as the price of the financial instrument in a rising market hits a high and then falls back. The second point - the head - happens when prices rise to an even higher high and then fall back again. The third point - the right shoulder - occurs when prices rise again but don't hit the high of the head. Prices then fall back again once they have hit the high of the right shoulder. The shoulders are definitely lower than the head and, in a classic formation, are often roughly equal to one another.

A key element of the pattern is the neckline. The neckline is formed by drawing a line connecting two low price points of the formation. The first low point occurs at the end of the left shoulder and the beginning of the uptrend to the head. The second marks the end of the head and the beginning of the upturn to the right shoulder. The neckline can be horizontal or it can slope up or down. The pattern is complete when the support provided by the neckline is "broken." This occurs when the price of the financial instrument, falling from the high point of the right shoulder, moves below the neckline. Technical analysts will often say that the pattern is not confirmed until the price closes below the neckline - it is not enough for it to trade below the neckline



8. Head and Shoulders Top (Bearish)

There are many variations, some of which are described here and can be just as valid as the classic formation. Other factors - including volume and the quality of the breakout - should be considered in conjunction with the pattern itself.

Variations of a Head and Shoulders Top

Following are some variations of the Head and Shoulder pattern that may occur

The Drooping Shoulder

The drooping shoulder, where the neckline has a downward slope, is highly unusual and demonstrates extreme weakness. The droop happens because the price at the end of the head and the beginning of the right shoulder has dropped even lower than the previous low at the end of the left shoulder and the beginning of the head. Most experts agree that a downward slope has bearish implications for market weakness. When the right shoulder is drooping, the trader will have to wait longer than usual for a decisive neck break. It should also be noted that when that decisive break does occur much of the move will have already occurred.

Varying Width of Shoulders

The classic Head and Shoulders Top is symmetrical. However, if the shoulders don't match in width, don't discount the pattern.

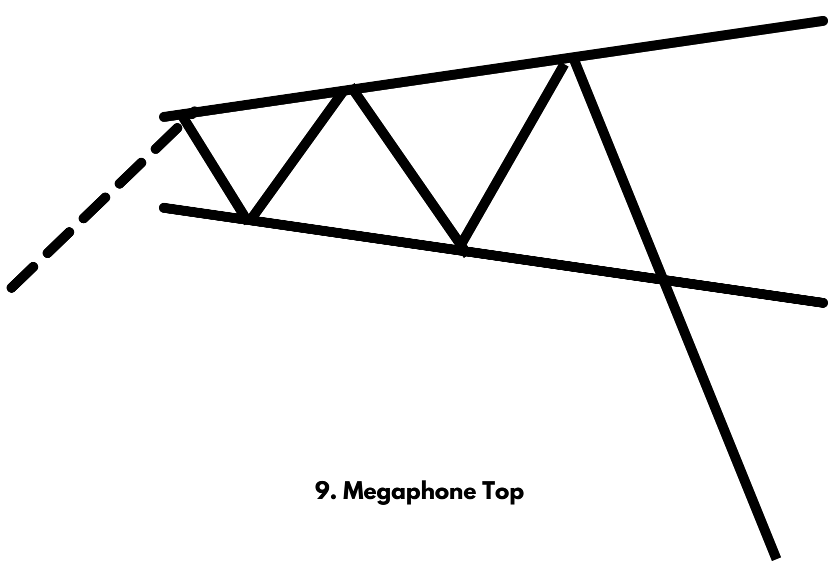
Flat Shoulders

While the classic Head and Shoulders Top is made up of three sharp upward points, these need not be present for the pattern to be valid. Sometimes, shoulders can be rounded

9. Megaphone Top

A Megaphone Top also known as a Broadening Top is considered a bearish signal, indicating that the current uptrend may reverse to form a new downtrend.

A Megaphone Top is a relatively rare formation and is also known as a Broadening Top. Its shape is opposite to that of a Symmetrical Triangle. The pattern develops after a strong advance in prices and can last several weeks or even a few months. A Megaphone Top is formed because the prices make a series of higher highs and lower lows. The Megaphone Top usually consists of three ascending peaks and two descending troughs. The signal that the pattern is complete occurs when prices fall below the lower low.



9. Megaphone Top

Volume in the Megaphone Top usually peaks along with prices. It is usual to see trading volumes increase or remain high during the formation of this pattern. The eventual breakout and reversal can be difficult to identify at the time of its occurrence because volume does not appear unusual.

Trading Considerations

Target Price

The target price provides an important indication about the potential price move that this pattern indicates. Consider whether the target price for this pattern is sufficient to provide adequate returns after your costs (such as commissions) have been taken into account. A good rule of thumb is that the target price must indicate a potential return of greater than 5% before a pattern should be considered useful, however you must consider the current price and the volume of shares you intend to trade

Criteria that Support

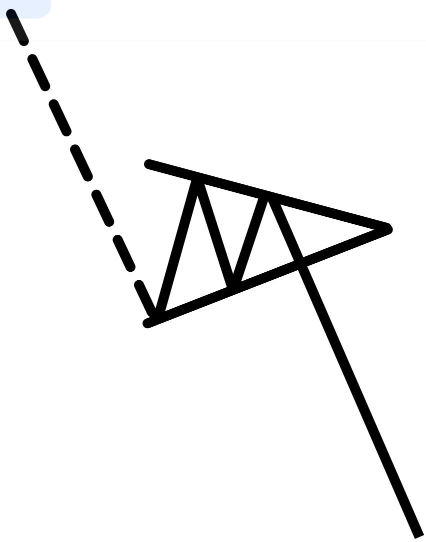
Volume

Volume in the Megaphone Top usually peaks along with prices. A strong volume spike on the day of the pattern confirmation is a strong indicator in support of the potential for this pattern

10. Pennant (Bearish)

A Pennant (Bearish) is considered a bearish signal, indicating that the current downtrend may continue

A Pennant (Bearish) follows a steep or nearly vertical fall in price, and consists of two converging trendlines that form a narrow, tapering flag shape. The Pennant shape generally appears as a horizontal shape, rather than one with a downtrend or uptrend. Apart from its shape, the Pennant is similar in all respects to the Flag. The Pennant is also similar to the Symmetrical Triangle or Wedge continuation patterns however; the Pennant is typically shorter in duration and flies horizontally.



10. Pennant (Bearish)

Important Characteristics

Following are important characteristics for this pattern.

Trendlines

For Pennants, the price trendlines tend to converge. At the start of the Pennant, the price spikes downward, perhaps in response to an unexpected and negative company announcement. Following the price spike, the price fluctuations continue until they taper out and become decreasingly less volatile. This behavior appears on a price chart with the initial price spike forming what technical analysts refer to as the "mast" of the Pennant, followed by a triangular pennant shape

Volume

As the Pennant develops, the volume tends to decrease. Martin Pring notes in his book, Technical Analysis Explained, "a pennant is in effect a very small triangle. If anything, volume tends to contract even more during the formation of a pennant than during that of a flag." However, as with Flags, when the Pennant completes you will often observe a sharp spike in volume.

Duration of the Pattern

In his book, Technical Analysis of the Financial Markets, John J. Murphy identifies that Pennants and Flags are relatively short-term and should be completed within one to three weeks". He also notes that by comparison, the bullish patterns take longer to develop than the related bearish patterns

Trading Considerations

Possibility of Price Reversal

In some rare cases, the price will break against the original price movement, and create a reversal trend. The pattern reversal may be signaled during the Pennant formation by an increase in volume, as opposed to the more typical decrease.

Duration of the Pattern

The duration of the pattern depends on the extent of the price fluctuations (consolidation). The greater the fluctuations, the longer a pattern will take to develop

Target Price

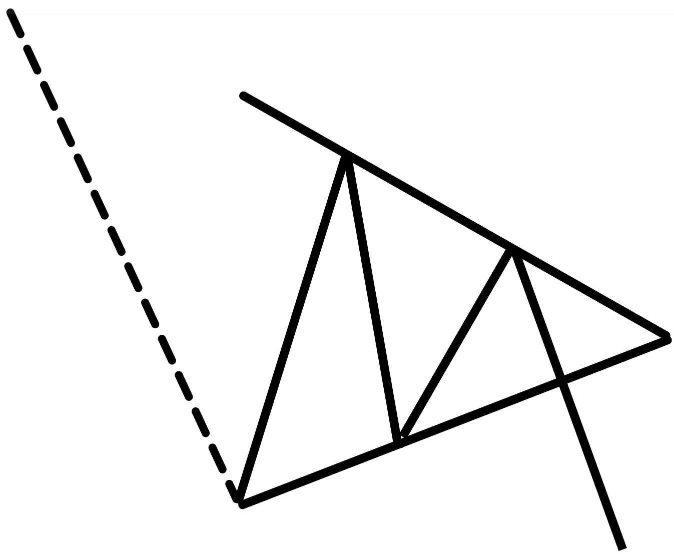
It is commonly held that the length of the mast indicates the potential price increase. Like the Flag, the Pennant is considered to be a pause in a downtrend. Following the Pennant, the price typically jumps to replicate the height of the mast, while continuing in the direction of the inbound trend.

11. Symmetrical Continuation Triangle (Bearish)

A Symmetrical Continuation Triangle (Bearish) is considered a bearish signal, indicating that the current downtrend may continue.

A Symmetrical Continuation Triangle (Bearish) shows two converging trendlines, the lower one is ascending, the upper one is descending. The formation occurs because prices are reaching both lower highs and higher lows. The pattern will display two highs touching the upper (descending) trendline and two lows touching the lower (ascending) trendline.

This pattern is confirmed when the price breaks out of the triangle formation to close below the lower (ascending) trendline.



11. Symmetrical Continuation Triangle (Bearish)

Volume is an important factor to consider. Typically, volume follows a reliable pattern: volume should diminish as the price swings back and forth between an increasingly narrow range of highs and lows. However, when the breakout occurs, there should be a noticeable increase in volume. If this volume picture is not clear, investors should be cautious about decisions based on this triangle

Important Characteristics

Following are important characteristics for this pattern

Occurrence of a Breakout

Technical analysts pay close attention to how long the Triangle takes to develop to its apex. The general rule is that prices should break out - clearly penetrate the lower trendline - somewhere between three quarters and two-thirds of the horizontal width of the formation. The break out, in other words, should occur well before the pattern reaches the apex of the Triangle. The closer the breakout occurs to the apex the less reliable the formation.

Duration of the Triangle

The Triangle is a relatively short-term pattern. While long-term triangles do form, the most reliable triangles take between one and three months to form

Volume

Investors should see volume decreasing as the pattern progresses toward the apex of the Triangle. At breakout, however, there should be a noticeable increase in volume.

Trading Considerations

Duration of the Pattern

Consider the duration of the pattern and its relationship to your trading time horizons. The duration of the pattern is considered to be an indicator of the duration of the influence of this pattern. The longer the pattern the longer it will take for the price to reach its target. The shorter the pattern the sooner the price move. If you are considering a short-term trading opportunity, look for a pattern with a short duration. If you are considering a longer-term trading opportunity, look for a pattern with a longer duration

Target Price

The target price provides an important indication about the potential price move that this pattern indicates. Consider whether the target price for this pattern is sufficient to provide adequate returns after your costs (such as commissions) have been taken into account. A good rule of thumb is that the target price must indicate a potential return of greater than 5% before a pattern should be considered useful. However you must consider the current price and the volume of shares you intend to trade. Also, check that the target price has not already been achieved

Inbound Trend

The inbound trend is an important characteristic of the pattern. A shallow inbound trend may indicate a period of consolidation before the price move indicated by the pattern begins. Look for an inbound trend that is longer than the duration of the pattern. A good rule of thumb is that the inbound trend should be at least two times the duration of the pattern.

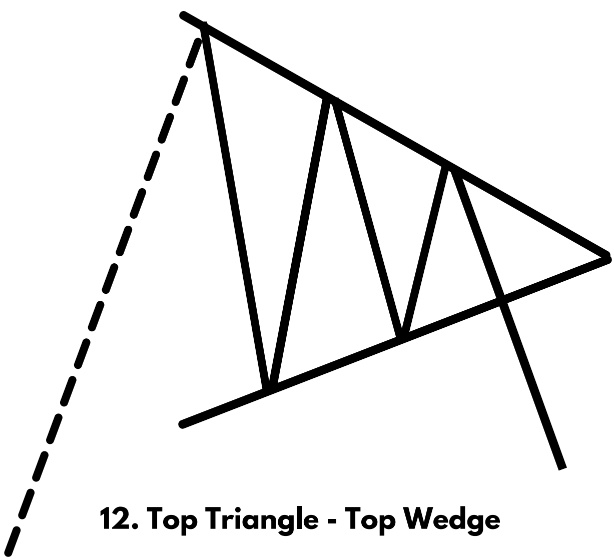
Confirm the Breakout

To avoid taking an inadvisable position in a stock, some investors advise waiting a few days to determine whether the breakout signals that the price is ready to move. A key sign of a possible false move is low volume. If there's no pick up in volume around the breakout, investors should be wary. Typically, a good breakout from a Triangle formation will be accompanied by a definite surge in volume.

12. Top Triangle - Top Wedge

Top Triangles and Top Wedges are considered bearish signals that indicate a possible reversal of the current uptrend to a new downtrend.

Top Triangles and Top Wedges make up a group of patterns which have the same general shape as Symmetrical Triangles, Wedges, Ascending Triangles and Descending Triangles. The difference is that these formations are reversal and not continuation patterns. These patterns have two converging trendlines. The pattern will display two highs touching the upper trendline and two lows touching the lower trendline. Contrary to Triangle formations, Wedges are characterized by their boundary trendlines both moving in the same direction. This pattern is confirmed when the price breaks downward out of the Triangle or Wedge formation to close below the lower trendline.



12. Top Triangle - Top Wedge

Volume is an important factor to consider. Typically, volume follows a reliable pattern: volume should diminish as the price swings back and forth between an increasingly narrow range of highs and lows. However, when the breakout occurs, there should be a noticeable increase in volume. If this volume picture is not clear, investors should be cautious about decisions based on the particular Triangle or Wedge pattern

Important Characteristics
Following are important characteristics for this pattern.

Occurrence of a Breakout

Technical analysts pay close attention to how long the pattern takes to develop to its apex. The general rule is that prices should break out - clearly penetrate the lower trendline - somewhere between three quarters and two-thirds of the horizontal width of the formation. The break out, in other words, should occur well before the pattern reaches the apex of the Triangle or Wedge. The closer the breakout occurs to the apex the less reliable the formation.

Duration of the Triangle or Wedge

This pattern is a relatively short-term. While long-term Top Triangles and Top Wedges do form, the most reliable patterns take between one and three months to form.

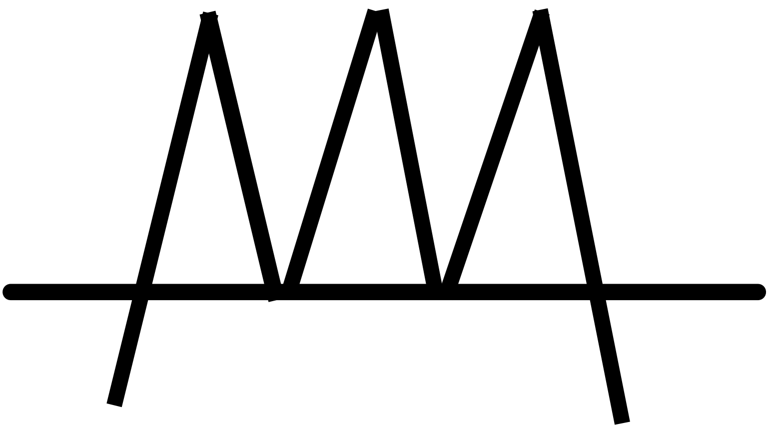
Volume

Investors should see volume decreasing as the pattern progresses toward the apex of the triangular or wedge shaped pattern. At breakout, however, there should be a noticeable increase in volume.

13. Triple Top

A Triple Top is considered a bearish signal, indicating a possible reversal of the current uptrend to a new downtrend.

A Triple Top is a reversal pattern. It marks an uptrend in the process of becoming a downtrend. The Triple Top pattern is comprised of three sharp peaks, all at the same level. While the three peaks should be sharp and distinct, the lows of the pattern can appear as rounded valleys. The pattern is complete when prices decline below the lowest low in the formation. The lowest low is also called the "confirmation point". The three peaks are well separated and are not part of a congestion pattern. The peaks do not have to be precisely at the same level.



13. Triple Top

There is a hybrid variation that appears to be a cross between a Double and Triple Top. The middle peak is slightly lower than the left and right peaks.
This is still a valid reversal pattern. It is also possible for the pattern to display a fourth peak before reversal occurs.
Generally, volume in a Triple Top tends to be downward as the pattern forms. Volume is lighter on each rally peak. Volume then picks up as prices fall under the confirmation point and break into the new downward trend. Volume is higher on the peaks than at the lows

Important Characteristics

Following are important characteristics for a Triple Top.

Duration of the Pattern This pattern can take upwards of several months to form. In addition, experts agree that the longer the pattern takes to form, the greater the significance of the price move once breakout occurs. The three highs do not need to be equally spaced from one another

Need for an Uptrend

The Triple Top is a reversal pattern marking the transition period between an uptrend and a downtrend in prices. This pattern must begin with an uptrend of prices.

Volume

It is typical to see volume diminish as the pattern progresses. This should change, however, when breakout occurs. A valid breakout should be accompanied by a burst in volume. Some experts are less concerned by seeing a steadily diminishing trend in volume as the pattern progresses through its three highs. All agree, however, that an investor will want to see a definite increase in volume at the time of the break through the confirmation point.

Rally after Breakout

A high percentage of Triple Tops have rallies back to the point of the breakdown more often than not.

Trading Considerations

Duration

Consider the duration of the pattern and its relationship to your trading time horizons. The duration of the pattern is considered to be an indicator of the duration of the influence of this pattern. The longer the pattern the longer it will take for the price to move to its target. The shorter the pattern the sooner the price move. If you are considering a short-term trading opportunity, look for a pattern with a short duration. If you are considering a longer-term trading opportunity, look for a pattern with a longer duration

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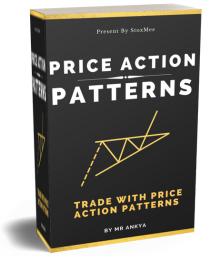

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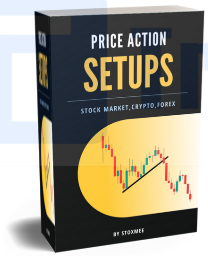

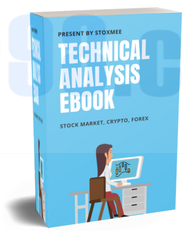

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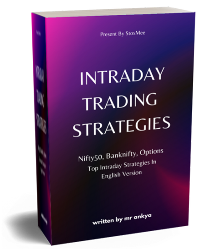

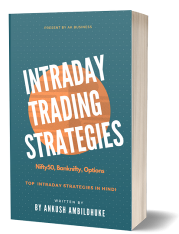

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