

IDENTIFYING CHART PATTERNS WITH TECHNICAL ANALYSIS

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INSTITUTION NAME: ELITE FX TRADING ACADEMY



**ELITE FX TRADING
ACADEMY**

GROWING TOGETHER, WITH YOU

AGENDA

- *Understanding chart patterns & their limits...*
- *Techniques for trading patterns...*
- *Construction of common patterns...*

UNDERSTANDING CHART PATTERNS AND THEIR LIMITS:

- A pattern is bounded by at least two trend lines (straight or curved).
- All patterns have a combination of entry and exit points.
- Patterns can be continuation patterns or reversal patterns.
- Patterns are fractal, meaning that they can be seen in any charting period (weekly, daily, minute, etc.).
- A pattern is not complete or activated until an actual breakout occur.

KEEP IN MIND:

Some of our human tendencies can be dangerous for investors.

- See patterns where there aren't any.
- Believe “market lore,” technical and fundamental, without evidence.
- Look backwards rather than forward.
- Stick with original price targets of patterns after conditions have changed.

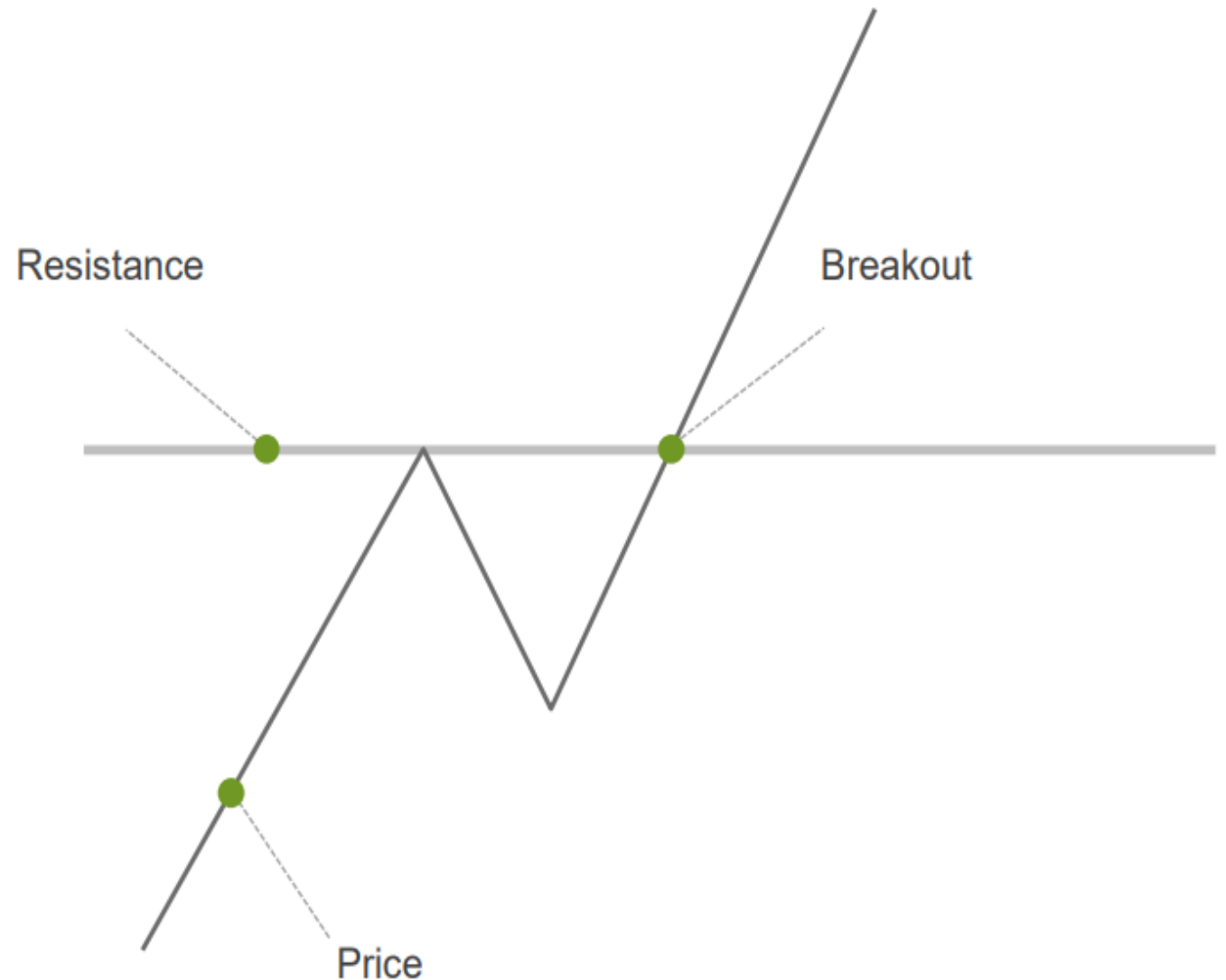
TECHNIQUES FOR TRADING PATTERNS:

- BREAKOUTS
- ENTRY STOPS
- PROTECTIVE STOPS
- RETRACEMENTS

BREAKOUTS:

Violation of Trend Line, Support or Resistance, or previous reversal point.

It signifies that a change in buyer and seller behavior and signals the beginning or end of a trend.



ENTRY STOPS:

Buy stop orders are used to enter trades once the price breaks out.



FALSE & FAILED BREAKOUTS:

FALSE BREAKOUT:

Price breaks out but almost immediately returns back through its breakout price.

FAILED BREAKOUT (TRAP):

False breakout occurs and the price then breaks out in the opposite direction.



PROTECTIVE STOPS:

PROTECTS CAPITAL:

Determines the amount of capital risk before entry.

TYPES OF PLACEMENT:

- Filters, such as percent, points, or money.
- Trend line, support or resistance level with filter.



RETRACEMENTS:

COUNTER TREND CORRECTION:

TYPES:

- Pullback (on breakout down).
- Throwback (on breakout up).

WAITING FOR:

- Don't always occur.
- Performance can suffer when they do.



COMMON CHART PATTERNS:

Multi-Bar Patterns

Horizontal Congestion

- Double and Triple Tops/Bottoms
- Rectangles

Triangles

- Symmetrical
- Ascending and Descending
- Wedges

Other

- Head and Shoulders
- Cup and Handle

Candlestick Patterns

- Doji
- Harami
- Hanging Man/Hammer
- Shooting Star/Inverted Hammer
- Engulfing
- Dark Cloud/Piercing

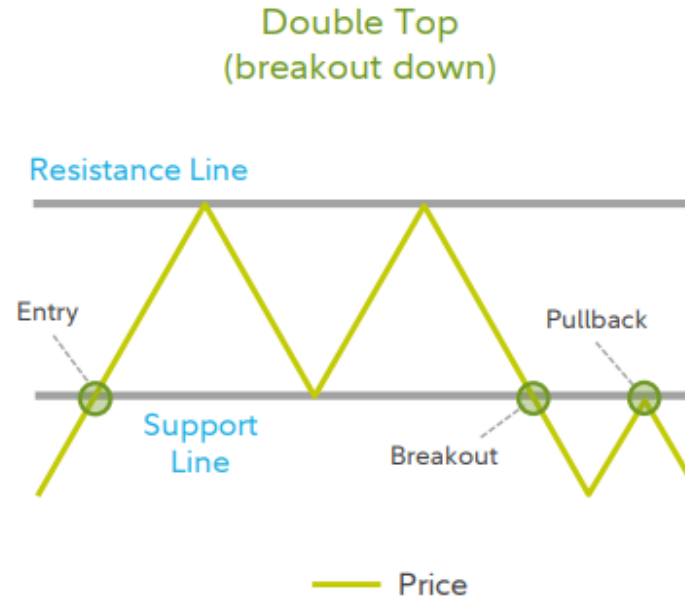
Short-Term Patterns

- Pennant/Flag
- Gaps
- Pipe Bottom
- Narrow Range

HORIZONTAL CONGESTION: DOUBLE TOP

CHARACTERISTICS:

- Two successive peaks separated by an opposite reversal point.
- Either rounded or pointed peaks that are usually at roughly the same price (resistance level).
- Price must break out of middle reversal point.



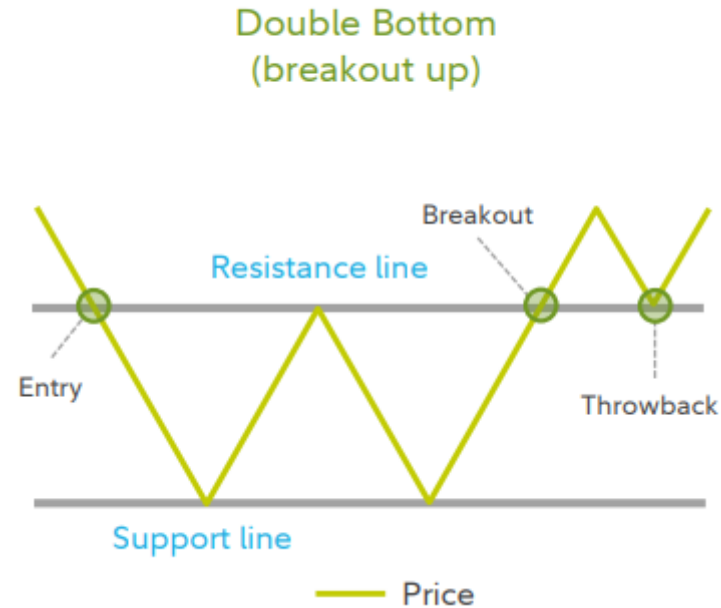
Calculate target price:

Taking the height from the highest peak to the trough and then subtracting the amount from the breakout price to the downside.

HORIZONTAL CONGESTION: DOUBLE BOTTOM

CHARACTERISTICS:

- Two successive troughs separated by a peak.
- Either rounded or pointed troughs that are usually at roughly the same price (support level).
- Price must break out of middle peak.



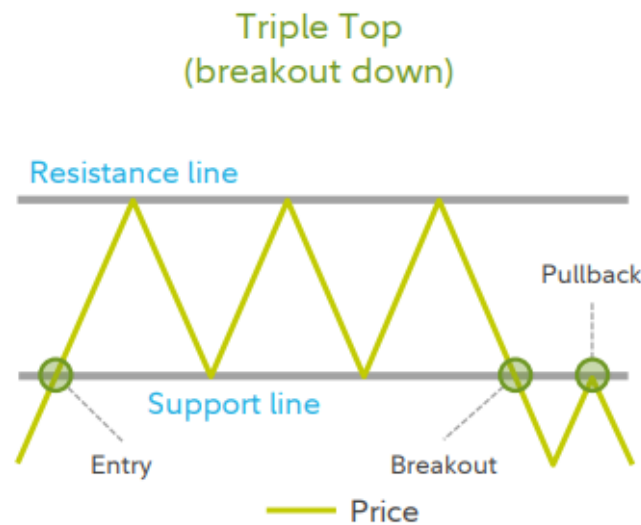
Calculate target price:

Taking the distance from the troughs to the peak and then adding that amount from the breakout price to the upside.

HORIZONTAL CONGESTION: TRIPPLE TOP

CHARACTERISTICS:

- Three distinct peaks at roughly the same price level separated by two intermittent troughs.
- Breakout occurs when price exceeds the extreme of the intermittent trough or a trend line connecting those points.



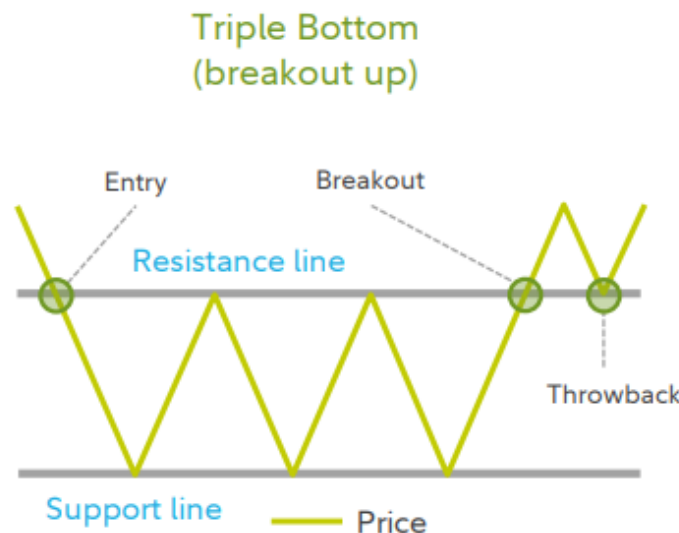
Calculate target price:

Take the height from the highest peak to the lowest trough in the pattern. Then subtract that amount from the lowest trough in the pattern to generate a price target.

HORIZONTAL CONGESTION: TRIPPLE BOTTOM

CHARACTERISTICS:

- Three distinct troughs at roughly the same price level separated by two intermittent peaks at any level.
- Breakout occurs when price exceeds the extreme of the intermittent peaks or a trend line connecting those points.
- Best performance may be after a sustained decline*.
- An average performance, but watch for failures*.



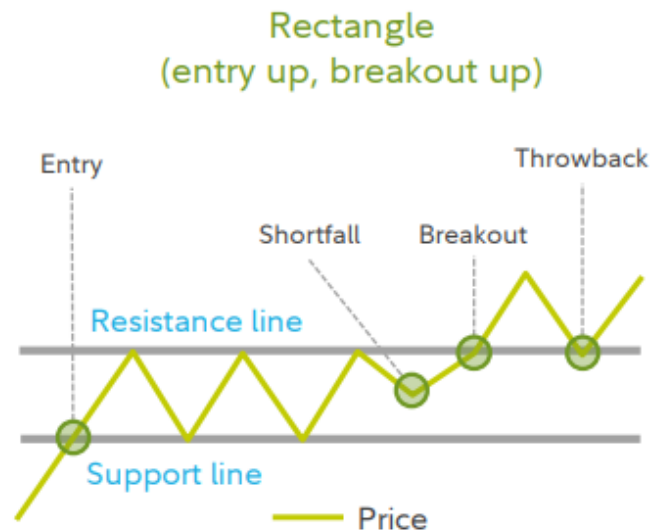
Calculate target price:

Take the height from the highest peak to the lowest trough in the pattern. Then add that amount to the highest peak in the pattern to generate a price target.

HORIZONTAL CONGESTION: RECTANGLES

CHARACTERISTICS:

- Trading range with support and resistance levels bounding price action.
- Slight tilt, similar to horizontal channel.
- Often has many false breakouts*.
- Things to consider:
 - ❑ Confirm a breakout
 - ❑ “Shortfall” often indicator of eventual breakout direction.
- Best occurrence may be bottom breaking upward*.



Calculate target price:

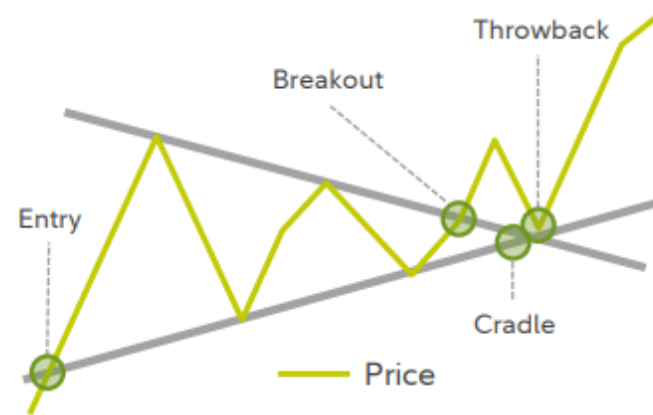
Take the height from the resistance line to the support line. Then either add that amount to the resistance line to generate a price target for an upside breakout, OR subtract that amount from the support line to generate a price target for a downside breakout.

TRIANGLE: SYMMETRICAL

CHARACTERISTICS:

- Bounded by a downward sloping upper trend line and an upward sloping lower trend line. Each bound is a straight trend line.
- Prices must touch each bound at least twice. Many false breakouts. Moderately successful in performance.
- Things to consider:
 - ❑ Confirm a breakout
- Best occurrence may be upward breaking out – above average for all patterns*.

Symmetrical Triangle
(breakout up)



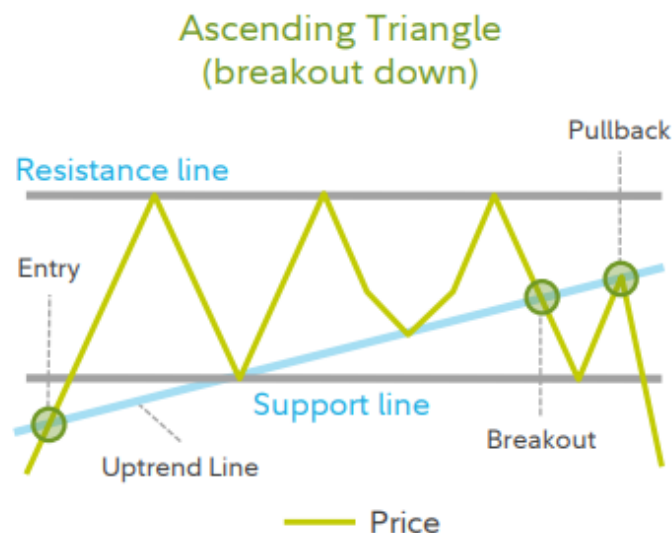
Calculate target price:

Take the height from the highest peak in the pattern to the lowest trough in the pattern. Then either add it (for upward breakouts) to the breakout price or subtract it (for downward breakouts) from the breakout price to generate a price target.

TRIANGLE: ASCENDING

CHARACTERISTICS:

- Bounded by a horizontal upper trend line and an upward sloping lower trend line. Each bound is a straight trend line.
- Prices can break in either direction, but more commonly upward*.
- Breakout usually occurs in pattern. About average failure rates but many small false breakouts*.
- Post breakout performance average on upside but above average on downside*.



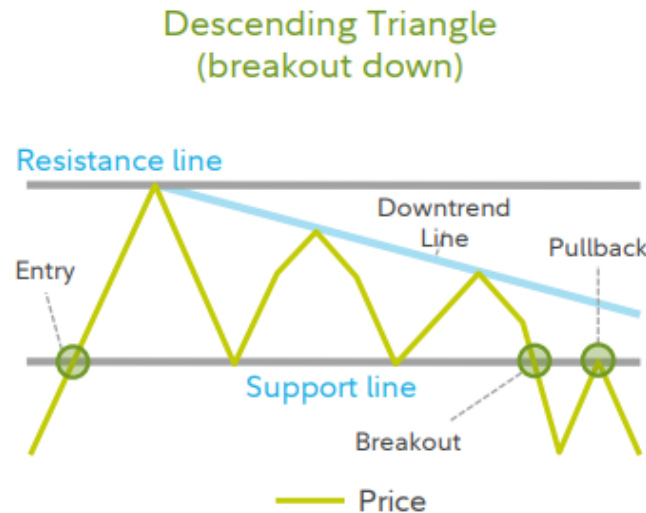
Calculate target price:

Take the height from the highest peak in the pattern to the lowest trough in the pattern. Then either add it (for upward breakouts) to the breakout price or subtract it (for downward breakouts) from the breakout price to generate a price target.

TRIANGLE: DESCENDING

CHARACTERISTICS:

- Bounded by two trend lines; the lower is horizontal and the upper slopes downward.
- Prices can break in either direction but most commonly downward*.
- Above-average performance on upside break; retracements occur often*.



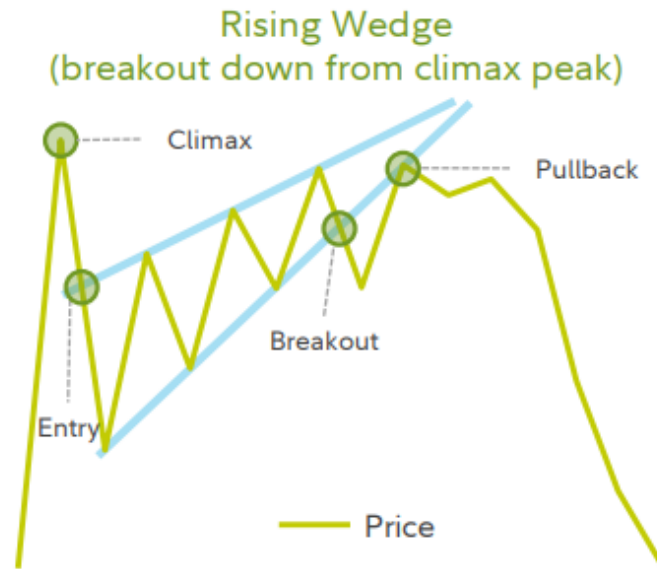
Calculate target price:

Take the height from the highest peak in the pattern to the lowest trough in the pattern. Then either add it (for upward breakouts) to the breakout price or subtract it (for downward breakouts) from the breakout price to generate a price target.

TRIANGLE: WEDGE

CHARACTERISTICS:

- Bounded by two trend lines, each headed in the same direction; Price must touch a trend line at least five times (3 times on one and 2 times on the other) before a breakout.
- Often occur following a panic (declining wedge) or bubble (rising wedge).
- Performance in both types is below average, and retracements are very common*.



Calculate target price:

For downward breakout, the lowest trough in the pattern is the price target. For upward breakouts, take the height from the highest peak in the pattern to the lowest trough in the pattern and add that amount to the breakout price for a price target.

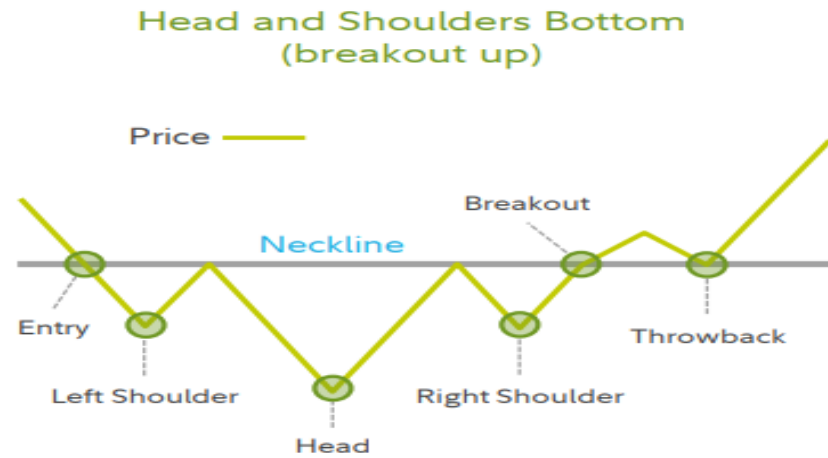
HEAD & SHOULDERS: TOP

CHARACTERISTICS:

- Three peaks with center peak higher than the other two.
- Shoulders should be at approximately the same level and the head higher.
- Line connecting the two troughs between the peaks is called the “neckline”.
- Pattern is only complete on breaking the neckline.
- Target is the distance from the head to the neckline projected from the neckline.
- This is a standard pattern for tops and has one of the lowest failure rates.



HEAD & SHOULDERS: BOTTOM (INVERSE)



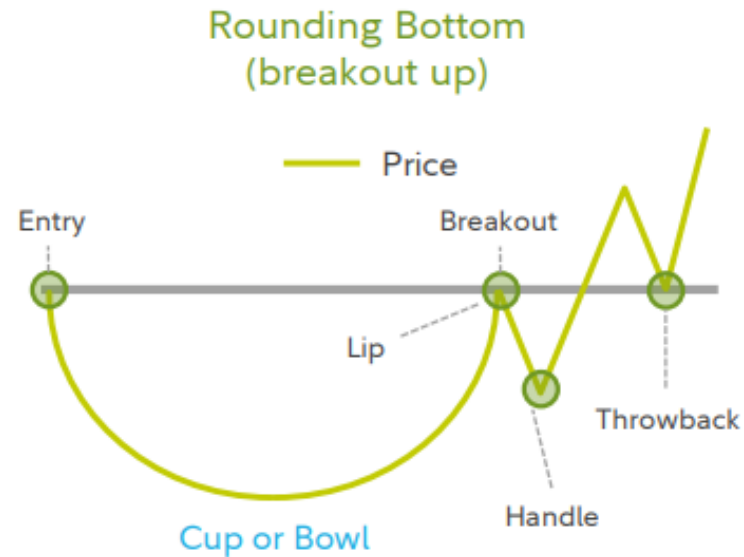
CHARACTERISTICS:

- Inverted but otherwise identical to a top pattern except not as profitable*.

CUP& HANDLE: SAUCER

CHARACTERISTICS:

- Pattern consists of a rounded bottom (not a “V” bottom), two “lips” at each end, and a “handle” (similar to a flag pattern) from the handle.
- Pattern is complete with breakout above both lips.
- Often have a throwback.
- The pattern’s performance ranks about average for bottom patterns*.



Calculate target price:

Take the height of the right cup lip to the bottom of the cup, then add that amount to the breakout price.

TRADING WITH PATTERNS:



BEST MULTI-BAR PATTERNS:

UPWARD SIGNALS

- Descending Triangle
- Rectangle
- Pipe Bottom

DOWNWARD SIGNALS

- Flag
- Head & Shoulders (Top)
- Island Reversal

TYPES OF CANDLESTICKS:

- DOJI CANDLESTICK
- HARAMI CANDLESTICK
- HANGING MAN & HAMMER
- SHOOTING STAR & INVERTED HAMMER
- ENGULFING DARK CLOUD COVER & PIERCING LINE

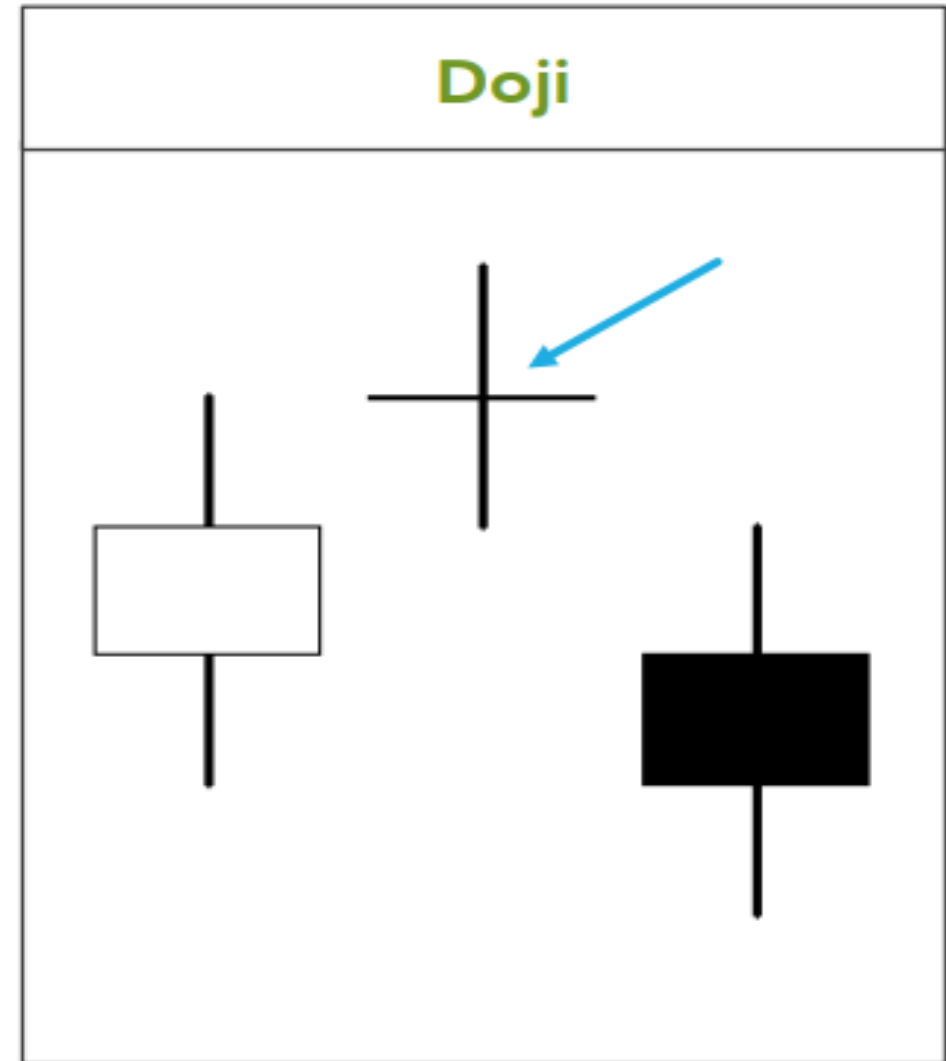
GENERAL INFO ABOUT CANDLESTICKS:

- Traditionally, candlestick patterns are reversal patterns, meaning they are used to identify when a trend is ending.
- Candlestick patterns are often used with longer-term trends, thus, upward reversal patterns after a correction in a longer upward trend show the best performance, and vice versa for downward reversal patterns in a long downward trend.
- Be careful not to act on a perceived candle pattern until the pattern has formed and is activated by a breakout in a certain direction.

DOJI:

CHARACTERISTICS:

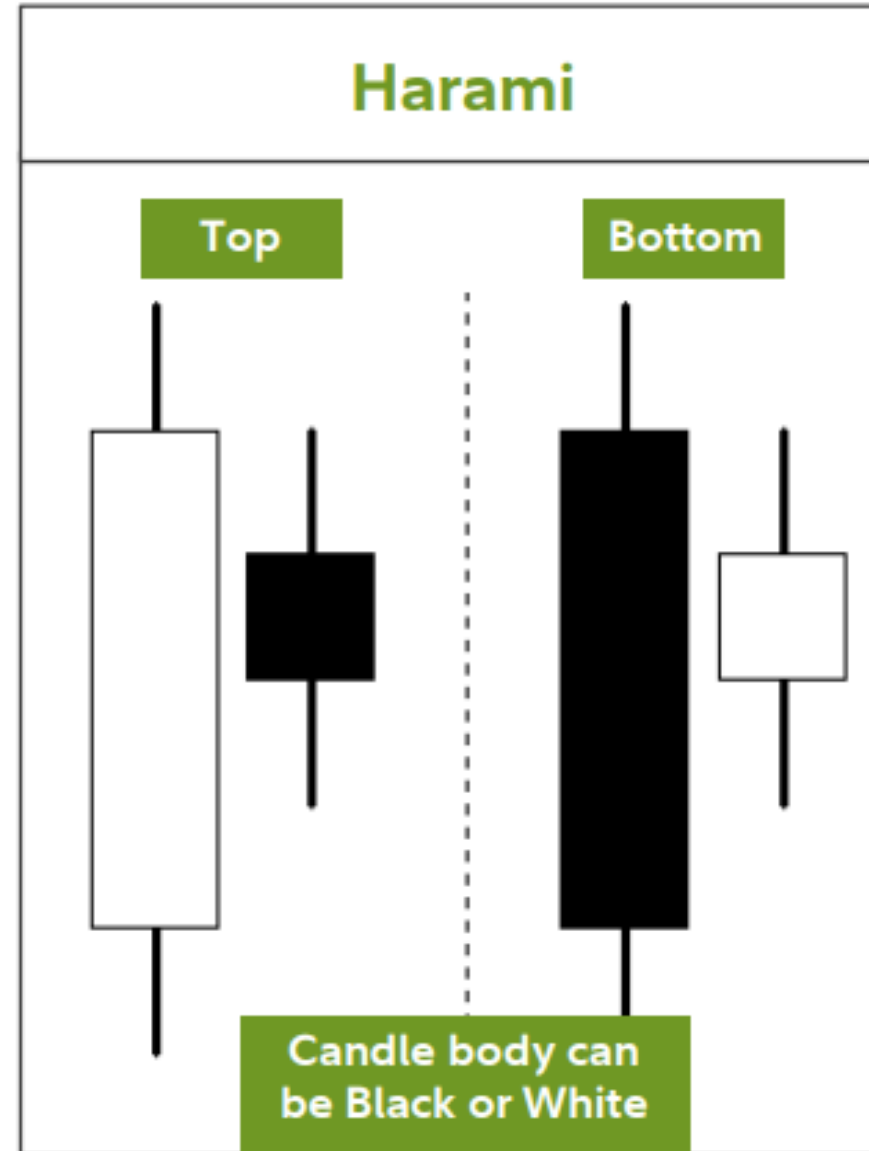
- A one-candle pattern formed when the open and close are the same price, and the high and low are roughly equidistant from the open and close.
- Extremely common.
- Indicates indecision in the marketplace and thus is a possible warning of price change.



HARAMI:

CHARACTERISTICS:

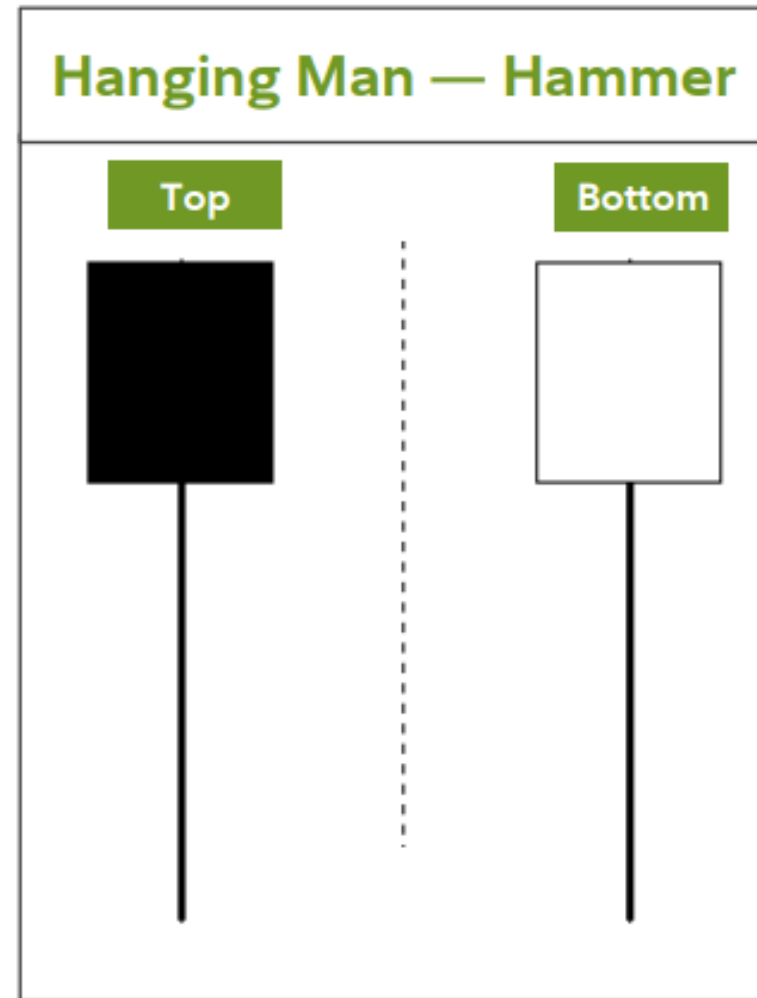
- A two-candle pattern of a large body of either color followed by a small body of the opposite color; The second body is completely within the body of the large body and is called a "spinning top".
- Although common belief is that the harami is a reversal pattern, many report that it has the potential of breaking either way.
- A variation that has a doji instead of a spinning top as the second candle has equally average performance and random breakout*.



HANGING MAN & HAMMER

CHARACTERISTICS:

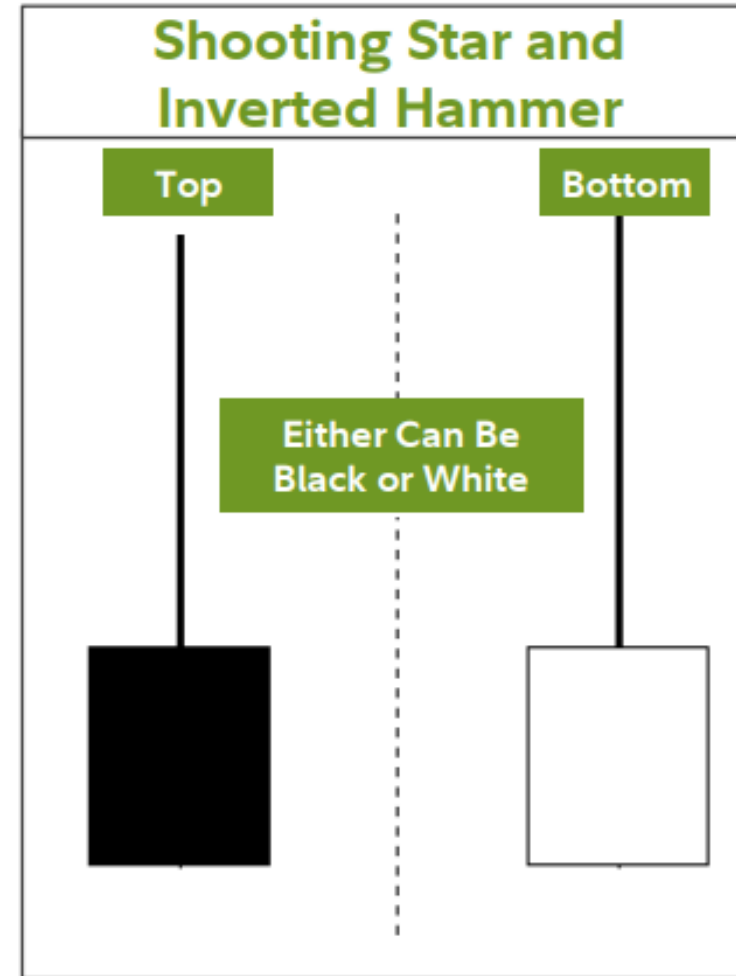
- One-candle patterns differentiated by the color of the body. Each pattern has a high that coincides with either the opening or closing price.
- Hanging man, thought to be a continuation pattern, actually breaks in either direction randomly with a slight upward bias. Its overall performance is below average*.
- Hammers occur relatively frequently but have below-average performance*.



SHOOTING STAR& INVERTED HAMMER

CHARACTERISTICS:

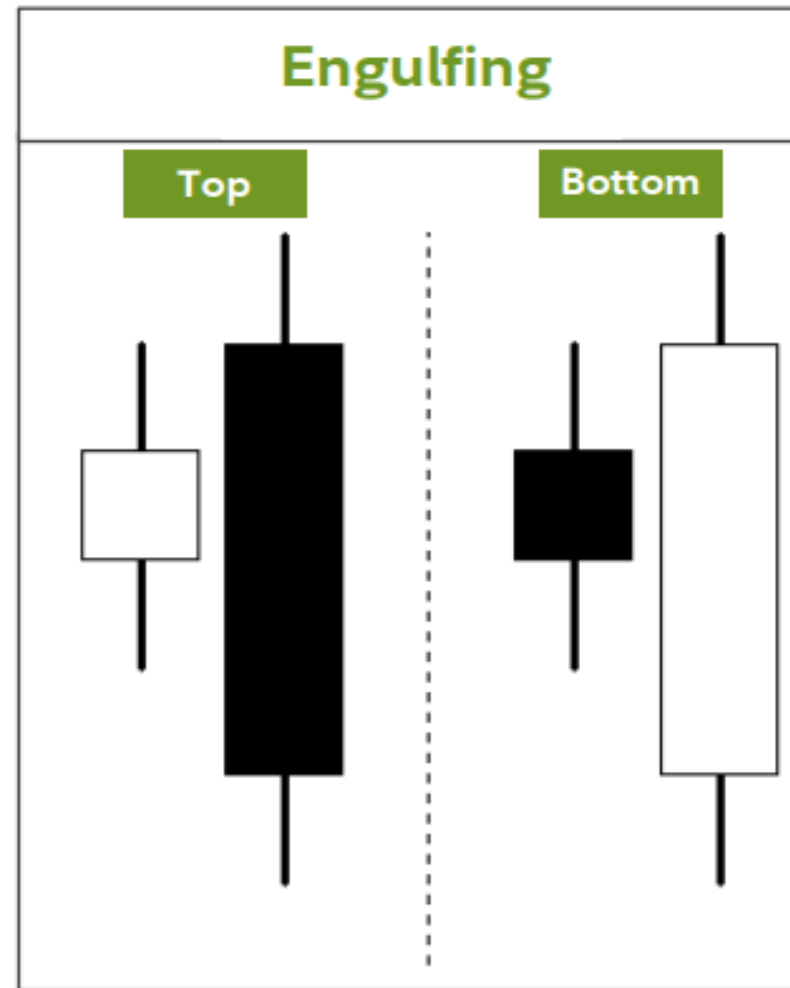
- A one-candle inverted hanging man or hammer pattern. Hammers by themselves have white bodies and shooting stars have black bodies.
- As a one-candle pattern, the shooting star has average performance. The same is true for the single inverted hammer*.



ENGULFING:

CHARACTERISTICS:

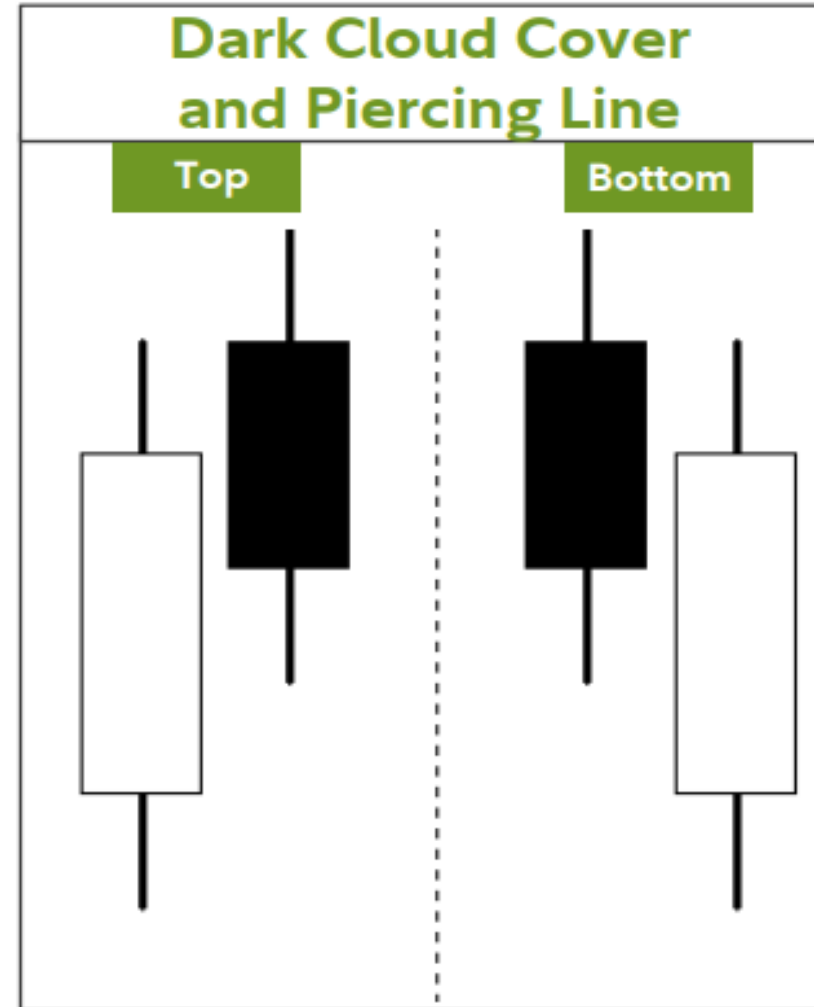
- A two-bar pattern in which the second bar body completely engulfs the first bar body*.
- A bottom engulfing pattern, with a short black body followed by a tall white body, is thought to be an upward reversal pattern and actually has very good performance on a downward breakout in a downward trend*.

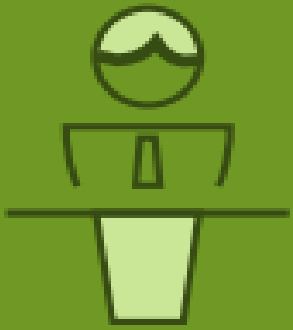


DARK CLOUD COVER & PIERCING LINE:

CHARACTERISTICS:

- The dark cloud cover is a two-bar pattern where the second bar closes higher than the first and is black versus white in the first bar.
- The piercing line is the opposite of the dark cloud cover in that the second bar is white and lower than the first bar which is black.
- The dark cloud is thought to be a downward reversing pattern.
- The piercing line pattern is thought to be an upward reversing pattern*.





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Identify the various types of technical indicators including, trend, momentum, volume, and support and resistance.

Identifying Chart Patterns with Technical Analysis

Use charts and learn chart patterns through specific examples of important patterns in bar and candlestick charts.

Managing Risk with Technical Analysis

Manage your trading risk with a range of confirmation methods.