

Technical Analysis Chart Formations

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Technical Analysis - Chart Formations

It is important to note that the Technical Analysis Overview provided does not attempt to be a comprehensive treatment of Charting or Technical Analysis methods. There are numerous, well-written books on Chart Interpretation and Technical Analysis. A brief and simplistic review of some basic charting concepts are provided for reference or to stimulate further study. Please contact your broker for a recommended reading list on Charting and Technical Analysis.

Technical Analysis makes the assumption that history repeats itself. Any trading method or system that works well on a broad sample of historical data, may have validity when applied to future trading environments. One should keep in mind that the markets are dynamic. The forces that motivate price movement are dynamic, and the participants are dynamic. Therefore any system which has performed well on past historic data may decline in value as the evolving dynamics of the markets change over time.

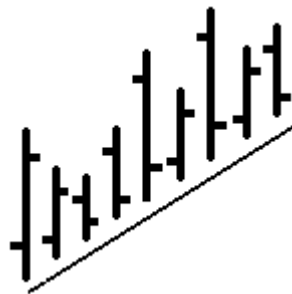
The assumption is made that trading results can be improved when trading skills are improved. This requires practice! Surely any time spent learning to trade on past historical data, will not be wasted when it comes to preparing to trade for the future.

Chart Formations

Trendlines

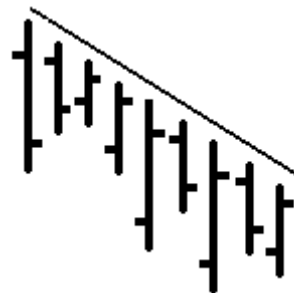
Inclining Trendline

A straight line usually drawn to define an uptrend against or through price bar lows.



Declining Trendline

A straight line usually drawn to define a downtrend against or through price bar highs.



Support

A horizontal floor where interest in buying a commodity is strong enough to overcome the pressure to sell. Therefore a decrease in price is reversed and prices rise once again. Typically, support can be identified on a chart by a previous set of lows.



Resistance

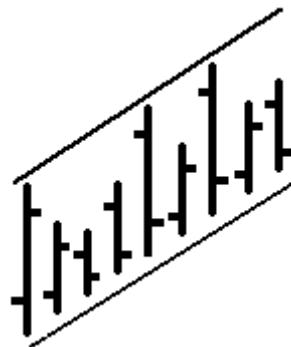
A horizontal ceiling where the pressure to sell is greater than the pressure to buy. Therefore, an increase in price is reversed and prices revert downward. Typically resistance can be located on a chart by a previous set of highs.



Channels

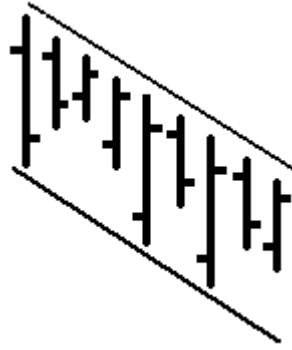
Inclining

The inclining channel is a formation with parallel price barriers along both the price ceiling and floor. Unlike the sideways channel the inclining channel has an increase in both the price ceiling and price floor.



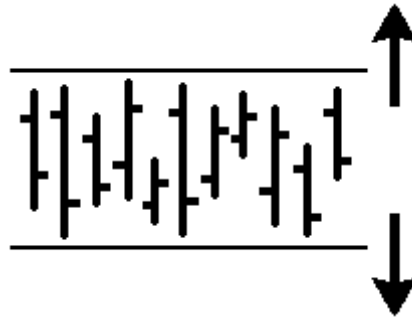
Declining

The declining channel is a formation with parallel price barriers along both the price ceiling and floor. Unlike the sideways channel the declining channel has a decrease in both the price ceiling and price floor.



Horizontal or Sideways

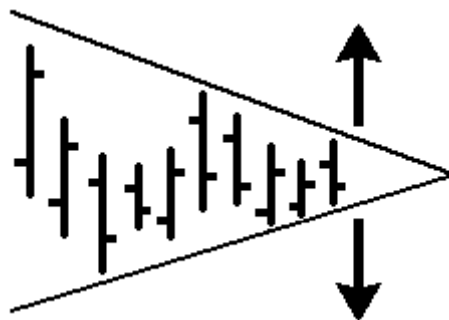
A horizontal or sideways is a formation that features both resistance and support. Support forms the low price bar, while resistance provides the price ceiling.



Triangles

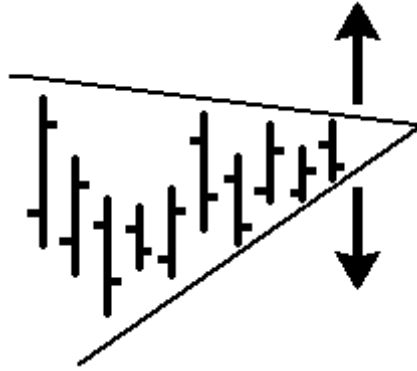
Symmetrical

A formation in which the slope of price highs and lows are converging to a point so as to outline the pattern in a symmetrical triangle. To trade this formation place a buy order on a break up an out of the triangle or a sell order on a break down and out of the triangle.



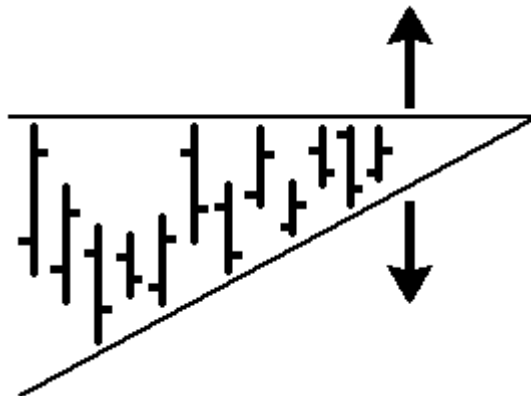
Non-Symmetrical

A formation in which the slope of price highs and lows are converging to a point so as to outline the pattern in a non-symmetrical triangle. To trade this formation, place a buy order on a break up an out of the triangle or a sell order on a break down and out of the triangle.



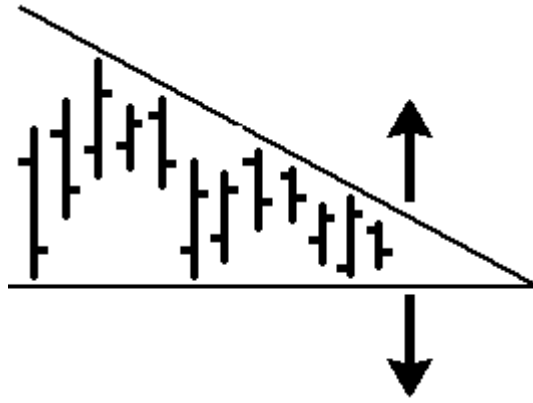
Ascending Triangle

A formation in which the slope of price highs and lows come together at a point outlining the pattern of a Right Triangle. The hypotenuse in an Ascending Triangle should be sloping from lower to higher and from left to right. To trade this formation, place a buy order on a break up and out of the triangle or a sell order on a break down and out of the triangle. Ascending triangles, with a prior downtrend, are anticipated to break down and out, rather than up and out.



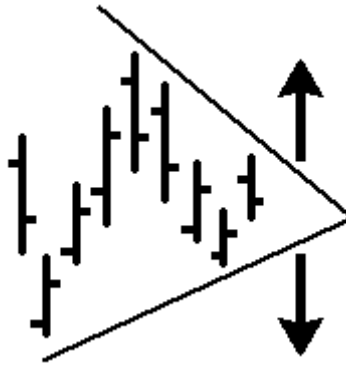
Descending Triangle

A formation in which the slope of price highs and lows come together at a point outlining the pattern of a Right Triangle. The hypotenuse in an Descending Triangle should be sloping from higher to lower and left to right. To trade this formation, place a buy order on a break up and out of the triangle or a sell order on a break down and out of the triangle. Descending triangles, with a prior uptrend, are anticipated to break up and out, rather than down and out.



Pennants

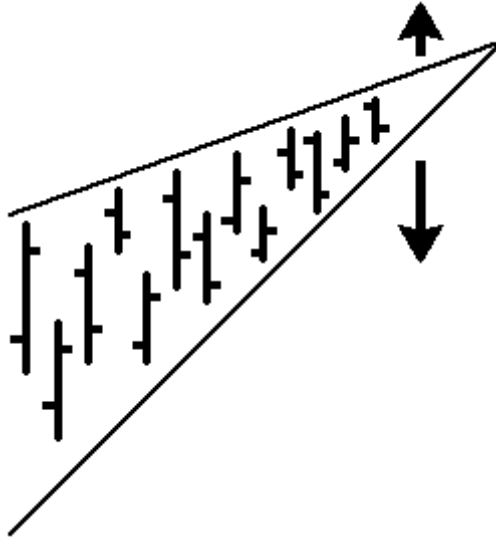
Similar to a Symmetrical Triangle but generally stubbier or not as elongated. A formation in which the slope of price bar highs and lows are converging to a point so as to outline the pattern in a symmetrical triangle. To trade this formation, you can place orders at both the break up and out of the pennant and break down and out of the pennant.



Wedges

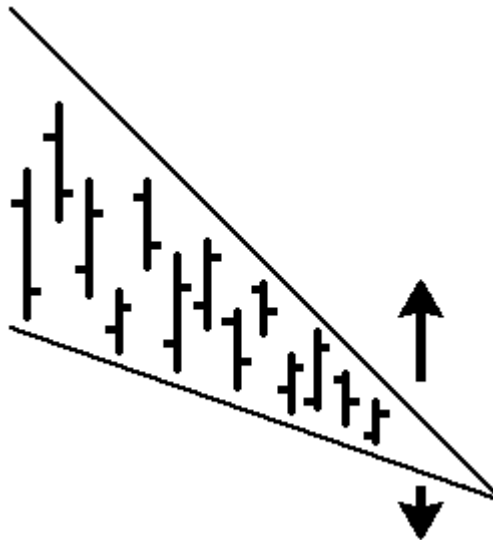
Rising or Inclining

This formation occurs when the slope of price bar highs and lows join at a point forming an inclining wedge. The slope of both lines is up with the lower line being steeper than the higher one. To trade this formation, place an order on a break up and out of the wedge or a sell order on a break down and out the wedge. Rising wedges, with a prior downtrend are anticipated to break down and out, rather than up and out.



Falling or Declining

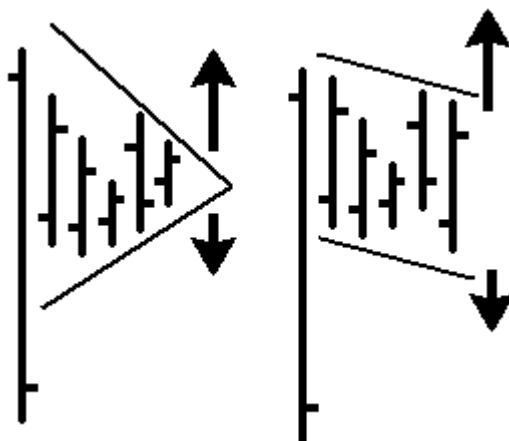
This formation occurs when the slope of price bar highs and lows join at a point forming an declining wedge. The slope of both lines is down with the upper line being steeper than the lower one. To trade this formation, place an order on a break up and out of the wedge or a sell order on a break down and out the wedge. Falling wedges, with a prior uptrend, are anticipated to break up and out, rather than down and out.



Flags

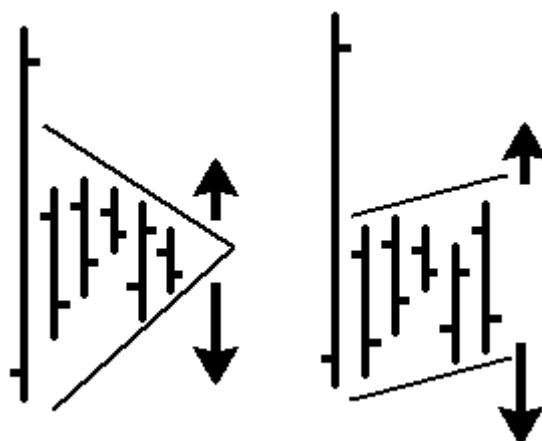
Bull Flag

A formation consisting of a small number of price bars where the slope of price bar highs and lows are parallel and declining. Bull Flags are identified by their characteristic pattern and by the context of the prior trend. In the case of a Bull Flag the trend leading to the formation of the Bull Flag is up. To trade this formation, place orders on the break up and break down points, leaving your unfilled order as your stop loss.



Bear Flag

A formation consisting of a small number of price bars in which the slope of price bar highs and lows are parallel and inclining. Bear Flags are identified by their characteristic pattern and by the context of the prior trend. In the case of a Bear Flag the trend leading to the formation of the Bear Flag is down. To trade this formation, place buy and sell orders on the break up and down of the flag, leaving the unfilled order as your stop loss.



Top and Bottom Formations

1-2-3 (A-B-C) Top

Anticipates a change in trend from up to down on a break below the number 2 point.



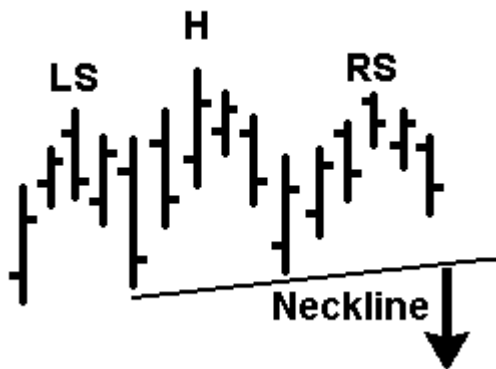
1-2-3 (A-B-C) Bottom

Anticipates a change in trend from down to up on a break above the number 2 point.



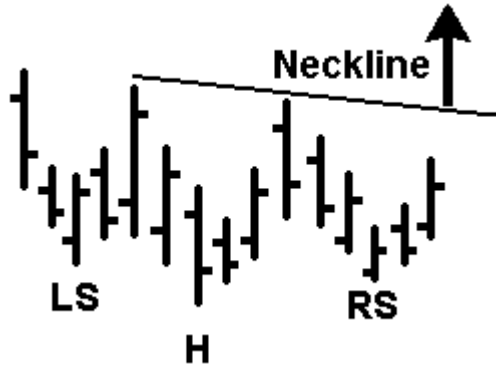
Head and Shoulders Top

Anticipates a decline on a break below the Neckline.



Head and Shoulders Bottom

Anticipates a rise in prices on a break above the Neckline.



Double Top

Anticipates a change in trend from up to down.



Double Bottom

Anticipates a change in trend for down to up.



Triple Top

Anticipates a change in trend from up to down.



Triple Bottom

Anticipates a change in trend from down to up.



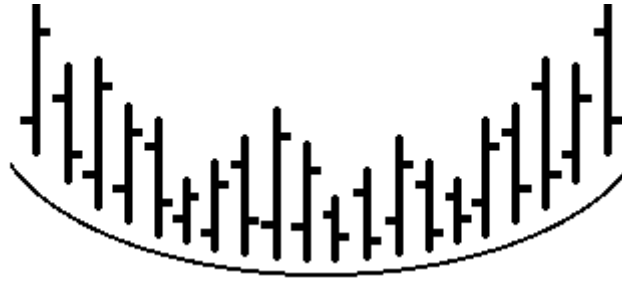
Rounded Top

Anticipates a change in trend from up to down.



Rounded Bottom

Anticipates a change in trend from down to up.



Congestions

Generally refers to any type of chart pattern in which prices are temporarily trapped in a trading range. The range can be converging, expanding or defined by parallel lines on the horizontal. Congestions of shorter duration are usually found to be a variation of a Flag, or some variation of a converging or expanding triangle. Periods of longer congestion are usually defined by a variation of a converging or expanding triangle, or may be an elongated parallel channel on the horizontal. Such patterns are frequently referred to being Continuation patterns if price break out in the direction of the trend leading to the formation of the congestion pattern.

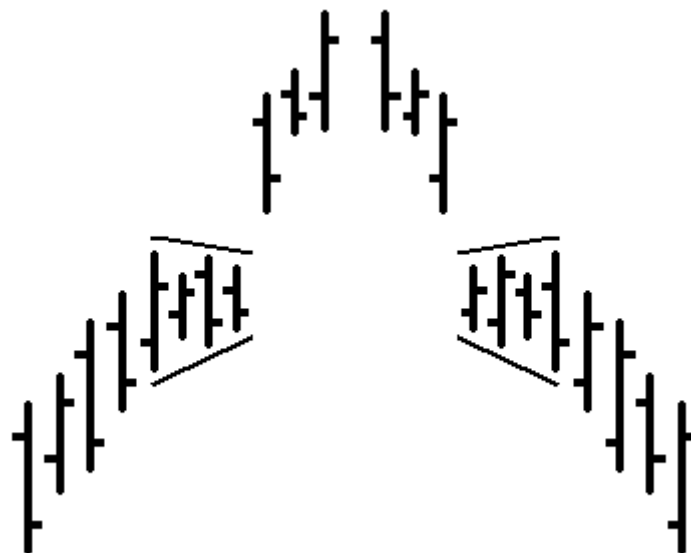
Continuation Patterns

Periods of longer congestion are usually defined by a variation of a converging or expanding triangle, or may be an elongated parallel channel on the horizontal. Such patterns are frequently referred to being continuation patterns if price break out in the direction of the trend leading to the formation of the congestion pattern.

Gaps

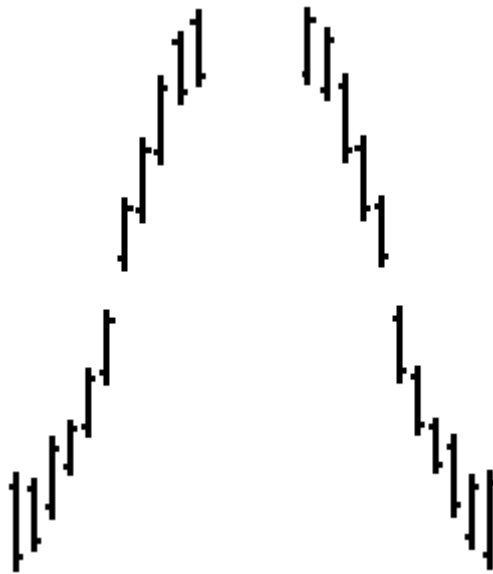
Breakaway Gaps

Occur when prices gap higher or lower out of a congestion pattern in the direction of the prevailing trend.



Measuring or Running Gaps

Difficult to identify, but usually occur at the midpoint in a price rally or decline.



Exhaustion Gaps

Occur at the end of a market trend, usually after steep accelerated uptrend or downtrend. The gap can leave one price bar or a small number of congestive price bars behind.



OR



Retracements

Fibonacci Retracements

Fibonacci Retracement levels correspond percentage retracements that occur in the ebb and flow of a market trend. According to the Elliot Wave Theory, market trends tend to occur in five distinct waves: three waves that move in the direction of the trend with the middle or third wave being the strongest usually, alternating against two counter-trend waves. Elliot asserted that these counter-trend waves will usually retrace against the trending waves by 38.2, 50 and 61.8 percent (also, less frequently by 24 and 76 percent). These Retracement Percentages correspond to natural ratios discovered by the Greeks called the Golden Ratio and rediscovered by Fibonacci, a medieval, Italian Mathematician.

