

THE FOREX TRADING GUIDE
TECHNICAL ANALYSIS SERIES

FOREX CHART PATTERNS IN-DEPTH

IN THIS BOOK

[SYMMETRICAL TRIANGLE]

[DESCENDING TRIANGLE]

[CUP AND HANDLE + INVERSE]

[RECTANGLE]

[DOUBLE TOP / DOUBLE BOTTOM]

[ASCENDING TRIANGLE]

[HEAD AND SHOULDERS + INVERSE]

[FALLING WEDGE / RISING WEDGE]

[FLAG]

[TRIPLE TOP / TRIPLE BOTTOM]

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1. WHAT THIS BOOK PROVIDES TO YOU

Unlike most sources of information available for Forex chart patterns, this book won't stop at the technical analysis characteristics of the different patterns. The chart patterns are a part of a whole, and our goal here is to show and explain the whole picture so you can trade profitably using the knowledge gathered from this book.

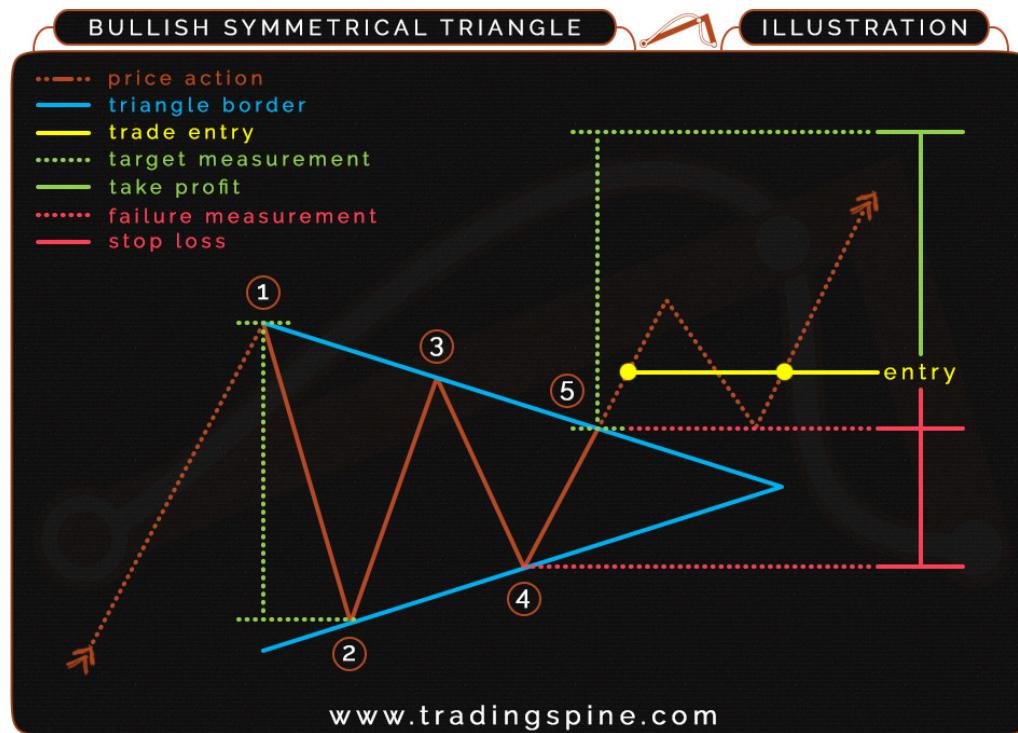
To reach that goal we will go through three main topics throughout the book:

- The first topic is the technical aspect of the chart patterns covered in the book, this includes detailed illustration for the patterns' price action structure as well as target (take profit) and failure (stop loss) measurements, before finalizing each chart pattern with a full real trading setup as a usage example for the pattern in real trading.
- The second topic will be tabular data for all the chart patterns, which can be helpful when choosing patterns that suits your trading style the most, followed by an explanation of how to differentiate similar looking patterns using price action highs and lows.
- The third and most important topic is how to use that technical knowledge gathered for the different chart patterns in a real Forex money management plan for a trading cycle, to achieve that we will use our own strategy to show the the whole thought process before starting a trading cycle.

Before we dive right into the interesting content, remember that Forex trading -and trading in general- is not only about the analysis of charts or financial news, it heavily relies on both money management and trading management for consistency reasons, therefore trading a chart pattern must be a part of bigger plan.

2. SYMMETRICAL TRIANGLE

2.1 BULLISH SYMMETRICAL TRIANGLE ILLUSTRATION AND STRUCTURE



Direction:
Continuation

Type:
Bullish

Occurrence:
High

Common term:
Medium - Long

PRICE ACTION:

- In an uptrend, price action finds first resistance (1), which will be the highest high in the pattern, where it reverses direction and goes downwards till finding first support (2), which will be the lowest low in the pattern.
- Price action reverse direction from support (2) going upwards, till finding the second resistance (3), which must to be lower than the first resistance (1).
- Price action reverse direction from resistance (3) going downwards, till finding the second support (4), which must to be higher than the first support (2).
- The pattern is completed when price action reverse direction from (4) and goes upwards till it breaks the triangle's upper border at point (5).

2.2 NOTES

- Before the breakout, 4 touches to the triangle's borders are the minimum for a valid pattern, more touches are acceptable.
- Although named symmetrical, the upper and lower borders don't have to be actually symmetrical, as long as lower highs (1 - 3 - ...) and higher lows (2 - 4 - ...) are being formed, the pattern is considered valid.
- The breakout of the pattern is expected at around (half / two third) the triangle's formation, measured from first touch (1) to the intersection point of upper and lower borders.
- The more common direction for the pattern is continuation, but that doesn't rule out the existence of reversal symmetrical triangles.
- Volume usually decreases as the pattern is being formed, and increases when breaking or retesting the triangle's border (5).
- This pattern is commonly found on medium and long-term time-frames.

2.3 TRADING THE PATTERN

- Trade entry: after breaking the triangle's border at point (5), either with an entry after confirming the breakout, or after a -possible- retest to the breakout rate.
- Take profit: identified by measuring the vertical distance from the first touch (1) to the second touch (2), that measurement is then applied from the breakout point (5).
- Stop loss: can either be the breakout rate (5), or the last touch to the triangle's border (4) before the breakout.

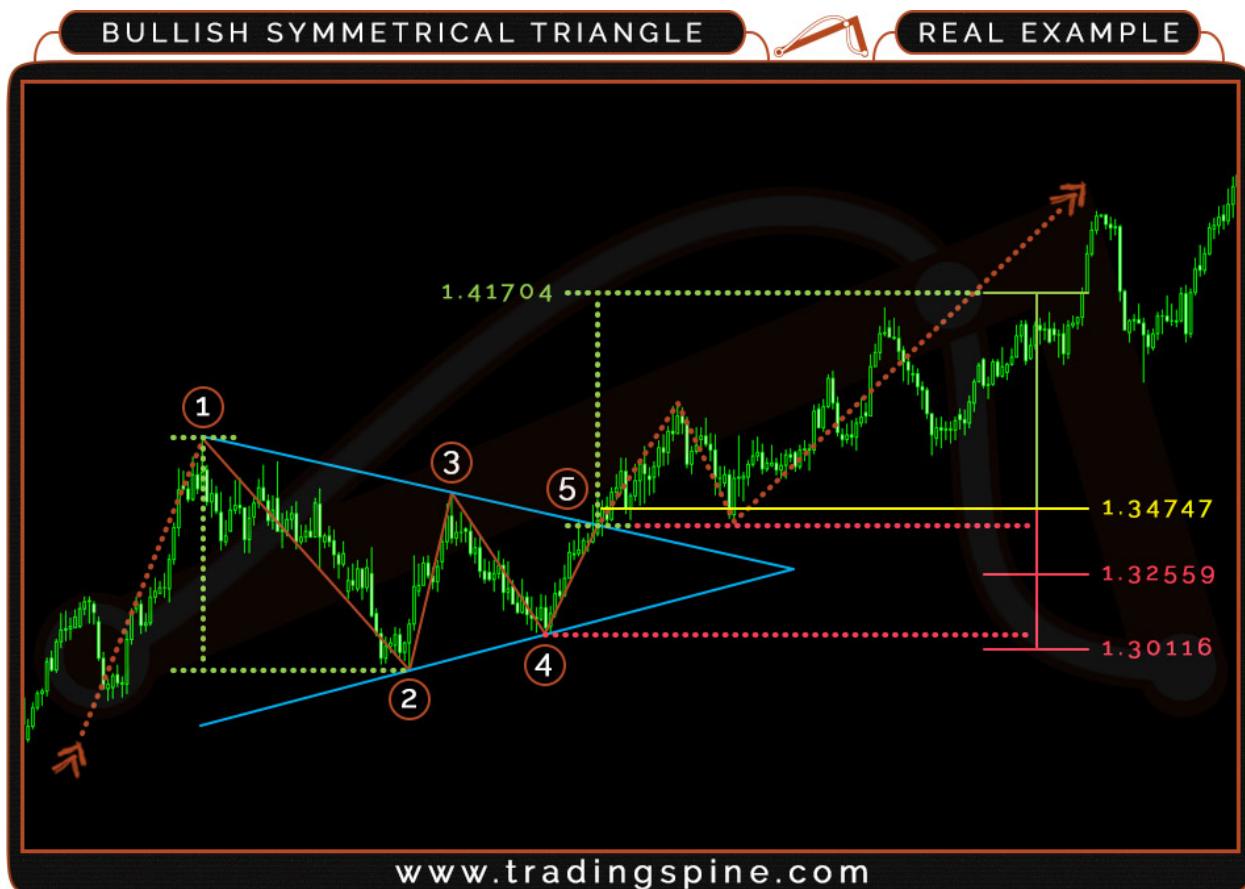
2.4 PATTERN'S REWARD:RISK

- When using the last touch before the breakout as stop loss, the pattern's R:R improves when that touch is near the end of the triangle.
- When using the breakout rate as stop loss, R:R will depend on the (entry rate - break rate) distance, compared to the target measurement (1 - 2).
- Always remember that both stop loss levels explained above are absolute, the actual stop loss rate for your trade setup should be a bit beyond those levels to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to those rates.

Feel free to leave us a comment and discuss this pattern directly on our website at:

<https://www.tradingspine.com/articles/chart-patterns/symmetrical-triangle.php>

2.5 BULLISH SYMMETRICAL TRIANGLE REAL EXAMPLE



Currency: EUR/CAD - D1 - Breakout (5) @ 30-May-2013 - Chart from XM's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the upper border at point (5)

Take profit: 695.7 pips - usual measurement applied from point (5)

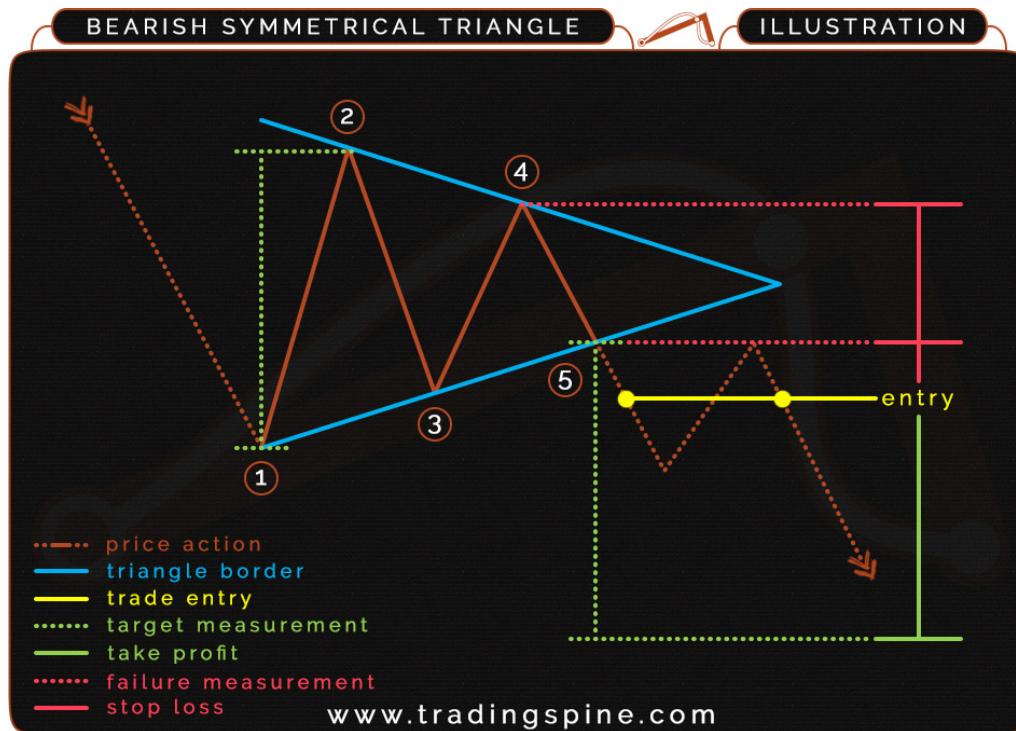
Stop loss 1: 218.8 pips (R:R 3.180) - set at 21% of target measurement, beyond absolute SL1

Stop loss 2: 463.1 pips (R:R 1.502) - set at 7% of target measurement, beyond absolute SL2

Notes:

- Price action retested the breakout rate.

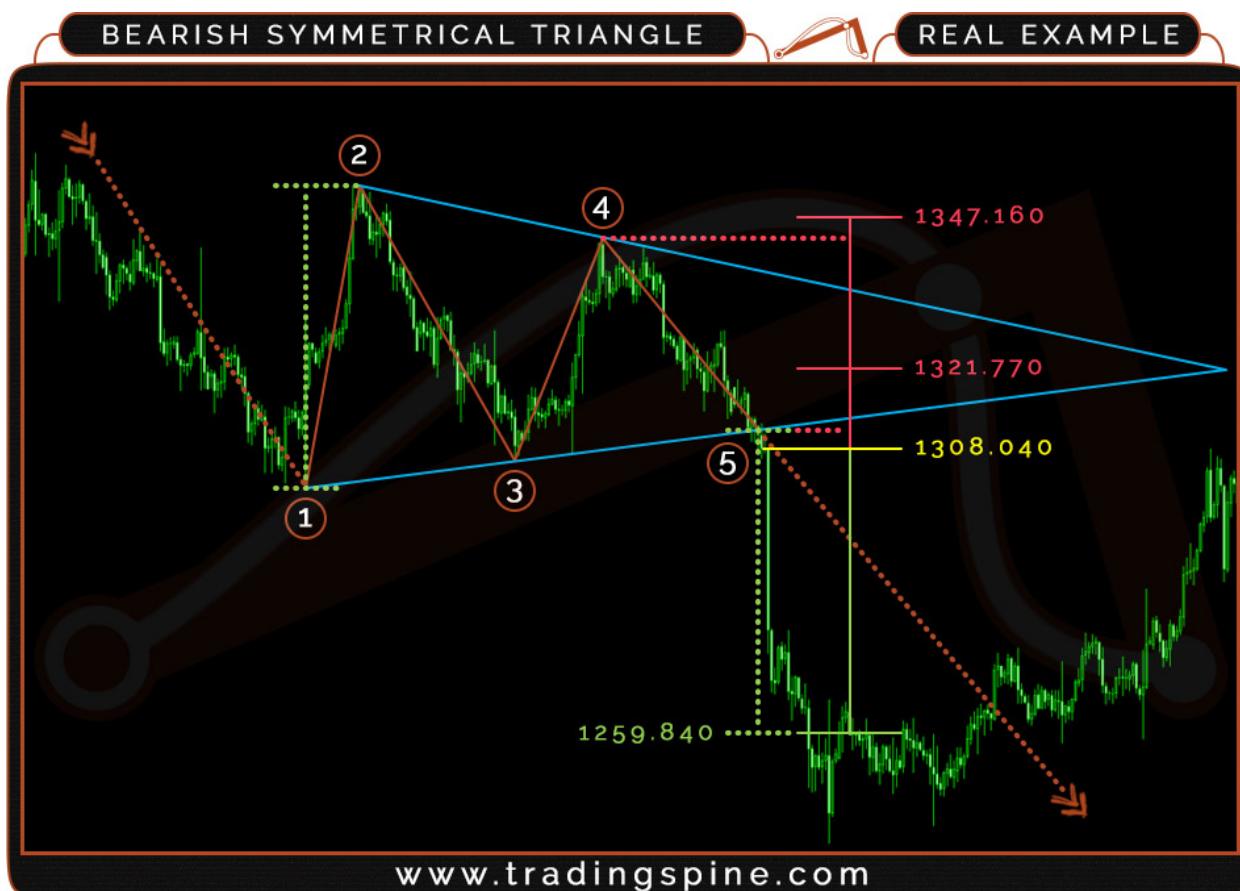
2.6 BEARISH SYMMETRICAL TRIANGLE ILLUSTRATION AND STRUCTURE



PRICE ACTION:

- In a downtrend, price action finds first resistance (1), which will be the lowest low in the pattern, where it reverses direction and goes upwards till finding first support (2), which will be the highest high in the pattern.
- Price action reverse direction from support (2) going downwards, till finding the second resistance (3), which must to be higher than the first resistance (1).
- Price action reverse direction from resistance (3) going upwards, till finding the second support (4), which must to be lower than the first support (2).
- The pattern is completed when price action reverse direction from (4) and goes downwards till it breaks the triangle's lower border at point (5).

2.7 BEARISH SYMMETRICAL TRIANGLE REAL EXAMPLE



Currency: XAU/USD(GOLD) - H4 - Breakout (5) @ 03-Oct-2016 - Chart from Oanda's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the lower border at point (5)

Take profit: 482.0 pips - usual measurement applied from point (5)

Stop loss 1: 137.3 pips (R:R 3.511) - set at 21% of target measurement, beyond absolute SL1

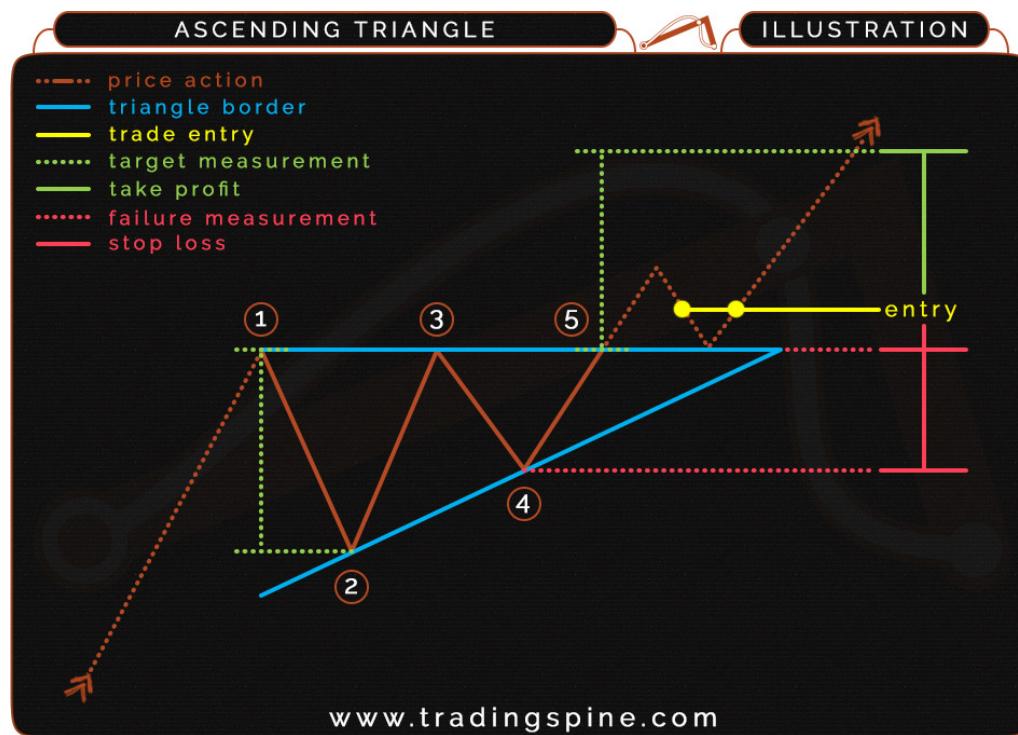
Stop loss 2: 391.2 pips (R:R 1.232) - set at 7% of target measurement, beyond absolute SL2

Notes:

- In Oanda's MT4 platform, the pip for XAU/USD is the first decimal point, and the fractional pip is the second decimal point, thus we truncated all calculated rates to the second decimal point to discard the third decimal.

3. ASCENDING TRIANGLE

3.1 ILLUSTRATION AND STRUCTURE (BULLISH)



PRICE ACTION:

- In an uptrend, price action finds first resistance (1), which will be the horizontal resistance for the rest of the pattern formation, where it reverse direction goes downwards till finding first support (2), which will be the lowest low in the pattern.
- Price action reverse direction from support (2) and goes upwards, till finding the second resistance (3), which will be -around- the same rate of the first resistance (1).
- Price action reverse direction from resistance (3) and goes downwards, till finding the second support (4), which must be higher than the first support (2).
- The pattern is completed when price action reverse direction from (4) and goes upwards till it breaks the triangle's upper horizontal border at point (5).

3.2 NOTES

- Before the breakout, 4 touches to the triangle's borders are the minimum for a valid pattern, more touches are acceptable.
- The breakout of the pattern is expected at around (half / two third) the triangle formation, measured from first touch **(1)** to the intersection point of upper and lower borders.
- The more common direction for the pattern is continuation, but that doesn't rule out the existence of reversal ascending triangles.
- Volume usually decreases as the pattern is being formed, and increases when breaking or retesting the triangle's upper border **(5)**.
- This pattern is commonly found on medium and long-term time-frames.

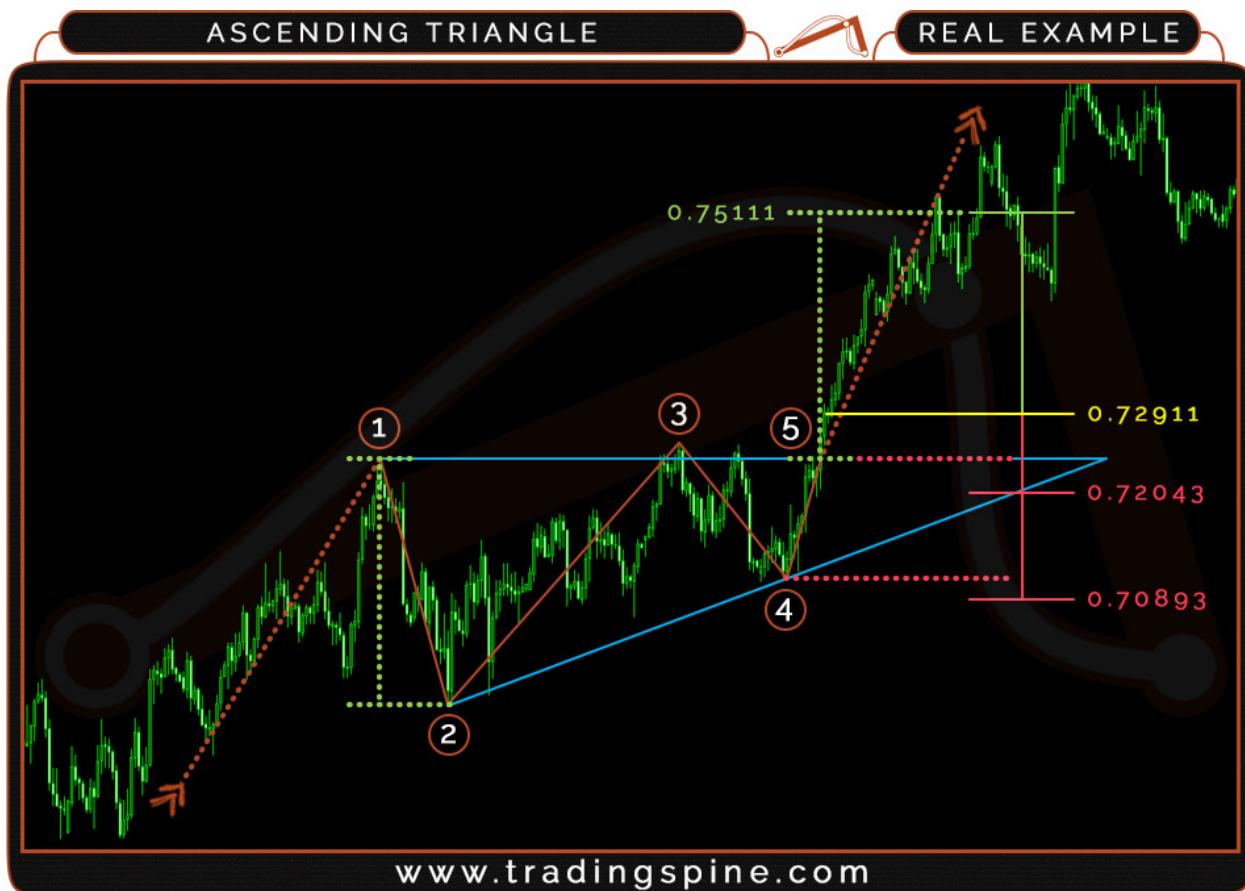
3.3 TRADING THE PATTERN

- Trade entry: after breaking the triangle's upper border at point **(5)**, either with an entry after confirming the breakout, or after a -possible- retest to the upper border's rate.
- Take profit: identified by measuring the vertical distance from the first touch **(1)** to the second touch **(2)**, that measurement is then applied from the breakout point **(5)**.
- Stop loss: can either be the triangle's upper border that turned into support **(5)**, or the last touch to the pattern's lower border before the breakout **(4)**.

3.4 PATTERN'S REWARD:RISK

- When using the last touch before the breakout as stop loss, the pattern's R:R improves when that touch is near the end of the triangle, as well as when the lower border's up-slope is steeper.
- When using the upper border's rate as stop loss, R:R will depend on the (entry rate - break rate) distance, compared to the target measurement **(1 - 2)** distance.
- Always remember that both stop loss levels explained above are absolute, the actual stop loss rate for your trade setup should be a bit beyond those levels to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to those rates.

Feel free to leave us a comment and discuss this pattern directly on our website at:
<https://www.tradingspine.com/articles/chart-patterns/ascending-triangle.php>

3.5 REAL EXAMPLE (BULLISH)


Currency: AUD/USD - H4 - Breakout (5) @ 02-Mar-2016 - Chart from Oanda's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the upper border at point (5)

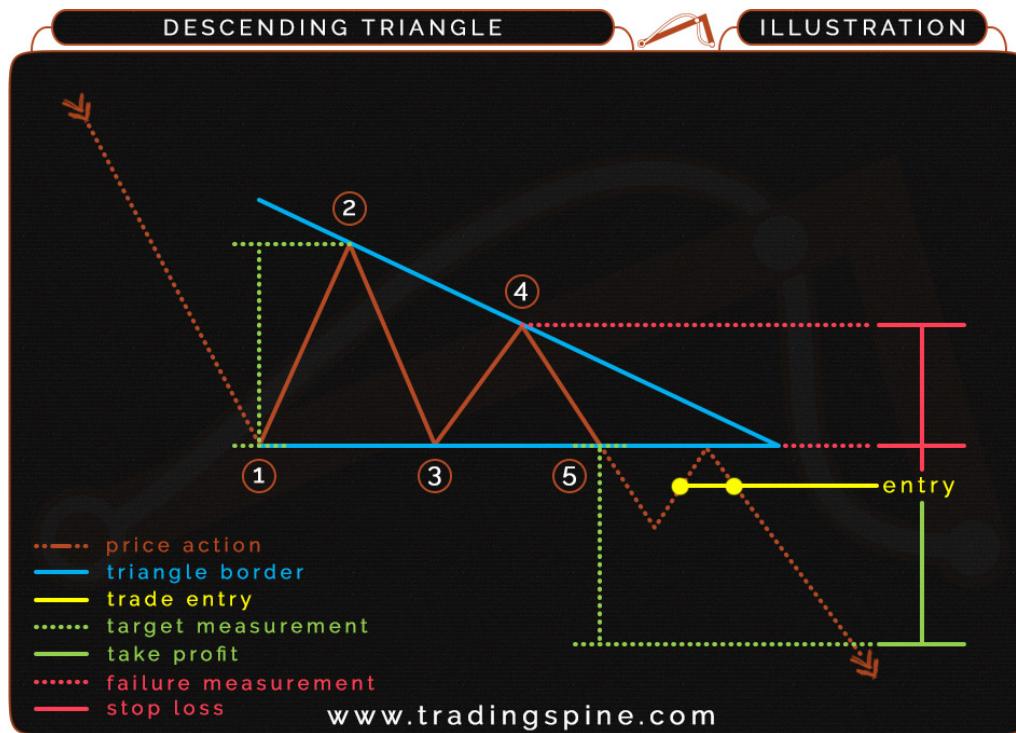
Take profit: 220.0 pips - usual measurement applied from point (5)

Stop loss 1: 86.8 pips (R:R 2.535) - set at 14% of target measurement, beyond absolute SL1

Stop loss 2: 201.8 pips (R:R 1.090) - set at 7% of target measurement, beyond absolute SL2

4. DESCENDING TRIANGLE

4.1 ILLUSTRATION AND STRUCTURE (BEARISH)



Direction:
Continuation

Type:
Bearish

Occurrence:
Medium

Common term:
Medium - Long

PRICE ACTION:

- In a downtrend, price action finds first resistance (1), which will be the horizontal resistance for the rest of the pattern formation, where it reverses direction goes upwards till finding first support (2), which will be the highest high in the pattern.
- Price action reverse direction from support (2) and goes downwards, till finding the second resistance (3), which will be -around- the same rate of the first resistance (1).
- Price action reverse direction from resistance (3) and goes upwards, till finding the second support (4), which must be lower than the first support (2).
- The pattern is completed when price action reverse direction from (4) and goes downwards till it breaks the triangle's lower horizontal border at point (5).

4.2 NOTES

- Before the breakout, 4 touches to the triangle's borders are the minimum for a valid pattern, more touches are acceptable.
- The breakout of the pattern is expected at around (half / two third) the triangle formation, measured from first touch **(1)** to the intersection point of upper and lower borders.
- The more common direction for the pattern is continuation, but that doesn't rule out the existence of reversal descending triangles.
- Volume usually decreases as the pattern is being formed, and increases when breaking or retesting the triangle's lower border **(5)**.
- This pattern is commonly found on medium and long-term time-frames.

4.3 TRADING THE PATTERN

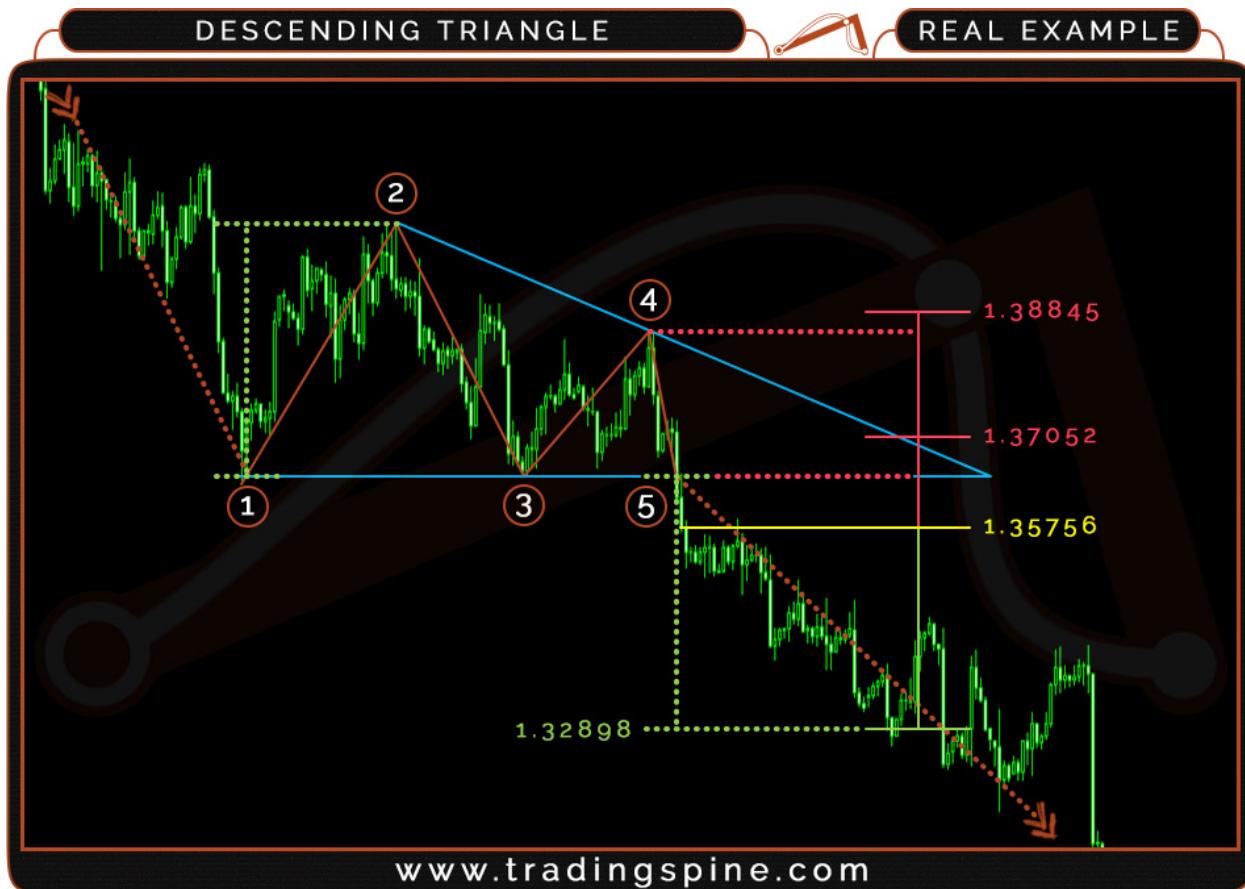
- Trade entry: after breaking the triangle's lower border at point **(5)**, either with an entry after confirming the breakout, or after a -possible- retest to the lower border's rate.
- Take profit: identified by measuring the vertical distance from the first touch **(1)** to the second touch **(2)**, that measurement is then applied from the breakout point **(5)**.
- Stop loss: can either be the triangle's lower border that turned into support **(5)**, or the last touch to the triangle's upper border before the breakout **(4)**.

4.4 PATTERN'S REWARD:RISK

- When using the last touch before the breakout as stop loss, the pattern's R:R improves when that touch is near the end of the triangle, as well as when the upper border's down-slope is steeper.
- When using the lower border's rate as stop loss, R:R will depend on the (entry rate - break rate) distance, compared to the target measurement **(1 - 2)** distance.
- Always remember that both stop loss levels explained above are absolute, the actual stop loss rate for your trade setup should be a bit beyond those levels to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to those rates.

Feel free to leave us a comment and discuss this pattern directly on our website at:
<https://www.tradingspine.com/articles/chart-patterns/descending-triangle.php>

4.5 REAL EXAMPLE (BEARISH)



Currency: USD/CAD - H4 - Breakout (5) @ 25-Feb-2016 - Chart from Oanda's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the lower border at point (5)

Take profit: 285.8 pips - usual measurement applied from point (5)

Stop loss 1: 129.6 pips (R:R 2.205) - set at 14% of target measurement, beyond absolute SL1

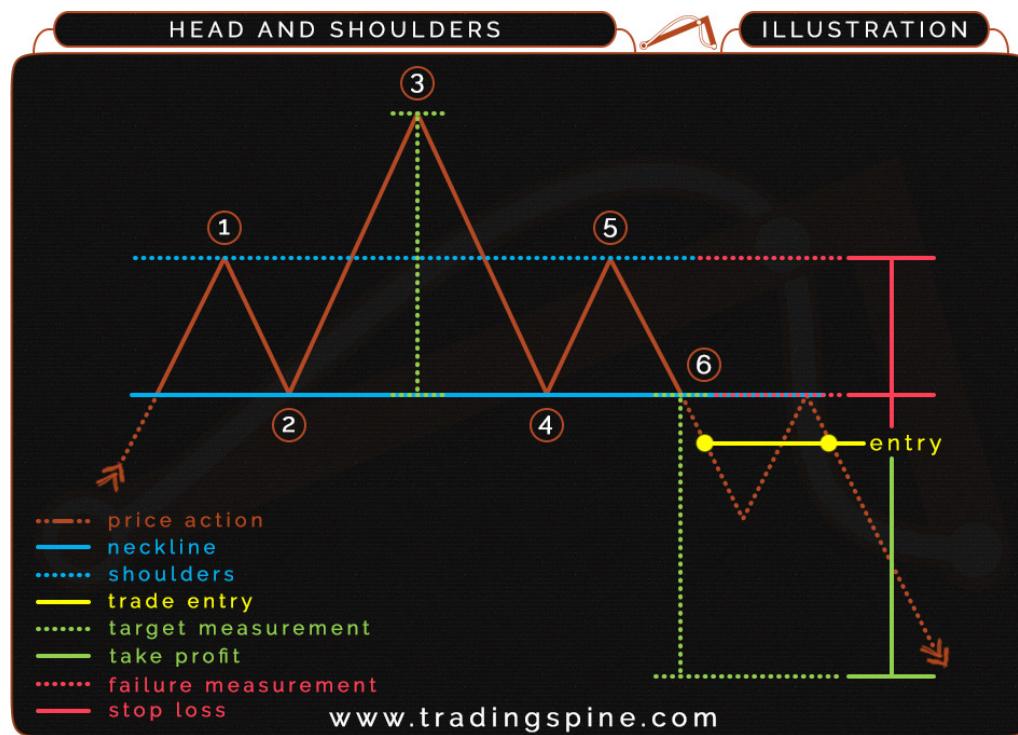
Stop loss 2: 308.9 pips (R:R 0.925) - set at 7% of target measurement, beyond absolute SL2

Notes:

- If your trading style for descending triangles involves using SL2 method, you will notice that R:R for that specific setup is below 1 due to the relatively long candles when breaking the pattern at (5). In such case, that trading setup should have been passed, unless your sampled data for this pattern have a strong W/L to compensate for the low R:R

5. HEAD AND SHOULDERS

5.1 ILLUSTRATION AND STRUCTURE



Direction:
Reversal

Type:
Bearish

Occurrence:
Low

Common term:
Medium - Long

PRICE ACTION:

- In an uptrend, price action finds first resistance (1) that forms left shoulder's high, where it reverse direction and goes downwards till finding support (2), completing the left shoulder formation.
- Price action reverses direction from that support (2) and goes upwards till finding second resistance (3) that forms head's high, where it reverses direction and goes downwards till finding support (4), completing the head formation.
- Price action reverses direction from the last support (4) and goes upwards till finding third resistance (5) that forms right shoulder's high, where it reverses direction going downwards.
- The pattern is completed when price action breaks the neckline at point (6) downwards.

5.2 NOTES

- Neckline is identified by drawing a trend-line connecting the two support levels that completed both the left shoulder and head formations, which are **(2 - 4)**.
- Both shoulders don't have to be of the same height.
- Neckline can be skewed, usually to the same direction of the trend-line connecting both shoulders highs at points **(1 - 5)**.
- Volume usually decreases as the pattern is being formed, and increases when breaking or retesting the neckline.
- This pattern is commonly found on medium and long-term time-frames.

5.3 TRADING THE PATTERN

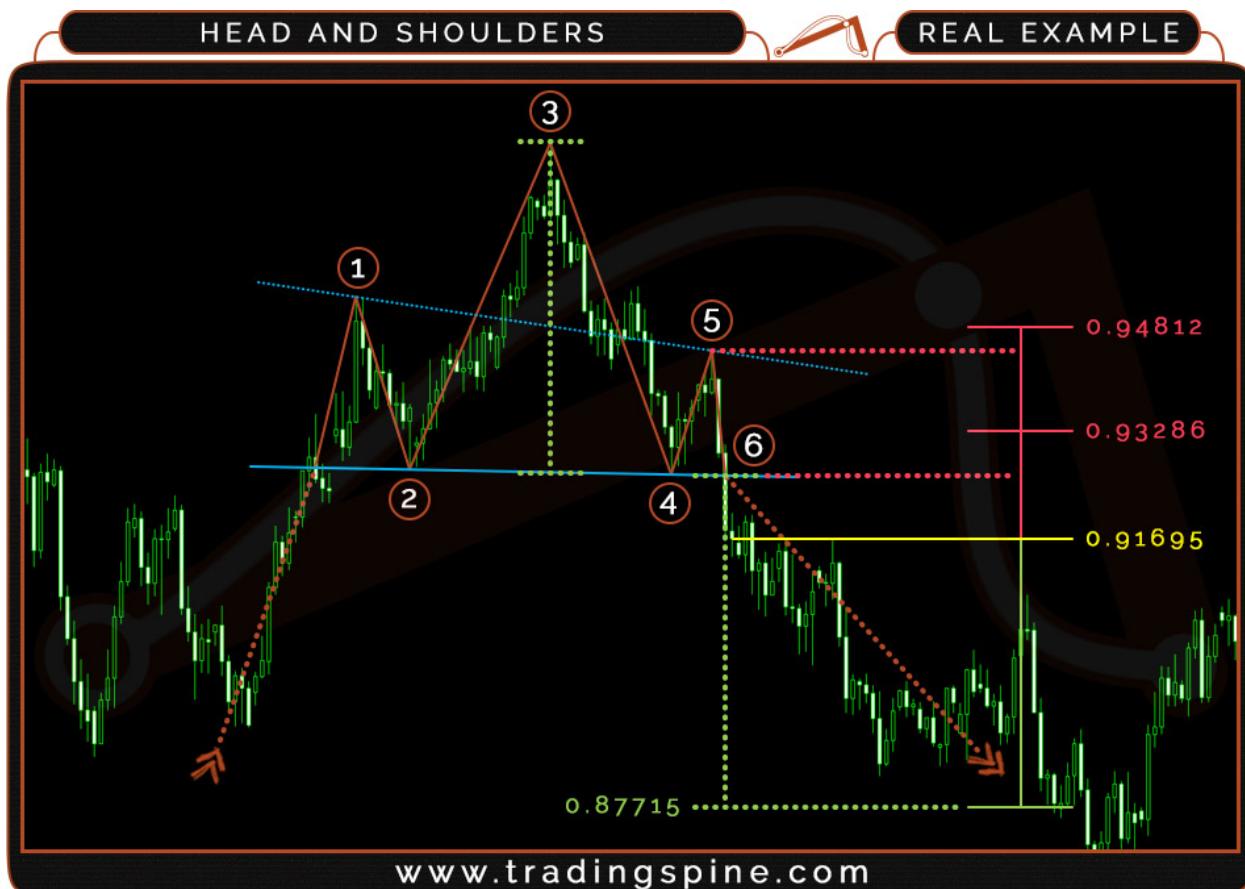
- Trade entry: the pattern is traded after price action breaks the neckline at point **(6)**, either with an entry after the breakout, or after a -possible- retest to the neckline which turned into resistance.
- Take profit: identified by measuring the vertical distance from head **(3)** to neckline, that measurement is then applied from the breakout point **(6)**.
- Stop loss: can either be the neckline breaking rate **(6)**, or the right shoulder's high **(5)**.

5.4 PATTERN'S REWARD:RISK

- When using the right shoulder as stop loss, the pattern's R:R will be better when the shoulder's retracement distance **(4 - 5)** is short compared to the (head - neckline) distance.
- When using the neckline breaking rate as stop loss, the pattern's R:R will depend on the (entry rate - breaking rate) distance, compared to (head - neckline) distance.
- Always remember that both stop loss levels explained above are absolute, the actual stop loss rate for your trade setup should be a bit beyond those levels to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to those rates.

Feel free to leave us a comment and discuss this pattern directly on our website at:

<https://www.tradingspine.com/articles/chart-patterns/head-and-shoulders.php>

5.5 HEAD AND SHOULDERS REAL EXAMPLE


Currency: AUD/USD - D1 - Breakout (6) @ 21-Nov-2013 - Chart from Oanda's MT4 platform

Trade setup:

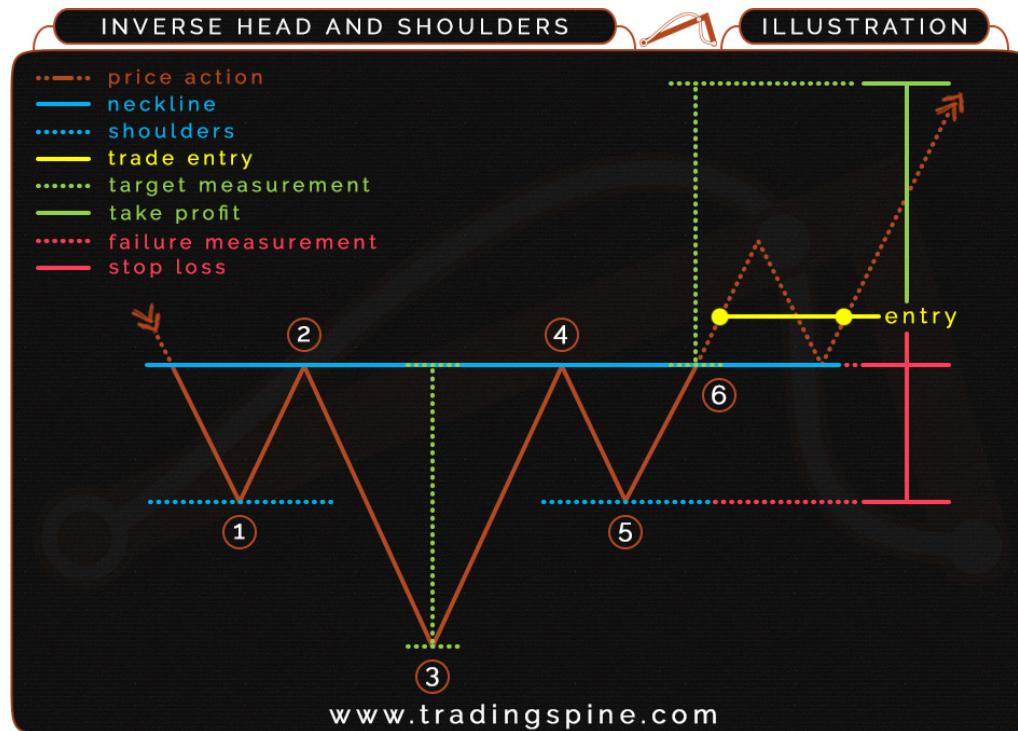
Trade entry: at the closing rate of the candle after breaking the neckline at point (6)

Take profit: 398.0 pips - usual measurement applied from point (6)

Stop loss 1: 159.1 pips (R:R 2.502) - set at 14% of target measurement, beyond absolute SL1

Stop loss 2: 311.7 pips (R:R 1.277) - set at 7% of target measurement, beyond absolute SL2

5.6 INVERSE HEAD AND SHOULDERS ILLUSTRATION AND STRUCTURE



Direction:
Reversal

Type:
Bullish

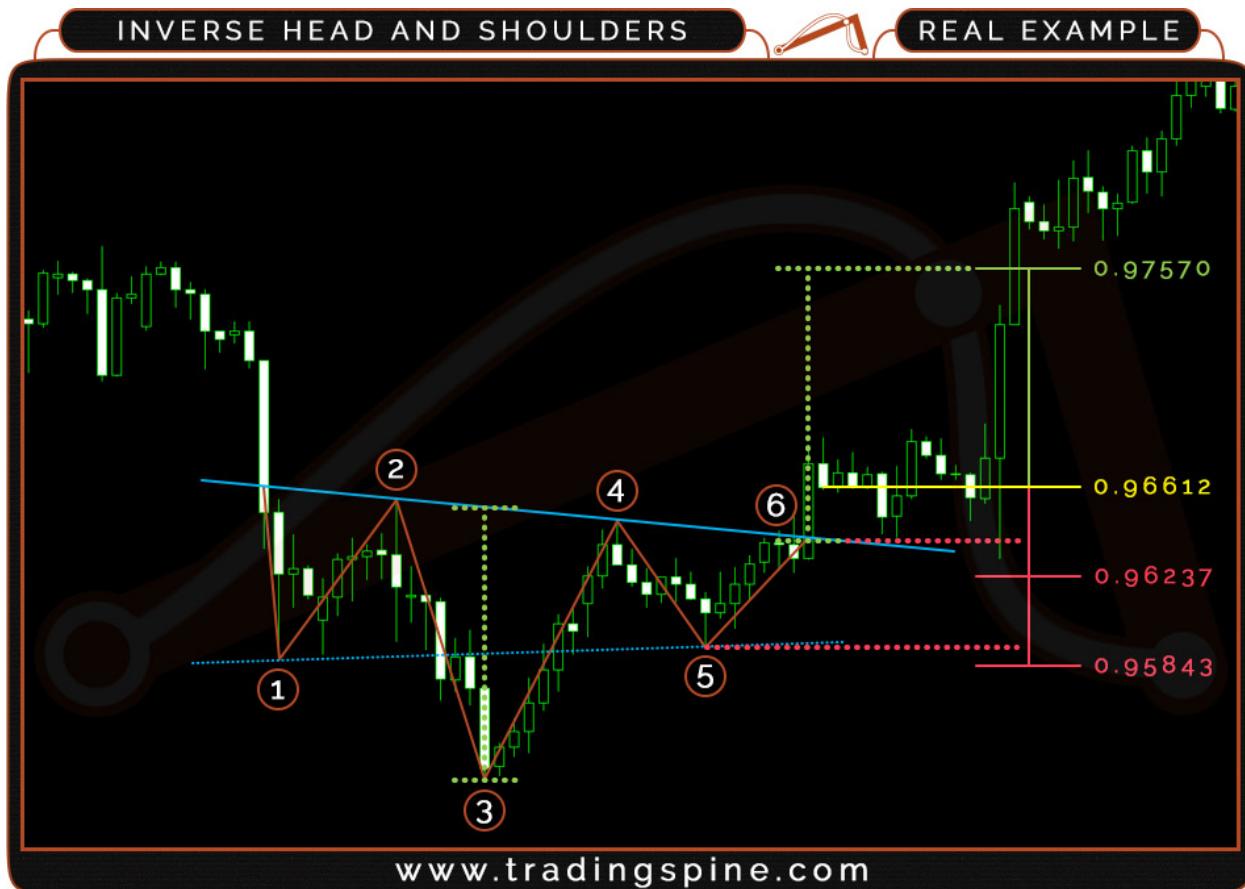
Occurrence:
Low

Common term:
Medium - Long

PRICE ACTION:

- In a downtrend, price action finds first resistance (1) that forms left shoulder's low, where it reverse direction and goes upwards till finding support (2), completing the left shoulder formation.
- Price action reverses direction from that support (2) and goes downwards till finding second resistance (3) that forms head's low, where it reverses direction and goes upwards till finding support (4), completing the head formation.
- Price action reverses direction from the last support (4) and goes downwards till finding third resistance (5) that forms right shoulder's low, where it reverses direction going upwards.
- The pattern is completed when price action breaks the neckline at point (6) upwards.

5.7 INVERSE HEAD AND SHOULDERS REAL EXAMPLE



Currency: USD/CHF - H4 - Breakout (6) @ 24-Aug-2016 - Chart from XM's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the neckline at point (6)

Take profit: 95.8 pips - usual measurement applied from point (6)

Stop loss 1: 37.5 pips (R:R 2.555) - set at 14% of target measurement, beyond absolute SL1

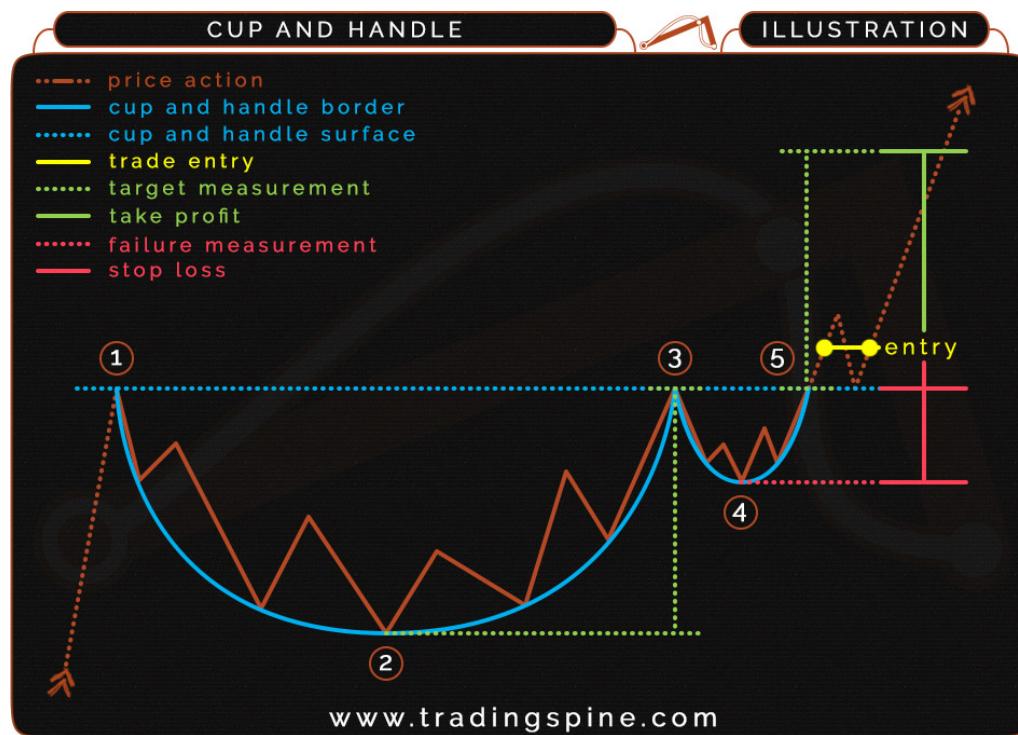
Stop loss 2: 76.9 pips (R:R 1.246) - set at 7% of target measurement, beyond absolute SL2

Notes:

- Pattern retested neckline twice, second retest almost hit SL1.
- This pattern's duration and pip range is much less than what is common for an inverse head and shoulders, making it more vulnerable to higher-than-usual market volatility, an example of that is how close was the second retest from hitting SL1.

6. CUP AND HANDLE

6.1 CUP AND HANDLE ILLUSTRATION AND STRUCTURE



PRICE ACTION:

- In an uptrend, price action finds first resistance (1), where it reverses direction and goes downwards steadily till finding first support (2), which will be the lowest low in the pattern.
- Price action reverse direction from support (2) and goes upwards steadily, till finding the second resistance (3) and completes the cup formation.
- Price action reverse direction from resistance (3) and goes downwards, till finding the second support (4), which must be higher than the first support (2).
- The pattern is completed when price action reverse direction from (4) and goes upwards till it breaks the cup and handle surface at point (5).

6.2 NOTES

- The cup and handle surface is identified by drawing a trend-line connecting both resistances of the cup formation (**1 - 3**).
- Handle formation might be shaped as a flag facing away from the surface.
- Cup and handle surface can be skewed.
- Volume usually decreases as the pattern is being formed, and increases when breaking the surface or retesting the breaking rate.
- This pattern is commonly found on long-term time-frames.

6.3 TRADING THE PATTERN

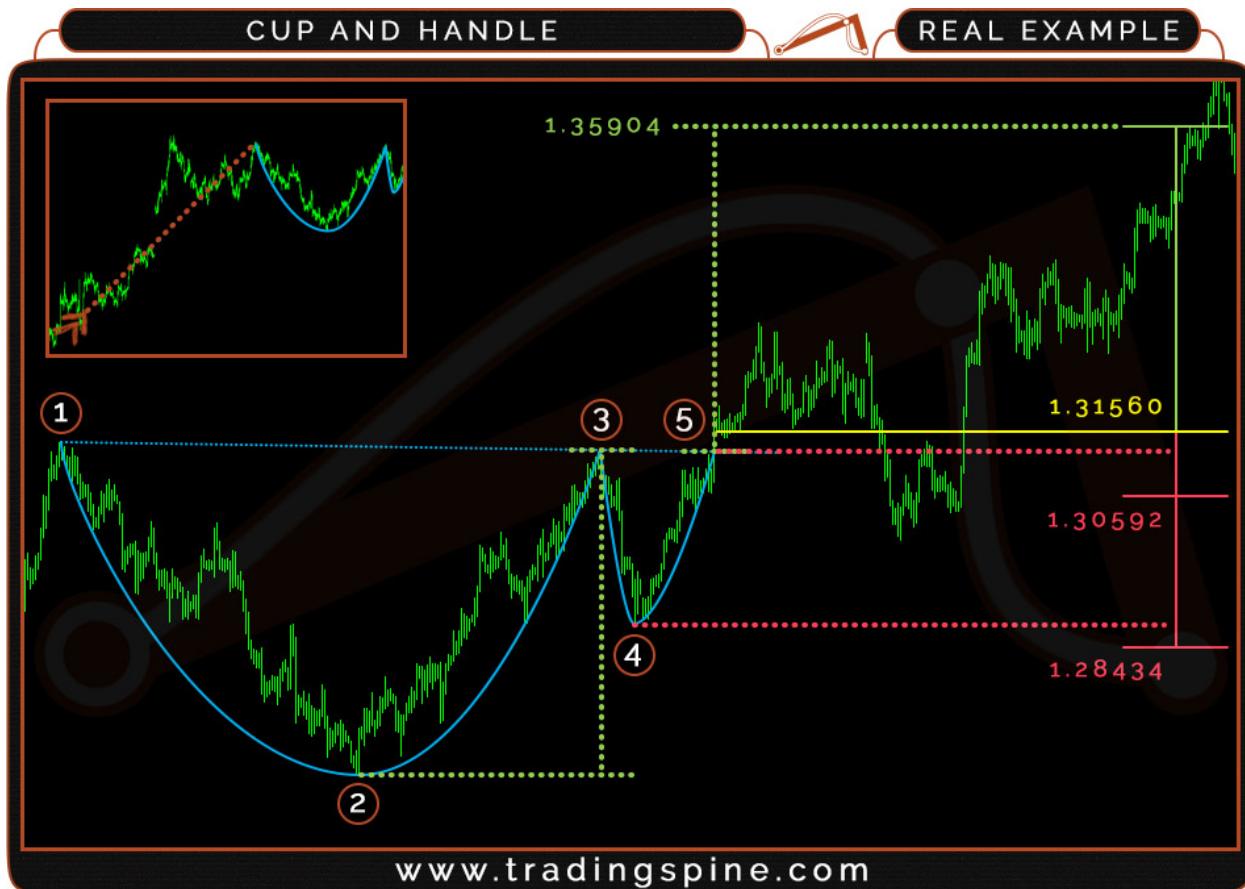
- Trade entry: the pattern is traded after price action breaks the surface at point (**5**), either with an entry after the breakout, or after a -possible- retest to the breaking rate.
- Take profit: identified by measuring the vertical distance from the the cup's peak (**2**) to the cup's second resistance (**3**), that measurement is then applied from the breakout point (**5**).
- Stop loss: can either be the the breaking point (**5**), or the handle's peak (**4**).

6.4 PATTERN'S REWARD:RISK

- When using the handle's peak (**4**) as stop loss, the pattern's R:R will be better when the handle's height (**4 - 5**) is relatively short compared to the cup's height (**2 - 3**).
- When using the breaking point as stop loss, the pattern's R:R will depend on the (entry rate - breaking rate) distance, compared to the height of the cup formation (**2 - 3**).
- Always remember that both stop loss levels explained above are absolute, the actual stop loss rate for your trade setup should be a bit beyond those levels to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to those rates.

Feel free to leave us a comment and discuss this pattern directly on our website at:

<https://www.tradingspine.com/articles/chart-patterns/cup-and-handle.php>

6.5 CUP AND HANDLE REAL EXAMPLE


Currency: EUR/USD - H4 - Breakout (5) @ 14-Dec-2012 - Chart from Oanda's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the surface at point (5)

Take profit: 434.4 pips - usual measurement applied from point (5)

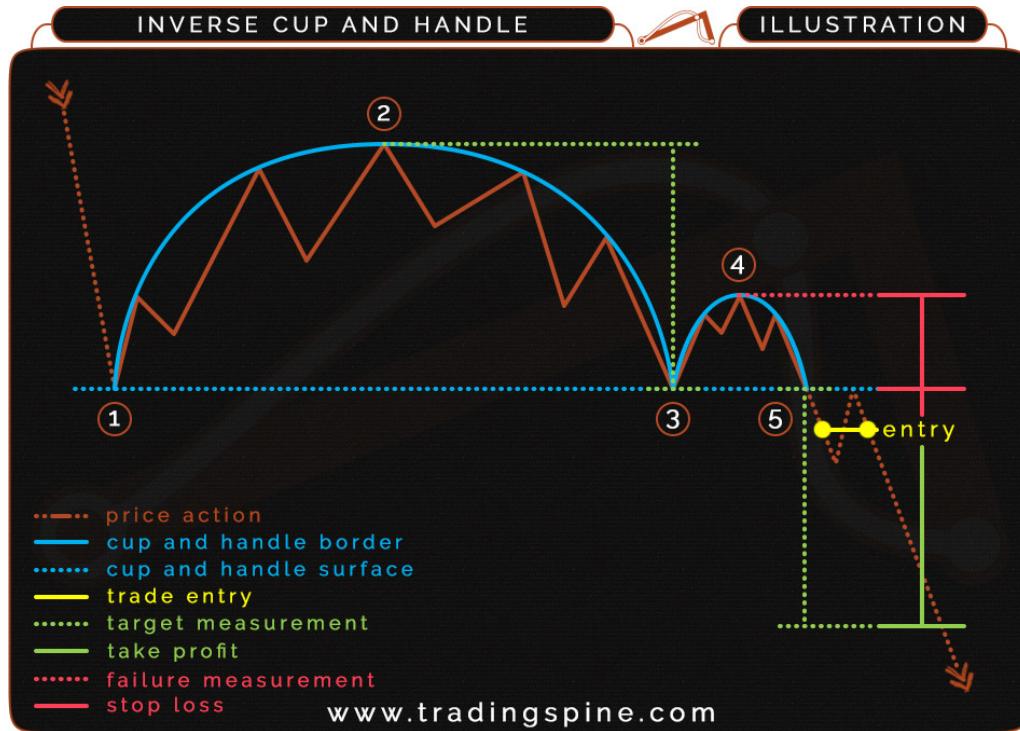
Stop loss 1: 96.8 pips (R:R 4.488) - set at 14% of target measurement, beyond absolute SL1

Stop loss 2: 312.6 pips (R:R 1.390) - set at 7% of target measurement, beyond absolute SL2

Notes:

- In this example, the retracement after entering the trade reached SL1, which would result in a losing trade if that stop loss level was used.

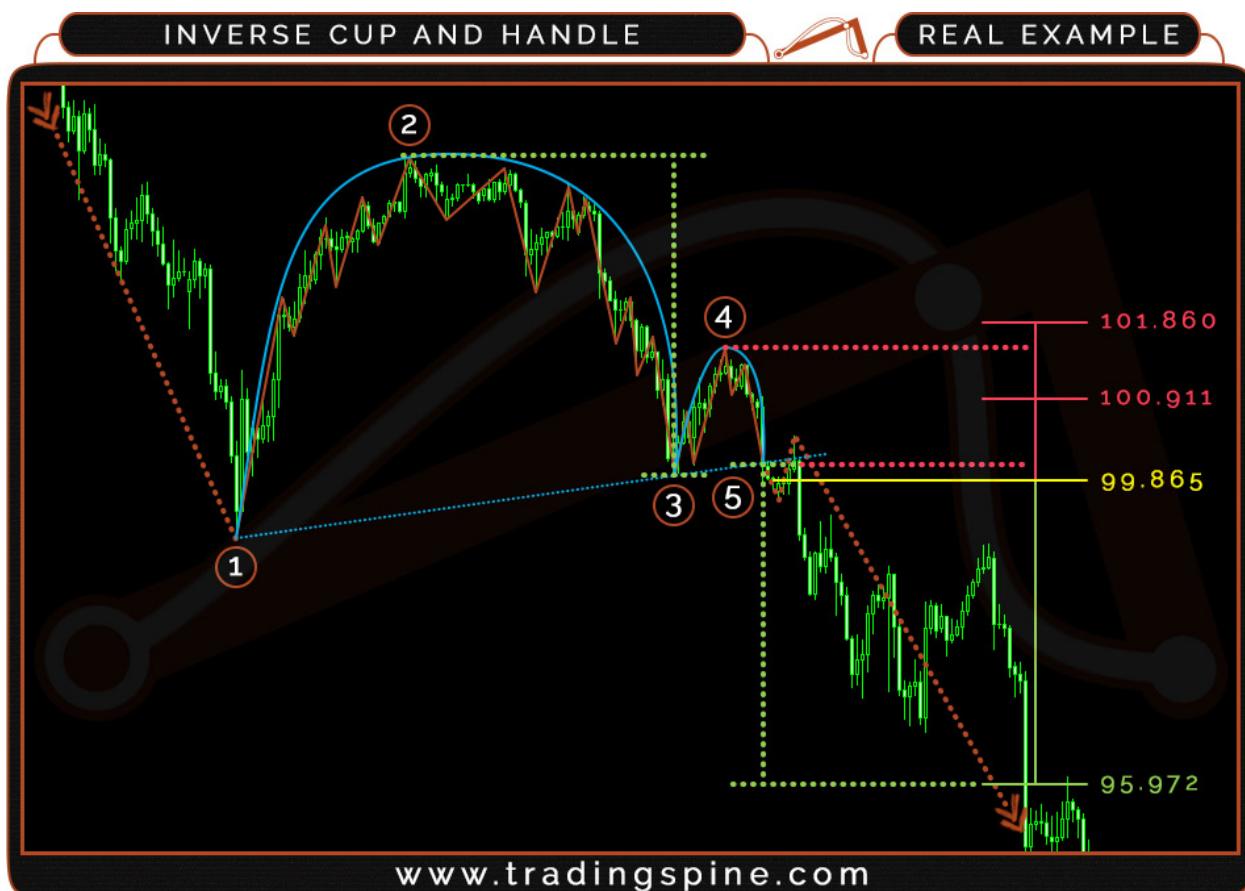
6.6 INVERSE CUP AND HANDLE ILLUSTRATION AND STRUCTURE



PRICE ACTION:

- In a downtrend, price action finds first resistance (1), where it reverses direction and goes upwards steadily till finding first support (2), which will be the highest high in the pattern.
- Price action reverse direction from support (2) and goes downwards steadily, till finding the second resistance (3) and completes the cup formation.
- Price action reverse direction from resistance (3) and goes upwards, till finding the second support (4), which must be lower than the first support (2).
- The pattern is completed when price action reverse direction from (4) and goes downwards till it breaks the cup and handle surface at point (5).

6.7 INVERSE CUP AND HANDLE REAL EXAMPLE



Currency: CAD/JPY - H4 - Breakout (5) @ 09-Jan-2015 - Chart from Oanda's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the surface at point (5)

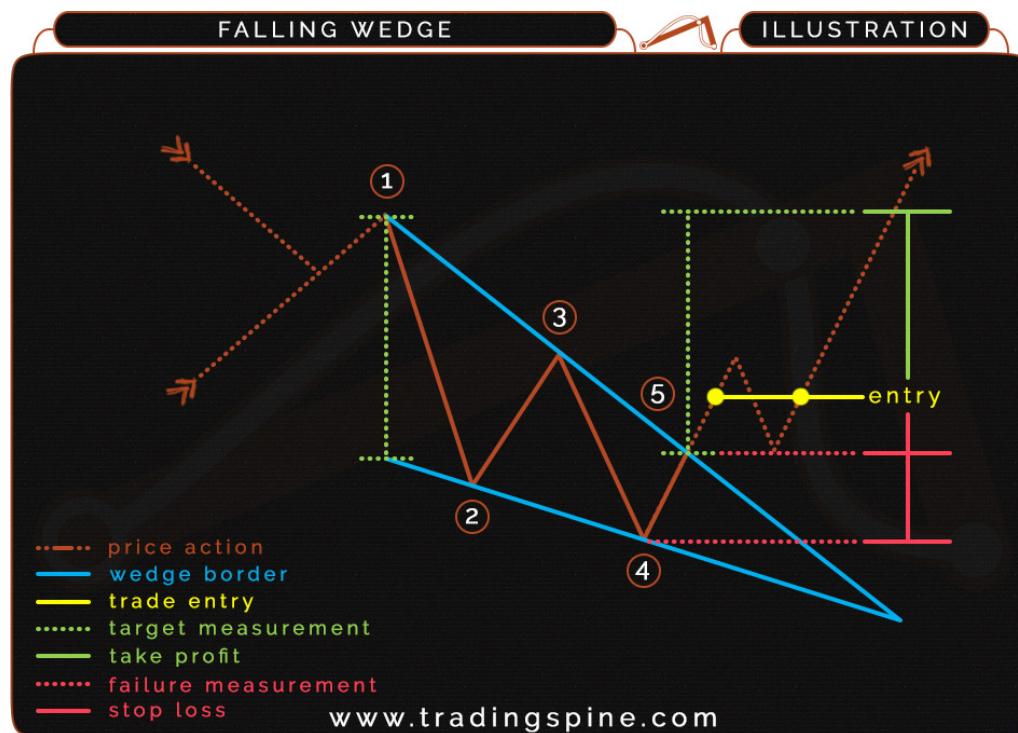
Take profit: 389.3 pips - usual measurement applied from point (5)

Stop loss 1: 104.6 pips (R:R 3.722) - set at 21% of target measurement, beyond absolute SL1

Stop loss 2: 199.5 pips (R:R 1.951) - set at 7% of target measurement, beyond absolute SL2

7. WEDGE

7.1 FALLING WEDGE ILLUSTRATION AND STRUCTURE



- Wedges are neutral patterns, they can be a reversal or continuation, thus the trend prior to the pattern formation doesn't really matter.
- Since the falling wedge a bullish pattern, all touches to the wedge's upper border will be referred to as resistance, and touches to the lower border will be referred to as support.

PRICE ACTION:

- Price action finds first resistance (1), where it reverses direction and goes downwards till finding first support (2).
- Price action reverse direction from support (2) and goes upwards, till finding the second resistance (3) which must be lower than the first resistance (1).
- Price action reverse direction from resistance (3) and goes downwards, till finding the second support (4), which must be lower than the first support (2).
- The pattern is completed when price action reverse direction from (4) and goes upwards till it breaks the wedge's upper border at point (5).

7.2 NOTES

- For the pattern shape to converge, the down-slope of the wedge's upper border (**1 - 3 - ...**) must be steeper than that of the lower border (**2 - 4 - ...**)
- The price action inside the wedge formation is a downtrend, and since its target is a bullish one, the breakout volume should be considerably high to confirm that bulls are entering the market.
- This pattern is commonly found on medium and long-term time-frames.

7.3 TRADING THE PATTERN

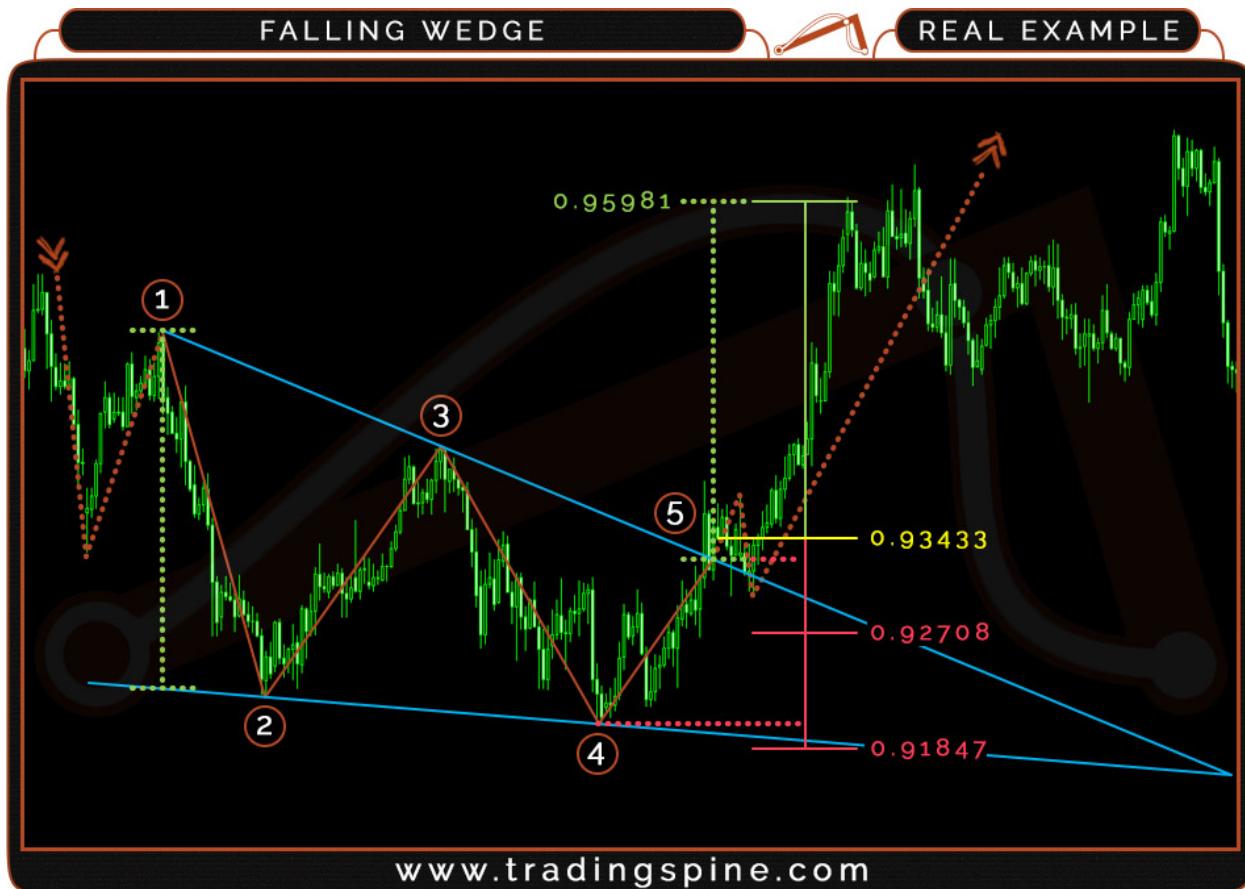
- Trade entry: after breaking the wedge's upper border at point **(5)**, with an entry after confirming the breakout.
- Take profit: identified by measuring the vertical distance from the wedge's highest high **(1)** to the wedge's lower border, that measurement is then applied from the breakout point **(5)**.
- Stop loss: the wedge's lowest low **(4)**.

7.4 PATTERN'S REWARD:RISK

- The steeper the upper border's down-slope than that of the lower border, the better the R:R.
- R:R improves when the breakout is more near to the wedge borders' intersection point.
- Always remember that the stop loss level explained above is absolute, the actual stop loss rate for your trade setup should be a bit beyond that level to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to that rate.

Feel free to leave us a comment and discuss this pattern directly on our website at:

<https://www.tradingspine.com/articles/chart-patterns/wedge.php>

7.5 FALLING WEDGE REAL EXAMPLE


Currency: NZD/CAD - H4 - Breakout (5) @ 12-Jan-2017 - Chart from XM's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the upper border at point (5)

Take profit: 254.8 pips - usual measurement applied from point (5)

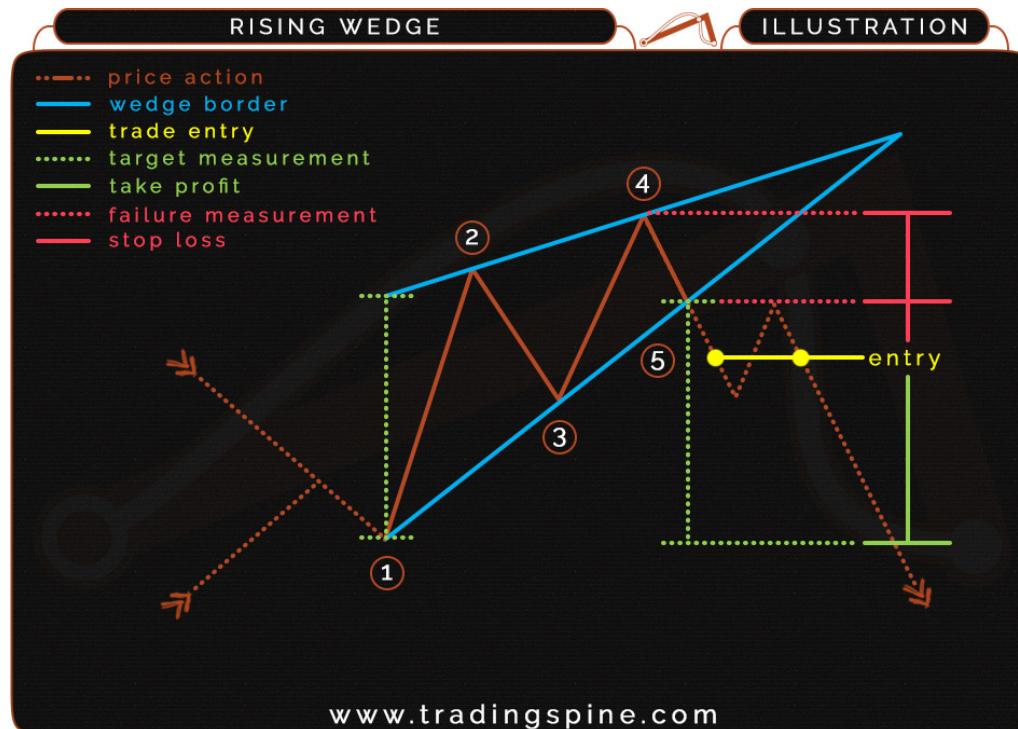
Stop loss 1: 72.5 pips (R:R .514) - set at 21% of target measurement, beyond absolute SL1

Stop loss 2: 158.6 pips (R:R 1.607) - set at 7% of target measurement, beyond absolute SL2

Notes:

- The first breaking candle was followed by a long bearish candle that closed inside the wedge, thus it was treated as a false break. Right after that long bearish candle, a long bullish one was formed and broke the upper border again, followed by a candle that closed outside the wedge, where the trade entry was decided at that candle's closure rate.

7.6 RISING WEDGE ILLUSTRATION AND STRUCTURE



Direction:
Neutral

Type:
Bearish

Occurrence:
Medium

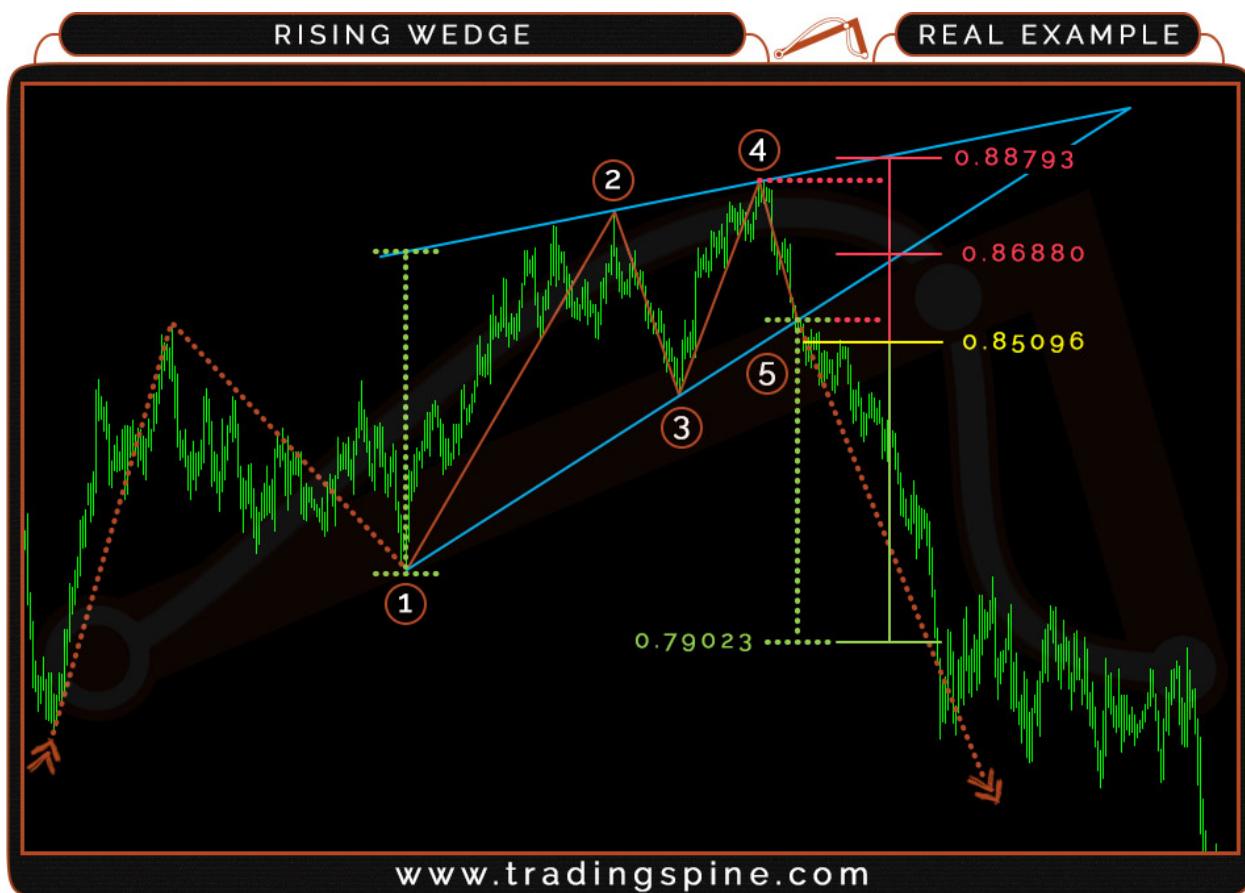
Common term:
Medium-Long

- Wedges are neutral patterns, they can be a reversal or continuation, thus the trend prior to the pattern formation doesn't really matter.
- Since the rising wedge a bearish pattern, all touches to the wedge's upper border will be referred to as support, and touches to the lower border will be referred to as resistance.

PRICE ACTION:

- Price action finds first resistance (1), where it reverses direction and goes upwards till finding first support (2).
- Price action reverse direction from support (2) and goes downwards, till finding the second resistance (3) which must be higher than the first resistance (1).
- Price action reverse direction from resistance (3) and goes upwards, till finding the second support (4), which must be higher than the first support (2).
- The pattern is completed when price action reverse direction from (4) and goes downwards till it breaks the wedge's lower border at point (5).

7.7 RISING WEDGE REAL EXAMPLE



Currency: NZD/USD - D1 - Breakout (5) @ 27-Jul-2014 - Chart from Oanda's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the lower border at point (5)

Take profit: 607.3 pips - usual measurement applied from point (5)

Stop loss 1: 178.4 pips (R:R 3.404) - set at 21% of target measurement, beyond absolute SL1

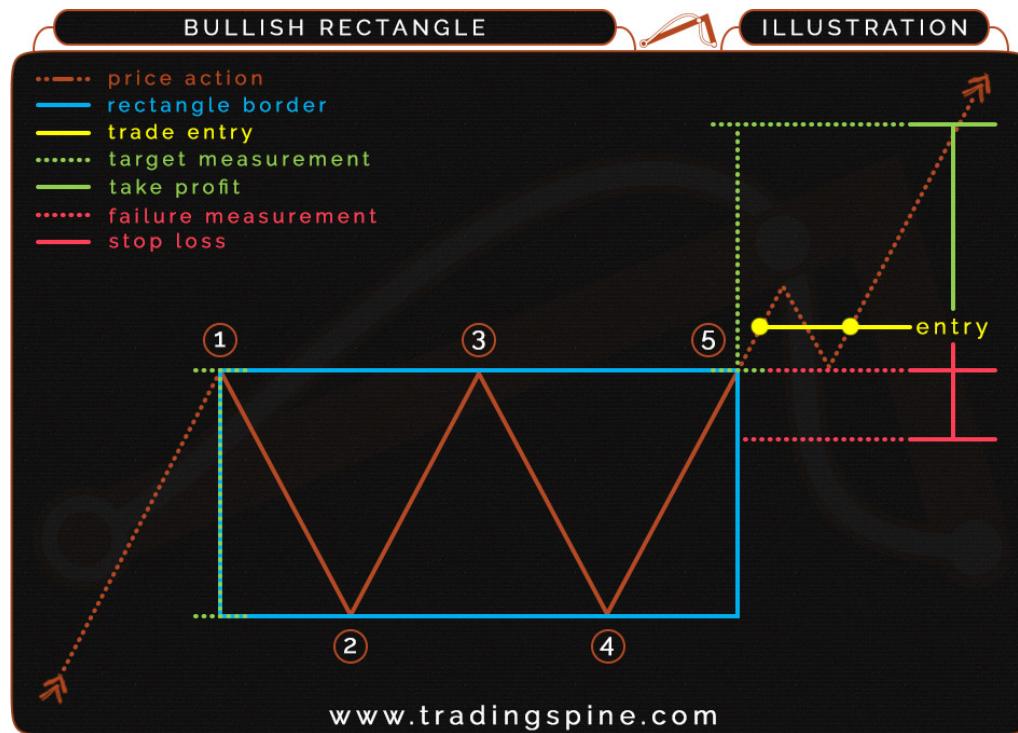
Stop loss 2: 369.7 pips (R:R 1.643) - set at 7% of target measurement, beyond absolute SL2

Notes:

- The candle right after the breaking candle closed extremely near to the wedge's lower border and had a wick inside the pattern, thus the candle after that one was used to confirm the breakout.

8. RECTANGLE

8.1 BULLISH RECTANGLE ILLUSTRATION AND STRUCTURE



PRICE ACTION:

- In an uptrend, price action finds first resistance (1), where it reverses direction and goes downwards till finding first support (2).
- Price action reverse direction from support (2) and goes upwards, till finding the second resistance (3) which will be around the same rate of first resistance (1).
- Price action reverse direction from resistance (3) and goes downwards, till finding the second support (4) which will be around the same rate of first support (2).
- The pattern is completed when price action reverse direction from the last touch to the lower horizontal support and goes upwards till it breaks the upper resistance at point (5).

8.2 NOTES

- Before the breakout, 4 touches to the rectangle's upper and lower borders are the minimum for a valid pattern, more touches are acceptable.
- After the breakout, retesting the rectangle's upper resistance that turned to support is highly possible.
- The more common direction for the pattern is continuation, but that doesn't rule out the existence of reversal rectangles.
- Volume usually increases when breaking or retesting the rectangle's upper border (5).
- This pattern is commonly found on medium and long-term time-frames.

8.3 TRADING THE PATTERN

- Trade entry: the pattern is traded after price action breaks the rectangle's upper border at point (5), either with an entry after the breakout, or after a -highly possible- retest to the breaking rate.
- Take profit: identified by measuring the vertical distance between the rectangle's upper and lower borders, that measurement is then applied from the breakout point (5).
- Stop loss: the rectangle's upper resistance which turned into support after the breakout.

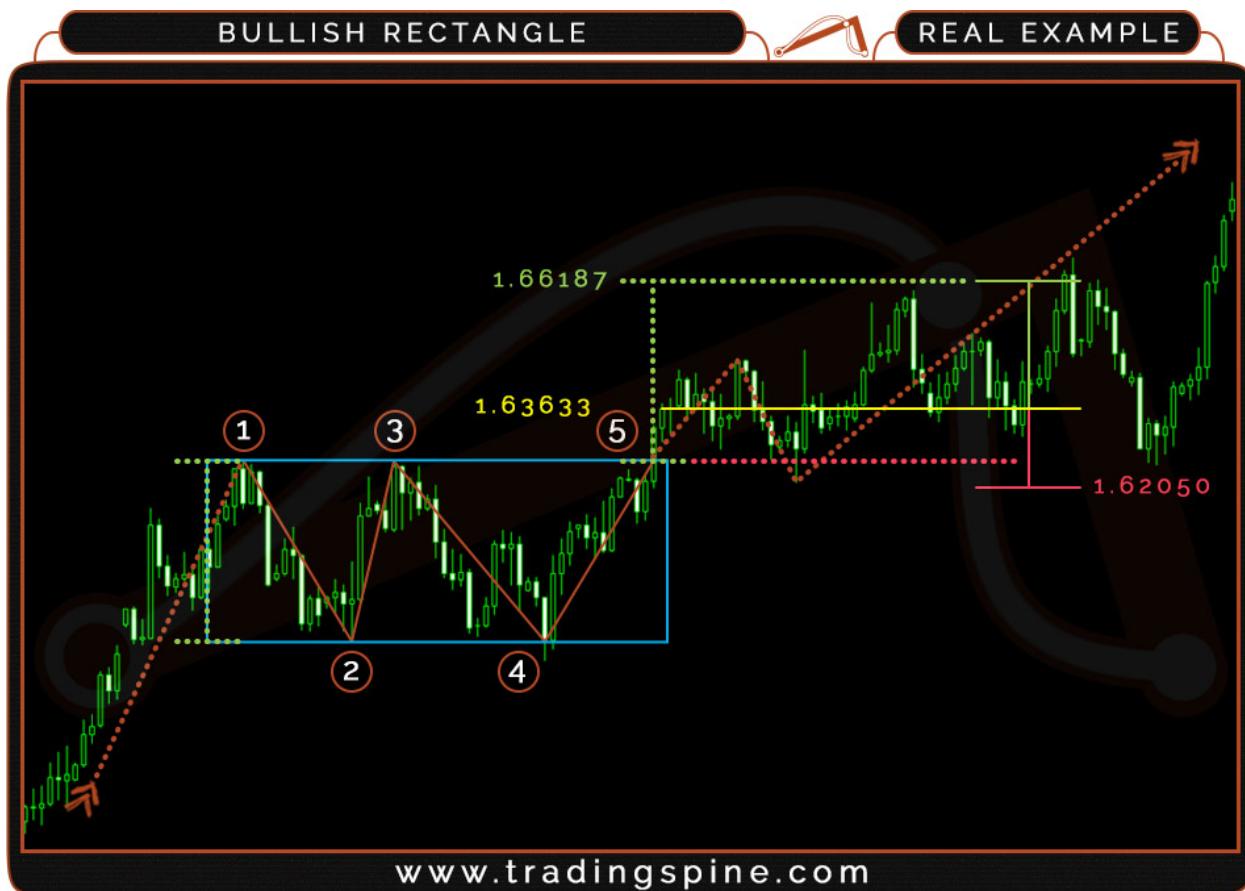
8.4 PATTERN'S REWARD:RISK

- R:R will depend on the (entry rate - rectangle's upper border) distance, compared to (upper border - lower border) distance.
- Always remember that the stop loss level explained above is absolute, the actual stop loss rate for your trade setup should be a bit beyond that level to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to that rate.

Feel free to leave us a comment and discuss this pattern directly on our website at:

<https://www.tradingspine.com/articles/chart-patterns/rectangle.php>

8.5 BULLISH RECTANGLE REAL EXAMPLE



Currency: GBP/USD - D1 - Breakout (5) @ 27-Nov-2013 - Chart from Oanda's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the upper border at point (5)

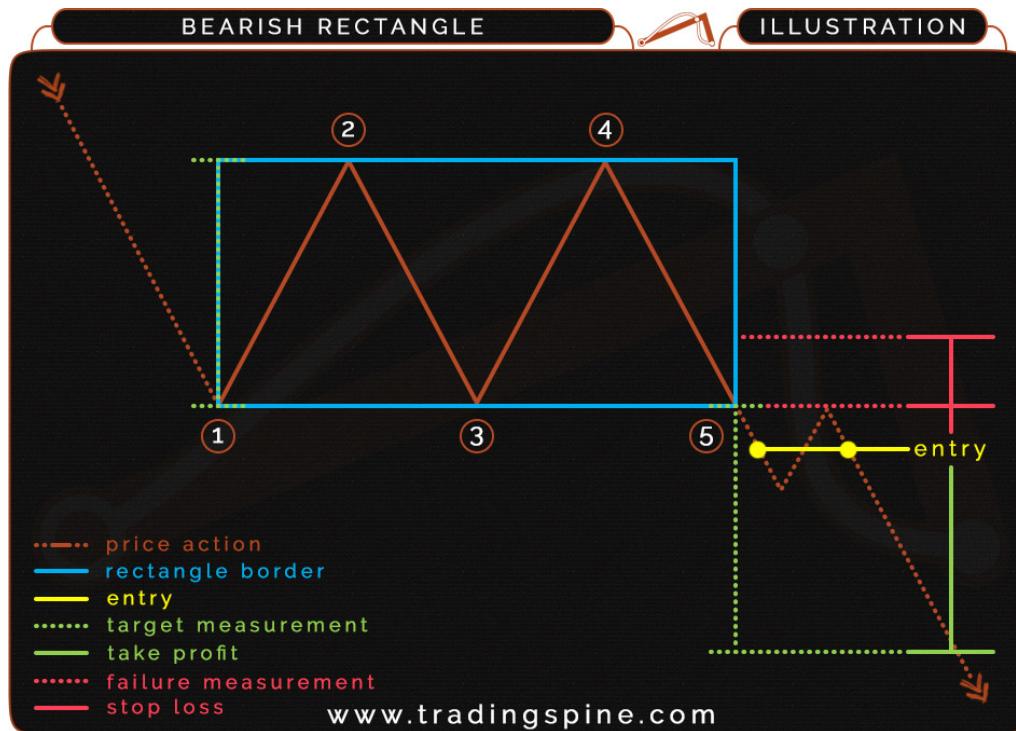
Take profit: 255.4 pips - usual measurement applied from point (5)

Stop loss: 158.3 pips (R:R 1.613) - set at 14% of target measurement, beyond absolute SL

Notes:

- Price action retested the breakout rate and almost triggered stop loss.
- We used rates of points (2) and (3) to identify the lower and upper borders.

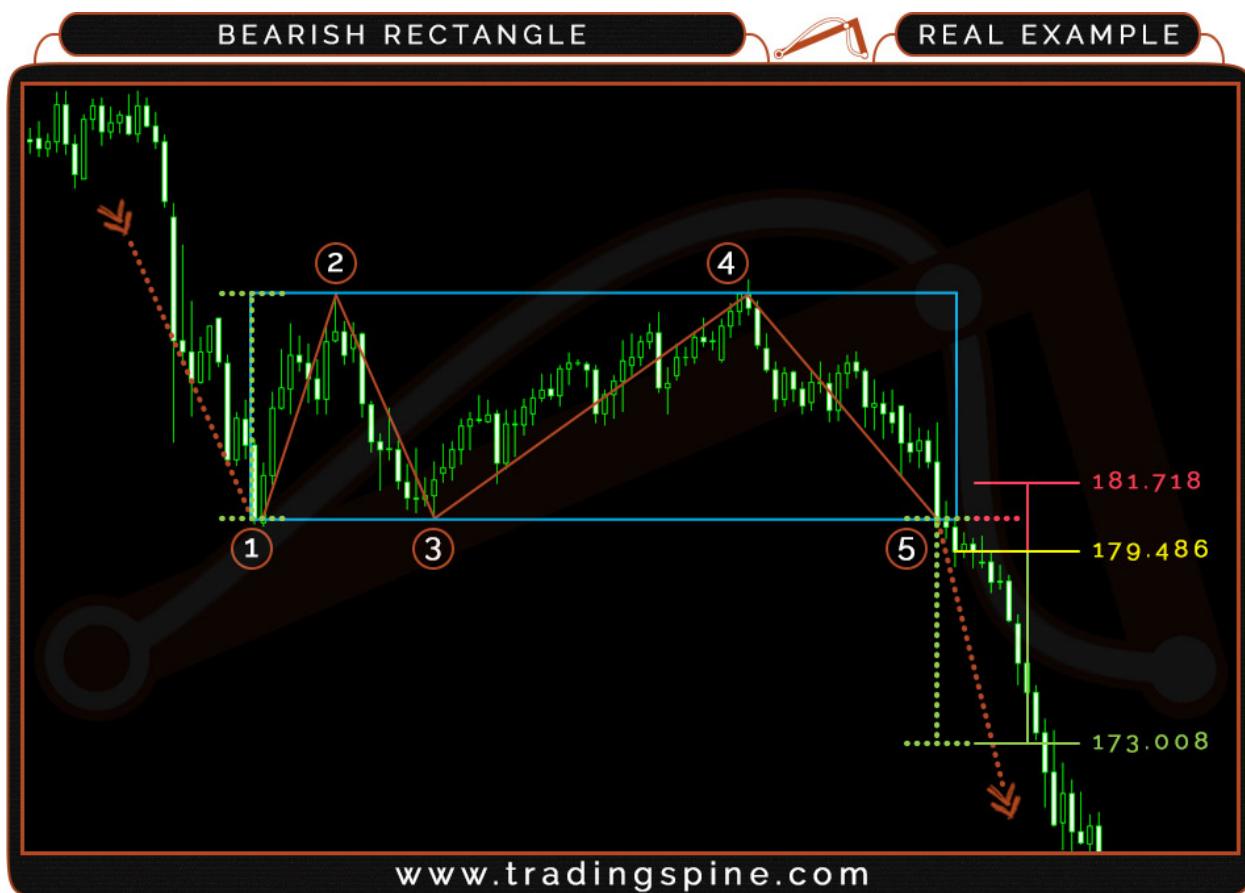
8.6 BEARISH RECTANGLE ILLUSTRATION AND STRUCTURE



PRICE ACTION:

- In a downtrend, price action finds first resistance (1), where it reverses direction and goes upwards till finding first support (2).
- Price action reverse direction from support (2) and goes downwards, till finding the second resistance (3) which will be around the same rate of first resistance (1).
- Price action reverse direction from resistance (3) and goes upwards, till finding the second support (4) which will be around the same rate of first support (2).
- The pattern is completed when price action reverse direction from the last touch to the upper horizontal support and goes downwards till it breaks the lower resistance at point (5).

8.7 BEARISH RECTANGLE REAL EXAMPLE



Currency: GBP/JPY - D1 - Breakout (5) @ 18-Dec-2015 - Chart from XM's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the lower border at point (5)

Take profit: 647.8 pips - usual measurement applied from point (5)

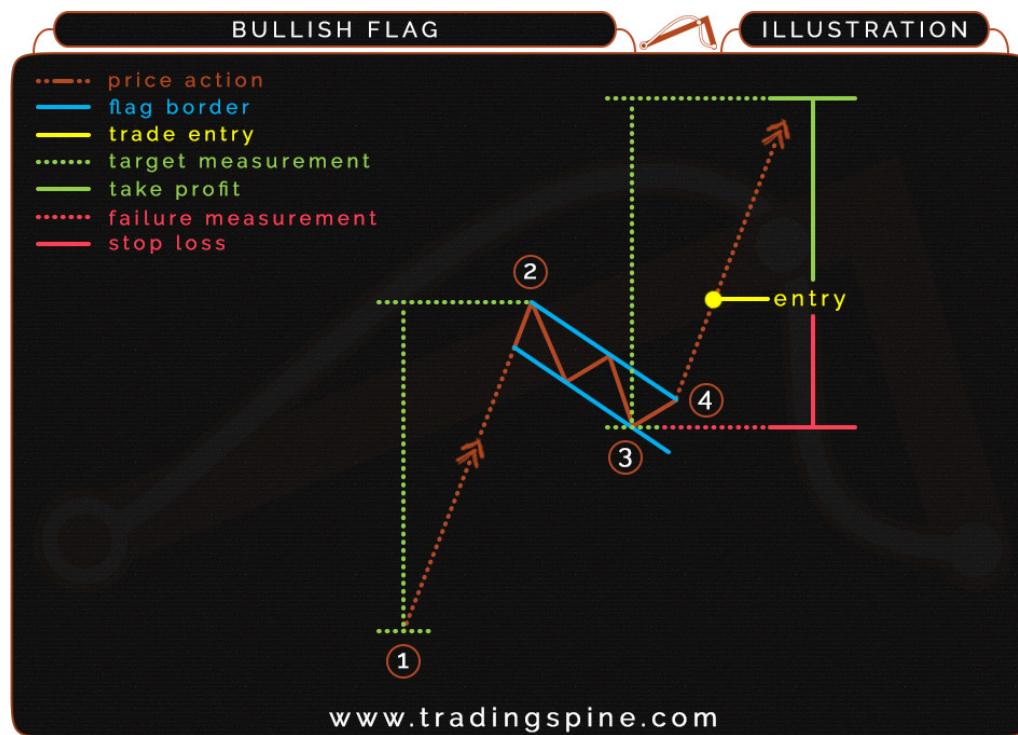
Stop loss: 223.2 pips (R:R 2.902) - set at 14% of target measurement, beyond absolute SL

Notes:

- The candle right after the breakout candle closed extremely near to the rectangle's lower border and had a wick inside the pattern, thus the candle after that one was used to confirm the breakout.
- We used rates of points (2) and (3) to identify the lower and upper borders.

9. FLAG

9.1 BULLISH FLAG ILLUSTRATION AND STRUCTURE



PRICE ACTION:

- A steep upwards price action initiates from (1) till finding first resistance (2), creating the flag's pole.
- Price action reverses direction from (2) and forms lower highs and lower lows in a narrow flag formation till it finds the lowest support in the formation at point (3).
- The pattern is completed when price action reverse direction from the last touch to the lower flag border and goes upwards till it breaks the upper border at point (4).

9.2 NOTES

- Before the breakout, at least two highs (including the flag's pole high) and two lows are needed for a valid pattern.
- The flag's pole is usually a strong and sharp upwards price action.
- Volume is usually high at the flag's pole, as well as when breaking the flag's upper border.
- This pattern is commonly found on short and medium-term time-frames.

9.3 TRADING THE PATTERN

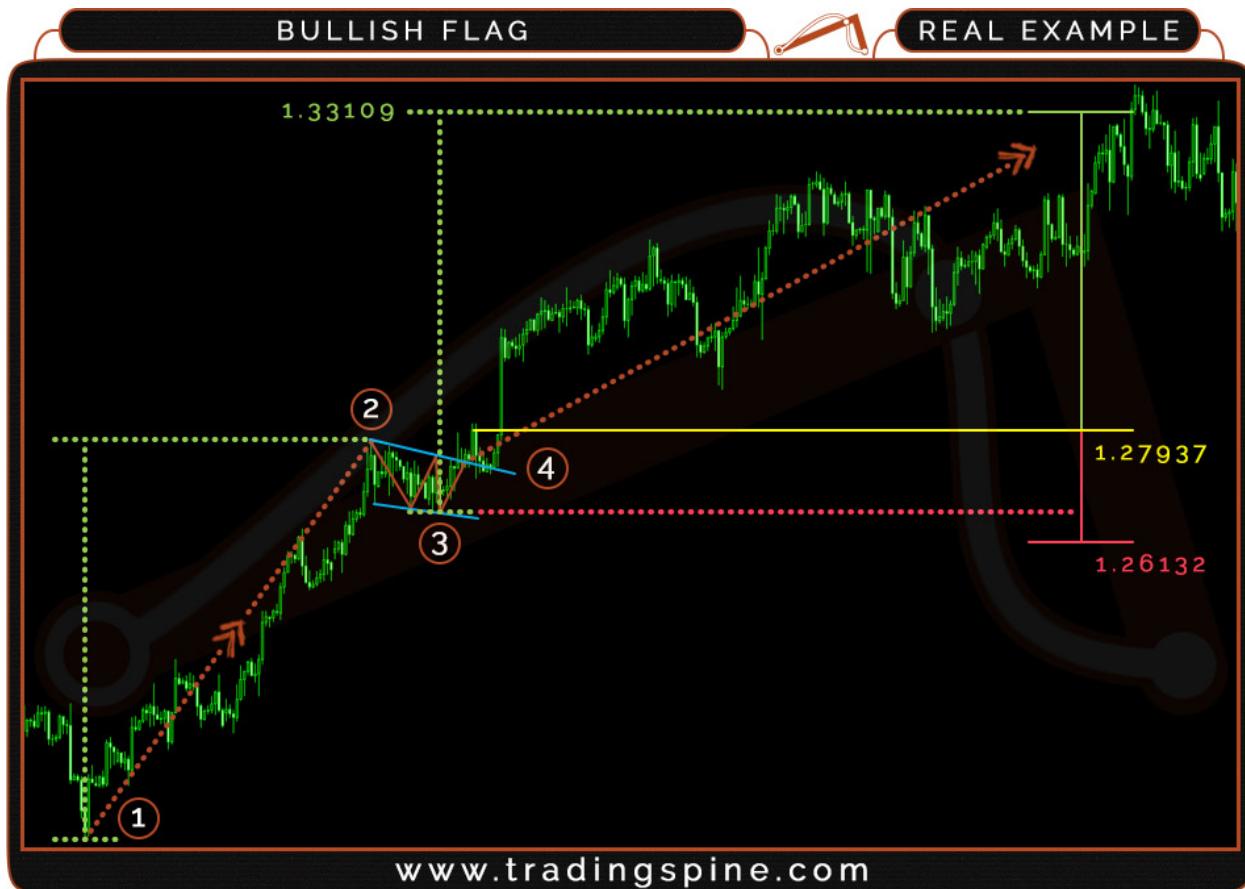
- Trade entry: the pattern is traded after price action breaks the flag's upper border at point (4).
- Take profit: identified by measuring the flag's pole, which is the vertical distance between points (1 - 2), that measurement is then applied from the breakout point (4).
- Stop loss: the flag's lowest low (3).

9.4 PATTERN'S REWARD:RISK

- This pattern is known for its high R:R.
- R:R depends on how narrow the flag formation is, compared to the flag's pole height (1 - 2).
- Always remember that the stop loss level explained above is absolute, the actual stop loss rate for your trade setup should be a bit beyond that level to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to that rate.

Feel free to leave us a comment and discuss this pattern directly on our website at:

<https://www.tradingspine.com/articles/chart-patterns/flag.php>

9.5 BULLISH FLAG REAL EXAMPLE


Currency: USD/CAD - H4 - Breakout (4) @ 14-Jul-2015 - Chart from XM's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the upper border at point (4)

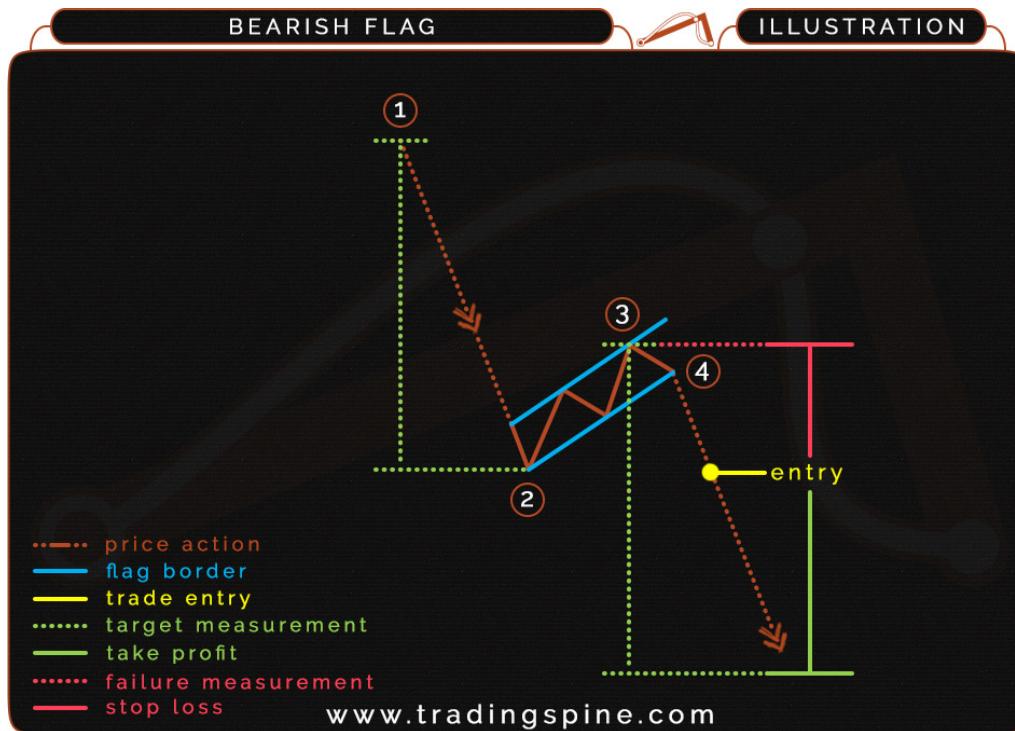
Take profit: 517.2 pips - usual measurement applied from point (3)

Stop loss: 180.5 pips (R:R 2.865) - set at 7% of target measurement, beyond absolute SL

Notes:

- Price action instantly and briefly tested the flag's upper border before heading to target.
- The candle right after the breaking candle closed extremely near to the flag's lower border and had a wick inside the pattern, thus the candle after that one was used to confirm the breakout.

9.6 BEARISH FLAG ILLUSTRATION AND STRUCTURE



Direction:
Continuation

Type:
Bearish

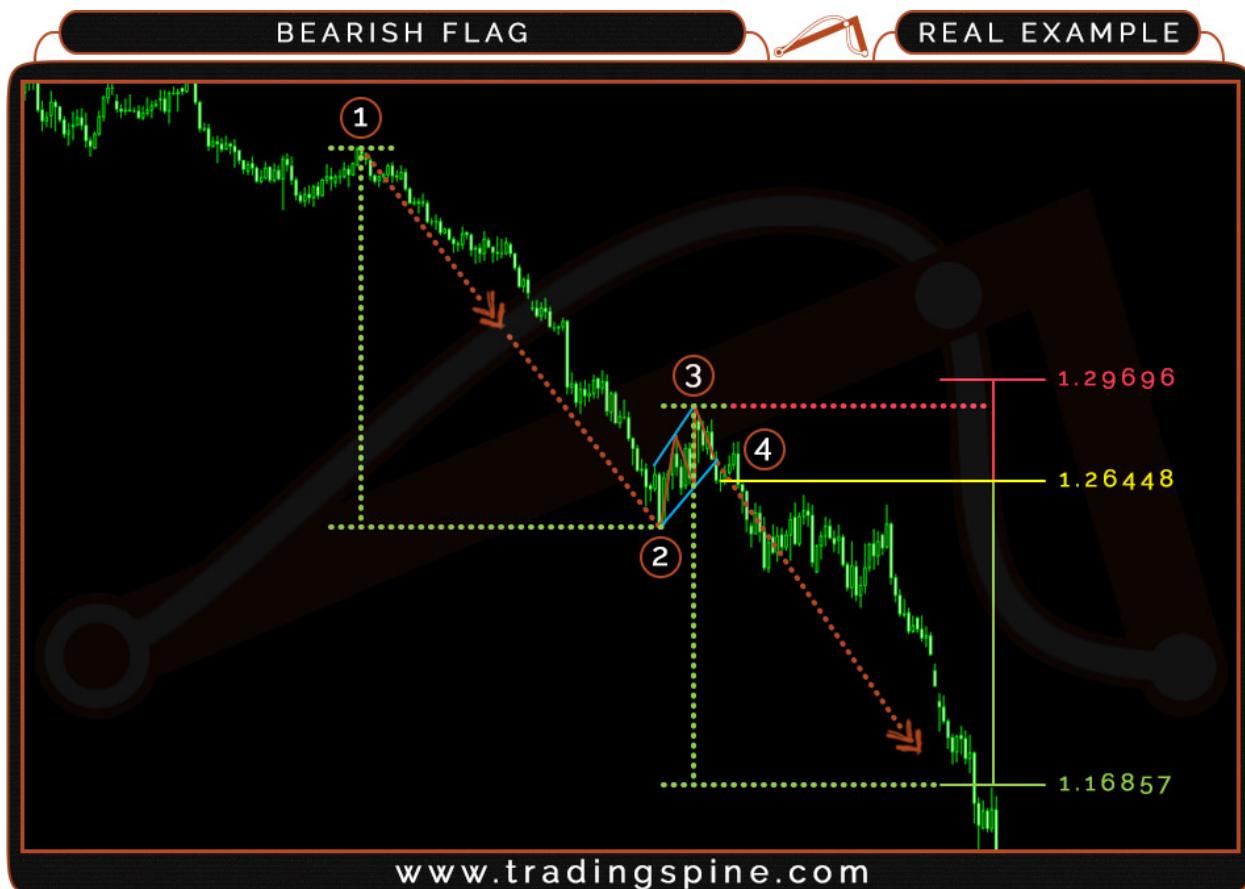
Occurrence:
High

Common term:
Short - Medium

PRICE ACTION:

- A steep downwards price action initiates from (1) till finding first resistance (2), creating the flag's pole.
- Price action reverses direction from (2) and forms higher lows and higher highs in a narrow flag formation till it finds the highest support in the formation at point (3).
- The pattern is completed when price action reverse direction from the last touch to the upper flag border and goes downwards till it breaks the lower border at point (4).

9.7 BEARISH FLAG REAL EXAMPLE



Currency: EUR/USD - D1 - Point (4) @ 11-Oct-2014 - Chart from XM's MT4

Trade setup:

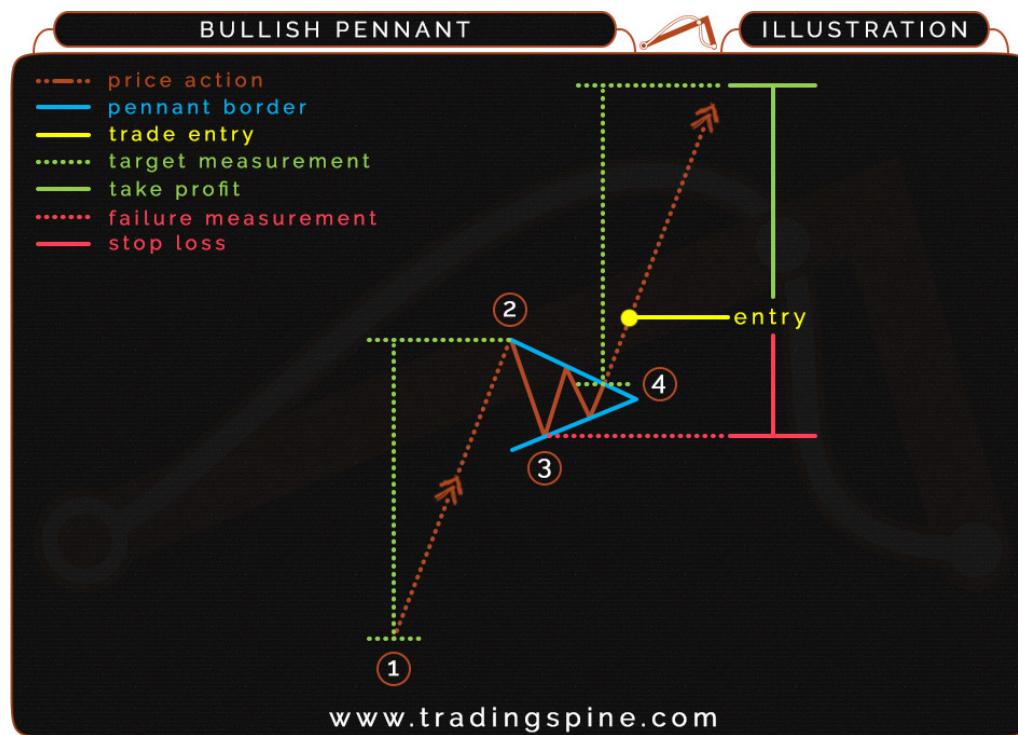
Trade entry: at the closing rate of the candle after breaking the lower border at point (4)

Take profit: 959.1 pips - usual measurement applied from point (3)

Stop loss: 324.8 pips (R:R 2.953) - set at 7% of target measurement, beyond absolute SL

10. PENNANT

10.1 BULLISH PENNANT ILLUSTRATION AND STRUCTURE



Direction:
Continuation

Type:
Bullish

Occurrence:
High

Common term:
Short - Medium

PRICE ACTION:

- A steep upwards price action initiates from (1) till finding first resistance (2), creating the pennant's pole.
- Price action reverses direction from (2) and goes downwards till finding first support (3).
- Price action bounces between (2 and 3) range, creating lower high(s) and higher low(s).
- The pattern is completed when price action reverse direction from the last touch to the lower pennant border and goes upwards till it breaks the upper border at point (4).

10.2 NOTES

- Before the breakout, at least two highs (including the pennant's pole high) and two lows are needed for a valid pattern.
- Volume is usually high at the pennant's pole, as well as when breaking the pennant's upper border.
- This pattern is commonly found on short and medium-term time-frames.

10.3 TRADING THE PATTERN

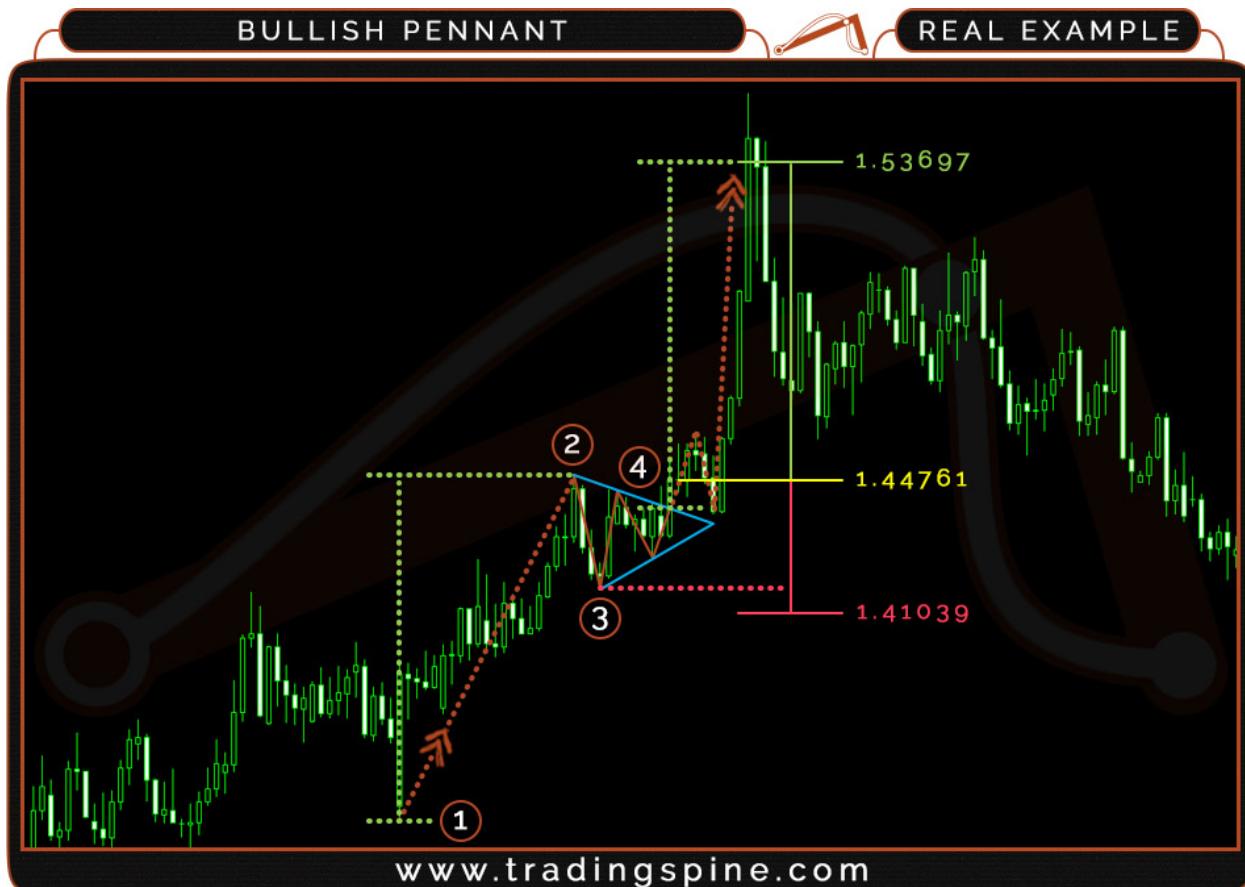
- Trade entry: the pattern is traded after price action breaks the pennant's upper border at point **(4)**.
- Take profit: identified by measuring the pennant's pole, which is the vertical distance between points **(1 - 2)**, that measurement is then applied from the breakout point **(4)**.
- Stop loss: the pennant's lowest low **(3)**.

10.4 PATTERN'S REWARD:RISK

- This pattern is known for its high R:R.
- R:R depends on the pole's high to pennant's lowest low distance **(2 - 3)**, compared to the pennant's pole height **(1 - 2)**.
- Always remember that the stop loss level explained above is absolute, the actual stop loss rate for your trade setup should be a bit beyond that level to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to that rate.

Feel free to leave us a comment and discuss this pattern directly on our website at:

<https://www.tradingspine.com/articles/chart-patterns/pennant.php>

10.5 BULLISH PENNANT REAL EXAMPLE


Currency: EUR/CAD - D1 - Breakout (5) @ 11-Aug-2015 - Chart from XM's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the upper border at point (4)

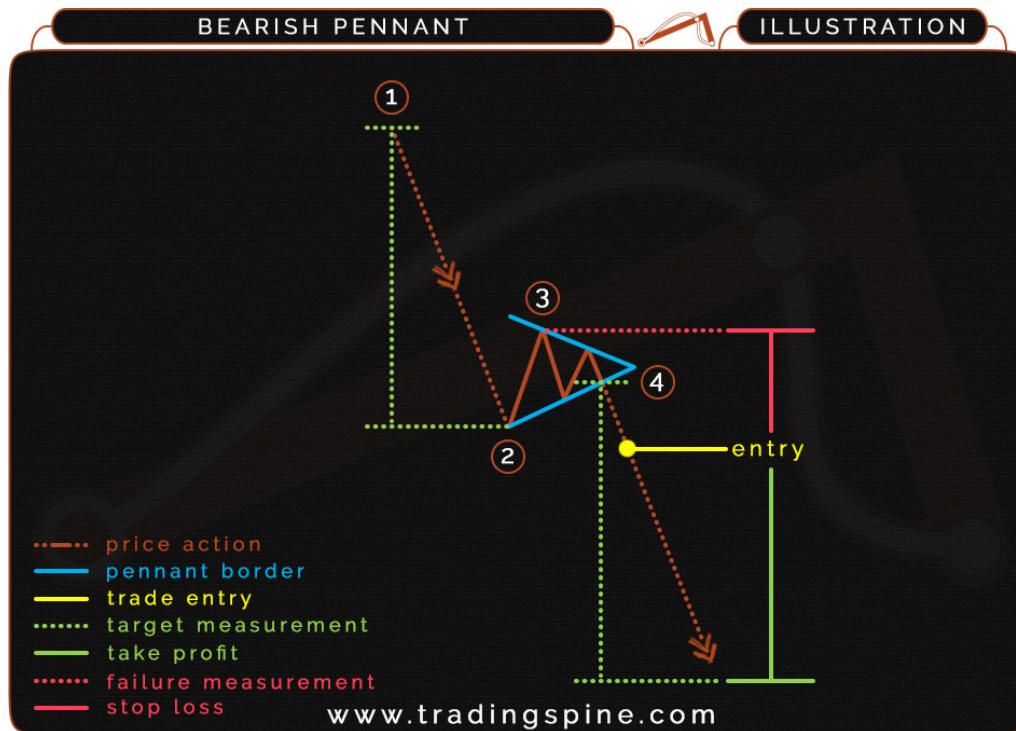
Take profit: 893.6 pips - usual measurement applied from point (4)

Stop loss: 372.2 pips (R:R 2.401) - set at 7% of target measurement, beyond absolute SL

Notes:

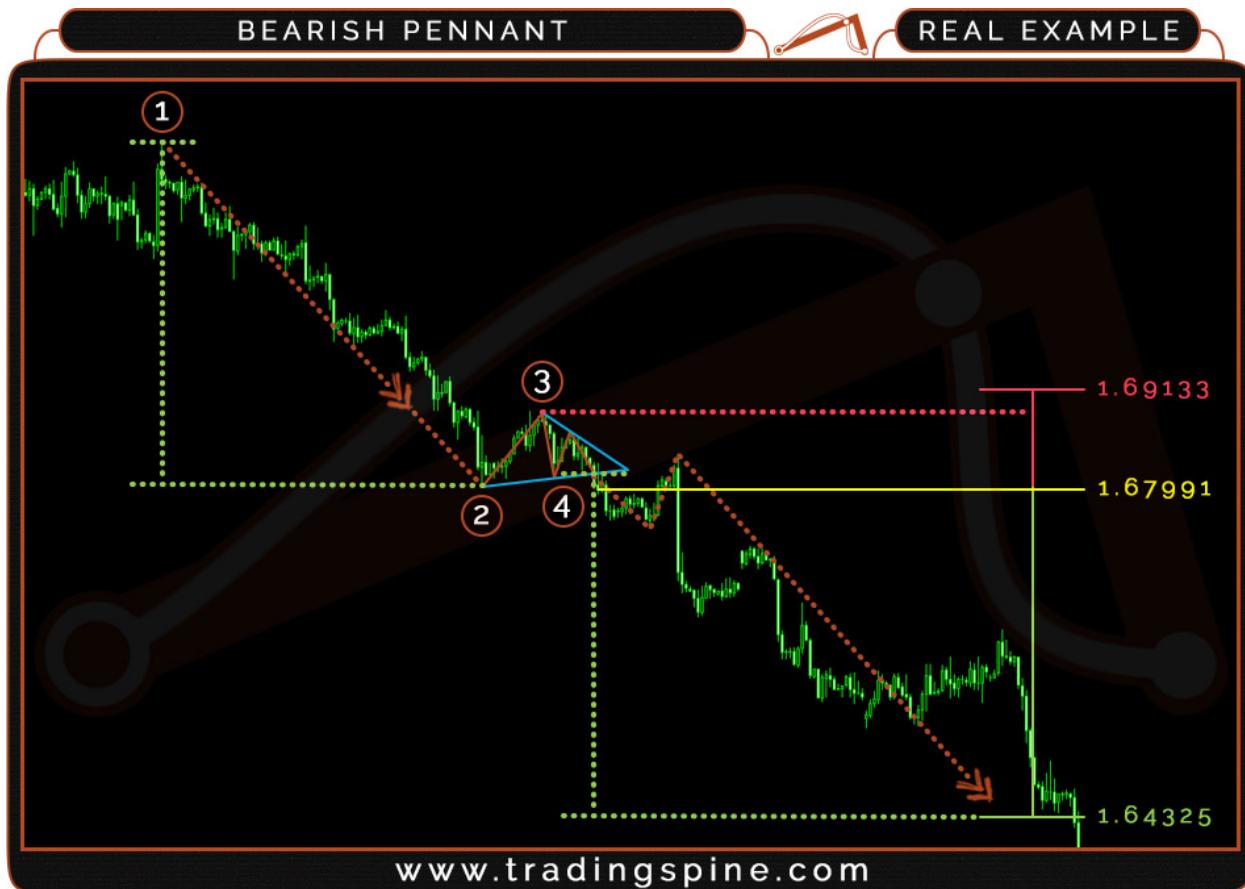
- Price action retested the breakout rate.

10.6 BEARISH PENNANT ILLUSTRATION AND STRUCTURE



PRICE ACTION:

- A steep downwards price action initiates from (1) till finding first resistance (2), creating the pennant's pole.
- Price action reverses direction from (2) and goes upwards till finding first support (3).
- Price action bounces between (2 and 3) range, creating lower high(s) and higher low(s).
- The pattern is completed when price action reverse direction from the last touch to the upper pennant border and goes downwards till it breaks the lower border at point (4).

10.7 BEARISH PENNANT REAL EXAMPLE


Currency: GBP/USD - H4 - Point (5) @ 7-Aug-2014 - Chart from Oanda's MT4

Trade setup:

Trade entry: at the closing rate of the candle after breaking the lower border at point (4)

Take profit: 366.6 pips - usual measurement applied from point (4)

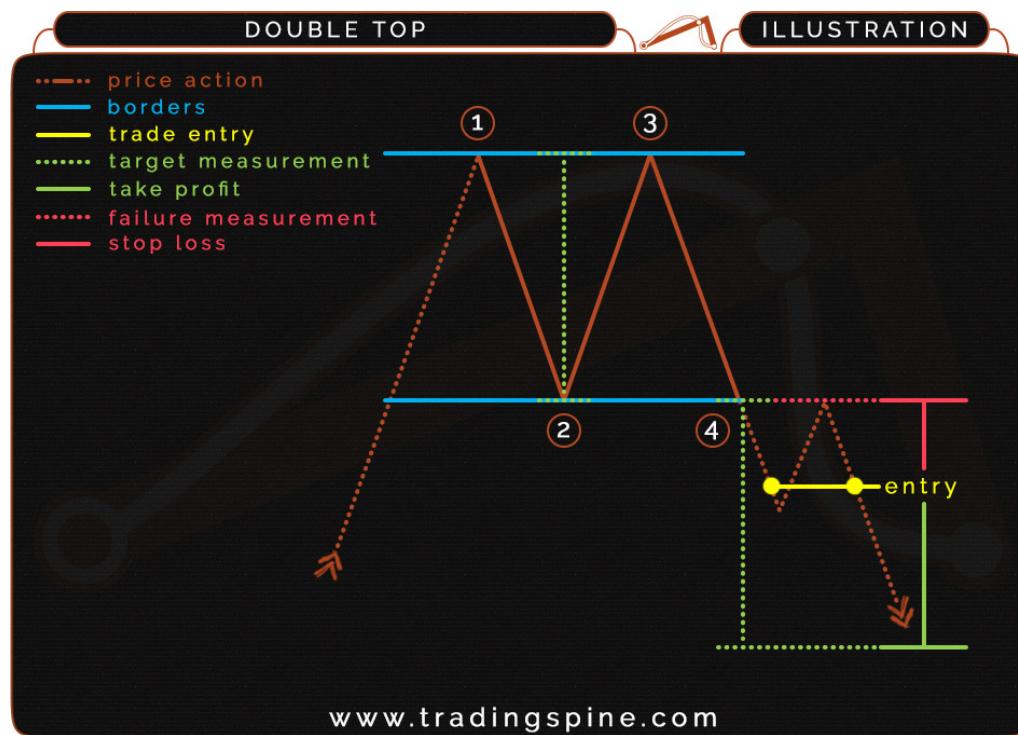
Stop loss: 114.2 pips (R:R 3.210) - set at 7% of target measurement, beyond absolute SL

Notes:

- Price action retested the breakout rate.

11. DOUBLE TOP / DOUBLE BOTTOM

11.1 DOUBLE TOP ILLUSTRATION AND STRUCTURE (BEARISH)



Direction:
Reversal

Type:
Bearish

Occurrence:
High

Common term:
Medium - Long

PRICE ACTION:

- In an uptrend, price action finds first resistance (1), where it reverses direction and goes downwards till finding support (2).
- Price action reverses direction from (2) and goes upwards till finding second resistance (3), which will be -around- the same rate of the first resistance (1).
- The pattern is completed when price action reverse direction from the second resistance (3) and goes downwards till it breaks the lower support at point (4).

11.2 NOTES

- Pip distance of the prior trend should be noticeably longer than the pattern formation.
- After the breakout, retesting the pattern's lower support that turned to resistance is highly possible.
- Volume is usually high when reversing from the second resistance (3), as well as when breaking the pattern's lower support.
- This pattern is commonly found on medium and long-term time-frames.

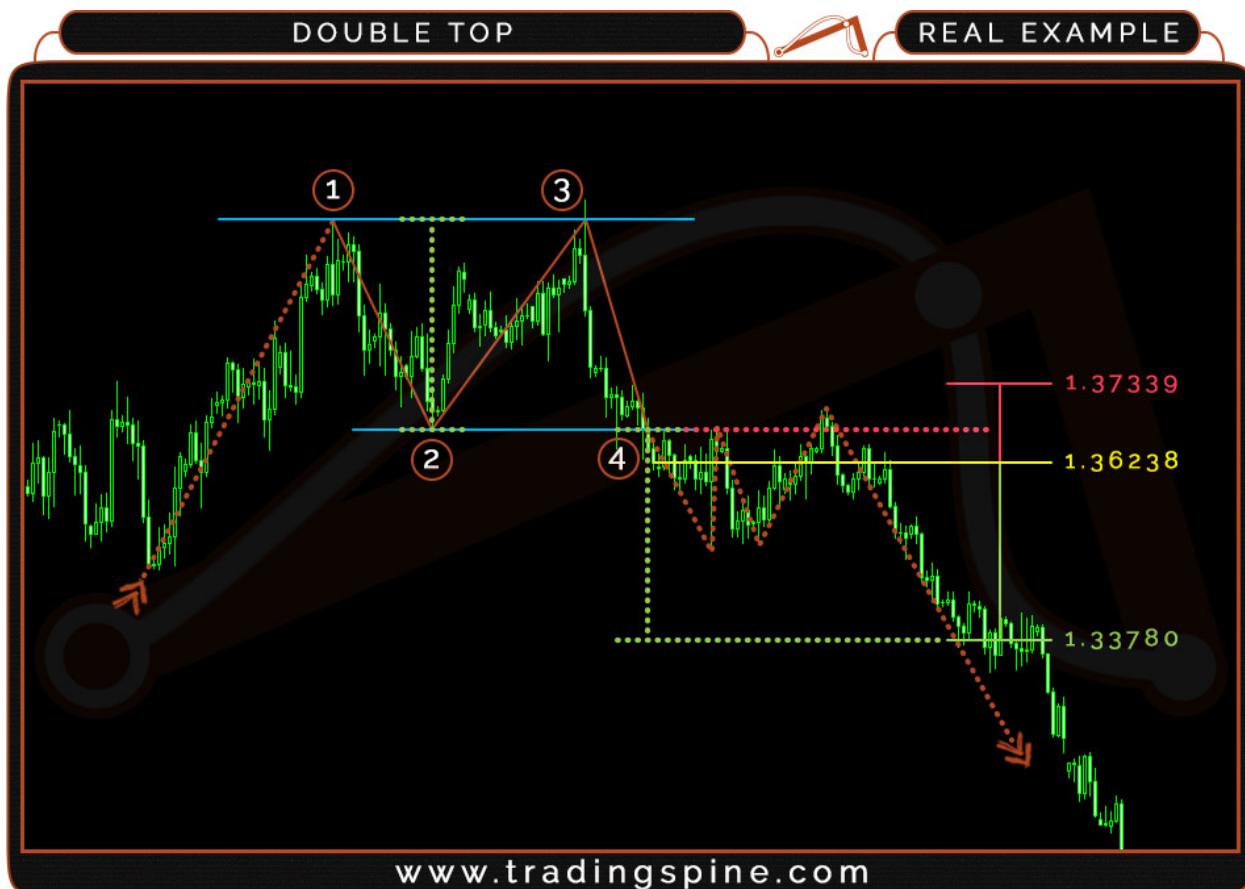
11.3 TRADING THE PATTERN

- Trade entry: the pattern is traded after price action breaks the pattern's lower support at point (4).
- Take profit: identified by measuring the (upper border - lower border) distance, which is the vertical distance between point (2) and either (1 or 3 - according to which one was used to define the upper border), that measurement is then applied from the breakout point (4).
- Stop loss: the pattern's support (2) which turned into resistance after the breakout.

11.4 PATTERN'S REWARD:RISK

- R:R will depend on the (entry rate - lower border) distance, compared to (upper border - lower border) distance.
- Always remember that the stop loss level explained above is absolute, the actual stop loss rate for your trade setup should be a bit beyond that level to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to that rate.

Feel free to leave us a comment and discuss this pattern directly on our website at:
<https://www.tradingspine.com/articles/chart-patterns/double-top-and-double-bottom.php>

11.5 DOUBLE TOP REAL EXAMPLE (BEARISH)


Currency: EUR/USD - D1 - Breakout (4) @ 22-May-2014 - Chart from Oanda's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the lower border at point (4)

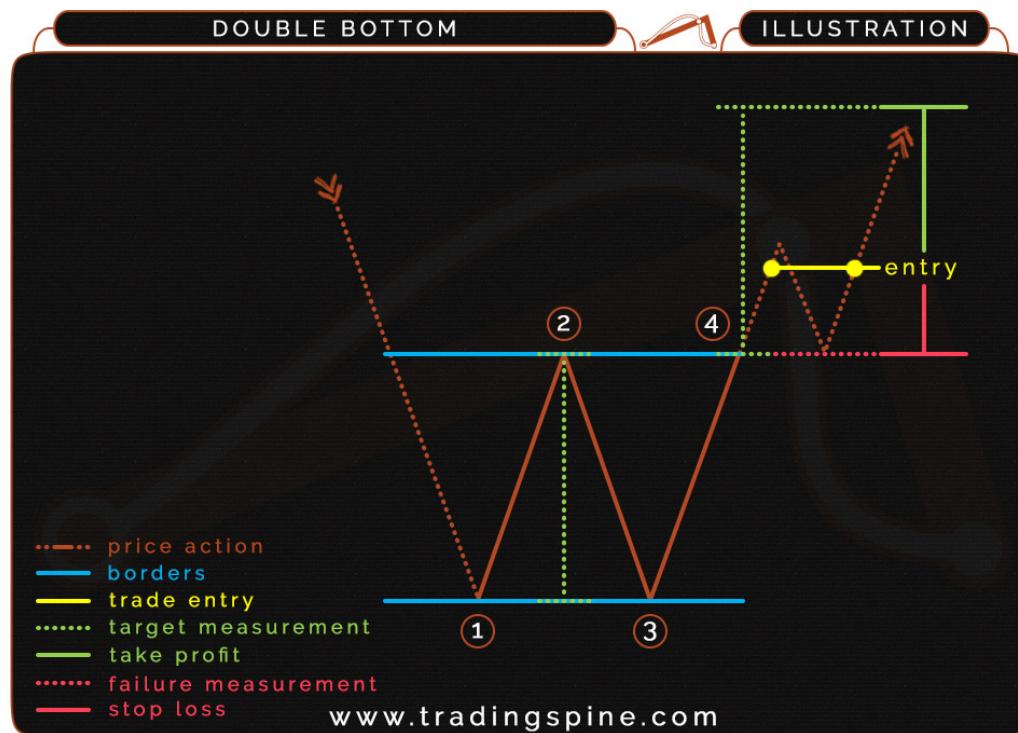
Take profit: 245.8 pips - usual measurement applied from point (4)

Stop loss: 110.1 pips (R:R 2.233) - set at 21% of target measurement, beyond absolute SL

Notes:

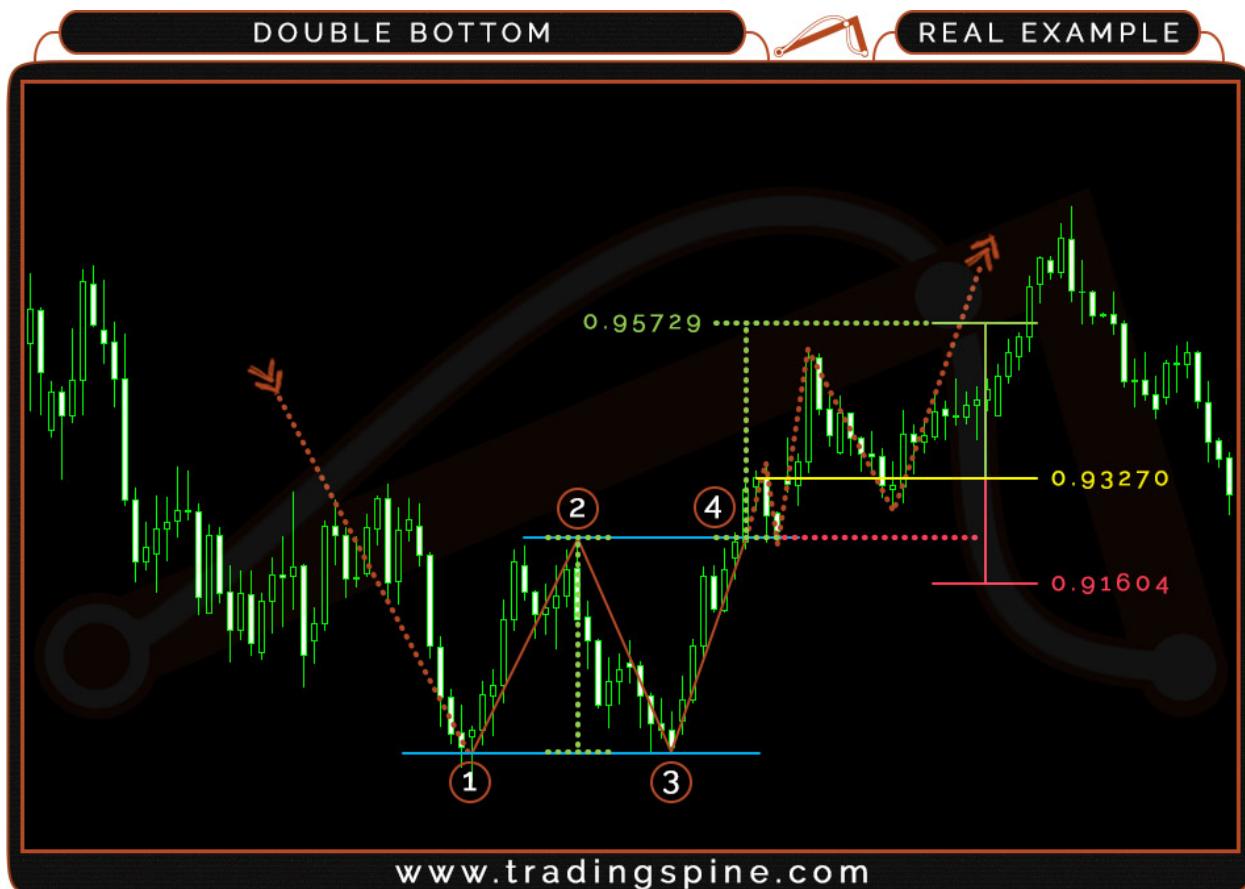
- Price action retested the breakout level twice before heading to target.

11.6 DOUBLE BOTTOM ILLUSTRATION AND STRUCTURE (BEARISH)



PRICE ACTION:

- In a downtrend, price action finds first resistance (1), where it reverses direction and goes upwards till finding support (2).
- Price action reverses direction from (2) and goes downwards till finding second resistance (3), which will be -around- the same rate of the first resistance (1).
- The pattern is completed when price action reverse direction from the second resistance (3) and goes upwards till it breaks the upper support at point (4).

11.7 DOUBLE BOTTOM REAL EXAMPLE (BEARISH)


Currency: AUD/USD - D1 - Breakout (4) @ 10-Sep-2013 - Chart from XM's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the upper border at point (4)

Take profit: 245.9 pips - usual measurement applied from point (4)

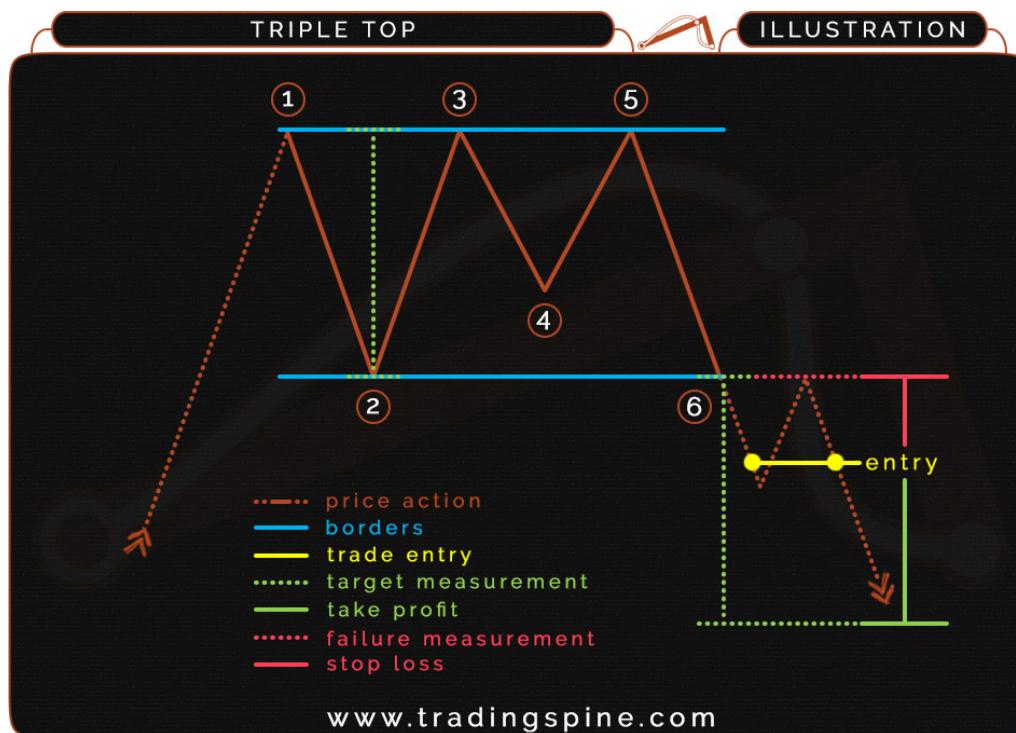
Stop loss: 166.6 pips (R:R 1.476) - set at 21% of target measurement, beyond absolute SL

Notes:

- Price action retested the breakout level right after entry, before heading to target.

12. TRIPLE TOP / TRIPLE BOTTOM

12.1 TRIPLE TOP ILLUSTRATION AND STRUCTURE (BULLISH)



Direction:
Reversal

Type:
Bearish

Occurrence:
Low

Common term:
Medium - Long

PRICE ACTION:

- In an uptrend, price action finds first resistance (1), where it reverses direction and goes downwards till finding support (2).
- Price action reverses direction from (2) and goes upwards till finding second resistance (3), which will be -around- the same rate of the first resistance (1).
- Price action reverses direction from (3) and goes downwards till finding second support (4), which can be higher or lower than the first support (2).
- Price action reverses direction from (4) and goes upwards till finding third resistance (5), which will also be -around- the same rate of both the first (1) and second (3) resistances.
- The pattern is completed when price action reverse direction from the third resistance (5) and goes downwards till it breaks the lower support at point (6).

12.2 NOTES

- Pip distance of the prior trend should be noticeably longer than the pattern formation.
- After the breakout, retesting the pattern's lower support that turned to resistance is highly possible.
- Volume is usually high when reversing from the second (**3**) and third (**5**) resistances, as well as when breaking the pattern's lower support.
- This pattern is commonly found on medium and long-term time-frames.

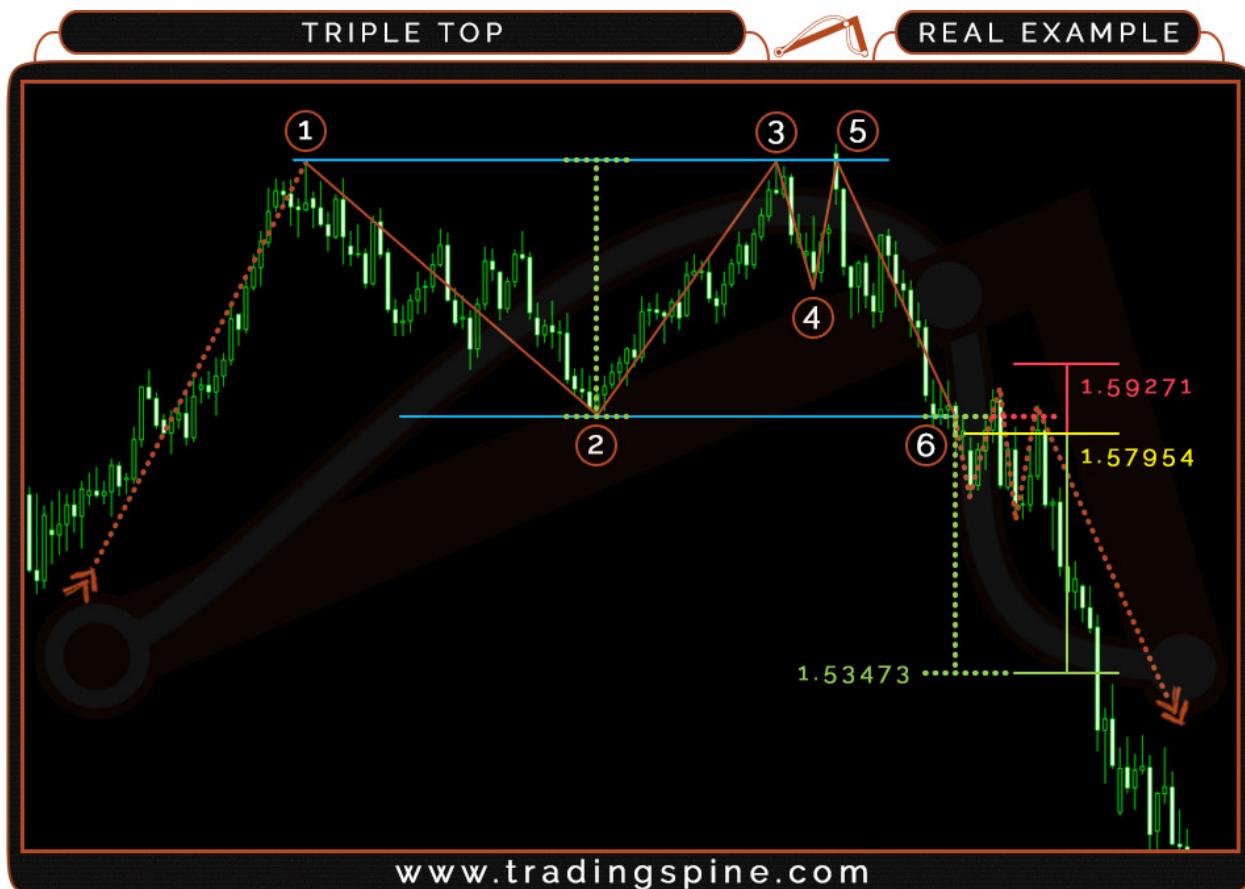
12.3 TRADING THE PATTERN

- Trade entry: the pattern is traded after price action breaks the pattern's lower support at point (**6**).
- Take profit: identified by measuring the (upper border - lower border) distance, which is the vertical distance between point (**1**, **3** or **5** - according to which one was used to define the upper border) and point (**2** or **4** - according to which one was used to define the lower border), that measurement is then applied from the breakout point (**6**).
- Stop loss: the pattern's support (**2** or **4** - according to which one was used to define the lower border) which turned into resistance after the breakout.

12.4 PATTERN'S REWARD:RISK

- R:R will depend on the (entry rate - lower border) distance, compared to (upper border - lower border) distance.
- Always remember that the stop loss level explained above is absolute, the actual stop loss rate for your trade setup should be a bit beyond that level to give the trade setup some room to breathe, and of-course calculations for position size and R:R should be done with respect to that rate.

Feel free to leave us a comment and discuss this pattern directly on our website at:
<https://www.tradingspine.com/articles/chart-patterns/triple-top-and-triple-bottom.php>

12.5 TRIPLE TOP REAL EXAMPLE (BULLISH)


Currency: GBP/USD - D1 - Breakout (6) @ 24-Jan-2013 - Chart from XM's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the lower border at point (6)

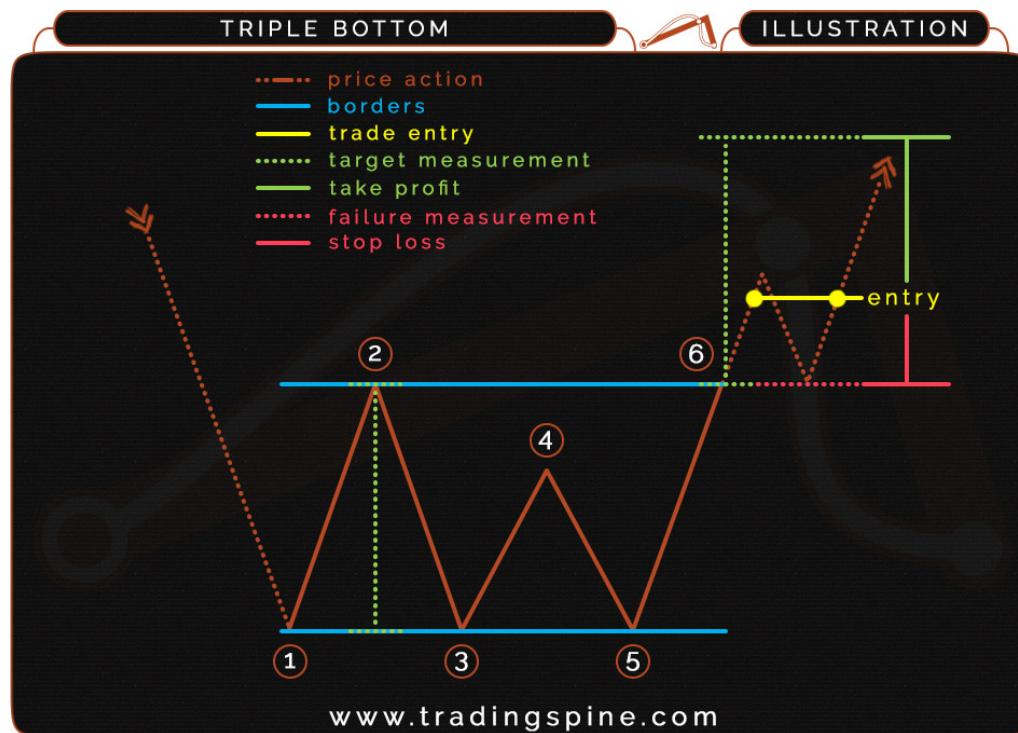
Take profit: 448.1 pips - usual measurement applied from point (6)

Stop loss: 131.7 pips (R:R 3.402) - set at 21% of target measurement, beyond absolute SL

Notes:

- Price action retested the breakout level twice before heading to target.

12.6 TRIPLE BOTTOM ILLUSTRATION AND STRUCTURE (BULLISH)



Direction:
Reversal

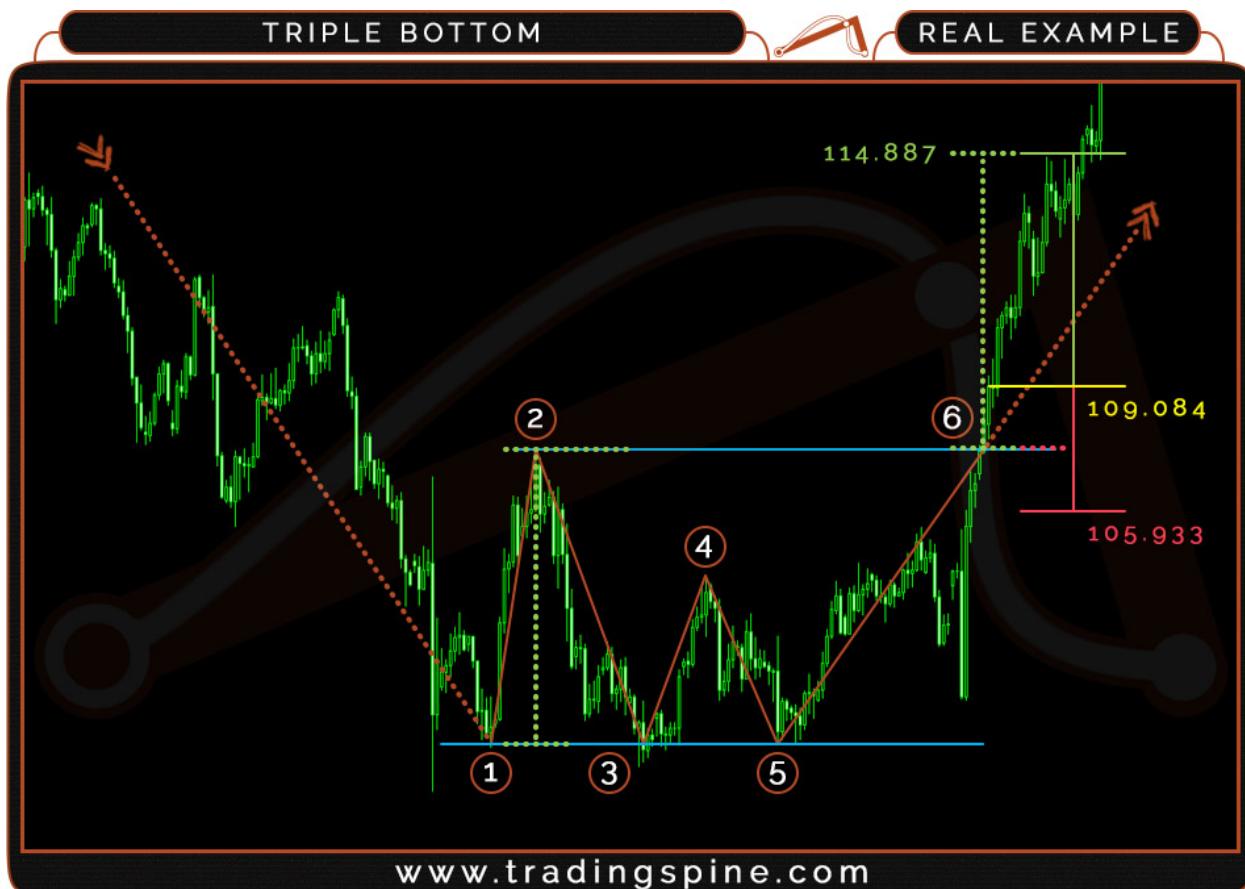
Type:
Bullish

Occurrence:
Low

Common term:
Medium - Long

PRICE ACTION:

- In a downtrend, price action finds first resistance (1), where it reverses direction and goes upwards till finding support (2).
- Price action reverses direction from (2) and goes downwards till finding second resistance (3), which will be -around- the same rate of the first resistance (1).
- Price action reverses direction from (3) and goes upwards till finding second support (4), which can be higher or lower than the first support (2).
- Price action reverses direction from (4) and goes downwards till finding third resistance (5), which will also be -around- the same rate of both the first (1) and second (3) resistances.
- The pattern is completed when price action reverse direction from the third resistance (5) and goes upwards till it breaks the upper support at point (6).

12.7 TRIPLE BOTTOM REAL EXAMPLE (BULLISH)


Currency: USD/JPY - D1 - Breakout (6) @ 14-Nov-2016 - Chart from Oanda's MT4 platform

Trade setup:

Trade entry: at the closing rate of the candle after breaking the upper border at point (6)

Take profit: 580.3 pips - usual measurement applied from point (6)

Stop loss: 315.1 pips (R:R 1.842) - set at 21% of target measurement, beyond absolute SL

13. FOREX CHART PATTERNS CHEAT SHEET

13.1 TABLE OF CHART PATTERNS DIRECTION, TYPE, OCCURRENCE, TERM

PATTERN	DIRECTION	TYPE	OCCURRENCE	TERM
SYMMETRICAL TRIANGLE	continuation	bullish - bearish	high	medium - long
ASCENDING TRIANGLE	continuation	bullish	medium	medium - long
DESCENDING TRIANGLE	continuation	bearish	medium	medium - long
HEAD AND SHOULDERS	reversal	bearish	low	medium - long
INVERSE HEAD AND SHOULDERS	reversal	bullish	low	medium - long
CUP AND HANDLE	continuation	bullish	low	long
INVERSE CUP AND HANDLE	continuation	bearish	low	long
FALLING WEDGE	neutral	bullish	medium	medium - long
RISING WEDGE	neutral	bearish	medium	medium - long
RECTANGLE	continuation	bullish - bearish	medium	medium - long
FLAG	continuation	bullish - bearish	high	short - medium
PENNANT	continuation	bullish - bearish	high	short - medium
DOUBLE TOP	reversal	bearish	high	medium - long
DOUBLE BOTTOM	reversal	bullish	high	medium - long
TRIPLE TOP	reversal	bearish	low	medium - long
TRIPLE BOTTOM	reversal	bullish	low	medium - long

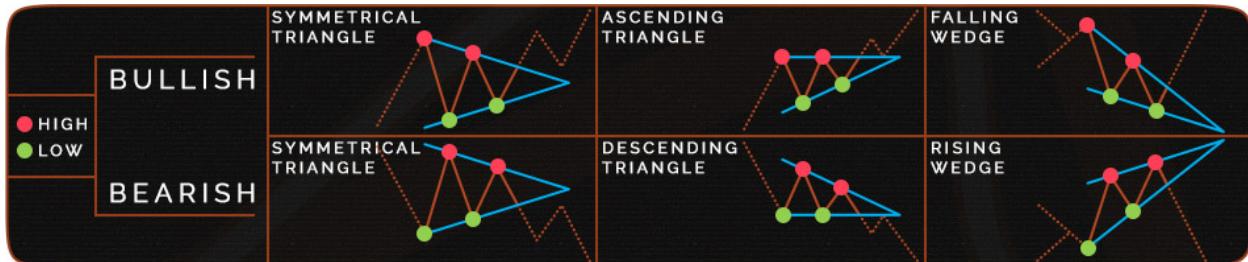
Feel free to leave us a comment and discuss this chapter directly on our website at:

<https://www.tradingspine.com/articles/chart-patterns/forex-chart-patterns-cheat-sheet.php>

13.2 TABLE OF CHART PATTERNS TARGET AND FAILURE MEASUREMENTS

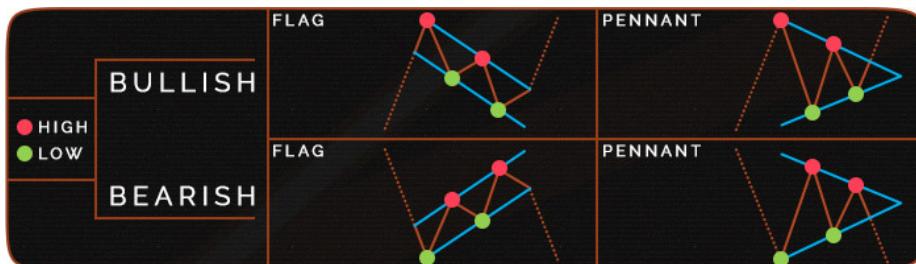
PATTERN	TARGET	FAILURE (SL1)	FAILURE (SL2)
SYMMETRICAL TRIANGLE ASCENDING TRIANGLE DESCENDING TRIANGLE	distance of the first swing, applied from breakout rate	border's breakout rate	last touch to the border opposite to the breakout border
HEAD AND SHOULDERS INVERSE HEAD AND SHOULDERS	distance from head's peak to neckline, applied from breakout rate	neckline's breakout rate	right shoulder's peak
CUP AND HANDLE INVERSE CUP AND HANDLE	distance from cup's peak to the rate connecting the cup to its handle, applied from breakout rate	cup's surface breakout rate	handle's peak
FALLING WEDGE RISING WEDGE	distance from first touch to intersection with the opposite border, applied from breakout rate	border's breakout rate	last touch to the border opposite to the breakout border
RECTANGLE DOUBLE TOP DOUBLE BOTTOM TRIPLE TOP TRIPLE BOTTOM	distance from upper to lower border, applied from breakout rate	border's breakout rate	n/a
FLAG	distance of the pole, applied from flag's lowest low (highest high for bearish)	flag's lowest low (highest high for bearish)	n/a
PENNANT	distance of the pole, applied from pennant's breakout rate	pennant's lowest low (highest high for bearish)	n/a

13.3 DIFFERENTIATING CHART PATTERNS



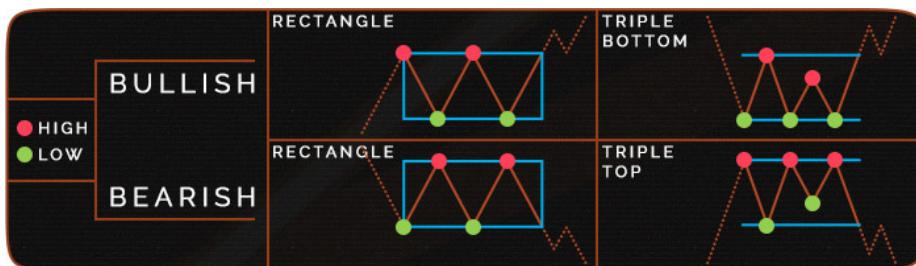
Triangles and Wedges:

- Symmetrical triangles: lower highs, higher lows
- Ascending triangles: equal highs, higher lows
- Descending triangles: lower highs, equal lows
- Falling wedges: lower highs, lower lows
- Rising wedges: higher highs, higher lows



Flags and Pennants:

- Bullish flags: pole followed by lower highs, lower lows
- Bearish flags: pole followed by higher highs, higher lows
- Pennants: pole followed by lower highs, higher lows



Rectangles and Triple tops/bottoms:

- Rectangles: equal highs and lows
- Triple tops: equal highs, unequal lows
- Triple bottoms: equal lows, unequal highs

14. USING THIS BOOK TO YOUR ADVANTAGE

14.1 HOW TO PROCEED FROM HERE

Now that you have a solid understanding of the different patterns, a very common mistake that can lead to loosing money is trading those patterns individually using the conditions explained for each of them. Understanding the patterns is an important step, but it is not the only one.

Below we will go through the thought process of creating a money management plan for a trading cycle based on the patterns covered in this book, to illustrate that process we will breakdown -most- of our own strategy for trading using some of the patterns in the Forex market.

Please understand that we are **not providing** you with a “**ready-to-use**” trading strategy, what works for us might not work for you, the purpose of providing this information is to show you how to build your own profitable strategy for trading the standard chart patterns.

STEP 1: Determine which patterns suits your trading style

The patterns in this book have different characteristics, it would be very hard and confusing to build a trading strategy around all of them, therefore the first step is to eliminate the patterns that aren't compatible with your trading style. Below is how we filtered our own list of patterns to trade:

- We prefer trading continuation patterns, thus (head and shoulders, inverse head and shoulders, double tops, double bottoms, triple tops, triple bottoms) are removed from the list of patterns we trade.
- The second trading preference is trading patterns that occurs more frequently in the market, that removes the cup and handle from our list.
- Since wedges can be continuation or reversal patterns, we only trade rising wedges when the prior trend is downwards, and falling wedges when the prior trend is upwards.
- That leaves us with the following patterns list:
 - Symmetrical triangles
 - Ascending triangles
 - Descending triangles
 - Wedges (continuation variants only)
 - Rectangles
 - Flags
 - Pennants

STEP 2: Setup a strategy for trading the selected patterns

Once you have the list of patterns you are willing to trade, it is time to build a strategy for trading them. This strategy must include how to enter a trade, how to calculate take profit target, and how to calculate stop loss. Below is a -simplified- list of the conditions we use for the patterns we filtered earlier:

- Trade entry: at the closure rate of the candle after the breakout candle.
- Take profit target: default measurement for each pattern.
- Stop loss: each pattern have its method(s), discussed thoroughly below in topic 14.2 .

STEP 3: Backtest, thoroughly!

Now that we have the list of patterns to trade and the strategy for each of them set, it is time to manually backtest our plan by going through the different charts searching for all the patterns from our list that can be found, and precisely do the calculations for each finding using the strategy we have set. Of-course, the larger the backtesting sample, the more reliable the results will be. We recommend finding at least 10 of each pattern, it can be a boring and exhausting process that might take days or weeks to complete, but it lays the foundation for months or even years of successful trading to come.

STEP 4: Calculate your edge and build a money management plan around it

Using the data collected from backtesting, calculate R:R and W/L for all the backtested trades to calculate your average R:R and W/L (your edge over the market) and see if trading using those conditions will be profitable or not.

STEP 5: Be consistent

If completing the previous steps resulted in a profitable calculation and gave you the confidence to use that strategy in a real trading cycle, always remember this: “You backtested the pattern and know its performance, you have a money management plan for a trading cycle, you created your set of rules to be used in trading, now please stick to them!”.

Feel free to leave us a comment and discuss this chapter directly on our website at:

<https://www.tradingspine.com/articles/chart-patterns/using-this-book-to-your-advantage.php>

14.2 WHY AND WHEN DO WE USE (7%, 14%, 21%) FOR STOP LOSS SAFETY

Throughout this book you might have noticed that we always use one of the three percentages (7%, 14%, 21%) of the target measurement to calculate a safer stop loss rate beyond the absolute stop loss measurement. As discussed earlier, it is important define in a trading strategy the rules to use for setting a method for stop loss and calculating its rate, and that is our way of approaching a constant method for calculating stop loss trigger rate. As for why we assigned certain percentage(s) for each of the patterns, this involved studying the basic structure and price action for each of the patterns, which is explained -briefly- below.

Generally speaking, stop loss measurements based on the breakout of a pattern -which is always the closer stop loss- will be assigned either 14% or 21% stop loss safety to give the trade room to breathe, while the further stop loss will be assigned 7% stop loss safety since it is always a structural support. Below we will explain why each stop loss measurement is chosen for the patterns, and why they are assigned their stop loss safety percentage chosen to them.

SYMMETRICAL TRIANGLE:

- Continuation pattern, the prior trend is in the favor of the trade direction.
- Price action inside the pattern is creating lower highs and higher lows, thus not favoring or opposing the trade direction.
- The pattern is assigned two stop loss methods to choose from, due to the availability of a clear structural support and the steady price action inside the pattern:
 - Stop loss 1: 21% of target measurement beyond absolute stop loss, since it isn't a structural support, and may be reduced to 14% if the breakout was strong and trade entry is a bit further away from the breakout level.
 - Stop loss 2: 7% of target measurement beyond absolute stop loss, since it is already further away from entry and it is a structural support.

ASCENDING TRIANGLE:

- Continuation pattern, the prior trend is in the favor of the trade direction.
- Price action inside the pattern is semi-bullish which favors the trade direction , as the equal highs means that bears are holding their ground but not able to push back, while the higher lows means that bulls are gaining ground by pushing forward slowly.
- The pattern is assigned two stop loss methods to choose from, due to the availability of two clear structural supports:
 - Stop loss 1: 14% of target measurement beyond absolute stop loss, since it is a structural support.
 - Stop loss 2: 7% of target measurement beyond absolute stop loss, since it is already further away from entry and it is a structural support.

DESCENDING TRIANGLE:

- Continuation pattern, the prior trend is in the favor of the trade direction.
- Price action inside the pattern is semi-bearish which favors the trade direction , as the equal lows means that bulls are holding their ground but not able to push back, while the lower highs means that bears are gaining ground by pushing forward slowly.
- The pattern is assigned two stop loss methods to choose from, due to the availability of two clear structural supports:
 - Stop loss 1: 14% of target measurement beyond absolute stop loss, since it is a structural support.
 - Stop loss 2: 7% of target measurement beyond absolute stop loss, since it is already further away from entry and it is a structural support.

HEAD AND SHOULDERS:

- Reversal pattern, the prior trend is opposing the trade direction.
- Price action inside the pattern is semi-bearish which favors the trade direction and weakens the prior trend by three different resistances (head + 2 shoulders), with the last resistance (right shoulder) being lower than the previous one (head), which means that bears are gaining ground and pushing forward.
- The pattern is assigned two stop loss methods to choose from, due to the availability of two clear structural supports when the pattern isn't skewed:
 - Stop loss 1: 14% of target measurement beyond absolute stop loss when the pattern isn't skewed as the neckline is a structural support in that case, or 21% in skewed patterns as support in that case isn't structural.
 - Stop loss 2: 7% of target measurement beyond absolute stop loss, since it is already further away from entry and it is a structural support.

INVERSE HEAD AND SHOULDERS:

- Reversal pattern, the prior trend is opposing the trade direction.
- Price action inside the pattern is semi-bullish which favors the trade direction and weakens the prior trend by three different resistances (head + 2 shoulders), with the last resistance (right shoulder) being higher than the previous one (head), which means the bulls are gaining ground and pushing forward.
- The pattern is assigned two stop loss methods to choose from, due to the availability of two clear structural supports when the pattern isn't skewed:
 - Stop loss 1: 14% of target measurement beyond absolute stop loss when the pattern isn't skewed as the neckline is a structural support in that case, or 21% in skewed patterns as support in that case isn't structural.
 - Stop loss 2: 7% of target measurement beyond absolute stop loss, since it is already further away from entry and it is a structural support.

CUP AND HANDLE:

- Continuation pattern, the prior trend is in favor of the trade direction.
- Price action inside the pattern is semi-bullish which favors the trade direction, with the handle's low being higher than the cup's low, which means bulls are gaining ground and pushing forward.
- The pattern is assigned two stop loss methods to choose from, due to the availability of two clear structural supports when the pattern isn't skewed:
 - Stop loss 1: 14% of target measurement beyond absolute stop loss when the pattern isn't skewed as the surface is a structural support in that case, or 21% in skewed patterns as support in that case isn't structural.
 - Stop loss 2: 7% of target measurement beyond absolute stop loss, since it is already further away from entry and it is a structural support.

INVERSE CUP AND HANDLE:

- Continuation pattern, the prior trend is in favor of the trade direction.
- Price action inside the pattern is semi-bearish which favors the trade direction, with the handle's high being lower than the cup's high, which means bulls are gaining ground and pushing forward.
- The pattern is assigned two stop loss methods to choose from, due to the availability of two clear structural supports when the pattern isn't skewed:
 - Stop loss 1: 14% of target measurement beyond absolute stop loss when the pattern isn't skewed as the surface is a structural support in that case, or 21% in skewed patterns as support in that case isn't structural.
 - Stop loss 2: 7% of target measurement beyond absolute stop loss, since it is already further away from entry and it is a structural support.

FALLING WEDGE:

- Neutral pattern, the prior trend can be in favor or opposing the trade direction.
- Price action inside the pattern is fully bearish which opposes the trade direction, with lower highs and lower lows being formed, which means the bears are gaining ground and pushing forward.
- The pattern is assigned two stop loss methods to choose from, due to the availability of a clear structural support and the steady price action inside the pattern:
 - Stop loss 1: 21% of target measurement beyond absolute stop loss, since it is not a structural support.
 - Stop loss 2: 7% of target measurement beyond absolute stop loss, since it is already further away from entry and it is a structural support.

RISING WEDGE:

- Neutral pattern, the prior trend can be in favor or opposing the trade direction.
- Price action inside the pattern is fully bullish which opposes the trade direction, with higher lows and higher highs being formed, which means the bulls are gaining ground and pushing forward.
- The pattern is assigned two stop loss methods to choose from, due to the availability of a clear structural support and the steady price action inside the pattern:
 - Stop loss 1: 21% of target measurement beyond absolute stop loss, since it is not a structural support.
 - Stop loss 2: 7% of target measurement beyond absolute stop loss, since it is already further away from entry and it is a structural support.

RECTANGLE:

- Continuation pattern, the prior trend is in the favor of the trade direction.
- Price action inside the pattern is creating equal highs and equal lows, thus not favoring or opposing the trade direction.
- The pattern is assigned a single stop loss method since the breakout is the only constant support for that pattern:
 - Stop loss: 14% of target measurement beyond absolute stop loss, since it is a structural support.

FLAG:

- Continuation pattern, the included trend (pole) is strongly favors the trade direction.
- Price action inside the flag formation is creating lower highs and lower lows for the bullish variant, higher highs and higher lows for the bearish variant, which is opposing the trade direction.
- The pattern is assigned a single stop loss method since the pole is usually a strong and steep price action, thus the usual breakout stop loss level isn't used in this pattern as it is too risky:
 - Stop loss: 7% of target measurement beyond absolute stop loss, since it is a structural support.

PENNANT:

- Continuation pattern, the included trend (pole) is strongly favors the trade direction.
- Price action inside the pattern is creating lower highs and higher lows, thus not favoring or opposing the trade direction.
- The pattern is assigned a single stop loss method since the pole is usually a strong and steep price action, thus the usual breakout stop loss level isn't used in this pattern as it is too risky:
 - Stop loss: 7% of target measurement beyond absolute stop loss, since it is a structural support.

DOUBLE TOP / DOUBLE BOTTOM:

- Reversal pattern, the prior trend is opposing the trade direction.
- Price action inside the pattern slightly favors the trade direction, as the trend prior to the pattern formation faced two resistances (two tops or bottoms) and had only one support (middle retracement) that got broken on the first test.
- The pattern is assigned a single stop loss method since the breakout is the only constant support for that pattern:
 - Stop loss: Although it is a structural support, it is assigned the 21% of target measurement beyond absolute stop loss, and may be reduced to 14% if the breakout was strong and trade entry is a bit further away from the breakout level.

TRIPLE TOP / TRIPLE BOTTOM:

- Reversal pattern, the prior trend is opposing the trade direction.
- Price action inside the pattern may slightly favor the trade direction when the second middle retracement is longer than the first, or slightly oppose the trade direction when the second middle retracement is shorter than the first.
- The pattern is assigned a single stop loss method since the breakout is the only constant support for that pattern:
 - Stop loss: Although it is a structural support, it is assigned the 21% of target measurement beyond absolute stop loss, and may be reduced to 14% if the breakout was strong and trade entry is a bit further away from the breakout level.

14.3 A FEW POINTS TO CONSIDER

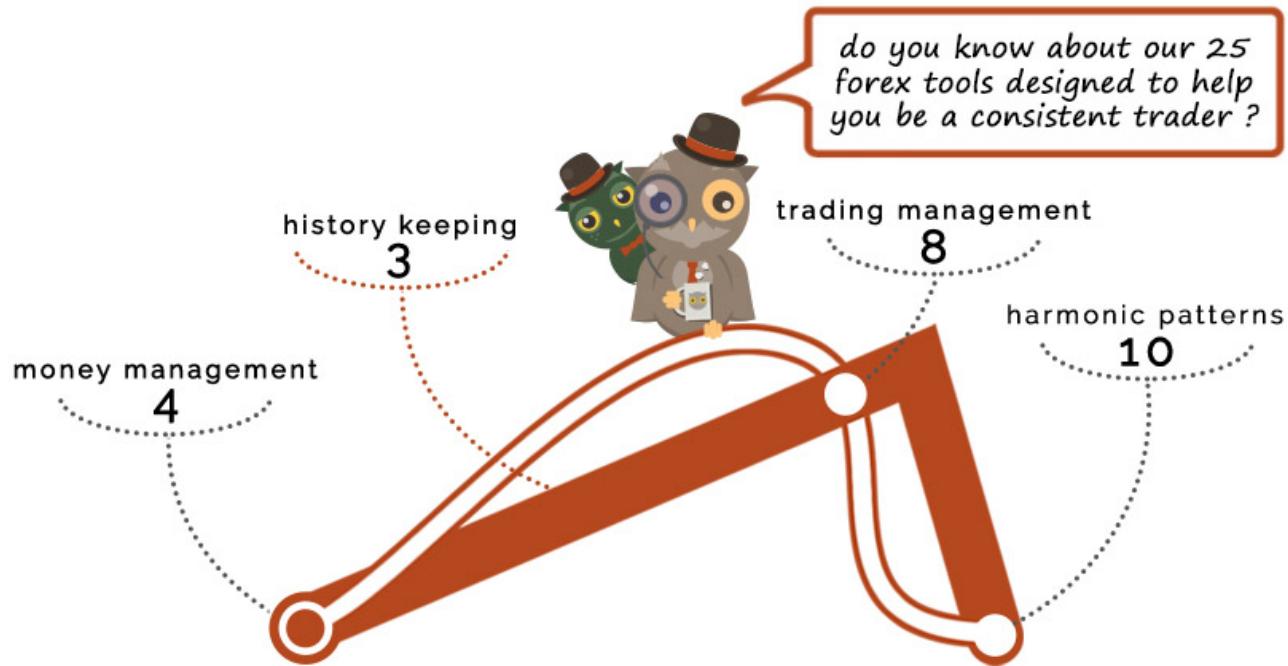
The below points are general facts or observations related to Forex trading -and trading in general-, they just scratch the surface of their respective topic, we thought it would be better to include them in this book so you can take them into consideration while trading.

- Be strict with stop loss, don't move it around.
 - Before you enter a trade, know where exactly is your loss threshold for a trade and don't extend it unless it -really- is a calculated risk that doesn't involve any emotion reaction. A trade is a plan, when that plan fails there is no logical reason to continue hoping for the plan to change its output.
- If the trade setup's R:R can afford it, give a few pips to the market by shortening the target measurement a bit.
 - There is no thing as 100% precision when trading in the market, a successful trade may change direction just before or after hitting its target. When a trade's R:R is higher than your threshold R:R for a trading cycle, it won't hurt to sacrifice a few pips to the market to earn the probability of your order getting filled in the not-so-rare case of the market reversing direction just before hitting the original calculated target.
- Mind the spread when calculating rates for a trade setup to increase the probability of the order getting filled.
 - Although it looks negligible on the chart, but the spread does have its impact on any trade. A 2 pip spread in a trade with 50 pip range, is 4% of that trade's range, you can't neglect that. Obviously, trades with wider range will be less impacted by spread, but still it should be accounted for when creating and calculating a trading setup.
- Volume isn't as reliable in Forex market.
 - Forex isn't a centralized market like for example the stock market. Brokers do have their way of representing volume to their traders, but it will always be a best effort method, never representing the actual trading volume.
- The common duration for the different patterns' formation isn't written in stone.
 - The Forex market tends to be a lot faster than other trading markets, don't limit yourself to the common duration for a specific pattern. As long as you backtest the pattern(s) on the time-frames you are willing to trade them on, you are good to go!

- Did we mention the importance of backtesting, money management and trading management ?
 - Yes! yes we did, and here we are again emphasizing on the importance of trading management and money management. Acquiring the skill of identifying patterns is a huge addition to your trading arsenal, but as said earlier, it is a part of a whole.
- A pattern's R:R alone or W/L alone isn't a reliable indicator of its performance.
 - It is the multiplication of the two factors that calculates the "edge" of that pattern over the market, where an edge over 1 means the pattern is profitable, and an edge over 2 is considered strong and very profitable, for example:
 - R:R=1.25 and W/L=0.75: Edge = 0.94 (not profitable)
 - R:R=1.50 and W/L=1.00: Edge = 1.50 (profitable)
 - R:R=1.50 and W/L=1.50: Edge = 2.25 (very profitable)
- Being consistent doesn't mean being robotical in your trading.
 - If your trading strategy can be 100% systematic, then it can be coded into an expert advisor, right ? There is always room for your own best judgment when it comes to trading, being consistent means respecting your own money management rules and respecting your plan for entering and exiting trades. Choosing which trades to enter and which trades to pass is where your own trading skills are really put into test, and it definitely makes all the difference.
- Losses are a part of the game.
 - Backtesting and having a strategy empowers your psychological readiness to accept losses. A trader who tries to find a way around closing a losing trade when its loss is at the maximum risk planned, is eventually going to lose much more than the loss he/she tried to prevent.

We hope reading this book added to your Forex trading knowledge and performance, please don't hesitate to contact us if you have any questions, corrections, or suggestions.

MAY THE MARKET BE WITH YOU!



TOOLS FAMILY	LINK TO OVERVIEW URL ON OUR WEBSITE
MONEY MANAGEMENT (4 tools)	https://www.tradingspine.com/overview/forex-money-management-tools-overview.php
TRADING MANAGEMENT (8 tools)	https://www.tradingspine.com/overview/forex-trading-management-tools-overview.php
HARMONIC PATTERNS (10 tools)	https://www.tradingspine.com/overview/harmonic-patterns-trading-tools-overview.php
HISTORY KEEPING (3 tools)	https://www.tradingspine.com/overview/forex-history-keeping-tools-overview.php