CHART PATTERNS

TRADING JUNKIES

Chart patterns

Chart patterns are formations visually identifiable by the careful study of charts. Completing chart patterns indicates the beginning of a new move, a new leg of the price movement, or a reversal of the current trend direction. Completion of a chart pattern enables the trader to identify the best entry point in the market for swing trading as it indicates the beginning of the next big swing move.

Forex chart patterns

Chart patterns are classified as a continuation pattern and reversal patterns based on the patterns' ability to reflect the underlying asset's directional bias. The completion of continuation patterns indicates the best possibility of the prices to continue the movement in the trend direction. In contrast, the completion of a reversal pattern suggests the market's strong tendency to reverse its current trend. Both continuation patterns and reversal patterns provide a forex trader with the best trading opportunities.

Forex continuation chart patterns

The following patterns indicate a strong possibility of continuing the existing trend and are classified as continuation patterns.

Pennants

Rising wedges
Falling wedges

The patterns mentioned below provide the trader with an indication of the end of current trend and signal the beginning of trend reversal in the opposite direction.

Head and Shoulders

Inverted head and shoulders
Double top
Double bottom
Triple top
Triple bottom
Ascending triangle
Descending triangle
Rounded top
Rounded bottom

Bullish forex patterns

Based on the direction of the ability of the patterns to indicate the potential price direction, the following can be classified as bullish patterns

Ascending triangle

Rounded bottom
Penants
Rising wedges
Cup and handle
Double bottom
Triple bottom
Inverted head and shoulders

Bearish forex patterns

The forex patterns mentioned below indicate the higher possibility for the bearish price action once the pattern is completed

Falling wedges

Penants
Descending triangle
Rounded top
Double top
Triple top
Head and Shoulders

HEAD AND SHOULDERS

A head and shoulders pattern is also a trend reversal formation.
It is formed by a peak (shoulder), followed by a higher peak (head), and then another lower peak (shoulder).
A “neckline” is drawn by connecting the lowest points of the two troughs.The slope of this line can either be up or down. Typically, when the slope is down, it produces a more reliable signal.

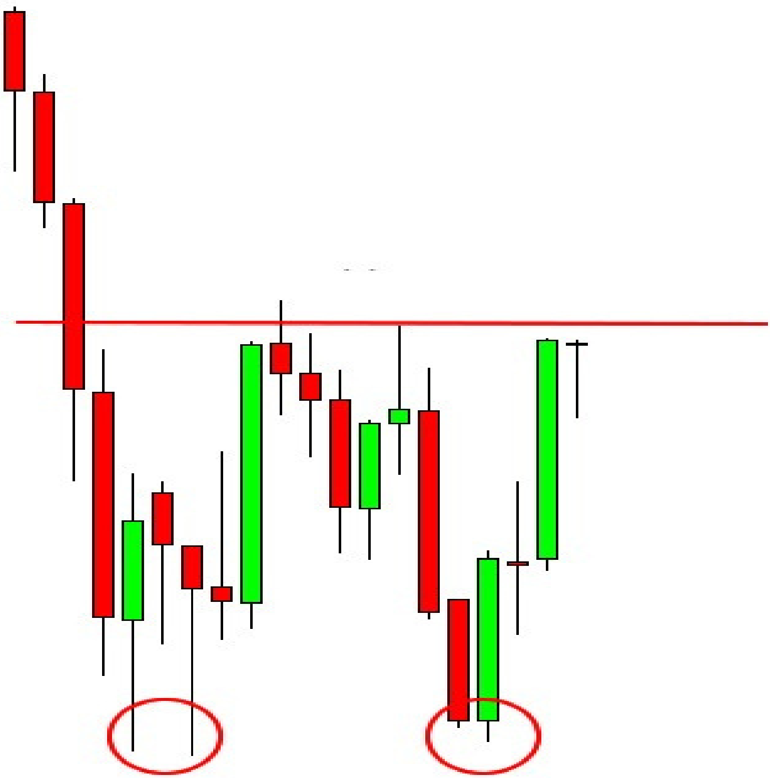
INVERTED HEAD AND SHOULDERS

The name speaks for itself. It is basically a head and shoulders formation, except this time it’s upside down.
A valley is formed (shoulder), followed by an even lower valley (head), and then another higher valley (shoulder).
These formations occur after extended downward movements.

Double Top pattern

A double top pattern is a reversal pattern formed
after a very significant upward price movement
. The "Top" are the peaks that are formed when the price touches a certain level that cannot be broken through.
After reaching this level, the price will bounce slightly, but then it will return to test the level again. If the price bounces off that level again, then there will be a "Double top Pattern".

Double Bottom Pattern



The duoble bottom pattern is also a trend reversal formation
But this time we are looking to go long instead of
. These formation occurs after a strong downtrend, when two valleys or
"bottoms" have formed.
This is a sign that the selling pressure is about finished
and that a reversal is about to occur.

TRIPLE TOP PATTERN

Triple tops and are an extension of the double top pattern and is a bearish reversal pattern. The formation of three consecutive tops and the price break below the neckline confirms the pattern completion.The entry point is upon the neckline's break, and the risk is calculated towards the swing high C, and profits can be booked at a 1:2 risk

TRIPLE BOTTOM PATTERN

Triple bottoms are the opposite of the triple top pattern and is a bullish reversal pattern.

A triple bottom pattern shows 3 different small lows at around the similar amount. The triple bottom is regarded to be a difference of the head and shoulders bottom. Like that pattern, the triple bottom is a reversal pattern.

BEARISH RECTANGLE

A bearish rectangle is formed when the price consolidates for a while during a downtrend.
This happens because sellers need to pause and
Catch their breath before taking the pair any lower.

BULLISH RECTANGLE

The rounded Bottom pattern is a bullish reversal pattern and is opposite of the rounded top pattern. It is traded once the neckline is broken and the stop are placed at the lowest low of the curve, while take profits can be placed at a reasonable risk and reward ratio.

ASCENDING TRIANGLE

An ascending triangle is a type of triangle chart pattern that occurs when there is a resistance level and a slope of higher lows.

What happens during this time is that there is a certain level that the buyers cannot seem to exceed. However, they are gradually starting to push the price up as evidenced by the higher lows.

DESCENDING TRIANGLE

As you probably guessed, descending triangles are the exact opposite of ascending triangles

In descending triangle chart patterns, there is a string of lower highs that forms the upper line. The lower line is a support level in which the price cannot seem to break.

RISING WEDG

A rising wedge is formed when the price consolidates between upward sloping support and resistance lines. If the rising wedge forms after an uptrend, it's usually a bearish reversal pattern.

On the other hand, if it forms during a downtrend, it could signal a continuation of the down move.

FALLING WEDG

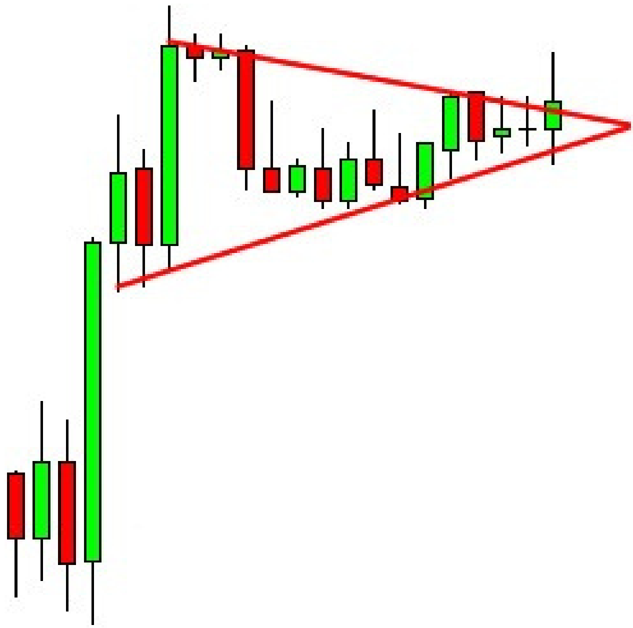
Just like the rising wedge, the falling wedge can either be a reversal or continuation signal.As a reversal signal, it is formed at a bottom of a downtrend, indicating that an uptrend would come next.

As a continuation signal, it is formed during an uptrend, implying that the upward price action would resume. Unlike the rising wedge, the falling wedge is a bullish chart pattern.

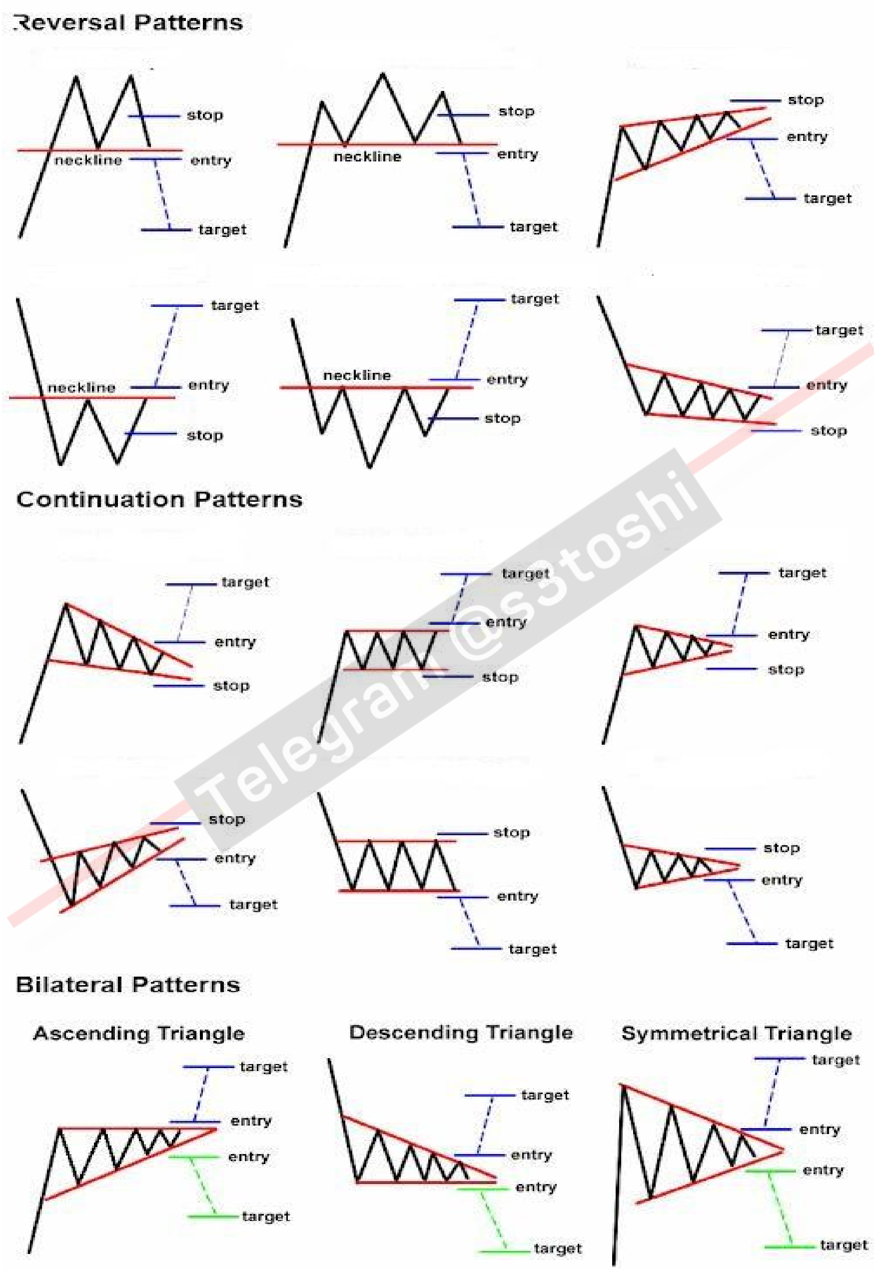
BEARISH PENNANT

A bearish pennant is formed during a steep, almost vertical, downtrend.After that sharp drop in price, some sellers close their positions while other sellers decide to join the trend, making the price consolidate for a bit As soon as enough sellers jump in, the price breaks below the bottom of the pennant and continues to move down

Bullish PENNANT



Bullish pennants, just like its name suggests, signals that bulls are about to go a-chargin' again.This means that the sharp climb in price would resume after that brief period of consolidation when bulls gather enough energy to take the price higher again.In this example, the price made a sharp vertical climb before taking a breather.


Reversal Patterns
stop
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Continuation Patterns
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Bilateral Patterns
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Descending Triangle
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Symmetrical Triangle
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Limitations

Trading after the pattern's completion is essential for successful trading; however, traders tend to be impatient and enter the markets early. Mere completion of the pattern does not warrant immediate price movement, so traders need to look for additional confirmation of price action before deciding to place the trades. Though patterns occur repeatedly, they may not be successful every time; they need to be validated in the context of price action as price movements are very dynamic

Conclusion

Best technical traders always look for clues in the charts and use the charts to make their trading decisions. Chart patterns provide the traders with invaluable insight and assist the traders in spotting the best entry points. It's always recommended to keep a chart pattern cheat sheet .