



Technical analysis of Cryptocurrencies

This is the second of Four training lesson on
cryptocurrencies trading that gives insight about
technical analysis of cryptocurrencies.

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Chart patterns

There are several chart patterns built on the basis of years of research and price action of thousands of assets. Chart patterns don't guarantee that they will unfold as said but have a higher probability to behave in the manner they are described.

a. Reversal patterns

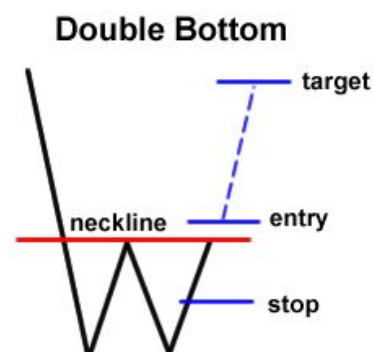
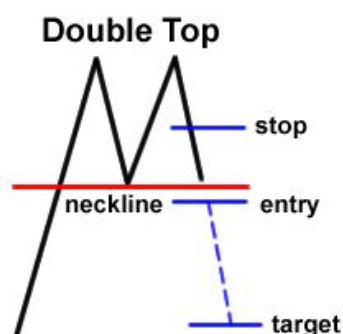
Reversal patterns are various chart formations that indicate the reversal of a trend. These patterns turn an uptrend into a downtrend and a downtrend turns into an uptrend.

- **Double top**

A double top is a bearish reversal pattern that is formed after an uptrend move. As its name implies, the pattern has two consecutive tops with some gap between them. After 1st top price gets reversed and when it gets reversed the second time it confirms the supply area of the asset. A breakdown of neckline shown in the chart below can be used to take a short entry.

- **Double bottom**

A double bottom is a bullish reversal pattern which indicates the demand area of an asset and it is formed after a downtrend move. The pattern is formed after bouncing two times from the same price level. Like a double top, you can take the trade after it breaks the neckline.

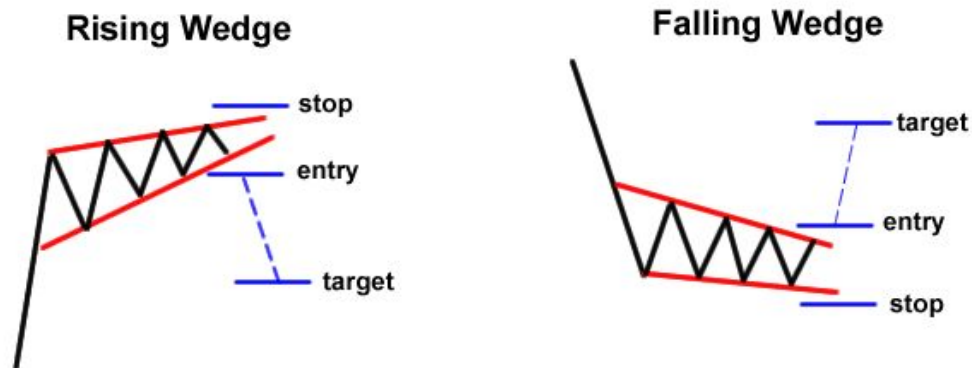


- **Rising wedge**

A rising wedge is a bearish reversal pattern which is formed after an uptrend. The wedge starts wider in an uptrend move and shrinks as the price moves up while break down confirms the reversal. The upper resistance line and the lower resistance line is formed after two touches and volume usually drops during the formation of this pattern. You can take a short trade when it breaks down.

- **Falling wedge**

A falling wedge is a bullish reversal pattern which is formed after a downtrend move. The pattern starts wider and keeps squeezing as the price moves down. A breakout confirms the reversal where you can enter in a long trade.



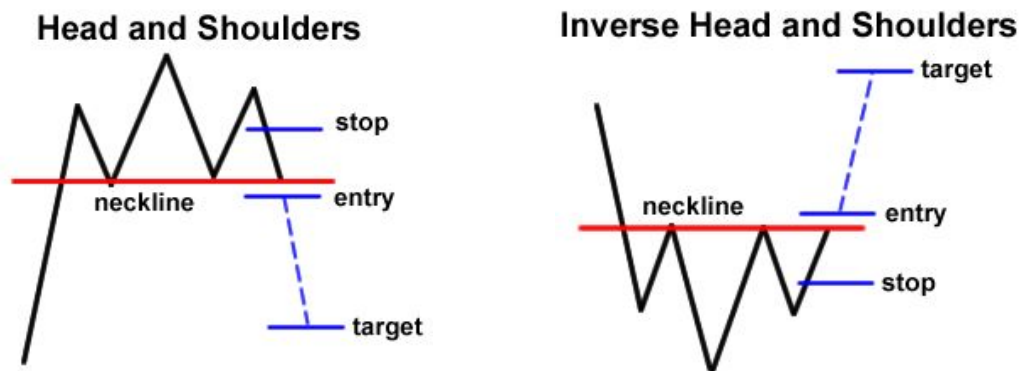
- **Head & shoulders**

Head and shoulders is another bearish reversal pattern which is formed after an uptrend. The pattern forms 3 peaks with the middle peak being the highest one of the three, the two others being almost equal to each other. The lows of each peak can be connected with a straight line called neckline to complete the pattern formation. You can take the short trade when price breaks the neckline after the completion of the right shoulder. Its target is usually calculated by subtracting the distance from the neckline to head when it breaks the neckline.

- **Inverse head & shoulders**



Inverse head and shoulders is a bullish reversal of the price which is formed after a downtrend. It is formed in the same way a normal head and shoulders is formed but it is inverse and signals bullish reversal. The pattern forms 3 lows with the 2nd one the lowest and other two almost equal to each other. The highs of each low should be equal and can be connected with a straight line called neckline to complete the pattern formation. You can take the long trade when it breaks the neckline after forming a right shoulder.



b. Continuation patterns

Continuation chart patterns suggest that the prevailing trend will continue after a little pause. These are considered to be consolidation patterns which are always good for a healthy movement of price.

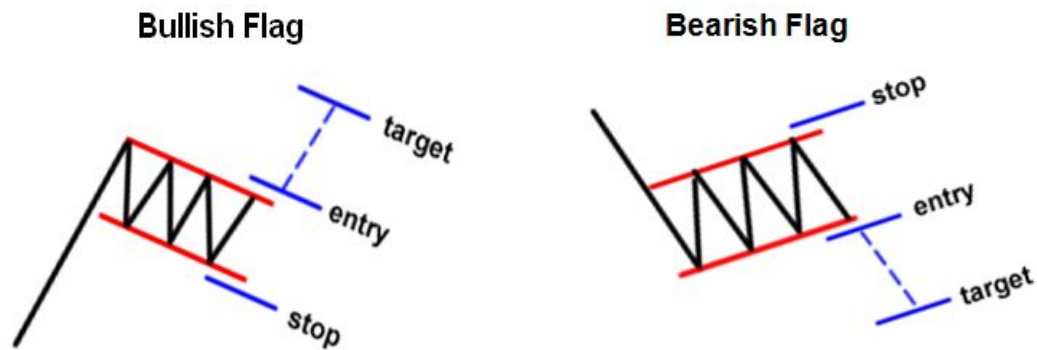
- **Bullish flag**

A bullish flag is a continuation bullish pattern that makes a small consolidation in the form of the flag before making a further move up. After a bullish move price declines a bit in the form of a flag and then makes a further move up. Its target is equal to the size of the bullish leg formed before making the flag.

- **Bearish flag**

A bearish flag is a bearish continuation pattern which is formed after a downtrend. Price takes a pause and makes a small move upwards in the form of a small rectangle before breaking down further to continue the trend. Its target is equal to

the size of the bearish leg formed before making the flag which is also called flagpole.

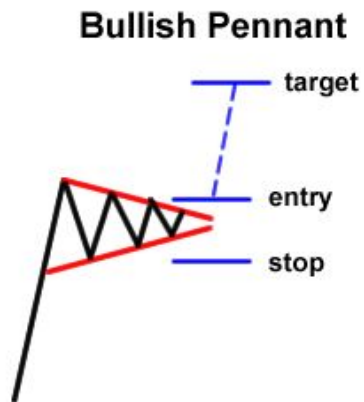


- **Bullish Pennant**

Bullish pennant is another bullish continuation pattern which is formed after a bullish move. Price consolidates in the shape of a small pennant before producing the next leg up. You can take a long entry when the price makes a breakout from the pennant and its target is equal to the size of the bullish leg formed before the formation of the pennant.

- **Bearish Pennant**

Bearish pennant is a bearish pattern which is formed after a downtrend. Price takes a break and makes a small move upwards in the form a small pennant before breaking down further to continue the trend. You can take the entry when the pennant breaks down which confirms the formation and target are usually equal to the size of the bearish leg formed before forming a pennant.

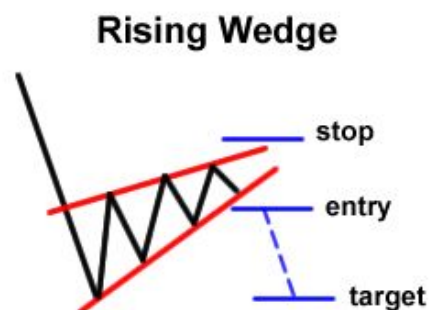


- **Falling wedge**

A falling wedge can also be a bullish continuation pattern if it is formed after a bullish move. Price of the asset declines in the form of a wedge after a bullish move and then makes a breakout after consolidation. You can take the entry when the price breaks the wedge and stop loss should be placed below the wedge.

- **Rising wedge**

A rising wedge can also be a bearish continuation pattern if it is formed after a bearish move. Price makes an upward move in the form of a wedge before breaking down further. You can take a trade when it breaks down and the target is usually equal to the bearish leg size formed before making a wedge.

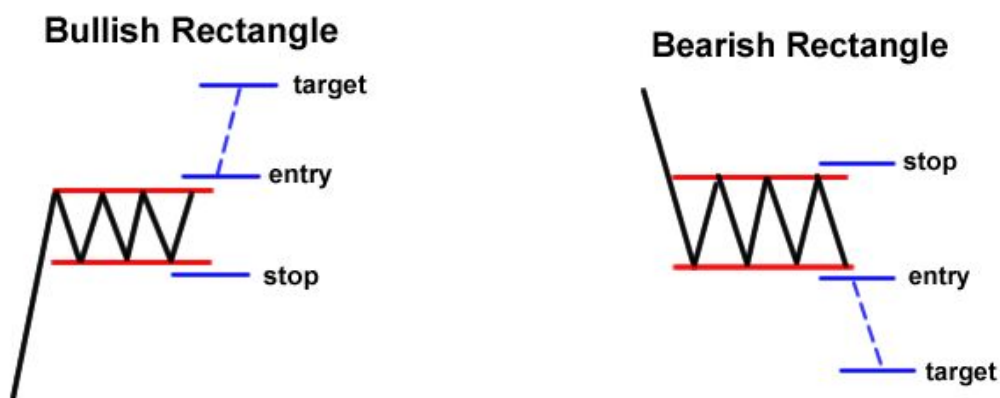


- **Bullish rectangle**

A bullish rectangle is a price continuation pattern which is usually formed after a bullish move. Price moves in a rectangle form and makes at least 2 lows and highs to form a bullish rectangle before breaking up. Highs and lows can be connected with two parallel lines to define the borders of the rectangle. There is no specific rule of thumb for volume during this pattern formation but usually, it decreases towards the end of the pattern.

- **Bearish rectangle**

A bearish rectangle is a bearish continuation pattern which is formed after a bearish move. Price moves in between specific highs and lows to form a rectangle which can be connected with parallel lines. Like a bullish rectangle, it is required to make at least two highs and lows to be named a bearish rectangle. You can take the entry when the price breaks down from the rectangle.



c. Bilateral patterns

Bilateral price patterns can be bullish and bearish at the same time. That's why trading them can be a bit tricky. Let's take a look at a few bilateral price patterns.

- **Ascending triangle**

An ascending triangle can be bullish and bearish in nature which is formed after a bullish move in the price. Price moves in an ascending triangle form before making

a breakout or breakdown. It can be pretty tricky to trade it but based on a combination of other indicators you can take a trade to either direction with a stop loss on the other side.

- **Descending triangle**

A descending triangle can unfold bullish and bearish which is formed after a bearish move. Price moves in a descending triangle form before making a move. There should be at least two highs and two lows to form the pattern. You need to trade this pattern in conjunction with other indicators to increase the probability of generating profit.

- **Symmetrical triangle**

Symmetrical Triangle which is also referred to as a coil usually forms after a bullish move in the price. Bullish pennant and symmetrical triangle look alike but a symmetrical triangle is usually bigger in size. There should be at least two highs and two lows to form this pattern. Again it is also an undecided price pattern and can break to either side so you should be extra careful while trading it.

