P&F Bullish Breakouts

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Introduction

There are five bullish breakout P&F patterns. The most basic P&F buy signal is a Double Top Breakout, which occurs when an X-Column breaks above the high of the prior X-Column. From this basic pattern, the bullish breakout patterns become more complex and wider. The wider the pattern, the better established the resistance level and the more important the breakout. This article will look at the five key breakout patterns in detail and then show measuring techniques for Price Objectives.
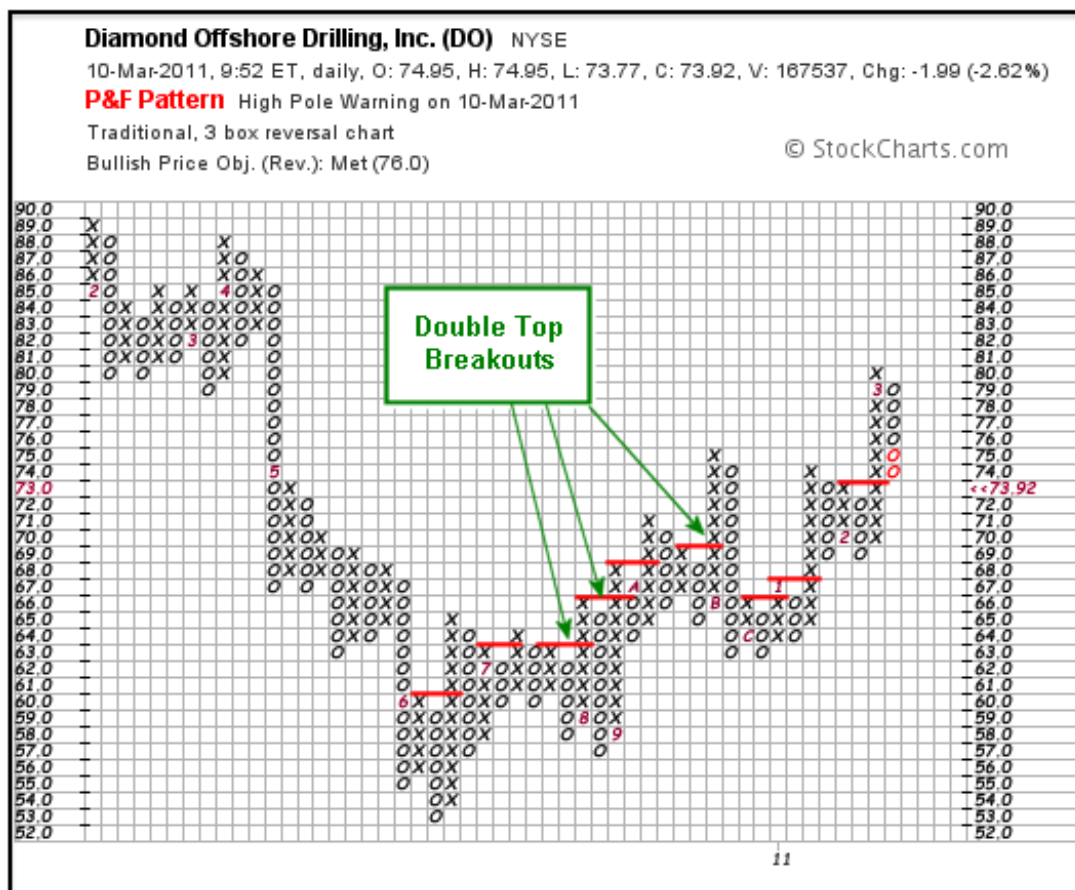
Double Top Breakout

In the P&F world, Double Top Breakouts are bullish patterns that are confirmed with a resistance break. With bar charts, on the other hand, Double Top Breakouts are bearish patterns that are confirmed with a support break. These patterns are not contradictory. They are simply different patterns with similar names.

As noted above, the most fundamental P&F buy signal is when an X-Column breaks above the high of the prior X-Column. These two columns are separated by an O-Column. X-Columns denote rising prices, while O-Columns signify falling prices. The first rising X-Column establishes direction. The middle O-Column represents a bounce that establishes support. The third X-Column triggers the higher high. The ability to break above the prior high shows strength associated with an uptrend.

As the most common signal in the P&F universe, Double Top Breakouts are also the most prone to whipsaw and failure. Double Top Breakouts should be viewed in the context of the bigger picture. It is important to employ other aspects of technical analysis when using signals as common as Double Top Breakouts. The chart below shows Diamond Offshore (DO) with several Double Top Breakouts over the last two years.

Diamond Offshore Drilling, Inc. (DO) NYSE
10-Mar-2011, 9:52 ET, daily, O: 74.95, H: 74.95, L: 73.77, C: 73.92, V: 167537, Chg: -1.99 (-2.62%)
P&F Pattern High Pole Warning on 10-Mar-2011
Traditional, 3 box reversal chart
Bullish Price Obj. (Rev.): Met (76.0)

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Double Top Breakouts

Triple Top Breakout

The Triple Top Breakout takes the Double Top Breakout one step further by adding a resistance column. Two consecutive X-Columns define resistance with two equal reaction highs. The third X-Column breaks above the prior two X-Columns to forge the Triple Top Breakout. Classic Triple Top Breakouts are five columns wide: three X-Columns and two O-Columns.

These patterns can mark reversal breakouts or continuation breakouts. Distinguishing between reversal and continuation depends on the prior move. A Triple Top Breakout that forms as a base after a decline would be deemed a reversal pattern. A Triple Top Breakout that forms as a consolidation after an advance would be viewed as a continuation pattern.
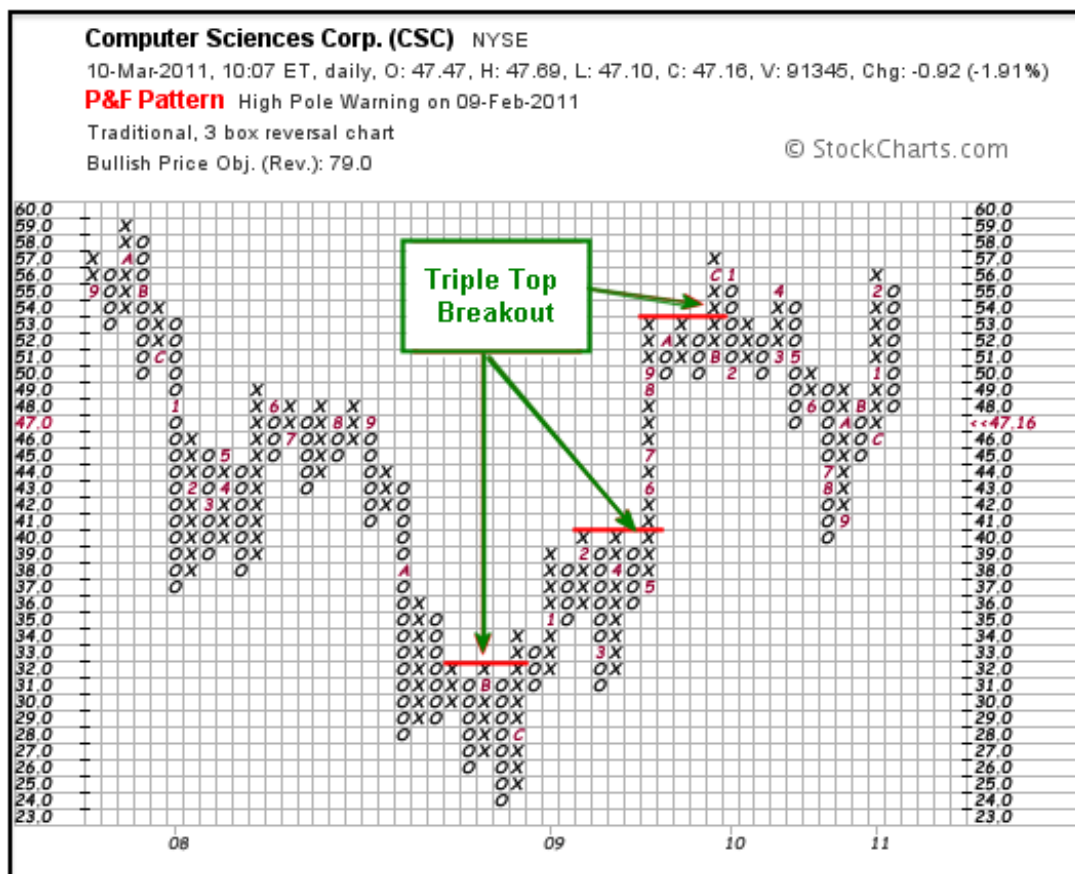
The chart above shows Computer Sciences (CSC) with a reversal Triple Top Breakout at the end of 2008 and then two continuation Triple Top Breakouts. While it is sometimes difficult to distinguish between reversal patterns and continuation patterns, the Triple Top Breakout itself is easy to identify.
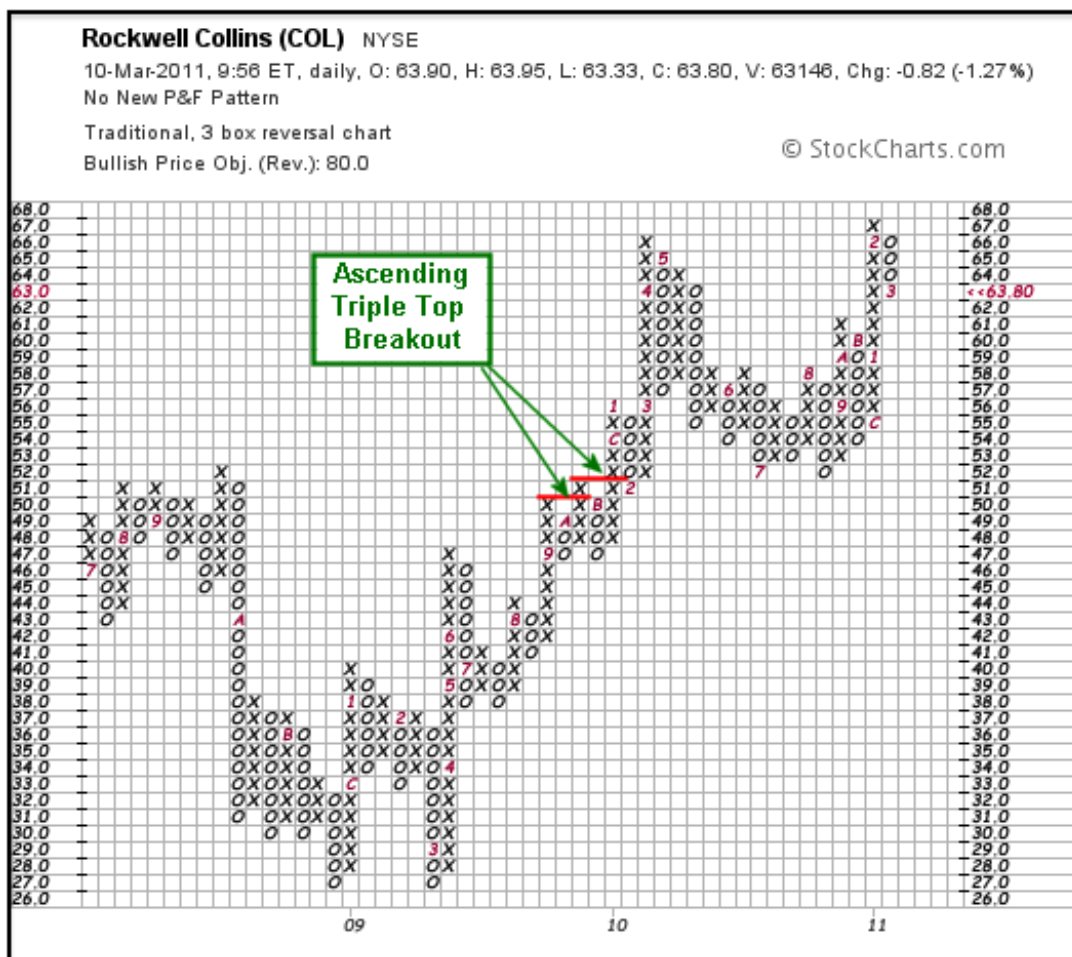
Spread Triple Top Breakout

As its name implies, the Spread Triple Top Breakout is an expanded version of the Triple Top Breakout. A Spread Triple Top Breakout contains at least two extra columns, which means it is at least seven columns wide. An extra O-Column and an extra X-Column form highs below the actual breakout or resistance level. These columns in effect add space or width to the Triple Top Breakout. As with a normal Triple Top Breakout, a Spread Triple Top Breakout is confirmed with a break above the highs of the two X-columns. Ideally, a Spread Triple Top Breakout forms as a Triple Top Breakout with two extra columns. In reality, this pattern can form with more than two extra columns.
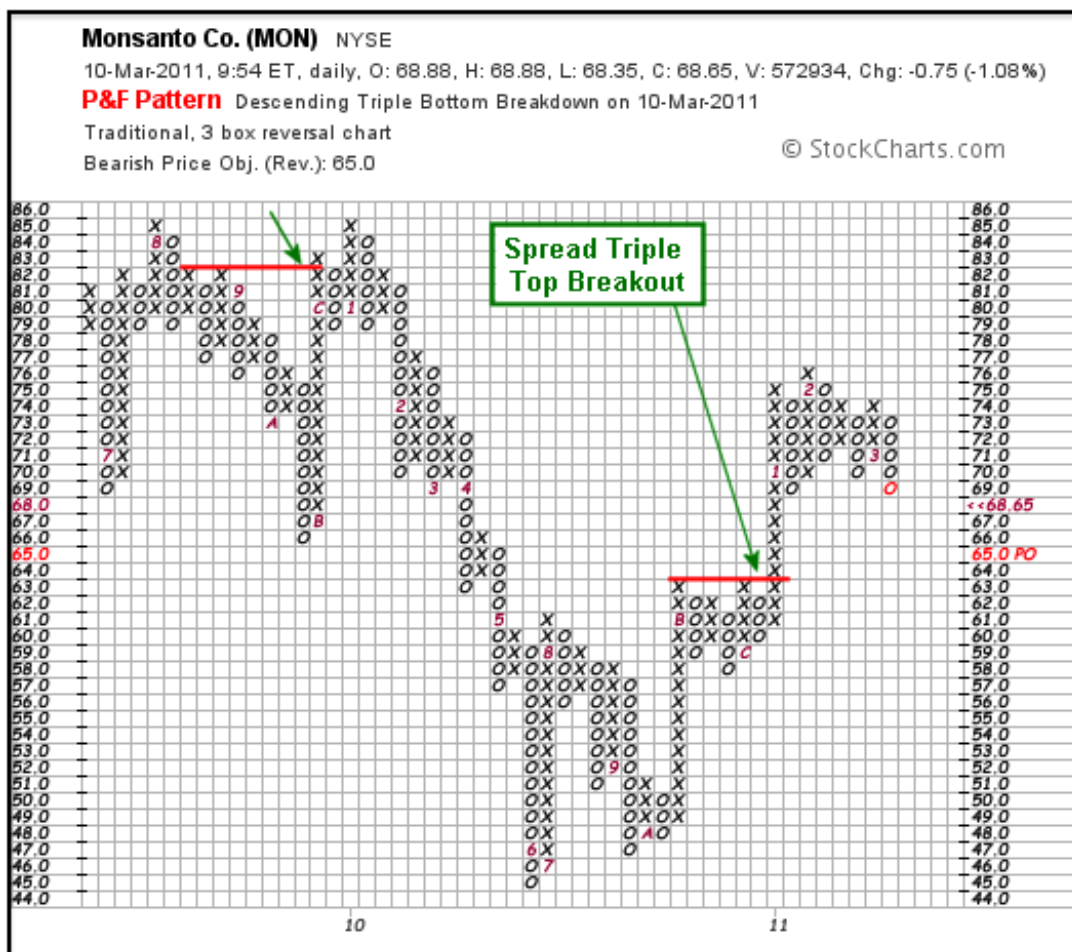
The chart above shows Monsanto with two Spread Triple Top Breakouts. The first one (2009) is suspect because of the distance between the first two X-Columns and the breakout X-Column. In fact, there is a clear downtrend between these columns. The second Spread Triple Top Breakout is a continuation pattern because is formed after a long X-column. The pattern is seven columns wide, which makes it the ideal length for a Spread Triple Top Breakout.
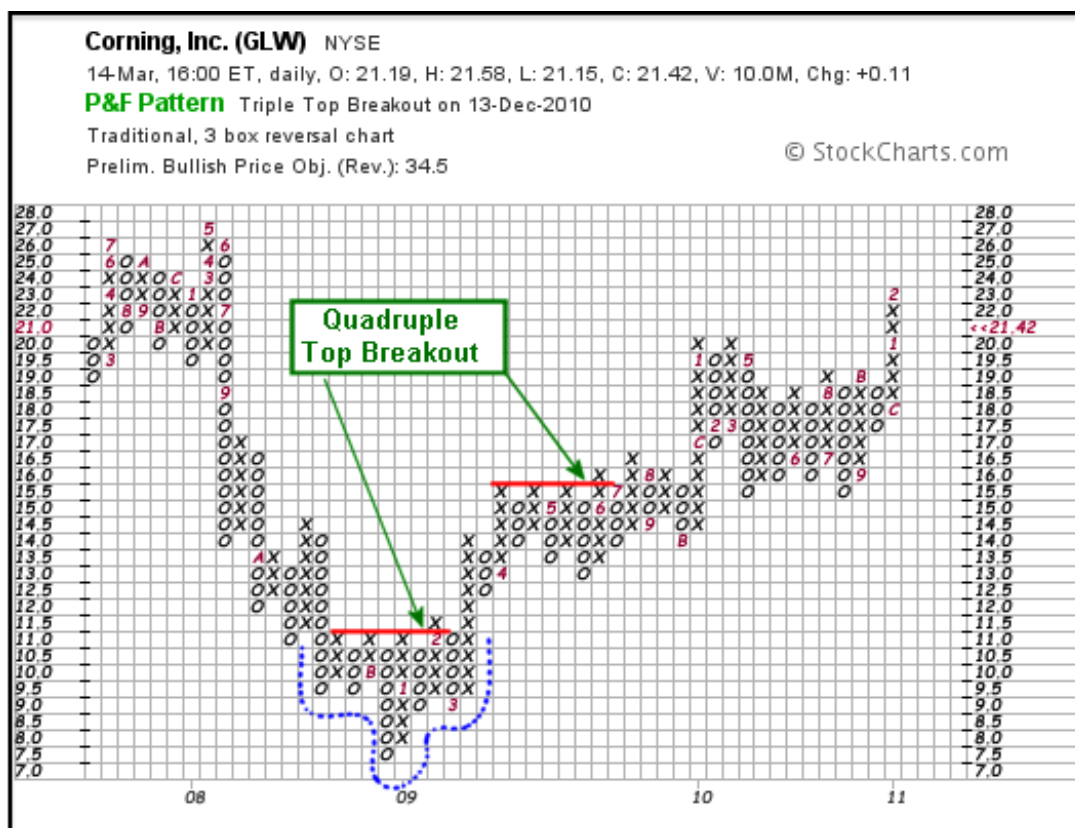
Ascending Triple Top Breakout

An Ascending Triple Top Breakout is basically back-to-back Double Top Breakouts. These breakouts form three X-Columns that ascend with each breakout. Because there are three X-Columns and two O-Columns, the pattern is just as wide as a classic Triple Top Breakout. The ability to forge back-to-back higher highs shows underlying strength that is indicative of an uptrend. As with the other patterns, this Ascending Triple Top Breakout can form as a continuation or reversal pattern.

The chart for Rockwell Collins (COL) shows an Ascending Triple Top Breakout at the beginning of 2010. The red lines mark back-to-back Double Top Breakouts. Also notice that the stock established support with two equal O-Columns during the pattern formation. The combination of solid support and higher highs reinforced the strength of the pattern. A failed Spread Triple Top Breakout is shown on the far left.

Quadruple Top Breakout

The Quadruple Top Breakout is just like the Triple Top Breakout, only with an extra X-Column to mark resistance and an extra O-Column to widen the pattern. Three consecutive X-Columns define resistance with three equal highs. The fourth X-Column breaks above the prior three X-Columns to forge the Quadruple Top Breakout. All told, Quadruple Top Breakouts are seven columns wide with four X-Columns and three O-Columns. These patterns can mark reversal breakouts or continuation breakouts.

Corning, Inc. (GLW) NYSE
14-Mar, 16:00 ET, daily, O: 21.19, H: 21.58, L: 21.15, C: 21.42, V: 10.0M, Chg: +0.11
P&F Pattern Triple Top Breakout on 13-Dec-2010
Traditional, 3 box reversal chart
Prelim. Bullish Price Obj. (Rev.): 34.5
© StockCharts.com

The chart above shows Corning (GLW) with a reversal Quadruple Top Breakout in February 2009. This reversal pattern also resembles an inverse head-and-shoulders. The second Quadruple Top Breakout is a bullish continuation pattern. Whether continuation or reversal, resistance levels are clear with a Quadruple Top Breakout and the breakout point is definitive.
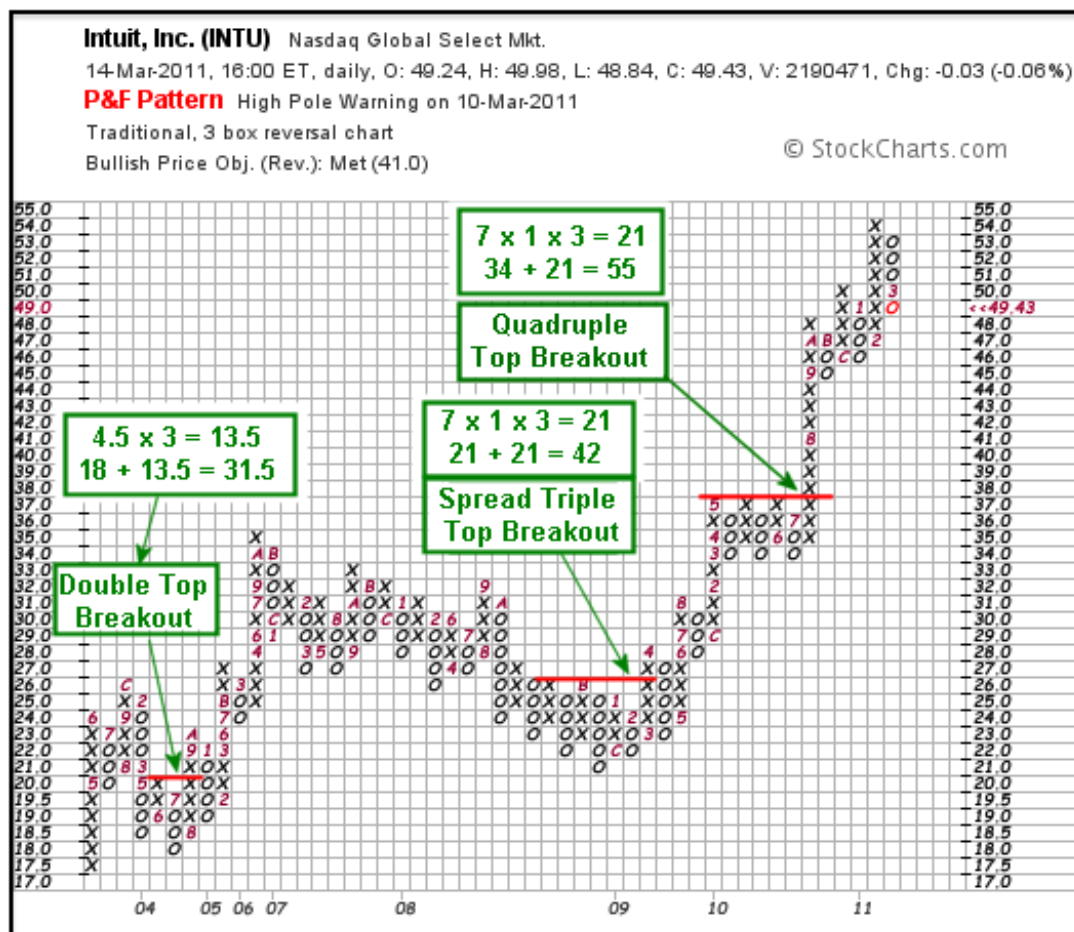
Measuring Techniques

First and foremost, be careful with Price Objectives. They are really just rough guidelines. Chartists should use other aspects of technical analysis to confirm objectives and continuously monitor the state of the trend/breakout.

The horizontal count method can be applied to Triple Top Breakouts, Ascending Triple Top Breakouts, Spread Triple Top Breakouts and Quadruple Top Breakouts. Simply measure the width of the pattern, multiply by the box size and then by the reversal amount. Add this total to the pattern low for a Price Objective. The wider the pattern, the bigger the expected move. Triple Top Breakouts are five columns wide (3 X-Columns and 2 O-Columns), Quadruple Top Breakouts are seven columns wide and Spread Triple Top Breakouts are seven columns minimum.

The vertical count method can be applied to Double Top Breakouts. After the breakout, chartists must wait for a 3-box reversal to FIX the height of the breakout column. The breakout column is subject to change until there is a reversal. This reversal is considered a pullback as long as it does not extend too deep. Count the number of filled boxes in the breakout column, multiply by the box size and then by the reversal amount. Add this product the pattern low for an upside Price Objective.

Intuit, Inc. (INTU) Nasdaq Global Select Mkt.
14-Mar-2011, 16:00 ET, daily, O: 49.24, H: 49.98, L: 48.84, C: 49.43, V: 2190471, Chg: -0.03 (-0.06%)
P&F Pattern High Pole Warning on 10-Mar-2011
Traditional, 3 box reversal chart
Bullish Price Obj. (Rev.): Met (41.0)
© StockCharts.com

$7 \times 1 \times 3 = 21$
$34 + 21 = 55$

Quadruple Top Breakout

$7 \times 1 \times 3 = 21$
$21 + 21 = 42$

Spread Triple Top Breakout

$4.5 \times 3 = 13.5$
$18 + 13.5 = 31.5$

Double Top Breakout

The chart above shows Intuit (INTU) with three different patterns and price objectives. The first is a Double Top Breakout. The height of the breakout column is 7 boxes, but these boxes have different sizes (50 cents below 20 and $1 above 20). Therefore, chartists must simply subtract the high from the low of the breakout column to measure the height (23 - 18.5 = 4.5). Multiply this height by the reversal amount (3) and add the total to the low of the pattern (lowest O-Column) for the Price Objective. The Triple Top Breakout and Quadruple Top Breakout use the horizontal count method. First, the width of the pattern is multiplied by the box size and reversal amount. Second, this total is added to the low of the pattern (lowest O-Column).

Establishing a Price Objective only covers the reward part of the risk-reward equation. Chartists should also study the chart to assess risk. A move below support or the pattern low would clearly negate a breakout. The box just below the pattern low often marks the worst-case level for a pattern failure. Similarly, a Double Bottom Breakdown or a contradictory P&F pattern would argue for a reassessment. There are sometimes failure clues before price hits the worst-case level. Chartists should also employ other technical analysis techniques to measure risk and monitor the unfolding trend. See our ChartSchool articles for more details on Horizontal Counts, Vertical Counts, and Timeframes for P&F charts.

Conclusions

The most basic P&F buy signal comes from a Double Top Breakout. From here, the classic patterns widen to form consolidations with well-defined resistance levels. Reversal patterns form as a base after an extended decline. Continuation patterns act as a rest after an

extended advance. A little congestion, a clear resistance level, and a definitive breakout point make these patterns relatively easy to spot.