Triple Top Reversal
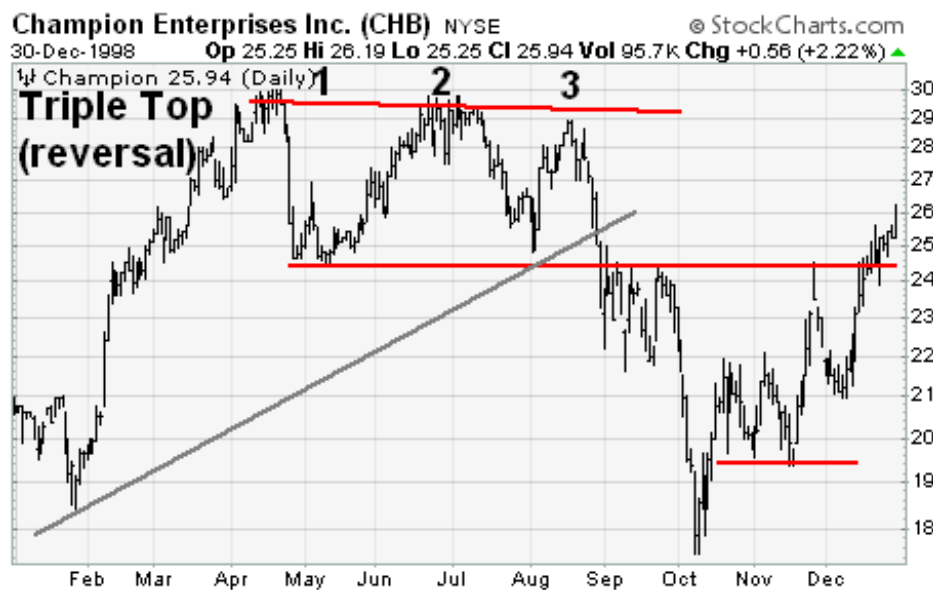
The Triple Top Reversal is a bearish reversal pattern typically found on bar charts, line charts and candlestick charts. There are three equal highs followed by a break below support. As major reversal patterns, these patterns usually form over a 3 to 6 month period. *Note that a Triple Top Reversal on a bar or line chart is completely different from Triple Top Breakout on a P&F chart.*. Namely, Triple Top Breakouts on P&F charts are *bullish patterns* that mark an upside resistance breakout. We will first examine the individual parts of the pattern and then look at an example.

1. **Prior Trend:** With any reversal pattern, there should be an existing trend to reverse. In the case of the Triple Top Reversal, an uptrend should precede the formation.

2. **Three Highs:** All three highs should be reasonably equal, well spaced and mark clear turning points to establish resistance. The highs do not have to be exactly equal, but should be reasonably equivalent to each other.

3. **Volume:** As the Triple Top Reversal develops, overall volume levels usually decline. Volume sometimes increases near the highs. After the third high, an expansion of volume on the subsequent decline and at the support break greatly reinforces the soundness of the pattern.

4. **Support Break:** As with many other reversal patterns, the Triple Top Reversal is not complete until a support break. The lowest point of the formation, which would be the lowest of the intermittent lows, marks this key support level.

5. **Support Turns Resistance:** Broken support becomes potential resistance, and there is sometimes a test of this newfound resistance level with a subsequent reaction rally.

6. **Price Target:** The distance from the support break to the highs can be measured and subtracted from the support break for a price target. The longer the pattern

develops, the more significant the ultimate break. Triple Top Reversals that are 6 or more months old represent major tops and a price target is less likely to be effective.

Throughout the development of the Triple Top Reversal, it can start to resemble a number of other patterns. Before the third high forms, the pattern may look like a Double Top Reversal. Three equal highs can also be found in an ascending triangle or rectangle. Of these patterns mentioned, only the ascending triangle has bullish overtones; the others are neutral until a break occurs. In this same vein, the Triple Top Reversal should also be treated as a neutral pattern until a breakdown occurs. The inability to break above resistance is bearish, but the bears have not won the battle until support is broken. Volume on the last decline off resistance can sometimes yield a clue. If there is a sharp increase in volume and momentum, then the chances of a support break increase.

When looking for patterns, it is important to keep in mind that technical analysis is more art and less science. Pattern interpretations should be fairly specific, but not overly exacting as to obstruct the spirit of the pattern. A pattern may not fit the description to the letter, but that should not detract from its robustness. For example, it can be difficult to find a Triple Top Reversal with three highs that are exactly equal. However, if the highs are within reasonable proximity and other aspects of the technical analysis picture jibe, it would embody the spirit of a Triple Top Reversal. The spirit is three attempts at resistance, followed by a breakdown below support, with volume confirmation. ROK illustrates an example of a Triple Top Reversal that does not fit exactly, but captures the spirit of the pattern.

- The stock was in an uptrend and remained above the trend line extending up from Oct-98 until the break in late August 1999.

- Over a period of about 4 months, the stock bounced off resistance around 23. The first attempt happened in May, the second in July and the third in August.

- The decline from the third high broke trend line support and the stock continued to fall past support from the previous lows. Triple Top Reversal support should be drawn from the lowest low of the pattern, which would be the May low around 19.80.

- Volume expanded after the stock broke trend line support. The stock paused for a few days when support at 19.80 was reached, but volume accelerated when this support level was broken in late September (gray dotted vertical line). In addition, the Chaikin Money Flow turned negative and broke below -10%.

- After the support break, there was a test of the newfound resistance a few weeks later. Money flows continued to indicate selling pressure and volume expanded when the stock began to fall again.

- The projected decline was 3.2 points, from 19.80 down to 16.60, and the stock reached this target soon after the resistance test.