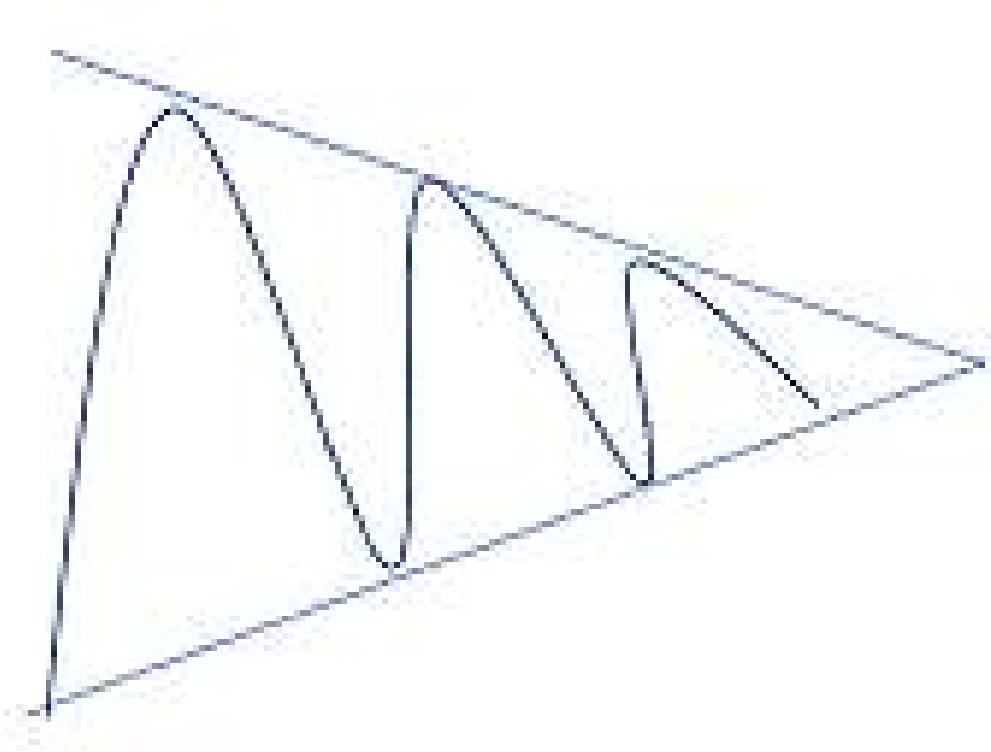
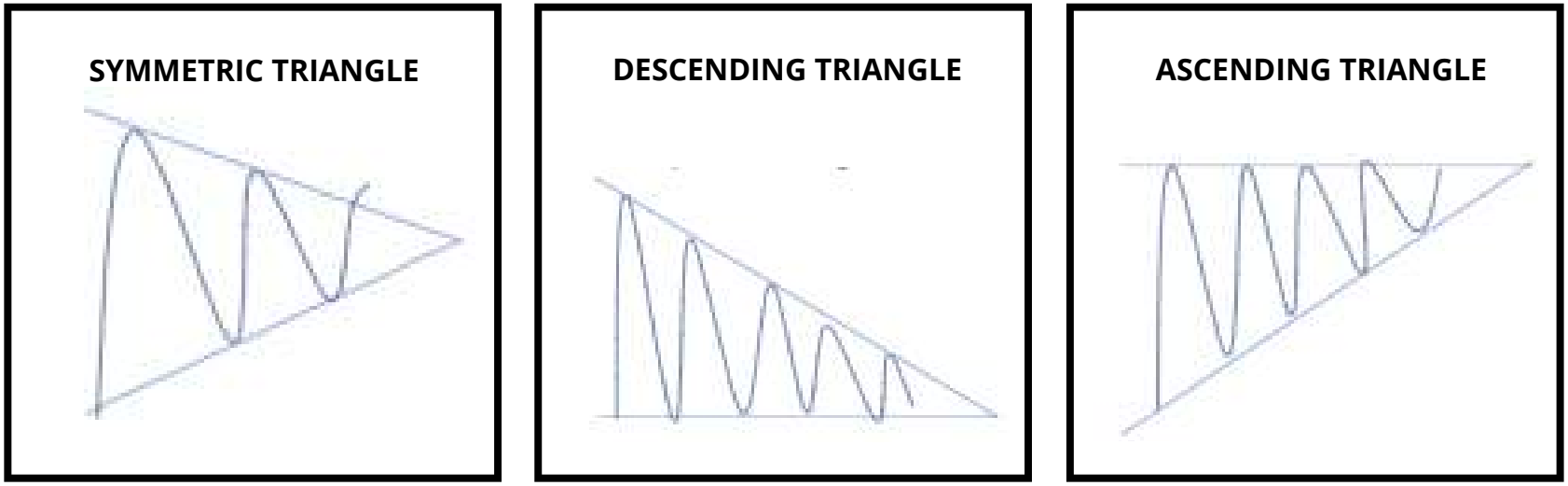
Pattern 4 TRIANGLE

'Triangles' are created when the asset price moves in a manner such that the support and resistance levels in the recent past form a triangular pattern. The illustration depicts the movement of the closing price of the asset within the edges of the triangle. Such formations are called triangular chart patterns. They work in a sideways manner and a triangle formation can have a breakout in either direction. If it breaks out on the top side, it is a bullish breakout and as a result, we can long the asset.

If the breakout is on the negative side, we can say that it is a bearish breakout and we will short the asset.





These are the different types of triangles that we will be using i.e. symmetric triangles, upward sloping or ascending triangles, downward sloping or descending triangles. These work the same and can break out in either direction.

However, in the case of ascending triangles, we will prefer a bullish breakout more than a bearish one and in the case of the descending triangle, we will prefer a bearish breakout more than a bullish breakout. In the case of a symmetrical triangle, we are indifferent.

Source - Trading View

This is an example of how symmetric triangles look. We see that the upper end of the triangle represents resistance and the lower end represents support. The price is moving between support and resistance. A triangular formation is formed and we are sure that there will be a breakout in either direction. In this case, we see that there is a breakout on the bullish side where the asset price escapes the triangle on the upper end. Such a breakout is a signal to go long on the asset.

Source - Trading View

This is yet another instance of the symmetrical triangle. This is relatively a shorter-term one. We see that the price is still range-bound. We will consider going long or short on the asset based on the breakout side of the closing price.

Source - Trading View

This is an example of the ascending triangle. We see that there is a clear-cut breakout. We would have like a bullish breakout itself when it comes to ascending triangles. As a result, we would have gone long the asset a couple of sessions back.

This is another example of the ascending triangle. We will wait in such a scenario for the asset to make a breakout. The triangle here is again a very short term pattern. The longer the term of the chart pattern, the stronger and more tested are the support and resistance levels. In this case, we will not go short in case there is a breakout on the lower end, however, will go long if the breakout is on the upper end.

Source - Trading View

This is a long term ascending triangle. We see that its support and resistance levels have been tested multiple times. We will accept the trade based on the breakout direction. We see that we can combine these with other indicators as well and use two or more, together to create trading signals.

Source - Trading View

This is an example of the descending triangle. We see that this is again a shorter-term triangle. We will prefer the breakout to be on the bearish side. In this case, we see that the breakout has been on the bullish side. We might or might not have entered this trade. However, in such a case if there was a bearish breakout, we would have entered the trade.

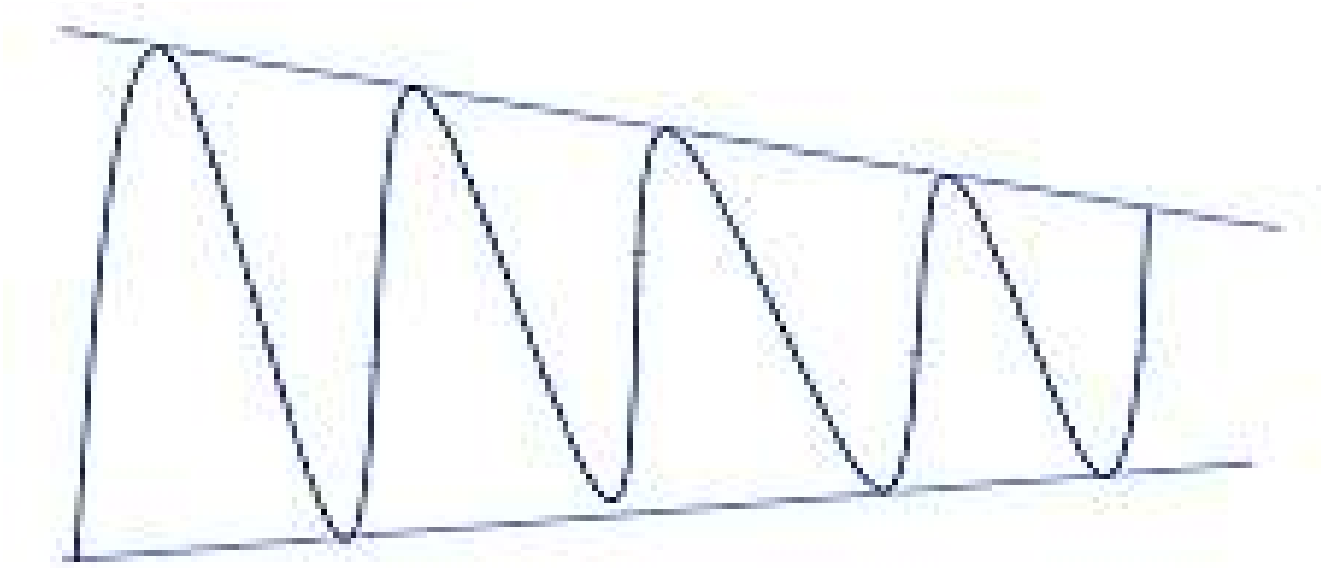
Source - Trading View

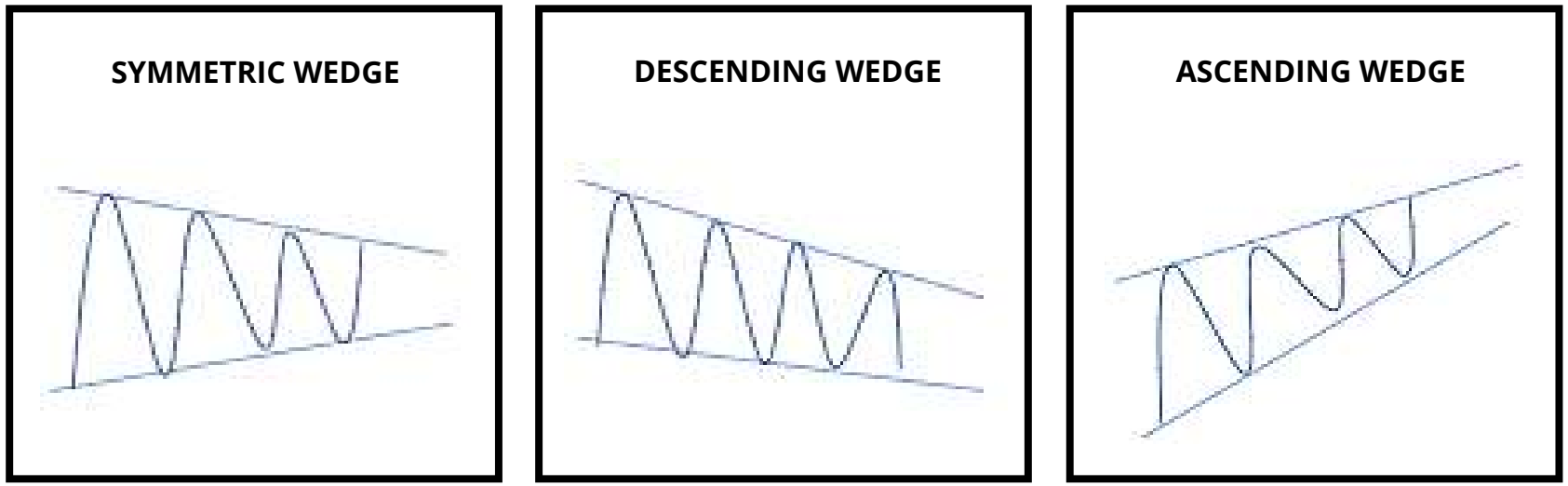
This is another descending triangle which is again very short term. The support and resistance levels have not been tested properly. We see that the breakout, in this case, has been on the Bullish side. We would not have entered this trade as this is a very short term triangle.

Pattern 5 WEDGES

‘Wedges’are similar to triangles, but a more open version of the same. If extended for a very long time, wedges go on to create triangles by themselves. Two lines mark the various support levels and the resistance levels of an asset’s price. We will wait for the price to break out in either direction and based on the breakout, we will enter a trade either on the bullish side or bearish side.

We will go long, in case the breakout is on the upper end of the wedge and we will go short in case the breakout is on the lower end of the wedge. Wedges work exactly like triangles when it comes to generating trading signals. The illustration portrays a typical wedge pattern.





We see that wedges can again be of three types –symmetric, ascending and descending. We can enter a trade based on the breakout on either of the sides. However, we will prefer a bullish breakout for an ascending wedge and a bearish breakout for a descending wedge. We are indifferent in the case of the symmetric wedge.

Source - Trading View

This is an example of ascending or rising wedge. It is a long term wedge and the support and resistance lines have been well tested. As a result, we would have entered a trade for a breakout on either side. We would have preferred a bullish breakout, but we would have entered this trade of negative breakout too. In hindsight, we would have made moderate profits.

Source - Trading View

This is another ascending wedge which is relatively long term. We see that there is a breakout on the bearish side. It has been accompanied by very high volumes. As a result, we might have entered the trade. In hindsight, it would not have been profitable. However, in such circumstances when there is a sharp breakout, we would prefer to enter the trade.

Source - Trading View

This is an example of a falling or descending wedge. We see that there is a breakout on the bullish side. We would have entered this trade as the wedge has been formed over a few months. In hindsight, this looks to be a profit-making trade. However, the exact result will depend on our exit strategy and market course.

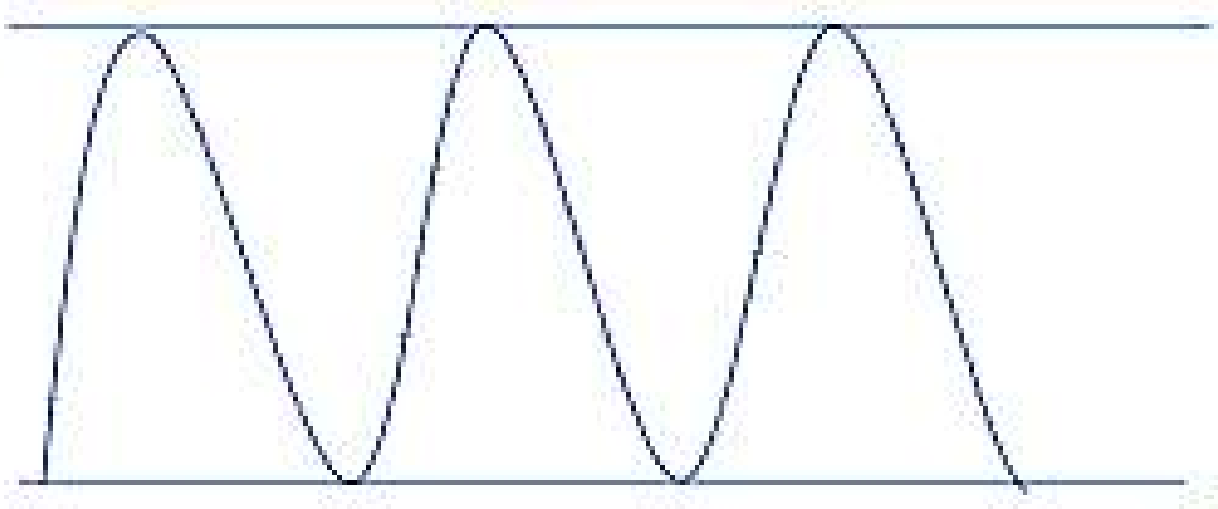
Source - Trading View

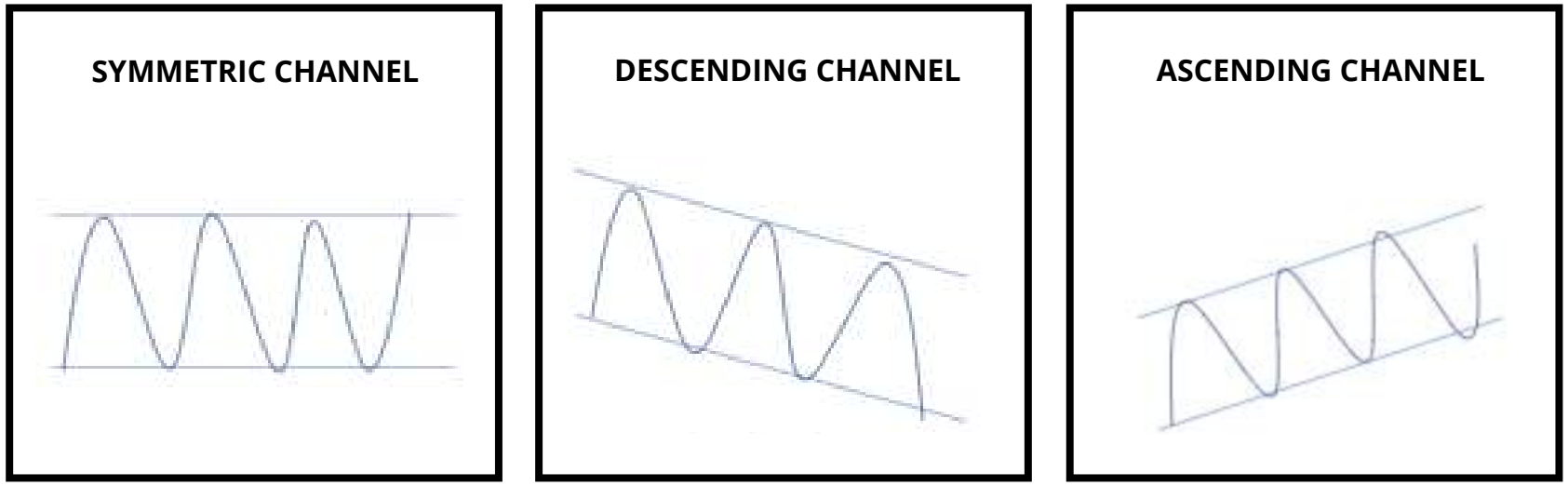
This is yet another falling wedge. We see how closely it resembles descending triangles. We see a bullish breakout. We would have entered this trade as this is a long term wedge and also, there is a good increase in volume at the time of breakout. This shows strength in the trend. And that concludes our segment on rising and falling wedges.

Pattern 6 CHANNELS

A ‘Channel’ is formed when the closing price of an asset starts to move in a fixed channel where the resistance and support that it is getting, are parallel lines. Here, the price of the asset is expected to stay within the range or the within the channels and it will oscillate between the support and resistance levels. We will wait in this case for the asset price to break out of the channels. We will long the asset if it breaks out on the positive side. We will short the asset if it breaks out on the negative side.

Channel, in many ways, is a flattened version of wedges and it works in the same manner. We will not act when the asset price is within the channel but we will enter the trade when we see any breakout. If heavy volumes are accompanying the breakout, this should make our case for the trade even stronger.





This is typically how different types of channels move. We will prefer bullish breakouts in case of ascending channels, and bearish breakouts in the case of descending channels. We are indifferent about the direction of a breakout in case of symmetric channels.

Source - Trading View

This is an example of the ascending channel. We see how support and resistance are parallel lines. There is a breakout on the bearish side. We would not have entered this trade, as in an ascending channel, we would want to go ahead with bullish breakouts. We see that all breakouts cannot be blindly traded-in. Analysts use a lot of judgment in determining the breakouts to be traded. That is developed with experience and practice.

Source - Trading View

This is yet another example of an ascending trend. We would have surely entered this trade on the bullish breakout. We prefer bullish breakouts for ascending channels. Secondly, there is a volume accompanying the breakout.

Source - Trading View

This is an ascending channel. We see that the channel is the relatively shorter-term channel and resistance and support lines have not been tested enough. There is a bearish breakout. We would not have entered this trade as this is short term channel and there is a bearish breakout here. In hindsight, we would have missed out on quite a good trade. But, missing out is much better than incurring a loss. We will never compromise with the rules because 8 out of 10 times, the results in such a breakout will not be in our favor.

Source - Trading View

This is a descending channel. There is a bullish breakout following the asset price movement. We might have not accepted this trade as the channel was downwards and we would prefer a bearish breakout here.

Source - Trading View

This is a descending channel. There is a bullish breakout following the asset price movement. We might have not accepted this trade as the channel was downwards and we would prefer a bearish breakout here.

Source - Trading View

Here we see a sideways channel. The support and resistance lines are sideways and parallel. We are comfortable with a breakout in any direction over here. In the given example, there is no such breakout from the sideways channel. As a result, we cannot enter any trade in the channel shown below.

Source - Trading View

This is yet another sideways channel chart pattern. The price movement is contained within the channel range. A bearish breakout can be seen in October. However, this turned out to be a false signal. We would have incurred a small loss here. The asset price comes back within the channel. The bullish breakout in December is something we will enter a trade on. If this holds up or is a false move, we will get to know going ahead.

Source - Trading View

This is a sideways channel. We will enter a trade here, wherever there is a breakout. We can combine this with other indicators also to generate entry and exit signals.
With this, we end our discussion of the last chart pattern as well.

With this, we have understood the important chart patterns that can be formed. Chart patterns are purely based on price and do not consider volume related data. Chart patterns are developed around the concept of support and resistance and the fact that bulls and bears will be found at those levels repeatedly. We try to take advantage of these patterns by identifying them and expecting them to repeat themselves.

Chart patterns are mostly used in trading to generate signals at the time of breakouts. Traders can also use the support and resistance levels in creative ways in their strategies. Spending time to identify these patterns is the key. The ability to read the charts and spot such patterns takes time and practice but once learned can be very rewarding.