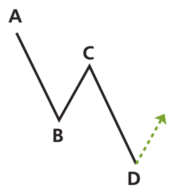
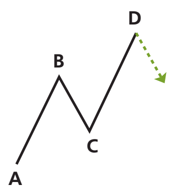
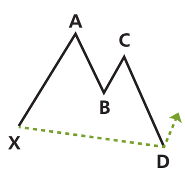
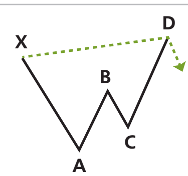
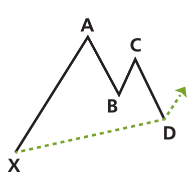
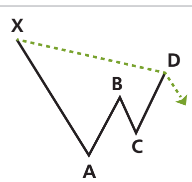
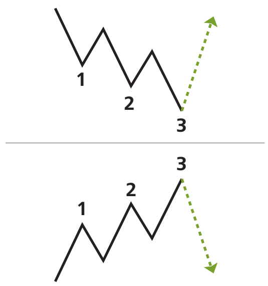
Appendix 1: Pattern Recognition

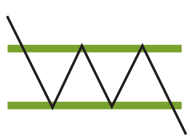
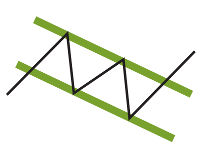
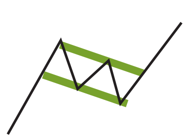
By default, Autochartist™ searches for the following patterns:

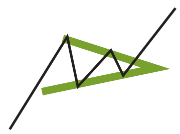
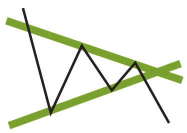
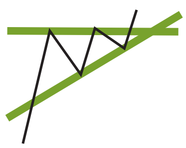
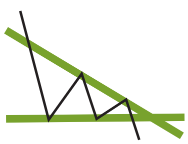
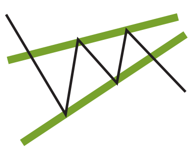
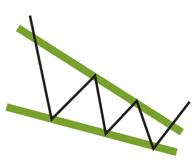
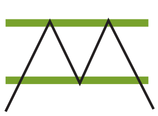
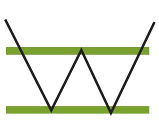
FIBONACCI–BASED PATTERNS

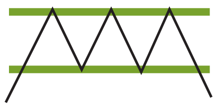
Pattern Type	What is it?	Why is it important?	How do I find it?
• ABCD			
 	Suggests a potential market reversal. The ABCD pattern comprises three consecutive price swings or trends. Resembles a lightning bolt on a chart.	Helps identify potential buying and selling opportunities in nearly any market over nearly any timeframe. All other Fibonacci patterns are based on (or include) this pattern. May provide a stronger trade signal when it converges with other patterns.	Each turning point (A, B, C, and D) represents a significant high or significant low on a price chart. These points define three consecutive price swings, or trends, which make up each of the three pattern "legs." These are referred to as the AB leg, the BC leg, and the CD leg.
• Butterfly			
 	Suggests a potential market reversal. Contains an ABCD pattern preceded by a significant high or low. Represents a convergence of Fibonacci extension ratios where Point D = an extension of BC and XA, and is formed by two connecting triangles at B.	The convergence of Fibonacci extension ratios may provide higher probability for a change in market direction and may provide a better risk-to-reward ratio. Pattern failure may suggest a strong continuation move.	Butterfly patterns are similar to Gartley patterns in that they resemble an "M" or a "W" shape on a price chart.
• Gartley			
 	Suggests a potential market reversal. A visual, graphic price/time pattern comprising four consecutive price swings or trends. Typically resembles a "W" or "M" on a price chart. Contains an ABCD pattern preceded by a significant high or low (point X).	May help identify potentially higher-probability buying or selling opportunities in nearly any market and over nearly any timeframe. Reflects the convergence of Fibonacci retracement and extension levels at point D. May provide a more favorable risk-to-reward ratio.	For this pattern to be valid, each turning point (X, A, B, C and D) should represent a significant high or significant low on a price chart. These points define four consecutive price swings, or trends, which make up each of the four pattern "legs." These are referred to as the XA leg, AB leg, the BC leg, and the CD leg.

Pattern Type	What is it?	Why is it important?	How do I find it?
• **Three-Drive**			
	Suggests a potential market reversal. Formed by three consecutive symmetrical mountain tops (bearish) or three consecutive symmetrical valleys (bullish) – Contains two connecting (intertwined) bearish ABCD patterns – Also contains a bearish butterfly pattern (completing at the third drive).	Suggests the market may be at its most bullish or bearish, in which a more significant correction may occur. May offer an excellent risk-to-reward ratio. Pattern failure suggests a strong continuation may be in progress.	Price and time symmetry are key, so the pattern should really stand out as three distinct, symmetrical drives to a top or bottom. Traders should remember that this pattern is typically far less common than a butterfly or Gartley.

STANDARD PATTERNS

Pattern Type	Physical Characteristics	When does it form?	What does it indicate?
• **Head and Shoulders**			
	Three successive peaks: middle being the highest and two outside being lower and relatively equal in height.	After an uptrend.	Often signals an upcoming trend reversal.
• **Inverse Head and Shoulders**			
	Three successive peaks: middle being the lowest and two outside being higher and relatively equal in height.	After a downtrend.	Often signals an upcoming trend reversal.
• **Rectangles**			
	A horizontal trading range with two comparable highs and two comparable lows which can be connected to form two parallel lines that comprise a rectangle.	During a pause in a trend.	A consolidation zone or trading range.
• **Channels**			
	A trading range between diagonal parallel lines.	When an up or downtrend is formed between parallel support and resistance lines.	Possibly either a reversal in the trend or a change in the slope of the current trend.
• **Flags**			
	Small rectangle trading range between diagonal parallel lines; short term.	Typically following a sharp advance or decline.	Often indicates a small change in direction before the previous trend resumes.

Pattern Type	Physical Characteristics	When does it form?	What does it indicate?
• **Pennants**			
	A small symmetrical triangle that converges.	Typically following a sharp advance or decline.	Often indicates a small change in direction before the previous trend resumes.
• **Symmetrical Triangles**			
	Sideways pattern with two converging trend lines.	When an upper trend line is declining and a lower trend line is rising.	Often represents a relatively even balance between buyers and sellers and may indicate the continuation of a previous trend.
• **Ascending Triangles**			
	Two or more equal highs form a horizontal line at the top; two or more rising troughs form an ascending line that meets the horizontal line.	During an uptrend.	Often represents a continuation pattern if an established trend exists.
• **Descending Triangles**			
	Two or more equal lows form a horizontal line at the bottom; two or more declining peaks form a descending line that meets the horizontal line.	During a downtrend.	Often represents a continuation pattern if an established trend exists.
• **Wedge Continuation**			
	Two converging lines slanted upward (rising wedge) or downward (falling wedge).	During an uptrend or a downtrend.	Often represents a continuation of the original trend.
• **Wedge Reversal**			
	Two converging lines slanted upward (rising wedge) or downward (falling wedge).	After an uptrend or a downtrend.	Often represents a reversal in the original trend.
• **Double Top**			
	Two consecutive, roughly equal peaks with a moderate trough in between.	A major reversal pattern, it occurs after an extended uptrend.	Often represents a reversal pattern that indicates a minor, if not long term, change from an uptrend to a downtrend.
• **Double Bottom**			
	Two consecutive, roughly equal troughs with a moderate peak in between.	A major reversal pattern, it occurs after an extended downtrend.	Often represents a reversal pattern that indicates a minor, if not long term, change from a downtrend to an uptrend.

Pattern Type	Physical Characteristics	When does it form?	What does it indicate?
• **Triple Top**			
	Three consecutive, roughly equal peaks; may at first resemble a double top.	A major reversal pattern, it occurs after an extended uptrend.	Often represents a reversal pattern that indicates a minor, if not long term, change from an uptrend to a downtrend.
• **Triple Bottom**			
	Three consecutive, roughly equal troughs; may at first resemble a double bottom.	A major reversal pattern, it occurs after an extended downtrend.	Often represents a reversal pattern that indicates a minor, if not long term, change from a downtrend to an uptrend.

For more information about these and other Fibonacci-based patterns, including more detailed visual representations, visit FX360.com and select **Technical Analysis**, then select **Chart Patterns**.

Glossary of Terms

Breakout: A breakout occurs when price movement breaks the support or resistance provided by a current trend line. Autochartist™ offers ratings of breakouts based on their strength.

Completed Pattern: A pattern identified by Autochartist™ where a breakout has occurred. Viewing a completed pattern will display Autochartist's forecast of price movement.

Currency Pair: Forex trading is the simultaneous buying and selling of currencies based on their value in relation to other currencies. Unlike many other types of trading, forex is always traded (and quoted) in pairs. When you buy one currency, you are selling another and vice versa.

DiNapoli MACD: One of the DiNapoli D-Levels™ tools included free with DealBook® 360, the DiNapoli MACD enables traders to gauge market momentum and possible reversal points.

Emerging Pattern: A pattern identified by Autochartist™ where a breakout has not occurred. Traders should use emerging patterns only as hints as to where a market may be moving, not as the basis for placing a trade.

Fibonacci Extensions: A very popular tool among traders whose strategies are based on technical analysis. Like Fibonacci retracements, Fibonacci extensions are derived from mathematical relationships based on ratios, the most important of which are 23.6%, 38.2%, 50%, 61.8% and 100%. They are used to help determine where a current move or trend may end.

Fibonacci retracement: A very popular tool among traders whose strategies are based on technical analysis. Fibonacci retracements are derived from mathematical relationships based on ratios, the most important of which are 23.6%, 38.2%, 50%, 61.8% and 100%. A Fibonacci retracement is created by taking two extreme points on a chart (usually a peak and trough) and dividing the distance by those key ratios. DealBook® 360 and DealBook® WEB offer a free Fibonacci retracement tool.