

INTELLIGENCE7

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Flags and Pennants

Flags and pennants are short-term congestion patterns (one to five weeks) that form in trends. They represent pauses while a trend consolidates and are reliable continuation signals in a strong trend.

Flags

A flag is formed when parallel lines can be drawn through the peaks and the troughs in a correction (or a rally during a down-trend). The lines slope counter to the direction of the trend. The pattern is completed by a break outside the parallel lines.



This pattern is a small resting place for the running market and it gives us an excellent trading opportunity.

In an uptrend, trade is entered when the price breaks above the upper trend line. A Stop loss order is placed below the pattern, or conservatively, it can be placed below the breakout bar.

Like wise in a down trend, trade is taken when the price breaks below the lower trend line. A stop loss order is placed above the pattern or conservatively, it can be placed above the breakout bar.

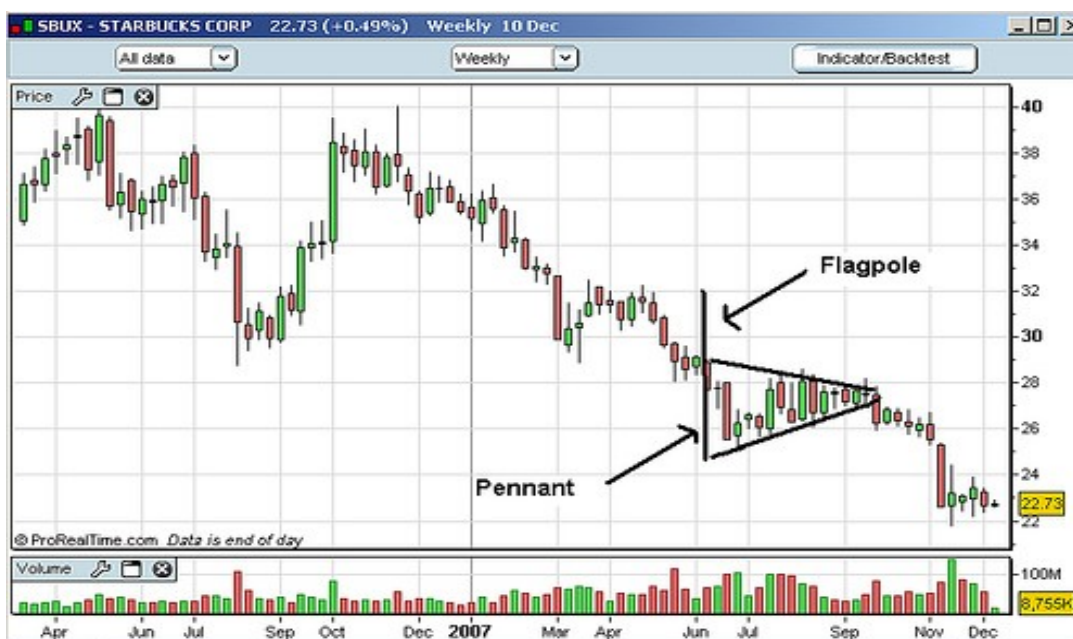
A small consolidation with converging upper and lower trend lines, forms a Pennant

Pennants

Pennants are really short-term triangles. They form with lower highs and higher lows, over one to five weeks. The line through the peaks and the line through the troughs converge and the pattern is completed by a break outside the converging lines.



This is a Pattern for bull Pennant.



This is a pattern for bear Pennant.

This pattern is a small resting place for the running market and it gives us an excellent trading opportunity. A trade is taken in the direction of the earlier trend, at the break out of the trend line. A stop loss order is placed below or above the pattern, as the case may be.