DOUBLE TOPS AND DOUBLE BOTTOMS

Double Tops

A Double Top Pattern is a bearish stock chart technical analysis charts reversal pattern that is found at market tops. Double tops are identified by two peaks of similar height, followed by a break below the level of the intervening trough. They are treacherous to trade, partly because of their similarity to triple tops and trading ranges.

The target for a breakout move is measured vertically from the highest peak to the support line drawn through the intervening trough. This is then projected downwards from the breakout point.

Double Top

Target

The target is measured vertically from the highest point to the bottom of the trough between the 2 peaks. It is then projected down from the breakout below the neckline.
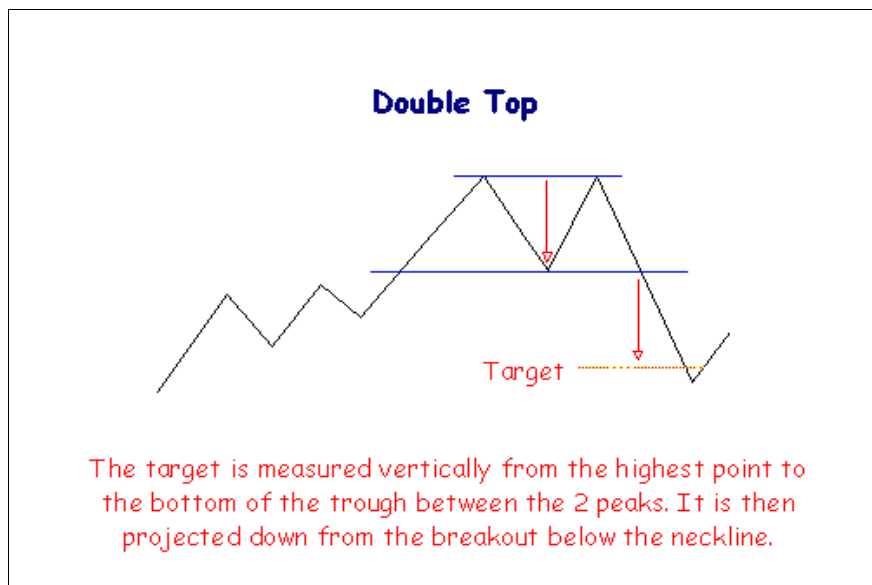
Volume confirmation
Reduced volume on the second peak followed by increased volume on the break below the support line.
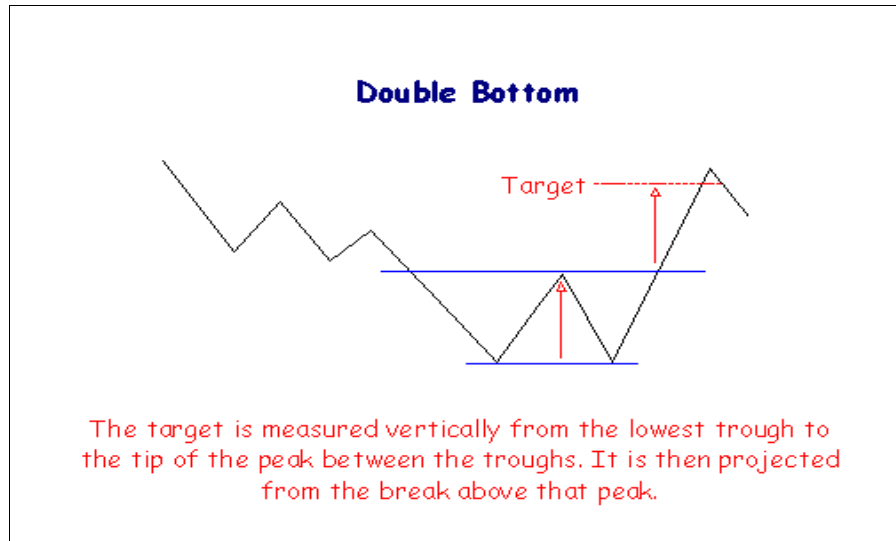
Trading Signals

Go short on a break below the support line.

Place a stop-loss just above the last peak.

Price often rallies back to the support line which then acts as a resistance level. Go short on a reversal signal and place a stop-loss just above the resistance level.

Double Bottoms

Double bottoms are also treacherous to trade, in part because of the similarity to triple bottoms and trading ranges. The target is measured from the lowest trough to the level of the intervening peak. It is then projected up from the break out above the resistance line.

Volume confirmation

Reduced volume on the second trough followed by increased volume on the break above the resistance line

Trading signals

Go long on a break above the resistance line.

Place a stop-loss just below the last trough.

Price often corrects back to the resistance line which then acts as a support level. Go long on a reversal signal and place a stop-loss just below the support level.