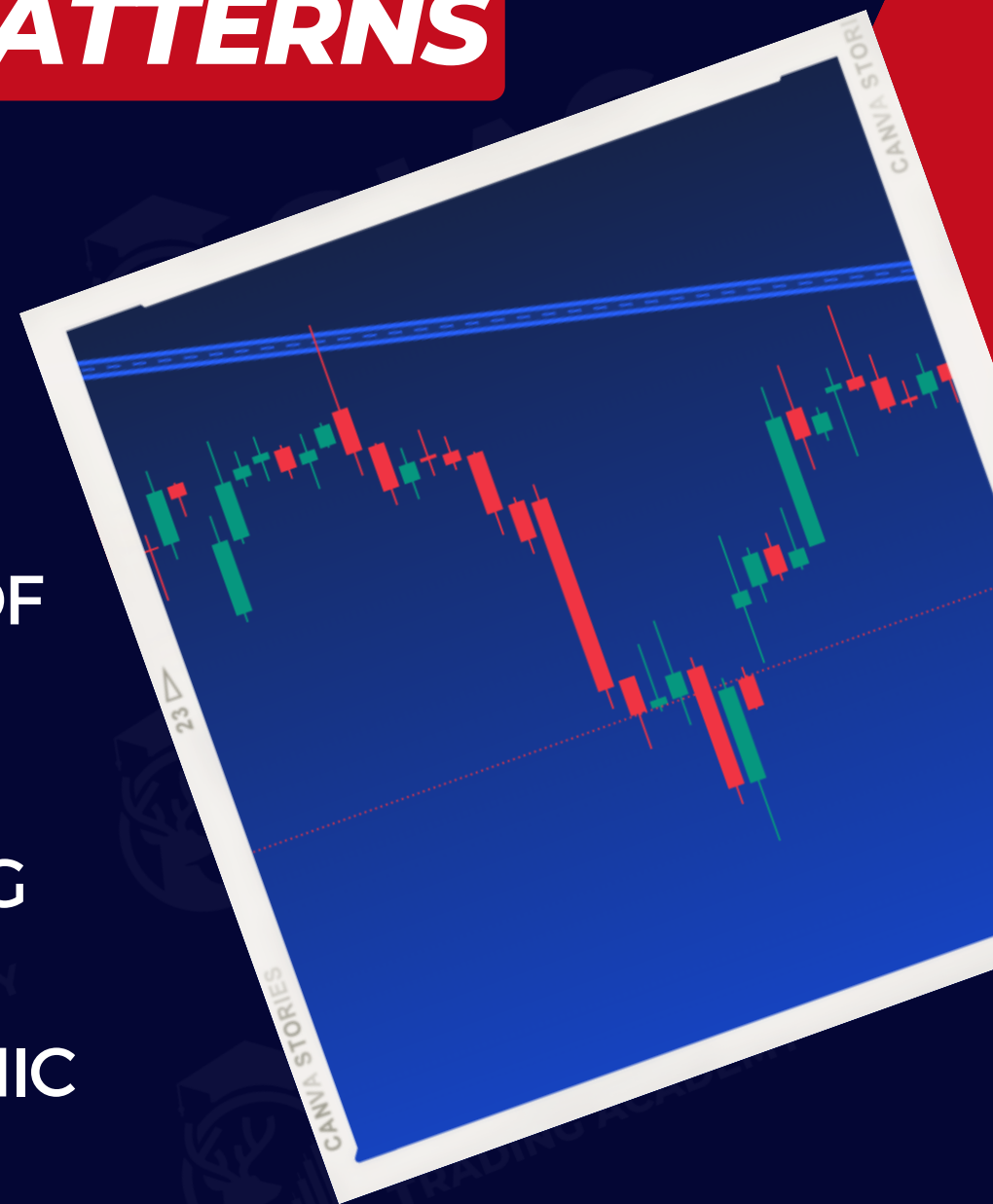# HOW TO TRADE CHART PATTERNS

- ANOTHER IMPORTANT WEAPON IN MARKET BATTLE : CHART PATTERNS

HOW TO TRADE CHART PATTERNS

CHART PATTERNS CAN BE LIKENED TO A LAND MINE DETECTOR AS THEY CAN HELP YOU IDENTIFY POTENTIAL MARKET "EXPLOSIONS" BEFORE THEY OCCUR. BY GAINING A THOROUGH UNDERSTANDING OF CHART PATTERNS, YOU CAN DEVELOP THE ABILITY TO SPOT OPPORTUNITIES FOR PROFITABLE TRADES, THEREBY INCREASING YOUR POTENTIAL FOR FINANCIAL GAIN. READY TO USE THE POWER OF THIS DYNAMIC TOO.

HOW TO TRADE CHART PATTERNS

REMEMBER, OUR GOAL IS TO SPOT BIG MOVEMENTS BEFORE THEY HAPPEN SO THAT WE CAN RIDE THEM OUT AND RAKE IN THE CASH. CHART FORMATIONS WILL GREATLY HELP US SPOT CONDITIONS WHERE THE PRICE IS READY TO BREAK OUT IN A CERTAIN DIRECTION.

HOW TO TRADE CHART PATTERNS

IN A NUTSHELL, CHART PATTERNS HELP YOU ANSWER THREE QUESTIONS: HOW DO I FIND POTENTIAL ENTRY POINTS IN A RISING (OR FALLING) TREND? HOW CAN CHART PATTERNS OFFER POTENTIAL ENTRY SIGNALS? HOW DO I KNOW WHEN TO GET OUT (EXIT SIGNAL) EITHER TO TAKE PROFIT (IF THE CHART PATTERN WORKED) OR CUT MY LOSSES (IF THE CHART PATTERN FAILED)? DON'T WORRY, WE'LL GIVE YOU A NEAT LITTLE CHEAT SHEET TO HELP YOU REMEMBER ALL THESE COOL PATTERNS AND STRATEGIES!

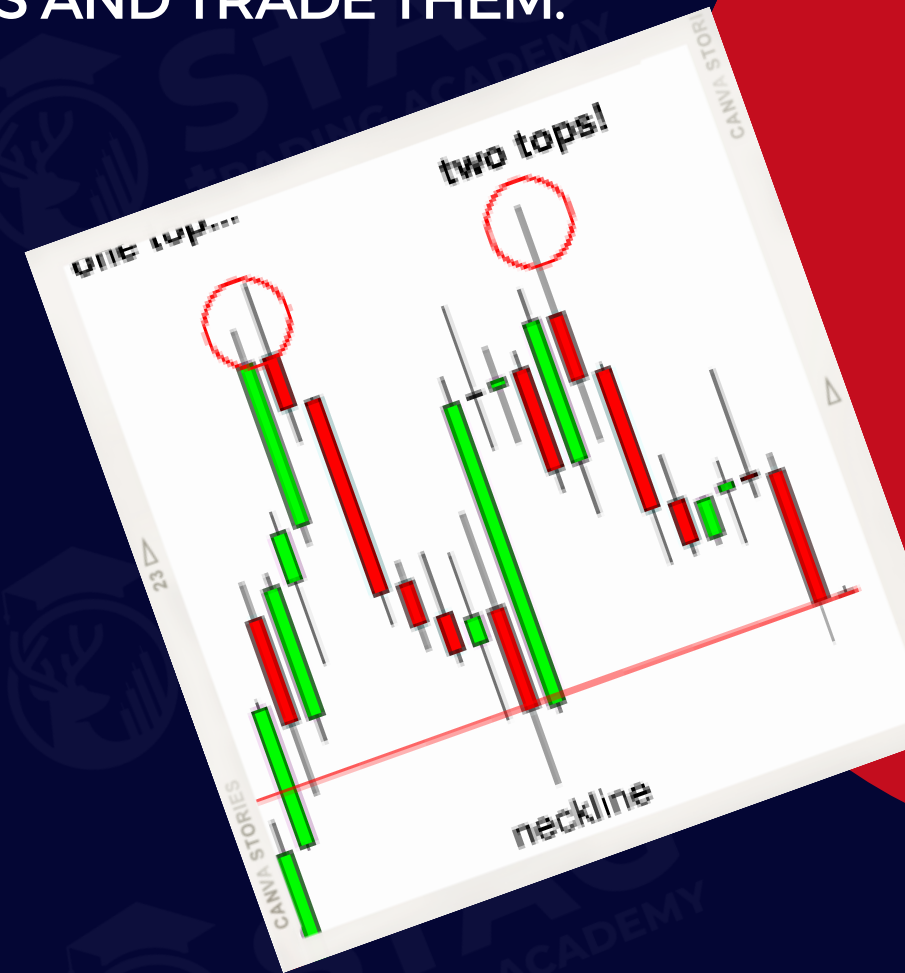# HOW TO INDENTIFY AND TRADE DOUBLE TOPS

WHEN A DOUBLE TOP CHART PATTERN APPEARS, A TREND REVERSAL HAS BEGUN.

HOW TO INDENTIFY AND TRADE DOUBLE TOPS

LET'S LEARN HOW TO IDENTIFY THESE CHART PATTERNS AND TRADE THEM.

A double top is a reversal pattern that is formed after there is an extended move up. The "tops" are peaks that are formed when the price hits a certain level that can't be broken. After hitting this level, the price will bounce off it slightly, but then return back to test the level again. If the price bounces off of that level again, then you have a DOUBLE top!
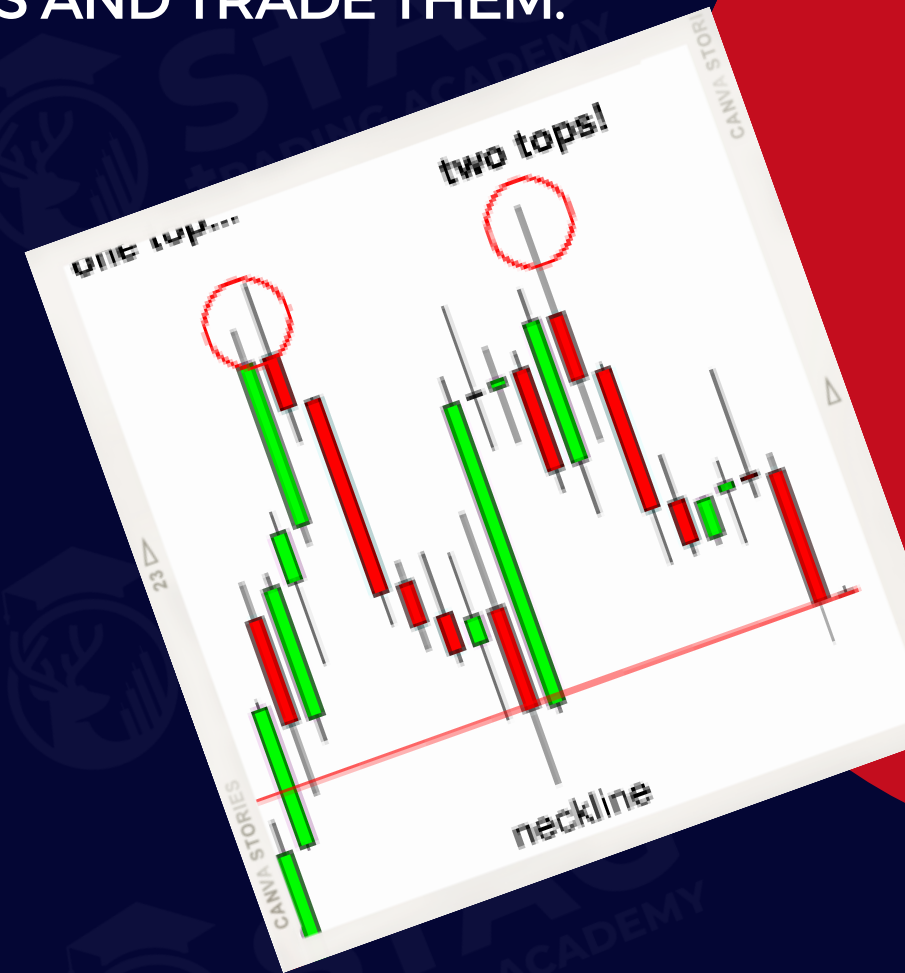
HOW TO INDENTIFY AND TRADE DOUBLE TOPS

LET'S LEARN HOW TO IDENTIFY THESE CHART PATTERNS AND TRADE THEM.

In the chart on right we can see that two peaks or "tops" were formed after a strong move up. Notice how the second top was not able to break the high of the first top. This is a strong sign that a reversal is going to occur because it is telling us that the buying pressure is just about finished.

HOW TO INDENTIFY AND TRADE DOUBLE TOPS

LET'S LEARN HOW TO IDENTIFY THESE CHART PATTERNS AND TRADE THEM.

With the double top, we would place our entry order below the neckline because we are anticipating a reversal of the uptrend.

LOOKING AT THE CHART YOU CAN SEE THAT THE PRICE BREAKS THE NECKLINE AND MAKES A NICE MOVE DOWN.

neckline

price drops down!

HOW TO INDENTIFY AND TRADE DOUBLE TOPS

LET'S LEARN HOW TO IDENTIFY THESE CHART PATTERNS AND TRADE THEM.

Remember that double tops are a trend reversal formation so you'll want to look for these after there is a strong uptrend. You'll also notice that the drop is approximately the same height as the double top formation. Keep that in mind because that'll be useful in setting profit targets.

neckline

price drops down!

DOUBLE BOTTOMS

neckline

first bottom

second bottom

HOW TO INDENTIFY AND TRADE DOUBLE BOTTOM

The double bottom is also a trend reversal formation, but this time we are looking to go long instead of short.

These formations occur after extended downtrends when two valleys or "bottoms" have been formed.

neckline

first bottom
second bottom

HOW TO INDENTIFY AND TRADE DOUBLE BOTTOM

We can see from the chart that after the previous downtrend, the price formed two valleys because it wasn't able to go below a certain level.

Notice how the second bottom wasn't able to significantly break the first bottom.

HOW TO INDENTIFY AND TRADE DOUBLE BOTTOM

The price broke the neckline and made a nice move up. See how the price jumped by almost the same height as that of the double bottom formation?

Remember, just like double tops, double bottoms are also trend reversal formations.

You'll want to look for these after a strong downtrend.

HEAD AND SHOULDERS PATTERN

HOW TO INDENTIFY AND TRADE HEAD AND SHOULDERS

The head and shoulders chart pattern is a reversal pattern and most often seen in uptrends.

A head and shoulders pattern is also a trend reversal formation.

HOW TO INDENTIFY AND TRADE HEAD AND SHOULDERS

It is formed by a peak (shoulder), followed by a higher peak (head), and then another lower peak (shoulder).

HOW TO INDENTIFY AND TRADE HEAD AND SHOULDERS

A "neckline" is drawn by connecting the lowest points of the two troughs. The slope of this line can either be up or down. Typically, when the slope is down, it produces a more reliable signal.

HOW TO INDENTIFY AND TRADE HEAD AND SHOULDERS

The head is the second peak and is the highest point in the pattern. The two shoulders also form peaks but do not exceed the height of the head. With this formation, we put an entry order below the neckline.

We can also calculate a target by measuring the high point of the head to the neckline.

This distance is approximately how far the price will move after it breaks the neckline.

INVERSE HEAD AND SHOULDERS

HOW TO INDENTIFY AND TRADE INVERSE HEAD AND SHOULDERS

A valley is formed (shoulder), followed by an even lower valley (head), and then another higher valley (shoulder).

These formations occur after extended downward movements.

HOW TO INDENTIFY AND TRADE INVERSE HEAD AND SHOULDERS

With this formation, we would place a long entry order above the neckline. Our target is calculated just like the head and shoulders pattern.

Measure the distance between the head and the neckline, and that is approximately the distance that the price will move after it breaks the neckline.