



Share Market
Toolbox

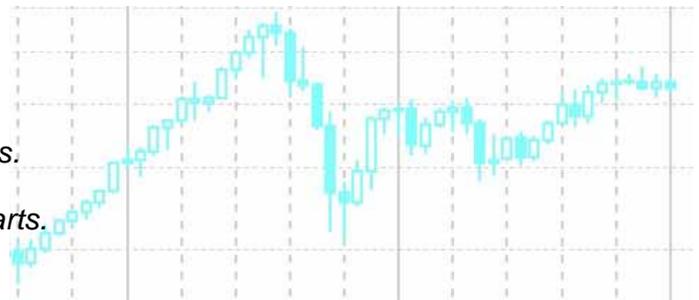
Chart Patterns

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Price charts summarise the underlying opinions and emotions of the market participants. Every chart tells a story. It pays to understand the stories in the price charts.



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Revision: 1c



Introduction

About this presentation

- First drafted May 2016
- First audience: BullCharts User Group

The Premium Toolbox Member version of this presentation includes some extra comments on the “Notes” version.





Today's Agenda

Chart patterns:

Basing, consolidation, rectangle, triangle, double top/bottom, channels, head and shoulders, wedges, flags, pennants, rounding tops/bottoms, cup and handle

1. How useful are they?
2. How can we spot them?
3. Time periods (daily, weekly, monthly)?
4. Volume is important?



Please note:

This presentation provides a high level overview to this topic, and is good to structure group discussion for participants to share experiences.





Important Notice — No Advice!

- This presentation does not include any advice.
- For proper advice, your personal financial situation needs to be considered.
- This presentation is pure education, only for your general awareness.
- There are no recommendations to take any action, or to invest any money in any way.
- Always consult a properly licensed advisor before making investment decisions.



Important Notice





Your opinion? — True or False:

(a) The opinions of market participants are summarised in the price charts.

(b) This produces discernible "patterns" on the charts as well as lines of support and resistance which can be the boundaries of a chart pattern.



Are patterns useful?

Why bother with chart patterns?

Are they useful? How can we utilise them?

1. To anticipate a possible price move?
2. To estimate the range of a potential move?
3. Bottom line is to make money and increase wealth!
4. other?





How to spot a pattern forming?

There seem to be two ways to spot a chart pattern forming, one of which is obvious:

- Learn all of the possible chart patterns, and then study the price charts to see if a pattern is apparent.
- Draw straight lines on a chart to “enclose” the price action, and these straight lines might suggest a pattern forming.

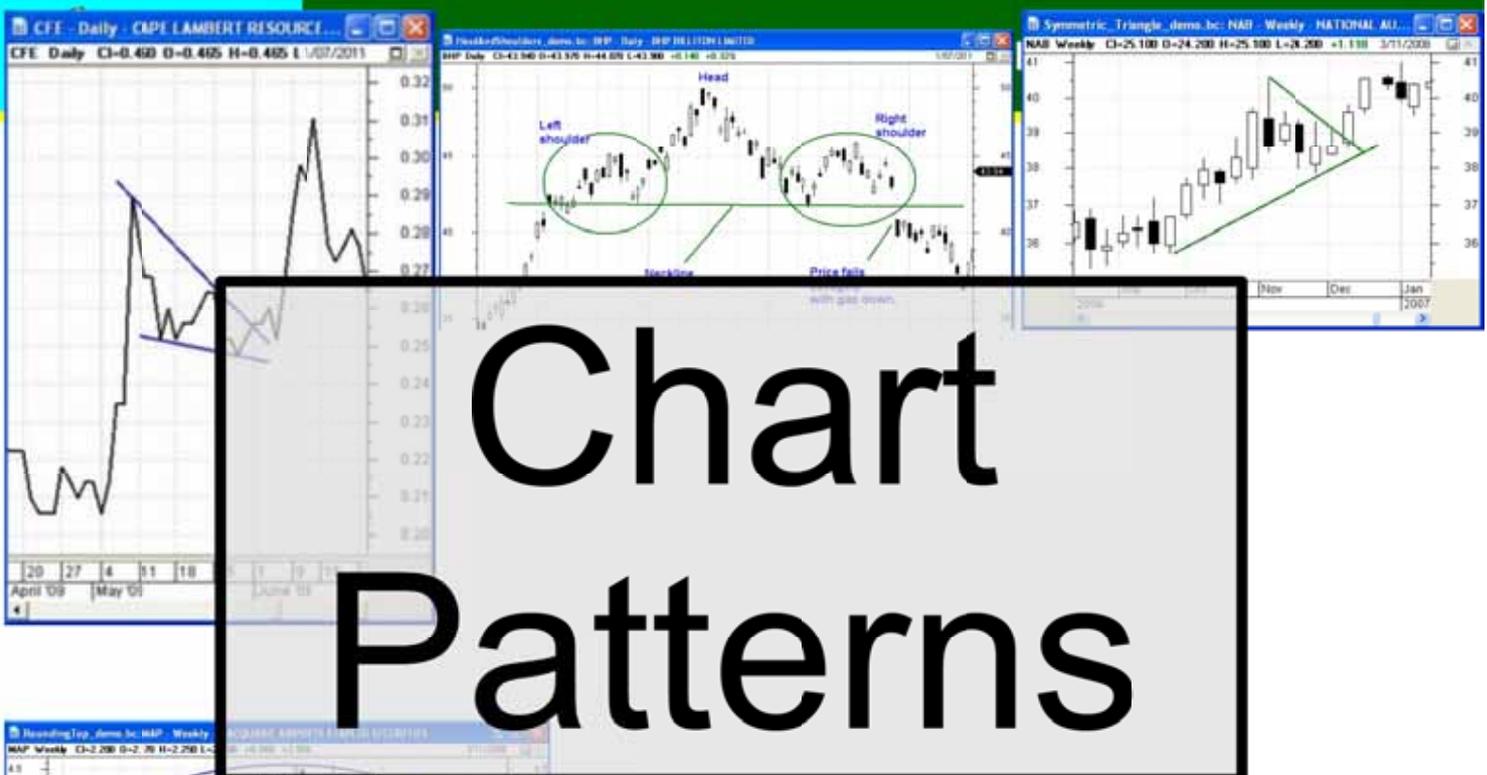




Chart Patterns

Basing, Consolidation, Rectangle *



* — Continuation or reversal?



Chart Patterns

Triangle *

It can also be useful to study the price action prior to the pattern, and the volume.

Descending Triangle



Symmetrical Triangle

The lines drawn here contain all price action.

* — Continuation or reversal?





Why do patterns form?

We said earlier that the price charts summarise the opinions of market participants.

The patterns form because of the tug of war between buyers and sellers, based on their own opinion about the “fair value” of the equity which they are trading.

When the price falls too low, then the sellers stop selling, and buyers step in to snap up the (cheap) stock.

Triangle patterns indicate a convergence of opinions about the “fair value”.



Period? — Daily, Weekly?

When looking for a pattern, does it matter which time period we study?

In fact, any time period is useful.

However, a longer period (eg. weekly or monthly) may not show some of the extremes in price movement. So perhaps the daily is preferred.

Intraday traders will use whatever time period suits their strategy.





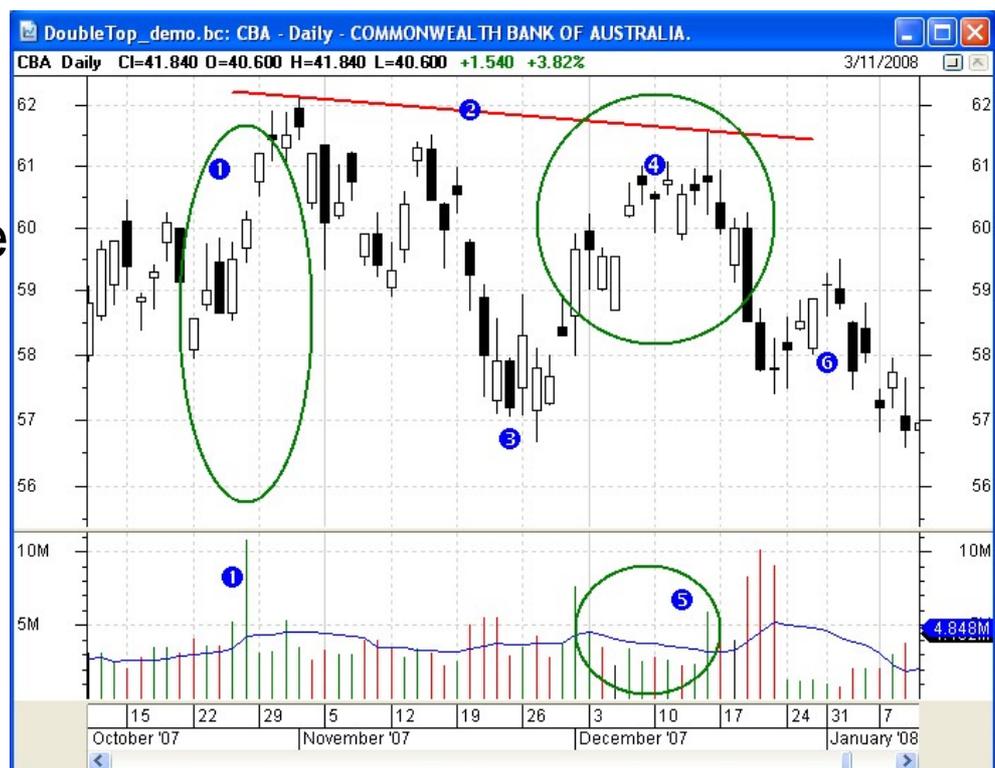
Line chart or candles?

1. A weekly (or maybe even a monthly) line chart can be useful to help spot the big-picture chart patterns.
2. But the candles in any time frame are more useful because they show the extremes in price (the line chart only shows the last close price in the period).
3. It can be useful to look at the tips of the candles (highs and lows), rather than the close values.



Double Top/Bottom *

This example is almost a Triple Top but it indicates the concept.



* — Continuation or reversal?





Channels

1. Ascending channel
2. Descending channel
3. Sideways channel



Head and Shoulders *



* — Continuation or reversal?



Chart Patterns

Wedges *



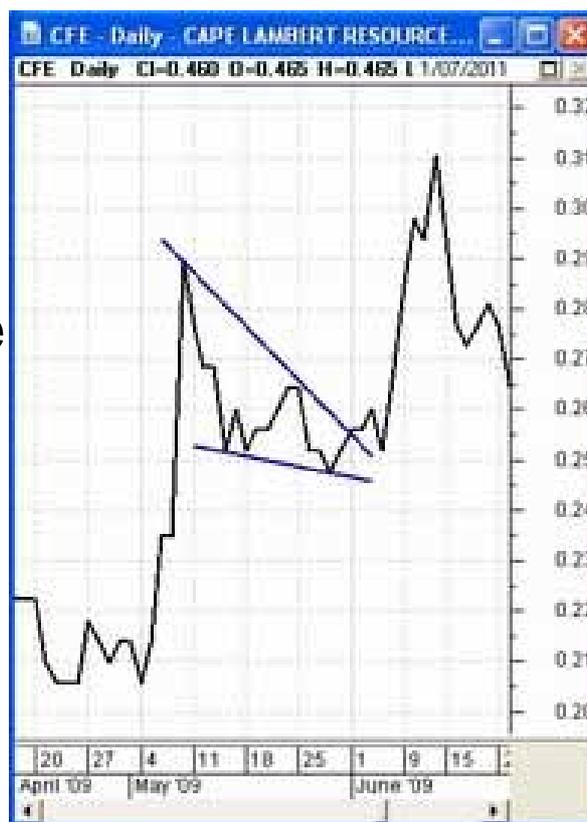
* — Continuation or reversal?



Chart Patterns

Flags *, Pennants *

Some patterns are more apparent on the more speculative stocks which tend to run up into over-bought territory, then subside for a bit, then run up again.



* — Continuation or reversal?





Rounding Top/Bottom



Cup and Handle?

(no sample chart yet)





Volume

Is it useful to also look at volume?

Well, many traders/investors believe that it is more than useful — they believe that studying volume is actually critical!



Summary & Wrap up

Chart patterns — Summary

- What about continuation versus reversal patterns?
- Are chart patterns useful?
- How to spot them?
- Confirm with volume? and indicators?
- Key observations...?
- What have we missed?
- More info: <http://www.investopedia.com/university/charts/charts11.asp>

***Every chart tells a story.
It pays to understand the stories in the charts.***





Q & A ?

Any questions?



THE END

THANK YOU

(backup slides follow)

