



Brainy's Articles on Technical Analysis

Chart patterns — introduction

Article No:
TA-3410
page 1 of 9
June 2011

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Introduction

In the world of technical analysis, if we consider what some people refer to as “primary analysis” where we only look at the plain price chart, then chart patterns can actually tell us a lot about the price action, and the underlying mood and sentiment of the market. Their usefulness is often under-rated, and in fact many professional traders rely heavily on chart patterns.

In this article in Brainy's series on Technical Analysis (number TA-3410) we take an introductory look at chart patterns, and the range of different types of chart patterns, including an explanation of what causes these patterns to develop, and the relevance and importance of volume.

Readers should also refer to other Articles in this series for more information, in particular:

- TA-3500, “*Triangle chart patterns*”, and
- TA-3600, “*Megaphone chart pattern*”.

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Overview

The majority of chart patterns tend to fall into one of the following categories:

- Basing or consolidation pattern
- Rectangle
- Triangle
- Double or triple top
- Double or triple bottom
- Head and shoulders
- Wedges
- Flags and pennants
- Rounding top / bottom.

There are other known and recognised chart patterns, but those listed here tend to cover the vast majority of more common patterns.



Figure 1: Sample chart pattern - Ascending Triangle.

What is the point?

Traders and investors can use chart patterns to read the mood of the market, and to gauge a possible change in trend, or a continuation in trend. They can also anticipate a likely price target using the *Measure Rule*, and determine a likely *Reward/Risk ratio* to help manage a subsequent trade. Chart patterns can last from a few days to many months or even years.

As with much of technical analysis, this is not 100% guaranteed, but by understanding this material, we can improve our chances of success in the markets.

(More details on following pages .../)