Technical Analysis Workshop Series

Session Three
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Agenda

• Introduction to Chart Patterns
• Double Top and Double Bottom
• Head and Shoulders and Inverse Head and Shoulders
• Rising and Falling Wedges
• Rounding Top and Rounding Bottom
• Triangles (Ascending, descending, symmetrical)
• Practice!
Introduction to Chart Patterns
Chart Patterns

• Play an important role in Technical Analysis
• Form repeating patterns or shapes
• Help traders to determine market direction as well as time entries and exits
• Two types of patterns in this area of technical analysis: Reversal and continuation
Double Top & Double Bottom
Double Top

- Formed in an uptrend
- Price bounces off after hitting a certain level
- Price returns to test the level
- Double Top formed when price bounces off again
Trading Strategy: Double Top

- Place our entry order below the support
- Profit Target: Distance between the bottom of the trough and the top of the 2 peaks
- Projected downward from the bottom of the trough
Double Bottom

- Formed in an downtrend
- Price bounces off after hitting a certain level
- Price returns to test the level
- Double Bottom formed when price bounces off again
Trading Strategy: Double Bottom

- Place our entry order above the resistance
- Profit Target: Distance between the top of the peak and the bottom of the two troughs
- Projected upward from the top of the peak
Triple Top & Triple Bottom
Head & Shoulders
Inverse Head & Shoulders
Head & Shoulders

- Formed in an uptrend
- 2\textsuperscript{nd} peak is the highest point
- Shoulders do not exceed the head
- Connect lowest points of 2 troughs to form neckline
Trading Strategy: Head & Shoulders

- Place our entry order below the support
- Profit Target: Head of the pattern down to the neckline
- Projecting that distance downward from the breakpoint of the neckline
Inverse Head & Shoulders

- Formed in a downtrend
- 2nd trough is the lowest point
- Shoulders do not exceed the head
- Connect highest points of 2 peaks to form neckline
Trading Strategy: Inverse Head & Shoulders

- Place our entry order above the resistance
- Profit Target: Head of the pattern up to the neckline
- Projecting that distance upward from the breakpoint of the neckline
Rising Wedges & Falling Wedges
Rising Wedge

- Higher lows formed faster than higher highs
- Contraction of the range indicates that the uptrend is losing steam
- If formed in uptrend -> Bearish reversal
Trading Strategy: Rising Wedge

- Place our entry order below the support
- Profit Target: distance from the lowest trough on the pattern to the highest peak
- Projecting downward from the breakpoint
Falling Wedge

- Lower highs formed faster than lower lows
- Contraction of the range indicates that the downtrend is losing steam
- If formed in downtrend -> Bullish reversal
Trading Strategy: Falling Wedge

- Place our entry order above the resistance
- Profit Target: distance from the highest peak to the lowest trough
- Projecting upward from the breakpoint
Triangles
Ascending Triangle

- Resistance & higher lows
- Normally seen in uptrends -> Continuation pattern
- If formed in **downtrend** -> Strong bullish **reversal**
Trading Strategy: Ascending Triangle

• Most of the time, prices would rise
• What if price fails to break resistance?
• Place entry above resistance and below slope of the higher low
• Profit Target: same distance as the height of the triangle formation.
Descending Triangle

- Support & lower highs
- Normally seen in downtrends -> Continuation pattern
- If formed in **uptrend** -> Strong bearish **reversal**
Trading Strategy: Descending Triangle

- Most of the time, prices would fall.
- What if price fails to break support?
- Place entry below support and above slope of the lower high.
- Profit Target: same distance as the height of the triangle formation.
Symmetrical Triangle

- Associated with directionless markets
- Lower highs & Higher lows
- Reversal if:
  - In uptrend, breaks to downside
  - In downtrend, breaks to upside
Trading Strategy: Symmetrical Triangle

- Place entry above the slope of the lower highs and below the slope of the higher lows.
- Profit Target: same distance as the height of the triangle formation
Risk Management: Stop Loss

Question: Do reversal patterns play out all the time?

• Important to set stop losses!
• Size of stop loss: Target profit distance divide by two
Overview: Reversal Patterns

- Double Top
- Head and Shoulders
- Rising Wedge
- Double Bottom
- Inverse Head and Shoulders
- Falling Wedge
- Ascending Triangle
- Descending Triangle
- Symmetrical Triangle

INTRODUCTION | REVERSAL PATTERNS | PRACTICE | Q & A
Other Reversal Patterns
Rounding Top

- Shape of an upside down “U”
- Form at the end of an extended upward trend
- Signify reversal in long term price movements
- Pattern can develop over several weeks, months or even years

Source: Chart by MetaStock
Rounding Bottom

- Shape of a “U”
- Form at the end of an extended downward trend
- Signify reversal in long term price movements
- Pattern can develop over several weeks, months or even years
Practice
Practice 1
Practice 1
Practice 2
Practice 2

Head and Shoulders

$2.05
Practice 3
Practice 3

头肩走势 (Head & Shoulders)
Practice 4
Practice 4

INTRODUCTION

REVERSAL PATTERNS

PRACTICE

Q & A
Practice 5

SGX - Golden Agri
Golden Agri (E6H) 06/09/2010 O=0.58 H=0.585 L=0.575 C=0.586 V=32.3M Chg=+0.01 (+1.7%)

Rising Wedge
Practice 6

EURUSD.arm, Weekly  1.27954 1.28830 1.27532 1.28731

Symmetrical Triangle
SUMMARY

• Reversal patterns signal that the ongoing trend is about to change course
  • If formed in downtrend, price would rise
  • If formed in uptrend, price would fall
• Practice and more practice!
Q & A
THANK YOU!
References

- http://www.babypips.com
- http://www.informedtrades.com
- http://www.thestockbandit.com/chart-patterns/