TRANSCRIPT

Identifying chart patterns with technical analysis

Colin Songer: Thank you, so much, everyone, for joining us here today. Really appreciate it. So my name is Colin Songer. I'm along with my colleague James Savage from the Trading Strategy Desk here at Fidelity. Before we really dive into the material here, let me give you a quick synopsis of what the Trading Strategy Desk is and what we do. So our desk works with self-directed investors, through education and coaching, through a process of challenging and refining their approaches to the trading strategies. We maintain a focus on reading charts, technical analysis concepts, as well as option and option and strategies, option concepts, and just the general trade process and risk management that goes along with trading. Now, we primarily do online coaching sessions, ranging from doing morning market briefings we do Monday through Friday and share what we look for in the mornings, to help make you more aware in terms of your risk management in trading -- as well as various topics dealing with indicators, reading charts, Active Trader Pro tools, as well as option and option strategies. For beginners, we do have four-week courses that focus on technical analysis, options, trading basics, as well as Active Trader Pro. So if that's something that does interest you and you're beginning out, those are some great classes, that you could join us, that includes homework. And it's one hour a week.

With that being stated, let's start diving in the materials and let's cover our disclosures. Any screenshots, charts, company trading symbols mentioned are provided for illustrative purposes only, should not be considered an offer to sell, a solicitation of an offer to buy, or a recommendation for the security. Investing involves risk, including risk of loss. Past performance is no guarantee of future results. Stop-loss orders do not guarantee the execution price you'll receive and have additional risks, that may be compounded in periods of market volatility. Stop-loss orders could be triggered by price swings and could result in an execution well below your trigger price. Trailing stop orders may have increased risk, due to the reliance on trigger pricing, which may be compounded in periods of market volatility, as well as market data and other internal, external system factors. Trailing stop orders are held on a separate, internal order file, placed on a not-held basis, and only monitored between 9:30 a.m. and 4:00 p.m. Eastern Time. Technical analysis focuses on market action -- specifically, volume and price. Technical analysis is only one approach to analyzing stocks. When considering which stocks to buy or sell, you should use the approach that you're most comfortable with. As with all your investments, you must make your own determination as whether an investment in any particular security or securities is right for you, based on

your investment objectives, risk tolerance, and financial situation. Past performance is no guarantee of future results.

Now this particular content we'll be covering, identifying chart patterns, is really on the basis of what we learn in terms of a four-part series. These basic concepts have been laid out in the foundation, and "Getting Started with Technical Analysis." We build on it, and understanding indicators. Then we arrive at identifying chart patterns and, more importantly, managing risk. Because that's our primary job as traders, managing the risk on our trades. Now when we created this, it was really inspired by Charles Kirkpatrick. So a lot of the concepts that were pulled were inspired from the work that he's done. As a matter of fact, I (laughs) have his book right on my desk, *Technical Analys-- The Complete Resource for Financial Market Technicians*.

So let's talk about what we're covering here today. We're going to be, first, starting off with the idea of understanding patterns and their limits. We're going to be moving over to techniques for trading patterns. And then we're going to be actually discussing the construction of some common chart patterns, to give you examples to get a better understan-- how we can trade these chart patterns. I'm going to step aside and allow James to introduce himself and get us kicked off.

James Savage: Thank you, very much, for that, Colin. And, yes, let me take this opportunity to thank you again for joining us here, as well. My name is James Savage. And I want to thank you, again, for joining us here, out of the Merrimack office. So we've got the Venn diagram in front of us, right? These are going to be the three categories that we're going to be kind of touching on today, whether that's going to be -- first, understanding those patterns and limits, then getting into the techniques for trading the patterns -- and, finally, we're going to go over the construction of the common chart patterns. Each of these themes are going to be very important in kind of understanding not only how to read these patterns but also how to use them in your own trading.

Now before we kick it off and actually start looking at some patterns, we need to sometimes understand the ground rules. Right. So we need to understand a little bit about what is a pattern. And by its, we'll say, simplest definition, a patter is bound by at least two trend lines. Now, these can be straight, that I think most of you are probably familiar with, or curved trend lines. And we'll get to show an example of that later on, as well. Now, patterns can have a combination of both entry and exit points. And you can think of this as a beginning and an end to the pattern. Now, they can be both a continuation or a reversal of the current trend. Now what I mean by that is... Let's say we are

in a bullish trend. Right? As we're looking at our chart from left to right, it's going up. A continuation will be some pattern that, at the fruition of this pattern, at the termination, at the end of it, we're going to continue in that bullish pattern. Hence, a continuation. A reversal would be... Well, you probably guessed it. If we were in that bullish trend that I gave as the example, as we enter and exit the pattern, what will we be in? A bearish trend. We'll be going in the opposite direction. So these are going to be those two types of patterns that we're going to be covering, such as continuation or reversal. Also, interesting to note... I get this question all the time, in our coaching sessions -- is what is the best timeframe for our patterns? Well, they are fractal. What that means is they can be used in any charting period, whether your frequency is going to be minute, weekly, daily, monthly. We can expand these out to our charts, whether, again, we're looking at it at the timeframe of a day, a couple of days, or even a year. So keep that in mind, going forward. These patterns can be used in multiple different timeframes. And finally, very important... I think this needs to be, sometimes, stressed with anyone looking to learn about patterns -- is that they're not complete or, we can say, activated until the actual breakout occurs. In other words, these patterns are not going to be considered patterns until they actual, we'll say, completion of that pattern has been realized. So we don't want to get ahead of ourself, when we think a patter may be forming, because ultimately it's not

going to be telling us and giving us those signals until it's actually been confirmed.

Now, in addition to understanding some of the patterns and their limits, well, let's talk about some of the limits of patterns. And keep in mind a few things that we need to also kind of internalize a bit. As humans, we instinctively look for patterns. It's part of our nature. Now, this happens also on charts. It is quite a common tendency, especially with traders that I speak with, to sometimes project their own bias, their own belief on the chart. If they're bullish, well, they could be looking at a chart, and almost as if they have blinders on. They're looking for bullish patterns. And they are sometimes even subconsciously ignoring the patterns that would actually invalidate their thesis or their bias. So we need to keep this in mind, going forward, that our own biases will be projecting on the chart. It's tough to fight our nature. But if we're cognizant and aware of it, it's going to help us be a better, informed, and prepared trader. Also, it is important to keep in mind that, even though we're looking at past price action, our focus should be on reacting to what will be happening with price, not that we're predicting it with these patterns but we're reacting to what has happened and we're going to be looking forward at what could happen, especially when it comes to our exit plan. And finally, we want to remain flexible. When conditions change, whether that be news on

the company, for example, or possibly a macro event that's affecting the global marketplace, we need to be flexible and able to adjust our original price targets if conditions warrant such adjustment. So really, as we kind of go through these patterns and talk about the various kind of ideas to trade them, keep some of these principles, keep some of these ground rules in mind.

And before, also, we get to going into the patterns, let's talk about some of the techniques to trade patterns. Colin, what are some of the techniques that we can use?

Colin Songer: Yeah. Some that I always remember... And a great saying -- right? -- is history doesn't repeat, it rhymes. Right? And so that's the idea of being flexible, right? Not everything is going to follow those same patterns. So let's talk about some ways that we can put it to use. And one of the things to remember is we're trying to create this mechanical. We wanted to be able to not only do the process, and something that works for us, and be able to define it but we want to make it a repeatable process. So if we know the concepts that go into it, we can apply those concepts for future trades or opportunities that we view. So here are a few techniques. The idea of breakouts, right? Entering in, you see it as an opportunity. The idea of entry stops, making it mechanical. Have something in there, when that event does

happen. Protective stops, the idea of managing the risk on a trade, admitting that we're wrong. And then retracements, right? It's that emotional appeal, where it does break out but then it falls and you feel that emotional s-- just pulling on your heart. "I'm already wrong on the trade." Well, just realize that these events do happen, so we don't get that emotional response. We stick with the game plan that we had in place. We'll be covering that.

So let's start off from the top of the line. Let's go with breakouts. Let's talk about this idea of breakouts. When we're discussing about chart patterns, it's basically a trade process that's given to us in front. Now whether or not we follow it, that's up to each trader. A breakout is simply a violation of a trend line, a support-resistance area, or just previous reversal points that we found. It's just saying that there's been a shift in buyer and seller behavior. And this signals either the beginning or the end of a trend. As we can here from the visual, it pushed up to this potential price level, that was viewed as resistance. Because those sellers came in and sold it back down. Eventually, the bulls gathered up their courage and pushed it back up to that resistance area. But this time, they were able to push through that level. And once it gets through that level, not before, that's where we can use that as a potential breakout. But here's the thing. How do we know it's a breakout, if we're not specific with it, which is extremely important?

Well, here's a way that we can be specific with it. You've got to define what that is, by using confirmation filters. Now what confirmation filters are, we're waiting for these type of events to show us and confirm that that breakout is indeed happening. Now some are more aggressive than others. The first one is the intrabar. This is simply just what's known as a piercing, which means the price, at some point throughout the day, has crossed over that level that I viewed as a breakout, above that particular level. Now this is aggressive. If you're right, you're getting in that movement much earlier. That means you get more of that movement as part of your trade. The downfall -- and there's a disadvantage to every advantage -- is that you are going to subject yourself and open yourself up to more potential false signals. And we'll go into those in just a moment. But you could have more of those false signals in there.

Now there's the multiple closes. Now, this is basically stating that I don't believe it's a breakout until I get a close above or below that particular level that I identified as a breakout. Now, it could be one close, could be two closes, could be even three closes. The advantage is you have more confidence that that breakout is indeed going to go in the direction that you think it's going to go. The downfall is you're getting in later in the trade. So that means you don't get as much of the movement.

Now, talking about multiple closes, well, how about time? Maybe I just need more time to pass before I believe that this is indeed a breakout of that particular chart pattern or support and resistance, whether it's a couple of days, whether it's couple hours (laughs) in the day, especially if it's an intraday chart we're looking at, or maybe even if it's minutes, or even a weekly pattern -- right? -- where I'm looking at the frequency of a weekly pattern. Maybe I need two weeks to confirm that that movement's in there. It's all based on the preference of the trader and just weighing those advantages and disadvantage, see which one aligns.

And the two other ones, I think, go hand-in-hand, the first one being a percentage movement from that breakout point or even how many points away from there, to confirm that, yes, this is indeed going to continue on its way, or even, you know, monetary factors. In other words, "If it's -- goes $100 more away from that breakout point, look, I think that's a good point to go in." All goes back to the trader and their preference for it.

So now that we have those confirmation filters in place, well, let's start implementing, right? So let's say, if I choose one and I'm specific with it, how do I view a potential entry into these, if I viewed a particular area?

James Savage: So as Colin sometimes likes to say, this is where the rubber starts to meet the road. So keep in mind that theme of breakouts. Because you're going to see that breakout theme almost on every chart pattern that we're going to be talking about today. Well, now let's talk about, well, how do we trade with these breakouts? And entry stops are one way to trade the breakout. Now you may be familiar with stop-losses. I think, when folks hear the word *stop*, their mind immediately goes to a stop-loss, which is a way to exit a position when the price moves down. What a buy stop is, though, from the long, kind of, perspective, it allows us to enter a position on an upward movement of price. It's along the theme of, let's say, buy high, sell higher. Now what a buy stop is is it-- a way to automate and put a level on price that, once price either hits that point or crosses through, it will enter as a market order. So how can we use this for breakouts? Well, I've got an example on the slides here. We've got two, we'll say, lines. We've got both a resistance line and a trend line. Now, what we could be looking for as a trader -- if we've identified these two lines as points where, if we believe that price will break above this, it is worth going long, entering the position, because we think we're going to see bullish movement after this breakout. As Colin mentioned, what can we use for our confirmation filter? Are we going to get in when it either hits a certain price above this, when it pierces through it on an intraday

basis, when it closes above this line, when it goes a certain percentage above this line? Either confirmation filter is going to be up to you. But in this example, what we're doing is we're actually setting that buy stop, either above the trend line or above the resistance so we're waiting for our breakout to take place before we go long.

Now all because a breakout has occurred doesn't mean we can go all in with abandon. We need an exit plan. Because there are a few things that could happen, that could really throw a wrench in our plan here. We need to be aware of what's called false and failed breakouts. They're similar but different. A false breakout is when price immediately returns through that breakout, we'll say, resistance line that we had, in this case. A failed breakout is that not only does it fall back through that resistance but it also now breaks out in the opposite direction, in the unexpected direction, that we were not planning for. So we need to be really on our toes here and be on the lookout for possibly these false and failed breakout, because they can really turn the game that we're planning on into a loss. And as you can see on the chart that we have here, we don't want to get caught in this runaway breakout in the opposite direction that we may have planned for.

So one way that we can do this is with a protective stop. This is going to be a little more what you may be familiar with with the term *stop*. We could also say this is something like a stop-loss. And there's a few ways that we can use this. In the example that we have here, as a way to, say, automate our exit, we can use our stop-loss and use that price level to actually determine the amount of capital we're going to put at risk before we enter. Let me kind of use this chart as an example. If you can see these lines, that protective stop line that we've highlighted, that is at about $191. Our breakout line is at about 195. If we've identified a resistance and we possibly have our buy stop, our entry stop on the upside, waiting for it to jump above, we need to have that exit plan, if we're wrong. What if it does pull back? What if it becomes a false or, even yet worse, a failed breakout? Well, by putting a protective stop, we're going to be ready to act, should we get that adverse pullback, that false breakout, that failed breakout. So protective stops, whether we want to do it and base it on a certain dollar amount from our entry price, a percentage, maybe a certain timeframe that we'll put it, that's going to be up to you. The key point here is to have an exit, have a protective stop in place. And we gave the example of using something like a support level that was identified in this case, on our chart.

Now one thing I like to do is kind of put it all together here. So let's talk about using both the entry stop that we talked about -- right? -- that's the way to get in on breakout -- the protective stop, to possibly get out. And let's put that in the context of a scenario of both a false and failed breakout, as well. And that's what we have exactly on our chart here. So if you see that downward-sloping trend line and upward-sloping trend line, this is what's referred to as a symmetrical triangle. But we'll be getting into that shortly here. Now, what a trader could try to do here is, should it break either up or down, to enter into the position. So let's say we saw that initial upward break from that downward-sloping trend line. Had we entered the position there, with possibly an entry stop to buy stock, well, want to have our exit plan, just in case we get a failed breakout. So then we could put our stop-loss. And, and this is key here, not only are we doing a stop-lo-- we would be placing an entry stop on the short side, a sell-short stop, at the same level of the stop-loss, which is called a stop-and-reverse. Now this is a fairly advanced strategy. And I'm trying to go very high-level, just so you can get the general idea that, by entering in this trade, going long, and initially, we could have an exit plan to get out of our long position and then enter into a short position, should we get a failed breakout, which is what ends up happening here. Now, there is something else I really want to mention on this chart here. You can kind of take a look. After it breaks through that upward-sloping trend line, look what

the price does. Do you notice how it comes back and kind of pulls back up, as if it was possibly going to, we'll say, fail again -- right? -- become another false breakout? But it hits that line and bounces back. This is what's referred to as a retracement.

And this is going to be another key concept with understanding pattern. We need to be on the lookout for retracement, that can happen both on a breakout on the upside or the downside. And we give them names, such as pullback or throwback. I like using *retracement*, because it's the catchall. It covers both terms. Now, what we are waiting for sometimes is possibly a retracement to confirm a breakout has really taken place. In this example that we have here, we've got that trend-line breakout on the downside. Price pulls back. And what happens with that what was once support? It becomes a resistance. That trend line that was supporting our price, now it's resisting our price. The relationship between the bulls and the bears have changed. And now that gives us even more confirmation that now a downward trend has formed. Now there are some disadvantages of waiting for this retracement opportunity. And that is that it's not always an opportunity. It doesn't always happen. Now, what you can be left waiting for is, if you are waiting, after every breakout, for a retracement to happen... Let's say if it didn't happen. Well, you would never get in the trade. And this all comes to kind of the premise

there, is it's not that there's a right, a wrong way. It's just different traders may be looking for different signals. You may say, "I will only get into a trade if I see a retracement happen and that trend line that was supporting resist the price." It may not be important for you. But it's key to at least understanding that something like this can happen, on both an upside breakout, a downside breakout, for example, whether that be on a trend line or a support or resistance line. So keep this in mind as well, because this is going to be a common theme. You'll see this in some of the chart patterns that we'll be going over.

Now, Colin, I think we might have teased the chart patterns enough. As you like to say, let's go to what some may consider the meat and potatoes of the presentation here. So we've gone over some of the themes. Right. We've gone over some of the ways to understand it. We've gone over the techniques to trade it. But let's jump over to the actual construction with some of these chart patterns.

Colin Songer: I like it. You know, when he walked through that false breakout and that failed breakout there, notice one of the key things that we mentioned right at the beginni-- the idea of adjustment, r--? We're adjusting along as a trade progresses. This is no differe-- right? This is showing you that it's about

reaction. Now, we are going to have moments where we see that retracement. Right? That's that emotional test. It's going to really say, "You could be wrong here." Remember, we stick with that game plan that we have in place. And that way, we don't make emotional decisions but we make logical, rational decisions for our trades.

So now we're talking about common chart patterns. Now we're not going to be covering all the chart patterns. We're just going to cover some common chart patterns you might come across. And we're going to start with the double top. Now for it to be a double top, this is required. Price has to be trending into the chart pattern, has to be trending up into that trend pattern. If price is not trending up, it can't be a double top. Now here are the characteristics of it. It has to have two peaks, separated by one trough. So in other words, and here's kind of the story line for the double top, this price is trending up but just going along its merry way, until eventually it found a wall of sellers. So not only these sellers were waiting for here… It could be a combination of short sellers and bears are what's sitting out there. It could be even some large shareholders, who just said, "You know what? It's time to take profit" -- and that pushed that price back down. And that created that movement back down towards that support line. Now that support line is where the bulls said, "You know, this is really a good area to enter back in. I

think it has the ability to push back up." And some people who may get in earlier are probably looking at this as "Well, this is an opportunity." Because of that, bulls waiting out there or even maybe some short-sellers, who made some money and said, "Look. This is a good profit target for me," and they bought back their position, that started pushing that price right back up. More people pile on and guess what? It got back up to that resistance area. And it met those wall of sellers once again, people taking profits, people thinking, "You know what? This might be a good entry point for selling short again. I missed it the first time." Or people were in that first-timer, saying, "Last time I was here, it went off at this point and reversed back down. There might be another opportunity here," so they pile on there. But this time, when it gets to the support line, there just are not enough bulls to be able to handle the amount of supply that's coming and the amount of sellers that are there and it pushes through that support line. And that is what's known as the breakout. Right? You're going to hear this term throughout, which is breaking through that *neckline*. Now that neckline is defined by that lowest trough, that middle trough that's there, when we draw a line across. When it gets below that price level, that is our breakout. Now, you'll notice that it will tend to have some pullback, so go back and test that support line. But remember, in that part one class we cover the idea of what was once support is now resistance. And as

price gets there, it just doesn't have the ability to get back into that pattern and then sells off down below through there.

Now, one of the most popular things about chart patterns, the idea of a target price. To measure a target price, we're taking the highest peak to the lowest trough. The differences of those two, we're going to subtract it from the breakout point. I hear this all the time, with every single presentation that we do on this particular one, which is, "Look, could you put some numbers to it?" And I'm going to do that. Let's say the very highest peak at that resistance line was $40 per share. Let's say that it came down and then reversed off that support line around $30. So that difference is a $10 difference. Now when we get to that breakout, which is $30, we subtract out the 10-point difference. That brings us down to a $20 price target. So as you can see here, that difference being subtract for the breakout gives us a neighborhood of where we might consider closing out the position. Now that's not going to be a hard and fast rule. But it gives us the neighborhood that we deal with. Because remember, one of the initial slides, where Jim was giving us some of the limitations? Remember, we got to be flexible with it. So if we're seeing that it just doesn't have enough gas, it seems like it's going to find another area of support, maybe we close it out early. Or if it doesn't seem to stop there and just wants to keep going, (laughs) there's nothing wrong with allowing the

trade to continue to develop. Now a lot of the concepts that we cover in double top, we're going to be seeing -- some of the other chart patterns that we're going to be covering.

Let's go with the inverse. Let's go with the double bottom. Now for this to be a double bottom, that's correct. The inverse has to happen. Price has to trend downwards into this chart pattern. You can't have price trending up. Now, you'll see the very similar things, except they're just inverse, r--? We have to have two successive troughs, that are separated by a peak. Now can they be rounded? Yes, they can. They could be pointed. They could be rounded. But it's usually around roughly that same price level. Does it have to be exact? No, not necessarily. Remember, this is not an exact science. Right? This is an art form, so we have to work in that gray area as well. Now the breakout or where we create that neckline is that resistance line. And that's where that peak is. We draw that line, and where that peak is. When price gets above that particular level, that's where we consider the breakout. Now, you're going to see the target price is the same as what we had with the double top, which is we're taking the distance from the trough to the peak... And as an example, let's say that support line where it bounced off of was $10 per share. It rallied up to that resistance line, which is $20 per share. Now, that difference is 10 points. So as it broke above that 20 level and held above there, if I was

going to use a price target, I would take that 10-point difference, add it to 20, giving us a price target of $30 per share, once again, a neighborhood for us to look at for potentially closing out our trades.

But let's talk... We talked about a double top, double bottom. What if it doesn't break out? What if it stays in this range?

James Savage: Yeah, Colin, it can keep continuing, right? It could stay in that range, for example, for another top. And that's what we call the triple top. So I'll save everyone a little bit of the explanation again. Because as you can imagine, this is going to be a very similar type of, we'll say, pattern to the double top. So just like the double top, this is a reversal pattern. We are going to be seeing price reversed, typically, from bullish -- or I should say it will be from bullish to bearish, so kind of come from below and enter into this, we'll say, area of support and resistance. And then it will break out to the downside, and then break into this, we'll say, bearish trend. Just like our double top had two distinct peaks, our triple top has three distinct peaks, at roughly the same price level, separated by two intermittent troughs. Now, these peaks don't have to be, we'll say, jagged peaks, like our textbook example on the chart. These can be rounded. So we don't need to be too particular with how steep they are. We just want to see these separations between one peak or the other. And

just like with the double top, the breakout occurs when price exceeds the extreme of the trend line or intermittent trough. Just like with the previous examples, calculating the target price, we're going to take the height from highest peak to the lowest trough and subtract that by the amount of the lowest trough, to generate a price target. For example, if our resistant line was 50, our support line was 40, 10-point difference between the two, it would be 10 points on the downside. So we'd be looking at a target price in the 30s, that example.

Now if you are thinking it stopped at triple top, well, it does not stop there. We can put that same premise on the downside. Hence, the triple bottom. So it's the inverse of the triple top. We're now looking at three distinct troughs, at roughly the same price level, separated by two intermittent peaks at each level. And just as the other one, the price breakout occurs when it breaks from the extreme of that intermittent peak or trend line connecting those points. Now, what I want everyone to take a look at is the chart, on the right side, the real-world example. And this is why I like using this to kind of differentiate itself from some of the other examples. Notice how our peaks, in this case, they're not at around the same level, like the textbook example. This is defined by a downward-sloping trend line. We're using this to show our support. Now as the pattern states, we do have our three distinct troughs --

right? -- that create the triple bottom. But I like how this shows and really reminds everyone that sometimes those peaks, in this case the triple-bottom peaks, can be a diagonal trend line here. It doesn't always -- and most often will not be horizontal. So I really want you to keep this in mind going forward, when you're actually looking at charts yourself and trying to analyze and locate patterns such as this.

Now, something about this one, as well. Through the research that was done -- right? -- we have the source at the bottom, as you got the little introduction in the beginning -- the best performance may be after a sustained decline. And there's an average performance, but watch for failure. So this is on those more typical, we'll say, scenarios. Always keep in mind about those failures. Right. If we're expecting a reversal of bear trend, to be bullish, we do not want to get caught on a continuation of a bearish trend.

And one more horizontal congestion that we definitely want to talk about here is going to be a rectangle. Now, this is a trading range with both support and resistance levels, bounded by price action. It can have a slight tilt to it. In our examples here, we've got more, we'll say, the typical horizontal channel. A few things to consider are that it often does have many false breakouts. So we definitely want to have a confirmation filter. Right? We want to have our own

confirmation that we're going to be looking for to define when a breakout has taken place. And again, through the studies here, some of the best occurrence may be a bottom breaking upward. So again, that's just through the research here. It's not meant to be a catchall, doesn't mean you should only be looking for that. But we want to include some of the research study as well here. There is a quick point to note, is that little shortfall piece. I kind of like bringing this up as well. We don't need to see price hit those resistance and support lines each and every time. If you see something is a shortfall, that can often be an indicator of eventual breakout in a new direction. So be on the lookout for that as well, when analyzing a chart pattern such as a horizontal congestion.

But we've got different themes, as well. Colin, I'd say let's go over to our next theme here. Let's go over to the triangles.

Colin Songer: Yeah. The majority of those illustrations all dealt with horizontal support and resistance lines, that most people reference. What if they are -- what if they're diagonal? That usually lends itself to some of these triangle chart patterns that we're going to be reviewing here now. So let's start off with symmetrical. Now this is bounded by a downward-sloping upper trend line and an upward-sloping lower trend line. As you can see here, it's basically just

pressing price. Each one is a straight trend line. Now, price has to hit each one of these trend lines at least twice. That's a rule with creating trend lines, have to have at least two touches from price. With a symmetrical triangle, you're going to see that there are going to be many false breakouts. They're going to have -- moderately successful in performance. Now, here are some things to consider when reviewing this. You want to make sure that you get a confirmation through a breakout. A lot of people feel that need to jump in a little bit earlier. And usual with symmetrical triangles, that breakout occurs anywhere from two-thirds within that pattern to three-quarters through that pattern. Now remember, it can break out upwards or downwards. Okay? So in the illustration, we're showing you an upwards breakout, where it broke up above that upper trend line. And it broke out but then it fell. Now remember, that's that emotional response. You might sit there and doubt your trade process and say, "Oh, boy, here it goes." But now, arming ourselves with the knowledge of retracements, we are going to sit and wait, because this might just be a retracement. It might hold those lines. Which, what does it do? It rockets back in the direction of that breakout. So that's why we want to make sure that we keep our emotions in check and stick with the trading plan that we put forth. That's why it's important to do so.

So we're going to calculate that target price, by taking the highest peak in the pattern -- and we're going to align it to the lowest trough in the pattern. Now, we're going to either add it to an upwards breakout or, if it's a downwards breakout, we're going to subtract it from that breakout point. So as an example, let's say it was, from top to bottom, the bottom being 20, the top being 30. So the highest peak is at $30, which is a difference of $10. Now, let's say it breaks out to the upside, at $25 per share. Take that $25, add that 10-point difference between the peak and the trough, giving us a target price of $35, to the upside. Now let's use an example where it breaks to the downside, using the same 20 in the trough, 30 in the peak, $10 difference. But now it breaks, at $25, to the downside. So we're going to take that $25 per share, subtract out that 10 points, giving us a price target of $15. This is the way that you can create those target price.

And if you look in the actual chart pattern, here's a downwards break of that triangle pattern. So an alternative, in trading triangles, is the concept of using -- and you can see it in that chart line there on the right-hand side -- a parallel trend line to the opposite side. So since it broke to the downside... Notice we have a parallel line to that upper trend line down. And we're starting that parallel line from that absolute trough. We're using that. And if I extend that forward, I can use that as an alternative price target. So there are two ways

you can ride it. Now, you can use this parallel trend line in the other triangle patterns, as well.

So let's talk about some of the other ones. So now we talked about symmetrical. What if we have compressing on one side, like the ascending triangle? Now, this is a horizontal resistance line for price. So price is winding up into the pattern and these sellers and profit-takers are sitting at this particular price area. And as you can see, they sell it back down. But now those bulls are jumping in, saying, "No, this is a good value. This is a good opportunity," and they jump in and push that price right back up to that resistance line. But those sellers are still there and those profit-takers are still there and they push that price, providing more supply, to push it back down. But those bulls are getting more aggressive and more aggressive and they're jumping in earlier and earlier. And that's what's creating this lower upward-sloping trend line, this support line, as you can see here. Now, a lot of people think, in conventional thinking -- is that usually it's going to break to the upside. Well, it can actually break in either direction. It could break to the upside but it also can break to the downside. And we give you examples of the illustration, showing a breakout to the downside, and then the actual chart pattern, (laughs) where it breaks to the upside. So the breakout is if it either breaks that upward-sloping support line, if it breaks down below that... That

would be your breakout from that side. If it breaks out above that resistance line, that is a breakout to the upside. So it does have about average failure rates. But many of them have small false breakouts. Right? Remember, the false breakout is just it reenters into the pattern. It broke out and then reentered in the pattern. Failure is when it breaks out, enters back in the pattern, and then goes in the opposite direction of the initial breakout. Now, post-breakout performance average on the upside but above average to that downside. So it gives you a breakout in performance, as well as some of those failure and false rates.

Let's go to the other side of that, right? So what's the inverse of ascending would be the descending triangle. Very similar theme. And if you notice, the target price for both of these are the same. So I'm going to cover this one here. I know I didn't cover it with the ascending. But the ascending and descend have the same target price. So instead of it being an upward-sloping support line, it's a downward-sloping resistance line, up above, where it's coming down and the bears are getting much more aggressive the further in the pattern. They're entering in sooner. Once again, conventional thinking is going to state, "Well, that means it breaks on the downside." Well, it actually can break on either side. That's why it's so important that we're reactionary with these chart patterns and with trading in general. We react to price

movement instead of predicting it. Now, it is more common that it breaks to the downside. But when we have that discussion about breaking on either side, our breakouts are... To the downside is, when that support line finally gives way, that's a breakout to the downside. When it finally does find a way to push above that downward-sloping resistance line, that's our breakout to the upside. So we give you examples showing you, on both sides, where it breaks out to the downside. And that chart one to the right really gives you a realistic example, not as clean. And it does show you the downward-sloping line, how it develops in there. Now it does have above-average performance on an upside break. But be aware. Remember, those tracements can occur of--

Now, let's talk about calculating that target price, where, once again, you do have two alternatives, is take the height of the highest peak in the pattern to the lowest trough of the pattern... Right? So that difference, we're adding it to our breakout point, giving us our target price. So this is a way that you can utilize that to help figure out where is my target price, when it breaks out of this particular pattern.

Now let's talk about a wedge pattern. Okay? So this is going to be a little bit different, where our wedge is -- it's still a triangle pattern but both trend lines

are heading in the same direction! Now, the declining wedge has both lines heading downwards. The rising wedge has both lines heading upward. Most declining wedges break upwards. But most rising wedges break downward. Wedges are one of the few patterns that can be considered a consolidation against the prevailing trend. Now the difference between this from the other triangles is that it requires five reversal points to be touched to qualify as a wedge -- five. Instead of the four with the other one, this one requires five. We should see some kind of declining volume, as it moves through the formation of that wedge, which is basically two converging trend lines. And then the price target, upon breakout -- okay? -- is going to be on the lowest trough in the pattern, for a downward breakout. And for an upward breakout, we're taking the height from the highest peak to the lowest trough in the pattern and then adding it to the breakout point of that wedge -- so as you can see, has two different calculations for the rising wedge. But it seems that the pattern is still roughly the same, on the upper break.

Now that we've talked about the different triangle chart patterns out there, there's probably one that the majority of people, at the very least, heard of, for those who are interested in the chart patterns. So let me hand it over to James to cover that with you.

James Savage: Yeah, Colin. I think it's right that I cover this one. Because you may notice, everyone, some similarities to another pattern that I talked about, as well, a little bit here. And go with me. So remember when I was talking about that triple top. Right? We saw those three peaks, at distinct, we'll say, similar levels. But what happens if we have three peaks but with one of them, that center peak, being higher than the others? So this is what's referred to as our head-and-shoulders top, a very popular one, one that I'd say we get questions on all the time in our coaching classes. And this is considered, again, from kind of our technical analysis resource, one of the most reliable trend reversal patterns for tops.

As you can see with the construction, we're seeing three peaks, with the center peak higher than the other two. Shoulders, which is that left and right, lower peak, should be at roughly the same level. Again, we want to be in those rough areas there. We don't need to be too precise. Now, there is another kind of aspect as well. Colin brought this up earlier as well. And this is what's referred to as the neckline. This is going to be a line connecting the two troughs between the peaks. Now just like with all the patterns that we mentioned, it is only complete on breaking, on the breakout, in this case the breakout of the neckline. Now, I kind of sometimes like to visualize this is in kind of a real-world scenario. If we're looking at our chart, we can think, well,

we came into the chart on that upward trend. Right. The bulls were winning. They hit that high at that left shoulder. And what happens? There's some waning momentum there. Bulls rally after, we'll say, the dip, to bring it back to the new high, which is that head. And then we get another, we'll say, dip. However, on this second dip the bulls are only able to bring it back as high as that right shoulder. And then, if -- failing to make a new high, that gives way to the bears. And that's where we see that breakout. Now remember when I brought up the whole retracement theme? What do we see on this chart? An actual real-world example of a retracement. What did that retracement do? We could say that was yet another confirmation filter. Because that neckline that was acting as support has now become resistance. Because it failed to jump back above that neckline, what happened? It completely, as we can say -- one of my colleagues would say swan-dived off of a cliff there and continued on a new, bearish trend.

Now this, we'll say, chart pattern does also have an inverse. And you can -- probably guessed it. It's called the head-and-shoulders bottom -- not too creative. Again, I'd say the chartists out there, the technical analyst aren't the most creative when it comes to names. But it gets to the point, right? It lets you know what's happening. Now this is, we'll say, very similar to the, we'll say, head-and-shoulders top, just reversed. Now this is a trend-reversal

pattern for bottom. So this time, we would expect a bearish trend to enter into this pattern and end it in a bullish trend. And it's going to have some similar attributes, right? We're expecting to see three troughs, with the center trough being lower, as the head. And then we have our left and right shoulder, to define them. As the other pattern, what are we looking for? The breakout to confirm it. And why I like this example, again -- probably guessed it -- that retracement. I know it's somewhat small there but look at that chart on the right side. We've even circled it. If we were using a retracement as one of our confirmation filters, well, that neckline supported that retracement and that gave way to the bulls. And as we can see, where the chart ends, a whole new bullish trend continues.

So we definitely wanted to cover some of these popular ones. And I really wanted to talk about them, because they had that similar kind of feel -- right? -- to that triple top and triple bottom. Now, we did mention one other type of pattern, that have a kind of a unique aspect to it, a curved line. So, Colin, let's actually bring on our cup and handle, also known as the saucer.

Colin Songer: Yeah. So with the other ones, I agree with James, not a lot of creativity going into (laughs) naming those other particular chart patterns we're seeing in there. I would say the cup and handle is a pretty good one, though. That's

pretty creative. So how can we identify a cup and handle. So the cup and handle or the cup and saucer consists of a rounded bottom, right? Instead of some of those V shapes that we've been seeing in a lot of the chart pa-- this one is more of a rounded bottom on the -- reflecting slower, more gradual price action. The cup forms with a lip on either side of that particular cup. As you would imagine, there is a pullback from the right lip that forms the handle. So as it rallies back up to that level, it's sold back off. And that's where you could see, in the illustration, it rose up. And that entry point there, it failed and it fell from there. But when it fell, it actually just recovered. There were bulls there waiting, that pushed it right back up to that resistance level and finally break through. Real-life example here.

As you can see, price can certainly be erratic, making it a little bit harder to see that cup and handle. But as this bottom had some congestion near the bottom -- and then it slowly moved its way back up. It hit this level, created this flag pattern here, where it failed off of that resistance level, found some ground here, where the bulls came in and rallied and finally pushed us through that breakout. Now in this example, as well as the illustration, it had a throwback, another retracement, to test that area again. And that's, once again, resistance turning into support. And then it launches up from there. So it's a very interesting pattern. The patterns perform at rates about average for

bottom patterns. There is actually no target price measurement that goes along with a cup-and-handle pattern.

Now that we've talked about that, let's talk about putting this all together. Right? Let's say, "All right. Well, if I trade one pattern, I'm done. Right?" Not really. As you could see here on the left-hand side, in that blue-shaded area, you can notice that price was just kind of chopping along -- right? -- came down to this area, got pushed back up to the top of that rectangle area. Sellers waiting there pushed it back down. Pushed it back up. As a trader, you may look at that and say, "I'm finding support, resistance. If it breaks out of this area, maybe I see that as an opportunity."

Well, midway through that chart, as it starts developing, you see that it finally does break above that resistance area. So a trader might say, "Okay. Well, let me give this a shot. Let's see if it will continue up." You enter into a long position and say, "To manage our risk, if it enters back into the chart pattern, I'm going to close it... I'm going to put an exit right in if it enters back into that rectangular area." Now, it gets close but it doesn't reenter. It will test it and then it launches up to the upside. So now we're going, "Phew! All right! This looks like it might work out." But now what it does is it hits a peak. And it starts chopping around. It falls down. But the bulls come and save it, pushing

to that top side. As you can see, price is squeezing, forming a triangle. So now we start saying, "Look, if it exits through the bottom trend line, I'm closing out the long that I have. But if it enters back above, I'm going to scale into my position," or add onto the existing position I have. Right? Because obviously, this is a potential for another opportunity. So whether I'm staying the same position or adding onto the position, it breaks onto the top side. "All right. Let me go ahead and add into my position here." And it runs up here to the top side, finds more resistance, does the same thing on the triangle. We decide, "Let's do the same thing. If it exits through the bottom side, I'll either close all or some of my position. If it breaks up to the upside, I'm going to scale in more."

Obviously, when we're scaling into positions, you want to be careful not to put too much capital into one trade, want to be cognizant of that fact, because you can create a concentrated position, which means, if a trade does fail, it could be a big impact on our portfolios. So we want to be mindful of that. But as you can see, it breaks out to the upside. We scale into the position. Then it hits this almost channel, this wedging pattern. We say, "Okay. Well, if it exits below, I'm going to close out part of my position. If it goes above, look, I'm going to do it again. I'm going to scale in again." And as you can see, it does break out above, goes into this wedge area. "It breaks out above, I'm going to

enter another position." But eventually, it does reenter back into that chart pattern, we close out the position, whether in whole or a partial amount. As we move through, showing you the mechanical way to be able to trade these chart patterns. So this is just an example of how to put all these patterns together and help manage your risk along the way.

James Savage: Colin, and I really like seeing it all just consolidated, kind of right at the end. We're looking at patterns. And I think that was a great, kind of, example. You gave a rundown of an actual trading process, using the charts. You're planning your entry. You're planning your exit. You've got that. You've got your stops in place -- right? -- both on the entry and the exit. And it's just a nice way to kind of recap a way that you can trade, with all these patterns.

Now I know we're right at the top of the hour here. So I definitely want to appreciate everyone for joining us here. If you were interested in actually learning any more about these patterns that we talked about, as Colin brought up in the very beginning -- right? -- this is part of a greater, four-week type of class. We do a technical analysis class every month. This is one of the components there. So if you're interested in learning more about this, please feel free to join us. I'd love to see you here. Colin and I have a lot of fun. We

turn on the cameras. You can see us. We'll even sometimes jump in some demos, so you can see us work with a live chart, on the day. I definitely want to encourage anyone interested to join us in these classes.

END OF AUDIO FILE

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