Stock Markets Guides

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Chart Patterns Cheat Sheet

PATTERN	DIRECTION	TYPE	OCCURRENCE	TERM	Price Structure
ASCENDING TRIANGLE	Continuation	Bullish	Medium	Medium - long	Equal highs, higher lows
BULLISH ENGULFING PATTERN	Reversal - continuation	Bullish	Medium	Medium-long	2 lower lows, higher high
DOUBLE TOP	Reversal	Bearish	High	Medium - long	2 Equal highs, unequal lows
DOUBLE BOTTOM	Reversal	Bullish	High	Medium - long	2 Equal lows, unequal highs
TRIPLE TOP	Reversal	Bearish	Low	Medium - long	3 Equal highs, unequal lows
TRIPLE BOTTOM	Reversal	bullish	Low	Medium - long	3 Equal lows, unequal highs
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HEAD AND SHOULDERS	Reversal	Bearish	Low	Medium - long	Middle higher high, 2 lower highs
INVERSE HEAD AND SHOULDERS	Reversal	Bullish	Low	Medium-long	Middle lower low, 2 higher lows
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RECTANGLE	Continuation	Bullish - bearish	Medium	Medium - long	Equal highs and lows
FLAG	Continuation	Bullish - bearish	High	Short - medium	Pole followed by lower highs, lower lows
PENNANT	Continuation	Bullish - bearish	High	Short - medium	Pole followed by lower highs, higher lows

Prices in any asset class change every day because of the supply and demand market forces. These market forces can shape the price action into chart patterns that give traders insight into what the price will do next.

It's important to understand how these chart patterns come into play and their role in technical analysis.

The role of chart patterns is to help investors understand prices in any market in a clear and systematized way.

In price action analysis, trend reversals from bullish to bearish markets and vice-versa are frequently signaled by chart patterns.

This trading guide will take an in-depth look at chart patterns, the different types of chart patterns, and how to recognize them across all time frames.

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What are Chart Patterns

In technical analysis, chart patterns are unique price formations made of a single candlestick or multiple candlesticks and result from the price movement on a chart. Chart patterns can develop across all time frames and all asset classes.

In other words, candlestick patterns are shown graphically on a price chart in a way that tells a story about who is winning the bull and bear battle.

Chart patterns are at the foundation of technical analysis because it allows traders to shed light on the price action quickly and from just a couple of candlesticks.

There are two main types of patterns available to price action traders:

- **Reversal chart patterns:** as the name suggests, reversal patterns signal a shift in the trend direction. Examples of reversal patterns include double top and double bottoms or the head and shoulder.
- **Continuation chart patterns:** as the name suggests, continuation patterns signal a continuation of the prevailing trend. Examples of continuation patterns include the bullish and bearish pennant, flag pattern, or the ascending triangle.

Furthermore, chart patterns can also be classified as bullish or bearish. Bullish chart patterns are a potential buy signal, whereas bearish chart patterns are a potential sell signal.

Classic Chart Patterns

Before you start risking your money using patterns, it's important to learn how to recognize them and get used to the different types of chart patterns.

The below-mentioned patterns are some of the most popular chart patterns common with all financial markets.

Without further ado, these are the chart patterns every trader should learn how to recognize.

Double Tops

The double top price formation is a reversal pattern that signals the potential end of an uptrend and a new downtrend. This means that the pattern leads to a decline in price, so we look for selling opportunities.

The double top resembles the letter "M."

The double top pattern forms two distinctive highs at roughly the same price level. The price drops in a corrective way from the first high before a new failed retest of the first high happens.

The double top pattern is confirmed when the price breaks below the valley formed between the two highs.

The chart below shows an example of the double top.

Double Bottoms

The double bottom price formation is a reversal pattern that signals the potential end of a downtrend and a new uptrend. This means that the pattern leads to a rise in the price, so we look for buying opportunities.

The double bottom resembles the letter “W.”

The double bottom pattern forms two distinctive lows at roughly the same price level. The price rallies in a corrective way from the first high before a new failed retest of the first low happens.

The double bottom pattern is confirmed when the price breaks above the peak formed between the two lows.

The chart below shows an example of the double bottom.

Head and Shoulders Pattern

In technical analysis, the head and shoulders pattern is a bearish trend reversal pattern that indicates the possible end of an uptrend. This means that the pattern leads to a decline in price, so traders need to look for selling opportunities.

The head and shoulder price formation consists of three peaks, where the middle peak is the highest and the outside two peaks are close in height. A trendline, also called the "neckline," can connect the two valleys formed on either side of the head.

A breakout below the neckline will trigger a sell position and signal the potential of a trend reversal.

Forex Chart Patterns

The most commonly used forex chart patterns include the bullish and bearish flag, different triangle patterns, rectangle patterns, and many more. Forex chart patterns can vary in complexity, but they all act as a timing tool to buy or sell currencies.

Bullish Flags

In technical analysis, the bullish flag price formation is a continuation pattern that signals the pause of an uptrend before the prevailing trend resumes. This means that the pattern leads to a rise in price, so traders need to look for buying opportunities. The most reliable bullish flags can be observed in currency pairs with strong uptrends.

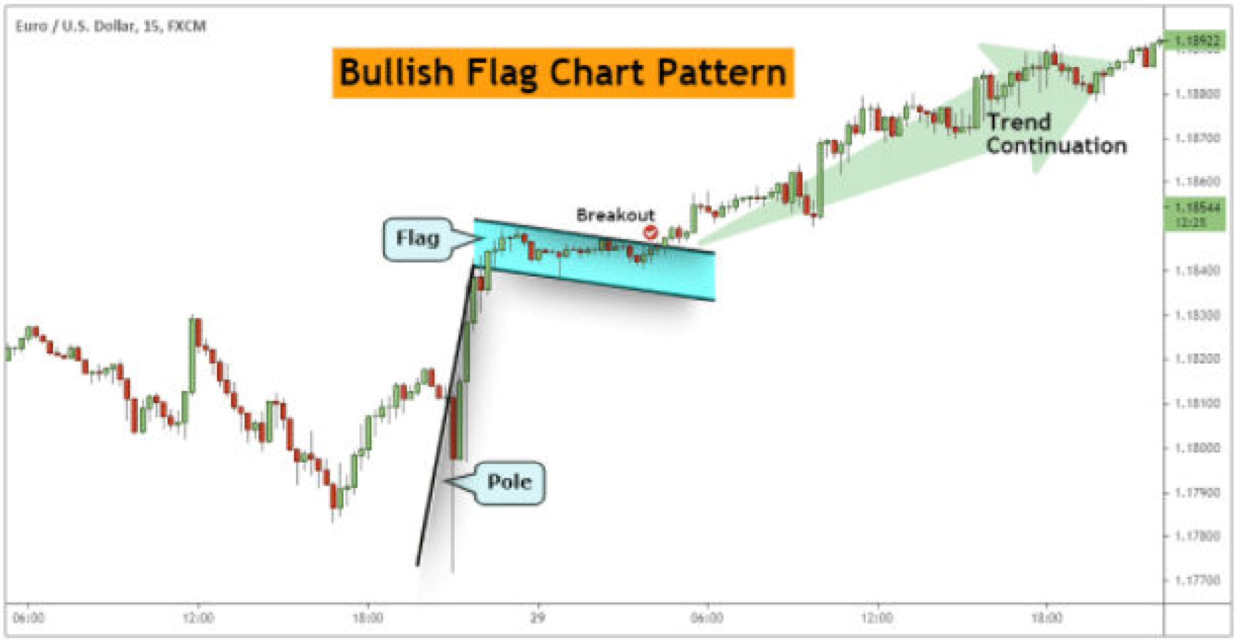
The bullish flag pattern is made of two key elements:

2. The flag, which is depicted by an area of tight consolidation that shows a counter-trend move. This consolidation can be contained within two parallel lines of support and resistance.

1. A pole is depicted by a pre-existing uptrend.
2. The flag, which is depicted by an area of tight consolidation that shows a counter-trend move. This consolidation can be contained within two parallel lines of support and resistance.

The buy signal is triggered when the price breaks out of the consolidation in the direction of the prevailing uptrend.

The chart below shows an example of the bullish flag.



Bearish Flags

The opposite of the bull flag is the bear flag. In technical analysis, the bearish flag price formation is a continuation pattern that signals the pause of a downtrend before the prevailing trend resumes. This means that the pattern leads to a fall in the price, so traders need to look for selling opportunities. The most reliable bullish flags can be observed in currency pairs with strong downtrends.

The bullish flag pattern is made of two key elements:

1. A pole is depicted by a pre-existing downtrend.
2. The flag, which is depicted by an area of tight consolidation that shows a counter-trend move. This consolidation can be contained within two parallel lines of support and resistance.

The sell signal is triggered when the price breaks out of the consolidation in the direction of the prevailing downtrend.

The chart below shows an example of the bearish flag.

Symmetrical Triangle

The symmetrical triangle is a neutral price formation in technical analysis that doesn't show a trading bias. Traders will go along with the direction the price will break.

Symmetrical triangles can be identified by a resistance line sloping downwards and a support line sloping upwards.

The support and resistance lines move towards each other until they converge together. Within the two support and resistance lines, the price will display a series of lower highs followed by higher lows.

A trader will enter a buy order if the downward sloping trendline is broken to the upside or enter a sell order if the upward sloping trendline is broken to the downside.

The chart below shows an example of a symmetrical triangle.

Stock Chart Patterns

This section will outline the most common stock chart patterns and their key features. The most popular stock chart patterns are the channels, rectangles, cup with handle, head and shoulders, rounded tops and bottoms, and many more.

Rectangle Patterns

In technical analysis, a rectangle price formation is usually a continuation chart pattern that signals a pause before the pre-existing trend resumes. However, the rectangle pattern can also be found at the end of a trend signaling a possible trend reversal.

The rectangle pattern is characterized by the price bouncing between two horizontal support and resistance lines. Basically, the price enters a period of consolidation where it's bounded by two clear support and resistance lines.

A break above the rectangle pattern is a signal to buy, whereas a break below the rectangle pattern is a signal to sell.

The chart below shows an example of the rectangle pattern.

Channel Patterns

In technical analysis, a channel is similar to the rectangle pattern, but they are identified by the price being contained between an upper sloping trendline and a downward sloping trendline.

We can distinguish two types of price channels:

1. Bullish channels (ascending channel) where the trend line slope points upwards.
2. Bearish channels (descending channel) where the trend line slope points downwards.

Traders who like to trade range-bound markets sell when the price hits the upper resistance boundary and buy when the price hits the lower support boundary. Alternatively, traders can also look to trade on a breakout of the price range.

The chart below shows an example of the channel pattern.

Chart Patterns Cheat Sheet

To help traders quickly identify the most common price action pattern requirements, below traders can study the ultimate candlestick pattern cheat sheet.

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Most Profitable Chart Patterns

According to Thomas Bulkowski, the author of "Encyclopedia of Chart Patterns," the most profitable chart patterns are the bullish and bearish flag formations and the head and shoulders pattern.

The flag price formations are regarded as continuation patterns, whereas the head and shoulders pattern is a reversal pattern.

To determine a high probability chart pattern from a low probability chart pattern, all chart patterns need to satisfy at least three conditions:

1. Must develop at the "right location" within the overall trend.
2. The size of the pattern relative to surrounding candlesticks must be bigger.

3. What market conditions (trend, range, or breakout mode).

Lastly

The best way to train your eyes to spot chart patterns is to practice on a demo trading account. It’s important to keep in mind that while trading chart patterns are great for understanding what goes behind the curtain, chart patterns should be used in conjunction with other forms of technical analysis to assert the overall trend.

Last but not least, don’t expect these price formations to develop in a textbook-like manner because, more often than not, they will have slight variations.

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