

DISCOVER CHART PATTERN TRADING

By Daryl Guppy

It's no secret. We love chart patterns. They capture the psychological behaviour of market participants. A handful of chart patterns are particularly useful. The upsloping triangle is one of them.

The pattern has three parts.

The first part is a resistance level. This is where existing stock holders feel the stock is fully valued. When the price reaches this level they sell.

The second part is the upsloping trend line. This shows a group of buyers who are confident the stock has a good future. They are so confident that they keep paying a higher price to get the stock. This enthusiasm shows as an upward sloping trend line.

The third part is the base of the triangle. This is often ignored, but it is one of the most significant aspects of this pattern. The base is created by between 1 to 5 days of continuous price action in the same direction. The candles are mainly green or red. The height of the base is measured and projected upwards to set the target.

These features provide an exact method to calculate the stop loss and the risk and reward ratio. This pattern is best seen on a weekly chart.



We add CWN* to the case study portfolio as an example of this style of trading. Resistance is near \$12.40. Support from the trend line is near \$11.81. We place the stop loss just below this level.



The trade plan is an entry around \$11.85 just above the value of the trend line. This is achieved by placing an order in the order line ready to execute at this level. The stop loss is at \$11.79, just below the value of the trend line. Note this is a close below this level for an exit on the next day. It is not an intraday stop. Cash at risk is \$201.51 or less than 0.02% of total trading capital.

The price target is \$14.95 using the price projection from the base of the triangle. This is a 26% return. The return can be boosted using a CFD trade.

Stock code	CWN
Total investment pool money in account	100,000
Your investment risk for this trade	2,000
Average entry price	11.85
Stop loss	11.79
Cost of trade	20,000.00
Number of shares buy	1,688
Loss if sell at stop loss	101.27
Risk % of total investment pool money	0.10%
Planned Profit exit price	14.95
Profit	5,232.07
Trade profit %	26.16%

This style of trade is abandoned under two circumstance. The first is a close below the value of the uptrend line. The second is on October 1, 2016. This is the date when the trend line intersects the resistance level. If the trade has not

developed a breakout by this date then the pattern has failed. However, typically these triangle pattern breakouts will occur in the last third of the pattern development.