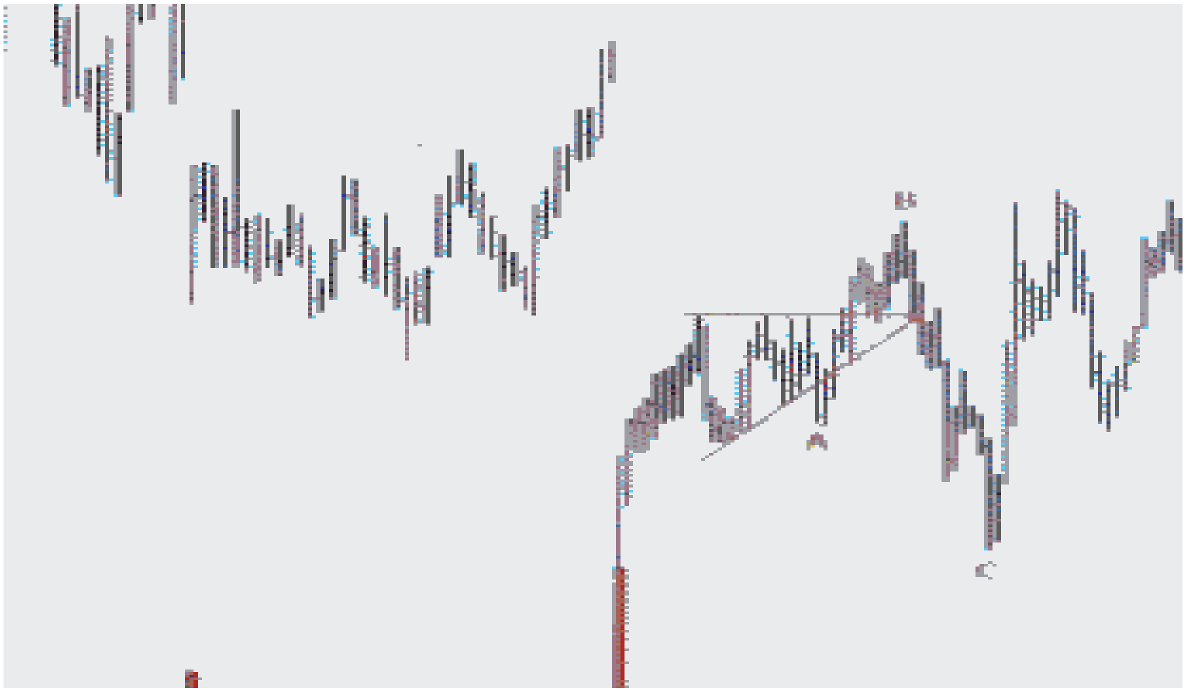
<u>GET THE PATTERN RECOGNITION RIGHT</u>

By Daryl Guppy

Chart patterns provide a very reliable way to set price breakout targets. However, the reliability depends very much upon accurate identification of the pattern. The closer the pattern is to the <perfect> pattern, the more reliable the targets and the higher the probability of reaching those targets.

Sloppy identification reduces the reliability of the pattern. That’s a problem for individual traders. It’s a more significant problem when some writers consistently incorrectly identify the chart pattern resulting in a failure to reliably achieve the calculated targets. Then they claim that chart pattern analysis is unreliable or ineffective.



Here's an example from a recent article in an industry magazine. The writer claims this is an up sloping triangle pattern. He is quite simply wrong. The break below the trend line at point A invalidates the pattern. Any trader trading this pattern would have exited the trade with the consistent moves below the trend line. To claim that we can ignore this dip and use the trend line as shown is a pure nonsense. To claim that this represents an up sloping triangle pattern is dangerous thinking that sets traders up for failure. To include this as part of a general evaluation of the success of up sloping triangle patterns casts doubt upon the validity of any conclusions.

Chart patterns are not based on wishful thinking. They are based on clearly defined construction rules, which when rigorously observed and applied, deliver highly reliable trading outcomes. That's the method we use in this newsletter.