

HOW TO TRADE THE CHART PATTERN

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It's been a tough week for the XJO index, but the case study EQT trade has stood up well. An indicative stop is set near \$15.30. This is not a hard stop. It means that if the price retreats to this level then an exit may be taken to protect profits. This is purely a response to market jitters.



This EQT example has two confirming patterns and each pattern can be used to verify the conclusions of the other pattern.

The first pattern is the inverted head and shoulder pattern.

The distance between the head and the neckline is measured and gives an upside target near \$18.90. The second pattern is the pattern of support and resistance. This has a strong consolidation band between \$14.00 and \$14.50. Above this is a resistance level near \$15.70. The next resistance level is near \$18.90. This is where the gap-down started and this upper level is often a future target for the trend recovery.

In this chart two separate methods verify the \$18.90 target level. The trade method is straightforward and aggressive. For case study purposes we take an entry near \$15.05 as the breakout develops above the consolidation band. The stop loss is a close below \$14.50. This buys 1,329 shares for a cost of \$20,000 and puts 730.90 at risk or 0.73% of total trading capital.

[Heres the marked to market update on the case study trade performance.](#)

Stock code	CWN
Total investment pool money in account	100,000
Your investment risk for this trade	2,000
Average entry price	15.05
Stop loss	14.50
Cost of trade	20,000.00
Number of shares buy	1,329
Loss if sell at stop loss	730.90
Risk % of total investment pool money	0.73%
Planned Profit exit price	15.85
Profit	1,063.12
Trade profit %	5.32%

The target is \$18.85, just below the pattern calculation target. This level is used as it increases the probability the trade will be executed at this level. Price will probably reach \$18.90, but the danger is that just few shares might change hands at this level. By setting the advance sell at \$18.85 we are guaranteed the full trade exit will be achieved if the price reaches the \$18.90 pattern target level.