

TACTICAL SUMMARIES

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INDICATOR - CHART PATTERNS

Patterns such as flags and triangles are united by several common features. They all involve line analysis applied to a price chart. Each pattern is used to set a defined price target based on measuring an aspect of the pattern and projecting that measurement from a selected starting point. Use the GTE price range tool for this.

APPLICATION

The chart pattern captures the development of crowd emotion. The pattern is generally constructed from a combination of horizontal support/resistance lines and sloping trend lines. The horizontal line shows an a constant value over time. A resistance line at \$7.00 is based on past activity at this level over the previous months and years. This suggests that this value will remain the same in coming months and years.

A sloping trend line shows a changing value over time. An up sloping lines shows that people assign a higher value to the stock with every passing day. Chart patterns are formed when changing values collide with unchanging values. This dynamic means that many breakouts are fast moving. Some chart patterns provide high probability trading opportunities.



TACTICS

- The base of the pattern is measured, and this value is projected upwards from the point where the pattern 'breaks out.'
- Aggressive traders trade in anticipation of the pattern completion and breakout
- Less aggressive traders set a buy order based on any intraday price move above a selected trigger level determined by the pattern.
- Conservative traders execute a buy order once a breakout from the pattern has developed
- All pattern trades set an exit point at the price projection target level. Use the GTE price range tool.

RULES

- Horizontal lines must be accurately placed
- Upper trend line must be validly plotted
- Lower trend line requires only a single point because it is parallel with the upper line.
- Flagpoles are created by significantly larger days of price ranging activity over 1 to 4 days
- Flags have parallel slides. Use the GTE Parallel line tool.
- The base of a triangle is created by 1 to 4 days of price action.
- Stop loss points are set exactly using trend lines and support lines.
- Targets are minimum targets in bull markets. They are maximum targets in bear markets.
- Breakouts release pent up demand, so targets should be reached quickly with continuous momentum. Momentum failure is an exit signal.

ADVANTAGES

- Patterns identify high probability trading situations
- They are short term trades with clear entry, exit and stop loss conditions
- Stop loss is easily defined

- Good patterns are easily defined.
- Patterns are most reliable when applied to a daily chart because this is a direct connection with the emotion of the crowd

DISADVANTAGES

- Some people do not recognise patterns easily. They should not attempt to use this trading method.
- Patterns are less reliable when applied to index charts because these charts combine diffuse emotions from many sources