FAIR MARKETS

Education Package
# 06 Reversal Patterns

TREND REVERSAL PATTERNS

Trend reversal patterns will appear at the end of a trend. They signal the loss of momentum.

Most common reversal patterns

01 Double Top / Bottom

02 Triple Top / Bottom

03 Head&Shoulders

04 Cup&Handle
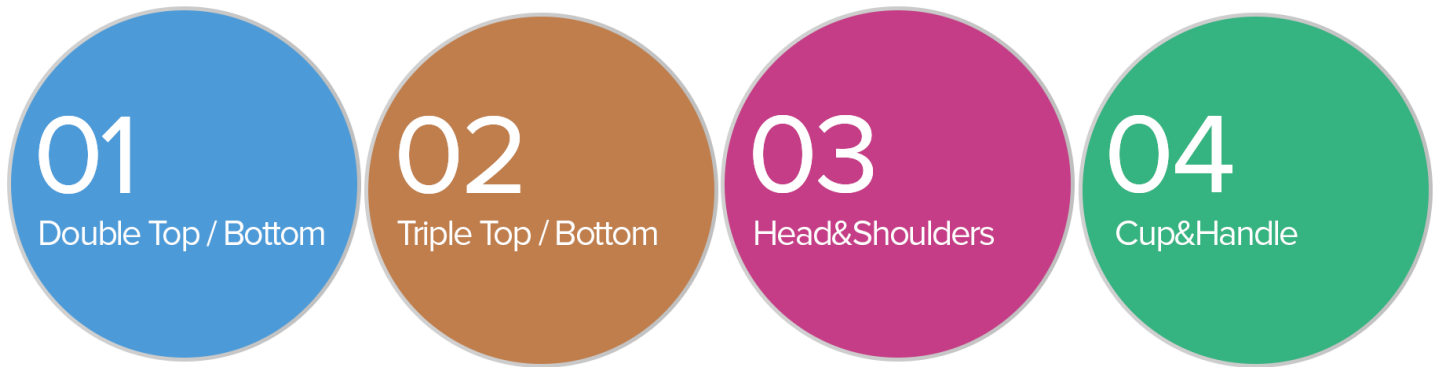
A double top pattern appears when an uptrend rises and hits a resistance. This price then retreats to the support level, and becomes the neckline. Subsequently it will return to the resistance level. After it fails to break the resistance level for a second time, the pair falls back down. The neckline price breaks down into a new downtrend.
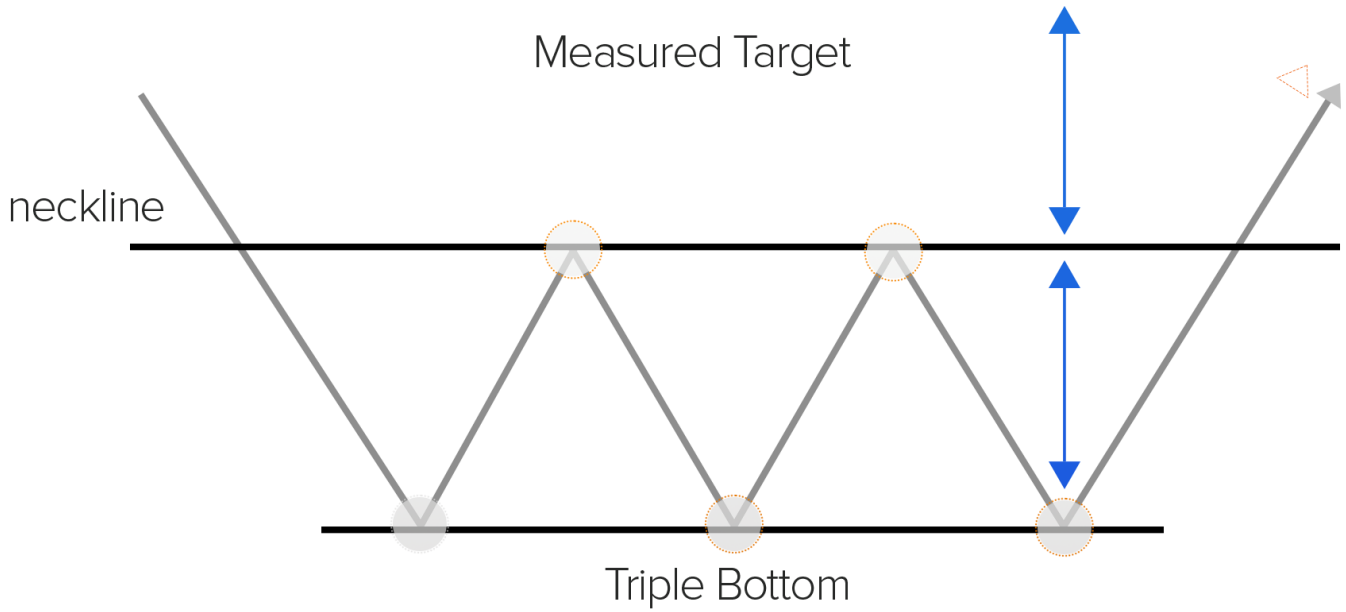
neckline
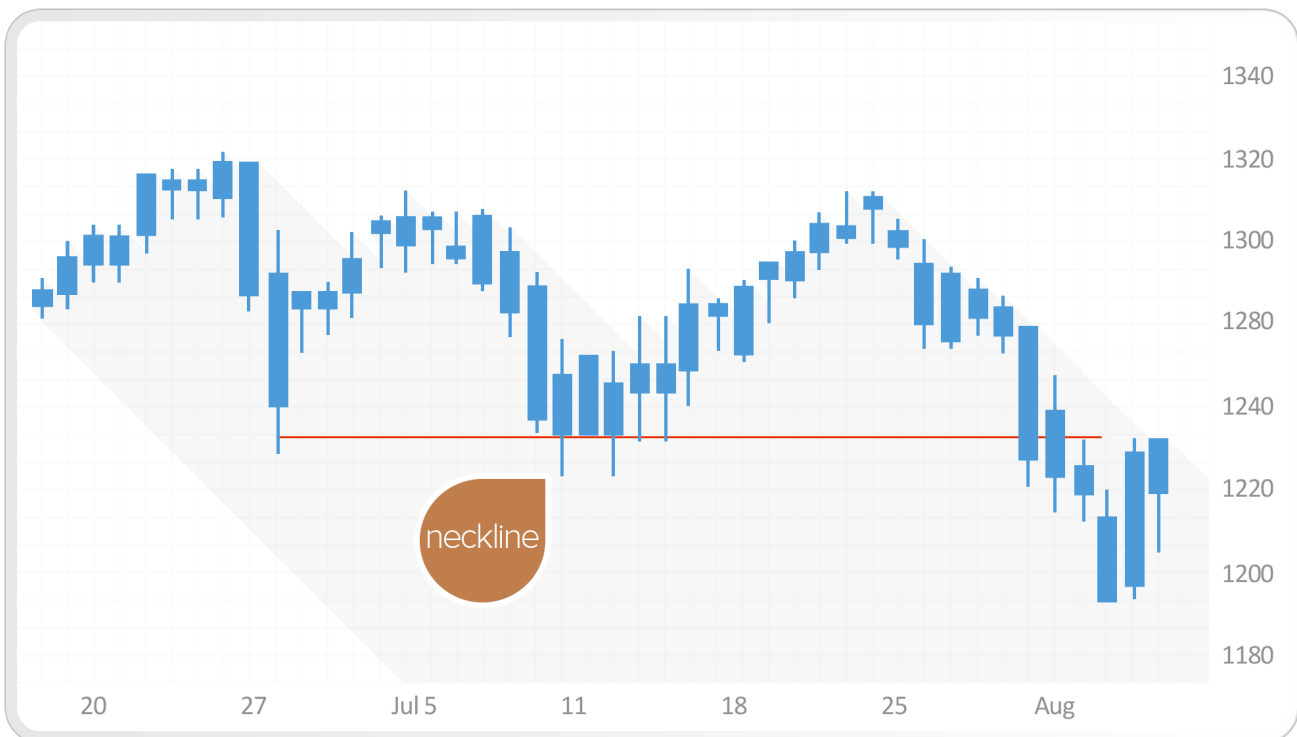
DOUBLE BOTTOM

An opposite scenario occurs in a double bottom. Here a downtrend reverses after it tests at a certain support level twice. Once it fails to breakthrough, the price reverses into a new uptrend. Sometimes the pair will retest the neckline. This should switch its role from support to resistance.
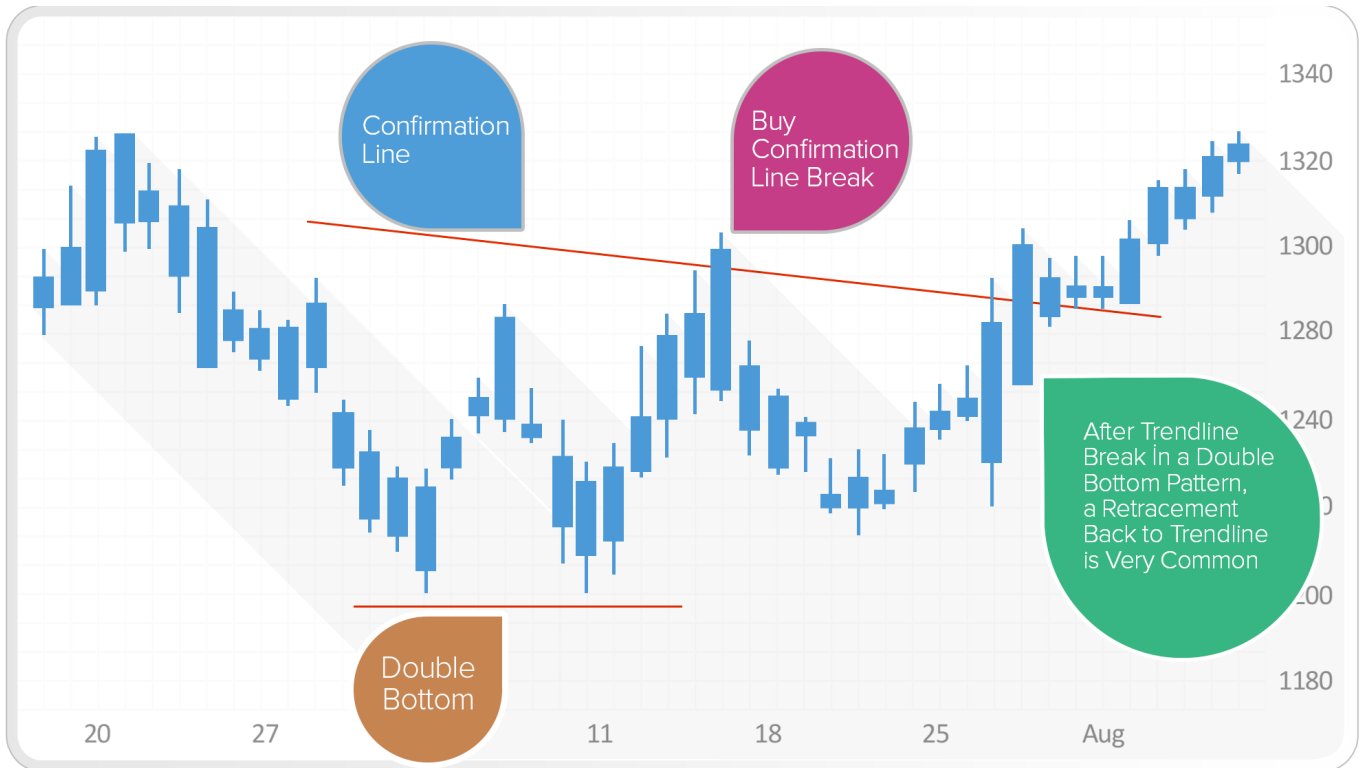
TRIPLE TOPS/BOTTOMS

Triple tops and bottoms are identified by three peaks (or troughs) which are similar in height. The targets are measured in a similar fashion as double tops and bottoms, they're also traded in the same manner.

Measured Target

neckline

Triple Bottom
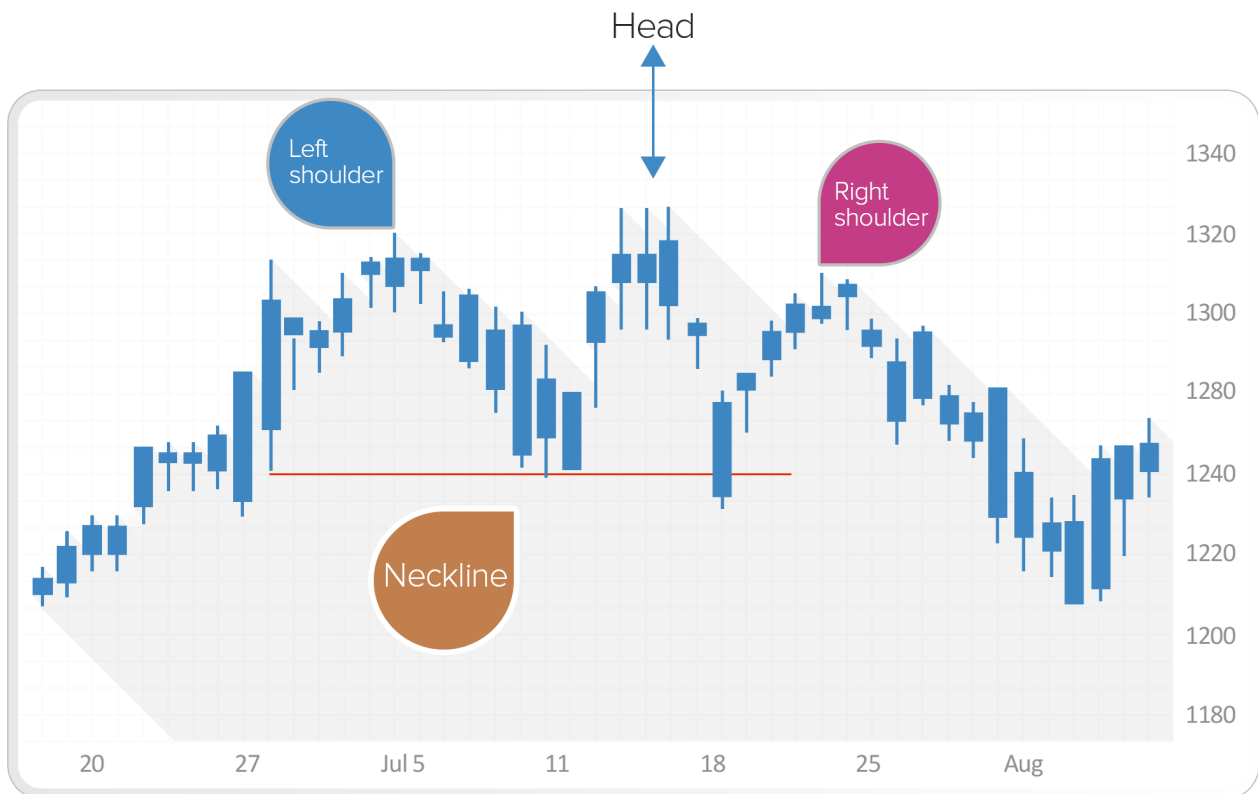
These patterns are mostly seen during long term trends

All figures should be seen clearly in chart patterns

To enter a trade, wait for break out of the neckline, even after the fist long spike

The target is measured vertically from the highest peak to the bottom of the lowest trough between the 3 peaks. It is then projected down from the break out below that trough.

HEAD AND SHOULDERS

1. Head&Shoulders is one of the most well-known technical figure in technical analysis. It will consist of three tops and a neckline.

2. The first small top left (left shoulder) ends at the neckline. Bouncing bulls from this neckline will create the 'head', which is the highest top of the pattern. Another bounce from the support will create the third top (right shoulder). The pattern is completed after the support (neckline) is broken.

HOW TO TRADE HEAD&SHOULDERS

Head&Shoulders will mostly give a breakout signal when a long spiked candle appears in the third wave.

On occasion, a previous support and resistance may test before the breakout.

Trends and patterns should be obvious.

Patience is needed in order to trigger a trade break from the neckline

Left shoulder

Right shoulder

Potential move is equal to the same range between neckline and the head.

In a head&shoulders a trader is waiting for the price action to move lower than the neckline. This is after the peak of the right shoulder.

left shoulder

right shoulder

The profit target for the pattern will be the price difference between the high and low point of either shoulder.

1340
1320
1300
1280
1240
1220
1200
1180

20   27   Jul 5   11   18   25   Aug
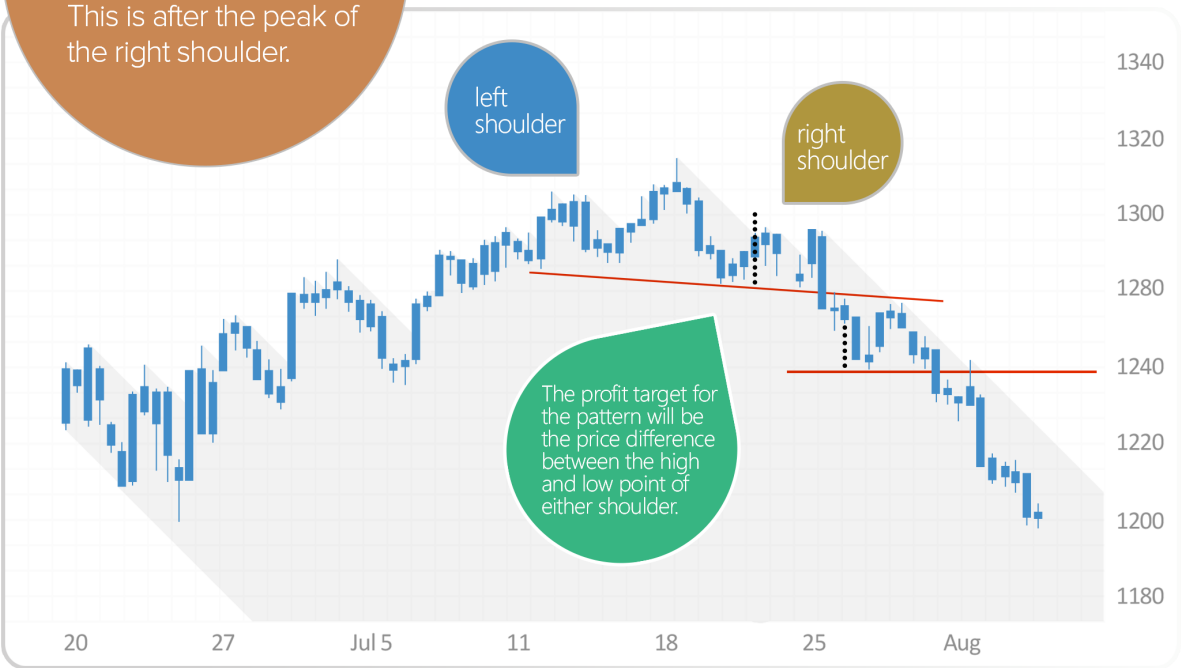
The target should also be pointed through the use of Fibonacci Expansions and Bollinger Bands