PREVIEW

Issam Algo

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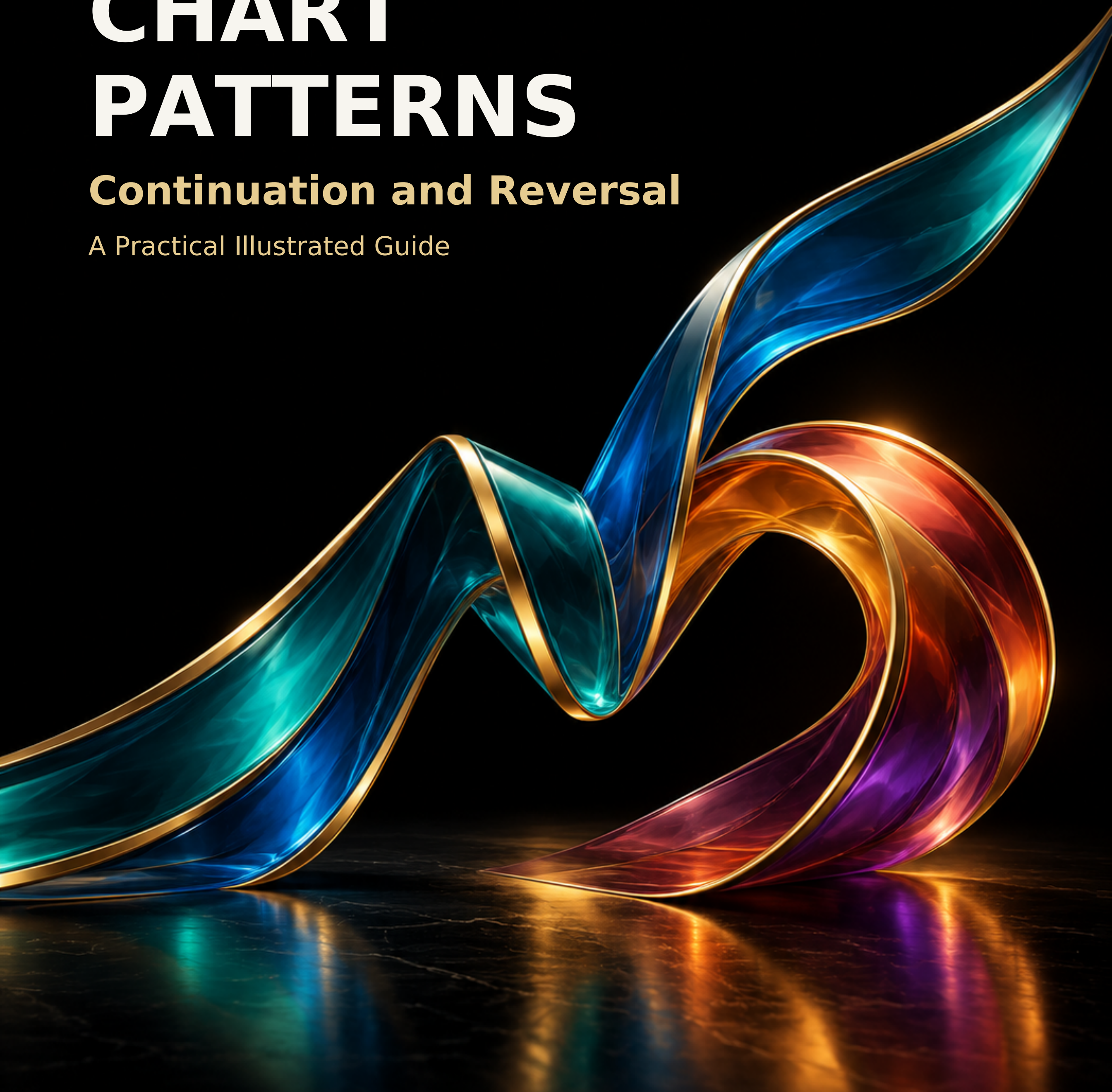
CHART PATTERNS

Continuation and Reversal

A Practical Illustrated Guide



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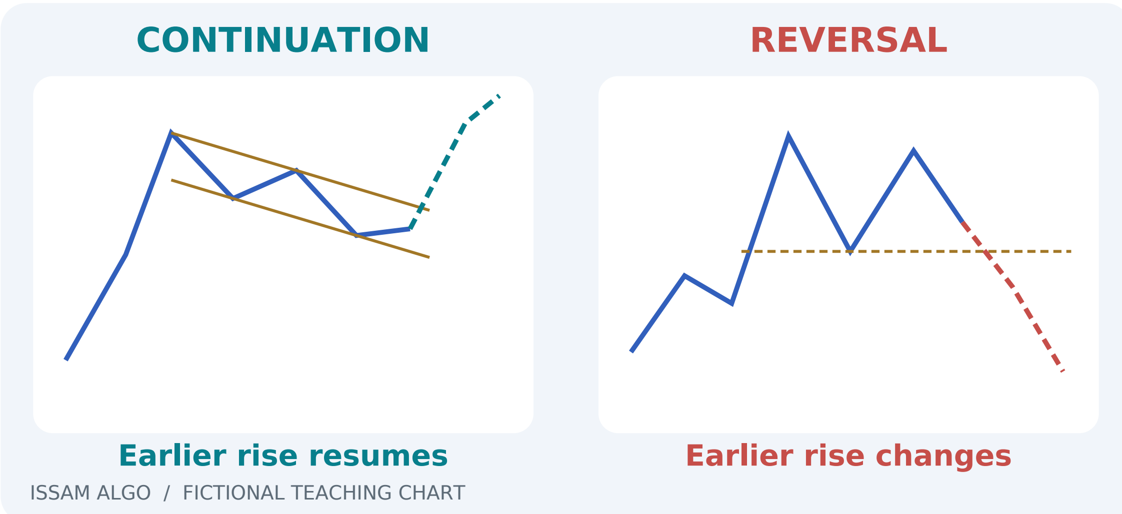
Continuation and reversal need an earlier direction

A continuation describes movement resuming in the earlier direction. A reversal describes a change away from it. A developing formation is only a candidate for either outcome. [1]



Both paths begin with an advance. Left: pause, then an upward break. Right: two peaks, then a downward break. Dashed segments show later outcomes.

Read the chart from left to right: prior move, formation, boundary, then response. Without the earlier move, you cannot explain what is continuing or reversing.

A chart pattern spans a sequence of swings. A candlestick pattern describes one or a few candle bodies and wicks. The two can coexist, but they answer different questions.

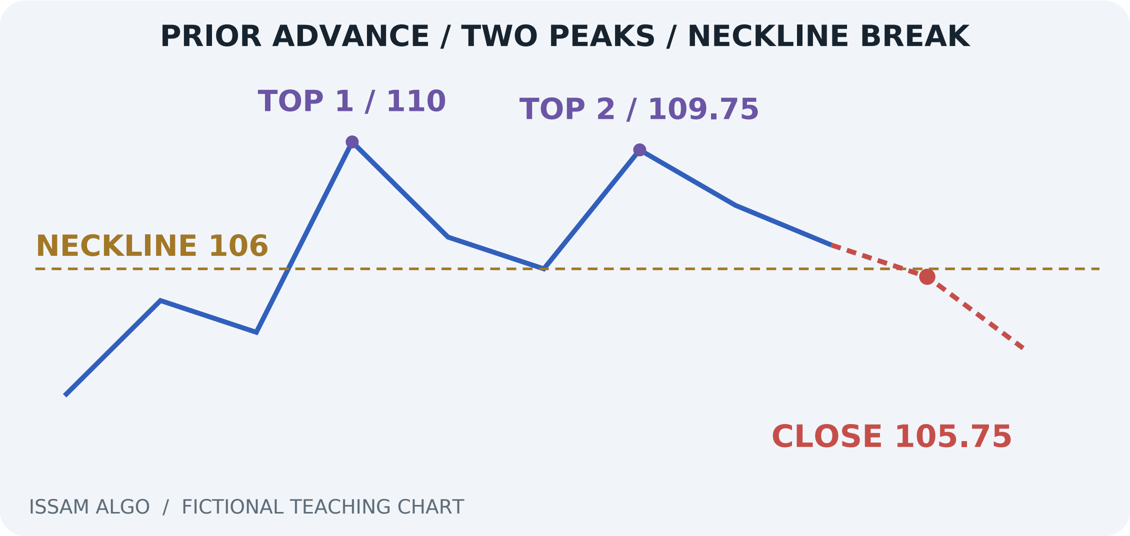
In this book, solid lines show information available at the decision; dashed paths show hypothetical later movement. Teal filled candles close above their open; hollow coral candles close below it.

COMMON MISTAKE

Naming a reversal simply because the shape resembles an M or W, without checking the prior direction or the boundary break.

Two tops are a warning. The neckline is the test.

A double top is a potential bearish reversal after an advance: two similar peaks with a trough between them. We call that trough's level the neckline. [4]



Peaks 110 and 109.75 surround a trough at 106. The later close at 105.75 breaks the neckline; the two peaks alone do not complete the reversal.

First identify the earlier rise. Then mark the intervening trough before looking at the later decline. Under our closing convention, a wick below the neckline with a close back above it is not confirmation.

The peaks need not be perfectly equal, but “similar” needs a written tolerance if you want repeatable decisions. Our illustrative comparison allows a difference up to 0.50 point.

A return above the neckline can follow a confirmed break. The pattern label does not tell you whether to hold, exit or reverse a position; those decisions need their own rules.

COMMON MISTAKE

Selling the second peak solely because the chart looks like an M, before the neckline condition is met.