Finding Chart Patterns That Can Lead To Big Profits

Professional traders have their own set of patterns and indices they use to predict the markets. Profitable traders are aware enough to generate a profit in nearly every market. Sideways trends, uptrends, and even downtrends can all be profitable with the proper tools and investment strategy. Creative techniques will help you preserve trading capital while generating huge profits. To master day trading, you must first understand the basic chart patterns.

The Double Top and Bottom

The best and easiest chart pattern to recognize is the double top or double bottom. It is marked by two consecutive peaks or dips in price to about the same level. This chart pattern works because the first movement tests new boundaries, and then investors take profit and push the price down. Then investors re-enter and push the market again to test its new area, while the market again corrects – although this time, there is usually plenty of buying or selling interest that is removed by the large price movements, and the price either tops or bottoms. When the price moves to a position twice, it encounters plenty of orders that were left at the last peak. On a double top, seller sentiment is extremely high, and investors are looking to short the stock hard. Very rarely do people buy when they see a double top, further compounding the move.

Flagging Trendlines

Pennant flags are also a very identifiable charting pattern. A pennant flag is a sideways trend that forms where two trendlines meet. When two trendlines touch, buying and selling pressure battle each other out and usually end in a huge downtrend or uptrend immediately following the breakout. Professional traders have developed very popular strategies such as “straddling” a position, or placing a short order below the pennant and a long order above the pennant. When the breakout does happen, in either direction, a trader will automatically enter a position and profit from the breakout.

Head And Shoulders are Important

Head and shoulder patterns are also very popular with professional traders. A head and shoulder formation is created when the stock makes a three topped chart, with one high peak in the middle surrounded by two lower peaks on each side. These usually mark a downtrend at the top of a chart and an uptrend when found upside down at the bottom of a chart. The head and shoulders shows large buying strength that eventually tapers off as investors take a profit.

Reading charts are important in finding profitable opportunities in the market. Developing your ability to recognize patterns is key to growing a portfolio.

About the Author

Leroy Rushing is an active, professional day trader; trading coach; and author. He is the Founder and CEO of Trading EveryDay, a distinguished provider of educational trading products and services that are available worldwide. Trading EveryDay also has many articles with unique perspectives on day trading.