

Understand the difference between reversal and continuation patterns

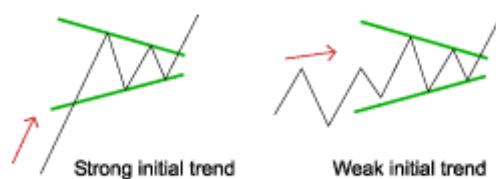
There are historical tendencies that dictate if a pattern is generally considered a continuation or reversal pattern. This tendency should not override a break in the pattern that is contrary to what the historical tendency is.

Each result from Autochartist defines the «Trend» of the pattern. While this column heading offers insight into the most likely direction of the break, there are other considerations to keep in mind while setting up the trade.

Let's discuss what continuation and reversal patterns are and how you can use Autochartist to trade both.

Continuation patterns and reversal patterns do exactly what their names imply. A continuation pattern forms and breaks in the direction of the trend that it developed within while a reversal pattern breaks in the opposite direction of the trend it developed within.

An important measure of the quality of a pattern is the trend that precedes it. It does not matter whether the trend is bullish or bearish, but the consistency and duration of the initial trend partly determines the «Quality» and aesthetics of the pattern.



But remember that the name implies what the pattern is likely to do, not what it will do. Much of the merit of the continuation or reversal tendencies of the pattern come from the «Initial Trend» so when looking at the Autochartist column headings, look at both the «Trend» with «Initial Trend» result to validate the patterns directional follow-through. The overall «Quality» of any pattern both determined by Autochartist and by the aesthetics of the chart pattern as seen by the individual trader must be validated with all of the column headings which also include «Length», «Uniformity», and «Clarity» to achieve not only consistent results but the most effective.

Another step a trader can take to better trade any chart pattern is to confirm the pattern break with an indicator. There are many oscillator studies that can help confirm trades. Consult stochastics, MACD Histogram, RSI, or CCI for secondary confirmation. Primary confirmation, the trading trigger itself, must originate from price and charting patterns. Furthermore, certain patterns like double and triple tops/bottoms can also be traded within the pattern and not simple as breakouts and breakdowns. Any good trading tool will help the trader determine the best course of action but a great tool will leave room for flexibility and allow a trader to venture beyond the confines of historical tendencies. Lucky for traders, Autochartist is both.