Chart Pattern Secrets Newsletter

Issue 11

Welcome to the latest issue of the Chart Pattern Secrets Newsletter.

We hope that you find it useful and are able to implement some of the ideas into your own trading methodology. Chart patterns can provide an interesting insight into potential price action and form an integral part of successful trading strategies.

Contents:

This issue contains the following:

Next Issue:

Look out in your inbox for the next issue of the Chart Pattern Secrets Newsletter. In it, we will discover **assumptions behind technical analysis** and then pose the question of **'Why Break the Rules?'**

cpFinder - Chart Pattern Software

Introducing cpFinder (*chart pattern finder*) - an exciting new stock charting program that you can use on all of your favorite commodities, futures, forex, and stock market data (MetaStock data format) to scan for highly profitable trading opportunities. **cpFinder** is one of only a few software packages available on the market today, that allows you to scan for occurrences of these common patterns:

- ✓ Ascending Triangles
- ✓ Symmetrical Triangles
- ✓ Descending Triangles
- ✓ Head-and-shoulders Up
- ✓ Head-and-shoulders Down
- ✓ Double Top
- ✓ Triple Top
- ✓ Support
- ✓ Gaps
- ✓ Up Trends
- ✓ Down Trends
- ✓ Pennants
- ✓ Flags
- ✓ Wedges
- ✓ Double Bottom
- ✓ Triple Bottom
- ✓ Resistance

Free Trial Available: ***Try before you Buy !!*** For more information on the product or the free 14 day fully functional trial, please visit www.cpfinder.com and click on 'Free Trial'.

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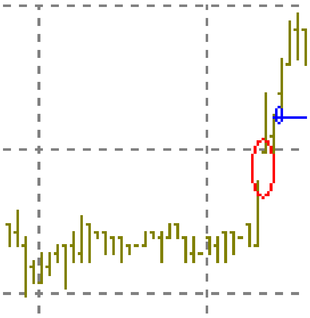
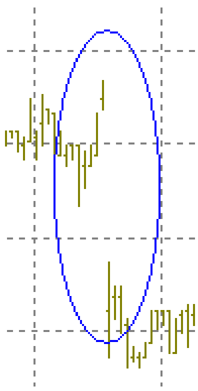
Gaps

Gaps appear in charts when there is no trading at certain price levels between bars. Specifically this will occur when the low of a day is higher than the high of the previous day or when the high of a day is lower than the low of the previous day.



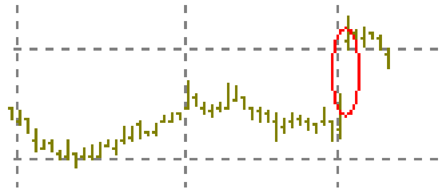
This is evident in the chart on the left where the low of the bar with the red oval is higher than the high of the previous bar therefore creating the appearance of a physical gap in the price plot.

In the chart on the right, you have an example of a gap down. The high of the lower bar within the blue oval is much lower than the low of the previous bar towards the top of the oval.



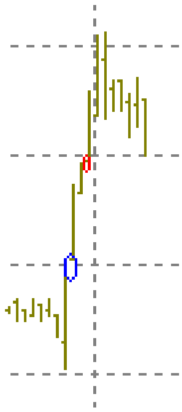
Gaps normally occur within established trends and indicate that the sentiment of the market is changing quickly. This will occur overnight when the general consensus of a security's price will change significantly and the majority of at limit orders will be placed a distance away from the previous close.

There are a number of different types of gaps which include breakaway, continuation and exhaustion gaps. Breakaway gaps will occur after a security has been congesting in a narrow trading range as depicted in the chart at the top right.



In this example, the security formed a congestion period as it traded in a narrow trading range and then gapped up breaking out.

Exhaustion gaps occur towards the end of trends and are normally associated with light volume. They are also very quickly closed which means the gap created in the chart is quickly traded through by the security reversing. An example of this is shown in the chart on the right.



Whilst gaps provide some useful analysis for traders, caution should be taken when doing so.

There are occasionally legitimate reasons why charts will have gaps in them. On the first day of a security trading ex-dividend it is perfectly normal for it to gap down on the open of the day's trading from the previous day's close. Other occasions will be when there has been an adjustment to the capital base and a change in the number of fully paid ordinary shares on issue. Some diligent data providers will ensure that the historical data is adjusted to reflect the new price and that there is no evident gap however this is not always the case.

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Keep Your Mouth Shut

In numerous traders clubs and forums, you will often find people who routinely disclose what positions they have and why. Often, the intentions of these people are innocent in that they want to help others to discover an approach that is going to work for them. They want to teach the recipients and empower them to learn more about trading. Sometimes, the person disclosing the information may have other intentions however there is always the chance that this could have a detrimental effect on the person disclosing the information. They need to be careful that they don't start believing too much in their position just because they have disclosed it to others.

At the best of times, taking losses can be difficult. It is probably the most single identifiable reason why traders fail. Taking a loss means that you must accept that you got the trade wrong and this can be difficult for a lot of people. Now that you have disclosed your trade to a group of people, it can make it even harder to accept that you were wrong and therefore close the trade when you should. Advocating the trade to others instills in you the positives of the trade and these may eventually subconsciously influence your decision to not exit the trade.

Traders should avoid discussing their open positions and their opinion on various potential trades because it may affect their objectivity when in that position themselves and make it harder to take a loss, even when that is their best course of action.

Confident traders rely on their own methodology and not what others are saying.

If you make a habit of discussing your open trades, there is a chance it will end up costing you money, especially if you repeat your opinions often enough, in that you might actually start believing what you are saying.

The same goes with tips. A common rule is to not give nor listen to tips. A trap that you can easily fall into with a tip, can occur when your position starts to move against you. You are more inclined to break the rules and not cut your loss because of the 'reliable' information you have heard about the security's future. Have confidence in your own approach and never worry about tips of any nature regardless of whom they are from.

When you give a tip, and the position moves against you, it is possible to feel some obligation to stay in the trade because of the relationship you have with the person you gave the tip to. It is unlikely that you could face up to the person one week after the position was entered, and tell them that the tip is no good and they should exit.

In his book 'Reminiscences of a Stock Operator' (a fictionalised biography of one of the greatest market speculators, Jesse Livermore), Edwin Lefevre mentions how destructive tips can be to one's trading. This is coming from a book that was first published in 1923 and is one of the most highly regarded financial books ever written. Back in 1923, tips were considered disastrous, so there is no reason to think that they are different today.

Trust yourself and have confidence in your own methodology.

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