Chart Pattern Secrets Newsletter

Issue 7

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.

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Look out in your inbox for the next issue of the Chart Pattern Secrets Newsletter. In it, we will discover **volume** and how important it is that you **congratulate yourself for the profit.**

Pennants

In the realm of technical analysis, there are numerous patterns which can provide you some insight into the prevailing sentiment in a security and any potential future movements. Loosely, you can categorise some of these patterns as reversal patterns, continuation patterns and dual purpose patterns.

Unlike reversal patterns, continuation patterns often form in a short period of time and in a small trading range. Pennants are a type of continuation pattern and if correctly identified, can provide a trader a valuable insight into the movement of a security.

Pennants can be found in strong established trends and when completed will often lead towards the trend continuing in the same direction. Pennants are so named as their appearance resembles a small pennant or flag flying on a pole. One of the characteristics of pennants is that they normally only cover a small price range.

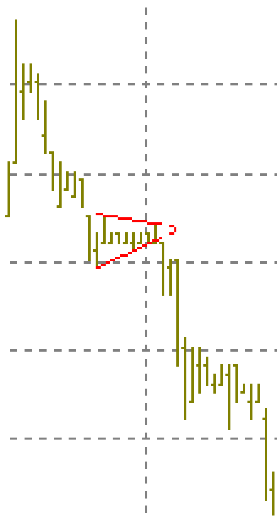
A pennant in an uptrend will form when the prevailing trend temporarily gives way to supply causing the movement upwards to halt. The demand for the security will form the lows in the pennant as seen in the chart to the left.

At the same time, the minimal amount of resistance is eroded away and this results in continued higher prices and a continuation of the trend. It is the break out that completes the pennant.

Volume can also be used as a confirmation tool for a pennant. Volume will normally increase as the pennant is forming but then decrease as the security trades within the pennant. Volume will then normally increase again as the security breaks out from the pennant.

A suggested trading strategy might be to initiate a buy when the security trades out from the pennant, i.e. when it establishes a high above the previous highs that form the top part of the pennant. An initial stop would ideally be placed on the other side of the pennant.

The opposite is true for going short. You could initiate a short trade when the security trades down below from the pennant, i.e. when it establishes a low below the previous lows that form the bottom part of the pennant. Similarly, an initial stop would ideally be placed on the other side of the pennant.



Common Trading Mistakes - Part 2

Often a great deal is made of the need to follow the time tested trading rules should you wish to achieve any level of trading success. It is also a widely held view that a lot of traders starting out invariably make a lot of mistakes.

There will be periods of time when the number of potential trades available to you are significantly reduced from your average. This could be due to a number of different factors however it is important that you don't force the action and look for opportunities that really aren't there.

Inexperienced traders can easily be swept away by the excitement of their new endeavour and be too keen to trade. A measure of restraint and calm is a positive influence on a new trader especially when the overall market may be drifting lower and the number of opportunities drying up.

New traders would be advised to remind themselves that their trading plan is designed to keep them out of the market rather than get them in. This shift in thought will emphasise the need to only enter a position when all of your conditions have been met as opposed to entering a position because it is the 'best of a bad bunch' and you don't think you have enough positions open.

Never give tips and never listen to them. If you are ever inclined to act on a tip, ensure you conduct your own analysis and if the potential trade and prevailing conditions do not match the conditions detailed in your trading plan, don't bother with it. New traders can be easily swayed by tips because it provides an easy way of identifying a potential trade.

New traders will lack competence and therefore lack confidence in their own ability and their trading plan, if they have developed one. This lack of confidence will make them easy targets for tips.

If on the other hand, you provide a tip to someone else, it can also have negative consequences. When you give a tip, and the position moves against you, it is possible to feel some obligation to stay in the trade yourself, because of the relationship you have with the person you gave the tip to. This is especially when the person receiving the tip doesn't have a great understanding of the markets and certainly doesn't understand the importance of cutting losses.

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. It would be an awkward position because not only would you have to accept yourself that you got the trade wrong, you would also have to admit to the other person that you got it wrong compounding this challenge that many new traders face.

New traders can often be swept away by the opportunities that markets present every day and it can be very easy to commit a large amount of capital into a single position. Along with not cutting losses, this mistake can be a single reason why people lose a lot of money and give up trading. Never let your enthusiasm for a potential trade influence you to commit too much of your capital into a single trade because if the trade moves against your anticipated direction, it can be difficult to recover from.

Comments / Feedback:

Any comments on the contents of this publication or suggestions for future publications will be warmly welcomed. Please email to cpfinder@tradingxl.com.au, fax to +61 3 9870 1738 or phone us on +61 3 8802 0593.

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