



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:

- Page 1 Welcome
- Page 2 Article - Head and Shoulders
- Page 3 Article - Search for the Holy Grail

Next Issue:

Look out in your inbox for the next issue of the Chart Pattern Secrets Newsletter. In it, we will discover **wedges** and the main reasons **why so many traders fail**.

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



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'.

Head and Shoulders

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 continuation patterns, reversal patterns often can form over several weeks and in a wide trading range. Head and shoulder patterns are a type of reversal pattern and if correctly identified, can provide a trader a valuable insight into the movement of a security.

Head and shoulder patterns are effectively an interpretation using peaks and troughs. A medium term up trend exists when a security is achieving higher peaks and higher troughs. In the chart below, you can see that the security has achieved higher peaks however then failed to achieve a higher peak.



At this point, there is a small amount of doubt about the strength of the medium term up trend. The key level at this stage is the line connecting the two troughs in between the peaks. If and when the security trades below this line, then the head and shoulder pattern has completed and a reversal is very likely. As the security is also on its way to achieving a lower trough after failing to achieving a higher peak, there is now enough doubt that the medium term up trend has ended.

Support and resistance have a great influence on a security's behaviour and this is especially the case with head and shoulder patterns. A head and shoulder pattern occurs when a security fails to break through resistance but simultaneously, the demand and support for the security subsides.

An upside down head and shoulder pattern is the exact opposite of the head and shoulder pattern just described. It occurs when a security meets support and is unable to break through. The head and shoulder pattern is complete when the security moves above the line connecting the two peaks between the troughs.





Search for the Holy Grail

The Holy Grail is often referred to in trading circles as the perfect trading system; the perfect conditions or indicator that will guarantee success in every trade you enter. All traders at some stage undertake the search for the Holy Grail whether it is consciously or subconsciously. The reality of trading is that there is no such trading system in existence. It never has existed and never will. The fact that some software packages label an indicator the 'Holy Grail' only serves to whet the appetite of some people further and arouse their suspicion of what it could be and how they will find it.

It is also widely accepted that your own psychology or mindset is the largest single determinant of your trading success followed by your ability to manage risk. The small remainder of the ingredients to your trading success is your system which includes your entry signal. When most traders start trading, they spend most of their time on developing their entry conditions. They will learn about various technical indicators, trends and chart patterns, and how they can be interpreted and applied to their trading.

In his book 'Market Wizards', Jack Schwager interviews numerous profitable traders in the United States. There is an interesting observation to be made about most of them. Often Schwager asked if they were to start trading again, what would they do differently. Many answered that they would not have wasted as much time initially on their entry signals and they would have rather spent that time concentrating and developing their risk management rules and working on their own mindset or psychology.

When trading does not go well for most traders though, they begin to wonder what part of their entry conditions is failing them. Thoughts like is it the data they are using, the software, should they use different moving averages like weighted or exponential, or look at hourly data.

It is obvious that entry conditions are a necessary part of any trading plan but their importance is often overrated. Numerous texts have been written about various entry signals yet not enough focus on what is really important to trading. This may not help the beginner who naturally assumes that their entry signal is the most important part of their trading plan and therefore they shall spend most of their time developing that.

Unfortunately some traders who have looked for the Holy Grail try to lay the blame for their lack of success on external factors. It might be the software they are using or the new entry signal they acquired from reading a book, but at the end of the day they should look no further than themselves. Successful traders have numerous personal traits in common. They are focussed, disciplined, passionate, and are totally committed to their trading. They are humble and always prepared to learn from their mistakes. The Holy Grail of trading has never existed and never will.



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.

Disclaimer:

This publication is not, and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment. Any securities discussed in this publication are unsolicited general information only. Trading Excellence did not take into account the investment objectives, financial situation and particular needs of any particular person; and before making an investment decision on the basis of the information, the investor or prospective investor needs to consider, with or without the assistance of a securities adviser, whether the information is appropriate in light of the particular investment needs, objectives and financial circumstances of the investor or prospective investor.