



Lesson 5 by  
Madiba  
Malebo

Continuation patterns

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the right side of the frame, creating a modern, layered effect. The rest of the background is plain white.

# **Price Patterns**

## Price Patterns

**Reversal patterns:** indicate that an important reversal in trend is taking place.

**Continuation patterns:** suggests that the market is only pausing for a while, possibly to correct a near term overbought or oversold condition, after which the existing trend will be resumed.



## Continuation **Patterns**

Continuation patterns indicate that the sideways price action on the chart is nothing more than a **pause** in the prevailing trend.

The next move will be in the same direction as the trend that preceded the formation.

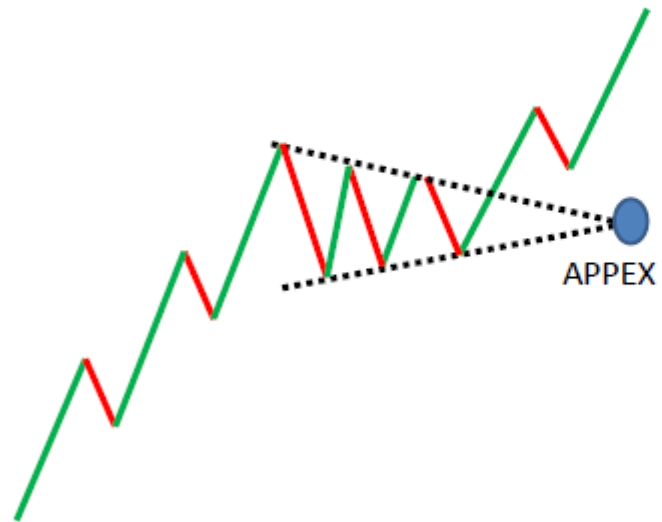
**A prerequisite for any Continuation pattern is the existence of a prior trend.**

## Continuation **Patterns**

**Volume gives a clue as to whether the heavier volume is occurring during the up moves or down moves.**

**(example : In an up trend, there should be a slight tendency for volume to be heavier during the bounces and lighter on the price dips).**

## Triangles:



### SYMETRICAL

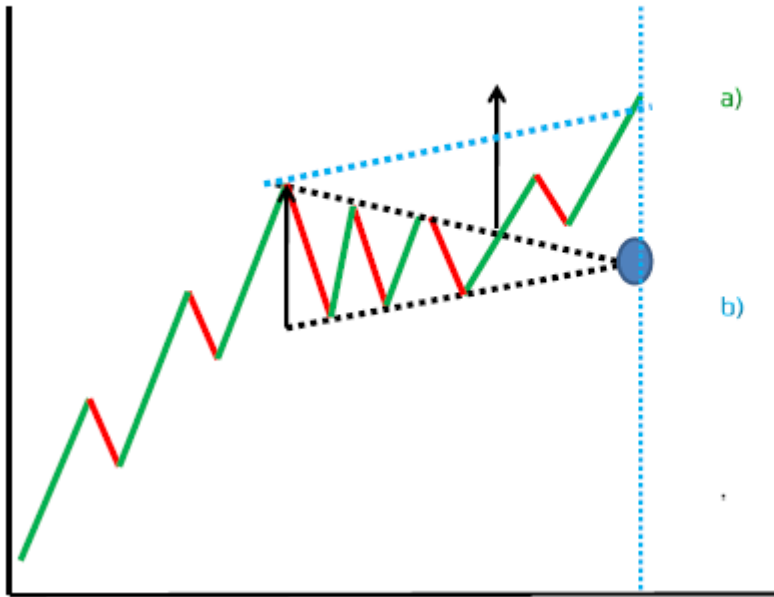
Prices should break out in the direction of the prior trend somewhere between two-thirds to three-quarters of the horizontal width of the triangle.

( If the width were 12 weeks long, then the breakout should take place sometime between the 8th and the 9th week)

Volume should decrease as the price moves within the triangle.

But should increase at the penetration of the trend line that completes the pattern.

## Triangles:



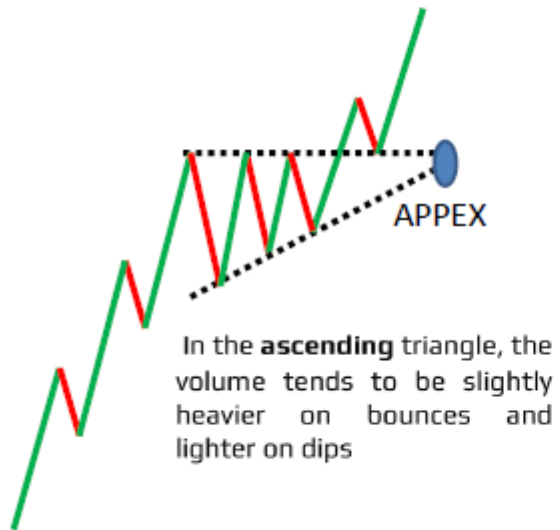
### Measuring Techniques

- a) The simplest technique is to measure the height of the vertical line at the widest part of the triangle( the base), and measure that distance from the breakout point.
- b) The second method is to draw a parallel line to the lower triangle line. Where it meets the apex then we know two things: where the PRICE will be and WHEN (the DATE).

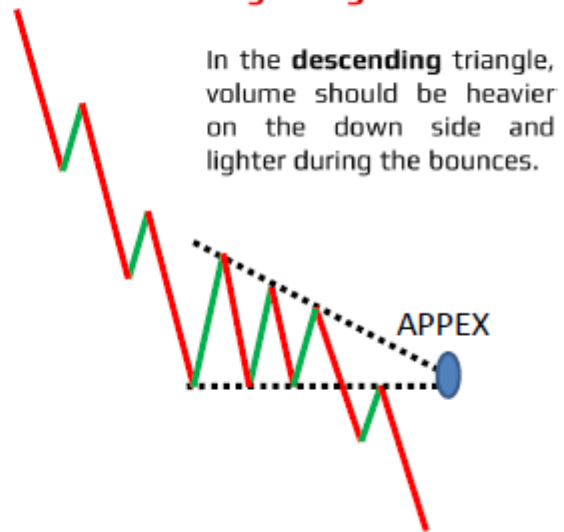


## Triangles:

### Ascending triangle



### Descending triangle



As with the symmetrical triangles the same breakout periods and measuring techniques apply.

# Triangles:

## Time Factor

The triangle is considered an intermediate pattern, meaning that it usually takes **longer than a month to form, but generally less than three months.**

A triangle that lasts less than a month is probably a different pattern, such as a pennant.

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# **The Wedge** **Formation**

## Continuation **Patterns**

It is identified by two converging trend lines that come together at an apex.

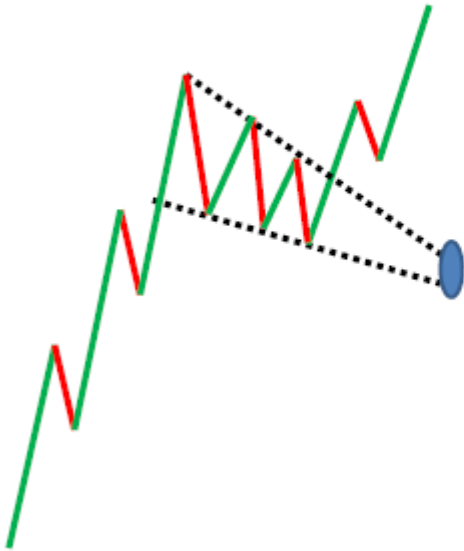
The wedge usually lasts more than one month but not more than three months, putting it into the intermediate category.

The wedge pattern has a noticeable slant either to the upside or the downside (against the prevailing trend).

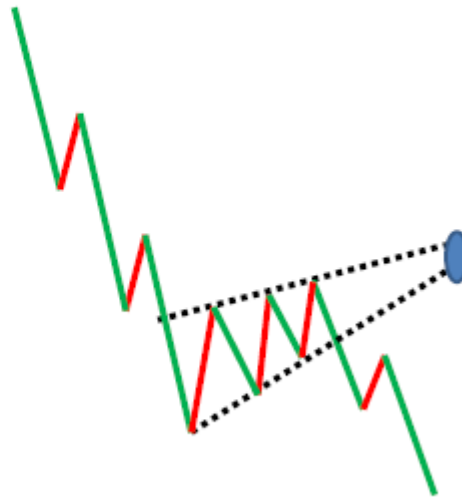
A falling wedge is considered bullish and a rising wedge is bearish.

## Triangles:

Bullish Wedge



Bearish Wedge



As with the symmetrical triangles the same breakout periods and measuring techniques apply.

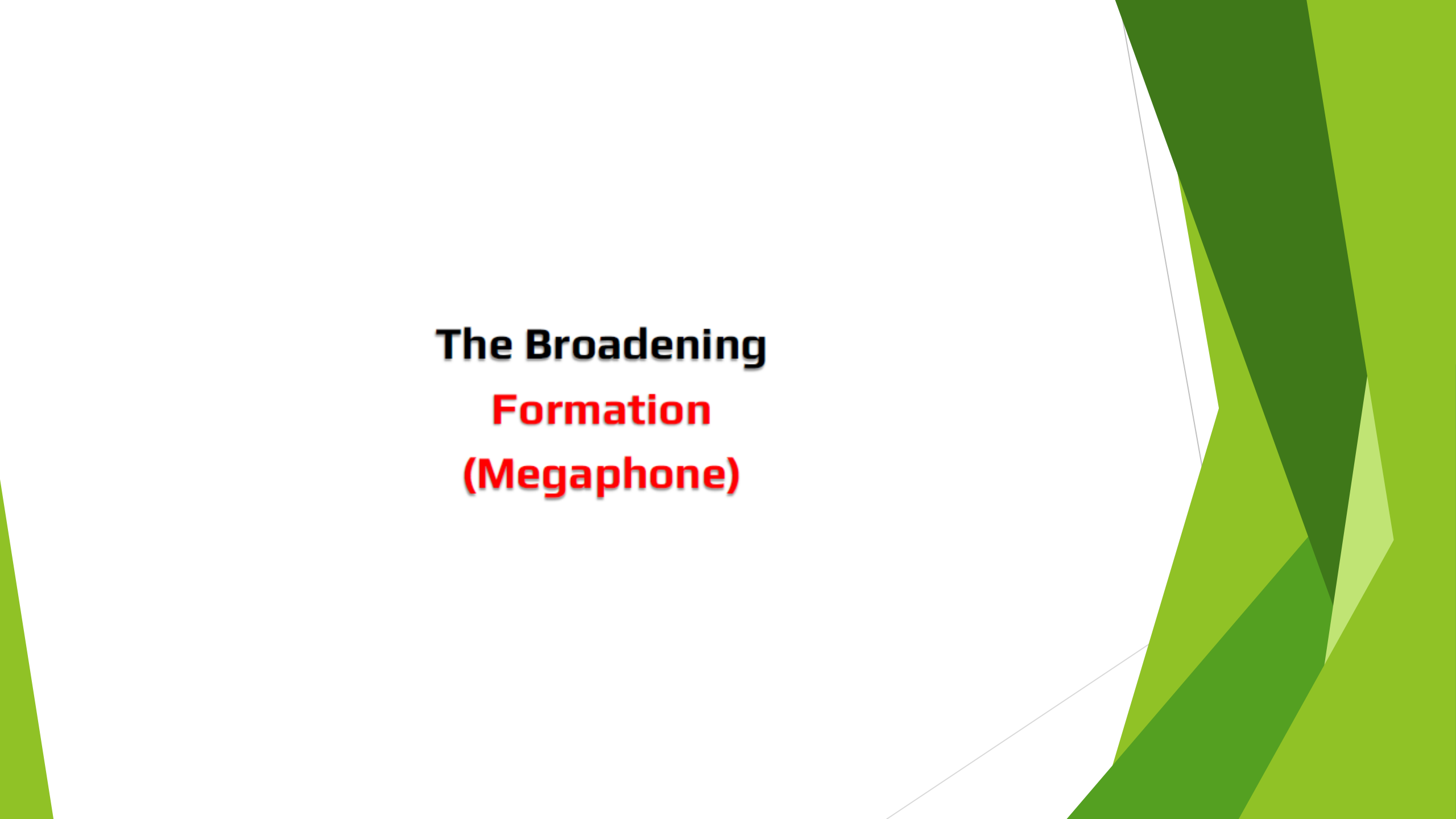
## Continuation **Patterns**

### Wedges as Tops and Bottom Reversal Patterns.

The wedge can appear at tops or bottoms and signal a trend reversal. That type of situation is much less common.

Near the end of an up trend, we may observe a clear cut rising wedge.

The rising wedge is a clue that this is a bearish and not a bullish pattern.

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**The Broadening  
Formation  
(Megaphone)**

## Continuation **Patterns**

It is actually an inverted triangle or a triangle turned backwards.

The trend lines actually diverge in the broadening formation, creating a picture that looks like an expanding triangle.

It is also called a megaphone top.

The volume tends to expand along with the wider price swings.



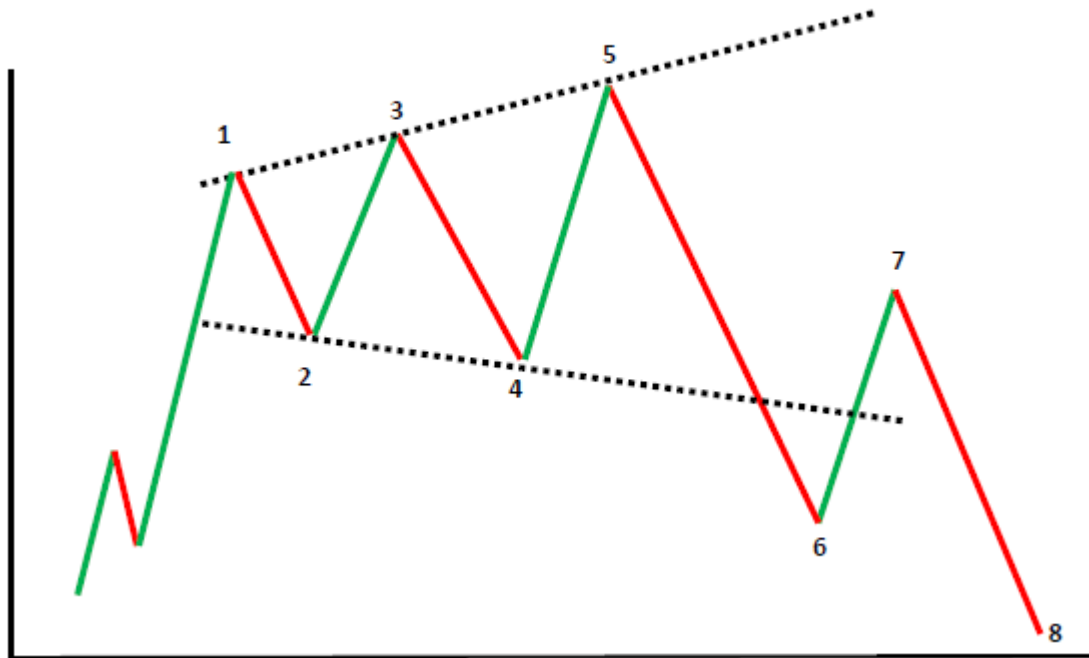
## **Continuation Patterns**

This situation represents a market that is out of control and unusually emotional.

Also represents an unusual amount of public participation, it most often occurs at major market tops.

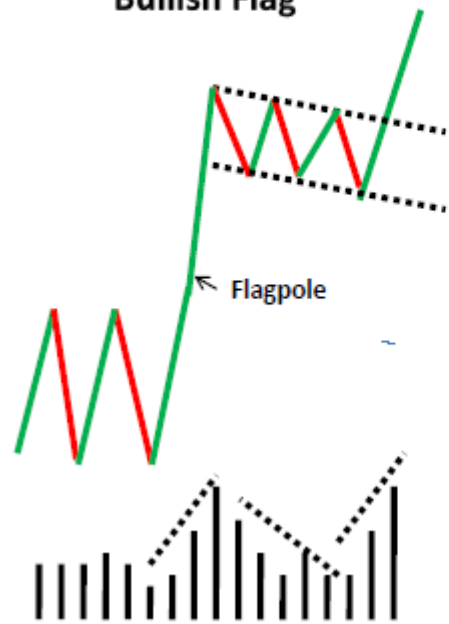
The expanding pattern, is usually a bearish formation. It generally appears near the end of a major bull market.

## Continuation Patterns

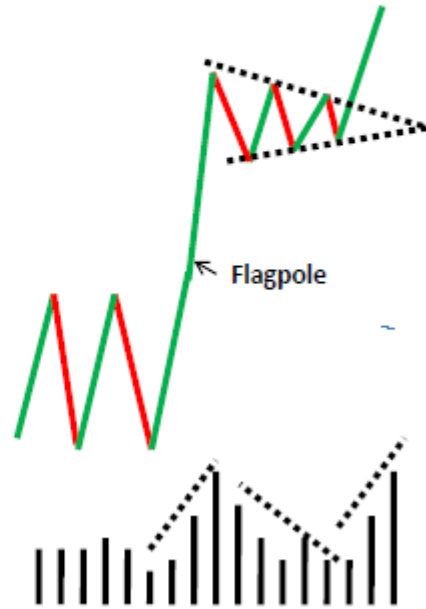


## Triangles:

Bullish Flag



Bullish Pennant



## Flags & Pennants

The flag and pennant represent brief pauses in a dynamic market move. They are both preceded by an almost straight line move (called a flagpole) on heavy volume.

Prices then pause for a few candles on very light volume.

The move continues on a burst of volume.

Both patterns occur at about the midpoint of the market move.

## Flags & Pennants

### Price targets

Flags and pennants are said to “fly at half-mast” from a flagpole. They usually appear at about the halfway point of the move.

The move, after the trend has resumed will **duplicate the flagpole**.

Measure the distance of the point at which the original trend signal was given i.e. the sharp move up.

This is how much more the move will be after we break the formation.

## Rectangle Formation



You should keep a close eye on which moves have the heavier volume. If the rallies are on heavier and the setbacks on lighter volume, then the formation is probably a continuation in the up trend.

If the heavier volume is on the downside, then it can be considered a warning of a possible trend reversal in the works.



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