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Chart patterns are incredibly popular in many different markets because they allow you to not only find profitable trades, but also manage them.

Whilst there are many charting patterns you can use, some of the most popular repeat over and over again. They form on all time frames and you can use them in many different markets from Forex to stocks.

In this post we go through exactly what chart patterns are and how you can start using them in your own trading.

What are Chart Patterns?

Chart patterns are different to candlestick patterns.

Whilst many traders will be using Japanese candlesticks to find their trading patterns, there is a difference between a chart pattern and a candlestick pattern.

A candlestick pattern is normally a one or two candlestick pattern only. For example, a candlestick pattern may be an inside bar or dragonfly doji.

Chart patterns are not formed with just one or two candlesticks and are created over longer periods of time. They will normally show you a bigger reversal that is being formed or a larger trend that is being shaped.

Just because they are formed with more sessions and candlesticks does not mean that you have to use them for longer forms of trading only. There are many

patterns you can use for short term trading and patterns that can also be used to make intraday or scalp trades.

How to Use Chart Patterns

You can use chart patterns in different ways in your trading, but the most popular is to find and then make high probability trade entries.

Chart patterns repeat time and time again. The reason they continue to form and continue to repeat is because each pattern is price showing you what traders are doing through the price action.

Given similar sorts of circumstances traders will tend to behave in the same ways over and over again. Think about how traders get greedy when looking to make money or fearful when they start losing it. These emotions don't change.

This is the same reason why the same patterns continue to form over and over again. Traders do the same things over and over again in the markets which creates the same patterns.

You can use this knowledge to your advantage by finding and then trading these patterns to make profitable trades.

Trading Classic Chart Patterns

There are endless amounts of chart patterns you can learn to use in your own trading. Just like the endless amount of indicators you can find and use, you don't need to know them all to be profitable.

Often the best way is to find one or two classic chart patterns and then mastering them so you know them back to the front. This is far better than finding and trading 20 x different patterns, but being very average at them all.

Head and Shoulders

The head and shoulders is quite possibly the most popular of all the chart patterns.

Once you know how to identify it you will start to see it on all your charts and time frames and you will see how profitable it can be. When done correctly this pattern can be incredibly reliable.

The head and shoulders pattern is formed with three peaks and a neckline. The first peak is shoulder one or the 'left shoulder'. The second peak is the head and the third peak is the right shoulder.

You can read more about how to find and trade the head and shoulders pattern here.



Double Top and Double Bottom

This is a very easy pattern to identify, but a very reliable reversal pattern.

This pattern is formed with two peaks and a neckline. For example; with a double top we need to see price form two peaks rejecting the same resistance level.

For a double bottom we need to see price forming two swing lows rejecting the same support level.

Entry is normally taken when price breaks higher or lower through the neckline.

You can read more about how to find and trade the double top and bottom here.



Day Trading Chart Patterns

Charting patterns are not just for the higher time frames and you can use them for both day trading and intraday trading.

The most commonly used pattern that is used by everyone from the big banks right down to the smallest retail trader is support and resistance.

When using support and resistance you are either looking to buy / sell the bounce, or buy / sell the breakout.

When buying or selling the bounce you are looking for the support or resistance level to hold and for price to make a reversal.

When buying or selling the breakout you are looking for a key support or resistance area to break.



Intraday Chart Patterns

Another very popular pattern that can be used on all time frames and in many different markets is role reversal trading.

With role reversal trading you are using support and resistance levels, but you are looking for these levels to change their roles.

See the example chart below. At first price finds this level as a support level. Price then breaks lower. When price makes a new move back higher you are watching to

see if the old support level will hold as a role reversal and new resistance level. If it does you can look for short trades.

You can use these role reversals as old support / new resistance and vice versa, old resistance and new support levels.



Lastly

We have only gone through a few of the popular chart patterns in this post. There are many you can learn and use in your trading.

Keep in mind you don't need to know them all and finding one or two that you like the best and then mastering them will often be the best way.

Make sure you test out these patterns and any other new strategies on free demo / virtual trading charts first before you ever risk any real money in the live market.