CHART CODE

DECODE THE MARKET CODE

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Chart Patterns — The Complete Guide (All Patterns)

The definitive reference for every major chart pattern — triangles, flags, wedges, rectangles, head & shoulders, double tops/bottoms, and cup & handle — with clear entries, stop-losses, and targets for each.

1. Introduction — Why Chart Patterns Matter

Every chart you look at — Nifty, Bank Nifty, Reliance, or any stock — is really just a record of the ongoing tug-of-war between buyers and sellers. Over time, that tug-of-war tends to repeat itself in recognisable shapes. Traders call these shapes chart patterns.

A chart pattern is not magic and it does not guarantee a result. What it does is tell you how buyers and sellers have been behaving in that stock recently, and it gives you a logical, rule-based way to plan an entry, a stop-loss, and a target — instead of guessing.

KEY	Chart patterns are a probability tool, not a certainty tool. They work because large numbers of market participants recognise the same shapes and react to them in similar ways, which becomes a self-fulfilling pattern of buying and selling.

This guide covers every chart pattern a serious trader needs to know — organised into continuation patterns (the trend pauses and resumes) and reversal patterns (the trend turns around).

2. Continuation vs Reversal Patterns

Every chart pattern falls into one of two broad families:

- Continuation patterns: The stock pauses briefly during an existing trend and then continues in the same direction. Triangles, flags, wedges, and rectangles usually fall here.
- Reversal patterns: The stock signals that an existing trend is running out of steam and is about to turn the other way. Head & Shoulders, Double Top/Bottom, and Cup & Handle are classic examples.

Real-Life Analogy

Think of a long-distance runner (the trend). A continuation pattern is like the runner stopping briefly to tie a shoelace before sprinting on in the same direction. A reversal pattern is like the runner reaching a wall and turning back the way they came.

PART A — CONTINUATION PATTERNS

3. The Triangle Pattern

A triangle forms when price swings get tighter and tighter, squeezed between two converging trendlines — one drawn across the highs, one across the lows. As the range narrows, volume typically dries up, and a sharp, high-volume breakout usually follows.

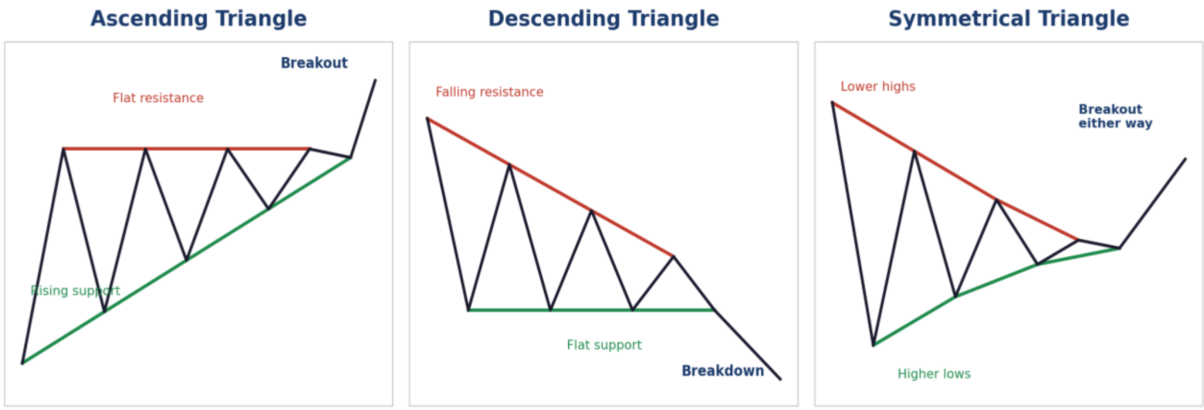

Fig 3.1 — The three triangle variants: Ascending, Descending, and Symmetrical.

3.1 Ascending Triangle — Bullish Bias

Resistance is flat, but support is rising — buyers are getting more aggressive while sellers hold a fixed line. Usually breaks out upward.

3.2 Descending Triangle — Bearish Bias

Support is flat, but resistance is falling — sellers are gaining the upper hand. Usually resolves with a downward breakdown.

3.3 Symmetrical Triangle — Neutral

Both trendlines converge at similar angles — pure indecision. Never anticipate the direction; wait for a confirmed close outside either trendline.

3.4 How to Trade a Triangle

1. Entry: Only after a candle closes beyond the trendline on strong volume.
2. Stop-loss: Just inside the triangle, below the most recent swing low (upside) or above the most recent swing high (downside).
3. Target: Measure the triangle's height at its widest point and project that distance from the breakout point.

> **Concrete Example**
> Tata Motors forms an ascending triangle with resistance flat at ₹950 and a widest-point height of ₹60. A breakout above ₹950 on strong volume gives a measured-move target of ₹1,010, with a stop-loss just below the last higher low near ₹925.

4. The Flag Pattern (and Pennant)

A flag is a short, sharp pause within a strong, fast-moving trend — a rally or decline (the 'flagpole') followed by a tight, parallel channel (the 'flag') before the move continues. A pennant is the same idea, but the pause forms a small symmetrical triangle instead.

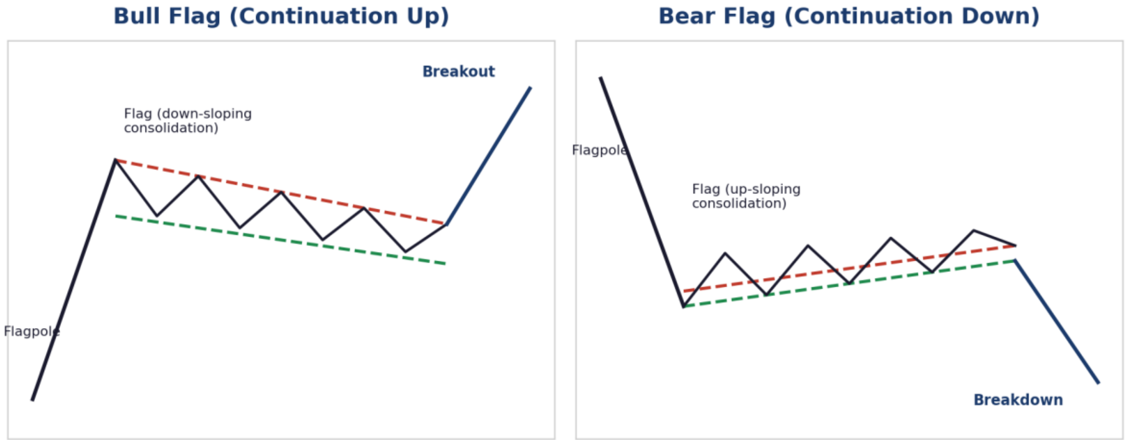

Fig 4.1 — Bull flag and bear flag.

4.1 Bull Flag & Bear Flag

A bull flag forms after a sharp rally and slopes gently down or sideways before continuing higher. A bear flag forms after a sharp decline and slopes gently up before continuing lower.

4.2 How to Trade a Flag

4. Confirm a sharp, high-volume flagpole exists before the flag forms.
5. Entry: On a breakout of the flag's trendline in the direction of the pole.
6. Stop-loss: Just beyond the opposite edge of the flag.
7. Target: Roughly the height of the flagpole, projected from the breakout point (the 'flagpole projection').

CAUTION	Flags are short-term patterns that usually resolve within a handful of candles. If it drags on for weeks with no breakout, it has likely stopped being a flag — re-evaluate.

5. Wedges — Rising and Falling

A wedge looks similar to a triangle — two converging trendlines — but unlike a triangle, both trendlines slope in the same direction rather than one being flat. This distinction matters because it usually signals the opposite of what the slope direction suggests.

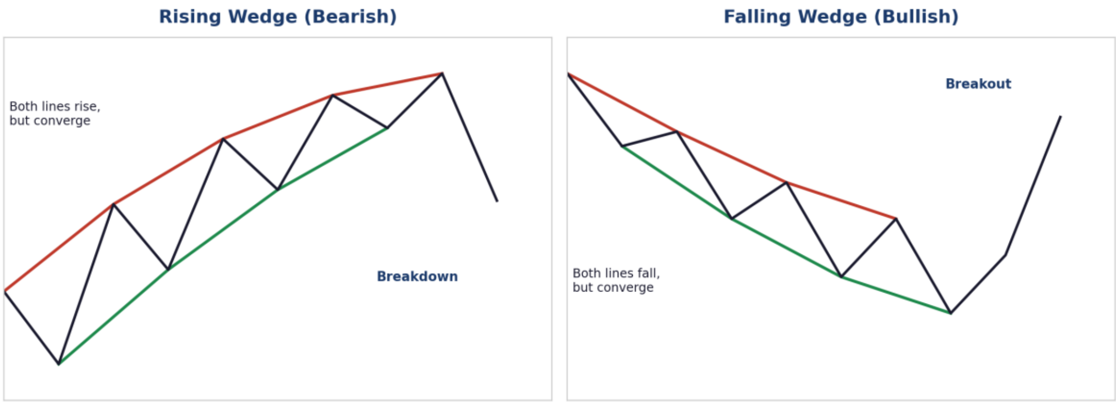

Fig 5.1 — Rising Wedge (bearish) and Falling Wedge (bullish).

5.1 Rising Wedge — Bearish

Both trendlines slope upward, but the lower trendline rises faster than the upper one, causing them to converge. Despite the upward slope, this pattern is typically bearish — each new high is being made on progressively weaker upward momentum, and the pattern usually resolves with a downside breakdown.

5.2 Falling Wedge — Bullish

The mirror image — both trendlines slope downward, but the upper trendline falls faster, causing convergence. Despite the downward slope, this pattern is typically bullish, usually resolving with an upside breakout as selling momentum fades.

KEY	Wedges are the one pattern in this guide where the slope direction is deliberately misleading — a Rising Wedge (which sounds bullish) is usually bearish, and a Falling Wedge (which sounds bearish) is usually bullish. Judge the pattern by its shape and convergence, not by which way it appears to be tilting.

6. Rectangle (Trading Range)

A rectangle forms when price bounces repeatedly between a flat support level and a flat resistance level, with neither side gaining a clear advantage — essentially a sideways consolidation.

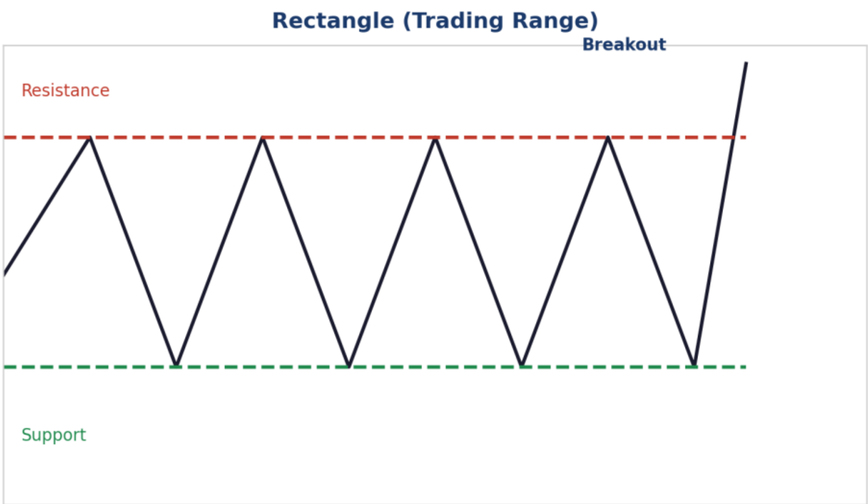

Fig 6.1 — A rectangle pattern: price bouncing between flat support and resistance before breaking out.

A rectangle can break out in either direction, and the eventual direction of the break usually determines whether it was, in hindsight, a continuation pattern within the larger trend or the start of a reversal. The trading rules are the same as for a triangle: wait for a confirmed close beyond either boundary, ideally on a pickup in volume, and use the height of the rectangle for a measured-move target.

PART B — REVERSAL PATTERNS

7. Head & Shoulders Pattern

One of the most reliable reversal patterns in technical analysis. It typically forms at the end of an uptrend and warns that buyers are losing strength.

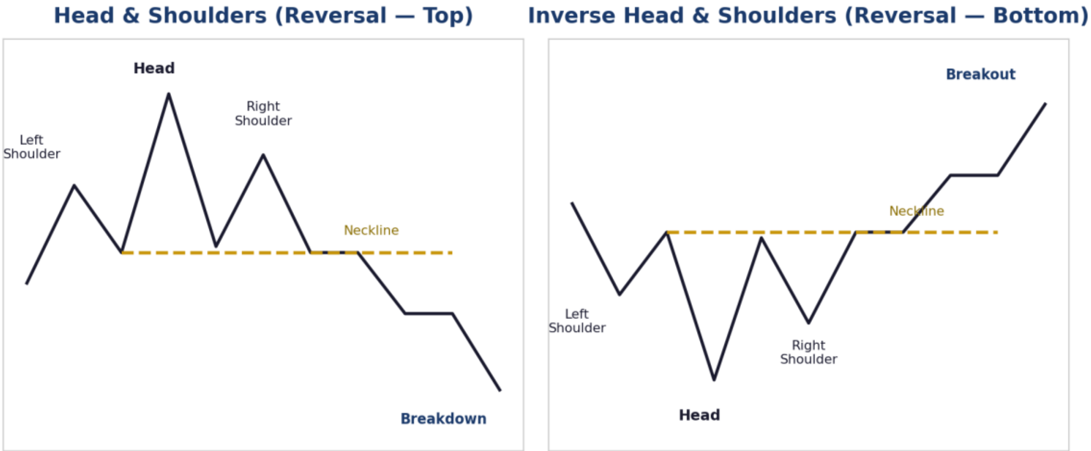

Fig 7.1 — Head & Shoulders top and Inverse Head & Shoulders.

7.1 Anatomy of the Pattern

- Left Shoulder: Price rallies to a peak on strong volume, then pulls back.
- Head: Price rallies to a new, higher peak, often on weaker volume, then pulls back to a similar level as before.
- Right Shoulder: One more rally that fails to reach the head's height, on the weakest volume of the three pushes.
- Neckline: The line connecting the two pullback lows — the critical support level to watch.

KEY	The pattern is not confirmed — and should not be traded — until price closes decisively below the neckline on rising volume.

7.2 Inverse Head & Shoulders

The bullish mirror image, forming at the end of a downtrend: a left shoulder (low), a head (a lower low), a right shoulder (a higher low), and a neckline across the two bounce highs.

7.3 How to Trade It

8. Entry: Only after a candle closes below the neckline (top) or above it (inverse).
9. Stop-loss: Just above the right shoulder (top) or just below it (inverse).
10. Target: Project the head-to-neckline distance from the point the neckline breaks.

Concrete Example

Infosys forms a Head & Shoulders top: left shoulder ₹1,650, head ₹1,720, right shoulder ₹1,660, neckline ₹1,580. Pattern height = ₹140. A close below ₹1,580 gives a target of ₹1,440, with a stop-loss above ₹1,660.

8. Double Top & Double Bottom

A Double Top forms when price rallies to a peak, pulls back, rallies again to almost the same peak, and then fails — resembling the letter 'M'. A Double Bottom is the mirror image, resembling the letter 'W', forming at the end of a downtrend.

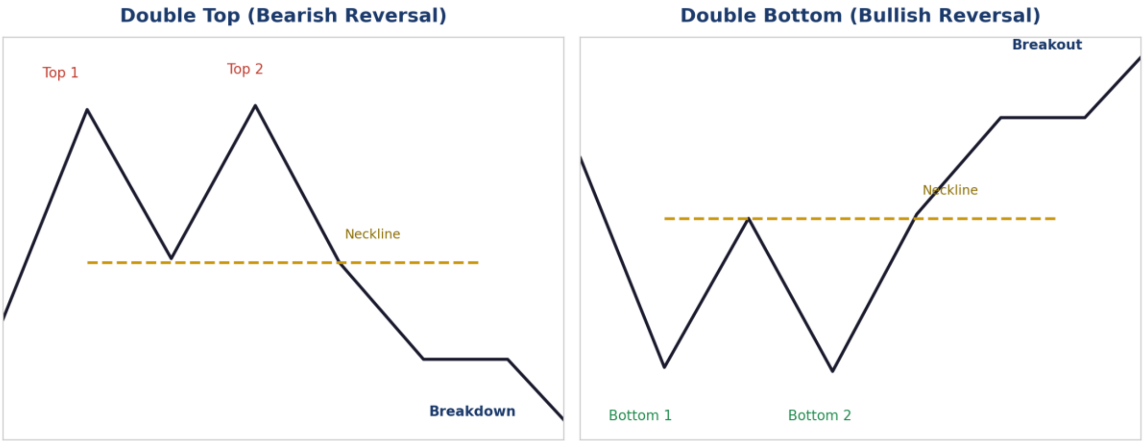

Fig 8.1 — Double Top (bearish) and Double Bottom (bullish).

Both peaks (or troughs) should form at roughly similar price levels — generally within 1–3% of each other — with a clear pullback (or bounce) in between. The 'neckline' is the level of that middle pullback/bounce, and the pattern confirms only once price closes beyond the neckline.

8.1 Triple Top & Triple Bottom

A less common variant where price tests the same level three times instead of two before reversing. The trading logic is identical to the double pattern, but three failed attempts at the same level generally represent an even stronger reversal signal than two, since even more traders have now failed to break through.

8.2 How to Trade Double/Triple Tops and Bottoms

11. Entry: On a confirmed close beyond the neckline (the middle pullback/bounce level).
12. Stop-loss: Just beyond the second (or third) peak/trough.
13. Target: Project the distance from the peak/trough to the neckline, starting from the breakout point.

9. Cup & Handle

A bullish continuation pattern that looks like a tea cup viewed from the side: a gradual, rounded decline and recovery (the 'cup'), followed by a small, short pullback near the old high (the 'handle'), before a breakout to new highs.

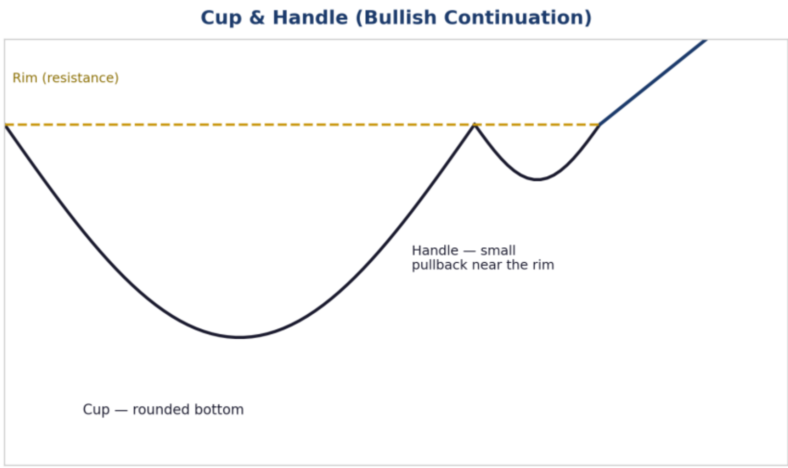

Fig 9.1 — Cup & Handle: a rounded cup followed by a small handle, then a breakout.

The cup should be a smooth, rounded 'U' shape rather than a sharp 'V' — a gradual, gentle recovery reflects a healthier, more sustainable base than a sharp spike. The handle is typically a mild pullback, often on lower volume, near the rim of the cup — this represents the last bit of profit-taking before the breakout.

9.1 Rounding Bottom (Saucer)

A close cousin of the cup pattern, without the handle — simply a slow, gradual 'U'-shaped reversal from a downtrend to an uptrend, typically forming over a longer period than most other patterns in this guide. It is traded the same way: wait for a confirmed close above the resistance level that marks the rim.

9.2 How to Trade Cup & Handle

14. Entry: On a breakout above the rim/resistance level, once the handle has formed.
15. Stop-loss: Just below the low of the handle.
16. Target: Project the depth of the cup (rim to cup bottom) from the breakout point.

> **Real-Life Analogy**
> A Cup & Handle is like a swimmer diving down to the bottom of a pool and gradually swimming back up to the surface (the cup), then treading water calmly near the edge for a moment (the handle) before finally pulling themselves out and climbing higher (the breakout).

10. Volume — The Confirming Ingredient

None of these patterns should be traded on price shape alone. Volume tells you whether real conviction is behind a move.

Pattern Stage	What Volume Should Do	Why It Matters
Pattern forming	Volume contracts / dries up	Shows genuine pause or indecision, not a fake-out in progress
Breakout / breakdown candle	Volume expands sharply	Confirms real buyers or sellers are committing, not a thin move

Pattern Stage	What Volume Should Do	Why It Matters
Head & Shoulders — right shoulder	Weakest volume of the three pushes	Confirms buyers running out of strength before reversal
Cup & Handle — the handle	Volume typically contracts further	Shows selling pressure fading before the breakout

11. Common Mistakes Traders Make with Chart Patterns

- Entering before the breakout: Guessing the direction while the pattern is still forming.
- Ignoring volume: Trading a breakout on weak, below-average volume.
- Forcing a pattern: Seeing a pattern on every chart because you want a trade to exist.
- Confusing wedges with triangles: Missing that a Rising Wedge is bearish and a Falling Wedge is bullish, because of the misleading slope direction.
- Skipping the stop-loss: Assuming the pattern 'must' work and refusing to exit on a false breakout.

□ Real-Life Analogy

Trading a pattern before it breaks out is like betting on a race before the starting gun has fired. Until the confirmed close beyond the trendline or neckline, nobody actually knows who will win.

12. Quick Reference — Every Pattern Compared

Pattern	Type	Typical Bias	Key Confirmation
Triangle (Ascending)	Continuation	Bullish	Close above resistance on volume
Triangle (Descending)	Continuation	Bearish	Close below support on volume
Triangle (Symmetrical)	Continuation	Neutral	Close beyond either trendline
Flag / Pennant	Continuation	Same as flagpole	Close beyond the flag channel
Rising Wedge	Reversal / Continuation	Bearish	Close below the lower trendline
Falling Wedge	Reversal / Continuation	Bullish	Close above the upper trendline
Rectangle	Continuation	Neutral	Close beyond either boundary
Head & Shoulders	Reversal	Bearish	Close below the neckline on volume
Inverse Head & Shoulders	Reversal	Bullish	Close above the neckline on volume
Double / Triple Top	Reversal	Bearish	Close below the neckline
Double / Triple Bottom	Reversal	Bullish	Close above the neckline

Pattern	Type	Typical Bias	Key Confirmation
Cup & Handle	Continuation (bullish)	Bullish	Close above the rim after the handle
Rounding Bottom	Reversal	Bullish	Close above the rim resistance

13. Chapter Summary

Here is everything you learned in this guide in one concise recap:

- Chart patterns fall into two families: continuation (trend pauses and resumes) and reversal (trend turns around).
- Triangles, flags, wedges, and rectangles are the core continuation patterns — each with a specific shape that reveals who has the upper hand.
- Wedges are the exception to 'slope = bias': a Rising Wedge is bearish and a Falling Wedge is bullish.
- Head & Shoulders, Double/Triple Top and Bottom, and Cup & Handle are the core reversal and bullish-continuation patterns, each defined by a critical neckline or rim level.
- No pattern should be traded until a candle closes beyond its key trendline, neckline, or rim — ideally on rising volume.
- The measured-move technique — projecting the pattern's height from the breakout point — is the standard way to set a target across every pattern in this guide.
- Always place a stop-loss inside or just beyond the pattern; never trade a pattern 'on faith' without one.

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