

A low-angle, upward-looking photograph of several tall skyscrapers against a clear blue sky. The buildings are made of glass and steel, with their lines converging towards the top of the frame. The perspective creates a sense of height and scale.

# CHART PATTERNS 101

Learn triangles, flags, and  
head-and-shoulders trading

Michael Burney

# Introduction

You're likely seeing chart patterns on your screen, but turning them into consistent, rules-based trades is the part that feels unclear. If you've ever entered too early, ignored the trend context, or been unsure whether a pattern signals reversal or continuation, you're not alone - and your experience is exactly what this book is built to sharpen.

This book walks you through practical pattern setups you can apply immediately, from reading the structure to managing risk. You'll learn how to classify reversals versus continuations, interpret triangles and flags, and execute a complete trade plan using **Chart Patterns 101** as your step-by-step guide.

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# Reversal vs. Continuation Basics

## Why Reversal and Continuation Signals Matter

**C**ould the same triangle warn you to exit one trade and prepare for another? Yes. A chart pattern does not carry one fixed meaning by itself. Its meaning depends on the price trend before the pattern, the location of the pattern, and the direction of the breakout.

That distinction matters because a continuation trade and a reversal trade require different evidence. A continuation pattern pauses an existing move. A reversal pattern shows that the existing move may be losing control. If you label a topping pattern as a bullish pause, you may buy just before a sharp decline. If you treat a brief pause as a reversal, you may miss the next leg of a strong trend.

The Two-Lens Pattern Filter gives you a simple way to make this decision before you place an order. You will learn to examine the pattern through two lenses: **trend context** and **breakout behavior**. You will also learn how to mark an entry, stop, and target only after the pattern proves its likely direction.

## The Two-Lens Pattern Filter

Start with the first lens: **trend context**. Look left on the chart before you study the pattern itself. Ask whether price has moved clearly upward, clearly downward, or mostly sideways. A pattern that forms after a strong rise deserves different treatment from the same shape after a strong fall.

A continuation pattern usually appears as a pause within an established move. For example, price may climb from \$40 to \$52, drift sideways between \$50 and \$52, and then break above \$52. That small range can act as a bullish flag or a small triangle.



The earlier rise supplies the context: buyers already pushed price higher, and the pattern may simply show them resting before another advance.

A reversal pattern forms near the end of a move and changes the direction of control. Suppose price rises from \$40 to \$60, fails twice near \$60, and then breaks below a support level at \$55. A double top in that location deserves reversal treatment. The two failed attempts near \$60 show that buyers could not continue the climb. The break under \$55 confirms that sellers have gained enough strength to challenge the previous trend.

Use the second lens - **breakout behavior** - to test the first impression. A breakout occurs when price moves beyond a clear pattern boundary. Do not treat every intraday spike as proof. Look for a candle close beyond the boundary, then check whether the next candle holds that area or quickly returns inside the pattern.

Apply the Two-Lens Pattern Filter in this order:

1. **Mark the prior trend.** Draw a short line or note the major swing points over the previous several weeks. Price rising into the pattern suggests a possible continuation upward or a reversal downward. Price falling into the pattern suggests a possible continuation downward or a reversal upward.
2. **Mark the pattern boundaries.** Use the upper resistance line and lower support line. A boundary matters only when you can identify at least two clear touches or turning points.
3. **Classify the pattern's location.** A flag or triangle in the middle of a strong move often supports continuation. A head and shoulders or double top after a long rise may warn of reversal. The shape alone does not settle the question.
4. **Wait for a closing breakout.** A bullish signal needs a candle close above resistance. A bearish signal needs a candle close below support. This step reduces the chance that a temporary price spike tricks you.
5. **Check the follow-through.** If price breaks out and holds beyond the boundary, the signal gains strength. If price closes back inside the pattern, pause and reassess instead of forcing a trade.

Volume can add useful context, but it should not replace price confirmation. Many charting platforms show volume below the price chart. A breakout with noticeably stronger volume than the recent candles can show wider participation. A breakout on

very light volume deserves more caution because fewer traders may support the move.

## Applying the Filter to a Watchlist

Tanya, 22, is building her first watchlist. She finds a stock trading at \$48 after climbing from \$36 over the previous month. During the last eight trading sessions, price moves between \$47.50 and \$49.20, creating a small upward-sloping flag. She wants to know whether the pattern signals continuation or reversal before she plans a trade.

1. **Tanya marks the prior move.** She records the rise from \$36 to \$48. Because price entered the flag after a strong advance, the first lens points toward a possible bullish continuation.
2. **She draws the boundaries.** The flag's upper boundary sits near \$49.20, while the lower boundary sits near \$47.50. She avoids drawing lines through random candle shadows and uses the repeated turning areas instead.
3. **She defines the confirmation level.** Tanya waits for a daily candle to close above \$49.20. A move to \$49.25 during the trading session does not qualify if the stock closes at \$48.90.
4. **The breakout occurs.** The stock closes at \$49.60 with higher volume than the previous few sessions. The next morning, it opens at \$49.70 and remains above \$49.20 during the first hour. Both lenses now support a bullish continuation reading.
5. **She plans the trade.** Tanya places a possible entry near \$49.70. She sets a protective stop below the flag's lower boundary at \$47.30, where the original continuation idea would become less convincing. The flag measures about \$1.70 from \$47.50 to \$49.20. Adding that height to the breakout level gives a rough target near \$51.30.
6. **She checks the alternative.** If the stock instead closes below \$47.50, Tanya cancels the bullish plan. A downside break would show that the pause did not hold and could signal a deeper pullback or a bearish reversal from the recent high.

The expected outcome is not certainty. The filter gives Tanya a defined bullish condition, a clear invalidation point, and a measured target. If price reaches \$51.30, she

can review whether the pattern met its objective. If price falls below \$47.30, she exits according to her plan rather than waiting for hope to replace evidence.

## Quick checklist

- Identify the trend before the pattern.
- Mark clear support and resistance boundaries.
- Decide whether the pattern sits in the middle or near the end of a move.
- Wait for a candle close outside the boundary.
- Check whether the next price action holds the breakout.
- Use volume as supporting evidence, not as the only reason to trade.
- Set the stop where the pattern idea fails.
- Measure a target from the pattern's height only after confirmation.
- Cancel the trade plan if price breaks in the opposite direction.

This process also works for bearish setups. If a stock falls from \$70 to \$55, forms a tight flag between \$54.50 and \$57, and closes below \$54.50, the two lenses support a bearish continuation reading. If the stock instead forms a head and shoulders after a long decline and closes above its neckline, the pattern may signal a bullish reversal. The same questions still apply: What happened before the pattern, and what did price do at the boundary?

## Common Mistakes When Reading Pattern Direction

### Mistaking the pattern shape for the signal

A triangle can break upward or downward. A flag can continue the prior trend or fail and reverse. Beginners often see a familiar shape and enter before checking its location.

**Do this:** Compare the pattern with the preceding move. Note whether price has already traveled a long distance and whether the pattern forms near a major high or low.

**Not this:** Buy every triangle because triangles “usually” break upward, or short every rising wedge without waiting for a support break.

The fix requires a written context note. Before opening a trade, write one sentence such as, “Price rose from \$36 to \$48, so this flag is a possible bullish continuation unless it closes below \$47.50.” That sentence forces you to name the condition that would disprove your idea.

## **Treating an intraday spike as a confirmed breakout**

Price can move above resistance during the day and close back inside the pattern. That failed move often traps early buyers and leaves the chart without a valid confirmation.

**Do this:** Wait for the selected chart candle to close beyond the boundary. Use the same time frame for the pattern and the confirmation.

**Not this:** Enter because price briefly trades above resistance while the candle still has hours before closing.

If you trade from a daily chart, use a daily close for confirmation. If you use a one-hour chart, wait for the one-hour candle to close. Matching the confirmation to the chart prevents a five-minute price jump from making a daily pattern appear confirmed.

## **Forcing a continuation label after a failed breakout**

A failed breakout changes the evidence. If price breaks above resistance and then closes back inside the pattern, buyers did not hold control. If price later breaks below support, the setup may shift from bullish continuation to bearish failure or reversal.

**Do this:** Recalculate the setup after failure. Remove the original entry and target, then wait for a fresh signal.

**Not this:** Keep the bullish trade because the original pattern “should” work.



For Tanya's stock, a close above \$49.20 followed by a close below \$47.50 would invalidate the bullish flag. She should not average down simply because the target near \$51.30 remains visible on her chart. The pattern's meaning comes from current price behavior, not from the target she expected earlier.

A final edge case occurs when price moves sideways before the pattern. Without a clear prior trend, calling the setup a continuation or reversal may add false confidence. Mark the chart as neutral and wait for a clean breakout with follow-through. The strongest decision sometimes involves no trade.

Use the Two-Lens Pattern Filter to separate appearance from evidence: first read the move that created the pattern, then judge the breakout that resolves it. That habit helps you approach triangles, flags, and head and shoulders with a plan instead of a guess. Once direction becomes clear, you can turn to the next practical question: how far the breakout may travel.

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## CHAPTER 2

# Triangle Types and What They Mean

## Reading Triangle Structure Before the Breakout

**T**hree converging price swings can turn a messy chart into a useful decision map. A triangle forms when price moves between two trendlines that narrow toward a meeting point. The upper line connects swing highs; the lower line connects swing lows. Your job is not to predict the exact breakout from the shape alone. Your job is to identify which side of the triangle has the stronger pressure, then wait for price to prove it.

The Triangle Compass Model gives you that structure. The flat boundary shows where buyers or sellers repeatedly defend a level. The sloping boundary shows whether pressure is building. The breakout direction then tells you whether the triangle acted as a continuation pattern or a reversal setup.

**Key insight: a triangle does not guarantee direction; it shows a struggle between buyers and sellers, and the shape tells you which side may have an advantage.**

An ascending triangle usually has a flat upper boundary and rising lows. A descending triangle usually has a flat lower boundary and falling highs. A symmetrical triangle has falling highs and rising lows. Each type typically implies something different, but the implication remains a clue - not a trade signal. Volume, the larger trend, and a confirmed breakout still matter.

# The Three Triangle Types and Their Meaning

## 1. Ascending triangles show rising buying pressure.

An ascending triangle has a mostly horizontal resistance level above price and a rising lower trendline. Buyers keep stepping in at higher prices, while sellers continue to defend the same ceiling.

For example, price may test resistance at \$50 three times. The first pullback reaches \$45, the second reaches \$47, and the third reaches \$48.50. The ceiling stays near \$50, but buyers no longer allow price to fall as far. That pattern shows demand pressing upward.

An ascending triangle typically favors an upward breakout, especially when it forms during an existing uptrend. However, price can still break lower. Treat the rising lows as evidence of buying pressure, not proof that buyers will win. A close above resistance gives the pattern meaning; an intraday move above resistance without a close often fails.

## 2. Descending triangles show rising selling pressure.

A descending triangle has a mostly horizontal support level below price and a falling upper trendline. Sellers keep entering at lower prices, while buyers defend the same floor.

Suppose price tests support at \$80 three times. The rebounds reach \$86, then \$84, then \$82.50. The support level remains near \$80, but sellers push each rally lower. That behavior shows weakening demand and increasing supply.

A descending triangle typically favors a downward breakout, particularly during a broader downtrend. Yet support can hold, producing an upward breakout instead. Wait for a decisive close below the lower boundary, then check whether price retests the broken support and fails to reclaim it.

### **3. Symmetrical triangles show compression, not a built-in direction.**

A symmetrical triangle has a falling upper trendline and a rising lower trendline. Buyers accept higher lows, while sellers accept lower highs. Neither side has clear control.

This structure often appears during a pause in a strong trend, so it can act as a continuation pattern. It can also mark a reversal when the prior trend loses strength. The triangle itself does not tell you which outcome will occur. The breakout direction, the market's larger trend, and the quality of the move provide the missing information.

Use the Triangle Compass Model to read all three types:

- The flat boundary marks the repeated decision level.
- The sloping boundary reveals pressure from buyers or sellers.
- The breakout confirms which side won.

The pattern becomes more reliable when price touches each boundary several times without cutting through it randomly. A line that connects only two unrelated points can create a triangle that exists only in the trader's drawing.

## **A Practical Walkthrough: Ravi Uses the Triangle Compass Model**

Ravi, 31, day trades liquid stocks and studies market structure before he enters. He reviews a 15-minute chart of a stock trading near \$48. He notices the following price action:

- The first high reaches \$50.00.
- The second high reaches \$49.95.
- The third high reaches \$50.05.
- The first low reaches \$45.00.
- The second low reaches \$47.00.
- The third low reaches \$48.20.

The upper boundary stays near \$50, while the lower boundary rises. Ravi identifies an ascending triangle, but he does not buy simply because the shape looks bullish.

### **1. Draw the boundaries.**

Ravi draws a horizontal resistance line near \$50.00 through the three highs. He draws a rising support line through the lows at \$45.00, \$47.00, and \$48.20.

The lines converge near \$51.50. This meeting area does not create a deadline. It simply shows that the trading range is narrowing. Ravi avoids forcing a trade if price reaches the apex without breaking out.

### **2. Check the prior trend.**

Before the triangle formed, the stock climbed from \$42 to \$48.50. That uptrend supports the idea that the ascending triangle may continue higher. Ravi records this as supporting evidence, not confirmation.

### **3. Mark the pattern height.**

At the triangle's widest point, resistance sits at \$50 and support sits at \$45. The pattern height equals \$5.

If price breaks and closes above \$50, Ravi calculates a projected target:

$\$50 \text{ breakout level} + \$5 \text{ pattern height} = \$55 \text{ target}$

This target estimates the potential move. It does not promise that price will reach \$55.

### **4. Wait for a confirmed breakout.**

Ravi defines confirmation before the market moves:

1. A 15-minute candle must close above \$50.



2. The close must reach at least \$50.20, giving the breakout some distance from resistance.
3. The next candle should hold above \$50 or retest \$50 and turn upward.
4. If price closes back below \$50 immediately, Ravi treats the move as a failed breakout.

This process keeps him from buying a brief spike that quickly returns inside the triangle.

## 5. Compare the possible outcomes.

| Price action                              | Triangle reading             | Ravi's response                     |
|-------------------------------------------|------------------------------|-------------------------------------|
| Close at \$50.30, then hold above \$50    | Confirmed upward breakout    | Consider an entry with defined risk |
| Move to \$50.15, then close at \$49.70    | Failed upward attempt        | Avoid the long trade                |
| Close below rising support at \$47.80     | Bearish failure of the setup | Wait for a new structure            |
| Break above \$50 with weak follow-through | Unclear breakout             | Wait rather than chase              |

## 6. Plan the trade around invalidation.

Ravi considers an entry at \$50.30 after confirmation. He places his protective stop below the retest low at \$49.20, assuming the setup and his trading plan allow that risk. His entry-to-stop risk equals \$1.10 per share. The projected target remains \$55, but Ravi does not treat the full target as guaranteed.

If the stock reaches \$52, stalls, and begins closing back below \$50, he reassesses. A breakout that cannot hold the old resistance level has lost strength. The chart matters more than the original forecast.

Now compare Ravi's ascending triangle with two other structures:

| Triangle type | Flat boundary               | Sloping boundary              | Typical pressure          | Breakout to watch |
|---------------|-----------------------------|-------------------------------|---------------------------|-------------------|
| Ascending     | Upper resistance            | Rising lows                   | Buyers press upward       | Above resistance  |
| Descending    | Lower support               | Falling highs                 | Sellers press downward    | Below support     |
| Symmetrical   | Neither boundary stays flat | Falling highs and rising lows | Pressure remains balanced | Either direction  |

For a descending triangle, Ravi would reverse the logic. If support sat at \$80 and the falling highs reached \$86, \$84, and \$82.50, he would watch for a close below \$80. The pattern height would come from the widest distance between the two boundaries. For a symmetrical triangle, he would avoid assigning a bullish or bearish meaning before the breakout.

The expected result of this walkthrough is not a guaranteed winning trade. It is a repeatable reading: identify the shape, measure the pressure, wait for confirmation, and define what would prove the idea wrong.

## Troubleshooting Triangle Setups

**Problem:** The triangle seems to point in both directions.

**Why it happens:** Beginners often label every narrowing range as bullish or bearish. A symmetrical triangle does not provide that answer by itself. Even an ascending or descending triangle can fail when the market lacks enough buying or selling pressure.

**Fix:** Separate the shape from the trade decision. First, label the triangle. Next, mark the breakout levels. Then wait for a candle close outside one boundary. If price breaks upward, look for it to hold above resistance. If price breaks downward, look

for it to remain below support. Do not choose a direction merely because the triangle appears near the top or bottom of a chart.

**Problem:** The trendlines do not fit the price swings.

**Why it happens:** Traders sometimes draw a line through candle wicks that do not belong to the same swing structure. They may also redraw the lines after every small fluctuation, turning a clear pattern into a moving target.

**Fix:** Use the most visible swing highs and lows on the same time frame. On Ravi's 15-minute chart, the three highs near \$50 and the three rising lows created a usable structure. A random spike to \$52 that immediately reversed would require a fresh review, not an automatic trendline adjustment. Keep the lines stable until price clearly changes the pattern.

**Problem:** Price breaks the boundary, then falls back inside the triangle.

**Why it happens:** A breakout can fail when traders enter before a candle closes, when the breakout lacks follow-through, or when the larger market pushes against the setup. A brief move through resistance or support does not prove acceptance beyond that level.

**Fix:** Use a confirmation rule before entering. For example, require a 15-minute close outside the boundary and watch the next candle for follow-through or a successful retest. If an ascending triangle breaks above \$50 but closes the next candle at \$49.70, treat the setup as failed rather than defending your original forecast. A failed breakout can lead to a move in the opposite direction, so protect capital and wait for a new pattern.

Triangles become easier to trade when you stop asking, "Which shape guarantees the next move?" Ask instead, "Where is the pressure building, and what price action would confirm it?" The Triangle Compass Model answers the first part through the boundaries and the second through the breakout. With that map, ascending, descending, and symmetrical triangles become practical structures rather than labels on a chart.

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## CHAPTER 3

# Flag Patterns and Breakout Timing

## Read the Flag Before the Breakout

**L**ena, 27, opens her chart and sees a sharp move from \$42 to \$50, followed by five small candles drifting down toward \$48. The price has not collapsed. It has paused in a narrow channel. That pause may become the launch point for the next impulsive move, but entering too early could leave her holding a weak setup.

A flag forms after a fast price move, called the **flagpole**. The price then rests inside a short, sloping channel or a tight sideways range. Traders watch the flag because the pause can show whether buyers or sellers still control the market. A bullish flag follows a strong rise; a bearish flag follows a strong decline.

You need a candlestick chart, a drawing tool for trend lines, and a written trade plan. Use one clear timeframe for the setup, such as the one-hour chart, and check a higher timeframe for nearby support and resistance. Your plan should include the entry price, stop-loss level, target, and the condition that confirms the breakout.

The key idea here is timing. Do not treat every small pause as a flag. First measure the impulse, then judge the quality of the pause, and finally wait for price to prove that it has escaped the flag. The **Flag Impulse Clock** gives you a practical way to organize that process.

## The Flag Impulse Clock

The Flag Impulse Clock tracks three parts of a flag: the strength of the flagpole, the behavior inside the flag, and the timing of the breakout. It does not predict the exact candle that will break out. Instead, it helps you avoid entering while the pattern still needs to prove itself.

Start by locating the flagpole. Look for a fast directional move with several candles pushing mainly in one direction. For a bullish flag, mark the lowest point before the move and the highest point where the pause begins. For a bearish flag, reverse those points.

Next, draw two lines around the pause. Connect at least two swing highs with the upper line and two swing lows with the lower line. The lines do not need perfect contact with every candle. They need to show the area where price repeatedly meets short-term resistance and support. A bullish flag often slopes slightly downward because traders take profits after the rise. A bearish flag often slopes slightly upward because traders buy small dips after the decline.

Now apply the Flag Impulse Clock:

1. **Mark the impulse.** Measure the flagpole from its starting price to its ending price. A move from \$42 to \$50 measures \$8.
2. **Check the pause.** Look for smaller candles, reduced travel, and orderly movement inside the channel. The pause should look quieter than the flagpole.
3. **Mark the trigger.** For a bullish flag, place attention above the upper boundary. For a bearish flag, watch below the lower boundary.
4. **Wait for confirmation.** A candle should close outside the boundary, not merely poke through it with a wick. A strong breakout candle gives better evidence than a tiny close barely above the line.
5. **Plan the trade before entry.** Place the stop below the lower flag boundary for a bullish setup, or above the upper boundary for a bearish setup. Set the first target by adding the flagpole length to the breakout level.

Consider Lena's chart. The stock rises from \$42 to \$50, creating an \$8 flagpole. It then moves between \$48 and \$49.50 for five candles while the channel slopes gently lower. Lena draws the upper boundary near \$49.50. On the next candle, price closes at \$50.10, above that boundary. If she enters at \$50.10 and places her stop at \$48.90, her planned risk equals \$1.20 per share. The measured target comes from adding the \$8 flagpole to the \$50.10 breakout price, producing a target near \$58.10.

The target does not guarantee that price will reach it. It gives the trade a reference point based on the pattern's prior impulse. Lena should also check whether a major resistance level sits near \$58.10. If resistance appears at \$55, she should recognize

that the pattern target may meet selling pressure earlier. The chart decides whether the setup offers enough room.

The clock also helps with timing inside the flag. A fresh flag usually deserves more attention than a stretched, messy one. If price spends many candles wandering between wide boundaries, the pattern loses clarity. If the flag breaks downward in a bullish setup, the pattern has failed until price recovers the structure. Do not force a long entry simply because the flagpole looked impressive.

For a bearish example, suppose a stock falls from \$76 to \$68, then rises in a narrow channel between \$68.40 and \$70. A close below \$68.40 can trigger a bearish breakout. The \$8 flagpole projects a target near \$60.40 when measured from a \$68.40 breakdown. A trader can then compare that target with support levels below before deciding whether the trade makes sense.

## Practice the Setup on a Chart

Use a liquid stock or a major market instrument with clear hourly candles. Open a charting platform such as TradingView and set the timeframe to one hour. For this exercise, use Lena's bullish example:

- Flagpole start: \$42.00
- Flagpole end: \$50.00
- Flag range: \$48.00 to \$49.50
- Breakout close: \$50.10
- Planned stop: \$48.90

First, draw a vertical line from \$42 to \$50 and label it "\$8 impulse." Then draw the upper and lower flag boundaries around the five-candle pause. Check that the candles inside the flag travel less distance than the flagpole candles. If the pause contains large, erratic swings, remove the setup from your practice list because the structure does not provide a clean timing point.

Next, move forward one candle at a time. Do not enter when price touches \$49.50 from below. That touch only tests the boundary. Enter only after a candle closes



above the boundary at \$50.10 or higher. Record the entry, stop, and target before you inspect later candles. This prevents the final result from changing your original decision.

Calculate the target:

$\$50.10 \text{ breakout price} + \$8.00 \text{ flagpole} = \$58.10 \text{ measured target.}$

Then calculate the planned risk:

$\$50.10 \text{ entry} - \$48.90 \text{ stop} = \$1.20 \text{ risk per share.}$

If you trade 100 shares, the planned position risk equals \$120 before fees and slippage. If that amount exceeds your account's trade limit, reduce the share size or skip the setup. The pattern does not justify taking more risk than your plan allows.

Continue the chart until one of three outcomes appears. Price reaches the target near \$58.10, price hits the stop near \$48.90, or price breaks out but stalls and closes back inside the flag. Record the outcome and note whether the breakout candle closed clearly outside the boundary. A return inside the flag warns that the breakout may have failed.

Your completion check is simple:

- You marked the flagpole and measured its length.
- You drew both flag boundaries.
- You waited for a closing breakout candle.
- You calculated the stop and measured target before reviewing the outcome.
- You recorded whether price continued, failed, or stalled.

Repeat the exercise on at least five historical flags. The goal is not to collect winning examples. The goal is to train your eye to separate a tight pause from a loose, unreliable range.

# Mistakes That Ruin Flag Timing

## Entering at the first touch of the boundary

Beginners often buy when price reaches the upper line of a bullish flag. They enter because the boundary looks close, but price may reject that level and remain inside the channel. The flag has not broken yet.

**Do this:** Wait for a candle close outside the boundary. If price closes at \$50.10 above a \$49.50 upper line, use that close to build the trade plan. If the next candle opens far above your planned entry, reassess instead of chasing.

**Not this:** Buy at \$49.50 simply because price touched the upper line.

The close matters because it shows that the market held the breakout level through the candle's full period.

## Using a weak or oversized flagpole

A flag needs a clear impulse before the pause. Traders sometimes draw a flag around ordinary back-and-forth movement and then expect a large breakout. Without a strong directional move, the projected target has little meaning.

**Do this:** Require a visible move such as \$42 to \$50 before measuring the flag. Compare the candle size and speed of the impulse with the smaller candles inside the pause.

**Not this:** Measure a random range from \$48.20 to \$49.10 and call the next sideways movement a flag.

A genuine flag shows a change in pace: forceful movement first, controlled rest second.

## Ignoring a failed breakout

A wick above the flag does not confirm a bullish breakout. Price can trade above the line briefly and then close back inside the channel. Buying that wick can place you in a trade before buyers have control.

**Do this:** Wait for the closing price. If the candle closes back inside the flag, cancel the entry and redraw the boundaries if the structure remains valid. If price breaks the lower boundary, treat the bullish flag as failed.

**Not this:** Enter because the high briefly reached \$50.20 when the candle closed at \$49.30 inside the flag.

A failed breakout often gives the clearest warning in the setup: price cannot hold the level that should support the next impulse.

The Flag Impulse Clock turns a fast move and a quiet pause into a specific decision: measure the impulse, read the pause, and wait for the close. That discipline helps you anticipate the next move without pretending that the chart owes you a breakout.

## Head and Shoulders Reversal Setup

### What the Neckline Tells You

**“P**atterns do not predict the future; they organize the evidence in front of you.” That rule matters when a rising price chart starts forming a head and shoulders. The shape can warn that buyers are losing control, but the trade does not begin simply because the shape looks familiar. You need to identify the **neckline**, define the **breakout**, and plan the trade around those prices.

A **head and shoulders pattern** is a three-peak reversal formation that usually appears after an uptrend. The first peak forms the **left shoulder**. Price then drops, rises to a higher peak called the **head**, drops again, and rises to a lower peak called the **right shoulder**. The pattern becomes actionable when price breaks below the neckline. A **neckline** is the support line that connects the two reaction lows between the three peaks. It may slope upward, downward, or run nearly flat.

The opposite formation, an **inverse head and shoulders**, appears after a downtrend. It has three lows: a left shoulder, a lower head, and a higher right shoulder. Its neckline connects the two reaction highs, and the trade signal develops when price breaks above that line. Both versions use the same basic idea: an established trend loses strength, then price breaks a level that previously held the market.

### Build the Pattern with the Neckline Decision Framework

Start by checking the trend before you search for the pattern. A standard head and shoulders carries more meaning after a clear rise with higher highs and higher lows. Without that earlier rise, three peaks may only show sideways movement. An inverse

pattern needs a visible decline first. This context keeps you from labeling every three-swing shape as a reversal.

Use the Neckline Decision Framework to mark the formation in a fixed order:

1. **Mark the three turning points.** Find the left shoulder, head, and right shoulder on a standard candlestick chart. The head should stand above both shoulders in a regular pattern. For an inverse pattern, the head should sit below both shoulders. Do not demand perfect symmetry. Markets rarely draw clean textbook shapes.
2. **Mark the two reaction points between the peaks.** After the left shoulder, price falls to a temporary low before climbing toward the head. After the head, price falls again before climbing toward the right shoulder. These two lows form the neckline for a regular pattern. On an inverse pattern, mark the two highs between the three lows.
3. **Draw the neckline through those points.** Use a line tool on your charting platform, such as TradingView or another chart service. If the two points sit at 150 and 148, draw the line through both rather than forcing it to be perfectly horizontal. A sloping neckline changes the exact breakout price as time passes, so read the line where the current candle meets it.
4. **Check the right shoulder before planning an entry.** The right shoulder should remain below the head in a regular pattern. If price surges above the head, the reversal structure has failed. For an inverse pattern, price should keep the right shoulder above the head. A drop below the head invalidates that structure.
5. **Wait for a decisive break.** A regular pattern needs price to close below the neckline. An inverse pattern needs a close above it. A brief wick through the line does not always prove a breakout; the candle may finish back inside the pattern. Waiting for a close reduces the chance of entering on a false break, even though it may produce a later entry.

The neckline deserves special attention because it turns a visual pattern into a trade plan. Think of it as a floor under the two pullbacks in a regular formation. Buyers defended that floor twice. When sellers finally push price through it and keep the candle below it, the failed support shows a change in control. The inverse neckline works as a ceiling that sellers defended twice before buyers broke through.

The neckline does not need to be flat. Suppose the first reaction low occurs at 150 and the second at 154. Connecting them creates an upward-sloping neckline. A later

candle may break the line near 157, not 150. Use the actual line at the breakout candle rather than using one old price for the entire setup. This small detail prevents a common mapping error.

Next, measure the pattern. For a regular head and shoulders, measure the vertical distance from the top of the head to the neckline directly below it. If the head reaches 180 and the neckline sits at 160, the pattern height equals 20 points. Subtract that height from the neckline breakout price. A break at 158 gives a measured target near 138. For an inverse pattern, measure from the head low to the neckline and add that distance above the breakout.

The measured target is a planning tool, not a promise. Price may stop before reaching it, reverse after reaching it, or move farther. Mark nearby support and resistance before you enter. If strong support sits at 145 and your measured target sits at 138, that support may slow the move. You can choose to take some profit near 145 and manage the remaining position toward 138, or skip the trade if the available room does not justify the risk.

Place the stop where the pattern proves wrong, not at a random distance. A regular head-and-shoulders trade often uses a stop above the right shoulder or above the breakout area after a retest. An inverse trade often uses a stop below the right shoulder. Leave enough room for ordinary price movement, but keep the invalidation point clear. If you cannot state what price would disprove the setup, you do not have a complete trade plan.

## **Omar Maps a Reversal for an Options Trade**

Omar, 35, trades options and uses chart patterns to choose direction before selecting a contract. He reviews a stock on a daily chart after a strong climb from 120 to 180. The chart shows a left shoulder near 165, a head at 180, and a right shoulder near 170. The two reaction lows sit near 150 and 154, creating an upward-sloping neckline.

Omar does not buy a put option when he first notices the shape. He opens the chart's line tool and extends the neckline to the right. At the latest candle, the line sits near 157. He then checks whether the right shoulder remains below the head and confirms that the stock has not closed above 180. The structure still qualifies as a possible regular head and shoulders.

He writes the plan before the breakout:

- **Entry condition:** daily candle closes below the neckline.
- **Approximate breakout area:** below 157, adjusted for the line's slope.
- **Invalidation:** price closes above the right shoulder near 170, or the chart loses the pattern before entry.
- **Pattern height:** about 20 points from the 180 head to the neckline near 160 at the central part of the formation.
- **Measured target:** roughly 137 to 138 if the break occurs near 158.
- **Risk check:** nearby support near 145 may interrupt the decline.

Two days later, the stock trades below the neckline during the session but closes at 159. Omar does nothing. The wick shows pressure, but the close does not confirm the break. The next day, the stock opens weak and closes at 155, clearly below the sloping neckline. That close satisfies his entry condition.

Because Omar trades options, he adds a second check that spot-chart traders may not need: time and price movement must suit the contract. He avoids an option that expires in only a few days because the stock may need time to travel from 155 toward the measured target. He selects a contract with enough time for the setup to develop, then limits the amount at risk before entering. The chart pattern supplies direction; it does not remove option-specific risks such as time decay or changing implied volatility.

After entry, the stock falls to 146 and pauses near the support Omar marked earlier. He takes partial profit according to his plan rather than waiting blindly for 138. If the stock later breaks that support, he can manage the remaining position toward the measured target. If it rebounds and closes back above the neckline, he treats that move as a warning and follows his exit rule. A neckline retest can succeed as new resistance, but a strong move back above the line weakens the reversal.



This example shows why the pattern needs more than three peaks. Omar used the trend, the three turning points, the two neckline points, the breakout close, the measured target, and the invalidation level. Each item answered a practical question: Is the structure real? Where does the trade begin? Where does it fail? Where might price go?

## Lessons That Keep the Setup Honest

**Takeaway: A head and shoulders needs an earlier trend and a confirmed neckline break.** Three peaks without a prior uptrend do not automatically signal a reversal. Start with market direction, then identify the shoulders and head. Wait for a candle close beyond the neckline before treating the pattern as a trade setup. This sequence keeps a sideways chart from creating false signals.

**Takeaway: Draw the neckline from reaction points, not from the visual center of the pattern.** The two pullbacks between the peaks provide the line's anchor points. If you connect the wrong lows, your breakout price and measured target become unreliable. Extend the line forward and read its value at the candle that breaks it, especially when the neckline slopes.

**Takeaway: The measured target helps you judge the trade before you risk money.** Measure from the head to the neckline, then project that distance from the breakout. Compare the result with nearby support or resistance and with your planned stop. If the target lies close to strong support while the right shoulder sits far away, the setup may offer poor risk compared with its likely reward.

Key actions: confirm the prior trend, mark the left shoulder, head, and right shoulder, connect the two reaction points to draw the neckline, wait for a closing breakout, measure the pattern height, mark the target and invalidation level, and check nearby price barriers before entering. A well-mapped neckline turns a recognizable shape into a trade with defined conditions - and gives you a repeatable way to judge the next reversal setup.

# Measuring Targets from Breakouts

## The Pattern Height Target Rule

**G**race, 26, kept writing the same question in her trade journal: “The breakout worked - where should I expect price to go?” She could identify triangles, flags, and head-and-shoulders patterns, but she often chose targets by guessing a round number. That made her exits inconsistent. A clean way to replace guesswork is the **Pattern Height Target Rule**: measure the pattern, then add or subtract that distance from the breakout point.

The rule gives you a starting target, not a promise. A price target estimates how far a pattern may carry after the market breaks out. It does not tell you that price must reach that level. You still need a valid breakout, a sensible stop, and a plan for what you will do if price stalls before reaching the target.

The measurement itself stays simple. First, find the pattern’s height. Next, identify the breakout point. For an upward breakout, add the height to the breakout price. For a downward breakout, subtract the height from the breakout price. The exact way you measure the height depends on the pattern, so mark the boundaries carefully before you calculate.

For a triangle, measure from the widest part of the pattern. For a flag, measure the sharp move that created the flag, often called the flagpole. For a head-and-shoulders pattern, measure from the neckline to the top of the head. These measurements reflect the price range that buyers and sellers already created while the pattern formed. That is why the target starts with pattern height rather than an arbitrary distance.

# Applying the Pattern Height Target Rule

Start by confirming the pattern boundaries on a clean chart. Use a candlestick chart with a timeframe that matches your planned trade. If you plan to hold for several days, a daily chart may give you a more useful structure than a five-minute chart. Mark the important highs, lows, trendlines, and neckline before you calculate anything.

Then follow the rule in this order:

## 1. Measure the pattern height.

Record the price at the highest boundary and the price at the lowest boundary. Subtract the lower price from the higher price. For a flag, measure the flagpole instead of the narrow consolidation.

## 2. Mark the breakout point.

Use the price where the market breaks through the relevant trendline or neckline. A brief move through the line does not always count. Look for a candle close beyond the boundary, then check whether the next candle holds above or below it.

## 3. Apply the height in the breakout direction.

Add the measurement to the breakout price for an upward breakout. Subtract it from the breakout price for a downward breakout.

## 4. Record the target before entering.

Write the measurement, breakout price, target, stop location, and entry price in your journal. Recording the number before the trade develops prevents a strong candle from pushing you into an unrealistic target.

## 5. Manage the trade as price moves.

Review the chart at the end of each candle on your chosen timeframe. If price reaches the target, take the action in your plan. If price stalls, reverses, or breaks the pattern in the wrong direction, follow your stop and exit rules rather than waiting for the target indefinitely.

Triangles need two boundary lines: an upper line through falling highs and a lower line through rising lows. Measure the widest distance between those lines, usually near the start of the triangle. If price breaks above the upper line at \$52 and the widest triangle measures \$6, the upward target becomes \$58. If price breaks below the lower line at \$49, the downward target becomes \$43.

Flags usually form after a strong directional move. Measure from the start of the sharp move to its end. Do not measure only the small channel that follows it. If a stock rises from \$40 to \$48, the flagpole measures \$8. A breakout above the flag at \$46 gives an upward target of \$54. A downward break below the flag at \$44 gives a target of \$36. The direction matters because the same \$8 measurement produces different targets.

A head-and-shoulders pattern uses the neckline and the head. For a standard bearish pattern, subtract the neckline from the head's high. If the head reaches \$75 and the neckline sits at \$68, the pattern height measures \$7. A close below the neckline at \$67 gives a target of \$60. An inverse head-and-shoulders pattern uses the same measurement in the opposite direction. If the head reaches \$30 while the neckline sits at \$37, the height measures \$7. A breakout above the neckline at \$38 gives a target of \$45.

Do not calculate from the most extreme intraday spike unless your trading plan specifically uses intraday extremes. A single wick can create an exaggerated height and an unrealistic target. Use consistent chart prices, and write down whether you used candle highs and lows or closing prices. Consistency lets you review your results honestly.

## **Grace's Target Calculation in Practice**

Grace finds a bullish flag on a daily chart. The stock makes a sharp move from \$40 to \$48 over several sessions. It then drifts sideways between \$45 and \$46.50 for four trading days, creating a narrow downward-sloping channel. Grace marks the start and end of the sharp move and records an \$8 flagpole.

On the fifth day, the stock closes above the upper flag boundary at \$46. The close gives Grace a clear breakout point. She calculates the target before placing the trade:

| Item           | Calculation   | Result |
|----------------|---------------|--------|
| Flagpole start | -             | \$40   |
| Flagpole end   | -             | \$48   |
| Pattern height | $\$48 - \$40$ | \$8    |
| Breakout price | -             | \$46   |
| Upward target  | $\$46 + \$8$  | \$54   |

Grace does not buy simply because price touched the line. She waits for the daily close above the flag and checks the next session for follow-through. The next day opens at \$46.30 and trades up to \$47.10 without falling back into the flag. Grace enters at \$46.50, based on the entry rule she wrote before the trade.

Her stop sits below the lower flag boundary at \$44.80. That placement matters because a move back through the flag would weaken the breakout. The \$54 target offers a clear exit level, while the stop defines the point where the original setup no longer makes sense. Grace records both prices in her journal rather than changing them after entry.

Over the next six trading sessions, the stock reaches \$49, pauses for two days, and then moves to \$52.50. Grace checks the chart once each day after the close. She does not move the target to \$60 simply because the trade looks strong. She also does not exit at \$50 because that number feels comfortable. Her original calculation remains \$54.

On the seventh session, the stock reaches \$54. Grace follows her plan and closes the position. Her result does not prove that every flag will reach its target. It shows what a complete calculation looks like: measure the flagpole, confirm the breakout, add the height, define the invalidation point, and manage the trade according to written rules.

Grace also records what happened after her exit. The stock later rises to \$55.20, but that extra move does not make her \$54 target wrong. A target marks a planned decision point, not the highest price the market can reach. In another trade, price might stop at \$51 and reverse. Grace's journal should capture both outcomes so she can compare target calculations with actual price behavior over a series of trades.

Use the same process for the other patterns. A triangle that measures \$5 and breaks upward at \$32 produces a \$37 target. A head-and-shoulders pattern that measures \$9 and breaks down at \$61 produces a \$52 target. Keep the arithmetic visible on the chart or in your journal. Clear calculations make later review much easier.

## Common Target-Calculation Errors

### Measuring the wrong part of the pattern

Beginners often measure the small consolidation inside a flag or use the narrow end of a triangle. That produces a target that does not reflect the full price movement built into the setup. In a head-and-shoulders pattern, some traders measure from a shoulder instead of from the head to the neckline.

**Do this:** For triangles, measure the widest vertical distance between the two boundary lines. For flags, measure the full flagpole. For head-and-shoulders patterns, measure the vertical distance between the head and neckline.

**Not this:** Do not measure whichever section gives you the target you prefer.

### Using a touch as the breakout

Price can cross a trendline briefly and then close back inside the pattern. If you calculate from that temporary move, you may enter before buyers or sellers have established control. The target might look precise, but the setup has not confirmed itself.

**Do this:** Wait for a candle close beyond the relevant boundary. On the next candle, check whether price holds outside the pattern or quickly returns inside it. Use the

breakout price specified by your plan.

**Not this:** Do not treat one intraday spike through the line as a confirmed breakout.

## Changing the target after entry

A trader may move the target higher after a strong candle or lower after a weak candle. That reaction replaces a measured plan with emotion. It also makes journal results difficult to compare because the calculation changes while the trade is active.

**Do this:** Record the pattern height and target before entry. If you want to trail a stop or extend a target, define that rule before the trade and apply it consistently.

**Not this:** Do not move the target simply because price is approaching it or because the trade feels uncertain.

**Quick reference:** Measure the triangle's widest range, the flag's full flagpole, or the head-to-neckline distance. Confirm a candle close beyond the breakout line. Add the height for an upward move and subtract it for a downward move. Record the target and stop before entry, then review the chart on a consistent schedule. The Pattern Height Target Rule turns a pattern's visible price range into a specific decision point - and gives your trade plan something solid to measure.



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## CHAPTER 6

# Stop Loss Placement at Pattern Breaks

## The Stop That Answers the Breakout Question

**W**hat would prove that your breakout trade is wrong - not merely uncomfortable?

Marcus, 29, traded futures with one main goal: control risk before chasing profit. One morning, he watched an S&P 500 futures chart form an ascending triangle. Price pressed against resistance near 5,250 while the rising lower boundary created higher lows. The pattern looked ready to break upward, but Marcus knew the entry mattered less than the point that would invalidate the setup.

He planned to buy only if a candle closed above 5,250. His account rules allowed him to lose no more than \$300 on the trade. The contract moved in fixed price increments, and each point carried a known dollar value. A careless stop below the entry could produce a quick loss from normal price noise. A stop placed far below the entire triangle could keep the trade alive but make the position too large for his risk limit.

The decision carried real weight. If Marcus placed the stop inside the triangle, a routine pullback could remove him before the breakout had a chance to develop. If he placed it beyond the pattern's invalidation point, he could define the loss and give the trade a fair test. He needed a location that answered one clear question: has price broken the pattern's structure, or has it simply returned to test the breakout?

That question forms the basis of the **Invalidation Zone Method**. Instead of placing a stop at an arbitrary distance, Marcus marked the price area where the pattern would no longer support his trade idea. He then added enough room for ordinary movement and adjusted his position size to fit the resulting risk.

## How Marcus Built the Invalidation Zone

Before the market opened, Marcus marked three levels on his charting platform: the triangle's resistance at 5,250, its most recent higher low at 5,232, and the rising lower trendline, which sat near 5,224 at the planned breakout time. These levels did different jobs. Resistance defined the breakout trigger. The higher low showed the nearest structure supporting the bullish pattern. The trendline showed the broader boundary of the triangle.

Marcus did not treat every dip below 5,250 as a failed breakout. After price moved above resistance, a pullback toward the old resistance level could represent a normal retest. For that reason, he placed the stop below the nearest meaningful support created by the breakout structure, not directly under 5,250. A stop at 5,248 would sit inside the retest area and could trigger on a small pullback.

He defined his invalidation zone between 5,224 and 5,232. A close below the recent higher low would weaken the immediate bullish structure. A decisive move below the rising trendline would show that the triangle no longer held its shape. Marcus selected 5,220 as the stop level, below both areas. That extra distance gave price room to move without placing the stop so far away that the trade exceeded his risk limit.

The planned entry came at 5,253 after a five-minute candle closed above resistance. With the stop at 5,220, the trade carried 33 points of risk. Marcus checked the futures contract's point value before entering. One contract would risk \$165 if the stop filled at the planned level. That amount stayed below his \$300 limit, so he used one contract rather than adding a second position.

This calculation mattered because the stop location came first. Marcus did not choose a position size and then force the stop into a convenient place. He identified the pattern's failure point, measured the distance from entry to stop, and selected a size that matched his account rule.

Price moved to 5,263, then pulled back to 5,251. The pullback looked uncomfortable, but it did not enter the invalidation zone. The old resistance level had become nearby support, and the triangle remained structurally intact. Marcus kept the origi-

nal stop. Moving it closer would have changed the trade plan because of fear rather than new chart information.

Later, price reached 5,276. Marcus did not move the stop to breakeven immediately. He waited until price had moved far enough from the breakout to form a new higher low. After that higher low appeared at 5,260, he moved the stop beneath that new support, to 5,256. The adjustment reduced open risk while keeping the stop below a level that mattered on the chart.

The trade eventually reached his measured target, but the important result came earlier: Marcus knew exactly when the setup would fail. If price had fallen through 5,220, he would have exited without debate. The stop did not predict the market. It enforced the condition that made the trade worth taking.

The same process works on bearish breakouts, with the direction reversed. Suppose a descending triangle breaks below support at 4,900. A short trade should not use a stop directly above 4,900 if the market may retest that level. Marcus would mark the recent lower high and the falling upper trendline, create an invalidation zone above those structures, and place the stop beyond the zone. He would then reduce the position size if the wider stop created too much dollar risk.

A practical chart review should record four items:

- The breakout entry level.
- The pattern structure that proves the trade wrong.
- The stop price beyond that structure.
- The dollar risk from entry to stop.

Use the measuring tool on your charting platform to calculate the entry-to-stop distance. Then multiply that distance by the contract or share value. If the result exceeds your preset loss limit, reduce the position size or skip the trade. Do not move the stop into the pattern simply to make a larger position fit.

# What You Can Steal from Marcus's Method

## **Place the stop beyond pattern invalidation, not beneath the entry.**

A breakout trade depends on a specific structure. In Marcus's triangle, the bullish idea depended on higher lows and a rising lower boundary. A stop at 5,248 would sit too close to the 5,250 breakout level and could trigger during a normal retest. A stop below 5,224, with a small buffer at 5,220, tested whether the triangle had actually failed. On your chart, mark the recent swing low for a bullish breakout or the recent swing high for a bearish breakout. Then check the trendline or pattern boundary. Put the stop beyond the level that would make the original setup unreasonable.

## **Build an Invalidation Zone before you calculate position size.**

The Invalidation Zone Method starts with structure, not with the number of contracts you want to trade. Mark the nearest support or resistance created by the pattern, then mark the wider pattern boundary. Treat the space between those levels as the area where price can still test the setup. Place the stop beyond that area. After you know the entry-to-stop distance, calculate the dollar risk. If one contract risks \$165 and your maximum loss is \$300, one contract fits. If two contracts would risk \$330, trade one or pass. This order prevents position size from forcing a weak stop.

## **Allow a buffer, but keep the buffer tied to the chart.**

Price often moves slightly beyond a visible level before reversing. A stop exactly at the trendline can trigger when the market briefly pierces it. Marcus placed his stop at 5,220, below the 5,224 trendline and the 5,232 higher low. The buffer did not come from a random number; it sat beyond two related structure points. Use the chart's normal price movement as a guide, but avoid adding a large cushion simply because you fear a loss. A buffer should protect the trade from ordinary noise, not protect a broken pattern from an exit.

## **Do not widen the stop after entry.**

Once price moves against the trade, widening the stop changes the planned risk and often turns a controlled loss into an open-ended one. If Marcus had moved his stop from 5,220 to 5,210 after price fell, he would have ignored the level that defined the triangle's failure. Accept the original loss when price reaches the invalidation point. If you repeatedly find that normal pullbacks hit your stops before the pattern fails, review your earlier zone placement and use a smaller position next time. Fix the plan; do not rescue the trade.

## **Move the stop only after new structure forms.**

A stop adjustment should respond to a new swing point, not to a feeling that the trade must win. Marcus waited for a higher low at 5,260 before moving his stop to 5,256. That new support gave the adjustment a chart-based reason. For a bearish breakout, wait for a new lower high before lowering the stop. Avoid moving to breakeven immediately after entry because the market may retest the breakout level. A stop belongs beyond meaningful structure until price creates a stronger structure to replace it.

A well-placed stop does not make every breakout profitable. It does something more useful: it tells you, in advance, where the pattern no longer deserves your money. Once that point is clear, the entry, position size, and loss limit can work together instead of competing with one another. That discipline gives every triangle, flag, or reversal pattern a fair test while keeping one failed setup from controlling the next decision.

## Common Beginner Pattern Mistakes

### The Choice Between a Real Pattern and a Convenient Story

**A** chart can show three rising lows, a narrowing range, and a breakout candle, yet still fail as a triangle setup if the lines do not connect meaningful swing points. Beginners often label the shape first and check the evidence later. That habit turns an ordinary pause into a “bullish triangle,” a short bounce into a “flag,” or a random reversal into a head and shoulders pattern.

Nia, 24, screenshots every “almost” breakout. Her folder contains charts where price touched a trendline but never closed beyond it, charts where volume fell during the supposed breakout, and charts where a pattern appeared on a five-minute chart while the daily chart showed a strong move into major resistance. Each screenshot looks convincing by itself. Together, they show the cost of forcing a pattern to fit.

The choice matters because a pattern label controls your trade plan. A continuation pattern suggests that the existing move may resume. A reversal pattern suggests that control may shift to the other side. If you mislabel the setup, you may place your entry on the wrong side of the market, set a target that the pattern cannot support, or treat a weak price move as confirmation. You do not need to predict every breakout. You need to decide whether the chart has earned the label.

Use three checks before you name the pattern. First, identify the prior move: a continuation pattern needs a clear move before the pause, while a reversal pattern needs a meaningful trend to reverse. Second, mark the actual swing highs and lows rather than drawing lines through convenient candles. Third, check the breakout candle, volume, and higher timeframe. A breakout that closes only one cent above resistance, with weak volume and no support from the daily chart, deserves caution rather than a confident label.

## Three Ways to Handle an Unclear Setup

When a chart looks close to a pattern but fails one or more checks, you have three practical choices: trade the first break, wait for confirmation, or reject the setup. The right choice depends on your experience, available screen time, and ability to follow a stop-loss plan.

| Approach                                       | Cost                                                         | Time required                             | Difficulty | Best for                                           |
|------------------------------------------------|--------------------------------------------------------------|-------------------------------------------|------------|----------------------------------------------------|
| Trade the first breakout                       | Higher loss risk when the label is wrong; fewer missed moves | Low to moderate; requires quick decisions | High       | Experienced traders who can accept false breaks    |
| Wait for a confirmed breakout and retest       | May enter at a less favorable price or miss a fast move      | Moderate; requires follow-up checks       | Moderate   | Beginners who want stronger evidence               |
| Reject the setup until the chart becomes clear | No trade cost, but you may miss the move                     | Low after the initial review              | Low        | New traders and anyone with conflicting timeframes |

Trading the first breakout can work when price closes clearly beyond the pattern boundary and the volume supports the move. It becomes dangerous when you treat an intraday wick as a breakout. A wick shows that price visited a level; a close shows that buyers or sellers held that level at the end of the candle. Nia's screen-shots often capture the wick, not the close. That difference explains why several of her "breakouts" reversed immediately.

Waiting for a close and, when possible, a retest gives you more information. For example, price may break above a triangle at \$48, move to \$49, and then return to \$48. If buyers defend that old resistance as new support, the setup gains strength. The trade may start at \$48.10 instead of \$47.80, but the evidence improves. Rejecting



the setup remains the strongest option when the pattern needs too much explanation. If you cannot state where the boundary sits, which timeframe controls the trade, and what volume should confirm the move, you do not have a usable setup yet.

Volume also needs context. A breakout with rising volume compared with the recent candles shows more participation than a breakout on quiet trading. Do not demand a dramatic volume spike in every market or every session. Compare the breakout candle with nearby candles and note unusual conditions, such as the market opening, a scheduled earnings release, or a thinly traded stock. These details can explain a sudden volume burst without proving that the pattern will succeed.

## The Verdict: Use the Pattern Mistake Checklist

For most beginners, wait for a confirmed breakout and use the Pattern Mistake Checklist before entering. This approach reduces forced labels, gives you time to check volume, and prevents a five-minute chart from overriding a conflicting daily trend. You will miss some fast trades. That cost is easier to manage than repeatedly entering weak breakouts because a screenshot looked attractive.

Choose the approach with a simple decision flow. If the pattern has a clear prior move, at least two meaningful touches on each boundary, a candle close beyond the boundary, and supportive volume, you can consider the confirmed breakout. If price only wicks beyond the line, wait for a close. If the close occurs but volume remains weak, wait for a retest or reject the trade. If the five-minute chart points upward while the daily chart sits directly below strong resistance, reduce your confidence and wait for the higher timeframe level to clear. If you cannot draw the pattern without adjusting the lines repeatedly, reject it.

The Pattern Mistake Checklist asks five direct questions:

1. **Did the pattern earn its name?** A triangle needs converging boundaries and a narrowing range. A flag needs a sharp prior move followed by a smaller countertrend channel. A head and shoulders pattern needs a left shoulder, a higher

head, a right shoulder, and a neckline that connects the important lows. Do not call a shape a pattern because it resembles one from a distance.

2. **Did price confirm the break?** Look for a candle close beyond the boundary, not just an intraday spike. Record the exact level, such as \$48.00, so you do not move the line after price breaks.
3. **Did volume support the move?** Compare breakout volume with the recent candles on the same timeframe. Weak volume does not automatically cancel a trade, but it lowers your confidence and calls for more confirmation.
4. **Does the timeframe agree?** Check the next higher timeframe before entering. A five-minute bullish breakout into daily resistance has less room than a five-minute breakout aligned with a daily uptrend.
5. **Can you define the failure point and target?** Place the stop where the pattern fails, not at an arbitrary dollar amount. Measure the target from the breakout level using the pattern's height, then check whether nearby support or resistance blocks that target.

If the answers support the setup, plan the trade. If two answers raise serious doubts, wait. If three or more fail, remove the chart from your active list. A clear “no trade” decision protects your account and improves your pattern recognition because you can review the result without holding a position.

## Put the Checklist to Work Before You Enter

Apply the checklist in the same order every time. Consistency matters because beginners often notice the exciting evidence first, such as a large green candle, and ignore the warning signs that appear earlier in the chart.

1. **Start with the higher timeframe.** Open the daily chart for a swing trade or the one-hour chart for a shorter trade. Mark nearby support and resistance. Write one sentence describing the larger trend, such as, “The daily chart is rising but sits below \$52 resistance.” This sentence prevents a lower timeframe breakout from creating a false sense of open space.
2. **Mark the pattern boundaries once.** Use a charting tool such as TradingView's trendline tool. Connect the clearest swing highs and lows. Do not move a line to include a wick or exclude an inconvenient candle after price approaches it. For a triangle, confirm that the upper line slopes down, the lower line slopes up, and

the range narrows. If the lines run nearly parallel, check whether the chart shows a channel or flag instead.

3. **Describe the prior move.** Before a flag, look for a strong directional move, called the flagpole. Before a reversal pattern, look for a trend that can actually reverse. A head and shoulders pattern after a flat market lacks the same meaning as one that forms after a sustained rise. Write the prior move beside the chart so the label depends on evidence rather than appearance.
4. **Set the breakout level.** Use the boundary that price must close beyond. If a triangle's upper boundary sits near \$48, record "breakout close above \$48," not "breakout near \$48." This exact wording stops you from treating a \$47.95 wick as confirmation.
5. **Wait for the candle close.** Keep the chart on the timeframe that created the pattern. Do not enter halfway through a five-minute candle because it moved above resistance. At the close, record whether price finished beyond the line and whether the candle body shows commitment. A long upper wick with a small body warns that sellers pushed price back down.
6. **Compare volume properly.** Place the volume panel below price and compare the breakout candle with the previous several candles on that same timeframe. Note whether a market open, news release, or thin trading period explains the reading. If volume does not support the break, wait for a retest rather than inventing certainty.
7. **Check the next higher timeframe again.** If the breakout occurs on a five-minute chart, inspect the 15-minute or one-hour chart. Look for nearby resistance, a larger downtrend, or a failed breakout already visible there. If the higher timeframe conflicts with the trade, either wait for alignment or pass.
8. **Plan the failure point and target before entry.** For a triangle with a \$4 height that breaks at \$48, the measured target sits near \$52. Then check the chart: if strong resistance sits at \$50.50, the full target may be unrealistic. Place the stop below the pattern boundary or the retest low, depending on the setup. If the distance to the stop feels too large, reduce position size or skip the trade; do not squeeze the stop into normal price movement.
9. **Save the chart and review the decision.** Save one image before entry and one after the trade ends. Label the result as "correct label," "forced label," "weak volume," "timeframe conflict," or another specific mistake. Nia can turn her screenshots into useful records by adding these labels instead of collecting only dramatic candles.

Use this short checklist today:

- Mark one triangle, flag, or head and shoulders pattern without changing its lines after the fact.
- Record the higher timeframe trend and the nearest support or resistance level.
- Wait for a candle close beyond the boundary before calling it a breakout.
- Compare breakout volume with nearby candles on the same timeframe.
- Write the entry, failure point, measured target, and reason for passing or trading.

A chart pattern becomes useful when its name comes from evidence, its breakout earns confirmation, and its timeframe context supports the trade. The Pattern Mistake Checklist gives you a repeatable way to make that decision before money is at risk. Over time, your screenshots will show fewer “almost” breakouts and more clearly defined setups - the foundation for measuring targets and managing trades with confidence.

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## CHAPTER 8

# Putting It All Together: Trade Plan

## A Repeatable Plan for Every Pattern

**A** triangle tightens for weeks, a flag pauses after a sharp move, or a head-and-shoulders pattern forms near a prior high. The chart looks ready, but the trade still needs three answers before you act: where will you enter, where will you exit with a profit, and where will you leave if the pattern fails?

Ethan, 40, trades part time and tests a rules-based approach around his work schedule. He does not need to predict every move. He needs one written plan that works for ascending triangles, flags, and head-and-shoulders patterns. The **5-Step Setup Loop** gives him that plan: identify the pattern, mark the trigger, calculate the target, place the protective stop, and manage the position.

The method matters because a recognizable shape does not guarantee a successful trade. A bullish triangle can break downward. A flag can fail when price returns inside the pattern. A head-and-shoulders pattern can break its neckline and then reverse above it. Clear rules help you respond to those events instead of inventing decisions while money sits at risk.

## Your Toolkit for Entry, Target, and Management

You do not need expensive software to build this plan. You need a clean chart, a way to measure price, and a written record of each decision.

- **Candlestick chart:** Shows open, high, low, and close prices so you can judge the breakout candle and the pattern's structure. Use the free charting tools on TradingView or your broker's platform; a daily chart works well for part-time traders.

- **Trendline tool:** Marks the rising, falling, or horizontal boundaries of a triangle and the edges of a flag. Most chart platforms include it at no cost.
- **Horizontal-line tool:** Marks the breakout level, neckline, recent swing point, and target. Use the same line style each time so your chart stays easy to read.
- **Price-measure tool:** Measures the pattern's height in dollars or points. TradingView includes a measuring tool in its free plan, and many broker platforms provide an equivalent.
- **Position-size calculator:** Converts your planned dollar risk into a share or contract size. Use a free calculator from your broker or calculate it with:

**Position size = planned dollar risk ÷ distance from entry to stop.**

- **Trade journal:** Records the pattern, entry, stop, target, result, and rule followed. A spreadsheet, notebook, or free notes app works; the important cost is a few minutes after each trade.
- **Alert tool:** Notifies you when price reaches the breakout level. Your broker or chart platform usually provides alerts without an extra charge.

Set your chart to the timeframe you can monitor honestly. If Ethan can check charts before work and after dinner, he may use daily candles rather than a five-minute chart that demands constant attention. The tool must fit the plan, or the plan will fail before the pattern does.

## The 5-Step Setup Loop

### 1. Identify one complete pattern.

Name the setup before you consider an entry: ascending triangle, descending triangle, symmetrical triangle, bullish flag, bearish flag, or head-and-shoulders. Mark at least two touches on each important boundary. For a head-and-shoulders pattern, mark the left shoulder, head, right shoulder, and neckline.

The outcome is a chart with one clear structure, not several competing guesses. If you cannot explain the pattern in one sentence, skip it. For example: "Price formed an ascending triangle beneath \$50, with rising lows and repeated resistance near \$50."

## **2. Mark the trigger level and wait for confirmation.**

Draw a horizontal line at the breakout level. For a bullish triangle or bullish flag, use the upper boundary. For a bearish triangle or bearish flag, use the lower boundary. For a head-and-shoulders pattern, use the neckline.

Wait for a candle to close beyond that level. A brief intraday move beyond resistance does not prove a breakout; the closing price gives you a defined signal. Ethan's ascending triangle has resistance at \$50. He waits for a daily candle to close above \$50 instead of buying when price briefly reaches \$50.12 during the session.

If price closes beyond the line, record the planned entry. You may enter near the close or use a buy-stop or sell-stop order just beyond the trigger, depending on your platform and trading rules. Do not chase a move that has already traveled far beyond the breakout level. A late entry changes both the stop distance and the target's reward.

## **3. Measure the pattern and set the target.**

Measure the pattern's widest height before the breakout. Add that distance to a bullish breakout level or subtract it from a bearish breakout level. This creates a practical target based on the pattern itself.

For Ethan's triangle, the lowest point sits at \$44 and resistance sits at \$50. The pattern height equals \$6. A close above \$50 produces a measured target of \$56. For a bullish flag, measure the flag's range from its highest to lowest point, then add that amount to the breakout level. For a head-and-shoulders pattern, measure from the head's peak down to the neckline and subtract that distance from the neckline after a bearish break.

Write the target before entering. This prevents you from moving the goal simply because the trade feels exciting. Also mark nearby support or resistance between the entry and target. If a strong resistance zone sits at \$53 while your measured target sits at \$56, note the zone and decide in advance whether you will take partial profit there or hold for \$56.

## **4. Place the protective stop and calculate the position.**

Put the stop where the pattern fails, not at a random dollar amount. For a bullish triangle or flag, a stop may sit below the breakout area, the most recent higher low, or the lower pattern boundary. For a bearish setup, place it above the breakout area, recent lower high, or upper boundary. For a head-and-shoulders short trade, place it above the neckline or right shoulder according to the space and risk your plan allows.

Avoid placing the stop directly on an obvious line. Normal price movement can touch that line and then continue in your direction. Leave enough room for ordinary movement, but do not widen the stop after entry just to avoid taking a loss.

Next, calculate the trade size. Suppose Ethan plans to risk \$100. His entry sits at \$50, and his stop sits at \$47.50. The risk per share equals \$2.50, so he can trade 40 shares:  $\$100 \div \$2.50 = 40$ . His target at \$56 offers \$6 per share, while his planned risk equals \$2.50 per share. That gives the trade room to make more than it risks, but the calculation does not guarantee a win.

Include trading costs and possible price gaps in your thinking. A stop order may fill at a worse price during a fast move. If the required position size feels too large, reduce it or skip the trade.

#### **5. Manage the open position by rule, then review the result.**

Decide what happens at the target, at the stop, and during a retest before you enter. A retest occurs when price breaks out, returns to the old boundary, and then tries to continue. If a bullish breakout returns to resistance and closes back below it, treat that as a warning rather than automatically adding to the position. If price tests the level and closes above it, your original plan may remain valid, provided the stop still sits at the planned failure point.

Choose one management rule and apply it consistently. You can hold the full position to the target, take part of the position at a nearby obstacle, or move the stop only after price makes a new swing in your favor. Do not move the stop to breakeven immediately after entry; ordinary retests often reach the entry price before continuing. Move it only when your written rule gives a reason.



Close the trade when price reaches the target, hits the stop, or breaks your failure rule. Then record the pattern type, timeframe, entry, stop, target, position size, result, and whether you followed the plan. Ethan's review might show that his triangle entries work when the breakout candle closes strongly but fail when he buys before the close. That observation gives him a rule to test, not a reason to make a random adjustment.

Run the loop in the same order every time. Pattern first, trigger second, target third, stop and size fourth, management and review fifth. The order keeps the target from influencing the pattern and keeps the desired profit from dictating an unnecessarily wide stop.

## Quick Reference: Pattern Trade Plan

**Bullish triangle or flag:** Enter after a candle closes above the upper boundary. Place the stop below a logical failure point. Add the pattern height to the breakout level for the first target.

**Bearish triangle or flag:** Enter after a candle closes below the lower boundary. Place the stop above a logical failure point. Subtract the pattern height from the breakout level for the first target.

**Head-and-shoulders:** Enter after a candle closes below the neckline. Place the stop above the neckline or right shoulder. Measure from the head to the neckline and subtract that distance from the neckline.

**Pattern height:** Measure the widest part of the completed pattern before entry. Do not measure from the entry price after the breakout.

**Breakout rule:** If price only moves beyond the line during the candle but closes back inside the pattern, do not treat it as a confirmed breakout.

**Retest rule:** If price retests the breakout line and holds beyond it, keep the original plan. If price closes back inside the pattern, reassess or exit according to your failure rule.

**Position size:** Planned dollar risk ÷ entry-to-stop distance. Reduce size when the stop requires too much room.

**Stop rule:** Place the stop at the point that proves the pattern wrong. Never widen it after entry to avoid a planned loss.

**Target rule:** Mark nearby support or resistance before entering. Decide whether you will hold through that level or take partial profit.

**Management rule:** Write the exit rule before the order. Do not make a new rule because one candle looks exciting or frightening.

**Journal check:** Record pattern, trigger, entry, stop, target, size, result, and rule-following. Review several completed trades before changing the plan.

Triangles, flags, and head-and-shoulders patterns become useful when they produce the same decisions each time: a defined trigger, a measured target, a logical stop, and controlled management. The shape starts the process, but the written plan completes it.

## Final Thoughts

By the end of this book, you'll stop "guessing" what a chart is doing and start following repeatable conditions: what the pattern is, where the break should occur, how far to expect price to travel, and how to protect your downside. A key technique you'll use often is measuring targets from breakouts so your exits are tied to structure rather than hope.

Your first action: open your charting platform today and mark the last 10 clean pattern setups you can find (triangles, flags, and one head-and-shoulders example), then write the exact entry, stop placement at the break, and target

measurement in a notebook. Do this within 60 minutes, and use **Chart Patterns 101** as your checklist while you label each trade.

## ABOUT THE AUTHOR

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***Michael Burney***

Market-focused author and editor specializing in market structure, execution, and trading infrastructure. I translate institutional-grade knowledge into clear, actionable books and courses for traders, execution engineers, quants, and trading ops teams.

Contributor to multi-volume trading libraries, creator of reproducible labs and case studies, and available for commissioned projects and editorial partnerships.

## **Chart Patterns 101**

by Michael Burney

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Created by Michael Burney