Contact Information

Published by the Hansen Finance Group. All Rights Reserved.

http://www.tonihansen.com
Email: info@tonihansen.com

Revision Date: January, 2010

Legal Notices and Disclaimer

About Toni Hansen

Toni Hansen is the President and CEO of the Hansen Finance Group, LLC and Trading From Main Street. Toni began her trading career as an equity swing trader in the mid-1990s and has since expanded into many other sectors of the market. Her style of trading and market analysis transcends both time as well as market vehicles, making it attractive to investors in **stocks, exchange-traded funds (ETFs), currencies (forex), options, index futures, and other commodities**.

Toni is one of the most respected technical analysts and traders in the industry with a high reputation for **accuracy** in both bull and bear markets. She is a frequent guest lecturer at the trade shows and trading expos and often speaks on behalf of many of the world's top exchanges, including the CME Group and the International Securities Exchange. Toni is also a repeat contributor to the industry's top financial publications, including SFO Magazine, Your Trading Edge Magazine, Traders Journal, and Active Trader and publishes daily market commentary and market education through her website **http://www.tonihansen.com**.

The **adaptable nature** of her approach to technical analysis allows her to be active even in the slowest periods in the overall market and successful during both bull and bearish market moves.

Throughout the booms and busts of the last decade, Toni has been **consistently** training and educating new traders. Her students include money managers, professional market analysts and traders, stay-at-home parents, as well as those simply wishing to hone their market skills. Over the years she has spent most of her trading days online sharing her skills and insights with others. Not everyone has the luxury of this type of participation and as she moves away from that aspect of market education, she would like the opportunity to share with you the same in depth coverage of market dynamics with the advantage of studying her style at your own pace.

Table of Contents

Terms to Know

Most books and courses include a glossary or appendix of terms that may not be well-known to those who are new to the subject matter being discussed. Unfortunately, these tend to be at the back of the book and many of the terms are often overlooked. Before you dig into this course, however, I would like you to read through the terminology used throughout this educational material. At times, words that we come across in everyday usage will have a different meaning when applied to the financial arena. By familiarizing yourself with the terminology ahead of time, you will not have to interrupt your learning process by stopping in the middle of a sentence or pausing in the middle of a video to look up a definition. These terms will also be presented throughout the course as they relate to different portions of the material, so don't worry if the context eludes you to begin with.

Apex: The point at which the upper and lower trend lines in a triangle converge.

Confirmation: When a number of factors are working together to support a price move. For example, if volume is increasing when prices move higher on a range breakout, then the volume is confirming the buying.

Correction Periods: The times of the day or times of the year where an individual security or the overall market is most likely to correct from a previous trend move or begin a new one. 2:00 am EST, 13:00 EST, and 14:00 EST are three examples of popular correction periods.

Day Trader: A person who holds a position in a security intraday and closes the position before the trading session ends.

Divergence: When market indicators and prices are showing different biases, such as when prices are moving higher out of a trading range, but volume is light. Pattern setups in the direction of the trend become higher risk when there is a lot of divergence in a security since it often warns of an upcoming price reversal.

Downtrend: When the primary price direction of a security is to the downside, created by a series of lower highs and lower lows within the declining trend channel.

Exchange Traded Fund (ETF): A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. One of the most widely known ETFs is called the Spider (SPDR), which tracks the S&P 500 index and trades under the symbol SPY.

Flush: A rapid move in the opposite direction of a price bias that will rapidly reverse against the desired directional move to trigger typical stops and "flush out" traders before resuming in the direction of the original price bias. For instance, traders who have bought into a position will typically have a stop under a support level. A flush would take out the support level by enough to trigger most stop orders before heading higher again. A downside flush will typically consist of only one bar of selling before the prices again reverse and head back higher

Forex Market: Also known as the foreign exchange market, or fx, the forex market is where currency trades take place. It is the largest financial market in the world, but it is not dominated by a single market exchange.

Fundamental Analysis: A type of market analysis that attempts to measure a security's intrinsic value. Fundamental analysts will use information about the underlying security itself, such as earnings or management, in addition to overall economic and industry conditions, to make a decision on what the "real" value of the security should be. They will then place a position based upon that conclusion and whether their perceived value for the security is higher or lower than the current price.

Gap: Spaces on a candlestick or bar chart where no trading has taken place. When a security closes trading on one day at a certain price for instance, and opens at a different price, then the space in between the two price levels is called the gap.

Index futures: A futures contract on a stock or financial index. The S&P 500 Index is one of the most widely traded index futures contract in the United States. The symbol for the S&P 500 index futures contract is ES, followed by the letter for the month the contract expires and the year it expires. The ending can vary slightly, depending upon the broker or charting platform being used.

Inside range bar: This occurs on candlestick and bar charts where the range of one bar is inside the range of the previous bar. For example, if a stock has a bar with a range from $49 to $50, and the next bar has a range of $49.50 to $49.90, then the second bar is inside the range of the first and is hence called an "inside range bar".

Momentum: Also known as pace, it is a measure of the rate of change in price over a selected span of time.

Moving average: An indicator used to show support and/or resistance levels that averages the price action in a given time span. They work best in a trending environment. A 20 period simple moving average takes the closing prices of the last 20 bars (20 days on a daily chart) and adds them together. It then divides that number by 20 to give the price of the moving average. Other types of moving averages are the exponential moving averages and weighted moving averages.

Narrow range bar: In candlestick or bar charts, it is a bar that has a much more narrow range than average. For instance, if a daily bar has a typical range of $1, then a bar with a range of $0.25 would be considered to be a narrow range bar. It is typically a period of consolidation or indecision in the security.

Option: A financial derivative that represents a contract sold by one part to another party that gives the buyer the right, but not the obligation, to buy or sell the security or other financial asset at an agreed-upon price during a certain period of time or on a specific date.

Pace: The rate of price change in a security in a given span of time as compared to the rate of price change in the same increments of time in the past.

Position Trader: A trader that bases a position in a security upon action that takes place on a weekly to monthly time frame. They might hold a position for several weeks up to several years.

Resistance: A price zone above the current trading level where sellers are likely to appear and end or stall a rally. The most common type of resistance is a form of price resistance.

Scalper: A person that holds a security for a very brief period of time, attempting to profit from an immediate momentum move a security without holding through larger corrective phases in the security.

Stop: A price level at which point, when broken, it proves that a position is incorrect and unlikely to produce gains, at least not without a greater adverse move. It is also the maximum price that a trader is willing to put at risk on a position.

Support: A price zone underneath the current trading level where buyers are likely to appear and end or stall a price decline. The most common type of support is a form of price support.

Swing Trader: A trader that typically holds a security for several days to several weeks. Swing trades are positions that based upon price patterns forming on 60-minute to weekly charts and are aimed at capturing a swing on a daily to several week move.

Technical Analysis: A form of market timing that relies purely upon the analysis of measurable data that can be obtained directly from the price and/or volume action in a security. Technical analysts do not attempt to measure a security's intrinsic value.

Tick: The smallest move possible in a security. In stocks this is one cent. In the S&P and NASDAQ e-Mini futures it is a quarter of a point. In currencies this is called a "pip".

Trend channel: It is the channel between the trend line in a trend and a line that connects the pivots on the opposite side of a trend. In an uptrend the trend line connects the lows in the trend, while the upper trend channel line would connect the highs of that uptrend.

Trend line: A line drawn on a chart that connects either the highs in a downtrend or the lows in an uptrend. When prices break a trend line, then a reversal or larger correction to the trend is common. This is particularly true when prices hug the trend line prior to breaking.

Uptrend: When the primary price direction of a security is to the upside, created by a series of higher highs and higher lows within an ascending trend channel.

Volatility: A measurement of price fluctuation in a security. When a security moves sharply with a lot of back and forth activity, then it is considered to be volatile.

Volume: The number of shares or contract that are traded in a security or the entire market during a given period of time.

Wide range bar: In candlestick or bar charts, it is a bar that has a much larger/wider range than average. For instance, if a daily bar has a typical range of $1, then a bar with a $3.00 range would be considered to be a wide range bar.

Market Timing

It seems that everyone has their own unique method for investing in their future. Some people will buy shares in companies merely because they use their products on a regular basis. Others will buy gold and stash it under their floor boards. I have to confess that I've never done either of these things, but for some, the "investment" methods I just described do not seem far-fetched at all. On the other hand, the way that I invest has been one that has stirred up a great deal of controversy over the years. I am a "market timer."

The concept of "market timing" is one that has been around for at least several hundred years, and probably several thousand in some form or another. The premise is that an investor can use tools and techniques at their disposal to optimize the times they enter or exit the markets in order to maximize the return on their investments, while minimizing their risk exposure.

Market timing has been gaining in popularity since the mid-90s, but anyone that watches a news channel that focuses upon market activity will quickly realize that the concept still hasn't quite caught on in all circles.

On a visit to New York a couple of years ago, I was at the offices of one of the biggest financial news networks in the world and a senior-level producer asked me what some of the stocks were in my portfolio. Given that the topic was on longer term positions, I told him the symbol of my most recent acquisition.

"What do they do?" he asked.

"I have no idea," was my reply.

"Well, what is the company?"

"I don't know, I only know the symbol, but I can draw for you exactly what the chart looks like." I was rather surprised that nearly everyone looked at me like I was from another planet.

After a pause, another producer commented, "That seems a little unusual, don't you think?"

Unusual? Perhaps, but until that point in time, I had never really given it much thought! To me, the idea that a person could improve their returns on their investments by studying the underlying security made perfect sense, even though applying that knowledge properly can take a bit of work!

Such incredulous reactions are less common these days, and you will find a lot more credit given to the concept of market timing, but a great deal of controversy remains. Perhaps the largest debate between market timers themselves has been which style of market timing is the best. There are two main types of "market timers." Those who make up the first group call themselves "fundamental analysts", while those who fall into the second category call themselves "technical analysts".

Fundamental analysts try to identify and predict the cause of market moves and the logical price level a security should be trading at as a result of its intrinsic value. This value is determined through an analysis of the core characteristics of a security and can include anything from a company's price-to-earnings ratio, the mental stability of a CEO, or a global-political crisis that might weigh upon the price of a commodity or a currency's exchange rate. In other words, they look for the fundamental cause of price action.

There are many die-hard proponents for each of these two styles and even within the categories themselves there are many different approaches. While I certainly respect the fundamentalists, this style of trading tends to favor those who are looking to maintain long-term positions and for whom the shorter term fluctuations in a security's price are not as relevant. When the data being released by a company or particular industry is questionable, however, a lot of the legitimacy for fundamental bias on a security can be eroded very quickly.

Before the housing bubble and the collapse of many of the nation's largest and most-trusted companies in late 2007, fundamental analysis was often considered to be the more legitimate form of market timing. Gradually, however, even many of my more fundamentally-biased friends began to integrate technical analysis into their market timing techniques.

Unlike fundamental analysts, technical analysts do not care at all about what a security does or what the reasons are behind a price movement in the security. They care only about the price action itself. They believe that the reason that a security is at the price level it is at is already represented in the price of the security itself. Success as a technical analyst requires no knowledge or skill as it relates to understanding the fundamentals of a security. In fact, as strange as it may seem, one does not even need to know what the underlying security is or what it does in order to profit from the technical analysis of the security.

The premise of technical analysis is that human beings are creatures of habit ruled by fear, greed, and necessity and that the interaction between the three results in the prices fluctuations in an individual security, which can be represented in a graphical format.

Coming from a background in anthropology, and particularly archaeology, this seemed like a logical conclusion since I had studied everything from language development to migratory settlement patterns in just such a manner. Chartists are quite aware that there are reasons why markets move higher or lower, but we don't believe that understanding them is necessary to predict where the market is heading next. For example, it may be a drought that is pushing a food source further north in a particular region, and hence the population is also moving in that direction. The cause, however, may not be recognized until after a great deal of study.

What first becomes apparent to the archaeologist is that a population is on the move and at some point that movement slows or comes to a halt. If an archaeologist sees that a population has moved from one location to the next, and is pushing further in a certain direction, it is possible to infer the areas to explore for further excavation. If the archaeologist waits to discover the reason that a move has taken place, however, before making an educated guess as to where the population has migrated to, then another team of archaeologists may beat them to the punch and establish the rights to excavate in the new locale.

Similarly, the fundamental reasons for a market move may not be apparent at the beginning of a market move. Often an upside price movement will begin prior to the realization that the fundamentals in a security have begun to reverse and favor such a move. If the trader waits for the fundamentals to be favorable, then he or she will often miss the most ideal entry price on a security.

No matter what caused prices to shift, establishing theories as facts is not an easy task. News stations that track market data are constantly trying to explain why moves take place, not from a technical standpoint, but from the standpoint of something that more people can relate to, such as an earnings warning, the latest gross domestic product data, or even just a trip overseas by a major political leader. It often amuses me that the moves that are attributed to reasons such as these will have often taken place before or quite awhile after the news itself. It quickly becomes apparent that the attempt to assign a reason to a price move in this manner is just based upon the human desire to have some sort of explanation and closure.

Despite what you may see on the History Channel, however, even the reasons behind most archaeological discoveries will often remain a mystery and the "best guesses" as to what many artifacts are and what their function is, or why people moved from one place to another, are often just that… best guesses. The more often you see things repeat, however, and the more variations you find of similar activity, the more accurate your assumptions will likely become when trying to locate additional examples of the same artifacts or activities.

This is where technical analysis really comes into play. It allows a trader to begin to track not only price movement itself, but to also start to have a feeling for how that type of price action unfolds. Even if the reasons why such moves occur might never be known from the point of view of a newscaster or the everyday Joe on the street, you can start to develop a sense for the technical reasons prices shift the way that they do.

Intriguingly, you can use the same chart reading skills you learn as a trader and apply them to the study of the natural sciences as well… or vice versa. I read an article a few months ago in a major science publication that was related to an environmentalist who studies the migratory movements and population growth and demise of a certain type of ocean fish. It amused me that the article included a description of how this man used the same analysis to trade the markets. To me this came as no surprise, but I bet it led to a lot of skepticism from the readership! Fish, however, must also adapt to their own environment, and while greed and fear may not be reasons that many would like to equate as being on the same level as human beings, they certainly possess the instinct to survive. After all, you are not likely to be able to swim up to a fish without it rushing to get out of your way. Likewise, if food is not very plentiful in one locale, they are going to seek out new feeding grounds.

"So how can I take this fishy analogy and use it to help me become a better trader?" you might be asking. Well, when it comes to technical analysis itself, there are a number of schools of thought as to what the best strategies and techniques are. Some are based upon technical indicators. Some are based upon "price patterns", such as Bull Flags. Others are based upon phenomena such as morning gaps. My own understanding of the markets has evolved a great deal over the years, but over time I realized that there are several main traits within the movement of the price of a security that serve as the precursor to upcoming price moves. These traits are now what I consider to be the "building blocks" of price pattern development and the unique characteristics of each weighs heavily upon the future price move of a security.

I have divided these building blocks into five categories: pace, trend development, support and resistance, volume, and correction periods. I would assume that every technical analyst out there is familiar with trading based upon strategies, such as Bull Flags, triangle breakouts, etc. What most traders do not understand, however, is that these price patterns are not whole setups that take place in a snapshot in time. Two Bull Flags, for example, might look identical on a daily time frame and yet one succeeds while the other fails. The reason is not merely because a certain percentage of flags fail. It's because there were core differences on some level between these two seemingly identical strategies. Those differences are a result of often unnoticeable traits within the larger flag patterns themselves. These traits are my Five Building Blocks of Price Development.

The composition of each of these Five Building Blocks of Price Development can influence everything from the percentage of success a strategy has, the average reward it will generate compared to its risk, and can even indicate which strategies will likely follow the current one as prices continue to evolve.

In this course, I have put together some of the most popular “trading patterns” utilized by market participants today, as well as some of my own. In each of the examples I will detail how my Five Building Blocks of Price Development influence the setup and outcome of each strategy. I will also provide you with step-by-step guidelines for utilizing my style of market analysis to improve your own results.

You will quickly realize that some of the core concepts that many traders are taught relating to technical analysis, such as a traditional Head-and Shoulders pattern, will actually hinder your success. Read and watch very carefully and see if you can recognize other mainstream concepts that can be improved through the use of my Five Building Blocks of Price Development.

As you progress through this course, notice that I have taken setups from multiple asset classes and time frames to include in this publication. That is because my style of market analysis is not limited to merely one or two markets or time frames! Once you have learned how to use my Five Building Blocks of Price Development, you will be able to take that knowledge and apply it to any market you favor!

When studying the patterns in this course, I recommend that you first read through each of the setups and the accompanying examples of the patterns one at a time. Be sure to also view the video portion for each strategy before moving onto the next.

Once you have made it through the course, begin compiling your own loose-leaf notebook or folder with charts that illustrate the patterns I have outlined and make a note of each of the pros and cons you can identify within each strategy according to my Five Building Blocks of Price Development. This will help you grow and develop a better understanding of the dynamics at play within each of the patterns, as well as discover where your greatest strengths lie!

All my best,

Toni Hansen

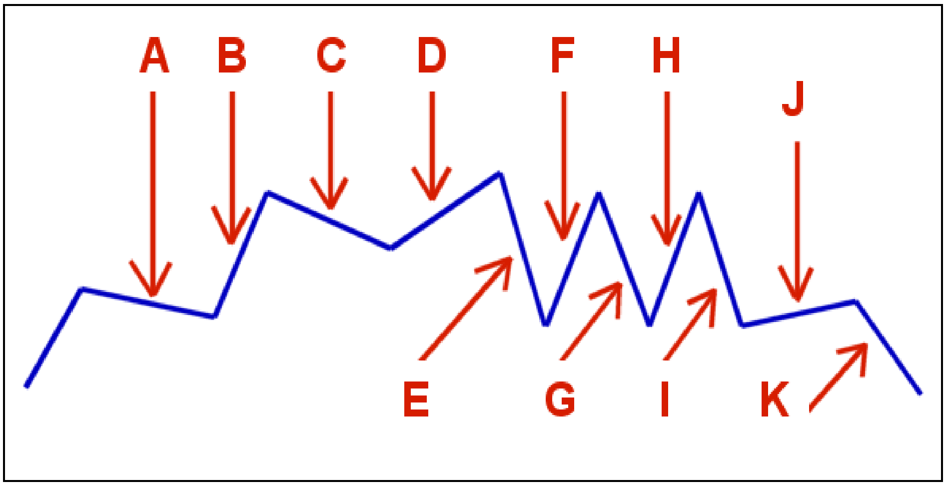
http://www.tonihansen.com

Toni Hansen's Five Building Blocks of Price Development

1. Pace

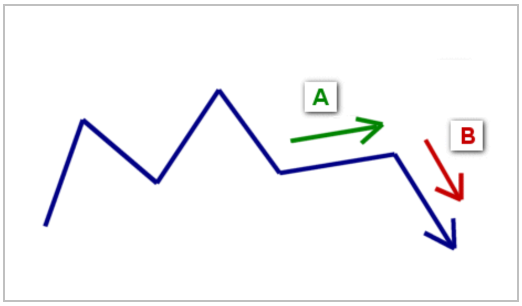
Pace is the measurement of the momentum of a trend move in a security as compared to not only the average move, but also the most recent move on a given time frame. There are three ways to look at how the pace of a move in the market compares to prior price activity. It can either be more gradual than an average move, it can be stronger than an average move, or it can be somewhere in the middle. Pace is one of the most influential building blocks within a price pattern and can be the key trait to a strategy's success or failure.

In the images below, pay attention to how the overall momentum has shifted from one move into the next and how the pace of each move appears to affect the move that follows.

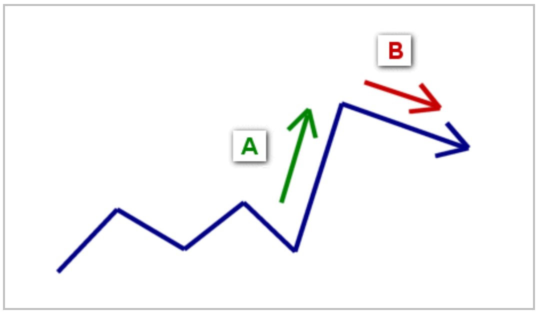


There are three things that you should notice when examining the image above:

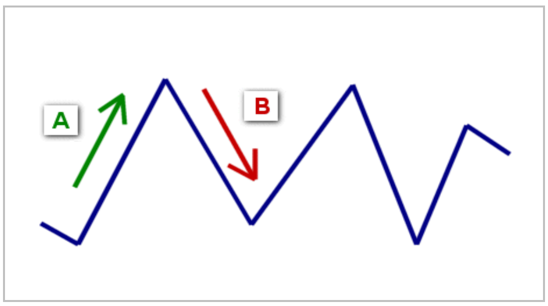
1. Slower than average moves often correct with a stronger price move.



2. Faster-than-average moves typically correct more gradually.



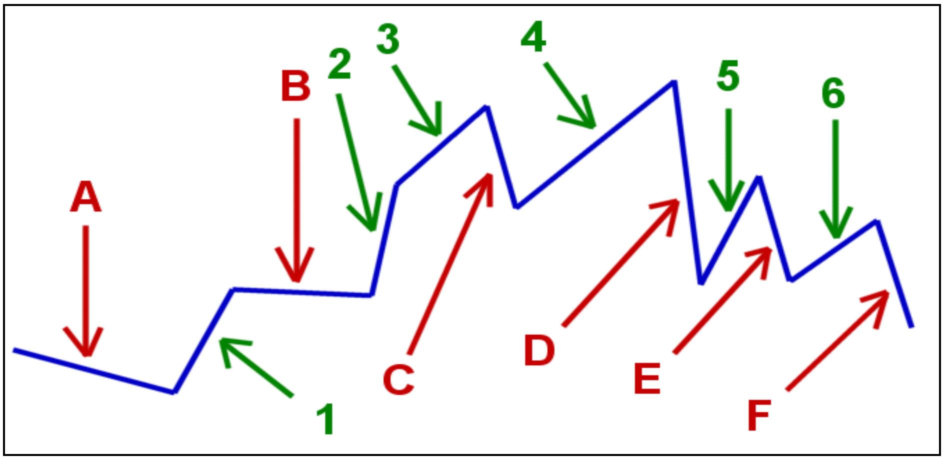
3. Evenly paced moves resembling a "V" or upside-down "V" will more often lead to a trading range.



In order to read the pace of a move accurately, you have to put it in the context of the momentum moves that have taken place in the past in the security you are examining. What qualifies as a stronger-than-average price and momentum move in one security might actually be slower-than-average in another.

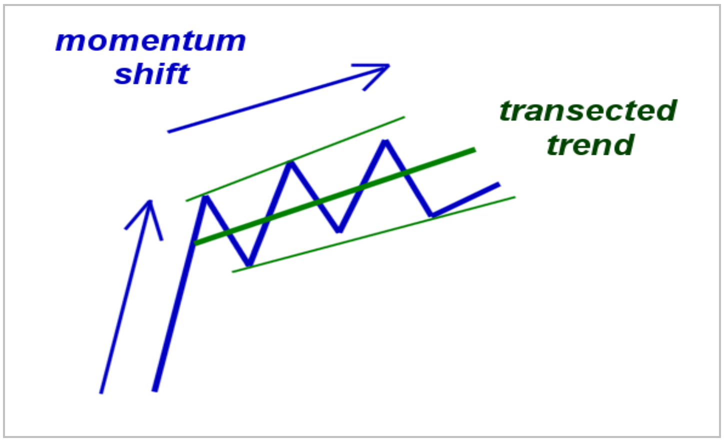
In the following image, the momentum of the move marked A is a gradual move, but since we cannot view the action that came before it, we cannot tell whether this is a strong-than-average or weaker-than-average downtrend. It is only when the move breaks higher in 1 that we can see a comparison between two momentum moves. We can then start to develop a keener sense for how each wave of buying and selling relates to the overall tendencies of the security to rise and fall.

It is not necessary to use an indicator to help you judge the momentum of a move. The naked eye is often the best tool you have. In order to see a move more clearly, however, you may need to transect the channel in which a move forms. It is not unusual for smaller waves of buying or selling within a channel to form different momentum moves than the overall channel and this can throw off many traders.



For example, in the previous image, the move higher at 3 might have several highs on smaller time frames within that larger channel. Each of those upside moves might be stronger-than-average or comparable to the move higher in 2. The channel itself, however, that leads to the high at the end of move 3 is slower than the channel for the initial buying that took place in B.

To transect a trend channel, connect the highs of a channel together and the lows of the channel together and then draw a line through the middle that divides the channel equally like you see in the image below. This will give you the momentum of the overall channel as opposed to merely one segment of it.



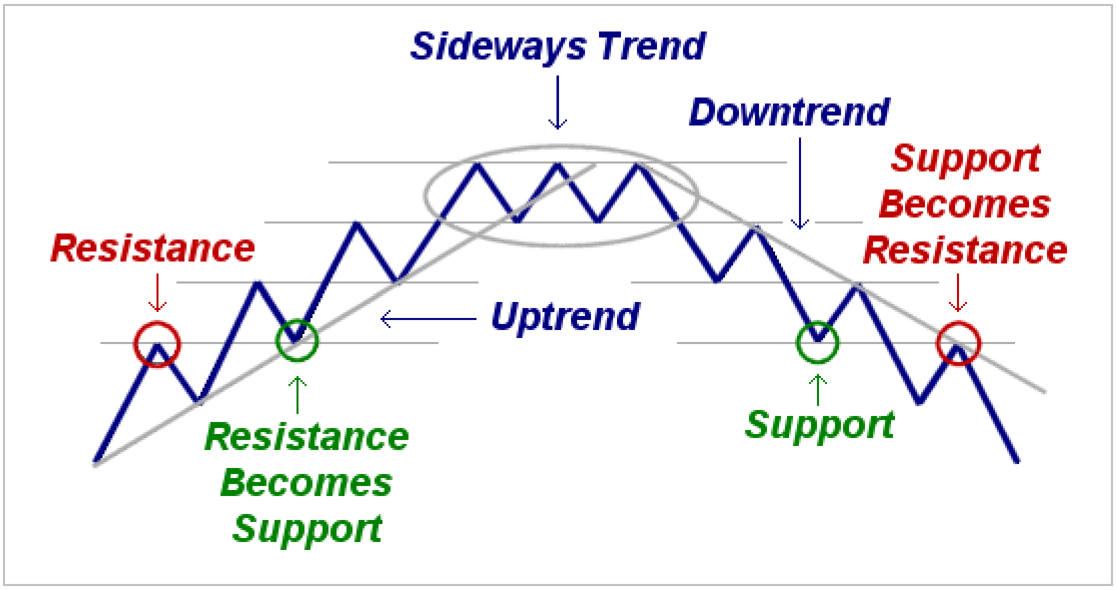
2. Trend Placement and Trend Development

Trends are the primary direction of price movement at any given time. They are *fractal*, meaning that a number of smaller trends will be forming within a larger trend and the trend you are examining will also be a smaller trend within a larger trend, and the placement of a pattern in the context of the larger trends is key to identifying target levels or to assess if the setup is even viable in the first place.

There are three main types of trend:

1. An uptrend, which consists of a series of higher highs and higher lows,
2. A downtrend, which consists of lower highs and lowers lows, and
3. A sideways trend, which consists of a series of highs and lows that are comparable in nature and lead to a trading range.

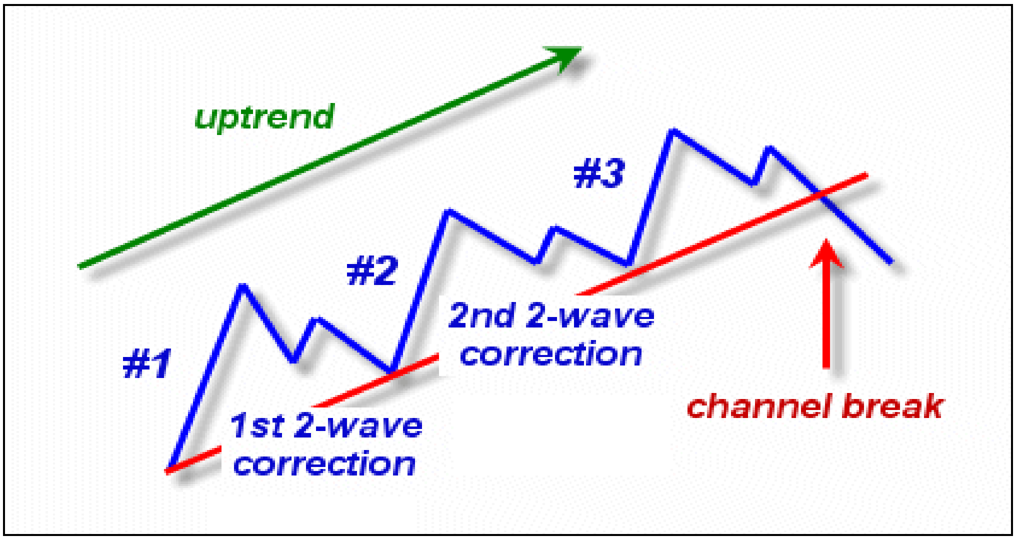
Each of the three types of trend moves is shown in the next chart. The next Building Block of Price Development is support and resistance. You will see a preview by examining how the previous highs and lows can affect a trend move when it corrects. Each of the levels that one of the smaller waves of trend action stalled or reversed at becomes a support or resistance zone.



When you are trading you will often come across a strategy on one particular time frame that looks exactly like one that you traded successfully in the past on that same time frame. When you attempt to secure the same level of success as on the previous trade, however, you may unfortunately discover that you are unable to do so. The main cause for this failure typically has to do with a difference in where your strategy is occurring in the larger trend as compared to your previous trade. It can also depend upon the trend development of your strategy within the larger trend placement.

Trend placement and trend development can be very difficult for many traders to see and apply correctly. Most traders are familiar with the concept that trends often develop with three waves of buying or selling and that these waves of buying are selling are punctuated by corrections that often last for two waves. This means that the best continuation patterns will often occur when they have two smaller pullbacks off a resistance level before triggering a continuation and that the continuation itself will be the second or third wave of buying or selling in a larger trend and that the best correction patterns can occur once a third wave of buying or selling has completed.

Of course, the above is too simplistic. One factor that makes this concept successful is how long each correction lasts between each of the larger waves of buying or selling in the trend. For example, let’s say that there in an initial upside move followed by a correction lasting for 30 minutes before it breaks higher with a second wave of buying. In order to see a second correction lead to a third move that exhausts the trend and is followed by a larger reversal or correction, then the amount of time between the second and third waves of buying must be comparable to the correction that took place between the first and second waves of buying. In this example it would mean a second correction off the second wave of buying that lasts for approximately 30 minutes. In the template below, notice that each 2-Wave Correction lasts for approximately the same amount of time.



The 15 minute chart below of International Business Machines (IBM) shows two typical trends. The first was a downtrend into the $100 zone, followed by a smaller uptrend into approximately $103. Between each leg of selling in the downtrend are corrections and both corrections last for approximately the same amount of time. The same is true of the corrections in the smaller uptrend. It is this distinction that allows the trend to easily complete itself following the third wave of selling and then buying.

One thing worth noticing in the example of IBM, however, is that the action between each leg of the trend did not conform to the template above of our typical trend move in which corrective moves are "expected" to have two waves. The corrective moves in the downtrend each consisted of smaller counter-trends of three waves each. The first was within a triangle, while the second was a minor uptrend. It is very important to realize that this is not a violation of trend development, but merely another variation of it.

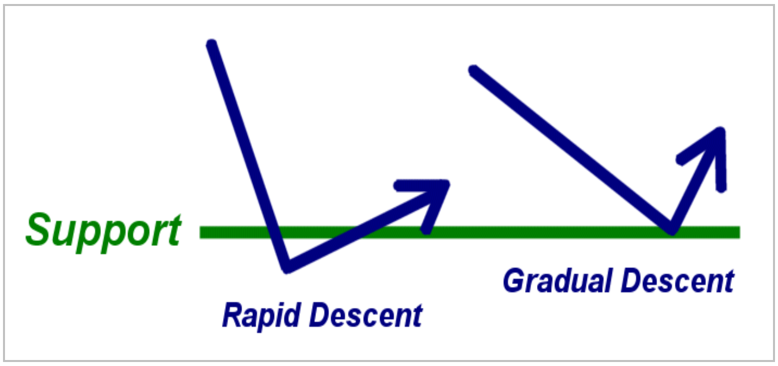
Additionally, not all trends will immediately reverse following the third wave higher or lower such as in IBM. There might still be an attempt to continue the trend after a third correction that developed for the same amount of time as the previous two. The problem is that the move will rarely mimic the pace or extent of the third move in the trend. If that third move lasted for 15 ticks or $2, then if the security attempts a fourth move, the follow through will generally only be a fraction of that.

Pace plays a large role in trend development. In both the downtrend and the subsequent trend reversal and uptrend in IBM the pace of the third wave of selling and buying was slower than the previous two. This shift in momentum allowed the trend to easily reverse without attempting any further continuation of the trend. If the momentum on that third leg of selling or buying, however, was stronger than the previous two or even just stronger-than-average, then the trend will have a more difficult time reversing. Instead, a trading range may develop, or the security will attempt to shift momentum by rounding off at the lows of a downtrend or highs of an uptrend.

3. Support & Resistance

Support and Resistance levels are price zones in the market where a security is liable to react in some manner that affects the trend which is in play as the support or resistance level hits. It can lead to a reversal, a breakout, or even push the security into a trading range.

The most important part of this definition is the word “zone”. A support or resistance level is NOT an exact price level, even though an exact price might create the zone. For example, $100 can be a major support level in a security. A stock might be moving lower into this price, but in some cases it might stall at $100.12 and reverse higher, while in other cases it might hit $98.86 before correcting. In both cases that zone of price support held. How it holds is often a matter of the pace of the descent into that support level in the first place. If the momentum was very strong heading into a support zone, then it can push through the exact price by a larger degree before settling back. On the other hand, if the pace is slower, it might not hit the exact price that has created the zone of support and it might hold the lower end of that zone instead.



Previous Highs and Lows: You saw one example of support and resistance in the image displaying the type of trends that form in the market. In that image, previous highs and lows served as support and resistance levels when the security returned to those zones. It is very rare that the exact high or low will hold. Often there will either be a reaction to the upper end of the zone made by that previous high or low, or it will miss it slightly. The second can create a reversal strategy known as a 2B when it forms at lows and a 2T when it forms at highs. It is a type of Trap that occurs when a previous high or lows breaks only slightly, because that break tricks many traders that assume that a break in the absolute high or lows is a confirmation that will lead to further buying or selling. They don’t realize that the support or resistance ZONE is still a factor and if the momentum and trend placement are not favorable on the move into that zone, then it can still easily hold.

Whole Numbers: Previous highs and lows are one type of price support and resistance. Whole number levels are another. The $100 level is one example of this. This type of support and resistance has the most common application when trading stocks or exchange-traded funds (ETFs). When the prices of these securities decrease, smaller fractions can also serve the same function, such as $12.50.

Although more rare, this type of support and resistance can also apply to the futures market. Levels such as 1,000 in the S&P 500, 10,000 in the Dow Jones Industrial Average, and 2,000 in the NASDAQ Composite are three great examples of this. Since these levels hit more rarely, they often serve as support or resistance on larger weekly and monthly time frames. When examining a larger time frame, you have to give an exact price level a greater cushion than you would on a smaller time frame. While a setup on the S&P 500 E-Mini futures contract on a 2 minute time frame might hold a previous low by 2 ticks, on a weekly time frame there might be a difference of several hundred points at the Dow support or resistance zone of 10k.

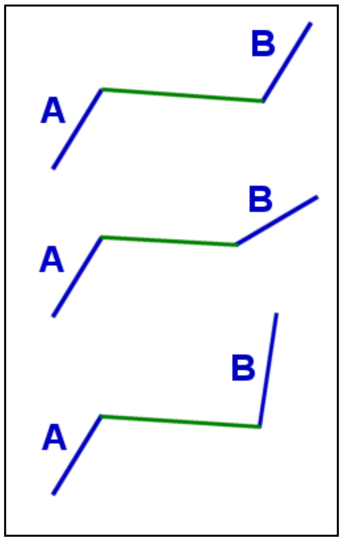
Congestion Zones: Previous levels of congestion are another good example of a form of price support and resistance. When a security breaks out of a trading range, that range will help cushion a move back into it. If the momentum is slow on a correction back into congestion following an upside breakout, then the upper end of that congestion can serve as support. A strong move can pull it back into the lower end of the congestion. Often, however, it is the middle of that range that holds.

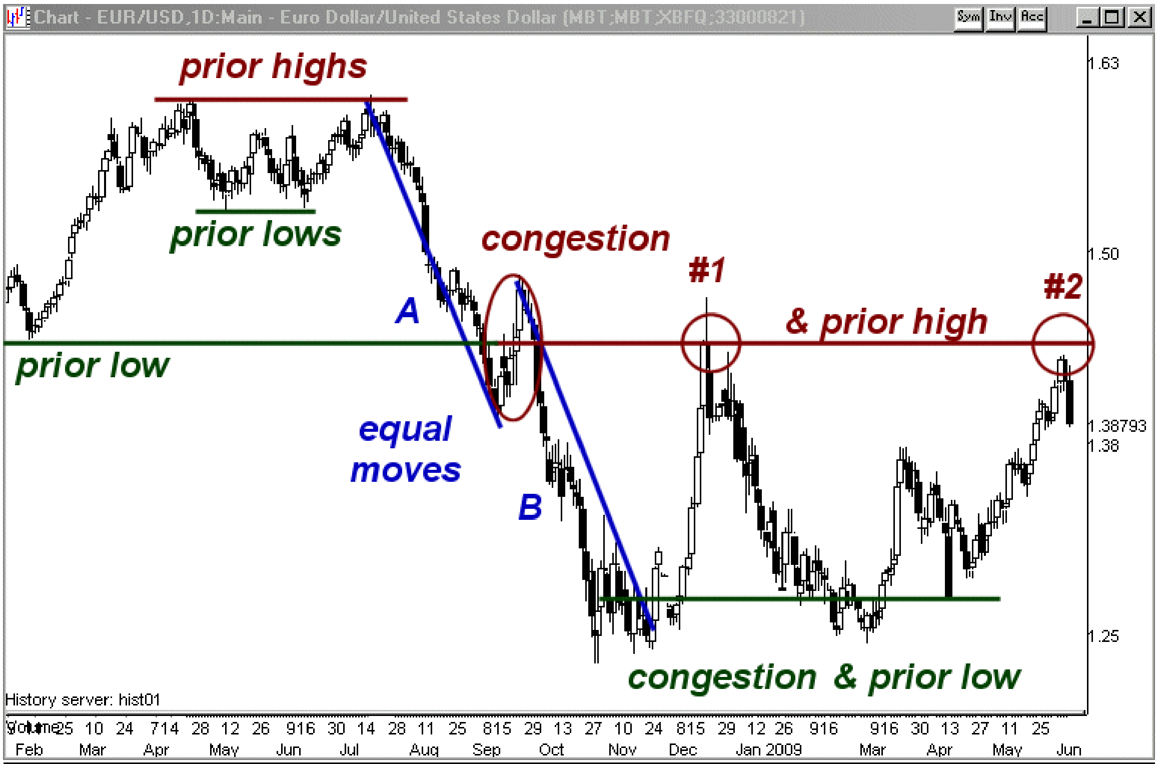
Gap Levels: Many securities will end the session at one price level and begin trading the next day at another price level. This will create an empty space in which no trading took place during the primary trading session. This empty space is called the “gap”. The closing and opening prices on each end of a gap are another form of price support and resistance. When prices return to those levels, such as the closure of a gap, it can easily stall or reverse the trend move that had been in play heading into that level. There are a number of strategies that seek to profit from this type of price action.

Equal Moves: Pace or momentum itself can create a type of support or resistance. If a security rallies by 5 points and then corrects prior to a continuation breakout, then as long as the pace of that breakout is similar to the pace of the initial 5 point rally, it can also rally 5 points before stalling. Basically, the breakout or continuation move out of a correction will mirror the rally that took place heading into the correction. If the pace is stronger or slower on that breakout, however, its ability to hold that equal move resistance level will be impacted. A stronger breakout can push it past the equal move, whereas a slower breakout can prevent it from hitting that equal move. This type of support and resistance is excellent for helping to establish target levels. When the momentum is comparable, it is quite common to see equal move zones hit and hold within a few ticks.

Keep in mind that…

- When “B” is moving at a similar pace as compared to “A”, then it is most likely to form an equal move.
- When “B” is more gradual than “A”, then it will be more difficult to put in an equal move.
- When “B” is stronger than “A”, then it can more easily put in a larger than equal move.





The previous chart shows several examples of how support and resistance levels will play out within a security and affect the trend that is in play as those levels hit. Notice that the more rapid move into the resistance level marked #1 pushes through the exact price of the resistance, whereas when the pace slows on the second test in #2 it does not quite hit the exact price level and holds the lower end of the resistance zone.

Not all support and resistance levels can be identified using only a price chart. A number of technical indicators exist that can also be added to a chart or used in conjunction with a price chart to indicate support and resistance levels.

<u>Fibonacci Levels</u>. One popular type of indicator that many traders, particularly futures and forex traders, will apply to the markets are Fibonacci levels. These are price retracement and extension levels that are believed to be rooted in nature. These levels actually do hold extremely well in the markets, but whether it is because of their intrinsic value or its popularity is something many traders debate. No matter which category you fall into, however, it can be difficult to argue with the fact that applying them to your charts can provide you with another visual cue as to when smaller trend moves will begin or end. The levels that I have found to be the most helpful are as follows:

- 138.2% extension
- 100.0% retracement
- 61.8% retracement
- 50.0% retracement

- 38.2% retracement
- 0.0% retracement
- - 38.2% extension

Most of the major charting platforms will have a Fibonacci tool available, although you may have to set the parameters yourself or alter them to select the retracement levels that you wish to follow. Keep in mind that the 100% and 0% retracement levels are also prior highs and lows, so these are support and resistance already.

The following is an example of the Fibonacci retracement levels on a daily time frame of the EUR/USD.

To draw a set of Fibonacci lines on your chart, you must first identify the main trend you wish to examine. This should be one that bears a great deal of relevance to the position you are following, or a larger time frame trend to help you identify major support and resistance levels that can lead to setups down the road. Next, simply connect the highs and lows of that trend and the charting platform will automatically fill in the Fibonacci levels. Technically, if you are applying levels to an uptrend, you should start your drawing at the low of the trend and end it at the highs. Be sure to use the absolute highs and lows and not the closing prices of a bar on a bar or candlestick chart that forms at the highs or lows.

Moving Averages: Moving averages are another popular tool that traders will apply to their charts and that will serve as strong support or resistance levels. A moving average is a technical indicator that is used to show the average value of a security's price over a set period of time. There are several types of moving averages, but the two that are the most popular are simple moving averages and exponential moving averages.

A simple moving average (sma), sometimes called an arithmetic moving average, is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods. For example, a 20 day simple moving average represents the total of the closing prices of the last 20 days divided by 20. The "moving" part of "moving average" is due to it being calculated over and over again, updating automatically on a continual basis.

The other popular type of moving average is the exponential moving average (ema). It is calculated by applying a percentage of the current bar's closing price to the previous bar's moving average value, giving greater weight to the more recent data.

The type of moving average you use is often a personal preference. Both work very well, but an exponential moving average can indicate support or resistance in stronger-paced moves more quickly than a simple moving average.

The main moving averages that I use are the 10, 20, 40, 50, 100, and 200 period moving averages. The 20 and 200 period moving averages are often the strongest levels for a security intraday. You might wonder why I have both a 40 and 50 period moving average listed. Well, in some securities a trend move will more often hold a 40 period moving average, whereas others gravitate towards the 50 period moving average. It can be a matter of trial and error to see which one did a better job of holding previous highs and lows in a security in the past. You do not need to have both present on the same chart, however, since it is typically either one or the other.

4. Volume

Volume is a measure of the number of shares or contracts that exchange hands in a given time period. It is instrumental in representing the level of emotional commitment of market participants and is a function of supply and demand. The higher the volume, then the more shares there are trading hands, hence the more liquid the marketplace. This also means that it's more competitive as well. If someone buys 1000 shares of XYZ from another market participant on a certain day, then the volume increases by 1000 shares during that session, thereby increasing the stock's liquidity.

How volume impacts the change in the direction or price of a security very closely relates to where that security is at in a larger trend move, as well as the pace of the price action.

A good example of how similar volume activity can mean several different things is when a security is in a trading range, an increase in volume activity within the range itself would create higher risk for traders seeking a continuation of the prior trend. A decline in volume is desired instead. When the range breaks out, however, an increase in volume would confirm the channel break and make it easier for the position to hit its larger target levels. If the volume is light in this case, then it makes it more probable that either the breakout will fail or that the trader was premature in their entry and may have to wait out the congestion a little longer before a stronger breakout occurs.

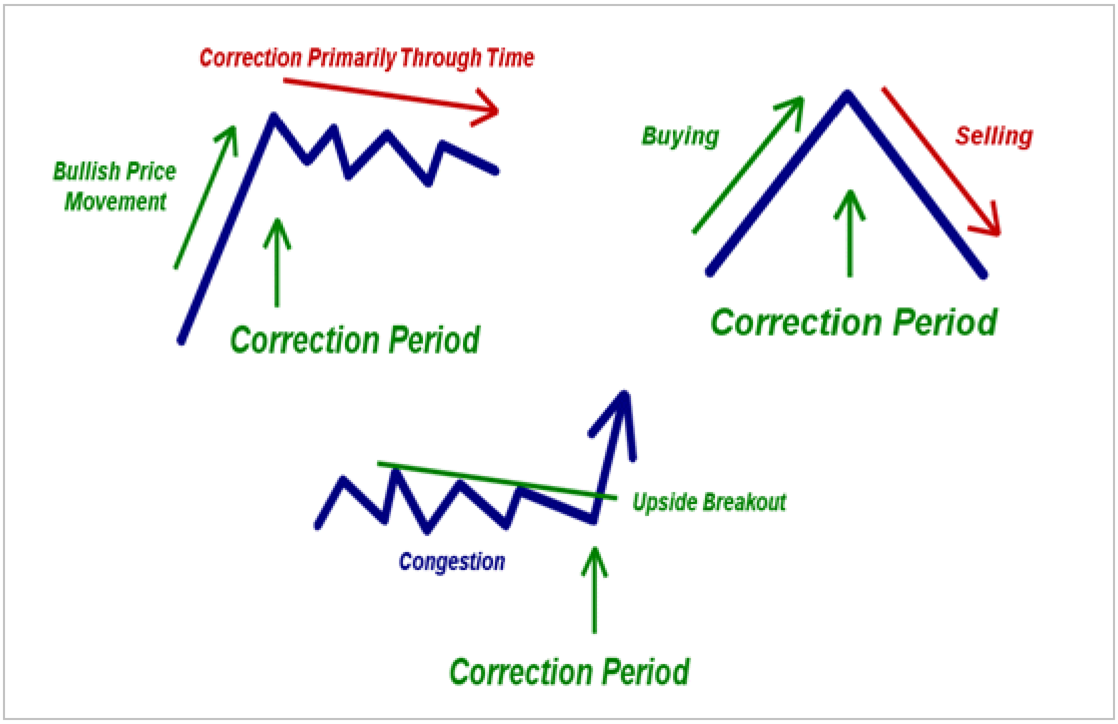
Another example of how volume can differ is on strong trend moves. If a trader is looking to time an exit on a breakdown, for example, a sharp surge in volume as momentum increases will indicate trend exhaustion. This is a panic move that flushes out many of the last remaining bulls and it opens the door for a larger correction off the next major support level. Be careful, however, because it might not accompany the absolute low of the selloff. When the pace of the move is sharp on the downside, the volume can be at its highest, but the momentum can shift and take longer to make subsequent lows to continue the downtrend. These new lows are often not accompanied by as strong of an increase in volume as the more rapid momentum move experienced. That change in volume as new lows are made can actually help a trader time a trend reversal off the lows as you will see in some of the patterns that follow in this course.

5. Correction Periods

Correction Periods are times of the day or times of the year when the market is most likely to correct from its previous trend.

When a price move exhausts itself and the buyers on an upside move are no longer as eager to purchase more contracts or shares, or the sellers on a downside move are no longer as eager to dump them, then a security will try to form a correction. This might mean that it attempts to fall into a range or it could mean that the price actually reverses. If a security is already in a trading range, meaning that it is trading sideways with choppier action, then at some point that range is going to usually need to break free.

Securities have a great propensity for beginning these corrective moves at very specific times of the day or year and when you can combine a correction period with additional criteria for a setup, then the odds are even higher that it will not only succeed, but that it will move more quickly out of the initial setup trigger to begin with.



Intraday the correction periods tend to fall every 30 minutes, whereas afterhours and in premarket trade they are more common on the hour. The main corrections are as follows:

- On the hour from 2:00 am – 8:00 am EST
- 8:30 and 9:30ish am EST
- 15 and 45 min. past the hour 9:45 - 11:15 EST
- 11:00 am EST
- 11:15am EST
- Every half hour from 12:00 – 15:30 EST
- Strongest are on the hour from 12:00 - 15:00 EST
- On the hour from 17:00 – midnight EST

The 13:00 ET and 14:00 ET correction periods in the afternoon are quite often the strongest of the day and are ideal to monitor for trend reversals.

It is not necessary for a setup to trigger at a correction period. What is more important is how that correction period relates to the larger trend. For example, if a security pivots off a high at noon and then starts to form a base along the 20 period moving average, then noon was the correction period, but it can create favor for the development of a continuation pattern in the direction of the new trend. In this case, the new trend was a drop off highs into the 20 period moving average. If the security hugs that moving average, then the pace has shifted at that support and it favors a downside resolution to that change in momentum. Even though the trigger on the breakdown will not correspond to the correction period, the correction period served as a pro in favor of the breakdown.

Correction periods can also form on the larger time frames. For example, January, March, and October are great months to time entries and exits on longer term position trades because major trends in the indices often correct at these times of the year.

In the next portion of this course we will be examining a number of my favorite trading strategies and you will learn how I take each of my Five Building Blocks of Price Development to make judgment calls about price activity that will influence whether or not a setup is worthy to trade.

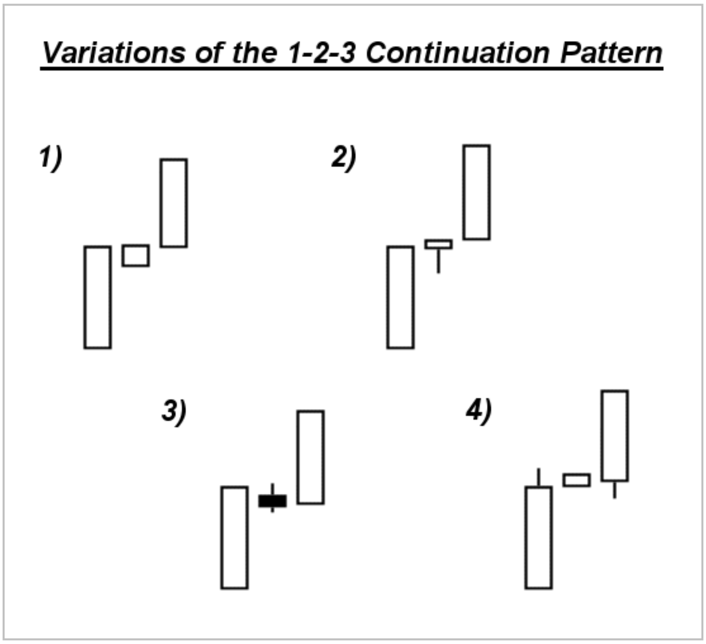
1-2-3 Continuation Buy Pattern

Description: This pattern refers to a very rapid continuation pattern on a bar or candlestick chart where a stronger-than-average move higher that creates a wide range bar will be followed by a narrow, inside range bar. A continuation pattern is formed in the same direction of the strong initial rally when the narrow-range bar breaks higher. This is typically a three-bar pattern with the momentum surging in the first bar, followed by congestion in the second, and a strong upside breakout on the third. A variation of the strategy can use 6 bars. In this case, Bars #1 and #2 serve the same function as Bar #1 in the template, Bars #3 and #4 act as Bar #2 in the template, and Bars #5 and #6 represent Bar #3 in the template.

Criteria:

1. Wide range bar breaking higher out of a support level.

2. Narrow range bar near/at the highs of the previous wide range bar. Often this narrow range bar is also an inside range bar.



Entry: Switch to a smaller time frame and take a breakout from the base on Bar #2, using the entry criteria for other continuation strategies, or use above the highs of the narrow range bar of Bar #2.

Stop: Under the lows of the base or last major pivot low on the smaller time frame, under the lows of the narrow range bar, or under the lows of the third bar at the time of the setup. The first stop is ideal.

Target: Bar #1 = Lows of Bar #2 to highs of Bar #3. Watch for resistance levels overhead such as previous congestion zones or whole number resistance.

Ideal 5 Building Block Traits on a 1-2-3 Continuation Buy Setup

Pace: Above average momentum on the first bar is ideal, but not one that is wider than previous wide range bars. In other words, if the largest bars tend to be $2, then one that is significantly larger than that will be less likely to form as strong of a follow-through on a 1-2-3 continuation pattern as compared to normal. The pace within the second bar should end up being more gradual overall on the counter-trend moves, such as the pullbacks from highs after an upside move on the first bar.

Trend Placement/Trend Development: Look for a setup near the beginning of a new trend, such as after three waves of selling for a buy setup. If the pattern forms in the direction of an already extended trend, then it has a more difficult time forming a strong continuation on Bar #3. This pattern is also strong when it takes place coming out of a larger time frame breakout.

Support/Resistance:

- This pattern tends to be the strongest when it is coming off a larger time frame support level. A base on Bar #2 that pulls into a moving average support level as it sets up, particularly the 10 period moving average (ma), will increase the odds of success.

- Often the highs of Bar #1 and Bar #2 will be at a resistance level such as whole number price resistance. If a significant resistance level is just above the highs of those bars, then it will add risk, since the security will more often stall at that point.

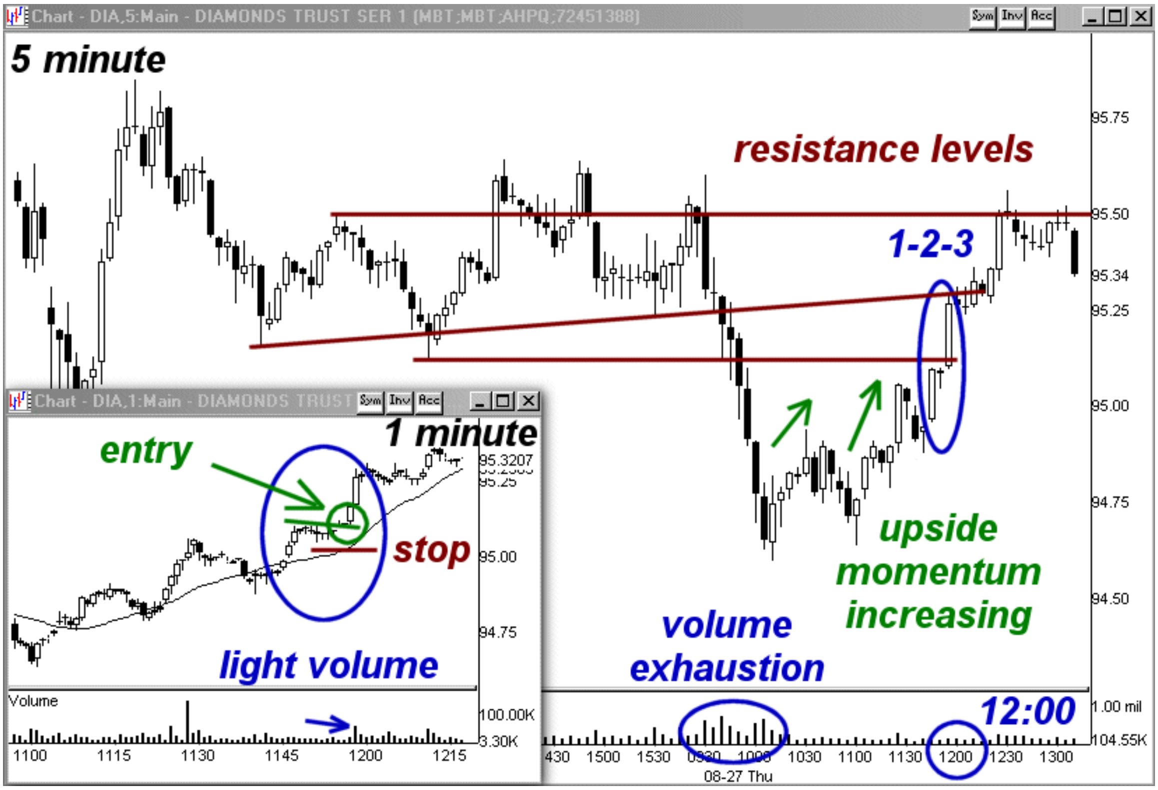
- Watch prior highs for resistance to assist with targets.

Volume: Lighter than average volume on Bar #2, followed by increasing volume as the highs of Bar #2 are broken.

Correction Periods: Higher probability of success if the setup triggers on Bar #3 as it is coming out of a correction period.

Example 1: 5 Minute 1-2-3 Continuation Buy Setup in the DIA

1-2-3 Continuation Buy Setup - Diamonds Trust (DIA) (Dow Jones Industrial Average Tracking Stock) on the 5 Minute Time Frame



Pros on 5 Minute 1-2-3 Continuation Buy Setup into 12:00 ET in the DIA

1. Pace: The more gradual momentum out of 10:15 ET picked up after the DIA made a slightly higher high at the 11:00 ET correction period, creating a bullish shift in momentum.

2. Pace: On the smaller 1 minute time frame the momentum was strong on what was Bar #1 on the 5 minute chart and was followed by a gradual, sideways trend in what was Bar #2 on the 5 minute chart. This slower correction favored a break higher.

3. Trend Placement: Since the periods of correction in the 1 minute trend did not last the same amount of time each time, Bar #1 on the 5 minute 1-2-3 pattern would not be considered the third wave of buying on the 1 minute time frame. If that had been the same, it would have meant the trend risked being exhausted.

4. Trend Placement and Support: Although not shown here, the larger time frames in the DIA were in a trading range and the low that took place shortly after 10:15 ET was nearly an exact retest of the lows made in premarket trading in the Dow futures on August 25^{th}.

5. Trend Placement: The 60 minute trend placement meant that the larger trend continued to be a sideways one and it would be more difficult to break the lows of the range without a change in momentum on the larger intraday time frame. That momentum shift would likely have taken as long as the 5 minute trading channel had taken to form (approximately 4 hours), leaving the DIA with up to 2 more hours that it would correct off the morning lows.

6. Resistance: Bar #2 on the 5 minute time frame formed the smaller 1 minute base just under previous lows (shown as the lower burgundy line). This meant that a break in that resistance would allow DIA to proceed higher for an equal move on the 1 minute time frame before hitting the next resistance level at the larger channel break from the previous sideways range.

7. Resistance: The 1-2-3 pattern was forming above $95, so this level would serve as support instead of resistance.

8. Volume: There was a sharp increase in volume on the selloff into 10:00 ET. This indicated an exhaustion move on the downside.

9. Volume: Volume was light as the DIA base throughout Bar #2. This volume is shown in greater detail on the 1 minute time frame.

10. Volume: Volume increased when Bar #2 broke higher to confirm the 1-2-3 continuation buy setup.

11. Correction Periods: The morning lows formed out of the 10:15 ET and 11:00 ET correction periods, which are often followed by larger trend reversals.

Cons on 5 Minute 1-2-3 Continuation in DIA

1. Pace: When the 1-2-3 pattern formed, the pace of the uptrend channel was still more gradual than the previous decline into 10:00 ET on the 30-60 minute time frame. This created the risk that the 1-2-3 setup might trigger and cause a trap before reversing and leading a longer trading range near the lows of the larger 60 minute trading range. This would have shifted the momentum within that larger range and favored a break lower on the larger time frames.

2. Trend Placement: Although the correction times between the uptrend moves on the 1 minute time frame were not exactly equal they were close and the 1-2-3 continuation could have just triggered an extension of the third wave of buying on that time frame.

3. Trend Development: The pullback on the 1 minute time frame that was Bar #2 on the 5 minute chart only had one low in the base. A second low into the 1 minute 20 ma would have reduced risk of a false trigger and trap for those buying the channel breakout.

4. Support: On the 1 minute time frame, the 20 period moving average had served as support in the new uptrend. When the range formed for Bar #2, it did not pull all the way into this support level before it broke higher.

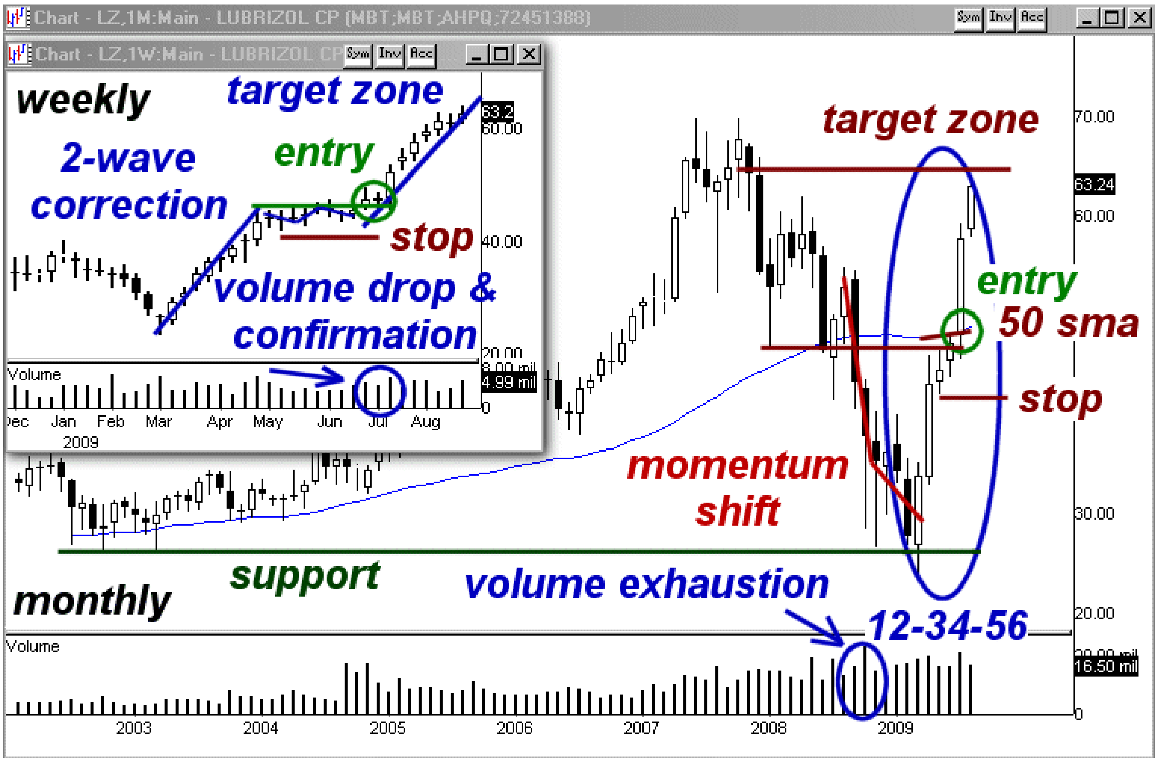
5. Resistance: Although the DIA formed the 1-2-3 pattern at resistance from previous 5 minute lows, it was a bit shy of the exact resistance, which meant that it might have created a trap by triggering the setup and then reversing off the exact resistance.

6. Volume: Volume did not increase very much on the upside moves in the new 1 minute uptrend and the volume decline in Bar #2 on the 5 minute time frame was barely discernable.

7. Correction Periods: The buy trigger was not accompanied by a correction period and the 12:00 ET correction period took place only about 5 minutes after the buy trigger, which meant that it had the potential to reverse the 1 minute uptrend within only a few minutes of a trigger for a buy setup. On the 1 minute time frame it is evident that the correction period did hold for awhile and pushed the DIA into another 1 minute range before it continued higher into 12:30 ET. If the momentum on the breakout around 11:55 ET had been weaker, however, there could have been a stronger price correction at noon.

Example 2: Weekly Variation of the 1-2-3 Continuation Buy Setup Using 6 Bars

12-34-56 Continuation Buy Setup - Lubrizol Corp. (LZ) on the Weekly Time Frame



Pros on 1-2-3 Continuation Buy Setup in LZ

1. Pace: The momentum on the larger monthly time frame shifted at lows following a rapid selloff into support. The slowdown in the pace of the selling allowed LZ to form a “V” bottom and pivot rapidly off the low in March. This created the high probability for a larger monthly trading range and increased potential to return to the zone of the 2007 highs.

2. Pace: The rally in the first and second bars off the low in the 6 bar pattern were stronger than average. This was reflected in the sharper upside move on the weekly time frame as well from March into the end of April.

3. Pace: When LZ corrected from the initial rally off lows into May, the pace of that correction was a gradual sideways trend channel.

4. Trend Placement: The congestion part of the 1-2-3 pattern took place in the middle of the previous downside move, which left room for an equal move higher as compared to the March and April rally when the continuation pattern triggered.

5. Trend Placement: When LZ based in Bars #2-3 on the monthly time frame, the correction took the form of a 2-Wave Correction within the daily-weekly base. This is typical for a continuation pattern in favor of the larger trend.

6. Support: The drop off the 2007 highs took LZ back into support from 2002-2003 lows, which was the lower end of a larger trading range. This is a very strong support zone for a monthly time frame.

7. Resistance: Bars #3-4 on the monthly time frame formed at the convergence of several major resistance levels. These included the 50 period simple moving average, a previous low from early 2008, and a previous high from 2005 (not shown here). It was also the 50% retracement for a move back into the 2007 highs. This is important because it meant that when the pattern triggered, it would be breaking these resistance levels, which would subsequently become support.

8. Resistance: No major overhead resistance immediately following the entry trigger.

9. Volume: Volume spiked in late 2008 as LZ came into the monthly price support from 2002. This indicated exhaustion. Lighter volume on the lower low in early 2009 confirmed the momentum shift and reversal bias.

10. Volume: Volume dropped off on the weekly time frame while LZ formed Bars #3-4 on the monthly time frame. This indicated corrective action and not reversal action. Volume then increased when that range broke higher and confirmed the setup.

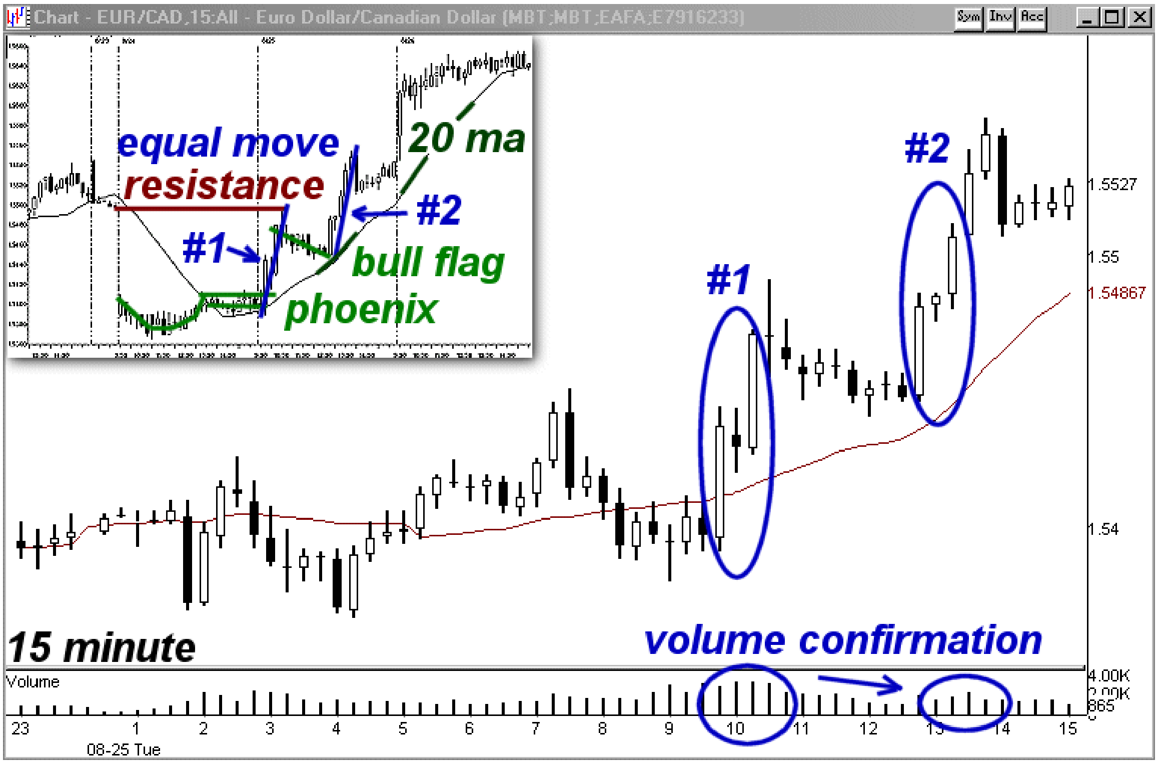
11. Correction Period: March is a typical month for the market to reverse or correct on the larger time frames.

Cons on 1-2-3 Continuation Buy Setup in LZ

1. Pace, Resistance, and Trend Development: When LZ came into it’s monthly resistance in May, the slightly higher highs within the trading range on the weekly time frame created the risk that a shift in momentum was forming at that resistance, which could have led to a larger correction off the resistance before it broke. This also made the 2-Wave Correction within the weekly base more difficult to discern.

Examples 3 & 4: 15 Minute 1-2-3 Continuation Buy Setups in the EUR/CAD

1-2-3 Continuation Buy Setup - EUR/CAD on the 15 Minute Time Frame



© 2009 Chart provided by MB Trading

Pros on 1-2-3 Continuation Buy Setup #1 in EUR/CAD

1. Pace: The momentum in the EUR/CAD currency pair shifted at lows on 8/24. The currency pair formed a rounded low and then a gradual, sideways base which favored a strong upside breakout.

2. Trend Placement: The 1-2-3 continuation buy setup took place immediately following a Phoenix™ breakout from the afternoon highs on 8/24, which was also part of a Cup-with-Handle pattern that same day. There had also been three waves of selling prior to this reversal, which exhausted the previous downtrend. This meant that the 1-2-3 Buy Setup took place in the early stages of a new uptrend.

3. Support: The trading range on 8/24 took place at price support from a congestion zone on 8/9 (not shown here).

4. Resistance: The next major resistance level was not until 1.55 when the gap from the open on 8/24 closed. This was also a price level that was comparable to an equal move from the breakout bar that is considered to be Bar #1 on this pattern.

5. Volume: N/A on currency pairs, but MB Trading's Navigator Pro offers volume readings for its internal order book. This shows a strong confirmation out of the open on the breakout from the 15 minute Phoenix™, a decline in volume on the mid-day correction to show diminished participation and a lack of strong sellers, and a confirmation of the early afternoon breakout to continue the uptrend.

6. Correction Period: The morning low on 8/25 took place at the 9:45 ET correction period, so the breakout and subsequent 1-2-3 Buy Setup were continuations of a move that began at a strong correction period.

Cons on 1-2-3 Continuation Buy Setup #1 in EUR/CAD

1. Trend Placement: Bar #2 took up a large portion of the range from Bar #1. This created the increased risk that using a trigger above the highs of #2 would involve giving up a large portion of the move and increased potential for a Trap. Using smaller time frames to time setups within the larger 1-2-3 setup can minimize this risk.

2. Volume: Volume is difficult to discern on a currency pair, so the use of ETFs, currency futures, or a broker's charting platform that offers internal volume readings for its own traders, such as MB Trading's Navigator Pro, can provide better insight into the participation level within the strategy itself.

Pros on 1-2-3 Continuation Buy Setup #2 in EUR/CAD

1. Pace: The EUR/CAD rounded off at lows and experienced a strong momentum move higher into the morning of 8/25. A more gradual correction followed, which confirmed the shift in favor of a bullish bias. The breakout from this pullback created Bar #1 of the 2nd 1-2-3 Continuation Buy Setup into the early afternoon on 8/25. This meant that the momentum was again favorable for the bulls.

2. Trend Placement: The 2nd 1-2-3 Continuation Buy Setup formed in the early stages of a new uptrend on the 30 minute time frame. There had only been one minor wave of buying off lows on the 24th and a second, more substantial wave of buying on the morning of the 25th, so this left room for at least one more wave of buying on the 15 minute time frame.

3. Trend Development: The correction off the morning highs on the 25th took the form of a 2-Wave Correction, or selloff, on the 5 minute time frame (not shown here). A smaller shift in pace then took place along the upper end of the trend channel from this 2-wave Correction (see page --). The breakout from this buy setup led to the creation of Bar #1 on the 1-2-3 Continuation Buy Pattern. Since Bar #1 was less than half the previous upside move, there was a lot of potential for the continuation pattern to break to new highs on the day in the afternoon.

4. Trend Placement: Bar #2 was in the upper 1/3 of the range from Bar #1, creating a narrow, sideways trading channel. This is very favorable for a strong break higher with less concern that a break in a previous high will cause a false trigger.

5. Support: The 10 minute 20 moving average hit on the 2-Wave Correction, providing a strong support level in favor of a continuation higher.

6. Resistance: The EUR/CAD did not have equal move resistance on the breakout until approximately 1.5550. This left it with a lot of upside potential.

7. Resistance: The morning highs served as resistance for Bar #1 and Bar #2, so by triggering a 1-2-3 continuation setup, the EUR/CAD would be breaking free of that resistance level and would not have an immediate overhead resistance following the buy trigger.

8. Volume: N/A on currency pairs, but MB Trading's Navigator Pro offers volume readings for its internal order book. This shows a strong confirmation out of the open on the breakout from the 15 minute Phoenix™, a decline in volume on the mid-day correction to show diminished participation and a lack of strong sellers, and a confirmation of the early afternoon breakout to continue the uptrend in the second 1-2-3 continuation setup.

9. Correction Period: The low of the two-wave pullback took place at noon, which is a strong intraday correction period. The 1-2-3 buy setup was a continuation of the move that began at this correction period. The rally continued into the 14:00 ET correction period before pulling back.

Cons on 1-2-3 Continuation Buy Setup #2 in EUR/CAD

1. Volume: Volume is difficult to discern on a currency pair, so the use of ETFs, currency futures, or a broker's charting platform that offers internal volume readings for its own traders, such as MB Trading's Navigator Pro, can provide better insight into the participation level within the strategy itself.

2. Correction Period: The trigger for the 1-2-3 continuation buy setup was not accompanied by a correction period, but correction periods are often more important at reversal points than breakout points.

1-2-3 Continuation Short Pattern

Description: This pattern refers to a very rapid continuation pattern on a bar or candlestick chart where a stronger-than-average move lower that creates a wide range bar will be followed by a narrow, inside range bar. A continuation pattern is formed in the same direction of the strong initial selloff when the narrow-range bar breaks lower. This is typically a three-bar pattern with the momentum increasing on the downside in the first bar, followed by congestion in the second, and a strong breakdown on the third. A variation of the strategy can use 6 bars. In this case, Bars #1 and #2 serve the same function as Bar #1 in the template, Bars #3 and #4 act as Bar #2 in the template, and Bars #5 and #6 represent Bar #3 in the template.

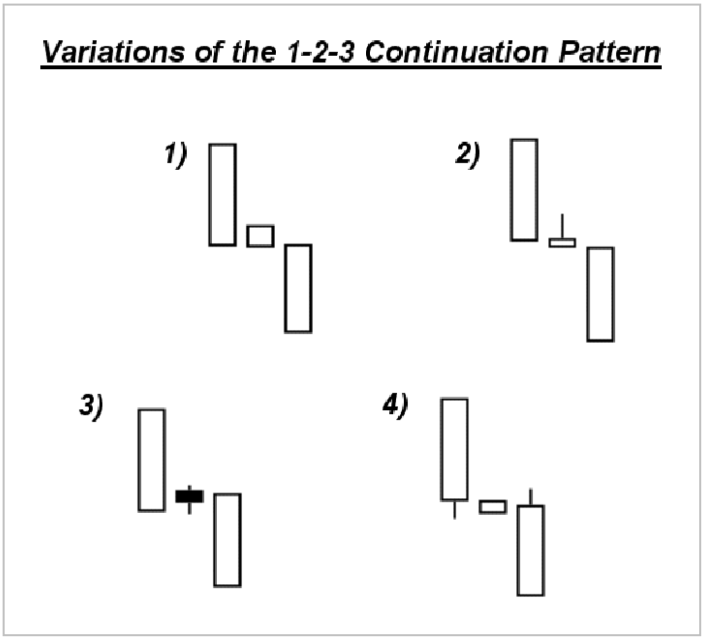
Criteria:

1. Wide range bar breaking lower out of resistance.

2. Narrow range bar near/at the lows of the previous wide range bar. Often this narrow range bar is also an inside range bar.

Entry: Switch to a smaller time frame and take a breakdown from the base on Bar #2, using the entry criteria for a breakout, or use below the lows of the narrow range bar of Bar #2.

Stop: Over the highs of the base or last major pivot high on the smaller time frame, over the highs of the narrow range bar, or over the highs of the third bar at the time of the setup.



Target: Bar #1 = Highs of Bar #2 to lows of Bar #3. Watch for support levels under current prices such as previous congestion zones or whole number support.

Ideal 5 Building Block Traits on a 1-2-3 Continuation Short Setup

Pace: Above average momentum on the first bar, but not wider than an average wide range bar. In other words, if the largest bars tend to be $2, then one that is significantly larger than that will be less likely to form as strong of a follow-through on a 1-2-3 continuation pattern as compared to normal. The pace within the second bar should end up being more gradual overall on the counter-trend moves, such as the pullbacks from lows after a downside move on the first bar.

Trend Placement/Trend Development: Look for a setup near the beginning of a new downtrend, such as after three waves of buying. This pattern is also strong when it takes place coming out of the trigger for a short on a larger time frame breakdown. If the pattern forms in the direction of an already extended trend, then it has a more difficult time forming a strong continuation on Bar #3.

Support/Resistance:

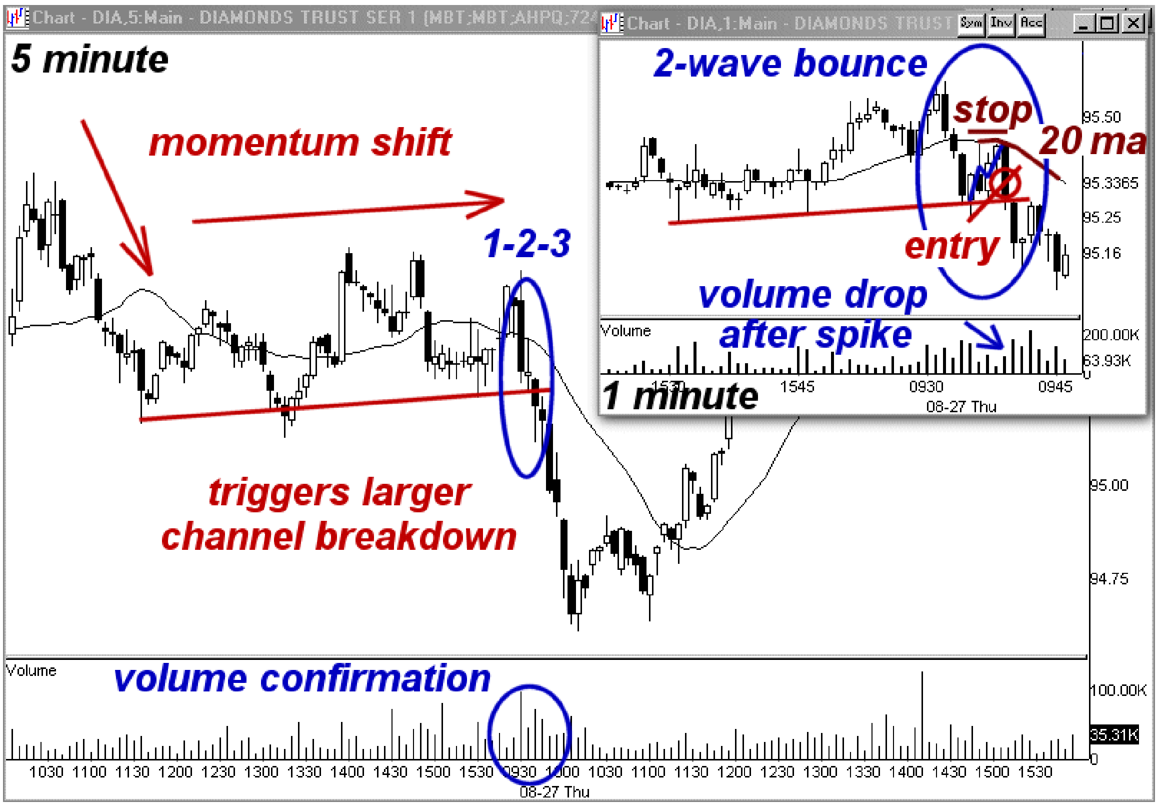
- This pattern tends to be the strongest when it is coming off a larger time frame resistance level. A base on Bar #2 that pulls into a moving average resistance level as it sets up, particularly the 10 period moving average, will increase the odds of success.
- Often the lows of Bar #1 and Bar #2 will be at a support level such as whole number price support. If a significant support level is just below the lows of those bars, then it will add risk, since the security will more often stall at that point.
- Watch prior lows for support to assist with targets.

Volume: Lighter than average volume on Bar #2, followed by increasing volume as the lows of Bar #2 are broken.

Correction Periods: Higher probability of success if the setup triggers on Bar #3 as it is coming out of a correction period.

Example 1: 5 Minute 1-2-3 Continuation Short Setup in the DIA

1-2-3 Continuation Short Setup – Diamonds Trust (DIA) (Dow Jones Industrial Average Tracking Stock) on the 5 Minute Time Frame



© 2009 Chart provided by MB Trading

Pros on 5 Minute 1-2-3 Continuation Short Setup into 9:30 ET in the DIA

1. Pace: On a 5 minute time frame the momentum had shifted so that a stronger downside move was followed by a trading range. The sharp drop on Bar #1 of the 1-2-3 continuation pattern following the DIA hugging the lower end of the range created a bias in favor of a larger Breakdown.

2. Pace: The pace within Bar #2 on the 5 minute time frame was more gradual than the drop in Bar #1 when examined on the smaller 1 minute time frame. This created greater favor for a strong break lower.

3. Trend Placement: The 1-2-3 short setup formed at the lower end of a larger trading range, effectively creating a smaller time frame setup that would also trigger the larger time frame Breakdown.

4. Trend Placement: On the larger 15 minute time frame, the base that formed on the 5 minute chart shown here was the first base at lows following a larger 15 minute 2T reversal pattern. This meant that a drop out of the base would be the second wave of correction to the downside after establishing larger uptrend exhaustion the previous day.

5. Trend Development: Although somewhat difficult to see on the 1 minute chart, the DIA formed two waves of correction higher into the 20 period moving average within the formation of Bar #2 on the 5 minute time frame. This made it possible to take the smaller 1 minute entry trigger for the 2-Wave Correction if desired.

6. Support: The fact that the 1-2-3 Continuation Short Pattern also triggered a larger breakdown setup meant that the DIA would not run into any strong support immediately following the short trigger. This left it with a lot of room to move.

7. Resistance: The upper end of the trading range was strong resistance at the start of the 1-2-3 setup.

8. Resistance: Although not shown here, the highs of Bar #1 were also testing trend channel resistance made when connecting the previous two 15 minute highs.

9. Resistance: The 2-wave short setup on the 1 minute time frame within Bar #2 pulled right into the 20 period moving average before breaking lower.

10. Volume: The volume increased sharply in Bar #1 to confirm the downside momentum bias. It then dropped within Bar #2 and steadily declined as that bar was created. Since prices were moving higher at this time, it meant that the bulls were not very aggressive and created favor for a continuation lower.

11. Volume: An increase in volume followed the break in the lows of Bar #2 confirmed the short setup.

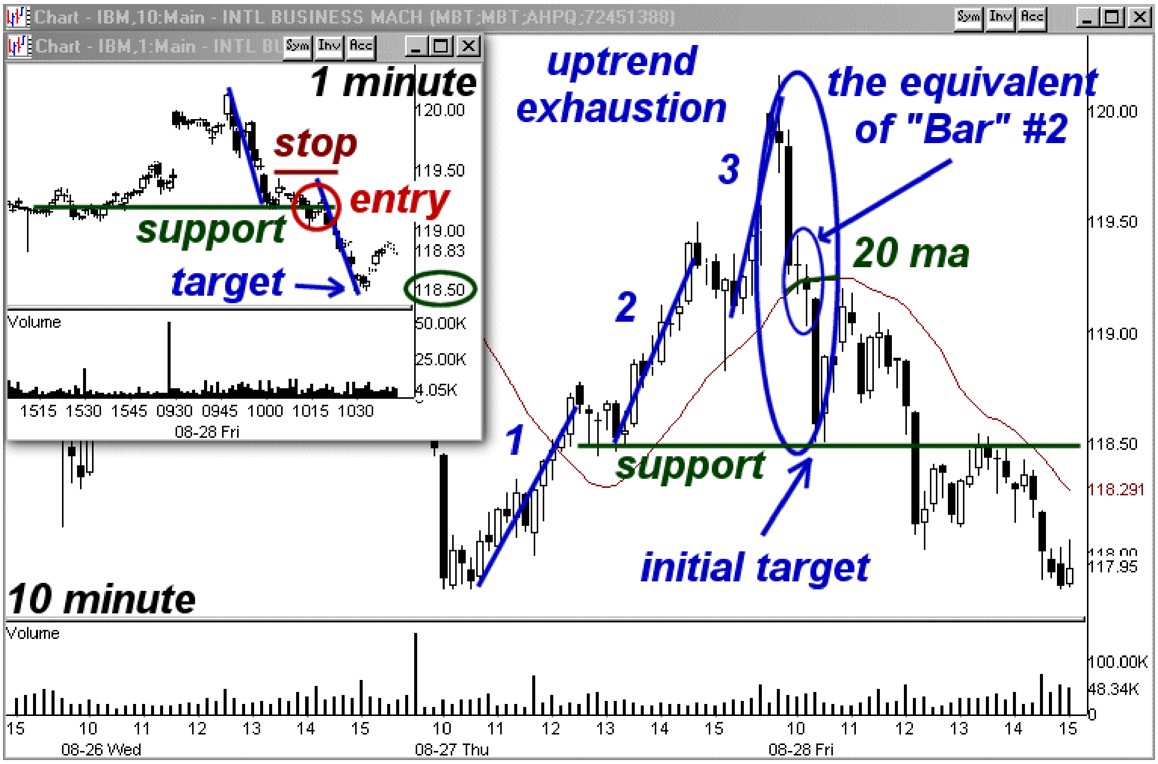
12. Correction Period: It is typical to have an initial correction several minutes out of the opening bell. The highs from Bar #1 were made at approximately 9:33 ET.

Cons on 5 Minute 1-2-3 Continuation Short Setup in the DIA

1. Trend Development: The pull higher in Bar #2 was approximately 50% of the decline seen in Bar #1. Typically Bar #2 will form in the lower 1/3 of the range from Bar #1, but since it was in the lower 1/3 of the larger 5 minute trading range and had two gradual moves higher on the 1 minute time frame within Bar #1, this helped diminish the risk often associated with this con. Had the security pulled higher by more than 50%, then the previous lows will often serve as a support zone and even when those lows break it can trigger a Bear Trap in the form of a 2B.

Example 2: 10 Minute Variation of the 1-2-3 Continuation Short Setup in IBM

1-2-3 Continuation Short – International Business Machines (IBM) on the 10 Minute Time Frame



Pros on 1-2-3 Continuation Short in IBM

1. Pace: The downside momentum in Bar #1 of the pattern was stronger than the overall uptrend that preceded it.

2. Trend Placement: The uptrend from the previous session formed three waves of buying, which exhausted the trend and left it open for a larger trend reversal. Since the first drop coming off the third high of that uptrend was the start of the 1-2-3 Continuation Short Setup, it meant that the setup took place early in the new downtrend and hence had greater potential for follow through.

3. Support: The low of Bar #1 took place heading into the 20 period moving average on the 10 minute time frame, as well as price support from a congestion zone the previous day. When the 1-2-3 pattern triggered, IBM would break those support levels, which would subsequently become resistance.

4. Support: Once the support from the lows of Bar #1, there was no major support level in the way until the traditional target zone, which consisted of a move equal to Bar #1. This corresponded to price support from the $118.50 half number support and the congestion zone between waves 1 and 2 of the previous uptrend.

5. Resistance: Once the continuation triggered, the levels that had served as support, such as the 20 ma, became strong resistance. This, combined with the trend placement, allowed for further selling past the initial target level.

Cons on 1-2-3 Continuation Short in IBM

1. Pace: Within the base that formed on the 1 minute time frame following the initial descent, the momentum attempted to shift after just one low in the smaller range. This could have created a trap on the initial continuation short trigger.

2. Trend Placement: Related to pace, IBM only had one low in what is considered the corrective phase following the initial rapid decline off highs. It attempted to break lower to trigger the continuation without establishing a second low within the congestion, hence the second low ended up being slightly lower than the first around 10:15 ET and IBM pulled back up into the range before continuing lower. This created a 2-Wave Continuation Short Setup on the 10 minute time frame within the zone that is typically considered Bar #2 and the traditional Bar #3 actually became a fourth bar.

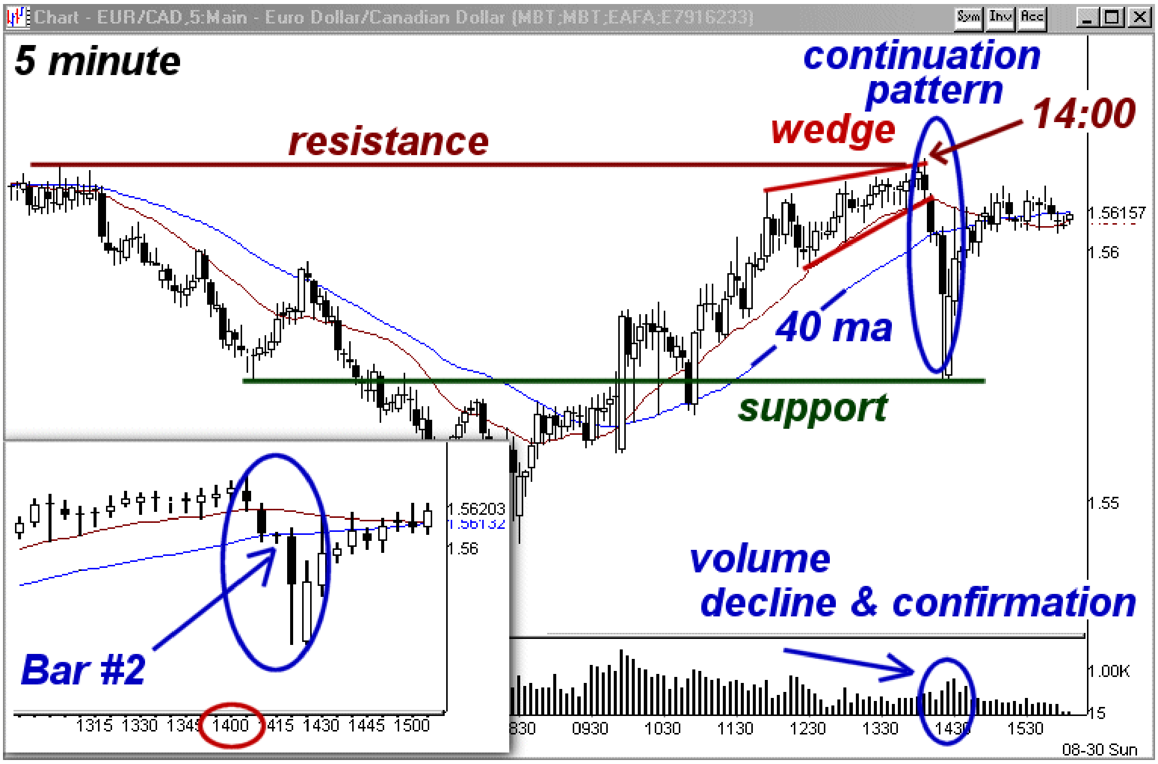
3. Volume: Volume was neither a pro, nor a strong con in this setup due to the fact that it triggered soon after the open, making changes in volume more difficult to read.

4. Correction Period: The 9:45 ET correction period took place shortly before the reversal off the third high in the uptrend. Ideally it would have accompanied this correction period.

5. Correction Period: The 10:15 ET correction period helped trigger an early breakdown or continuation setup.

Example 3: 5 Minute Variation of the 1-2-3 Continuation Short Setup with 5 Bars in the EUR/CAD

13-4-45 Continuation Short Setup Variation – EUR/CAD on the 5 Minute Time Frame



© 2009 Chart provided by MB Trading

Pros on 1-2-3 Continuation Short Setup in EUR/CAD

1. Pace: Despite a strong rally out of the open, by afternoon the momentum was beginning to shift. The EUR/CAD currency pair began to have a more difficult time hitting higher highs and the security began to round off at highs. The allowed for a rapid breakdown out of 14:00 ET on 8/28.

2. Trend Placement: The EUR/CAD established three highs in the first two hours of the afternoon. Each high was slightly above the previous high and evenly spaced. This is a typical reversal trend that is commonly called a Rising Wedge, which is a short setup in and of itself. The fact that the 1-2-3 Variation Short Setup was a continuation of a larger trend reversal gave it a higher chance for success.

3. Trend Development: Instead of 1 initial bar of extreme selling, the drop took two bars on the 5 minute time frame before falling into a range in what would traditionally be considered Bar #2. This led to a variation on the setup that favored a two-bar continuation when the inside range bar broke lower.

4. Support: The previous day's close (not shown here), as well as the 10:15 ET highs that morning and the 14:00 ET lows the previous afternoon, were the next major support level once the continuation pattern triggered.

5. Resistance: The high of the Rising Wedge heading into 14:00 ET corresponded to the price resistance zone at the highs of the previous afternoon. It was also the area of the close on the 26th and congestion on the morning of the 27th, although neither is shown here. These larger resistance levels helped support a strong reversal lower into the afternoon on the 28th.

6. Volume: N/A on currency pairs, but MB Trading's Navigator Pro offers volume readings for its internal order book. This shows a decline in activity at the mid-day highs during the Rising Wedge creation. This meant that even though the bulls were pushing to new afternoon highs, the breaks to new highs were not catching much attention and the bulls were backing off.

7. Volume: When the 20 period moving average broke lower, which was the moving average that was resting along the lower end of the Rising Wedge, the volume increased. This confirmed the trend reversal.

8. Correction Period: The pivot at the afternoon high took place at the 14:00 ET correction period, which is a major time zone for strong afternoon reversals.

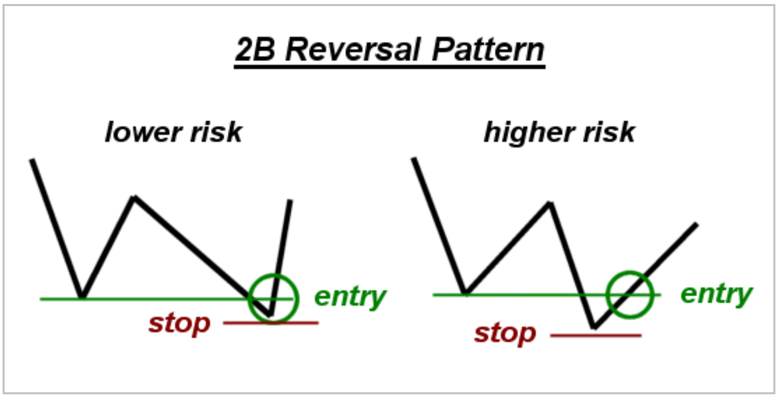
Cons on 1-2-3 Continuation Short Setup in EUR/CAD

1. Pace and Trend Placement: The 60 minute time frame had experienced an extremely rapid upside move from the 23rd to the 27th, which was a previous high on that time frame. This meant that the currency pair had a higher possibility of falling into a longer trading range along the retest of the highs. This could limit the larger potential on the continuation, which ended up being the case since it held the afternoon low into the next week.

2. Trend Development: On the one minute time frame there was only one pivot high within the trading range that was represented by the narrow, inside range bar on the 5 minute time frame and the pace had slowed slightly when the support hit going into that range. This increased the risk that a momentum shift could have also formed on the 5 minute time frame, resulting in diminished follow through on the 1-2-3 Continuation Short Strategy.

3. Volume: Volume is difficult to discern on a currency pair, so the use of ETFs, currency futures, or a broker that offers a charting platform that shows internal volume readings for its own traders, such as MB Trading's Navigator Pro, can provide better insight into the participation level within the strategy itself.

2B Setup



Description: This pattern is a form of a double bottom, whereby the second low is just slightly lower than the first, serving to trap new shorts and flush out those holding onto positions as a long. A 2B is also a form of a Bear Trap, since it traps any new short traders, as well as flushes out any remaining bulls who suddenly become scared that the bears are going to continue to push the security lower.

Criteria: One low followed by a slightly lower low. The second low should not be barely noticeable as a lower low in order to be the most favorable as a reversal pattern. Intraday this may be just a few ticks, but it could be a few points in a stock on a weekly chart.

Entry: There are two ways this setup can be entered:

- Over the prior bar's highs after the second low is made. For instance, if the high of the bar making the second low is $50, entry is over $50. The only time it is not over the bar that made the second low is if that low is followed by an inside range bar, in which case the entry is a break in the highs of the inside range bar.

- Alternately, a downtrend line can be drawn on the move into the second low with an entry when that trend line breaks, as well as the previous bar's highs in that smaller downtrend into the second low.

Stop: Under the second low or drop down and watch for a smaller time frame Phoenix™ or Reverse Head & Shoulders pattern to place the stop under a smaller time frame base which is higher than the absolute low of the second low.

Target: Price or moving average resistance. The more levels of resistance converging at one particular level, the more likely the move will stall or end there.

Ideal 5 Building Block Traits on a 2B Setup

Pace: Strong initial move into lows, followed by a much more gradual move into the second low. Sometimes it will begin by moving slowly into the second low and then make a rapid move at the last minute as it comes into the prior low with a spike in volume. When this happens then a Phoenix™ or a 2B on a smaller time frame is common before a larger correction off the lows occurs. Ideally, the drop back to the second low will take longer to retest the zone of the first low than it took to bounce off that low. For example, if the rally off the first low takes 30 minutes before it turns lower, then that move lower into the second low will take longer. If it does not take longer, then the price zone of the high made between the two lows will serve as initial resistance and the 2B might be part of a larger 2-Wave Continuation Short Setup.

Trend Placement/Trend Development:

- Watch for this setup to follow three waves of selling. Sometimes the second low in the 2B is the third one in a larger trend. Sometimes it is a fake attempt at a fourth continuation in a trend.

- This pattern can also form within a trading range and is particularly of interest when that base is at highs in a larger uptrend, leading to a breakout from the trading range.

Support/Resistance:

- Strong support on multiple time frames or multiple types of support hitting at once.

- When the security hugs a resistance levels as it moves into the second low.

- When there is no immediate overhead resistance to stall a move higher off the second low.

Volume: Strong volume on first low with declining volume into the second low.

Correction Periods: First and/or second lows hitting with a correction period.

Example 1: 2 Minute 2B Buy Setup in the QQQQ

2B Buy Setup – QQQQ on a 2 Minute Time Frame

© 2009 Chart provided by MB Trading

Pros on QQQQ 2B Setup

1. Pace: The overall momentum into the second low at 13:00 ET was more gradual than the initial breakdown into the first low shown above the "volume spike" circle.

2. Trend Placement: The 2B took place within a larger trading range off many of the previous lows within the range.

3. Support: The 2B formed at support from several prior 15 minute lows.

4. Support: The 2B formed at the zone of an equal move when comparing the move on the 2 minute chart heading into the first low of the 2B to the initial drop out of the open.

5. Resistance: The first major resistance on the smaller time frame that the 2B triggered on was not until the earlier morning lows that formed before the mid-day breakdown. This left room for the QQQQ to move higher by 2-3 times what the stop level was before hitting initial resistance.

6. Volume: Volume was stronger on the first low in the 2B pattern than on the second low. This confirmed the first low as the main exhaustion move for the downtrend.

7. Correction Period: The 2B triggered out of the 13:00 ET correction period, which is a major trend reversal zone intraday.

Cons on QQQQ 2B Setup

1. Pace: Although the move into the second low was more gradual overall when compared to the move into the first low, there was a more rapid flush right when the first low broke to a new low. This may seem like more of a con than it really is, however, since such a move is part of the Trap and takes place when stops are getting wiped out from the breach of the initial low. Hence, it is the overall momentum of the trend channel into that second low than the pace right at the second low that matters the most and a rapid flush into the new low should not be considered as a major con.

2. Pace: There is no major change in momentum noticeable on the larger 15 minute time frame at support. This meant that the overall pace of the selling was still stronger-than-average and would most likely lead to a slower rally on the 15 minute time frame than the 15 minute drop into the 2B. It also created the risk for subsequent tests of the low on the 2 minute time frame to shift the momentum more strongly at the support, leading to a pennant or larger form of Momentum Reversal.

3. Trend Placement: Although the 2B formed at previous lows within a larger trading range, the 15 minute low that came just before it was lower than the ones that corresponded to the lows of the 2B. This meant that the QQQQ could have just reacted to that support with a minor correction higher that could have created a larger continuation pattern on the downside, thus limited the upside potential on the 2B. This is a risk very closely related to the previous con on the pace of the selling.

4. Support: The 15 minute support was the middle of the larger range, which is not as strong as support at the lows of a range in this type of trend.

Example 2: 5 Minute 2B Buy Setup in EBAY

2B Buy Setup – eBay Inc. (EBAY) on a 5 Minute Time Frame

Pros on 2B Setup in EBAY

1. Pace: The overall momentum heading into the second low was slower than the drop into the first low.

2. Trend Placement: The base that formed ahead of the break to a second low had two waves of upside, but it was not long enough to adequately correct from the previous wave of selling into 11:00 ET. This meant that a breakdown attempt for a continuation would be premature and more likely to be a Trap.

3. Trend Placement: The move into the second low also had two waves of selling and then broke the channel from that 5 minute selloff. A move with two waves is more of a corrective move, meaning that it favored continued upside as opposed to further downtrend action, which would have more likely formed with three waves of selling.

4. Support: Not applicable on this time frame as a pro.

5. Resistance: No immediate overhead resistance once the channel into the second low broke higher. The 5 minute 20 ma was close enough that it did not have much of an impact,

which left the next resistance at about $22.00. This meant that the setup would cover the risk by 2 to 3 times before the first resistance hit.

6. Volume: The volume was strong on the move into the first low, but then dropped off dramatically heading into the second low. This meant there was a lack of enthusiastic sellers despite the lower low.

7. Volume: The volume increased as soon as EBAY broke higher off the second low. This confirmed the second low as a major support and reversal zone.

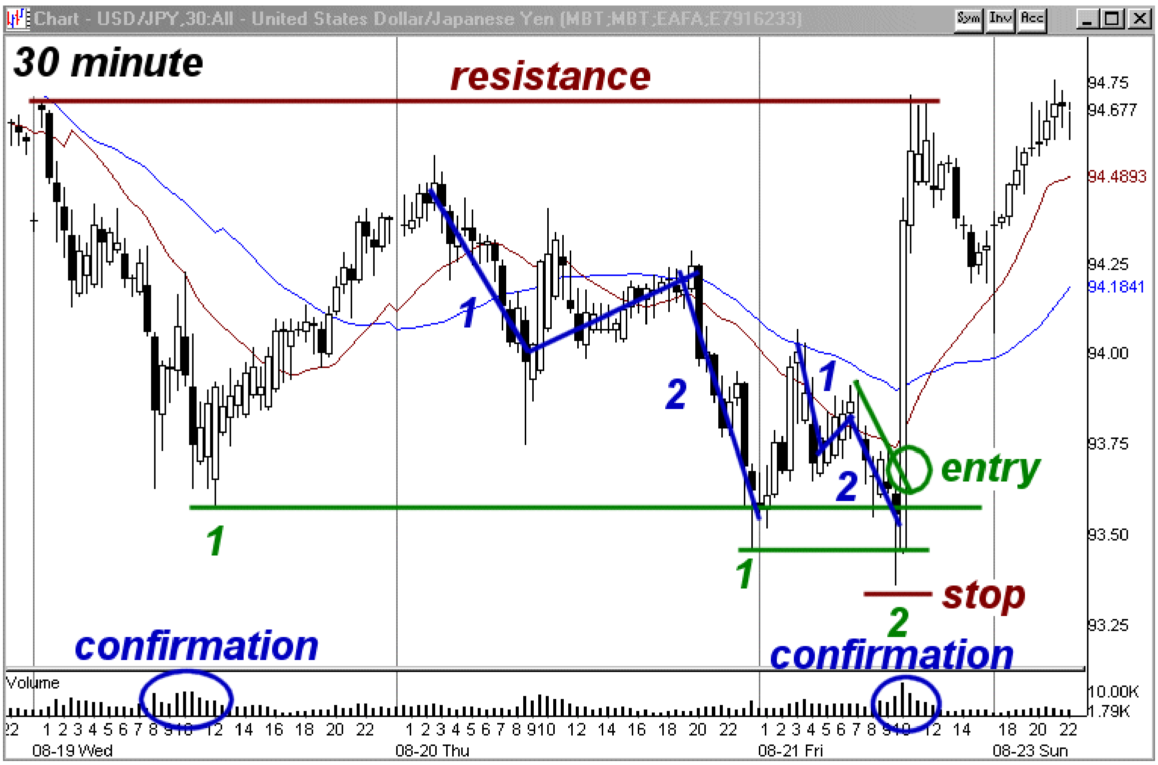
8. Correction Period: The setup took place coming out of the 13:30 ET correction period.

Cons on 2B Setup in EBAY

1. Trend Development: The move into the second low was by a slightly greater degree than most 2B setups. This could have made it more difficult to identify for many traders flipping through securities to look for opportunity. Only those that follow EBAY regularly or who had identified larger time frame support would have had the best chance of catching this particular setup.

Example 3: 30 Minute 2B Buy Setup in the USD/JPY

2B Buy Setup – USD/JPY on the 30 Minute Time Frame



Pros on USD/JPY 2B

1. Pace: On the larger time frame, the USD/JPY had fallen sharply. The momentum then shifted with a series of slightly lower lows with the 2B as the shift coming off a third low.

2. Pace: The momentum of the trend channel into the second low shifted when the USD/JPY pair created a lower low than the previous afternoon. Without that smaller time frame 2B, the pace of the trend channel into the second low on the 30 minute time frame would have made a buy setup higher risk.

3. Trend Placement: The first low of the 30 minute 2B was the third low on a larger downtrend that had been in play for several weeks. Each of the three lows were evenly spaced, but the second low from this 2B was closer, indicating that it was just a retest of the previous low and not an attempt to continue the trend.

4. Trend Development: When the second low was made on the larger 30 minute time frame into the end of the session on 8/20, it was created as part of a two-wave selloff into the slightly lower low. This is typical of a correction move instead of a continuation move. This same thing happened on the smaller 2B setup as well and it made it easier for the market to reverse into the morning of the 21st.

5. Trend Development: Compared to the previous decline on the 60 minute time frame, the USD/JPY pair did not rest long enough at the lows made on the 19th to sustain a strong break lower on the 20th to 21st. Previous corrective moves took several weeks before larger selloff could be sustained. This made it more likely that an attempt to break the lows of the 19th would end up as a type of Bear Trap.

6. Support: The zone of the lows on the 2B took place within the congestion level of a Phoenix™ on the daily time frame from mid-July.

7. Resistance: No major pro.

8. Volume: Volume was lighter on the drop into the afternoon of the 20th to show lighter selling than on the move into the low on the 19th. The volume then rose sharply out of the open on the 21st when the 2B setup triggered.

9. Correction Period: The buy setup took place coming out of the opening bell, which is a common reversal or correction period for a security.

Cons on USD/JPY 2B

1. Pace: The initial attempt at a slightly lower into the close on the 20th took place with stronger momentum than the low made on the 19th. It would be difficult to sustain a strong rally without a stronger shift in momentum to create a slower downtrend into the second low.

2. Trend Placement: The larger daily trend was in favor of a larger continued decline as part of a third wave of selling in a daily downtrend with 91.7500 as the previous low in the trend. This limited the potential for the bounce to two waves as part of a correction with the

stronger downtrend. The second wave of upside correction took place going into the 22nd with slower upside momentum to confirm this bias.

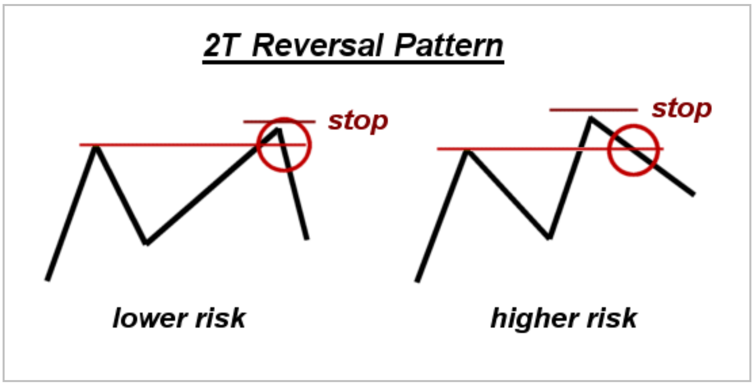
3. Resistance: The trend placement made the 10 day moving average a major resistance level for the smaller intraday moves. This had served as resistance throughout each of the previous waves of daily trend action. This did end up holding on Monday, the 24th and prevented the security from establishing a larger trend reversal.

4. Volume: Volume is difficult to discern on a currency pair, so the use of ETFs, currency futures, or a broker that offers a charting platform that shows internal volume readings for its own traders, such as MB Trading's Navigator Pro, can provide better insight into the participation level within the strategy itself.

2T™ Short

Description: A 2T™ is the 2B setup reversed at highs for a short. Simply change “support” to “resistance” and “buy” to “sell” and vice versa in the above description of the 2B to give the short criteria for the 2T™. This pattern is a form of a Double Top, whereby the second high is just slightly higher than the first, serving to trap new longs and flush out those holding onto positions as a short. A 2T™ is also a form of a Bull Trap, since it traps any new buyers, as well as flushes out any remaining bears who suddenly become scared that the bulls are going to continue to push the security higher.

Criteria: One high followed by a slightly higher high. The second high should not be barely noticeable as a higher high in order to be the most favorable as a reversal pattern. Intraday this may be just a few ticks, but it could be a few points in a stock on a weekly chart.



Entry: There are two types of entries that can be used on this setup.

- Under the prior bar's lows after the second high is made. For instance, if the low of the bar making the second low is $50, entry is under $50. The only time it is not under the bar that made the second high is if that low is followed by an inside range bar, in which case the entry is a break in the lows of the inside range bar.

- Alternately, a uptrend line can be drawn on the move into the second high with an entry when that trend line breaks, as well as the previous bar’s lows in that smaller uptrend into the second high.

Stop: Over the second high or drop down and watch for a smaller time frame Avalanche™ or Head & Shoulders pattern to place the stop over a smaller time frame base which is lower than the absolute high of the second high.

Target: Price or moving average support. The more levels of support converging at one particular level, the more likely the move will stall or end there.

Ideal 5 Building Block Traits on a 2T™ Setup

Pace: Strong initial move into highs, followed by a much more gradual move into the second high. Sometimes it will begin by moving slowly into the second high and then make a rapid move at the last minute as it comes into the prior high with a spike in volume. When this happens then an Avalanche™ or a 2T™ on a smaller time frame is common before a larger correction off the highs occurs. Ideally, the rally into the second high will take longer to retest the zone of the first high than it took to pull back off that high. For example, if the drop off the first high takes 30 minutes before the security turns higher, then that move higher into the second high will take longer. If it does not take longer, then the price zone of the low made between the two highs will serve as initial support and the 2T might be part of a larger 2-Wave Continuation Buy Setup.

Trend Placement/Trend Development:

- Watch for this setup to follow three waves of buying. Sometimes the second high in the 2T™ is the third one in a larger trend. Sometimes it is a fake attempt at a fourth continuation in a trend.

- This pattern can also form within a trading range and is particularly of interest when that base is at lows in a larger downtrend, leading to a breakdown from the trading range.

Support/Resistance:

- Strong resistance on multiple time frames or multiple types of resistance hitting at once.

- When the security hugs a support levels as it moves into the second high.

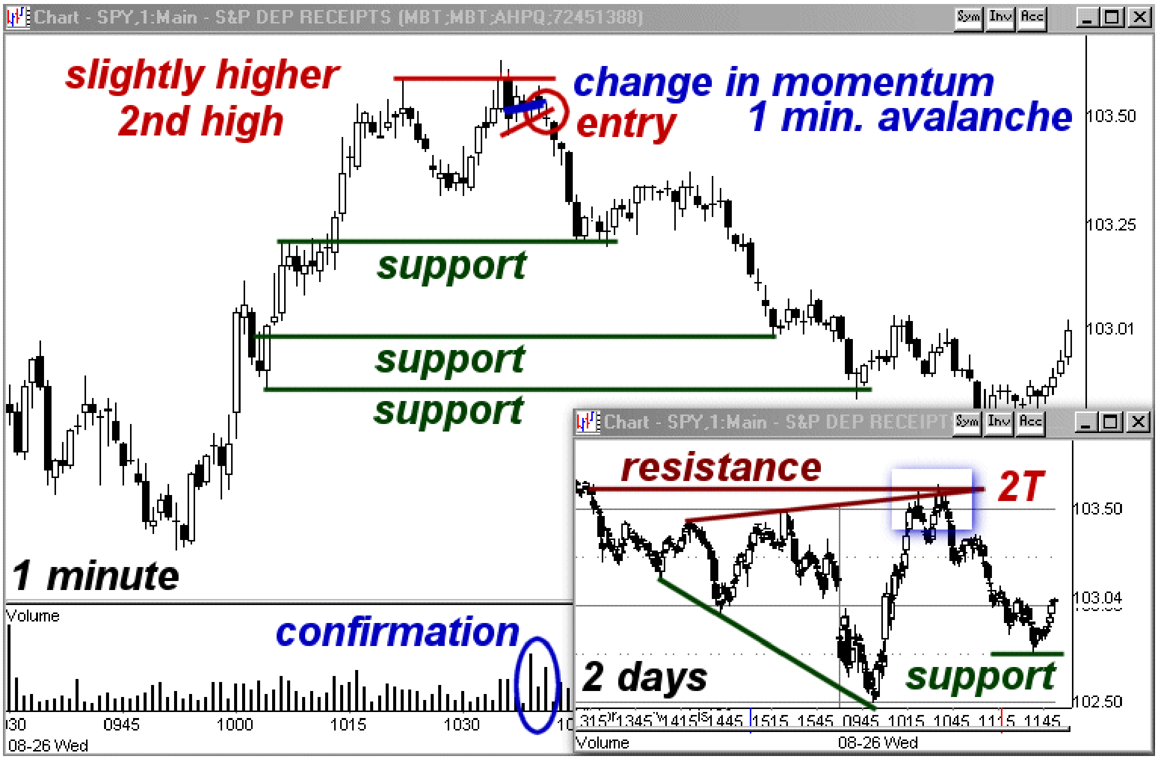
- When there is no immediate support to stall a move lower off the second high.

Volume: Strong volume prior to first high with declining volume into the second high.

Correction Periods: First and/or second highs hitting with a correction period.

Example 1: 1 Minute 2T™ Sell Setup in the SPY

2T™ - SPY on the 1 Minute Time Frame



© 2009 Chart provided by MB Trading

Pros on SPY 2T™

1. Pace: Even though the pace of the buying heading into the second high was not slower than the momentum heading into the first high, the pace shifted coming off the second high to form a one minute Avalanche™ short setup.

2. Trend Placement: The 2T took place at the upper end of an expanding trend channel. Since the rally into the highs of the 2T was the largest move in two days, it created better potential for exhaustion of the trend as it came into that upper channel.

3. Support: The SPY had clear-cut support levels, making target levels easy to identify once the reversal was confirmed.

4. Resistance: The 2T reversal took place coming out of the upper end of a strong trend channel, as well as at price resistance from a previous congestion zone, as shown at the start of the 2 day chart.

5. Volume: The volume increased coming off the second high, which confirmed the reversal by showing panic and profit-taking.

6. Correction Period: The 1 minute Avalanche™ triggered into the 10:45 ET correction period.

Cons on SPY 2T™

1. Pace: The pace of the move into the second high was comparable to the pace of the move into the first high. This could have led to a third slightly higher high into 11:00 ET.

2. Support: A low could have formed just above the 10:30 ET low to create a pennant formation along the resistance for a third high before reversing. This risk was closely associated with the pace.

3. Correction Period: Neither the first nor the second highs within the pattern took place heading into a morning correction period.

Example 2: 5 Minute 2T™ Sell Setup in ATVI

2T™ - Activision Blizzard, Inc. (ATVI) on the 5 Minute Time Frame

© 2009 Chart provided by MB Trading

Pros on ATVI 2T™

1. Pace: The pace of the move into the second high was substantially slower overall than the rally from the previous afternoon, despite a more rapid flush higher out of the opening bell.

2. Trend Placement: The 2T took place at the upper end of a larger daily trading range that had begun to form following a daily 2B setup in mid-July. This was also the start of a potential handle on a weekly Cup-with-Handle setup and would serve as the second high within the handle.

3. Support: Due to the wide nature of the trading range from $11 to $13, there was a lot of room for follow through on a reversal lower.

4. Support: Despite the wider stop over the second high, the target zone for a breakdown still allowed participants to cover their position with a gain of at least 1 to 1.

5. Resistance: ATVI was at strong price resistance just shy of the previous daily high.

6. Resistance: ATVI was also dealing with whole number resistance at $13.

7. Volume: Even though volume climbed heading into the 2^{nd} high, this was due to end of the day position shifting ahead of the closing bell. Volume was substantially lighter on the gap higher into the open when the actual 2^{nd} high was formed. This confirmed a lack of committed buyers.

8. Correction Period: The second high of the 2T pattern intraday took place going into the first 5 minutes of the trading day. This is the first correction period of the day and it is a common time zone for market trends to reverse.

Cons on ATVI 2T™

1. Pace: The pace of the buying on the larger time frames heading into $13 meant that even though a correction off that support was likely and could be strong on the shorter intraday time frames, the daily chart would likely have a slower overall reversal off highs that compared to the rally off July's lows. The larger trend development also meant that if a handle formed on a weekly Cup-with-Handle, then ATVI could have fallen into trading range on the 60 minute time frame, which would have limited the downside on the 2T.

2. Trend Placement: The risk existed that a larger handle formation in a Cup-with-Handle setup on the daily and weekly time frames could have restricted the breakdown potential.

3. Volume: The volume increased heading into the second high. This is typically a decent con, but this was diminished due to the move taking place into the closing bell when volume typically increases.

Example 3: Weekly 2T Short Setup in the EUR/USD

2T Short Setup – EUR/USD Currency Pair on a Weekly Time Frame

© 2009 Chart provided by MB Trading

Pros on 2T Short

1. Pace: The move into the second high in 2008 was much more gradual overall than the rally into the first high. This can be determined by transecting each of the trend moves into the highs with a line that cuts through the middle of the trend channel. The 20 period moving average accurately represents the pace of the move into the second high in the EUR/USD and I have shown the pace of the first move when comparing it to the previous rally in 2007 on the weekly time frame.

2. Pace: The pace of the breakout from the Bull Flags on both the weekly and monthly time frames that formed ahead of the highs was comparable in each case. This made is possible to view equal moves based upon those rallies as a very strong resistance level on both the weekly time frame as well as the larger monthly time frame.

3. When the 2T triggered, the momentum of the breakdown was stronger than the overall rallies, which were themselves stronger than average. This created stronger likelihood that larger target levels would hit based upon monthly time frame support, while closer weekly

support levels would provide temporary levels for the move to catch its breath. This can be seen at the moving averages on the weekly time frame, whereas the previous uptrend correction in 2005 held as the larger target level following three waves of selling on the weekly time frame to hit that level.

4. Trend Placement: The EUR/USD was just completing a second wave of upside in the monthly uptrend. The move was equal to the first in terms of the extent of the price move and the pace of the price move. This made it likely that a correction on the monthly time frame would take place in 2008. A similar example of uptrend exhaustion formed with the equal move on the weekly time frame to help narrow down the start of that rally even further.

5. Trend Development: Since the overall pace of the rallies into the highs at the start of 2008 was stronger than average, this created favor for either a longer sideways trading range to correct from the rally, or a shift in momentum at the highs to allow for a stronger pullback. This shift in momentum took place when the EUR/USD fell quickly to its 20 period moving average and then hugged that moving average while it push into a slightly higher high.

6. Trend Development: By established a slightly higher second high with slower upside momentum, the break to the new high trapped bulls using it as an entry trigger and provided a false sense of security to those that had longer term positions. When the trend channel that took the EUR/CAD to a new high broke lower it created panic.

7. Support: The 20 period moving average served as support as the EUR/USD pushed into its second, slightly higher high. By hugging support, it makes it easier for the bears to take over as soon as the support breaks.

8. Resistance: Equal move resistance on both the weekly and monthly time frames exhausted the uptrend moves into the initial highs of 2008 and created strong favor for a larger correction off those highs.

9. Volume: MB Trading began tracking the volume of its order flow in 2008, so volume does not provide a clear picture, but there is some decline in volume heading into the second high and confirmation of exhaustion heading into the lows in late 2008.

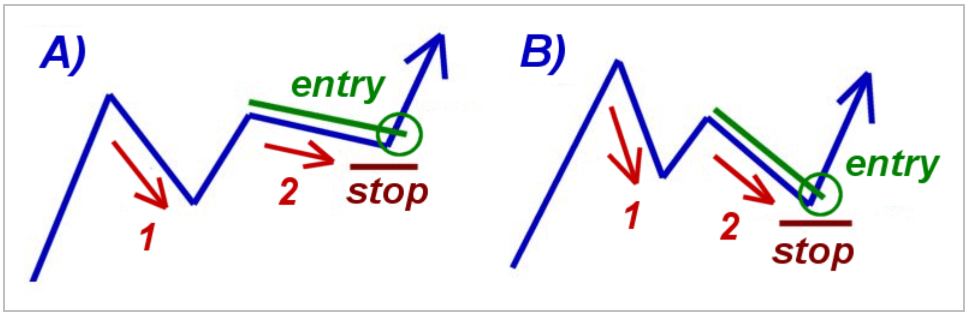
10. Correction Period: Not a strong pro, nor con.

Cons on 2T Short

1. Volume: Volume was somewhat difficult to discern. In a typical 2T, volume will often drop off as it pushes into the second high if the momentum into that high is slower than the first. It will then increase once support breaks, such as the 20 period moving average, and spike on exhaustion. The use of ETFs or currency futures can help provide additional volume confirmation when trading currencies.

2-Wave Continuation Buy Setup

Description: When a security is in an uptrend, corrective moves are common. These corrections offer great potential to place positions in favor of a continuation of a previous trend move. A typical way for a correction to form is with two smaller waves of downside, or one downside move followed by a second corrective move off a high within the range that is more of a sideways channel. A 2-Wave buy setup can resemble several other popular patterns and it shares many similar traits for pros and cons as well. It can look like a Triangle, a Bull Flag, or a Trading range Breakout. The key component, however, is that it only has two main waves of correction before the larger trend resumes.



Criteria:

1. A sharp upside move followed by a pivot off highs. This can create the look of an inverted "V".

2. The initial wave of correction off the highs is followed by a smaller bounce that leads to a second wave of correction.

Entry: Over the trend line from the upper channel in the second wave of selling.

Stop: Under the second low, regardless of whether the first low is lower than the second low.

Target: On a typical trend continuation, the target will be an equal move coming out of the second low as compared to the move into the first high at the start of the first pullback. In the charts above, that move is represented with the first upside move on the charts.

Ideal 5 Building Block Traits on a 2-Wave Continuation Buy Setup

Pace: Pace is extremely influential in many aspects of this setup. It can determine whether the highs of the range will serve as initial resistance, whether it will hit the typical target, whether the momentum will be strong coming out of the second low, etc. Ideally, the pace of the second wave of correction within the 2-wave pattern will be more gradual than the first. This will be the most likely to be followed by a stronger momentum move higher that will help the setup hit higher target levels and break through the upper end of the trading range without pausing. It will also diminish the potential of a false setup. In the template, A is the more ideal setup.

Trend Placement/Trend Development:

- This strategy works the best when it is the first correction in a new uptrend. This could make it part of a Phoenix™, Reverse Head and Shoulders setup, or the handle on a Cup-with-Handle. It also works well as the correction prior to a third wave of upside in an uptrend. In this case it can also be a Triangle Continuation, a Bull Flag, or a Breakout Buy Setup.

- This strategy will be higher risk if there are three comparable waves of buying in an uptrend already and the 2-Wave Correction pulls into the lower channel support. Even though it might still trigger a setup, it will typically not hit the equal move target.

- The 2-Wave Correction should not retrace more than 50% of the rally into the high of the pattern. If it does, this high will serve as initial resistance.

Support/Resistance:

- Watch out for larger time frame resistance levels that may impact the setup's ability to follow through. If the setup forms on a 5 minute time frame, for example, be sure to look at the 15 and 30 minute charts for additional overhead resistance. These can be previous levels of congestion, prior highs or lows, moving averages, or other forms of price resistance.

- If the overall correction off the highs of the 2-Wave Correction is less than 50% of the rally into the high of the pattern, then those highs will not serve as major resistance. It can still serve as minor resistance, however, so corrections that are less than 1/3 of the initial rally into the pattern will have the best chance to break to new highs without pausing.

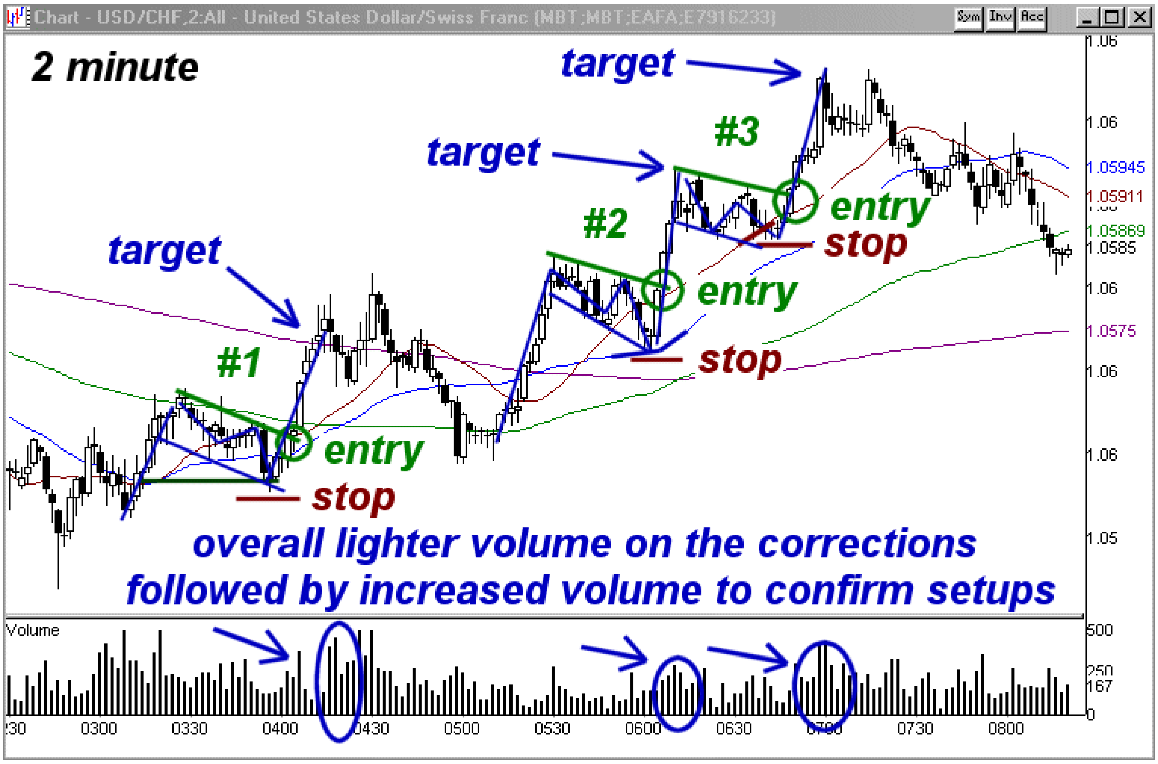
- If the 2-Wave Correction comes into support such as the 20 period moving average, 38.2% Fibonacci retracement level, or a previous congestion zone, then it will typically have a stronger reaction and move higher than it would without support. Combinations involving more than one support level at the second low are the strongest.

Volume: Ideally the volume will drop within the second wave of correction. It may drop before that.

Correction Periods: Correction periods that occur at the lows of the 1st or 2nd waves of correction within the pattern will have a strong influence upon the upside potential. A correction period that accompanies the second low will be stronger than one that accompanies the first low.

Examples 1-3: 2 Minute 2-Wave Continuation Buy Setups in the USD/CHF

2-Wave Continuation Buy Setups – USD/CHF Currency Pair on the 2 Minute Time Frame



© 2009 Chart provided by MB Trading

Pros on 2-Wave Buy #1 in the USD/CHF

1. Pace: The USD/CHF moved higher into the 100 period moving average at a pace that was stronger than the previous corrective moves. The stronger-than-average pace of the buying heading into the start of the 2-Wave Correction made it more likely that overall pace of the correction itself would be more gradual.

2. Pace: Within the 2-Wave Correction, the channel for the pullback was slower than the upside move ahead of the correction, although the pace of the second wave was stronger than the first.

3. Pace: The pace of the rally off support to trigger the 2-Wave Buy was stronger than the pace of the overall downside.

4. Pace: When the upper channel for the 2-Wave Correction broke, the momentum was stronger than the rally heading into 03:30 ET. This allowed the USD/CHF to create a greater-than-equal move before stalling and allowed it to have a higher target level than it

would have had if the momentum had been comparable. Had that been the case, the 200 period moving average would likely have held more securely and not allowed the USD/CHF to attempt to penetrate it.

5. Trend Placement: The first 2-Wave correction from 03:30 to 04:00 ET was also the first more gradual correction at the start of a new uptrend. It followed a triangle reversal pattern at lows that had triggered shortly after 03:00 ET.

6. Support: The 2-Wave correction pulled back into the apex of the morning's reversal triangle. This served as a strong support level for a turn higher.

7. Resistance: The 2-Wave correction hugged the 100 period moving average with both highs hitting that resistance level and the overall pace of the 2-Wave correction in-line with the pace of the moving average. When this moving average breaks, it then becomes support.

8. Resistance: The break in the 100 period moving average left room for the USD/CHF to rally into an equal move level and the 200 period moving average without major resistance hitting in between.

9. Volume: Volume dropped overall as the USD/CHF corrected between 03:30 ET and 04:00 ET. Even when the selling pace increased, the volume did not sharply increase. It only picked up when the buyers started to come back in after 04:00 ET. That increase in volume helped confirm the upside bias for the breakout higher.

10. Correction Period: 04:00 is a major morning correction period for the futures and currency markets. The entry for the first 2-Wave Continuation Buy Setup triggered coming off support at this time of the morning.

Cons on 2-Wave Buy #1 in the USD/CHF

1. Pace: The pace of the second wave of selling within the 2-Wave correction was stronger than the first.

2. Pace: The rally off the lows of the 2nd wave was the same as the pace of the selling into those lows. Ideally it would have been stronger than the selloff into the second low.

3. Trend Development: The pullback for the 2-Wave took back more than 50% of the gains on the previous rally on the 2 minute time frame. When compared to the larger rally off morning lows, it was less than 50%. The fact that there was a Phoenix™ in between that took place along the 20 period moving average, however, meant that the increase in pace into that zone could have led to a base at that level and a smaller time frame Bear Flag formation at 04:00 ET.

4. Resistance: The pace on the second wave of selling and the comparable bounce off the support meant that the 100 period moving average could have held once again to lead to a longer base or move off highs.

Pros on 2-Wave Buy #2 in the USD/CHF

1. Pace: The pace of the buying from 05:00 to the start of the 2-Wave Correction at 05:30 ET was stronger-than-average. This favored a more gradual correction with the potential for another continuation move on the upside.

2. Pace: Although the pace of the second wave was stronger than the first within the 2-Wave correction, the channel for the pullback was slower than the upside move ahead of the correction. This created a stronger bias in favor of an upside breakout from the trading channel that formed between 05:30 and 06:00 ET,

3. Pace: The rally off the lows of the second wave of selling within the correction was stronger than the second wave of selling, even though the second wave of selling was still stronger-than-average. This increased momentum helped the USD/CHF to break through the upper trend channel for the overall correction, as well as the highs of the correction, without any significant pause.

4. Trend Placement: The USD/CHF was in the early phases of a new uptrend after reversing from a strong downtrend into the early morning.

5. Trend Placement: Even though the new uptrend had three waves of buying already, the corrections between each rally lasted for varying amounts of time, which meant that the trend could still continue higher and was not yet subject to the concept of trend exhaustion following a third wave of buying.

6. Trend Development: The 2-Wave Correction pulled back less than 50% of the previous rally that took place between 05:00 and 05:30 ET. This made is easier to break the highs of the correction without the need to create much of a pause at that price level.

7. Support: The 40 period moving average hit at the lows of the second wave of selling within the 2-Wave Correction. The 40 period moving average is a good support level for an uptrend and will often hold as the lows of a correction to help kick off a continuation move in favor of the trend. The moving average also hit at a level of price support from a Head-and-Shoulders setup around 04:30 ET.

8. Resistance: The extent of the correction, as well as the pace activity within the setup, meant that the highs of the correction would not serve as strong resistance. This meant that the next major resistance level would be the target zone for the continuation, which was a move equal to the 05:00 ET rally.

9. Volume: Volume dropped overall as the USD/CHF corrected between 05:30 ET and 06:00 ET. Even when the selling pace increased, the volume did not sharply increase. It only picked up when the buyers started to come back in after 06:00 ET. That increase in volume helped confirm the upside bias for the breakout higher.

10. Correction Period: The second low for the 2-Wave Continuation Buy Setup formed into the 06:00 ET correction period. This is a major correction period for the futures and currency markets.

Cons on 2-Wave Buy #2 in the USD/CHF

1. Pace: The pace of the second wave of selling within the 2-Wave correction was stronger than the first.

Pros on 2-Wave Buy #3 in the USD/CHF

1. Pace: The USD/CHF rallied strongly out of 06:00 ET. The upside move was stronger-than-average, which created favor for a slower overall correction once that rally hit resistance.

2. Pace: Within the 2-Wave Correction, the second wave of selling was slightly more gradual than the first, which will typically make it easier for the upper end of the corrective channel to break without the security stalling at the upper end of the channel or the highs of the channel.

3. Trend Placement: Since the correction times varied up until this point, when the USD/CHF triggered a buy setup at 07:00 after forming a correction that was comparable to the previous correction, it meant that this second correction was part of a smaller trend within the larger uptrend and that the 1-2-3 wave trend development now applied. This made it possible for the USD/CHF to consider the breakout for this strategy as the third rally in that smaller uptrend.

4. Trend Development: The USD/CHF did not pull back more than 50% of the previous rally when it corrected. That previous rally was the move higher into 06:30 with the correction into 07:00 ET.

5. Support: The 20 period moving average zone and the highs around 5:30 ET served as strong support for the 2-Wave Correction.

6. Resistance: The resistance at the start of the 2-Wave correction was an equal move level as compared to the previous rally. This served as a strong resistance level for the creation of a continuation pattern.

7. Resistance: There was no strong overhead resistance following the buy trigger on this continuation pattern until the equal move resistance when the breakout move is compared to the rally ahead of the correction. In other words: Take the price move from the 06:00 rally. Add it to the lows of the corrective move at 7:00. Then extend it higher to project that equal move resistance level. The pace of the continuation must be as strong as the previous rally to work accurately. Stronger continuations will lead to a larger move, such as in #1. Weaker-paced continuations will fall a bit short of that target.

8. Volume: Volume dropped overall as the USD/CHF corrected between 06:30 ET and 07:00 ET. Even when the selling pace increased, the volume did not sharply increase. It only picked up when the buyers started to come back in after 07:00 ET. That increase in volume helped confirm the upside bias for the breakout higher.

9. Correction Period: The target level on the third 2-Wave Buy Setup hit at the same time as the 07:00 ET correction period. This is a major morning correction period for the futures and currencies markets and marked the end of the uptrend.

Cons on 2-Wave Buy #3 in the USD/CHF

1. Trend Development: The pace of the rally out of the second low was slightly less than the rally into the 2-Wave Correction going into 06:30 ET. This could have prevented the USD/CHF from hitting the equal move target. Although it looks like it might not have by looking at the chart, the USD/CHF did still manage to touch upon that price resistance level before turning lower off the third high of the smaller uptrend.

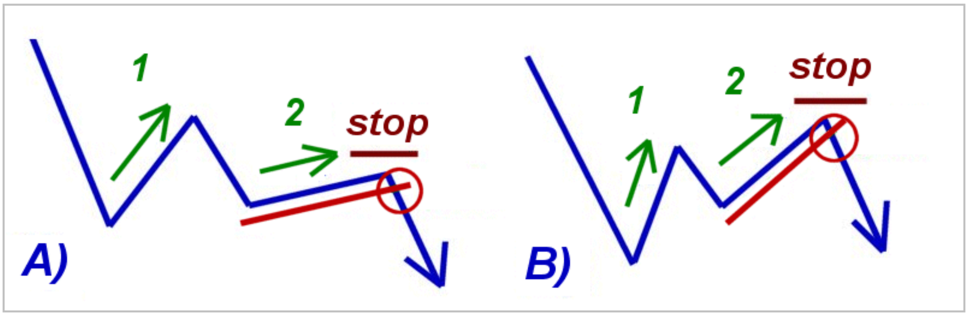
2. Support: In the second 2-Wave Correction, the 40 period moving average served as support, but this time the USD/CHF did not bounce directly off a moving average. Instead they held the zone of support. This can make the absolute price for the support act like a

magnet and lead to false setups. This was minimized in this case because the amount of time it took to correct was still comparable to the amount of time in the previous setup.

3. Correction Periods: The trigger for the third 2-Wave Buy Setup did not correspond to a major correction period.

2-Wave Continuation Short Setup

Description: When a security is in a downtrend, corrective moves are common. These corrections offer great potential to place positions in favor of a continuation of a previous trend move. A typical way for a correction to form is with two smaller waves of upside, or one upside move followed by a second corrective move off a low within the range that is more of a sideways channel. A 2-Wave Sell Setup can resemble several other popular patterns and it shares many similar traits for pros and cons as well. It can look like a Triangle, a Bear Flag, or a Trading Range Breakout. The key component, however, is that it only has two main waves of correction before the larger trend resumes.



Criteria:

1. A sharp downside move followed by a pivot off lows. This can look a lot like a "V" at the lows.

2. The initial wave of correction off the lows is followed by a smaller drop that leads to a second wave of correction off the support zone.

Entry: Under the trend line from the lower channel in the second wave of buying.

Stop: Over the second high, regardless of whether the first high is higher than the second high.

Target: On a typical trend continuation, the target will be an equal move coming out of the second high with the 2-Wave Correction as compared to the move into the first low at the start of the first pull higher. In the charts above, that move is represented with the first downside move on the charts.

Ideal 5 Building Block Traits on a 2-Wave Continuation Short Setup

Pace: Pace is extremely influential in many aspects of this setup. It can determine whether the lows of the range will serve as initial support, whether it will hit the typical target, whether the momentum will be strong coming off the second high, etc. Ideally, the pace of the second wave of correction within the 2-wave pattern will be more gradual than the first. This will be the most likely to be followed by a stronger momentum move lower out of the second wave of correction that will help the setup hit lower target levels and break through the lower end of the trading range without pausing. It will also diminish the potential of a false setup. In the template, A is the more ideal setup.

Trend Placement/Trend Development:

- This strategy works the best when it is the first correction in a new downtrend. This could make it part of an Avalanche™, Head and Shoulders setup, or the handle on a Reverse Cup-with-Handle. It also works well as the correction prior to a third wave of selling in a downtrend. In this case it can also be a Triangle Continuation, a Bear Flag, or a Breakdown Short Setup.

- This strategy will be higher risk if there are three comparable waves of selling in a downtrend already and the 2-Wave Correction pulls into the upper channel resistance. Even though it might still trigger a setup, it will typically not hit the equal move target.

- The 2-Wave Correction should not retrace more than 50% of the decline into the initial of the pattern. If it does, this high will serve as initial support.

Support/Resistance:

- Watch out for larger time frame support levels that may impact the setup's ability to follow through. If the setup forms on a 5 minute time frame, for example, be sure to look at the 15 and 30 minute charts for additional support under the lows of the pattern. These can be previous levels of congestion, prior highs or lows, moving averages, or other forms of price support.

- If the overall correction off the lows of the 2-Wave Correction is less than 50% of the decline into the low of the pattern, then those lows will not serve as major support. It can still serve as minor support, however, so corrections that are less than 1/3 of the initial downside into the pattern will have the best chance to break to new lows without pausing.

- If the 2-Wave Correction comes into resistance such as the 20 period moving average, 38.2% Fibonacci retracement level, or a previous congestion zone, then it will typically have a stronger reaction and move lower than it would without resistance. Combinations involving more than one resistance level at the second high are the strongest.

Volume: Ideally the volume will drop within the second wave of correction. It may drop before that.

Correction Periods: Correction periods that occur at the highs of the 1st or 2nd waves of correction within the pattern will have a strong influence upon the downside potential. A correction period that accompanies the second high will be stronger than one that accompanies the first high.

Example 1: Weekly 2-Wave Continuation Short Setup in WL

2-Wave Continuation Short Setup - Wilmington Trust (WL) on a Weekly Time Frame

© 2009 Chart provided by MB Trading

Pros on Weekly 2-Wave Continuation Short in WL

1. Pace: After forming a "V" pattern at the lows into January 2008, WL retested support and formed a more gradual move higher for the second wave of correction. This shift in momentum increased favor for a stronger breakdown out of the 2-Wave correction.

2. Pace: Within the second wave of correction the momentum also shifted on the smaller daily time frame (shown in the lower right corner). WL formed a Momentum Reversal Short setup coming off the second high in the weekly pattern. This offered a lower risk and tighter entry for the larger time frame continuation pattern.

3. Pace: When WL came into its lower trend channel on the weekly time frame, it hugged that support level for a couple of weeks to create a variation of a 1-2-3 continuation short setup to trigger the larger channel breakdown. This could have also been used as a smaller time frame setup to help reduce risk and allow for better returns.

4. Trend Placement: The 2-Waves of the Continuation Pattern formed the first correction following a larger monthly trend channel reversal (shown in the upper right corner). WL had formed three waves of upside from 2000-2006 and broke that trend channel into 2007.

This meant that the short setup on the weekly was the first continuation pattern on the downside in a new downtrend.

5. Trend Development: The 2-Wave Continuation Pattern was also a variation of the 1-2-3 Continuation Strategy when examined on the monthly time frame (shown in the upper right corner).

6. Support: Initial support on the weekly time frame was equal move support and the lows from 2000. These were at approximately the same price level and produced 1:1 reward vs. risk on the weekly setup and about 3:1 reward vs. risk on the daily momentum shift or weekly 1-2-3 short setups. Larger monthly support on the monthly 1-2-3 target created substantially larger rewards.

7. Resistance: The 50-week moving average was forming just over the second high within the 2-Wave Continuation pattern. This had been resistance throughout the downtrend and hence it had a good chance of holding on this correction as well.

8. Volume: Volume rose sharply into the initial lows in January, but within the 2-Wave correction it dropped off, particularly during wave 2. This showed a lack of a strong bullish bias despite the upside.

9. Volume increased sharply when the 2-Wave Short triggered. This confirmed the setup. It spiked at the initial target zone to also show exhaustion. This is easy to see on the daily time frame.

10. Correction Period: A minor correction period on a weekly time frame is the first week of June. This corresponded to the Momentum Reversal trigger on the daily time frame.

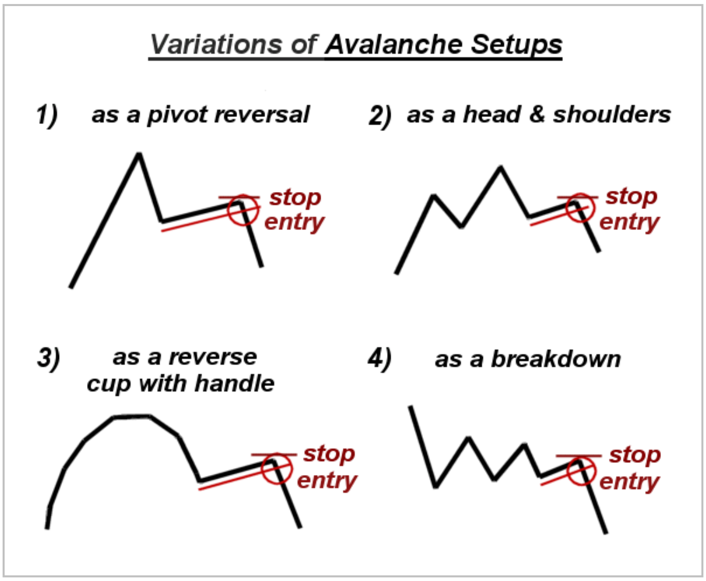
Cons on Weekly 2-Wave Continuation Short in WL

1. Correction Periods: Although the start of June can be a minor correction period, it is not a major one. Since the 2-Wave Setup was a continuation pattern, however, this was strong enough.

2. Other: WL found itself subject to a move fueled by news in September 2008. Even though the sharp rally was short-lived, and the bearish bias returned, this sharp upside flush would have taken out traders with stops on the books who were looking for the larger monthly 1-2-3 target zone. Those that did not take a stop would have been playing with fire.

Avalanche™

Description: The Avalanche™ is a reversal pattern that triggers a short. Essentially, it is the first continuation pattern that creates a new downtrend. It can occur as a breakdown from an uptrend, or as a smaller breakdown pattern within a larger trading range breakdown. Two specific types of Avalanches™ are more commonly known as a Head & Shoulders pattern and a Reverse Cup-with-Handle. The entry trigger on an Avalanche™, however, is not the same as on a traditional Head & Shoulders pattern.



Criteria:

1. Uptrend or sideways trend.

2. Stronger than average rally.

3. A pullback that is comparable to or stronger than the previous rally, usually on increasing volume into moving average support (typically the 10, 20, 40 or 50 simple moving average).

4. Prices hug a moving average support level on decreasing volume.

5. A slower and faster moving averages start to converge (This would be the10 and 20 moving averages if the security has been hugging the 20 period moving average.)

Entry: Switch to smaller time frame and use a Breakdown strategy, Triangle, or 2-Wave Continuation Short Setup to enter the position. A break in the trend line from the lows of the congestion along the support level can also be used, particularly if the waves of buying and selling within that congestion are more difficult to discern.

Stop: Over the last pivot high within the trading range, or drop down to smaller time frame and look for a smaller base at lows in the larger base and place a stop over the highs of that smaller base.

Target: The strongest target is typically the next major simple moving average support. An Avalanche™ along the 20 moving average would have a target of the 40 or 50 period moving average. Also watch for an equal move compared to the drop into the Avalanche™ range from the highs. This works best if the pace of the breakdown is the same as the pace of the drop into the Avalanche™ base. Notice how this level stalled the move in GROW, which was subject to simple moving average support at the 100 day moving average when the 40 day moving average that the Avalanche™ formed along broke lower.

Ideal 5 Building Block Traits on an Avalanche™ Short Setup

Pace: Above average pace on the reversal from highs, followed by slower than average upside as support holds. Within that congestion along support, it is preferable to see the momentum slow on the upside moves and increase on the downside.

Trend Placement/Trend Development:

- When a security has had three waves of buying already and then attempt to form an Avalanche™, the odds are higher for success on a subsequent Avalanche™.

- When dealing with an Avalanche™ that forms within a trading range then it is best if there have been at least two waves of selling already within the range, if not three.

- This setup is strongest when the base of the Avalanche™ forms in the lower half of the range of the drop off highs.

Support/Resistance:

- When the base of the Avalanche™ pattern is directly on top of or is cut in half by the moving average that it is hugging, the odds are higher for a strong momentum breakdown than if the base or consolidation is directly under the moving average.

- When forming along moving average support, the approach of the next fastest moving average and an impending crossover of those two is a strong pro. For instance, if the security is basing along the 20 day moving average, then the imminent crossover of the 10 and 20 day simple moving averages will increase the success of the breakdown.

- Check the next larger time frame for support. For instance, if an Avalanche™ is forming on a daily chart at the 20 day moving average, then the 20 moving average on the weekly chart is strong support. So if it is near at hand, then it can place a strong constraint on the reward potential for the setup.

- If the Avalanche™ is forming within a trading range, then it is nice to see the range pulling into a larger moving average resistance level just prior to breaking lower.

Volume: An increase of volume into the simple moving average support, declining volume as the support holds and congestion forms (particularly at the end of that congestion), followed by an increase in volume as the support level gives way and the pattern triggers. This provides confirmation for the setup. The volume will often spike again as it comes into the next support level and first target zone. Within the congestion itself, prior to a breakdown, it is best that upside volume is lighter than downside volume.

Correction Periods: Higher probability if the setup triggers coming out of a correction period on the last major highs within the congestion.

Example 1: 1 Minute Avalanche™ in the SPY

Avalanche™ - S&P Deposit Receipts (SPY) on the 1 Minute Time Frame

© 2009 Chart provided by MB Trading

Pros on 5 Minute ES Avalanche™

1. Pace: The momentum shifted at the highs on this time frame so that the upside became more gradual overall than when compared to the drop off highs and into the start of the trading channel for the Avalanche™.

2. The momentum within the channel around 11:00 ET was a lot more gradual than the previous drop into that level. This made it likely that the slower, sideways channel would break with a stronger momentum move.

3. Trend Placement: The SPY had formed a 2T at highs. This rounded it off at highs and the base for the Avalanche™ became the first potential continuation pattern for a new downtrend or larger corrective pattern.

4. Trend Development: The highs of the base were within the lower 50% of the downtrend move off the 2T highs.

5. The base portion of the Avalanche™ could also have been considered to be the "handle" for a Reverse Cup-with-Handle formation. The rounded highs from the 2T would be considered to be the "cup". A Breakdown Setup could have been used to drop down to a tick chart to time a tighter entry and stop.

6. Support: Once the lows of the base broke, the SPY did not have any strong support ahead of the equal move target. That target level was at some minor congestion from earlier in the morning, but there was the potential of another leg of downside following the initial breakdown, such as in the form of a Bear Flag into the 50 period moving average. The SPY did not rest long enough before attempting this after 11:15 ET, however, and a Momentum Reversal Buy Setup formed instead.

7. Resistance: The 50 period moving average served as strong resistance for the formation of the base.

8. Volume: Volume increased sharply when the SPY reversed out of the 2T. This strong selling confirmed the bearish bias.

9. Volume: Volume dropped as the SPY congested between the 50 and 200 period moving averages. Even though prices were inching higher, the volume remained light, which suggested a lack of real buying interest.

Cons on 5 Minute ES Avalanche™

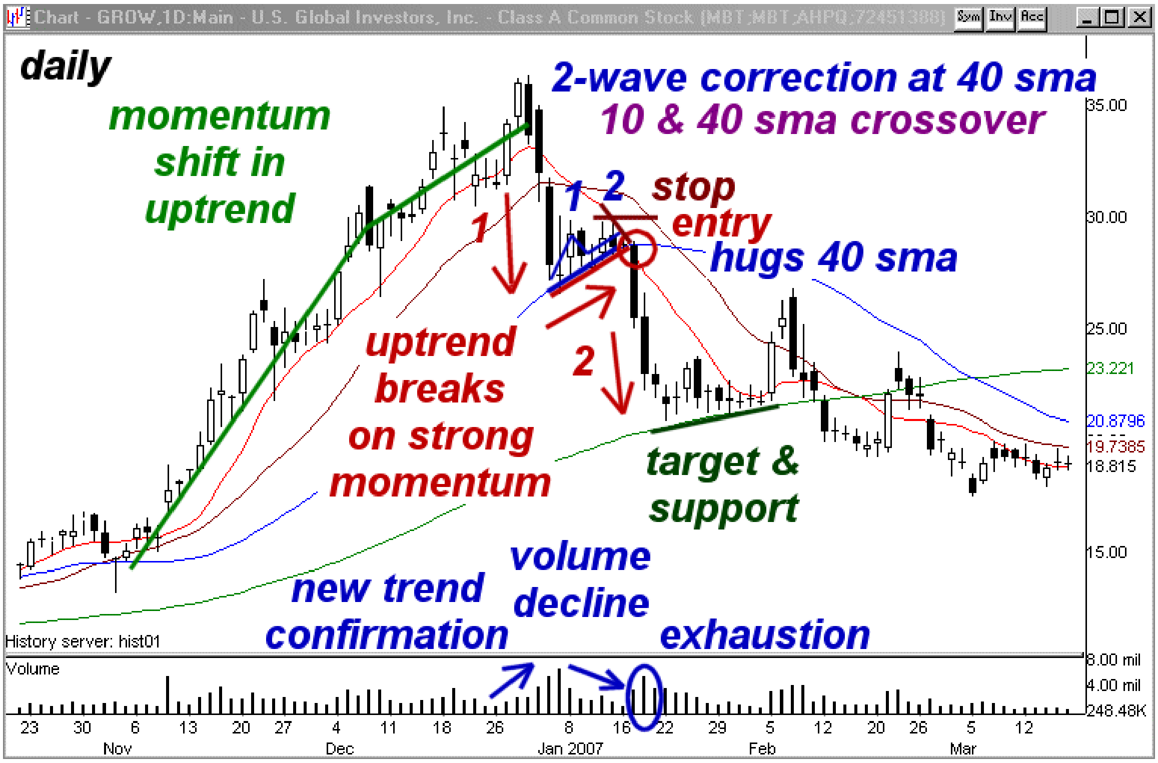
1. Support: The base for the Avalanche™ did not huge a slower moving average, such as the 20 period or 50 period moving average, even though it evenly paced the 50 period moving average. Instead, it bounced and held the 200 period moving average, which then became a support level that created a pause shortly after the Avalanche™ trigger. The momentum then resumed once the 200 period moving average broke.

2. Volume: Volume did not increase much when the Avalanche™ triggered. This provided a lack of confirmation on the setup and the risk that it might only barely break the low at the start of the base before turning higher once again.

3. Correction Period: This setup did not have any correction periods in its favor at the key pivotal turning and breakout points.

Example 2: Daily Avalanche™ in GROW

Avalanche™ - U.S. Global Investors, Inc. (GROW) on a Daily Time Frame



© 2009 Chart provided by MB Trading

Pros on Daily GROW Avalanche™

1. Trend Development: GROW had a narrow trading range along support, allowing for a small stop compared to the potential based upon the expectation of an equal move on the breakdown as compared to the drop at the start of the year.

2. Trend Development and Pace: The move into December's highs was made with series of three highs to create an extended uptrend. Each higher high broke by a lesser degree than the previous one, creating a rounded appearance that indicated weakening momentum.

3. Trend Development and Support and Resistance: GROW broke lower at the same time as the 10 period moving average began to cross under the 40 day moving average and the 20 day moving average had begun to turn over.

4. Trend Development and Support: GROW hugged the 40 day moving average along the highs of the moving average for approximately twice as long as it took for the stock to move lower into that support level.

5. Pace: The pace of the buying on the uptrend slowed from November into December, which began to create favor for a larger trend reversal.

6. Pace: The pace of the selling at the start of the New Year was significantly stronger than the move into December's highs and confirmed a shift in momentum.

7. Support: The breakdown from the uptrend channel in late December took GROW quickly into its 40 day simple moving average support.

8. Support: The 40 day moving average hit at the same time as November's highs.

9. Support: The drop off December's highs took GROW right into the 40 day simple moving average support.

10. Support: There was no immediate support level once the 40 day moving average broke that would hinder further selling.

11. Resistance: The 10 and 20 day simple moving averages were overhead and served as resistance.

12. Volume: Volume increased strongly into the 40 day moving average, showing panic, but then declined dramatically as it hugged the support, indicating a lack of buyers despite the correction at the support.

13. Volume and Pace: The pace at the start of the breakdown was strong and volume picked up as the support broke. These confirmed the move and allowed the stock to put in an equal move on the breakdown as compared to the initial drop into January.

14. Correction Period: January is a popular time of the year for the market to correct from a previous trend move. Rallies into the end of the year will often pull back at this time, such as in GROW.

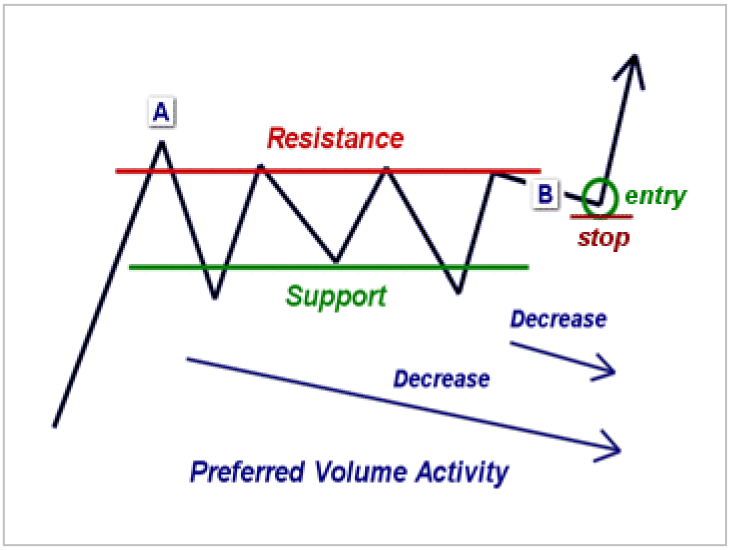
Cons on Daily GROW Avalanche™

1. Pace: The drop at the start of the year was even stronger than the typical strong move in the stock. This can lead to a base that is more than twice as long as the drop into the support, so that a setup that occurs within the usual time frame for an Avalanche™ development (1.5-2 times as long as the drop) can be false and followed by another pop before it follows through. It can also mean a 2B has a higher chance of forming if the Avalanche™ attempts to trigger within that time span. This risk applies to securities in which the drop off the highs is at the very extreme levels in terms of the momentum involved.

Breakout Buy Setup

Description: Also called a “rectangle”, this pattern is based upon a sideways trading range breaking higher. It is most commonly traded as a continuation pattern which is then called a consolidation, but a sideways range can at times also break in the direction opposite of the trend that had been in place heading into the trading range. In this description the traits will be discussed as if they are in a continuation buy setup, but they can easily be reversed in order to use them in a short setup.

Criteria:



1. The criteria for a rectangular breakout pattern from a sideways trading range is very similar to a triangle range breakout. Most of the same criteria, as well as pros and cons will apply. The difference is that there are more comparable highs and lows, as opposed to a narrowing range or trend channel.

2. There must be at least two highs and two lows within the range to be identified as a trading range if there is back and forth action. If there is just a lot of overlap from one bar to the next, then these waves of buying and selling will be more difficult to discern.

Entry: As in a triangle pattern, there are several entry techniques that work well on this pattern.

1. The technique which is the most widely taught is to draw a line connecting the highs of the range to each other and connecting the lows of the range. In the case of an upside range breakout, the trigger would occur when that upper trend line breaks higher. This is one of the least preferred methods to entering a breakout, second only to taking a breakout from the absolute highs of the range.

2. Another method in the case of a buy setup is to enter above the previous high once at least two highs are established.

3. A third setup, which is the one that will generate the highest reward compared to risk, is to watch the moves within the range and monitor the pace of each of the moves. When the security pulls back more gradually off the highs then before, or hugs the upper trend line, then use a break higher from that smaller downtrend or sideways trend within the larger trading range for an entry trigger.

Stop: Under the last pivot low within the range, or if it bases on a smaller time frame within the larger trend channel, then a stop can be placed under the lows of that smaller range. Use greater caution when keeping a tighter stop such as this if the security is very volatile, meaning there is a lot of back and forth action and overlap even as it trends, if the pace has yet to change within the range when it breaks, or if the security is thinly traded.

Target: The targets on a breakout will depend upon whether they are continuations or reversals of the previous trend.

- In the case of a continuation buy pattern, when the pace or momentum on the breakout move is comparable to that of the move heading into the trading range itself, then a target is an equal or measured move. This involves taking the move into the range, from the lows of that move to the highs at the start of the range, and then comparing that to the lows at the start of the breakout and projecting them higher. If the momentum is slower than the previous rally, then it will be more difficult to hit that equal move and it will be necessary to identify closer resistance levels. If the momentum is stronger than that previous move, then a larger than equal move can form.

- When the breakout from the range is a reversal pattern off lows, however, then monitor the price and moving average resistance levels overhead. If a downtrend preceded the base at lows and then it turned around and headed higher, then the level at which a previous Bear Flag broke lower would be resistance and a strong initial target, as would a resistance level such as a 200 period simple moving average, although any number of major moving averages can come into play on multiple time frames to serve as resistance. The resistance will be much stronger if several resistance levels are hitting at about the same time.

Ideal 5 Building Block Traits on a Breakout from a Trading Range

Pace: As a trading range begins, it is common for the initial downside move(s) to be average or stronger than average. As the range progresses, however, the odds are highest when the pullbacks from the highs are more gradual than the upside moves within the range. A base near the highs of the range or move with only a very slight downside slant off the upper end of the range is preferred.

Trend Placement/Trend Development: A breakout is typically considered to be a continuation pattern, but can also be a reversal pattern.

- As a continuation pattern, it is best if the uptrend has only has one or two waves of upside.
- As a reversal pattern it helps if the pace of each of the downside moves in the previous downtrend is slower then the one that preceded it and that there were three waves of selling within that downtrend.
- A typical breakout tends to take place on the third or fourth test of the upper trend line for the trading range.

Support/Resistance:

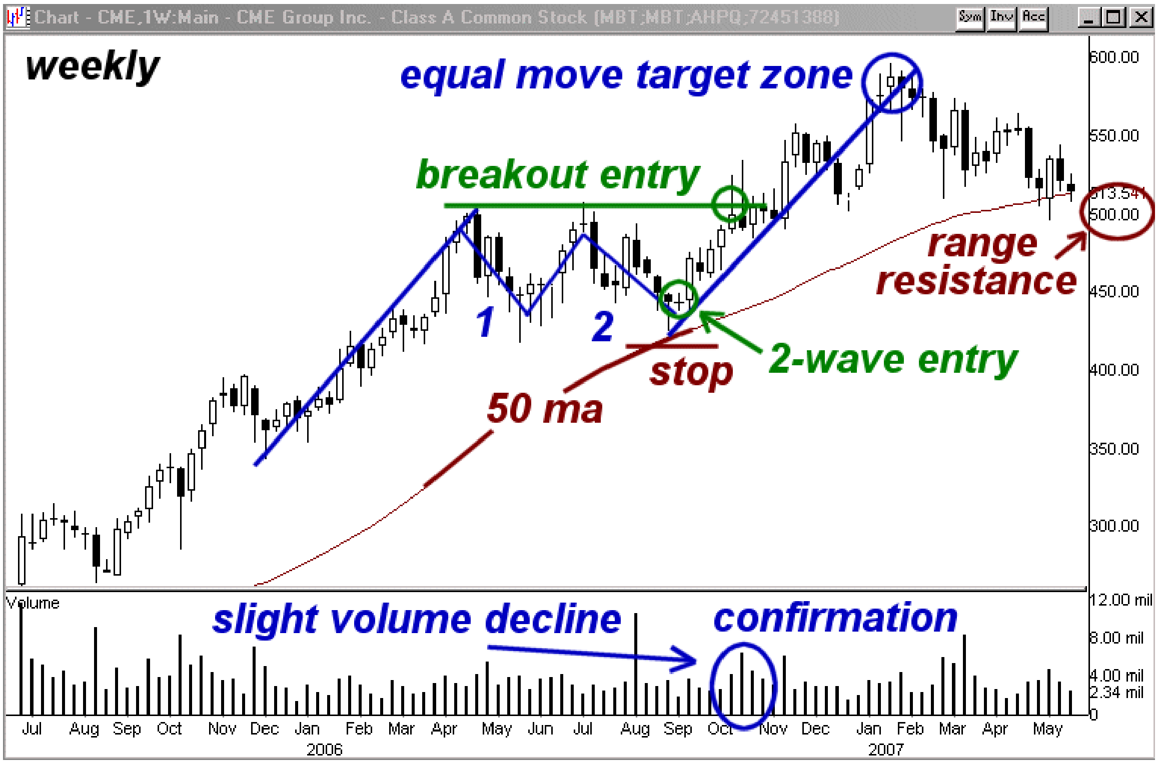
- As a continuation pattern this setup is most ideal when it forms into the uptrend line on a larger trend, or moving average support such as a 20 period moving average. Check to see if that level was also support on a previous correction, or if this is the first correction in a new uptrend, then look to see what the previous moving average resistance level was that broke to create the first higher high.
- If there is strong resistance on a larger time frame, such as the range forming intraday on a 15 minute time frame and there is a 50 day moving average overhead that will be hitting for the first time in the trend move, then that level will have a more difficult time breaking. The same is true if it forms on a 5 minute chart and has a 5 minute 200 moving average shortly overhead.

Volume: Watch for declining volume throughout the pattern's development with higher volume on the upside moves within the range and lighter volume on the downside as the pattern progresses. The best ones are when the volume is at its lightest level of the day just prior to the breakout as it bases at highs or pulls back gradually (in the case of a day trade).

Correction Periods: It is ideal when the last pivot low within the range, or the breakout from the range occur at the same time as a correction period.

Example 1: Weekly Breakout Buy Setup in CME

Breakout Buy Setup - Chicago Mercantile Holdings Inc. (CME) on a Weekly Time Frame



Pros on Weekly CME Breakout Buy:

1. Pace: The overall pace slowed somewhat on the second wave of selling from July into September as compared to the original drop from mid-April to mid-May.

2. Trend Placement: While not shown here, CME had been in a strong uptrend for several years.

3. Trend Development: CME had two waves of selling within the range itself. The ideal number is 2-3 waves prior to an upside breakout. As a result, the same criteria apply for the CME setup as they would for any other 2-Wave Continuation Buy Setup. The 2-Wave Continuation Buy Setup is just one variation possible on a Breakout.

4. Trend Development: The steady trading back and forth within the range allowed for the possibility of taking a setup within the range itself as it came off the 50 day simple moving average in late August using a 2-Wave corrective buy setup. This allowed a trader to have taken nearly three times as many shares to nearly triple the reward potential on the trade while still keeping the same risk.

5. Support: The 50 day simple moving average served as strong support for the trading range and a trigger for the subsequent breakout.

6. Resistance: No strong resistance overhead.

7. Volume: As CME fell into a trading range, the volume within that range declined slightly.

8. Correction Periods: The trading range breakout followed a move higher in October, which is a common correction month for the market.

Cons on Weekly CME Breakout Buy

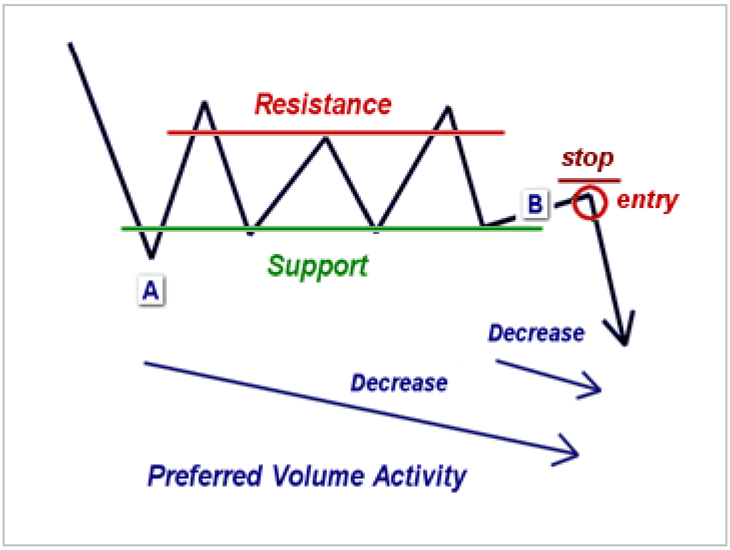
1. Trend Development: There was no smaller setup within the upper end of the range before it broke higher. If a trader took the absolute break of the trading range, the stop would have been under the lows of the range and the potential reward would have only just covered the risk.

2. Trend Development: The choppier trading with a greater level of overlap from bar to bar on the upside move heading into the trading range created stronger odds that the same type of trading would occur following a breakout. This ended up being the case. The risk is that it becomes easier to get flushed out before the target level hits and it can make it more difficult to accurately judge when the security is completing the upside move as opposed to just falling into a minor correction before it then continues into a larger target level.

3. Volume: The volume decrease throughout the trading range was not substantial compared to the volume on the uptrend move into the range itself.

4. Volume: Although the volume did increase somewhat as CME began to break higher, it failed to continue to confirm the move and remained rather light throughout the overall uptrend.

Breakout Short Setup (Breakdown)



Description: Also called a "rectangle", this pattern is based upon a sideways trading range breaking lower. It is most commonly traded as a continuation pattern which is then called a consolidation, but a sideways range can at times also break in the direction opposite of the trend that had been in place heading into the trading range. In this description the traits will be discussed as if they are in a continuation short setup, but they can easily be reversed in order to use them in a buy setup.

Criteria: The criteria for a rectangular breakdowns pattern out of a sideways trading range is very similar to a Triangle Range Breakdown. Most of the same criteria, as well as pros and cons will apply. The difference is that there are more comparable highs and lows, as opposed to a narrowing range or trend channel. There must be at least two highs and two lows within the range to be identified as a trading range if there is back and forth action. If there is just a lot of overlap from one bar to the next, then these waves of buying and selling will be more difficult to discern.

Entry: As in a triangle pattern, there are several entry techniques that work well on this pattern.

- The technique which is the most widely taught is to draw a line connecting the lows of the range to each other and connecting the highs of the range. In the case of a range breakdown, the trigger would occur when that lower trend line breaks lower. This is one of the least preferred methods to entering a breakdown, second only to taking a breakdown from the absolute lows of the range.

- Another method in the case of a short setup is to enter below the previous low once at least two lows are established.

- A third setup, which is the one that will generate the highest reward compared to risk, is to watch the moves within the range and monitor the pace of each of the moves. When the security pulls back more gradually off the lows then before, or hugs the lower trend line, then use a break lower from that smaller uptrend or sideways trend within the larger trading range for an entry trigger.

Stop: Over the last pivot high within the range, or if it bases on a smaller time frame within the larger trend channel, then a stop can be placed over the highs of that smaller range. Use greater caution when keeping a tighter stop such as this if the security is very volatile, meaning there is a lot of back and forth action and overlap even as it trends, if the pace has yet to change within the range when it breaks, or if the security is thinly traded.

Target: The targets on a breakout will depend upon whether they are continuations or reversals of the previous trend.

- In the case of a continuation short pattern, when the pace or momentum on the breakdown move is comparable to that of the move heading into the trading range itself, then a target is an equal or measured move. This involves taking the move into the range, from the highs of that move to the lows at the start of the range, and then comparing that to the highs at the start of the breakdown and projecting them lower. If the momentum is slower than the previous drop, then it will be more difficult to hit that equal move and it will be necessary to identify closer support levels. If the momentum is stronger than that previous move, then a larger than equal move can form.

- When the breakdown from the range is a reversal pattern off highs, however, then monitor the price and moving average support levels under the trading range. If an uptrend preceded the base at highs and then it turned around and headed lower, then the level at which a previous Bull Flag broke higher would be support and a strong initial target, as would a support level such as a 50 period simple moving average, although any number of major moving averages can come into play on multiple time frames to serve as support. The support will be much stronger if several support levels are hitting at about the same time.

Ideal 5 Building Block Traits on a Breakout Short Setup (Breakdown) from a Trading Range

Pace: As a trading range begins, it is common for the initial upside move(s) to be average or stronger than average. As the range progresses, however, the odds are highest when the moves higher off the lows of the range are more gradual than the downside moves within the range. A base near the lows of the range or move with only a very slight upside slant off the lower end of the range is preferred.

Trend Placement/Trend Development: A breakdown is typically considered to be a continuation pattern, but can also be a reversal pattern.

- As a continuation pattern, it is best if the downtrend has only has one or two waves of downside.

- As a reversal pattern it helps if the pace of each of the upside moves in the previous uptrend is slower then the one that preceded it and that there were three waves of buying within that uptrend.

- A typical breakdown tends to take place on the third or fourth test of the lower trend line for the trading range.

- Ideally the congestion for the trading range is taking place in the lower ½ of the downside move into that range when the strategy is being used to time a continuation of a previous drop.

Support/Resistance:

- As a continuation pattern this setup is most ideal when it forms into the downtrend line on a larger trend, or moving average resistance such as a 20 period moving average. Check to see if that level was also resistance on a previous correction, or if this is the first correction in a new downtrend, then look to see what the previous moving average support level was that broke to create the first lower low.

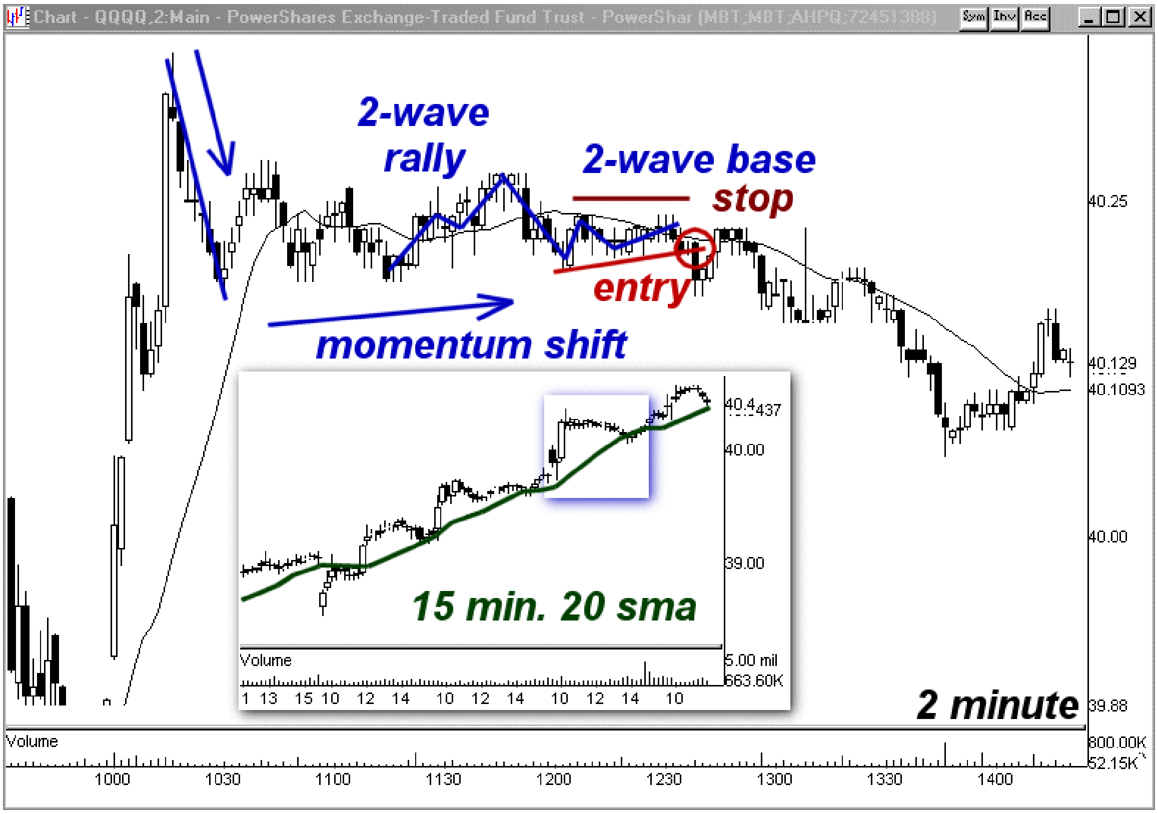
- If there is strong support on a larger time frame, such as the range forming intraday on a 15 minute time frame and there is a 50 day moving average support that will be hitting for the first time in the trend move, then that level will have a more difficult time breaking. The same is true if it forms on a 5 minute chart and has a 5 minute 200 moving average directly under lows.

Volume: Watch for declining volume throughout the pattern's development with higher volume on the downside moves within the range and lighter volume on the upside as the pattern progresses. The best ones are when the volume is at its lightest level of the day just prior to the breakdown as it bases at lows or pulls back gradually (in the case of a day trade).

Correction Periods: It is ideal when the last pivot high within the range or the breakdown from the range occur at the same time as a correction period.

Example 1: 2 Minute Breakout Short Setup (Breakdown) in NIHD

Breakout Short Setup (Breakdown) - NII Holdings Inc. (NIHD) on the 2 Minute Time Frame



© 2009 Chart provided by MB Trading

Pros on 5 Minute NIHD Breakout Short (Breakdown)

1. Pace: Despite the sharp rally in the morning, the pace shifted to form a stronger-than-average downside move into 10:30 am ET. The momentum continued to shift throughout the range so that the upside moves became from gradual than the downside moves and NIHD began to hug the lower end of the larger trend channel.

2. Trend Placement: After reversing off highs, NIHD did not bounce by more than 50% off the 10:30 ET lows and by the end of the trading range it was trading in the lower 30% of the range created between the morning highs and the 10:30 ET lows. In fact, when it bounced at 12:00 ET off the lower end of the range, it also did not move up more than 50% of the drop into that low. This created a smaller trading range within the larger one, which created even greater favor for a break lower.

3. Trend Placement: The rally into the morning highs hit an equal move level as compared to the previous 15 minute rally, thus extending the uptrend and creating favor for a larger correction. Since the previous corrective moves each pulled into the 15 minute 20 moving average before continuing, this meant that a correction taking at least that long would also be likely coming off the highs on the day of this setup as well.

4. Support: No major pro in regard to support levels.

5. Resistance: The smaller trading range within the larger trading range allowed for the placement of a much narrower stop than would have been required otherwise and the 2 minute 20 period moving average turned into a resistance level.

6. Volume: Although difficult to discern on these charts, volume dropped off as the range progressed into the afternoon.

7. Correction Periods: The pivot off the morning highs took place at the zone of the 10:15 ET correction period.

8. Correction Periods: Even though the trigger for the breakdown did not correspond to a correction period, the continuation move that confirmed the breakdown took place at 13:00 ET of the 2 minute 20 ma.

Cons on 5 Minute NIHD Breakout Short (Breakdown)

1. Pace: The extreme momentum on the upside heading into the morning meant that a correction off the highs would take much longer to form than the rally itself and that even a larger price reversal would likely form through increased momentum as the security stepped lower.

2. Trend Placement: Since the corrections between each of the waves of buying on the 15 minute time frame lasted for varying amounts of time, the 1-2-3 trend development rule did not apply and the market had the potential to again try for another high.

3. Support: The 15 minute 20 ma that had held the uptrend did not leave NIHD with a lot of room to work with. In order to have broken that support easily, it would have had to have fallen more quickly out of the trading range without the retest of the range at 13:00 ET. This limited the initial target potential and made larger targets more difficult.

4. Volume: The breakdown from the trading range was not accompanied by a strong increase in volume to confirm the reversal. This lack of volume confirmation is typical within a larger continuation pattern in the direction of the larger trend, so it made it more likely that NIHD would again show a reaction to the 15 minute 20 ma.

5. Correction Period: The breakdown was not accompanied by a major correction period.

Example 2: Daily Breakout Short Setup (Breakdown) in the EUR/CAD

Breakout Short Setup (Breakdown) – EUR/CAD Currency Pair on the Daily Time Frame

Pros on Daily EUR/CAD Breakout Short (Breakdown)

1. Pace: EUR/CAD formed a gradual 3-wave move higher off the June lows with substantially slower overall upside pace than the selling heading into the summer. The pace then shifted to step lower into August and was followed by a lower-level trading channel to further confirm the daily momentum change.

2. Trend Placement: The base at lows took place at a congestion zone from 2006 and it was the first correction to take place after the trend shifted lower into the spring. This left it room for at least one downside continuation move on the weekly time frame.

3. Trend Development: Within the congestion itself, two 2-Wave short patterns formed. One took place within the entire range itself with the first wave from June into the start of August and the second wave from mid-August into early September. The second pattern took place within the 2nd wave of correction in the larger range in the second half of August and into the middle of September.

4. Trend Development: When the breakdown took place, it formed three waves of selling with each wave increasing in downside momentum. This helped make it easier to establish target levels to correspond to the trend exhaustion on the new, smaller downtrend from September into November.

5. Support: The trading range itself was forming at larger price congestion zone from 2006. A break lower out of the trading range would confirm a break in this larger time frame support level, leading the next support level around 1.38 from early 2006 when the currency pair triggered a Momentum Reversal Buy Setup. Equal move support on the breakdown itself, however, created favor for a new low on the monthly time frame as long as the momentum on the breakdown was stronger-than-average. This ended up being the case.

6. Resistance: The 100 day moving average served as resistance for the base, leading to the larger breakdown. At that point, the 20 moving average served as resistance for the new downtrend from September into November. A break in this moving average also confirmed an end of the downtrend, although other indicators such as volume and the trend exhaustion would have helped time the low more closely.

7. Volume: Volume was not available on this chart, although lighter volume throughout the trading range would have been ideal.

8. Correction Periods: This neither helped nor hindered the setup.

Cons on EUR/CAD Daily Breakout Short (Breakdown)

1. Pace: Overall the pace of the breakdown pattern was very good. It could have been improved further if the second wave of the 2-Wave short setup was slower on the upside than the first wave.

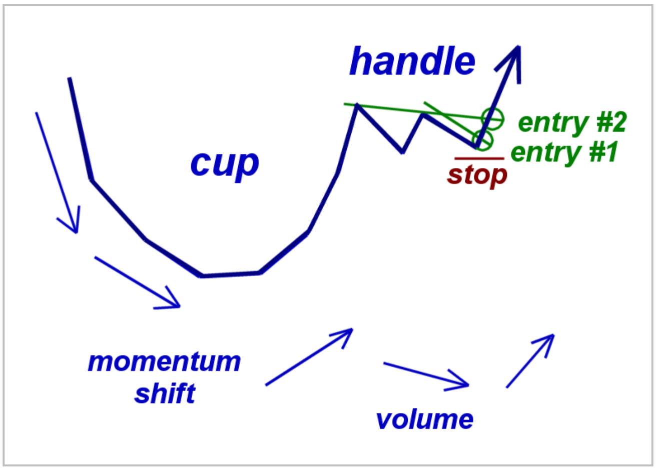
2. Trend Placement and Support: The previous weekly low (not shown here) could have shifted the momentum in favor of a slower breakdown from the range than took place heading into the range itself to favor a larger double bottom or 2B reversal off that support.

3. Volume: Volume data was not available at the time of this setup. Ideally, the volume would have declined throughout the trading range, remained light as the EUR/CAD moved higher within the 2-Wave short pattern from August into early September, and then increased on the breakdown with strong volume on the third wave of selling into November.

4. Correction Period: No major correction period to accompany the breakdown. Dropping down to smaller time frames intraday when the 2-Wave Continuation setup formed would have been helpful to access if the second high in the smaller setup corresponded to a major intraday correction period.

Cup-with-Handle Buy Setup

Description: This is a specific type of Phoenix™ pattern is named after its appearance. It consists of rounded lows, which resembles a "cup", followed by a gradual pullback or base at the upper right lip of the cup formation, aptly named "the handle". Often the handle will begin at a slightly lower high than the left side of the cup. For instance, if the downward slope on the left has a high of $50.25, then the high heading into the cup might be right at the $50 price resistance. Cups-with-Handles which have a slightly lower high at the right are often stronger when they break out than those that have comparable highs or a slightly higher high at the right side of the cup.



Criteria:

1. A security coming out of a downtrend with rounded lows, creating a "cup-like" appearance.

2. This is then followed by a base or gradual pullback, called "the handle," that only retraces a fraction of the right side of the cup.

Entry: Draw a trend line along the highs of the handle and enter when that trend line breaks. Ideally, drop down to a smaller time frame and use the entry criteria from a Flag, Triangle, or Breakout pattern in order to minimize the risk and increase the reward potential.

Stop: Under the lows of the handle or using the stop criteria from a Flag, Triangle, or Breakout.

Target:

- An equal move when comparing the move from the low of the cup to the high at the left side of the handle to the move from the low of the handle upward.

- Also watch the next time frame higher. If the Cup-with-Handle formed the handle along a 5 minute 20 simple moving average for instance, then the 20 period moving average on the 15 minute time frame will be resistance.

Ideal 5 Building Block Traits on a Cup-with-Handle Buy Setup

Pace: Above average upside momentum coming off the lows of the cup, followed by a more gradual pullback to form the handle of the pattern. Within the handle itself, the ideal pace is a slower pullback off the highs of the handle and more rapid moves off the lows of the handle, particularly just prior to the breakout from the handle.

Trend Placement/Trend Development: This pattern can form at several levels as either a reversal pattern off lows to end a downtrend, or it can take place along a larger resistance level, creating a continuation pattern in an uptrend.

- In the Cup-with-Handle pattern itself, the risk is lower when the handle takes 1.5-2 times as long to form as the move up off the lows into the start of the handle.

- When the congestion for the handle forms, it is ideal if this congestion occurs in the upper half of the upside move off the lows of the cup.

Support/Resistance:

- Support hitting on multiple levels at the low of the cup is ideal.

- The handle should then form just under a resistance level, such as a 20 period moving average, and hug that level. If it breaks the 20 moving average and then bases along the top of it the risk is higher that the follow through will not be as strong.

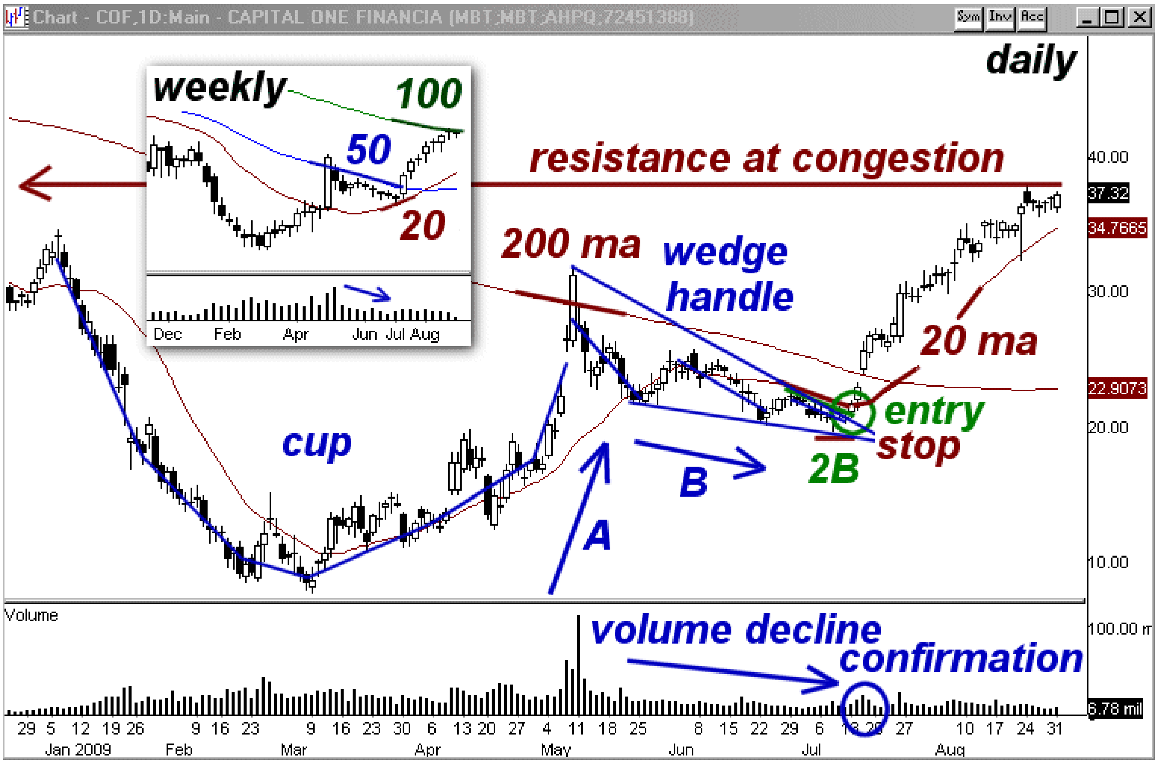
- Check the resistance levels on multiple time frames. Those with the least overhead resistance will have the most room to move when the pattern triggers and hence be the most likely to have strong follow-through.

Volume: Strong volume into the lows at the start of the handle, stronger volume on the right side of the cup when it begins moving higher again, and then declining volume once more when the handle forms. It is best if the volume within the handle is the lightest just prior to the upside breakout and then increases as the handle breaks higher to confirm the breakout.

Correction Periods: Higher probability of success if the cup finds support at a correction period and the security breaks out of the handle at a correction period.

Example 1: Daily and Weekly Cup-with-Handle Buy Setup in COF

Cup-with-Handle Buy Setup – Capital One Financial (COF) on a Daily Time Frame



Pros on Daily Cup-with-Handle Setup in COF

1. Pace: The momentum was strong when COF first began to break lower in January. When the selloff continued, however, the momentum began to shift. The selling became slower and COF had a more difficult time making lower lows. This was the first indication that a Cup-with-Handle could form. It confirmed by rounding off at the lows with increased upside momentum and the creation of higher highs to form the "cup" of the Cup-with-Handle setup. The momentum was the strongest on the upside just prior to the formation of the "handle".

2. Pace: The momentum shifted very well within the "handle" on this formation. There were two initial waves of selling off highs, each with slower downside than the previous rally. The momentum then shifted further after the second low within the "handle" when COF hugged the 200 period moving average to create a slower downside move than that second wave of correction in June. This allowed for a sharp breakout from the trend channel of the "handle" in July.

3. Trend Placement: The "handle" began after three waves of upside coming off the March lows. Each move higher was stronger than the one that came before it and the time it took

to correct between each wave of buying was comparable. This created an exhaustion of the trend on the third rally and also complimented the change in pace, so the odds were strong that a correction off the highs of the uptrend would be more gradual overall and it increased the potential for an upside continuation pattern on the larger time frame for a larger time frame uptrend.

4. Trend Development: The trend action within the “handle” formed very nicely on this Cup-with-Handle. COF pulled back with a 2-Wave Correction off May’s highs. The pace on the second wave of selling did increase somewhat into the low, however, and was not quite at larger time frame support, so its attempt to trigger an early breakout failed. The risk was reduced when the second wave of correction was extended by the formation of a slightly lower low in early July to create a 2B off the 20 week moving average. The overall “handle” also bears the label of a Descending Wedge Buy Setup because the channel from the correction narrowed as it progressed with a slight downward tilt. Setups that can be classified by several names often have higher levels of success, especially if they occur on several time frames.

5. Support: The lows of the “handle” on COF were an exact 50% retracement of the rally off March’s lows, but the pace of the overall move into that support was half the pace of the previous rally. This created a very strong price support level.

6. Support: The lows of the “handle” also corresponded to the zone of April’s highs and the $20 whole number price support.

7. Resistance: The highs of the right side of the “cup” were established just under the price level from the left side of the cup. This is an ideal resistance level for a “handle” to begin to form at.

8. Resistance: The “handle” began to form at the 200 day moving average resistance and hugged the 50 week moving average resistance. This pattern is always ideal when the “handle” keeps even pace with a slowly descending moving average.

9. Support and Resistance: At the time of the breakdown to trigger the short, the 20 and 50 period moving averages were converging and had nearly crossed.

10. Volume: Volume increased into the lows of the “cup” and continued to remain strong as COF rallied off the March lows. This confirmed the reversal.

11. Volume: Volume was light on the selling off the 50 week moving average resistance when the “handle” began to form. It dropped off further as the correction continued, which suggested that the bears were not very aggressive and the bulls did not feel any great panic.

12. Volume confirmed the breakout in July when it increased as the “handle” broke higher.

13. Correction Period: March is a major correction period on the larger monthly time frame. The lows of the “cup” were established in March.

Cons on Daily Cup-with-Handle Setup in COF

1. Resistance: Since the “handle” retraced 50% off the highs and back towards lows, the highs of the “handle” risked being a strong resistance level. In this case it did stall the rally, although it was able to push higher several days later. There was not, however, a strong break in this resistance zone.

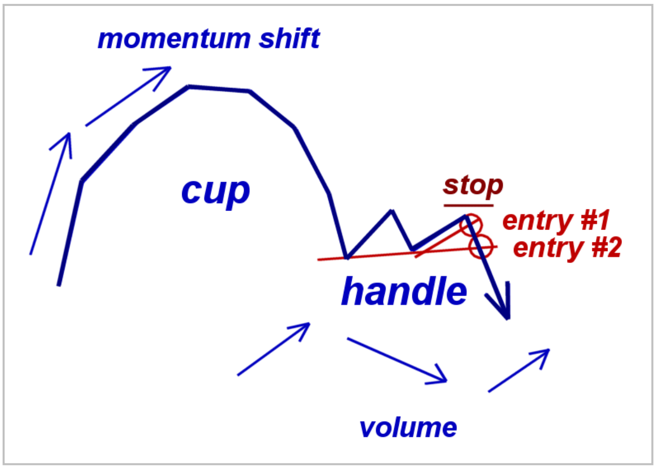
2. Resistance: COF was in a larger downtrend since 2006 and the 100 week moving average was the upper resistance within that downtrend. This increased the risk that this resistance level would hold and lead to another leg lower. Luckily, COF was still able to establish a large move higher out of the Cup-with-Handle before hitting this level, but it made it more difficult for it to establish an equal move on the breakout as compared to the initial move off lows.

3. Volume: Although volume increased in July when the pattern triggered a buy setup, the increase was not substantially greater than the early stages of the correction off May’s highs. This meant that the bulls were not as aggressive on this leg of upside on the weekly time frame as they had been coming off March’s lows. The result was a slowdown in the pace of the rally following the break higher and a slowdown into the 100 week moving average resistance and initial target zone just shy of $40.

(Inverse) Cup-with-Handle Short Setup

Description: Also known as an "Inverse Cup-with-Handle" or a "Reverse Cup-with-Handle" this is a specific type of Avalanche™ pattern is named after its appearance. It consists of rounded highs, which resembles an upside-down "cup", followed by a gradual pullback or base at the lower right lip of the cup formation, aptly named "the handle". Often the handle will begin at a slightly higher low than the left side of the cup. For instance, if the downward slope on the left has a low of $49.75, then the low heading into the cup might be right at the $50 price support. Cups-with-Handles that have a slightly higher low at the right are often stronger when they break lower than those that have comparable lows or a slightly lower low at the right side of the cup.

Criteria:



1. A security coming out of an uptrend with rounded highs, creating an upside-down "cup-like" appearance.

2. This is then followed by a base or gradual pullback off the lows, called "the handle," that only retraces a fraction of the right side of the cup.

Entry: Draw a trend line along the lows of the handle and enter when that trend line breaks. Ideally, drop down to a smaller time frame and use the entry criteria from a Flag, Triangle, or Breakdown pattern in order to minimize the risk and increase the reward potential.

Stop: Over the highs of the handle or using the stop criteria from a Flag, Triangle, or Breakdown.

Target:

- An equal move when comparing the move from the high of the cup to the low at the left side of the handle to the move from the high of the handle downward.

- Also watch the next time frame higher. If the Cup-with-Handle formed the handle along a 5 minute 20 simple moving average for instance, then the 20 period moving average on the 15 minute time frame will be support.

Ideal 5 Building Block Traits on a Cup-with-Handle Short Setup

Pace: Above average downside momentum coming off the highs of the cup, followed by a more gradual pullback off support to form the handle of the pattern. Within the handle itself, the ideal pace is a slower pull up off the lows of the handle and more rapid moves off the highs of the handle, particularly just prior to the breakdown from the handle.

Trend Placement/Trend Development: This pattern can form at several levels as either a reversal pattern off highs to end an uptrend, or it can take place along a larger support level, creating a continuation pattern in a downtrend.

- In the Cup-with-Handle pattern itself, the risk is lower when the handle takes 1.5-2 times as long to form as the move lower off the highs into the start of the handle.

- Ideally the handle will form in the lower 50% of the price range from the highs of the cup to the lows at the start of the handle.

Support/Resistance:

- Resistance hitting on multiple levels at the high of the cup is ideal.

- The handle should then form above a support level, such as a 20 period moving average, and hug that level. If it breaks the 20 moving average and then bases along the bottom of it then the risk is higher that the follow through will not be as strong.

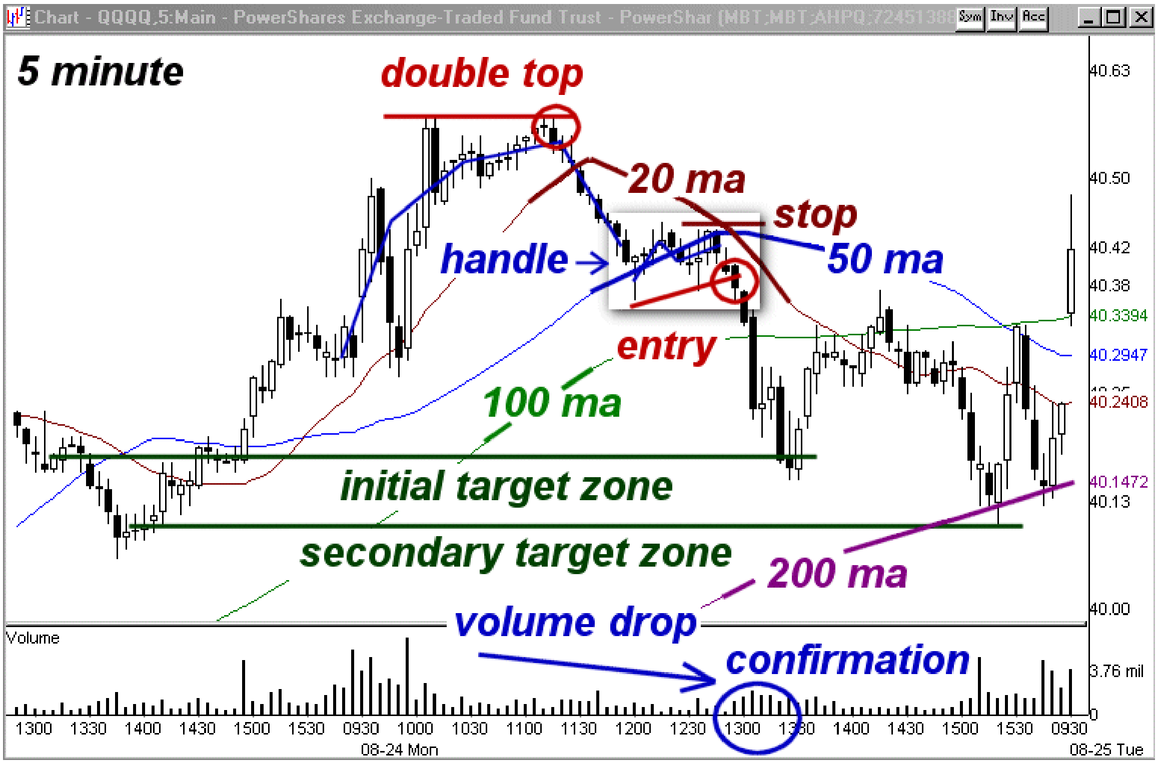
- Check the support levels on multiple time frames. Those with the least support will have the most room to move when the pattern triggers and hence be the most likely to have strong follow-through.

Volume: Strong volume into the lows at the start of the handle, stronger volume on the right side of the cup when it begins moving lower again, and then declining volume once more when the handle forms. It is best if the volume within the handle is the lightest just prior to the breakdown and then increases as the lower end of the channel from the handle breaks.

Correction Periods: Higher probability of success if the cup finds resistance at a correction period and the security breaks lower out of the handle as it comes out of a correction period.

Example 1: 5 Minute Inverse Cup-with-Handle Short Setup in the QQQQ

Inverse Cup-with-Handle Setup – Power Shares QQQ Trust (QQQQ) on a 5 Minute Time Frame



Pros on QQQQ 5 Minute Inverse Cup-with-Handle Short Setup

1. Pace: Despite a strong upside move into highs on the morning of the 25th, the QQQQ shifted its upside momentum throughout the remainder of the morning. After forming three highs on the 5 minute time frame since reversing the trend to an uptrend the previous afternoon, the QQQQ attempted a fourth high into the 11:15 ET correction period. The momentum on the retest of the 10:15 ET high, however, was substantially slower than the rally into that previous high. This shift in momentum helped round the QQQQ off at morning highs. This "rounding off" was confirmed when the QQQQ increased momentum on the selling out of 11:15 ET, thus completing the "cup".

2. Pace: The pace of the buying off support into noon was a lot slower than the selloff into that support.

3. Pace: The momentum shifted even further when the upside within the slower trend channel that began at noon also shifted and became more gradual heading into the 20 period moving average.

4. Pace: The momentum of the selloff out of the "handle" was stronger than the drop off the highs when the double top was formed.

5. Pace: Although not shown here, the pace of the rally on the left side of the "cup" was slower than the previous rally on a 15 minute time frame. This indicated the potential for a larger shift in momentum.

6. Trend Placement: Although not shown here, the rally at the start of the left side of the "cup" was also the follow through on a larger 15 minute Bull Flag in an extended uptrend.

7. Trend Placement: The highs of the "cup" were created with a double top. This reversal pattern created strong favor for at least one continuation move on the downside to either establish a larger 2-Wave Correction or a new downtrend. The base for the "handle" created that first correction to allow for the development of an initial continuation pattern.

8. Trend Development: When the "handle" based along support, it created a smaller 2-Wave Continuation Sell Setup into the 20 period moving average. The slower upside momentum in the second wave of buying helped create favor for a stronger break lower.

9. Trend Development: The "handle" breakdown also could be classified as a 2-Wave Continuation Sell, as mentioned in #5, as well as a Pennant, Triangle, and Avalanche™. Check out the traits for these setups to compare. The only unique characteristic on the Cup-with-Handle is the rounded high to create a larger trend correction ahead of the continuation pattern. The "handle" itself could have also been in the form of a Trading Range Breakdown or a Descending Triangle. It could even have consisted of a 2T within the 2-Wave Continuation Sell if the second high had been slighter higher than the first.

10. Support: The equal move target level on the QQQQ breakdown created reward potential that was at least twice the risk as long as the momentum on the breakdown was as strong as the drop off the double top.

11. Resistance: The 20 period moving average served as strong resistance for the "handle" because it was the support level of the previous uptrend.

12. Support and Resistance: At the time of the breakdown to trigger the short, the 20 and 50 period moving averages were converging and had nearly crossed.

13. Volume: Volume declined dramatically when the QQQQ formed its double top. This showed a lack of strong new buying and allowed it to reverse quickly. Volume then dropped off even further within the "handle", even when the QQQQ was bouncing off support. This again showed a lack of participation from the bulls.

14. Volume: Volume increased when the "handle" broke lower. This confirmed the selling pressure.

15. Correction Period: The start of the "handle" began at the 12:00 ET correction period and the short setup triggered coming out of the 13:00 ET correction period.

Cons on QQQQ 5 Minute Inverse Cup-with-Handle Short Setup

1. Pace and Trend Placement: Even though the Inverse Cup-with-Handle in the QQQQ was at the upper end of an extended uptrend on the 15 minute time frame, the pace of the rally at

the left side of the “cup” was still stronger-than-average. This increased the risk that the QQQQ would attempt to round off even further on the larger time frame and increased the risk that the follow through on the “handle” breakdown could be slower-paced than the drop off the double top, thus leading to a third high in a larger Momentum Shift on the 15 minute time frame. This third high did end up forming, but since the pace of the breakdown was stronger-than-average, a 2B formed into the end of the day to help the QQQQ push back to the upper end of the slowing trend channel.

2. Support: The congestion at approximately $40.30 from 15:30 ET the previous afternoon corresponded to the 100 period moving average. If the momentum on the breakdown out of the “handle” had been weaker than the drop out of the double top, then this level could have easily held and created a 2B at that support level.

Double Bottom

Description: This reversal pattern is the opposite of the double top. It is formed when a new low is made and then is tested for a second time. A 2B is a form of double bottom whereby there is a slight difference between the two lows with the second low slightly lower than the first. In other variations of a double bottom the second low can be exactly the same as the first or be very slightly above the first. The difference between the two, however, should be barely noticeable.

Criteria:

1. A double bottom is formed when a security falls into a support level, typically with strong momentum.

2. The pace of the selloff into the support, however, was too strong to allow the security to form a larger correction off the low, so the security falls back into the support zone. This retest of the support can be slow enough that it creates a shift in momentum that allows the security to reverse its course. Unless the momentum into the second low is substantially slower than it was into the first low, however, the larger upside will generally be more gradual than the overall downside move into the first low. It can still create strong setups as shorter-term positions though. Traders wishing to trade these as larger trend reversals off lows will often add to a position as the momentum off the reversal confirms and creates continuation patterns in the direction of a new uptrend.

Entry: A buy setup is triggered when the trend channel heading into the second low is broken on the upside. A trader can also drop down to a smaller time frame and watch for a 2B™, Phoenix™, Reverse Head and Shoulders, Cup-with-Handle, or a triangle reversal pattern and take the trigger based upon that smaller pattern. This will increase the accuracy and timing on the position in many cases, although a smaller time frame pattern may not give a clear buy setup and waiting for one may entail missing the double bottom pattern completely.

Stop: Under the low of the second low. The stop based upon a smaller time frame short pattern could be used instead when it applies.

Target: The high made between the two lows is the first resistance level. A double bottom which serves as a reversal pattern will then break that resistance level with a continuation pattern, confirming the reversal. Previous congestion zones, previous highs and lows, and moving average resistance levels are some of the main reasons that a move out of a double top will stall or complete its move. When more than one resistance level hits at once, the odds are higher that the security will react to that level. This can cause the double bottom to end its reversal or it can be followed by the creation of a continuation pattern on the upside. This will depend primarily upon the pace of the buying and the larger trend placement.

Ideal 5 Building Block Traits of a Double Bottom

Pace: Above average buying into the first low, followed by a more gradual overall move into the second low. Sometimes the pace will increase briefly at the very end of the move into the second low even though the larger overall pace of the move remains slower than the previous wave of selling into the first low.

Trend Placement/Trend Development:

- An extended downtrend is ideal for creating a larger trend reversal on a double bottom. For instance, this is common when the security already has three waves of selling.

- It helps a lot if the move off the high made between the two lows takes 1.5-2 times as long to regain the ground it lost coming off the initial low than it did to make that rally in the first place. If the security pulls higher by $10 in 30 days as it comes off the first low, for example, then it is nice to see it take 45-60 days to retest the initial low. The pattern can still work well if it takes longer than twice as much, but is significantly less accurate if it only takes as long to retrace back to the lows as it did to rally off them. This means that a $10 rally in 30 days would lower odds for successful a double bottom if it takes 30 days or less to return to the previous low.

- Many times this type of double bottom will then create a triangle after making the second low in order to extend the correction time and lead to a stronger break higher down, or it might make another double bottom to help assist in turning over the downside momentum and create greater favor for a stronger rally.

Support/Resistance: Strong support level at lows with the security constantly testing a resistance level such as a trend line or 20 moving average on the move into the second low, particularly as it approaches that second low.

Volume: Overall volume declines on the move into the second low, although it may pop briefly if the security experiences a small surge in selling at the last minute before holding the support at the previous low.

Correction Periods: Higher probability of success when the second low corresponds to a correction/reversal period or when the trigger on the double bottom takes place heading into a correction period. The first is preferred.

Double Top

Description: This is a reversal pattern formed when a new high is made and then is tested for a second time. A 2T™ is a form of double top whereby there is a slight difference between the two highs with the second high slightly higher than the first, but in other variations of a double top the second high can be exactly the same as the first or be very slightly under the first. The difference between the two, however, should be barely noticeable.

Criteria:

1. The first criteria consist of an uptrend that has an initial high established at resistance.

2. After a correction off this initial high, that price level is retested but holds and the security retraces off the highs. If the trend is not extended or at strong resistance on a higher time frame, then this setup may have limited potential, pulling back only slightly or basing at the second high before continuing higher.

Entry: Connect the lows in the last portion of the second move, when this lower trend line breaks, the short pattern is triggered. A trader can also drop down to a smaller time frame and watch for a 2T™, Avalanche™, Head and Shoulders, Inverse Cup-with-Handle, or triangle reversal pattern and take the trigger based upon that smaller pattern. This will increase the accuracy and timing on the position in many cases, although a smaller time frame pattern may not give a clear short setup and waiting for one may entail missing the double top pattern completely.

Stop: Over the highs of the second high. The stop based upon a smaller time frame short pattern could be used instead when it applies.

Target: The low made between the two highs is the first support level. A double top which serves as a reversal pattern will then break that support level with a continuation pattern, confirming the reversal. Previous congestion zones, previous lows, and moving average support are some of the main reasons that a move out of a double top will stall or complete its move. The more of these support levels that hit at the same time, the higher the odds are that the support holds, at least providing a base or gradual rally on a smaller time frame before it breaks to the next support level.

Ideal 5 Building Block Traits of a Double Top

Pace: Above average buying into the first high, followed by a more gradual overall move into the second high. Sometimes the pace will increase briefly at the very end of the move into the second high even though the larger overall pace of the move remains slower than the previous wave of buying into the first high.

Trend Placement/Trend Development:

- An extended uptrend is ideal for creating a larger trend reversal on a double top. For instance, this is common when the security already has three waves of buying.

- It helps a lot if the move off the low made between the two highs takes 1.5-2 times as long to regain the ground it lost coming off the initial high than it did to make that drop in the first place. If the security pulls back $10 in 30 days as it comes off the first high, for example, then it is nice to see it take 45-60 days to regain that lost ground and retest the initial high. The pattern can still work well if it takes longer than twice as much, but is significantly less accurate if it only takes as long to retrace back to the highs as it did to fall from them. This means that a $10 pullback in 30 days would lower odds for successful a double top if it takes 30 days or less to return to the previous highs.

- Many times this type of double top will then create a triangle after making the second high in order to extend the correction time and lead to a stronger breakdown, or it might make another double top again to help assist in turning over the upside momentum and create greater favor for a selloff.

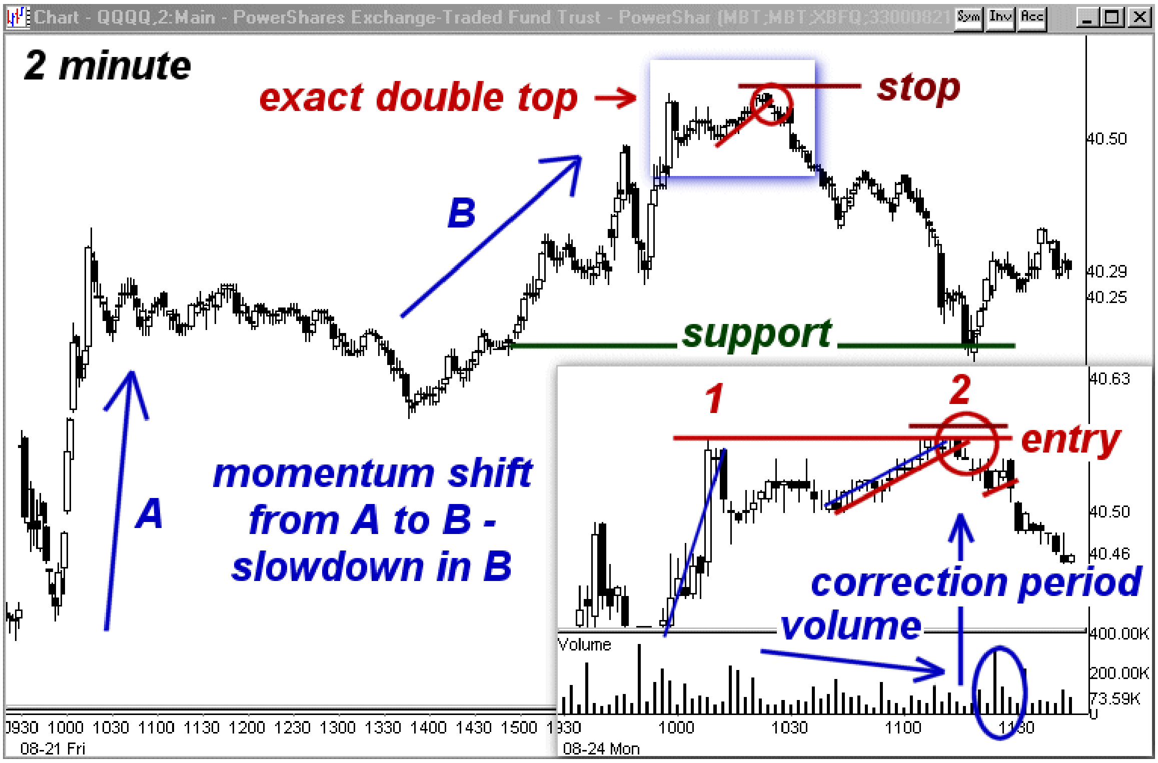
Support/Resistance: Strong resistance level overhead with the security constantly testing a support level such as a trend line or 20 moving average on the move into the second high, particularly as it approaches that second high.

Volume: Overall volume declines on the move into the second high, although it may pop briefly if the security experiences a small surge in buying at the last minute before holding the resistance at the previous high.

Correction Periods: Higher probability of success when the second high corresponds to a correction/reversal period or when the trigger on the double top takes place heading into a correction period. The first is preferred.

Example 1: 15 Minute Double Top Short Setup in HWAY

15 Minute Double Top in Healthways Inc. (HWAY)



© 2009 Chart provided by MB Trading

Pros on 15 Minute HWAY Double Top Short Setup

1. Pace: On the 2 minute time frame the QQQQ had a slower wave of buying on “B” than during “A”. This shift in momentum helped favor a smaller time frame reversal pattern.

2. Pace: The pace into the second high at 11:15 ET was substantially slower than the rally into the first high. This is a very big pro on this setup since it will create some of the strongest follow through moves on the downside.

3. Trend Placement: The momentum shift on the 2 minute time frame took place at the upper end of an exhausted uptrend.

4. Trend Placement: There were three major highs within wave “B” on the 5 minute time frame prior to the double top. This suggested that this smaller uptrend was also exhausted.

5. Support: The zone of the highs on the morning of the 21st served as initial support, but stronger support took place at the zone of the previous day’s congestion.

6. Volume: Volume dropped throughout the morning even though the QQQQ was moving higher for a retest of the earlier morning highs. It then increased following the reversal off highs.

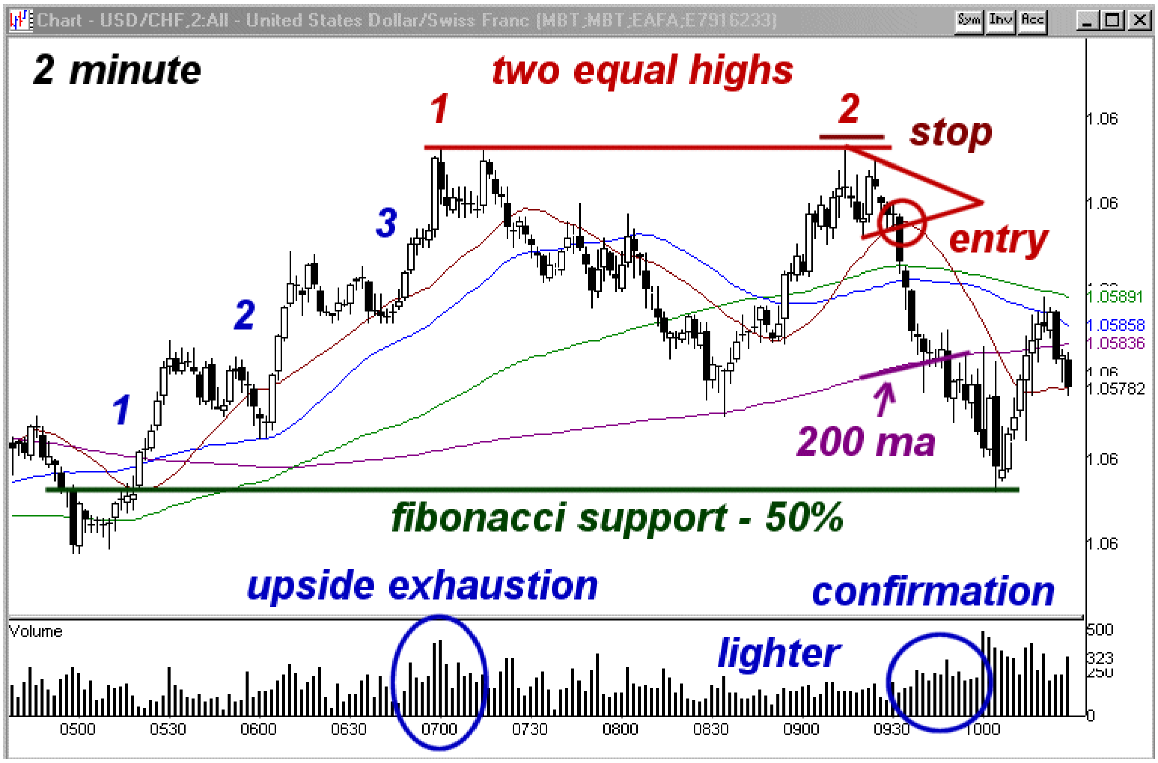
7. Correction Period: The initial high corresponded to the 10:15 ET correction period, while the second high took place at the 11:15 ET correction period. This is a common time of day for a morning trend to correct.

Cons on 15 Minute HWAY Double Top Short Setup

1. Trend Placement: The larger 5 minute time frame had the potential to try for one more high before creating a larger correction. This bias made it less likely that the QQQQ would immediately form a downside continuation pattern. Instead, it increased the odds of the congestion holding just above $40 a share. Nevertheless, the reward vs. risk was still very substantial.

Example 2: 2 Minute Double Top Short Setup

Double Top Short Setup - Healthways Inc. (HWAY) on a 2 Minute Time Frame



© 2009 Chart provided by MB Trading

Pros on 15 Minute HWAY Double Top Short Setup

1. Pace: The pace of the rally into the second high was comparable to the pace of the selloff from the first high. This "V" bottom made it more likely that the zone of the previous high would hold as strong resistance.

2. Pace: The momentum on the selloff out of the second high was stronger than the drop off the 07:00 highs. This created greater potential for a downside move that was larger than the drop off the first high and established the next major support level as the 50% retracement level from the move into 05:00 ET. This was the next closest level to correspond to a break in the equal move support.

3. Trend Placement: The first high was the end of an uptrend. The retest was hence the potential start of a 2-Wave Correction on the larger time frame in favor of a breakout

higher with a larger time frame uptrend. In this case, the first uptrend into 07:00 would serve as just one leg up in the larger trend.

4. Support: The pennant breakdown also meant a break in the 20 period moving average support.

5. Support: The pace of selling meant that there would not likely be much reaction to the 40 and 100 period moving averages and that the 200 moving average, which would hit near the zone of the previous low, would serve as the first major zone of support. Due to the pace of the selloff, this support zone merely shifted the momentum of the selling instead of creating a reversal. It took a choppier move into the next support level for the market to establish a strong pivot off lows.

6. Volume: Volume did not increase even though the USD/CHF pulled higher into the second high with a momentum move that was on the strong side. This meant a lack of strong buying pressure.

7. Volume increased out of the open when the pennant off the second high broke lower.

8. Correction Period: The initial high took place at the zone of the 07:00 ET correction period.

9. Correction Period: The breakdown from the pennant at the second high triggered into the open. This typically generates strong follow through.

10. Correction Period: Target zone hit at the 10:15 ET correction period.

Cons on 15 Minute HWAY Double Top Short Setup

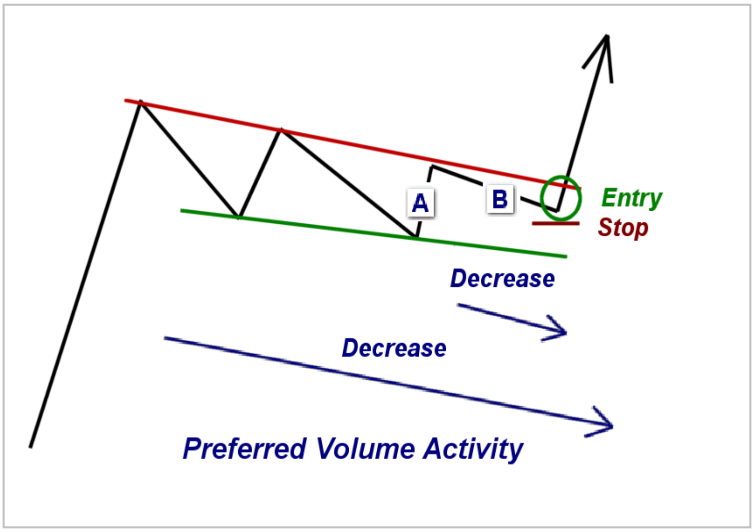
1. Pace: The pace of the buying into the second high was faster than the overall pace into the first high. It was not until the 20 period moving average broke lower than the double top was able to be confirmed since this level could have held for a push to a slightly higher high.

2. Volume: The volume increase on the breakdown out of the pennant at the second high could also just have been attributed to the time of the day, because volume often increases when the U.S. market opens at 9:30 ET.

Flag – Bull Flag

Description: A Bull Flag is a continuation pattern on the upside, consisting of a gradual pullback in the form of a parallelogram which slants slightly lower on the right.

Criteria:



- Established uptrend with at least one higher high and one higher low.

- Pullback off resistance that is more gradual than the previous rally into it.

Entry: Several methods can be used for entering a Bull Flag.

- The first is to draw an upper trend line that connects the highs of the gradual downtrend that forms the flag and use a break of that upper trend line to enter.

- The second method is to wait for at least two pivot highs to form within the flag and then when the flag breaks the previous pivot high, use that to enter.

- The third and most ideal entry trigger is to drop down to a smaller time frame and look for a smaller base or more gradual move lower after at least two highs have formed and draw a trend line above those highs, using an upper break of that trend line as an entry trigger.

Stop: The most conservative stop is under the lows of the flag. A more aggressive one, which is ideal when Toni's 5 building blocks line up, is a stop just under the last segment of the flag, such as the last tiny base or downtrend within the flag just before it breaks higher.

Target: When the pace of the upside breakout is similar to the pace heading into the flag, meaning the prior rally, then a move identical to the previous rally is an ideal target. For example, if an index rallies 10 points from lows to the highs at the start of the Bull Flag, then a target on the breakout from the flag is another 10 points, starting from the lows of the flag and then adding 10 points from that level. If the momentum is faster than the rally into the flag when the flag breaks, then it can form a larger than equal move, whereas if the momentum is a lot more gradual coming out of the flag than it was heading into it, then the security will have a more difficult time achieving that equal move on the upside.

Ideal 5 Building Block Traits on a Bull Flag

Pace: It is ideal to have above average buying pressure ahead of the flag and then a more gradual move lower as the flag forms. Within the flag itself, it is best to start to have slower downside moves and then more rapid upside moves within the downtrend channel.

Trend Placement/Trend Development:

- In order for a Bull Flag to form, there must first be an uptrend already established. This means at least one higher high and one higher low need to be in place.

- One of the strongest Bull Flags takes places after two waves of buying, leading into a third. This works the best if the correction, or flag, that forms after the second wave of buying takes about as long to develop as the correction (Phoenix™) following the first wave of buying. In other words, if a security rallies off lows and then consolidates for 30 days before breaking higher, then when the flag forms after that second rally, it is ideal for it to take approximately 30 days to do so before breaking higher with a third wave of buying. If it then forms another correction lasting 30 days, however, the risk is higher for a false setup, leading to a 2T™ or even holding up better than that and creating an Avalanche™ or some other longer range or reversal. In order to get another decent flag with a fourth wave of buying, then the flag should take a bit longer to form than the previous two correction moves. In the case of two 30 day corrections and three waves of buy, the next correction would last 45-60 days before breaking higher with a larger Bull Flag.

- In order to easily break the highs at the beginning of the flag, the flag should retrace no more than 1/3 of the previous rally. If it corrects more than that, then the high at the start of the flag will tend to serve as initial resistance and this can lead to a drop back into the lower zone of the flag before it then can continue on to break that high. The risk in a larger percentage of price correction is that the resistance holds, a longer triangle forms, and the momentum reverses. Risk also increases that if the previous highs do break, usually after at least a 50% retracement of the prior selloff, then they can do so with only a slight break and a 2T™ reversal will form, trapping any bulls that bought above the previous high. This will usually take place when volume is lighter on the continuation out of the flag than compared to the rally heading into it.

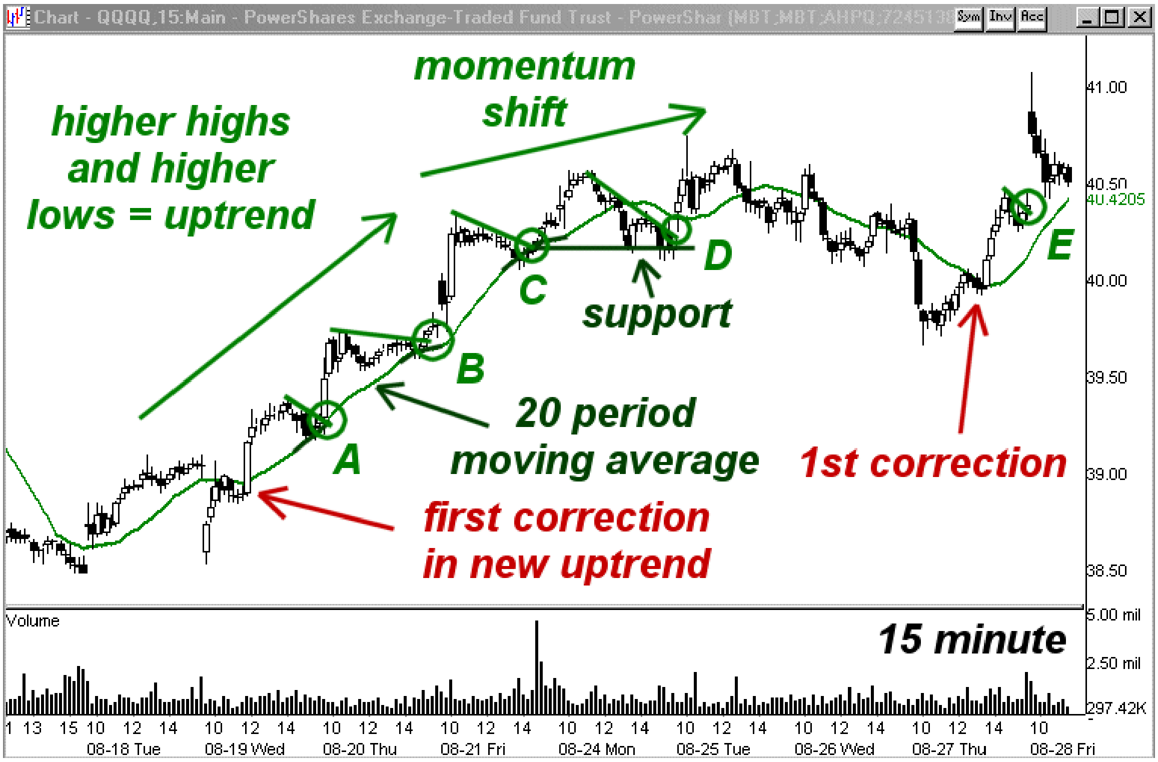
Support/Resistance: A Bull Flag that forms after hitting resistance solidly will make it less likely to trigger a false setup than if there is no resistance that it is forming along. This could mean it hugs a moving average resistance level, or just bounces off price resistance. When the correction off highs then comes into support, such as a 20 period simple moving average, then a buy trigger will have a better chance as well. It may not hit it exactly, but rather come within a few ticks of the support before triggering. Failure rates are higher when the support that had held the trend up until that point is not yet close to hitting.

Volume: An increase in volume just ahead of a Bull Flag formation and then declining volume within the flag itself to show that sellers are not taking over despite a downside move will help lead to a stronger breakout. This is particularly true if the downside moves within the flag have lighter volume than the upside moves, especially within the last downside to sideways move with the flag just prior to it breaking higher. An increase in volume when the flag breaks will add confirmation to the pattern. It will also tend to indicate that the flag will be more likely to hit at least an equal move target.

Correction Periods: Higher odds of success when the last pivot low within the flag corresponds to a correction period. The setup can also get a boost if it triggers a break from the flag at the same time as a correction period.

Example 1: Daily Bull Flag Buy Setups in the QQQQ

Bull Flag Setups – QQQQ on the Daily Time Frame



© 2009 Chart provided by MB Trading

Pros on 15 Minute Bull Flag Setups

1. Pace: Flags A, B, C, and E all have more gradual pullbacks or corrections than the stronger-than-average rallies that preceded the corrections.

2. Trend Placement: The correction times varied between the first several Bull Flags. This created the potential for more than 3 waves of upside. In E, however, the pullback was comparable to the initial pullback or 1st correction. This meant that the break higher would exhaust that trend.

3. Trend Development: B formed a 2-Wave Continuation Buy Setup within an Ascending Triangle. This led to the strongest rally within the first uptrend.

4. Trend Development: The corrections at A, B, C, and E were all less than about a third of the previous upside move in terms of price.

5. Support: The 20 period moving average served as strong support throughout the initial uptrend.

6. Resistance: The highs of the Bull Flag Corrections do not serve as major resistance because the corrections off the highs were less than about a third of the previous rally in each example other than D.

7. Correction Periods: Difficult to discern on this time frame. Dropping down to a 5 minute time frame would help a trader identify whether or not the lows of the Bull Flag or the trigger coming out of the last low of the flag is accompanied by a major intraday correction period, which would serve as an additional pro for the setups.

Cons on 15 Minute Bull Flag Setups

1. Pace: In A, there was a Momentum Reversal Short Setup off the highs prior to the correction. This could have led to a break in the 20 period moving average and a larger reversal or correction.

2. Pace: In D, the initial phase of the correction was as strong as the prior rally. This was coupled with a slower upside move in that previous rally than the earlier upside moves within the uptrend. This indicated a larger shift in momentum and increased the risk on another Bull Flag since it would be more difficult to break to a strongly higher high.

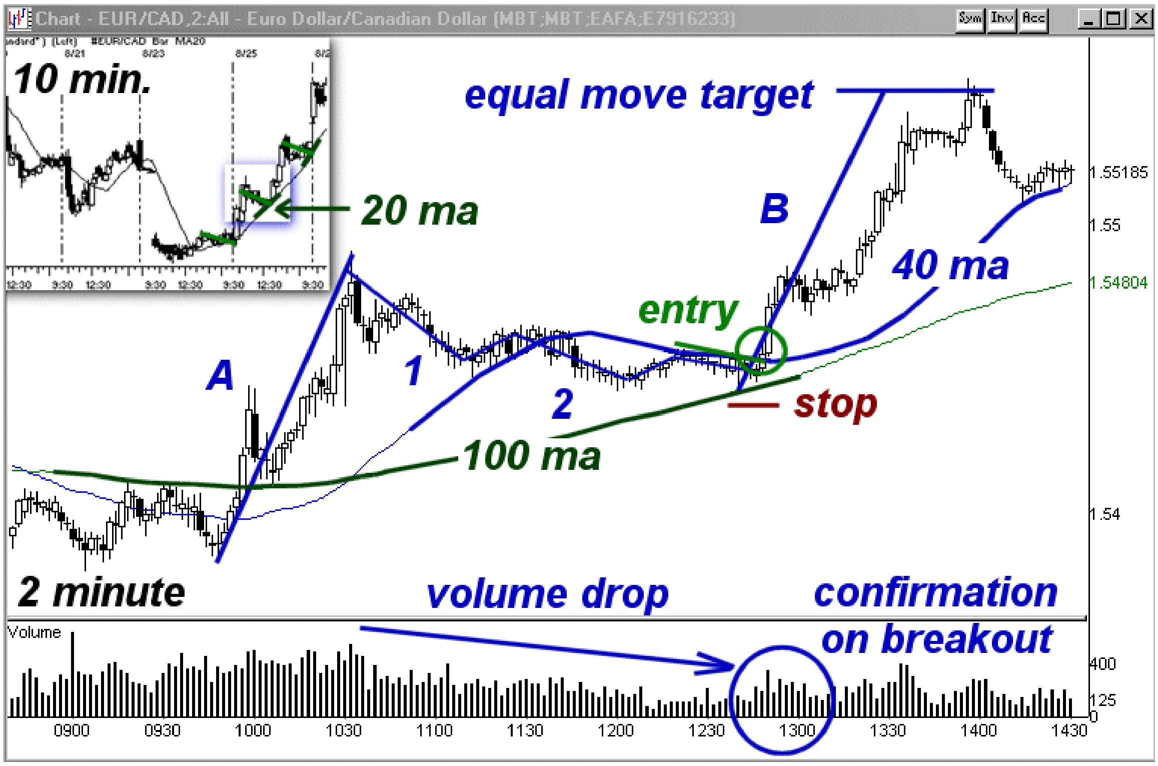
3. Trend Placement: In D, the pullback was more than 50% of the previous rally. This also increased the risk that it would not create a substantial break to new highs again. The QQQQ could have even been followed by an Avalanche, although the slightly lower low on the pullback made a 2B more likely for a test of the previous high zone or a slightly higher high.

4. Resistance: In D, the inverted "V" high into the morning of the 24th after nearly a 100% retracement of the previous rally meant that the highs on the pullback for D would serve as resistance on the move higher.

5. Volume: Volume did not play a major role in the corrective moves since it did not drop off very much, but in several cases it did increase following the Bull Flag triggers to confirm the setups.

Example 2: 10 Minute Bull Flag in the EUR/CAD

Bull Flag – EUR/CAD Currency Pair on a 2-10 Minute Time Frames



Pros on EUR/CAD Bull Flag

1. Pace: The EUR/CAD rounded off at lows the previous day and then steadily gained upside momentum into the morning. This upside was stronger-than-average by the time the currency pair correction off morning highs. This led it to favor a more gradual corrective move.

2. Pace: The momentum of the moves within the Bull Flag itself shifted steadily into the afternoon. The strongest pullback off highs took place heading into the Flag. It was then followed by a second wave of selling at a more gradual pace and then a final correction along the upper end of the channel when the EUR/CAD hugged the 40 period moving average ahead of the breakout higher.

3. Pace: When the buy setup triggered, the momentum on the breakout was comparable to the momentum heading into the correction. This made it likely that the currency pair would establish an equal move on the breakout compared to the rally into the correction at 10:30 ET.

4. Trend Placement: The Bull Flag was the second corrective move after rounding off at lows. This left it plenty of room for at least one more wave of upside.

5. Trend Development: The pullback during the Bull Flag stayed in the upper half of the range from the morning rally.

6. Trend Development: The EUR/CAD formed a 2-Wave Continuation Buy Setup within the Bull Flag itself. This triggered coming out of the noon correction period. The pace shifted further following this trigger to create stronger breakout continuation less than an hour later.

7. Support: The 10 minute 20 period moving average and 2 minute 200 period moving averages served as support for the larger uptrend.

8. Resistance: The highs ahead of the Bull Flag corresponded to the gap closure zone from the day before, making it a strong level of resistance for a correction to form at.

9. Resistance: No major resistance until the previous high on the 10 minute time frame and an equal move zone as compared to the 10:00-10:30 ET rally.

10. Volume: Volume was high on the rally at 10:00 ET, but it dropped off steadily as the EUR/CAD pulled back. It was particularly light in the final stages of the correction. This indicated a lack of strong selling within the correction. Volume then increased when the upper channel broke to confirm the breakout from the larger Bull Flag.

11. Correction Period: Not a pro.

Cons on EUR/CAD Bull Flag

1. Correction Period: The breakout triggered just prior to the 13:00 ET correction period. This is a very strong correction period, but the EUR/USD did not wait for it before breaking higher.

Flag – Bear Flag

Description: A Bear Flag is a continuation pattern in a downtrend. The term is most commonly associated with a more gradual counter-trend move in the form of a parallelogram that slopes higher, creating a smaller time frame uptrend.

Criteria: Established downtrend with at least one lower low and one lower high.

Bounce off support that is more gradual than the previous drop into it.

Entry: Several methods can be used for entering a Bear Flag.

1. The first is to draw a lower trend line that connects the lows of the gradual uptrend that forms the flag and use a break of that trend line to enter.

2. The second method is to wait for at least two pivot lows to form within the flag and then when the flag breaks the previous pivot low, use that to enter.

3. The third and most ideal entry trigger is to drop down to a smaller time frame and look for a smaller base or more gradual move higher after at least two lows have formed and draw a trend line under those lows, using a break of that trend line as an entry trigger.

Stop: The most conservative stop is over the highs of the flag. A more aggressive one, which is ideal when the 5 Tech Tools line up, is a stop just over the last segment of the flag, such as the last tiny base or uptrend within the flag just before it breaks down.

Target: When the pace of the breakdown is similar to the pace heading into the flag, meaning the prior selloff, then a move identical to the previous selloff is an ideal target. For example, if an index falls 10 points from highs to the lows at the start of the Bear Flag, then a target on the breakdown from the flag is another 10 points, starting from the highs of the flag and then subtracting 10 points from that level. If the momentum is faster than the drop into the flag when the flag breaks, then it can form a larger than equal move, where if the momentum is a lot more gradual coming out of the flag than it was heading into it then the security will have a more difficult time achieving that equal move.

Ideal 5 Building Block Traits on a Bear Flag

Pace: It is ideal to have above average selling pressure ahead of the flag and then a more gradual move higher as the flag forms. Within the flag itself, it is best to start to have slower upside moves and then more rapid downside moves within the uptrend channel.

Trend Placement/Trend Development:

- In order for a Bear Flag to form, there must first be a downtrend already established. This means at least one lower low and one lower high needs to be in place.

- One of the strongest Bear Flags takes places after two waves of selling, leading into a third. This works the best if the correction, or flag, that forms after the second wave of selling takes about as long to develop as the correction (Avalanche™) following the first wave of selling. In other words, if a security drops off highs and then consolidates for 30 days before breaking lower, then when the flag forms after that second drop, it is ideal for it to take approximately 30 days to do so before breaking down with a third wave of selling. If it then forms another correction lasting 30 days, however, the risk is higher for a false setup, leading to a 2B or even holding up better than that and creating a Phoenix™ or some other longer range or reversal. In order to get another decent flag with a fourth wave of selling, then the flag should take a bit longer to form than the previous two correction periods. In the case of two 30 day corrections and three waves of selling, the next correction would last 45-60 days before breaking down with a larger Bear Flag.

- In order to easily break the lows at the beginning of the flag, the flag should retrace no more than 1/3 of the previous selloff. If it corrects more than that, then the low at the start of the flag will tend to serve as initial support and this can lead to a bounce back into the upper zone of the flag before it then can continue on to break that low. The risk in a larger percentage of price correction is that the support holds, a longer triangle forms, and the momentum reverses. Risk also increases that if the previous lows do break, usually after at least a 50% retracement of the prior selloff, then they do so with only a slight break and a 2B reversal will form, trapping any bears that shorted under the previous low. This will usually take place when volume is lighter on the continuation out of the flag than compared to the drop heading into it.

Support/Resistance: A Bear Flag that forms after hitting support solidly will make it less likely to trigger a false setup than if there is no support it is forming along. This could mean it hugs a moving average support level, or just bounces off price support. When the correction off lows then comes into resistance such as a 20 period simple moving average, then a short trigger will have a better chance as well. It may not hit it exactly, but rather come within a few ticks of the resistance before breaking. Failure rates are higher when the resistance that had held the trend up to that point is not yet close to hitting.

Volume: An increase in volume just ahead of a Bear Flag formation and then declining volume within the flag itself to show that buyers are not taking over despite an upside move will help lead to a stronger breakdown. This is particularly true if the upside moves within the flag have lighter volume than the downside moves, particularly within the last upside to sideways move with the flag just prior to it breaking lower. An increase in volume when the flag breaks will help confirm the setup. It will also tend to indicate that the flag will be more likely to hit at least an equal move target.

Correction Periods: Higher odds of success when the last pivot high within the flag corresponds to a correction period. The setup can also get a boost if it triggers a break from the flag at the same time as a correction period.

Gap Trap – Bear Trap Gap

Description: In the case of an upside gap, this pattern is form of a Bear Trap reversal which tends to catch the bears unawares on a daily time frame. After at least several days of selling, the market gaps up in the morning, usually above the previous day's highs. This traps traders who were short, or bearish.

Criteria:

1. A bearish daily pattern. Preferably where the market opens at highs and closes at lows. This could mean a Bear Flag in play.

2. A gap up in the morning, generally on news, whereby the security opens at or above the previous day's highs.

Entry: Drop down to a smaller time frame intraday. The 1 minute chart can be used initially. Then look for buy setups on this smaller time frame, such as a breakout or triangle pattern. A 2B intraday could also take place.

Stop: Under the lows of the day at the time of the intraday continuation pattern triggering. A stop based on that smaller time frame continuation pattern can also be used.

Target: Look at the larger time frames for resistance levels. This can include a daily equal move when measuring the lows of the pullback ahead of the gap to the move that took place ahead of the pullback (i.e. the previous upside move) if the trap is triggering a Bull Flag or breakout pattern on the daily chart. It could be a previous high or congestion level as well that will stall the buying, such as if the trap takes place on a move out of a downtrend.

Ideal 5 Building Block Traits on a Gap Trap

Pace: When the pace of the downside move ahead of the gap is average to slower than average, it will often increase the upside momentum on the day of the trap. Within the trading day that the gap/trap occurred, it is ideal that the downside momentum is more gradual than the upside momentum.

Trend Placement/Trend Development:

- It is best if the security does not run strongly right out of the open, but instead moves only slightly higher or falls into a range out of the open.

- If the security had been selling lower in an uptrend and then hits a support level such as a 10 or 20 day simple moving average the day before the gap, then a trend day, or at least a strongly trending morning, is likely.

Support/Resistance:

- The setup will have higher than average odds of success if the security was moving into daily or weekly support levels, such as a moving average or previous low on the day before the gap.

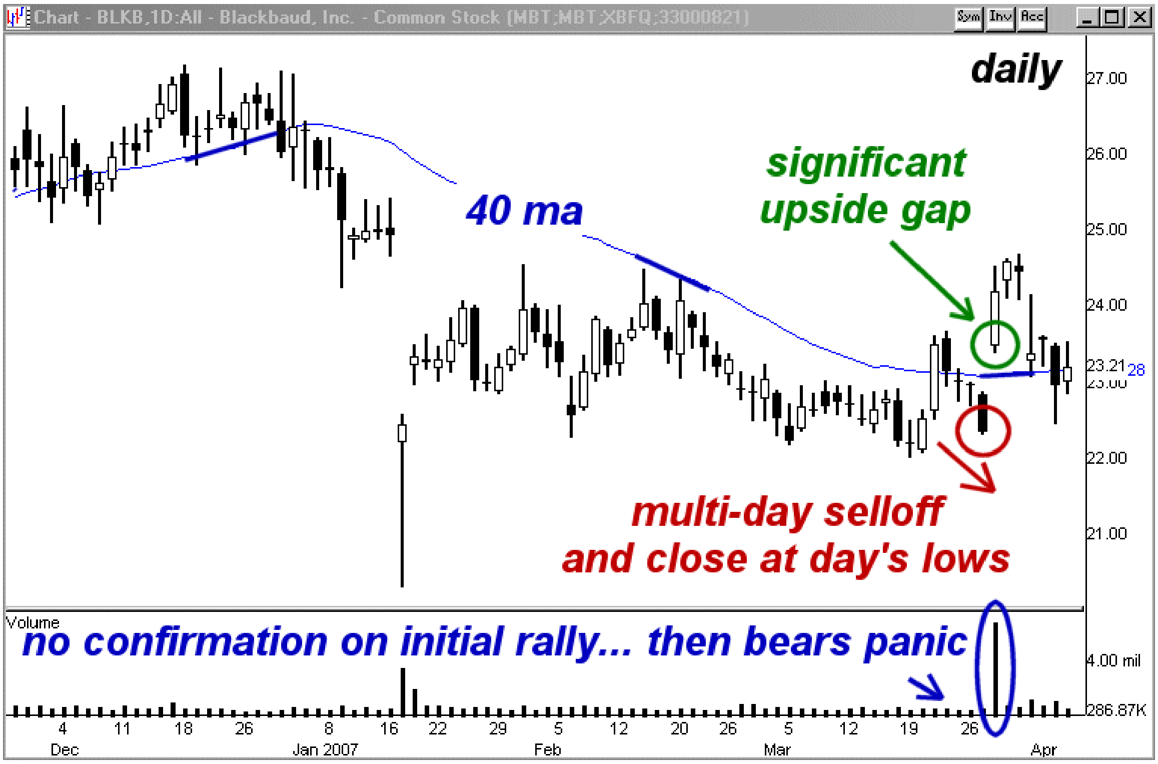
- On the gap itself, risk is higher if there is any major resistance level directly overhead, including an intraday level such as a 15 minute 200 period moving average, and lower if the security opens just above a strong support level, such as a 10 day moving average.

Volume: The volume heading into the trap is not as significant as on the day of the trap. On the day of the gap a trader wants to see significantly higher than average volume to confirm the trap.

Correction Periods: Higher odds of a successful trade when the pivot into the entry trigger is coming out of a correction period.

Example 1: Daily Bear Trap Gap in BLKB

Bear Trap Gap - Blackbaud Inc. (BLKB) on the Daily Time Frame



Pros on BLKB Bear Trap

1. The selling heading into March was slower than the upside action on the 20th and 21st and the lows were made with a 2B pattern on that daily time frame, allowing for a larger reversal.

2. BLKB had one stronger than average move higher and then pulled back more gradually overall into March 27th, but the pace increased after moving off the highs on the 22nd and closed that lows on the 27th.

3. BLKB gapped above the 200 day simple moving average, making it a significant support level following the open on the 28th. This was also the zone of the previous daily highs, so those served as support shortly after the open as well.

4. No immediate resistance level to halt the buying on the larger time frames. The 100 day moving average was overhead, but there was plenty of room before it would hit.

5. Lighter volume on the pullback from the 22nd into the 27th despite a stronger drop than had occurred earlier in the month.

6. Volume spikes upon gapping higher. This shows panic from the bears and excitement from the bulls.

Cons on BLKB Bear Trap

1. Bear Traps will not always offer a great intraday setup to take advantage of the move. Although not shown here, that was the case on BLKB. In order to get into it, a trader would have had to have simply bought it close to the open and kept a stop under support, such as under the 200 day sma. Buying a Bear Trap out of the open is higher risk since many of them will still try to fill in the gap, even if it only does so early on and then reverses to once again favor the bulls.

2. The downside momentum increased on pullback the day before the Bear Trap. A steadier selloff with slower pace is ideal heading into the trap to create the highest odds for a strong uptrend day on the day of the Bear Trap.

3. The overall trend had been to the upside on the weekly time frame until the beginning of the year. That breakdown was a significant event in that trend’s development and made it less likely that a base at lows would have a decent chance of sustaining upside momentum.

Gap Trap – Bull Trap Gap

Description: In the case of a downside gap, this pattern is form of a Bull Trap reversal which tends to catch the bulls unawares on a daily time frame. After at least several days of buying, the market gaps lower in the morning, usually below the previous day's lows. This traps traders who were long, or bullish.

Criteria:

1. A bullish daily pattern. Preferably where the market opens at lows and closes at highs. This could mean a Bull Flag in play.

2. A gap lower in the morning, generally on news, whereby the security opens at or below the previous day's lows.

Entry: Drop down to a smaller time frame intraday. The 1 minute chart can be used initially. Then look for short setups on this smaller time frame, such as a breakout or triangle pattern. A 2T™ intraday could also take place.

Stop: Above the highs of the day at the time of the intraday continuation pattern triggering. A stop based on that smaller time frame continuation pattern can also be used.

Target: Look at the larger time frames for resistance levels. This can include a daily equal move when measuring the highs of the pullback ahead of the gap to the move that took place ahead of the pullback (i.e. the previous downside move) if the trap is triggering a Bear Flag or breakout pattern on the daily chart. It could be a previous low or congestion level as well that will stall the selling, such as if the trap takes place on a move out of an uptrend.

Ideal 5 Building Block Traits on a Gap Trap:

Pace: When the pace of the upside move ahead of the gap is average to slower than average, it will often increase the downside momentum on the day of the trap. Within the trading day that the gap/trap occurred, it is ideal that the upside momentum is more gradual than the downside momentum.

Trend Placement/Trend Development:

- It is best if the security does not fall strongly right out of the open, but instead moves only slightly lower or falls into a range out of the open.

- If the security had been moving higher in a correction off lows within a larger downtrend and then moves into a resistance level such as a 10 or 20 day simple moving average the day before the gap, then a trend day, or at least a strongly trending morning, is likely.

Support/Resistance:

- Higher than average odds if the security was moving into daily or weekly resistance levels, such as a moving average or previous high on the day before the gap.

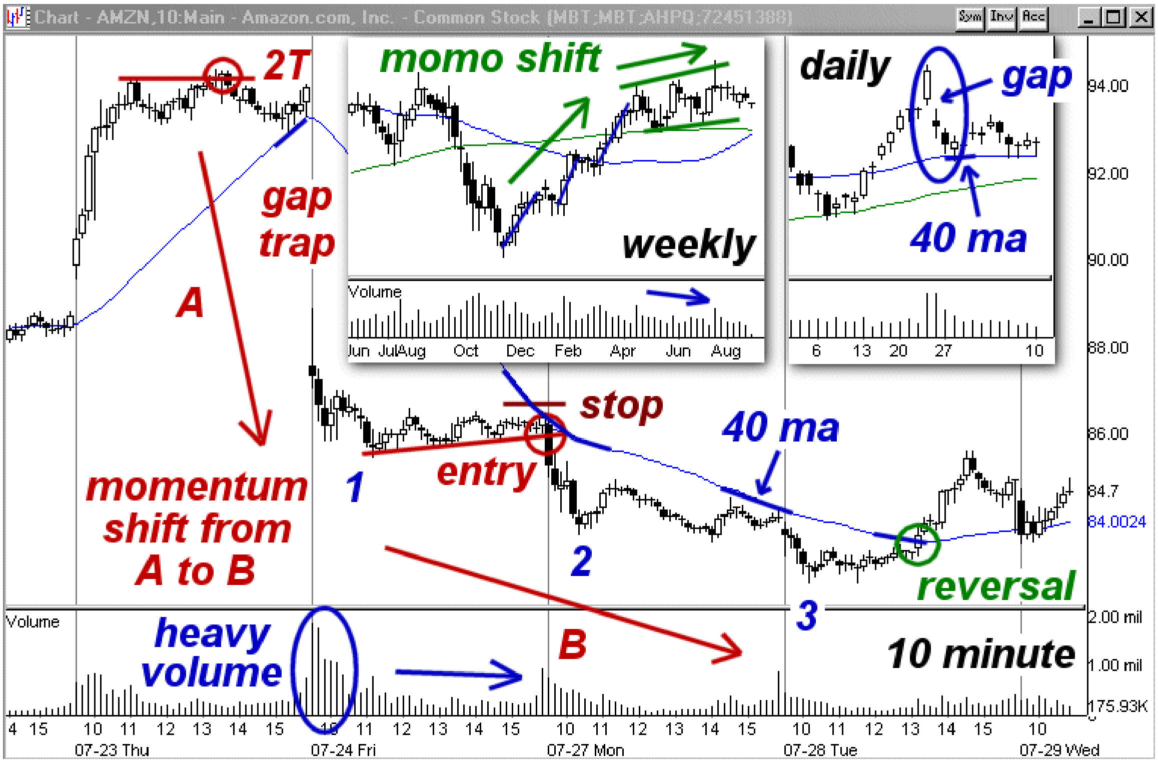
- On the gap itself, risk is higher if there is any major support level directly under the opening lows, including an intraday level such as a 15 minute 200 moving average, and lower if the security opens just under a strong resistance level, such as a 10 day moving average.

Volume: The volume heading into the trap is not as significant as on the day of the trap. On the day of the gap a trader wants to see significantly higher than average volume to confirm the trap.

Correction Periods: Higher odds of a successful trade when the pivot into the entry trigger is coming out of a correction period.

Example 1: Daily Bull Trap Gap in AMZN

Bull Trap Gap Short Setup – Amazon.com (AMZN) on the Daily and 10 Minute Time Frames



© 2009 Chart provided by MB Trading

Pros on AMZN Bull Trap Gap

1. Pace: Even though the rally into the Gap Trap was stronger-than-average on a daily time frame, it was part of a larger momentum shift and the trend channel had slowed as compared to the rally off the October lows.

2. Pace: The intraday momentum shifted on the day before the gap with slower upside into the early afternoon than in the morning.

3. Trend Placement: The Gap Trap formed at the third high of a Momentum Reversal Short Setup following a three-wave uptrend. Both trend moves meant that AMZN was extended on the upside when the gap occurred.

4. Trend Development: A 2T pattern took place intraday ahead of the Gap Trap, but AMZN still closed near the day's highs after opening near the day's lows.

5. Trend Development: After opening on the 24th, AMZN formed some smaller time frame shorts in the morning and then formed a larger continuation pattern by basing along the intraday lows into the closing bell. This short setup triggered into the open on Monday the 27th.

6. Trend Development: When AMZN formed a continuation Breakdown into the 27th the pace began to shift on the selling. Another correction on a 15 minute time frame took place into the 40 period moving average to trigger a third wave of selling, but the pace of the selling had shifted and was forming a core Momentum Reversal Buy Setup into mid-day on the 28th. When looking at the Gap Trap from a short-term intraday approach, this shift in the selling momentum was not very negative. It merely helped the bears determine when the first intraday downtrend following the gap would most likely come to an end.

7. Support: No immediate support until the 20 day moving average.

8. Resistance: The 40 period moving average had been support prior to the gap. This became resistance when the trend reversed. A break in that resistance over noon on the 28th confirmed a break in the gap's downtrend bias.

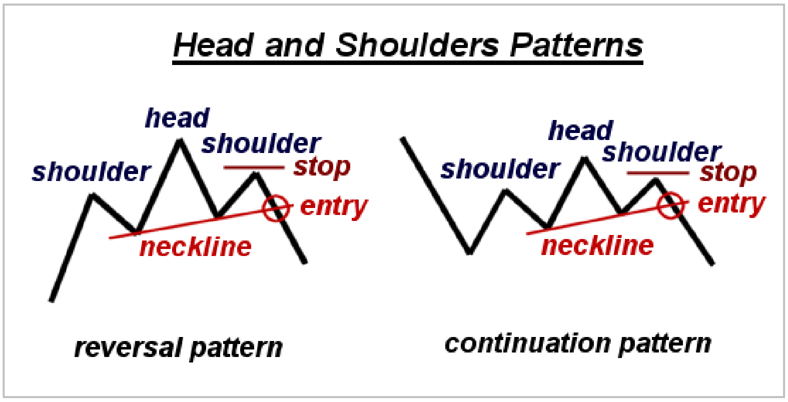
9. Volume: Volume was extreme on the morning of the gap and was also heavy on each of the 10 minute continuation patterns as the stock slid lower following the gap. Overall, however, each wave of selling saw lighter volume, which helped confirm the creation of a Momentum Reversal Buy Setup that triggered mid-day on the 28th to lead to at least a temporary stall of the larger downside correction.

10. Correction Period: The 2T on the 23rd triggered out of 13:30 ET. Each breakdown following this initial reversal on the 15 minute time frame took place out of the opening bell on the 27th and then the 28th.

Cons on AMZN Bull Trap Gap

1. Pace and Trend Development: The extreme size of the morning gap took away a lot of the potential on a daily time frame, although it still left a lot of room for day traders and shorter term holders.

Head and Shoulders Short Setup



Description: The Head and Shoulders pattern is a type of congestion zone breakout. It is most often associated with reversals in a security, but it can be used as a continuation pattern as well. When this happens, the pattern forms as part of a correction within a larger trend move.

Criteria: A Head and Shoulders pattern consists of an initial high (called the "left shoulder"), followed by pullback and then a second high (called the "head"). The security then pulls back again and then puts in a lower high (the "right shoulder"). Connecting the lows between each of the three highs yields the "neckline".

Entry: Break under the neckline. The neckline connects the lows on either side of the head. Alternative and preferred entry is using an Avalanche™ breakdown to enter after the right shoulder has formed.

Stop: Over the highs of the right shoulder.

Target:

- Price support levels from previous congestion zones and pivot lows. Moving average support levels will also serve as support. For instance, if the right shoulder forms along the 20 simple moving average, the next target is the 40 or 50 moving average.

- Another method to combine with this is to measure the drop off the highs of the head of the pattern and into the start of the right shoulder. Then compare this to the breakdown off the highs of the right shoulder.

- In a continuation pattern, then the target can also be an equal move out of the right shoulder as compared to the drop just prior to the bounce into the left shoulder.

Ideal 5 Building Block Traits on a Head and Shoulders Short Setup

Pace: Slower upside pace into the head as compared to the move into the high of the left shoulder and then an increase in pace on the downside ahead of the right shoulder. A slower move up into the right shoulder, or even a base as that right shoulder forms is ideal. Within the right shoulder formation itself, it is preferable to see slower upside and stronger downside ahead of the breakdown.

Trend Placement/Trend Development:

- Stronger odds of success for a Head and Shoulders reversal pattern when the head is made after three waves of upside, or if the security had three waves of buy into the highs of the left shoulder and then fails to put in a strong fourth move and instead makes only a very slightly higher high to create the "head" of the Head and Shoulders pattern.

- When the Head and Shoulders pattern is a continuation pattern, then a much larger downside move should be in place, followed by the bounce into the left shoulder, a slightly higher high for the head, and then a lower high for the right shoulder, leading to another strong breakdown.

Support/Resistance:

- Strong upside resistance at the highs of the Head and Shoulders formation.

- The pullback off the highs of the head of the pattern brings the security into a support level such as a 20 period simple moving average. It then hugs that moving average instead of pulling to the lower end of it and then forming the right shoulder.

- If the right shoulder forms along a 20 moving average, then the crossover of the 10 moving average is a strong impetus for a breakdown.

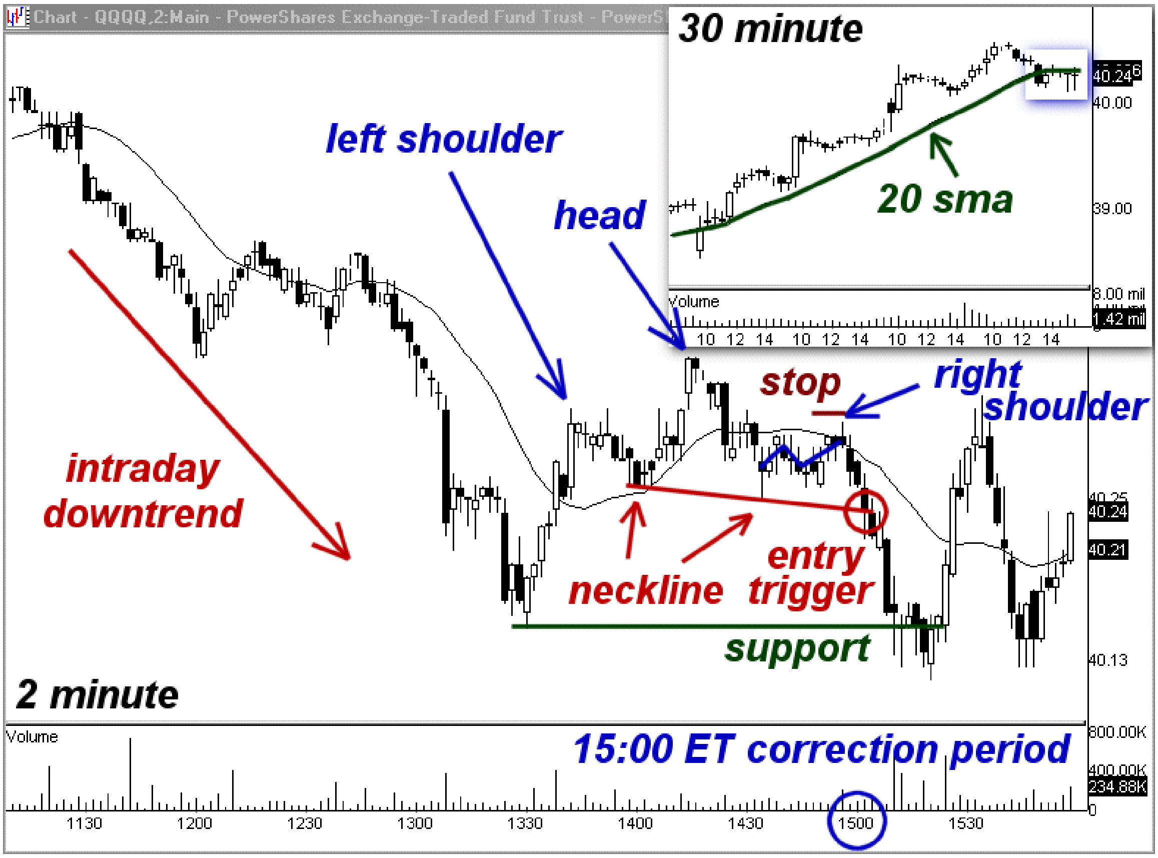
- No immediate support under the trend channel from the formation of the right shoulder.

Volume: Decreasing volume as the right shoulder forms. Volume will often increase when that trend channel from the right shoulder breaks lower to provide confirmation.

Correction Periods: Higher probability of success when the highs at the head of the pattern correspond to a correction period and when the breakdown out of the right shoulder corresponds to a correction period.

Example 1: 2 Minute Head & Shoulders Short Setup in the QQQQ

Head & Shoulders Short Pattern – QQQQ on the 2 Minute Time Frame



Pros on QQQQ Head & Shoulders Pattern:

1. Pace: The pace of the previous selloff was stronger-than-average and stronger than the previous wave of buying. This would make it more difficult for the QQQQ to reverse quickly to the upside off the 30 minute 20 period moving average again.

2. Trend Placement: The Head-and-Shoulders pattern created what could have been the first continuation pattern of a new trend on the downside. It would have had to have been a 1-2-3 continuation short on a larger time frame, however, because it did not base out long enough for a decent Avalanche™ on the 30 minute time frame.

3. Trend Development: After hitting lows at 13:30 ET, the QQQQ formed a 2-Wave move higher. The pace of the upside was strong, but the second wave of buying did not last as long as the first and the QQQQ made a slightly higher high. It pivoted off that high with comparable momentum and then formed a slightly lower high to create the Head-and-Shoulders pattern.

4. Trend Development: The QQQQ formed a 2-Wave Continuation Short Setup within the right shoulder of the Head-and-Shoulders setup. This allowed traders to take advantage of earlier entry triggers to reduce the risk on the setup and to increase. It cut the stop amount by at least half.

5. Support: The 30 minute 20 period moving average served as support into 13:30 ET, creating favor for a correction along that support level.

6. Resistance: The 20 period moving average on the 2 minute time frame served as resistance on the right shoulder after having served as support on the left shoulder.

7. Volume: Volume increased as the QQQQ came back into the previous low from 13:30 ET. This indicated exhaustion.

8. Correction Period: The short setup took place coming out of the 15:00 ET correction period, which is a major afternoon corrective period.

Cons on QQQQ Head & Shoulders Pattern

1. Volume: Volume did not decrease a lot prior to the breakdown and didn't increase immediately following the breakdown.

Example 2: Daily Head & Shoulders Short Setup in the GBP/USD

Head & Shoulders Short Pattern – GBP/USD on the Daily Time Frame

© 2009 Chart provided by MB Trading

Pros on GBP/USD Head & Shoulders Pattern:

1. Pace: GBP/USD formed an inverse "V" at highs in February. This made a longer range likely. The bounce off the lows of that pattern, was still stronger-than-average, but the rally did not last as long as the selloff and a rapid drop off the 40 period moving average pushed the currency pair into a narrower sideways range.

2. Trend Development: After pivoting off highs and falling into March's lows, GBP/USD did not rally more than 50% back into February's high.

3. Trend Placement: This is a chart that is also used to show a Momentum Reversal Buy Setup, which took place as this Head and Shoulders setup hit its target zone. That helped confirm the target at the 200 period moving average and the 1.75 price zone.

4. Trend Development: A trader could also have used a 2-Wave Continuation Short Setup, Avalanche™, or Symmetrical Triangle Setup to time an entry on this larger Head and Shoulders breakdown.

5. Support: The GBP/USD hugged the 100 period moving average prior to the breakdown. The lows of the pullback also corresponded to the low of the left shoulder.

6. Support: Once the neckline broke, the next support level was not until the 1.75 zone. This was the equal move target for the breakdown as compared to the initial descent off highs, as well as the 200 period moving average support.

7. Resistance: The highs of the range for the Avalanche™ portion of the Head and Shoulders pattern corresponded to the highs of the left shoulder, the 50% retracement level, and the 40 period moving average, as well as the last high in the three-wave downtrend that formed out of the February highs.

8. Support and Resistance: The 40 and 100 period moving averages converged as the range along the 100 period moving average continued. This created a squeeze that helped the currency pair break lower.

9. Volume: Volume not available.

10. Correction Period: Corrections periods did not provide assistance for this strategy on the daily time frame, although it may have assisted with timing smaller time frame entries, such as for the triangle entry in #1.

Cons on GBP/USD Head & Shoulders Pattern

1. Pace: The second wave of buying with the right shoulder was as rapid as the first. A slower move on this second rally within the channel would have been more idea.

2. Pace: Despite a rapid breakdown to clear the 100 period moving average, the GBP/USD barely broke its neckline before the selling stalled. At that point the momentum began to shift until finally hitting its target zone. Traders using a break in the neckline as a short trigger would have spent a lot of time in negative territory and would not have been able to cover their risk even when the target did hit, which was less certain due to this change in pace into the May lows.

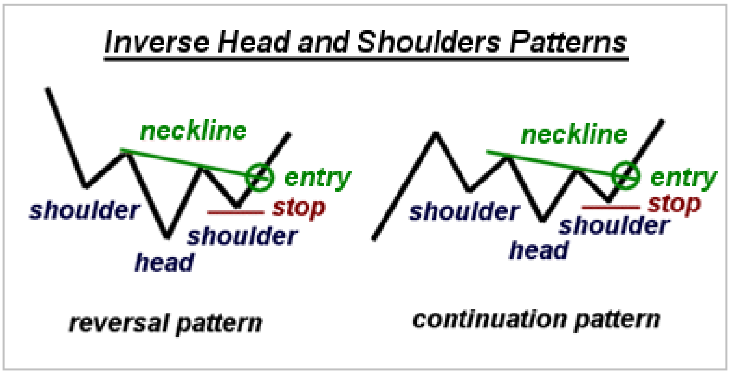
3. Trend Placement: The entry trigger on a neckline break is a less-than-ideal entry trigger on this setup because it nearly doubles the stop as compared to either of the alternate entry triggers using Avalanche™ or Symmetrical Triangle setups.

4. Volume: No information available because this setup took place before the launch of this charting package. MB Trading now provides internal volume that can be used to judge overall market interest. Traders can also follow the currency ETFs and futures to obtain a reading on market participation in this market. Ideally the volume would have dropped within the congestion along the 100 period moving average and increased on the break in the neckline support.

5. Correction Period: Corrections periods did not provide assistance for this strategy on the daily time frame, although it may have assisted with timing smaller time frame entries, such as for the triangle entry in #1.

(Inverse) Head and Shoulders Buy Setup

Description: The Head and Shoulders Buy Setup, also known as an "Inverse Head and Shoulders" pattern or "Reverse Head and Shoulders" pattern is a type of congestion zone breakdown. It is most often associated with reversals in a security, but it can be used as a continuation pattern as well. When this happens, the pattern forms as part of a correction within a larger trend move.



Criteria: An Inverse Head and Shoulders pattern consists of an initial low (called the "left shoulder"), followed by a bounce off support and then a second low (called the "head"). The security then pulls higher once again and establishes a higher low (the "right shoulder"). Connecting the highs between each of the three lows yields the "neckline".

Entry: Break above the neckline. The neckline connects the highs on either side of the head. Alternative and preferred entry is using a Phoenix™ breakout to enter after the right shoulder has formed.

Stop: Under the lows of the right shoulder.

Target:

- Price resistance levels from previous congestion zones and pivot highs. Moving average resistance levels will also serve as resistance. For example, if the right shoulder forms along the 20 simple moving average, the next target is the 40 or 50 moving average.

- Another method to combine with this is to measure the rally off the lows of the head of the pattern and into the start of the right shoulder. Then compare this to the breakout from the lows of the right shoulder.

- In a continuation pattern, then the target can also be an equal move out of the right shoulder as compared to the rally just prior to the pullback into the left shoulder.

Ideal 5 Building Block Traits on a Head and Shoulders Buy Setup

Pace: Slower downside pace into the head as compared to the move into the low of the left shoulder and then an increase in pace on the upside ahead of the right shoulder. A slower move lower into the right shoulder, or even a base as that right shoulder forms is ideal. Within the right shoulder formation itself, it is preferable to see slower downside and stronger upside ahead of the breakout.

Trend Placement/Trend Development:

- There are stronger odds of success for an Inverse Head and Shoulders reversal pattern when the head is made after three waves of downside, or if the security had three waves of selling into the lows of the left shoulder and then fails to put in a strong fourth move and instead makes only a very slightly lower low to create the "head" of the Inverse Head and Shoulders pattern.

- When the Inverse Head and Shoulders pattern is a continuation pattern, then a much larger upside move should be in place, followed by the pullback into the left shoulder, a slightly lower low for the head, and then a higher low for the right shoulder, leading to another strong breakout.

Support/Resistance:

- Strong downside support at the lows of the Inverse Head and Shoulders formation.

- The rally off the lows of the head of the pattern brings the security into a resistance level such as a 20 period simple moving average. It then hugs that moving average instead of pulling to the upper end of it and then forms the right shoulder.

- If the right shoulder forms along a 20 moving average, then the crossover of the 10 moving average is a strong impetus for a breakout.

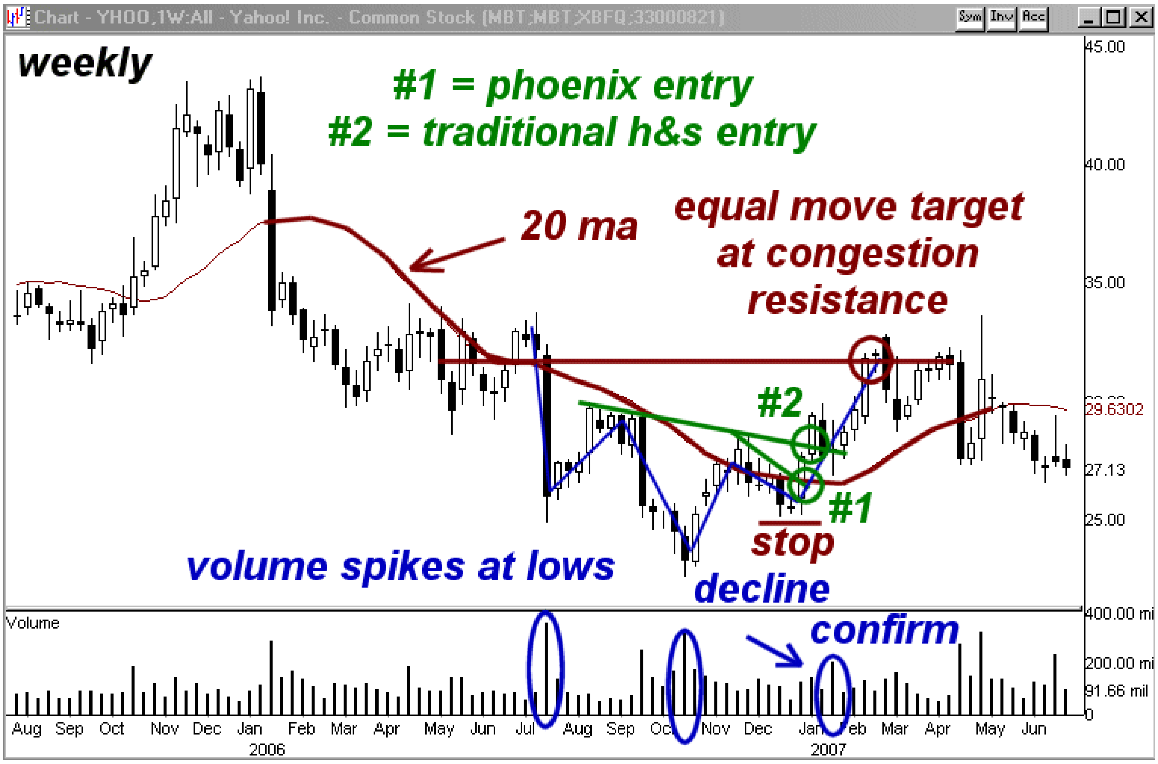
- No immediate resistance over the trend channel from the formation of the right shoulder.

Volume: Decreasing volume as the right shoulder forms. Volume will often increase when that trend channel from the right shoulder breaks higher to provide confirmation.

Correction Periods: Higher probability of success when the lows at the head of the pattern correspond to a correction period and when the breakout of the right shoulder corresponds to a correction period.

Example 1: Weekly Inverse Head & Shoulders Buy Setup in YHOO

Yahoo Inc. (YHOO) Weekly Reverse Head & Shoulders Pattern



Pros on YHOO Inverse Head & Shoulders Pattern

1. The momentum into the lows in October (the head) was slower than the drop into July (the start of the left shoulder). YHOO then bounced more strongly off the October lows as compared to the bounce out of July. The pace continued to turn over with a slower pullback at the end of the year as the right shoulder formed.

2. October is a significant correction period.

3. Volume spiked at the lows at the start of the left shoulder and again into the lows of October to indicate downside exhaustion.

4. Volume then declined as the right shoulder formed, showing a lack of strong sellers on that pullback and hence a more bullish bias.

5. YHOO hugged the 20 simple moving average as resistance as it formed the right shoulder.

6. There was no immediate overhead resistance to easily halt the breakout from the Inverse Head and Shoulders pattern. Minor resistance hit at previous highs, but only stalled it briefly. The next major resistance was not until the congestion in the $32.00 zone.

7. The Inverse Head and Shoulders pattern also gave a Phoenix™ within the right shoulder to allow for a tighter entry than the trend line break.

Cons on YHOO Inverse Head & Shoulders Pattern

1. When the 20 moving average hit, YHOO pulled over it briefly instead of halting at it immediately. This can at times force the security to pull back harder off the resistance zone and into a triangle instead of creating a Phoenix™ going into the Inverse Head and Shoulders breakout.

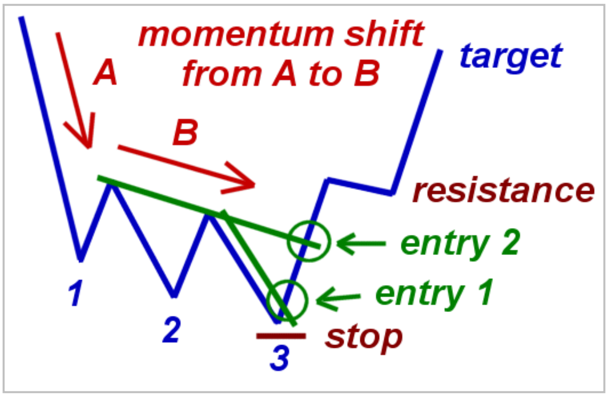
Momentum Reversal Buy Setup

Description: Toni's Momentum Reversal Buy Setup is a strategy that aims to capture the shift from a downtrend into a new uptrend. When a security sells off more quickly than average, it can be difficult to time the lows of that selloff. A Momentum Reversal is a great technique that allows traders to do just that by focusing upon how the momentum of a downside move can shift as it becomes exhausted. This can result in one of the best trend reversal strategies in the market.

Criteria:

1. A sharp downside move that has stronger-than-average momentum on the selloff (A). This drop can have a small correction halfway from the highs to the lows.

2. A series of slightly lower lows (B). Three lows total is ideal if the time between each low is approximately the same.



Entry: There are two potential entry triggers on this setup.

1. The first potential entry trigger is a little more aggressive than the second and can take a little more skill to perfect. It occurs when the setup forms with a series of three evenly-spaced lows. In this case, a break higher in the trend channel of the third wave of selling can be used to trigger a buy setup.

2. The second entry trigger, which is typically the easiest to spot, occurs when the upper trend channel from when the overall momentum began to shift breaks higher. In the case of three lows, draw a line connecting the two highs that take place between each of the lows and extend this line forward in time. A break in that line will serve as the entry trigger.

Stop: Under the final low when the momentum shifts prior to the break higher out of the channel marked "B" in the template.

Target: The target on this setup depends a great deal upon its placement in a larger trend. It can hit a target that is only 1:1 risk vs. reward, or it can yield a return of more than 10 times the original risk.

- The first target is the high of the first bounce off lows. This is when the momentum begins to shift at "B". If the larger time frames are still bearish, then the security might only form a 2-Wave rally into this resistance zone before reversing back to lows to resume a larger selloff.

- The second target level takes place when the leg of selling into the initial low is formed with two waves of downside, such as a 1-2-3 Continuation Short Setup during the drop marked "A". In this case, the pause between the waves of selling is the next resistance level on a move higher out of the Momentum Reversal Buy Setup.

- A third target level is just shy of the highs of the first leg of selling (A). This is the most common target.

- A final target can occur if the entire Momentum Reversal is part of a larger time frame Bull Flag or similar continuation strategy. In this case, the target is an equal move level as compared to the rally taking place before the “A” selloff. This target level is not as common as the other three.

Ideal 5 Building Block Traits on Momentum Reversal Buys

Pace: In order for a setup to be a true Momentum Reversal, the pace of the selling has to shift at lows. Even though the security is still in a downtrend, if you connect lows to lows and highs to highs then the overall momentum on the selloff will decrease. It is not necessary, however, for each of the smaller waves of selling within the downtrend to slow in momentum. It is the pace of the overall channel marked “B” in the template that matters.

Trend Placement/Trend Development:

- This strategy can lead to a larger term trend reversal when it occurs at the end of the third wave of downside on a larger downtrend.

- When this strategy takes place at the lows of a 2-Wave Correction within a larger uptrend it can serve as the trigger for the continuation higher out of that correction.

- This setup will often have a smaller Momentum Reversal in the third leg of downside within the larger time frame setup.

- Three evenly spaced lows within the “B” channel will lower the risk of false or premature setups.

- Look at the next larger time frame. This strategy is most favorable if the “B” portion of the downtrend is slower-than-average when compared to previous downside moves. The “A” portion, however, can still be average to stronger-than-average.

Support/Resistance:

- The lows from “A” should take place heading into a larger time frame support level. This might be a major moving average, previous highs or lows, etc.

- This strategy improves if the upper end of the “B” channel is test a moving average resistance level, such as a 20 or 50 period moving average, before the channel breaks.

Volume: The preferred volume development is a sharp increase in volume as the first drop (A) comes into its initial low. Even though volume can still be high on the subsequent tests of the lows, it should not be as strong as the first drop even though the security is making lower lows. Volume does not always increase right away when the trend turns higher, so do not be concerned if this is the case.

Correction Periods: This setup is ideal when the third low of the "B" portion of the downtrend takes place at a major correction period, such as 14:00 ET.

➢ In addition to the setups shown below, see the Bull Gap Trap in AMZN for another example of a Momentum Reversal Buy Setup.

Example 1: 30 Minute Momentum Reversal Buy in QCOM

Momentum Reversal Buy – Qualcomm (QCOM) on the 30 Minute Time Frame

Pros on QCOM Momentum Reversal Buy

1. Pace: The momentum shifted nicely in the "B" portion of the downtrend as compared to the "A" portion so that the trend channel in "B" was substantially slower than the selloff in "A".

2. Trend Placement: The momentum shift at lows on the 30 minute time frame took place after two waves of selling from an upper end of the larger daily trading range and back to the lower end of that range.

3. Trend Development: QCOM created lows in the form of a set of two lows, a longer correction and then another set of two lows that had a correction between the lows that was approximately the same as the first set of lows. This created symmetry on the setup.

4. Support: The momentum shift began right into the $43.00 whole number price support zone. Subsequent lows created stronger tests of this support.

5. Resistance: The 50 period moving average served as strong resistance for the “B” portion of the channel. A break in this resistance level helped confirm a larger trend reversal.

6. No immediate resistance before $44, which corresponded to early July lows and the 100 period moving average.

7. Volume: The volume did increase at the start of the selloff for “A” and it decreased as the momentum shifted, but volume did not surge at the end of the “A” descent.

8. Correction Period: Neither a strong pro, nor con.

Cons on QCOM Momentum Reversal Buy

1. Pace: The slower move higher into the start of the 13th than during previous upside moves within the “B” trend channel indicated that there could be another test of lows before a larger Momentum Reversal could occur.

2. Trend Placement: The first and second lows were closer together than the second and third lows, which increased risk for a fourth low in the “B” portion of the pattern.

3. Volume: Volume did not surge at the end of the “A” descent and it was not very useful in determining interest within the “B” portion of the downtrend.

Example 2: Daily Momentum Reversal Buy in the GBP/USD

Momentum Reversal Buy – GBP/USD on the Daily Time Frame

© 2009 Chart provided by MB Trading

Pros on GBP/USD Momentum Reversal Buy

1. Pace: After two waves of downside on a larger time frame, whereby the selling was stronger-than-average, the momentum shifted at lows so that the GBP/USD established only slightly lower lows into May.

2. Pace and Trend Development: Within the final low of the Momentum Reversal, a smaller momentum shift took place with a 2B on a 30 minute time frame (difficult to see in this chart). This created a smaller time frame setup within the larger one.

3. Trend Placement: The GBP/USD had two waves of selling on the larger time frame. The Momentum Reversal completed the equal move on that second wave of selling and it also shifted the larger pace of that second wave of selling to allow for a stronger bounce off support.

4. Support: The lows of the momentum shift came directly into strong moving average support at the 200 day moving average.

5. Support: The May low was also equal move support on the daily breakdown when comparing the move lower from April into May to the drop off February highs into a low in early March.

6. Resistance: The 20 period moving average served as resistance while the momentum shifted. The first trigger broke through this initial resistance level. The second entry trigger took place with a break of the 40 period moving average, so it cleared two resistance levels at once.

7. Volume: Not available.

8. Correction Period: Not a pro, but not a major con.

Cons on GBP/USD Momentum Reversal Buy

1. Trend Development: the GBP/USD had a lot of overlap from one bar to the next on the weekly time frame. This is represented by larger price retracements on each move on the daily time frame, although the waves of buying and selling themselves are fairly smooth and without much overlap on the daily time frame.

2. Trend Development: There was room for one more test of the support zone prior to an upside channel break since there was only one strong pivot high within the range of the channel from the second half of April into mid-May.

3. Resistance: If the GBP/USD had held the first target level where the momentum shift began in mid-April, then it would not have established a very large moved compared to the stop level using the upper channel break. The secondary target was only a 1:1 reward vs. risk ratio.

4. Volume: Volume was not available at this time. Ideally it would have increased on the drop into April's lows and been lighter than that drop when it pushed into the lower low in May.

5. Correction Period: No corresponding correction period to provide an additional pro for the setup.

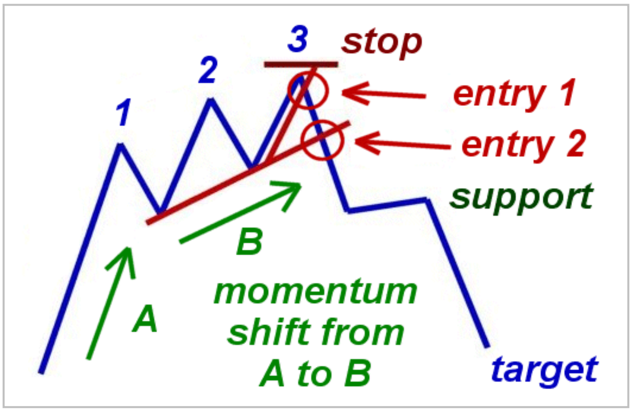
Momentum Reversal Short Setup

Description: Toni's Momentum Reversal Short Setup is a strategy that aims to capture the shift from an uptrend into a new downtrend. When a security rallies more quickly than average, it can be difficult to time the highs of that rally. A Momentum Reversal is a great technique that allows traders to do just that by focusing upon how the momentum of an upside move can shift as it becomes extended. This can result in one of the best trend reversal strategies in the market.

Criteria:

1. A sharp upside move that has stronger-than-average momentum on the rally. This surge in buying can have a small correction halfway from the lows to the highs.

2. A series of slightly higher highs. Three highs total is ideal if the time between each high is approximately the same.



Entry: There are two potential entry triggers on this setup.

1. The first potential entry trigger is a little more aggressive than the second and can take a little more skill to perfect. It occurs when the setup forms with a series of three evenly-spaced highs. In this case, a break lower in the trend channel of the third wave of buying can be used to trigger a short setup.

2. The second entry trigger, which is typically the easiest to spot, occurs when the lower trend channel from when the overall momentum began to shift breaks lower. In the case of three highs, draw a line connecting the two lows that take place between each of the highs and extend this line forward in time. A break in that line will serve as the entry trigger.

Stop: Above the final high when the momentum shifts prior to the break lower out of the channel marked "B" in the template.

Target: The target on this setup depends a great deal upon its placement in a larger trend. It can hit a target that is only 1:1 risk vs. reward, or it can yield a return of more than 10 times the original risk.

- The first target is the low of the first pullback off highs. This is when the momentum begins to shift at "B". If the larger time frames are still bullish, then the security might only form a 2-Wave Correction into this support zone before reversing back to the highs to resume a larger uptrend.

- The second target level takes place when the leg of buying into the initial high is formed with two waves of upside, such as a 1-2-3 Continuation Buy Setup during the rally marked "A". In this case, the pause between the waves of buying is the next support level on a move lower out of the Momentum Reversal Short Setup.

- A third target level is just shy of the lows of the first leg of buying (A). This is the most common target.

- A final target can occur if the entire Momentum Reversal is part of a larger time frame Bear Flag or similar continuation strategy. In this case, the target is an equal move level as compared to the descent taking place before the "A" rally. This target level is not as common as the other three.

Ideal 5 Building Block Traits on Momentum Reversal Shorts

Pace: In order for a setup to be a true Momentum Reversal, the pace of the buying has to shift at highs. Even though the security is still in an uptrend, if you connect lows to lows and highs to highs then the overall momentum on the rally will decrease. It is not necessary, however, for each of the smaller waves of buying within the uptrend to slow in momentum. It is the pace of the overall channel marked "B" in the template that matters.

Trend Placement/Trend Development:

- This strategy can lead to a larger term trend reversal when it occurs at the end of the third wave of upside on a larger uptrend.

- When this strategy takes place at the highs of a 2-Wave Correction within a larger downtrend it can serve as the trigger for the continuation lower out of that correction.

- This setup will often have a smaller Momentum Reversal in the third leg of upside within the larger time frame setup.

- Three evenly spaced highs within the "B" channel will lower the risk of false or premature setups.

- Look at the next larger time frame. This strategy is most favorable if the "B" portion of the uptrend is slower-than-average when compared to previous upside moves. The "A" portion, however, can still be average to stronger-than-average.

Support/Resistance:

- The highs from "A" should take place heading into a larger time frame resistance level. This might be a major moving average, previous highs or lows, etc.

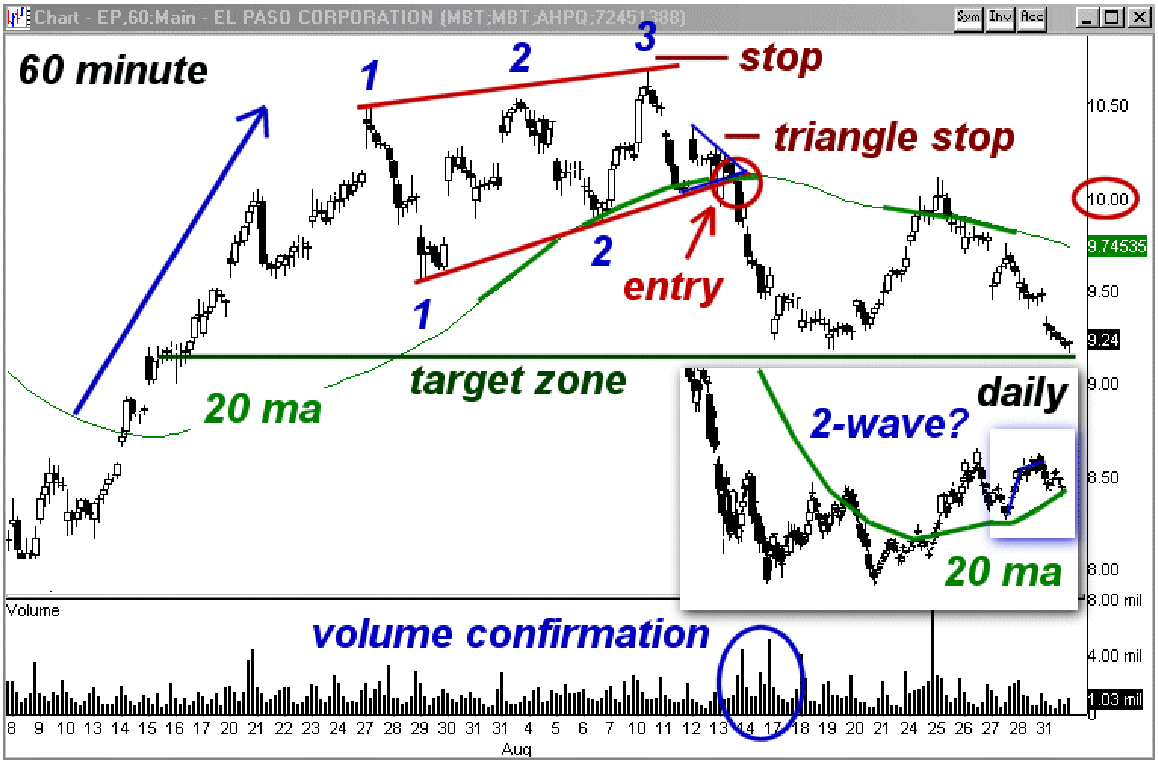
- This strategy improves if the lower end of the "B" channel is test a moving average support level, such as a 20 or 50 period moving average, before the channel breaks.

Volume: The preferred volume development is a sharp increase in volume as the first rally (A) comes into its initial high. Even though volume can still be high on the subsequent tests of the highs, it should not be as strong as the first rally even though the security is making higher highs. Volume does not always increase right away when the trend turns lower, so do not be concerned if this is the case.

Correction Periods: This setup is ideal when the third high of the "B" portion of the uptrend takes place at a major correction period, such as 14:00 ET.

Example 1: 60 Minute Momentum Reversal Short in EP

Momentum Reversal Short – EP on the 60 Minute Time Frame



© 2009 Chart provided by MB Trading

Pros on EP Momentum Reversal Short

1. Pace: The momentum shifted nicely from a stronger-than-average upside move in the rally into mid-June to a slower continuation of the uptrend from late June into mid-August.

2. Pace: Prior to breaking lower, EP formed a small triangle along the lower end of the uptrend channel as it hugged support. This created favor for a break in that support level, which would trigger the Momentum Reversal Short Setup.

3. Trend Placement: No major pros.

4. Trend Development: The three highs that occur when the overall uptrend channel shifted are evenly spaced, meaning that the time between each of the highs is nearly identical. This will often lead to some of the strongest Momentum Reversals.

5. Support: $10 and the 20 period moving average served as support prior to the short trigger. Once EP broke these levels there was no major support level until the mid-range level from the rally into the momentum shift and the 20 day moving average. The low at the start of the momentum shift, however, served as minor support and shifted the momentum on the selloff into the next larger support level. This established it as the ideal target zone for those traders that did not wish to hold through a correction, although there was still room for a second drop to test the 20 day moving average more securely.

6. Resistance: The Momentum Reversal Short Setup formed at a level that was just shy of the previous daily high, which is a strong price resistance level.

7. Volume: The volume increased sharply when the 20 period moving average broke lower and the Momentum Reversal Short Setup was triggered. This confirmed the breakdown.

8. Correction Period: Drop down to the smaller, intraday time frames since the daily time frame does not offer a strong correction period on this setup.

Cons on EP Momentum Reversal Short

1. Pace: The pace of the follow through slowed at $9.50 and continued to slow into the $9.00 support zone. This can increase the momentum on a rally off that support level and make it more difficult for the security to establish a second wave of downside to create a strong break in the low of the initial selloff that triggered the short.

2. Trend Placement: EP had to break under $10.00 a share to trigger this short setup. It is preferable to shy away from shorts in securities that are trading under $20 a share if you wish to diminish its risk of being affected by news as a result of different parties trying to bail it out.

3. Trend Development: EP created rounded lows over the summer. This increased the chances for a Cup-with-Handle formation. Since the rally off lows had already established a higher high in July, this also meant that the correction off the summer highs could be part of a larger upside continuation pattern. By forming a "V" into the 20 period moving average, a 2-Wave Continuation Buy Setup was quite likely, which would limit the downside potential on the strategy and make it easily to hold the 20 period moving average on another test of the level into early September.

4. Support: The 20 period moving average did not offer a lot of room for downside follow-through.

5. Volume: Volume does not drop when the rally from July slows into August.

6. Correction Period: Drop down to the smaller, intraday time frames since the daily time frame does not offer a strong correction period on this setup.

Example 2: Weekly Momentum Reversal Short in the EUR/CAD

Momentum Reversal Short – EUR/CAD Weekly Time Frame

© 2009 Chart provided by MB Trading

Pros on EUR/CAD Momentum Reversal Short

1. Pace: The momentum shift was very noticeable with "B" forming a substantially slower upside move than in "A". This shift in momentum allowed the bear to sell off more easily than if the EUR/CAD had held the 200 ma in November 2006.

2. Pace: A smaller shift in momentum at the 20 ma at the lower end of the trading channel from "B" created further confirmation of a Momentum Reversal. This small Avalanche™ broke lower to trigger a short at the same time as the larger Momentum Reversal channel broke lower.

3. Trend Placement: The highs of "B" were right in the middle of a larger trading range from 2003 to early 2005. This created ideal trend placement for a continuation pattern on the short side.

4. Trend Placement: Although there are not three clear highs in the channel from "B", there are two main lows within the channel itself that formed on the smaller time frame prior to a third test of the lower end of the channel just ahead of its breakdown.

5. Support: Once the Momentum Reversal triggered, there was not a lot of major support to contend with until the congestion zone from October 2006. There was minor support from the July/August congestion in 2005, but this only led to a 1-2-3 continuation sell setup into May 2007.

6. Support: The pace of the decline out of the Momentum Reversal and into the initial target level created higher potential for a second continuation move that would equal that initial drop in April 2007. This took place with a trading range breakdown in August 2007 (not shown here) and led to a slightly lower low to create a monthly 2B in October 2007.

7. Resistance: The highs of "B" took place in the middle of the larger monthly trading range that had been forming into the middle of 2005, providing a strong resistance level.

8. Resistance: The start of the momentum shift took place at the 200 period moving average and the lower end of the larger trading range that formed into the middle of 2005. This showed that the currency pair was beginning to react negatively to that resistance level.

9. Volume: N/A at this time.

10. Correction Period: The Momentum Reversal triggered out of March 2007. March is a major correction period on the larger weekly and monthly time frames.

Cons on EUR/CAD Momentum Reversal Short

1. Trend Placement: The most ideal Momentum Reversal patterns will have three evenly spaced highs that form within the more gradual uptrend channel when the larger momentum shifts. Even though the 2 lows between each high were identifiable, the highs themselves were sloppy.

2. Resistance: If the EUR/CAD had hugged the 200 period moving average, it would have created a handle for a larger weekly Cup-with-Handle buy setup. By breaking through the 200 ma with slightly higher highs, it created a type of Bull Trap instead.

3. Volume: Volume was not available on this charting platform at the time. Ideally the volume would have been higher on the break to the upside in November 2006 and then dropped off during the momentum shift at "B" before increasing again on the breakdown in mid-2007. '

Pennant

Description: This is another term used to define a Symmetrical Triangle, but is typically associated with triangle that lasts for a briefer amount of time as compared to the move into the triangle. It is most often a continuation pattern.

Example 1: Daily Pennant Buy Setup in CCC

Calgon Carbon Corp. (CCC) Pennant Buy Setup

Pros on CCC Pennant Buy Pattern

1. Pace: After forming an inverse "V" at the highs of the third rally in the trend the momentum shifted. There was a stronger bounce off the 20 period moving average and then a slower correction that held the upper channel for the pennant.

2. Trend Placement: Even though CCC had already completed three wave of upside, which is typically trend exhaustion, by correcting longer during the pennant than each of the corrections from the previous uptrend it established the potential for a fourth push higher.

3. Support: The 20 period moving average served as a strong support level for the uptrend.

4. Resistance: The momentum of the breakout from the pennant made it easier to break through the highs of the pennant at the $11.00 price resistance level, which left room for the pennant to continue higher into the next resistance around $11.50.

5. Volume: Volume declined sharply as CCC pulled back off the initial highs of the pennant despite the stronger-than-average momentum of the pullback. This showed a lack of conviction by the bears and a lack of panic by the bulls. It then increased when the pennant broke higher to confirm the breakout.

6. Correction Period: Not relevant on this time frame, but if the entry trigger or low of the second pullback off the upper end of the range corresponded to an intraday correction period then it would have served as another favorable trait for the setup.

Cons on CCC Pennant Buy Pattern

1. Trend Placement: A bullish pennant often has two waves of correction off highs, but the second correction does not typically last as long as it will in most 2-Wave Continuation Buy setups. At times this can create a false trigger, followed by a longer 2-Wave Correction and wider Symmetrical Triangle.

2. Trend Development: If a trader missed the initial channel break, preferably by dropping down to a smaller intraday time frame, then they may have missed the setup due to the strong gap the following morning that took CCC back into the $11.00 high.

3. Support: The second pullback within the pennant did not quite test the 20 period moving average support.

4. Resistance: Since the entry trigger on the pennant formed mid-range, the $11.00 whole number resistance served as some initial resistance on the break higher.

5. Correction Period: Not relevant on this time frame, but if the entry trigger or low of the second pullback off the upper end of the range corresponded to an intraday correction period then it would have served as another favorable trait for the setup

Phoenix™

Description: The Phoenix™ is a pattern named by Toni Hansen which is the opposite of the Avalanche™. It is typically considered to be a reversal pattern off lows, although it can also occur within a trading range just prior to a breakout. It is the first continuation pattern on the upside following the lows of a downtrend, or the last correction off the upper channel of a trading range period to a breakout higher. Two specific types of Phoenixes™ are more commonly known as a Reverse Head & Shoulders pattern and a Cup-with-Handle. The entry trigger on a Phoenix™, however, is not the same as on a Reverse Head & Shoulders pattern since the neckline is not relevant. Only the last portion of each of these two patterns is important in a Phoenix™.

Criteria:

1. Downtrend or sideways trend
2. Stronger than average decline.
3. Pullback that is comparable to or stronger than previous decline, typically into the 20 period simple moving average resistance, although the 10 and 50 moving average are not uncommon.
4. Hugs the moving average resistance on decreasing volume.
5. Moving averages start to converge (10 and 20 moving average if it's been hugging the 20 period moving average.)

Entry: Switch to smaller time frame and enter on a breakout from resistance or going into support. A break in the trend line from the highs of the congestion along the support level can also be used, particularly if the waves of buying and selling within that congestion are more difficult to discern.

Stop: Under the last pivot low within the trading range, or drop down to smaller time frame and look for a smaller base at highs in the larger base and place a stop under the lows of that smaller base.

Target: Next major simple moving average resistance. A Phoenix™ along the 20 moving average would have a target of the 40 or 50 period moving average. Also watch for an equal move compared to the rally into the Phoenix™ range off the pivot lows. This works best if the pace of the breakout from the Phoenix™ is the same as the pace of the rally into the Phoenix™ base.

Ideal 5 Building Block Traits on a Phoenix™ Buy Setup

Pace: Above average pace on the reversal off lows, followed by slower than average downside as resistance holds. Within that congestion along resistance, it is preferable to see the momentum slow on the downside moves and increase on the upside.

Trend Placement/Trend Development:

- When a security has had three waves of selling already and then attempts to form a Phoenix™, the odds are higher for success on the subsequent Phoenix™.

- When dealing with a Phoenix™ that forms within a trading range then it is best if there have been at least two waves of buying already within the range, if not three.

- Ideally the highs of the base of the Phoenix™ are in the upper half of the range from the bounce off lows.

Support/Resistance:

- When the base of the Phoenix™ pattern is directly under or is cut in half by the moving average that it is hugging, the odds are higher for a strong momentum breakout than if the base or consolidation is directly above the moving average.

- When forming along moving average resistance, the approach of the next fastest moving average and an impending crossover of those two is a strong pro. For instance, if the security is basing along the 20 day moving average, then the imminent crossover of the 10 and 20 day simple moving averages will increase the success of the upside breakout.

- Check the next larger time frame for support. For instance, if an Phoenix™ is forming on a daily chart at the 20 day moving average, then the 20 moving average on the weekly chart is strong resistance. So if it is near at hand, then it can place a strong constraint on the reward potential for the setup.

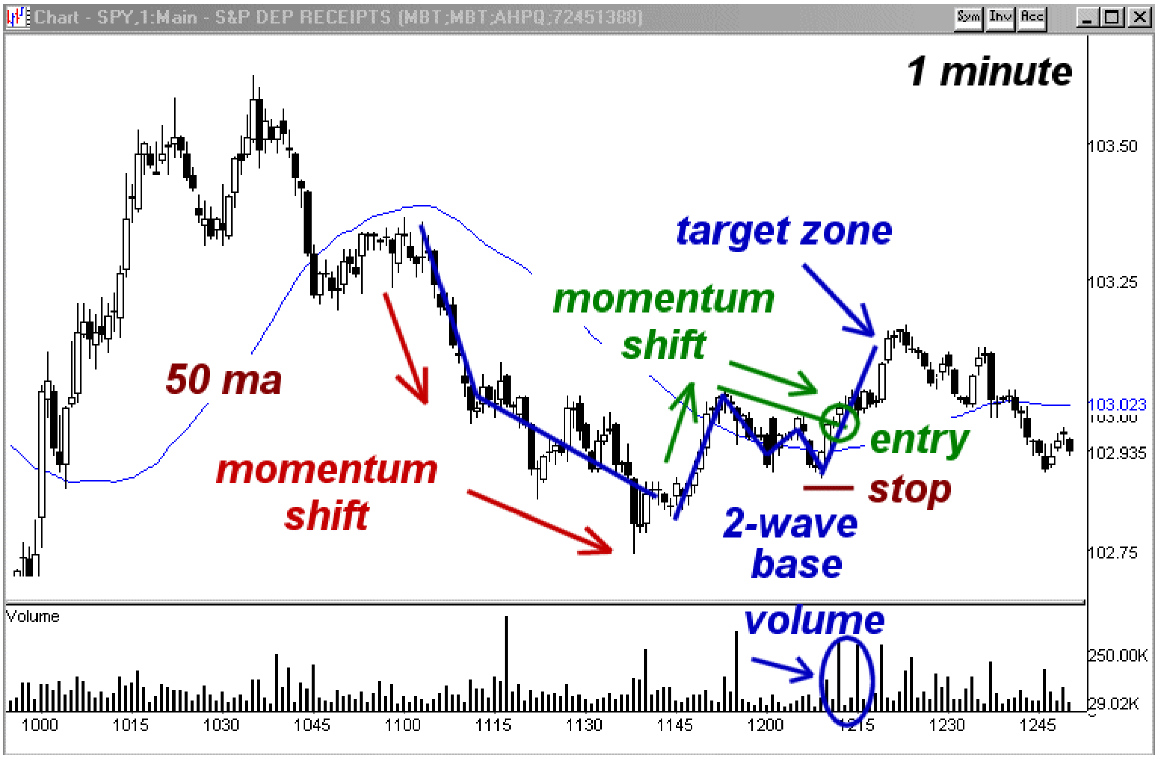
If the Phoenix™ is forming within a trading range, then it is nice to see the range pulling into a larger moving average support level just prior to breaking higher.

Volume: An increase of volume into the simple moving average resistance, declining volume as the resistance holds and congestion forms (particularly at the end of that congestion), followed by an increase in volume as the resistance level gives way and the pattern triggers. This provides confirmation for the setup. Within the congestion itself, prior to a breakdown, it is best when the downside volume is lighter than upside volume.

Correction Periods: Higher probability if the setup triggers coming out of a correction period.

Example 1: 1 Minute Phoenix™ Buy Setup in the SPY

Phoenix – S&P Deposit Receipts SPDR (SPY) on a 1 Minute Time Frame



Pros on SPY Phoenix™ Buy Pattern

1. Pace: The momentum shifted on the larger downtrend to allow the SPY to bounce more quickly off the 11:40 ET lows.

2. Pace: The pace of the trend channel along the 50 period moving average was substantially more gradual than the rally off the late-morning lows.

3. Pace: The pace of the breakout from the trend channel along the 50 period moving average was stronger-than-average, which allowed the SPY to more easily hit equal move resistance as a target.

4. Trend Placement: The Phoenix™ formed after a Momentum Reversal Buy Setup. This made it the first corrective move in a potentially new uptrend or at least part of a 2-Wave Correction off the lows.

5. Trend Placement: The correction during the base of the Phoenix™ held in the upper 50% of the range from the rally off the late-morning lows.

6. Trend Development: Within the range of the Phoenix™, the SPY formed a 2-Wave Corrective Buy Setup.

7. Trend Development: The congestion along the 50 period moving average lasted approximately twice as long as the rally off the lows following the buy trigger out of the Momentum Reversal Buy.

8. Support: The lows of the congestion along the 50 period moving average corresponded to the 38.2% Fibonacci retracement level off the highs of the congestion. (Not shown here.)

9. Resistance: The SPY closely hugged the 50 period moving average. The moving average actually cut through the middle of the trend channel along the resistance level. It would have been higher risk if it had congested along the upper end of the range since it would have made it more difficult to hit an equal move on the break higher.

10. Resistance: The SPY also hit $103.00 whole number price resistance at the same time as the 50 period moving average. A breakout on the Phoenix™ meant that it would bust through both of these resistance zones.

11. Resistance: No immediate overhead resistance once the range broke. The next resistance zone was the congestion from the 10:45-11:00 ET congestion from the morning Avalanche™.

12. Volume: Volume declined as the SPY congested along the 50 period moving average. This showed a lack of strong selling and a continuation of a bullish bias. Volume then increased as that channel broke higher to confirm the move.

13. Correction Period: Serves as neither a pro nor a con in this setup.

Cons on SPY Phoenix™ Buy Pattern

1. Pace: The second pullback in the 2-Wave Correction Buy Setup was stronger-than-average. It would ideally have been more gradual than the first reaction off the 50 period moving average on the smaller time frame.

2. Correction Period: None of the major pivot highs or lows, nor the trigger for the buy setup were accompanied by a correction period.

Traps

Description: A "trap" is a rather generic term given to any pattern which traps traders by triggering a false entry trigger that is immediately followed by a reversal and strong follow through in the opposite direction of the "trap" trigger. In a Bull Trap, this would take the form of a break in resistance which is immediately followed by a downside reversal, hence trapping any new bulls who took a long position on the attempted break in the resistance level.

Types of Traps

1. A **2T** is one form of a Bull Trap because many traders will consider a break in the resistance of a previous high to be a buy trigger.

   Things that can cause a 2T as a Bull Trap include:

   - An extended uptrend whereby there have already been three waves of buying on a larger trend.

   - Strong overhead resistance on larger time frames where the previous high did not quite test the resistance level, so a push into a second high that slightly breaks the highs of the first creates a stronger reaction by testing the resistance level more securely.

   - If the pace on the move that attempts to break a previous high is slower than the move into the previous high.

   - If the pullback prior to an attempted break in the previous high is 50% or more of the rally that led to that previous high.

   - If the volume does not increase as the security attempts to push to a new high.

2. A **triangle** base whose trend channel breaks in one direction and then reverses to follow through more strongly in the other direction is a common type of trap. Symmetrical Triangles can be particularly notorious.

3. **Adverse gaps** can also cause a trap setup. See "Gap Traps" for several examples.

Example 1: Daily Triangle Bear Trap in TGI

Triumph Group Inc. (TGI) Bear Trap

Traits Suggesting a Triangle Breakdown in TGI

1. Pace: The strong initial move off highs retraced the entire prior upside move beginning on July 25th at a more rapid pace. That momentum continued to roll over with weaker upside into the end of August and beginning of September as compared to the earlier buying in mid-August.

2. Support: TGI hugged the gradually ascending 40 period moving average at the lower end of the triangle's channel just prior to its attempted breakdown. This is common for setups that will confirm strongly. That move, however, from late August into early September retraced more than 50% of the drop into the end of September, so it didn't really hug the lower end of the triangle's channel that well.

3. Trend Development: Typically stronger-than-average moves take 1.5-2 times the time development of the move before they can continue, which would have made TGI appear to be ready for a continuation breakdown when looking at the time development of the triangle after initial lows were made when compared to the move off the highs into those lows.

4. Volume: The volume declined within each wave of upside in the larger triangle formation, suggesting a lack of buyers.

Traits to Identify TGI Triangle Breakdown as a Bear Trap and NOT a Strong Short Setup

1. Trend Placement: The larger trend was a bull trend in place since 2004. This meant that the correction off August highs was a pullback within a primary uptrend.

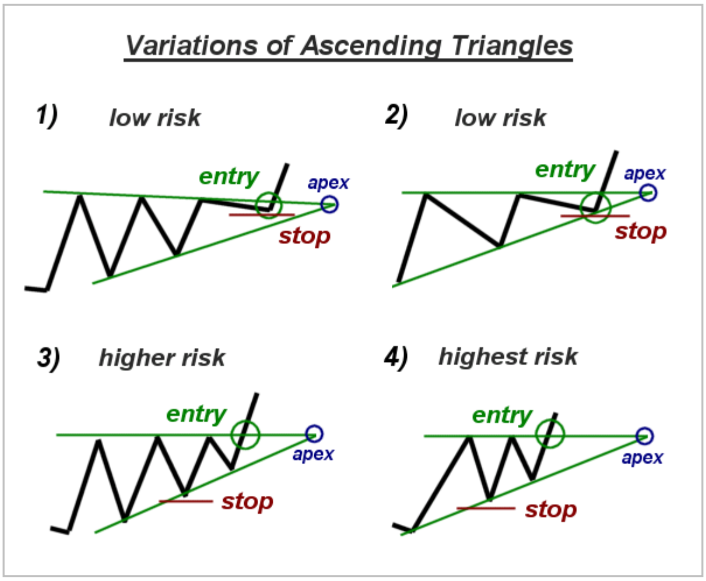
2. Trend Development: The triangle was a pennant, meaning that it had a wider range from the highs to the lows and that range narrowed much more quickly than a typical correction would. This can be hard to discern, however, since stretching out a chart will make the pennant seem narrower. One trait to identify this is that the bounce off the mid-August lows only bounced about 50% back into the highs and the subsequent drop into the end of August only fell back by about 2/3. Larger percentage retracements within a triangle that draw it out for a longer period of time can help diminish the risk of a trap. Often moving up to the next larger time frame will make a pennant easier to discern.

3. Trend Development: The last downside move within the triangle was a typical strong move, but the correction higher only lasted about as long as the previous drop, meaning that the breakdown was premature when looking at this smaller segment of the larger triangle (This smaller pattern formed from approximately August 23-September 6.)

4. Volume: When the triangle attempted to break lower, there was no volume accompanying the move to confirm the breakdown. It should have then moved more gradually highs on even lighter volume and held the 20 day moving average in order to create a continuation move on the downside and form a later confirmation, but instead it pulled more quickly higher to reverse the momentum going into the second week of September.

Triangle - Ascending

Description: This triangle pattern has a narrowing trading range, just like any triangle, but the upper trend line is flat, or nearly so, and has a rising lower trend line. In other words, as the security comes into the upper end of the narrowing trading channel, it is more consistent at hitting similar prices along the highs, while it has greater price differences from one low to the next. This is typically regarded as a bullish pattern, but when the height of the triangle is much wider than the average ranges in the security, then it tends to have a higher failure rate.



Criteria: A series of comparable highs and higher lows, creating a narrowing trading range that hugs the upper trend line of the trend channel. There must be at least two highs and two lows within the range to be identified as a triangle.

Entry: There are several entry techniques that work well on this pattern.

The first, and probably the most common, is to wait for the upper trend line of the triangle to break higher.

Another is to watch each of the highs within the triangle and to place a buy above the prior high once it breaks.

A third setup, which is the one that will generate the higher reward compared to risk, is to watch the moves within the triangle and monitor the pace of each of the moves. When the security pulls back more gradually off the highs then before, or hugs the upper trend line, then use a break higher from that smaller downtrend or sideways trend within the larger triangle pattern.

Stop: Under the last pivot low within the range, or if it bases on a smaller time frame within the larger triangle, then a stop can be placed under the lows of that smaller range. Be careful using these tighter stops, however, if the security is very volatile, meaning there is a lot of back and forth action and overlap even as it trends, if the pace has yet to change within the range when it breaks, or if the security is thin, such as under 500,000 average shares traded per day in the case of a day trade in a stock.

Target: There are several main price resistance levels based purely on the triangle itself that can be used as targets. The one which is most appropriate at any given time will depend upon where the pattern is located in the larger trend.

- As a more aggressive setup and the level most likely to hit independent of the trend placement, measure the last upside move within the triangle itself and then add that to the last low within the triangle that leads into the breakout of the range. This is the first price resistance.

- The second method is to measure the pattern at its widest point, which is typically from the first high of the triangle to the first low within the triangle and then project this out from the breakout point of the triangle.

- When trend placement is within a newer uptrend, whereby the pattern is serving as a continuation pattern for that trend, and there is little overhead resistance, then another type of target can be used, measuring the upward move leading to the first high of the triangle. Then take that move and add it to the second low of the triangle, or if one of the subsequent lows is lower than the second, then add it to that and project that move higher. Sometimes this yields a similar target as the second method, but this method can only be used in an uptrend, whereas the second can be used even when the Ascending Triangle takes place as lows and is serving as a reversal pattern.

Ideal 5 Building Block Traits on an Ascending Triangle Buy Setup

Pace: While the pace may be stronger on the downside than the upside to begin with in an Ascending Triangle, it should start to become slower as it moves off the highs of the triangle and more rapid as it moves off the lower trend channel. The best action is when it begins to hug the upper trend line just prior to breaking higher. #1 an #2 in the template display favorable pace development, whereas that is not the case in #3 and #4.

Trend Placement/Trend Development: The Ascending Triangle is typically considered to be a continuation pattern, but can also be a reversal pattern.

- As a continuation pattern, it is best if the uptrend has only has one or two waves of upside.

- As a reversal pattern it helps if the pace of each of the downside moves in the previous downtrend is slower then the one that preceded it and that there were three waves of selling within that downtrend. Even though such a reversal can take place after only two waves of downside, this is higher risk unless those two waves of downside, followed by the Ascending Triangle, takes place within a much larger uptrend, so that the downtrend itself is simply a correction in that uptrend.

- In terms of trend development, a typical triangle will break out somewhere between 2/3 and 3/4 of the horizontal width of the triangle if the upper and lower trend channels are extended until they converged. The break tends to take place on the third or fourth test of the upper trend line.

Support/Resistance:

- As a continuation pattern this setup is most ideal when it forms into the uptrend line on a larger trend, or moving average support such as a 20 period moving average. Look to check to see if that level was also support on a previous correction, or if this is the first correction in a new uptrend, then check to see what the previous moving average resistance level was that broke to create the first higher high.

- If there is strong resistance on a larger time frame, such as the triangle forming intraday on a 15 minute time frame and there is a 50 day moving average overhead that will be hitting for the first time in the trend move, then that level will have a more difficult time breaking. The same is true of it forms on a 5 minute chart and has a 5 minute 200 moving average shortly overhead.

Volume:

- Declining volume throughout the pattern's development, particularly as the range narrows as it reaches its apex.

- Watch for higher volume on the upside moves within the triangle and lighter volume on the downside as the pattern progresses in order to serve as a buy setup.

Correction Periods: When the last pivot low within the triangle, or the breakout from the triangle occur at the same time as a correction period.

Example 1: 1 Minute Ascending Triangle Buy Setup in POT

1 Minute Ascending Triangle in Potash CP Saskatche (POT)

Pros on POT 1 Minute Ascending Triangle Setup

1. Pace: On the larger 3 minute time frame, the momentum had rounded off at lows. The gap higher increased the upside momentum, making it possible for another continuation move to occur that could take the Triangle back into the zone of the previous day's highs.

2. Pace: The pace shifted within the Ascending Triangle so that the strong downside off the initial high that led to a "V" low was followed by slower waves of selling within the range. The pace was so slow in the final third of the range that POT hugged the upper end of the Ascending Triangle and formed a smaller Symmetrical Triangle as prices narrowed between the highs and the 20 period moving average.

3. Trend Placement: Since the initial rally off lows the previous afternoon created the first wave of buying in the new uptrend, and the rally out of the Phoenix™ with the gap created the second wave of upside, there was room for one more push higher within the uptrend on the 3 minute time frame before the uptrend was exhausted.

4. Trend Development: The Ascending Triangle had three waves of correction of the initial high. Two to three waves of correction prior to a breakout from the trading range are the best numbers to have for intra-triangle waves of corrections. Three is particularly favorable if the third wave involved a marked shift in pace within the range itself to favor the preferred breakout direction.

5. Support: The 20 period moving average served as support on the Ascending Triangle and the entry trigger took place as the triangle became wedged between the upper end of its channel and the 20 period moving average.

6. Resistance: $91.50 and the zone of the previous day's highs were the next two main resistance levels. By the time the closer $91.50 resistance hit, the stop would be covered.

7. Resistance: Overall POT hugged and tested the upper end of the triangle's trading rage more than it did the lower end of the range.

8. Volume: Volume had been low at the start of the rounded lows on the 3 minute time frame, but then increased as the momentum increased on the upside to confirm the bullish bias.

9. Volume: When the range began to form out of the open, the volume decreased on the portions of the correction that involved selling. This indicated a lack of interest by the bears within the triangle.

10. Volume: Initially volume attempted to confirm the breakout and the first bar when the range broke was the strongest of the session.

Cons on POT 1 Minute Ascending Triangle Setup

1. Trend Placement: The triangle did not correct as long as the Phoenix™ prior to that morning, nor as long as earlier trend corrections, such as in the larger circle on the 3 minute time frame. This made it potentially a premature breakout. It then attempted to form a 1-2-3 Continuation Buy Setup at $90.50, but failed to break the highs of the second bar to the pattern.

2. Trend Placement and Resistance: After rounding off at lows, the gap and early morning congestion that formed the Ascending Triangle tool place in the middle of the zone from

the previous day's bounce going into an Avalanche™. This was a strong resistance zone and poor trend placement unless the security based to form a handle on what could become a 3 minute Cup-with-Handle.

3. Support: Ideally POT would have only touched the 20 period moving average on the third correction off the highs of the triangle's range. Instead, it began to hug that moving average as it became wedged between the moving average and the highs of the triangle. This increased the risk for a false upside trigger. Even though POT still hit a 1:1 reward:risk ratio, in other similar setups this could easily fail to be the case.

4. Volume: Although volume spiked when the Ascending Triangle triggered, it dropped off immediately following the trigger and failed to continue to confirm the breakout. After the initial breakout bar, the volume was even lighter than the average volume within the Ascending Triangle itself.

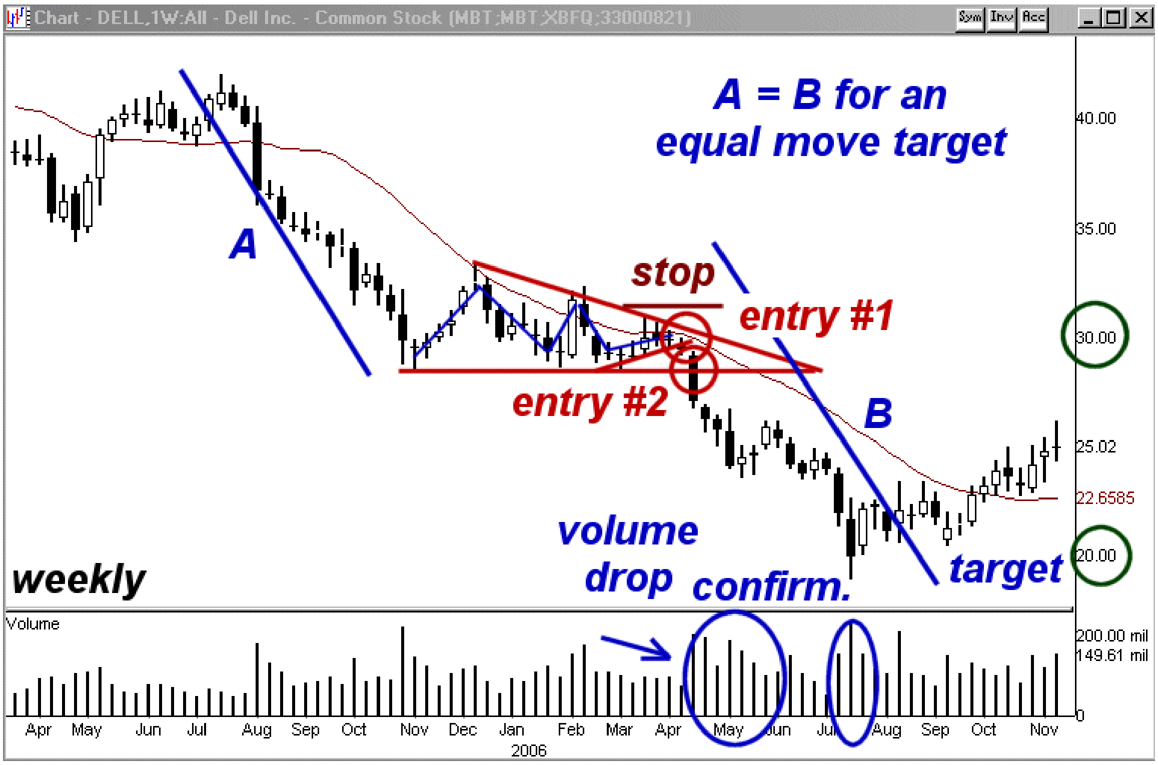
5. Correction Period: The entry trigger did not correspond to a morning correction period. Neither did the last pivot low within the triangle prior to the breakout.

Descending Triangle

Description: This pattern is the opposite of the Ascending Triangle. All of the characteristics of an Ascending Triangle and criteria for that pattern can be reversed to apply to the Descending Triangle. A Descending Triangle has a narrowing trading range, but the lower trend line is flat, or nearly so, and it has a declining upper trend line. In other words, the lows gravitate around one particular support level, while each consecutive high is lower than the last. A Descending Triangle is typically a bearish pattern, but there are plenty of exceptions, particularly when the height of the triangle is extreme.

Example 1: Weekly Descending Triangle Short Setup in DELL

Weekly Descending Triangle in Dell Inc. (DELL)



Pros on Weekly DELL Descending Triangle Short Setup

11. Pace: DELL had a stronger-than-average downside move into the triangle formation. This created favor for a correction more through time than price off the 2005 lows. It also made it more likely that a continuation pattern would form as opposed to a reversal pattern, unless the initial low was followed by slightly lower lows.

12. Pace: Within the triangle formation, the pace of the buying slowed on the third bounce off the lower end of the channel. It is often the pace of this third bounce that determines the breakdown momentum. Since the upside did not get far, it suggested a stronger breakdown would occur. This also provided a smaller time frame entry trigger based upon the slower trend channel at the far right side of the triangle.

13. Pace: The pace of the breakdown was comparable to the previous weekly selloff into the triangle. This made it more likely that the breakdown would continue until the selloff mirrored the extent of the initial drop off the 2005 highs. This is “equal move” support. This support level also corresponded to the $20 zone whole number price support.

14. Trend Placement: Although not shown here, the Descending Triangle was the first continuation pattern to form on the short side following a Momentum Reversal off highs that triggered the selloff ahead of the triangle formation. This placed it early in the larger downtrend development so that at least there was room for a 2-Wave Correction off the larger highs before monthly support would hit.

15. Trend Development: The lows within the triangle are identical.

16. Support: No major support levels until $20.

17. Resistance: The 20 period moving average served as resistance for the triangle.

18. Volume: Volume dropped off sharply in the last portion of the triangle when prices tried one last time to move higher. The lack of volume, combined with the slower pace of the buying, confirmed a bearish bias for the triangle.

19. Volume: Volume increased when the triangle broke lower and confirmed the breakdown. It then increased again in July when the target zone hit, which suggested exhaustion.

Cons on Weekly DELL Descending Triangle Short Setup

6. Pace: The second wave of upside within the triangle was stronger than the first and third.

7. Volume: The volume increased off the second low within the triangle. This could have led to a larger reversal off a double bottom.

8. Correction Period: No major correction period corresponded to the final high of the triangle, nor was there one at the time of the year that it broke lower.

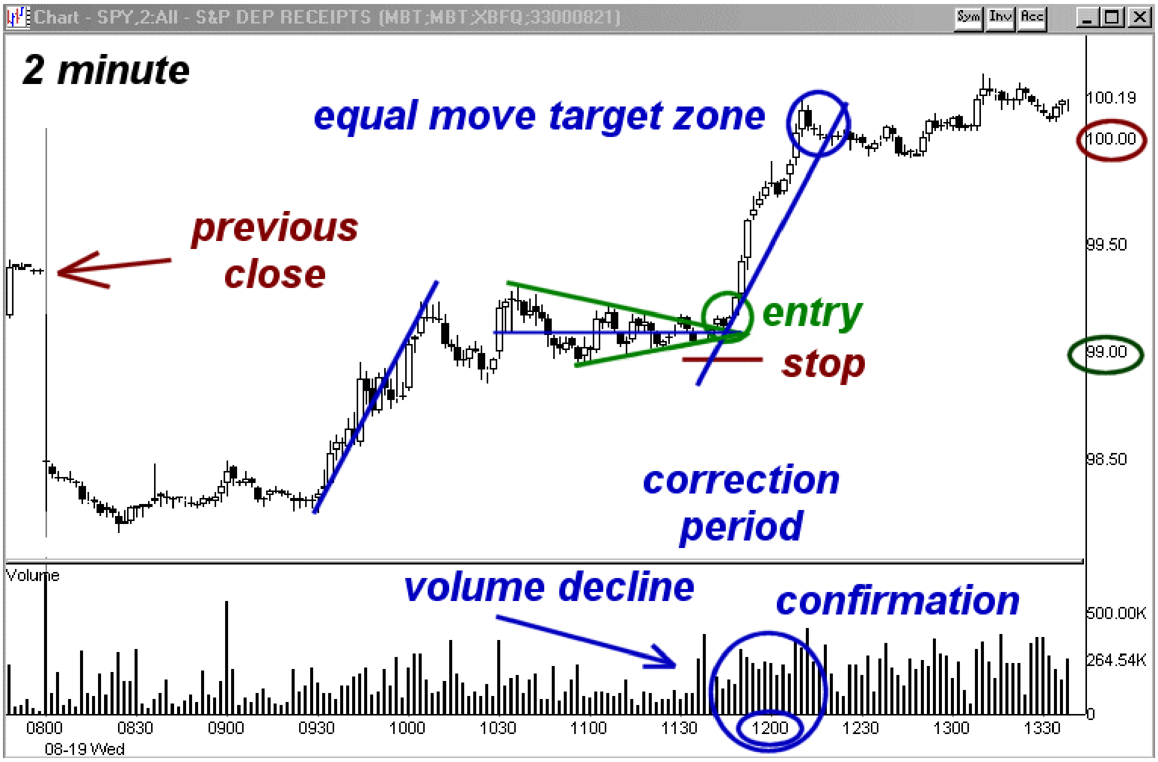
Triangle - Symmetrical

Description: These are forms of a triangle trading range where the security forms lower highs and higher lows, indicating indecision within the security. They are typically viewed as continuation patterns, but can also occur at both highs and lows within a larger trend move. In order to accurately judge the most likely direction of the triangle's breakout, it is imperative to monitor the momentum within the range itself. If the security begins to hug the upper end of the triangle, then it is more likely to break higher, whereas if it hugs the lower end of the triangle then it is more likely to break lower.

Be careful, because Symmetrical Triangles are notorious for giving a false channel break before reversing with a stronger confirmation in the opposite direction. The use of the other building blocks, such as trend placement, is instrumental in determining whether a channel break is legitimate or a trap. This can make Symmetrical Triangles trickier to trade if there is not a continued shift in momentum as the upper and lower channels converge whereby the security begins to hug one channel as opposed to the other.

Example 1: 2 Minute Symmetrical Triangle in the SPY

Symmetrical Triangle – SPY on a 2 Minute Time Frame



Pros on SPY Symmetrical Triangle

1. Pace: The SPY formed a stronger-than-average upside move into the start of the triangle formation. This increased the odds for a trading range to correct to the rally.

2. Pace: The pace of the buying overall within the triangle was stronger than the downside. This increased the odds for an upside resolution to the narrowing range.

3. Trend Placement: The Symmetrical Triangle was the first corrective move after the pace reversed off lows at 09:30 ET coming off a larger downside move. This increased its upside potential. It also formed the “handle” of a Cup-with-Handle due to the rounded lows that were followed by a morning rally that closed the gap zone from the afternoon before.

4. Support: $99.00 served as price support at the lower end of the triangle with most trades occurring above this whole number support.

5. Resistance: There was no immediate overhead resistance until the $100 whole number resistance, which also corresponded to the zone of the equal move when the breakout move is compared to the initial rally off the 09:30 ET lows.

6. Volume: Volume dropped off substantially prior to the triangle’s breakout. This meant that a breakout would likely be stronger than it would have been otherwise, particularly when the larger highs or lows of the triangle break, since such light volume tends to imply a lack of conviction by both the bulls and the bears and a trend channel break alone is often not enough to convince them.

7. Volume: Volume increased when the upper channel broke.

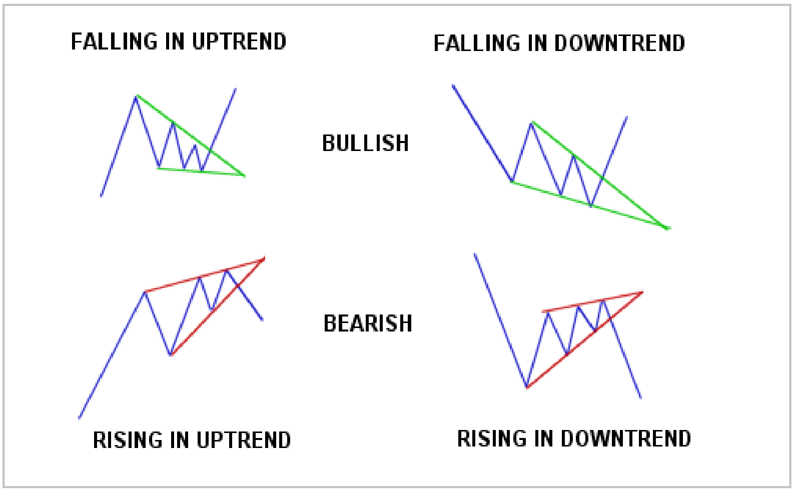
8. Correction Period: The trigger for the buy setup corresponded to the 12:00 ET correction period.

Cons on SPY Symmetrical Triangle

1. Pace: Despite a slowdown in the selling momentum when the triangle began, the SPY did not hug the upper end of the trading channel prior to breaking higher. This made is more risky that a false setup could have occurred in the direction of a break lower from the channel.

2. Volume: Volume spiked ahead of the breakout, albeit only briefly. The volume was on a downside move, however, which would have caused some concern by the bulls.

Wedge Reversal and Continuation Patterns



Description: This is a specific type of triangle that has a noticeable slant to it with higher highs and higher lows for an ascending or Rising Wedge or lower highs and lower lows for a descending or Falling Wedge. The characteristics detailed below apply to a Rising Wedge for a short setup, but can be easily reversed for a Falling Wedge buy setup. The wedge formation is typically a reversal pattern, meaning that the trend within the wedge itself will reverse when the trend breaks, although it can serve as a continuation pattern if the trend is new. For the purposes here, however, it will be discussed in terms of a reversal, with a Rising Wedge viewed in terms of a break lower and a Falling Wedge breaking higher.

Criteria: Uptrend with higher highs that break by a lesser degree than before, while the higher lows are still separated by greater differences in price, creating a triangle that slants higher when the upper and lower trend lines are drawn.

Entry: When the lower trend line breaks. Alternate entries are when the last uptrend within the wedge breaks lower or drop down to a smaller time frame and watch for a 2T™ or Avalanche™ and utilize those entry criteria.

Stop: Over the highs of the Rising Wedge, or over the highs of the base on an Avalanche™ formation if the wedge begins to hug the lower trend line after pulling off the highs before breaking lower.

Target: The target on the wedge depends on where it occurs in the larger trend. The main support levels in a Rising Wedge will be at each of the pivot lows within the wedge itself. When a downtrend is new and the Rising Wedge is a continuation pattern, then an equal move out of the wedge as compared to the drop into the wedge is the larger target.

Ideal 5 Building Block Traits on a Rising Wedge Short Setup

Pace: Above average pace heading into the start of the wedge, followed by a slower trend for the wedge itself. In the case of a Rising Wedge this means a strong drop lower, followed by a slower Rising Wedge. Within the wedge itself it helps if the pace slows on the upside as the wedge nears completion. The best circumstance is when the security pulls strongly back into the lower trend channel from the wedge and then hugs that support just prior to breaking down out of the Rising Wedge. The reverse applies to a falling wedge.

Trend Placement/Trend Development:

- A Rising Wedge is common in a downtrend as a correction within that larger bear move.

- It can also be located at highs as the last move up within a larger uptrend before a larger correction off highs takes place.

- A Rising Wedge is higher risk as a short setup when it occurs at the beginning of a new uptrend, since momentum can be building and any break lower at that point out of the Rising Wedge can easily be just a small base before the wedge then breaks to new highs.

Support/Resistance: In a Rising Wedge, it is good to have strong upside resistance, followed by a pullback to the lower trend line. The security then has higher odds for a strong follow through when it hugs that lower trend support just prior to breaking down. A lack of significant support, such as a previous low or congestion zone that would hit right away will also increase the odds for a successful move.

Volume: The volume will ideally increase heading into the start of a Rising Wedge formation and then decline as the wedge progresses. If the wedge hugs the lower trend line from the move higher just before breaking, then that volume should be the lightest of the entire wedge.

Correction Periods: Higher changes for success when the highs of the wedge correspond to a correction period or the trigger for the wedge corresponds to a correction period.

Example 1: 2 Minute Rising Wedge Short Setup in QCOM

Rising Wedge Short Setup – Qualcomm Inc. (QCOM) on a 2 Minute Time Frame

Pros on Rising Wedge Short in QCOM

1. Pace: The momentum shifted on the uptrend when the wedge formed. This shift can be viewed the most clearly by transecting the wedge, as shown here.

2. Pace: The momentum was slower on the third push to highs in the wedge than compared to the previous two waves of buying.

3. Trend Placement: The uptrend leading into the wedge was the second wave of buying on a larger 2-Wave Correction off support that created a 30 minute Avalanche™ (not shown here).

4. Trend Placement: The wedge formed with three highs, which is typical of a complete trend move.

5. Support: Once the 20 period moving average broke, the next main resistance was the noon lows and the $46.50 price support. This was also lower channel resistance for the 30

minute Avalanche™. A break in that level led to the next larger time frame support at the $46.00 whole number support.

6. Resistance: The highs of the wedge corresponded to earlier congestion on a 30 minute time frame (not shown here).

7. Resistance: The wedge formed at the $47.00 price resistance zone.

8. Volume: There was a slight increase in volume when QCOM reversed off the third high in the wedge

9. Correction Period: The reversal off the third high in the wedge corresponded to the 13:00 ET correction period, which is one of the strongest time periods of the day for an intraday reversal to occur.

Cons on Rising Wedge Short in QCOM

1. Trend Development: The second and third highs were closer together than the first and second highs. This can stunt the initial breakdown from the wedge and lead to a longer zone of congestion at highs before the security can form a stronger break lower. In this case it did so by creating an Avalanche™ at the 20 period moving average.

2. Trend Development: The wedge was not as noticeable on the larger time frames and created the appearance of a 2T instead.

3. Support: The 20 period moving average hit shortly after the wedge triggered a break lower. This support led to a longer range before the new downtrend could continue. In some cases, however, it could have led to another high on the 2 minute time frame to complete a larger Momentum Reversal Short on a 5 minute time frame.

4. Volume: The reversal off the highs of the day did not bring with it a strong increase in volume as compared to the past two downtrend moves. This could have impacted the pace of the follow through on the setup.

Example 2: 15 Minute Rising Wedge Short Setup in the ES

2 Minute ES Rising Wedge

Pros on 2 Minute Rising Wedge in the ES

1. Pace: The large momentum heading into the wedge was on the downside. It then took 90 minutes to just regain the losses from the gap and immediate selling out of the open.

2. Pace: The pace of the moves out of 11:00 and then along the lower trend line indicated a bearish bias since the upside was much weaker than the downside.

3. Trend Development: The Rising Wedge had three waves of buying in it, which is typical for a trend development, creating an exhausted trend before the wedge broke lower.

4. Trend Development: The second high in the wedge was only slightly higher than the first and the third high was comparable to the second, whereas each low was significantly higher than the last.

5. Trend Development and Support: As the wedge hugged the lower trend line leading into the second setup, the volume declined even further, despite the correction to the selling into 11:00.

6. Resistance: The closure of the morning gap served as a strong resistance level for the upper end of the Rising Wedge.

7. Volume: The volume decline throughout the Rising Wedge and did not increase at all coming out of the last pullback into 10:45 ET, indicating that despite the strong upside, there were not a lot of determined buyers present.

8. Correction Period: The final pivot high within the wedge took place heading into the 11:00 ET correction period. This is a major intraday correction period and a morning uptrend will often reverse at this time of the day.

Cons on 2 Minute Rising Wedge in the ES

1. Pace: The momentum within the wedge did not slow on the upside until the stock had already traded under the lower trend line, so those taking a trend line break as an entry would have had to have sat on the position for awhile before the stronger selling continued.

2. Pace and Support: The momentum of the selloff from the third high in the wedge was not much stronger than the pace of the overall move off the morning lows and it took about the same amount of time to return to the morning lows as it did to bounce off them. This made it a fairly strong support level and led to the shift in momentum at that zone into noon.

3. Trend Development: The amount of time between the second and third highs was less than between the first and second highs. This will more often lead to a longer correction, such as an Avalanche™ before the move can gain momentum. This formed at the lower end of the channel into 11:30 ET.

4. Volume: The volume did not increase much on the selling coming out of the wedge to provide strong confirmation for the breakdown. This made it more difficult for the downtrend trend to continue into the early afternoon.

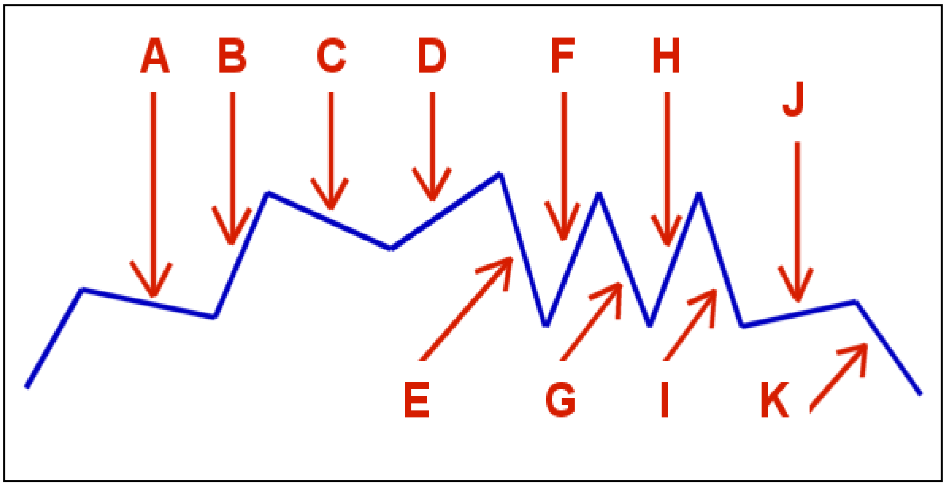
Appendix 1 – Toni's 5 Building Blocks

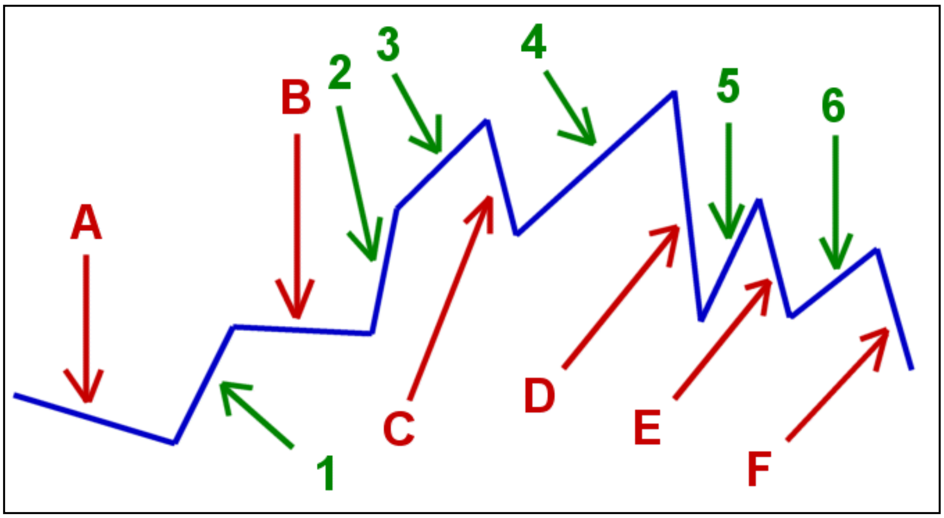
1. **Pace** is the measurement of the momentum of a trend move in a security as compared to not only the average move, but also the most recent move on a given time frame.

   - Slower than average moves often correct with a stronger price move.

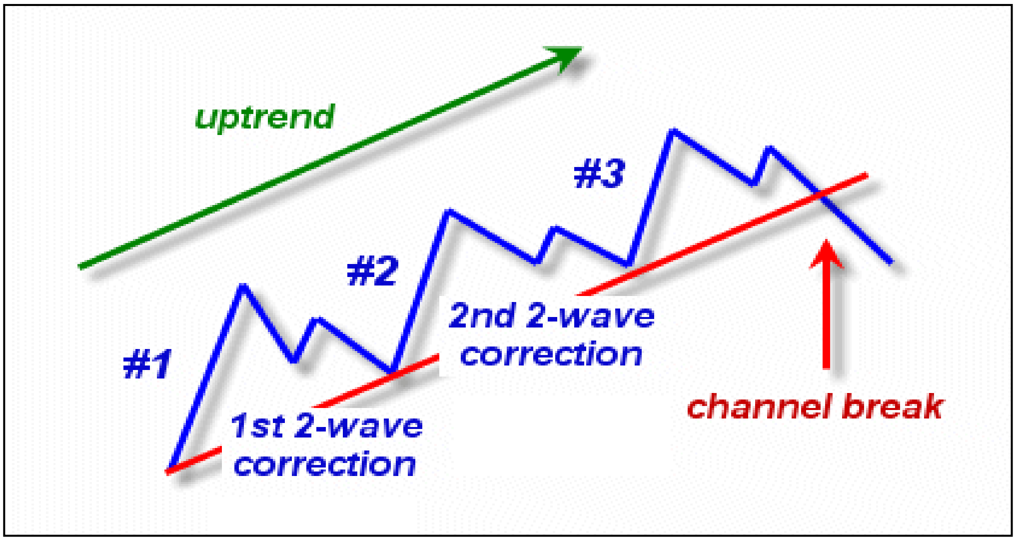
   - Faster-than-average moves typically correct more gradually.

   - Evenly paced moves resembling a "V" or upside-down "V" will more often lead to a trading range.





2. **Trend Placement and Trend Development:** Trends are the primary direction of price movement at any given time. They are *repetitive*, but the placement of a pattern in the context of the larger trend is key to identifying target levels or to assess if the setup is even viable in the first place. s



3. **Support & Resistance** levels are price zones in the market where a security is liable to react in some manner that affects the trend which is in play as the support or resistance level hits. It can lead to a reversal, a breakout, or even push the security into a trading range.

   - Whole numbers
   - Previous highs or lows
   - Previous congestion zones
   - Measured/equal moves
   - Gap closure levels
   - Fibonacci retracement and extension levels
   - Moving averages
   - Other indicators

4. **Volume** is a measure of the number of shares or contracts that exchange hands in a given time period. It is instrumental in representing the level of emotional commitment of market participants.

Increases in Volume:

- Confirmation
- Exhaustion

Decreases in Volume:

- Congestion
- Lack of interest

5. **Correction Periods** are times of the day or times of the year when the market is most likely to correct from its previous trend.

   Main intraday correction periods:

   - On the hour from 2:00 am – 8:00 am EST
   - 8:30 and 9:30ish am EST
   - 15 and 45 min. past the hour 9:45 - 11:15 EST
   - 11:00 am EST
   - 11:15am EST
   - Every half hour from 12:00 – 15:30 EST
   - Strongest are on the hour from 12:00 - 15:00 EST
   - On the hour from 17:00 – midnight EST

   Main monthly correction periods:

   - January, March, and October

Appendix 2 – Exchange Traded Funds

Exchange Traded Funds (ETFs) can be used by traders that seek securities that emulate the price performance of a particular index or sector of the market. The following is a list of popular ETFS, although it is by no means complete. There are hundreds of ETFs in existence and that list is growing.

QQQQ – NASDAQ 100 Trust Series I - aka "Quadruple Q" (800 shares = 1 NQ)
SPY – SPDR 500 - aka "Spider/SPDR" (500 shares = 1 ES)
DIA – Diamond Series Trust I - aka "Diamond" (500 shares = 1 YM)

IYM - iShares Dow Jones US Basic Materials
IYD - iShares Dow Jones US Chemicals
IYC - iShares Dow Jones US Cons Cyclical
IYK - iShares Dow Jones US Cons Non-Cyclical
IYE - iShares Dow Jones US Energy Sector
IYF - iShares Dow Jones US Financial Sector
IYG - iShares Dow Jones US Financial Services
IYH - iShares Dow Jones US Healthcare
IYJ - iShares Dow Jones US Industrial
IYV - iShares Dow Jones US Internet
IYR - iShares Dow Jones US Real Estate
IYW - iShares Dow Jones US Technology
IYZ - iShares Dow Jones US Telecom
IYY - iShares Dow Jones US Total Market
IDU - iShares Dow Jones US Utilities
EWA - iShares MSCI Australia Index
EWO - iShares MSCI Austria Index
EWK - iShares MSCI Belgium Index
EWZ - iShares MSCI Brazil Index
EWC - iShares MSCI Canada Index
EWQ - iShares MSCI France Index
EZU - iShares MSCI EMU
EWG - iShares MSCI Germany Index
EWH - iShares MSCI Hong Kong Index
EWI - iShares MSCI Italy Index
EWJ - iShares MSCI Japan Index
EWM - iShares MSCI Malaysia Index
EWW - iShares MSCI Mexico Index
EWN - iShares MSCI Netherlands Index
EWS - iShares MSCI Singapore Index
EWP - iShares MSCI Spain Index
EWY - iShares MSCI South Korea Index
EWD - iShares MSCI Sweden Index
EWL - iShares MSCI Switzerland Index
EWT - iShares MSCI Taiwan Index
EWU - iShares MSCI UK Index
IWB - iShares Russell 1000
IWF - iShares Russell 1000 Growth

IWD - iShares Russell 1000 Value
IWM - iShares Russell 2000
IWO - iShares Russell 2000 Growth
IWN - iShares Russell 2000 Value
IWV - iShares Russell 3000
IWZ - iShares Russell 3000 Growth
IWW - iShares Russell 3000 Value
IVV - iShares S&P 500
IVW - iShares S&P 500/Barra Growth
IVE - iShares S&P 500/Barra Value
IEV - iShares S&P Europe 350
IJH - iShares S&P Midcap 400
IJK - iShares S&P Midcap 400/Barra Growth
IJJ - iShares S&P Midcap 400/Barra Value
IJR - iShares S&P Small-Cap 600
IJT - iShares S&P Small-Cap 600/Barra Growth
IJS - iShares Small-Cap 600/Barra Value
IKC - iShares S&P TSE 60 Index Fund
XLB - SPDR Basic Industries
XLV - SPDR Consumer Services
XLP - SPDR Consumer Staples
XLY - SPDR Cyclical/ Transportation
XLE - SPDR Energy
XLF - SPDR Financial
XLI - SPDR Industrial
MDY -- SPDR Mid-Cap
XLK - SPDR Technology
XLU - SPDR Utilities
BHH - HOLDR B2B Internet
BBH - HOLDR Biotech
BDH - HOLDR Broadband
HHH - HOLDR Internet
IAH - HOLDR Internet Arch
PPH - HOLDR Pharmaceuticals
RKH - HOLDR Regional Banks
SMH - HOLDR Semi-conductor
TTH - HOLDR Telecommunications

Appendix 3 – Currency ETFs and ETNs

Exchange Traded Funds and **Exchange Traded Notes** can be used by traders that seek securities that emulate the price performance of a particular commodity or commodity index. The following is a list of ETFs and ETNs that track single currencies.

United States Dollar ETFs

- UUP - PowerShares US Dollar Bullish ETF
- UDN - PowerShares US Dollar Bearish ETF

United States Dollar / Foreign Currency ETFs

- GBB – iPath GBP / USD Exchange Rate ETN
- CNY – Market Vectors Chinese Renminbi / USD ETN
- ERO – iPath EUR / USD Exchange Rate ETN
- INR – Market Vectors Indian Rupee / USD ETN
- JYN – iPath JPY / USD Exchange Rate ETN
- ADE - ELEMENTS Australian Dollar / USD Exchange Rate ETN
- EGB - ELEMENTS British Pound /USD Exchange Rate ETN
- ERE - ELEMENTS Euro / USD Exchange Rate ETN
- CUD - ELEMENTS USD / Canadian Dollar Exchange Rate ETN
- SZE - ELEMENTS USD / Swiss Franc Exchange Rate ETN

Euro ETFs

- FXE - CurrencyShares Euro Trust
- ERO – iPath EUR / USD Exchange Rate ETN
- EU – WisdomTree Dreyfus Euro ETF
- ULE – ProShares Ultra Euro ETF
- EUO – ProShares UltraShort Euro ETF
- URR – Market Vectors Double Long Euro ETN
- DRR – Market Vectors Double Long Euro ETN
- ERE - ELEMENTS Euro / USD Exchange Rate ETN

British Pound ETFs

- FXB – CurrencyShares British Pound Sterling Trust
- GBB – iPath GBP/USD Exchange Rate ETN
- EGB - ELEMENTS British Pound /USD Exchange Rate ETN

Japanese Yen ETFs

- FXY – CurrencyShares Japanese Yen Trust
- JYN – iPath JPY / USD Exchange Rate ETN
- JYF – WisdomTree Dreyfus Japanese Yen ETF

- YCL – ProShares Ultra Yen ETF
- YCS – ProShares UltraShort Yen ETF

Australian and New Zealand Dollar ETFs

- FXA - CurrencyShares Australian Dollar Trust
- BNZ – WisdomTree Dreyfus New Zealand Dollar ETF
- ADE - ELEMENTS Australian Dollar / USD Exchange Rate ETN

Brazilian Real ETFs

- BZF – WisdomTree Dreyfus Brazilian Real ETF

Canadian Dollar ETFs

- FXC – Currency Shares Canadian Dollar Trust
- CUD - ELEMENTS USD / Canadian Dollar Exchange Rate ETN

Chinese Currency ETFs

- CNY – Market Vectors Chinese Renminbi / USD ETN
- CYB - WisdomTree Dreyfus Chinese Yuan ETF

Indian Rupee ETFs

- INR – Market Vectors Indian Rupee / USD ETN
- ICN – WisdomTree Dreyfus Indian Rupee ETF

Mexican Peso ETFs

- FXM – CurrencyShares Mexican Peso Trust

Russian Ruble ETFs

- XRU - CurrencyShares Russian Ruble Trust

Swedish Krona ETFs

- FXS – CurrencyShares Swedish Krona Trust

Swiss Franc ETFs

- FXF – CurrencyShares Swiss Franc Trust
- SZE - ELEMENTS USD / Swiss Franc Exchange Rate ETN

South African Rand ETFs

- SZR – WisdomTree Dreyfus South African Rand ETF

Currency Leveraged ETFs

- YCL – ProShares Ultra Yen ETF
- YCS – ProShares UltraShort Yen ETF
- ULE – ProShares Ultra Euro ETF
- EUO – ProShares UltraShort Euro ETF
- URR – Market Vectors Double Long Euro ETN
- DRR – Market Vectors Double Short Euro ETN

Currency Inverse ETFs

- YCS – ProShares UltraShort Yen ETF
- EUO – ProShares UltraShort Euro ETF
- DRR – Market Vectors Double Short Euro ETN
- UDN - PowerShares US Dollar Bearish ETF

-END-