TRANSCRIPT

Spotting market tops and bottoms with chart patterns

Presenters: Jonathan Lord and Matt Davison

Jonathan Lord: Yeah. Great to be here, as usual. Always excited to talk about these concepts, such as technical analysis, and that's going to be what we're talking about today-- spotting market tops and bottoms when we're using chart patterns as a method or a process. And an alternative title to this could just be, hey, we're trying to find the beginning and ending of trend. So we're really excited to get to discuss this with my colleague Matt today. We are part of the Trading Strategy Desk.

We work through market analysis, options, technical analysis. We do a lot of education through the Zoom platform just through our webinars and through our coaching sessions. You can find us at fidelity.com/coaching-- also, our beginner classes that go into things like technical analysis, again, or some of the platforms that we use, like Active Trader Pro. We're going to show some Chart Plus through the website today. All of that.

We do instruction, and discussion, and looking at individual symbols on a daily basis with you all, so we would love to have you there from that education perspective. And that's what we are going to do today. We're going to educate. We're going to talk through some of the price points, and how they might move, and why they move, and maybe some ideas about how to find, maybe, that shift, that change in terms of supply and demand.

So what we will start out with is this price reversal concept. You need to know why price and how price moves to then understand why it might shift or change its trajectory on different time frames. So that will be the definition, of course, what are those tops and bottoms, and then we'll get into some of the actual patterns that discuss what we might want to look for and see out there. Our brains are really good at looking for patterns, but the idea of actually seeing them, and trading them, and coming at it without that subjective look but with a more objective perspective is going to be key to this process.

So let's keep going. We're going to look through a few of these, just to begin with, on terms of price reversals. We know prices move, don't they? They don't just sit there. There's supply. There's demand. There's buyers. There's sellers. You all experience this in your daily life with whatever you purchase. The price usually doesn't stay the same, unless it's a Costco hot dog or something like that, so you're going to find that it's going to have some movement to it.

And prices move. They rise. They stop for a little bit. They consolidate. They reverse their price pattern. So we will find those as-- what we're going to look for is reversals. So a reversal is just a shift. Things have been-- gas prices, whatever it may be, where they just keep going up, up, and up.

And all of a sudden, what are some of those clues that we might look for, some of those patterns that, all of a sudden, might tell us things are maybe coming back down or coming back to a different level. It's going to be important, also, to note that there are various time frames that come into this. When we say this is a reversal, we might want to first follow up that question with, well, on what time frame?

Day traders might look at a reversal and say, yeah, this is great. I'll take that and collect a few pennies, a few percentage points, and that's their version of a top or a bottom. Longer-term or intermediate-term traders-- and you'll see some examples today that we pull-- will look at it from these reversals on bigger scales. And some reversals take years. Some take a decade to move through. So it depends on your patience and your process to really think about the time frame on reversals.

We use this terminology called fractal nature of technical analysis. We're thinking about a snowflake that's made of all the same patterns, just in various sizes, that eventually become one big snowflake at the end. So when we're thinking about reversals, this is what is built in terms of that trend. The shifting of supply and demand is enough to, then, create a change in that trajectory. And traders might want to, then, do what?

Well, change their process, not hold on through that shift. They want to, again, maybe join in on that other side or join in on that new trend that's developing. So we'll look for those. We'll have these terminologies, such as peak. Peak, of course, is just like a mountain. You think of a mountain peak.

Price has moved higher. It has climbed up. Again, we're going back to the hiking and mountain climbing here. Climbed up that mountain, and things get tiring after a bit. And eventually, it will shift, and you got to climb back down from that mountain. The other side of that is that trough. So we think of the reversal from the bottom side.

Those troughs are a V-shaped pattern that is, then, coming down, and we'll find how these will combine together to create some of these concepts of trend change or patterns, such as a head and shoulders or double bottom, double top, triple top-- all of these great names that we'll show you here, coming up soon. So reversals, again, are foundations of these combinations of some of the beginner-level technical analysis concepts like trend, trend lines that you'll see, support-and-resistance channels. All of this together will form the process for your step in saying, this price is starting to change.

Is it going to shift, and is it shifting on my time frame as a short-term, intermediate-term, or a long-term trader? So that's reversals. Our next thought process is visualizing this, of course, and then we'll get into some of the patterns, as well. The longer the trend, the more important these reversal points become. We can see how this builds over time.

This is trend. Trend is moving. We can see from the easiest way to define trend on our time frame here is that this is starting, in this chart example, on the right side. The bottom left of my screen ends up on the top right of the screen. What does that mean?

Over time, price has increased. Well, that's all trend is. Now, within there, we see various reversal points. We see peaks. We see troughs that are circled along the way. You can see that, various times, they are larger, some more substantial. Other times, they're very short term, little moves between.

But that adds up to this process of an increase in the value of that position. And hopefully, you got in early. But your next process is to do what? To make sure that you're not the last one off the boat here. You want to look for those changes and shifts on that trend change. Some traders, again, will just want to capture this move from start to finish.

Others might be looking for that tactical asset allocation or change that says when price gets to one of these circles, I'm maybe exiting and then entering. It's a difficult process, but there are some clues. There are some things we can utilize from examples in past price history that will show us where some of these build, how they might change, and how we might trade appropriately when these do develop over time. So reversal points, again, determined by the length of that trend.

Think about your time frame. We can't determine until we get actual, verifiable shift or change that that is a new trend developing. We'll show versions of this when we can get some of those clues and when we can take action based off of those to ensure that we are capturing that trend for as long as possible. So again, define your time frame. But remember this, keeping it simple, trend is really just increase in price or decrease in price over a specific time frame.

It is not going to be perfect, and quick, and clean straight up, all the way. You're going to find these reversals, and how you interact with those reversals and how they build upon each other is going to dictate your trading process and strategy. So I'll hand it back to you here, Matt, here, just to get a few of the concepts defining these tops and bottoms. So talk to us a little about that before we get into some of the actual patterns themselves.

Matt Davison: Yeah, absolutely. And obviously, the main thing that we want to be identifying here is when we're looking for those tops and bottoms, well, how are we actually going to quantify whether or not this is completed, the idea of actually making that top? And one of the easiest ways to do that is with the help of trend lines. So in this case, or this example here, very similar to the last chart that we were just looking at, where we're starting in that left, bottom corner and then moving up to the right for the majority of the chart here.

But then what do we actually see take place? It starts to come back down. And you can notice, along the way here, we have multiple times where we're going higher and then we pull back. And then we go higher again, pull back, and this pattern repeats itself. But over time, we're seeing it's consistently held up at a certain point, and that point would be what we would define as the trend line.

And all we're doing here in this example is just connecting over some of these troughs. And you can see, it's respecting this line very well, up into the point that it doesn't. It tries to make a bounce, right here in this red circle. We're seeing a little bit of a volume spike, as well.

And then after the bounce, it's very short-lived. And then it finally breaks through it, and then we also have some simple moving averages. It's just another way of defining trend over various time frames-- so we have a 20 and a 60 in the example on the screen here-- and it's just giving us what that trend is doing for, basically, a month's worth of time versus three months worth of time. Because there's roughly 20 trading days in a month.

And we can see that the 60-day is actually lining up pretty well with what that trend line is giving us, giving us some way to actually quantify and measure, well, is this actually a top? And we're seeing it break through a place where, historically, it's been holding up on the chart, and that's absolutely what happens here in this red circle. And then what does it start? Well, a downtrend, right?

And instead of seeing higher highs and higher lows, we're now starting to see those lower lows and lower highs, as well. So it's very important to remember that a top is not confirmed. And we're going to use that term a lot here today-- conformation. So it's not enough to start seeing it turn around up here because, well, what's to make this one different than any of these other times where it's done that? And after a brief pullback, it's went on to make a new high and push forward.

It's not enough to say that. So what are we actually looking for is that confirmation of some break, and the trend line or a moving average is a very simple way of quantifying that for us. In addition to that, we can obviously use some other indicators. We don't have any on the screen. We're not really going to talk as much about indicators. But another tool that you will have at your disposal if you're looking for that confirmation signal of, OK, well, what am I getting in addition to just a simple break of a trend line or moving average on a chart-- and that's where our indicators may come into play if you're looking for that additional layer of confirmation.

And as Jonathan was mentioning, tops can come in a lot of different varieties. So sometimes you see these really sharp, V-shaped tops. So what's that actually looking like? Well, it's basically where it's going straight up and then it comes down equally as fast, if not faster. So it literally looks like an upside-down V on your actual chart. Sometimes, it's going to take a little bit longer.

We're going to have rounding patterns where we go up, and it's going up pretty quickly at the beginning, but then it slows down. We're starting to see a sideways consolidation at the top, and then it slowly starts to come down on the other side. We have an example of that that we're going to show today, and we're going to see a couple of different varieties. And then sometimes, probably, I would argue the more common version of this which is it's not real clear in the sense that it just doesn't go straight up once and then straight down once, there's going to be a period of congestion. So what do we mean by that?

Well, there's going to be, maybe, multiple times where it tries to rally, and then it falls, and then it rallies again. It falls. And then finally, after maybe spending some time in that type of pattern, it actually breaks through what we'd see as a trend line, or maybe it's a support-and-resistance line, as well. We can see this on the top or the bottom, of course, but we're focusing on the tops for now. Bottoms are going to be very similar in concept, just instead of seeing, basically, the chart move from the bottom-left corner to the top right, well, we're going to see the opposite condition.

We're going to see it start in the upper left and gradually move towards that bottom right. And we're characterizing that by specifically lower highs, and you'd also like to see lower lows along the way, as well. But what we're really trying to identify in a downtrend is that upper trend line. And same thing as the last slide here. We're just doing it in the opposite fashion. We're looking to connect peaks on the top side as they get lower, and we're just extending that out.

And in this example here, we finally see it break through that. And when it does, it rapidly moves in the other direction. It's not always going to be this perfect or this clean, of course. This is a hand-picked example. But this is the general concept that we're looking for. Same idea. A bottom is not confirmed until we have a breakthrough of a trend line-- support resistance line in this case. Usually, it's going to be a resistance line above where the current price action is.

But we're looking for that confirmation to actually break through, and we're not attempting to front-run it. Because the problem with front-running it-- just like in the last slide-- well, what if we're entering here, and we're not actually seeing the break? Well, that was a really bad entry, and we didn't actually get through the line. And then we subsequently went on to make a new low, and it was pretty quick, as well.

We spent about two weeks, it looks like, in this example, where we're just moving, pretty aggressively, to the downside. Very similar, bottoms can take the shape of Vs. And this actually will look like a V on the chart. It can be rounded. This one's an example of a rounded bottom here as we're starting to finally move back up and break through. And then sometimes, it's a digestion period where you have these rallies and then comes back down.

Rallies comes back down. But what we'd be looking for here is that final rally that pushes us through some line of significance that it hasn't been able to break, giving us that confirmation that, hey, maybe the bottom is actually in here, and it's tradable at that moment in time. And then I'll talk about one other concept here, which is support and resistance. Not always is it going to be some angled trend line where it's slanted to the down or slanted to the up.

Sometimes, it's going to be horizontal, and that's the support-and-resistance aspect. And this is an example, I would argue, of a congestion period. It's not going straight up and then down and then just completely reversing course. It takes some time here. I mean, we basically spend, it looks like, 2 and 1/2 months in this pattern-- and this is a rectangular pattern, which we'll talk about specific patterns here in just a moment.

But we're going higher, lower, and this happens multiple times over that 2 and 1/2 months. But then we finally get that breakout to the downside through that horizontal level of support. So support is just going to be a horizontal line drawn through the troughs. So we're just looking for, where is price reversing on the bottom end and drawing-- just like on our trend line, we're connecting those bottom points.

Resistance lines going to be the exact opposite. Same idea. We're looking for roughly the same level on the price chart where prices turned around are reversed to the downside. And we're just connecting through those points. And you'll notice that we don't actually use lines in our example here. And you can do a similar concept with trend lines. It doesn't have to be a singular line.

A lot of people like to give a buffer to the upper and the lower side of those trend lines as their reference point, but you'll notice here that we actually put resistance in support zones. And we're doing that through the use of these rectangles because you can see it gets volatile in these attempts to break out to the upside, fails, tries to break out to the downside, fails. So you have to watch out for those because, oftentimes, as well, when you get a failure of a breakout, it can reverse course and go back the other direction very, very quickly, and that's typically just due to how positioning works. Because if everybody's seeing it break to this side, people might pile in.

And then if it doesn't actually come to fruition, and it turns around, you can see it-- people start to pile in on the other side, and then there's a rush to the door to exit those positions that were maybe just recently entered. But support and resistance, another way of quantifying what we're looking for when we're saying the confirmation of a pattern in a breakout or a breakthrough from whatever line has been important. So with that, Jonathan, I'll turn it back over to you. I know we want to start looking at some of these common patterns, so I'll kick it back over to you to take us through the first one here.

Jonathan Lord: Yeah, we had some really good examples from a textbook look of some of those types of patterns and why you might see those occur. Remember, what we're doing with price action is we're attempting to just think of all the expectations that are out there, be it fundamental, the technical traders. There's all of this things happening at once, so it's just really that focus on longer-term trends, and shorter-term trends, and how they interact together. We'll find that these start to, again, develop some of these same styles and looks, such as a head and shoulders.

We're not thinking about the shampoo here. This is a great example of a reversal pattern. So to define reversal patterns-- once again-- we said reversals earlier-- the patterns are just a way to visualize this over a different period or a combination of things. So a head and shoulders, what it is doing is combining the concept of trend. So in order for us to have a reversal, we have to have, first, trend. Trend has to be there.

In this case, a top defines trend that is moving higher, that is now starting to reverse or change its course. If I'm in the car with my kids on a long vacation or whatever, driving, and I'm saying, hey, I'm going to turn this car around, there's some clues along the way that maybe it's about to start. They've been starting one more time. And that's really what this pattern is doing. It is developing and starting what's called that left shoulder and head, which are just part of normal trend.

You can see that trend line on our left side of the chart. Higher highs and higher lows are occurring. It's exactly what you want to see. We're moving. We're getting to our destination here. What ends up happening is we get one little move that tells us a lot about the future of this trend. It says, this breakdown that occurs-- you see it.

To the right of the head there, we see that we have these couple candles that are showing up. There's two red candles in a row coming into this level that, then, bounce off. And we can see that that creates, at this point, a neckline. That didn't exist before this other price movement that had occurred on the left side. We are now seeing, OK, price came back to a lower point, a trough that we had seen, and it, again, decided that maybe it's not over yet.

Maybe price action. Buyers can show up. Sellers start to dry up. That demand starts to shift. And it puts in some fight, doesn't it? The right shoulder is really the test to this pattern that says, is it ready? Can it get back? Can it get back to that trend? Can it get up above where that head would have been here in the center? If it gets above that level, then what do we have?

We're back to this higher-highs moment. Now, we had a little bit of a lower low along in there, but that's how patterns go. They tend to do this over time. They'll get a little sloppy here and come back down, but then it finds its way back to the pattern. In this case, that right shoulder is telling us and doing a lot of work. It's telling traders, not ready to get back in there.

Maybe this trend line has-- or this recent trend has faded. Whether it be shorter term or long term, whatever it may be, that right shoulder is telling us the most here. And as it comes back to that neckline, that's the key point in our pattern. We find that we have what's called a breakout or breakdown out of the pattern, below. It is now no longer that horizontal support and resistance, so that support that was there no longer is holding.

It breaks, and it tells traders what? OK, maybe this trend is officially a reversal, and we may be seeing a new period of new trend develop, which is that lower-high and lower-low experience of price action coming down. And so you can find that. This is, again, the head to that neckline to your left shoulder, your right shoulder, all of this terminology. Really, what we're just looking at is this is changing its tune.

It is shifting. It is rolling over. We've lost trend. We've lost support. And we get this, maybe, last little gasp of a pullback or pull-up, as you can see here, back to that trend line from-- or excuse me-- that neckline from below. That is very common for us to see. But it then gets rejected, and we can see how substantial that price movement following is.

You'll find this, as we start to look through some of these examples, they look, a lot of times, just like this, this left shoulder. Now, we can be rounded, or it can be sharp in this way, but then you have a higher peak, and then you have that third right shoulder that is the development. And right when that right shoulder starts to develop is when you hear a lot of traders start to sing about it. Hey, wait a minute, is this developing into a right shoulder?

Is this the end of that trend? Is this our time to get out? And then the actual development of that pattern occurs on the breakout, though. So when we think about patterns, when we show any of these other examples of patterns, what we are looking for is that breakout for that final confirmation that says, this is a reversal. This is a head and shoulders. Now we need to start thinking about our tactical process of, am I trying to take this as a short trade, or am I exiting my long position or taking part of my long position off?

Do I want to be involved is if this thing gives us a huge and sustained long-term downtrend following that? And all of our profits start to do what? Start to erode. And now we're wishing we had exited much higher. That tends to be how these things start to develop. So we can find this head-and-shoulders top, one example of it. I'm going to steal a screen, Matt, just to show an example.

We're going to come back around to this multiple times. We're going to go back and forth with showing Chart Plus. So Chart Plus is our platform and our program that is within fidelity.com. So if you use fidelity.com, you'll pull up your symbol. We did a screen for this. And if we have time at the end, we can show some of the screens or examples of this. This is United Airlines-- UAL.

So you can feel, of course, now, we've got interesting price action that occurred. Big drop back here in March. You see that this has developed into a new trend. So if you were buying back here on, maybe, a pattern that had developed-- that we will talk about here shortly-- but a new trend starts to develop-- higher highs, higher lows, this thing on a tear, finding its way.

You see trend line here on our charts, this little channel that's developed, as it starts to move higher and higher. Now, this isn't going to be as clean as that textbook example, is it, because we can see that it's more of the nature of the rolling of price actions. Isn't a really extremely clean version, but it does have all-- it does check off all the boxes, doesn't it? Our left shoulder could be defined as these two areas, if you wanted to.

You see that we have that higher high that occurs, that pullback coming all the way back down that tells us, wait a minute, this thing reverses here. Now, we've seen that price action, again, coming back up can't get back to that prior trend, so we have broken trend line. We now have horizontal support and resistance. And then we do the what? We see that this breakdown occurs through that neckline, a little bit of attempt, maybe, but doesn't have that same example that we had before.

And we can see that price action is now in this pattern with a expectation, for traders at least, that reversal may be coming back down to this area. So let me explain what we're looking at. This is the Events button. Classic. Will give us chart patterns. There are also patterns we can look for in terms of some of the shorter-term candlesticks using this tool, indicators if you're interested in moving averages or RSI or MACD as these examples of types of indicators you can use and oscillators that you can add on to this to go out and use this AI technology to find some of these examples.

We use a screener, as well, to locate these. But once you have the pattern, you can click on it. It'll tell you a little bit about that head-and-shoulders top, for instance. And this is something I want to focus on real quick. It is automatically giving us this box here. This box is a traditional look at the expected move from this pattern. If you see a head-and-shoulders top, you're taking from the very peak of the head, top of the head, to that neckline.

We get our measuring stick out. We say, OK, based on this, we would expect the reversal to have this far of an extension down. It has a little bit of an extra, added amount, usually with this darker line. You'll find that, sometimes, it gets there. Sometimes, it overshoots. Sometimes, it comes here, and then it finds its way back up. So we don't stick by this to the end and say, it has to get here, and that's the only way I'm adding or only way I'm getting out of the position, is if it gets to a short position if you were adding here to capitalize on this downwards price movement.

So this is that measuring stick, if you will, but we don't stick with this no matter what. We have to abide by, if price action does get back up above and negates this move or if it just continues to bounce back, bounce, bounce, that we're willing to adapt, and change, and look for greener pastures from our trade perspective. So this is a nice tool that pulls it up. It's not always perfect. I don't always agree with it.

I know that's always the joke with economists. Same thing with technical analysts. We are all disagreeing on what we see here. But this is a pretty clear example of price action that has moving higher, has found its way through trend, has found its way through a support line and is now finding its way lower, out of that trend, and maybe developing into a new lower-high and lower-low trend that could be extended further. Remains to be seen, but just a nice little way to view that pattern.

Matt, if you'll bring back up the slides there, we'll look at the additional examples of this as another way to do that before we get into a few others and some more peaks. But I wanted to give you all a little bit of a look to start with on what that might look like on a real example. So head-and-shoulders bottom is the inverse of that. We've just flipped everything on its head, if you will. So we've had the top.

Top says, uptrend, changing. Possibly a new downtrend developing, so a head-and-shoulders bottom. If you somebody who's a long trader, you might be looking for these, wouldn't you? This might be your entry point into a position that has been in a downtrend that is now starting to shift and change its trajectory and change its character. So head-and-shoulders bottom is just doing that same thing. Our left shoulder is still on that left side.

Only now, it is showing that it is a trough that is our first shoulder. Now we see a further lower trough is our head. We see our neckline, instead of being support, is now actually a resistance zone. And we can see now that that right shoulder is the point in which we are now breaking that trend and maybe having a breakout to the upside. You can see that little throwback coming back to that landing zone that we had seen, so support becomes resistance.

Resistance becomes support. Very key part of technical analysis when you think about that as one of the first things you learn, that price action has been bouncing off of something from below. It's probably going to-- might bounce back off of it from above. We would typically see that, and we would expect that to happen. We would try to trade accordingly.

If it does break down, though, watch out below. But if you see that throwback pull in, that's where you want to capture that and see that this is a new shift or a change. Now, we got an even smaller-- hopefully you can see this, on the right side, of a real-life example. Huge gap down creates this resistance zone. We have a left shoulder, again, a head, which has a little bit more of that rounding. That right shoulder looks a little bit like what we just saw with United Airlines, doesn't it, where it's not a perfect example of just a clean trough.

We see that it is actually a combination of multiple attempts to break down that, then, finds its way back above that neckline in a new-- we have a really nice throwback here-- back to that support line that now became a resistance line that became support. And it is now trying to break above and into that prior level. These are very common. You'll hear these a lot. Social media, everywhere, they're going to tell you about the head and shoulders. You'll hear that terminology.

So hopefully, you can feel how this looks and start to, maybe, see some of these developing on your chart patterns, and then that can help you to think about trend, and where these start to begin, and how they shift, and what we might be expecting in terms of how those might react to certain price points. So again, inverted head and shoulders on the bottom side. Just a little bit of a different look when we're thinking about those. Matt, your thoughts on head and shoulders as we start to move through to the cup and handle and saucers.

Matt Davison: Yeah, I mean, the main thing I guess I would make about-- or main point I would make about all of these patterns, if you get that breakout, throwbacks are very common-- or pullbacks if it's a breakout to the downside. And you have some choices to make as a trader there. There's some people that would absolutely do nothing. They're saying, OK, this is a healthy retest of the area that we just broke out from. I expect it to hold here and move higher.

Some people are looking at positioning more into something like that, saying, OK, I'm really expecting-- I'm convicted it's going to hold this, and I actually want to add to my position. Then there's the other side of it, which is, if it can't actually hold there, you have some choices to make from a risk-management perspective. And it doesn't have to be directly on that line.

There's lots of different ways that you can do it-- with some filters or maybe you're giving yourself some buffer beneath the line. Different indicators can give you some guides as to maybe how to do that. ETR is a common one. Maybe it's just as simple as a point of percentage difference off of the line. But just understand that just because it breaks through the pattern doesn't mean it's just going to go straight up or straight down to the price target.

Oftentimes, there's still going to be that ebb and flow, just like with any other market, as we're starting to make our way towards that pattern. And of course, sometimes, we don't actually get to the price target. Sometimes, we'll get halfway there, and it'll stop, and it doesn't complete. So we have to have some idea or plan in mind for risk management. How are we going to do that?

Maybe we're going to use stop losses, trailing stops, something to that effect to make sure, as Jonathan was pointing out, that we're not just watching our profits disappear and go away. With that being said, cup and handle, pretty similar pattern here in terms of what the concept is to that inverted head and shoulders. Effectively, what we're looking for is, instead of that three-headed approach-- so there's the shoulder, the head, and the right shoulder-- we're looking at a situation where it's just more rounded on the bottom end here.

And then oftentimes, we'll see, as we approach that line, that we started entry into the pattern, we get a little bit of a pullback or what we would call the handle. That's why they call it the cup-and-handle or the saucer pattern. Some people refer to it as the lip. And then what you're looking for is, on the retest, that breakout through the line. And, I mean, we're seeing it all in this example over here where we're seeing that huge pricing pattern just making this rounded bottom.

It pulls back as we reach it. We break through it. And then we get a retest or a throwback to that original line before going up. And I would argue, Jonathan, in this example, it's a really good one because notice how the price action from the bottom-- we would measure from this bottom right here, all the way back to the line. That is definitely bigger than the actual area that it gets back to before coming down, retesting, and breaking through that line. So if we had no risk-management plan in mind here, and we're just holding until we hit that magical price target, well, it didn't get there.

And we watched it come all the way back down to, potentially, where we even entered into the trade. So just be very mindful of that. A couple of the other patterns here that we want to hit before we jump into more examples-- so a lot of these are going to be very similar, a little bit repetitive. It's double top, triple top, double bottom, triple bottom. The idea here being that, effectively, instead of seeing straight up and then straight down, we're seeing an area, I would argue, of horizontal congestion.

So we're seeing a pattern entry into the actual double top in this example. Then we're seeing it go up, make a peak. We come back down, make a trough. We make a second peak. And then as we're-- instead of making a trough here, we'll actually, sometimes, break out, and that's what makes it an actual double top. Very important to understand with double tops where the price entry has to be. You can't have a double top if the price is entering from higher.

This can only occur when we're having price entry from the bottom side, so it's important to understand that. Some people see double tops in moments where the price is coming down from the left and upper-hand side. You can't see it that way. It has to be entering from the bottom side or that lower price action. But again, very similar concept here. Once we get those two stopping points on the bottom, well, we're looking for an actual breakout from that.

And we're seeing that right here, and the measurement is very similar. We're looking for, once we break out through this horizontal support line, we're just measuring the distance between the resistance line, the support line and adding it on to where we're breaking out from. Triple top-- or excuse me-- double bottom, going to be the very same thing. Just instead of it being a reversal on the top side, it's a reversal on the bottom. So what does that mean about entry into the pattern?

Well, it needs to be coming from higher. And that's exactly what we're seeing in our example here. Same concept. We're looking at two touches of a support line. So we're looking for two troughs. There's one, there's two, and then a breakout through that resistance line back the other direction. Again, throwbacks going to be very common in this particular pattern. And effectively, what we're looking for here, same thing in terms of price target-- the distance between the support and resistance line, and we're adding it to our breakout point.

And that's going to give us our potential price target. As we'll move through here, triple top and triple bottom, very similar concepts, and that's why I'm not going to belabor the point too much, because we do want to get to a lot of these examples that we have. But really, the only difference here is, instead of being separated by two distinct peaks, we're now looking for a third peak. So we're seeing peak one, two, and three.

And then we have two troughs here at the bottom. And then finally, a breakout on the downside-- breakout to the downside through that support line. And that's what we're looking for here. The exact same way to calculate the price target. We're just taking the difference between the lines and then adding it to our breakout point. So that's the triple-top pattern. Very similar to the double. We just have an extra peak in there.

That's the only difference between the two in terms of how they look on the chart. Triple bottom, so very similar concept. It's just going to be on the opposite side. So again, we need that entry coming in from higher. And then what are we looking for here? Three separate touches on the bottom or the support line. So we're looking for three troughs instead of two, and that's what separates it from a double bottom, and same exact concept.

Eventually, once we get that, we're looking for an actual breakout through the resistance. Now, I think this is a good time to remind everybody, as well. Sometimes, you'll start to see these patterns form, and then we never actually get the breakout, which is why it's very important. And that's what we talked about at the beginning, waiting for that confirmation through. Because if we don't get a reversal, what are we then likely to get?

Either more consolidation-- that would be the less bad version. The worse version would be, well, if we're positioning for a reversal, what if we get continuation? And as we showed in that earlier chart, sometimes, when we're seeing a pattern, or maybe we get a false breakout, and then it falls back into the pattern, it can reverse back and go the other direction really, really quickly. And the other thing to note on this one is, not all the time are we going to have a perfectly parallel or horizontal resistance or support line.

Really, on a triple bottom or triple top, double bottom, whichever one where we're looking for the peaks or the troughs, that needs to be more or less in the same spot. It's not going to be perfect. This one's not perfect here that we have in the example, but they're aligning roughly in the same area. However, on the top, you're seeing, well, the peaks are actually starting to get a little bit lower across time. And if it starts to get too severe, this could actually change into another pattern, which we're not really even talking about today, which is triangles.

But it's another type of classical pattern that is, in fact, out there. But that's what we're looking for on the triple bottom. And then finally, we'll talk about rectangles.

So this is going to be very similar to the triple top and triple bottom. Basically, we're just looking for that extra connection point. And then instead of breaking through on this particular example here, we're seeing that triple top. But instead of breaking through, on the downside, it keeps going back up, and then we run into what's the idea of shortfall, which is falling in between the two lines on the chart, so in between resistance and support.

We're not making it all the way back down to the support line. Sometimes, that's going to give us an idea of the eventual breakout direction. Not all the time, but sometimes it gives us a little bit of a hint. Would still caution people against potentially front-running that situation. And then effectively, we're looking for a breakout that's later on.

Often has a lot of false breakouts in this particular pattern. Probably the most famous example of this, if you want to go back and look at one, would be the Russell 2000 on that chart. And maybe we'll look at that here in a second. But looking at the Russell 2000, it was in this massive rectangular pattern. It started to get tighter as we moved across time. And we got a breakout to the upside, and it looked just like this, but then it fell back.

And instead of bouncing, it actually fell back into the pattern and ended up reversing and then going all the way on the outside of the pattern in the other direction. So just be very cognizant of that, especially with rectangles. You can get a lot of false breakouts, which, again, makes me bring up-- I hate to just belabor the point here, but you want to have that risk-management plan in place just in case the pattern is no longer valid. So very important to keep that into consideration.

Jonathan, I know you had a couple examples of double-tops bottoms. Why don't you go ahead and show us a couple of those, and then I'll circle us back here at the end towards the screener tool and how we can find some of these things out there?

Jonathan Lord: Yeah, absolutely. Great to hear some of these concepts. If you were disappointed there wasn't [CHUCKLES] a quad bottom or anything like that, we could just throw it into a rectangle at a certain point. And we've seen some of these that have developed for so long and that fight that occurs at some of these high levels, and eventually, you are building up over time some of these concepts of consolidation. And well, they can eventually lead to, if things do shift, these reversals, so interesting. I like those examples that you gave there. Let's jump back over.

I found a good one here on-- again, going through the search functionality. We do want to emphasize here-- we have some time. We can show how you can actually screen for these. Once again, we are using our Stock Screener that has fundamental and technical items built into them and even-- you can get anything you want-- analyst opinions, actual volume or size of the company, or anything like that-- when you're screening. So it definitely allows us to do that.

So we just ran some of these before, trying to locate some of these patterns, and this one gave us a nice, little double bottom on AEO, for instance. Now, this is a substantial downtrend, isn't it? This is what-- coming out of a substantial uptrend, we might-- these patterns, by the way, don't go too far back. They will fall off, and they'll only give you more recent patterns. So I would probably argue, Matt, back here, we may be looking at that same double top now leading to a longer-term double-bottom-type action.

So we can see, by clicking on it-- get the double bottom as a longer-term view and how long this has taken for this thing to roll and roll, again, back to those same levels. Another thing I like about this one is, you start zooming out a little bit, and you can find that that area actually may have been extremely important to this prior pattern, as well. So price having memory and going back and thinking about it in those concepts is important. But yeah, huge trends, a lot of these things developing.

And we can see that now, well, this is in the same place it was in the middle of 2020. So price can have extreme fluctuations in these moves, and being tactical is important because they don't all look like some of the ones that you might be familiar with, that you say, oh, of course, this is now up, this percentage. All of that is in hindsight. Along the way, there's a lot of these-- most charts probably look like this-- huge moves to the upside, downside not even really making any progress.

But there are trades to be made on these, and it's important to be tactical when looking at these from that perspective. That double bottom, two separate points reach-- once again, we have-- entering the pattern-- at this time, we don't know. We think this is just a continuation of that downtrend. A gap out of that channel that we'd seen before gets met with resistance, with selling above. Once again, comes back down. Arguments occur.

We're going back and forth. The CEO or whoever may be saying, this is a good time. Or the institutions are coming in and saying, I like this level based off of our analysis. Or just sellers, right? Whatever the case is, we can see it on the price pattern, on charts itself, and price coming back up to that same level once again.

So, Matt, right now, this is showing us that double bottom. What can happen from here, of course, is, well, this thing rejects and comes back down. Well, we start to develop into what? Maybe it's a triple bottom. Maybe it's going to be that rectangle. We don't know at this point. But this is where we locate possible shifts and changes. And if you are correct, and this thing finds its way back up and finds its way through that prior zone, I want to be on board and see if this thing can find its way back up because those big moves occur.

So this process now, we can see, is the beginning, but the story is far from over. We are getting this-- I think this alert came in, what, yesterday. So this process of saying, all right, well, can it start to move into this pattern, can it develop, can it push through, or is it going to take some time, this is a long pattern. Sorry, I'm zooming all around on you guys there. But you can-- just wanted to show you how long this thing took in terms of its development to find this.

It's patience, if you're waiting, but it also may require more patience if this thing can't find its way back up and through that range. So reversal patterns can be frustrating because of that. Say, all right, this is easy as can be. We've got ourselves a double bottom according to this AI, this pull, but the story's not over yet. Need to see this thing continue, push, find that higher-high process, get through some of these prior zones.

This is pretty common, Matt, of reversals. Tops tend to be fairly quick. We all tend to be focused more on the long side of things-- investors and traders, our 401(k)s-- so you will often find tops happening very quickly, this move-- up, up, and then pushing down, stocks getting hit, panic ensuing-- all of these things starting to happen until we finally start to put in what's called a base here. And the base, on the other side of a reversal, the bottoms can tend to be a little bit more drawn out.

A lot of these traders up here are happy to get out, as this thing has started to come from 10 to 16. They say, OK, maybe I'm willing to take that and move on to another area. It's only over time that these things might be able to find their way back up and to build on this base. But it's going to take patience, and it's going to take-- from a trader's perspective, it's going to be a process of thinking about utilizing those objective terms and not getting into a position here, saying it's going to reverse, and then you're still stuck with it, hoping, wishing you had not bought into it as it comes back down to that prior low that we'd seen before.

Matt, I know you've got some examples too-- we've got about 10 minutes to go-- so anything that you had, of course. But this is a interesting example of a double bottom that is in its developing process. You all check my work here, and we'll check our work in about couple months, maybe, or a couple weeks. And put this one on your watch list and say, all right, let's see how this thing develops, if it's able to push through or if it gets rejected off of that same area we'd seen before.

Matt Davison: Yeah, absolutely. And, you know, Jonathan, that's a great example. I know we were looking at it together in preparation for the presentation. Also want to explain the concept of sometimes, we'll see smaller tactical patterns within the concept of larger patterns. So I've identified here, using the same thing-- we're just going to Events and using the classic checkbox there, putting on this double top.

And you can see this is a really solid one in the fact that, basically, it broke out, more or less, within a couple of trading sessions. About a week and a half of trading, we were at the price target. And now we've actually reached a point where, after consolidating sideways for a little bit, it's now broken down to the downside. And we're looking at cake here. This is the symbol that I had pulled up.

But what you'll notice is-- and this was triggered yesterday, using this tool-- we can actually go in there, and we can highlight-- we'll take this one off-- a larger double top within the grander scheme of the chart. So it's actually going in there. It identified this double top on the more intermediate term, but now we're looking at the longer term, going all the way back to this trend that was forming back in July of last year. And now it's identifying this double top and looking for, hey, if we're breaking here, it's putting us back to the lows that we were seeing last year.

So there's going to sometimes be the smaller tactical pattern, depending on if you're a swing trader or maybe a shorter-term positional trader, holding for weeks, maybe a couple months, but then you're looking at something that could be longer term that's taking years to end up developing. So you have that as an example, just to highlight one, as well, here that is a version of a triple top. And this, again, is going to be a lot more tactical in nature because the trend, it's-- you could argue that it's not really up long, long term.

But in this intermediate-term trend, basically going from the beginning or middle of May here, through this consolidation through July-- so we're only talking about, really, two months of this thing finally working its way up gradually-- and you're seeing this little channel that it was in-- it then forms this triple top. And again, we're looking for, basically, roughly, consecutive peaks. And then we get this break on the signal here. And then we get a pretty nice movement down to the price target before it looks like it's starting to bounce.

And then it's also important to note, this one ended up working out really well for the bears, as we got this gap down and then this retesting, the bottom of this range that we're seeing, and it's acting as a reversal point right now. But it's important to note, as well, I think, when you're using some of these patterns is, well, what are some of the things that could affect the pattern in a fundamental way? Because as technicians, we don't really look at the fundamentals too much.

But that being said, we can't just completely ignore that side, as well. Earnings, obviously, have the capacity to fundamentally alter the course of the stock if it's something really good or something really bad. Even if the top or the bottom line comes out a certain way, the market can have a completely separate reaction than what you're thinking. I mean, we see this all the time.

You can read the report and say, wow, that sounded fantastic, and the stock will be down 10%. Sometimes, you'll see the company was losing money. They didn't make as much as they did the same quarter of the prior year, but the stock's up because maybe they announced guidance that was going to be solid, or there's some new product that's in the work that are going to turn things around. So you can not just ignore these things. And you'll notice here, that's what happened on this actual gap down.

As we started to reach back towards the price target on the pattern, we had this binary event. And again, it ended up working out in the bears' favor, and that would be the direction of the trade here if you were using this triple top. But it could have just as easily rocketed back the other direction had the report been really good. So then, the point here being is, you have a decision, sometimes, when you're using these patterns. If you want to hold through an actual binary event, you want to manage some of the trade, it doesn't have to be an "all or a none" type of thing, either.

Sometimes you can do things that are partial in nature. Maybe take off half the position, a quarter, 3/4. There's no right or wrong answer to that. But just understanding that don't have to be all in or all out at any one given time. And then we'll jump over to this one as an example, as well. And just using FDL here. And I think the thing I like about this one is sometimes you can draw different versions of this as we're looking at it across pretty much the same pattern.

So we're seeing-- right here, we're identifying that double bottom. And it's pretty clear. We're seeing this trough down here, roughly equal trough, and then a breakout through this line that's giving this pretty consistent price target up here with what we're measuring. However, when we're looking at this, we can see some different versions of this, as well. This is something that's a little bit more complex.

It's a diamond bottom, so it's a different way of drawing it. Basically, we're looking for expanding price range to the upside and the downside and then converging on the back end another version of a bottom here. And then we get a explosion on this. And we're getting the confluence. And this is what Jonathan was talking about. Because a lot of times, you can look at a chart and say, well, I see this pattern. Jonathan might see it a little bit differently.

Notice, though, that when we add both of them together, they're roughly giving us the same ranges. Maybe they're slightly altered, slightly different. And again, this is a really good example because, well, this is one where, hey, we broke out from the line that we wanted to see and then we got a retest. And what happened?

Well, we actually failed. We didn't hold that line. So if you added or you did nothing, well, by August 23, we were solidly back in the middle of the pattern, and you're probably not feeling very good about the trade. And then it does this little fake-out up here, where it comes back, and it looks like, OK, well, maybe the worst is over. We're going to get back on the other side of that line that I want to be on.

And then the last two days have been really, really ugly, and we're headed back down towards the middle of the pattern again. So this one I really wanted to show because I wanted to make it clear that none of these patterns are 100%. The probability on these patterns working 100% of the time is not a thing that you should be relying upon. It's a tool. It's to give you a setup, to give you an idea of, hey, is this a big reversal point? But you have to have that risk-management plan in mind for what you're going to do if this starts to fail.

If your whole thesis is predicated upon, I want to be above this line, well, if we're no longer above it, maybe you want to give it a little bit of a range to the bottom side because they're not always perfect. But if we start to go down, what if this is just a false breakout to the upside in this example and then we're actually going to come back and retest these lows, and you entered up here? Well, now, we're hurting on our trade quite a bit. So it's very important to understand these patterns aren't 100% and when they're starting to fail or the reason that you entered the trade is no longer valid, you need to start thinking about risk management.

Preferably, this is something you'd think about prior, but definitely at that moment in time. Jonathan, anything that you wanted to add to that?

Jonathan Lord: Yeah. Let's grab a couple more while we have just a moment. I wanted to just show-- this is the-- the title of this is Market Tops and Bottoms. This was one that pulled up on IWM, for instance, the small caps. Wanted to just show it. Also gave us this-- tried to give us a double top there, but also the head-and-shoulders top. So we see these things in this intermediate-term price move.

We try to get the context of, when we zoom out, yeah, this thing has gone through multiple of these oscillations, ups and downs. But this is what traders are looking for on various terms or various time frames. As they go through, you can start to get the feel for how these patterns start to develop and show up on these charts. So right now, big, long-term patterns that might develop off of price moves, but also shorter-term ones. These are all built together.

This goes back to that snowflake example. You have a head-and-shoulders pattern that develops and comes to fruition here and actually reaches that extension point as the pattern would expect, and that's all in the context of a larger, overall-term, longer-term uptrend or longer-term downtrend. All of these things build upon each other, so something to be watchful of. I also pulled-- this one is not a pattern yet, but it's something that we've been hearing about and talking about as S&P having this uptrend in place, continuation.

You can feel this, maybe a left-shoulder head. Is this the development of this right shoulder? Remains to be seen. Remember, the pattern-- if you hear somebody say, Jonathan, this is a head and shoulders developing, it's not until we effectively get below this prior zone here, is it? But it can tell us about tactical trading. Shorter-term traders might have said, yeah, this thing's coming at this prior uptrend. It reached that key level.

Maybe it's various other points on this zooming out we find that, yeah, this is an important point on our chart, or maybe we might see it stop. But the trend is not over. We're not seeing this reversal until we get that breakdown, until we get below that price point. So our usefulness is this can be used for tactical trading. This can be used for longer term, for shorter term. But you want to be aware of the patterns, trade them accordingly, but don't see something that isn't there until we finally start to see that that has developed and it follows into your objective process.

So we got just one minute to go, so I will-- again, if you are interested-- want to hit this real quick-- News & Research. If you go to Stocks-- we talked about this a few times, that process of screening. We do have a screener that's available where we found these. You can go to the launch, the Stock Screener. Hopefully, this thing works quickly for us here. I know we're up on time. But you will find in here some of the most popular versions of this, some of those technical things you might have been asking about just volume in general.

We can go down and see that there are-- if you're looking for dividends but you're looking for, also, technicals in terms of where price is in comparison to some of its moving averages or some of those patterns that might be developing, you can find them in this technical area. There's a long list where we can view all of those examples here. Just keep that in mind. If you're using this, this is a great way to find ideas and opportunities out there, just doing your own personal research and sticking with some of the things that we've talked about today, Matt. I know a lot of you will probably be looking for these patterns all over the place, on your stocks and what you're trading out there, or the markets, but do appreciate your time and sticking with us today

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