Brainy's Articles on

Technical Analysis

Chart patterns — triangles

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Introduction

In the world of technical analysis, if we consider what some people refer to as “primary analysis” where we only look at the plain price chart, then chart patterns can actually tell us a lot about the price action. In some respects their usefulness is under-rated. Many professional traders rely heavily on chart patterns. In this article in Brainy's series on Technical Analysis (number TA-3500) we take a look at some of the chart patterns that we might find in the charts — specifically the category of *triangle patterns*. Readers should also refer to other Articles in this series for more information, in particular: **TA-3410, *“Chart patterns — introduction”***, and **TA-3600, *“Megaphone chart pattern”***.

Triangle chart patterns

A triangle pattern occurs as the range between price peaks and price troughs narrows. Triangles typically occur as prices encounter a support or resistance level which limits the share price. Towards the end of the triangle the price tends to “breakout” from the triangle pattern. This can often happen about 2/3 of the way along the triangle. Note that we say “tends to”, or “often”. None of these indications are guaranteed 100% of the time. Technical analysis is NOT a perfect science with 100% repeatable results; but it does certainly help to give us an advantage.

Triangle chart patterns can occur on daily or weekly charts (as well as other time periods), and tend to last anywhere from a couple of weeks to several months. Two of the sample charts below are over several months on weekly charts, while one runs for a few weeks on a daily chart.

Symmetrical triangle (or pennant) — occurs when prices are making both lower-highs and higher-lows.

The breakout tends to be in the direction of the dominant trend.

The weekly price chart here summarises the price action of the daily chart, but still shows a consolidation of price within a narrowing range.

A symmetrical triangle could break out in either direction.

Ascending triangle — occurs when there are higher-lows (as with a symmetrical triangle), but the *highs* are occurring at the same price level due to *resistance*.

The resistance can be sellers who are keen to get out at a particular price point. Once those sellers are exhausted, the price tends to breakout to the upside of the ascending triangle.

The breakout tends to be in the direction of the dominant trend.

(More details on following pages ...)

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