Chart Pattern Secrets Newsletter

Issue 4

Welcome to the fourth issue of the Chart Pattern Secrets Newsletter.

We hope that you find it useful and are able to implement some of the ideas into your own trading methodology. Chart patterns can provide an interesting insight into potential price action and form an integral part of successful trading strategies.

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Look out in your inbox for the next issue of the Chart Pattern Secrets Newsletter. In it, we will discover **double tops and bottoms** and how **emotions** can influence a trader in their decision making.

cpFinder - Chart Pattern Software

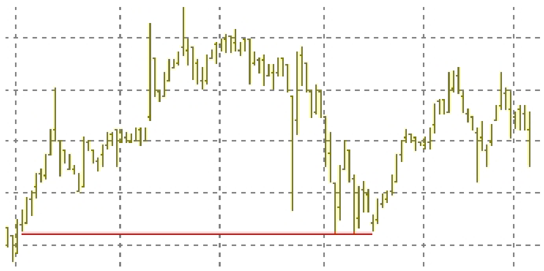
Introducing cpFinder (*chart pattern finder*) - an exciting new stock charting program that you can use on all of your favorite commodities, futures, forex, and stock market data (MetaStock data format) to scan for highly profitable trading opportunities. **cpFinder** is one of only a few software packages available on the market today, that allows you to scan for occurrences of these common patterns:

- ✓ Ascending Triangles
- ✓ Symmetrical Triangles
- ✓ Descending Triangles
- ✓ Head-and-shoulders Up
- ✓ Head-and-shoulders Down
- ✓ Double Top
- ✓ Triple Top
- ✓ Support
- ✓ Gaps
- ✓ Up Trends
- ✓ Down Trends
- ✓ Pennants
- ✓ Flags
- ✓ Wedges
- ✓ Double Bottom
- ✓ Triple Bottom
- ✓ Resistance

Free Trial Available: ***Try before you Buy !!*** For more information on the product or the free 14 day fully functional trial, please visit www.cpfinder.com and click on 'Free Trial'.

Support and Resistance

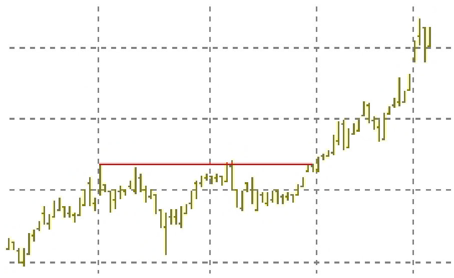
In your analysis of potential securities to trade, you may consider the concepts of support and resistance. Support is a level in a security where the price will on more than two occasions move down to and bounce off, and literally find support at, as the name implies, as seen in the chart below. Often these price levels where the support is found will be the same although this is not essential for support to be identified, as long as they are very close.



The concept of resistance is exactly the same as support except the direction that the security travels is reversed. Resistance is a level where the price will move up towards and fail to break through, and literally find resistance to moving higher.

The more times a security tests one of these price levels in the shortest period of time, the more significant that level becomes. When a security finds resistance there is little indication of which direction it will go. The buyers may give up trying to move the price higher and therefore the demand will dry up and the price may fall away from the resistance level. Alternatively, the supply of shares may be eroded by the buying pressure and eventually the supply will dry up. This will result in the prices moving higher beyond the resistance level.

You will notice in the chart below that this security has traded to the resistance level and then moved away only to trade back and try again to break through. Finally, the supply of shares has been eroded away and the price has exploded past the resistance level. This behaviour is quite common with prices moving past resistance levels especially the more significant the level is.



Coincidently, support and resistance levels more often than not occur at round dollar numbers or at multiples of 10 or 25 cents, further demonstrating the mass behaviour of people.

Support and resistance evolves from one thing – market participants. All the people in the market with buy and sell orders on the trading screen grouped together can potentially form support and resistance. A security will not move beyond a level of resistance until all of the sell orders there have been removed by either enough buyers to take up all the shares on offer, or if some of those sellers decide to cancel their orders also of the opinion that the security may move higher.

Identifying support and resistance and reacting to different occurrences at those levels can assist you in your decision making and make you a more effective trader.

Common Trading Mistakes - Part 1

Often a great deal is made of the need to follow the time tested trading rules should you wish to achieve any level of trading success. It is also a widely held view that a lot of traders starting out invariably make a lot of mistakes.

It is unofficially ranked as the most important trading rule, and one of the biggest mistakes that traders make is to not cut a loss. This problem is often compounded by committing a great deal of money (if not close to the entire trading capital) into the trade initially.

To the defence of all those who have at one stage or another not cut a loss, it is a perfectly natural thing to do. Deep down, the last thing a person wants to do is consciously make a decision to lose money when there is a chance that you won't have to lose the money at all.

There is often a touch of excitement and optimism when traders begin trading and the thought of cutting a loss does not complement the prevailing emotions in a person and therefore it is the last thing that people want to do. Furthermore, the main reason why people trade (whether right or wrong) is for money.

People trade because they believe there is a chance that they could realise more money than they could have ever dreamt of. In the eyes of a beginner, obviously cutting a loss does not support the aim of making lots of money because it is realising a loss of money, and denying yourself the chance of breaking even in the trade. Hand in hand with the biggest mistake that people make is the mistake of not letting your profits run.

Again, to the defence of those traders who do cut profits short, it is a perfectly natural action to see a profit and to do everything in your power to realise it and protect it.

Remember, the main reason why a lot of people trade (and therefore it is their primary focus) is to make money. Consequently, any action that secures a profit and places more money back into the account than was taken out initially to open the trade, is a positive step.

The share price of many companies will double, triple and more in less than 12 months and potentially, a position in one of these in a year will achieve your expected returns in one foul swoop.

Letting a profit run is important yet it is extremely difficult to do. Most people do not have the patience to allow a position to remain open for so long and therefore risk the unrealized profit disappearing.

People will also cut a profit short because they know that closing the position will reassure them that they are trading well and it will help their self-confidence. It will make them feel good about their trading whereas an open position, even though it may be in profit, still has an air of uncertainty about it and where it may end up.

This uncertainty is sufficient to only provide a small degree of confidence and therefore the trader is again tempted to close the position early in order to feel good.

Comments / Feedback:

Any comments on the contents of this publication or suggestions for future publications will be warmly welcomed. Please email to cpfinder@tradingxl.com.au, fax to +61 3 9870 1738 or phone us on +61 3 8802 0593.

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