



Welcome to the fifth 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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Next Issue:

Look out in your inbox for the next issue of the Chart Pattern Secrets Newsletter. In it, we will discover **Triangles** and the principles behind **Dow Theory** and their relevance to technical analysis.

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

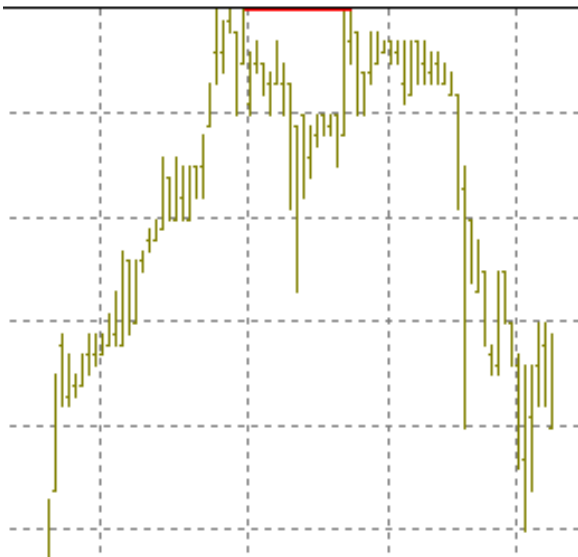


Free Trial Available: Try before you Buy !! For more information on the product or the free 14 day fully functional trial, please visit www.cpfinder.com and click on 'Free Trial'.

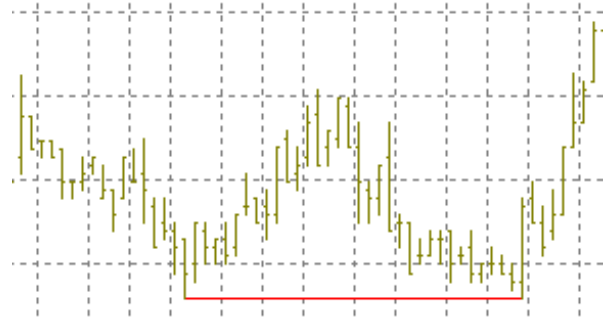
Double Tops and Bottoms

Using short term up trends (STUT) and short term down trends (STDT), it is possible to then identify peaks and troughs which are the next level up from short term trends. The definition of a peak is the highest point between a STUT and a STDT. A trough is the lowest point between a STDT and a STUT.

If a security exhibits higher peaks and higher troughs, then it is in a medium term up trend. Similarly, when it exhibits lower peaks and lower troughs, it is in a medium term down trend. If however it fails to achieve a higher peak, rather forms a similar peak to the previous peak, it is likely to be forming a double top. You can see this displayed in the chart below.



The double top completes when the security trades below the previous trough. When a double top forms, the previous trough now becomes a significant level. It was at this level that the security last experienced support and should the security trade below this level, then the support is obviously no longer there, and this is not present a positive outlook.



In the chart above, you can see where a double bottom has formed. Opposite to the double top where the previous trough is important, the previous peak between the two troughs becomes the significant level for the double bottom forming.

It is widely accepted that a trend should be assumed to still exist until there is absolute evidence that it has ended. Absolute evidence would be where a trend in the opposite direction has been established.

In the chart to the left, the security forms a similar peak (marked with the red line). When this occurs, there is reason to doubt the strength of the present trend however further evidence is required that the trend has ended. When the security trades below the previous trough, the security is on its way to forming a lower trough than the previous one. When this occurs, not only has the security failed to achieve a higher peak, it has also failed to achieve a higher trough. This is sufficient evidence that the medium term up trend has ended and that a new medium term down trend has commenced.



Emotions

So what is it that separates the successful from those who fail? If you ask anybody who has studied trading for any period of time, they will answer 'psychology'. Essentially, your mental ability to manage losses and profits and the good and the bad times in trading, manage risk, to not become too greedy and many others are all encapsulated under the heading of 'trading psychology'.

Often when people talk about the importance of psychology, the need to be as unemotional in your decision making as you can be is frequently mentioned. Decisions are required often when trading and a fair percentage of the decisions that are required will be difficult. Humans are naturally inclined to break the time tested trading rules and this is why your psychology and decision making is such a vital part of your success. Successful traders have great internal control and discipline to overcome the natural tendencies.

Trading the share market is like running a business and anyone who has run a business successfully will tell you that emotions should have little place in your decision making. Trading successfully is all about decision making, although because of money and our natural instincts, many people cannot remove their emotions from their decision making process, sufficiently.

This is essential however. If your emotions have a great influence on your decisions, the chances are you will break the time tested trading rules. You will be inclined to not cut your losses and not let your profits run, for example.

To develop a trading plan and to then follow it requires some time tested character traits that lead to success in any endeavour such as commitment and discipline. These attributes will help you eliminate as much as possible the influence of your emotions over your decision making. Developing a trading plan will also greatly assist as it will provide you something tangible to base your decisions on. Without a trading plan, you have nothing to base your decisions on except how you feel, which is largely governed by your emotions at the time.

Another key consideration when preparing yourself to make your own trading decisions is where you are going to make your decisions. For example, are you going to be trading from work, or in the home office? Where are you going to be more focused? This is important because you need to be able to reduce the effects of any possible distractions, but also eliminate the influence of how you are feeling. This would be especially relevant if making your decisions at home where distractions could potentially be numerous. It is important that you are relaxed and able to focus when you sit down to review your share holdings and to identify potential purchases.

One final thought about your emotions. If you buy something and it doesn't move in the direction you were hoping, don't get upset. Getting upset about it is not going to achieve anything, especially moving the share price back in your favour. If anything, it will only cloud your judgement when making future trading decisions and potentially do you more harm than 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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