

Autochartist Intro Guide

CONTENT

1.	Getting Started with Autochartist	3
2.	Autochartist Pattern Results Column Headings	7
3.	Creating Custom Searches	10
4.	Trending Pattern Types	16
5.	Trending Pattern Set-Ups	20
6.	Non-Trending Pattern Types	23
7.	Non-Trending Pattern Set-Ups	27
8.	Reversal and Continuation Patterns	31
9.	An Introduction to PowerStats	34
10.	The Benefit of Fibonacci Patterns for Identifying Support and Resistance	39

GETTING STARTED WITH AUTOCHARTIST

by Raghee Horner

Autochartist is a powerful tool that will allow any trader to anticipate and react to the elements of trend, support and resistance which form the basis of chart pattern trading.

To best navigate the Autochartist platform and get the most from the pattern alerts there are a few key areas of the application to get to know first. Let's look at an example. Below is an Emerging Pattern alert found on the results column located at the right hand side of the interface.



Using an Emerging Pattern alert allows for a proactive trading approach. Emerging patterns are signaled before price action pierces either the support or resistance lines of the formation. There are also some very important Quality Indicators that will further confirm or filter results depending on the pattern type, trend, and price action. This removes much of the subjectivity in chart pattern trading and allows for unbiased trading.

1. GETTING STARTED WITH AUTOCHARTIST



The first thing to note is that this Brent Crude alert is on a 15-minute intraday time frame. This can be seen on both the alert line and the chart itself. Autochartist scans across the 15, 30, 60, 240 and 1440-minute time frames.

Therefore, this 15-minute chart **I** represents the shortest time frame that Autochartist will alert pattern results for. The pattern type **P** is also listed on the chart, as well as the potential direction **D** of the pattern break. A Falling Wedge is a trending pattern.

This Falling Wedge is a down trending pattern occurring on the short term intraday chart of Brent Crude. The Initial Trend reading **T** will help confirm the strength of the current trend and for a trending pattern to continue, it is best if the Initial Trend reading is 6-bars or greater. The maximum reading is 10-bars. As can be seen in the example above the reading is 5-bars, indicating sideways volatility. However, one more bar would signal a transition to a trend.

The Initial Trend reading will be one of the most important Quality Indicators within your pattern filtering process.

Completed Patterns are listed in the column on the left side of the interface. To reiterate, Emerging Patterns are proactive alerts, and Completed Patterns are reactive and trade management alerts.

1. GETTING STARTED WITH AUTOCHARTIST

The filtering process is important in obtaining the most from the alerts which stream throughout the day. Each trader must understand the set of criteria associated with aggressive to conservative entries.

Completed Patterns						Emerging Patterns					
Symbol	Interval	Pattern	Pattern End	Length	Quality	Symbol	Interval	Pattern	Pattern End	Length	Quality
US Light Crude	15 Min	Channel Down	05-28 20:45	62	■■■■	High Grade Copper	15 Min	Falling Wedge	05-28 20:45	78	■■■■
Pork Belles	30 Min	Flag	05-28 18:30	23	■■■■■■■■	No Lead Gasoline	15 Min	Falling Wedge	05-28 20:45	96	■■■■■■■■
Brent Crude	60 Min	Channel Up	05-28 17:00	53	■■■■■■■■	No Lead Gasoline	15 Min	Channel Down	05-28 20:30	61	■■■■■■
US Light Crude	15 Min	Channel Down	05-28 16:45	41	■■■■	High Grade Copper	15 Min	Falling Wedge	05-28 20:30	61	■■■■
Brent Crude	15 Min	Falling Wedge	05-28 16:45	64	■■■■■■■■	Brent Crude	15 Min	Falling Wedge	05-28 20:30	65	■■■■
US Light Crude	15 Min	Falling Wedge	05-28 16:45	48	■■■■	Spot Silver (5000oz)	15 Min	Channel Down	05-28 20:30	73	■■■■
Lean Hogs	240 Min	Triangle	05-28 16:00	33	■■■■	Spot Silver (5000oz)	30 Min	Channel Down	05-28 20:30	40	■■■■
Heating Oil	30 Min	Triangle	05-28 15:30	47	■■■■	Platinum	15 Min	Falling Wedge	05-28 20:15	30	■■■■
Heating Oil	15 Min	Triangle	05-28 15:30	54	■■■■	High Grade Copper	15 Min	Channel Down	05-28 20:15	34	■■■■
Platinum	15 Min	Flag	05-28 14:15	21	■■■■■■■■	Brent Crude	15 Min	Channel Down	05-28 20:15	25	■■■■
Spot Gold	60 Min	Triangle	05-28 14:00	25	■■■■■■■■	US Light Crude	15 Min	Channel Down	05-28 20:15	25	■■■■
Lean Hogs	60 Min	Triangle	05-28 14:00	117	■■■■	Brent Crude	15 Min	Channel Down	05-28 20:15	25	■■■■
Rapeseed	60 Min	Channel Up	05-28 14:00	44	■■■■■■■■	Lumber	240 Min	Falling Wedge	05-28 20:00	108	■■■■■■■■
Live Cattle	15 Min	Channel Down	05-28 13:45	42	■■■■	Lumber	240 Min	Falling Wedge	05-28 20:00	34	■■■■■■■■
Coffee Robusta	15 Min	Channel Down	05-28 13:45	30	■■■■	Feeder Cattle	240 Min	Channel Down	05-28 20:00	55	■■■■■■■■
Brent Crude	15 Min	Descending Triangle	05-28 13:45	53	■■■■	Platinum	240 Min	Channel Down	05-28 20:00	106	■■■■
Rapeseed	30 Min	Channel Up	05-28 13:30	77	■■■■■■■■	Palladium	240 Min	Rising Wedge	05-28 20:00	35	■■■■■■■■
Lumber	15 Min	Channel Down	05-28 13:15	47	■■■■	Spot Silver (5000oz)	60 Min	Channel Up	05-28 20:00	78	■■■■■■■■

The Completed Pattern alert for Brent Crude was also on the 15-minute time frame. Remember that the differences between Emerging and Completed Patterns are:

1. Whether or not the price action broke the pattern with momentum (see Breakout); and
2. The forecast area which will automatically be plotted on Completed Pattern alerts.

There are times when Emerging Pattern alerts will show a break of the pattern. This is due to the fact that Autochartist updates price on a 15-minute chart every 15-minutes. Therefore, if this was a 60-minute chart, the price would continuously be updated at the top of the hour.

1. GETTING STARTED WITH AUTOCHARTIST



The Breakout reading **B** offers insight into the momentum with which the pattern broke the support line of the Wedge pattern. As can be seen the Breakout reading is very high at a maximum of 10-bars. This is an indication of strong momentum as prices break lower and in turn creates a high expectation of an immediate follow-through. Remember if the pattern breaks before an economic event or before the opening of a financial center like Sydney or New York, there could be significant follow-through later.

The Completed Alert shows a grey forecast area (outlined) at the bottom right of the chart. This level is support as it's plotted below the price breakdown.

The other outlined area shows the prices that make up the forecast area. In this case it is from 7426.4626 to 7327.7103.

The forecast area offers guidance to traders for trade management which makes Completed Patterns valuable once an entry is taken.





















AUTOCHARTIST PATTERN RESULTS COLUMN HEADINGS

by Raghee Horner

The chart pattern results identified by Autochartist are accompanied by a number of headings to give traders insight into the quality, type, size and direction of the pattern.

This is exactly the type of information needed to determine the likelihood of any chart pattern triggers and the follow-through. Each of these headings should be studied from which a conclusion can be drawn as to the best trading approach to take.

Below is an example of the chart pattern results for the EUR/NZD foreign exchange pair.

Symbol	EURNZD	
Interval	60 Min	
Pattern	Falling Wedge	
Pattern End	11-24 16:00	
Length	28	
Direction		
Trend Change	Continuation	
Quality		
Initial Trend		
Uniformity		
Clarity		
Breakout		
Forecast From	1.7667	
Forecast To	1.7772	

2. AUTOCHARTIST PATTERN RESULTS COLUMN HEADINGS

Symbol

Refers to the ticker of the symbol on which the pattern was found.

Interval

Refers to the interval of the data on which the pattern was identified. If all patterns in your search were identified on the same interval, this column will be hidden.

Pattern

Refers to the name of the identified pattern.

Pattern End

Refers to the date and time the identified pattern ended.

Length

Refers to the length of the pattern in bars e.g. a pattern of length 30 found on 60-minute data would mean that the pattern was formed over 30 trading hours.

Direction

Refers to the direction in which the breakout occurred. A green arrow point up represents a breakout through the resistance line. A red arrow pointing down represents a breakout through the support line. In the case of some patterns white arrows pointing both up and down represent the anticipated breakout direction.

Trend Change

Refers to whether the pattern is a continuation or reversal pattern.

Quality

Refers to the overall quality of the pattern. It is the average of all the other quality indicators.

Breakout

Refers to the decisiveness with which the price broke through the support or resistance line.

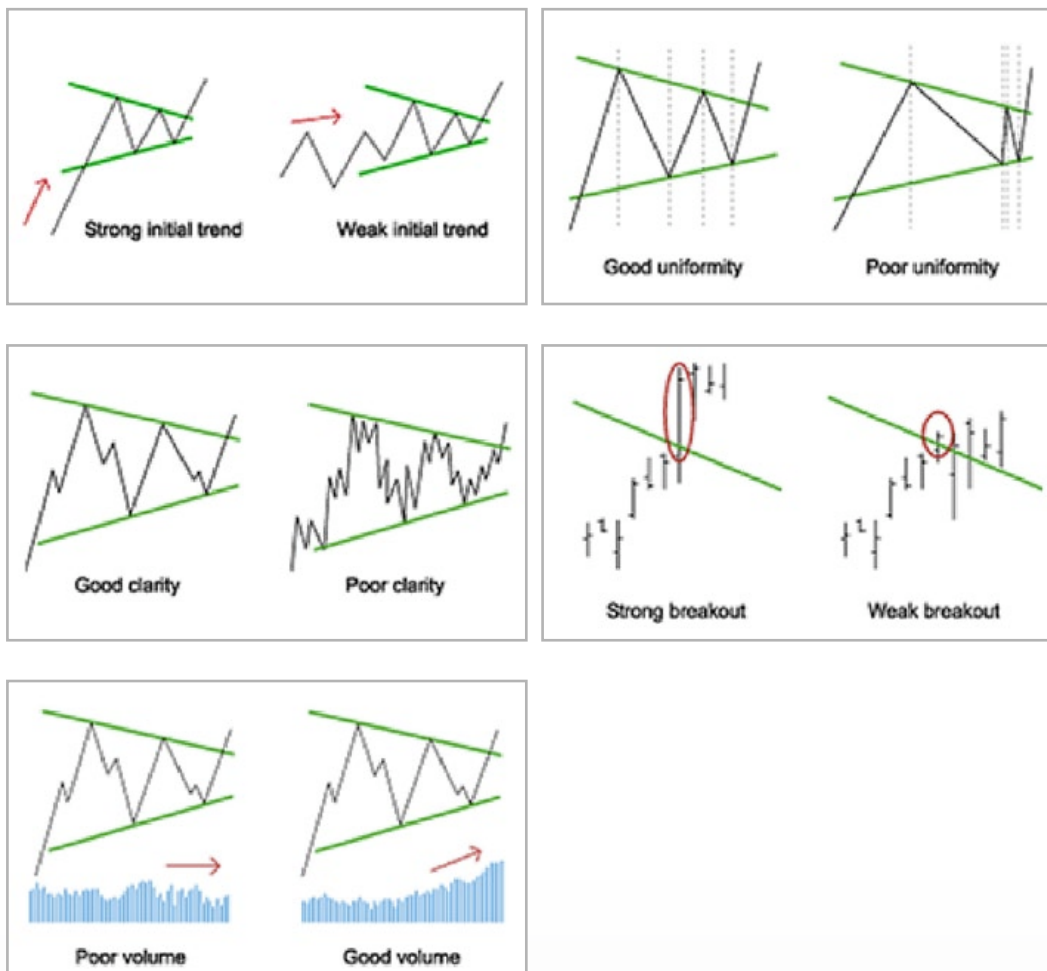
Note that this quality measure is irrelevant for emerging patterns.

Volume

Refers to the relative amount of increase in the trading volume at the time of breakout through the support or resistance line. Note that this quality measure is irrelevant for emerging patterns.

2. AUTOCHARTIST PATTERN RESULTS COLUMN HEADINGS

Below are some visuals of good or strong vs. poor or weak Quality Indicators:



CREATING CUSTOM SEARCHES

by Raghee Horner

Customizing search criteria to enable the delivery of pattern alerts according to your personal requirements is one of the most important steps in your set up process.

Autochartist will offer specific alerts when customized searches are created to better reflect individual trading preferences.

This allows a trader to have the flexibility to choose:

- Preferred time frames
- Preferred direction
- Trends and trend strength
- Pattern size or length
- Minimum requirements for pattern quality

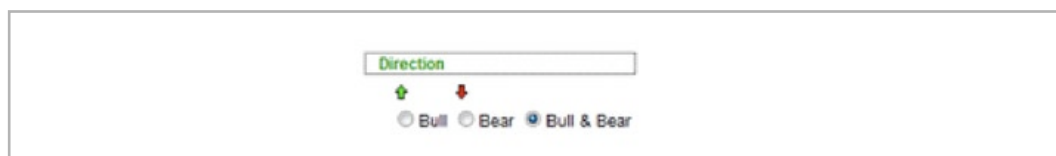
These choices are not mandatory but are recommended as the comfort level grows with use not only of the platform but of the markets in general.

Initially using the default settings is an excellent way to start. Most traders will deviate little from these settings.

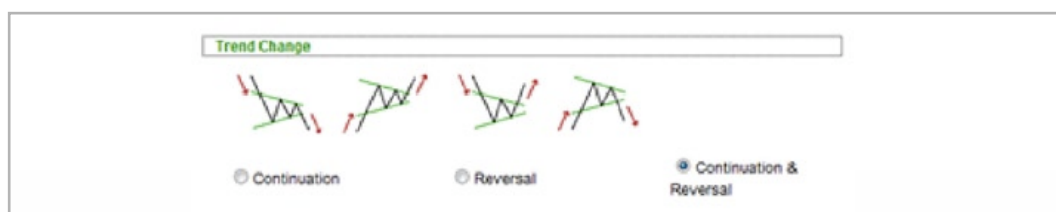
Using the default settings will reveal the greatest number of pattern alerts. However to reduce and identify the required types of alerts, Autochartist provides certain criteria that may be altered to reflect a trader's requirements for set ups. For newer traders this process is invaluable because it requires some forethought about the trading process and reduces the number of set ups. A suggestion for all traders is at the very minimum to select the specific pairs that are traded most often.

3. CREATING CUSTOM SEARCHES

The market direction can be narrowed to show patterns from “**Bull**” or “**Bear**” markets only. If a certain direction is preferred then the decision to exclude one can be made here.



Since most traders do prefer to trade “**long**” and “**short**”, the default setting is the “**Bull & Bear**” setting. Also when looking at market direction, the “**Trend Change**” allows a trader to choose between “**Continuation**”, “**Reversal**”, or both. For example, traders who prefer to trade reversals of the trend or a continuation of the trend can make that exclusion here. Remember, simply because the pattern may be a “**Continuation**” or “**Reversal**” pattern does not mean it will necessarily move in that direction to trigger the entry. It is highly recommended that the “**Continuation & Reversal**” default setting be kept.



The Pattern size or “**Minimum Pattern Length**” selection can be adjusted from between 20 candles long to 200 candles. The length which you have selected on the slide will then be the smallest number of candles that form a pattern. Generally speaking, a smaller pattern reflects near term psychology while larger patterns reflect longer term psychology.



3. CREATING CUSTOM SEARCHES

This however cannot be decided without considering the time frame itself. A 20 candle pattern on a 240 minute chart is very different to that of a 20 candle pattern on a 15 minute chart, but both are short term relative to their respective time frame.

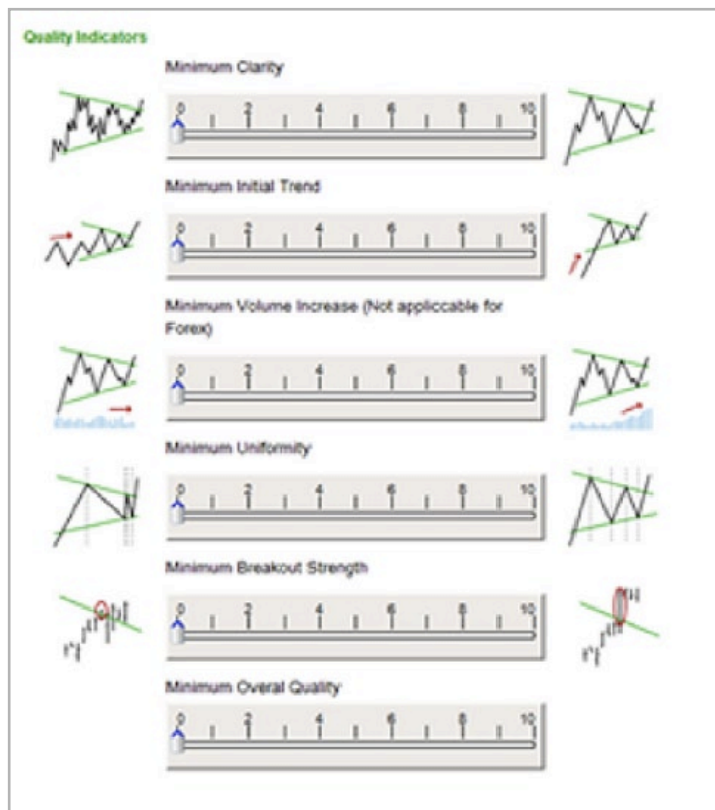
Keeping the Minimum Pattern Length low at the 20 candle default will alert the greatest number of patterns as the criteria will allow for short and long pattern lengths.

Thus far the search criteria have been simple and for the most part should be left on the default setting. The Quality Indicators are where the more advanced users and traders can be very specific about the patterns that will be alerted.

Symbol	Interval	Pattern	Pattern End	Length	Quality
RIO.AX	30 Min	Falling Wedge	04-27 05:30	69	■■■■■

There are six Quality indicators in total. The “**Quality**” of a pattern alert is the culmination of three specific indicators. While the overall “**Quality**” of a pattern can offer some general insight, it’s the “**Clarity**”, “**Initial Trend**”, and “**Uniformity**” that will offer the best, most detailed view of what the pattern is saying about itself and the current market.

3. CREATING CUSTOM SEARCHES



These four indicators are best discussed together since they are synergistic. The overall Quality of a pattern alert is in fact calculated by the Clarity, Initial Trend, and Uniformity.

Before making any adjustments, these Quality Indicators must be fully understood. If low quality settings offer the most flexibility in the alerts, then higher readings will exclude more alerts. If you require a lower number of alerts, begin with the Clarity and Uniformity readings as these affect both trending and non-trending patterns the same way.

These last two are “**aesthetic**” settings since they both reflect the pattern’s price action, support and resistance. “**Clarity**” as the name suggests, measures the way price action is behaving. If there are gaps, random price action, dramatic or sudden highs or lows (also referred to as “**wicking**”), the Clarity reading will be lower.

3. CREATING CUSTOM SEARCHES

Low Clarity suggests there could be false pattern triggers also called “**whipsaws**”. This is when prices break a pattern but do not follow through and retract back within the pattern, often going in the opposite direction.

Uniformity has to do with the way price action is behaving within the pattern as it applies to the support and resistance of the pattern. If something is “**uniform**” it is understood to be constant, consistent, and without variation. In the case of pattern Uniformity, the same idea applies.

A uniform pattern will have even spacing of touch points within the pattern. Touch points are those highs and lows that indicate the support and resistance of a pattern. Prices will show a similar number of touch points at both the support and resistance if the pattern is uniform. When a pattern has good Uniformity it appears as if price action is filling up the pattern.

It is always good to have a high Uniformity reading. Sometimes patterns simply look good; that’s the aesthetic subjectivity that a seasoned trader often can distinguish between patterns. The “**Clarity**” and “**Uniformity**” are the more objective readings of pattern aesthetics.

The Initial Trend reading should be kept low. This is simply because trending and non-trending patterns have differing Initial Trend requirements. To say that a high Initial Trend reading is always good would ignore the fact that non-trending patterns such as triangles and rectangles can have low Initial Trend readings. Initial Trend readings must be considered within the context of the pattern type itself. You can review the lessons on trending and non-trending patterns for more discussion on the importance of the Initial Trend.

3. CREATING CUSTOM SEARCHES

The remaining indicators are the **“Volume Increase”** and **“Breakout Strength”**.

The Volume Increase is not applicable to Forex but is essentially what the name implies: It reads the volume at the time of the pattern break for an increase of market participation.

The Breakout Strength applies only to patterns that trigger a pattern break as price pierces support or resistance. If the momentum (as seen by price movement) increases as the pattern’s support or resistance is pierced this would yield a higher breakout reading. Conversely, less momentum at the pierce would yield a lower breakout reading.

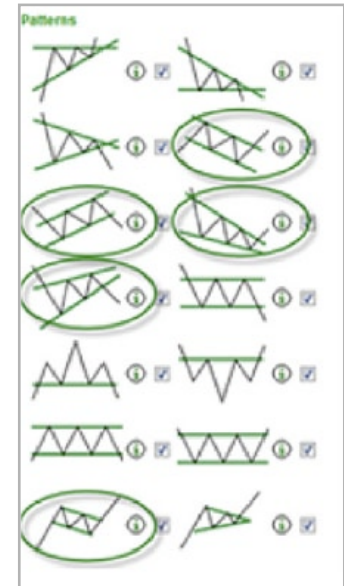
The idea behind Breakout Strength is a powerful one. The lines and levels of a pattern are strong support and resistance and the break of these lines and levels should accompany more market participation and possibly more follow-through.

TRENDING PATTERN TYPES

by Raghee Horner

For all trading styles understanding the trend of the market is key. To get the most effective chart pattern set up the direction and strength of the trend must be known.

There are basically two types of chart patterns: trending and non-trending. Trending pattern types on the Autochartist platform are rising and falling Wedges, Channel up and down patterns, as well as Head-and-Shoulder patterns with more angle necklines; and some Flag formations.



Flag formations and Head-and-Shoulders patterns can be found and traded in other market cycles. Wedges and Channels are strictly trending patterns that should be set up ideally with medium to high Initial Trend readings.

Wedges and Channels reveal the psychology of a trend in terms of the lines and levels that shape them. The lines and levels in these are either a pair of uptrend lines or a pair of downtrend lines.

The higher lows of an uptrend (support) are the backbone of an up trending pattern and is considered a “**decision level**” since the formation relies on continued support. Conversely the lower highs (resistance) of a downtrend is the backbone of a down trending pattern. It’s the higher downtrend line that keeps pushing prices lower.

4. TRENDING PATTERN TYPES

Let's look at examples of both up trending and down trending patterns.



This first chart is an up trending Channel Up Emerging Pattern, as prices trend higher with a strong Initial Trend. A trend is indicated by an Initial Trend reading of 6-bars or greater. The support or **"backbone"** of the pattern has been tested twice as prices traded down to the uptrend support line. This shows excellent confirmation of the pattern's quality. The high Initial Trend reading of 10-bars confirms that the pattern is developing within a trend.

4. TRENDING PATTERN TYPES

There are three potential entries on any trending pattern to determine the ideal set up. Part of this is seen in the strength or weakness of the Initial Trend. For high Initial Trend readings, look for the continuation of the trend and capitalize on the follow-through.

Either:

1. Short the downtrend resistance line of a falling/down pattern; or
2. Get long at the uptrend support line of a rising/up pattern.

These entries would be considered “**swing**” entries since they take advantage of corrections within the trend. The other alternative with trending pattern alerts with a high Initial Trend is the breakout or breakdown. This is where the pattern does not correct and breaks lower through the downtrend support line of a falling/down pattern, or breaks higher through the uptrend resistance line of a rising/up pattern.

Both these entries would be considered “**continuation**”. With low Initial Trend readings where the bars are medium, look for a potential stall or a reversal of the trend. This would mean that the “**backbone**” may be “**broken**” as the trend line is pierced. Even though these are likely entry scenarios, remember that any Initial Trend reading could lead to a continuation or reversal.

TRENDING PATTERN SET-UPS

by Raghee Horner

Trending patterns include rising/falling Wedges and Channels up/down. Continuation trending patterns are ideally traded when the market is up trending or down trending, and when the Initial Trend reading is rated at a medium to high strength.

Continuation entries can be swing entries off downtrend resistance lines or uptrend support lines. They can also be breakdown entries when the trending momentum is very strong and the market offers little to no correction.



The Falling Wedge chart pattern in this example has a high Initial Trend reading which indicates a continuation play set up. The Uniformity and Clarity are very strong and this shows that the pattern's price action will be more reliable and less prone to whipsaws and random price action. It is important to keep in mind the time when the chart pattern developed as pending economic releases increase the possibility of high volatility.

5. TRENDING PATTERN SET UPS

There are two primary entry considerations are:

1. The short, as prices exhaust at or near the downtrend resistance line which would be an Autochartist Correction of the Trend entry (A.R.C.) or “**swing**” short;
2. The downtrend support line breakdown which would be a continuation breakdown entry. As the Initial Trend reading is high, a reversal would not be a primary trade consideration. Follow the trend! The trend is your friend, especially when the Initial Trend reading is high. Here it appears as if the price could allow for an A.R.C. or swing short.



5. TRENDING PATTERN SET UPS

When the Initial Trend reading is strong at a maximum of 10-bars, consider the breakdown play a more likely scenario.



When the Initial Trend reading is 6 or 7-bars it is important to proceed with caution. Remember there is still some trend strength therefore a chance of a corrective or “**swing**” entry exists. The backbone of the pattern however could be tested and broken. In this case, the backbone or decision level is the downtrend resistance line **R**. When the Initial Trend reading reflects 6 to 7-bars indicating a medium trend, there is less chance of the momentum continuation move lower through the bottom line of this down trending pattern.

When the Initial Trend reading is low (less than 6-bars) but a trending pattern alert has signaled it would be best to forego that combination, and instead look for a non-trending pattern alert. However, also consider that the Initial Trend reading will point to the most likely entry strategy for the chart pattern based on the direction, and strength of the current market.

NON-TRENDING PATTERN TYPES

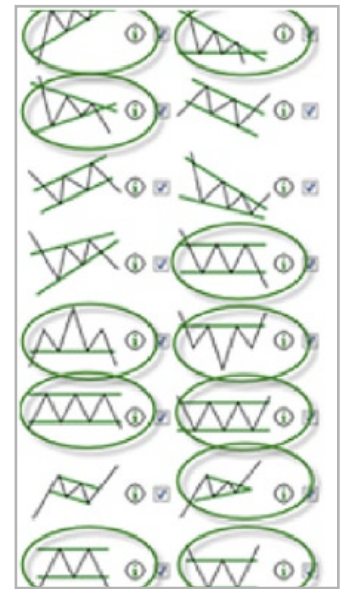
by Raghee Horner

Non-trending chart patterns are powerful ways to capitalize on the indecision or confusion in the market. However, knowing whether the market is undergoing indecision or confusion is the key to knowing how to react to the decision levels on the chart.

Consolidation and congestion can be seen in sideways range-bound markets. There are two types of sideways markets: accumulation and distribution. The Initial Trend reading will help to identify this important distinction.

Trading sideways markets is all about identifying a range-bound market that has no trend. However, it is also important to understand whether resistance and support should be traded with a breakout/breakdown strategy or with a fading strategy.

Trading with breakout/breakdown strategies is also known as “**momentum**” trading. This involves waiting for price action to pierce the support or resistance of patterns such as Triangles, Rectangles, and Pennants.



6. NON-TRENDING PATTERN TYPES

These chart patterns are best traded when the market cycle is in accumulation, and the Initial Trend reading is either 1-3 or 4-5 bars. This indicates a range-bound, sideways market. Many times these patterns may begin developing within a distribution cycle (4-5 bars Initial Trend reading) but transition into accumulation (1-3 Initial Trend reading bars).

Q: What happens when the Initial Trend reading is 4-5 bars indicating distribution?

A: Distribution cycles are differentiated from accumulation cycles by the way the market is moving sideways. Accumulation cycles are quiet, narrow ranges indicated by a 1-3 bar Initial Trend reading. Whereas distribution cycles by contrast are wider and more volatile while moving within a range. They are also accompanied by a higher Initial Trend reading of 4-5 bars.

When the Initial Trend reading is 1-5 bars, the market is sideways. The lower the reading is, the more likely it is accumulation. If the reading is closer to medium it's either distribution or a weak trend.

While the process of establishing a trend is not completely objective, there are other ways of validating it. Take a look at the chart pattern's shape, and angle to help clarify the market's direction. To trade a distribution cycle "**fade**" (which basically means shorting resistance or buying support) the pattern needs a horizontal support or resistance level. These are often called "**floors**" or "**ceilings**". This specifically means that Rectangles, Ascending Triangles, and Descending Triangles are chart patterns which can be set up for a distribution cycle "**fade**".

When the Initial Trend reading is 1-3 bars, the entry relies on a show momentum higher or lower through the pattern. This entry is called an Autochartist Initial Movement-Momentum or A.I.M.

6. NON-TRENDING PATTERN TYPES

When the reading is 4-5 bars this opens the door to a fade off the horizontal line or “**floor**” of the descending Triangle chart pattern. This entry is known as an Autochartist Inside the Range or A.I.R. entry, and is an aggressive trade set up.

Not all support levels will hold prices within the pattern. For further confirmation of this you can use key price levels and the Breakout reading. When the reading is very high as in this example, the higher momentum at the time of the breakdown suggests that there will be a high negative sentiment at the pattern break.

Conversely, for Initial Trend readings of 4-5 bars with a high Breakout reading there is always the chance for continued follow-through so it is recommended to keep a tight stop-loss (10 to 12 pips) on any fade off a floor or ceiling.



In the above chart pattern alert the Initial Trend reading is just 1 bar confirming a narrow, sideways accumulation cycle. The Breakout through the Triangle pattern’s downtrend resistance line is seen here following through well from the consolidation of the pattern. The momentum the pattern broke with was moderate as indicated by the 4-bar Breakout reading. This is known as an Autochartist Initial Movement-Momentum or A.I.M. entry.

6. NON-TRENDING PATTERN TYPES

Note that the high Breakout reading also suggests a strong negative sentiment or selling momentum.

Remember that sideways chart patterns can break in either direction. This example illustrates that there is no way to be 100% sure that a pattern will reverse, or follow through until price chooses a direction. In the end every trading approach needs a solid risk management strategy. Understanding pip movement, and volatility at the time of entry is the first step.

Another popular way to filter breakouts or breakdowns from fades is to use basic indicators like the MACD Histogram to confirm price movement. Remember that chart patterns and Quality Indicators are meant to point to a possible set up. Follow-through and volatility must be determined at the time of entry and throughout the position. This is done by studying time together with economic data releases.

NON-TRENDING PATTERN SET UPS

by Raghee Horner

Non-trending patterns capitalize on confusion and lack of opinion. A trending market shows an imbalance between buyers and sellers, and a sideways market reveals the balance between supply and demand.

Traders should wait for a shift in balance to find a set up for non-trending patterns. The shift will be traded as prices pierce the support or resistance lines of patterns such as Triangles and Rectangles. Traders should also determine whether the market is in a distribution or accumulation cycle as there are two potential entry scenarios for non-trending patterns.

There are some simple cues to focus on to quickly determine the likelihood of a momentum entry versus a distribution fade entry.

First and foremost must be the chart pattern itself. Distribution fade entries rely on a horizontal support or resistance line for the short off the ceiling or buy off the floor. This means that Rectangles, as well as ascending and descending Triangles are patterns that could set up in a distribution market cycle, and therefore be potential fade set ups.

The Initial Trend reading for this set up ideally should be 1 - 5 bars. If the reading is low (1 – 3 bars) the Initial Trend is indicating an accumulation set up. If the Initial Trend reading is 4 - 5 bars, the underlying market cycle is most likely in distribution. If the reading is higher than 6 bars the market is trending.

7. NON-TRENDING PATTERN SET UPS



The resistance line is slightly angled downwards but the overall level is horizontal. The pattern is therefore an ascending Triangle as the horizontal resistance level, and the uptrend support line form the chart pattern.

Note the 4-bar Initial Trend reading **T**. It is high enough to signal a potential distribution cycle. This suggests that prices are more likely to exhaust at the pattern's resistance level than follow-through higher. The Breakout reading **B** is very low. This also suggests less potential for an upside follow-through.

This level could be shorted. All Autochartist Inside the Range entries (A.I.R.) are aggressive set ups, and the validity of the short extends only 10 to 12 pips beyond the highest point of the ceiling. This way should there be momentum beyond the ceiling, an aggressive fade can be reversed and the momentum bought.

A more conservative entry for all consolidation and congestion patterns is to anticipate and react to the momentum that triggers as prices break through the support or resistance of a sideways pattern. This is an accumulation cycle set up, and is ideal for markets where the volatility is low and the range narrower. This cycle is identified by a 1 - 3 bar Initial Trend reading.

7. NON-TRENDING PATTERN SET UPS

Traders could think of this set up as being a **“coiled spring”** ready to release. As the spring coils it stores energy until it unloads. The more it is compressed, the more potential energy is on the release. This is how accumulation markets work. Coiled springs can store short term energy. Examples can be seen with the energy contained within narrow range candles like Dojis; or even within the candles themselves, like Haramis.

When energy is stored over the course of multiple candles in a Triangle or Pennant, the eventual release could come with significant momentum.

Momentum set ups must be traded in an unbiased way. This means that traders should anticipate a break in either direction since there is no trend. The confirmation of an accumulation cycle is the low Initial Trend reading. Visually it is ideal to see a narrowing range in the price action.



Triangles and Pennants by their very nature are self limiting patterns. If prices do nothing else but move sideways within the pattern, they will eventually run out of room. The area where the pattern narrows to squeeze prices tighter and tighter is the area where the breakout or breakdown is nearing. A simple indicator like a MACD Histogram could be used as a directional filter for the break.

7. NON-TRENDING PATTERN SET UPS

Remember the coiled spring: If prices break too early within the Triangle there is a chance that the market may be in distribution. The coiled spring works for Rectangle patterns too. Even though Rectangles, as well as double and triple tops and bottoms, are parallel and/or horizontal line patterns, the range of the pattern can show how much potential energy the coiled spring is storing.

Narrow ranges work very well for momentum breakouts and breakdowns. While wider ranges are more suitable for distribution fades. Again, be sure to check, not only the Initial Trend but the actual range of the chart pattern to see if there is a spring being coiled.

REVERSAL AND CONTINUATION PATTERNS

by Raghee Horner

There are historical tendencies which dictate whether a chart pattern is generally considered to be a continuation or reversal pattern. These tendencies should however not override a break in the pattern which would be contrary to what the historical tendency is.

Results identified by Autochartist mostly define the trend of a chart pattern. While this column heading trend offers insight into the most likely direction of the break, there are other considerations to keep in mind before setting up a trade.

Q: What are continuation and reversal patterns? And how can you use Autochartist to trade both these patterns?

A: Continuation and reversal patterns in essence do exactly what their names imply. A continuation pattern forms and then breaks in the direction of the trend that it developed within. A reversal pattern breaks in the opposite direction of the trend it developed within.

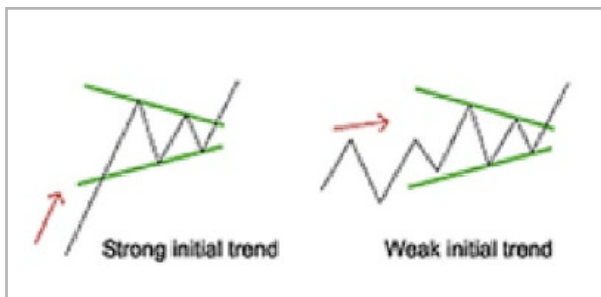
An important quality measure of a chart pattern is the trend that precedes it. It is irrelevant whether the trend is classified as being bullish or bearish. It is merely the consistency and duration of the initial trend which contributes to determining the “**Quality**” and aesthetics of the pattern.

Always remember that the name of the chart pattern (continuation or reversal) implies what the pattern is likely to do and not what it will do.

8. REVERSAL AND CONTINUATION PATTERNS – THE DIFFERENCE

A lot of merit of a continuation or reversal tendency of a chart pattern emanate from the Initial Trend. Therefore, when traders observe the Autochartist column headings, both the “**Trend**” as well as the “**Initial Trend**” readings should be looked at to validate the patterns directional follow-through.

Below is a visual of how a Strong Initial Trend looks compared to a Weak Initial Trend:



The overall “**Quality**” of any chart pattern determined by both Autochartist, and the aesthetics of the pattern observed by traders, must be validated by the results or readings of all of the column headings to achieve effective and consistent results. A reminder that these include: “**Length**”, “**Uniformity**”, and “**Clarity**”.

Another helpful tool available to traders to better trade any chart pattern is to confirm the pattern break with an indicator.

There are many oscillator studies which can help to confirm trades. To mention a few:

- Stochastic
- MACD Histogram
- RSI
- Or CCI for secondary confirmation.

8. REVERSAL AND CONTINUATION PATTERNS – THE DIFFERENCE

The primary confirmation which is the trading trigger itself, must originate from price and charting patterns. Furthermore, certain patterns like Double and Triple Tops/Bottoms can be traded within the chart pattern and not only as breakouts or breakdowns.

Any good trading tool will assist traders to determine the best course of action. A great tool will leave room for flexibility and allow traders to venture beyond the confines of historical tendencies. Autochartist encompasses both factors of determining the best course of action but still leaving room for flexibility.

AN INTRODUCTION TO POWERSTATS

by James A. Hyerczyk

When preparing for his day trading activities a trader often has little or no idea as to the trading style he will choose to use that day. He often chooses to begin with no bias to the short side or the long side either.

Most likely he is not actually using a trading system although he believes in a systematic approach. Many of his trading decisions are based on his interpretation of chart patterns along with what he deems to be the best entry and exit strategy. This process may include using support and resistance levels to trigger his buy and sell signals. Time is probably not even a consideration other than the time period of the chart he chooses to follow.

Taking an almost fearless approach to day-trading the market, he believes he will achieve success by going where the market will take him using his interpretation of the order flow. Early in the session he may achieve moderate success, but then begins to suffer a few setbacks. A small series of losses occur and he is forced to become more analytical about his approach.

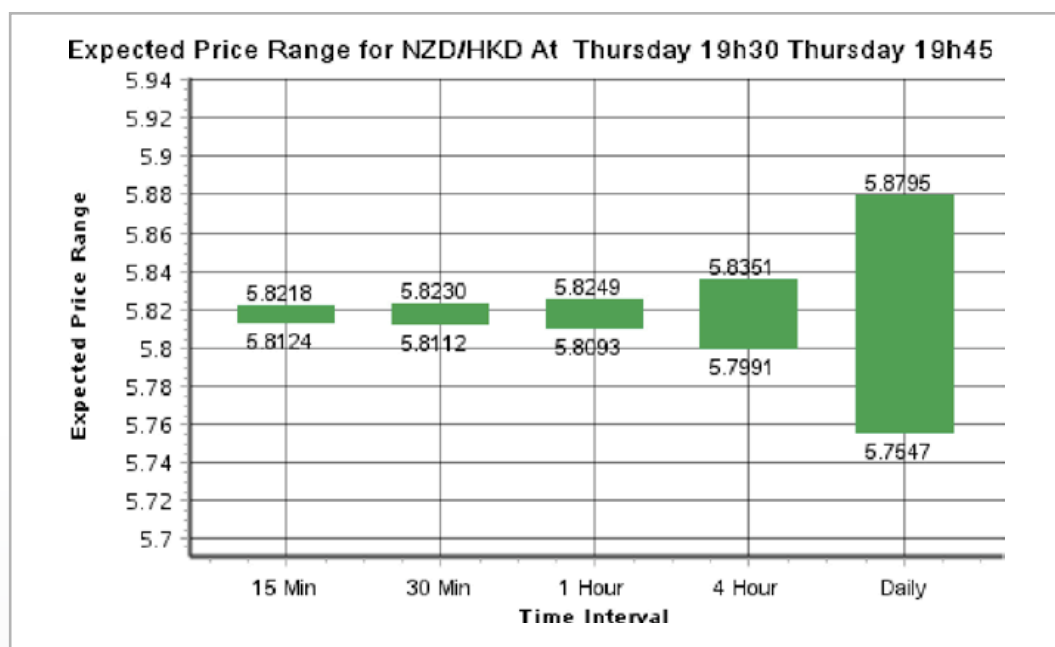
The problem is he hasn't figured out exactly what he is looking for. His reliance on **"going with the flow"** of the trade has blinded him from becoming aware of the tendencies of the markets. These may include the expected movement per day or intraday, as well as time of day.

Besides the chart patterns and quality indicators generated, Autochartist also provides an analytical tool for traders that offers insight into the relative movements of the Forex, Futures, Index CFD, and Equities markets.

9. AN INTRODUCTION TO POWERSTATS

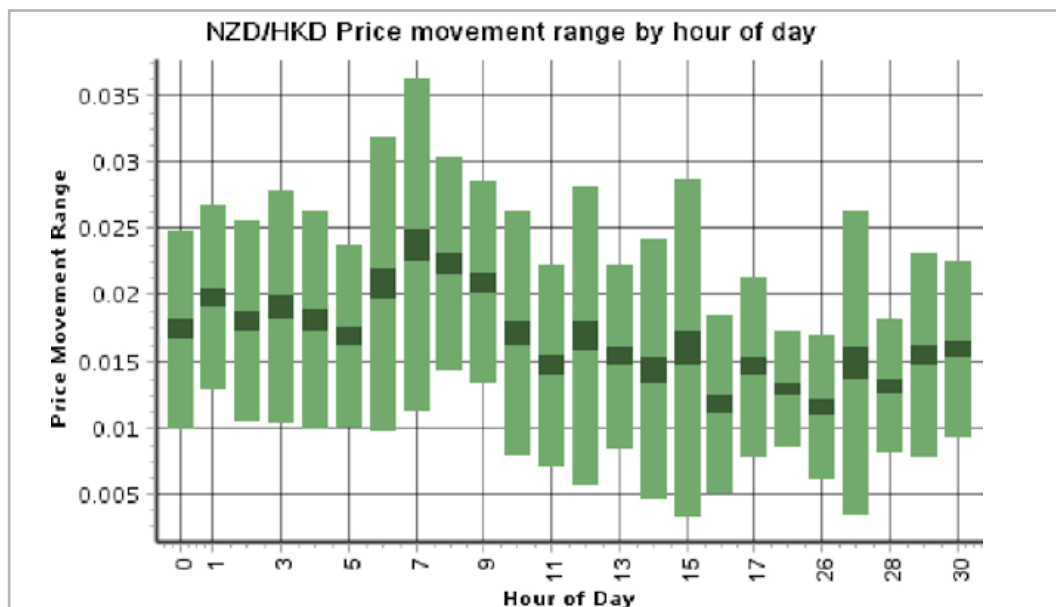
This information can prove to be a valuable resource for traders when assessing the reward/risk of a particular chart pattern by providing the trader with information regarding possible price projections, risk parameters, and time-related tendencies.

Autochartist PowerStats is the analytical instrument which provides for the Forex trader, for example information on the average pip movement during specific time frames, the likelihood for upside or downside momentum (based on history), the maximum expected price movements (statistical highs and lows) across various time frames, and expected price movements over weekday and hourly time frames.



The average movement during specific time frames is important information for a trader because it takes the guesswork out of trying to figure out where a market will move, or if upside and downside objectives are reasonable. Instead of trying to manually figure out profit targets and stop losses while determining which trade position to enter, a trader can use empirical data to set stop loss or profit targets, thus eliminating the randomness of such a choice.

9. AN INTRODUCTION TO POWERSTATS

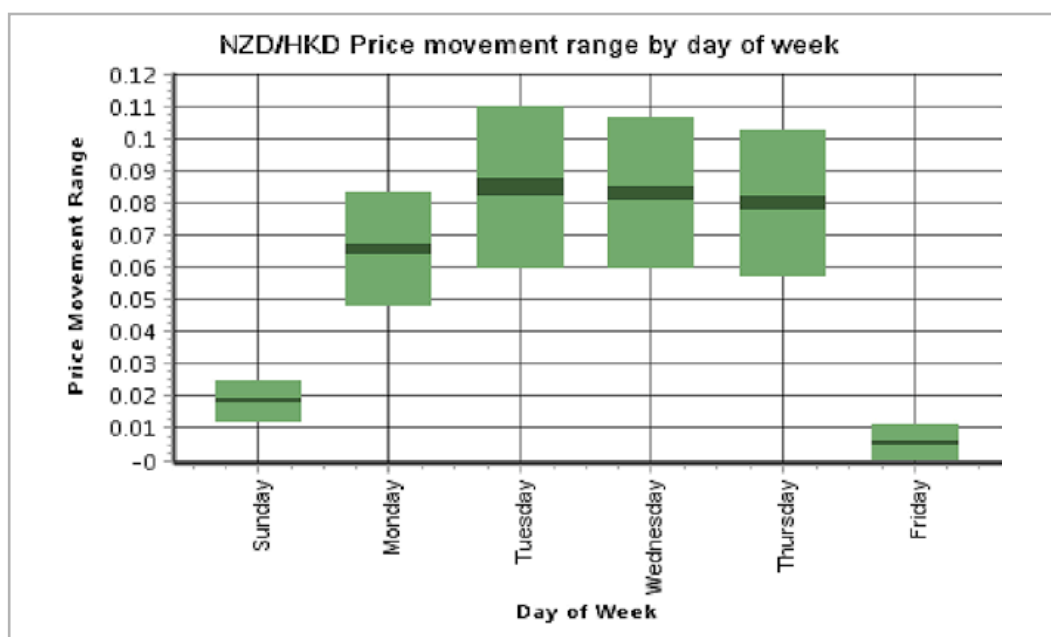


Unless it is a news or event driven day, the financial markets have tendencies to trade more actively during certain times of the day. The most active time periods tend to be the openings and the closes of the various financial instruments. Volatility and volume which are the main drivers of price action usually exert the most force during those two time periods.

Since the financial markets trade 24-hours per day, these opens and closes occur at various times during the day, giving the trader ample opportunities to take advantage of the excessive movement. There are also, however, times during the day when the markets simply trade flat. Even the best chart pattern set-up can fail when there is no one there to trade it. PowerStats offers an analytical tool based on the six month average of the hourly price ranges to inform you of the time periods when specific markets are more active.

9. AN INTRODUCTION TO POWERSTATS

This information may assist you in finding trade alerts which can help you understand why markets consolidate. With this data you may be able to determine which markets are beginning to enter consolidation periods or which markets are getting ready to move out of consolidation. This information may give you an edge when selecting chart patterns which indicate a breakout move may be in the offing.



This PowerStats tool offers insight into what the market is capable of on any given day of the week. This information can be invaluable, especially when used along with an economic calendar which shows you when important economic events are going to take place.

The data is a measurement of the high to low range as calculated on a 24-hour basis with the average movement for that day marked within a range.

9. AN INTRODUCTION TO POWERSTATS

Of course choosing to incorporate the PowerStats tools into your trading plan is a personal preference, but if you answer yes to any of the following questions, then you should probably consider utilizing the information as a guideline.

- **Do you find yourself unable to hold onto trades until you are stopped out based on your strategy?**
- **Do you find that you are stopped out right before your trade goes in your direction?**
- **Do you often trade on the hope the market will move in your direction quickly?**

If you answered yes to any of these questions, then you should try to work PowerStats into your trading strategy.

THE BENEFITS OF FIBONACCI PATTERNS FOR IDENTIFYING SUPPORT AND RESISTANCE

by James A. Hyerczyk

Autochartist identifies four different Fibonacci Patterns: ABCD, 3 Drive, 3 Point Retracement and the 3 Point Extension.

One major benefit is having a program identify and calculate the patterns. Hours can be spent trying to determine whether a chart pattern taking place is adhering to the generally accepted Fibonacci Patterns. Even after this work is completed, the analyst will still have to determine whether a trading opportunity is taking place.

The Autochartist program takes care of both of these possibilities. On one hand it attempts to identify Emerging Patterns so that the trader can prepare for potential trading opportunities. On the other hand, the Completed Patterns show the trader an active pattern or one that can be acted upon should the trader decide to do so <Fig1>.



10. THE BENEFITS OF FIBONACCI PATTERNS FOR IDENTIFYING SUPPORT AND RESISTANCE

Fibonacci Pattern analysis can require a great deal of patience and mathematics. Autochartist has built into the program the ability to analyze hundreds of chart patterns and apply the mathematics necessary to identify trading alerts. This gives the trader time to analyze the trading opportunity presented to him which means more time to fine tune the entry, trailing stop and exit strategies. Eliminating the need for patience also helps to reduce the emotional strain that market and trading can have on a trader <Fig. 2>.



Another benefit of using Fibonacci Patterns as an analysis or trading tool is that they give the trader an objective view of the market. They are created simply by reading the chart pattern. This eliminates bias such as news events or economic reports. Simply stated, Fibonacci Patterns look at the market and say "this is what it has done" and "this is what it can do based on its past history". It is pretty straightforward mathematical analysis of the market without outside influences.

Fibonacci Patterns also help identify for a trader whether the market is going to pull back into a particular price area or whether it is likely to extend. This helps the trader decide whether he should wait for a better entry price than currently offered or whether he will have to pay up for the opportunity to capture higher prices.

10. THE BENEFITS OF FIBONACCI PATTERNS FOR IDENTIFYING SUPPORT AND RESISTANCE

Another key benefit of using Fibonacci Patterns to trade is that the creation of price level targets can help the trader determine reasonable price targets. This helps when determining to execute a trade because the risk/reward of the trade can be easily calculated <Fig 3>.



Like any trading tool, it is highly suggested that the trader study and experiment with these Fibonacci Patterns before actually putting money on the line. This will help the trader determine some of the quirks of this type of analysis. It is very important that the trader confirm that this type of analysis suits his trading style. Often traders are convinced because of a few early successes that a particular trading discipline is suited of him. He gets blinded by the profits and fails to realize that there are risks involved.

In order to benefit the most from using Fibonacci Patterns, it is very important to try to identify which patterns work best under which conditions. It is in understanding this portion of the analysis tool that a trader can get a real grasp of how to use Fibonacci Patterns successfully.

For further information on this
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www.autochartist.com



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