

How false breakouts can be reduced

The number one challenge all traders face seems to be the most difficult one to solve - how to eliminate false breakouts and whipsaws. This challenge is not one that chart pattern traders face alone - it is a problem that all traders face. However chart pattern traders are uniquely positioned to fix the problem most effectively.

There is no way to eliminate false breakouts or whipsaws completely. We can only seek to reduce them with proper analysis. Autochartist does not insult you with unbelievable promises or guarantees. We can say with confidence that you will learn how to trade chart patterns more effectively and confirm these patterns with time-tested tools and techniques that are not often taught.

There are three methods by which false breakouts and whipsaws can be reduced. The first step is to consistently identify the patterns. The Autochartist platform takes care of that. By having a tool automating the chart pattern identification for you, you are eliminating much of the «subjectiveness» that charting analysis can lead to. Autochartist is objective as there are no emotions associated with the identification. The chart pattern either meets Autochartist's criteria or it doesn't. In the example below the triangle pattern met the criteria and triggered a trade with the breakdown through the uptrend line support. Autochartist then highlights the price projection with the grey shaded area.



The second step is to utilize the «Initial Trend» column reading. The current trend preceding the pattern is a vital component of any trade set up. It helps distinguish continuation patterns from congestion patterns, and it allows us to measure the strength of the markets and identify the current cycle.

Using this reading properly is key to determining not only the quality of the pattern but determining whether it is a set up that you may or may not want to trade. Of course «Initial Trend» is not the only Autochartist column heading but it is the one most directly related to market stages.

Exchange	NYSE
Symbol	GPS
Interval	60 minute
Pattern	Triangle
Pattern End	23/7 11:00
TrendChange	Continuation
Length	114
Direction	↓
Quality	■■■■■■
Initial Trend	■■■■■■■
Uniformity	■■■■■
Clarity	
Breakout	■■■■■■■
Volume	■■■
Prediction From	17.865
Prediction To	18.236

Reading this indicator and judging the trend strength should ideally be made using the chart itself as well as the indicator reading. The indicator here is indicating a high Initial Trend reading as you can see by the number of green colored bars next to the heading.

For a symmetrical triangle the ideal set up would develop in a sideways market and the «Uniformity» of the pattern would be good. The pattern could break in either direction so the pattern should show good congestion.

A triangle is a «congestion» pattern as the pattern will typically have a higher degree of volatility. Patterns like rectangles are consolidation patterns as the volatility is low. If the rectangle is part of a double or triple top or bottom, the volatility can be higher depending upon the distance between the support and resistance of the current market.

This all may seem a little intimidating at first. The rules and guidelines are not difficult to remember once you begin seeing the patterns over and over again in the market. And we all know that practice makes perfect!