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Wedge Chart Patterns

by Kent Kofoed

Trading & Investing It's Not Rocket Science

by Neal Weintraub

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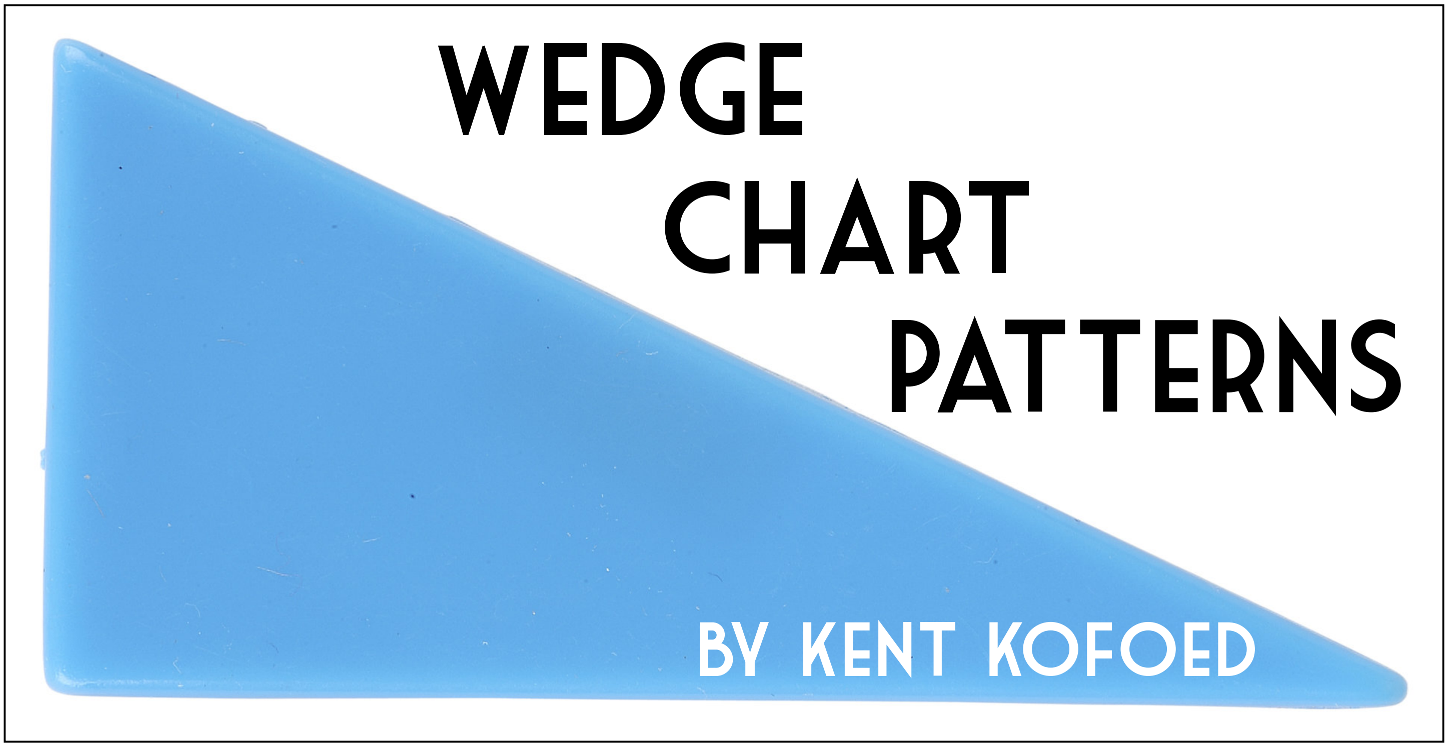


WEDGE CHART PATTERNS

BY KENT KOFOED

A Wedge Pattern is a chart pattern where the price range converges over time (i.e., the resistance trendline and the support trendline move towards each other). It is a pattern that is believed to be a signal of a short-term reversal of the major price trend, which is usually followed by a breakout in the direction of the major price trend (i.e., there will usually be a continuation of the major price trend). Since wedge patterns are only a short-term reversal of the major price trend, this pattern is also sometimes described as being a temporary halt of the primary trend. Lastly, the two main types of wedge patterns are called Rising Wedges and Falling Wedges, both of which will be covered in this article.

Rising Wedge

The Rising Wedge looks like it is pointing upwards, because the overall price action is a short-term move to the upside, and both of its support and resistance trendlines converge towards each other as the trading range continues to narrow (i.e., the price action will consist of higher highs and higher lows, as well as a narrower price range as time passes). Since the rally is only a temporary rally in the opposite direction of the major price trend (i.e., a continuation pattern), the upwards price movement means that this pattern typically occurs when prices are currently in a major downtrend. The support line, which makes up the bottom of this pattern, will have a steeper slope than the resistance trendline, which makes up the top of the pattern. This price action is a signal that the bears are still in control even though the bulls are currently able to push prices higher. Another important aspect of the Rising Wedge is that volume should be declining as prices push higher (this is also an indication that the buying power of the bulls is diminishing). Lastly, if a Rising Wedge starts to form in an uptrend, watch out for a trend reversal because this pattern is a bearish price pattern. Even though it is usually a continuation pattern, it will typically be a reversal pattern if it occurs in an uptrend.

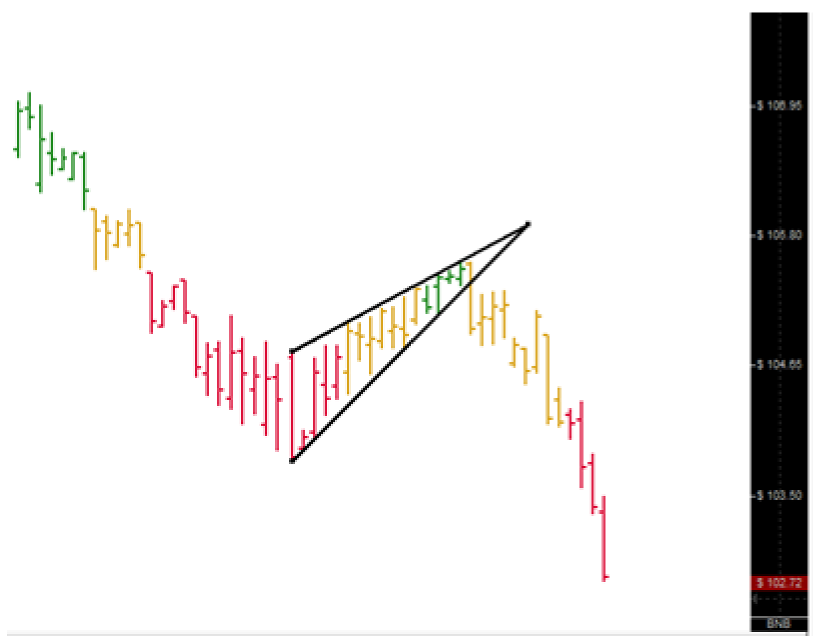


Figure 1-1

Falling Wedge

The Falling Wedge looks like it is pointing downwards, because the overall price action is a short-term move to the downside, and both of its support and resistance trendlines will converge towards each other as the trading range continues to narrow (i.e., in this case, the price action will consist of lower lows and lower highs, as well as a narrower price range as time passes). Since the pullback is only a temporary pullback in the opposite direction of the major price trend (i.e., it is also a continuation pattern), the downwards price movement means that this pattern typically occurs when prices are in a major uptrend. The support line, which makes up the bottom of this pattern, will have a slope that is not as steep as the resistance trendline, which makes up the top of the pattern, and this is a signal that the bulls are still in control even though the bears are currently able to push prices lower. Another important aspect of the Falling Wedge is that volume should be declining as prices move lower (this is also an indication that the selling power of the bears is diminishing). Lastly, if a Falling Wedge starts to form in a downtrend, watch out for a trend reversal because this pattern is a bullish price pattern. Even though it is usually a continuation pattern, it will typically be a reversal pattern if it occurs in a downtrend.

Summary

Wedge patterns, as mentioned previously, are considered to be a temporary halt of the major price trend, so they are usually viewed as a signal of a continuation of the current price trend. The typical length of the pattern will depend on the market that you are trading, but it will usually be somewhere between 3-4 weeks long. It is important to remember that wedge patterns are in the opposite direction of the major trend and will typically signal a continuation of that trend; however, if they are in the same direction as the major price trend, this will typically be an indication that there will be a reversal instead of a continuation. Lastly, it is important to realize that this pattern is different from triangle chart patterns. It is not as strong of a pattern. Wedge patterns do not have horizontal trendlines (the horizontal trendlines are a sign of relatively greater strength, because whoever is in control of the major price trend is able to keeps price from moving in the opposite direction), which is a requirement of the

Figure 1-2

Triangle Pattern (this excludes the Symmetrical Triangle, of course).

Kent Kofoed is a technical analysis specialist, as well as an individual trader, who has a Bachelor's degree in Business Administration from Utah State University and a Masters of Security Analysis and Portfolio Management degree from Creighton University. Additionally, Kent is a level II candidate in the CFA program, a graduate student in the Masters of Science in Predictive Analytics program at Northwestern University and a contributing author for PitNews Magazine.

Investing & Trading

It's Not Rocket Science

By Neal Weintraub

What does my prediction of Dow 14000 have to with the Aesop's fable?

Well, my version has much in common.

The story goes like this: A tortoise and a hare feuded about who was faster. So they agreed to have a simple race. After an amazing sprint, the hare could see the finish line was but a few miles away. But the hare was also just a shade tired and decided to relax and taunt the tortoise when he came near the finish line.

So the hare decided to kick back and soon fell asleep. Soon the tortoise passed the hare while he was in the middle of a triple X dream. Don't you hare when that happens?

The moral is slow and steady will win the race. Or triple X dreams last longer than you think.

"So what?" you ask, "And what the heck does this have to do with trading DOW 14000?"

When I first predicted Dow 14000, the market was about 3000 points lower. I went on a day trader site and told traders that day trading was going to hurt them. All they had to do was trade carefully and methodically and play defensively.

But, like the hare, they wanted to jump start their trading. Brokers all screamed about the virtues of day trading. CNBC was giving you ideas galore, but when you day trade, you only capture the day trade, and if the markets open higher overnight, you make nothing. But you are a day trader and as Martha Stewart used to say, "That is a good thing."

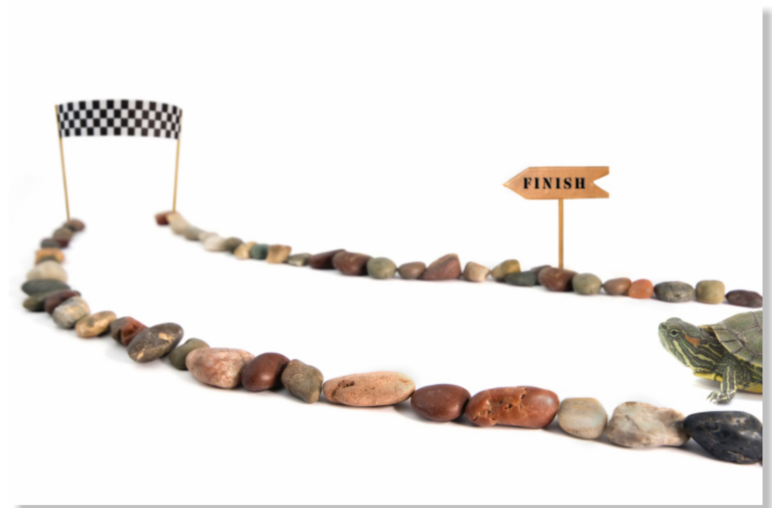
So, this time the hare had another idea. He proposed another race. This time the hare would not snooze. The hare became a day trader and a gay trader too!

This time the goal was Apple Stock, and as if Moses had spoken, the rivers of the market spread apart and the hare not only won the race, but made a handsome paper profit. Yes, he was a hero. The babes, Vegas, and the speaking tours on CNBC; he had it all. Meanwhile the tortoise could not believe it. That hare made more money in six months, than the tortoise did in three years of investing.

Now the hare took those paper profits and leveraged them for even more trading. He purchased all Apple products, he was all Apple. Mac Books, iMacs, iPods, and iTunes.

"Wow buying hot stocks is much better than slow and steady", he gloated. The hare was on CNBC and owned a day trading school. The hare never told his fans about Enron, or Martha Stewart, or Refco, or Lucent, Washington Mutual, General Motors or MF Global.

So after one year, the hare discovered that his broker had made more money than he did. And CNBC had made the most money of all.



Neal Weintraub is an educator, author, public speaker and professional trader. He has written numerous books on trading; his most recent "Tricks of the Active Trader." His book "Winning Winter Spreads" is based on the course he teaches at the Chicago Mercantile Exchange. Mr. Weintraub is a graduate of Michigan State University and Ohio State University, and a former Navy Public Affairs Officer with a direct commission. His current site DOW 12,000 is predicting DOW 14,000. He has taught for the Chicago Mercantile Exchange for over twelve years.

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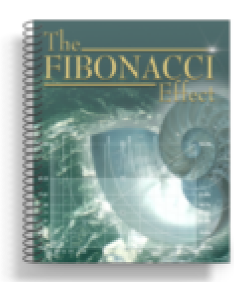

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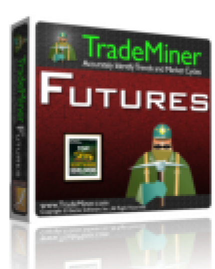

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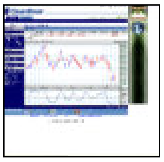

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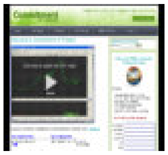

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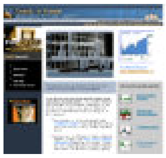

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