

Trend Continuation Patterns

Chart patterns are geometric shapes which can help a trader not only understand the price action, but also make predictions about the price possible movement.

Trend continuation patterns are figures of the same type which are formed as a result of price consolidation during its movements. They are formed at shorter time intervals during the pause in the current market trends and mainly mark the movement continuation.

They suggest that the market will maintain an established trend. Continuation patterns help traders to differentiate between a price action that is in full reversal and those just taking a pause. Most traders believe that there is a time to trade and a time to rest as the formation of continuation candlestick patterns imply consolidation, i.e. a time to rest and watch.

These patterns indicate that the price action displayed is a pause in the prevailing trend and that upon breaking out of the pattern the price trend will continue in the same direction.

*The most popular figures included in the continuation patterns and consequently presented below are **Ascending Triangle, Descending Triangle, Symmetric Triangle, Bullish Rectangle, Bearish Rectangle, Flag, Pennant, Wedge.***



Ascending Triangle

Ascending triangle represents a trend continuation pattern which is formed in an uptrend serving as a confirmation of existing direction. It displays a narrowing range between high and low prices which visually form a triangle.

The ascending triangle is characterized by a horizontal trendline called *resistance* and an ascending trendline called *support*. The former connects the price highs arranged at the same level and the latter connects price higher and higher lows.



Price break above the resistance line usually somewhere between halfway and $\frac{3}{4}$ length of the pattern indicates a signal to buy.

HOW TO CALCULATE

$$T = R + H,$$

Where:

T – target price;

R – resistance (horizontal line);

H – pattern's height (distance between support and resistance lines at pattern's origin).

Descending Triangle

Descending triangle represents a trend continuation pattern which is formed in a downtrend serving as a confirmation of existing direction. It displays a narrowing range between high and low prices which visually form a triangle.

The descending triangle is characterized by a descending trendline called *resistance* and a horizontal trendline called *support*. The first one connects lower and lower highs and the second one connects price lows arranged at almost the same level.



Price break below the support line usually somewhere between halfway and $\frac{3}{4}$ length of the pattern indicates a signal to buy.

HOW TO CALCULATE

$$T = S - H,$$

Where:

T – target price;

S – support (horizontal line);

H – pattern's height (distance between support and resistance lines at pattern's origin).

Symmetric Triangle

Symmetric triangle represents a trend continuation pattern which can similarly be formed both in an uptrend and a downtrend. Trend direction is confirmed when appearing on the chart.

The main feature of symmetric triangle is that the latter displays a narrowing range between high and low prices thus visually forming a triangle. It is formed of a descending trendline, called *resistance*, and an ascending trendline, called *support*. The former connects lower and lower highs and the latter connects higher and higher lows of price. Price break is a crucial factor in confirming the direction of trend movement:



Price break is a crucial factor in confirming the direction of trend movement:

- If the triangle is formed in a downtrend the price break below the support line will indicate a signal to sell.
- If the triangle is formed in an uptrend the price break above the resistance line will indicate a signal to buy.

HOW TO CALCULATE

In case of an uptrend:

$$T = BL + H$$

In case of a downtrend:

$$T = BL - H$$

Where:

T – target price;

BL – breakthrough level (point where the price leaves the triangle);

H – pattern's height (distance between support and resistance lines at pattern's origin).

Bullish Rectangle

Bullish rectangle pattern is a trend continuation pattern which is usually formed in an uptrend and signals the trend's direction. It is characterized by support and resistance levels which connect recent highs and lows of the price.

If the price rises above the resistance line a buy signal appears.

HOW TO CALCULATE

$$T = R + H,$$

Where:

T – target price;

R – resistance level (pattern's top);

H – pattern's height (distance between support and resistance).



Bearish Rectangle

Bearish rectangle pattern is a trend continuation pattern which is usually formed in a downtrend and signals the trend's direction. It is characterized by support and resistance levels which connect recent lows and highs of the price.

If the price falls below the support line a sell signal appears.

HOW TO CALCULATE

$$T = S - H,$$

Where:

T – target price;

S – support level (pattern's low);

H – pattern's height (distance between support and resistance).



Forex Flag

Flag is a minor and short-term trend continuation pattern indicating the previous direction which will prevail after its formation.

Flag is formed within a week. It comprises two trendlines: support and resistance levels, which represent the range between high and low prices, visually forming a parallelogram or a flag. The formation of the given pattern implies that the price may change at the same direction as it was going prior to the pattern. This pattern determines the direction of trend movement by price breaking:

- If in a downtrend the price falls below the support line a sell signal arises.
- If in an uptrend the price rises above the resistance line a buy signal arises.



HOW TO CALCULATE

In case of a downtrend:

$$T = BP - (TS - PS)$$

In case of an uptrend:

$$T = BP + (PS - TS)$$

Where:

T – target price;

BP – breakthrough point;

TS – trend start point;

PS – pattern start point.

Pennant

Pennant is a minor and short-term trend continuation pattern indicating the previous direction which will prevail after its formation.

Pennant is formed within a week. It comprises two converging trendlines: support (upward sloping) and resistance (downward sloping) which visually form a triangle. The formation of the given pattern implies that the price may change at the same direction as it was going prior to the pattern.

This pattern determines the direction of trend movement by price breaking:

- If in a downtrend the price falls below the support line a sell signal arises.
- If in an uptrend the price rises above the resistance line a buy signal arises.



HOW TO CALCULATE

In case of a downtrend:

$$T = BP - (TS - PS)$$

In case of an uptrend:

$$T = BP + (PS - TS)$$

Where:

T – target price;

BP – breakthrough point;

TS – trend start point;

PS – pattern start point.

Wedge

Wedge is a minor and short-term trend continuation pattern indicating the previous direction which will prevail after its formation.

Wedge is formed within a week. It comprises two trendlines: support and resistance levels which visually form a triangle. Both of the trendlines can be either downward sloping (in an uptrend) or upward sloping (in a downtrend) against the direction of the primary trend. The formation of the given pattern implies that the price may change at the same direction as it was going prior to the pattern. This pattern determines the direction of trend movement by price breaking:



- If in a downtrend the price falls below the support line a sell signal arises.
- If in an uptrend the price rises above the resistance line a buy signal arises.

HOW TO CALCULATE

In case of a downtrend:

$$T = BP - (TS - PS)$$

In case of an uptrend:

$$T = BP + (PS - TS)$$

Where:

T – target price;

BP – breakthrough point;

TS – trend start point;

PS – pattern start point.

Conclusion

Note that the signal is accepted to be complete when the pattern is fully formed and the price breaks the pattern in a specific manner. Continuation patterns are considered the most accurate when the trend has existed for one to three months and you have an opportunity to spot patterns in all time frames (30 minutes, one hour, even daily and weekly charts).

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