Chart Patterns

Head & Shoulders, Double Tops, Triangles — Lesson Explainer

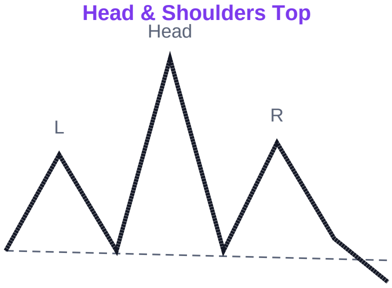
The Concept

A chart pattern is a recognizable shape formed by price over time - not a random squiggle, but a repeating footprint left by the same crowd behaviors: buyers and sellers testing a level, losing conviction, and eventually giving way.

Patterns split into two camps: reversal patterns (head & shoulders, double tops) that suggest a trend is running out of steam, and continuation patterns (triangles) that suggest a pause before the existing trend resumes.

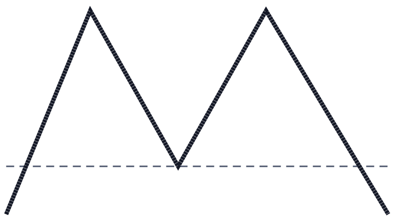
The Three Patterns

Head & Shoulders Top



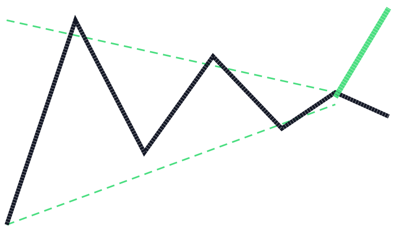
Neckline break confirms reversal

Double Top



Break below the middle low confirms reversal

Triangle



Converging lines — breakout can go either way

Illustrative Walkthrough: A Head & Shoulders Top

Real head-and-shoulders tops don't come with round numbers, so here's a clean illustrative version to see the mechanics clearly.

Point	Price	Role
Left shoulder	$118	First peak, uptrend still looks healthy
Neckline (low after left shoulder)	$100	Key support level to watch
Head	$130	Higher peak - but often on weaker volume
Right shoulder	$117	Fails to reach the head's high - momentum fading
Neckline break	$99	Pattern confirms - reversal underway

The classic 'measured move' price target after confirmation is the head-to-neckline distance projected below the neckline: $130 - $100 = $30, so $100 - $30 = $70 as a rough downside target. It's a rule of thumb, not a guarantee.

5 Things to Know About Chart Patterns

1. A pattern isn't confirmed until the key line breaks - plenty of near-misses never confirm.

2. Volume should support the story - ideally fading through formation, picking up on breakout.

3. The measured move is a rule of thumb, not a promise.

4. Triangles can break either way - wait for the actual breakout, don't assume direction.

5. Patterns are probabilistic, not mechanical - false patterns and failed breakouts happen.

> **Worth knowing:**
> chart patterns describe how crowds have behaved before - a probability tool, not a prediction machine. Always pair a pattern with volume and the broader trend.

Quiz — Answer the questions, then check the key on the next page

1. In a head & shoulders top, what does the "neckline" represent?

A. The highest price the head reaches
B. The support level connecting the lows between the shoulders and the head
C. The average of all three peaks
D. The 200-day moving average

2. What distinguishes a double top from a random pair of highs?

A. The two highs must be on the exact same calendar day
B. A double top has no confirming level at all
C. Two similar highs failing at the same resistance, then a break below the middle low
D. The pattern only appears on weekly charts

3. Why can't a triangle be assumed to break with the prior trend?

A. Triangles only ever form at market tops
B. Triangles always break downward regardless of trend
C. Triangles are not a real pattern
D. The lines can resolve either way - wait for the actual breakout

4. Neckline $100, head $130 - what is the rough measured-move target?

A. $70
B. $130
C. $30
D. $100

5. Why trust a neckline break on high volume more than on thin volume?

A. Volume has no relationship to pattern reliability
B. High volume always means an immediate reversal back
C. High volume shows real conviction behind the move
D. Volume only matters for cryptocurrencies

Answer Key

1. In a head & shoulders top, what does the "neckline" represent?

Correct answer: B. The support level connecting the lows between the shoulders and the head

The neckline connects the lows on either side of the head - the key support level whose break confirms the pattern.

2. What distinguishes a double top from a random pair of highs?

Correct answer: C. Two similar highs failing at the same resistance, then a break below the middle low

A double top needs two comparable highs rejected at similar resistance, confirmed only once price breaks the low between them.

3. Why can't a triangle be assumed to break with the prior trend?

Correct answer: D. The lines can resolve either way - wait for the actual breakout

Triangles usually continue the prior trend, but can break against it - the breakout itself tells you the direction.

4. Neckline $100, head $130 - what is the rough measured-move target?

Correct answer: A. $70

Head-to-neckline distance is $130 - $100 = $30, projected below the neckline: $100 - $30 = $70.

5. Why trust a neckline break on high volume more than on thin volume?

Correct answer: C. High volume shows real conviction behind the move

A high-volume confirmation shows genuine participation rather than a handful of trades nudging price through the line.