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**Trading Futures, Options & Equities using the Murrey math concept
and few other powerful trading tools!**

INTRODUCTION TO BASIC TECHNICAL ANALYSIS

Long or Short what do I do. Wouldn't it be great if someone could tell us tomorrow's closing prices today? Unfortunately no one can (legally) that is why we have Technical analysis.

Do you remember looking up at the stars before some one pointed out the big dipper to you? Up until that point all you saw was a big clutter of stars that had little if any meaning to you. It was only then after you were shown how to connect all the stars were you able to form the big dipper and never looked at the stars in the same way again.

In this class we will go over pattern recognition. I will show you 10 of the most widely followed chart patterns. Teach you the proper way to draw them and explain how I trade them.

All the patterns we are about to go over are the same patterns "THEY" look for and trade accordingly. They are Wall Street. The big money.

After I show you these patterns you will be amazed where the upgrades and downgrades come in to play, many times they're right at a key breakout/breakdown points. Once your able to spot these patterns you'll realize there are no coincidences on Wall Street.

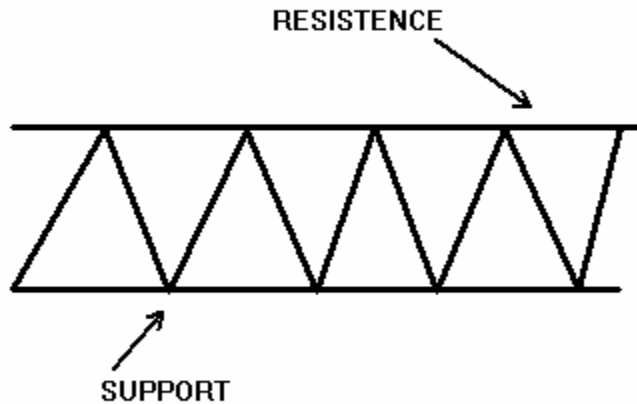
These set-up's have been around since the early 1900's when Charlie Dow

(The Dow in Dow Jones) Created the Dow theory that gave birth to technical analysis, as we know it now. He had to draw charts and patterns by hand, think about that the next time your charts go down!

In the following chart examples I use daily and intra-day charts

1. Rectangles
2. Ascending Triangles
3. Inverted Head & Shoulders
4. Bull Flags
5. Double Bottoms
6. Descending Triangles
7. Head & Shoulders
8. Double Tops
9. Bear Flags
10. Cup & Handle

RECTANGLE SET UP



HEY EDDIE WHERE IS SUPPORT ON THIS STOCK?

When someone from the chat room asks the ever so popular question of support and resistance on a particular stock the first thing I look for is a rectangle.

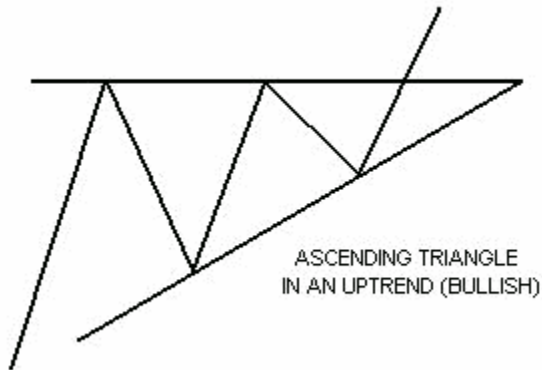
Rectangle patterns can be found on almost every stock and are the most basic chart patterns for gauging to see where buyers feel safe (support) and when the bears come in and sell or short (resistance)

To find support draw a horizontal line connecting two or more candle bottoms, do the same for resistance draw a horizontal line connecting two or more candle tops. The price difference between support and resistance is the trading range.

The way I like to trade this set up is to look for a break out or break down out of the rectangle this usually gets us the most momentum especially when a stock has been in a trading range for over 30days.

Sure in a perfect trading world you can just go long off support and go short on resistance, which does work at times. I recommend entry level Chartists try this set up first and get it down before moving on to the other set up's we are about to go over.





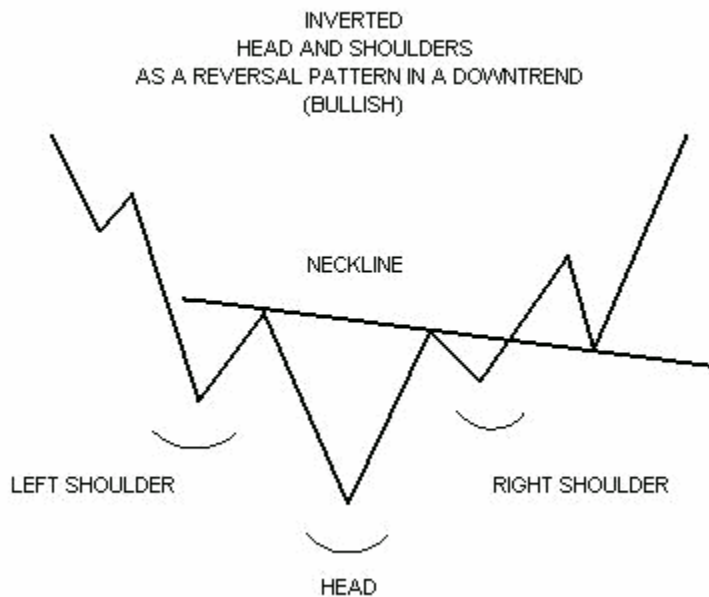
Ascending triangles are generally considered bullish and are most reliable when found in an up trend. The top part of the triangle appears flat, while the bottom part of the triangle has an upward slant. The proper way to draw and identify these is as follows. Draw a horizontal line through two or more price peaks then draw ascending line through two or more higher lows. This is one of my favorites Set up's to trade for a breakout. This is one set up that needs conformation (a actual break out before I take a position)

Questions?

ASCENDING TRIANGLE SET UP

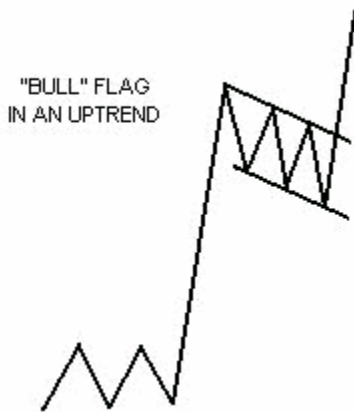
NVDA 5MIN





The head and shoulders pattern can sometimes be inverted. The inverted head and shoulders are typically seen in downtrends. (What's noteworthy about the inverted head and shoulders are the volume aspect. The inverted left shoulder should be accompanied by an increase in volume. The inverted head should be made on lighter volume. The rally from the head however, should show greater volume than the rally from the left shoulder. Ultimately, the inverted right shoulder should register the lightest volume of all. When the market then rallies through the neckline, a big increase in volume should be seen.)





The Bull Flag one of my favorite intra-day set up's. This is my shake out break out set up for obvious reasons. This is a continuation pattern a resumption of the up trend (we hope) Think of it as a pull back(the shake out) before the greater trend resumes (the break out)

You'll want to make sure the trend lines are as close to parallel as can be. And just like with the ascending triangle set up I like to see conformation (the break-out) before I put on a trade.

Now there are some traders who jump the gun and will take the trade before the conformation Trigger. I have to confess I am guilty of this myself. Those days when I am in the gun jumper state of mind are the days I wish I stayed in bed!!!

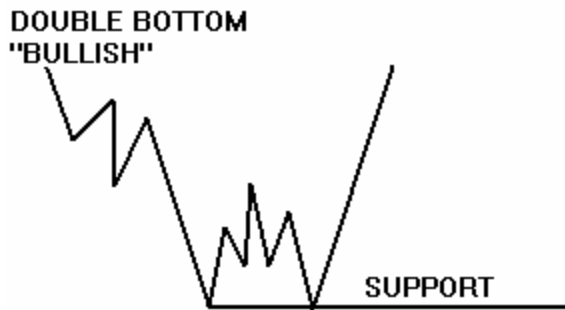
The one rule I continue to learn is I can't make a stock do what I want or think it should do. Conformation, conformation, conformation. Wait for it.

Questions?

Bull Flag set up (intra-day)







A double bottom occurs when the price of a stock that has made one bottom and risen a considerable distance, falls again to approximately the same level as the first bottom. The stock again attracts buyers at the first bottom and rises again to break out above the first peak between the first and second bottoms.

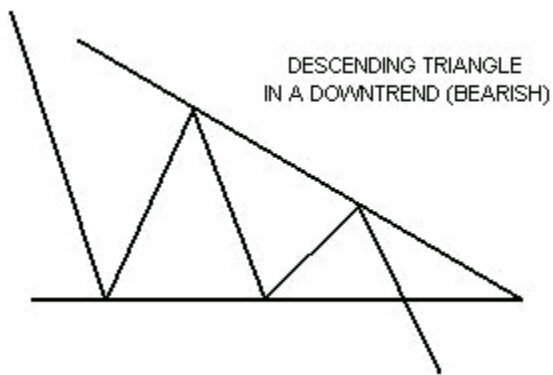
Now that the text book definition is out of the way. The double bottom bounce Takes some courage to trade, However some of my best day trades have been a long trigger off the double bottom bounce, This is one of the set up's that I let come to me. What I mean by that is when I see a stock is in process of making a double bottom I set a buy order usually right under the first bottom i.e.: If the first bottom happened at 40 I set a buy at 39.90 -.95 depending on the stock with a tight stop set below my entry. This is called the low-ball entry. (I will talk more about this in voice) This set up is probably one of the less risky plays (if there is such a thing)

Questions?





SHORT SET UP'S

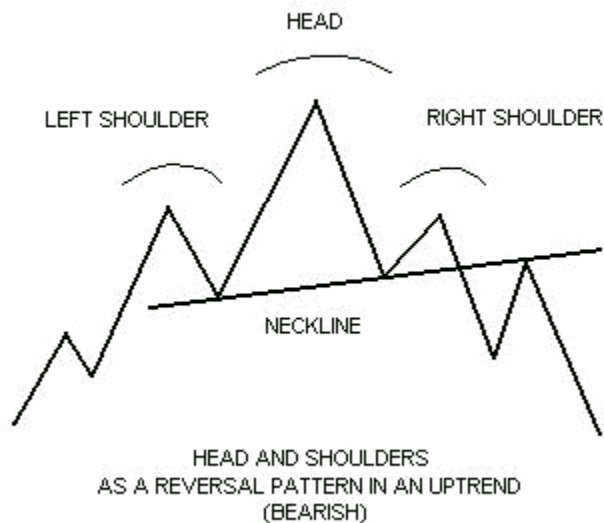


The descending (BONZAI) triangle as I like to call it. All my best intra-day bonzai shorts have been due to this set up when you hear me yell “BONZAI” It’s more than likely I am trading a descending triangle set up

Unlike the ascending triangle, this time the bottom part of the triangle appears flat and the top part of the triangle has a downward slant. An easy way to find these set up’s is to look for stocks that are making lower highs.

Questions?





The head and shoulders pattern is known on Wall Street as a reversal pattern. This is one of the more complex patterns to identify, the 1st example below (EXTR) shows the basic 2 shoulders (left and right) and 1 head.

What makes the H&S set up complex is that It can have more than (1) left shoulder and more than (1) right shoulder you can have (3) left shoulders and (2) right shoulders or (2) left and (2) right shoulders and so on. However you can only have one head. The basic principle of the 3- step set up that I list below s still applies no matter how many shoulders you have in the pattern

Confused? Don't be we will go over this in voice.

Of all the patterns we just went over this is the most reliable for me. This is one pattern worth looking for.

This is what I call a 3-step set up.

1. A high (left shoulder)
2. A higher hi (The Head)
3. A lower hi (Right shoulder)

The trendline for this pattern should be drawn from the beginning of the right shoulder through to the left shoulder.

The conformation on this pattern is complete when the stock breaks the neckline. (Such violence) For a short trigger

**HEAD & SHOULDER
SETUP/BREAKDOWN**



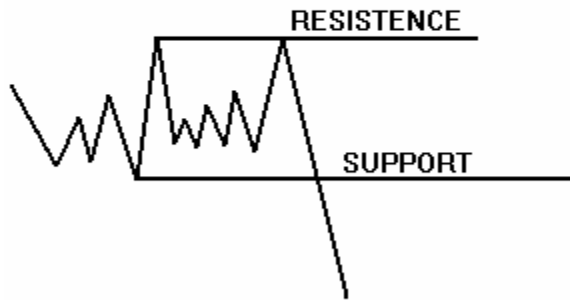
This EBAY chart was a classic Head & Shoulders break down. See if you can Draw the trend line.



This is the way I drew it out. I was able to short this at 60 on the break down with puts one day and the stock a few day later.



**DOUBLE TOP
"BEARISH"**



A double top occurs when the price of a stock has made one high and drops back to a key support level only again to be met with buyers that run the price up to the first high.

I trade this set up the same way I trade double bottom but only in reverse. (SHORT) Again just like I mapped out on the double bottom set up I let the trade come to me only this time I use the (hi ball) entry for a short position, i.e. If the first top is at 40.00 I will set a sell (short) at 40.05 – 40.10 depending on the stock and the over all trend of the day. With a tight stop right above my entry This is also one of the less risky set up's reason being is if were wrong we know right away and can reverse the trade or take the stop.

Questions?



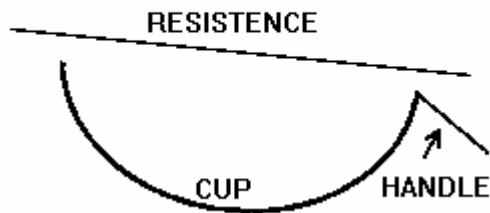


Higher tops and higher bottoms make up a Bear flag set up and just like with the bull flag you'll want to make sure the trend lines are as close to parallel as can be, also Bear flags have a tendency to slope against the trend. Which make them look like a "V" bottom and a possible reversal at first. This is the main reason why conformation on this set up is critical. Remember conformation is the key to this pattern and must complete before a trade is put on. If there were one set up I would recommend studying more than others before acting on it this would be it.

Questions?



CUP & HANDLE



The Cup with Handle is usually a bullish continuation pattern that marks a consolidation period followed by a breakout.

As its name implies, there are two parts to the pattern: the cup and the handle. The cup forms after an advance and looks like a bowl or [rounding bottom](#). As the cup is completed, a trading range develops on the right hand side and the handle is formed. A subsequent breakout from the handles trading range signals a continuation of the prior advance.

The way I have been trading this pattern recently in the Bear Market is to short the resistance level. Reason being the trend has been to sell all resistance lately. As the saying goes make the trend your friend!



As with any one of these patterns we just went over they always work best when you are aware of Current market conditions and know the stocks & futures you are trading. That is Key in this Business.

This is a business that changes by the second and in order to profit in the market you must change along with it. I have always been a technical trader that may be one of the reasons I am still trading. Long gone are the days where you can pick any 4-letter stock and have it go up 10, 20 or 30 points in a day with out even looking at a chart.

The saying goes CEO'S lie, Wall Street Lie's but the charts ahhhh the chart's they never lie.

We can never predict what a stock will do at any one time that is why we have technical analysis. We use it in the hopes of the past patterns repeating in the future. I believe in technical analysis because it works.

If we can become the “they” by spotting the same patterns the big boys are looking at our chances of being on the right side of the trade dramatically increases. After all the only side of the trade that matters is the right side.