

Chart Patterns IV: Double Tops and Bottoms

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The double top formation is a straightforward pattern that is easy to recognize on a chart. One of the features of a market in an uptrend is a series of increasing highs and relatively higher lows.

If the market on one of its high points fails to break above the previous high, but instead stalls at the same price, this is an indication that the trend is weakening and may reverse. A double top is therefore a simple horizontal line that connects two relative highs at the same price.

The relative low between the two highpoints of the double top creates a miniature version of the neckline in the head and shoulders pattern, and provides traders with a potential entry point to sell. Traders should sell once they receive reasonable confirmation that the neckline has been broken; a good indication of this is when a candle closes beneath the neckline. In the case of the double top, traders can then place an entry order a few points beneath the low of the first candle that closes beneath the neckline.

The double bottom pattern is the inversion of the double top. In a down-trend, the price tested twice the low level but failed to break through, forming a double bottom pattern. Traders can look for opportunities to buy above the neckline once the pattern is confirmed.

