

2 Basics of Charting

This section will detail all the different types of trading patterns that can be found in a cryptocurrency price action chart. It is important to note that these patterns are the more common types. There is a larger variety of patterns that may still morph in price action but are quite rare (uncommon patterns).

For price action patterns to perform well, they need to be analysed in correspondence with indicators. These indicators can range from the use of Bollinger Bands, RSI, Stochastics, Volume Profile etc. Indicators like these are highly reliable and can drive profits for the trader when used properly and at the right time. Again, the indicators listed here are the common ones but are not the only ones available. There is a large selection for different indicators, it is up to every trader to find which ones suit their personality and trading style.

Lastly, it is important to understand support and resistance levels when looking at a chart. Price likes to gravitate towards these levels and offer a reaction based on supply and demand. Support levels hold price, here is where buyers are stronger than sellers. Resistance levels reject price, this is where sellers are stronger than buyers at a particular price point. Support and Resistances can be found on many different timeframes, a general rule is that the higher the timeframe the stronger that support or resistance.

2.1 Basics of Chart Patterns (Common Crypto Patterns)

2.1.1 The Double Bottom

The Double Bottom is a price action pattern that is indicative of a trend change once activated. Price needs to establish a bearish expansion towards the lows before reversing with an impulse. The impulse then needs to get sold into; this will create a retest of the previous low that must hold. Price action will establish a “W” structure which becomes a sign of demand that leads to a bullish expansion.



Key Characteristics of the Double Bottom:

- Price Action must first establish a bearish expansion
- The retest of the previous low must hold
- A 'W' like formation will confirm demand at the lows

2.1.2 The Double Top



The Double Top is a price action pattern that is indicative of a top in a trend before a reversal. Price action needs to put in a bullish expansion towards the highs before reversing with an impulse. The impulse then needs to get bought back up towards the highs without breaching it. An “M” like structure will then form, indicating support and creating the Double Top before expanding towards the downside.

Key Characteristics of the Double Top:

- Price Action must establish a Bullish Expansion
- The high must be tested without breaching it
- An ‘M’ like structure will confirm supply at the top

2.1.3 The Descending Triangle

The Descending Triangles is a bearish price action pattern that includes consecutive lower highs against a dynamic resistance and a base of support. Price action trades between the support and resistance before reaching an apex point. Here a breakout from the apex becomes imminent, that is support eventually breaks, confirming the pattern.

Key characteristics of the Descending Triangle:

- Bearish price action pattern that has a dynamic resistance and a base of support
- The pattern establishes consecutive lower highs
- Breaking the support level confirms the descending triangle



2.1.4 The Ascending Triangle

The Ascending Triangle is a bullish price action pattern that consists of consecutive higher lows against a dynamic support and a base of overhead resistance. Price action trades between the support and resistance before reaching its apex. Here a breakout becomes imminent, that is, the resistance level eventually breaks, confirming the activation of the pattern.

Key characteristics of the Ascending Triangle:

- Bullish price action pattern that has a dynamic support and a base of overhead resistance
- The pattern establishes consecutive higher lows
- Breaking the overhead resistance level confirms the ascending triangle



2.1.5 The Descending Broadening Wedge

The Descending Broadening Wedge is considered a bullish price action pattern that consists of a dynamic support and resistance. Activation of the pattern is a clean break of resistance followed by a strong bullish expansion. Price action is likely to establish a partial decline, this is indicative of demand coming in before the actual breakout.

Key characteristics of the Descending Broadening Wedge:

- The Descending Broadening Wedge considered a bullish price action pattern that has a support and resistance level
- A partial decline is indicative of demand coming in prior to the breakout
- The break of resistance is the confirmation signal of the pattern



2.1.6 The Ascending Broadening Wedge

The Ascending Broadening Wedge is considered a bearish price action pattern that consists of a dynamic resistance and support. Activation of the pattern is a clean break of support followed by a strong bearish expansion. Price action is likely to establish a partial incline, this is indicative of supply coming in before the actual breakdown.



Key characteristics of the Ascending Broadening Wedge:

- The Ascending Broadening Wedge is considered a bearish price action pattern that has a dynamic support and resistance level
- A partial incline is indicative of supply coming in prior to the breakdown
- The break of support is the confirmation sign of the pattern

2.1.7 The Falling Wedge

The Falling Wedge is a bullish price action pattern that has a dynamic support and resistance level. It creates an apex where price action trades into before breaking out. The breakout must breach the dynamic resistance to confirm the pattern.

Key characteristics of the Falling Wedge:

- Bullish price action pattern that breaks out with an impulse
- Consists of two dynamic support and resistance levels
- The break of the resistance confirms the pattern



2.1.8 The Rising Wedge

The Rising Wedge is a bearish price action pattern that has a dynamic support and resistance level. Similar to the Falling Wedge, It creates an apex where price action trades into before breaking out. The breakout must breach the dynamic support to confirm the pattern.

Key characteristics of the Rising Wedge:

- Bearish price action pattern that breaks out with an impulse
- Consists of two dynamic support and resistance levels
- The break of the support confirms the pattern



2.1.9 The Bearish Head and Shoulders



The Bearish Head and Shoulders is a bearish Price Action pattern that represents the collective psychology of the market, that is signalling a reversal of the trend. The Neckline S/R is a critical support in the pattern

that needs to be broken for activation. The breach of the Neckline S/R more often leads to a strong bearish expansion toward the lows. Before this comes to fruition, two shoulders and a head need to be established.

Key characteristics of the Bearish Head and Shoulders:

- Bearish price action pattern that consists of two shoulders and a head.
- The head and shoulders pattern represents the collective psychology of the market, which is bearish in this case
- The break of the Neckline S/R support activates the pattern and is followed by a bearish expansion.

2.1.10 The Inverted Head and Shoulders

The Inverted Head and Shoulders pattern is considered a bullish pattern that, once confirmed, causes a trend change. It consists of two shoulders and a head with a horizontal Neckline S/R Resistance. Price needs to break the resistance level with an impulse before moving towards the upside.

Key characteristics of the Inverted Head and Shoulders:

- This pattern has two shoulders and a head with a neckline S/R, opposite to the bearish head and shoulders.
- The inverted head and shoulders pattern represents the collective psychology of the market, that is bullish.
- The break of the Neckline S/R resistance activates the pattern and is followed by a bullish expansion.



2.1.11 The Ascending Channel



The Ascending Channel is a pattern that consists of two dynamic support and resistance levels. Price action remains captive between these two levels until the support level is broken. This activates the channel, allowing price to expand in a bearish manner. The Ascending Channel is simply opposite to a Descending Channel, they both have similar characteristics.

Key characteristics of the Ascending Channel:

- Consists of two Dynamic Support and Resistance levels, they hold price captive
- The support level needs to break with an impulsive, this activates the pattern
- The breakdown needs to be backed with a bearish expansion; this avoids false breaks.

2.1.12 The Bear Flag

The Bear Flag Pattern is a bearish continuation pattern that is confirmed once its dynamic support level is breached. It then leads to a strong bearish expansion, continuing the overall trend. This pattern is found mainly in established down-trends; they are the opposite to a price action Bull Flag.

Key characteristics of the Bear Flag:

- Bearish price action pattern that leads to a continuation
- They are found in established down-trend; the support level needs to break for activation
- Bear Flag formations are the opposite to Bull Flag Formations.



2.1.13 Price Action Pennant

The Price Action Pennant is deemed a neutral pattern that has a Dynamic Support and Resistance line. It causes price to trade between these two lines until it reaches an Apex Zone. Here a breakout comes to fruition as the balance between supply and demand shifts. The direction of the breakout needs to have follow-through for the pattern to stay valid. The pennant can be treated as a continuation and or reversal pattern, depending on how the breakout occurs.

Key characteristics of the Price Action Pennant:

- Neutral Pattern until a breakout occurs
- Has a Dynamic Support and Resistance, creating a Price Action Apex
- Follow through in the breakout must occur for confirmation.



2.2 Different types of trading indicators

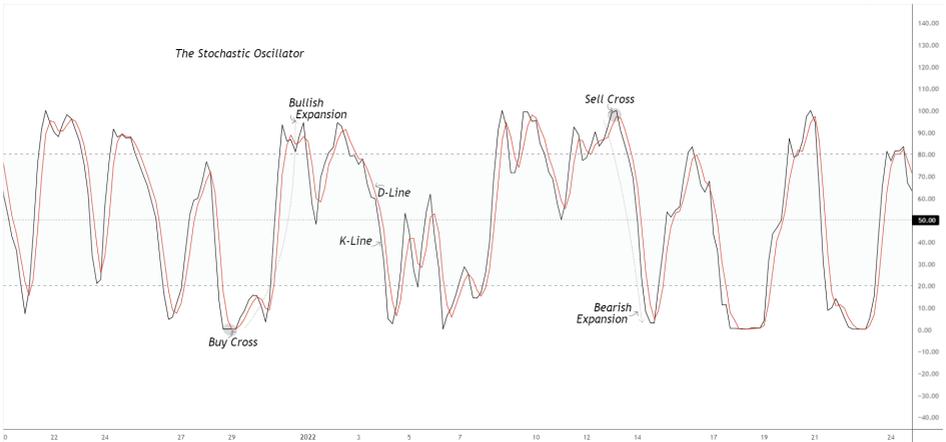
In this section we will focus on the more common types of trading indicators that are used when it comes to cryptocurrency. These indicators are designed to measure market momentum and strength, whether that's in trending or ranging environments. Each indicator has a unique purpose, some can be lagging, and some can be leading.

- Leading indicators aid in analysing potential future events, these events are more probable than others.
- Lagging indicators aid in confirming current events, they can be used towards a confirmation of what's going on on the chart.

It's best not to solely make trading decisions based on indicators alone. These indicators should be used in confluence with other technical analysis such as support and resistance levels, as the higher the confluence the more probable the trade. Furthermore, limiting the number of indicators is also instructed, it is better to master one or two indicators compared to five or six. This will decrease the probability of creating decisional conflict.

The following section will outline and explain some of the more common indicators used.

2.2.1 The Stochastics Indicator



The Stochastics Oscillator is a momentum indicator that follows the speed of price movement. It consists of a K- Line (unique formula) and D-Line (SMA of K), these lines when crossed over signal buy and or sell triggers. The stochastics helps show when an asset is either overbought and or oversold based on its movement. The indicator is best used in conjunction with other indicators to increase its accuracy.

Key characteristics of the Stochastics Oscillator:

- Momentum indicator that follows the speed of price action
- Used to identify oversold and overbought conditions in the market
- Consists of two lines, K and D, these signal buy and sell triggers in an asset.

2.2.2 The RSI Indicator

The RSI Indicator is one of the most used amongst traders to identify trading opportunities. It is responsible for identifying the strength in price action when momentum swings occur. If the RSI breaches 70, this is considered overbought conditions, a pullback becomes more probable. when the RSI trades below 30, this is considered oversold conditions, a bounce is then more probable. The RSI is considered neutral when it trades at its range mid-point. Above 50 is considered the bullish control zone whilst below it is considered the bearish control zone.

Key characteristics of the RSI:

- Overbought conditions are when the RSI trades above 70, a pullback becomes probable.
- Below 30, the RSI signals oversold conditions, a bounce becomes more probable.
- The RSI measures the strength of the move in price action where the 50 midpoint is considered neutral



2.2.3 The Bollinger Bands

The Bollinger Bands is a price volatility indicator that is used to project breakouts and breakdowns, especially at oversold and overbought conditions. The contraction of the bands is indicative of a low volatile period. This alerts traders that a move will be imminent on the next expansion. The upper band is indicative of overbought conditions, this tends to lead into a bearish expansion. The lower band is indicative of oversold conditions which tends to lead into a bullish expansion.

Key characteristics of the Bollinger Bands:

- Upper band resistance represents overbought conditions, a pullback is then likely.
- Lower band is considered oversold conditions, this usually leads to a bullish expansion.
- The indicator is mainly used to measure the volatility of an asset.



2.2.4 The EMA/MA

The EMA is a moving average (MA) that is calculated from recent price action data. They are very helpful in determining bull and sell signals when crossovers occur, such as the Golden Cross and the Death Cross. Moving averages can be traded with many combinations, but the most common is the 10- day, 50-day and the 200-day moving averages. When price action finds support on any averages, it is considered bullish, resistance is when price trades below the average. While the MA is a simple average of a set number of price points, the EMA gives more weight to recent price data, which is why it responds quicker to reversals.



Key characteristics of the EMA/MA:

- Price action is bullish when it finds support on the moving average
- Price action is considered bearish when it finds resistance on the moving average
- The EMA helps identify buy and sell triggers on crossovers.

2.2.5 The Fibonacci Tool

The Fibonacci Retracement Tool is widely used to measure price action reversals from selected pivots. These pivots are referred to as the “Pivot Low” and the “Pivot High”, where pullbacks are to find reactions at key Fibonacci Ratios. The most used Ratios are the .786, .618, .382 and the .236 retracements. How price action reacts to these Ratios will indicate the immediate move in price action. A highly respected support is deemed the .618 Fibonacci Retracement level. As evident on the chart above, this level is responsible for marking most pullbacks in a trend before a continuation. Other levels can be seen respected such as the .786 ratio, this level has a perfect touch in the example above.

Key characteristics of the Fibonacci Retracement Tool:

- Consists of a Pivot High and a Pivot Low
- Price action usually retraces to the ratios before continuing the trend
- The .618 Fibonacci is deemed a highly respected level in the tool



2.3 Volume Indicators

Understanding volume indicators is a critical add to a traders arsenal, however they are unfortunately neglected by most beginners. This section will focus on some of the more commonly used volume indicators that will help assist in trading decisions. Volume plays a huge role in technical analysis as it helps identify potential trend changes and local tops and bottoms. It also helps assist traders in understanding where most volume is traded at key trade locations on the chart. Furthermore, it is considered a leading indicator, that is price action will move depending on how much volume comes in.

In the following segment, three key volume indicators will be explained, these are highly reliable when used in confluence with other technical tools and indicators.

2.3.1 The VWAP



The VWAP stands for Volume Weighted Average Price, this indicator helps to pinpoint to average price an asset has traded over a given period based on volume. The VWAP is very fluid as it can change according to the speed and volatility of price action. Traders use this indicator to evaluate the best average of buys or sell for a specific asset. In other words, the VWAP helps to compare the price to a benchmark, this makes it easi-

er to make discretionary decisions when it comes to a trade.

Key characteristics of the VWAP (Volume Weighted Average Price):

- The VWAP stands for the Volume Weighted Average Price of an asset.
- The VWAP is very fluid and can change according to price action data and volume.
- It helps traders identify the best buying and selling areas on an asset on a given trading day/period.

2.3.2 The Volume Profile

The Volume Profile is an indicator that can be used to measure the distribution of traded volume in a range. It consists of a Value Area Low, this is the lower region within the range where price has had the most volume. The Value Area Low is considered support until broken. The indicator also consists of a Value Area High, this region is considered as resistance within the range because of the high volume of transaction at the specific price point. The Volume Profile also has a POC (Point of Control), this region has the highest amount of volume traded within the entire range. The POC is a key support and resistance level, price remains bullish above it and bearish below it.



Key characteristics of the Volume Profile:

- The Value Area High is considered resistance, price action tends to reject

off of this region as it is located at the higher end of the range.

- The Value Area Low is considered as support, price action tends to respect the level because of the volume transacted.
- The POC or Point of Control is the region with the highest amount of volume traded, it can be treated at a key support and resistance level.

2.3.3 The Volume Chart

The Volume Chart measures the amount of volume traded within the candle period. Low volume is suggestive of a ranging environment. This often leads into a volatility contraction. Rising volume is deemed bullish if the price action portrays a bullish trend. A volume climax is usually indicative of a temporary top or bottom being set after a volatile move. When something like this occurs, the volume tends to decline and trade below average until an equilibrium is found between buyers and sellers – this can all be seen on the chart example above.

Key characteristics of the Volume Chart

- Shows the amount of volume traded within the candle period.
- The volume can be increasing and decreasing
- Volume climaxes are usually temporary tops and bottoms in price action.

