



Trading Live Online Trading Tips

Trading AB=CD Patterns from Coils

The markets go through a constant process of range contraction and range expansion. The range contraction can many times form great AB=CD patterns as the price tests the upper and lower ends of the range. Eventually the market will move out of that range one direction or another in the form of range expansion or a trend. I like to think of this process as coiling, and the coils store energy and eventually that energy is released in a stronger trend move.

The trader should be aware when the market is in either process so as to make prudent trading decisions. Although I like to trade the patterns as they complete there are times where it is best to stay out of the market or use an alternative approach such as trend trading techniques. The first rule if you are a swing trader is to not continue trying to go opposite a trend. It is much better to sit it out than to keep trying to force a trade that has low probabilities of working.

Below is a chart of a coil that formed in the SP 500 Emini. It is an inverted Head and Shoulder pattern. Notice where the blue line is, that is the breakout to the upside out of the coil pattern. Other coil patterns are triangles, broadening tops and bottoms to name a few.

The red arrow is pointing to a long bar coming out of the breakout or neckline area. See Chapter 9 in *Trade What You See – How to Profit from Pattern Recognition*, by Larry Pesavento and Leslie Joufflas, Wiley & Sons, 2007 for more information on the Broadening Top and Bottom pattern.

Also refer to Chapter 11 for warning signs, we discuss long wide range bars at or near the completion points of the AB=CD and other patterns we use.

Chart #2 shows an AB=CD sell pattern but there are warning signs present and this pattern is formed coming out of a large coil.

This is a condition that the trader may want to step aside and not enter the trade or wait for confirmation such as a Japanese Candlestick signal. Please refer to Chapter 10 in *Trade What You See – How to Profit from Pattern Recognition*, by Larry Pesavento and Leslie Joufflas, Wiley & Sons, 2007 for more information and suggestions on managing trades in trends.

Chart #1



Inverted Head and Shoulder Pattern is coil formation

Chart #2



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