USER MANUAL

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1   Introduction

Welcome to the Autochartist.com help section. Please use the menu on the left to navigate to the required help area.

Technical Analysis refers to the study of financial markets based on price movements. It uses the assumption that the price of a share reflects all information about that share including market sentiment as well as its perceived value.

Charting refers to technical analysis that is performed through careful inspection of share price data for identification of well known patterns that emerge in share prices; for example, head-and-shoulders, channels, triangles and wedges.

Chart patterns are well documented in technical analysis literature and are based on psychological phenomena that occur between the buyers and sellers of financial instruments in liquid markets.

Pattern formations do not form a trading system, but rather provide an indication of the future trend of a share as the price breaks key psychological barriers in the form of support and resistance lines.

2 Pattern Types

There are numerous types of patterns, all named according to the shapes that the price graphs form between the support and resistance lines. The general types of patterns include Triangles, Channels, Wedges, and Head-and-Shoulders.

2.1 Triangles

Symetrical Triangles   Ascending Triangles   Descending Triangles
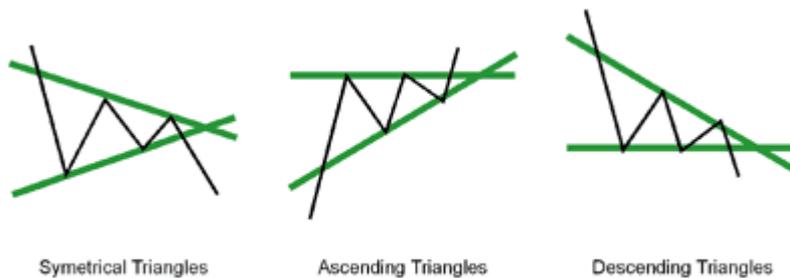
A triangle is formed between converging support and resistance lines. A negative sloping resistance line indicates a reducing level of profit taking or more uncertainty about the value of the stock. With a positive sloping support line the price levels are squeezed into a corner. Once the support or resistance line is broken, pressure that has built up as a result of uncertainty is released and a certain amount of momentum is added to the price change in the direction of the breakout.

There are specific variations of triangles that can occur, namely ascending and descending triangles. An ascending triangle has a horizontal resistance line and a descending triangle has a horizontal support line.

Ascending Triangle

Descending Triangle

An ascending triangle usually occurs as a continuation of a bullish trend, while a descending triangle usually occurs as a continuation of a bearish trend.

2.2 Channels and Rectangles
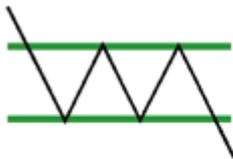
Rectangles
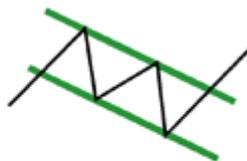
Channels

A channel is formed between parallel support and resistance lines. This pattern usually indicates a relatively strong trend (up or down) with the price staying within the lines until breakout. A breakout from a channel indicates either a reversal in the trend or a change in the slope of the current trend.

Channel Up

Channel Down

Similar to a channel, a rectangle is a pattern formed between horizontal support and resistance lines.

Rectangle

Rectangles and Channels are sometimes referred to as Flags and Pennants depending on the slope of the initial trend and the slope of the breakout. A Flag would be defined as a Bullish Continuation Channel Down, or a Bearish Continuation Channel Up. A Pennant would be defined as a Bullish Continuation Triangle, or a Bearish Continuation Triangle.

2.3 Wedges

Wedge Continuation   Wedge Reversal
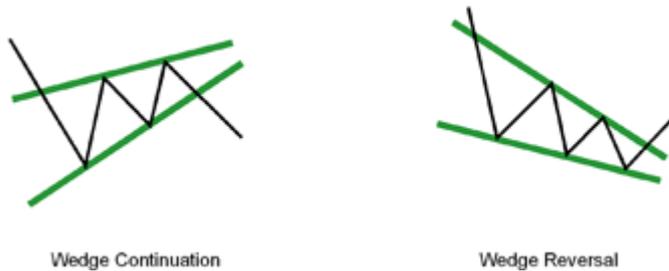
Wedges are similar to triangles in that these patterns are formed between converging support and resistance lines. However, where the support and resistance lines in a triangle have one positive and one negative slope, the support and resistance lines of a wedge would both have either a positive or negative slope. Wedges with positive slopes are called Rising Wedges and ones with negative slopes are Falling Wedges.

The most common wedges are found as breakouts in the opposite direction of the wedge. That is, bearish breakouts in a rising wedge, and bullish breakouts in a falling wedge.

2.4 Head and Shoulders

Head and Shoulders   Inverse Head and Shoulders

A Head and Shoulders pattern describes a share price movement that depicts the head and shoulders of a person. Head and Shoulders is a reversal pattern from a bullish trend to a bearish trend. The pattern starts when the price graph crosses the support line upwards before formation of the left shoulder, and is completed once the graph crosses the support line downwards after formation of the right shoulder.

An Inverse Head and Shoulders is similar in shape except that it is upside down and indicates reversal from bearish to bullish trend.

2.5 Double Top & Double Bottom
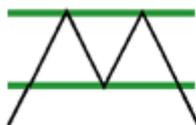
Double Top   Double Bottom

Double Top and Double Bottom are reversal patterns that touch either the support or resistance lines twice before reversing their trend. Look for a strong initial trend and a significant breakout in order to confirm the reversal.

2.6 Triple Top & Triple Bottom
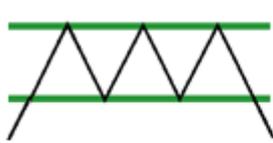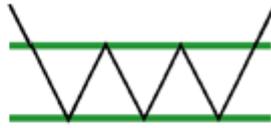
Triple Top   Triple Bottom

Triple Top and Triple Bottom are reversal patterns that touch either the support or resistance lines three times before reversing their trend. This is a stronger indicator of a trend change than a Double Top or Double Bottom. Look for a strong initial trend and a significant breakout in order to confirm the reversal.

3 Trends and breakout

An important measure of the quality of a pattern is the trend that precedes it. It does not matter whether the trend is bullish or bearish, but the consistency and duration of the initial trend partly determines the well-formedness of the pattern.

Strong initial trend   Weak initial trend
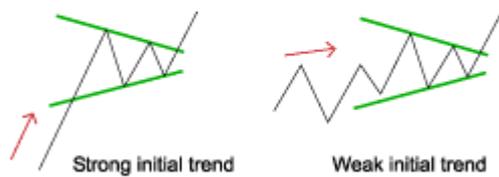
The pattern is said to have "broken out" once it has crossed either the support or resistance line. If the pattern broke out in the same direction as the preceding trend, it is called a continuation pattern. If breakout is in the opposite direction, it is called a reversal pattern.

Strong breakout   Weak breakout
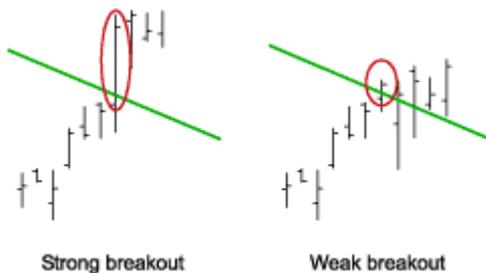
For example, a pattern described as Bullish Reversal Triangle would mean that it is a bullish signal, that is, the breakout was through the resistance line, upward. Because it is a reversal pattern that means the preceding trend was in the opposite direction as the breakout, that is, the preceding trend was bearish.

4 Searching for patterns

In order to search for new patterns, click on the New toolbar button . This will bring up a search dialog in which you can specify your search criteria.

You can search for patterns on a specific exchange, specific symbols or on a predefined category of instruments. There Autochartist service will return a maximum of 100 results independent of the period that is specified.

4.1 Search by Category

A Category of symbols is merely a predefined logical group of symbols. For example, a category called Forex Intraday would contain all pattern occurrences on the Forex market that had been identified on intra-day time data interval.

To search for patterns by category, select the Search by Category radio button and select the group you want to search in the drop-down menu.

4.2 Search by Exchange

To search for patterns on an exchange, select the Search by Exchange radio button and select the exchange on which you want to search. Furthermore, it is necessary to select the time interval on which you want to search for patterns. For example, selecting NYSE, 30min, will search for pattern occurrences on shares listed on the New York Stock Exchange using 30 minute intra-day data.

4.3 Search By Symbol

To search for signals on a specific symbol, select the Search by Symbol radio button and enter the details of the symbol you want to look for. Autochartist does not verify the validity of the symbols entered - if an incorrect symbol is entered then no patterns will be returned.

4.4 Advanced Criteria

Once you have entered which symbols, exchanges or groups to search, you can adjust the more advanced search criteria by switching between different tabs on the search window.

4.5 Pattern Characteristics

On the pattern characteristics page you can select the direction of the signals you want (bullish / bearish / both), the trend change of the signals (continuation / reversal / both), the length of the pattern in bars, as well as how far back you want to search the history of pattern.

4.6 Pattern Quality

Autochartist provides quality indicators for all patterns that have been identified. The search facility allows one to specify the minimum quality of the patterns that are displayed.

One is tempted to set all the quality indicators to maximum values, but this results in very few opportunities - it is very rare to find "perfect" patterns. With time you will start to get a feel for the importance of the different quality indicators and how they interact with your existing trading strategy.

4.7 Patterns

One may select the patterns by which one wants to search by editing the list of patterns found under the Patterns tab in the search screen. Unselect the patterns that you do not wish to search for.

5 Results

The results are split into two main sections; complete patterns and emerging patterns.

- Complete patterns list the pattern occurrences that have broken through either the support or resistance lines.
- Emerging patterns list the patterns that have not yet broken through, giving you an opportunity to be pro-active in opening a position on the market.

The following is an explanation of each of the columns in the results:

- Exchange – Name of the stock exchange on which the share can be found. If all patterns in your search were identified on the same exchange, this column will be hidden.
- Symbol – Ticker of the symbol on which the pattern was found
- Interval – Time interval of the data on which the pattern was identified. If all patterns in your search were identified on the same interval, this column will be hidden.
- Pattern Name – Name of the identified pattern. For a description of the different types of patterns see Pattern Types.
- Direction – Direction in which the breakout occurred. A ⬆arrow means the price broke through the resistance line. A ⬇arrow means the price broke through the support line. In the case of emerging patterns, blank arrows (⇧ and ⇩) are used to indicate the anticipated breakout direction.
- Time – Time at which the pattern broke through either the support or resistance line.
- Trend – Whether this pattern is a continuation or reversal pattern.
- Length – Length of the pattern in bars. For example: a pattern of length 30 found on 60 minute data would mean that the pattern was formed over 30 hours.
- Quality – The overall quality of the pattern - this is the average of all the other quality indicators.
- Initial Trend – Quality of the trend preceding the pattern formation. A longer, more steady initial trend is an important component of a high quality pattern.
- Uniformity – Indicates how uniformly spaced the price turning points are that touch the support or resistance lines.
- Clarity – How clear the pattern is, that is, the lack of random price movements during the formation of the pattern.
- Breakout – The decisiveness with which the price broke through the support or resistance line. This quality measure is irrelevant for emerging patterns.
- Volume – The relative amount of increase in the trading volume at time of breakout through the support or resistance line. This quality measure is irrelevant for emerging patterns.

6 Updating results

Results are updated automatically by the application. When new results come in, a notification will appear in the bottom left of the screen informing you of this and providing a clickable link to the appropriate page on the Autochartist application.

New items in the list of results are identified by the yellow bar in the first column of the results.

If you wish to update the results manually, click on the button in the toolbar.

7 Viewing result images

Double click a result to view its graph – the image opens in a separate window providing more details about the result. The grey block on the image represents the predicted region that the price could reach. The predicted region is not displayed for emerging patterns.

It is important to remember that although the emerging patterns are cached in the Emerging Pattern section of the results, the results displayed may not exist any more if the price graph changed in such a way as to change the shape of an emerging pattern. You will be notified of this situation when you double click an old emerging pattern in order to view its graph.

8   Deleting a search

To delete a search screen click on the Delete toolbar button ✗. This will remove the current search off the screen.

The application must have at least one active search screen, so if you want to deactivate Autochartist completely, simply logoff by clicking the Logoff option on the File menu.

9 Application settings

There are configuration settings that can be set on the application. Click on the Options Setting menu item to bring up a settings window.

- Use separate window for each image – select this option if you want every image that you double-click to open in a separate window.
- Complete Pattern Notifications – Settings for when a complete pattern has been found:
  - o 1. Play Sound – select this option if you want the application to play an audible sound when a complete pattern is found.
  - o 2. Show Window – select this option if you want the application to display a popup window when a complete pattern is found.
- Emerging Pattern Notifications – Settings for when an emerging pattern has been found:
  - o 1. Play Sound – select this option if you want the application to play an audible sound when an emerging pattern is found.
  - o 2. Show Window – select this option if you want the application to display a popup window when am emerging pattern is found.
- Notification Window Display – Sets the duration the notification popup window is displayed when a new chart pattern is identified.
- Connect automatically – select this option if you want the application to automatically connect to the Autochartist service when it is started.
- Connection Timeout – set the timeout that the application will use when connecting to the Autochartist service. For dialup users this should be set high.
- Data Timeout – set the timeout that the application will use when downloading information from the Autochartist service. For dialup users this should be set high.
- Proxy Settings – If you make use of a proxy server, set the proxy connection options in the Proxy section of the settings window. Please ask your network administrator for help with these settings.