

How to read a stock chart

UD Osher – OLLI

Fall 2026

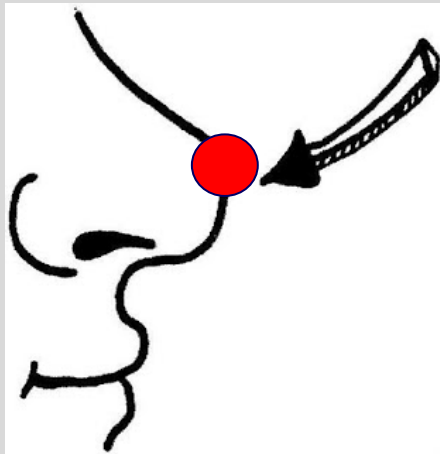
Class 5

□ Rajeev A. Vaidya

□ Rachel Mroz

Disclaimer in plain language

Disclaimer – in plain language:



Opinions are like noses, everyone has one !

You are going to see Rachel's and mine in this course !!

We are simply sharing our perspective.

This is not investment advice or recommendation.

Rachel and I are not a financial advisors.

This course is for educational purposes only.

Form your own opinion, make your own investment decisions.

Summary of what you saw

Trends, Support and Resistance

Moving averages

- smooth out price action

- always lag price action

- support lines trend indicators

Moving averages envelopes – Bollinger Bands

Two common indicators

- MACD
- RSI

Signal versus noise

- By now we have covered several signal ideas
 - Moving average crossovers
 - M tops and W bottoms on Bollinger bands
 - RSI signals
 - MACD signals
- The signal is likely to be more real if:
 - Several of these happen in a short time period (less than a week)
 - Volume is confirming the signals

This week's Class

Chart Patterns

- Trend Continuation
- Trend Reversal
- Chapter 5 in our class textbook
 - Charting Made Simple – John J. Murphy

Last Class

- Next Steps in the journey
- Course Evaluation

Chart Patterns

- Price patterns that lead to subsequent price action with higher probability than random chance.
 - Have been proposed over 75+ years .. refined over time
 - Not perfect predictors ... probability is > 50% but never 100%
 - Not a perfect science ... subjective interpretation.

- Chart patterns
 - Occur over a longer time frame than candlestick patterns
 - Like candlestick patterns, the prior trend is part of the pattern setup

- Simplest chart patterns
 - Support and Resistance levels
 - Trend lines

- Many other patterns are graphic shapes made up of specific combinations of the simple patterns.

Chart Patterns

- Broadly divided into two groups:
 - Patterns that signal continuation of the prevailing trend
 - Patterns that signal reversal of the prevailing trend
- The presence of a prevailing trend is key .. No patterns in trendless markets
- The shape of the pattern is often flipped with the direction of the prevailing trend.
- A known patterns suggests a potential future price action
 - Prediction is stronger is supported by volume and other indicators
- Very few computerized / automated processes to identify patterns
 - Stockcharts does not have predefined scans for chart patterns
 - An area for continued proprietary systems (the “quants” in any trading house)

What do you see?



Pattern recognition is subjective

There is a pre-disposed bias:

- I am looking to buy
- I am looking to sell

That's what creates a market

Volume conformation

Price conformation

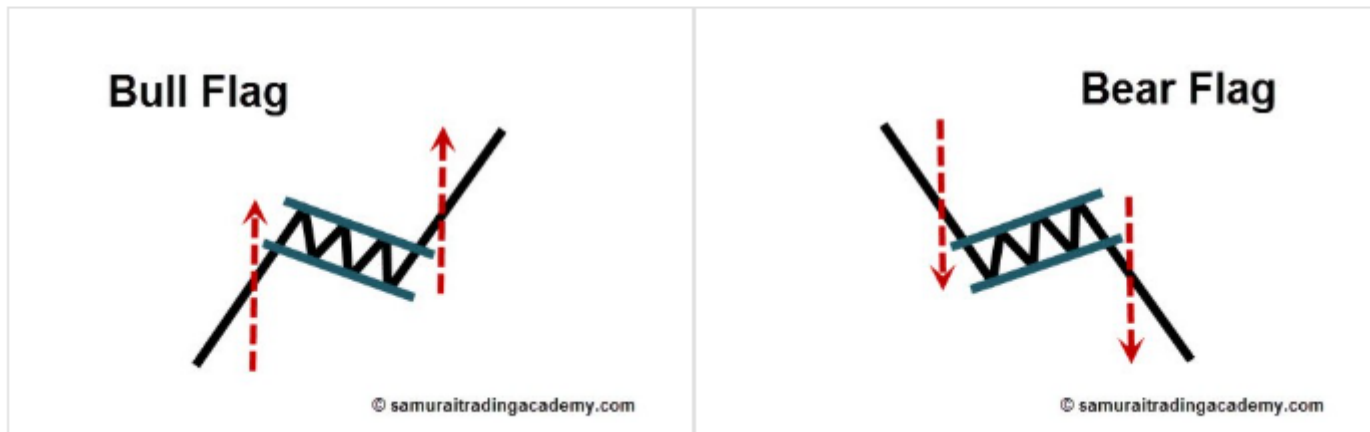
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Continuation - Flags

7A. Bull Flag Pattern (67.13% Success)

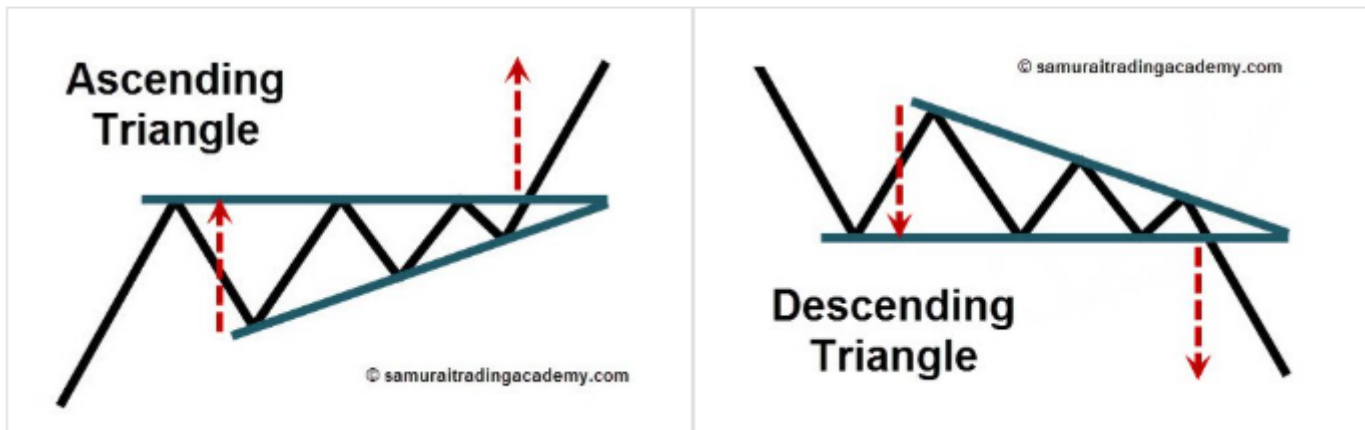
7B. Bear Flag Pattern (67.72% Success)



Continuation - Triangles

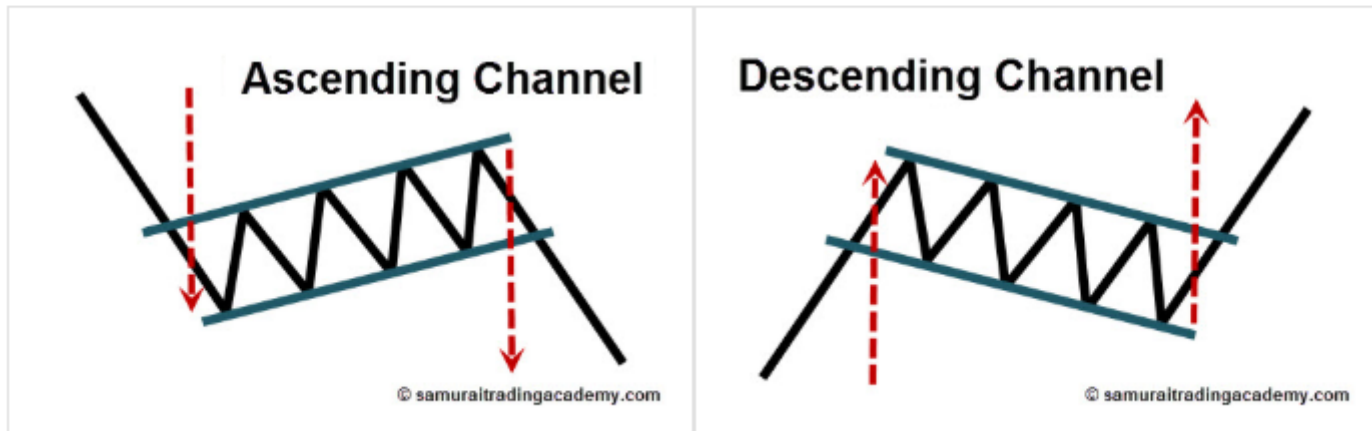
6A. Ascending Triangle Pattern (72.77%)

6B. Descending Triangle Pattern (72.93%)



Continuation - Channels

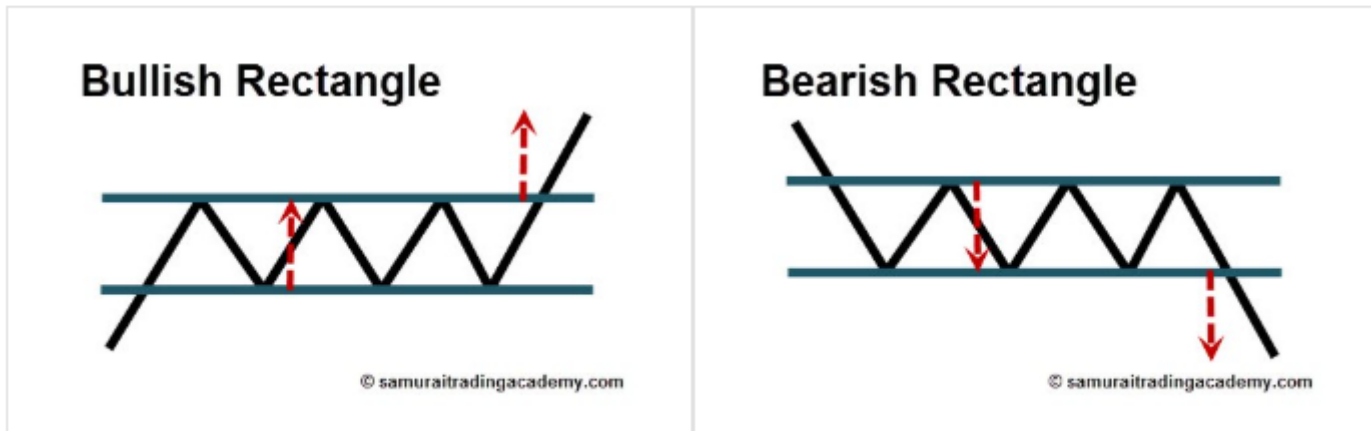
- 5A. Ascending Channel Pattern (73.03%)
5B. Descending Channel Pattern (72.88%)



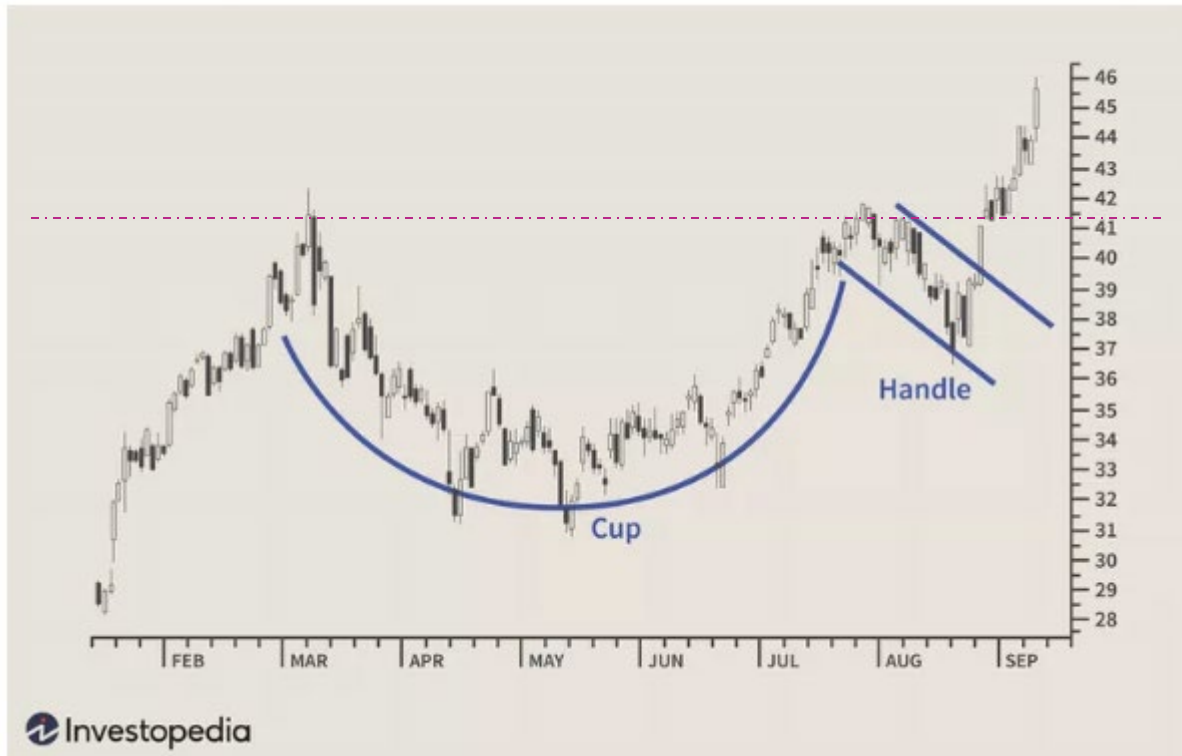
Continuation - Rectangles

2A. Bullish Rectangle Pattern (78.23%)

2B. Bearish Rectangle Pattern (79.51%)



Continuation – Cup and Handle



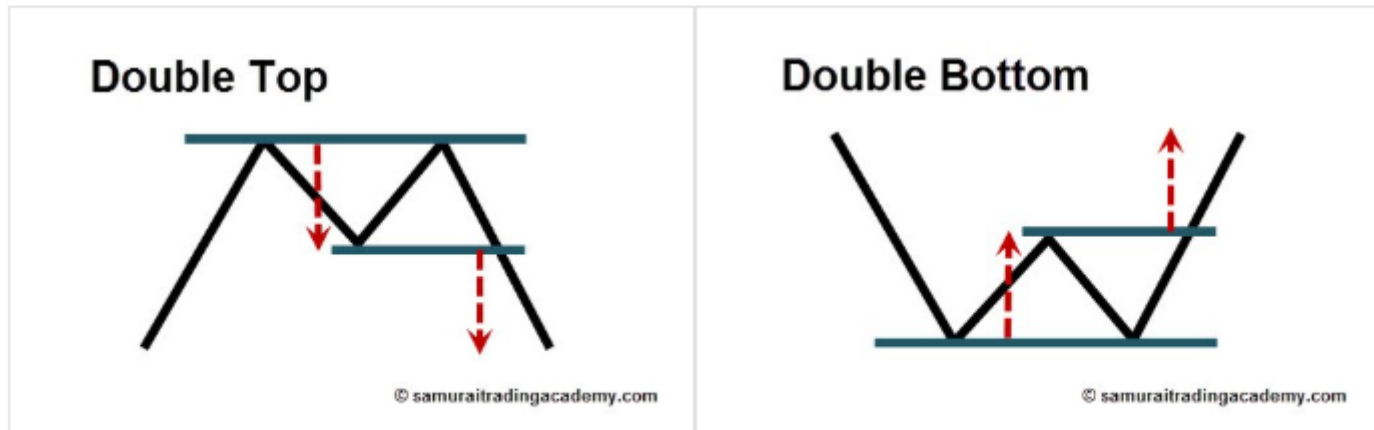
Cup and Handle

- Used widely in IBD charts
 - Anil Parikh's Class
- Bullish Continuation Pattern
 - StockCharts – ChartSchool
https://school.stockcharts.com/doku.php?id=chart_analysis:chart_patterns:cup_with_handle_continuation
 - Investopedia
<https://www.investopedia.com/terms/c/cupandhandle.asp>
<https://www.investopedia.com/articles/active-trading/032415/new-ways-trade-cup-handle-pattern.asp>
- Two rounding bottoms in an uptrend
 - First larger one – Cup
 - Second smaller one handle
 - Both top at same resistance
 - Second results in a breakout over resistance and the trend continues
 - Depth of the cup is the quantified upward move over breakout

Reversal – Double tops

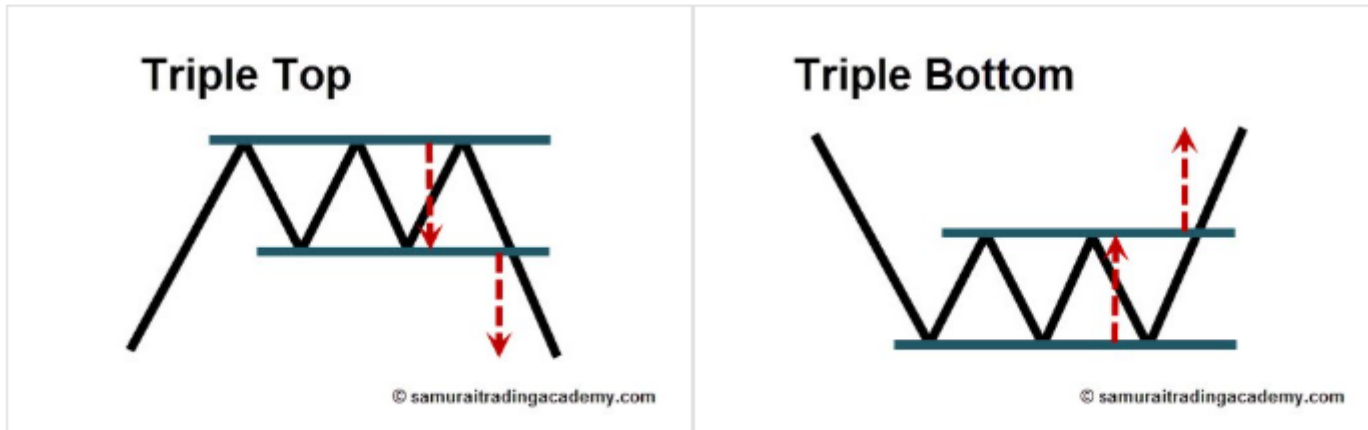
4A. Double Top Pattern (75.01%)

4B. Double Bottom Pattern (78.55%)



Reversal – Triple tops

3A. Triple Top Pattern (77.59%)
3B. Triple Bottom Pattern (79.33%)

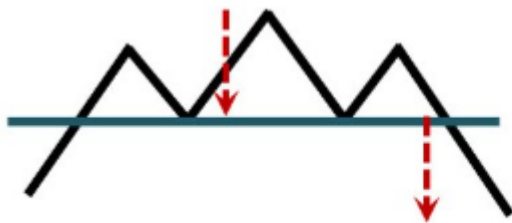


Reversal – Head and Shoulders

1A. Head and Shoulders Pattern (83.04%)

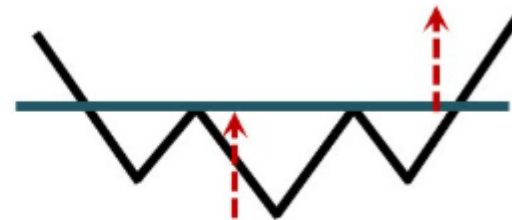
1B. Inverted Head and Shoulders Pattern (83.44%)

Head and Shoulders



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Inverted Head and Shoulders

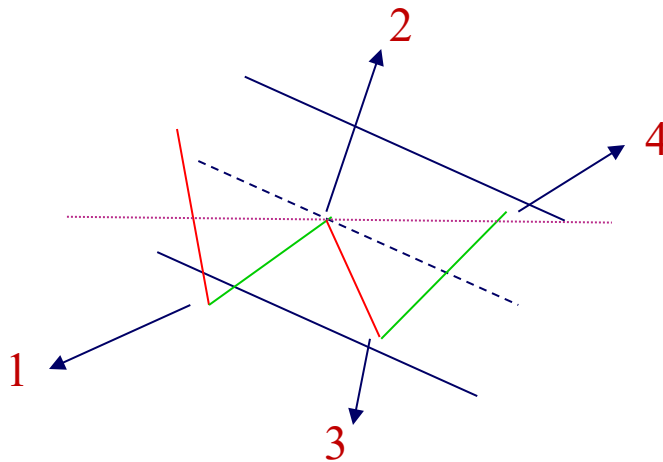


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Bollinger Band trading signals

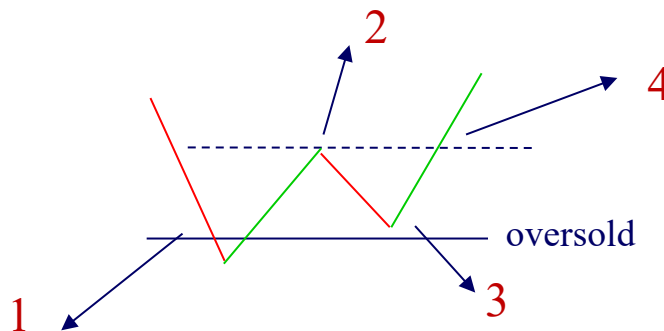
□ W bottoms – potential start of a new uptrend

1. Price falls below the lower band.
2. Then recovers to the middle average
3. Then falls back down to a lower low that **does not** touch the lower band
4. Then rises and breaks out of the resistance of the middle bands and prior peaks in the down trend.



RSI Signals – Momentum exhaustion

- Failure swings (reversals) in a downtrend
 - Bullish - Similar to a W bottom on a Bollinger band.
 - The oversold line is the boundary

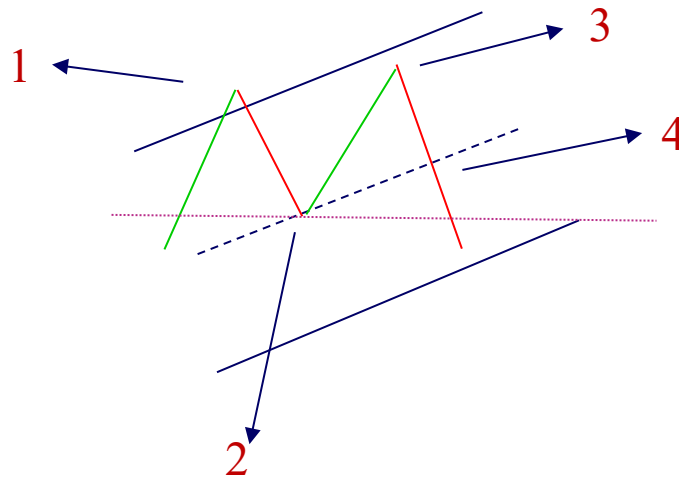


- Upward skewed W bottoms – on RSI independent of price.
 1. RSI falls below 30
 2. Then recovers above 30
 3. Then falls back down but **does not** fall below 30 (this is a less important condition)
 4. Then rises and breaks out of the resistance of the prior peak.

Bollinger Band trading signals

□ M tops – potential start of a new downtrend

1. Price rises above the upper band.
2. Then drops to the middle average
3. Then rises up again towards the upper band but **does not** touch the upper band
4. Then falls and breaks out of the support of the middle band and prior low in the uptrend.

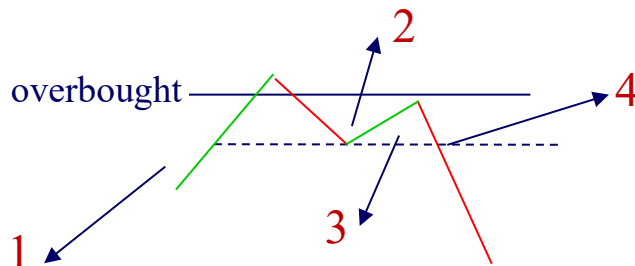


RSI Signals – Momentum Exhaustion

□ Failure swings in an uptrend

□ Bearish - Similar to a M top on a Bollinger band.

□ The overbought line is the boundary



□ Downward skewed M tops – on RSI independent of price.

1. RSI rises above 70
2. Then falls below 70
3. Then rises again but **does not** rise above 70 (less important condition)
4. Then falls and breaks below the support of the prior low.

Useful references for patterns

These have good links to look at Head and Shoulders patterns

- Stockcharts – introduction to patterns
 - https://school.stockcharts.com/doku.php?id=chart_analysis:introduction_to_chart_patterns
- Stockcharts – summary of various patterns
 - https://school.stockcharts.com/doku.php?id=chart_analysis:chart_patterns
- Investopedia – introduction to patterns
 - <https://www.investopedia.com/articles/technical/112601.asp>
- Samurai Trading Academy – probability of patterns working
 - <https://samuraitradingacademy.com/7-best-price-action-patterns/>
- Books
 - Technical Analysis of the Financial Markets – John J Murphy
 - Technical Analysis of Stock trends – Edwards and Magee

Probability of Success

#	Pattern	Prob. in uptrend	Prob.in down trend	Names
1	Head and Shoulders	83.44%	83.04%	Up – Inverted H&S Down – H&S
2	Rectangle	78.23%	79.51%	
3A	Triple Top		77.59%	
3B	Triple Bottom	79.33%		
4A	Double Top		75.01%	
4B	Double Bottom	78.55%		
5	Channel	73.03%	72.88	Up – Ascending Down – Descending
6	Tringle	72.77%	72.93%	Up – Ascending Down – Descending
7	Flag	67.13%	67.72%	Up - Bull Down - Bear

Let's ride the bicycle

Useful references:

- Stockcharts – Chartschool
https://school.stockcharts.com/doku.php?id=technical_indicators:moving_averages
- Investopedia
<https://www.investopedia.com/terms/m/movingaverage.asp>

Links to more details topics are in the segment the above link points to

Go live in Stockcharts.com and explore

1. Basics of Stockcharts setup
2. what we just learned

Course Content

- This was difficult to do in 5 classes
 - I have done it over 13 and 26 weeks before.
 - Hope we did justice to the content

Goal – Learnings from the class have a positive impact on your investing as a retiree.

Last Class

- Your feedback
 - Feedback survey on Zoom
 - Part 1 – Standard OLLI questions
 - Part 2 – Did we create value for you as an investor?
 - Feedback – send an Email to Rachel or myself
- Class website will close in 2 weeks.

Reference Material

- **Stockcharts.com** – Chart School
- **Investopedia** - <https://www.investopedia.com/ask/answers/05/logvslinear.asp>
- **Books**
 - Technical Analysis of the Financial Markets – **John J Murphy**
 - Introduction to Technical Analysis – Martin Pring
 - Technical Analysis from A to Z – Steven Achelis

 - Technical Analysis Demystified – Constance Brown
 - Stock charts for Dummies – **Greg Schnell** – Lita Epstein
 - Technical Analysis for Dummies – Barbara Rockefeller
- You do not need to buy these books for this class. They will be great additions if you want to learn more afterwards.

Thanks !!

- Happy Investing !!

- **My EMail**

 - diyinvst@udel.edu

- **Class website**

 - <http://udel.edu/~diyinvst>