



Brainy's Articles on Technical Analysis

Megaphone chart pattern

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Introduction

In the world of technical analysis, if we consider what some people refer to as “primary analysis” where we only look at the plain price chart, then chart patterns can actually tell us a lot about the price action. In some respects their usefulness is under-rated. Many professional traders rely heavily on various chart patterns.

In this article in Brainy's series on Technical Analysis, number **TA-3600**, “**Megaphone chart pattern**”, we take a look at just one of the many different chart patterns that can be observed in the charts of stocks or the index. Readers should also see other chart pattern Articles in this series, including: **TA-3410**, “**Chart patterns — introduction**”, and **TA-3500**, “**Chart patterns — triangles**”.

Chart patterns

A basic principle of technical analysis is that security prices move in trends. We also know that trends do not last forever. They eventually change direction, and they typically decelerate, pause, and then reverse. These phases occur as investors form new expectations and by doing so, shift the security's supply/demand lines.

The changing of expectations often causes price patterns to emerge. Although no two markets or stocks are identical, their price patterns are often very similar. Predictable price behaviour often follows these price patterns. It should also be said that some accepted chart patterns are easy to see on a price chart, but sometimes they are difficult for some people to see without a little imagination. And sometimes we stretch the definitions a little to make a pattern appear to be a chart pattern that perhaps it really isn't.

Just one of the recognised chart patterns is known as the *megaphone*, or *broadening wedge* pattern as shown in Figure 1 below. More information about this pattern, with some further samples and interpretation, is included on the following pages. There is also some comment about how this affects the average investors and traders.



Figure 1: Megaphone pattern on the XJO index Sept 2010 to May 2011.

(More details on following pages .../)

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