

CUP & HANDLE:



A cup and handle pattern has the shape of a cup and profile, with the handle always on the right side (regardless whether it's a regular or inverse cup and handle pattern). It is formed by: (a) a gradual counter-trend move (the beginning of which is the first point of the neckline), (b) a return to the neckline, (c) another counter-trend move which is always smaller in magnitude, and finally (d) another retest and break of the neckline.

The breakout past the neckline is usually powerful as it triggers stops of traders who had built counter-trend positions anticipating a possible reversal. When trading a cup and handle pattern the entry is just beyond the neckline and the measured target is equal to the distance from the extreme of the cup (NOT the handle) counter-trend move to the neckline.