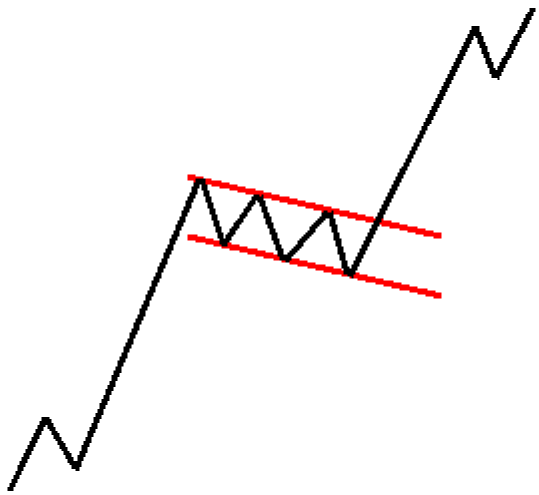
The “Flag” is a continuation chart pattern, and is considered as one of the most powerful and consistently reliable patterns. It is a continuation pattern that represents a brief pause within an already existing trend, and typically occurs in the middle of a large rally.



This is the general appearance of the pattern.

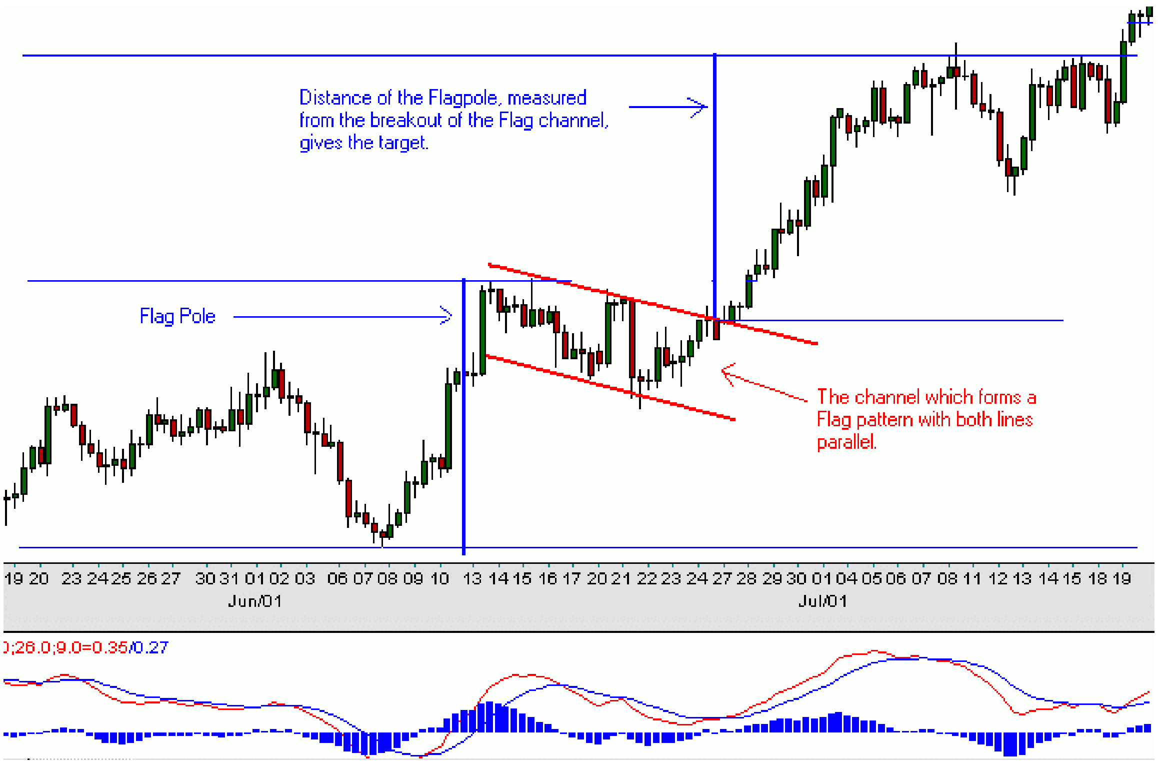
Chart patterns are an important aid in technical analysis, but only when they give high probability outcomes. Hence the key feature of any chart pattern should be reliability.
The Flag pattern, by the very nature of its formation, can be classified as one pattern that is highly reliable.
We can see why, as we understand the unfolding of the pattern –

The first part of the formation is the “Flagpole.” It is the key characteristic of this formation and it forms initially by a strong and continuous price action in one direction. There are no significant retracements during this time, thus giving the appearance of a straight “Flagpole”
The Flag pattern forms at the end of the Flagpole, when the initial demand slows down. Price moves gradually in a steady trading band. This band is usually a channel with parallel sides.
Once the initial trend line has formed along a minimum of 2 touches, we plot a parallel line on the opposite high/ low in the emerging pattern, thus giving us the Flag pattern.
On confirmation of the pattern, we should enter a trade when prices break out of the band/channel, in the direction of the previous trend.
The ideal place for a stop would be just above/below the band line, thus giving the price enough room to move within the bounds of the pattern. We do not want to be stopped out before the pattern develops fully.

The pattern would stand negated if the price consolidates within the channel for a considerable amount of time.
Since this pattern forms during a fast moving market, it should prove itself with renewed momentum in a short period of time. We can say that it is a pause pattern, which is formed when the market is re-developing strength.
Once in a trade, this pattern gives us an exact target.

Sunil Mangwani
www.fibforex123.com

To calculate the potential target (for a bullish pattern) –
We first measure the height of the flagpole.
This distance is then projected upwards, from the point where price breaks out of the flag / channel. This gives the minimum target, which in most cases is exceeded.
When the breakout occurs, price moves with a lot of momentum and approaches the projected target rapidly.



In this chart example, we have marked the initial Flagpole in blue where price rallies strongly without any major retracements.
After forming a top, the price starts moving down gradually in a channel, forming the flag pattern.
Once we have this formation, and price starts to rise to the upper trend line, we should start preparing for the trade.
We enter the trade on the breakout of the channel, and place our stops beneath the lowest low of the channel.
We then calculate our target, by the length of the Flagpole added to the breakout point of the channel.
As we can see, price rallies again with a lot of momentum, and reaches the calculated target.

Below is a chart example of a bearish Flag pattern.

In this chart, we can see a perfect bearish flag pattern which gives the expected target quite accurately.
By following the same concepts, the initial identification is the Flagpole where prices drop sharply without any major retracements.
After forming a temporary bottom, prices start to retrace up in a gradual manner.
Once this retracement forms an up channel with the two lines being exactly parallel, we have the flag formation, and the confirmation of the overall bearish Flag pattern.

Again, this pattern should prove itself, and the two points which would negate the pattern would be –
If prices break the upper channel line, or if prices consolidate within the channel for a long time.

We should place our sell order just below the lower channel line in anticipation of the prices continuing the trend with renewed momentum.
We place our stop above the upper channel line, and calculate the target by measuring the distance of the initial flagpole.
As we can see, the prices hit the target quite accurately.

Thus this pattern offers a reliable, high-probability trade with good returns and easy trade management.

Sunil Mangwani
www.fibforex123.com

Measured moves.

Price always moves in measured channels and the "Andrews Pitchfork" becomes a very effective tool to determine the extent of the expected move.
We will use this concept to confirm the price objectives of the Flag pattern.

The Andrew's Pitchfork is basically a trend line system used to calculate the price targets in a trend.
In an existing trend, price will typically make it to the "Middle Median Line" (MML) 80% of the time.
Looking at this chart example, we have initially plotted an APF on an existing uptrend. And as we can see price makes it to the MML of this APF.

Let us use this concept on this bearish Flag pattern.
In the following bearish Flag pattern, the price targets were achieved precisely.

If we use the concept of the APF, that price moves in measured channels. It becomes an additional confirmation of the expected price movement.
And as we can see that price respected the confluence of the both the expected objectives.

I hope this presentation helps you achieve an edge in the markets.

Please feel free to get back with any questions or suggestions.

Thank you.

Sunil Mangwani

www.fibforex123.com

Email: shellcon@eth.net
sunil@fibforex123.com