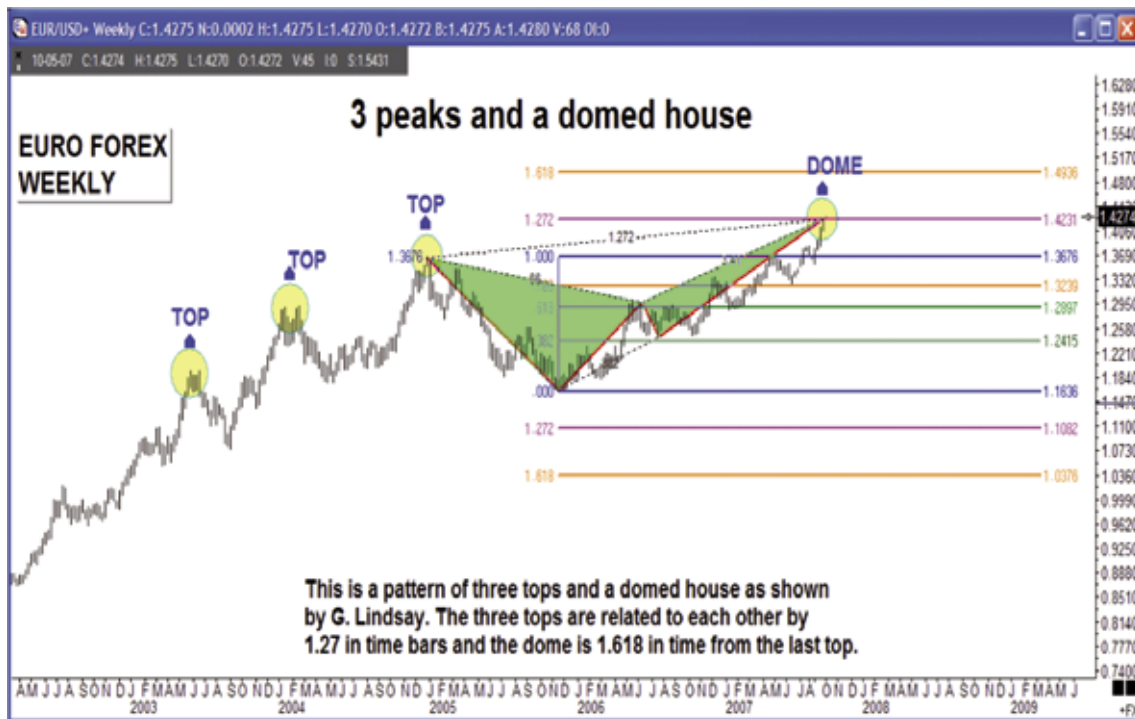




LARRY PESAVENTO

# 3 Peaks and a Domed House

**Larry Pesavento describes a chart pattern introduced by George Lindsay in the 1950s called '3 Peaks and a Domed House.'**



Euro/US Dollar

When the editor of *Traders Journal* approached me about writing an article for this supplemental issue, I was both excited and honored. In 2003, he asked me to write an article when the Nikkei Dow was trading at 7,000. At that time, it was a universal conclusion that the Japanese stock market was going lower. Literally, no one was bullish at that time.

What you are going to read in this article is a reference to a trading approach known as pattern recognition, which is a type of technical analysis. Pattern recognition has recently become quite popular on Wall Street. The reason for this popularity comes from the work done at the Massachusetts Institute of Technology (MIT). Dr. Andrew Lo, the chairman of the Applied Mathematics Department, did a 36-year study of the stock market and came to the following conclusion.

Although there was chaos present in the market, non-random patterns were also present that repeated and were predictable. He made 800,000 observations using the traditional technical patterns that we are all familiar with. The formations included double tops, double bottoms, head and shoulders, pennants, flags among others. Dr. Lo published a book entitled *The Non-Random Walk Down Wall Street*.

One of the reasons that you are seeing more charts in the financial press is a result of this research and this book. It seems that once academia gives it's blessing to a financial concept, the popularity of the concept is increased dramatically.

The pattern that we are going to feature in this article is known as '3 Peaks and a Domed House.' This pattern was first introduced in the 1950s by a flamboyant Wall Street technician known as George Lindsay. Lindsay defied all of Wall Street protocol in

both his lifestyle and his manner of dress. However, the man knew technical analysis.

Enclosed is the weekly chart of the Euro/US Dollar Forex market. As you can see from the chart, there are 3 distinct tops or peaks followed later by a dome, which is actually a fourth top. 1.27 in time bars relates the 3 tops to each other and the dome is 1.618 in time bars from the last top from December of 2005. The significance of 1.27 in the Fibonacci summation series is the fact that it is the square root of 1.618, which makes it a very important ratio to consider. As you can see from the chart enclosed in this article, the green shaded area describes a pattern referred to as the Butterfly pattern. The Butterfly pattern is nothing more than two triangles extending to the 1.27 or 1.618 ratios.

Pattern recognition is different from most technical indicators because it is a leading indicator rather than a lagging indicator. By this, we are not waiting for an oscillator, moving average or relative strength indicator to confirm a buy or sell signal. The goal is to sell as close as the 1.27 level as possible and place a stop order to protect capital should the trade not work.

As a final caveat, should the Euro exceed 1.4350, this pattern will probably extend to the 1.4936 level. As with trading in any speculative market, stop-loss orders should always be used and adequate money management techniques must be included at all times.

Larry Pesavento is a trading tutor and 40-year veteran of the markets. During his career, he has been a member of the Chicago Mercantile Exchange, supervised Drexel, Burnham, Lambert's commodity department in Los Angeles, traded on and off the floor and has trained over 800 traders. Larry can be reached at [larry@tradingtutor.com](mailto:larry@tradingtutor.com) or via his website [www.tradingtutor.com](http://www.tradingtutor.com).