

Double Top and Double Bottom

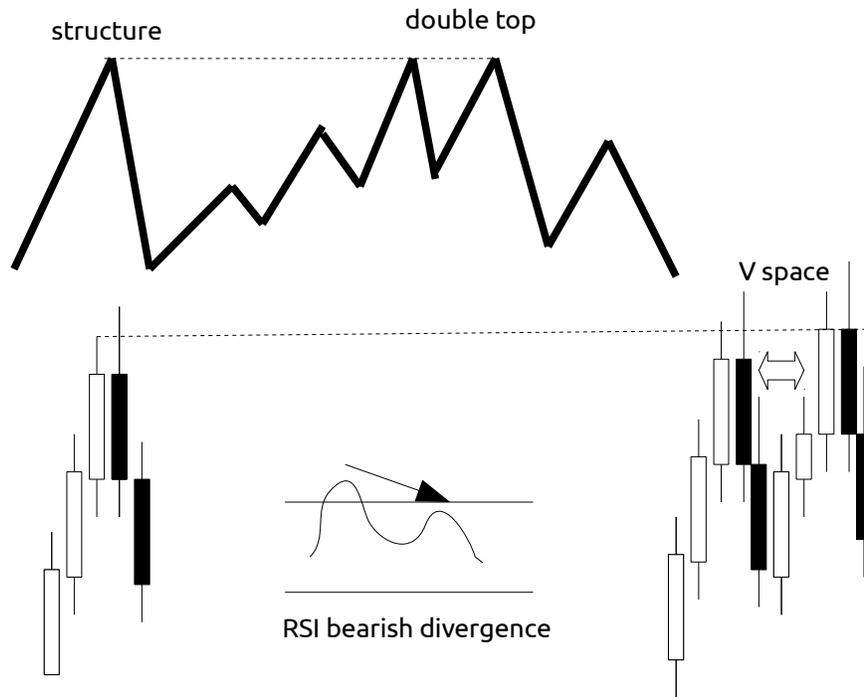
When the market moves from a trend into consolidation, double tops/bottoms tend to form, because the market loses momentum and the price fails to create new structure highs, instead it reaches the previous structure swing high, finding resistance. A double top could be the signal for a market reversal or just a larger pullback. Because this is a counter trend event, take profit levels should not be too extended (“take just a little slice of the pie, not all”). Double tops are only valid to trade directly if they form on major previous structure level (“look left, structure leaves clues”). A double top without structure left can only be traded as a 2618 setup.

Double top: a double top is valid only if it forms after a trend (white space left) and has a “V” like white space between the highs that form the double top. Further, a double top is only valid if the second bar that forms the double top, touches/meets at least the close of the first bar that forms the double top, but cannot close above first bar's high. A double top is invalidated if the price closes above first bar's high. In other words, the highest high has to meet the highest close, but cannot close above highest high. As an extra confluence, because of a counter trend setup, RSI (period 7, over bought 80, oversold 20) must show a bearish divergence.

Entry: Market entry on close of the candle that created the double top (2nd retest candle).

Stop: Highest high of the double top structure +10/20 pips depending on TF and volatility (ATR). If structure left is higher, place stop above left structure high. Move SL to B.E. once TP1 is hit.

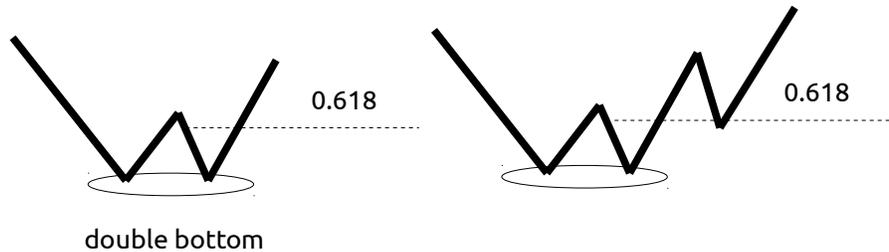
Targets: Since this is a counter trend setup, take only retrace instead of full reversal. Target 1 goes on the 0.382 fibo retracement (draw fibo from full leg where current trend started that formed the double top to highest first bar/swing high). Target 2 could be the 0.618 or 0.786 retracement. Manual trail stop like structure trading is also possible to catch a reversal.



Double bottom: same as double top but in opposite direction.

2618

This setup is a conservative entry for the double top/bottom setup. Enter the market at the 0.618 fibo retracement retest, once double bottom has been confirmed by resistance structure break and close above. Draw fibo tool from swing low (2nd retest candle) to swing high (NSL, ex. double bottom).



Entry: Limit order at the 0.618 fibo retracement. If the market makes new structure high/low during pending order, redraw fibo lines and adjust pending order. 2618 is invalidated (cancel order) if market breaks lowest/highest structure without retracing to the fibo level.

Stop: Below double bottom's/top's lowest low/highest high, see double top stop management.

Targets: Target 1 at the lowest/highest close of structure (where market congestion usually begins). TP1 is basically the point where fibo retrace tool measure starts (0 point). TP1 must give at least 1:1 r:r. Target 2 is at the 1.272 fibo projection level (draw on same leg as retrace tool) or next major structure.