Head and shoulder: a pattern, which is hard to see

It is believed that if you consider the abyss for a long time, the abyss starts to consider you. The same takes place to an investor when he/she discovers a graph for as well long, as he/she might begin to see the patterns, which the graph does not contain in all. In this situation a trader misrepresents a real image provided on the graph and makes not successful transactions.
It might appear that identifying the pattern on the graph is the simplest job. They all are described in books as well as articles; nevertheless sometimes we see just what we want to see. Among the patterns, which has perplexed a great deal of traders is the pattern "head and shoulders" as well as we will speak about in this post.

Accumulating a pattern and its operating concepts

Head and shoulders is a turnaround pattern, which assists to forecast additional price behavior. Regrettably, this pattern is formed on the graph not as often as investors expect. The fundamental principle of accumulating this pattern is the formation of 3 tops, the center one of which (head) is greater than two others. This pattern shows that both the bulls and the bears had actually continuously tried to take a lead; lastly both of them lost strength and consequently the pattern has reversed changing instructions.
The ideal shoulder of the pattern stands for the last effort to take control of, which was unsuccessful.
The problem is that several traders see this pattern on the graph when it is not there, as it is possible to outline this pattern almost on any kind of part of the graph. It happens that knowledgeable investors can filter out incorrect pictures, while the newbies take them as genuine patterns.
In the pattern "head and shoulders", the left shoulder is constantly somewhat below the best one as well as the head is higher than both of them. You can see this pattern on any timeframe, however a trader will remember that there are a lot more chances of false image on the reduced timeframes.

Entrance factor

The formation of the pattern "head and shoulders" on the chart is a signal to open a trade. There can be both guide patterns and also reverse ones; the patterns providing signals to acquire or sell.
The graph above shows a pattern providing a sell signal. In order to determine an access point an investor shall draw the line from the bottom of the left shoulder to the bottom of the appropriate one. Break down of this line is a signal to open up a trade.
Our example shows a hostile signal, as we do not know whether the formation of the pattern has completed or not, as the development of the appropriate shoulder can continue. For a conventional entry, an investor can wait till the first candle closes under the signal line. At the same time, after the conclusion of the pattern, the cost can jump, that is why if a trader awaits the conservative signal, he/she can miss part of the earnings.

Safety orders

It is recommended to place a quit loss stop order on the upper factor of the right shoulder as well as gradually transfer it to the break-even zone. For identifying a take-profit point a trader will count the number of factors from the top to the bottom of the head, from the highs to the point where the appropriate shoulder starts to develop.
This number of points is contributed to the price and also this will be the point where we place take-profit order. An investor shall bear in mind that take-profit can be moved, as well as the stop-loss as well as the entrance points need to be established with the help of various other strategies or patterns.