How to Read Stock Charts: 10 Most Essential Chart Patterns

What is a stock chart?

In layman's terms, a stock chart is a graphical representation of how the trading volumes or the stock price has changed over the course of time. This relationship can be digitally displayed in a lot of different ways with the help of charts. As a technical analysis, it is the job of the person to identify something that is right there on the screen and it just has to be identified. What it will bring out are the confirmations of a new trend in stock market.

Like all other charts, stock charts also have a horizontal and vertical axis. The vertical axis addresses the trading volume or the price of the stock for a particular period of time. The horizontal axis addresses those periods of time around which the technical chart is built. Technical analysis works around a lot of different charts. Each has its own set of complexities. However, the chart encyclopedia0 is divided into 4 different sections. Line charts, Bar charts, candlestick charts. Also, the point and figure charts. Later in this article, we. will discuss each of them extensively but for now, This is what you need to know: There are 4 main types of stock charts that the trader can or should use.

How to read stock charts?

Learning how to read stock charts can be a hard task if you think of it as “non essential”. In the end, you will see them everyday if you are in the realms of trading.

You just can’t ignore the fact that there are no cars in the world because you don’t know how to drive one. Out on the road, there is going to be a vehicle and most of them will be cars. Of course, you could use a bike but you will still have to ride your way around cars.

Similarly, a lot of traders think that reading charts is not something they have to necessarily do, which is true to a point. But it would be better if they knew how to read stock charts.

Learn how to Identify the nature of the chart:

To identify the charts, look for the ticker symbol which is an alphabetical identifier of a firm. The correct ticker symbol is the only piece of information that can take trader to the stock charts of the desired company so be attentive when you look for them. Look whether the chart is a line or a bar chart. Most of the trading platforms will give you an option to change the visual representation of the same chart.

Set a time window carefully:

- Setting up a time window is a subjective opinion. Different traders do it differently. If you want, you can do that weekly, monthly, or even a daily basis. Looking at different timelines of the same chart can help the traders gain a better view of the consolidation and trends that are short-lived.
- Daily charts can help the traders find a common breakout point that happens almost daily. Also, they can tell the traders how the index is behaving and let them calculate their earnings by keeping that index as a reference point.
- Remember and note the price on any given day and look for consolidations in the days that follow and check whether they form above or below the price.

Look for the summary:

Looking for the summary key is crucial as it provides the traders with the information in terms of numbers. Numbers, of course are easier to grasp than an alphabetical representation of something that has happened. The summary should at least have the information regarding the latest price, the trading volumes and the moving averages.

Keep an eye on the prices:

The chart is divided into two different sections the upper and the lower. These two sections guide the prices. The upper part of the chart will track the changes in the stock price The prices are generally shown in the form of different colours.

Note the volume traded:

At the bottom of the chart, you will find all the volume that is traded on the market. This helps the traders in determining when the stock is at a momentum, whether that stock is on the positive or the negative. All of these things are marked in colours and those colours are set. to specific values. There has to be a comprehensive study of the colours and also, a careful one. The volume of the stock traded and the two day difference is colour specified so there is a lot of attention that has to be paid to the colours.

Track the moving averages:

Moving average is the calculation of the average price of the stock for a period of time that gets regularly adjusted as time moves on. One of the key tools in technical analysis and charting, the Moving average generally is indicated by lines that cut across the stock charts. It can also help the traders to figure out a trend pattern but there can be some possible lags too.

How important is the volume?

Volume can be seen on every stock chart that you will ever come across. This is because the trading volume is considered one of the most crucial technical indicators by almost all the investors. In a chart, blue bars indicate the times when the buying volumes are high. The times when the selling volume is high are indicated with red bars.

The reason behind volume being one of the best technical indicators is that most of the big selling and buying in the stock market is done by the institutional investors, investment banks and fund managers. When these people or organisations sell or buy particular stocks, a high trading volume is created around those stocks. It is this kind of major selling or buying that gives the definition to a stock in profit terms.

Hence, institutional or individual investors are always on a lookout for volume figures because only they can indicate whether the stock is being heavily traded. This information can be used for prediction or also to find out the chief support and resistance levels.

as a matter of fact, a lot of individual investors will decide whether to buy or sell almost majorly based on following the steps taken by bigger investors. they will buy when there is an

indication of the institutional investors buying and sell when there are signs where there are signs that major institutions are selling.
This kind of strategy will mainly work on the blue chip stocks that are traded heavily on a daily basis. This will mostly be less effective when it is applied on smaller stocks that are not yet on the watchlist of big institutional investors. These stocks will have less trading volumes also on days when the stocks are traded heavily than usual.

What kind of patterns does the volume follow for each stock traded?

The chart patterns also follow a pattern of volume. It is a well known fact that the nature of the trading day will set the pattern of the chart. for example. On an up day, there will be a high volume of trading. This indicator is bullish that the stock price will continue to rise. These stock chart patterns are not that hard to identify and once the trader is used to looking at stock charts, he or she will also be comfortable with the patterns made with the combination of the stock price movement and the closing price.
When the day is about trading low, this will be a bullish indicator saying that the price movements indicate that there are less people interested in buying. Such events during a trading day are known as corrections or a retracement. The investors don’t pay heed to them as the beginning of new trends but rather smaller setbacks that happen during the course of a trading day.
When the stock is displaying huge volumes in terms of selling, then this is a strong bear indicator and shows that the stock’s price is down now more than ever and a lot of investors are aggressively selling.
Low trading volume on up days: This is another serious bear indicator. Although not as strong as the previous one. The lower volume of trading around. a stock despite the fact that the index is tracing an uptrend is an indication of a bigger picture bear trend.

What are some of the most important chart types?

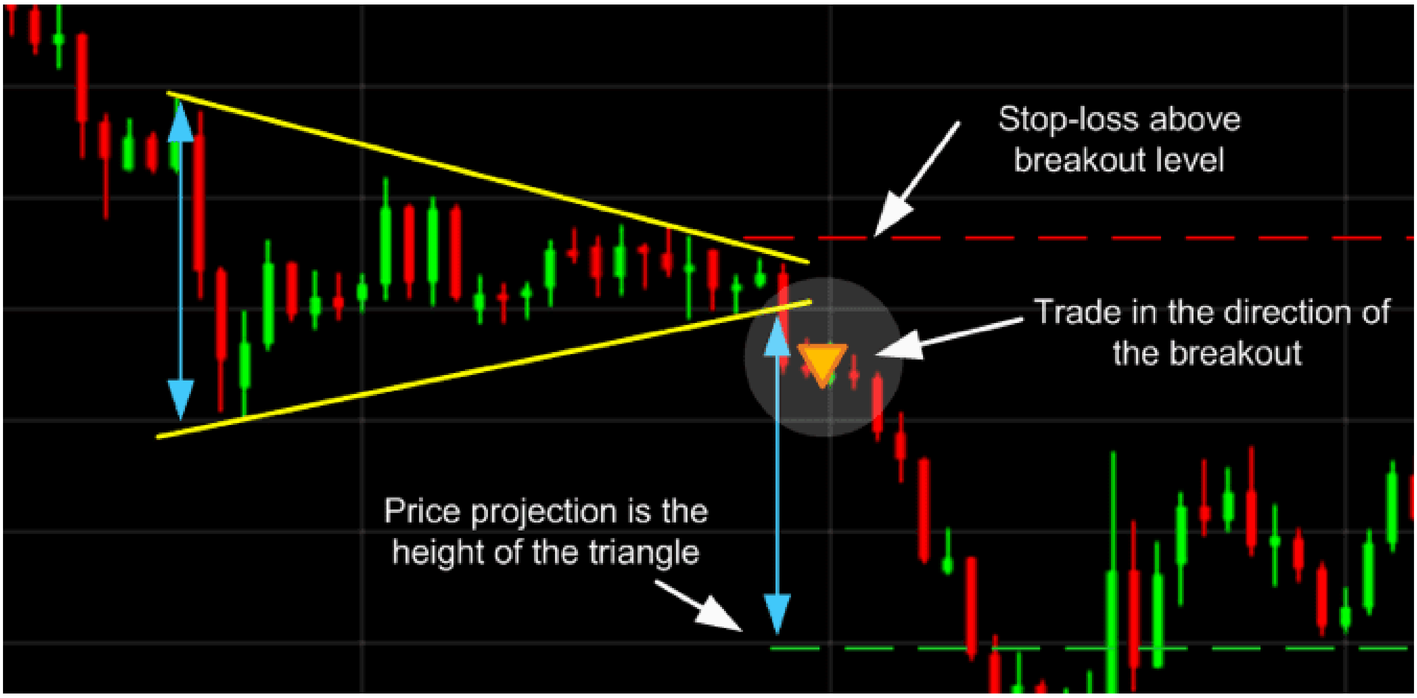
1. Ascending triangle:

This is a continuation chart pattern that reveals that the trend is bullish. The ascending triangle chart pattern suggests that a breakout is about to happen at the point where the lines of the triangle converge. To draw this pattern, the traders need to place a horizontal line over the resistance points and along the support lines, an ascending line needs to be drawn.

2. Descending triangle:

This pattern indicates that the market is [bearish](). The support line looks horizontal, the resistance line is descending. These two things possibly signify the possibility of a downward breakout.

3. Symmetrical triangle:



For symmetrical triangles to be identified, there has to be two trend lines that tend to meet which will later indicate a breakout in one of the directions. The support line is drawn with the help of an upward trend and the resistance line is drawn at par with a downward trend. There is a possibility that the breakout happens in any one of these directions but generally, it follows the trivia of the market.

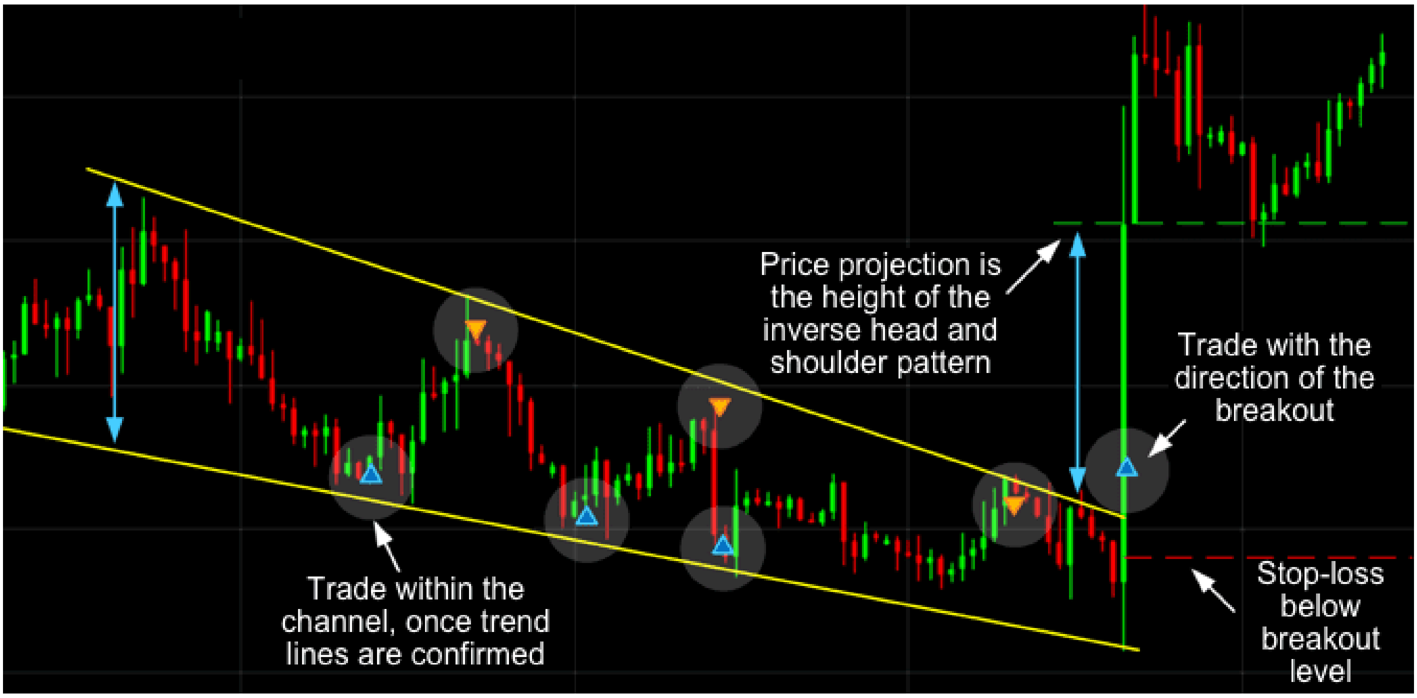
4. Pennant

This pattern can be seen when two lines meet at a set point. These are often formed after a strong uptrend has just happened and the traders have just paused. The brief amount of time for which the train stops and then follows the direction it was following.

5. Flag:

the flag stock chart patterns look like sloping rectangles. Here, the resistance and support lines run parallel to each other till the time a breakout happens. The breakout is generally a trend that opposes the trendlines. This indicates that it is a reversal pattern.

6. Wedge:



This pattern indicates that the price movement between the resistance and support lines is tightening in nature. There can be a falling wedge and there can be a rising wedge. These don’t have a horizontal trend lines like the triangle patterns. They are characterised by either two upward trend lines or two downward trend lines.

in the case of a downward wedge, the general trivia is that the price will break free from the resistance and in the case of an upward wedge, the general hypothesis is that the price will break free from the support. This means that the wedge is the indication of the reversal pattern and the breakout is opposing the general trend.

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