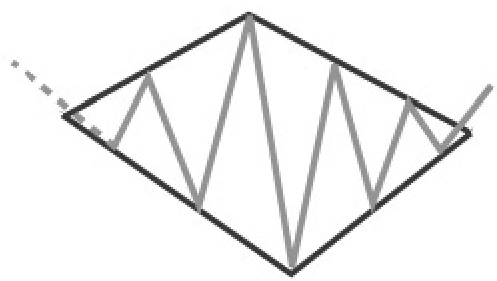
Diamond Bottom - Classic pattern

Compiled by- http://technicalcall.com/

Diamond Bottom is considered a bullish signal, indicating a possible reversal of the current downtrend to a new uptrend.

Diamond patterns usually form over several months in very active markets. Volume remains high during the formation of this pattern.



The Diamond Bottom pattern occurs because prices create higher highs and lower lows in a broadening pattern. Then the trading range gradually narrows after the highs peak and the lows start trending upward. The Technical Event® occurs when prices break upward out of the diamond formation.

Trading Considerations

Duration of Pattern

Consider the duration of the pattern and its relationship to your trading time horizons. The duration of the pattern is considered to be an indicator of the duration of the influence of this pattern. The longer the pattern the longer it will take for the price to move to its target. The shorter the pattern the sooner the price move. If you are considering a short-term trading opportunity, look for a pattern with a short duration. If you are considering a longer-term trading opportunity, look for a pattern with a longer duration.

Target Price

The target price provides an important indication about the potential price move that this pattern indicates. Consider whether the target price for this pattern is sufficient to provide adequate returns after your costs (such as commissions) have been taken into account. A good rule of thumb is that the target price must indicate a potential return of greater than 5% before a pattern should be considered useful. However you must consider the current price and the volume of shares you intend to trade. Also, check that the target price has not already been achieved.

Inbound Trend

The inbound trend is an important characteristic of the pattern. A shallow inbound trend may indicate a period of consolidation before the price move indicated by the pattern begins. Look for an inbound trend that is longer than the duration of the pattern. A good rule of thumb is that the inbound trend should be at least 2 times the duration of the pattern.

Criteria that Support

Support and Resistance

Support can be found at the turning point of the lows and resistance at the top peak of the Diamond.

Moving Average

Watch for the 200-day Moving Average to flatten out. Then watch for the 50-day Moving Average to cross above the 200-day Moving Average. This should signal the breakout.

Criteria that Refute

No Volume

A lack of a volume throughout the pattern is an indication that this pattern may not be reliable.

Short Inbound Trend

An inbound trend that is significantly shorter than the pattern duration is an indication that this pattern should be considered less reliable.

Example : PFC weekly charts showing a diamond bottom (www.technicalcall.com)