Twitter Thread by The_Chartist ■

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In this thread, I will explain to you the psychology behind the cup & handle pattern. The attached chart is of Balaji Amines.

Point 1 = Profit booking by many traders and fresh short positions opened taking the stock down till level 2 where there is no more selling



Point 2 - a level wherein the stock becomes attractive again for fresh buyers and short positions will be covered adding strength to the stock.

It moves back till point 3 which is now the psychological resistance level and would again see profit booking by weak hands.



But, this time the stock fell till point 4 wherein the buyers (smart hands) are willing to pay a higher price and further push out the weak hands absorbing all their selling. This is the ideal entry point for a risk-loving trader as this is the closest to the stop-loss point.



Finally, you see - in the whole process - the stock has shifted hands from uninformed retail investors to "smart hands". And finally followed by a cup and handle breakout. The target will be the depth of the cup projected upwards from the breakout level.



When to take entry for a conservative investor? At candle no 5 - the breakout candle and stop-loss a few % below breakout level.

In the next thread - I will explain to you how the same principle works for most of the patterns (No need to mug up the pattern names)

