SNS COLLEGE OF TECHNOLOGY

An Autonomous Institution
Coimbatore-35

Department of Management Studies

23BBE731 – Security Analysis and Portfolio Management

II / III SEMESTER

UNIT III : Technical Analysis

Topic: Chart Patterns-Triangles, Flags & Pennants

Importance of the Topic

- ✓ Chart patterns help traders **anticipate potential breakouts** or **trend reversals**.
- ✓ **Triangles, flags, and pennants** are **continuation patterns**, signaling that the existing trend will likely continue.
- ✓ These patterns are key for **timing entry and exit points** in trading strategies.
- ✓ Understanding these helps investors **identify consolidation phases** before momentum resumes.

Design Thinking Link:

- ➢ *Empathize:* Understand investor psychology during market consolidation.
- ➢ *Define:* Identify problems like misinterpreting short-term corrections.
- ➢ *Ideate:* Develop pattern-based trading ideas.
- ➢ *Prototype:* Create trading signals using pattern recognition tools.
- ➢ *Test:* Apply in simulated trading environments.

Concept Overview – Triangles, Flags, and Pennants

Pattern	Description	Market Signal
Triangles	Price converges into a narrower range before a breakout.	Continuation
Flags	Small rectangular pattern sloping against the trend.	Short-term pause in trend
Pennants	Small symmetrical triangle after a sharp move.	Temporary consolidation before continuation

Types of Triangles

Ascending Triangle:

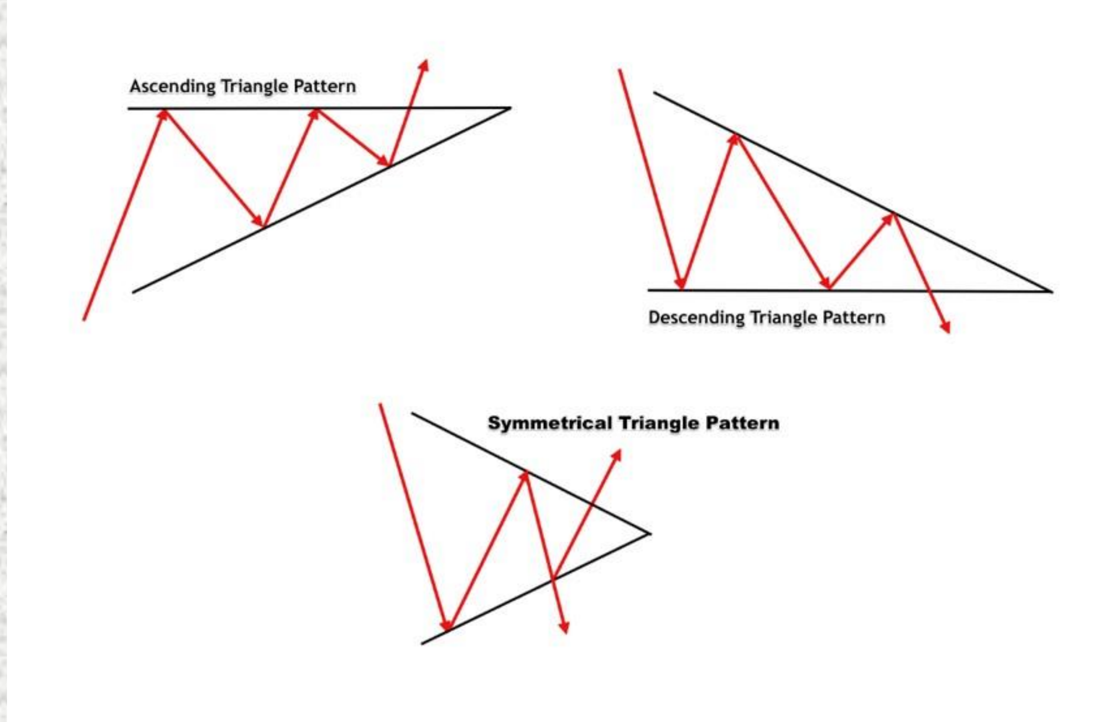
- Flat resistance, rising support.
- Indicates bullish continuation.

Descending Triangle:

- Falling resistance, flat support.
- Indicates bearish continuation.

Symmetrical Triangle:

- Converging trendlines.
- Breakout can occur in either direction.



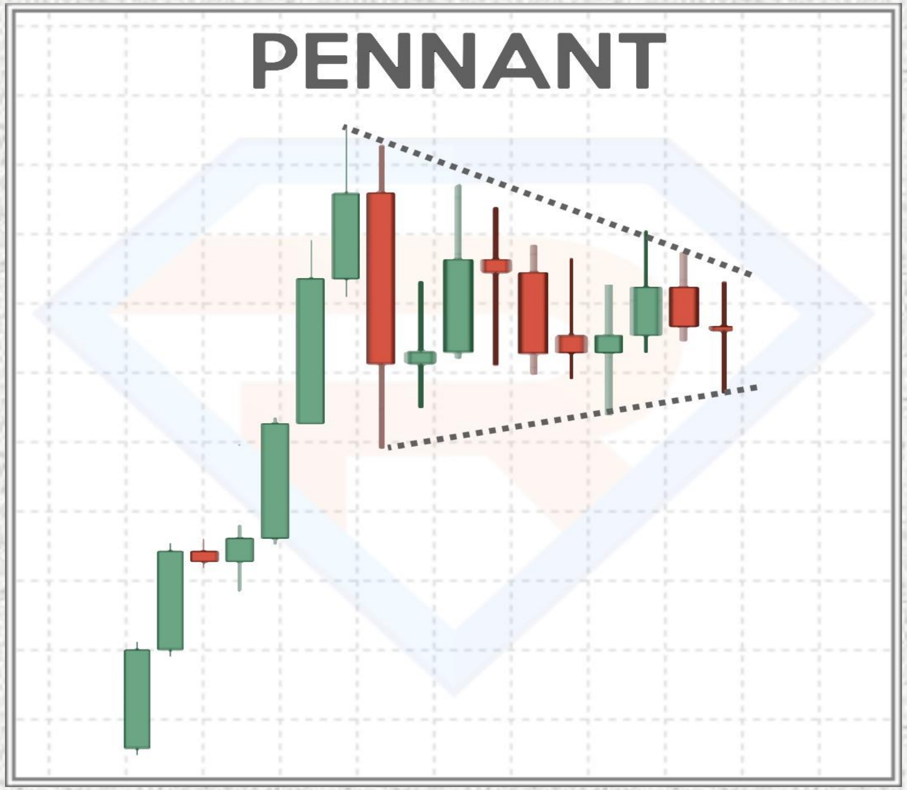
Flags Pattern

- ✓ **Formation:** After a strong price movement, a small rectangular consolidation forms against the trend.
- ✓ **Duration:** Short-lived (1–3 weeks).
- ✓ **Interpretation:** Indicates temporary pause before continuation.
- ✓ **Example:** After a sharp price rise, a downward-sloping flag suggests continuation of uptrend.

Design Thinking Application:
Students can analyze a recent stock showing flag formation and ideate how traders might emotionally react (fear, anticipation, greed).

Pennants Pattern

- ✓ **Formation:** Small symmetrical triangle after a sharp move (like a mini version of the flag).
- ✓ **Duration:** Very short (few days).
- ✓ **Interpretation:** Confirms continuation after breakout.
- ✓ **Example:** Pennant formation in NIFTY index after rapid bullish momentum.

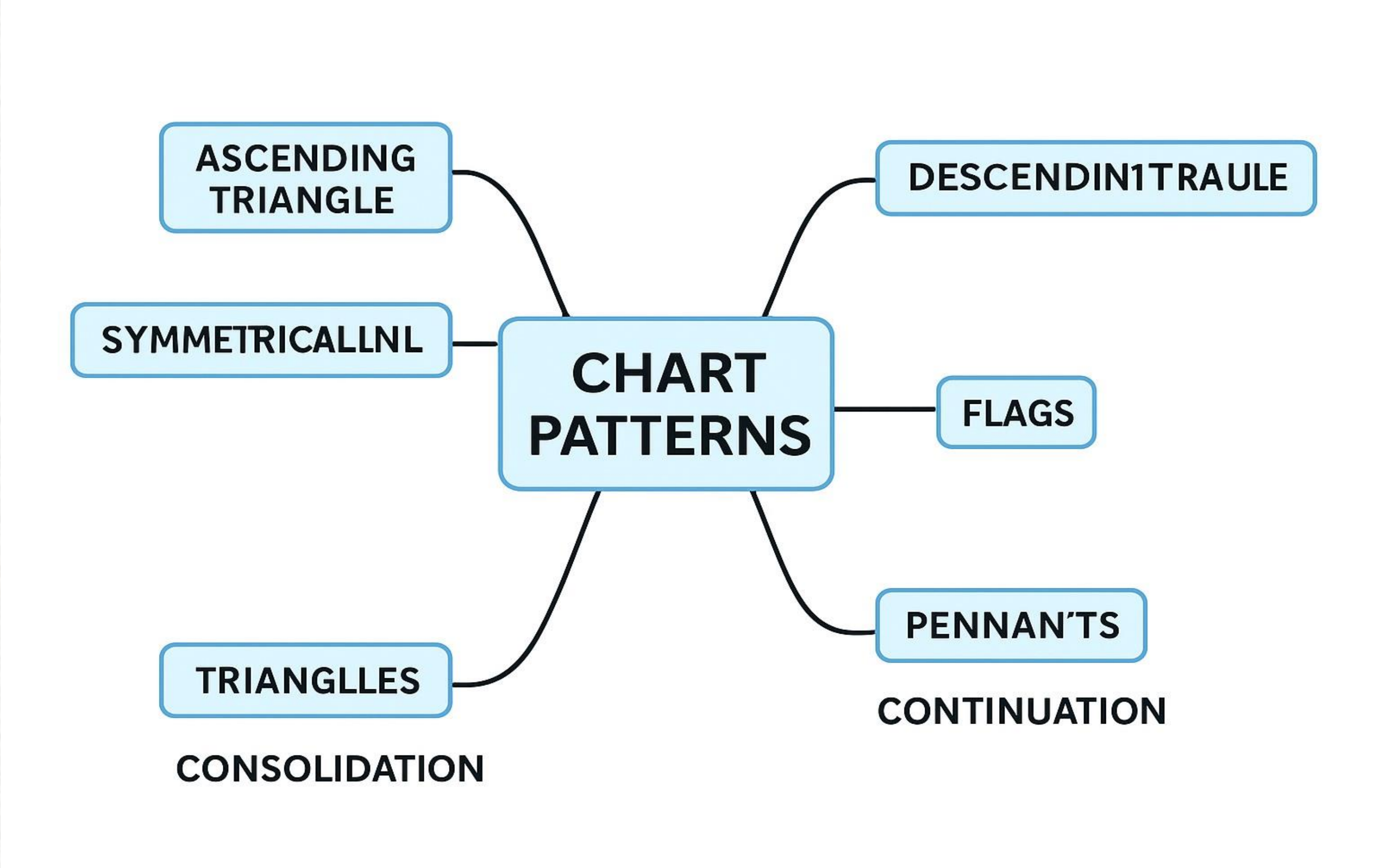


AI Integration:
Use ChatGPT or FinGPT to analyze stock market data and identify when pennants form historically for backtesting.

Steps to Identify and Trade These Patterns

- ✓ Identify the **preceding trend** (must exist).
- ✓ Spot the **pattern formation** (triangle, flag, pennant).
- ✓ Watch for **volume confirmation** during breakout.
- ✓ Set **entry** above resistance or below support.
- ✓ Define **target and stop-loss** based on pattern height.

Visual Guide to Triangles, Flags, and Pennants



Real-Time Example

Example: Reliance Industries (NSE: RELIANCE)

- *Observed Pattern:* Ascending Triangle
- *Action:* Breakout at ₹2,950 with volume surge
- *Result:* Continued bullish rally confirming pattern.

Classroom Activity

Activity Name: *"Pattern Hunt Challenge"*
Objective: Identify real-time examples of triangle, flag, and pennant patterns.

Steps:

- Select one stock index (NIFTY, SENSEX, NASDAQ).
- Use AI chart tools to detect patterns.
- Apply design thinking to empathize with investor behavior during the pattern.
- Present findings with visuals.

Key Takeaways

- ✓ Triangles, flags, and pennants are **continuation patterns**.
- ✓ Recognizing them improves **timing and decision-making**.
- ✓ Volume plays a crucial confirmation role.
- ✓ AI tools enhance accuracy and speed in pattern detection.

References

- https://corporatefinanceinstitute.com/resources/technical-analysis/chart-patterns/
- https://school.stockcharts.com/doku.php?id=chart_analysis:reversal_patterns
- https://www.marketbeat.com


Thank you!