Double Top Chart Pattern Strategy

Turn your trading results around using simple and sound trading principles

TradingStrategyGuides.com
If you really want to learn a profitable way to trade then look no further, the Double Top chart pattern strategy uses simple and sound trading principles that can turn your trading results around. This is a very, very successful approach to basically trade any type of market and can be used on your preferred time frame no matter of your trading style.

Our team at Trading Strategy Guides is working hard to develop the most comprehensive guide on different chart pattern strategies. In order to understand the psychology of a chart pattern, please start here: Chart Pattern Trading Strategy step-by-step Guide.

Technically the double top reversal is quite similar with the Triple Top Pattern as they are related to one another in such a close way that the difference between the two is given only by the number of resistance retests.

It’s estimated that more than 95% of all Forex traders lose money and one of the reasons this statistic looks so staked against traders is because you have been exposed to the wrong teachings but, we’re planning to change that by revealing an unconventional way to trade the double top reversal.

Now ...

Moving forward, we’re going to discuss what makes a good double top reversal and highlight five basic trading rules to conquer the markets with the Double Top chart pattern strategy.
The BIG THREE Indicator Can Win Three Times As Many Trades Than Your Average “Free” Indicator” You See in the Marketplace.- Guaranteed

What is Double Top Reversal?

The double top pattern is a bearish reversal trading pattern that emerges at the end of a bullish trend.

The double top reversal is composed by two consecutive peaks with approximately the same highs. The first peak is formed when the bullish trend finds resistance and the price retrace until it finds a support level that we call the neckline.
In the second phase the price move back upward towards the resistance created early by the first peak but it fails to break it and instead it falls down to the neckline again.

Jesse Livermore one of the greatest traders who ever lived said that the big money is always made at this big turning points when the trend changes direction. We believe that the Double Top pattern strategy can help you achieve all your financial goals.
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The Psychology behind Double Top Pattern

The battle between the bulls and the bears is highlighted by the double top reversal pattern very well. After the price has moved in a bullish trend and it formed the first peak it really shows that the bulls are running out of steam.

After the first pullback the bulls try to push the price to new highs but fails to break the previous peak as the bears are gaining control and begin driving the price down.

Note* The double top reversal is only valid when the double top breakout happens. By the double top breakout we mean the neckline breakout.
The bulls will only capitulate when the double top breakout occurs as this is clear evidence that the market tide is turning around. So, the double top reversal is confirmed once the neckline is broken.

Now, let’s see how you can effectively trade with the Double Top chart pattern strategy and how to make profits from basically using naked charts.
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• Double Top Chart Pattern Strategy – Sell Rules

We have found out that the most successful trading strategies are those that use naked charts. A naked chart is simply a chart that only shows the price. It’s a very clean representation of the price without your view being clogged with lots of technical indicators.
The Double Top chart pattern strategy is the answer to your messy charts.

When trading reversals it’s important to analyze the market within the context of phase of the market and a chart pattern – aka the double top reversal.

**Step #1: Identify the Phase of the Market. The Double Top reversal needs an uptrend.**

Just because you can spot the double top reversal it doesn’t mean you have to jump in willy-nilly. Remember, we need the right context and everything needs to line up for a good double top reversal.

So, the first step is to identify the phase or the market condition. At any given moment the market can be trading either up, or down, or it can go sideways. As we previously established the Double Top reversal needs a prior uptrend.
Since this is a reversal trading strategy we first need a prior trend otherwise we end up trading just a ranging market which, is something we want to avoid particularly if we trade the Double Top reversal pattern.

**Step #2: The historical precedent. An A++ Double Top Reversal is composed of 2 Rounded Tops**

The second step of the Double Top chart pattern strategy is to find what we call the historical precedent or a chart pattern. We don’t want to make a trading decision without price confirmation and in our case we use the double top reversal pattern.

You need to identify two rounded tops in order for the double top breakout to be considered tradable.

But, what is a rounded top?
In technical analysis, a rounded top is simply a price formation that typically occurs after an uptrend, prices move upward and then quickly roll back downwards creating a dome or sometimes an inverted “V.”

Now, of course, that depending on the double top reversal structure the inverted V top will vary in size and magnitude. But the idea is that we need a quick move up followed by a quick move down to define a rounded top.
Note* A valid double top reversal has two rounded tops

Let’s move forward to the third criteria of our double top chart pattern strategy.

**Step #3: Allow a maximum 10 pips variation between the two tops.**

Don’t seek perfection, because in trading you need to get rid of your idealistic mindset as the double top reversal will not look perfect all the time, so be flexible.

This is the reason why we need to allow a maximum of 10 pips variation between the two tops.

The probability of two tops happening at the same exact price level is almost impossible. You’ll often find that the two tops have slight variations, but they happen near the same price zone. What is more important is the closing price, which can align perfectly if the location of the double top pattern is good.

So far, so good.

Now we to determine an entry technique for our Double Top chart pattern strategy.

See below:
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Step #4: Sell when Double Top breakout candle closes below the neckline.

After we identify the phase of the market, and the characteristics of a good double top reversal we need to wait for confirmation that momentum is shifting.

The Double Top breakout candle is our signal that the momentum has shifted and it’s what it confirms and validates the double top pattern.
You’ll see the double top breakout happen over and over again, but it’s important to analyze them within the context of the market trend.

The next logical thing we need to establish for the Double top chart pattern strategy is where to take profits.

See below...

**Step #5: Take Profit equals 2, 3 x times the distance in price as measured from the highest peak to the Neckline**

The minimum profit target for the double top pattern is approximately equal to 2 or 3 x times the distance in price as measured from the double top to the neckline.

If we project the same price distance 2 or 3 times more to the downside we obtain our first take profit zone for the Double Top chart pattern strategy.
The double top pattern can produce a major reversal so we advise you to be very flexible with your profit target not to miss any big profit opportunity.

The next important thing we need to establish is where to place your protective stop loss.

See below...

Step #6: Place the protective stop loss slightly above the resistance created by the Double Top reversal

The Double Top chart pattern strategy gives you a simple way to quantify risk because you can place your protective stop loss slightly above the double top pattern

The double top pattern really gives you the opportunity to also trade with a tight stop loss, which is great as we always want to keep losses at minimum.
Note*** The above was an example of a SELL trade... Use the same rules – but in reverse – for a BUY trade, but this time we’re going to use the double bottom pattern. In the figure below, you can see an actual BUY trade example, using double bottom pattern.

We’re going to show you in much greater details how to successfully trade the double bottom pattern in our next strategy guide.
Conclusion

The double top reversal is one of the most common patterns. The fact that the double top pattern appears so often and it can offer big selling opportunities is a strong proof that the price is not random and it can be exploited for big profits.

The bottom line is that you still need a plan to successfully trade the double top breakout and our double top chart pattern strategy should answer to all your questions in regard to how to make money with this simple pattern.

Don’t forget to check out our previous guide on Symmetrical Triangles which is a great continuation pattern to exploit if you miss the top or the bottom of any market.

Thank you for reading!

Please leave a comment below if you have any questions about this strategy!
As a Bonus for you we always like to include examples of our strategy to help you perfect this trading system.

Example 1: EURUSD 5 Minutes Double Top Example

Example 2: EURJPY 15 Minutes Double Top Example
Example 3: USDCAD Daily Double Top Example