

# **RECTANGLE CHART TRADING STRATEGY**

**Learn one of the simplest  
technical price actions  
that you can trade**

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# Rectangle Chart Pattern Strategy

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In today's trading strategy tutorial you'll learn how the pro's trade the Rectangle chart pattern strategy. The rectangle trading pattern is one of the simplest technical price actions that you can trade. We recommend doing your own due diligence before trading with real money.

Our team at [I gVY^c\`Hi gVi Z\ n< j ^YZh](#) is launching a new series of articles called [Chart Pattern Trading Strategy – Step-by-Step Guide](#) which will enhance and elevate your trading to a new level. The chart pattern trading strategy will only give you a framework to examine methodically the fight between the bulls and the bears.

By trading the most profitable chart patterns you'll be able to deduce who is winning this fight between the bulls and the bears.

The rectangle trading pattern is a classical price action pattern that contains the price action between two horizontal lines that show significant support and resistance levels. The beauty of this pattern is that it develops with the same frequency on all time frames so no matter of your trading style you can use this trade principles in your own strategy.

Throughout this article we're going to explain the requirements of a good rectangle trading pattern and how to spot them. Furthermore we're also going to explain the psychology behind the rectangle trading pattern.

We're also going to provide you with a very clear step-by-step set of rules so you can trade the rectangle chart pattern strategy by yourself.

Now ...

Moving forward, we're going to discuss what makes a good rectangle trading pattern and highlight five basic trading rules to conquer the markets with the Rectangle chart pattern strategy.

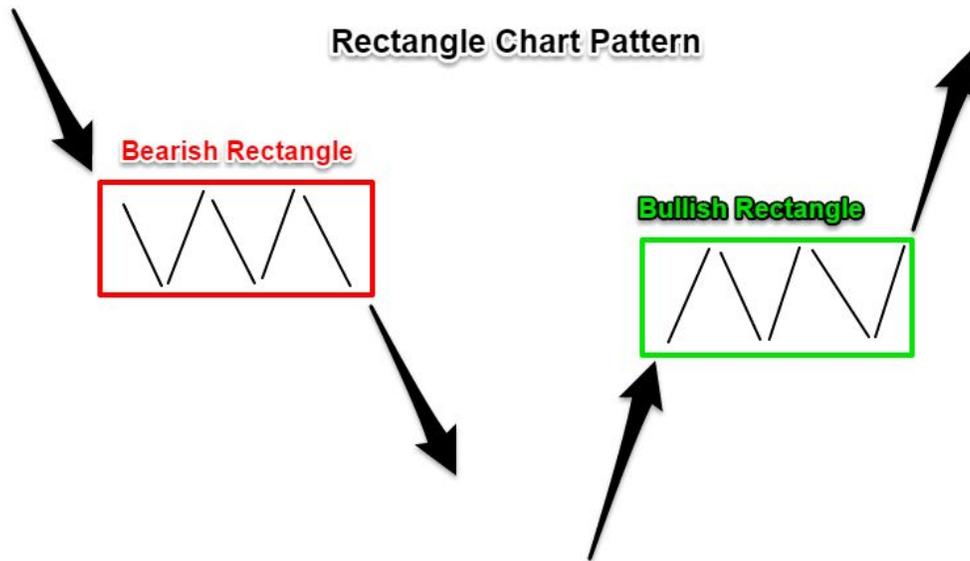
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The rectangle trading pattern it's both a continuation trade signal as well as a reversal trade signal. However, they are more powerful if used as a continuation pattern because you have the force of the trend working for you.

Keep in mind that the rectangle trading pattern doesn't have a bullish or a bearish bias as they are neutral patterns when they develop. You're not going to know which way it's going to break until it does but, the high probability trade will always be in the direction of the prevailing trend.



How to draw the rectangle trading pattern?

There are two requirements that need to be satisfied to be able to draw the rectangle chart pattern:

First, we need an established trend because the big money is made when the rectangle trading pattern it's used as a continuation pattern.

Secondly, we need to have at least two equal (or near the same) lows and highs to draw two horizontal lines at should contain the price action.



The rectangle trading pattern has a lot of striking similarities with the [Flag Pattern](#) but the difference is that within the rectangle pattern the price action is flat moving horizontally.

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The battle between the bulls and the bears is highlighted by the double bottom reversal pattern very well.

Inside the rectangle trading pattern there is a consolidation that shows that no one is really in control of this market, nor the bulls or the bears.

Our team at TSG likes the rectangle breakout strategy because we understand why it works.

In other words, the rectangle trading pattern uses the psychology in trading because you can see when other traders are in emotional and financial pain.

The main mistake retail traders make, is to trade the rectangle consolidation price and place their protective stop loss above/below the rectangle trading pattern. As more stops build up above/below the rectangle pattern the more important this levels become for the institutional traders who needs the liquidity provided by these orders to execute their big trades.

Now, let's see how you can effectively trade with the Rectangle chart pattern strategy and how to make profits from basically using naked charts.

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Now that you're familiar with the rectangle price formation, let's walk through an easy step-by-step guide that will frame for you an easy trading strategy to skim the markets.

A wonderful thing about the rectangle trading pattern is that there's a very easy way of knowing how high or how low it will send the currency price.

We're going to present you with an unorthodox approach of trading the rectangle breakout, a never seen before trade techniques that can now be at your disposal.

Now is the time to go through the rectangle chart pattern strategy step-by-step guide:

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Just because you can spot the rectangle trading pattern it doesn't mean you have to jump straight into the market and trade it. Remember, we need the right context and everything needs to line up for a tradable rectangle breakout.

So, the first step is to identify the market trend prior to the rectangle price formation.

As we previously established for Sell orders the rectangle trading pattern needs a prior downtrend.



Establishing the phase of the market aka identifying the trend is probably the biggest ingredient that can determine the success rate of the rectangle breakout.

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The second step of the rectangle chart pattern strategy is to identify the rectangle price formation by applying the previously mentioned rules.

Basically, all you need to do is to spot one support and one resistance level that must contain the price action.



Our article [Support and Resistance Zones – Road to Successful Trading](#) will teach you all you need to know to be able to identify support and resistance levels.

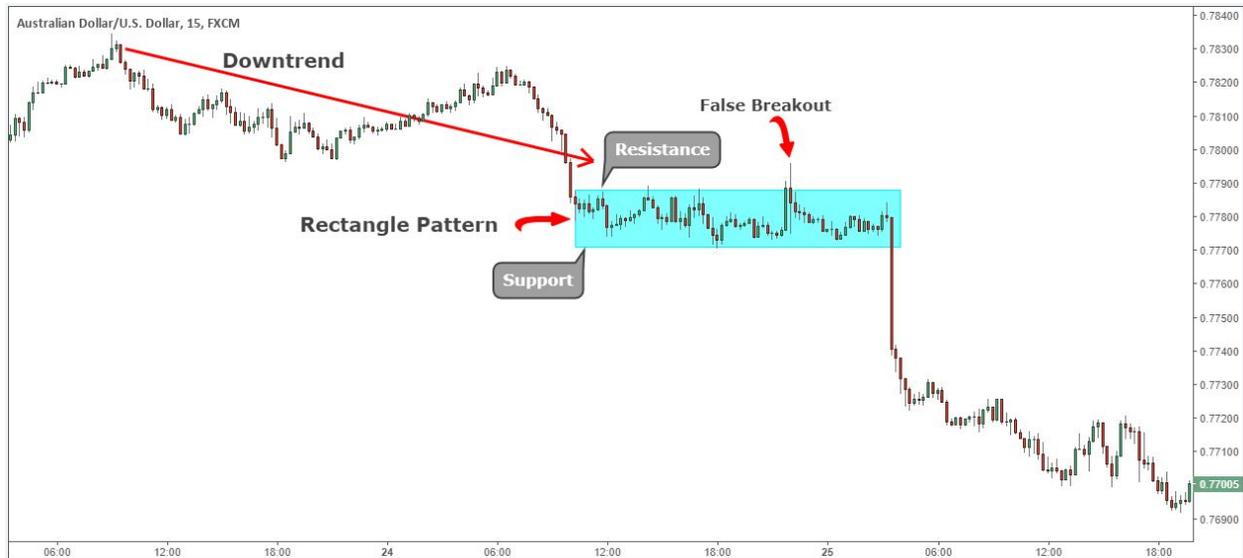
Now ...

The secret sauce of our Rectangle chart pattern strategy is given by what we call the rectangle false breakout and which is the next step to successfully trade the rectangle trading pattern.

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We use a special trade technique that allows us to only trade high probability rectangles.

Normally, for a sell order we want to see a break below support to get an entry confirmation. However, before we get to this point we also want to see a false breakout above the rectangle resistance line.



But, why is the false breakout important to the Rectangle chart pattern strategy?

The false breakout does two things:

1. First, it stops out those traders who went short in the direction of the prevailing trend and placed their stop above the most recent resistance level.
2. Secondly, it traps some buyers who take the resistance breakout trade.

Both of these two actions will fuel the downside momentum when the rectangle breakout happens.

So far, so good.

Now, we need to determine an entry technique for our rectangle chart pattern strategy.

See below:

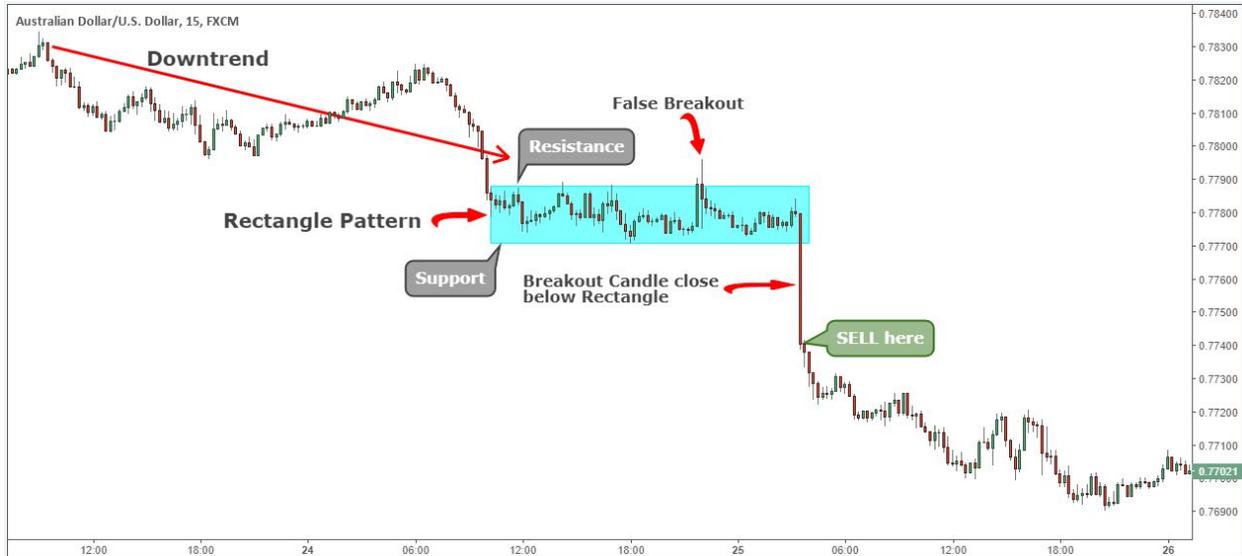
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After we identify the market trend, and the characteristics of a good rectangle pattern we need to wait for confirmation that the trend is about to resume.

The rectangle breakout candle is our signal that the trend is about to resume and it's what it confirms and validates the rectangle trading pattern.



Rather than guess the rectangle breakout direction just wait and let the price activity tell you in which direction we're going to go.

When trading with the Rectangle chart pattern strategy you're looking for the opportunity when you get a breakout below the rectangle bottom to be a seller.

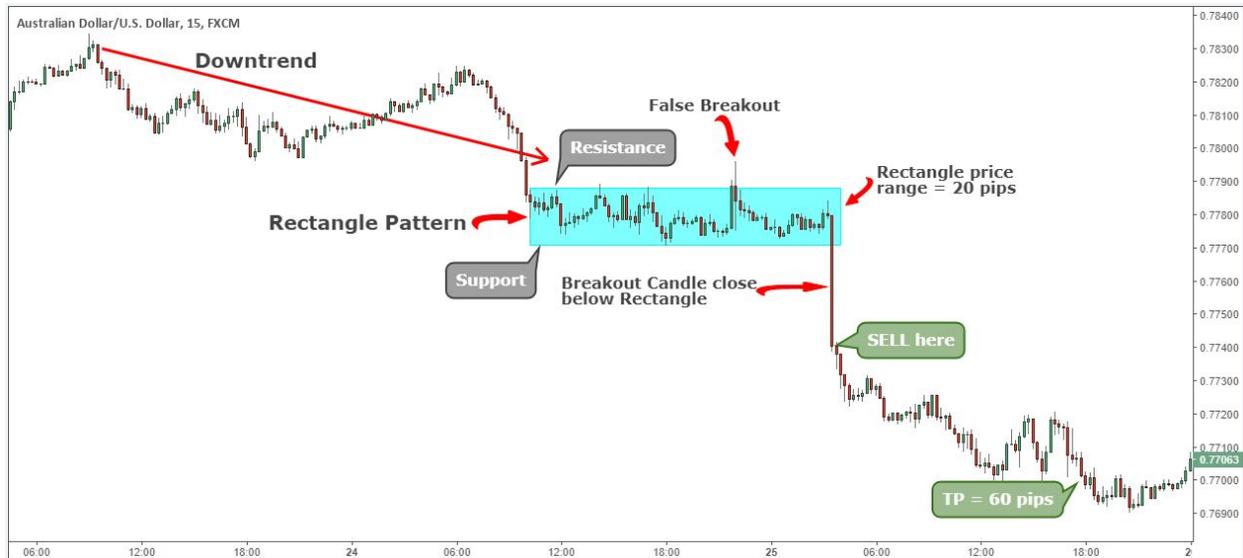
When the rectangle breakout happens that is a confirmation that the bears have taken control of this market.

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With this particular pattern you can get a target for how high you can expect the price to go from the rectangle breakout.

According to the textbook you can measure the distance between the two parallel lines and add that to the breakout in order to obtain your profit target.



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

See below...

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The Rectangle chart pattern strategy gives you a simple way to quantify risk because you can place your protective stop loss slightly above the rectangle pattern.

The rectangle trading platform 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.



The rectangle trading pattern is a real time tool whereas an indicator is lagging which is the reason why the Rectangle chart pattern strategy is so powerful in comparison with indicator trading.

The main reason why the rectangle trading pattern is widely used and is so popular is because the pattern it's easy to identify on a price chart.

This pattern is a little bit underrated but we have done pretty well over the years trading the rectangle breakout.

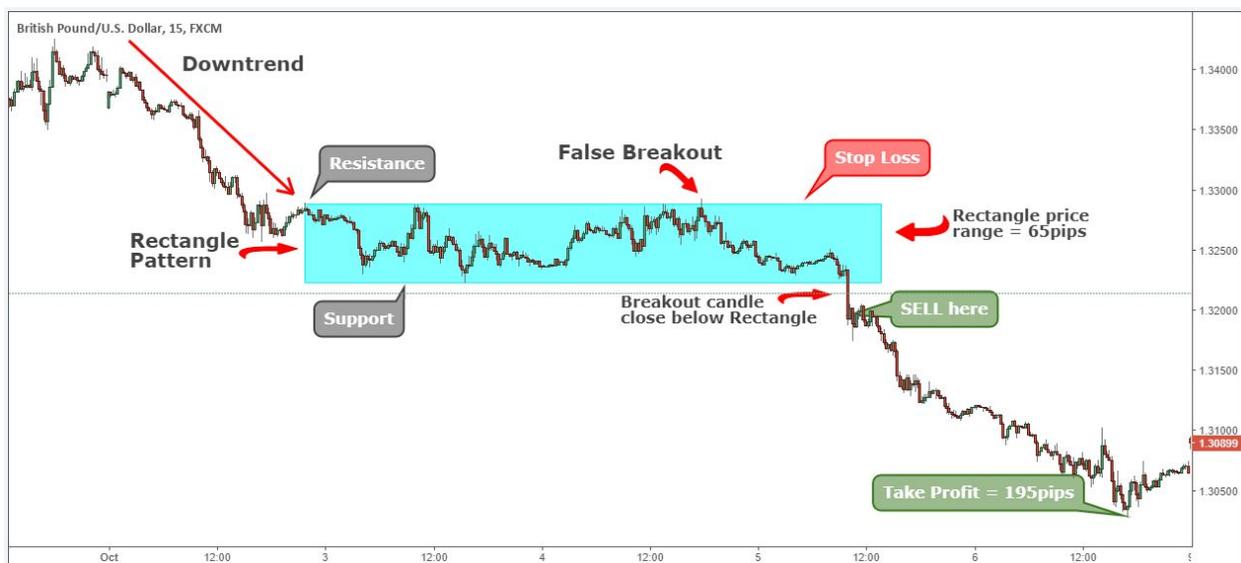
Please also don't forget to check out our previous strategy tutorial on [Double Bottoms](#).

Thank you for reading!

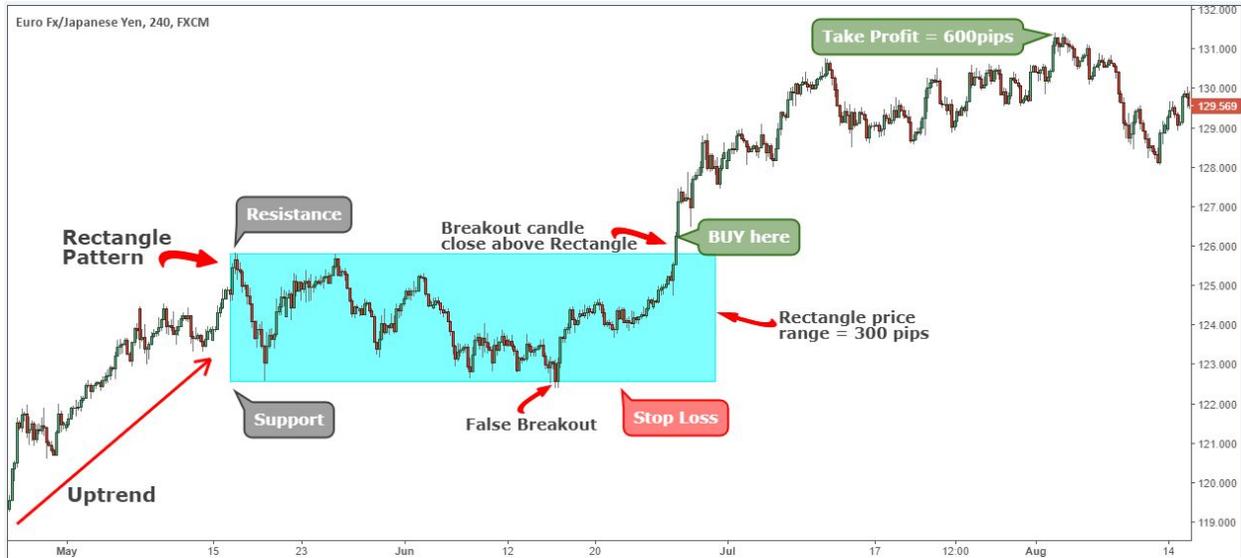
Please leave a comment below if you have any questions about this strategy!

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