Bullish flag chart pattern | Basic characteristics & 3 examples

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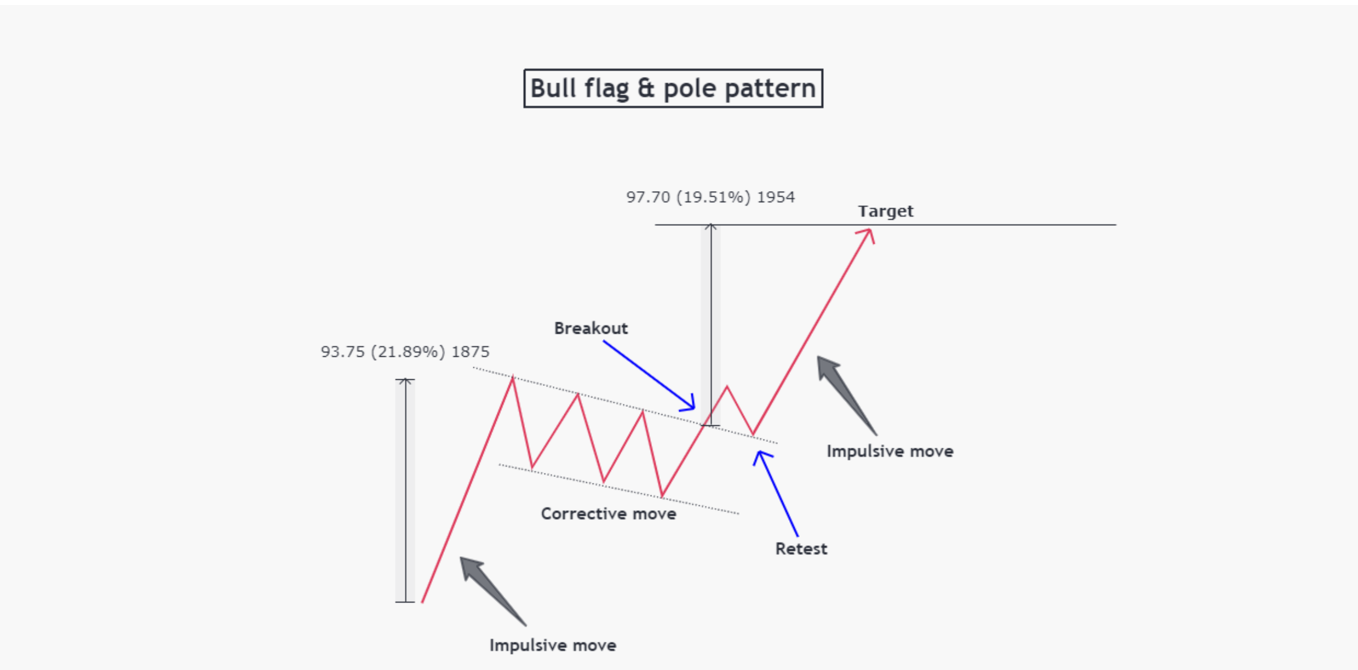
What is a Bullish flag?

Bullish flag formations are found in stocks with strong uptrends and are considered good continuation patterns. They are called bull flags because the pattern resembles a flag on a pole. The pole is the result of a vertical rise in a stock and the flag results from a period of consolidation.

The flag can be a horizontal rectangle but is also often angled down away from the prevailing trend. Volume usually increases in the pole and then declines in the consolidation.



The bullish flag consists of two important moves:

1. **Impulsive move** – In the first stage, buyers aggressively step into the market, driving prices higher. This rise in price then attracts other buyers, creating a buying frenzy.

2. **Corrective move/Consolidation** – After a while, the price settles down. This happens because fewer and fewer buyers are willing to buy at this point because the move seems overextended. The buyers who entered at the bottom start taking profits. When all of this happens, the stock will go into consolidation. At the bottom of the consolidation range, new buyers keep entering since they don't want to miss the move.

How to identify a bullish flag?

The bull flag pattern has 5 main characteristics:

• **The preceding trend** – Uptrend
• **The consolidation channel** – Either sloping downward or rectangular
• **Volume** – The volume must be high during the formation of the pole, low during consolidation, and again, high during the breakout.
• **Breakout** of the consolidation range
• **A confirmation** where price moves in the same direction as the breakout

Target objective:

The target for a bull flag is derived by measuring the length of the flag pole and projecting it from the breakout point.

The psychology behind bullish flag pattern:

1. The bulls start their buying frenzy and charge ahead with a strong breakout, causing the bears to either panic and cover their 'shorts' or add to their 'short' positions.

2. Once the stock is in the consolidation stage, the bears (short-sellers) regain some confidence and they add to their 'short' positions with the expectation of a price drop. This causes them to get trapped again when the price breaks to the upside, causing the shorts to cover their positions and ultimately driving the prices even higher.

3. Since some short-sellers from the initial flagpole run-up may still be trapped, the second breakout forming through the flag can be even more extreme in terms of the angle and severity of price move.

How reliable is a bull flag pattern?

Flag patterns are considered to be among the most reliable continuation patterns that traders use because they generate a setup for entering an existing trend that is ready to continue. Flag formations are all quite similar when they appear and tend to also show up in similar situations in an existing trend.

Exhibits:

Thanks for reading! Hope this was helpful!

Important links:

- Follow the free **Telegram channel** for early updates.
- What is Fibonacci retracement?