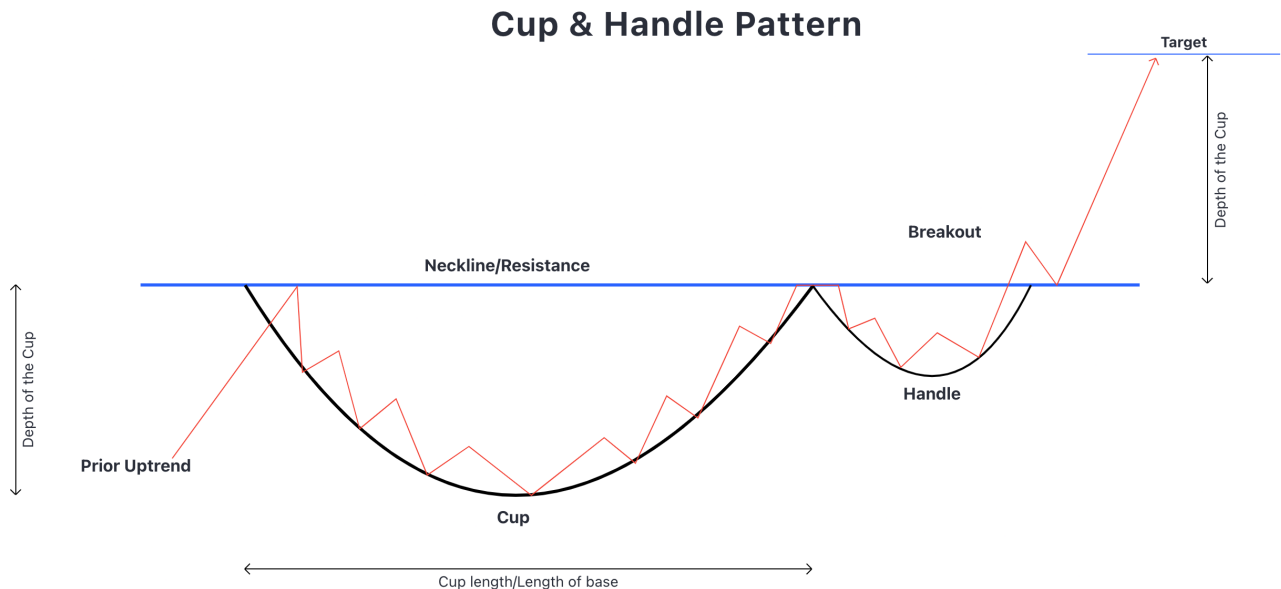


Cup and Handle chart pattern | Basic characteristics & 2 examples

written by Rajat Kumar Singh

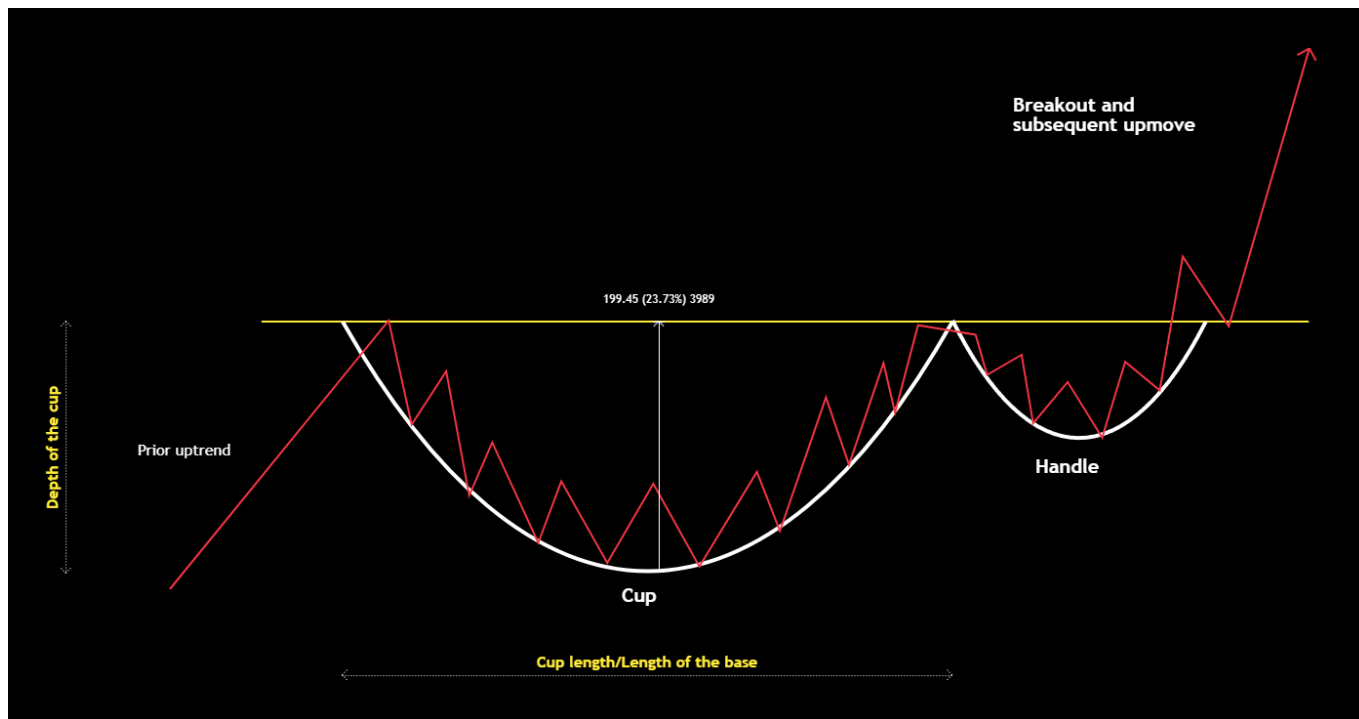


The post will shed some light on the following topics:

- Basics and identification of the pattern
- Components
- Important aspects

What is a Cup and Handle pattern?

- The Cup and Handle is a bullish continuation pattern that resembles a cup with a handle.
- The cup is visualized as the alphabet “u” and looks like a rounding bottom pattern.
- The handle is formed as a range or a smaller “u”.
- The cup marks a consolidation phase whereas the handle has a slight downward move, which marks a retest phase.
- The handle is meant to signal a buying opportunity. When this part of the price formation is over, the stock may reverse the course and resume the prior uptrend.



Parts of a Cup and Handle pattern:

The cup and handle chart has 3 main components:

- Cup
- Handle
- Neckline/Resistance

Important aspects:

- 1. Prior Trend:** The cup and handle pattern is a bullish continuation pattern, hence the prior trend should be an uptrend.
- 2. Cup length:** In general, the cups with longer and more “U” shaped bottoms that resemble a rounding bottom, provide a stronger signal. This ensures that the cup is a consolidation pattern with valid support at the bottom of the “U”. The perfect pattern would have equal highs on both sides of the cup, but this is not always the case. In general, cups with sharp “V” bottoms should be avoided because there is almost no consolidation in this case.
- 3. Cup depth:** Normally, the cup should not be overly deep. In practice, the cup depth can be up to 60-70% of the last swing move (This can vary widely, though). In my opinion, the best cups often have a depth of about 50% of the last swing.



4. Handle: The handle can occur in the form of a flag, a pennant, or a rectangular consolidation. This is the final retracement phase before the impulsive move higher. By and large, the handle can retrace anywhere between 40-60% of the depth of the cup.

We should avoid handles that are overly deep also, as handles should not exceed 50% depth of the cup. The best cup and handle patterns have a shallow retracement on the handle (not more than 1/3 of the cup). However, in some situations, the price may retrace up to 0.618 Fibonacci level.



5. Breakout: Bullish confirmation comes when the pattern breaks above the neckline made using the prior highs with a good volume.

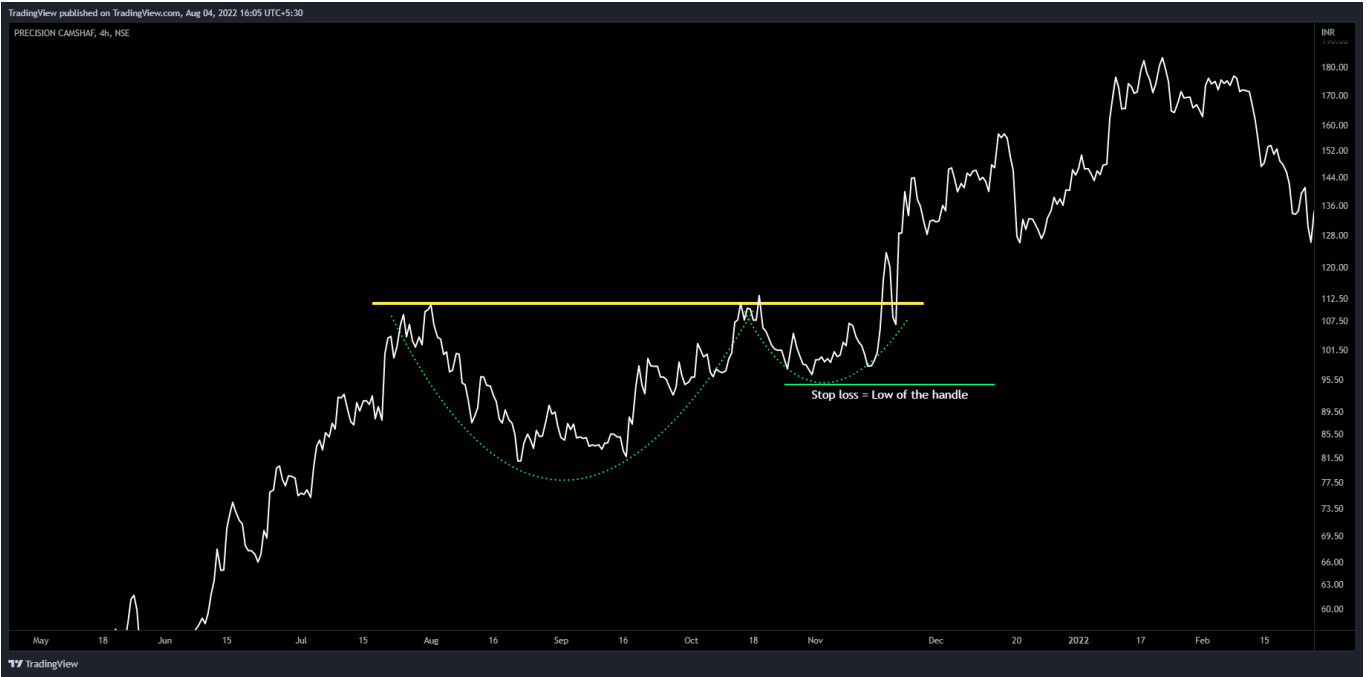
6. Volume: In general, the volume should decrease during the formation of the base of the cup as well as during the formation of the handle. Conversely, the volumes should pick up when the stock begins to make its move higher, back up to test the previous high.



7. Target: The profit target is equal to the depth of the cup. It can be measured by the distance between the bottom of the cup and the neckline and extending that distance upward from the breakout level.



8. Stop-loss: Ideally, the stop-loss is placed at the lowest point of the handle. But if the price oscillated up and down a number of times within the handle, the stop-loss can also be placed below the most recent swing low.



Exhibits:





Exhibit: Cup and Handle pattern with a failed breakout



Important links:

- Follow the free [Telegram channel](#) for early updates.
- [Bullish flag chart pattern](#)
- [Rounding bottom chart pattern](#)
- [Rounding top chart pattern](#)