

How to Trade Triple Bottoms and Triple Tops

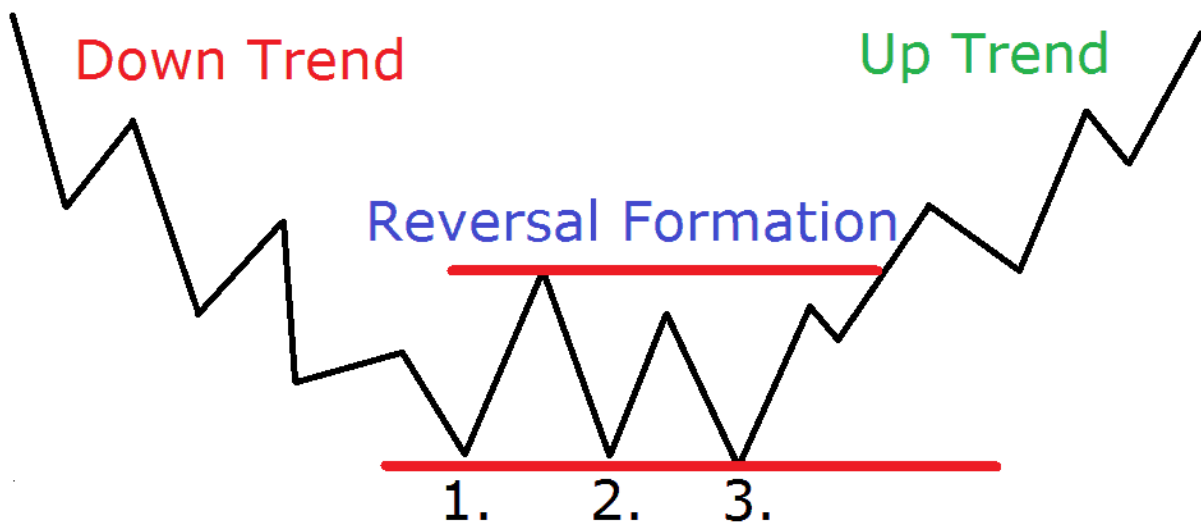
If you are a fan of classic [chart patterns](#), look no further as we will cover two of the most reliable chart formations in this article.

What are triple bottoms and triple tops?

If you see the price of a stock hitting the same [resistance](#) level three times in a row, you have a triple top. Conversely, if the price drops to a [support level](#) three times, then you have a triple bottom.

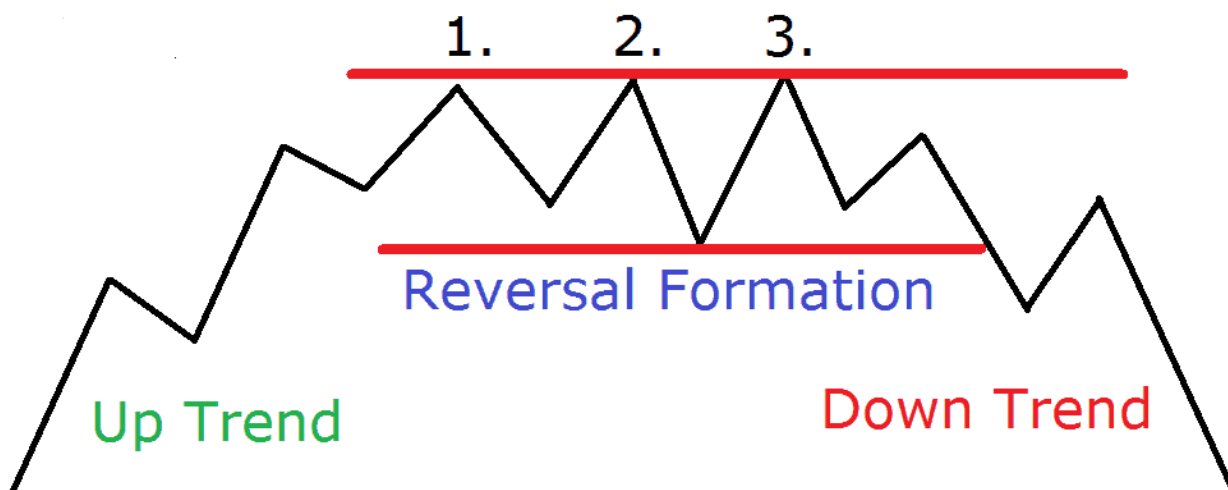
Do not obsess over the exact price point. I have seen traders sit there laboring over the difference of pennies between swing points. At the end of the day, none of that matters. Just make sure the price is within 0% to 3% of the swing level.

Again, do not obsess over the figures I have just presented to you; the bottom line is you should be able to see on the chart that the price is respecting a key level.



Triple Bottom

The above chart displays a triple bottom formation and how price ultimately breaks out after the pattern ends.



Triple Top

As you see, this is pretty much the same scenario. The only difference is that we start with an upward price movement, followed by three tops at resistance and a subsequent price decline.

The concept behind the triple top and triple bottom are the same as any other reversal chart pattern. Price runs hard in one direction, a battle between bulls, bears ensues, and then the start of an impulsive price [trend](#) in the opposite

direction.

The key element for triple tops and triple bottoms trading strategy is to identify the [breakout](#) level. Once this level is breached, price movement picks up in earnest.

How to trade triple tops and triple bottoms?

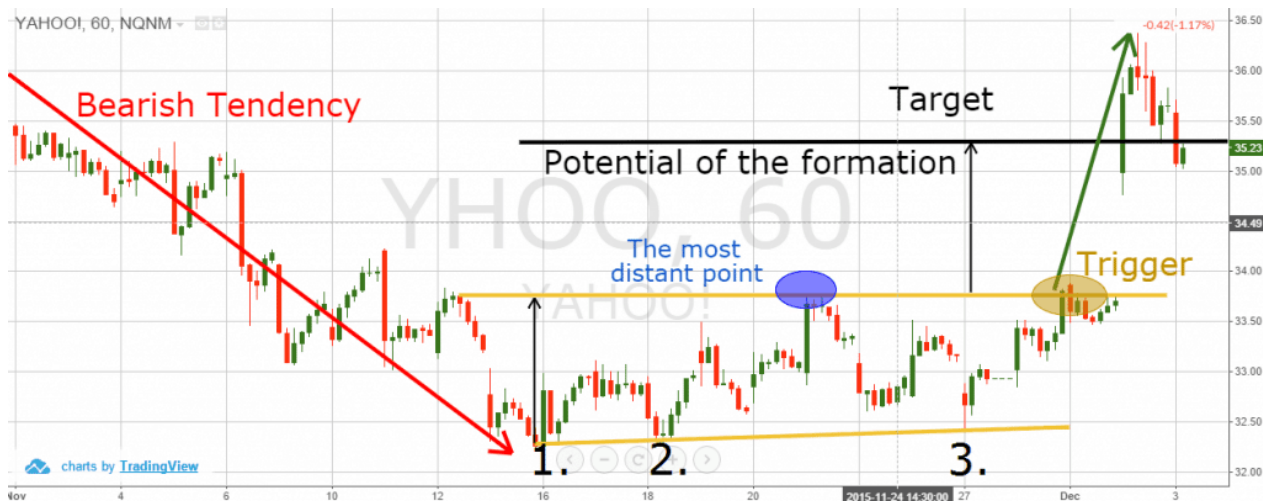
Traders should look to buy triple bottoms and short triple tops.

The rule of thumb is the price will retrace the entire price move prior to the development of the pattern. As you can see in the above charts, the counter-trend retraces the entire move in both price and time.

If you are a conservative trader, a more realistic [target](#) is the width of the formation.

Buying Triple Bottoms

After we identify the triple bottom formation, we set our trade trigger at the resistance line and we measure the potential breakout target. Once the line crosses the resistance line, it is time to open a long position. The below image illustrates this process.



Triple Bottom Breakout

This is a 60-minutes chart of Yahoo illustrating the [price action](#) from November 2015. Yahoo is experiencing a strong bearish trend, which ultimately develops into a triple bottom formation.

The blue circle highlights the highest [swing](#) point of the triple bottom formation. The distance between this high swing point and the lowest low of the formation added to the swing high (blue circle) produces the price target.

Once the price breaks above the resistance line (brown circle), we open a long position. The upward move equals \$2.60 per share, which exceeds the price target of the formation.

Shorting Triple Tops

This is a 30-minutes chart of Bank of America, illustrating the price action between Nov 17 and Nov 23, 2015. As you see, at the end of its bullish trend the price of BAC starts creating three tops.

In addition to the three peaks, we also see the lowest point of the formation highlighted in blue.

To calculate the price target, we take the highest swing point, less the low highlighted in blue and add this to the low point.

Once this support level is breached, we opened a short position, which is indicated with the brown circle.

One point I would like to call out to you is that stocks do not always go in your desired direction immediately. Remember hundreds if not thousands of traders are looking at the same price action. Therefore, things will not always go as planned.

Again, our conservative target price is the width of the triple top formation.



Triple Top Breakdown

Similar to our triple bottom example, the price action exceeded our target.

When to exit your positions?

The easiest exit point for triple tops and triple bottoms is using the width of the respective formation added to the high or low point.

However, does this really give you the best opportunity to reap the most profits on your trading position?

One option is to tighten your stops once the target is hit, but we all know once you begin counting the pennies, you will

ultimately end up closing the position prematurely.

The example below illustrates this point:



Triple Top Price Target

This is the 30-minutes chart of EBAY for the first two weeks of November 2015.

We opened a short position at the brown circle.

We reach our target relatively quickly which is illustrated by the green circle. Assuming we placed our [stop loss](#) order close to the target, we would have closed our position literally on the next candle.

By closing the position, we would have missed 60% of additional profit.

I bet you want that additional 60%. No worries, this is why I am here!

I suggest using the [Elders Force Index](#) in addition to the triple tops and triple bottoms trading strategy. The Elders Force Index is a leading oscillator, which summarizes the current price, previous price and market [volume](#). The indicator consists of a curved line, which fluctuates above and beneath a zero level. The basic signal of the indicator is to go short whenever the line is below zero and go long whenever the line

is above zero.

Using the Elder's Force Index will help us exit the market at the right moment.

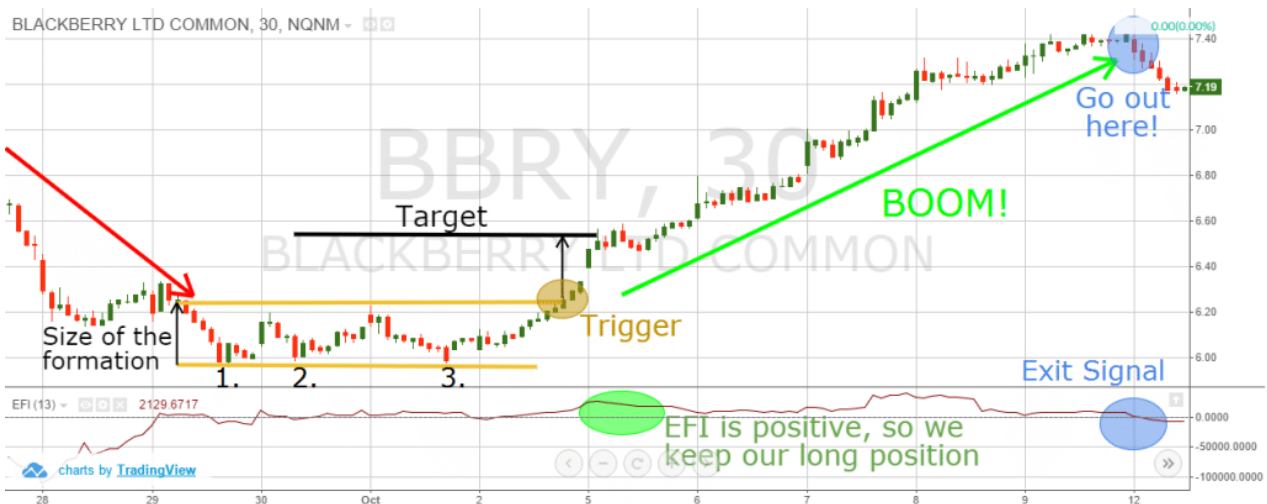
Thus, when the target is reached, we will then use the Elder's Force Index as our trade trigger for exiting the position.



Triple Bottom Price Target

This is the 30-minutes chart of Blackberry for Sep 25 – Oct 5, 2015. The image shows a triple bottom scenario, where the price target is reached.

Now, let us look at the same example, but this time let us use the EFI to manage the trade.



Triple Bottom Price Target – 2

Let me guess, you notice a “slight” difference.

The green circle shows that the EFI is still above the zero line when we reach our target. Therefore, we stay in the market until the EFI crosses the zero level in a bearish direction. The results are more than satisfying.

The blue circles show the moment when the EFI crosses zero and we exit our position.

Comparing the two scenarios, we see that without the EFI we achieve a profit of approximately 30 cents per share.

With the EFI, we are able to capture profits of \$1.05 per share. Thus, using the Elder Force Index in combination with the triple tops and triple bottoms trading strategy will surely give you a better perspective of when to exit the market.

Another option is to close a portion of your position when the price target is reached. You could elect to close half or a third of your shares.

This way you are able to lock in some profits and if the stock continues to move in your direction, you can continue to unload shares.

Conclusion

- Triple tops and bottoms are one of the most reliable chart patterns.
- The difference between triple tops and triple bottoms is the direction of the market.
- There are two types of breakout trading strategies
 - Shorting breakouts – triple tops
 - Buying breakouts – triple bottoms.
- After the stock breaks out, the first price target is the width of the triple bottom or triple top.
- One of the best tools for setting exit points on triple

tops and bottoms is the Elder Force Index.

- You can also close portions of your position as things go in your favor.