The Underground Trading Community

DOUBLE TOP

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A double top is a bearish reversal pattern that forms after an uptrend, characterized by two consecutive peaks at approximately the same price level.

Key Characteristics

Two Peaks:
- Two distinct highs at roughly the same level

Volume:
- Often lower on the second peak

Neckline:
- Support level formed by the trough between the two peaks

Time Frame:
- Can form over days, weeks, or months

Anatomy of a Double Top

1. Prior Uptrend:
The pattern begins after a significant price increase

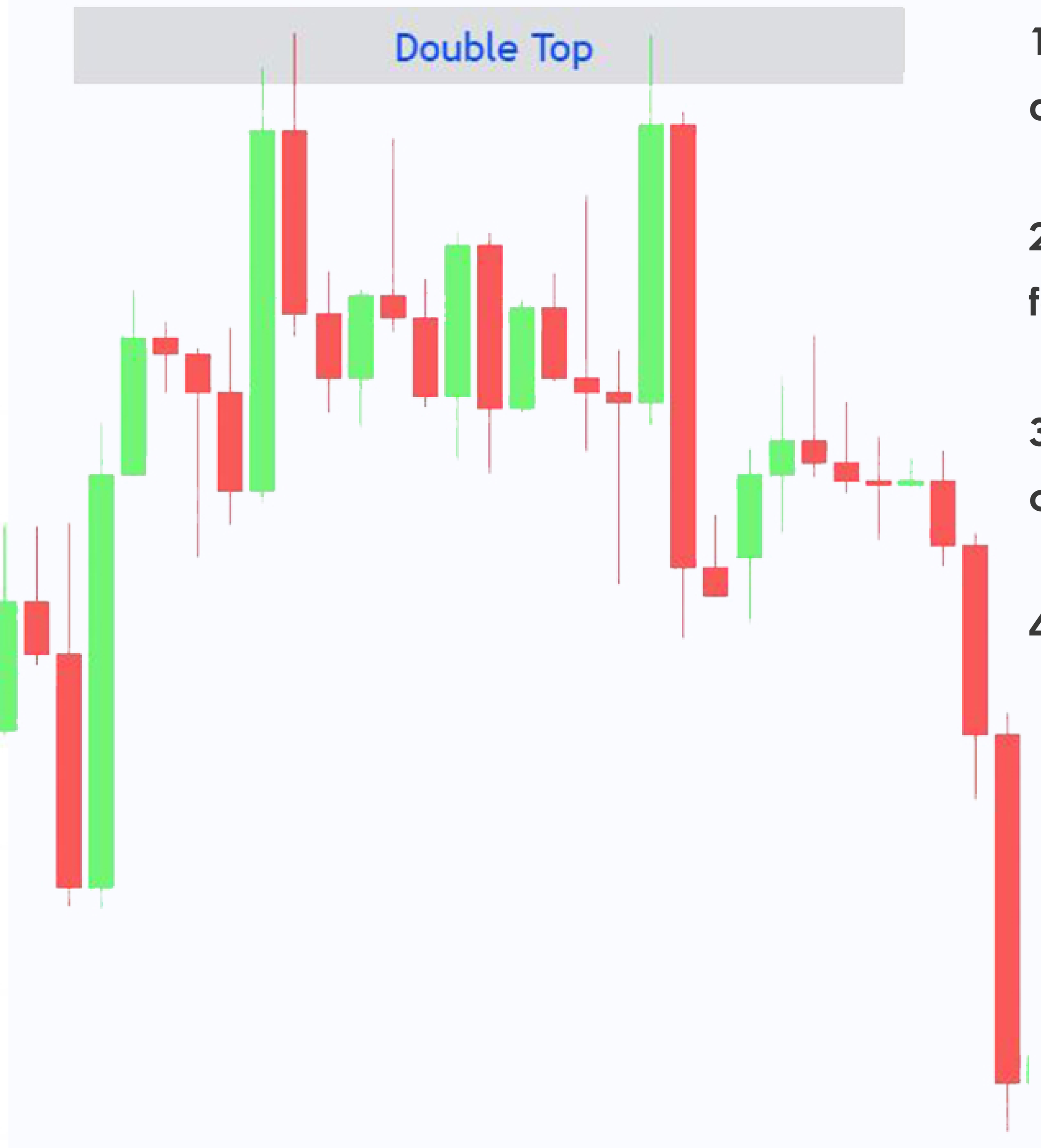
2. First Peak:
Price reaches a new high and then pulls back

3. Trough:
A significant decline from the first peak, forming the neckline

4. Second Peak:
Price rises again to approximately the same level as the first peak

5. Breakdown:
Price falls below the neckline, confirming the pattern

Identifying a Double Top



1. Look for two distinct peaks at approximately the same price level
2. Confirm that the pattern follows an uptrend
3. Check for decreasing volume on the second peak
4. Wait for a break below the neckline for confirmation

Trading Strategies

1. **Short Entry:**
- Enter a short position when price breaks below the neckline
- Place a stop loss above the second peak

2. **Price Target:**
- Measure the distance from the peaks to the neckline
- Project this distance down from the neckline break for a potential price target

3. **Retest Strategy:**
- Wait for a retest of the neckline after the initial breakdown
- Enter a short position if the price fails to break back above the neckline

Risk Management

Use a stop loss above the second peak or a recent swing high

Consider scaling out of the position as price approaches the target

Be cautious of potential support levels that may interrupt the downward move

Variations

1. **Triple Top:** Similar to a double top but with three peaks
2. **Extended Double Top:** Longer duration between peaks
3. **Uneven Double Top:** Peaks are at slightly different levels

Tips for Trading Double Tops

Confirm the pattern with other technical indicators (e.g., RSI, MACD)

Be aware that double tops can sometimes fail, leading to trend continuation

Consider the overall market context and trend when interpreting double tops

Look for divergence in momentum indicators for additional confirmation