

# Head & Shoulders

by [www.forexfunction.com](http://www.forexfunction.com)

The head & shoulders pattern is very common and popular chart patterns. It is a reversal pattern. Usually Day and swing traders use this pattern for taking any reversible entry and this pattern is very profitable and success rate is high. This pattern is named for its formation with two shoulders and one head.

This pattern is two types:

1. Head & Shoulders in upward market,
2. Invert Head and Shoulder in Downward market.

## **Head & Shoulders in upward market**

Head & Shoulders chart pattern gives a bearish reversal signal. It occurs in the upward market. There are four parts of this pattern, these are Left shoulder, Head, Right shoulder, Neckline.

### **How it forms**

- >> First it creates left shoulder in the upward market, then decline from that.
- >> Then it goes higher than left shoulder and form head at the top of the market.
- >> Then Price falls from head and comes to the support
- >> Again it raise little to create right shoulder.
- >> Then it falls to the support at neckline
- >> A neckline should be drawn from the low of two shoulders.

### **How to Trade on this pattern**

Neckline acts as a support line. So it requires to wait for breakout of the neckline. After successfully breakout this pattern gives bearish signal. From the retest of the neckline, sell entry can be taken.

Stop loss will be some pips above the right shoulders. Target should be at least 1:2 risk ratio. Target can be set equal to the distance from neckline to Head.



### **Invert Head and Shoulder in Downward market.**

Invert Head & Shoulders chart pattern gives a bullish reversal signal which occurs in the downward market. It has similar formation but inverse formula like normal head & Shoulders. There are also four parts in this pattern, these are Left shoulder, Head, Right shoulder, Neckline.

### **How it forms**

- >> At first it creates left shoulder in the fully downward market, then moves up from that shoulder.
- >> Then it declines lower from left shoulder and form lower low at the bottom of the market.
- >> Then Price moves up from head and goes to the near term resistance
- >> Again it falls little to create right shoulder.
- >> Then it starts to moves high to the neckline
- >> A neckline should be drawn from the low of two shoulders.



### **How to Trade on this pattern**

Neckline acts as a resistance line in the invert head & Shoulders. So it requires to wait for breakout of the neckline. After successfully breakout this pattern gives bullish signal. From the retest of the neckline, buy entry can be taken.

Stop loss will be some pips below the right shoulders. Target should be at least 1:2 risk ratio. Target can be set equal to the distance from neckline to Head.

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