Cup and Handle Pattern: A Proven Strategy for Bullish Markets

Description

Estimated reading time: 5 minutes

The cup and handle pattern is one of the most powerful and widely used signals of bullish continuation market. The **success rate** of is around **95%** during **bullish market**. Whether you're a new trader or experienced trader, this article will provide valuable insights into the cup and handle pattern as a proven strategy for bullish market.

Table of contents

Historical Significance

The pattern was popularized by **William J. O'Neil**, the founder of Investor's Business Daily, in his book How to Make Money in Stocks. O'Neil's work highlighted the pattern's ability to signal strong bullish trends, making it a cornerstone of his CAN SLIM investing strategy. Since then, the Cup and Handle pattern has been widely adopted by traders and investors as a reliable indicator of bullish market conditions.

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What is the Cup and Handle Pattern

It’s a technical chart pattern that signals a potential continuation of an existing bullish trend. This pattern looks like a tea cup with handle on the chart. The pattern has two main components, the cup, and the handle.

Formation of the Cup Pattern

When the price decline from a peak and show gradual recovery begins the formation of the cup. The initial price decline represents the profit booking and selling pressure. As the price decline, buyers gradually buy it leading to a stabilization of the price at the bottom of the cup. The cup should have a smooth, rounded bottom instead of “V” shape that shows the healthy consolidation period. The depth of the cup considered ideal when the retracement is between **1/3 and 2/3 from previous peak**. A longer consolidation period says several week to several months indicates a stronger pattern.

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Formation of the Handle Pattern

The handle represents a temporary pullback from the price attempt to breakout above the resistance level established by the cup's high. At this point, some traders who bought at the bottom of the cup may begin to take profits, causing a minor pullback. The handle consolidation period is short compared to the cup, lasting from a few days to a few weeks.. The trading volume decrease reflecting reduced market activity and uncertainty.

[Accelerator Oscillator Indicator: Bill Williams Momentum Tool](#)

How to trade cup and handle pattern

1. Aggressive traders enter when price **breakout** above the **resistance level / neckline** formed by the handle. Some traders wait for a pullback to the breakout level (a retest) before entering. The breakout should be confirmed by a **increase in volume**.

2. The handle should form after the cup is complete. It usually appears as a **flag, pennant, or a short-term descending channel**. The price should not **drop below** the midpoint of the cup.

[Scalping Trading : 9 and 15 EMA Strategy]

3. Place the stop-loss order slightly below the **lowest point of the handle** or **below the midpoint of the cup**.

4. Set the **profit target** by measuring the depth of the cup and projecting that same distance upward from the breakout or neckline. For example, if the depth of cup is says 100 points, the target after the breakout would be 100 points above the resistance level.

5. Low volume during a breakout signals that buyers lack interest, which may lead to a **false breakout**. Enhance the reliability of the Cup and Handle pattern by combining it with other technical indicators such as moving averages, RSI (Relative Strength Index), or MACD (Moving Average Convergence Divergence).

Advanced Trading Techniques

1. You can also **book partial profit** after price reaches the target or Fibonacci retracement levels. If the price goes up after hitting the target, use **trailing stop loss** to protect profit.

2. Remember that in a strongly bearish or uncertain market environment, a well formed **Cup and Handle pattern may fail**.

3. The **Inverted Cup and Handle pattern** is a bearish reversal pattern and forms after a downtrend and signals a potential continuation of the bearish trend. The strategies for trading the inverse pattern are similar to those for the bullish Cup and Handle, but in reverse. Enter a short position on the breakdown, set a stop-loss above the handle, and target a price move equal to the depth of the cup.

Have you used the cup and handle pattern in your trading or investing strategies? Drop a line in the comment section!