

Possible Sell Signal Setup in the S&P 500
by Tracy Knudsen 5 May 2004

As of May 4's settlement, the S&P 500 had established a potential sell signal setup in the form of a Hikkake pattern. Hikkake is a Japanese verb for "trap." In Western terminology, the correct name for this pattern is an "inside day false breakout." This pattern is thoroughly discussed in an article entitled "Trading False Moves with the Hikkake Pattern" by Dan Chesler, CMT, CTA. The article appeared in the April 2004 issue of Active Trader magazine.

The pattern consists of 2 price bars. These bars can represent whichever time horizon the analyst prefers. We are looking at daily price bars. The first bar of the pattern is an inside bar, meaning the bar's high and low must fall within the boundaries of the preceding bar. The second bar in the pattern must have a higher-high and higher-low than the preceding (inside) bar, for a bearish hikkake setup, or a lower-low and lower-high than the previous (inside) bar for a bullish hikkake setup.

The 2-bar setup described above represents a breakout from an inside day. Hikkake pattern confirmations occur when the initial breakout from the inside day is proven false. A false upside breakout from the inside day is confirmed when prices reverse and cross below the low of the inside day of the hikkake pattern. A false downside breakout is confirmed when prices reverse and cross back above the high of the inside day of the pattern. Confirmation must occur within 3 bars of the hikkake pattern or else it is ignored.

The June S&P 500 contract had an inside day May 3, then produced a higher-low and higher-high relative to the May 3 price bar on May 4. There is our hikkake pattern. In order to verify the pattern and produce a sell signal, the S&P contract needs to trade below the May 3 1108.50 low by May 7's settlement.



A previous example of a hikkake pattern on the chart of the June S&P futures contract occurred Mar 23 & 24. Mar 23 was an inside day and Mar 24's session produced a lower-high and a lower-low. Verification of the pattern occurred quickly, with Mar 25's move above Mar 23's 1100.03 high. The subsequent follow through lifted the contract to 1149.50 for a high by Apr 5. In addition to the S&P 500, hikkake patterns are also present on the daily charts of the Dow Jones and NASDAQ contracts. Trigger prices are at 10219 and 1404.50, respectively.

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