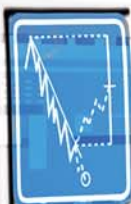


Nirvana's

# **CHART PATTERN** **Recognition Module 3**

Patterns



## ***New in CPRM3***

- ***Micro Patterns***  
*Identify explosive short term moves*
- ***Pattern Tutor***  
*Instantly find ALL examples of any pattern*
- ***Individual Patterns***  
*20 Consolidation Patterns AND  
24 Candle Patterns classified  
according to strength*

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# MAKE MONEY in THIS Market!

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Ed Downs  
CEO and Founder,  
Nirvana Systems, Inc.

In our Nirvana seminars, I regularly meet OmniTrader and VisualTrader users who are consistently making money—even in the current volatile market. How do they do it? First, they use our software to prospect for candidates. Then, they confirm their signals with Chart Patterns. Chart Patterns work because they reveal the psychology of the market. In my book, *7 Chart Patterns That Consistently Make Money*, I discuss the 7 patterns I consider to be most predictive. In any market—up, down, or sideways—these patterns almost always precede the big moves.

All of the masters, from Gann to Murphy, have taught patterns in their writing and all successful traders use them. The problem is, marking patterns on charts by hand is difficult and time consuming. It would be great if the computer could do this job for us, but computerized Chart Pattern Recognition (CPR) is very difficult to program. It's not at all surprising that you can't find robust CPR in any of the products that compete with OmniTrader and VisualTrader.

We decided to tackle this problem. But we didn't want to just "find patterns"—we wanted to identify the most PROFITABLE ones. So, we invented a process that finds each of the 7 patterns in my book. On Trend Lines, for example, we record the angle of the line and how many times the line is touched before a break or reversal occurs. Just creating the Pattern Recognition engine took many months. We then ran it on 20 years of market data and saved every pattern found in a huge database.

Then, we analyzed the pattern factors in the database to identify the most profitable setups. The original Chart Pattern Recognition Module (CPRM) was first released in December 2004, and we were thrilled with the feedback.

Since then, we have been improving the technology to increase profitability, effectiveness, and speed. For CPRM3, we added Micro Patterns – short term patterns that form over fewer than 16 bars. We also now list individual patterns (Consolidations, Candle Patterns, etc.) so you can activate just the ones you want.

The charts in this newsletter are typical of what you will see when Chart Pattern Recognition Module 3 is activated. Click the pattern tags to bring up the incredible Pattern Tutor – listing ALL examples of the pattern in your data.

This is the most powerful add-on for OmniTrader and VisualTrader that we have ever created. I want every Nirvana customer to have CPRM3, so we have priced it at a level everyone can afford.

You owe it to yourself to give CPRM3 a try. If you don't see your trading dramatically improve within 90 days, we will gladly refund your purchase price. Chart Patterns are the essence of Technical Analysis. Once you discover the power of CPRM3, you are going to be amazed at the explosive moves it identifies – before they happen. And clearly, that is worth a lot!

Sincerely,



Ed Downs  
CEO and Founder,  
Nirvana Systems, Inc.



# Automatic Chart Pattern Recognition is *HERE!*

It has often been said that a picture is worth a thousand words. It may in fact be worth thousands of dollars.

When CPRM3 is activated, a large number of patterns are identified for each chart. You can see ALL the patterns by selecting Strength=1 (see article, next page).

For the charts on this page, the module was activated at Strength “5” which told it to ONLY identify and display the patterns with the greatest strength and the highest probability for success.

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*One picture can be worth thousands of dollars.*

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The Chart Pattern Recognition Module is based on a 20-year patterns database. This database is used to determine pattern strength for patterns as they appear. There is no optimization and the pattern signals never change.

Never before has this kind of tool been available to individual traders. With CPRM3, you can automatically confirm your signals with the best Chart Patterns. This information is priceless in your trading.

ABC shows several additional examples of patterns identified by CPRM3. Resistance is not always obvious in day-to-day trading. CPRM3 finds the prime opportunity zones, like the two Resistance Breaks marked on this chart. Volume Trend is a powerful “continuation” pattern. Again, it is important to note that these are all Strength 5 Patterns—the most profitable opportunities based on matches in the patterns database. More patterns can be generated at lower strength settings with a single click in the Patterns toolbar.

## Profitable Patterns Appear Automatically!



This chart shows several Strength 5 Patterns identified by CPRM3. Pattern signals appear as “dots” in the chart at the point the pattern fired a signal. In this chart for HP, we see a Trend Line Break in September, a Consolidation Breakout in early November and a sharp reversal at a 38% Fibonacci Retracement in January—all profitable.



# It's the **STRENGTH** That Counts!

## How We Solved the Chart Pattern Recognition Problem

It's actually not that difficult to just "find patterns." The HARD part is finding the good ones. When we created the Chart Pattern Recognition Module, we took a different approach that truly does "separate the wheat from the chaff." Here's how we did it.

**Finding the Patterns:** First, we painstakingly wrote code to recognize each of the 7 Chart Patterns that I teach in my seminars—Gaps, Support/Resistance, Saucers, Fibonacci Retracement, Volume Climax, Consolidations, and Trend Lines, plus Candles.

**Measuring the Patterns:** We characterized each pattern according to visible criteria such as Trend Line touches, angle and so on, similar to what Thomas Bulkowski did in his book, *Trading Classic Chart Patterns* (except that our factors are different).

**Ranking the Patterns:** We then found all patterns in the stock market over 20 YEARS of market data. For each pattern variation (such as, a Lower Trend Line with 3 touches and a slope of 20 degrees) we saved off accuracy and profitability statistics in a patterns database.

From this information, we were able to define strength ratings from 1 to 5. The "1" rating shows ALL patterns while a "5" rating shows the best patterns according to profitability. Each pattern has its own strength rating factors that are user-adjustable (see page 12).

The result is an automatic ranking system that allows us to only show the BEST patterns (or ALL patterns if we want more general confirmation). An example of patterns at different strengths is shown at the right. You can see that, at Strength 5, virtually all the patterns were profitable. The pattern strength rating system separates the most profitable patterns from the mediocre ones and is totally unique to CPRM3.

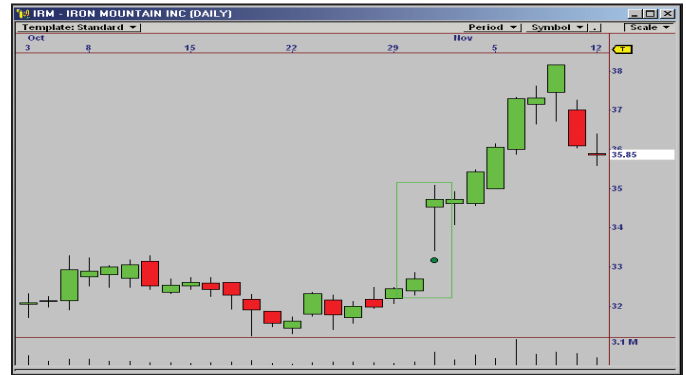


# All 7 Patterns are Recognized PLUS Candles

7 Patterns



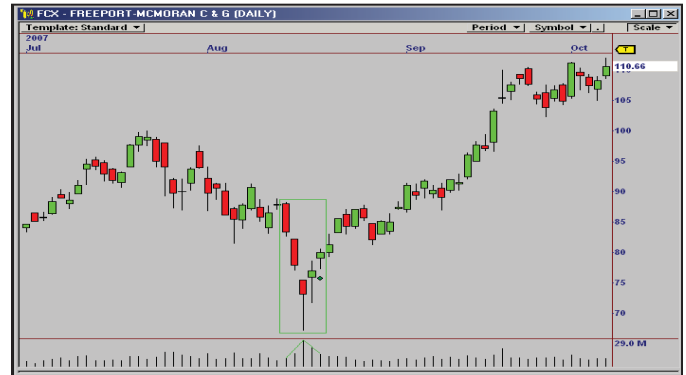
Support (or Resistance)



Price Gaps (Breakaway, Measured, & Exhaustion)



Trend Line Breaks & Reversals



Volume Climax & Volume Trend



Saucers and Rounded Tops



Consolidations (20 separate types)



Fibonacci Retracements (38%, 50%, 62%)



24 Candle Patterns

# POWERFUL NEW Patterns in CPRM3!

## Introducing Micro Patterns

Our new Micro Pattern innovation is very exciting, but first let's discuss how patterns work and more importantly – WHY they work.

Chart Patterns reflect market psychology. The interesting thing is, they also cause market events to occur. Take a look at Pattern Example #1 to the right. After a bottom formed on March 21, price rose to form a Rising Wedge over the next 9 days.

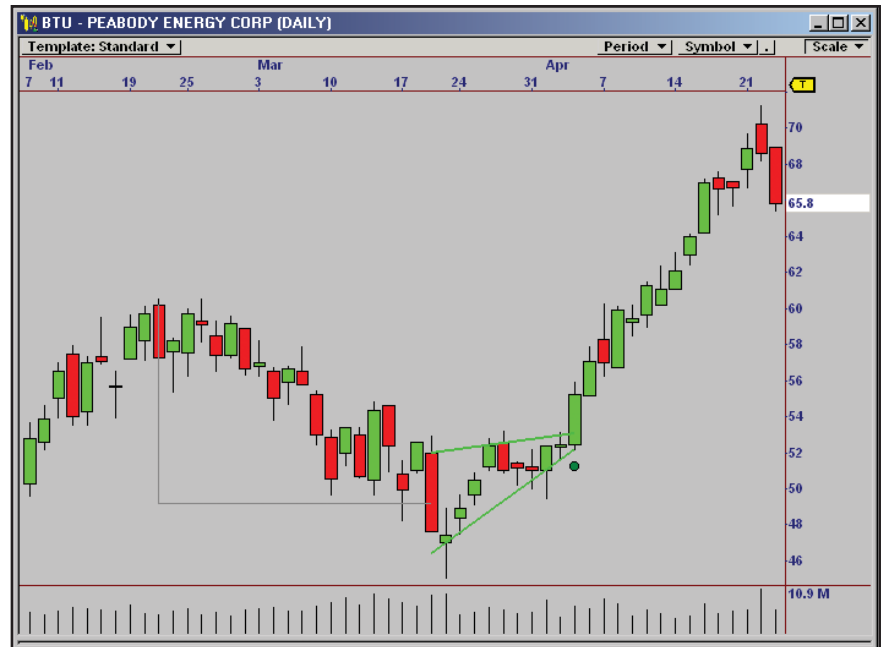
The pattern tells us that buyers and sellers were in approximate equilibrium while BTU was consolidating at \$52. But when the upper resistance was decisively broken at \$53, the pattern contributed to the rally itself, due to the bullish psychology it created.

Potential buyers see that this stock has broken a resistance level and want to buy. Potential sellers suddenly realize their stock could go a lot higher, so they hold. The result? More buyers than sellers, and the rest is history.

### The Early Trade Gets the \$

If you were fortunate enough to detect this Chart Pattern and buy at the point of the break, you could have made a nice profit, with very little downside risk. We simply place our initial Stop Loss at \$52.

This Consolidation was identified by our new Micro Pattern capability in CPRM3. Micro Patterns are very quick patterns that indicate a short term imbalance between buyers and sellers. Armed with CPRM3, you see these patterns much faster than most other market participants, enabling you to act on them and profit by getting on board ahead of the crowd.



**Micro Pattern Example #1:** This Rising Wedge formed over just 9 days. The solid break through resistance led to a dramatic rally.



**Micro Pattern Example #2:** Saucers can also form over a very small number of bars. Here's a Rounded Top that led to a dramatic sell-off in March, followed by a Saucer Bottom ahead of the April rally.



### Three Key Micro Patterns

For CPRM, we focused on three of our seven patterns that benefit from the “micro” approach; Consolidations, Saucers, and Fibonacci Retracements.

Micro Retracements, our third example, are very powerful patterns based on the Fibonacci Retracement principle. When price retreats between a prior high and low by 38%, 50%, or 62%, the odds of a reversal are very high. The Micro Retracement pattern fires the instant a reversal at one of these key levels is detected, putting you in the trade ahead of other traders.

The BEST thing about CPRM3 is you can isolate specific patterns that you want to use according to your trading style.



**Micro Pattern Example #3:** Fibonacci Retracements make profitable short term trading easier than ever before.

## Fabulous Opportunities for PROFITS!

All of the patterns in CPRM3 work together to provide outstanding Chart Patterns.

The following Strength 5 Patterns were identified from August through April for Halliburton (see chart, right):

Pattern Identified:	Gain:
Trend Line Break (November)	8%
Rising Wedge (February)	13%
Rectangle Consolidation (March)	22%
Resistance Break (April)	12%
<b>Total</b>	<b>55%</b>

Using CPRM3, you will see chart after chart with similar, highly profitable Chart Patterns. Trade them as is or use them to confirm Signals from other Strategies in OmniTrader or VisualTrader. CPRM3 more than triples the profit potential of your trading.



# CHART PATTERN Recognition

## The Most Powerful Chart Patterns

### Powerful and Easy to Use

This page demonstrates the amazing firepower of the Chart Pattern Recognition Module. When the To Do List is run, CPRM3 automatically analyzes your Focus List to find all the patterns. From there, you simply review, confirm, and trade.

### Focus List Columns

New columns in the Focus List include Pattern Direction (PD), Pattern Type (Pat), and Pattern Strength (Str). A green dot in the Pattern Direction column indicates a bullish pattern, and a red dot identifies a bearish pattern. The Pattern Type shows an abbreviation for the pattern, like "TLN" for Trend Line. The Strength is the apparent strength of the pattern, based on the patterns database.

Just bring up the confirmed charts and examine the opportunities. You are so much further ahead by knowing which signals are confirmed by a powerful Chart Pattern.

"The Pattern Recognition is awesome! It shows patterns that I would never have seen without it. I am amazed how it is able to identify so many different patterns and how easy it is to see and use them."

- Gary Rickle



This screen shot shows Chart Pattern Recognition Module 3 in action. The strength level has been set to "5" to only show the most powerful patterns.

# ion Module 3

## Pattern Recognition on the Planet!



### Dynamic Strength Rating

As you click a Strength Rating on the Patterns toolbar, the Focus List will automatically adjust to only show patterns that have at least the designated strength. Only want the best patterns? Set your strength to "5" and sort the list on the Signal (Sig) column.

### Prospect From the Patterns to Get Even More Candidates

Another great way to use CPRM3 is to sort on the Pattern Direction and Pattern Strength columns, and then bring up the charts that have strong patterns. Often, you will find a pattern-based trade that is so strong, it is worth taking on its own merit. CPRM3 is 100% automated, which makes it a breeze to use.

Select which patterns you want to see with the new Pattern Selector.

# Individual Patterns Are Identified

## Activate The Patterns That Match Your Trading Style

In CPRM2 we provided an interface that allowed users to activate or de-activate any of the 7 classes of patterns, such as “all Consolidations” or “all Trend Lines” in different time frames. For CPRM3, we have gone one step further. The interface lists all the individual types, so you can activate just the ones that you really want to see in your charts.

This is important because some patterns are more accurate than others depending on the setup you are looking for. In CPRM3, we identify 20 different Consolidations (see examples right). Consolidations indicate a relative equilibrium between buyers and sellers and can be exceptionally predictive.

## Some Consolidation Patterns are over 90% Accurate!

When Thomas Bulkowski wrote *The Encyclopedia of Chart Patterns*, he rigorously tested each pattern type to determine its inherent predictive nature. In his testing over a 500 stock database spanning five years, he discovered that Falling Wedges were 88% accurate and Rectangle Bottoms were 93% accurate.

These are powerful statistics! But depending on the kinds of stocks or futures contracts the trader or investor is looking at, different patterns will be more effective. Therefore, selecting the individual patterns displayed in your charts can be of great benefit.

## Sharpened Focus

Selecting individual patterns also helps the trader or investor focus on the best situations, rather than dealing with too much information. Being able to selectively turn on the best patterns helps you stay focused on the best opportunities.

## 20 Consolidation Types Identified

According to Thomas Bulkowski's *The Encyclopedia of Chart Patterns*, Consolidations are the most predictive of all the patterns—some are more than 90% accurate. To take advantage of this, CPRM3 identifies individual TYPES of Consolidations found.

**Rectangle Consolidations**  
A very powerful pattern when the range is broken in either direction.



**Ascending Triangle**  
A triangle with a resistance level on top. Typically leads to a strong rally when the upper line is broken.

**Falling Flag**  
A very bullish pattern, flags form in less than 16 bars.



**Broadening Top**  
A rare and highly unstable pattern. When the lower line is broken, watch out below!

**...And Many More!**

# Customize Your Charts **for More Profits!**

## 24 Candle Patterns Identified by CPRM3

The following Candle Patterns are identified individually by CPRM3:

- |                  |                          |
|------------------|--------------------------|
| BELT HOLD        | PIERCING LINES           |
| COUNTER ATTACK   | SHOOTING STAR            |
| DARK CLOUD COVER | SIDE-BY-SIDE WHITE LINES |
| DOJI STAR        | STICK SANDWICH           |
| ENGULFING LINES  | TASUKI                   |
| EVENING STAR     | THREE BLACK CROWS        |
| HAMMER           | THREE INSIDE UP          |
| HANGING MAN      | THREE INSIDE DOWN        |
| HARAMI           | THREE WHITE SOLDIERS     |
| INVERTED HAMMER  | THREE METHODS            |
| KICKING          | THREE OUTSIDE UP         |
| MORNING STAR     | THREE OUTSIDE DOWN       |

Each Candle Pattern can be activated or de-activated using the interface shown to the right. Simply click next to the ones you want to use in your charts.

## The Best of the Best!

For any of the 7 classic patterns (Consolidations, Trend Lines, etc.), you can also select time frame (Short, Medium, and/or Long Term). This allows you to isolate (for example) larger or smaller Symmetrical Triangles.

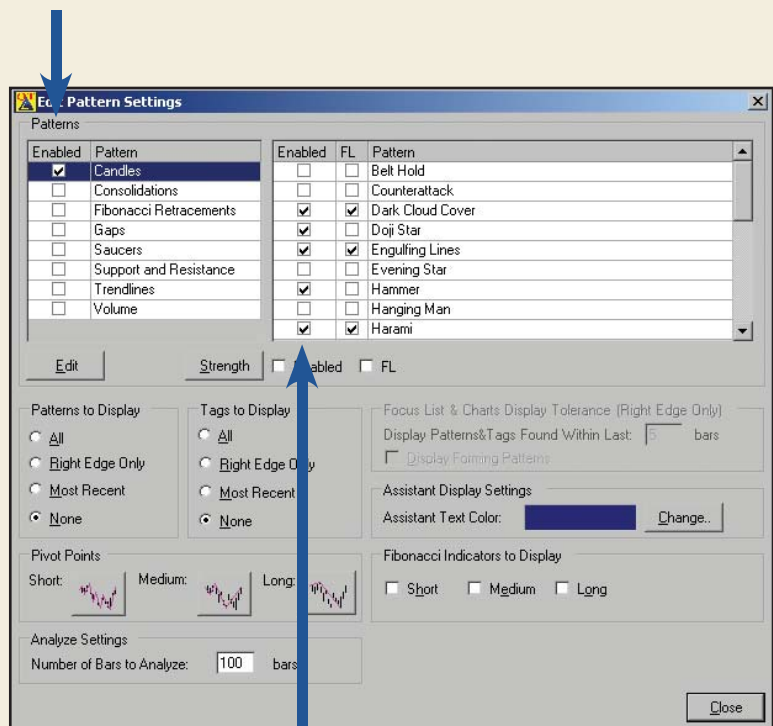
Once you have selected the patterns you want to see you can use the Strength Rating system to identify the specific patterns that have the greatest potential for movement, based on an extensive pattern performance database!

The ability to display individual patterns according to strength and time frame is a huge advantage for your trading. There is no other pattern system in the world that can compare to CPRM3.

## Pattern Selector Interface: Display Only the Patterns You Want

### 1) Select Pattern Classification

On the left side of the CPRM3 interface, select the general pattern class you want active in your charts (Candles in this case.)

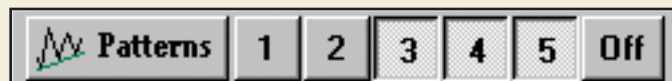


### 2) Select Specific Pattern Types

The right side of the display shows you all the individual types of patterns within that classification. Individually select the ones you want to see, both in the charts and the Focus List.

### 3) Select Pattern Strength (1 to 5)

The Pattern Strength toolbar has been updated for each pattern type. By clicking a Strength Rating (1=lowest to 5=highest) CPRM3 identifies pattern types with more or less historical significance.



Strength Toolbar

# Plus **MORE** Advanced FEATURES

## Right Edge Control

Using the Patterns dialog box, you can set your Chart Patterns to display:

- All Patterns and/or Tags
- The Most Recent Patterns and/or Tags
- All Patterns and/or Tags within N Bars of the Right Edges

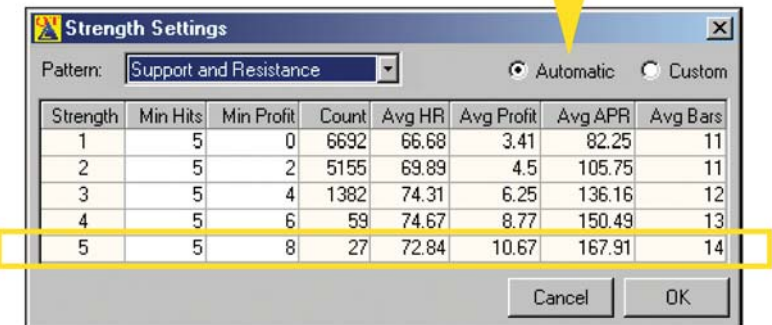
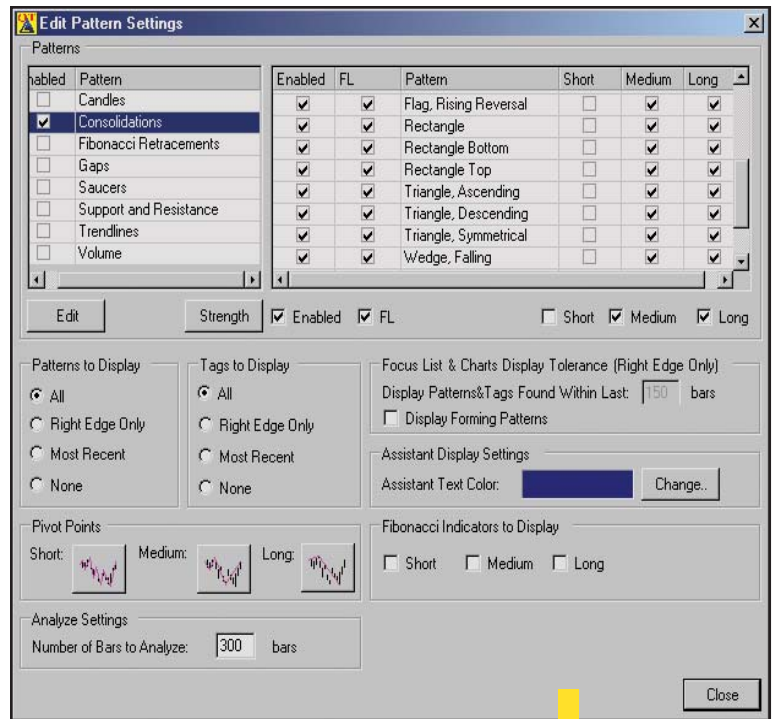
This provides maximum flexibility of pattern display. When you are trading, you will only want to see the Right Edge Patterns. But when you are studying, you will want to see all of them. With CPRM3, you have virtually unlimited flexibility in how you view the tags and patterns that are displayed in the charts.

## Customizable Strength Levels

The patterns database contains the strength of all patterns based on the historical performance of thousands of stocks over a 20 year period. By clicking the Strength button on the Patterns dialog box, you can see the strength definitions for all the patterns.

Those users who want to alter the constraints for a given strength rating can do so quickly and easily. For example, if you want Strength 5 Support and Resistance patterns to be those with a minimum profit of 10%, change the Min Profit entry to 10. From then on, only patterns which historically show a profitability of 10% (or more) per trade will be shown in the chart and Focus List when Strength 5 is selected.

CPRM3 is the only Pattern Recognition system that has a Strength Rating system. The fact that it is configurable means you can set the system to show precisely the kinds of patterns you want to see at any strength level. This is useful for those who (for example) only want to see Candle Patterns if they are very profitable, but want to see ALL Consolidations. With CPRM3, you can set it just the way you want.



Each Strength Rating can be configured by adjusting the Min Hits and Min Profit columns. Min Hits is the number of samples of a given pattern that must meet the Min Profit requirement in order to display at the given strength.

In this example at Strength 5 (with Min Hits of 5 and Min Profit of 8%), we have 27 pattern variations that were 72.8% accurate, with average profit of 10.6% and APR of 168% over an average trade of 14 bars.



**Forming Line - Set Buy Stop at 14 1/2**



**Line turns green at break**

**tag**



**50% Gain!**

## Also Displays Forming Patterns

The forming pattern feature of CPRM3 can help you enter trades early by setting stops above or below a forming line for trade entry.

Forming patterns appear as grey lines, as shown in the first image to the left. The visible right edge of the chart shows the forming patterns that would have been visible on the right edge. As soon as the pattern forms a true break, the line turns green and the tag is added below (or above) the same bar.

Forming patterns can help a great deal in your prospecting. For example, you might notice that a Trend Line has formed, but that price has not broken it yet. One way to take advantage of this is to establish a Buy, Stop Limit order at the point the line might be violated the next day, thereby getting an early entry ahead of the actual break.

Forming patterns give you more information about the setups that are occurring in the market. This “heads up” provides better clues about what the market is likely to do—especially in the case of Consolidations and Trend Lines.

CPRM3 is the ONLY Pattern Recognition tool with the forming pattern feature.

Included  
with the  
**CPRM3**



# The Pattern Tutor

*Learn as you Earn!*

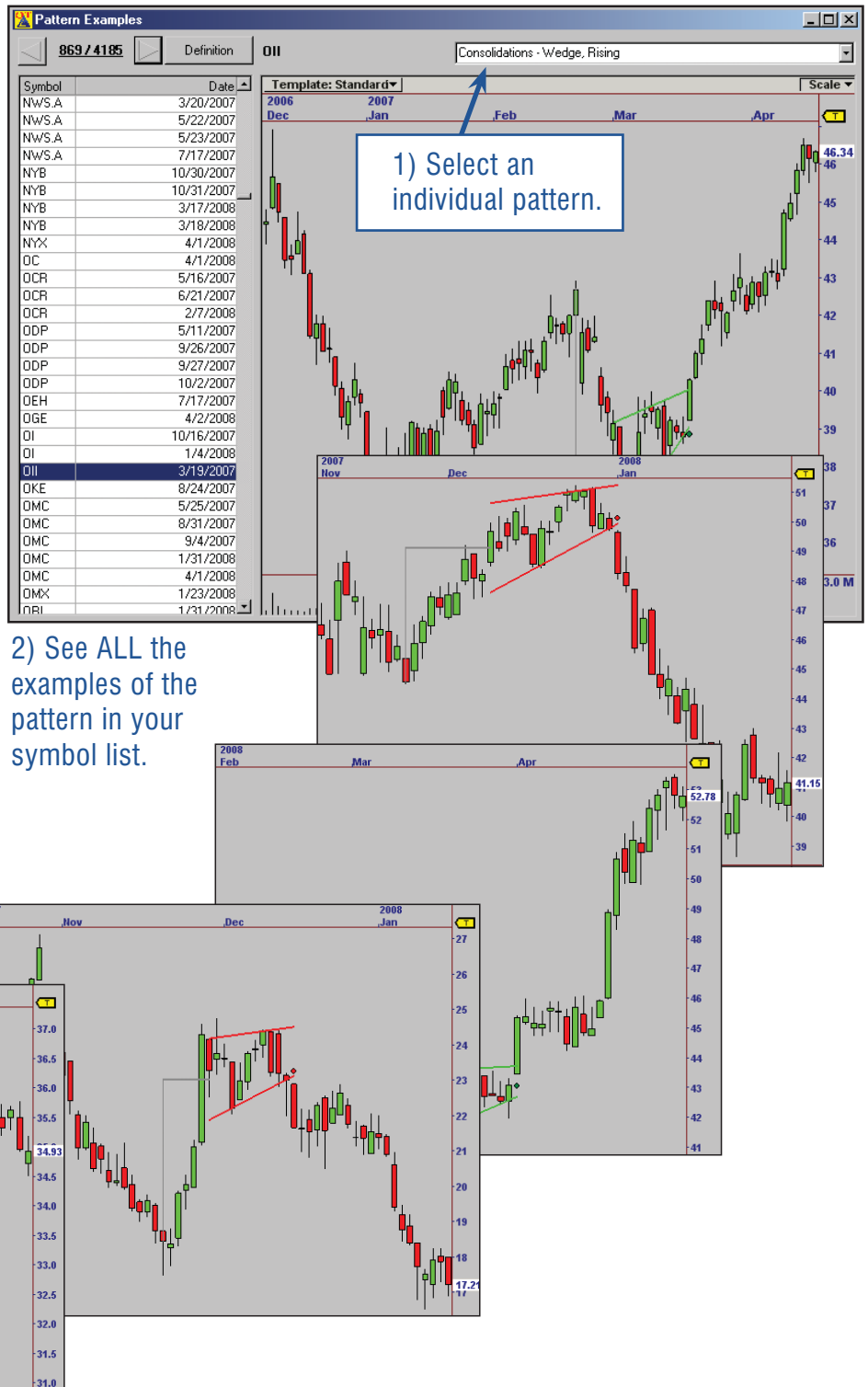
Finds ALL examples of any pattern, INSTANTLY!

The Pattern Tutor lets you find patterns that are similar to a pattern you see in a chart. CPRM3 has the ability to target specific patterns by name, such as “Symmetrical Triangles” or “Trend Line Breaks with 4 Touches of the Line”.

This classification in CPRM3 makes it easy to identify these patterns. Just activate the Pattern Tutor, click the drop-down box, and select one. Instantly, you will see every example of that pattern across all symbols in your Focus List. Click through the list to see the individual examples.

CPRM3 identifies over 50 unique patterns. Using the Pattern Tutor, you will quickly learn about all these powerful patterns and how to use them in your trading. It’s like having a “Pattern Assistant” right inside your OmniTrader or VisualTrader program.

The Pattern Tutor greatly enhances the Chart Pattern Recognition capability of CPRM3. Not only will you quickly discover how predictive specific patterns are, you will learn which ones predict the biggest moves, and hence the greatest profits.



# **CHART PATTERN Recognition Module 3**

***The Most Powerful Chart Pattern  
Recognition on the Planet!***

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