



# THE TAPE READER

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## Inverse Head and Shoulders Pattern Suggests Higher Highs

With all the tumult in the market from the coronavirus fallout, I thought it may be useful to make reference to a chart pattern that chart watchers have used for many years. This pattern is known as an Inverse Head and Shoulders. Richard W. Schabacker first published his remarkable book titled *Technical Analysis And Stock Market Profits* in 1932. This relatively unknown book helped to set the foundation for modern technical analysis. I will refer to this book as we study the price movement in the S&P 500 as detailed below. It is noteworthy that an Inverse Head and Shoulders is a bullish pattern.



Schabacker's Formula: "If we measure the vertical distance on the price scale from the tip of the head to the neck base line, and then measure off this same distance vertically in the same direction from the point where the neck line is finally broken, the point thus determined frequently falls on or very near the price level at which the first important reaction or congestion occurs." (1)

The chart above is not an ideal depiction of an Inverse Head and Shoulders, but it works for our purposes. One of the issues with Schabacker's formula is that it does not provide a timeline wherein the chart pattern will meet its objective. We do not know *if*, we also do not know *when* the price may meet the objective. Chart patterns are used by traders, and many other market participants; they are not guaranteed, nor are they fool proof. They provide some insight as to what *may* occur in the future. Our job as investors is to know as much as we can about all the various market forces and to act appropriately based on our own investment objectives.

The point of the above chart is that it provides a backdrop for what I view as a positive environment for equities. I believe we still have more upside from here, but I would not be surprised if we continue to pause here and continue in a sideways trading pattern. The coronavirus has given the market a pause, we will see where we go from here.

(1) Schabacker, R. W., (1937). *Technical analysis and stock market profits* (2<sup>nd</sup> ed. pp 61-63) Hampshire, England: Harriman House Ltd.

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