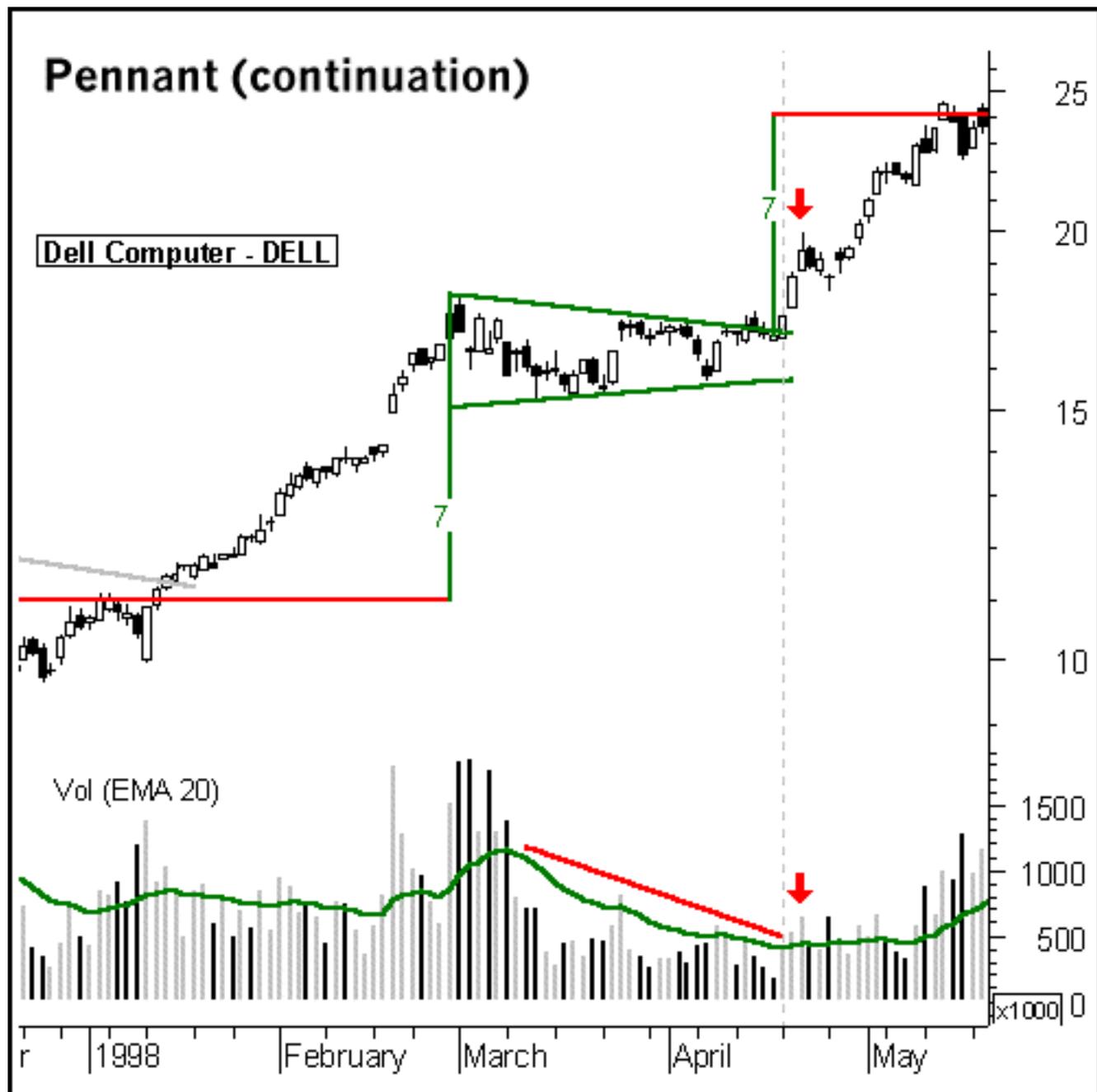




## Flag, Pennant (Continuation)

Flags and Pennants are short-term continuation patterns that mark a small consolidation before the previous move resumes. These patterns are usually preceded by a sharp advance or decline with heavy volume, and mark a mid-point of the move.

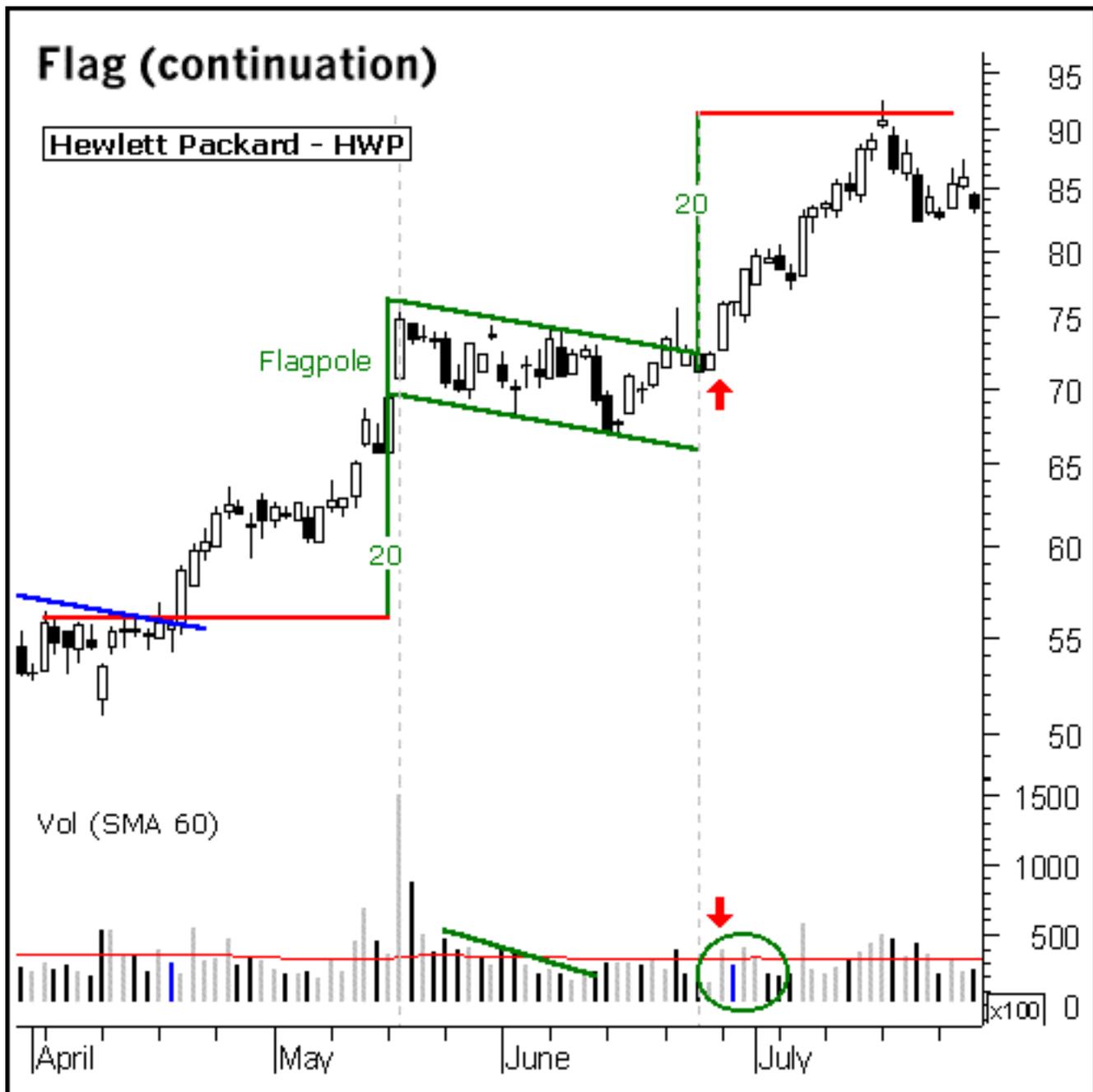


1. Sharp Move: To be considered a continuation pattern, there should be evidence of a prior trend.

Flags and pennants require evidence of a sharp advance or decline on heavy volume. These moves usually occur on heavy volume and can contain gaps. This move usually represents the first leg of a significant advance or decline and the flag/pennant is merely a pause.

2. **Flagpole:** The flagpole is the distance from the first resistance or support break to the high or low of the flag/pennant. The sharp advance (or decline) that forms the flagpole should break a trendline or resistance/support level. A line extending up from this break to the high of the flag/pennant forms the flagpole.
3. **Flag:** A flag is a small rectangle pattern that slopes against the previous trend. If the previous move was up, then the flag would slope down. If the move was down, then the flag would slope up. Because flags are usually too short in duration to actually have reaction highs and lows, the price action just needs to be contained within two parallel trendlines.
4. **Pennant:** A pennant is a small symmetrical triangle that begins wide and converges as the pattern matures (like a cone). The slope is usually neutral. Sometimes there will not be specific reaction highs and lows from which to draw the trendlines and the price action should just be contained within the converging trendlines.
5. **Duration:** Flags and pennants are short-term patterns that can last from 1 to 12 weeks. There is some debate on the timeframe and some consider 8 weeks to be pushing the limits for a reliable pattern. Ideally, these patterns will form between 1 and 4 weeks. Once a flag becomes more than 12 weeks old, it would be classified as a rectangle. A pennant more than 12 weeks old would turn into a symmetrical triangle. The reliability of patterns that fall between 8 and 12 weeks is debatable.
6. **Break:** For a bullish flag or pennant, a break above resistance signals that the previous advance has resumed. For a bearish flag or pennant, a break below support signals that the previous decline has resumed.
7. **Volume:** Volume should be heavy during the advance or decline that forms the flagpole. Heavy volume provides legitimacy for the sudden and sharp move that creates the flagpole. An expansion of volume on the resistance (support) break lends credence to the validity of the formation and the likelihood of continuation.
8. **Targets:** The length of the flagpole can be applied to the resistance break or support break of the flag/pennant to estimate the advance or decline.

Even though flags and pennants are common formations, identification guidelines should not be taken lightly. It is important that flags and pennants are preceded by a sharp advance or decline. Without a sharp move, the reliability of the formation becomes questionable and trading could carry added risk. Look for volume confirmation on the initial move, consolidation and resumption to augment the robustness of pattern identification.



HWP provides an example of a flag that forms after a sharp and sudden advance.

- **Sharp move:** After consolidating for three months, HWP broke above resistance at 56 to begin a sharp advance. The 5-April high and 16-Feb trendline marked resistance and the breakout occurred with a volume expansion. The stock advanced from 56 to 76 in a mere 4 weeks. (Note: It is also possible that a small pennant formed in early May with resistance around 62.25).
- **Flagpole:** The distance from the breakout at 56 to the flag's high at 76 formed the flagpole.
- **Flag:** Price action was contained within two parallel trendlines that sloped down.
- **Duration:** From a high at 76 to the breakout at 72.25, the flag formed over a 23-day period.
- **Breakout:** The first break above the flag's upper trendline occurred on 21-June without an expansion of volume. However, the stock gapped up a week later and closed strong with above-average volume (red arrows)
- **Volume:** To recap -- volume expanded on the sharp advance to form the flagpole, contracted during the flag's formation and expanded right after the resistance breakout.
- **Targets:** The length of the flagpole measured 20 points and was applied to the resistance breakout at 72.25 to project a target of 92.25.

**Written by Arthur Hill**

[Send us your Feedback!](#)

© 1999-2000 StockCharts.com  
All Rights Reserved [Terms of Use](#)