

Island Reversals

Reversals in trends can occur slowly, or aggressively. Patterns such as double bottoms, head and shoulder patterns can take time to develop.

This isn't always the case, though. Occasionally, a substantial reversal can occur in an instant, and knowing how to identify them is important. "Island tops" and "Island bottoms" are significant patterns in this regard.

These island reversals are generally indicative of a dramatic reversal, regardless of how the island tops and bottoms were formed.

A typical island reversal (sometimes referred to as "pivot points"), occur when the price gaps with the trend, and then within a few bars, gaps in the opposite direction of the current trend. The "island" is isolated by gaps on both sides.

A prime example of an island top is shown by Suncorp. Bear in mind that an Island can include a small cluster of bars and need not only be a single bar.

A good example of an Island Bottom is seen on the chart of Microsoft.

It's typically prudent to wait for confirmation of a reversal with other indicators (for example, a sharp increase in volume) before initiating a trade.

You can't have Island Tops and Bottoms without gaps. Exhaustion gaps and breakaway gaps are the most common components of this particular pattern in the chart.

