

ChartWork Cup & Handle Playbook

A Professional Trader's Guide by Biddles Group

1. Core Concept

The Cup & Handle is a continuation pattern that forms during periods of accumulation before a breakout. The setup mirrors institutional buying: a controlled pullback (the cup), minor consolidation (the handle), and then a surge above resistance. Executed properly, it offers strong risk-to-reward potential with momentum confirmation signals.

2. Market Context Checklist

- ✓ Confirm the general market direction — ideally, the broader indices (SPY, QQQ, or IWM) are trending upward.
- ✓ Favor sectors demonstrating relative strength (using sector rotation or momentum data).
- ✓ Volatility (VIX) under 20 generally supports cleaner breakouts.
- ✓ Ensure macro and earnings calendars don't coincide with breakout triggers.

3. Pattern Anatomy

- ✓ Cup depth typically retraces 20–40% from the prior high.
- ✓ Rounded base formation — avoid sharp V-shapes.
- ✓ Handle retracement is typically **8–15%** below the cup peak.
- ✓ Handle should drift downward or sideways on lighter volume.
- ✓ Minimum pattern duration: Cup (6+ weeks), Handle (1–2 weeks).

4. Moving Average Structure

- ✓ Price must reclaim key moving averages — 9EMA, 21EMA, 50SMA, and ideally 200SMA.
- ✓ Handle consolidation above the 21EMA/50SMA signals institutional support.
- ✓ Watch for 9/21 EMA crossover — momentum shift confirmation.

5. Momentum Confirmation

- ✓ RSI trending above 55 with rising slope (momentum building phase).
- ✓ CCI above +100 signals strength continuation.
- ✓ MACD histogram flips positive and the MACD line crosses above signal.
- ✓ Optional: Confirm ATR% under 5% for stable volatility before breakout.

6. Entry & Execution

- ✓ Preferred entry: Breakout above handle resistance with 40–50% above-average volume.
- ✓ Early entry (advanced traders): During handle build once RSI > 55 and volume stabilizes.
- ✓ Avoid entry if breakout occurs on weak or declining volume.
- ✓ Confirm breakout candle close above prior resistance for conviction.

7. Stop-Loss & Risk Management

- ✓ Maximum position risk: 1–2% of portfolio capital.
- ✓ Place stop-loss 3–4% below handle low or last confirmed support.
- ✓ Adjust stops to breakeven once price moves +5–7% in your favor.
- ✓ Reduce position if price closes below the 21EMA after breakout.

8. Profit Strategy & Scaling

- ✓ Target 20–35% above breakout level for swing exits.
- ✓ Scale out in $\frac{1}{3}$ increments at +10%, +20%, and +30%.
- ✓ Let runners ride if volume persists or if price holds above 9EMA.
- ✓ Avoid selling into first breakout day unless exhaustion candles form.

9. Re-entry & Review

- ✓ Retest entries: If price pulls back to breakout zone and rebounds with strong volume.
- ✓ Avoid revenge trades if breakout fails; wait for new base formation.
- ✓ Journal each trade — document pattern shape, volume, momentum, and emotional discipline.

10. Pro Insights

- ★ The strongest cup formations occur near prior highs after extended accumulation.
- ★ Combine with sector analysis — leading sectors often produce the best-performing cups.
- ★ Patterns forming in high-growth or high-innovation industries tend to outperform.
- ★ Align pattern structure with macro strength and investor sentiment.