

BIDDLES GROUP · CHARTWORK

BUILDING WEALTH. SECURING FUTURES.

SWING TRADER SERIES

VOLUME 03

A PROFESSIONAL TRADER'S PATTERN PLAYBOOK

CUP & HANDLE PLAYBOOK

Every major breakout in market history started the same way – a period of quiet accumulation, a controlled pullback, and then a surge that rewarded the patient.

This is how you read it. This is how you trade it.

PATTERN OVERVIEW – THE CLASSIC FORMATION



10

15-50%

1-2+

70%+



THE PATTERN THAT HAS LAUNCHED SOME OF THE GREATEST STOCK RUNS IN HISTORY

William O'Neil studied over 100 years of the market's greatest winning stocks and found one pattern kept appearing before their biggest moves — the Cup & Handle. It's not magic. It's **institutional accumulation made visible**. Smart money loads positions quietly. Retail traders see the breakout and chase. **You'll see it forming.**

01

CORE CONCEPT

WHAT THIS PATTERN ACTUALLY REPRESENTS IN THE MARKET



WHAT IS THE CUP & HANDLE?

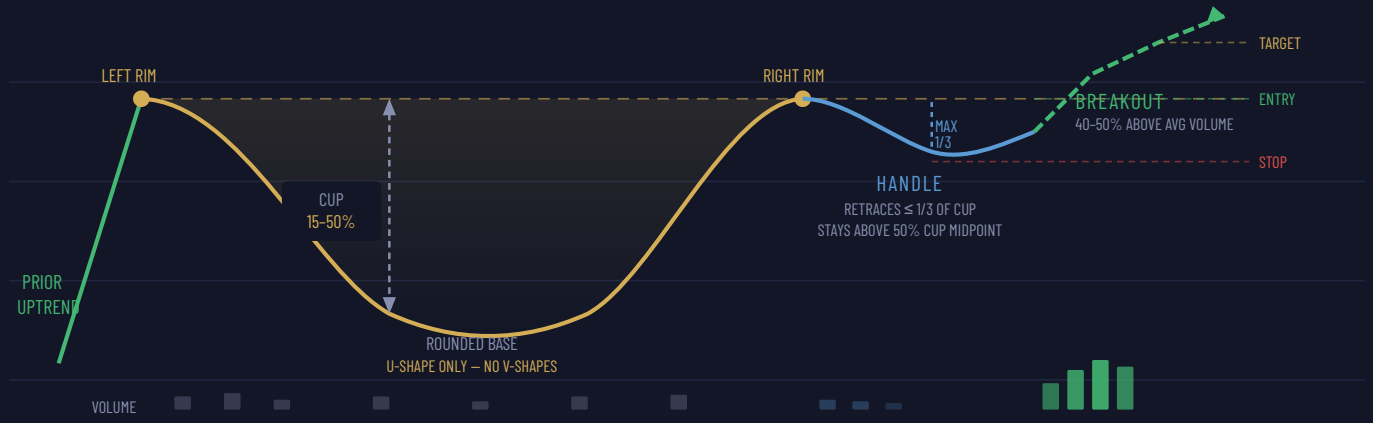
The Cup & Handle is a **bullish continuation pattern** that forms during periods of accumulation before a breakout. First identified and popularized by **William J. O'Neil** in his 1988 book *How to Make Money in Stocks*, it remains one of the most battle-tested setups in technical analysis.

The setup mirrors **institutional buying behavior**: a controlled pullback as early holders take profits (the cup), minor consolidation as weak hands are shaken out (the handle), and then a surge above resistance as institutional demand overwhelms supply. Executed with discipline, it offers strong risk-to-reward potential with clear, objective entry and exit rules.

02 PATTERN ANATOMY

THE EXACT MEASUREMENTS THAT MAKE OR BREAK THE SETUP

ANNOTATED PATTERN — IDEAL FORMATION WITH KEY MEASUREMENTS



COMPONENT	IDEAL RANGE	ACCEPTABLE	PATTERN KILLER	STATUS
Cup Depth	15-33% retracement	33-50%	>50% (too deep)	Verified ✓
Cup Shape	Smooth U / rounded base	Slightly asymmetric	Sharp V-shape	Verified ✓
Cup Duration	7 weeks – 6 months	Up to 65 weeks	Under 6 weeks	Updated ↑
Handle Depth	$\leq 1/3$ of cup's advance	Up to 50% (weaker)	>50% retracement	Corrected ↑
Handle Position	Upper half of cup	Above 50% midpoint	Drops into bottom half	Added ✓
Handle Duration	1-4 weeks	Up to several weeks	>8 weeks (stale)	Updated ↑
Handle Volume	Declining/dry	Stable low volume	Rising volume in handle	Verified ✓
Breakout Volume	40-50%+ above average	20-40% above average	Below-average volume	Verified ✓

⚠️ PATTERN INVALIDATION SIGNALS — EXIT BEFORE IT COSTS YOU

- **V-shaped cup bottom** — sharp reversals imply unresolved volatility; the base isn't properly formed
- **Handle drops below 50% of cup midpoint** — too much supply still exists; pattern is weakening
- **Rising volume during handle formation** — distribution is happening, not accumulation
- **Breakout on weak or declining volume** — no institutional conviction; high failure probability
- **Prior trend too mature** — the best C&H patterns form during uptrends a few months old, not multi-year bulls



YOU DON'T FIND GREAT TRADES. YOU PREPARE FOR THEM.

The biggest mistake traders make with the C&H is **acting before the setup is ready**. They buy the right rim before the handle forms. They enter on weak volume. They skip the market context check. **Patience isn't passive — it's your edge**. The setup either qualifies or it doesn't. There is no "almost."

03 MARKET CONTEXT

THE ENVIRONMENT MUST SUPPORT THE PATTERN



MACRO CONDITIONS CHECKLIST

- Broad market direction:** SPY, QQQ, or IWM trending upward — the tide lifts all boats
- VIX below 20:** Low volatility supports cleaner, more reliable breakouts
- Sector strength:** Your stock's sector showing relative strength and rotation
- Calendar clear:** No earnings, Fed meetings, or macro events overlapping the breakout
- Prior uptrend confirmed:** Stock should have advanced at least 30% from prior intermediate low (O'Neil)



MOVING AVERAGE STRUCTURE

- Price has reclaimed **9 EMA, 21 EMA, and 50 SMA** — all trending upward
- Handle consolidation holding **above the 21 EMA / 50 SMA** — signals institutional support
- 9/21 EMA crossover** during cup recovery = momentum shift confirmation
- Ideally: price also above **200 SMA** — confirms long-term bull market regime
- Handle midpoint stays **above the 50-day SMA** — O'Neil quality filter

04 MOMENTUM CONFIRMATION

INDICATORS THAT VALIDATE THE BREAKOUT BEFORE YOU RISK CAPITAL

RSI

RELATIVE STRENGTH INDEX

RSI trending **above 55** with rising slope during cup recovery phase — momentum building. Divergence on cup bottom (RSI holds higher while price drops) is a powerful early signal.

MACD

MOMENTUM CONFIRMATION

MACD histogram **flips positive** and MACD line crosses above the signal line during handle resolution. Histogram expanding = increasing momentum conviction.

CCI

COMMODITY CHANNEL INDEX

CCI **above +100** signals strength continuation. A CCI breakout above +100 coinciding with price breakout above the handle = high-conviction entry confirmation.

VOL

VOLUME PATTERN

Volume **dries up** during handle (supply exhausted). Breakout candle must show **40-50%+ above average volume**. Without volume, the breakout has no institutional backing.

ATR

AVERAGE TRUE RANGE

Optional: ATR% **under 5%** before breakout confirms stable, contracting volatility — the "coil before the spring." Expanding ATR during handle = warning sign.

OBV

ON-BALANCE VOLUME

OBV should trend **higher during the cup recovery** even as price moves sideways — confirming institutional accumulation is happening before the breakout is visible.

05 ENTRY & EXECUTION

EXACTLY WHERE, WHEN, AND HOW TO ENTER



IDENTIFY

Confirm cup + handle fully formed with volume pattern



QUALIFY

All checklist items confirmed: market, MAs, momentum



SET ENTRY

Above handle resistance + volume trigger rule



SIZE POSITION

Scale in 1/4-1/2 at breakout, add on confirmation



EXECUTE

Breakout candle close above resistance with volume



STANDARD ENTRY (MOST TRADERS)

- Entry trigger:** Breakout above handle resistance with 40-50%+ above-average volume
- Wait for **candle close above prior resistance** — not just an intraday wick
- Avoid entry if breakout occurs on **weak or declining volume** — let it develop
- Scale in:** 1/4 to 1/2 position at breakout — add the rest on the first successful retest
- Do **NOT chase gap-ups** on breakout day — wait for first pullback to breakout level



EARLY ENTRY (ADVANCED TRADERS)

- Enter **during handle build** once RSI >55 and volume stabilizes near lows
- Price must be holding **above 21 EMA and 50 SMA** with handle well-formed
- Use a **tighter stop** below handle low — smaller size compensates for higher risk
- Risk no more than 1%** total capital on early entries — you're paying for optionality
- New to the pattern? Use the **1-share method** to learn with real money, zero pressure



THE TRADE ISN'T OVER WHEN YOU ENTER. THAT'S WHEN THE REAL WORK BEGINS.

Most traders put all their energy into finding the entry — and almost none into managing the trade. **Where you exit determines your return. How you manage risk determines your survival.** The C&H gives you a clear target calculation, a clear stop level, and a clear scaling framework. Use all three.

06 STOP-LOSS & RISK MANAGEMENT

THE RULES THAT KEEP YOU IN THE GAME

2%

MAX POSITION RISK

Never risk more than **1-2% of total portfolio capital** on a single C&H trade. Size your position so that a full stop-loss hit equals no more than 2% of your account.

STOP

STOP-LOSS PLACEMENT

Place stop **3-4% below the handle low** or last confirmed support level. This absorbs normal volatility without exposing you to pattern failure losses.

+5%

BREAKEVEN ADJUSTMENT

Move stop to **breakeven once price advances +5-7%** in your favor. This is a free trade from that point — your only risk is opportunity cost.

21E

DYNAMIC STOP RULE

Reduce or exit position if price closes below the 21 EMA after breakout. This signals the breakout is failing and institutional support is withdrawing.

1/3

SCALE IN GRADUALLY

Enter $\frac{1}{4}$ to $\frac{1}{2}$ at breakout. **Add the remainder on a successful retest** of the breakout level. This averages in at a lower blended cost with less emotional pressure.

NO

NO REVENGE TRADING

If breakout fails: **stop, journal, wait.** Trying to win it back immediately is how small losses become catastrophic ones. Wait for a new base to form.

07 PROFIT TARGET CALCULATION

THE MEASURED MOVE FORMULA — ADDED FROM ORIGINAL

THE MEASURED MOVE — HOW TO CALCULATE YOUR PRICE TARGET

$$\text{TARGET} = \text{BREAKOUT PRICE} + \text{CUP DEPTH}$$

Example: A stock forms a cup from a high of \$50, drops to a low of \$38, creating a cup depth of \$12. The breakout occurs at \$50 (the rim/resistance level).

Target = \$50 + \$12 = \$62 → That's a 24% move from the breakout point.

This aligns with the original guide's 20–35% swing target range. Use the measured move as your **first profit target**. If volume persists and the 9 EMA holds, let runners continue beyond it.

Note: The measured move is a minimum target estimate, not a ceiling. In strong bull markets with institutional conviction, C&H breakouts frequently exceed the projected target significantly.

08 PROFIT STRATEGY & SCALING

TAKING MONEY OFF THE TABLE INTELLIGENTLY



SCALING OUT FRAMEWORK

- Sell $\frac{1}{3}$ of position at **+10%** — locks in profit, eliminates all anxiety
- Sell $\frac{1}{3}$ at **+20%** — you're now playing with house money
- Sell final $\frac{1}{3}$ at **+30% or trail via 9 EMA** — let winners run if the pattern holds
- Don't sell into the first breakout day** unless clear exhaustion candles form (huge wick, massive gap)
- Adjust targets to the **measured move calculation** — add cup depth to breakout price



RE-ENTRY & REVIEW

- Retest entry:** If price pulls back to the breakout zone and rebounds with strong volume — re-enter
- Retest must hold **above the breakout level** — a close below invalidates the thesis
- Failed breakout: **Wait for a new base to form.** Do not chase or revenge trade
- Journal every trade:** Pattern shape, volume, momentum readings, and emotional state
- Review journals quarterly — your **edge lives in patterns you repeat**, both winning and losing

09 PSYCHOLOGY & MINDSET

THE MENTAL GAME SEPARATES GOOD TRADERS FROM GREAT ONES



THE PATTERN IS ONLY AS GOOD AS THE TRADER FOLLOWING IT

You can memorize every rule in this playbook and still lose — if you exit too early out of fear, hold too long out of greed, or chase a breakout because of FOMO. **The C&H is a probabilistic setup, not a guarantee.** Your job is to follow your rules every single time. The edge compounds over many trades — not one.

ON WAITING

✗ "The handle is almost formed, I'll just buy now."

✓ **"I wait for the breakout. No exceptions."**

ON VOLUME

✗ "Volume is light but I think it'll breakout anyway."

✓ **"No volume = no trade. I skip this one."**

ON FAILED BREAKS

✗ "I'll hold through — it should bounce back."

✓ **"My stop was hit. I exit. I journal. I move on."**

ON PROFIT TAKING

✗ "I'll hold for more — this could go much higher."

✓ **"My +10% target hit. I take the first third."**

ON MISSING IT

✗ "It already broke out — I'll chase it up here."

✓ **"I missed this one. Another setup is forming."**

ON MARKET CONTEXT

✗ "Great pattern, even though SPY is in a downtrend."

✓ **"Market context fails. I don't take the trade."**

"The market will reward patience and punish impatience. The Cup & Handle doesn't care about your feelings — it responds to discipline, preparation, and ruthless adherence to your rules."

— ChartWork Trading Framework · Biddles Group

10 PRO INSIGHTS

WHAT SEPARATES THE SETUPS THAT WORK FROM THE ONES THAT DON'T

ADVANCED PATTERN INTELLIGENCE — WHAT THE CHART DOESN'T EXPLICITLY TELL YOU

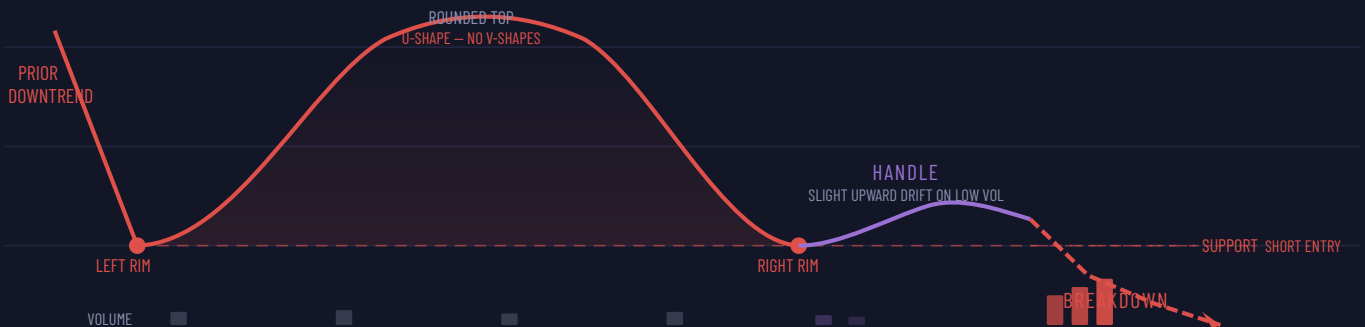
- **The strongest cups form near prior highs after extended accumulation.** A stock making a cup near all-time highs with rising OBV is a different animal than one 40% off its highs.
- **Combine with sector analysis.** Leading sectors in the current market cycle produce the highest-probability C&H breakouts. A great pattern in a weak sector is a coin flip.
- **High-growth, high-innovation industries tend to outperform.** Tech, biotech, semiconductors, and emerging themes historically produce the biggest C&H winners. Pattern + growth story = institutional fuel.
- **The "high handle" variation.** When a handle forms just below all-time highs — almost at the rim — this is actually a very powerful setup. The stock has almost no overhead supply. A breakout can explode.
- **Watch for the RS Line breakout.** O'Neil's Relative Strength Line (stock vs. S&P 500) breaking to new highs before or alongside the price breakout = elite confirmation that institutions are overweighting this stock.
- **Success rate context:** Research suggests baseline success ~49%, rising to 70%+ over a 1-year timeframe and 80%+ over 5 years. This is a long-game edge. Trade it consistently and size appropriately.
- **Align with macro sentiment.** The C&H works in bull markets. In bear markets or during high-VIX regimes, dramatically reduce position size or sit in cash. The same pattern in a bad environment has a fraction of the win rate.

BONUS SECTION

INVERTED CUP & HANDLE

The bearish mirror – **the same logic, flipped upside down**. Where the bullish C&H shows institutional accumulation, the inverted C&H reveals institutional **distribution**. A stock topping, rounding over, and breaking down on volume. The edge is the same – the direction is opposite.

INVERTED CUP & HANDLE – BEARISH CONTINUATION PATTERN



BULLISH C&H – SUMMARY

Prior uptrend → U-shaped cup → handle drifts **down/sideways on low volume** → breakout above resistance on **high volume** → target = breakout price + cup depth

INVERTED C&H (BEARISH) – SUMMARY

Prior downtrend → inverted U-shaped cup → handle drifts **up/sideways on low volume** → breakdown below support on **high volume** → target = breakdown price – cup depth



INVERTED C&H RULES

- Pattern:** Inverted U-shape (rounded top), not a V-shaped spike
- Handle:** Drifts slightly upward or sideways on declining volume — a bearish flag
- Entry:** Short (or put options) on breakdown below support with high volume
- Stop:** Above the handle high — a recovery above invalidates the thesis
- Target:** Breakdown price – cup depth (same measured move, opposite direction)



INVERTED C&H CONFIRMATION

- Broad market:** Ideally in a downtrend or under distribution — SPY/QQQ rolling over
- RSI:** Below 45 and falling — momentum deteriorating
- MACD:** Histogram flipping negative, signal line crossover bearish
- OBV:** Declining during the cup — distribution confirmed by volume data
- Caution:** Inverted C&H is more reliable in bear markets. In a bull market, use reduced size and tighter stops

THE CHARTWORK SERIES — VOLUME 03

PATIENCE BUILDS PORTFOLIOS

The Cup & Handle doesn't reward the impulsive. It rewards those who study the rules, wait for the setup, and execute with discipline. **Every great trade starts with preparation. This playbook is yours.**

FACT-CHECKED

O'NEIL FRAMEWORK

TARGET FORMULA ADDED

INVERTED C&H BONUS

PSYCHOLOGY SECTION

PRINT-READY PDF

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Fact-checked against: William J. O'Neil — How to Make Money in Stocks (1988) · StockCharts ChartSchool · Fidelity Learning Center

AAll Journal · Morpheus Trading · Equiti · TrendSpider · Capital.com · Wikipedia (Cup and Handle)

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