CAN SLIM PROFESSIONAL PATTERN RECOGNITION GUIDE

Complete Reference for All 8 Primary Base Patterns

Pivot Determination • Entry / Profit / Stop Zones • Machine-Readable Rules

BUY ZONE 0–5%	PROFIT ZONE 20–25%	STOP ZONE 5–8%

A deep professional reference designed for platform integration. Covers the complete set of William O'Neil / IBD primary base patterns used by MarketSurge-style systems, including exact construction rules, pivot logic, volume requirements, failure conditions, and a machine-readable ruleset suitable for scoring engines and scanners.

Based on the methodology of William J. O'Neil
Founder of Investor's Business Daily • Author of How to Make Money in Stocks

1. The Three Action Zones

All percentages are measured from the **pivot price** (ideal buy point), never from your personal entry price. This is the same logic used by professional CAN SLIM platforms.

Zone	Calculation	Purpose
Buy / Entry Zone (Blue)	0% to +5% above pivot	Ideal range to establish a position. Prefer the lower half of the zone to reduce shakeout risk.
Profit-Taking Zone (Green)	+20% to +25% above pivot	Primary area to take partial or full profits. Historical tendency of growth stocks after proper breakouts.
Stop-Loss Zone (Pink)	–5% to –8% below pivot	Maximum loss area. Aligns with the classic 7–8% stop rule. Many traders use a hard 7% stop.

Pivot Determination (Universal)

The pivot is the key resistance level the stock must clear. Standard practice is to set the actionable buy point **10 cents above** the relevant high of the pattern so the stock must show real strength.

2. The 8 Primary O'Neil / IBD Base Patterns

These are the principal base patterns used for classic CAN SLIM breakout trading. A professional platform should be able to evaluate stocks against these construction rules.

1. Cup with Handle

The cornerstone pattern of the O'Neil methodology. Highest historical reliability when properly formed.

- **Duration**: 7–65 weeks (ideal 7–15 weeks).
- **Depth**: 12–33% from left peak to cup low (up to 40–50% acceptable in severe bear markets).
- **Shape**: Rounded "U" bottom strongly preferred over sharp "V". Orderly left-side decline.
- **Handle**: Must form in the upper half of the cup. Minimum 5 trading days, ideally 1–4 weeks. Depth preferably ≤ 8–12%. Should drift down or sideways on lighter volume. Volume dry-up near handle low is critical.
- **Pivot**: 10¢ above the highest price in the handle.
- **Breakout Volume**: ≥ 40–50% above 50-day average volume.
- **Failure Signs**: Handle too deep, handle in lower half of cup, wide-and-loose action, no volume dry-up, light-volume breakout.

2. Cup without Handle (Saucer)

Same structural rules as the Cup with Handle, but without a distinct handle (or only a very minor one).

- **Pivot**: 10¢ above the left-side peak (rim of the cup).
- Slightly higher risk than classic cup-with-handle because there is less final shakeout.
- Often appears in strong markets or after a prior successful base.

3. Double Bottom (W Pattern)

- **Duration**: 7–65 weeks.
- **Structure**: Two clear lows separated by a middle peak. The second bottom frequently undercuts the first (constructive shakeout).
- **Pivot**: 10¢ above the highest point of the middle peak.
- Volume often expands on the undercut and contracts on the right side rise.
- Best versions show the second bottom forming on lower volume than the first.

4. Flat Base

- **Duration**: Minimum 5 weeks (commonly 5–15 weeks).
- **Depth**: Maximum 15% from high to low of the base (≤ 10% is ideal).
- Price remains in a tight sideways range. Often forms after a prior breakout and 20%+ advance.
- **Pivot**: 10¢ above the highest price reached anywhere inside the base.
- Volume typically contracts throughout the base. One of the cleanest patterns when tight.

5. Ascending Base

A rarer pattern that forms in strong, volatile uptrends. Shows persistent institutional demand.

- Consists of **three pullbacks**, each correcting roughly 10–20%.
- Each successive low is higher than the previous low (ascending structure).
- Duration often shorter than classic cups (commonly 8–16 weeks total).
- **Pivot**: 10¢ above the high of the third pullback.

6. Base on Base

- A second base that forms immediately on top of (or very near) the breakout from a previous base.
- The stock breaks out of the first base, advances only modestly (often < 20%), then builds another base.
- Counts as a later-stage base (usually Stage 2 or higher).
- The upper base can itself be a flat base, short cup, or short double bottom.
- **Pivot**: Taken from the upper base using the normal rules for that shape.

7. High Tight Flag

The rarest and potentially most powerful pattern — also the highest risk. Almost exclusively appears in strong bull markets.

- **Flagpole**: Stock must advance 100% to 120%+ in a very short time (usually ≤ 4–8 weeks).
- **Flag**: After the vertical rise, the stock consolidates, correcting typically 10–25% over 3–5 weeks.
- Despite the name, the flag can be somewhat wide and loose.
- **Pivot**: 10¢ above the highest point of the flag (or peak of the flagpole).
- Breakout requires very heavy volume. Failure rate is higher than classic bases — strict risk control is mandatory.

8. IPO Base

- The first proper base formed after a company goes public.
- Can take the shape of a cup, flat base, double bottom, or short consolidation.
- Often shorter and tighter than bases in seasoned stocks.
- **Pivot**: Follows the rules of whichever shape the base takes.
- Extra weight is given to breakout volume quality and post-IPO relative strength.
- Many of the largest market winners in history launched from an IPO base.

3. Universal Professional Rules (All Patterns)

- **Base Stage**: Stage 1 and early Stage 2 bases are preferred. Late-stage bases (Stage 3+) carry lower odds.
- **Volume Behavior**: Must contract during base construction (especially in the handle or right side) and expand significantly on the breakout day.
- **Relative Strength**: RS Line should be rising or making new highs as the base completes.
- **Market Context**: Highest probability when the general market is in a confirmed uptrend with few distribution days.
- **Buy Zone Discipline**: Stay within 0–5% of the pivot. Buying extended beyond 5% sharply raises failure risk.
- **Profit Taking**: 20–25% above the pivot is the classic area to begin taking partial profits.
- **Stop Loss**: 5–8% below the pivot (many professional traders use a hard 7% maximum loss rule).

4. Machine-Readable Ruleset (for Platform Integration)

The following structured rules can be implemented directly as filters, scoring components, or validation logic inside a Command Center / Swing tab.

Pattern Definitions (Logic-Ready)

Pattern	Key Constraints	Pivot Rule
Cup with Handle	7–65 wks • Depth ≤33% • Handle in upper half ≤12% • Vol dry-up in handle	Handle High + $0.10
Cup w/o Handle	Same as Cup • No significant handle	Left Peak + $0.10
Double Bottom	7–65 wks • Two lows + middle peak • 2nd bottom often undercuts	Middle Peak + $0.10
Flat Base	≥5 wks • Depth ≤15% (ideal ≤10%) • Tight sideways range	Base High + $0.10
Ascending Base	Three pullbacks of 10–20% • Higher lows	3rd Pullback High + $0.10
Base on Base	Second base forms near prior breakout • Modest advance between bases	Upper Base Pivot
High Tight Flag	Flagpole +100–120% in ≤8 wks • Flag corrects 10–25% in 3–5 wks	Flag High + $0.10
IPO Base	First proper base after IPO • Can be any valid shape	Shape-dependent

Zone Calculation Logic (Apply after Pivot is known)

Buy Zone Lower = Pivot
Buy Zone Upper = Pivot × 1.05
Profit Zone Lower = Pivot × 1.20
Profit Zone Upper = Pivot × 1.25
Stop Zone Upper = Pivot × 0.95 (5% below)
Stop Zone Lower = Pivot × 0.92 (8% below)

Recommended Scoring Components for a Swing Tab

- Pattern Validity Score (0–100) based on how cleanly the rules above are met
- Volume Confirmation Score (breakout day volume vs 50-day avg)
- RS Line Behavior (rising / new high at breakout)
- Base Stage Penalty (higher stage = lower score)
- Distance from Pivot (prefer entries inside the 0–5% buy zone)
- Market Regime Filter (only allow long signals in confirmed uptrend)

5. Quick Reference Cheat Sheet

Action	Rule
Find Pivot	Handle high (Cup), Base high (Flat), Middle peak (Double Bottom), 3rd pullback (Ascending), Flag high (HTF) + $0.10
Buy Zone	Pivot → Pivot × 1.05 (prefer lower half)
Profit Zone	Pivot × 1.20 → Pivot × 1.25 (sell into strength)
Stop Zone	Pivot × 0.92 → Pivot × 0.95 (or hard 7–8% stop)
Volume	Breakout day ≥ +40% vs 50-day average volume
Quality Filters	Proper duration & depth • Volume dry-up in base • RS Line strength • Early-stage base • Confirmed market uptrend

Final Note: These rules improve probability but never guarantee outcomes. Always combine pattern recognition with fundamental strength (earnings, sales, margins), relative strength, and overall market direction. Position sizing and risk management remain the trader's responsibility.