Level 4 – Advance FOREX

EASYWAYLEARN ACADEMY

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Market Structure

Market Geometry

Japanese CandleStick

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1. How to Understand the Market Structure
2. What are chart Patterns
3. Types of chart patterns
4. Price Reversal Patterns and Reversal Zone
5. Trend Continuation Patterns
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7. Double tops/Double bottoms Pattern (M/W Pattern)
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12. Upward / Downward flags.
13. Bullish / Bearish rectangles
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16. How to Trade Cup Handle – Tea-Cup – Top/Bottom
17. Rising Wedge / Falling Wedge
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How to Understand the Market Structure

Market structure is simply **support** and **resistance** on your charts, **swing highs**, and **lows**. These are levels on your chart attracts the most attention. ... And how you can combine **candlestick patterns** with **market structure** is that you are basically looking to enter your trades after strong price rejection.

Types of Market Structure

1. Uptrend, Downtrend, Ranging, Impulse-Run/Correction-Pullback-Retracement.
2. Support/Resistance
3. Chart Patterns

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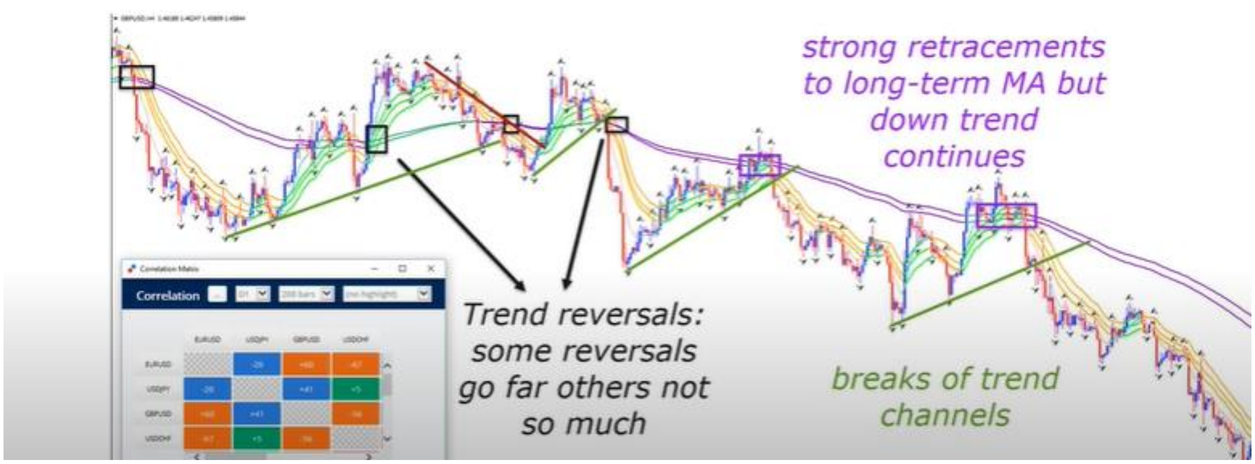
2) Support and resistance

3) Patterns (chart & candle)



What are chart Patterns

Introduction to Chart Patterns Traders vote with their pocketbooks. If they believe a currency pair is going to move higher, they will buy the currency pair. If they believe a currency pair is going to move lower, they will sell the currency pair. When their money is on the line, they will do whatever it takes to be profitable. Often the actions of these self-interested traders form price (chart) patterns on the chart.

Price patterns are chart formations that provide insight into what forex traders are thinking and feeling at various price levels. Learning to recognize various price patterns gives you an advantage over traders who are only using fundamentals or technical indicators.

Imagine having the ability to precisely identify trade entry points and the ability to accurately project how far a currency pair is going to move once it has **broken out** and **starting moving**. Price patterns give you this ability.

We will be talking about 3 types of chart patterns

1. Price Reversal Patterns and Reversal Zone
2. Trend Continuation Patterns
3. Bilateral Chart Patterns

Price Reversal Patterns and Reversal Zone

As we know, Forex traders continually ask themselves the question, "**Can the trend continue?"**. Deciding whether a trend is over and if it is time to trade against the previous trend is difficult.

There are some ways you can know if a currency pair is going to turn around and start moving in the opposite direction. **Reversal patterns** give you advanced warning when a currency pair is likely to turn around and begin a new trend and how far the currency pair is likely to move in the opposite direction. Of course, reversal patterns are not infallible, but they do put the odds of success in your favour.

The types of price reversal patterns

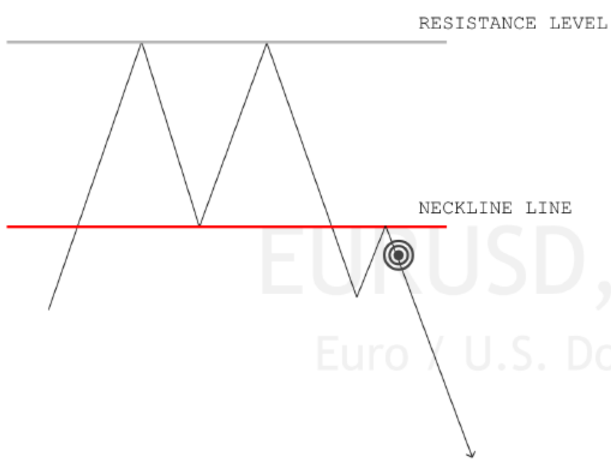
1. Double tops/Double bottoms.
2. Triple tops/Triple bottoms.
3. Head-and-shoulders tops/bottoms.
4. Rising Wedge / Falling Wedge

Double tops/Bottoms

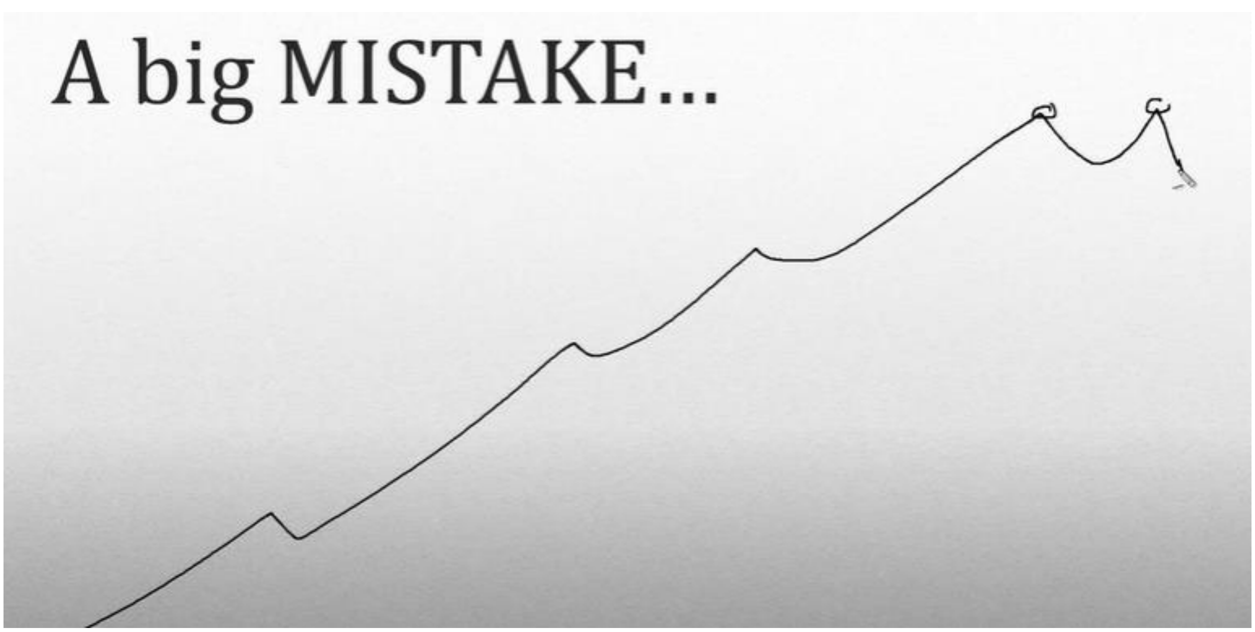
Double tops/bottoms are reversal patterns that form as the price of a currency pair hits a **support** or **resistance** level **two times** before the currency pair turns around and moves in the opposite direction. Double tops are **bearish reversal patterns and double bottoms** are **bullish reversal patterns**. If a currency pair is in an **uptrend,** it will form a double top. If a currency pair is in a down trend, it will form a double bottom.

- Double tops are bearish reversal patterns
- Double bottoms are bullish reversal patterns
- MUST BE PRECEDED BY THE TREND. If there's no trend, there won't be a pattern! • Entry ONLY after the neckline line break (better wait for the retest as well)
- Always wait for the breakout point.

Double Tops/Bottoms



- Double tops are bearish reversal patterns
- Second top MUST BE at the same level or lower and CAN'T be higher than the first top
- MUST BE PRECEDED BY THE UPTREND. If there's no trend, there won't be a pattern!
- Entry ONLY after the neckline line break (better wait for the retest as well)
- Always wait for the breakout point.
- The higher the TF of the pattern, the bigger the next move.
- We entry ONLY after the body of the candle was closed below the neckline.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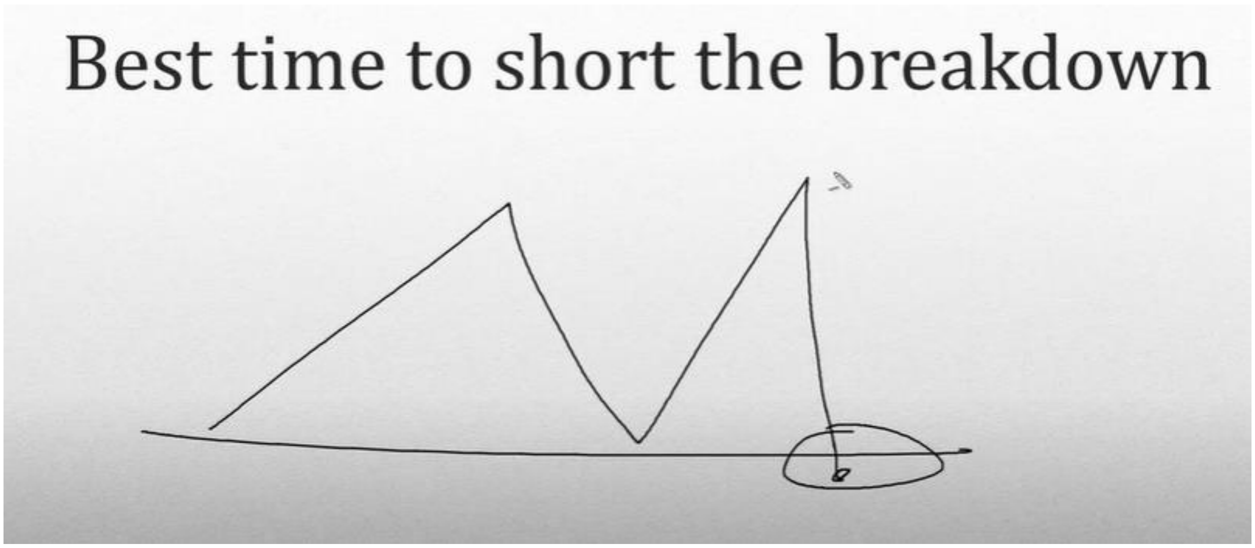
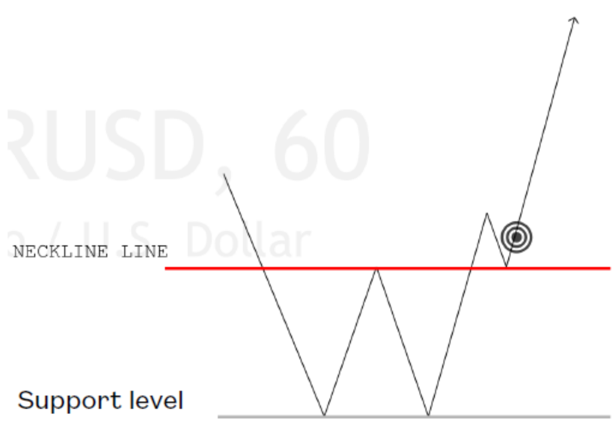


Double Tops/Bottoms

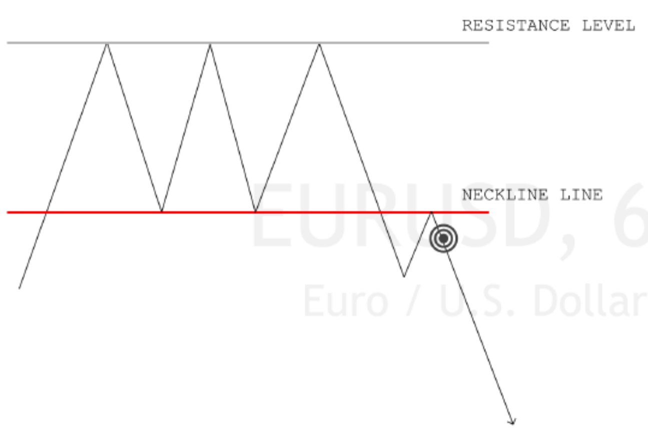


- Double bottoms are bullish reversal patterns
- Second bottom MUST BE at the same level or higher and CAN'T be lower than the first top
- MUST BE PRECEDED BY THE DOWNTREND. If there's no trend, there won't be a pattern!
- Entry ONLY after the neckline line break (better wait for the retest as well)
- Always wait for the breakout point.
- The higher the TF of the pattern, the bigger the next move.
- We entry ONLY after the body of the candle was closed above the neckline.

Triple tops/Bottoms

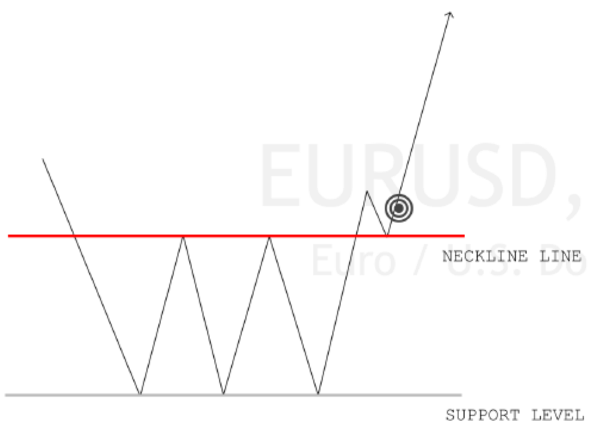
Triple tops/bottoms are reversal patterns that form as the price of a currency pair hits a support or resistance level three times before the currency pair turns around and moves in the opposite direction. **Triple tops are bearish reversal patterns** and triple bottoms are bullish reversal patterns. If a currency pair is in an **up trend**, it will form a triple top. If a currency pair is in a down trend, it will form a triple bottom.

Triple Tops/Bottoms



- Triple tops are bearish reversal patterns
- MUST BE PRECEDED BY THE UPTREND.
  If there's no trend, there won't be a pattern!
- Entry ONLY after the neckline line break
  (better wait for the retest as well)
- Always wait for the breakout point.
- The higher the TF of the pattern, the bigger the next move.

Triple Tops/Bottoms



- Triple bottoms are bullish reversal patterns
- MUST BE PRECEDED BY THE DOWNTREND.
  If there's no trend, there won't be a pattern!
- Entry ONLY after the neckline line break (better wait for the retest as well)
- Always wait for the breakout point.
- The higher the TF of the pattern, the bigger the next move.

Channel:

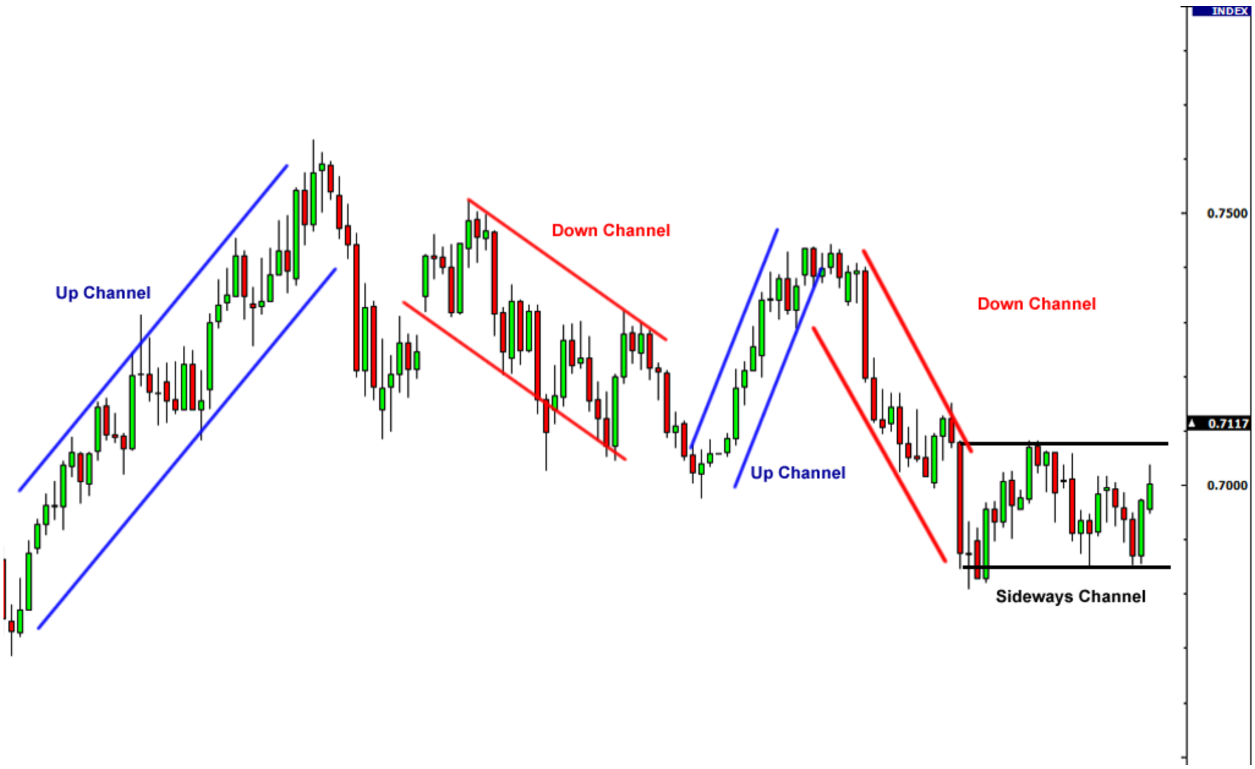
The definition of a **channel** is a waterway, a means of communication and a specific television or radio frequency. An **example** of **channel** is the English **Channel**. An **example** of **channel** is writing. An **example** of **channel** is Fox News.

FOREX Channel

A **channel** is a trading range bound by a trend line and a concurrent line, plotted through the opposite peaks or troughs.

There are three types of channels:

1. Ascending channel (higher highs and higher lows)
2. Descending channel (lower highs and lower lows)
3. Horizontal channel (ranging)



To create an up (ascending) channel, simply draw a parallel line at the same angle as an uptrend line and then move that line to position where it touches the most recent peak. This should be done at the same time you create the trend line.

To create a down (descending) channel, simply draw a parallel line at the same angle as the downtrend line and then move that line to a position where it touches the most recent valley. This should be done at the same time you create the trend line.
When prices hit the LOWER trend line, this may be used as a **buying** area.

When prices hit the UPPER trend line, this may be used as a **selling** area.

Trend channels are just another tool in technical analysis which can be used to determine good places to buy or sell.

The **upper trend line marks resistance** and the **lower trend line marks support**. So both the tops and bottoms of channels represent potential areas of support or resistance.

Note:

Like in drawing trend lines, **DO NOT EVER** force the price to the channels that you draw!

Head-and-Shoulders Tops/Bottoms

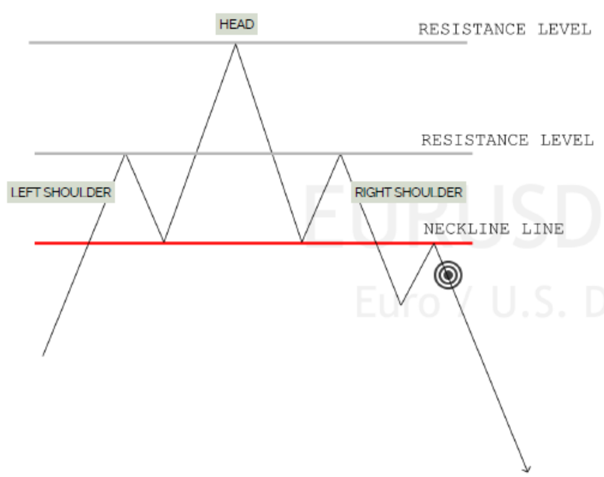
A head and shoulders pattern is a chart formation that appears as a baseline with three peaks, the outside two are close in height and the middle is highest. In technical analysis, a head and shoulders pattern describes a specific chart formation that predicts a bullish-to-bearish trend reversal.

The head and shoulders pattern is believed to be one of the most reliable trend reversal patterns. It is one of several top patterns that signal, with varying degrees of accuracy, that an upward trend is nearing its end.

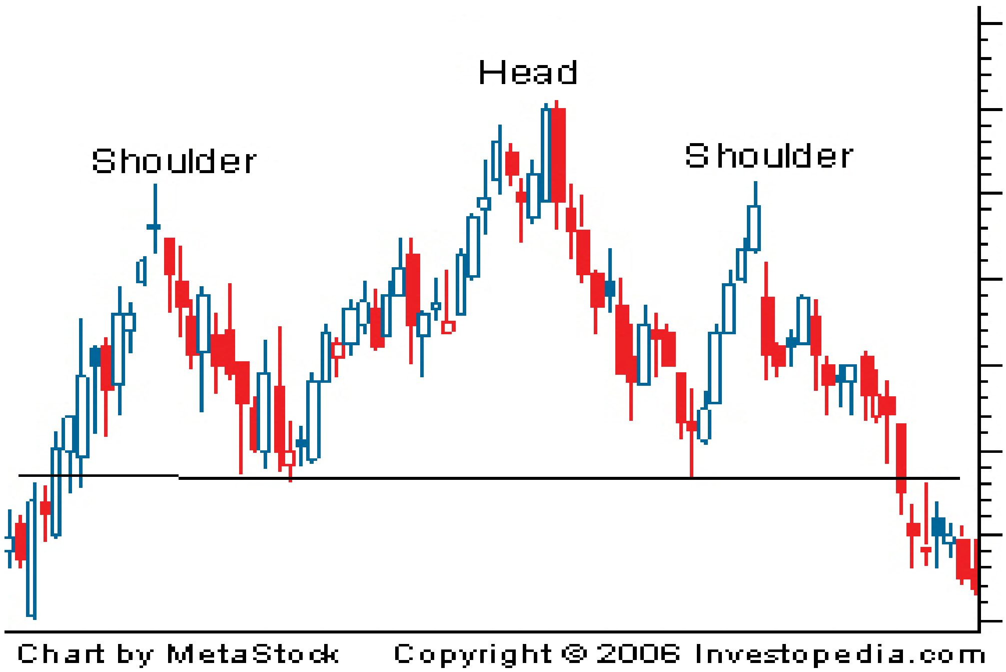
Head-and-Shoulders Tops/Bottoms

- Head-and-shoulders tops are bearish reversal patterns
- Head-and-shoulders bottoms are bullish reversal patterns
- Can be formed inside of the trend when the trend line becomes the neckline line.
- Right shoulder should be less-more the same size.
- MUST BE PRECEDED BY THE TREND. If there's no trend, there won't be a pattern!
- Entry ONLY after the neckline line break (better wait for the retest as well)
- Always wait for the breakout point.

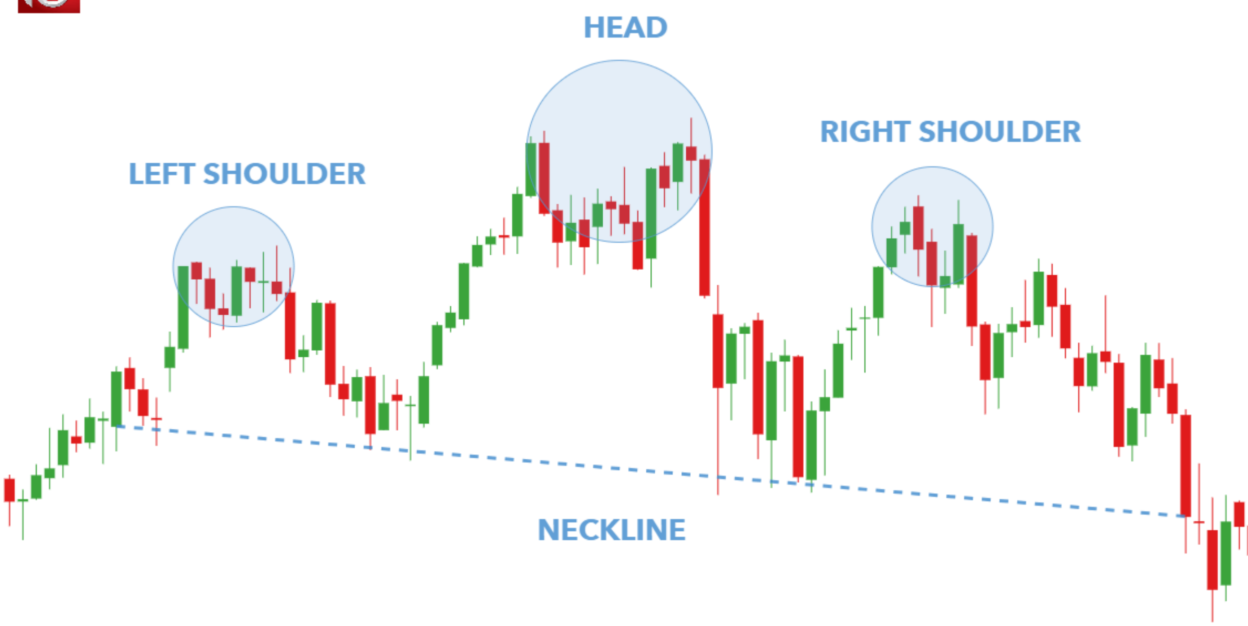
Head-and-Shoulders Tops

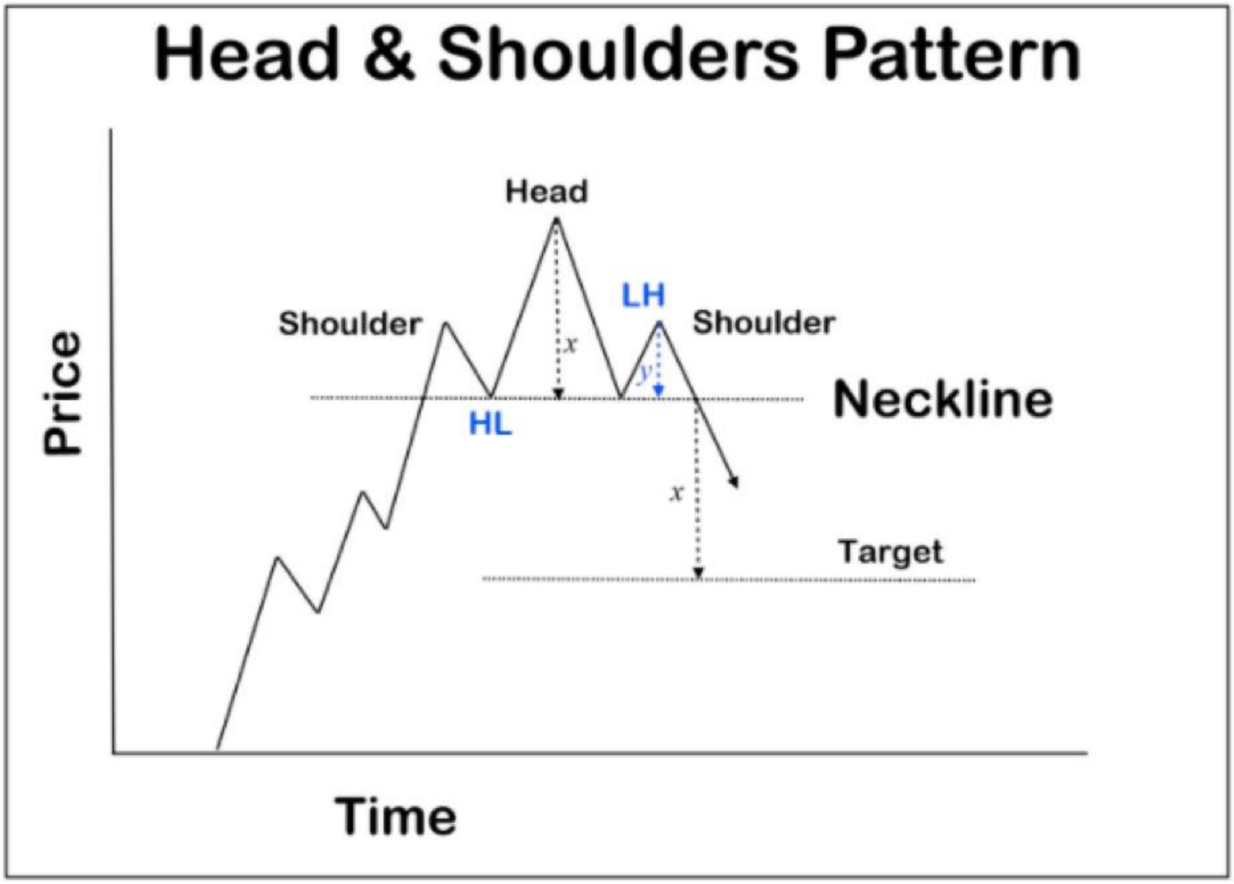


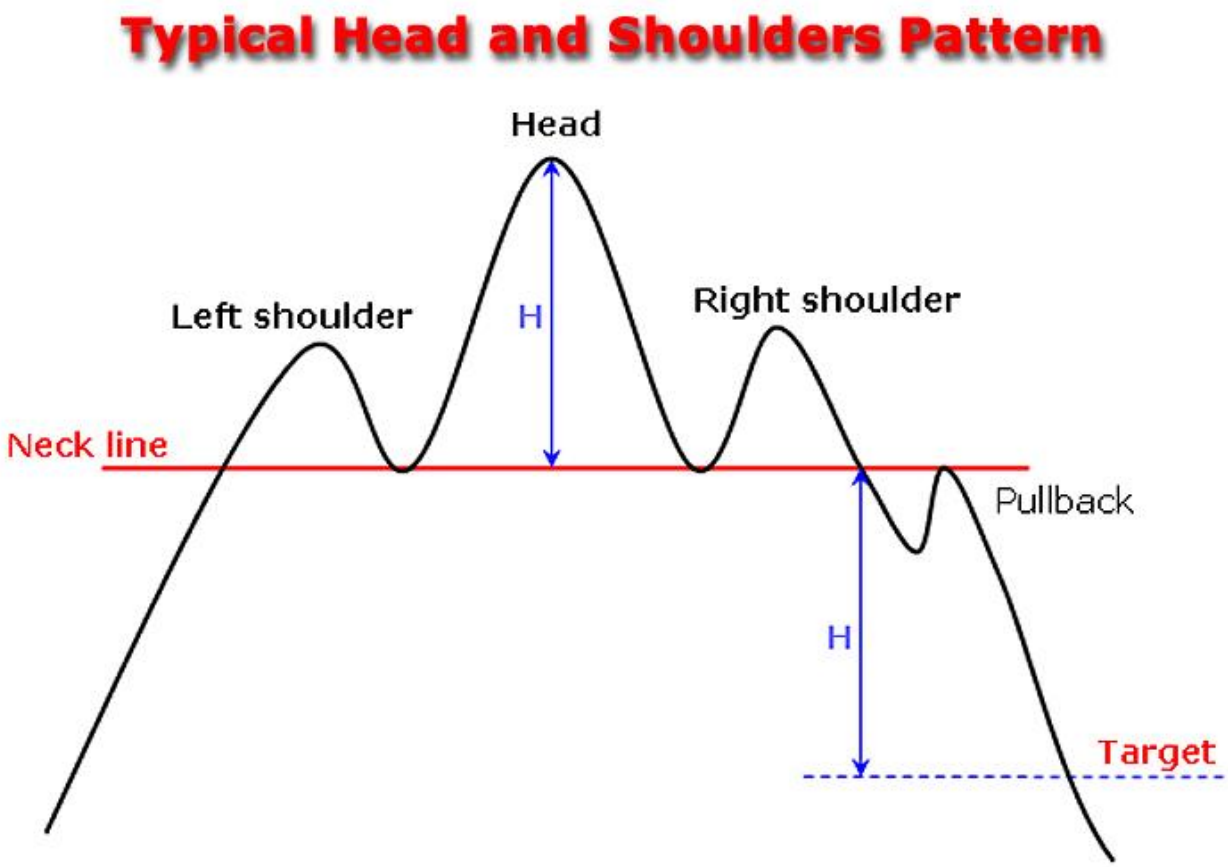
- Head-and-Shoulder tops are bearish reversal patterns
- MUST BE PRECEDED BY THE UPTREND. If there's no trend, there won't be a pattern!
- Can be formed inside on the trend when the trend line becomes the neckline line.
- Right shoulder should be less-more the same size.
- Entry ONLY after the neckline line break (better wait for the retest as well)
- Always wait for the breakout point.
- The higher the TF of the pattern, the bigger the next move.


Head
Shoulder
Shoulder
Chart by MetaStock
Copyright © 2006 Investopedia.com

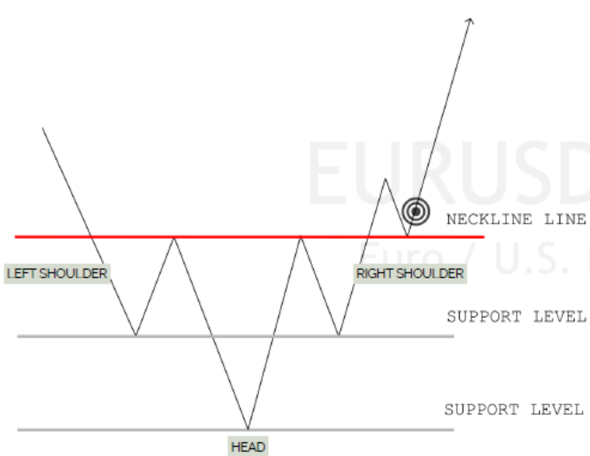

head
shoulder
shoulder
neckline
uptrend...


HEAD
LEFT SHOULDER
RIGHT SHOULDER
NECKLINE


Head & Shoulders Pattern
Head
LH
Shoulder
Shoulder
x
y
Neckline
HL
x
Target
Price
Time


Typical Head and Shoulders Pattern
Head
Left shoulder
Right shoulder
H
Neck line
Pullback
H
Target

Head-and-Shoulders Bottoms



- Head-and-shoulders bottoms are bullish reversal patterns
- MUST BE PRECEDED BY THE DOWNTREND. If there's no trend, there won't be a pattern!
- Can be formed inside on the trend when the trend line becomes the neckline line.
- Right shoulder should be less-more the same size.
- Entry ONLY after the neckline line break (better wait for the retest as well)
- Always wait for the breakout point.
- The higher the TF of the pattern, the bigger the next move.

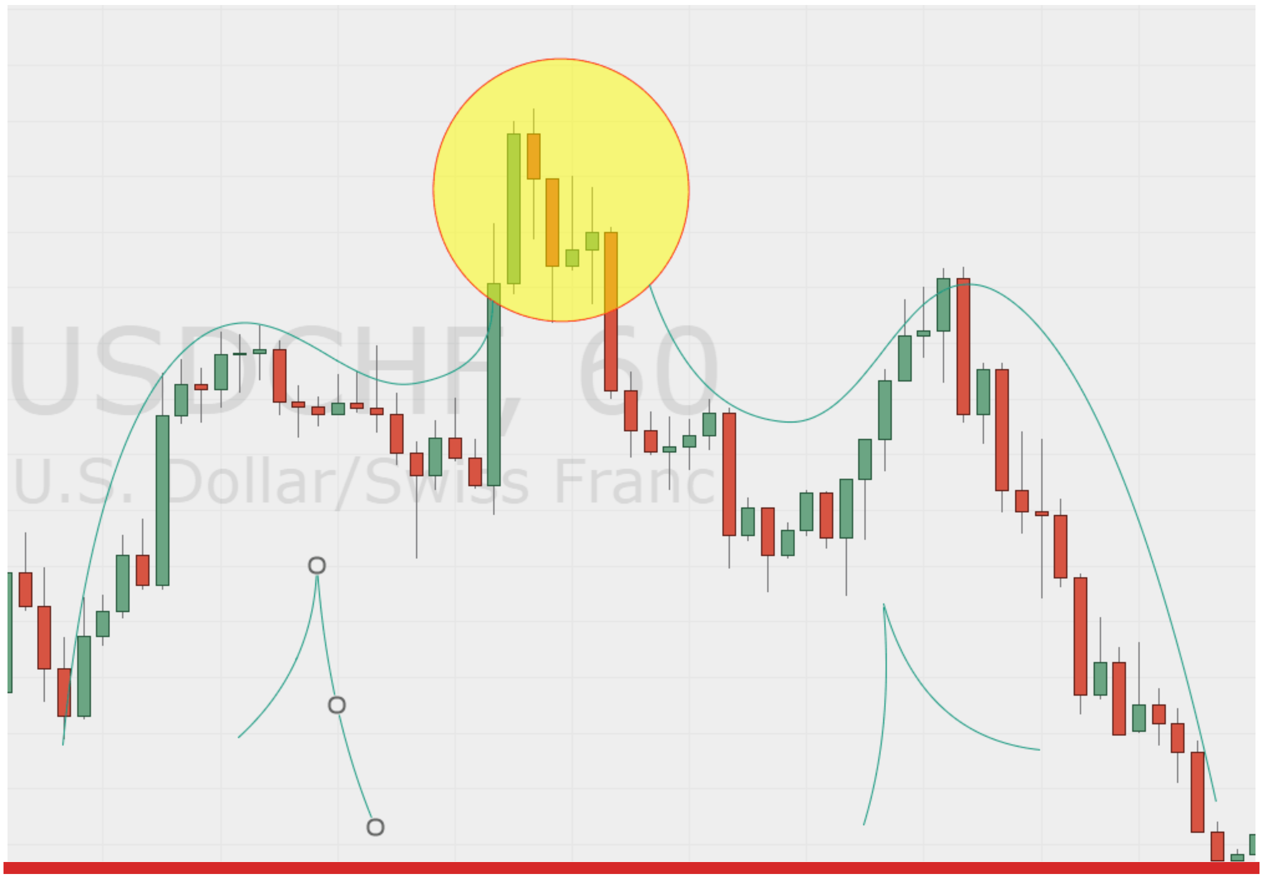
Head and Shoulders Price Pattern Strategy

We are excited to give you a new strategy this week on the head and shoulders pattern rules. Do you want to know how to trade the pattern? Are you looking for an effective Head and Shoulders Price Pattern Strategy? Then you came to the right place!

These rules will show you how to identify **head and shoulders** pattern **bullish** or **bearish** trend. They will also show you inverse head and shoulders targets, pattern failure, and so much more.

The patterns are literally everywhere on your head and shoulders chart. So swing traders, day traders, and **scalpers** should love this strategy. There are plenty of trading opportunities with this strategy, which would make it a nice addition to your trading system if you wish to trade these patterns.

What exactly am I talking about in terms of the head and shoulder patterns?



Head and Shoulders Pattern Indicators Use for this Strategy

There are **no indicators** that you will need to put on your charts. You should, however, plan on putting lines on your charts to indicate the head and shoulder pattern, and neckline.

Sell Entry Criteria: Head and Shoulders Trading Strategy

Rule #1 – (head and shoulders price pattern rules): Find an uptrend on your chart

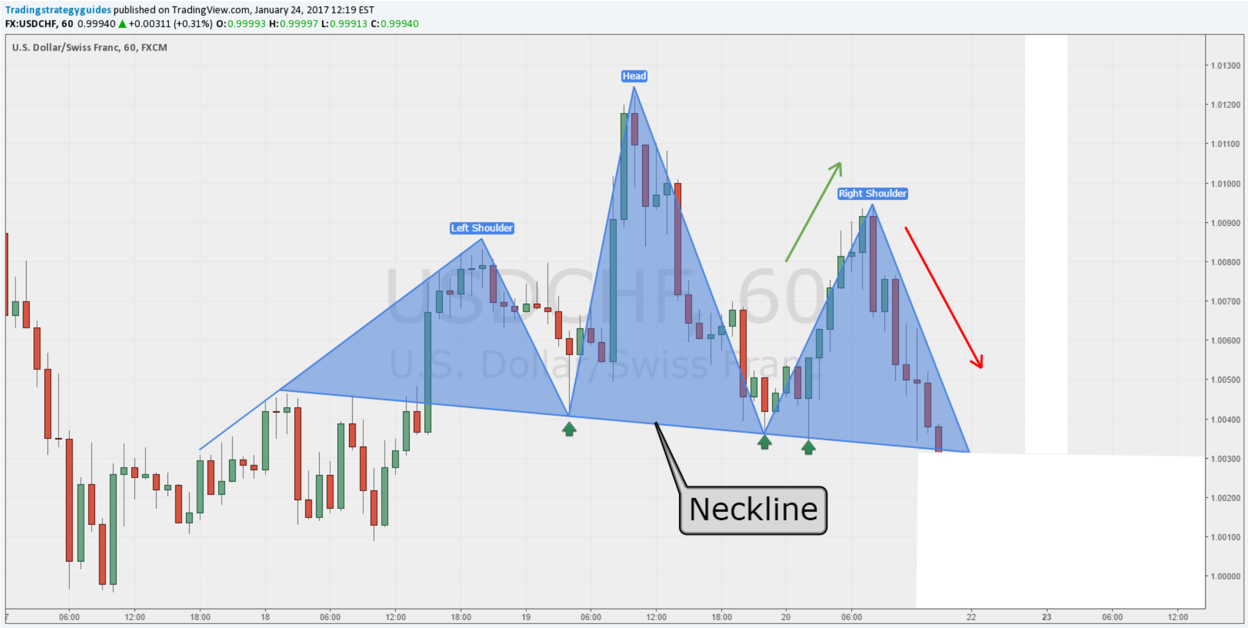
Once you have established that there is an uptrend look for **[retracement]** then another bullish push price action.

Rule #2 – Look for Retracement Then a Bullish Push to a New High

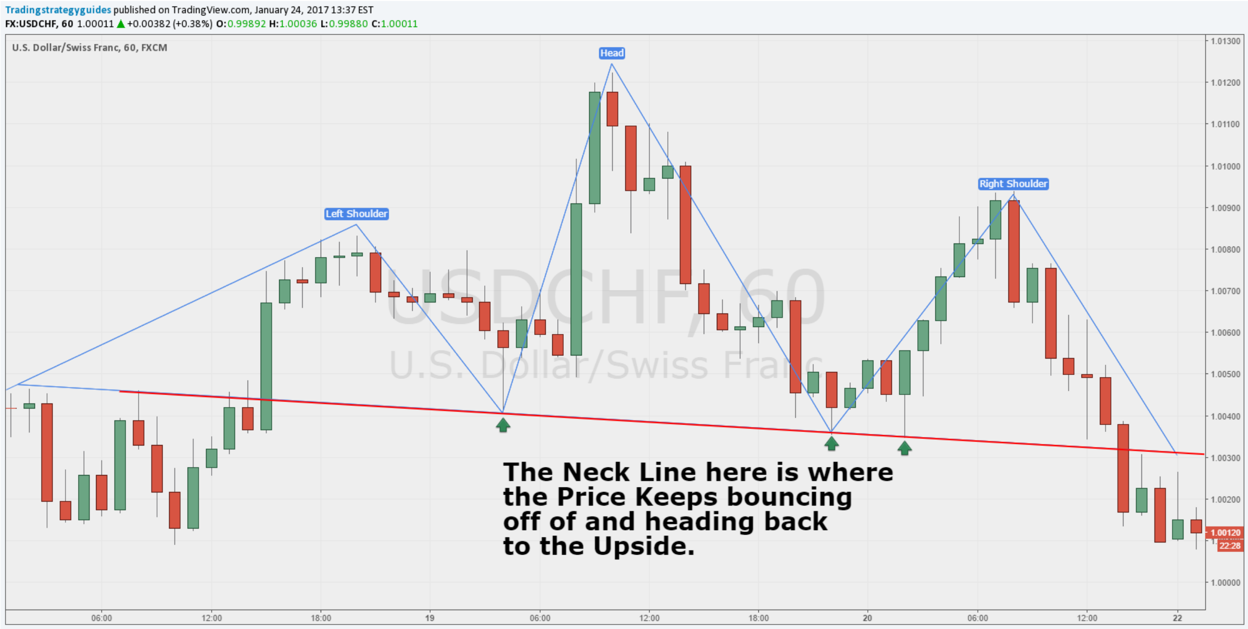
The new high will be the "head." What you will now need to see is the price move back down to form another shoulder before making another run to the upside.

Rule # 3 – Wait for another retracement, then another move to the upside.

Rule #4 – Price action should Now move downward to Neckline



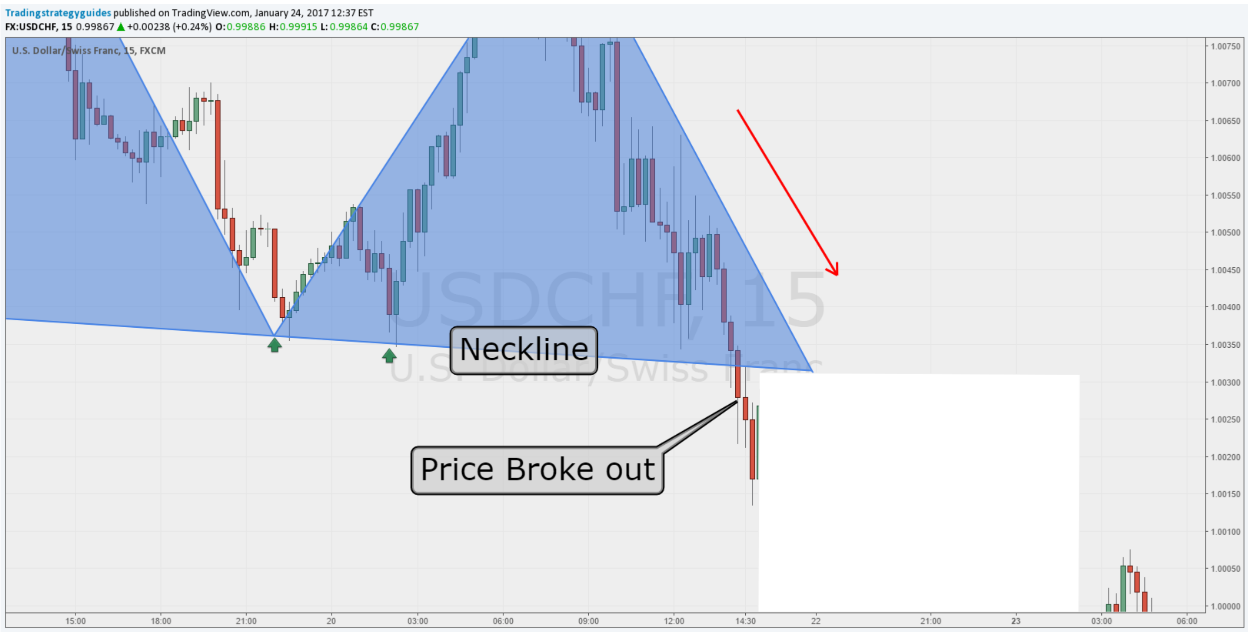
So now, since the buyers are all getting out of this to minimize their losses, the sellers take over the trend and drive it down.



The neckline is simply the place where the price will touch and then head back to the upside in this example. We can confirm that is was the proper neckline because it touched this at three different places. I marked these areas with the green arrows so you can confirm what I am saying.

Rule #5 – Wait for Price to Break Neck Line

Now the moment of truth is when the **price action** gets to the neckline. This is a crucial moment for the sellers to get on board. As you can see the neckline was broken here so now you are set up to make a trade.



Rule #6 Entry Criteria- Wait for a Small Retracement (head and shoulders target price)

Before you enter, wait for a small **retracement.** In this example, I bumped down to a 15 minute time chart to make my entry. This is a great idea if you have identified the head and shoulders target on a 1 hour time chart.

Rule #7 Stop loss/ Take Profit

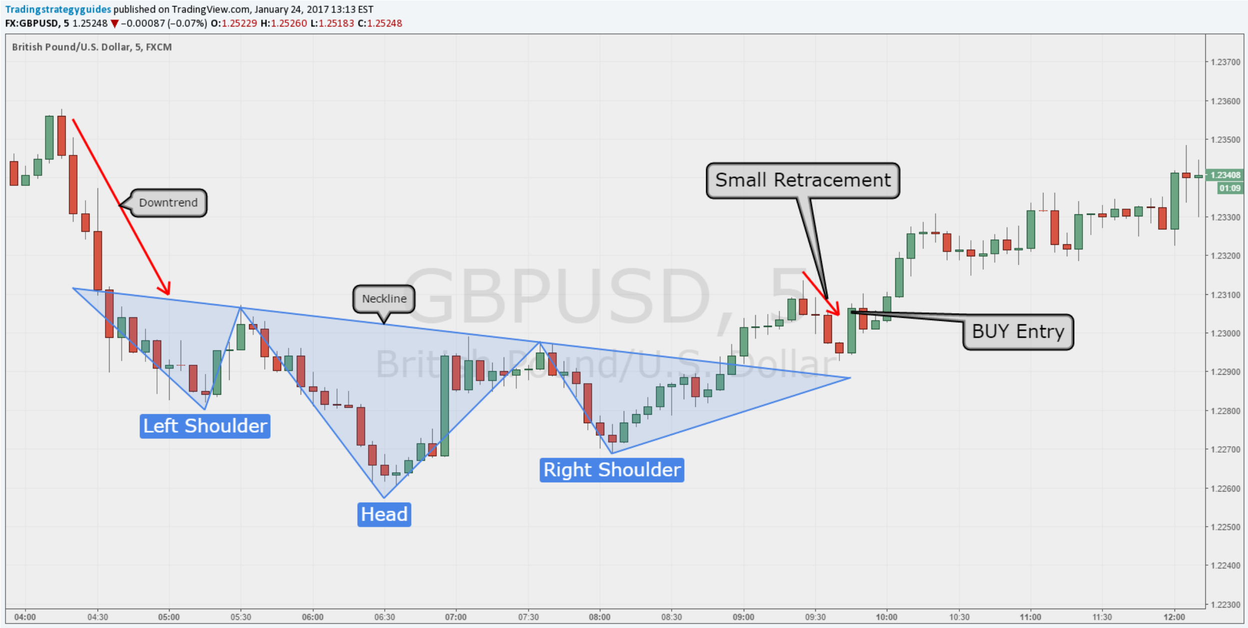
This rule goes hand in hand with rule **#6.** Make sure you determine a stop loss placement before you enter a trade. There are many different exit strategies that you can use with head and shoulders.
I recommend you go for a 1:3 Risk to Reward.

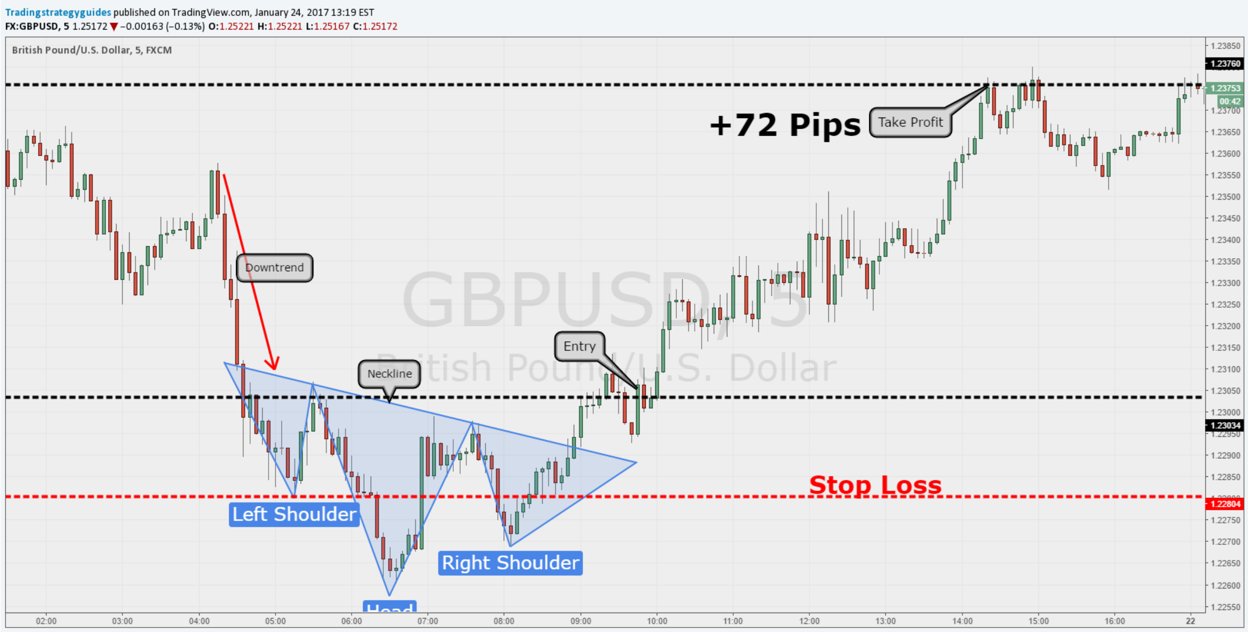
So, determine your stop loss and calculate a **1:3 Risk reward ratio**.
That was the criteria for a Sell trade so here are the rules to trade an inverse head and shoulders pattern.

Buy entry Criteria (Inverse head and shoulders target)

Rule #1: Find a downtrend on your chart on any timeframe
Rule #2: Head and shoulder indicator: Look for Retracement Then a Bearish Push to a New Low
Rule # 3: Wait for another retracement, then another move to the downside.
Rule #4: Price action should Now move upward to Neckline
Rule #5: Wait for Price to Break Neck Line
Rule #6: Entry Criteria- Wait for a Small Retracement then enter the trade

Rule #7: Determine Stop loss and use a 1:3 Risk Reward Ratio
Below you can see an example of a Buy entry GBPUSD currency pair taken on a **5- minute chart**:





Trend Continuation Patterns

Trend continuation patterns give you advanced warning when a currency pair is likely to resume its trend after a short consolidation period and how far the currency pair is likely to move in that direction. Simply speaking they are the form of the consolidation.

You can find trend continuation patterns as the 2nd and 4th corrective waves before the 3rd and 5th impulsive moves.

The types of trend continuation patterns

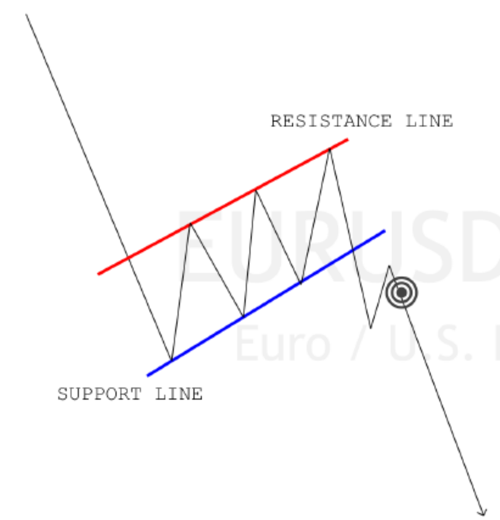
1. Upward / Downward flags.
2. Bullish / Bearish rectangles

Upward / Downward flags

Flags are continuation patterns that form as the price of a currency pair pulls back from the predominant trend in a parallel channel.

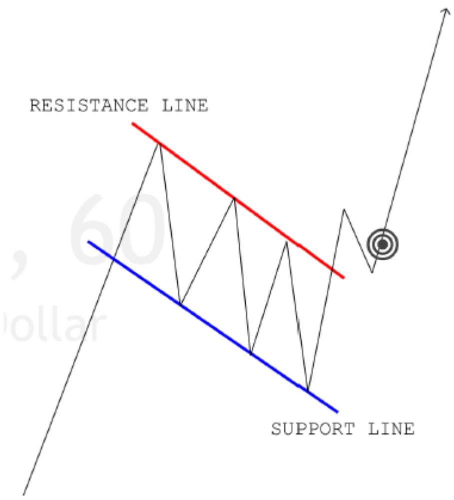
Flags can be either **bullish** or **bearish**, depending on what the trend was before the flag began to form. If a currency pair was in an **up trend** before the flag began to form, it is a **bullish continuation pattern**. If a currency pair was in a down trend before the flag began to form, it is a **bearish continuation pattern**.

Upward / Downward flags



- Upward flags are bearish trend continuation patterns
- Entry ONLY after the support line break
- Always wait for the breakout point. (better wait for the retest as well)
- Usually form on the m15-H1 TF.
- At least there are 3 tests of the support line and 3 tests of the resistance line.
- MUST BE PRECEDED BY THE DOWNTREND. If there's no trend, there won't be a pattern!

Upward / Downward flags



- Downward flags are bullish trend continuation patterns
- Entry ONLY after the resistance line break
- Always wait for the breakout point. (better wait for the retest as well)
- Usually form on the m15-H1 TF.
- At least there are 3 tests of the support line and 3 tests of the resistance line.
- MUST BE PRECEDED BY THE UPTREND. If there's no trend, there won't be a pattern!

How to Trade Bearish and the Bullish Flag Patterns Like a Pro

Chart patterns are a crucial component of technical analysis. Each classical chart pattern provides the trader with a unique outlook on potential price movement.

In general, chart patterns can be classified into two classes based on their potential price move – continuation and reversal. Today we will discuss one high probability continuation chart formation known as the Flag pattern. The following material will teach you how to recognize and trade the bearish and the bullish Flag pattern like a Pro.

What is the Forex Flag Pattern?

The Forex Flag pattern is one of the best-known continuation formations in trading. It is an on-chart figure, which typically appears as a minor consolidation between impulsive legs of a trend. When this pattern forms on the chart, there is a high likelihood that the price action will breakout in the direction of the prevailing trend. We will discuss this in more detail but for now, let's get familiar with the technical structure of the Flag pattern.

Structure of the Forex Flag Pattern

The Flag pattern consists of two parts – a flag pole and a flag. Let's take a closer look at each of these two components:

The Flag Pole

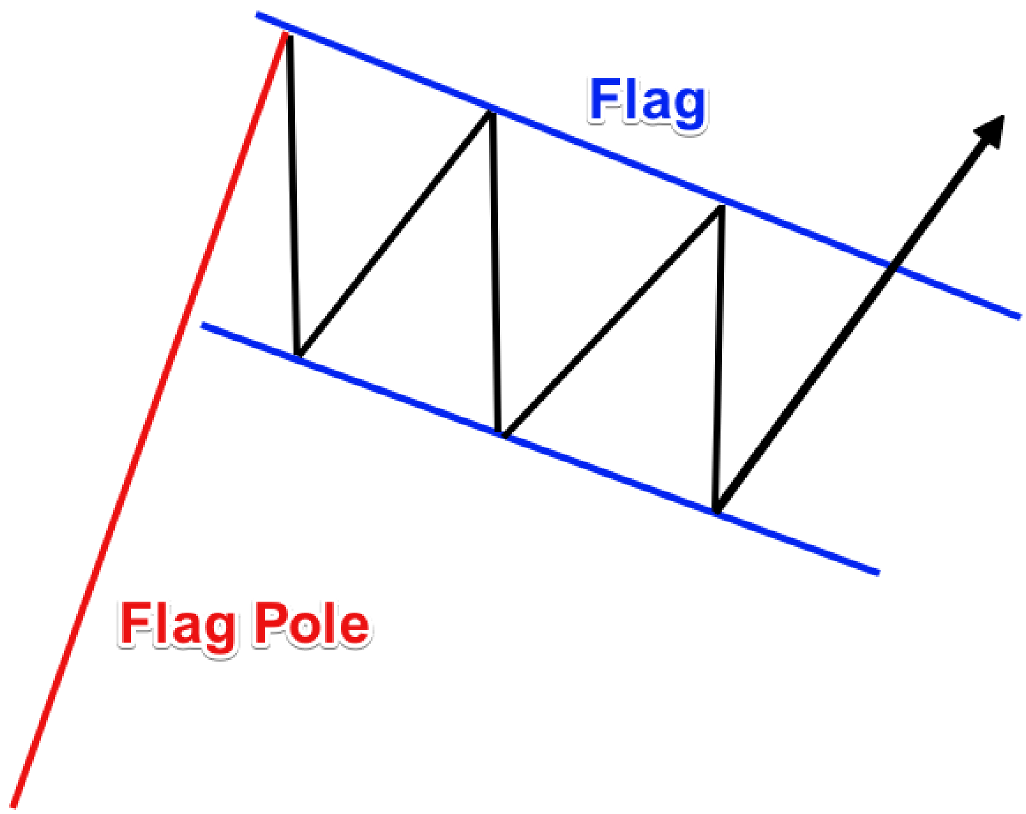
The first component of the Flag chart pattern is the Flag Pole. It represents a trend impulse on the chart. Every trending move could transition into a Flag, which brings us to the statement that every trend impulse could appear to be a flag pole.

As a Flag pattern is emerging you will note the large impulse move, which is referred to as the Flag Pole. A brief consolidation will follow and this consolidation takes on the appearance of a Flag.

The Flag

After creating the pole, a valid Flag pattern will then begin to trade within a tight range, taking on the shape of a Flag. The Flag consists of price action with evenly distributed tops and bottoms. At the same time, this price action has a corrective character on the graph. In this manner, it is angled contrary to the trend impulse creating the pole.

Take a look at this image below, which will make the picture clearer for you:



This is a sketch of the Flag chart pattern. The red line is the pole of the flag and the blue channel is the flag. This is how the Flag pattern is created, and as the name implies it really does look like a flag, doesn't it? This chart pattern is relatively easy to recognize once you know what to look for.

Flag Pattern Potential

As we said, the Flag Pattern has a continuation potential on the chart. And so, a valid flag pattern is likely to push the price action further in the direction of the Flag Pole – the trend impulse. In addition to this, when you spot a Flag formation on your price chart, you will be equipped to measure the approximate price target of the formation. There are two targets related to the Flag chart figure:

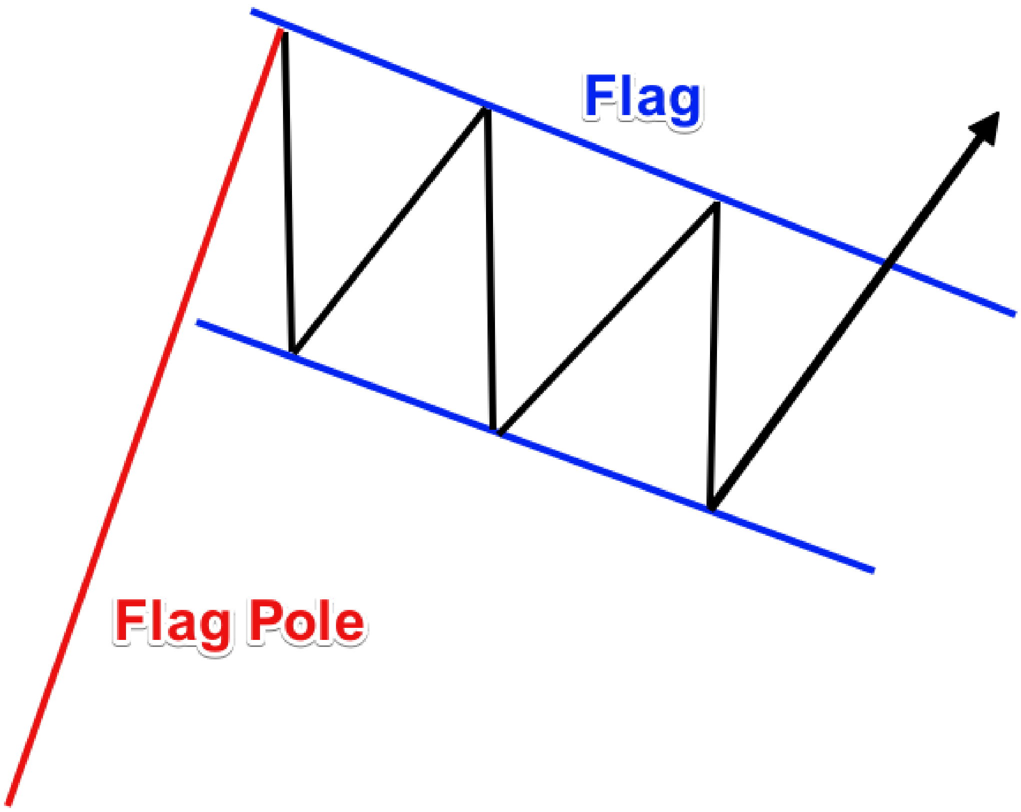
Target 1: Size of the Flag

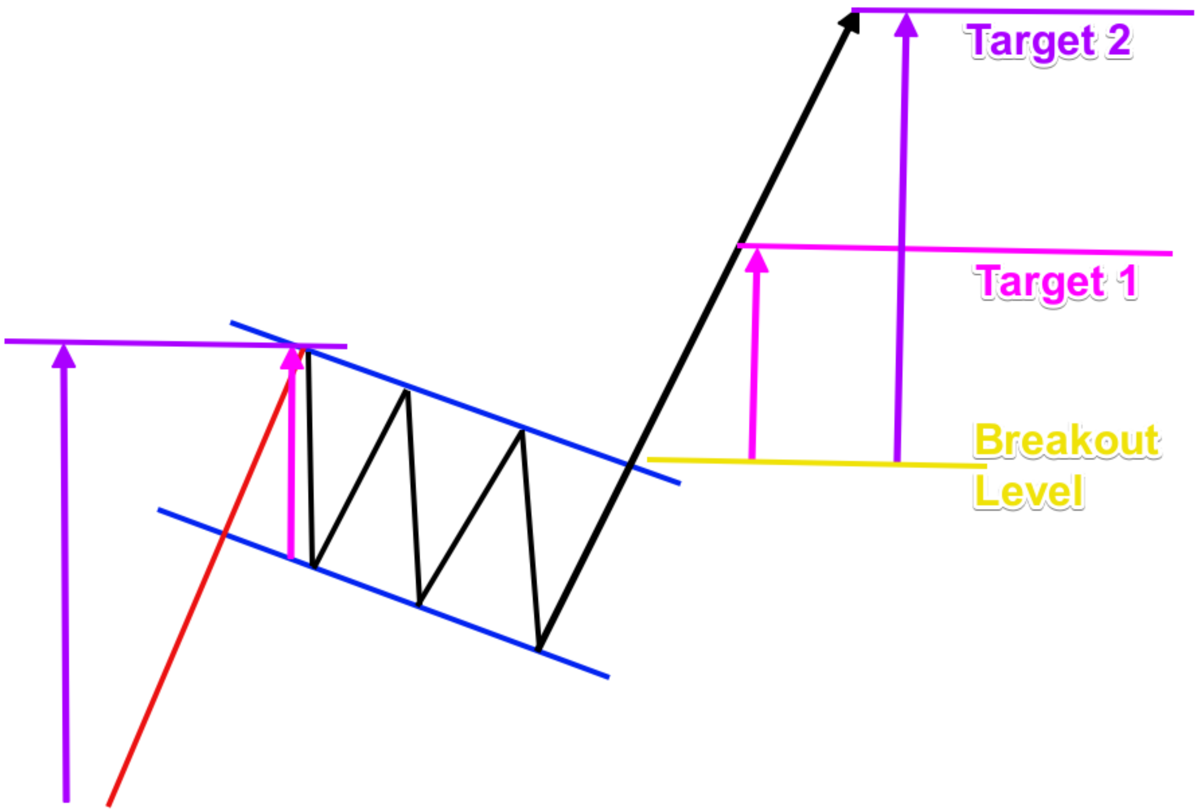
The first target of a confirmed Flag pattern can be derived using the measured move technique. The measured move target is a distance equal to the size of the flag. To measure the size of the flag, you would just take the vertical distance between the upper and the lower channel within the flag.

Then you would apply this distance starting from the breakout point. Your first target is located at the end of this distance.

Target 2: Size of the Pole

The next target of the Flag formation equals the size of the Flag Pole. So, to get this target 2, you need to measure the vertical distance between the high and the low of the Pole. Once you get that distance, you will need to apply it to the pattern. Again, as we did with Target 1, you would apply it starting from the breakout point.


Flag
Flag Pole



The sketch above shows the two targets of the pattern. The first target is marked with the magenta arrows and the magenta line. It measures the vertical size of the flag contained within the channel marked in blue. The second target is marked with the purple arrows and the purple line on the chart. It measures the vertical size of the Flag Pole.

Notice that both lengths are applied starting from the breakout level of the pattern.

Price Action Trade Management

Most times, after the Flag completes the two targets, you would want to close out the entire position and bank your profits. But in some instances, you may decide to keep a small position open to ride out a larger trend move. So, if you continue to see signs of a strong trend even after Target 2 has been reached, then by all means, keep a portion of the position open. Make sure to manage your trade using price action based clues to determine a final exit point.

For example, the trend line indicator can be very helpful in managing a possible runner. You can decide to stay with the trade as long as the trend line is intact.

Support and Resistance rules are of a great importance too. If you see the price hitting a level, and then bouncing contrary to the trend, then the trend might be getting exhausted. On the other hand, if you see the price breaking a level with increasing momentum, then this might mean that the trend is gaining strength.

Another important consideration would be candlestick signals and the chart patterns. A reversal pattern might provide enough reason to close out the trade and book profits.

Types of Flag Patterns

There are two types of Flag chart patterns based on their structure and potential – a bearish Flag and a bullish Flag. Each of these is the absolute opposite of the other. Let's dive a little deeper into the details of each now.

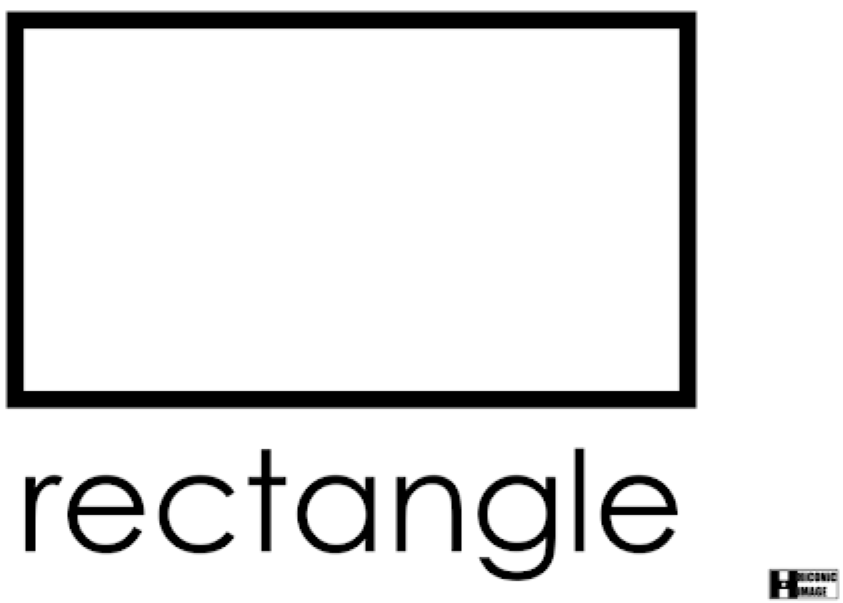
Bear Flag Pattern

The bear Flag pattern forms during bearish trends. The figure starts with a bearish trend impulse and turns into a correction, which is directed upwards. During the correction phase, the tops and the bottoms are evenly distributed, creating a parallel channel.

The confirmation of the Bear Flag setup comes when the price action breaks the flag channel boundary downwards. When the breakout occurs, we have the opportunity to short the currency pair.

This is how the bear flag pattern appears:

Bullish / Bearish Rectangles

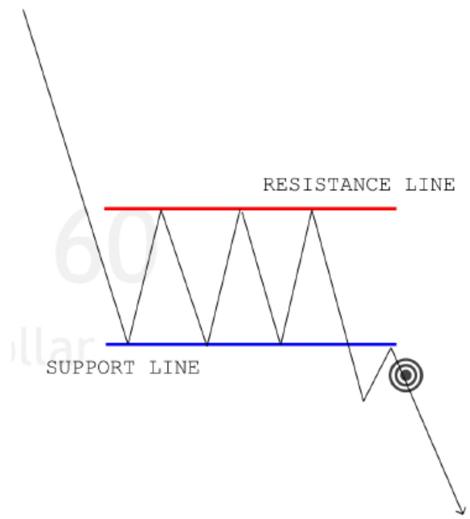


A rectangle is a chart pattern formed when price is bounded by parallel support and resistance levels.

A rectangle exhibits a period of consolidation or **indecision** between buyers and sellers as they take turns throwing punches but neither has taken over.

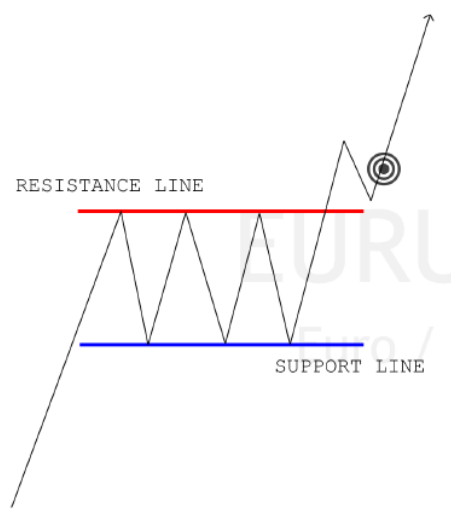
Rectangles can be either **bullish** or **bearish**, depending on what the trend was before the rectangle began to form. If a currency pair was in an **up trend** before the rectangle began to form, it is a bullish continuation pattern. If a currency pair was in a down trend before the rectangle began to form, it is a bearish continuation pattern.

Bullish / Bearish Rectangles

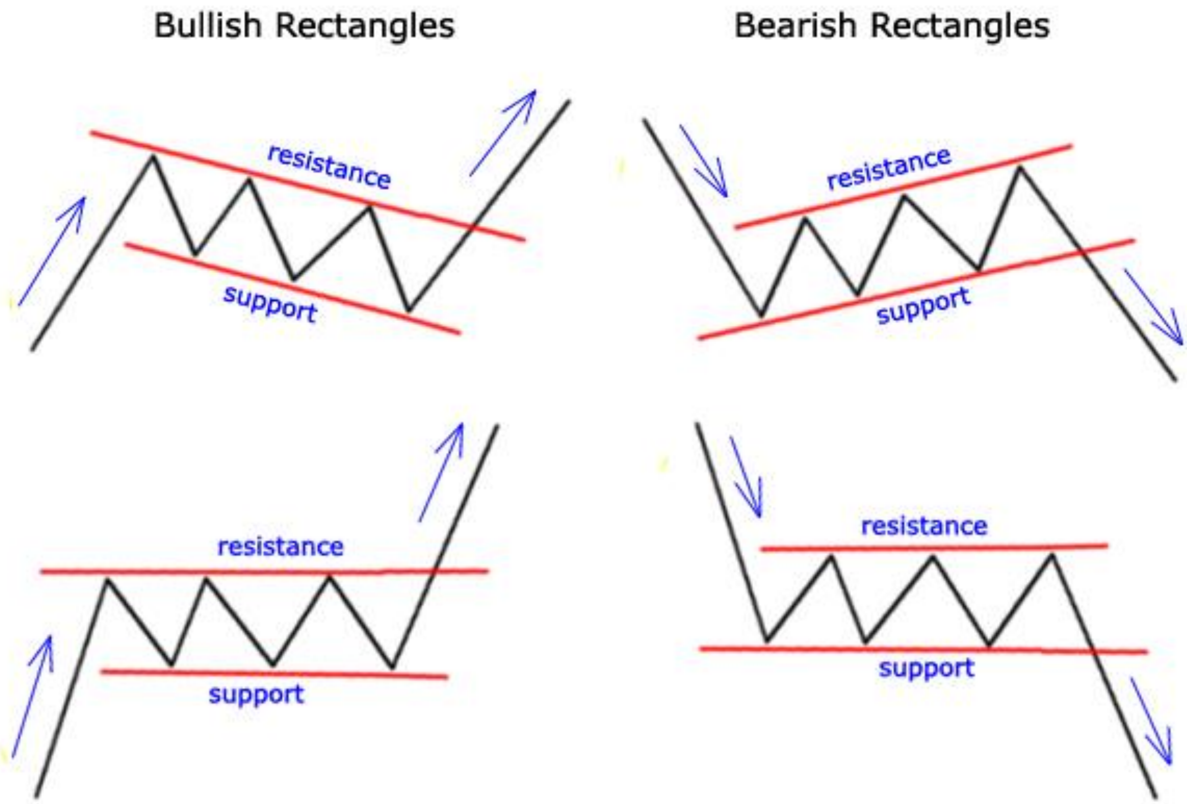


- Bearish rectangles are bearish trend continuation patterns
- Bearish rectangles form after a sharp downward move
- Entry ONLY after the support line break
- Always wait for the breakout point. (better wait for the retest as well)
- Usually form on the m15-H1 TF.
- At least there are 3 tests of the support line and 3 tests of the resistance line.
- MUST BE PRECEDED BY THE DOWNTREND. If there's no trend, there won't be a pattern!

Bullish / Bearish Rectangles



- Bullish rectangles are bullish trend continuation patterns
- Bullish rectangles form after a sharp upward move
- Entry ONLY after the resistance line break
- Always wait for the breakout point. (better wait for the retest as well)
- Usually form on the m15-H1 TF.
- At least there are 3 tests of the support line and 3 tests of the resistance line.
- MUST BE PRECEDED BY THE UPTREND.
  If there's no trend, there won't be a pattern!

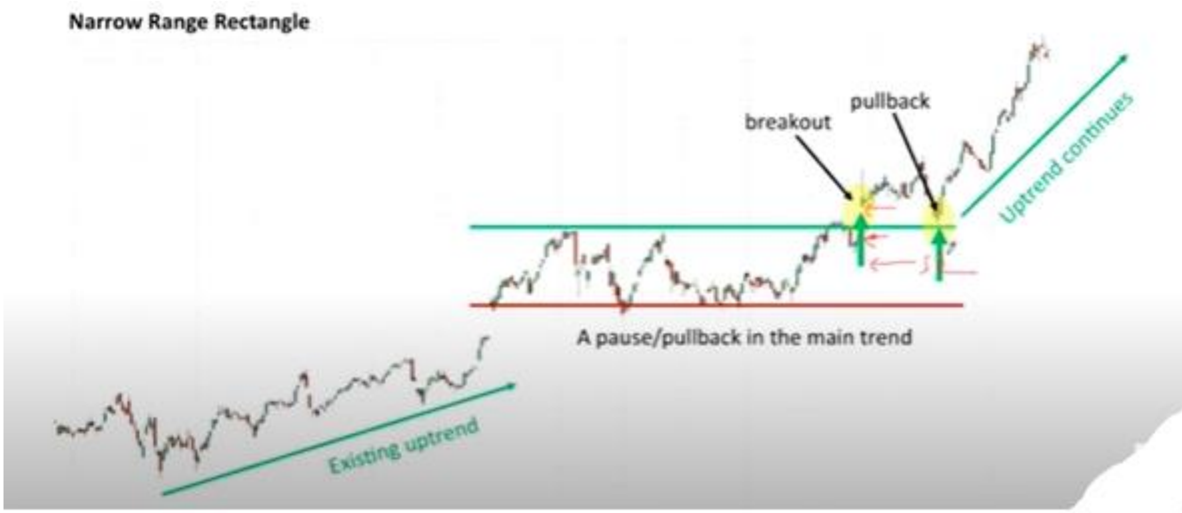


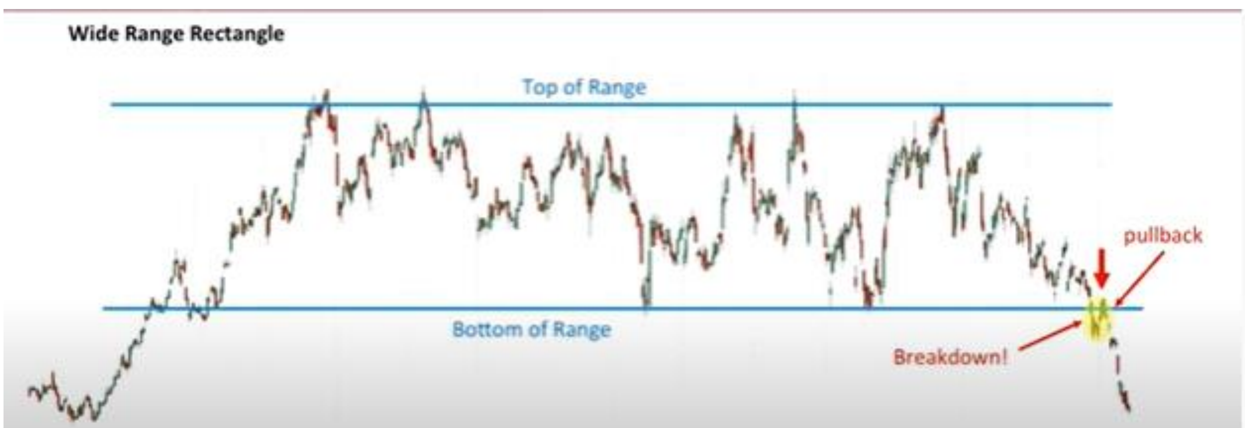
Bullish Rectangles
Bearish Rectangles
resistance
support
resistance
support
resistance
support
resistance
support

price pops up by
the same height...
and so much
more!

Rectangle Pattern

Narrow Range Rectangle Pattern


Narrow Range Rectangle
breakout
pullback
Uptrend continues
A pause/pullback in the main trend
Existing uptrend


Wide Range Rectangle
Top of Range
pullback
Bottom of Range
Breakdown!

Pattern Psychology

- Narrow Range – buyers/sellers building up their positions for the next big move
- Wide Range – buyers/sellers not sure of direction, just trading within the range
- The main idea is to position ourselves strategically and enter the market just as a big move is likely to happen

Bilateral Chart Patterns

While trend continuation patterns and **price reversal patterns** gives you pretty clear information which way a currency pair is likely to go, bilateral chart patterns are a bit more tricky because these signal that the price can move either way.

Bilateral chart patterns are still the form of the consolidation, but we should consider both scenarios (upside or downside breakout).

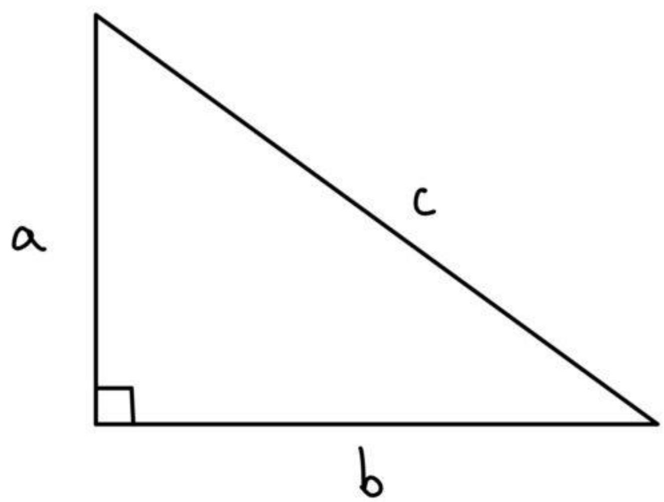
You can find **bilateral chart patterns** as the 2nd and 4th corrective waves before the 3rd and 5th impulsive moves but also at the top/bottom of the impulsive move, as a trend reversal sign.

The types of Bilateral Chart Patterns

1. Ascending / Descending Triangle.
2. Symmetrical Triangle

Triangle

A **triangle** is a polygon with three **edges** and three vertices. It is one of the basic shapes in geometry. A **triangle** with vertices A, B, and C is denoted

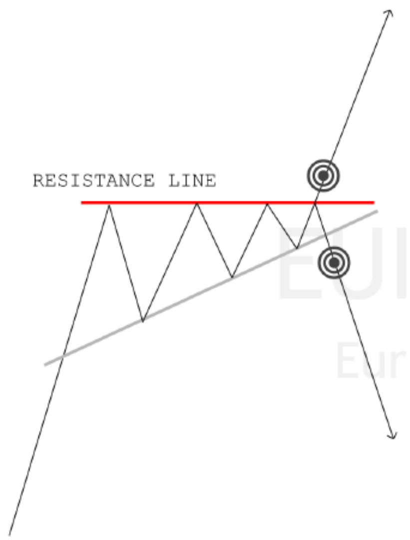


Ascending / Descending Triangle

An ascending triangle is typically viewed as a **bullish pattern**, indicating the price of an instrument will move higher once the pattern is complete. This type of **triangle** is created from an **ascending trend** line serving as a price support and a flat trend line serving as a point of resistance.

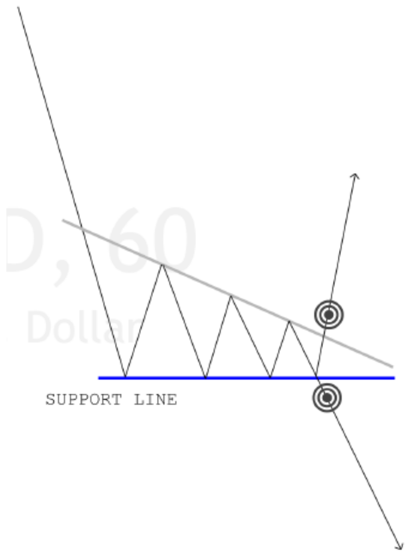
A descending triangle is exactly the opposite of the ascending triangle. It is viewed as a **bearish pattern**, indicating the instrument's price will move down, once the pattern is complete. It's composed of a downward-sloping resistance line and a relatively flat support line, which the price cannot seem to break.

Ascending / Descending Triangle



- Ascending triangle is typically a bullish pattern
- Can become the trend continuation pattern after a sharp move upwards or the price reversal pattern after the downtrend.
- Enter ONLY after price breaks the resistance line
- Always wait for the breakout point. (better wait for the retest as well)
- Usually form on the m15-H4 TF.
- At least there are 3 tests of the support line and 3 tests of the resistance line.
- MUST BE PRECEDED BY THE TREND.
  If there's no trend, there won't be a pattern!

Ascending / Descending Triangle



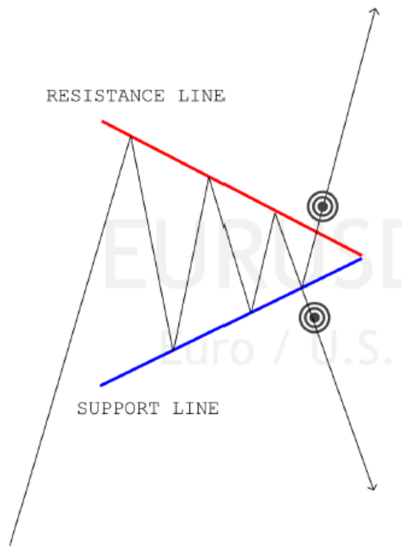
- Descending triangle is typically a bearish pattern
- Can become the trend continuation pattern after a sharp move downwards or the price reversal pattern after the uptrend.
- Entry ONLY after the price breaks the support line
- Always wait for the breakout point. (better wait for the retest as well)
- Usually form on the m15-H4 TF.
- At least there are 3 tests of the support line and 3 tests of the resistance line.
- MUST BE PRECEDED BY THE TREND.
  If there's no trend, there won't be a pattern!

Symmetrical triangle

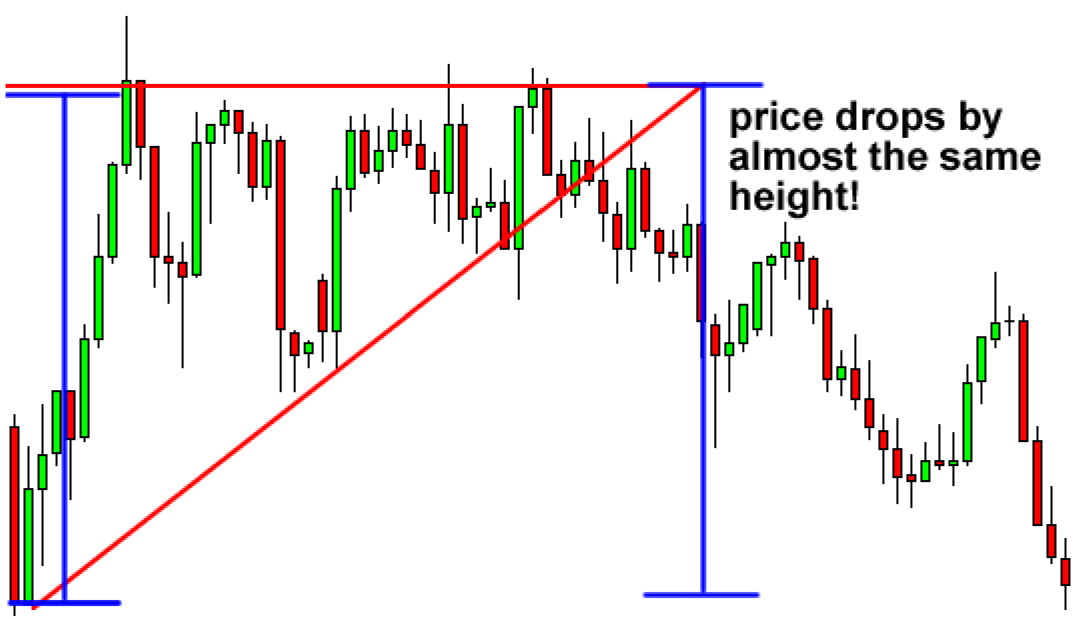
The symmetrical triangle pattern can be either bullish or bearish, depending on the market.

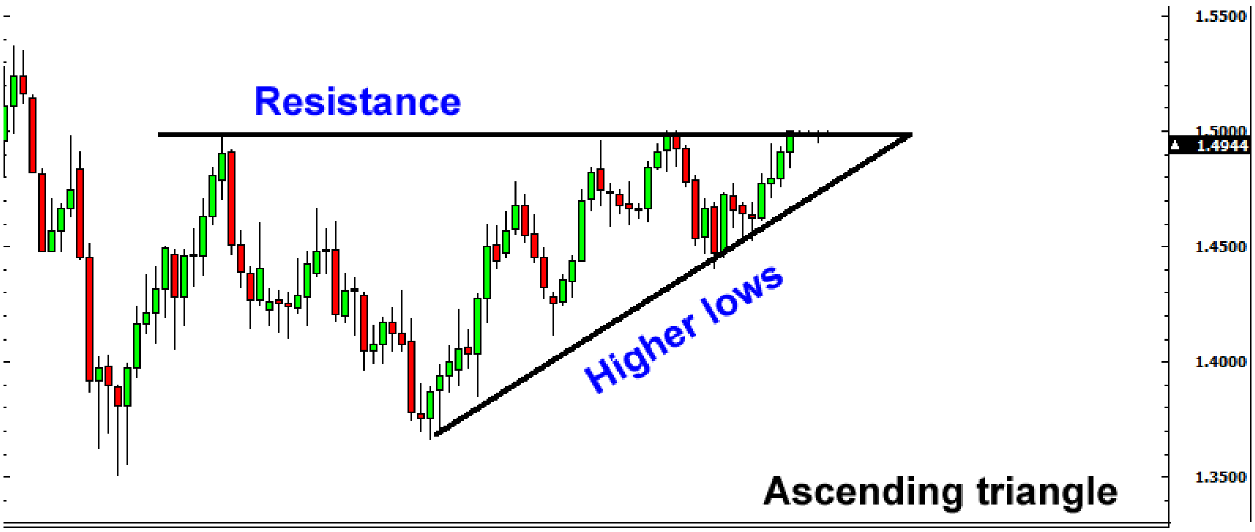
It can become the **trend continuation pattern** if the price breaks at the same way the previous trend was, or it can become the **price reversal pattern** if price breaks out to the opposite direction of the previous trend. We always need to wait until price breaks out and candle closes before entering the market.

Symmetrical triangle



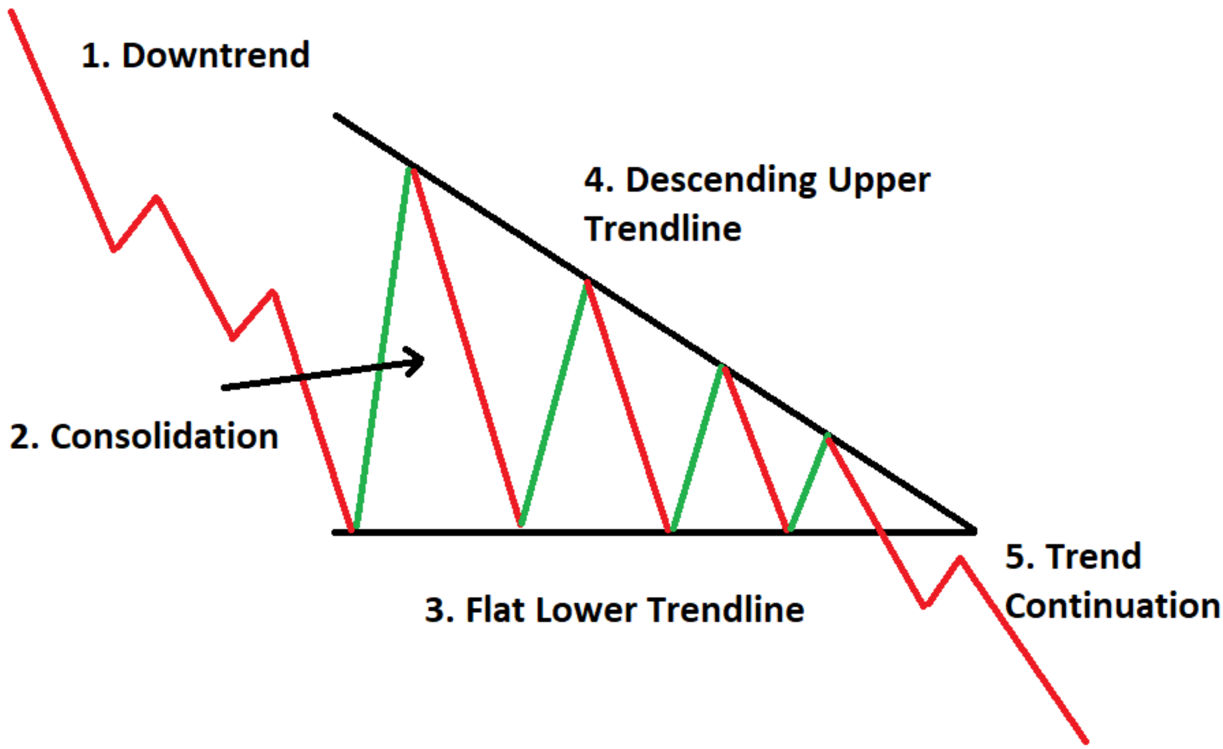
- The symmetrical triangle pattern can be either bullish or bearish, depending on the market.
- Entry ONLY after the support or resistance line break
- Always wait for the breakout point. (better wait for the retest as well)
- Usually form on the m15-H4 TF.
- At least there are 3 tests of the support line and 3 tests of the resistance line.
- MUST BE PRECEDED BY THE TREND
  If there's no trend, there won't be a pattern!



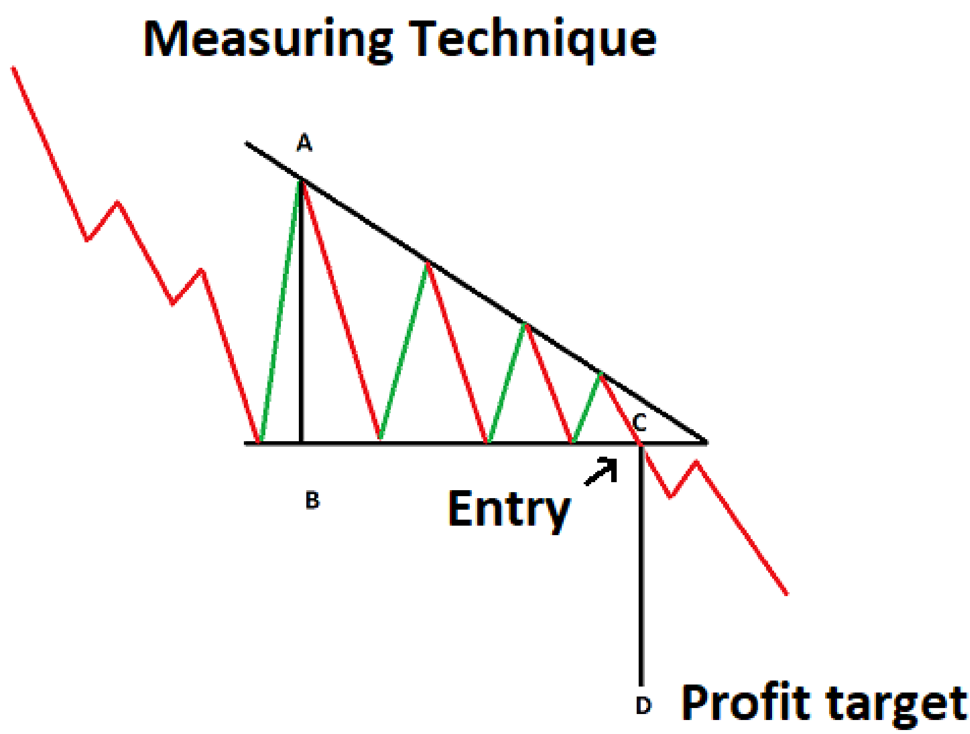


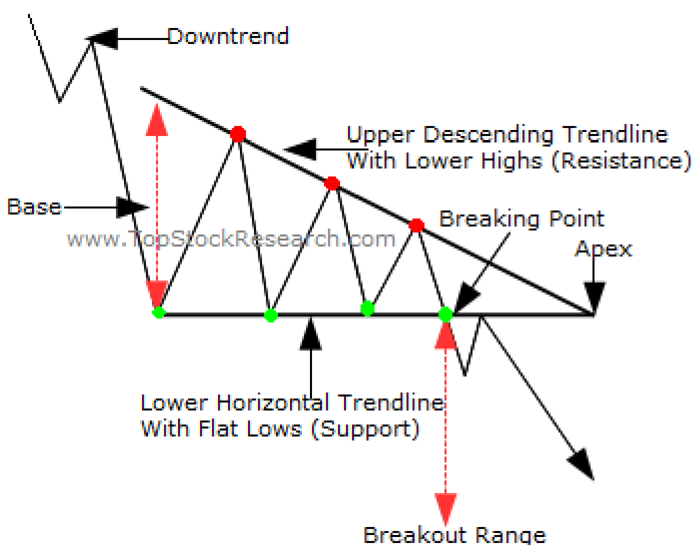
Resistance
Higher lows
Ascending triangle
1.5500
1.5000
1.4944
1.4500
1.4000
1.3500

Ascending Triangle
Resistance
Support

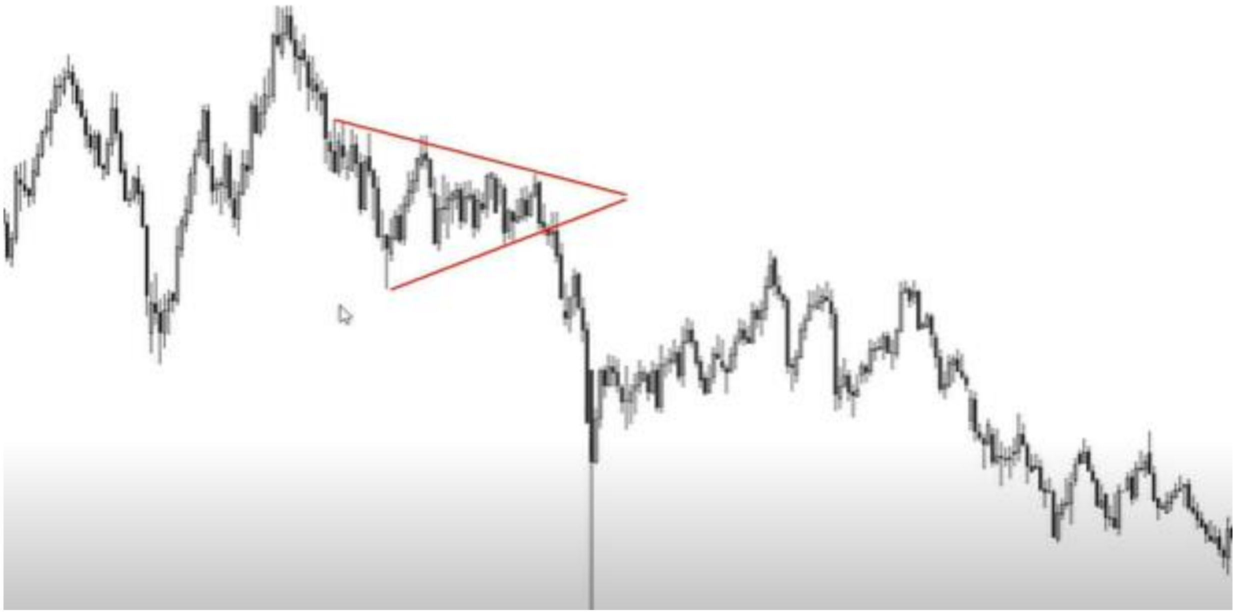

1. Downtrend
4. Descending Upper Trendline
2. Consolidation
5. Trend Continuation
3. Flat Lower Trendline

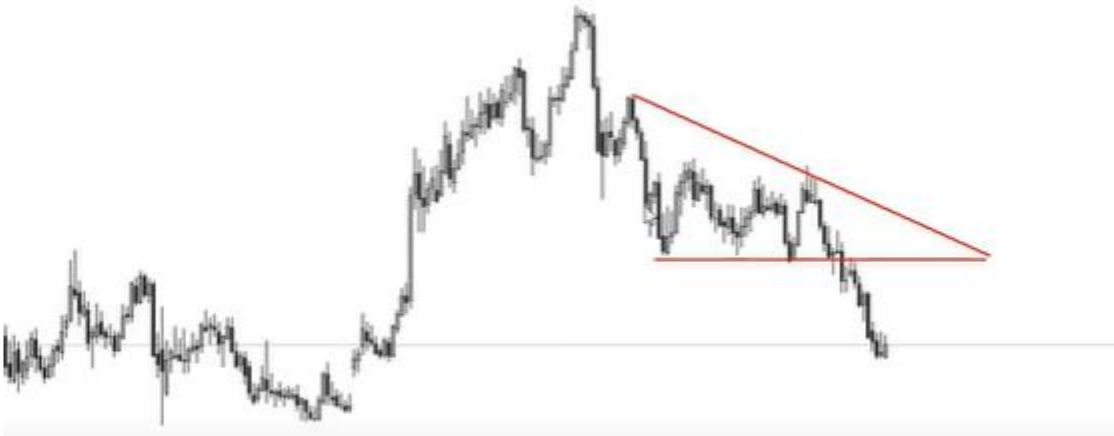
Whoa, price flew up!

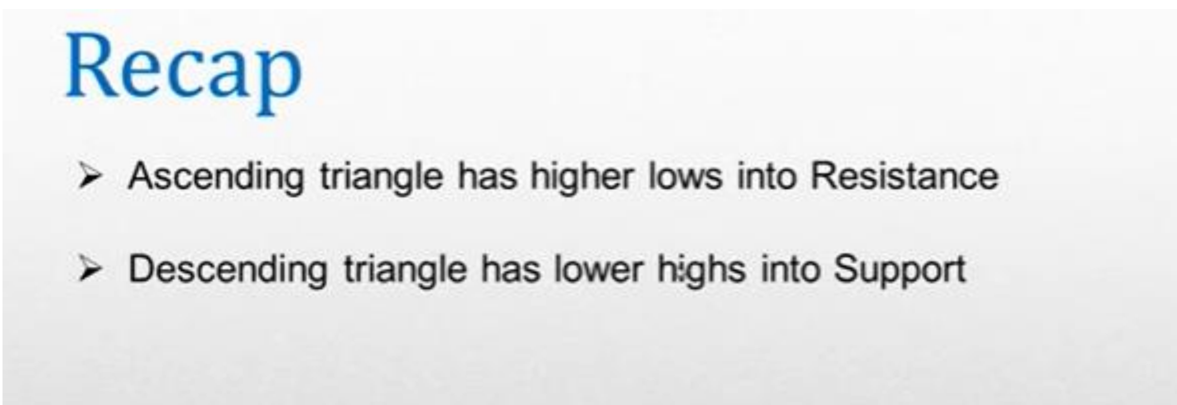




Descending Triangle Chart Pattern






Recap
➢ Ascending triangle has higher lows into Resistance
➢ Descending triangle has lower highs into Support

How to trade Cup Handle Top/Bottom

TEA – CUP

What Is A Cup and Handle?

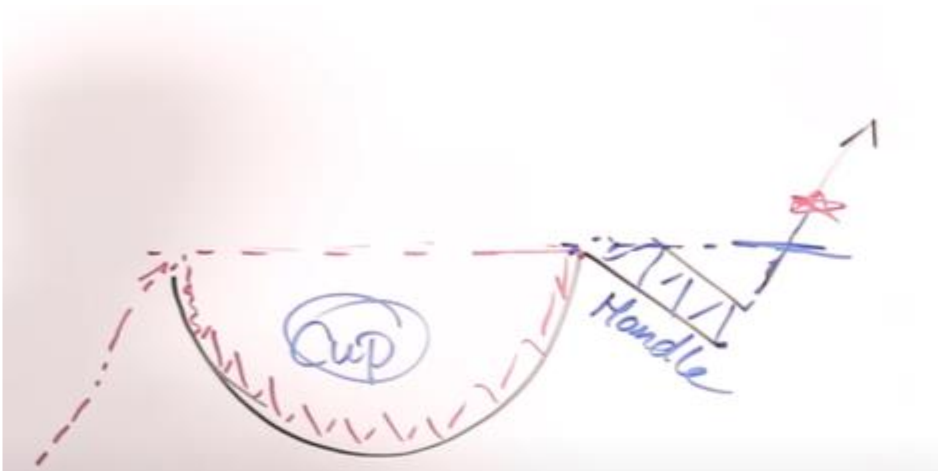
Cup Handle is continuation patterns

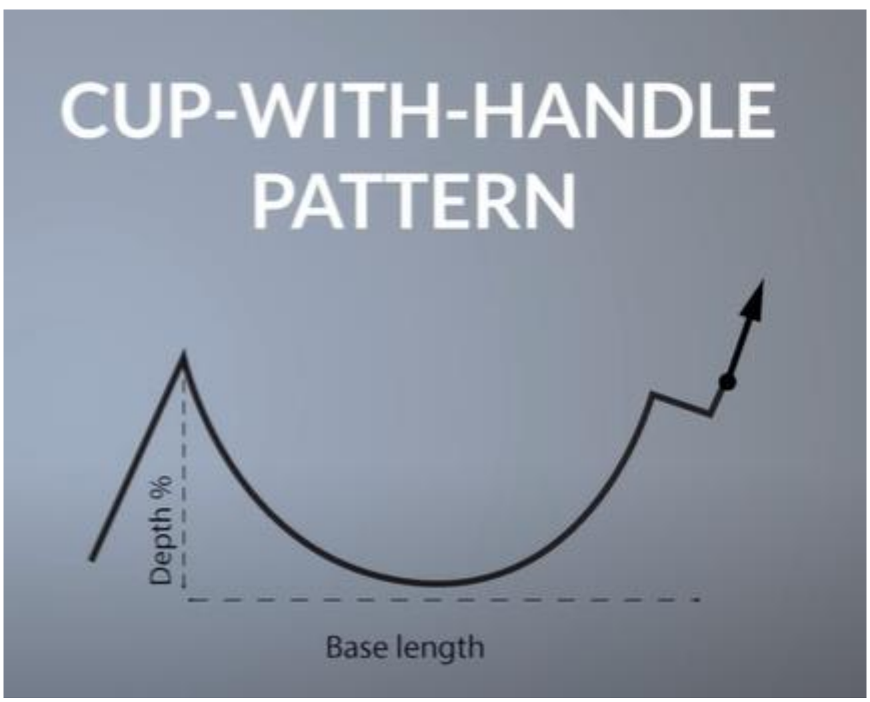
A cup and handle price pattern on a security's price chart is a Tea-Cup that resembles a cup with a handle, where the cup is in the shape of a "u" and the handle has a slight downward drift. The cup and handle is considered a bullish signal,

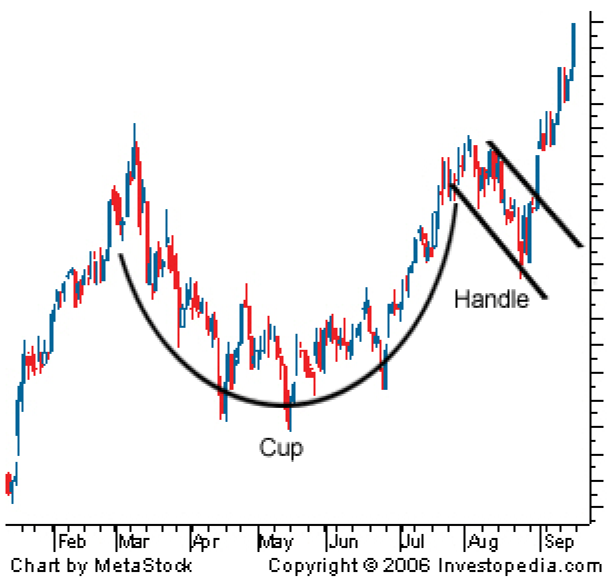
KEY TAKEAWAYS

- A cup and handle is a technical chart pattern that resembles a cup and handle where the cup is in the shape of a "u" and the handle has a slight downward drift.
- A cup and handle is considered a bullish signal extending an uptrend, and is used to spot opportunities to go long.

- Technical traders using this Cup Handle should place a **stop buy order** slightly above the upper trendline of the handle part of the pattern.







46
45
44
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35
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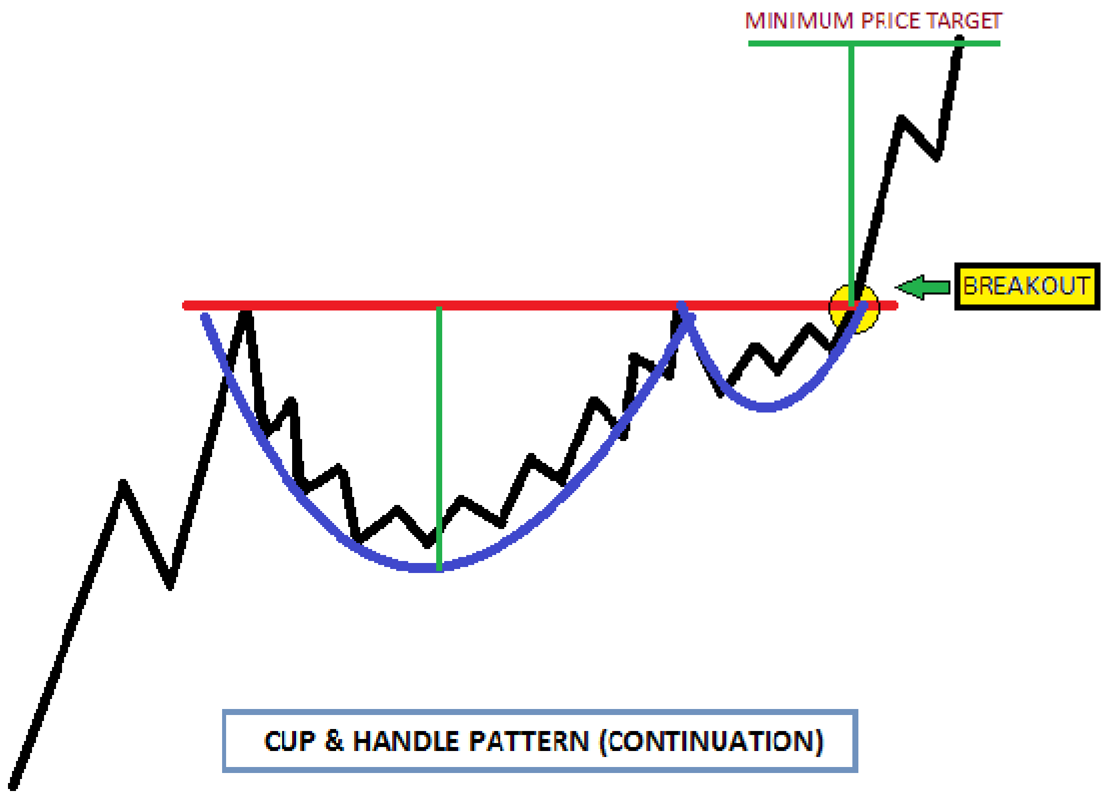
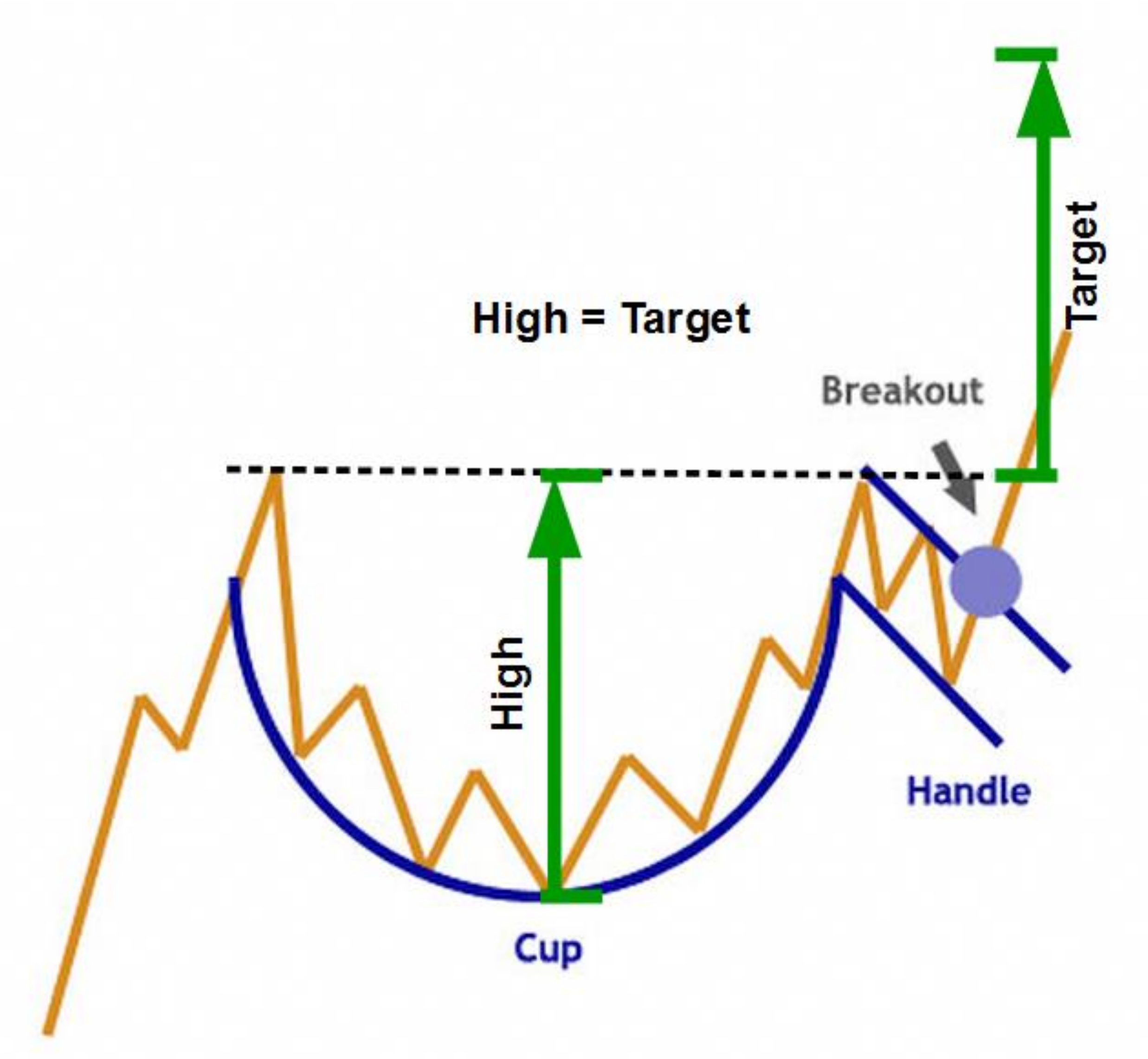
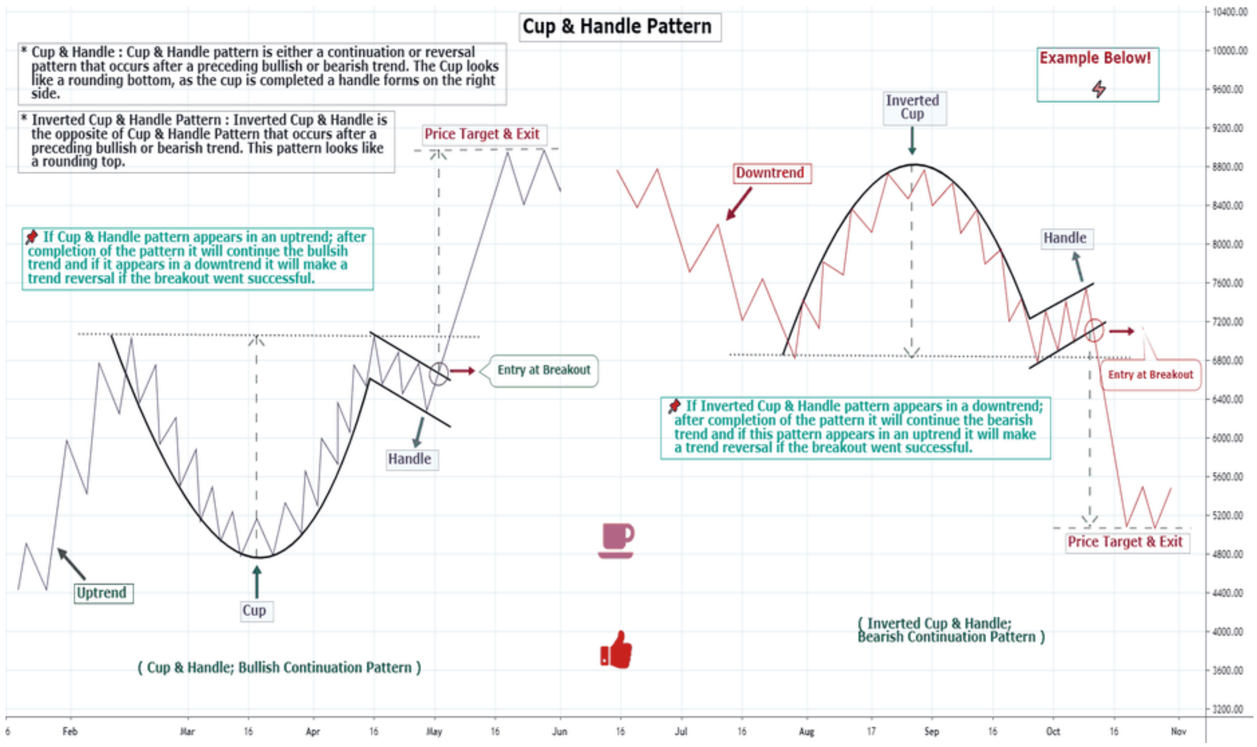
28
Handle
Cup
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Chart by MetaStock
Copyright © 2006 Investopedia.com

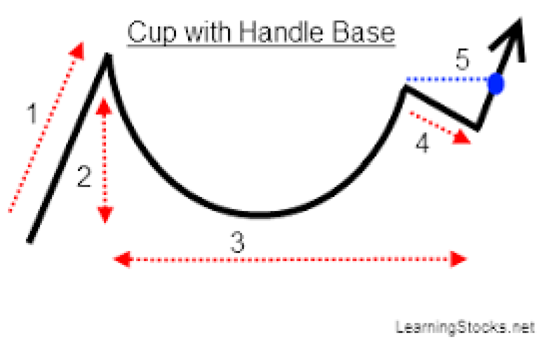


MINIMUM PRICE TARGET
BREAKOUT
CUP & HANDLE PATTERN (CONTINUATION)

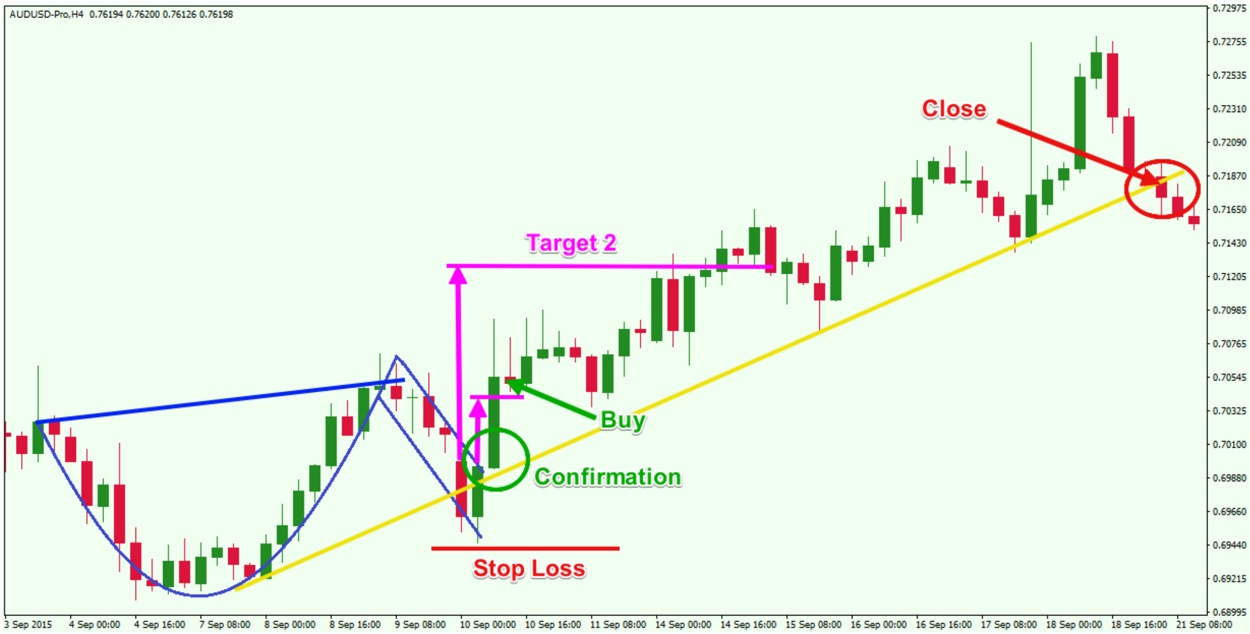

High = Target
Target
Breakout
High
Handle
Cup



Cup & Handle Pattern
* Cup & Handle : Cup & Handle pattern is either a continuation or reversal pattern that occurs after a preceding bullish or bearish trend. The Cup looks like a rounding bottom, as the cup is completed a handle forms on the right side.
* Inverted Cup & Handle Pattern : Inverted Cup & Handle is the opposite of Cup & Handle Pattern that occurs after a preceding bullish or bearish trend. This pattern looks like a rounding top.
Price Target & Exit
If Cup & Handle pattern appears in an uptrend; after completion of the pattern it will continue the bullsih trend and if it appears in a downtrend it will make a trend reversal if the breakout went successful.
Entry at Breakout
Handle
Uptrend
Cup
(Cup & Handle; Bullish Continuation Pattern)
Example Below!
Inverted Cup
Downtrend
Handle
Entry at Breakout
If Inverted Cup & Handle pattern appears in a downtrend; after completion of the pattern it will continue the bearish trend and if this pattern appears in an uptrend it will make a trend reversal if the breakout went successful.
Price Target & Exit
(Inverted Cup & Handle; Bearish Continuation Pattern)



Cup with Handle Base
1
2
3
4
5
LearningStocks.net



AUDUSD-Pro,H4 0.76194 0.76200 0.76126 0.76198
Close
Target 2
Buy
Confirmation
Stop Loss

EURUSD - Rolling Spot
Cup and Handle
Target
Range
Range
Handle
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How to Trade Wedge Chart Patterns

Rising Wedge / Falling Wedge

Wedges are reversal patterns that consist of two converging trend lines, which connect high and low price points of a currency pair. This pattern in a Forex chart represents a potential market correction on a prevailing trend. There is a break in one of the two trend lines, signaling the end of the convergence process.

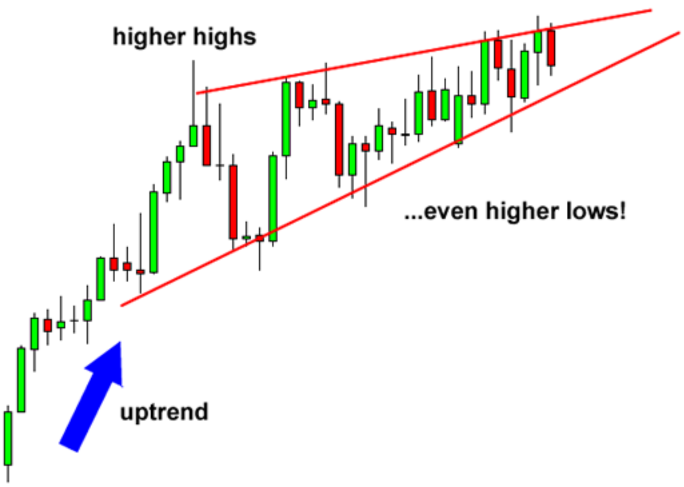
Rising / ascending wedges are bearish reversal patterns and Falling / descending wedges are bullish reversal patterns.

A rising wedge is formed when price consolidates between upward sloping support and resistance lines. Higher lows are being formed faster than higher highs, which leads to a wedge-like formation. With prices consolidating, we know that a big move is coming, so we can expect a breakout. If the rising wedge forms after an uptrend, it's a bearish reversal pattern or if it forms during a downtrend, it could signal a continuation of the down move.

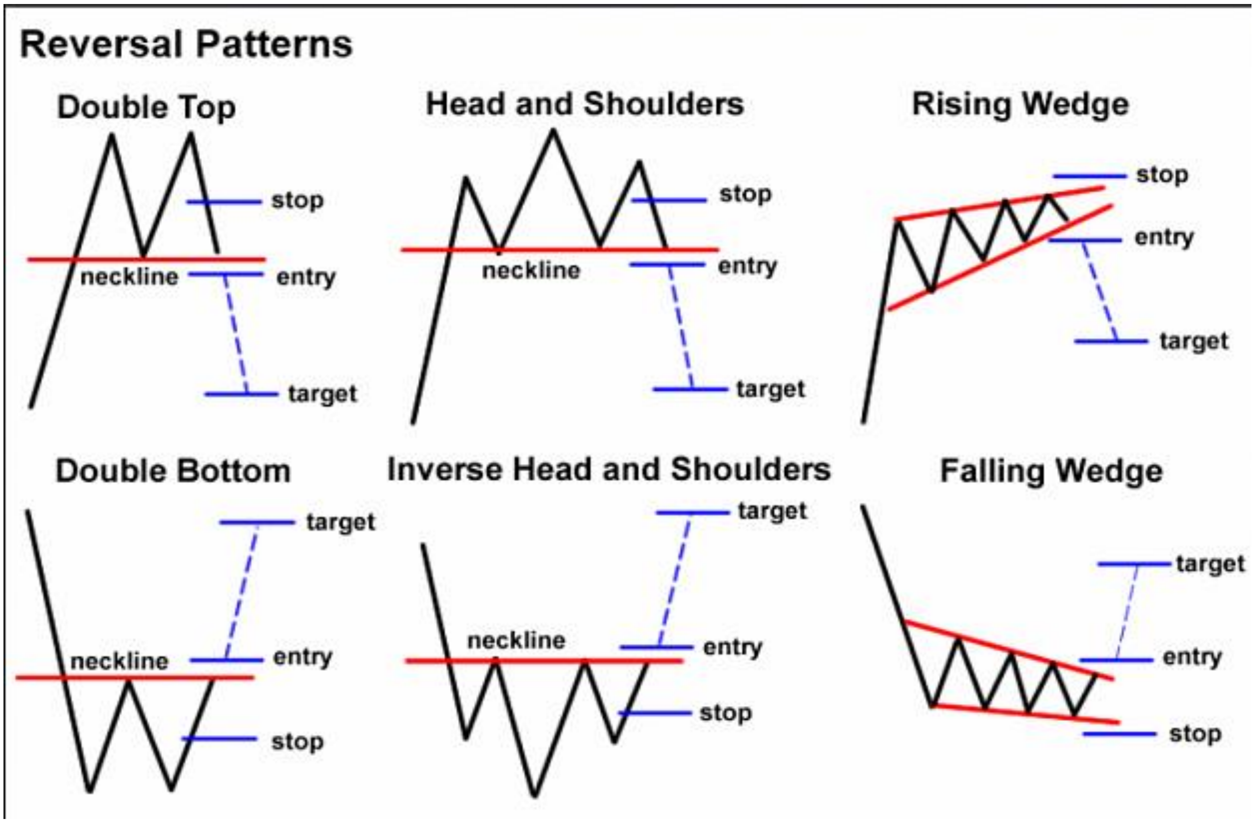
A falling wedge is formed when price consolidates between downward sloping support and resistance lines. Lower highs are being formed faster than lowers lows, which leads to a wedge-like formation. With prices consolidating, we know that a big move is coming, so we can expect a breakout. If the falling wedge forms after a downtrend, it's a bullish reversal pattern or if it forms during an uptrend, it could signal a continuation of the move up.

Rising Wedge / Falling Wedge

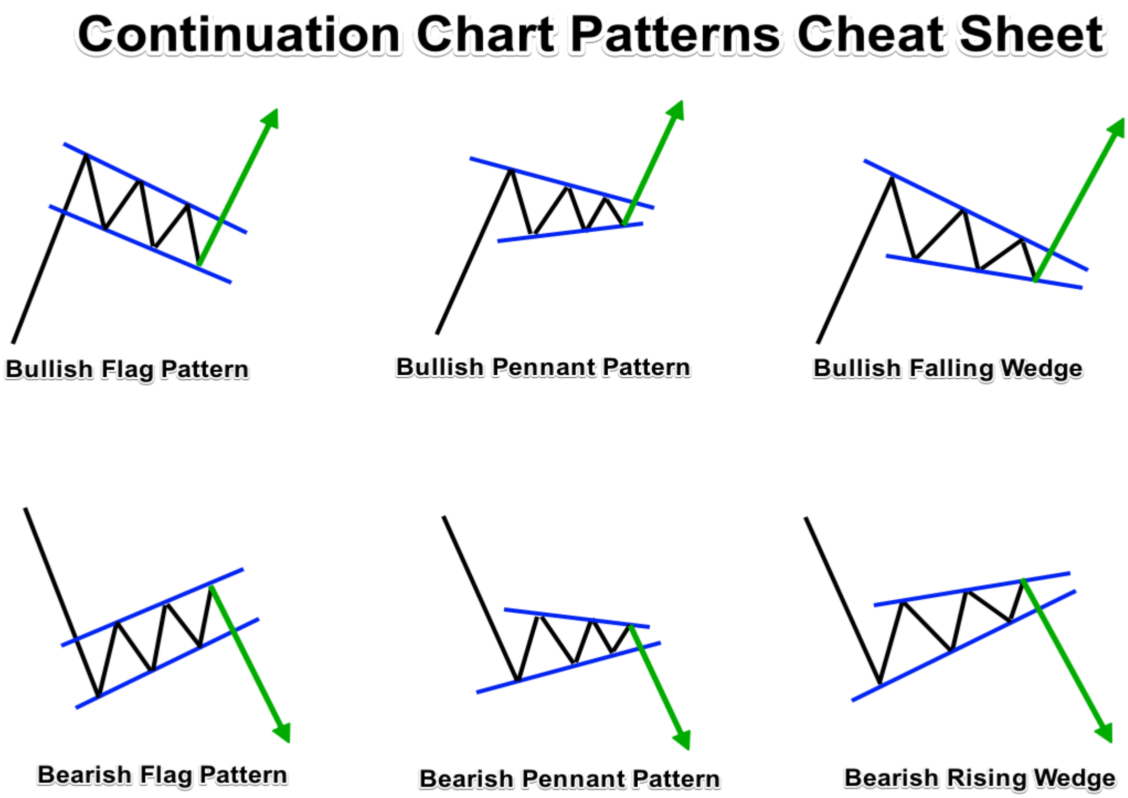
- Rising wedges are bearish reversal patterns
- Falling wedges are bullish reversal patterns
- Usually forms as the 2nd or 4th wave before the trend continuation / or as the 3rd or 5th wave before the trend reversal.
- Entry ONLY after the trend line break.
- Always wait for the breakout point.




price makes a nice
move down...



Reversal Patterns
Double Top
stop
neckline
entry
target
Head and Shoulders
stop
neckline
entry
target
Rising Wedge
stop
entry
target
Double Bottom
target
neckline
entry
stop
Inverse Head and Shoulders
target
neckline
entry
stop
Falling Wedge
target
entry
stop



<u>Market Geometry</u>

Means:

- **Master Market Structure**
- **Master Technical Analyses**

Topics

1. **Fibonacci Retracements**
2. **Price Relationship (History repeats its self)**
3. **Elliot Wave**
4. **Harmonic**

Recall Market Structure:

1. **SR – Horizontal line,**
2. **Uptrend, Downtrend, Ranging – Trendline**
3. **Chart Patterns Candlestick – Conti, Reversal and Bilateral**

Lesson 08. Fibonacci Retracement

- Uptrend Practical

Fibonacci Retracement + Support and Resistance

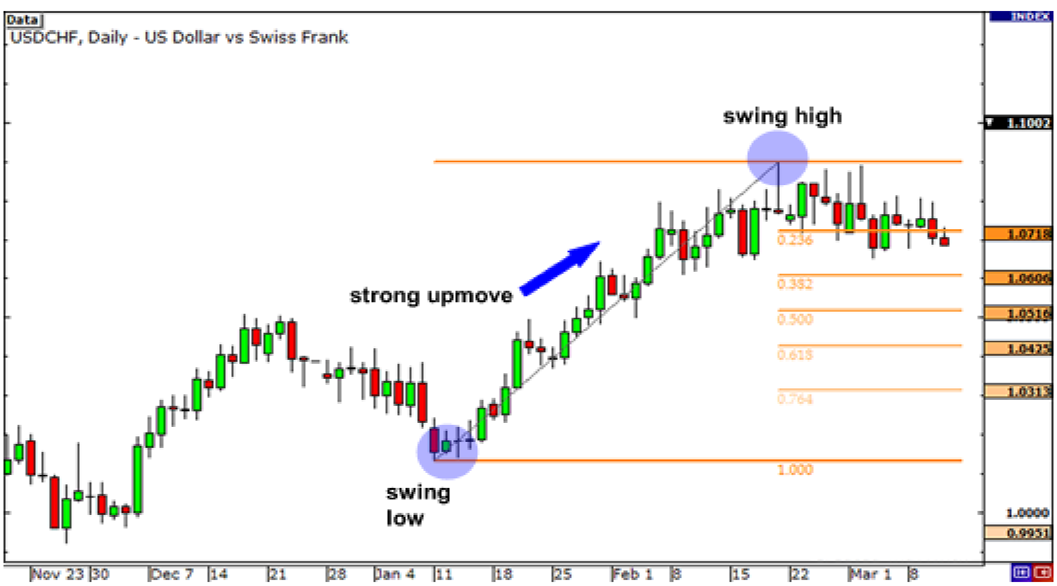
- **Entry and Exit**
- **Bull Back / Correction / Retracement – (0.382 – 0.5 – 0.618)**
- **Support and Resistance**
- **Take Profit and Stop Loss**

- **Last Impulse/Run/**

One of the best ways to use the Fibonacci retracement tool is to spot potential **support and resistance** levels and see if they line up with Fibonacci retracement levels.

If Fibonacci levels are already support and resistance levels, and you combine them with other price areas that a lot of other traders are watching, then the chances of price bouncing from those areas are much higher.

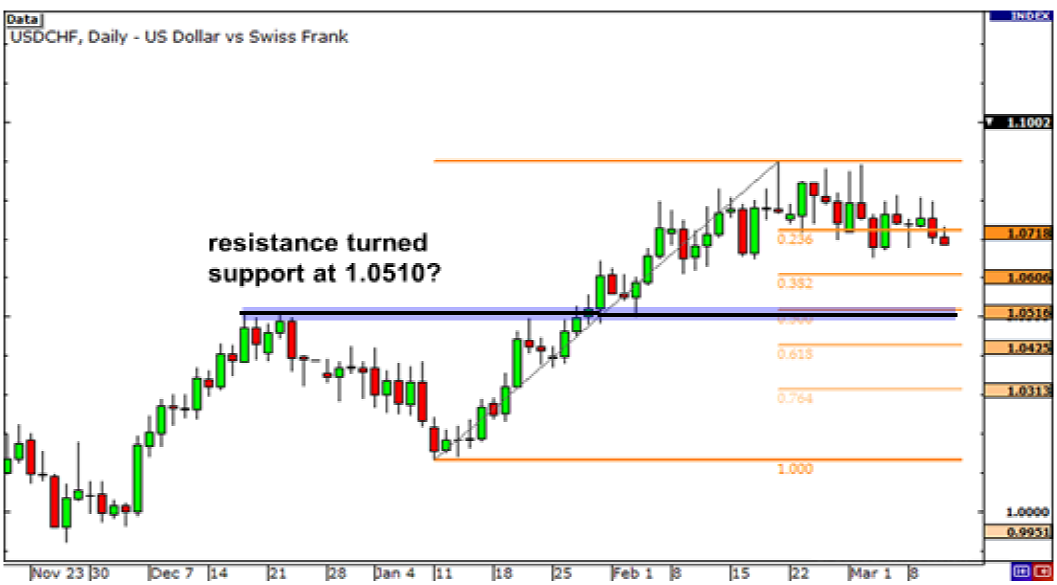
Let's look at an example of how you can combine support and resistance levels with Fibonacci levels. Below is a daily chart of USD/CHF.



As you can see, it's been on an uptrend recently. Look at all those green candles! You decide that you want to get in on this long USD/CHF bandwagon.

But the question is, "When do you enter?" You bust out the Fibonacci retracement tool, using the low at 1.0132 on January 11 for the Swing Low and the high at 1.0899 on February 19 for the Swing High.

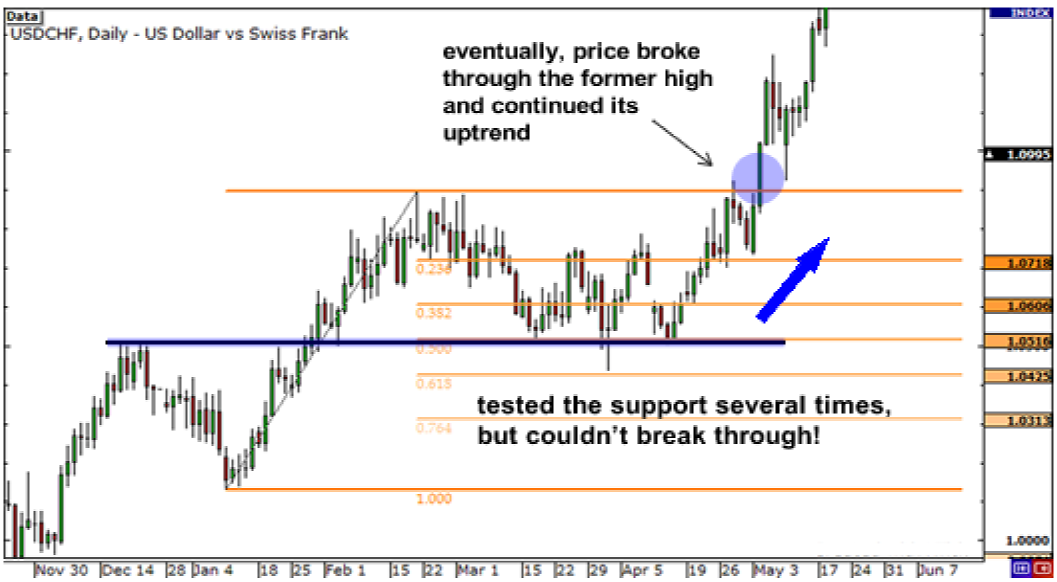
Now your chart looks pretty sweet with all those Fibonacci retracement levels.



Now that we have a framework to increase our probability of finding solid entry, we can answer the question "Where should you enter?"

You look back a little bit and you see that the 1.0510 price was good resistance level in the past and it just happens to line up with the 50.0% Fibonacci retracement level.

Now that it's broken, it could turn into support and be a good place to buy.



If you did set an order somewhere around the 50.0% Fib level, you'd be a pretty happy camper!

There would have been some pretty tense moments, especially on the second test of the support level on April 1. Price tried to pierce through the support level, but failed to close below it. Eventually, the pair broke past the Swing High and resumed its uptrend.

You can do the same setup on a downtrend as well. The point is you should look for price levels that seem to have been areas of interest in the past.

If you think about it, there's a higher chance that price will bounce from these levels.

Why?

First, as we discussed in Grade 1, previous support or resistance levels would be good areas to buy or sell because other traders will also be eyeing these levels like a hawk.

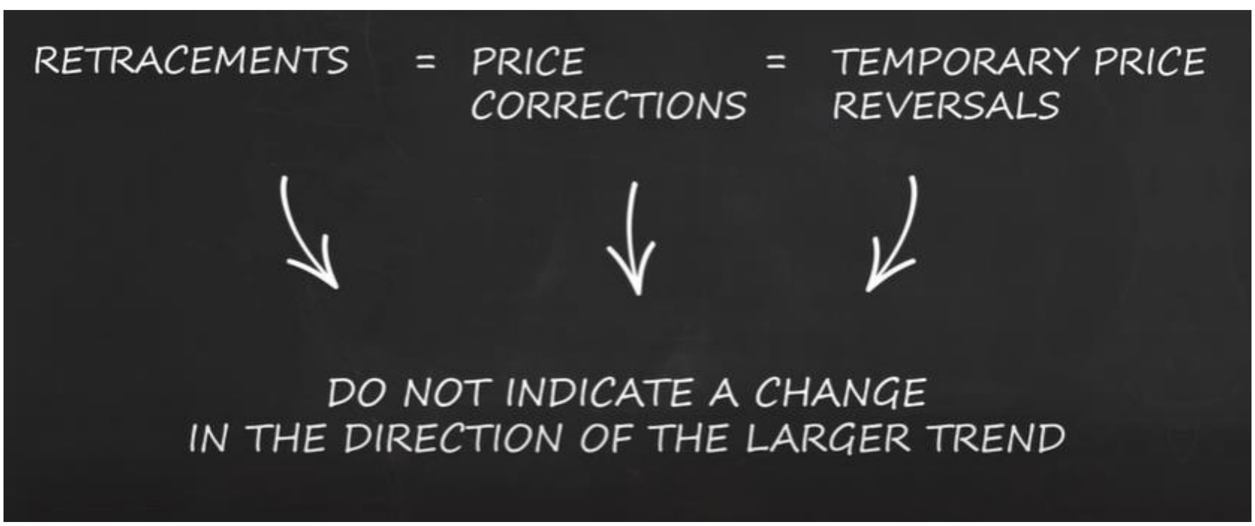
Second, since we know that a lot of traders also use the Fibonacci retracement tool, they may be looking to jump in on these Fib levels themselves.

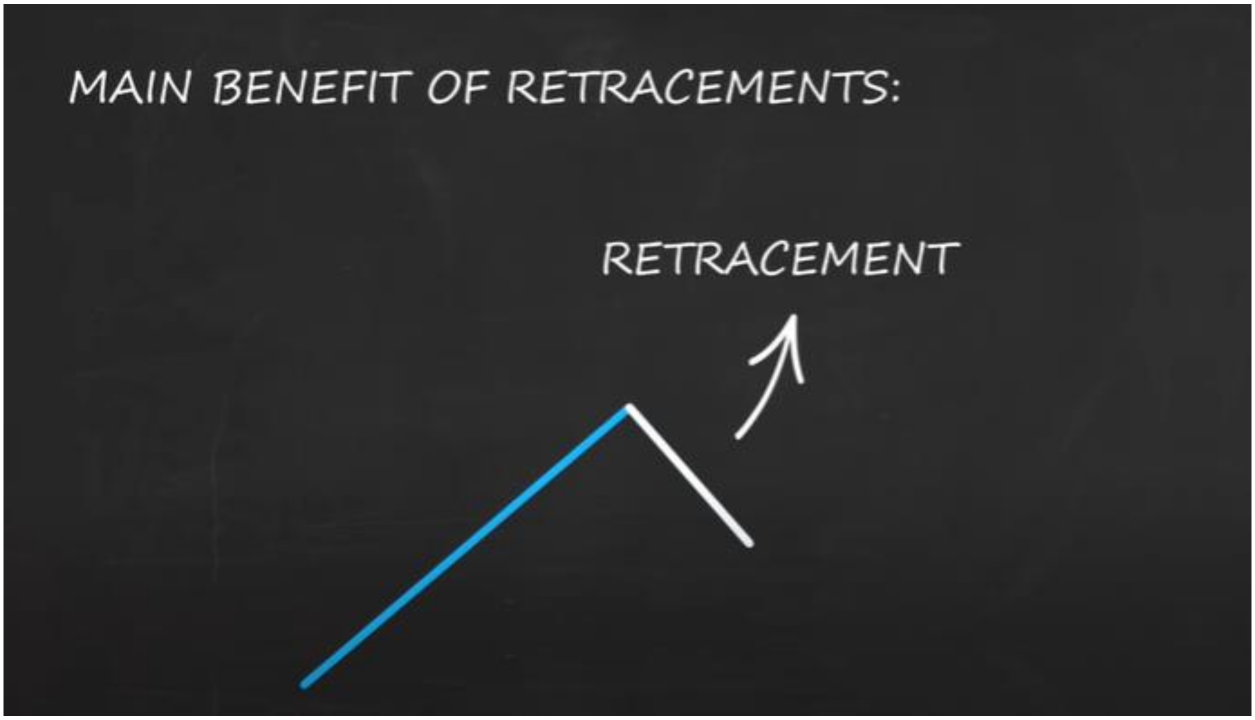
With traders looking at the same support and resistance levels, there's a good chance that there are a ton of orders at those price levels.

While there's no guarantee that price will bounce from those levels, at least you can be more confident about your trade. After all, there is strength in numbers!

Remember that trading is all about **probabilities**. If you stick to those higher probability trades, then there's a better chance of coming out ahead in the long run.

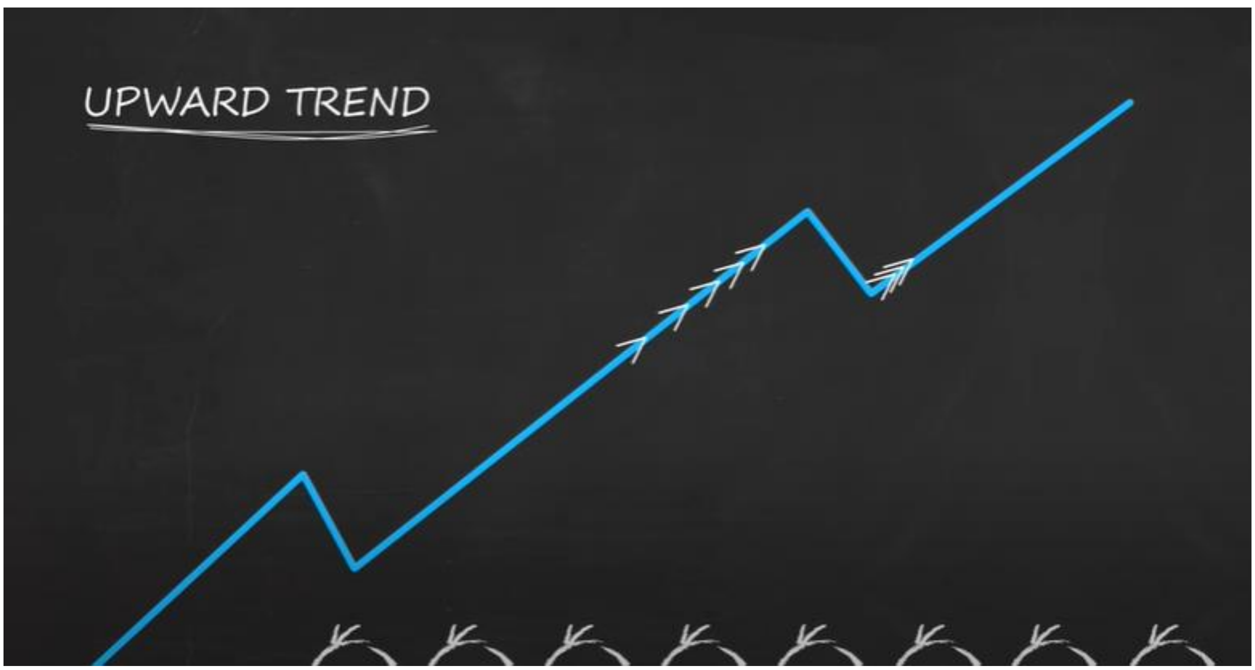
Lesson 10. Fibonacci Retracement – Downtrend and Sequence:



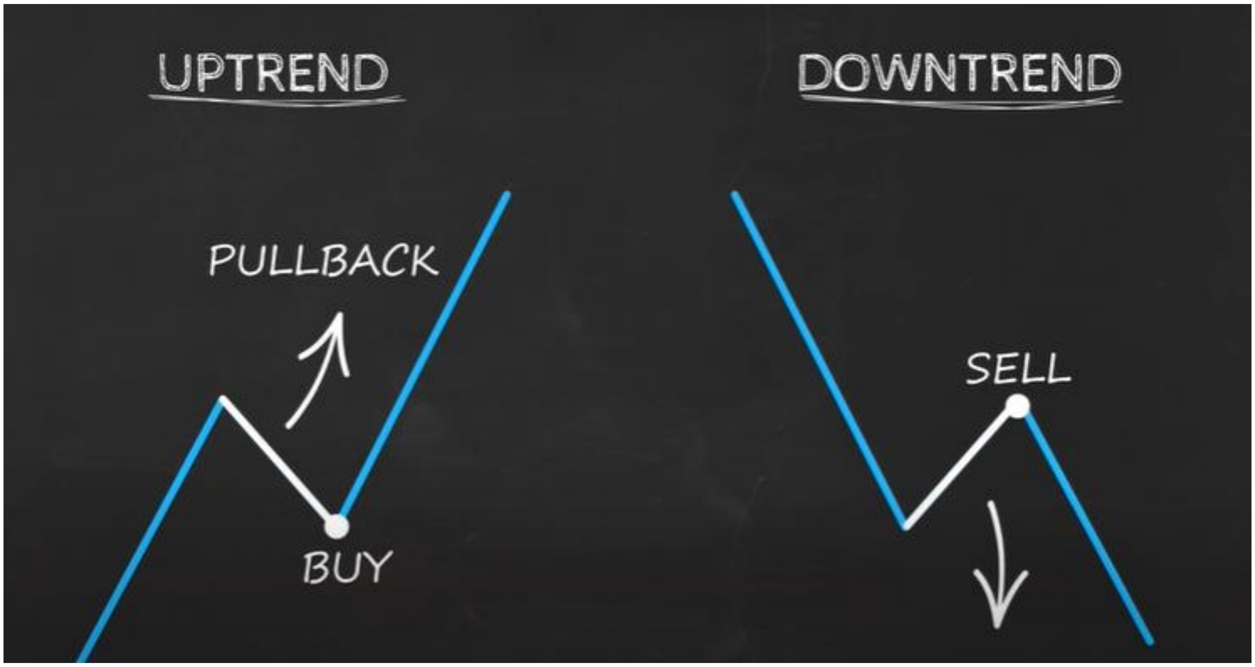

MAIN BENEFIT OF RETRACEMENTS:
RETRACEMENT


MAIN BENEFIT OF RETRACEMENTS:
TRADE AT A BETTER PRICE
BUY


WHY
RETRACEMENTS
OCCUR?


UPWARD TREND


HOW TO ENTER YOUR TRADE
IN A RETRACEMENT?
FIND A STRONG
UPWARD
TREND
DOWNWARD
TREND


UPTREND
DOWNTREND
PULLBACK
SELL
BUY


Q: HOW DO WE KNOW
WHEN THE MARKET WILL PULL BACK?


Q: HOW DO WE KNOW
WHEN THE MARKET WILL PULL BACK?
A: BY USING FIBONACCI RETRACEMENTS


SWING HIGH
SWING LOW

0.00%
23.60%
38.20%
50.00%
61.80%
76.40%
100.00%

UPTREND
DOWNTREND

0.00%
23.60%
38.20%
50.00%
61.80%

0.00%
23.60%
38.20%
50.00%
SUPPORT
61.80%
76.40%
100.00%
BUY

Level 4 – Advance FOREX

EASYWAYLEARN ACADEMY

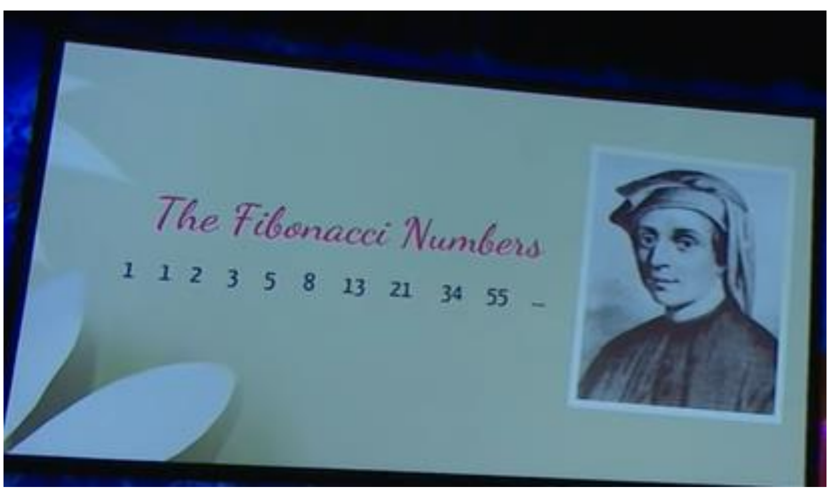
SAHALSOFTWARE – SAHAL UNIVERSITY

Level 4 – Advance FOREX

EASYWAYLEARN ACADEMY

SAHALSOFTWARE – SAHAL UNIVERSITY

Fibonacci Sequence:



Level 4 – Advance FOREX

EASYWAYLEARN ACADEMY

SAHALSOFTWARE – SAHAL UNIVERSITY

Fibonacci, also called Leonardo Pisano, English Leonardo of Pisa, original name Leonardo **Fibonacci**, (born c. 1170, Pisa? —died after 1240), medieval Italian mathematician who wrote Liber abaci (1202; "Book of the Abacus"), the first European work on Indian and Arabian mathematics. Apr 12, 2020

What is the

golden ratio?

1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, 987, 1597, 2584, 4181, 6765, 10946, 17711, 28657, 46368, 75025, 121393...

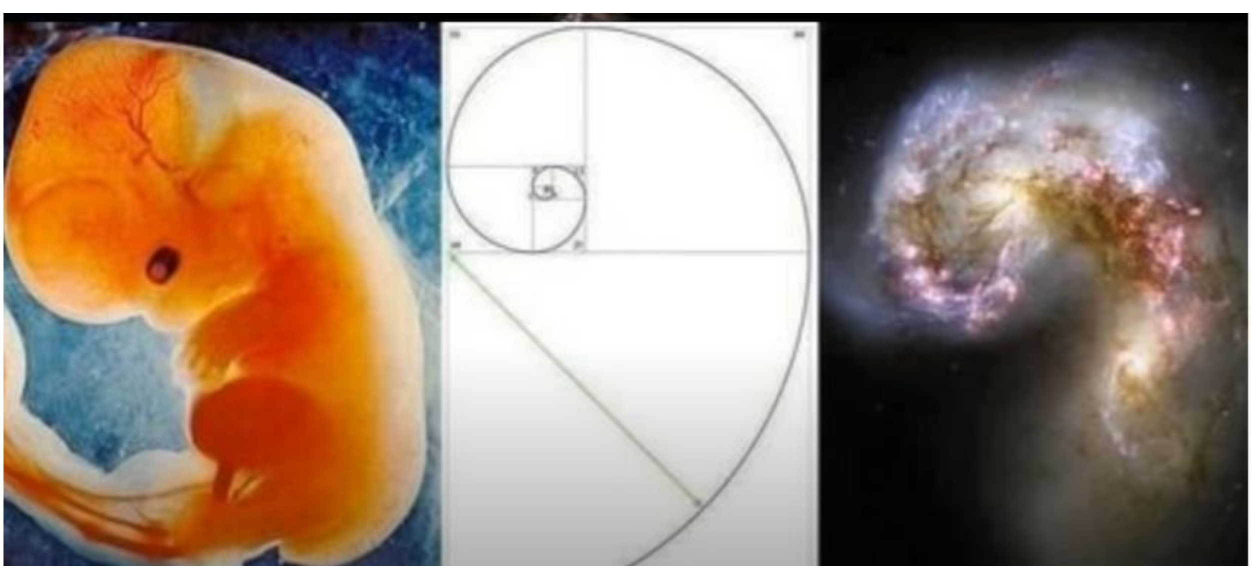
Fibonacci sequence

Fibonacci (1175-1250)

1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, 987, 1597, 2584, 4181, 6765, 10946, 17711, 28657, 46368, 75025, 121393...

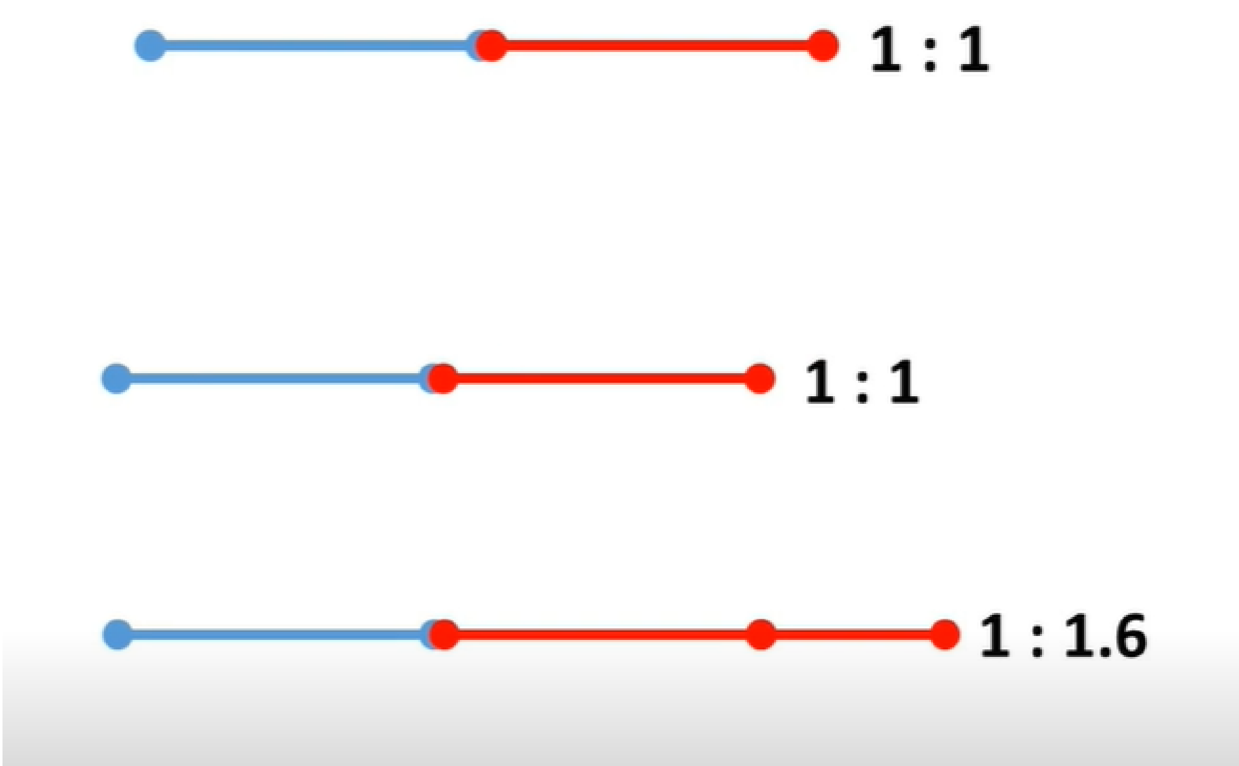
$$0+1=1$$
$$1+1=2$$
$$1+2=3$$
$$2+3=5$$
$$3+5=8$$
$$5+8=13$$
$$8+13=21$$
$$13+21=34$$
$$21+34=55$$

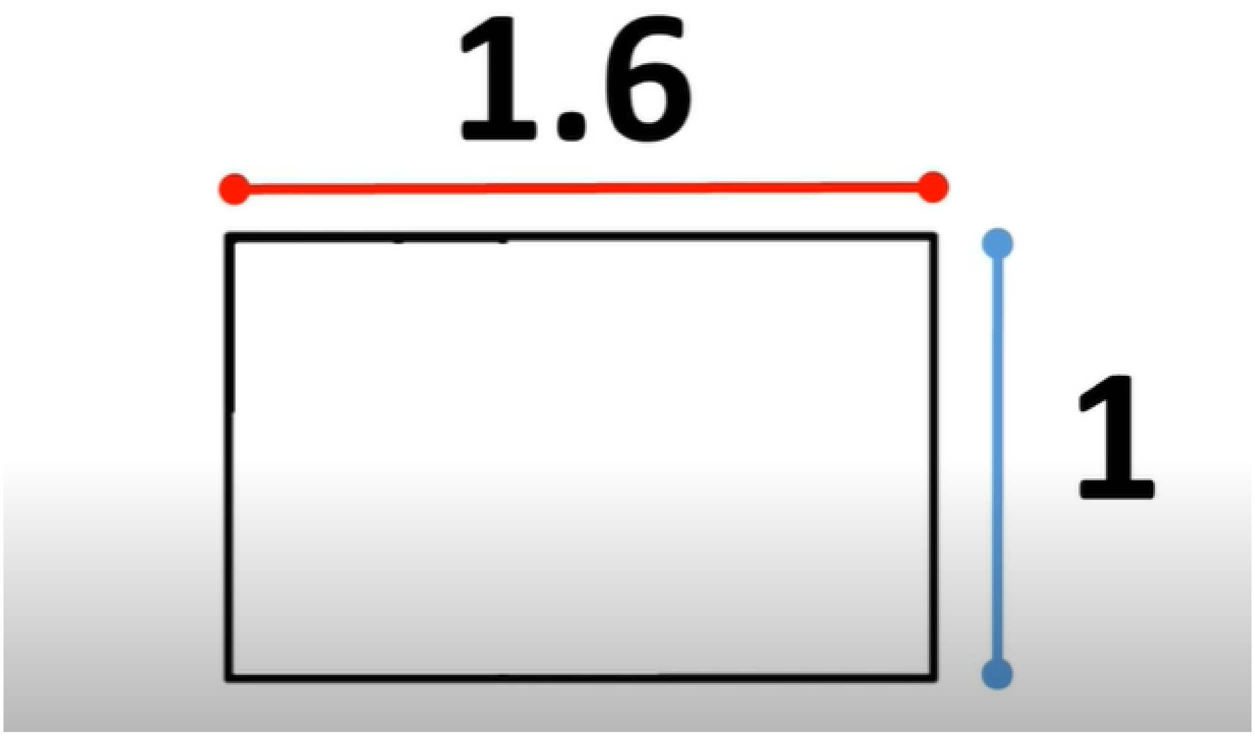

3
5
8
13
21
34

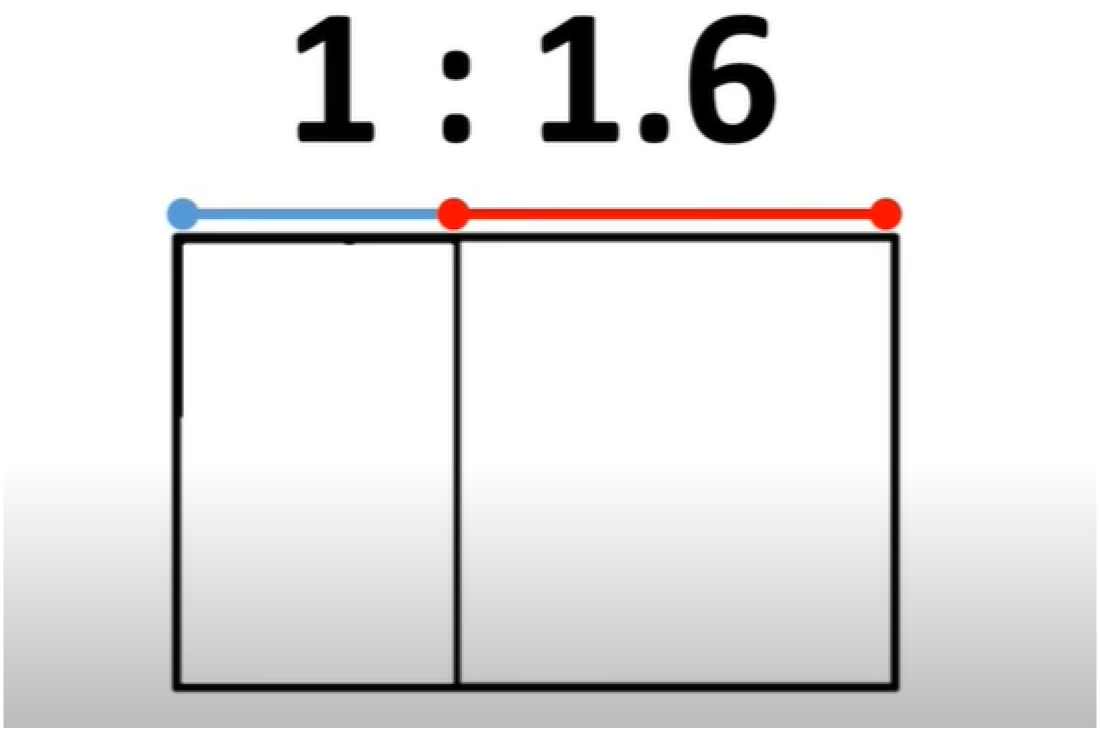


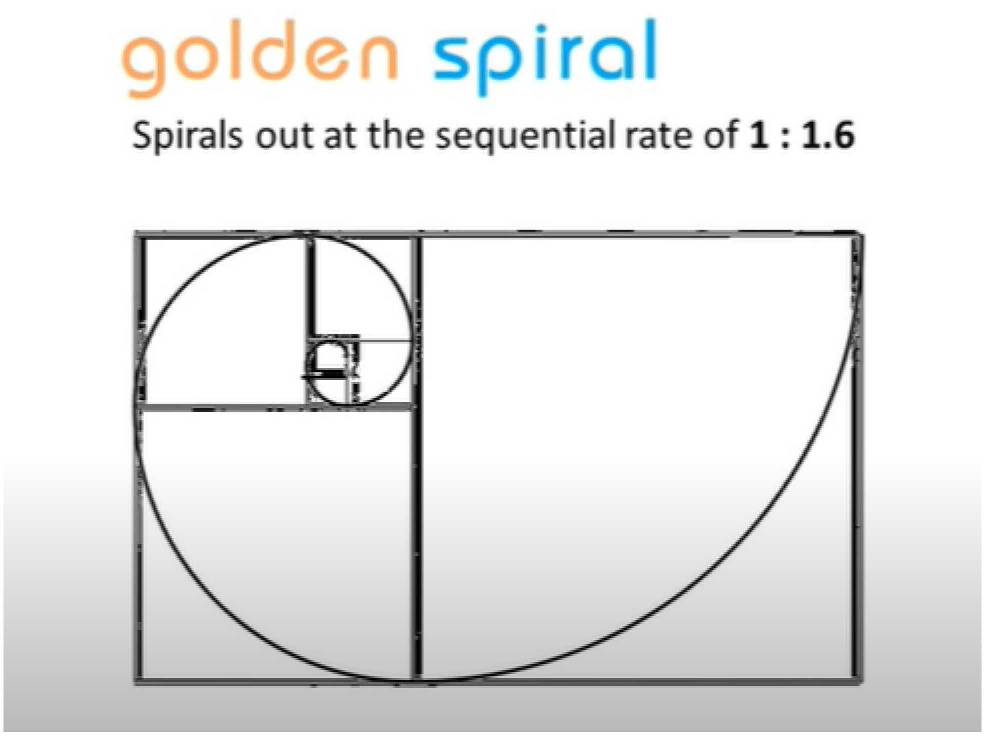
0+ 1 = 1
1+ 1 = 2
1+ 2 = 3
2+ 3 = 5
3+ 5 = 8
5+ 8 = 13
8+ 13 = 21
13+21= 34
21+ 34= 55
34+ 55 = 144
55+ 144 = 233
144+ 233 = 377
8
13
21
34
55
144
233
377
1: 1.6

f(n)	f(n+1)/f(n)
1	1
1	2
2	1.5
3	1.666666667
5	1.6
8	1.625
13	1.615384615
21	1.619047619
34	1.617647059
55	1.618181818
89	1.617977528
144	1.618055556
233	1.618025751
377	1.618037135
610	1.618032787
987	1.618034448
1597	1.618033813
2584	1.618034056
4181	1.618033963
6765	1.618033999
10946	1.618033985
17711	1.61803399
28657	1.618033988
46368	1.618033989
75025	1.618033989
121393	1.618033989
196418	1.618033989
317811	1.618033989
514229	1.618033989
832040	1.618033989


1 : 1
1 : 1
1 : 1.6


1.6
1

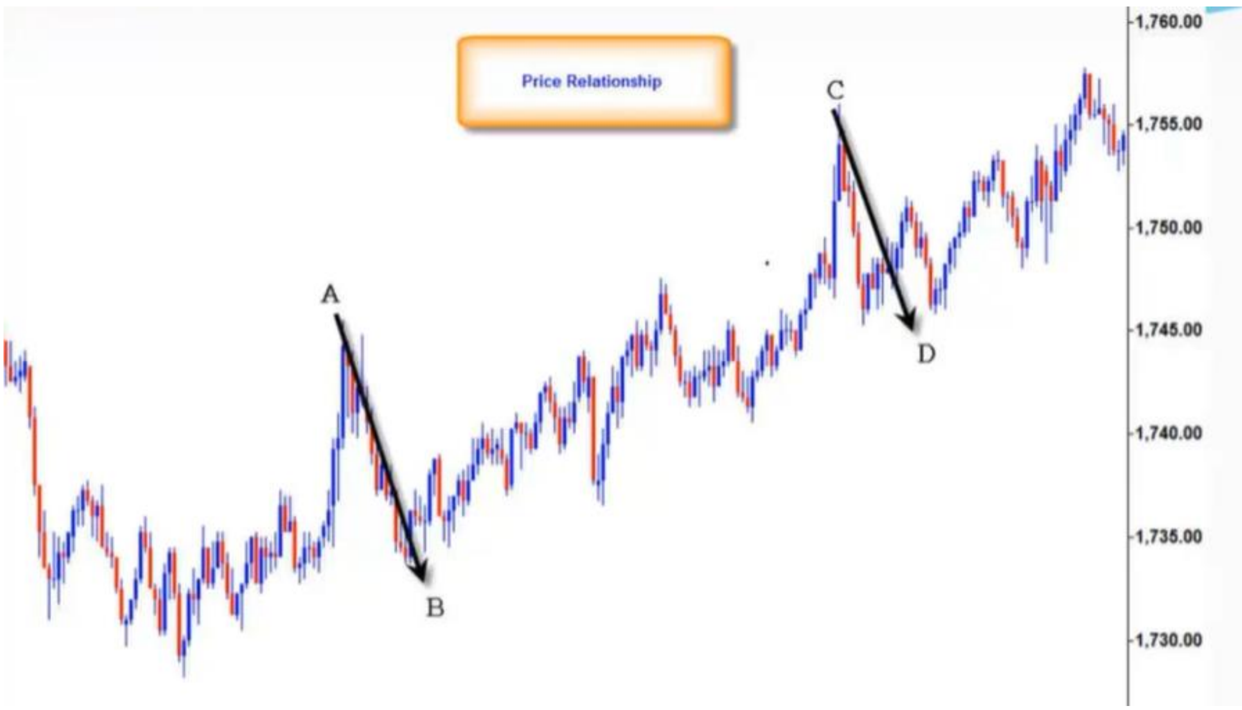

1 : 1.6

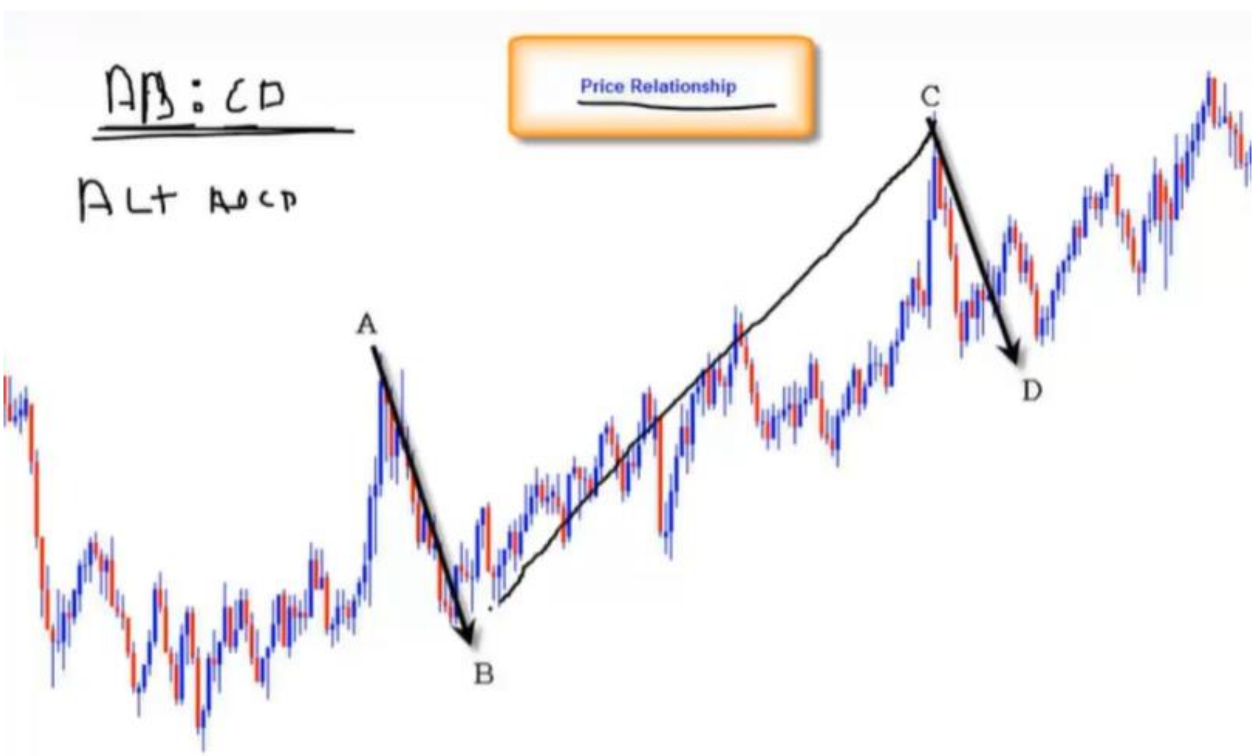

golden spiral
Spirals out at the sequential rate of 1 : 1.6

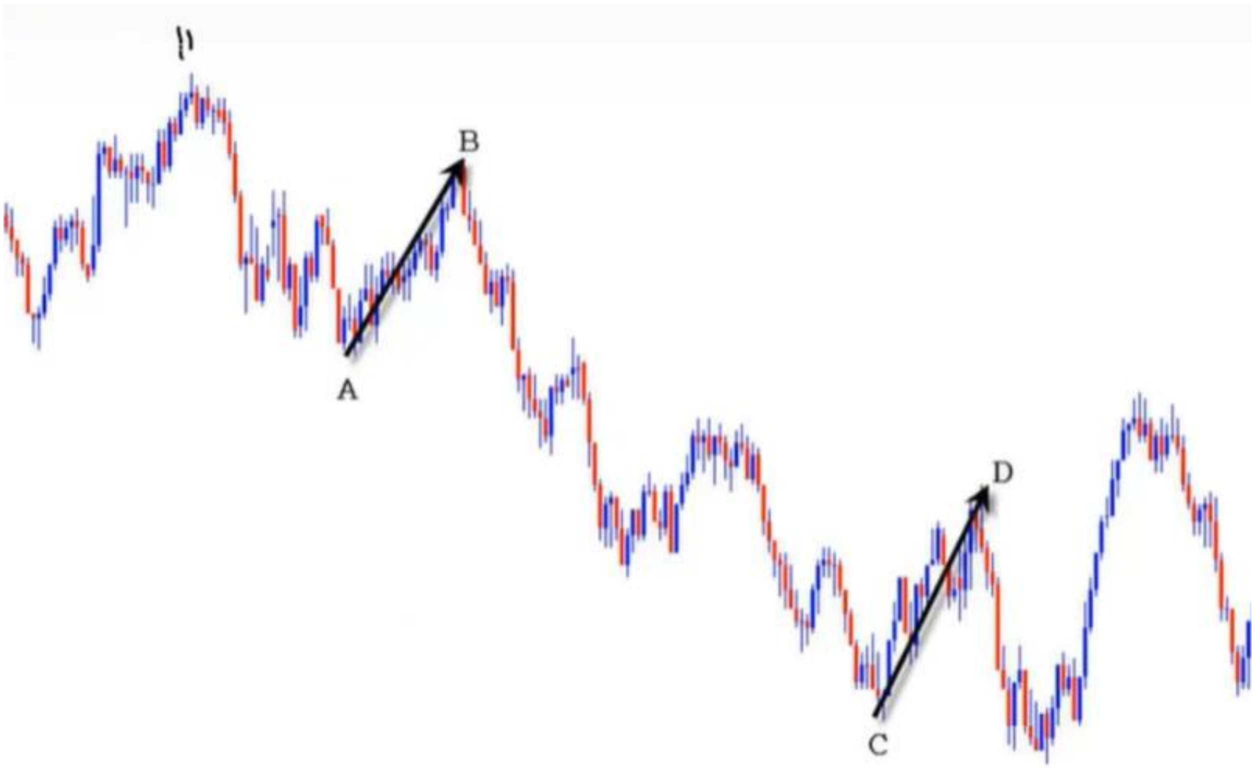
Level 4 – Advance FOREX

EASYWAYLEARN ACADEMY

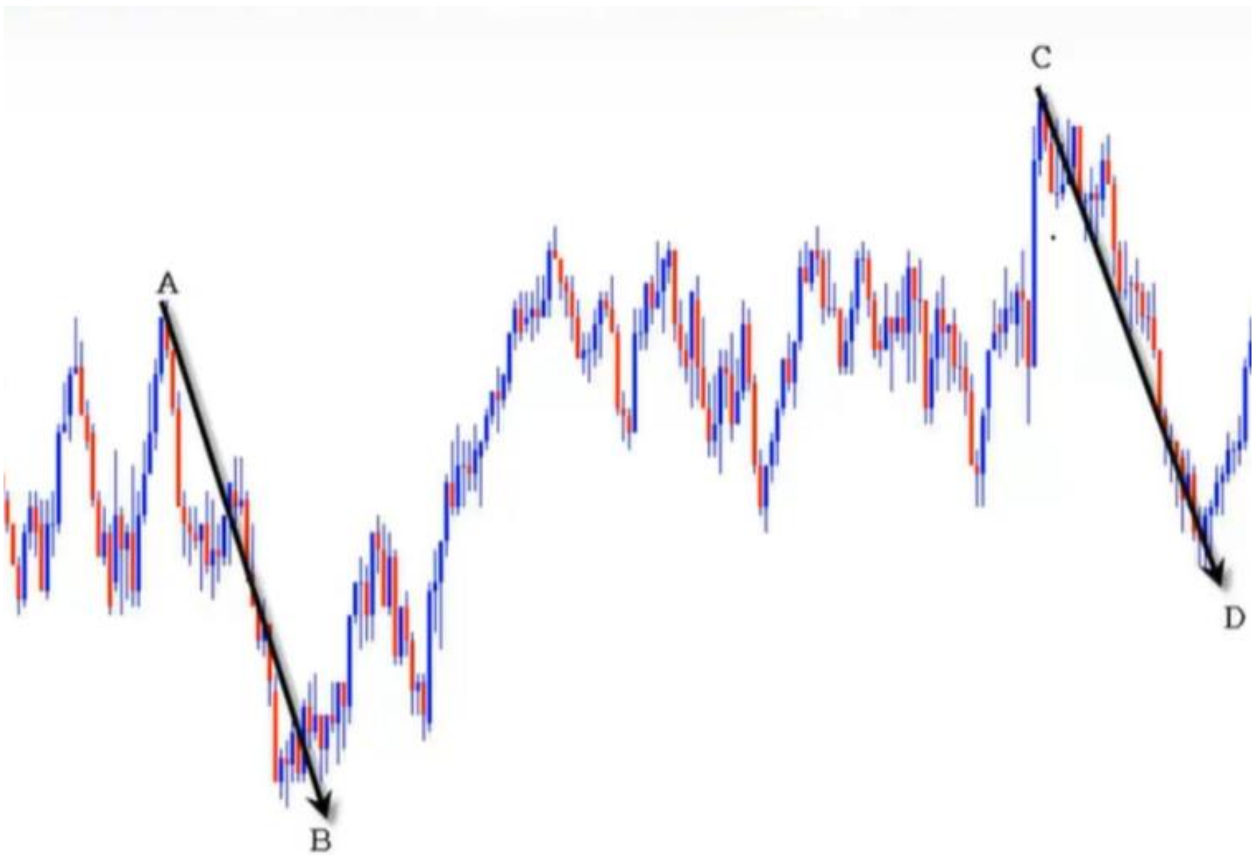
SAHALSOFTWARE – SAHAL UNIVERSITY


Price Relationship
A
B
C
D
1,760.00
1,755.00
1,750.00
1,745.00
1,740.00
1,735.00
1,730.00

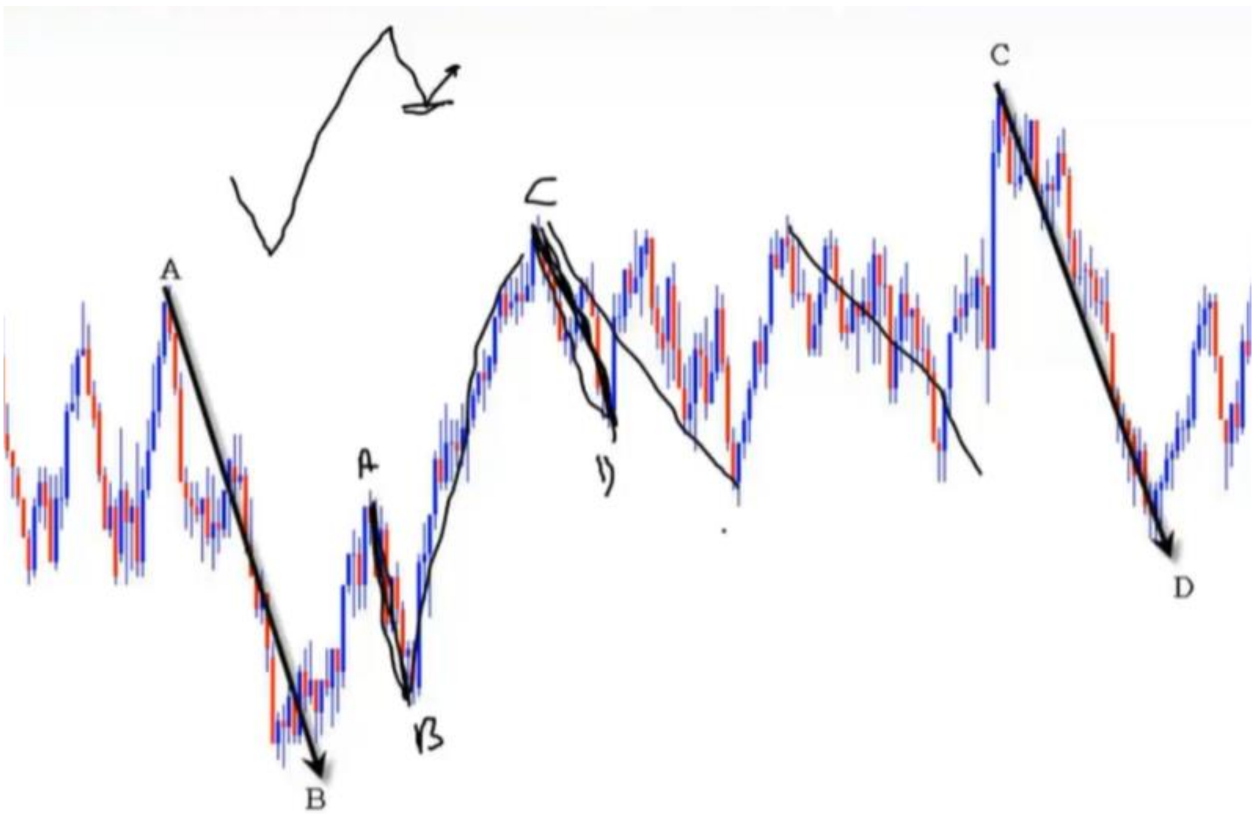

AB : CD
Price Relationship
A
B
C
D



B
A
D
C



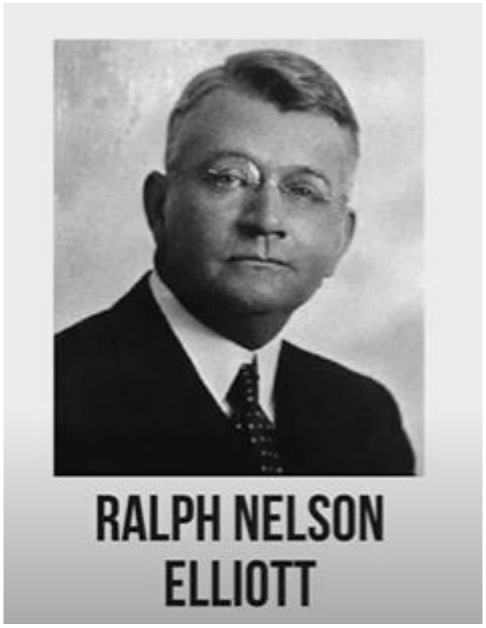
A
B
C
D



A
B
A
B
C
D
C
D

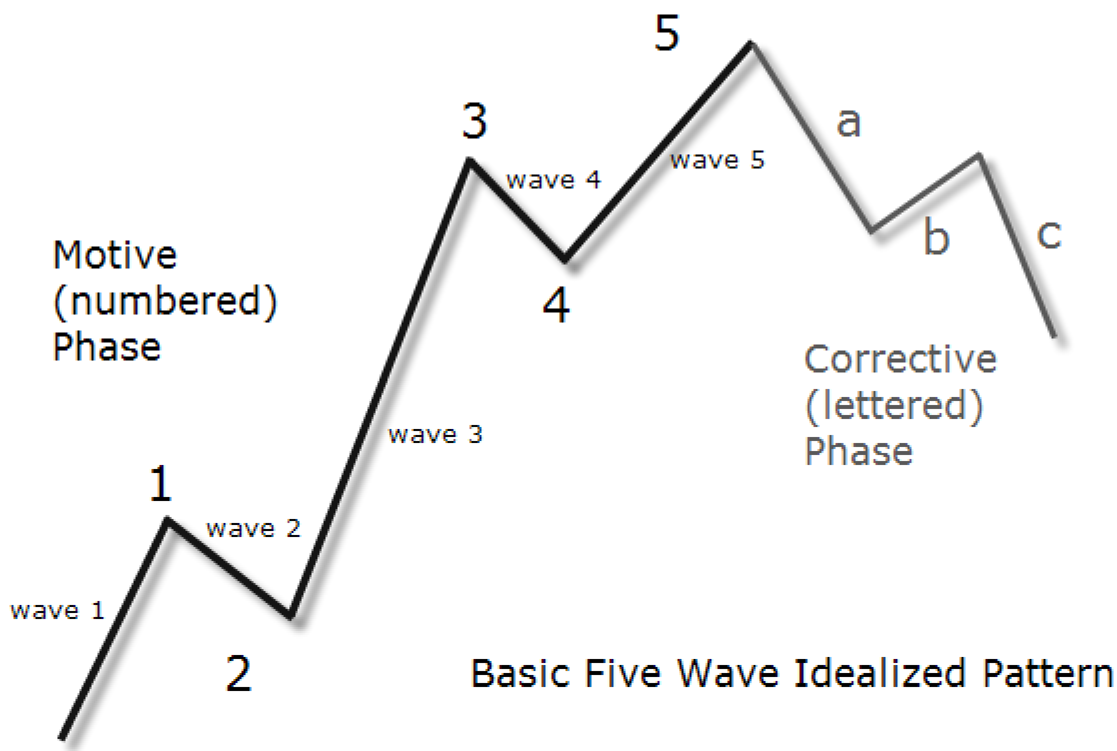

UP-TREND

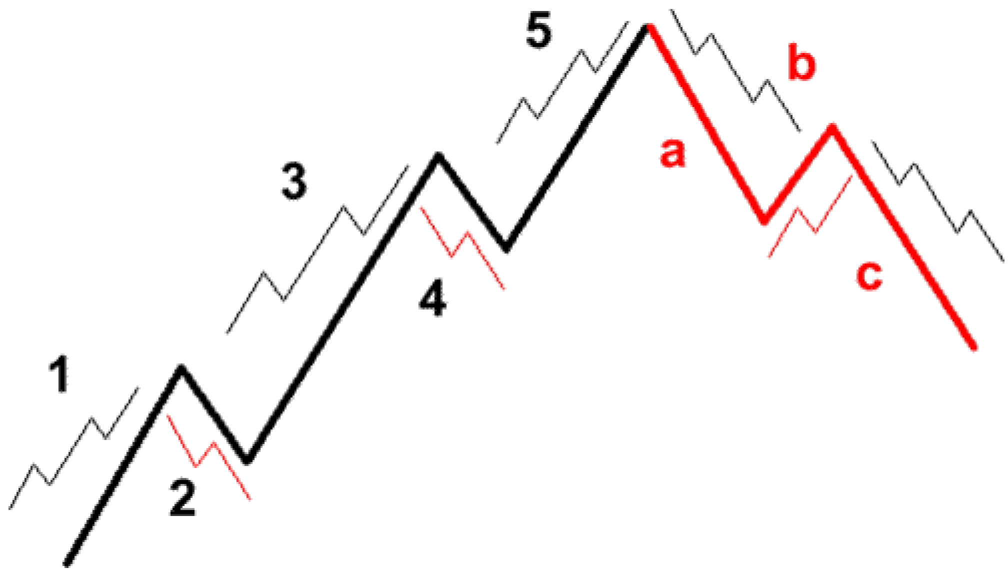
Elliott wave principle



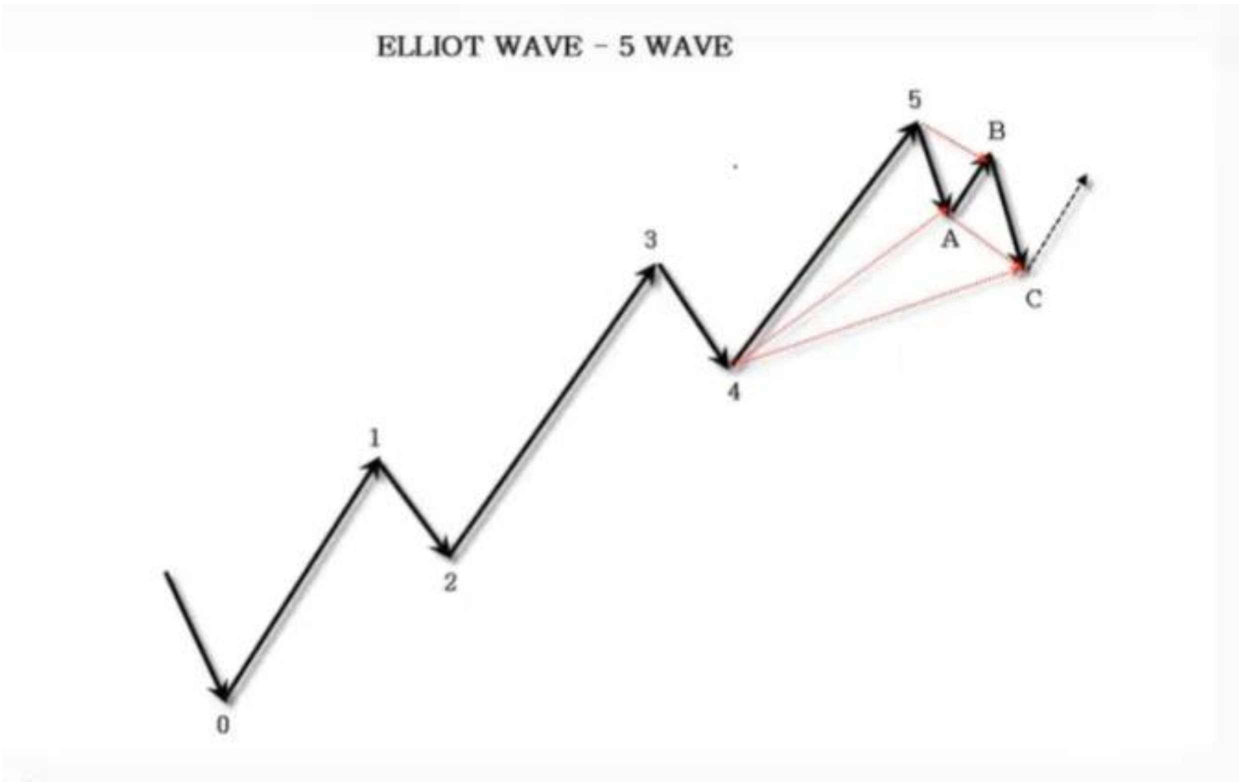
The **Elliott wave principle** is a form of technical analysis that finance traders use to analyze financial market cycles and forecast market trends by identifying extremes in investor psychology, highs and lows in prices, and other collective factors. Ralph Nelson Elliott (1871–1948), a **professional accountant (American Finance)**, discovered the underlying social principles and developed the analytical tools in the **1930s**.

He proposed that market prices unfold in specific patterns, which practitioners today call ***Elliott waves***, or simply *waves*. Elliott published his theory of market behavior in the book *The Wave Principle* in **1938**, summarized it in a series of articles in *Financial World* magazine in **1939**, and covered it most comprehensively in his final major work, *Nature's Laws: The Secret of the Universe* in 1946. Elliott stated that "because man is subject to rhythmical procedure, calculations having to do with his activities can be projected far into the future with a justification and certainty heretofore unattainable."[1] The empirical validity of the Elliott wave principle remains the subject of debate.


5
3
a
wave 4
wave 5
b
c
Motive
(numbered)
Phase
4
Corrective
(lettered)
Phase
wave 3
1
wave 2
wave 1
2
Basic Five Wave Idealized Pattern



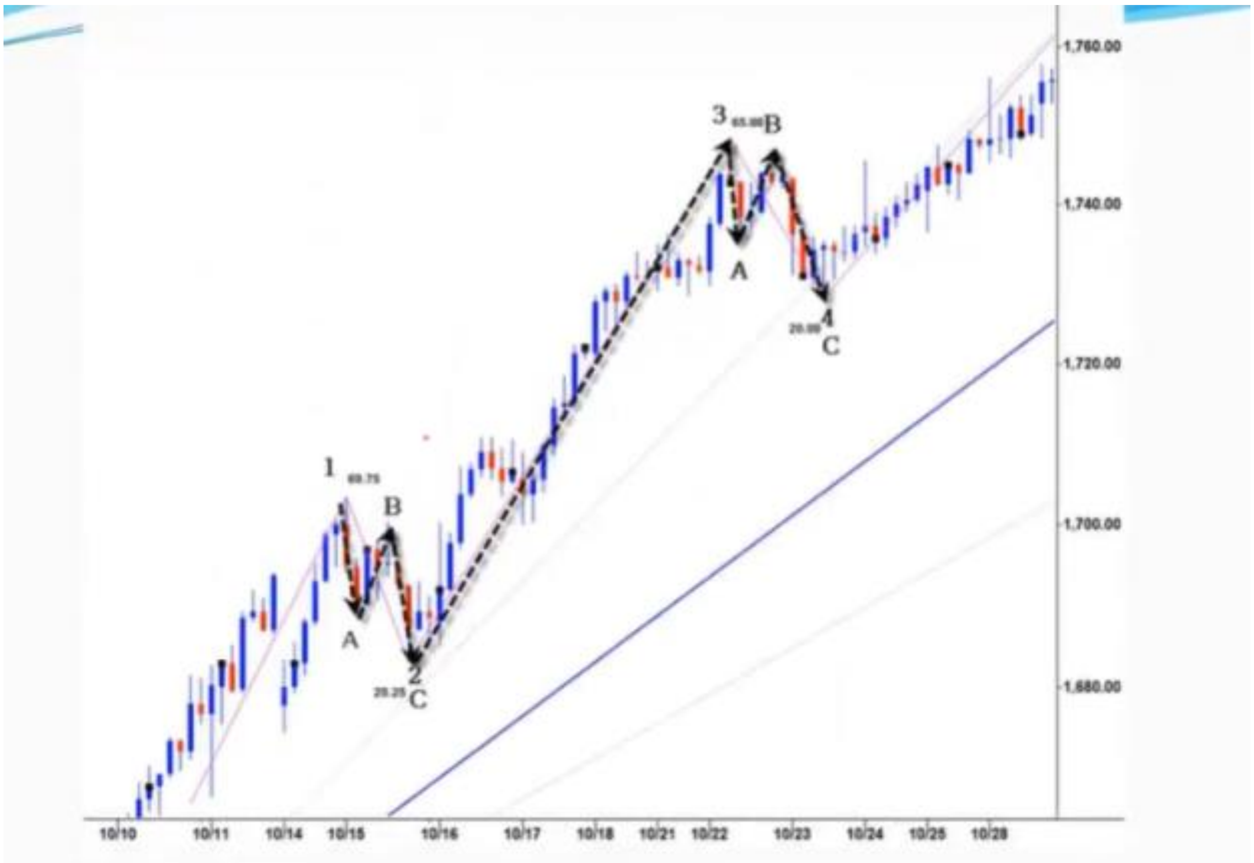
1
2
3
4
5
a
b
c



ELLIOT WAVE - 5 WAVE
0
1
2
3
4
5
A
B
C

0
1
2
3
4
5
A
B
C
38.20% (1,492.45)
50.00% (1,366.58)
61.80% (1,353.33)
1,700.00
1,680.00
1,660.00
1,640.00
1,620.00
1,600.00
1,580.00
1,560.00
1,540.00
1,520.00
1,500.00
1,480.00
1,460.00
1,440.00
1,420.00
1,400.00
1,380.00
1,360.00
1,340.00
1,320.00
1,300.00
1,280.00
Nov
Dec
'13
Feb
Mar
Apr
May
Jun
Jul

1,780.00
1,760.00
1,740.00
1,720.00
1,700.00
1,680.00
1,660.00
1,640.00
1,620.00
0
1
2
3
4
5
A
B
C
Oct 10/2
10/4
10/8
10/9
10/10
10/14
10/16
10/18
10/22
10/24
10/28
Nov
11/5
11/7
11/8
11/12



1,760.00
1,740.00
1,720.00
1,700.00
1,680.00
1
B
A
2
C
3
B
A
4
C
10/10
10/11
10/14
10/15
10/16
10/17
10/18
10/21
10/22
10/23
10/24
10/25
10/28

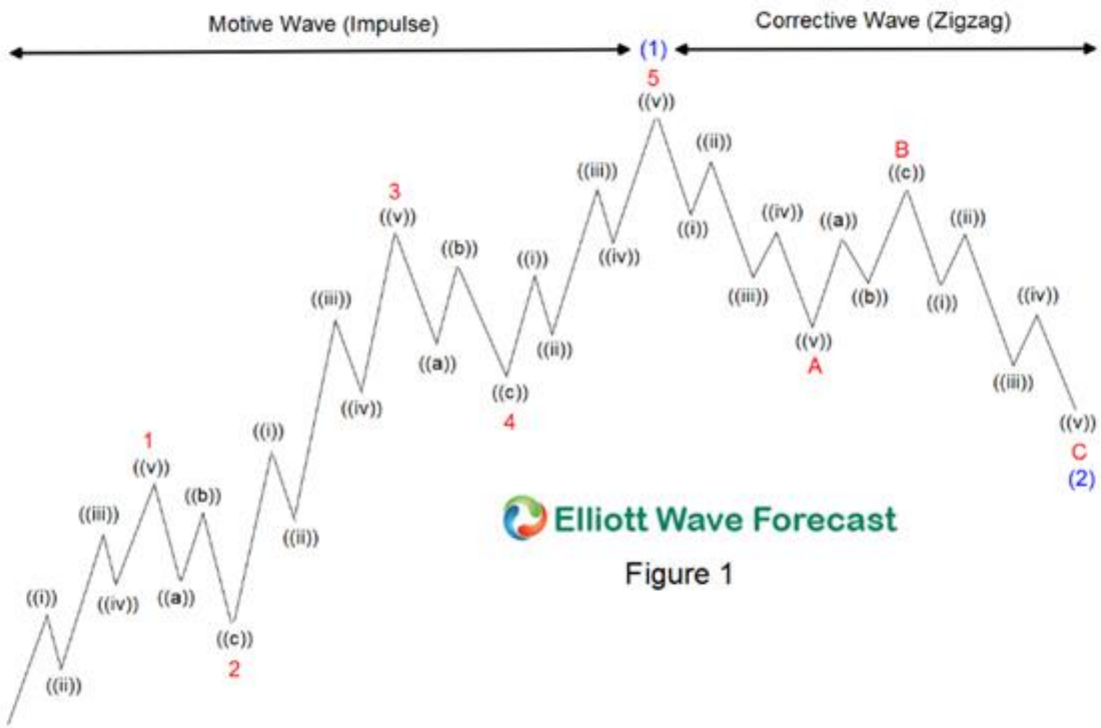
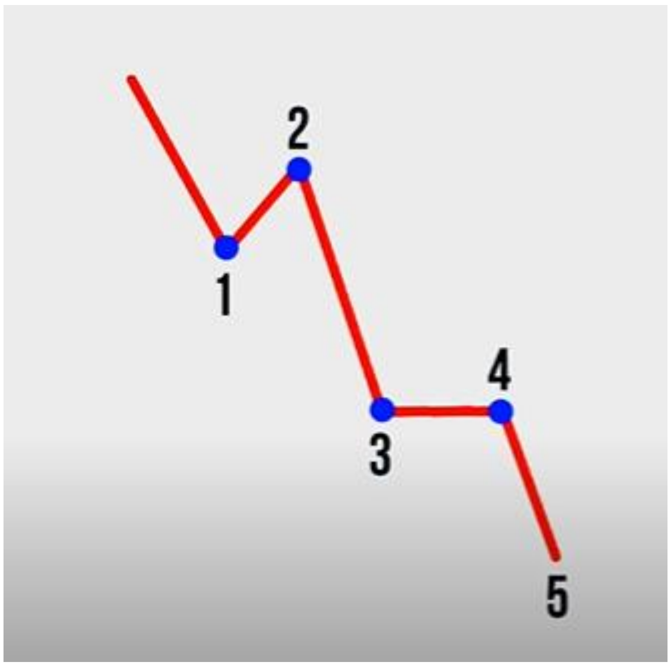

Motive Wave (Impulse)
Corrective Wave (Zigzag)
(1)
(2)
Elliott Wave Forecast

Figure 1

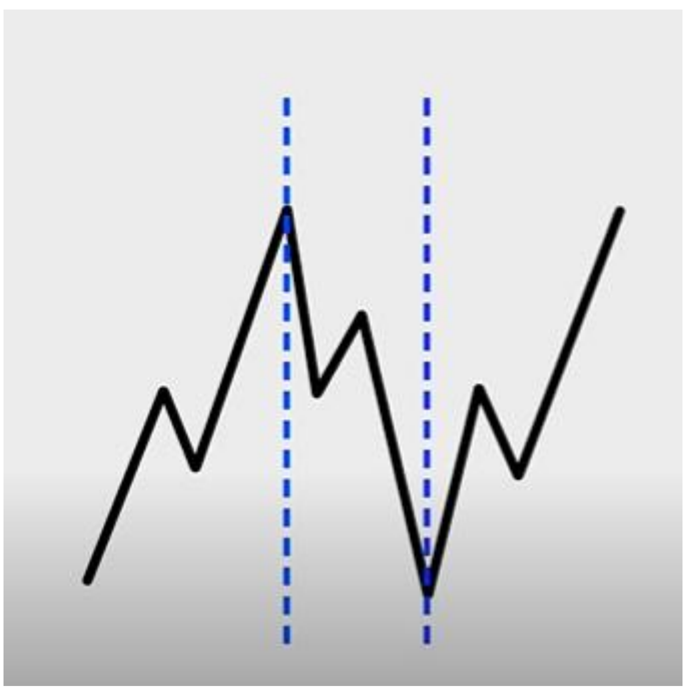
Elliott Wave Theory Actionary and reactionary waves



Actionary wave = **Impulse**

ReActionary wave = **Correction**

Which Actionary or ReActionary?



Now It's Easy.

Which Actionary or ReActionary?

Types of Elliot Waves:

1. Motive Waves (1,2,3,4,5) = Motive Mode
2. Corrective Waves (A, B, C) = Corrective Mode

Motive waves 5 + Corrective Waves 3=8 waves = 1 Complete Cycle of Elliot Waves.

Types of Motive waves (By Design) (1, 2, 3, 4, 5) (5 Waves)

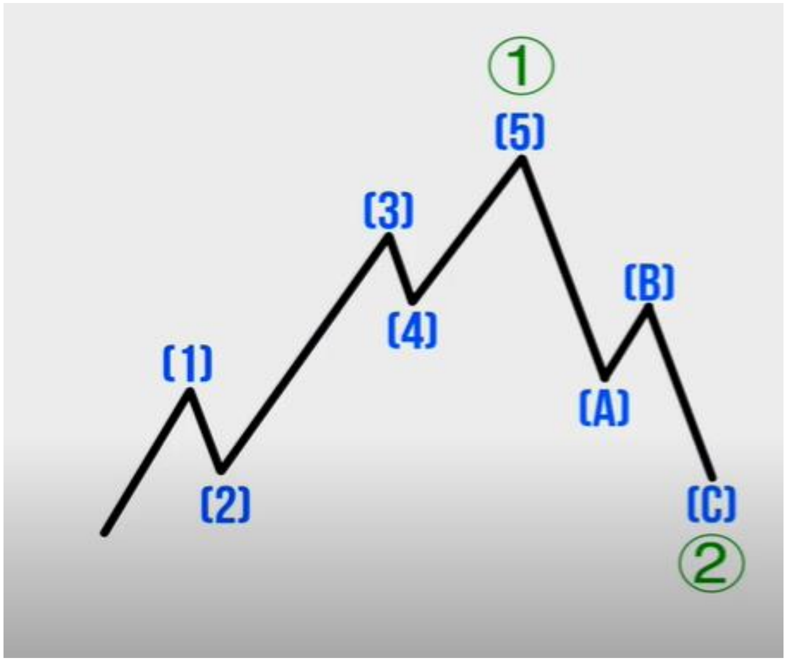
- Impulse – Most popular in the Market
- Diagonal (Wedge) = (Leading & Ending Diagonal)
- All above same as **5 Waves**

Impulse – Motive Wave - Rule:

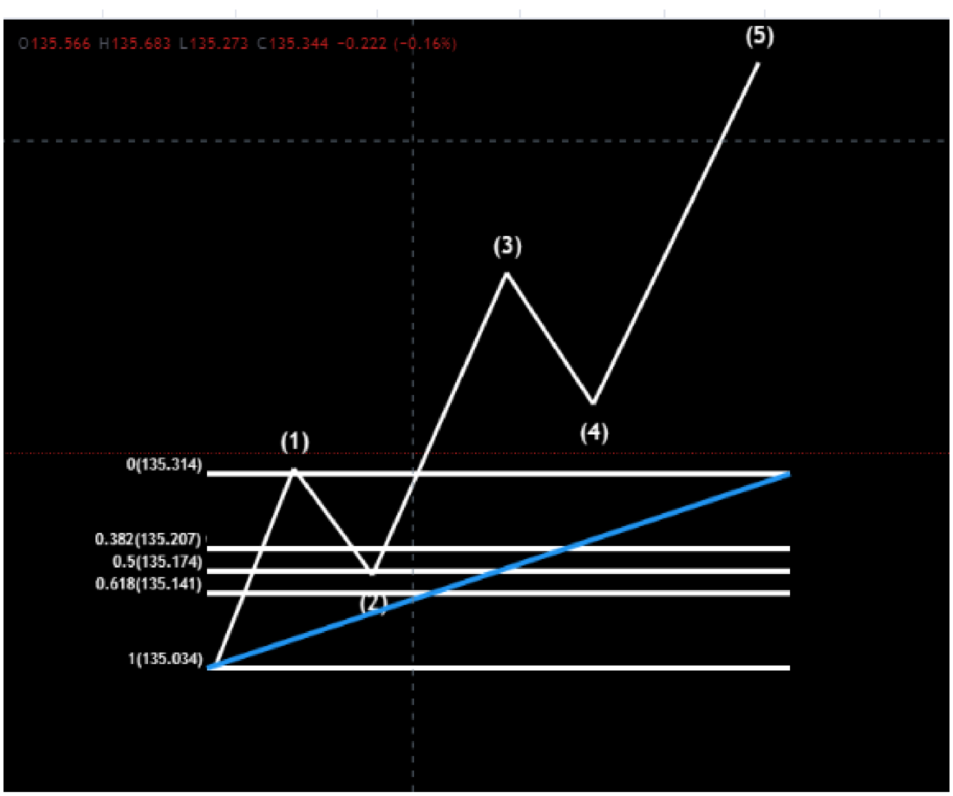
1. Wave 2 <Wave1
2. Wave 3 always move beyond the end of Wave 1.
3. Wave 4 never moves beyond the end of Wave 1.
4. Wave 3 Larger than Wave 1 and Wave 4.
5. Wave 3 is never the shortest wave.

Somali Language: Shuruudaha (**Impulse Waves**)

1. Wave1 halka uu ka bilaamay waa inuusan soo gaadhin Wave2.
2. Wave4 ma soo gaadhi karto halka ay ku dhamaatay Wave1.
3. Inta badan Wave3 wuxuu noqdaa midka ugu dheer.
4. Wave3 ma noqon karo wave ka ugu gaaban, marka loo eego Wave1 ama Wave5, mararka qaar mid ka mid ah wuu ka gaaban karaa.
5. Wave1 waa inuu noqon karaa (shan wave gudihiisa), marka la tago Small TimeFrame (1h, 30m, 15m)
6. Wave2 waa inuu noqon karaa (saddex wave gudihiisa). marka la tago Small TimeFrame (1h, 30m, 15m).
7. Wave3 isna waa inuu noqon karaa (Shan wave gudihiisa), marka la tago Small TimeFrame (1h, 30m, 15m).
8. Wave4 waa inuu noqon karaa (saddex wave gudihiisa), marka la tago Small TimeFrame (1h, 30m, 15m).
9. Wave5 isna waa inuu noqon karaa (shan wave gudihiisa), marka la tago Small TimeFrame (1h, 30m, 15m).
10. Fib Retr – Wave2 = 50% or 61% = 80% (Wave2 halkee laga celin karaa) sidoo kale 20% wuxuu ka laaban karaa 0.38 or 0.78
11. Fib Retr – Wave 4 = 0.38.20 or 0.23 = 90% (Wave4 halkee laga celin karaa)



Fib Retracement



Fib Extention (End Impulse – Target – TP)

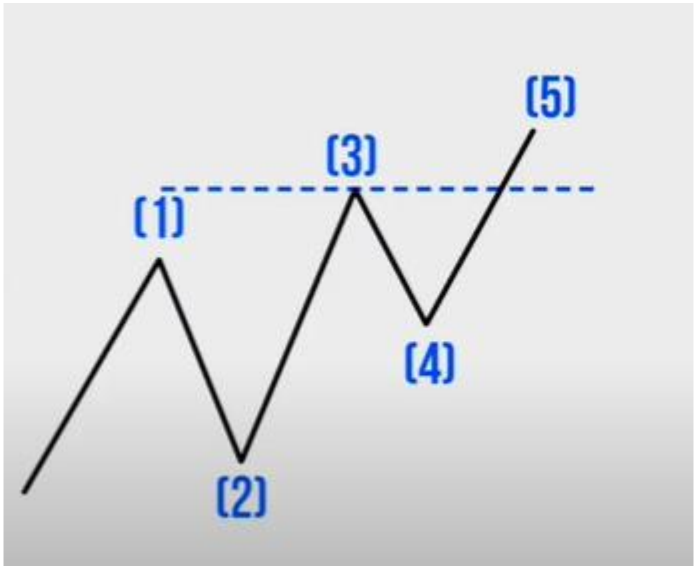
Note:

Day/Week Normaly = 8 waves

1h/4h Normaly = 34 waves (Impulse 21 + Correction 13 = 34 waves)

15m/5m Normaly = 144 waves (Impulse 89 + Correction 55)

Leading and Ending Diagonal:



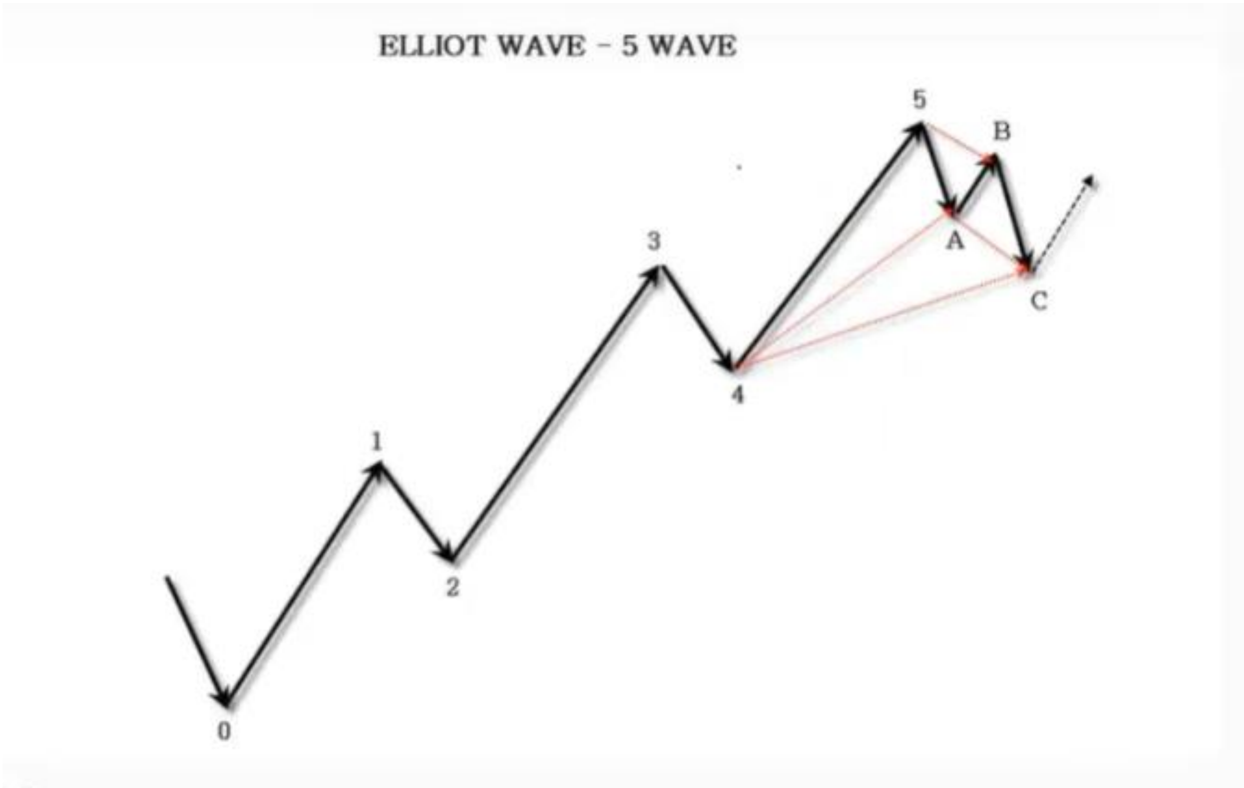
Ending Diagnol Rule:

Somali Language: **Shuruudaha Ending Diagnol**

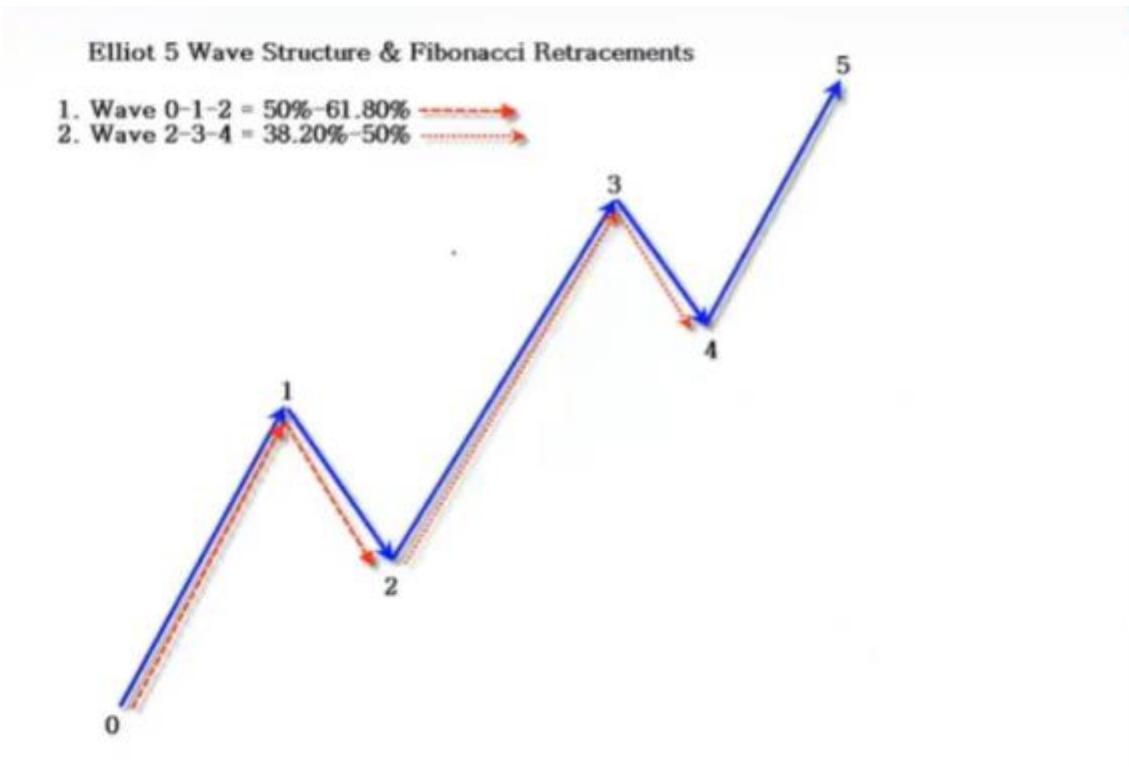
1. Wave1 halka uu ka bilaamay waa inuusan dhaafin Wave2.
2. Wave4 wuxuu soo gaadha ama dhaafaa halka wave1 ku dhamaaday.
3. Wave4 waa inuusan dhaafin halkii uu ku dhaamaday wave2
4. Wave3 waa inuusan u gaaban.
5. Wave1 waa inuu noqon karaa (saddex wave gudihiisa)
6. Wave2 waa inuu noqon karaa (saddex wave gudihiisa)
7. Wave3 isna waa inuu noqon karaa (saddex wave gudihiisa)
8. Wave4 waa inuu noqon karaa (saddex wave gudihiisa)
9. Wave5 isna waa inuu noqon karaa (saddex wave gudihiisa)

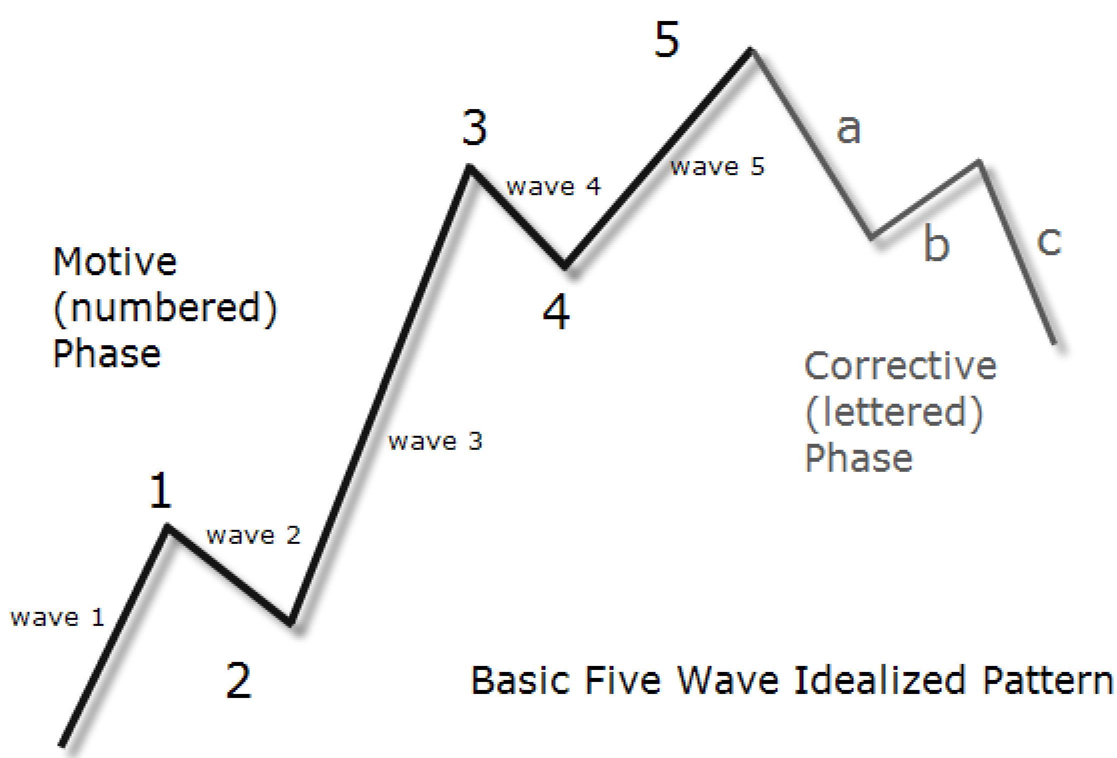
Note:

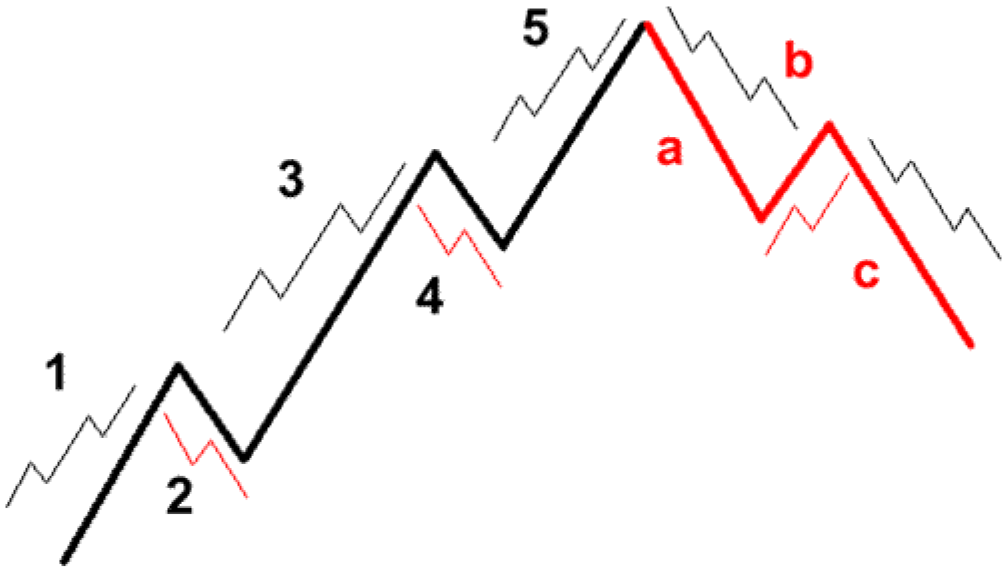
Impulse iyo Diagnol Wave = waxay isaga mid yihiin **Shan waves.**

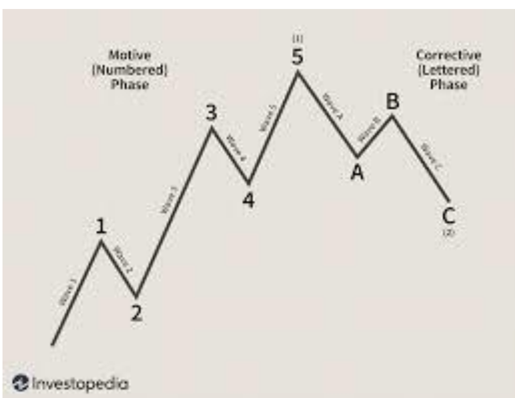


ELLIOT WAVE - 5 WAVE
0
1
2
3
4
5
A
B
C


Elliot 5 Wave Structure & Fibonacci Retracements
1. Wave 0-1-2 = 50%-61.80%
2. Wave 2-3-4 = 38.20%-50%
0
1
2
3
4
5


Motive (numbered) Phase
wave 1
1
wave 2
2
wave 3
3
wave 4
4
wave 5
5
a
b
c
Corrective (lettered) Phase
Basic Five Wave Idealized Pattern


5
b
3
a
4
c
1
2


Motive
(Numbered)
Phase
5
Corrective
(Lettered)
Phase
3
B
A
4
C
1
2
Investopedia

Types of Corrective waves (A, B, C Waves) – (3 Waves)

Types of corrective:

1. **Simple Correction**

- 1. Zigzag (Double Zigzag and Triple Zigzag)
- Flat (Expanding, Runing, Regular)
- Triangles (Expanding, Runing, Barrier and Contracting)

2. **Complex Correction**

- Double Three
- Triple Three

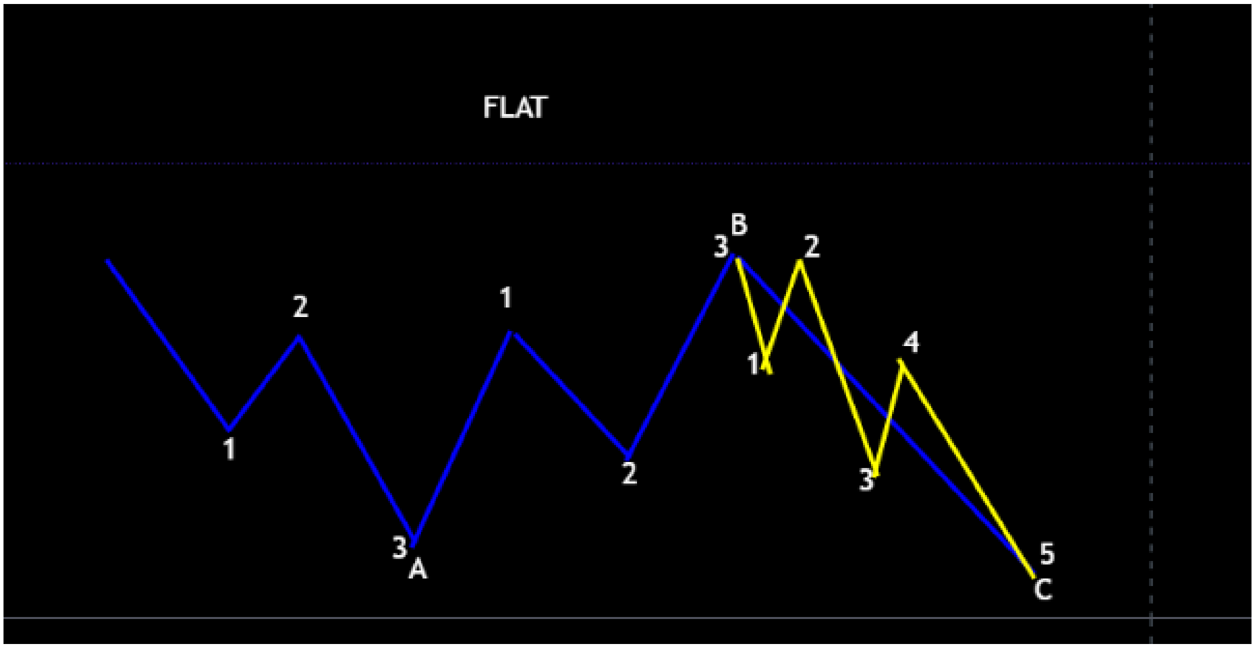
Zigzag:

1. Three Moves (inside 5 3 5)
2. Symbol Letters (A B C)
3. Wave-A Structure 5 waves (Impulse or Diagnol)

4. Wave-B Structure 3 waves (it can be any corrective waves)
5. Wave-C Structure 5 waves (Impulse or Diagnol)

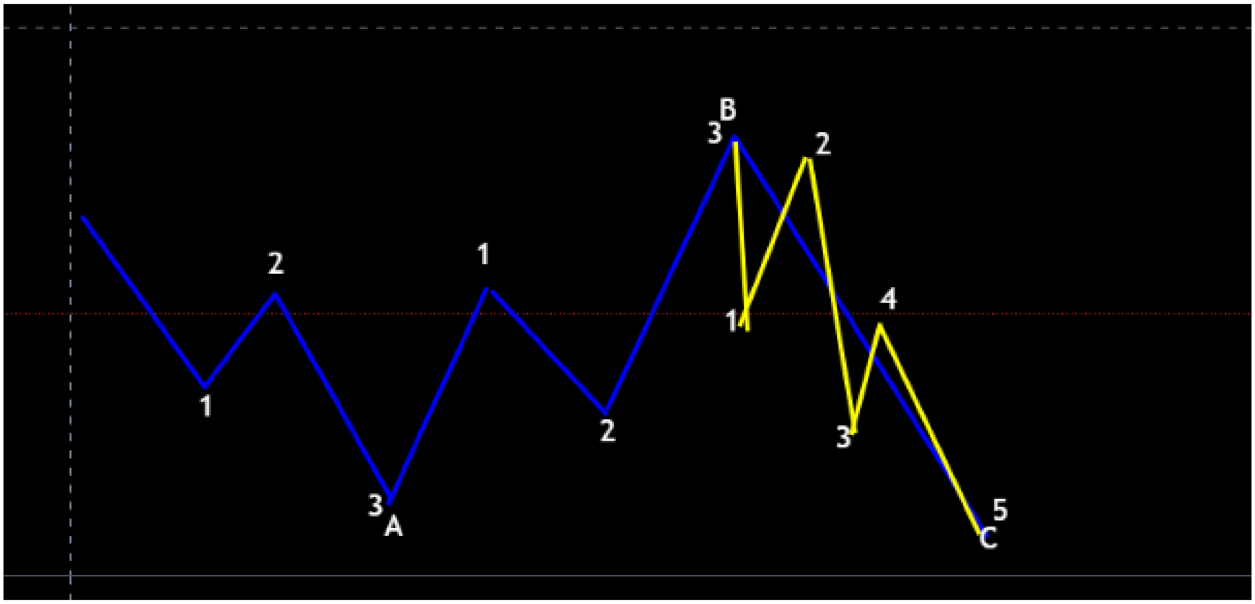
Regular Flat

1. Flat waa saddex dhaqaaq (Move) (Inside 3 - 3 – 5)
2. Waxaana lagu calaamadsadaa (A B C)
3. Wave-A qaab dhismeedkiisu waa 3 wave (any correction ayey noqon kartaa)
4. Wave-B qaab dhismeedkiisu waa 3 wave (any correction ayey noqon kartaa)
5. Wave-C qaab dhismeedkiisu waa 5 wave (Impulse ama Diagnol)
6. Regular Flat waxaa lagu gartaa halka ay lugta 1aad ka bilaabay ayey B la siman tahay.
7. Sidoo kale C -du wey jibisaa halka ay A du gaadhay.

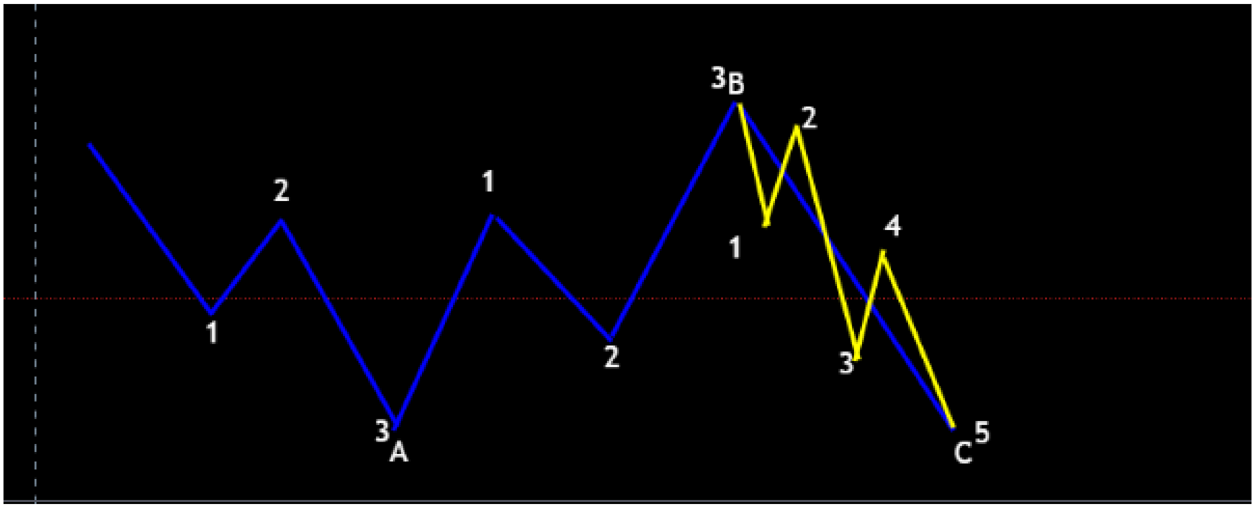


Expend Flat

1. Flat waa saddex dhaqaaq (Move) (3 - 3 – 5)
2. Waxaana lagu calaamadsadaa (A B C)
3. Wave-A qaab dhismeedkiisu waa 3 wave
4. Wave-B qaab dhismeedkiisu waa 3 wave
5. Wave-C qaab dhismeedkiisu waa 5 wave (Impulse ama Diagnol)
6. **Expend Flat** waxaa lagu gartaa halka ay lugta 1aad ka bilaabay ayey B Jabisaa.
7. Sidoo kale C -du wey jibisaa halka ay A du gaadhay – waxayna la mid tahay Regular Flat.



Runing Flat

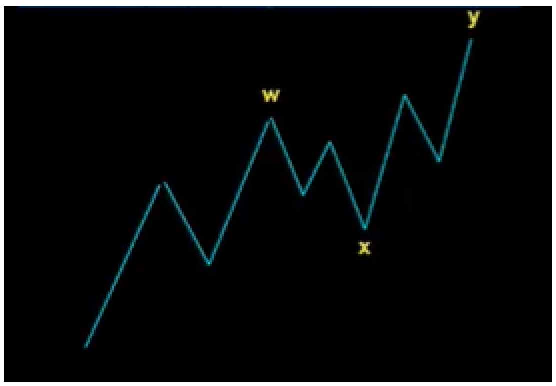


1. Flat waa saddex dhaqaaq (Move) (3 - 3 – 5)
2. Waxaana lagu calaamadsadaa (A B C)
3. Wave-A qaab dhismeedkiisu waa 3 wave
4. Wave-B qaab dhismeedkiisu waa 3 wave
5. Wave-C qaab dhismeedkiisu waa 5 wave (Impulse ama Diagnol)
6. **Expend Flat** waxaa lagu gartaa halka ay lugta 1aad ka bilaabay ayey B Jabisaa **waxyar**
7. Sidoo kale C -du **ma jabsato** halka ay A du gaadhay – halkaas ayey ku kala diwan yihiin labada kale (**Regular iyo Expend**)

Double Three (same name W X Y or Double Correction)

Rule Double Three

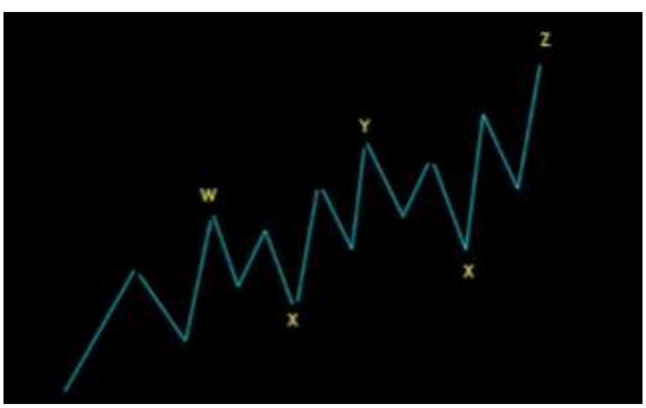
- Structure 3 3 3
- Symbol Letters = W X Y



Triple Three

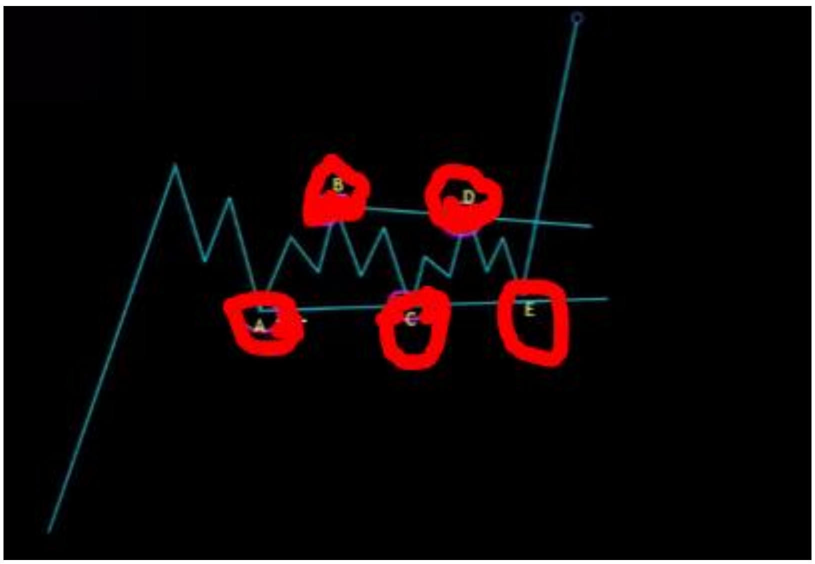
Rule Triple Three

- Structure 3 3 3 3 3
- Symbol = W X Y X Z



Triangles

- Makes Wave 4 or Wave B
- Many times you cannot see in the market
- Symbol A B C D E
- Structure 3 3 3 3 3



Harmonic Patterns in Forex

- Harmonic patters are **Reversal Patterns**
- Harmonic chart patterns are considered harmonic because these structures have an integral relationship with the **Fibonacci number series.**
- Identified harmonic patterns conform to crucial Fibonacci levels. As you may already know, Fibonacci numbers can be seen all around us in the natural world.
- In most of the cases these patterns consist of four price moves,
- all of them conforming to specific Fibonacci levels.
- Therefore, a harmonic chart pattern should always be analyzed using Fibonacci Retracement and Extensions tools.

Types of Fibonacci

- Fibonacci Retracement – (Pullback)
- Fibonacci Extensions – (Impulse)

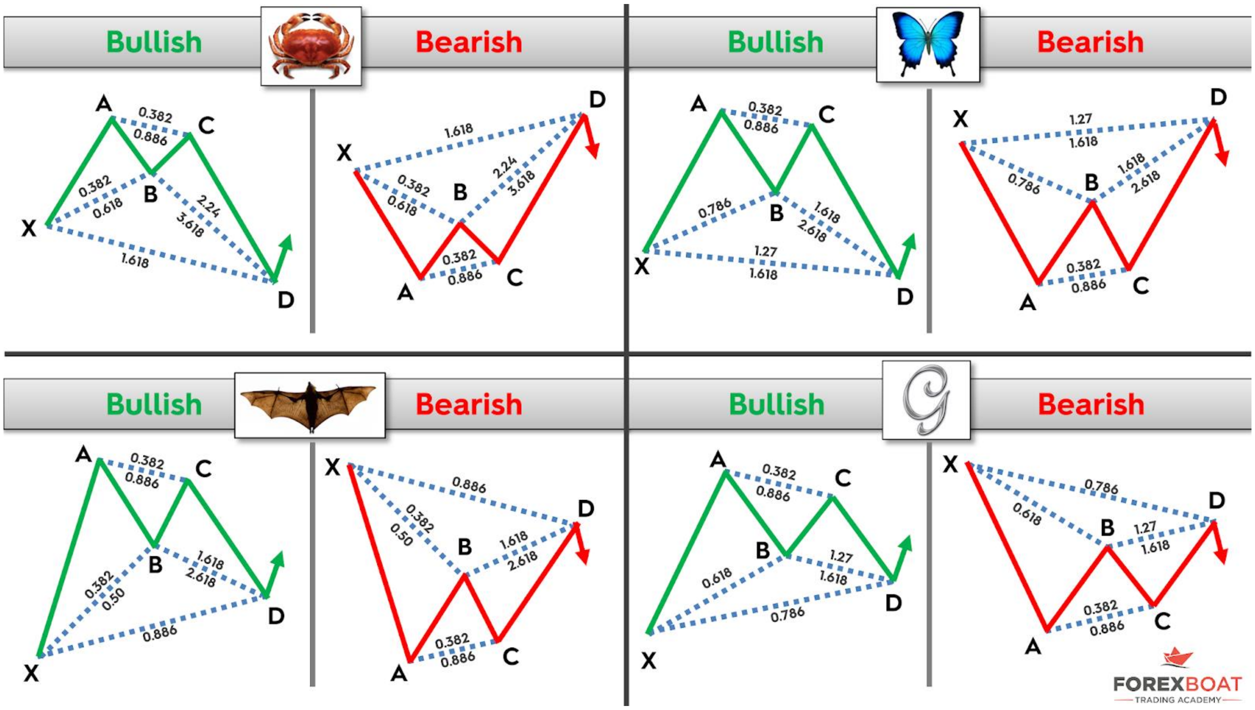
Types of Harmonic Patterns:

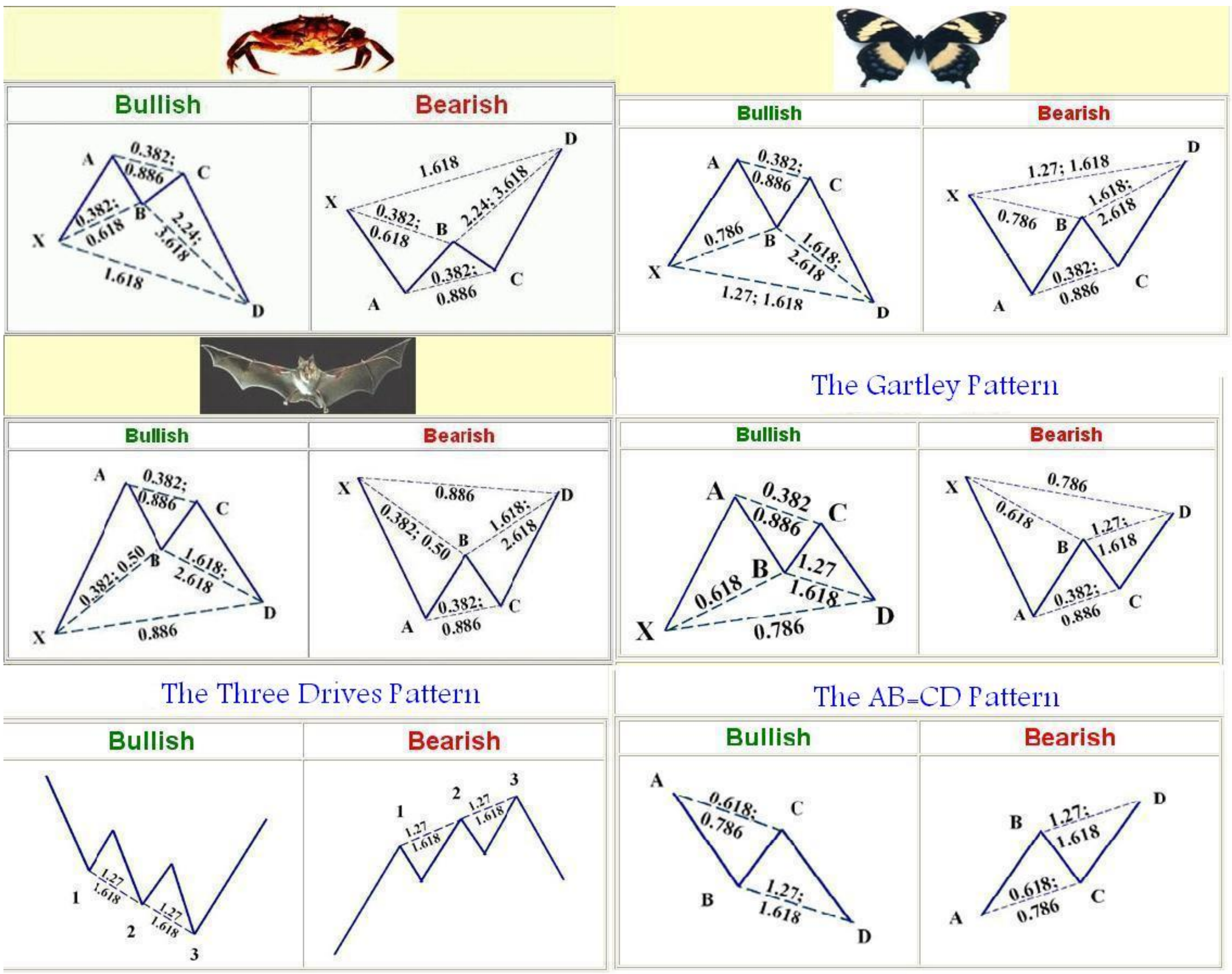
- Gartley pattern.
- Bat Pattern.
- Butterfly Pattern,
- Cypher pattern.
- Crab pattern.
- Shark pattern
- AB:CD pattern
- Three drive pattern.

Level 4 – Advance FOREX

EASYWAYLEARN ACADEMY

SAHALSOFTWARE – SAHAL UNIVERSITY




Bullish
Bearish
A
0.382;
0.886
C
X
0.382;
0.618
B
2.24;
3.618
1.618
D
1.618
X
0.382;
0.618
B
2.24; 3.618
0.382;
0.886
A
C
D
Bullish
Bearish
A
0.382;
0.886
C
0.786
B
1.618;
2.618
X
1.27; 1.618
D
1.27; 1.618
X
0.786
B
1.618;
2.618
0.382;
0.886
A
C
D
Bullish
Bearish
A
0.382;
0.886
C
0.382; 0.50
B
1.618;
2.618
X
0.886
D
X
0.886
0.382; 0.50
B
1.618;
2.618
0.382;
0.886
A
C
D
The Gartley Pattern
Bullish
Bearish
A
0.382
0.886
C
0.618
B
1.27
1.618
X
0.786
D
X
0.786
0.618
B
1.27;
1.618
0.382;
0.886
A
C
D
The Three Drives Pattern
Bullish
Bearish
1.27
1.618
1
2
1.27
1.618
3
1
1.27
1.618
2
1.27
1.618
3
The AB=CD Pattern
Bullish
Bearish
A
0.618;
0.786
C
B
1.27;
1.618
D
B
1.27;
1.618
D
0.618;
0.786
A
C

USDJPY,H4 92.49 92.57 92.41 92.45

USDJPY,H4 92.49 92.57 92.41 92.46
100.0 - 94.07
88.6 - 93.83
76.6 - 93.57
61.8 - 93.26
50.0 - 93.00
38.2 - 92.75
23.6 - 92.44
0.0 - 91.94


USDJPY,H4 92.49 92.57 92.41 92.46
100.0 - 94.07
88.6 - 93.83
76.6 - 93.57
61.8 - 93.26
50.0 - 93.00
38.2 - 92.75
23.6 - 92.44
0.0 - 91.94


USDJPY,H4 92.49 92.57 92.41 92.46
0.0 - 93.29
23.6 - 92.97
38.2 - 92.77
50.0 - 92.62
61.8 - 92.46
76.6 - 92.26
88.6 - 92.09
100.0 - 91.94


USDJPY,H4 92.49 92.57 92.41 92.46


USDJPY,H4 92.49 92.57 92.41 92.42
X
61.8%
B
D
161.8%
88.6%
A
C

Gartley Harmonic Chart Pattern

The **Gartley pattern** was introduced by **H.M Gartley** in his book, Profits in the Stock Market, The Gartley pattern is sometimes referred to as Gartley 222, and because 222 is the exact page in the book where the Gartley pattern is revealed.

So, the **Gartley pattern** is the oldest recognized harmonic pattern and all the other harmonic patterns are a modification of the Gartley pattern. Let's now take a look at the legs within the Gartley formation:

XA: This could be any move on the chart and there are no specific requirements for this move in order to be part of a harmonic pattern.

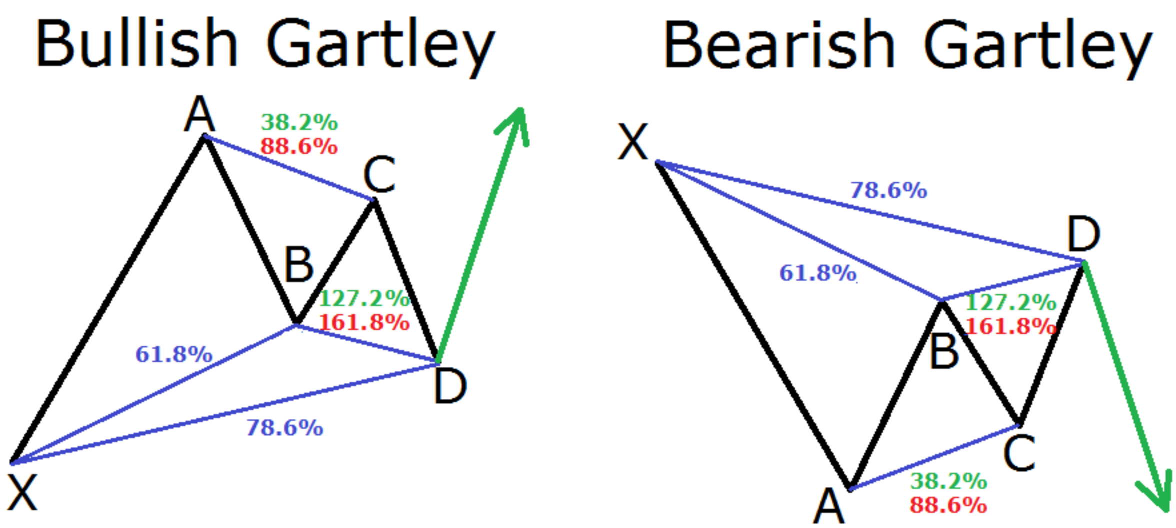
AB: This move is opposite to the XA move and it should be about 61.8% of the XA move.

BC: This price move should be opposite to the AB move and it should be 38.2% or 88.6% of the AB move.

CD: The last price move is opposite to BC and it should be 127.2% (extension) of BC move if BC is 38.2% of AB. If BC is 88.6% of AB, then CD should be 161.8% (extension) of BC.

AD: The overall price move between A and D should be 78.6% of XA

The image below illustrates a Bullish and Bearish Gartley pattern:



Note:

1. The black lines on the image above show the four price moves of the chart patterns.
2. The blue lines and the percentage values show the retracement relation between each of these levels.
3. The green arrows show the potential price move of the pattern.

Bat Harmonic Chart Pattern

The Bat harmonic pattern is a modification of the Gartley pattern, and was discovered by Scott Carney. The lines are a bit more symmetric and the pattern's most important ratio is the 88.6% Fibonacci retracement:

XA: This could be any move on the chart and there are no specific requirements for this move in order to be part of a harmonic pattern.

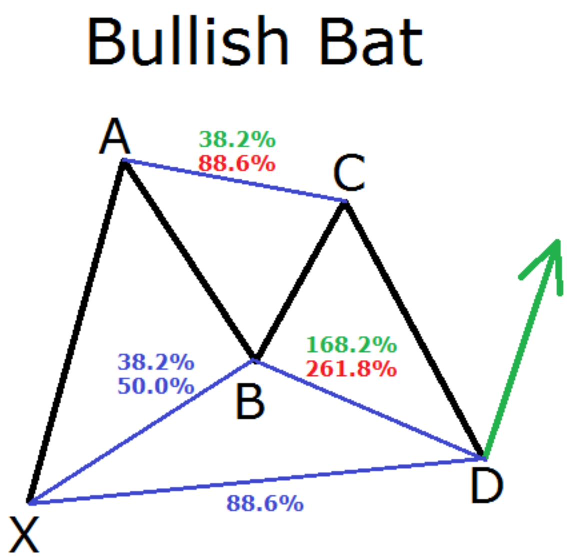
AB: This move is opposite to the XA move and it should be about 38.2% or 50.0% of XA.

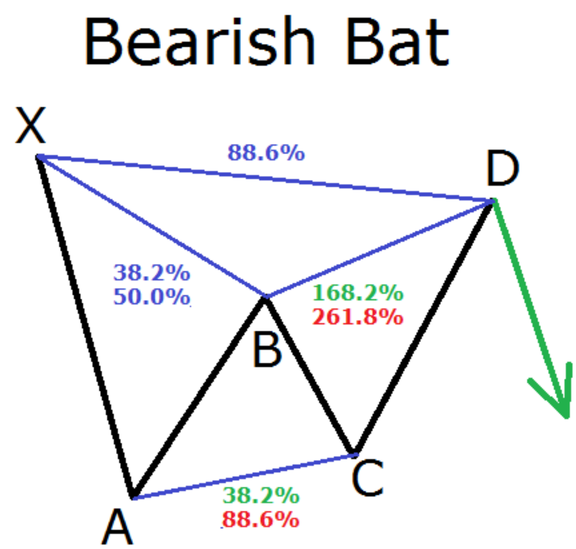
BC: This move should be opposite to the AB move and it should be 38.2% or 88.6% of the AB move.

CD: The last price move is opposite to BC and it should be 161.8% (extension) of BC move if BC is 38.2% of AB. If BC is 88.6% of AB, then CD should be 261.8% (extension) of BC.

AD: The overall price move between A and D should be 88.6%% of XA

This is how the bullish and the bearish Bat harmonic chart patterns appear:





As you see, the Bat harmonic pattern is similar to the Gartley pattern, however, the retracement levels are different. Both are considered internal patterns because the ending D leg is contained within the initial XA move.

Butterfly Harmonic Chart Pattern

This is another modification of the Gartley harmonic pattern, which consists of the same four price moves.

The retracement levels, though, are different, and this is considered and extension pattern as the ending D leg extends outside the initial XA leg

XA: This could be any move on the chart and there are no specific requirements for this move in order to be part of a harmonic pattern.

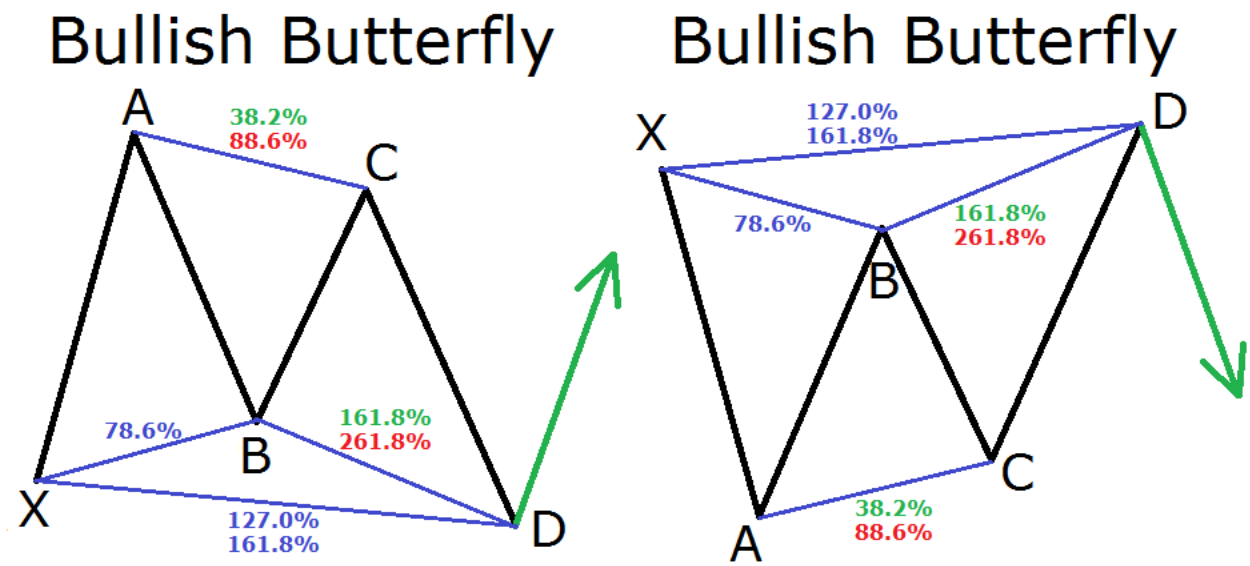
AB: This move is opposite to the XA move and it should be about 78.6% of XA.

BC: This move should be opposite to the AB move and it should be 38.2% or 88.6% of the AB move.

CD: The last price move is opposite to BC and it should be 161.80% (extension) of BC move if BC is 38.2% of AB. If BC is 88.6% of AB, then CD should be 261.80% (extension) of BC.

AD: The overall price move between A and D should be 127% or 161.80% of XA

This is how the bullish and the bearish Butterfly harmonic chart patterns look:



Notice that the Butterfly harmonic chart pattern indicates that the AD move should go beyond the initial price move (XA). In this manner, the Butterfly harmonic pattern is considered an external formation.

Crab Harmonic Chart Pattern

The Crab harmonic pattern has some similarities with the Butterfly chart pattern. The Crab pattern actually looks like a stretched Butterfly sideways.

The Crab also suggests that the last price move goes beyond the initial move, where a Fibonacci extension should be used. The Fibonacci levels used to identify the pattern are described below:

XA: This could be any move on the chart and there are no specific requirements for this move in order to be part of a harmonic pattern.

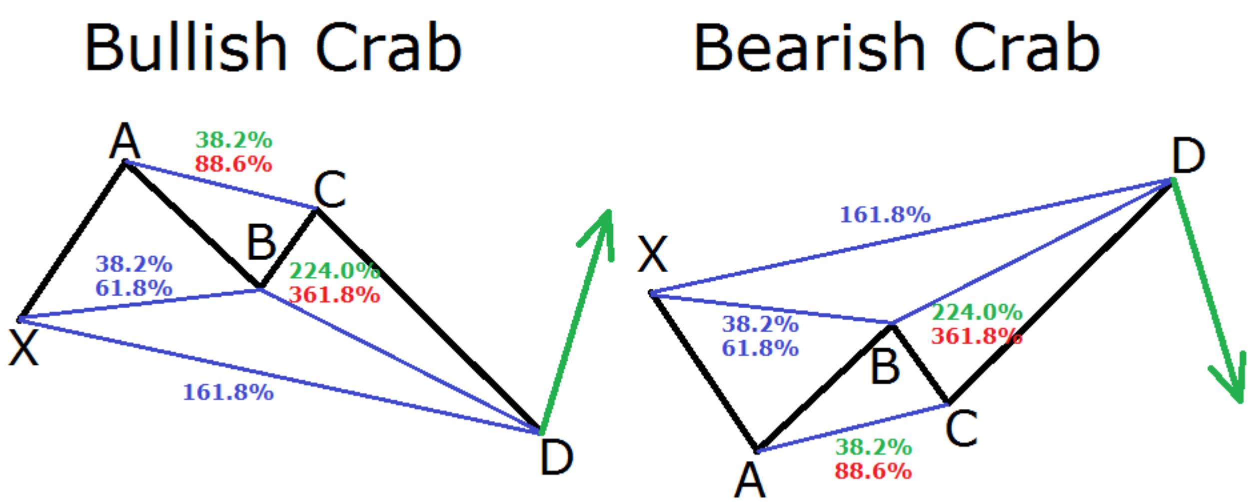
AB: This move is opposite to the XA move and it should be about 38.2% or 61.8% of XA.

BC: This move should be opposite to the AB move and it should be 38.2% or 88.6% of the AB move.

CD: The last price move is opposite to BC and it should be 224% (extension) of BC move if BC is 38.2% of AB. If BC is 88.6% of AB, then CD should 361.80% (extension) of BC.

AD: The overall price move between A and D should be 161.80% of XA

This is how the Crab harmonic chart pattern looks like:



Cypher Harmonic Chart Pattern

The Cypher chart pattern is similar to the other chart patterns we already discussed, however, it has one specific difference. The BC move of the Cypher chart pattern goes beyond the XA move. This means that we use an extension level on AB in order to measure the BC output. Below you will find the list of the Cypher pattern retracement levels:

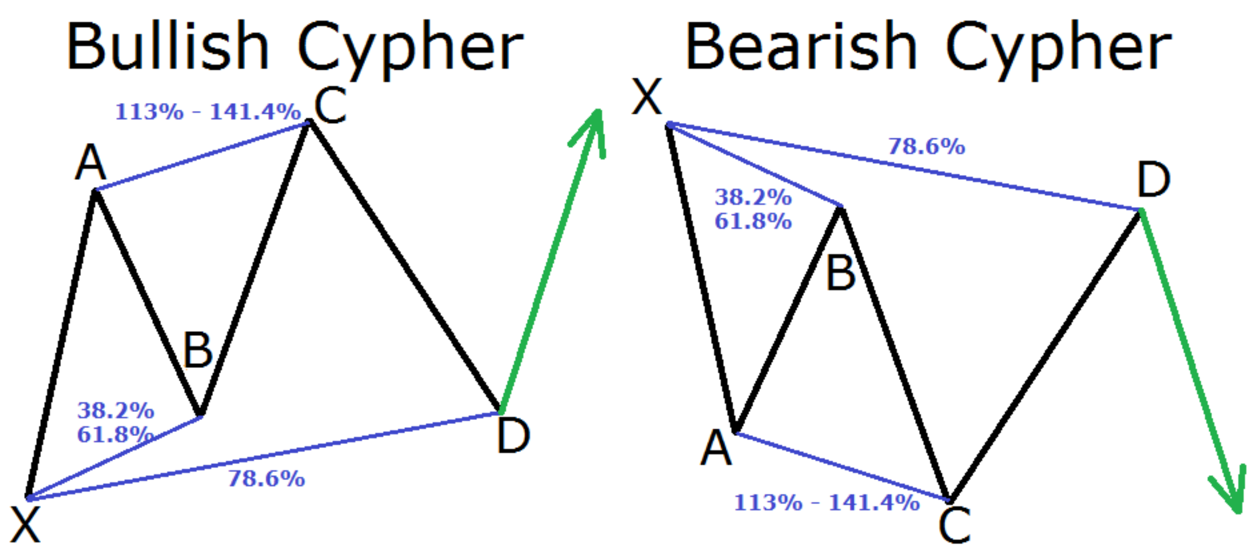
XA: This could be any move on the chart and there are no specific requirements for this move in order to be part of a harmonic pattern.

AB: This move is opposite to the XA move and it should be 38.2% or 61.8% of XA.

BC: This move should be opposite to the AB move and it should be anywhere between 113.0% and 141.4% of the AB move.

CD: The last price move is opposite to BC and it should be 78.6% of the general XC move.

See below the structure of the Bullish and Bearish Cypher formation



Again, the important consideration of this pattern is that the BC move goes beyond XA and it is an extension of AB. Therefore, we measure CD with a retracement of XC and not on BC. This is so because the general move is XC, which is bigger than the partial BC.

Let's now identify a couple harmonic trading examples on a chart.

Harmonic Chart Formations Analyzed

The image below will give you an example of an actual harmonic pattern on a candlestick chart:

This is the H4 chart of the USD/CAD currency pair for May, 2015. The formation we are looking at is a Butterfly pattern.

We start with a bullish XA move. Then comes a contrary AB move which is 78.6% of the XA move. The next BC move is opposite to AB and it takes 88.6% of AB. CD reaches 161.8% extension of BC and also 127% extension of XA.

These retracement levels confirm the presence of a bullish Butterfly chart pattern. As you see, the USD/CAD price records a significant increase after the confirmation of the pattern.

Let’s look at another one now:

This is the H4 chart of the EUR/USD for Nov – Dec, 2012 showing a bullish Cypher harmonic pattern.

We start with the AB move, which takes about 38.2% of the XA move. Then comes the BC move which approximately reaches the 141.4 extension of the AB move. The last move we identify is the CD move, which is about 78.6% of the big XC move. This is how we identify the bullish Cypher pattern. As you see, after creating point D, the EUR/USD price starts a solid price increase.

Trading Strategy Using Harmonic Chart Patterns

When trading with harmonics it is important to recognize the entry point at Point D, but equally important is to have a sound exit strategy. Let's take a look at how we can trade harmonic patterns that incorporates simple risk management rules.

Stop Loss Order when Trading Harmonic Patterns

There are several different methods for managing a trade once you have identified a harmonic setup. A simple but effective method to implement would be wait for price confirmation at the D point and place a stop loss just beyond that immediate swing point. Have a look at the image below:

This is the same first example with the bullish Butterfly chart pattern. This time we have indicated the potential place where a Stop Loss order should be placed when trading the pattern. Notice that the Stop is relatively tight in comparison to the following price increase. This provides for a very attractive return to risk ratio when trading the pattern. And this is why harmonic setups are such great chart patterns to trade. There is very little left to judgement because the Fibonacci relationships within harmonic patterns gives us an exact location of the potential turning point. If the price goes beyond that point, the pattern fails and we simply do not enter the market.

Take Profit Zones when Trading Harmonic Patterns

Since we already know when to enter the market and where to place our stop loss, it is time to discuss how long we should stay in the trade. I will now introduce you the potential target levels of a harmonic chart pattern.

As you may have already guessed, the targets of a harmonic pattern should be related to the levels of the pattern itself. Let's now include these target levels on our bullish Butterfly example:

Again, this is the same bullish Butterfly example on the USD/CAD. This time, in addition to the Stop Loss level, we have added four potential targets in front of the price move.

The first target is related to point B on the chart. It is the level, which indicates the price drop during the AB decrease. The second target marks the C point on the chart and the price top after the BC increase. The third target is the high which appears as a result of the XA increase. As you see, these are the three targets which are related with the levels of the Butterfly pattern. However, we have a fourth target as well which price should approach in cases where we complete the previous targets. The fourth target is indicated by the 161.8% extension level of the CD price move.

Notice that the price increase continues beyond the fourth target in this example. Therefore, one could also employ a trailing stop to stay with his long position until the price show signs of weakening. Keep in mind, there is no one standard way of managing your profit targets when trading harmonic patterns, but it is important to maintain consistency in whichever exit methodology that you utilize.

Some traders like to use additional trading tools to confirm harmonic signals. Some of the more popular trading indicators to get exit signals when trading harmonics are Moving Averages, MACD, or Stochastics. In additional, one should always keep an eye out on higher time frame Support and Resistance levels in conjunction with harmonic setups. Also, higher Fibonacci extension levels could be used in order to determine further price targets when trading harmonic chart patterns.

Adjusting the Stop Loss Order when Trading Harmonic Patterns

An important consideration when trading harmonic patterns is the use of a trailing stop to take advantage of larger price moves and protect ones capital as prices begin to move in our intended direction. It is a good idea to modify your Stop Loss based on the price action in order to lock in profits. The image below will show you an example of how to adjust your Stop Loss order according to the price move:

We use the same USD/CAD chart with the bullish Butterfly pattern.

Every time the price completes a target, we adjust the Stop Loss order to be located below the lowest bottom at the time of the target break. On our image above we see that this guarantees us a stay in the market even after the fourth target is completed.

Conclusion

- The harmonic chart patterns are an advanced form of chart pattern analysis based on Fibonacci numbers.
- The basic harmonic patterns consist of four price moves which are contrary to each other. The four legs are named XA, AB, BC, and CD.
- The difference between the harmonic patterns is the Fibonacci levels they retrace or extend to.
- The oldest recognized harmonic pattern is the Gartley pattern. The other harmonic chart figures are Fibonacci modifications of the Gartley pattern. These are:
    - Bat Pattern
    - Butterfly Pattern
    - Crab Pattern

- Cypher Pattern

- We should always implement sound risk management rules when trading harmonic patterns, or any strategy for that matter.
- Stop Losses should be placed right beyond the D point after the price confirms the pattern and then reverses the move.
- There are four targets that can be used when you trade harmonics – the A, B, and C swing levels and the 161.8% Fibonacci extension of the CD price move.

Practical Fib Extension Watch this Lesson in the Golive.

<u>Candlestick Trading Book</u>

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Candlestick Patterns:

1. *First Candle*
2. *The Engulfing Bar Candlestick **(Bullish and Bearish) - Reversal** (**2 Candles**)*
3. *The Doji Candlestick **(Start/Long Leged/four Price) – Indicision (1 Candle)***
4. *The Dragon Fly Doji Pattern – **Bullish Reversal (1 Candle)***
5. *The Gravestone Doji Pattern – **Bearish Reversal** (**1 Candle**)*
6. *The Morning Star – **Bullish Reversal – (3 Candles)***
7. *The Evening Star Candlestick Pattern – **Bearish Reversal – (3 Candles)***
8. *The Hammer Candlestick (**Pin Bar**) – **Bullish Reversal – (1 Candles)***
9. *Hanging Man – **Bearish Reversal – (1 Candles)***
10. *The Shooting Star (**Bearish Pin Bar**) – **Bearish Reversal – (1 Candles)***
11. *The Harami Pattern (**Pregnant**) - **(Bullish and Bearish) - Reversal** (**2 Candles***
12. *The Tweezers **Tops and Bottoms - Reversal** (**2 Candles)***
13. *The Fractal Candles - **(Bullish and Bearish) - Reversal** (**5 Candles)***
14. *The Three white soldiers - **Bullish Reversal – (3 Candles)***
15. *The Three black crows - **Bullish Reversal – (3 Candles)***

Introduction

The Candlestick trading bible is one of the most powerful trading systems in history. It was invented by **Homma Munehisa**.The **father** of candlestick chart patterns.

This trader is considered to be the most successful trader in history, he was known as the **God of markets** in his days, his discovery made him more than **$10 billion** in today's dollar.

The **Candlestick trading bible** is the trading method that is going to finally take your trading to where it should be, consistent, profitable, easy and requiring very little time and effort.

This trading system is based on **Japanese candlestick patterns** in **combination** with **technical** analysis.

Learning **Japanese candlestick** is like learning **a new language**. Imagine you got a book which is written in a foreign language, you look at the pages but you get nothing from what is written.

The same thing when it comes to financial markets. If you don't know how to read Japanese candlesticks, you will never be able to trade the market.

Japanese candlesticks are the language of financial markets, if you get the skill of reading charts, you will understand what the market is telling you, and you will be able to make the right decision in the right time.

The easy to follow strategies detailed in this work will provide you with profit making techniques that can be quickly learned.
More importantly, learning the principals of market **psychology** underlying the **candlestick** methodology will change your overall trading psych forever.

Don't read this eBook very fast, this is not a novel, you should take your time to understand all the concepts i discussed, take your notes, and go back from time to time to review the strategies i shared with you.

Remember, this is an educational work that will teach you professional methods on how to make money trading financial markets.

If you got the skills that i shared with you here, you will change completely your life and the life of people around you.

History of candlesticks

The Japanese were looking at charts as far back as the **17th century**,

Munehisa Homma (aka Sokyu Honma), a Japanese rice trader born in the early **1700s,** is widely credited as being one of the early exponents of tracking price action.

He understood basic **supply** and **demand** dynamics, but also identified the fact that emotion played a part in the setting of price.

Why candlesticks are important to your trading analysis?

-Candlesticks are important to you trading analysis because, it is considered as a visual representation of what is going on in the market.

By looking at a candlestick, we can get valuable information about the open, high, low and the close of price, which will give us an idea about the price movement.

-Candlesticks are flexible, they can be used **alone** or in combination with technical analysis tools such as the **moving averages**, and **momentum oscillators**, they can be used also with methods such the **Dow Theory** or the **Eliot wave** theory.

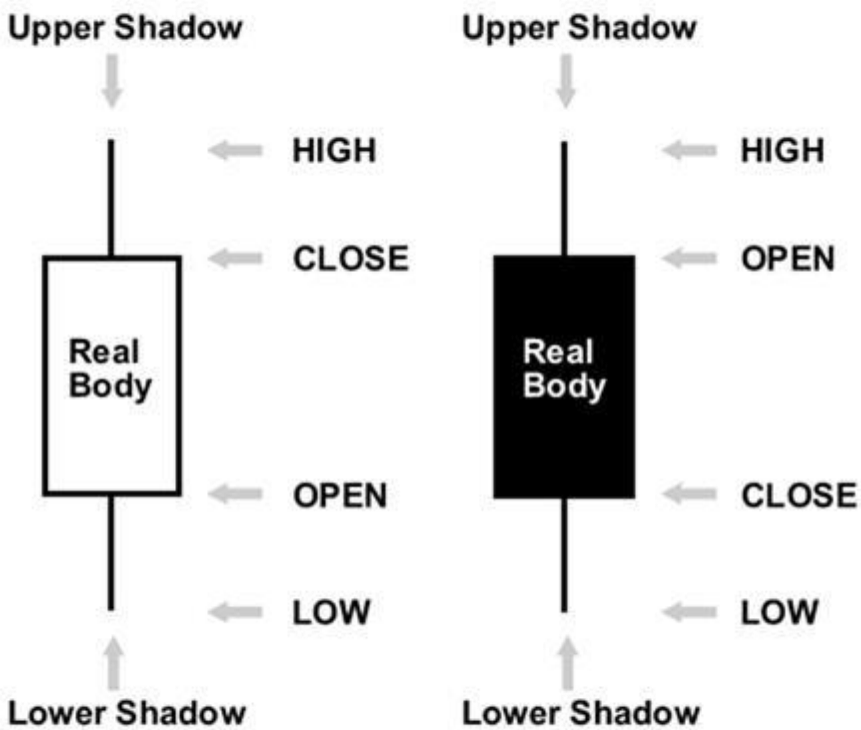
What is a candlestick?

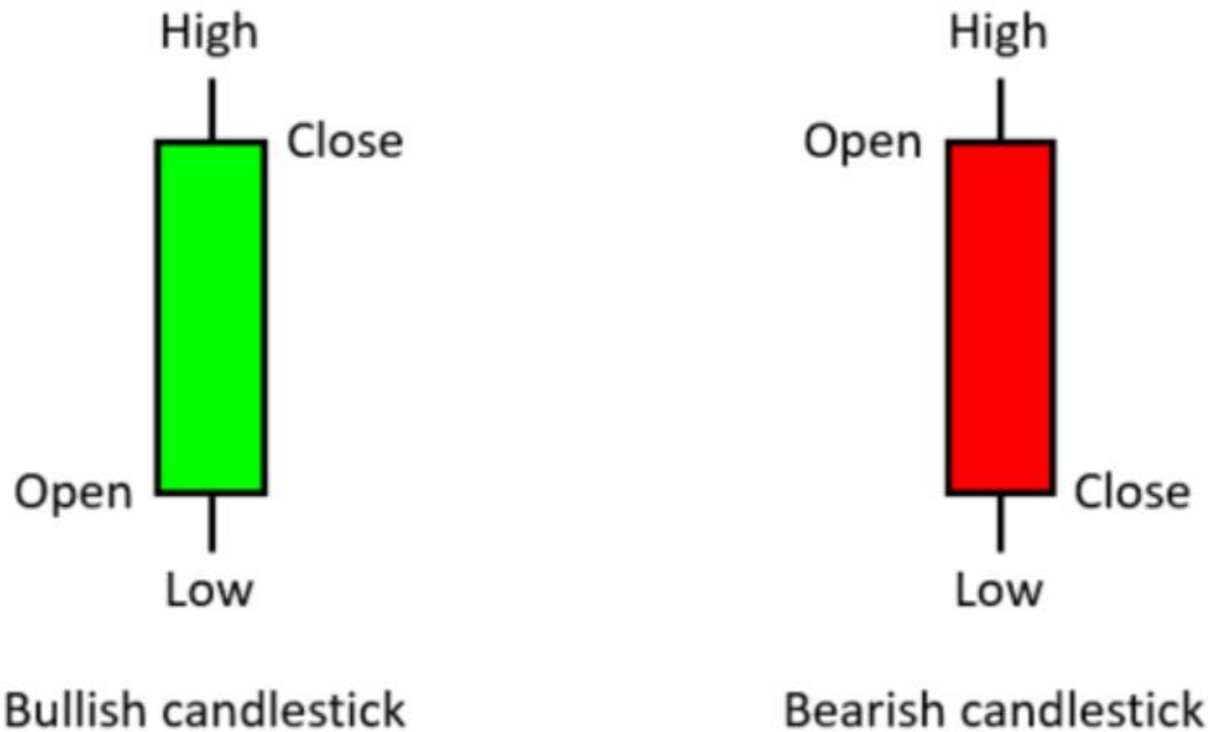
Japanese candlesticks are formed using the open, high, low and close of the chosen time frame.

Remember:

Each Candle Consist of:

- Open
- Close
- High (Upper Shaddow)
- Low (Lower Shaddow)
- BODY

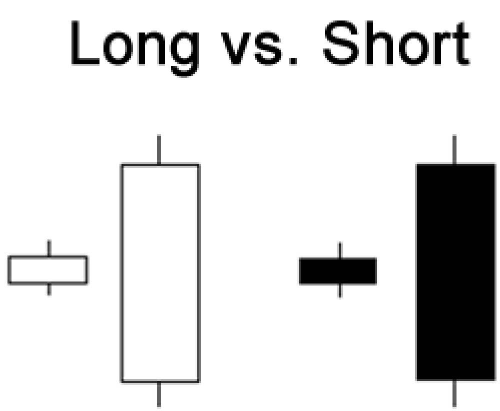

Upper Shadow
HIGH
CLOSE
Real Body
OPEN
LOW
Lower Shadow
Upper Shadow
HIGH
OPEN
Real Body
CLOSE
LOW
Lower Shadow


High
Close
Open
Low
Bullish candlestick
High
Open
Close
Low
Bearish candlestick

Candlestick body sizes:

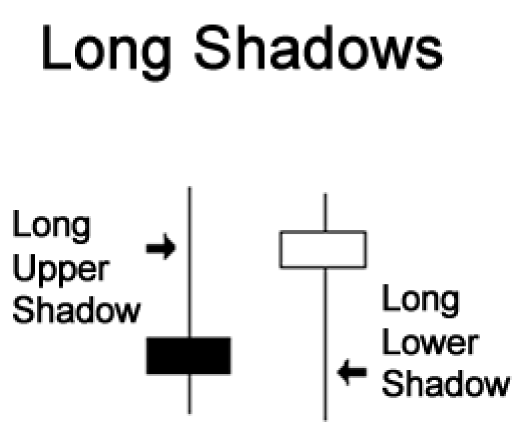
Candlesticks have different body sizes:

- **Long bodies** refer to strong buying or selling pressure, if there is a candlestick in which the close is above the open with a long body, this indicates that buyers are stronger and they are taking control of the market during this period of time.
  Conversely, if there is a bearish candlestick in which the open is above the close with a long body, this means that the selling pressure controls the market during this chosen time frame.
- **Short and small bodies** indicate a little buying or selling activity.



Candlestick shadows (tails)

The upper and lower shadows give us important information about the trading session.
-Upper shadows signify the session high
-Lower shadows signify the session low

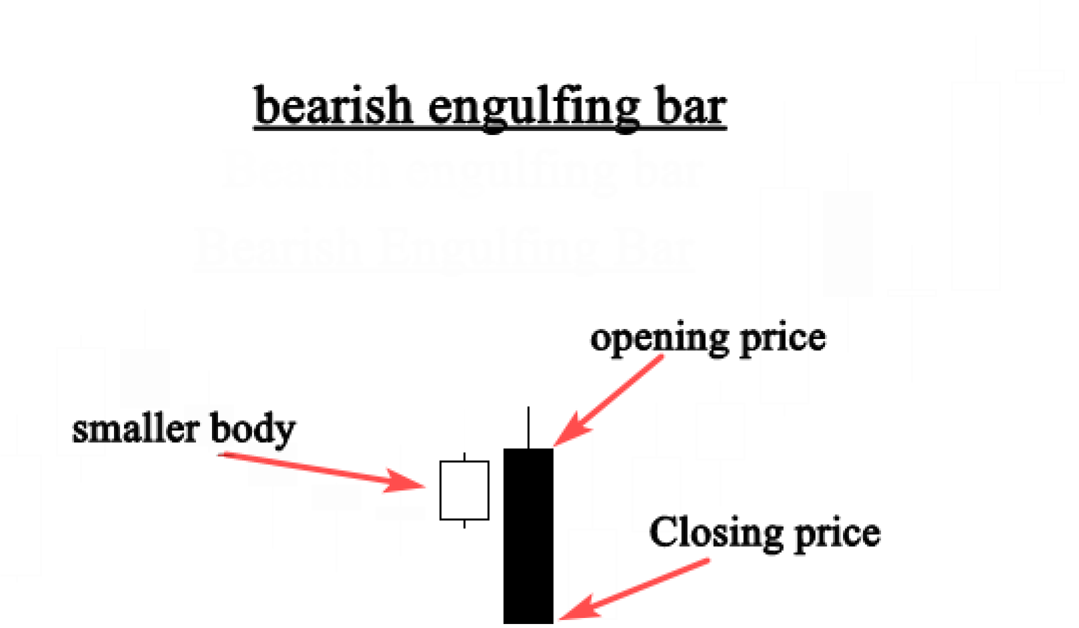


The engulfing bar candlestick pattern

The Engulfing bar as it states in its title is formed when it fully engulfs the previous candle. The engulfing bar can engulf more than one previous candle, but to be considered an engulfing bar, at least one candle must be fully consumed.

The bearish engulfing is one of the most important candlestick patterns.

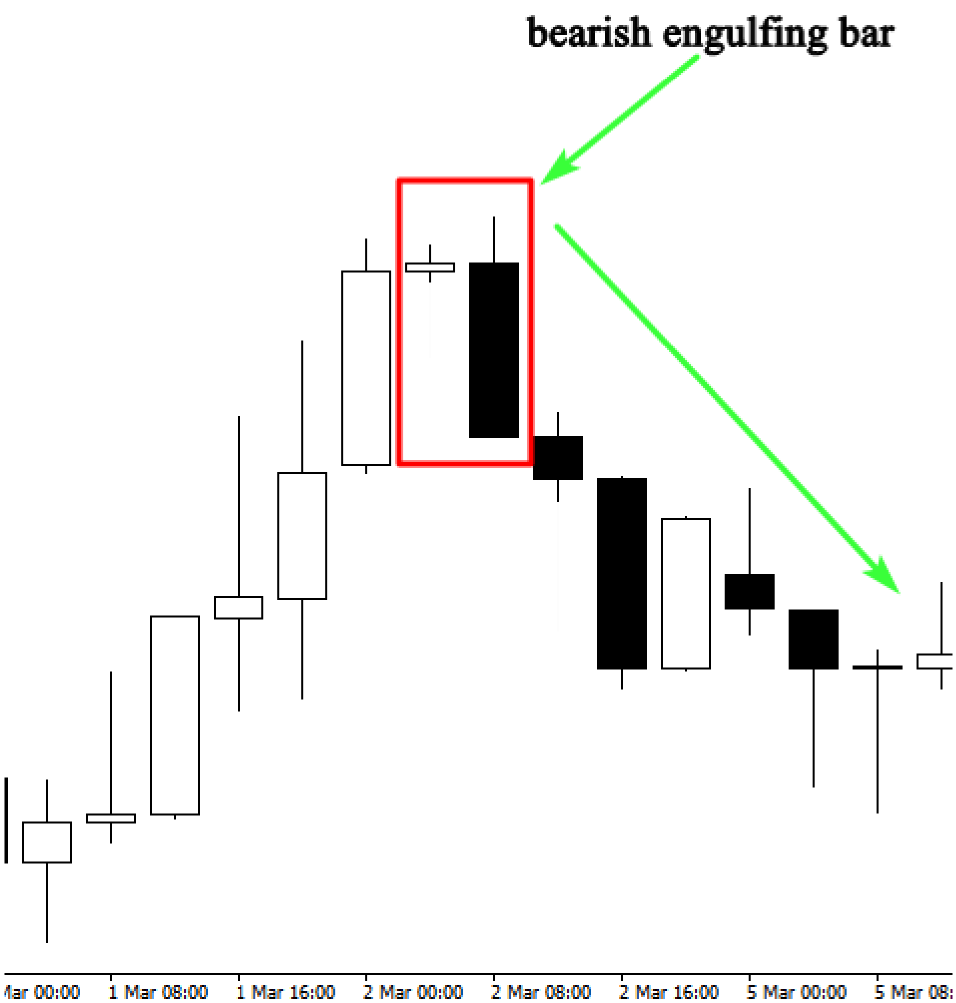
This candlestick pattern consists of two bodies:
The first body is smaller than the second one, in other words, the second body engulfs the previous one. See the illustration below:



This is how a bearish engulfing bar pattern looks like on your charts, this candlestick pattern gives us valuable information about bulls and bears in the market.

In case of a bearish engulfing bar, this pattern tells us that sellers are in control of the market.

When this pattern occurs at the end of an uptrend, this indicates that buyers are engulfed by sellers which signals a trend reversal.
See the example below:

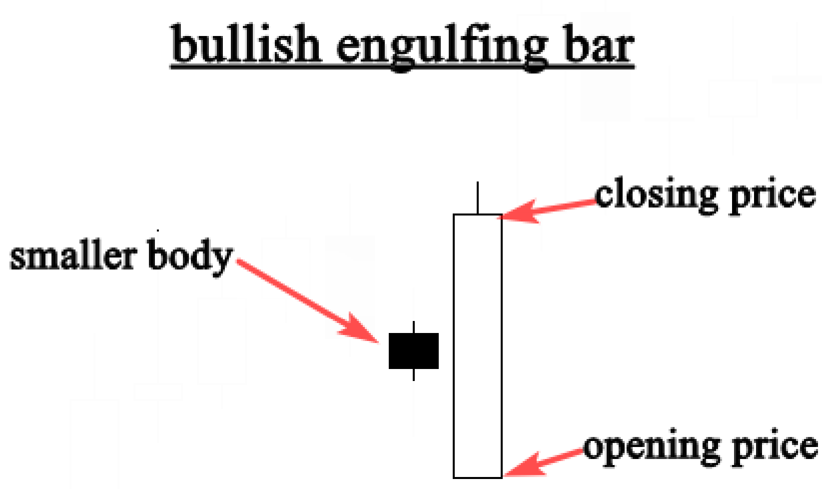


As you can see when this price action pattern occurs in an uptrend, we can anticipate a trend reversal because buyers are not still in control of the market, and sellers are trying to push the market to go down.

You can't trade any bearish candlestick pattern you find on your chart; you will need other technical tools to confirm your entries.

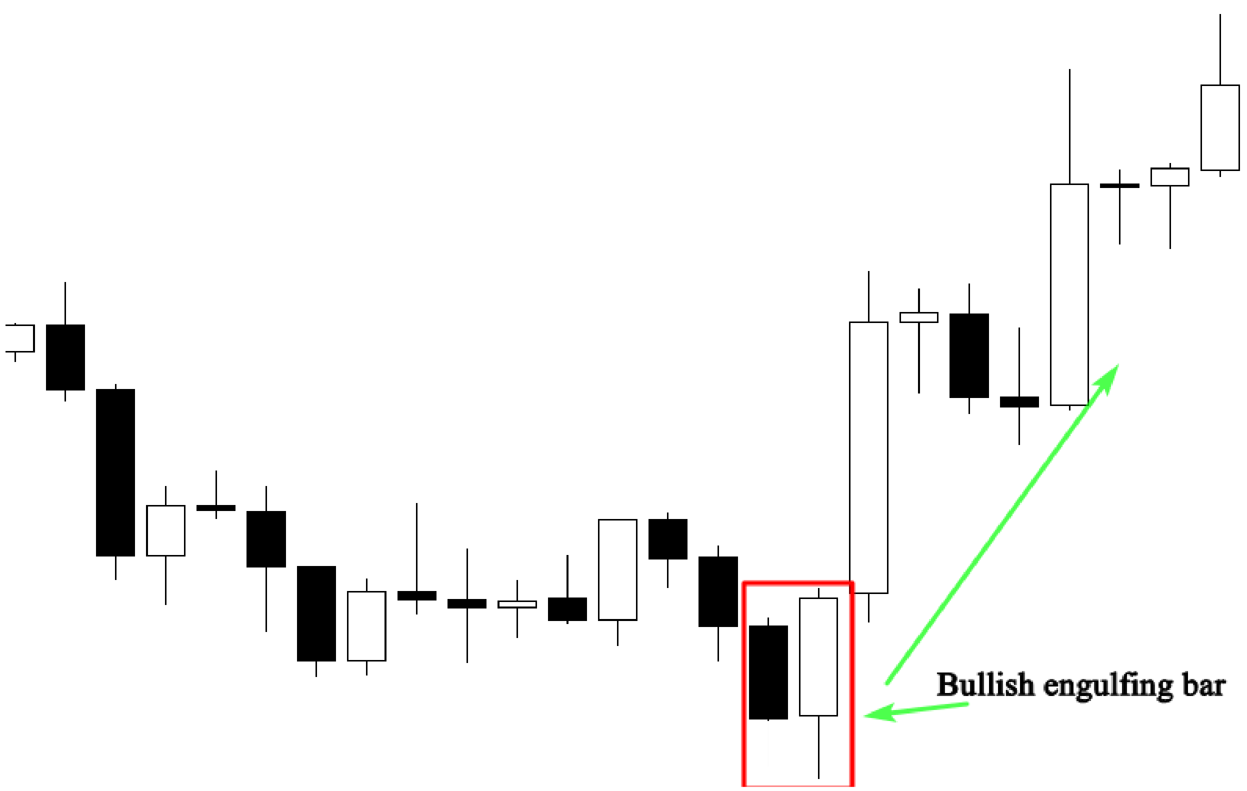
The bullish engulfing bar pattern:

The bullish engulfing bar consists of two candlesticks, the first one is the small body, and the second is the engulfing candle,
see the illustration:



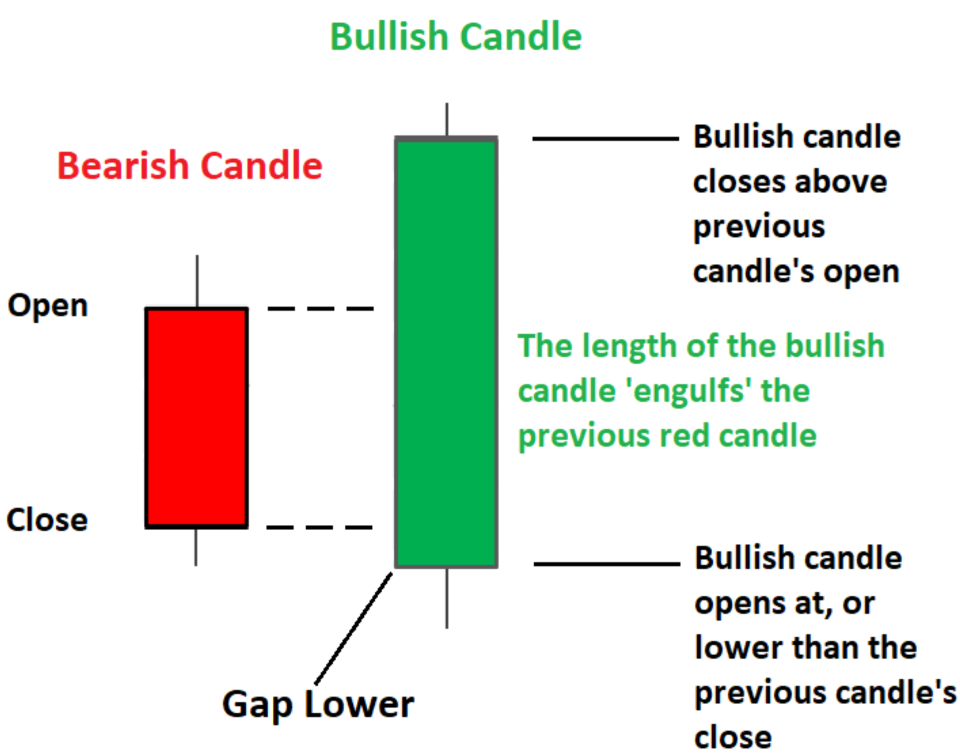
The bullish engulfing bar pattern tells us that the market is no longer under control of sellers, and buyers will take control of the market. When a bullish engulfing candle forms in the context of an uptrend, it indicates a continuation signal.

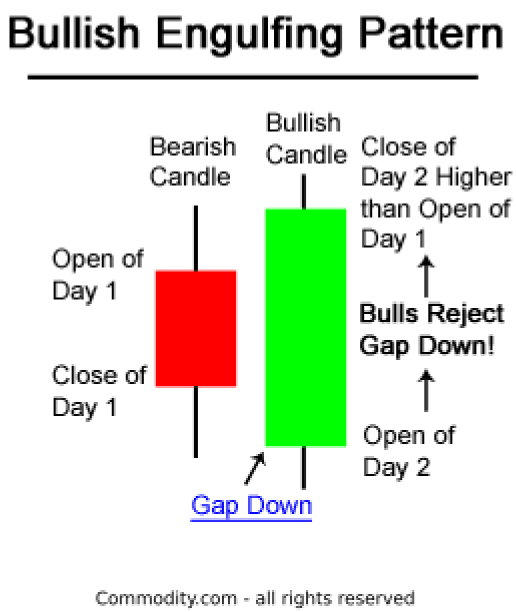
When a bullish engulfing candle forms at the end of a downtrend, the reversal is much more powerful as it represents a capitulation bottom. See the example below:



The example above shows us clearly how the market changes direction after the formation of a bullish engulfing bar pattern.
The smaller body that represents the selling power was covered by the second body that represents the buying power.

The color of the bodies is not important. What's important is that the smaller one is totally engulfed by the second candlestick.




Bullish Engulfing Pattern
Bearish Candle
Bullish Candle
Close of Day 2 Higher than Open of Day 1
Open of Day 1
Bulls Reject Gap Down!
Close of Day 1
Open of Day 2
Gap Down
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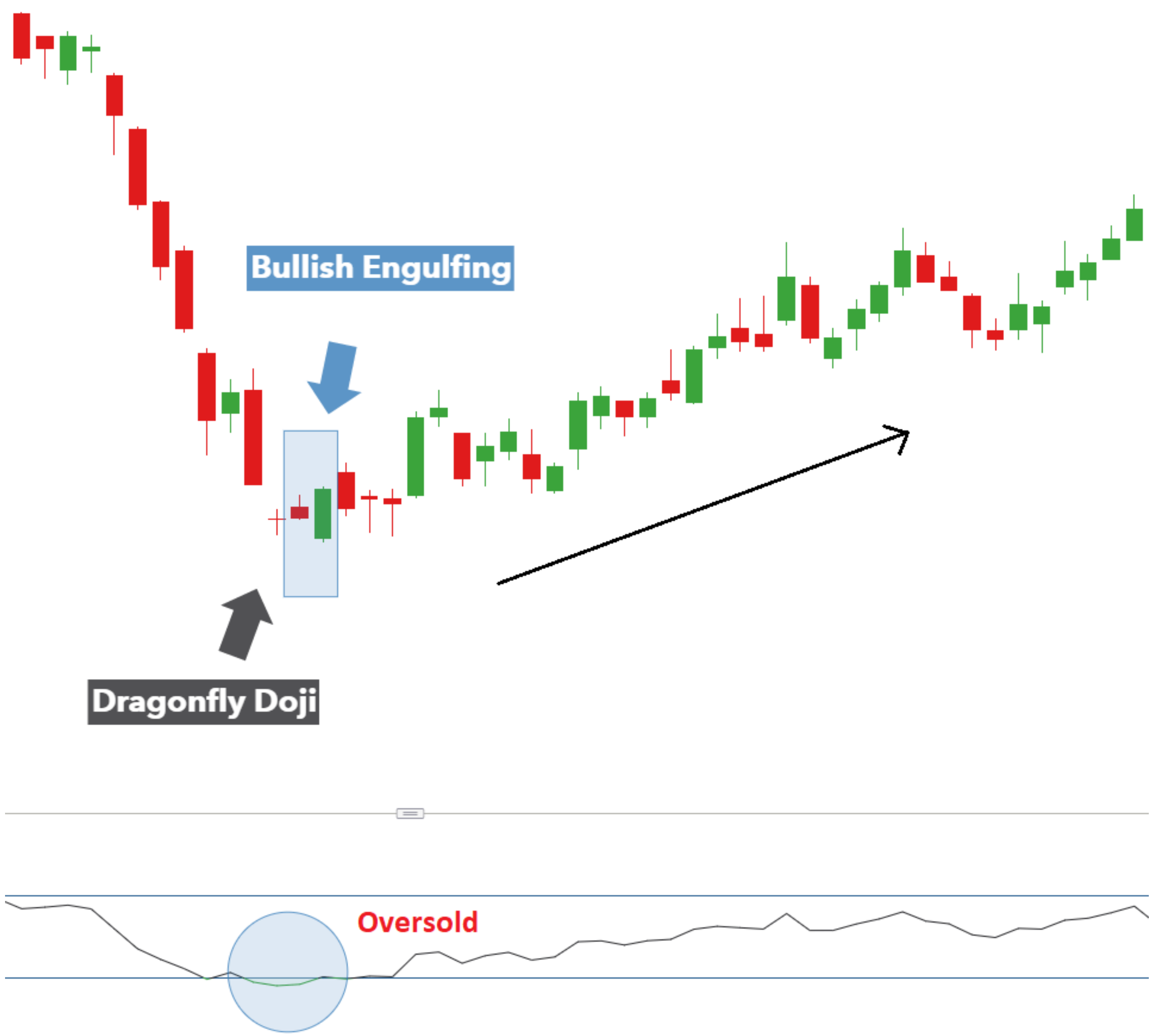

Bullish Engulfing
Dragonfly Doji
Oversold

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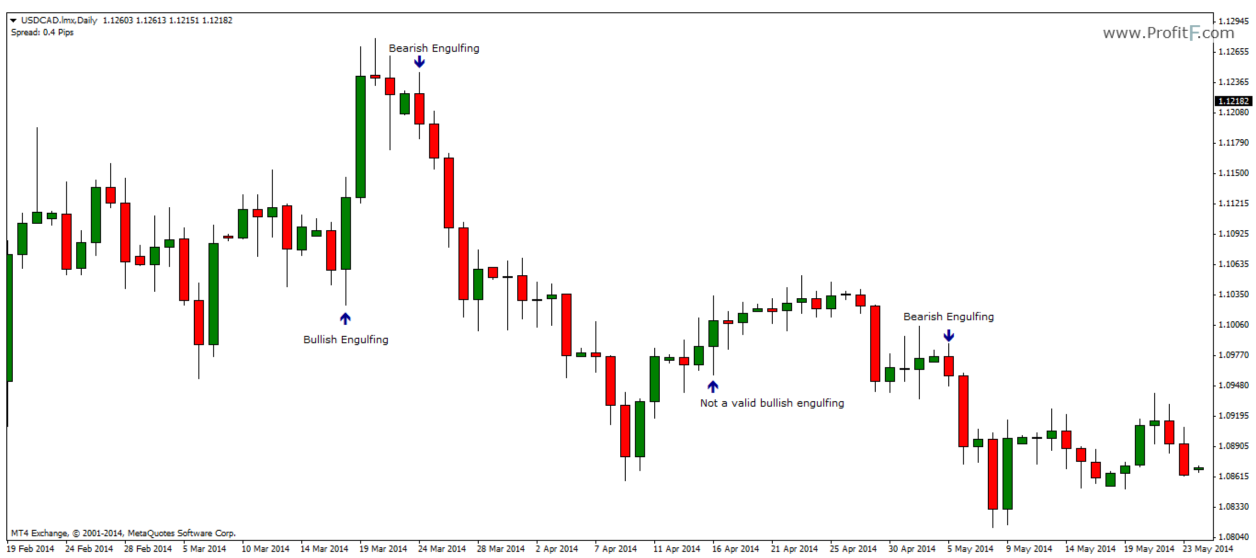

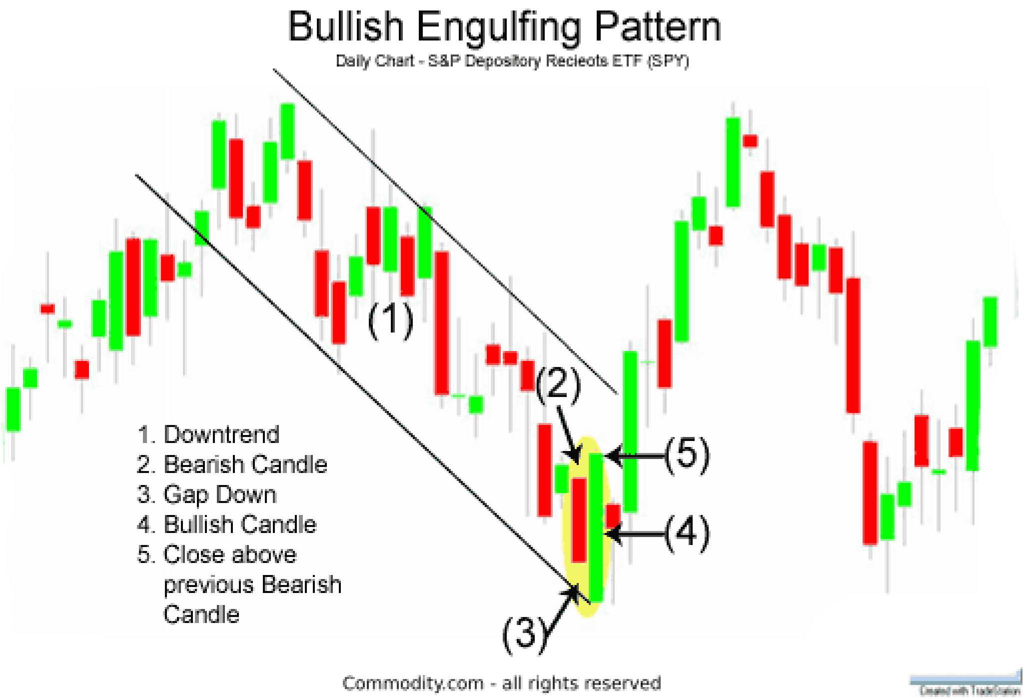

Bullish Engulfing Pattern
Daily Chart - S&P Depository Recieots ETF (SPY)
(1)
(2)
(5)
(4)
(3)
1. Downtrend
2. Bearish Candle
3. Gap Down
4. Bullish Candle
5. Close above previous Bearish Candle
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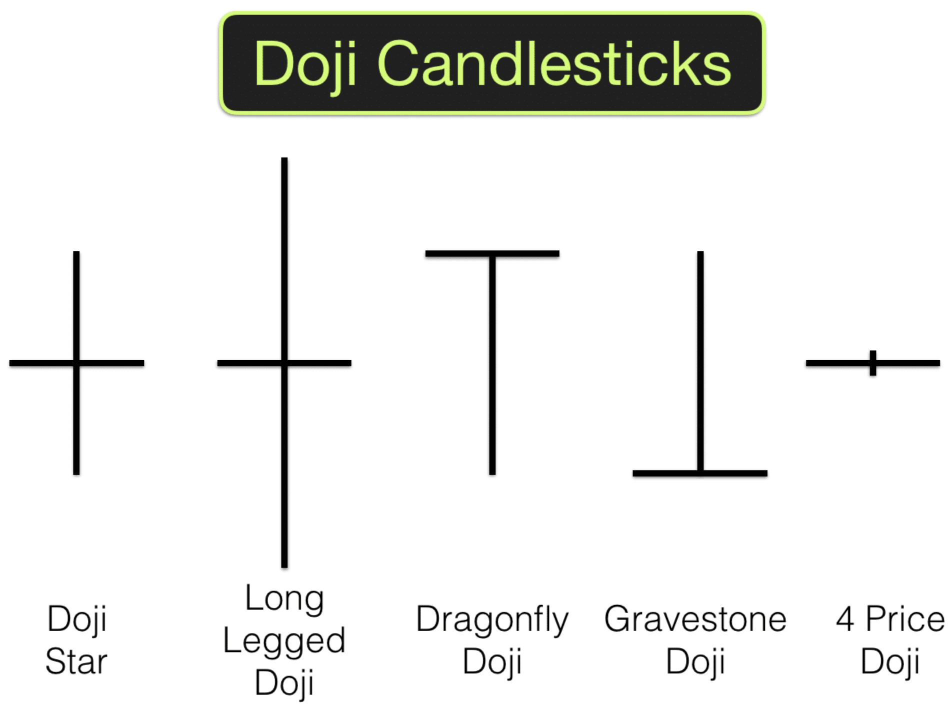
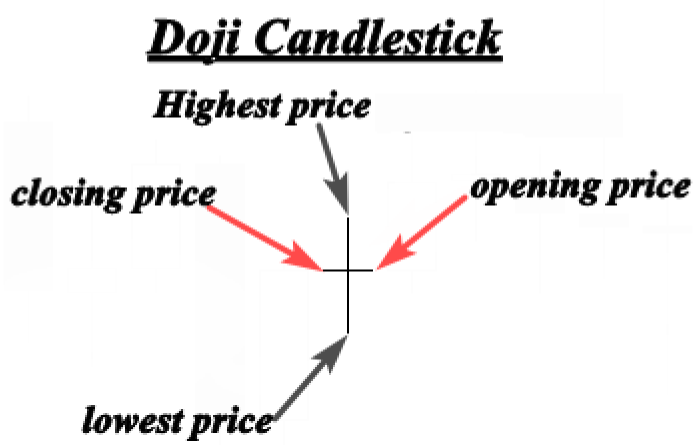
The Doji Candlestick pattern

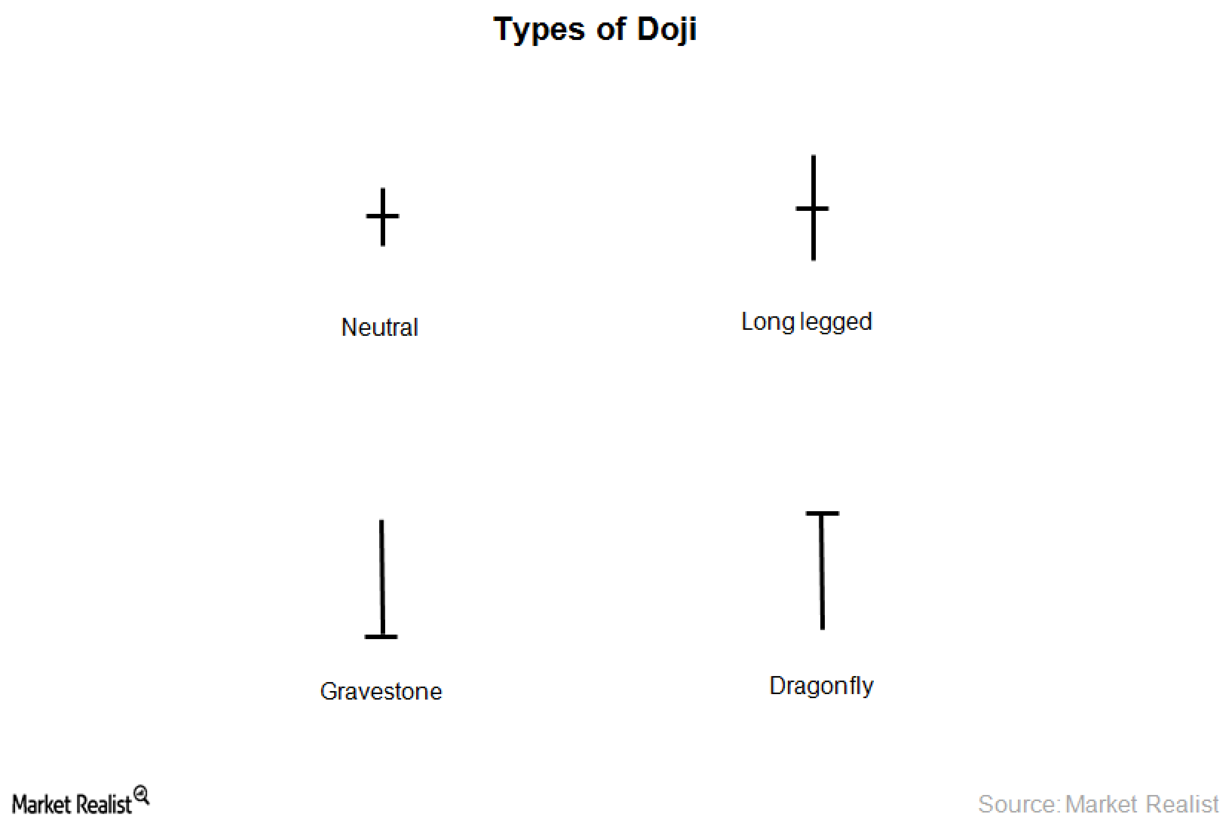
Types of Doji Candlestick

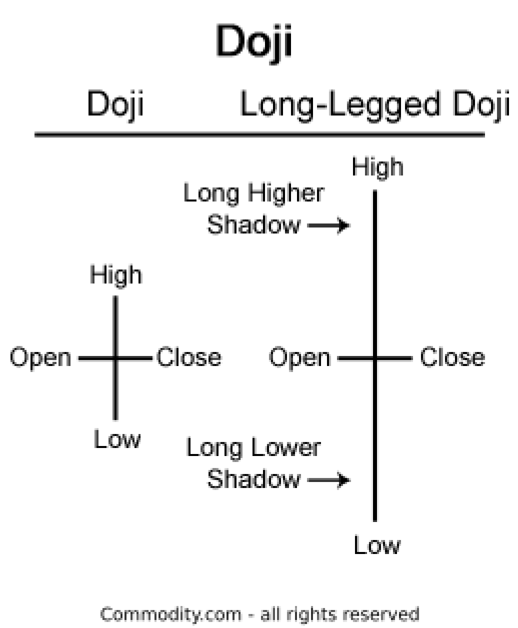
1. **Doji Star (Neutral) - Indicision**
2. **Long Leged Doji - Indicision**
3. **Four Price Doji - Indicision**
4. **DragOnfly Doji – Bulish Reversal**
5. **Gravestone Doji – Bearish Reversal**



Doji is one of the most important Japanese candlestick patterns, when this candlestick forms, it tells us that the market opens and closes at the same price which means that there is equality and indecision between buyers and sellers, there is no one in control of the market. See the example below:




Types of Doji
Neutral
Long legged
Gravestone
Dragonfly
Market Realist
Source: Market Realist


Doji
Doji
Long-Legged Doji
High
Long Higher Shadow
High
Open
Close
Open
Close
Low
Long Lower Shadow
Low
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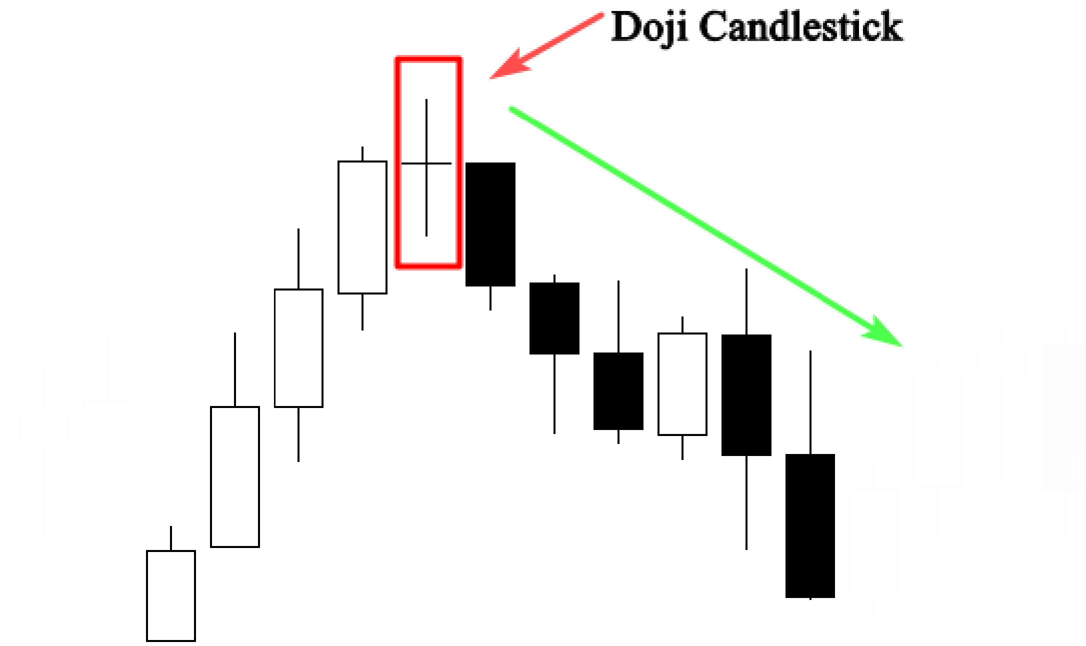
As you can see the opening price is the same as the closing price, this signal means that the market didn't decide which direction will take. When this pattern occurs in an uptrend or a downtrend, it indicates that the market is likely to reverse.

See another example below to learn more:



The chart above shows how the market changed direction after the formation of the Doji candlestick.

The market was trending up, that means that buyers were in control of the market.

The formation of the Doji candlestick indicates that buyers are unable to keep price higher, and sellers push prices back to the opening price. This is a clear indication that a trend reversal is likely to happen. Remember always that a Doji indicates equality and indecision in the market, you will often find it during periods of resting after big moves higher or lower.

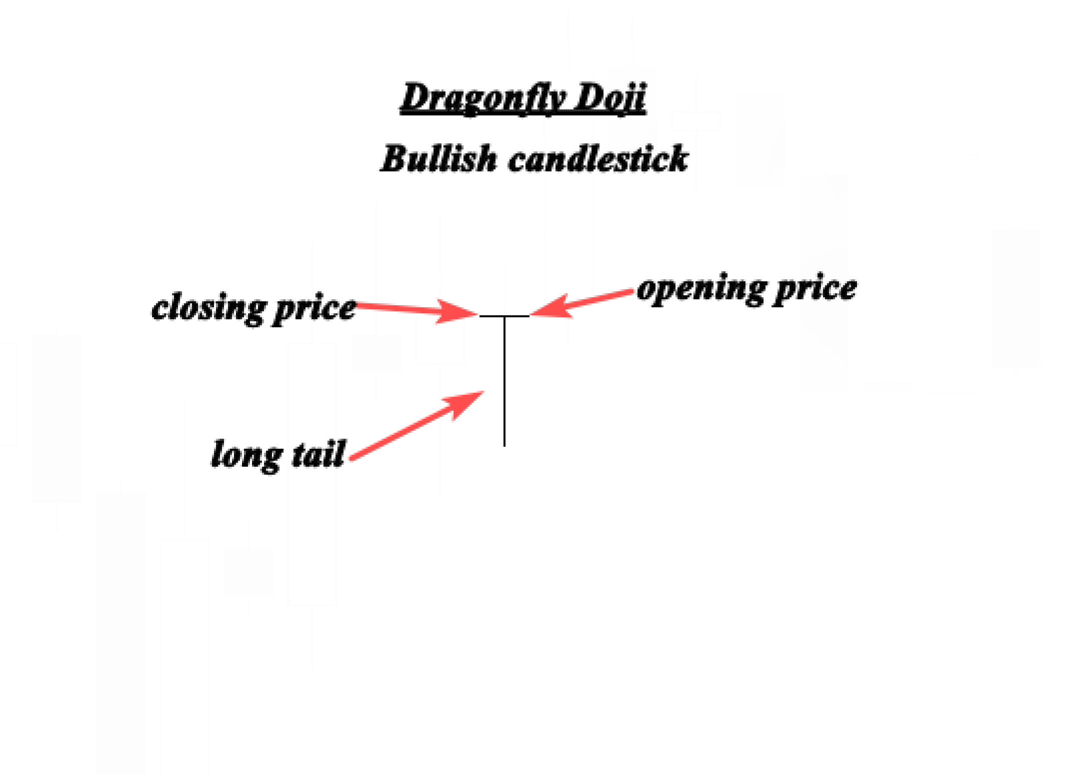
When it is found at the bottom or at the top of a trend, it is considered as a sign that a prior trend is losing its strengths.

So if you are already riding that trend it's time to take profits, it can also be used as an entry signal if it is combined with other technical analysis

The Dragonfly Doji pattern – Bullish Reversal

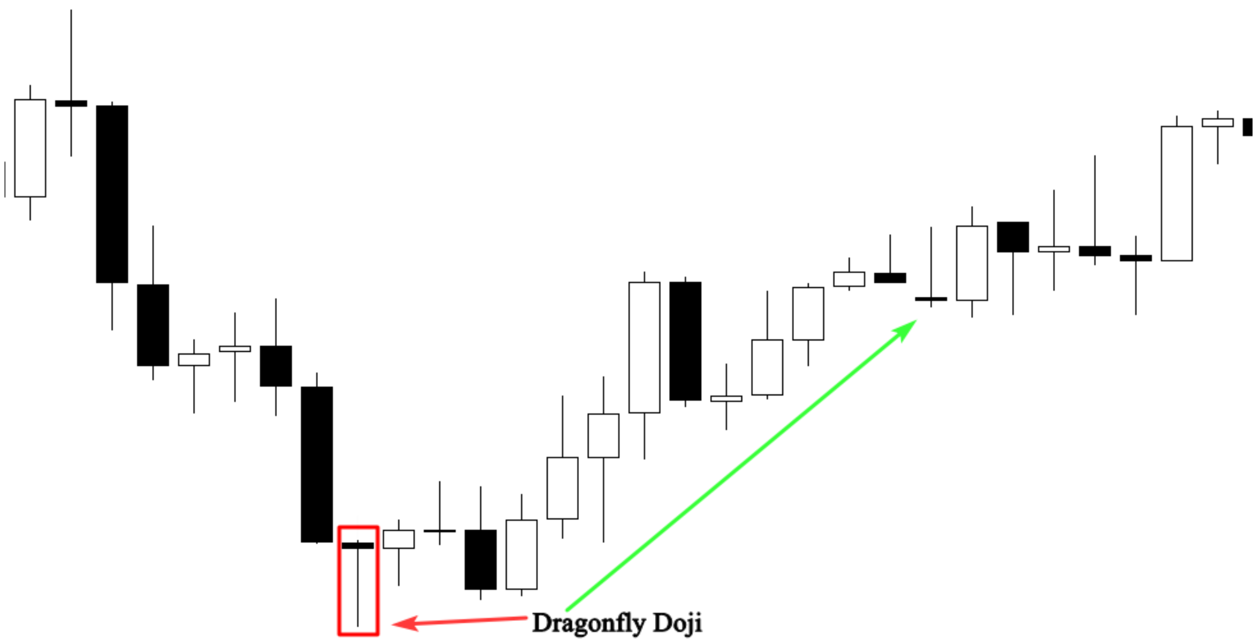
The Dragonfly Doji is a bullish candlestick pattern which is formed when the open high and close are the same or about the same price.

What characterizes the dragonfly Doji is the long lower tail that shows the resistance of buyers and their attempt to push the market up.
See the example below:



The illustration above shows us a prefect dragonfly Doji. The long lower tail suggests that the forces of supply and demand are nearing a balance and that the direction of the trend may be nearing a major turning point.

See the example below that indicates a bullish reversal signal created by a dragonfly Doji.



In the chart above, the market was testing the previous support level that caused a strong rejection from this area.

The formation of the dragonfly Doji with the long lower tail shows us that there is a high buying pressure in the area.

If you can identify this candlestick pattern on your chart, it will help you visually see when support and demand are located.
When it occurs in a downtrend, it is interpreted as a bullish reversal signal.

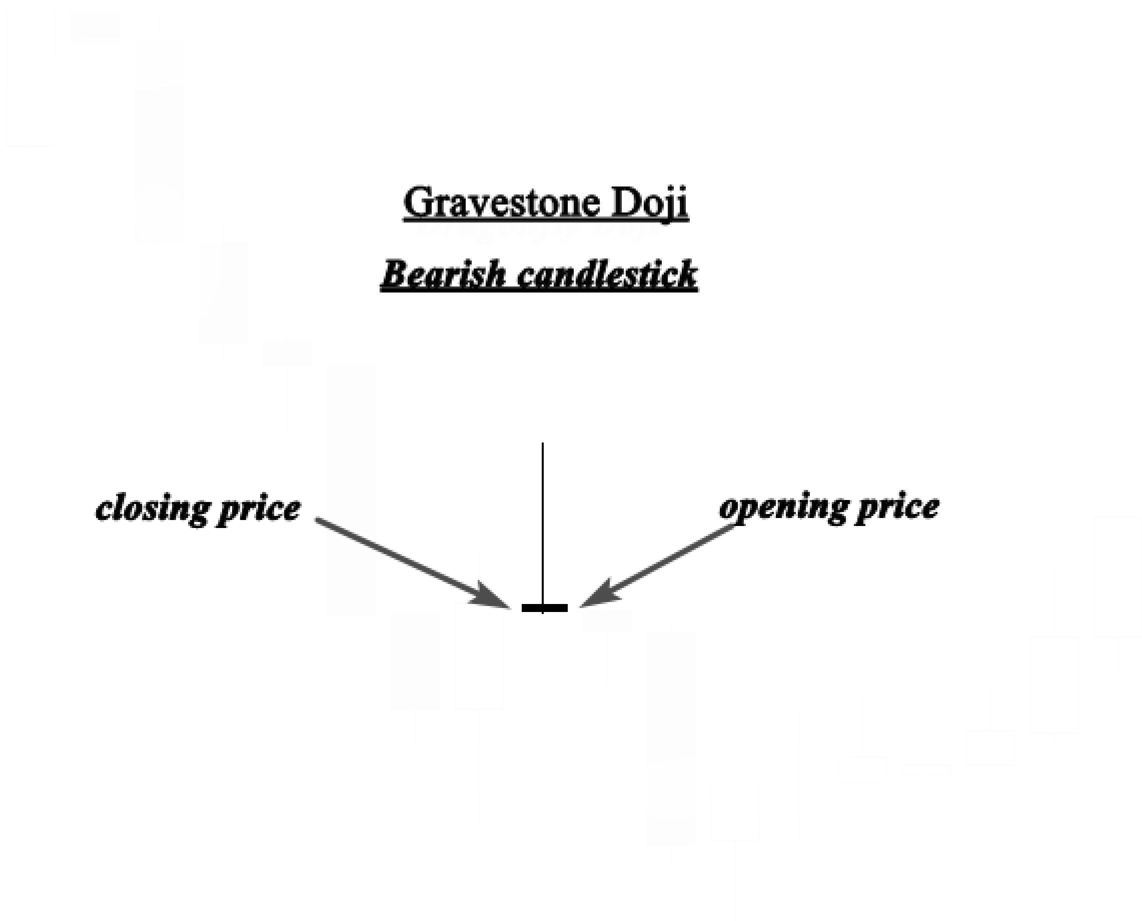
But as i always say, you can’t trade candlestick pattern alone, you will need other indicators and tools to determine high probability dragonfly Doji signals in the market.

The Gravestone Doji – Bearish Reversal

The Gravestone Doji is the bearish version of the dragonfly Doji, it is formed when the open and close are the same or about the same price.

What differentiates the Gravestone Doji from the dragonfly Doji is the long upper tail.
The formation of the long upper tail is an indication that the market is testing a powerful supply or resistance area.

See the example below:

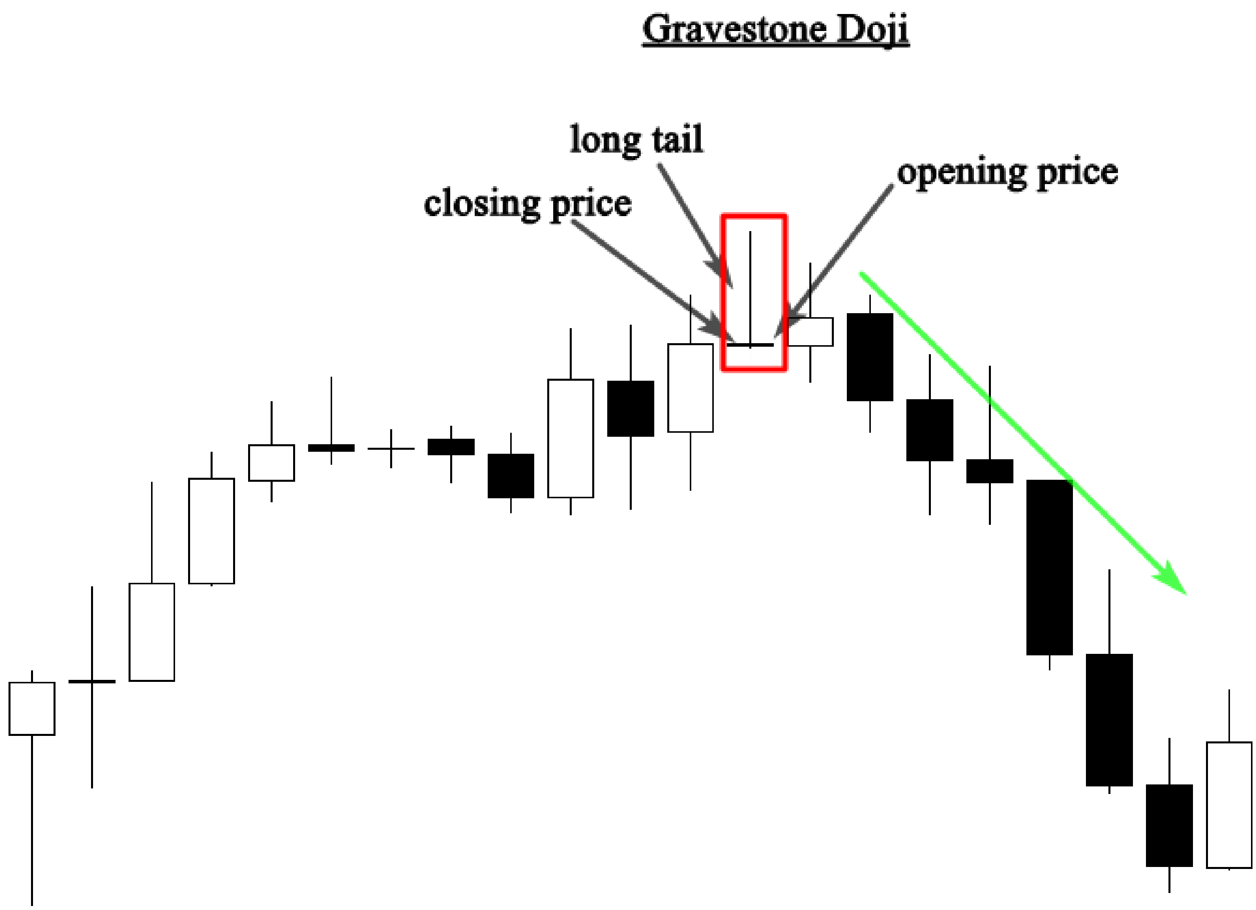


The image above illustrates a perfect gravestone Doji. This pattern indicates that while buyers were able to push prices well above the open.

Later in the day sellers overwhelmed the market pushing the price back down.

This is interpreted as a sign that bulls are losing their momentum and the market is ready for a reversal.

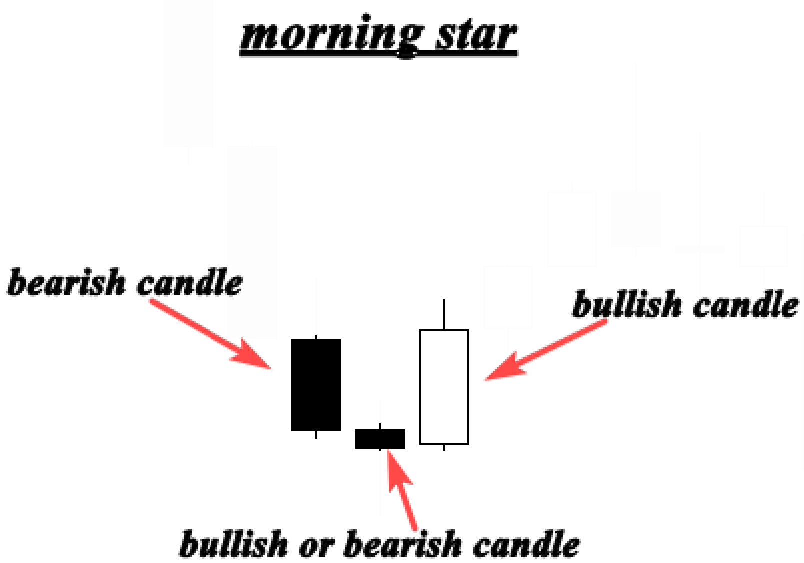
See another illustration below:



The chart above shows a gravestone Doji at the top of an uptrend, after a period of strong bullish activity.

The formation of this candlestick pattern indicates that buyers are no longer in control of the market. For this pattern to be reliable, it must occur near a resistance level.

The morning star



The **morning star** pattern is considered as a bullish reversal pattern, it often occurs at the bottom of a downtrend and it consists of **three candlesticks**:

-The **first** candlestick is bearish which indicates that sellers are still in charge of the market.

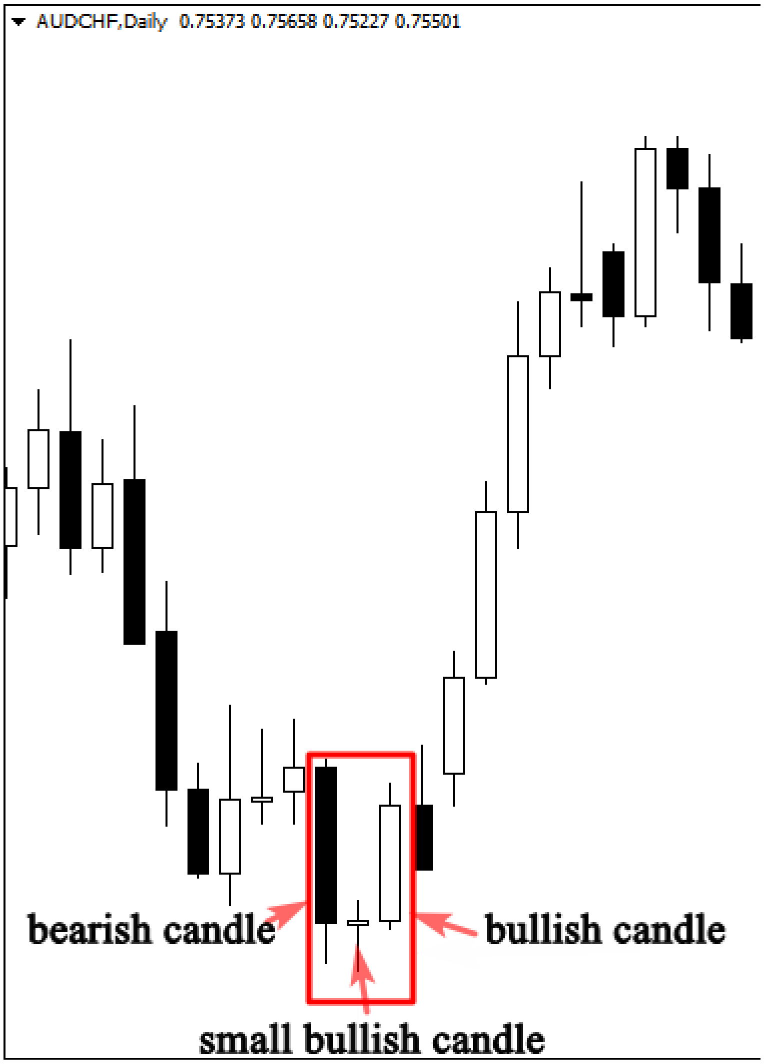
-The **second** candle is a small one which represents that sellers are in control, but they don’t push the market much lower and this candle can be bullish or bearish.

-The **third** candle is a bullish candlestick that gapped up on the open and closed above the midpoint of the body of the first day, this candlestick holds a significant trend reversal signal.

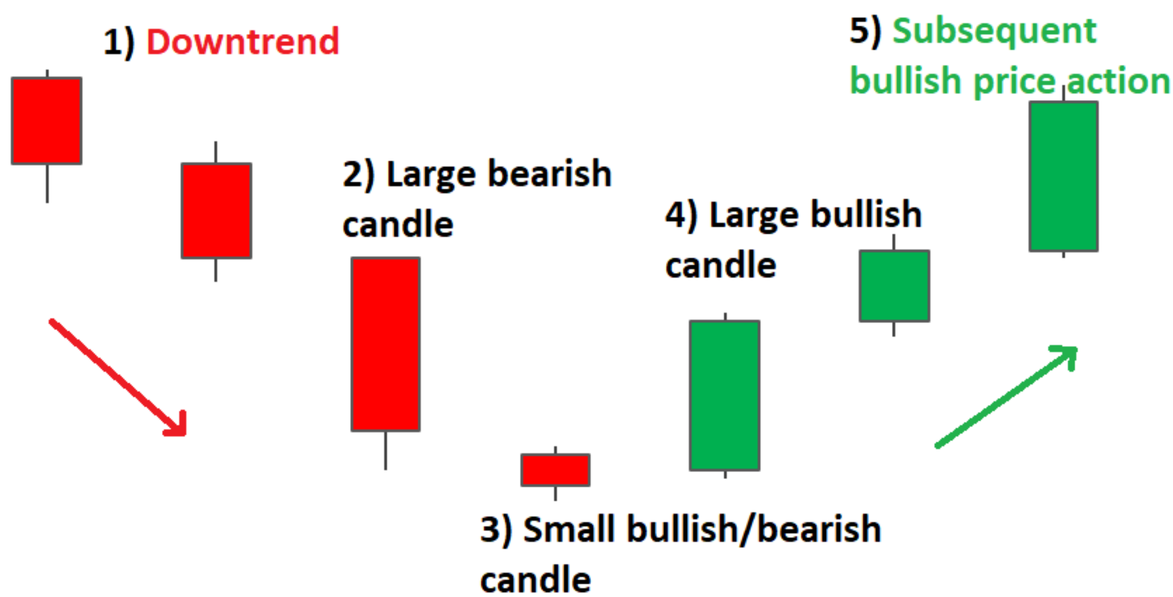
The morning star pattern shows us how buyers took control of the market from sellers, when this pattern occurs at the bottom of

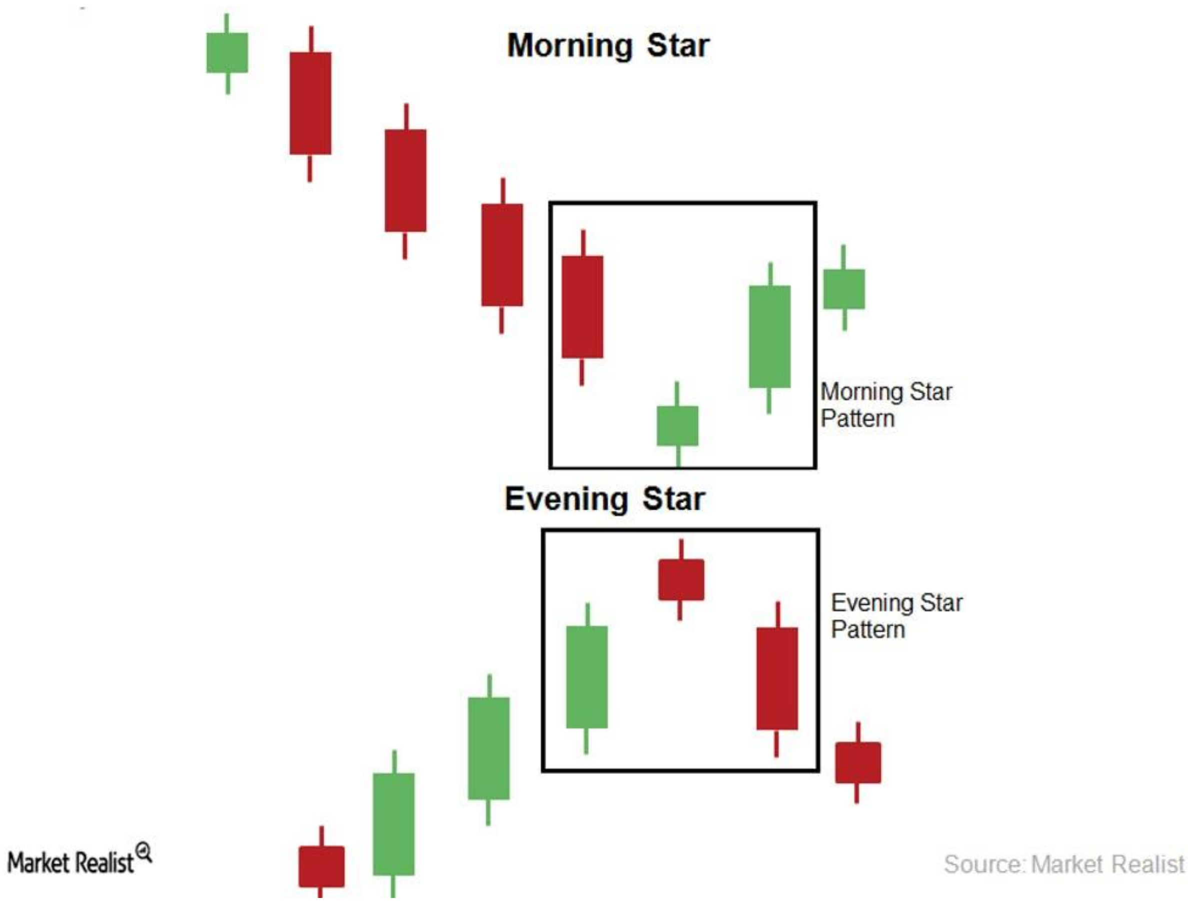
downtrend near a support level, it is interpreted as a powerful trend reversal signal.

See the illustration below:

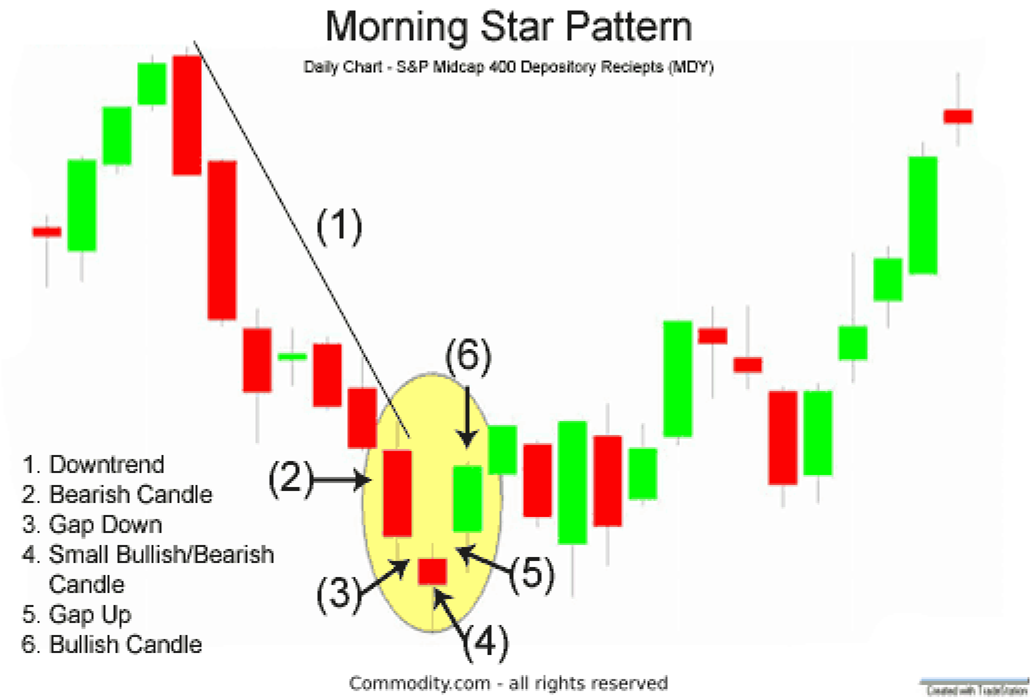


AUDCHF,Daily 0.75373 0.75658 0.75227 0.75501
bearish candle
bullish candle
small bullish candle


1) Downtrend
2) Large bearish candle
3) Small bullish/bearish candle
4) Large bullish candle
5) Subsequent bullish price action



Morning Star
Morning Star Pattern
Evening Star
Evening Star Pattern
Market Realist
Source: Market Realist



Morning Star Pattern
Daily Chart - S&P Midcap 400 Depository Reciepts (MDY)
(1)
(2)
(3)
(4)
(5)
(6)
1. Downtrend
2. Bearish Candle
3. Gap Down
4. Small Bullish/Bearish Candle
5. Gap Up
6. Bullish Candle
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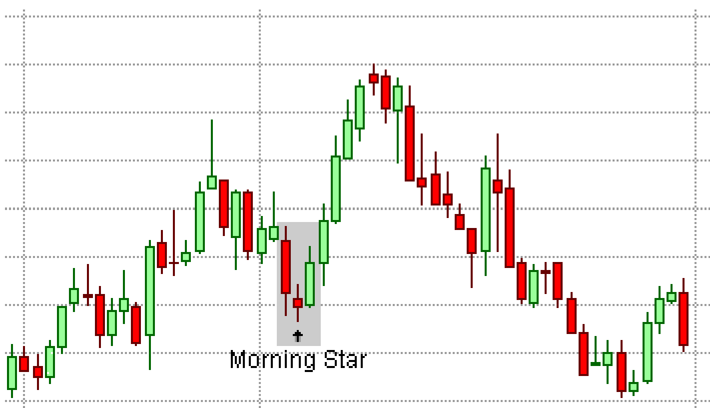
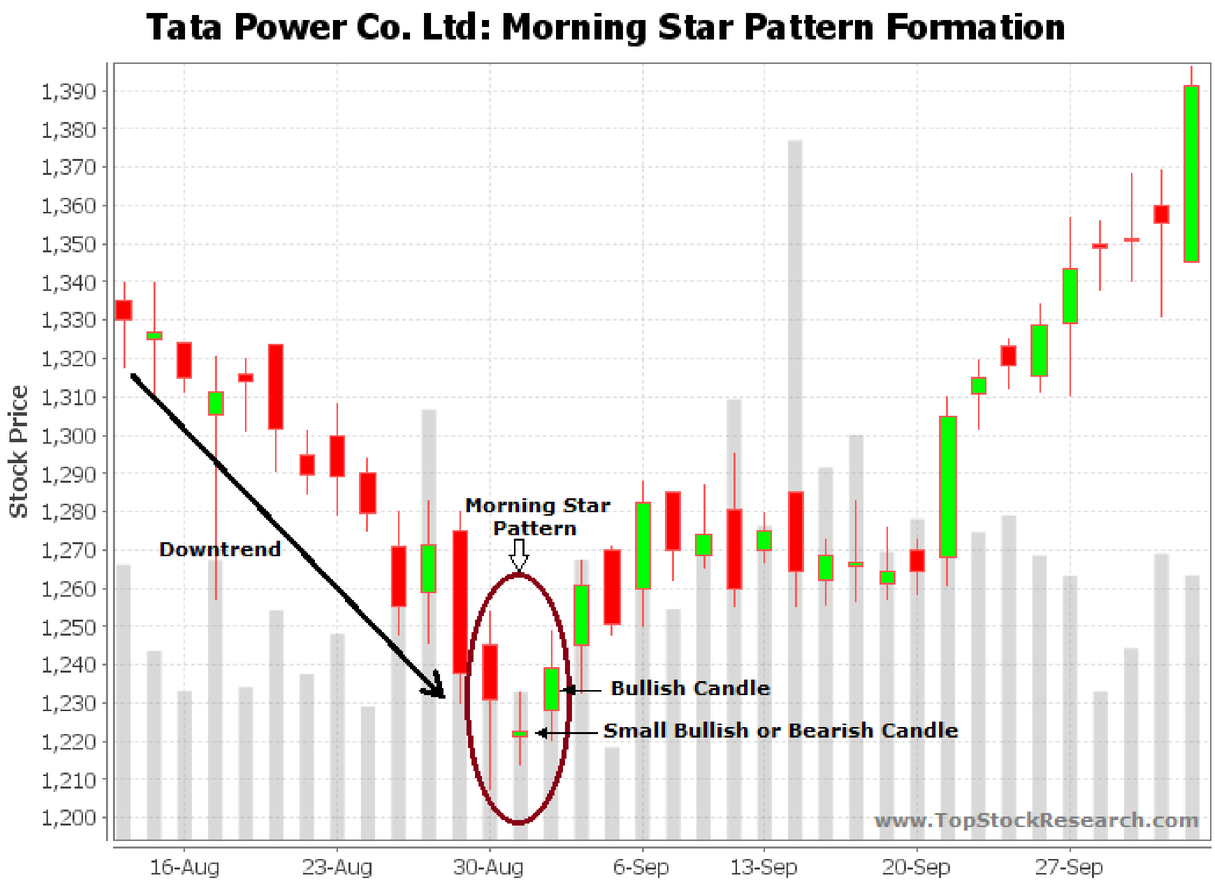


Morning Star

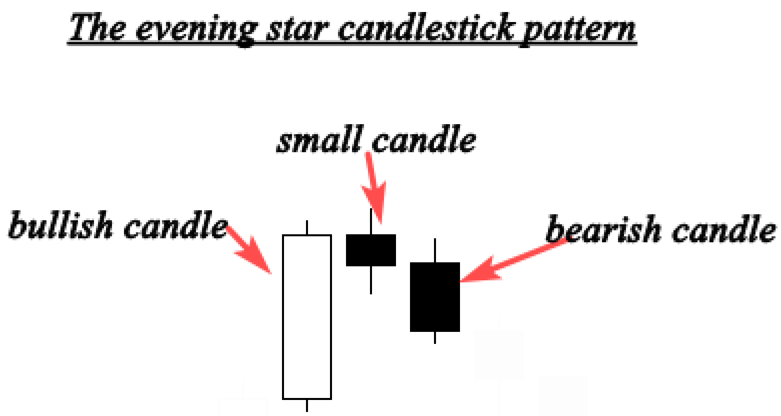


The evening star pattern

The evening star pattern is considered as a bearish reversal pattern that usually occurs at the top of an uptrend.

The pattern consists of three candlesticks:
-The first candle is a bullish candle
-The second candle is a small candlestick, it can be bullish or bearish or it can be a Doji or any other candlestick.

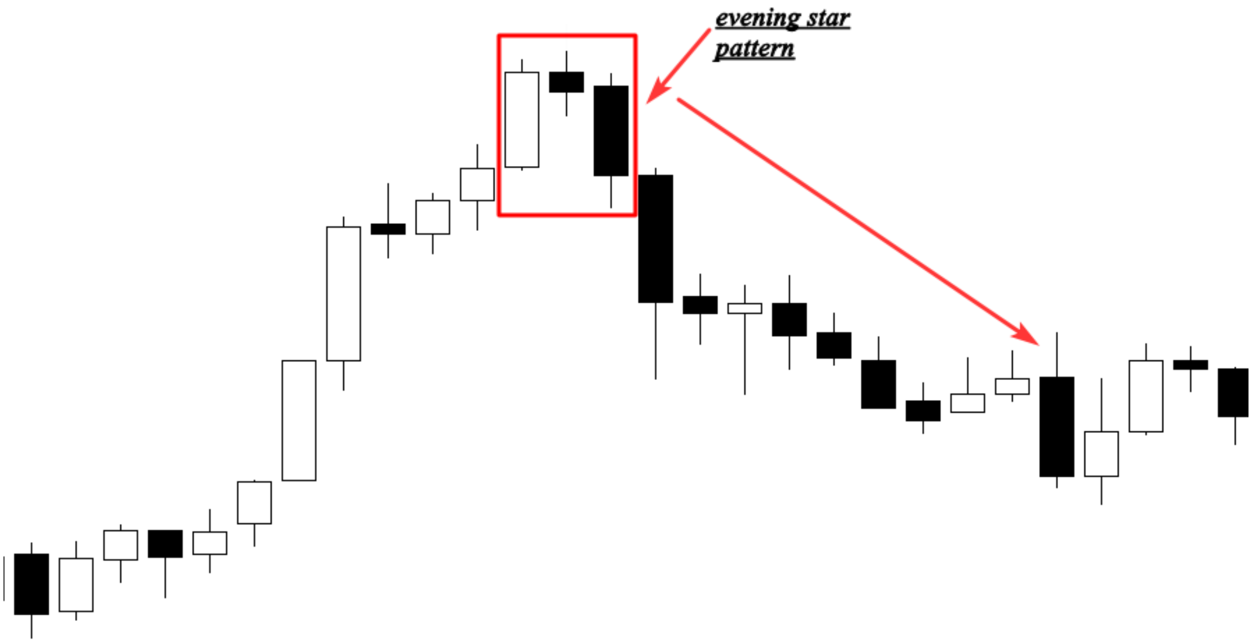
-The third candle is a large bearish candle. In general, the evening star pattern is the bearish version of the morning star pattern. See the example below:



The first part of an evening star is a bullish candle; this means that bulls are still pushing the market higher.

Right now, everything is going all right. The formation of the smaller body shows that buyers are still in control but they are not as powerful as they were.

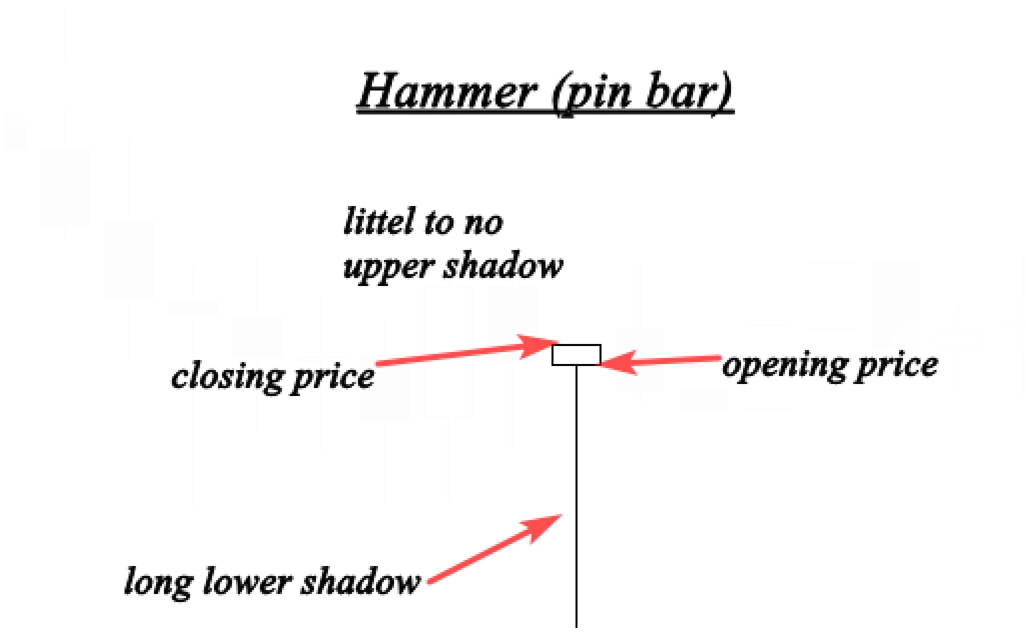
The third bearish candle indicates that the buyer's domination is over, and a possible bearish trend reversal is likely to happen.



The Hammer (Bullish pin bar)

The Hammer candlestick is created when the open high and close are roughly the same price; it is also characterized by a long lower shadow that indicates a bullish rejection from buyers and their intention to push the market higher.

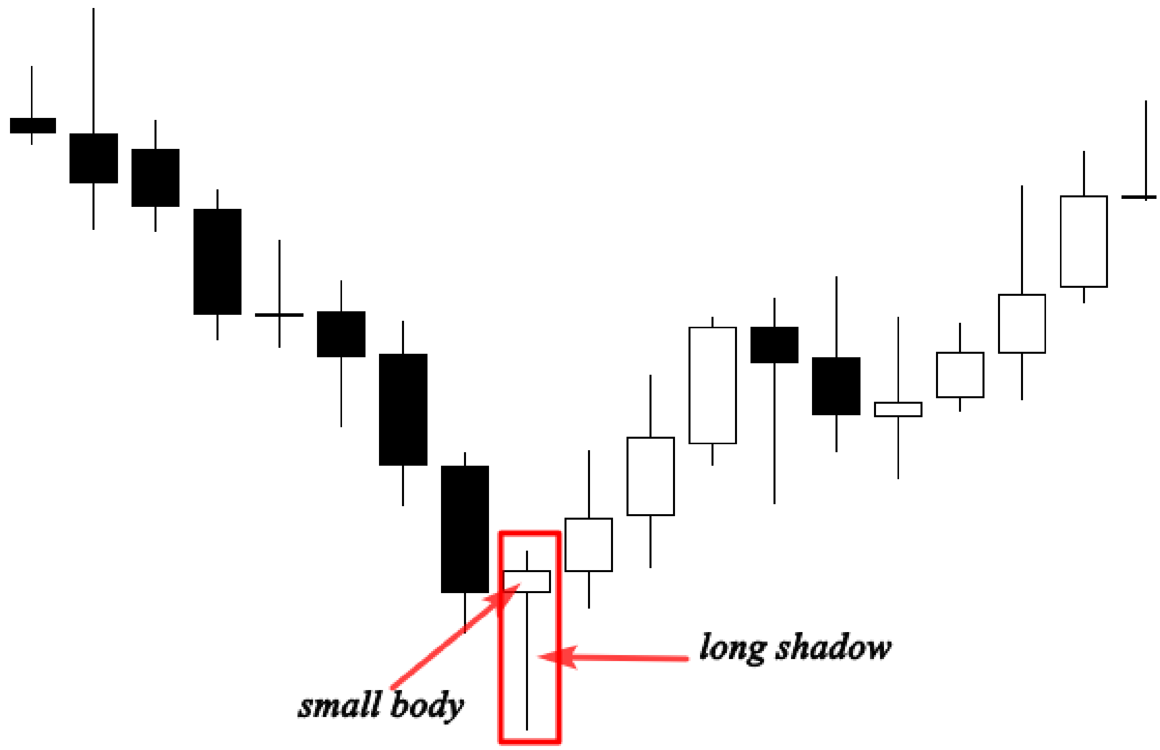
See the illustration below to see how it looks like:



The **hammer** is a reversal candlestick pattern when it occurs at the bottom of a downtrend.

This candle forms when sellers push the market lower after the open, but they get rejected by buyers so the market closes higher than the lowest price.

See another example below:



As you can see the market was trending down, the formation of the hammer (pin bar) was a significant reversal pattern.

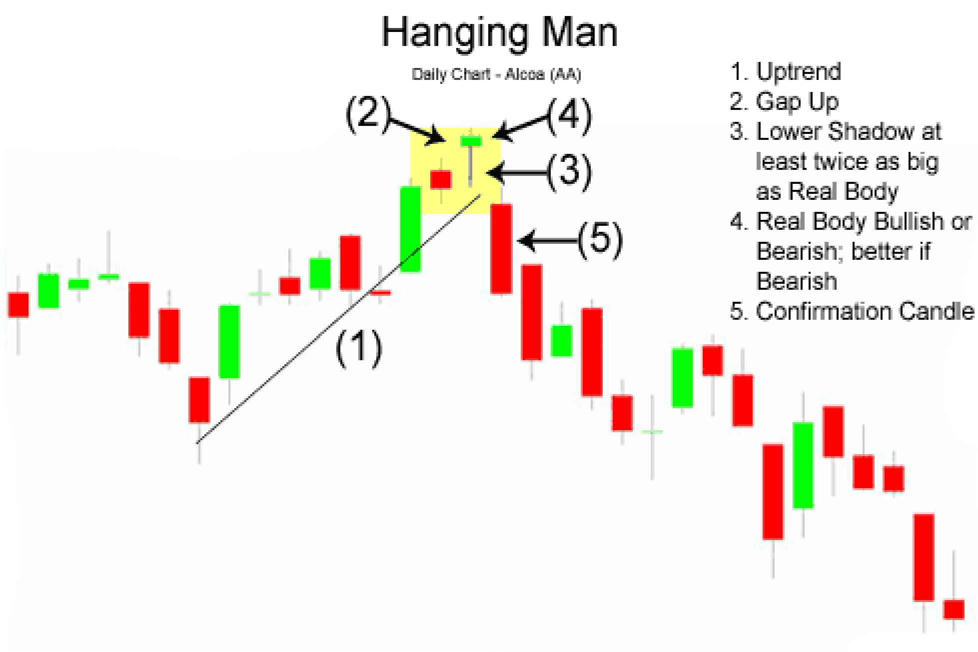
The long shadow represents the high buying pressure from this point. Sellers was trying to push the market lower, but in that level the buying power was more powerful than the selling pressure which results in a trend reversal.

The most important to understand is the psychology behind the formation of this pattern, if you can understand **how** and **why** it was created, you will be able to predict the market direction with high accuracy.

Note:

Hammer and Hanging Man

The hanging man and the hammer are both candlestick patterns that indicate trend reversal. ... If the pattern appears in a chart with an upward trend indicating a bearish reversal, it is called the hanging man. If it appears in a downward trend indicating a bullish reversal, it is a hammer.

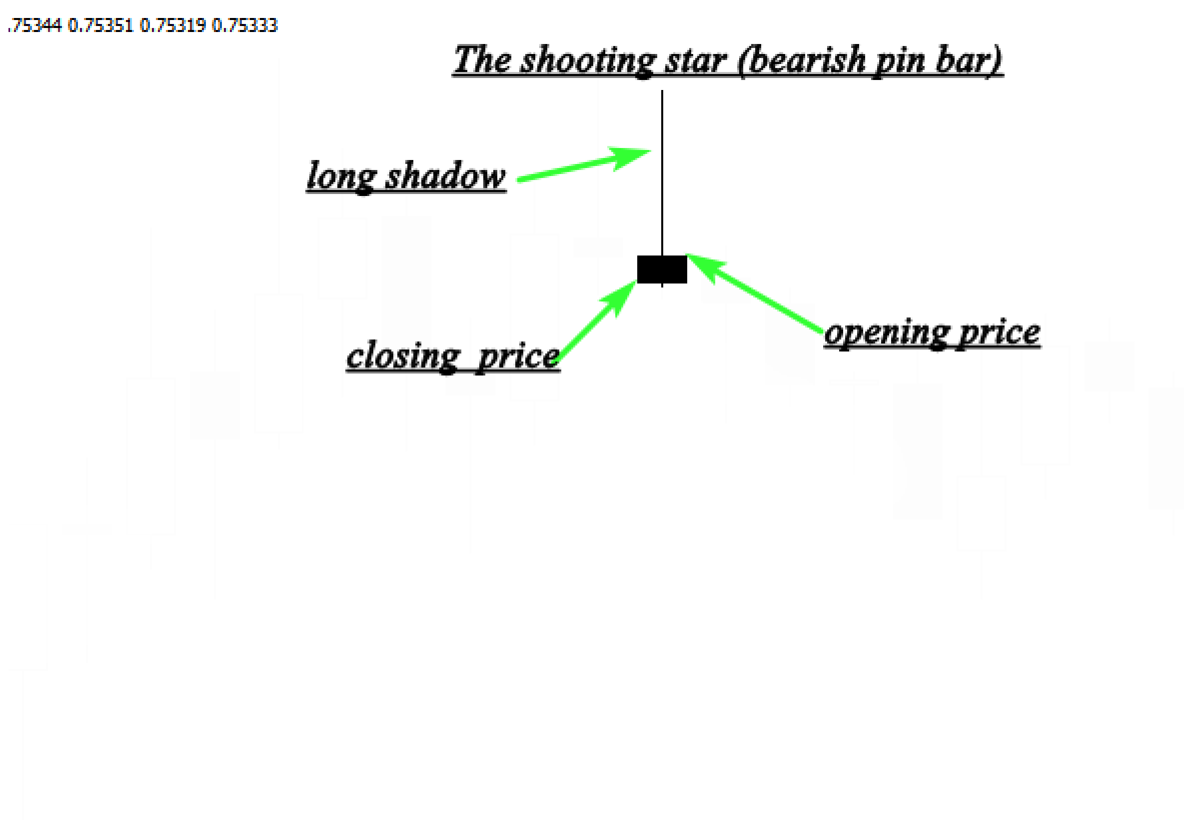


The shooting star (bearish pin bar)

The shooting formation is formed when the open low, and close are roughly the same price, this candle is characterized by a **small body** and a **long upper shadow**. It is the **bearish version of the hammer**.

Professional technicians say that the shadow should be twice the length of the real body.

See the example below:

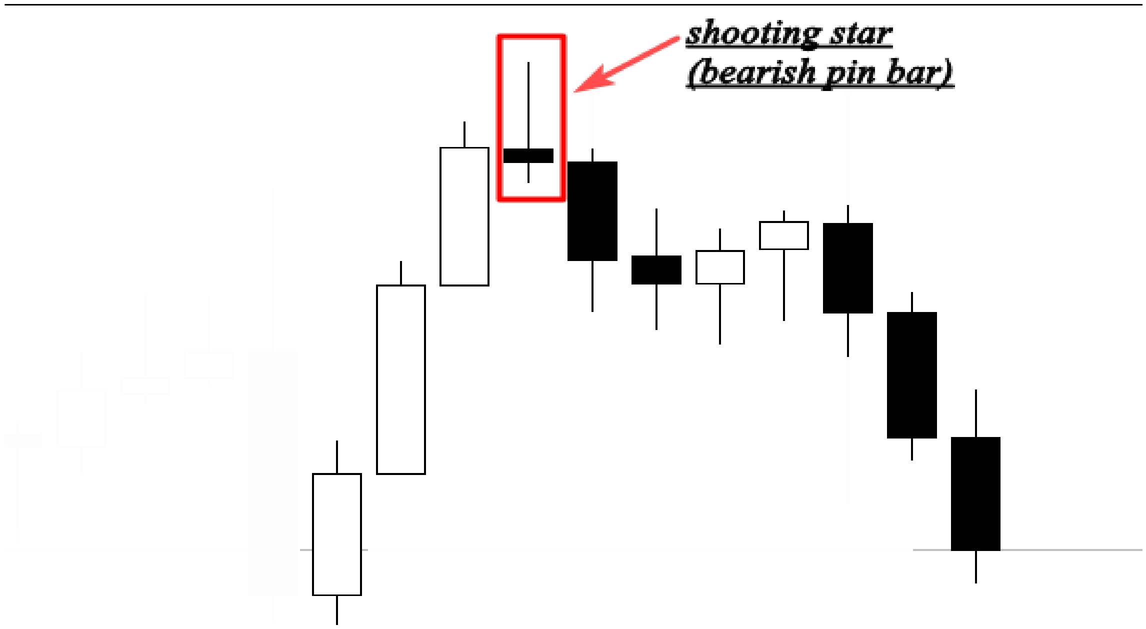


The illustration above shows us a perfect shooting star with a real small body and an upper long shadow, when this pattern occurs in an uptrend; it indicates a bearish reversal signal.

The psychology behind the formation of this pattern is that buyers try to push the market higher, but they got rejected by a selling pressure.

When this candlestick forms near a resistance level. It should be taken as a high probability setup.

See another example below:



The chart above shows a nice shooting star at the end of an uptrend. The formation of this pattern indicates the end of the uptrend move, and the beginning of a new downtrend.

This candlestick pattern can be used with support and resistance, supply and demand areas, and with technical indicators.

The shooting star is very easy to identify, and it is very profitable, it is one of the most powerful signals that i use to enter the market.

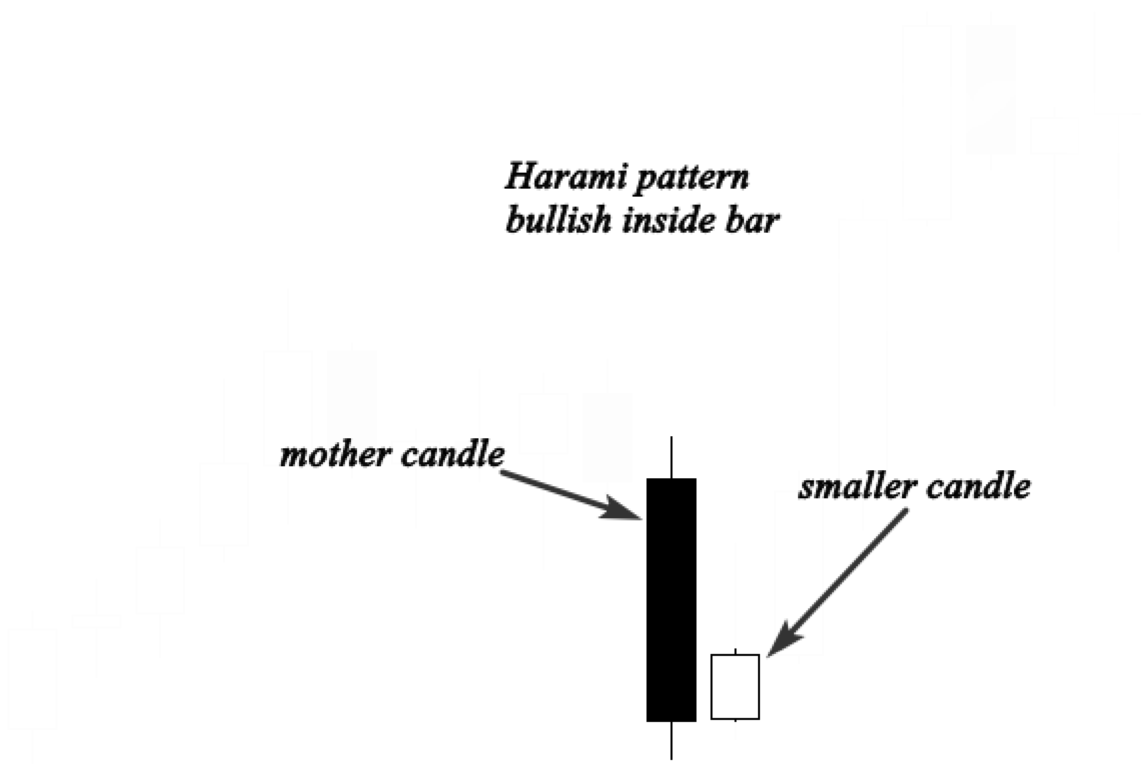
The Harami Pattern (the inside bar)

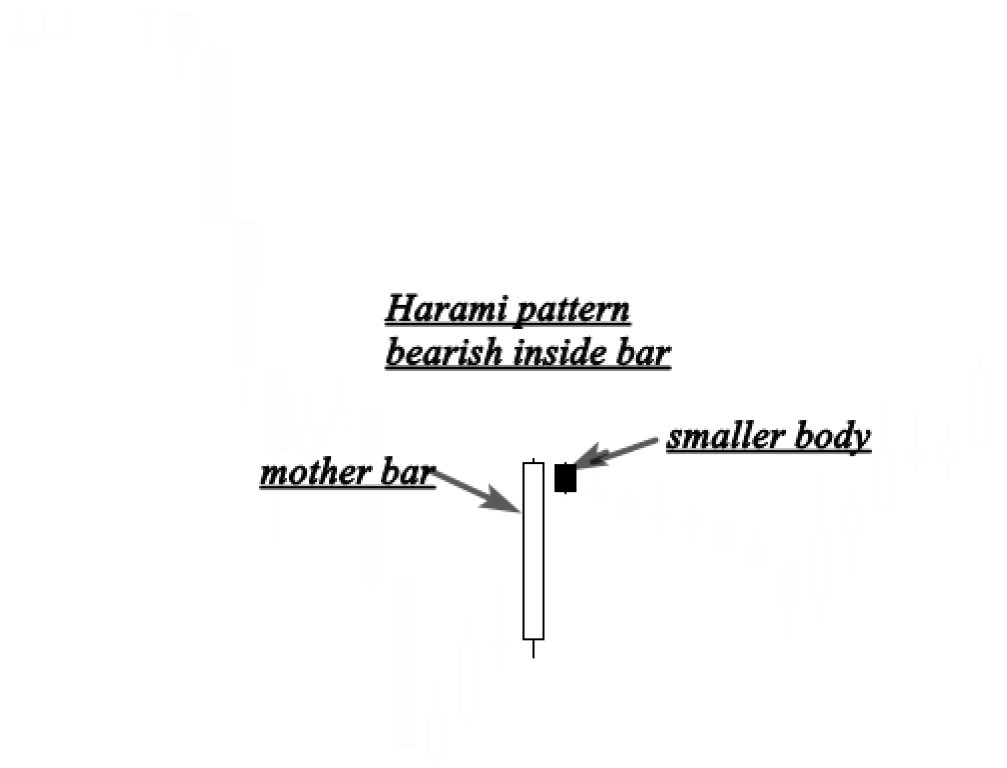
The Harami pattern (**pregnant** in Japanese) is considered as a reversal and continuation pattern, and it consists of **two candlesticks**:

The first candle is the **large candle**, it is called the **mother candle**, followed by a **smaller candle** which is called the **baby**.

This candlestick is considered as a **bearish reversal signal** when it occurs at the top of an uptrend, and it is a **bullish signal** when it occurs at the bottom of a downtrend.

See an example below:


Harami pattern
bullish inside bar
mother candle
smaller candle



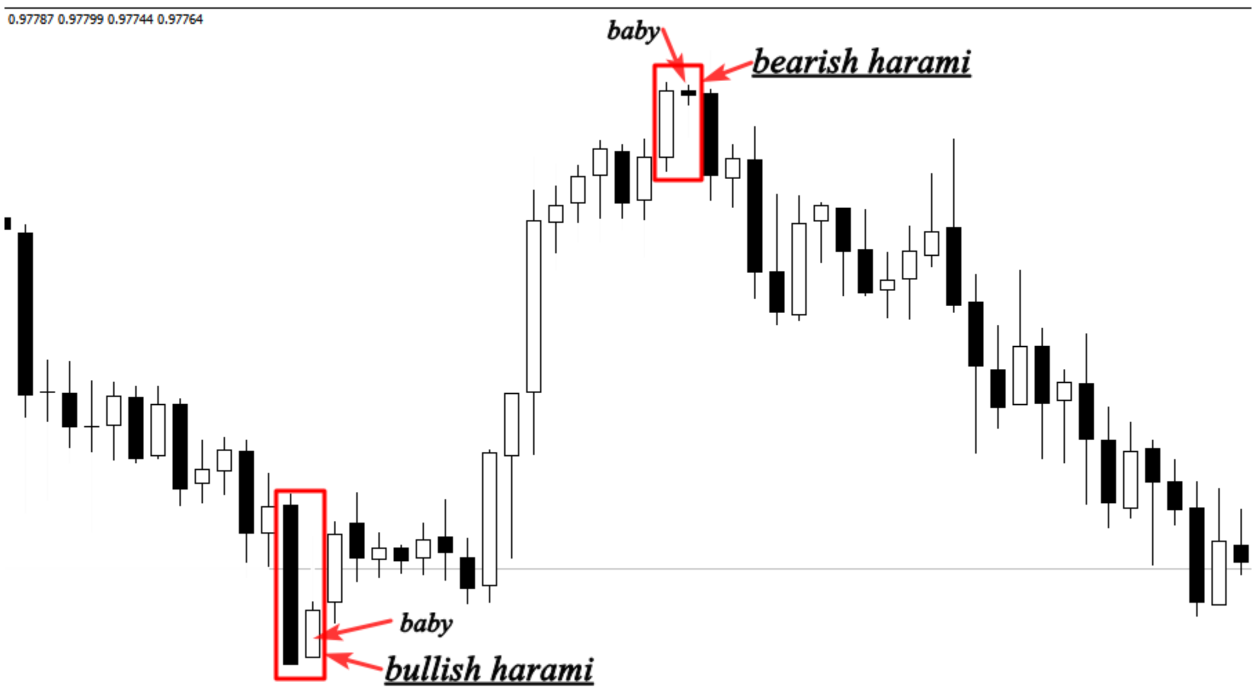
As you see the smaller body is totally covered by the previous mother candle, don't bother yourself with the colors, the most important is that the smaller body closes inside of the first bigger candle.

The Harami candle tells us that the market is in an indecision period. In other words, the market is consolidating.

So, buyers and sellers don't know what to do, and there is no one in control of the market.

When this candlestick pattern happens during an uptrend or a downtrend, it is interpreted as a **continuation pattern** which gives a good opportunity to join the trend.

And if it is occurred at the top of an **uptrend** or at the bottom of a **downtrend**, it is considered as a trend reversal signal.
Look at another example below:



In the chart above, you can see how the trend direction changes after the Harami pattern formation, the first bullish harami pattern occurred at the bottom of a **downtrend**, sellers were pushing the market lower, suddenly price starts consolidating, and this indicates that the selling power is no longer in control of the market.

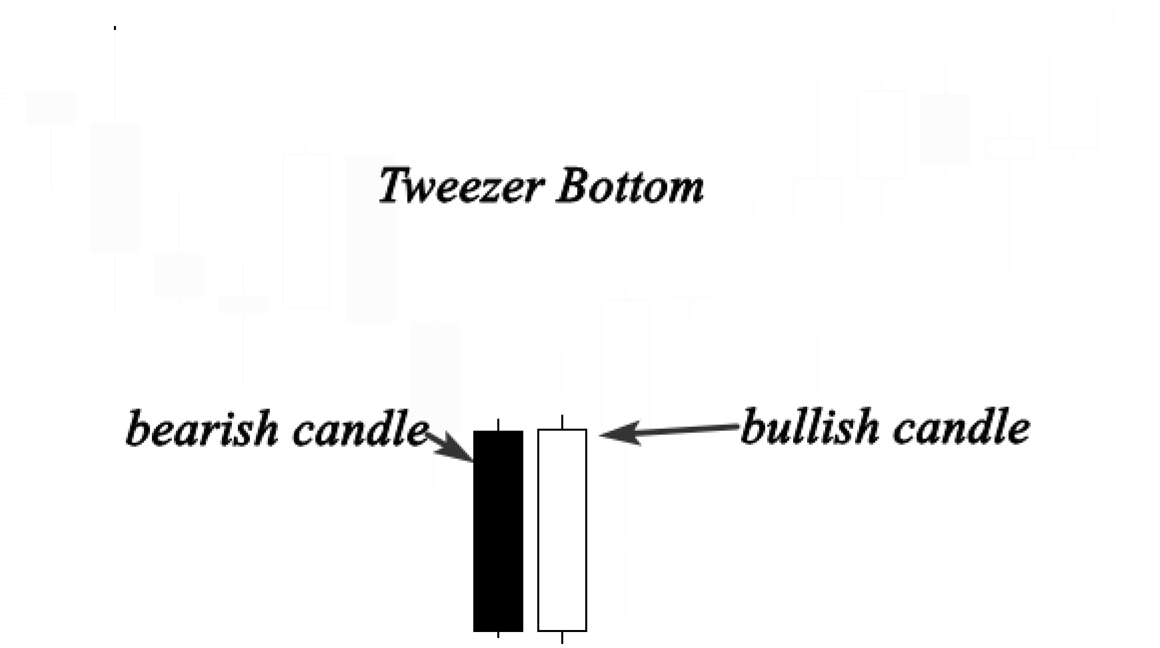
The **bearish Harami** is the opposite of the bullish, this one occurred at the top of an **uptrend** indicating that buyer's domination is over and the beginning of a downtrend is possible.

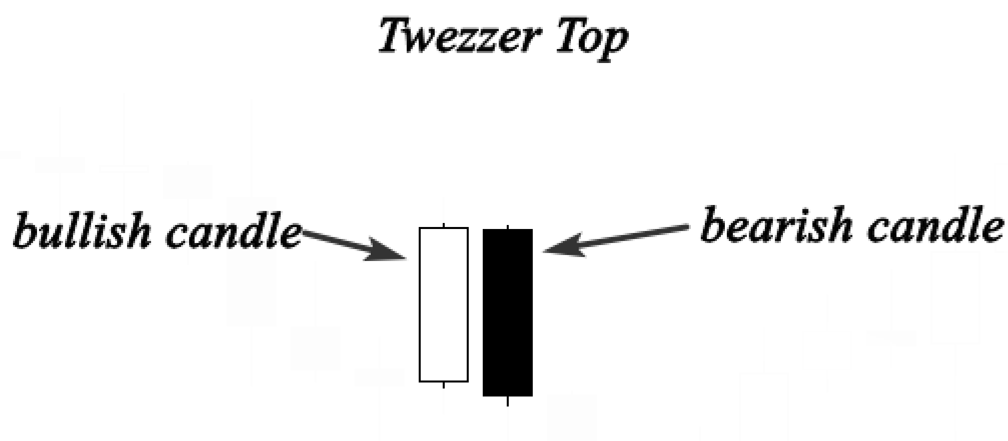
When this pattern is created during an uptrend or a downtrend, it indicates a continuation signal with the direction of the market.

The Tweezers tops and bottoms

The **tweezers top** formation is considered as a **bearish reversal pattern** seen at the top of an uptrend, and the **tweezers bottom** formation is interpreted as a **bullish reversal** pattern seen at the bottom of a downtrend.

See the example below:





The **tweezers top** formation consists of **two candlesticks**:
The **first one is a bullish candlestick** followed by a **bearish candlestick**.
And the **tweezers bottom** formation consists of **two candlesticks** as well.

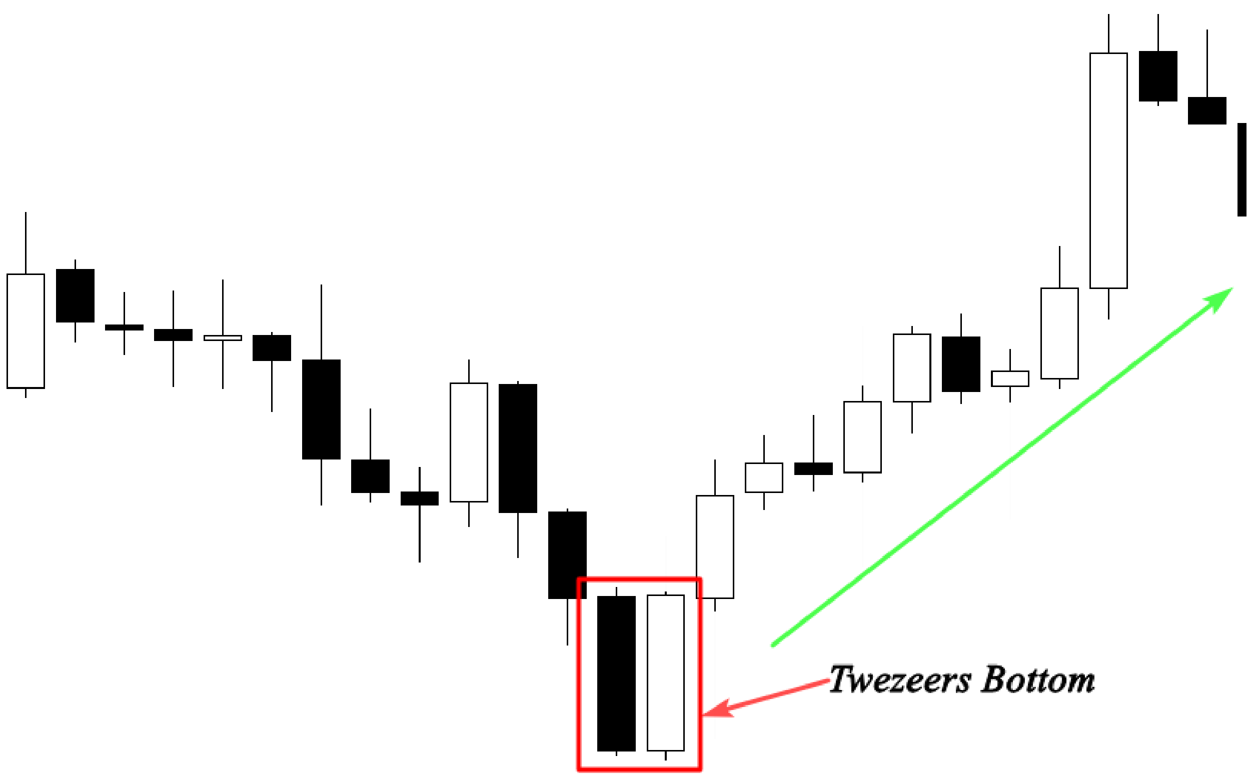
The **first candle is bearish** followed by a **bullish candlestick**.
So we can say that the **tweezers bottom** is the bullish version of the **tweezers top**.

The **tweezers top** occurs during an **uptrend** when buyers push the price higher, this gave us the impression that the market is still going up, but sellers surprised buyers by pushing the market lower and close down the open of the bullish candle.

This price action pattern indicates a **bullish trend reversal** and we can trade it if we can combine this signal with other technical tools.

The **tweezers bottom** happens during a downtrend, when sellers push the market lower, we feel that everything is going all right, but the next session price closes above or roughly at the same price of the first bearish candle which indicates that buyers are coming to reverse the market direction.

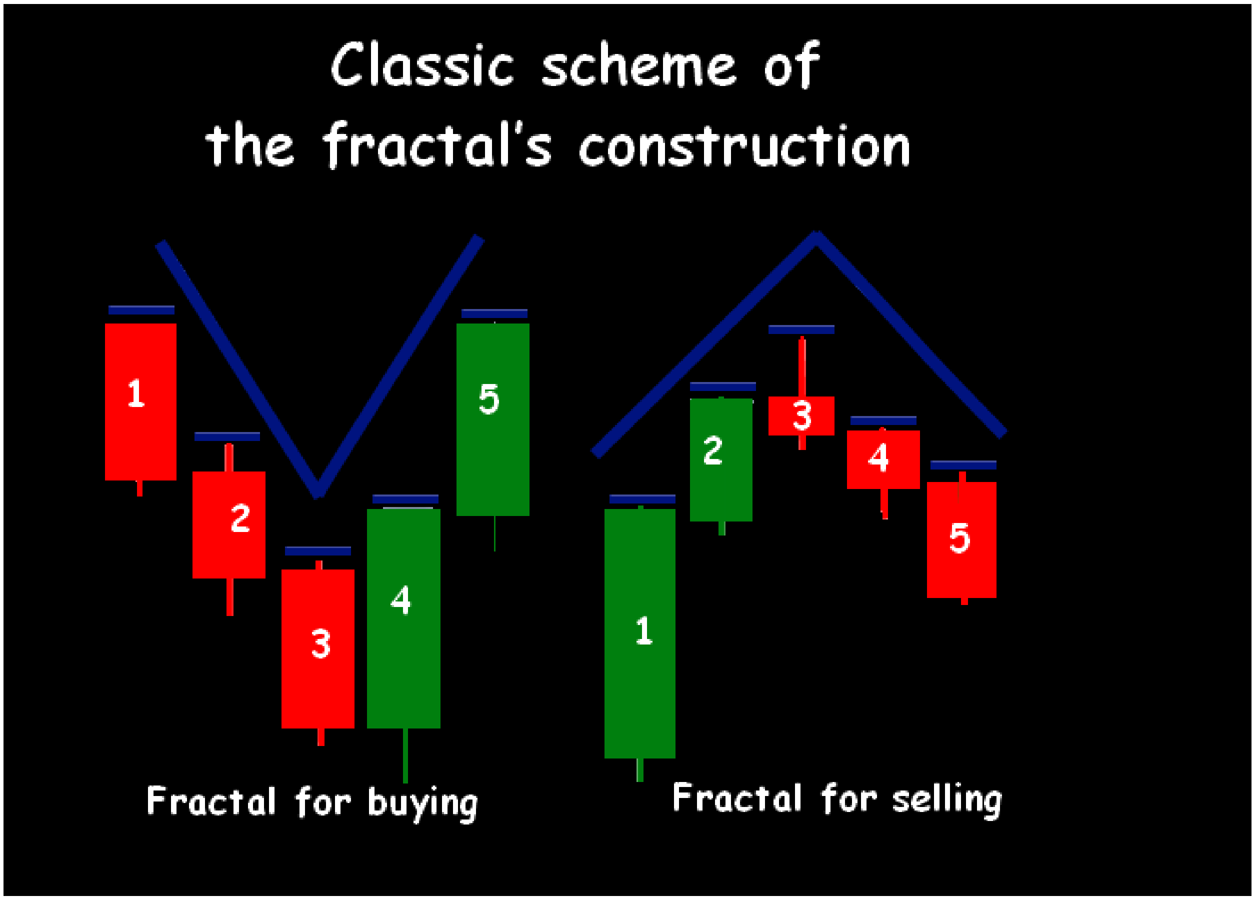
If this price action happens near a support level, it indicates that a bearish reversal is likely to happen.



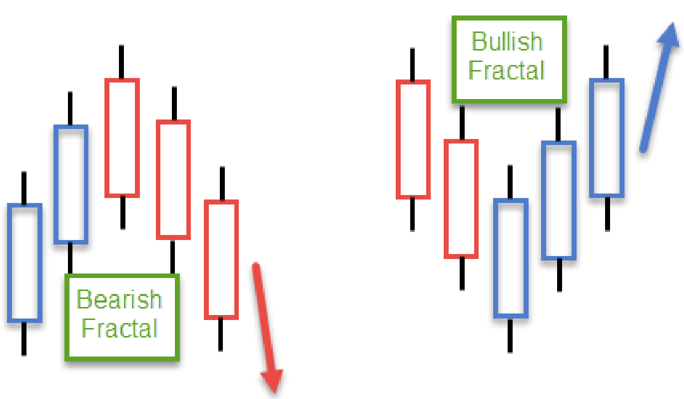
The chart above shows us a tweezers bottom that occurs in a downtrend, the bears pushed the market downward on the first

Fractal Candles

Fractals are indicators on candlestick charts that identify reversal points in the market. ... The pattern itself comprises **five candles** and the pattern indicates where the price has struggled to go higher, in which case an up fractal appears or lower, in which case a down fractal appears.



Classic scheme of the fractal's construction
1
2
3
4
5
Fractal for buying
1
2
3
4
5
Fractal for selling

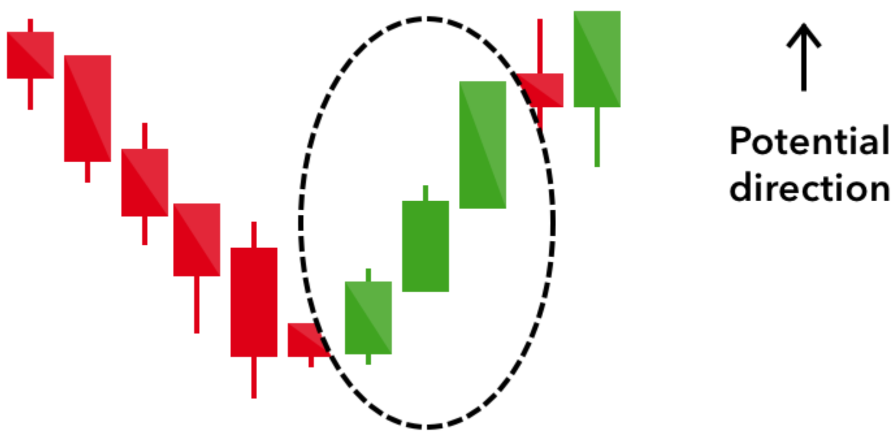


Bearish Fractal
Bullish Fractal

Three white soldiers

The three white soldiers pattern occurs over three days. It consists of consecutive long green (or white) candles with small wicks, which open and close progressively higher than the previous day.

It is a very strong bullish signal that occurs after a downtrend, and shows a steady advance of buying pressure.



Three black crows

The three black crows candlestick pattern comprises of three consecutive long red candles with short or non-existent wicks. Each session opens at a similar price to the previous day, but selling pressures push the price lower and lower with each close.

Traders interpret this pattern as the start of a bearish downtrend, as the sellers have overtaken the buyers during three successive trading days.

Note:

If you learn how to read candleStick

you will understand what happened in the market
and you can easily predict the future movement of price.

END

Market Structure

Market Geometry

Japanese CandleStick