Candlestick Patterns:

This section of the book will be very informative heavy, I mean there will be presented a huge amount of information in a very short period of time, I must recommend that you read this part several times, it is paramount important that you understand this section really in-depth and crystal clear.

Looking back some 20 years ago at the beginning of my trading adventure one of the first things we used to read back in the days was about Japanese candlesticks and western technical.

In present times it is very easy not to understand or even to forget the importance of candlesticks, due to the overwhelming amount of information provided by the trading institutions about the markets, this industry gets advanced and exploit the new traders, providing all kind of self-fulfilling prophecies, and miracle money making system, provides amazing detailed information about all the thousands of technical indicators available, although even when they provide you with the important information, most of the times it is ignored, because of its simplicity. The new aspiring trader focuses his energy in learning and totally understanding about the latest new technology or indicator.

Although and despite of your past experience with the markets, you may consider yourself lucky because what I will reveal and teach you it's one of the most kept secrets of this industry.

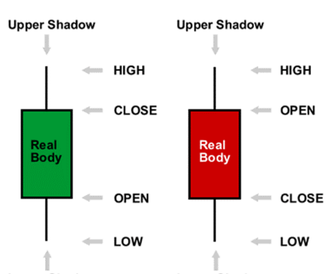
It is time for you to revisit candlestick lessons, I cannot teach you anything else before you totally understand candlesticks, their meaning and their influence in price reactions. By the time you finish this section you will see the market from a difference perspective it will be a truly lightbulb moment.

As you can see I have a strong passion for candlesticks, because during all my 20 years of experience, I used candlesticks to unveil a highly effective method that enables me to time the market for short-term profits, as well as long term trade executions. Candlesticks also provide the best insights into market sentiment when combined with additional charting confluence.

Admittedly most of the candlestick pattern formations, which are presented in several books and across the internet, won't make you money that is true, however the good news is from my years of experience I will uncover the once that do work. Yes, there are certain patterns that are back tested and are proven patterns that have the highest percentage and win rate, than any other technical indicator.

You will begin this journey to the past and learn all about these patterns so that you can begin to shape your future, as I outline the most powerful candlestick patterns know to professional trader, banks, institutions and powerful algorithmic trading firms.

Candle Stick Frame Work



Candlestick have a huge potential, they will unlock the very deep insights of trading, and they represent the bedrock of trading. Across this section I will reveal to you how I identify the best patterns in the market, these patterns when used correctly, at the correct areas of the chart (key levels, pivot levels and news levels), they will empower you with a deep insight that will allow you to execute trades (long/short) with 80-95% accuracy.

It is time to start your journey into one of the most well-kept secrets in this world.

"It is of paramount importance, and imperative that you understand candlestick framework perfectly in order to understand the concepts that I will show you, if you don't feel confident you have the right knowledge yet, read the book again from beginning, I cannot reinforce the importance of this."

Candlesticks - Shadow Rejection Pattern Analysis

The shadow rejection trade signatures represent both bullish and bearish reversal trading setups and can also highlight trend continuation or retracement. Shadow rejection is effective in more ways than one! Shadow signatures can and will spotlight market tops and bottoms, quite often this reversal setups happen at key levels. You will be able to also use these shadow rejections to spotlight short term dips/rips and these will provide the trader with extremely accurate execution timing.

During a trend, in an uptrend price will fade back to a short-term support, or in a downtrend price will rip back to a short-term resistance, spotting a shadow rejection signature can enable a trader to pick a extremely accurate and profitable trade opportunity, the so often called sweet spot entry.

To be more specific, a trend has two distinct phases, compression phase and expansion phase, a shadow rejection signature identified in the compression phase quite often highlights the spark that sets off the next wave of expansion.

Shadow rejection analysis is very effective in the short-term ranges, and/or at the end of trend expansion phases, as it often highlights if price is accepted or rejected at current vale/key level.

To summarize a Shadow rejection can help you to qualify a dip (in uptrend) or a rip (in downtrend), it can also help you to confirm rejection at a major key level which may lead to a trend reversal or acceptance at major key level which may lead to a trend continuation, all these market event are high probable trade events that you can take advantage of when you fully understand how to trade using shadow rejection signatures.

It is important to mention that candlestick patterns are very effective if used in confluence with other factors, but you need to look, and fully understand this type of analysis from its structure, execution and stop placement.

VERY IMPORTANT NOTICE – You should never trade off a candlestick patter alone, it holds no meaning, you should always use it in a confluence, and confirming factors should be applied always to confirm a trade.

Pin Bars - Extreme Reversal

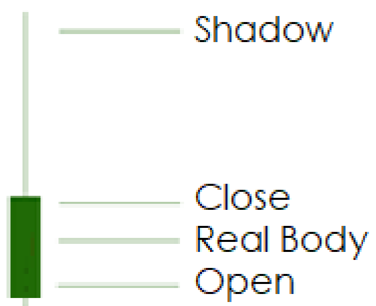
Pin-bars are one of the most popular candlestick patterns amongst the professional trading environment, the reason behind it, is because they are a consistent pattern and when used with the correct confluence factors their accuracy and reliability represent a precise entry/exit timing with high reward to risk ratio when used at Key Level.

Framework of a Pin Bar:

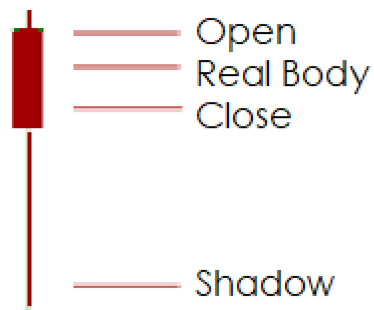
- Real Body - 1/3 Overall length
- Shadow - 2/3 Overall length
- Real Body Close Price
- Real Body Open Price

Below is a representation of the construction of a Pin Bar:

Bearish Pin Bar



Bullish Pin Bar

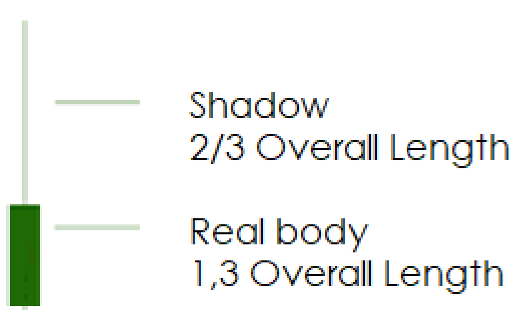


A pin bar candle is characterized for having a short body and a long wick on one of the sides as you can see clearly in the picture above.

The important question to be answered is, so how long should the wick be? And how about the body what do you mean with small body?

The picture below shows you visually the optimum measurement for this type of candlestick, The Shadow can be more or less (disparity of no more than10%) $2/3^{rd}$ of the length of the real body, and the real body represented with more or less (discrepancy of 10%) $1/3^{rd}$ of the total of the candlestick length, this will constitute to a perfect pin bar.

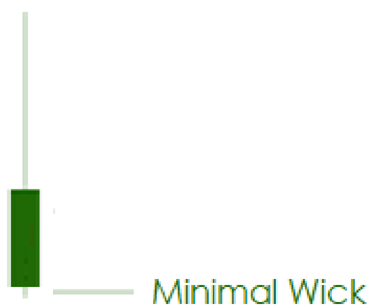
Bearish Pin Bar



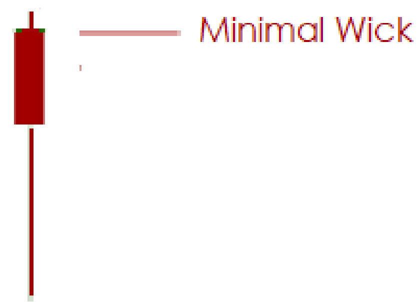
Bullish Pin Bar

Another small particularity of these time of a Pin bar is the small wick at its nose, as you can see in the picture below.

Bearish Pin Bar



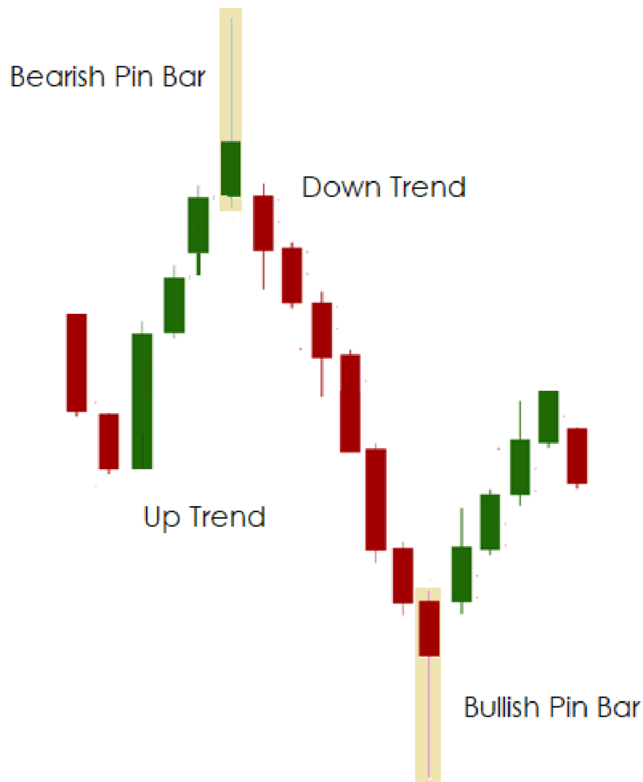
Bullish Pin Bar



So to summarize it all a perfect Pin Bar should have a small wick at its nose followed by a full body measuring about 1/3rd, and a dragging wick measuring about 2/3rd of the total length of the Pin Bar.

<u>Note do not confuse Pin Bars with Pin Continuation or Dojis, these two are different patterns, that I will also cover in this book.</u>

Let us show you an illustration of the pin bar reversal signature in action. In the chart below, I will show you a typical representation of market behavior before and after the pin bar is formation happen, you have to bear in mind always that this is not always textbook, and some pin bars if they don't happen at the key levels, they may not have any influence in the price behavior.



The above chart representation doesn't represent a qualify/confirmed trade! Trade Execution will be covered soon.

Below there is another example this time is Dollar/ Yen pair, with both a bullish pin bar that shifts the market into a long trending event, you can notice that this changing event is short term, none the less it represents an excellent trade opportunity, with a very decent risk reward. As you can see it clearly demonstrates that the buy power was able to absorb/drag the selling pressure back to near the opening price of that pin bar, that is a clear indication of the market sentiment and highlights the thug of war going on between bulls and bears at that given moment in time, stating that the end result was that bulls regained control over bears temporarily moving the price up.

Observe also in the same chart that there is an occurrence of another bullish pin bar in the second candle counting from the right, but in this example the price didn't reacted to it, the reason why was already mentioned, is because this pin bar did not happen at a key level, you can see that the first pin bar went to test a previous area of support hence confirming that area as a true support area, but in the second example there is nothing to test, so this pin bar has to be discarded and will not qualify for an executable trade opportunity.

Bullish
Pin Bar

Introduction to Trading with Pin Bars

In this section I will cover how to trade a pin bar candlestick pattern, but in order for you to understand trade execution, it is imperative that you first understand the framework of a candlestick, I cannot explain to you how paramount it, the initial step of understanding the candlestick framework, it is you foundation, your bedrock and it has to be very solid to hold all the future information I am about to unload.

So let's begin to discuss here how do I trade a pin bar candlestick. When utilizing a powerful pattern such as the pin bar, we always have to first mark and identify our confluence of key levels, pivots, moving averages, and/or any additional confluence of your choice.

I need to make an important notice here, before I start with the explanation, bear in mind that in the example and explanation below, I will describe a scenario of a bullish pin bar execution details, so please understand that for a bearish pin bar scenario the techniques are exactly the same but flipped upside down, good now that we made this part clear let's get to the fun part.

There are essentially two styles of trading with pin bars, and it will be entirely up to you which one you decide to execute at any given time, you can choose to be a responsive trader or a intuitive trader, I will cover in detail these two styles of market participants when I teach you about market auction theory section later in this book, but for the time being I will point out the main differences and explain them to you.

Responsive and intuitive traders will have similar upsides and downsides when using this approach, there are few details that differentiate one from the other. The main differences are where they execute a trade, the way they execute the trade and the level of confirmation needed to execute the trade, off course all these will have implications in the overall risk they are willing to take in each trade.

A responsive trader will execute a trade when the price is understood to be below/above it's value, by doing so they normally trade the extremes, enabling them to possibly capture the full extent of the next move, meaning that they will often have to execute the trade without many additional confirmation factors, leading to a higher possibility of getting stopped out, and normally this type of approach will require you to execute a trade with bigger stop levels, in other words reduction your risk to reward ratio and increasing your levels of risk.

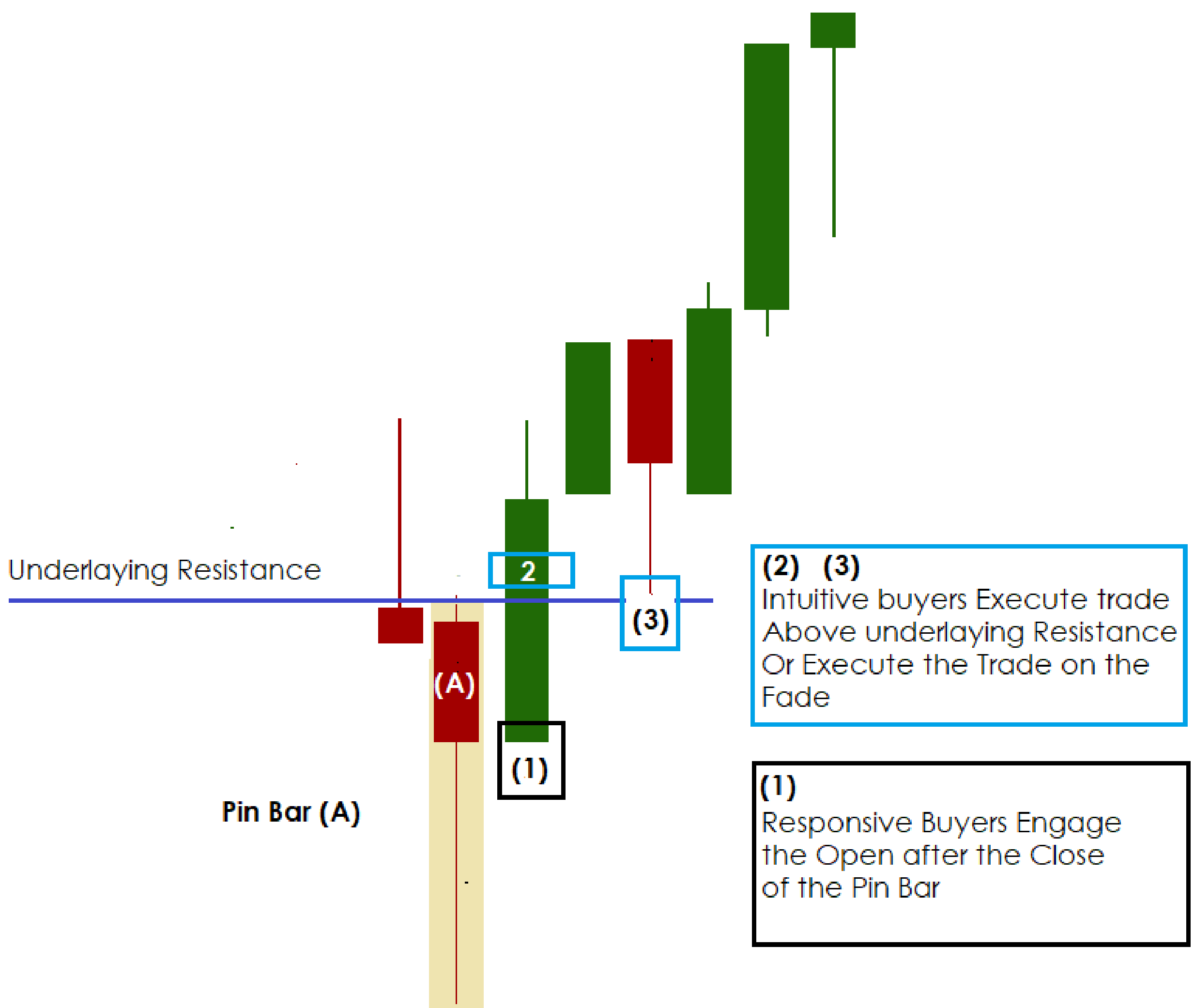
A intuitive trader will execute a trade when the price is understood to be at value or below/above it, this means they will never trade on the extremes, and they will never aim to catch the full extent of the move, meaning that they will often require additional confirmation factors in order to execute the trade, this may cause them to in fact lose a trade, but enables them to trade with smaller stops and off course their risk reward ratio will be higher and their exposure to risk reduced and the possibility of getting stopped out drastically diminishes, and when all factors align they will get paid.

As mentioned before, candlestick patterns can be very effective when paired in confluence with other factors, this factors can be key levels, pivot zones, moving averages or any other confirming indicator of your choice, although from my 20 years personal experience, the key levels are the most and more powerful confluence factor of them all, because each of those levels will present you with a larger target objective and will influence price direction in a greater way, this key levels naturally will create a great amount of price noise, because they attract huge crowds which will contribute to a greater market participation.

Executing at key levels may allow you to ride the big waves, although by correctly understanding how to use pin bars will enable you to take advantage of them on the intraday levels, and the short term support and resistance levels, these can include daily pivot points, market profile areas, moving averages and trendlines, leading you to take a bigger advantage of intraday price movement.

Now as mentioned above I will give you an example of a trade idea with pin bar signature, and how to execute it using responsive and intuitive approach.

trade Idea illustration - Responsive & Intuitive market participants.



Trade execution from a responsive trader perspective, as you can see above A represents the trade opportunity, the pin bar, responsive participants will execute the trade immediately after the close, or on the open of the new candle, as long as this opening price is not below the closing price of the pin bar, in other words as soon as the pin bar closes, if the opening price of the next bar is at the same level of above it then responsive traders will execute the trade, if the initial tick of the new candle goes lower that will invalidate the trade, consequently this places the trader in a trade when price is below value, this early execution means that the stops will have to be placed below the shadow of the pin bar, extending their risk of exposure and because they executed without any additional confirmation their probability of getting stopped out increases, on the other hand if price immediately rallies then they will have captured the move.

Trade execution from an intuitive trader perspective again, A represents the trade opportunity, the pin bar, for intuitive traders the high of that pin bar will define the underlying resistance area, in other words their extra confirmation point, intuitive traders will wait for this resistance area to be broken and then tested and confirmed to be support, in other words when price is accept above the underlying support, this will tell them that price now is at value and they can execute their trade, this extra confirmation point enables them to be able to drastically reduce their stops, since the stop placement just needs to be a few ticks below the new support area, the downside of this approach is that is price immediately rallies then intuitive traders will miss the move.

Shadow reversal and trend continuation:

The main characteristic of this signatures is that all of them contain a dark shadow and are trade patterns that highlight either reversal or momentum setups, they will be better applied during market top/bottom, short term retracements in trending markets and at failed range expansions in ranging markets.

These shadow reversal signatures, form a multitude of different shapes and form either trend continuation signature or a reversal signature or a change in momentum prior to a reversal of the trend. Some of these patterns identify a change in the momentum prior to a reversal or offer insights into neutral sentiment after a failed expansion which may lead to a reversal within a ranging market, or ultimately a reversal of a trend. All these patterns work exceptionally well in short term ranges, trendlines, pivots and market profile areas. An extremely high percentage of market reversal, either long- or short-term reversals are formed and confirmed with a bull/bear shadow reversal signature, and these extremely powerful patterns are the underlying basis of price action understanding. I personally look for these signatures on the intraday market, I normally use the 5, 15, 4hour and daily candlestick charts.

Some of these patterns that will be explained are specific only for daily charts, all the others can be applied to any timeframe, this makes shadow reversal signatures the ideal tool either for long- or short-term events.

Initially I will focus on explaining the individual candles so that you can easily identify them in the future, and after I will explain how to engage the market with this powerful reversal patterns.

On the next pages I will present to you 6 reversal signatures:

- Doji
- Dragonfly doji
- Gravestone doji
- Shooting star
- Morning star
- Evening star

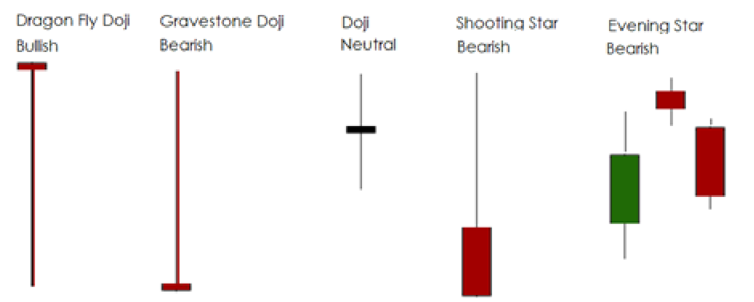
All these patterns highlight the buy/sell power when present at specific key levels.

Reversal Signatures: The Framework

All this reversal signatures have a common characteristic, the length of the shadow in comparison to the real body, they all have a small body length and a long shadow, all but one the evening star is a different pattern only used on the daily time frame and is composed of 3 candles, the size and proportion of the body/shadow will be a strong indication and in most cases reveals a change in the market behavior and that a possibility of a trend reversal is likely to form, the shadow and body dimensions are a representation of the tug of war between buy and sell for price control, these patterns often happen at reversal areas and they reveal the strength of either buy or sell at specific key market turning points, present the informed trader with some sweet spots that represent outstanding trade opportunities. This candle signatures are very effective once in context with a multitude of other factors of confluence.

A bull reversal pattern will happen always after a downtrend, and a bear reversal pattern will happen after an uptrend, so I will teach and explain you how you can identify and exploit this sweet spot by utilizing reversal signatures.

Let's look at the graphical representation of each of the reversal candlestick pattern, the image below is a illustration of the 6 reversal signatures that I will cover.

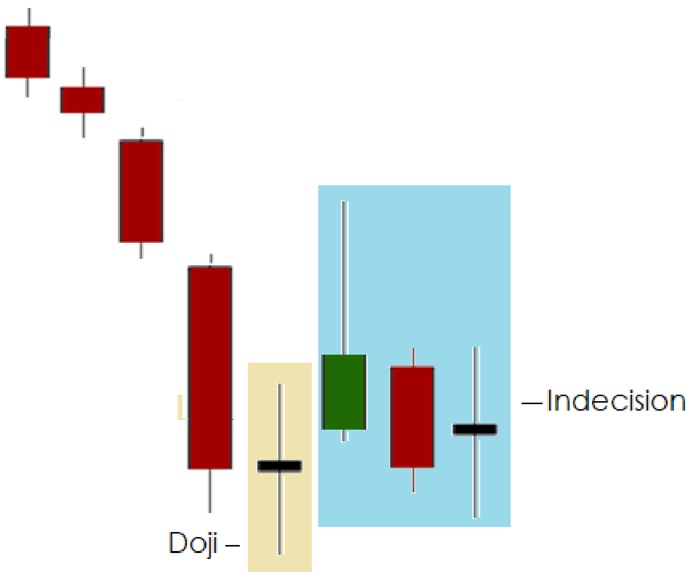


As a side note, some of this candles, the dragon fly, gravestone, shooting star and hanging man(inverted shooting star) they all may look like a Pin Bar, although there is a small detail that differentiate them from pin bars, the detail is in the nose, all pin bars have a tiny wick on a snubbed nose.

Reversal signatures – Doji (transitional)

The Doji represent a neutral candlestick, doji normally appear at the of an trend, it indicates that momentum is slowing down and this can lead to a compression area, in other words means that price is already over extended and the current price in no longer accepted as a fair value, and often signifies the of the momentum of an expansion phase, which can lead to a market reversal or the beginning of a compression phase. I see doji as a Red traffic light signaling the end of a expansion phase or a slowing of the momentum of the expansion phase, this is extremely helpful in order to reduce exposure and/or hedging positions.

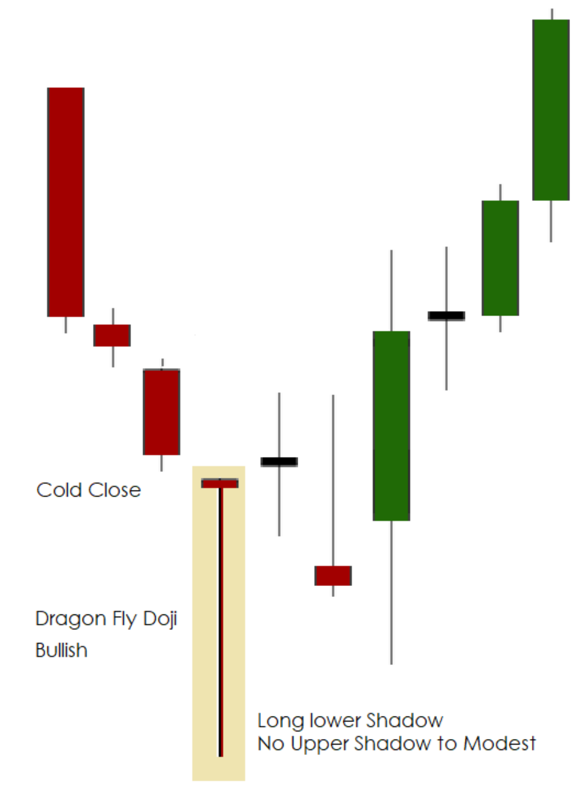
The doji represent indecision, it does not necessarily mean a reversal is about to happen, but its appearance means it is time to take some profit and protect your positions, either by hedging or moving stops into profit.



Dragonfly Doji - Shadow Reversal

The Dragonfly doji is a bull reversal candlestick pattern, it is visually characterized for having a long lower shadow and is qualified at the bottom of a downtrend, it represents that buy power overwhelmed the sell power, in other words, any further expansion was rejected by bulls, meaning that bulls rejected bears and pushed them back up to opening price of the candle, subsequently making the body inexistence, the close at the open indicates that higher value was completely rejected. This pattern is extremely reliable when used with major key levels.

As you can see in the example below the sellers were not allowed to advance further, and were rejected at that level, when this pattern appears on key levels this often means that the downtrend could be over.

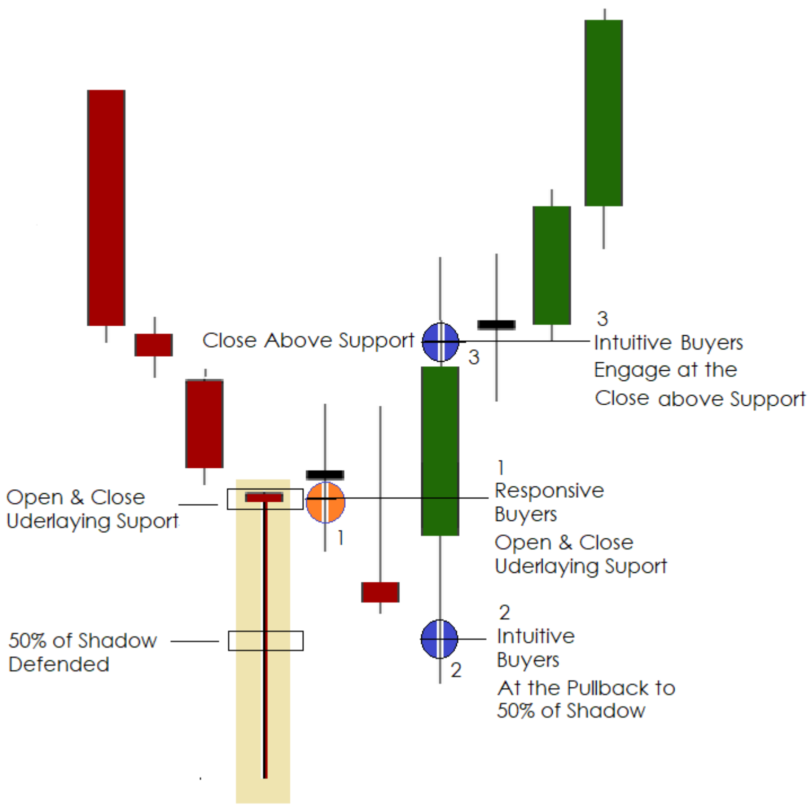


In the chart above is visually represented a dragonfly doji signature setup, you can see how the bearish momentum slowed after the shadow rejection and within a few bars bulls fully took back control of the price changing its direction.

I always look for rejection with confluence at/or near key levels, although this setup can be used in all timeframes, and you can use it with any other confluence levels, like pivot points, moving averages, market profile areas and trend lines. Always remember that Dragonfly doji patterns can only be applied at the end of a downtrend.

Now on prior page as mentioned we will give you an example of a trade idea using the dragonfly doji signature, and how to execute it using responsive and intuitive approach.

Dragonfly doji Trade Idea illustration - Responsive & Intuitive market participants.



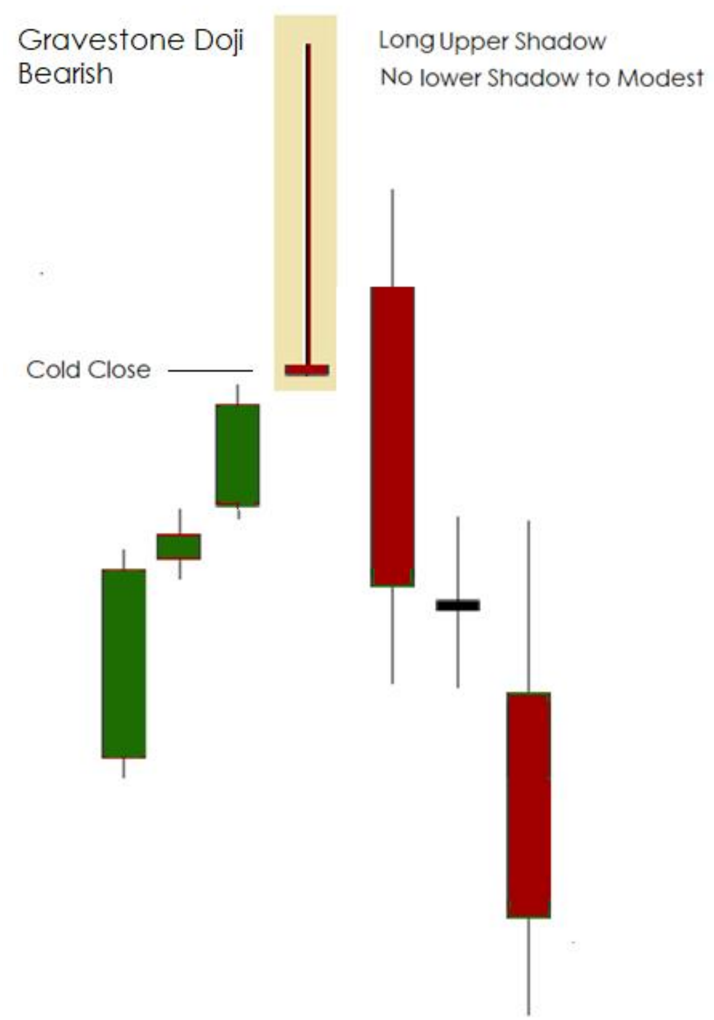
Trade execution from a responsive trader perspective, as you can see above the appearance of the dragonfly doji, represents the trade opportunity, responsive participants will execute the trade immediately after the close(1), at the opening of the new candle, as long as this opening price is not below the closing price of the dragonfly, in other words as soon as the dragonfly closes, if the opening price of the next bar is at the same level or above it, then responsive traders will execute the trade, if the initial tick of the new candle goes lower that will invalidate the trade, consequently this places the trader in a trade when price is below value, this early execution means that the stops will have to be placed below the shadow of the dragonfly, extending their risk of exposure and because they executed without any additional confirmation their probability of getting stopped out increases, on the other hand if price immediately rallies then they will have captured the move.

Trade execution from an intuitive trader perspective, the dragonfly represents the trade opportunity, for intuitive traders the open price of that dragonfly will represent the underlying support area, in other words their extra confirmation point, intuitive traders will wait for this resistance area to be broken and then tested and confirmed as support, in other words when price is accept above the underlying support, this will tell them that price was at value was accepted, in this case the intuitive trader can execute is trade in two distinct ways the safer way and with more confirmation factors is wait for price to test and close above confirming the underlying support, the trade is then executed as shown in 3, in this execution style the stops will be placed a few ticks under the confirmed underlying support reducing drastically the risk exposure, the other way of executing is execute a smaller entry on the fade back to 50% of the shadow rejection as shown in 2 and in this execution style the stops will be placed a few tick below the rejection shadow, also reducing drastically the risk of exposure, the downside of this approach is that if price immediately rallies then intuitive traders will miss the move.

Gravestone Doji -Shadow Reversal

The Gravestone doji is a bearish reversal candlestick, it is visually characterized for having a long upper shadow and is qualified at the top of an uptrend, it represents that sell power overwhelmed the buy power, in other words, any further expansion was rejected by bears, meaning that bears rejected bulls and pushed them back down to the opening price of the candle, subsequently making the body inexistence. This pattern is extremely reliable when used a major key levels.

As you can see in the example below the buyers were not allowed to advance further, and were rejected at that level, when this pattern appears on key levels this often means that the uptrend could be over.

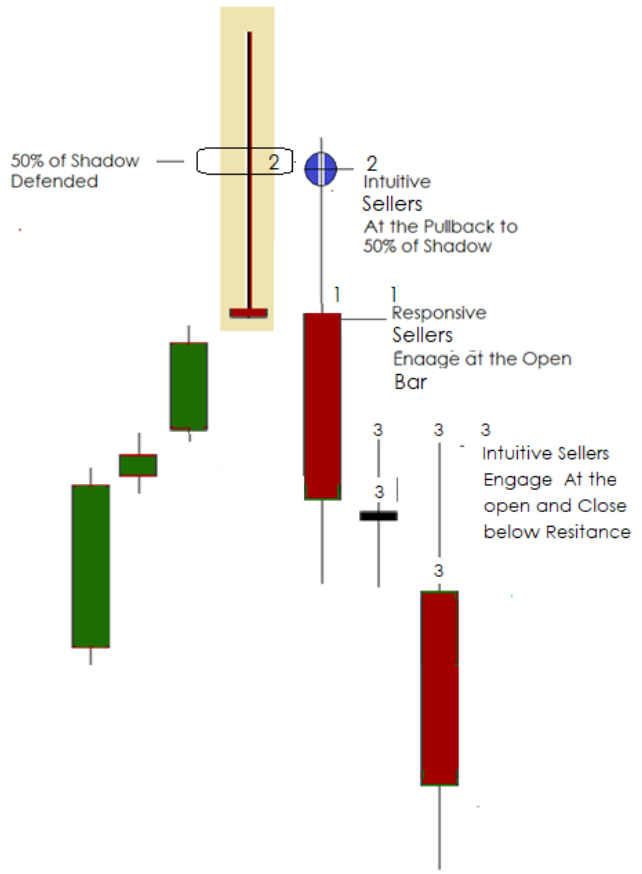


In the chart above is visually represented a gravestone doji signature setup, you can see how the bullish momentum slowed after the shadow rejection and within a few bars bears fully took back control of the price changing its direction.

I always look for rejection with confluence at/or near key levels, although this setup can be used in all timeframes, and you can use it with any other confluence levels, like pivot points, moving averages, market profile areas and trend lines. Always remember that gravestone doji patterns can only be applied at the end of a uptrend.

Trade idea using gravestone doji signature, includes how to execute from both a responsive and intuitive approach.

gravestone doji Trade Idea illustration - Responsive & Intuitive market participants.



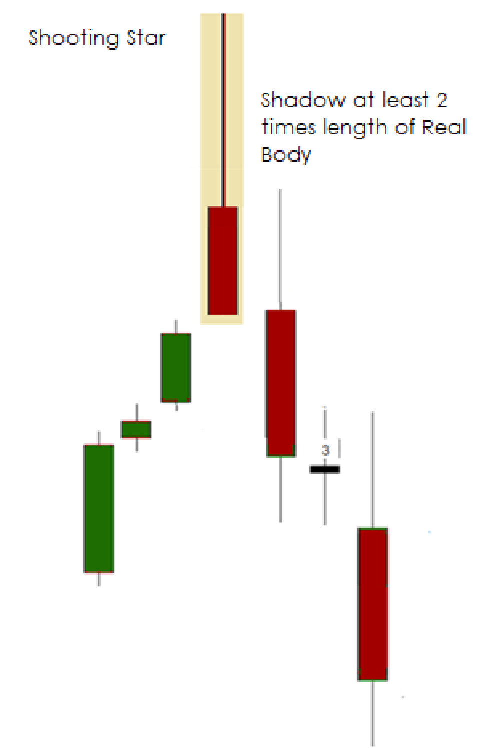
Trade execution from a responsive trader perspective, as you can see above the appearance of the gravestone doji, represents the trade opportunity, responsive participants will execute the trade immediately after the close(1), at the opening of the new candle, as long as this opening price is not above the closing price of the gravestone, in other words as soon as the gravestone closes, if the opening price of the next bar is at the same level or below it, then responsive traders will execute the trade, if the initial tick of the new candle goes higher that will invalidate the trade, consequently this places the trader in a trade when price is above value, this early execution means that the stops will have to be placed above the shadow of the gravestone, extending their risk of exposure and because they executed without any additional confirmation their probability of getting stopped out increases, on the other hand if price immediately rallies then they will have captured the move.

Trade execution from an intuitive trader perspective, the gravestone represents the trade opportunity, for intuitive traders the open price of that gravestone will represent the underlying resistance area, in other words their extra confirmation point, intuitive traders will wait for this support area to be broken and then tested and confirmed as resistance, in other words when price is accept below the underlying resistance, this will tell them that price is at value was accepted, in this case the intuitive trader can execute his trade in two distinct ways the safer way and with more confirmation factors is wait for price to test and close below confirming the underlying resistance, the trade is then executed as shown in 3, in this execution style the stops will be placed a few ticks under the confirmed underlying resistance reducing drastically the risk exposure, the other way of executing is execute a smaller entry on the fade back to 50% of the shadow rejection as shown in 2 and in this execution style the stops will be placed a few tick above the rejection shadow, also reducing drastically the risk of exposure, the downside of this approach is that if price immediately rallies then intuitive traders will miss the move.

Shooting Star - Shadow Reversal

The shooting star is a bearish rejection signature candlestick and is qualified at the top of an uptrend, it is visually characterized for having a long upper shadow and the closing price is always below the opening price of the candle, it represents that sell power overwhelmed the buy power, in other words, any further expansion was rejected by bears, meaning that bears rejected bulls and pushed them back down below the opening price of the candle, subsequently making the body with only a few ticks length, the close below the open indicates that higher value was completely rejected. This pattern is extremely reliable when used at major key levels.

As you can see in the example below the buyers were not allowed to advance further, and were rejected at that level, when this pattern appears on a key level, this often means that the uptrend could be over.

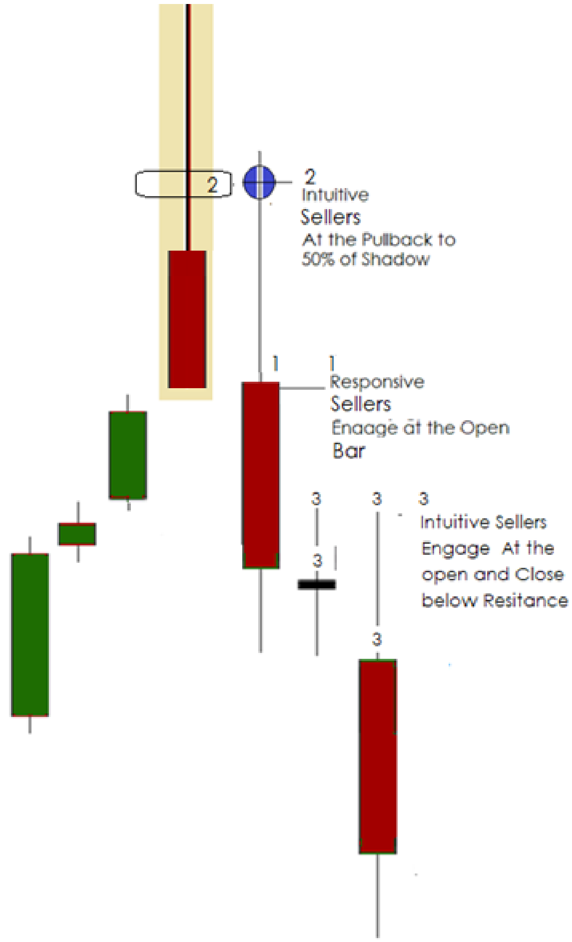


In the chart above is visually represented a shooting star signature setup, you can see how the bullish momentum was rejected the shadow rejection and the close below the open price means that bears fully took back control of the price changing its direction.

I always look for rejection with confluence at/or near key levels, although this setup can be used in all timeframes, and you can use it with any other confluence levels, like pivot points, moving averages, market profile areas and trend lines. Always remember that shooting star patterns can only be applied at the end of an uptrend.

Trade idea using gravestone doji signature, responsive and intuitive approach.

Shooting star Trade Idea illustration - Responsive & Intuitive market participants.



Trade execution from a responsive trader perspective, as you can see above the appearance of the shooting star, represents the trade opportunity, responsive participants will execute the trade immediately after the close(1), at the opening of the new candle, as long as this opening price is not above the closing price of the shooting star, in other words as soon as the shooting star closes, if the opening price of the next bar is at the same level or below it, then responsive traders will execute the trade, if the initial tick of the new candle goes higher that will invalidate the trade, consequently this places the trader in a trade when price is still above value, this early execution means that the stops will have to be placed above the shadow of the shooting start, extending their risk of exposure and because they executed without any additional confirmation their probability of getting stopped out increases, on the other hand if price immediately rallies then they will have captured the move.

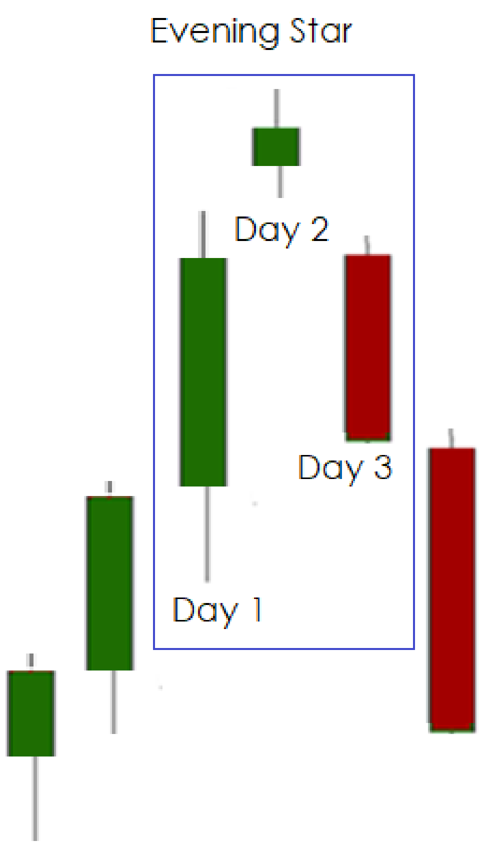
Trade execution from an intuitive trader perspective, the shooting star represents the trade opportunity, for intuitive traders the close price of that shooting star will represent the underlying resistance area, in other words their extra confirmation point, intuitive traders will wait for this support area to be broken and then tested and confirmed as resistance, in other words when price is accept below the underlying resistance, this will tell them that price value was accepted, in this case the intuitive trader can execute his trade in two distinct ways the safer way and with more confirmation factors is wait for price to test and close below confirming the underlying resistance, the trade is then executed as shown in 3, in this execution style the stops will be placed a few ticks above the confirmed underlying resistance reducing drastically the risk exposure, the other way of executing is execute a smaller entry on the fade back to 50% of the shadow rejection as shown in 2 and in this execution style the stops will be placed a few tick above the rejection shadow, also reducing drastically the risk of exposure, the downside of this approach is that if price immediately rallies then intuitive traders will miss the move.

Evening Star- Shadow Reversal

This pattern is a powerful bearish pattern and can highlight the end of an uptrend, the evening star has the following characteristics, the 1st bar is a large up (green) candle in an uptrend, the 2nd, middle bar is a small bodied candle, can be bull or bear but the close has to be above the 1t candle, and the 3rd bar is a large red candle that opens below the 2nd candle and closes near the center of the 1st candle body, This pattern is used by traders as am early indication the uptrend may be about to reverse.

As referred above, the evening star is a candlestick pattern containing two long candles and one short candle, the 1st candle in the pattern is a long bullish candle, indicating a long move up, the second candlestick in the pattern is a short candlestick indicating price consolidation and indecision, in other words, the trend that created the first long, bullish candlestick is losing momentum, the final candlestick is a long bearish candlestick gaping lower than the previous candlestick, indication a confirmation of the reversal and the beginning of the new trend down.

Note, this setup also exists in a downtrend, but its name is morning start, and is the same description as above only the opposite.



To Engage the market Intuitive Sellers will look to short on Day 4 if the price breaks below the close of day 3. And Responsive Seller will sell immediately the 4th day open candle.

The Hit & Run Reversal Patterns

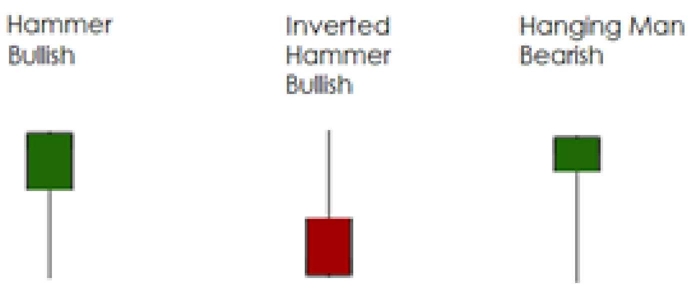
The hit and run signature, always contain a candlestick with a shadow and they are reversal setups, They sometimes look similar to shadow reversal patterns, in other words they are rejection candlesticks and are visually similar to shadow rejection formations.

This may sound confusing but let me give you an example, an inverted hammer if turned upside down becomes a hammer, but if it is placed at the end of an uptrend, it becomes a hanging man candle, but both the hammer and inverted hammer represent bull sentiment, and appear in a down trend, and the hanging man represents a bear sentiment and always appear in a uptrend. So to make things clear another example of this is a hammer becomes an hanging man if it is placed at the top of an uptrend, but when a hanging man is placed a the bottom end of a downtrend is become a hammer. This hit and run patterns are named/qualified by their physical location within the chart and dependent of the preceding trend, these patterns are the most common and frequently occurring reversal signatures, these are a must know for any trader.

These patterns highlight bull and bear power at key market levels and pick the sweet entry spots.

The Hit & Run Signatures

- Hammer
- Inverted hammer
- Hanging man

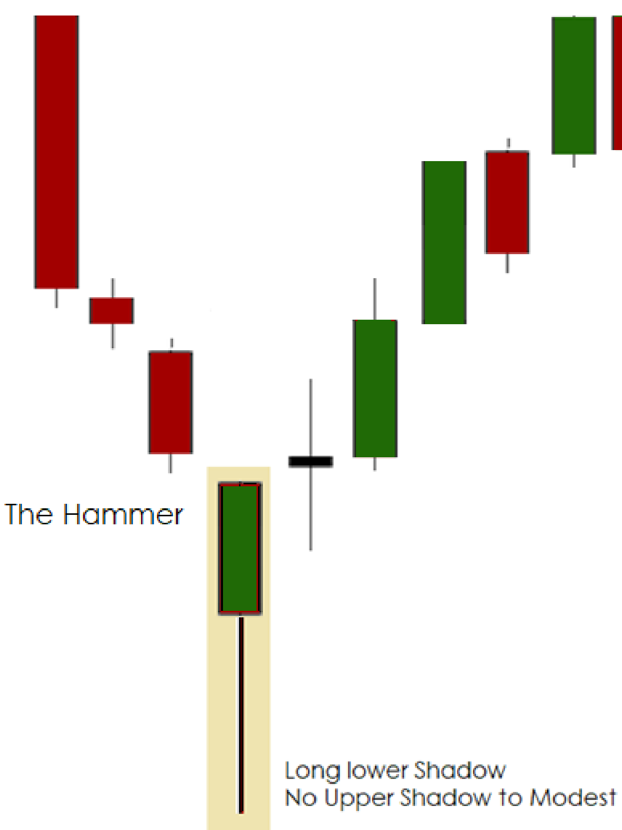


These patterns often confuse new traders because they look like other signatures however the *key point here is to remember the location within the chart that the patterns appear.*

The Hammer – Bullish Hit & Run Pattern

A hammer occurs when price starts showing signs of declining, possibly suggesting that the market is attempting to determine a bottom. This signature does not mean that buyers have taken full control of a market, it simply indicates that the bulls are strengthening. Hammers are more effective when preceded by 3 or more consecutive declining candles, what do I mean by declining candles? Declining candles are indicated with a lower low tail, in other words this means price will reach a lower price than the low of the prior candle, but all of them will have the presence of lower wicks. This illustrates the presence of fear, and the selling pressure starts to feel the pain of the declining prices, eventually this pain/fear becomes to great and will force the remaining seller to a panic out of their positions in a final selling frenzy, indicated by the lowest price being reached, followed by a quick rejection leading to a close price near to the opening, creating a long wick with small body candle. The tail should be at least 2x the size of the body.

Always remember that this pattern happens only in a downtrend, and it represents that buyers were able to push the sellers almost to the open price of that candle, which is a sign that bulls are defending/supporting that current level. The hammer works really well near the day's low or any other Key market level, below is a visual representations of hammer signature, remember this is one of the most common signatures. Hammers can appear in a timeframe, and can be traded in ranging and trending scenario, for example in a long uptrend, hammers can appear at the end of the retracement (dips)s to the uptrend line, indicating resume of the long trend and offering a high probability trade execution.



Inverted Hammer – Bullish Hit & Run Pattern

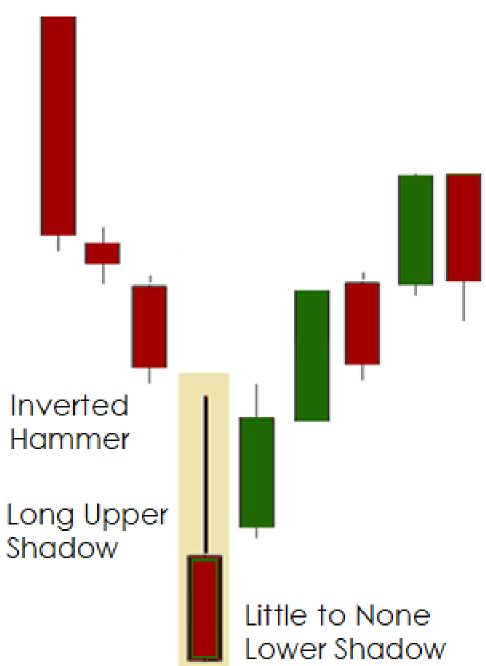
Like the hammer, the inverted hammer occurs also in a downtrend, and is all has one long Shadow and a very small body, the shadow should be at least 2x the size of the body, more in common is that they are both bullish candlestick pattern, so in resume the key point when identifying a inverted hammer are, first the candle has to be in a downtrend, the upper shadow has to be at least 2x bigger then the body, the candle real body should be located at the bottom of the trading range. The psychology behind the inverted hammer, is that due to the initial gap down at the open, it give the impression that de downtrend will continue, and that the price will continue to drop further. The sentiment is bearish. Although the bull step in and rally the priced up briefly, but the price ends up being pushed back down again, closing near to where it opened

Meaning

At first, due to the gap down at the open, it seems that the downtrend will continue and the price will drop further. The atmosphere is bearish. Although the bulls step in and rally the prices up briefly, they're weak and the price is ultimately pushed very low, closing near to where it opened. To confirm that a bullish reversal will occur, check for a higher open during the next trading period.

To learn a little more about this bullish reversal pattern, look for the following characteristics:

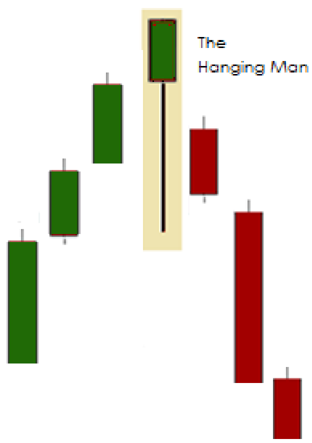
- The longer the upper shadow, the more likely it is that a reversal will occur.
- A gap down from the previous day's close sets up a stronger reversal.
- Large volume on the day the Inverted Hammer occurs increases the likelihood that a blow-off day has occurred.
- A green (up) body has more bullish implications. A red (down) body has more bearish implications.



Hanging Man – Bearish Hit & Run Pattern

The Hanging Man candlestick pattern has a short body and long shadow similar to dangling legs and appears after a uptrend and therefore is a bearish reversal pattern. Th signature is a single Candlestick formation and spotlights that momentum to the upside is being absorbed by bears and trend is then likely to reverse.

Therefore, the Hanging man is a powerful tool for picking trend reversal and is one of my personal favorite signatures to trade.



Summary – Shadow Rejection and Hit & Run Patterns

These patterns work extremely well and picking tops and bottoms and work even more efficiently using the power of confluence.

The Single and multiple Candlestick formations we have covered within the two sub sections Shadow Rejection and Hit & Run, have made many a man a millionaire from respecting and then mastering the power of those formations

They all work extremely well at key market levels as they spotlight Targets and then their subsequent reversals which then provides you with bullet proof entries.

So therefore, in effect are the Key to understanding market behavior which then provides you with opportunity to Swing Trade like a pro.

The next and final group of Candlestick Patterns we will look at will be cold close engulfing patterns that will be included within the next subsection:

Piercing and Cold - Close Candlestick Patterns

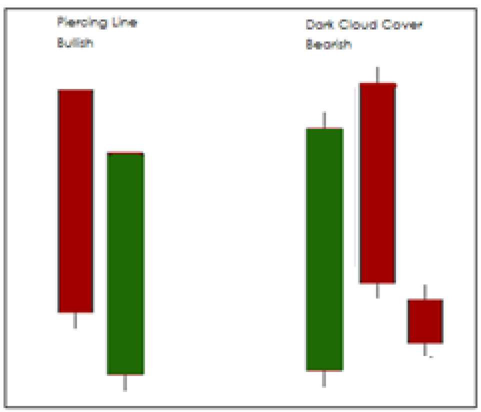
The following patterns are Cold Close and piecing patterns which are powerful trend continuation, Short term Retracement and reversal signatures.

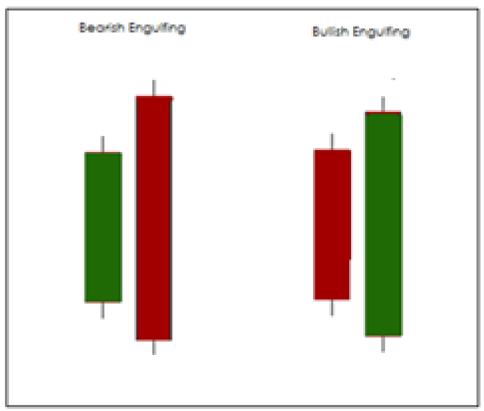
These not only help a trader highlight a reversal but also assist in buying the dips in a uptrend of selling the rips in a down trend.

Furthermore, in a trend these signatures can identify increased momentum which is a sign of major expansion ahead.

Piercing and Cold Close Candle Stick Patterns

- Piercing Lines
- Dark Cloud Cover
- Engulfing Patterns
- Tweezer





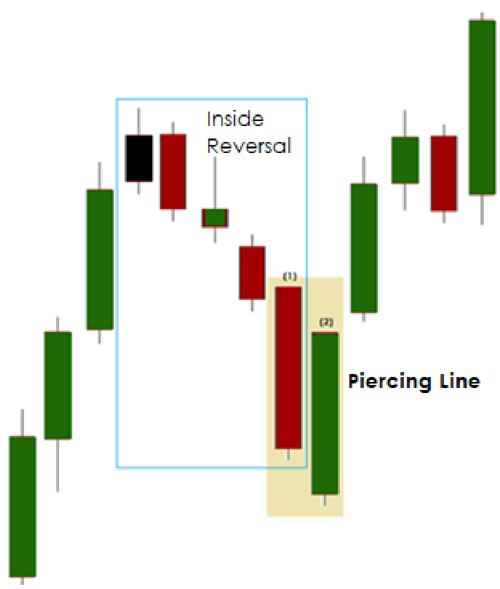
Piercing Line Pattern

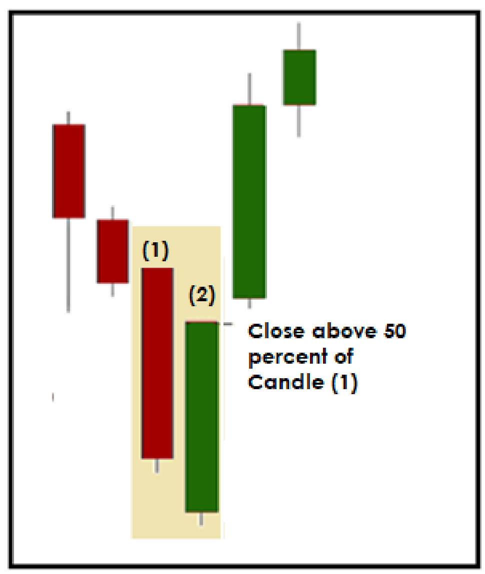
The Piercing Line is a bullish candlestick reversal pattern, like the Bullish Engulfing Pattern or if you flip it around it is then similar to the Dark Cloud Cover formation.

traditionally this is a 2-day pattern but works well on any time frame in Forex and is a great pattern to highlight Bull power. For Example, after the close of the Bear Candle (1) the Bulls then demonstrated there strength within candle (2) and pieced the close of the Bear Candle as they moved price up beyond the half way of the Bear Real body. This is a very Bullish Signature. To validate this pattern the close of Candle (2) must be above the 50% of the candle (1) real Body.

This pattern is extremely power full when used in context of a key level or inside reversal which will be covered in the below

Below Chart spotlights the Piercing patterns Structure and in Context within an inside reversal trend pattern.

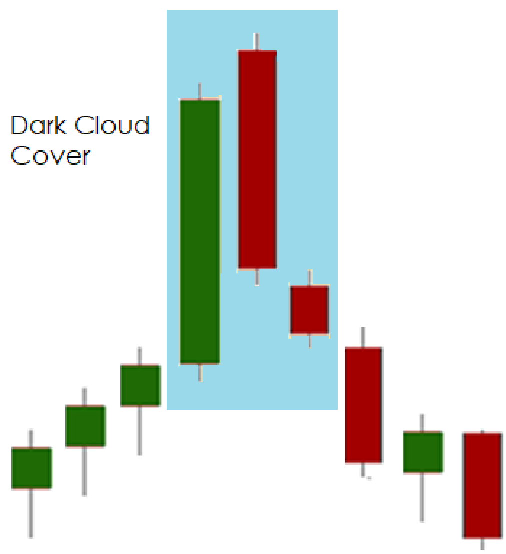


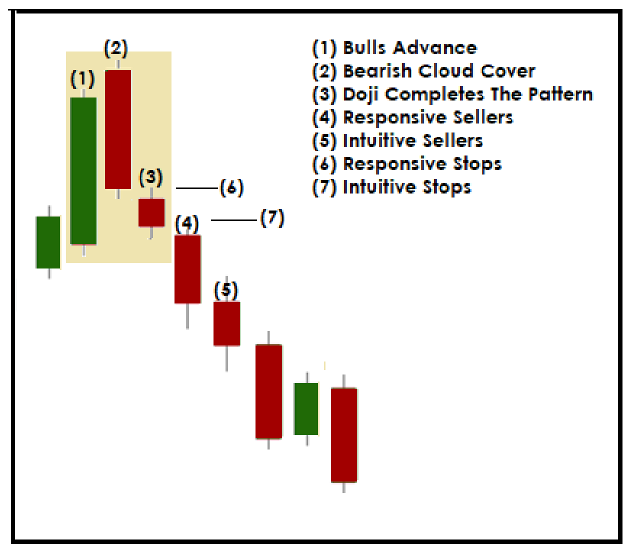


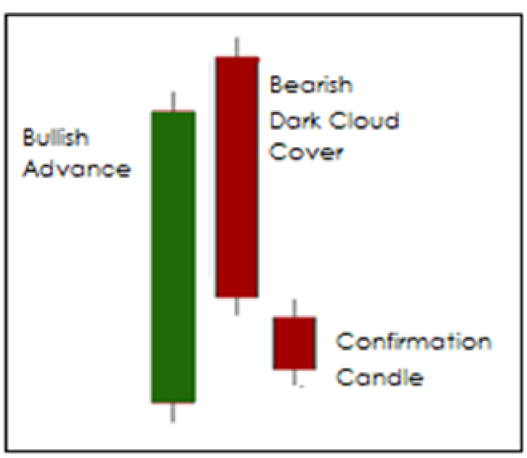
Dark Cloud Cover

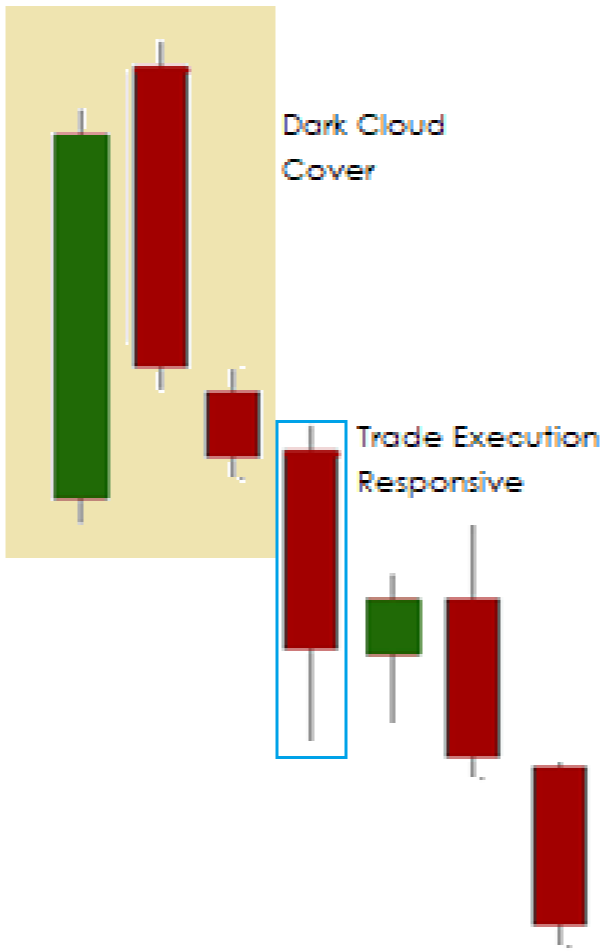
The Dark Cloud Cover signifies a bearish reversal and consists of a 3 -candlestick formation. This pattern evolves during a Bullish Trend and like a Bullish Engulfing pattern the Bulls expand price upwards. However, Bears fight back for control as the market over extends itself above value.

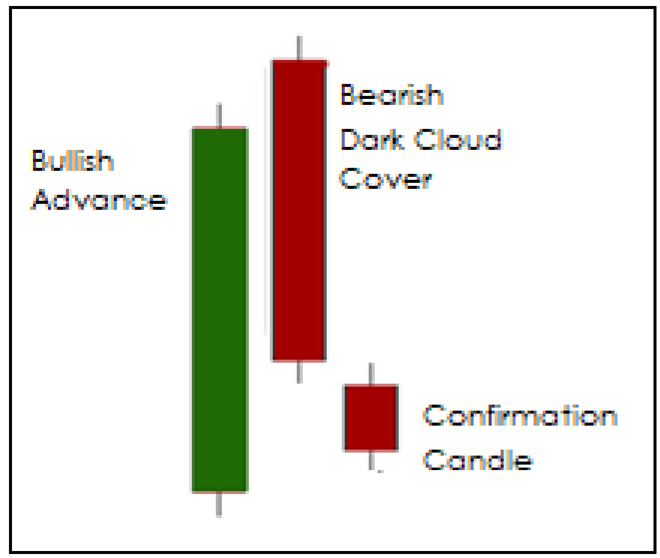
The 3rd candle if opens and closes below the middle Candle confirms the pattern. The middle Candle forms a Dark cloud over the bullish Candle furthest to the left. The Dark Cloud cover by itself is a bearish Engulfing Candle Stick.








Dark Cloud
Cover
Trade Execution
Responsive


Bullish
Advance
Bearish
Dark Cloud
Cover
Confirmation
Candle

Bullish Engulfing

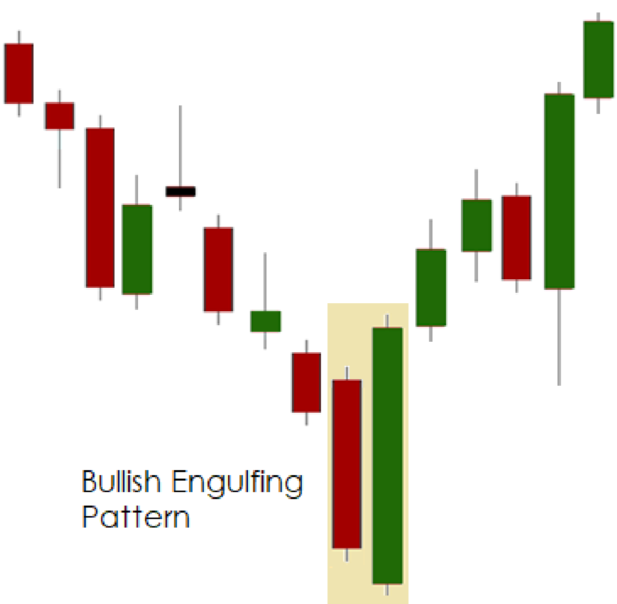
During a downtrend The Bullish engulfing pattern represents a potential reversal as Bulls absorb bears and reverse the bearish advance. The Engulfing Candle Highlights Bulls rejecting prices below value.

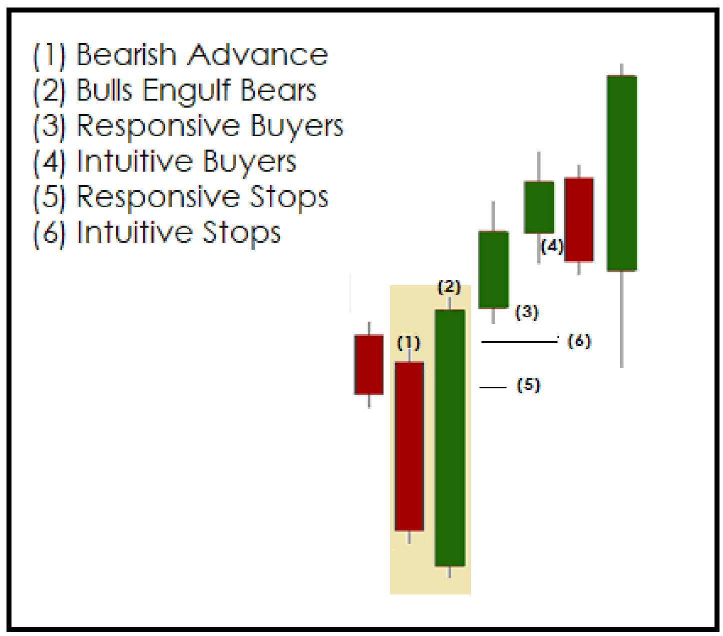
Bulls having rejected the Bearish advance look to push prices beyond the close of the prior Bear Candle.

The Pattern is qualified within a two-candle formation. The first is smaller which is the Bearish Candle and the 2nd the larger is the Bullish engulfing Candlestick.

The bullish Candle within the downtrend represents a change in sentiment as the bulls re take control.

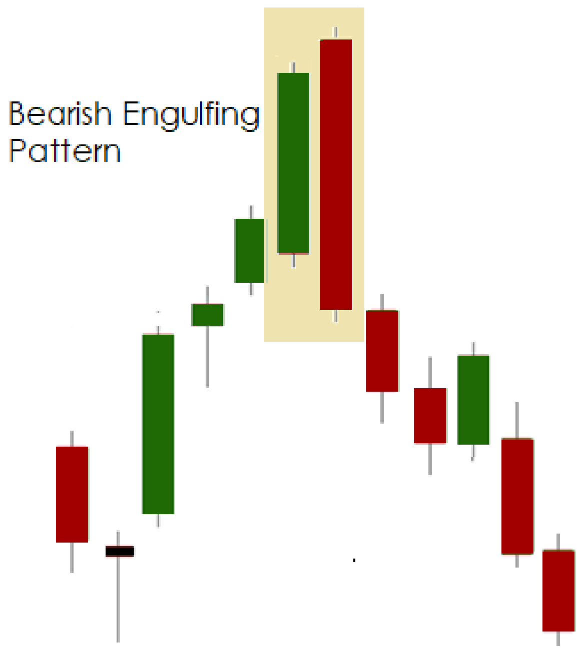
Execution of a Trade would be after the two-candle formation.

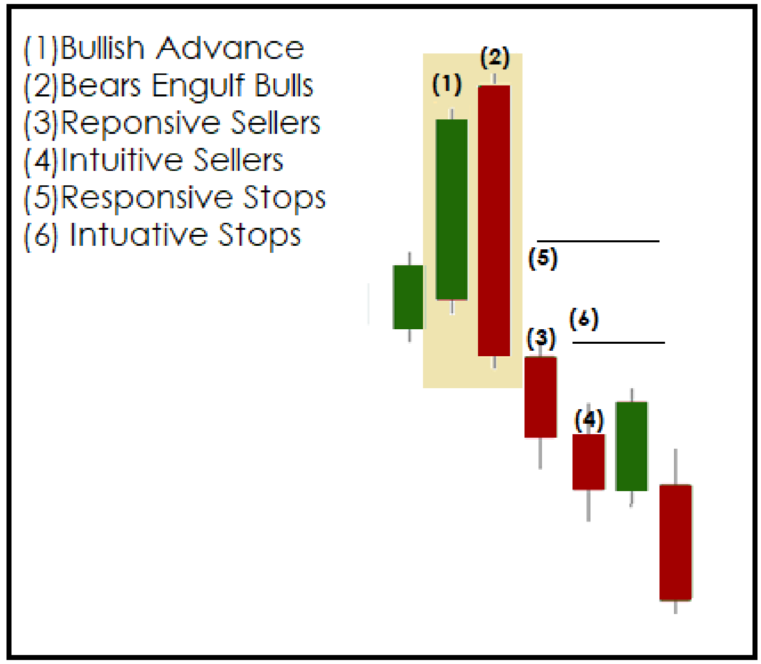




Bearish Engulfing

Flip a Bullish Engulfing pattern upside down and place it at the top of uptrend then you have a Bearish Engulfing Pattern. The Bearish Candle within the uptrend represents a change in sentiment as the Bears fight to take back control from the Bulls. Therefore, the Bullish advance has been halted and the sentiment has changed from Bullish to Bearish.





Tweezer Bottoms

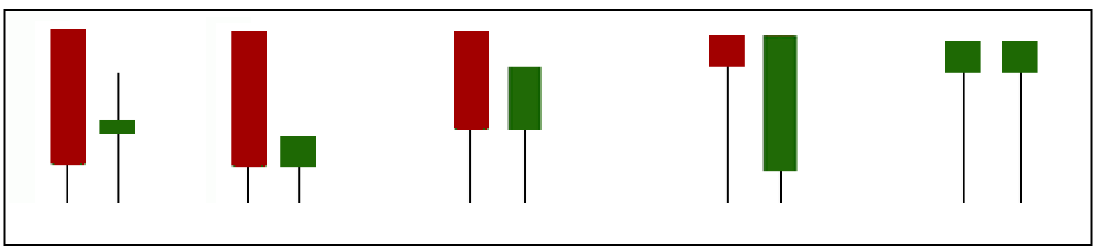
Tweezer Bottoms are in most cases a minor, short-term reversal pattern. Within this pattern all of the candles within the formation must have the same low point and this signifies that bears are not willing to push prices below the low point.

In has no relevance the size of the candles and the tweezers do not have to engulf prior candles as the Tweezer formation is a cold match close pattern. Therefore, the formation can be 2 or more candles of different sizes however they must contain an equal low

The equal low signifies that Bears are not willing or able to push prices lower and it is likely trend will reverse as the Bulls will grow in confidence as the bearish advance has faltered.

The pattern can be misleading as it comes in a multitude of sizes and shapes. Entry confirmation should be   once a break of resistance is confirmed.

Tweezer Bottom examples
All that matters is the equal low point as Size color and shape is irrelevant



Tweezer Tops

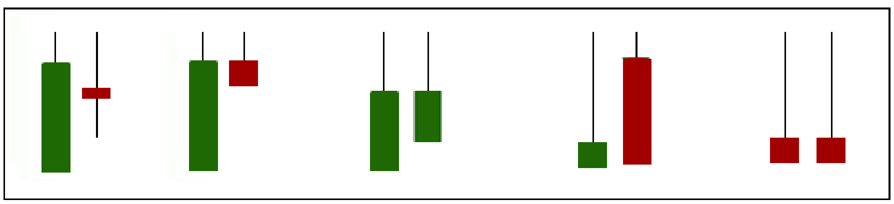
The Tweezer Top candlestick pattern has one disguising factor which is the same high point within 2 or more candle stick formations. This signifies that Bulls are not able to push prices beyond the high. Essentially the Tweezer top is a Tweezer Bottom flipped upside down.

There is no relevance within this pattern of the color of each candle be it bullish or bearish. The shape or size has no relevance to. Al that matters is the equal high point.

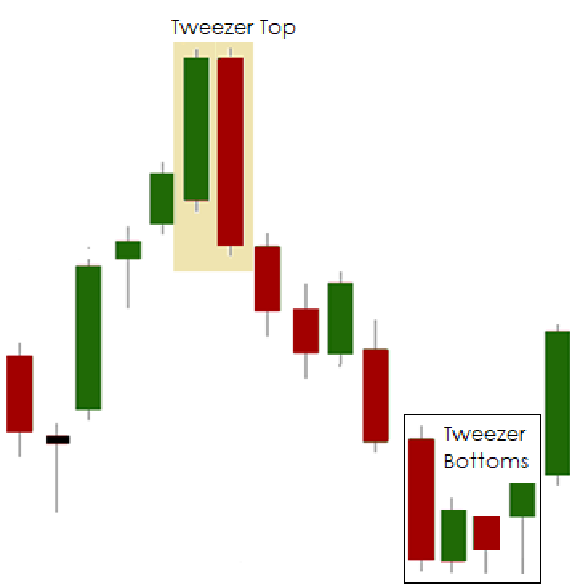
The upper Shadow therefore represents a area of resistance in which the bears are defending and the bulls are unable to push prices higher. Tweezer tops are in most cases a minor, short-term reversal pattern.

Tweezer Top examples

The Shape or Size is not important but the equal high is



Tweezer Bottoms and Top



Absorption to be continued in Module 3

The absorption pattern allows Traders to pick reversals within primary and secondary Trends. By being able to pick market major reversal points allows a Trader great opportunity to engage the market at major bottoms or tops.

The below chart looks at the Absorption pattern within the market and describes the scenario in which absorption can occur. In this example we are looking at the Dollar/Yen and is labeled 1 to 5.

1-Market Rallies to 113.10
2-Market breaks resistance at July High 113.10 to 113.15 and is rejected by bears.
3-Bears defend the retest of July High 113.10
4-Market breaks the underlying support at 112.70 and triggers an aggressive sell of
5-Price rotates back to value at the open price of July.

When trading absorption wait for the market to make a new high or low and allow price to accept or reject these levels. If rejection occurs look to defend absorption below the underlying support.

After failed range expansion at a key level look to fade trapped participants which normally leads to a major sell of as their stops are taken out.

Absorption Failed Range expansion to be continued in module 3

When Trading Absorption and only at key levels is rule one. Professional Traders only defend key levels that's match a primary or secondary trend. Price action in between key levels is just hot air and noise.

Therefore snip as follows:

Look for market to make a new high or new low at key level.

I price is rejected at new high or new low look to enter at the midpoint of rejection candle of at the underlying support or resistance dependent on if rejection day high or rejection day low.

The below chart looks at the Absorption failed range expansion

When rejection at key level is confirmed look to execute trades at either the rejection midpoint or underlying support or resistance. An open close below/ above the mid-point is a great trading opportunity as well is execution at underlying support/resistance.

Look for Market to Accept or reject price at extreme key levels then identify the absorption as described. Responsive buyers and sellers will look to defend these extreme levels usually at a mid-point or underlying support and resistance.