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# 1 Price action patterns

## 1.1 Continuation patterns

### Top Price Action Trading Patterns

#### Continuation Patterns

Continuation patterns are shapes that form on a chart when the price is taking a short break but will likely keep moving in the same direction afterwards. Some common continuation patterns are triangles, pennants, and flags.

- **Triangles:** The price starts to narrow into a triangle shape before continuing in the same direction.
- **Pennants:** These look like small triangles and appear after a sharp price movement. The price then continues in the same direction.
- **Flags:** These look like small rectangles that tilt slightly against the trend. The price then continues in the same direction.

If the currency pair is going up, these patterns suggest it will keep going up. If the currency pair is going down, these patterns suggest it will keep going down.

## Continuation Patterns

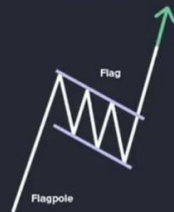
Ascending Triangle



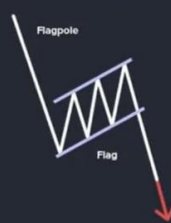
Descending Triangle



Bullish Flag



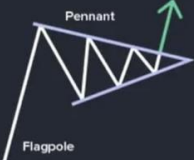
Bearish Flag



Bearish Rectangle



Bullish Pennant



Bearish Pennant



Bullish Wedge



Bearish Wedge



Bullish Rectangle



## 1.2 Reversal patterns

### Reversal Patterns

Reversal patterns are shapes that form on a chart when the price is about to change direction. Some common reversal patterns are wedges, double tops and bottoms, and head and shoulders.

- **Wedges:** The price movement narrows, looking like a wedge, and then changes direction.
- **Double Top and Bottom:** The price hits a level twice and then moves in the opposite direction. A double top happens at the top, and a double bottom happens at the bottom.
- **Head and Shoulders:** The price forms three peaks, with the middle peak being the highest (like a head with shoulders). The price then moves in the opposite direction.

When a currency pair is going up, making higher highs and higher lows, a recent low followed by a lower high signals the trend might reverse downwards.

When a currency pair is going down, making lower lows and lower highs, a recent high followed by a higher low signals the trend might reverse upwards.

## Reversal Patterns

Head and Shoulders



Double Top



Triple Top



Inverse Head and Shoulders



Double Bottom



Triple Bottom



Rising Wedge



Falling Wedge



## 1.3 Common candlestick patterns


### 1.3.1 Hammer and shooting star


#### Understanding the Shooting Star Candlestick Pattern


A shooting star candlestick is a pattern that suggests a possible price reversal. It's made up of just one candle. Here's how it forms:

- The price goes up during the trading session. Then, it suddenly drops back down, leaving a long wick at the top.
- This wick should be at least half the length of the entire candle.
- This pattern can appear at the peak of an uptrend.
- The shooting star pattern is great for new traders because it's easy to recognize. If you follow the pattern description.



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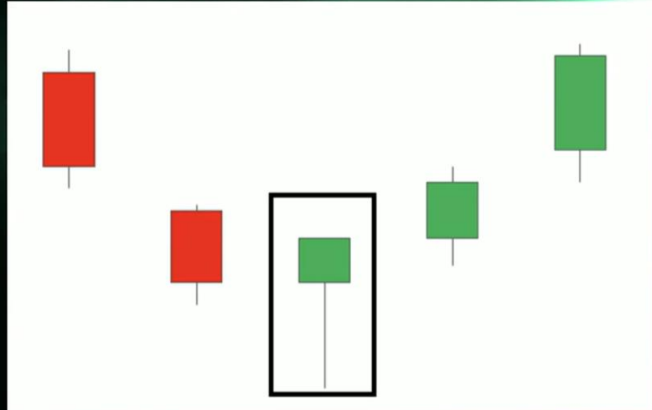




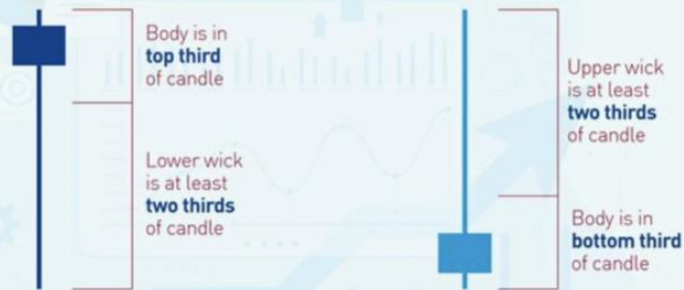
The hammer candlestick is a candlestick pattern that can show up when a downtrend might be turning into an uptrend. It looks like a hammer, with a small body and a long lower wick. This pattern suggests that even though prices went down, buyers came in and pushed the price back up, which could mean the trend is changing.

There are two types of hammer candlesticks. The regular hammer shows up at the bottom of a downtrend and suggests a potential bullish (upward) reversal. The inverted hammer looks like an upside-down hammer and also suggests a bullish reversal, but it's a bit less reliable.

In simple terms, when you see a hammer candlestick after a downtrend, it could mean that the market is starting to go up. However, it's a good idea to look at other indicators too before making any trading decisions.



## hammer candlestick with thirds-rule



— **hammer** —

— **inverse hammer** —





## Size matters.



Pause

07:14



### ADVANTAGES AND LIMITATIONS OF THE HAMMER CANDLESTICK

Hammer candles have their good points and not-so-good points, so it's important for traders to be careful and not rush into trades when they see a hammer candle.

#### Advantages

Signals a possible price reversal: The hammer shows that prices were pushed down but then bounced back up. In a downtrend, it might mean that selling pressure is easing, and the price could start going sideways or even up.

Can indicate a good time to exit a short trade: If you're already in a short trade, seeing a hammer candle could be a sign that selling pressure is calming down. This might be a good time to close your short trade.



07:51

**Common Bearish Candlestick Patterns:**

CANDLESTICK PATTERN	DIRECTION
Evening Star	Bearish (Reversal)
Bearish Engulfing	Bearish (Reversal)
Doji	Bearish/Bullish (Indecision)
Bearish Harami	Bearish (Reversal)
Shooting Star	Bearish (Reversal)

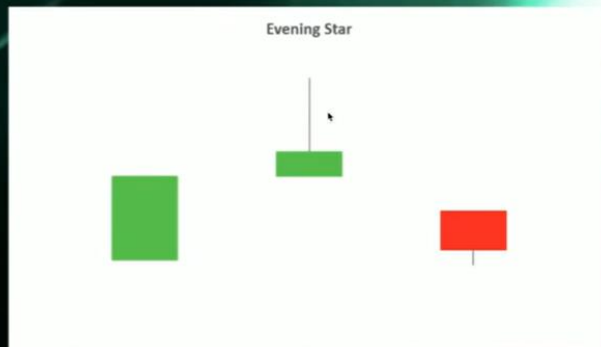
**Common Bullish Candlestick Patterns:**

CANDLESTICK PATTERN	DIRECTION
Morning Star	Bullish (Reversal)
Bullish Engulfing	Bullish (Reversal)
Doji	Bullish/Bearish (Indecision)
Hammer	Bullish (Reversal)
Long Wicks	Bullish (Reversal)

### 1.3.2 Evening star and Morning star

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The evening and morning star patterns signal possible trend reversals. They are named for their star-like appearance. In these patterns, the first candle follows the trend, then a small-bodied candle appears, and finally, a third candle moves in the reversal direction, ideally closing beyond the midpoint of the first candle. Traders often wait for a confirming candle in the reversal direction before trading



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### 1.3.3 The shooting star

#### Shooting Star

A Shooting Star is a bearish candlestick with a long upper wick, a small or no lower wick, and a small body near the day's low. It shows up after a price increase and suggests a potential trend change to the downside.

For a candle to be a Shooting Star:

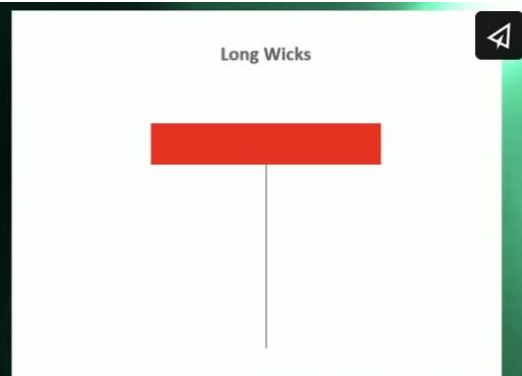
1. The distance between the high and opening price should be more than twice as large as the body.
1. The distance between the lowest price of the day and the closing price should be very small or none.





### 1.3.4 Long wicks

#### Long Wicks

- Long wick candlestick patterns often suggest a possible trend reversal. They happen when prices are tested but then rejected, showing where prices were rejected.
- It's crucial to first identify the trend to understand the significance of a long wick. Traders often use key levels and observe price action alongside long wick patterns for better analysis.

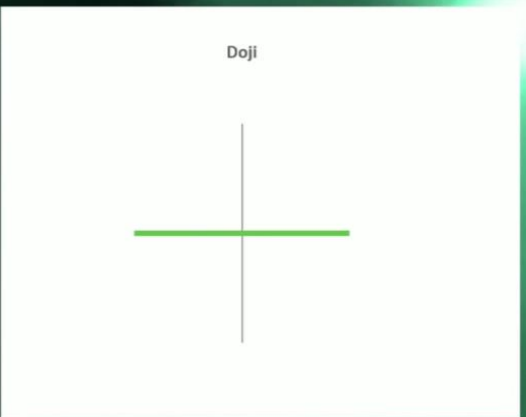


### 1.3.5 The doji

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#### DOJI


- The Doji candlestick chart pattern is associated with **indecision in the market** of the underlying asset. This could mean potential reversal of the current trend or consolidation.
- This pattern can occur at the top of an uptrend, bottom of a downtrend, or in the middle of a trend.
- The candlestick itself has an extremely small body centered between a long upper and lower wick.
-



### 1.3.6 Bullish & bearish engulfing

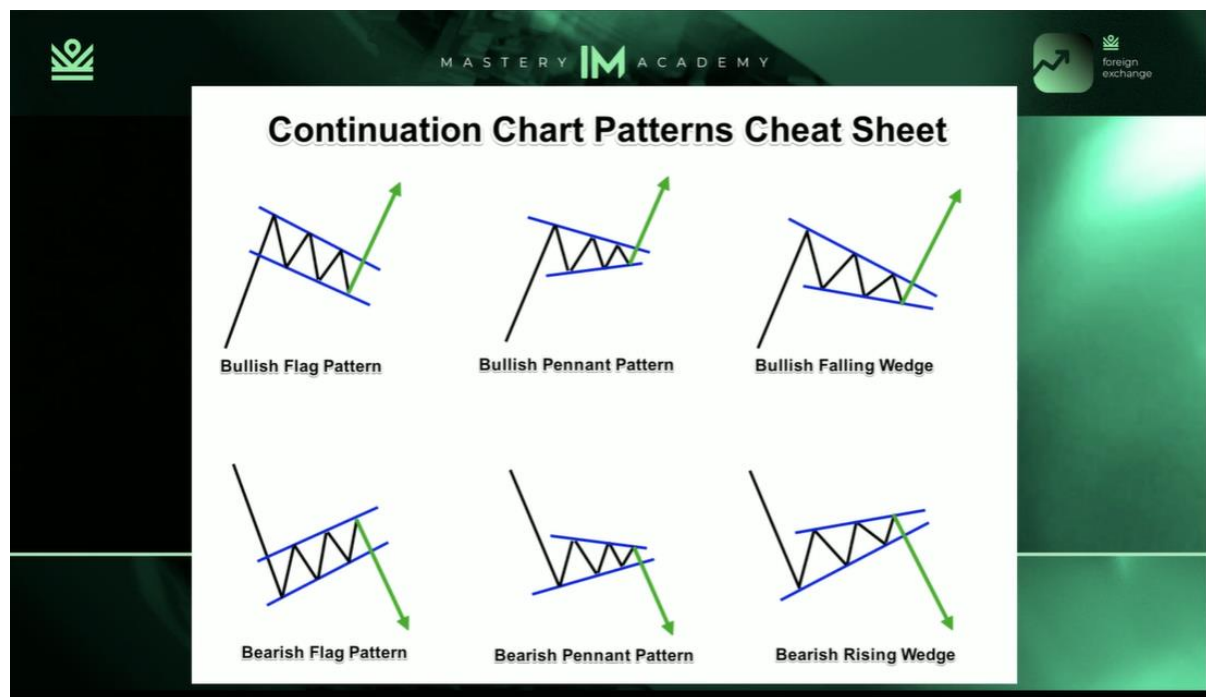
#### BULLISH & BEARISH ENGULFING

- A bullish or bearish engulfing candlestick pattern may indicate **reversal patterns**.
- A bullish engulfing candlestick formation shows bulls outweigh bears. As the pattern below shows, the green body (bulls) covers completely the first candlestick (bears).
- A bearish engulfing candlestick pattern is small green (or bullish) candle followed by a larger red (bearish) candle immersing the small green candle.

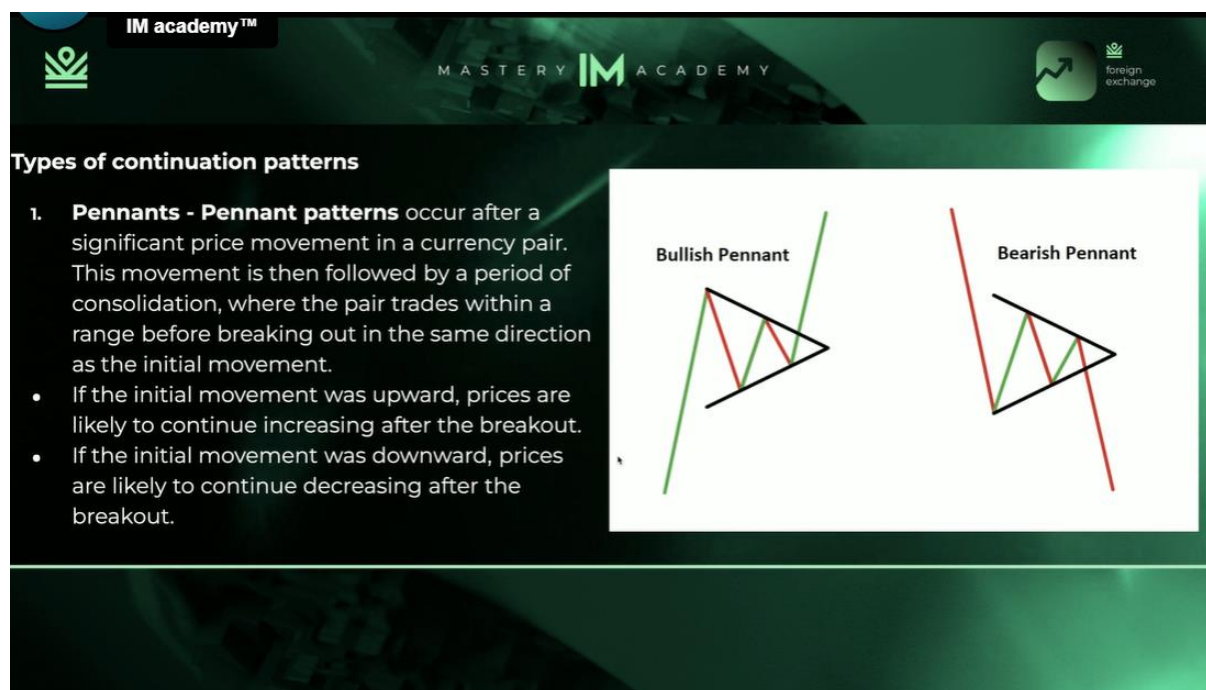


## 1.4 Types of patterns


### 1.4.1 Continuation chart





### 1.4.2 Pennant Patterns




### 1.4.3 Flag pattern


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**FLAG CHART PATTERN**

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**BULLISH****BEARISH**




### 1.4.4 Triangle pattern

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**3 - Triangles** - A **triangle pattern** is a consolidation pattern that appears in the middle of a market trend, offering insights into future price movements. It involves the currency pair's prices narrowing in the short term, followed by a continuation of the initial trend.

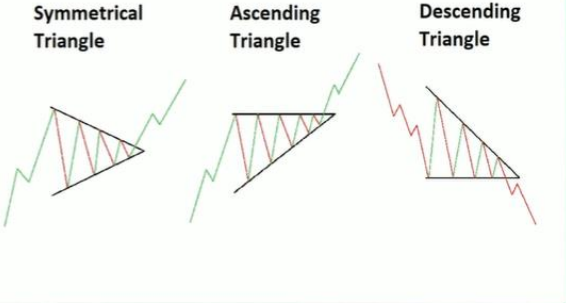
If prices narrow after an uptrend, they are likely to continue increasing after the breakout.

If prices narrow after a downtrend, they are likely to continue decreasing after the breakout.


**Symmetrical Triangle**

**Ascending Triangle**


**Descending Triangle**




### 1.4.5 The rectangle pattern

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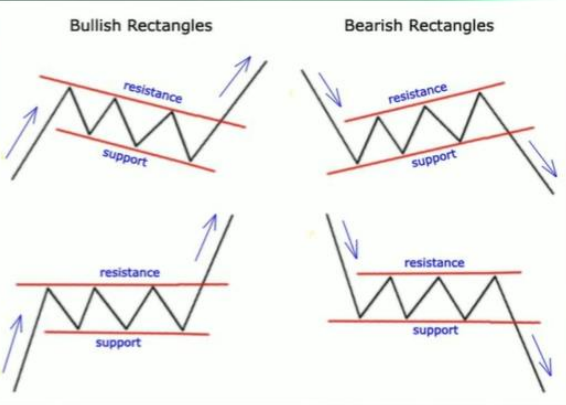
**4 - Rectangles** - A **rectangle pattern** occurs when prices consistently trade between the support and resistance levels of a currency pair. This pattern suggests a lack of trend at the moment. However, once a breakout happens, prices begin to trend in the direction of the initial trend (before the consolidation period) and move out of the rectangle.

If the rectangle forms after an uptrend, prices break above the resistance level and start increasing.

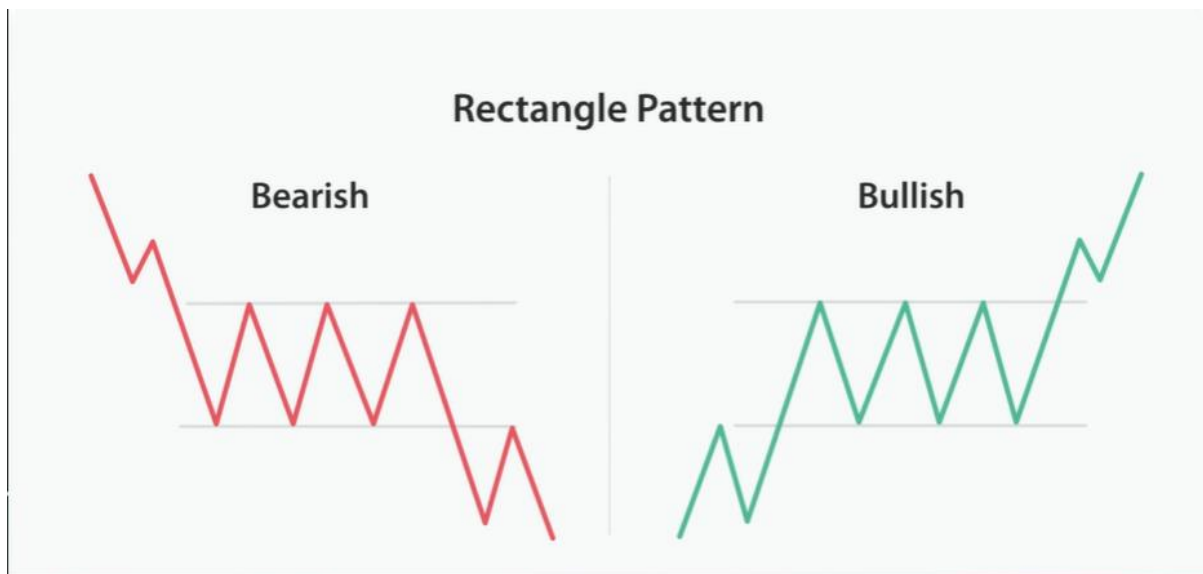
If the rectangle forms after a downtrend, prices break below the support level and start decreasing.

**Bullish Rectangles**

**Bearish Rectangles**





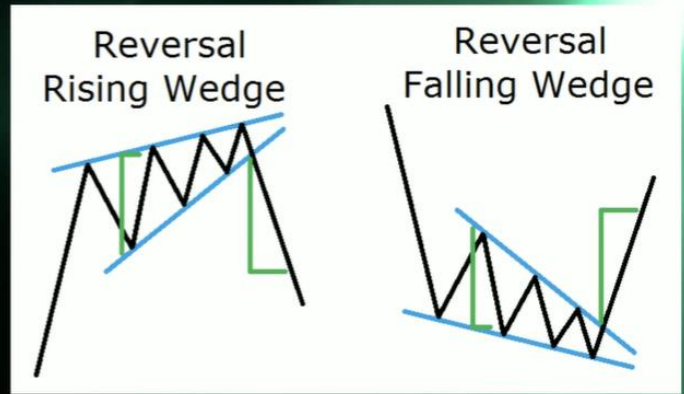


#### 1.4.6 Wedges

**5 - Wedges - Wedges** are chart patterns formed by converging price lines that move almost parallel to each other before a breakout. These lines connect a currency pair's high and low price points.



If a wedge forms after a downtrend, the price breaks below the support level to continue decreasing.

If a wedge forms after an uptrend, the price breaks above the resistance level to continue increasing.



## 1.5 Other common candlestick patterns

### 1.5.1 Double candlestick patterns

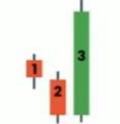
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### Dual Candlestick Patterns: Engulfing, Tweezer Tops, and Tweezer Bottoms

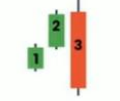
In forex trading, dual candlestick patterns are important because they often indicate potential reversals in the market. Here, we will look at three common dual candlestick patterns: Engulfing patterns, Tweezer Tops, and Tweezer Bottoms.

Dual candlestick patterns like Engulfing patterns, Tweezer Tops, and Tweezer Bottoms are valuable tools for traders. They provide visual clues about potential changes in market direction, helping traders make more informed decisions about entering or exiting trades.

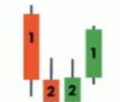
## DOUBLE CANDLESTICK PATTERNS



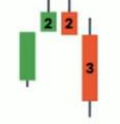
**BULLISH ENGULFING**



**BEARISH ENGULFING**


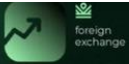


**TWEEZER BOTTOMS**

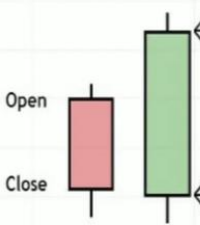


**TWEEZER TOPS**

### 1.5.2 Engulfing pattern

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### Bullish Engulfing Pattern



Open

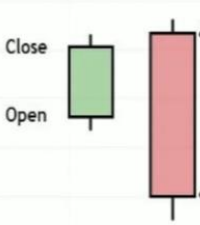
Close

Green candle closes above red candle's open

Length of bullish candle "engulfs" previous red candle

Green candle opens at or lower than red candle's close

### Bearish Engulfing Pattern



Close

Open

Red candle opens at or higher than green candle's close

Length of bearish candle "engulfs" previous green candle

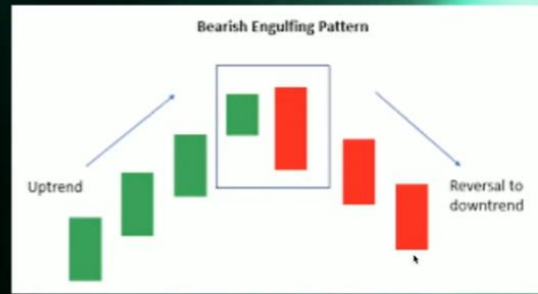
Red candle closes below green candle's open

### Engulfing Patterns

Engulfing patterns consist of two candlesticks and are strong indicators of potential market reversals.

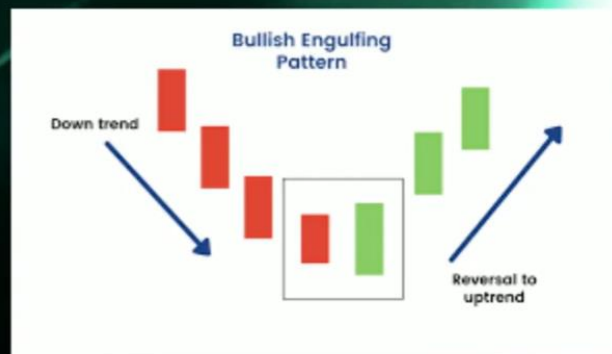
#### Bearish Engulfing Pattern:

- **Formation:** Occurs in an uptrend. The first candlestick is bullish (empty), and the second candlestick is bearish (filled) and completely engulfs the body of the first candlestick.
- **Indication:** Suggests that sellers are taking control, and a reversal to a downtrend may occur.



#### Bullish Engulfing Pattern:

- **Formation:** Occurs in a downtrend. The first candlestick is bearish (filled), and the second candlestick is bullish (empty) and completely engulfs the body of the first candlestick.
- **Indication:** Suggests that buyers are taking control, and a reversal to an uptrend may occur.



## 1.5.3 Tweezer



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#### Tweezer Bottoms

Tweezer Bottoms are a bullish reversal pattern that typically appears at the end of a downtrend.

##### Formation:

- **First Candlestick:** Bearish (filled) candlestick indicating continued downward movement.
- **Second Candlestick:** Bullish (empty) candlestick that opens at or near the close of the first candlestick and closes at or near the open of the first candlestick.

**Indication:** Suggests that the downward momentum is weakening and a reversal to an uptrend may occur.



### Tweezer Tops

Tweezer Tops are a bearish reversal pattern that typically appears at the end of an uptrend.

#### Formation:

- **First Candlestick:** Bullish (empty) candlestick indicating continued upward movement.
- **Second Candlestick:** Bearish (filled) candlestick that opens at or near the close of the first candlestick and closes at or near the open of the first candlestick.

**Indication:** Suggests that the upward momentum is weakening and a reversal to a downtrend may occur.

