Simon Pullen's 9-Step Reversal Pattern Method

The basic strategy can be broken down into 9 steps.

Step #1: Timeframe
Step #2: The Pattern
Step #3: The Neckline
Step #4: The Potential
Step #5: Roadblocks
Step #6: Confirmation
Step #7: The Entry Pattern
Step #8: Exit Levels
Step #9: Enter

Simon did an 1hr 29min live session about this strategy. You can watch it here for free inside TheTrading.cafe community.

Step #1: Timeframe

So, when it comes to trading, choosing the right timeframe can be a real game-changer.

To figure out what's best for you, there are two things to think about: your personality and your daily life.

For starters, think about your trading style. Do you like to jump in and out of trades often and love the fast-paced excitement of daily trading? Then, you might prefer shorter timeframes, like the 15-minute or even shorter. But if you're more of a laid-back trader who prefers to do research once a week and don't mind not trading every day, then higher timeframes like the one hour, four hour, or daily might be a better fit for you. Just be honest with yourself and choose what you're most comfortable with.

Next, think about your daily schedule. If you're retired or a full-time trader, you have the flexibility to choose any timeframe that fits your personality. But if you have a full-time job, you might find it hard to trade the 15-minute timeframe if you only have a couple of hours a day to be in front of your screens. In that case, higher timeframes like the four hour or daily might work better for you.

For those working from home, you might have a little bit of time each hour to check your charts. In that case, you can trade any timeframe as long as you set up alerts. For example, one trader I know checks their charts early in the morning, between 6 and 8 AM, makes notes of any patterns, and then only checks in every hour or so. This way, they can still profit over time while keeping screen time to a minimum.

In conclusion, it's all about finding what works best for you. Be honest with yourself, evaluate both your personality and your schedule, and choose the timeframe that fits you best. This will help you make more money in the long run.

Here’s a quick reference checklist to help you:

#1. Evaluate your psychological type:
- Are you a fast-paced trader who likes to open and close trades regularly?
- Or are you a more relaxed trader who likes to do research once or twice a week?

#2. Evaluate your physical availability:
- Do you have a full-time job or are you retired?

- Are you able to trade throughout the day or only have a limited time window?

#3. Be honest with yourself:
- Are you comfortable with your selected trading style?
- Make sure your trading fits in with your personality and daily schedule.

#4. Choose the appropriate timeframe:
- If you are a fast-paced trader, consider shorter timeframes like the 15-minute chart.
- If you are a relaxed trader, consider higher timeframes like the 4-hour or daily chart.
- If you work from home, consider setting up alerts and re-analyzing charts at specific times of the day.

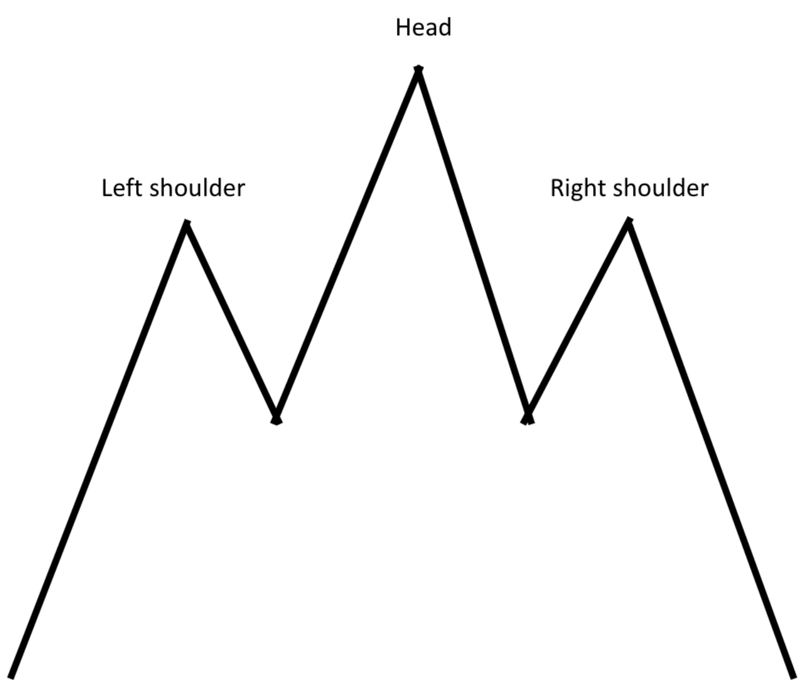
Example timeframes:

Time availability	**Timeframe**
UK evenings	Trade the U.S. market close at 8-9pm using Daily or 4h charts
U.S. Mornings before work	Trade the Forex markets at 7am-9am (London session)
Available all day	Trade the stock market & Forex market on the 1hr or 15 min charts.

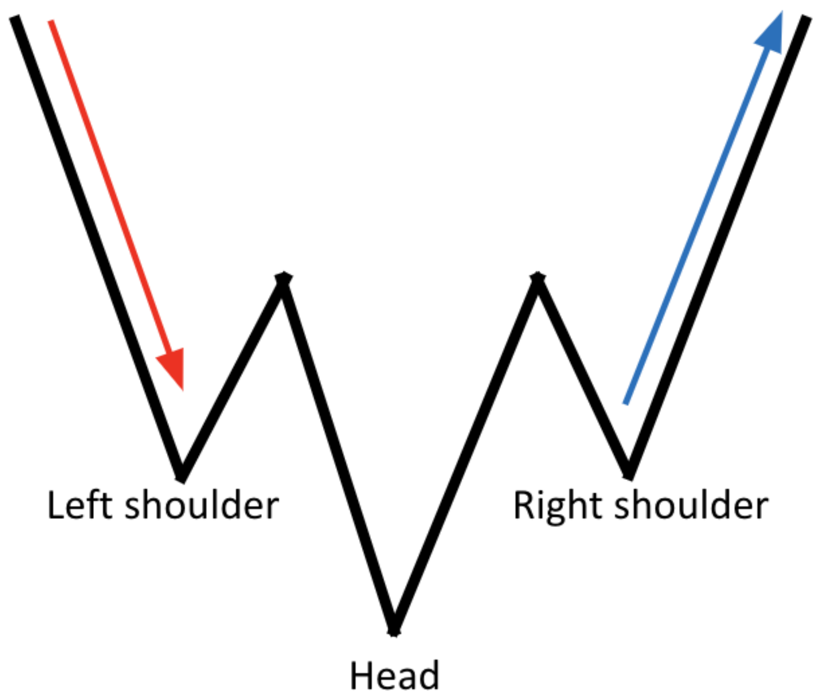
Step #2: The Pattern

In this particular strategy Simon uses only one big pattern known as the head & shoulders.

At its core, it's a super high-probability price reversal pattern that you can use in any market. Picture a price that's moving up, hits a peak, then dips a little, hits another higher peak, dips again, and then hits a lower peak. This forms a head that's higher than two shoulders, kind of like a human head and shoulders or a king's crown.



There are two types of Head and Shoulders - the bearish and the inverted. The bearish one pops up at the top of an uptrend (see image above), while the inverted one shows up at the bottom of a downtrend (see image below). The bearish Head and Shoulders signals a sell-off, while the inverted one signals a possible follow-through and a buy. While the standard Head and Shoulders is easier to spot, both are equally valid and should be on your radar.

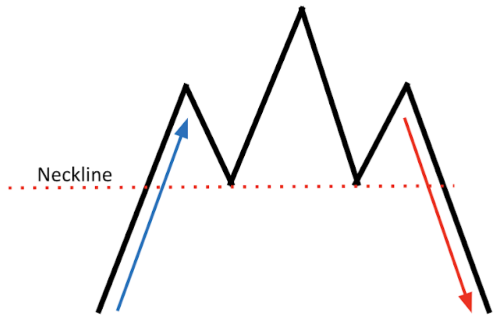


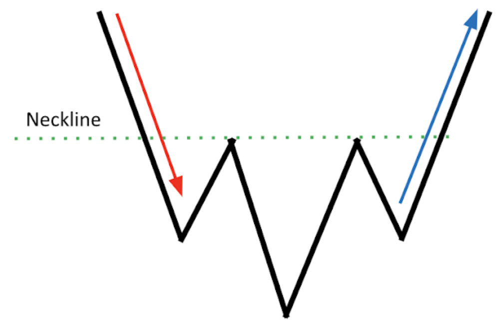
Here’s a quick example of what this looks like on the charts.

Step #3: The Neckline

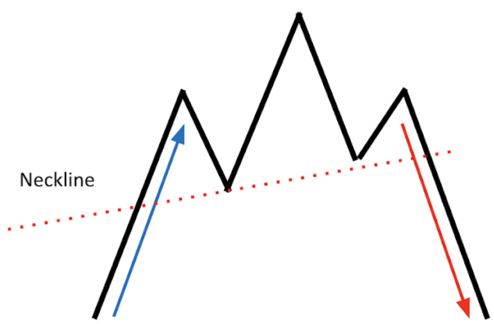
Alright, now it's time to talk about the neckline - the heart of the Head and Shoulders pattern. The neckline gives us a ton of info that helps us plan our trades with precision. Simon has a specific way of drawing the neckline, and it's crucial that you follow his lead so you get the full picture. It's pretty simple, but he’s got some strict rules to make sure we're all on the same page.

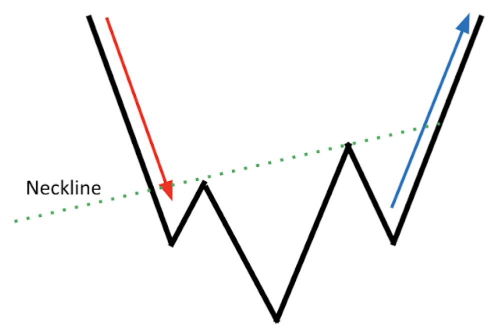
Here's how it works. We're trying to connect the lowest points between the left shoulder and head, and the right shoulder and head. We link these two points and extend the neckline out to the right.For the inverted Head and Shoulders, we're connecting the two peaks between the left shoulder and head, and the head and right shoulder. Again, we link the two points and extend the neckline out to the right.





Now, the neckline can slope a little bit, but it shouldn't be too crazy. It should stay relatively flat. A sloping neckline can actually give us a trading advantage by adjusting our risk-to-reward ratio.



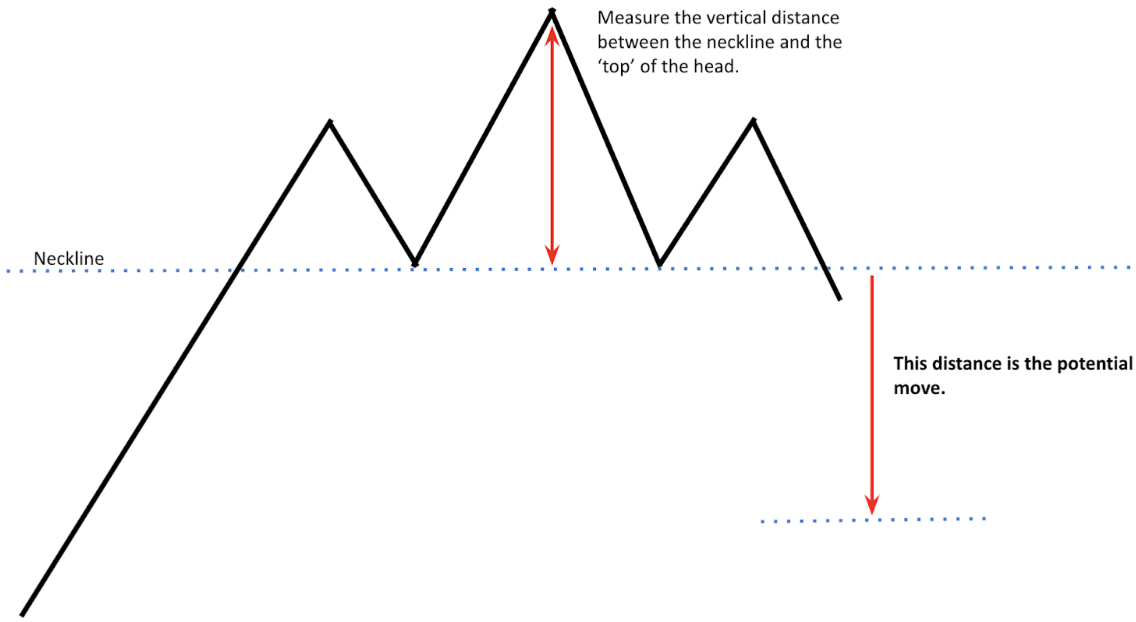


Here’s an example of what it looks like on the charts.

Step #4: The Potential

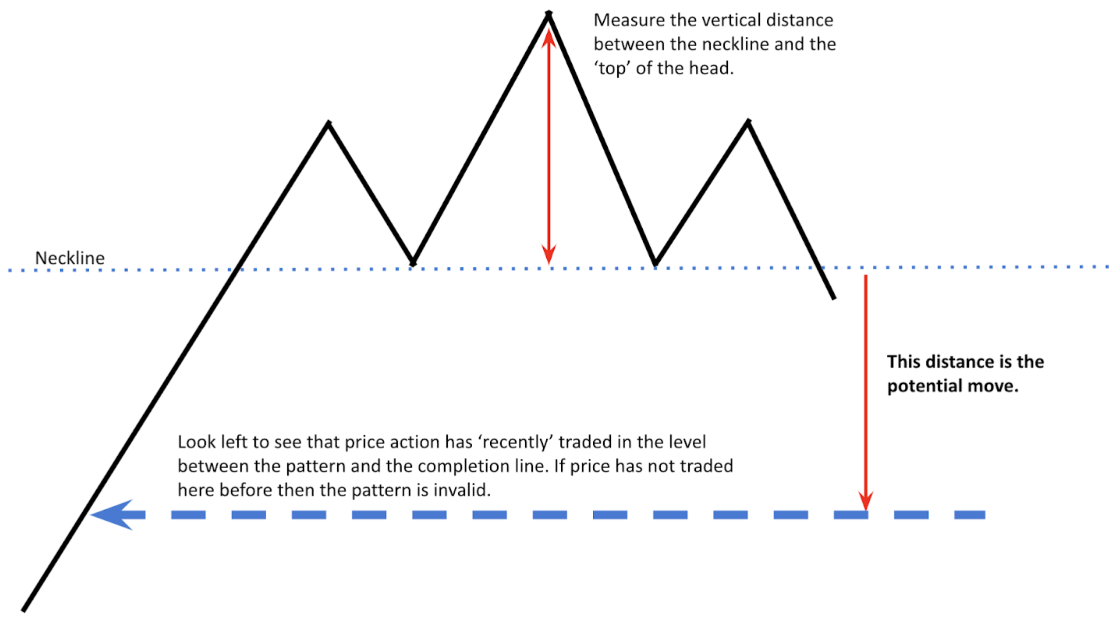
Let's have some fun with spotting the potential of this pattern! You''ll see just how far our price is going to move and whether it'll have any trouble getting there. But before we do that, let's give ourselves a quick pat on the back for what we've already accomplished.

First up, we'll draw a vertical line from the neckline to the top of the head, including the wick. Then we'll flip it down from the neckline to the same distance.



This will give us the minimum potential move of the Head and Shoulders pattern. When the price hits this level, bam, it's done! And often, you'll see a little retrace back up afterward.

Once we've established this level, we'll extend it to the left and see if the price has traded in this area recently. If it has, we can feel confident that it won't have any trouble getting there again. And it doesn't have to be the most recent move before the pattern formed, as long as it's not too long ago.



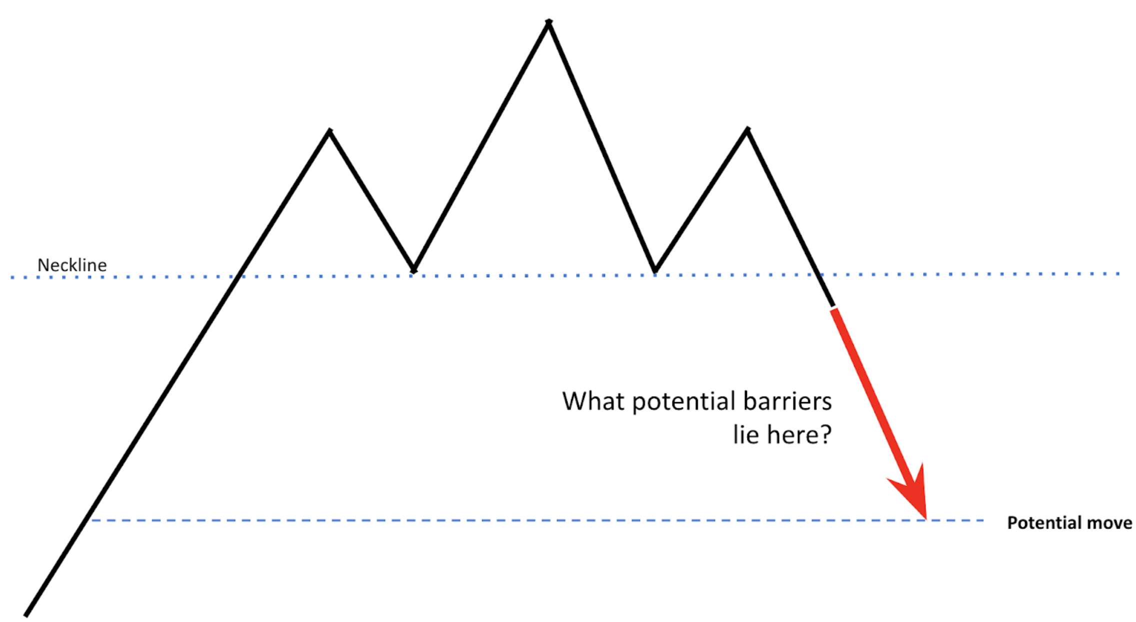
Here's an example of what it looks like on the charts.

Step #5: Roadblocks

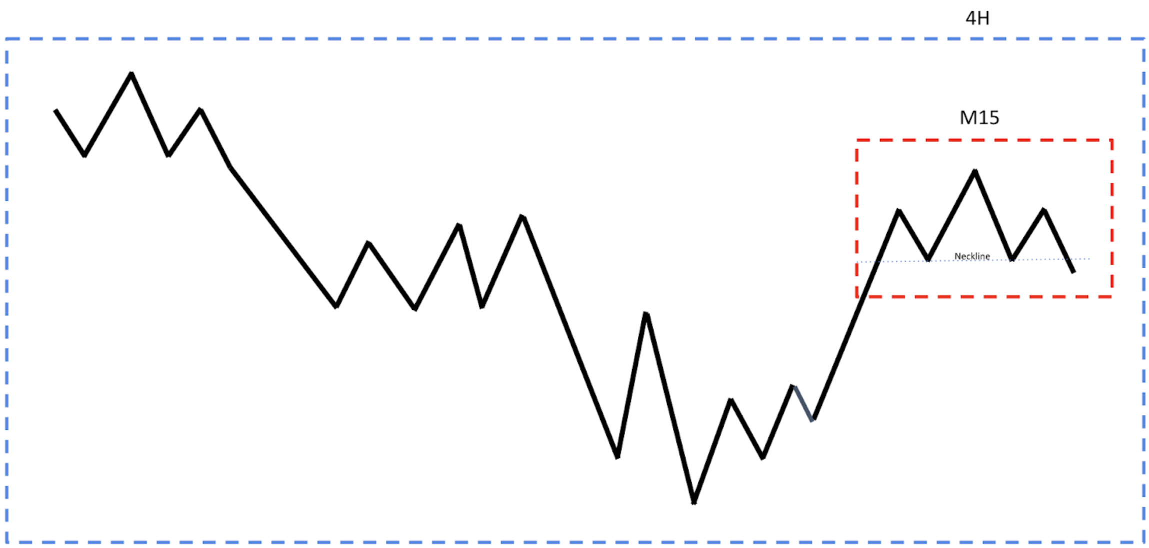
So in this step, you're gonna have some fun checking for roadblocks. I'll show you how we figure out if price is gonna have a smooth ride to the target or if there are gonna be some hurdles in the way. And based on that, you'll know if you should take a trade or not.

But before that, let's give a quick shoutout to how far we've come. You've got a grip on the best time frame to trade, and can spot a normal and inverted Head and Shoulders pattern like a boss.

You're killing it with drawing the neckline perfectly and figuring out if Price has room to move to the target. Now, we're gonna see if there are any stumbling blocks on the way.

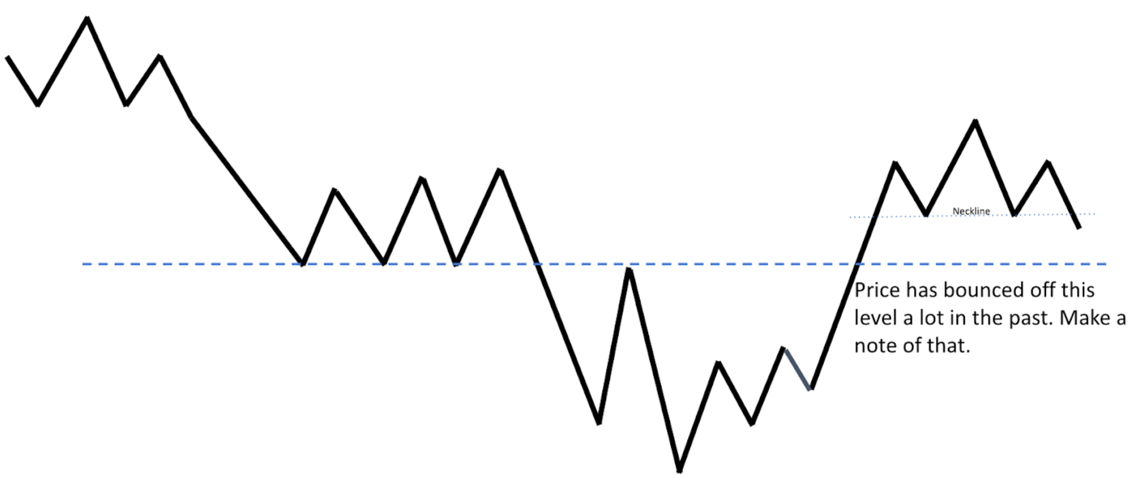


So we've got a Head and Shoulders pattern on the 15-minute chart, but to check for roadblocks, we need to move up two-time frames, like from 15 minutes to the 4-hour chart.

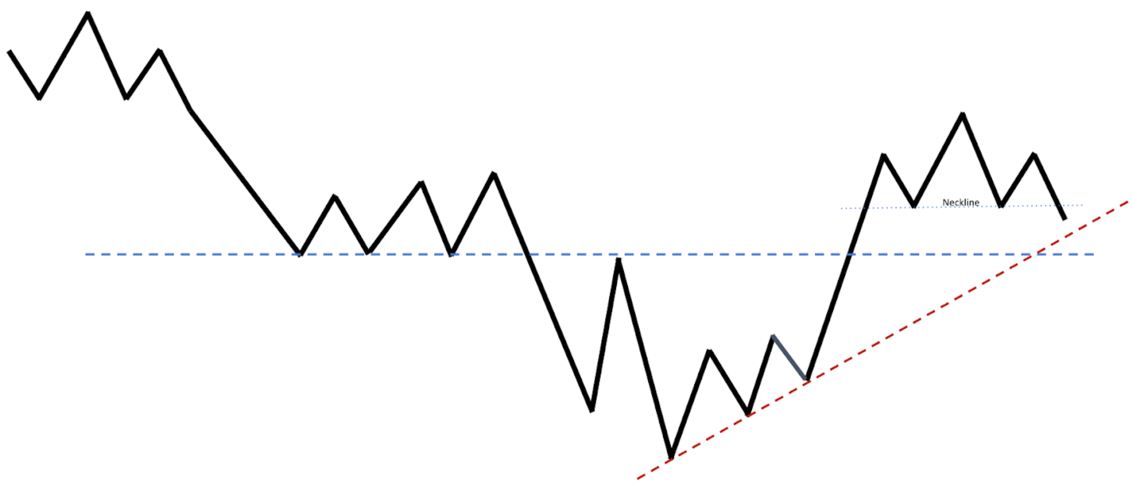


In the illustration, you can see the previous price action above and below our Head and Shoulders pattern.

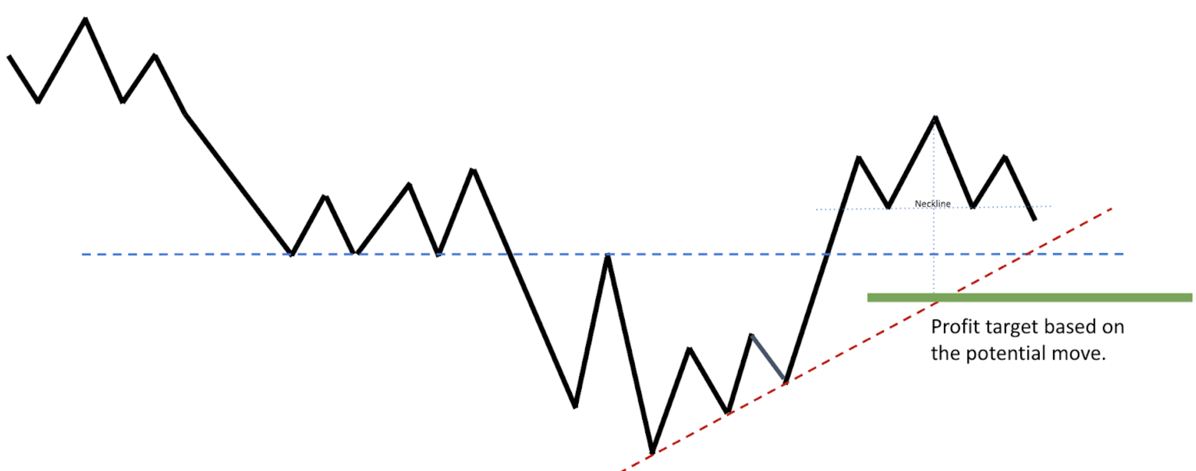
We're now on the lookout for horizontal support and resistance levels, where Price has bounced off several times. In the illustration below you can see the price has come down, bounced off, come down, bounced off, and so on. That's a strong support and resistance level.



We also check trend lines, which are diagonal support and resistance levels. Three touches are the minimum for a solid trend line, and we add it to the chart. This one is reasonably small, but since we're trading on the 15-minute chart, it's still a powerful area.



Now, the problem is, we've got both a strong support and resistance level and a trend line between our entry and target.



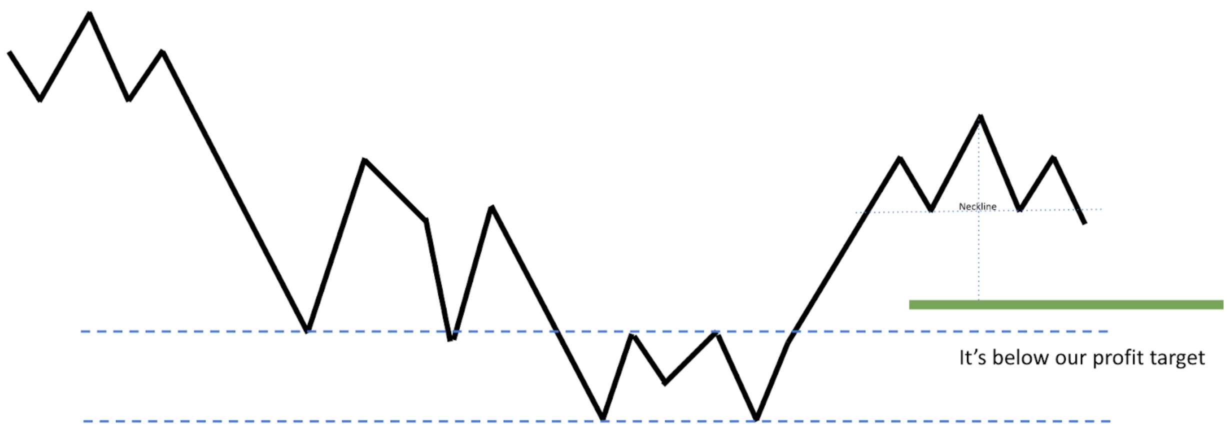
That's not a high-probability trade. Head and Shoulders patterns can cut through these levels, but it's not a guaranteed setup. So if you do take it, be extra cautious and manage your trade size and stop loss carefully.

But, the best way to deal with it is to avoid the trade in the first place. You don't have to take every trade opportunity, just the best ones. And there will be many, many more that come along regularly.

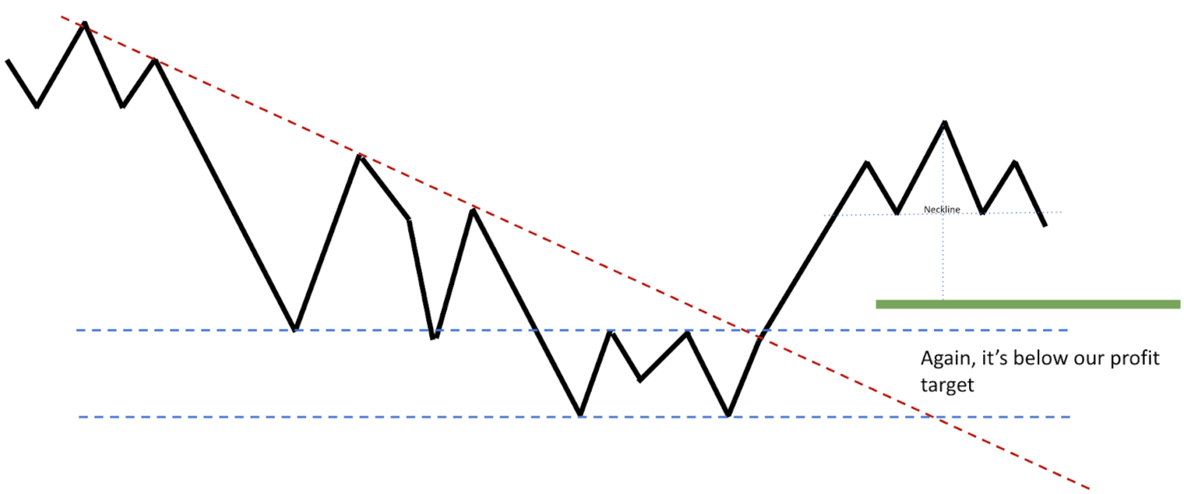
Let's see what happens when we tweak this one a bit. I’ve changed the lines slightly on this illustration.

We're on a mission to find some support and resistance levels for the ones that are below the price.

So let's take a look and see if we can spot anything interesting. It doesn't look like there's much going on, apart from these two, but they're not in our area of focus.



Now, let's check out the trend line. The only one worth mentioning is this one, and it's a big one.



But, does it affect our area? Not a chance. So, which of these two setups would you rather go for? I know what I'd choose, and it's this one. There's nothing stopping the price from going down to our target.

Just because it looks good on paper, doesn't mean it's a guarantee. But it does make it more likely, or at least it'll happen faster. And that means we can get our money back in the account, boost our margin, and be on our way to more profits.

Okay, let's check out some chart examples to get a better feel for this stuff.

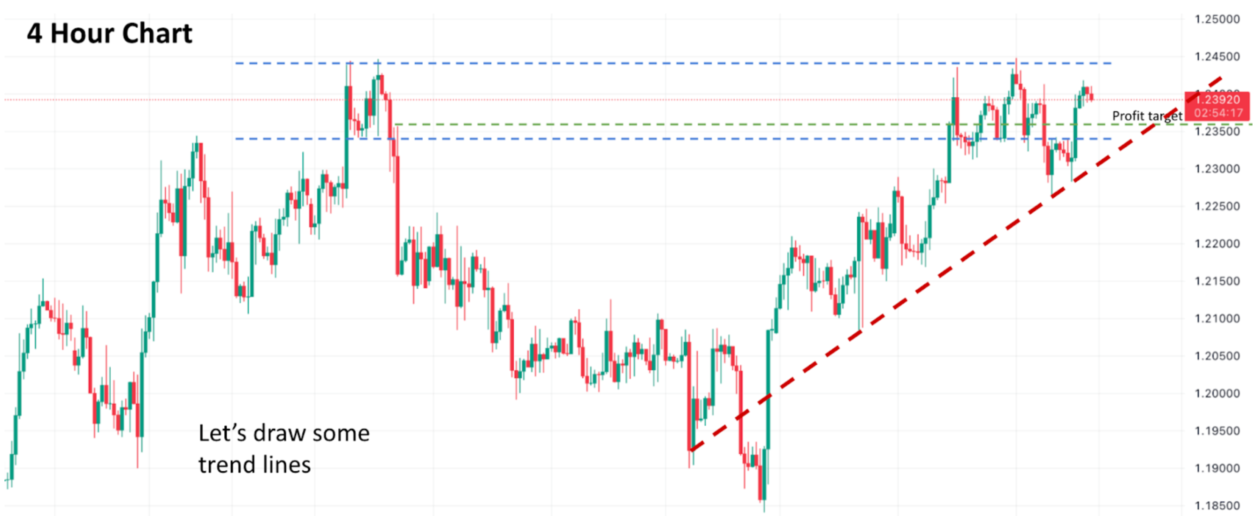
We've got a 15-minute chart with a head and shoulders pattern that's pretty easy to spot. We've marked the target profit, which is where the pattern will be complete. So, we're looking at this area here.

Is price gonna have a smooth ride down to our target? Let’s zoom out to the 4-hour chart.

Now let's see if we can spot any support and resistance levels.

We've got one clearly at the top, but that's not our concern since it's above price. We've also got one below the profit target. That level is significant, but only if it's between price and the target. But it's not, as you can see.

What about trend lines?

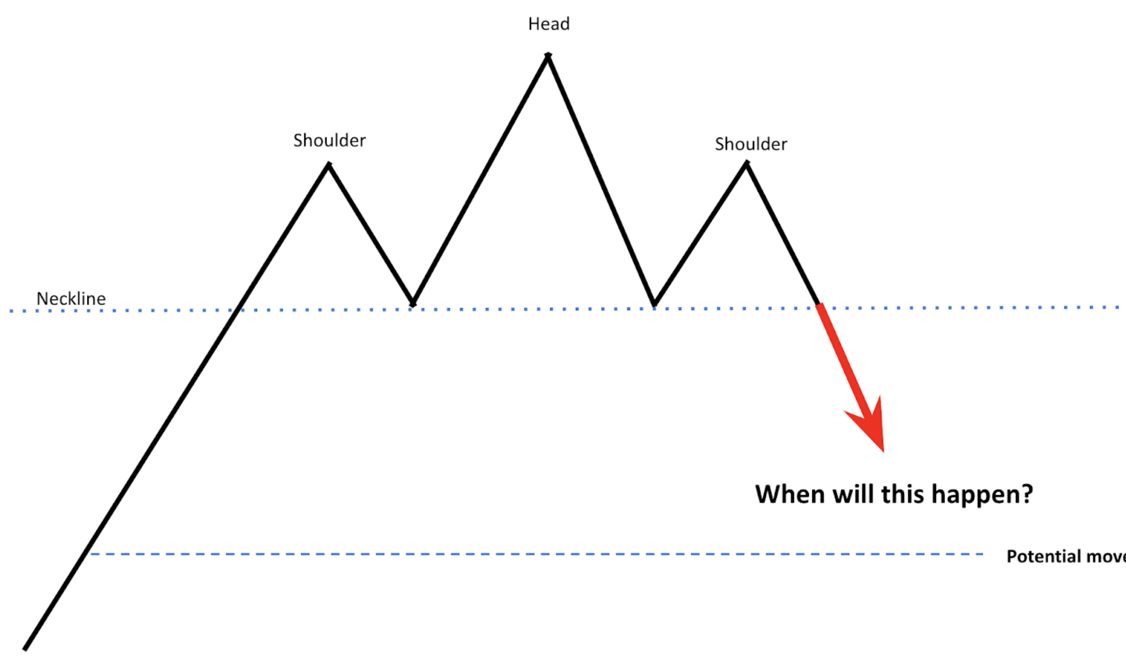


There's one that's easy to see, we've got at least 4 touches there, so that's a solid trend line. Again, no issues, it's well below price.

So, based on that, it's a valid pattern.

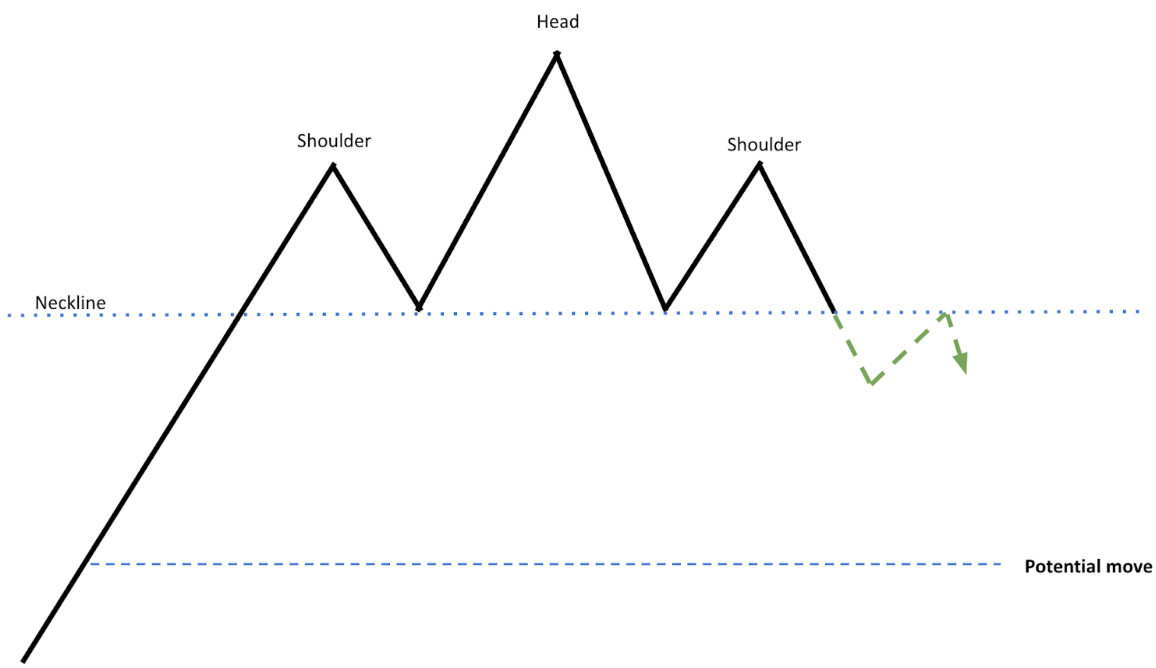
Step #6: Confirmation

In the last step about potential roadblocks that may stop the price from reaching our target. Now we will focus on how to recognize when the price is ready to move in the right direction and increase our chances of success. We want to see a breakthrough, a neckline break, and a price move toward our target.

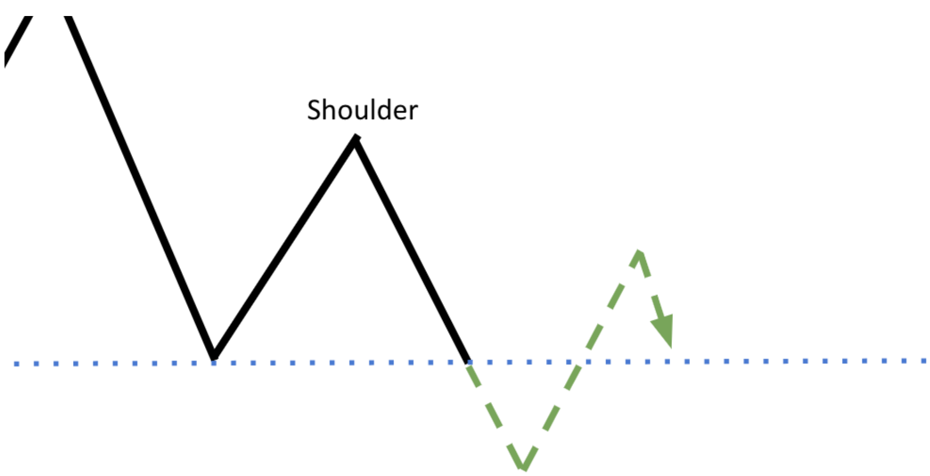


Sometimes, the price will break through the neckline and continue straight down to the target. However, often the price will break through the neckline and then reverse strongly in the opposite direction.

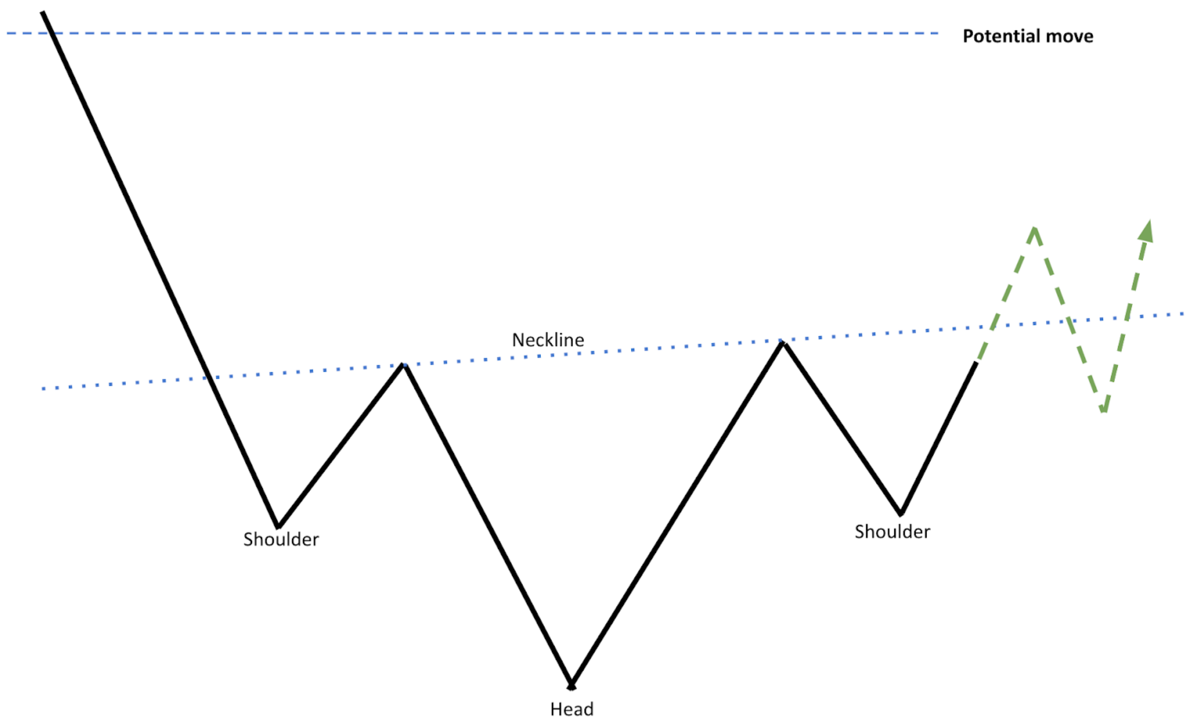
To increase our chances of success, we need to wait for certain things to happen, such as a break and close below the neckline, followed by a retest of the neckline. Once this happens, we can look for entry candles and make a trade.



If the price continues to rise above the right shoulder, the pattern is no longer valid, and we need to redraw the neckline. I am more than happy for the price to come back through the neckline to provide an entry. See the illustration below.



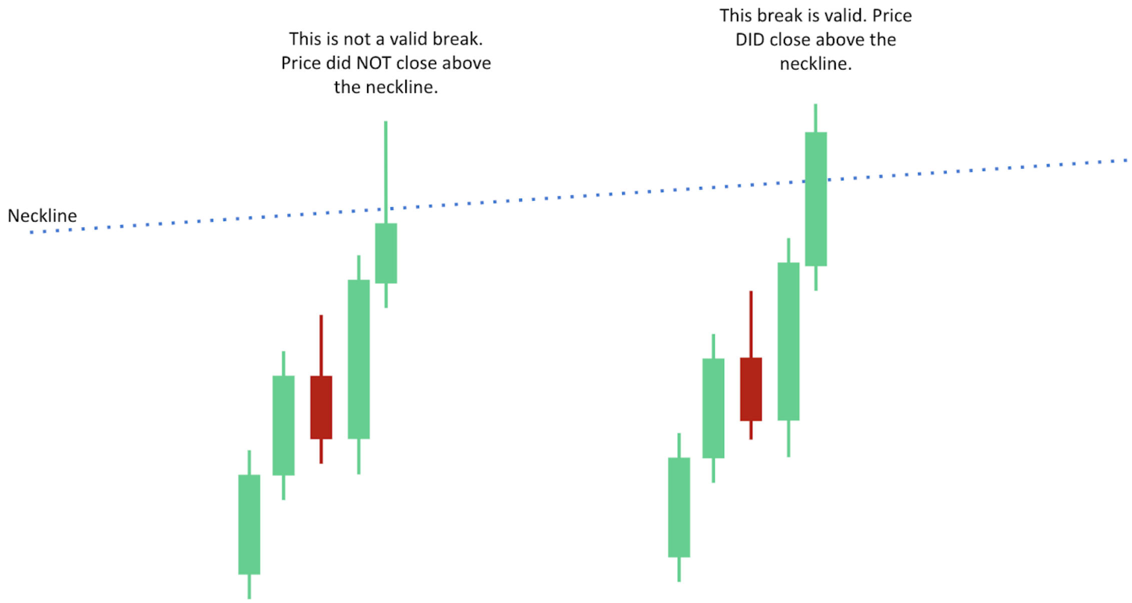
In an inverted head and shoulders pattern, we wait for a break above the neckline and a close above it, followed by a retest of the neckline.



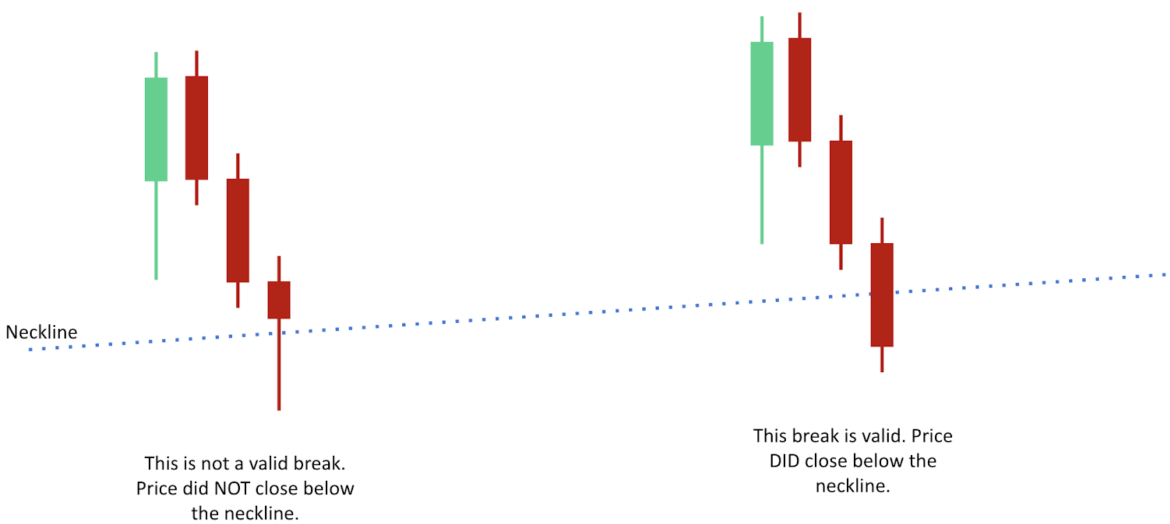
Often price will come back a long way through the neckline on a retest. I am happy to take an entry as long as the retest doesn't come so far that it takes out the high or low of the right shoulder.

To spot a genuine retest of the neckline, we need to look for an accurate drawing of the neckline and wait for the right set up and entry candles.

Have a look at the illustration below. Price has to close above the neckline for the break to be valid.

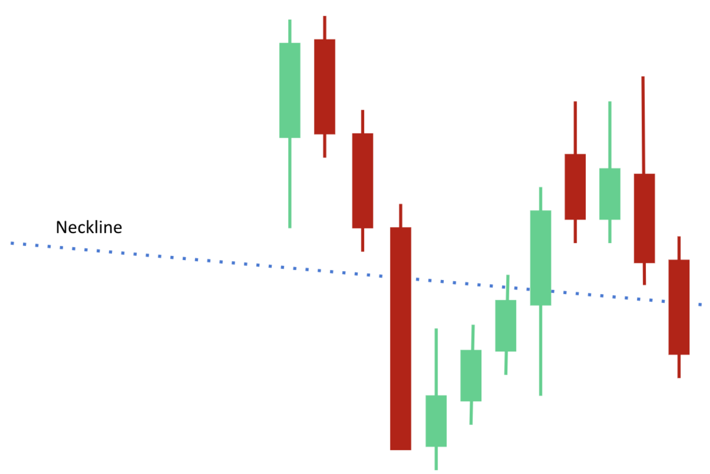


The same is true when looking to go short. Price has to break through the neckline and close below it.



In the example below you can see that price came up, closed above the neckline, came back down, retested the neckline, and then closed above.

Here’s another example, but this time going short. You can see that price broke below the neckline, retraced back up, before reversing through the neckline again. It’s this second reversal that tells us the neckline is truly broken.



Let’s take a look at an example on a real chart. You can see that price broke the neckline of the head and shoulders, retraced, and then continued down.

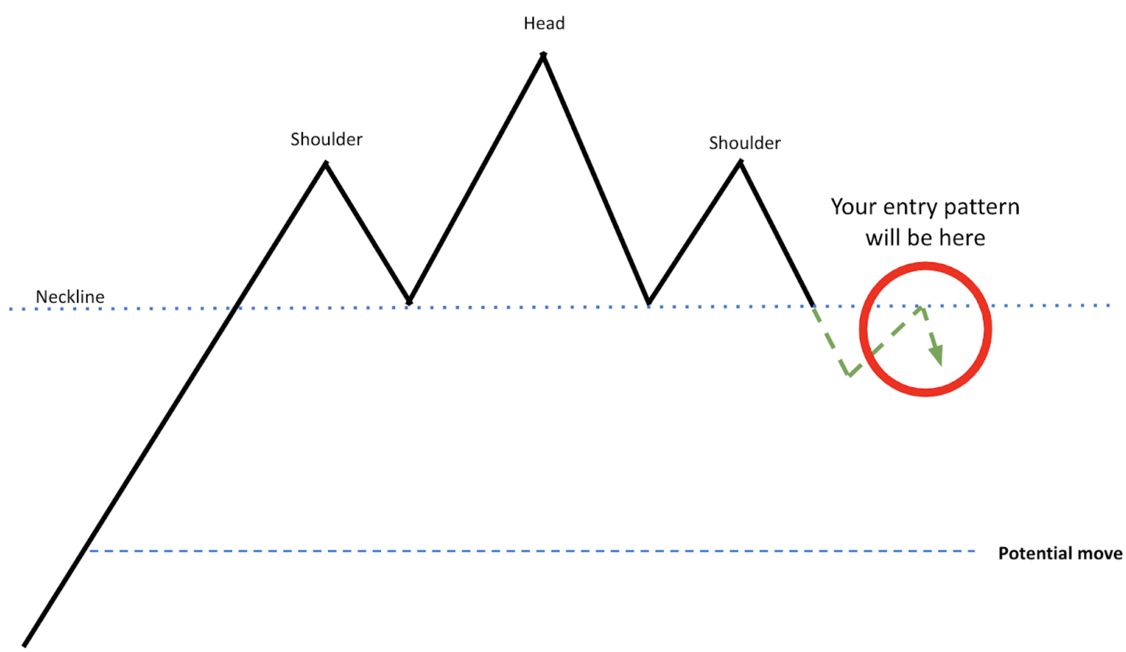
Step #7: The Entry Pattern

In this step we're going to identify the specific key reversal candle pattern which will allow you to get into the trade. And there's three of them. First, we'll just have a little quick recap.

1. **Timeframe:** You have determined which time suits your schedule.
2. **The Pattern:** You have identified Head & Shoulders patterns.
3. **The Neckline:** You have drawn in the neckline.
4. **The Potential:** You have confirmed price has 'room' to move.

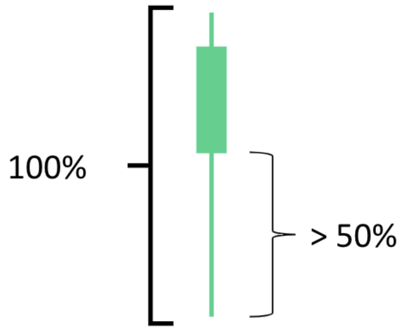
5. **Roadblocks:** You have identified all the potential roadblocks.
6. **Confirmation:** You have waited for price to break, close and retest the neckline.
7. **The Entry Pattern:** That's where you are right now. Let's dive in.

The entry pattern will determine where we want to enter the trade. Once the retrace is formed, you'll get a series of bars that'll tell you it's ready to move.

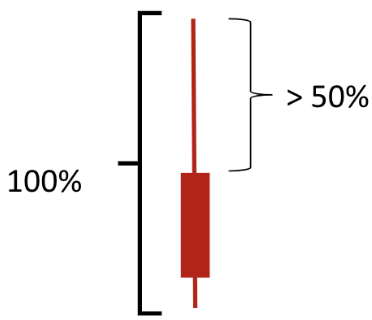


The first entry pattern to look for is the pin bar. While there are many definitions of what constitutes a pin bar, Simon's personal preference is to see a decent-sized bar that has a wick or shadow that's more than 50% of the overall size of the body.

For long trades, a pin bar with a long wick above the body is ideal, while for short trades, a pin bar with a long wick below the body is preferred.

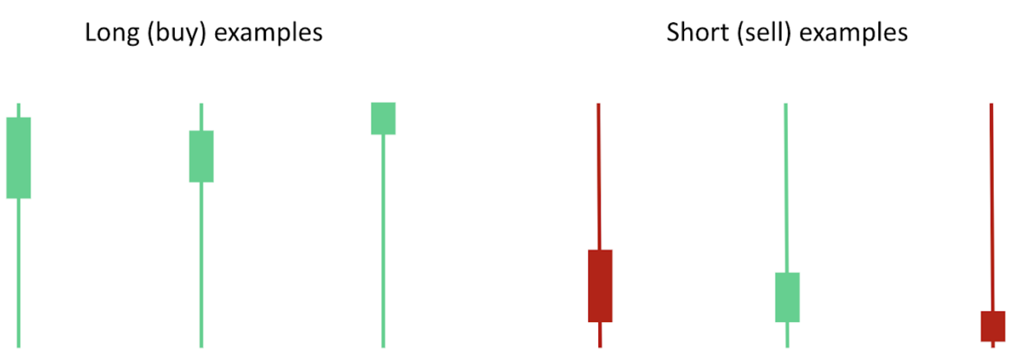


A long individual candle that has a wick (shadow) that is more than 50% of the overall range of the candle



The short bar is exactly the same, except the body is at the lower end of the bar.

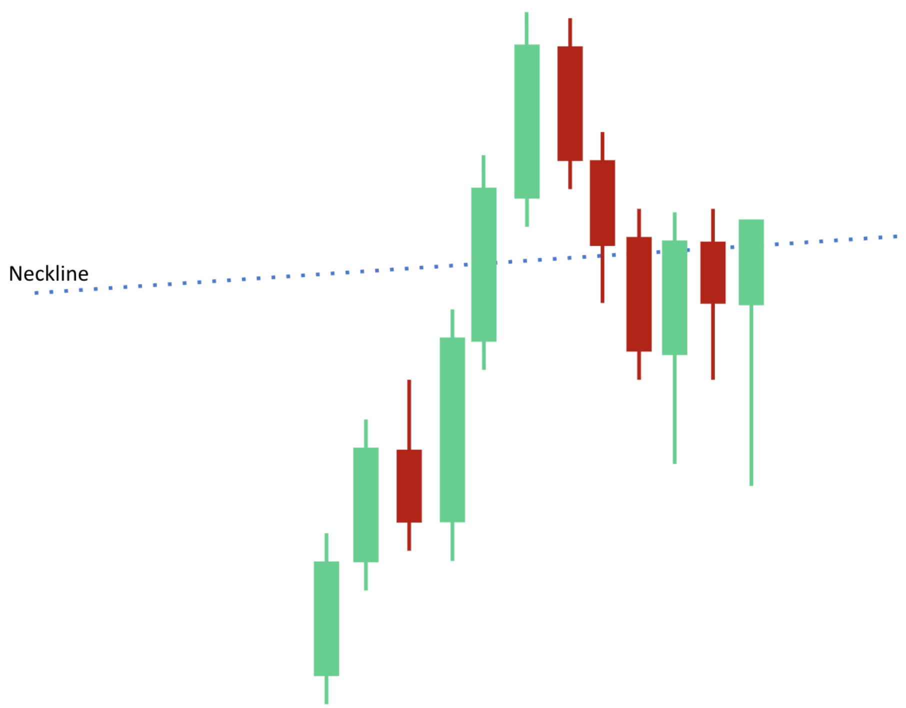
They can have different body sizes or wick lengths, but as long as the wick meets the 50% threshold and the bar is broken above (for longs) or below (for shorts), it's a valid setup candle.



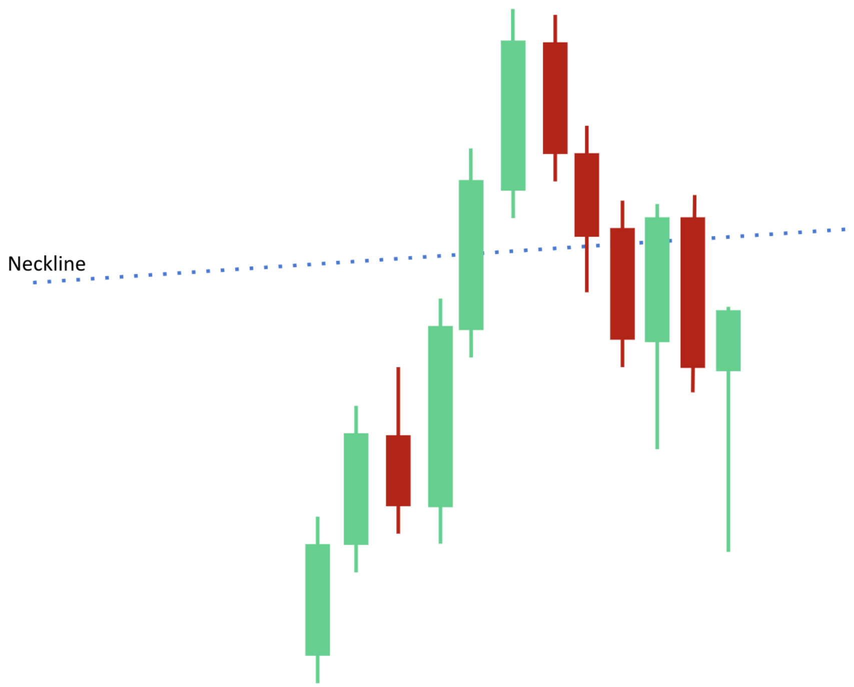
It's important to note that the color of the candle doesn't matter as long as the wick is on the right side for the type of trade being considered.

Pin bars can be a useful tool when combined with a break at the neckline and a retest, but not every candle with a long wick is a pin bar, as it needs to meet the 50% threshold..

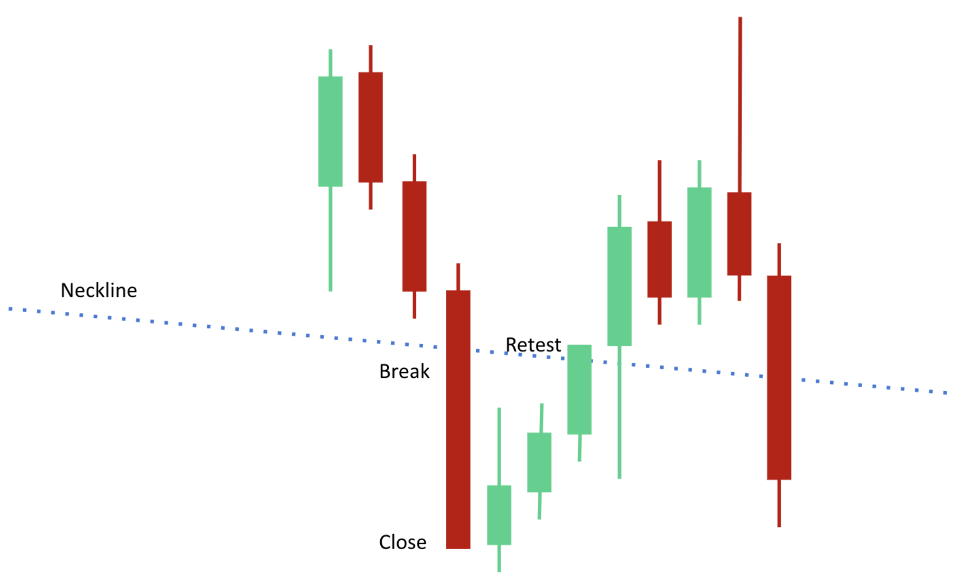
PINBAR Example #1



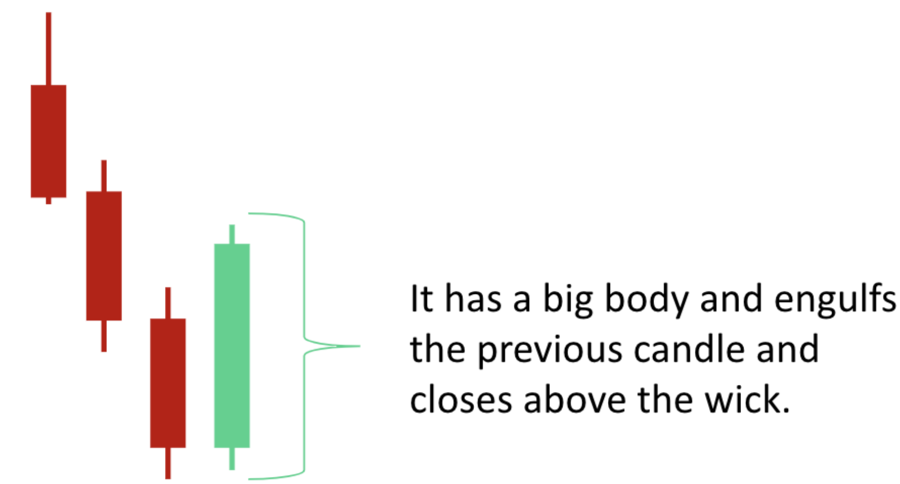
PINBAR Example #2

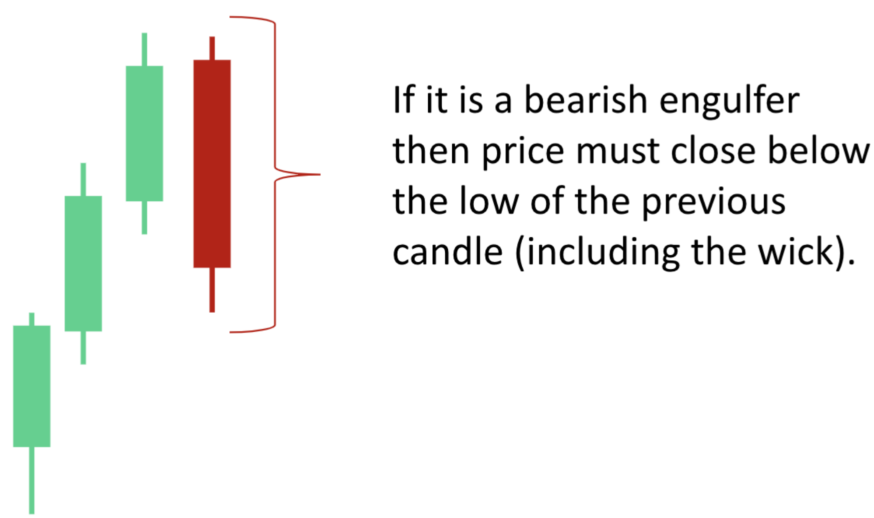


PINBAR Example #3



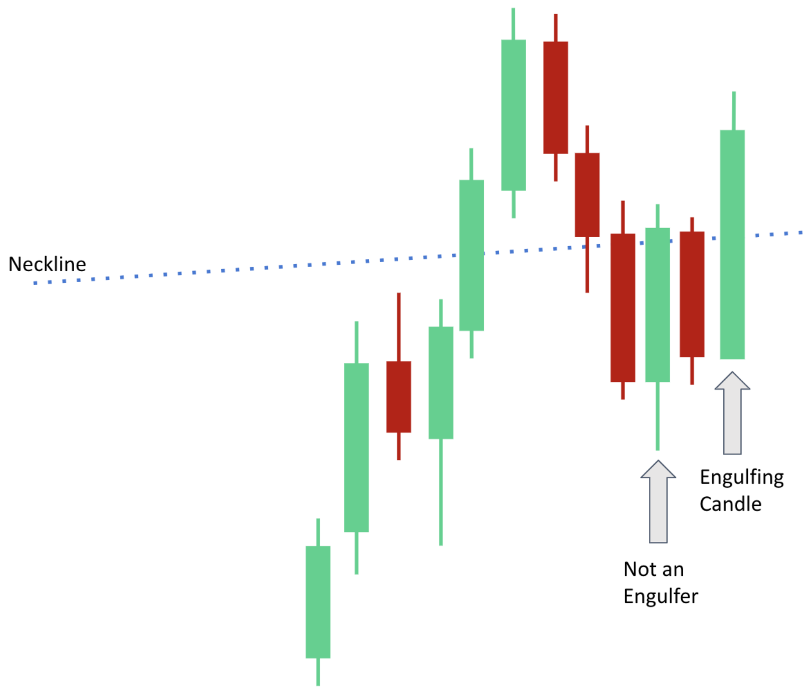
Let's take a look at another candle pattern called an engulfer. After a retest, we are looking for an entry and we find it in the form of an engulfing candle. It completely engulfs the body of the previous candle and any wick. Once it breaks, we can enter the trade.





Let’s take a look at some examples with a neckline drawn in.

ENGULFER Example #1

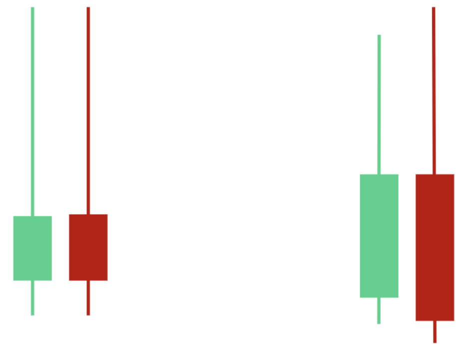


ENGULFER Example #2

ENGULFER Example #3 Stocks

The third and final entry pattern we're going to look at are called tweezers. They are 2 'longish' wick candles next to each other (they don't have to be pinbars). It is best if the bodies of the candles are roughly at the same level as each other.

The two on the left are "perfect" tweezers. In real life, you're more likely to experience the ones of the right.

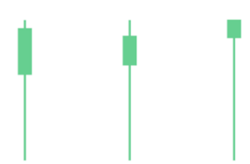
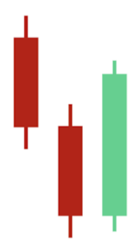
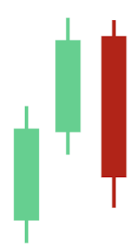


Let’s take a look at some examples with the neckline drawn in.

TWEEZER Example #1

TWEEZER Example #2

Now, at this point, you'll be forgiven for feeling a little lost with these entry patterns. That's why we have created a little cheat sheet for you in this book.

	Pinbar	Engulfer	Tweezer
Long			
Short			

Step #8: Exit Levels

In this step you're going to establish your take profit and stop loss levels. They will determine when you get out of the trade.

Let's do a quick recap of where we are:

1. **Timeframe:** You have determined which time suits your schedule.
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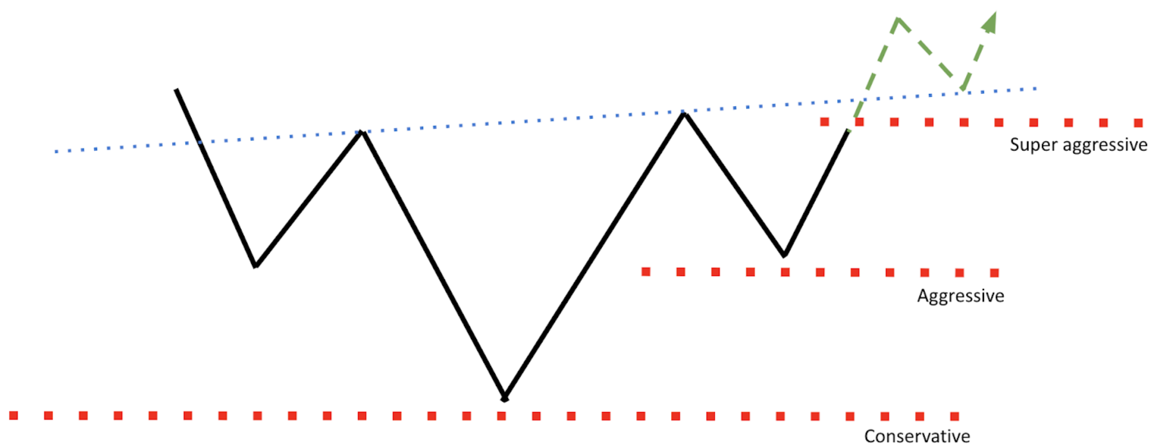
3. **The Neckline:** You have drawn in the neckline.
4. **The Potential:** You have confirmed price has 'room' to move.
5. **Roadblocks:** You have identified all the potential roadblocks.
6. **Confirmation:** You have waited for price to break, close and retest the neckline.
7. **The Entry Pattern:** You have recognized the key reversal entry patterns.
8. **Exit Levels:** You are here.

Let's start with the stop loss.

The stop loss is a key component of your exit plan. If price reaches this level, it means that you were probably wrong about the trade, and it's better to get out before it causes further damage to your account.

There are three ways to place the stop loss: conservative, aggressive, and super aggressive.

The conservative way is to place the stop loss behind the head of a standard head and shoulders pattern. The aggressive way is to place the stop loss behind the right shoulder, and the super aggressive way is to hide it behind the entry pattern.



Each method has its pros and cons, and it's essential to choose one and remain consistent with it.

The super aggressive way might result in a win rate of less than 50%, but it can have a reward-to-risk ratio of 4:1, resulting in good profits.

On the other hand, the conservative method might have a win rate of 70% or more, but only a 1.5:1 reward-to-risk ratio. Ultimately, it doesn't matter which method you choose as long as you're consistent with it, as they will all result in similar profits over time. It's crucial to find the approach that works best for you and allows you to cope with the trading losses and wins.

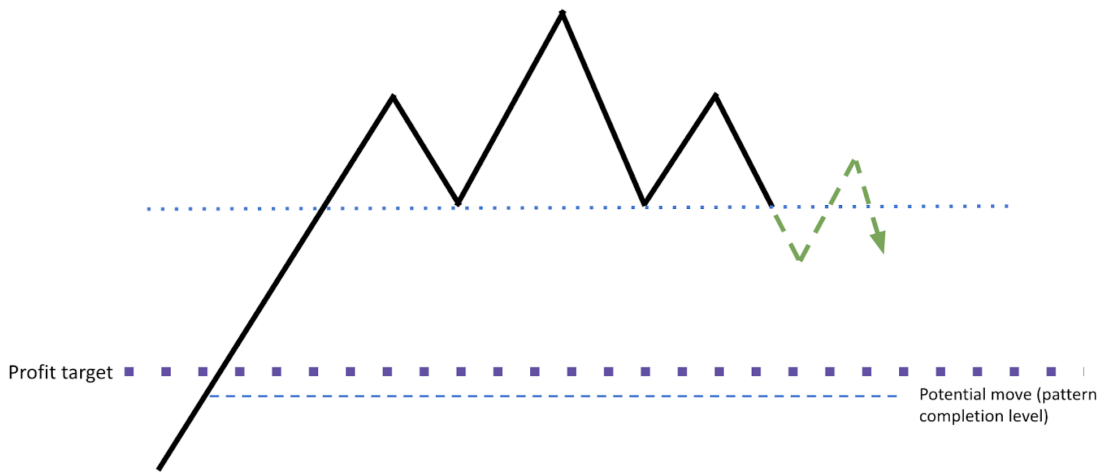
Conservative Stop Loss Example

Aggressive Stop Loss Example

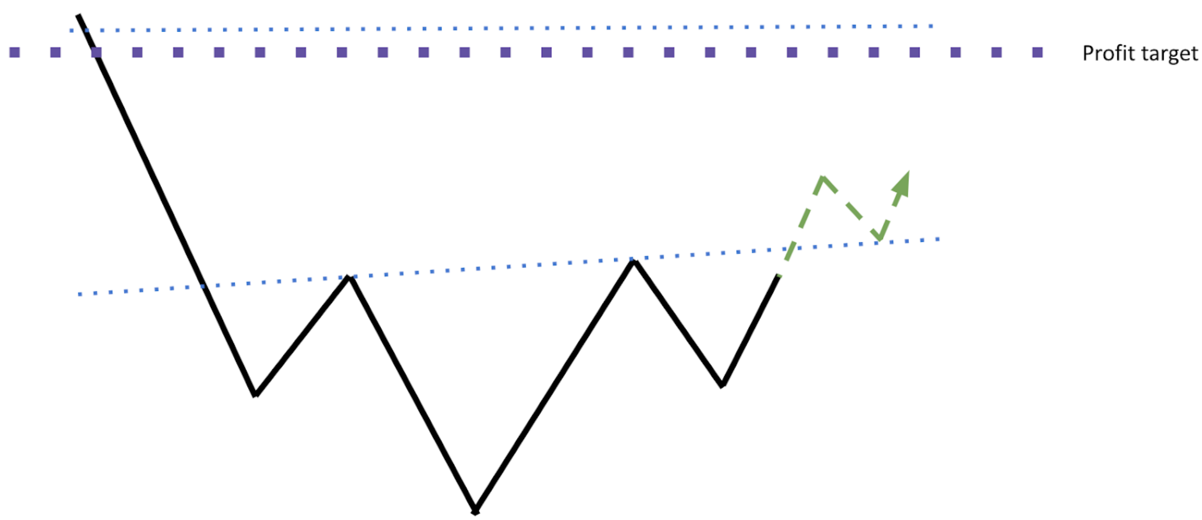
Let's talk about setting our take profit level and validating our risk to reward.

First, we determine our pattern completion level, which we have already done in the past.

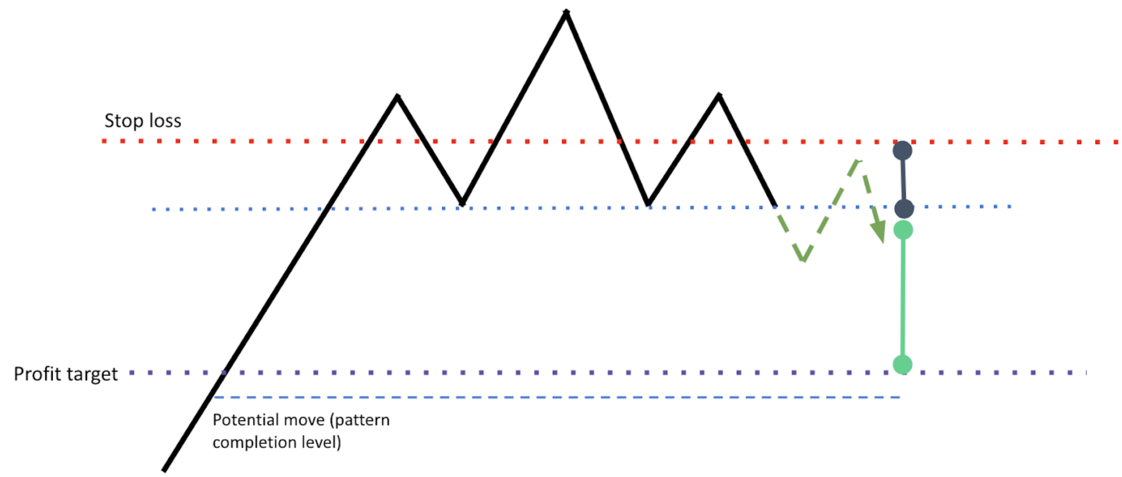
For a standard Head and Shoulders pattern, we place the take profit level just above the completion level, taking into account spread widening that could happen at certain times of the day. This way, we can hit our profit target without any worries.



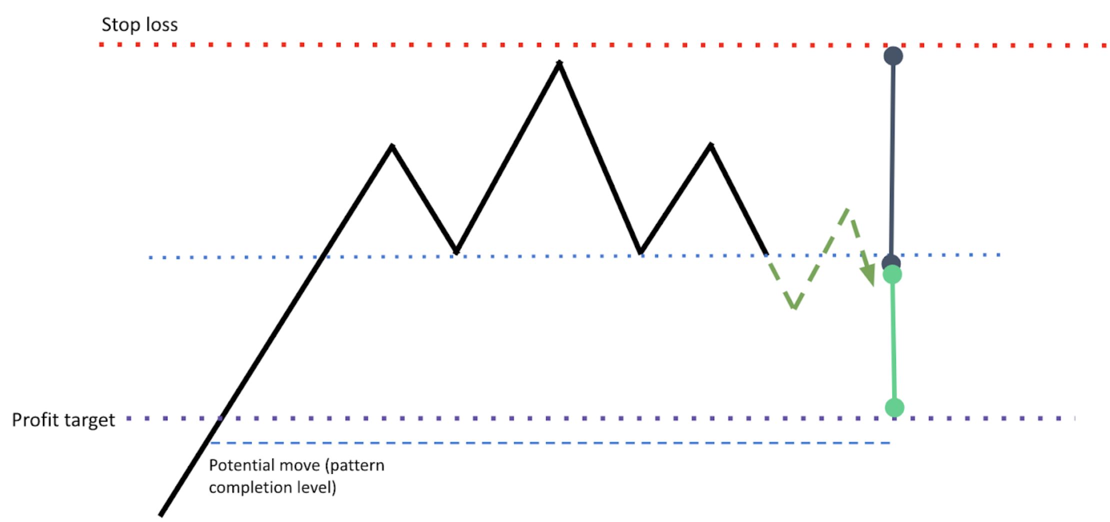
On the other hand, in the case of an Inverted Head and Shoulders pattern, we place the profit target just below the completion level for the same reason.



Now, we need to ensure that we have a positive risk-to-reward ratio by measuring the stop loss. If the profit target is further away from the entry than the stop loss, then you have a positive reward-risk ratio, like the illustration below.



In contrast, this illustration shows that the stop loss is further away from the entry than our profit target. This would not be a valid trade.



Step #9: Enter

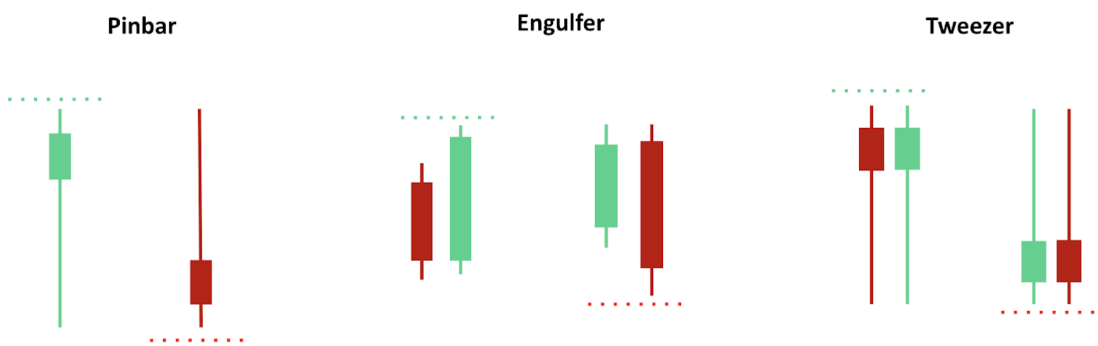
It's time to enter the trade. Let's do a quick recap of what we've covered:

1. **Timeframe:** You have determined which time suits your schedule.
2. **The Pattern:** You have identified Head & Shoulders patterns.
3. **The Neckline:** You have drawn in the neckline.

4. **The Potential:** You have confirmed price has 'room' to move.
5. **Roadblocks:** You have identified all the potential roadblocks.
6. **Confirmation:** You have waited for price to break, close and retest the neckline.
7. **The Entry Pattern:** You have recognized the key reversal entry patterns.
8. **Exit Strategy:** You have marked your exits and know where your stop loss and profit targets are.
9. **Entering The Trade:** You are here! It's time to pull the trigger.

You want to enter the trade a few points above or below the bar, depending on if you're going long or short.

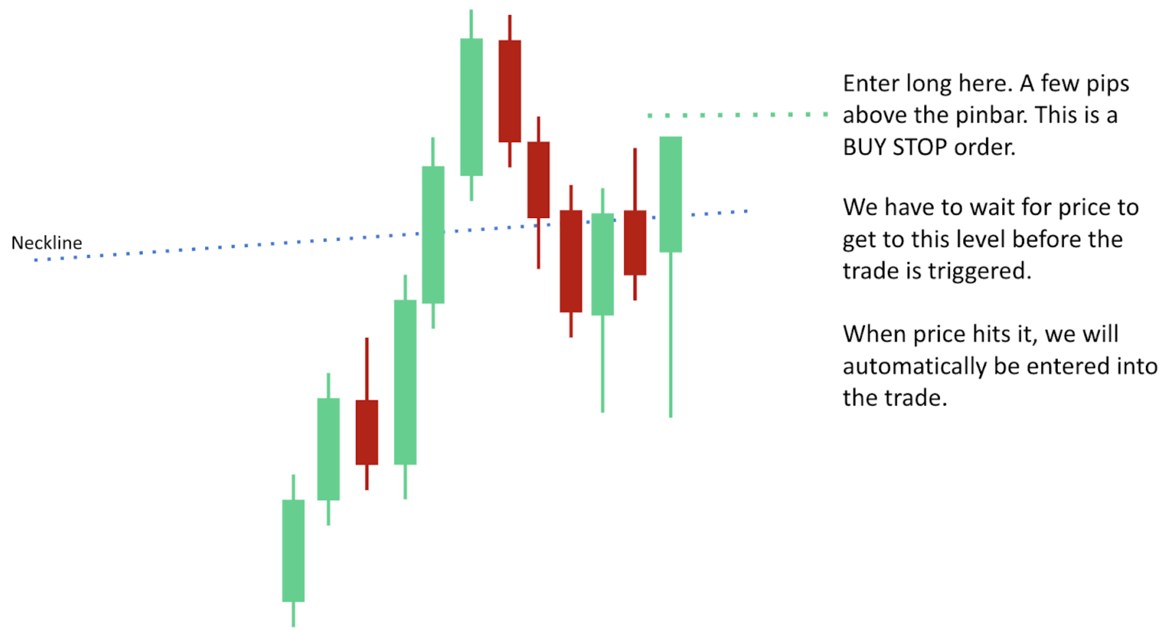
We wait for the price to break above a certain number of pips or points above the PinBar, Engulfer, or Tweezer.



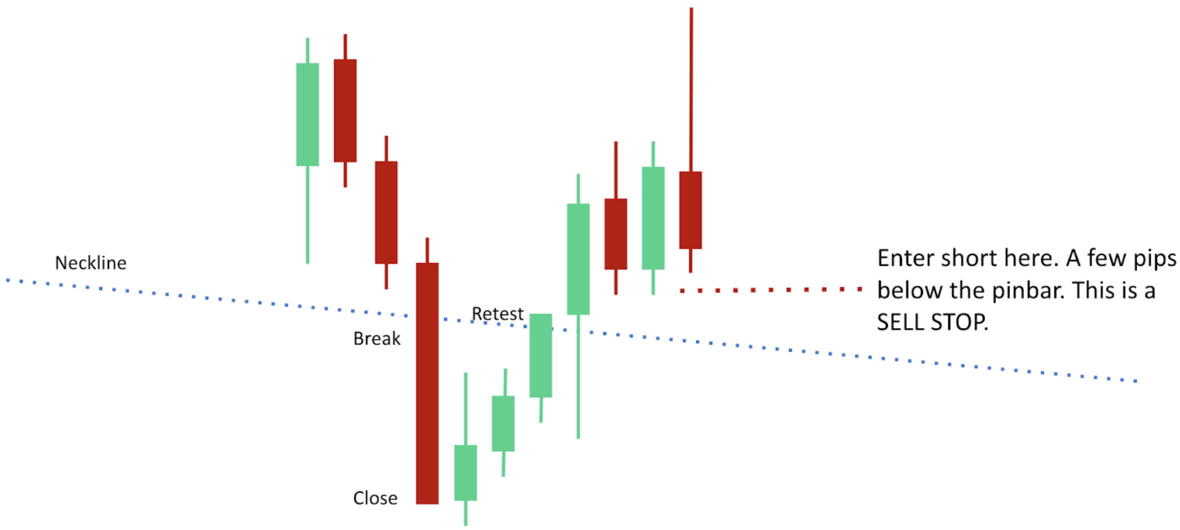
The number of pips we give room above the entry candle depends on the time frame we are trading. For instance, if we are trading a 15-minute chart, we might give one or two pips above the setup candle. If we are trading a longer time frame, we might give it more room, maybe five to ten pips above or below the entry setup candles.

We use two types of orders: pending orders and market orders.

When we want to go long, we use a buy-stop order, and when we want to go short, we use a sell-stop order. Let's say we have a PinBar entry candle, and we plan to enter a trade if it breaks above by two pips. As the candle closes, we can set a buy-stop pending order at that level in our trade execution window.



Similarly, if we want to enter a short trade, we use a sell-stop pending order. As the candle closes, we set a sell-stop order at the point where we want the trade to be triggered if it reaches that level. This approach also applies to engulfers and tweezers.



Sometimes, there may not be enough time to set a Buy Stop or Sell Stop pending order, and you might have to enter the market by a market order. This means that when the price breaks down below the pin bar and reaches your entry-level, you manually trigger the trade by clicking the button.

Although this is an option, the best and most common way to enter the market is by setting a pending order. By doing this, you eliminate subjectivity and ensure that the trade enters at the desired level.

Using a pending order reduces the risk of price quickly moving through your desired entry level, and you missing the opportunity to enter the trade. This is why it's the preferred method of entry. In these cases, a Buy Stop or a Sell Stop order can be used.

Now, before entering the trade you need to understand risk.

To properly manage risk, it's important to determine the appropriate position size or volume to enter the market at. This will vary for each trade and depends on factors such as the instrument being traded and the stop loss level.

It's important to get this right, as risking too much can be detrimental to your account if you experience a series of losing trades. It's recommended to use a demo account if you're inexperienced in this type of entry criteria until you're comfortable making consistently correct trading decisions.

When transitioning to a live account, it's crucial to start with caution and risk only a small percentage of your capital per trade. For the first 100 trades, it's recommended to risk no more than 0.5% per trade, and gradually increase this percentage over time.

For example, for a $10,000 account, risking 1% per trade would mean risking $100. It's not advisable to risk more than 1% per trade, even for experienced traders. Some experienced traders may risk up to 2% in rare circumstances, but this is after years of trading the same patterns. Risking too much can affect your mental state.

Here are some risk guidelines:

- Trade on demo until you are comfortable.

- Risk 0.5% for your first 100 trades.
- Risk 0.75% on your next 100 trades.
- Risk about 1% from then on.
- The lower your risk the easier it is on your trading psychology.

To figure out your risk simply write down your stop loss and entry. Subtract them from each other and you'll have your risk.

Here are a few examples.

EURUSD short
Entry: 1.2343
Stop loss: 1.2383
Risk: 40 pips

EURGBP long
Entry: 0.8792
Stop loss: 0.8773
Risk: 19 pips

TSLA long
Entry: 465.92
Stop loss: 399.10
Risk: $66.82 or 6682 points.

Let's take the first example. Now that we know our EURUSD trade has a 40 pip risk, we can work out our position size.

1% of our $10,000 account is $100. 40 pips divided by $100 is 2.5. Therefore, our position size will be $2.50 per pip. Or 0.25 lots.

There are many position size calculators online that can do this calculation for you automatically.
MyFXBook has one for Forex and PositionSize.co has one for stocks.

Alright, let's quickly recap this step.

1. Write down your stop loss and entry to determine your risk.

2. Use a trade size calculator to determine trade volume by inputting your stop loss (in pips), account size and % risk that you are willing to take on the trade (usually 0.5-1.0%).

3. Open your broker's trade execution window.

4. Enter the trade details into the trade execution window of your trading platform - set the type of order (generally a buy/sell stop order or a market order), set the entry-level (2 pips above/below the entry setup candle), set the trade volume (from your risk calculator), input the predetermined stop loss and take profit levels and then click the buy (long trade) or sell (short trade) button.

And there you have it. Simon Pullen's entire trading strategy. Simon often does free live events inside TheTrading.cafe. I'd recommend joining him there to deepen your understanding of his strategy.