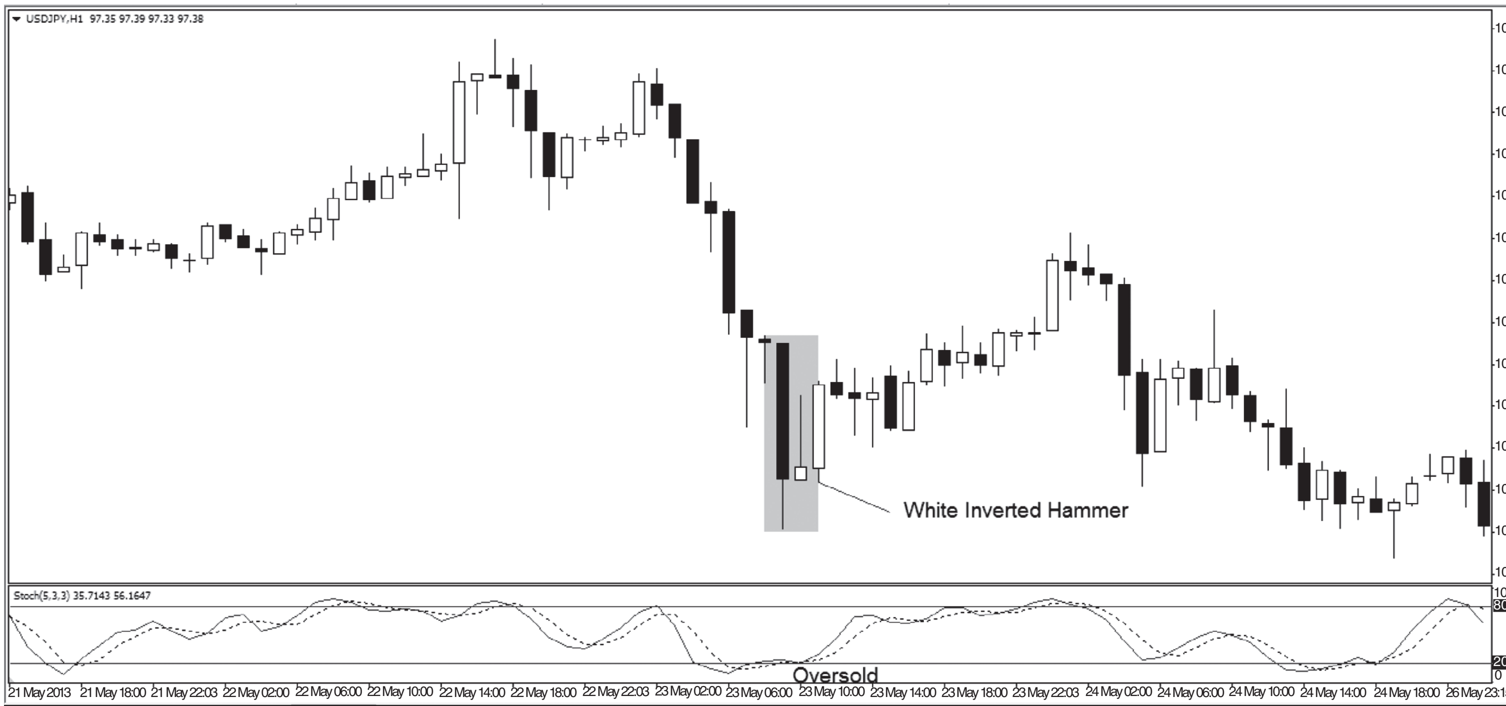


FIGURE 4.3 UsdJpy Hourly (2013)—Inverted Hammer seen after a decline is bullish

Pattern description: The Shooting Star is a single candle with a long upper shadow and a small real body. The longer the shadow the more significant is the pattern. A Shooting Star is an Inverted Umbrella Candle found after an advance or at a high price area.

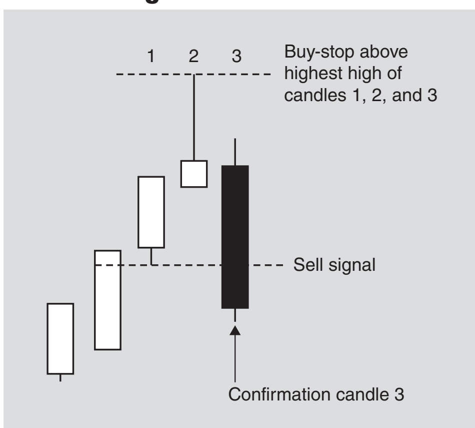
Rules of Recognition

1. An uptrend must be in progress.
2. The open and close have a very tight range (small real body).
3. The upper shadow must be at least twice the length of the real body (three times or more is better).
4. It should have no, or a very short, lower shadow.
5. Colour is unimportant.
6. The sharper the prior rally, the higher is the probability of a market top.

Interpretation: Bearish signal.

Proper action: Sell signal if followed by a bearish confirmation candle.

Selling on the Shooting Star Pattern

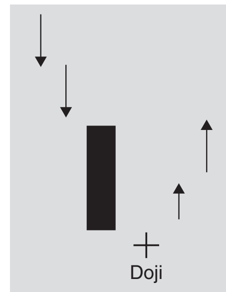


Rules

1. Sell if confirmation candle 3 closes below the lowest low of candles 1 and 2.
2. In case of a resumption of an uptrend, place buy-stop above the highest high of candles 1, 2, and 3.

Figure 4.4 shows an example of selling on the Shooting Star pattern.

Doji at the Bottom



Pattern description: A doji is a single candle where the open and close are at the same price. It has no real body. The upper and lower shadows can be long or short.

Rules of Recognition

1. A downtrend must be in progress.
2. The first day is a long black day followed by a doji.
3. A doji found within the real body of the prior candle is called a Harami Cross pattern.
4. A doji that gaps below the real body of the prior candle forms a Doji-Star.

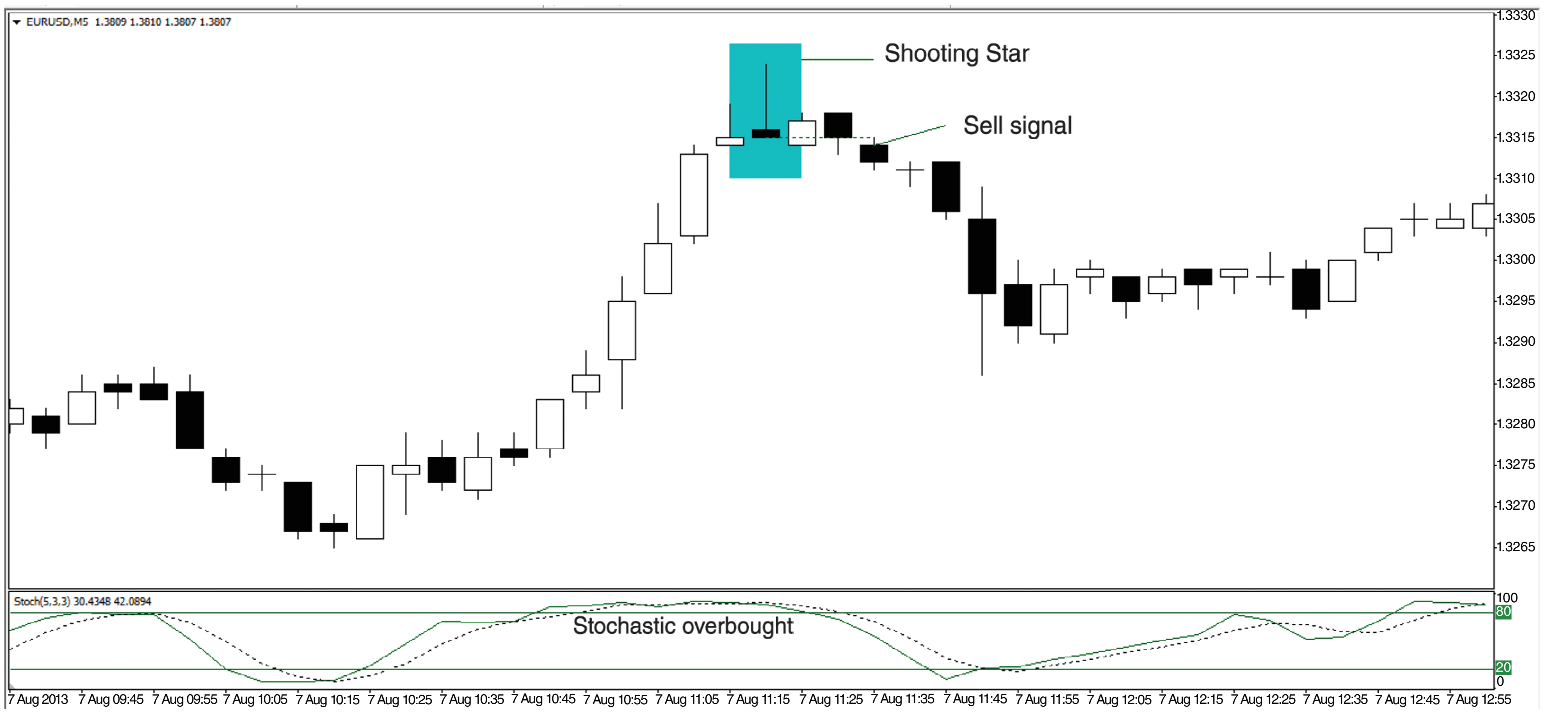
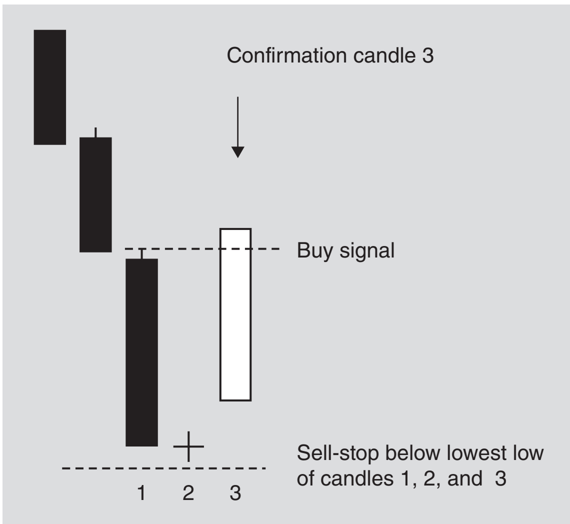


FIGURE 4.4 EurUsd 5-Minute (2013)—Shooting Star seen after an advance is bearish

Interpretation: Normally a doji is a sign of market indecision, hence a neutral candle. But seen after a decline or at the bottom of a trend, a doji has bullish potential. It could signal a possible major market reversal to the upside.

Proper action: Excellent if it has gapped below to form a Star. Buy signal if followed by a bullish confirmation candle.

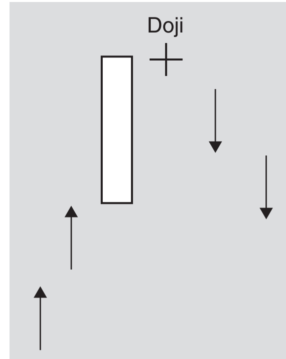
Buying on the Doji at the Bottom



Rules

1. Buy if confirmation candle 3 closes above the highest high of candles 1 and 2.
2. In case of a resumption of a downtrend, place sell-stop below the lowest low of candles 1, 2, and 3.

Doji at the Top



Pattern description: A doji is a single candle where the open and the close are at the same price. It has no real body. The upper and lower shadows can be long or short.

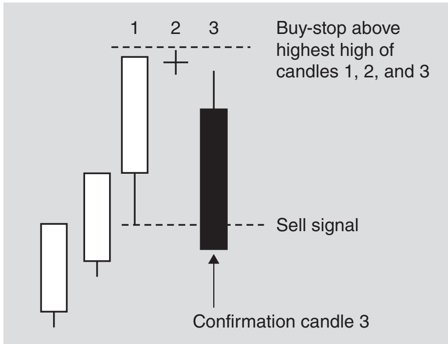
Rules of Recognition

1. An uptrend must be in progress.
2. The first day is a long white candle followed by a doji.
3. A doji found within the real body of the prior candle is called a Harami Cross pattern.
4. A doji that gaps above the real body of the prior candle is called a Doji-Star.

Interpretation: Normally, a doji is a neutral candle, but seen after a rally or at the top of a trend, a doji has bearish potential. It could signal a possible major market reversal.

Proper action: Excellent if it has gapped above to form a Star. Sell signal if followed by a bearish confirmation candle.

Selling on the Doji at the Top



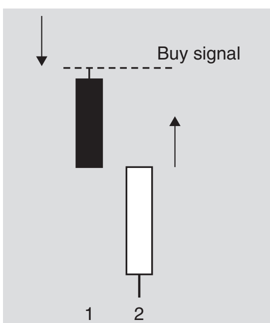
Rules

1. Sell if confirmation candle 3 closes below the lowest low of candles 1 and 2.
2. In case of a resumption of an uptrend, place buy-stop above the highest high of candles 1, 2, and 3.

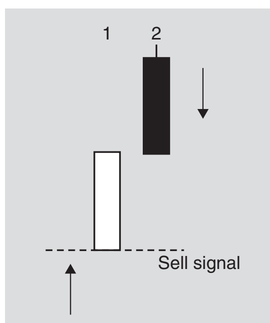
Figure 4.5 and Figure 4.6 show some examples of doji at the bottom and top patterns.

Bullish Meeting and Bearish Meeting Lines

Bullish Meeting Line



Bearish Meeting Line



The Bullish Meeting and Bearish Meeting Lines pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Bullish Meeting Line (Bullish)

Pattern description: The Bullish Meeting Line is formed when a black candle is followed by a white candle, which gaps down on the open but rallies to close at the same price as the black candle.

Rules of Recognition

1. A downtrend must be in progress.
2. The Bullish Meeting Line starts with a long black candle on the first day.
3. The second day gaps lower on the opening, but buying pushes the market to close at the first day's close.
4. Both days have long real bodies of the opposite colour.

Interpretation: Meeting lines are sometimes called counterattack lines. The Bullish Meeting Line is almost like a Piercing Line except that in the Bullish Meeting Line, the close of the current candle is at the same price as the close of the first candle. Unlike the Piercing Line, it does not penetrate into the black real body of the first candle. The Bullish Meeting Line is therefore less bullish than the Piercing Line.

Proper action: Possible bullish reversal. Buy only if there is a bullish confirmation candle that closes above the high of candle 1. Otherwise, the downtrend can continue.

Bearish Meeting Line (Bearish)

Pattern description: The Bearish Meeting Line is formed when a white candle is followed by a gapping black candle on the open but declines to close at the same price as the white candle.

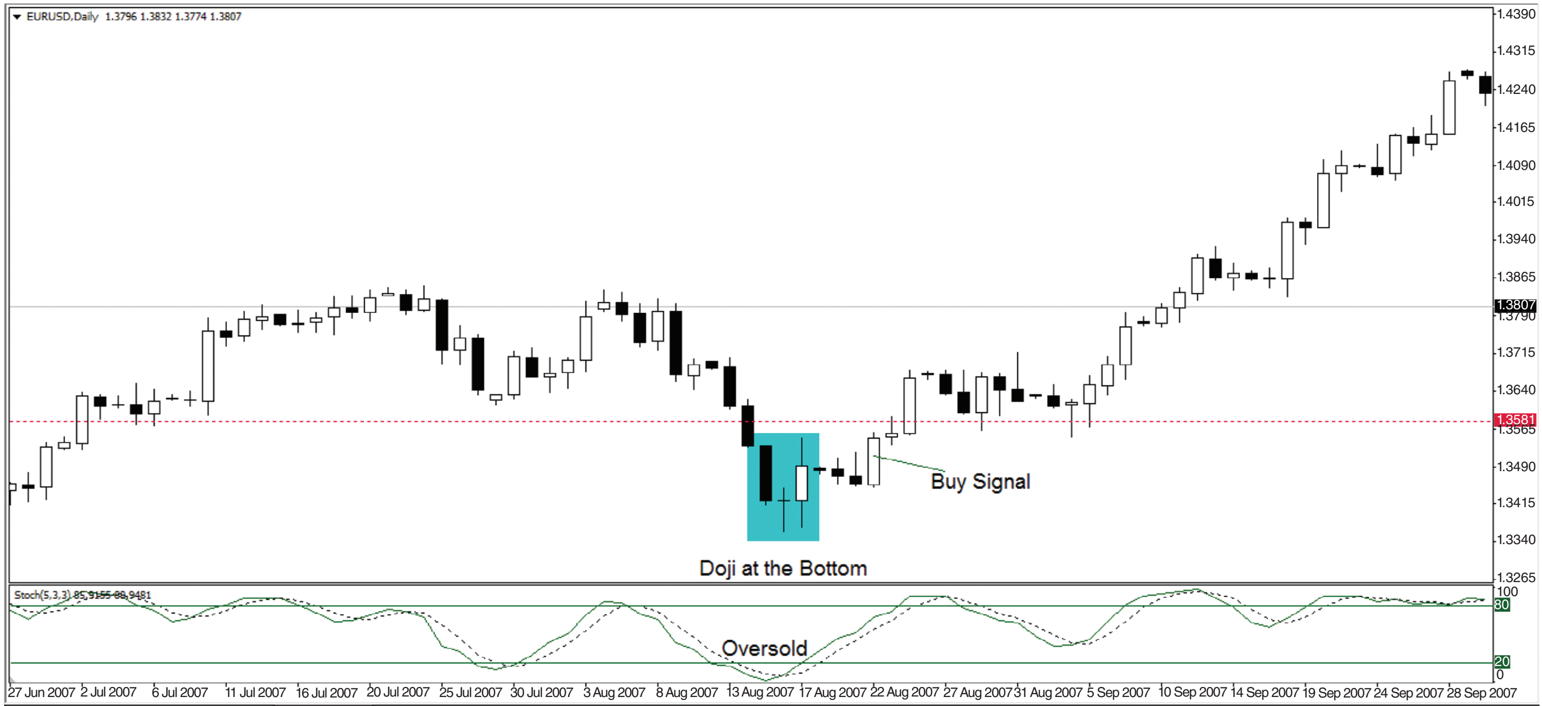


FIGURE 4.5 EurUsd Daily (2013)—A doji seen after a decline is bullish

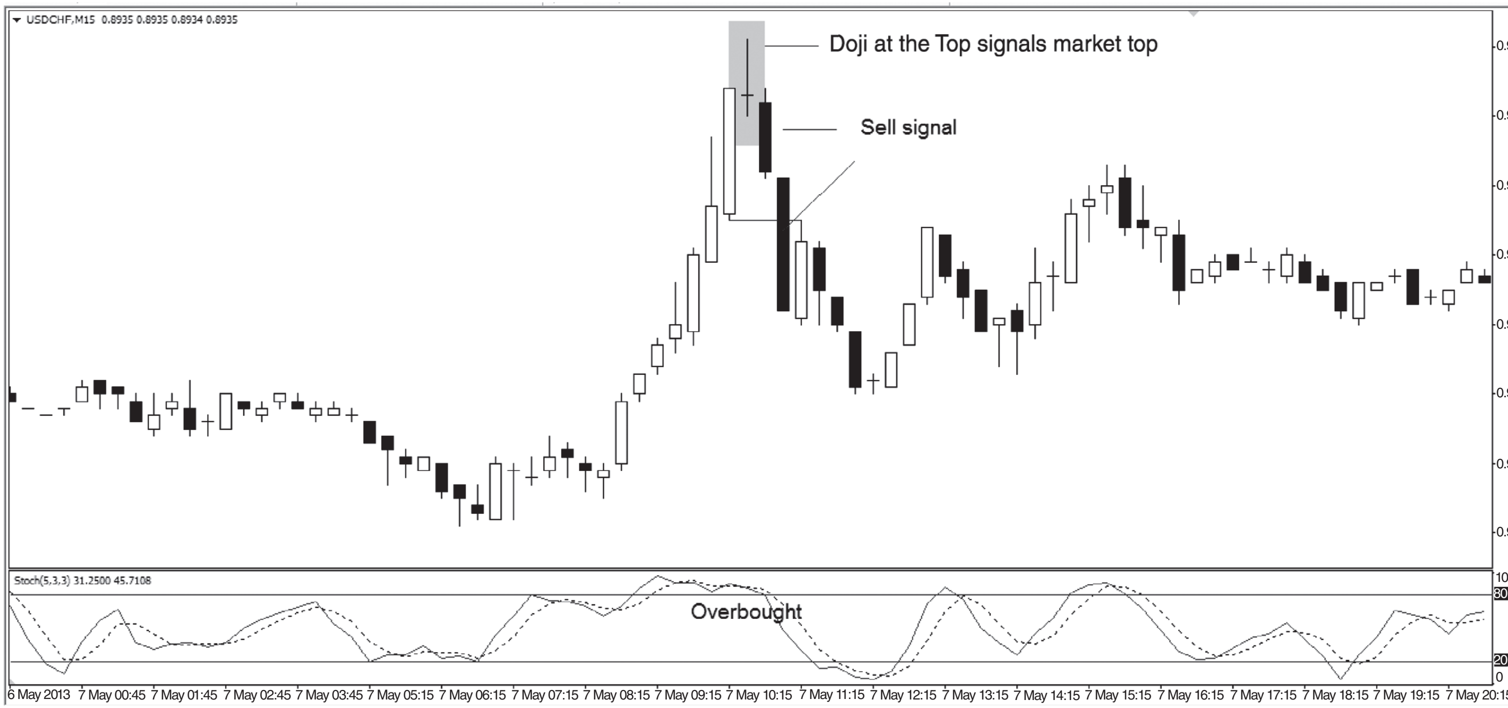


FIGURE 4.6 UsdChf 15-Minute (2013)—A doji seen after an advance is bearish

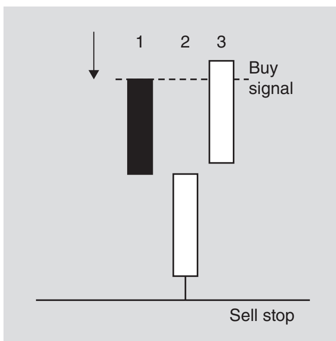
Rules of Recognition

1. An uptrend must be in progress.
2. The first day is a long white candle.
3. The second day gaps higher on the opening, but selling pushes the market to close at the first day's close.
4. Both days have long real bodies of the opposite colour.

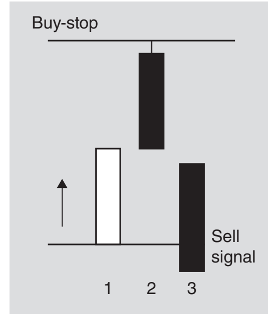
Interpretation: Meeting lines are sometimes called counterattack lines. The Bearish Meeting Line is almost like a Dark Cloud Cover except that in the Bearish Meeting Line, the current close is at the same price as the close of the previous white candle. Unlike the Dark Cloud Cover, it does not penetrate into the white real body of the first candle. The Bearish Meeting Line is therefore less bearish than the Dark Cloud Cover.

Proper action: Possible bearish reversal. Sell only if there is a bearish confirmation candle that closes below the low of candle 1. Otherwise, the uptrend can continue.

Trading the Bullish Meeting and Bearish Meeting Lines Figure 4.7 and Figure 4.8 show some examples of the Bullish and Bearish Meeting Line patterns.

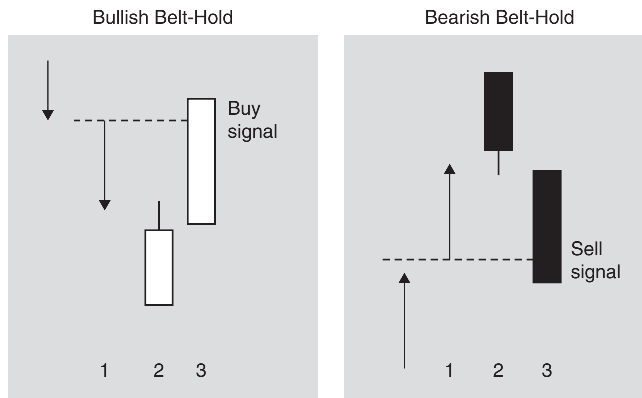


The close on candle 3 must exceed the high of candle 1 to trigger a buy signal. Place sell-stop below the lowest low of candles 1 and 2.



The close on candle 3 must exceed the low of candle 1 to trigger a sell signal. Place buy-stop above the highest high of candles 1 and 2.

Bullish Belt-Hold and Bearish Belt-Hold Lines



Bullish Belt-Hold and Bearish Belt-Hold pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

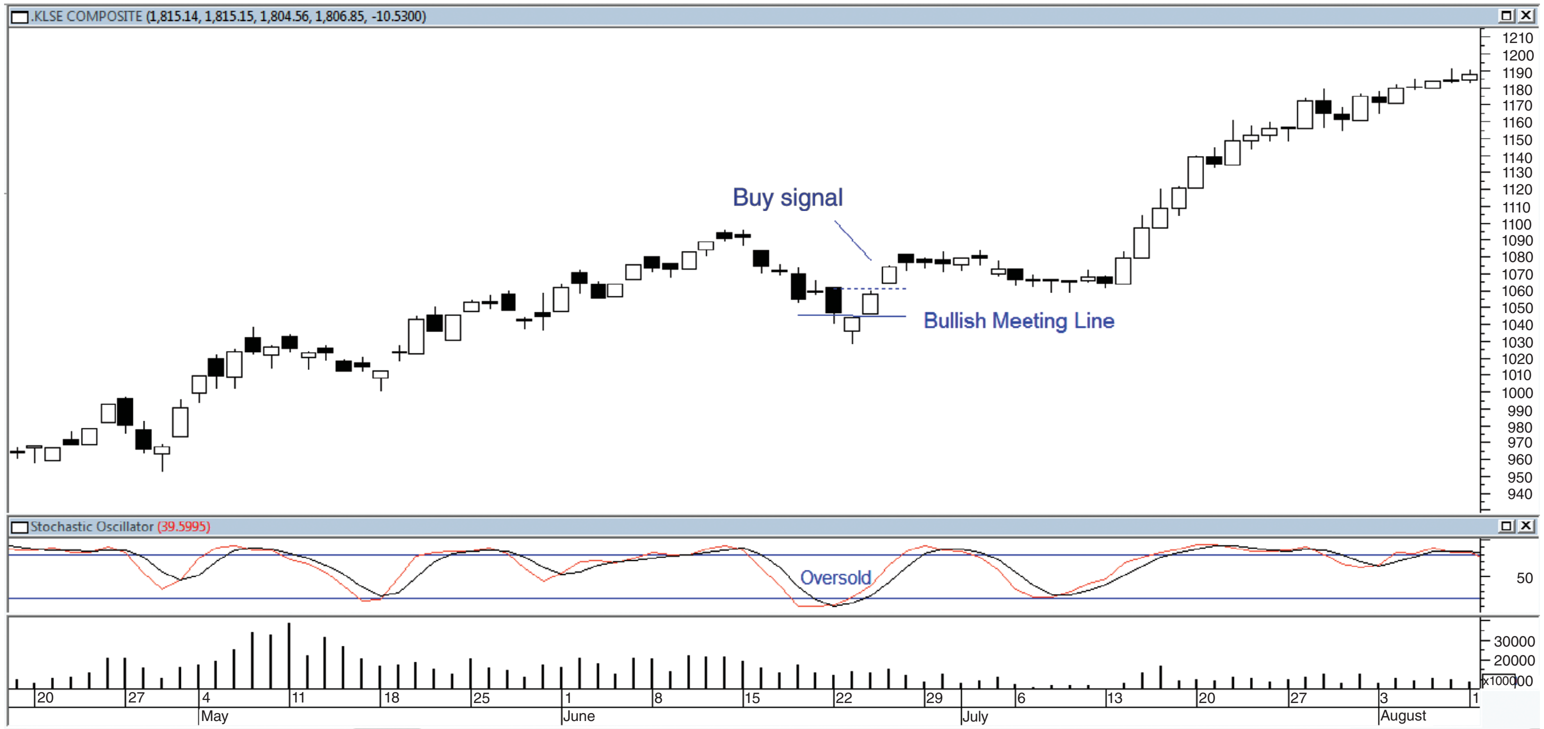


FIGURE 4.7 Kuala Lumpur Composite Index Malaysia Daily (2010)—Bullish Meeting Line

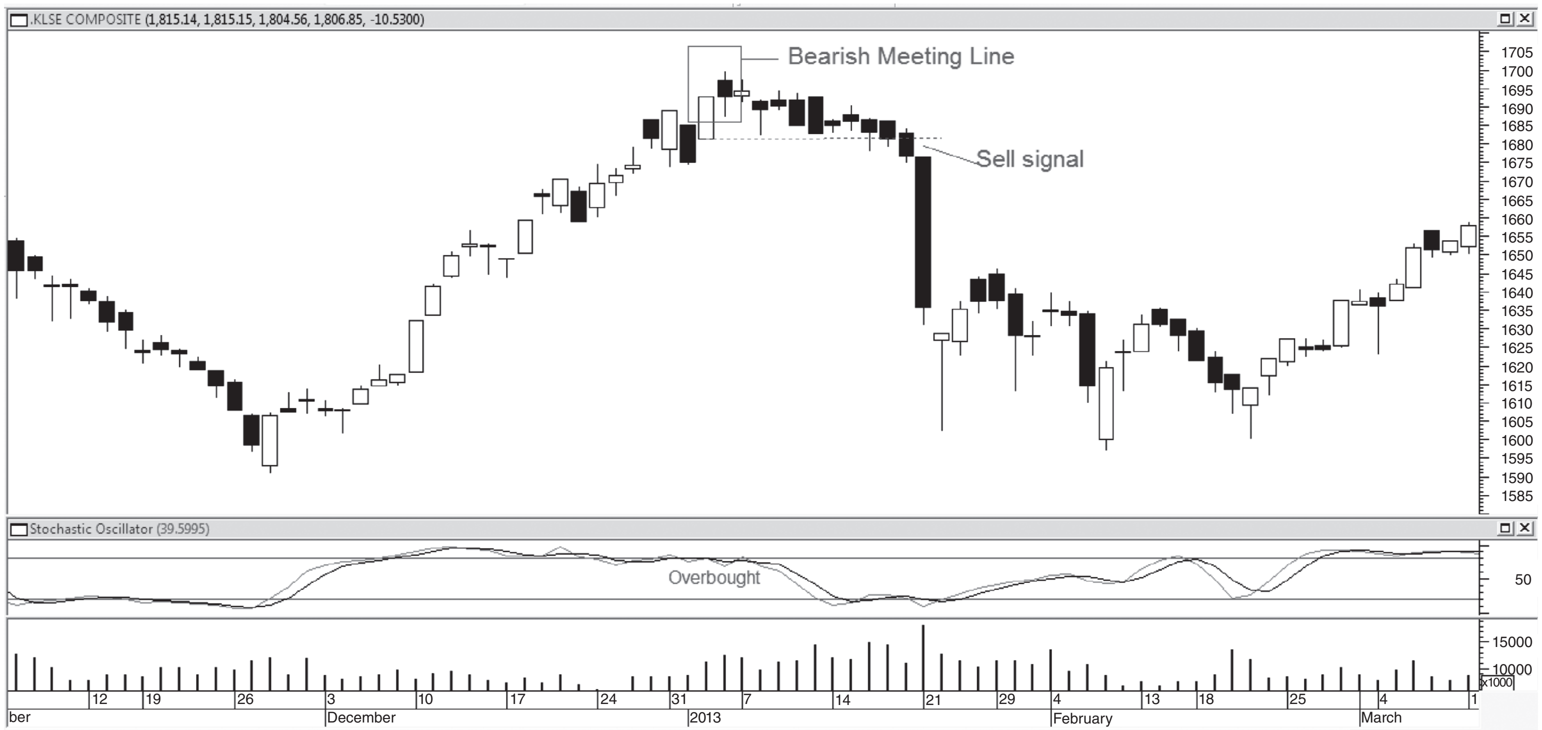


FIGURE 4.8 Kuala Lumpur Composite Index Malaysia Daily (2013)—Bearish Meeting Line

Bullish Belt-Hold Line (Bullish)

Pattern description: The Bullish Belt-Hold Line is a White Opening Bozu candle seen in a downtrend. It opens at the low but closes back up near the high, rallying against the downtrend.

Rules of Recognition

1. A downtrend must be in progress.
2. In a bullish scenario, the market opens with a down gap in the direction of the downtrend but thereafter rallies all the way up to close near the day's high.
3. The Bullish Belt-Hold Line is also called a White Opening Bozu Line where it does not have a lower shadow because it opens at the low but closes near its high, leaving an upper shadow.
4. The Japanese name for Belt-Hold is the sumo wrestling term *yorikiri*, which means "pushing your opponent out of the ring while holding on to his belt."

Interpretation: The Bullish Belt-Hold Line is classified as a bullish reversal pattern because of its appearance after a defined downtrend. It is similar to the counterattack line or Bullish Meeting Line except that it is a White Opening Bozu Line.

Proper action: Possible bullish reversal. Buy only if there is a bullish confirmation candle that closes above the highest high of candles 1 and 2. Otherwise, the downtrend can continue.

Bearish Belt-Hold Line (Bearish)

Pattern description: A Bearish Belt-Hold Line is a Black Opening Bozu candle seen in an uptrend. It opens at the high but closes back down near the low, correcting the uptrend.

Rules of Recognition

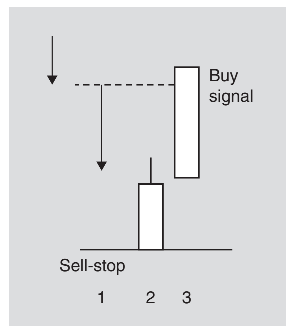
1. An uptrend must be in progress.
2. In a bearish scenario, the market opens with an up gap in the direction of the uptrend but thereafter declines all the way down to close near the day's low.
3. The Bearish Belt-Hold Line is also called an Black Opening Bozu Line where it does not have an upper shadow because it opens at the high but closes near its low, leaving a lower shadow.
4. The Japanese name for Belt-Hold is the sumo wrestling term *yorikiri*, which means "pushing your opponent out of the ring while holding on to his belt."

Interpretation: The Bearish Belt-Hold Line is a bearish reversal pattern because of its appearance after a defined uptrend. It is similar to the counterattack line or Bearish Meeting Line except that it is a Black Opening Bozu Line.

Proper action: Possible bearish reversal. Sell only if there is a bearish confirmation candle that closes below the lowest low of candles 1 and 2. Otherwise, the uptrend can continue.

Trading the Bullish Belt-Hold and Bearish Belt-Hold Lines

Figure 4.9 and Figure 4.10 show some examples of Bullish and Bearish Belt-Hold Line patterns.



The close on candle 3 must exceed the high of candles 1 or 2 to trigger a buy signal. Place sell-stop below the lowest low of candles 1 and 2.

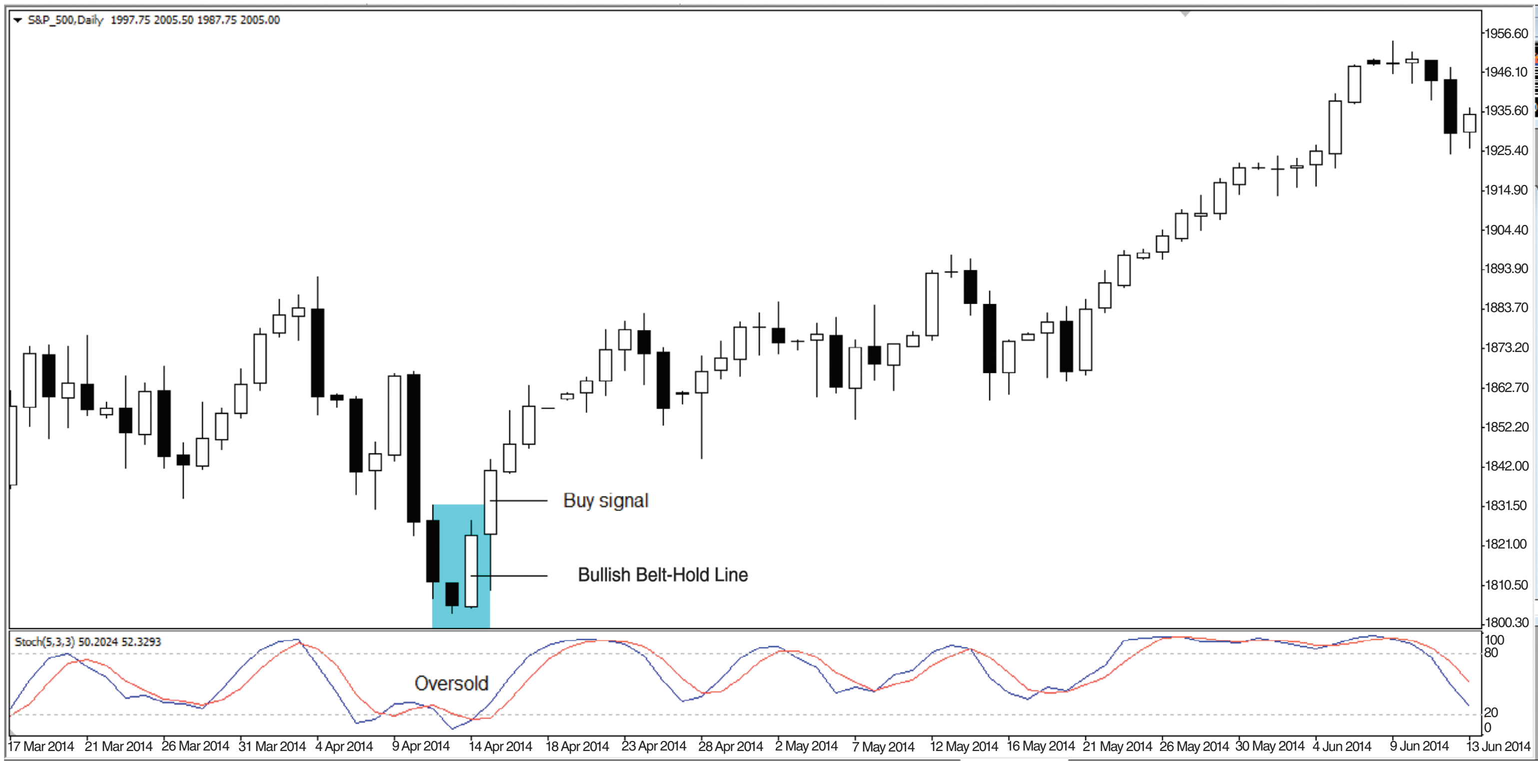


FIGURE 4.9 S&P 500 Daily (2014)—Bullish Belt-Hold

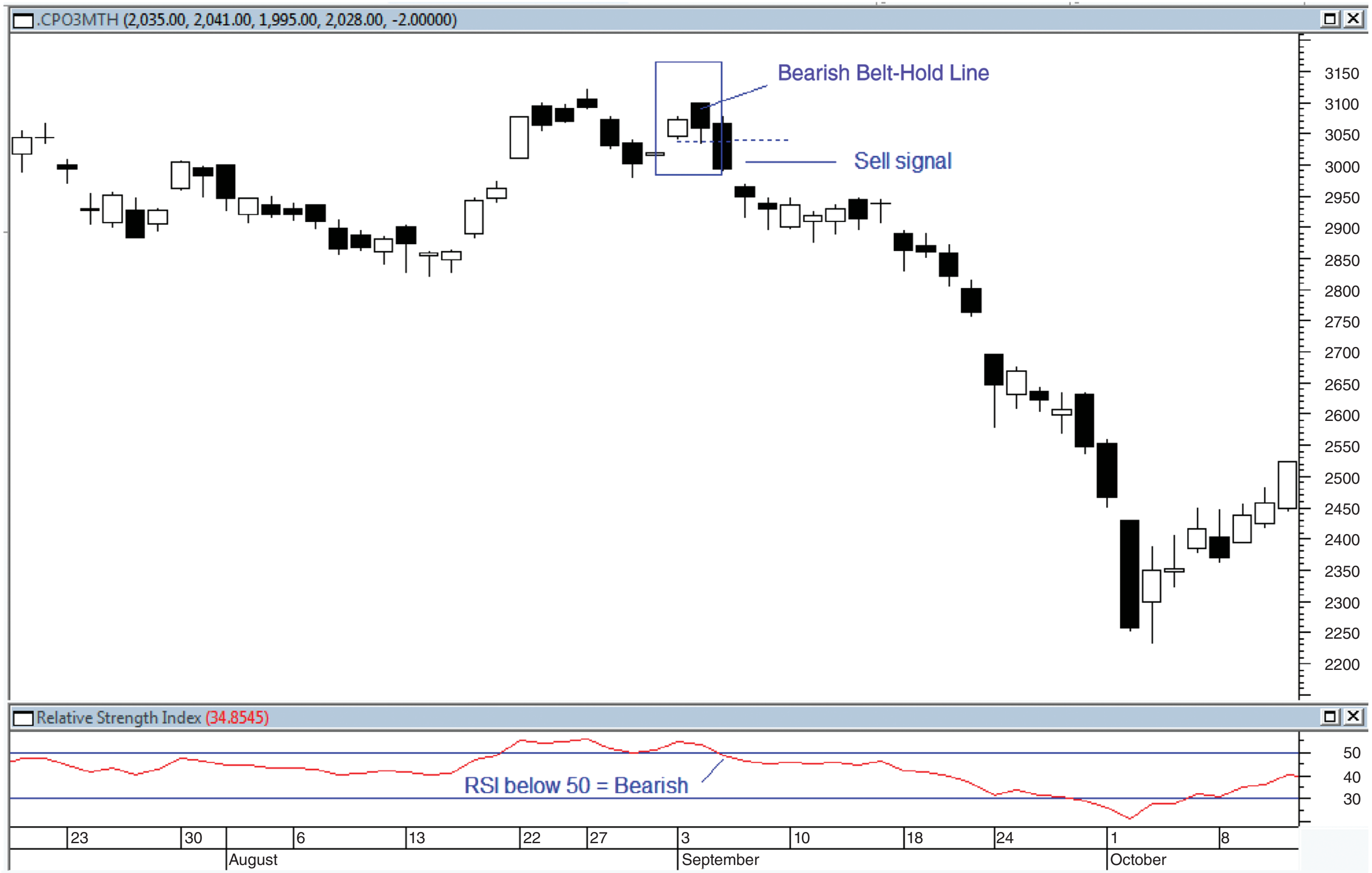
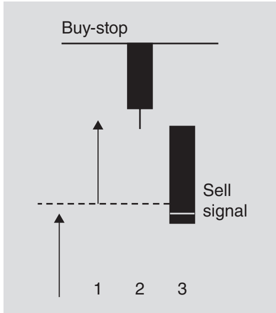


FIGURE 4.10 Crude Palm Oil Daily—Bearish Belt-Hold

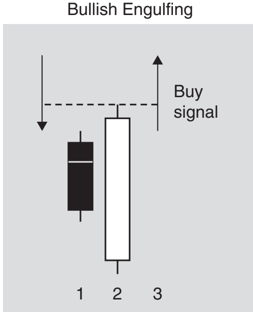


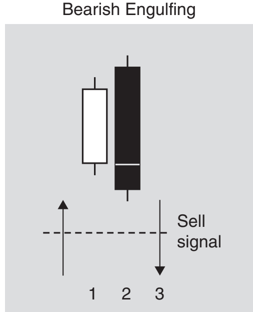
The close on candle 3 must exceed the low of candles 1 and 2 to trigger a sell signal. Place buy-stop above the highest high of candles 1 and 2.

Double Candlestick Patterns

Double candlestick patterns such as the Bullish Engulfing and Bearish Engulfing, Fred Tam's White Inside Out Up and Black Inside Out Down, Piercing Line and Dark Cloud Cover, Thrusting Line and Incomplete Dark Cloud Cover, Bullish Harami and Bearish Harami, Bullish Harami Cross and Bearish Harami Cross, Bullish Homing Pigeon and Bearish Homing Pigeon, and Tweezers Bottom and Tweezers Top are discussed next.

Bullish Engulfing and Bearish Engulfing





Bullish Engulfing and Bearish Engulfing pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Bullish Engulfing (Bullish)

Pattern description: The Bullish Engulfing is a two-day bullish reversal pattern. Two opposite-coloured real bodies distinguish it. In a bullish scenario, the second day's white real body must totally engulf the first day's black real body. The shadows are not important here.

Rules of Recognition

1. A downtrend must be in progress.
2. The first day must be a black candle.
3. The second day opens with a gap below the real body of the black candle but rallies upwards to close above the real body of the black candle. In other words, the second day's real body completely engulfs the first day's real body.
4. The shadows are unimportant, but the colour of the second day's real body must be white.
5. The Japanese name for "engulfing" is *tsutsumi*. The equivalent pattern in Western charting is an "outside day."

Interpretation: The Bullish Engulfing is the most bullish of all bullish reversal patterns. This is because the counterattack by the bulls on the second day completely nullifies the downward pressure exerted by the bears on the first day by virtue of a close above the first day's open.

Proper action: Buy signal. No confirmation is required for the aggressive trader. But for the conservative trader, a bullish confirmation is suggested. To confirm a buy, the third candle must close above the highest high of candles 1 and 2. Place sell-stop below the lowest low of candles 1 and 2. Best if found at a low price area or when the market is oversold.

Bearish Engulfing (Bearish)

Pattern description: The Bearish Engulfing is a two-day bearish reversal pattern. Two opposite-coloured real bodies distinguish it. In a bearish scenario, the second day's black real body must totally engulf the first day's white real body. The shadows are not important here.

Rules of Recognition

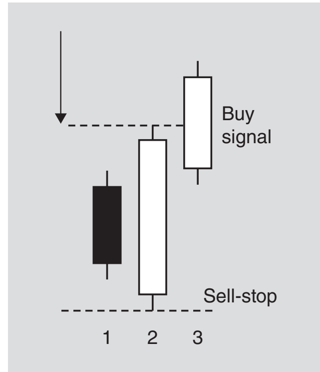
1. An uptrend must be in progress.
2. The first day must be a white candle.
3. The second day opens with a gap above the real body of the white candle but declines sharply to close below the real body of the first candle. In other words, the second day's real body completely engulfs the first day's real body.
4. The shadows of either day are unimportant. But the colour of the second day's real body must be black. A greater than average black real body on the second day increases the likelihood of a successful bearish reversal.
5. The Japanese name for "engulfing" is *tsutsumi*. The equivalent pattern in Western charting is an "outside day."

Interpretation: The Bearish Engulfing is the most bearish of all bearish reversal patterns because the counterattack by the bears on the second day completely nullifies the control exerted by the bulls on the first day. The second day's close below the first day's open implies a complete change in the psychology of the big players who have now turned bearish.

Proper action: Sell signal. No confirmation is required for the aggressive trader. But for the conservative trader, a bearish confirmation is suggested. To confirm a sell, the third candle must close below the lowest low of candles 1 and 2. Place buy-stop above the highest high of candles 1 and 2. Best if found at a high price area or when market is overbought.

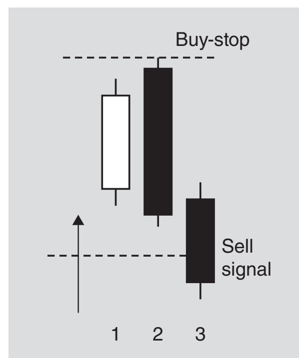
Trading the Bullish Engulfing and Bearish Engulfing Figure 4.11 to Figure 4.13 show some examples of Bullish Engulfing and Bearish Engulfing patterns.

Bullish Engulfing



The close on candle 3 must exceed the high of candles 1 and 2 to trigger a buy signal. Place sell-stop below the lowest low of candles 1 and 2.

Bearish Engulfing



The close on candle 3 must exceed the low of candles 1 and 2 to trigger a sell signal. Place buy-stop above the highest high of candles 1 and 2.

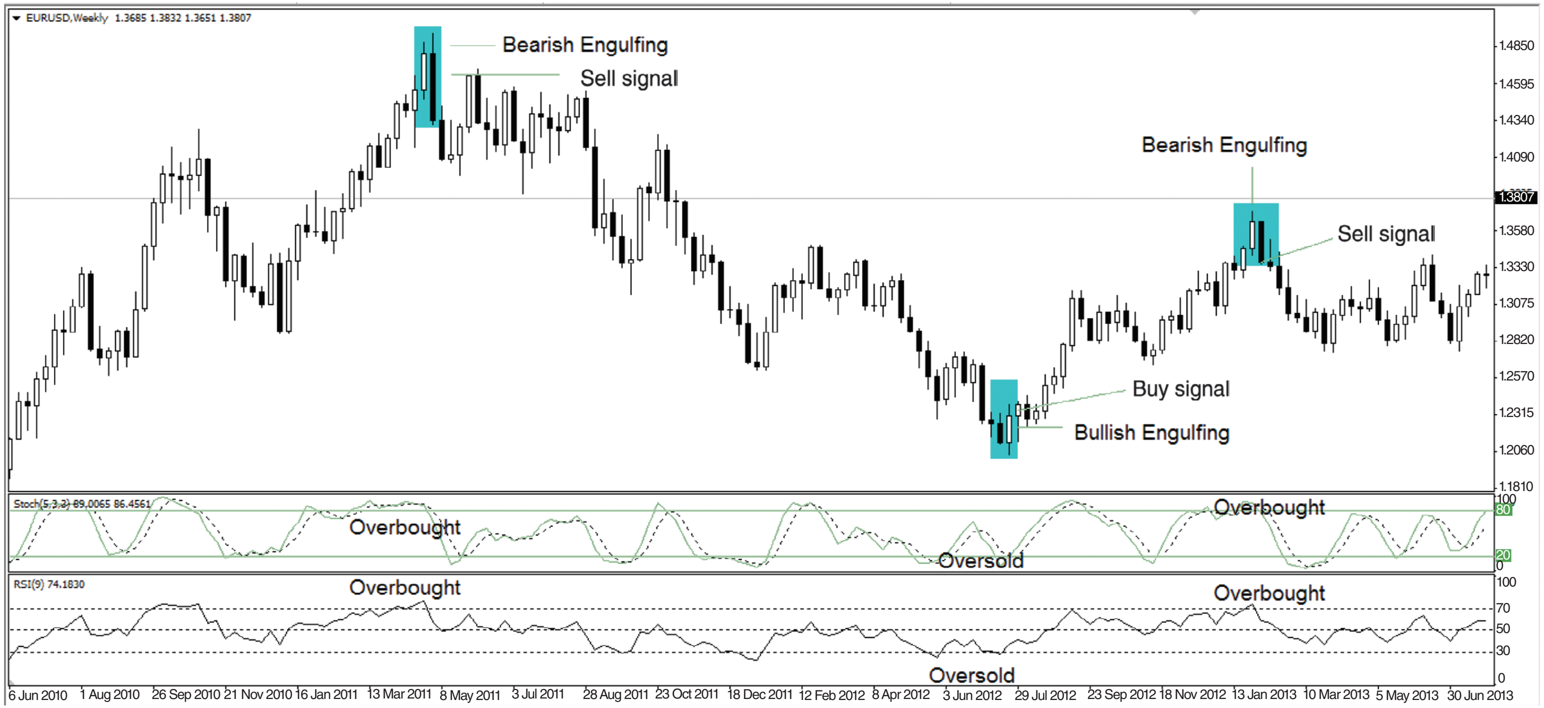


FIGURE 4.11 EurUsd Weekly (2010–2013)—Bullish Engulfing and Bearish Engulfing patterns mark turning points

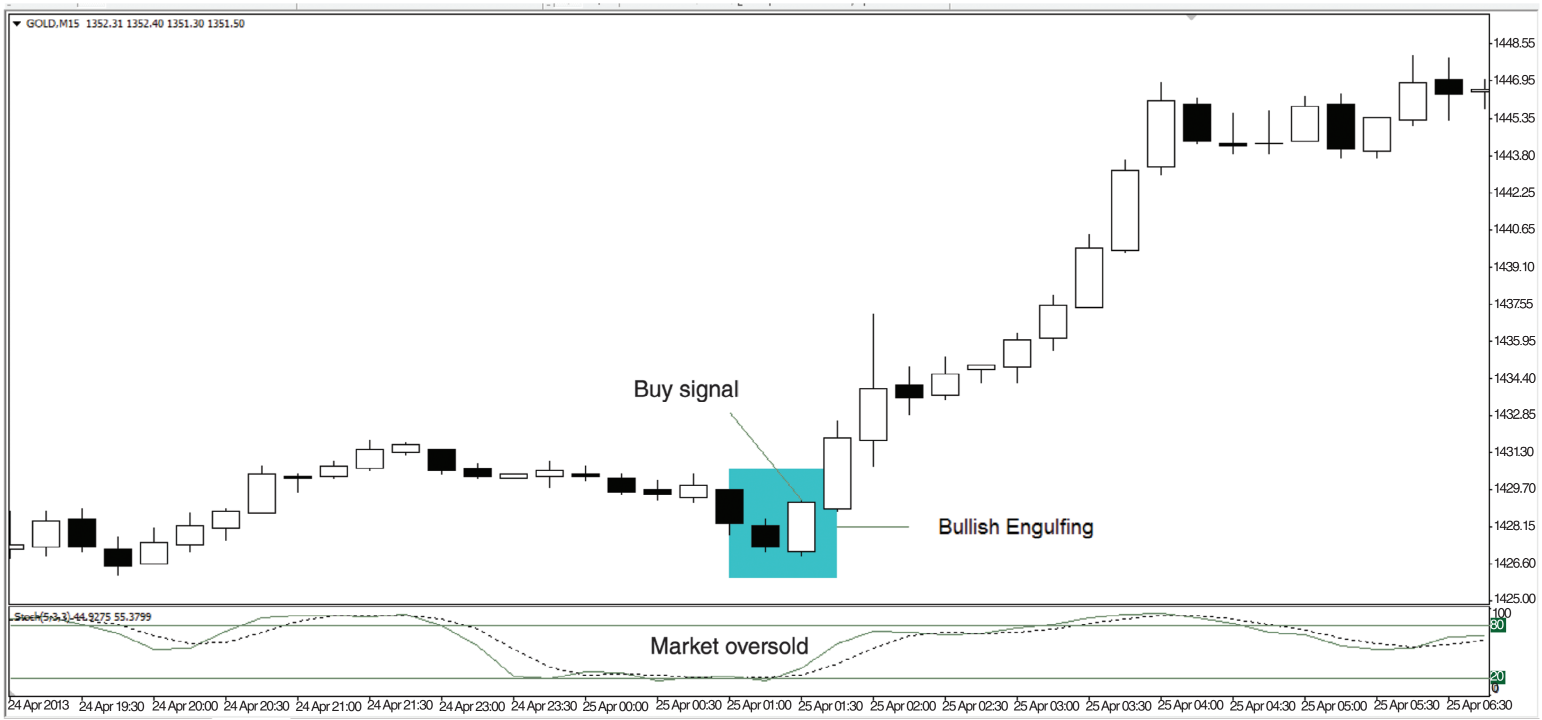


FIGURE 4.12 Gold 15-Minute (2013)—Bullish Engulfing

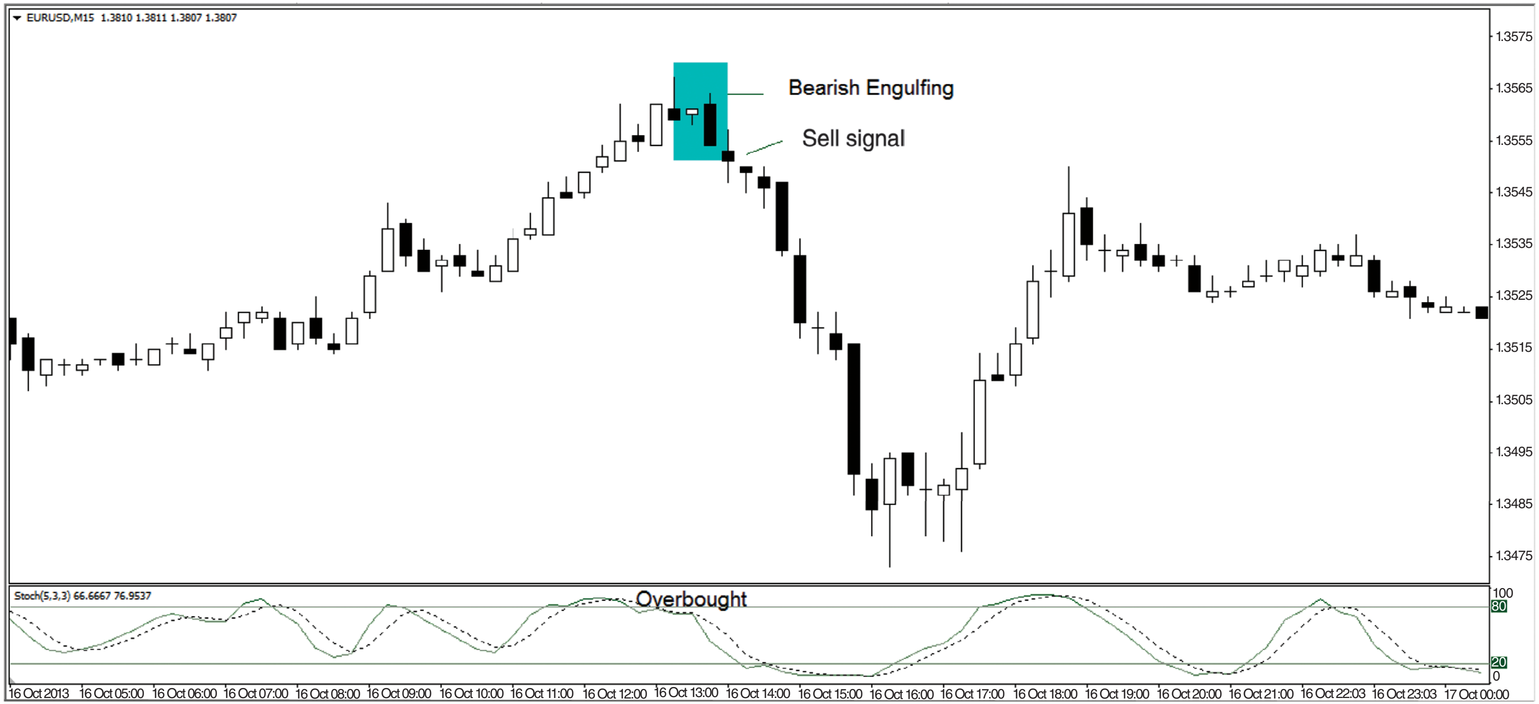
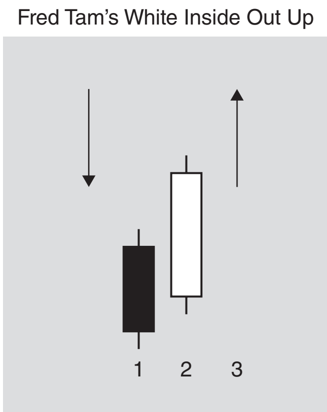
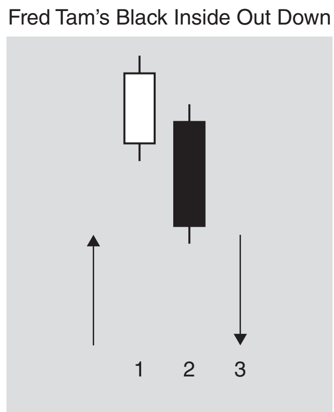


FIGURE 4.13 EurUsd 15-Minute (2013)—Bearish Engulfing

Fred Tam's White Inside Out Up and Black Inside Out Down





Fred Tam's White Inside Out Up and Black Inside Out Down pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Fred Tam's White Inside Out Up (Bullish)

Pattern description: Fred Tam's White Inside Out Up is a two-day bullish reversal pattern identified by the author. Two opposite-coloured real bodies distinguish it. In a bullish scenario, the second day's white real body opens within the first day's black real body but closes above the first day's open. The shadows are not important here.

Rules of Recognition

1. A downtrend must be in progress.
2. The first day must be a black candle.
3. The second day opens within the first day's black real body, rallies, and closes above the black candle's real body. In other words, the second day's real body partially engulfs the first day's real body. The colour of the second day is white. The shadows are unimportant.
4. This pattern is a variation of the Bullish Engulfing. The difference between these two patterns is that in the Bullish Engulfing, the second day opens below the first day's black real body whereas in this pattern the second day opens within the first day's black real body.

Interpretation: Fred Tam's White Inside Out Up is as bullish as the Bullish Engulfing and is a frequently recurring pattern in all markets. This pattern depicts a scenario where the sharp fall, as represented by the black candle, is overdone. An oversold situation arises, which is taken advantage of by market participants. The higher open on the second day reflects this oversold first day. The second day's rally to close higher than the first day's black candle real body represents a successful counterattack by the bulls.

Proper action: Buy signal. No confirmation is required for the aggressive trader. But for the conservative trader, a bullish confirmation is suggested. To confirm a buy, the third candle must close above the highest high of candles 1 and 2. Place sell-stop below the lowest low of candles 1 and 2 in the event of a failure. Best if found at a low price area or when the market is oversold.

Fred Tam's Black Inside Out Down (Bearish)

Pattern description: Fred Tam's Black Inside Out Down is a two-day bearish reversal pattern identified by the author. Two opposite-coloured real bodies distinguish it. In a bearish scenario, the second day's black real body opens within the first day's white real body but closes below the first day's open. The shadows are not important here.

Rules of Recognition

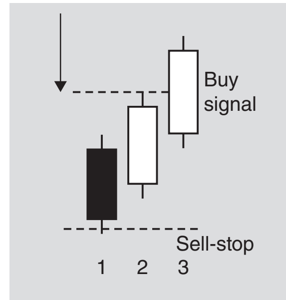
1. An uptrend must be in progress.
2. The first day must be a white candle.
3. The second day opens within the first day's white real body, declines, and closes below the white candle's real body. In other words, the second day's real body partially engulfs the first day's real body. The colour of the second day is black.
4. This pattern is a variation of the Bearish Engulfing. The difference between these two patterns is that in the Bearish Engulfing, the second day opens above the first day's white real body whereas in this pattern, it opens within the first day's white real body.

Interpretation: Fred Tam's Black Inside Out Down is as bearish as the Bearish Engulfing and is a frequently recurring pattern in all markets. This pattern depicts a scenario where the sharp rally, as represented by the white candle, is overdone. An overbought situation arises, which is taken advantage of by market participants. The lower open on the second day reflects this overbought first day. The second day's decline to close lower than the first day's white candle's real body represents a successful counterattack by the bears.

Proper action: Sell signal. No confirmation is required for the aggressive trader. But for the conservative trader, a bearish confirmation is suggested. To confirm a sell, the third candle must close below the lowest low of candles 1 and 2. Place buy-stop above the highest high of candles 1 and 2 in the event of a failure. Best if found at a high price area or when market is overbought.

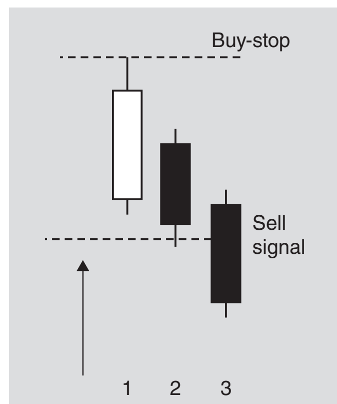
Trading Fred Tam's White Inside Out Up and Black Inside Out Down Figure 4.14 and Figure 4.15 show some examples of Fred Tam's White Inside Out Up and Black Inside Out Down patterns.

Fred Tam's White Inside Out Up



The close on candle 3 must exceed the highest high of candles 1 and 2 to confirm a buy. Place sell-stop below the lowest low of candles 1 and 2.

Fred Tam's Black Inside Out Down



The close on candle 3 must exceed the lowest low of candles 1 and 2 to confirm a sell signal. Place buy-stop above the highest high of candles 1 and 2.

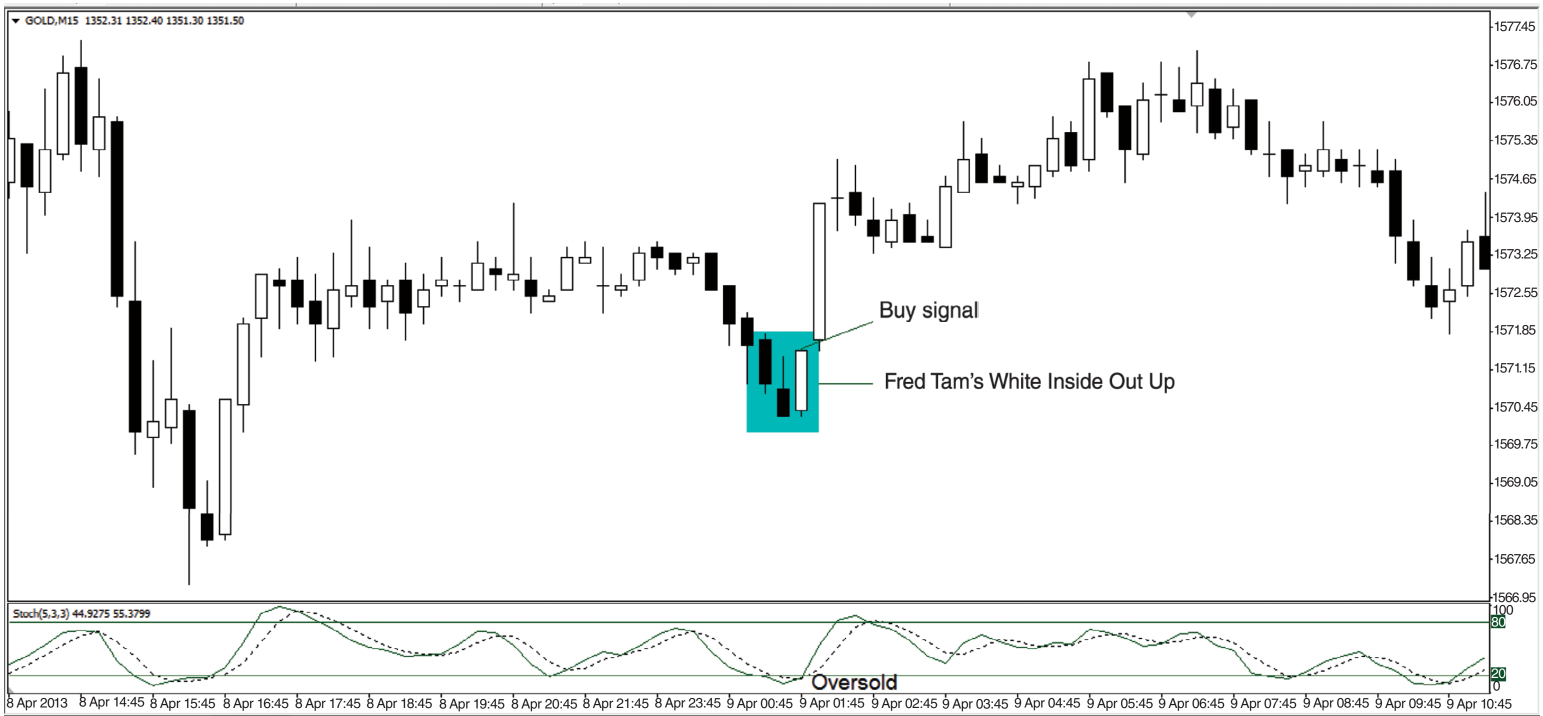


FIGURE 4.14 Gold 15-Minute (2013)—Fred Tam's White Inside Out Up

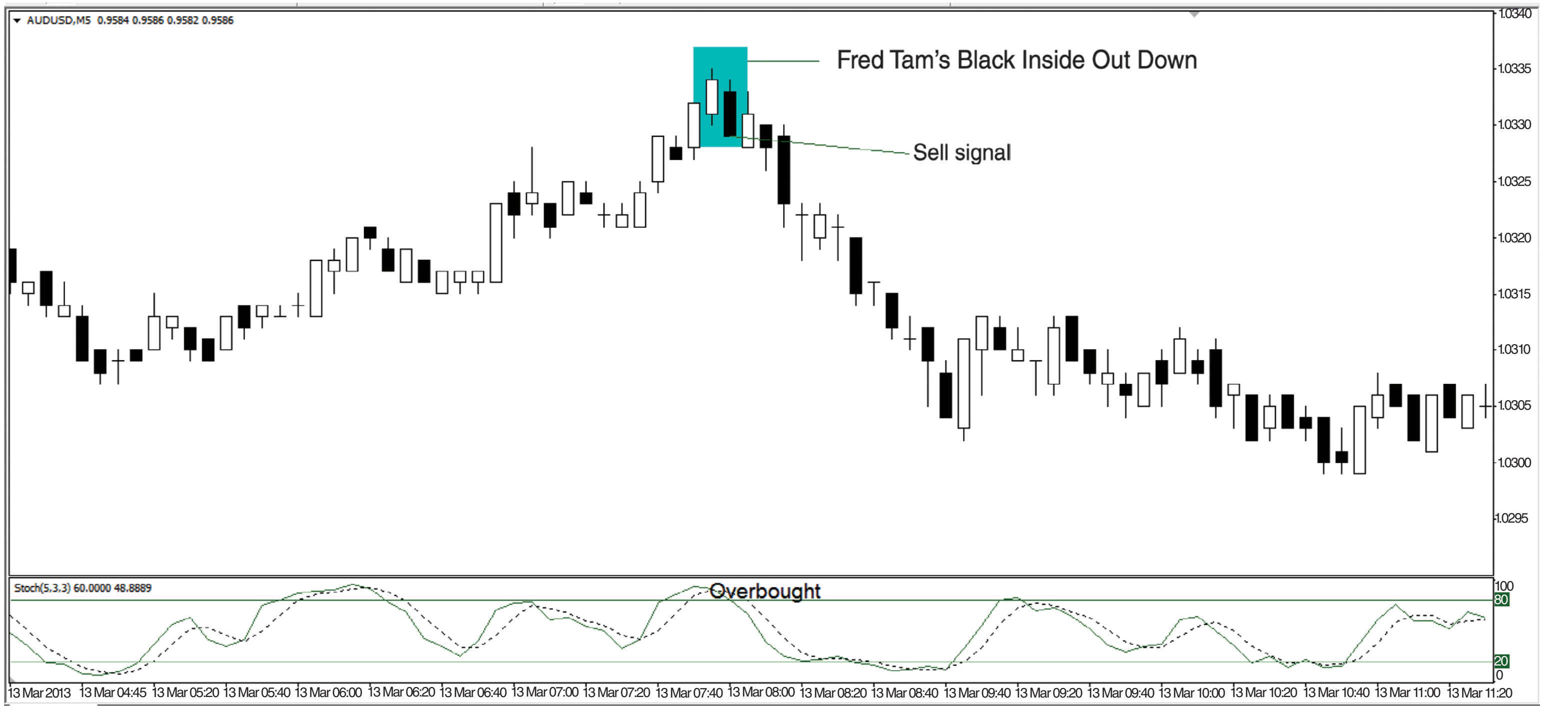
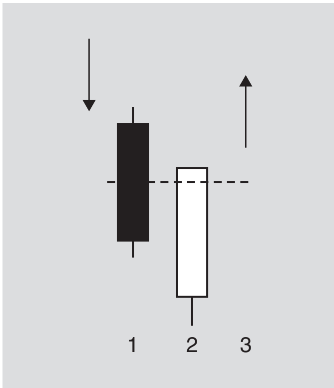


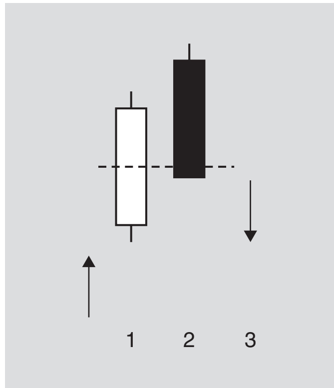
FIGURE 4.15 AudUsd 5-Minute (2013)—Fred Tam's Black Inside Out Down

Piercing Line and Dark Cloud Cover

Piercing Line



Dark Cloud Cover



Piercing Line and Dark Cloud Cover pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Piercing Line (Bullish)

Pattern description: The Piercing Line is a two-day bullish reversal pattern. This pattern is distinguished by the second day's white real body piercing back into or above the midpoint of the first day's black real body.

Rules of Recognition

1. A downtrend must be in progress.
2. The first candle is black, reflecting the continuing bearish mood.
3. The second day's candle gaps lower on the opening, giving the impression of a very weak market ahead, but buyers stage a counterattack resulting in a close that penetrates back into the real body of the first day's white candle.
4. To qualify as a Piercing Line, the white candle on the second day must close at or above the midpoint of the first day's black candle's real body.
5. The Japanese name for Piercing Line is *kirikomi*, which means "a cutback or a switchback."

Interpretation: The Piercing Line can be interpreted as a counterattack by the bulls. Although the second day opens lower, the bulls are strong enough to absorb the selling pressure and stage a rally. Found after a period of decline or at a low price area, the Piercing Line hints at a potential bottom. The Piercing Line is more bullish than the Bullish Meeting Line but less bullish than the Bullish Engulfing.

Proper action: Possible bullish reversal. Buy if there is a bullish confirmation candle that closes above the high of candles 1 and 2. Otherwise, the downtrend can continue.

Dark Cloud Cover (Bearish)

Pattern description: The Dark Cloud Cover is a two-day bearish reversal pattern. This pattern is distinguished by the second day's black real body penetrating into or below the midpoint of the first day's white real body.

Rules of Recognition

1. An uptrend must be in progress.
2. The first candle is white, reflecting the continuing bullish mood.
3. The second day's candle gaps higher on the opening, giving an impression of a strong market ahead, but sellers surface and pressure prices lower throughout the day, resulting in a close that penetrates back into the real body of the first day's black candle.
4. To qualify as a Dark Cloud Cover, the black candle on the second day must close at or below the midpoint of the first day's white candle's real body.

5. The Japanese name for Dark Cloud Cover is *kabuse*, which means "to get covered or to hang over."

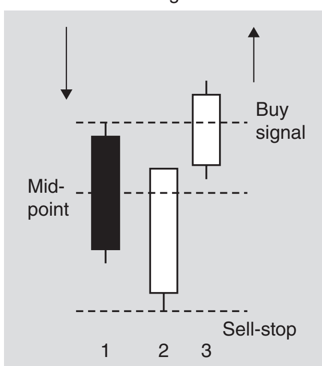
Interpretation: The Dark Cloud Cover is a bearish reversal pattern. It can be interpreted as a counterattack by the bears. Although the second day opens higher, the bulls are not strong enough to withstand selling pressure. As a result of heavy selling, the bulls retreat, and hints of a potential top appear. The Dark Cloud Cover is more bearish than the Bearish Meeting Line but less bearish than the Bearish Engulfing.

Proper action: Possible bearish reversal. Sell if there is a bearish confirmation candle that closes below the low of candles 1 and 2. Otherwise, the uptrend can continue.

Trading the Piercing Line and Dark Cloud Cover

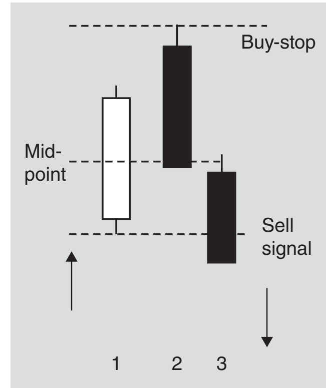
Figure 4.16 and Figure 4.17 show some examples of Piercing Line and Dark Cloud Cover patterns.

Piercing Line



The close on candle 3 must exceed the high of candles 1 and 2 to trigger a buy signal. Place sell-stop below the lowest low of candles 1 and 2.

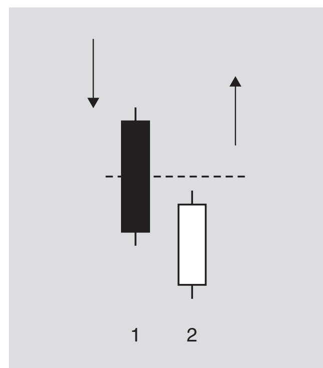
Dark Cloud Cover



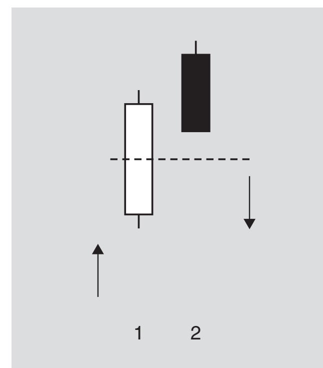
The close on candle 3 must exceed the low of candles 1 and 2 to trigger a sell signal. Place buy-stop above the highest high of candles 1 and 2.

Thrusting Line and Incomplete Dark Cloud Cover

Thrusting Line



Incomplete Dark Cloud Cover



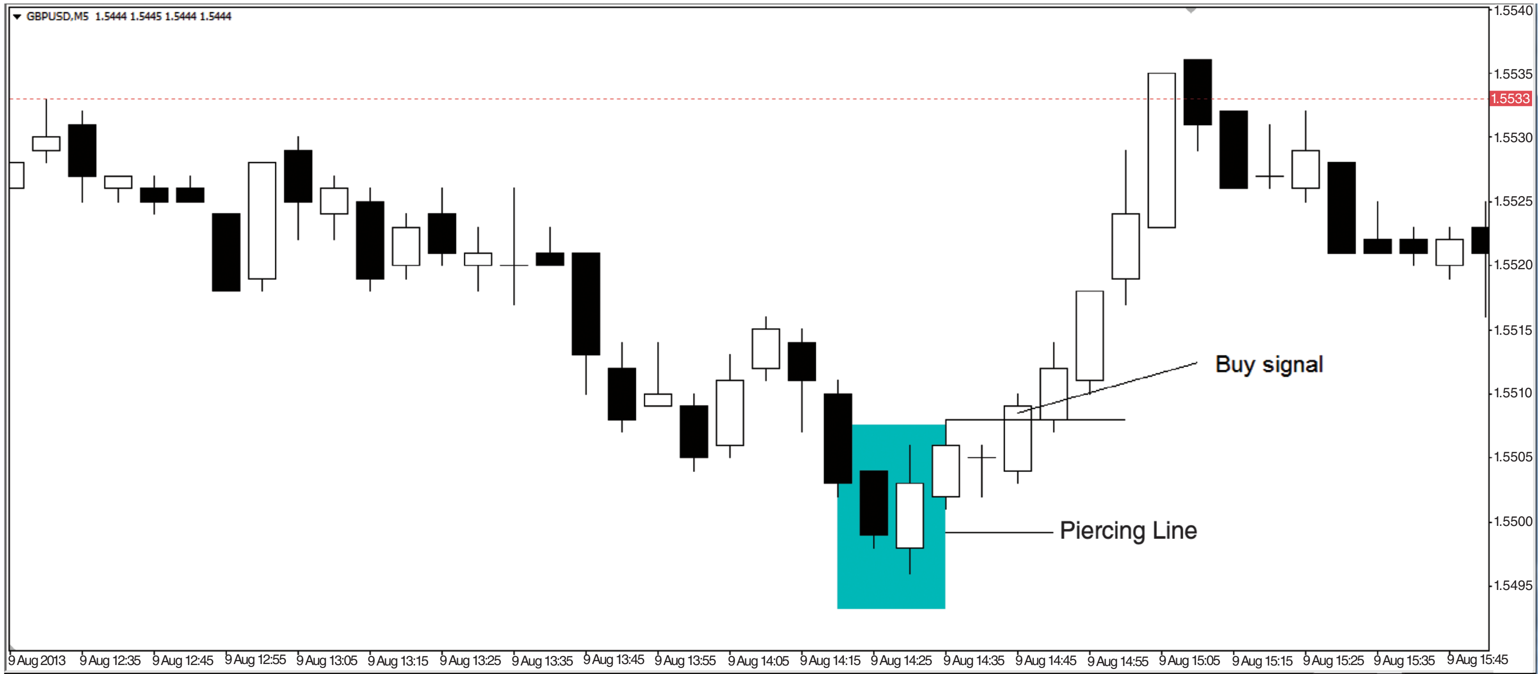


FIGURE 4.16 GbpUsd 5-Minute (2013)—Piercing Line

FIGURE 4.17 Crude Palm Oil Daily (2013)—Dark Cloud Cover

Thrusting Line and Incomplete Cloud Cover pattern descriptions, rules of recognition, interpretations, and proper actions are discussed here together with some examples.

Thrusting Line (Bullish)

Pattern description: The Thrusting Line can be both a continuation and a reversal pattern. It is distinguished by the second day's real body piercing back into but close just below the midpoint of the first day's black real body.

Rules of Recognition

1. A downtrend must be in progress.
2. The first candle is black, reflecting the continuing bearish mood.
3. The second day's candle gaps lower on the opening, but buyers stage a counterattack, resulting in a close that penetrates back into the real body of the first day's black candle but below its midpoint.
4. To qualify as a Thrusting Line, the white candle on the second day must close below the midpoint of the first day's black candle's real body.

Interpretation: The Thrusting Line can be interpreted as a counterattack by the bulls. Although the second day opens lower, the bulls are strong enough to absorb the selling pressure and stage a rally, resulting in a higher close back into the bears' territory (which is the first day's black candle). But unlike the Piercing Line, the white candle in the Thrusting Line did not close at or above the midpoint of the black candle. Its inability to close at or above the midpoint implies that this pattern is not as strong as the Piercing Line.

Proper action: Possible bullish reversal. Buy if there is a bullish confirmation candle that closes above the high of candle 1 and 2. Otherwise, the downtrend can continue.

Incomplete Dark Cloud Cover (Bearish)

Pattern description: The Incomplete Dark Cloud Cover is a two-day bearish reversal pattern. This pattern is distinguished by the second day's real body penetrating back into but closing just above the midpoint of the first day's white real body.

Rules of Recognition

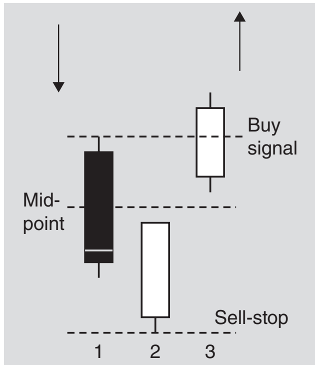
1. An uptrend must be in progress.
2. The first candle is white, reflecting the continuing bullish mood.
3. The second day's candle gaps higher on the opening, but sellers stage a sell-off resulting in a close that penetrates back into the real body of the first day's white candle but above its midpoint.
4. To qualify as an Incomplete Dark Cloud Cover, the black candle on the second day must close above the midpoint of the first day's white candle's real body.

Interpretation: The Incomplete Dark Cloud Cover is a bearish reversal pattern. But unlike the Dark Cloud Cover, the black candle in the Incomplete Dark Cloud Cover did not close at or below the midpoint of the first day's white candle. Its inability to close at or below the midpoint implies that this pattern is not as weak as the Dark Cloud cover.

Proper action: Possible bearish reversal. Sell if there is a bearish confirmation candle that closes below the low of candles 1 and 2. Otherwise, the uptrend can continue.

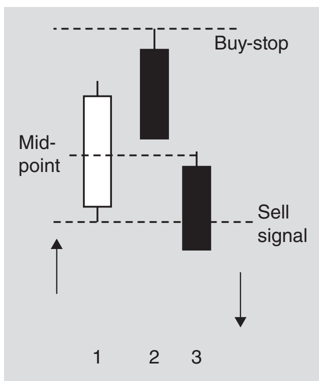
Trading the Thrusting Line and Incomplete Dark Cloud Cover Figure 4.18 and Figure 4.19 show some examples of Thrusting Line and Incomplete Dark Cloud Cover patterns.

Thrusting Line



The close on candle 3 must exceed the low of candles 1 and 2 to trigger a sell signal. Place buy-stop above the highest high of candles 1 and 2.

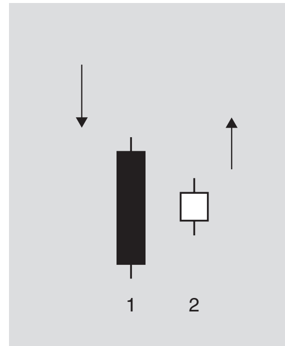
Incomplete Dark Cloud Cover



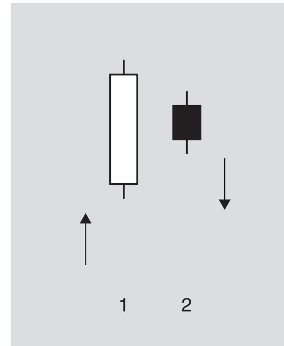
The close on candle 3 must exceed the high of candles 1 and 2 to trigger a buy signal. Place sell-stop below the lowest low of candles 1 and 2.

Bullish Harami and Bearish Harami

Bullish Harami



Bearish Harami



Bullish Harami and Bearish Harami pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Bullish Harami (Bullish)

Pattern description: The Bullish Harami is a two-day bullish reversal pattern. A long black candle followed by a small white candle distinguishes this pattern. The second day's white real body must reside within the first day's black real body.

Rules of Recognition

1. A downtrend must be in progress.
2. The first candle is black, reflecting the continuing bearish mood.
3. The second day's candle gaps above the previous close on the opening, trades, and closes within the first day's black real body.

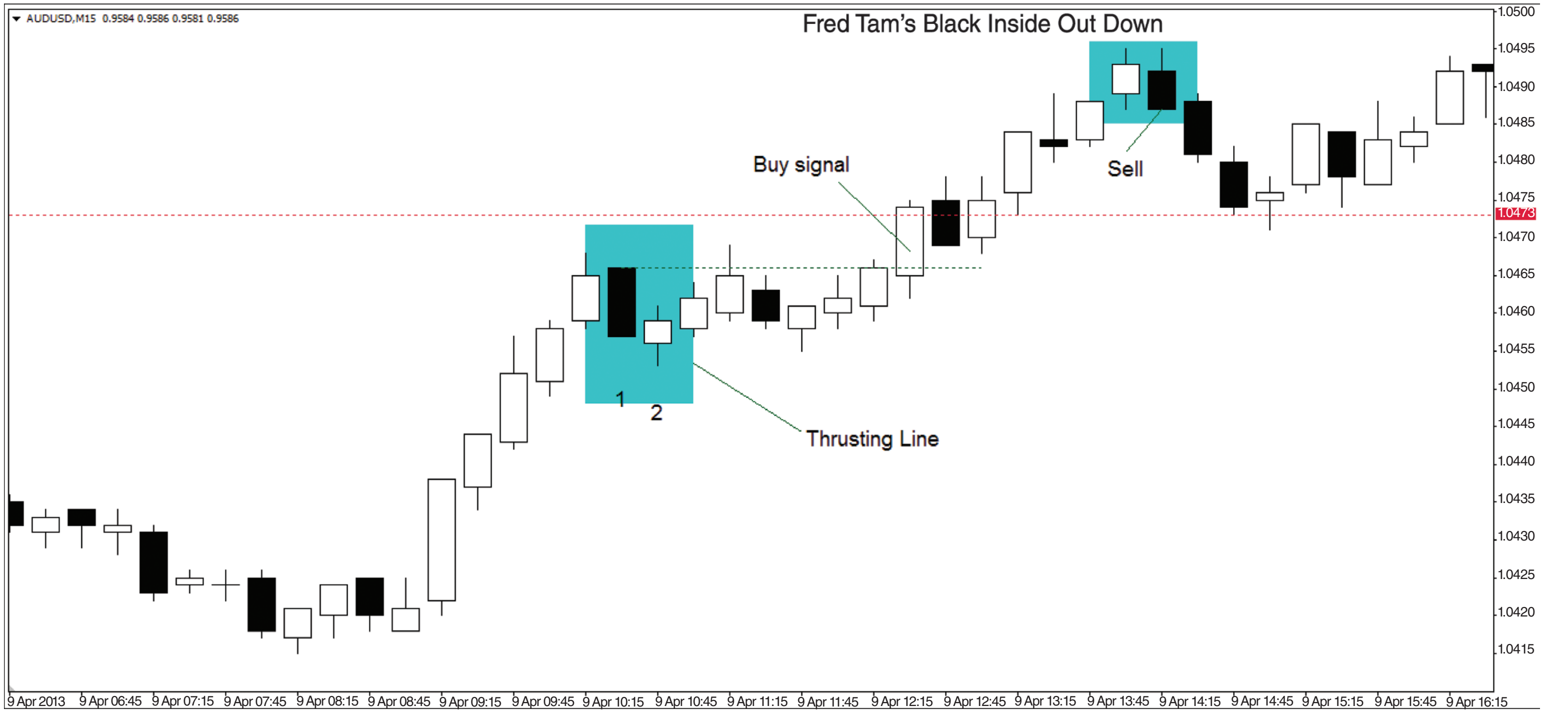


FIGURE 4.18 AudUsd 15-Minute (2013)—Thrusting Line

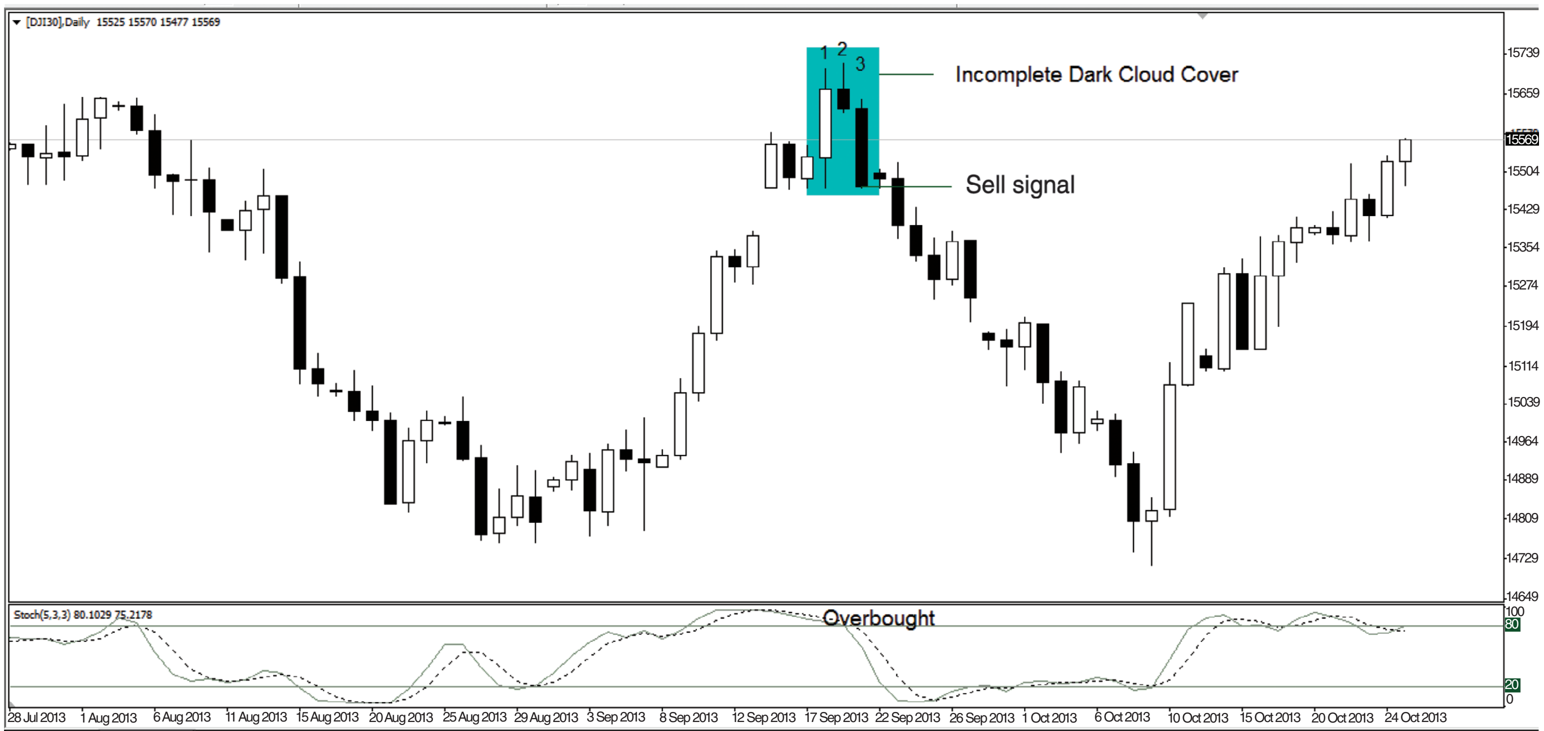


FIGURE 4.19 Dow Jones Industrial Average Daily (2013)—Incomplete Dark Cloud Cover

4. The second day is a short day and must be white in colour.
5. The English translation of *harami* is "pregnant." The first black candle depicts the mother candle while the second short white candle depicts the fetus.

Interpretation: A harami is normally viewed as an "indecision" day. The Western pattern equivalent is an "inside day." After a strong downtrend (black candle) the bears are not selling down any further on the second day, hence the higher opening and close on the second day. Its short white candle reflects this indecision on the second day. Seen after a strong downtrend or at a low price area, this pattern hint of a market reversal to the upside.

Proper action: Possible bullish reversal. Confirmation is required. Buy if there is a bullish confirmation candle that closes above the high of candles 1 and 2. Otherwise, the downtrend can continue.

Bearish Harami (Bearish)

Pattern description: The Bearish Harami is a two-day bearish reversal pattern. A long white candle followed by a small black candle distinguishes this pattern. The second day's black real body must reside within the first day's white real body.

Rules of Recognition

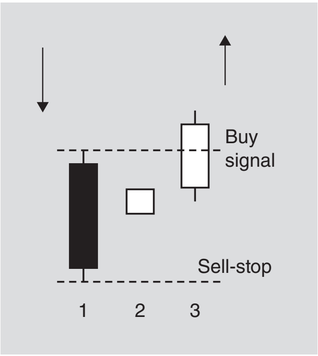
1. An uptrend must be in progress.
2. The first candle is white, reflecting the continuing bullish mood.
3. The second day's candle gaps below the previous close on the opening, trades, and closes within the first day's white real body.
4. The second day is a short day and must be black in colour.
5. The English translation of *harami* is "pregnant." The first white candle depicts the mother candle, while the second short black candle depicts the fetus.

Interpretation: A harami is normally viewed as an "indecision" day. The Western equivalent is an "inside" day. After a strong uptrend (white candle), the bulls are not buying any further on the second day, hence its lower opening and close. This indecision is reflected by its short black candle on the second day. Seen after a strong uptrend or at a high price area, this pattern hints of a market reversal to the downside.

Proper action: Possible bearish reversal. Confirmation is required. Sell if there is a bearish confirmation candle that closes below the low of candles 1 and 2. Otherwise, the uptrend can continue.

Trading the Bullish Harami and Bearish Harami Figure 4.20 and Figure 4.21 show some examples of Bullish Harami and Bearish Harami patterns.

Bullish Harami



The close on candle 3 must exceed the high of candles 1 and 2 to trigger a buy signal. Place sell-stop below the lowest low of candles 1 and 2.

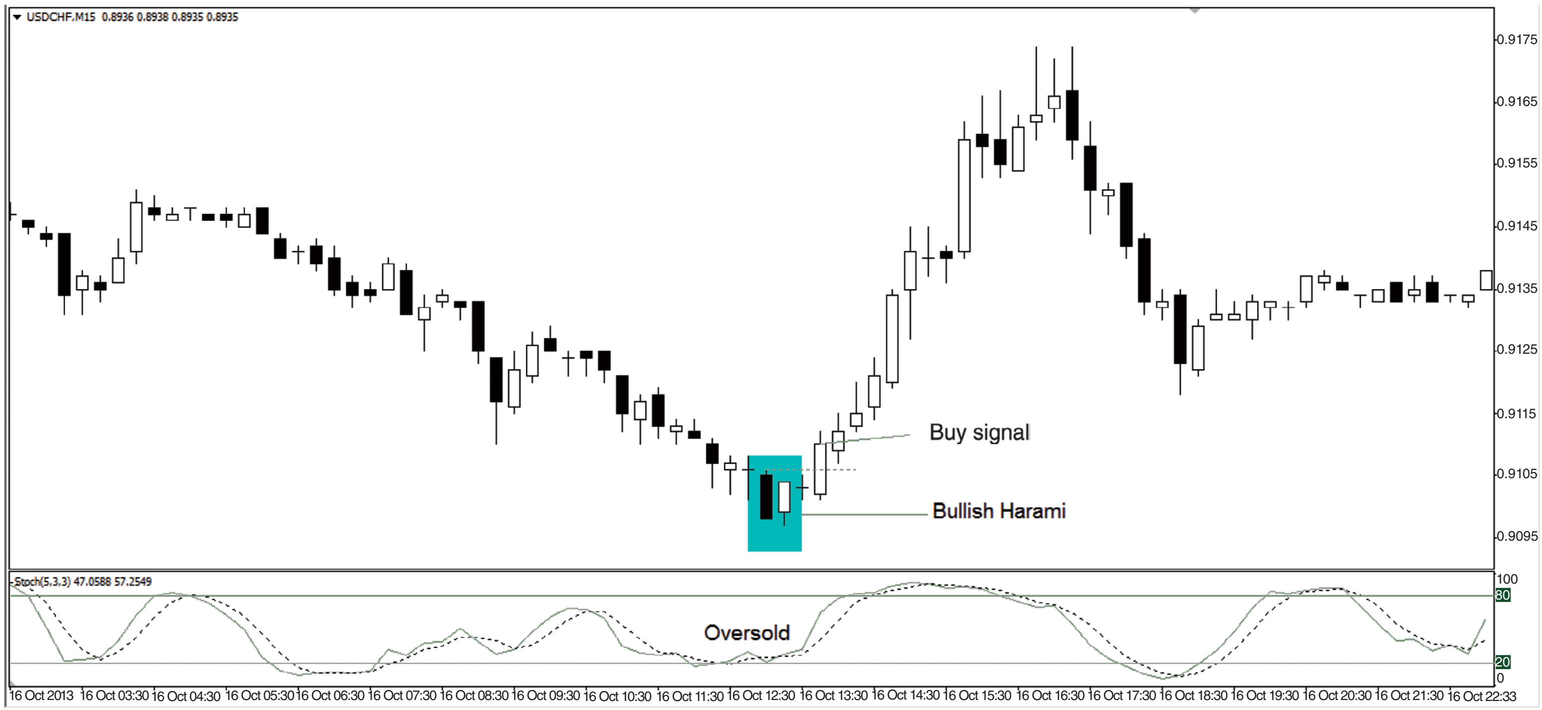


FIGURE 4.20 UsdChf 15-Minute (2013)—Bullish Harami

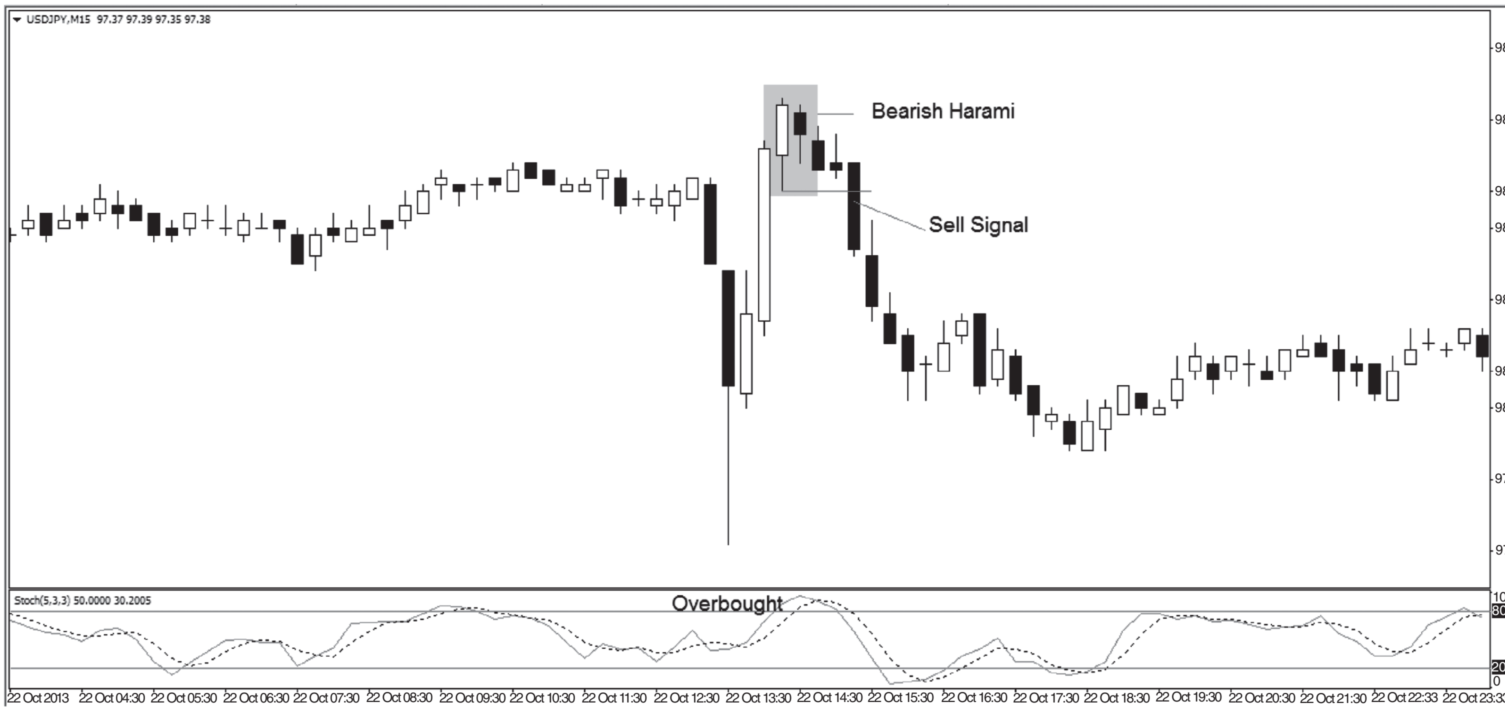
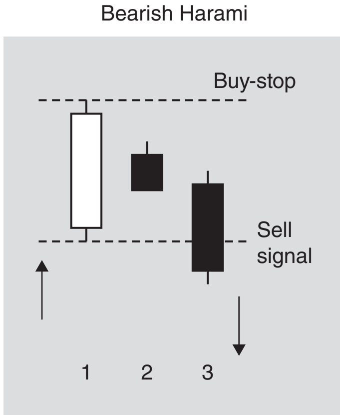
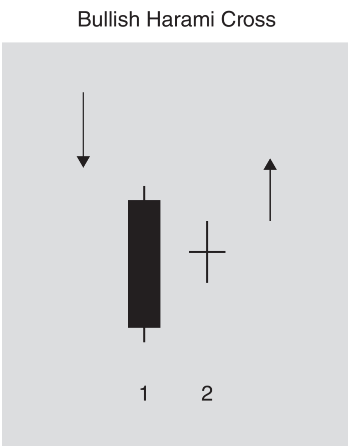


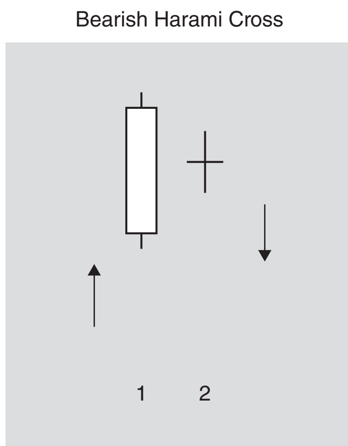
FIGURE 4.21 UsdJpy 15-Minute (2013)—Bearish Harami



The close on candle 3 must exceed the low of candles 1 and 2 to trigger a sell signal. Place buy-stop above the highest high of candles 1 and 2.

Bullish Harami Cross and Bearish Harami Cross





Bullish Harami Cross and Bearish Harami Cross pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Bullish Harami Cross (Bullish)

Pattern description: The Bullish Harami Cross is a two-day bullish reversal pattern. A long black candle followed by a doji distinguishes this pattern. The second day's doji must reside within the first day's white real body.

Rules of Recognition

1. A downtrend must be in progress.
2. The first candle is black, reflecting the continuing bearish mood.
3. The second day's candle is a doji candle. A doji is where the open and close are equal in price.
4. The doji rests within the real body of the first black candle.

Interpretation: The Harami Cross is interpreted in the same way as a harami. It is normally viewed as an "indecision" day. The Western pattern equivalent is an "inside day." After a strong downtrend (black candle) the bears are not selling down any further on the second day, but, instead of a small candle, a doji is formed. Seen after a strong downtrend or at a low price area, a Harami Cross hints of a market reversal to the upside.

Proper action: Possible bullish reversal. Confirmation is required. Buy if there is a bullish confirmation candle that closes above the high of candles 1 and 2. Otherwise, the downtrend can continue.

Bearish Harami Cross (Bearish)

Pattern description: The Bearish Harami Cross is a two-day bearish reversal pattern. A long white candle followed by a doji distinguishes this pattern. The second day's doji must reside within the first day's white real body.

Rules of Recognition

1. An uptrend must be in progress.
2. The first candle is white, reflecting the continuing bullish mood.
3. The second day's candle is a doji candle. A doji is where the open and close are equal in price.
4. The doji rests within the real body of the first white candle.

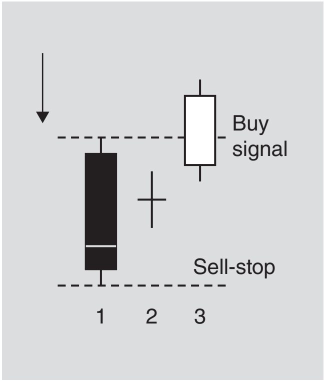
Interpretation: A Harami Cross is interpreted in the same way as a harami. It is normally viewed as an "indecision" day. The Western pattern equivalent is an "inside day." After a strong uptrend (white candle), the bulls are not buying any further on the second day, hence its lower opening and close. But instead of a short candle on the second day, a doji is formed. Seen after a strong uptrend or at a high price area, a Bearish Harami Cross hints of a market reversal to the downside.

Proper action: Possible bearish reversal. Confirmation is required. Sell if there is a bearish confirmation candle that closes below the low of candles 1 and 2. Otherwise, the uptrend can continue.

Trading the Bullish Harami Cross and Bearish Harami Cross

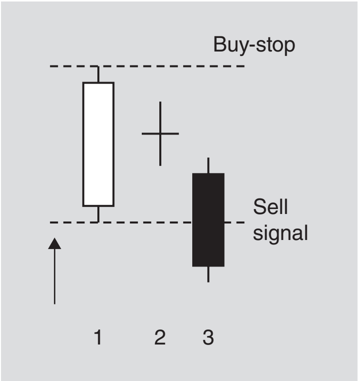
Figure 4.22 and Figure 4.23 show some examples of Bullish Harami Cross and Bearish Harami Cross patterns.

Bullish Harami Cross



The close on candle 3 must exceed the high of candles 1 and 2 to trigger a buy signal. Place sell-stop below the lowest low of candles 1 and 2.

Bearish Harami Cross



The close on candle 3 must exceed the low of candles 1 and 2 to trigger a sell signal. Place buy-stop above the highest high of candles 1 and 2.

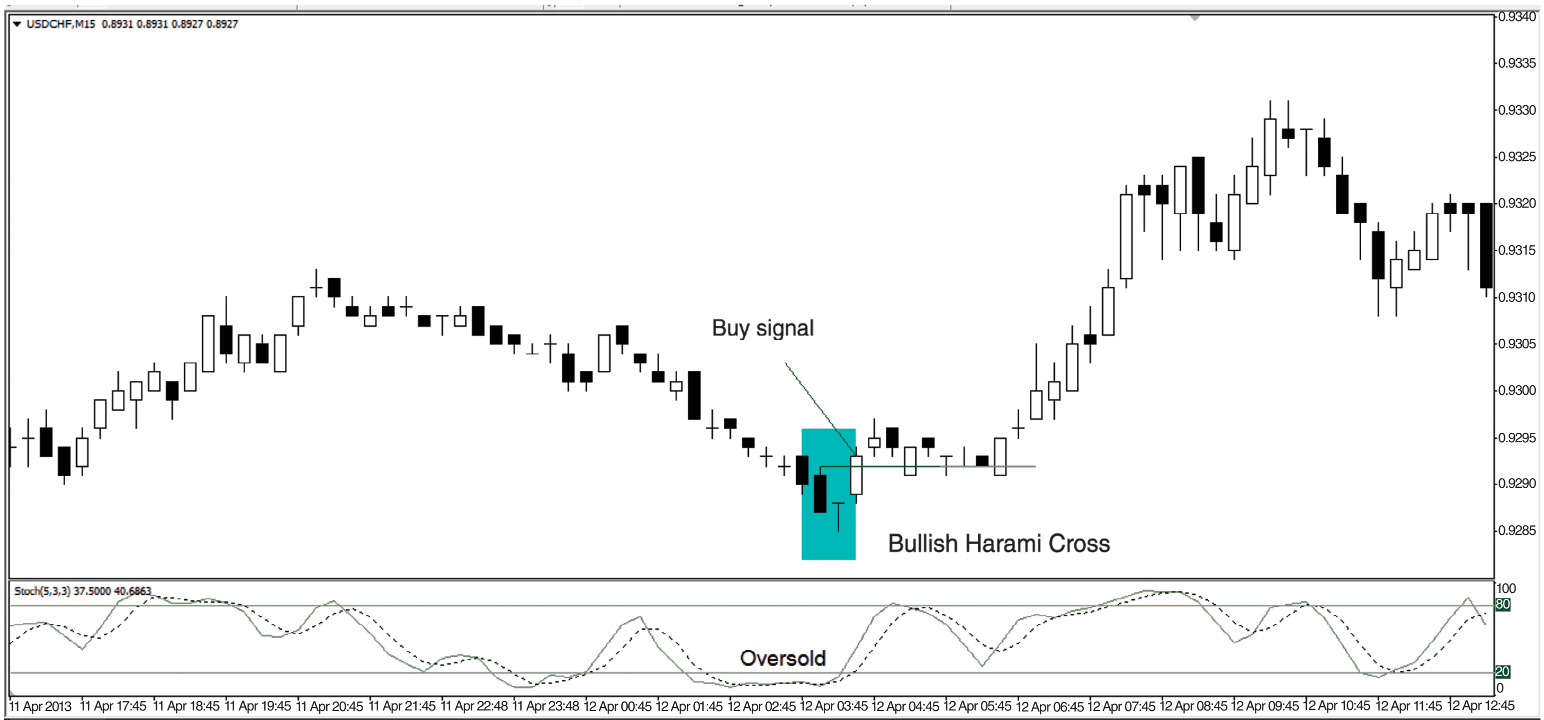


FIGURE 4.22 UsdJpy 15-Minute (2013)—Bullish Harami Cross

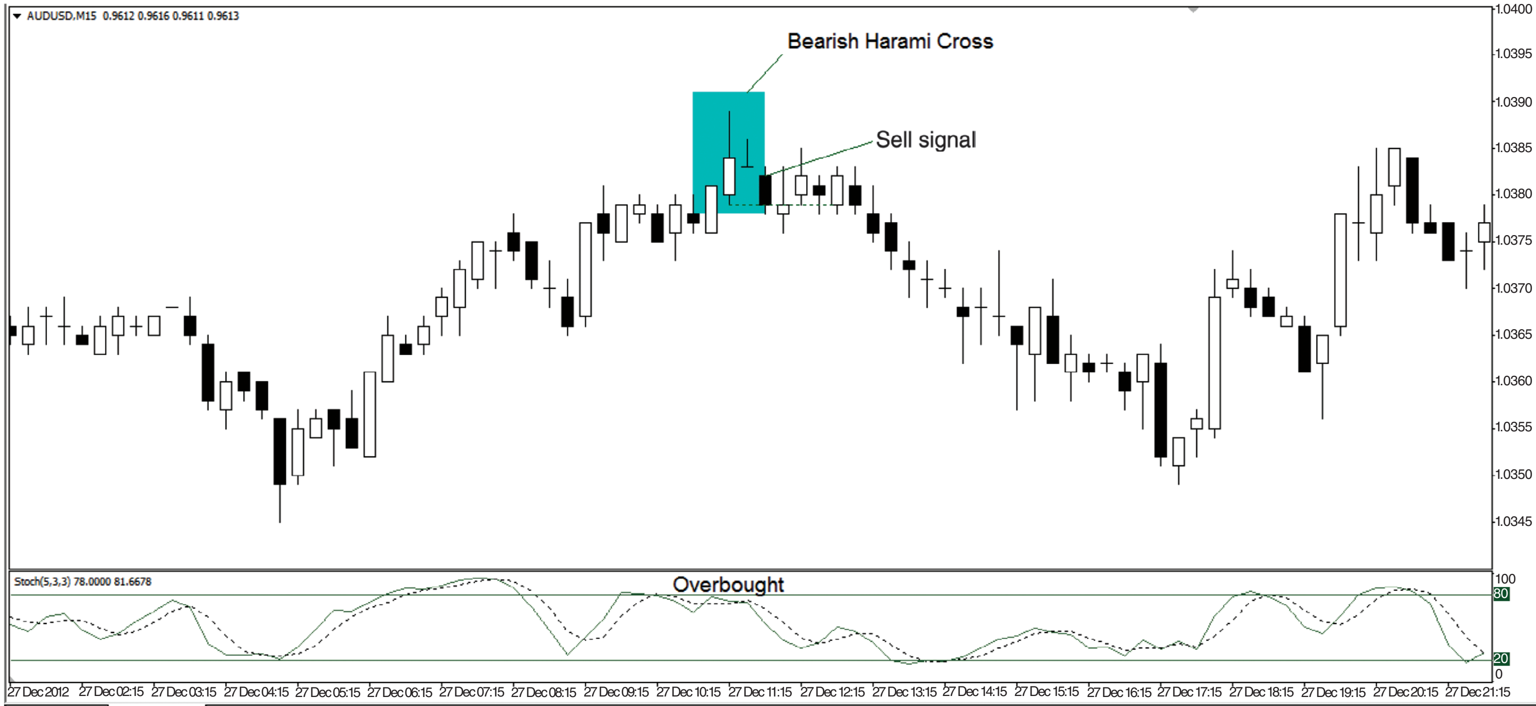
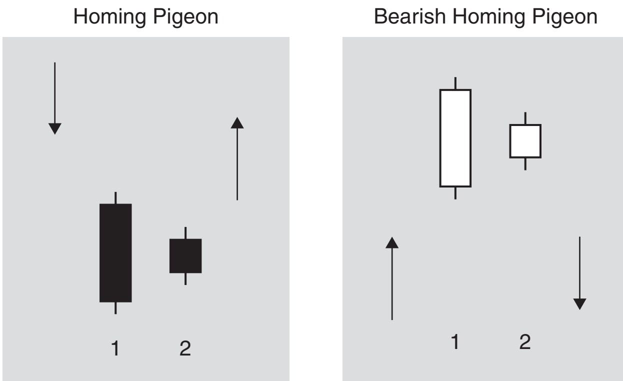


FIGURE 4.23 AudUsd 15-Minute (2013)—Bearish Harami Cross

Homing Pigeon and Bearish Homing Pigeon



Homing Pigeon and Bearish Homing Pigeon pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Homing Pigeon (Bullish)

Pattern description: The Homing Pigeon is a two-day bullish reversal pattern. This pattern is distinguished by two black candles found after a downtrend; the second day's small black real body resides within the first day's long black real body.

Rules of Recognition

1. A downtrend must be in progress.
2. The first candle is black, reflecting the continuing bearish mood.
3. The second day gaps above the previous close on the opening, trades, and closes within the first day's real body. This small black real body resides inside the previous day's real body.
4. Both days' real bodies are black (in a Bullish Harami pattern, the second day's body colour is white).
5. The Japanese name for Homing Pigeon is *shita banare kobato gaeshi*.

Interpretation: The Homing Pigeon, like the Bullish Harami, is viewed as an "indecision" day. The Western equivalent is an "inside day." But seen after a downtrend or at a low price area, this pattern hints of a market reversal to the upside.

Proper action: Possible bullish reversal. Confirmation is required. Buy only if there is a bullish confirmation candle that closes above the high of candles 1 and 2. Otherwise, the downtrend can continue.

Bearish Homing Pigeon (Bearish)

Pattern description: The Bearish Homing Pigeon is a two-day bearish reversal pattern. This pattern is distinguished by two white candles found after an uptrend; the second day's small white real body resides within the first day's long white real body. This pattern is rare.

Rules of Recognition

1. An uptrend must be in progress.
2. The first candle is white, reflecting the continuing bullish mood.
3. The second day gaps below the previous close on the opening, trades, and closes within the first day's real body. The colour of the second day is also white. This small real body resides inside the previous day's real body.
4. Both days' real bodies are white. This pattern is similar to a harami pattern but unlike the harami, the second day's body colour is of the same colour as the first.

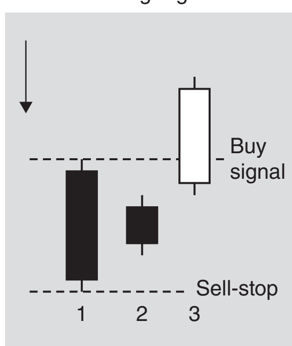
5. Japanese charting books do not document a bearish version of Homing Pigeon. This version comes from the author, who finds it equally applicable as a bearish equivalent of the Homing Pigeon.

Interpretation: The Bearish Homing Pigeon, like the Bearish Harami, is viewed as an "indecision" day. The Western equivalent is an "inside day." But seen after an uptrend or at a high price area, this pattern hints of a market reversal to the downside.

Proper action: Possible bearish reversal. Confirmation is required. Sell only if there is a bearish confirmation candle that closes below the low of candles 1 and 2. Otherwise, the uptrend can continue.

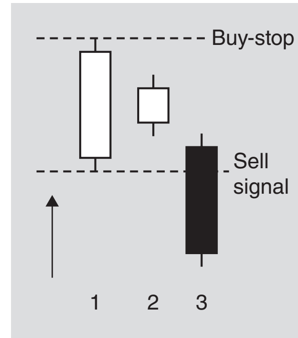
Trading the Homing Pigeon and the Bearish Homing Pigeon Figure 4.24 and Figure 4.25 show some examples of the Homing Pigeon and the Bearish Homing Pigeon patterns.

Homing Pigeon



The close of candle 3 must exceed the high of candles 1 and 2 to trigger a buy signal. Place sell-stop below the lowest low of candles 1 and 2.

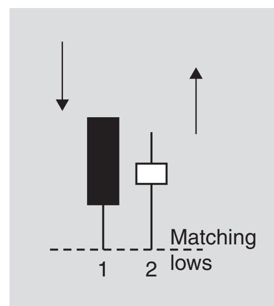
Bearish Homing Pigeon



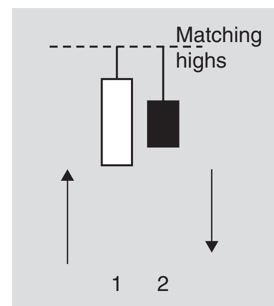
The close of candle 3 must exceed the low of candles 1 and 2 to trigger a sell signal. Place buy-stop above the highest high of candles 1 and 2.

Tweezers Bottom and Tweezers Top

Tweezers Bottom



Tweezers Top



The Tweezers Bottom and Tweezers Top pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

FIGURE 4.24 CIMB Malaysia Daily (2013)—Homing Pigeon

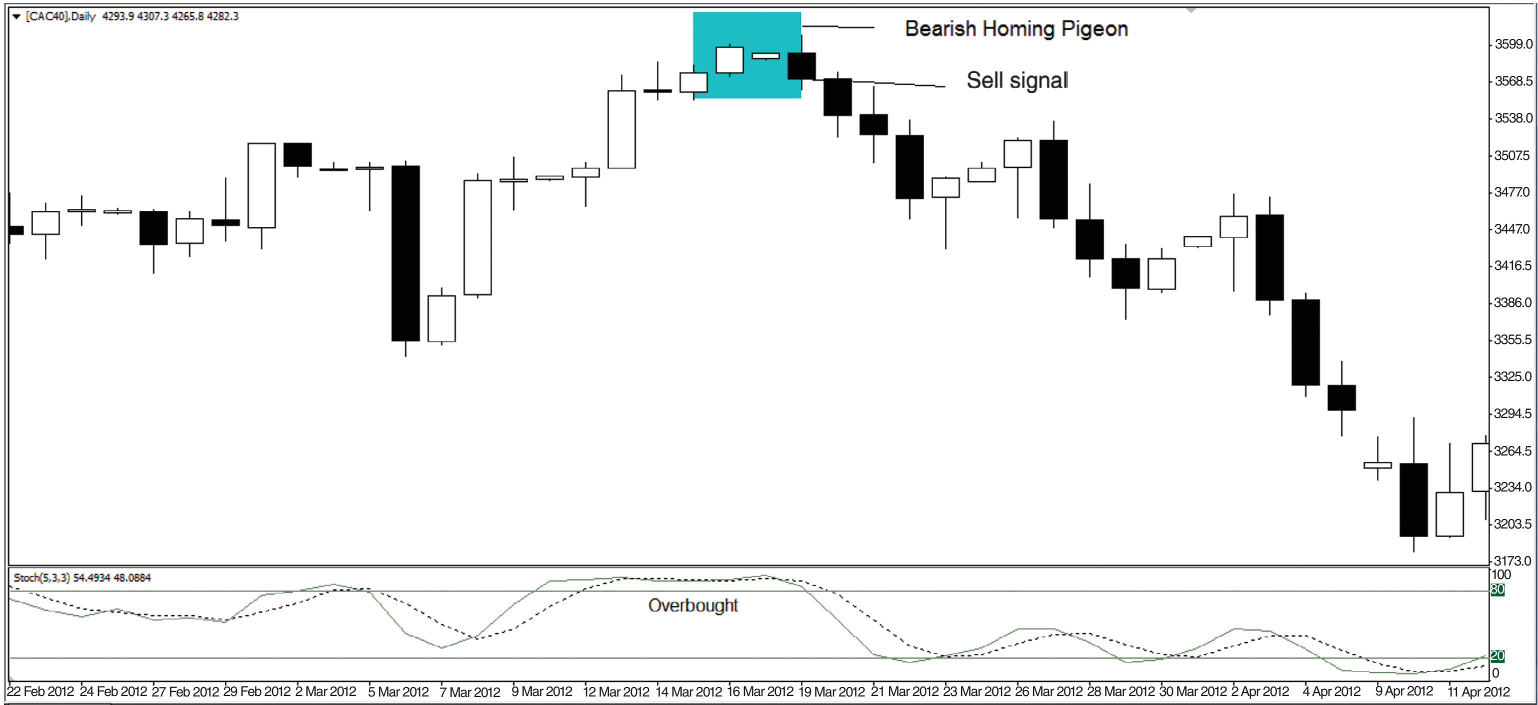


FIGURE 4.25 CAC 40 Daily (2012)—Bearish Homing Pigeon

Tweezers Bottom (Bullish)

Pattern description: The Tweezers Bottom is two-day bullish reversal pattern. Two candles with matching lows distinguish this pattern. The shape of either candle is unimportant.

Rules of Recognition

1. A downtrend must be in progress.
2. The first candle is black, reflecting the continuing bearish mood.
3. The second day candle's low matches the low of the first candle, forming a double bottom.
4. The second candle can be a doji, white, or black candle with or without lower shadows as long as its low is at the same price level as the first candle's low.
5. The first candle is almost always a black candle, but is not a requirement in a Tweezers Bottom formation. It could well be a doji, white, or black candle with or without shadows. The criterion that makes for a Tweezers Bottom is the matching lows of the two candles. Seen after a downtrend, they are potentially bullish reversal signals.
6. The Japanese name for Tweezers Bottom is *kenukizoko*.

Interpretation: The matching lows of the Tweezers Bottom reflect market support. Seen after a downtrend, the Tweezers Bottom can be a major bullish reversal pattern. In identifying a Tweezers formation, the highs and the lows are important and not their real bodies. The Tweezers formation can be multiple candles (more than two).

Proper action: Possible bullish reversal. Buy if there is a bullish confirmation candle that closes above the high of candles 1 and 2. Otherwise, the downtrend can continue.

Tweezers Top (Bearish)

Pattern description: The Tweezers Top is a two-day bearish reversal pattern. Two candles with matching highs distinguish this pattern. The shape of either candle is unimportant.

Rules of Recognition

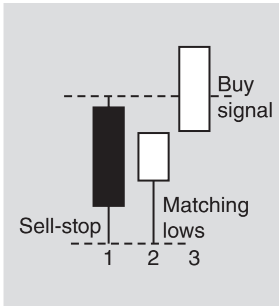
1. An uptrend must be in progress.
2. The first candle is white, reflecting the continuing bullish mood.
3. The second day candle's high matches the high of the first candle, forming a double top.
4. The second candle can be a doji, white, or black candle with or without upper shadows as long as its high is at the same level as the first candle's high.
5. The first candle is almost always a white candle, but this is not a requirement in a Tweezers Top formation. It could well be a doji, white, or black candle with or without shadows. The criterion that makes for a Tweezers Top is the matching highs of the two candles. Seen after an uptrend, they are potentially bearish reversal signals.
6. The Japanese name for Tweezers Top is *kenukitenjo*.

Interpretation: The matching highs of the Tweezers Top imply market resistance. It reflects the inability of market bulls to drive prices higher than the previous high. Seen after an uptrend, the Tweezers Top can be a major bearish reversal pattern. In identifying a Tweezers formation, the highs and the lows are important and not their real bodies. The Tweezers formation can be multiple candles (more than two).

Proper action: Possible bearish reversal. Sell if there is a bearish confirmation candle that closes below the low of candles 1 and 2. Otherwise, the uptrend can continue.

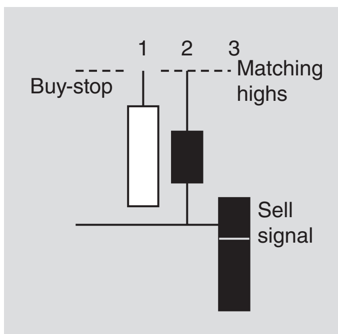
Trading the Tweezers Bottom and Tweezers Top Figure 4.26 and Figure 4.27 show some examples of the Tweezers Bottom and Tweezers Top patterns.

Tweezers Bottom



The close on candle 3 must exceed the high of candles 1 and 2 to trigger a buy signal. Place sell-stop below the lowest low of candles 1 and 2.

Tweezers Top



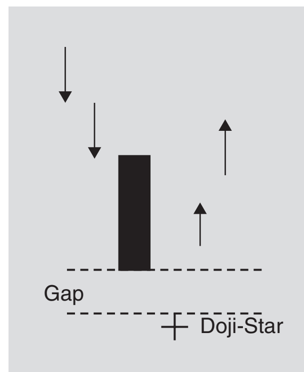
The close on candle 3 must exceed the low of candles 1 and 2 to trigger a sell signal. Place buy-stop above the highest high of candles 1 and 2.

Triple Candle stick Patterns

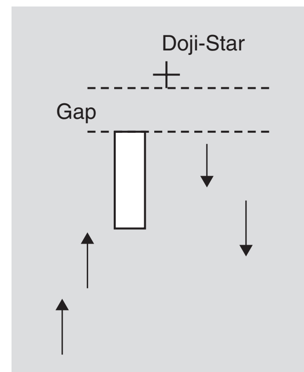
Triple candlestick patterns such as the Doji-Star at the Bottom and Top, Three-River Morning Doji-Star and Three-River Evening Doji-Star, Abandoned Baby Bottom and Top, Three-River Morning Star and Three-River Evening Star, Tri-Star Bottom and Top, Breakaway Three-New-Price Bottom and Top, Bullish Black Three Gaps and Bearish White Three Gaps, Three White Soldiers and Three Black Crows, Advance Block, Deliberation, and Upside Gap Two Crows are discussed here.

Doji-Star at the Bottom and Top

Doji-Star at the Bottom



Doji-Star at the Top



Doji-Star at the Bottom and Top pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

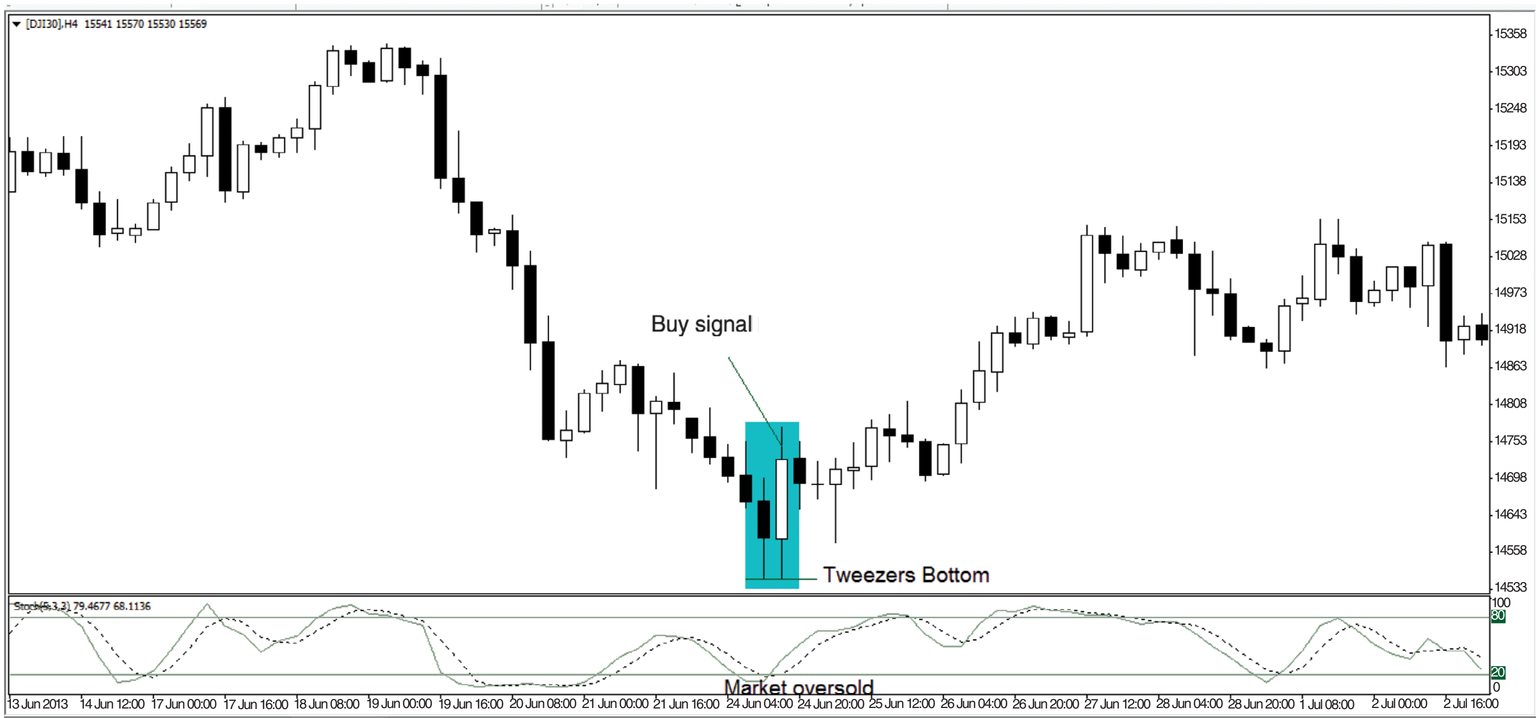


FIGURE 4.26 Dow Jones Industrial Average 4-Hour (2013)—Tweezers Bottom

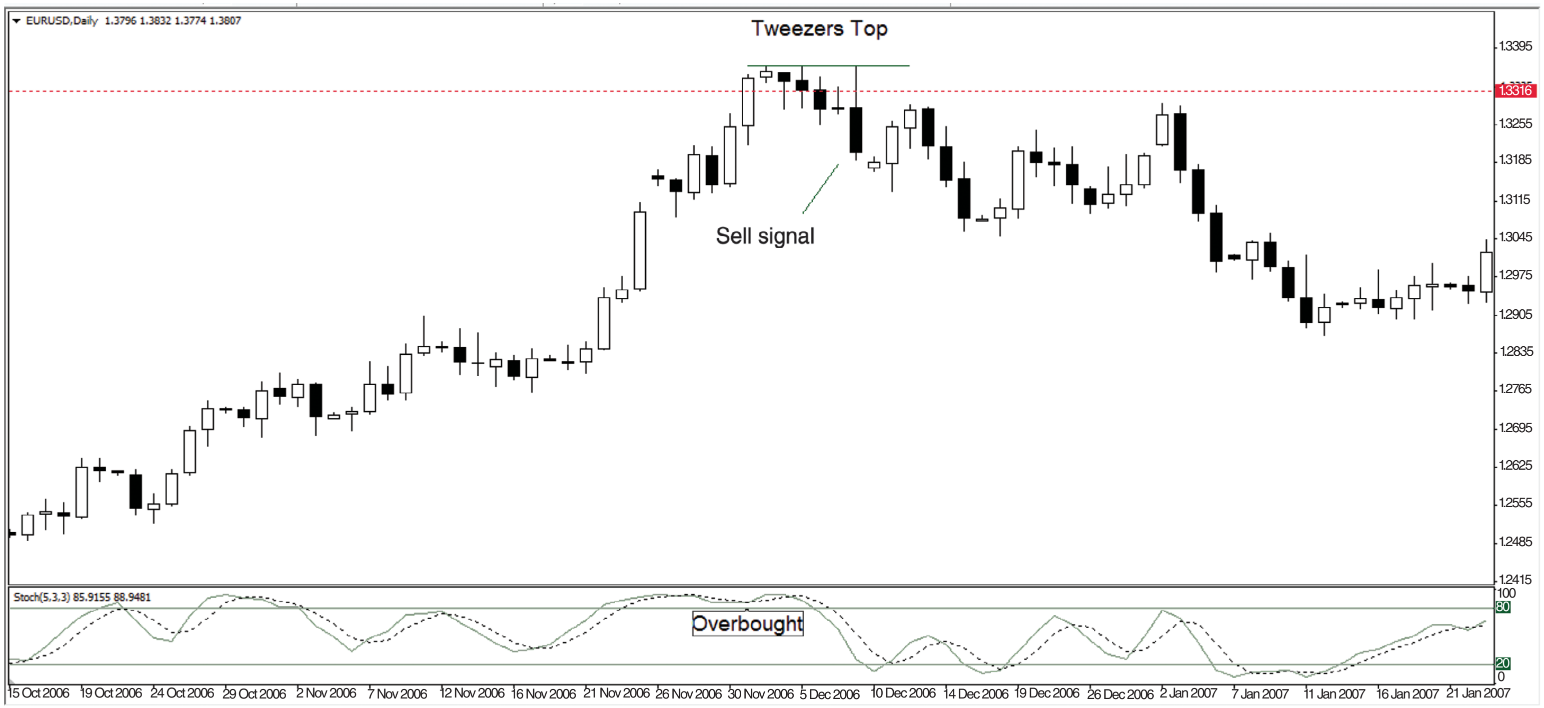


FIGURE 4.27 EurUsd Daily (2013)—Tweezers Top

Doji-Star at the Bottom

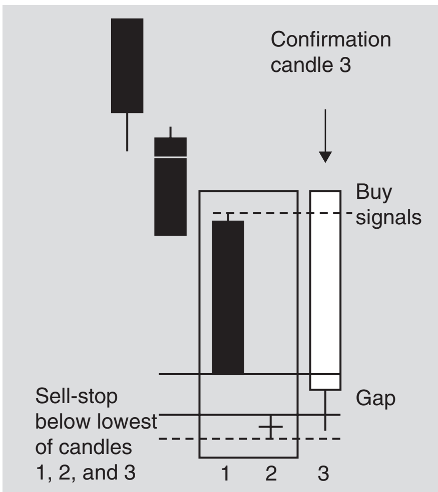
Pattern description: The Doji-Star at the Bottom is a doji that gaps below a black candle. It is a warning of a trend change.

Rules of recognition: The first day must be a black candle; the second day is a doji that gaps below the black. The third day's bullish confirmation is a white candle.

Interpretation: The Doji-Star at the Bottom warns of a possible bullish reversal or trend change. But bullish confirmation is required.

Proper action: Wait for a bullish confirmation before acting on a Doji-Star at the Bottom.

Trading the Doji-Star at the Bottom



Rules

1. Buy if confirmation candle 3 closes above highest high of candles 1 and 2.
2. In case of a resumption of a downtrend, place sell-stop below the lowest low of candles 1, 2, and 3.

Doji-Star at the Top

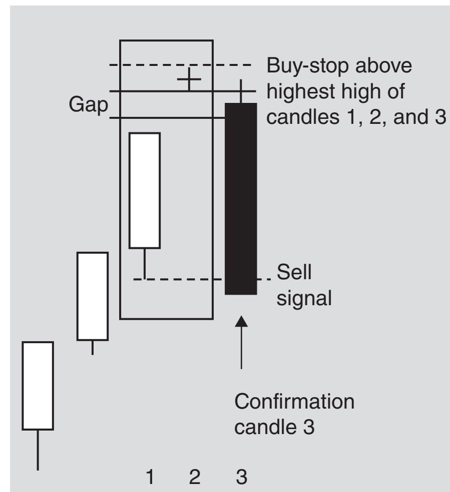
Pattern description: The Doji-Star at the Top is a doji that gaps above a white candle. It is a warning of a trend change.

Rules of recognition: The first day must be a white candle; the second day is a doji that gaps above the white. The third day's bearish confirmation is a black candle.

Interpretation: The Doji-Star at the Top warns of a possible bearish reversal or trend change. But bearish confirmation is required.

Proper action: Wait for a bearish confirmation before acting on a Doji-Star at the Top.

Trading the Doji-Star at the Top



Rules

1. Sell if confirmation candle 3 closes below the lowest low of candles 1 and 2.
2. In case of a resumption of an uptrend, place buy-stop above the highest high of candles 1, 2, and 3.

When a Doji-Star Becomes a Three-River Morning Doji-Star or an Abandoned Baby Bottom In the case of the Doji-Star at the Bottom, the candle subsequent to the doji (i.e., candle) may or may not gap above in forming the white candle.

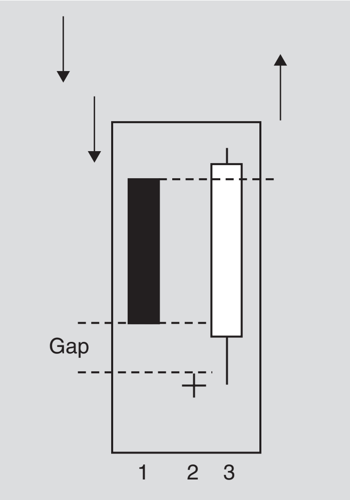
1. If the opening of the white candle does not gap above the doji, the resulting three-day pattern is called a Three-River Morning Doji-Star. It also qualifies as a Three-River Morning Doji-Star if the open of the white candle gaps above the doji but its lower shadow overlaps the upper shadow of the doji.
2. If the opening of the white candle gaps above the doji and the lower shadow of the white candle does not overlap the upper shadow of the doji, resulting in an "island" being formed between the doji and the white candle, the resulting three-day pattern is called an Abandoned Baby Bottom. Western charting theory calls this pattern an "island reversal bottom."

When a Doji-Star Becomes a Three-River Evening Doji-Star or an Abandoned Baby Top In the case of the Doji-Star at the Top, the candle subsequent to the doji (i.e., candle 3) may or may not gap below in forming the black candle.

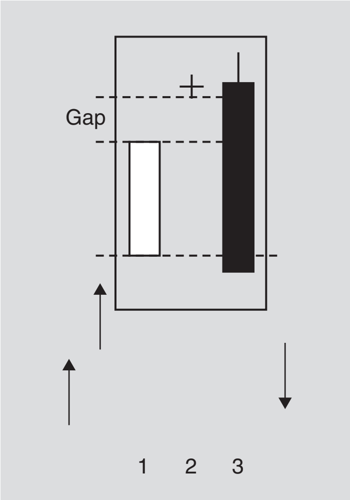
1. If the opening of the black candle does not gap below the doji the resulting three-day pattern is called a Three-River Evening Doji-Star. It also qualifies as a Three-River Evening Doji-Star if the open of the black candle gaps below the doji, but its upper shadow overlaps the lower shadow of the doji.
2. If the opening of the black candle gaps below the doji and the upper shadow of the black candle does not overlap the lower shadow of the doji, resulting in an "island" being formed between the doji and the black candle, the resulting three-day pattern is called an Abandoned Baby Top. Western charting theory names this pattern an "island reversal top."

Three-River Morning Doji-Star and Three-River Evening Doji-Star

Three-River Morning Doji-Star



Three-River Evening Doji-Star



Three-River Morning Doji-Star and Three-River Evening Doji-Star pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Three-River Morning Doji-Star

Pattern Description and Rules of Recognition

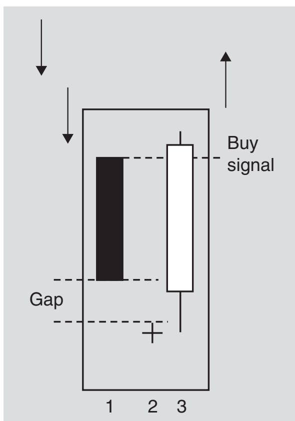
1. A Three-River Morning Doji-Star pattern is basically a Doji-Star at the Bottom with bullish confirmation.

2. If the white candle after the doji cannot penetrate the high of the black candle, further confirmation is required via a fourth white candle.
3. Note that the shadows of the doji and the white candle can overlap each other.

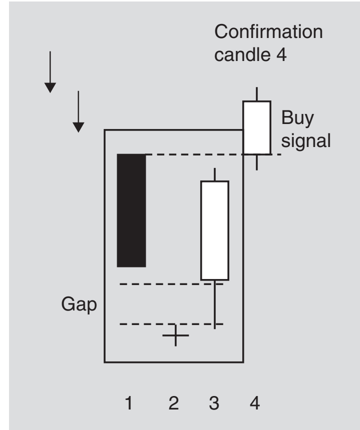
Interpretation: Like the Doji-Star at the Bottom, the Three-River Morning Doji-Star represents a major bullish reversal or trend change. But bullish confirmation is required via a fourth candle unless candle 3 can close higher than candles 1 and 2.

Proper action: No confirmation is required if the third candle closes above the highest high of candles 1 and 2. If the third candle's close is still below black candle 1, wait for a bullish confirmation on the fourth candle.

What Constitutes "Confirmation" in the Three-River Morning Doji-Star

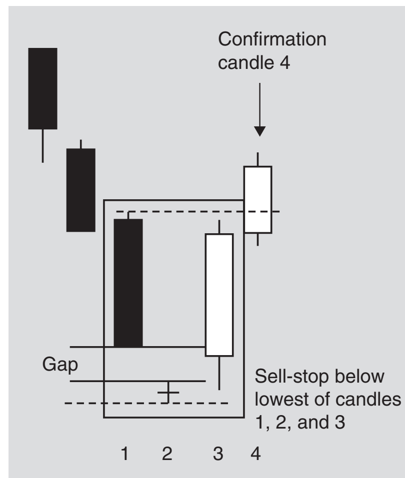


Where no confirmation is required as candle 3 closes higher than candles 1 and 2



Where confirmation is required via a fourth candle as candle 3 did not close above candles 1 and 2

Trading the Three-River Morning Doji-Star



Rules

1. Buy if confirmation candle 4 closes above highest high of candles 1, 2, and 3.
2. In case of a resumption of a downtrend, place sell-stop below the lowest low of candles 1, 2, 3, and 4.

Three-River Evening Doji-Star

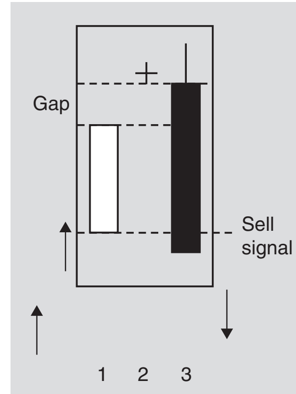
Pattern Description and Rules of Recognition

1. A Three-River Evening Doji-Star pattern is basically a Doji-Star at the Top with bearish confirmation.
2. If the black candle (3) after the doji (2) cannot penetrate the low of the white candle (1), further confirmation is required via a fourth white candle.
3. Note that the shadows of the doji and the black candle can overlap each other.

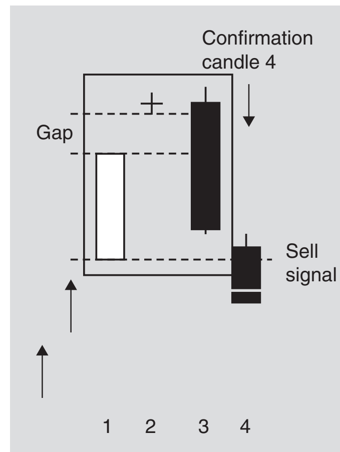
Interpretation: Like the Doji-Star at the Top, the Three-River Evening Doji-Star represents a major bearish reversal or trend change. But bearish confirmation is required via a fourth candle unless candle 3 can close lower than candles 1 and 2.

Proper action: No confirmation is required if the third candle closes below the lowest low of candles 1 and 2. If the third candle's close is still above white candle 1, wait for a bearish confirmation on the fourth candle.

What Constitutes Confirmation in the Three-River Evening Doji-Star

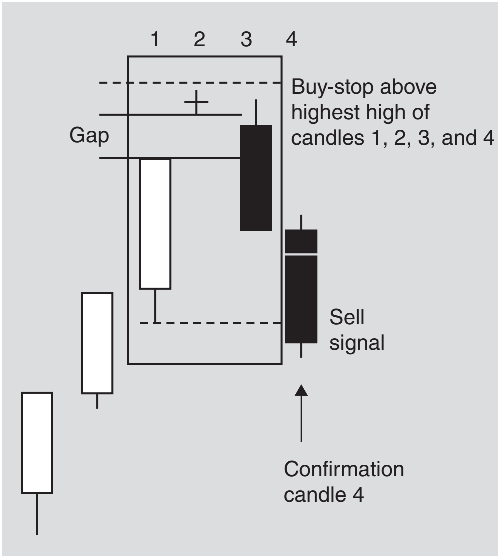


Where no confirmation is required as candle 3 closes lower than candles 1 and 2



Where confirmation is required via a fourth candle as candle 3 did not close below candles 1 and 2

Trading the Three-River Evening Doji-Star



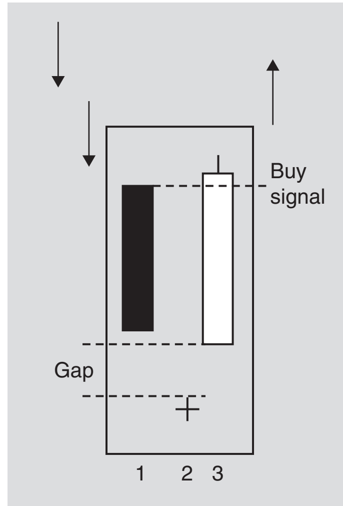
Rules

1. Sell if confirmation candle 4 closes below the lowest low of candles 1, 2, and 3.
2. In case of a resumption of an uptrend, place buy-stop above the highest high of candles 1, 2, 3, and 4.

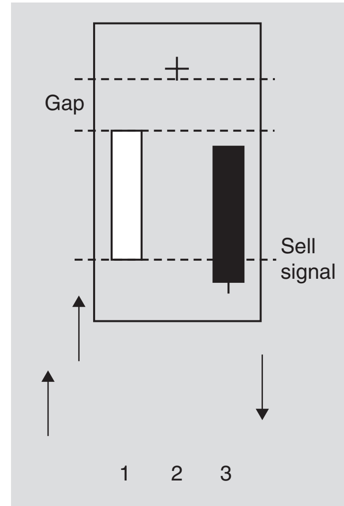
Figure 4.28 and Figure 4.29 show some examples of Three-River Morning and Three-River Evening Doji-Star patterns.

Abandoned Baby Bottom and Top

Abandoned Baby Bottom



Abandoned Baby Top



Abandoned Baby Bottom and Abandoned Baby Top pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Abandoned Baby Bottom

Pattern Description and Rules of Recognition

1. A Three-River Morning Doji-Star pattern becomes an Abandoned Baby Bottom when a gap (or window) occurs between the doji and the third day's white candle.

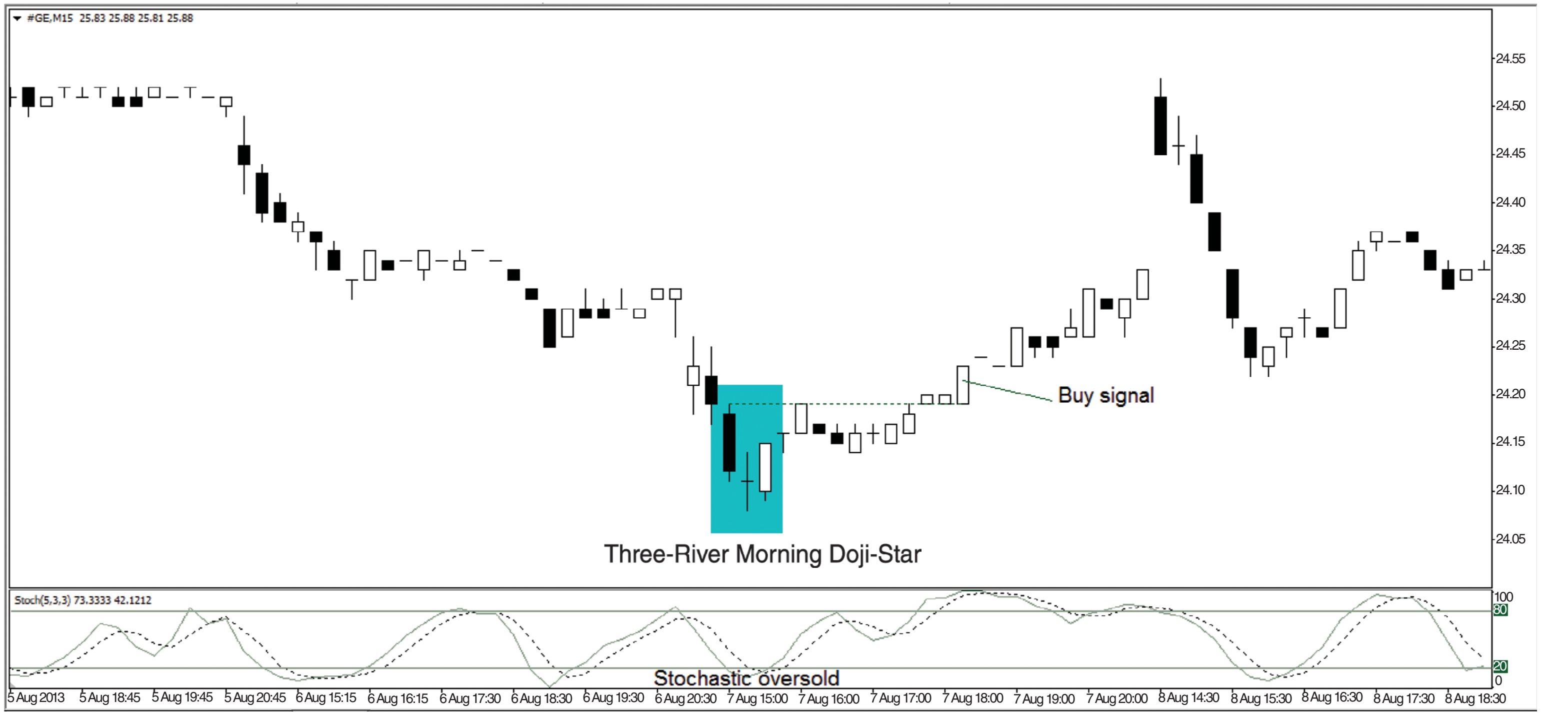


FIGURE 4.28 General Electric 15-Minute (2013)—Three-River Morning Doji-Star

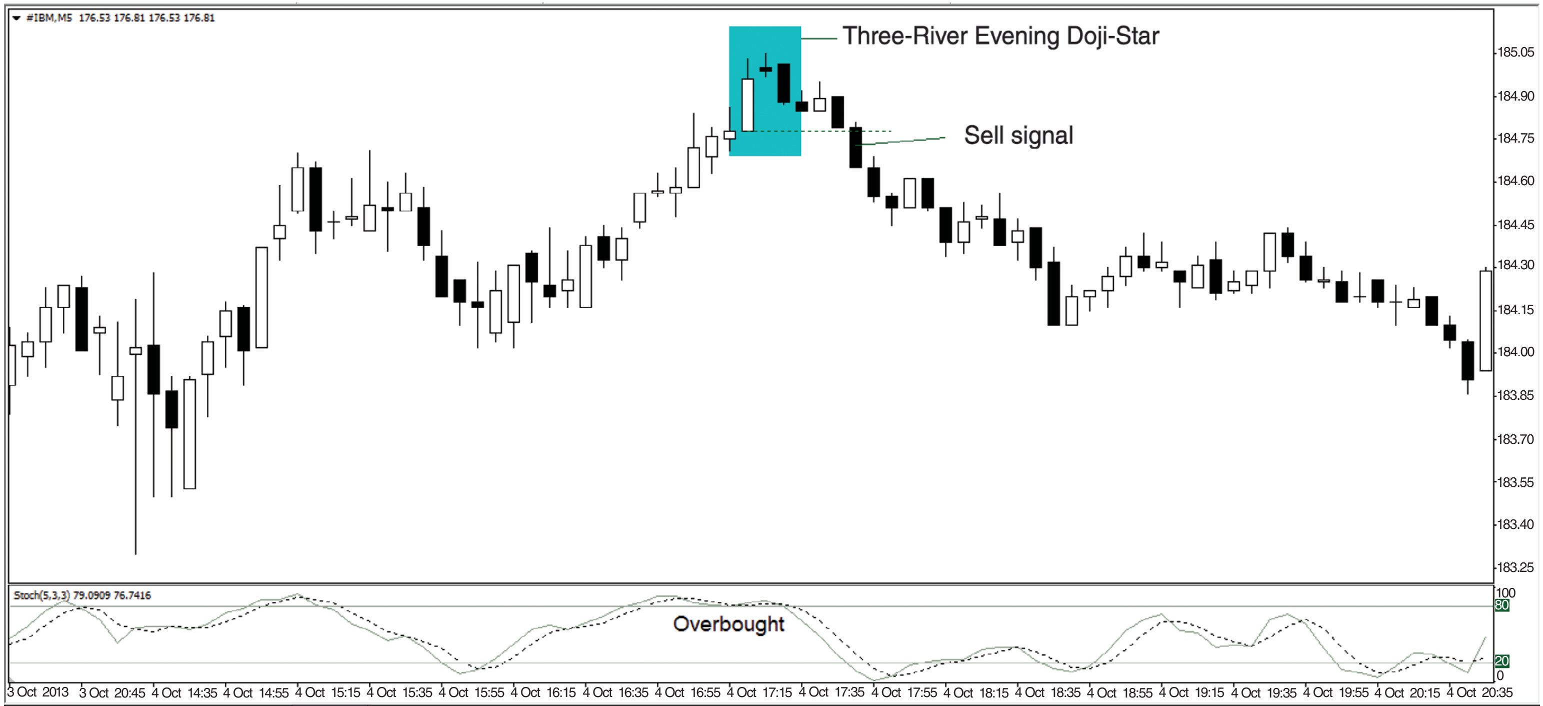


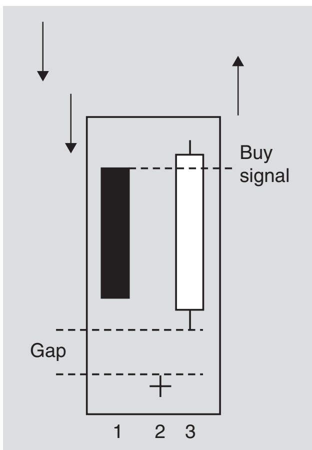
FIGURE 4.29 IBM 5-Minute (2013)—Three-River Evening Doji-Star

2. The lower shadow of the white candle (3) cannot overlap the upper shadow of the doji (2).

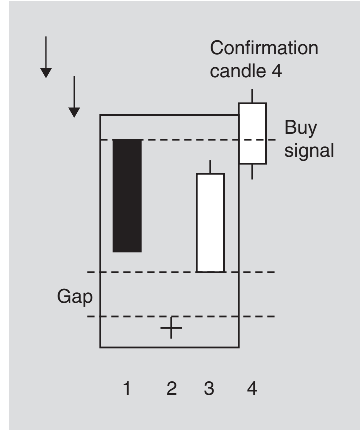
Interpretation: Like the Three-River Morning Doji-Star, the Abandoned Baby Bottom represents a major bullish reversal or trend change. But bullish confirmation is required via a fourth candle unless white candle 3 can close higher than candles 1 and 2. This is a rare pattern.

Proper action: No confirmation is required if the third candle closes above the highest high of candles 1 and 2. If the third candle's close is still below black candle 1, wait for a bullish confirmation on the fourth candle.

What Constitutes Confirmation in the Abandoned Baby Bottom

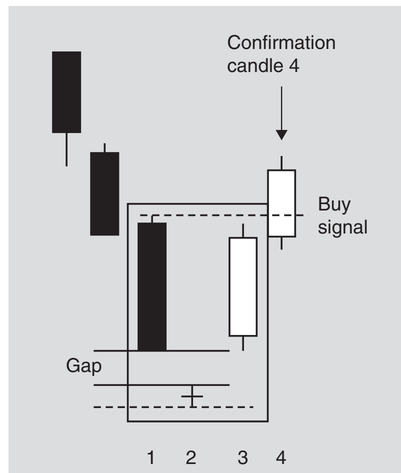


Where no confirmation is required as candle 3 closes higher than candles 1 and 2



Where confirmation is required via a fourth candle as candle 3 did not close above candles 1 and 2

Trading the Abandoned Baby Bottom



Rules

1. Buy if confirmation candle 4 closes above highest high of candles 1, 2, and 3.
2. In case of a resumption of a downtrend, place sell-stop below the lowest low of candles 1, 2, 3, and 4.

Abandoned Baby Top

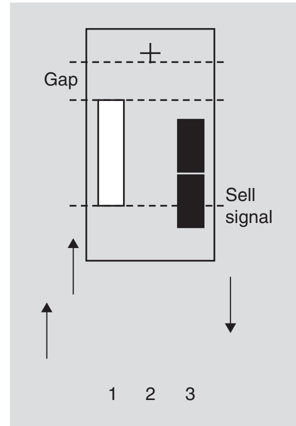
Pattern Description and Rules of Recognition

1. A Three-River Evening Doji-Star pattern becomes an Abandoned Baby Top when there is a gap (or window) between the doji and the third day's black candle.
2. The upper shadow of the black candle (3) cannot overlap the lower shadow of the doji (2).

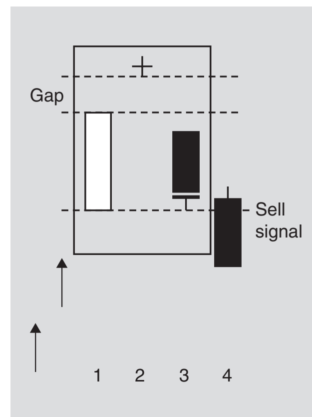
Interpretation: Like the Three-River Evening Doji-Star, the Abandoned Baby Top represents a major bearish reversal or trend change. But bearish confirmation is required via a fourth candle unless black candle 3 closes lower than candles 1 and 2. This is a rare pattern.

Proper action: No confirmation is required if the third candle closes below the lowest low of candles 1 and 2. If the third black candle's close is still above black candle 1, wait for a bearish confirmation on the fourth candle.

What Constitutes Confirmation in the Abandoned Baby Top

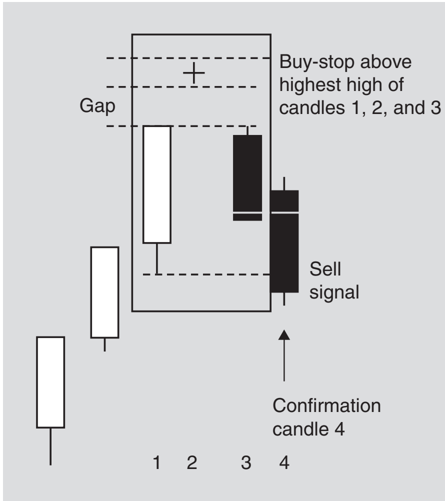


Where no confirmation is required as candle 3 closes lower than candles 1 and 2



Where confirmation is required via a fourth candle as candle 3 did not close below candles 1 and 2

Trading the Abandoned Baby Top

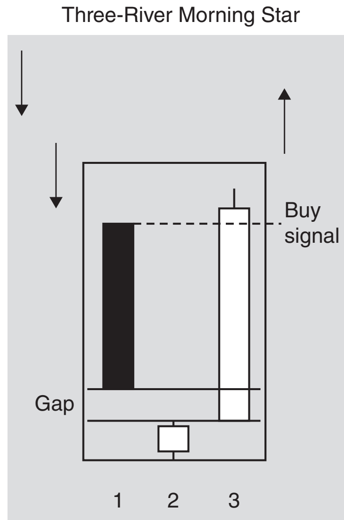


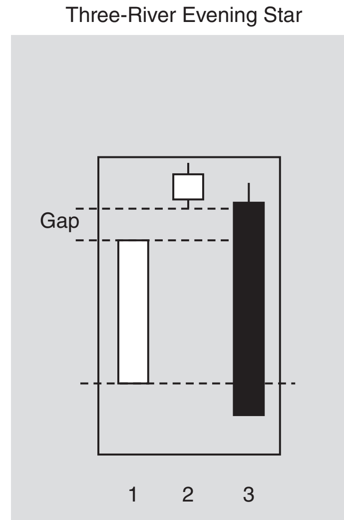
Rules

1. Sell if confirmation candle 4 closes below the lowest low of candles 1, 2, and 3.
2. In case of a resumption of an uptrend, place buy-stop above the highest high of candles 1, 2, 3, and 4.

Figure 4.30 and Figure 4.31 show some examples of Abandoned Baby Top and Abandoned Baby Bottom patterns.

Three-River Morning and Three-River Evening Star





The Three-River Morning Star and Three-River Evening Star pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Three-River Morning Star

Pattern Description and Rules of Recognition

1. The Three-River Morning Star has a long black candle on the first day.
2. The second day is a Star that gaps below the black candle forming a small Spinning Top. The colour of its real body is unimportant.
3. The third day is likely a long white candle, which triggers a buy signal if it closes above the first and second candle's high.

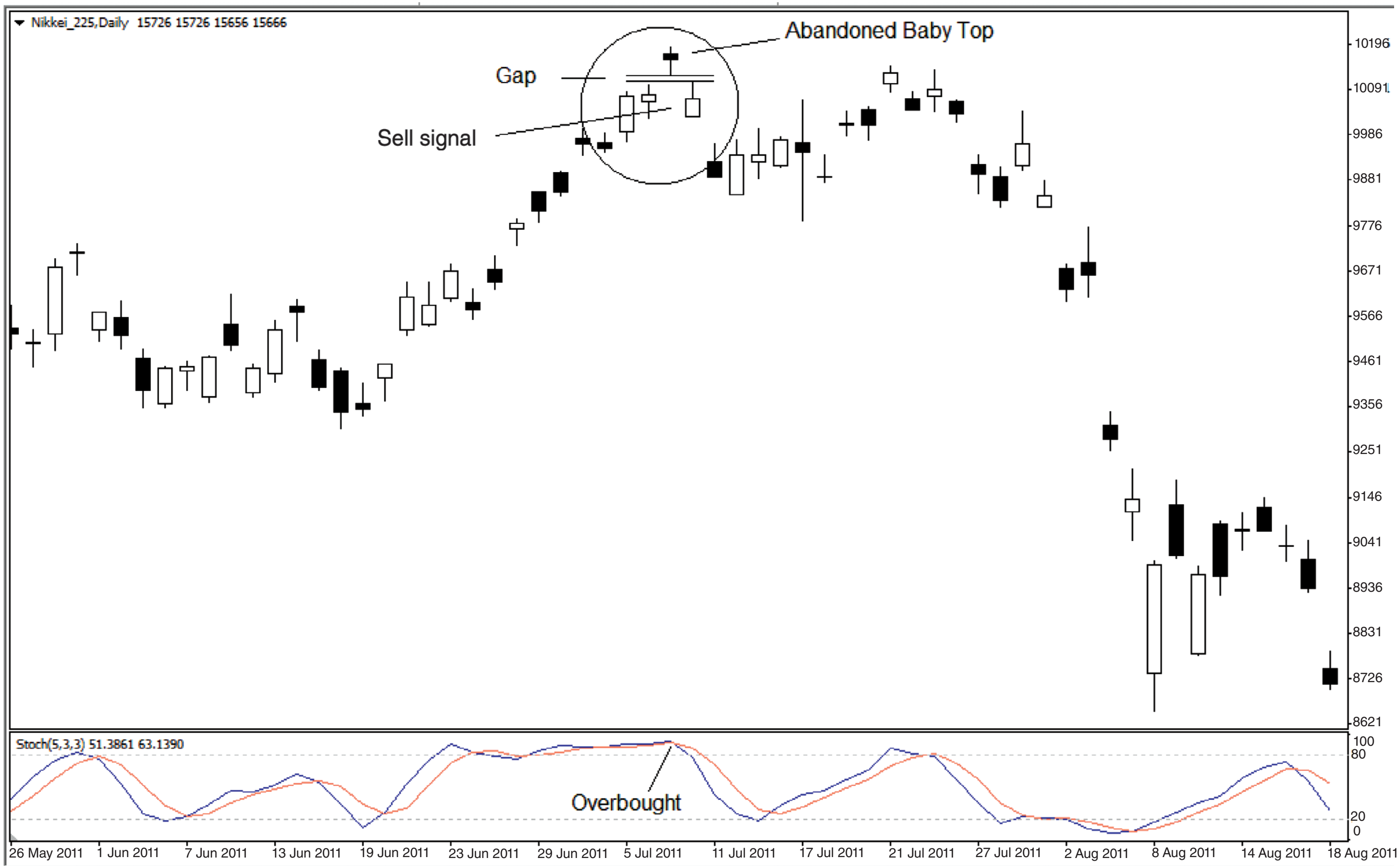


FIGURE 4.30 Nikkei 225 Daily (2011)—Abandoned Baby Top

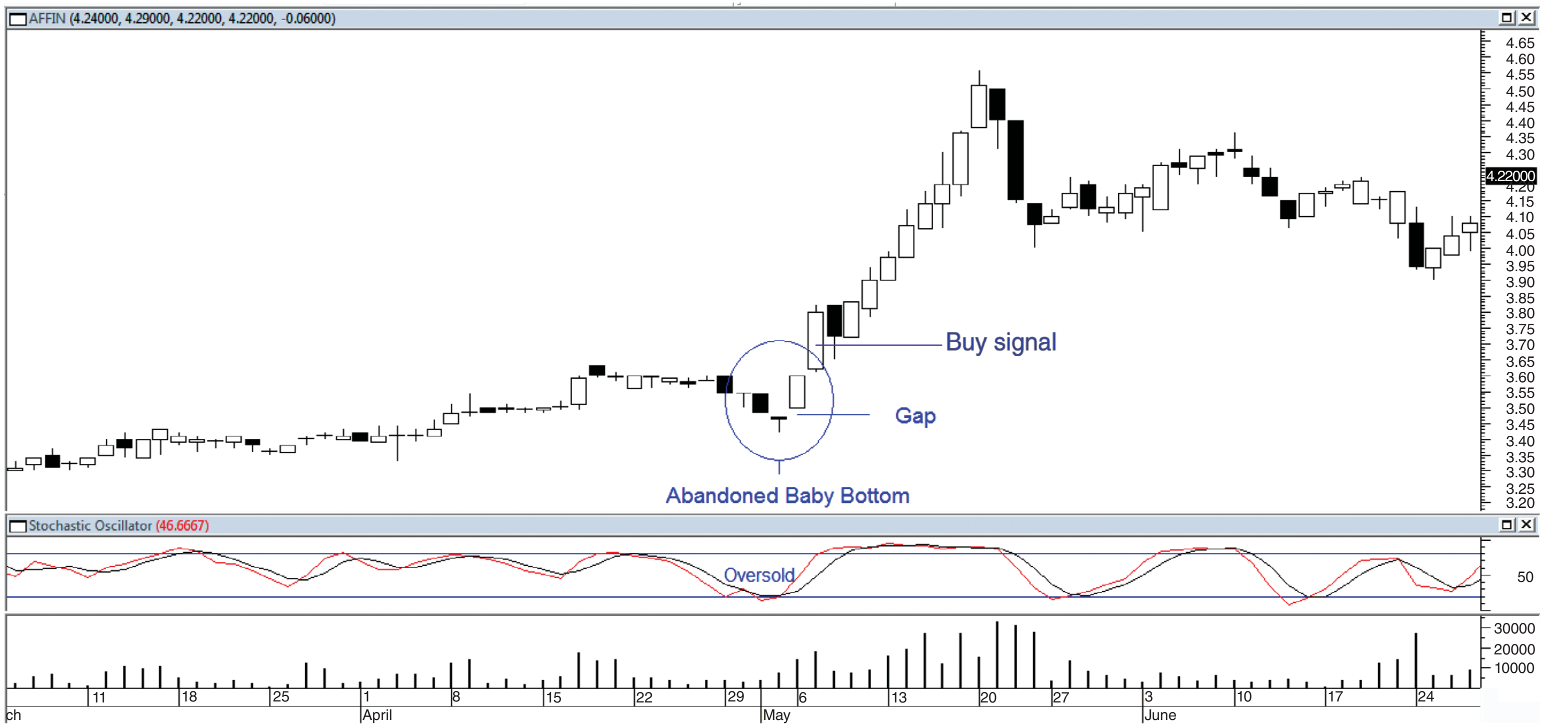


FIGURE 4.31 Affin Malaysia Daily (2013)—Abandoned Baby Bottom

4. This pattern would be called a Three-River Morning Doji-Star if the second day is a doji.

Interpretation: Like the Three-River Morning Doji-Star or the Abandoned Baby Bottom, the Three-River Morning Star represents a major bullish reversal or trend change.

Proper action: No bullish confirmation is required if the third day's candle closes above the highest high of candles 1 and 2. If the third day's candle's close is still below the highest high of candles 1 and 2, wait for a bullish confirmation on the fourth candle.

Three-River Evening Star

Pattern Description and Rules of Recognition

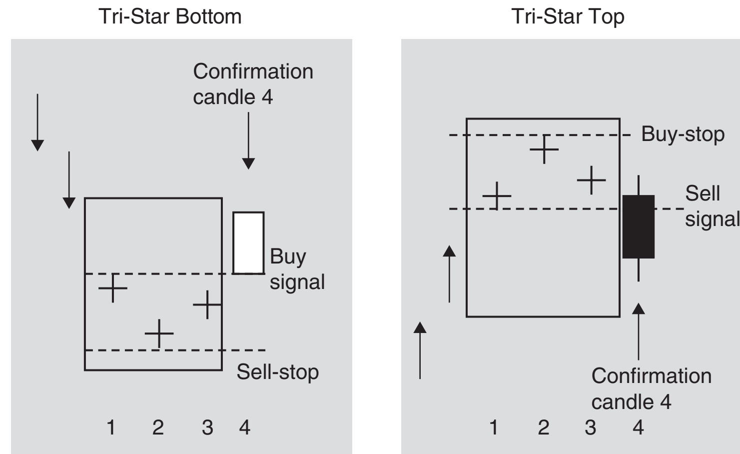
1. The first day is a long white candle.
2. The second day is a Star that gaps above the previous day's white candle. This Star is a small Spinning Top. Its colour is unimportant.
3. The third day is likely a long black candle, which triggers a sell signal if it closes below the first and second candles' lows.
4. This pattern would be called a Three-River Evening Doji-Star if the second day were a doji.

Interpretation: Like the Three-River Evening Doji-Star or the Abandoned Baby Top, the Three-River Evening Star represents a major bearish reversal or trend change.

Proper Action: No bearish confirmation is required if the third day's candle closes below the lowest low of candles 1 and 2. If the third day's candle's close is still above the lowest low of candles 1 and 2, wait for a bearish confirmation on the fourth candle.

Figure 4.32 and Figure 4.33 show some examples of Three-River Morning Star and Three-River Evening Star patterns.

Tri-Star Bottom and Tri-Star Top



The Tri-Star Bottom and Tri-Star Top pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Tri-Star Bottom

Pattern Description and Rules of Recognition

1. The first, second, and third days' candles are all doji.
2. The second day's doji gaps below the first day's doji.
3. The third day's doji gaps above the second day's doji.

Interpretation: Spotted after a downtrend, this rare three-day pattern is indicative of market exhaustion.

Proper action: Look for a bullish reversal or trend change. Wait for bullish confirmation via a close above the high of the first day's doji.

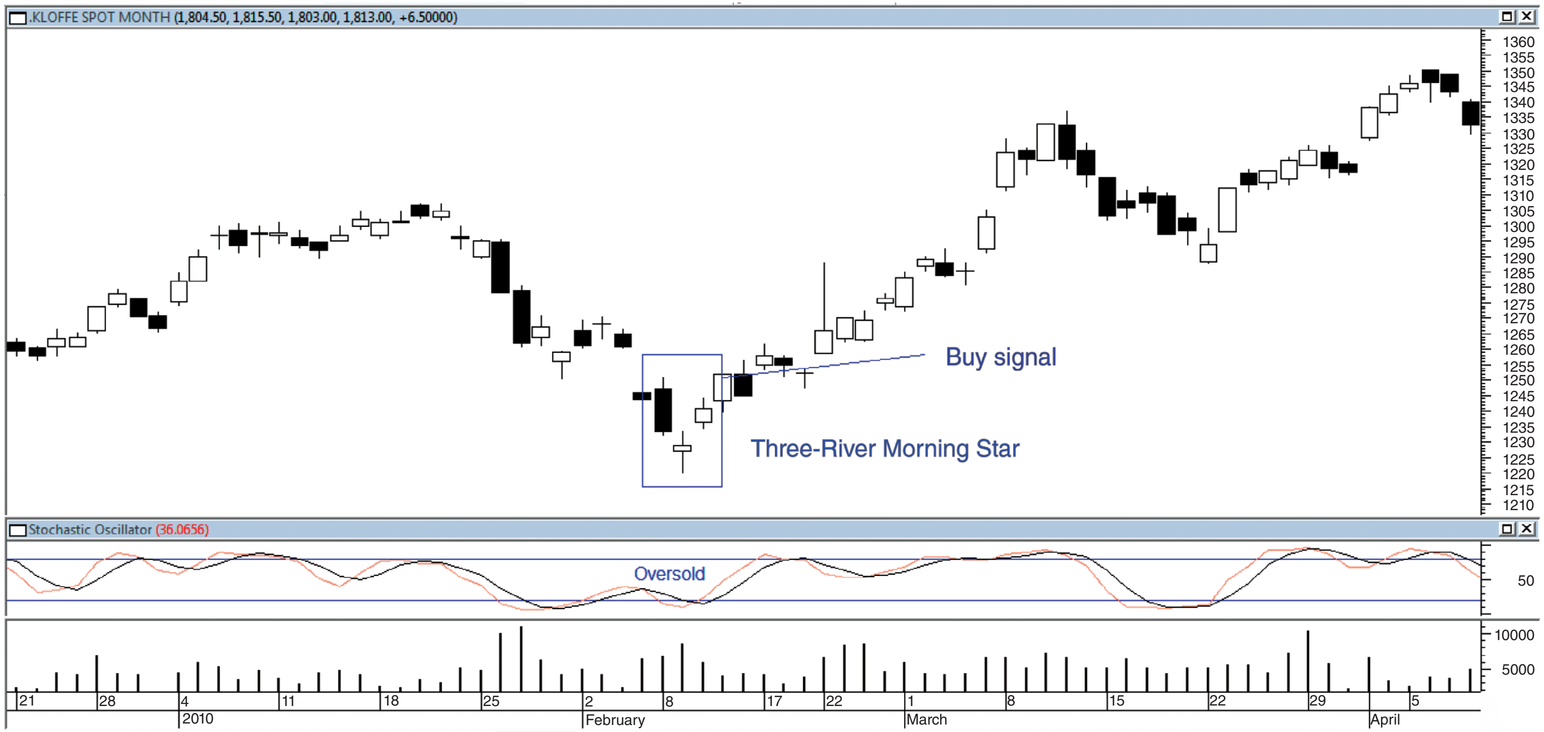


FIGURE 4.32 Kuala Lumpur Composite Index Futures Malaysia Daily (2013)—Three-River Morning Star

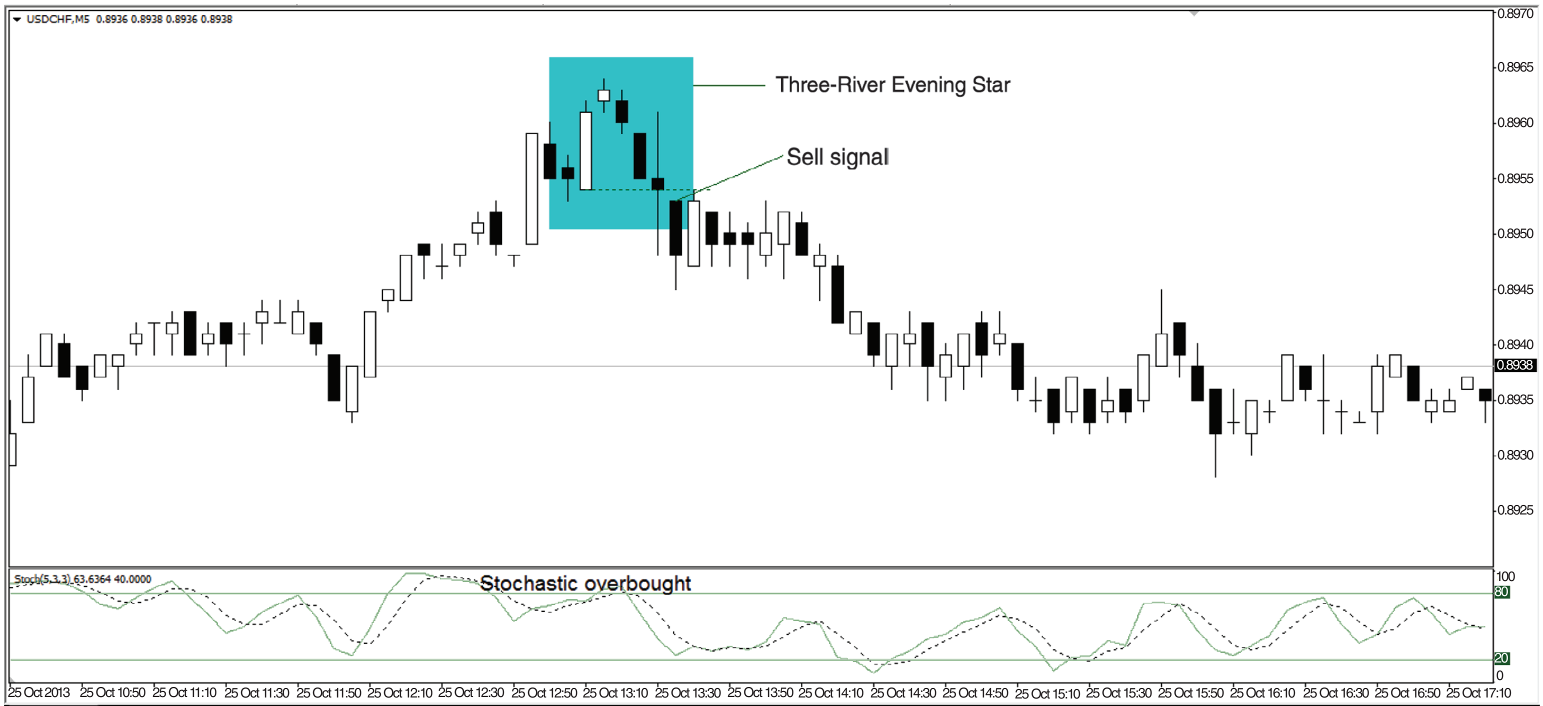


FIGURE 4.33 UsdChf 5-Minute (2013)—Three-River Evening Star

Tri-Star Top

Pattern Description and Rules of Recognition

1. The first, second, and third days' candles are all doji.
2. The second day's doji gaps above the first day's doji.
3. The third day's doji gaps below the second day's doji.

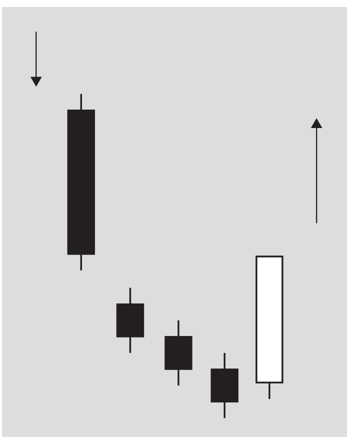
Interpretation: Spotted after an uptrend, this rare three-day pattern is indicative of market exhaustion.

Proper action: Look for a bearish reversal or trend change. Wait for bearish confirmation via a close below the low of the first day's doji.

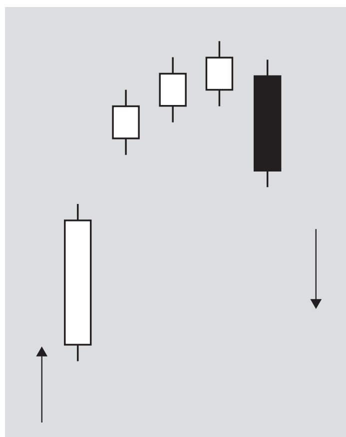
Figure 4.34 and Figure 4.35 show some examples of Tri-Star Bottom and Tri-Star Top patterns.

Breakaway Three-New-Price Bottom and Breakaway Three-New-Price Top

Breakaway Three-New-Price Bottom



Breakaway Three-New-Price Top



Breakaway Three-New-Price Bottom and Breakaway Three-New-Price Top pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Breakaway Three-New-Price Bottom (Bullish)

Pattern description: This five-day bullish reversal pattern consists of a down-gap, which is followed by three small candles each making lower lows. The bullish reversal comes on the fifth day through a white candle.

Rules of Recognition

1. A downtrend must be in progress.
2. The first day is a long black candle, reflecting the continuing bearish mood.
3. The second day gaps below the previous day's low and forms a small black candle.
4. The third and fourth days are also small candles making lower lows. They should also make lower highs, but there are no hard and fast rules here as long as the third and fourth candles' high or close is not above the down-gap.
5. Colours of the second, third, and fourth small real bodies need not necessarily be all black although it is preferable.
6. The fifth day is a long white candle that closes above the highest high of the three small real body candles before it.
7. The fifth day's candle need not close above the down-gap.

Interpretation: The Breakaway Three-New-Price Bottom depicts the market's rebound from a grossly oversold situation. The down-gap on the second day implies a sell-off possibly stemming from very bearish news. But there is not much follow-through selling on the third and the fourth day. Although the

FIGURE 4.34 Faber Group Malaysia Daily (2013)—Tri-Star Bottom

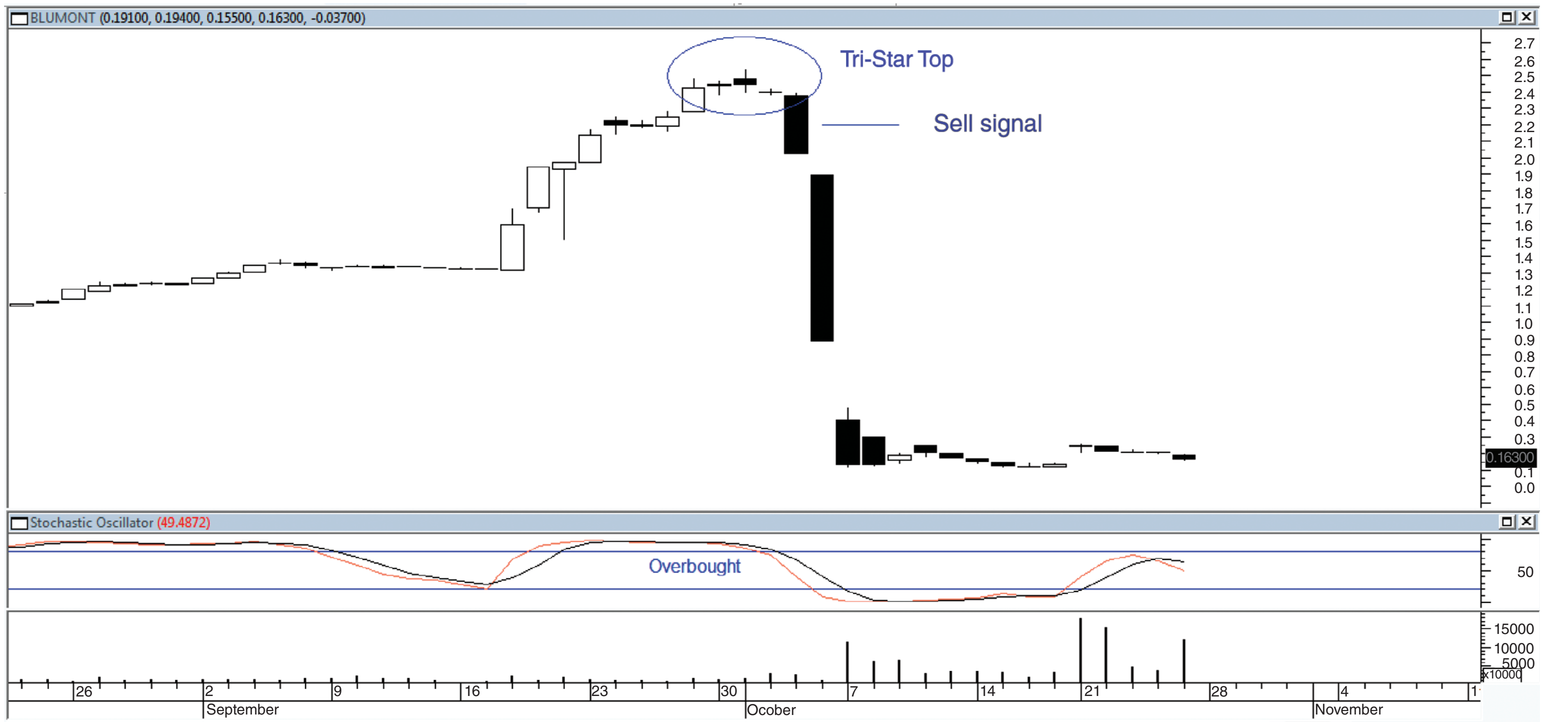


FIGURE 4.35 Belmont Singapore Daily (2013)—Tri-Star Top

market made lower lows, the small real bodies imply the presence of buying support. The fifth day's long white candle reflects the return of the bulls, triggering a trend reversal to the upside. This candle need not fill the down-gap but must close above the highest high of the three small candles before it.

Proper action: Bullish reversal. Buy on the white candle of the fifth day. Place sell-stop below the lowest low of the last four candles.

Breakaway Three-New-Price Top (Bearish)

Pattern description: This five-day bearish reversal pattern consists of an up-gap, which is followed by three small candles, each making higher highs. The bearish reversal comes on the fifth day through a black candle.

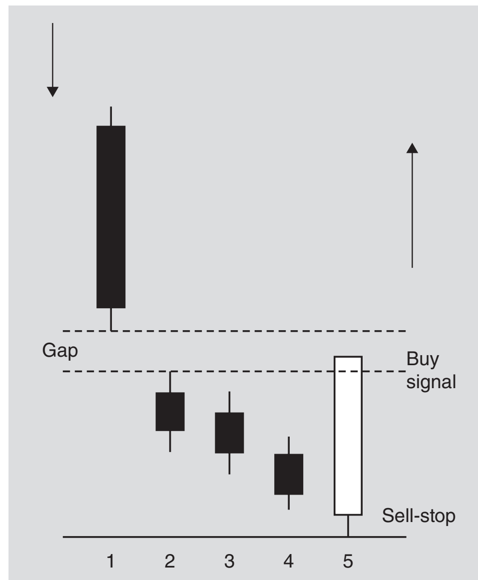
Rules of Recognition

1. An uptrend must be in progress.
2. The first day is a long white candle, reflecting the continuing bullish mood.
3. The second day gaps above the previous day's high and forms a small white candle.
4. The third and fourth days are also small candles making higher lows. They should also make higher highs, but there are no hard and fast rules here as long as the third and the fourth candles' lows or closes are not below the up-gap.
5. Colours of the second, third, and fourth small real bodies need not necessarily be all white although it is preferable.
6. The fifth day is a long black candle that closes below the lowest low of the three small real body candles before it.
7. The fifth day's candle need not close below the up-gap.

Interpretation: The Breakaway Three-New-Price Top is the mirror image of the Breakaway Three-New-Price Bottom. It reflects a runaway market that has gotten ahead of its fundamentals. Strong buying triggers the up-gap, which could not be sustained. After three unsuccessful efforts by the bulls to drive prices higher, the market retreats from the lack of follow-through buying, resulting in a collapse coming from an increase in supply.

Proper action: Bearish reversal. Sell on the black candle of the fifth day. Place buy-stop above the highest high of the last four candles.

Trading the Breakaway Three-New-Price Bottom and Breakaway Three-New-Price Top Figure 4.36 and Figure 4.37 show some examples of breakaway Three-New-Price Bottom and Three-New-Price Top patterns.



The close of candle 5 must exceed the highest high of candles 2, 3, and 4 to trigger a buy signal. Place sell-stop below the lowest low of candles 2, 3, 4, and 5.

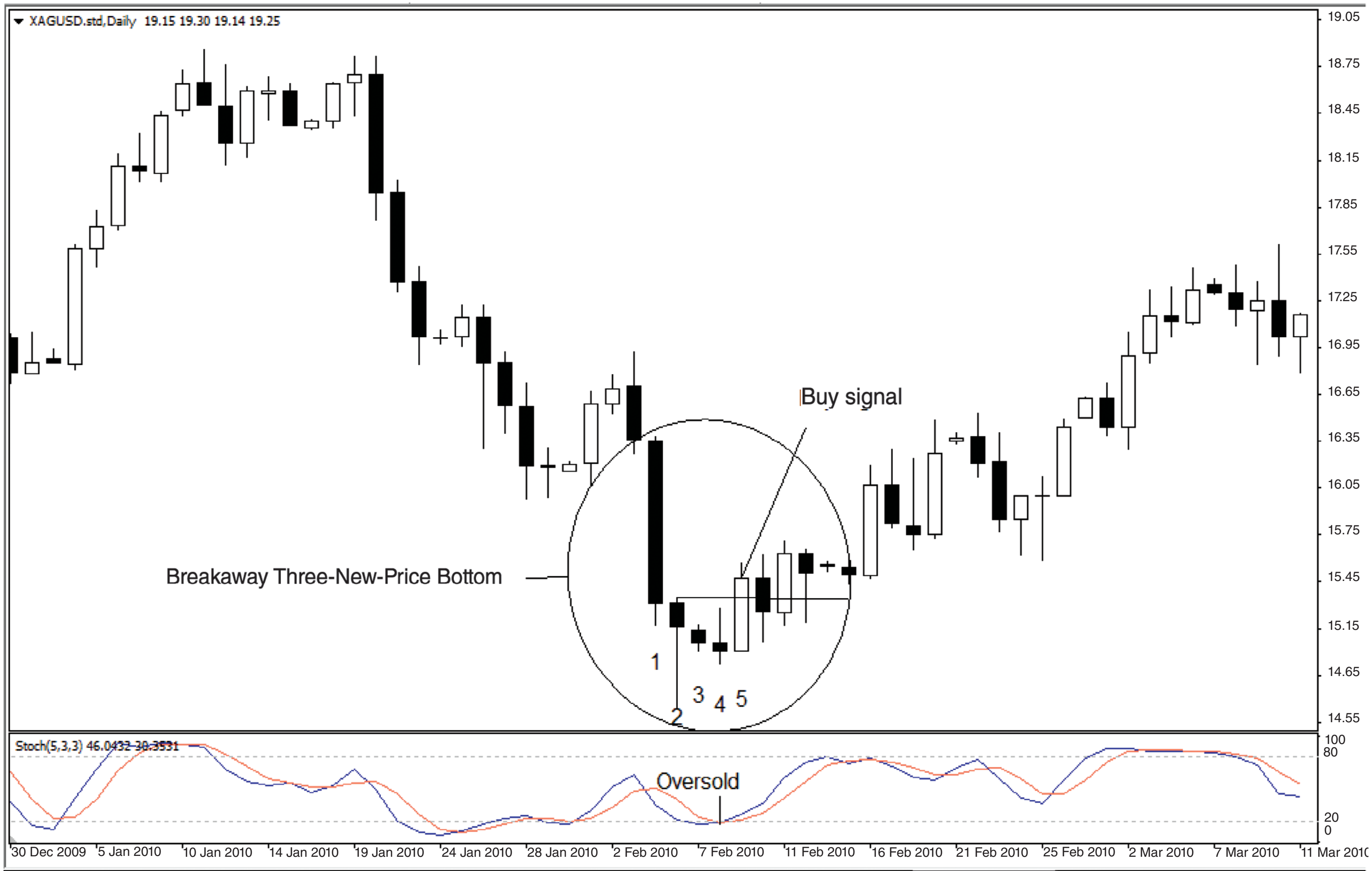


FIGURE 4.36 Silver Daily (2010)—Breakaway Three-New-Price Bottom

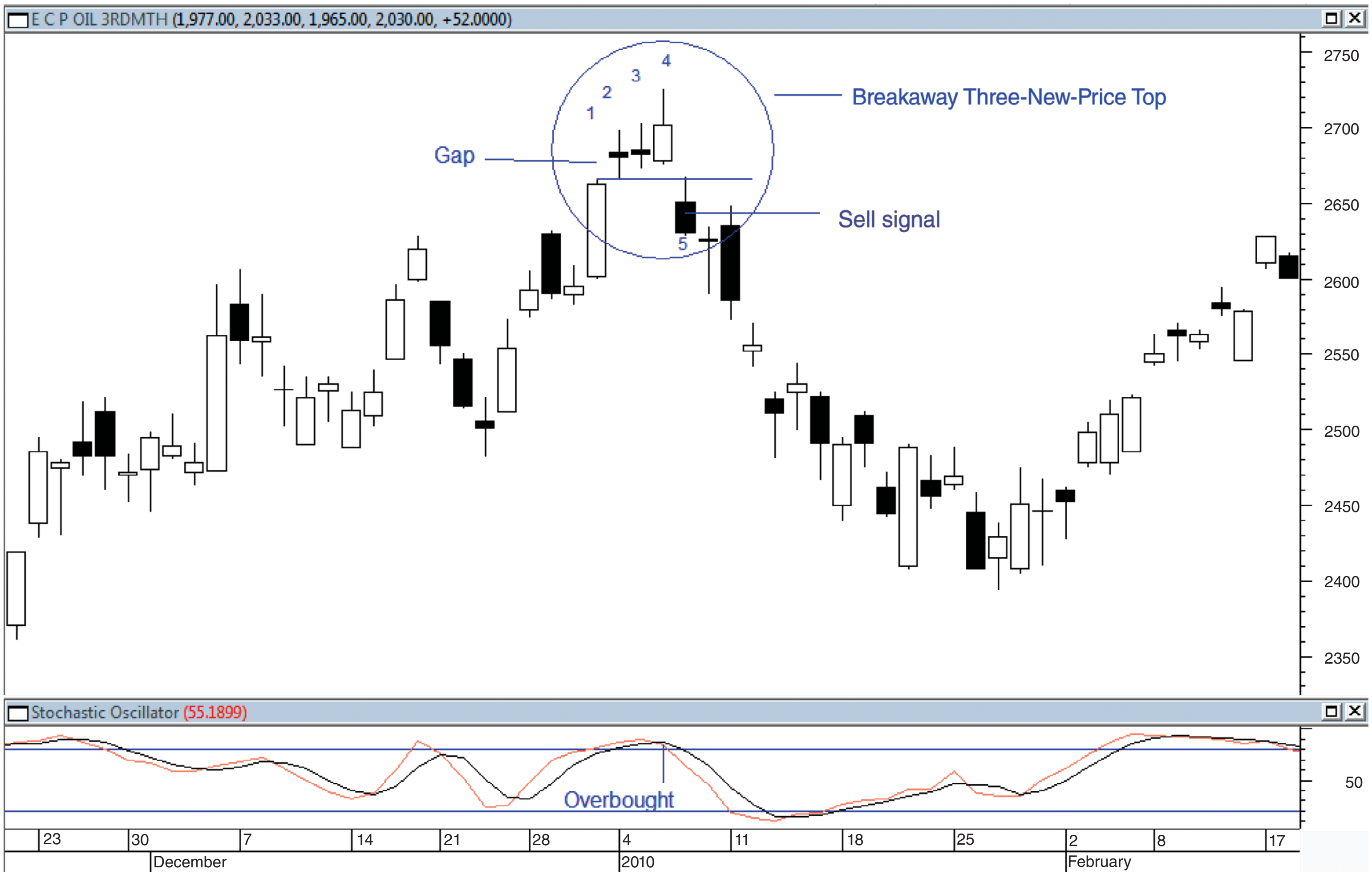
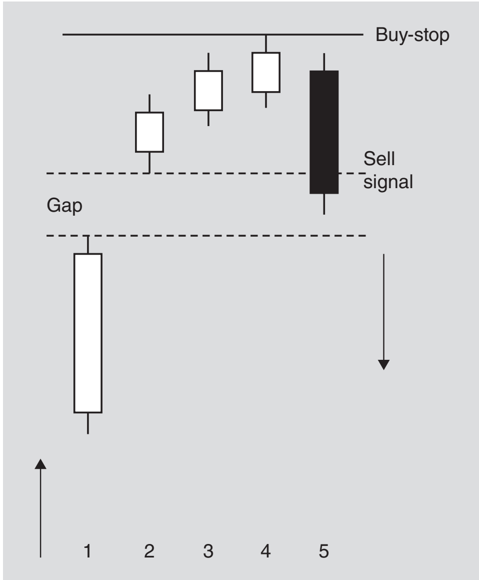
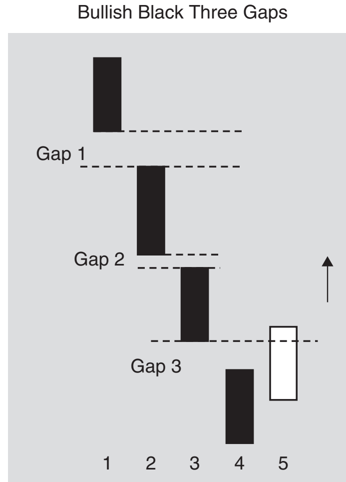


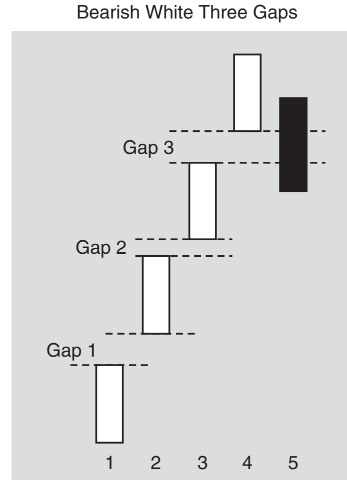
FIGURE 4.37 Crude Palm Oil Daily (2010)—Breakaway Three-New-Price Top



The close of candle 5 must exceed the lowest low of candles 2, 3, and 4 to trigger a sell signal. Place buy-stop above the highest high of candles 2, 3, 4, and 5.

Bullish Black Three Gaps and Bearish White Three Gaps





Bullish Black Three Gaps and Bearish White Three Gaps pattern descriptions, rules of recognition, interpretations, and proper actions are explained next, together with some examples.

Bullish Black Three Gaps (Bullish)

Pattern description: This is a four-day bullish reversal pattern and is distinguished by four black candles gapping away from one another in a downtrend.

Rules of Recognition

1. A downtrend must be in progress.
2. Four black candles gapping away from one another appear consecutively in a downtrend.

3. The fifth is a white candle that makes a U-turn and closes the down-gap created by the fourth black candle.
4. The fourth and the fifth candles can form bullish reversal patterns like Bullish Engulfing or Fred Tam's White Inside Out Up, but the criterion must be a close above the third down-gap.

Interpretation: After the appearance of three down-gaps, the Japanese trader considers the downtrend as having exhausted itself. The next white candle that closes above the last (third) down-gap is the bullish reversal signal. No confirmation is required.

Proper action: Bullish reversal. No confirmation is required. Buy if the fifth white candle fills the third down-gap. Place a sell-stop below the lowest low of candles 3, 4, and 5.

Bearish White Three Gaps (Bearish)

Pattern description: This is a four-day bearish reversal pattern and is distinguished by four white candles gapping away from one another in an uptrend.

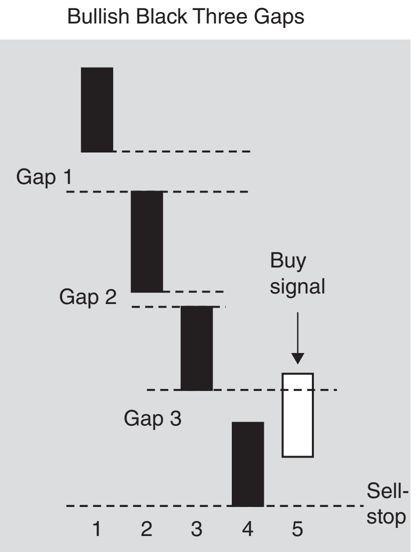
Rules of Recognition

1. An uptrend must be in progress.
2. Four white candles gapping away from one another appear consecutively in an uptrend.
3. The fifth is a black candle that makes a U-turn and closes the up-gap created by the fourth white candle.
4. The fourth and fifth candles can form bearish reversal patterns like Bearish Engulfing or Fred Tam's Black Inside Out Down, but the criterion must be a close below the third up-gap.

Interpretation: After the appearance of three up-gaps, the Japanese trader considers the uptrend as having exhausted itself. The next black candle that closes below the last (third) up-gap is the bearish reversal signal. No confirmation is required.

Proper action: Bearish reversal. No confirmation is required. Sell if the fifth black candle fills the third up-gap. Place a buy-stop above the highest high of candles 3, 4, and 5.

Trading the Bullish Black Three Gaps and the Bearish White Three Gaps Figure 4.38 and Figure 4.39 show some examples of the Bullish Black Three Gaps and Bearish White Three Gaps patterns.



The close of white candle 5 must fill gap 3 and close above the close of candle 3. Place sell-stop below the lowest low of candles 3, 4, and 5.

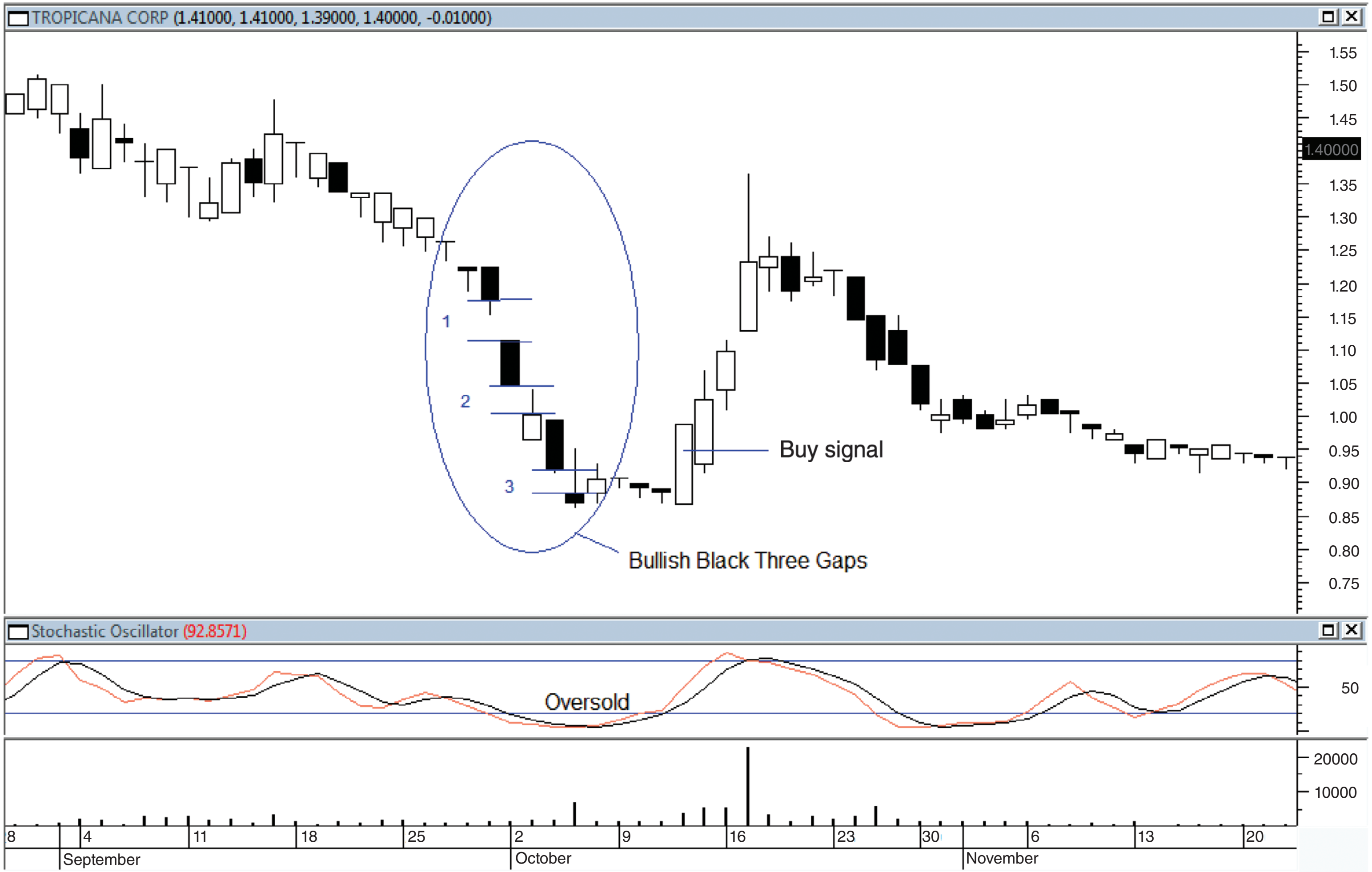
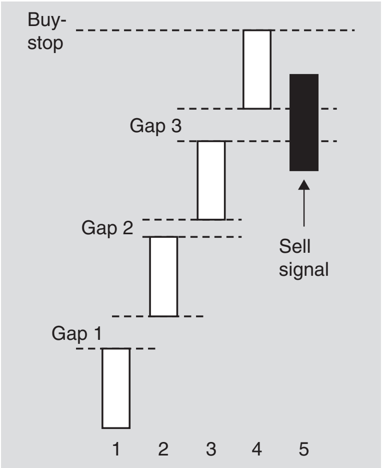


FIGURE 4.38 Tropicana Malaysia Daily (1999)—Bullish Black Three Gaps

FIGURE 4.39 Hong Leong Industries Malaysia Daily (1999)—Bearish White Three Gaps

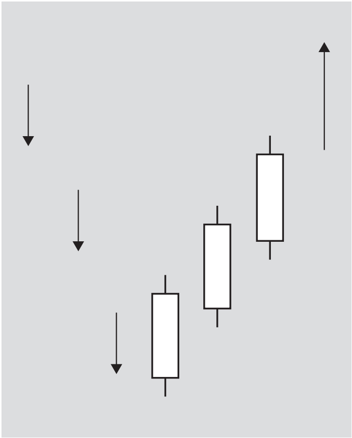
Bearish White Three Gaps



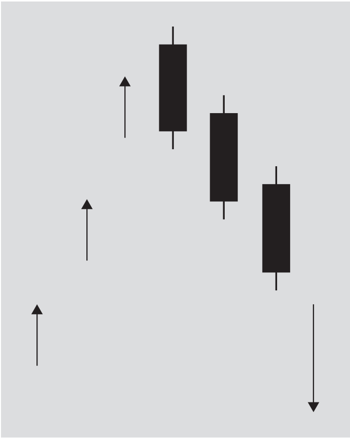
The close of black candle 5 must fill gap 3 and close below the close of candle 3. Place buy-stop above the highest high of candles 3, 4, and 5.

Three White Soldiers and Three Black Crows

Three White Soldiers



Three Black Crows



Three White Soldiers and Three Black Crows pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Three White Soldiers (Bullish)

Pattern description: The Three White Soldiers is made up of three white candles with consecutively higher closes. In a low price area or after a series of stable prices, it confirms renewed strength ahead.

Rules of Recognition

1. A downtrend must be in progress.
2. This is followed by a trend reversal with the formation of three white candles, each with a higher close.
3. Each subsequent candle should open within the previous session's white real body but this overlap is not a rule. An open at or a little higher than the previous session's real body is also valid.
4. Each of the white candles must close at or near its highs.
5. It is sometimes known as the Three Advancing White Soldiers. Its Japanese name is *aka sanpei*.

Interpretation: The Three White Soldiers is representative of a trend reversal, especially if seen after a sharp downtrend or at a low price area. The three successive higher highs and higher lows made in a step-like fashion reflect a bullish market ahead.

Proper action: Bullish reversal. Buy on third white candle. Place sell-stop below the lowest low of the last three candles.

Three Black Crows (Bearish)

Pattern description: The Three Black Crows is made up of three black candles with consecutively lower closes. This is a top reversal pattern if seen after an extended rally or at a high price area.

Rules of Recognition

1. An uptrend must be in progress.
2. This is followed by a trend reversal with the formation of three black candles, each with a lower close.
3. Each subsequent candle should open within the previous session's black real body, but this overlap is not a rule. An open at or a little lower than the previous session's real body is also valid.
4. Each of the black candles must close at or near its lows.
5. Its Japanese name is *sanba garasu*.

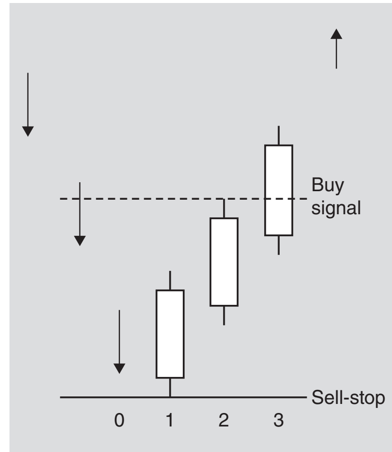
Interpretation: The Three Black Crows is the mirror image of the Three White Soldiers. It forewarns of lower prices and is a sign of weakness ahead. The three black candles imply strong selling by the bears.

Proper action: Bearish reversal. Sell on third black candle. Place buy-stop above the highest high of the last three black candles.

Trading the Three White Soldiers and Three Black Crows

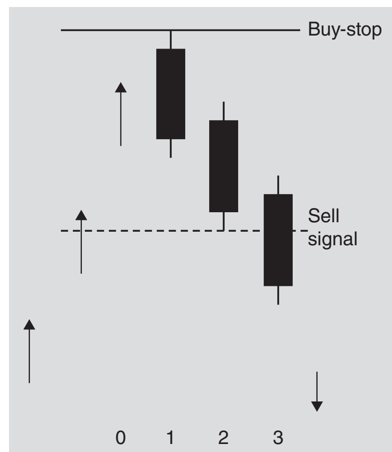
Figure 4.40 and Figure 4.41 show some examples of Three White Soldiers and Three Black Crows patterns.

Three White Soldiers



Buy on candle 3. Place sell-stop below the lowest low of candles 1 and 0.

Three Black Crows



Sell on candle 3. Place buy-stop above the highest high of candles 1 and 0.

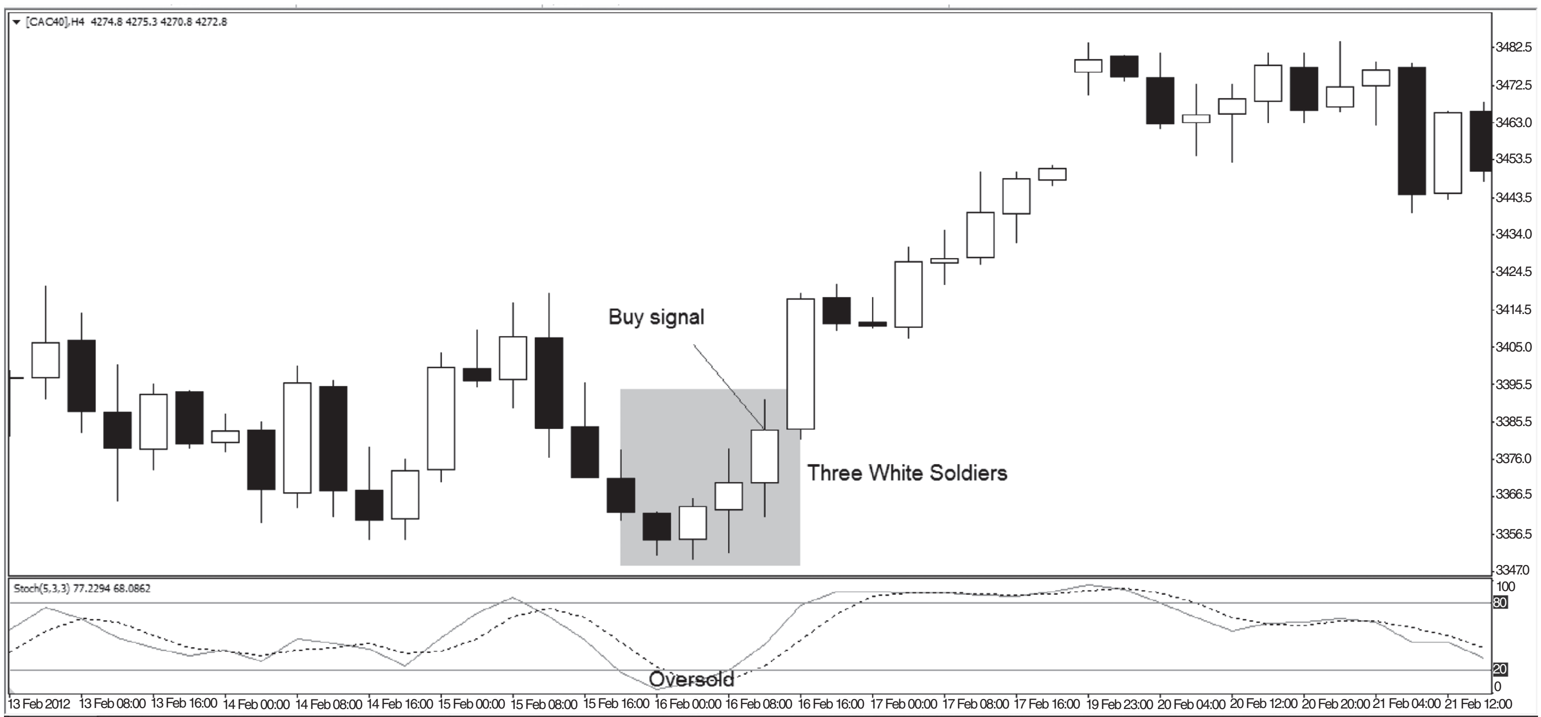


FIGURE 4.40 CAC 40 4-Hour (2013)—Three White Soldiers

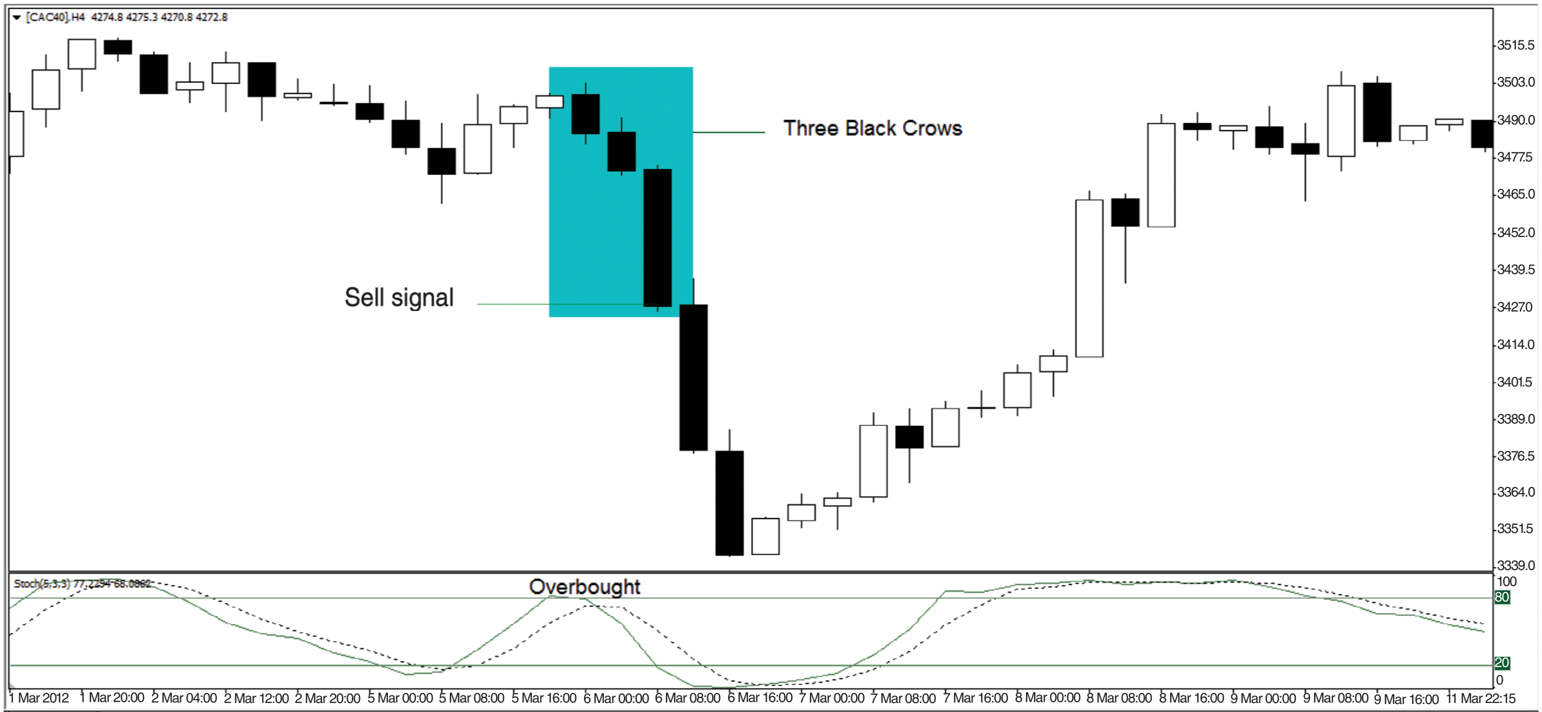
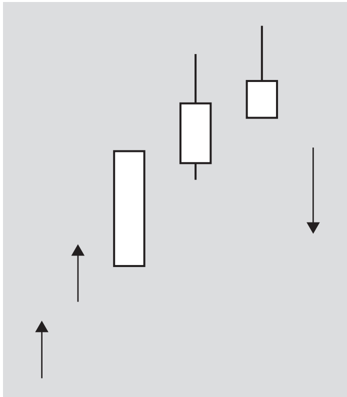


FIGURE 4.41 CAC 40 4-Hour (2013)—Three Black Crows

Advance Block



Advance Block pattern description, rules of recognition, interpretation, and proper action are explained here together with some examples.

Advance Block (Bearish)

Pattern description: The Advance Block is a derivative of the Three White Soldiers pattern. The Advance Block is made up of three white candles but the weak closes on the second and third candle put the rally under threat of a reversal. The long upper shadows and smaller real bodies on the second and third candles hint of strong resistance. Found after a strong uptrend or a high price area, the Advance Block signals a bearish reversal.

Rules of Recognition

1. An uptrend must be in progress.
2. Three white candles are sighted, each with a higher close.
3. Each subsequent candle should open within the previous session's white real body, but this overlap is not a rule. An open at or a little higher than the previous session's real body is also valid.
4. But unlike the Three White Soldiers, where each of the white candles closes at or near its highs, the second and third candles display long upper shadows and small real bodies. Longer upper shadows on the two latter candles imply a weakening of the bulls' strength.
5. The Japanese name for Advance Block is *saki zumari*.

Interpretation: The Advance Block is reflective of an overextended rally. The long upper shadows and small real bodies on the second or third candle imply a weakening of buying power. Found after a rally or at a high price area, the Advance Block results in a reversal to the downside. Bulls should protect their long positions by taking some profits. The Advance Block is normally a short-term top reversal pattern. After a short correction, the prior uptrend resumes. But in some instances, it can trigger a major decline.

Proper action: Bearish reversal. Sell and take profits on the third candle. Conservative traders should wait for confirmation via a fourth candle that closes below the lowest low of candles 2 and 3 before selling. Place buy-stop above the highest high of the last three candles.

Trading the Advance Block Figure 4.42 shows an example of an Advance Block pattern.

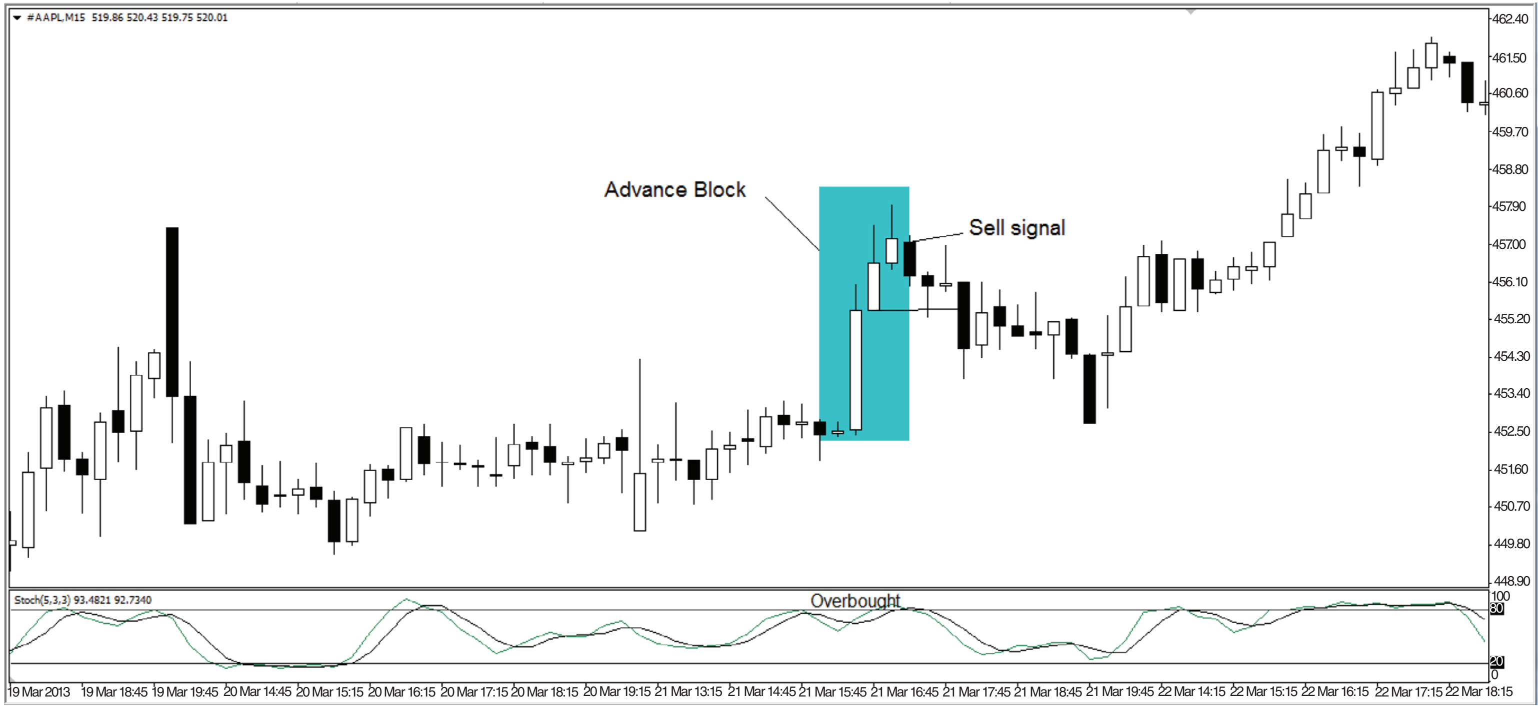
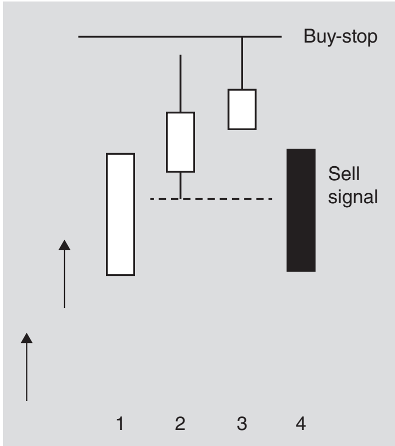
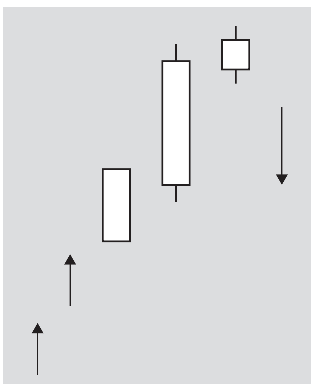


FIGURE 4.42 Apple 15-Minute (2013)—Advance Block



Aggressive traders sell on candle 3. Conservative traders sell if fourth candle closes below the lowest low of candles 2 and 3. Place buy-stop above the highest high of candles 1, 2, and 3.

Deliberation



Deliberation pattern description, rules of recognition, interpretation, and proper action are explained here together with some examples.

Deliberation (Bearish)

Pattern description: The Deliberation or Stalled pattern is also a derivative of the Three White Soldiers pattern. The Deliberation pattern is made up of three white candles but has a long white candle on the second candle followed by a small real body (Spinning Top) on the third candle. Like the Advance Block, the Deliberation pattern hints of an exhaustion of the bulls' strength. The small Spinning Top on the third candle reflects this exhaustion. Found after an uptrend or at a high price area, the Deliberation pattern signals a bearish reversal.

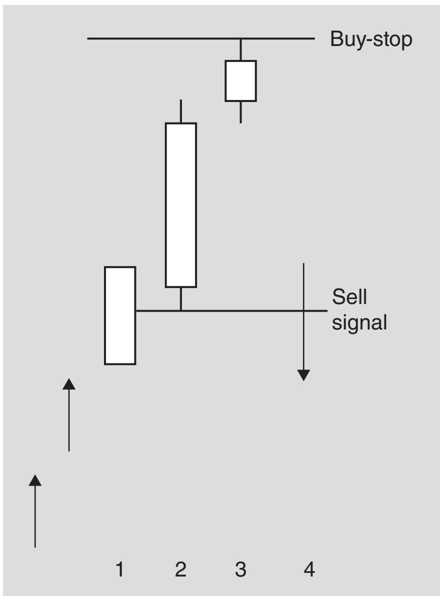
Rules of Recognition

1. An uptrend must be in progress.
2. Three white candles are sighted, each with a higher close.
3. The first and second candles have long white candles.
4. The third candle has a small real body (Spinning Top), which can either gap above the second candle (in which case it is called a Star) or rests just beside the close of the second long white candle.
5. The Japanese name for Deliberation is *aka sansei shian boshi*.

Interpretation: The Deliberation or Stalled pattern is indicative of market exhaustion from an excessively strong second day. The Spinning Top on the third day depicts "uncertainty." The bulls are undecided on buying further, hence its pattern name, Deliberation. Found after a rally or at a high price area, the Deliberation pattern results in a reversal to the downside. Bulls should protect their long positions by taking some profits. The Deliberation pattern is normally viewed as a short-term top reversal pattern. After a short correction, the prior uptrend resumes. But in some instances, it can trigger a major decline.

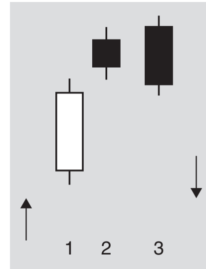
Proper action: Bearish reversal. Sell and take profits on the third candle. Conservative traders should wait for confirmation via a fourth candle that closes below the lowest low of candles 2 and 3 before selling. Place buy-stop above the highest high of the last three candles.

Trading the Deliberation Pattern Figure 4.43 shows an example of the Deliberation pattern.



Aggressive traders sell on candle 3. Conservative traders sell if fourth candle closes below the lowest low of candles 2 and 3. Place buy-stop above the highest high of candles 1, 2, and 3.

Upside Gap Two Crows



Upside Gap Two Crows pattern description, rules of recognition, interpretation, and proper action are explained here together with some examples.

Upside Gap Two Crows (Bearish)

Pattern description: Two black candles that gap above a long white candle in an uptrend distinguishes this three-day bearish reversal pattern.

Rules of Recognition:

1. An uptrend must be in progress.
2. The first candle is white, reflecting the continuing bullish mood.
3. The second day's black candle gaps above on the opening, but sellers prevail setting up a small Spinning Top.
4. The third day's black candle opens above the second candle's open and closes beneath the second candle's close. The third candle may penetrate back into the real body of the first day's white candle equal to or below its midpoint.
5. This pattern is similar to the Dark Cloud Cover if the third black candle closes into the midpoint of the first white candle, closing the up-gap.

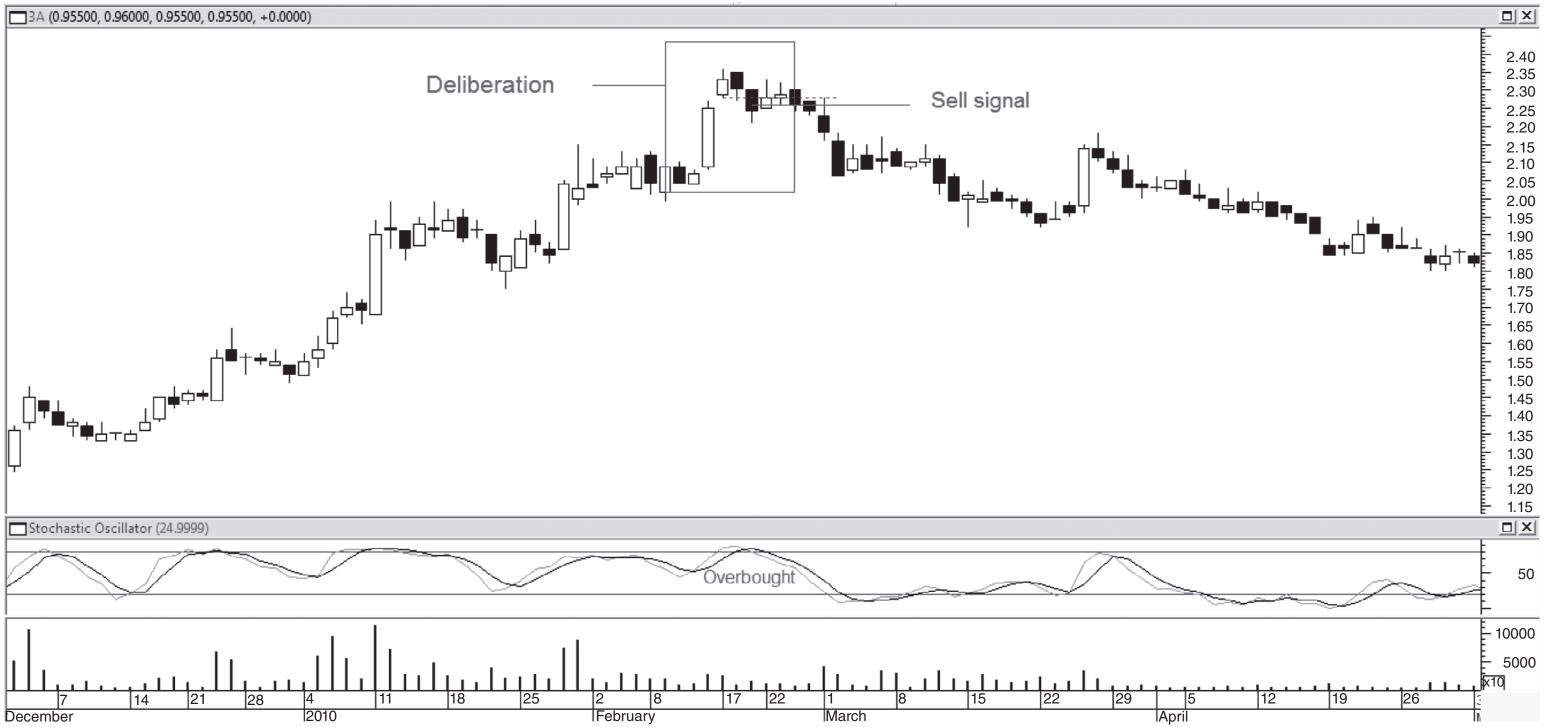
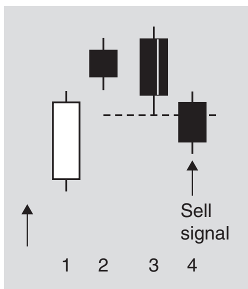


FIGURE 4.43 3A Malaysia Daily (2010)—Deliberation

Interpretation: The Upside Gap Two Crows can be interpreted as a market under selling pressure. What appears to be a gapping play on the second candle fizzles out when sellers take over on the third candle. The selling pressure is strong enough to cause a close at or below the midpoint of the first white candle.

Proper action: Possible bearish reversal. Confirmation is required. Sell if there is a bearish confirmation where candle 4 closes below the low of candles 2 and 3. Otherwise, the uptrend can continue.

Trading the Upside Gap Two Crows Figure 4.44 shows an example of the Upside Gap Two Crows pattern.

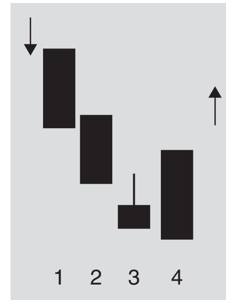


The close on candle 4 must exceed the low of candles 2 and 3 to trigger a sell signal. Place buy-stop above the highest high of candles 2 and 3.

Multiple Candlestick Patterns

Multiple candlestick patterns such as the Concealing Baby Swallow, Ladder Bottom, Tower Bottoms and Tower Tops, and Eight-to-Ten New Record Lows and Highs are discussed here.

Concealing Baby Swallow



The Concealing Baby Swallow pattern description, rules of recognition, interpretation, and proper action are explained here together with some examples.

Concealing Baby Swallow (Bullish)

Pattern description: The Concealing Baby Swallow is made up of four black candles in a downtrend with consecutive lower closes. Like the Ladder Bottom (discussed next), it reflects an oversold situation after a strong sell-off and represents a bottom reversal pattern if seen after an extended decline or at a low price area. It differs slightly from the Ladder Bottom in the shape of the third and fourth candles, but otherwise they represent an oversold market and have bullish implications.

Rules of Recognition

1. A downtrend must be in progress.
2. The first two black candles are Black Marubozu days.
3. The third candle gaps down but rebounds intra-day to pierce back into the body of the second day before closing as a Black Inverted Hammer.

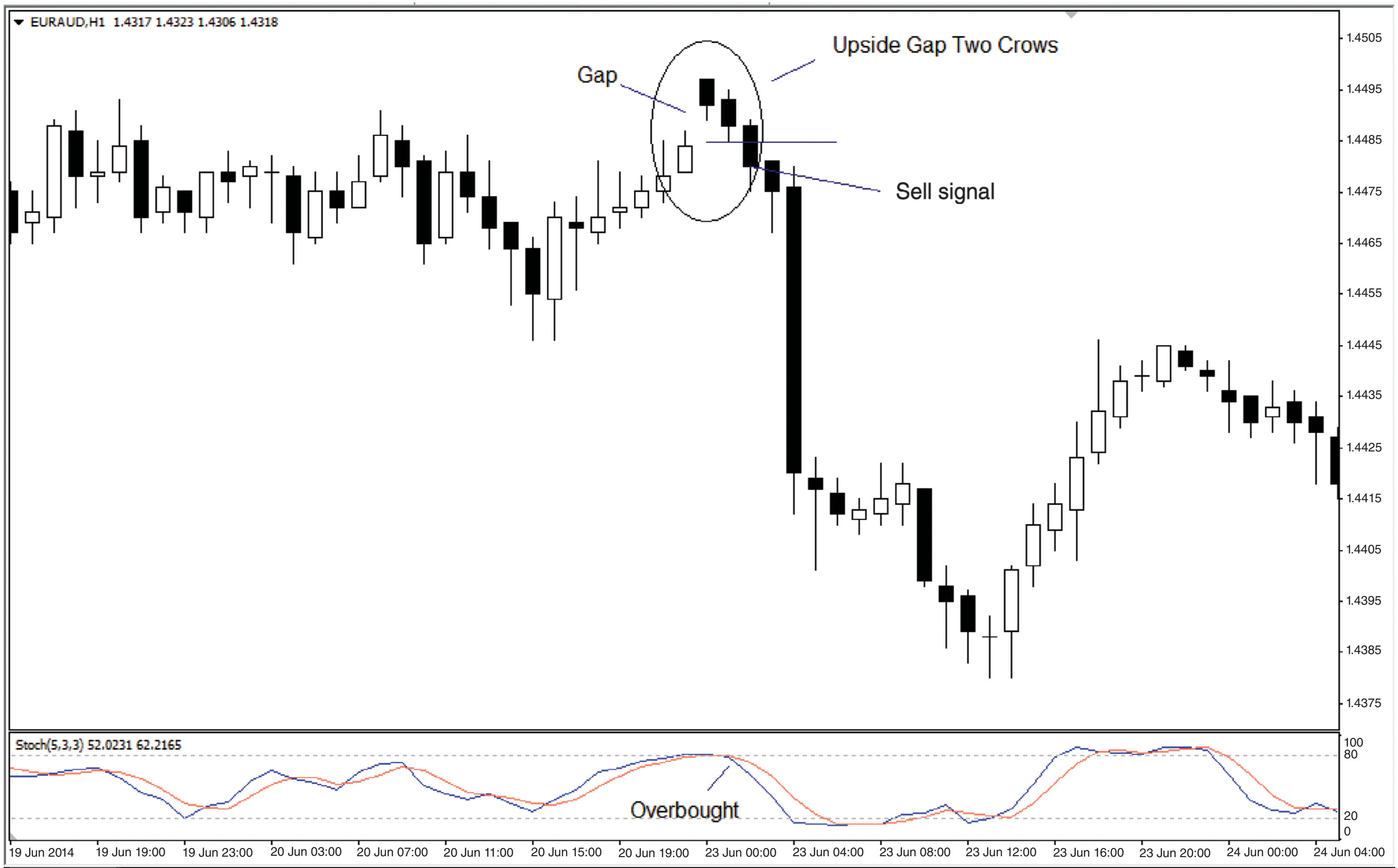


FIGURE 4.44 EurUsd Hourly (2014)—Upside Gap Two Crows

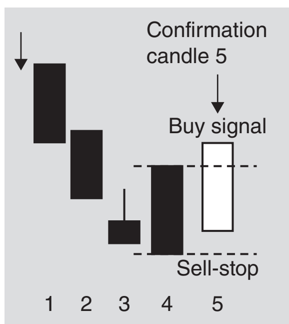
4. The fourth day gaps up on the open but falls back to engulf totally the third day's real body, including the shadow.

Interpretation: The Concealing Baby Swallow reflects an oversold market leading to a rebound (or trend change) on the fifth day. The two Black Marubozu days represent strong selling. An Inverted Hammer follows on the third day, reflecting some support after two days of heavy selling. But strong selling continues on the fourth day following the Inverted Hammer and close below the low of the Inverted Hammer. This fourth day's black candle, though viewed as bearish, can be akin to a last engulfing pattern, indicating a bottom is near. This last day is also viewed as a selling climax, where weak holders are flushed out of the market.

Proper action: Bullish reversal, but confirmation is required. Buy if the fifth candle closes above the high of the fourth candle. Place sell-stop below the fourth day's low.

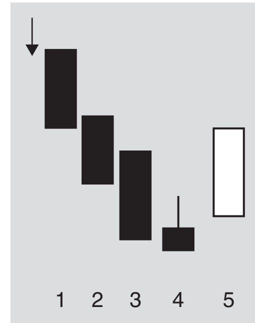
Trading the Concealing Baby Swallow

Figure 4.45 shows an example of Concealing Baby Swallow pattern.



The close on candle 5 must exceed the high of candle 4 to trigger a buy signal. Place sell-stop below the low of candle 4.

Ladder Bottom



The Ladder Bottom pattern description, rules of recognition, interpretation, and proper action are explained here together with some examples.

Ladder Bottom (Bullish)

Pattern description: The Ladder Bottom is made up of five candles. The first four candles are black with consecutive lower closes, and the fifth white candle triggers a bullish reversal. It reflects an oversold situation after a strong sell-off and represents a bottom reversal pattern if seen after an extended decline or at a low price area. It differs slightly from the Concealing Baby Swallow in the shape of the third and fourth candles, but otherwise it represents an oversold market and has bullish implications.

Rules of Recognition

1. A downtrend must be in progress.
2. The first three black candles are long, black, and preferably Marubozu days. They open lower and close even lower. This pattern is somewhat like a Three Black Crows pattern, except that Three Black Crows is a bearish reversal pattern because it is located after an uptrend whereas these three black candles

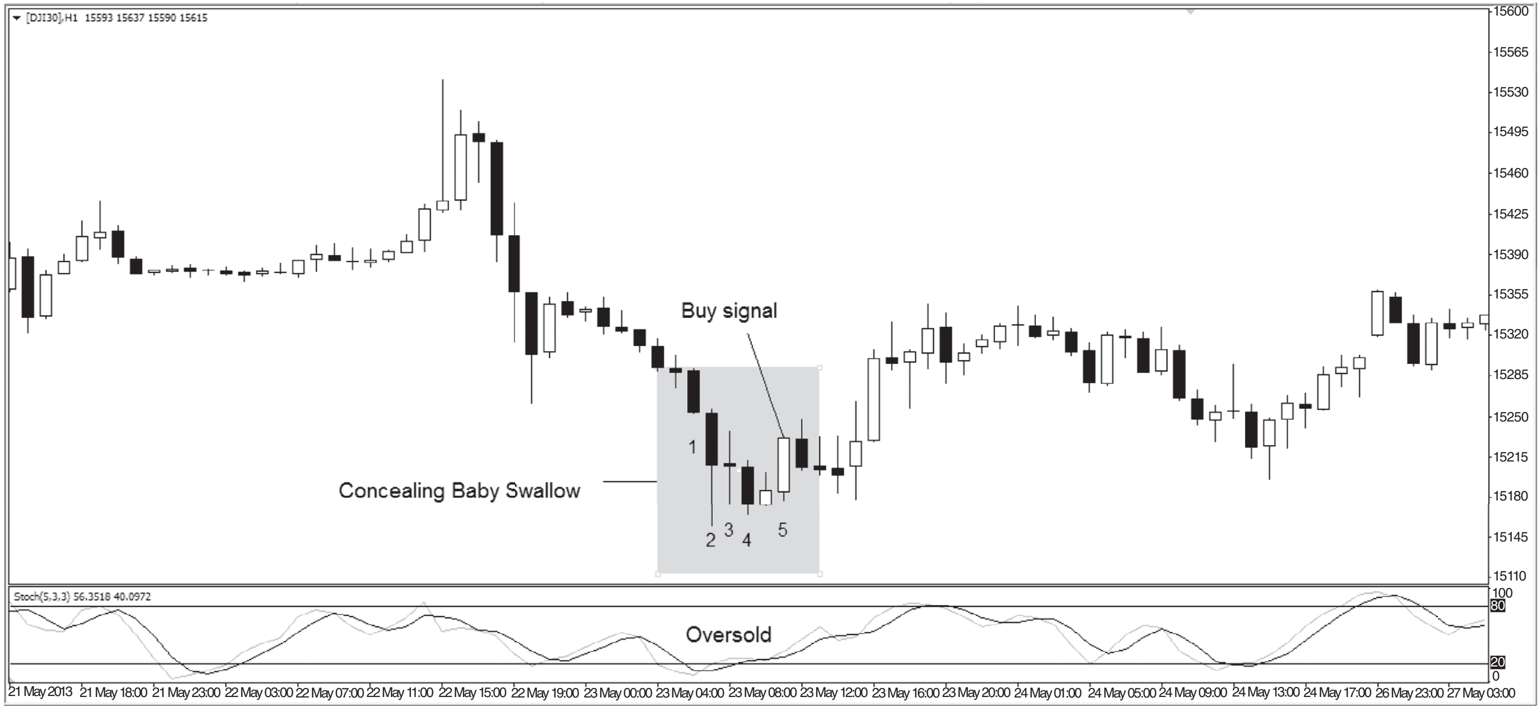


FIGURE 4.45 Dow Jones Industrial Average Hourly (2013)—Concealing Baby Swallow

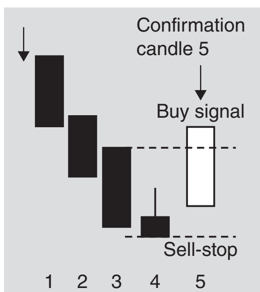
are foretelling an end to a downtrend as they are found after a downtrend.

3. The fourth candle is a black Inverted Hammer.
4. The fifth candle preferably opens above the body of the Inverted Hammer and closes as a long white candle. This is the confirmation candle.

Interpretation: The Ladder Bottom, like the Concealing Baby Swallow, reflects an oversold market leading to a rebound (or trend change) on the fifth day. The three Black Marubozu days represent strong selling. An Inverted Hammer follows on the fourth day, reflecting some support after three days of heavy selling. The long white candle on the fifth day signals a counterattack by the bulls, confirming a buy signal. It is best that this white candle close above the highs of the previous two days.

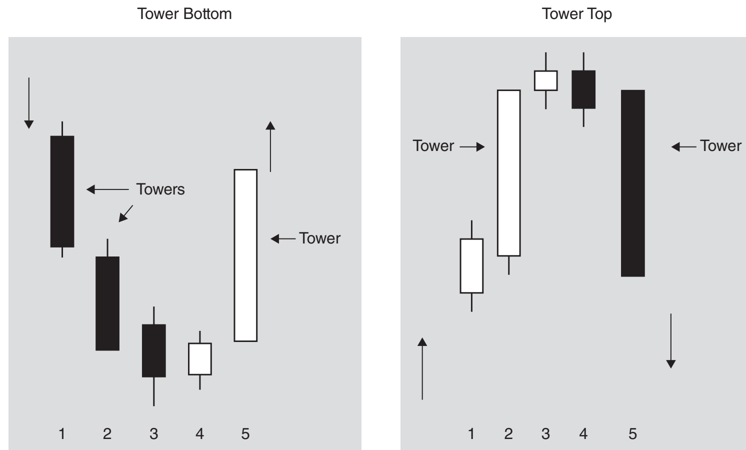
Proper action: Buy signal, but bullish confirmation is required via a close above the high of the third black candle before buying. Place sell-stop below the low of the Inverted Hammer.

Trading the Ladder Bottom Figure 4.46 shows an example of the Ladder Bottom pattern.



The close on candle 5 must exceed the highest high of candles 3 and 4 to trigger a buy signal. Place sell-stop below the low of candle 4.

Tower Bottom and Tower Top



The Tower Bottoms and Tower Tops pattern descriptions, rules of recognition, interpretations, and proper actions are explained here together with some examples.

Tower Bottom (Bullish)

Pattern description: The Tower Bottom is made up of multiple candles (could be 3, 4, 5, or 6 candles) and develops at low price areas. After a sharp drop represented by long black candles, price volatility slows down on the next couple of candles. Then the market makes a turnaround and swing upward in one or two long candles. The characteristic that makes for a Tower Bottom is the long black candle on the way down and the long white candle on the way up. The long candles or long columns look like towers—hence their name. A Tower Bottom is a bullish reversal pattern.

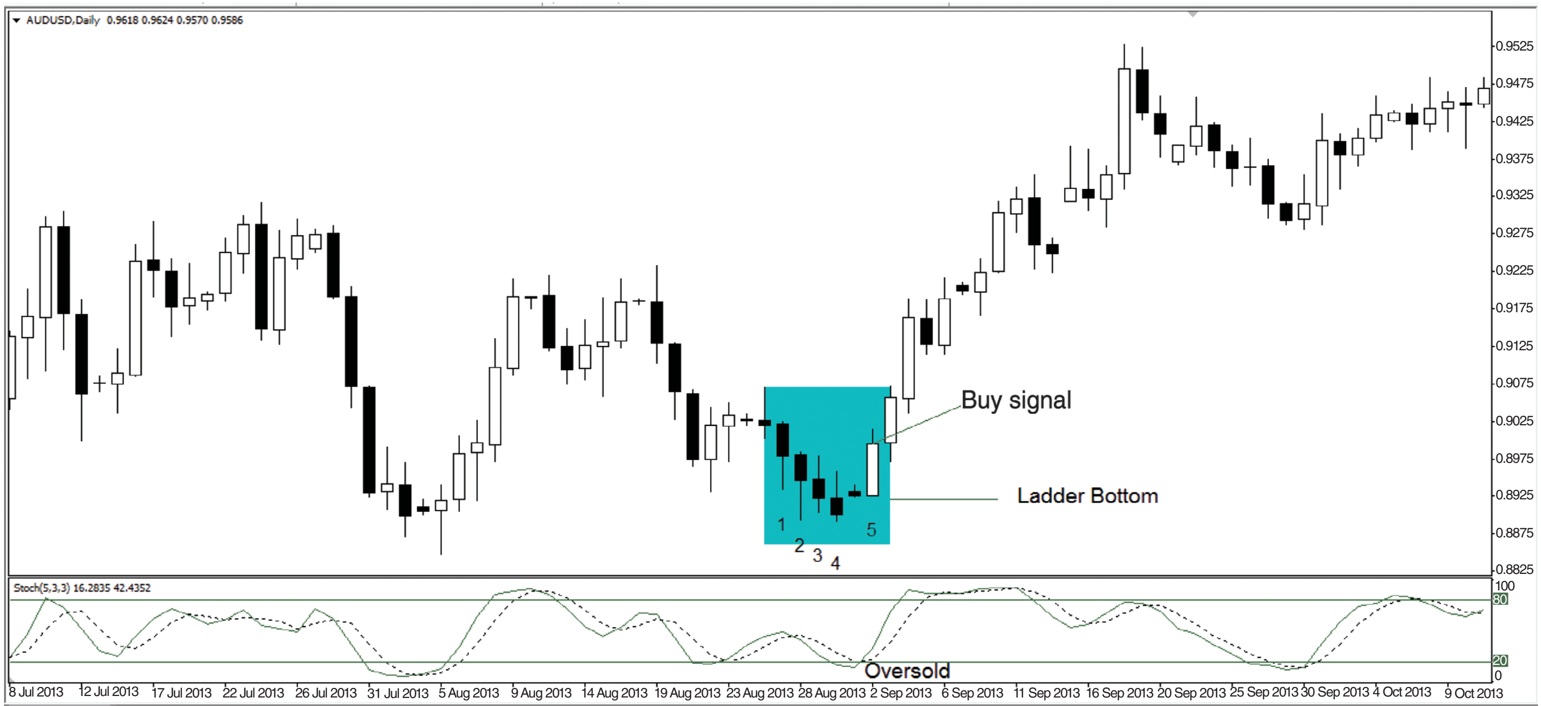


FIGURE 4.46 AudUsd Daily (2013)—Ladder Bottom

Rules of Recognition

1. A downtrend must be in progress.
2. The first candle must be a long black candle, preferably a Marubozu day. The market is weak but is getting oversold.
3. This is followed by a short consolidation consisting of a multiple of small white or black candles (like Spinning Tops or doji). The small candles imply a pause in selling pressure and a possible bottom.
4. A long white candle forms on the right reversing the psychology from bearish to bullish.
5. The tall black candle on the left is called the left tower while the tall white candle on the right is called the right tower.

Interpretation: The Tower Bottom is a bullish reversal pattern. Long towers on the left and right, of different colours, reveal strong sell-offs but countered by equally strong buying. The long white candle or tall column on the right is a significant candle, and as long as the low of this white candle is not violated on the downside, the market is poised for a trend reversal upwards. The low of a long white candle acts as a support area in the event of a pullback. Stops can be placed just below this support area or below the low of the previous candle.

Proper action: Buy signal. However, bullish confirmation is required via a close above the highest high of the previous two candles. Place sell-stop below the low of the long white candle that makes the right tower or the low of the candle before it.

Tower Top (Bearish)

Pattern description: The Tower Top is the mirror image of the Tower Bottom. It is made up of multiple candles (could be 3, 4, 5, or 6 candles) and develops at high price areas. After a sharp rally represented by long white candles, price volatility drops on the next couple of candles, forming a potential market top. Then the market makes a turnaround and swing downward in one or two long black candles. The characteristic that makes for a Tower Top is the long candle or tower formed on the way up and on the way down. A Tower Top is a bearish reversal pattern.

Rules of Recognition

1. An uptrend must be in progress.
2. The first candle must be a long white candle, preferably a Marubozu day. The market is strong but is getting overbought.
3. This is followed by a short consolidation consisting of a multiple of small white or black candles (like Spinning Tops or doji). The small candles imply a pause in buying. The market deliberates.
4. A long black candle forms on the right, reversing the psychology from bullish to bearish.
5. The tall white candle on the left is called the left tower while the tall black candle on the right is called the right tower.

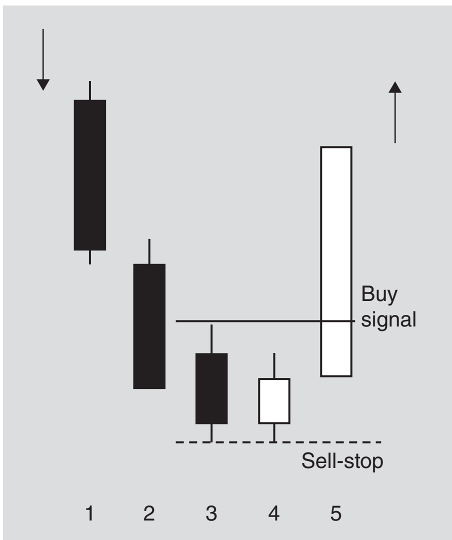
Interpretation: The Tower Top is a bearish reversal pattern. Long towers on the left and right, of different colours, reveal strong buying but are countered by equally strong selling. The long black candle or tall column on the right is a significant candle, and as long as the high of this black candle is not violated on the upside, the market is poised for a trend reversal downward.

The high of a long black candle acts as a resistance area in the event of a rebound. Stops should be placed just above this resistance area or above the high of the previous candle.

Proper action: Sell signal. However, bearish confirmation is required via a close below the lowest low of the two preceding candles. Place buy-stop above the high of the long black candle that makes the right tower or the high of the candle before it.

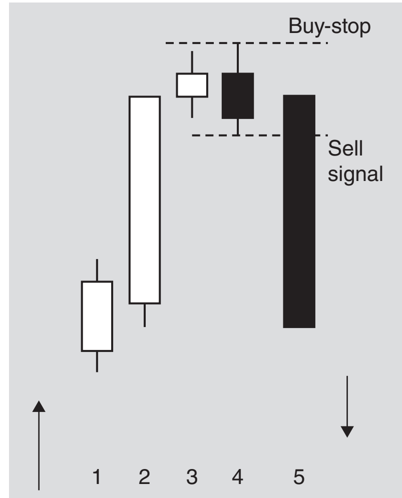
Trading the Tower Bottom and Tower Top Figure 4.47 and Figure 4.48 show some examples of the Tower Bottom and Tower Top patterns.

Tower Bottom



The close on candle 5 must exceed the highest high of candles 3 and 4 to trigger a buy signal. Place sell-stop below the lowest low of candles 4 and 5.

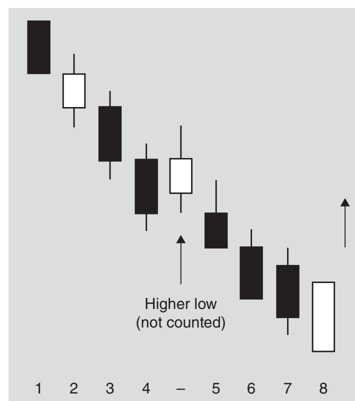
Tower Top



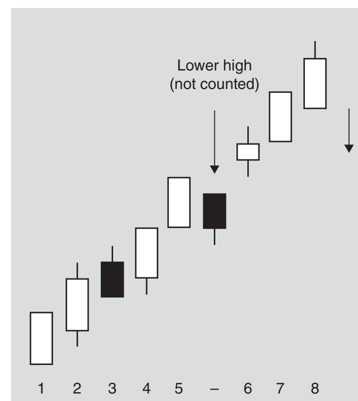
The close on candle 5 must exceed the lowest low of candles 3 and 4 to trigger a sell signal. Place buy-stop above the highest high of candles 4 and 5.

Eight-to-Ten New Record Lows and Highs

Eight-to-Ten New Record Lows



Eight-to-Ten New Record Highs



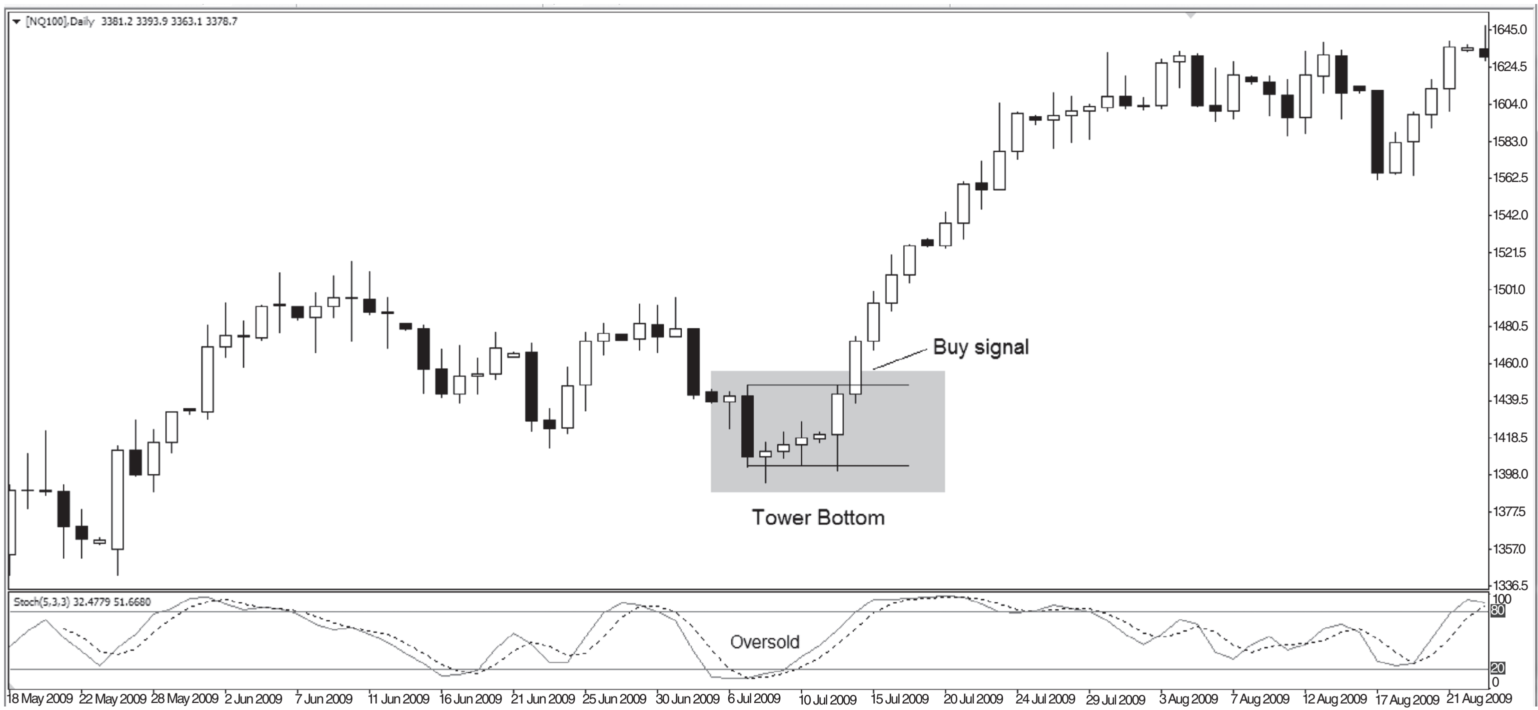


FIGURE 4.47 Nasdaq 100 Daily (2009)—Tower Bottom

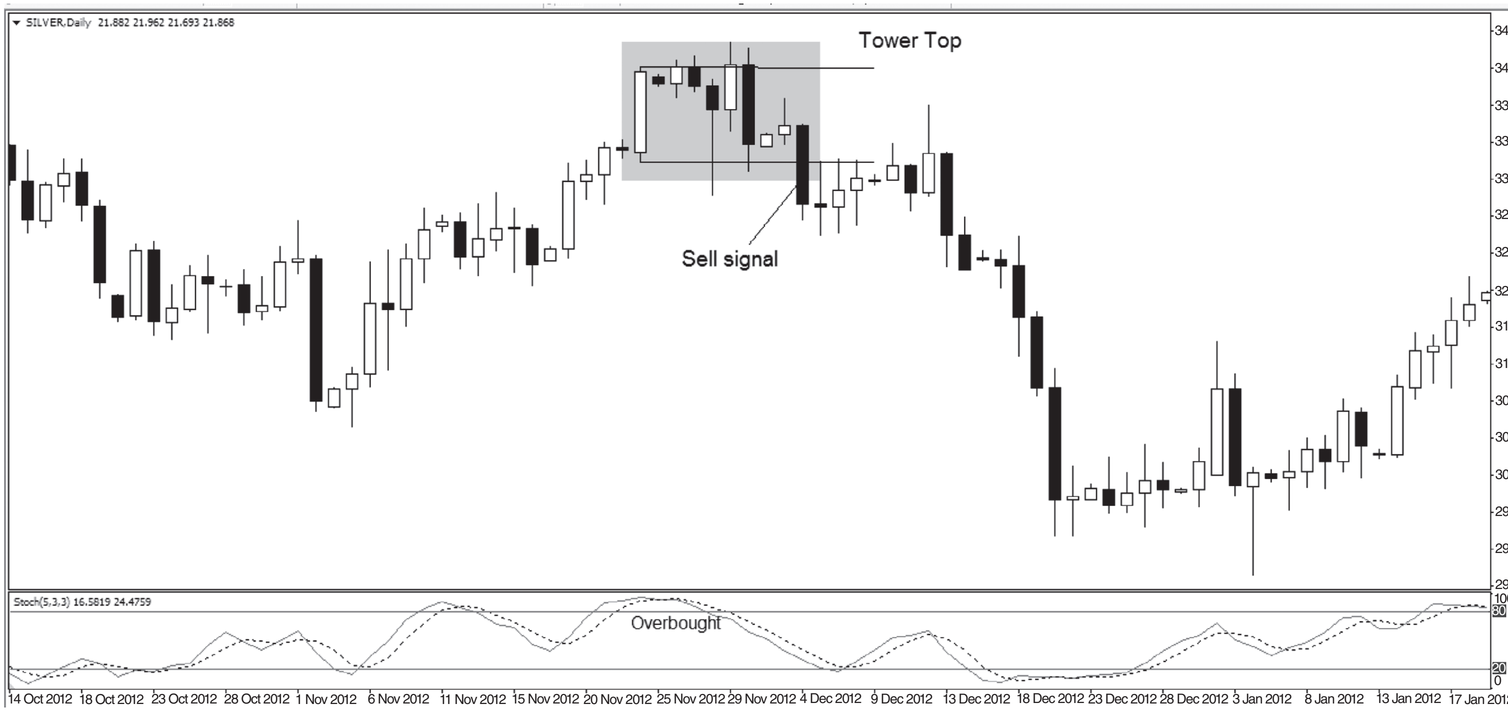


FIGURE 4.48 Silver Daily (2013)—Tower Top

The Eight-to-Ten New Record Lows and Highs pattern descriptions, rules of recognition, interpretations, and proper actions are explained next, together with some examples.

Eight-to-Ten New Record Lows (Bullish)

Pattern description: The Eight-to-Ten New Record Lows is made up of between eight to ten but sometimes up to twelve candles making new lows. The Japanese trader calls each new low a record low. If the market makes eight new lows or more without any meaningful rebound, the market is considered oversold. The English equivalent of the expression the Japanese traders use is "the stomach is 80 percent empty." In other words, selling pressure should end, and the market is due for a rebound.

Rules of Recognition

1. A downtrend must be in progress.
2. Every new low is counted as a record low.
3. If any one candle makes a higher low for that session, that low is not counted as a record low. To be counted as a new record low, a candle must make a lower low than the candle preceding it.
4. After eight new record lows buy-stops must be tightened (lowered) as one prepares for the market to reverse upward.
5. The placement of buy-stops should be the higher high of two candles back.
6. A buy signal will be triggered when a bullish white candle closes above the high of the two candles before it.

Interpretation: The Eight-to-Ten New Record Lows is a bullish reversal pattern. After about eight to ten new price lows, selling pressure eases. The bears are exhausted and the market is considered oversold. After eight to ten new lows, look for a bullish white candle to emerge.

Proper action: Buy signal. However, bullish confirmation is required via a close above the highest high of the previous two candles. Place sell-stop below the lowest low of the last two candles in case the market continues to decline.

Eight-to-Ten New Record Highs (Bearish)

Pattern description: The Eight-to-Ten New Record Highs is made up of eight to ten and sometimes up to twelve candles making new highs. The Japanese trader calls each new high a record high. If the market makes eight new highs or more without any meaningful correction, the market is considered overbought. The English equivalent of the expression the Japanese traders use is "the stomach is 80 percent full." In other words, buying pressure should end, and the market should turn down.

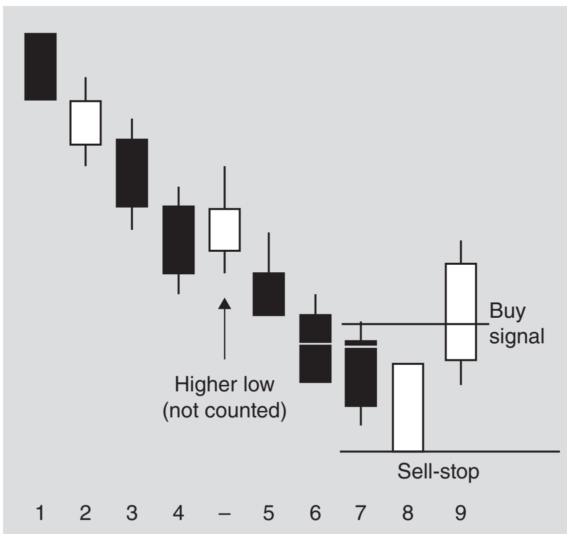
Rules of Recognition

1. An uptrend must be in progress.
2. Every new high is counted as a record high.
3. If any one candle makes a lower high for that session, that high is not counted as a record high. To be counted as a new record high, a candle must make a higher high than the candle preceding it.
4. After eight new record highs, sell-stops must be tightened (raised) as one prepares for the market to reverse downward.
5. The placement of sell-stops should be the lower low of two candles back.
6. A sell signal will be triggered when a bearish black candle closes below the low of the two candles before it.

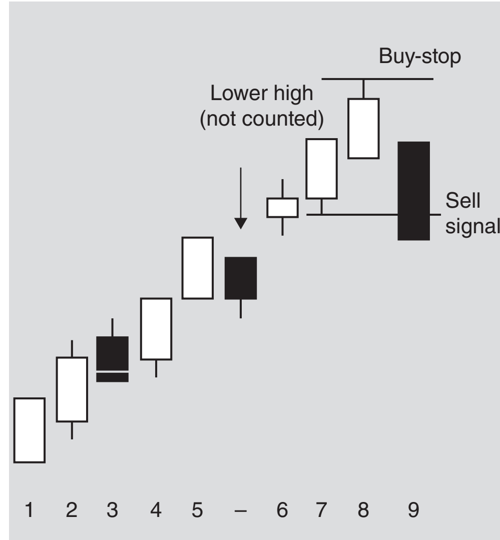
Interpretation: The Eight-to-Ten New Record Highs is a bearish reversal pattern. After about eight to ten new price highs, buying pressure should end. The bulls are exhausted, and the market is considered overbought. After eight to ten new highs, look for a bearish black candle to liquidate longs and selling is suggested.

Proper action: Sell signal. However, bearish confirmation is required via a close below the lowest low of the previous two candles. Place the buy-stop above the highest high of the last two candles in case the market continues to rally.

Trading the Eight-to-Ten New Record Lows and Highs Figure 4.49 and Figure 4.50 show some examples of Eight-to-Ten New Record Lows and Highs patterns.



The close on candle 9 must exceed the highest high of candles 8 and 7 to trigger a buy signal. Place sell-stop below the lowest low of candles 8 and 9.



The close on candle 9 must exceed the lowest low of candles 8 and 7 to trigger a sell signal. Place buy-stop above the highest high of candles 8 and 9.

FIGURE 4.49 Dow Jones Industrial Average Daily (2010)—Eight-to-Ten New Record Lows

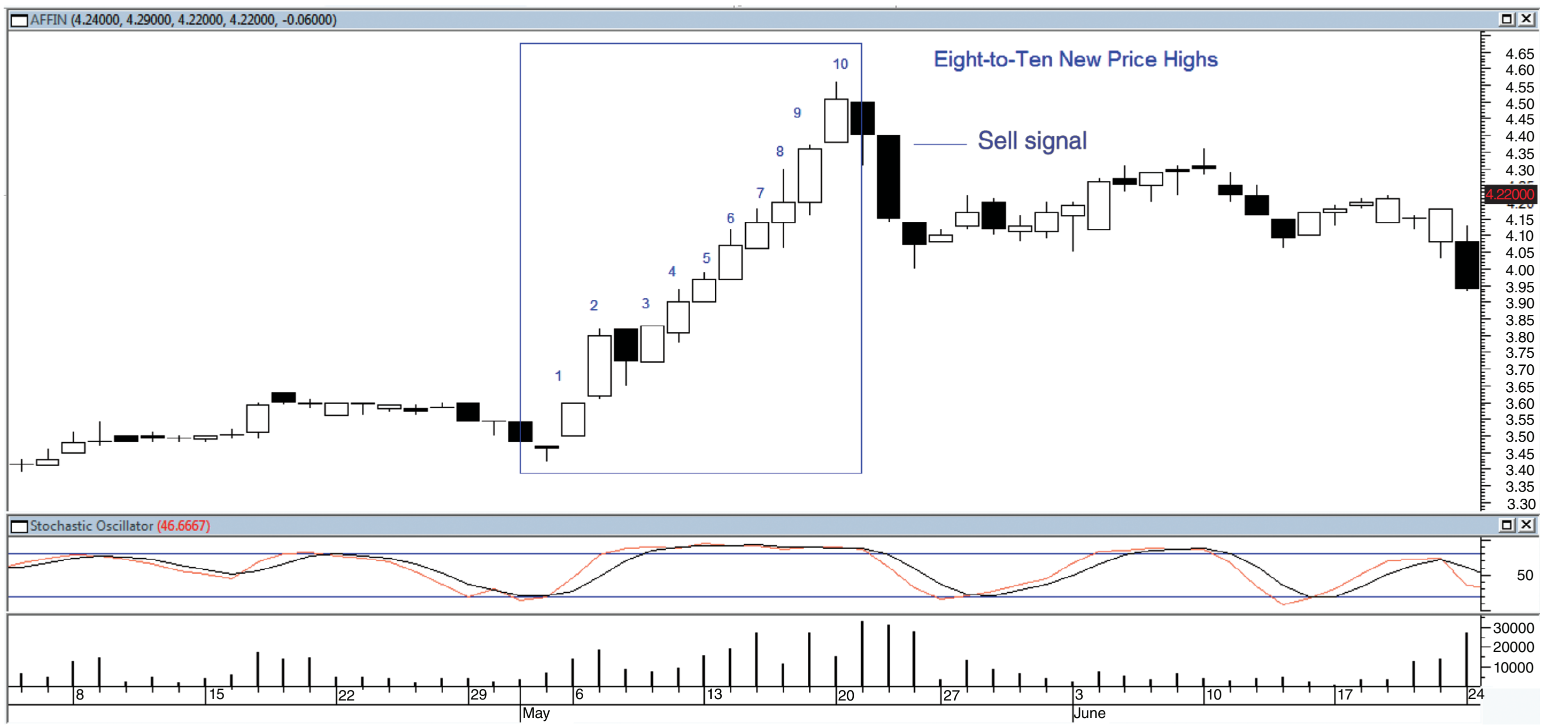


FIGURE 4.50 Affin Malaysia Daily (2013)—Eight-to-Ten New Record Highs

Continuation Patterns

Introduction

As we have seen in Chapter 4 on reversal patterns, the Japanese candlestick technique has many more reversal patterns than Western classical charting theory.

This book covers 53 reversal patterns, but in Western charting theory the number of reversal patterns documented is considerably less. Japanese candlestick patterns clearly give us more clues for spotting market reversals.

While reversal patterns warn us of a trend change or market reversal, continuation patterns tell us that the market is consolidating and taking a rest, after which it is expected to move or to resume its prior trend.

No stock or market moves up in a straight line without pulling back. These periods of pullback are normally due to profit taking. There will be periods when the market will get overbought after which it stages a pullback or correction, even if it is to continue with its prior trend. Conversely, a market in a downtrend will not plunge straight down without a rebound. Even if the market is to fall further, a brief rebound usually takes place before resuming its downtrend.

Continuation patterns therefore represent temporary pauses in the existing trend. In this chapter, I will be looking at a number of continuation patterns. There are, however, fewer continuation patterns in Japanese candlestick theory than there are reversal patterns.

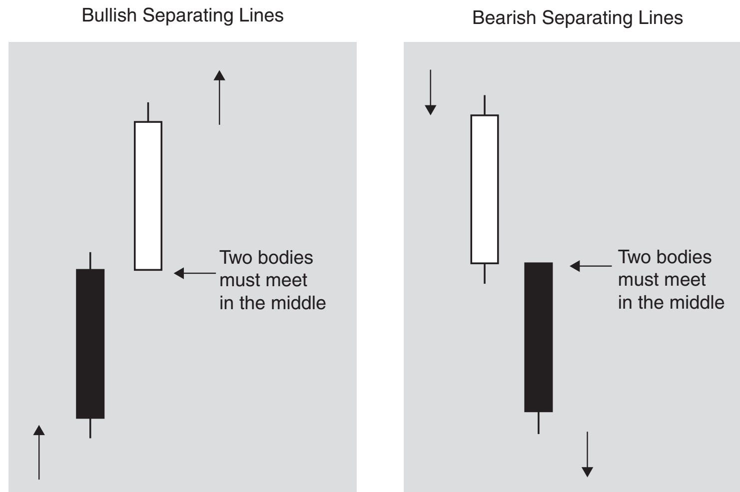
Continuation patterns fall broadly into these categories:

Index of Continuation Patterns

Double Candlestick Patterns

Double candlestick patterns such as the Separating Lines, Kicking pattern, On-Neck pattern, In-Neck pattern, and Thrusting Line are discussed here:

Separating Lines



Bullish Separating Lines and Bearish Separating Lines pattern descriptions, rules of recognition, interpretations, and proper actions are explained next, together with some examples.

Bullish Separating Lines (Bullish)

- **Pattern description:** The Bullish Separating Line is made up of two opposite-coloured candles. The first is a black candle that is followed by a white candle. One characteristic is that the white candle is a Belt-Hold candle (where the open is also the low). The second characteristic is that the first candle's open is at the same price as the second candle's open.

Rules of Recognition

1. An uptrend must be in progress.
2. The first day is a black candle.
3. The second day is a White Belt-Hold candle. A White Belt-Hold candle is one that opens at the low and rallies to close near the high but not necessarily at its high.
4. The open of the first black candle is at the same price as the open of the second white candle.
5. The Japanese name for Separating Line is *ikichigaisen*, which means "lines that move in opposite directions." They are also known as Dividing (*furiwake*) Lines.

- **Interpretation:** The Bullish Separating Line is viewed as bullish despite the appearance of the first black candle. The first black candle gives the impression that the uptrend is under siege. However, the next day's candle gaps higher to open at the previous black candle's open. This up-gap on the second day together with a close higher than the previous high shows that the bulls have regained control, and the uptrend continues.
- **Proper action:** Bullish continuation signal. Place sell-stop below the low of the black candle.

Bearish Separating Lines (Bearish)

- **Pattern description:** The Bearish Separating Line is made up of two opposite-coloured candles. The first is a white candle that is followed by a black candle. The black candle must be a black Belt-Hold candle (where the open is also the high). Second, the first candle's open must be the same price as the second candle's open, but the second black candle makes a new low.

Rules of Recognition

1. A downtrend must be in progress.
2. The first day is a white candle.
3. The second day is a Black Belt-Hold candle. A Black Belt-Hold candle is one that opens at the high and falls to close near the low but not necessarily at its low.
4. The open of the first white candle is at the same price as the open of the second black candle.
5. The Japanese name for Separating Line is *ikichigaisen*, which means "lines that move in opposite directions." They are also known as Dividing (*furiwake*) Lines.

- **Interpretation:** The Bearish Separating Line is viewed as bearish despite the appearance of the first white candle. The first white candle gives the impression of a counterattack by the bulls. However, the next day's candle gaps lower to open at the previous white candle's open. The second day's down-gap and lower closes show that the bears are still in control of the downtrend.
- **Proper action:** Bearish continuation signal. Place buy-stop above the high of the white candle.

Trading the Bullish Separating Lines and Bearish Separating Lines Figure 5.1 and Figure 5.2 show some examples of Bullish and Bearish Separating Lines patterns.

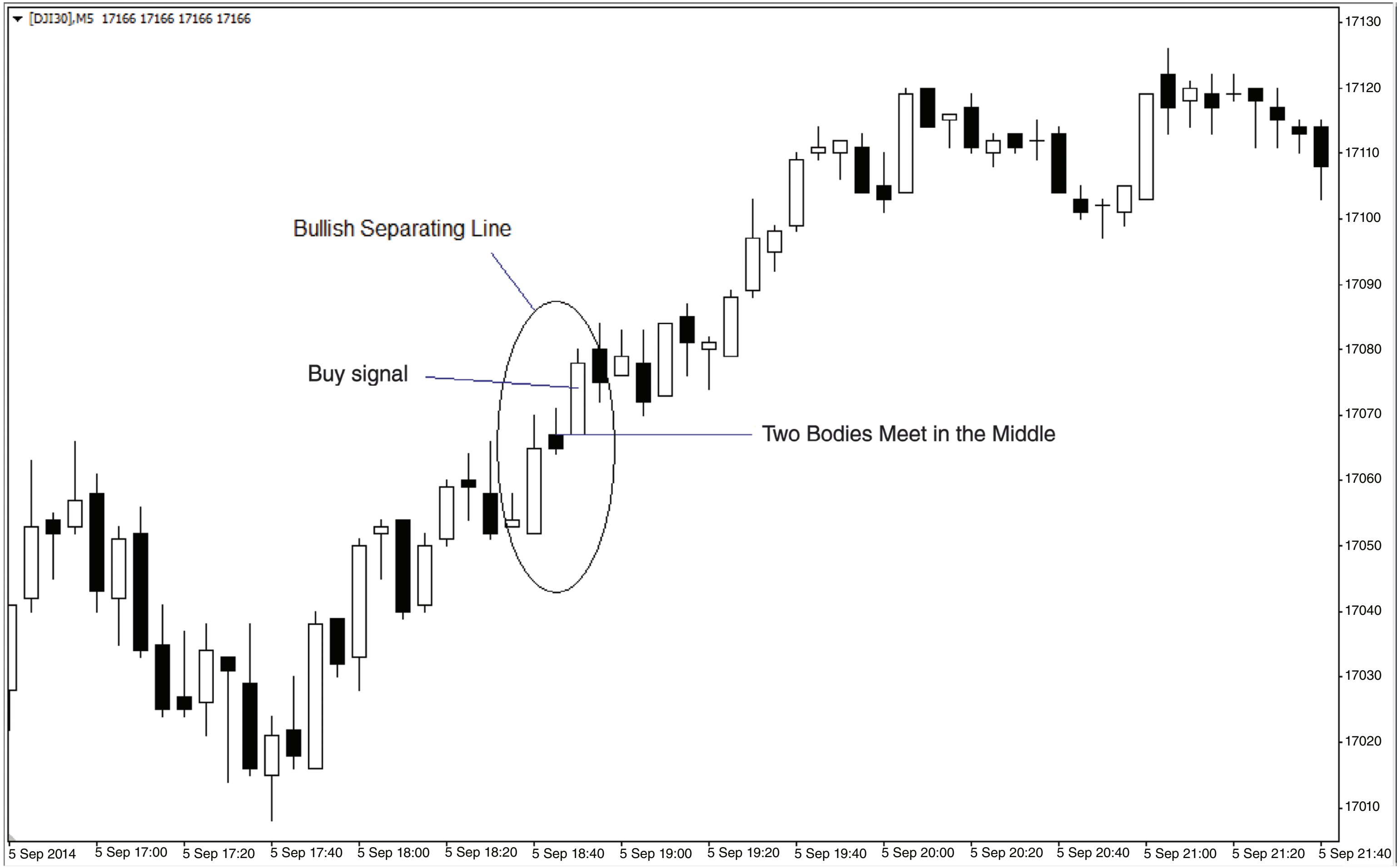


FIGURE 5.1 Dow Jones Industrial Average 5-Minute (2014)—Bullish Separating Lines

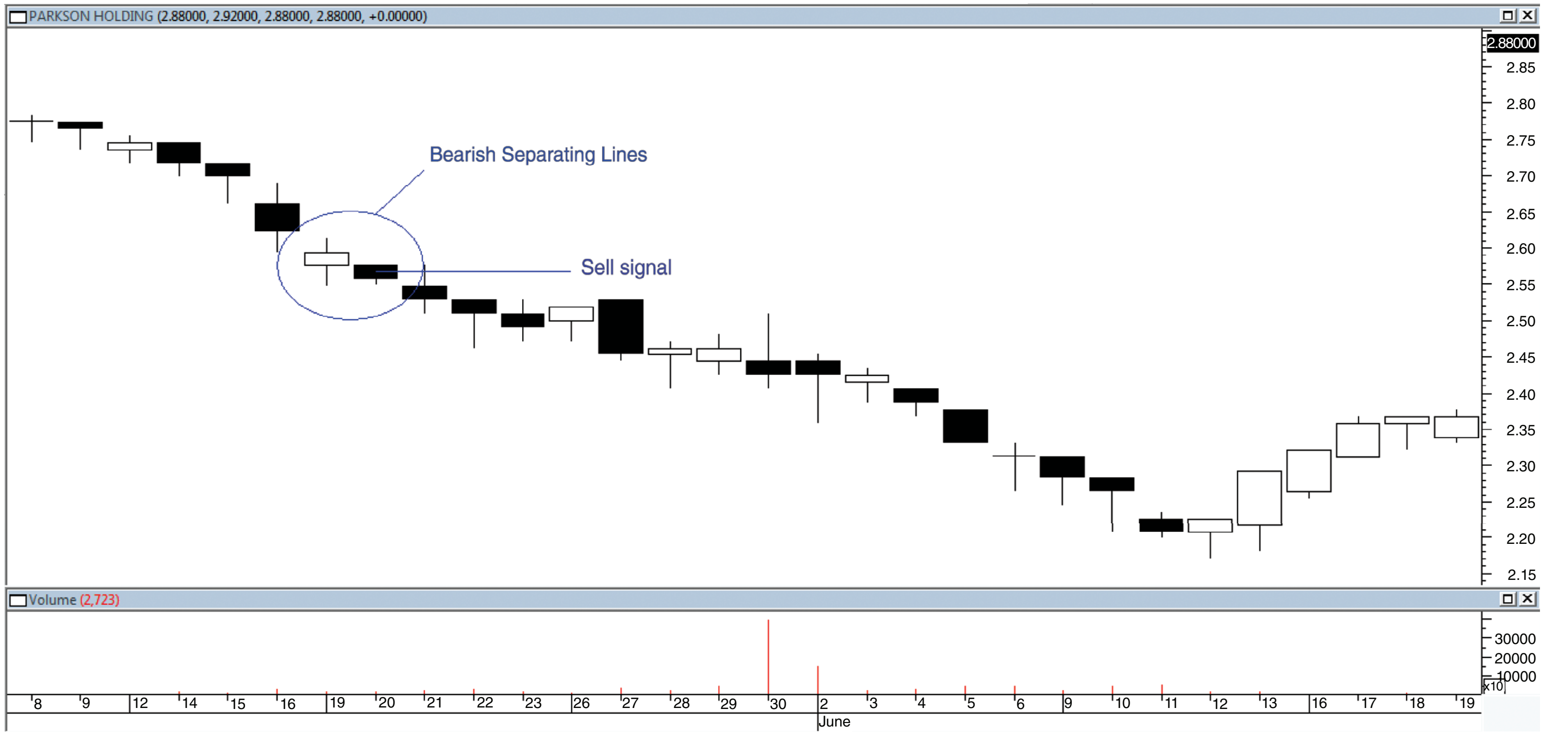
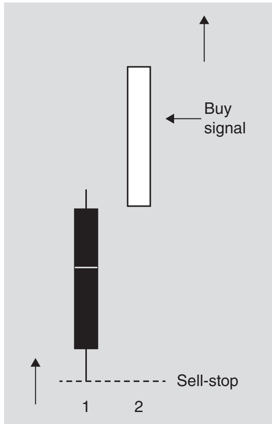


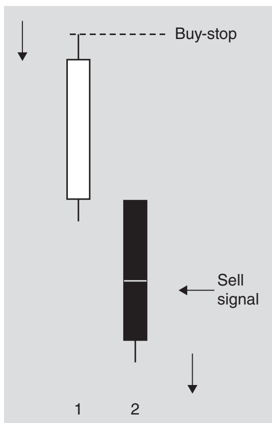
FIGURE 5.2 Parkson Holdings Malaysia Daily (2014)—Bearish Separating Lines

Bullish Separating Lines



The close on candle 2 must exceed the high of candle 1 to trigger a buy signal. Place sell-stop below the low of candle 1.

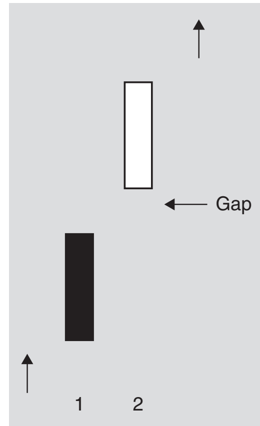
Bearish Separating Lines



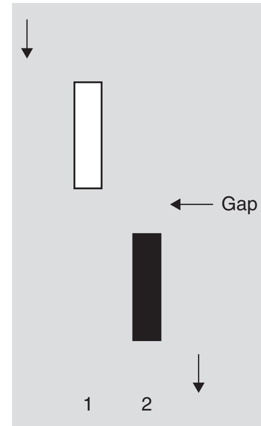
The close of candle 2 must exceed the low of candle 1 to trigger a sell signal. Place buy-stop above the high of candle 1.

Kicking Pattern

Bullish Kicking Pattern



Bearish Kicking Pattern



Bullish Kicking and Bearish Kicking pattern descriptions, rules of recognition, interpretations, and proper actions are explained next, together with some examples.

Bullish Kicking Pattern (Bullish)

- **Pattern description:** The Bullish Kicking pattern is nearly identical to the Bullish Separating Lines except for a gap between the black and the white candle. The first day is a Marubozu Black Candle that is followed by a Marubozu White Candle. A Marubozu Candle is one where there are no upper or lower shadows.

  One way of analysing the next direction is to compare the length of the real body of the two candles. The market should move in the direction of the longer of the two candles.