Counterattack Lines

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What Are Counterattack Lines?

The counterattack lines pattern is a two-candle reversal pattern that appears on candlestick charts. It can occur during an uptrend or downtrend. For a bullish reversal during a downtrend, the first candle is a long black (down) candle, and the second candle gaps down but then closes higher, near the close of the first candle. It shows that sellers were in control, but they may be losing that control as the buyers were able to close the gap down.

For a bearish reversal during an uptrend, the first candle is a long white (up) candle, and the second candle gaps higher but then closes lower, near the close of the first candle.

KEY TAKEAWAYS

- Bullish counterattack lines signal a potential reversal from a downtrend into an uptrend.
- Bearish counterattack lines signal a potential reversal from an uptrend into a downtrend.
- The pattern is composed of two candles of opposite color/direction. The use of a third and/or fourth candle that confirms the next price direction following the pattern is recommended.

Understanding Counterattack Lines

The pattern shows that the buyers may be losing control during an uptrend or that sellers may be losing control in a downtrend.

The bullish counterattack lines is a candlestick pattern with the following characteristics:

1. The market is in a downtrend.
2. The first candle is black (down) with a long real body.
3. The second candle gaps down on the open, is white with a real body that's similar in size to the first candle, and closes near the first candle's close.

The bearish counterattack lines is a candlestick pattern with the following characteristics:

1. The market is in an uptrend.
2. The first candle is white (up) with a long real body.
3. The second candle gaps higher on the open, is black with a real body that's similar in size to the first candle, with a close that's near the first candle's close.

This chart pattern is characterized by a gap in the current trending direction at the opening of the second candle, followed by a strong move in the opposite direction to close the gap. With the initial trend becoming unsustainable, the market tends to reverse direction and send prices in the other direction (direction of the second candle).

Counterattack lines are a fairly specific pattern and therefore don't occur frequently on candlestick charts. Traders should use the counterattack lines pattern in conjunction with other forms of technical analysis to maximize their odds of a successful trade.

Many traders wait for a confirmation candle following a candlestick pattern. A confirmation candle is a price move in the expected direction. For example, following a bullish reversal, the price is expected to rise. A trade is not taken until the price actually starts to rise. The same concept applies to a price decline following a bearish reversal.

Once confirmation has occurred and a long trade has been entered, a stop loss can be placed below the low of the pattern. Once a short trade has been confirmed, a stop loss can be placed above the high of the pattern.

Bullish Counterattack Lines Trader Psychology

Suppose the market is engaged in an active downtrend. The first candle continues the decline, with the close well below the open, generating a long real body. This increases bear confidence while putting bulls on the defensive. Their caution is justified at the opening of the second candle, which gaps down from the prior session's close. However, the opening depletes the supply of selling pressure, allowing bulls to lift the security in a reversal session that ends near the close of the first candle. This price action signals a potential bullish reversal that's confirmed on the third or fourth candle.

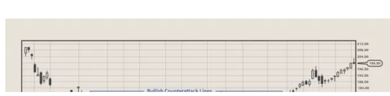
Bearish Counterattack Lines Trader Psychology

Suppose the market is engaged in an active uptrend. The first candle continues the advance, with the close well above the open, generating a long real body. This increases bull confidence while putting bears on the defensive. Their caution is justified at the opening of the second candle, which gaps up from the prior session's close. However, the opening depletes the demand to buy, allowing bears to drop the security in a reversal session that ends near the close of the first candle. This price action signals a potential bearish reversal that's confirmed on the third or fourth candle.

Example of How to Use Counterattack Lines

Counterattack lines are best used in conjunction with other forms of analysis, because they won't always result in a reversal.

The first bullish counterattack lines on the Apple Inc. (AAPL) daily chart occurred during a downtrend, and the strong buying on the second candle indicates a potential reversal in the downtrend. In this case, the price moved only marginally higher and then the downtrend continued.



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On the second and third examples, the price did move higher following the patterns. Both of these patterns were created with relatively small candles. Ideally, the pattern should have large candles, like in the first example. Yet, in these cases, the smaller candles resulted in the expected bullish reversal.

These examples are all bullish counterattack lines; therefore, once the price started moving higher following the pattern and a long trade was initiated, a stop loss could have been placed below the low of the pattern.

Candlestick patterns don't have profit targets, so it is up to the trader to determine how and when they will take profit.

Difference Between Counterattack Lines and an Engulfing Pattern

Both patterns are created by candles of opposite color/direction. The engulfing pattern is different in that the candles are side-by-side, with the second candle's real body fully enveloping the real body of the first. It is also a reversal pattern.

Limitations of Using Counterattack Lines

Counterattack lines may not be reliable on their own. Typically they require confirmation candles, and are best used in conjunction with other confirming technical analysis.

Candlestick patterns also don't provide profit targets, so there is no indication of how large the reversal may be. The pattern may start a long-term reversal, or the reversal may be very short-lived.

Although the pattern does occur, it's not frequent. Opportunities to use this candlestick pattern will be limited.

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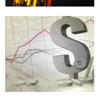
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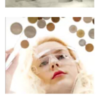
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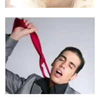
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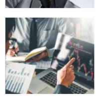
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