Tri-Star

By AKHILESH GANTI Updated June 25, 2019

What Is a Tri-Star?

A tri-star is a three line candlestick pattern that can signal a possible reversal in the current trend, be it bullish or bearish.

KEY TAKEAWAYS

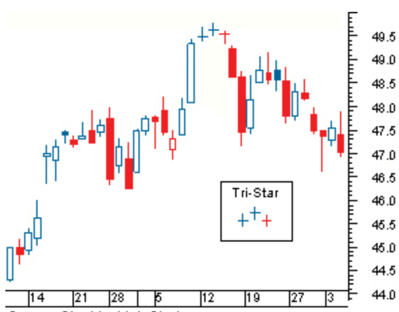
- A tri-star is a three line candlestick pattern that can signal a possible reversal in the current trend, be it bullish or bearish.
- Tri-star patterns form when three consecutive doji candlesticks appear at the end of a prolonged trend.
- A tri-star pattern near a significant support or resistance level increases the probability of a successful trade.

Understanding Tri-Star

This pattern forms when three consecutive doji candlesticks appear at the end of a prolonged trend. The first doji indicates indecision between the bulls and the bears, the second doji gaps in the direction of the prevailing trend and the third doji changes the market's sentiment after the candlestick opens in the opposite direction of the trend. The shadows on each doji are relatively shallow signaling a temporary reduction in volatility.

A single doji candlestick is an infrequent occurrence that is used by traders to suggest market indecision. Having a series of three consecutive doji candles is extremely rare, but when discovered, the severe market indecision usually leads to a sharp reversal of the given trend. Traders can use stock market scanning software to help them locate the pattern. The '*three stars*' pattern can also be used to signal the reversal of downward momentum when the pattern is formed at the end of a prolonged downtrend.

The chart below illustrates a bearish tri-star pattern at the top of the uptrend and could be interpreted to mark the beginning of a shift in momentum.



Source: Chart by MetaStock

Trading the Tri-Star Pattern

The below assumes the tri-star pattern forms after an uptrend:

- **Entry**: Traders could place a sell stop-limit order just below the third doji candle's low. This entry confirms that the market is moving in the trader's intended direction. Entering the market when the third doji candle closes may suit aggressive traders. This entry allows traders to set a tighter stop, but not confirm the trend.
- **Stop**: The high of the second doji is the top of the tri-star pattern and a logical place for a stop-loss order. Aggressive traders could set their stop above the high of the third doji, but risk getting stopped out by minor price spikes.
- **Exit**: A profit target could be set using a multiple of the initial risk taken. For instance, if a trader uses a $2 stop loss, they could place an $8 profit target. Traders might also use a certain retracement of the trend that precedes the tri-star pattern to take profits. For example, profits may be taken if prices retrace 10% of the previous move.

Tri-Star Support and Resistance Considerations:

Ideally the tri-star pattern should form near a significant support or resistance level to increase the probability of a successful trade. Support and resistance might come from a horizontal price level, a key moving average or a psychological round number. For example, the high the second doji may intersect the 200-day moving average. At the completion of the tri-star pattern, traders can also look for divergence between an indicator and price to confirm the prevailing trend is losing momentum.

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