Hikkake Pattern

By GORDON SCOTT Updated July 19, 2021

What Is Hikkake Pattern?

The hikkake pattern is a price pattern used by technical analysts and traders hoping to identify a short-term move in the market's direction. The pattern has two different setups, one implying a short-term downward movement in price action, and a second setup implying a short-term upward trend in price.

KEY TAKEAWAYS

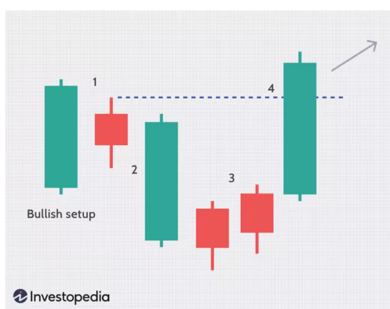
- The hikkake pattern is a price pattern used by technical analysts and traders hoping to identify a short-term move in the market's direction.
- This pattern has two different setups, one implying a short-term downward movement in price action, and a second setup implying a short-term upward trend in price.
- The hikkake pattern appears to work based on traders' expectations of price moving one way, and then collectively bailing out as price reverses.

Understanding Hikkake Pattern

The hikkake pattern (pronounced HĬ KAH kay) is a complex bar or candle pattern that begins to move in one direction but reverses quickly and is said to establish a forecast for a move in the opposite direction. This pattern was developed by Daniel L. Chesler, CMT, who first published a description of the pattern in 2003. The pattern has four key points:

1. The first two candles (or bars) of the pattern are of declining size. These are referred to as an inside-day pattern or a harami candlestick pattern. It does not matter whether either of these days closes higher or lower than it opened, so long as the body of the first completely overshadows the body of the second.
2. The third candle closes below the low in the first setup (or above the high in the second setup) of the second candle.
3. The next one or more candles will drift below (or above in the second setup) the third candle and may begin to reverse direction.
4. The final candle will close above the high of the second candle (or below the low of the second candle in the second setup).

Once the fourth characteristic is achieved, the pattern implies a continuation in the direction of the final candle. The following two charts show examples of both setups.



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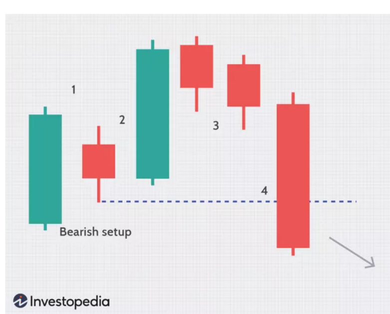
The first pattern is for the bullish setup. Each of the four characteristics is marked to show where they have occurred in these examples. The second pattern, for the bearish setup, is less frequently observed.



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The name of this pattern comes from a Japanese word meaning "hook, catch, ensnare." When the hikkake pattern was first described by Chesler, he was looking to describe a pattern he had noticed that seemed to trap traders committing capital to a market only to see it move away from what they expected.

From a conceptual basis, the hikkake pattern is made up of a short-term decrease in market volatility, followed by a breakout move in price action. This move (the third candle in the pattern, will tend to entice traders into thinking a breakout has formed. Traders enter the market and set a stop in the opposite direction of their trade. If the price pattern reverses, then the traders' stop-loss orders kick in and may give a boost to the price as it reverses past the boundary of the second candle in the formation (where the stop orders are likely to be).

Example of a Hikkake Pattern

Image by Sabrina Jiang © Investopedia 2021

This pattern occurred in the price action for shares of Microsoft (MSFT) and is somewhat typical of how this pattern plays out slightly more than half the time it occurs. The pattern shown in this chart is the bullish setup and holds all four characteristics described above.

Here the price pattern is highlighted by a rectangle, and the implied forecast is for a bullish move in the days beyond the rectangle. This example shows that the chart had a mild upward trend after leaving the boxed area. Not all hikkake patterns play out to the correct forecast direction.

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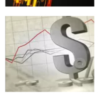
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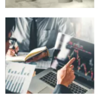
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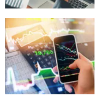
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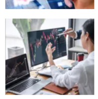
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