Matching Low

By CORY MITCHELL Updated June 15, 2021
Fact checked by HANS DANIEL JASPERSON

What Is a Matching Low?

A matching low is a two-candle bullish reversal pattern that appears on candlestick charts. It occurs after a downtrend and, in theory, signals a potential end to the selling via two long down (black or red) candlesticks with matching closes. It is confirmed by a price move higher following the pattern.

In reality, the matching low more often acts as a continuation pattern to the downside.

KEY TAKEAWAYS

- The matching low pattern is created by two down candlesticks with similar or matching closing prices.
- The pattern occurs following a price decline and signals a potential bottom or that price has reached a support level.
- In reality, the price could go either direction following the pattern, and more often it continues to the downside.

Understanding the Matching Low Candlestick Pattern

The matching low pattern is a two-candle bullish reversal pattern with the following characteristics:

- The market is trending lower.
- The first candle has a long black (down) real body.
- The second candle has a black real body that closes at about the same price level as the close of the first candle.
- The candles may have lower shadows but it is the matching closing prices that are important. The lower shadows may also have a similar low.

The theory behind the pattern is that the failure of the second candle to close below the first candle's close generates a support level for a bullish reversal. Bulls are likely to attempt a rally using the support level as a springboard, creating a new trend higher.

Traders could look for a rebound in the price following the matching low pattern, while using the prior day's close (or low) as a support level—or potentially a stop-loss point—for the position. For example, if the third candle moves above the high of the first or second candle, this could trigger an entry with a stop loss below the low of candles one and two. The third candle, in this case, is called the confirmation candle. It moves in the expected direction.

It's recommended that traders wait for a confirmation candle before acting, especially with this pattern. Quite often it acts as a continuation pattern—about 61% of the time, according to the *Encyclopedia of Candlestick Charts* by Thomas Bulkowski. [1] Therefore, the price may move down following the pattern, and a trader could also enter a short position in this case, with a stop loss above the first or second candle high.

Matching Low Trader Psychology

Suppose the market is engaged in an active downtrend, building bearish energy while bull confidence slumps. The first candle closes lower than the open, with a large real body, indicating that sellers took control early in the session and maintained control into the closing bell. This trend further increases bearish energy while keeping bulls on the defensive due to the lack of buying power. However, the security gaps higher on the second candle, reaching into the upper half of the first candle's real body. This price action shakes bear confidence while increasing bullish resolve.

Bears take control after the opening print of the second candle, dropping the price back to the close of the first candle. Their failure to post a lower close indicates decreased selling power while establishing a support level at the closing ticks of the first and second candles. However, bull power remains weak, discouraging new bull positions into the closing bell.

This pattern is prone to going either direction, with a slight edge for it being a continuation pattern instead of a reversal pattern. Therefore, traders can wait to see what the third and fourth candles (the next few candles after the pattern appears) do. If the price moves higher following the pattern, traders will look for a long entry. If the price moves below the pattern, traders will look to exit long positions or sell short.

Example of How to Trade The Matching Low Candlestick Pattern

The Macy's Inc. (M) daily chart shows two matching low candlestick patterns. Example one results in a small move higher once the price moves above the high of the two-candle pattern. It also triggered a false breakout below the pattern low on candle three.

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The second example occurred during a sharp decline. The price dropped below the pattern low on candle four signaling a downside breakout and potential short trade. The price proceeded lower for two more sessions before bouncing higher.

The Difference Between Matching Low and Three Stars in the South

Both of these candlestick patterns signal a potential bottom to the selling, but the patterns are structured differently. With matching lows, two falling candles create similar closes. With [three stars in the south](), the first candle is a long down candle, the second candle is also a down candle, but fails to make a lower low, and the third candle is smaller, has no lower shadow, and is within the range of the second candle.

Limitations of the Matching Low Candlestick Pattern

The pattern works reasonably well in that the price tends to move well following the pattern; however, which direction that move will be in is unclear. In reality, it acts as a continuation pattern more often than a reversal pattern. This problem can be alleviated by waiting for confirmation and trading in the breakout direction following the pattern.

Candlestick patterns don't have profit targets. Therefore, when trading the matching low pattern, it is up to the trader to determine when they will take profit.

The pattern is not particularly common, which means opportunities to use a strategy based on the pattern will be limited. It is recommended that traders utilize other methods of analysis, such as price action, technical indicators, or larger chart patterns, to help validate matching low trade signals.

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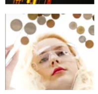
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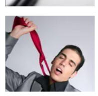
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