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Three Outside Up/Down

By ADAM HAYES Updated June 03, 2021

What Is a Three Outside Up/Down?

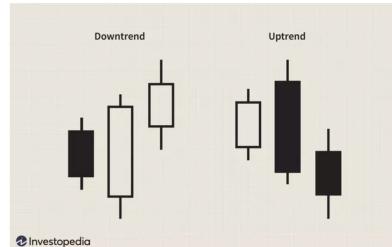
The three outside up and three outside down are three-candle reversal patterns that appear on [candlestick](#) charts. The pattern requires three candles to form in a specific sequence, showing that the current trend has lost momentum and might signal a [reversal](#) of an existing trend. In particular, the pattern is formed when a dark candlestick is followed by two white-body ones, or vice versa.

The three outside up and three outside down may be compared with a [three inside up/down](#) candle.

KEY TAKEAWAYS

- Three outside up/down are patterns of three candlesticks that often signal a reversal in trend.
- The three outside up and three outside down patterns are characterized by one candlestick immediately followed by two candlesticks of opposite shading.
- Each tries to leverage market psychology in order to read near-term changes in sentiment.

How Three Outside Up/Down Candlesticks Work



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The three outside up is a bullish candlestick pattern with the following characteristics:

1. The market is in a [downtrend](#).
2. The first candle is black.
3. The second candle is white with a long real body and fully contains the first candle.
4. The third candle is white with a higher close than the second candle.

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The three outside down, meanwhile, is a [bearish](#) candlestick pattern with the following characteristics:

1. The market is in an [uptrend](#).
2. The first candle is white.
3. The second candle is black with a long real body that fully contains the first candle.
4. The third candle is black with a close lower than the second candle.

The first candle marks the beginning of the end for the prevailing trend as the second candle engulfs the first candle. The third candle then marks an acceleration of the reversal.

The three outside up and three outside down patterns occur frequently and are reliable indicators of a reversal. Traders can use these indicators as primary buying or selling signals but still watch for confirmations from other chart patterns or [technical indicators](#).

Three Outside Up Trader Psychology

The first candle continues the bearish trend, with the [close](#) lower than the open indicating strong selling interest while increasing bear confidence. The second candle [opens](#) lower but reverses, crossing through the opening tick in a display of bull power. This price action raises a red flag, telling bears to take profits or tighten stops because a reversal is possible.

The security continues to post gains, lifting price above the range of the first candle, completing a bullish outside day candlestick. This increases [bull](#) confidence and sets off buying signals, confirmed when the security posts a new high on the third candle.

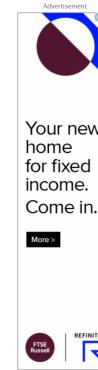
Three Outside Down Trader Psychology

The first candle continues the bullish trend, with the close higher than the open indicating strong buying interest while increasing bull confidence. The second candle opens higher but reverses, crossing through the opening tick in a display of bear power. This price action raises a red flag, telling bulls to take profits or tighten stops because a reversal is possible.

The security continues to post losses, seeing its price drop below the range of the first candle, completing a bearish outside day candlestick. This increases bear confidence and sets off selling signals, confirmed when the security posts a new low on the third candle.

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