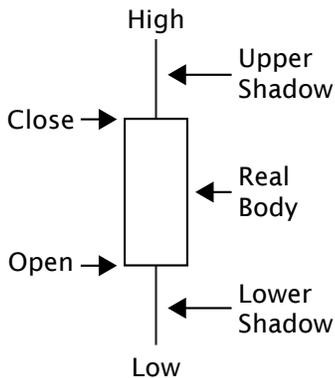


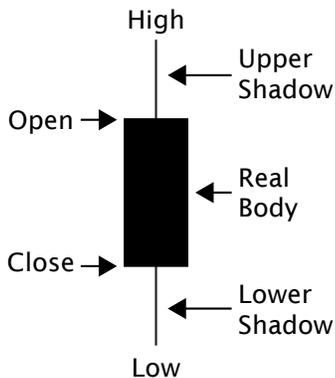
# A Guide to Short-term Chart Patterns

## SHORT-TERM CANDLESTICK PATTERN TERMINOLOGY

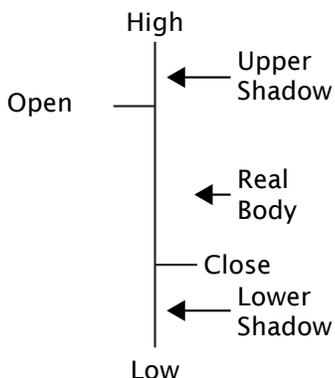
### White Candlestick



### Black Candlestick



### Price Bar

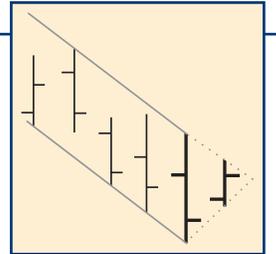


### Inside Bar

An Inside Bar indicates a balancing of sentiment between buyers and sellers after a sustained up or down move. On the Inside Bar's second day, especially with a drop in volume, we are seeing a drop off of interest in this instrument. This balancing can lead to a period of sideways price movement, but is sometimes resolved by a change in trend.

Pattern significance notes:

- The sharper the trend preceding the pattern, the better.
- The longer the first bar and its immediate predecessors in relation to previous bars, the better. This is evidence that the strong underlying momentum of the prevailing trend has dissipated.
- The smaller the second bar relative to the broader range of the first bar, the more dramatic the change in the buyer/seller balance - a stronger signal.
- Volume on the Inside bar is noticeably smaller, indicating a more balanced situation.



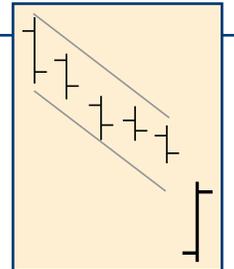
### Exhaustion Bar

The presence of an Exhaustion Bar highlights a dramatic reversal in trader psychology during the last bar. This often will continue into the short-term future. The previous trend direction could not be sustained at its extreme levels and traders are quickly capitulating. This can lead to short term profits if a confirmed and qualified position in the reversal direction is taken. Also see Key Reversal Bar.

Pattern significance notes:

- A longer Exhaustion Bar is psychologically more significant.
- A persistent inbound trend is important: the longer and sharper; the better.
- A price close at the reversal extreme end of the Exhaustion Bar is better.
- Look for heavy volume, accentuating the reversal climax.

Exhaustion Bars are often caused by news driven events that occur in the pre-market or after-hours trading.



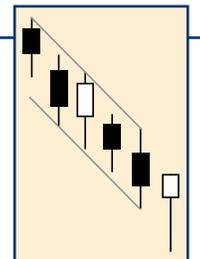
### Hammer

The aptly-named Hammer indicates that the prior downtrend is about to end and may reverse to a short-term uptrend or move sideways. A long Lower Shadow, its handle, and the positioning of the Real Body, its head - white is better - near the top of the range are both indications that the bears could not maintain new lows. This sets up the bullish situation.

Pattern significance notes:

- Hammers with longer Lower Shadows have greater reversal significance.
- A smaller Real Body and Upper Shadow fits the psychological description of the pattern better.

Wait for confirmation via bullish gap on the next bar or a well defined white Real Body bar in the expected upward direction.



### Island Bottom

An Island Bottom occurs when the price “gaps” below a specific price range for a number of bars and is then confirmed when the price later “gaps” above the island itself, signifying a clear change in trader sentiment.



Pattern significance is enhanced if:

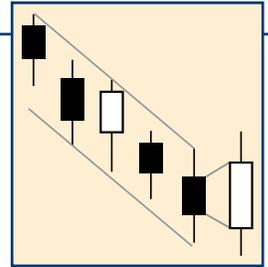
- The pattern forms after a long, steep and well-established down inbound trend.
- There is an increase of volume on both the first gap, and the subsequent gap in the opposite direction. Bowl-shaped volume is best.
- The breakout bar is a white bar.

Early failure is signified by a price drop, closing the gap.

The Island Top is the bearish counterpart, signaling a topping formation and likely a fall in prices over the short term.

### Engulfing Line

An Engulfing Line pattern indicates a possible reversal of the current downtrend to a new short-term trend of opposite direction. Similar to Outside Bar.



Pattern significance is enhanced if:

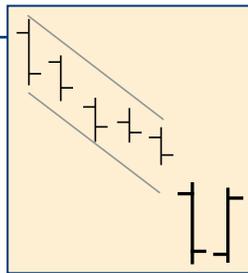
- The Real Body of the previous bar is substantially smaller than the Real Body of the following bar.
- A steep inbound trend exists.
- Volume increases noticeably on the Engulfing bar itself.
- The following bar “engulfs” more than one previous bar.

Wait for confirmation via bullish gap on the next bar or a well defined white Real Body bar in the expected upward direction.

A bearish Engulfing Line occurs when an uptrend culminates with a long black bar: indicating a possible fall in prices over the short term.

### Two Bar Reversal

Two Bar Reversal patterns indicate a possible climactic change in trader psychology. From down to up, or from up to down. Look for an outbound trend period that reverses any moves made in the lead up to the Two Bar Reversal. A change to a sideways direction can occur with weaker examples.

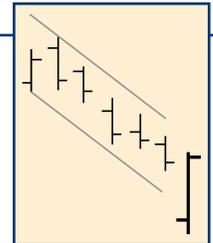


Pattern significance notes:

- A persistent inbound trend is important: the longer and sharper; the better.
- Both signal bars should have exceptionally wide trading ranges relative to the previous bars formed during the inbound trend.
- For both signal bars, the opening and closing prices should be as close to the extreme points of the bars as possible.
- Volume should be higher on both bars to accentuate the sentiment reversal. The greater the expansion of volume, the better the signal.

### Key Reversal Bar

The presence of a Key Reversal Bar highlights a dramatic reversal in trader psychology during the last bar. This often will continue into the short-term future. The previous trend direction could not be sustained at its extreme levels and traders are quickly capitulating. This can lead to short term profits if a confirmed and qualified position in the reversal direction is taken. Also see Exhaustion Bar.



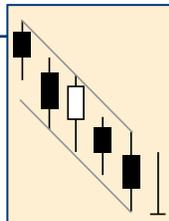
Pattern significance notes:

- A longer Key Reversal Bar is psychologically more significant.
- A persistent inbound trend is important: the longer and sharper; the better.
- A price close at (or above when bullish/ below when bearish) the previous close is better.
- Look for unusual volume, accentuating the reversal climax.

Key Reversal Bars are often caused by news driven events that occur in the pre-market or after-hours trading.

### Gravestone

The Gravestone candlestick indicates a balancing of sentiment between buyers and sellers after a sustained move, indicating the possible end of that short term trend. It does not necessarily indicate a reversal will be initiated.



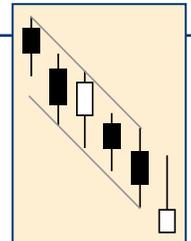
Pattern significance notes:

- The longer the Upper Shadow, the more significant the pattern.
- A small Real Body is acceptable, but the Gravestone effectively becomes an Inverted Hammer or Shooting Star pattern if the Real Body is sizeable.
- A steep inbound trend should exist.
- Volume should increase noticeably.
- Although a small Lower Shadow is acceptable, if it is too long then it will reduce the significance of the pattern.

Traders looking for a tradable move should wait for confirmation via a gap on the next bar(s) or a well defined Real Body bar in the expected direction after a Gravestone is exhibited.

### Inverted Hammer

An Inverted Hammer indicates that the prior downtrend is about to end and may reverse to a short-term uptrend or move sideways. It has a Upper Shadow that is longer than the Real Body and a Lower Shadow that is small or non-existent. Also see the Hanging Man and Shooting Star patterns.



Pattern significance notes:

- The Real Body of the Inverted Hammer should “gap” away from the Real Body of the previous session. The greater the size of that gap the more important the Inverted Hammer.
- The Lower Shadow of the Inverted Hammer should be almost non-existent.
- The longer the Upper Shadow, the more significant the Inverted Hammer.
- Increased volume on the Hammer Bar itself indicates greater significance.

Short-term patterns can lead to short-term profits if trade positions in the recommended direction are taken after appropriate confirmation and qualification. Experienced and profitable traders wait for confirmation on most of these trade ideas, and will also qualify the trade idea using other research.

### Idea Confirmation Rules

Trade idea confirmation can be as simple as:

- Waiting for an additional bullish confirmation bar to develop before trading on any short-term reversal pattern. This can come in the form of a gap, or at least a well-defined move, in the expected direction. Look for a white confirmation bar for bullish trade ideas and a black confirmation bar for bearish ideas.
- Take the time to look at the volume on the candlestick signal bar. Bullish reversals will be stronger if supported by increased trade volume. Bearish reversals will often be characterized by a drop in volume, although in some situations increased volume can occur on an aggressive drop in price.
- Beware of patterns with noisy and poorly defined inbound trends. For bullish reversals, a persistent downward inbound trend is required; the longer and sharper, with minimal noise... the better.

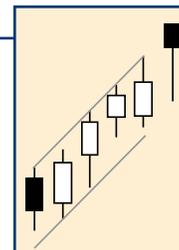
### Trade Idea Qualification

Experienced traders will usually apply a set of personally tailored qualification rules when evaluating trade ideas. Here are some hints:

- Number one; be aware of the overall market's direction. Then look for other specific technical signals or conditions such as support/resistance and momentum studies, review fundamentals, sector data and/or news, and assess the risk/reward ratio of the trade.
- Refer to the Technical Insight Event Lookup page for the instrument to gather a more holistic technical view of the trading situation on short, intermediate and long term trading horizons.
- Consider whether the trade aligns with your ability to monitor it. These short-term candlestick patterns usually require a higher level of monitoring than other longer-term trade ideas.
- Choose a target and stop loss price that works for you – and note it down. Use contingent exits or alerts to help you monitor. Exit as originally planned.
- Use price penetration alerts to confirm reversal before entry as a strategy to profitably use these patterns.

### Hanging Man

The Hanging Man candlestick indicates bullish trend exhaustion and likely reversal of sentiment. It has a Lower Shadow that is longer than the Real Body and an Upper Shadow that is small or non-existent. The Real Body can be either white or black. See the Inverted Hammer for the bullish counterpart and notice the similarities to the bearish Shooting Star.



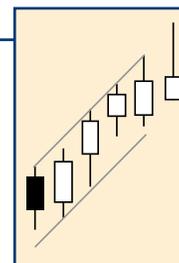
Pattern significance notes:

- The Real Body of the Hanging Man should “gap” away from the Real Body of the previous session. The greater the size of that gap the more significant the Hanging Man.
- The Upper Shadow of the Hanging Man should be almost non-existent.
- The longer the Lower Shadow, the more significant the Hanging Man.
- A Hanging Man pattern in an overall bullish market has decreased effectiveness and should be avoided.
- Increased volume on the Hanging Man itself indicates greater significance.

Wait for confirmation via bearish gap on the next bar or a well defined black Real Body bar in the expected downward direction.

### Shooting Star

The Shooting Star candlestick indicates a balancing of sentiment between buyers and sellers after a sustained up move, indicating the possible end of the uptrend for the short term. It does not necessarily indicate a downtrend will be initiated.



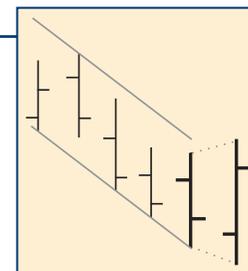
Pattern significance notes:

- The longer the Upper Shadow the more significant the pattern.
- A small Real Body is acceptable. The Real Body can be either white or black.
- A steep inbound trend should exist.
- A gap prior to the Shooting Star can add significance.
- In overall bull markets, increased volume on the Shooting Star candle itself adds significance, whereas in overall bearish markets a reduced volume indicates heightened effectiveness.
- Trading in a direction opposite to the overall market should be avoided.

Traders looking for a bearish move should wait for confirmation via a bearish gap on the next open or a well defined black Real Body bar in the bearish direction.

### Outside Bar

An Outside Bar indicates trend exhaustion and likely reversal of sentiment. This pattern has similarities to the Engulfing Line. Outside Bars exhibit a trading range that fully encompasses that of the previous bar.



Pattern significance notes:

- The wider the second bar relative to the narrower trading range of the preceding bar, the stronger the signal.
- The sharper the inbound trend preceding the Outside Bar, the more significant the signal.
- The more prior bars encompassed, the better the signal.
- The greater the volume accompanying the Outside Bar relative to previous bars, the stronger the signal.
- The smaller the upper shadow, the better.

Wait for confirmation via bullish gap on the next bar or a well defined Real Body bar in the expected direction.

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