

The Most Important Price Action Patterns for Babon Traders

There are dozens of different Price Action formations and Japanese candles' formations, as a matter of fact almost any so called "expert" and "author" tries to create at least several new formations...

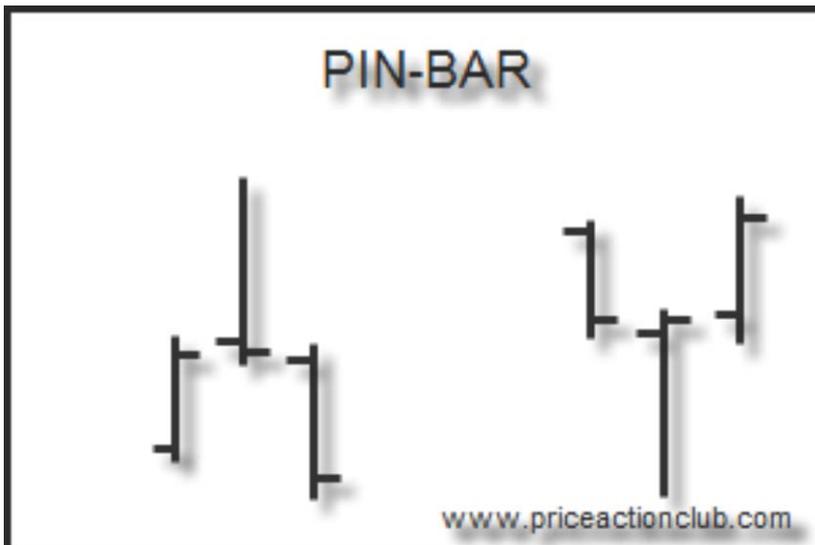
But the sad truth is: most of those formations work 50/50 or just a little better than 50/50, because they were "created" artificially. And some of the formations are good but you don't meet them often enough, some of them are so exotic that mastering them is just not worth your while.

We don't need those exotic or artificial "formations", we need real-life patterns. These patterns weren't "created", you can see them all the time, they were discovered a long time ago and they proved their power and reliability since then.

Here are nine popular, powerful, reliable and time-proved Price Action patterns that I recommend you to master.

- 1). Pin bar
- 2). Doji
- 3). Inside bar
- 4). Double inside bar
- 5). Outside bar
- 6). Mirror bars
7. Pivot point reversal
8. Two bar reversal
- 9). 1-2-3

- 1). Pin bar



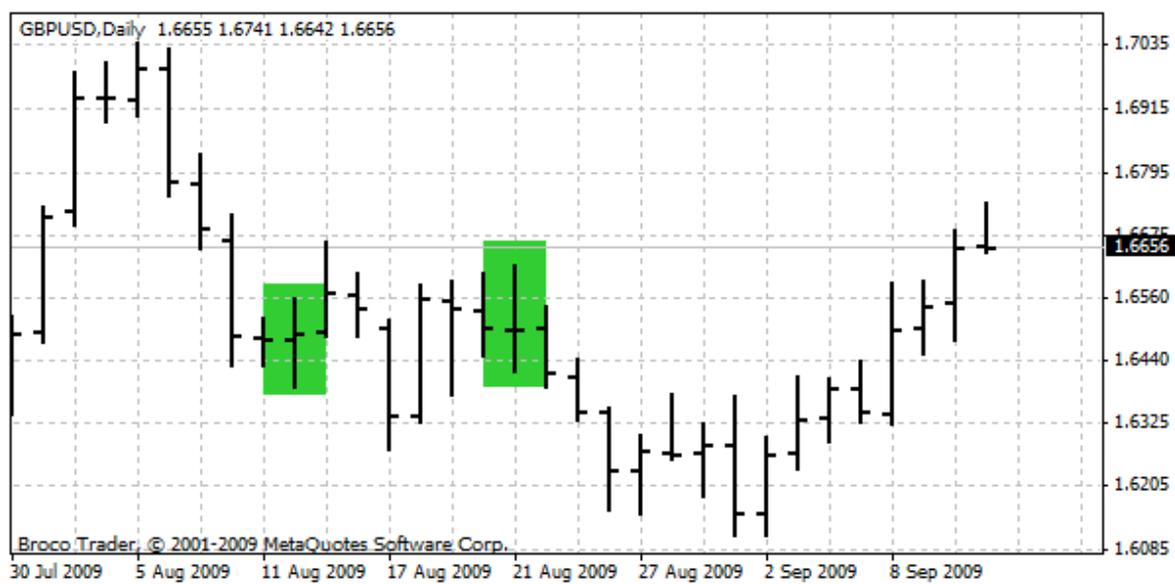
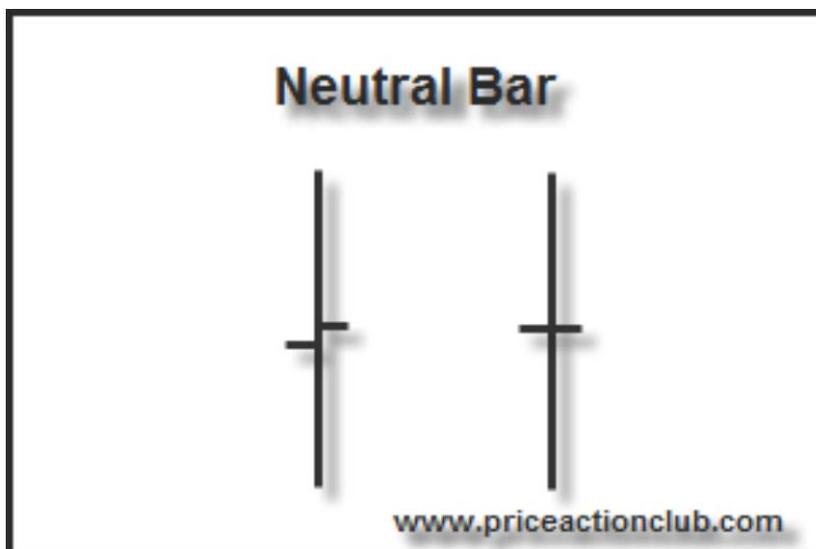
The pin bar is a reversal pattern that indicates a change of trend.

The term "Pin bar" is an abbreviation for the term "**Pinocchio Bar**". It is a 3 bar pattern with the high of the middle bar towering over the highs of the bars on both the left and the right. The middle bar should look like a pin, standing out like the proverbial sore thumb. The pin bar will signal both bullish and bearish trends.

To effectively trade the pin bar formation, you need to first make sure it is well-defined, (see above characteristics). Do not trade just any bar with a large wick. You want the nose of the bar to really stick out.

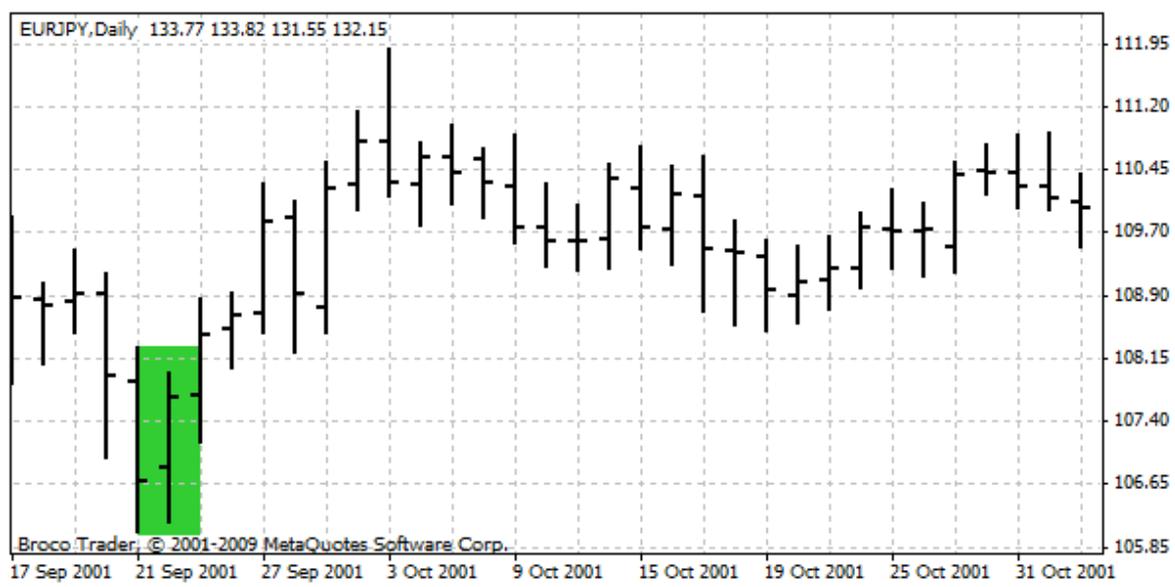
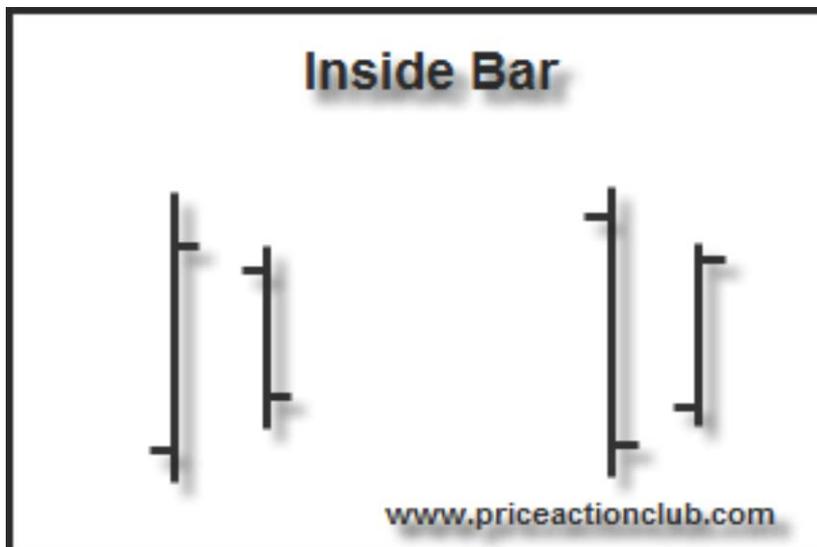
For a Bearish pin bar sell on a break of the pin bar low. For a Bullish pin bar buy the break of the pin bar high.

2). Doji or Neutral bar



Doji is a very close relative of the pin bar. It is very important to pay attention to doji, it usually means a trend's change or a strong pullback.

3). Inside bar



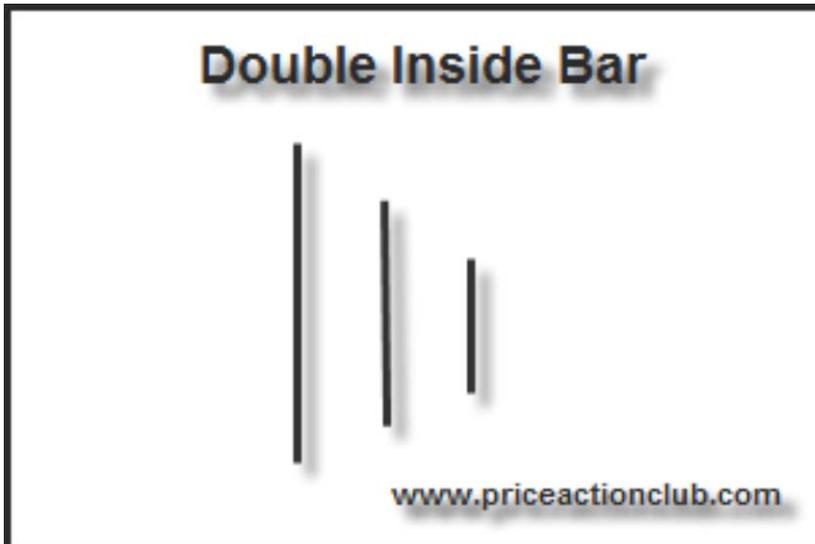
An inside bar is a bar which is completely inside of the preceding bar. In other words, the high and low of the bar is completely inside of the bar to the left.

An inside bar indicates indecision or consolidation. The market is not sure which way to go. The buyers do not have the strength to push the market higher, and the sellers do not have the strength to push the market lower. Inside bars generally occur at market tops and bottoms, and often provide a low-risk entry and exit point.

There are two types of inside bars: Bullish and Bearish. Most systems simply trade the breakout of inside bars (or the breakout of the bar "containing" the inside bar), and do not take into account whether the inside bar is bullish or bearish.

There is however a more effective way of trading them: when a bullish inside bar occurs after a bearish trend, or vice versa, a bearish inside bar occurs after a bullish trend. These two situations give a clear indication that the previously established trend is getting exhausted.

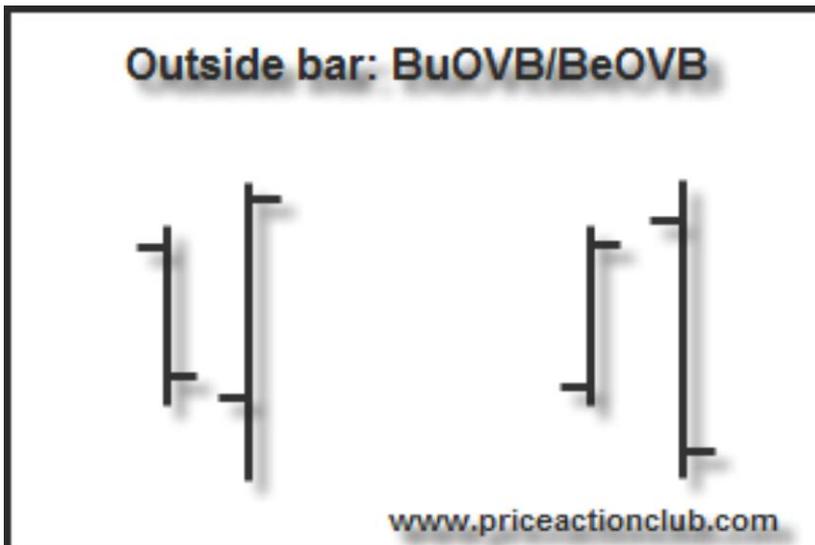
4). Double inside bar



Double inside bar formation works like a "spring" before a powerful "jump".

We can trade double inside bar conservatively (the breakout of the first formation's bar) or we can trade it aggressively (the breakout of the last formation's bar).

5). Outside bar



An outside bar is opposite to the inside bar. Trading the breakout of outside bars helps us to get in when the indicators don't show any signs.

6). Mirror bars

Mirror Bars

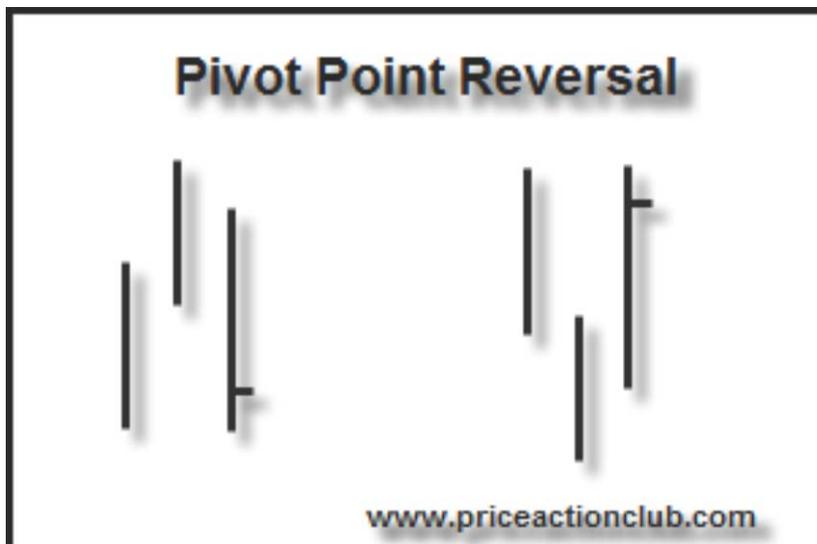


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The price usually continues the second bar's direction.

7). Pivot point reversal



A pivot top on the other hand shows that price has found a level of resistance. A pivot bottom shows that price has found a level of support. The easiest way of trading pivots is assuming the support/resistance level they indicate will hold, and therefore the prices will reverse.

A Pivot Top is a three candle pattern. The high of the middle candle is higher than both the high of the candle to its left, and the candle to its right. A Pivot Top signals that a reversal to the downside might be setting up.

A Pivot Bottom is a three candle pattern. The low of the middle candle is lower than both the low of the candle to its left, and the candle to its right. A Pivot Bottom signals that a reversal to the upside might be setting up.



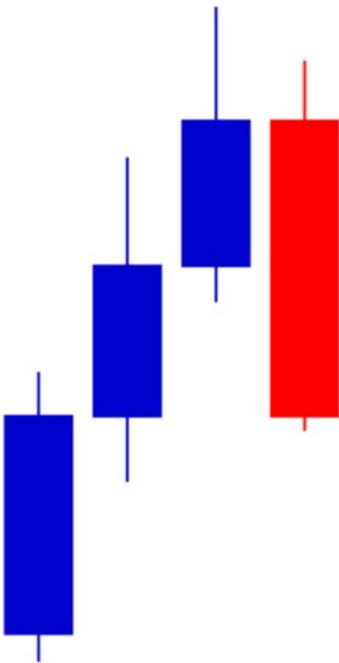


A common way of trading this would be to enter the trade at the close of the pivot confirmation candle (the third candle of the pivot pattern)

8). Two bar reversal

The two bar reversal identifies a possible trend reversal.

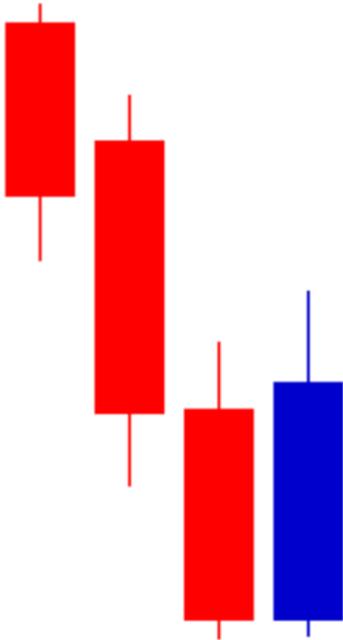
The first two bars must trade in the same direction and be trending bars. The third bar reverses the trend direction by taking out the low of the second bar (for short) or the high of the second bar (for long).



The Bearish two bar reversal

1. Bar 1 has a higher high, higher low and a higher close.

2. Bar 2 has a higher high, higher low and a higher close than bar 1.
3. Bar 3 reverses the trend by trading below the low of bar 2.



The Bullish two bar reversal

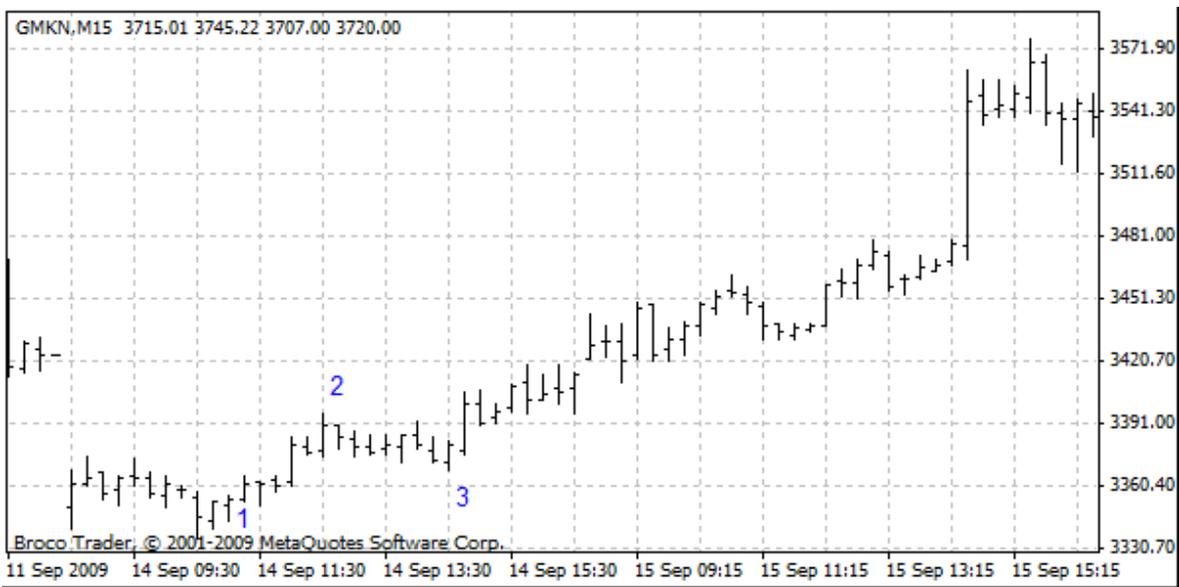
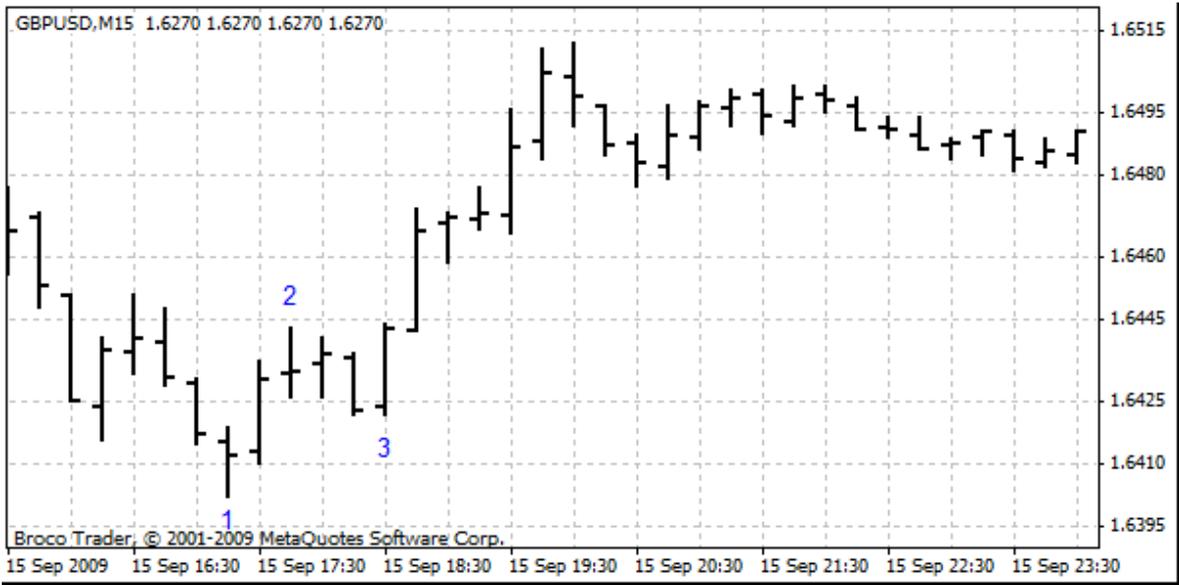
1. Bar 1 has a lower high, lower low and a lower close.
2. Bar 2 has a lower high, lower low and a lower close than bar 1.
3. Bar 3 reverses the trend by trading above the high of bar 2.

Trading two bar reversal is easy. For Bullish two bar reversal we buy 1 pip above the high of bar 2.

For bearish two bar reversal we sell 1 pip below the low of bar 2.

9). 1-2-3

1-2-3 is a very powerful and important pattern. We enter on a break of "2".



THE END