MARKET BEHAVIOUR MATTERS

UNDERSTANDING CANDLESTICKS AND CHARTS FOR BEGINNERS

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I hereby declare that this book is the outcome of my own learning, understanding, and interpretation of candlestick patterns, chart patterns, and technical analysis concepts. The views and opinions expressed in this book are purely personal and do not represent the views, policies, or positions of any organisation/institute.

The knowledge presented here has been shaped by my personal experience in the stock market, supported by online training sessions, virtual classes, and self-learning through various educational sources such as webinars and on-line learning content.

This book has been written with the intention of educating and simplifying technical concepts for beginners. It is *not* financial, investment, or trading advice. Readers should conduct their own analysis before taking any trading or investment decisions.

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— Dr. Manoj Kumar Ray

This book is dedicated to

my eldest sister, Late Smt. Basanta Manjari Roy,
and my brother-in-law, Late Shri Kalpatru Roy,
whose love, guidance, and encouragement have
been a constant source of strength and inspiration
throughout my journey.

Author's Note

When I first began exploring the stock market, I was just as curious and uncertain as many beginners are today. The charts looked complicated, the candles seemed confusing, and the patterns felt like hidden codes. But with patience and continuous learning, I discovered that trading is not about guessing market moves, it is about understanding behaviour, reading patterns, and developing the discipline to act wisely.

I entered the equity markets just before the 2008 crash, and during that period, I saw many people deeply worried as their portfolios were severely affected. While I was engaged studying market that time, witnessing the fear, uncertainty, and emotional stress around me became one of the most valuable lessons of my journey. That challenging phase taught me the importance of patience, disciplined risk management, and emotional control, qualities that truly define a successful trader.

Every successful trader once stood where you stand now, at the intersection of curiosity and courage. The key to progress lies not in shortcuts, but in observation, practice, and persistence. I wrote this book with that belief, to make the complex world of candlesticks and chart patterns simple, clear, and approachable for every learner.

If this book helps you view the market with more clarity, make informed decisions, and trade with greater confidence, then it has fulfilled its purpose.

Remember, the market rewards patience, not pressure. Keep learning, keep improving, and let every candle you study bring you closer to mastering your own emotions as much as the charts.

Wishing you a journey filled with learning, discipline, and success, one candle, one pattern, and one confident step at a time.

— Dr. Manoj Kumar Ray

(Fire & Safety professional, BBS Specialist, and lifelong learner of financial markets)

Preface

The stock market is one of the most fascinating avenues for growing both knowledge and wealth. Yet for many beginners, the early steps often bring confusion, hesitation, and doubt. When charts appear complicated and decisions feel uncertain, it is easy to believe that trading success is meant only for experts. The truth, however, is that anyone can learn the art of reading charts and patterns, provided the concepts are explained in a simple, structured, and relatable way.

This book was born out of that very thought, to bridge the gap between curiosity and understanding. Over the years, I have seen many individuals struggle to interpret market movements and rely solely on tips or emotions. Through my own learning journey, I realized that the most powerful skill a trader can develop is the ability to *read the chart* and *understand the story behind each candle*.

The chapters in this book are designed to take you from the basics to the practical. You will begin by understanding what a candlestick is, how it forms, and what information it carries about market psychology. Step by step, you will explore various single, double, and multiple candlestick patterns, along with the most reliable chart patterns like triangles, flags, wedges, cup and handles, and head-and-shoulders formations. Each topic is presented in a way that is easy to grasp, supported by insights that connect theory with real-world trading behaviour.

This book is not about predicting the market, it is about preparing yourself to respond intelligently to what the market reveals. It encourages *discipline*, *patience*, and *observation*, the three pillars of successful trading. By following these principles, even beginners can move from random trading to reasoned decision-making.

I sincerely hope this book becomes a helpful companion in your trading journey. Let it be your guide when you open your charts, your reference when you spot a pattern, and your motivation when you face challenges.

May this learning journey light your path toward confident, consistent, and informed trading decisions.

(Dr. Manoj Kumar Ray)

Acknowledgement

I am deeply grateful to all the wonderful people who have guided, inspired, and supported me throughout the journey of learning and writing this book.

My initial interest in the stock market began during my earlier posting at Mathura, where **Shri Paul Nalini K. Mohanty**, **Shri Rahul Srivastava**, and **Shri Vikas Bhandari** encouraged me to explore the financial markets. Their discussions sparked my curiosity to understand how investments and market trends work. Later**, Shri R. K. Khare** and **Shri S. B. Bhadoria** further deepened my understanding by sharing valuable insights on identifying quality stocks for long-term investing. **Shri Surendra Kumar Verma** guided me in understanding the concepts and techniques of swing trading, which helped me develop a more practical perspective on market movements and trading psychology. I am also thankful to the many webinars and on-line platforms that offered valuable insights and practical learning.

Also, during my early days at Guwahati, **Shri Narendra Kumar** and **Shri Suraj Kumar** encouraged me to explore candlestick patterns. While **Shri Arun Kumar Swain** guided me how to use *TradingView.com* and **Shri Manoj Nanda**, not only supported me but also motivated me to study candlestick patterns in greater depth, making the learning process much more effective and enjoyable.

I owe my deepest gratitude to my family, whose constant support and motivation kept me going even during challenging times.

I sincerely thank the management of **Indian Oil Corporation Ltd., Mathura Refinery**, for the opportunity to publish this book. I also express my heartfelt appreciation to **BlueRose Publishers** for their guidance and support, and to ***TradingView.com*** for providing the candlestick charts used in this work.

— Dr. Manoj Kumar Ray

How to Use This Book

Learning about candlestick and chart patterns is like learning a new language, the language of market behaviour. This book is designed to help you learn that language step by step, at your own pace, with clarity and confidence. Whether you are completely new to trading or have some basic understanding, following this approach will help you get the best results from each chapter.

1. Begin with Curiosity, Not Pressure

Start with an open mind. You do not have to memorize every pattern in one go. Focus on understanding the logic behind each candle, what it says about the battle between buyers and sellers. Curiosity builds confidence; pressure only builds confusion.

2. Learn One Concept at a Time

Each chapter introduces a specific idea or pattern. Read slowly, visualize the chart, and try to understand *why* a pattern forms, not just *what* it looks like. Learning a few concepts well is far more valuable than reading many without depth.

3. Observe Real Charts

After reading about a candlestick or chart pattern, open your trading app or platform and look for real examples. Observing live charts helps you connect theory with practice. Do not worry if you do not find exact textbook examples, the market is full of variations. Prepare at least 5 examples for each type of candles and chart patterns.

4. Keep a Trading Journal

Maintain a simple notebook or digital file to record what you have learnt. Write down patterns you spot, your observations, and your thoughts. Mainly focus on entry point and stop loss. Over time, this journal will become your personal trading guide and confidence booster.

5. Focus on Understanding, Not Prediction

The goal of this book is not to make you a predictor of markets, but a reader of market behaviour. When you learn to read the signs calmly, your trading decisions naturally become smarter and more consistent.

6. Revisit and Reflect

Repetition builds mastery. Do not hesitate to reread chapters after a few weeks of practice. With each review, your understanding will deepen, and you will start recognizing patterns effortlessly.

7. Combine Knowledge with Discipline

Candlestick and chart analysis is powerful, but it must be supported by discipline, patience, and proper risk management. No pattern guarantees success every time, your consistency is your greatest strength.

By following these steps, this book will not only teach you the patterns but also help you *think like a trader,* calm, observant, and well-prepared.

Keep your mind open, your learning continuous, and your attitude positive. The more you practice, the more fluent you will become in the beautiful language of charts and candles.

— Dr. Manoj Kumar Ray

Contents

Chapter 1
Understanding the Market Mindset

"The stock market is filled with individuals who know the price of everything, but the value of nothing."

— Philip Fisher

Chapter 1
Understanding the Market Mindset

Before learning candlestick shapes or chart patterns, it is important to understand the most powerful force behind every price movement i.e. human emotion. The stock market is not just a place where numbers change; it is a reflection of people's feelings, decisions, and reactions. Every candle on the chart represents that emotion, the excitement of buying, the fear of losing, the hope of recovery, and the greed of chasing profits.

The Market is a Mirror of Human Behaviour

When prices rise sharply, traders become optimistic, they buy more, expecting the rally to continue. When prices fall suddenly, fear takes over, and many rush to sell, even at a loss. This continuous tug of war between buyers (bulls) and sellers (bears) creates the movements we see as candlesticks.

- When *bulls* are strong, prices close higher, forming long green (or white) candles.
- When *bears* dominate, prices close lower, forming long red (or black) candles.
- When neither side wins clearly, small-bodied candles with long wicks appear, showing *indecision* in the market.

These patterns are not random. They are the visual footprints of collective psychology, the heartbeat of the market.

Fear, Greed, and the Trading Cycle

Every market cycle goes through stages driven by emotion:

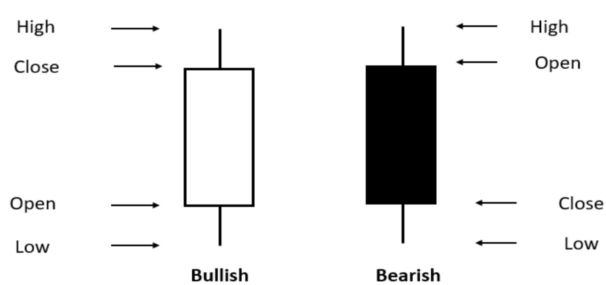
1. **Optimism** – Prices start rising; early buyers feel confident.
2. **Excitement** – More traders join in, pushing prices higher.

3. **Euphoria** – Everyone believes prices will never fall. This is when risk is highest.
4. **Anxiety and Denial** – Prices begin to drop; traders ignore the signs.
5. **Fear and Panic** – Selling intensifies; losses mount.
6. **Capitulation and Despair** – Most traders exit the market, often near the bottom.
7. **Hope and Recovery** – Smart traders start buying again, quietly beginning the next cycle.

Understanding this emotional rhythm helps you recognize *why* certain candlestick and chart patterns appear repeatedly across time and markets.

The Message Behind Every Candle

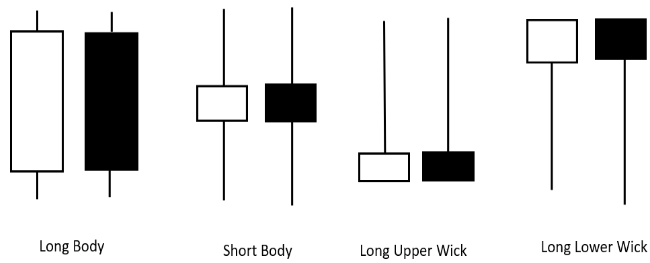
Each candle has four key points i.e. Open, High, Low, and Close (OHLC), that capture a mini battle between buyers and sellers within a time frame (a minute, an hour, a day, a week or a month).



(***Image 1.1:*** *Illustration of bullish and bearish candlesticks – bullish on the left and bearish on the right*)

- A *long body* shows strong conviction, buyers or sellers dominated.
- A *short body* means hesitation or balance.
- A *long upper wick* shows that buyers tried to push prices up but failed.

- A *long lower wick* shows sellers tried to pull prices down but could not keep control.



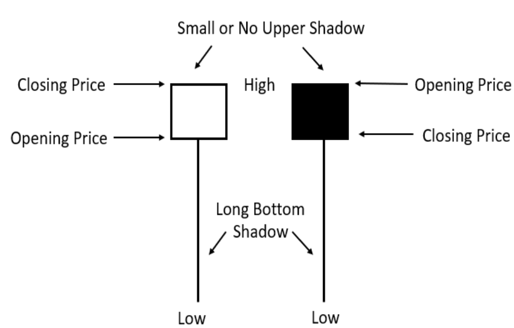
*(**Image 1.2:** Schematic representation of long-body and short-body candles with long upper and lower wicks)*

Learning to read these signs is like learning to read expressions on a person's face, subtle, but full of meaning.

From Emotion to Pattern

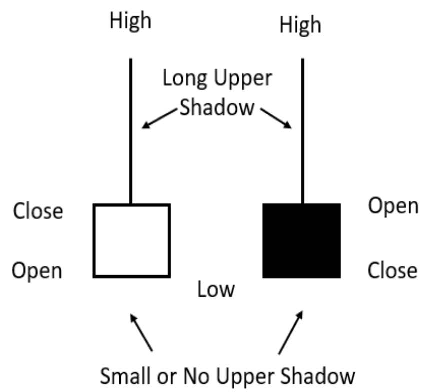
When you combine several candles together, emotions begin to form patterns, signs of reversal, continuation, or indecision. For example:

- A *Hammer* after a decline shows buyers fighting back from lower levels.



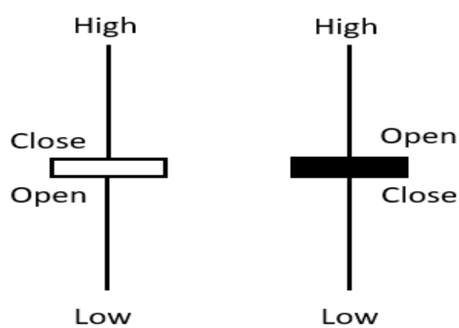
*(**Image 1.3:** Illustration of hammer candlesticks – bullish on the left and bearish on the right)*

- A *Shooting Star* after a rally shows that buyers lost strength near the top.



*(**Image 1.4:** Illustration of shooting star candlesticks – bullish on the left and bearish on the right)*

- A *Doji* shows that both sides paused, waiting for direction.



*(**Image 1.5:** Illustration of Doji candlesticks – bullish on the left and bearish on the right)*

The market leaves these clues every day. The key is to observe them patiently, without rushing into trades.

Why Mindset Matters more than the Method

Even the best trading strategy fails if the mindset behind it is weak. Many beginners lose money not because they lack knowledge, but because they react emotionally. The moment you learn to stay calm, to read the candle before reacting to it, you gain a real edge.

In trading, *discipline is more valuable than prediction*.

Charts show you *possibilities*; discipline helps you *choose wisely*.

Takeaway

Before you move to the next chapters and start learning about candlesticks and chart patterns, remember this:

"*The market doesn't move because of numbers; it moves because of people*."

When you understand people's emotions through candles, you understand the market itself. Every chart becomes a story, every candle a sentence, and every pattern a paragraph in that story.

In the next chapter, we will begin reading that story in detail, starting with the building block of all price action: *the candlestick*.

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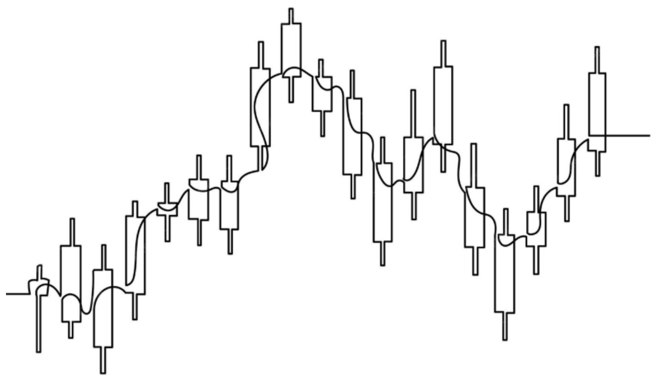
Chapter 2
Basics of Candlesticks



"Everything you need to know is reflected in the price."

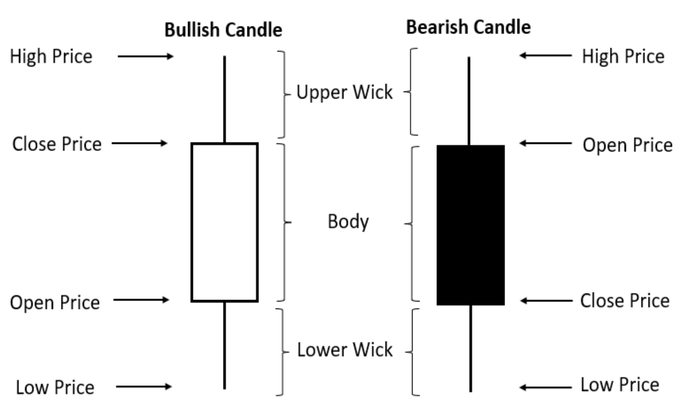
— Jesse Livermore

Chapter 2
Basics of Candlesticks

In Chapter – 1, we learnt how to see the market as a reflection of human emotion, Chapter - 2 shows you how to read that emotion in its simplest form: *the candlestick*. Candlesticks are the building blocks of price action, short stories about what traders felt and how they acted during a specific period. Understanding them is the first step toward reading charts confidently.

What is a Candlestick

A candlestick is a visual representation of price movement for a specific time frame, it could be a minute, an hour, a day, a week, or even a month. Each candle tells a story of *who was in control* during that period: *buyers (bulls)* or *sellers (bears)*.



(***Image 2.1:*** *Illustration of bullish and bearish candlesticks – bullish on the left and bearish on the right)*

Every candlestick has *four essential points*, often called OHLC:

1. **Open** – The price at which trading started for the period.
2. **High** – The highest price reached during the period.

3. **Low** – The lowest price reached during the period.
4. **Close** – The price at which trading ended for the period.

These four points are combined visually to form the candle's *body* and *wicks (shadows)*.

- **Body**: The rectangular part of the candle. It shows the difference between the open and close price.
- **Upper Wick (Shadow)**: The line above the body, representing the highest price reached.
- **Lower Wick (Shadow)**: The line below the body, representing the lowest price reached.

Bullish vs. Bearish Candles

Candles are often coloured to indicate direction (Refer Image 2.1):

- **Bullish Candle**: When the close price is higher than the open price. It shows buyers dominated. Usually coloured green or white.
- **Bearish Candle**: When the close price is lower than the open price. It shows sellers dominated. Usually coloured red or black.

A long body indicates strong conviction, while a short body indicates indecision. Similarly, long wicks reveal rejection at higher or lower levels, hinting at possible reversals or hesitation.

Common Types of Candles

1. **Marubozu** – A candle without wicks; the open and close are the extremes. It shows strong momentum.
2. **Doji** – Open and close are almost the same. It represents indecision and a possible reversal.
3. **Hammer** – A small body with a long lower wick. Appears at the bottom of a downtrend, signalling potential buying pressure.

4. **Shooting Star** – A small body with a long upper wick. Appears at the top of an uptrend, signalling potential selling pressure.

5. **Spinning Top** – Small body with long wicks on both sides. Shows a balance between buyers and sellers.

Each candle tells a story, sometimes a single word, sometimes a sentence, about what traders were feeling during that period.

Note: The details of different Candles are discussed in next Chapter.

Why Candlesticks Matter

Candlesticks are the foundation of all chart patterns. Before you can spot patterns, you need to understand what each candle is saying. Once you do, you can begin to anticipate potential moves, confirm trends, and trade with confidence rather than guesswork.

Practical Tips for Beginners

- Observe *one chart every day* and try to identify bullish and bearish candles.
- Note long bodies, wicks, and Dojis. Ask yourself: *Who controlled this period, buyers, or sellers?*
- Over time, your eyes will naturally spot patterns, before you even think about them.

Takeaway

Candlesticks are not just shapes; they are messages. They show where the market was, where it might go, and who was in control along the way. Mastering them is the first step toward reading the bigger story in charts.

In the next chapter, we will explore *Single Candlestick Patterns*, where we will discuss how one candle can hint at possible trend reversals or continuations.

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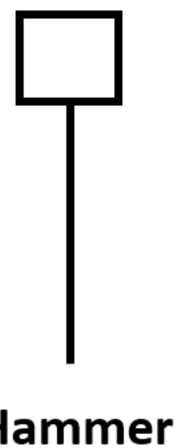
Chapter 3
Single Candlestick Patterns



"Patience and discipline are the cornerstones of successful trading."

— Ray Dalio

Chapter 3
Single Candlestick Patterns

Now that you understand the basics of candlesticks, it is time to explore how a *single candle can tell a powerful story* about market behaviour. Single candlestick patterns are often the first clue that a trend may continue or reverse. By learning these patterns, you begin to anticipate potential market moves even before a full trend unfolds.

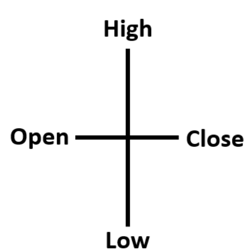
Why Single Candlestick Patterns Matter

A single candle is like a snapshot of market psychology. It shows who was in control during that period, buyers, or sellers, and how strongly they pushed prices. Even one candle can hint at changes in momentum or upcoming reversals, making it an essential tool for beginners and experienced traders alike.

a) Neutral Candlesticks

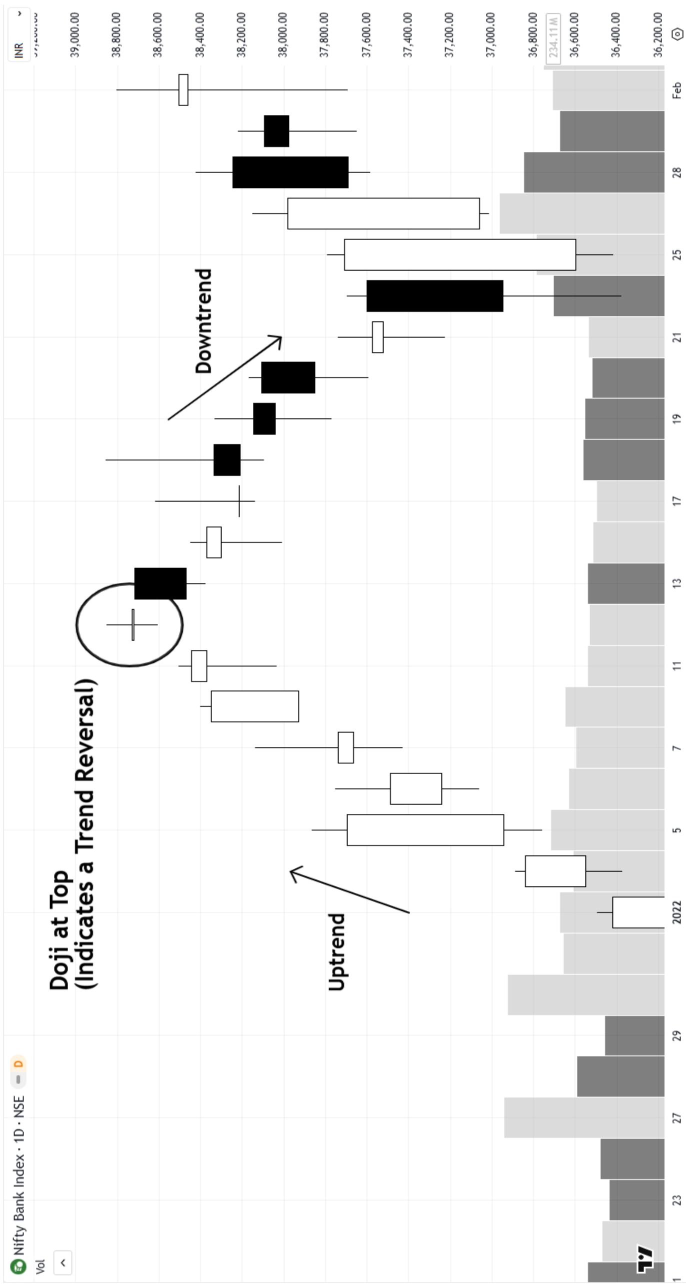
1. Doji

- **Appearance:** Open and close are almost the same, forming a tiny body.



(***Image 3.1:*** *Schematic representation of a Doji candlestick)*

- **Meaning:** Indecision. Neither buyers nor sellers dominated.
- **Where to Look:** Often appears at the top or bottom of trends.
- **Interpretation:** If a Doji appears after a strong uptrend, it could signal a possible reversal. Similarly, after a downtrend, it could indicate that selling pressure is weakening.



***(Image 3.2:** Daily candlestick chart of the Nifty Bank Index illustrating a Doji at top)*

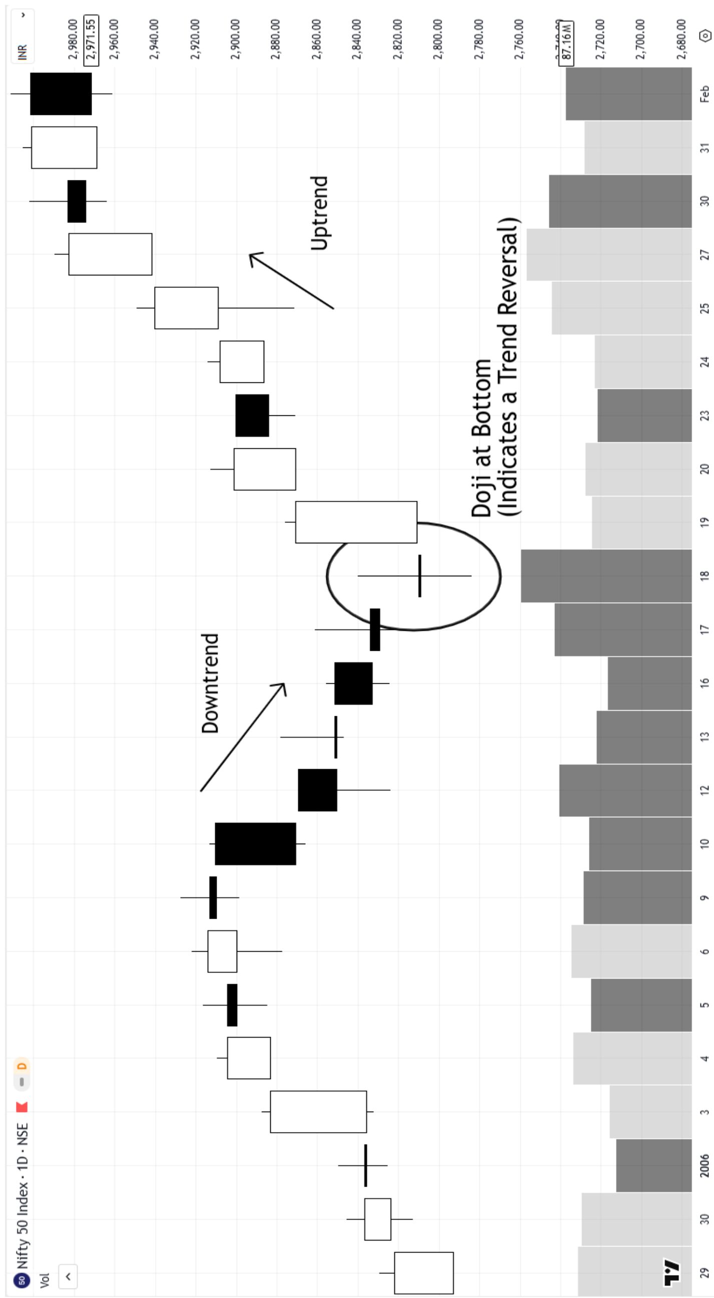
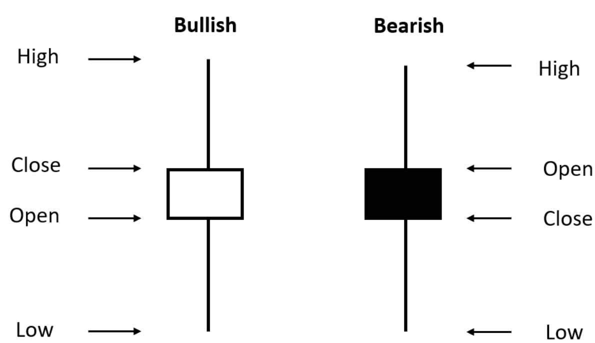


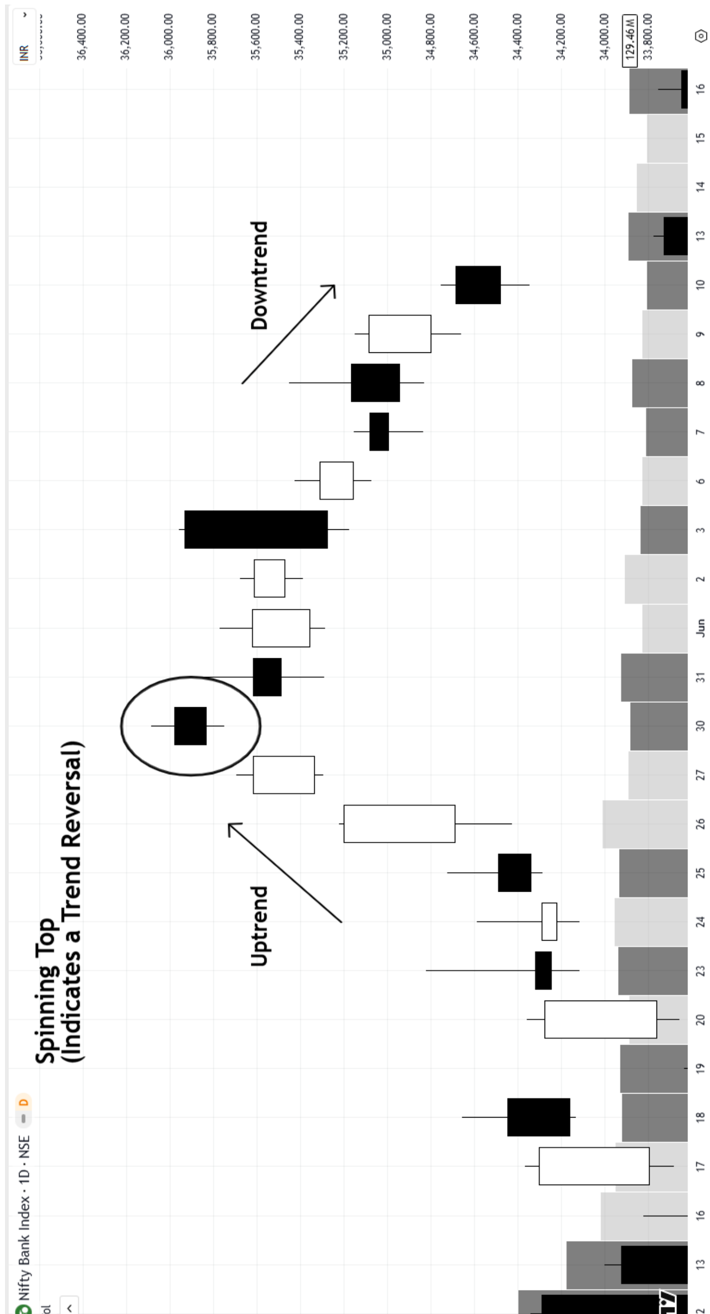
Image 3.3: *Daily candlestick chart of the Nifty 50 Index illustrating a Doji at bottom)*

2. Spinning Top

- **Appearance:** Small body with long upper and lower wicks.
- **Meaning:** Market indecision; buyers and sellers are in balance.
- **Where to Look:**
  - ✓ Within uptrends or downtrends during pauses.
  - ✓ After a strong move (up or down).
  - ✓ Near key support/resistance zones.
- **Interpretation:** Appears during trend pauses and signals potential sideways movement or trend reversal.



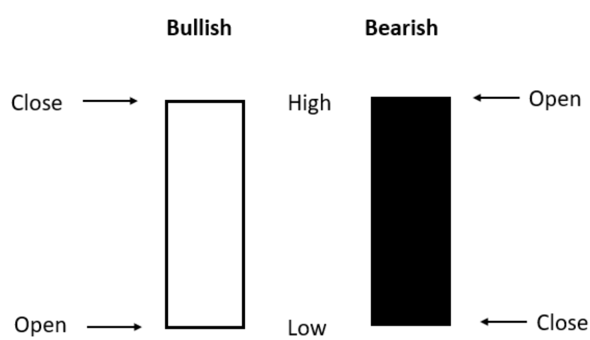
(***Image 3.4:*** *Illustration of spinning top candlesticks – bullish on the left and bearish on the right)*



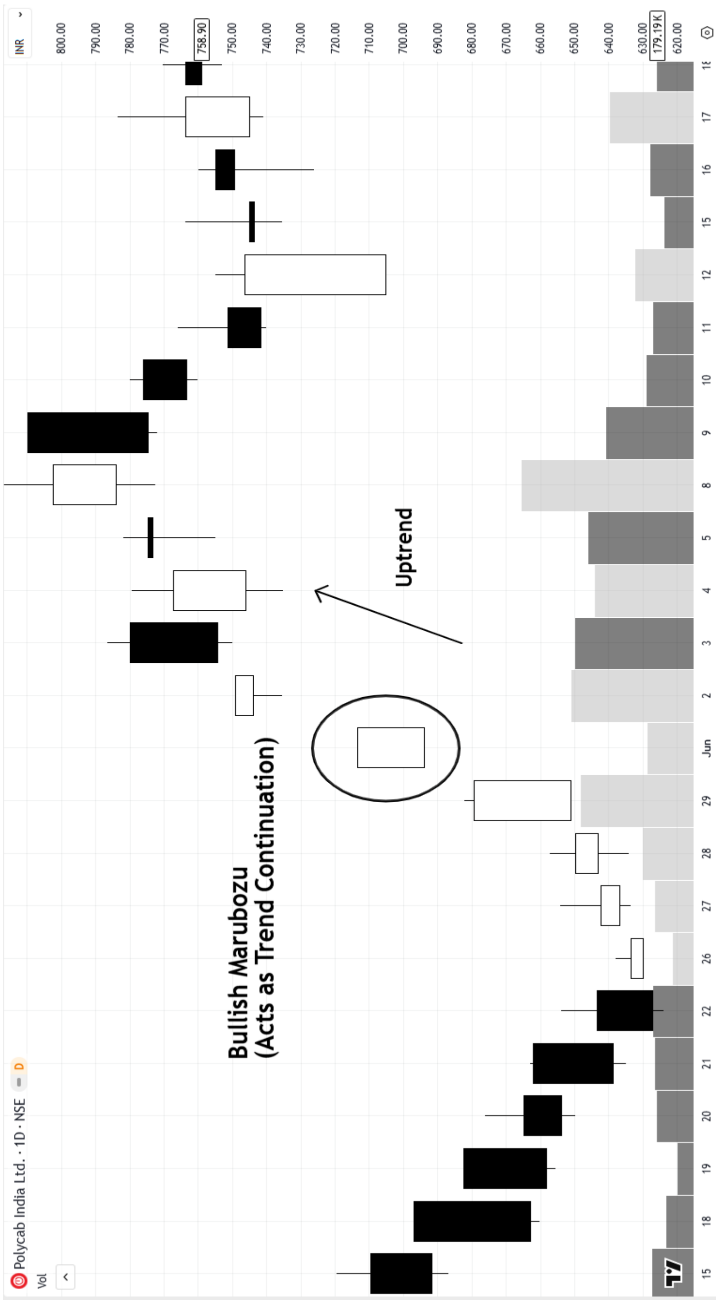
***(Image 3.5:** Daily candlestick chart of Nifty Bank Index illustrating a Spinning Top)*

3. Marubozu

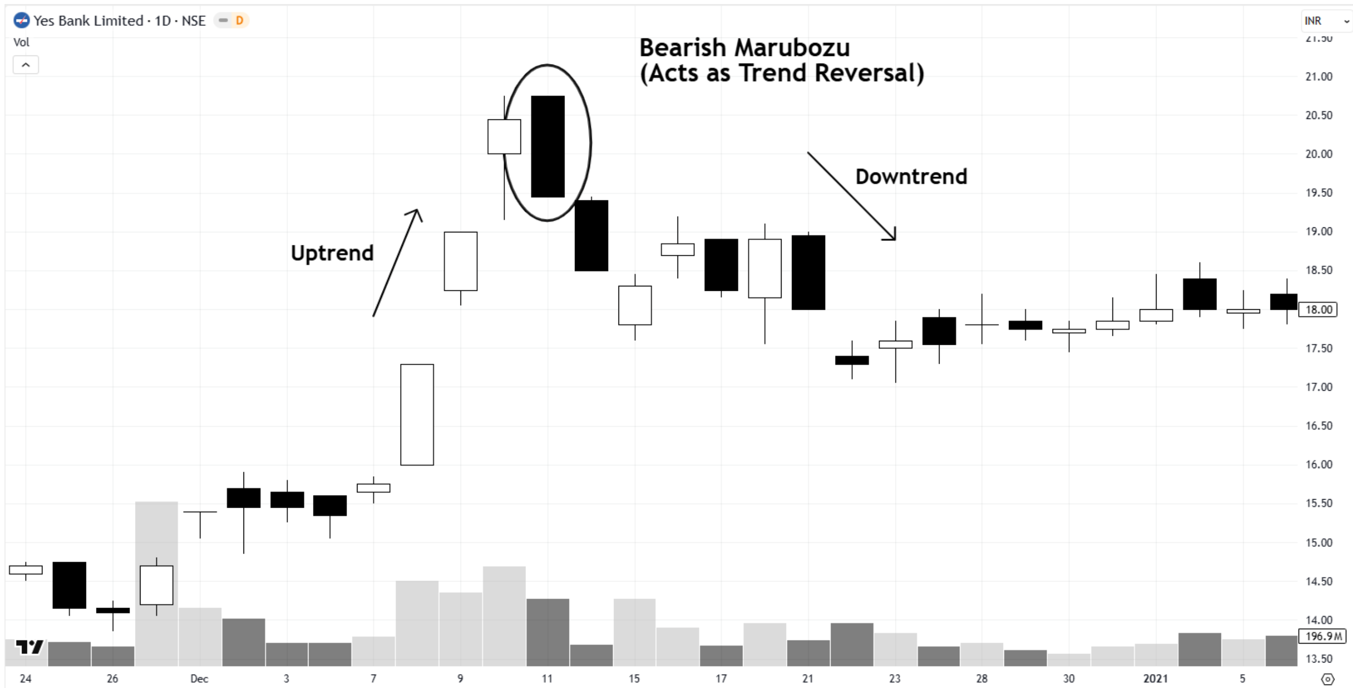
- **Appearance:** Full-bodied candle with little or no wick.
- **Meaning:** Strong momentum, bullish if green (white), bearish if red (black).
- **Where to Look:**
  - ✓ During trend initiation or continuation.
  - ✓ At breakout points from key support/ resistance.
  - ✓ After consolidation phases.
- **Interpretation:** Shows clear dominance by buyers or sellers. Often used to confirm trend continuation.



*(**Image 3.6:** Illustration of Marubozu candlesticks – bullish on the left and bearish on the right)*



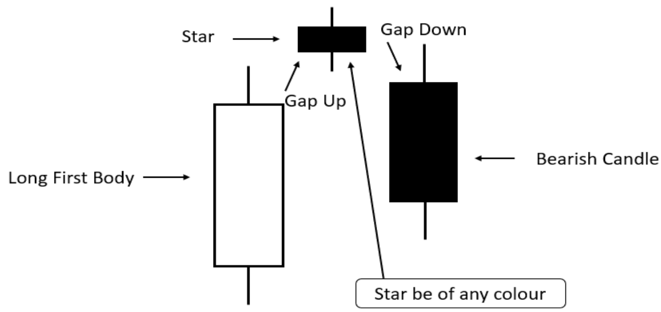
(Image 3.7: Daily candlestick chart of Polycab India Ltd. illustrating a Bullish Marubozu)



(***Image 3.8:*** *Daily candlestick chart of Yes Bank Ltd. illustrating a Bearish Marubozu)*

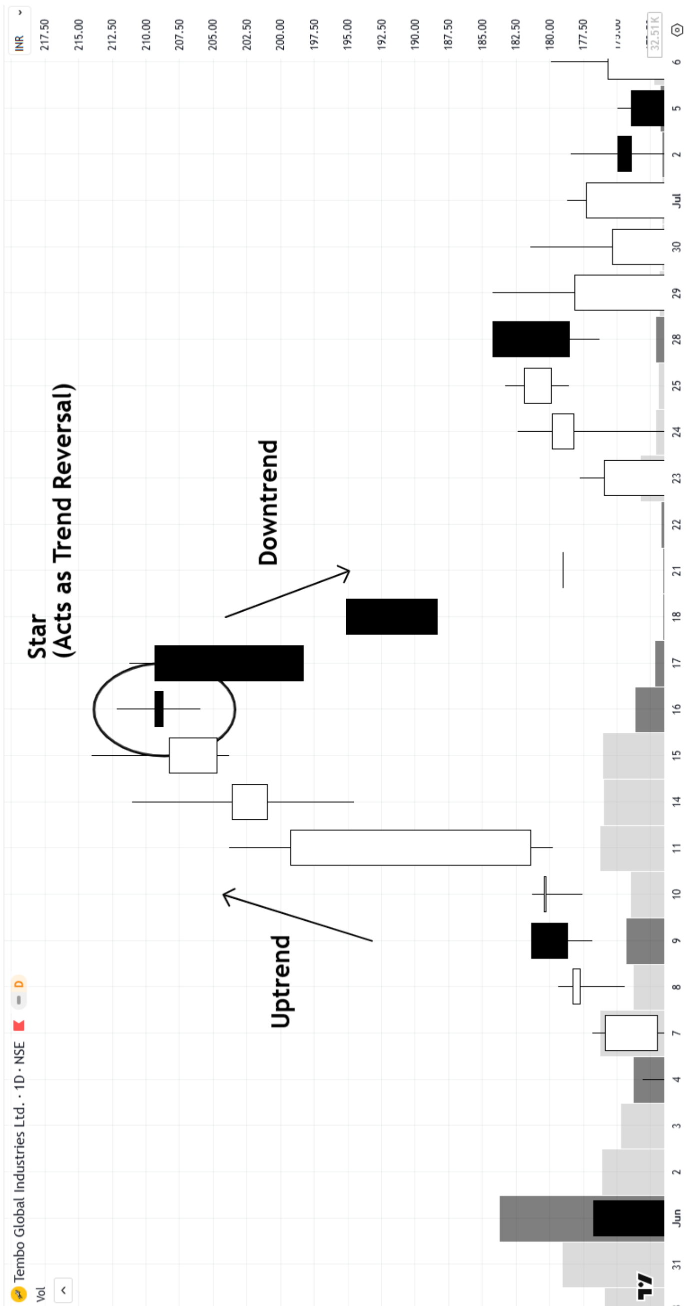
4. Star

- **Appearance:** A Small-bodied candle appearing after a long candle, with a noticeable gap between their bodies.



*(**Image 3.9:** Schematic representation of a Star candlestick at the top)*

- **Meaning:** Indicates market indecision or a possible pause in the ongoing trend.
- **Where to Look:** After trend extremes, uptrend or downtrend.
- **Interpretation:** Suggests potential trend reversal or consolidation; confirmation from the next candle is essential before taking a position.

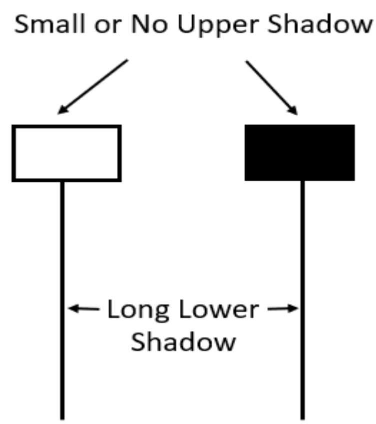


*(**Image 3.10:** Daily candlestick chart of Tembo Global Industries Ltd. illustrating a Star)*

b) Key Single Candlesticks

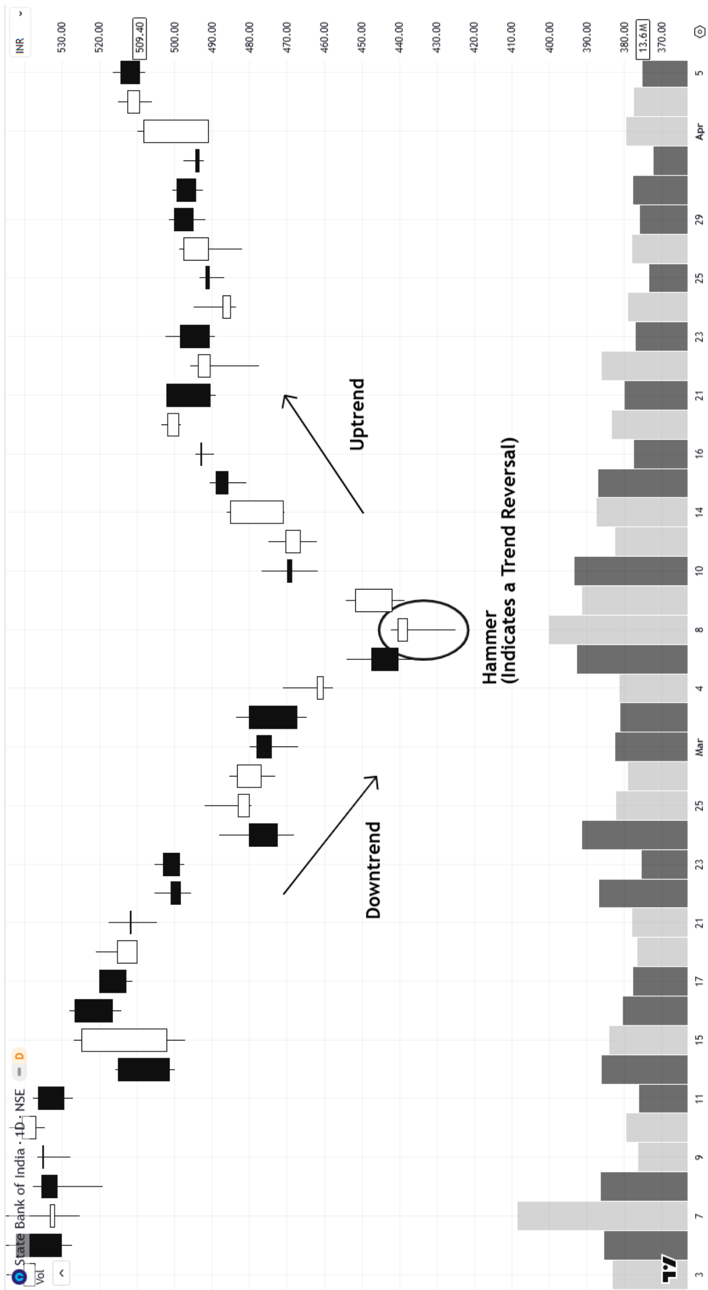
1. Hammer

- **Appearance:** Small body at the top with a long lower wick.



*(**Image 3.11:** Illustration of hammer candlesticks – bullish on the left and bearish on the right)*

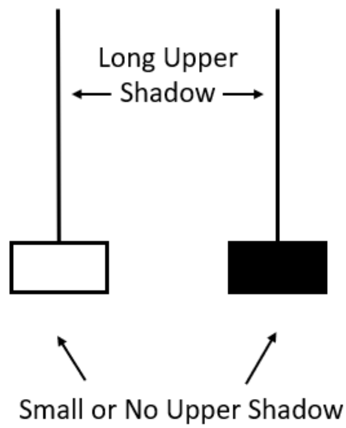
- **Meaning:** Buyers are starting to fight back after a downtrend.
- **Where to Look:** Bottom of a downtrend.
- **Interpretation:** Suggests potential trend reversal upward. The longer the lower wick, the stronger the buying pressure.



***(Image 3.12:** Daily candlestick chart of State Bank of India illustrating a Hammer)*

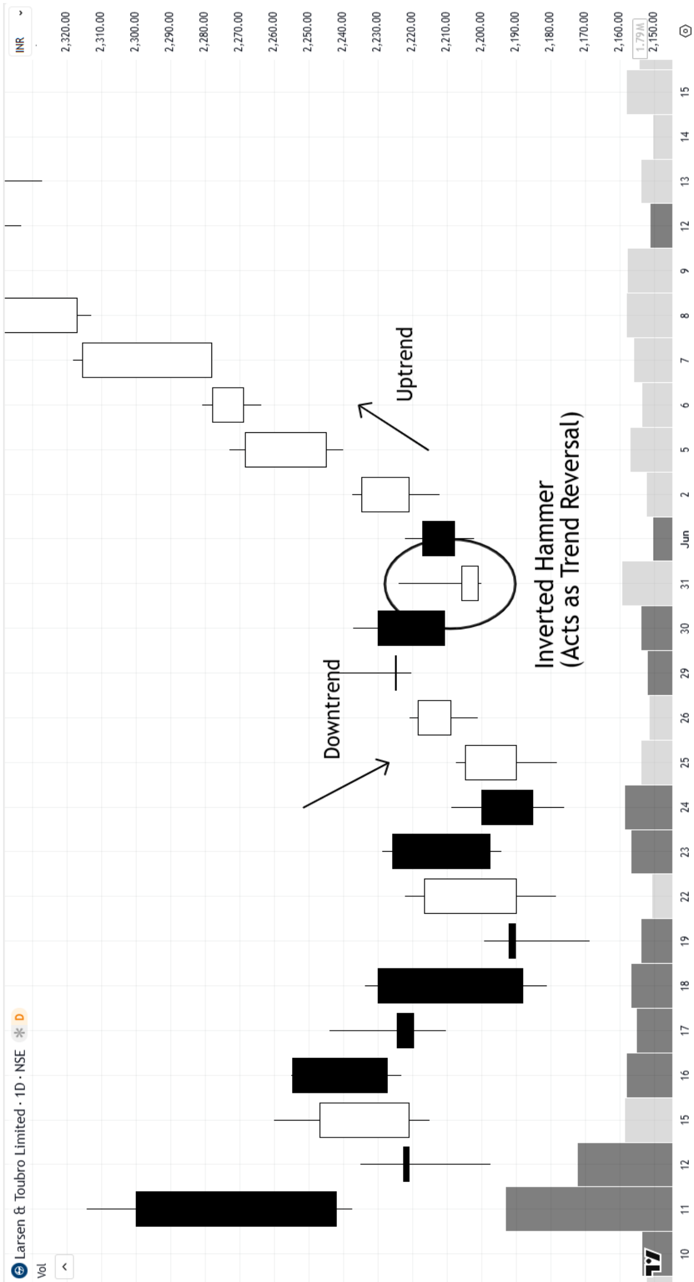
2. Inverted Hammer

- **Appearance:** Small body with a long upper wick and little or no lower wick, appearing after a downtrend.



*(**Image 3.13:** Illustration of inverted hammer candlesticks – bullish on the left and bearish on the right)*

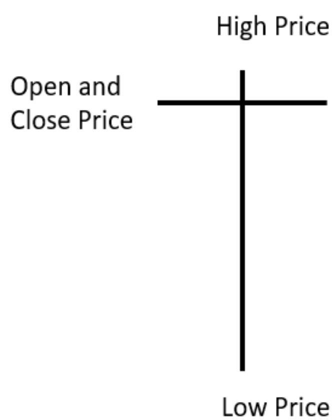
- **Meaning:** Signals buying pressure emerging after initial selling.
- **Where to Look:** After a downtrend, near support.
- **Interpretation:** Indicates potential bullish reversal; confirmation with a bullish candle strengthens the signal.



***(Image 3.14:** Daily candlestick chart of Larsen and Toubro Ltd. illustrating an Inverted Hammer)*

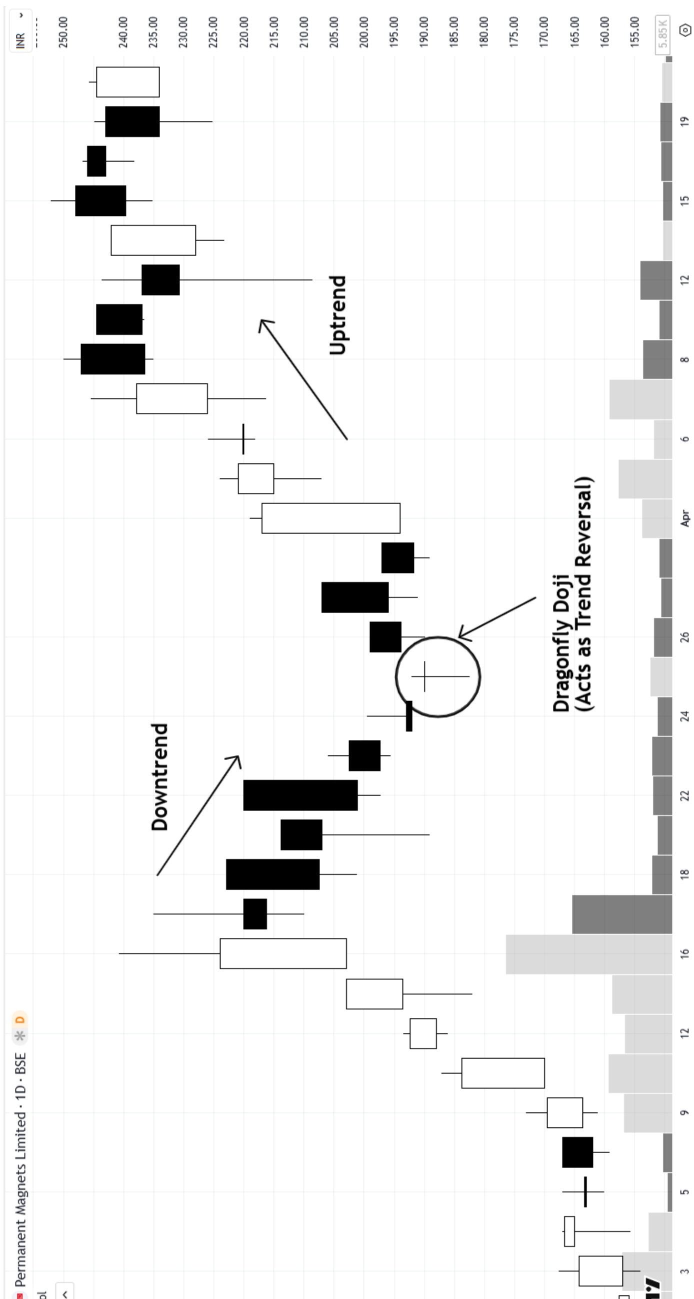
3. Dragonfly Doji

- **Appearance:** Open, high, and close occur near the same level with a long lower shadow and small/no upper shadow.



*(**Image 3.15:** Schematic representation of a Dragonfly Doji candlestick)*

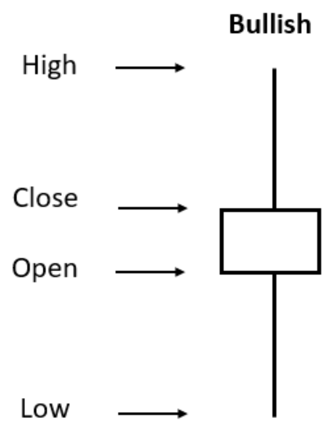
- **Meaning:** Shows strong rejection of lower prices and possible shift in sentiment.
- **Where to Look:** After a downtrend, near support.
- **Interpretation:** Suggests potential bullish reversal when appearing after a decline, needing confirmation from the next candle.



(Image 3.16: *Daily candlestick chart of Permanent Magnets Ltd. illustrating a Dragonfly Doji)*

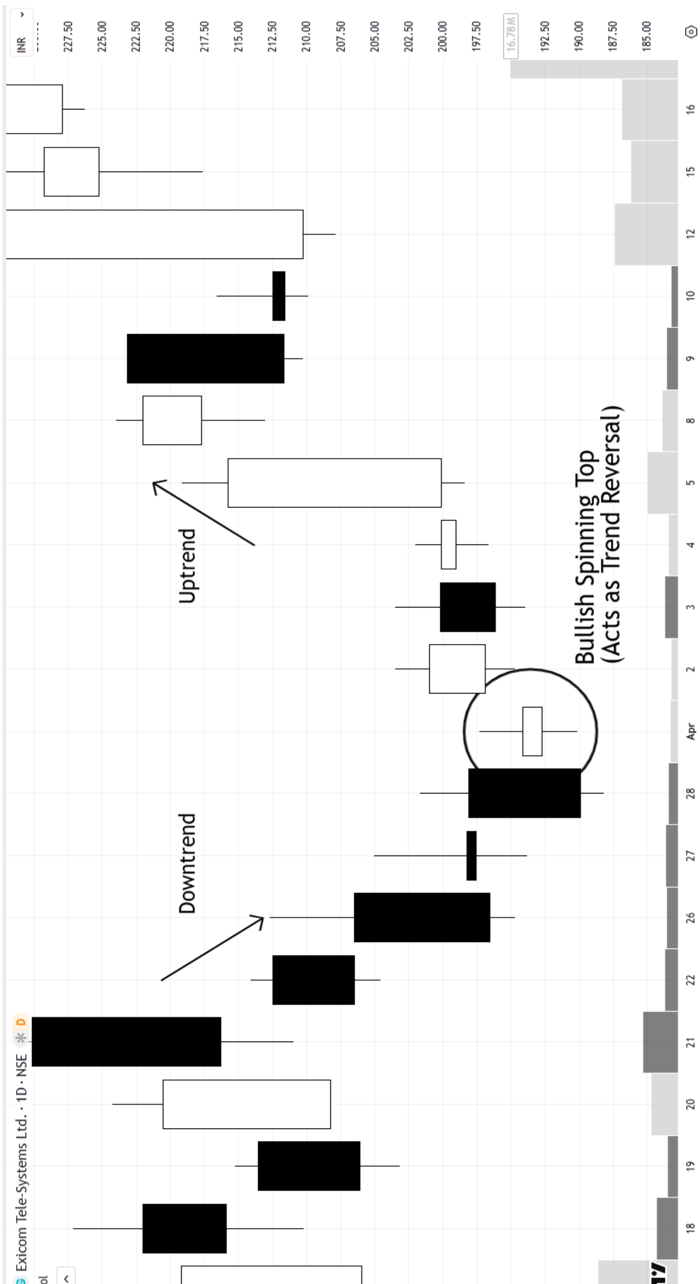
4. Bullish Spinning Top

- **Appearance:** Small real body with both upper and lower wicks, appearing after a downtrend.



*(**Image 3.17:** Schematic representation of a Bullish Spinning Top candlestick)*

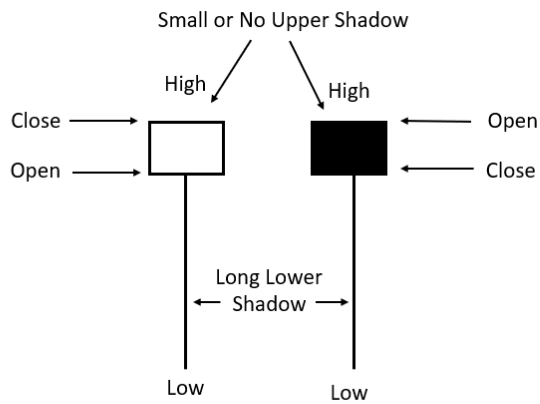
- **Meaning:** Represents indecision with signs of buying interest emerging.
- **Where to Look:** After a downtrend, near support.
- **Interpretation:** Indicates possible trend reversal or pause; confirmation by a bullish candle improves reliability.



(Image 3.18: *Daily candlestick chart of Exicom Tele-Systems Ltd. illustrating a Bullish Spinning Top)*

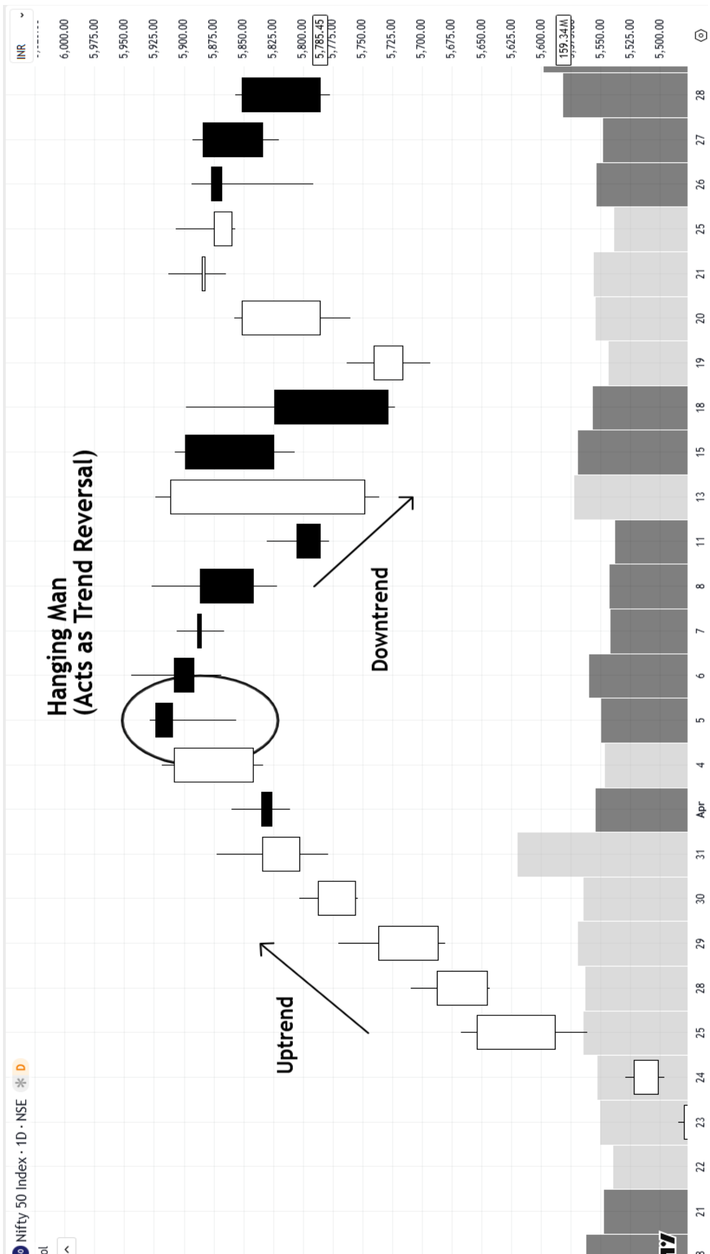
5. Hanging Man

- **Appearance:** Similar to Hammer but appears after an uptrend.



*(**Image 3.19:** Illustration of Hanging man candlesticks – bullish on the left and bearish on the right)*

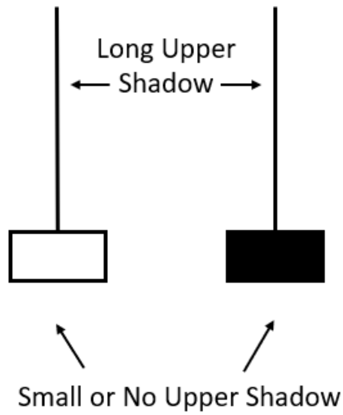
- **Meaning:** Sellers are testing the market; buying strength is weakening.
- **Where to Look:** After an uptrend, near resistance.
- **Interpretation:** Could signal a potential downward reversal if confirmed by the next candle.



(Image 3.20: *Daily candlestick chart of the Nifty 50 Index illustrating a Hanging Man)*

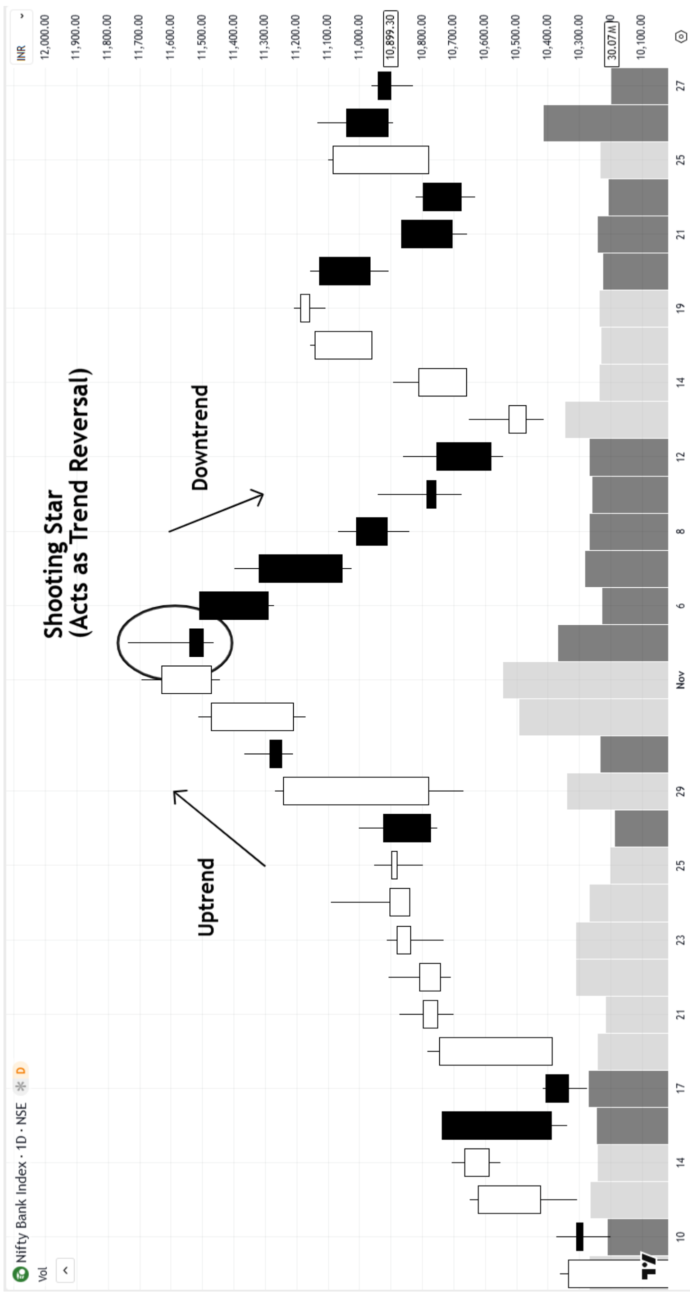
6. Shooting Star

- **Appearance:** Small body at the bottom with a long upper wick.



*(**Image 3.21:** Illustration of Shooting star candlesticks – bullish on the left and bearish on the right)*

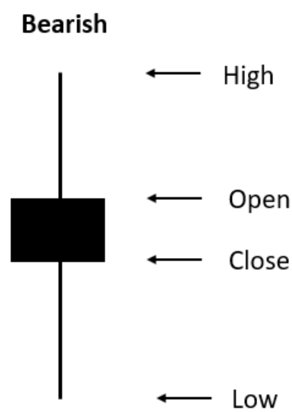
- **Meaning:** Buyers pushed prices up but lost control to sellers.
- **Where to Look:** After an uptrend.
- **Interpretation:** Indicates potential downward reversal. The longer the upper wick, the stronger the selling pressure.



(Image 3.22: *Daily candlestick chart of Nifty Bank Index illustrating a Shooting Star)*

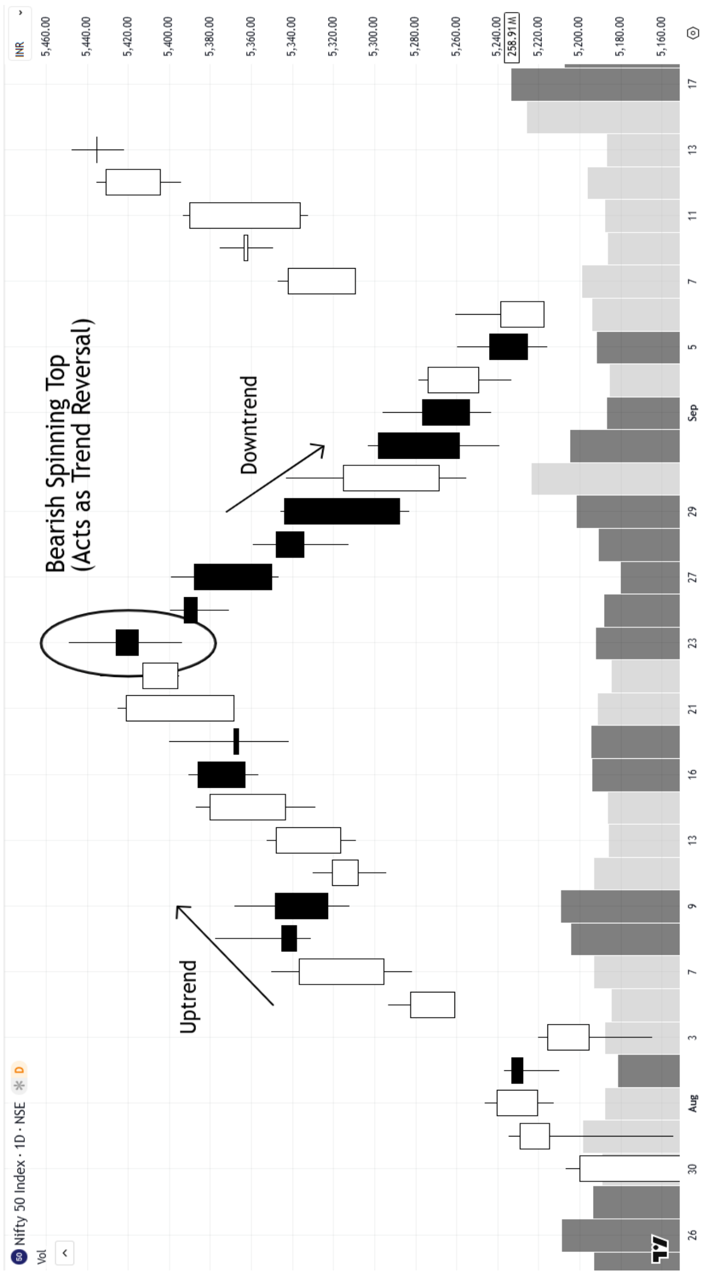
7. Bearish Spinning Top

- **Appearance:** Small real body with upper and lower wicks, appearing after an uptrend.



*(**Image 3.23:** Schematic representation of a Bearish Spinning Top candlestick)*

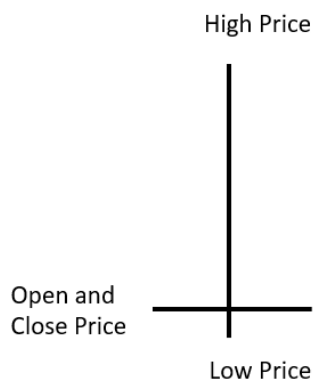
- **Meaning:** Shows market indecision with signs of selling pressure.
- **Where to Look:** After an uptrend, near resistance.
- **Interpretation:** Indicates possible trend reversal or pause; confirmation by a bearish candle improves reliability.



***(Image 3.24:** Daily candlestick chart of Nifty 50 Index illustrating a Bearish Spinning Top)*

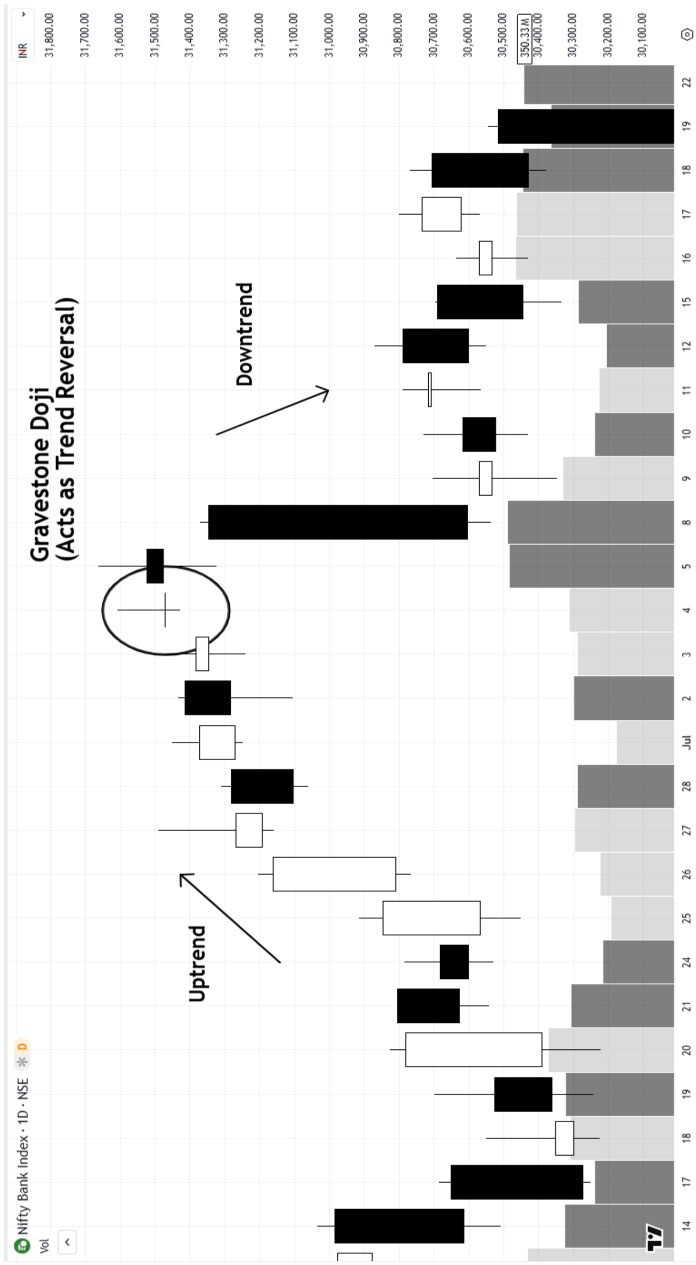
8. Gravestone Doji

- **Appearance:** Open, low, and close occur near the same level with a long upper shadow and small/no lower shadow.



*(**Image 3.25:** Schematic representation of a Gravestone Doji candlestick)*

- **Meaning:** Signals rejection of higher prices and potential shift toward selling.
- **Where to Look:** After an uptrend, near resistance.
- **Interpretation:** Suggests possible bearish reversal when appearing after an uptrend; confirmation from the next candle is recommended.



***(Image 3.26:** Daily candlestick chart of Nifty Bank Index illustrating a Gravestone Doji)*

Practical Tips for Beginners

1. **Observe Daily:** Watch charts daily and try to spot these patterns in real time.
2. **Look at Context:** A Hammer or Shooting Star is more meaningful when combined with trend direction or support/resistance levels.
3. **Wait for Confirmation:** Do not trade immediately. Look at the next candle to confirm the pattern's message.
4. **Combine with Discipline:** Single candles give clues, not guarantees. Always manage risk and avoid emotional trading.

Takeaway

Single candlestick patterns are like individual words in the story of the market. Each tells you something about current sentiment and potential future movements. By learning to read them carefully, you gain an early advantage in understanding trends, reversals, and market psychology.

In the next chapter, we will explore *Double Candlestick Patterns*, where combinations of two candles provide even stronger signals for potential trading opportunities.

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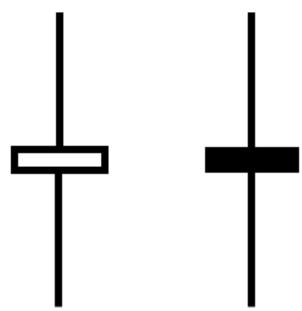
Chapter 4
Double Candlestick Patterns



Spinning Tops

"An investor without investment objectives is like a traveller without a destination."

— Ralph Seger

Chapter 4
Double Candlestick Patterns

If single candlesticks are like words in the market's story, double candlestick patterns are *short sentences*, giving more context, clarity, and often stronger signals about the next move. By observing two consecutive candles, traders can better understand the shift in momentum between buyers and sellers.

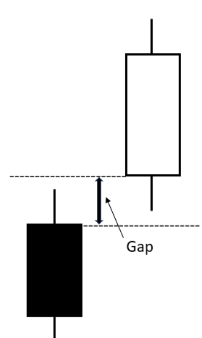
Why Double Candlestick Patterns Matter

While a single candle shows a snapshot, two candles together reveal the *interaction* between market forces. They highlight changes in sentiment, the struggle for control, and the likelihood of reversals or trend continuations. For beginners, learning these patterns can greatly improve confidence and decision-making.

Key Double Candlestick Patterns

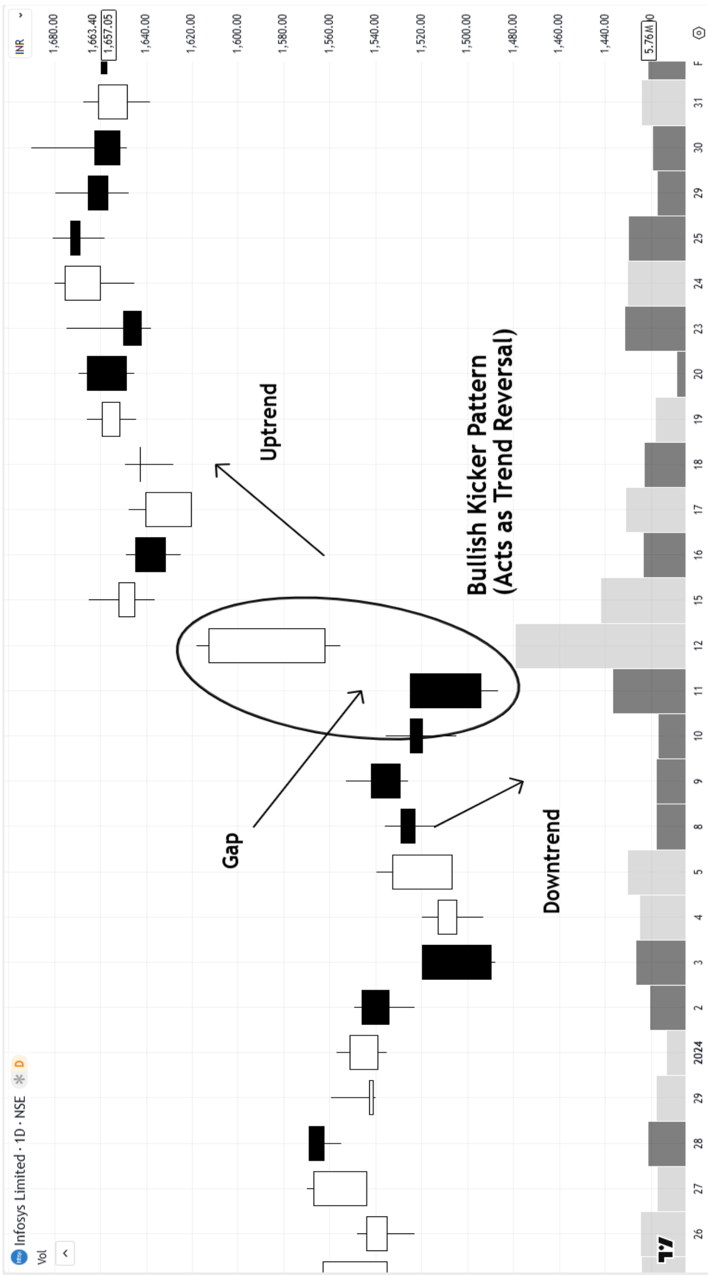
1. Bullish Kicker

- **Appearance:** Sharp reversal pattern where a bullish candle gaps up from a preceding bearish candle.



*(**Image 4.1:** Schematic representation of a Bullish Kicker candlestick pattern)*

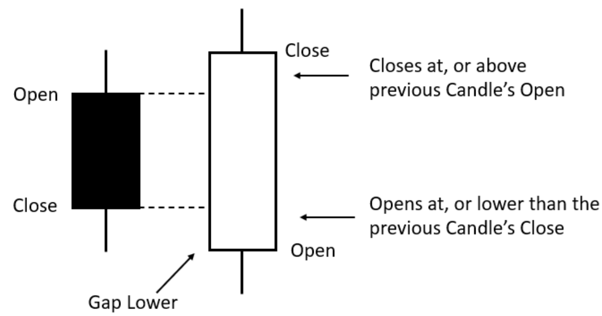
- **Meaning:** Shows sudden and strong buying momentum.
- **Where to Look:** After a downtrend or bearish trend exhaustion.
- **Interpretation:** Indicates a decisive trend reversal from bearish to bullish.



*(**Image 4.2:** Daily candlestick chart of Infosys Limited illustrating a Bullish Kicker pattern)*

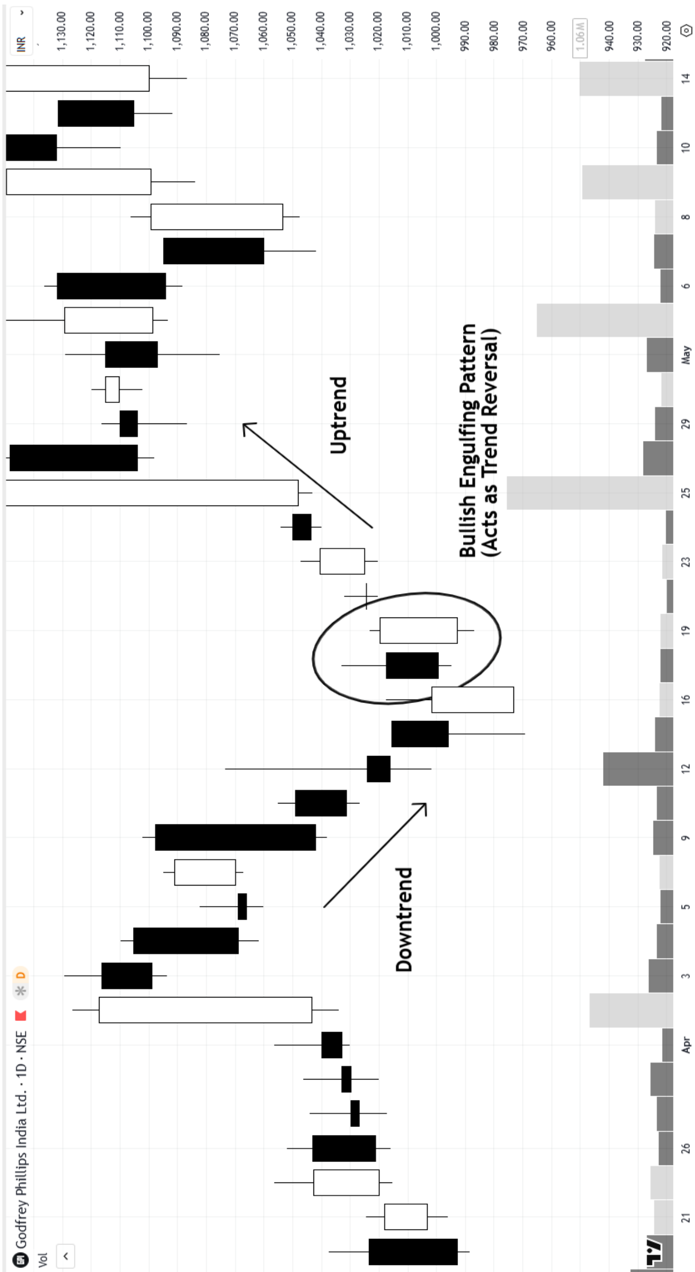
2. Bullish Engulfing

- **Appearance:** A small bearish candle followed by a larger bullish candle that completely "engulfs" the first candle's body.



*(**Image 4.3:** Schematic representation of a Bullish Engulfing candlestick pattern)*

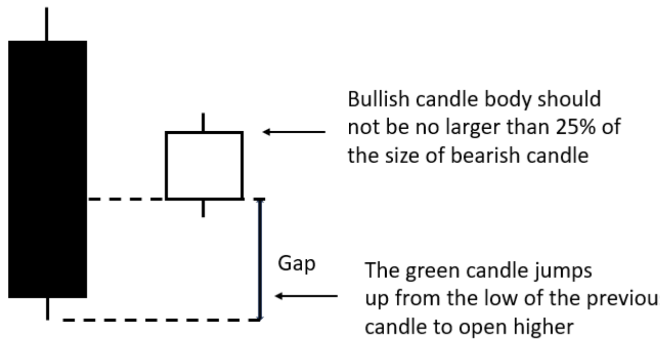
- **Meaning:** Buyers have overpowered sellers; trend may reverse upward.
- **Where to Look:** After a downtrend.
- **Interpretation:** Signals strong buying pressure and potential trend reversal.



***(Image 4.4:** Daily candlestick chart of Godfrey Phillips India Ltd. illustrating a Bullish Engulfing pattern)*

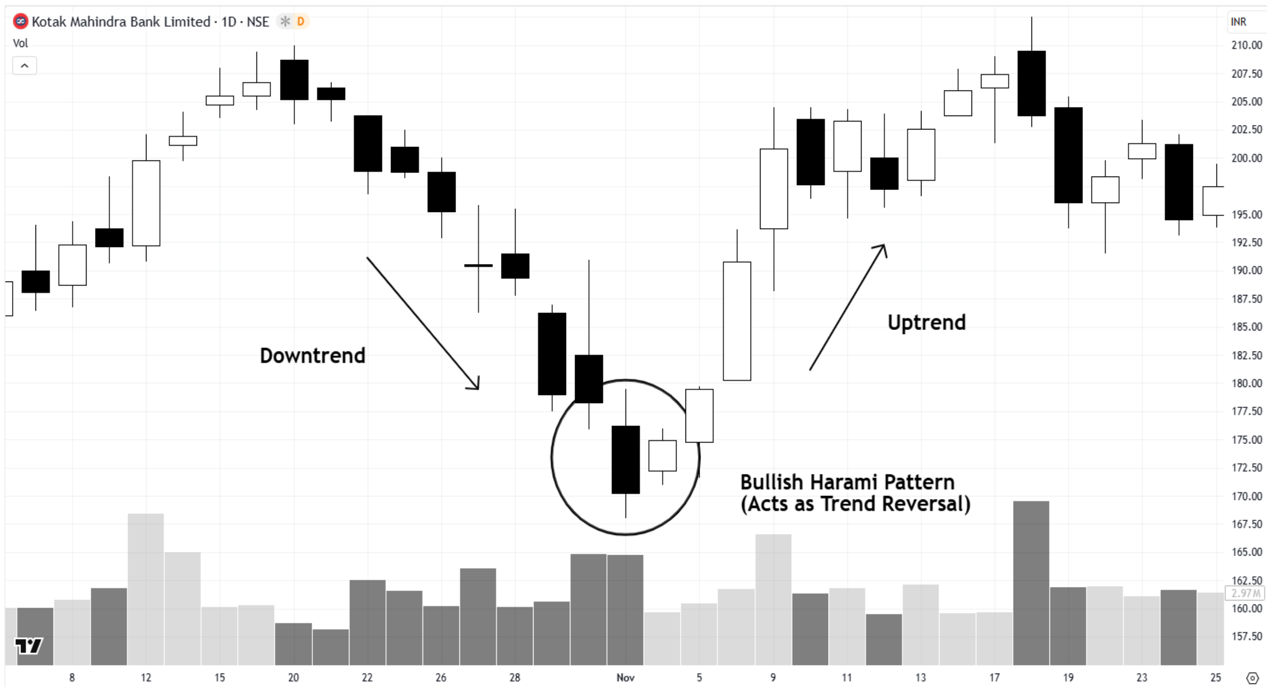
3. Bullish Harami

- **Appearance:** Two-candle pattern in a downtrend; a small bullish candle is completely contained within a preceding large bearish candle.



*(**Image 4.5:** Schematic representation of a Bullish Harami candlestick pattern)*

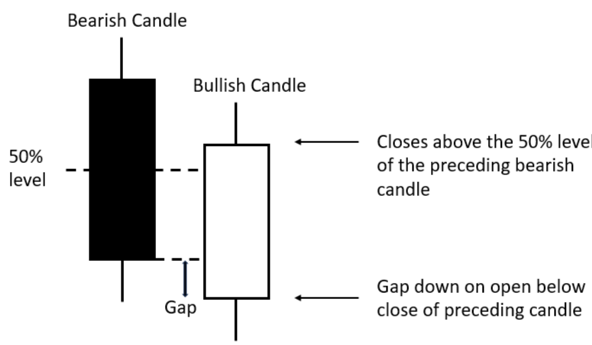
- **Meaning:** Indicates weakening selling pressure and a possible shift toward bullish sentiment.
- **Where to Look:** After a downtrend, near support.
- **Interpretation:** Suggests potential trend reversal; confirmation with a bullish close above the pattern strengthens the signal.



(***Image 4.6:*** *Daily candlestick chart of Kotak Mahindra bank Ltd. illustrating a Bullish Harami pattern*)

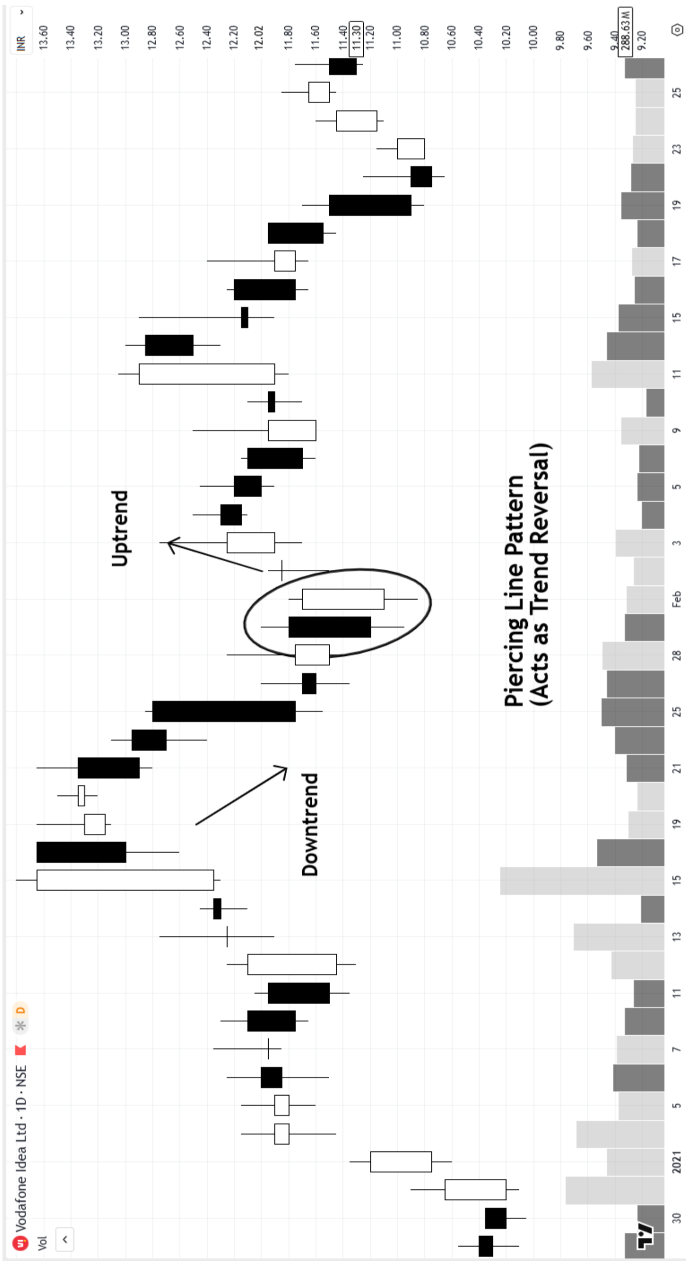
4. Piercing Line

- **Appearance:** After a downtrend, a bearish candle is followed by a bullish candle that opens lower but closes above the midpoint of the first candle.



*(**Image 4.7:** Schematic representation of a Piercing Line candlestick pattern)*

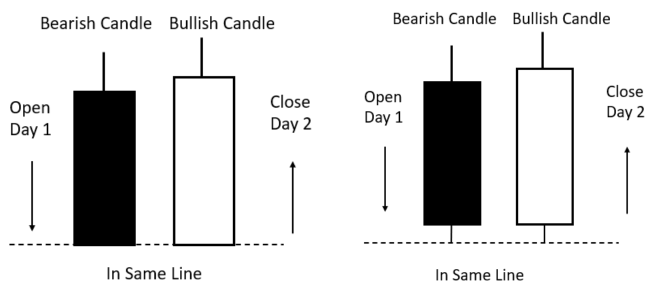
- **Meaning:** Buyers are regaining control.
- **Where to Look:** After a downtrend.
- **Interpretation:** Signals potential upward reversal. Stronger if combined with support levels.



(Image 4.8: *Daily candlestick chart of Vodafone Idea Ltd. illustrating a Piercing Line pattern)*

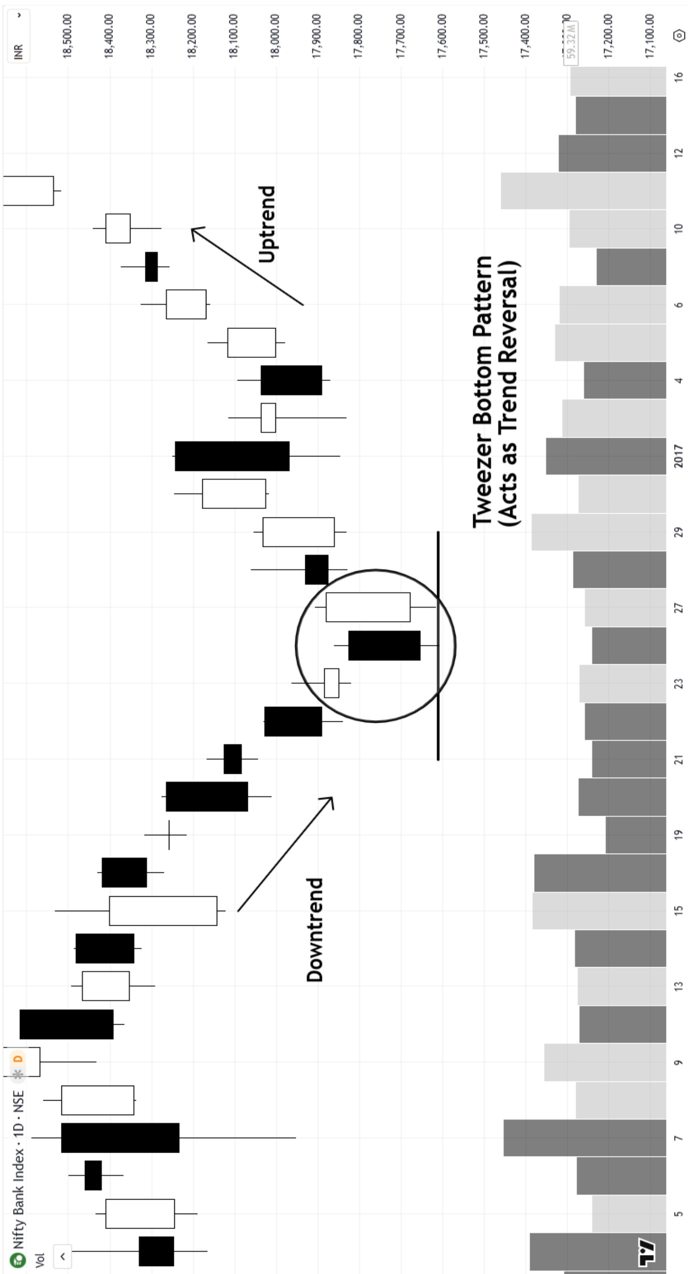
5. Tweezer Bottom

- **Appearance:** Two candles with nearly equal lows (tweezer bottom).



*(**Image 4.9:** Schematic representation of Tweezer Bottom Candlestick Pattern)*

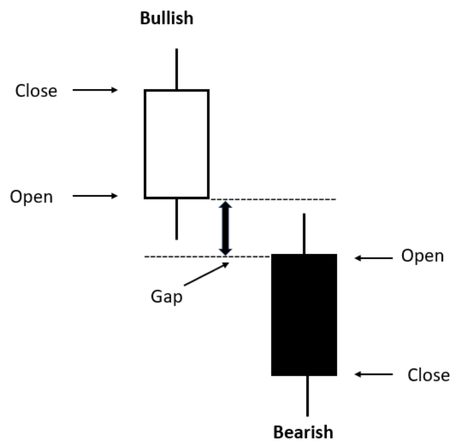
- **Meaning:** Indicates a possible reversal after testing the same level twice.
- **Where to Look:** After a downtrend, near support.
- **Interpretation:** Shows rejection of price levels, a hint that trend may change.



(Image 4.10: *Daily candlestick chart of Nifty Bank Index illustrating a Tweezer Bottom pattern)*

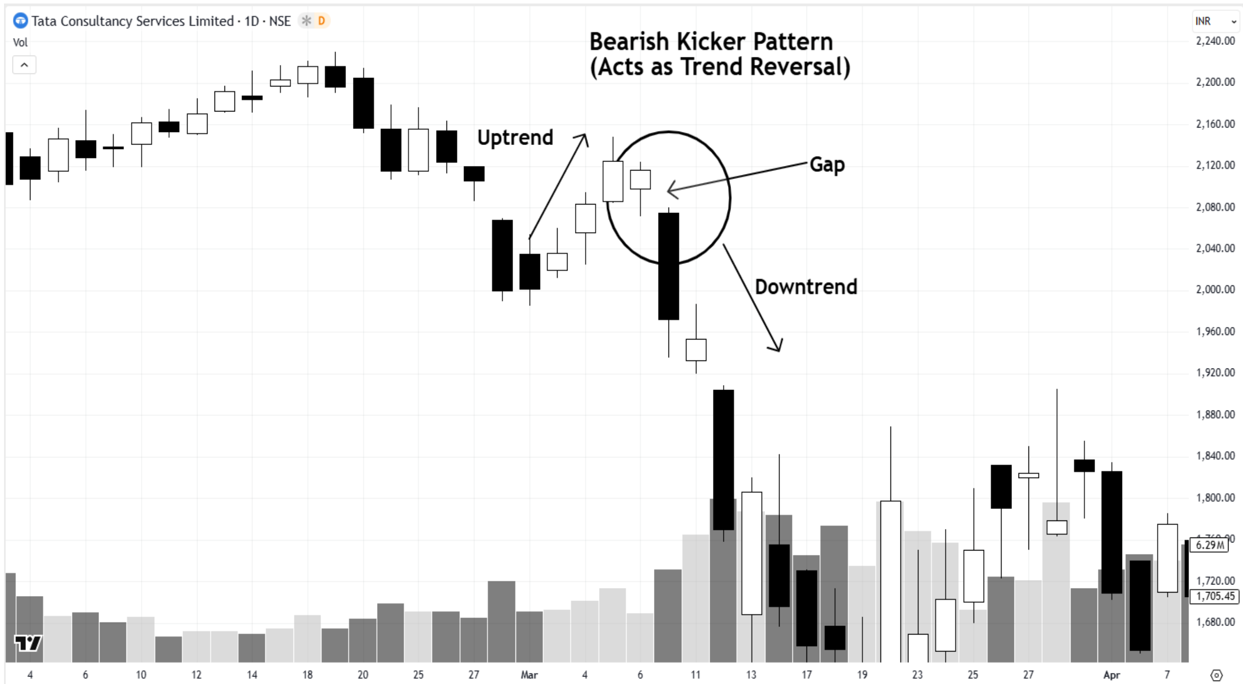
6. Bearish Kicker

- **Appearance:** Sharp reversal pattern where a bearish candle gaps down from a preceding bullish candle.



*(**Image 4.11:** Schematic representation of a Bearish Kicker candlestick pattern)*

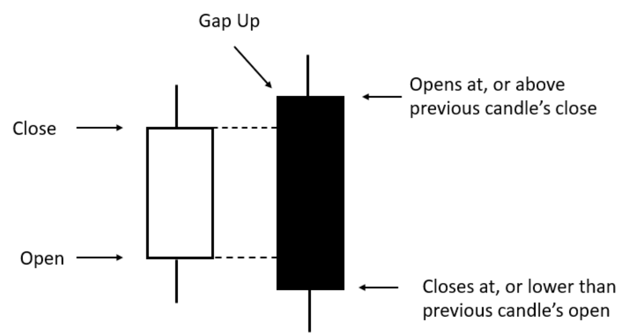
- **Meaning:** Shows sudden and strong selling momentum.
- **Where to Look:** After an uptrend or bullish trend exhaustion.
- **Interpretation:** Indicates a decisive trend reversal from bullish to bearish.



(***Image 4.12:*** *Daily candlestick chart of Tata Consultancy Services Ltd. illustrating a Bearish Kicker pattern*)

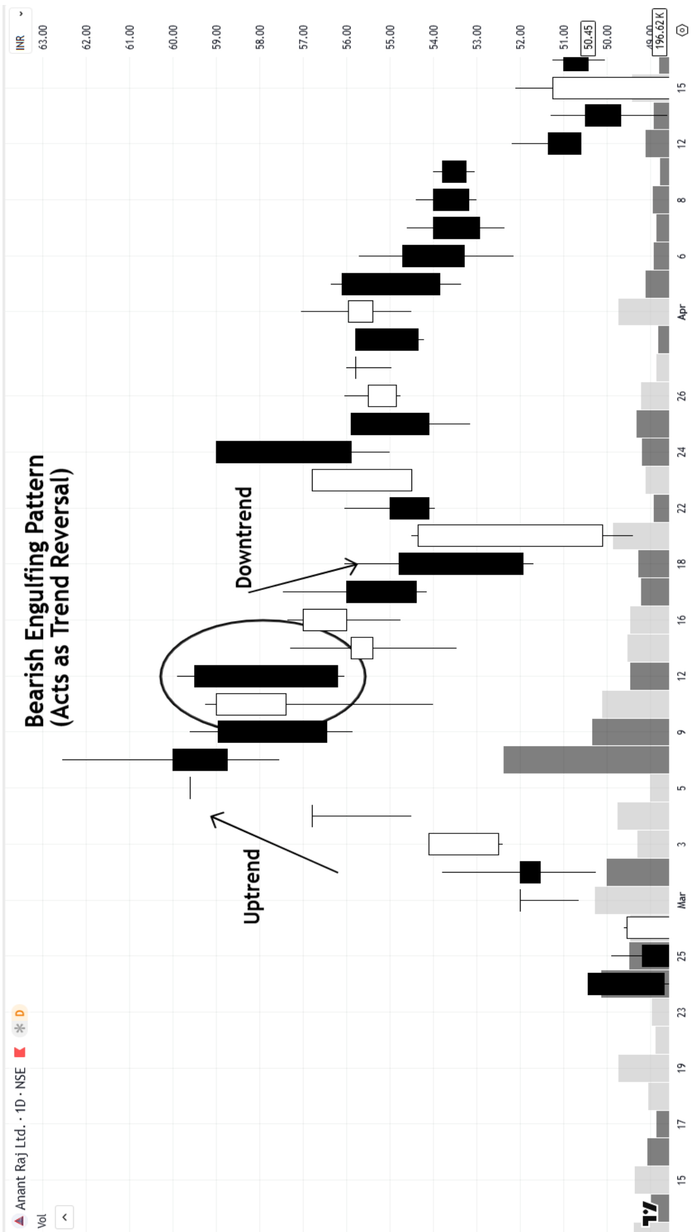
7. Bearish Engulfing

- **Appearance:** A small bullish candle followed by a larger bearish candle that engulfs it.



*(**Image 4.13:** Schematic representation of a Bearish Engulfing candlestick pattern)*

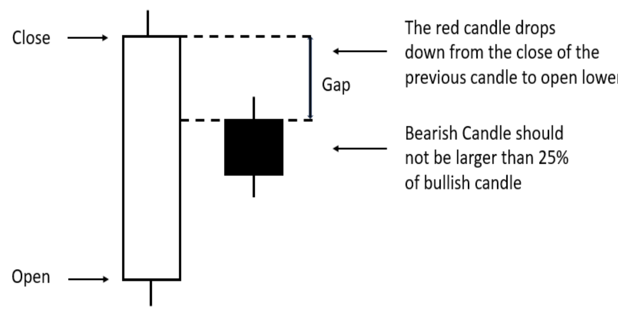
- **Meaning:** Sellers have taken control; trend may reverse downward.
- **Where to Look:** After an uptrend.
- **Interpretation:** Indicates strong selling pressure and potential downward reversal.



***(Image 4.14:** Daily candlestick chart of Anant Raj Ltd. illustrating a Bearish Engulfing pattern)*

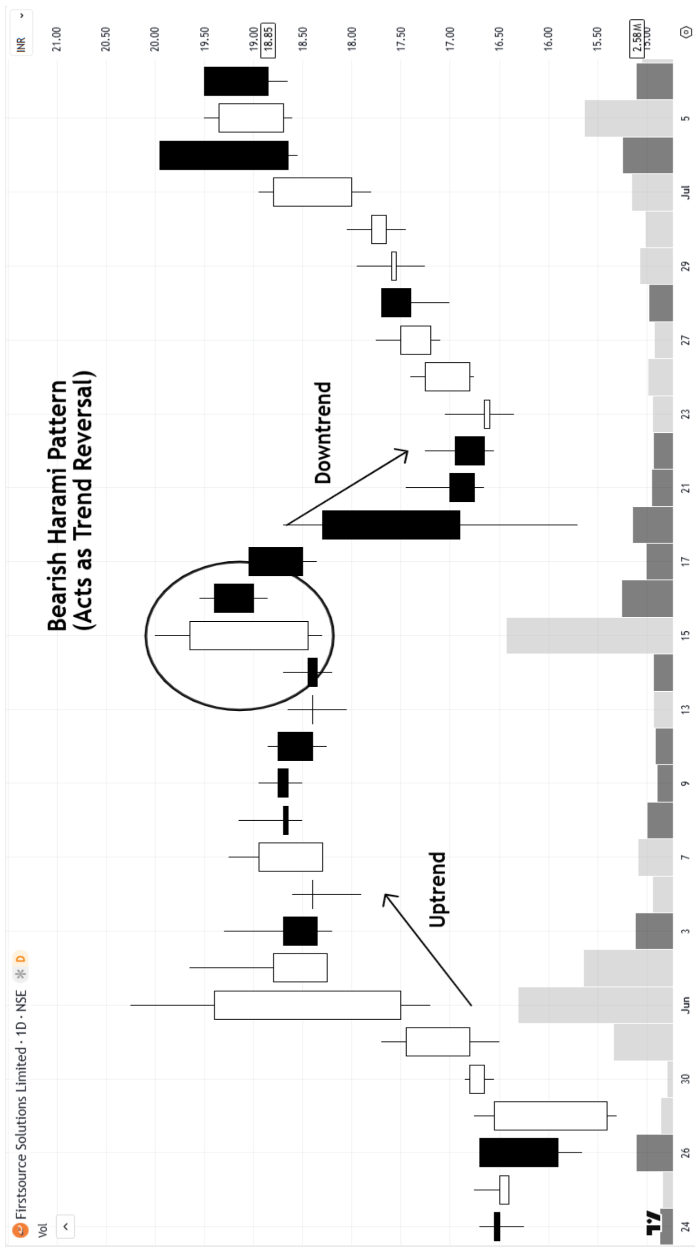
8. Bearish Harami

- **Appearance:** Two-candle pattern in an uptrend; a small bearish candle is completely contained within a preceding large bullish candle.



*(**Image 4.15:** Schematic representation of a Bearish Harami candlestick pattern)*

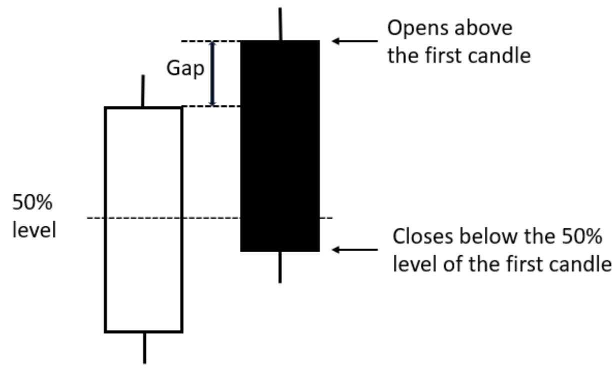
- **Meaning:** Indicates weakening buying pressure and a possible shift toward bearish sentiment.
- **Where to Look:** After an uptrend, near resistance.
- **Interpretation:** Suggests potential trend reversal; confirmation with a bearish close below the pattern strengthens the signal.



(Image 4.16: *Daily candlestick chart of Firstsource Solutions Ltd. illustrating a Bearish Harami pattern)*

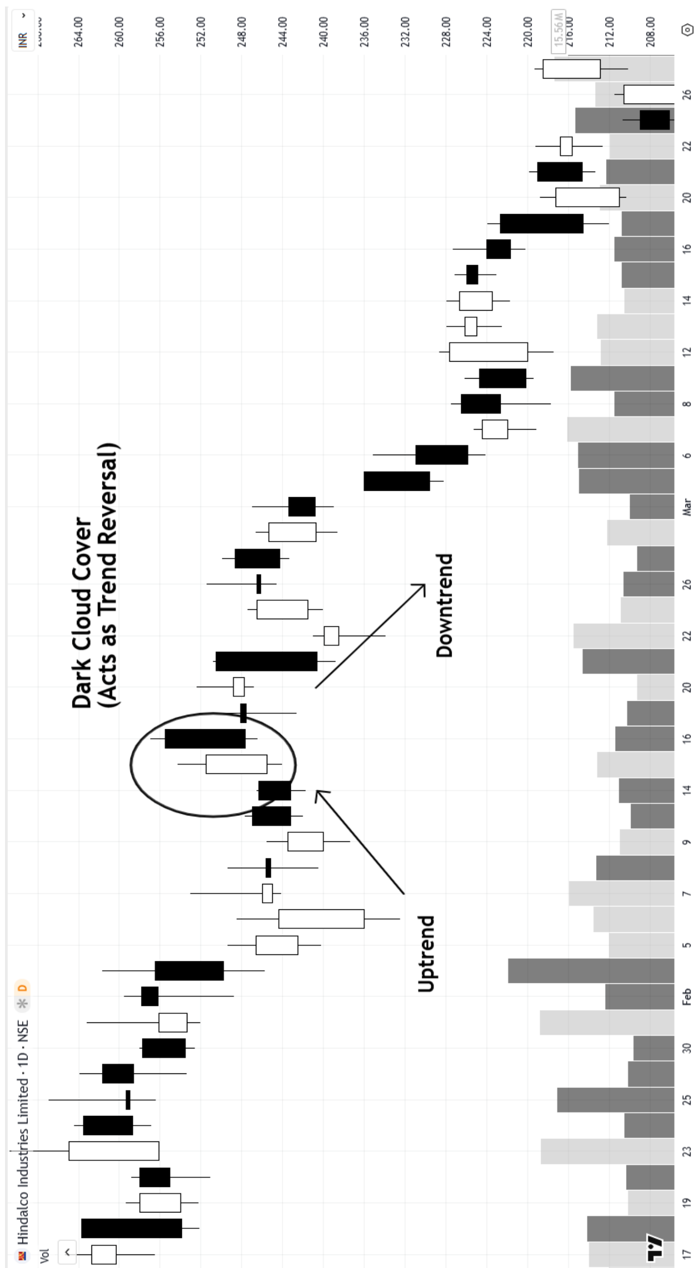
9. Dark Cloud Cover

- **Appearance:** After an uptrend, a bullish candle is followed by a bearish candle that opens higher but closes below the midpoint of the first candle.



*(**Image 4.17:** Schematic representation of Dark Cloud Cover candlestick pattern)*

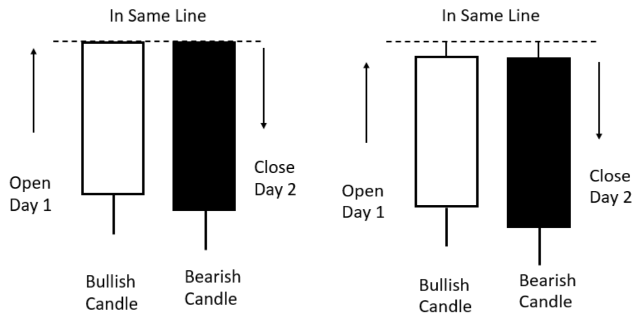
- **Meaning:** Sellers are starting to dominate.
- **Where to Look:** After an uptrend.
- **Interpretation:** Potential downward reversal; stronger if it appears near resistance.



(*Image 4.18:* *Daily candlestick chart of Hindalco Industries Ltd. illustrating a Dark Cloud Cover pattern)*

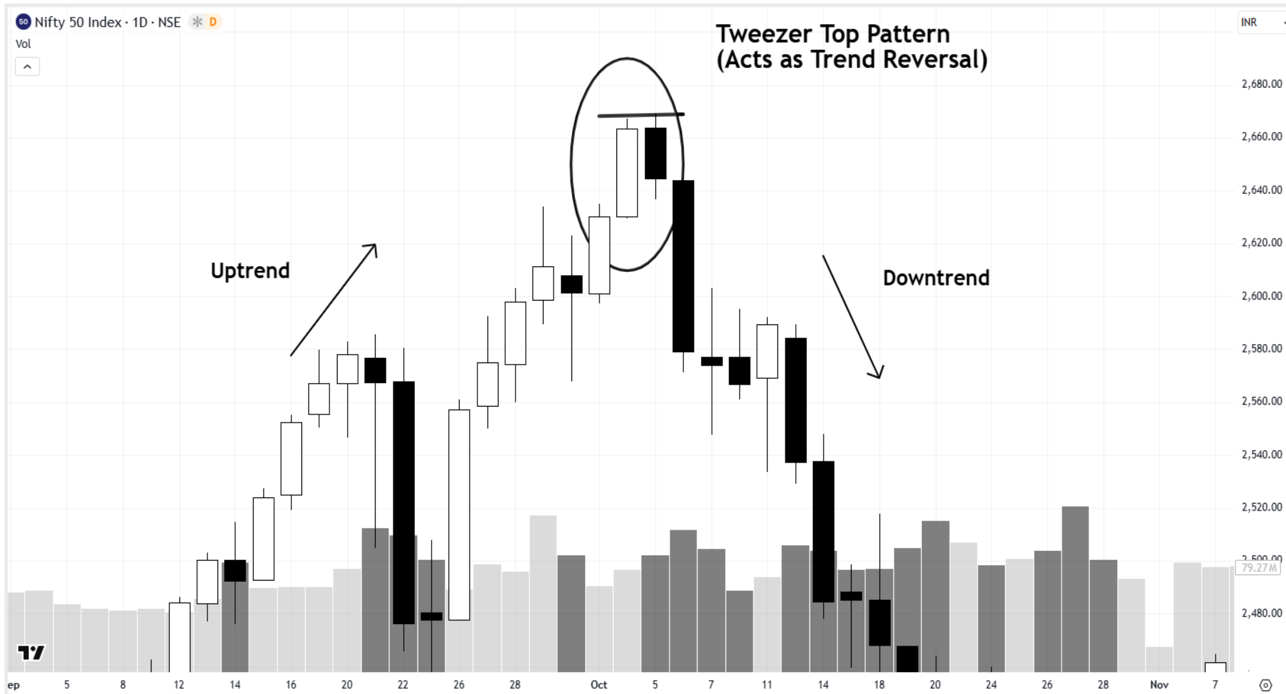
10. Tweezer Top

- **Appearance:** Two candles with nearly equal highs (tweezer top).



*(**Image 4.19:** Schematic representation of Tweezer Top candlestick pattern)*

- **Meaning:** Indicates a possible reversal after testing the same level twice.
- **Where to Look:** After an uptrend near resistance.
- **Interpretation:** Shows rejection of price levels; a hint that trend may change.



***(Image 4.20:** Daily candlestick chart of Nifty 50 Index illustrating a Tweezer Top pattern)*

Practical Tips for Beginners

1. **Look at Trend Context:** Double candlestick patterns are most reliable when they appear after a clear trend.
2. **Combine with Support/Resistance:** Confirm signals using nearby support or resistance zones.
3. **Wait for Confirmation:** Consider the next candle or small price action to validate the pattern before trading.
4. **Practice on Charts:** Observing these patterns in real charts every day will train your eyes to spot opportunities faster.

Takeaway

Double candlestick patterns are like conversations between buyers and sellers. They show *the struggle for control*, highlight changes in momentum, and provide stronger signals than a single candle alone. By mastering these patterns, beginners can make more confident trading decisions while reducing guesswork.

In the next chapter, we will explore *Triple Candlestick Patterns*, which provide even clearer signals of potential reversals and trends.

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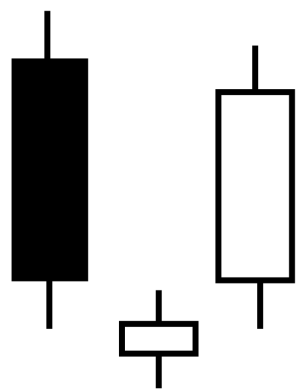
Chapter 5
Triple Candlestick Patterns



Morning Star

"Patience is the key element of success."

— Bill Gates

Chapter 5
Triple Candlestick Patterns

If single candles are *words*, and double candles are *sentences*, triple candlestick patterns are *paragraphs* in the story of the market. They give *even stronger signals* about trend reversals or continuations, making them extremely useful for beginners who want to trade with confidence.

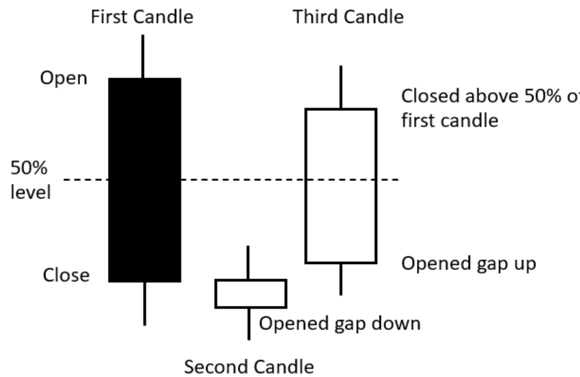
Why Triple Candlestick Patterns Matter

Three consecutive candles provide a clear view of market sentiment over a slightly longer period. They show whether buyers or sellers are gaining control and whether the current trend is likely to continue or reverse. Observing these patterns helps traders make better-informed decisions.

a) Key Triple Candlestick Patterns

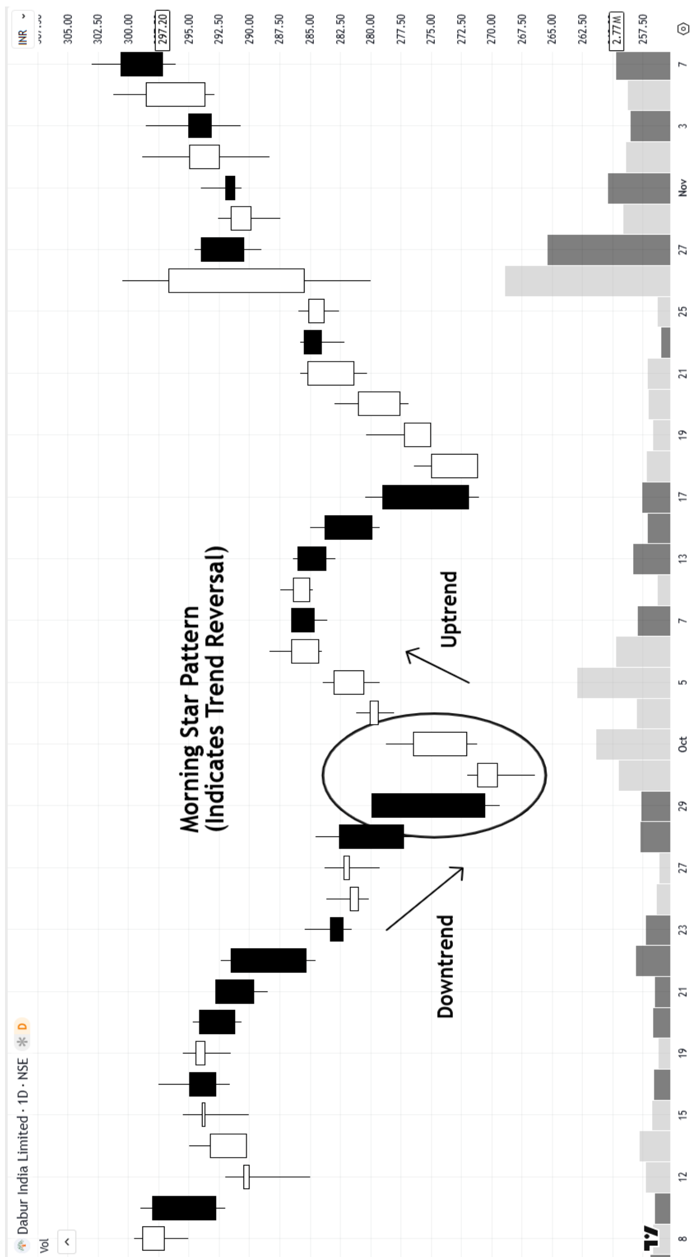
1. Morning Star

- **Appearance:** The first day is a long bearish candle, indicating a downtrend and a stronger selling force. The second day is a small bullish or bearish candlestick, like a Doji or Spinning Top (indecision candle) that *opens gap down* but *closes inside the body of first candle*, indicating market uncertainty and roughly balanced buying and selling forces. The third day is a long bullish candlestick, that *opens gap* up and closes *well into the first candle's body* (above 50%), showing sellers are losing control and buyers are taking over. The higher the third day's body, the stronger the uptrend, indicating a stronger buying force.



*(**Image 5.1:** Schematic representation of a Morning Star candlestick pattern)*

- **Meaning:** After a downtrend, buyers are stepping in, signalling a potential reversal upward.
- **Where to Look:** After a downtrend.
- **Interpretation:** Strong bullish reversal pattern. The longer the third candle; the stronger the signal.

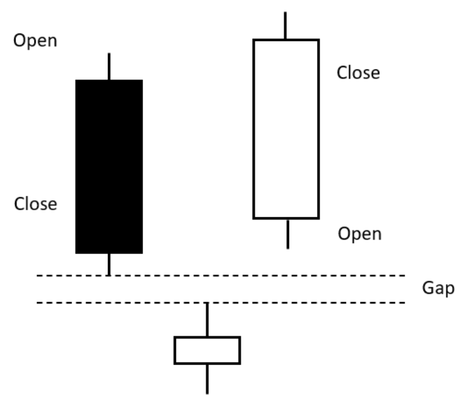


*(**Image 5.2:** Daily candlestick chart of Dabur India Ltd. illustrating a Morning Star pattern)*

2. Bullish Abandoned Baby

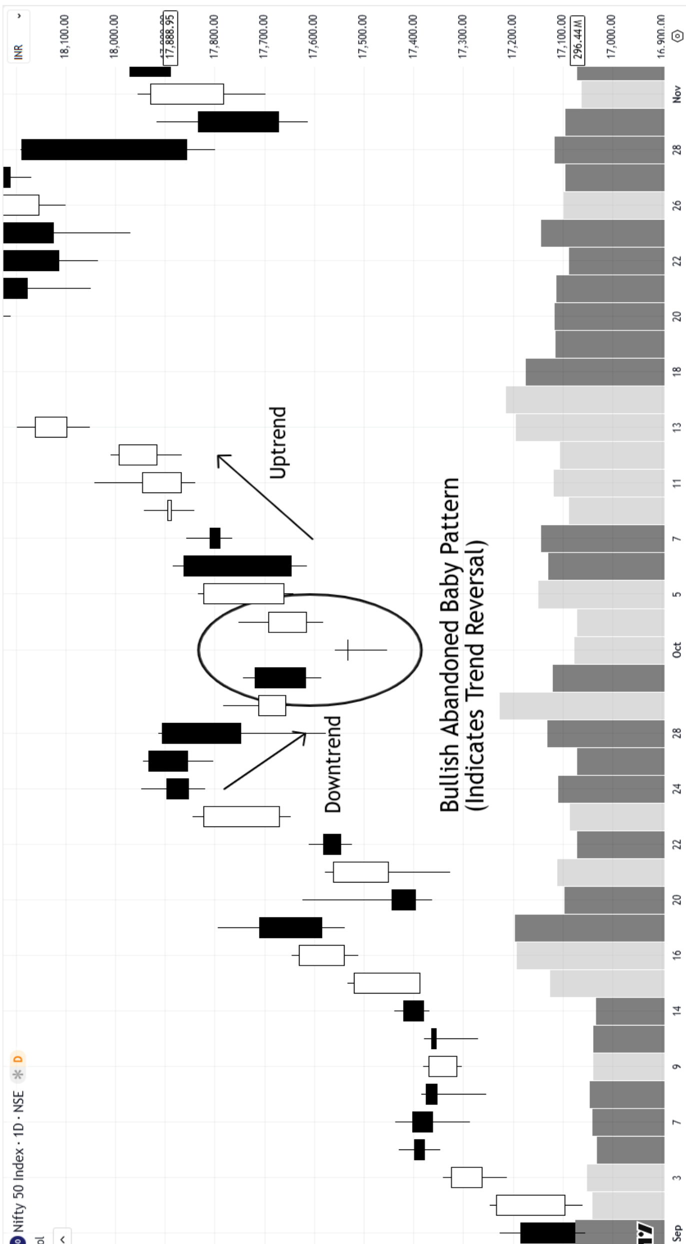
- **Appearance:** Three-candle pattern with a bearish candle, a gap-down Doji (isolated), and a bullish candle gapping up above the Doji.

Defining Condition: There must be *no overlap, even in the shadows (wicks),* between the first and second candles, as well as between the second and third candles. This complete price separation, created by gaps on both sides of the Doji, is what distinguishes this pattern from similar formations such as the *Morning Star*.



*(**Image 5.3:** Schematic representation of a Bullish Abandoned Baby candlestick pattern)*

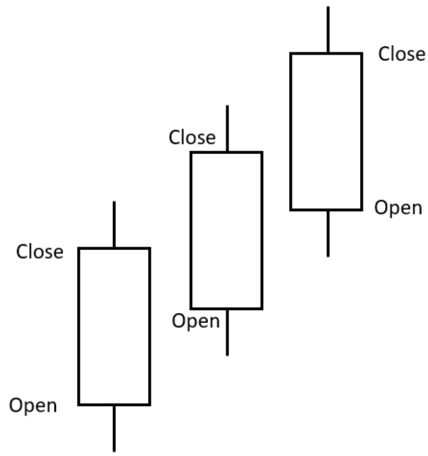
- **Meaning:** Shows strong rejection of lower prices and potential reversal.
- **Where to Look:** At the bottom of a *prolonged downtrend*, preferably at support.
- **Interpretation:** Suggests a decisive bullish reversal; reliability is high due to the gap isolation.



***(Image 5.4:** Daily candlestick chart of Nifty 50 Index illustrating a Bullish Abandoned Baby pattern)*

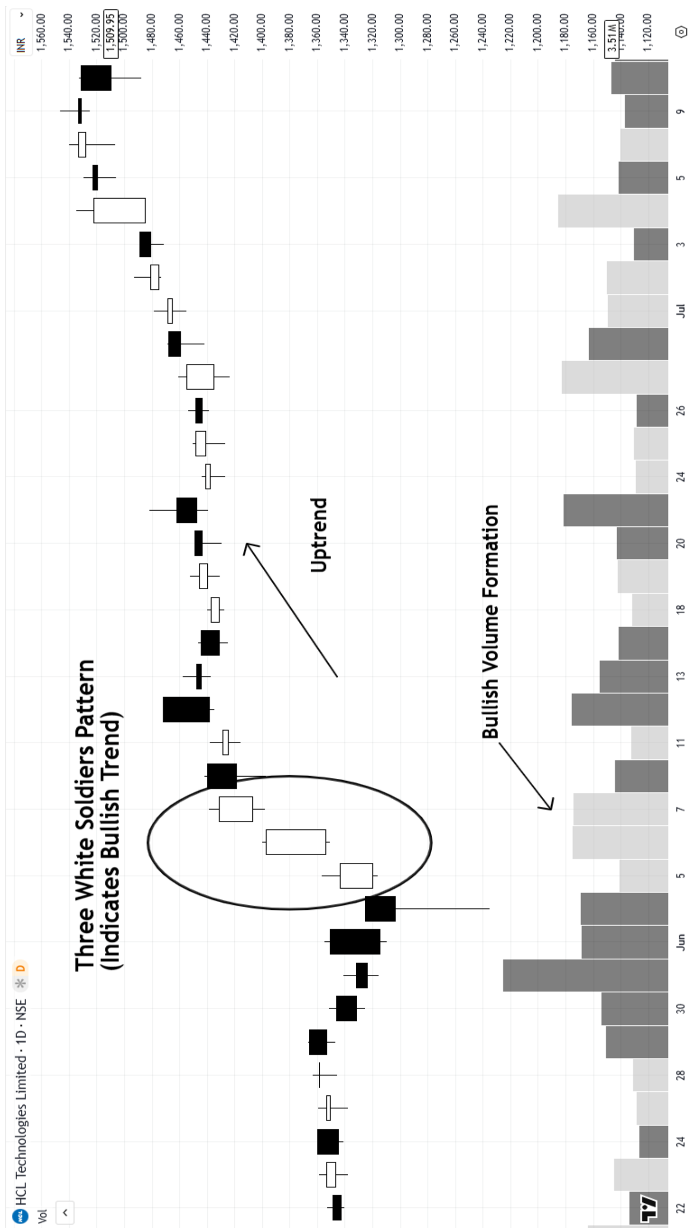
3. Three White Soldiers

- **Appearance:** Three consecutive long bullish candles, each closing higher than the previous one.



*(**Image 5.5:** Schematic representation of a Three White Soldiers candlestick pattern)*

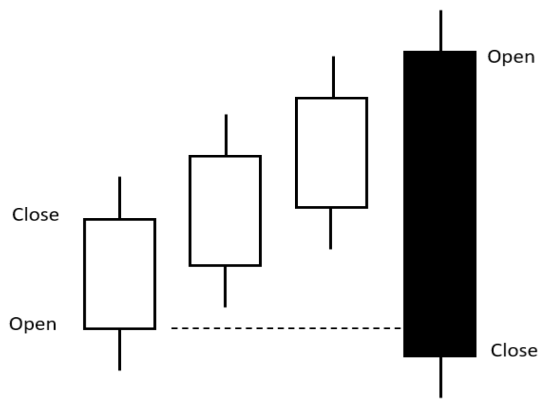
- **Meaning:** Strong buying pressure; trend is likely to continue upward.
- **Where to Look:** After a downtrend or consolidation.
- **Interpretation:** Indicates market optimism and a robust uptrend. Watch for *volume* confirmation.



***(Image 5.6:** Daily candlestick chart of HCL Technologies Ltd. illustrating a Three White Soldiers pattern)*

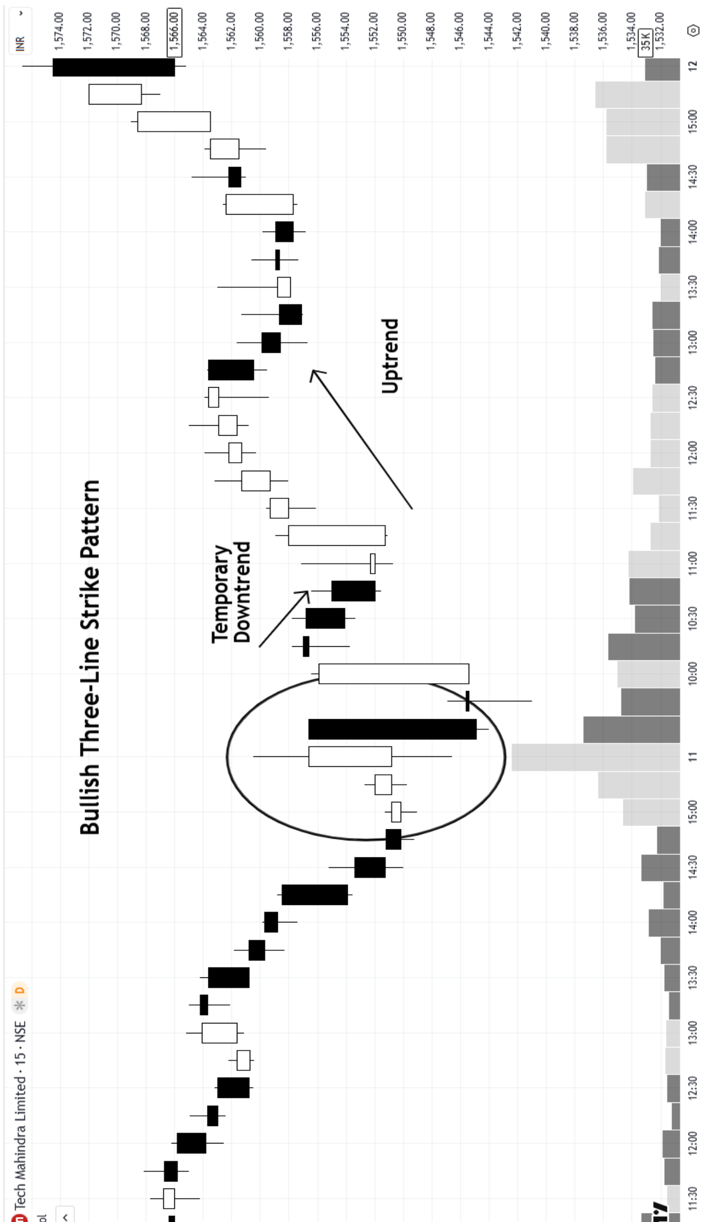
4. Bullish Three-Line Strike

- **Appearance:** Three consecutive bullish candles followed by a long bearish candle that partially retraces the previous three but closes below the open of the first candle.



*(**Image 5.7:** Schematic representation of a Bullish Three-Line Strike Candlestick pattern)*

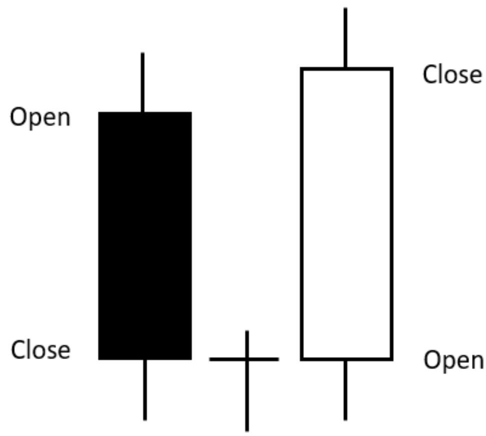
- **Meaning:** Shows temporary profit-taking but overall bullish strength remains.
- **Where to Look:** During an uptrend, after short pause.
- **Interpretation:** Confirms continuation of the uptrend; buyers are still in control.



(Image 5.8: *15-minute candlestick chart of Tech Mahindra Ltd. illustrating a Bullish Three Line Strike pattern)*

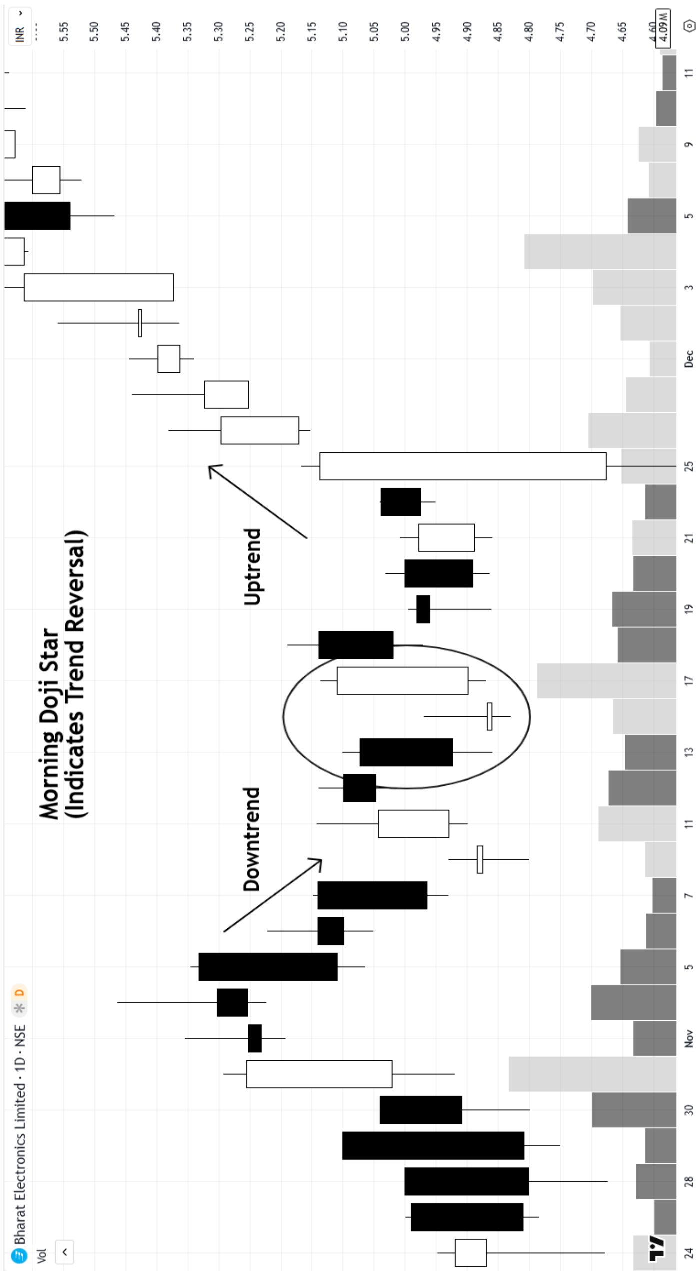
5. Morning Doji Star

- **Appearance:** Three-candle pattern with a long bearish candle, a Doji (small body with long shadows) gapping below, and a long bullish candle closing into the first candle's body.



*(**Image 5.9:** Schematic representation of a Morning Doji Star candlestick pattern)*

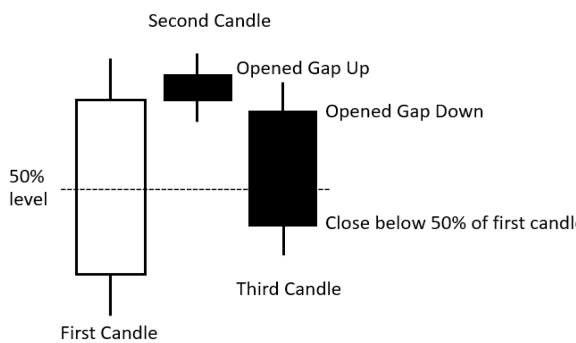
- **Meaning:** Indicates indecision followed by strong buying pressure.
- **Where to Look:** After a downtrend.
- **Interpretation:** Suggests a bullish reversal; confirmation by the third candle increases reliability.



***(Image 5.10:** Daily candlestick chart of Bharat Electronics Ltd. illustrating a Morning Doji Star pattern)*

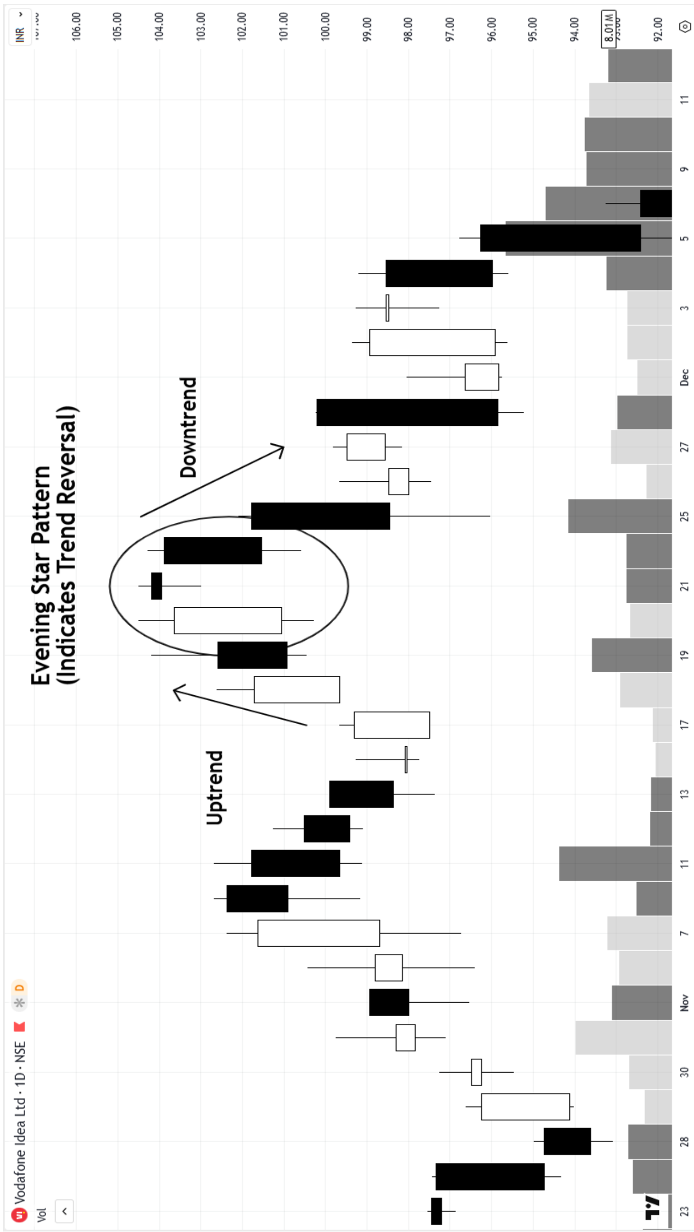
6. Evening Star

- **Appearance:** The first day is a long bullish candle, indicating an uptrend and a stronger buying force. The second day is a small bullish or bearish candlestick, like a Doji or Spinning Top (indecision candle) that *opens gap up* but *closes inside the body of first candle.* The third day is a long bearish candlestick, that *opens gap down* and closes *well into the first candle's body* (below 50%), showing buyers are losing control and sellers are taking over. The higher the third day's body, the stronger the downtrend, indicating a stronger selling force.



*(**Image 5.11:** Schematic representation of an Evening Star candlestick pattern)*

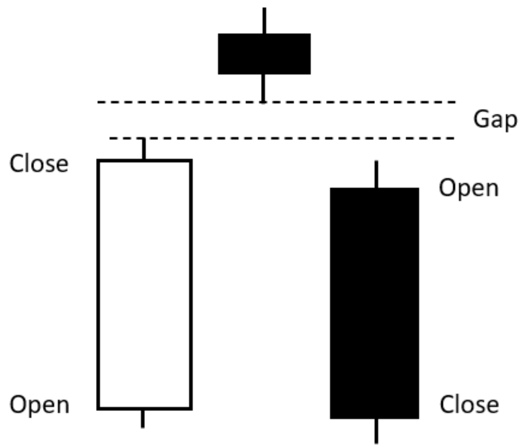
- **Meaning:** After an uptrend, sellers are gaining control, signalling a potential downward reversal.
- **Where to Look:** At the top of an uptrend, signalling that the upward momentum is fading and a downward trend may begin.
- **Interpretation:** Strong bearish reversal pattern. Confirm near *resistance* for better accuracy.



*(**Image 5.12:** Daily candlestick chart of Vodafone Idea Ltd. illustrating an Evening Star pattern)*

7. Bearish Abandoned Baby

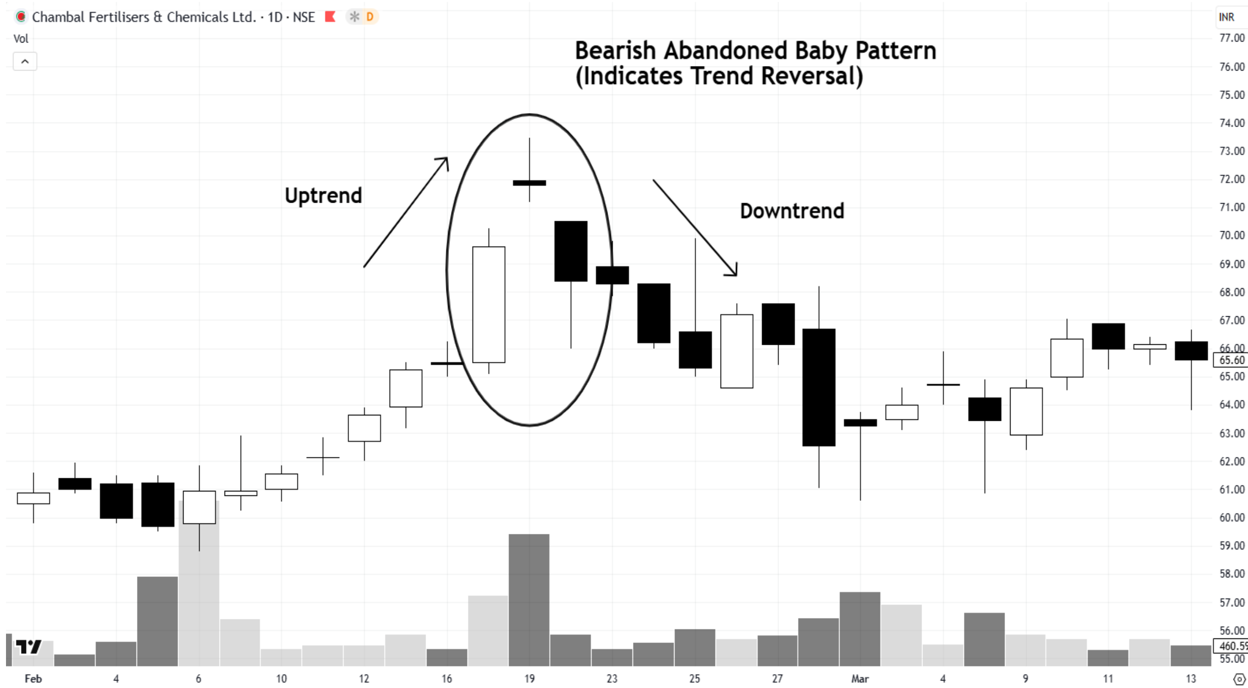
- **Appearance:** Three-candle pattern with a bullish candle, a gap-up Doji (isolated), and a bearish candle gapping down below the Doji.



*(**Image 5.13:** Schematic representation of a Bearish Abandoned Baby candlestick pattern)*

Defining Condition: There must be *no overlap, even in the shadows (wicks),* between the first and second candles, as well as between the second and third candles. This complete price separation, created by gaps on both sides of the Doji, is what distinguishes this pattern from similar formations such as the *Evening Star*.

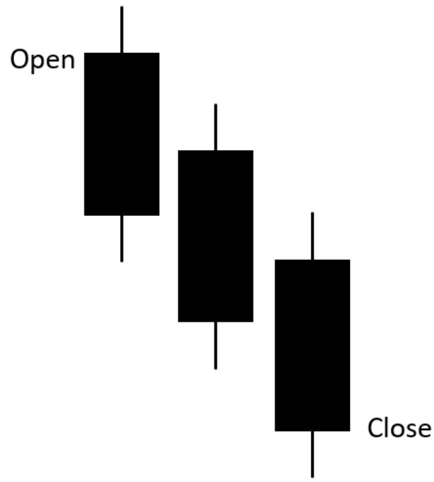
- **Meaning:** Shows strong rejection of higher prices and potential reversal.
- **Where to Look:** After an uptrend, near resistance.
- **Interpretation:** Suggests a decisive bearish reversal; reliability is high due to the gap isolation.



(***Image 5.14:*** *Daily candlestick chart of Chambe Fertilisers and Chemicals Ltd. illustrating a Bearish Abandoned Baby* pattern)

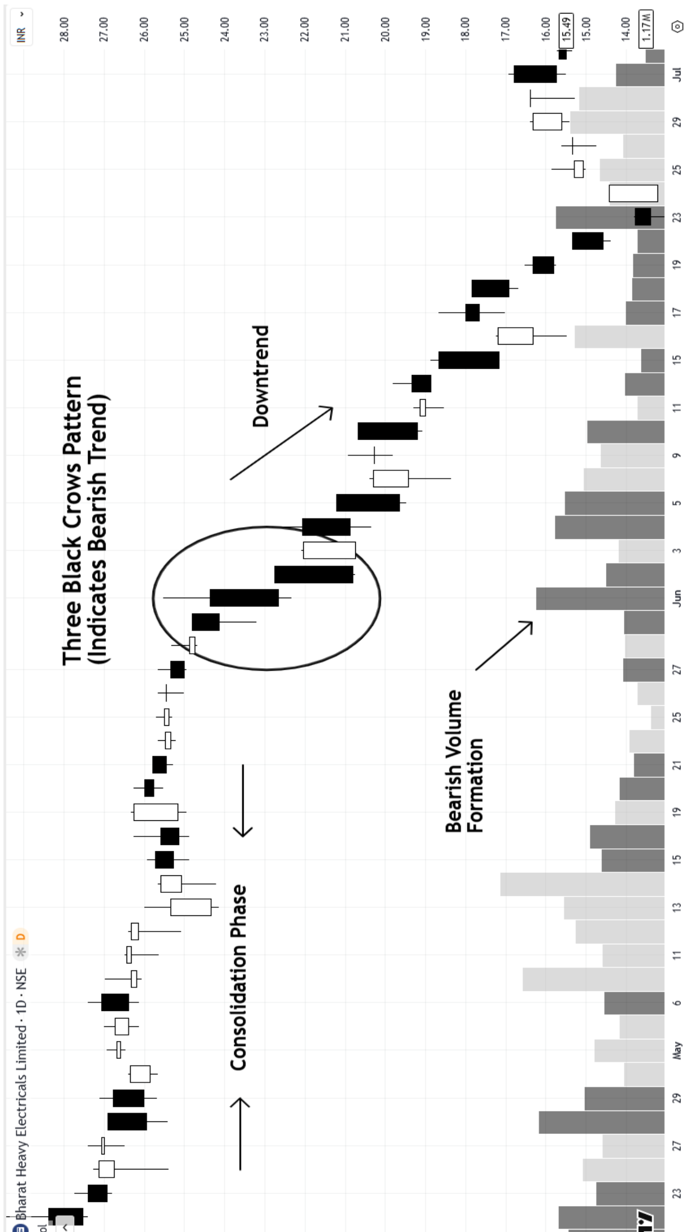
8. Three Black Crows

- **Appearance:** Three consecutive long bearish candles, each closing lower than the previous one.



*(**Image 5.15:** Schematic representation of a Three Black Crows candlestick pattern)*

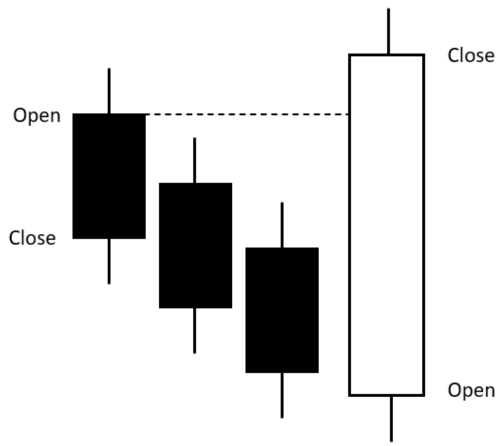
- **Meaning:** Strong selling pressure; trend is likely to continue downward.
- **Where to Look:** After an uptrend or consolidation.
- **Interpretation:** Indicates market pessimism and a robust downtrend. Look for confirmation with *volume* or support levels.



*(**Image 5.16:** Daily candlestick chart of Bharat Heavy Electricals Ltd. illustrating a Three Black Crows pattern)*

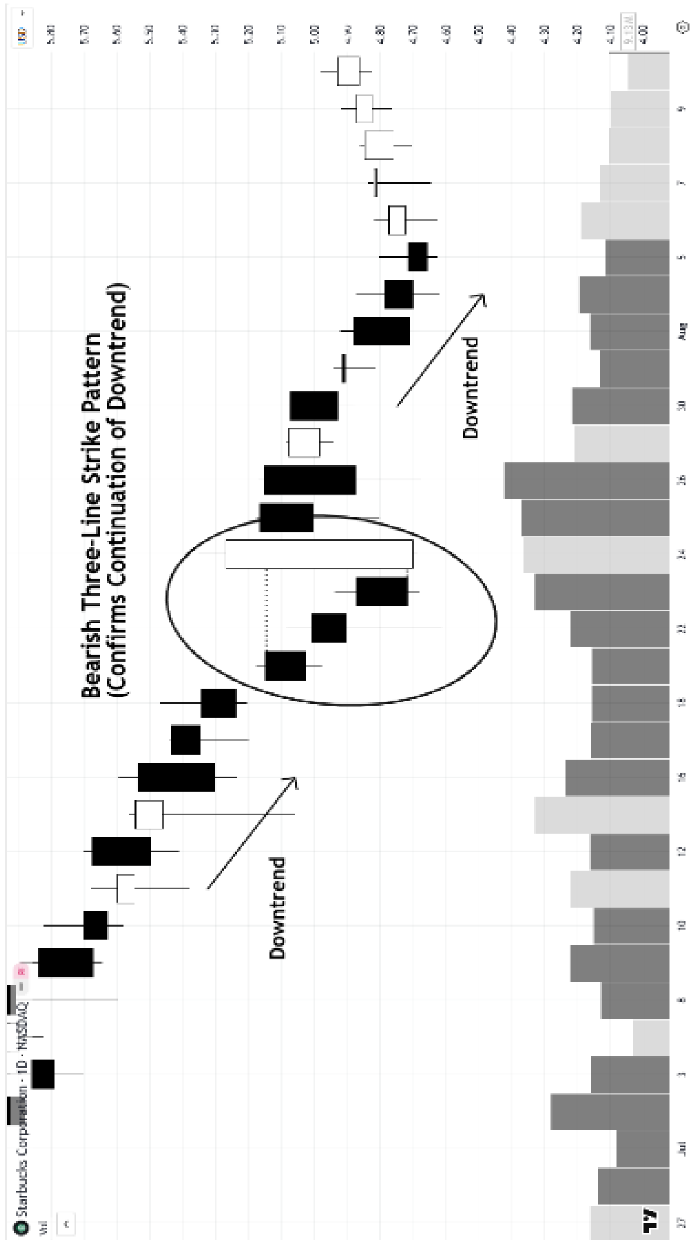
9. Bearish Three-Line Strike

- **Appearance:** Three consecutive bearish candles followed by a long bullish candle that partially retraces the previous three but closes above the opening position of the first candle.



*(**Image 5.17:** Schematic representation of a Bearish Three-Line Strike candlestick pattern)*

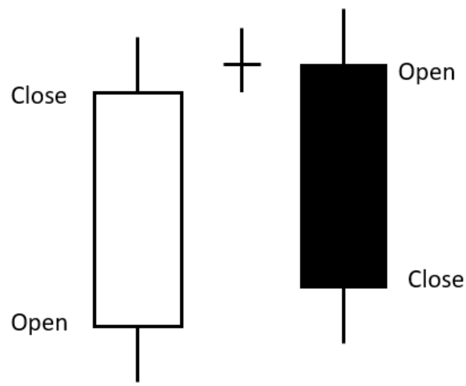
- **Meaning:** Shows temporary buying but overall bearish strength remains.
- **Where to Look:** During a downtrend, after short pause.
- **Interpretation:** Confirms continuation of the downtrend; sellers remain in control.



***(Image 5.18:** Daily candlestick chart of Starbucks Corporation illustrating a Bearish Three-Line Strike pattern)*

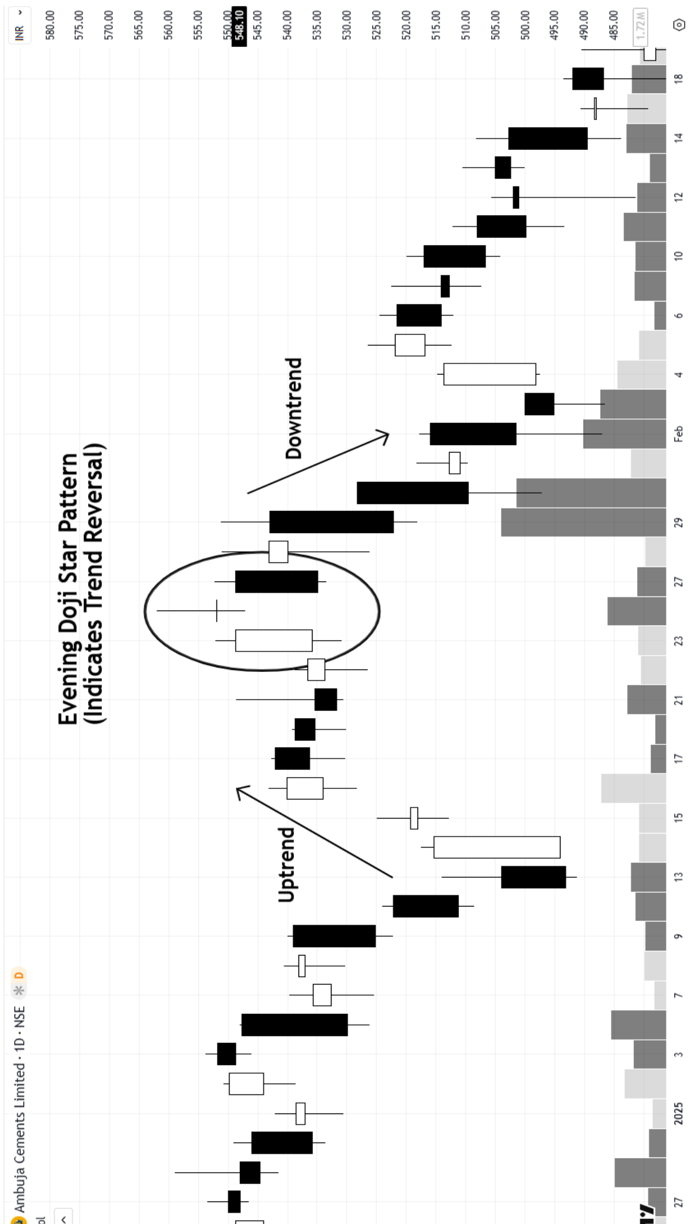
10. Evening Doji Star

- **Appearance:** Three-candle pattern with a long bullish candle, a Doji gapping above, and a long bearish candle closing into the first candle's body.



*(**Image 5.19:** Schematic representation of an Evening Doji Star candlestick pattern)*

- **Meaning:** Indicates indecision followed by strong selling pressure.
- **Where to Look:** After an uptrend.
- **Interpretation:** Suggests a bearish reversal; confirmation by the third candle increases reliability.

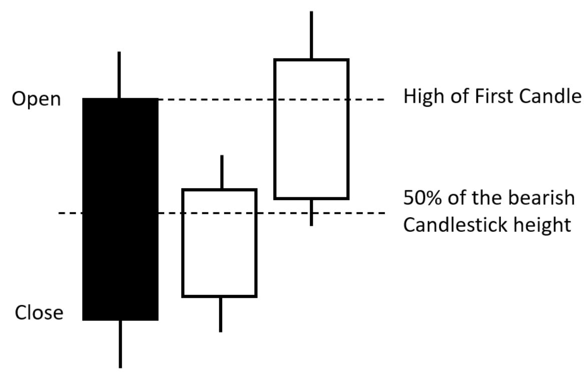


***(Image 5.20:** Daily Candlestick Chart of Ambuja Cements Ltd. illustrating an Evening Doji Star pattern)*

b) Confirmation Candle Sticks

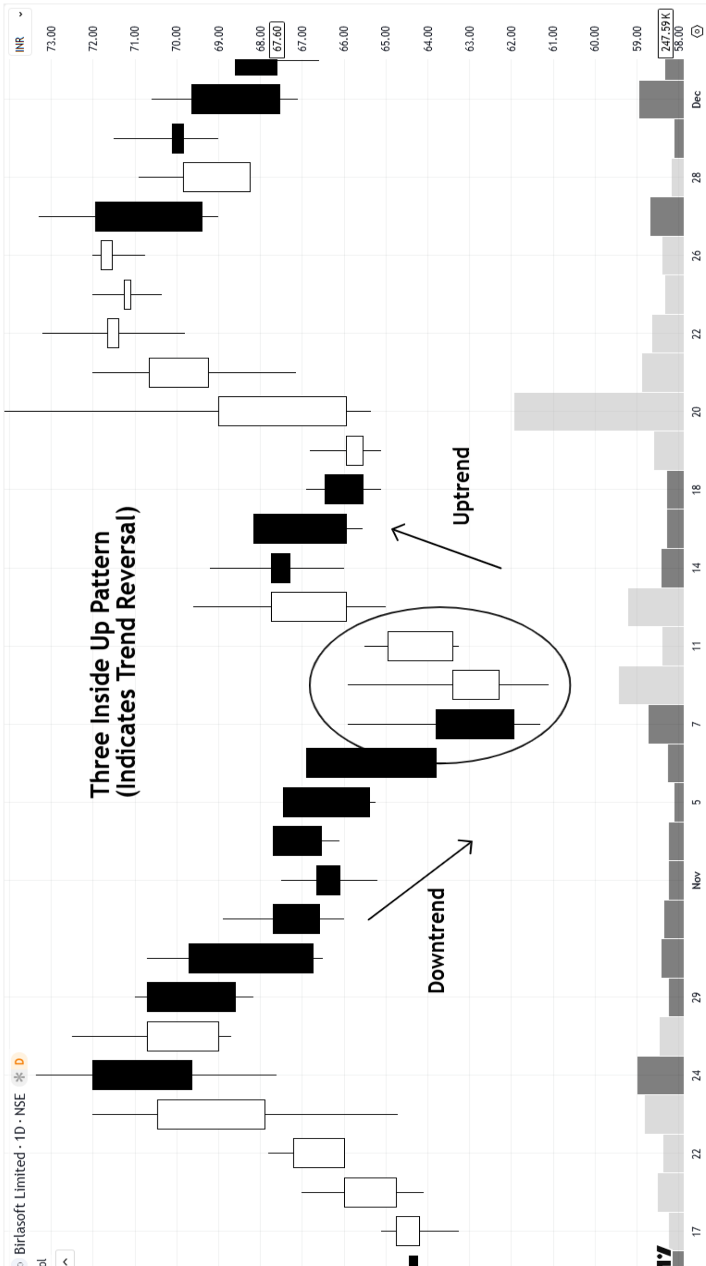
1. Three Inside Up

- **Appearance:** A bullish reversal pattern that signals a potential shift from a downtrend to an uptrend. It consists of three candles: a long bearish (red) first candle, followed by a small bullish (green) second candle that closes within the first candle's range, and completed by a third long bullish candle that closes above the first candle's high. It indicates that selling pressure is exhausted and buying pressure is taking over, suggesting traders may consider a long position.



*(**Image 5.21:** Schematic representation of a Three Inside Up candlestick pattern)*

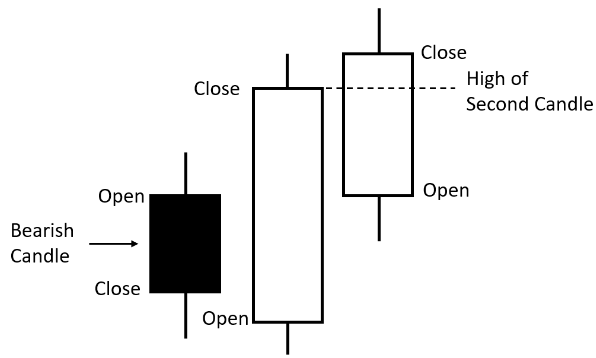
- **Meaning:** Shows buyers gaining momentum after initial indecision.
- **Where to Look:** After a downtrend, near support.
- **Interpretation:** Indicates potential bullish reversal; confirmation by the third candle strengthens reliability.



***(Image 5.22:** Daily candlestick chart of Birlasoft Ltd. illustrating a Three Inside Up pattern)*

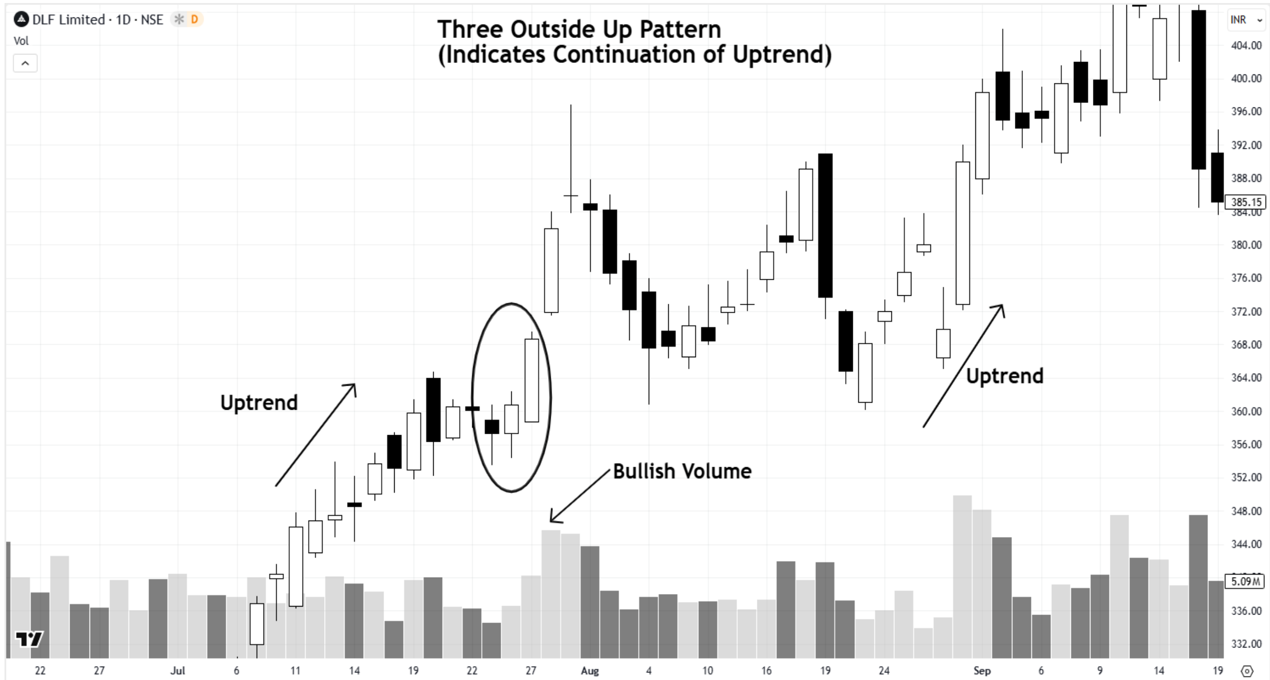
2. Three Outside Up

- **Appearance:** The first candle is a short red one, showing that bulls and bears are battling during a downtrend. The second candle is a large green one that covers the red candle, showing that bulls are now in control and a trend reversal might be coming. The third candle is green and closes higher than the second one, signalling the start of a bullish trend.



*(**Image 5.23:** Schematic representation of a Three Outside Up candlestick pattern)*

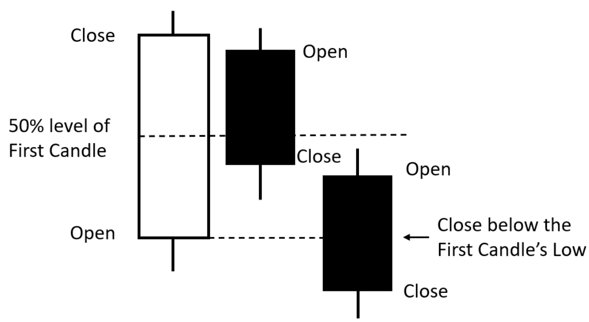
- **Meaning:** Signals strong buying pressure and continuation of the uptrend.
- **Where to Look:** After a downtrend, ideally with volume support.
- **Interpretation:** Confirms bullish reversal; reliable after a downtrend when supported by *volume*.



***(Image 5.24:** Daily candlestick chart of DLF Ltd. illustrating a Three Outside Up pattern)*

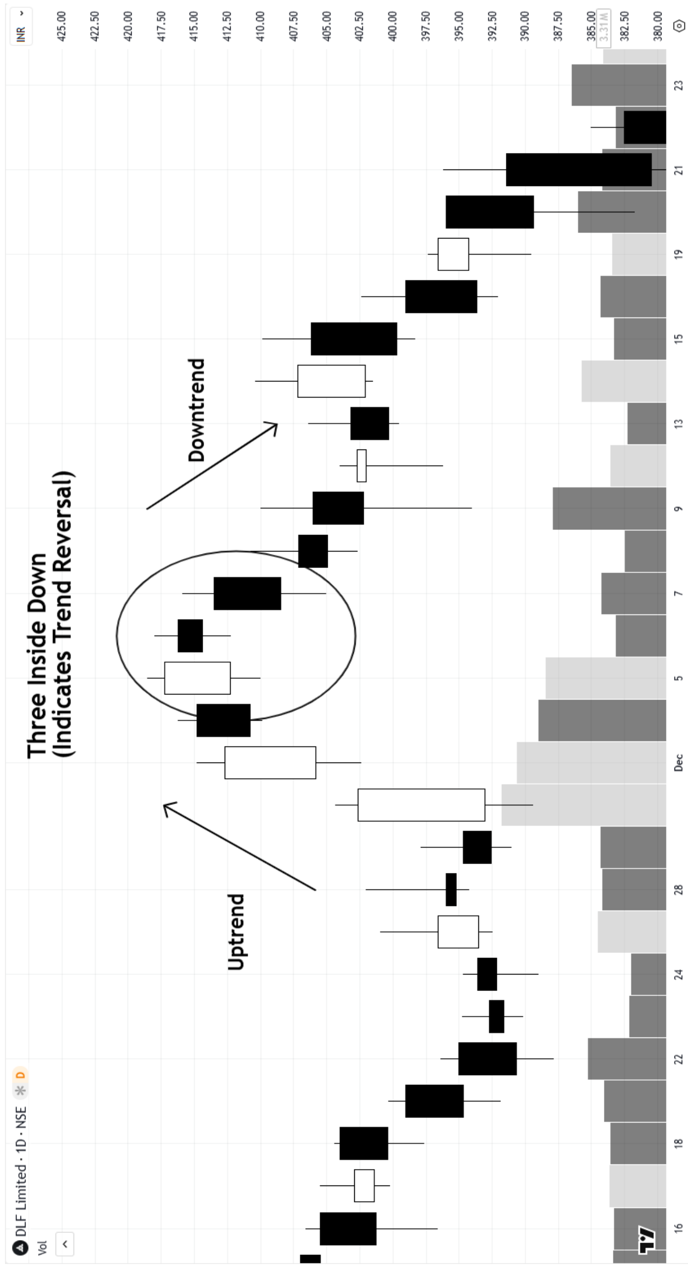
3. Three Inside Down

- **Appearance:** A large bullish candlestick is formed, signalling the continuation of an uptrend. A small bearish candlestick is formed within the body of the first candlestick and displays the selling pressure. A strong bearish candlestick is formed, displaying seller's strength, as the candlestick opens below the closing of the second candlestick and closes below the low of the first candlestick by confirming the downtrend.



*(**Image 5.25:** Schematic representation of a Three Inside Down candlestick pattern)*

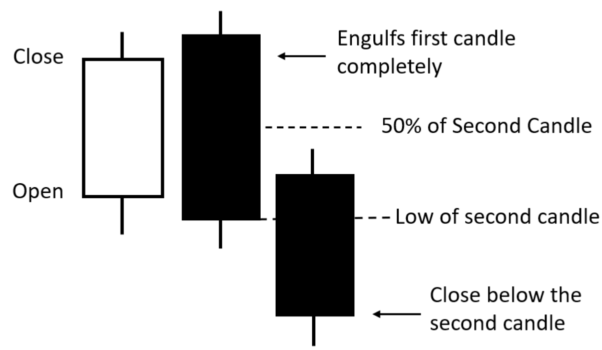
- **Meaning:** Shows sellers gaining momentum after initial indecision.
- **Where to Look:** After an uptrend, near resistance.
- **Interpretation:** Indicates potential bearish reversal; confirmation by the third candle strengthens reliability.



(Image 5.26: *Daily candlestick chart of DLF Ltd. illustrating a Three Inside Down pattern)*

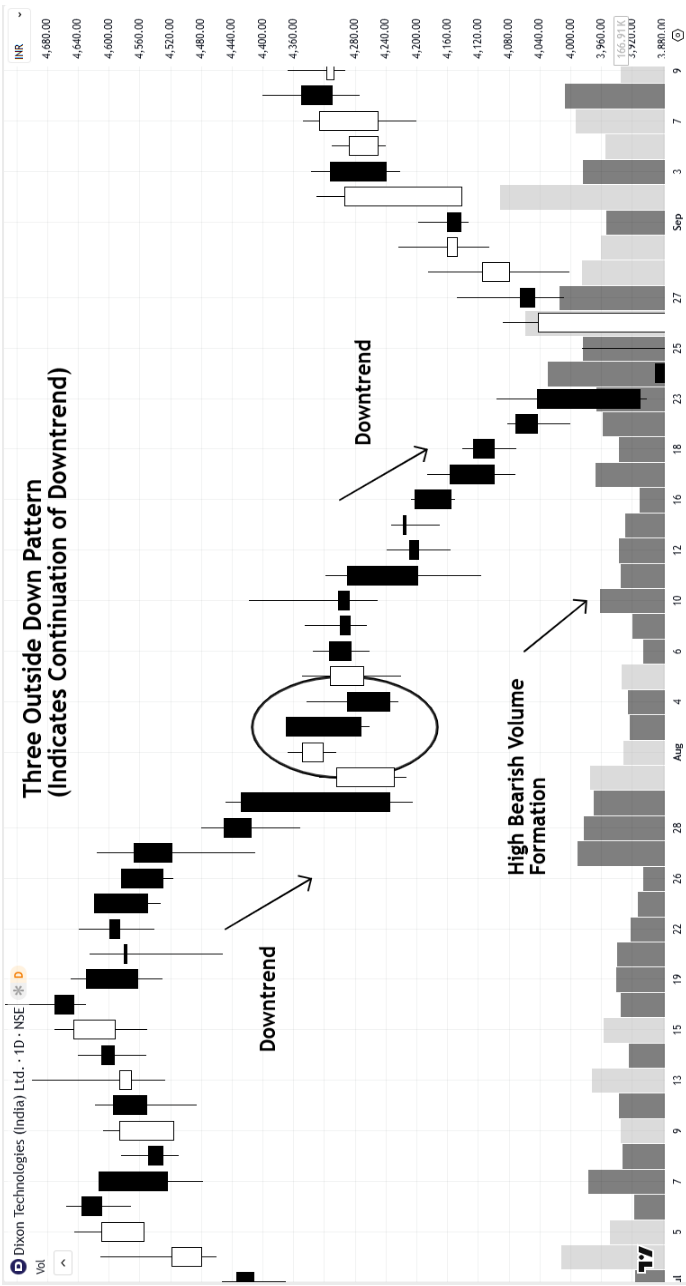
4. Three Outside Down

- **Appearance:** The first is small and green in colour, indicating a slight upward move. The second candle is also a big red candle. It starts a bit higher than the first one and closes lower, making the first one completely part of its body. The third candle, too, is a red candle, but bigger. Not only does it start below the second one's middle, but it also closes much lower.



*(**Image 5.27:** Schematic representation of a Three Outside Down candlestick pattern)*

- **Meaning:** Signals strong selling pressure and continuation of the downtrend.
- **Where to Look:** After an uptrend, ideally with volume support.
- **Interpretation:** Confirms bearish reversal; reliable after an uptrend when supported by *volume*.



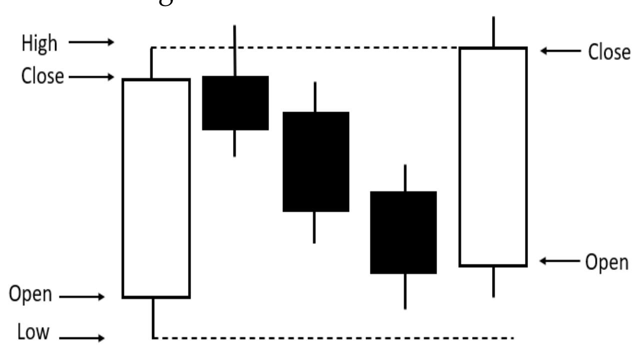
*(**Image 5.28:** Daily candlestick chart of Dixon Technology illustrating a Three Outside Down pattern)*

c) Additional Multi-Candlestick Patterns

While most common reversal and continuation signals are formed by two or three candles, a few reliable patterns consist of five candles. These patterns also provide strong confirmation of trend strength or reversal. Following two patterns are important to recognize in continuation analysis.

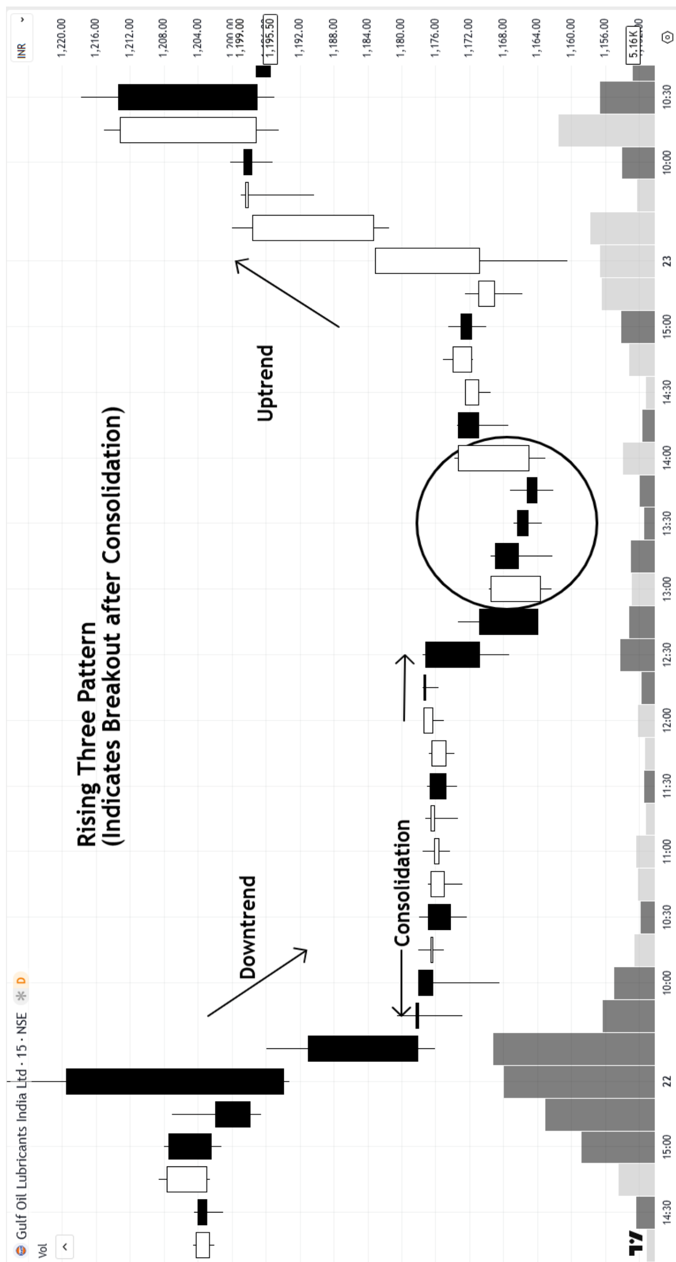
1. Rising Three Pattern

- **Appearance:** A five-candle bullish continuation pattern with one long bullish candle, followed by three small bearish candles within its range, and then another strong bullish candle closing above the first candle.



*(**Image 5.29:** Schematic representation of a Rising Three candlestick pattern)*

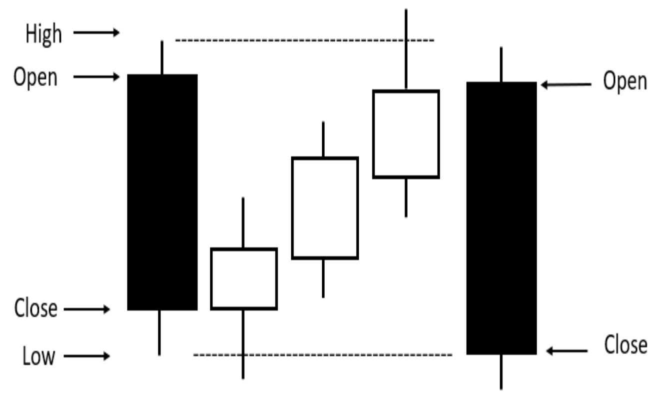
- **Meaning:** Indicates temporary consolidation or profit-taking before the uptrend resumes.
- **Where to Look:** During an uptrend, after short consolidation.
- **Interpretation:** Confirms continuation of bullish momentum; a breakout above the consolidation range signals strength and potential buying opportunity.



*(**Image 5.30:** 15-minute candlestick chart of Gulf Oil Lubricants India Ltd. illustrating a Rising Three pattern)*

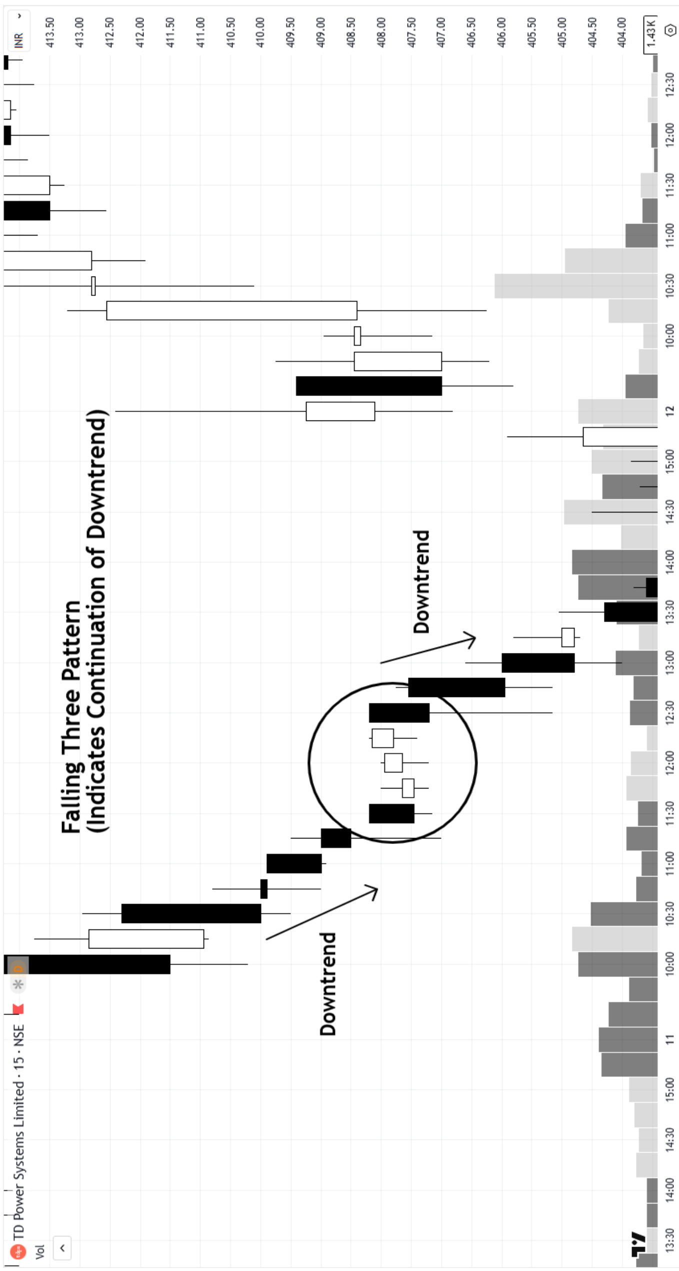
2. Falling Three Pattern

- **Appearance:** A five-candle bearish continuation pattern with one long bearish candle, followed by three small bullish candles within its range, and then another strong bearish candle closing below the first candle.



*(**Image 5.31:** Schematic representation of a Falling Three candlestick pattern)*

- **Meaning:** Indicates brief consolidation or pause before the downtrend resumes.
- **Where to Look:** During a downtrend, after short consolidation.
- **Interpretation:** Confirms continuation of bearish momentum; a breakdown below the consolidation range signals strength and potential selling opportunity.



***(Image 5.32:** 15-minute candlestick chart of TD Power Systems Ltd. illustrating a Falling Three pattern)*

Practical Tips for Beginners

1. **Observe Trend Context:** Triple candle patterns are most reliable when they appear at the end of a clear trend.
2. **Volume Matters:** Strong volume during the third candle strengthens the pattern's reliability.
3. **Confirm Before Trading:** Even with three candles, wait for a breakout or confirmation to reduce risk.
4. **Practice Recognition:** Review historical charts to see these patterns in action. This trains your eye and builds confidence.

Takeaway

Triple candlestick patterns are like clear paragraphs in the market's story; they show *a complete conversation between buyers and sellers* over multiple sessions. By learning to identify these patterns, beginners can anticipate trend reversals and continuations with much higher confidence than with single or double candles alone.

In the next chapter, we will explore *Support, Resistance, and Trendlines*, which are essential tools for confirming chart patterns and improving your trading accuracy.

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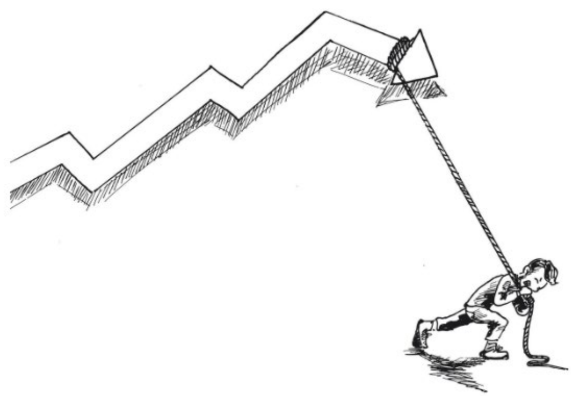
Chapter 6
Support, Resistance, and Trendlines



"The trend is your friend until the end when it bends."

— Ed Seykota

Chapter 6
Support, Resistance, and Trendlines

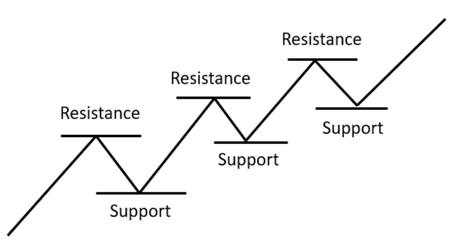
While candlesticks and chart patterns tell the story of price movement, support, resistance, and trendlines provide *the stage on which that story unfolds*. These tools help traders identify key price levels, make better entry, and exit decisions, and improve the reliability of patterns you have already learned.

What is Support

Support is a price level where buyers tend to step in, preventing the price from falling further. Think of it as the "floor" beneath the market.

- When the price approaches support, demand often increases, causing it to bounce back.
- Repeated bounces strengthen the support level.

Practical Tip: Look for candlestick patterns forming near support (like a Hammer or Morning Star), this can be a strong buying signal.



(***Image 6.1:*** *Schematic representation of Support and Resistance)*

What is Resistance

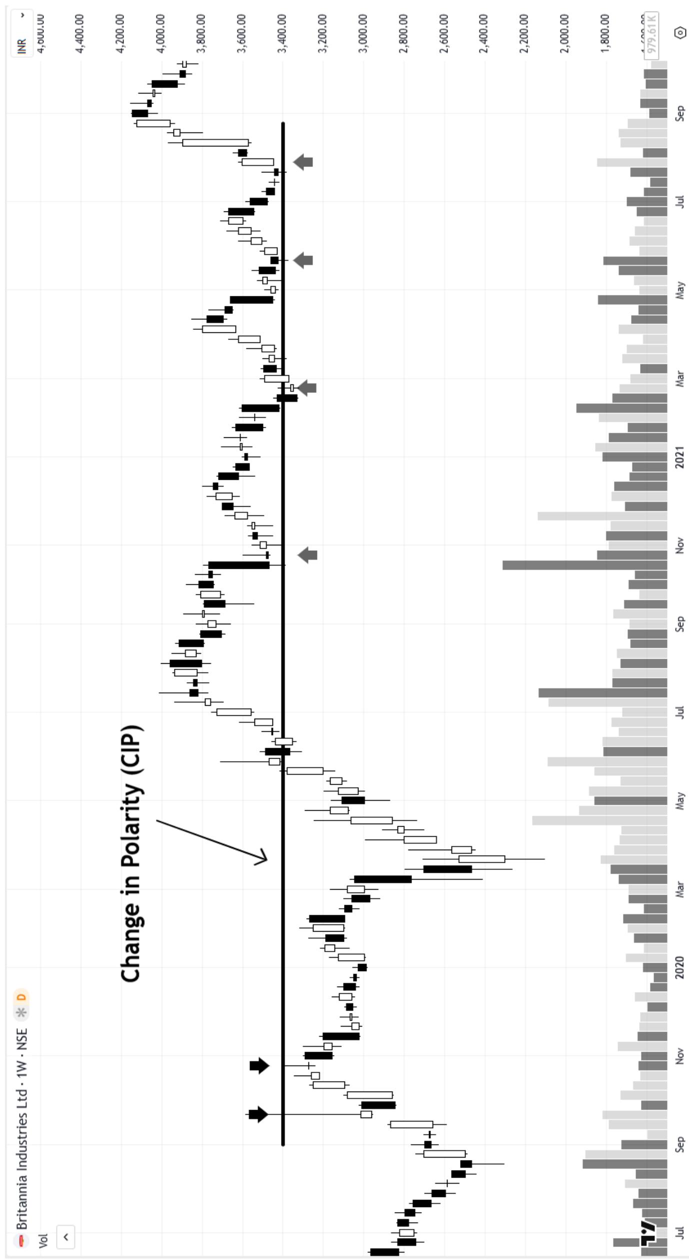
Resistance is a price level where sellers tend to take control, preventing the price from rising further. Think of it as the "ceiling" above the market.

- When the price approaches resistance, selling pressure often increases, causing it to pull back.
- Multiple touches of resistance without a breakout make it stronger.

Practical Tip: Observe bearish candlestick patterns near resistance (like a Shooting Star or Evening Star), this can indicate a potential sell or reversal point.

What is Change in Polarity (CIP)

Change in Polarity (CIP) is a key concept in technical analysis that describes how price levels can interchange their roles. When support is broken, it often turns into resistance; similarly, when resistance is surpassed, it often converts into support. This phenomenon reflects shifting market sentiment and trader behaviour, based on how price has previously reacted at those levels.



*(**Image 6.2:** Candlestick chart illustrating Change in Polarity)*

How It Works

- **Support Turns into Resistance**

  A support level acts as a price floor, where buying pressure once prevented the price from falling. When the price decisively breaks below this level, the floor is lost. If the price later rises to retest this zone, sellers typically reappear, and the level now acts as resistance, often pushing the price down again.

- **Resistance Turns into Support**

  A resistance level acts as a price ceiling where selling pressure prevented the price from rising. Once price breaks above this ceiling, market sentiment shifts. If the price pulls back to this region, buyers may enter the market, create a price floor, and turn the former resistance into support.

Why It Happens

- **Market Psychology**

  Traders remember historical support and resistance zones. A breakout reinforces the importance of these levels. Participants often react to these price points, anticipating reversals or continuation.

- **Shift in Supply and Demand**

  Breaking a resistance level signal that demand has overcome supply and buyers are willing to transact at higher prices. When price returns to this level, increased buying interest often turns it into a support zone. The reverse applies to broken support levels.

- **Short Covering and Missed Entries**

  When resistance levels break, short sellers may close their positions, adding to buying pressure. Additionally, traders who missed the breakout may buy on a pullback to the former resistance. Conversely, when support fails, traders may use pullbacks to the new resistance to initiate or add to short positions.

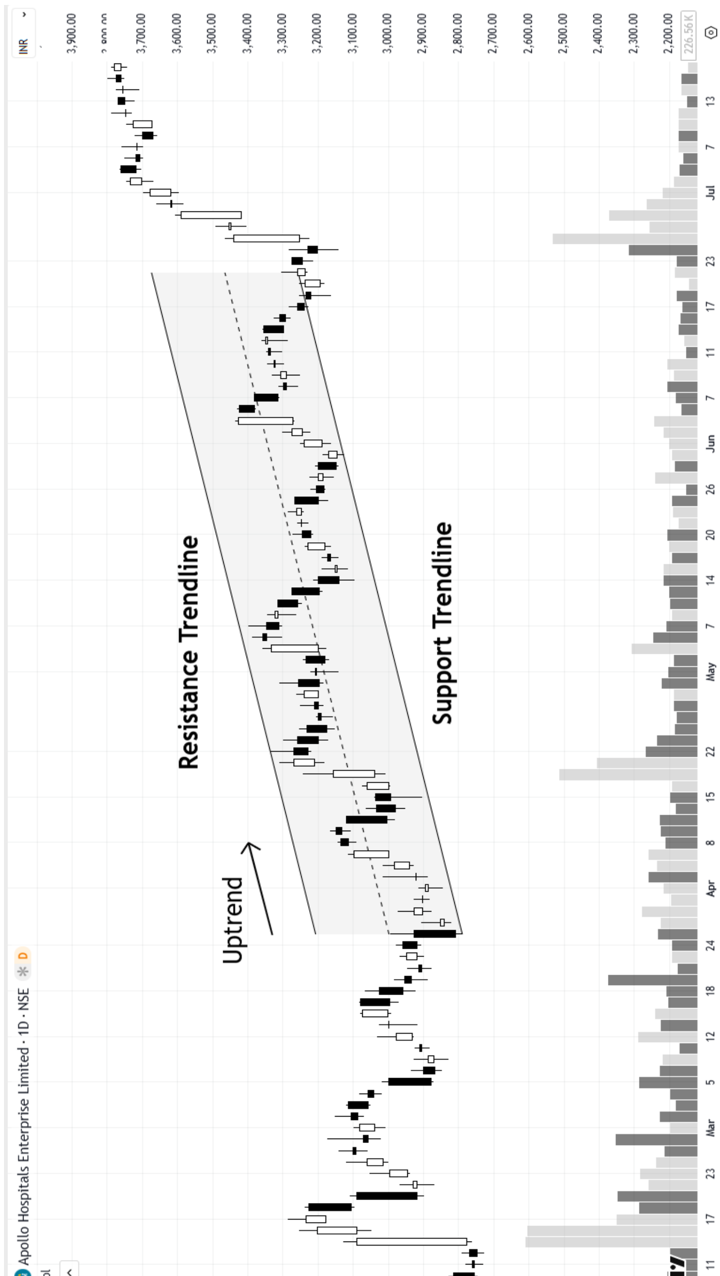
What are Trendlines

Trendlines are straight lines drawn on a chart that connect two or more significant price points to identify the direction of the market.

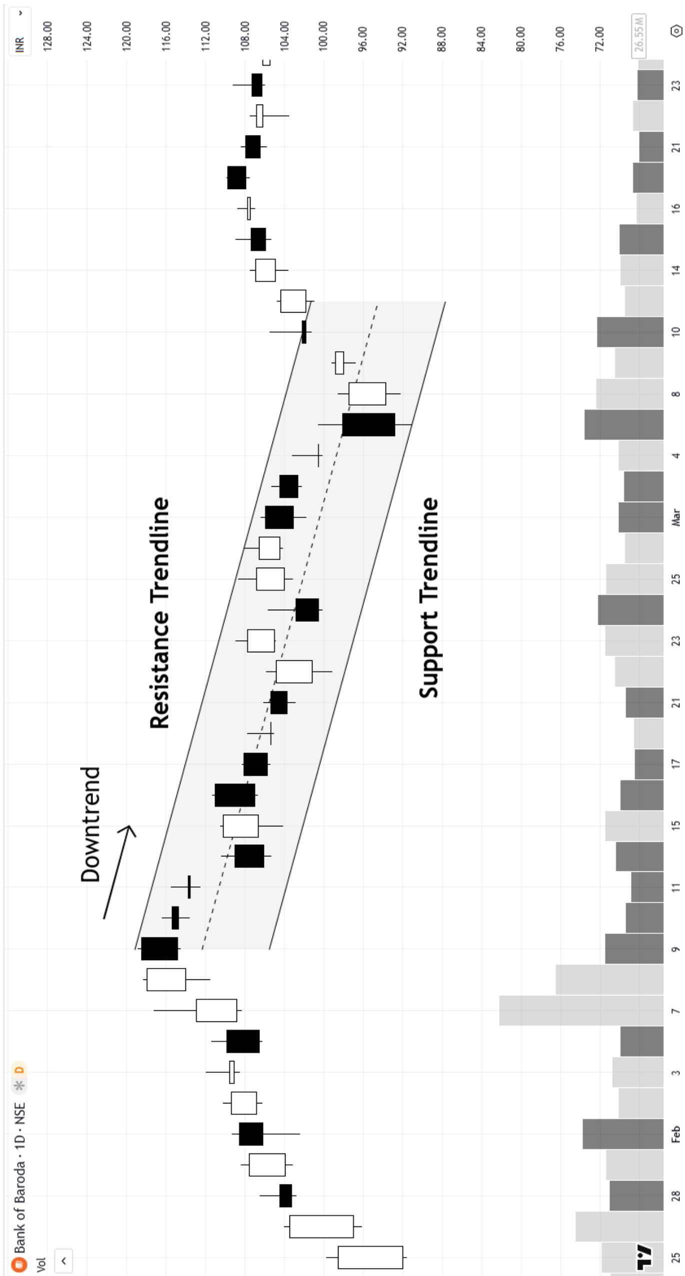
Practical Tip: Trendlines are more reliable when they connect multiple points. Combine trendline signals with candlestick or chart patterns for higher accuracy.

Types of Trendlines

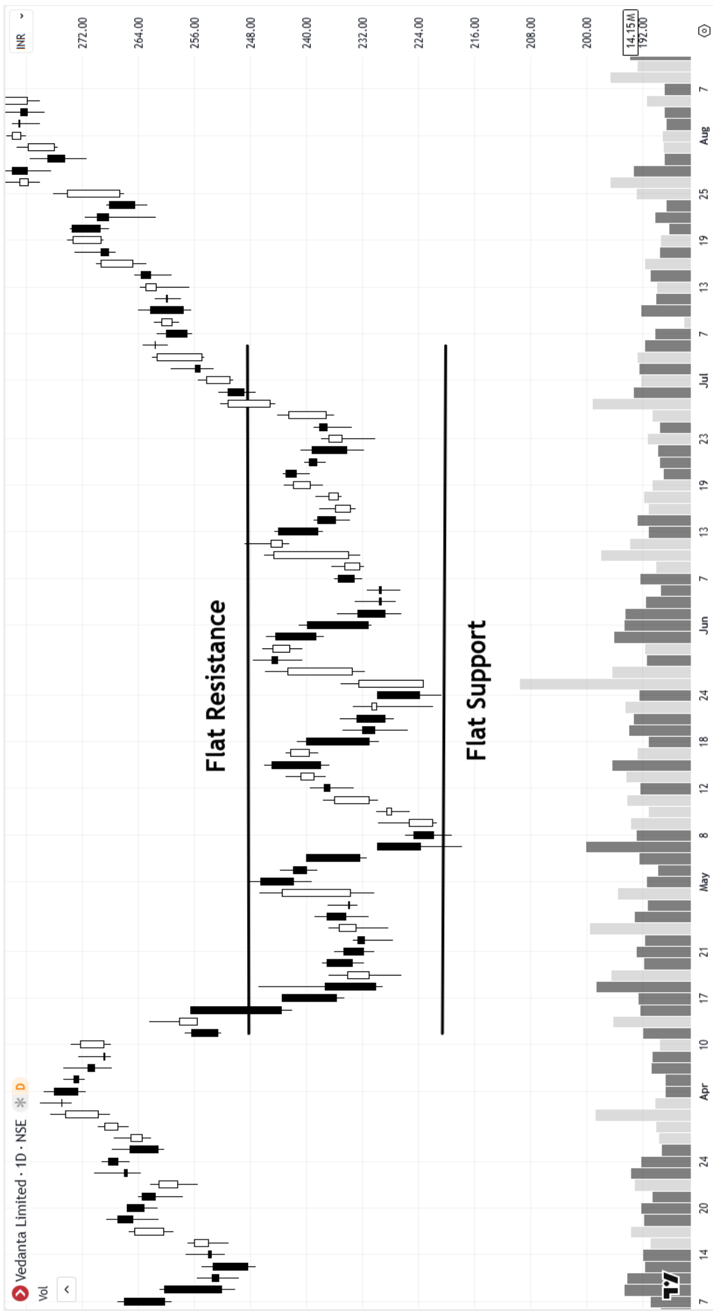
1. **Uptrend Line:** Connects higher lows; shows an upward trend. Acts as dynamic support (*Refer Image 6.3*).
2. **Downtrend Line:** Connects lower highs; shows a downward trend. Acts as dynamic resistance (*Refer Image 6.4*).
3. **Horizontal Lines:** Can mark flat support or resistance zones where price has repeatedly reversed (*Refer Image 6.5*).



*(**Image 6.3:** Candlestick chart illustrating an Uptrend Line)*



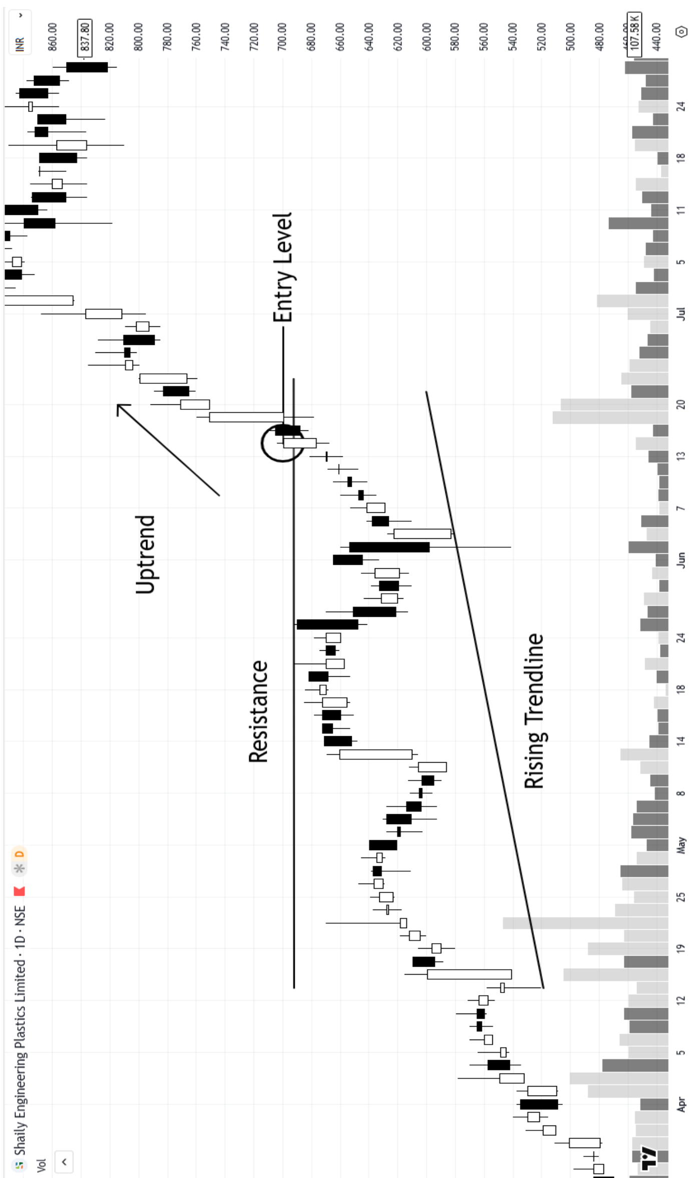
*(**Image 6.4:** Candlestick chart illustrating a Downtrend Line)*



(Image 6.5: Candlestick chart illustrating a Horizontal Line)

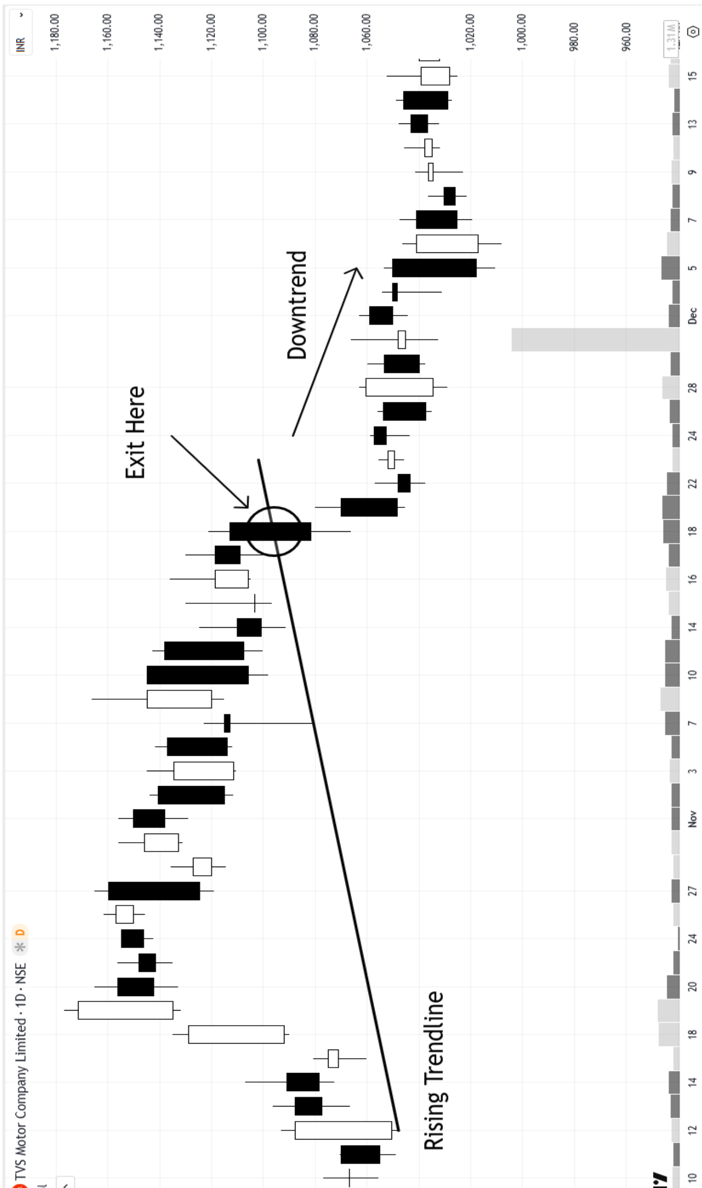
Combining Support, Resistance, and Trendlines

- **Entry Signals:** Look for bullish candlestick patterns at support or an uptrend line.



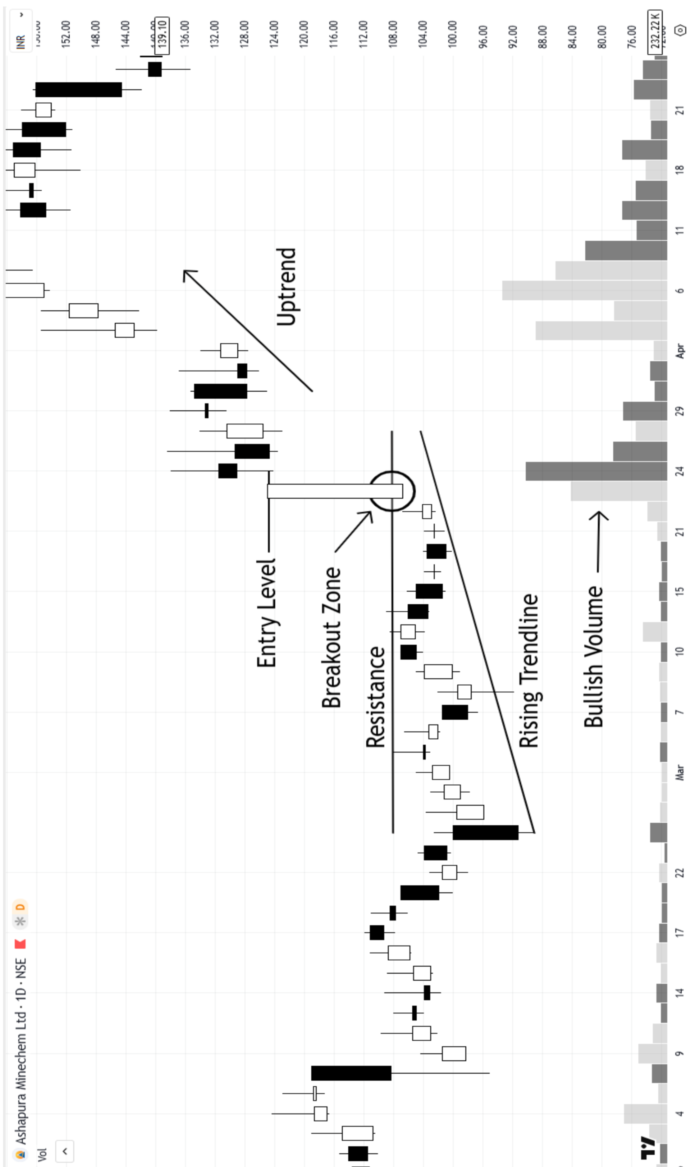
(Image 6.6: Candlestick chart illustrating an Entry Signal)

- **Exit Signals:** Look for bearish candlestick patterns near resistance or a downtrend line.



*(**Image 6.7:** Candlestick chart illustrating an Exit Signal)*

- **Breakouts:** When price breaks a support, resistance, or trendline with strong volume, it often signals a significant move.



***(Image 6.8:** Candlestick chart illustrating a Breakout)*

Example:

- Price approaches a long-term support line. A Hammer forms with increasing volume. This signals potential reversal upward, a good buying opportunity.
- Price reaches a resistance zone. A Shooting Star forms with high selling volume. This signals potential downward reversal, a good point to sell or exit.

Practical Tips for Beginners

1. **Draw Your Lines:** Practice drawing support, resistance, and trendlines on different time frames.
2. **Look for Confluence:** When a candlestick pattern aligns with support, resistance, or trendline, the signal is stronger.
3. **Adjust as Price Moves:** Trendlines may need adjustments; the market evolves constantly.
4. **Combine with Volume:** Breakouts are more reliable with high volume.

Takeaway

Support, resistance, and trendlines are your *anchors in the market*. They help you navigate price movements with confidence and add context to candlestick and chart patterns. By mastering these tools, beginners can make more informed decisions, reduce risk, and increase the probability of successful trades.

In the next chapter, we will explore *Volume and Confirmation*, which helps you validate patterns and breakouts to further increase your trading confidence.

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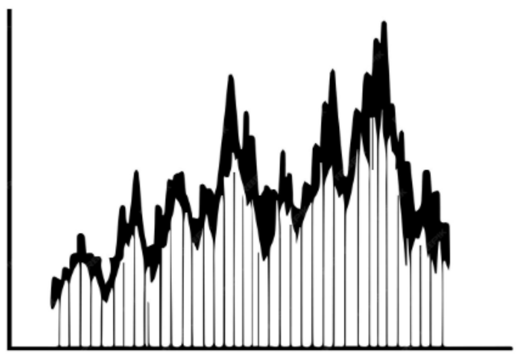
Chapter 7
Volume and Confirmation



"Volume precedes price."

— Joseph Granville

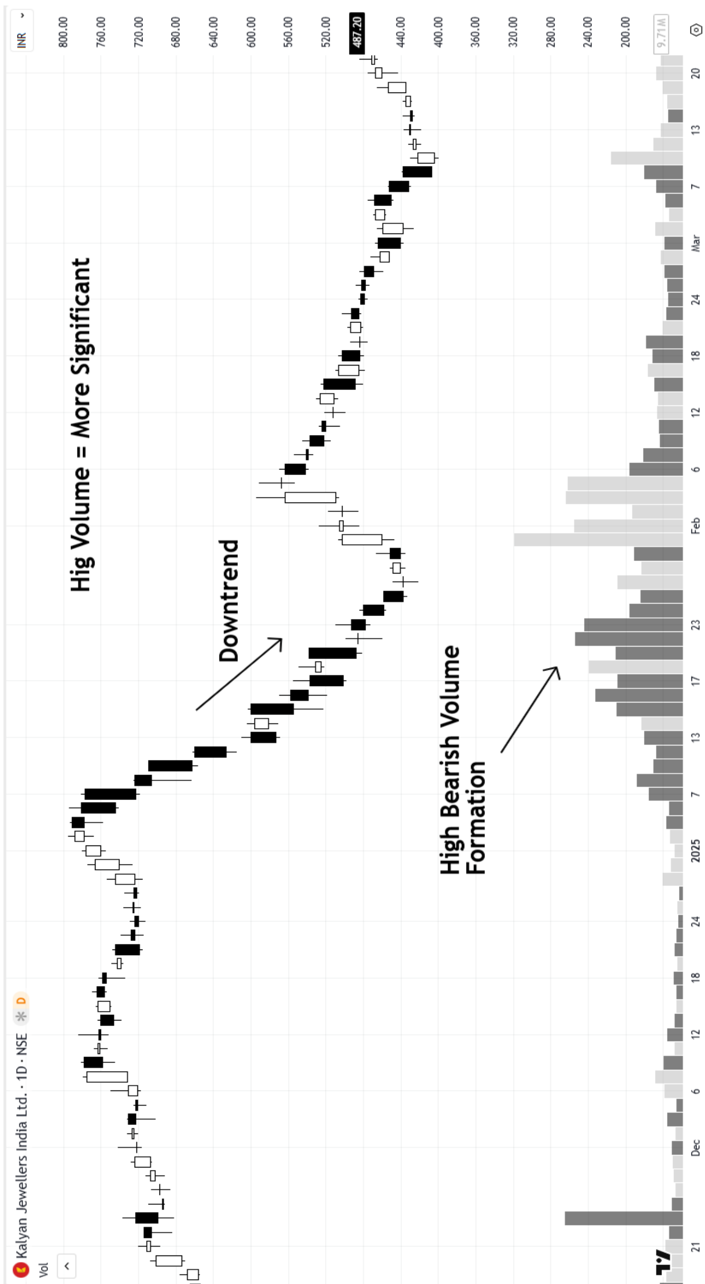
Chapter 7
Volume and Confirmation

Candlesticks, chart patterns, support, and resistance give you signals about market behaviour. But how do you know a signal is real or just temporary noise? The answer lies in *volume*; the number of shares or contracts traded during a specific period. Volume is the *heartbeat of the market*, showing the strength or weakness behind price movements.

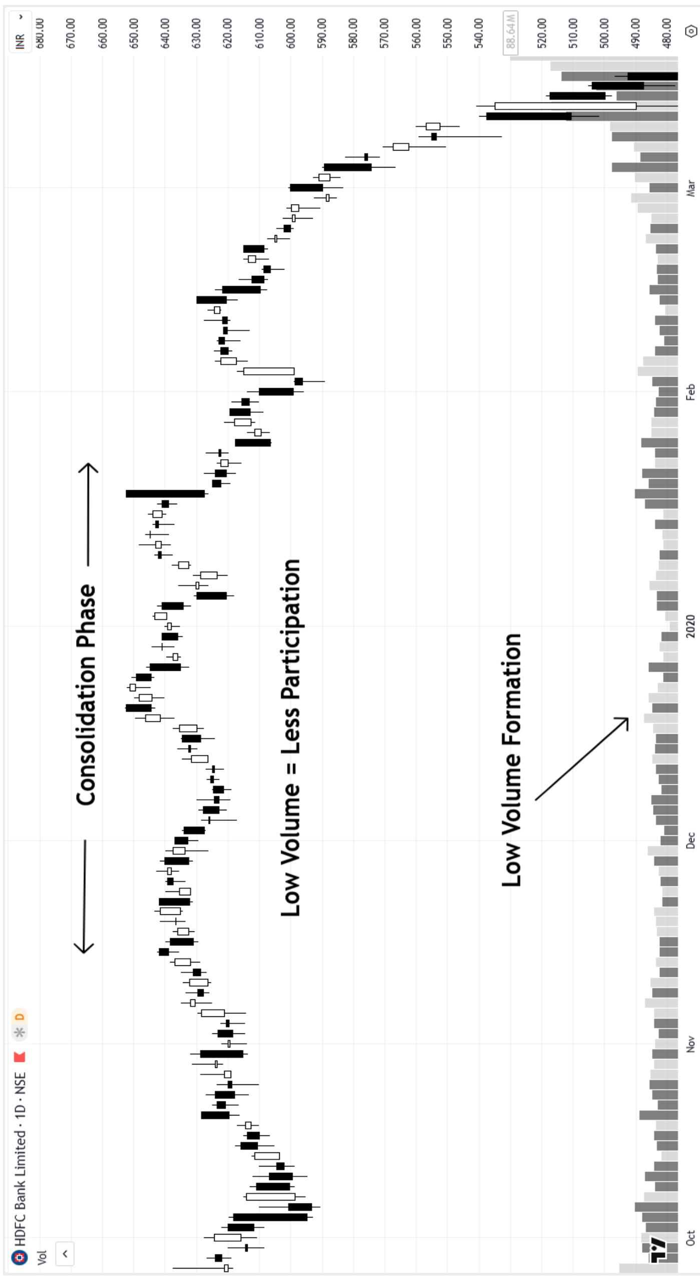
Why Volume Matters

Volume tells you how much conviction exists behind a move:

- **High Volume:** Confirms that buyers or sellers are serious; price movement is more likely to continue (*Refer Image 7.1*).
- **Low Volume:** Suggests weak participation; price movement may not be reliable (*Refer Image 7.2*).



(Image 7.1: Candlestick chart illustrating a High Volume)



*(**Image 7.2:** Candlestick chart illustrating a Low Volume)*

Without volume, a breakout, candlestick, or chart pattern could be misleading. Volume gives you confidence to act on the signals you observe.

Using Volume with Candlesticks

1. **Confirm Reversals:**

   Example: A Hammer forms at support. If accompanied by *high volume*, it confirms strong buying interest, increasing the likelihood of a reversal upward.

   Example: A Shooting Star forms at resistance. High volume strengthens the signal that sellers are taking control.

2. **Validate Trends:**
   - Rising prices with increasing volume indicate a *strong uptrend*.
   - Falling prices with increasing volume indicate a *strong downtrend*.
   - If volume decreases during a trend, it may be *losing momentum,* and a *reversal* could occur.

Using Volume with Chart Patterns

1. **Breakouts from Patterns:**
   - Triangles, flags, wedges, or head-and-shoulders patterns are more reliable when accompanied by a *spike in volume*.

   Example: A breakout from a triangle on high volume signals strong continuation in the breakout direction.

2. **False Breakouts:**
   - A breakout on low volume is often *unreliable* and may reverse quickly.
   - Beginners should always check *volume* before acting on a *breakout*.

Practical Tips for Beginners

1. **Always Observe Volume:** Do not ignore the volume bars at the bottom of your charts.
2. **Look for Spikes:** Large increases in volume often indicate the start of strong moves.
3. **Combine Signals:** Volume should be used with candlestick patterns, support/resistance, and trendlines for stronger confirmation.
4. **Practice on Charts:** Review historical charts to see how volume confirms or invalidates patterns.

Takeaway

Volume is like the *voice of the market*. Candlesticks show what happened, patterns show what may happen, and volume tells you how strong the signal is. For beginners, learning to read volume alongside price action will significantly improve trading confidence and reduce guesswork.

In the next chapter, we will explore *Exponential Moving Averages (EMA)*, a powerful trend-following tool that gives more weight to recent price action. Learning how EMAs guide entries, exits, and momentum shifts will enhance your ability to analyse trends and make timely trading decisions.

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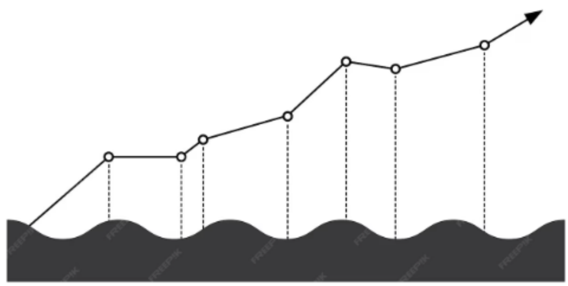
Chapter 8
Exponential Moving Average (EMA)



"Moving averages are like the heartbeat of the market, they show when momentum is alive and when it is fading."

— John Murphy

Chapter 8
Exponential Moving Average (EMA)

In trading, price movements can be noisy and confusing. To identify the underlying trend, traders use a powerful technical tool called the *Exponential Moving Average (EMA)*. The EMA smooths out price fluctuations, helping you focus on the market's true direction rather than short-term volatility.

The EMA reacts more quickly to recent price changes than the *Simple Moving Average (SMA)*, making it especially useful for identifying short- and medium-term trends.

What is an Exponential Moving Average

The *EMA* is a type of moving average that gives *greater weight to recent prices* and *less to older data*. This makes it more responsive to the latest market movements, a vital quality in fast-changing markets.

In simple terms, while an SMA averages all prices equally, an EMA says, *"What's happening now, matters more than what happened weeks ago."*

Why EMAs Matter

1. **Trend Identification:**

   EMAs help traders identify whether the market is in an uptrend or downtrend.

   - If the price is *above the* EMA, it indicates an uptrend.
   - If the price is *below the* EMA, it signals a downtrend.

2. **Dynamic Support and Resistance:**

   EMAs often act as *support in an uptrend* and *resistance in a downtrend*.

   When the price pulls back toward the EMA and then bounces, it often signals a continuation of the trend.

3. **Momentum Measurement:**

   The slope of the EMA line indicates momentum strength.

   - A *steeper EMA* means strong momentum.
   - A *flatter EMA* means the market is consolidating.

Commonly Used EMAs

- **9 EMA:** Used for Trailing Stop Loss and Exit Point.

Note:

a. **9-EMA Exit Rule (For Bullish Pattern):**

   i. The 1st red candle should close below 9-EMA.

   ii. The 2nd red candle should close below the low of previous breakdown (red) candle (*Refer Image 8.1*).

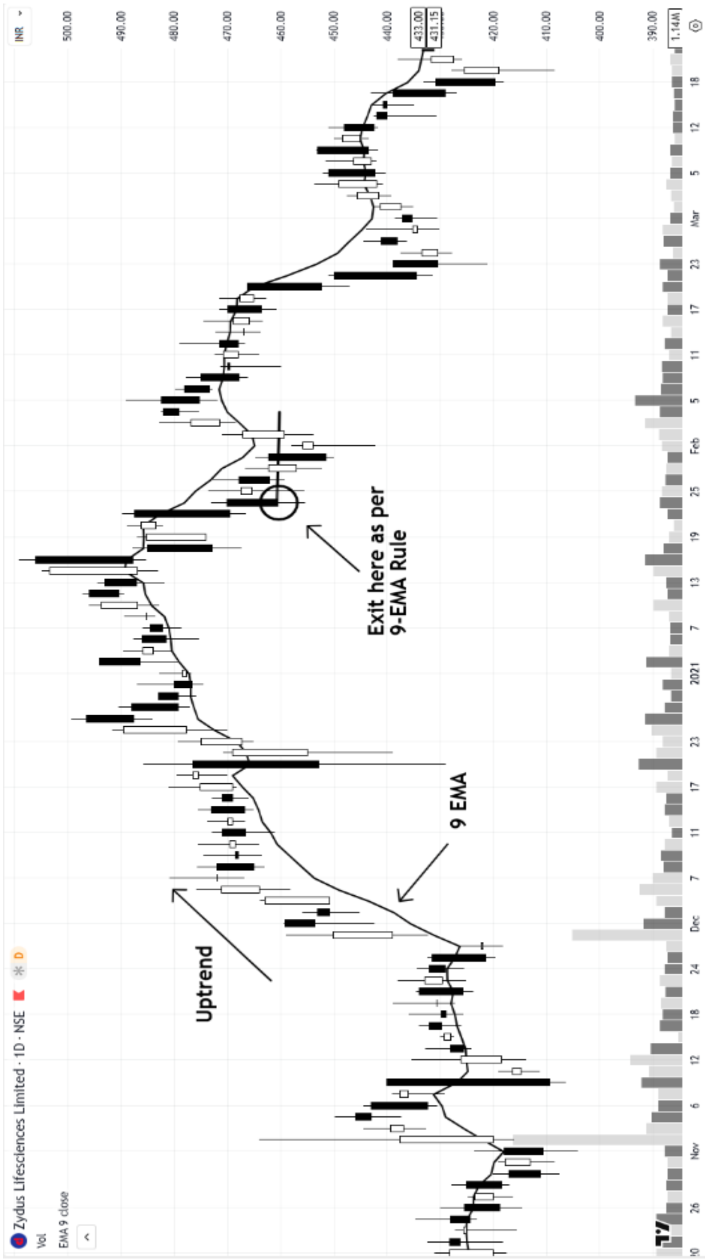
b. **9-EMA Exit Rule (For Bearish Pattern):**

   i. The 1st green candle should close above 9-EMA.

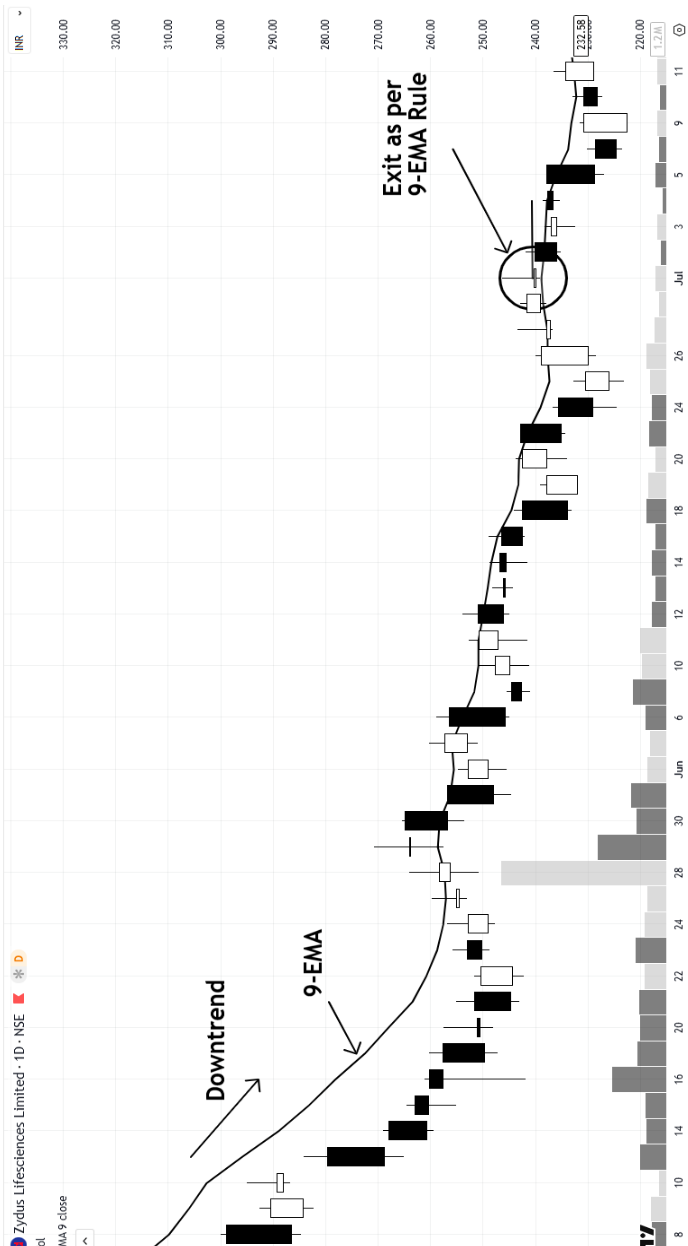
   ii. The 2nd green candle should close above the high of previous breakout (green) candle (*Refer Image 8.2)*.

Reader Guidance:

The 9-EMA exit rule is effective primarily in strong, directional, and momentum-driven price movements. In patterns where price action is range-bound, corrective, or lacks sustained follow-through, the 9-EMA exit may not offer a favourable or reliable risk–reward outcome. In such cases, exiting at the pattern-projected target remains the preferred and more prudent approach.

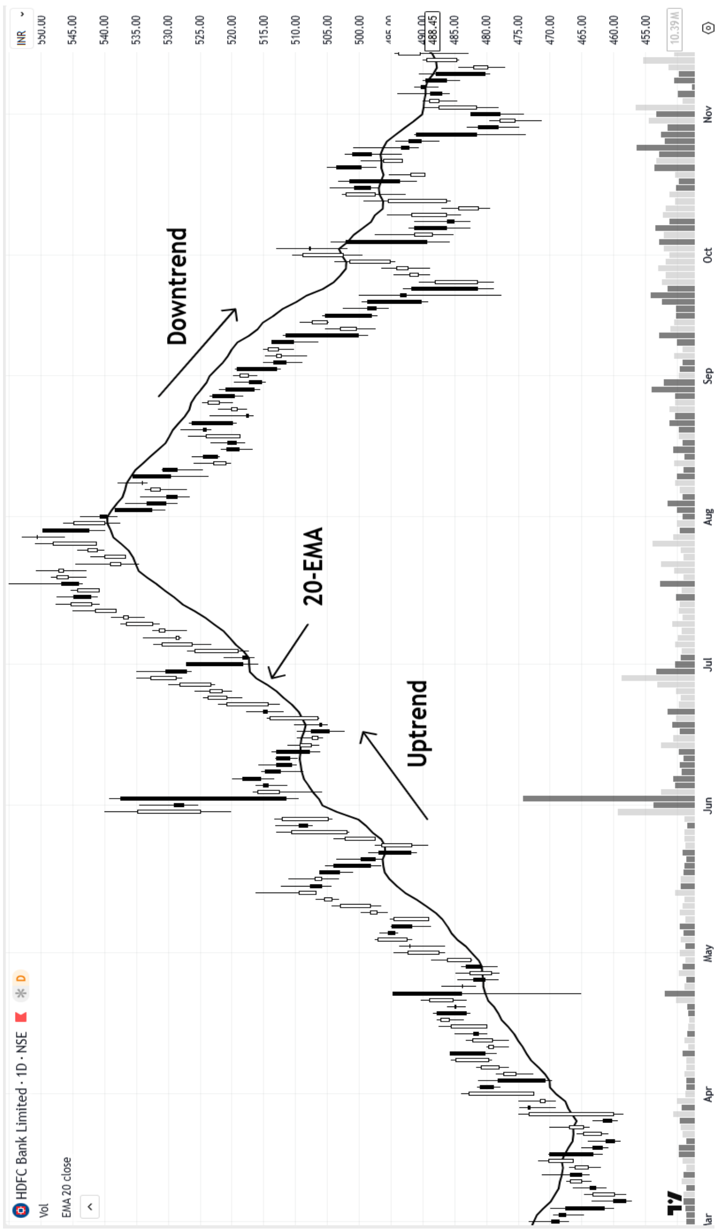


*(**Image 8.1:** Candlestick chart illustrating a 9-EMA for Bullish Pattern)*



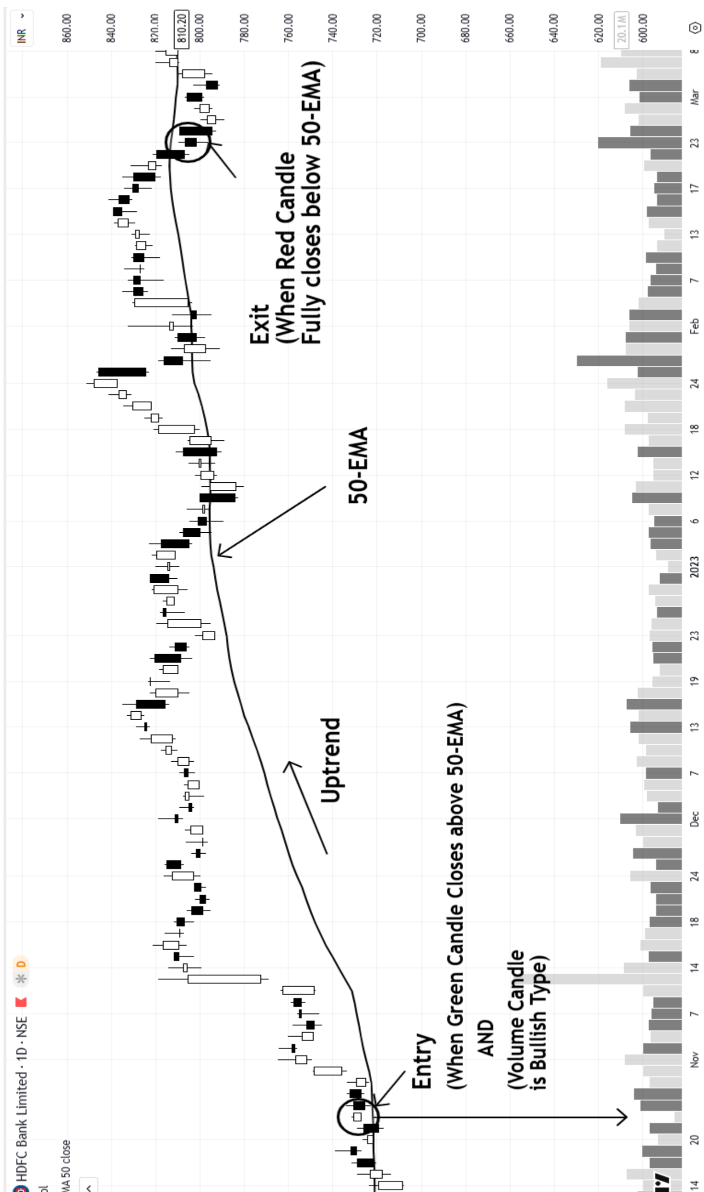
***(Image 8.2:** Candlestick chart illustrating a 9-EMA for Bearish Pattern)*

- **20 EMA:** Used for short-term trend analysis.



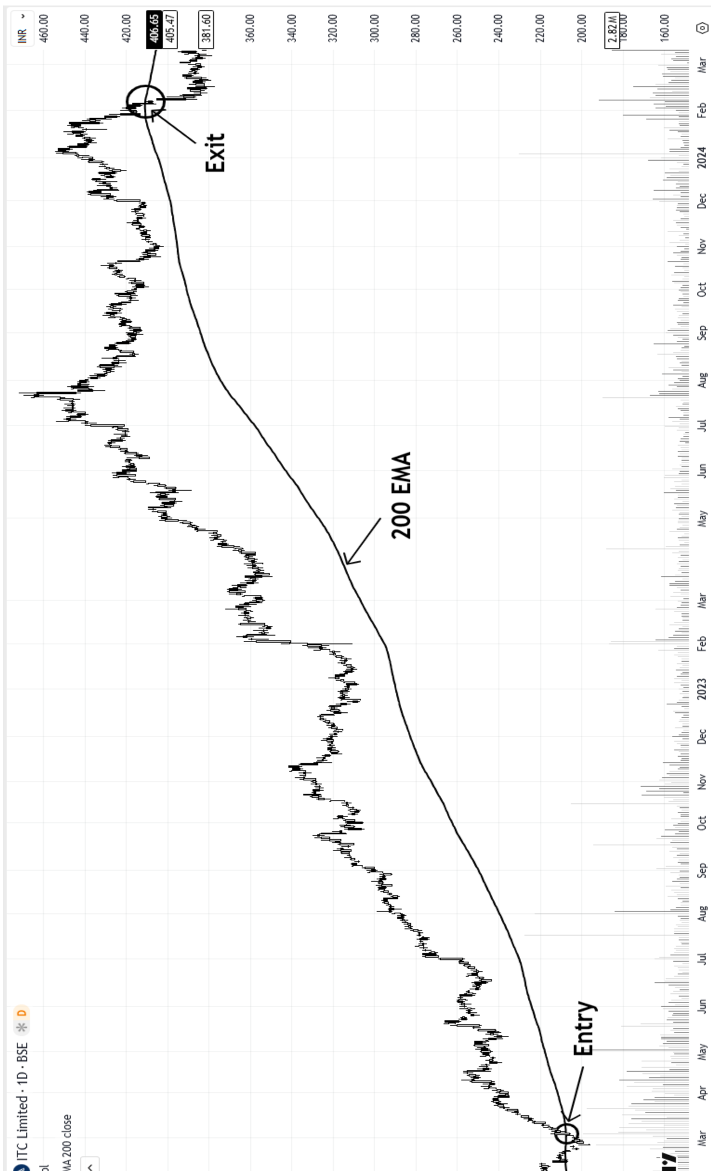
(Image 8.3: Candlestick chart illustrating a 20-EMA)

- **50 EMA:** Indicates medium-term trends and entry exit for medium term traders (Swing Traders).



(Image 8.4: Candlestick chart illustrating a 50-EMA)

- **200 EMA:** Represents long-term trends and is widely watched by institutions and large investors.



*(**Image 8.5:** Candlestick chart illustrating a 200-EMA)*

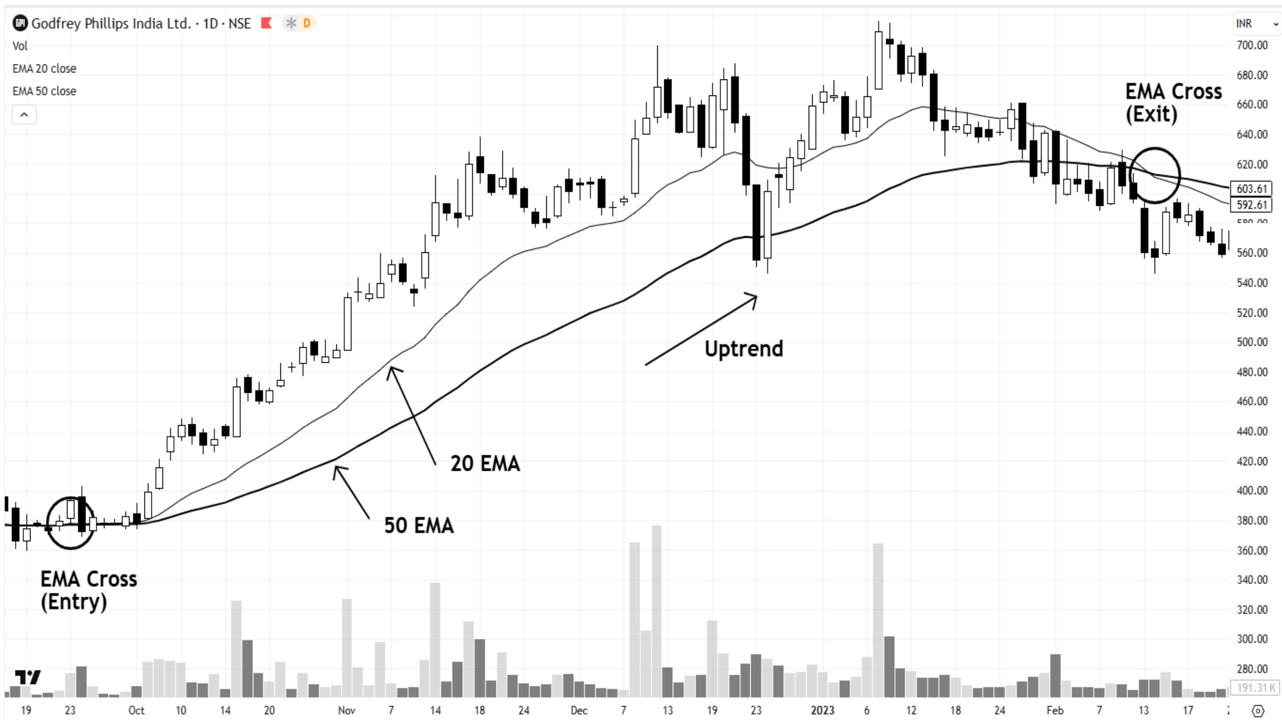
Traders often use combinations like the **10** and **20 EMA**s or **20** and **50 EMA**s or **50 and 200 EMA**s to identify crossovers and trend changes.

Note: Some traders also use 9 and 21 **EMA**s instead of 10 and 20 **EMA**s.

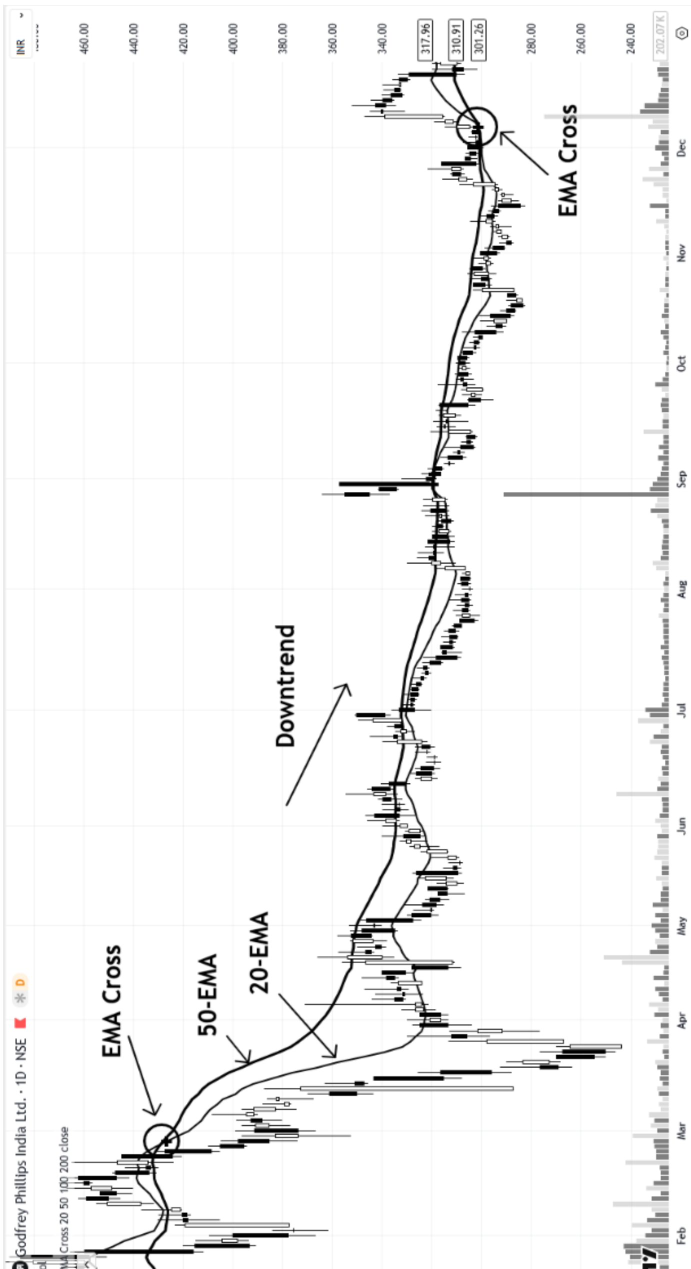
Trading with EMAs

1. **EMA Crossovers:**
    - **Bullish Crossover:** When a shorter EMA (e.g., 20) crosses *above* a longer EMA (e.g., 50), it signals the start of an *uptrend (Refer Image 8.6)*.
    - **Bearish Crossover:** When a shorter EMA crosses **below** a longer EMA, it indicates a **downtrend** may begin (*Refer Image 8.7*).

    These crossovers are among the most popular signals used by traders to confirm trend direction.



(***Image 8.6:*** *Candlestick chart illustrating a Bullish Crossover*)



(Image 8.7: *Candlestick chart illustrating a Bearish Crossover)*

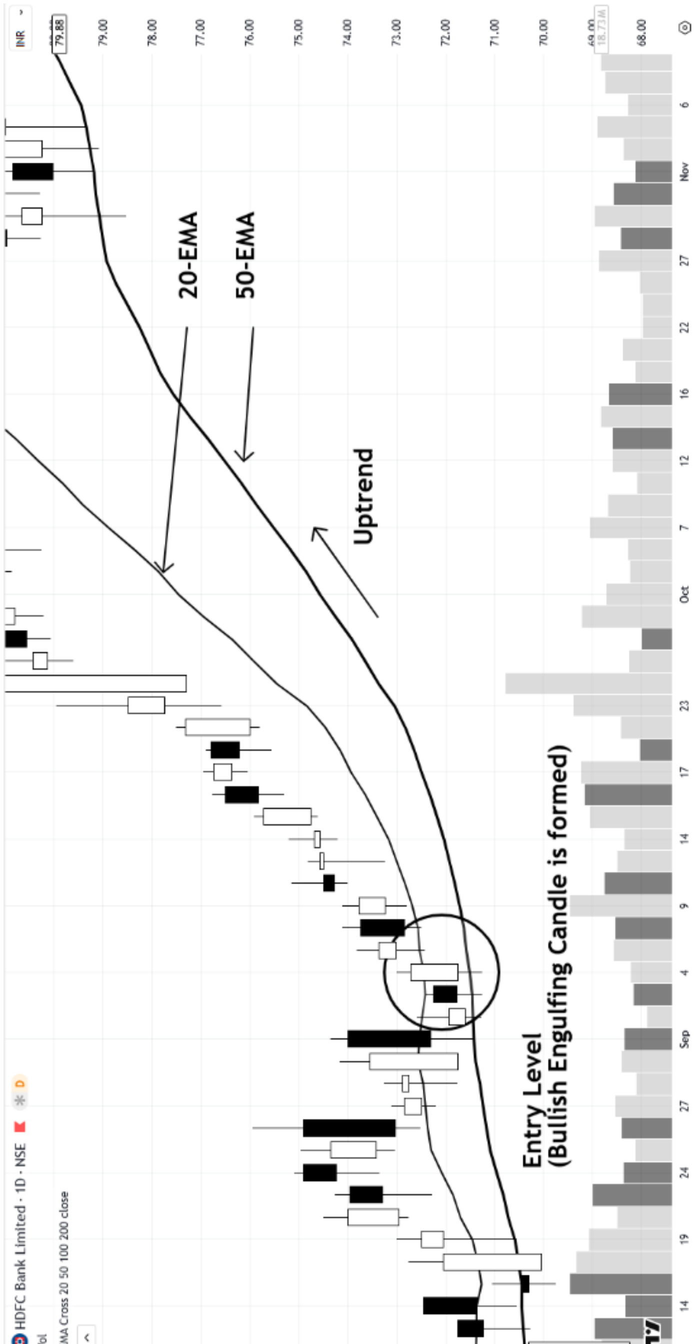
2. EMA Bounce Strategy:

In an uptrend, traders often wait for the price to pull back to the EMA (especially the 20 or 50 EMA) and then look for a bullish candlestick pattern (like a Hammer or Bullish Engulfing) to enter a trade in the direction of the trend (*Refer Image 8.8*).

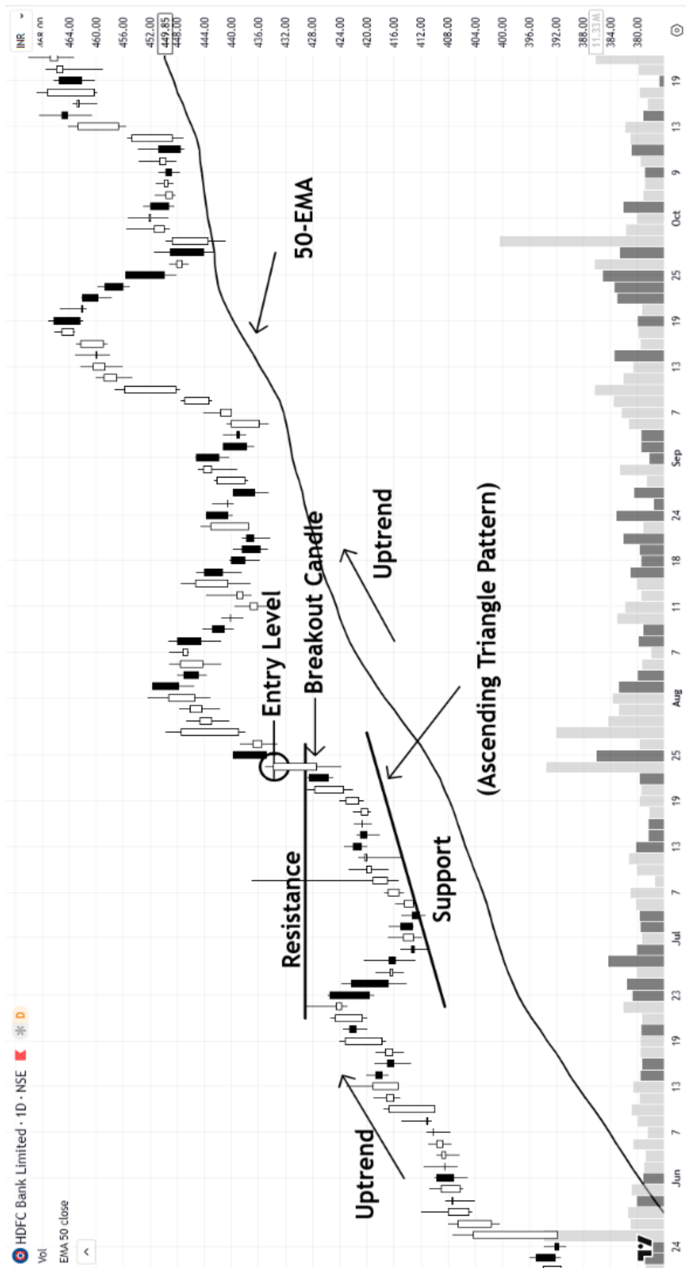
3. EMA with Chart Patterns:

EMAs can strengthen the reliability of chart patterns.

For example, if a breakout from a triangle or wedge occurs *above the EMA*, it increases the likelihood that the breakout will continue (*Refer Image 8.9*).



***(Image 8.8:** Candlestick chart illustrating a Bounce Strategy)*



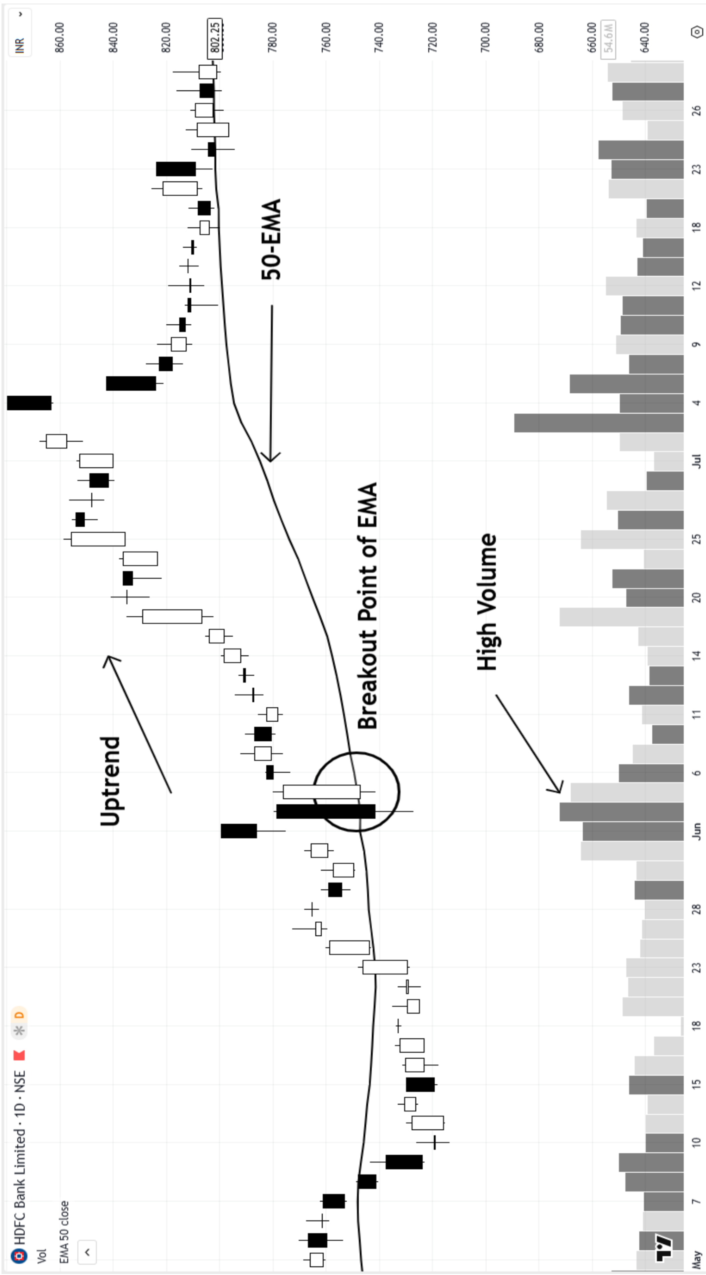
*(**Image 8.9:** Candlestick chart illustrating Significance of EMA)*

Volume and EMA Confirmation

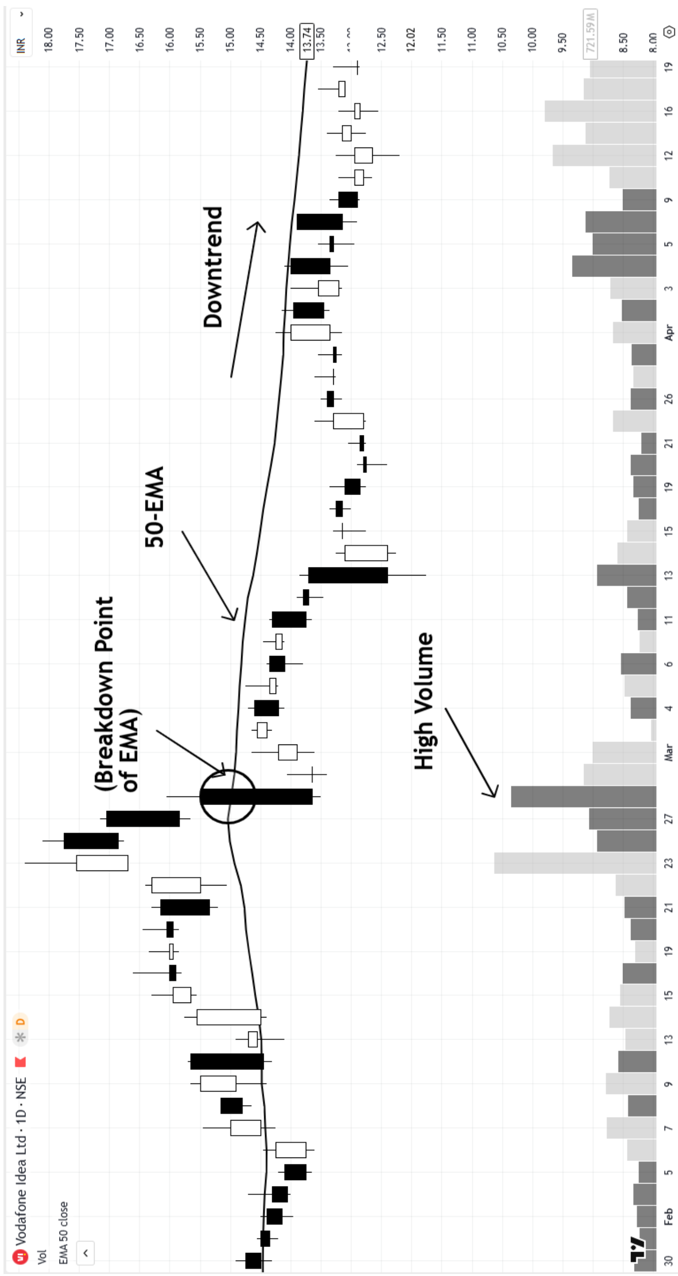
Combining *EMA signals* with *volume* gives extra confidence:

- A breakout *above the EMA* with *high volume* confirms strong buying pressure (*Refer Image 8.10*).
- A breakdown *below the EMA* with *high volume* indicates strong selling momentum (*Refer Image 8.11)*.

Practical Tip: Low volume on such moves, however, could mean the signal is weak or may reverse soon.



*(**Image 8.10:** Candlestick chart illustrating Combination of EMA Signals with Volume during Breakout)*



***(Image 8.11:** Candlestick chart illustrating Combination of EMA Signals with Volume during Breakdown)*

Practical Tips for Beginners

1. **Do not Rely on EMA Alone:** Use it with candlestick patterns, support/resistance, and volume for confirmation.
2. **Avoid Whipsaws:** In sideways markets, EMA signals can be misleading. Always check for clear trend direction before acting.
3. **Use Multiple Timeframes:** For example, use the *50 EMA* on the *daily chart* to confirm the broader trend and the *20 EMA* on the *hourly chart* for entry timing.
4. **Practice on Charts:** Observe how price interacts with the EMA in real charts. Notice how often the EMA acts as support or resistance.

Takeaway

The *Exponential Moving Average (EMA)* is one of the most useful tools for identifying and confirming trends. It filters out market noise and helps traders focus on what truly matters, the direction and strength of price movement.

By learning to combine EMAs with candlestick patterns, chart formations, and volume, beginners can significantly improve their ability to make informed, confident trading decisions.

In the next chapter, we will expand your understanding to C*hart patterns: the bigger picture*, which reveal trends over longer periods and help you plan trades with a broader perspective.

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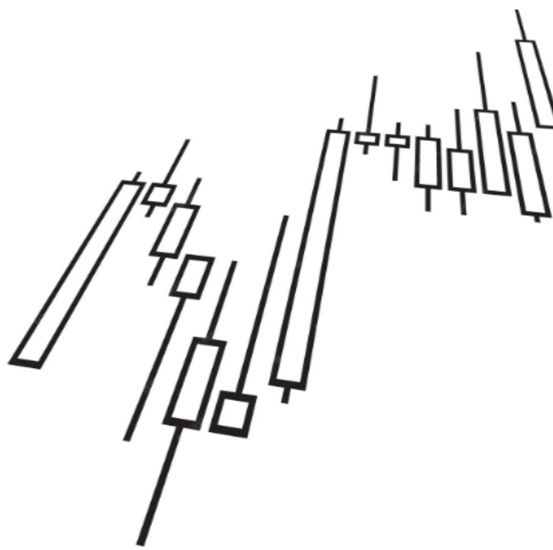
Chapter 9
Chart Patterns: The Bigger Picture



"The four most dangerous words in investing are:
'This time it's different."

— Sir John Templeton

Chapter 9
Chart Patterns: The Bigger Picture

While candlesticks tell us the story of short-term market behaviour, *chart patterns reveal the bigger picture,* the trend, momentum, and potential turning points over longer periods. Understanding these patterns helps traders plan trades with more confidence, anticipate trend continuations or reversals, and reduce guesswork.

Why Chart Patterns Matter

Candlesticks are snapshots; chart patterns are *movies*. They combine multiple candles into shapes that signal *how the market is likely to behave next*. By learning these patterns, you can identify opportunities to enter or exit trades more effectively, increasing the probability of success.

Types of Chart Patterns Based on Market Direction

Chart patterns can also be broadly classified into *Bullish* and *Bearish* patterns based on the future price direction they signal.

1) Bullish Chart Patterns

Bullish patterns suggest that the price is likely to *move upward*. They often appear after a downtrend or during consolidation, and they signal growing buyer strength.

Key points to understand for bullish patterns:

- A bullish pattern typically forms after a prior decline or sideways movement.
- The key confirmation comes when price *breaks out above a resistance level*.

- Volume expansion during breakout strengthens the validity of the pattern.
- Many bullish patterns signal *trend reversal*, while some indicate *trend continuation.*
- The larger and clearer the pattern, the stronger the potential upward move.

Common examples of bullish patterns include:

Cup and Handle, Inverse Head and Shoulders, Double Bottom, Ascending Triangle, Bullish Flag, Falling Wedge, Rounding Bottom etc.

2) Bearish Chart Patterns

Bearish patterns indicate that the price is likely to *move downward*. They generally form after an uptrend or during consolidation, suggesting sellers are gaining control.

Key points to understand for bearish patterns:

- A bearish pattern typically forms after a prior uptrend or sideways movement.
- The key confirmation comes when price *breaks down below a support level*.
- Volume expansion during breakdown adds strength to the signal.
- Many bearish patterns signal *trend reversal*, while others indicate *continuation of downtrend*.
- Larger patterns usually result in a more significant decline.

Common examples of bearish patterns include:

Inverted Cup and Handle, Head and Shoulders, Double Top, Descending Triangle, Bearish Flag, Rising Wedge, Rounding Top etc.

Scope and Approach of This Chapter

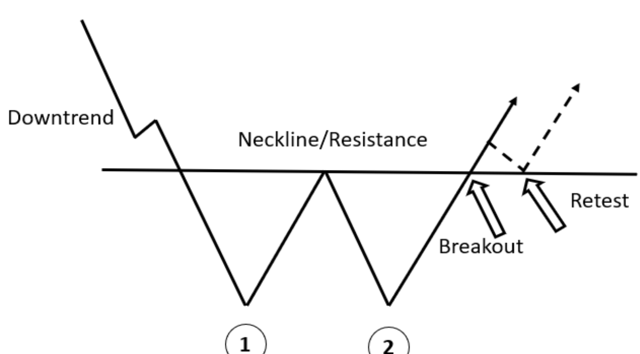
This chapter focuses exclusively on the formation of chart patterns and the method of planning exits based on pattern-defined targets. Each pattern is studied through its structural development, price behaviour, and the role of volume in confirming breakouts or breakdowns. No indicators are used, ensuring that the analysis remains purely price- and volume-driven.

Understanding how patterns evolve and how targets are derived helps traders develop patience, discipline, and clarity in trade management. By mastering pattern formation and objective exit planning, traders can reduce emotional decision-making and improve consistency in their trading approach.

Key Chart Patterns:

1. Double Bottom Pattern

A *Double Bottom* is a *bullish reversal pattern* in technical analysis that signals a potential shift from a *downtrend* to an *uptrend*. The pattern resembles the letter "W" and forms when the price makes two consecutive lows at approximately the same level, separated by a moderate rally or peak. Confirmation occurs when the price *breaks above the neckline*, which represents the *resistance level* formed by the peak between the two bottoms.



*(**Image 9.1:** Schematic representation of a Double Bottom pattern)*

How the Pattern Forms:

- **Downtrend:** The formation begins after a sustained decline in price.
- **First Trough:** The price reaches a low and rebounds upward, forming the first "valley" of the "W."
- **Neckline:** As the price recovers from the first trough, a peak forms, establishing a *horizontal resistance line* known as the neckline.
- **Second Trough:** The price declines again but holds near the previous low, creating the second valley without a significant breakdown.
- **Breakout:** A bullish signal is confirmed when the price rises once more and *breaks decisively above the neckline*, indicating a potential *reversal to an uptrend*.

Quick Overview:

- **Appearance:** Two equal lows forming a "W" shape.
- **Meaning:** Buyers defend support level twice; selling weakens.
- **Interpretation:** Breakout above neckline confirms reversal to uptrend.
- **Where to Look:** At the end of extended declines.

Chart Analysis:

(Refer Image 9.2)

- **Trend Direction:** The prevailing trend before Double Bottom Pattern is downtrend and it can be seen in Havells India Ltd. Once the pattern will be completed the price will go upward as it is a bullish trend reversal pattern.
- **Pattern Duration:** Double Bottom Pattern was formed on Daily chart of Havells India Ltd. from 2nd November 2016 to 25th January 2017 as shown in below chart.

- **Volume Behaviour:** The volume builds up observed during breakout zone and upward movement.
- **Suggested Trade Position:** The long position will be taken at the price of ₹360 and the stop loss will at ₹310 (Low of 2nd Bottom). The Target will be ₹400 as per pattern.

Note: *Aggressive traders* may enter above the high of the candle formed at the second bottom. Partial profit (50%) can be booked near the neckline, while the remaining position may be held for the pattern target, with the stop loss maintained at the recent bottom low.

- **Sample Calculation of Risk Reward Ratio:**

  Entry Price: ₹360
  Stop Loss: ₹310
  Target: ₹400

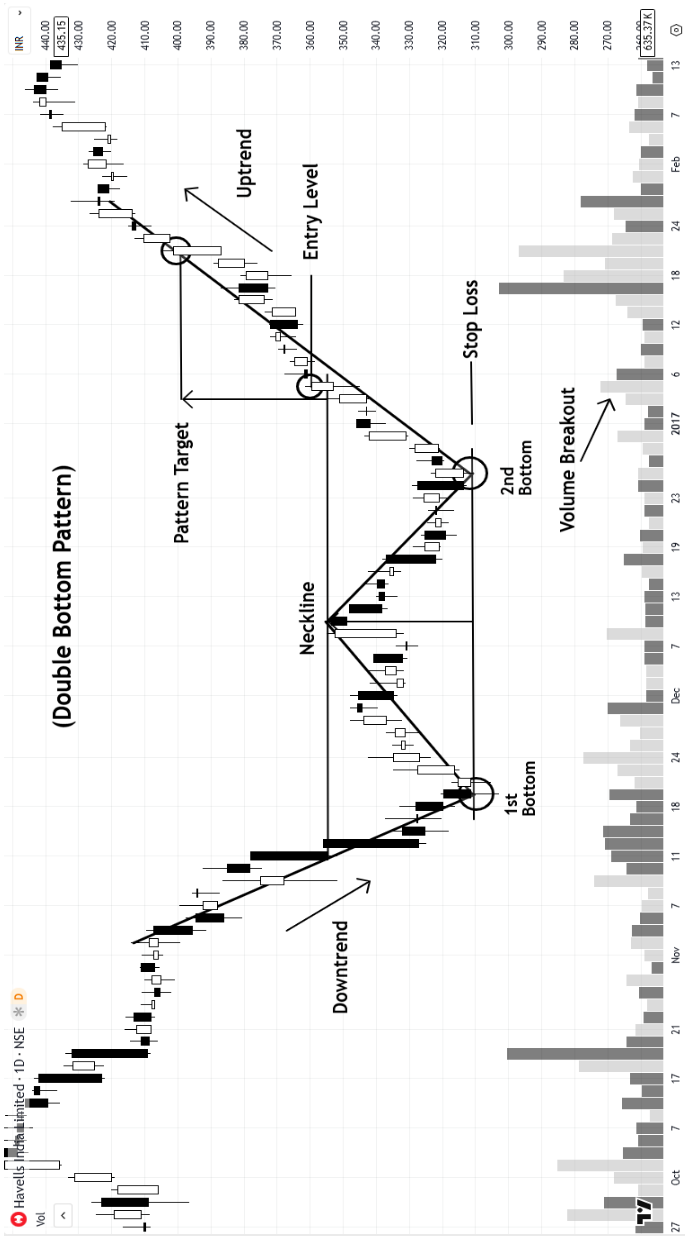
  1. Risk per share

  Risk = Entry Price – Stop Loss
  Risk = 360 – 310 = **₹50**

  2. Reward per share

  Reward = Target – Entry Price
  Reward = 400 – 360 = **₹40**

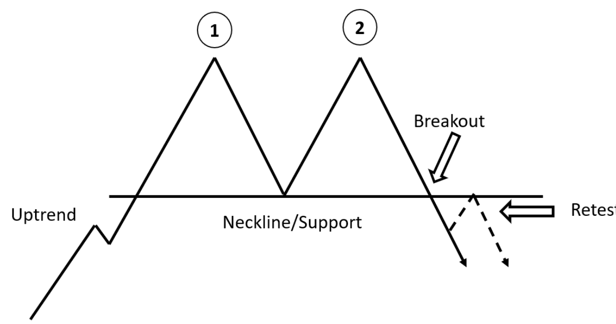
- **Risk–Reward Ratio (R:R)** = 50 : 40 ≈ **1 : 0.8**
- **Trade Feasibility and Exit Judgment:** The setup shows an *unfavourable risk–reward profile* (≈ 1 : 0.8), where the potential reward does not adequately compensate for the risk. Such trades should generally be *avoided* or *restructured* unless supported by strong additional confirmation or a revised exit strategy.



***(Image 9.2:** Daily candlestick chart of Havells India Ltd. illustrating a Double Bottom pattern)*

2. Double Top Pattern

A *Double Top* is a *bearish reversal pattern* in technical analysis that indicates the possible end of an uptrend and the beginning of a downward move. The pattern forms when the price reaches a *resistance level twice*, pulling back each time without breaking above it. Visually, it resembles the letter "M", and confirmation occurs when the price *breaks below the support line* formed by the trough between the two peaks.



(Image 9.3: *Schematic representation of a Double Top pattern)*

How the Pattern Forms:

- **First Peak:** The price advances and reaches a new high, forming the first top.
- **Trough:** A pullback follows, creating a low point (trough) that establishes a temporary support level.
- **Second Peak:** The price rises again but fails to exceed the previous high, forming a second peak near the same resistance zone.
- **Breakdown:** The pattern is validated when the price falls below the support of the trough, signalling a potential *reversal* from *bullish* to *bearish*.

Quick Overview:

- **Appearance:** Two equal highs forming an "M" shape.
- **Meaning:** Buyers fail twice at resistance; momentum weakens.
- **Interpretation:** Breakdown below neckline confirms bearish reversal.
- **Where to Look:** After long bullish rally.

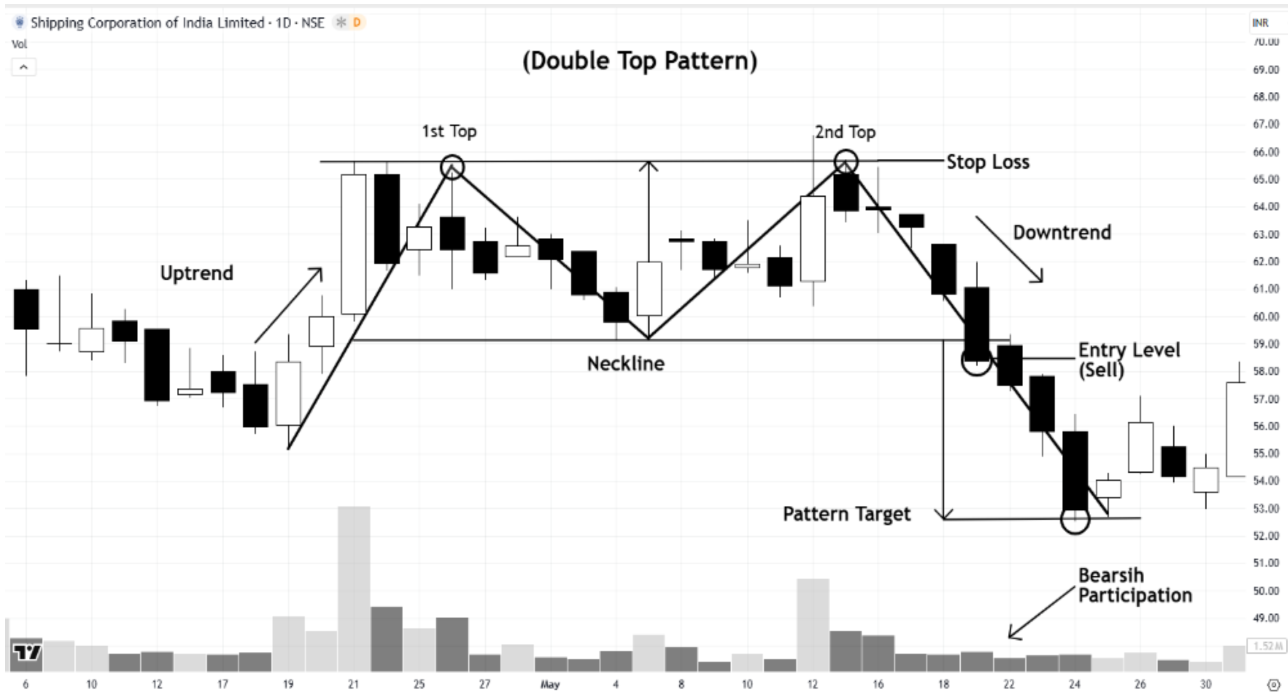
Chart Analysis:

(Refer Image 9.4)

- **Trend Direction:** The prevailing trend before Double Top pattern is upward as seen in Shipping Corporation of India Ltd. Once the pattern will be completed the price will go towards downside as it is a bearish trend reversal pattern.
- **Pattern Duration:** The Double Top pattern was formed on Daily chart of Shipping Corporation of India Ltd. from 19th April 2017 to 23rd May 2017 as shown in below chart.
- **Volume Behaviour:** After the breakdown candle, the stock showed indication of bearish participation.
- **Suggested Trade Position:** The short position will be taken at the price of ₹58.46 and the stop loss will be placed at 2nd top of ₹65.66. The Target will be at ₹52.63 as per pattern target.

  Note: *Aggressive traders* may enter below low of the candle formed the second top. Partial profit (50%) can be booked near the neckline, while the remaining position may be held for the pattern target, with the stop loss maintained at the recent top high.
- **Risk–Reward Ratio (R:R)** = 7.20 : 5.83 ≈ **1 : 0.81**

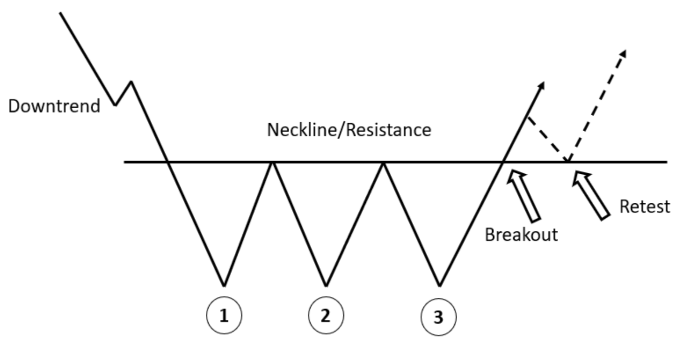
- **Trade Feasibility and Exit Judgment:** The trade reflects an *unfavourable risk–reward profile* (≈ 1 : 0.81), where the expected reward is lower than the defined risk. Such a setup should be *avoided* or *modified* unless additional confirmation improves the reward potential.



(***Image 9.4:*** *Daily candlestick chart of Shipping Corporation of India Ltd. illustrating a Double Top pattern)*

3. Triple Bottom Pattern

A *Triple Bottom* is a *bullish reversal pattern* that marks the potential end of a downtrend and the beginning of an uptrend. It typically develops after a prolonged price decline and is characterized by *three distinct lows* occurring near the same support level. Visually, the pattern resembles an extended letter "W". Confirmation occurs when the price *breaks above the neckline*, which is the *resistance level* connecting the two intermediate peaks formed between the lows.



*(**Image 9.5:** Schematic representation of a Triple Bottom pattern)*

How the Pattern Forms:

- **Three Lows:** The price tests a key support zone three times, with each bottom forming around the same level, indicating strong buying interest.
- **Two Pullbacks:** Between these lows, two moderate rallies or pullbacks occur, forming peaks that define the neckline or resistance area.
- **Support Zone:** The repeated defence of the support level demonstrates accumulation by buyers and weakening selling pressure.
- **Volume:** Trading volume often declines during the formation of the lows and *rises sharply on the breakout above the neckline*, confirming a potential bullish reversal.

Quick Overview:

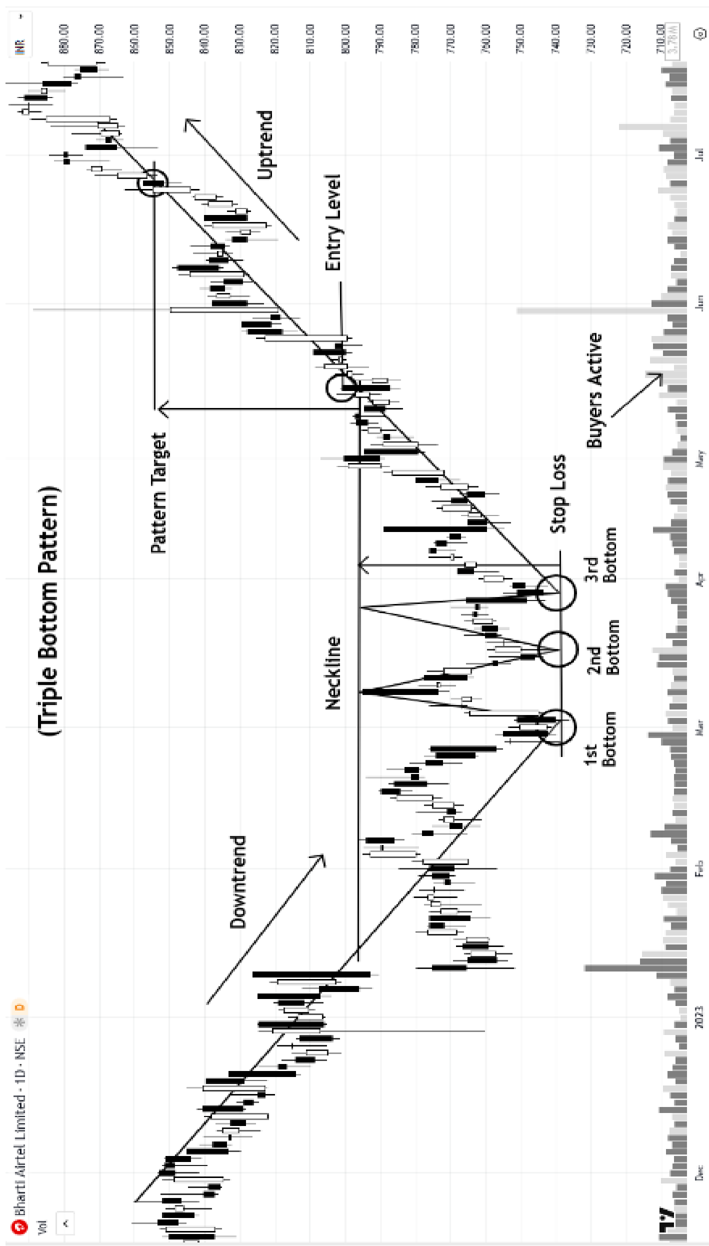
- **Appearance:** Three equal lows at nearly same level.
- **Meaning:** Strong support zone with repeated buyer defence.
- **Interpretation:** Breakout above neckline confirms uptrend start.
- **Where to Look:** At the end of prolonged downtrend.

Chart Analysis:

(Refer Image 9.6)

- **Trend Direction:** The prevailing trend before Triple Bottom pattern is downtrend as it can be seen in Bharti Airtel Limited. Once the pattern is completed, the price went towards upside as it is bullish trend reversal pattern
- **Pattern Duration:** The Bullish Triple Bottom Reversal pattern was formed on Daily chart of Bharti Airtel Limited from 25th November 2022 to 27th June 2023 as shown in below chart.
- **Volume Behaviour:** The stock shown decent volume spike during uptrend.
- **Suggested Trade Position:** The long position will be taken at ₹800, and the Stop Loss will be at 3rd bottom of ₹738. The Target will be at ₹855 as per pattern.

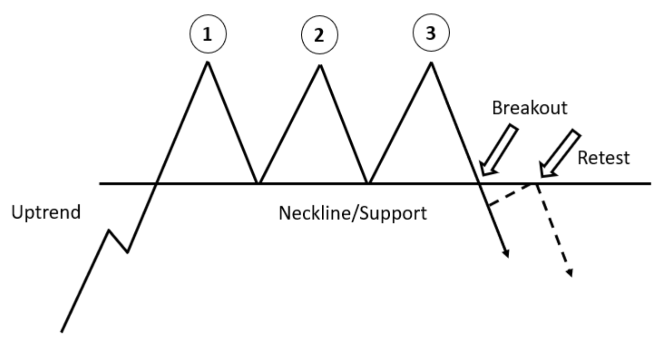
  Note: *Aggressive traders* may repeat the entry and exit procedure mentioned in Double Bottom pattern at 2nd and 3rd bottom.
- **Risk–Reward Ratio (R:R)** = 62 : 55 ≈ **1 : 0.89**
- **Trade Feasibility and Exit Judgment:** The setup shows an *unfavourable risk–reward profile* (≈ 1 : 0.89), where the potential reward does not sufficiently outweigh the risk. Such trades should generally be *avoided* or *taken only with strong supporting confirmation*.



(***Image 9.6:*** *Daily candlestick chart of Bharti Airtel Ltd. illustrating a Triple Bottom pattern*)

4. Triple Top Pattern

A *Triple Top* is a *bearish reversal pattern* that signals the potential end of an uptrend and the start of a downward move. It is formed when the price makes *three attempts to break above a resistance level* but fails each time, indicating weakening buying momentum. The pattern is confirmed when the price *breaks below the neckline*, which is the *support line* connecting the troughs between the peaks.



*(**Image 9.7:** Schematic representation of a Triple Top pattern)*

How the Pattern Forms:

- **Peaks and Resistance:** The three peaks occur near the same price level, representing multiple failed attempts to push higher, a clear sign of *diminishing buying strength* and strong resistance.
- **Troughs and Support:** The lows between the peaks create the *support line (neckline)*, marking the lower boundary of the pattern.
- **Breakdown:** Confirmation occurs when the price *closes below the neckline*, often accompanied by rising trading volume, signalling a *potential trend reversal* from bullish to bearish.
- **Comparison:** The *Triple Top* closely resembles the *Head and Shoulders* pattern, but here all three peaks are of *similar height*, unlike the Head and Shoulders where the middle peak "head" is noticeably *higher*.

Quick Overview:

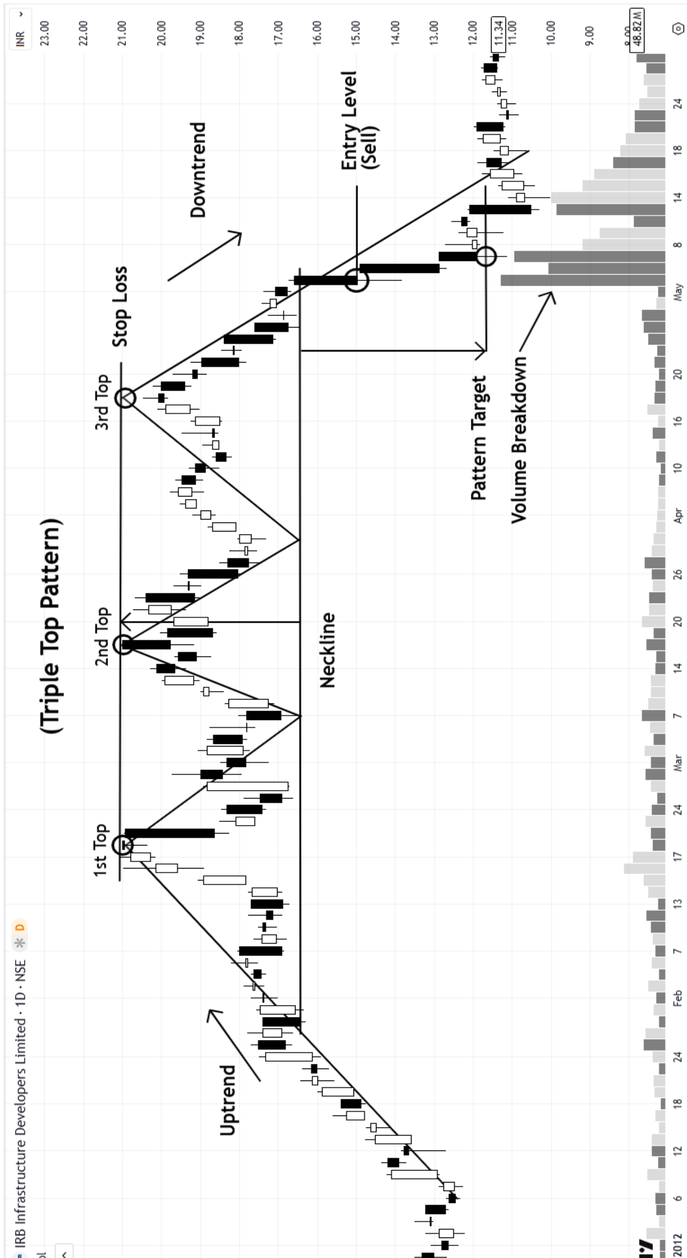
- **Appearance:** Three equal highs resisting breakout.
- **Meaning:** Selling pressure strong at repeated resistance.
- **Interpretation:** Breakdown below neckline signals bearish reversal.
- **Where to Look:** Near market tops or after extended uptrend.

Chart Analysis:

(Refer Image 9.8)

- **Trend Direction:** The prevailing trend before Triple Top pattern is upward in the chart of IRB Infrastructure Developers Ltd. Once the pattern will be completed the price will go downwards as it is a bearish trend reversal pattern.
- **Pattern Duration:** Bearish Triple Top Reversal Pattern was formed on Daily chart of IRB Infrastructure Developers Ltd. from 30th January 2012 to 3rd May 2012 as shown in the below chart.
- **Volume Behaviour:** The stock gave high volume breakdown.
- **Suggested Trade Position:** The short position will be taken at the price of ₹15 and the Stop Loss will be placed at ₹21 which is 3rd top. The exit will be at ₹11.70 as per pattern-based Target.

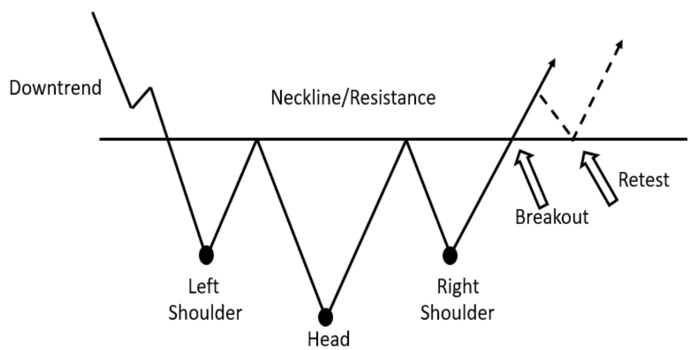
  Note: *Aggressive traders* may repeat the entry and exit procedure mentioned in Double Top pattern at 2nd and 3rd top.
- **Risk–Reward Ratio (R:R)** = 6.00 : 3.30 ≈ **1 : 0.55**
- **Trade Feasibility and Exit Judgment:** The trade offers an *unfavourable risk–reward profile* (≈ 1 : 0.55), where the potential reward is significantly lower than the defined risk, suggesting that this setup should be *approached with caution* or *avoided unless supported by strong additional confirmation*.



*(**Image 9.8:** Daily candlestick chart of IRB Infrastructure Developers Ltd. illustrating a Triple Top pattern)*

5. Inverse Head and Shoulders Pattern

An *Inverse Head and Shoulders* pattern is a *bullish reversal* chart pattern that indicates a potential shift from a downtrend to an uptrend. It is formed by *three troughs*, with the middle trough the "*head*" being the lowest and the two outer troughs the "*shoulders*" positioned at higher levels. The pattern is confirmed when the price *breaks above the neckline*, a resistance line drawn through the peaks between the troughs, typically accompanied by a rise in trading volume.



*(**Image 9.9:** Schematic representation of an Inverse Head and Shoulders pattern)*

Formation and Key Components:

- **Left Shoulder:** The price declines to form the first trough, followed by a moderate rebound.
- **Head:** The price falls again to a new, lower trough, the "head" and then recovers once more.
- **Right Shoulder:** A third decline forms a higher low (in line with left shoulder and above the head level) and rebounds, completing the right shoulder.
- **Neckline:** A resistance line connecting the peaks formed between the left shoulder, head, and right shoulder.

- **Breakout Confirmation:** The pattern is validated when the price closes decisively above the neckline, supported by increased trading volume.

Interpretation and Trading Approach:

- **Bullish Reversal:** Suggests that selling pressure is weakening and buyers are beginning to regain control, indicating the potential start of an uptrend.
- **Volume Behaviour:** Volume generally decreases during the formation of the pattern and expands sharply on the breakout above the neckline, confirming buyer strength.
- **Trading Signal:** Traders often enter long positions after a confirmed breakout, with a potential price target estimated by measuring the distance from the head to the neckline and projecting it upward from the breakout point.

Quick Overview:

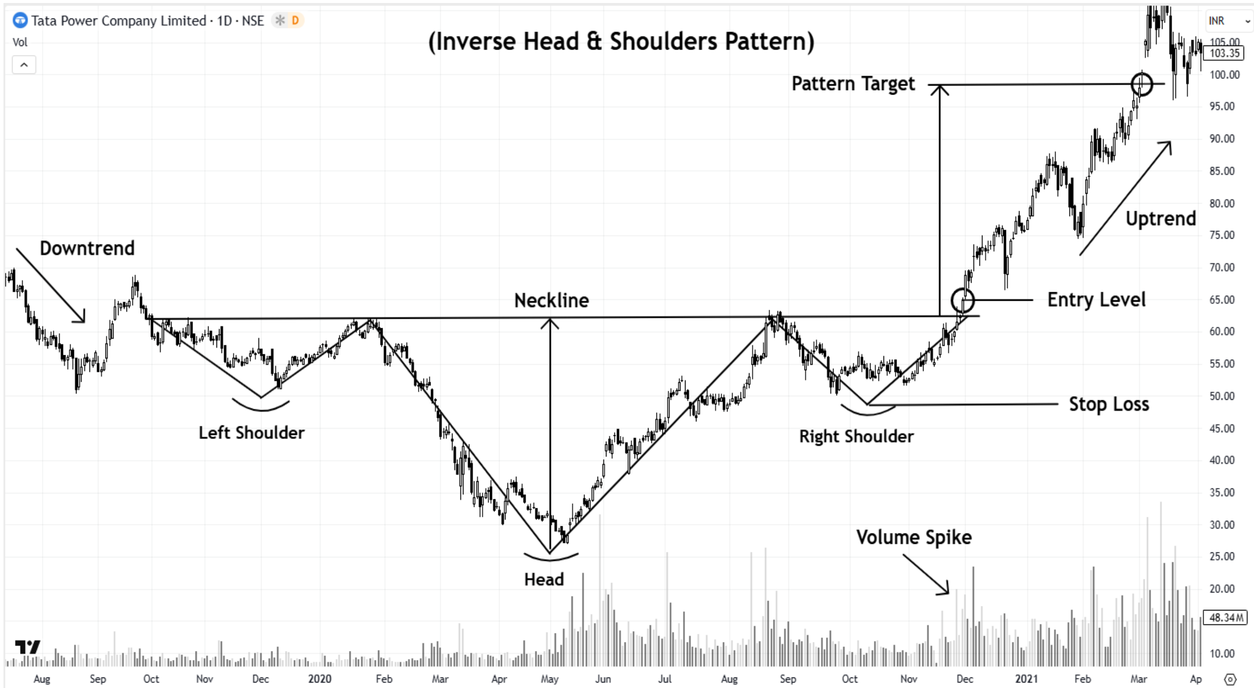
- **Appearance:** Three troughs with middle trough (head) deeper than others.
- **Meaning:** Buyers gradually gaining control after strong selling.
- **Interpretation:** Breakout above neckline confirms bullish reversal.
- **Where to Look:** After prolonged downtrend or correction.

Chart Analysis:

(Refer Image 9.10)

- **Trend Direction:** In bullish trend reversal pattern the prior trend before the pattern is downward and once the pattern is completed the stock price started going upward. We can see this happening in the below chart of Tata Power Company Ltd.

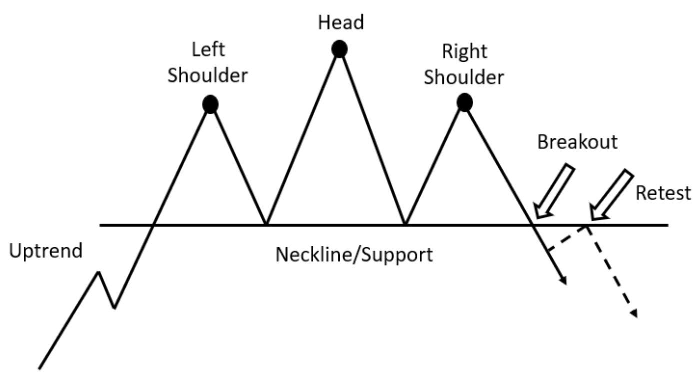
- **Pattern Duration:** Inverse Head and Shoulders pattern was formed on Weekly chart of Tata Power Company Ltd. from 30th September 2019 to 23rd November 2020.
- **Volume Behaviour:** The stock gave a breakout with wide range breakout candle from flat resistance line which also was supported by descent volume build up.
- **Suggested Trade Position:** The long position will be taken at the price of ₹64.81 and the Stop Loss will be placed at ₹48.60 which is low of Right Shoulder. The exit will happen at ₹ 98.60 based on pattern Target.
- **Risk–Reward Ratio (R:R)** = 16.21 : 33.79 ≈ **1 : 2.08**
- **Trade Feasibility and Exit Judgment:** The trade offers a *favourable risk–reward profile* (≈ 1 : 2.08), where the potential reward is more than *twice the defined risk*, *supporting a positive bias* for trade execution based on the pattern target.



(***Image 9.10:*** *Daily candlestick chart of Tata Power Company Ltd. illustrating an Inverse Head and Shoulders pattern*)

6. Head and Shoulders Pattern

A Head and Shoulders is a *bearish reversal* chart pattern that signals the potential end of an *uptrend* and the beginning of a *downtrend*. It is formed by three peaks, with the middle peak the "*head*" being the highest and the two outer peaks the "*shoulders*" being lower and roughly equal in height. The pattern is confirmed when the price breaks below the neckline, a support line drawn through the troughs between the peaks.



*(**Image 9.11:** Schematic representation of a Head and Shoulders pattern)*

Formation and Key Components:

- **Left Shoulder:** The price rises to form the first peak and then declines, creating the first trough.
- **Head:** The price rallies again to a higher peak, the "head" and then retreats once more.
- **Right Shoulder:** A final upward move forms the third peak at a level similar to the left shoulder, followed by another decline.
- **Neckline:** A *support line* drawn through the lows of the two troughs between the shoulders and head.

- **Breakdown:** The pattern is *confirmed* when *the price closes below the neckline*, typically accompanied by increased trading volume.

Interpretation:

- **Bearish Reversal:** Indicates that buying momentum is weakening and sellers are beginning to take control, signalling a potential shift from bullish to bearish sentiment.
- **Volume Behaviour:** Volume generally increases during the formation of the left shoulder and head, decreases during the right shoulder, and surges when the price breaks below the neckline, confirming strong selling pressure.

Quick Overview:

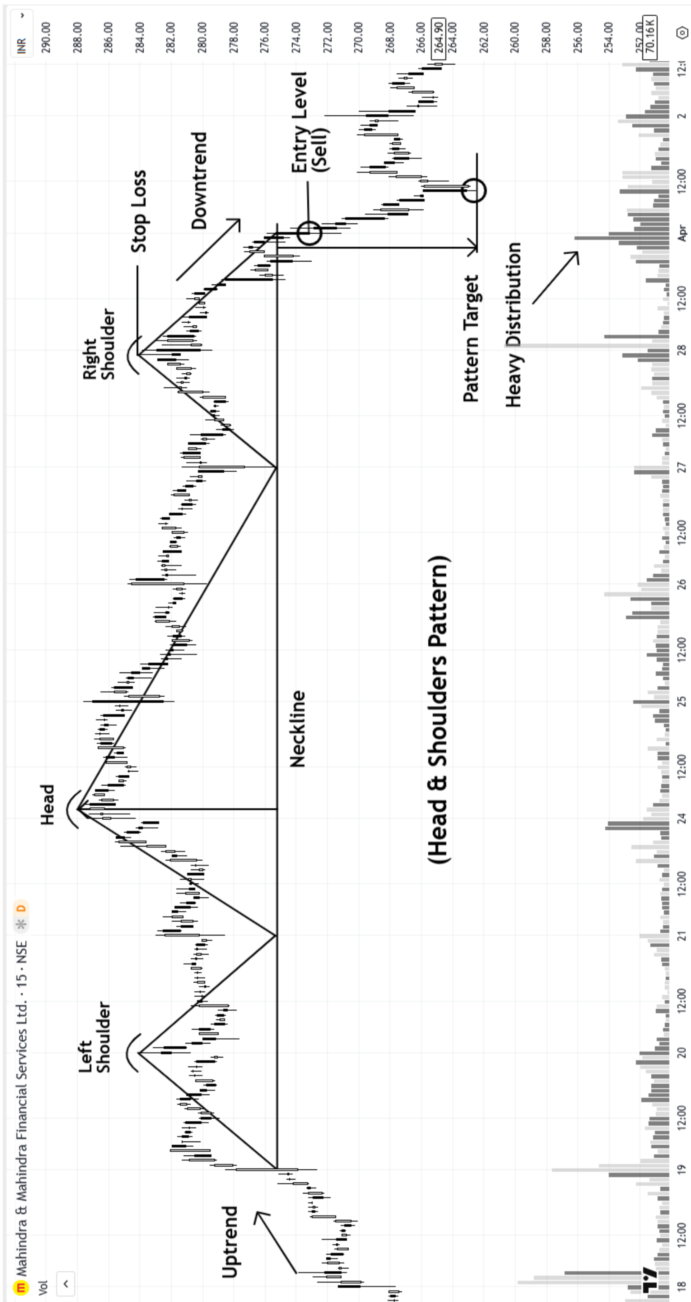
- **Appearance:** Three peaks with middle peak (head) higher than others.
- **Meaning:** Selling pressure emerging after extended buying.
- **Interpretation:** Breakdown below neckline confirms bearish reversal.
- **Where to Look:** Near market tops after long uptrend.

Chart Analysis:

(Refer Image 9.12)

- **Trend Direction:** In this bearish trend reversal pattern the prior trend before the pattern is upward and once the pattern is completed the price has gone towards lower side. We can clearly see this happening in the below chart of Mahindra and Mahindra Financial Services Ltd.
- **Pattern Duration:** Bearish Head and Shoulders reversal pattern was formed on 15-minute chart of Mahindra and Mahindra Financial Services Ltd. from 19th March 2025 to 1st April 2025 as shown in below chart.

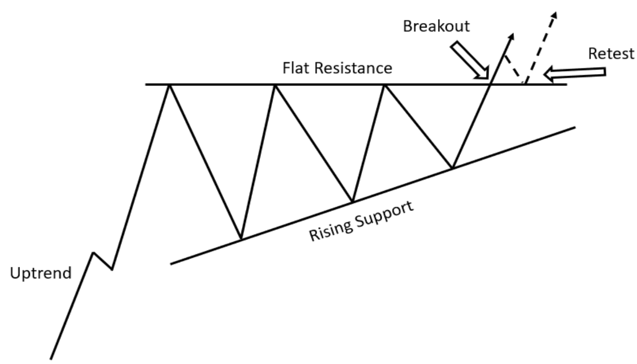
- **Volume Behaviour:** The security gave a breakdown with a wide range of bearish candles from the flat support line.
- **Suggested Trade Position:** The short position will be taken at the price of ₹273 and the Stop Loss will be placed at ₹284 which is highest point of Right Shoulder. The exit will be happened at ₹262 as per pattern-based target.
- **Risk–Reward Ratio (R:R)** = 11 : 11 ≈ **1 : 1**
- **Trade Feasibility and Exit Judgment:** The trade presents a *neutral risk–reward profile* (≈ 1 : 1), where the potential reward is equal to the defined risk, indicating that trade execution should be considered only with strong pattern confirmation or additional supporting factors.



***(Image 9.12:** 15 Minutes candlestick chart of Mahindra and Mahindra Financial Services Ltd. illustrating a Head and Shoulders pattern)*

7. Ascending Triangle Pattern

The ascending triangle is a *bullish continuation pattern* in technical analysis, characterized by a *flat upper resistance line* and a *rising lower support line*. It indicates that *buyers* are gaining *strength*, pushing prices *higher* with each bounce, while *sellers* continue to meet *resistance* at a consistent level. This pattern suggests that the *prior uptrend* is likely to *resume* once the price breaks above the resistance.



*(**Image 9.13:** Schematic representation of an Ascending Triangle pattern)*

Key Characteristics:

- **Flat Upper Trendline:** A horizontal line connecting a series of similar highs, representing a resistance level, where selling pressure repeatedly halts upward movement.
- **Rising Lower Trendline:** An upward-sloping line connecting a series of higher lows, showing that buyers are entering the market at progressively higher prices.
- **Converging Lines:** The narrowing space between the upper and lower trendlines indicates decreasing volatility and a tightening range, as the market builds momentum for a breakout.
- **Bullish Momentum:** Forming within an existing uptrend, the pattern signals that the consolidation is temporary and the upward move is likely to continue once resistance is breached.

How It Works:

- **Consolidation:** The price moves sideways within the triangle, as buying and selling pressures remain balanced.
- **Increasing Buying Pressure:** The rising support line reflects growing buyer confidence, willing to pay higher prices at each successive low.
- **Breakout:** Eventually, buyers overpower sellers at the resistance, triggering a decisive upward move.
- **Continuation:** Following the breakout, the prior resistance often turns into support, and the price is expected to continue its upward trajectory.

Quick Overview:

- **Appearance:** Horizontal resistance with rising higher lows forming a triangle shape.
- **Meaning:** Buyers are consistently pushing prices higher, indicating strong accumulation.
- **Interpretation:** A breakout above resistance confirms bullish continuation.
- **Where to Look:** In an ongoing uptrend as a pause before the next leg up.

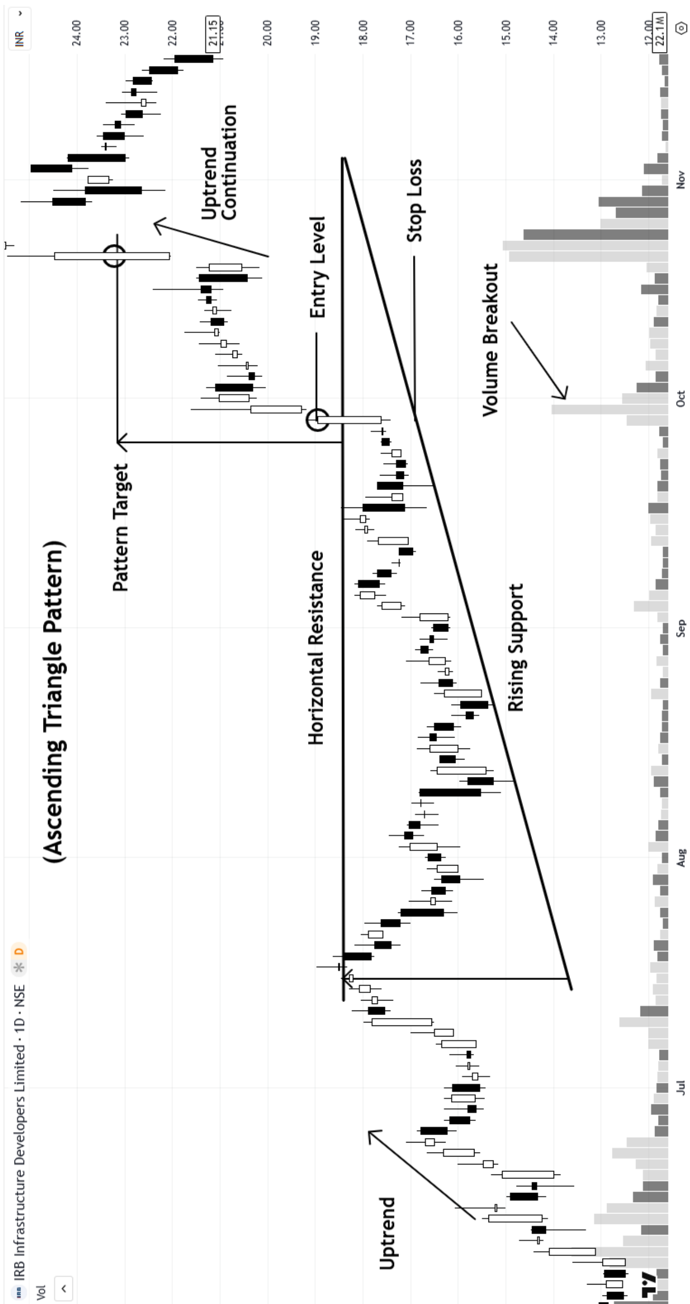
Chart Analysis:

(Refer Image 9.14)

- **Trend Direction:** The prevailing trend of IRB Infrastructure Developers Ltd. was in uptrend, and we can also see the higher highs and higher lows price action just before continuation pattern formation.
- **Pattern Duration:** Ascending Triangle continuation pattern was formed on Daily chart of IRB Infrastructure Developers

Ltd. from 15th July 2021 to 29th September 2021 as shown below.

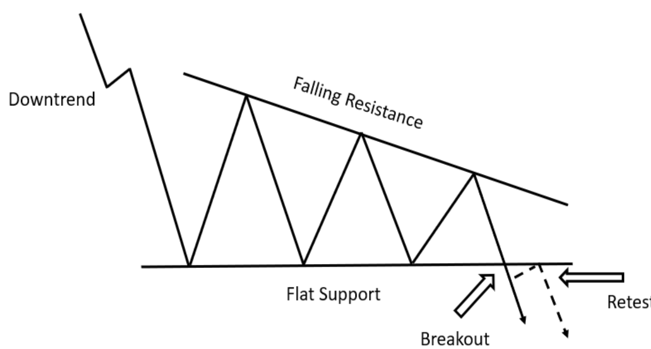
- **Volume Behaviour:** The stock registered a breakout with a wide-range bullish candle, accompanied by a significant surge in volume, confirming strong buying interest and validating the breakout's reliability.
- **Suggested Trade Position:** The long position will be taken at the price of ₹19 and the Stop Loss will be placed at ₹17 (Just below the upward-sloping trendline). The exit will happen at ₹23.18 as per pattern-based target.
- **Risk–Reward Ratio (R:R)** = 2.00 : 4.18 ≈ **1 : 2.09**
- **Trade Feasibility and Exit Judgment:** The trade offers a *favourable risk–reward profile* (≈ 1 : 2.09), where the potential reward is more than twice the defined risk, supporting a positive bias for trade execution based on the pattern target.



(Image 9.14: *Daily candlestick chart of IRB Infrastructure Developers Ltd. illustrating an Ascending Triangle pattern)*

8. Descending Triangle Pattern

The descending triangle is a *bearish continuation pattern* in technical analysis, typically signalling the likely continuation of a downtrend. It is characterized by a *horizontal support line* at the *bottom* and a *descending resistance line* formed by a *series of lower highs*. This pattern develops when *sellers* gradually *overpower buyers*, and a *confirmed breakdown occurs* when the price closes below the horizontal support, often on increased trading volume.



*(**Image 9.15:** Schematic representation of a Descending Triangle pattern)*

Key Characteristics:

- **Horizontal Support Line:** The flat lower boundary of the triangle, formed by a series of roughly equal price lows.
- **Descending Resistance Line:** The upper boundary, formed by lower highs that slope downward, reflecting growing selling pressure.
- **Formation:** Typically emerges during a downtrend, indicating that selling pressure is intensifying while buying interest weakens.
- **Breakout (Breakdown):** Confirmation occurs when the price decisively breaks below the horizontal support, ideally accompanied by a spike in volume to validate the move.

What It Indicates:

- **Weakening Demand:** Buyers are unable to push the price higher, while sellers consistently create lower highs.
- **Continuation of Downtrend:** The pattern suggests that the prevailing downtrend is likely to persist once the support is broken.
- **Increased Selling Pressure:** The breakdown signals that sellers have gained control, overpowered buyers and driving the price lower.

Quick Overview:

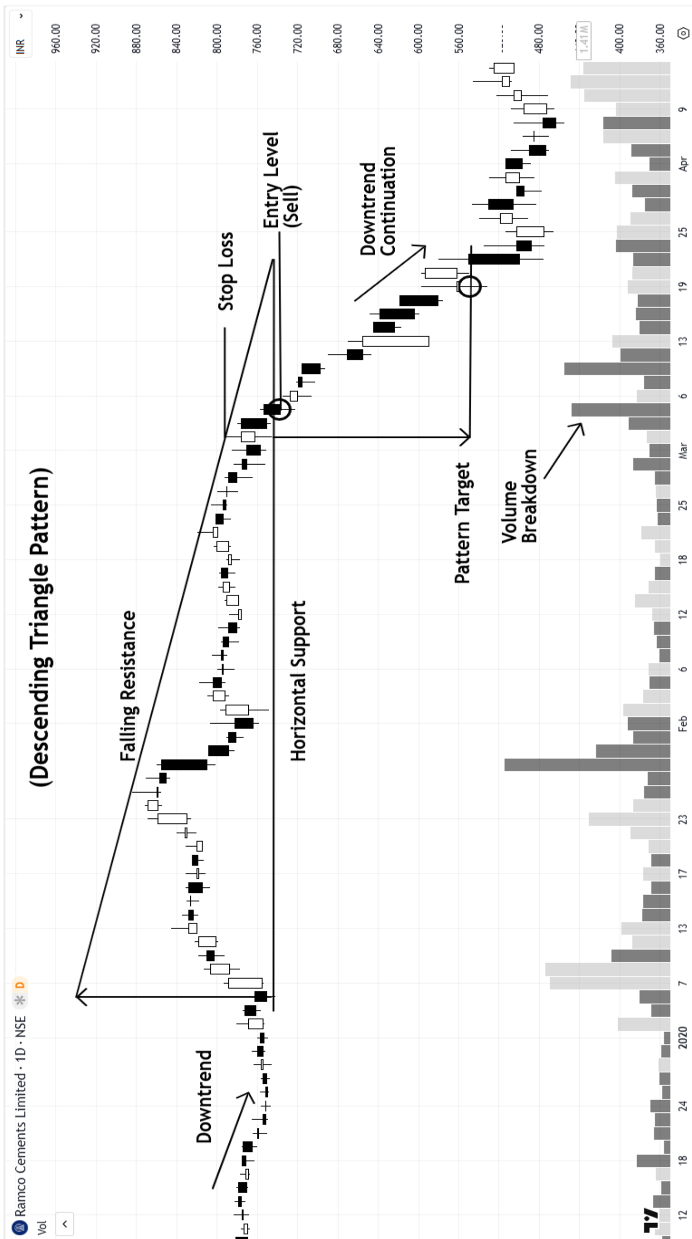
- **Appearance:** Horizontal support with lower highs forming a descending triangle.
- **Meaning:** Sellers are gradually dominating; buyers are losing strength.
- **Interpretation:** Breakdown below support signals continuation of downtrend.
- **Where to Look:** In a downtrend after a short consolidation.

Chart Analysis:

(Refer Image 9.16)

- **Trend Direction:** The trend before the pattern should be downtrend and we can see it clearly before the start of bearish continuation pattern formation.
- **Pattern Duration:** Descending Triangle Bearish Continuation pattern was formed on Daily chart pattern of Ramco Cements Ltd. from 6th January 2020 to 5th March 2020 as shown below.
- **Volume Behaviour:** The stock witnessed a breakdown with a wide-range bearish candle, supported by a noticeable decrease in volume, indicating active selling pressure during the move.

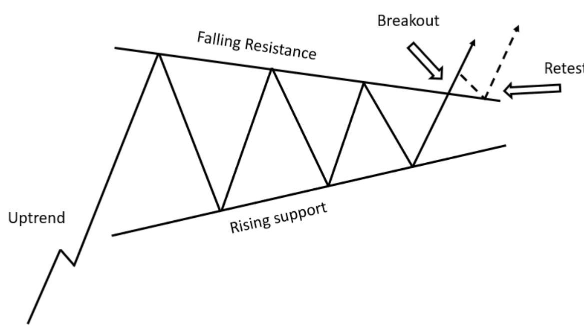
- **Suggested Trade Position:** The short position will be taken at the price of ₹736 and the Stop Loss will be placed at ₹790 which is high of recent resistance point inside triangle. The exit will happen at ₹550 as per pattern-based target.
- **Risk–Reward Ratio (R:R)** = 54 : 186 ≈ **1 : 3.44**
- **Trade Feasibility and Exit Judgment:** The trade presents a *highly favourable risk–reward profile* (≈ 1 : 3.44), where the potential reward is more than three times the defined risk, supporting a strong case for trade execution based on the pattern target.



***(Image 9.16:** Daily candlestick chart of Ramco Cements Ltd. illustrating a Descending Triangle pattern)*

9. Bullish Symmetrical Triangle Pattern

A bullish symmetrical triangle is a chart pattern in which a stock's price consolidates between two converging trendlines, forming a *symmetrical triangle shape*, and eventually breaks out upward. It usually occurs during an *existing uptrend* and indicates that the trend is likely to *continue* after the breakout. The pattern is confirmed when the price closes above the upper trendline, signalling the potential for a new upward move.



(**Image 9.17:** *Schematic representation of a Bullish Symmetrical Triangle pattern)*

Key Characteristics:

- **Formation:** Two trendlines converge, one connecting a series of lower highs (resistance) and the other connecting a series of higher lows (support).
- **Volume:** Trading volume typically declines as the triangle develops, reflecting a consolidation phase.
- **Breakout:** A decisive breakout above the upper trendline serves as the bullish signal.
- **Continuation:** When occurring during an uptrend, the pattern generally acts as a continuation signal, indicating that the previous upward trend is likely to resume.

How to Trade It:

- **Entry:** Consider entering a long position after the price breaks and closes above the upper trendline.
- **Stop-Loss:** Place a stop-loss just below the lower trendline to manage risk in case the breakout fails.
- **Price Target:** A common method to estimate the price target is to measure the height of the triangle at its widest point and add that distance to the breakout point, giving an approximate level for the expected upward move.

Quick Overview:

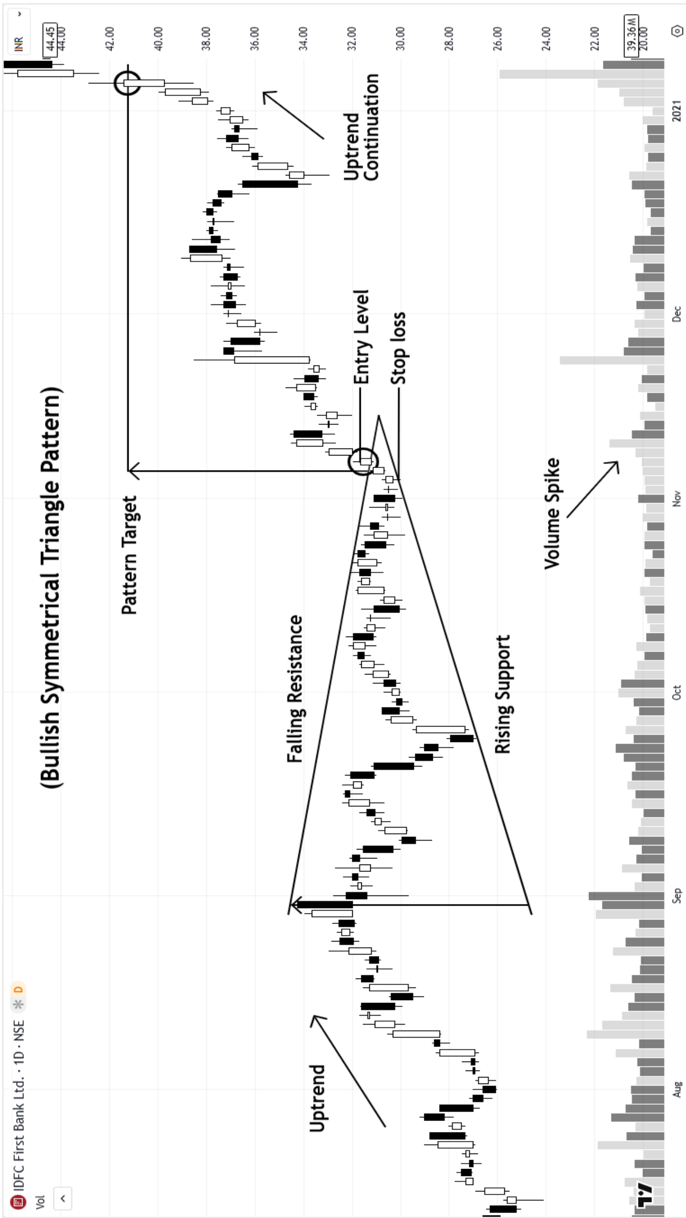
- **Appearance:** Converging trendlines of higher lows and lower highs.
- **Meaning:** Market in consolidation with equilibrium between buyers and sellers.
- **Interpretation:** Breakout above upper trendline confirms bullish continuation.
- **Where to Look:** In mid-uptrend after a brief pause in momentum.

Chart Analysis:

(Refer Image 9.18)

- **Trend Direction:** The trend before the pattern is in uptrend in IDFC First Bank Ltd. and we can also see the lower lows and lower high price action just before the pattern formation.
- **Pattern Duration:** Bullish Symmetrical Triangle pattern was formed on Daily chart of IDFC First Bank Ltd. from 31st August 2020 to 6th November 2020 as shown below.
- **Volume Behaviour:** The stock registered a breakout with a wide-range bullish candle, supported by a strong buildup in volume, confirming buyer participation in the move.

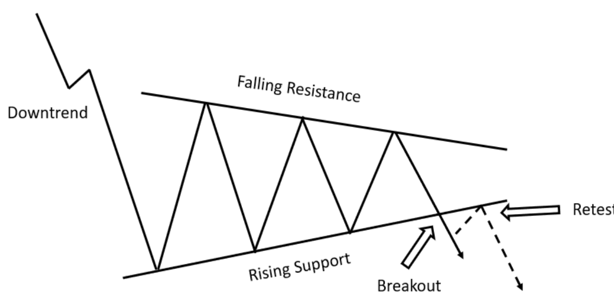
- **Suggested Trade Position:** The long position will be taken at ₹31.60, and the stop loss will be placed at ₹30 (the low of the most recent swing within the triangle). The exit will happen at ₹41 as per pattern-based target.
- **Risk Reward Ratio (R:R)** = 1.60 : 9.40 ≈ **1 : 5.88**
- **Trade Feasibility and Exit Judgment:** The trade offers a *highly favourable risk–reward profile* (≈ 1 : 5.88), where the potential reward is significantly higher than the defined risk, making it a strong candidate for trade execution based on the pattern target.



***(Image 9.18:** Daily candlestick chart of IDFC First Bank Ltd. illustrating a Bullish Symmetrical Triangle pattern)*

10. Bearish Symmetrical Triangle Pattern

A bearish symmetrical triangle is a *consolidation pattern* that forms during a *downtrend*, signalling a likely *continuation* of the trend. It is characterized by two converging trendlines, an upper resistance line connecting lower highs and a lower support line connecting higher lows, that squeeze price action before a breakdown. The pattern is confirmed when the price breaks below the lower support trendline, often on increased trading volume.



*(**Image 9.19:** Schematic representation of a Bearish Symmetrical Triangle pattern)*

Key Characteristics:

- **Converging Trendlines:** A downward-sloping resistance line connects lower highs, while an upward-sloping support line connects higher lows, forming a symmetrical triangle.
- **Period of Consolidation:** The pattern reflects market indecision and a temporary pause in the prevailing trend.
- **Decreasing Volume:** Trading volume generally declines as the triangle develops, indicating shrinking volatility before the breakout.
- **Bearish Context:** This pattern is considered bearish because it typically forms during an ongoing downtrend.

Trading and Confirmation:

- **Breakdown Signal:** A decisive break below the lower support trendline confirms the pattern and signals a likely continuation of the downtrend.
- **Increased Volume:** The breakdown should be accompanied by a surge in volume to validate the move.
- **Price Target:** A common method is to measure the height of the triangle at its widest point and project that distance downward from the breakdown point to estimate a target price.
- **Stop-Loss:** Traders usually place a stop-loss just above the breakdown point, or sometimes above the upper resistance line, to manage risk in case the pattern fails.

Quick Overview:

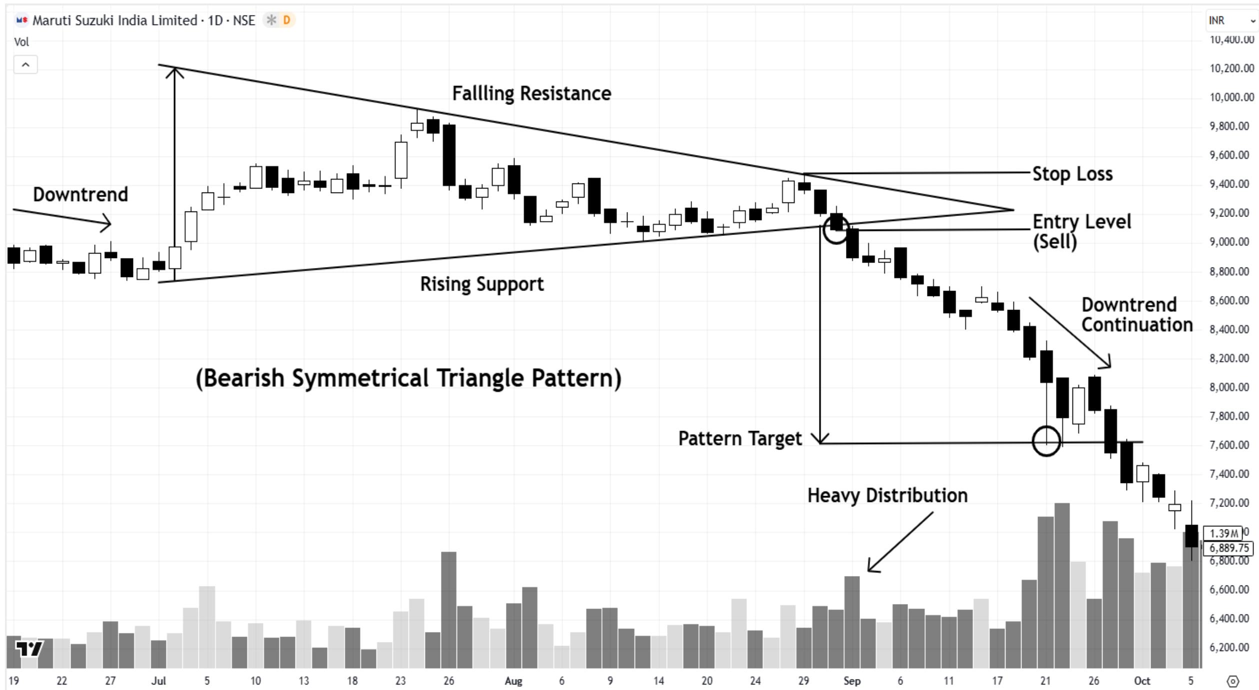
- **Appearance:** Converging trendlines slanting toward each other during a downtrend.
- **Meaning:** Temporary balance before sellers regain control.
- **Interpretation:** Breakdown below lower trendline signals continuation of fall.
- **Where to Look:** During ongoing downtrend before next decline.

Chart Analysis:

(Refer Image 9.20)

- **Trend Direction:** The trend before the pattern is in downtrend in Maruti Suzuki India Ltd. and we can also see the lower lows and lower high price action just before the pattern formation.
- **Pattern Duration:** Bearish Symmetrical Triangle Continuation pattern was formed on Daily chart of Maruti Suzuki India Ltd. from 3rd July 2018 to 31st August 2018 as shown below.

- **Volume Behaviour:** The stock witnessed a breakdown with a wide-range bearish candles indicating active selling pressure during the move.
- **Suggested Trade Position:** The short position will be taken at ₹9080, and the stop loss will be placed at ₹9480 (the high of resistance line of the triangle). The exit will happen at ₹7610 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 400 : 1,470 ≈ 1 : 3.68
- **Trade Feasibility and Exit Judgment:** The trade offers a *favourable risk–reward profile*, with the potential reward more than *three and a half times the risk*, making it a *high-quality short setup* where exiting at the pattern target is justified.

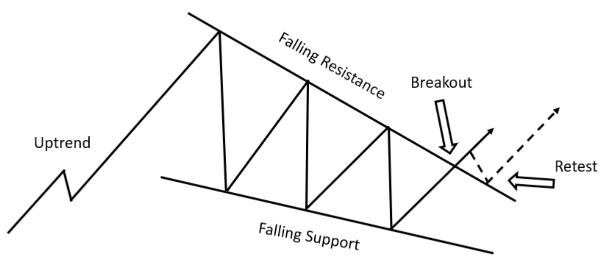


*(**Image 9.20:** Daily candlestick chart of Maruti Suzuki India Ltd. illustrating a Bearish Symmetrical Triangle pattern)*

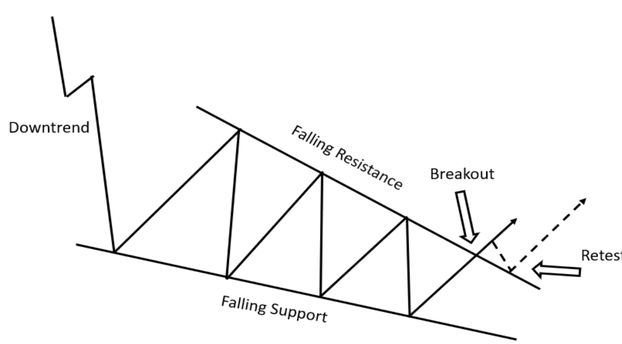
11. Falling Wedge Pattern

A falling wedge is a *bullish* chart pattern formed by two downward sloping, converging trendlines. Its interpretation depends on the preceding trend: it can act as a *continuation* pattern during an *uptrend* (Image 9.21) or as a *reversal* pattern during a *downtrend* (Image 9.22). The pattern is confirmed when the price breaks above the upper trendline, often accompanied by rising trading volume.

Note: Falling Wedge is inherently *bullish* by nature.



*(**Image 9.21:** Schematic representation of a Falling Wedge – Bullish Continuation pattern)*



*(**Image 9.22:** Schematic representation of a Falling Wedge – Bullish Reversal pattern)*

Key Characteristics:

- **Shape:** The wedge is formed by two converging downward sloping trendlines. The lower trendline (support) is typically *less steep* than the upper trendline (resistance).

- **Price Action:** Prices make *lower highs and lower lows*, but the range of movement *narrows* over time.
- **Confirmation:** A breakout above the upper trendline confirms the pattern, signalling a *bullish move*.
- **Trading Target:** A common method to estimate the target is to measure the height of the wedge at its widest point and add that distance to the breakout point.

Continuation or Reversal:

- **Continuation:** When the falling wedge appears during an *uptrend*, it represents a temporary pause. A breakout above the upper trendline indicates that the *uptrend* is likely to continue.
- **Reversal:** When the falling wedge forms during a *downtrend*, it signals a *bullish reversal*. The narrowing price range, often with declining volume, suggests that selling pressure is weakening. A breakout above the upper trendline indicates the start of a *new uptrend*.

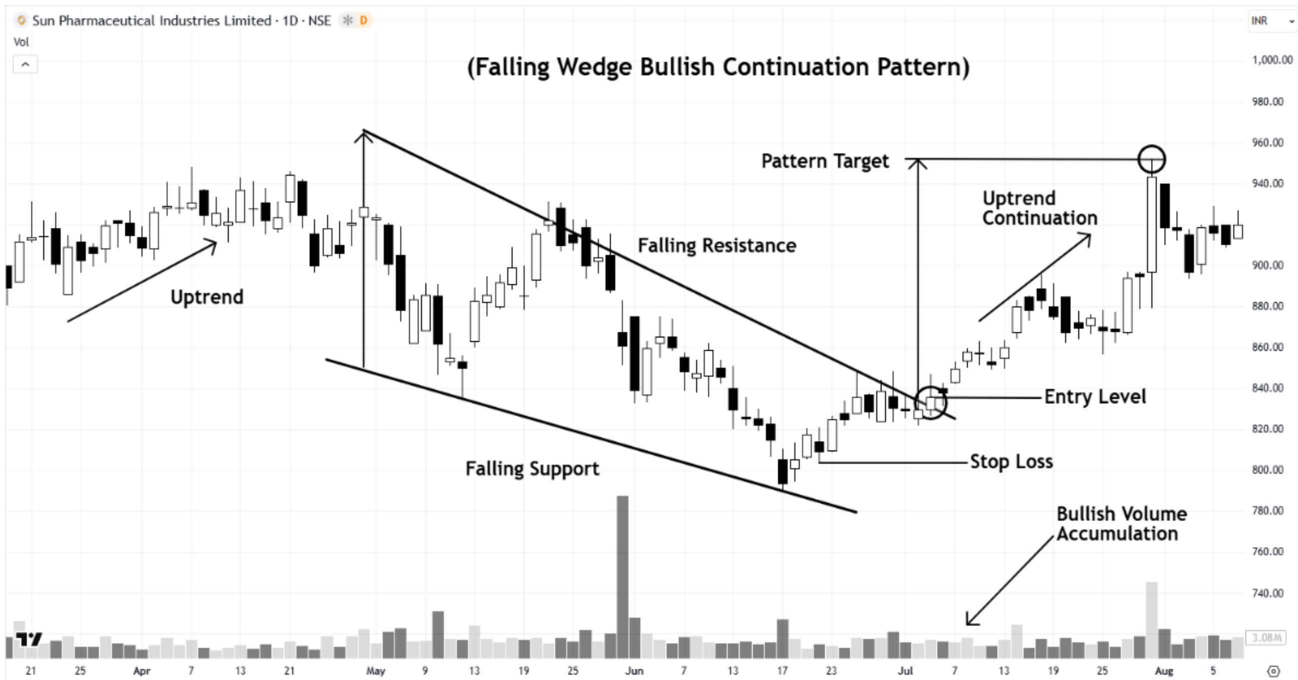
Quick Overview:

- **Appearance:** Converging downward sloping trendlines.
- **Meaning:** Selling pressure weakens; momentum shifts to buyers.
- **Interpretation:** Breakout above wedge top confirms bullish move.
- **Where to Look:** Often appears near end of correction in uptrend.

Chart Analysis (Bullish Continuation):

(Refer Image 9.23)

- **Trend Direction:** As per requirement, the trend before the pattern should be upward and we can also see the same in the chart.
- **Pattern Duration:** Bullish Falling Wedge Continuation pattern was formed on Daily chart of Sun Pharmaceutical Industries Ltd. 29th April 2022 to 5th July 2022 as shown in the chart below.
- **Volume Behaviour:** The stock gave a breakout of volume with descent wide range of breakout.
- **Suggested Trade Position:** The long position will be taken at ₹835 (at the opening of the candlestick that opens after the breakout candle of the pattern), and the stop loss will be placed at ₹805 (most recent swing low of the pattern). The exit will happen at ₹950 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 30 : 115 ≈ **1 : 3.83**
- **Trade Feasibility and Exit Judgment:** The trade presents a *strong and favourable risk–reward profile* (≈ 1 : 3.83), where the potential reward is significantly higher than the defined risk.

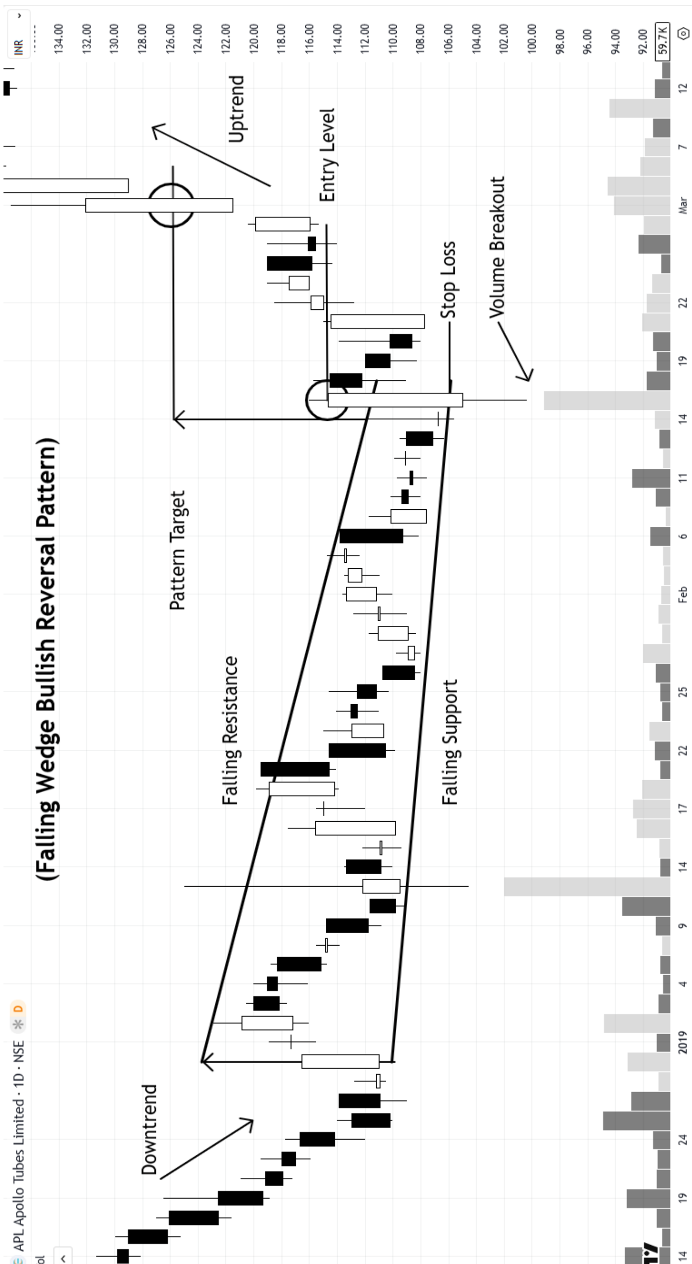


*(**Image 9.23:** Daily candlestick chart of Sun Pharmaceutical Industries Ltd. illustrating a Falling Wedge Bullish Continuation pattern)*

Chart Analysis (Bullish Reversal):

(Refer Image 9.24)

- **Trend Direction:** As per requirement of any bullish reversal pattern, the trend before the pattern should be downward and we can also see the chart of *APL Apollo Tubes Ltd.* with clear downtrend.
- **Pattern Duration:** Falling Wedge Bullish Reversal pattern was formed on Daily chart of APL Apollo Tubes Ltd. from 31st December 2018 to 15th February 2019 as shown in the chart below.
- **Volume Behaviour:** The stock gave a breakout of volume with descent wide range of bullish candles.
- **Suggested Trade Position:** The long position will be taken at ₹114, and the stop loss will be placed at ₹105 (just below the support line of the pattern). The exit will happen at ₹125 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 9 : 11 ≈ **1 : 1.22**
- **Trade Feasibility and Exit Judgment:** The trade offers a *moderately favourable risk–reward profile*, where the potential reward slightly exceeds the risk. This setup is *acceptable with confirmation*, and exiting at the pattern target is appropriate.

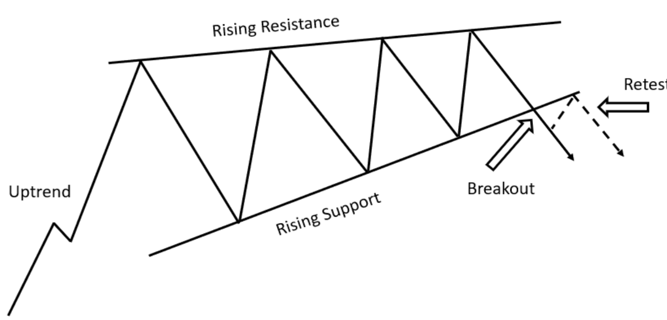


***(Image 9.24:** Daily candlestick chart of APL Apollo Tubes Limited illustrating a Falling Wedge Bullish Reversal pattern)*

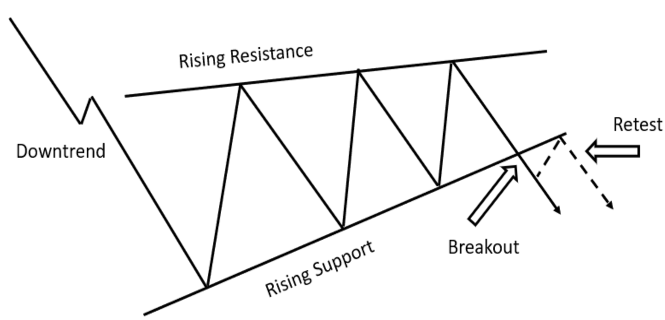
12. Rising Wedge Pattern

A rising wedge *reversal* is a *bearish* chart pattern that signals a potential *downward reversal* after a prolonged uptrend. It forms when the price makes higher highs and higher lows, but the range between them narrows, showing weakening buying pressure. The pattern is confirmed when price *breaks below the lower trendline*, often accompanied by *increasing volume*, signalling that sellers are taking control.

Note: A Rising Wedge is inherently *bearish* by nature.



*(**Image 9.25:** Schematic representation of a Rising Wedge – Bearish Reversal pattern)*



*(**Image 9.26:** Schematic representation of a Rising Wedge – Bearish Continuation pattern)*

Key Characteristics:

- **Pattern Structure:** Two upward sloping trendlines converge to form a wedge. The lower trendline (support) is typically steeper than the upper trendline (resistance).
- **Price Action:** Price moves within the wedge, creating higher highs and higher lows.
- **Volume:** Trading volume usually decreases as the pattern forms, reflecting diminishing buying interest.
- **Market Psychology:** The pattern reflects a shift in momentum. Buyers are still active, but each new high is weaker, and sellers indicate losing strength.

How to Trade:

- **Identification:** Look for two converging upward sloping trendlines during a slowing uptrend.
- **Confirmation:** Wait for price to *break decisively below the lower trendline*. A strong downward move with high volume confirms the pattern.
- **Trading Strategy:** Enter a *short position* after confirmation, expecting the price to continue downward.
- **Continuation vs. Reversal:** While primarily a *bearish reversal* (Image 9.25), a rising wedge can also appear in a *downtrend*, signalling a *continuation* (Image 9.26) of the *bearish trend*.

Quick Overview:

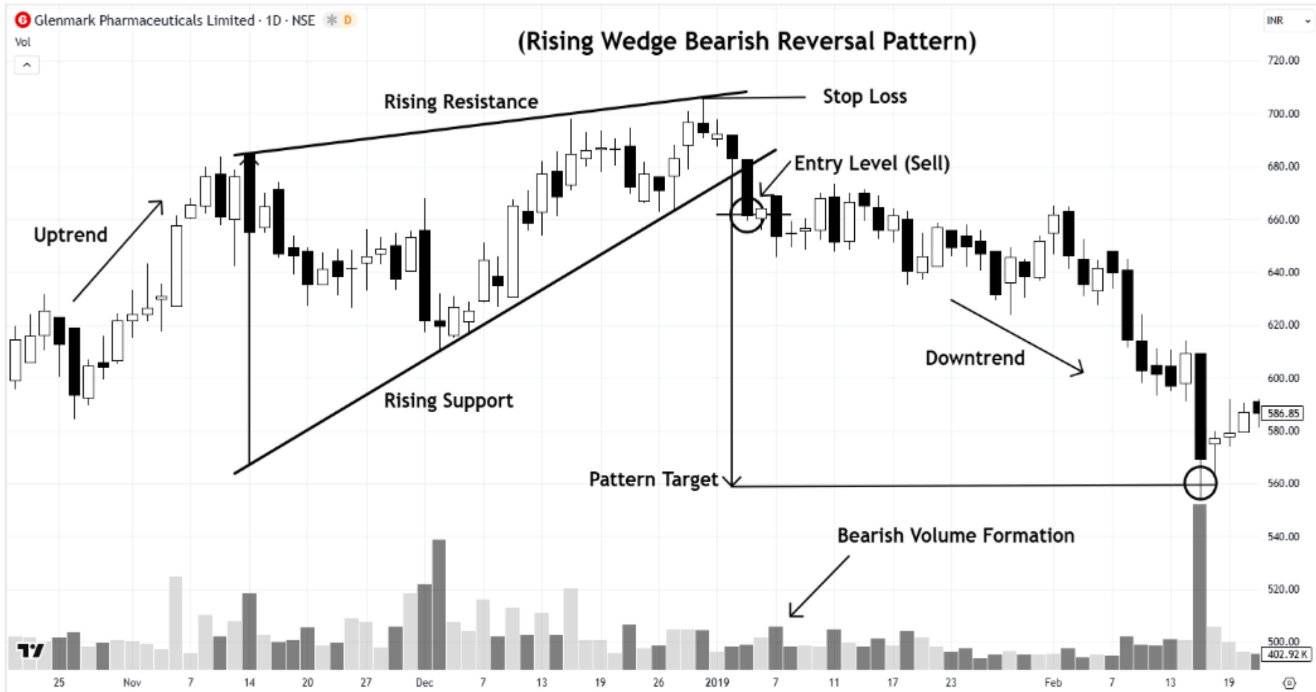
- **Appearance:** Converging upward-sloping lines.
- **Meaning:** Gradual exhaustion of buyers; selling pressure builds.
- **Interpretation:** Breakdown below lower line confirms bearish reversal.

- **Where to Look:** After prolonged uptrend or near resistance levels.

Chart Analysis (Rising Wedge Pattern – Bearish Reversal):

(Refer Image 9.27)

- **Trend Direction:** The trend before Rising Wedge Reversal pattern should be upward and it can be seen in the chart.
- **Pattern Duration:** Bearish Rising Wedge Reversal pattern was formed on Daily chart of Glenmark Pharmaceuticals Ltd. from 14th November 2018 to 3rd January 2019 as shown in the chart below.
- **Volume Behaviour:** The stock gave a breakdown of volume with volume dry-out.
- **Suggested Trade Position:** The short position will be taken at ₹660, and the stop loss will be placed at ₹705 (most recent swing high of the pattern). The exit will happen at ₹560 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 45 : 100 ≈ **1 : 2.22**
- **Trade Feasibility and Exit Judgment:** The trade presents a *favourable risk–reward profile* (≈ 1 : 2.22), where the potential reward is more than twice the defined risk.

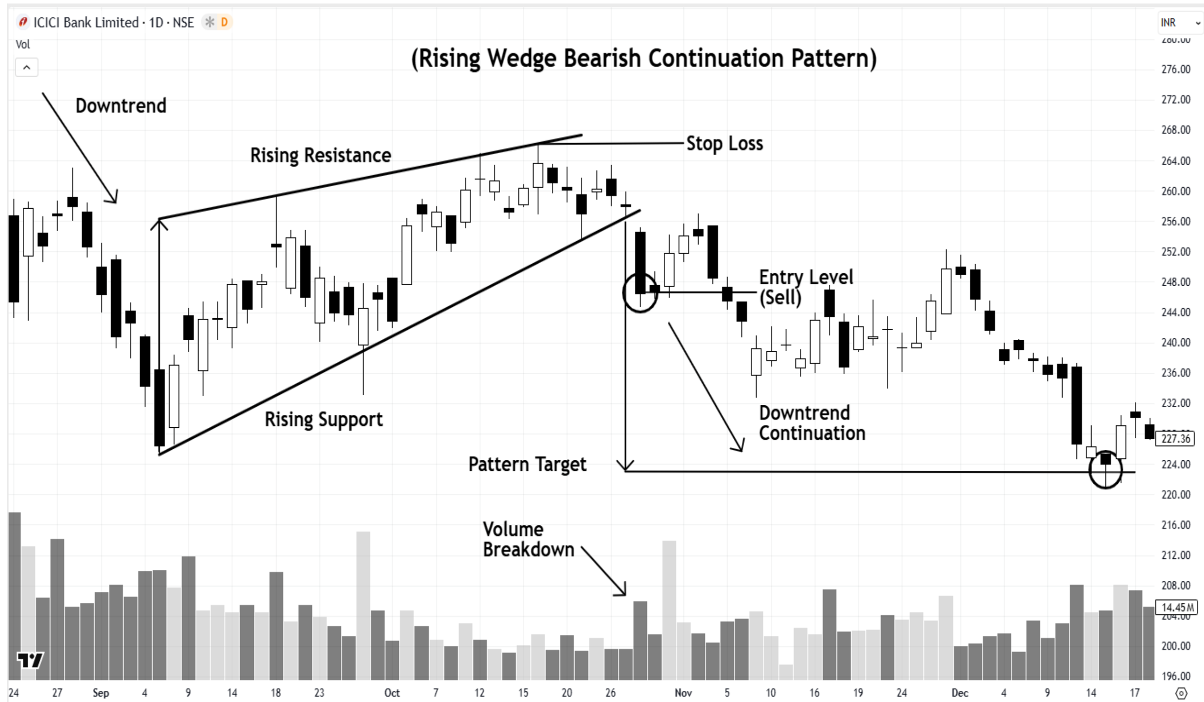


*(**Image 9.27:** Daily candlestick chart of Glenmark Pharmaceuticals Ltd. illustrating a Rising Wedge Bearish Reversal pattern)*

Chart Analysis (Rising Wedge Pattern – Bearish Continuation):

(Refer Image 9.28)

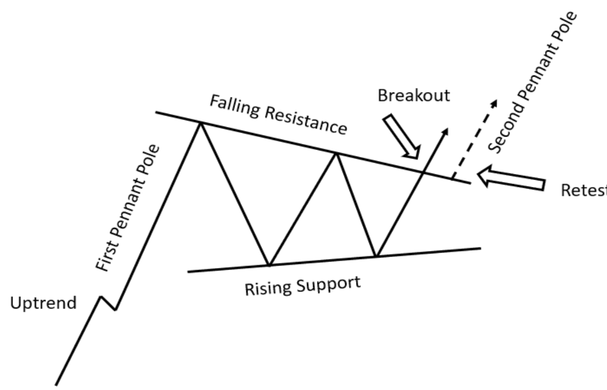
- **Trend Direction:** The trend before Rising Wedge Reversal pattern should be downward and it can be seen in the chart of ICICI Bank Ltd. Once the pattern will be completed, the price will go downwards as it is a bearish continuation pattern.
- **Pattern Duration:** Rising Wedge Bearish Continuation pattern was formed on Daily chart of ICICI Bank Ltd. from 7th September 2015 to 27th October 2015 as shown in the chart below.
- **Volume Behaviour:** The stock gave a breakdown of volume with descent bearish volumes.
- **Suggested Trade Position:** The short position will be taken at ₹246, and the stop loss will be placed at ₹265 (most recent swing high of the pattern). The exit will happen at ₹223 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 19 : 23 ≈ **1 : 1.21**
- **Trade Feasibility and Exit Judgment:** The trade offers a *moderately favourable risk–reward profile* (≈ 1 : 1.21), where the potential reward slightly exceeds the defined risk, suggesting cautious trade execution based on the pattern target.



(***Image 9.28:*** *Daily candlestick chart of ICICI Bank Ltd. illustrating a Rising Wedge Bearish Continuation pattern)*

13. Bullish Pennant Pattern

A bullish pennant is a *continuation* chart pattern that signals a temporary pause in an uptrend before the price resumes its *upward movement*. It forms after a sharp price surge (the "flagpole") and is followed by a brief consolidation period where price action moves within two converging trendlines, creating a small symmetrical triangle. Traders typically watch for a *breakout above the upper trendline*, ideally on increased volume, as a signal to enter a long position.



*(**Image 9.29:** Schematic representation of a Bullish Pennant pattern)*

Key Characteristics:

- **The Flagpole:** A steep upward price movement that establishes the initial uptrend. This surge should occur on high trading volume.
- **The Pennant:** A short consolidation phase after the flagpole, forming a small symmetrical triangle as buying and selling pressures temporarily balance. Volume usually decreases during this phase.
- **The Breakout:** A breakout above the upper trendline of the pennant signals the resumption of the uptrend. Confirmation comes from increased volume during the breakout.

How to Trade a Bullish Pennant:

- **Entry:** Enter a long trade when the price breaks and closes above the upper trendline of the pennant.
- **Confirmation:** Look for a significant rise in trading volume during the breakout to validate the move.
- **Stop-Loss:** Place a stop-loss below the lowest point of the pennant or below the breakout candle to manage risk.
- **Profit Target:** A common method is to add the height of the flagpole to the breakout point, projecting the potential upward move.

Quick Overview:

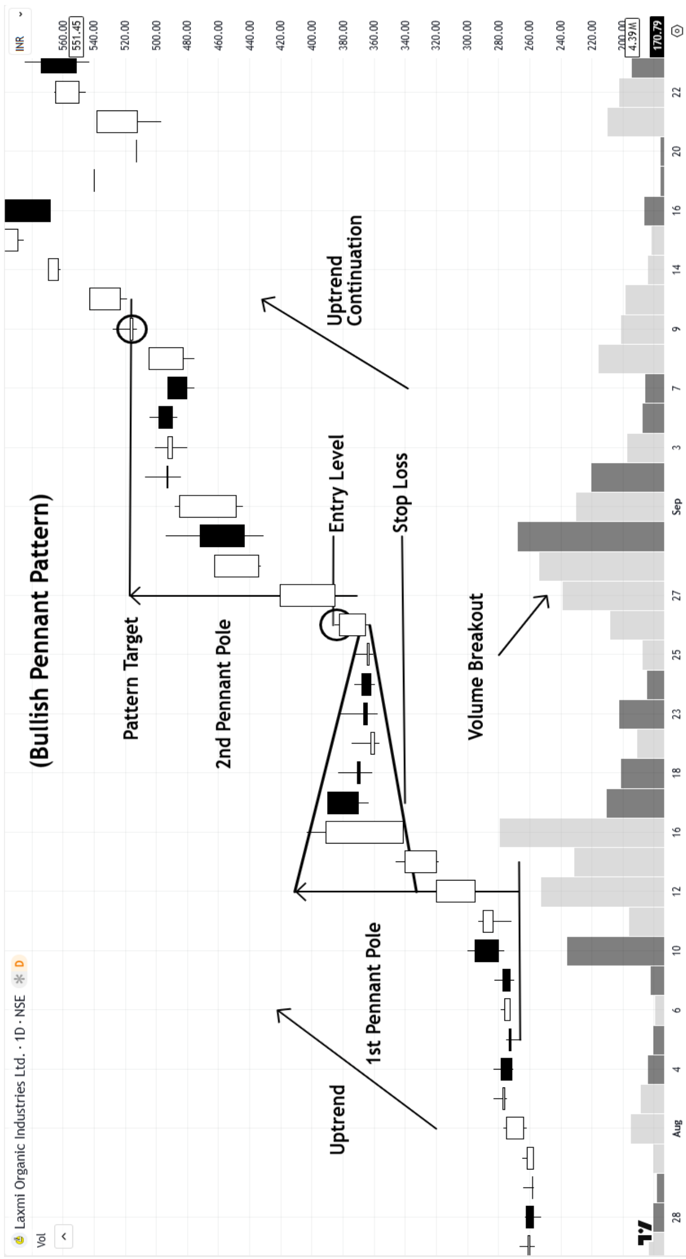
- **Appearance:** Small symmetrical triangle following a sharp upward flagpole.
- **Meaning:** Short-term consolidation after a strong rally.
- **Interpretation:** Breakout above pennant signals continuation of uptrend.
- **Where to Look:** Midway in a sharp bullish move.

Chart Analysis:

(Refer Image 9.30)

- **Trend Direction:** The trend before pattern is uptrend and we can see pennant pole with a sharp upward pressure.
- **Pattern Duration:** Bullish Pennant Continuation pattern which was formed on Daily chart of Laxmi Organic Industries Ltd. from 16th August 2021 to 26th August 2021 as shown below.
- **Volume Behaviour:** The stock gave a breakout with descent wide range breakout candles.

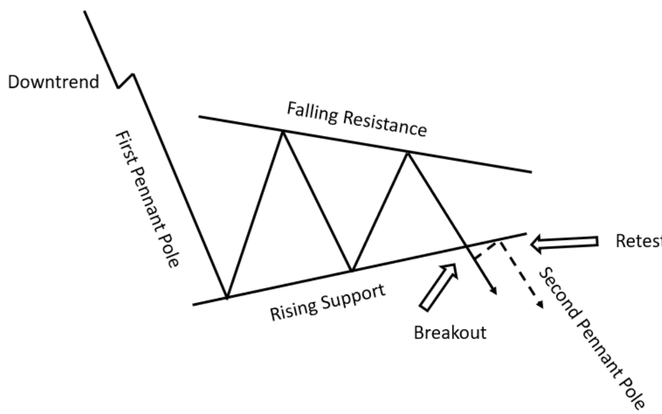
- **Suggested Trade Position:** The long position will be taken at ₹385, and the stop loss will be placed at ₹342 (lowest point of the trendline of pennant). The exit will happen at ₹517 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 43 : 132 ≈ **1 : 3.07**
- **Trade Feasibility and Exit Judgment:** The trade presents a *highly favourable risk–reward profile* (≈ 1 : 3.07), where the potential reward is more than three times the defined risk, supporting a strong case for trade execution based on the pattern target.



(Image 9.30: *Daily candlestick chart of Laxmi Organic Industries Ltd. illustrating a Bullish Pennant pattern)*

14. Bearish Pennant Pattern

A bearish pennant is a *continuation* chart pattern that signals the resumption of a *downtrend* after a brief consolidation. It forms following a sharp downward price move (the "flagpole") and is followed by a short consolidation phase, where price action narrows into a small symmetrical triangle. Traders typically watch for a *breakout below the lower trendline* of the triangle to confirm that the downtrend will continue.



*(**Image 9.31:** Schematic representation of a Bearish Pennant pattern)*

How It Forms:

- **Initial Downtrend (Flagpole):** The pattern begins with a strong, rapid price decline, often accompanied by high trading volume.
- **Consolidation (Pennant):** Price temporarily pauses, forming a small symmetrical triangle with converging trendlines.
- **Volume During Consolidation:** Trading volume usually decreases during this phase, reflecting reduced market activity.
- **Breakout:** A decisive break below the lower trendline confirms the pattern and signals the continuation of the downtrend.

Trading the Bearish Pennant:

- **Entry:** Enter a short position after the price breaks below the lower trendline.
- **Volume Confirmation:** Look for the breakout to occur on increased trading volume to validate the move.
- **Stop-Loss:** Place a stop-loss order above the upper trendline of the triangle to limit potential losses.
- **Profit Target:** A common method is to project the length of the initial downward move (the flagpole) from the breakout point to estimate the target price.

Quick Overview:

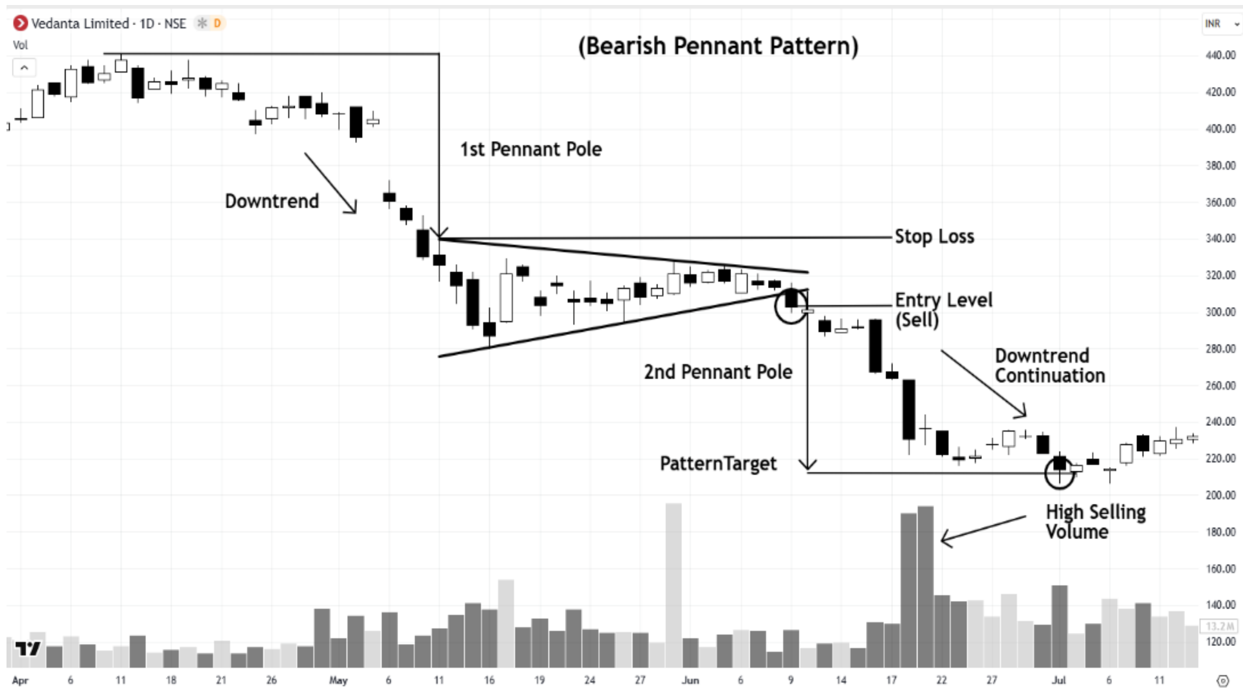
- **Appearance:** Small symmetrical triangle after a sharp downward flagpole.
- **Meaning:** Brief consolidation after a strong decline.
- **Interpretation:** Breakdown below pennant confirms bearish continuation.
- **Where to Look:** Midway during a strong bearish move.

Chart Analysis:

(Refer Image 9.32)

- **Trend Direction:** The trend before pattern is downtrend and we can see pennant pole with a sharp downward pressure.
- **Pattern Duration:** Bearish Pennant Continuation pattern which was formed on Daily chart of *Vedanta Ltd.* from 10th May 2022 to 9th June 2022 as shown below.
- **Volume Behaviour:** The stock gave descent wide range breakdown candles supported by heavy selling and breakdown.

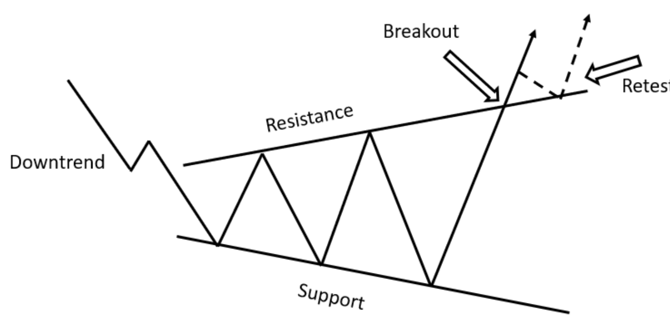
- **Suggested Trade Position:** The short position will be taken at ₹303, and the stop loss will be placed at ₹340 (highest point of the trendline of pennant). The exit will happen at ₹212 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 37 : 91 ≈ **1 : 2.46**
- **Trade Feasibility and Exit Judgment:** The trade offers a *favourable risk–reward profile* (≈ 1 : 2.46), where the potential reward is more than twice the defined risk, supporting a positive bias for trade execution based on the pattern target.



(*Image 9.32:* Daily candlestick chart of Vedanta Ltd. illustrating a Bearish Pennant pattern)

15. Broadening Bottom (Megaphone) Pattern

A *bullish reversal* megaphone pattern, also called a *broadening formation*, signals a potential shift from a *downtrend* to an *uptrend*. It is identified by widening price swings, forming two diverging trendlines: the upper line connecting higher highs and the lower line connecting lower lows. The pattern reflects high volatility and market indecision, and a *breakout* above the *upper* trendline confirms the *bullish reversal*, suggesting that prices may move higher.



***(Image 9.33:** Schematic representation of a Broadening Bottom pattern)*

Key Characteristics:

- **Diverging Trendlines:** Two trendlines move apart, upper line connects higher highs, lower line connects lower lows, forming a megaphone shape.
- **Wider Price Swings:** Price fluctuations expand progressively, indicating increasing volatility and lack of market consensus.
- **High Volatility and Indecision:** Both buyers and sellers actively push prices, creating wide swings without a clear direction until a breakout occurs.
- **Bullish Reversal Signal:** The pattern typically forms at the *bottom* of a *downtrend*. A *breakout* above the *upper trendline* signals a potential trend *reversal*.

Trading the Pattern:

- **Identify the Pattern:** Look for at least two higher highs and two lower lows connected by diverging trendlines.
- **Wait for the Breakout:** Confirmation occurs when the price *closes above the upper resistance trendline*.
- **Consider the Context:** Analyse the overall market trend and use other indicators to validate the breakout before entering a trade.
- **Enter Long:** Initiate a buy position after the *breakout* is confirmed.
- **Risk Management:** Place a stop-loss below the *lower trendline* or *a recent swing low* to protect against potential failure of the breakout.

Quick Overview:

- **Appearance:** Diverging trendlines with lower lows and higher highs.
- **Meaning:** Expanding volatility as selling pressure exhausts.
- **Interpretation:** Breakout above resistance confirms bullish reversal.
- **Where to Look:** At the end of prolonged downtrends.

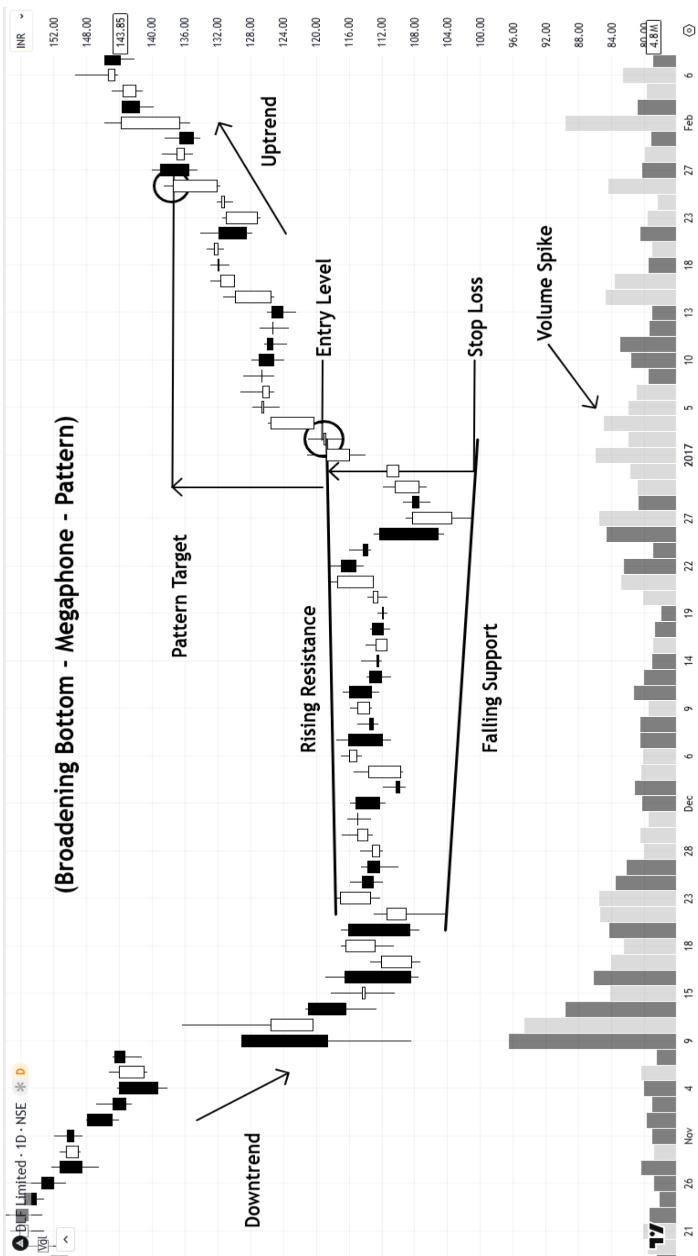
Chart Analysis:

(Refer Image 9.34)

- **Trend Direction:** The trend before pattern should be downtrend and it can be seen in the chart of DLF Ltd. Once the pattern will be completed, the price will go upward as it is a trend reversal pattern.
- **Pattern Duration:** Broadening Bottom Reversal (Megaphone) pattern was formed on Daily chart of DLF Ltd. on 22nd

November 2016 to 2nd January 2017 as shown in the chart below.

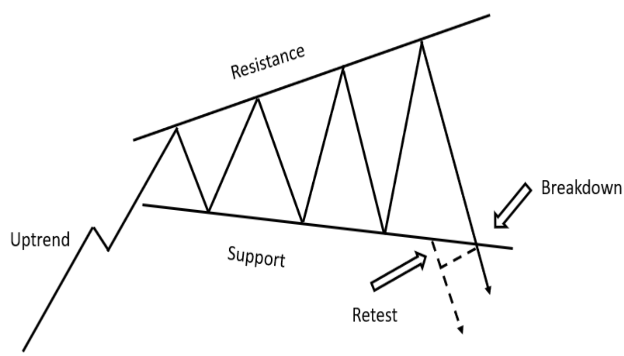
- **Volume Behaviour:** The stock gave a breakout with wide range bullish candle from rising resistance line which was supported by decent volume build up.
- **Suggested Trade Position:** The entry to long position will be taken after high of breakout out candle which is ₹119 and the stop loss will be placed at ₹100 (low of pattern's lower trend line). The exit will happen at ₹138 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 19 : 19 ≈ **1 : 1**
- **Trade Feasibility and Exit Judgment:** The trade presents a *neutral risk–reward profile* (≈ 1 : 1), where the potential reward equals the defined risk, indicating that trade execution should be considered only with strong pattern confirmation or additional supporting factors.



(Image 9.34: *Daily candlestick chart of DLF Ltd. illustrating a Broadening Bottom - Megaphone - pattern)*

16. Broadening Top (Megaphone) Pattern

A *bearish reversal* megaphone pattern, also called a *broadening top*, is a chart formation that signals increasing market volatility and uncertainty, often indicating the *end* of an *uptrend*. It is identified by two diverging trendlines connecting progressively higher highs and lower lows, forming a megaphone, or expanding triangle shape. When this pattern occurs *after* a *strong uptrend*, a breakdown *below* the *lower trendline* confirms a shift from *bullish* to *bearish* momentum.



*(**Image 9.35:** Schematic representation of a Broadening Top pattern)*

Key Characteristics:

- **Diverging Trendlines:** The upper trendline connects higher highs, while the lower trendline connects lower lows.
- **Expanding Price Range:** The distance between the trendlines widens over time, reflecting increasing volatility.
- **Higher Highs and Lower Lows:** Prices form progressively higher peaks and deeper troughs.
- **Increased Market Volatility:** Often forms during periods of indecision and heightened trading activity.
- **Bearish Reversal Signal:** When appearing at the end of an uptrend, the pattern indicates a potential reversal to a downtrend.

How to Trade:

- **Identify the Pattern:** Look for at least two higher highs and two lower lows.
- **Draw Trendlines:** Connect the higher highs with the upper line and the lower lows with the lower line, ensuring they diverge.
- **Look for Confirmation:** A bearish reversal is confirmed when the price breaks below the lower trendline, ideally on increased volume.
- **Enter a Short Position:** Place a sell order once the breakdown is decisive.
- **Set a Stop-Loss:** Position a stop-loss *above* the *upper trendline* or the *recent swing high* to limit risk.
- **Set a Take-Profit:** A common target is to project the *height of the pattern* from the breakout point *downward*.

Quick Overview:

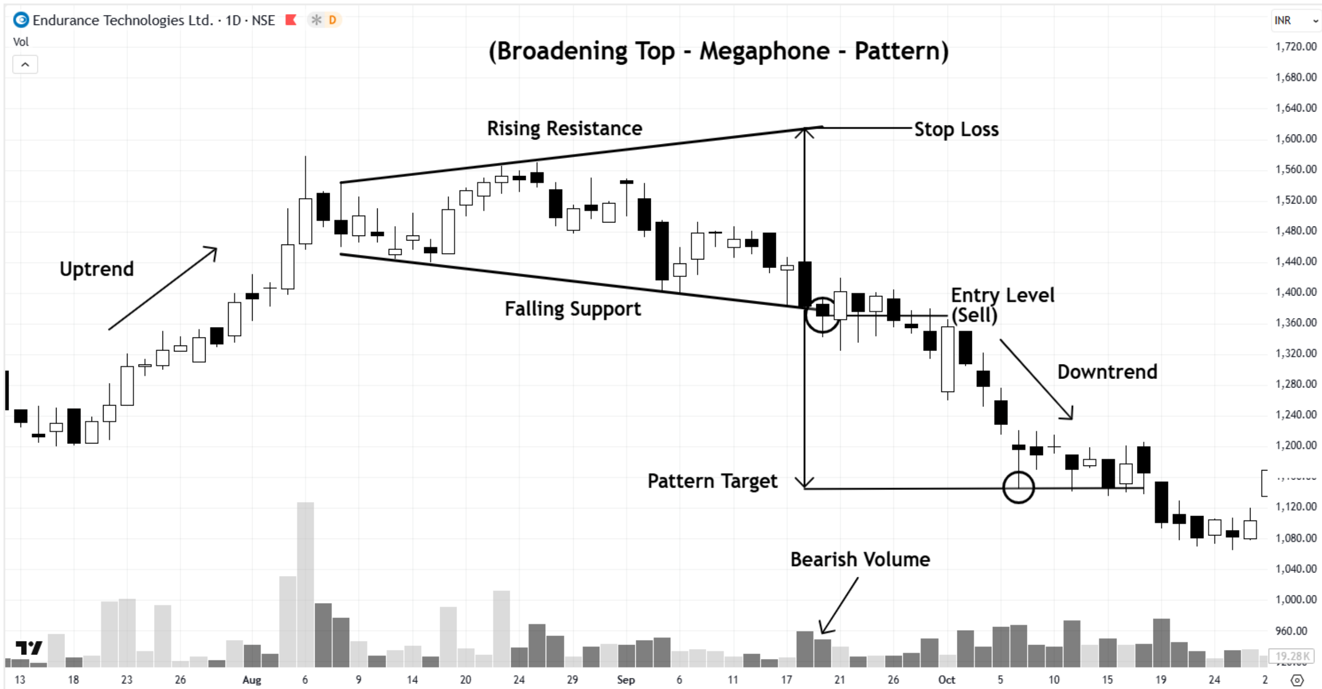
- **Appearance:** Diverging trendlines with higher highs and lower lows.
- **Meaning:** Increasing volatility showing buyer–seller imbalance.
- **Interpretation:** Breakdown below support confirms bearish reversal.
- **Where to Look:** Near the end of an extended uptrend.

Chart Analysis:

(Refer Image 9.36)

- **Trend Direction:** The trend before pattern should be upward and it can be seen in the chart.

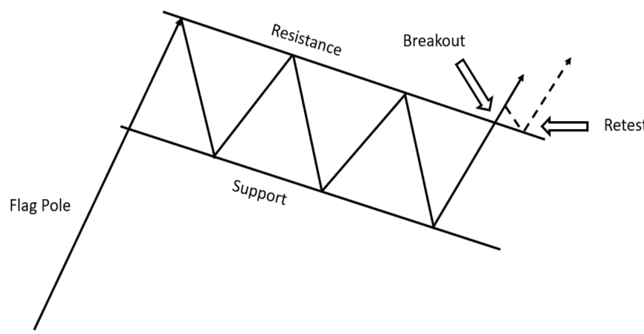
- **Pattern Duration:** Broadening Top Reversal pattern was formed on Daily chart of Endurance Technology Ltd. on 8th August 2018 to 19th September 2018 as shown in the chart below.
- **Volume Behaviour:** The stock gave a breakdown with wide range breakdown candle from falling resistance line.
- **Suggested Trade Position:** The short position will be taken at ₹1370, and the stop loss will be placed at ₹1610 which is the high of recent swing. The exit will happen at ₹1145 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 240 : 225 ≈ **1 : 0.94**
- **Trade Feasibility and Exit Judgment:** The trade presents an *unfavourable risk–reward profile* (≈ 1:0.94), where the potential reward is slightly lower than the defined risk, trade execution should be done with caution or only with strong confirmation signals.



(***Image 9.36:*** *Daily candlestick chart of Endurance Technologies Ltd. illustrating a Broadening Top – Megaphone - pattern*)

17. Bullish Flag Pattern

A bullish flag is a *continuation* chart pattern that signals the likely resumption of a *strong uptrend*. It forms after a sharp upward price move (the "flagpole") and is followed by a brief consolidation period, where the price moves sideways or slightly downward within a parallel channel (the "flag"). The pattern is confirmed when the price breaks above the upper boundary of the flag, indicating that the *upward trend* is *continuing*.



*(**Image 9.37:** Schematic representation of a Bullish Flag pattern)*

Formation of a Bullish Flag:

- **Flagpole:** A rapid and steep price increase, forming a vertical "pole" on the chart.
- **Flag:** A consolidation phase after the flagpole, where price moves within a narrow, slightly downward-sloping parallel channel. During this phase, trading volume typically decreases.
- **Breakout:** A decisive move above the upper boundary of the flag signals the likely continuation of the uptrend.

Key Characteristics:

- **Trend Continuation:** The pattern suggests that the preceding uptrend is poised to resume.

- **Volume:** Volume is usually high during the flagpole and low during the consolidation. A significant increase in volume during the breakout strongly confirms the pattern.
- **Parallel Channel:** The flag is contained within two parallel lines, connecting the highs and lows of the consolidation phase.

How Traders Use It:

- **Entry Point:** Traders typically enter a long position after a confirmed breakout above the flag's upper trendline.
- **Confirmation:** A surge in trading volume during the breakout indicates strong buying interest and increases the probability of a successful trade.

Quick Overview:

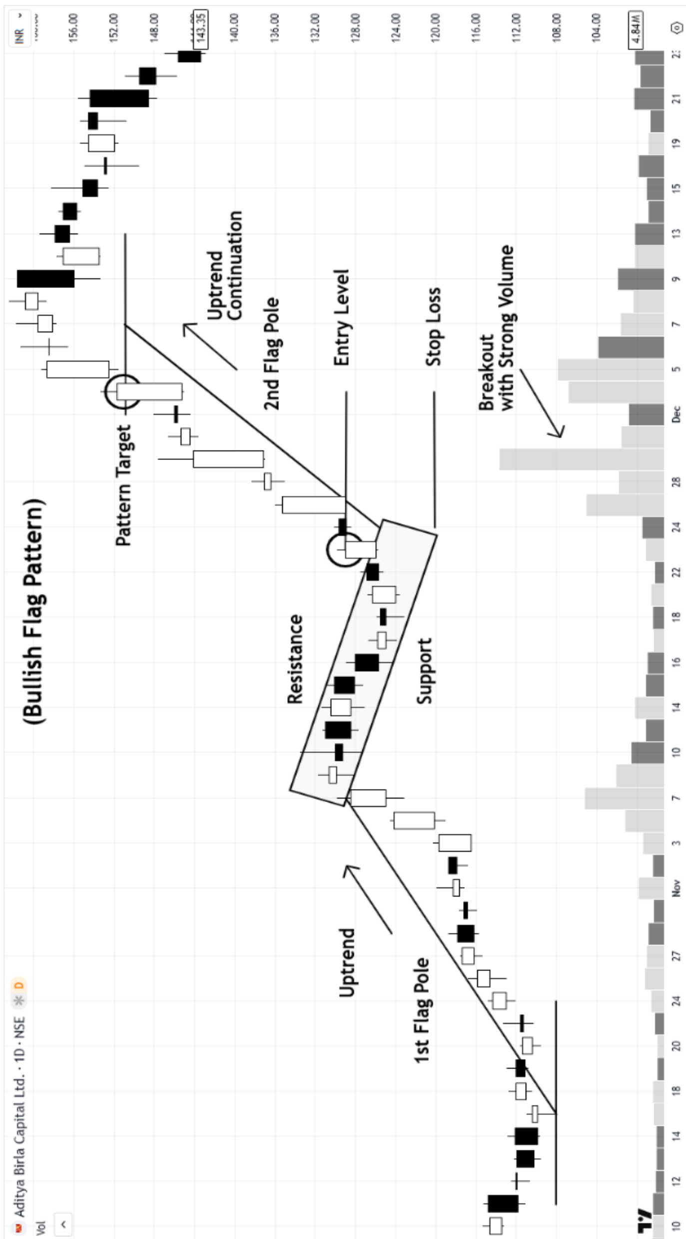
- **Appearance:** Parallel downward-sloping channel after a sharp rise.
- **Meaning:** Healthy pullback in an ongoing uptrend.
- **Interpretation:** Breakout above upper trendline resumes the uptrend.
- **Where to Look:** After a steep bullish surge.

Chart Analysis:

(Refer Image 9.38)

- **Trend Direction:** The trend before pattern is uptrend and we can see flagpole with a sharp upward pressure.
- **Pattern Duration:** Bullish Flag pattern which was formed on Daily chart of Adity Birla Capital Ltd. from 7th November 2022 to 23rd November 2022 as shown below.

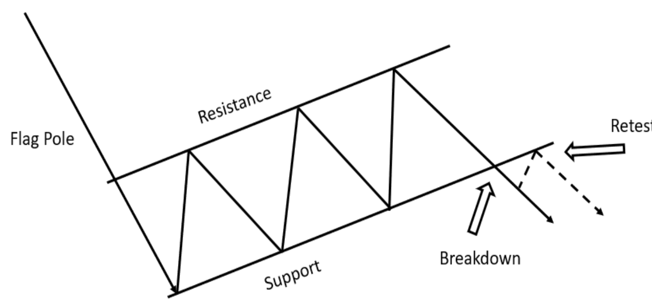
- **Volume Behaviour:** The stock gave a breakout with descent wide range breakout candles which was supported by volume spike.
- **Suggested Trade Position:** The long position will be taken at ₹130, and the stop loss will be placed at ₹120 (lower point of flag's body). The exit will happen at ₹150 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 10 : 20 ≈ **1 : 2**
- **Trade Feasibility and Exit Judgment:** The trade presents a *favourable risk–reward profile* (≈ 1 : 2), where the potential reward is twice the defined risk, supporting a positive bias for trade execution based on the pattern target.



(Image 9.38: *Daily candlestick chart of Aditya Birla Capital Ltd. illustrating a Bullish Flag pattern)*

18. Bearish Flag Pattern

A bearish flag is a *continuation* chart pattern that signals a temporary pause in a downtrend before the price resumes its *decline*. It forms after a sharp price drop (the "flagpole") and is followed by a period of consolidation, where price moves sideways or slightly upward within a narrow, parallel channel (the "flag"). Traders watch for a *breakdown* below the flag to confirm the *continuation* of the *bearish* trend.



*(**Image 9.39:** Schematic representation of a Bearish Flag pattern)*

Key Characteristics:

- **Flagpole:** A steep, rapid price decline that forms the initial strong downward move.
- **Flag:** A consolidation phase where the price moves sideways or slightly upward, forming a parallel channel with higher highs and higher lows.
- **Breakdown:** A decisive move below the lower boundary of the flag confirms that the downtrend is continuing.
- **Volume:** Trading volume usually decreases during the flag's consolidation and rises again on the breakdown, confirming renewed selling pressure.

How Traders Use It:

- **Entry Point:** Enter a short position after the price breaks below the lower boundary of the flag.
- **Risk Management:** The tight consolidation of the flag allows placing a stop-loss just above the upper boundary, providing a precise risk-reward setup.
- **Confirmation:** The pattern is more reliable when the breakdown is accompanied by a significant increase in trading volume.

Quick Overview:

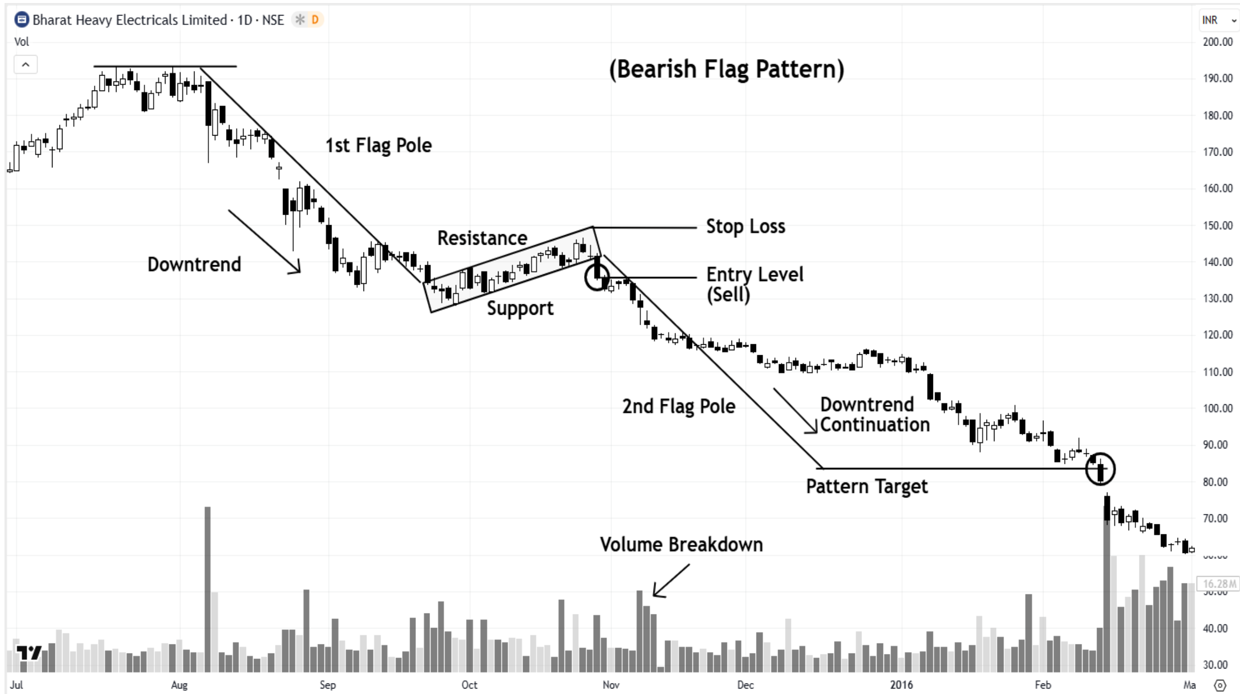
- **Appearance:** Parallel upward-sloping channel after a sharp fall.
- **Meaning:** Temporary relief rally before next leg down.
- **Interpretation:** Breakdown below lower channel line continues downtrend.
- **Where to Look:** After a sharp bearish impulse.

Chart Analysis:

(Refer Image 9.40)

- **Trend Direction:** The trend before pattern is downtrend and we can see flagpole with a sharp downward pressure.
- **Pattern Duration:** Bearish Flag pattern which was formed on Daily chart of Bharat Heavy Electricals Ltd. from 22nd September 2015 to 29th October 2015 as shown below.
- **Volume Behaviour:** The stock gave a breakdown of volume with descent wide range breakdown candles.
- **Suggested Trade Position:** The short position will be taken at ₹135, and the stop loss will be placed at ₹150 which is the point upper boundary. The exit will happen at ₹85 as per pattern-based target.

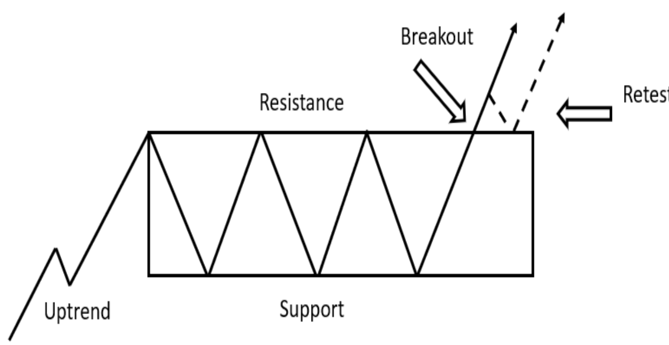
- **Risk-Reward Ratio (R:R)** = 15 : 50 ≈ **1 : 3.33**
- **Trade Feasibility and Exit Judgment:** The trade presents a *highly favourable risk–reward profile* (≈ 1 : 3.33), where the potential reward is more than three times the defined risk, supporting a strong case for trade execution based on the pattern target.



*(**Image 9.40:** Daily candlestick chart of Bharat Heavy Electricals Ltd. illustrating a Bearish Flag pattern)*

19. Bullish Rectangle Pattern

A bullish rectangle is a *continuation* chart pattern that appears during an uptrend, indicating a temporary pause in buying pressure before the upward trend resumes. The pattern forms when the asset's price consolidates between two parallel horizontal lines, support and resistance, creating a rectangle shape. The pattern is confirmed when the price *breaks* above the *resistance* level, ideally on increased trading volume, signalling a *continuation* of the *bullish momentum*.



*(**Image 9.41:** Schematic representation of a Bullish Rectangle pattern)*

How It Forms:

- **Initial Uptrend:** The pattern begins after a strong upward price movement.
- **Consolidation:** Price moves sideways, bouncing between a horizontal support line and a horizontal resistance line. This represents a temporary balance between buyers and sellers.
- **Breakout:** The pattern is completed when price decisively breaks above the resistance level, resuming the uptrend.

Key Characteristics:

- **Trend Continuation:** The pattern indicates that the preceding bullish trend is likely to continue after consolidation.

- **Support and Resistance:** Defined by two parallel horizontal lines, a resistance line at the top and a support line at the bottom.
- **Confirmation:** A breakout above resistance, ideally with *increased volume*, validates the pattern and suggests strong buying interest.

Quick Overview:

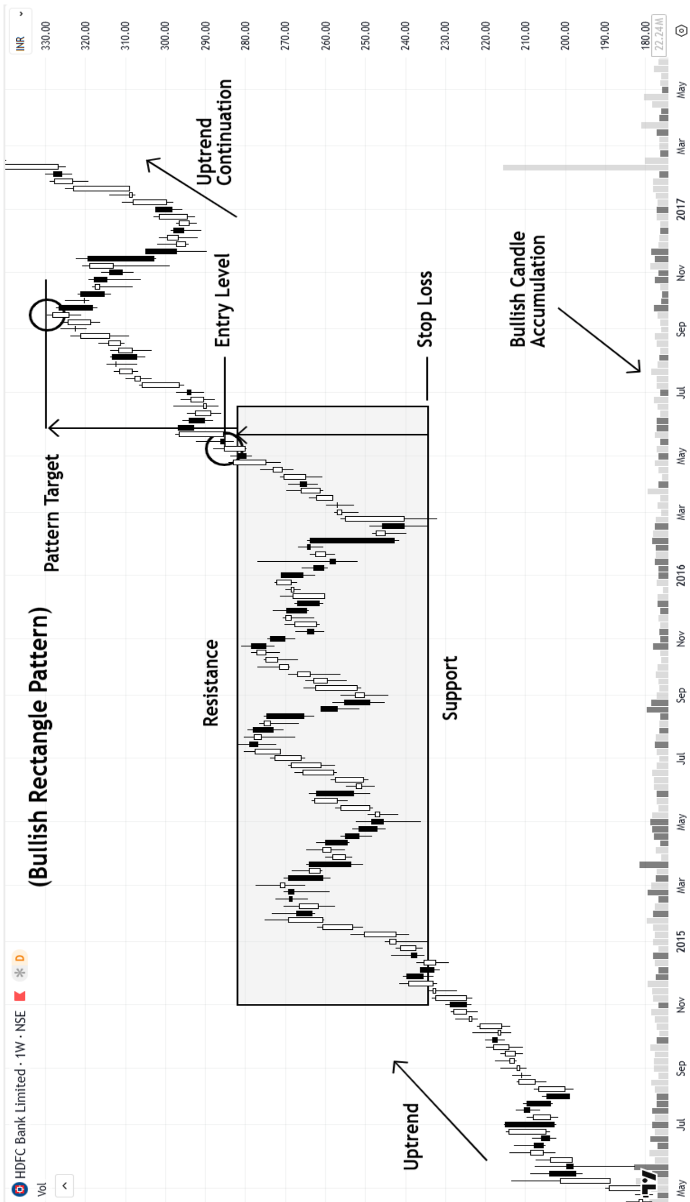
- **Appearance:** Horizontal support and resistance forming a price box.
- **Meaning:** Buyers and sellers in balance during pause.
- **Interpretation:** Breakout above resistance resumes bullish trend.
- **Where to Look:** Midway through an uptrend.

Chart Analysis:

(Refer Image 9.42)

- **Trend Direction:** The trend before the pattern should be upward and we can also see the chart of HDFC Bank Ltd. with just one way up move.
- **Pattern Duration:** Bullish Rectangle pattern was formed on Daily chart of HDFC Bank Ltd. from 24th November 2014 to 23rd May 2016 as shown in the chart below.
- **Volume Behaviour:** The stock gave a descent breakout candles supported by nice volume build up.
- **Suggested Trade Position:** The long position will be taken at the price of ₹285 and the Stop Loss will be placed at ₹235 (lower line of Rectangle). The exit will happen at ₹330 as per pattern-based target.

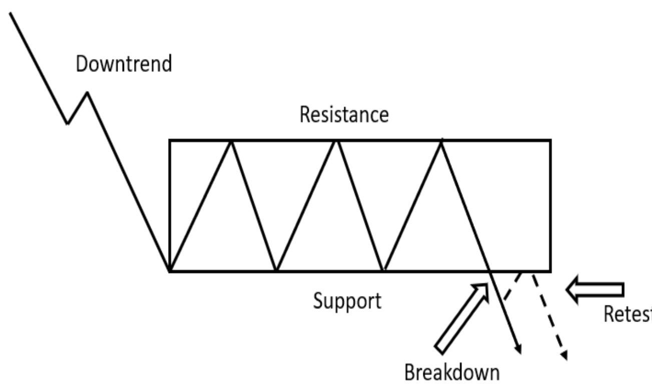
- **Risk-Reward Ratio (R:R)** = 50 : 45 ≈ **1 : 0.9**
- **Trade Feasibility and Exit Judgment:** The trade presents an *unfavourable risk–reward profile* (≈ 1 : 0.90), where the potential reward is slightly lower than the defined risk, suggesting that execution should be considered cautiously or only with strong confirmation signals.



(Image 9.42: *Weekly candlestick chart of HDFC Bank Ltd. illustrating a Bullish Rectangle pattern)*

20. Bearish Rectangle Pattern

A bearish rectangle is a *continuation* chart pattern that forms during a downtrend, signalling a temporary pause in selling pressure before the price resumes its decline. The pattern appears when price consolidates sideways between two parallel horizontal lines of support and resistance. The pattern is *confirmed* when price *breaks* below the *support* line, indicating that the *downtrend* is likely to *continue*.



*(**Image 9.43:** Schematic representation of a Bearish Rectangle pattern)*

Key Characteristics:

- **Formation:** Appears during a downtrend, representing a period of consolidation where sellers temporarily pause.
- **Support and Resistance:** Defined by two parallel horizontal lines, the upper line acts as resistance, and the lower line acts as support.
- **Breakout:** Confirmed when price decisively breaks below the support level, signalling continuation of the downtrend.
- **Volume:** A significant increase in volume during the breakout confirms strong selling pressure and validates the pattern.

How to Trade:

- **Identify the Pattern:** Look for a clear downtrend followed by sideways consolidation forming a rectangular shape.
- **Wait for the Breakout:** Enter a trade only after the price decisively breaks below the support level.
- **Confirm the Signal:** Ensure the breakout is accompanied by a notable increase in trading volume.
- **Set a Price Target:** Project the height of the rectangle downward from the breakout point to estimate the target.
- **Manage Risk:** Place a stop-loss above the resistance line or just above the high of the breakout candle to limit potential losses.

Quick Overview:

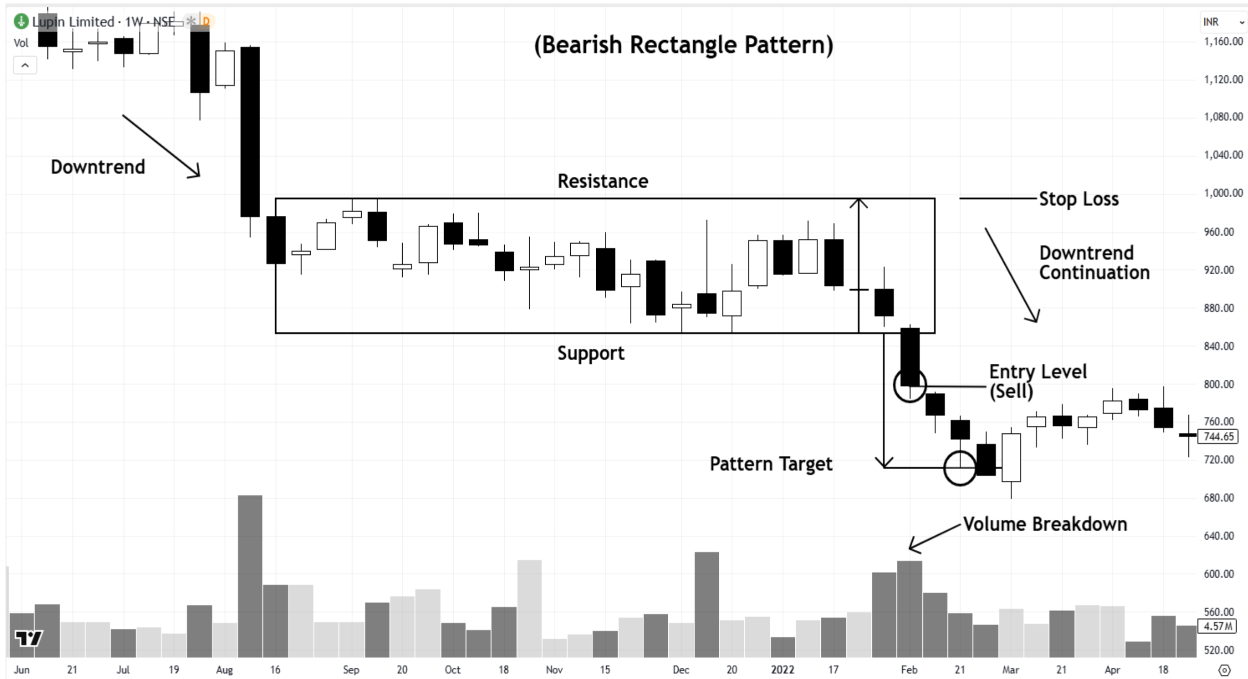
- **Appearance:** Price oscillating between parallel horizontal lines in downtrend.
- **Meaning:** Market in sideways pause before next drop.
- **Interpretation:** Breakdown below support confirms downtrend continuation.
- **Where to Look:** During bearish trend consolidation.

Chart Analysis:

(Refer Image 9.44)

- **Trend Direction:** The trend before the pattern should be downward and we can also see the chart of Lupin Ltd. with clear downward.
- **Pattern Duration:** Bearish Rectangle Continuation Pattern was formed on Weekly chart of Lupin Ltd. from 16th August 2021 to 7th February 2022 as shown in the chart below.

- **Volume Behaviour:** The stock gave a strong volume breakdown with descent breakdown candles.
- **Suggested Trade Position:** The short position will be taken at the price of ₹798 and the Stop Loss will be placed at ₹995 (higher line of rectangle). The exit will happen at ₹710 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 197 : 88 ≈ **1 : 0.45**
- **Trade Feasibility and Exit Judgment:** The trade presents an *unfavourable risk–reward profile* (≈1 : 0.45), where the potential reward is significantly lower than the defined risk, indicating that this setup should be approached with caution or avoided unless supported by strong additional confirmation.



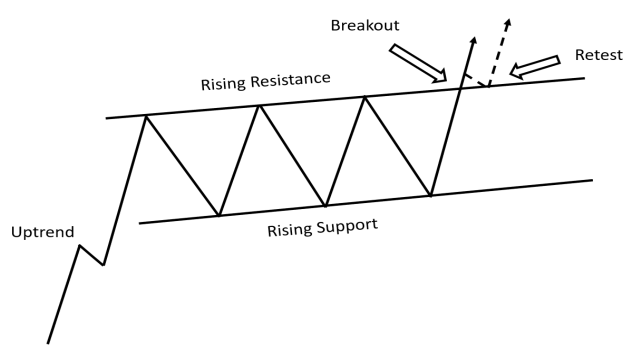
(Image 9.44: *Weekly candlestick chart of Lupin Ltd. illustrating a Bearish Rectangle pattern)*

21. Rising (Ascending) Channel Pattern

A rising (ascending) channel is a chart pattern that is typically signifies *strong bullish* sentiment and is generally considered a trend *continuation* pattern, meaning the upward trend is likely to persist as long as the price stays within the channel. However, it can also lead to a trend *reversal* (bearish), if the price breaks below the lower trendline.

Bullish Continuation

- An ascending channel is formed by two parallel, upward-sloping trendlines that contain the price movements of a security, with higher highs and higher lows.
- As long as the price remains within the channel, the pattern indicates sustained upward buying pressure and a bullish market sentiment.
- Traders may buy when the price touches the lower trendline (support) and sell near the upper trendline (resistance).



*(**Image 9.45:** Schematic representation of a Rising Channel pattern)*

Formation:

- **Uptrend Containment:** Prices move between two parallel, upward-sloping trendlines.
- **Lower Trendline (Support):** Connects a series of higher lows and provides a floor for price movements.

- **Upper Trendline (Resistance):** Connects a series of higher highs and marks potential selling points.
- **Slope:** Both lines slope upwards, showing gradual price increase over time.

Trading Strategies:

- **Buying:** Enter near the lower support trendline, anticipating a bounce back upward.
- **Selling/Profit-Taking:** Consider selling near the upper resistance trendline, as the price may pull back.
- **Breakout:** A move above the upper trendline can indicate a continuation of the bullish trend and serve as a buy signal.
- **Breakdown:** A move below the lower trendline can suggest a potential reversal into a bearish trend.

Important Considerations:

- **Volume:** A breakout accompanied by high trading volume is more reliable than one on low volume.
- **False Breaks:** Watch for "fake breaks," where price briefly exits the channel but returns inside.
- **Confirmation:** Use additional technical tools such as price action signals, candlestick patterns, or support–resistance behaviour to confirm breakout validity, if required.

Quick Overview:

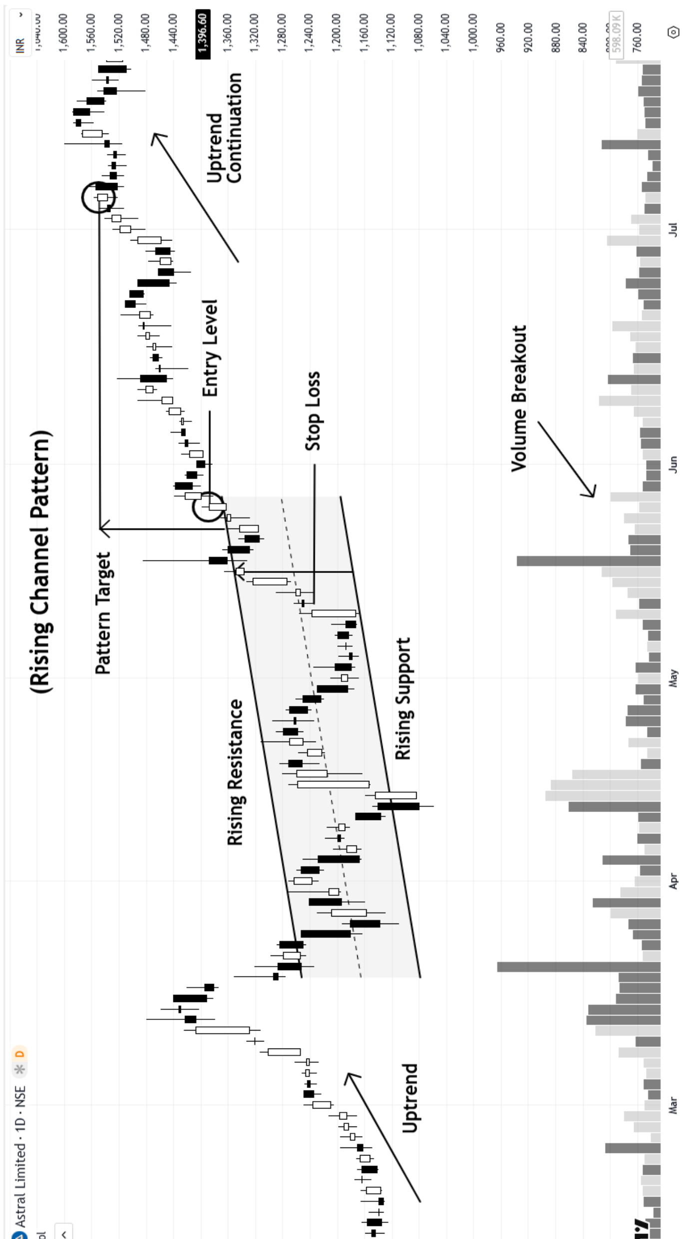
- **Appearance:** Parallel upward-sloping lines containing price swings.
- **Meaning:** Steady rise within ongoing trend.
- **Interpretation:** Breakdown below lower trendline signals weakening momentum.

- **Where to Look:** In long uptrends, where price climbs steadily with corrections.

Chart Analysis:

(Refer Image 9.46)

- **Trend Direction:** The trend before the pattern should be upward and we can also see the chart of Astral Ltd. with sharp upward pressure. The trend will remain upward as the pattern is a continuation pattern.
- **Pattern Duration:** Ascending Channel Bullish Continuation pattern was formed on Daily chart of Astral Ltd. from 19th March 2021 to 26th May 2021 as shown in the chart below.
- **Volume Behaviour:** The stock gave a strong volume breakout with descent breakout candles.
- **Suggested Trade Position:** The long position will be taken at the price of ₹1385 and the Stop Loss will be placed at ₹1233 (most recent swing low). The exit will happen at ₹1550 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 152 : 165 ≈ **1 : 1.09**
- **Trade Feasibility and Exit Judgment:** The trade presents a *slightly favourable risk–reward profile* (≈ 1 : 1.09), where the potential reward slightly exceeds the defined risk, suggesting cautious trade execution with pattern confirmation.



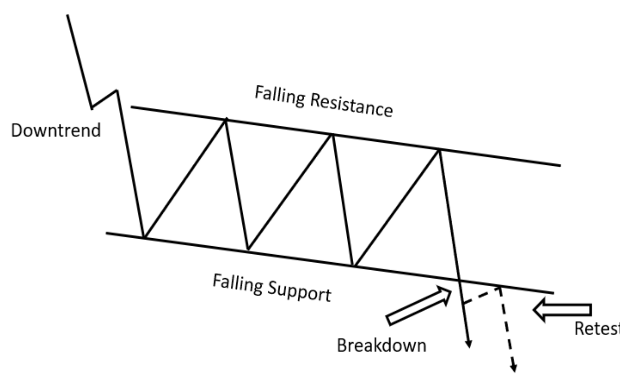
(Image 9.46: *Daily candlestick chart of Astral Ltd. illustrating a Rising Channel pattern)*

22. Falling (Descending) Channel Pattern

A falling (descending) channel is typically a *bearish* pattern, indicating a downward trend in a security's price. However, depending on where the price breaks out of the channel, it can also signal a trend (bullish) *reversal*.

Bearish Continuation

- A descending channel forms when a security's price moves within two parallel, downward sloping trendlines, making lower highs and lower lows.
- The pattern most often acts as a *continuation* of the *existing bearish* trend.
- If the price breaks down below the lower trendline, it is a strong signal for a further downward move.



*(**Image 9.47:** Schematic representation of a Falling Channel pattern)*

Key Characteristics:

- **Downward Trend:** The price consistently moves lower within the channel, confirming a bearish trend.
- **Lower Highs and Lower Lows:** Peaks and troughs successively decline, reinforcing the downtrend.

- **Parallel Lines:** Two trendlines frame the price action, upper line connecting lower highs (resistance) and lower line connecting lower lows (support).
- **Volume:** Volume often decreases during the formation of the channel and may spike during a breakout.

Trading Implications:

- **Bearish Continuation:** Traders may enter short positions near the upper resistance line and exit near the lower support line to profit from the downward movement within the channel.
- **Potential Reversal:** A breakout above the upper resistance line can signal that the downtrend is ending, offering a long-entry opportunity after confirmation.
- **Breakdown:** A decisive break below the lower support line suggests continued bearish momentum, providing a potential short-entry point.

Quick Overview:

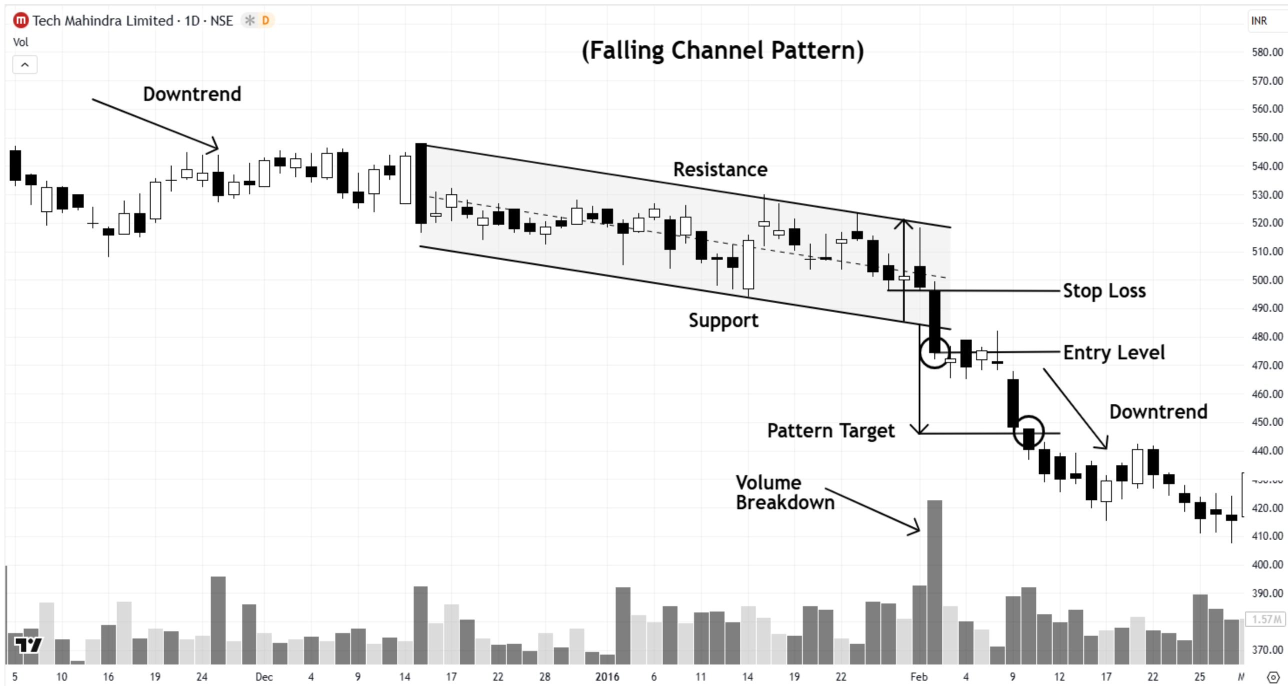
- **Appearance:** Parallel downward-sloping lines containing price swings.
- **Meaning:** Gradual correction within broader uptrend.
- **Interpretation:** Breakout above upper line indicates trend continuation upward.
- **Where to Look:** In rising markets during pullback phases.

Chart Analysis:

(Refer Image 9.48)

- **Trend Direction:** The trend before the pattern should be downward and we can also see the same in the chart of Tech Mahindra Ltd.

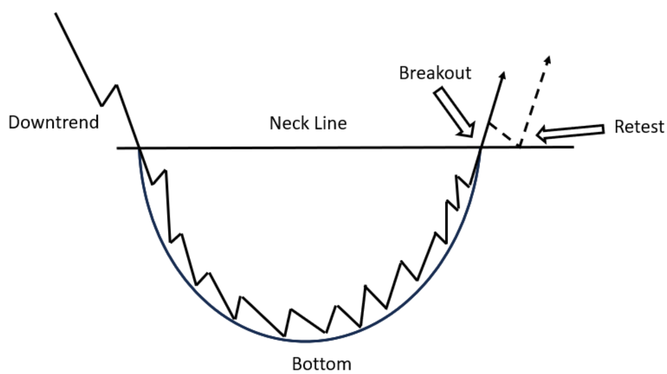
- **Pattern Duration:** Falling Channel pattern was formed on Daily chart of Tech Mahindra Ltd. from 15^{th} December 2015 to 2^{nd} February 2016 as shown in the chart below.
- **Volume Behaviour:** The stock gave a strong volume breakdown with descent bearish candles.
- **Suggested Trade Position:** The short position will be taken at the price of ₹475 and the Stop Loss will be placed at ₹495 (low of the most recent swing bottom). The exit will happen ₹445 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 20 : 30 ≈ **1 : 1.50**
- **Trade Feasibility and Exit Judgment:** The trade presents a *favourable risk–reward profile* (≈ 1 : 1.50), where the potential reward is 1.5 times the defined risk, supporting a positive bias for trade execution based on the pattern target.



(***Image 9.48:*** *Daily candlestick chart of Tech. Mahindra Ltd. illustrating a Falling Channel pattern*)

23. Rounding Bottom Pattern

A rounding bottom, also called a saucer bottom, is a long-term *bullish reversal* pattern that appears as a "U"-shaped curve on a price chart. It signals a gradual shift from a *downtrend* to an *uptrend*. The pattern typically forms after an extended decline and is confirmed when price breaks above the resistance level at the top of the "U," ideally with increasing trading volume.



*(**Image 9.49:** Schematic representation of a Rounding Bottom pattern)*

How It Forms:

- **Decline:** The pattern begins after a prolonged downtrend, with prices gradually decreasing. Trading volume often diminishes as selling pressure exhausts itself.
- **Bottoming:** Price stabilizes and moves sideways, forming the rounded base of the "U" as selling pressure decreases and buying interest increases.
- **Recovery:** Prices rise slowly in a smooth, rounded path as demand grows and begins to overtake supply.

How to Confirm the Pattern:

- **Resistance Breakout:** The bullish reversal is confirmed when price decisively breaks above the horizontal resistance line at the top of the "U."

- **Volume Increase:** A surge in trading volume during the breakout is a strong confirmation, signalling robust buying interest.

What It Signals:

- A shift from *bearish* to *bullish* market sentiment.
- The end of a long-term *downtrend*.
- The potential start of a *new, sustained uptrend.*

Quick Overview:

- **Appearance:** Smooth, bowl-shaped curve forming a gradual bottom.
- **Meaning:** Slow transition from selling to accumulation.
- **Interpretation:** Breakout above neckline marks beginning of uptrend.
- **Where to Look:** At the end of sustained bearish periods.

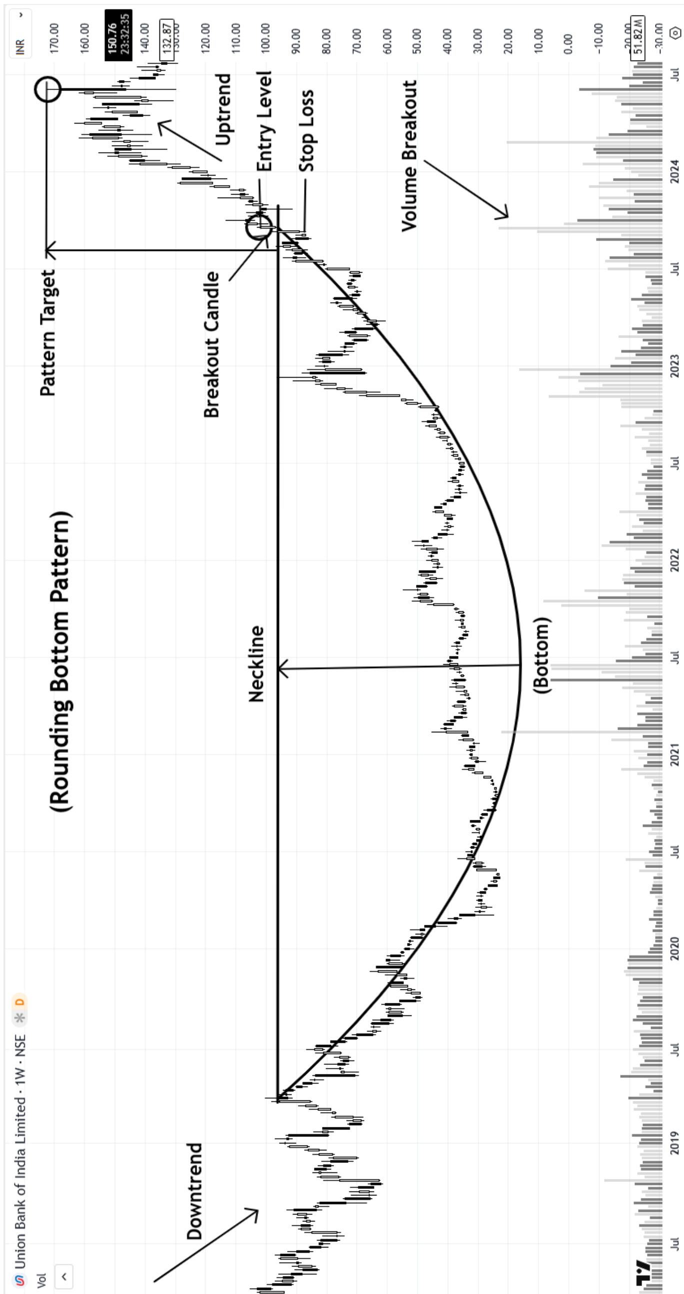
Chart Analysis:

(Refer Image 9.50)

- **Trend Direction:** The trend before the pattern should be downward and we can also see the chart of Union Bank of India Ltd. with clear downward. Once the pattern will be completed, the price will go upward as it is a trend reversal pattern.
- **Pattern Duration:** Rounding Bottom pattern was formed on Daily chart of Union Bank of India from 3rd April 2019 to 26th September 2023 as shown in the chart below.
- **Volume Behaviour:** The stock gave a strong volume breakout with descent breakout candles.
- **Suggested Trade Position:** The long position will be taken at the price of ₹102 and the Stop Loss will be placed at ₹88 (low

of the Breakout Candle). The exit will happen at ₹173 as per pattern-based target.

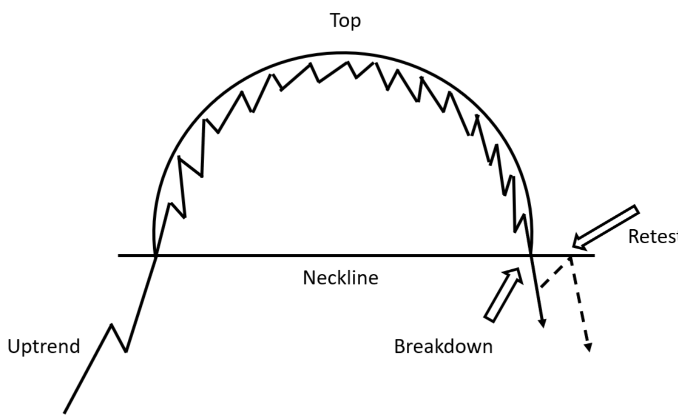
- **Risk-Reward Ratio (R:R)** = 14 : 71 ≈ **1 : 5.07**
- **Trade Feasibility and Exit Judgment:** The trade presents a *highly favourable risk–reward profile* (≈ 1 : 5.07), where the potential reward is more than five times the defined risk, supporting a strong case for trade execution based on the pattern target.



***(Image 9.50:** Weekly candlestick chart of Union Bank of India Ltd. illustrating a Rounding Bottom pattern)*

24. Rounding Top Pattern

A rounding top is a *bearish reversal* pattern that signals the end of an *uptrend* and the likely start of a *downtrend*. It appears as a gentle, inverted "U" or dome on a price chart, reflecting a gradual shift in market sentiment from bullish optimism to caution as *buying* pressure *fades* and *selling* pressure *builds*. The pattern typically forms over an extended period, weeks, or months, and is confirmed when price breaks below the support level.



*(**Image 9.51** Schematic representation of a Rounding Top pattern)*

Formation and Characteristics:

- **Shape:** A smooth, downward-curving dome resembling an inverted "U."
- **Timing:** Forms gradually after a prolonged uptrend, often taking weeks or months.
- **Volume:** Trading volume is usually highest at the start of the uptrend, decreases as price peaks, and rises again during the breakdown.

Key Levels to Watch:

- **Peak Resistance:** The highest price point reached at the top of the curve.

- **Support Level (Neckline):** The lowest point of the curve, acting as a support level. A *break* below this level confirms the *bearish reversal*.

How to Trade:

- **Entry:** Traders often enter a *short position* after price breaks below the support/ neckline.
- **Confirmation:** Look for increased trading volume during the breakdown to validate the signal and avoid false breakouts.
- **Risk Management:** Place stop-loss orders above the neckline or recent highs to manage potential losses.

Quick Overview:

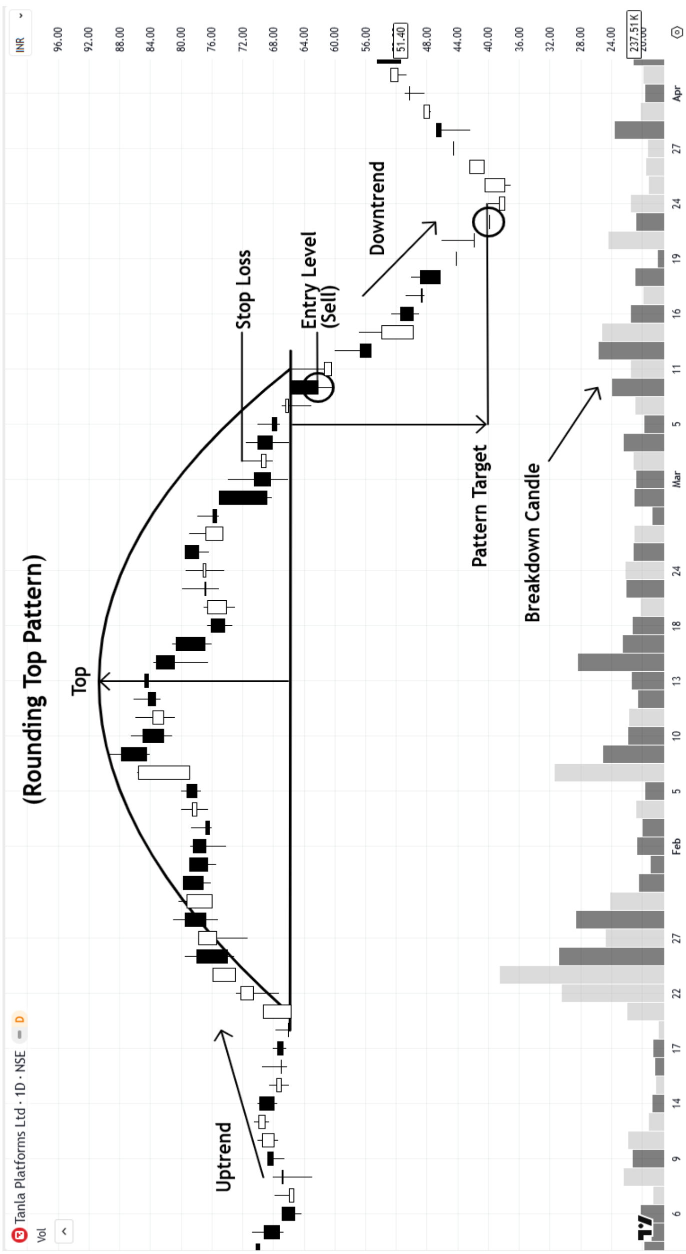
- **Appearance:** Dome-shaped curve with gradual loss of momentum.
- **Meaning:** Shift from buying strength to selling pressure.
- **Interpretation:** Breakdown below neckline confirms trend reversal downward.
- **Where to Look:** Near long-term tops or after extended uptrend.

Chart Analysis:

(Refer Image 9.52)

- **Trend Direction:** The trend before the pattern should be upward and we can also see the chart of Vedanta Ltd. with up move. Once the pattern will be completed, the price will go downward as it is a trend reversal pattern.
- **Pattern Duration:** Rounding Top pattern was formed on Daily chart of Tanla Platform Ltd. from 21st January 2020 to 9th March 2020 as shown in the chart below.
- **Volume Behaviour:** The stock gave a descent breakdown candles supported with descent bearish candles.

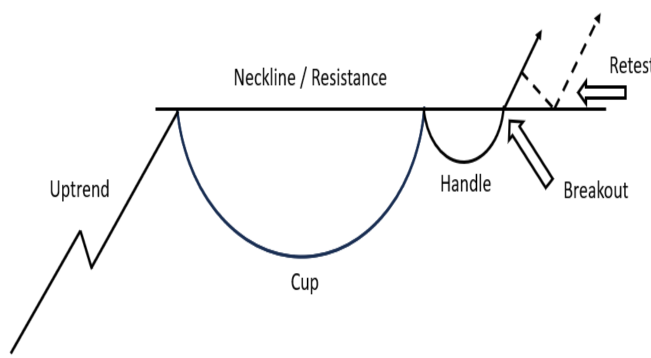
- **Suggested Trade Position:** The short position will be taken at the price of ₹62 and the Stop Loss will be placed at ₹72 (nearby resistance). The exit will happen at ₹40 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 10 : 22 ≈ **1 : 2.20**
- **Trade Feasibility and Exit Judgment:** The trade presents a *favourable risk–reward profile* (≈ 1 : 2.20), where the potential reward is more than twice the defined risk, supporting a positive bias for trade execution based on the pattern target.



*(**Image 9.52:** Daily candlestick chart of Tanla Platforms Ltd. illustrating a Rounding Top pattern)*

25. Cup and Handle Pattern

The Cup and Handle is a *bullish continuation* chart pattern that indicates a temporary consolidation before an existing uptrend resumes. The pattern consists of two parts, a "Cup," shaped like a smooth, rounded "U," followed by a smaller "Handle," which represents a short-term pullback or pause before a *potential breakout*.



*(**Image 9.53:** Schematic representation of a Cup and Handle pattern)*

Formation and Key Components:

- **Cup:** The larger U-shaped formation develops when the price gradually declines from a prior high, stabilizes, and then steadily recovers to approximately the same level as the initial peak. The bottom of the cup should be rounded, indicating a healthy consolidation rather than a sharp reversal.
- **Handle:** After the cup formation, the price enters a brief consolidation or mild pullback phase, forming a downward-sloping or sideways handle. This handle reflects a short-term pause before renewed buying momentum.

Interpretation and Trading Approach:

- **Breakout Confirmation:** The pattern is confirmed when the price breaks decisively above the *neckline* (*resistance level)* formed at the cup's rim (the top of the handle), typically on higher trading volume.

- **Entry Point:** Traders usually consider entering a long position just above the breakout level to capture the continuation of the uptrend.
- **Profit Target:** The expected price target is estimated by measuring the *depth of the cup* (from the cup's lowest point to the resistance level) and projecting that distance upward from the breakout point.

Quick Overview:

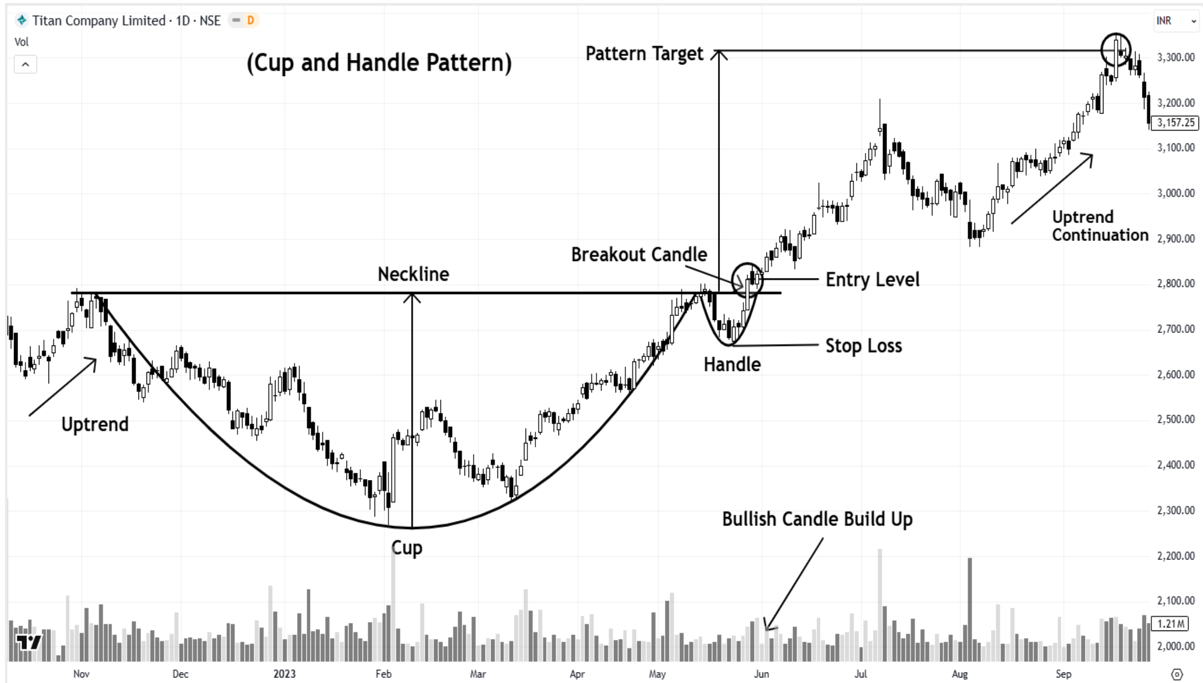
- **Appearance:** Rounded bottom (*Cup*) followed by small downward drift (*Handle*).
- **Meaning:** Period of accumulation before strong breakout.
- **Interpretation:** Breakout above handle confirms uptrend continuation.
- **Where to Look:** In prolonged uptrend after consolidation.

Chart Analysis:

(Refer Image 9.54)

- **Trend Direction:** The trend before the pattern should be upward and we can also see the chart of Titan Company Ltd. with just one way up move.
- **Pattern Duration:** Cup and Handle pattern was formed on Daily chart of Titan Company Ltd. from 4th November 2022 to 29th May 2023 as shown in the chart below.
- **Volume Behaviour:** The stock gave a breakout supported with descent bullish candles.
- **Suggested Trade Position:** The long position will be taken at the price of ₹2815 and the Stop Loss will be placed at ₹2665 (low of handle of pattern). The exit will happen at ₹3320 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 150 : 505 ≈ **1 : 3.37**

- **Trade Feasibility and Exit Judgment:** The trade presents a *highly favourable risk–reward profile* (≈ 1 : 3.37), where the potential reward is more than three times the defined risk, supporting a strong case for trade execution based on the pattern target.

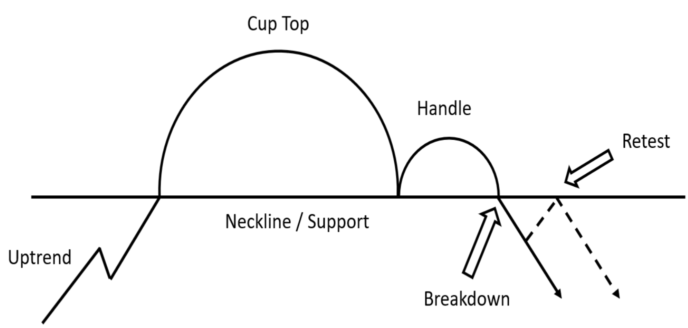


(***Image 9.54:*** *Daily candlestick chart of Titan Company Ltd. illustrating a Cup and Handle pattern)*

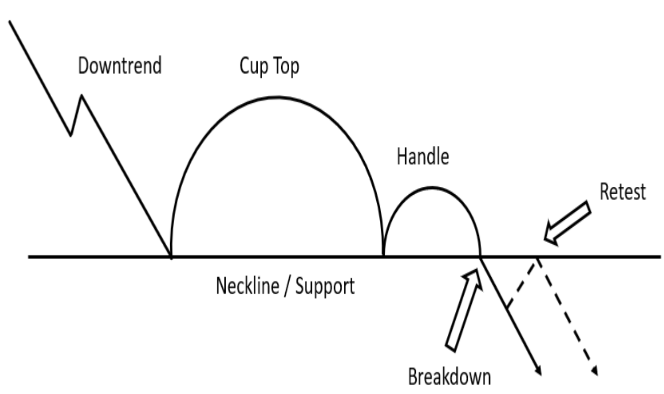
26. Inverted Cup and Handle Pattern

The *inverted cup and handle pattern* signals the start of the *downtrend*. This can be used in both ways; as a *reversal pattern* or a *continuous pattern*. When an inverted cup and handle pattern is formed during a *downtrend*, then, it is an indication that the downtrend can be *continued*. Whereas, when an inverted cup and handle pattern is formed in an *uptrend*, it is an indication of a trend *reversal*.

The pattern consists of a rounded top (Cup) followed by a smaller downward-sloping (Handle), suggesting that the price is likely to break lower and continue its downward trend.



*(**Image 9.55:** Schematic representation of an Inverted Cup and Handle – Bearish Reversal pattern)*



*(**Image 9.56:** Schematic representation of an Inverted Cup and Handle – Bearish Continuation pattern)*

Formation and Characteristics:

- **Cup:** Forms during a downtrend as prices decline, stabilize briefly, and then partially recover, creating a rounded top.
- **Handle:** After the cup, price consolidates sideways or moves slightly upward, forming a short downward-sloping handle. This represents a temporary pause before sellers regain control.
- **Breakdown:** The pattern is confirmed when price breaks below the support line formed at the bottom of the handle, signalling a continuation of the bearish trend.

What It Indicates:

- **Bearish Reversal:** Confirms that the existing uptrend is likely to change to downtrend.
- **Bearish Continuation:** Confirms that the existing downtrend is likely to continue.
- **Selling Opportunity:** Traders may use this pattern to enter *short positions*, anticipating further price declines.

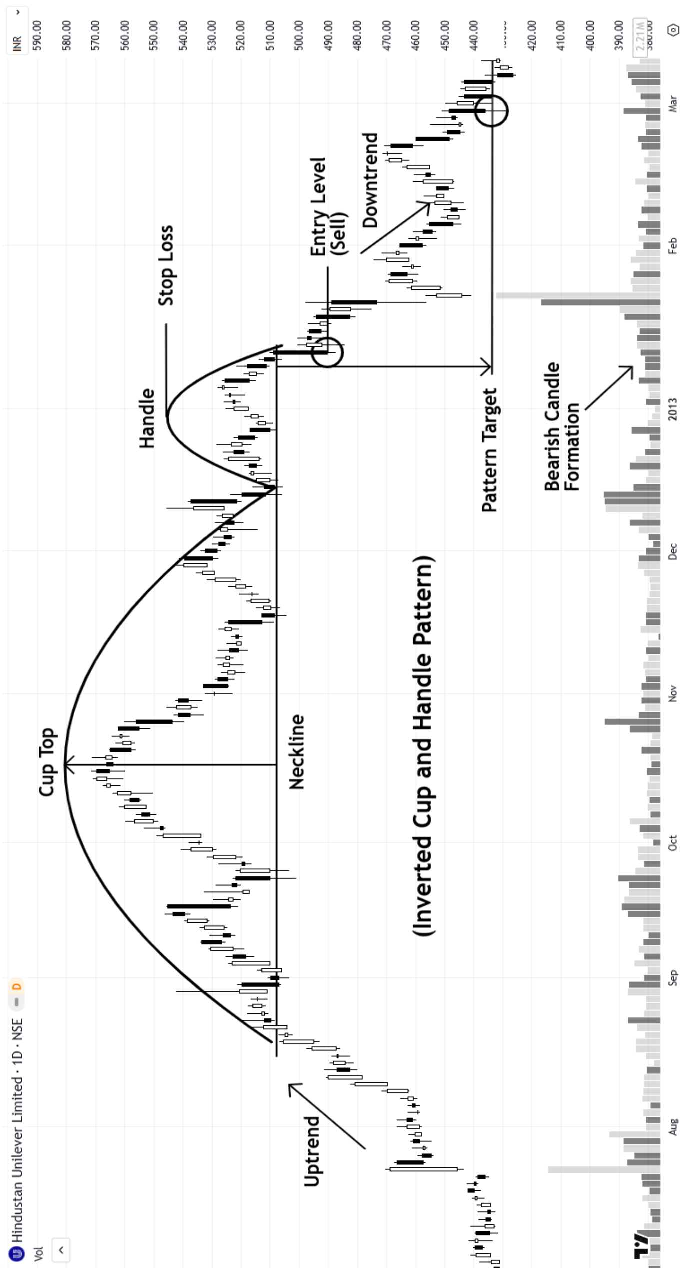
Quick Overview:

- **Appearance:** Inverted cup with minor upward retracement as handle.
- **Meaning:** Temporary relief before *continued decline*.
- **Interpretation:** Breakdown below handle supports bearish continuation.
- **Where to Look:** The inverted cup and handle pattern can appear in both uptrends and downtrends, typically emerging after a short pullback and signalling potential trend exhaustion followed by a reversal or continuation to the downside.

Chart Analysis (Cup and Handle - Bearish Reversal Pattern):

(Refer Image 9.57)

- **Trend Direction:** The trend before the pattern should be upward and we can also see the chart of Hindustan Unilever Ltd. with clear uptrend.
- **Pattern Duration:** Cup and Handle (Bearish Reversal) pattern was formed on Daily chart of Hindustan Unilever Ltd. from 21st August 2012 to 11th January 2013 as shown in the chart below.
- **Volume Behaviour:** The stock gave a strong volume breakdown with descent bearish candles.
- **Suggested Trade Position:** The short position will be taken at the price of ₹490 and the Stop Loss will be placed at ₹545 which is highest point of the handle. The exit will happen at ₹435 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 55 : 55 ≈ **1 : 1**
- **Trade Feasibility and Exit Judgment:** The trade reflects a *neutral risk–reward profile* (1 : 1), where the potential reward is equal to the risk. Such setups may be considered *only with strong pattern confirmation or additional confluence*, as they do not offer a clear risk-adjusted edge.

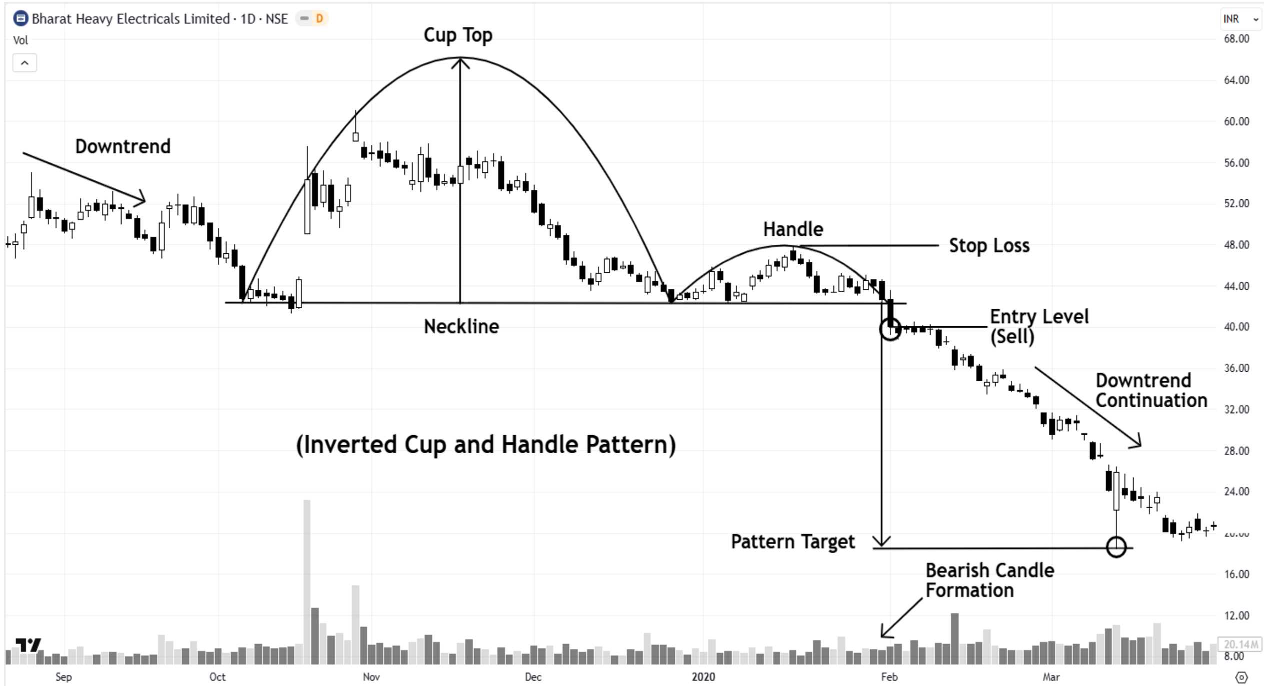


***(Image 9.57:** Daily candlestick chart of Hindustan Unilever Ltd. illustrating an Inverted Cup and Handle Bearish Reversal pattern)*

Chart Analysis (Cup and Handle - Bearish Continuation Pattern):

(Refer Image 9.58)

- **Trend Direction:** The trend before the pattern should be downward and we can also see the chart of Bharat Heavy Electricals Ltd. with clear downward.
- **Pattern Duration:** Cup and Handle (Bearish Continuation) pattern was formed on Daily chart of Bharat Heavy Electricals Ltd. from 7th October 2019 to 1st February 2020 as shown in the chart below.
- **Volume Behaviour:** The stock gave a strong volume breakdown with descent bearish candles.
- **Suggested Trade Position:** The short position will be taken at the price of ₹40 and the Stop Loss will be placed at ₹47.87 (above the Cup Handle). The exit will happen at ₹18.55 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 7.87 : 21.45 ≈ **1 : 2.73**
- **Trade Feasibility and Exit Judgment:** The setup offers a *favourable risk–reward profile* (≈ 1 : 2.73), where the potential reward is more than twice the defined risk, supporting a *valid short trade* as per pattern-based analysis.

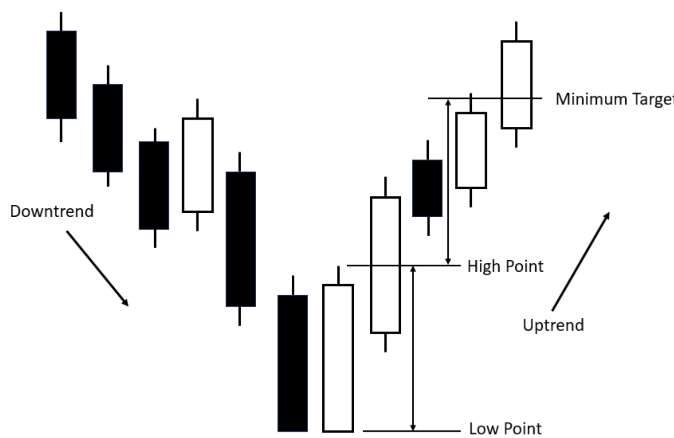


(***Image 9.58:*** *Daily candlestick chart of Bharat Heavy Electricals Ltd. illustrating an Inverted Cup and Handle Bearish Continuation pattern*)

27. Pipe Bottom Pattern

A Pipe Bottom is a sharp *bullish reversal* pattern formed after a steep decline, characterized by two consecutive long down candles followed immediately by two strong up candles of similar size. Instead of forming a slow, rounded curve like the Rounding Bottom, the Pipe Bottom signals a sudden and powerful shift in sentiment from *bearish* to *bullish*.

It is confirmed when price breaks above the immediate resistance formed after the reversal, preferably supported by rising volume.



*(**Image 9.59:** Schematic representation of a Pipe Bottom pattern)*

How It Forms:

- **Sharp Decline:** The pattern emerges after a strong downtrend, usually marked by panic selling or capitulation. Two long bearish candles show aggressive selling pressure.
- **Reversal Candles:** The next two candles are long bullish candles of comparable size, signalling an abrupt return of buyers. This "V-shaped" rebound forms the two "pipes."
- **Stabilization:** Price often pauses briefly after the rebound, creating a minor resistance zone above the pipes.

How to Confirm the Pattern:

- **Resistance Breakout:** Confirmation occurs when price breaks decisively above the short-term resistance created after the bullish pipes.
- **Volume Expansion:** Heavy volume during the two bullish reversal candles and during the breakout strengthens the pattern's validity.

What It Signals:

- A *fast and forceful shift* from bearish to bullish sentiment.
- Possible *end of a steep downtrend* and formation of a *fresh uptrend*.

Quick Overview:

- **Appearance:** Two long down candles followed by two long up candles, forming two parallel bars or "pipes."
- **Meaning:** Sudden reversal driven by sharp buyer comeback.
- **Interpretation:** Breakout above resistance confirms uptrend.
- **Where to Look:** After steep, emotional declines marked by panic or exhaustion.

Chart Analysis:

(Refer Image 9.60)

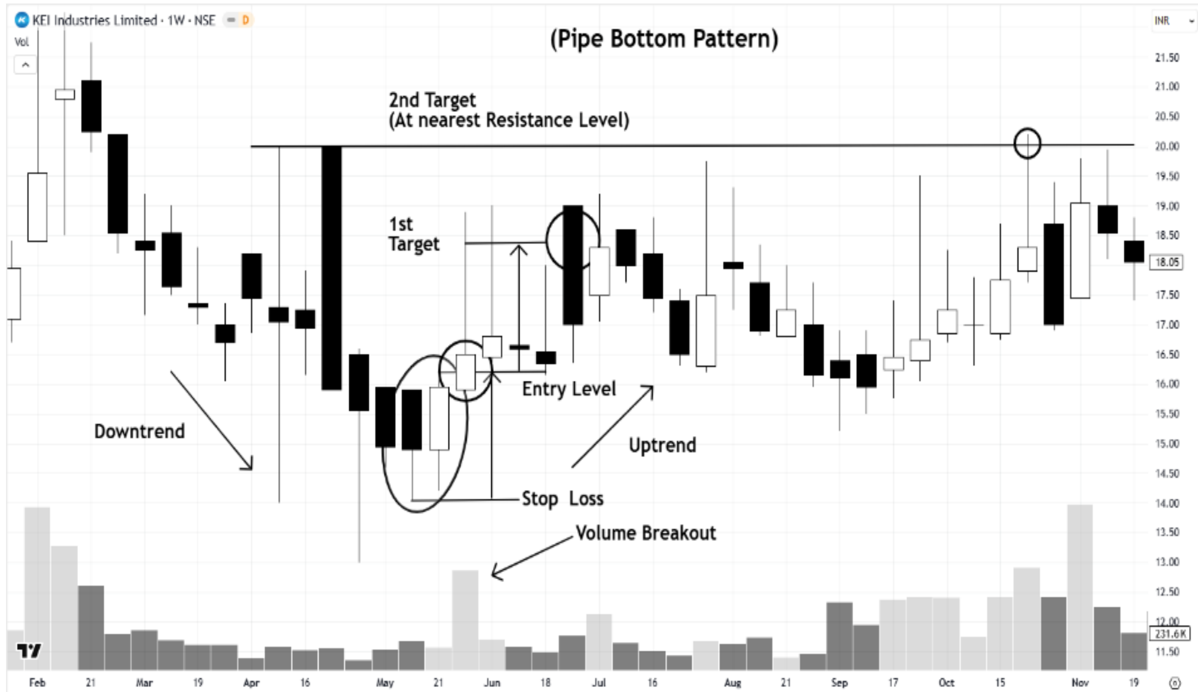
- **Trend Direction:** The trend before the pattern should be downtrend and we can also see the chart of KEI Industries Ltd. with clear downward. Once the pattern will be completed, the price will go upward as it is a reversal pattern.
- **Pattern Duration:** Pipe Bottom Pattern was formed on Weekly chart of KEI Industries Ltd. from 14th May 2012 to 21st May 2012 as shown in the chart below.

- **Volume Behaviour:** The stock gave a strong volume breakout with bullish candles.
- **Suggested Trade Position:** The long position will be taken at the price of ₹16.20 and the Stop Loss will be placed at ₹14 which is low of Pipe Candle pattern. The exit will happen at 1^{st} Target at ₹18.40 (as minimum Target) and at 2^{nd} Target of ₹20 as nearest Resistance Level.
- **Risk-Reward Ratio (R:R):** For 1^{st} Target = 2.20 : 2.20 ≈ **1 : 1**

  For 2^{nd} Target = 2.20 : 3.80 ≈ **1 : 1.73**
- **Trade Feasibility and Exit Judgment:**

  1st Target: *Neutral risk–reward profile* (≈ 1 : 1), suitable for conservative partial exit.

  2nd Target: *Favourable risk–reward profile* (≈ 1 : 1.73), suitable for traders willing to capture extended gains while keeping the defined risk constant.

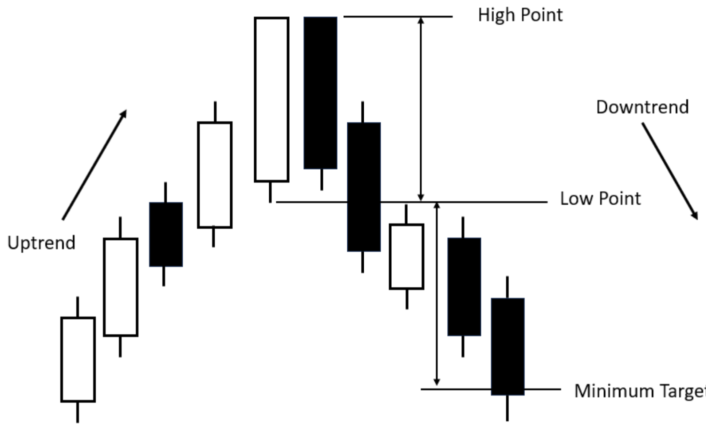


(***Image 9.60:*** *Weekly candlestick chart of KEI Industries Ltd. illustrating a Pipe Bottom pattern)*

28. Pipe Top Pattern

A Pipe Top is a sharp *bearish reversal* pattern that appears after a strong uptrend, defined by two long bullish candles followed by two long bearish candles of similar height. The pattern reflects a rapid transition from aggressive buying to aggressive selling. Unlike rounded tops that evolve slowly, the Pipe Top signals a swift breakdown in bullish momentum and a potential trend reversal.

Confirmation comes when price breaks below the support level formed after the decline, ideally on rising volume.



*(**Image 9.61:** Schematic representation of a Pipe Top pattern)*

How It Forms:

- **Strong Rally:** After an extended uptrend, two large bullish candles appear, often driven by euphoria or final-stage buying.
- **Reversal Candles:** These are followed by two large bearish candles of similar magnitude, indicating a sudden surge in selling pressure and profit booking.
- **Support Formation:** Price may briefly stabilize, forming a short-term support zone below the pipes.

How to Confirm the Pattern:

- **Support Breakdown:** The bearish reversal is confirmed when price breaks below the immediate support created after the two bearish pipes.
- **Volume Spike:** Heavy selling volume during the bearish candles and breakdown strengthens the signal.

What It Signals:

- A *rapid shift* from bullish control to bearish dominance.
- Possible *end of an uptrend* and beginning of a downward move.

Quick Overview:

- **Appearance:** Two long up candles followed by two long down candles, forming “twin pipes” at the top.
- **Meaning:** Instant rejection of higher prices.
- **Interpretation:** Breakdown below support confirms bearish reversal.
- **Where to Look:** After fast, overextended rallies or blow-off tops.

Chart Analysis:

(Refer Image 9.62)

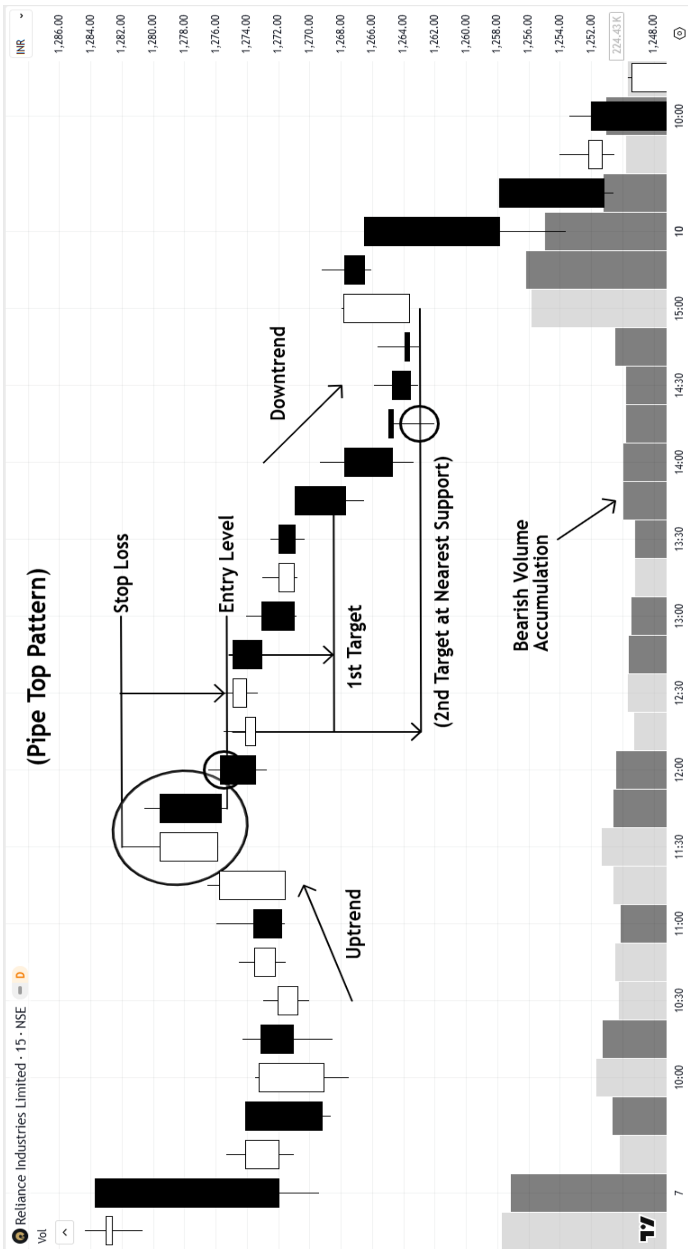
- **Trend Direction:** The trend before the pattern should be uptrend and we can also see the chart of Reliance Industries Ltd. with clear upward. Once the pattern will be completed, the price will go downward as it is a reversal pattern.
- **Pattern Duration:** Pipe Top pattern was formed on 15 Minutes chart of Reliance Industries Ltd. from 7th February 2025 (11:30 hrs.) to 7th February 2025 (11:45 hrs.) as shown in the chart below.

- **Volume Behaviour:** The stock gave a volume breakdown with accumulation of bearish candles.
- **Suggested Trade Position:** The short position will be taken at the price of ₹1275 and the Stop Loss will be placed at ₹1282 which is highest point of the pattern. The exit will happen as per minimum Target (1st Target) at ₹1268 and 2nd Target at ₹1262 as per nearest support.
- **Risk-Reward Ratio (R:R):** For 1st Target = 7 : 7 ≈ **1 : 1**

  For 2nd Target = 7 : 13 ≈ **1 : 1.86**
- **Trade Feasibility and Exit Judgment:**

  1st Target: *Neutral risk–reward profile* (≈ 1 : 1), suitable for conservative partial exit.

  2nd Target: *Favourable risk–reward profile* (≈ 1 : 1.86), suitable for traders aiming to capture extended gains while keeping the defined risk constant.

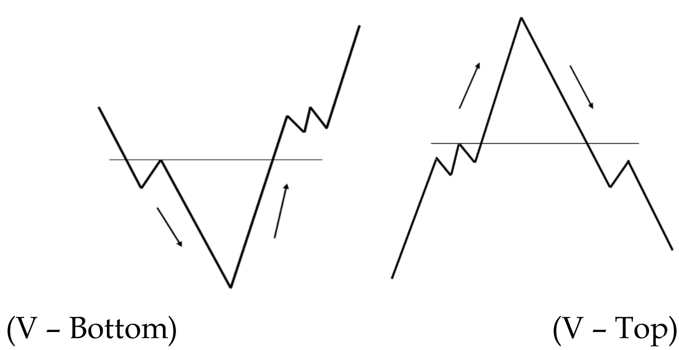


*(**Image 9.62:** 15-minute candlestick chart of Reliance Industries Ltd. illustrating a Pipe Top pattern)*

29. V-Pattern (Sharp Reversal – Bullish or Bearish)

A V-Pattern is a *sharp reversal* formation where price *declines* or *rises steeply* and then *reverses* direction just as *quickly*, creating a distinct "V" shaped structure on the chart. Unlike slow, rounded patterns that take time to form, the V-Pattern reflects a swift and decisive shift in market sentiment, often driven by emotional trading, news events, or sudden supply–demand imbalance.

This pattern can occur as a V-Bottom (bullish reversal) or V-Top (bearish reversal) and typically marks the end of a strong and extended trend.



*(**Image 9.63:** Schematic representation of a V-pattern)*

How It Forms:

For a V-Bottom (Bullish Reversal):

- **Steep Decline:** The pattern begins with an intense downward movement. Price drops rapidly with long bearish candles, showing capitulation, stop-loss triggers, or panic selling.
- **Sharp Turning Point:** After reaching an extreme low, selling pressure dries up instantly. A powerful bullish reaction begins almost immediately.
- **Rapid Upward Recovery:** Price surges upward in a steep ascent, often mirroring the speed and angle of the fall. This

creates the right side of the "V," driven by aggressive buyers and short covering.

For a V-Top (Bearish Reversal):

- **Fast, Vertical Rally:** Price climbs sharply as bullish sentiment peaks, often fuelled by euphoria, news, or momentum traders.
- **Climactic Peak:** Buyers exhaust themselves at the top, forming the tip of the "V."
- **Immediate Downward Move:** Price begins to fall abruptly with long bearish candles, signalling intense profit booking, fear, or a negative catalyst.

How to Confirm the Pattern:

Break of Opposite Side Levels:

- In a V-Bottom, confirmation comes when price breaks above the recent swing high on the right side of the "V."
- In a V-Top, confirmation comes when price breaks below the swing low on the right side of the "V."

Strong Volume: High volume near the turning point and during the reversal move strengthens the pattern's validity.

Sustained Follow-Through: The reversal should continue firmly in the new direction; a weak follow-up move reduces reliability.

What It Signals:

- A *fast and forceful reversal* of the previous trend.
- Emotional market behaviour, panic selling in V-Tops, euphoric buying in V-Bottoms.
- Sudden shift in control, from sellers to buyers (V-Bottom), or buyers to sellers (V-Top).
- Beginning of a new directional trend with strong momentum.

Because of its sharp, non-deliberate structure, the V - pattern often reflects news-driven or event-driven market conditions.

Quick Overview:

- **Appearance:** A steep fall followed by an equally steep rise (V-Bottom), or a sharp rise followed by a rapid fall (V-Top).
- **Meaning:** Instant reversal caused by exhausted participants and sudden dominance of the opposite side.

Where to Look:

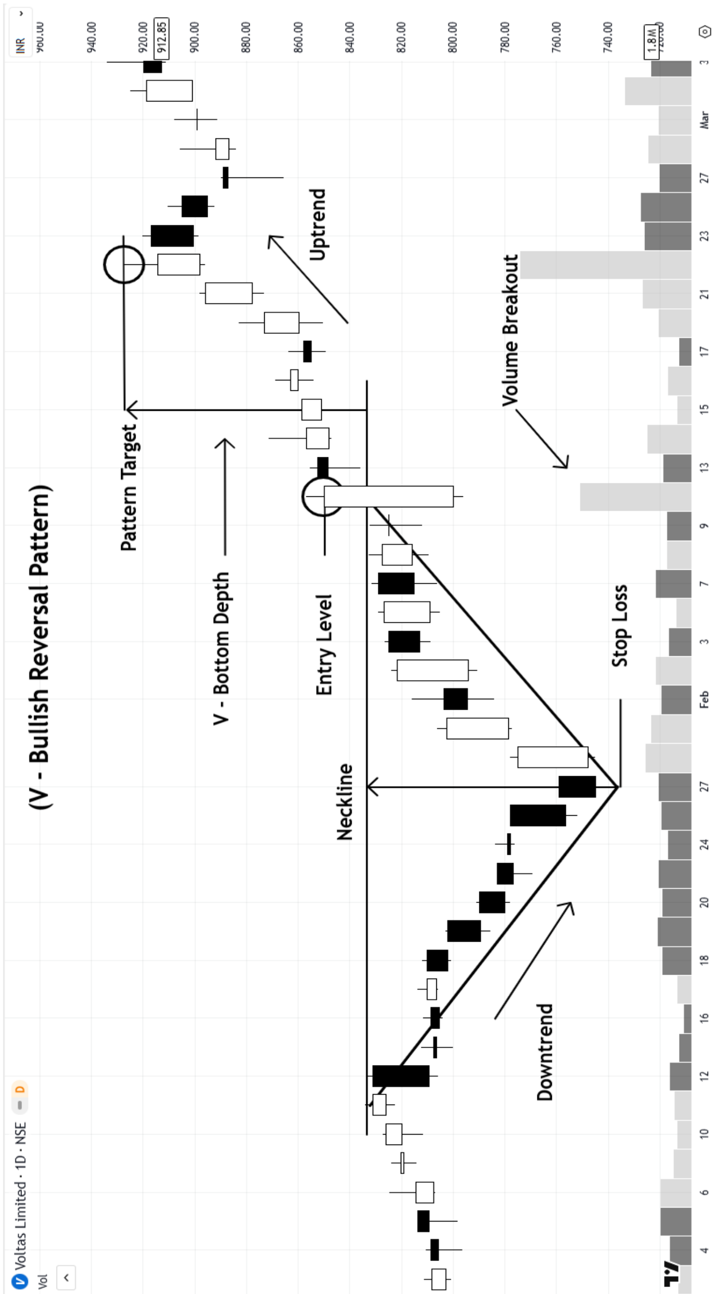
- After extreme, fast-moving trends.
- During panic environments or euphoric rallies.
- Around major news events or market shocks.

Chart Analysis (V-Bullish Reversal Pattern):

(Refer Image 9.64)

- **Trend Direction:** The pattern will start forming with downtrend and we can also see the chart of Voltas Ltd. with clear downward. Once the pattern will be completed, the price will go uptrend as it is a reversal pattern.
- **Pattern Duration:** V–Bullish Reversal pattern was formed on Daily chart of Voltas Ltd. from 11^{th} January 2023 to 10^{th} February 2023 as shown in the chart below.
- **Volume Behaviour:** The stock gave a strong volume breakout with descent bullish candles.
- **Suggested Trade Position:** The long position will be taken at the price of ₹850 and the Stop Loss will be placed at ₹735 (low point of the pattern). The exit will happen at ₹928 as per pattern-based target.

- **Risk-Reward Ratio (R:R)** = 115 : 78 ≈ **1 : 0.68**
- **Trade Feasibility and Exit Judgment:** The trade presents an *unfavourable risk–reward profile* (≈ 1 : 0.68), where the potential reward is lower than the defined risk, indicating that execution should be considered cautiously or avoided unless supported by strong confirmation signals.

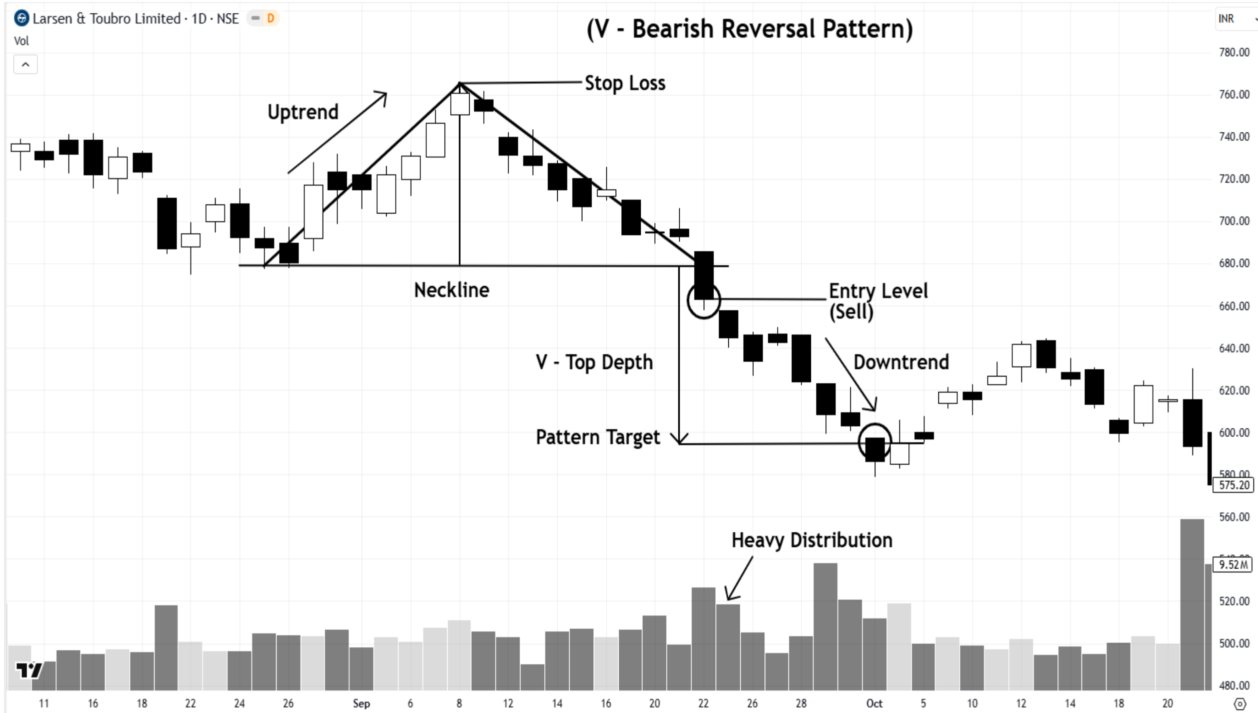


***(Image 9.64:** Daily candlestick chart of Voltas Ltd. illustrating a V – Bullish Reversal pattern)*

Chart Analysis (V-Bearish Reversal Pattern):

(Refer Image 9.65)

- **Trend Direction:** The pattern will start forming with uptrend and we can also see the chart of Larsen and Toubro Ltd. with clear upward. Once the pattern will be completed, the price will go downward as it is a reversal pattern.
- **Pattern Duration:** V–Bullish Reversal Pattern was formed Daily chart of Larsen and Toubro Ltd. from 25th August 2011 to 22nd September 2011 as shown in the chart below.
- **Volume Behaviour:** The stock gave a strong volume breakdown with bearish candles.
- **Suggested Trade Position:** The short position will be taken at the price of ₹662 and the Stop Loss will be placed at ₹765 which is highest point of the pattern. The exit will happen at ₹595 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 103 : 67 ≈ **1 : 0.65**
- **Trade Feasibility and Exit Judgment:** The trade presents an *unfavourable risk–reward profile* (≈ 1 : 0.65), where the potential reward is lower than the defined risk, indicating that execution should be approached cautiously or avoided unless supported by strong confirmation signals.



(***Image 9.65:*** *Daily candlestick chart of Larsen and Toubro Ltd. illustrating a V – Bearish Reversal pattern)*

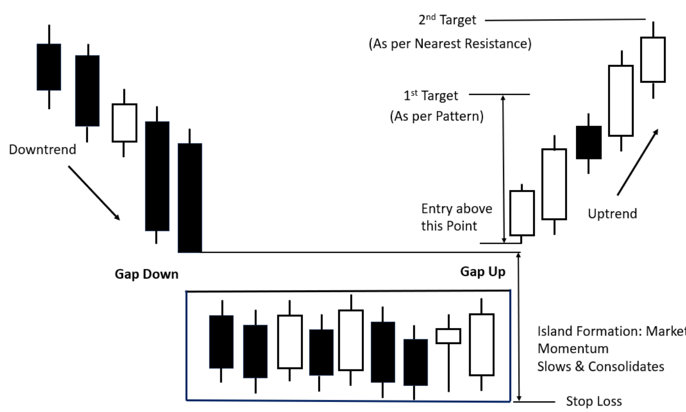
30. Island Reversal Pattern

An Island Reversal is a *sharp trend reversal* pattern that occurs when price gaps away from the prior move, trades in a small, isolated zone for a short period, and then gaps back in the opposite direction. This creates a cluster of price bars that look "stranded" on the chart, separated by gaps on both sides.

It can be bullish (at the end of a downtrend) or bearish (at the end of an uptrend). The key feature is the isolation of price and the sudden, powerful shift in sentiment reflected through gaps.

How It Forms

a) For a Bullish Island Reversal (at the bottom)

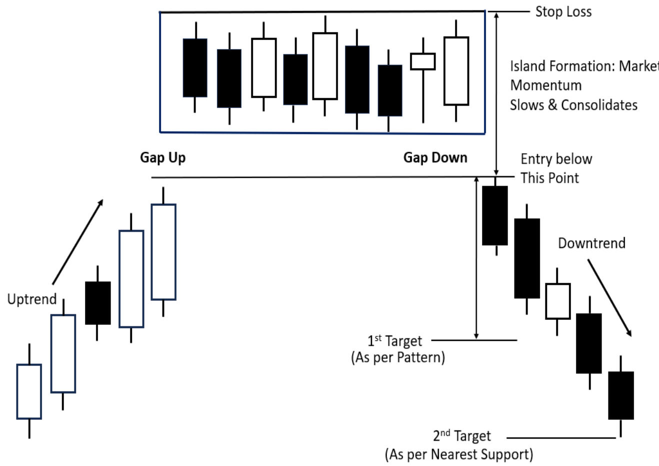


***(Image 9.66:** Schematic representation of a Bullish Island Reversal pattern)*

- **Gap Down:** After a downtrend, price opens with a gap down, showing strong selling pressure and negative sentiment.
- **Island Formation:** Price trades for a few sessions in a narrow range, forming a "mini base" disconnected from prior price action. Volume may be average or slightly reduced as selling pressure slows.
- **Gap Up:** Suddenly, price gaps up above the island's trading range, leaving the entire cluster of bars isolated from the rest

of the chart. This gap up signals aggressive buying or a sentiment shift.

b) For a Bearish Island Reversal (at the top)



*(**Image 9.67:** Schematic representation of a Bearish Island Reversal pattern)*

- **Gap Up:** After an uptrend, price gaps up, reflecting bullish enthusiasm or final-stage euphoria.
- **Island Formation:** Price moves sideways for a few sessions on the upper side, creating a small consolidation area separate from earlier prices.
- **Gap Down:** A sudden gap down below the island's range "abandons" this consolidation, indicating heavy selling and a possible trend reversal.

How to Confirm the Pattern:

- **Gap in the Opposite Direction:** Confirmation comes when a clear *gap appears opposite to the prior gap*, fully isolating the group of candles (the island).
- **Sustained Move After Gap:** After the reversal gap, price should *continue in the new direction* (up for bullish, down for bearish) rather than quickly filling the gap.

- **Volume Confirmation:** Increased volume on the reversal gap supports the validity of the pattern, reflecting strong institutional or broad market participation.

What It Signals:

- A *sharp and decisive reversal* in trend, not a slow transition.
- A sudden *shift in market sentiment*, often triggered by news, results, or a major event.
- Potential start of a *fresh move in the opposite direction* with strong momentum.

Note:

Bullish Island Reversal → suggests the *end* of a *downtrend* and start of an *up move*.

Bearish Island Reversal → suggests the *end* of an *uptrend* and beginning of *a decline*.

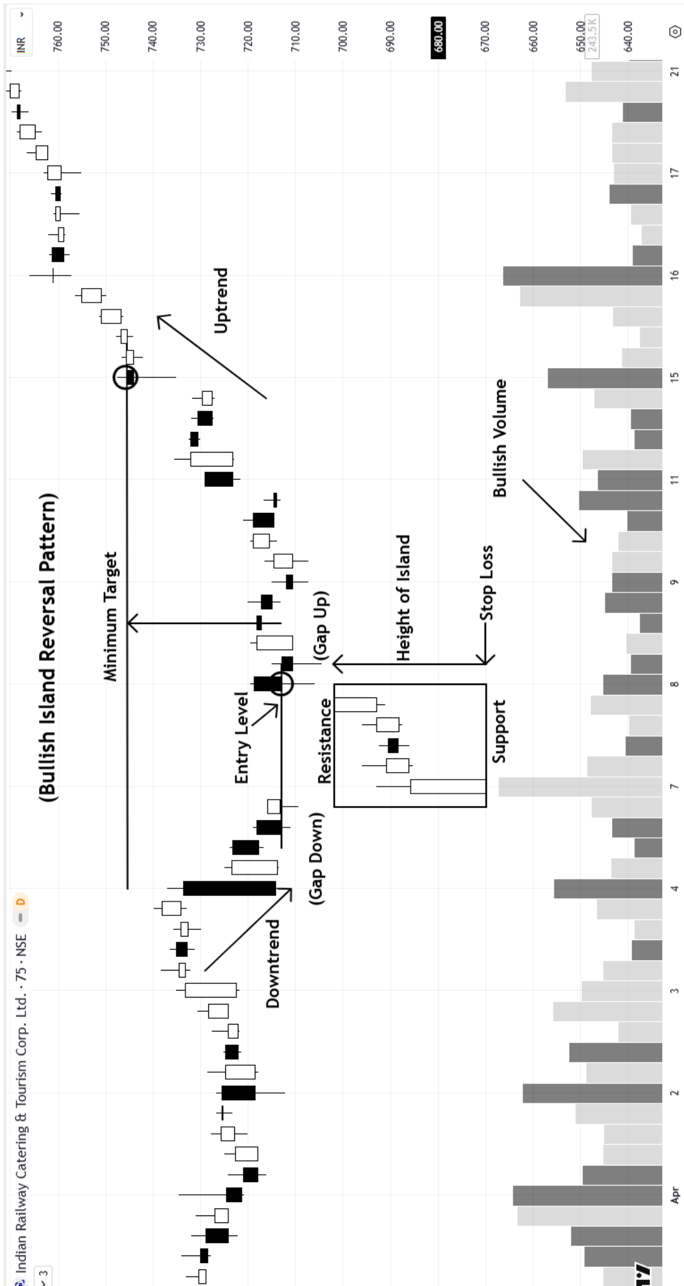
Quick Overview:

- **Appearance:** A small cluster of candles "stranded" between two price gaps, looking like an island separated from the main chart.
- **Meaning:** Violent rejection of previous trend levels; market sentiment flips quickly.
- **Interpretation:**
- Bullish: Gap down → sideway island → gap up = reversal to upside.
- Bearish: Gap up → sideway island → gap down = reversal to downside.
- **Where to Look:** Near the end of *strong, extended trends* (both up and down), especially after emotional moves or event-driven gaps.

Chart Analysis (Bullish Island Reversal Pattern):

(Refer Image 9.68)

- **Trend Direction:** The trend before the pattern should be downtrend and we can also see the chart of Indian Railway Catering and Tourism Corporation Ltd. with clear downward. Once the pattern will be completed, the price will go upward as it is a reversal pattern.
- **Pattern Duration:** Bullish Island pattern was formed on 75-minute chart of Indian Railway Catering and Tourism Corporation Ltd. from 4th April 2025 to 8th April 2025 as shown in the chart below.
- **Volume Behaviour:** Although bullish candles formed during breakout, but less participation observed.
- **Suggested Trade Position:** The long position will be taken at the price of ₹713 and the Stop Loss will be placed at ₹670 which is pattern low. The exit will happen at minimum target of ₹745 as per pattern.
- **Risk-Reward Ratio (R:R)** = 43 : 32 ≈ **1 : 0.74**
- **Trade Feasibility and Exit Judgment:** The trade presents an *unfavourable risk–reward profile* (≈ 1 : 0.74), where the potential reward is lower than the defined risk, indicating that execution should be considered cautiously or avoided unless strong confirmation supports the trade.



***(Image 9.68:** 75-minute candlestick chart of Indian Railway Catering and Tourism Corporation Ltd. illustrating a Bullish Island Reversal pattern)*

Chart Analysis (Bearish Island Reversal Pattern):

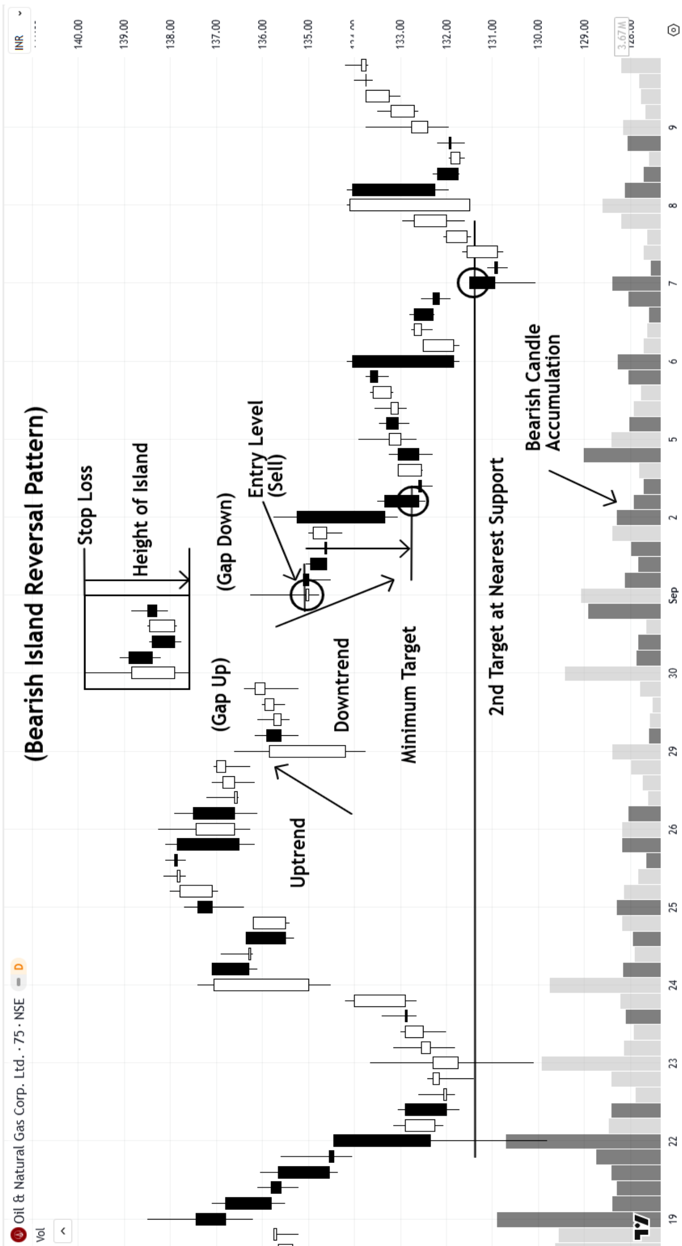
(Refer Image 9.69)

- **Trend Direction:** The trend before the pattern should be uptrend and we can also see the chart of Oil and Natural Gas Ltd. with clear upward.
- **Pattern Duration:** Bearish Island Reversal pattern was formed on 75-minute chart of Oil and Natural Gas Ltd. from 30th August 2022 (9:15 hrs.) to 30th August 2022 (14:15 hrs.) as shown in the chart.
- **Volume Behaviour:** The stock formed descent bearish candles.
- **Suggested Trade Position:** The short position will be taken at the price of ₹135.06 and the Stop Loss will be placed at ₹ 139.85 which is high of the pattern. The exit will happen at Minimum Target at ₹132.68 as per pattern and 2nd Target at ₹131.40 as nearest support.
- **Risk-Reward Ratio (R:R):** Minimum Target = 4.79 : 2.38 ≈ **1 : 0.50**

  For 2nd Target = 4.79 : 3.66 ≈ **1 : 0.76**
- **Trade Feasibility and Exit Judgment:**

  Minimum Target: *Unfavourable risk–reward profile* (≈ 1 : 0.50), suitable only for very conservative or quick exits.

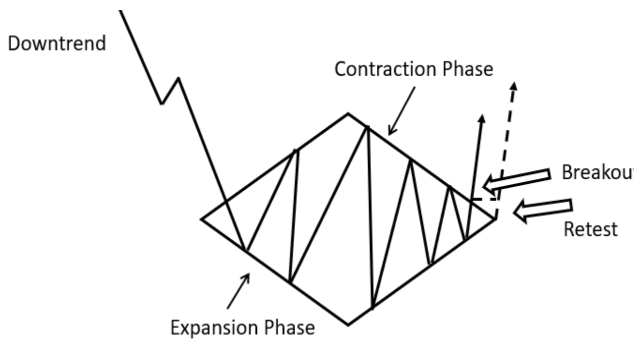
  2nd Target: *Still unfavourable* (≈ 1 : 0.76), indicating that the setup lacks adequate reward relative to risk and should be approached with caution unless supported by strong additional confirmation.



***(Image 9.69:** 75-minute of candlestick chart of Oil and Natural Gas Corporation Ltd. illustrating a Bearish Island Reversal pattern)*

31. Diamond Bottom Pattern

A *Diamond Bottom* is a rare but significant *bullish reversal* pattern that signals a potential trend change from a *downtrend* to an *uptrend*. It forms after a prolonged downtrend and is characterized by a widening price range followed by a contracting one, creating a diamond shape. The pattern indicates that selling pressure is weakening, and a breakout to the upside, ideally with high volume, confirms the bullish reversal.



*(**Image 9.70:** Schematic representation of a Diamond Bottom pattern)*

Formation and Characteristics:

- **Preceding Trend:** The pattern develops after a sustained downtrend.
- **Phase 1 – Expansion:** Volatility increases, with price swings widening. The upper trendline connects lower highs, and the lower trendline connects higher lows, forming a broadening range.
- **Phase 2 – Contraction:** Price movements narrow as the trendlines converge, creating a contracting range resembling a symmetrical triangle.
- **Psychology:** Represents a transition from panic selling (expansion) to consolidation and accumulation (contraction) as bears lose control and buyers become more active.

- **Volume:** Volume typically decreases during the contraction phase and surges on the breakout, confirming strong bullish interest.

Trading the Pattern:

- **Confirmation:** Wait for the price to *close* above the *upper trendline* to validate the reversal.
- **Entry:** Enter a *long position* after a confirmed breakout.
- **Target:** A common method is to add the *maximum height* of the diamond to the *breakout point* to project a price target.
- **Stop-Loss:** Place a stop-loss *below* a *recent swing low* to manage risk.

Quick Overview:

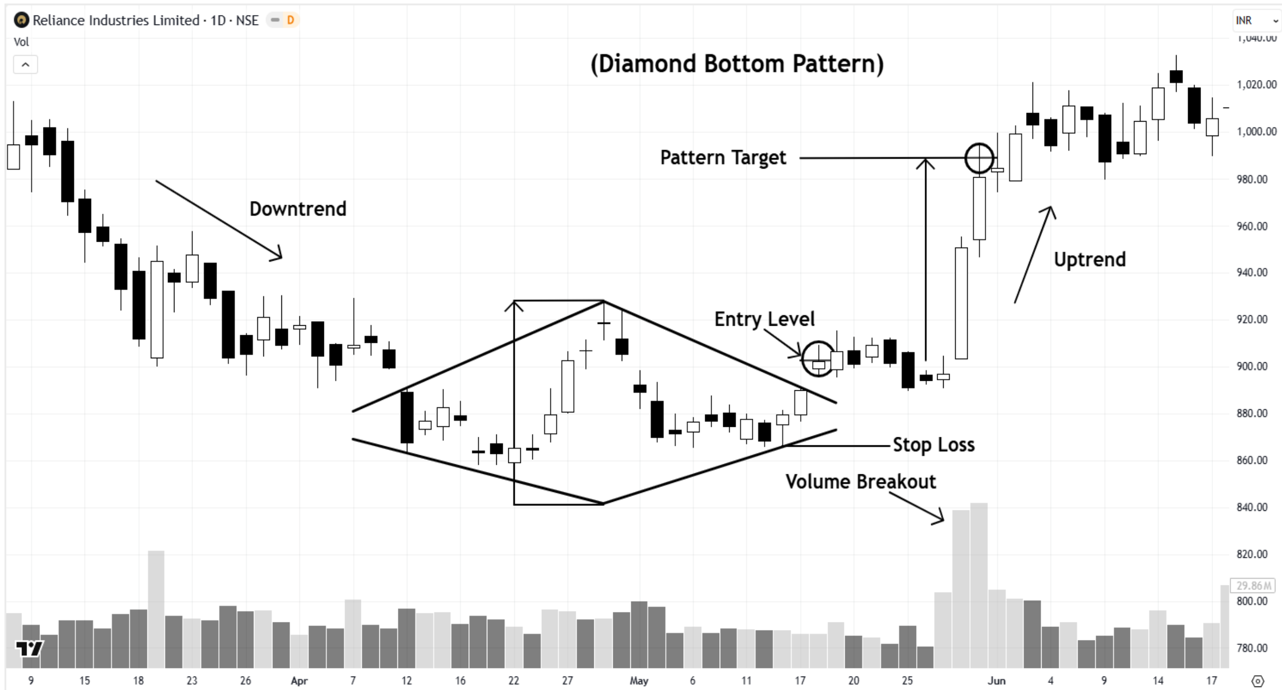
- **Appearance:** Contracting then expanding structure resembling diamond at lows.
- **Meaning:** Shift from volatility contraction to accumulation.
- **Interpretation:** Breakout above resistance confirms bullish reversal.
- **Where to Look:** Near market bottoms after long declines.

Chart Analysis:

(Refer Image 9.71)

- **Trend Direction:** The trend before the pattern should be downward and we can also see the chart of Reliance Industries Ltd. with clear downward. Once the pattern will be completed, the price will go upward as it is a trend reversal pattern.
- **Pattern Duration:** Diamond Bottom pattern was formed on Daily chart of Reliance Industries Ltd. from 12th April 2021 to 17th May 2021 as shown in the chart below.

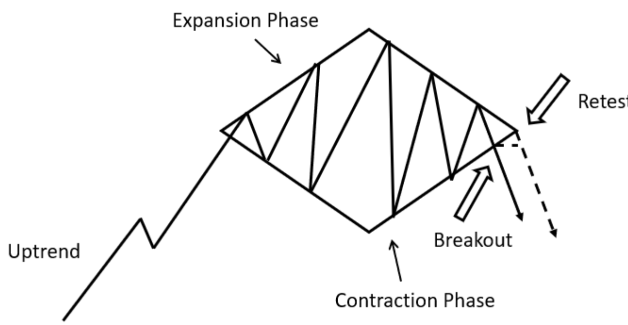
- **Volume Behaviour:** The stock gave a strong volume breakout with descent bullish candles.
- **Suggested Trade Position:** The long position will be taken at the price of ₹902 and the Stop Loss will be placed at ₹865 which is pattern low. The exit will happen at ₹990 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 37 : 88 ≈ **1 : 2.38**
- **Trade Feasibility and Exit Judgment:** The trade offers a *favourable risk–reward profile* (≈ 1 : 2.38), where the potential reward is more than twice the defined risk, making it a *viable long setup* as per pattern-based trading principles.



(Image 9.71: *Daily candlestick chart of Reliance Industries Ltd. illustrating a Diamond Bottom pattern)*

32. Diamond Top Pattern

A *Diamond Top* is a rare but important *bearish reversal* chart pattern that signals the potential end of an uptrend and the start of a downtrend. The pattern forms in two distinct phases: an initial widening phase where price swings expand, followed by a narrowing phase where price action contracts, creating a diamond-like shape.



*(**Image 9.72:** Schematic representation of a Diamond Top pattern)*

Formation and Characteristics:

- **Initial Widening Phase:** After a sustained uptrend, the price moves with higher highs and lower lows, reflecting market indecision and increased volatility.
- **Narrowing Phase:** Price volatility decreases, and the range contracts. The highs become progressively lower and the lows progressively higher, forming the upper half of the diamond.
- **Breakout:** The pattern is confirmed when price *breaks* below the *lower trendline* of the diamond, often accompanied by increased volume, signalling accelerating selling pressure.

What It Indicates:

- The pattern generally forms after a prolonged uptrend, showing that upward momentum is weakening.

- It reflects a shift from strong bullish sentiment to market uncertainty, suggesting a potential reversal.
- Traders monitor a *downward breakout* as a strong indication that a new *bearish trend* is beginning.

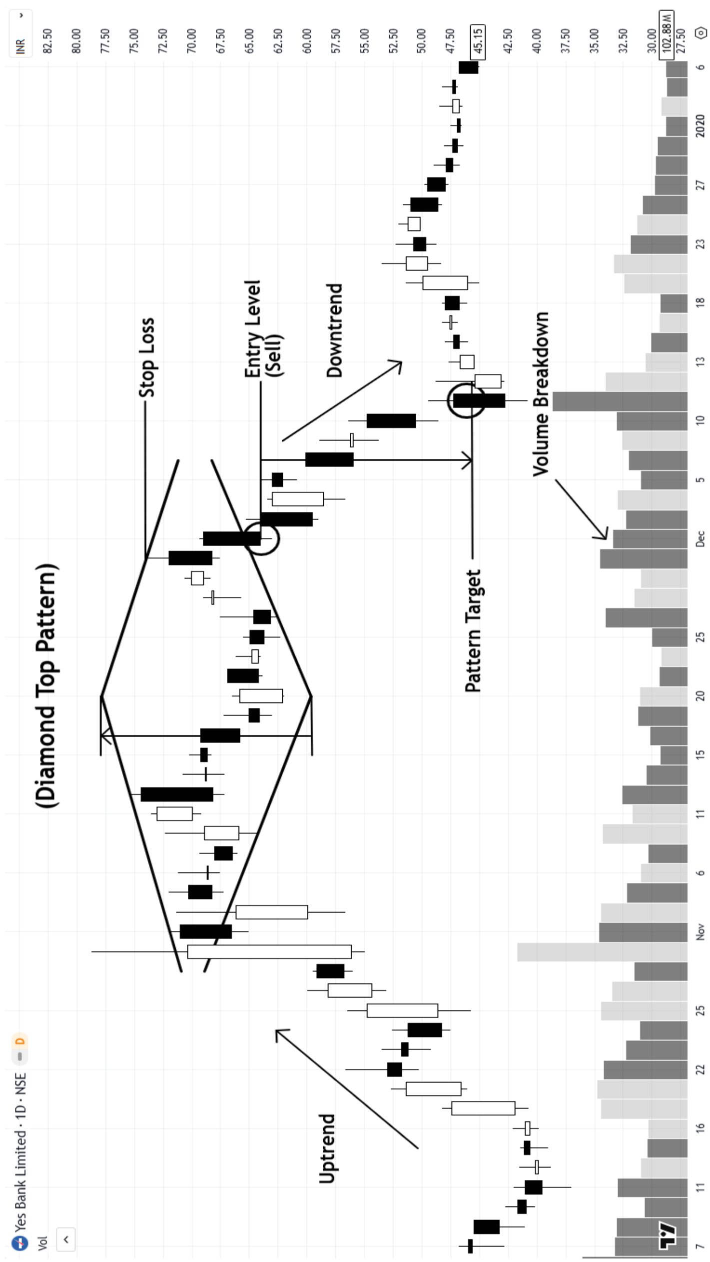
Quick Overview:

- **Appearance:** Expanding followed by contracting trendlines forming a diamond shape.
- **Meaning:** Volatility surge then exhaustion by buyers.
- **Interpretation:** Breakdown below support confirms bearish reversal.
- **Where to Look:** After strong uptrends.

Chart Analysis:

(Refer Image 9.73)

- **Trend Direction:** The trend before the pattern should be uptrend and we can also see the chart of Yes Bank Ltd. with clear upward. Once the pattern will be completed, the price will go downward as it is a reversal pattern.
- **Pattern Duration:** Diamond Top pattern was formed on Daily chart of Yes Bank Ltd. from 31st October 2019 to 2nd December 2019 as shown in the chart below.
- **Volume Behaviour:** The stock gave a strong volume breakdown with descent bearish candles.
- **Suggested Trade Position:** The short position will be taken at the price of ₹64 and the Stop Loss will be placed at ₹74 which is latest swing high of the pattern. The exit will happen at ₹45 as per pattern-based target.
- **Risk-Reward Ratio (R:R)** = 10 : 19 ≈ **1 : 1.90**
- **Trade Feasibility and Exit Judgment:** The trade presents a *favourable risk–reward profile* (≈ 1 : 1.90), where the potential reward significantly outweighs the risk, supporting a *valid short trade* as per pattern-based execution.



(Image 9.73: *Daily candlestick chart of Yes Bank Ltd. illustrating a Diamond Top pattern)*

Practical Tips for Beginners

1. **Combine Patterns with Candlesticks:** A reversal candlestick at the end of a chart pattern strengthens the signal.
2. **Check Volume:** Volume spikes during breakouts improve reliability.
3. **Trend Confirmation:** Always consider the prior trend to understand whether a pattern signals continuation or reversal.
4. **Practice on Charts:** Identify these patterns in historical charts to build recognition skills.

Takeaway

Chart patterns give you the *big picture view* of market movements. By combining candlestick analysis with chart patterns, you can make smarter trading decisions, spot trends early, and improve your confidence in both entry and exit points.

In the next chapter, we will explore how patterns fail, why they break down, and what lessons can be learned from these imperfections. Understanding failed patterns will help you recognize warning signs, manage risks more effectively, and strengthen your overall trading strategy.

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Chapter 10
Patterns That Failed: Learning from Imperfections

"The difference between successful people and really successful people is that really successful people say no to almost everything."

— Warren Buffett

Chapter 10
Patterns That Failed: Learning from Imperfections

In technical analysis, not every pattern behaves as expected. Market dynamics, external events, and trader psychology often lead to pattern failures. Understanding why a pattern fails is as important as recognizing a successful breakout. This chapter focuses on real examples where popular chart patterns did not deliver the anticipated outcomes.

Through these failed setups, readers can learn to identify warning signs, volume inconsistencies, false breakouts, premature entries, and weak confirmations. Each example presented here is taken from real charts showing how actual market behaviour can differ from textbook patterns.

While failure can be discouraging for beginners, it provides invaluable insights into risk management, stop-loss placement, and confirmation signals. By studying these cases, traders will develop the ability to differentiate between *high-probability setups* and *potential traps*.

The following sections illustrate different failed patterns, along with explanations of what went wrong, possible reasons for the failure, and how such situations can be avoided in future trades.

10.1 Understanding Pattern Failures

- A failed pattern occurs when the expected breakout or breakdown direction does not sustain, and price reverses prematurely.
- Common reasons include:
  - ✓ False or weak breakout without volume support.

- ✓ Early entries without confirmation.
- ✓ Misjudging broader market trend.
- ✓ External news or macroeconomic events.

10.2 Pattern Failures in Practice

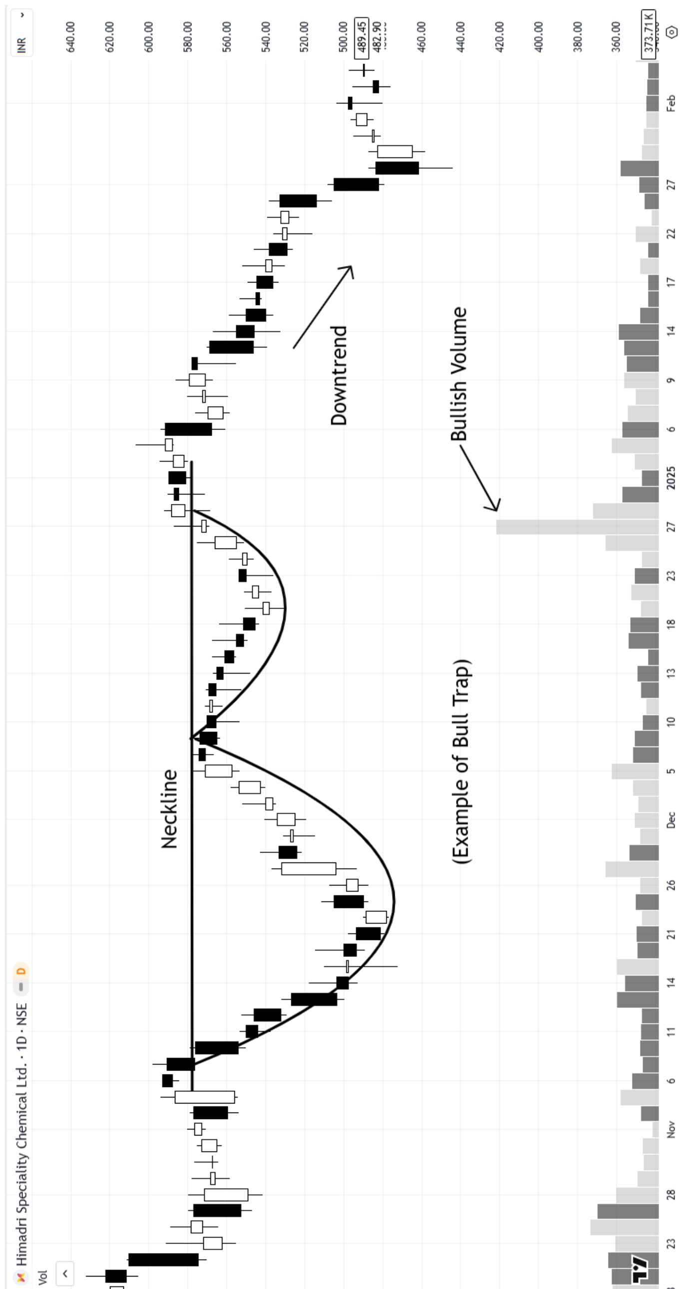
In financial markets, not all breakouts or breakdowns lead to sustained price movements. Often, price action gives an impression of a genuine trend continuation or reversal, only to reverse sharply thereafter. Such failed moves frequently result in market traps, where traders are misled into taking positions based on incomplete or false signals.

The most common manifestations of failed patterns are *Bull Traps* and *Bear Traps*, which occur when breakouts or breakdowns lack confirmation.

10.2.1 Bull Trap — Failed Bullish Breakout

10.2.1.1 Definition

A *Bull Trap* occurs when a bullish breakout from a chart pattern or resistance level fails to sustain and reverses downward, trapping traders who entered long positions.



***(Image 10.1:** Daily candlestick chart of Himadri Specialist Chemicals Ltd. illustrating a Bull Trap)*

10.2.1.2 Conditions Leading to Bull Traps

Bull traps commonly occur:

- Near major resistance levels
- During weak or non-trending markets
- When buying pressure lacks volume support
- After extended rallies where bullish sentiment is already high

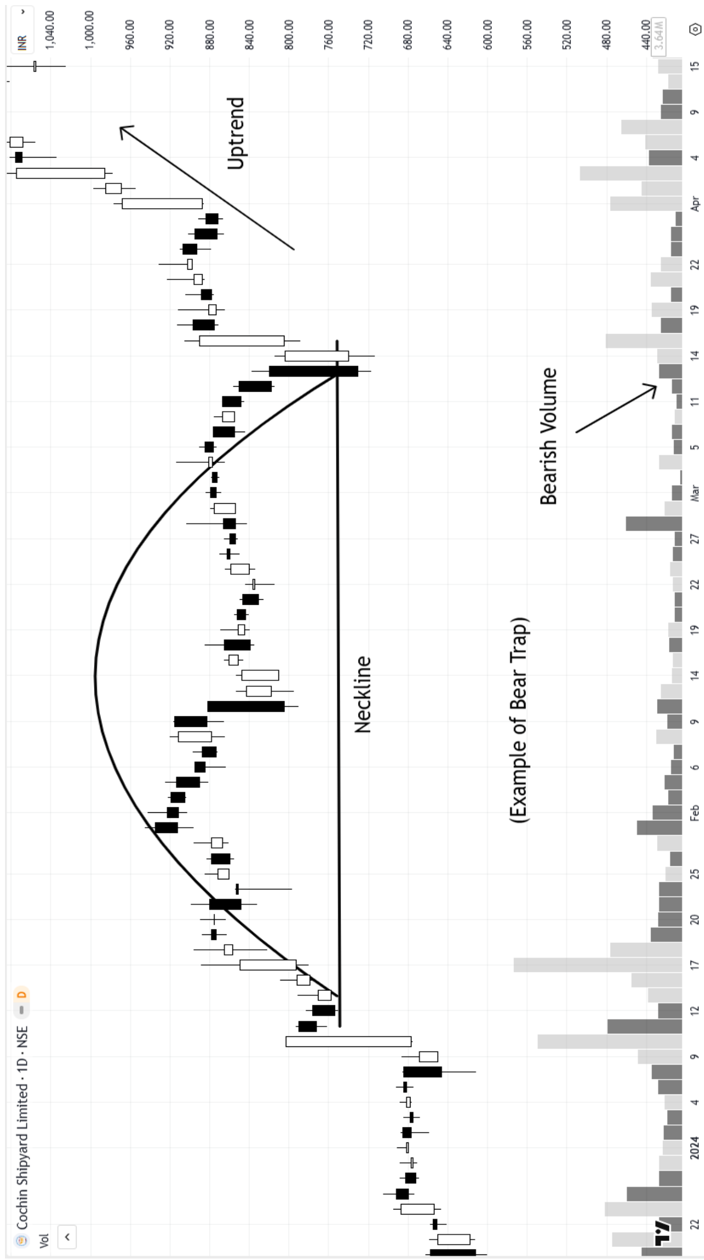
10.2.1.3 Characteristics of a Bull Trap

- Price briefly moves above resistance or a pattern boundary
- Breakout candle lacks strong volume confirmation
- Follow-through buying fails in subsequent candles
- Price quickly falls back below the breakout level
- Sharp reversal causes long positions to incur losses

10.2.2 Bear Trap — Failed Bearish Breakdown

10.2.2.1 Definition

A *Bear Trap* occurs when a bearish breakdown from support or a pattern boundary fails and price reverses upward, trapping traders who initiated short positions.



*(**Image 10.2:** Daily candlestick chart of Cochin Shipyard Ltd. illustrating a Bear Trap)*

10.2.2.2 Conditions Leading to Bear Traps

Bear traps are frequently seen:

- Near strong support zones
- During range-bound or consolidating markets
- When selling pressure is exhausted
- After prolonged downtrends where bearish sentiment is excessive

10.2.2.3 Characteristics of a Bear Trap

- Price temporarily falls below support
- Breakdown occurs with weak or declining volume
- Lack of downside continuation in subsequent candles
- Price moves back above the breakdown level
- Short covering accelerates the upward move

10.2.3 Failed Breakouts vs Genuine Breakouts

Not all failed breakouts are traps. A trap specifically refers to situations where market participants are actively misled by price behaviour into taking positions.

Genuine breakouts generally show:

- Strong volume expansion
- Sustained follow-through price action
- Former resistance turning into support (or vice versa)

In contrast, traps lack confirmation and fail quickly.

10.2.4 Market Psychology Behind Failed Patterns and Traps

Bull and bear traps are deeply rooted in market psychology. Bull traps exploit Fear of Missing Out (FOMO), while bear traps exploit panic and pessimism. Institutional participants often take advantage of this behaviour by using liquidity created by retail traders' entries.

10.2.5 Risk Management Lessons from Traps

Traps cannot be eliminated entirely, but their impact can be reduced by:

- Waiting for confirmation candles
- Observing volume behaviour
- Using support–resistance confluence
- Avoiding low-volatility markets
- Placing logical protective stop losses

Bull and bear traps reinforce the necessity of disciplined risk management. Traders must define risk before entering any trade and avoid assuming that every breakout will succeed.

10.3 Case Studies: Major Types of Pattern Failures

10.3.1 False Breakouts

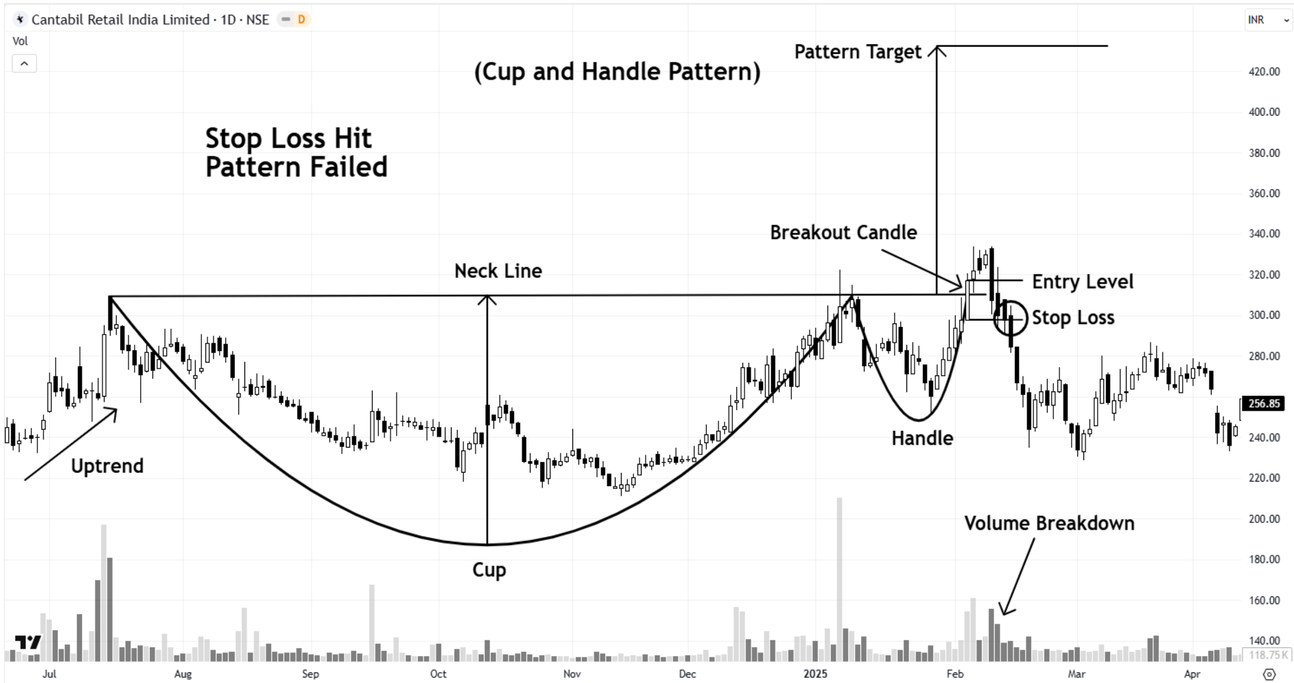
- Description: Price appears to break out but quickly reverses.
- Example Chart: *Ascending Triangle/Cup with Handle/ Double Bottom*
- **Discussion:** The pattern shows promise, but absence of sustained closing and weak volume leads to reversal.
- **Lesson Learned:** Always wait for a confirmed breakout candle with strong volume and follow-up price action.

Chart Analysis:

(Refer Image 10.3)

- **Pattern Name:** Cup with Handle – Failed Breakout.
- **Expected Move:** Upward breakout continuation.

- **Actual Outcome:** Price reversed sharply after a brief breakout.
- **Reason for Failure:** Weak volume, lack of follow-up buying.
- **Lesson Learned:** Wait for retest confirmation before entry OR exit when Stop Loss Hit.



*(**Image 10.3:** Daily candlestick chart of Cantabil Retail India Ltd. illustrating a Cup and Handle pattern)*

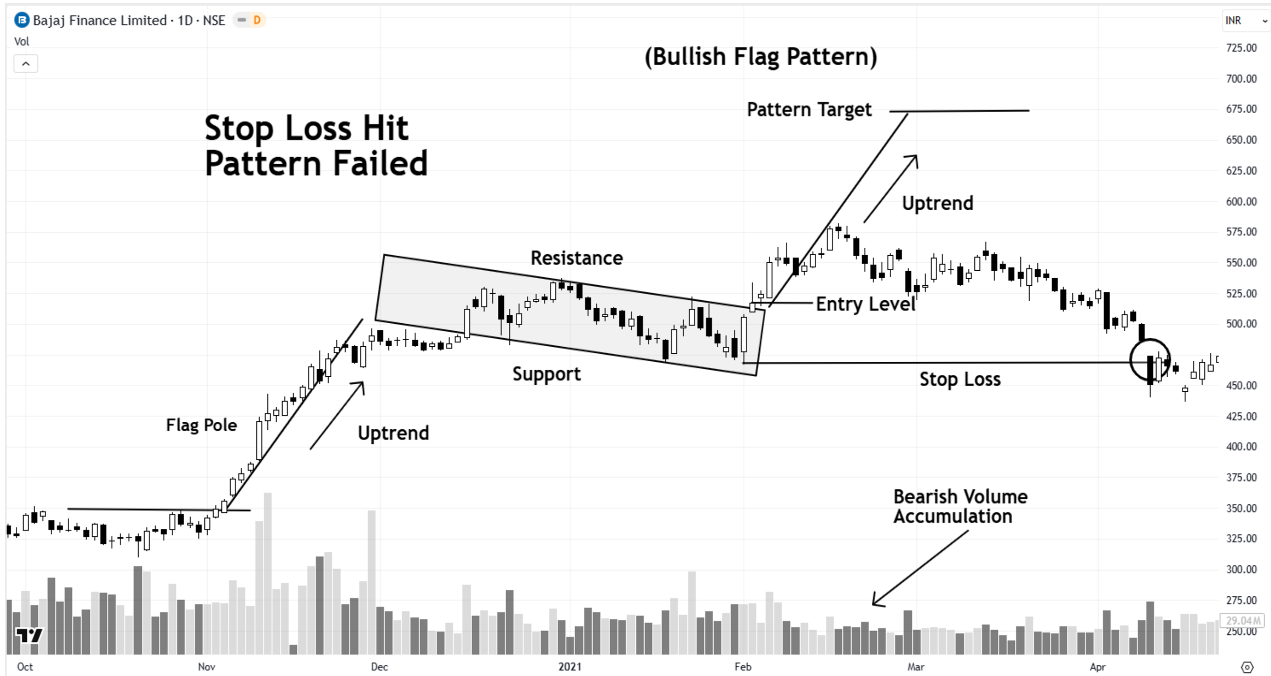
10.3.2 Volume Inconsistency

- Description: The pattern forms correctly but the breakout occurs with insufficient volume.
- Example Chart: *Flag and Pennant/ Head and Shoulders/ Rectangle*
- **Discussion:** Lack of participation by large traders often results in failed continuation.
- **Lesson Learned:** A breakout without volume support should be treated with caution.

Chart Analysis:

(Refer Image 10.4)

- **Pattern Name:** Bullish Flag – Failed Breakout.
- **Expected Move:** Upward breakout continuation.
- **Actual Outcome:** Price reversed sharply after a brief breakout.
- **Reason for Failure:** Weak volume, lack of follow-up buying.
- **Lesson Learned:** Wait for retest confirmation before entry OR exit when Stop Loss Hit.



*(**Image 10.4:** Daily candlestick chart of Bajaj Finance Ltd. illustrating a Bullish Flag pattern)*

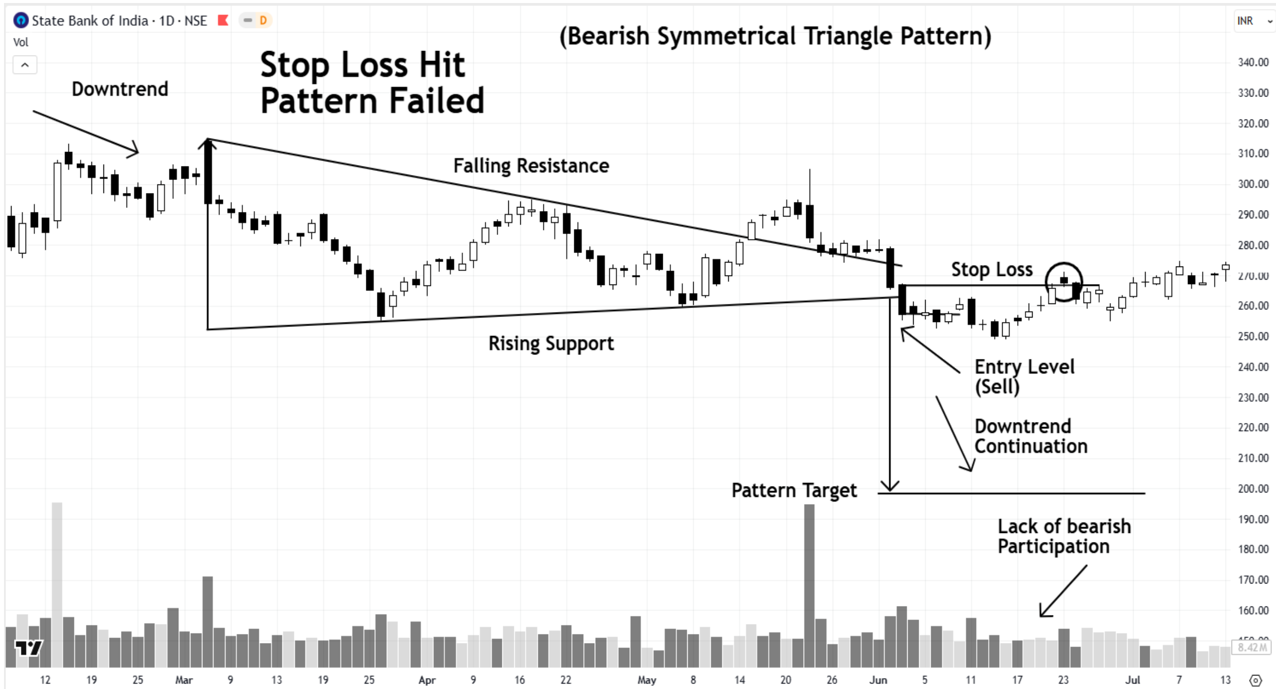
10.3.3 Premature Entries

- Description: Entry taken before proper breakout confirmation.
- Example Chart: *Symmetrical Triangle/Falling Wedge*
- **Discussion:** Traders anticipate the move too early and get trapped when price reverses.
- **Lesson Learned:** Wait until the pattern completes and the breakout is validated.

Chart Analysis:

(Refer Image 10.5)

- **Pattern Name:** Bearish Symmetrical Triangle – Failed Breakout.
- **Expected Move:** Downward breakdown continuation.
- **Actual Outcome:** Price reversed sharply after a brief breakdown.
- **Reason for Failure:** Weak volume, lack of follow-up buying.
- **Lesson Learned:** Wait for retest confirmation before entry OR exit when Stop Loss Hit.



*(**Image 10.5:** Daily candlestick chart of State Bank of India Ltd. illustrating a Bearish Symmetrical Triangle pattern)*

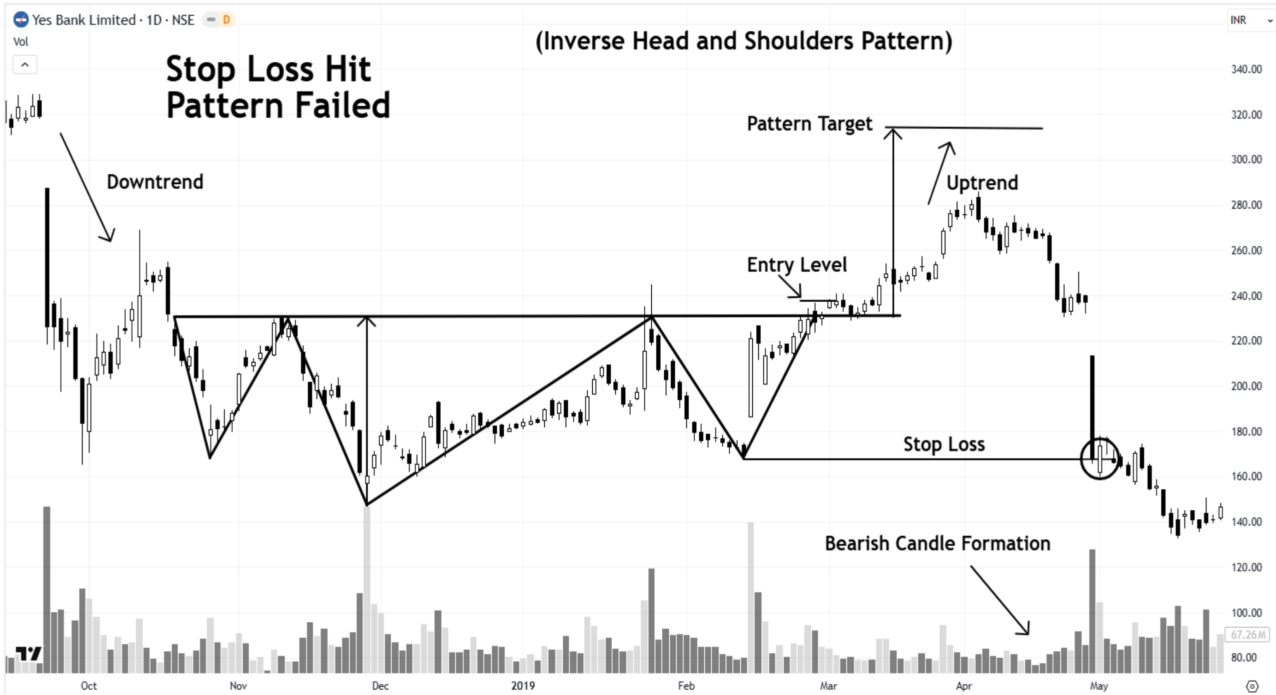
10.3.4 Reversal Pattern Failures

- Description: Reversal formations like *Double Top* or *Inverse Head and Shoulders* fail to reverse the trend.
- Example Chart: *Double Top/Inverse Head and Shoulders*
- **Discussion:** The dominant market trend remains stronger than the reversal signal.
- **Lesson Learned:** Always assess the broader trend before taking reversal trades.

Chart Analysis:

(Refer Image 10.6)

- **Pattern Name:** Inverse Head and Shoulders – Failed Breakout.
- **Expected Move:** Upward breakout reversal.
- **Actual Outcome:** Price reversed sharply after a brief breakout.
- **Reason for Failure:** Lack of follow-up buying.
- **Lesson Learned:** Wait for retest confirmation before entry OR exit when Stop Loss Hit.



*(**Image 10.6:** Daily candlestick chart of Yes Bank Ltd. illustrating an Inverse Head and Shoulders pattern)*

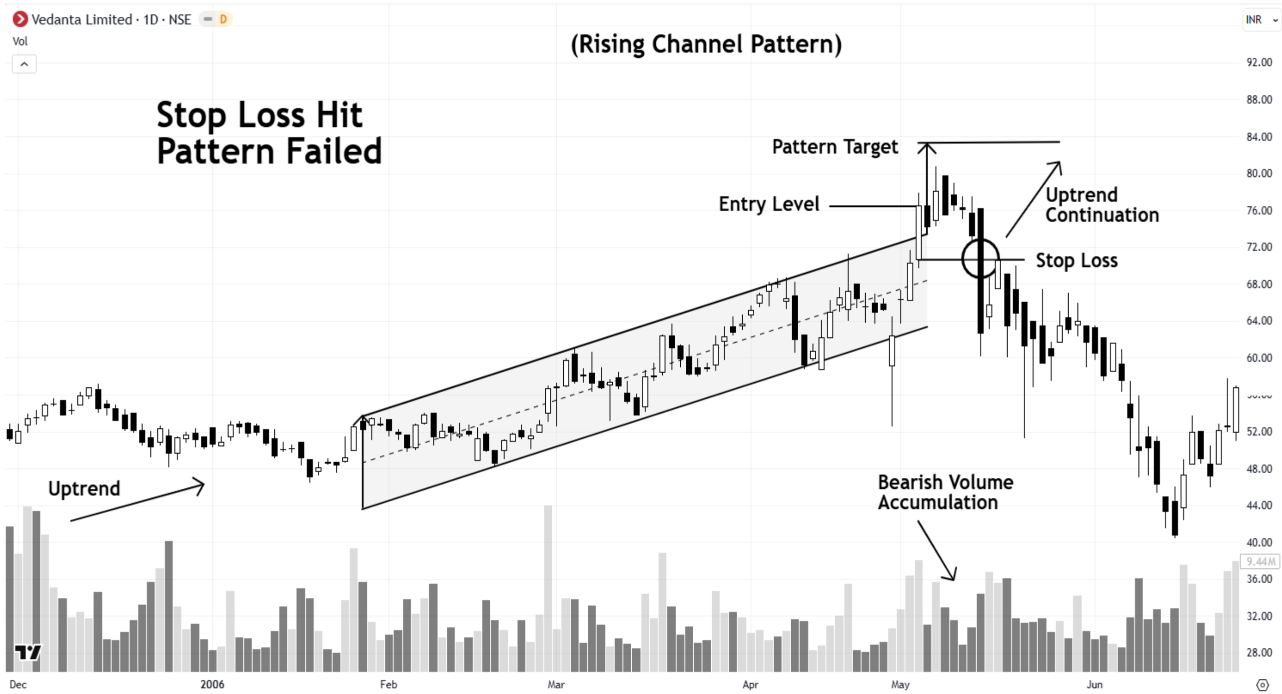
10.3.5 External or News-Driven Failures

- Description: Sudden events such as corporate results, policy changes, or global news invalidate the technical setup.
- Example Chart: *Rectangle Breakout/Channel Pattern*
- **Discussion:** Technical fails when macros dominate the sentiment.
- **Lesson Learned:** Always stay alert to fundamental and external triggers.

Chart Analysis:

(Refer Image 10.7)

- **Pattern Name:** Rising (Ascending) Channel Bullish Continuation – Failed Breakout.
- **Expected Move:** Downward Bearish Reversal.
- **Actual Outcome:** Price reversed sharply after a brief breakdown.
- **Reason for Failure:** Weak volume, lack of follow-up selling.
- **Lesson Learned:** Wait for retest confirmation before entry OR exit when Stop Loss Hit.



*(**Image 10.7:** Daily candlestick chart of Vedanta Ltd. illustrating a Rising Channel pattern)*

10.4 Handling Failed Patterns

- Place stop-losses at logical technical points, not emotional ones.
- Identify early signs of failure such as:
  - ✓ Reversal candle immediately after breakout.
  - ✓ Volume drops despite breakout.
  - ✓ Retest failure of support/resistance.
- Accept losses gracefully and avoid *revenge trades*.

Takeaway

- No pattern guarantees success, probabilities, and discipline matter most.
- Failed patterns are valuable teachers; each one sharpens analytical skill.
- Focus on confirmation, volume validation, and broader market context before acting.

In the next chapter, we will explore *Practical Application and Chart Analysis*, where you will learn how to combine all these tools to analyse charts like a professional trader.

***

Chapter 11
Practical Application and Chart Analysis

"The goal of a successful trader is to make the best trades. Money is secondary."

— Alexander Elder

Chapter 11
Practical Application and Chart Analysis

Now that you have learned about candlesticks, chart patterns, support, resistance, trendlines, and volume, it is time to bring everything together. Knowledge alone is not enough, *applying it effectively* is what turns learning into confident trading.

The Power of Combining Tools

Think of trading as solving a puzzle. Each element, candlesticks, patterns, trendlines, support/resistance, and volume, is a piece of the puzzle. When you combine them:

- You can *identify strong trade setups*.
- You can *filter out weak or misleading signals*.
- You gain *confidence to act*, rather than relying on guesswork.

Step-by-Step Approach to Chart Analysis

1. Identify the Trend

✓ Look at the bigger picture first. Is the market in an uptrend, downtrend, or sideways consolidation?

✓ Draw trendlines connecting highs and lows. This helps you determine your trading bias, bullish, bearish, or neutral.

2. Locate Support and Resistance

✓ Mark key horizontal levels where price has repeatedly reversed or stalled.

✓ These levels act as potential entry or exit zones.

3. Observe Candlestick Patterns

- ✓ Look for single, double, or triple candlestick patterns near support, resistance, or trendlines.
- ✓ Example: A Hammer near support or a Shooting Star near resistance is more reliable than one appearing in the middle of the chart.

4. Confirm with Volume

- ✓ Check if the candlestick pattern or breakout is supported by strong volume.
- ✓ High volume strengthens the probability of a successful trade. Low volume may signal caution.

5. Check Chart Patterns

- ✓ Identify larger patterns like triangles, flags, wedges, or head-and-shoulders.
- ✓ Confirm pattern breakouts using volume and candlestick signals.

Practical Example for Beginners

1. **Scenario:** Price has been trending downward and approaches a support zone.
2. **Candlestick Signal:** A Hammer forms at support.
3. **Volume Check:** Volume spikes on the Hammer Day, showing buyers are stepping in.
4. **Confirmation:** The next day, a bullish candle closes above the Hammer's high.

Action: This setup indicates a potential upward reversal, a good opportunity to enter a long trade with a stop loss below the Hammer's low.

Tips for Consistent Practice

- **Start with Daily Charts:** Daily charts provide clear patterns without the noise of shorter time frames.
- **Use a Trading Journal:** Record every setup, candle patterns, chart patterns, volume, and results. Reviewing your journal improves learning and discipline.
- **Focus on Probability, Not Perfection:** No trade is guaranteed. Look for setups where multiple signals align for higher probability.
- **Patience is Key:** Wait for confirmation rather than jumping into trades impulsively.

Takeaway

Trading is like reading a story, candlesticks are the words, chart patterns are the paragraphs, and volume adds emphasis. By combining all these tools, you can *interpret the story of the market* and make more confident, informed trading decisions. The more you practice, the faster you will recognize patterns and the stronger your trading confidence will become.

In the next and final chapter, we will explore *Trading Psychology and Discipline*, which is the foundation for turning knowledge and practice into consistent success.

***

Chapter 12
Trading Psychology and Discipline

"In trading, it's not about how much you make, but how well you protect what you have."

—Paul Tudor Jones

Chapter 12
Trading Psychology and Discipline

By now, you have learned *what candlesticks, chart patterns, trendlines, support, resistance, and volume* reveal about the market. But there is one element that can make or break your trading success: *your mind*.

Trading is not just about patterns or strategies, it is about *emotions, discipline, and decision-making under pressure*. Even the best analysis fails, if emotions take control.

The Role of Emotions in Trading

Every trader faces the same emotions:

- **Fear:** Worry about losses can make you exit trades too early.
- **Greed:** Chasing profits can make you take unnecessary risks.
- **Impatience:** Rushing into trades without proper analysis leads to mistakes.
- **Overconfidence:** Winning streaks can create blind spots, causing poor decisions.

Recognizing these emotions is the first step toward controlling them.

Building a Disciplined Trading Mindset

1. Follow a Trading Plan

✓ Define your entry, exit, and stop-loss levels before trading.

✓ Stick to your plan, even if emotions tempt you to deviate.

2. Focus on Risk Management

✓ Never risk more than a small percentage of your capital on a single trade.

- ✓ Accept that losses are part of trading, controlling them preserves your ability to trade again.

3. Practice Patience

- ✓ Wait for proper setups where candlestick patterns, chart patterns, trendlines, support/resistance, and volume all align.
- ✓ Avoid impulsive trades based on tips or rumours.

4. Learn from Every Trade

- ✓ Maintain a trading journal documenting setups, decisions, emotions, and results.
- ✓ Review it regularly to identify patterns in your behaviour and improve over time.

5. Stay Emotionally Neutral

- ✓ Treat wins and losses equally, avoid celebrating small wins or reacting strongly to losses.
- ✓ Emotional stability is more valuable than any strategy or tool.

Motivational Mindset for Beginners

Remember:

"Trading is not about being right all the time; it's about making consistent, disciplined decisions that protect capital and maximize opportunities."

Success in trading comes gradually. Every candle you study, every pattern you recognize, and every disciplined decision you make is a step toward becoming a confident trader.

Even small, consistent progress compounds over time, just like mastering a language or learning a new skill. The market rewards *patience, observation, and self-control* more than luck or guesswork.

Takeaway

Trading psychology and discipline are the foundation of all success in the market. Knowledge without control is dangerous; tools without patience are ineffective. By combining *technical understanding* with *mental discipline*, you can trade with confidence, manage risks effectively, and gradually improve your results.

Always remember: the market tests your mind first, your strategy second. Master yourself, and the charts will follow.

***

Closing Note – Your Journey Begins

"The market rewards those who learn, adapt, and endure, not those who rush."

— Anonymous Trading Wisdom

Congratulations! Reaching this point marks a meaningful milestone in your trading journey. You have not just completed a book; you have begun learning the language of the market. Each candlestick, each chart pattern, each line of support or resistance, and every volume spike now tells you a story. You have learned to read what the market says without words, through movement, momentum, and emotion.

This understanding gives you a new way to see the market, a deeper, more disciplined perspective. You now possess the essential tools to observe, interpret, and act with confidence. You can identify opportunities, recognize risks, and make decisions based on structure and evidence, not impulse.

But remember, knowledge alone is not enough. The difference between knowing and mastering lies in practice, patience, and reflection. True success in trading comes from experience, from observing the market every day, applying what you have learned, and improving with every step. Even the most successful traders began just like you: curious, uncertain, and eager to grow. What made them exceptional was not luck or talent, but persistence and the courage to keep learning, even from their mistakes.

Your Path Forward

1. Observe and Practice

Spend time watching charts daily. Observe how patterns develop and complete, how volume behaves, and how emotions reflect in price action. With time, your observation will turn into intuition.

2. Start Small

Begin with small, controlled trades. Focus on the quality of your decisions rather than the size of your profits. Build a base of consistency before aiming for big rewards.

3. Stay Patient and Disciplined

Follow your plan, respect risk management, and control your emotions. The market tests patience more than intelligence. Success belongs to those who wait for clarity.

4. Learn from Every Experience

Every trade, win or lose, teaches something. Keep a trading journal to record what went right, what went wrong, and what can be improved. Analyse your "failed patterns" too; they are often your greatest teachers.

5. Keep Learning

Markets evolve, and so should you. Treat this book as a foundation, a first step in a lifelong learning process. Continue exploring, reading, and refining your techniques to stay ahead of change.

Final Inspiration

Trading is more than numbers on a screen. It is a skill, an art, and a mindset. Every candlestick carries emotion, every pattern reveals psychology, and every disciplined decision defines your growth as a trader.

"The journey of a thousand candles begins with a single observation."

Your journey has now begun. Approach every chart with curiosity, every trade with confidence, and every loss with humility. Success in trading is not about luck, it is about preparation, observation, and continuous self-improvement.

The market is waiting, and now you are ready to read its story, with clarity, confidence, and courage.

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