

# **A List Of The Most Important Price Action Patterns**

To be a price action trader means having a deep understanding of the various different price action patterns that form in the market. The problem with these pattern, is that because there are so many of them that form in the market, knowing which ones you should take the time out to learn and which you should leave can be quite challenging. To solve this problem, I thought that today I would give you a list of what I believe to be the most important price action patterns you need to learn as a forex trader.

As some of you reading this will probably already know, there are three basic types of pattern that can form in the market:

- Price Action Reversal Patterns
- Price Action Continuation Patterns
- Price Action Candlestick Pattern

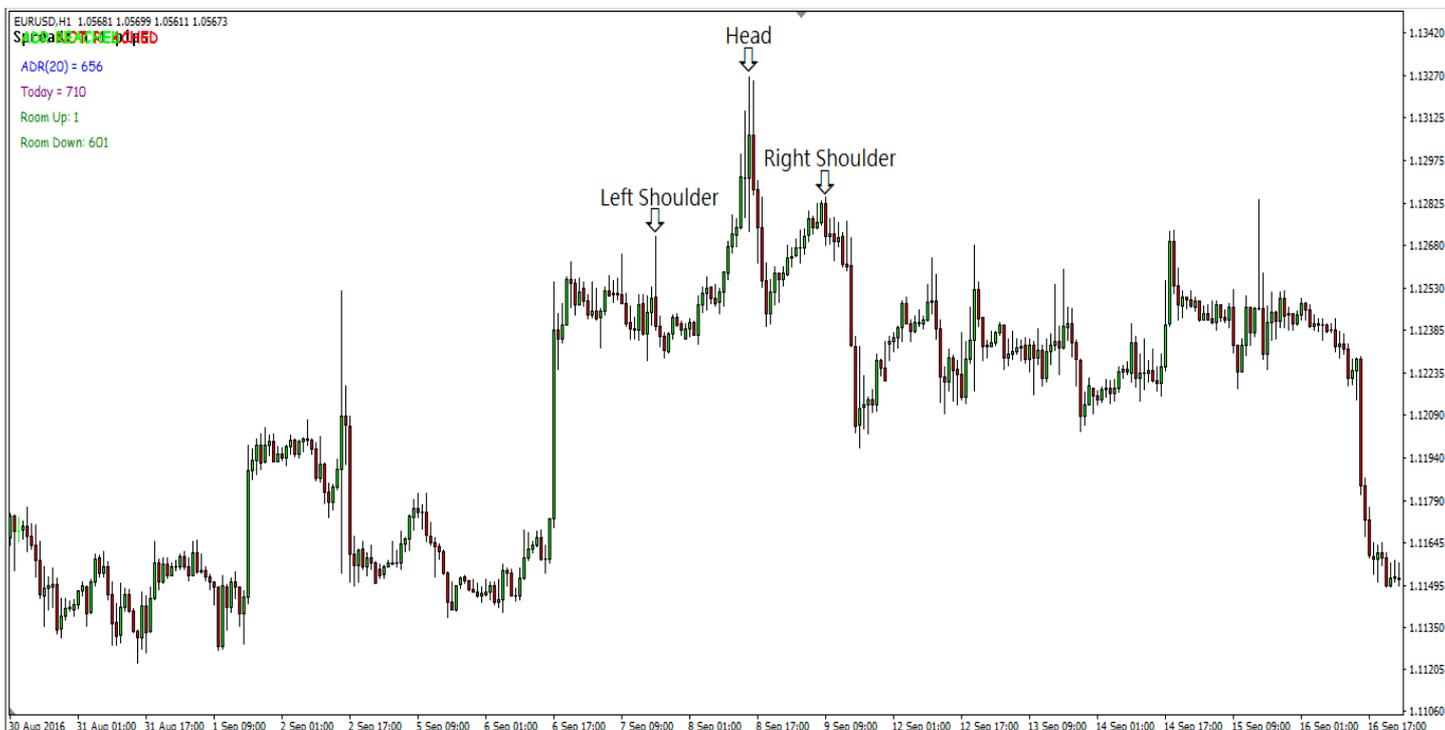
I'll begin today's article by first showing you what the most important price action reversal patterns are, followed by which continuation patterns you need to have knowledge on, and finally I'll show you the two most important price action candlestick patterns you need to watch out for in the market.

## **Price Action Reversal Patterns**

Reversal patterns are probably the most important set of price action patterns you need to really have a deep understanding of, as they can give you early clues about if a movement in the market is coming to an end. The six patterns I'm going to be showing you in this section are all multi-swing shape patterns, which means that each one of the patterns forms from more than one upswing and downswing taking place in the market, and they all look similar to common shapes upon their completion.

### **The Head And Shoulders Pattern**

The first price action reversal pattern we're going to look at is the head and shoulders pattern. Without doubt one of the most popular and well known price action patterns in the market, the head and shoulders formation is one which all price action traders need to memorize and understand if they want to become good at spotting reversals using price action. As you've probably already guessed, the head and shoulders pattern is a reversal pattern which has a swing structure very similar to that of person's head and shoulders.

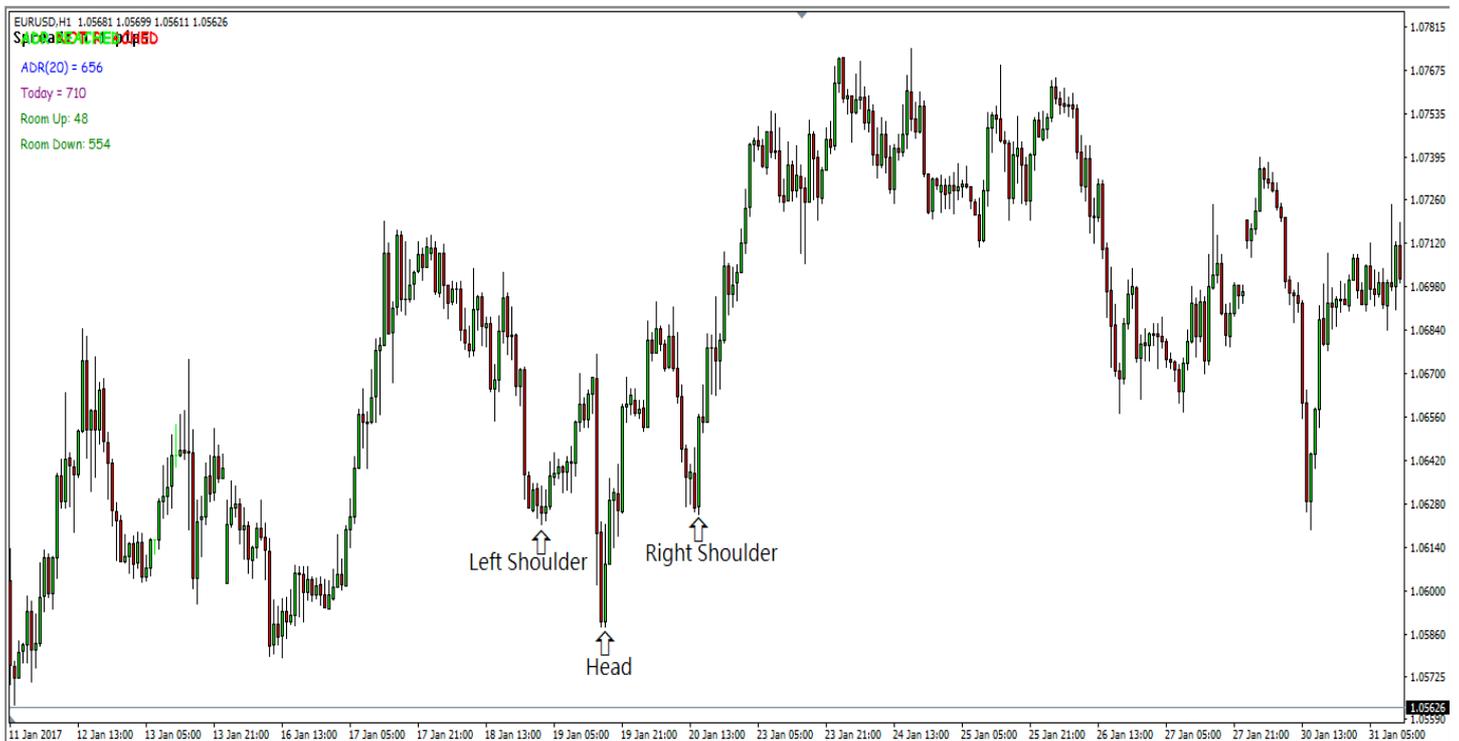


Here's an image of a bearish head and shoulders pattern which formed on the 1hour chart of EUR/USD.

You can see from the image the structure of the pattern does bear a striking resemblance to somebody standing up with their head straight and their shoulders level with one another. Most head and shoulders patterns are supposed to look like the one you can see in the image above, but a large percentage of them will actually have features which are a little different from one another. For example, you might see a pattern form with one of the shoulders being a little bit higher than the other, or the distance of two shoulders from the head will be smaller or bigger than what you can see in the pattern above.

These small differences do not alter the pattern in any meaningful way. So long as the head is always found in the middle and the two shoulders are found to be either side, it's a head and shoulder pattern. If the high of the right shoulder is found to be below the swing low of the move up which created the head, then it's not a head and shoulders pattern and should not be treated as such.

The pattern itself comes in two variations. The one we just looked at in the image above is referred to as being a bearish head and shoulders pattern, which is a signal the market may reverse to the downside, whilst the one seen in the image below is a bullish head and shoulders pattern, but is often referred to as being an inverse head and shoulders pattern due to the way the pattern is basically an upside down version of the bearish pattern.



Here's what an inverted head and shoulders pattern looks like on a chart.

You can see that all the features of the pattern are the same as the bearish version, only the opposite way around. Instead of the head pointing upwards like it does with the bearish pattern it points down, as do the left and right shoulders. The only real difference between the two patterns is in what needs to happen in order for the pattern to become invalidated.

With the bullish head and shoulders pattern if the right shoulder forms below the swing low of the move up which created the head, the pattern is not a head and shoulders and is instead some other formation. The bearish head and shoulders follows the same rule, only the right shoulder cannot form above the swing high of the move down which created the head, if it does it's not a bearish head and shoulders pattern.

All in all the head and shoulders formation is usually quite a reliable signal the current movement is going to reverse. If you want to learn the best way to trade the head and shoulders pattern and get a more in-depth look at the way it should form on your charts, check out the article I've left below.

[The Easy Way To Trade The Head And Shoulder Pattern](#)

## The Double Bottom And Double Top Patterns

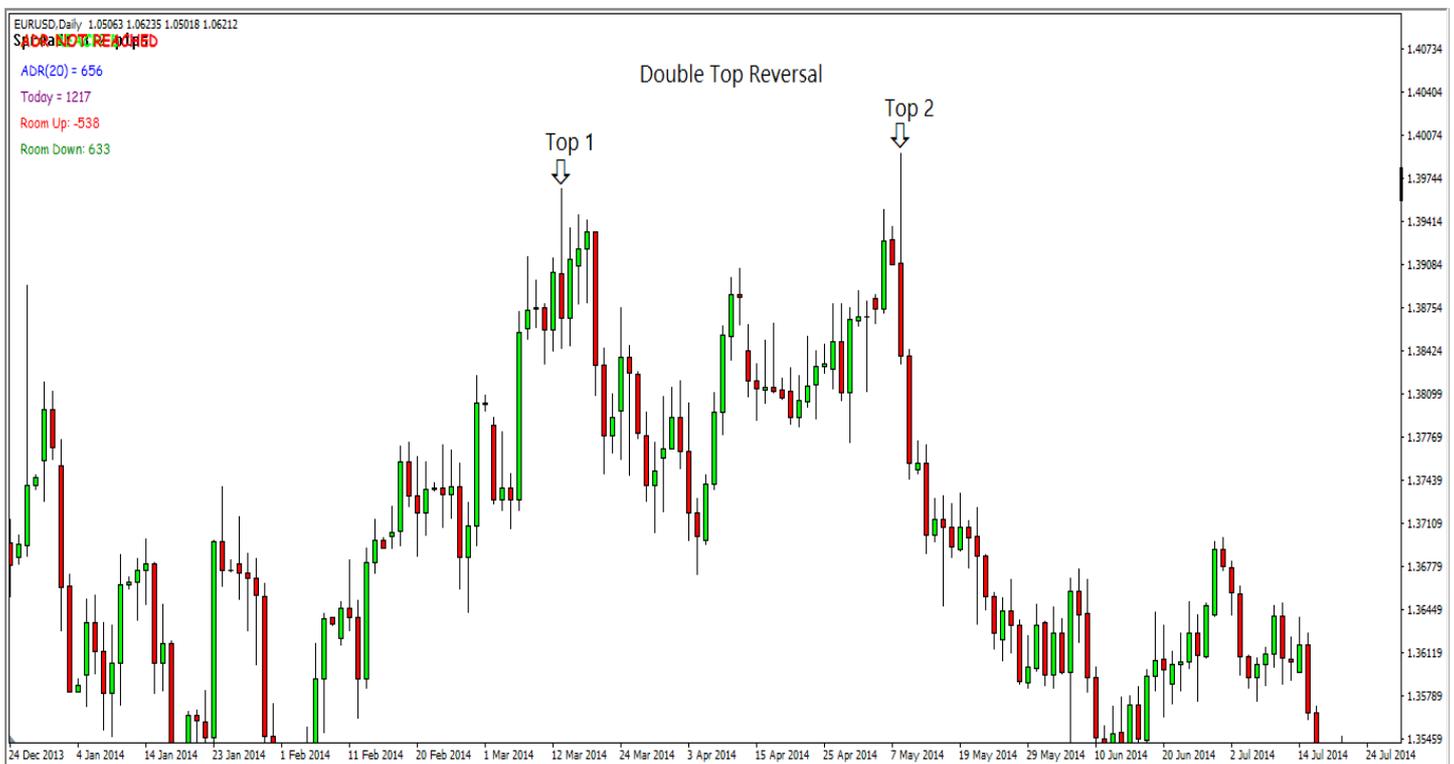
The double bottom and double top formations are another couple of really important reversal patterns you need to be aware of forming in the market.

They're two patterns which get their name from the way the market will make two downswings with swing lows at similar prices to one another before reversing, (in the case of the double bottom pattern) or two upswings with swing highs forming at similar prices to one another before reversing, in the case of the double top pattern.



The image above shows an example of a double bottom pattern which formed on the 1hour chart of USD/JPY.

You can see the first part of the pattern forms after the market makes a downswing followed by an up-swing. The swing low that forms at the bottom of the swing higher is one of the two bottoms that forms during the pattern. The next swing low and bottom will always end up forming at a similar point to where this first swing low has formed, and the overall swing structure will usually resemble that of the letter W once the pattern has fully formed.



In this image we are looking at an example of the double top pattern.

The double top is of course the opposite to the double bottom, which means that its formation involves two upswings taking place with swing highs forming at similar prices to one another instead of two swing lows.

Both patterns become invalidated if the second top or bottom in each respective pattern forms at a price which is far away from the price at which the first top or bottom has formed at. There isn't any exact guidelines on how far away this should be, but I'd say that if you see two or three large candlesticks close below the first bottom or above the first top, then it's probably not a double bottom or double top pattern.

Overall the double bottom and double top patterns are two decent reversal formations, although they can be quite difficult patterns to trade effectively, due to the way the swing seen after the second bottom or top has formed can easily turn into a retracement or consolidation soon after you would have entered a trade.

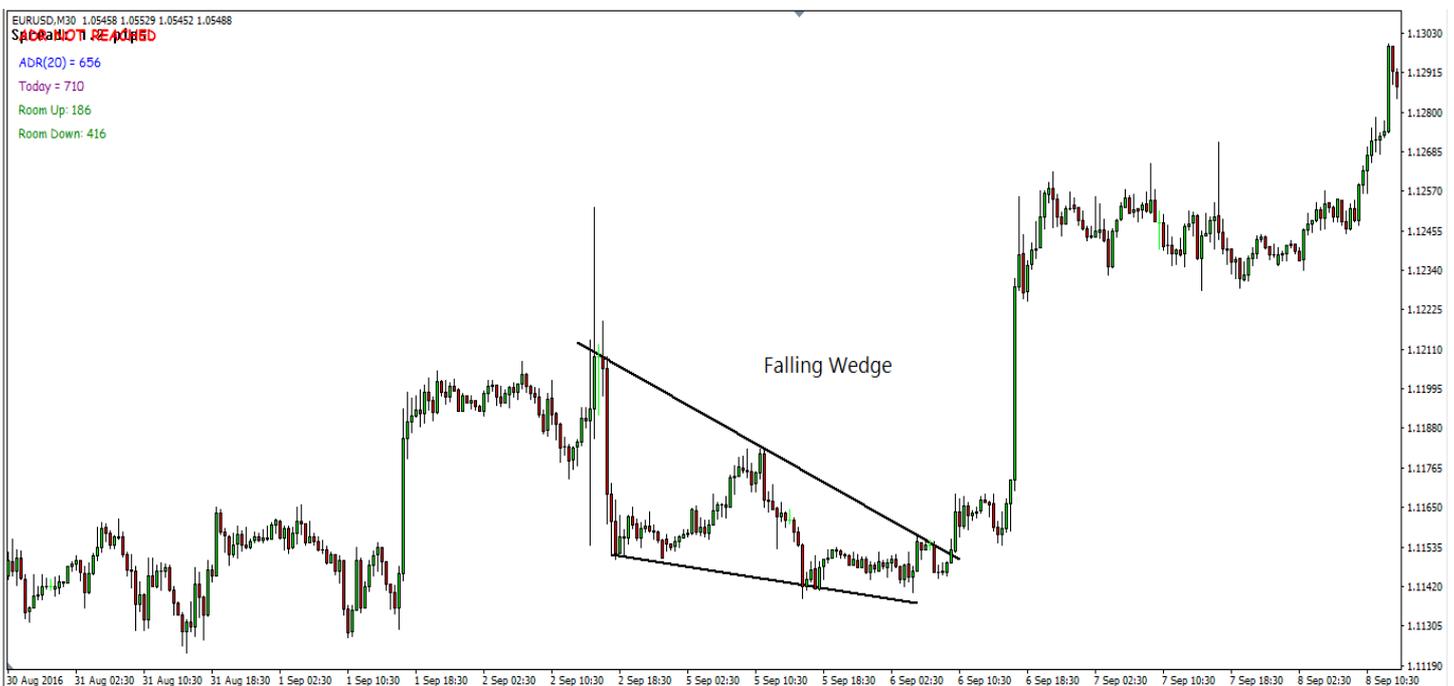
## The Rising And Falling Wedge Pattern

The final two price action reversal patterns we're going to look at, are the rising wedge and the falling wedge. The rising and falling wedges are two patterns which get their name from the way the market sometimes contracts before the end of an up-move or down-move. The contraction of the swings is what creates the wedge and gives the patterns their name.



Here's an image of a large rising wedge pattern which occurred on the daily chart of EUR/USD.

You can see that at the beginning of the wedge the distance between the market hitting the upper wedge line and lower wedge line is quite large. As the pattern progresses though, the distance between the two lines becomes smaller and smaller until eventually the two lines are really close to one another, almost as if they were about to form the tip on an arrow head.



In this image we're looking at an example of a falling wedge pattern.

The falling wedge is the bullish version of the wedge pattern and is always a signal the market may be about to reverse to the upside. It forms in much the same way as the rising wedge pattern, with the only difference being that the swings contract to the downside rather than the upside like they do during the formation of the rising wedge.

In closing, the rising and falling wedges are two patterns which are important for you to be able to recognize on a chart, but are not patterns which you should use to look for entries into trades, due to the way many false signals will appear as the swings contract and the pattern nears completion.

## Price Action Continuation Patterns

So now that we've had a look at some of the most important price action reversal patterns, I think it's time to move on and spend a little bit of time looking at the most important price action continuation patterns you can expect to see form in the market. Price action continuation patterns are basically the opposite of the reversal patterns we have just looked at. Instead of signalling to us a reversal is going to take place, their appearance is a sign the current trend/movement is probably going to continue.

### The Rising And Falling Wedge Continuation

Whilst the rising and falling wedges are most often found to be price action reversal patterns, they can also be continuation patterns if they happen to form during downtrends and up-trends respectively.



Here's a falling wedge pattern which formed during a retracement that was taking place during an up-swing on EUR/USD.

The reversal formation of the falling wedge will always form at the end of downtrends or down-moves, but the continuation variation will only form during up-trends and up-moves. You can see the wedge forms in the same way as it would if it was signalling a reversal at the end of a downtrend.

The swings contract as the pattern progresses until an upside breakout occurs, pushing the market above the swing highs which had formed from the market hitting the sharper downside slope of the pattern.



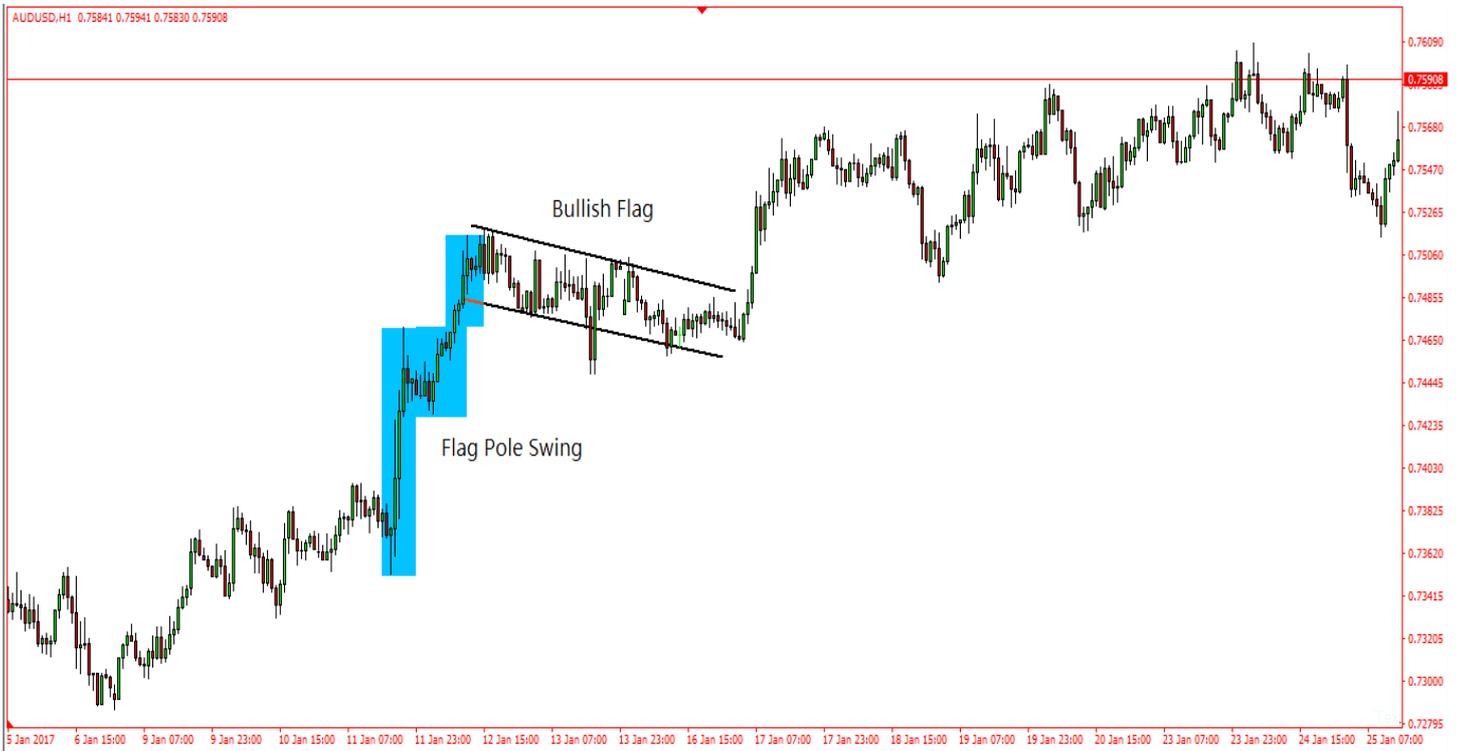
Here we have an image of rising wedge pattern which formed during a downmove that occurred on the 1hour chart of USD/JPY.

In contrast to what we see with the falling wedge pattern, the rising wedge only forms as a continuation pattern during downtrends. If you see one form during an up-trend, it's not a continuation pattern and is instead the reversal pattern we just looked at in the previous section.

The vast majority of the wedge continuation patterns you'll see form in the market will form as retracements during up or down moves. Their formation will take place during the whole duration of the retracement, and the breakout seen at the end of each pattern will usually signal an end to not only the patterns formation, but the entire retracement itself.

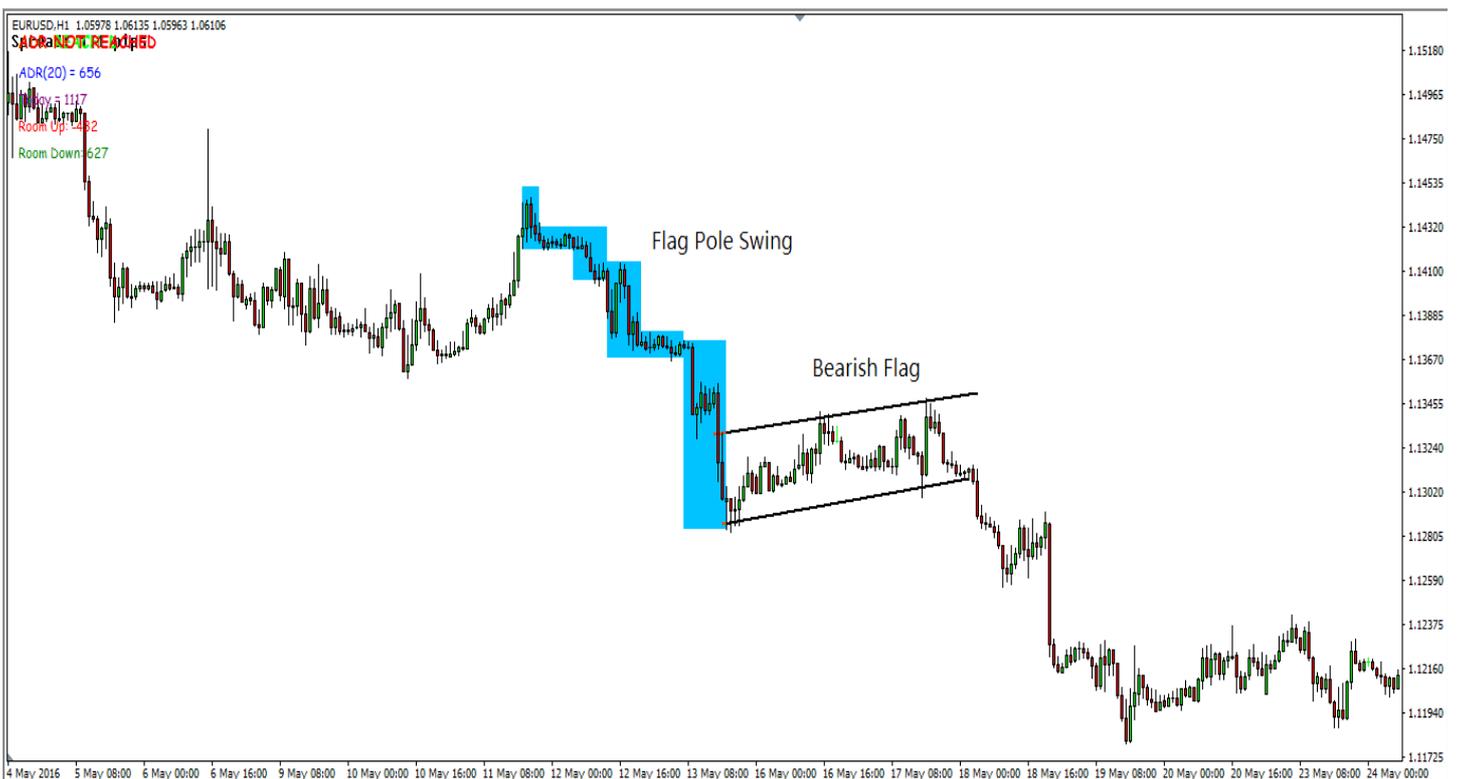
## The Bullish And Bearish Flag Pattern

Bullish and bearish flags (sometimes pronounced bull flag and bear flag) are two more really common price action continuation patterns you'll see forming in the market. They get their name from the way the structure of the pattern resembles that of flag mounted on top of a pole.



In the image above you can see an example of a bullish flag pattern that formed on AUD/USD.

You can see the pattern is basically constructed off of two points. The first point is the sharp bullish move higher which takes place right before retracement begins (this is referred to as being the pole of the flag) and the second point is the retracement itself. The retracement is the flag part of the pattern and should always terminate before reaching the 50% fibonacci retracement level of the downswing which creates the flag pole. If you see the market retrace beyond the 50% level it's usually a sign the pattern is changing from a flag into something else.



This image shows a bearish flag pattern which formed on the 1hour chart EUR/USD.

The bearish flag is basically an upside down version of the bullish flag. Both patterns form in the exact same way and they both abide by the same rules regarding their formation i.e if the market moves beyond the 50% level of the flag pole swing the probability of pattern remaining a flag decreases dramatically.

Both bull flags and bear flags form frequently in the market and are often quite a reliable signal the current movement is going to continue. Usually the point where a flag will terminate is the same point as where a supply or demand zone has formed. So if you want to try to get an entry into a flag pattern trade, it's best to do so around the point where a nearby supply or demand zone has formed, as this is point where the flag is likely to end and cause the prior trend/movement to resume.

## The Descending And Descending Triangle Patterns

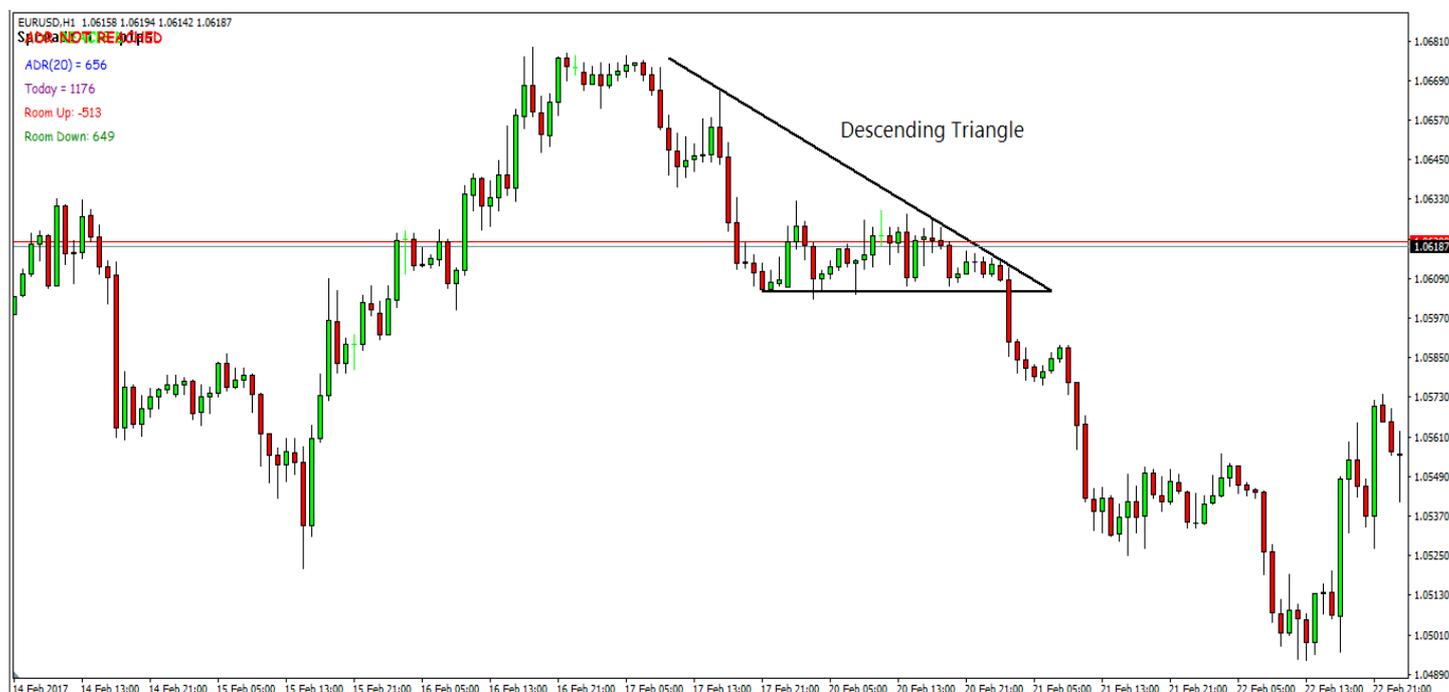
The last couple of continuation patterns we're going to have a look at are the ascending triangle and the descending triangle. Triangle patterns are very much like the rising and falling wedge patterns we looked at earlier. They form in the same way and have a similar swing structure to one another.

The main difference between the two, is that the two triangle patterns always form with one straight edge that acts as a resistance or support level until the market breaks out of the pattern and continues to move in the direction of the prior trend.



Here's what an ascending triangle pattern looks like on a chart.

The ascending triangle is the bullish variant of the two triangle patterns. It only forms during up-tends or up-swings and is always seen as being a signal the current move is going to continue. The straight edge of the ascending triangle is a support level, and this level stops the market from moving lower during the time the pattern is forming.



In this image you can see a descending triangle pattern which formed on the 1hour chart of AUD/USD.

The descending triangle is the bearish version of the triangle pattern and it's formation is a sign the current down-move/downtrend is likely going to continue. The only difference it has with the ascending triangle is that it's straight edge is a resistance level which stops prices from rising higher during the formation of the pattern in the market.

The ascending and descending triangle patterns are good to know but not that great for trading, due to the way a few false breakouts will usually take place before the real breakout occurs and causes the market to move in the direction it was moving in prior to the pattern forming in the market.

## Price Action Candlestick Patterns

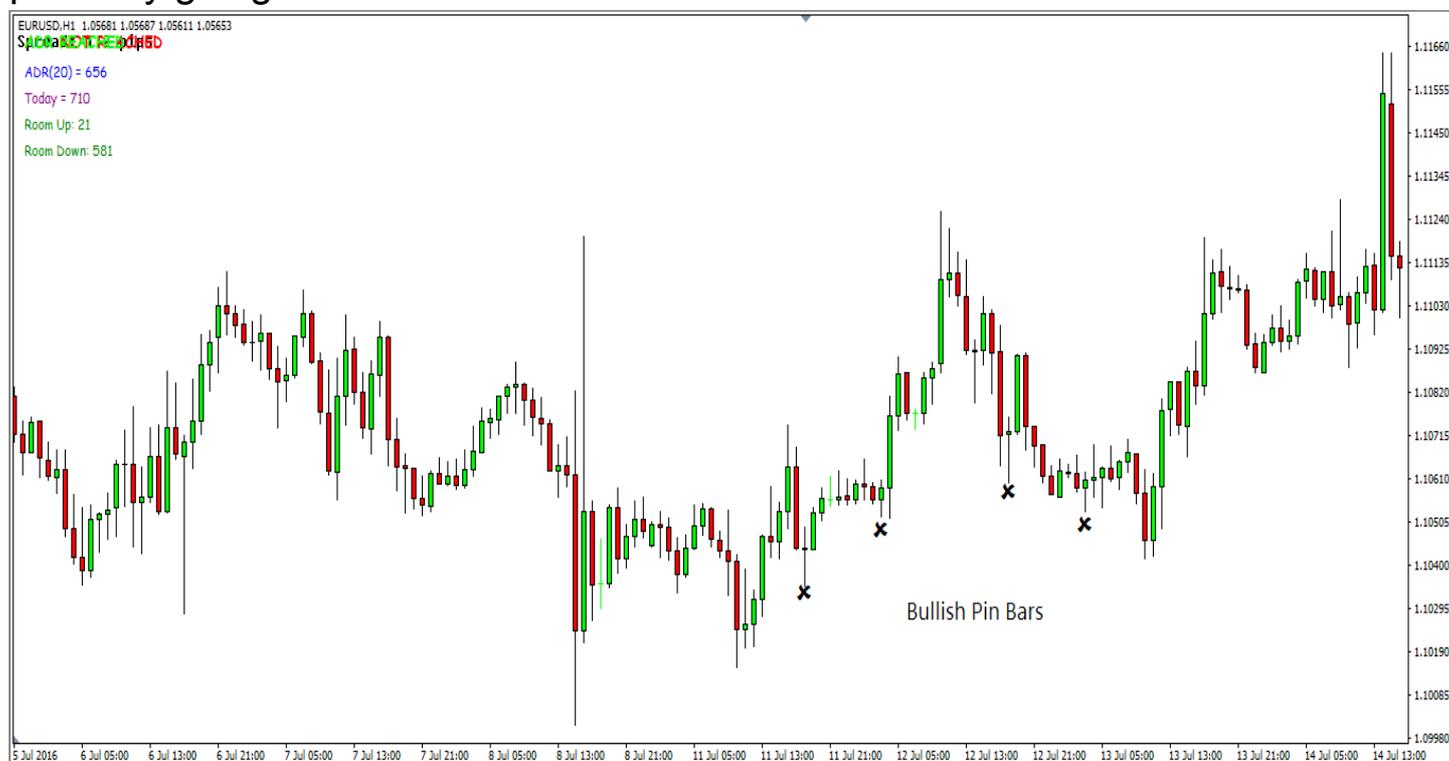
The final set of price action patterns we're going to be looking at today are price action candlestick patterns. There are lots of candlestick patterns out there, but I just want to focus on the two which I think are most important for price action traders to understand.

## Pin Bar/Hammer Candlestick

The pin bar is a single candle pattern which can be found forming across all currencies and all time-frames in the market. It falls into the category of price action reversal patterns due the fact it's appearance is supposed to be a signal a reversal is going to occur. Although it must be said that very few pin bars actually cause large reversals to take place in the market, (I'll explain why in a minute).

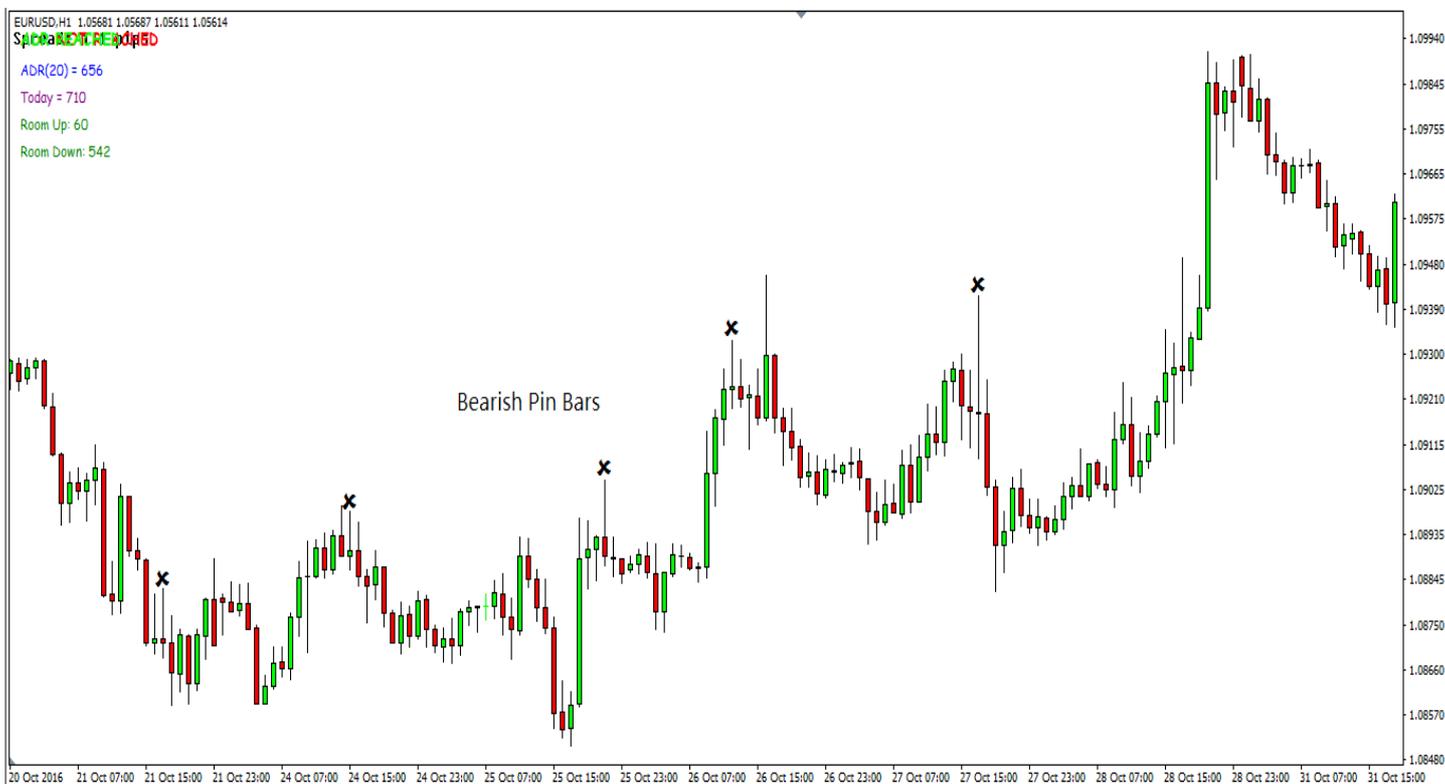
Like most price action patterns the pin bar comes in two varieties:

The bullish pin bar, which signals a reversal to the upside may be about to take place, and the bearish pin bar, which is a sign a reversal to the downside is probably going to occur.



Here's an image of some bullish pin bars which formed on the 1 hour chart of EUR/USD

You can see that the vast majority of these bullish pins did cause the market to reverse once they had formed, but they didn't all cause it to reverse for the same duration of time. Some caused large upswings to take place whilst others only created small retracements.



In this image we can see some bearish pin bars that formed on the 1 hour chart of USD/JPY.

Again, you can see that the pin bars which formed on here also caused reversals of varying sizes to take place. The reason why pin bars cause different sized reversals to occur, is because of the action that caused the pin bar to form in the first place. Pin bars and all the other candlesticks you see forming on your charts, form as a result of traders making decisions in regards to the market price. Pin bars happen to form exclusively from the bank traders either placing trades because they want to make the market reverse, or from taking profits off trades which they've already got placed.

The reversal created by the pin bar which has formed as a result of the bank traders taking profits off their trades, is naturally much smaller than the reversal caused by the pin which has formed from the bank traders placing trades to make the market reverse. It's obvious why this is, I mean if you took some profits off a trade you would want the market to continue moving in the direction to which your trade had been placed so you could make more money from the trade. The bank traders want the same to happen when they cause a pin bar to form from taking profits off their own trades, which is why the reversal caused by some pin bars forming are much smaller than the reversals caused by other pins forming.

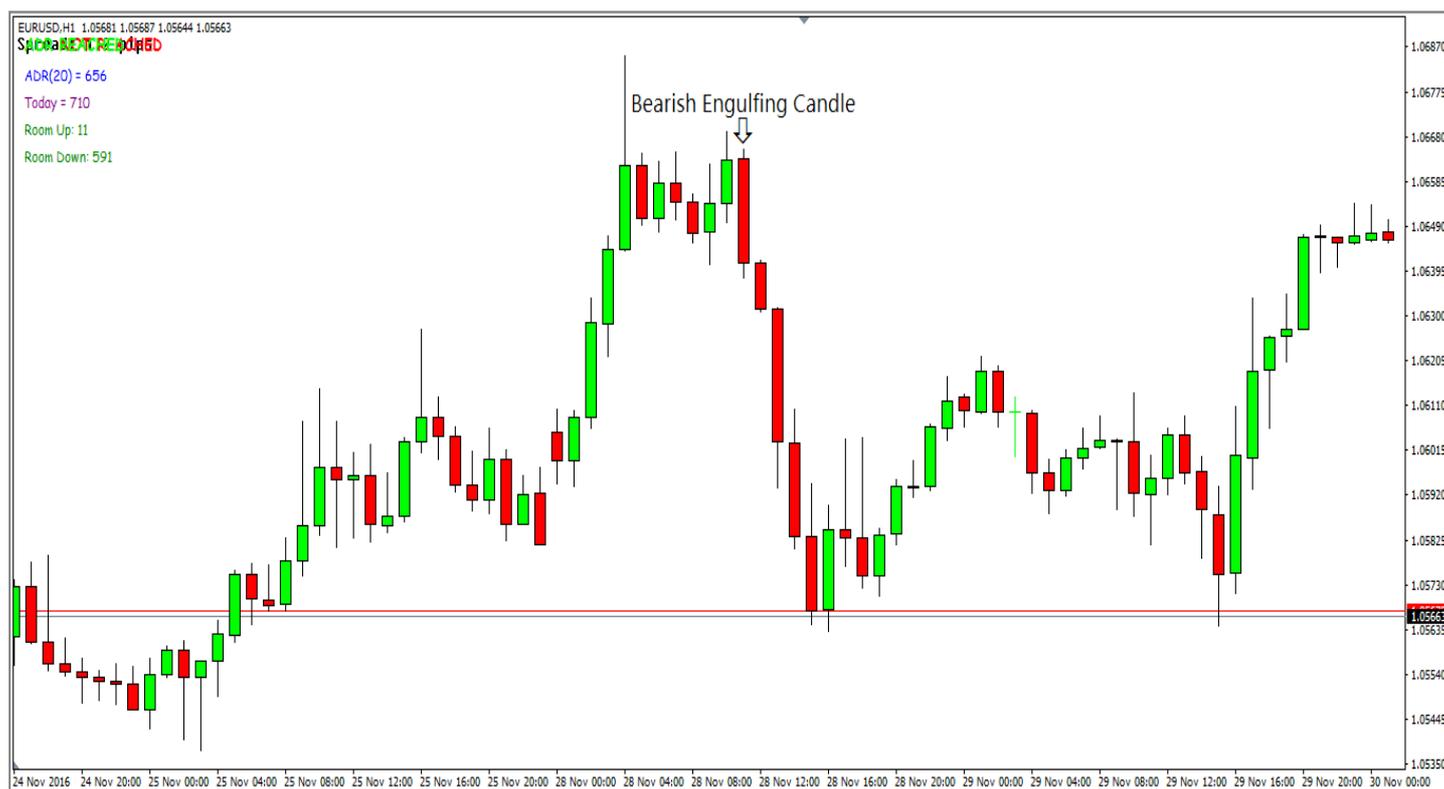
Bullish and bearish pin bars are really good reversal patterns to watch out for if you're a price action trader, but they must be traded in the right way and you must understand why they form in the market. Most of the books and guides out there on pin bars do not teach traders what causes them to form, when it's knowing what causes them to form that will allow you to determine which pins have a high probability of working out successfully.

If you want to learn more about what causes pin bars to form in the market, go and check out some of the other pin bar articles I have available on the site, or take a look at the Pin Bars Uncovered book found on the cool stuff page, as this is a book dedicated solely to helping traders understand why pin bars form in the market and how to trade them profitably.

## [The Definite Guide To Trading Pin Bars](#)

### Engulfing Candlesticks

The other really important candlestick pattern I think price action traders need to have knowledge on is the engulfing candlestick. Like the pin bar the engulfing candle is a reversal pattern, which means that a reversal is supposed to take place immediately after you see one form in the market. Unlike the pin bar the engulfing candlestick is a two bar reversal pattern, a pattern which requires there to be two candlesticks present in order for it's formation to be complete.



Here's an example of a bearish engulfing candle which caused a reversal to occur on EUR/USD.

The formation of a bearish engulf is always a signal that a reversal to the downside is about to take place. The pattern itself consists of two candlesticks. The bearish engulfing candlestick itself, which I've marked with an arrow, and the bullish candlestick that formed an hour before. The bullish candle is first candle required in the bearish engulf setup. This is the candlestick which the market will always engulf with a bearish candle immediately after it's formation.

In order for a bearish engulfing candle to form, a bullish candle must have formed immediately prior. You can't have a bearish candlestick engulfing another bearish candle, it has to be a bullish candle in order for it to be a bearish engulf.



Here you can see an image of a bullish engulfing setup which caused a reversal on EUR/USD.

Bullish engulfing candlesticks are of course the opposite to bearish engulfing candles, which means their appearance is a sign the market is going to reverse to the upside. Like the bearish engulfing candle they are also a two bar pattern, but instead of the first candle in the pattern being a bullish candlestick, like we see with the bearish engulfing formation, the first candle in a bullish engulfing setup will always engulf a bearish candle. A bullish engulfing candle cannot engulf another bullish candle, it can only engulf bearish candles.

Engulfing candlesticks are best used as signals to enter trades at pre-existing points where you expect the market to reverse, such as support and resistance levels or supply and demand zones. They can be traded on their own without any other confirming factors being present, but in my opinion they don't tend to work out as well as pin bars do.

## Summary

Whilst the patterns I've talked about in this article aren't all the price action patterns that can form in the market, they are the ones which are the most important, and you should really take some time out to study these patterns on your own. It would be a good idea to go back on your charts and look for times when these patterns have appeared in the market and watch to see how they

form and how they cause a continuation or reversal to take place. By doing this you'll be able to not only recognize patterns more easily, but you'll also find it easier to determine when they are about to cause a reversal or continuation to occur, which will allow you to get trades placed at more profitable prices.