



Mastering Price Action

A Complete Guide to Candlesticks, Charts & Strategies

From Reading Patterns to Trading Profitably

Prepared by Trader Certification & Verification Institute

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Introduction to Price Action Trading

Welcome to the definitive guide on mastering price action. Price action trading is the discipline of making all of your trading decisions from a clean price chart—stripped of lagging indicators like RSI, MACD, or Bollinger Bands. It is the study of how price moves, reacts to key levels, and forms recognizable patterns.

By learning to read the "raw" data of the market, you are learning the language of buyers and sellers. This book is designed to take you from the very basics of what a candlestick represents to executing professional-grade strategies used by institutional traders.

Why Price Action?

Indicators lag because they are derived from past price data. Price action is immediate. It tells you what is happening *right now*, giving you the earliest possible signal to enter or exit a trade.

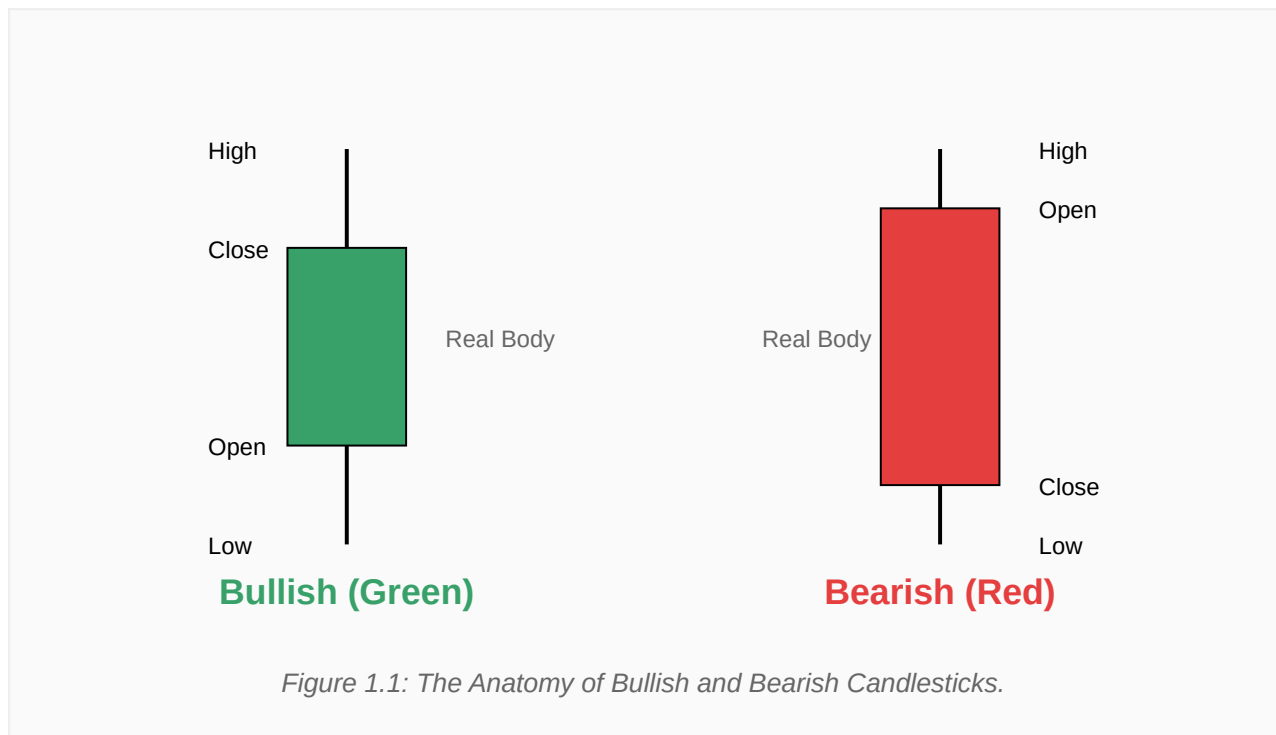
Candlestick Fundamentals

Japanese Candlesticks are the most popular method for visualizing price data. Originating from 18th-century Japanese rice traders (notably Munehisa Homma), they provide a rich visual representation of market psychology.

Anatomy of a Candlestick

Each candlestick tells a story about a specific period of time (e.g., 5 minutes, 1 hour, 1 day). It is composed of four key price points:

- **Open:** The price at the start of the period.
- **Close:** The price at the end of the period.
- **High:** The highest price reached during the period.
- **Low:** The lowest price reached during the period.



Interpreting Size and Wicks

- **Large Body:** Indicates strong momentum. If green, buyers are in control. If red, sellers are in control.

- **Small Body:** Indicates indecision or a "tug of war" between buyers and sellers.
- **Long Wicks (Shadows):** Indicate rejection. A long upper wick means buyers tried to push price up, but were rejected by sellers. A long lower wick means sellers tried to push price down, but buyers stepped in.

Single Candlestick Patterns

These patterns consist of just one candle but can provide powerful signals about potential reversals or continuations.

1. The Doji (Indecision) Reliability: Medium

A Doji forms when the Open and Close prices are virtually the same. It looks like a cross or a plus sign.

Psychology: Neither buyers nor sellers gained control. It represents equilibrium and often precedes a reversal if found at the top or bottom of a trend.

2. The Hammer (Bullish Reversal) Reliability: High

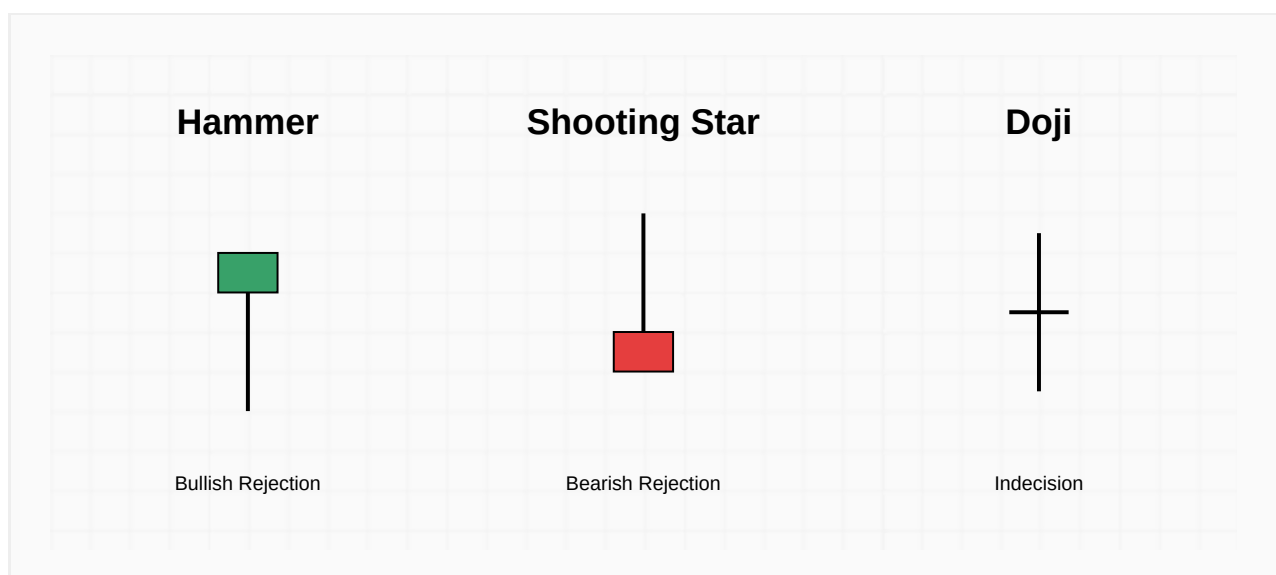
Found at the bottom of a downtrend. It has a small body at the top and a long lower wick (at least 2x the body size).

Psychology: Sellers pushed price down aggressively, but buyers rejected the lower prices and pushed it back up to close near the open. This shows buying pressure.

3. The Shooting Star (Bearish Reversal) Reliability: High

The opposite of a Hammer, found at the top of an uptrend. Small body at the bottom, long upper wick.

Psychology: Buyers tried to continue the trend, but sellers stepped in aggressively and forced the price back down. A sign of exhaustion.



Context is King

A Hammer in the middle of a sideways range is meaningless noise. A Hammer at a key Support level after a pullback is a high-probability trade signal.

Multiple Candlestick Patterns

Patterns involving two or three candles often carry more weight because they show a sequence of psychological shifts over time.

1. Bullish/Bearish Engulfing Reliability: Very High

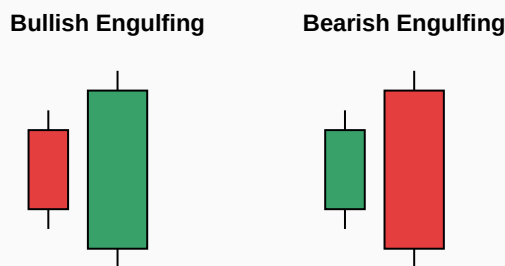
Bullish Engulfing: A small red candle followed by a large green candle that completely "engulfs" the body of the previous one. It signifies a complete takeover by buyers.

Bearish Engulfing: A small green candle followed by a large red candle that engulfs the previous body. Signifies sellers have overwhelmed buyers.

2. Morning Star / Evening Star Reliability: High

Morning Star (Bullish): A 3-candle pattern found at bottoms. 1) Long red candle. 2) Small indecision candle (star/doji). 3) Long green candle closing deep into the first red candle's body.

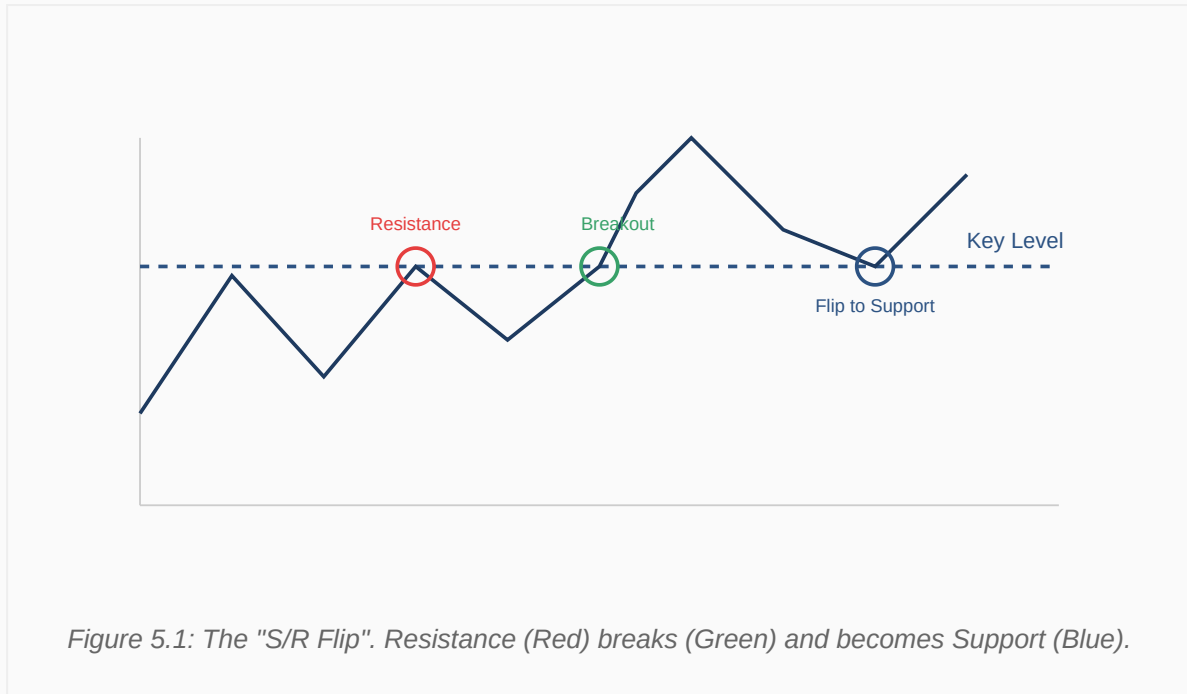
Evening Star (Bearish): Found at tops. 1) Long green candle. 2) Small star. 3) Long red candle dropping down.



Support (Floor): A price level where demand is strong enough to prevent price from falling further. Buyers step in here.

- **Resistance (Ceiling):** A price level where supply is strong enough to prevent price from rising further. Sellers step in here.

- **Role Reversal:** This is a critical concept. When a Resistance level is broken, it often turns into Support. When Support is broken, it becomes Resistance.



Psychological Levels

Humans love round numbers. Prices like \$100, \$50, or 1.2000 in Forex often act as natural support and resistance because traders place their limit orders at these clean, memorable numbers.

Mistake: Treating S/R as Exact Lines

Support and Resistance are *zones*, not razor-thin lines. Price will often overshoot a level by a few points/pips before reversing. Draw them as rectangular boxes, not single lines.

Chart Patterns

Chart patterns are larger geometric shapes formed by price action over time. They help identify periods of consolidation and predict the likely direction of the next move.

1. Head and Shoulders (Reversal)

Structure: A peak (Left Shoulder), a higher peak (Head), and a lower peak (Right Shoulder).

Meaning: The uptrend is exhausted. Buyers failed to make a new high on the right shoulder.

Target: Measure the distance from the Head to the Neckline. Project that distance downwards from the breakdown point.

2. Double Top / Double Bottom (Reversal)

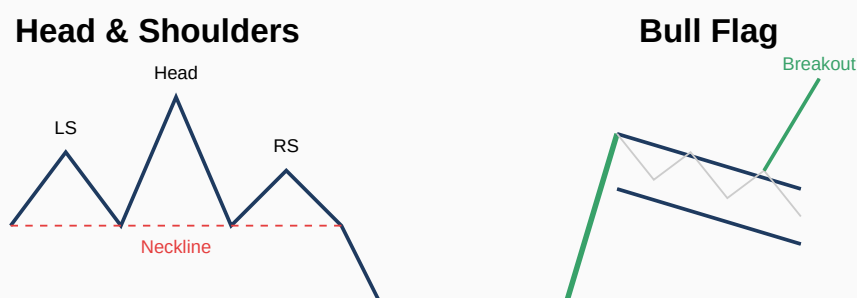
Double Top (M-Shape): Price hits a resistance level twice and fails. Bearish reversal.

Double Bottom (W-Shape): Price hits a support level twice and bounces. Bullish reversal.

3. Bull Flag / Bear Flag (Continuation)

Bull Flag: A sharp price rise (pole) followed by a gentle downward sloping channel (flag). It is a pause before the trend resumes upward.

Bear Flag: A sharp drop followed by a gentle upward sloping channel. A pause before dropping further.



4. Triangles Reliability: High

Triangles are consolidation patterns that show a battle between buyers and sellers with decreasing volatility. They typically break out in the direction of the prior trend.

Ascending Triangle (Bullish)

Structure: Flat resistance at the top, rising support at the bottom.

Psychology: Buyers are becoming more aggressive with each attempt, pushing the lows higher. Eventually, they overwhelm sellers at resistance.

Entry: On the breakout above the flat resistance with volume confirmation.

Descending Triangle (Bearish)

Structure: Flat support at the bottom, falling resistance at the top.

Psychology: Sellers are becoming more aggressive, pushing the highs lower. Eventually, they break through support.

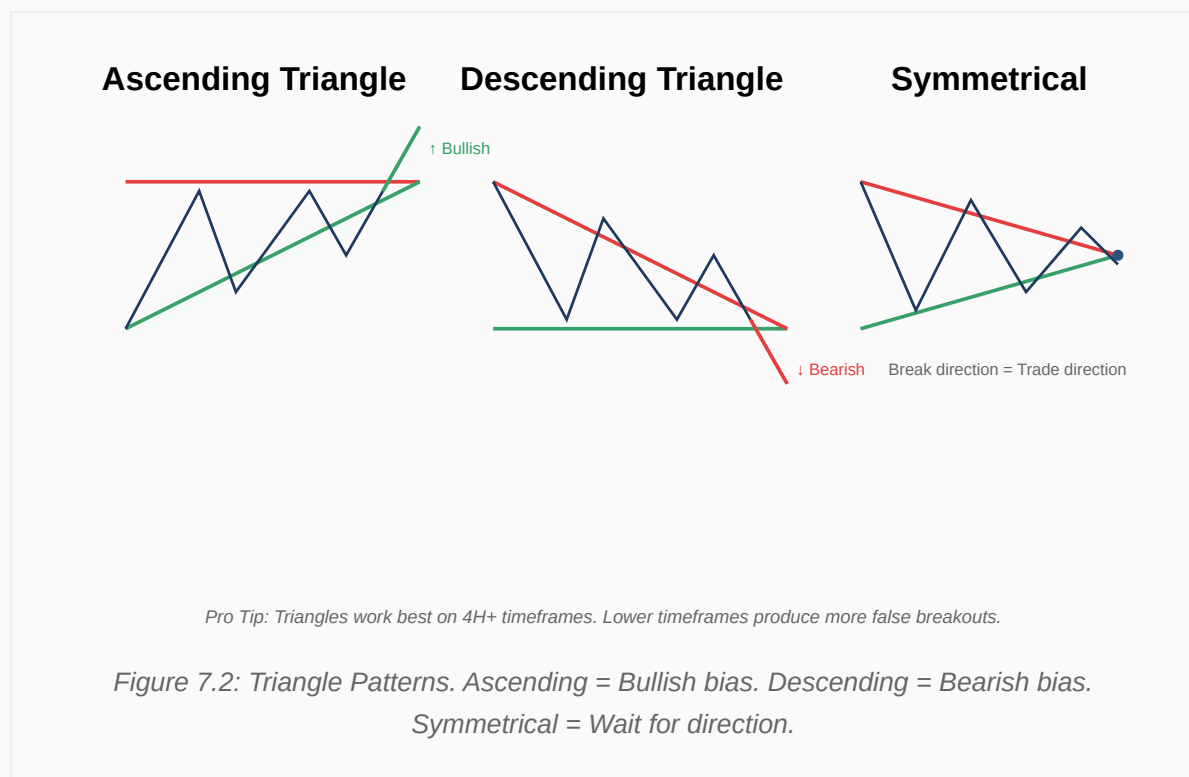
Entry: On the breakdown below the flat support.

Symmetrical Triangle (Neutral - Breaks Either Way)

Structure: Both rising support and falling resistance converge at an apex.

Psychology: Indecision. Neither side has control. The breakout direction determines the trade.

Entry: Wait for a clear break above or below the triangle boundaries with strong volume.



5. Wedges Reliability: Medium-High

Wedges look similar to triangles but have a directional slope (either up or down). Unlike flags, wedges move *against* the prior trend and signal exhaustion.

Rising Wedge (Bearish)

Structure: Both support and resistance are rising, but they converge. Found at the end of uptrends.

Psychology: The uptrend is losing momentum. Each push higher is weaker (lower volume, smaller candles).

Trade: Sell on the breakdown through the lower wedge line. Target is equal to the height of the wedge.

Falling Wedge (Bullish)

Structure: Both support and resistance are falling, but they converge. Found at the end of downtrends.

Psychology: The downtrend is exhausting. Sellers can't push price much lower anymore.

Trade: Buy on the breakout through the upper wedge line.

Wedge vs. Flag: Key Difference

A Flag is a *continuation* pattern that moves against the trend briefly before resuming. A Wedge is a *reversal* pattern that signals the current trend is ending. Wedges also take longer to form (weeks vs. days).

6. Cup and Handle Reliability: High

A bullish continuation pattern commonly found in stock charts (works on Forex and Crypto too, though less common).

Structure: Price forms a rounded bottom (the "cup"), followed by a small consolidation/pullback (the "handle").

Psychology: After a correction, buyers regain control gradually (forming the cup). The handle is the final shakeout of weak hands before the next rally.

Entry: Buy on the breakout above the handle's resistance.

Target: Measure the depth of the cup and project it upward from the breakout point.

Cup and Handle Pattern

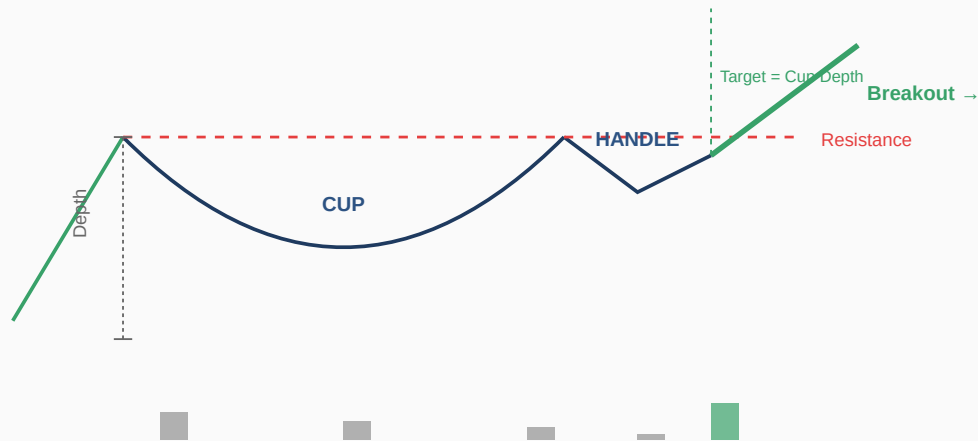


Figure 7.4: Cup and Handle. A classic continuation pattern favored by William O'Neil and CANSLIM traders.

7. Rectangle / Range (Consolidation)

Price moves sideways between clearly defined horizontal support and resistance levels. This represents equilibrium.

Psychology: Neither buyers nor sellers have control. Price is "coiling up" for the next move.

Trade Strategies:

- **Range Trading:** Buy at support, sell at resistance. Works in choppy markets.
- **Breakout Trading:** Wait for a break above resistance or below support. The breakout direction often continues for a distance equal to the height of the rectangle.

The 3 Questions to Ask Every Chart Pattern:

1. **Where in the trend?**
(Beginning, middle, or exhaustion phase?)
2. **What is the volume doing?**
(Increasing = conviction, Decreasing = caution)
3. **Where is the next major S/R level?**
(Your profit target must be realistic)

Traders often "force" patterns onto charts that don't truly exist. A proper Head and Shoulders should have symmetry and clear volume decline on the right shoulder. If you have to squint to see it, it's not there. Trade what you see, not what you *want* to see.

Breakout Trading Strategy

Breakout trading involves entering a trade when price moves outside a defined support or resistance level with increased volume.

The Strategy Rules

1. **Identify the Level:** Find a clear Resistance level that has been tested at least twice.
2. **Wait for Build-up:** Look for price to consolidate tightly just below the level (a "squeeze"). This builds energy.
3. **The Breakout Candle:** Wait for a strong candle to close CLEARLY above the level.
4. **Volume Confirmation:** Volume should be significantly higher on the breakout candle.
5. **Entry:**
 - *Aggressive:* Enter as soon as the candle closes above the level.
 - *Conservative:* Wait for a retest (pullback) to the broken level to confirm it as support.
6. **Stop Loss:** Place below the breakout candle or the recent swing low.

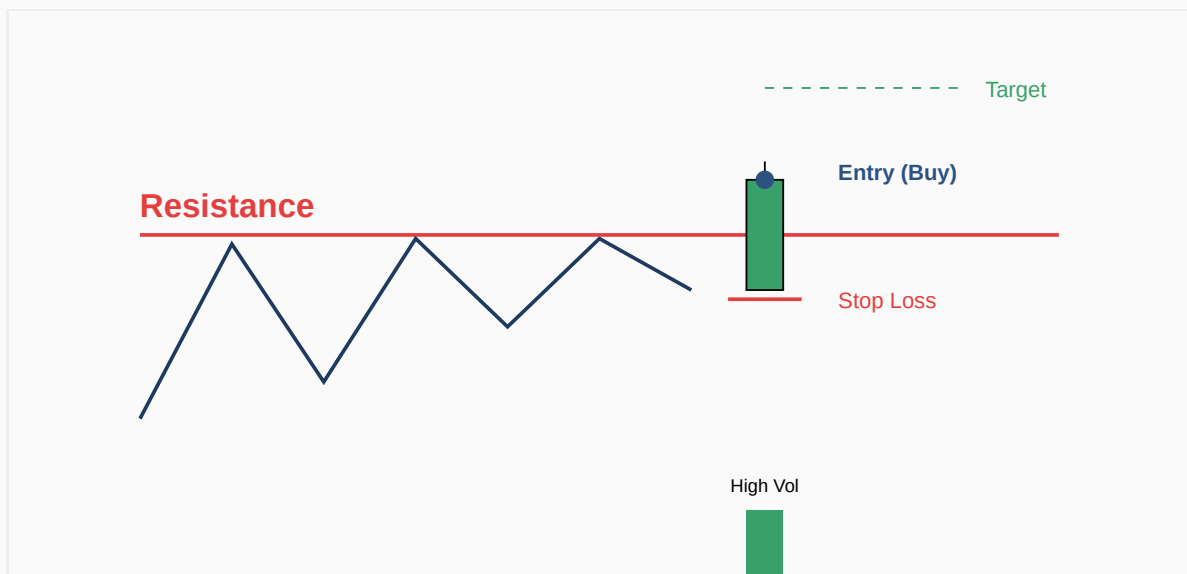


Figure 8.1: Valid Breakout Setup. Note the tight consolidation before the break and the volume spike.

Fakeouts (False Breakouts)

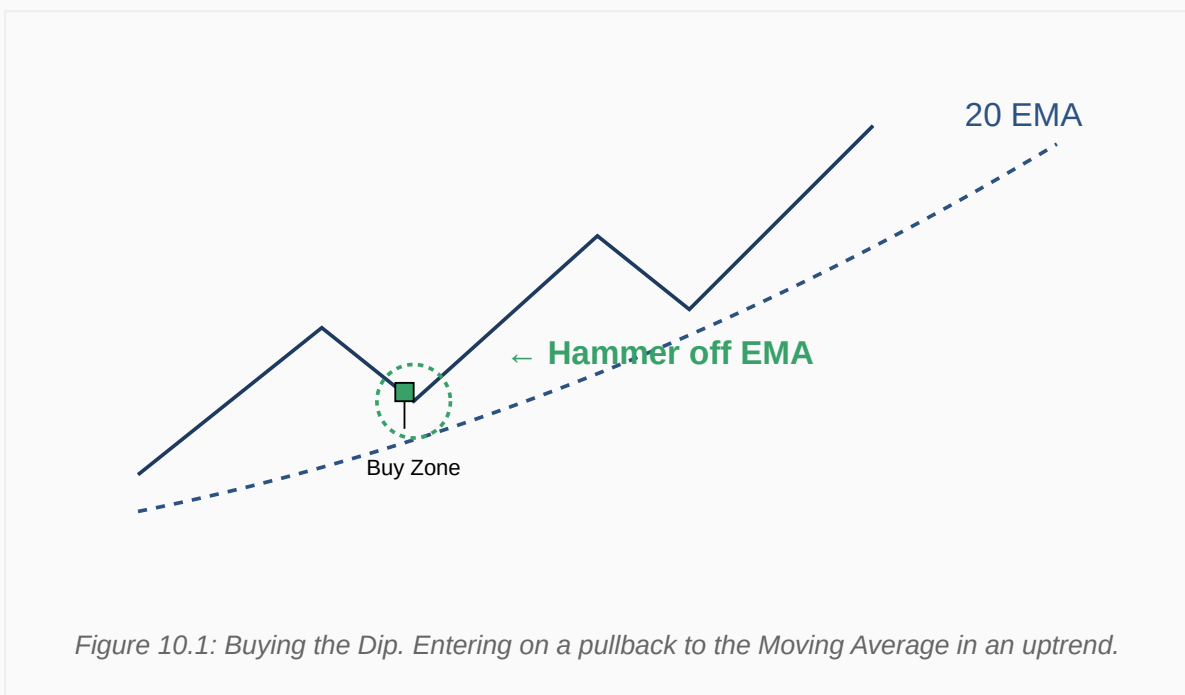
If a breakout happens on low volume, or if the candle leaves a long upper wick, it is likely a trap. Always wait for the candle CLOSE before entering.

Pullback Trading Strategy

"The trend is your friend." The pullback strategy allows you to join an established trend at a favorable price with lower risk.

The Strategy Rules

1. **Identify Trend:** Ensure price is making Higher Highs and Higher Lows (Uptrend).
2. **Wait for Pullback:** Price drops down to a "value area." This could be:
 - A Moving Average (e.g., 20 EMA)
 - A previous resistance turned support
 - A Fibonacci level (50% or 61.8%)
3. **Trigger Signal:** Look for a reversal candlestick pattern at this zone (e.g., Hammer, Bullish Engulfing).
4. **Entry:** On the break of the reversal candle's high.
5. **Stop Loss:** Below the swing low.



Risk Management for Pattern Trading

Patterns fail. Even the best "textbook" setup has a failure rate of 30-40%. Risk management is what keeps you in the game when a pattern doesn't work out.

Position Sizing

Never risk more than 1-2% of your account on a single pattern trade.

Formula: Position Size = (Account Risk \$) / (Stop Loss Distance \$)

Stop Loss Placement

- **For Reversals (Pin Bars/Engulfing):** Place stop just beyond the wick of the signal candle.
- **For Breakouts:** Place stop below the breakout candle or back inside the range.
- **For Patterns (Head & Shoulders):** Place stop above the Right Shoulder.

Risk/Reward (R:R)

Only take trades that offer at least a 1:2 Risk/Reward ratio. If your stop loss is \$50 wide, your target must be at least \$100 away before the next major resistance level.

Conclusion: Your Path Forward

You now possess the foundational tools to read the market's language. You know how to interpret single candlesticks, identify complex patterns, and execute three distinct strategies (Breakout, Bounce, Pullback).

However, knowledge without execution is useless.

Your Action Plan

1. **Chart Time:** Open a demo account. Spend 2 weeks JUST identifying patterns without trading. Draw Support/Resistance levels and see how price reacts.
2. **Pick ONE Strategy:** Do not try to master Breakouts, Pullbacks, and Reversals all at once. Choose one (e.g., Pullbacks) and trade ONLY that setup for 20 trades.
3. **Log Everything:** Take a screenshot of every trade. Did the pattern look like the ones in this book? Was the volume there? Did you follow your stop loss rules?

Trading is simple, but not easy. The patterns repeat every day, on every timeframe. The variable is YOU. Stay disciplined, manage your risk, and trust the price action.

Final Word

"Do not trade what you think should happen. Trade what the chart is telling you is happening."

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Professional Trading Education