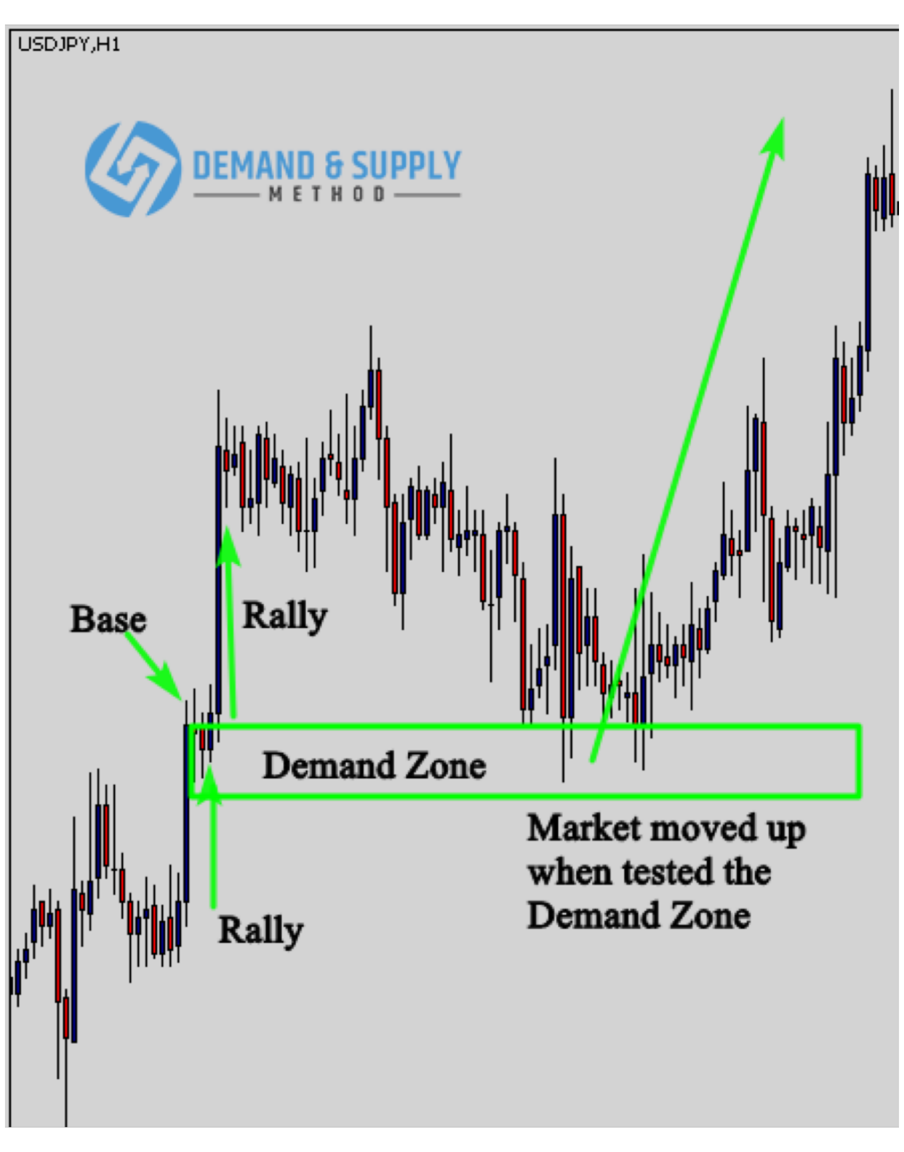
The Rally-Base-Rally pattern

LESSON 12 MODULE 3

The second continuation pattern that forms in an uptrend called, Rally-Base-Rally, this means a move up followed by a short accumulation phase followed by a move up. See the example below:

As you can see in the USD JPY 1H chart above, the market moved up strongly, and paused for a short period of time before making another move up. When price retraces to test this zone, it will find strong rejection because there are limit orders of other banks in this zone.

The rejection of price indicates that the zone is very powerful and it attracts other financial institutions to enter and buy the market. Look at the whole picture below to understand how powerful this zone is.



The chart above is the same USD JPY H1 chart we discussed before. Let me explain to you what happened in the chart and how this Rally-Base-Rally demand zone was created. Before the first rally, we had bank traders placing long trades in the consolidation. When the banks buy orders consumed the retail traders sell orders the market rallies higher.

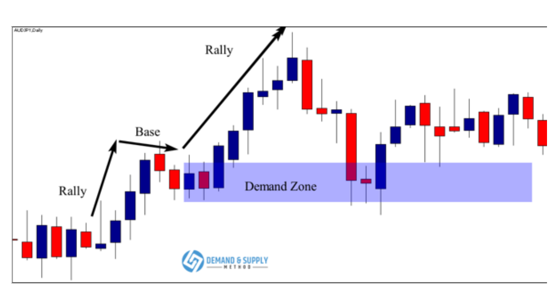
Now the bank traders are in profitable trades, the next thing they will want to do is secure some of their profits. When they decide to do this, they consume all of the buy orders coming into the market from retail traders who have begun entering long trades due to size of the rally.

The consumption of buy orders means the market makes a small move lower, this creates the base, which the demand zones eventually forms off. The move lower causes a large number of retail traders who went long on the rally higher to close their trades at a loss which puts a lot of sell orders into the market.

In addition to this, there will be small number of retail traders who think the move down is a trend reversal meaning they will place sell trades with the expectation that the market is going to move lower.

With two sets of retail traders putting the same type of orders in the market (sell orders) the bank begins buying again knowing they will make the market move higher, and in the process cause anybody who sold on the move lower to close their trades at a loss which ends up being the bank traders profits. But during the buying process, the bank will not find enough sellers and it can't buy all the quantities, so it will leave significant limit orders in the same level which is a demand zone, and when the market returns to test it, prices will be rejected. And that's what happened in the chart above. Look at another chart example :

This is the USD CAD Daily chart, and as you can see the market was trending up forming a Rally-Base-Rally Demand zone. The base was not a retracement, there was only a small pause before another move up. When the market retraced to test the zone, we got a nice failed pin bar that can be used as an entry signal. Look at another example below:



This is the AUD JPY Daily chart, and this is another Rally-Base-Rally Demand zone pattern. A rally is a move up followed by a small pause and then another move up. Don't bother yourself with trying to understand how this pattern was created, what matters most is your ability to identify it on your chart, because this pattern occurs frequently in the market.

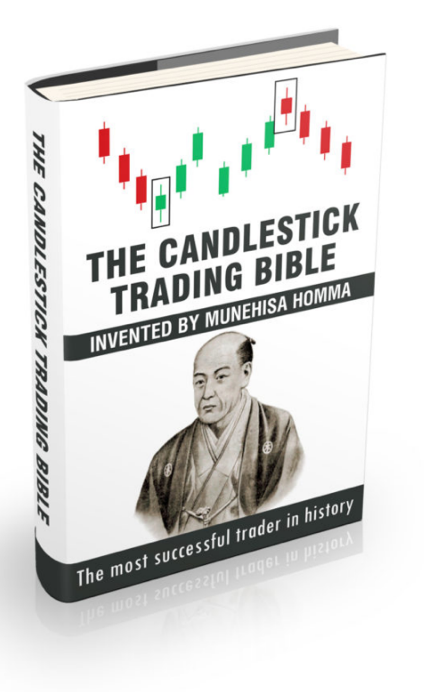
Don't worry if you think that things are not clear yet, what I want you to understand in this lesson is that banks monopolize financial markets and when they enter the market, they leave their footprints.

To identify where banks are selling and buying you should master these patterns, because they buy or sell from either a Valley or a Peak pattern that are composed of a Drop-Base-Rally which is a move down followed by a retracement and a move up. Or A Rally-Base Drop Which is a move up followed by a retracement followed by a move down.

In a strong trending market, they form a continuation pattern that is composed of a rally-Base-Rally in an uptrend which is a move up followed by a pause and then another move up. Or a Drop-Base-Drop which is a move down followed by a pause and then another move down

Don't try to know how to enter the market right now, focus only on the patterns, because if you can identify the patterns, you have already done 50% of the work. Now you should do your homework, open your charts and try to identify these patterns, this exercise will help you train your eyes to find these patterns easily on your charts.

Ps: If you are a complete beginner and you want to learn more about price action, i highly recommend you my best seller ebook below :



Click on here or on the ebook cover if you want to get your copy