

The Drop-Base-Rally pattern

LESSON 9 MODULE 3

Supply and demand zones form and come in different shapes, this is the reason why you have to know the different types of supply and demand to be able to identify them easily.

In general, there are two types of supply and demand, the first type is Valley and Peaks and the second one is the continuation pattern.

Valley and Peaks are composed of these formations:

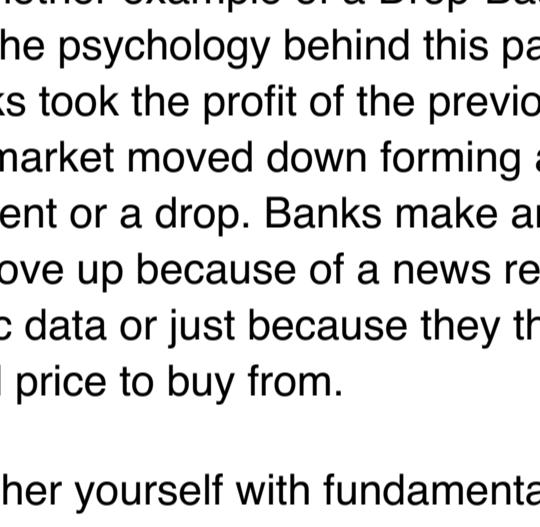
1-Drop-Base-Rally or Drop-Rally? Look at the example below :



This is an example of a Valley, the Drop-base-rally means a move down followed by a pause and then a move up.

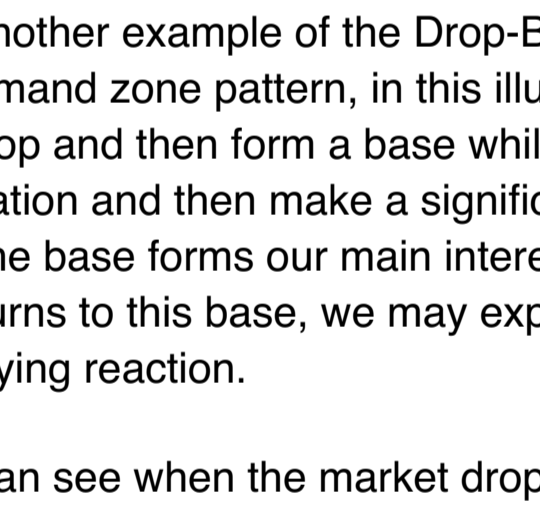
The drop is a small move that indicates a week momentum, and the base is where the market consolidates to accumulate enough quantities and then go up. When the market returns to the base, which is considered to be a demand zone, there is a high probability that the market will go up again.

Now let's look at a real chart example to learn more about this pattern:



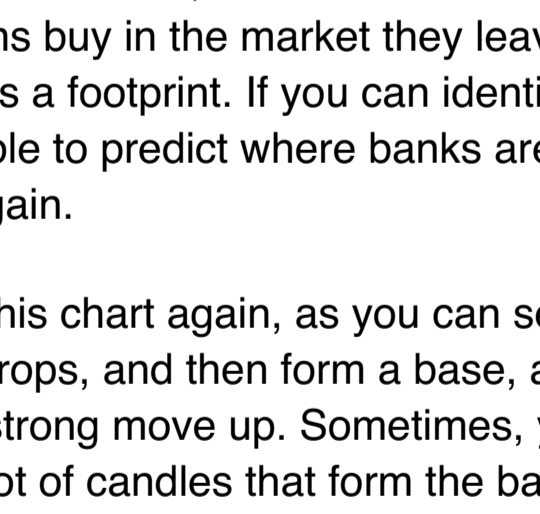
As you can see in the chart above, the market made a short retracement (Drop) before going strongly up, creating a Drop-Base-Rally pattern which is a high probability Demand zone.

In the same chart there is another Drop-Base-Rally pattern that I didn't mention because it is a weak pattern, I picked up only the most powerful one. So, don't get confused because the purpose of this part is to help you identify this pattern when you open your chart. It doesn't matter if it is a high probability pattern or not, because in the next parts I will show you in detail how to differentiate between powerful zones and weak zones that you should ignore. See another Example :



This is another example of a Drop-Base-Rally pattern, the psychology behind this pattern is that banks took the profit of the previous move, and the market moved down forming a retracement or a drop. Banks make another strong move up because of a news release, an economic data or just because they think this is a good price to buy from.

Don't bother yourself with fundamentals trying to understand the reason behind this move, all what you should focus on is the pattern. Because when you identify the pattern, you know exactly that there is a bank that bought from this zone. And all you have to do is to wait for the market to retrace and test this zone, then you take a buy order as well to make money with banks and financial institutions. Look at another example below:



This is another example of the Drop-Base-Rally Demand zone pattern, in this illustration prices drop and then form a base while in consolidation and then make a significant up move. The base forms our main interest, when price returns to this base, we may expect some buying reaction.

As you can see when the market dropped back down to the base which is considered as a demand zone, prices moved up again because there are still significant unfilled orders in this zone. Look at another example below :



The EUR CHF H1 above shows a clear Drop-Base-Rally demand pattern, this pattern happens frequently in all financial markets, and all time frames, because when financial institutions buy in the market they leave this pattern as a footprint. If you can identify it, you will be able to predict where banks are going to buy again.

Look at this chart again, as you can see, the market drops, and then form a base, and then make a strong move up. Sometimes, you will not find lot of candles that form the base. One candle is quite enough to form the base. And this candle can be used as a basing candle to draw the zone, we will talk about how to draw the zone in next lessons.

Now look at what happened when the market returned to test the demand zone, as you can see prices were rejected forming a nice Doji candlestick pattern. And this rejection indicates that there are significant unfilled orders in the zone. so as a supply and demand trader, you can use this candlestick pattern as an entry signal to buy the market. We will learn about entry and exit tactics in the next lessons. Take a look at another example below :



This is another example of the Drop-Base-Rally demand zone. As you can see the base is formed only by one candle. When the market returned to test the demand zone, we got a nice inside bar pattern as a signal to enter the market. But as I always say, don't think of how to enter the market or how to know if it is really a bank order or not, this is not important for the moment, because I will explain to you how to enter the market and how to make sure this is a bank order. Now ,I want you please to focus on the Drop-Base-Rally pattern. Open your charts and try to look for these patterns in the market. You should master them, otherwise you will have a difficult time trying to understand the whole strategy.