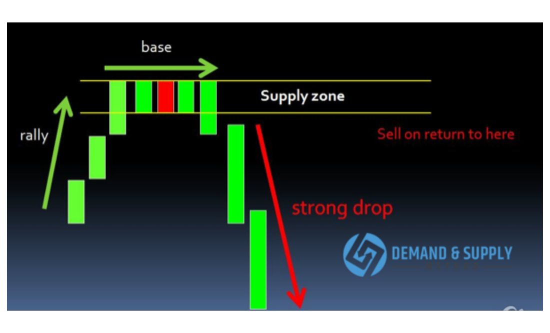
The Rally-Base-Drop pattern

LESSON 10 MODULE 3

In this lesson, you are going to learn about the Rally-Base- Drop pattern which is the opposite version of the Drop-Base-Rally.look at the illustration below :

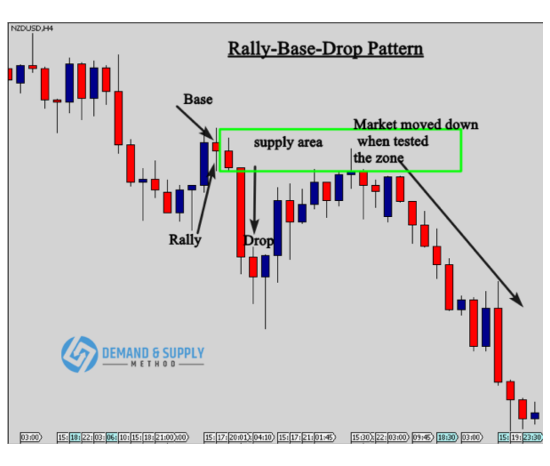


The example above shows a Rally-Base-Drop pattern which means a short move up followed by a short accumulation phase and then a move down. The base area is considered to be the supply zone, because the bank that sold the market, still has some quantities in the same zone. And this price is very attractive for other banks and financial institutions. When the market returns to test this zone, there is a high probability that the market goes down. Look at a real a chart example below:

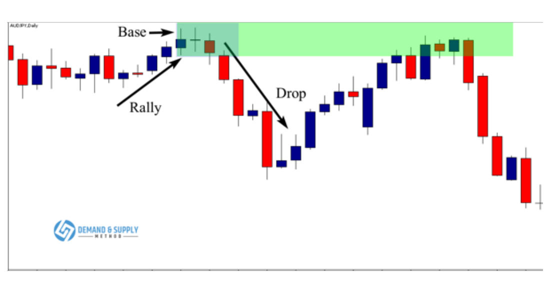
This is the AUD USD 4H chart. As you can see the market made a Rally which is a retracement after the previous down move. This Rally or retracement was created after that banks took their profit.

The second move down was made after a short accumulation period (look at the Doji candle which represents a consolidation period) followed by a strong move down,after that,a bank decided to sell the market. This is how a Rally-Base-Drop pattern is created.

When the market retraces to test this zone, price will be rejected as you can see in the chart. Long candle tails represent rejection from this level, because the bank that bought from this zone still has quantities as limit orders. Look another example below :



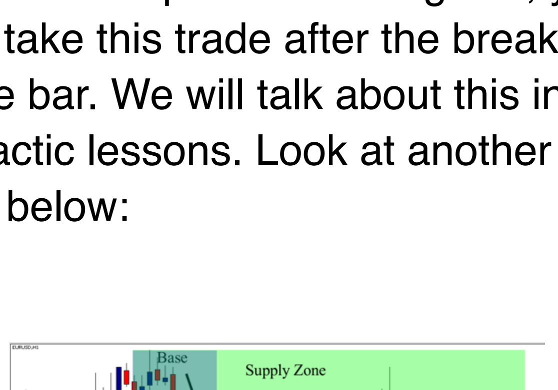
The same thing happened on the NZD USD 4H chart. The market was trending down, after the previous move down, the market made a short retracement (Rally), and then formed a Doji candle which indicates a pause in the market (Base). Then the market moved strongly down to form a Rally-Base-Drop pattern. This pattern tells us that there is a bank that bought from this zone, and when the market retraces to test it, price will be rejected and the market will move down. And that's what happened. Look at another example below:



In this AUD JPY daily chart, I've labeled an easy rally-base-drop supply zone where the market moved up for a few candles, sideways for a couple, followed by a sharp drop. This pattern is considered as a reversal pattern when it occurs at the end of a move up.

Look at what happened when the market returned to test the zone, as you can see, the market stopped moving up forming a nice inside bar pattern, and as we know, inside bars means indecision or consolidation. So after the breakout of the inside bar, the market moved down strongly.

If you are used to trade this pattern in combination with price action signals, you will certainly take this trade after the breakout of the inside bar. We will talk about this in the trading tactic lessons. Look at another example below:



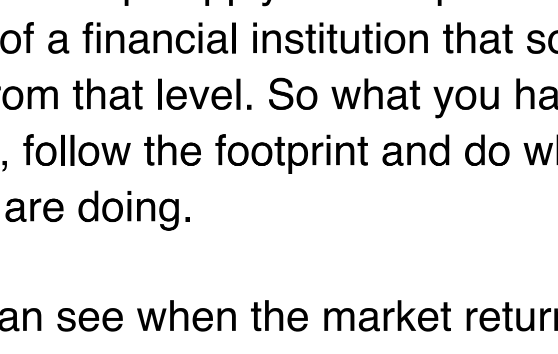
The previous example was on the daily chart, and this illustration is on the hourly chart, I try to give you different examples from different time frames, because these patterns occur in all time frames, and all financial markets.

Now, look at this EUR USD H1 chart above, the market was trending up, forming a rally which indicates a move up. It was followed by a small consolidation or a base, and then a very strong move down which is the drop. This Rally-Base-Drop supply zone represents a footprint of a financial institution that sold the market from that level. So what you have to do is simple, follow the footprint and what the big boys are doing.

As you can see when the market returned to test the supply zone, prices were rejected, and the market went down strongly.

With screen time and practice, you will notice that when the market tests the zone, there are two possibilities:

Either price goes strongly down, because the quantities left in the zone are quite enough to drop the market down. Or the market will still need time to accumulate enough quantities, so we can see few candles that form an accumulation phase before the strong move down. Look at another example:



As you can see in the EUR JPY daily chart, this is another Rally-Base-Drop Supply zone that was formed in this market. Sometimes the base or the consolidation is not necessarily formed by multiple candles, as you can see in this example, the market moved up (rally) and then moved down strongly (drop). So the base was formed only by one candle, and this happens frequently in the market. So if you find patterns like these where the market rallies and drops surprisingly, these setups are still considered a rally-base-drop.