



The Drop-Base-Drop pattern

LESSON 11 MODULE 3 2- Continuation Patterns

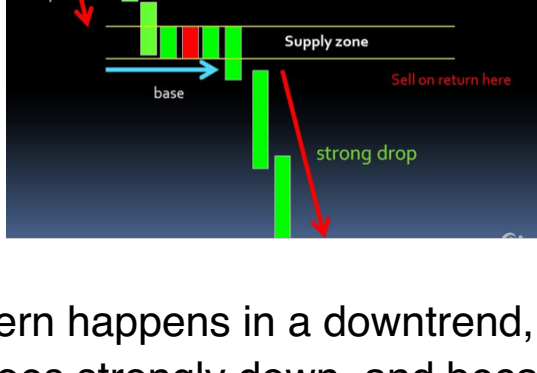
A continuation pattern is a pause in the market before price resumes in a current trend. In an uptrend it requires a Rally followed by a Base followed by another Rally. A continuation pattern in a downtrend requires a drop followed by a base followed by another drop.

A continuation pattern is composed of these formations:

Rally-Base-Rally

Drop-Base-Drop

In the continuation pattern, the market doesn't retrace, it pauses and enters in an accumulation phase before moving strongly in the same direction. Look at an example below of a Drop-Base-Drop



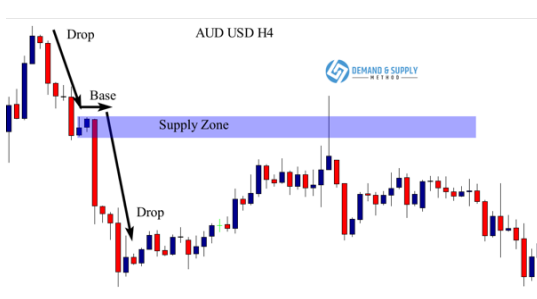
This pattern happens in a downtrend, the market goes strongly down, and because of the lack of quantities, it accumulates for a short period of time to get enough quantities before moving strongly down again. See a real chart example below:



The AUD USD 1H chart above shows a clear Drop-Base-Drop Continuation pattern, as you can see there is no retracement, the price pauses only for a short period of time before moving down strongly again. When the market retraced back to test the zone, the price was rejected from this area. Both pin bars rejected from this zone represent a clear confirmation to enter the market. Look at another example below:



This is the GBP JPY H1 chart above. As you can see the market was trending down forming this drop-base-drop continuation pattern, when the market returned to test the zone, prices were rejected forming this nice pin bar signal. If you are used to use pin bars as entry signals, you will understand that this price action pattern is a confirmation to short the market. Look at another example below:



This is another example of a drop-base-drop supply zone, this continuation patterns occurs frequently during downtrend markets, look at what happened when the market retraced back to test the supply zone. As you can see, the market was clearly rejected.

The formation of this clear pin bar at the supply zone indicates that there are significant limit orders left in the zone. So as a price action trader, you can enter immediately after the close of the pin bar, your stop loss is above the pin bar's shadow and your profit target is the next support level. We will talk about this in the trading tactic lessons, for now I want you to focus on learning how to identify this pattern.