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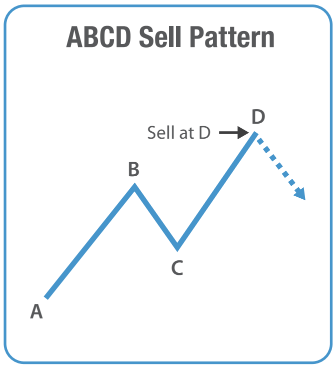
The Bearish ABCD Pattern



What is it?

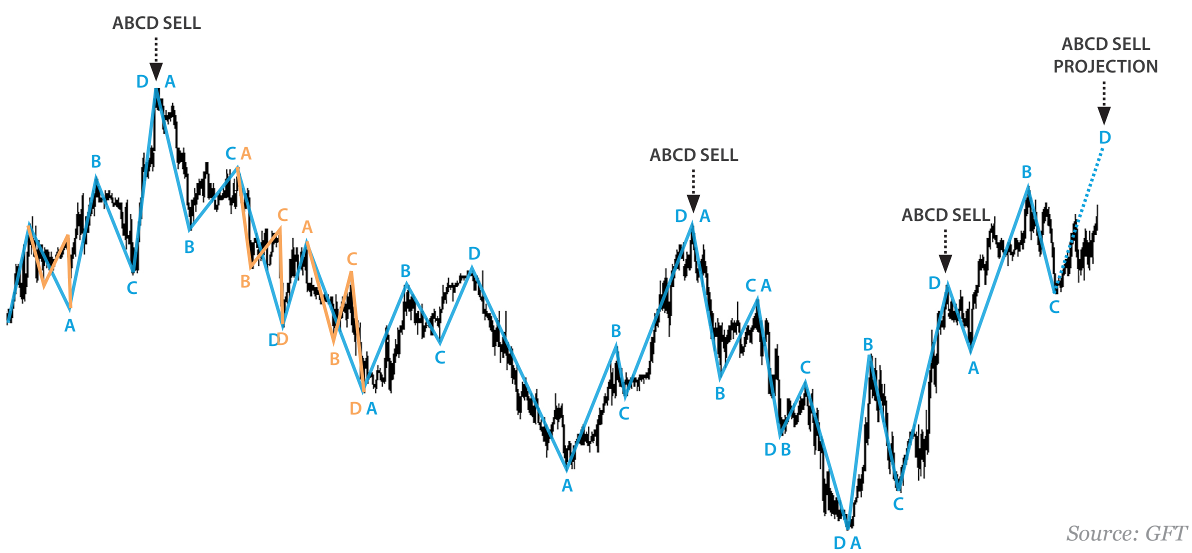
- A leading indicator that may help determine where and when to enter a short (sell) position or exit a long (buy) position
- A visual, geometric price/time pattern comprised of three consecutive price swings, or trends—it resembles a lightning bolt on price chart
- Reflects the common, rhythmic style in which the market often moves

Why is it important?

- Helps identify selling opportunities in nearly any market for almost any timeframe (intraday, swing, position)
- Serves as a basis for all other bearish Fibonacci patterns
- Highest-probability trade entry may be at the completion of the pattern (potential sell point D)
  – Retracement followed by an extension suggests a higher probability for another retracement to occur
- Helps to determine risk vs. reward prior to placing a trade
- May provide a stronger trade signal when it converges with other patterns — within the same timeframe or across multiple timeframes

Sounds good … So how do I find it?

Each turning point (A, B, C, and D) represents a significant high or significant low on a price chart. These points define three consecutive price swings (trends) which make up each of the three pattern "legs." These are referred to as the AB leg, the BC leg, and the CD leg.



Trading is not an exact science, so really there are three different types of ABCD sell patterns. There are key Fibonacci ratio relationships to look for in the proportions between AB and CD, offering an approximate range of where and when the ABCD pattern may complete. This is why converging patterns help increase probabilities and allow traders to more accurately determine entries and exits.

The Bearish ABCD Pattern (cont'd)

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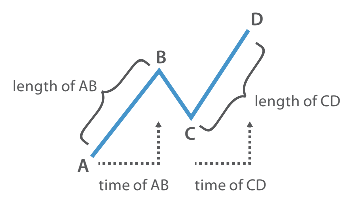
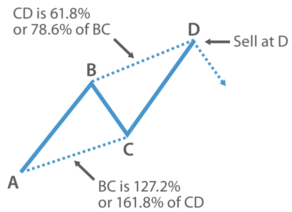
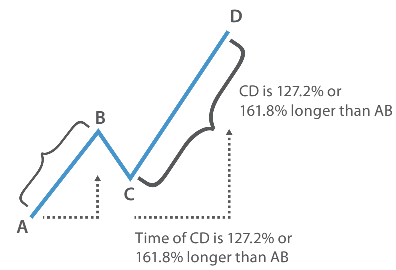
AB=CD



"Classic" ABCD



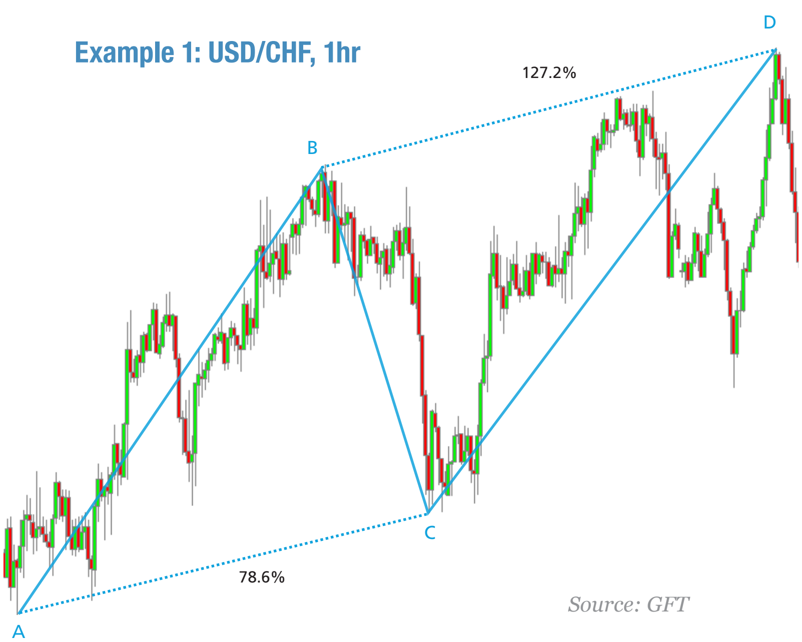
ABCD Extension



Bearish ABCD Pattern Rules

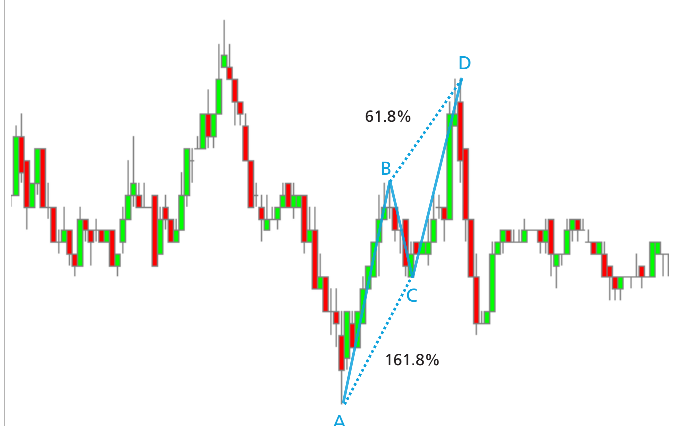
1. Point A is a significant low, and point B is a significant high. In the move from A to B there can be no lows below point A, and no highs above point B
2. Point C must be above point A. In the move from B to C there can be no highs above point B, and no lows below point C
   - Ideally, point C will be 61.8% or 78.6% of AB. ("Classic" ABCD pattern)
   - In strongly trending markets, BC may only be 38.2% or 50% of AB
3. Point D must be above point B. In the move from C to D there can be no lows below point C, and no highs above point D.
   - CD may equal AB. (AB=CD pattern)
   - CD may be 127.2% or 161.8% of BC ("Classic" ABCD pattern)
   - CD may be 127.2% or 161.8% of AB (ABCD Extension pattern)
4. There may be additional confirmation when the time of CD is in ratio and proportion to AB
   - CD may be equal to AB in time, or between 61.8%-161.8% of the amount of time it took the AB leg to complete
5. Watch for price gaps and/or wide-ranging bars in the CD leg, especially as market approaches point D
   - These may be signs of a potential strongly trending market. In this case, expect to see 127.2% or 161.8% price extensions of AB in determining CD completion

Example 1: USD/CHF, 1hr



Source: GFT

Example 2: USD/JPY, 2min



Source: GFT