

Module 2- Chapter 3- Three White Soldiers

The Three White Soldiers pattern is a bullish candlestick formation that indicates a strong reversal in the market from a bearish to a bullish trend. It typically forms after a period of downtrend or price consolidation and suggests a powerful change in sentiment among traders, pointing towards a sustained upward movement.

What The Pattern Looks Like

The Three White Soldiers pattern comprises three distinct candles:

First Candle: This is a relatively long bullish (green) candle. It appears after a downtrend, marking a sharp rise in price from the opening to the close.

Second Candle: The second candle is also a bullish one and should ideally open within the body of the first candle. It's crucial that this candle closes higher than the first, further continuing the upward trend.

Third Candle: Like its predecessors, the third candle is bullish and opens within the body of the second candle. It should

close higher than the second candle, solidifying the reversal trend.

For the pattern to be considered a genuine Three White Soldiers formation, all three candles should have relatively small or nonexistent lower wicks. This indicates that the market consistently closed near its high during the formation of the pattern.

Pattern Psychology

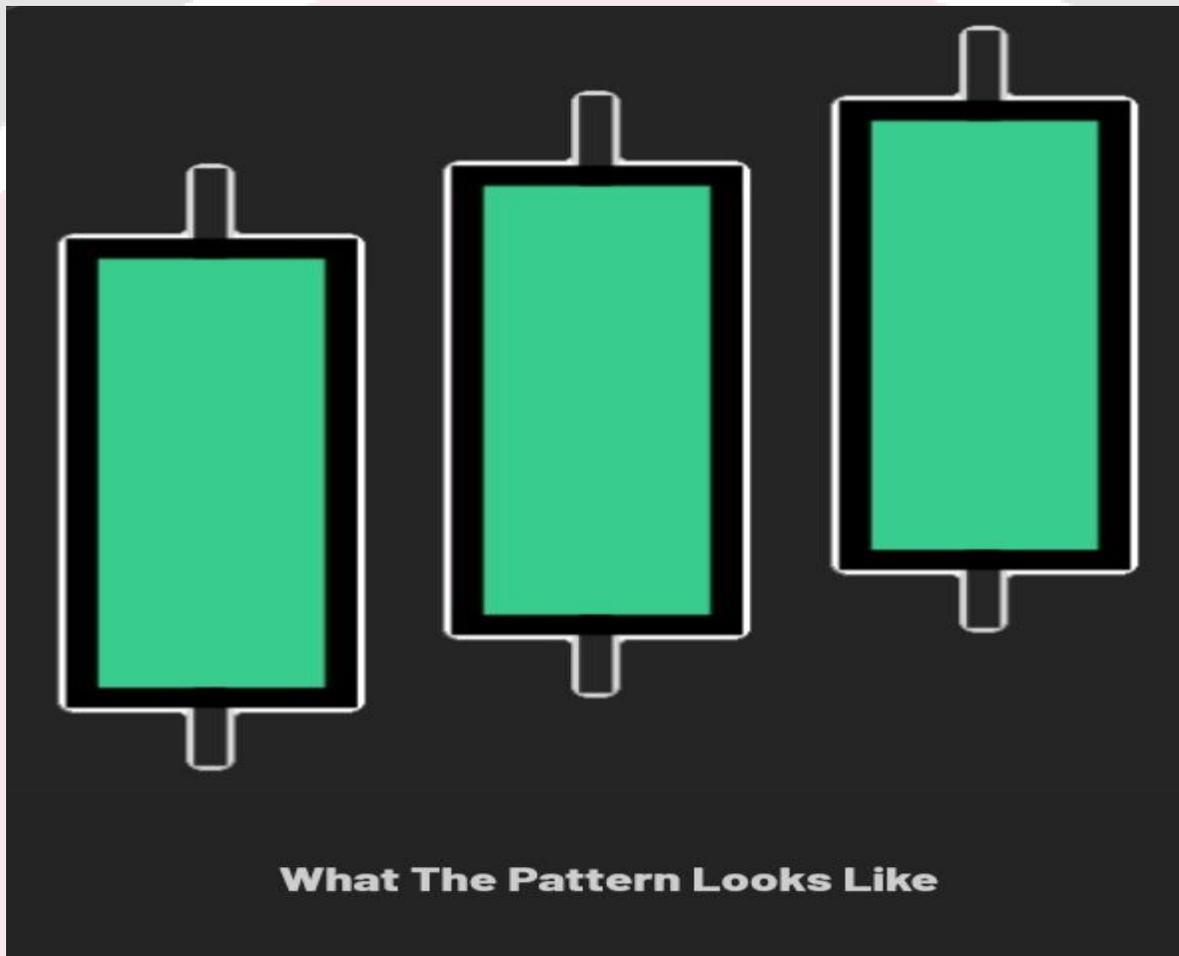
The market psychology underpinning the Three White Soldiers pattern is as follows:

- 1) **End of Bear Dominance:** Prior to the formation of the Three White Soldiers, the market is typically in a downtrend or consolidation phase. Bears are dominant, or there's a lack of clear sentiment.
- 2) **Strong Bullish Momentum:** The appearance of the first long bullish candle signals a sudden and strong buying interest. This may be due to unexpected positive news, favorable market conditions, or other factors that significantly shift the sentiment.
- 3) **Consistent Buying Pressure:** The subsequent two candles reflect continued buying pressure. The fact that

each candle consistently closes near its high (with small lower wicks) indicates that bulls are in control throughout the trading day and that bears are failing to push the price down.

- 4) **Change in Market Sentiment:** The culmination of the three candles showcases a robust shift from a bearish or neutral sentiment to a decidedly bullish one. The market, at this point, expects the upward trend to continue.
- 5) **Potential for Further Gains:** While the Three White Soldiers is a strong bullish signal, traders often look for further confirmation to ensure the trend's strength. A continuation pattern or other bullish indicators following the Three White Soldiers can add to the confidence of an ongoing bullish phase.

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In summary, the Three White Soldiers candlestick pattern is an indispensable tool for traders looking to spot significant bullish reversals. The pattern's strength lies in its visual representation of the transition from bearish or flat market sentiment to a compelling bullish momentum. As always, traders should use this pattern in conjunction with other tools and indicators to enhance the robustness of their trading decisions.

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