

Module 3 – Chapter 3 – Hanging Man

The Hanging Man is a bearish candlestick pattern that often signals a potential top or resistance level in the market, particularly when it emerges after an uptrend. Its name, suggestive of its appearance, denotes the potential downfall or "hanging" of bullish sentiment.

What The Pattern Looks Like

The Hanging Man is defined by a single candle with these characteristics:

- 1) **Small Upper Body:** The body, whether bullish (green) or bearish (red), should be located in the upper part of the candlestick. However, a bearish body is seen as a stronger signal.
- 2) **Long Lower Shadow:** The hallmark of the Hanging Man is its long lower shadow (wick), which should be at least twice the length of the body.
- 3) **Little to No Upper Shadow:** Ideally, the Hanging Man should not have an upper shadow, but if present, it should be very short.

- 4) **Location:** For it to be a valid Hanging Man pattern, it should appear after a noticeable uptrend or bullish movement.

Pattern Psychology

Breaking down the psychological undertones of the Hanging Man:

1) Uptrend's Climax: The formation of the Hanging Man at the end of an uptrend suggests that the bullish rally might be nearing its pinnacle.

2) Initial Bullishness: The trading session commences with the bulls pushing the price upwards, continuing the prevailing uptrend.

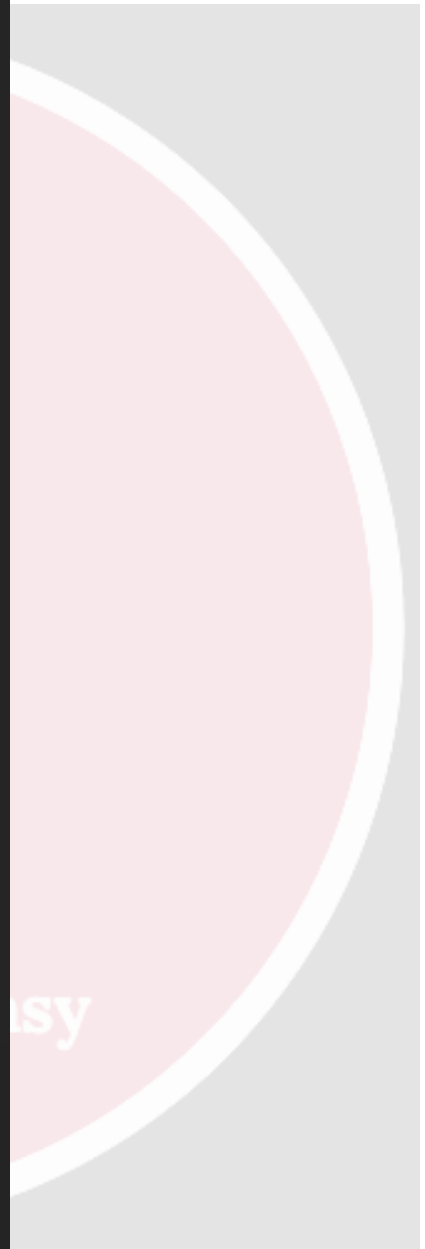
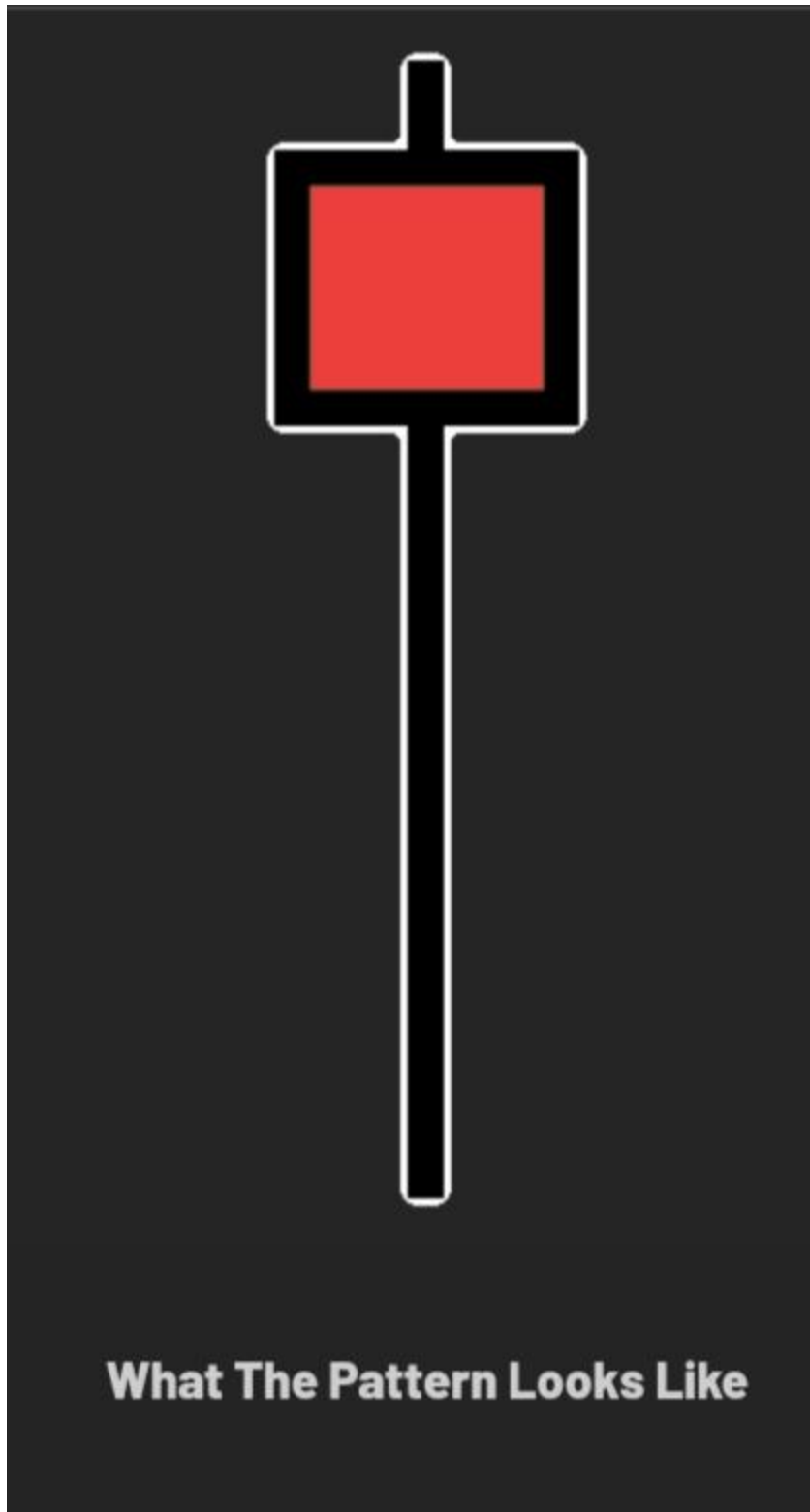
3) Bears Intervene: As the session progresses, sellers step in, pulling the prices down significantly. This intense sell-off is manifested in the long lower shadow. However, the bulls manage to push the price back up, but not entirely to the session's high, hence the small body at the top.

4) Uncertainty and Reversal Indication: The appearance of the Hanging Man after an uptrend indicates a possible shift in momentum. The pattern reflects uncertainty in the market, as

bulls fail to sustain higher prices, leading to a potential turning point in sentiment.

5) **Confirmation Is Key:** While the Hanging Man is a bearish signal, traders often look for additional confirmation before making decisions. This could be in the form of another bearish candle following the Hanging Man or other corroborating technical indicators.





In conclusion, the Hanging Man pattern offers traders a visual cue of potential market tops and the impending weakening of bullish momentum. Its distinctive appearance underscores the tussle between bulls and bears within a trading session, with bears hinting at a takeover. Nevertheless, as with all technical patterns, it's imperative to analyze the Hanging Man in conjunction with other signals and within its broader market context for nuanced and informed trading strategies.



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