

Module 3 – Chapter 7 – Three Inside Down

The Three Inside Down is a bearish reversal candlestick pattern, indicating a potential shift from an existing uptrend to a new downtrend. This pattern suggests that selling pressure is mounting, marking a likely end to a prior bullish phase and signaling a transition towards a bearish sentiment in the market.

What The Pattern Looks Like

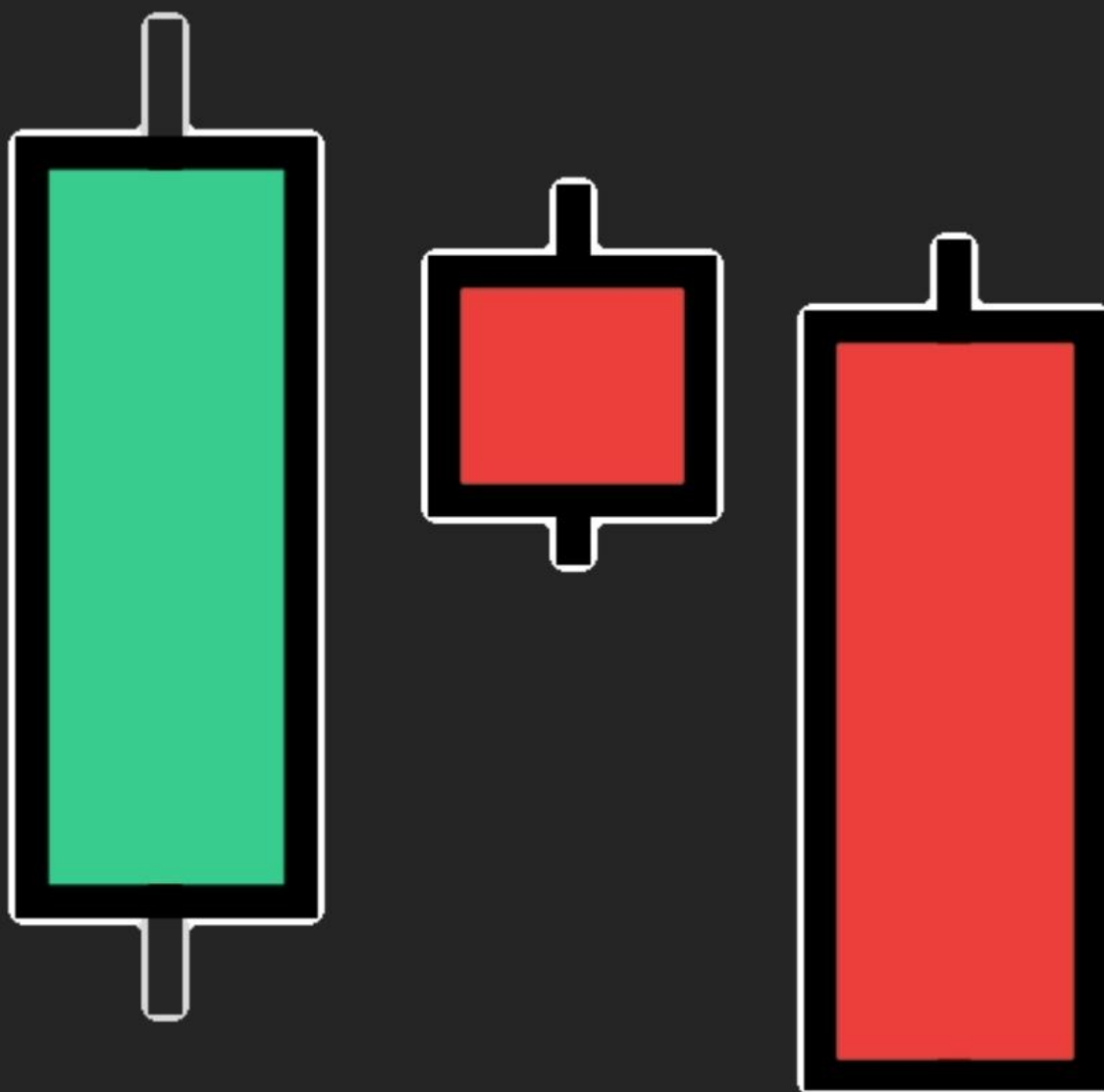
The Three Inside Down pattern is formed by a sequence of three candles:

- 1) **First Candle:** A long bullish (green) candle, indicative of the continuation of the preceding uptrend.
- 2) **Second Candle:** A bearish (red) candle that forms within the range of the first candle. This candle closes lower than its open but doesn't dip below the close of the first candle. Essentially, this forms a bearish pattern when combined with the initial bullish candle.
- 3) **Third Candle:** Another bearish candle that closes beneath the low of the first candle, thus solidifying the reversal indication.

Pattern Psychology

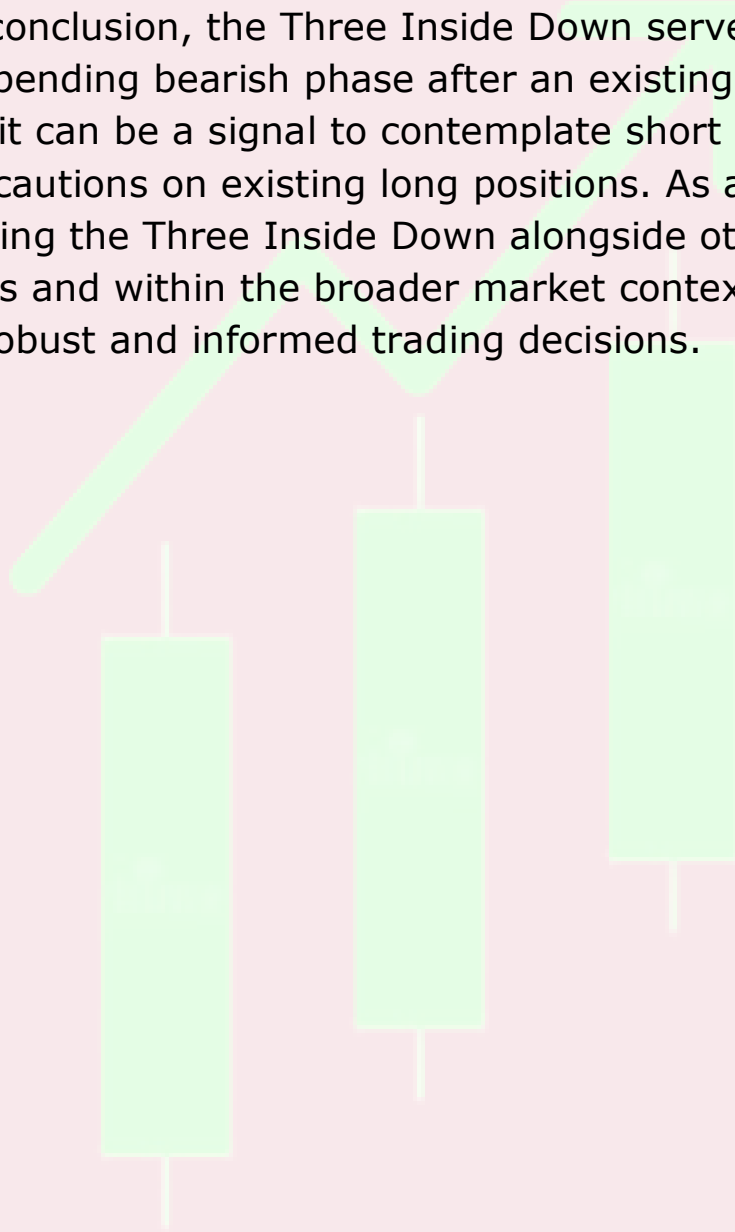
To grasp the mentality driving the Three Inside Down pattern:

- 1) **Initial Optimism:** The bullish candle that begins the sequence suggests that buyers are still active and are steering the market in an upward direction.
- 2) **Emergence of Uncertainty:** The subsequent bearish candle, contained within the boundaries of the initial candle, implies a waning bullish sentiment. The sellers are starting to gather momentum, introducing doubt into the previously dominant bullish trend.
- 3) **Bearish Affirmation:** The third bearish candle, closing below the low of the first, is a forceful move signaling that sellers have wrested control from the bulls. This culmination indicates that a bearish reversal is likely underway.
- 4) **Pattern Significance:** The Three Inside Down portrays the power dynamics shift from bulls to bears. Initially, the bullish sentiment appears to prevail, but the consecutive candles unveil a growing and then confirmed bearish dominance.



What The Pattern Looks Like

In conclusion, the Three Inside Down serves as a strong hint of an impending bearish phase after an existing uptrend. For traders, it can be a signal to contemplate short positions or to take precautions on existing long positions. As always, interpreting the Three Inside Down alongside other technical indicators and within the broader market context is crucial to ensure robust and informed trading decisions.



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