Module 3 – Chapter 12 – Falling Window

The Falling Window, also known as the "Gap Down" in Western technical analysis, is a bearish candlestick pattern signaling a potential continuation of the current downtrend. This pattern is characterized by a gap between the low of one session and the high of the following session, with no overlap in prices. The presence of this window or gap provides a strong indication of bearish sentiment in the market.

What The Pattern Looks Like

The Falling Window pattern comprises:

1) A candle, which can be bullish or bearish, followed by a gap where the next candle opens.

2) A subsequent candle that opens below the low of the previous session, leaving a clear gap or "window" between the two sessions.

3) For the pattern to maintain its validity, the window should remain unfilled. This means no trading activity should overlap into the gap area. If future candles close the gap, it can negate the bearish implication of the Falling Window.

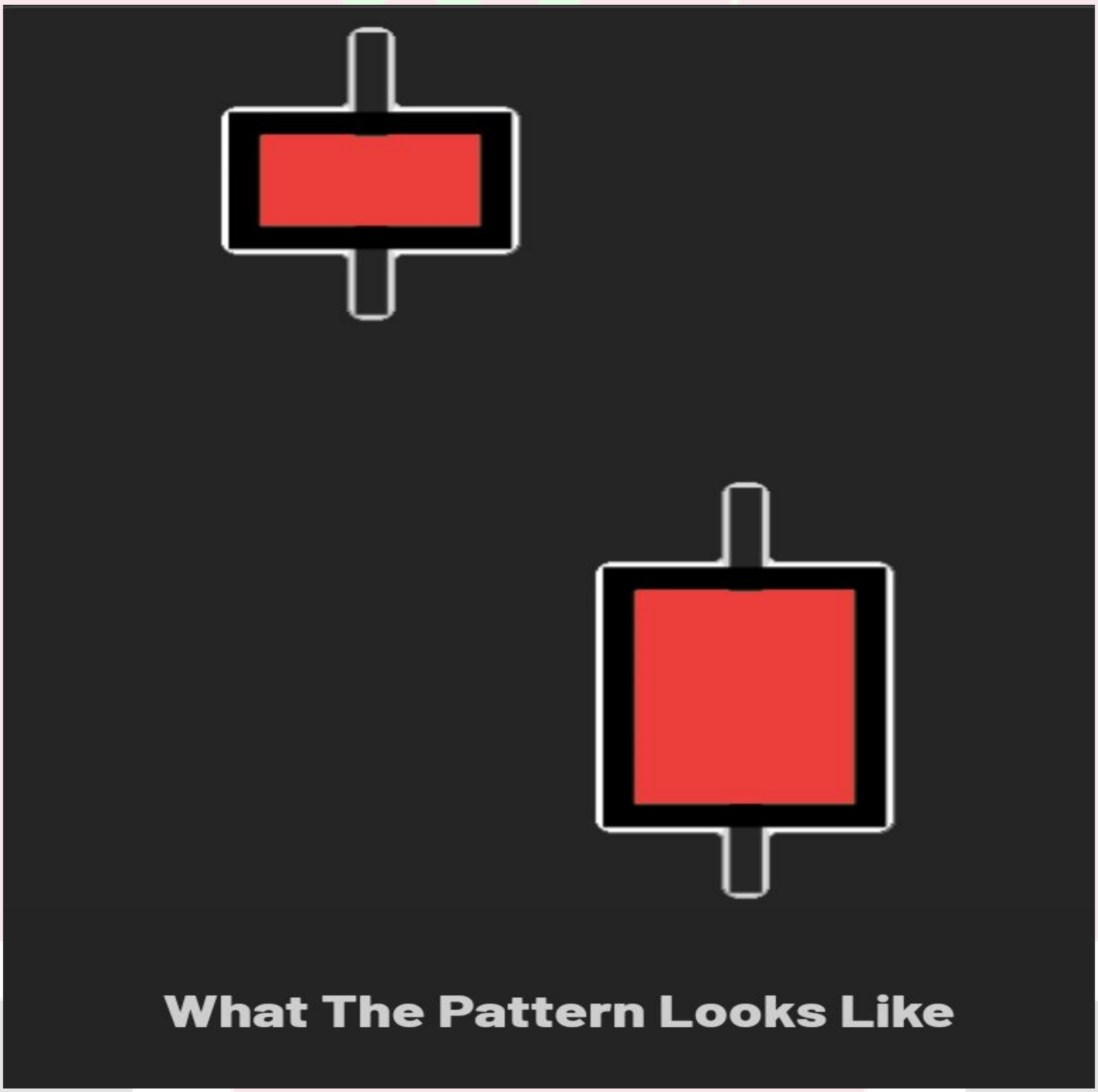
Pattern Psychology

The psychology underpinning the Falling Window (Gap Down) pattern is as follows:

1) **Before the Gap**: Prior to the gap's formation, the sentiment might be mixed, or there could already be a bearish trend in motion.

2) **Formation of the Gap**: The emergence of the gap signifies a sudden and robust increase in the asset's supply, such that the opening price is notably lower than the previous session's low. This shift could be attributed to negative news, disappointing earnings reports, or other influential negative catalysts.

3) **After the Gap**: If prices continue to decline or remain below the gap without filling it, it reinforces the strong bearish sentiment. However, if prices begin to rise and fill the gap, it could indicate weakening bearish momentum or a potential reversal.


What The Pattern Looks Like

The Falling Window serves as a visual depiction of a period where the dynamics of supply and demand tilted heavily in favor of supply, causing a drop in price. The sustained presence of this gap signifies enduring bearish sentiment, as buyers aren't pushing prices back up to fill the gap, and sellers are willing to offload at these reduced levels.