HowToTrade

THE PIN BAR TRADING STRATEGY [PDF]

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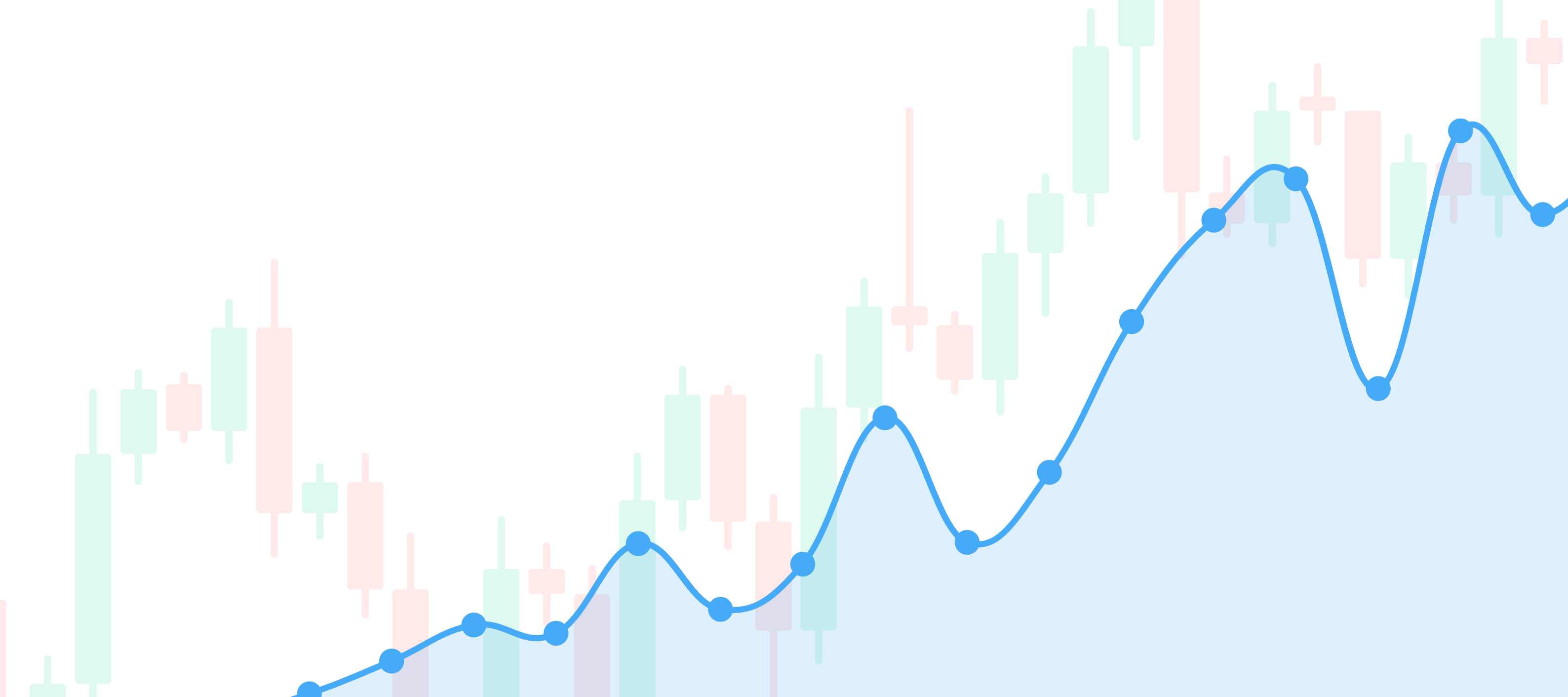

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The Pin Bar Candlestick Pattern

Single candlestick patterns are highly effective and easy-to-recognize chart patterns in trading.

These patterns help traders understand the market psychology and can present good entry and exit points. One of the popular single candlestick patterns is the pin bar pattern, a single bar that provides a strong indication for the next price movement.

In this Pin Bar trading strategy PDF, you'll learn just what you need to trade pin bars and also incorporate this concept into your trading system.

What is the Pin Bar Candlestick Pattern?

The pin bar is a single candlestick pattern having a long wick and a small body that helps traders find entry and exit levels. Interestingly, the pin bar is short for Pinocchio Bar. Martin J. Pring, an expert technical analyst, was the first to name the pattern as a pin bar.

Technically, the small body of the pin bar reflects that the existing trend is weakening, while the long wick, also known as the pin bar tail, suggests that the market has overreacted and the trend will likely change direction. So when you think of pin bar as Pinocchio, you'll easily understand its whole concept. The small body and long wick mean that the market has 'lied' to us, resulting in a long wick, just like Pinocchio's nose.

Some may confuse the pin bar pattern, or the pin bar reversal, as it is sometimes called, with the spinning top candlestick pattern. However, both patterns are different. Even though the spinning top candle pattern has a small body, it has upper and lower wicks.

Also, the spinning top generally signals indecision between buyers and sellers, while the pin bar actually indicates that the forex market is likely to move in a specific direction.

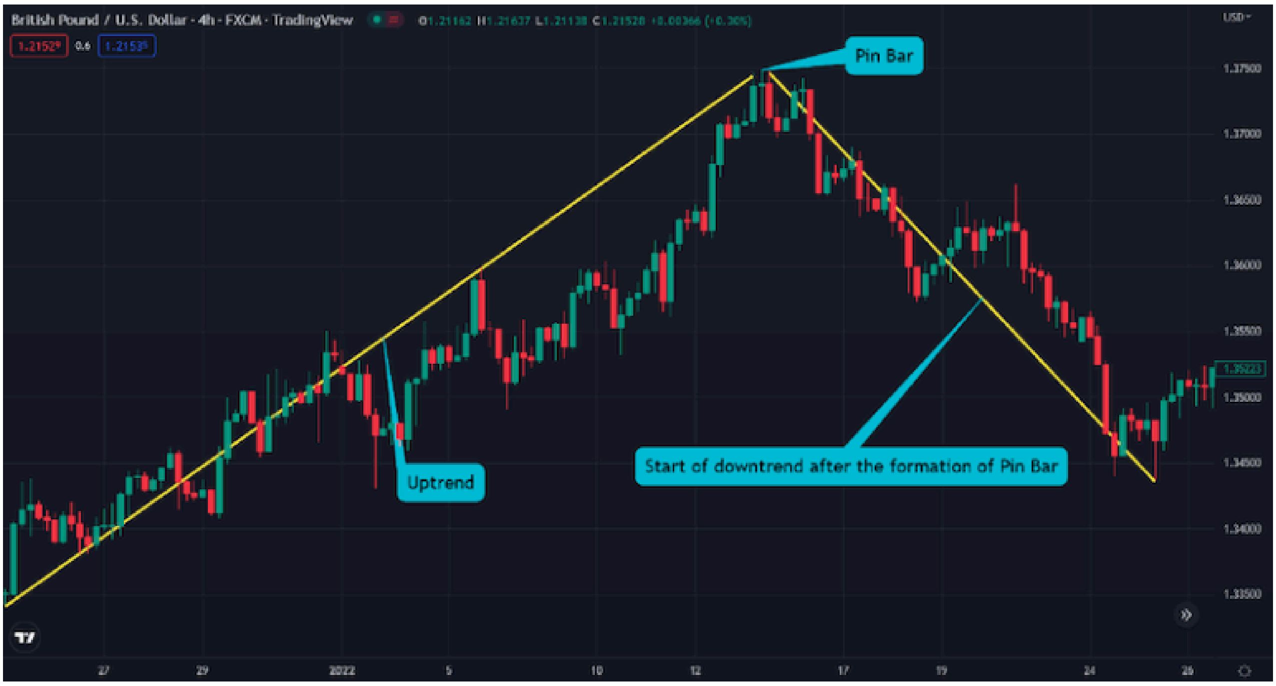
How to Identify the Pin Bar Candle in Trading?

Overall, it's relatively easy to identify reversal pin bar candles, as it is a chart pattern that frequently appears in the markets and consists of only one candlestick. As mentioned earlier, the pin bar has a small body with a long upper or lower wick.

In its bearish version, the pattern becomes valid when the pin bar candlestick appears between the bullish and the bearish candles, meaning the first candle is bullish, the middle candle is the pin bar candle, and the last candle is bearish.

The opposite occurs on the bullish pin bar pattern when the pin bar candlestick appears between the first bearish candle and the third bullish candle.

Now, let's see an example of the bearish pin bar pattern on a price chart.



The chart above shows that when the pin bar appeared, the uptrend lost momentum, and a new downtrend began. In this case, after the pin bar formation, you can enter short positions as soon as the pin bar candle is over, or you can wait for the next candle to close and then enter a selling position.

So, let's break it down. Here are the steps you need to take to identify a potential pin bar setup:

1. First, you must identify the pin bar at the end of an uptrend or downtrend.
2. Make sure the candle's body is small and has a long wick.
3. Use other confirmation tools such as Fibonacci retracement levels, RSI, moving averages, or MACD to confirm the reversal signal.
4. Enter long or short positions after the formation of the pin bar, or wait for the candle following the pin bar candle to close.

How to Trade the Pin Bar Candlestick Chart Pattern – Trading Strategies

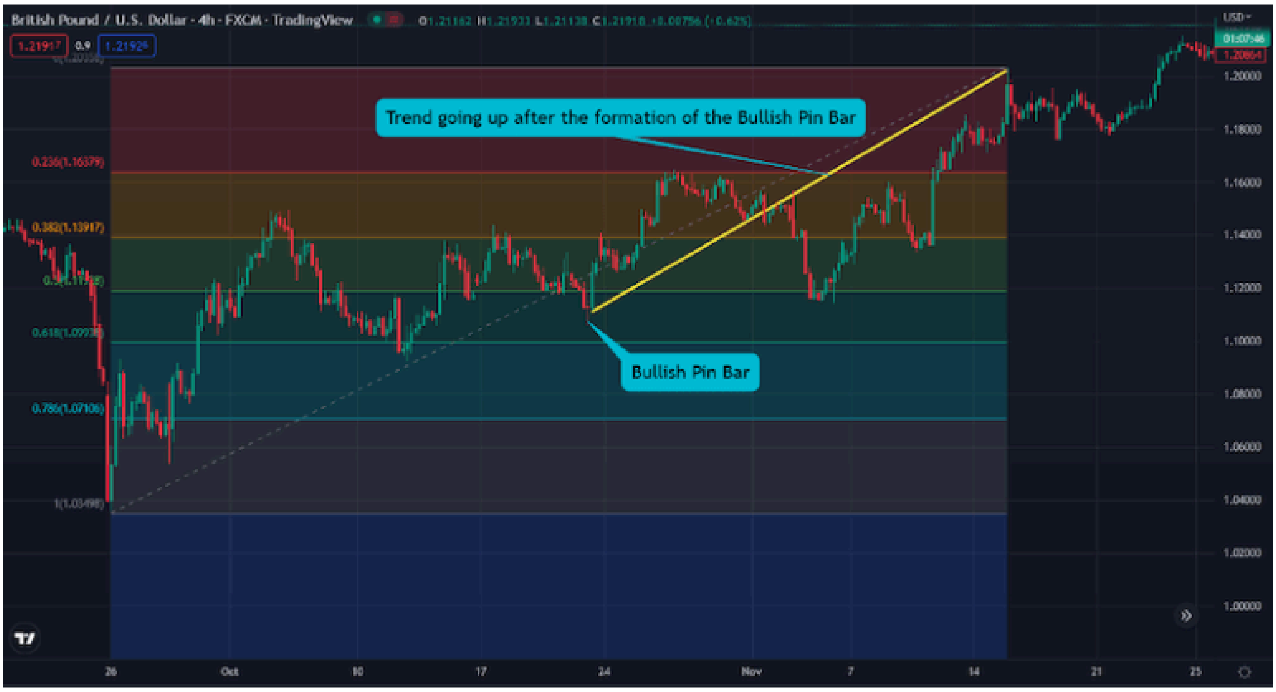
Like many other single candle patterns, trading pin bars can be confusing, as sometimes false signals may occur. In addition, the pattern can often act as a continuation rather than a reversal. So, how can you ensure it provides a reversal or a continuation signal?

There are several trading strategies that can help you with that. The most effective method to confirm price reversals is by using technical indicators like the RSI, Stochastics, or Fibonacci levels. Generally, trading chart patterns are most effective when combined with Fibonacci retracements, as they can act as support and resistance levels and help you spot perfect reversals.

So, to get a better idea of how to confirm a reversal and trading pin bar patterns, below, we will show you the bullish and bearish pin bar patterns with Fibonacci retracement levels as an extra confirmation tool.

1. Bullish Pin Bar Candle Pattern and Fibonacci Levels

The bullish pin bar setup appears in a downtrend and marks the end of the bearish trend, meaning it signals a bullish trend reversal. In essence, bullish pin bars indicate sellers have dominated the market, but now their strength is waning. So, when a bullish pin bar appears, it's an excellent sign to enter long positions or exit short ones.



In the GBP/USD chart above, you can see how the bullish pin bar candle pattern indicates that the bearish trend is over. Additionally, we added Fib levels from the bottom to the top of the previous price trend.

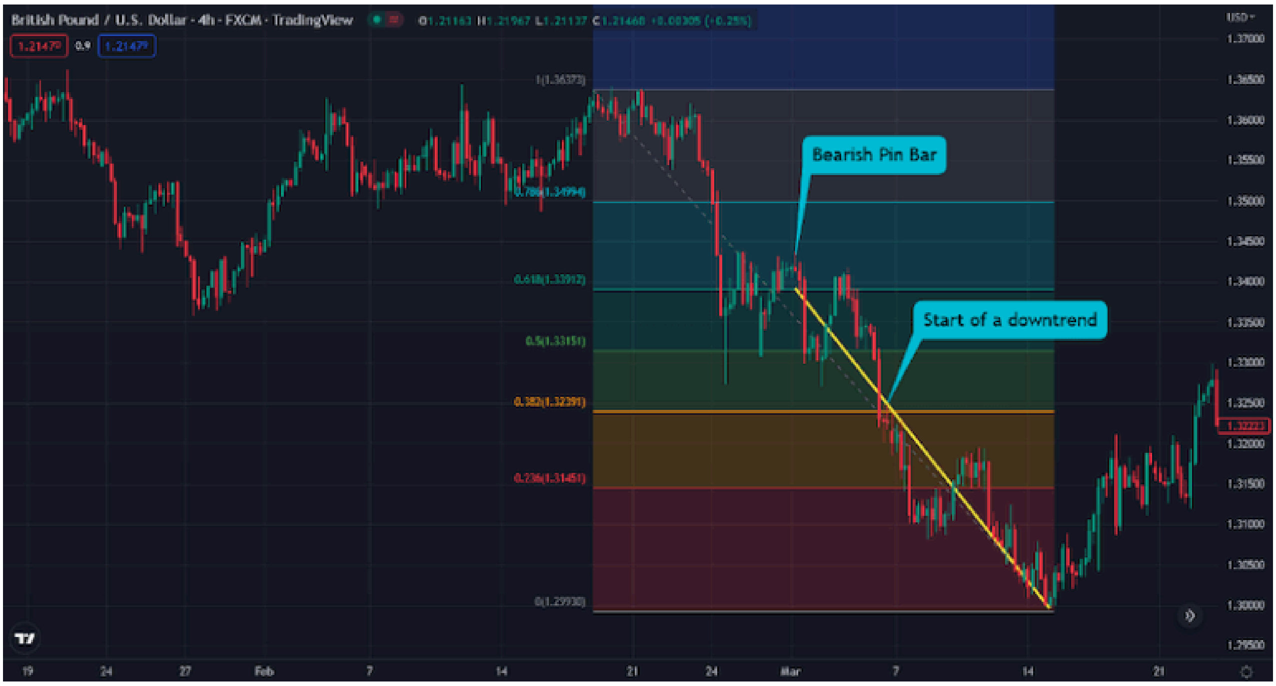
Now, a bullish signal is made as the pin bar pattern forms near the 50% Fib level. In such a scenario, after the appearance of the pin bar and the bullish third candle, you know it is a trend reversal rather than a continuation.

As for the pin bar entry, you can enter the trade after the formation of the pin bar candle, or you can play safe and wait for the next candle to close and then enter the trade. Moreover, you can set the take-profit at the next Fib level, or you can try to extend the profits along with the following Fib levels.

If so, you can monitor the pin bar trade and adjust your TP accordingly. As for the stop-loss, it is best to set it below the pin bar or at the 61.8% Fib level.

2. Bearish Pin Bar Candle Pattern and Fibonacci Levels

The bearish pin bar pattern occurs at the end of an uptrend or during a correction in the market. The pattern **suggests a bearish reversal** and provides a short-sell trading signal. When bearish pin bars appear, the bullish momentum is weakening, and you can find the opportunity to enter a short sell position or exit a long position.



In the chart above, we switched to a daily time frame and placed Fib levels from top to bottom of the previous price swing. As you can see, this time, the pin bar candle formation appears during a downward trend when the market is in correction mode. After the price tested the 50% Fibonacci level, it spiked back up, and a perfect pin bar candle was formed.

In this case, you'll enter a trade when the pin bar forms or somewhere around the 61.8% Fib level. Stop loss could be placed slightly above the highest level of the pin bar, and take profit could be placed at any of the following Fibonacci levels.

Moreover, as seen in the example above, the price dropped to the 50% Fib level and then climbed up again to the 61.8% Fib level. This has created a double top pattern, and the final drop below the 50% Fib level provides a perfect signal to enter a short-selling trade. Waiting for an extra confirmation like this gives you more confidence in the trade, but the price may not always play out this way. So, you may have an exceptional pin bar setup, hoping to enter after an extra confirmation, only for the price to leave you behind.

The Benefits and Limitations of the Pin Bar Candlestick Chart Pattern

Let’s see some pros and cons of trading with the pin bar candlestick pattern.

Pros

- As a single candlestick pattern, it’s relatively easy to identify the pin bar pattern.
- The pattern is a very reliable indicator of a trend reversal
- Excellent risk-reward ratio

Cons

- The pattern can signal both a continuation of the trend or a reversal, making it confusing and difficult to take positions.
- Pin bars are less effective on lower time frames.