Candlestick Patterns in Support and Resistance: Reversal and Breakout Candles

Candlestick patterns, as the foundation of **Price Action** analysis, reflect order behavior at key supply and demand zones. Combining these patterns with **Support and Resistance** levels enables **identifying** trading opportunities with **higher** reliability.

These patterns mirror **market sentiment** and traders' reactions at various chart areas. The formation of candlestick patterns near significant technical levels provides **strong confirmation** for **entering** or **exiting** trades.

This approach not only enhances the credibility of **key price zones** in technical analysis but also significantly increases trading precision.

Using Candlestick Patterns in Support and Resistance as confirmation for trade entries

Using Candlestick Patterns in Support and Resistance

Applying **reversal** and **breakout** patterns within candlestick structures at **Support** and **Resistance** zones is one of the most practical trading methods.

Among the most commonly used patterns are **Shooting Star**, **Hammer**, and **Hanging Man**, which, when formed at key levels, can be used as valid entry signals.

Candlestick patterns in these zones are typically divided into **two** main categories:

- **Reversal Patterns**
- **Breakout Patterns**

Both types define **price movement** direction at **key market levels** and play a decisive role in trading.

Reversal Candlestick Patterns

Reversal candlestick patterns come in various forms on price charts, but the most important ones include:

- **Hammer**: Forms at **supportlevels** with a long **lowershadow** and a **smallbody** at the top;
- **Morning Star**: Characterized by **small-bodied** candles with **shortshadows** at **both ends**, usually appearing at supports, signaling potential bottoms **(the body doesn't overlap with neighboring candles)**;

- **Pin Bar**: Appears at **supports and resistances**, featuring a **long shadow** and a **small body(Pin Bars may have or lack small shadows on the body side)**;
- **Shooting Star**: Forms at resistances, with a **shadow at least twice** the body size, considered a sign of potential price decline.

These patterns are most reliable when formed at significant **Support and Resistance** levels and aligned with other technical analysis elements.

Breakout Candlestick Patterns

Breakout candles feature large bodies and small shadows, typically appearing when **supports** or **resistances** are broken. These candles act as **breakout signals** and effectively reflect **trend strength**.

A prime example is the **Marubozu** candlestick, which has a full body without shadows. This candlestick indicates a strong and clear market trend movement.

Breakout Candles often emerge with large bodies and short shadows at the moment price breaches **Support** or **Resistance** zones, signaling the **dominance** of a **trend** and **confirming** the **breakout'sstrength**.

Types of Support and Resistance Levels

Key technical analysis levels are divided into three main categories:

- **Static Levels**: Horizontal support and resistance areas formed based on specific and stable price thresholds;
- **Dynamic Levels**: Sloped support or resistance zones derived from connecting consecutive highs and lows, usually represented by **trendlines**;
- **Dynamic and Static Confluence Zones (Potential Reversal Zone – PRZ)**: The combination of dynamic and static levels, offering the highest reliability for trading decisions.

How to Identify Support and Resistance Zones?

Several tools are used to detect **Support and Resistance Zones**, but the two most common methods are:

- **Identifying Major Highs and Lows**
- **Using Moving Averages**

Identifying Major Highs and Lows

Major Highs and Lows are areas within a trend structure where the largest volumes of orders are placed, typically **leading** to **pricereversals**.

These zones mark where market sentiment shifts, where positions are reloaded, or closed; therefore, using **Candlestick Patterns in Support and Resistance**

at these zones provides valuable entry opportunities.

Major highs and lows act as critical Support and Resistance areas

Using Moving Averages

Although **Moving Averages** are not perfect tools for pinpointing highs and lows, with proper setting of the calculation period, they can become **highlyreliable**.

For example, setting a 60-period moving average reveals price reactions in the form of **highs** and **lows**, allowing it to act as a **dynamicSupport or Resistance** area.

The 60-period Moving Average acts as support above and resistance below, guiding price direction along the trend

How to Trade Using Candlestick Patterns in Support and Resistance

To implement the trading approach using **Candlestick in Support and Resistance**, follow these steps:

1. Identify key **Support and Resistance Zones**;
2. Use reversal and breakout candlestick patterns as confirmation (**Validated Candlestick Patterns**);
3. Define **Stop Loss** and **Take Profit** levels based on market structure and price positioning.

Entry Method with Reversal Candlestick Patterns

Entering trades at **key zones** requires a **candlestickconfirmation** aligned with the **market trend**. For example, in an **uptrend** at a support area, a **bullish candlestick confirmation** is needed.

Similarly, during a downtrend **at a resistance area**, a **bearish candlestick confirmation** is required.

For an effective entry at key price zones, receiving a valid **Confirmed Candlestick Signal** is crucial. Choosing the right confirmation must consider the prevailing market trend:

⚡ **In an uptrend**: When price reaches a **Support Zone**, forming a bullish candlestick such as a **Hammer** or **Morning Star** signals buying strength and trend continuation;

⚡ **In a downtrend**: When price hits a **Resistance Zone**, forming a bearish candlestick like a **Shooting Star** or bearish **Pin Bar** indicates selling pressure and potential price decline.

Selecting the proper candlestick confirmation according to market conditions is vital for a high-quality trade entry.

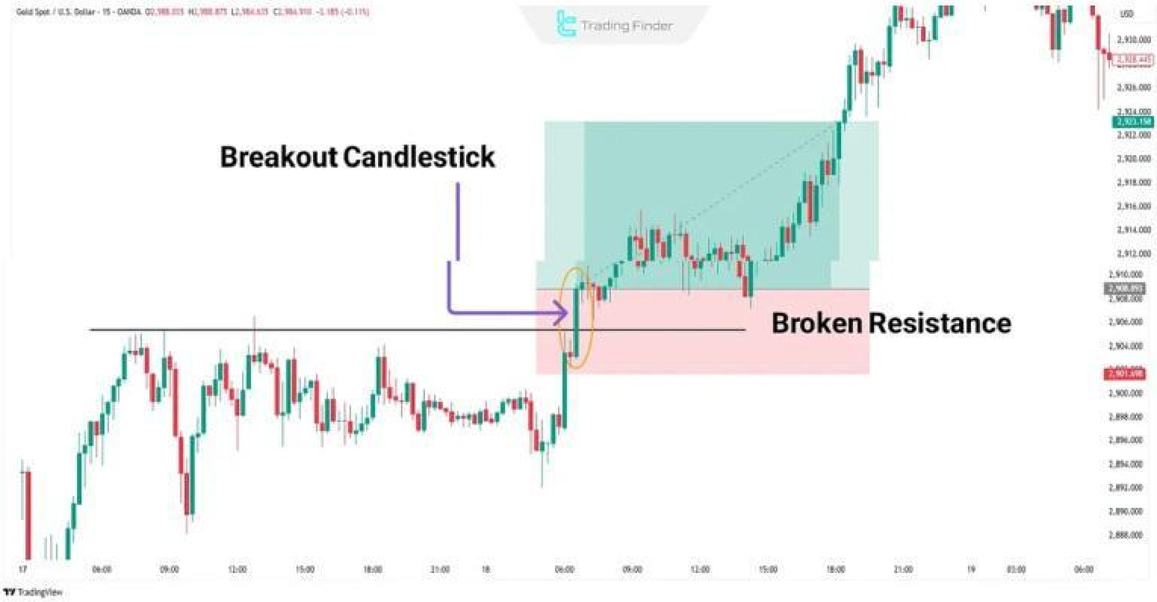
Entry Method with Breakout Candlestick Patterns

When price breaches a **Support** or **Resistance** level with a strong, full-bodied candle (**Full-bodied Candle**) and closes beyond it, conditions are set for entering a trade in the breakout direction.

Characteristics of a validBreakout Candle:

- A **large body** with **minimal shadows**, indicating strong market decision-making and dominance by **buyers or sellers**;
- Candle closure beyond the key zone, **confirming the breakout**;
- Preferably appearing on **medium or higher timeframes** for greater move validity.

Such setups usually indicate **structural changes** and the beginning of a **newtrend** movement.



Price breaks a Resistance zone with a full-bodied candle and closes beyond it, setting up a trading opportunity

Fake Breakouts

Fake Breakouts are structural market phenomena where price quickly reverses after initially breaching a key level like **Support** or **Resistance**.

This move often traps early retail traders and triggers their stop-losses (**Stop Loss Orders**). In many cases, major market players like **Market Makers** engineer these fake breakouts to gather liquidity (**Liquidity Pools**).

They absorb liquidity with a false breakout before driving price back into the original market direction. Understanding fake breakouts plays a crucial role in advanced **Price Action** and validating real breakouts.

A resistance breakout with a strong candle followed by a swift price return below the zone

Setting Stop Loss When Trading Support and Resistance

In trades based on **Candlestick with Support and Resistance**, the permission to enter depends on the confirming candle. If price touches the support level of the confirming candle, it suggests weakness and potential invalidation of the level.

Thus, the best place for setting the **Stop Loss** is just beyond the confirming candle, with slight extra margin to account for minor fluctuations or market spread.

Setting Take Profit When Trading Support and Resistance

To determine the **Take Profit**, traders can use upcoming **Support or Resistance** zones. Additionally, spotting reversal candlestick patterns against the trade direction can prompt early exits.

Two main strategies:

- **Using future support/resistance levels**: Natural targets for completing the move;
- **Spotting opposite reversal patterns**: Reversal signals appearing along the path justify earlier profit-taking.

Combining both methods help protect trading gains against sudden price reversals.

Important Notes on Using Candlestick Patterns in Support and Resistance

To improve the **Win Rate** when trading **Candlestick Patterns in Support and Resistance**, it's vital to observe these rules:

- **Decreased Level Credibility**: Each repeated touch reduces a level's strength and increases its likelihood of breaking;
- **Role Reversal**: After breaking a resistance, it may act as support (and vice versa);
- **Importance of Confluence Zones**: Candlestick behavior at the confluence of static and dynamic levels provides powerful signals;
- **Trending Markets**: Candlestick patterns perform better in well-defined trending markets;

- **Higher Timeframes**: Analyzing on larger timeframes increases pattern reliability and reduces false signals.

Applying these principles significantly improves analysis accuracy and entry point quality.

Conclusion

Mastering the behavior of candlestick patterns near **Support and Resistance** levels is key for identifying optimal trade **entries** and **exits**.

Moreover, combining confirmations **like trading volume, structure breakouts, indicator overlaps**, and **multi-timeframeanalysis** further boosts trade analysis precision.

source:

1.our website link : https://tradingfinder.com/education/forex/candlesticks-in-support-and-resistance/

2.all Education : https://tradingfinder.com/education/forex/

3.TradingFinder Support Team (Telgram): https://t.me/TFLABS