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Two Period Reversal Pattern

The two period reversal is originally taken from the 2-day reversal pattern and as the name implies this particular pattern consists of two periods. I use two periods and I apply this pattern to all securities and time frames. A period could be 1 minute or 1 month depending on the time frame you are looking at. I like to see this pattern after a strong move up or down. It does not work in periods of consolidation.

For the two period reversal down, the first period should be at the end of a strong move up. The close should be near the high and it is preferable that this high should be a new recent high. The second period should open near where the first period closed and should lose most if not all of the first periods gains and close near the low of the first period (see first chart).

This is the set up and you are now ready for the trade. Once the second period has closed you can enter short the market with a stop loss order just above the first or second periods high depending on which is higher. If the trade is to work it should not retrace back above the high of the two periods.

For the two period reversals up, the first period should be at the end of a strong down move. The close should be near the low of that period and it is preferable that this low is a new recent low. The second period should open near the close of the first period and should regain most if not all of the first periods losses and close near the high of the first period (see second chart).

Once set up you can now enter the market long with a stop loss order below the low of the lowest low of the two periods. With both the up and down reversal there may be some retracement before the trade takes off but it should not pass below the low of the two periods or the high of the two periods depending on which direction you are trading.

I have found this trade to have a high probability of success, it does not however happen that frequently in the markets I have observed. It does however happen with sufficient frequency to have it on your list of set ups to look out for.

Current 12.9400 High 43.3750 Low 11.3125





Good Trading

Best Regards
Mark McRae

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