HowToTrade

THE AB=CD HARMONIC PATTERN [PDF]

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The AB=CD Harmonic Pattern

The AB=CD is a basic harmonic chart pattern traders use to identify trend reversals and find trading opportunities. Among the various harmonic candle patterns, it is considered the simplest harmonic pattern of all, but only if you know how to use and trade it correctly. And that's exactly what this ABCD pattern PDF aims to help you achieve.

What is the AB=CD Candlestick Pattern?

The AB=CD chart pattern, also known as the ABCD pattern, is one of the candlestick harmonic patterns formed on price charts.

These unique formations create geometric patterns using specific Fibonacci ratios and are often used by technical analysis traders to predict future price movements. Beginners often use a harmonic chart patterns cheat sheet in order to learn how to identify the patterns. Some of the most popular and well-known harmonic groups of patterns include:

- XABCD chart pattern
- Gartley pattern
- Diamond pattern
- Butterfly pattern
- Shark pattern
- Bat pattern
- Crab pattern

As for the ABCD formation, finding this pattern helps traders identify potential reversal zones by using critical numbers in the asset's past performance. In terms of structure, the ABCD pattern is relatively simple to recognize, especially when compared to other harmonic chart patterns.

The pattern is made of four points (A, B, C, and D) and three legs (AB, BC, and CD). When the pattern is formed, it creates a zigzag price movement and indicates that the trend will change. Also, bear in mind that the ABCD pattern could be bullish or bearish, depending on its location on the chart.

How to Identify and Use the AB=CD Pattern in Trading?

You need to remember several things to identify the AB=CD harmonic chart pattern.

1. First, the ABCD formation consists of three consecutive price swings. A bullish pattern has a down, up, and down movement again. A bearish ABCD pattern has up, down, and up price swings.
2. The pattern has four points and three legs – The length of AB must be larger than the length of BC and have the same length as the CD leg.
3. The pattern must have the following Fibonacci ratios – BC line is the 61.8%-78.6% Fibonacci retracement ratio of the AB line. CD line is the 127.2%-161.8% Fibonacci extension of BC.
4. For a bearish ABCD trend reversal pattern, point D must be higher than point B. For bullish, point D must be lower than point B.

Below, you can see an example of what a bullish ABCD chart pattern looks like on a candlestick chart:

As you can see in the GBP/USD 30-minute time frame chart above, the currency pair is trading downward with a price correction in the middle price swing (BC leg).

By using the built-in ABCD indicators, we were able to identify this geometric pattern with two Fibonacci rules. The BC line is 61.8% retracement level of the AB line. Moreover, the CD line is the 127% extension level of the BC line.

All the above confirm the pattern and offer an entry-level for a trading position at point D.

How to Trade the AB=CD Candlestick Pattern (Trading Strategy)

Once you have identified the ABCD chart pattern, you need to draw it on a trading chart, find the appropriate levels to set entry points, stop loss, and take profit orders.

But no worries, you don't need to calculate the lines and Fibonacci ratios on your own. Luckily, nowadays, on many trading platforms available to retail investor accounts (including the MetaTrader4), you'll be able to use a built-in ABCD indicator that automatically draws the pattern for you.

Then, after drawing the ABCD pattern, you need to look for point D, where you enter a position in the opposite direction of the CD line. Additionally, it is always important to be aware of market conditions, and price action behavior, and include fundamental analysis in your trading strategy.

With that in mind, let's see two examples of the ABCD pattern – bullish and bearish.

1. Bullish ABCD Pattern

The bullish ABCD pattern forms during a downward trend and indicates a potential price reversal, meaning the beginning of a bullish trend.
The three price swings include a drop in price from the A to B level, a correction from B to C level, and another decrease from point C to D level. Ultimately, it creates a zigzag pattern where the D point is the ultimate entry point.

As for stop-loss placement, you can place your stop-loss order below the D point as a break below this level invalidates the ABCD pattern. Take profit, on the other hand, is more well-defined.

You can set your profit target at the C level or A level. However, in case you identify a strong move upward, you can also use Fibonacci retracement levels in the same timeframe to place another level to take profit.

2. Bearish ABCD Pattern

The ABCD bearish version has three ascending price swings before a trend reversal occurs. At first, the pattern begins with a price increase from A to B.

Then, the price falls from B to C and finally rises again from C to D. At this point, when the pattern is confirmed with Fibonacci rules, a reversal is likely to occur.
The GBP/USD 30-minute chart below shows you how the bearish AB=CD pattern is formed on a price chart.

As you can see, much like the bullish ABCD pattern, the bullish AB line is 61.8% of the AC line, and the CD leg is 127.2% of the BD leg. In this case, the D point is the market entry level, stop-loss is placed above the D level, and profit targets are placed at the C and A levels.

Benefits and Limitations of the AB=CD Pattern

Pros

- Highly accurate chart pattern to predict future performance (high winning percentage)
- Once the reversal is confirmed, ABCD patterns are advantageous when compared to other patterns.
- Usually, the ABCD pattern indicates a strong reversal and provides a trading opportunity to take long term positions.
- The pattern is applicable in any market and complex instruments – stock market, forex markets, etc.
- Efficient pattern for day trading

Cons

- For beginners – not an easy chart pattern to use when trading forex
- Stop loss is not well defined which increases the risks involved in trading this pattern