

Pin Bars Revealed

Introduction

Most traders assume each pin bar they see on their charts has been created in the same way. Not in terms of what the pin bar looks like, but in why the pin has formed.

This is because the majority of the trading books and websites state the reason why pin bars form in the market, is because of bank traders buying and selling. Whilst this is technically true, the reason why the bank traders are buying and selling is not always because they're trying to make money.

Sometimes the bank traders sell because they're taking profits off long trades. The bearish pin bar that can form as a result of this is not the same as a pin bar that's formed due to bank traders placing sell trades to make money.

If up to this point you've not had much success trading pin bars, you can rest assured knowing that it's probably not because you're doing anything wrong in terms of your analysis. By that, I mean, it's not due to you marking support and resistance levels incorrectly or taking trades based on pin bars which are not considered to be perfect, i.e. ones which have a long wick and a small body.

The reality is this: most of the pins you've traded never had a chance of being successful. not because they didn't look right or have confluence with the necessary technical levels, but because they didn't form due to the bank traders placing trades to make the market reverse.

Over the following pages, you'll finally learn where you've been going wrong pin bars. I'm sure there will be lots of 'aha' moments as you see how the pin bar books and gurus have misled you down the wrong path to trading pins profitably.

Hope you enjoy the book.

Profit Taking Pin Bars

I think it's best if I begin by showing you the most common type of pin bar you see form in the market.



The profit-taking pin bar is, as the name suggests, created by the bank traders taking profits off their trades.

Most of the pin bars you've seen and traded are likely to have been profit taking pins. They're the most common type of pin bar that form in the market and can be found across all time-frames. Unfortunately, they're also the pin bar which is most likely to result in you having a losing trade.

If you've read my book "How The Large Institutions Operate In The Forex Market", you'll already know all the actions the banks can take in the market, like placing trades, closing trades, etc. are dependant on how many buy or sell orders are coming in from other traders placing trades, closing trades, or taking profits.

Taking profits is an action that can only be completed so long as the banks have enough buy or sell orders entering the market from traders placing trades.

If we had a situation where the banks wanted to take some profits off a buy trade, the only way they can do this is if other traders come into the market and place buy trades of their own.

This is because when the banks take their profits, they are selling some of what they brought at a better price than what they brought it for. The only way they can sell is if other people are buying. If no other traders come in and buy, the banks can't take any profits, as they don't have anyone to sell to.

Whilst the banks take profits almost all the time, there are instances when they take a much bigger amount off. They'll only do this when they have a large number of opposite orders coming in from people placing trades. Typically, the time when a large number of traders place trades is when they really believe the market is going to continue moving in its current direction, such as when they see a sharp move higher or lower take place.

Once these traders have entered their trades, the bank traders will begin taking profits off their own trades. The resulting price action will often appear as a bullish or bearish pin bar.



Here's an example of a bearish pin bar that formed because of the bank traders taking profits off buy trades.

Originally, when this bearish pin bar was forming, the candle would've looked extremely similar to the bullish large candle which formed an hour previous.

Lots of traders see this large candle and think it's the beginning of a big move higher. When the next hour begins, and price starts to climb, masses of traders begin jumping into buy trades, as they don't want to miss out on what they assume is the beginning of a large move.

As the price rises, more and more traders start entering long, because their belief a large move higher is taking place increases the further price rises. The bank traders can see a

large number of traders have started placing long trades, and realize they now have an opportunity to take a substantial amount of profit off their own buy trades using the orders.

When the banks start taking profits, all the buy orders coming in from traders going long are consumed, and the price begins to fall. At this point, the traders who went long start closing their buy trades at a loss. Closing a losing buy trade requires you to sell what you brought at a worse price than what you brought it for.

This means when the traders start closing their losing long trades, sell orders are put into the market, which causes price to fall even more, creating the wick we see on the bearish pin bar.

The process I've described above is what causes all bearish profit taking pin bars to form in the market.

For bullish profit-taking pins, the process is the same, only the other way around.

Instead of taking profits off long trades, the banks take profits off short trades. The only way they can take profits off short trades is if they have other traders come in and place short trades of their own. When the banks begin taking profits, price starts to rise, which causes the traders who went short during the drop to begin closing their trades at a loss.

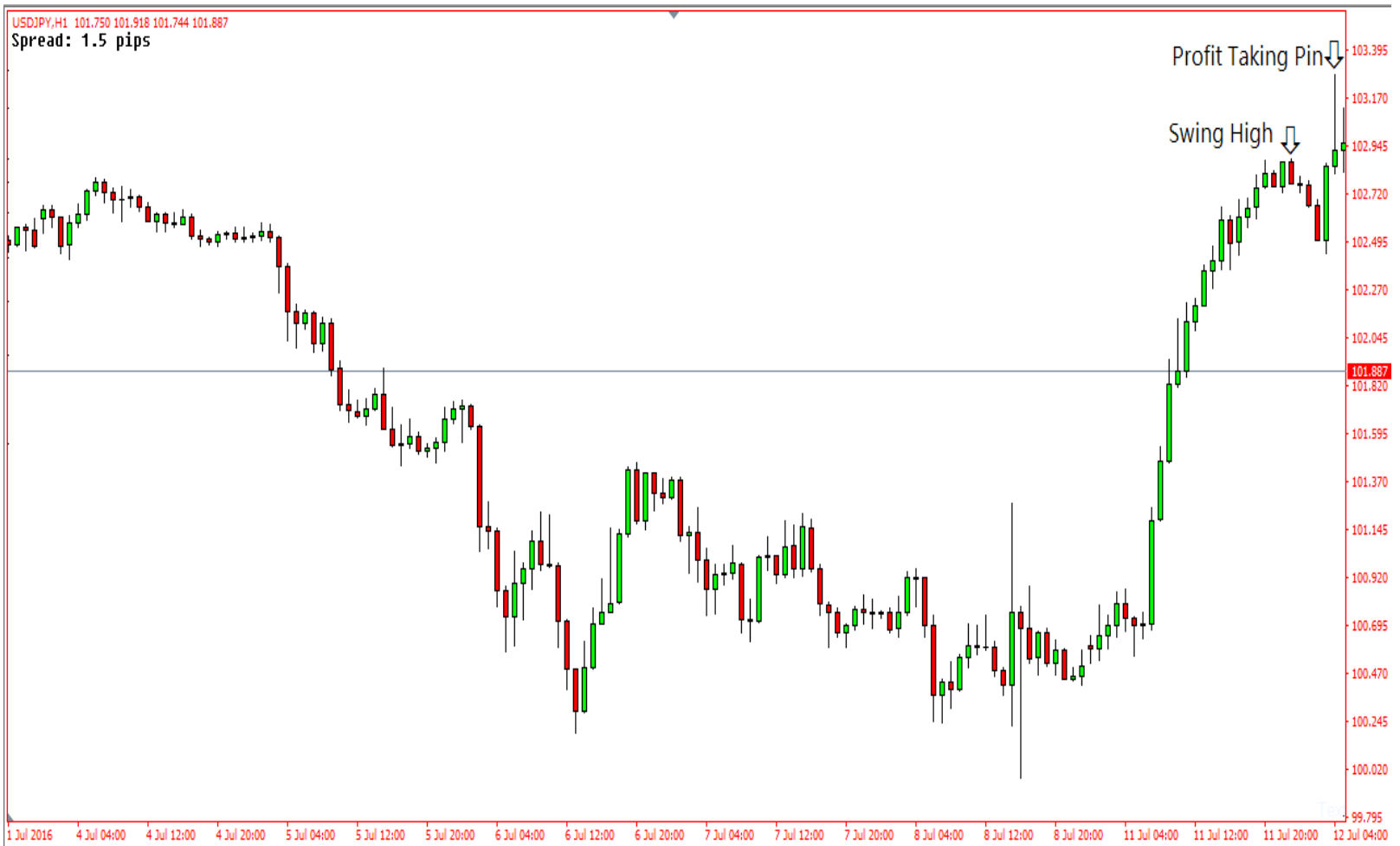
Closing a losing sell trade means buying back some of what you sold at a worse price than what you sold it for. This means when the traders close their losing short trades, buy orders are put into the market, which causes the price to rise, eventually resulting in the formation of the wick on a bullish pin bar.

How To Identify A Profit Taking Pin Bar

Now I've given you a little bit of background on how profit taking pin bars form, what I want to do next is show you a method to identify them on your charts.

Before we begin, it's important to understand it's impossible to determine with 100% accuracy if a pin bar has formed as a result of profit-taking.

However, even though we can't be completely sure if a pin has formed because of the bank traders taking profits by understanding when profit taking pin bars are most likely to form, along with some simple facts about how reversals take place, we can determine with a high degree of accuracy if a pin bar has formed due to profit-taking.



Here's a bearish profit taking pin bar that formed on the 1 hour chart of USD/JPY.

As this point, we wouldn't know if this is a profit taking pin. But what we would know from our understanding of how reversals take place, is that with the current market structure being the way it is, it's unlikely for this pin to be a reversal pin, as no significant swing highs have formed recent to the pin appearing in the market.

Important Note:

A significant swing high is a swing high that causes the market fall a large distance after previously moving higher. The 4 swing highs seen in the image a couple of page ago are each considered to be significant because they all caused a large drop to take place after they had formed.

In the image above you can see a swing high formed just before the profit taking pin formed. This swing high is not considered to be significant because it does not cause the market to drop a large distance after it's formation. Swing highs which cause large drops are typically a sign of the banks getting sell trades placed into the market, if a swing high forms and the price only falls a small distance, more often than not it's because the banks are taking profits off existing trades.

The same is also true for any swing lows you see form in the market.

If there was a significant swing high which formed recently around the same price as

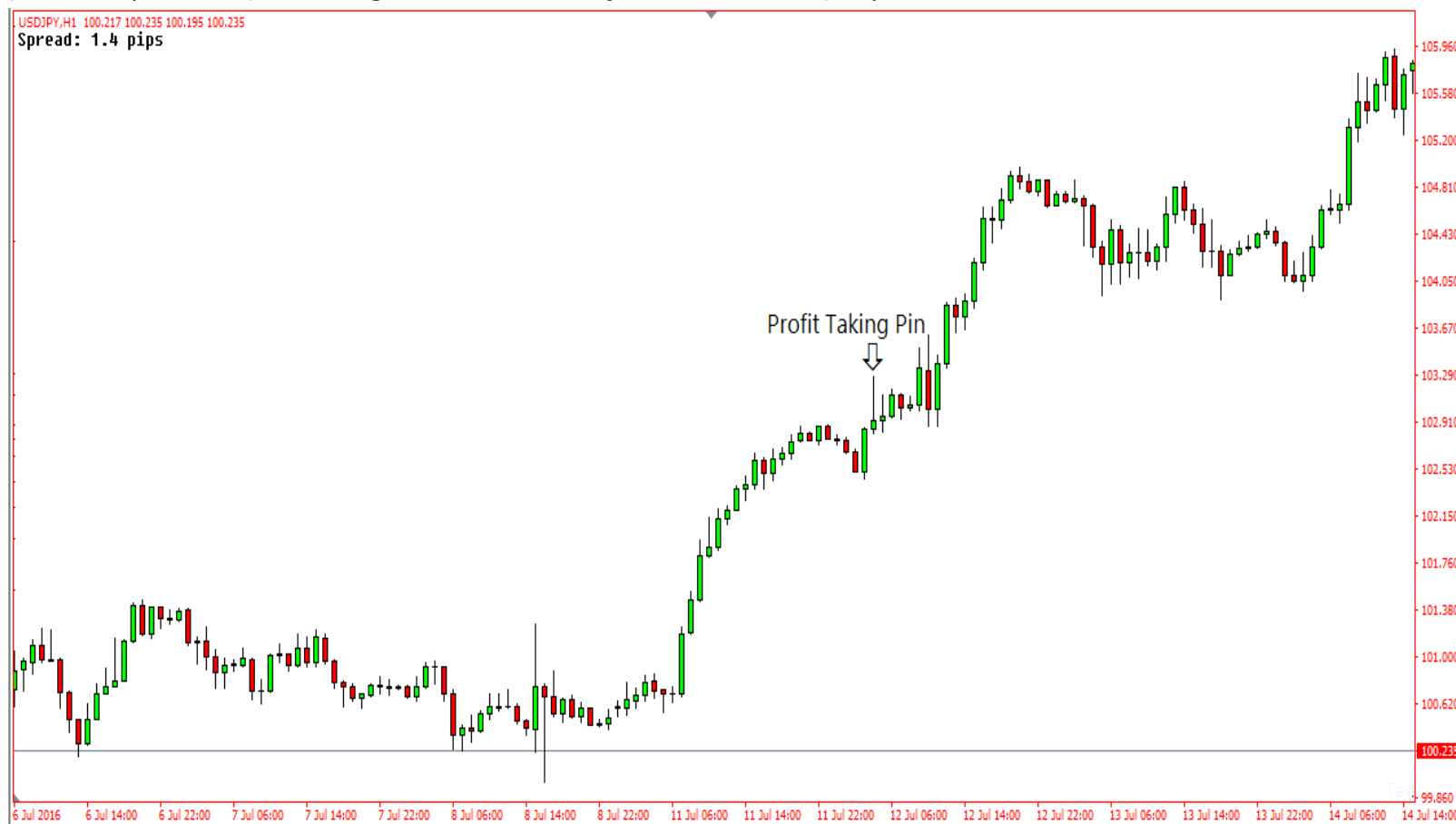
where the bearish pin had formed, it might have been worth placing a sell trade, but with the price action we've seen form so far, it's looking likely this pin has been created as a result of the bank traders taking some profits off their buy trades.

This means you would not place a sell trade when the bearish pin first forms, because there isn't enough evidence to suggest that it's formed because of the bank traders placing sell trades to make the market reverse.

Even so, it doesn't mean this bearish pin bar is definitely a profit taking pin?

If you were to now see the market fall and move below the low of the move up seen after the drop from the swing high, there's a high probability it's because the bank traders are getting sell trades placed because they want the market to reverse.

In this scenario, you would be looking for entries short around the price at which the bearish pin formed, because you know any additional sell trades the banks might need to get placed, will be executed at prices close to where their other sell trades have been placed (i.e the price region covered by the bearish pin)



Here's what happened after the bearish pin formed.

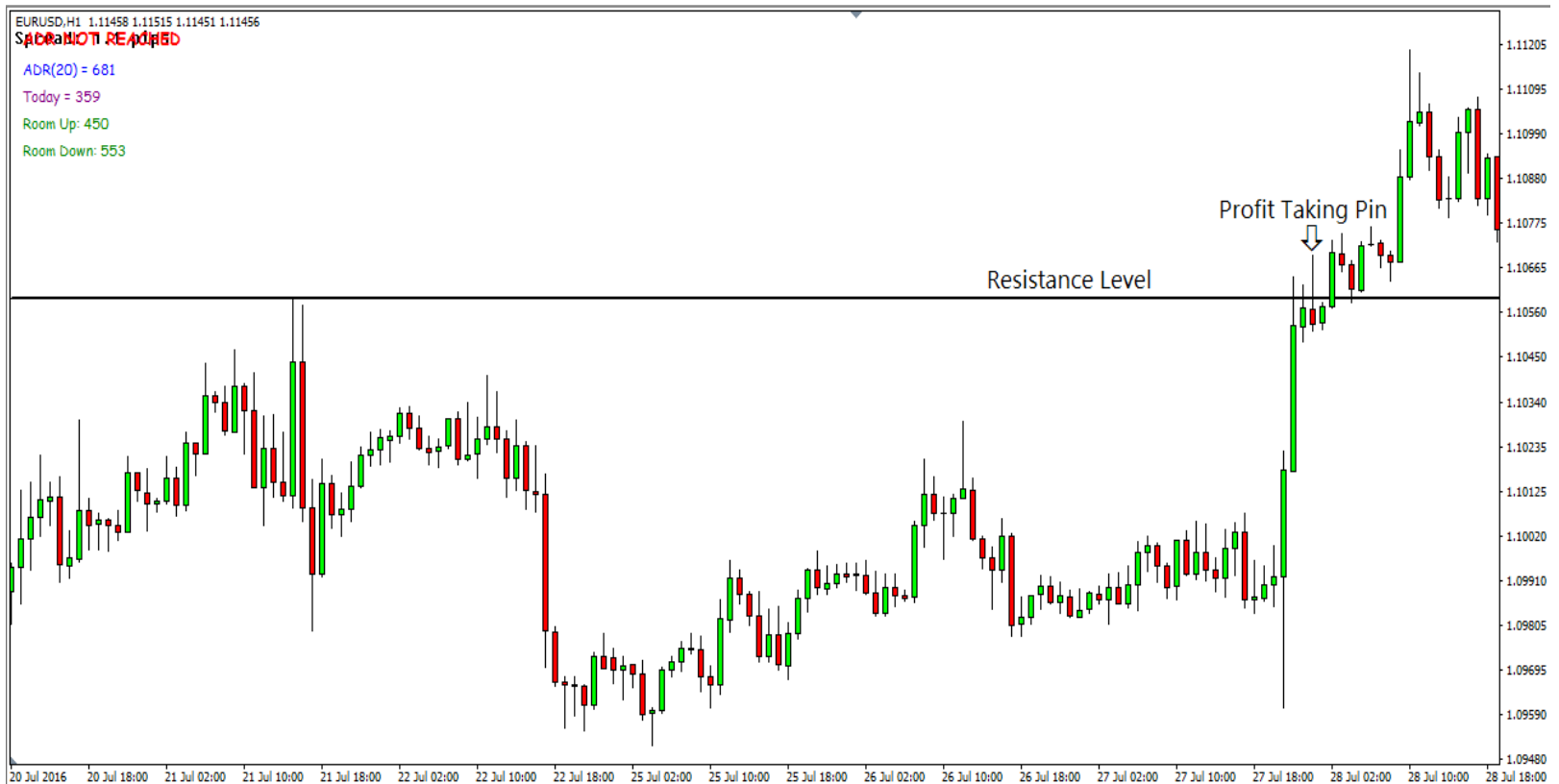
You can see the market continued to rise until it had broken through the high of the pin. When an entire candlestick (from low to high) manages to close completely past the high of the pin, you can be pretty sure the bearish pin has been created by the bank traders taking profits off their trades.

The main benefit you'll gain from all this is that from now on, you'll no longer need to enter a trade as soon as you see a pin bar form in the market.

Most traders, upon seeing a pin bar form, will either enter a trade straight away or wait to see if the next candle can break through either the low of the pin (for bearish pins) or high of the pin (for bullish pins) before entering their trade. Unfortunately, this leads to lots of losing trades, because the traders don't know what's caused the pin bar to form, which means they have no idea if the pin has a high probability of causing the market to reverse.

When Are Profit Taking Pins Likely To Form in The Market?

Being able to determine if a profit-taking pin has formed is, of course, highly important. But what's also important, is understanding the market structure that leads to profit-taking pin bars forming.



Here's a bearish profit taking pin that formed after a large move higher had taken place.

Important Note:

Notice how the pin above meets the typical criteria of a high probability pin?

It has a pretty large wick, the body of the candle is found right at the end of the pin, and the pin bar itself ends up closing bearish. If that wasn't enough, there's also a 1-hour resistance level which happens to fall in-line with where the wick of the pin has formed.

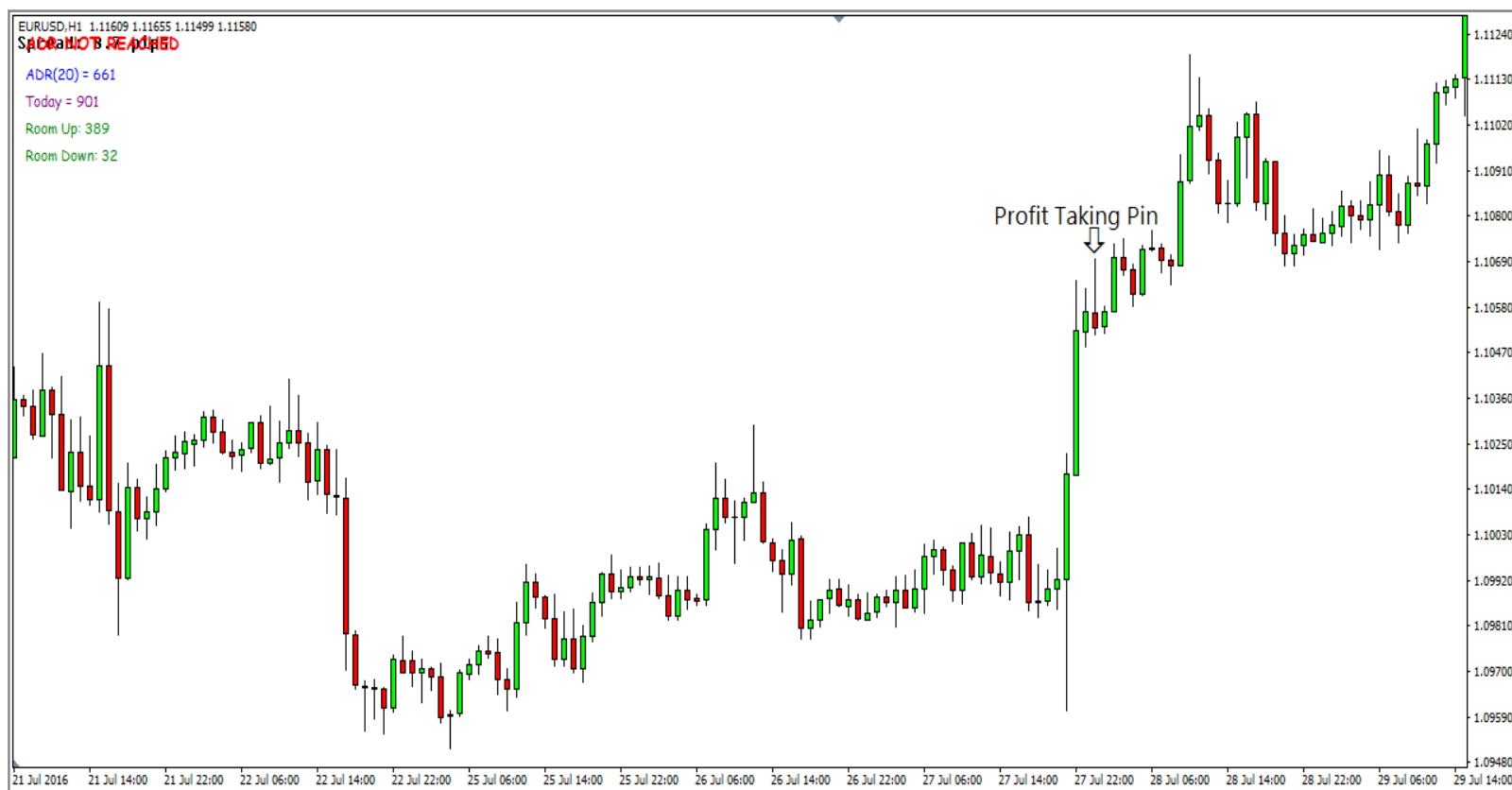
All of these factors suggested the pin was going to cause a reversal, but as you can see, that never happened, and instead, the market broke through the high of the pin a mere two hours after it formed.

Most books and websites which teach traders how to trade pins would've stated this was just one of those freakishly rare pins that had everything going for it but still failed due to reasons they cannot explain.

The reality is the reason why the pin didn't cause a reversal to take place wasn't because it was one of those rare pins which end up failing for unknown reasons, it was because the pin bar itself did not form as a result of the bank traders coming into the market and placing sell trades to make the market reverse.

To be honest, It makes very little difference how a pin bar is constructed or which technical levels it has confluence with. It's far more important to understand what caused the pin to form because if it's formed due to the banks taking profits off their trades, you know the chances of the pin causing a reversal to take place are very low regardless of how the pin bar itself is constructed or which technical levels it may have confluence with.

Okay, back to the example.



As you can see, this profit taking pin formed right after a large move higher had occurred.

Most profit-taking pins form after some kind of large movement has occurred. To understand why I want you to imagine you placed a buy trade a few hours before the big move higher in the image occurred.

When the news, which I think caused this up-move to take place, comes out the market quickly shoots up, which causes the buy trade you'd placed a few hours before to go into a considerable amount of profit.

Now, what's the first thing you're going to want to do with your trade being at such a large profit?

Take some off, right?

Most traders, after seeing their trade make a big profit, want to take some off.

So now we know the majority of the traders would want to take some profits off their trades as soon as they make a large sum of money, we can understand why profit taking pin bars usually form immediately after large movements.

When large movements occur, the bank's trades go into a large amount of profit. The banks decide to take some of their newfound profit off, and in doing so, cause the market to move in the opposite direction. The resulting price action this creates is either a bullish or bearish profit taking pin bar.



The image above shows some profit-taking pins that formed on the 1-hour chart of AUD/USD between the 23rd – 24th of March 2016.

You can see how each of these profit-taking pins formed right after a large movement had taken place. Most of the large movements seen in this image consist of just one large range candlestick, but quite often you'll see profit-taking pins appear after movements that contain multiple large candlesticks.

These are the types of movement you'll see occur immediately before a profit-taking pin forms. When you see large movements like this take place, be aware that any pin bars you see form shortly after are more often than not likely to have been created by the bank traders taking profits, not from placing trades to make price reverse.

Chapter Review

I hope it's obvious from reading this chapter how most of the pin bars you've traded up to this point are likely to have been profit taking pins, which never really had a chance of causing the market to reverse.

Now you know when profit taking pins are likely to appear in the market, along with an understanding of how to determine what's caused a pin bar to form, I'm positive your success rate trading pins will increase dramatically.

Below is a small summary of the main points I want you to take away from this chapter.

- Profit-taking pin bars usually form after a large movement has taken place. This is because large movements cause the bank's trades to go into a large amount of profit, and naturally, the first thing they want to do with this big profit is secure some of it so they can reinvest it into placing more trades.
- I would say that 70% of the pin bars that form in the market have been created by the bank traders taking profits off their trades. Pin bars may be frequent, but the ones which result in successful trades are far less common than you think.

Institutional Pin Bars

Now it's time to take a look at the other type of pin bar that forms in the market.

The institutional pin bar is the pin that forms as a result of the bank traders placing trades to make the market reverse. These are the types of pin most traders mistakenly assume they're trading.

Now before I show you how to identify institutional pin bars, you need to understand there are actually two different types that form in the market.



Here we have an image of an institutional reversal pin bar.

These pins only form when the market is in the process of reversing and are usually seen as one of the swing lows or highs that form from the bank traders entering the market and placing some of their trades.



This image shows three institutional continuation pin bars that formed during an up-swing on the 1 hour chart of AUD/USD.

Whereas reversal institutional pins only form when the market is in the process of

reversing, institutional continuation pin bars only form after the reversal has taken place and the market is in the process of moving higher or lower.

Both of these images show the two types of institutional pin bar you will see form in the market. You may have noticed there are some clear differences between the reversal pin bar seen in the first image, and the continuation pin bars marked in the second image.

One of the most obvious differences, is the size of the reversal pin bar is overall much larger than any of the continuation pin bars you can see in the second image.

The reason why the reversal pin is a lot bigger is because the size of the buy trades the banks placed which caused this reversal pin to form, were much larger than the buy trades they placed to cause the continuation pins to form.

To understand why you have to look at the market structure that formed previous to each type of respective pin appearing in the market.



If we go back to the reversal pin bar, we can see it formed not long after a large move lower had taken place.

This big drop would've made the typical retail trader think the market is about to start a large move to the downside. When the price suddenly drops, the retail traders who saw

the big preceding move lower as the beginning of a larger move down, jump into sell trades under the impression this move down is the beginning of the larger move lower they were expecting.

Needless to say, all these traders jumping into sell trades puts a huge amount of sell orders into the market. The bank traders use these orders to get the last of their buy trades placed before the market reverses, and what we end up with is a large bullish institutional reversal pin bar.

We can confirm this to be true because of the fact the reversal pin marked the last point where there was a substantial amount of sell orders coming into the market. After this pin formed, the market reversed, and the price began to move up with no other large drops taking place until the 7th March.



Now, if we take a look at one of the continuation pins that formed during the swing up and analyze it in terms of how many sell orders would have been coming into the market, it's clear there was a much smaller amount.

This is because of the difference in market structure seen before each respective pin bar formed.

In the first image, we saw how the reversal pin formed right after a large move down had taken place. This move lower would have caused traders to think the market is soon going to suffer a large drop. When they see the market fall again, they assume it's the beginning of the bigger drop they were expecting. When the banks enter their buy trades, the sell orders generated by the retail traders selling are consumed and the price moves up, resulting in the formation of a bullish institutional reversal pin bar.

In the second image, you can see the continuation pin bar forms after the market had already moved higher. The fact the market had already moved means a much smaller number of traders will have been interested in going short when they saw the market fall.

This means the banks were not able to get many buy trades placed when the pin was forming, as only a small number of sell orders were coming into the market from traders going short.

Quick Recap

- Two types of institutional pin bar form in the market. One is the institutional continuation pin bar, and the other is the institutional reversal pin bar.
- The institutional continuation pin bar only forms during upswings and down-swings, and signals the market is going to continue moving in the direction of the current swing.
- The institutional reversal pin bar only forms when the market is in the process of reversing. Market reversals always contain multiple swings up and down, and typically, the reversal pin bar will end up being one of the swings seen before the reversal takes place.
- The most obvious difference between institutional continuation pin bars and institutional reversal pin bars is their size. Reversal pins tend to be much bigger than continuation pins, not only in terms of the size of the wick but also in terms of the size of the candle bodies. This is due to the banks being able to get a much higher number of their trades placed during the creation of an institutional reversal pin than they are during the creation of an institutional continuation pin.

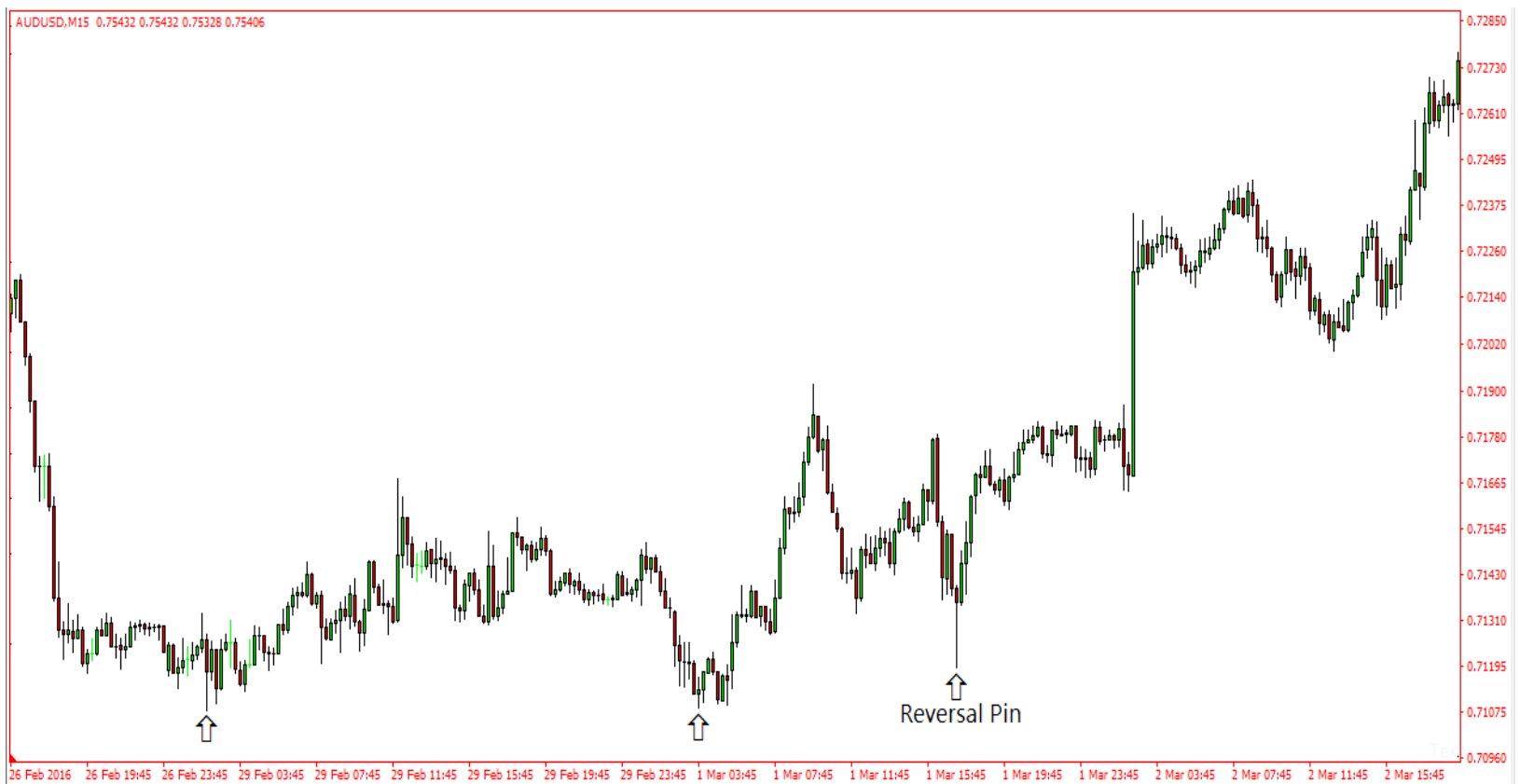
How To Trade Institutional Pin Bars

Now I think it's time I showed you how to go about trading each type of institutional pin.

What's good to know before we start is that both institutional pin bars are traded in the same way as normal pin bars i.e. once the pin has formed on the charts, you enter the trade with a market order to either buy or sell. Now although nothing changes in terms of the way you enter institutional pin bar trades, the one different thing, is the position of your stop loss when trading each type of institutional pin.

Let's take a look at where you need to put your stop loss when trading institutional reversal pin bars.

Like I said in the previous chapter, reversal pin bars only form when the market is in the process of reversing. This means they will always be found near other swings, which are relatively close together in terms of the prices at which they have formed.



In the image, you can see an institutional reversal pin bar was created right next to two swing lows that formed as a result of the bank traders placing trades to make price reverse.

It's obvious from the image how close the low of the reversal pin is to the price the other two swing lows formed at.

Overall, there's only a 13 pip difference between the low of the reversal pin and the lowest swing low that formed during the time this reversal was taking place.

13 pips is not a big difference when it comes to the banks getting multiple trades placed. If the distance between the two swing lows was bigger, say like 40 – 50 pips, then it would be unlikely a reversal is taking place, as the bank traders will not place their trades that far apart from one another.

Like I said in the previous chapter, reversal pin bars only form when the market is in the process of reversing. This means they will always be found near other swings, which are relatively close together in terms of the prices at which they have formed.

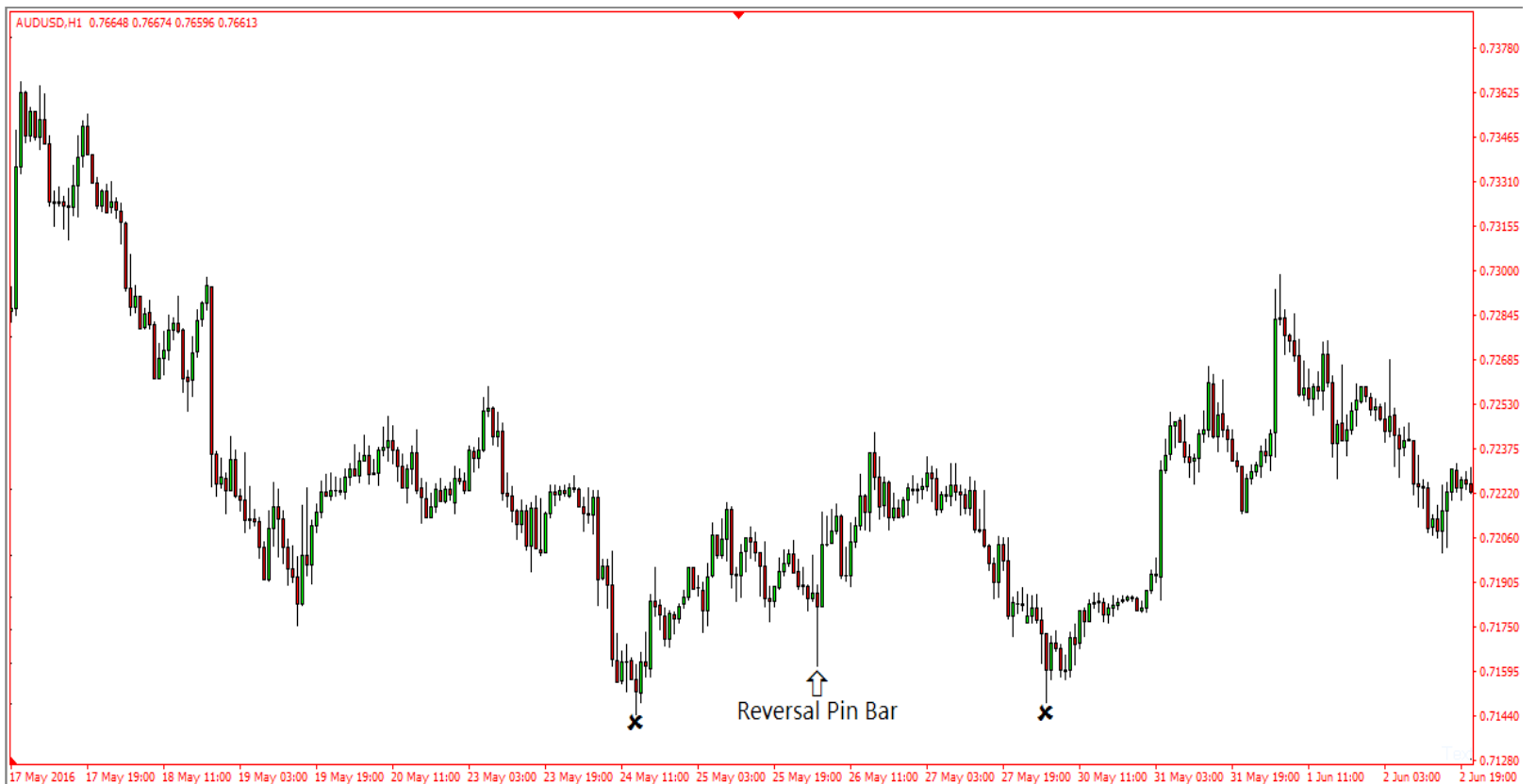
What's important for you to understand if you were planning to place a buy trade upon seeing this reversal pin, is you would need to make sure to place your stop below the lowest swing low that formed during the reversal and not below the low of the reversal pin itself.

If you put it below the low of the pin, the probability of having a losing trade increases, because if the banks have any more buy trades left to place, they'll make price drop to entice people to come into the market and place sell trades. Depending on how many sell orders they need to get their remaining buy trades placed, the banks might have to make the market fall below the low of the institutional reversal pin.

If this happens when you've got your stop below the low of the pin, you'll end up losing money.

Even though the banks may cause the market to fall below the low of the pin, they won't want it to fall below it by a large distance because they like to get all of their trades placed at prices that are as close together as possible.

This means the drop will have to terminate somewhere near the lowest swing low because this is the lowest point where the banks have potentially got some of their buy trades placed during the reversal.



The image above shows an institutional reversal pin bar that had its low broken due to the banks not having enough sell orders available to get all their buy trades placed.

If you placed a buy trade as soon as this bullish reversal pin bar formed with your stop-loss below the low of the pin like the trading books and websites teach you, you would have lost money.

The reason the market broke the low was that the bank traders did not have enough sell orders coming in to get the remainder of their buy trades placed. They needed to make the price fall further, as that's the only way they can get more traders to come into the market and place sell trades.

When the low of the pin bar is broken any sell stops traders may have placed at the low during the move up are triggered, this causes more sell orders to enter the market on top of the sell orders already coming in from traders placing sell trades because they see the market falling.

Once the low is broken, the bank traders get their remaining buy trades placed. All the sell orders coming into the market are consumed, and the market reverses, causing many of the traders who placed sell trades during the move down to close their trades at a loss.

This is a great example of why you need to think about where the banks have got their trades placed when you plan on trading any institutional reversal pins you see form in the market.

Despite the fact the reversal pin formed due to the bank traders placing buy trades to make the market reverse, the market still went on to break through the low of the pin

because the banks didn't have the necessary amount of sell orders coming in to get all their buy trades placed.

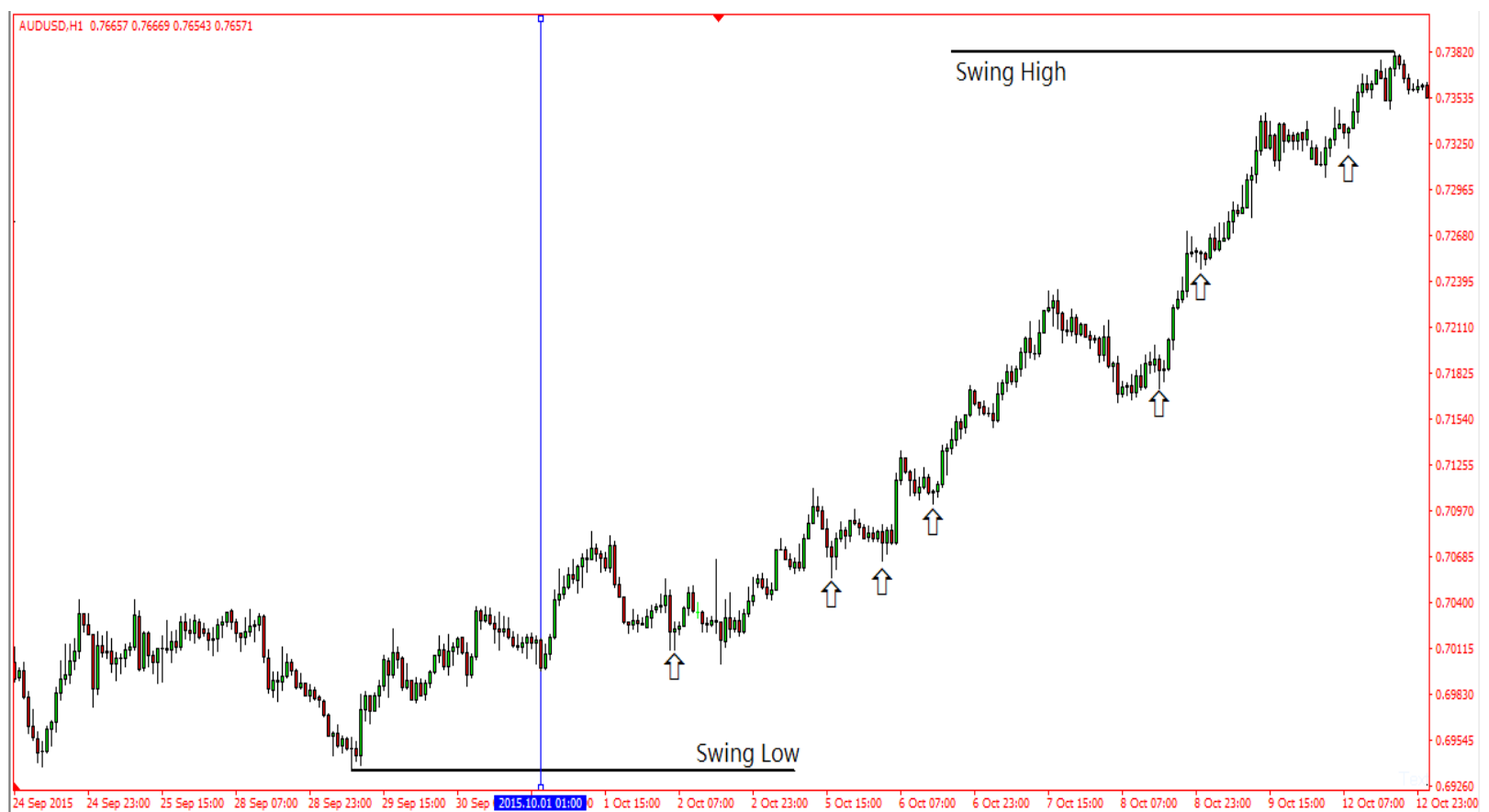
The books and websites would say that when the low of a bullish pin bar is broken, the pin bar has failed and the trade is over. They say this without understanding why the pin bar has formed or how the bank traders go about getting their trades placed when causing reversals.

When you see a bullish institutional reversal pin bar form, you know not to automatically assume the pin bar has failed when the low of the pin (or high of the pin if it was a bearish institutional reversal pin) is broken, because it's highly likely the reason it's been broken is because the banks still have more trades left to place.

So from now on, when you see a bearish institutional reversal pin form, make sure you put your stop loss above the highest swing high that's been created during the reversal and not the high of the pin bar itself. Conversely, if your trading a bullish institutional reversal pin, be sure to put the stop below the lowest swing low you have seen form during the reversal, not the low of the pin bar itself.

Now that you understand how to trade institutional reversal pin bars, what I want to do next is show you how to trade institutional continuation pin bars.

Institutional continuation pin bars are traded in much the same way as the reversal pins we just looked at. To trade them successfully, you have to have an understanding of the points where the banks have got their trades placed and a sense of how big these trades they've got placed are.



The image above shows an up-swing that took place on AUD/USD from the 28th of September to the 12th of October.

Notice I've marked 8 bullish pins that formed during this up-swing with arrows?

These are continuation pins that have formed from the banks placing a small number of buy trades.

The key to trading continuation pin bars successfully is knowing where to put your stop when entering the trade. Unfortunately, most traders, when they trade pin bars, will place their stop either above the high or below the low.

Whilst this is a perfectly valid place to put your stop, it can lead to a lot of losing trades, due to the fact price will often break through the low or high before reversing.

The best way to stop this from happening is to place your stop at a different point. The question is, where do you put it?



Here's an image of two bearish continuation pin bars that formed on the 15-minute chart of AUD/USD.

If you were planning to trade these bearish pins you wouldn't put your stop above the high of the pin, you would put it above the swing high I've marked with a tick inside the orange box.

The reason why is because the price action highlighted in the orange box shows the most recent point where the banks placed a significant number of sell trades.

We know this is true because a large drop took place after the swing highs formed.

The only way this drop could have occurred is if someone put sell orders into the market either from placing sell trades or from taking profits off buy trades (it doesn't matter which).

The three swing highs you can see inside the orange box were the main points where there would have been enough buy orders for the banks to place a large number of sell trades. This means the majority of the sell orders that caused the move down entered the market at these swing highs.

Now because the three swings are the main points where the banks placed their trades, it means the stop-loss on your continuation pin bar trade has to be placed above these highs. More specifically, it has to be placed above the high I've marked with a tick, as this was the highest point the banks could have placed their trades to cause the move down.

If the banks wanted the market to keep falling after their sell trades were placed, they would come in and enter more sell trades, they wouldn't let the price rise past the point where they've already placed their trades, because they still want price to fall to make more money.



Here's another image of a bearish continuation pin.

If you traded this pin bar in the same way the books and websites teach, you would have probably lost money, because a few hours after the pin formed, the market moved back up and broke through the high of the pin, before reversing again.

Now, if you had put your stop above the last point where the banks placed a large number of sell trades, you wouldn't have lost any money on this trade. Because although the

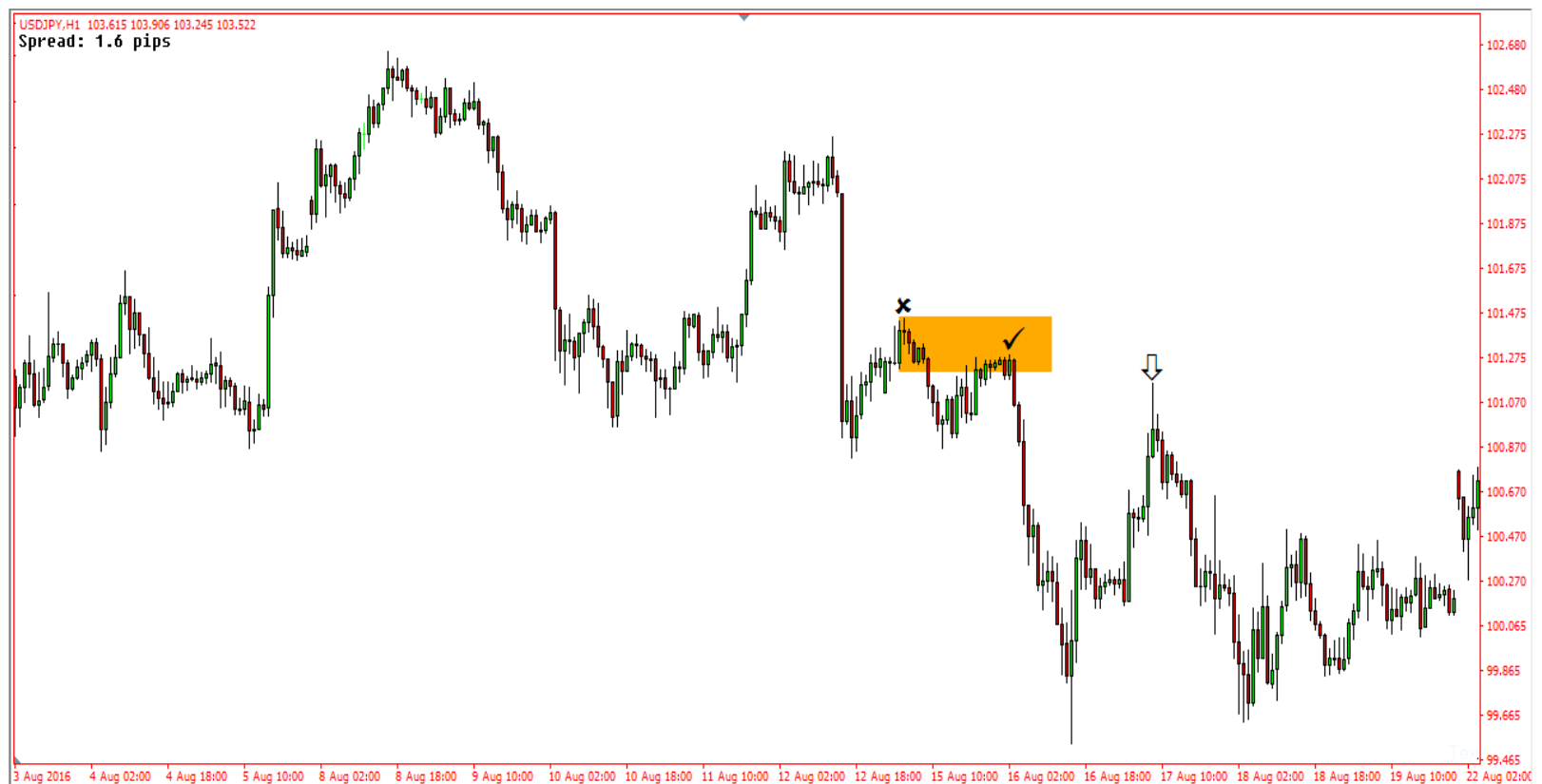
market did end up breaking through the high of the pin, it was still far away from breaking the swing high that formed from the banks placing sell trades (marked with a tick in the image).

The reason the market tends to break through the high of bearish pins, or the low of bullish pins after they form, is because when people see a pin bar form, they enter trades in the direction to which the pin suggests. They then go and put their stop loss above the high or below the low of the pin (depending on if the pin was bullish or bearish).

The more traders who do this when they see the pin form, the better it is for the banks because they can just make the market spike up through the high of the pin to execute all the sell stops. That will allow them to get more of their own trades placed at a favorable price, which gives them a better risk to reward ratio on their trade.

Sometimes you'll see the stops appear above the high or low of the pin using Oanda's order graph, but in most cases, the number of stops found above the high or low of the pin won't be much compared to amount you'll see when trading typical stop runs.

When it comes to actually finding the most recent point where the banks have placed their trades, all you need to do is look for the source of the last drop (or rise if the market was moving higher) that's taken place.



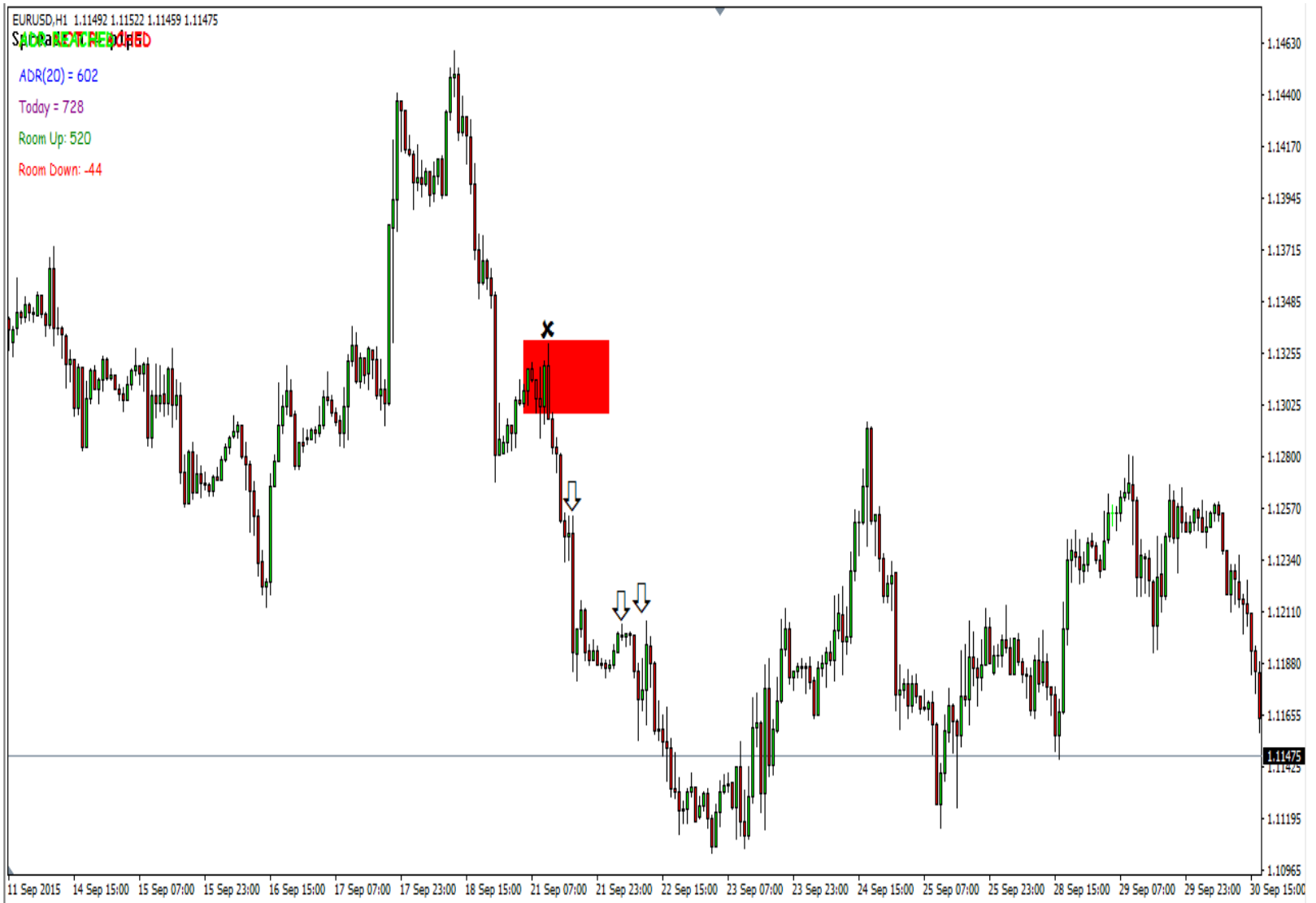
In the image above you can see I've marked the source of a drop that occurred on the 1-hour chart of USD/JPY.

The area marked in orange is the source of the second big drop that took place before the bearish pin marked with an arrow formed. If you were trading this bearish pin, you would put your stop above the high marked with an X.

Although this high was created by the market making a small drop, it's still considered part of the source of the large drop, due to the fact it formed near the high of the following drop (marked with a tick)

When the highs are close like this, it's a sign the sell trades that caused the large drop out of the orange box were not only placed at the high I've marked with a tick but also at the high next to it marked with an X.

So even though the high marked with a tick is the high of the large drop, it's not the high you put your stop, because of the fact the banks would have placed most of their sell trades at the high marked with an X.



Here's a situation where the source of the last drop was the high of a retracement rather than a consolidation structure like in the previous images.

When the source of the last drop or rise is a retracement, your stop-loss always goes at the high of the retracement (if it formed when the market was falling) or the low of the retracement if the market was rising.

So, if for example, a bearish pin had formed at one of the points I've marked with arrows, your stop loss would need to go at the high of the retracement marked with an X. If there

were multiple highs at the top of the retracement, your stop would be placed at the highest, as this is the point where the banks would have got most of their sell trades placed.

Below is a basic summary of what you need to do upon seeing a continuation pin bar form in the market.

When you see a bullish or bearish continuation pin bar form, the first thing to do is find the most recent point where the banks got a large number of their trades placed.

To figure out where this is, you just look for the point where the most recent drop or rise has originated from. (The point where the drop originated from will be seen as either a retracement or a consolidation)

If the most recent point where the banks got their trades placed was a consolidation, you'll need to make sure to put your stop below the lowest swing low that formed during the consolidation, if you were trading a bullish continuation pin bar. If you were trading a bearish continuation pin, you would put the stop above the highest swing high that formed during the consolidation.

If the most recent point where the banks entered the market was a retracement, you'll need to put the stop loss below the swing low that marked the end of the retracement if you were trading a bullish continuation pin. Similarly, if you were trading a bearish continuation pin, you would need to put your stop above the swing high of the retracement.

Chapter Review

Finally, we've come to the end of the chapter. I hope you now have a good idea of which pin bars you should be trading and where you should be trading them. If you're still a little unsure about the process you go through to trade each type of pin bar, fear not, because in the last section I run through some examples of how to trade to each type of pin and how to determine which type of pin has formed in the market.

Below is a small overview of the main points I want you to take away from this chapter.

- Institutional reversal pins always form when the market is in the process of reversing. They are typically seen as one of the major swings that form during the reversal itself, and you will always see other swings form around the same price as the reversal pin.

- Institutional continuation pin bars form after a reversal has taken place. These pins are a lot smaller than reversal pins not only in terms of the size of their wick but also the size of the candle body as-well. This is due to the fact the continuation pin has been created by the banks placing a much smaller number of their trades than what they placed during the formation of an institutional reversal pin.
- When you're trading institutional reversal pins, make sure to not put the stop loss at the low or high of the pin if there is a recent swing low (or swing high for up-move to down-move reversals) that's formed during the reversal that is lower or higher than the low or high of the pin you're trading. The lowest recent low or highest recent high needs to be included because the market has a high chance of reversing in the area between the high or low of the pin, and the lowest swing low or highest high that's formed during the reversal.
- When trading institutional continuation pin bars, make sure you put the stop loss above or below the nearest point where the banks have got their trades placed into the market. This point will either be a consolidation or retracement seen before the most recent move down or up that's taken place in the market.

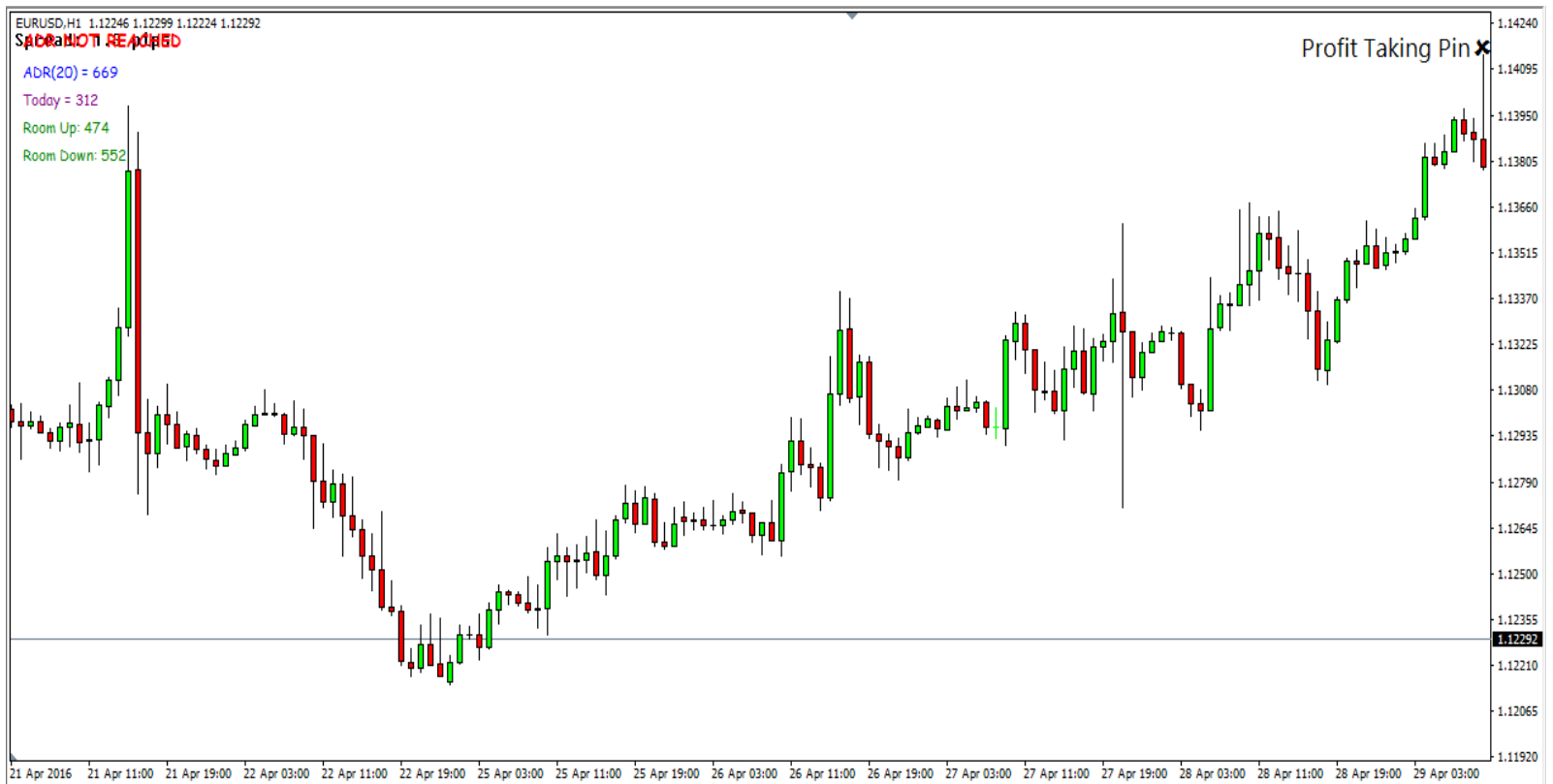
The Two Biggest Mistakes Traders Make Trading Pin Bars

Now you know how to trade the different types of pin bars that form in the market, I think it would be a good idea to spend a little bit of time looking at what I feel are the two biggest mistakes traders make when trading pins.

Mistake #1 – Trading Pin Bars As Soon As They Form

What better way to start than to look at what I believe is the number one reason why traders typically tend lose money trading pins.

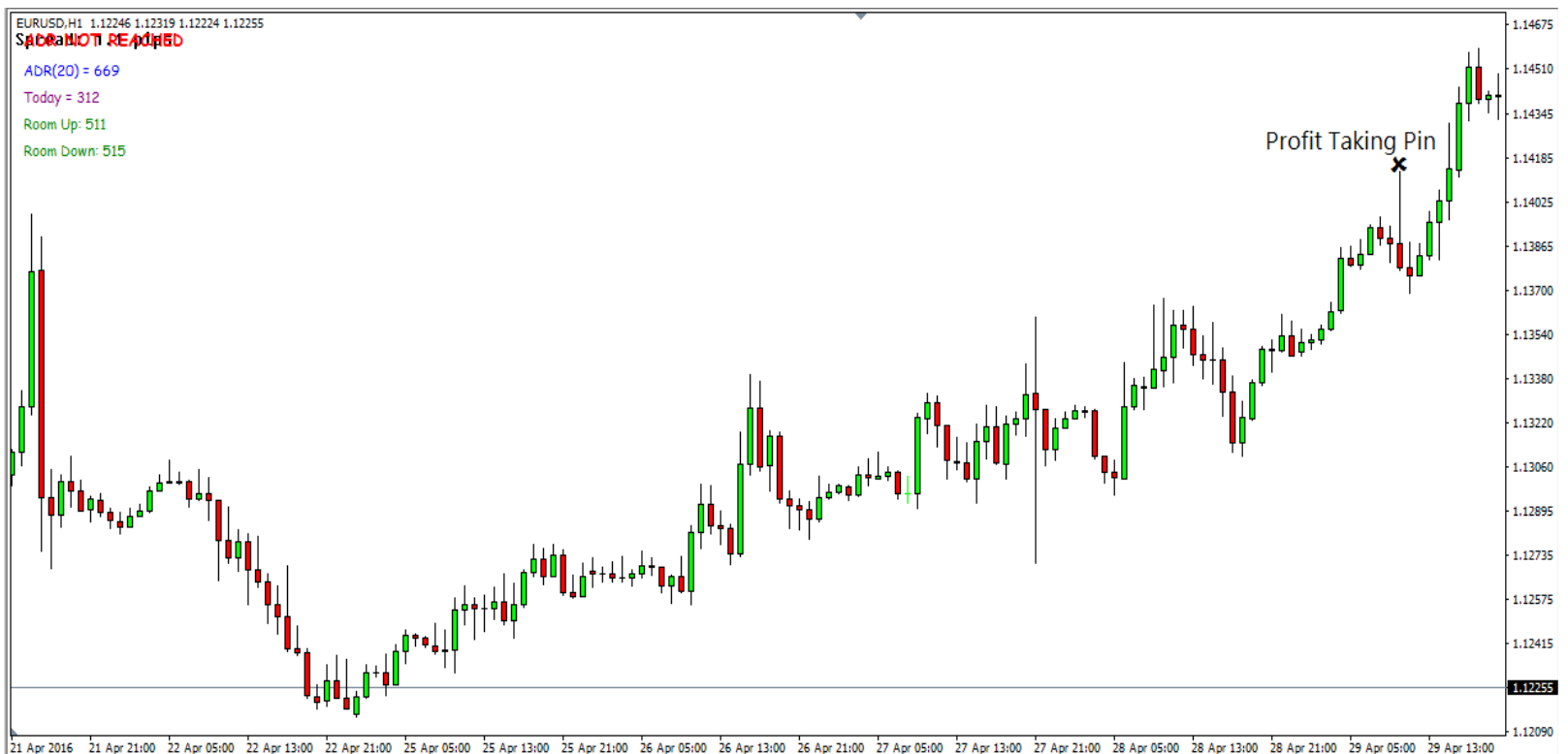
Trading pins as soon as they form is a mistake born out of a misunderstanding of what pin bars are supposed to signal when they form. Most of the education out there on pin bars assumes that when a pin bar forms, a reversal is supposed to take place either straight away or a short time after the pin has finished forming.



Take a look at the bearish profit taking pin above.

Most traders would have entered into a short trade as soon as they saw this bearish pin form.

This is because the typical pin bar education has taught them the appearance of a bearish pin means the market is supposed to stop moving higher and start moving lower. Traders mistakenly assume this means straight away, which causes them to enter sell trades as soon as they see the bearish pin bar has finished forming.



If we look at what happened in the hours after the bearish pin formed, we can see how entering short right after the pin appeared was not a good idea because it only took the market 5 hours to move up again and break through the high.

The reason the market's moved up and broke the high is because the pin formed due to the banks taking profits off their trades. You wouldn't know this was a profit taking pin as soon you saw it, but you would strongly suspect it based on the fact that it's formed after a sharp rise.

So, don't enter trades as soon as you see a suspected profit taking pin form. Always wait for more confirmation. If a sharp move takes place after, it's likely means the pin is a reversal pin so is okay to trade, but only if another move back to the pin

Mistake #2 Trading In The Direction Of A Higher Time-Frame Trend

Trading in the direction of the higher time-frame trend is a mistake 've spoken about before on my site. I thought it would be a good idea to quickly through it again, maybe in a little more detail, as it's one of the primary reasons why traders lose money trading pins.

Most traders trade in a way where they determine the trend is on a higher time-frame, and then proceed to take trades on a lower time-frame in accordance with the higher time-frame trend.

The reason they do this is because most trading books and websites teach traders the higher time-frame trend is more important than the lower time-frame trend, due to the higher time-frame trend being in place a lot longer than the lower time-frame has. This incorrect belief leads traders to always place trades in the direction of the higher timeframe trend, regardless of the direction the market may be moving in on the time-frame the traders place their trades off.

Continued On Next Page



Looking at the image above we can see USD/JPY had been in a long up-trend on the daily chart.

The fact the market had been in an up-trend on the daily means all the traders who use the daily chart to determine the direction of the trend will think they should be placing buy trades on whatever time-frame they trade off.



Lets say a trader places all of his trades and conducts the majority of his analysis using the 1 hour chart.

If you look at the image above, you can see how the price is falling on the 1-hour chart even though the trend on the daily chart is up. The trader can see this too, but he isn't going to be placing any sell trades regardless of what analysis he does, because he knows the market is in an uptrend on the daily chart.

What's the one piece of advice you hear repeated again and again when learning how to trade?

“Don't trade against the trend”.

Now because our trader determines the trend using the daily chart, to him this advice means he should not be placing any sell trades when he sees the market moving down on the 1 hour because that would mean he's trading against the trend

If you look at the image again, you'll notice I've marked some bullish pin bars with arrows.

When the trader sees these bullish pins form, he will think they are signaling a reversal of the down-move and a resumption of the up-trend. He'll go and enter a buy trade under the impression he's taking a high probability trade because he's is trading in-line with the trend on the daily chart.

What the trader doesn't realize is the bearish pins are unlikely to cause the market to reverse because the trend on the 1-hour chart is down. The trader, in trying to trade in-line with what the trend is on the daily chart, is actually trading against the trend on the 1-hour chart. This is a big problem because the 1-hour chart updates much quicker than the daily chart (every hour instead of every day) which means a trend change is going to take place on the 1 hour first before it occurs on the daily.

For an up-trend to change into an downtrend, the market has to make a lower low followed by a lower high.

Continued on next page



If we go back to the first image, you can see the distance from the most recent swing high to the most recent swing low is 8054 pips.

This means, for the trader who trades in the direction of the trend on the daily chart to see the daily trend might actually be changing, the market will have to move more than 8054 pips, as that will be enough for a new lower low to be created.

Now, for the whole time the market is falling towards the swing low, all the traders who use the daily chart to determine the direction of the trend will think the move down is simply just a retracement to the current up-trend.

As the market is moving lower, bullish pin bars will appear that the trader will think are decent opportunities to get long back into the up-trend. Of course, most of these pins will end up failing because they're not reversal pins created by the banks placing buy trades to make the market reverse, they're profit-taking pins that have formed from the banks taking profits off sell trades placed during the move down.

You know the move down from the high could actually be the beginning of a whole new downtrend, it's just the traders are never going to realize this until the market has made a new lower low on the daily chart. By the time the new low has been made, the traders will have had a large number of losing trades, due to the fact they've mistakenly believed the move down was just a retracement to the up-trend.

The best advice I can give to someone who always trades in the direction of the higher time-frame trend is to start trading in the direction of the trend on the time-frame you use to place all of your trades/conduct all your analysis off.



If we go back to the image of the retracement, you can see how the vast majority of losing trades you would have had trading in the direction of the daily trend could have been avoided had you just traded in the direction of the trend on the 1-hour chart.

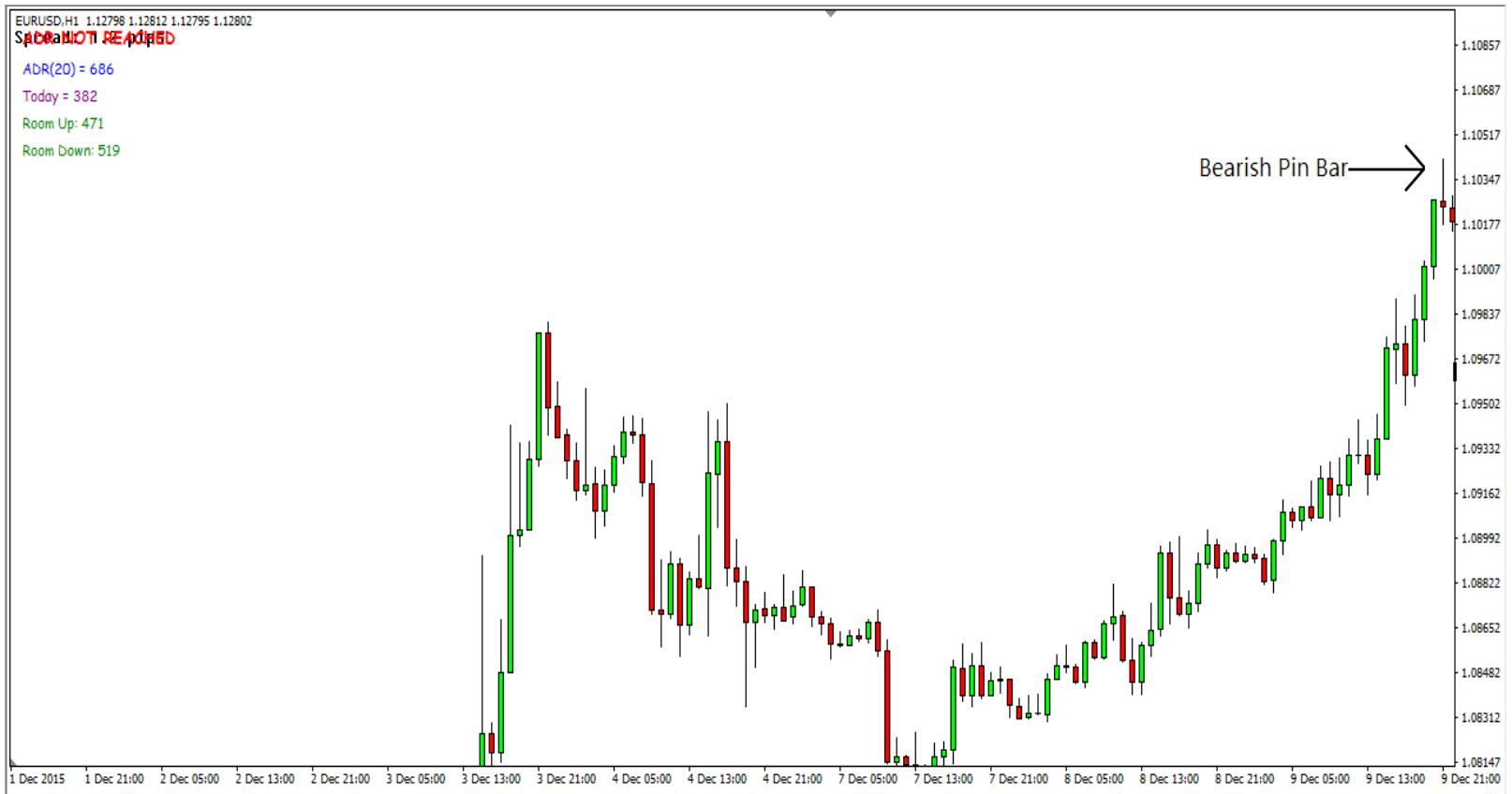
As soon as the market makes a lower low followed by a lower high, the 1-hour trend is deemed to be down, which means you should now be looking for entries into short trades regardless of what the trend might be on the higher time-frames like the daily chart.

Trade Examples

As we come to the end, I think it's a good idea to go through a couple of examples of how you determine which type of pin has formed, and how you go about trading each type of institutional pin.

How To Determine Why A Pin Bar Has Formed In The Market

To start, I'm going to run through an example of how you would trade an institutional reversal pin bar. Whilst I'm doing this, I'm also going to show you how to determine which type of pin has appeared using the first swing high that formed during the reversal the institutional reversal pin bar was part of.



The image above shows a bearish pin bar that formed on the 1-hour chart of EUR/USD.

To figure out why this bearish pin has formed, the first thing you need to do is look at the movement that took place immediately before the pin appeared.

If the pin formed after a large movement, it's likely to be a profit-taking pin. In the example, you can see the bearish pin did form after a large move higher took place, which suggests it's formed because the banks are taking profits.

Now even though the large move higher suggests the bearish pin has formed due to profit-taking, it's still not enough for us to be 100% sure it is a profit-taking pin.

So the next step is to see if any other significant swings have formed recently to the bearish pin bar, at prices close to where the pin has formed. If they have, it would mean the pin is likely to have been created by the bank traders placing sell trades to make the market reverse.



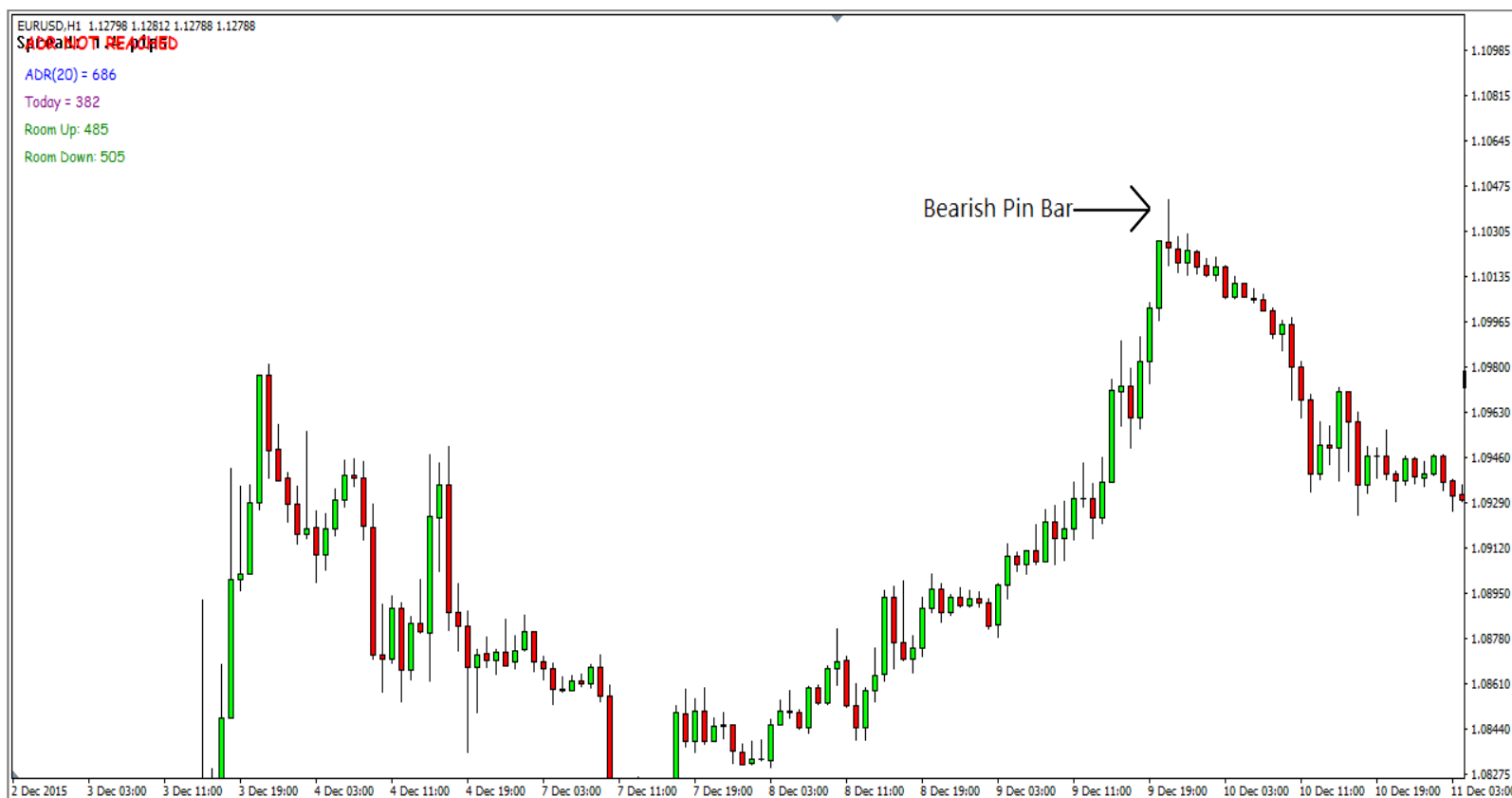
If we look at the first image again, you can see a swing down occurred two days before the bearish pin formed. The swing high of this swing down is not close enough to the point where the bearish pin formed for it to have been created by the bank traders placing sell trades to make price reverse.

If it had formed at the point I've marked with an X, then there would be a good chance both the swing high and the bearish pin bar have formed due to the bank traders placing sell trades. In this scenario, you would enter a sell trade when the bearish pin has finished forming with your stop a few pips above the high of the pin.

Since we know the bearish pin formed after a large move higher and that no other swing highs had formed recently to the pin forming, it's a clear sign the pin has been created by the bank traders taking profits off buy trades, which means when the pin has finished forming, we don't place a sell trade.

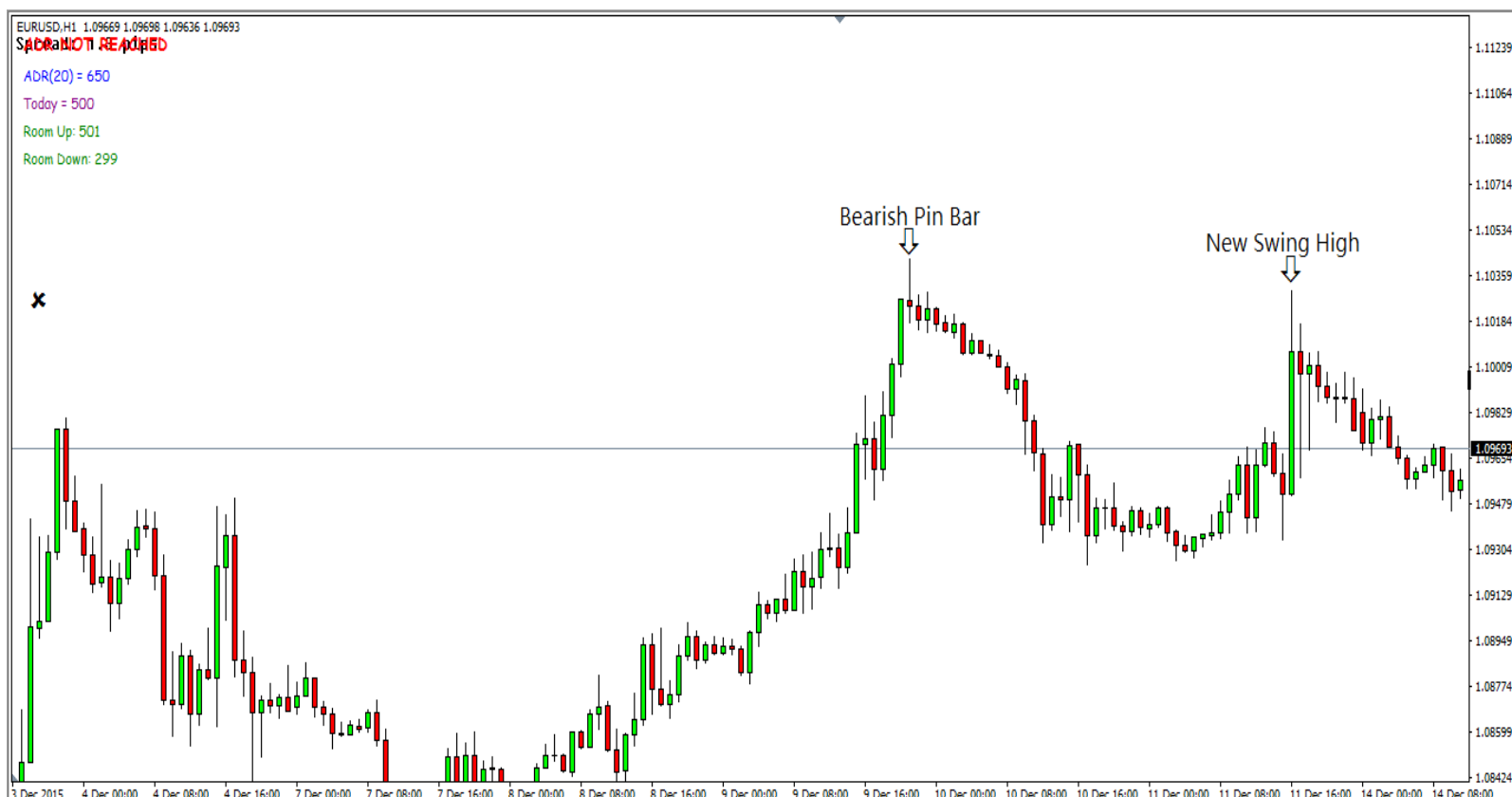
Although we now have evidence to suggest the pin has formed because of the bank traders taking profits, it doesn't mean we abandon the pin completely, it just means we don't place a sell trade as soon as the bearish pin has finished forming.

What you would need to do now is wait to see what the market does after the bearish pin forms, because it's still possible the pin has formed from the bank traders placing sell trades.



As you can see, after the bearish pin forms, the market moves down.

At this point, you'd still believe the bearish pin has formed due to profit-taking, but you would understand that if it has been created by the banks placing sell trades, a new swing high is going to form around the price at which the bearish pin has formed, as the banks like to get all of their trades placed at roughly the same price when causing reversals.

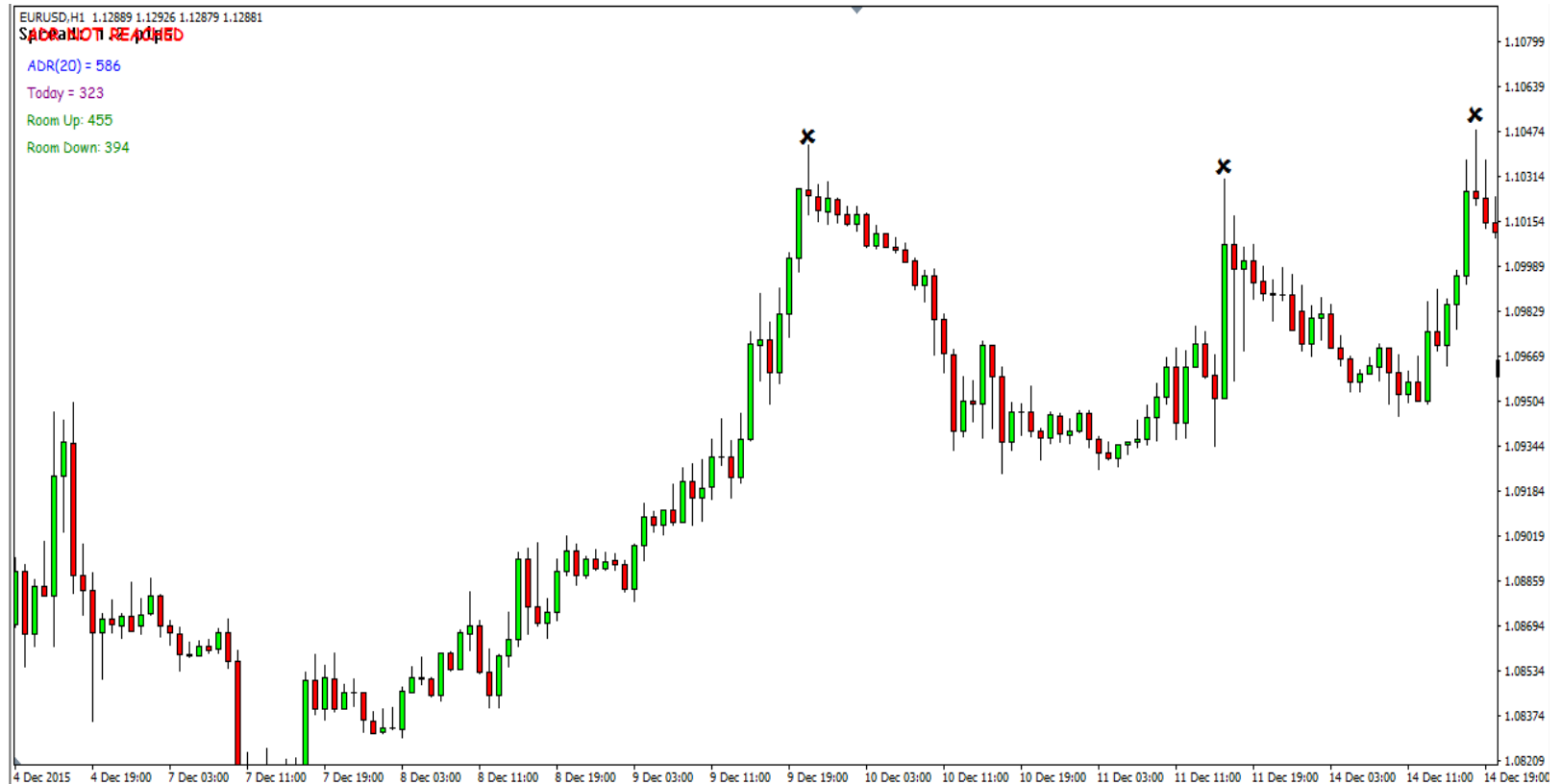


If we look at what happened a few hours later, you can see how the market moved up to the area where the bearish pin formed before falling again, creating a new swing high in

the process.

This second drop means that it's now highly unlikely the bearish pin has been created by the bank traders taking profits off their trades. If they were taking profits, they would want the market to continue moving past the high of the bearish pin after the drop.

So now we know the bearish pin is likely to have been created by the bank traders placing sell trades to make the market reverse, we can focus our efforts on finding a signal we can use to get our own sell trade placed before the market reverses.

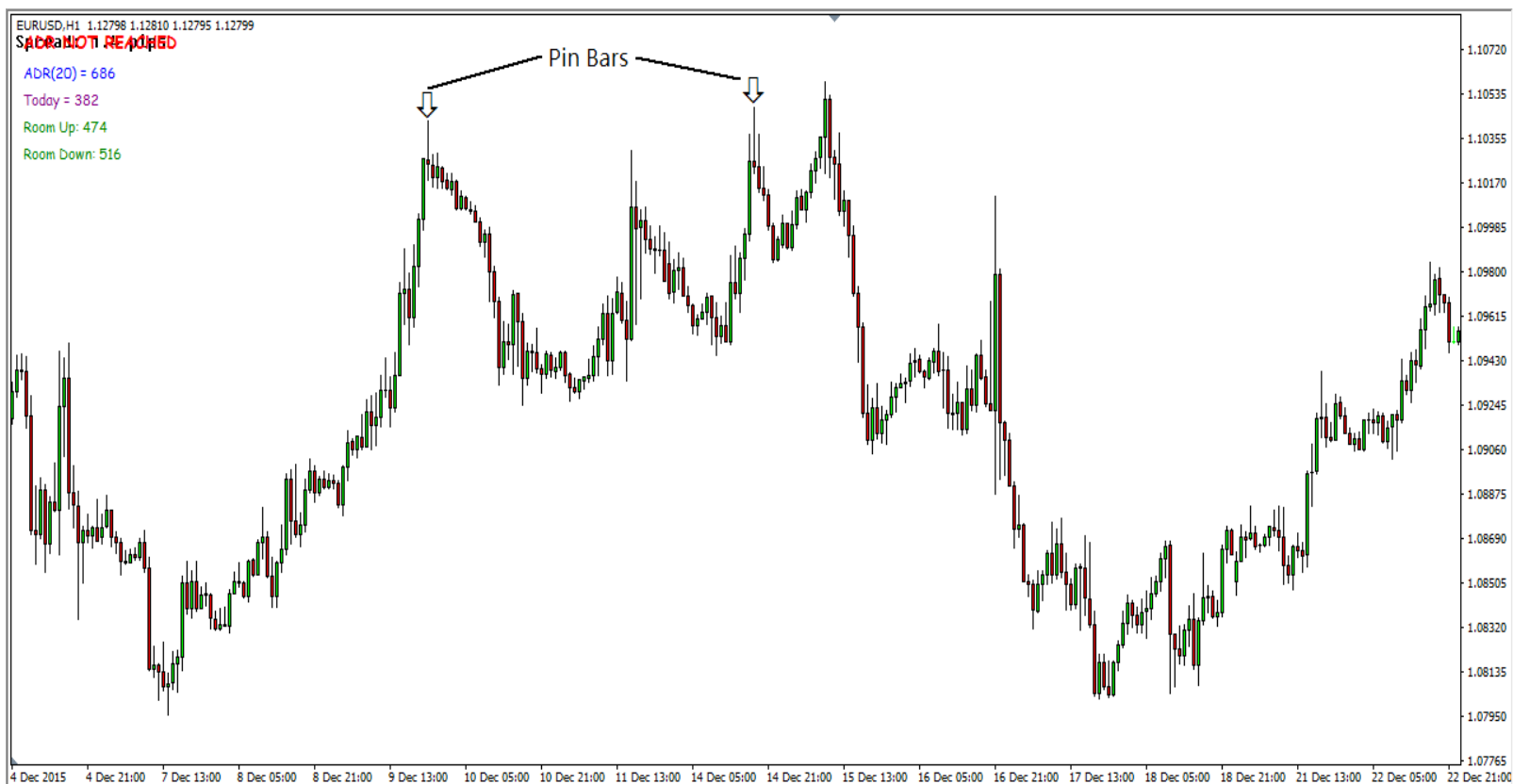


Another move higher takes place after the swing high forms, and this move ends with the appearance of a second bearish institutional reversal pin bar.

When this pin appears, you would enter a sell trade with your stop about a few pips above the high of the pin.

Important Note:

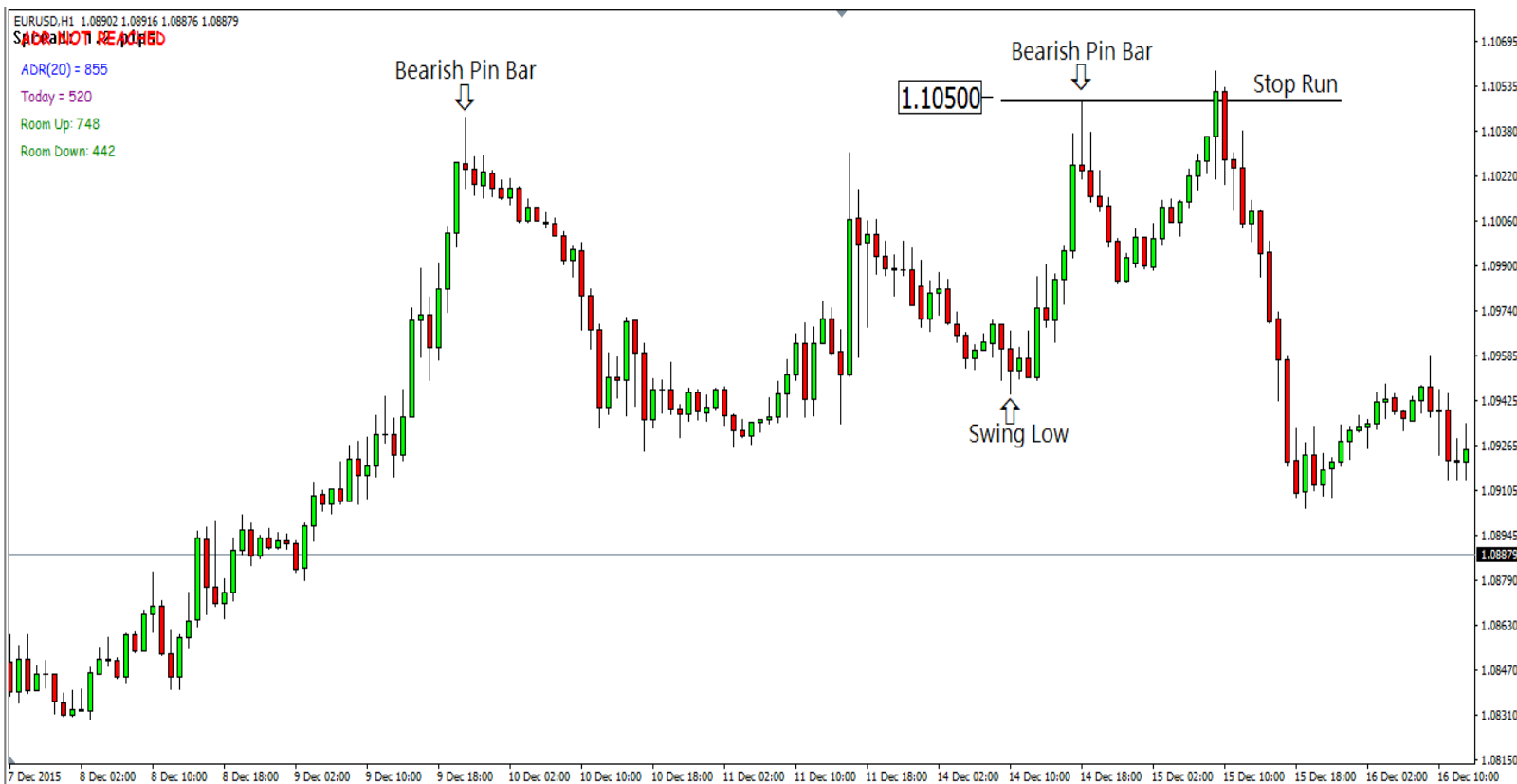
Another reason it's a good idea to trade this pin bar is because of what the banks need to get their trades placed. The banks will only place their trades once they have a large number of orders entering the market from other traders making trading decisions, like placing trades, closing trades, or taking profits.



If we look at the four swing highs that formed during the reversal, you can see each one was created after a large bullish movement had taken place. The second bearish pin bar, which you would have used for entering a sell trade, formed after a bullish move higher had occurred. The fact this move higher was so bullish, means that lots of retail traders will have been entering buy trades during the time the bearish pin was forming.

Before the price fell and created the wick on the pin, the market looked like it was going to continue moving higher, the traders would have jumped in to buy trades as this move higher was taking place because they would have believed it to be a continuation of the large bullish move higher they have just seen occur.

Because so many buy orders are coming into the market, it means the bank traders can get a large number of their sell trades placed. The bearish pin bar is a sign the banks have got those sell trades placed, which is why it's likely for the market to fall after the pin has formed.



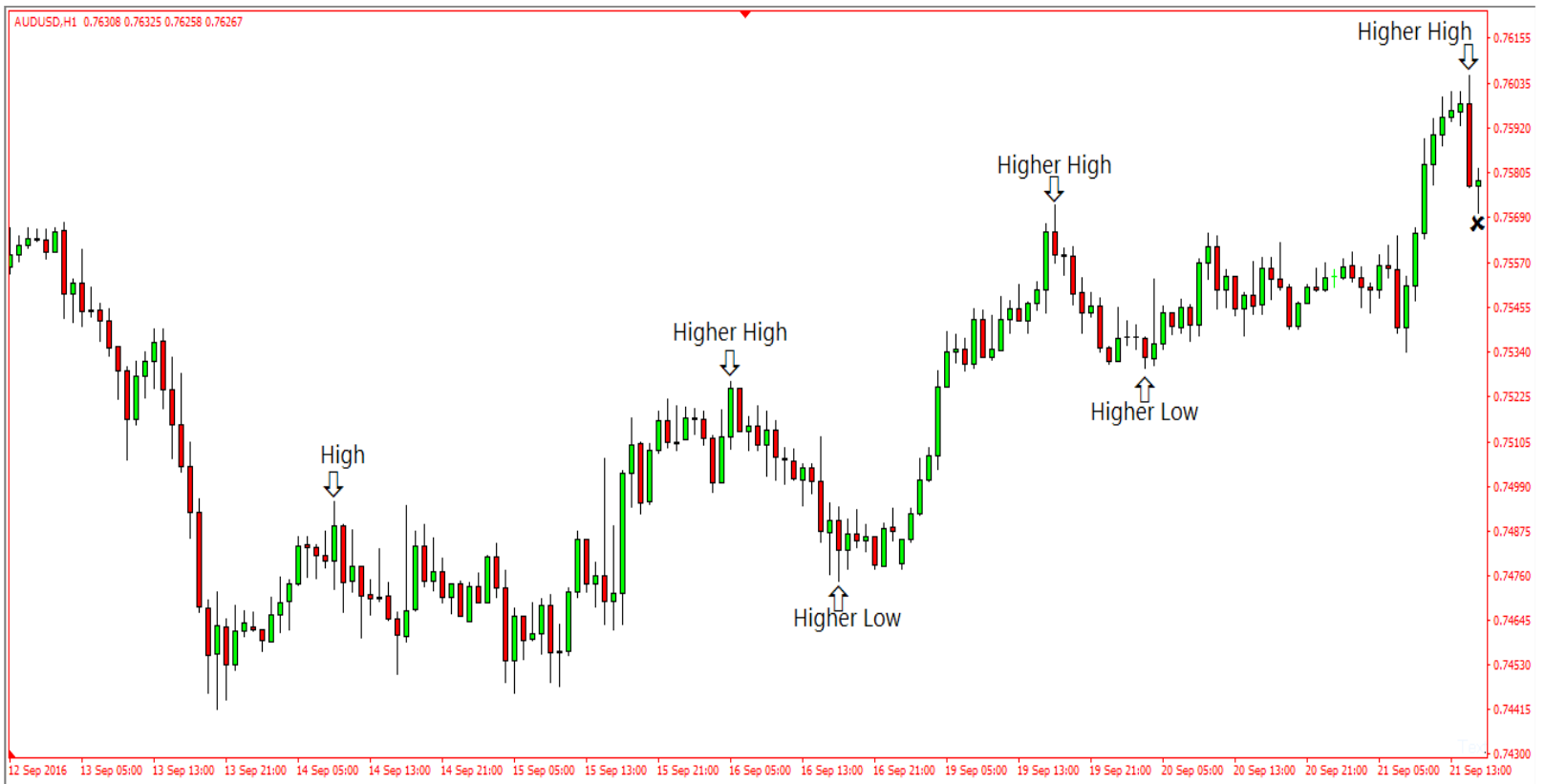
After the second bearish pin forms, the market drops again, but the fall fails to break through the swing low created by the move higher seen before the pin.

At this point, another move higher takes place, which causes the market to break the high of the bearish pin by 11 pips. The market then reverses and moves lower, causing you to make a large profit.

Continuation Pin Bar Set-Up

For the final example, I'm going to show you how to trade a continuation pin bar.

Continuation pins are really easy to trade. They don't require you to conduct any kind of analysis on the market structure to determine what type of pin they are, you just need to see if the pin has formed when the trend is up or when the trend is down.



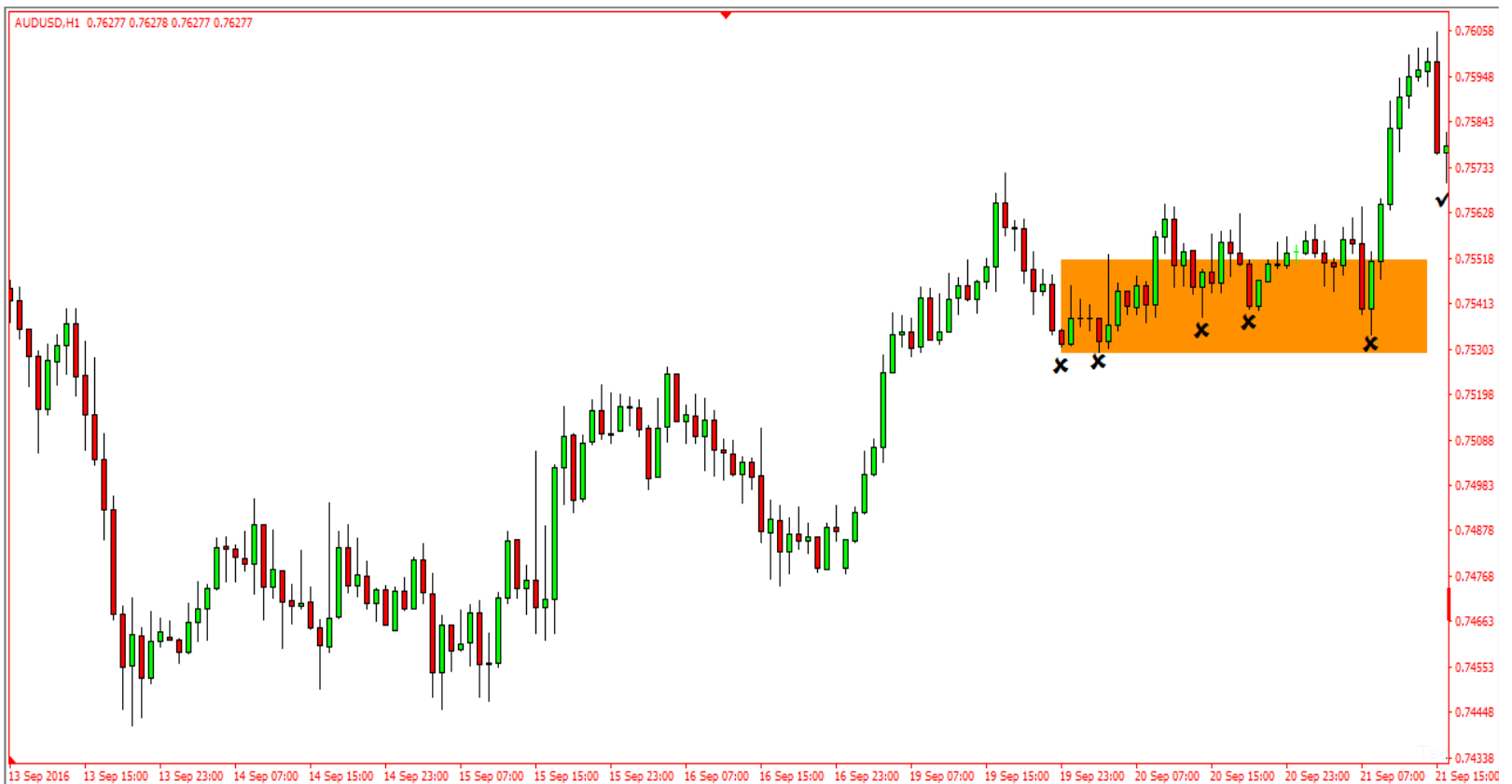
Looking at the chart, you can see I've marked a bullish continuation pin bar in the top right-hand corner of the image (marked with an X).

If you were planning to trade this pin, the first thing you would do is check it's actually a continuation pin.

The way you do this is simple, you just need to look to see if the trend on the time-frame the continuation pin has formed on is currently up or down.

In the example, it's clear the trend on the 1 hour of AUD/USD was up, as evidenced by the fact the market had made multiple higher highs and higher lows by the time the continuation pin formed. Because we know the trend is up, it means the bullish pin bar is definitely a continuation pin because it's signaling a continuation of this current up-movement.

Once you know for sure a continuation pin is forming, the next step is to find the most recent point where the banks got a large number of their trades placed.

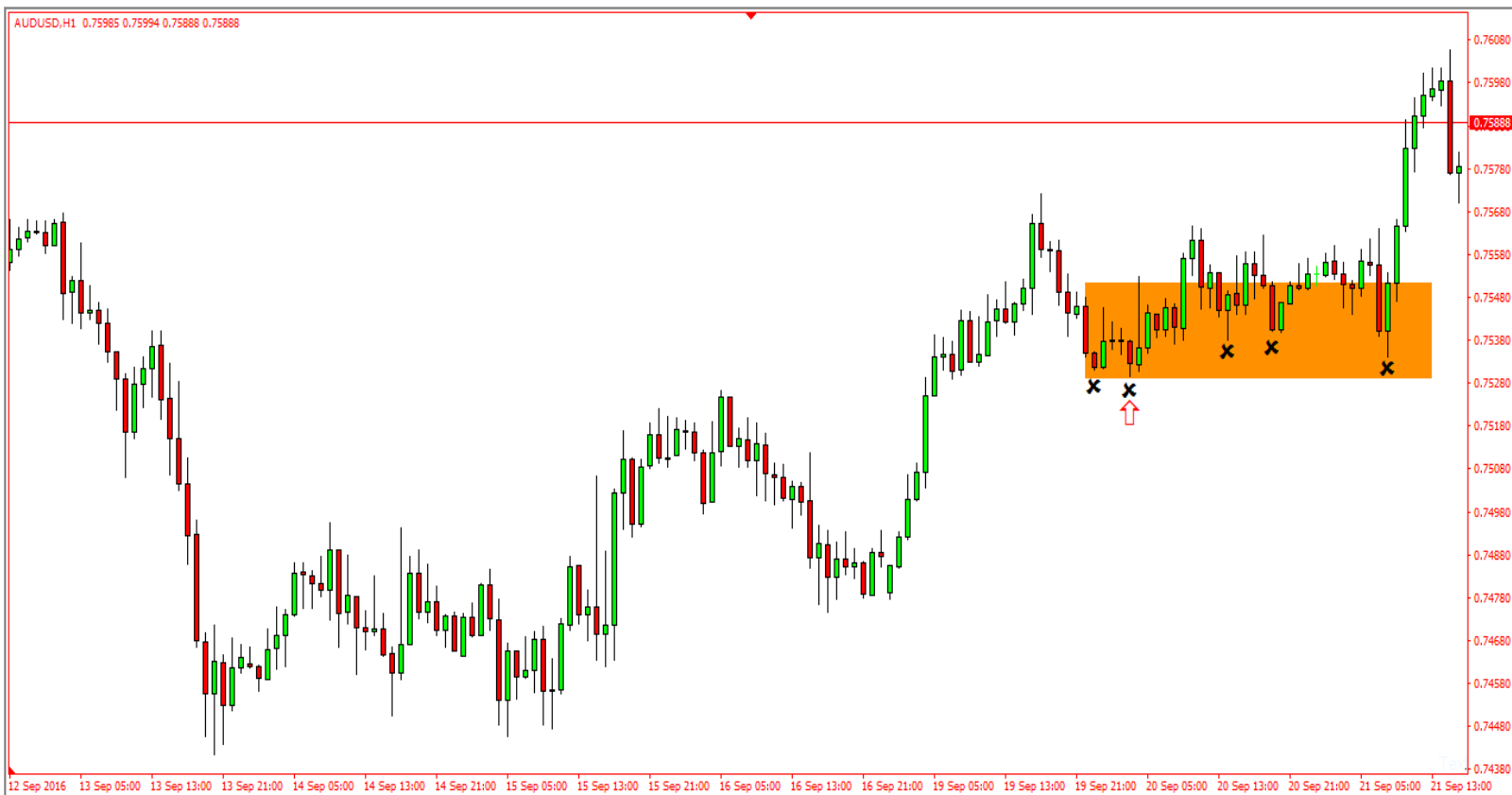


If you look at the image above, you can see I've marked an orange box around the consolidation that took place just before the move higher started and the continuation pin formed.

Most of the buy trades that caused this move higher were placed inside this orange box, more specifically, they were placed at each one of the drops that took place when this consolidation was in progress (marked with X's in the box).

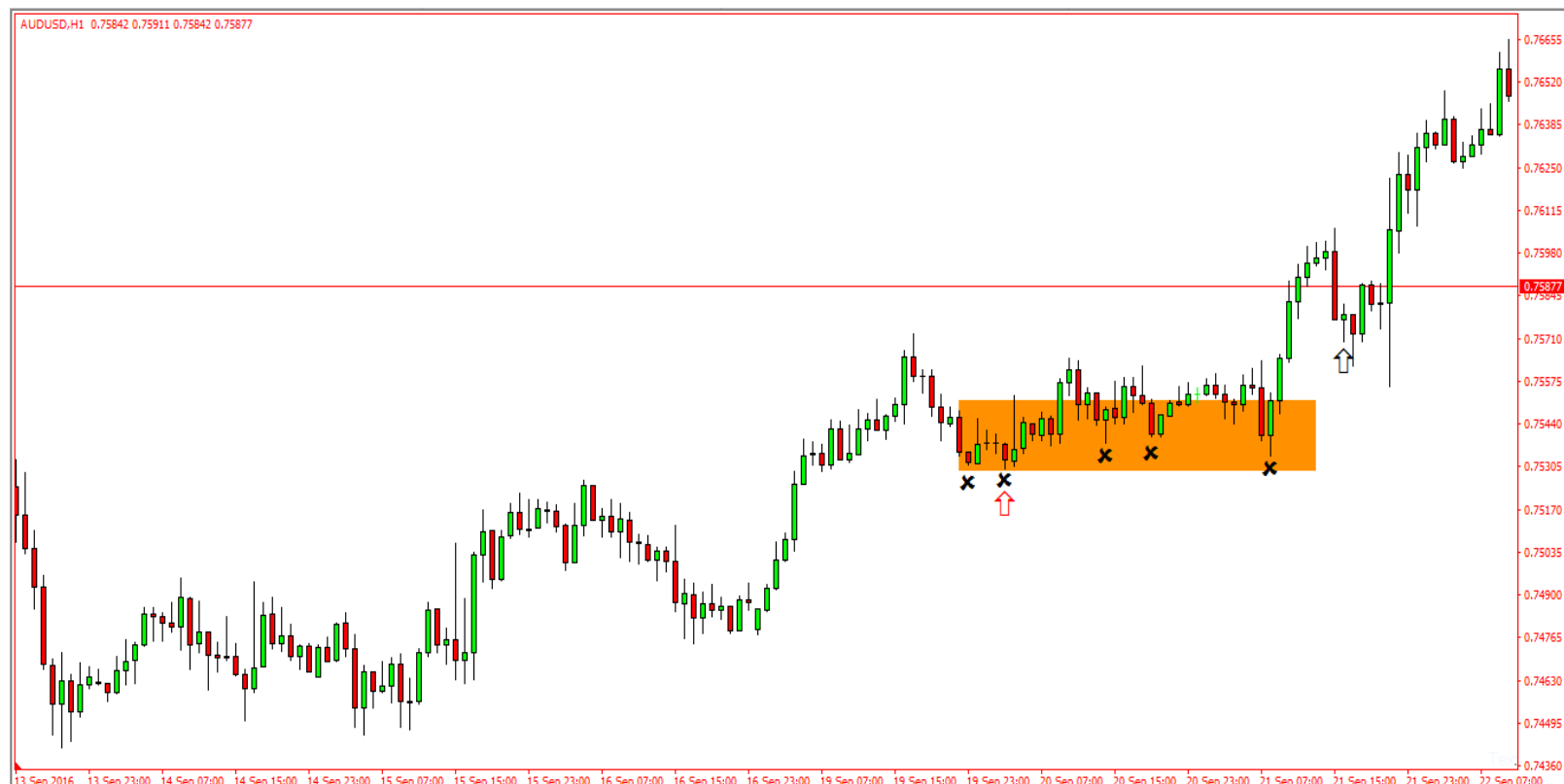
The reason why the banks buy trades were placed each time the market dropped was because that was the only time enough sell orders were coming into the market for them to get a large number of their buy trades placed.

They can't get buy trades placed unless other traders are placing sell trades, the bigger the size of the buy trade they want to place, the bigger the size (or number) of opposing sell orders that need to be coming into the market.



I've marked the lowest point where the banks got their trades placed in the example above. This low is where you will put the stop loss when you enter trade.

If you put it at the low of the move up (marked with an X in the far right of the orange box), you increase the risk of potentially having a losing trade, because often the banks will make the market come down and break through the low of the move up in order to trigger any sell stops that have built up from traders who might have gone long.



With your buy trade placed, the last thing to do is see how the market plays out.

In the example, the market comes down and breaks through the low of the pin an hour after it has formed, and then 4 hours later it comes down and breaks through the low again.

Normally, the market breaking the low would've resulted in us having a losing trade, but since our stop has been placed at a point which we know gives us some protection, the trade remains open, and we have a chance to make a decent profit.

If the market was to break through the low of the pin and continue falling into the consolidation, you wouldn't rush to close the trade out of fear of losing money, because it's likely the reason the market is falling back is due to the banks getting more of their buy trades placed.

Now, as far as moving your stop is concerned, what I usually do is move the stop to the low of the pin (or high of the pin for bearish continuation pin set-ups) after I see the market make a big move in the direction of the pin.

In our example, after the market breaks through the low of the pin for a second time, it makes a strong move higher, which consists of two bullish large range candles.

As soon I see this large move higher take place, I would move the stop loss to the low of the continuation pin, as the strong move higher indicates the banks have now got more of their buy trades placed.

Final Summary

I hope these last few examples have given you a decent understanding of how to trade each type of pin bar.

It's probably a good idea to spend a bit of time demo trading or paper trading pin bars using the knowledge I've taught you in this book. Doing this will help you familiarise yourself with the different processes you have to go through when seeing each type of pin form, making sure you won't be confused on what to do when you start trading pin bars with real money.

Thanks for reading.

