Three Black Crows Definition and How to Use the Pattern

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What Are the Three Black Crows?

Three black crows is a phrase used to describe a bearish candlestick pattern that may predict the reversal of an uptrend. Candlestick charts show the day's opening, high, low, and closing prices for a particular security. For stocks moving higher, the candlestick is white or green. When moving lower, they are black or red.

The black crow pattern consists of three consecutive long-bodied candlesticks that have opened within the real body of the previous candle and closed lower than the previous candle. Often, traders use this indicator in conjunction with other technical indicators or chart patterns as confirmation of a reversal.

KEY TAKEAWAYS

- Three black crows is a bearish candlestick pattern used to predict the reversal of a current uptrend.
- Traders use it alongside other technical indicators such as the relative strength index (RSI).
- The size of the three black crows candles and the shadow can be used to judge whether the reversal is at risk of a retracement.
- The opposite pattern of three black crows is three white soldiers, which indicates a reversal of a downtrend.

Three Black Crows Explained

Three black crows are a visual pattern, meaning that there are no particular calculations to worry about when identifying this indicator. The three black crows pattern occurs when bears overtake the bulls during three consecutive trading sessions. The pattern shows on the pricing charts as three bearish long-bodied candlesticks with short or no shadows or wicks.

In a typical appearance of three black crows, the bulls will start the session with the price opening modestly higher than the previous close, but the price is pushed lower throughout the session. In the end, the price will close near the session low under pressure from the bears.

This trading action will result in a very short or nonexistent shadow. Traders often interpret this downward pressure sustained over three sessions to be the start of a bearish downtrend.

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Example of How to Use Three Black Crows

As a visual pattern, it's best to use three black crows as a sign to seek confirmation from other technical indicators. The three black crows pattern and the confidence a trader can put into it depends a lot on how well-formed the pattern appears.

The three black crows should ideally be relatively long-bodied bearish candlesticks that close at or near the low price for the period. In other words, the candlesticks should have long, real bodies and short, or nonexistent, shadows. If the shadows are stretching out, then it may simply indicate a minor shift in momentum between the bulls and bears before the uptrend reasserts itself.

Volume can make the three black crows pattern more accurate. Volume during the uptrend leading up to the pattern is relatively low, while the three-day black crow pattern comes with relatively high volume during the sessions. In this scenario, the uptrend was established by a small group of bulls and then reversed by a larger group of bears.

Of course, with markets being what they are that could also mean a large number of small bullish traders running into a smaller group of large volume bearish trades. The actual number of market participants matters less than the volume each is bringing to the table.

Three Black Crows vs. Three White Soldiers

The opposite of the three black crows pattern is the three white soldiers pattern, which occurs at the end of a bearish downtrend and predicts a potential reversal higher. This pattern appears as three long-bodied white candlesticks with short, or ideally nonexistent, shadows. The open occurs within the previous candlestick's real body, and the close occurs above the previous candlestick's close.

Three white soldiers are simply a visual pattern indicating the reversal of a downtrend whereas three black crows indicate the reversal of an uptrend. The same caveats apply to both patterns regarding volume and confirmation from other indicators.

Limitations of Using Three Black Crows

If the three black crows pattern involves a significant move lower, traders should be wary of oversold conditions that could lead to consolidation before a further move lower. The best way to assess the oversold nature of a stock or other asset is by looking at technical indicators, such as the relative strength index (RSI), where a reading below 30.0 indicates oversold conditions, or the stochastic oscillator indicator that shows the momentum of movement.

Many traders typically look at other chart patterns or technical indicators to confirm a breakdown, rather than using the three black crows pattern exclusively. As a visual pattern, it is open to some interpretation such as what is an appropriately short shadow.

Also, other indicators will mirror a true three black crows pattern. For example, a three black crows pattern may involve a breakdown from key support levels, which could independently predict the beginning of an intermediate-term downtrend. The use of additional patterns and indicators increases the likelihood of a successful trade or exit strategy.

Real-World Example of Three Black Crows

In the third week of May 2018, a three black crows pattern appeared on the GBP/USD weekly price chart, representing an ominous sign for the currency pairing. Analysts speculated that the three black crows pattern indicated that the pairing would continue to trend low. Three factors were analyzed to determine that the three black crows pattern signaled a continuing downturn:

1. The relatively steep upward trend of the bullish market
2. The low wicks of each candle, indicating a small difference between the close and the week’s low
3. The fact that, while the candles did not gradually elongate, the longest candle was the third day

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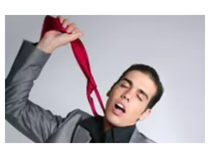
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