

PILE DRIVER PATTERNS

By Daryl Guppy

Our concern is with trend weakness. The market may move sideways, or drop into a downtrend. It is useful to anticipate what this may look like, and what signals will indicate the change. The behaviour of other stocks helps give a shape to this behaviour and help us to determine the best trading strategies. Until these strategies are clearly in place, we continue to adopt a short term approach to the market using shorter term trading techniques.

The pile driver pattern tests for the ultimate low of a downtrend. The market plunges, then recovers and then moves down again to test the low set by the low of the pile driver pattern. The pile driver is like a doji dragonfly day, but the upper section of the candle is often longer. The key feature is the long tail and the test of an extreme low. These are extreme out of character moves.



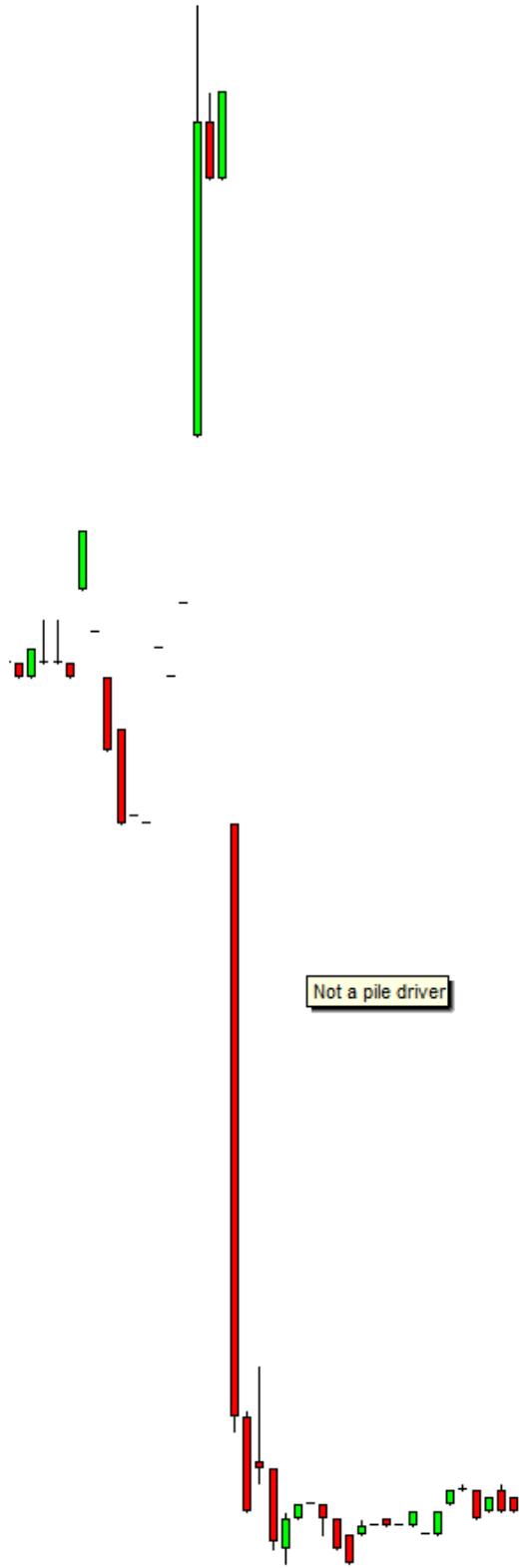
The APN chart is an example of a pile driver pattern which starts with a gap down day. This is often a precursor to bear markets. This is the type of pattern we are looking for. If more of these patterns develop it puts a more bearish interpretation on the overall market behaviour and signals the need for more aggressive trading strategies and tighter stops.

The pile driver pattern usually occurs in well established downtrends that have been in place for some time. By any other measure the trader is looking for an indication

of a bottom to the downtrend. The price down spike is usually massive, dipping 15% or more below the previous day's price.



GDY shows a potential pile driver pattern. A retreat and retests of the 0.021 low conforms this as a pile driver pattern.



This is not a pile driver pattern because the down day ends at or near the low for the day. The pile driver establishes a surprise new low and then rebounds during the day. It is a type of hammer day.

Sometimes it is just a single day, but it is rarely more than 3 days. After the pile driver dip prices move back up to their old levels and the downtrend continues as if nothing had happened. No body believes the dip, but it is caused by a few traders very desperate to get out of the stock. These pile driver dips reach for support levels and provide a leading indication of the likely low point in the current falling trend. Traders put these on a watch list for potential trading once the indicated lows have been met.