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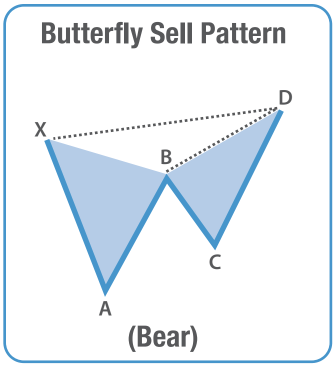
The Bearish Butterfly Pattern



What is it?

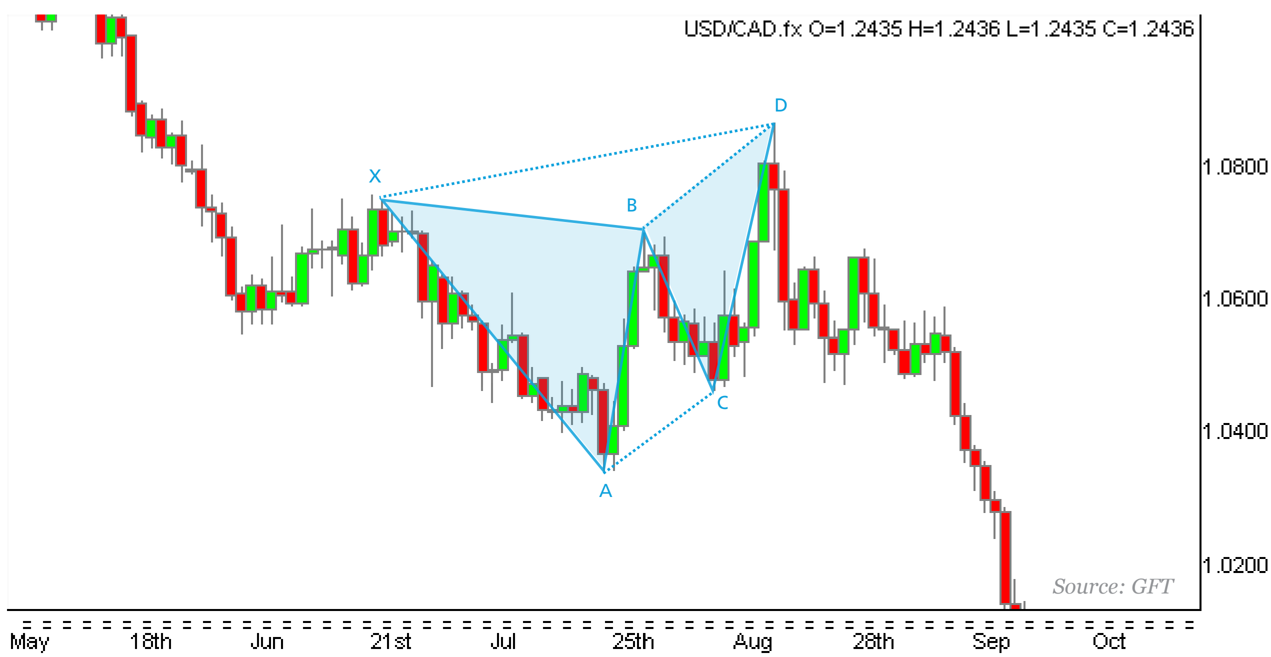
- Contains a bearish ABCD pattern preceded by a significant high (X)
- Convergence of Fibonacci extension ratios at point D
  – Point D = Fibonacci extension of BC and XA
- Formed by two connecting triangles at point B, symmetry is key
- Pattern is found only at significant tops (highs) and bottoms (lows)

Why is it important?

- Convergence of Fibonacci extension ratios may provide higher probability for change in market direction
- May provide lower risk with the potential for higher reward
- Pattern failure may suggest a potentially strong bearish continuation may be in progress

Sounds good … So how do I find it?

Butterfly patterns are similar to Gartley patterns in that they resemble a "W" shape on a price chart. However, a butterfly pattern completes at the convergence of two separate Fibonacci extension levels (D is above X) whereas the Gartley completes at the convergence of a Fibonacci retracement and extension (D is below X). The symmetry between the two connecting triangles at point B is one of the keys to this pattern.



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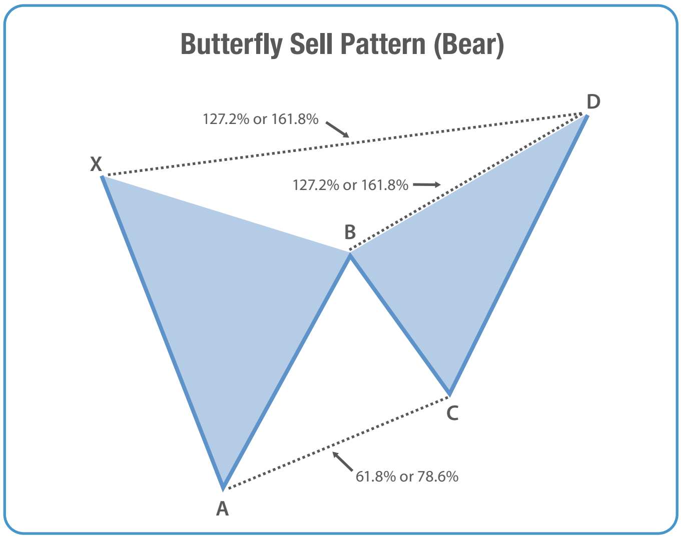

Bearish Butterfly Pattern Rules

1. The swing from A to D is a 127.2% or 161.8% extension of XA
   - Note: D **must** be above X
2. A valid ABCD must be observed in the extension move (AD)
3. Additional confirmation may be attained when the times of the XAB and BCD triangles are in proportion
4. A move beyond 161.8% negates the pattern and may suggest a potentially strong bullish continuation

Example 1: EUR/GBP, 15min

Source: GFT

Example 2: USD/JPY, 1hr

Source: GFT