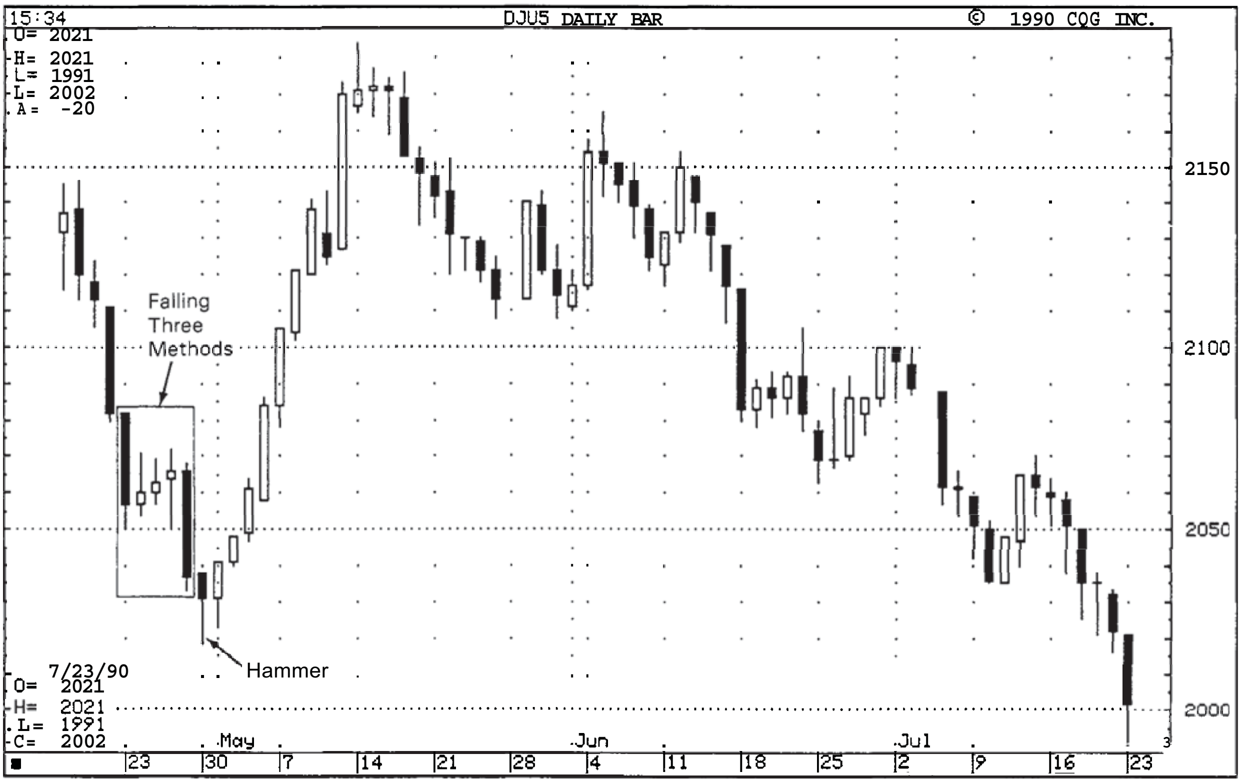

EXHIBIT **7.35.** Dow Jones Utilities—1990, Daily (Falling Three Methods).

wrong. Wait until the pattern is formed, or confirmed, before acting on its implications!

Exhibit 7.35 is a classic falling three method whose bearish implication was negated by the hammer. If the hammer was not enough to tell one the downleg was ending more proof was added with the white session following the hammer. This completed a bullish engulfing pattern.

THREE ADVANCING WHITE SOLDIERS

Like much of the candlestick terminology, this pattern has a military association. It is known as the *three advancing white soldiers* (see Exhibit 7.36) or, more commonly, *three white soldiers.* It is a group of three white candlesticks with consecutively higher closes. If this pattern appears at a low price area after a period of stable prices, then it is a sign of strength ahead.

The three white soldiers are a gradual and steady rise with each white line opening within or near the prior session's white real body. Each of the white candlesticks should close at, or near, its highs. It is a

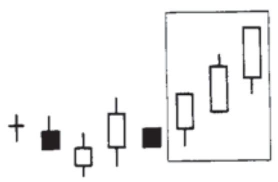

EXHIBIT 7.36. Three Advancing White Soldiers

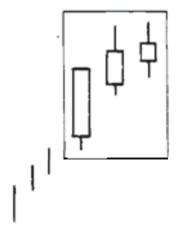

EXHIBIT 7.37. Advance Block

EXHIBIT 7.38. Stalled Pattern

healthy method for the market to rise (although if the white candlesticks are very extended, one should be cautious about an overbought market).

If the second and third, or just the third candlestick, show signs of weakening it is an *advance block pattern* (see Exhibit 7.37). This means that the rally is running into trouble and that longs should protect themselves. Be especially cautious about this pattern during a mature uptrend. Signs of weakening could be progressively smaller white real bodies or relatively long upper shadows on the latter two white candlesticks.

If the last two candlesticks are long white ones that make a new high followed by a small white candlestick, it is called a *stalled pattern* (see Exhibit 7.38). It is also sometimes called a *deliberation pattern.* After this formation the bull's strength has been at least temporarily exhausted. This last small white candlestick can either gap away from the long white body (in which case it becomes a star) or it can be, as the Japanese express it, "riding on the shoulder" of the long white real body (that is, be at the upper end of the prior long white real body). The small real body discloses a deterioration of the bulls' power. The time of the stalled pattern is the time for the longs to take profits.

Although the advance block and stalled patterns are not normally top reversal patterns, they can sometimes precede a meaningful price decline. The advance block and stalled patterns should be used to liquidate or protect longs (for example, sell covered calls) but not to short. They are generally more consequential at higher price levels.

In Exhibit 7.39, the three white soldiers from a low price level in 1985 projected a rally. There follows two advance block patterns. Advance block 1 has progressively smaller white real bodies in early 1987 which did not bode well for higher prices. A shooting star was the last small white real body of this three candlestick group. The market floundered for the next few months. There was another price push after these doji but the next advanced block pattern gave another warning sign. Advance block **2** formed in mid-1987. The major difference between this three white candlestick pattern and the three white soldiers in advance

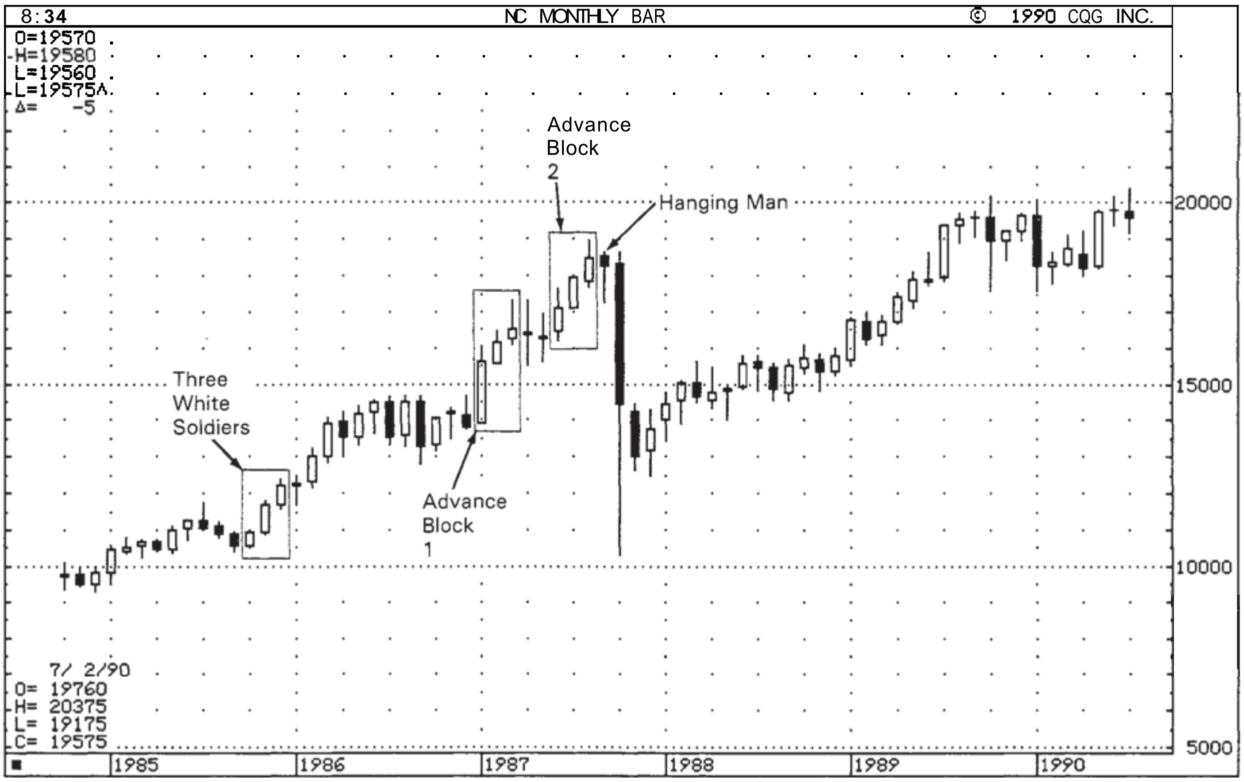

EXHIBIT **7.39.** New York Composite—Monthly (Three White Soldiers, Advance Block)

block 1 is that the last white candlestick had a longer upper shadow. It was not very long, but it showed that the market did not have the power to close near the highs. In other words, the lead (that is, advance) soldier had been "blocked." A hanging-man line appeared next month. The soldiers then went into retreat.

There was another reason to be suspicious about more upside after advance block 2. Whereas the three white soldiers in 1985 started from a low price level, the three white candlesticks of the advance block pattern arose after the market had already sustained an extended advance.

In early 1989 (see Exhibit 7.40), stalled pattern 1 temporarily stalled the prior price incline. Additionally, this pattern came after an extended series of white candles.

Stalled pattern 2 only stalled the advance for a couple of weeks. The last small real white body in this deliberation pattern was a hanging man. Once the market closed above the hanging man's high two weeks later, the market was not likely to fall. In early July, the bullish three white soldiers started a meaningful rally. It lasted for seven new highs (that is, seven record highs). Another set of three white soldiers appeared in the third quarter 1989. Because each of these three white candlesticks closed at their high, this pattern had all the earmarks of

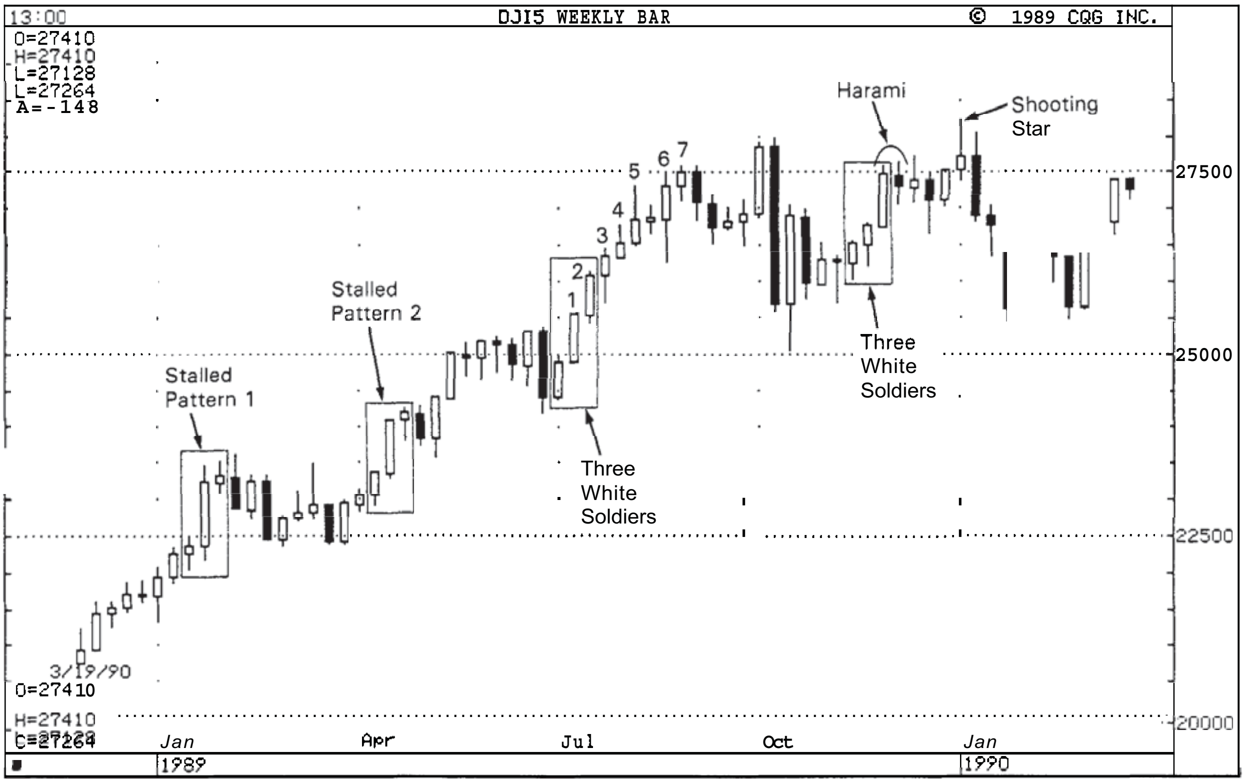

EXHIBIT 7.40. Dow Jones Industrial Average—Weekly (Stalled Patterns and Three White Soldiers)

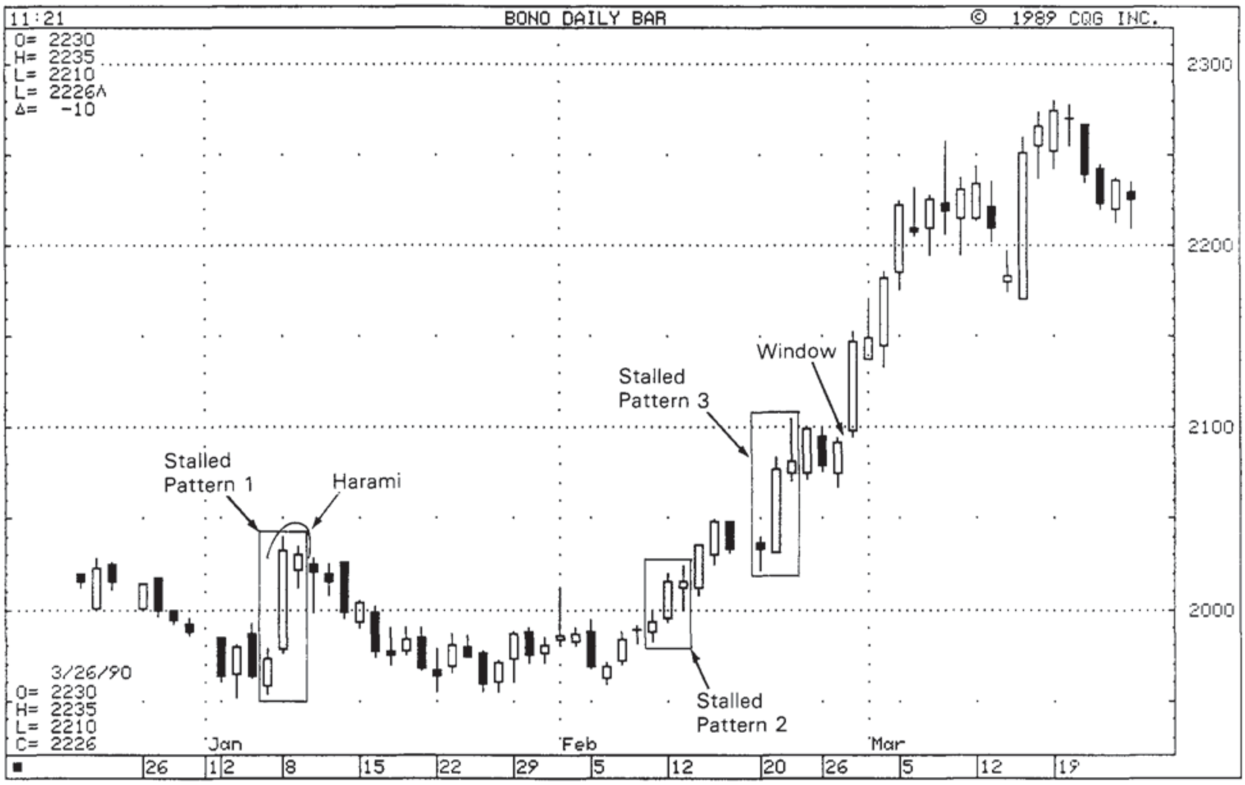

EXHIBIT 7.41. Soybean Oil—July 1990, Daily (Stalled Patterns)