Kicker Pattern vs. Exhaustion Gap: Positives and Negatives

What is the Kicker Candlestick Pattern?

The kicker formation is a reversal pattern that starts with a candle in the direction of the primary trend, followed by a gap contrary to the trend.

Talk about being caught on the wrong side of the trade if your judgement is off.

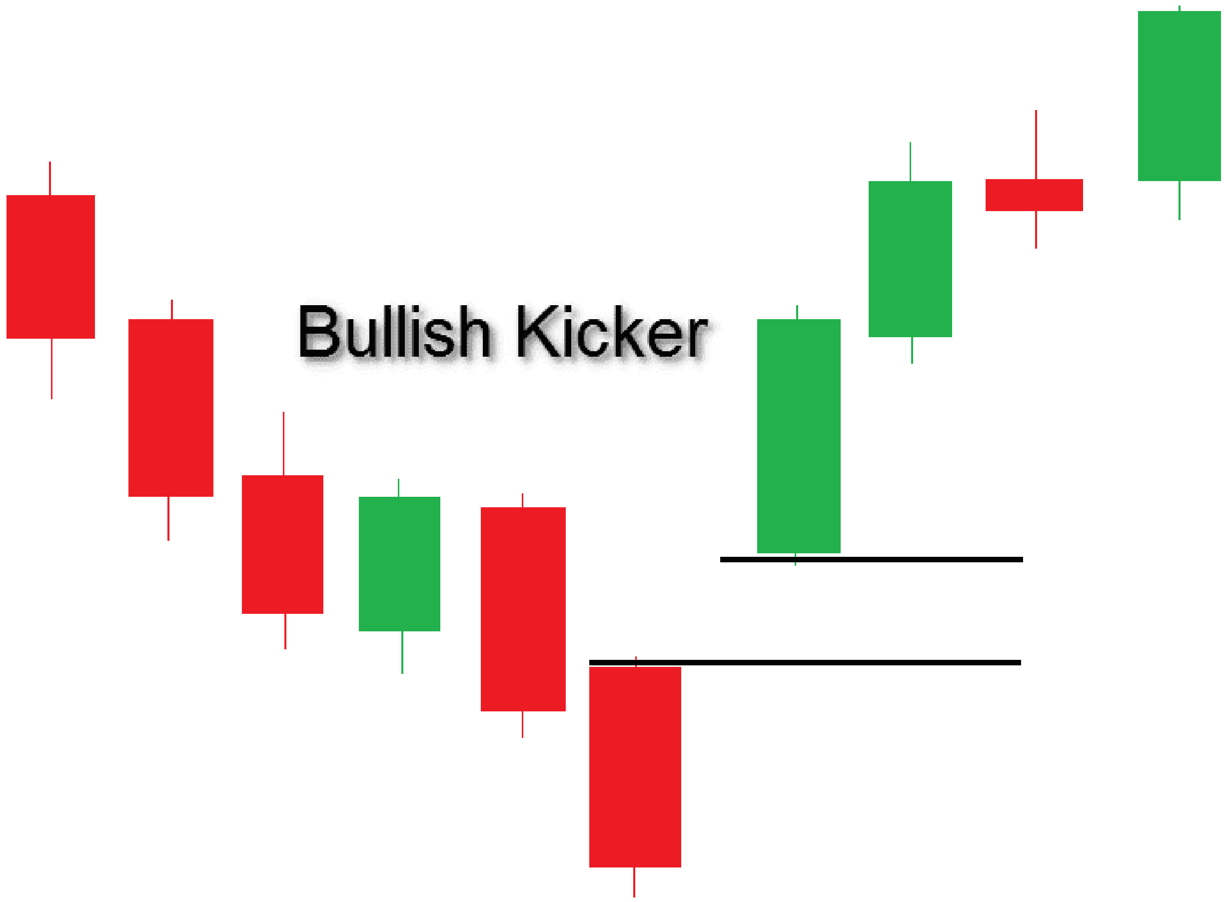
The pattern symbolizes a strong change in the investor's attitude about the stock. This usually happens due to the release of crucial information about the company.

Kicker Candlestick Signals

There are two types of kicker candlestick patterns – bullish and bearish.

Bullish Kicker Candlestick Pattern

The bullish kicker candlestick pattern develops during bearish price move. I know that is counter intuitive, but remember, the stock gaps in the opposite direction of the primary trend – hence bullish.



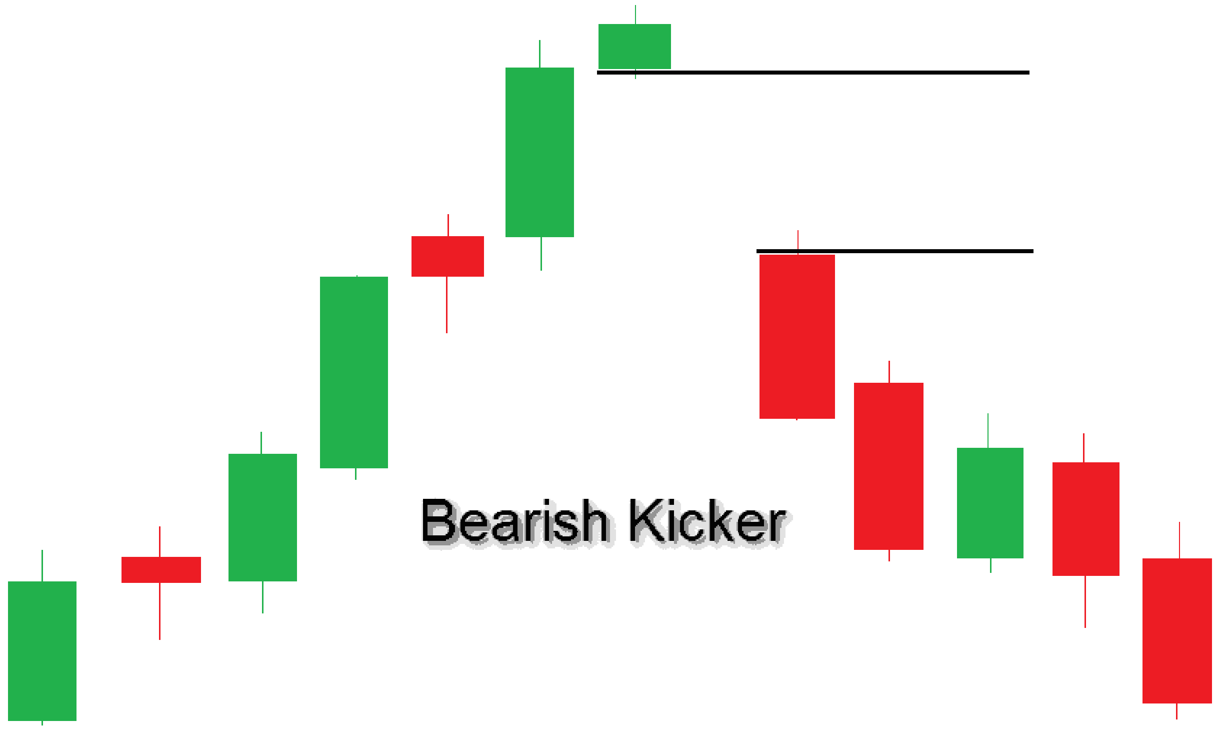
bulish kicker pattern

See that the two candles of the gap are bearish and bullish respectively. The key point to call out is that the candles never overlap. This is essential when validating the pattern.

Bearish Kicker Candlestick Pattern

The bearish kicker candlestick pattern appears during bullish price moves.

The pattern is the mirror of the bullish candlestick pattern and is a great indicator that the party is over.



bearish kicker pattern

As you have probably guessed, the pattern is absolutely the same as the bullish kicker, but upside down. This time the two candles of the gap are bullish and bearish respectively.

Again, notice how there is no overlap between the two candlesticks.

Kicker Pattern Candlestick Charting

When you spot a bullish kicker pattern on the chart, you should look to get long.

Conversely, if you identify a bearish kicker pattern, you should look to get short.

Bullish Kicker Charting Example

Let’s now do a deep-dive of a real bullish kicker charting example:

bullish kicker trade example

This is a 5-minute chart of Facebook, which shows the market opening on August 26, 2016.

After a decrease, FB finishes the trading day with a bearish candle.

The next trading day starts with a bullish gap and a big bullish candle. The last candle of the previous trading day and the first candle after the opening **do not** overlap.

This confirms the authenticity of a bullish kicker signal on the chart. For this reason, we open a long trade after the gap up candle.

We place a stop loss order right below the last candle of the previous trading day. This stop loss order protects us from any sudden price moves against our trade.

One point to note is that we opened our position after a large candlestick. There isn't necessarily anything wrong with this approach, but with such large price expansion, odds are the stock will go lower before heading higher.

This is essentially what happened in the above example.

You as a trader need to be able to discern when a stock is having a normal retracement. Keeping a close eye on volume is a great way to locate healthy retracements, versus a trade you need to close immediately.

Shifting gears back to Facebook – the stock developed a wedge pattern after the huge gap up candle.

As you probably know, the rising wedge pattern has strong bearish sentiment.

We close the long trade with Facebook the moment the price action closes a candle below the support line of the rising wedge pattern. This is shown in the red circle on the chart above.

Bearish Kicker Charting Example

Now that we’ve covered the bullish pattern, let’s dig into the bearish version of the pattern.

bearish kicker trade example

Above is a 1-minute chart of Pandora Media from Aug 30, 2016. The image illustrates a bearish kicker candlestick pattern, which developed after an impulsive uptrend.

The last candle of the upward move is bullish. A bearish gap followed by a bearish candle appears afterwards. This confirms the validity of the bearish kicker on the chart. Therefore, we sell Pandora stock and we place a stop loss above the pattern top as shown in the image.

The key differential of this example from the previous bullish example is the small size of the gap candlestick.

I personally like this setup, because it allows me to keep a tight stop in the event things go against me on the trade.

Also, if things do go in your favor, you are able to reap more of the profits on the way down.

As you see the price enters a bearish trend after the kicker pattern presents itself.

We are able to draw a straight trend line through the tops of the patterns.

We hold the trade until the price action closes above the blue line.

Kicking Pattern Candlestick vs. Exhaustion Gap

So, how does the kicker pattern measure up to the more commonly found exhaustion gap?

The exhaustion gap consists of a gap in the direction of the trend, formed during low trading volumes. The trend might continue in the direction of the gap for a brief period, before the volume picks up and the price action reverses.

exhaustion gap

Above is the 5-minute chart of Berkshire Hathaway from Aug 31, 2016.

Notice that during a downtrend, the stock gaps down with relatively low volume.

The gap and the following decrease represents the last efforts of the bearish believers.

Suddenly, the attitude shifts abruptly and the bulls take control.

Volumes then pick up quickly and the stock changes its direction and begins a new bullish trend.

See that the increase is steady and retraces the entire down move.

If you want to trade this case, you should play it the following way:

exhaustion gap – long example

The blue horizontal line on the chart is the top of the exhaustion gap. You could buy BRK when the price action breaks this level with high volume.

You should also use a stop loss order for your trade. It should be placed below the bottom created at the moment of the reversal – red line.

Now that you have a basic understanding of both the kicker and exhaustion gap patterns, let's have a head-to-head competition between the two patterns.

Exhaustion Gap

Positives:

- The exhaustion gap is found more frequently in the market when compared to the kicker pattern.
- Bigger price moves are created after the exhaustion pattern.
- The exhaustion gap utilizes trading volume to confirm

the validity of the pattern.

Negatives:

- The trades involved with the exhaustion gap usually take more time.
- The exhaustion has a lower success rate than the kicker pattern. Many of your exhaustion gap trades will continue in the direction of the primary trend for some period of time. This can often lead to you being stopped out before the trend reverses.
- The stop loss is often pretty far from your entry price. By definition, this increases the risk you are taking on the trade.

Kicker Pattern:

Now let's review the positives and the negatives of the Kicker pattern.

Positives:

- The kicker pattern has a higher success rate.
- The kicker pattern has a specific structure, which reduces the likelihood of you mistakenly identifying the pattern.
- The stop loss of the kicker pattern is tighter than with the exhaustion pattern. The reason for this is that the gap jumps in the direction of the reversal. In this manner, your stop loss will only contain the size of the gap and the last candle of the previous day. In comparison, the exhaustion stop should contain the size of the gap, including the extension, which comes after the gap.
- The actual kicker trade usually takes a shorter period of time to complete.

Negatives:

- The kicker is a very rare chart pattern. In this manner, you will have a tough time identifying the pattern.
- The price moves after the Kicker are a bit smaller than the ones created by the exhaustion gap. The reason for this is that the exhaustion creates a new trend.

So, what’s the verdict?

Depends on what you hope to get out of the trade.

I won’t do that to you, not yet another blog post where the author speaks out of both sides of their mouth.

Drum roll….the Kicker pattern is definitely the better trading alternative relative to the exhaustion gap.

The main reason for this is the high success rate of the pattern. For me, I don’t deal well with losing (at least I’m honest).

Conclusion

- There are a few requirements for the confirmation of the kicker candlestick pattern:
    1. The last candle of the trend needs to be in the direction of the trend.
    2. A gap opposite to the trend should appear next.
    3. The candle after the gap should be bearish.
    4. The two candles prior and after the gap should not overlap.
- The kicker pattern is a result of rapid switch of forces, which is often caused by a major event.
- There are two types of kicker patterns based on their potential:
    1. **Bullish Kicker Pattern:** It starts with a bullish trend with a bullish candle at the end, followed

by a bearish gap and a bearish candle.