Stock Market Pin Bar Strategy: Using Candlesticks and Moving Averages

Introduction

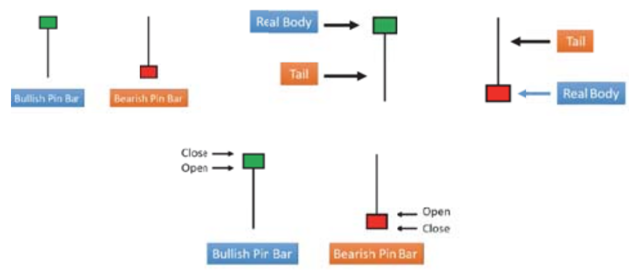
People who are attached to the stock market/forex/ crypto are very much familiar with candlestick. Candlestick helps in understanding market situations efficiently. One advantage of candlestick over other methods is its visual representation of the situation.

There are two types of indicators in the market: one is leading and the other is lagging. 99% of the indicators used in analysis are lagging, which means that they give an indication when the incident happens, leading to wrong decisions and loss to the trader. In the case of candlestick, it happens to be both a leading and lagging indicator depending on how it is used. In this, potential price movement is leading, and visual representation of historical price action is lagging.

There are many kinds of candles in candlestick and every candle has a different meaning for the presentation. Today we discuss only one form of candle to enhance your trading potential.

First, we understand the formation of Pin Bar candle.

- The fat part of the candle is known as the real body.
- The two thin lines are known as wicks or tails.
- The main difference between bullish and bearish candles is in the prices they open and close at; the high and low represent the extremes of the period.



When Not to Use Candlesticks

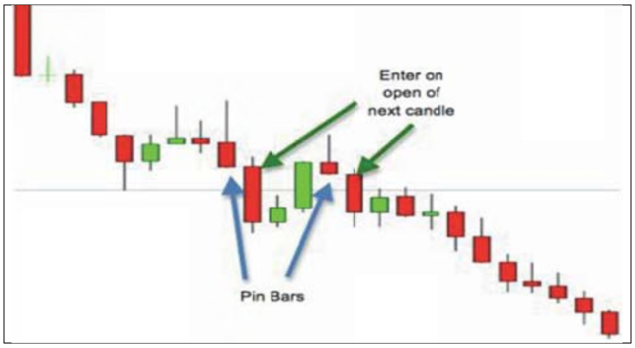
Candlestick analysis should be avoided in the following situations:

1) When the market is sideways.
2) When there is no volume in the market.
3) When there is a continuous inconsistent pattern.
4) When not aligning with any news that is in float.
5) If you are constantly updated about the market.

Pin Bar Trading Strategy

Rizwan Ahmad Khan, FCMA
Expert in Financial Astrology and Stock Market

In the above example there is a red candle bar which represents the bearish trend and it is shown in red color, and when a pin bar is formed, we can see a change in trend and also, we are entering the market near support and resistance. Support and resistance are the levels where we can anticipate that the market will stop and change the trend; like in the case of resistance, if the market is in a bullish trend, then when price comes to that level it will hopefully bounce down.



Similarly, for the bearish trend, when price comes to the support level, it will hopefully stop there and bounce up. And if the trend is very strong, then we consider the market in a bearish trend. How the resistance and support line is prepared—that is another topic, and I will discuss in detail different techniques on how the support and resistance levels are determined. Candle forming near these levels is very much confirmed and gives very good results as shown in the below figure.

Another method for getting precise results is adding a moving average with the pin bar. There is one more question: which moving average do we have to add to get good results? For that, there are different techniques, and I discuss only one over there to keep the topic short. It depends on the time frame that you are using; like a smaller time frame such as a 15 min chart we can use 13 MA or 20 MA, and for a 5 Min chart we can use 8 MA, and for days we can use 200 MA. So basically, it all depends on the scrip and personal experience which Moving Average is giving you good results.

We conclude that as the market comes to touch the Moving Average and also there is a pin bar formed, so there is double confirmation of change of trend and the trend got changed. Now the question is there are two kinds of candles that can be formed: either a bullish pin bar or a bearish pin bar; in this we can see a bearish pin bar in the uptrend which is not considered to be good but still there is an upward trend. Similarly, bullish pins in uptrend are considered to be good, and bearish pin bars in uptrend are not considered to be good but still work, so pin bars work in both trends.

There are different types of moving averages we use for technical analysis:

1= **DMA** (Day Moving Average)

2= **SMA** (Simple Moving Average)

3= **EMA** (Exponential Moving Average)

As we discussed above the simple moving average, now we can use in this method the exponential moving average. Formula for EMA is as under:

$EMAt = (Pt \times \alpha) + (EMAt{-}1 \times (1 - \alpha))$

Where:

- EMAt = EMA today
- Pt = Price today (usually closing price)
- EMAt−1 = EMA yesterday
- $\alpha = 2/(N+1)$ = Smoothing factor
- N = Number of periods
  (e.g., 10-day EMA, 50-day EMA, etc.)

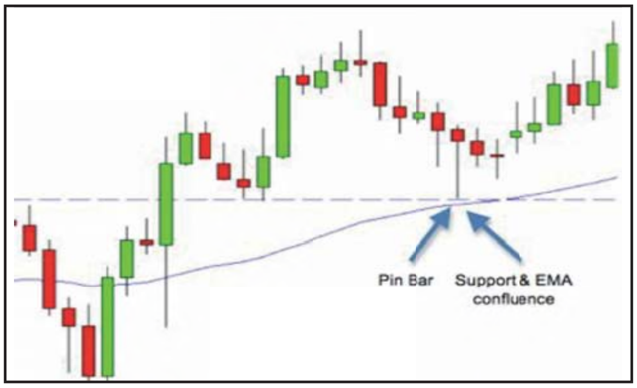
Step-by-step Example (10-day EMA)

1. **Calculate the smoothing factor (α):**
   $\alpha = 2/10+1 = 2/11 \approx 0.1818$

2. **Start with a Simple Moving Average (SMA) for the first EMA value:**
   EMA first = SMA of first 10 prices

3. **Apply EMA formula from day 11 onward:**
   $EMA11 = (P11 \times 0.1818) + (EMA10 \times 0.8182)$

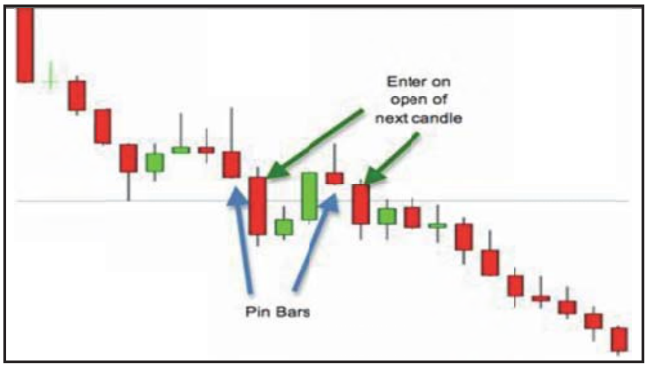
In this we discuss few only.



In the above figure we are adding two indicators for entering the market: one is support and resistance and the other is EMA (exponential moving average). As the pin bar touches the EMA near support and resistance and pin bar is also formed, we enter into the market.

In the above figure we are using two EMAs 50 and 200. 50 is used for short term period and 200 is used for long term period, and as the pin bar forms near 50 EMA we will enter into the market for the short-term period, and if it forms near 200 EMA then we can take a long-term position, and stop loss will be near the previous candle low or high as the condition will be, and profit taking ratio will be 1:2.

In the above example we enter the market as the next candle opens and the pin bar is closed, and stop loss will be the low of the pin bar.



And in the above example we enter the market as the bear pin bar finished and the stop loss will be the high of the pin bar.

In the above figure we enter into the market as the high of the pin bar breaks; in the above case we will not enter into the market as the pin bar finished, we wait for the break of high of the pin bar, and the stop loss will be the low of the pin bar.

Similarly, in the above case of bearish trend we will short when there is a break of the low of the pin bar, and the stop loss will be the high of the pin bar.

In the above figure we enter into the market when there is a retracement of 50% of the pin bar, and stop loss will be as usual the low of the pin bar.

In the above figure we will short the entry when there is 50% retracement of the bearish pin bar, and stop loss will be the high of the pin bar.

Conclusion

In this article, I have discussed a few practical methods of entering the market using candlestick analysis, particularly the pin bar strategy combined with support and resistance and moving averages. The choice of method largely depends on whether a trader is focused on the short or long term, and also on the specific behavior of each scrip, since no single method works equally well for all. In my experience, every scrip has its own unique movement, and success comes from observing these patterns, testing strategies, and refining them through practice. Trading is not just about following a formula—it is also an art that requires patience, discipline, and experience. By applying these methods carefully, traders can gain an edge over others and improve their financial outcomes. I will continue to share my experiences over time to help you enhance your trading journey and financial growth.

About the Author: *The writer is a Fellow Member of ICMA, an ardent lover of financial astrology and the stock market, and has vast working experience in both local and international financial markets.*