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Hanging Man Reversal

Expert Advisor Documentation

PLATFORM	TYPE	TIMEFRAME	WEBSITE
MetaTrader 5 (MT5)	Candlestick Reversal (Price Action, Short-Only)	H1 / H4	www.algobot.live

> ⚠ **Important Disclaimer** This document is for educational and informational purposes only. It does not constitute financial or investment advice. Trading forex, CFDs, and other leveraged instruments involves substantial risk of loss and is not suitable for all investors. Past backtest performance does not guarantee future results. Never trade with capital you cannot afford to lose.

Overview

Hanging Man Reversal is an Expert Advisor that reads a single candlestick pattern, the hanging man, at the end of an advance. The candle looks like a hammer but appears after a series of higher closes: price makes a fresh high, sellers push it well down inside the bar, and buyers only just lift it back near the top. The long lower wick suggests that selling interest has appeared for the first time in the move.

On its own the hanging man is only a warning. The EA therefore waits for the next candle to **close below the hanging man's low** before it signals a short trade. The idea behind this confirmation is that buyers from the hanging man candle are now holding positions at a loss, which may add to downward movement. This is a description of the approach, not a statement about outcomes.

The strategy uses price action only. It does not use moving averages, oscillators, bands or volume. It was designed with EUR/USD, GBP/USD and XAU/USD on H1 and H4 in mind, but it reads the chart timeframe it is attached to. It is intended as a learning tool for students of candlestick analysis who want to see how a pattern can be turned into explicit, testable rules. Trading involves risk and losses occur.

How It Works

Entry Logic

- The EA acts once per newly closed bar. Shift 1 is the **confirm candle**, shift 2 is the **hanging man**, and shift 3 and earlier are history.
- **Confirmation:** the confirm candle must close below the low of the hanging man candle.
- **Candle shape:** the whole body of the hanging man must sit in the top `BodyZoneFrac` portion of its range, its lower wick must be at least `MinWickBodyRatio` times the body, and its upper wick must be no more than `MaxUpperWickFrac` of the range.
- **New high:** the hanging man's high must be above the highs of the previous `HighLookback` - 1 candles, so it is the highest candle of the lookback window.
- **Advance:** the bars just before the hanging man must show at least `MinHigherCloses` consecutive higher closes.
- When every condition is met, the EA sends a sell order at the current bid. The strategy has no long entries.
- Only one position per Magic number is allowed at a time; no new signal is evaluated while a position is open.

Exit Logic

- The EA has no discretionary or indicator-based exit. Each trade closes when either the stop-loss or the take-profit level is reached.
- There is no trailing stop, break-even rule or partial close.

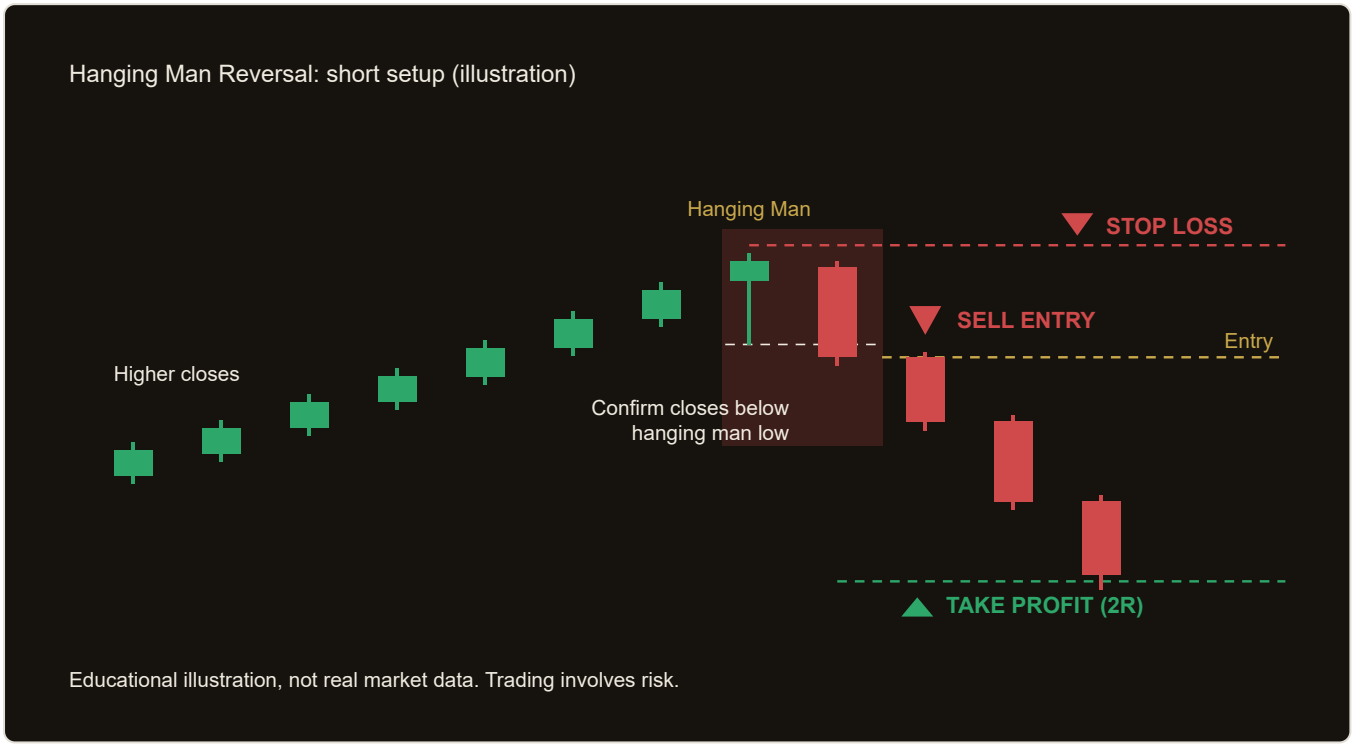
Stop-Loss and Take-Profit

- **Stop-loss:** placed above the hanging man's high, plus `StopBufferPoints` points of buffer.
- If the stop would be closer to the entry than the broker's minimum stop distance (stop level + 1 point), it is moved out to that minimum distance.
- **Take-profit:** set at `RiskReward` times the stop distance below the entry price. With the default of 2.0, the take-profit distance is twice the stop distance.
- Both prices are rounded to the symbol's digits. The order volume is rounded to the broker's volume step and kept within the symbol's minimum and maximum volume.

> **Tip:** Before testing, add the hanging man pattern to a chart manually and check the rules by eye. Seeing which candles pass or fail each condition (higher closes, new high, wick ratios) helps explain why the EA acts only occasionally.

Strategy in Action

The illustration below shows an example of how the strategy identifies a setup and triggers its entry and exit. This is a simplified, illustrative example for educational purposes — not real market data.



Illustrative example only. Actual market behaviour varies.

Example

On an H4 chart, price closes higher for several bars and then prints a candle that makes the highest high of the last ten candles. Its body is small and sits in the top third of its range, with a long lower wick and almost no upper wick: this is the hanging man. The next candle then closes below the hanging man's low. At the next bar the EA sells at the bid. The stop-loss goes just above the hanging man's high plus the buffer, and the take-profit is placed below the entry at twice the stop distance. If price reaches the stop the trade closes at a loss; if it reaches the take-profit it closes at a gain. Either outcome is possible, and this example is illustrative only.

Parameters

Parameter	Default	Description
MinHigherCloses	`3`	Number of consecutive higher closes required in the advance leading into the hanging man (range 2 to 6).
HighLookback	`10`	The hanging man must be the highest candle of this many candles, itself included (range 5 to 30).
BodyZoneFrac	`0.333`	The whole candle body must sit inside this top fraction of the candle's range; 0.333 means the top third (range 0.20 to 0.50).
MinWickBodyRatio	`2.0`	The lower wick must be at least this multiple of the body size (range 1.5 to 4.0).
MaxUpperWickFrac	`0.10`	The upper wick may be at most this fraction of the candle's range, so there is little or no upper shadow (range 0.0 to 0.25).
StopBufferPoints	`10`	Extra points placed above the hanging man's high for the stop-loss; 0 places it exactly at the high (range 0 to 100).
RiskReward	`2.0`	Take-profit distance as a multiple of the stop-loss distance (range 1.0 to 4.0).
Lots	`0.10`	Order volume in lots (range 0.01 to 1.0). Adjusted to the broker's volume step and limits.
Magic	`726415`	Magic number used to identify this EA's positions so only one is open at a time.

Recommended Settings

- Symbols: the strategy was designed with EUR/USD, GBP/USD and XAU/USD in mind; other liquid symbols can be studied for comparison.
- Timeframe: H1 or H4. Candlestick patterns are generally read on higher timeframes where each candle carries more information, though other timeframes can be explored.
- Position size: choose a lot size so that the loss from a stopped trade stays a small, acceptable part of the account. Remember that stop distances change with each pattern.
- Test on a demo account first and review many signals, including losing ones, before drawing any conclusions.
- Run the Strategy Tester over different periods and market conditions; the pattern is counter-trend and may behave differently in strong, sustained trends.

- Check your broker's stop level, spread and minimum lot size, as they affect the stop and volume the EA calculates.

How to Install on MetaTrader 5

1. Copy `HangingManReversal.ex5` to your MT5 `MQL5\Experts\` folder
2. Restart MetaTrader 5 and refresh the Navigator panel
3. Drag the EA onto a chart matching the recommended symbol and timeframe
4. Configure the input parameters and click **OK**
5. Enable **Algo Trading** in the MT5 toolbar

Risk Warning

> Trading foreign exchange, CFDs, and other leveraged financial instruments involves substantial risk of loss and is not suitable for all investors. The strategies and tools described in this document are provided for **educational purposes only** and do not constitute financial advice, investment recommendations, or solicitation to trade. Always consult a qualified financial adviser before making trading decisions. Past backtest performance is not indicative of future results.