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Decode The Market Code

Bollinger Bands

Squeezes, Breakouts & Band Rides

Bollinger Bands measure **volatility, not direction** — a moving average with an upper and lower band that **widen and narrow with price**. Learn to read the **squeeze, the breakout, and the band ride**, and spot the **W-Bottom and M-Top** reversal patterns that signal a trend is ending.

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About This Guide

Bollinger Bands plot a moving average with an upper and lower band set a fixed number of standard deviations away, so they widen when price gets volatile and narrow when it goes quiet. This guide covers the **three behaviours every trader should recognise** — the squeeze, the breakout, and the band ride — plus the **W-Bottom and M-Top** reversal patterns that signal a move is ending.

It closes with the most common mistakes traders make with the bands, and a five-point checklist to run through before acting on any signal.

Bollinger Bands: Squeezes, Breakouts & Band Rides

A Chart Code Academy Guide

Intermediate Level • 8 min read

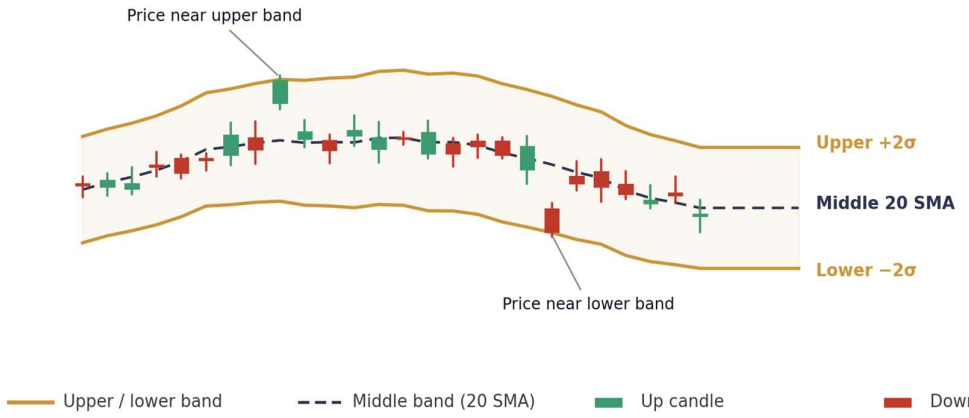
Bollinger Bands are a volatility indicator created by John Bollinger in the early 1980s. They plot a moving average with an upper and lower band set a fixed number of standard deviations away. The bands widen when price becomes volatile and narrow when it goes quiet, so they show whether price is **high or low relative to its recent range**, and when a large move may be building.

Unlike a fixed-percentage channel, the bands adapt to the market. Most of the time price stays between them, so a close outside a band is notable, but it is a sign of **strength or stretch**, not an automatic buy or sell signal.

1. How Are Bollinger Bands Calculated?

There are three lines, all built from the closing prices of the last 20 candles (the default):

- **Middle band =** 20-period simple moving average of close
- **Upper band =** Middle + 2 × standard deviation (same 20 closes)
- **Lower band =** Middle − 2 × standard deviation



Visualising it: the gold bands sit two standard deviations either side of the dashed middle band. Illustrative prices, not a live chart.

Standard deviation measures how spread out prices are. When candles swing widely, it rises and the bands move apart; when candles are small and tight, it falls and the bands pull together. In a perfectly normal distribution about **95% of values** fall within two standard deviations, but real market prices are not perfectly normal, so treat this as a rough guide rather than a guarantee.

2. What Settings Should You Use?

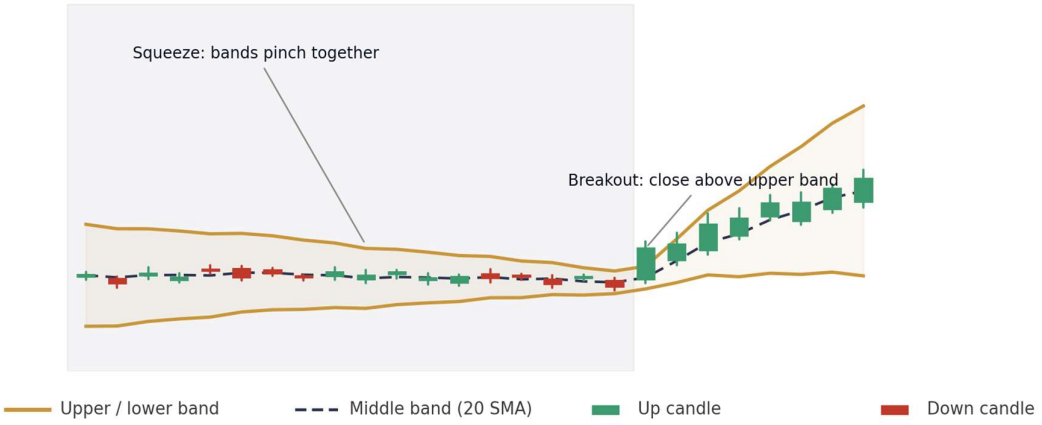
Start with the default. If you change the period, John Bollinger's guidance is to adjust the standard deviation multiplier with it.

Style	Period	Std. deviations	Typical chart
Short-term	10	1.5	Intraday, 5 to 15 minute
Standard (default)	20	2	Daily, swing trading
Long-term	50	2.5	Weekly, positional

3. What Is a Bollinger Band Squeeze?

A squeeze is a period where the bands contract to unusually narrow width. It reflects low volatility, and volatility is cyclical — quiet phases tend to be followed by active ones. A squeeze therefore tells you **when** a larger move is more likely, but **not which direction**.

To spot a squeeze objectively, use the **Bandwidth** reading: a squeeze is commonly defined as Bandwidth at its lowest in roughly six months (about 125 daily candles). Mark the high and low of the tight range and wait for price to leave it.



Visualising it: candles compress as the bands pinch together, then a strong candle closes outside the upper band while the bands widen.

> **WORTH REMEMBERING**
>
> **Do not guess the direction in advance.** Let the market pick a side with a closing candle, then trade that.

4. How Do You Trade a Breakout and Spot a Head Fake?

A useful breakout after a squeeze usually shows three things together:

- **A close outside the band** — not just an intraday wick through it.
- **Bands turning outward** — meaning Bandwidth is rising from its low.

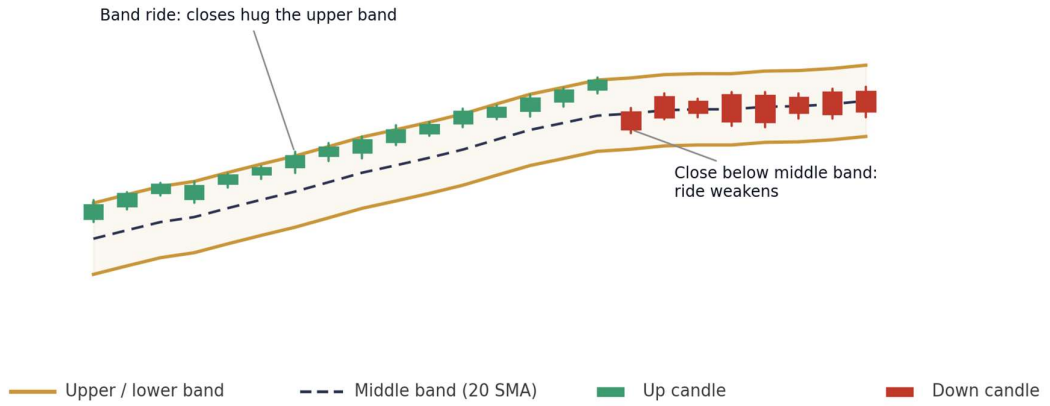
- **Volume above average** on the breakout candle.

The classic trap is the **head fake**: the first move out of the squeeze goes the wrong way, then price reverses through the range and the real move follows in the opposite direction. Waiting for the candle to close, and not entering on the first poke, filters many of these. Placing the stop back inside the squeeze range keeps the loss defined when a breakout fails.

5. What Is a Band Ride (Walking the Bands)?

In a strong trend, price can close at or near the upper band candle after candle. This is called a **band ride** or "walking the bands." It is a sign of persistent strength, not overbought exhaustion.

The **middle band** is the referee. While price holds above a rising middle band, the ride is intact. A close below it, especially with a fall in momentum, is the first warning that the trend is weakening.



Visualising it: candles hug the upper band in an uptrend. The first close below the middle band is the early sign the trend is losing strength.

COMMON MISTAKE

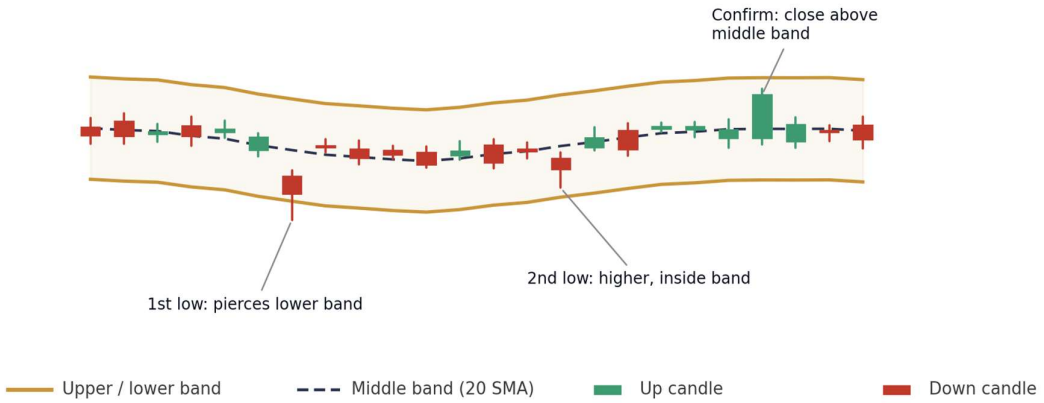
Selling every upper-band touch is the most common way traders exit strong trends too early. A touch is strength, not an automatic sell signal.

6. What Are W-Bottoms and M-Tops?

Band-ride logic also explains reversals — each has a mirror-image setup at market bottoms and tops.

The W-Bottom (Bullish Reversal)

A W-bottom forms when price makes a low **below** the lower band, bounces, then makes a **higher** second low that stays **inside** the band. The second low shows selling pressure fading even though price dipped again. It is confirmed when price closes above the middle band.



Visualising it: a first low pierces the lower band, the second low is higher and holds inside it, and price then closes above the middle band.

The M-Top (Bearish Reversal)

An M-top is the mirror image: a high above the upper band, a pullback, then a lower second high that fails to reach the band, confirmed by a close below the middle band.

7. How Do %B and Bandwidth Work?

Two companion readings turn the bands into numbers you can scan for across many stocks.

Reading	Formula	What it tells you
%B	(Close – Lower) ÷ (Upper – Lower)	Where price sits in the bands. 1.0 is at the upper band, 0.5 at the middle, 0 at the lower. Above 1 or below 0 means a close outside the bands.
Bandwidth	(Upper – Lower) ÷ Middle	How wide the bands are. Very low values mark a squeeze; very high values show volatility has already expanded, often late in a move.

8. Squeeze vs Breakout vs Band Ride vs Reversal

Behaviour	What the bands look like	What it means	Sensible response
Squeeze	Bands narrow, candles small	Low volatility, expansion likely, direction unknown	Mark the range and wait
Breakout	Close outside band, bands widening, volume up	Volatility expansion starting	Act on the close, stop back inside the range
Band ride	Price hugs one band, middle band slopes with trend	Strong, persistent trend	Stay with the trend until a close crosses the middle band
Reversal (W or M)	Second extreme fails to reach the band	Momentum fading	Wait for a close across the middle band

Always identify which of the four you are in **before** acting. The same band touch means “stay in” during a ride and “be careful” during a reversal.

9. Common Bollinger Band Mistakes

1. Selling every upper-band touch: In a strong trend price rides the band for weeks. Touching it is strength, not a sell signal.

2. Buying every lower-band touch: In a downtrend, price walks the lower band. Buying it early is catching a falling knife.

3. Guessing the squeeze direction: A squeeze signals timing only. Wait for a close outside the range to pick a side.

4. Entering before the candle closes: A wick through the band that closes back inside is often a head fake.

5. Using bands alone: Combine them with trend, volume and support and resistance. The bands describe volatility, not fundamentals.

6. Skipping the stop-loss: Every setup fails sometimes. Know where the trade is proven wrong before you enter.

Reading volatility with trend, volume and risk management is covered hands-on in our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

10. Your Bollinger Band Checklist

Run this five-point check before acting on any band signal:

- **Which behaviour is this? —** Squeeze, breakout, band ride or reversal? Name it first.
- **Close, not a wick —** Has a candle actually closed outside the band or across the middle band?
- **Bandwidth direction —** Are the bands widening after a squeeze, or still contracting?
- **Volume and trend agree —** Is volume above average, and does the higher timeframe trend support the move?
- **Defined risk —** Do you know the exact price that proves the read wrong, and is your stop there?

EDUCATIONAL CONTENT ONLY

This guide explains a chart indicator and is not investment advice or a recommendation to buy or sell any security. Trading involves risk of loss; always use a defined stop-loss.

11. Frequently Asked Questions

What are the best Bollinger Bands settings?

The default of a 20-period simple moving average with bands 2 standard deviations away suits daily charts and most swing trading. John Bollinger suggests narrowing the multiplier for shorter periods (about 1.5 for a 10-period average) and widening it for longer ones (about 2.5 for a 50-period average). Change settings for a reason, not to make past signals look better.

Does price touching the upper Bollinger Band mean sell?

No. A touch of the upper band shows price is strong relative to its recent range, not that it must reverse. In a strong trend price can ride the upper band for many candles. Reversals need extra evidence, such as a close back below the middle band or a weaker second high that fails to reach the band.

What is a Bollinger Band squeeze, and does it show direction?

A squeeze is when the bands contract to an unusually narrow width because volatility is low. Volatility tends to alternate between quiet and active phases, so a squeeze warns that a bigger move is likely, but it does not say which way. Traders wait for a candle to close outside the bands, ideally with rising volume.

What is a head fake after a squeeze?

A head fake is when the first breakout from a squeeze moves the wrong way and quickly reverses, trapping early traders. Waiting for a candle close beyond the band, and watching whether the bands are widening and volume is rising, reduces the chance of being caught, but does not remove it.

What is the difference between a band ride and a reversal?

In a band ride, price keeps closing near or outside one band while the middle band slopes with the trend and acts as support or resistance. In a reversal, price fails to reach the band on a second attempt and closes back across the middle band. The middle band is the dividing line.

Can I use Bollinger Bands on Nifty, Bank Nifty and NSE stocks?

Yes. They work on any liquid instrument and timeframe. Daily and weekly charts give cleaner signals; 5-minute and 15-minute charts have more noise. Thinly traded stocks with wide spreads can make the bands behave erratically, so liquidity matters.

Get in Touch

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