

Bij Investment *Consultants*

Candlestick Patterns

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CANDLESTICK PATTERNS

Introduction

Candlesticks

- ✿ According to **Steve Nison**, candlestick charting came later and probably began sometime after 1850. Much of the credit for candlestick development and charting goes to Homma, a legendary rice trader from Sakata. Even though it is not exactly clear "who" created candlesticks, Nison notes that they likely resulted from a collective effort developed over many years of trading.
- ✿ The Japanese began using technical analysis to trade rice in the 17th century. While this early version of technical analysis may have been different from the US version initiated by Charles Dow around 1900, many of the guiding principles were very similar.

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Candlesticks

A chart is like a map, the more information each one provides, the better the chance of reaching your destination safely. Candle charts display a more detailed and accurate map of the market than do bar charts. Candle charts open new avenues of analysis and offer many advantages over bar charts:

1. Candle charts will pictorially **display the supply-demand situation** by showing who is winning the battle between the bulls and the bears. Bar charts do not.
2. Like bar charts, candle charts will show the trend of the market, but candle charts add another dimension of analysis by revealing the **force behind the move**.

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CANDLESTICK PATTERNS

Introduction

Candlesticks

3. Bar chart techniques can often take weeks to transmit a reversal signal. However, candle charts will often send out clues of imminent **reversals in one to three sessions**. The result is that candle charts often provide the opportunity for more timely trades.

✿ The **"what"** (price action) is more important than the **"why"** (news, earnings, and so on). All known information is reflected in the price.

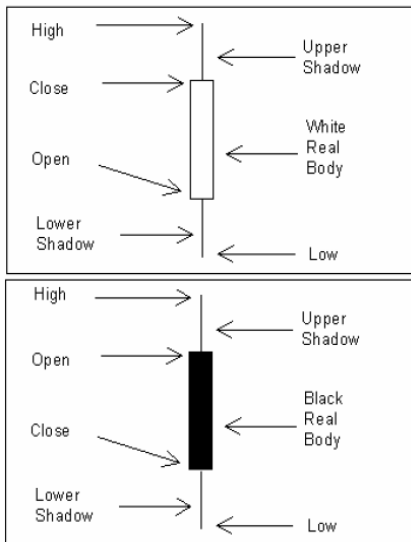
✿ Buyers and sellers move markets based on expectations and emotions (fear and greed). Markets fluctuate.

✿ The actual price may not reflect the underlying value.

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CANDLESTICK PATTERNS

Introduction



Candlesticks

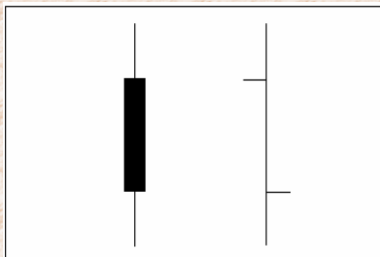
- ✿ The body of the candlestick is called the real body, and represents the range between the open and closing prices.
- ✿ A black or filled-in body represents that the close during that time period was lower than the open, (normally considered bearish) and when the body is open or white, that means the close was higher than the open (normally bullish).
- ✿ The thin vertical line above and/or below the real body is called the upper/lower shadow, representing the high/low price extremes for the period.

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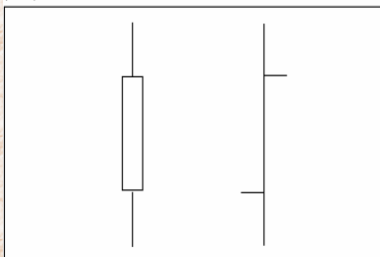
CANDLESTICK PATTERNS

Bar Compared to Candlestick Charts

Candlesticks



(3a)



(3b)

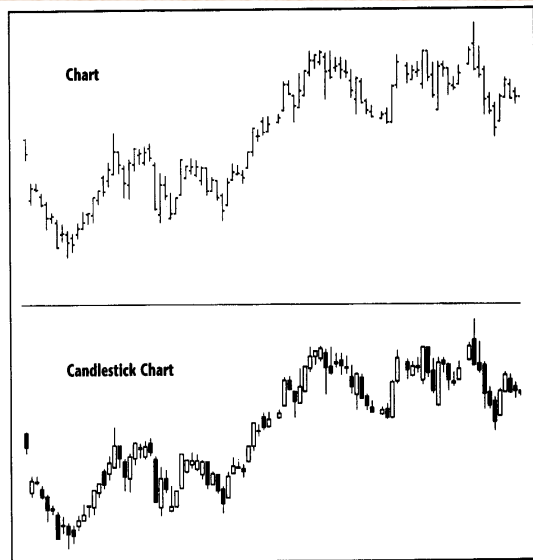
- ✿ An example of the same price data conveyed in a standard bar chart and a candlestick chart. Notice how the candlestick chart appears 3-dimensional, as price data almost jumps out at you.
- ✿ The long, dark, filled-in real body represents a weak (bearish) close (3a), while a long open, light-colored real body represents a strong (bullish) close (3b). It is important to note that Japanese candlestick analysts traditionally view the opening and closing prices as the most moment critical of the day. At a glance, notice how much easier it is with candlesticks to determine if the closing price was higher or lower than the opening price.

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CANDLESTICK PATTERNS

Bar Compared to Candlestick Charts

Candlesticks



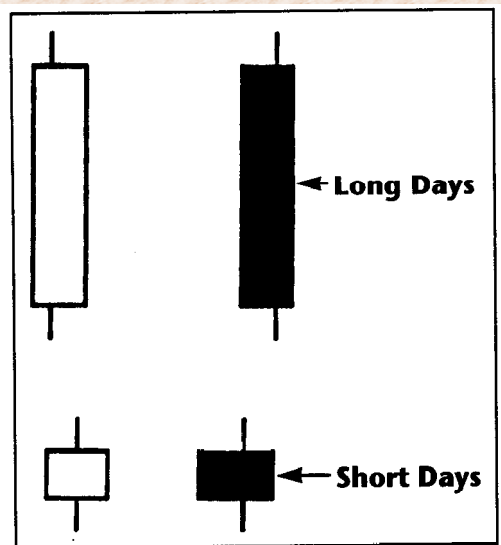
- The different shapes for candlesticks have different meanings.
- The Japanese have defined different primary candlesticks, based upon the relationship of open, high, low, and close prices.
- Understanding these basic candlesticks is the beginning of candlestick analysis.

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CANDLESTICK PATTERNS

BASIC CANDLESTICKS

Candlesticks



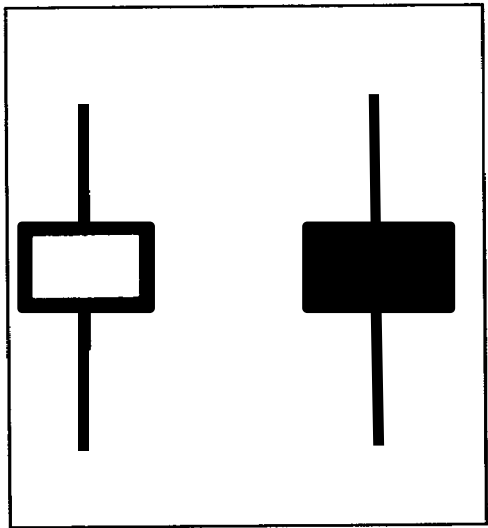
- Different body/shadow combinations have different meanings.
- Days in which the difference between the open and close prices is great are called Long Days.
- Likewise, days in which the difference between the open and close price is small, are called Short Days.
- Remember, we are only talking about the size of the body and no reference is made to the high and/or low prices.

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CANDLESTICK PATTERNS

BASIC CANDLESTICKS

Candlesticks



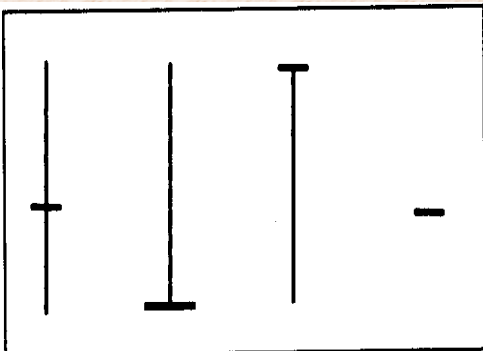
- Spinning Tops are days in which the candlesticks have small bodies with upper and lower shadows that are of greater length than that of the body.
- The body color is relatively unimportant in spinning top candlesticks. These candlesticks are considered as days of indecision.

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CANDLESTICK PATTERNS

BASIC CANDLESTICKS

Candlesticks



- When the open price and the close price are equal, they are called Doji Lines.
- Doji candlesticks can have shadows of varying length. When referring to Doji Candlesticks, there is some consideration as to whether the open and close price must be exactly equal.
- This is a time when the prices must be almost equal, especially when dealing with large price movements.

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CANDLESTICK PATTERNS

BASIC CANDLESTICKS

Candlesticks

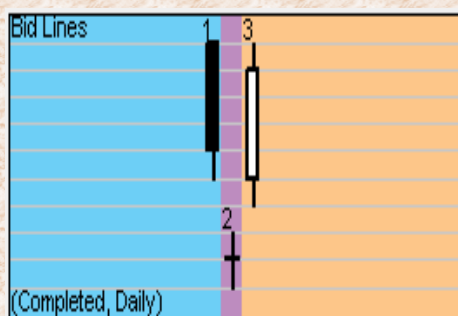
- There are different Doji candlesticks that are important.
- The **long-legged Doji** has long upper and lower shadows and reflects considerable indecision on the part of market participants.
- The **Gravestone Doji** has only a long upper shadow and no lower shadow. The longer the upper shadow, the more bearish the interpretation.
- The **Dragonfly Doji** is the opposite of the Gravestone Doji, the lower shadow is long and there is no upper shadow. It is usually considered quite bullish.
- The single candlestick lines are essential to Japanese candlestick analysis.

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CANDLESTICK PATTERNS

1. Abandoned Baby Bottom

A. Bullish Reversal Patterns



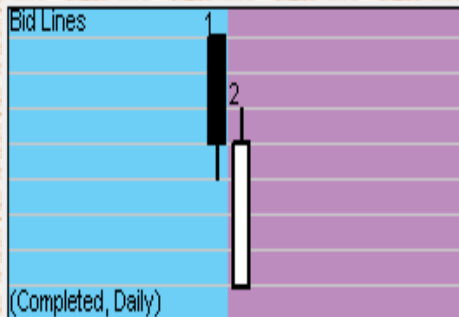
- The gap down on the second day encourages the bears.
- It is comprised of a doji star which gaps away (including shadows) from the prior and following sessions' candlesticks.
- This could be a sign of temporary profit taking by the shorts; however the third day reveals that the more likely scenario is indecision on the second day.

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CANDLESTICK PATTERNS

2. Bullish Counterattack Line

A. Bullish Reversal Patterns



✿ A bullish counterattack develops when, after a decline, a black candle is followed by a white candle and both close at the same level. The first day is usually a long black candle.

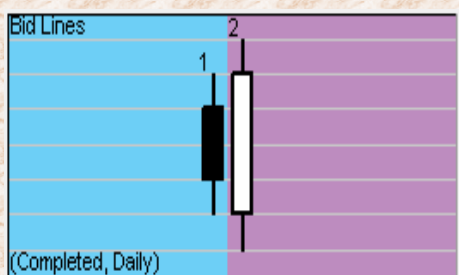
✿ The second day opens sharply lower, leading most traders to believe prices will continue to give way. However, by the end of the day, the price has regained everything lost (a counterattack by the buyers) and closes unchanged. The meeting line therefore indicates that the downside momentum has probably dissipated and a reversal in trend is likely.

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CANDLESTICK PATTERNS

3. Bullish Engulfing

A. Bullish Reversal Patterns



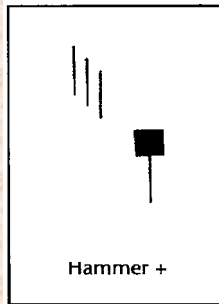
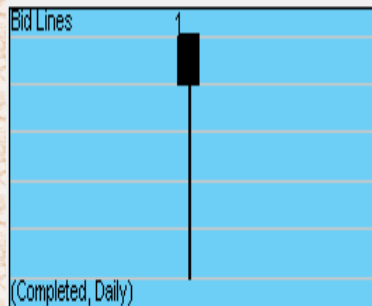
✿ A long white body that engulfs a small black real body in a down trend. The white body's opening price is below the closing price of the previous black body. The bullish engulfing pattern consists of two candlesticks, the first black and the second white.

✿ The size of the black candlestick is not that important, but it should not be a doji which would be relatively easy to engulf. The second should be a long white candlestick – the bigger it is, the more bullish. The white body must totally engulf the body of the first black candlestick. Ideally, though not necessarily, the white body would engulf the shadows as well. Although shadows are permitted, they are usually small or nonexistent on both candlesticks.

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CANDLESTICK PATTERNS

4. Hammer (Black)



A. Bullish Reversal Patterns

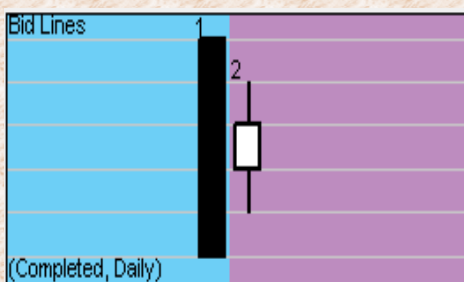
- As with any single candlestick, confirmation is required.
- The Bullish Hammer formation shows the price goes much lower than the open then closes near the opening price. This fact reduces the confidence of the bears.

- The hammer has small real body (white or black) at the top of the session's range and a very long lower shadow with little or no upper shadow. When this line appears during a downtrend it becomes a bullish hammer.
- For a classic hammer, the lower shadow should be at least twice the height of the real body. Ideally, a white real body Hammer with a higher open the following day could be a bullish signal for the days ahead.

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CANDLESTICK PATTERNS

5. Harami (Black,White)



- Harami formation indicates a loss of momentum. The second candle forms a real body that is sufficiently small to be engulfed by the prior day's long real body.

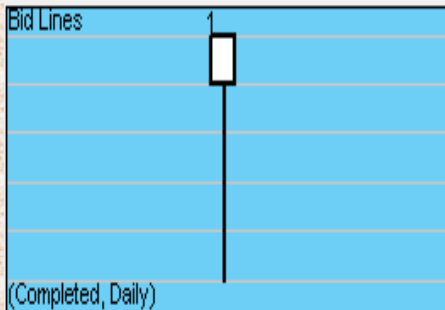
- The harami implies the immediately preceding trend is concluded and that the bulls and bears are now in a state of truce. The color of the second real body can be white or black. Most often the second real body is the opposite color of the first real body. The harami pattern indicates a balance between buyers and sellers and often warns of an impending trend change.

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CANDLESTICK PATTERNS

6. Hammer (White)

A. Bullish Reversal Patterns



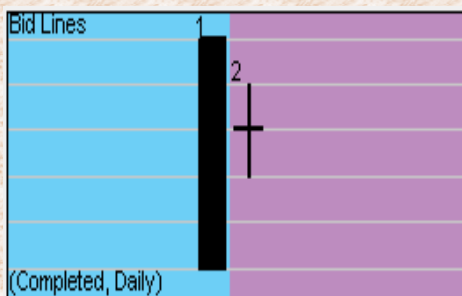
- ✿ As with any single candlestick, confirmation is required.
- ✿ The Bullish Hammer formation shows the price goes much lower than the open then closes near the opening price.
- ✿ This fact reduces the confidence of the bears.
- ✿ Ideally, a white real body Hammer with a higher open the following day could be a bullish signal for the days ahead.

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CANDLESTICK PATTERNS

7. Harami Cross (Black)

A. Bullish Reversal Patterns



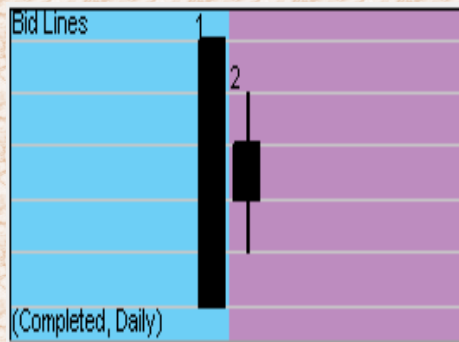
- ✿ Harami formation indicates a loss of momentum.
- ✿ The second candle forms a doji.
- ✿ The harami pattern indicates a balance between buyers and sellers and often warns of an impending trend change.
- ✿ An important top (bottom) reversal signal especially after a tall white (black) candlestick line.
- ✿ It is also called a petrifying pattern.

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CANDLESTICK PATTERNS

8. Homing Pigeon

A. Bullish Reversal Patterns



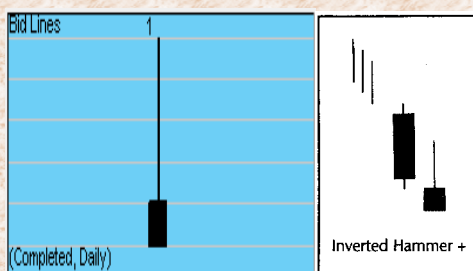
- ✿ The second day shows a deterioration of the prior downtrend.
- ✿ If the prior downtrend is severe, then this offers the opportunity to exit short positions or initiate long positions.

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CANDLESTICK PATTERNS

9. Inverted Hammer (Black)

A. Bullish Reversal Patterns



- ✿ The inverted hammer is identical in appearance to the shooting star.
- ✿ Inverted hammer-following a downtrend, this is a candlestick line that has a long upper shadow and a small real body at the lower end of the session.

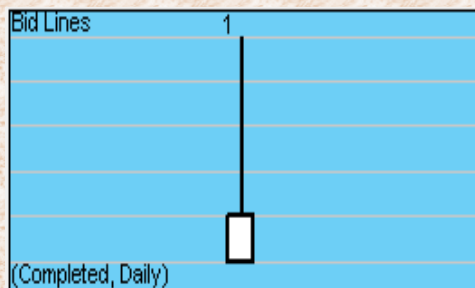
- ✿ There should be no, or very little, lower shadow. The inverted hammer is a signal that shorts are beginning to cover their positions.
- ✿ Since the inverted hammer can only occur after a sustained downtrend, the stock is in all probability already oversold. With this candle, it is imperative to watch the next day's trading action.
- ✿ If the stock opens strongly and remains strong during the day, then a key reversal is likely in progress.

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CANDLESTICK PATTERNS

10. Inverted Hammer (White)

A. Bullish Reversal Patterns



- ✿ The inverted hammer is identical in appearance to the shooting star.
- ✿ The inverted hammer is a signal that shorts are beginning to cover their positions.

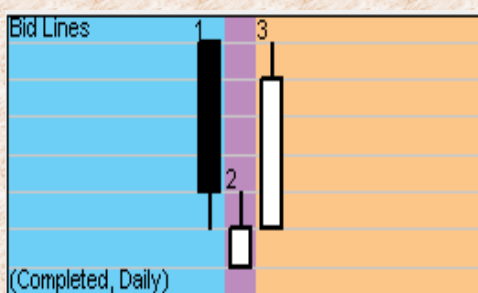
- ✿ Since the inverted hammer can only occur after a sustained downtrend, the stock is in all probability already oversold. With this candle, it is imperative to watch the next day's trading action.
- ✿ If the stock opens strongly and remains strong during the day, then a key reversal is likely in progress.

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CANDLESTICK PATTERNS

11. Morning White Star

A. Bullish Reversal Patterns



- ✿ The second day gaps lower, but trades in a small range.
- ✿ A major bottom reversal pattern formed by three candles.

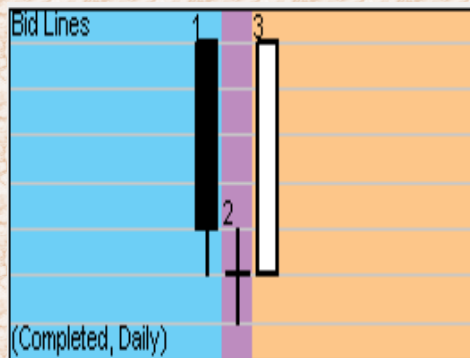
- ✿ The first is a long black real body, the second is a small real body (white or black) which gaps lower to form a star, and the third is a white candlestick that closes well into the first session's black real body.
- ✿ The bullishness of this indecision is confirmed by the higher close of the third day.

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CANDLESTICK PATTERNS

12. Morning Doji Star

A. Bullish Reversal Patterns



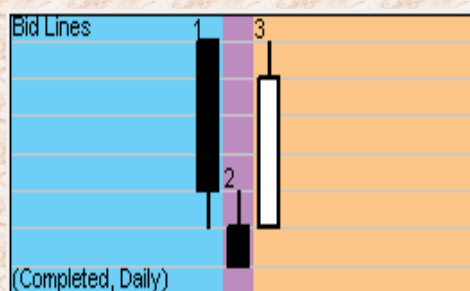
- ✿ A major bottom reversal formed by three candles.
- ✿ The same as a morning star except the middle candlestick is a doji instead of a small real body.
- ✿ Because there is a doji in this pattern it is considered more bullish than the regular morning star.
- ✿ A doji bottom is followed by a white body that closes well above the first black bars closing price.

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CANDLESTICK PATTERNS

13. Morning Black Star

A. Bullish Reversal Patterns



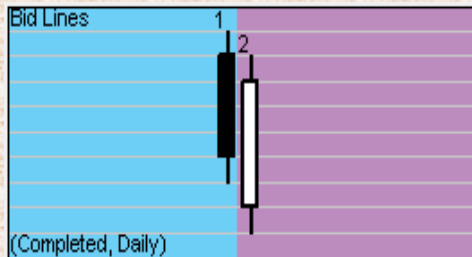
- ✿ A major bullish reversal formed by three candles.
- ✿ A Star bottom is followed by a white body that closes well above the first black bars closing price.

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CANDLESTICK PATTERNS

14. Piercing Pattern

A. Bullish Reversal Patterns



✿ The signal is more pronounced during a downtrend or in the lower part of a congestion zone.

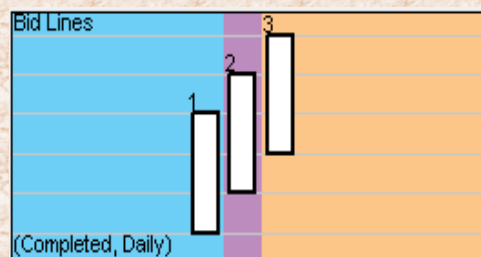
✿ Pattern is made up of two candlesticks, the first black and the second white.

✿ Both candlesticks should have fairly large bodies and the shadows are usually, but not necessarily, small or nonexistent. The white candlestick must open below the previous close and close above the midpoint of the black candlestick's body. A close below the midpoint might qualify as a reversal, but would not be considered as bullish. It is important to note whether the second day's white body closes more than halfway above the previous black body. If it does not, conventional wisdom indicates that additional weakness is likely. ²⁵

CANDLESTICK PATTERNS

15. Three White Soldiers

A. Bullish Reversal Patterns



✿ This is a group of three white candlesticks with consecutively higher closes (with each of the closes near the highs of the session).

✿ The three white soldiers' pattern is most potent when it occurs after an extended decline and a period of subsequent consolidation.

✿ Although this candle pattern is very potent when a stock is at or near its lows, it should be regarded skeptically if it appears following a long advance in price.

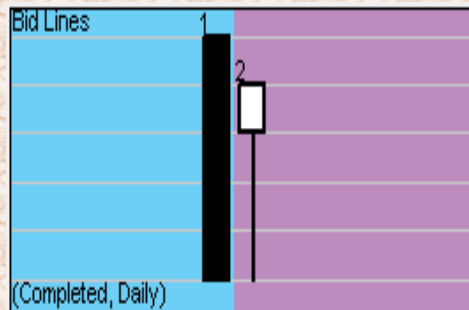
✿ If you spot three white soldiers after a sustained rally, then it may mean a top is near.

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CANDLESTICK PATTERNS

16. Tweezers Bottom Hammer

A. Bullish Reversal Patterns



✿ A tweezers bottom occurs when, after a decline, two or more candles make an identical low.

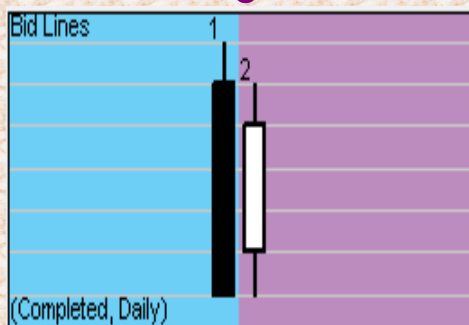
✿ This is a short-term bullish, indicating a loss of downside momentum since the price finds support in the area of the low.

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CANDLESTICK PATTERNS

17. Tweezers Bottom Piercing Pattern

A. Bullish Reversal Patterns



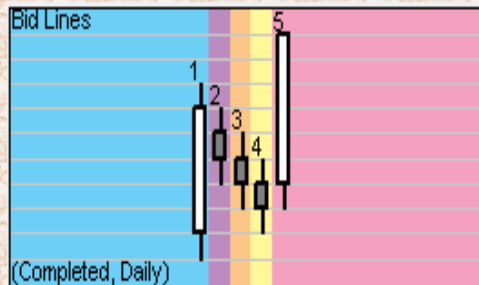
✿ A tweezers bottom occurs when, after a decline, two or more candles make an identical low.

✿ This is a short-term bullish, indicating a loss of downside momentum since the price finds support in the area of the low.

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CANDLESTICK PATTERNS

1. Rising Three Methods



✿ The rising three methods is a bullish pattern and consist of a long white body followed by a series of three declining small black body days, each fully contained within the range of the high and low of the first day.

✿ These bodies should be accompanied by a noticeable contraction in volume that a very fine balance is developing between buyers and sellers.

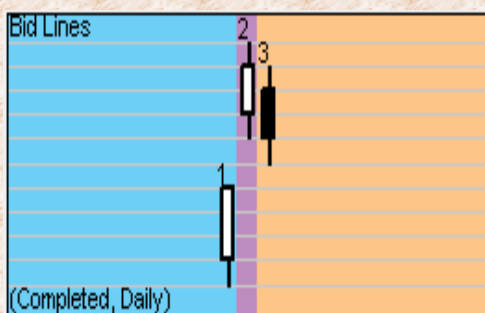
✿ The final part of the pattern is a very strong white body that takes the price to a new closing high. This final day should record a significant increase in activity.

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CANDLESTICK PATTERNS

2. Upward Gapping Tasuki

B. Bullish Continuation Patterns



✿ An upside tasuki gap pattern develops over three periods. In the first period, price closes above its opening price, resulting in a white real body.

✿ In the second period, price gaps to the upside on the open and then close higher, creating a white real body.

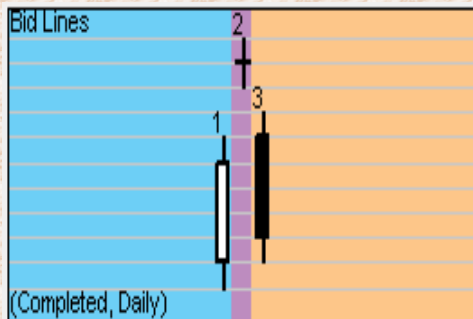
✿ In the third period, price opens within the real body of the second period and then close lower, but do not fill the gap (with either the real body or the lower shadow).

✿ This suggests that only a temporary setback has occurred and that prices will continue higher (in essence, because the gap has acted as a support level).

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CANDLESTICK PATTERNS

1. Abandoned Baby Top

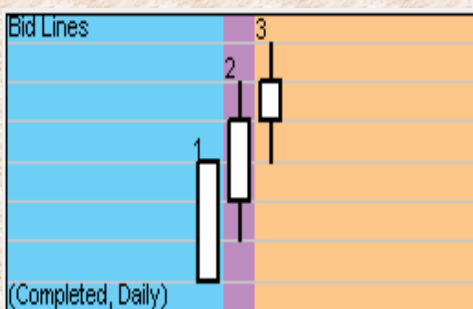


- ✿ The gap up on the second day encourages the bulls, however the close on the second day is nearly the same as the open on the second day.
- ✿ It is comprised of a doji star which gaps away (including shadows) from the prior and following sessions' candlesticks.
- ✿ This could be a sign of temporary profit taking by the longs; however the third day reveals that the more likely scenario is indecision on the second day.

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CANDLESTICK PATTERNS

2. Advance Block



- ### C. Bearish Reversal Patterns
- ✿ A variation on three white soldiers in which the last two soldiers (i.e., white real bodies) display weakening upside drive.
 - ✿ This weakness could be in the form of tall upper shadows or progressively smaller real bodies.

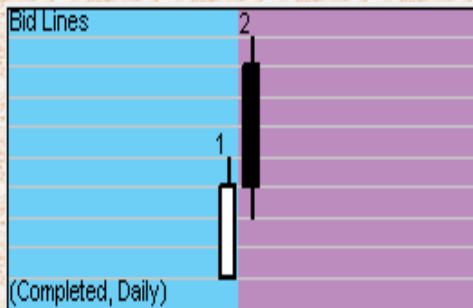
- ✿ It signifies a diminution of buying force or an increase in selling pressure.
- ✿ The Bearish Advance Block chart alerts traders to the weakness of the upside price action since the close of the second and third days are significantly less than their highs.

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CANDLESTICK PATTERNS

3. Bearish Counterattack Line

C. Bearish Reversal Patterns



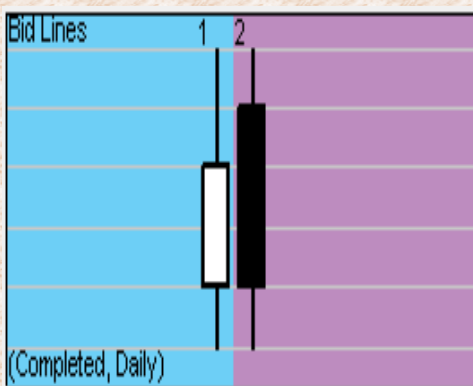
✿ A bearish counterattack or meeting line is formed when after an advance, a white candle is followed by a black candle and both close at the same level.

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CANDLESTICK PATTERNS

4. Bearish Engulfing

C. Bearish Reversal Patterns



✿ A long black body that engulfs a small white real body in an uptrend.

✿ The Black body must totally engulf the body of the first white candlestick.

✿ Ideally, though not necessarily, the black body would engulf the shadows as well.

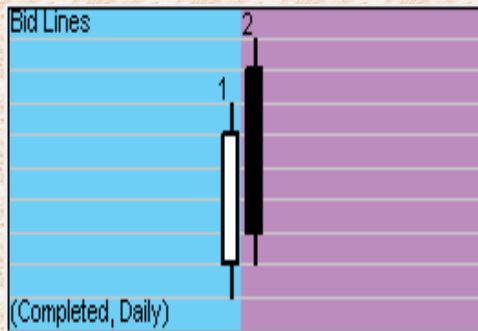
✿ Although shadows are permitted, they are usually small or nonexistent on both candlesticks. The black body's opening price is above the closing price of the previous white body.

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CANDLESTICK PATTERNS

5. Dark Cloud Cover

C. Bearish Reversal Patterns



✿ In an uptrend a long white body is followed by a black body that opens higher than the previous days upper shadow, but then closes more than half way down the white body.

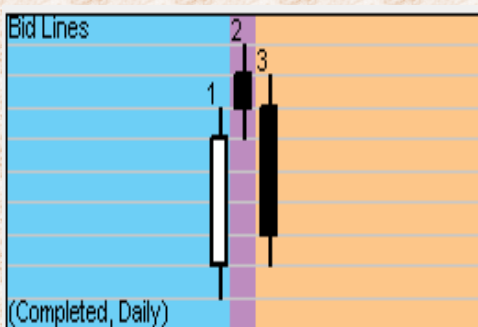
✿ A bearish trend reversal.

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CANDLESTICK PATTERNS

6. Evening Black Star

C. Bearish Reversal Patterns



✿ A major top reversal formed by three candles.

✿ The first is a tall white real body, the second is a small real body (white or black) which gaps higher to form a star, the third is a black candlestick.

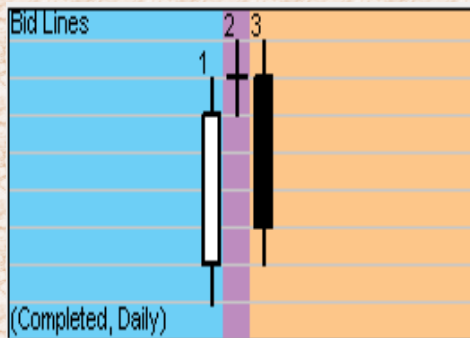
✿ A Star top is followed by a black body that closes well below the first white bars closing price.

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CANDLESTICK PATTERNS

7. Evening Doji Star

C. Bearish Reversal Patterns



✿ A major top reversal formed by three candles.

✿ The same as an evening star except the middle candlestick (i.e., the star portion) is a doji instead of a small real body.

✿ Because there is a doji in this pattern, it is considered more bearish than the regular evening star.

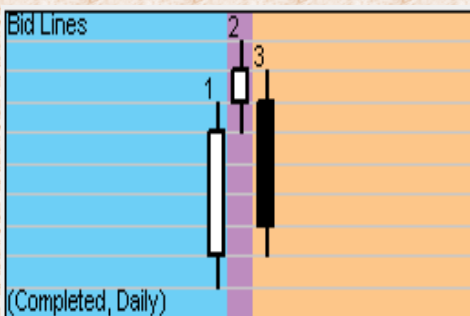
✿ A doji top is followed by a black body that closes well below the first white bars closing price.

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CANDLESTICK PATTERNS

8. Evening White Star

C. Bearish Reversal Patterns



✿ A major top reversal formed by three candles.

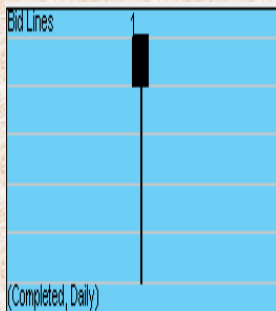
✿ A Star top is followed by a black body that closes well below the first white bars closing price.

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CANDLESTICK PATTERNS

9. Hanging Man (Black)

C. Bearish Reversal Patterns



✿ The hanging man and the hammer are both the same type of candlestick line (i.e., a small real body (white or black), with little or no upper shadow, at the top of the session's range and a very long lower shadow).

✿ But when this line appears during an uptrend, it becomes a bearish hanging man.

✿ It signals the market has become vulnerable, but there should be bearish confirmation the next session (i.e., a black candlestick session with a lower close or a weaker opening) to signal a top.

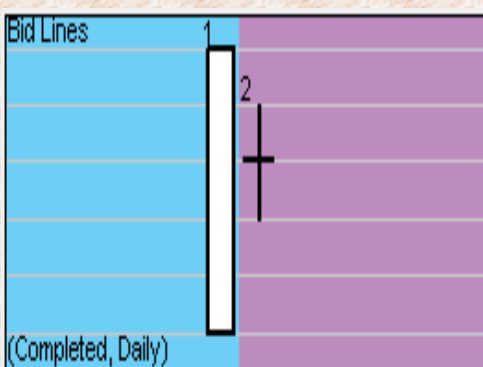
✿ In principle, the hanging man's lower shadow should be two or three times the height of the real body. It warns of a potential top reversal in a rising market.

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CANDLESTICK PATTERNS

10. Harami Cross (White)

C. Bearish Reversal Patterns



✿ Harami formation indicates a loss of momentum.

✿ The second candle forms a doji.

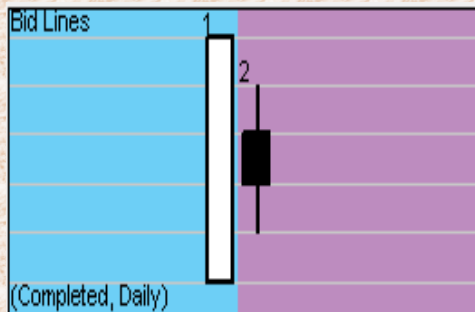
✿ The harami pattern indicates a balance between buyers and sellers and often warns of an impending trend change.

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CANDLESTICK PATTERNS

11. Harami (White,Black)

C. Bearish Reversal Patterns



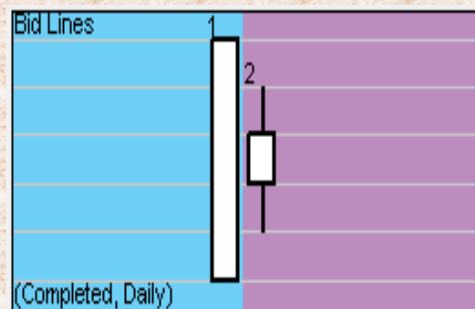
- ✿ Harami formation indicates a loss of momentum.
- ✿ The second candle forms a real body that is sufficiently small to be engulfed by the prior day's long real body.
- ✿ The harami pattern indicates a balance between buyers and sellers and often warns of an impending trend change.

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CANDLESTICK PATTERNS

12. Harami (White,White)

C. Bearish Reversal Patterns



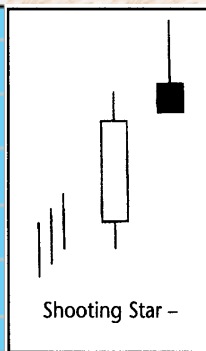
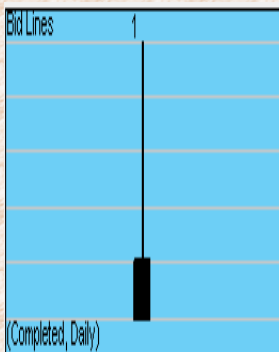
- ✿ Harami formation indicates a loss of momentum.
- ✿ The second candle forms a real body that is sufficiently small to be engulfed by the prior day's long real body.
- ✿ The harami pattern indicates a balance between buyers and sellers and often warns of an impending trend change.

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CANDLESTICK PATTERNS

13. Shooting Star (Black)

C. Bearish Reversal Patterns



✿ A small real body at the lower end of a long upper shadow.

✿ This is a candlestick line that has a long upper shadow and a small real body at the lower end of the session. There should be no, or very little, lower shadow.

✿ With this candle, it is imperative to watch the next day's trading action. If the stock opens weak and remains weak during the day, then a key reversal is likely in progress.

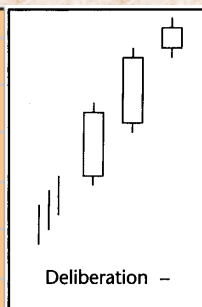
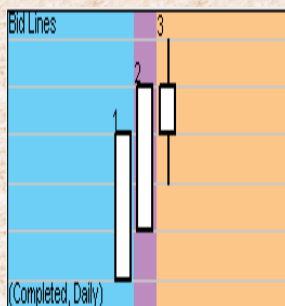
✿ It warns of a potential bearish reversal in a rising market.

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CANDLESTICK PATTERNS

14. Stalled Pattern

C. Bearish Reversal Patterns



✿ This formation is very similar to the Bearish Advance Block.

✿ A small white real body which is either above the prior long white real body or near its top. Sometimes there is a short white candlestick before the long white one.

✿ At the emergence of the stalled pattern, the market's rally should stall. The key difference is that all of the weakness shows up on the 3rd day. The first two days have powerful upward moves.

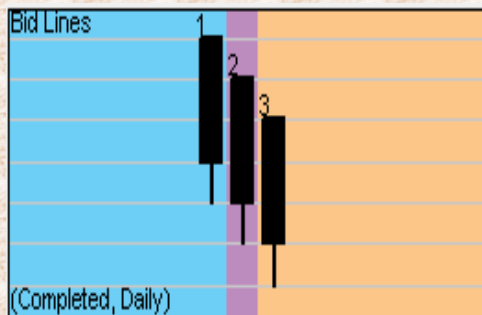
✿ The quick change in sentiment opens the window for day traders to initiate shorts or capture profits. Also called a deliberation pattern.

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CANDLESTICK PATTERNS

15. Three Black Crows

C. Bearish Reversal Patterns

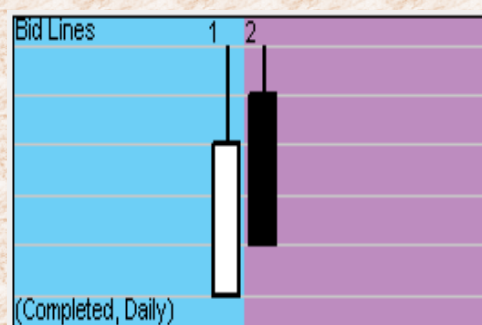


- ✿ The three black crows pattern consists of three declining black candlesticks that form after an advance.
- ✿ Three relatively long consecutive black candlesticks should open within the real body of its black predecessor and close near or on their lows.
- ✿ A top reversal at a high price level or after an extended rally. They indicate lower prices.

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CANDLESTICK PATTERNS

16. Tweezers Top Dark Cloud Cover C. Bearish Reversal Patterns



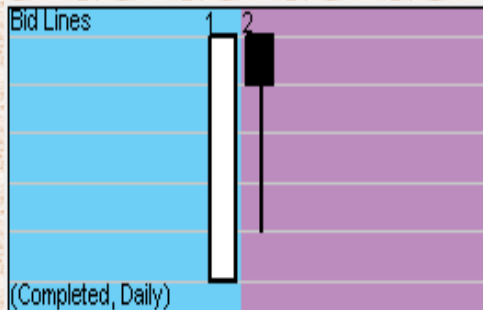
- ✿ A tweezer top consists of two candles with an identical high.
- ✿ Actually, it is possible for a tweezer to consist of more than 2 days with an identical high.
- ✿ This pattern is short-term bearish because the first day's high acts as resistance; when the second day is unable to break through the first day's high, it indicates a loss of upside momentum.

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CANDLESTICK PATTERNS

17. Tweezers Top Hanging Man

C. Bearish Reversal Patterns



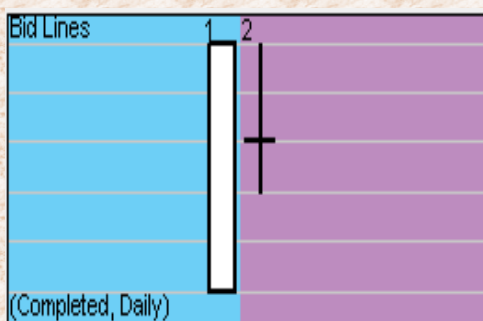
- ✿ A tweezer top consists of two candles with an identical high.
- ✿ Actually, it is possible for a tweezer to consist of more than 2 days with an identical high.
- ✿ This pattern is short-term bearish because the first day's high acts as resistance; when the second day is unable to break through the first day's high, it indicates a loss of upside momentum.

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CANDLESTICK PATTERNS

18. Tweezers Top Harami Cross

C. Bearish Reversal Patterns



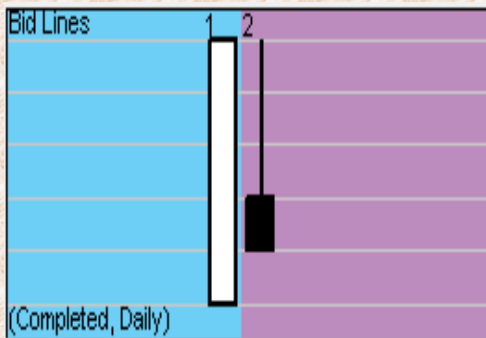
- ✿ First day consists of a long body candle.
- ✿ Second day consists of a doji that has a high equal to the prior day's high.
- ✿ The price action has trended upward then two consecutive days of equal highs signal resistance.

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CANDLESTICK PATTERNS

19. Tweezers Top Shooting Star

C. Bearish Reversal Patterns



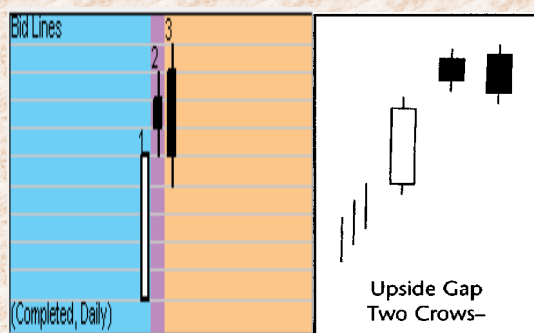
- ✿ A tweezer top consists of two candles with an identical high.
- ✿ Actually, it is possible for a tweezer to consist of more than 2 days with an identical high.
- ✿ This pattern is short-term bearish because the first day's high acts as resistance; when the second day is unable to break through the first day's high, it indicates a loss of upside momentum.

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CANDLESTICK PATTERNS

20. Upside Gap Two Crows

C. Bearish Reversal Patterns



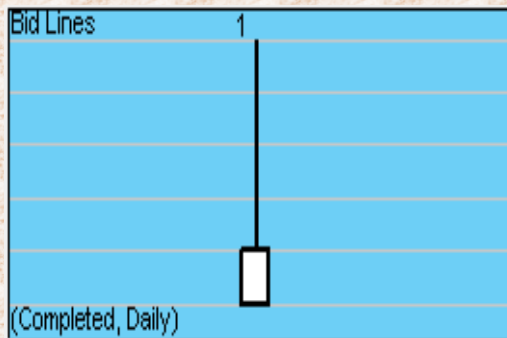
- ✿ A three candlestick pattern. The first line is a long white candlestick which is followed by a black real body that gaps higher.
- ✿ The third session is another black real body which opens above the second session's open and closes under the second session's close.
- ✿ The third black body often closes the gap. It is a top reversal signal.

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CANDLESTICK PATTERNS

21. Shooting Star (White)

C. Bearish Reversal Patterns



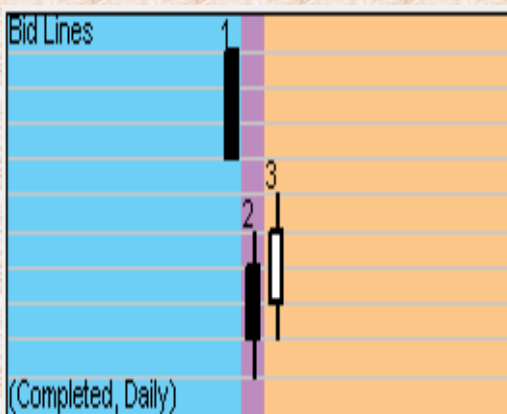
- ✿ A small real body at the lower end of a long upper shadow.
- ✿ It warns of a potential bearish reversal in a rising market.

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CANDLESTICK PATTERNS

1. Downward Gapping Tasuki

C. Bearish Continuation Patterns



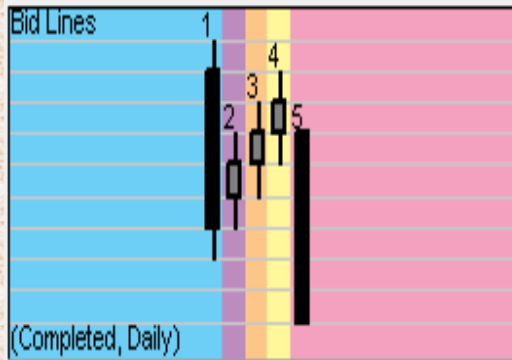
- ✿ The downside tasuki gap is formed when, in a declining market, a black real body gaps lower.
- ✿ This candlestick is followed by a white candlestick, of about the same size, which opens in the black session's real body and then closes above the black's real body.

- ✿ The gap down on the second day does not get filled by the third day. This suggests that the bearish trend will continue.

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CANDLESTICK PATTERNS

2. Falling Three Methods



C. Bearish Continuation Patterns

- ✿ A long black body is followed by three small body days, each fully contained within the range of the high and low of the first day.
- ✿ This is a formation which shows the market taking a breath before continuing its downtrend.
- ✿ Notice that a new high is not seen during the 4 remaining days of this formation. The fifth day closes at a new low.

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THANK YOU

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