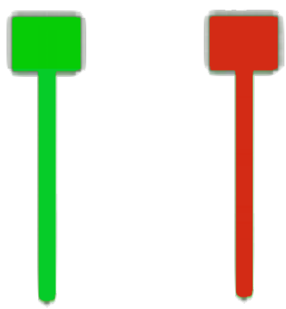
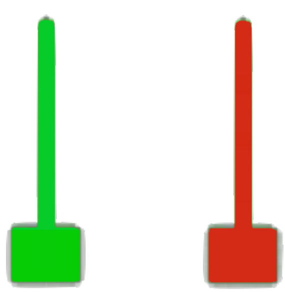
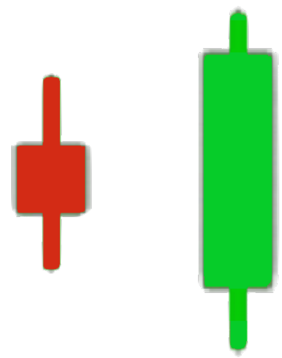
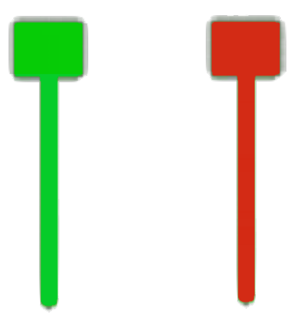
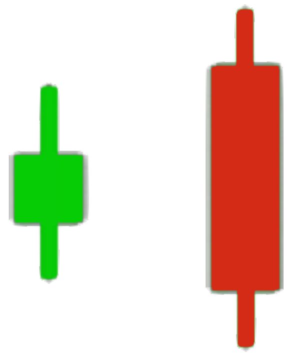
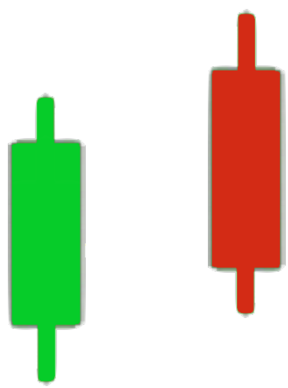
Summary Chart

Learn to Trade for Profit: Trading with Japanese Candlesticks

1. Hammer 	The hammer is essentially a dragonfly doji formation with a slightly bigger body. When the hammer appears at the bottom of a downtrend or after a series of red candles, and possibly in oversold conditions, this indicates that a reversal is about to occur. In this case the hammer pattern is a bullish reversal. However, further bullish confirmation is required. If the next day the price opens above the previous day close and the bulls (the buyers) are taking the price up, this is the bullish confirmation that the reversal has occurred. It is time to buy or to go long. On the other hand, if the next day the price opens below or near the previous day close, and the bears (the sellers) start taking the price down, this indicates that we are still in a downtrend. Be patient and wait for further bullish patterns to form.
2. Inverted Hammer 	When the hammer appears at the bottom of a downtrend or after a series of red candles, and possibly in oversold conditions, this indicates that a reversal is about to occur. In this case the inverted hammer is consider to be a bullish reversal. However, further bullish confirmation is required. If the next day the price opens above the previous day close and the bulls (the buyers) are taking the price up, this is the bullish confirmation that the reversal has occurred. It is time to buy or to go long. On the other hand, if the next day the price opens below or near the previous day close, and the bears (the sellers) start taking the price down, this indicates that we are still in a downtrend. Be patient and wait for further bullish patterns to form.

3. Bullish Engulfing 	The bullish engulfing pattern shows that the bears are running out of steam on the day of the first candle, and the bulls are stepping in with great strength on the day of the second candle. We should also see a volume increase on the day of the second candle. After the appearance of the bullish engulfing pattern, get ready to buy. If the price opens above the previous day close of the tall green candle, this is the bullish confirmation that the reversal has occurred and that the bulls are stepping in with even greater strength. Time to buy or to go long.
4. Hanging Man 	Here is the main difference between the hammer and the hanging man: The bullish version of the hammer appears at the bottom of a downtrend, whereas the hanging man, the bearish version of the hammer, appears at the top of an uptrend. When the hanging man appears at the top of an uptrend or after a series of green candles, and possibly in overbought conditions, this indicates that a reversal is about to occur. In this case the hammer pattern, known as hanging man, is a bearish reversal. However, further bearish confirmation is required. If the next day the price opens below the previous day close and the bears (the sellers) are taking the price down, this is the bearish confirmation that the reversal has occurred. It is time to sell or to go short. On the other hand, if the next day the price opens above or near the previous day close, and the bulls (the buyers) start taking the price up, this indicates that you are still in an uptrend. Be patient and wait for further bearish patterns to form.

5. Bearish Engulfing 	The bearish engulfing pattern shows that the bulls are running out of steam on the day of the first candle, and the bears are stepping in with great strength on the day of the second candle. We should also see a volume increase on the day of the second candle. After the appearance of the bearish engulfing pattern, get ready to sell. If the price opens below the previous day close of the tall red candle, this is the bearish confirmation that the reversal has occurred and that the bears are stepping in with even greater strength. Time to sell and close out the position or go short.
6. Dark Cloud 	Usually, the first day of the dark cloud pattern sees strong uptrend in progress. On the second day, the bulls (buyers) take the price up even further. However, the bears step in with strength and start moving the price back down closer to the first day closing price. Please keep in mind that the lower the second candle moves down and pierces the first candle, the stronger the reversal. After the appearance of the piercing pattern, get ready to sell, or to go short. If the next day, the price opens near or below the previous day close, this is the bearish confirmation that the reversal has occurred and that the bears (sellers) are stepping in with greater strength. Time to sell or to go short. The reversal has not occurred if the price opens near the previous day close, moves up and closes the trading day more than halfway up the green candle of the previous day.

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