CANDLE STICKS

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High Probability Chart Patterns and Setups

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How to read candlestick charts?

Candlestick charts originated in Japan over 100 years ago when the West developed bar charts and point-and-figure charts. In the 1700s, a Japanese man known as Homma discovered that since there was a relationship between price and the supply and demand of rice, markets were also strongly influenced by traders' sentiments.

A daily candlestick chart shows the open, high, low and close price of a security for the day. The wide or rectangular part of the candlestick is called the "real body" which represents the link between opening and closing prices.

This real body shows the price range between the open and close of that day's trade.

When the real body is filled, black or red, it means the close is lower than the open and is referred to as a bearish candle. This indicates that the price opened, the bears pushed the price down and closed below the opening price.

If the real body is empty, white or green it means the close was higher than the open which is called a bullish candle. It shows that the price opened, the bulls pushed the price up and closed above the opening price.

The thin vertical lines above and below the real body are known as wicks or shadows which represent the high and low prices of the trading session

Upper shadow denotes higher prices and lower shadow denotes lower prices during the trading session.

Before we get into the different candlestick charts, there are a few assumptions that need to be kept in mind which are specific to candlestick charts.

Strength is represented by a bullish or green candle and weakness by a bearish or red candle. One should make sure that whenever they are buying it is a green candle day and whenever they are selling make sure it is a red candle day.

The textbook definition of a pattern lays out some criteria, but one should point out that there may be slight variations in the pattern depending on certain market conditions.
One should look for a prior trend. If you are looking for a Bullish reversal pattern, the earlier trend should be bearish and if you are looking for a Bearish reversal pattern then the earlier one should be Bullish.

Candlestick patterns can be divided into:

1. Continuity Pattern

2. Bullish Reversal Pattern

3. Bearish Reversal Pattern

Hammer Pattern :

Hammer is a single candlestick pattern that forms at the end of a downtrend and signals a bullish reversal.

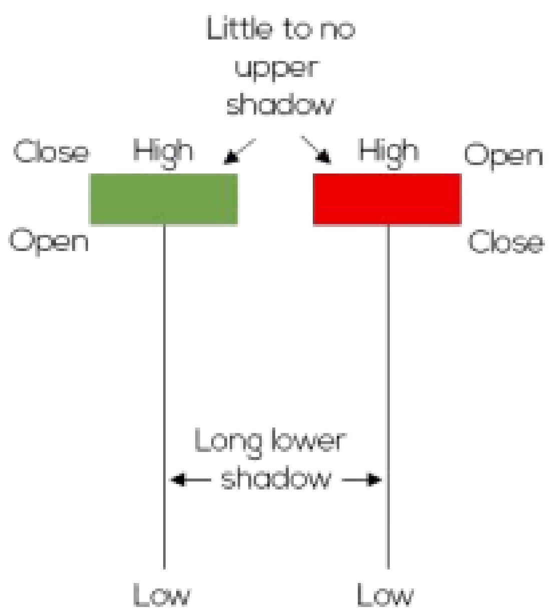
The actual body of this candle is small and located at the top with a lower shadow that should be more than twice the size of the actual body. This candlestick chart pattern has no or only a small upper shadow.

The psychology behind this candlestick formation is that the prices opened and the sellers pushed the prices down.

Suddenly, the buyers came into the market and pushed the prices up and ended the trading session above the opening price.

This led to the formation of a bullish pattern and means that buyers are returning to the market and the downtrend may have ended.

Traders can take a long position if a bullish candle forms the next day and place a stop loss at the low of the hammer.



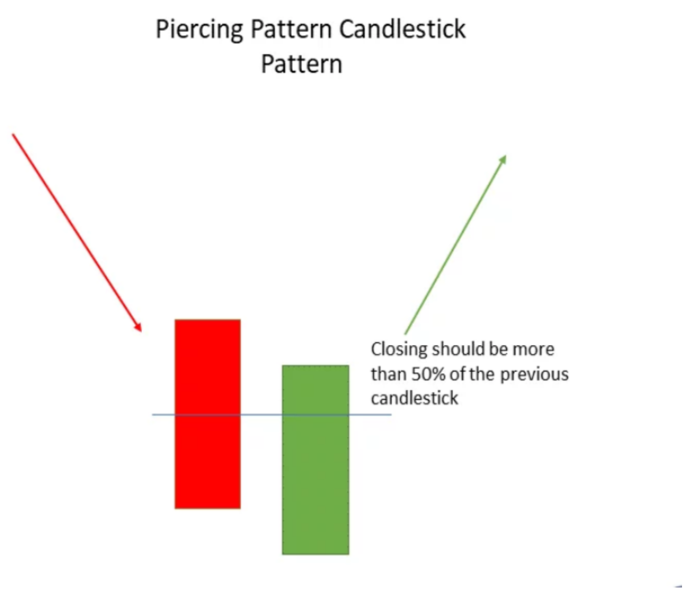
Piercing Pattern :

A piercing pattern is a multiple candlestick chart pattern that forms after a downtrend that signals a bullish reversal.

Two candles make it up, the first candle is a bearish candle which indicates the continuation of the downtrend.

The second candle is a bullish candle that opens the gap but closes more than 50% of the actual body of the previous candle, indicating that the bulls are back in the market and a bullish reversal is about to take place.

If a bullish candle is formed the next day, traders can enter a long position and place a stop-loss at the bottom of the second candle.



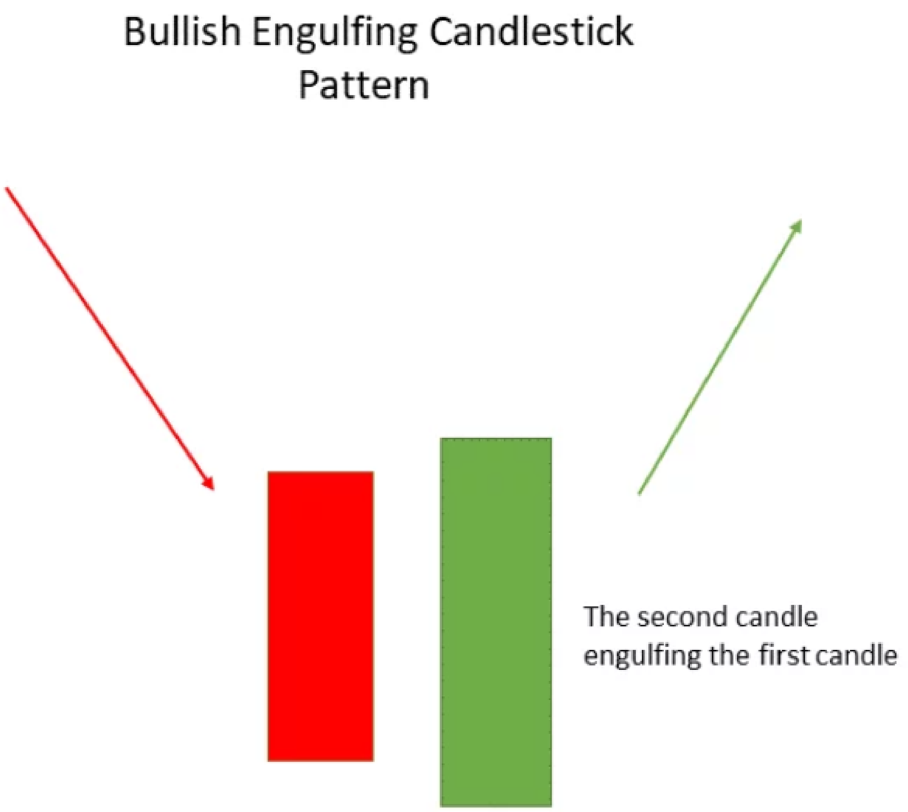
Bullish Engulfing :

Bullish engulfing is a multiple candlestick chart pattern that forms after a downtrend that signals a bullish reversal.

It is formed by two candlesticks, the second candlestick surrounds the first candlestick. The first candle is a bearish candle which indicates the continuation of the downtrend.

The second candle is a long bullish candle that completely engulfs the first candle and indicates that the bulls are back in the market.

If a bullish candle is formed the next day, traders can enter a long position and place a stop-loss at the bottom of the second candle.



The Morning Star :

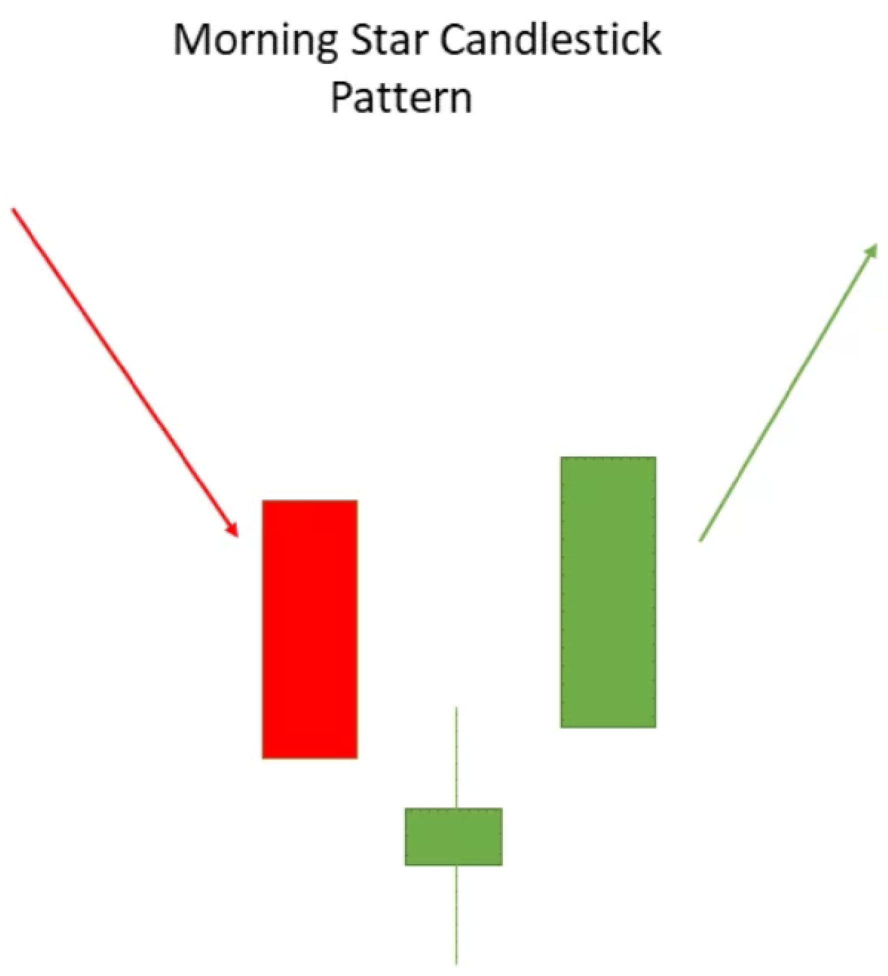
Morning Star is a multiple candlestick chart pattern formed after a downtrend indicating a bullish reversal.

It is made up of 3 candles, the first is a bearish candle, the second is the Doji and the third is a bullish candle.

The first candle indicates the continuation of the downtrend. The Doji of the second candle indicates indecision in the market. The third bullish candle indicates that the bulls have returned and a reversal will take place.

The second candle should be completely outside the actual body of the first and third candles.

If a bullish candle is formed the next day, traders can enter a long position and place a stop-loss at the bottom of the second candle.



Three White Soldiers :

The Three White Soldiers is a multiple candlestick pattern formed after a downtrend that signals a bullish reversal.

These candlestick charts are made up of three long bullish bodies that do not have long shadows and are open within the original body of the previous candle in the pattern.

Three inSide Up:

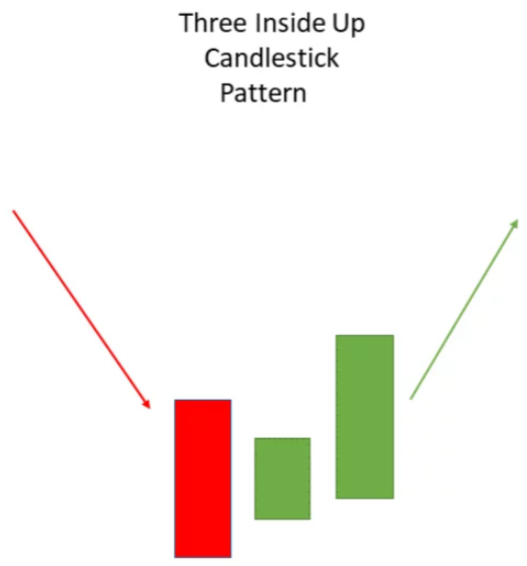
The Three Inside Up is a multiple candlestick pattern formed after a downtrend indicating a bullish reversal.

It consists of three candlesticks, the first one is a long bearish candle, the second one is a short bullish candle that should be in the range of the first candlestick.

The third candlestick should be a long bullish candlestick that confirms a bullish reversal.

The first and second candlesticks should belong to the Bullish Harami candlestick pattern.

Traders can take long positions after the completion of this candlestick pattern

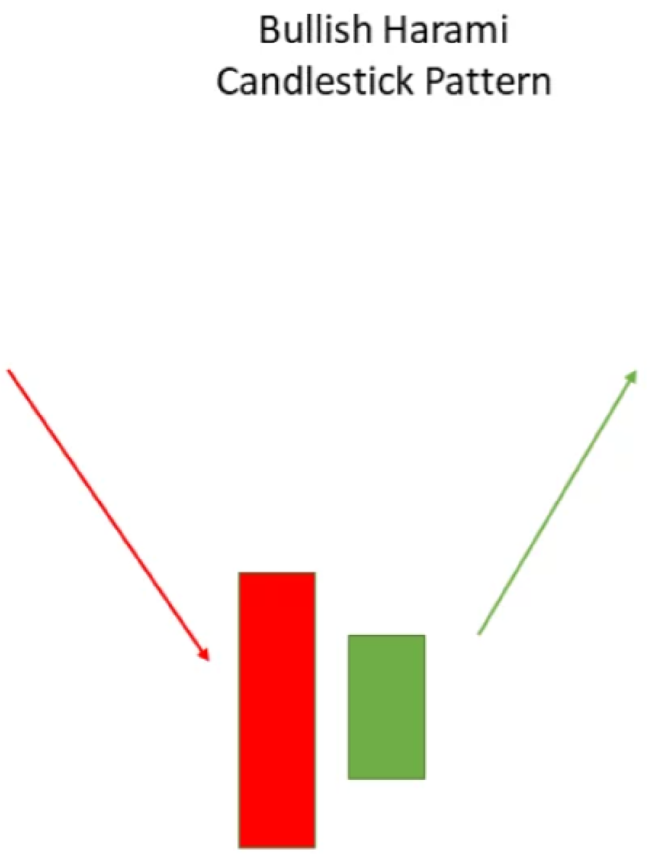


Bullish Harami Pattern:

A Bullish Harami is a multiple candlestick chart pattern formed after a downtrend indicating a Bullish Reversal.

It consists of two candlestick charts, the first candlestick is a long bearish candle and the second is a short bullish candle that should be in the range of the first candlestick.

The first bearish candle shows the continuation of the bearish trend and the second candle shows that the bulls are back in the market. Traders can take long positions after the completion of this candlestick pattern.



Tweezer Bottom :

Tweezer Bottom Candlestick Pattern is a Bullish Reversal candlestick pattern that forms at the end of a downtrend.

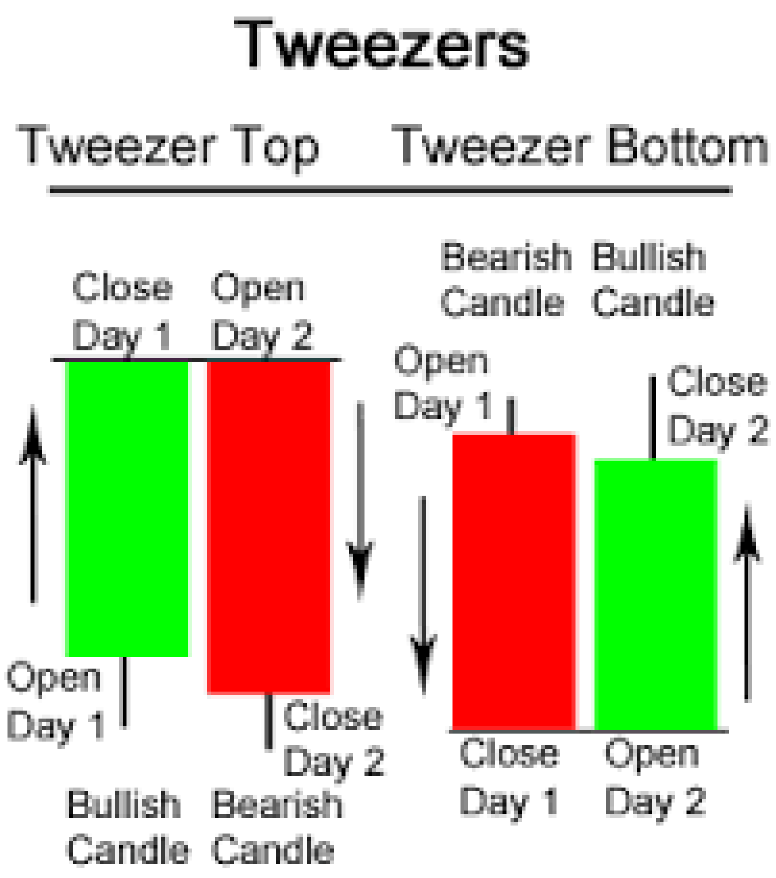
It consists of two candlesticks, one is Bearish and the other is Bullish candlestick.

Both candlesticks make almost or the same low. When the Tweezer Bottom candlestick pattern is formed the prior trend is a downtrend.

A bearish tweezer candlestick is formed that looks like a continuation of an ongoing downtrend. The next day, the low of the second day's bullish candle shows the support level.

Bottom candles with almost identical lows indicate the strength of support and also indicate that the downtrend may reverse to form an uptrend. Due to this the bulls come into action and drive the price upwards.

This bullish reversal is confirmed the day after the bullish candle is formed.



Inverted Hammer:

An inverted hammer is formed at the end of the downtrend and signals a bullish reversal.

In this candle, the real body is located at the end and there is a long upper shadow. This is the inverse of the Hammer candlestick pattern.

This pattern is formed when the opening and closing prices are close to each other and the upper shadow should be more than twice the actual body.

Three Inside Up :

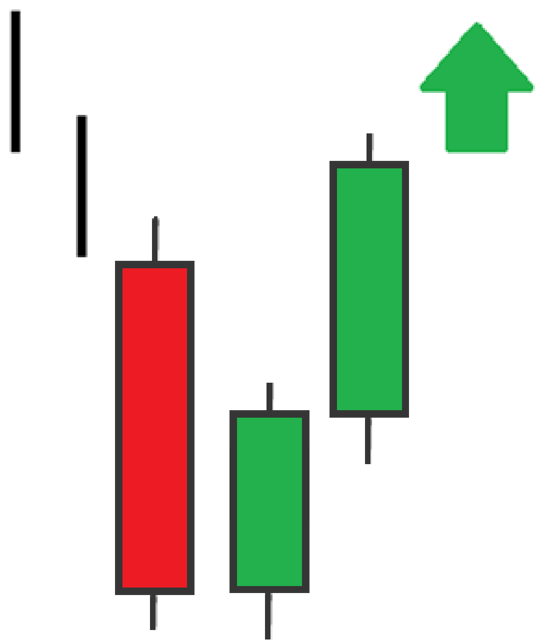
The Three Outside Up is a multiple candlestick pattern formed after a downtrend indicating a bullish reversal.

It consists of three candlesticks, the first one is a short bearish candle, the second one is a large bullish candle that should cover the first candlestick.

The third candlestick should be a long bullish candlestick that confirms a bullish reversal.

The first and second candlestick charts should be related to the Bullish Engulfing candlestick pattern.

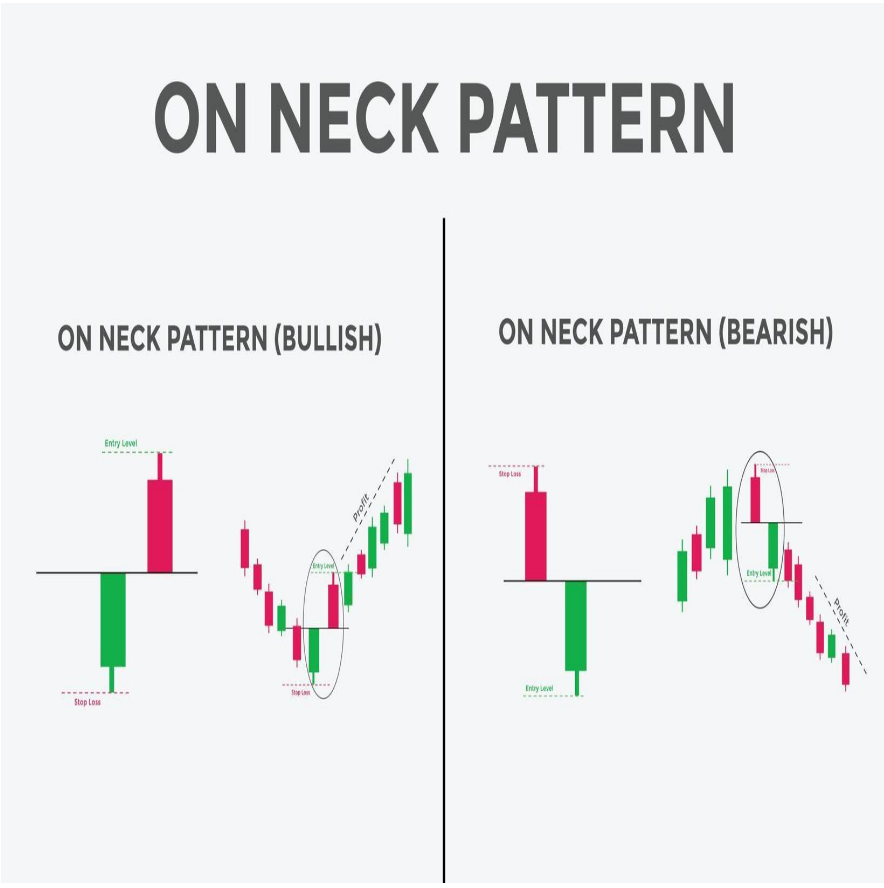
Traders can take long positions after the completion of this candlestick pattern.



On-Neck Pattern :

The on neck pattern is followed by a downtrend when a long real bodied bearish candle is followed by a short real bodied bullish candle that gaps at the open but then closes near the close of the previous candle.

The pattern is called a neckline because two closing prices are the same or nearly identical in two candles, forming a horizontal neckline.



Hanging man :

A hanging man is a single candlestick pattern that forms at the end of an uptrend and signals a bearish reversal.

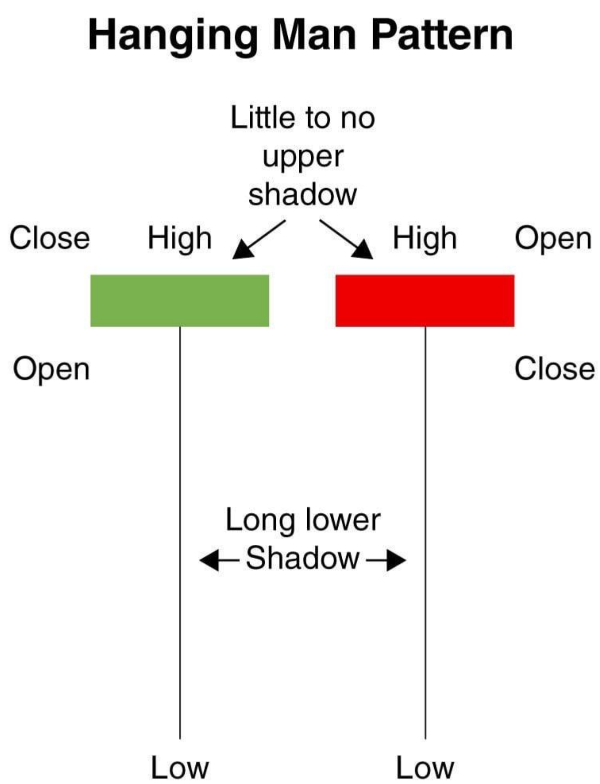
The actual body of this candle is smaller and is positioned on the top with the lower shadow that should be more than twice that of the actual body. There is no upper shadow or lower in this candlestick pattern.

The psychology behind the formation of this candle is that the prices opened up and the sellers pushed the prices down.

Suddenly buyers came into the market and pushed the prices up but failed to do so as the prices closed below the opening price.

This resulted in the formation of a bearish pattern and indicates that the sellers have returned to the market and the uptrend may be over.

If a bearish candle is formed the next day traders can enter a short position and place a stop-loss at the height of the hanging man.



Dark cloud cover:

Dark Cloud Cover is a multiple candlestick pattern formed after an uptrend indicating a bearish reversal.

It is formed by two candles, the first candle is a bullish candle which indicates the continuation of the uptrend.

The second candle is a bearish candle that opens the gap but closes more than 50% of the actual body of the previous candle indicating that the bears are back in the market and a bearish reversal is about to take place.

If a bearish candle is formed the next day traders can enter a short position and place a stop-loss at the high of the second candle.

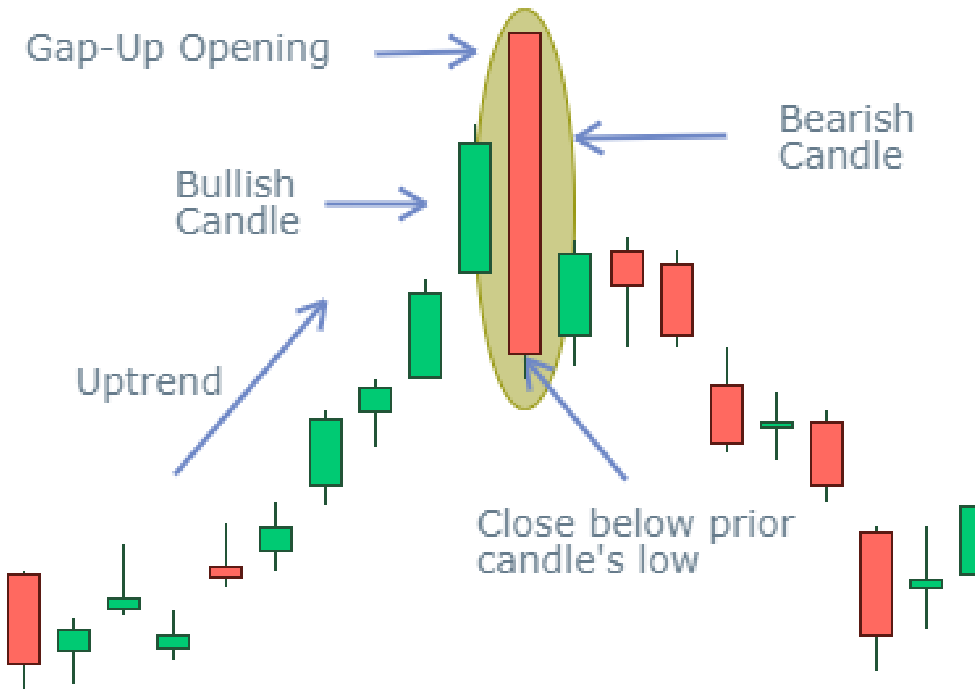
Bearish Engulfing:

Bearish Engulfing is a multiple candlestick pattern formed after an uptrend that signals a bearish reversal.

It is formed by two candlesticks, the second candlestick surrounds the first candlestick. The first candle being a bullish candle indicates the continuation of the uptrend.

The second candlestick chart is a long bearish candle that completely engulfs the first candle and shows that the bears are back in the market.

If a bearish candle is formed the next day traders can enter a short position and place a stop-loss at the high of the second candle.



The Evening Star :

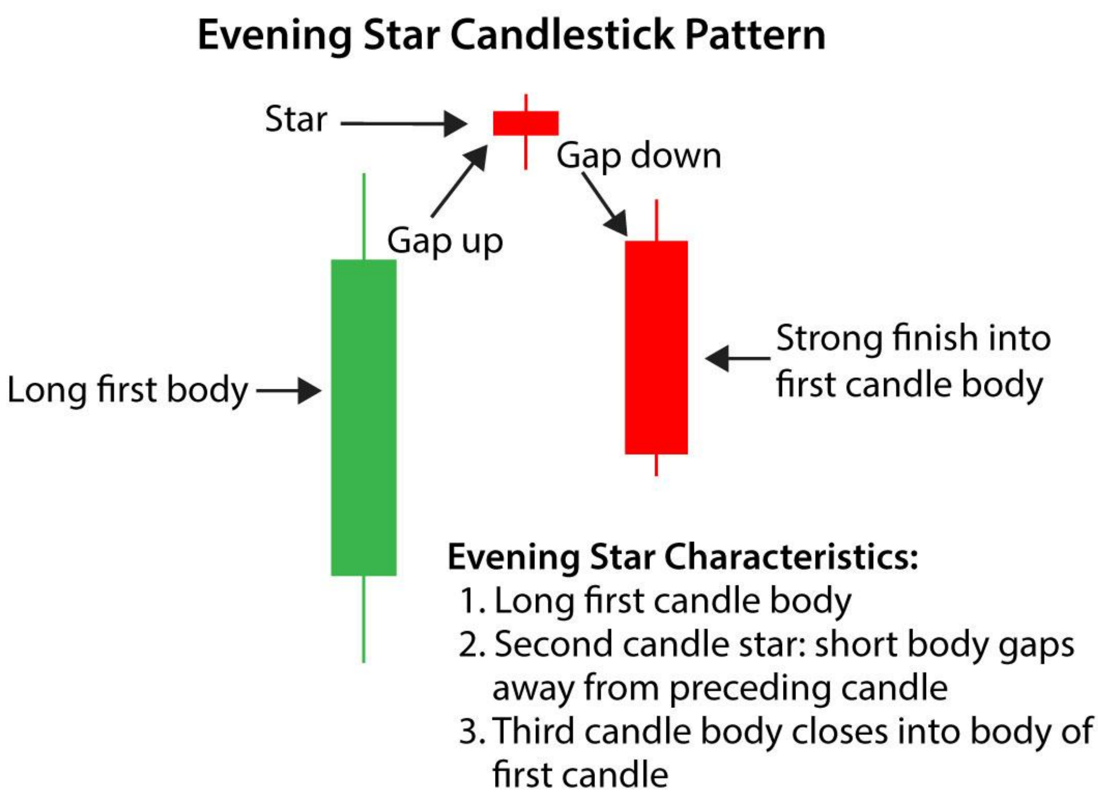
An evening star is a multiple candlestick pattern formed after an uptrend indicating a bearish reversal.

It is made up of 3 candlesticks, the first one is a Bullish candle, second one is Doji and third one is a Bearish candle.

The first candle indicates the continuation of the uptrend, the second candle being a Doji indicates indecision in the market, and the third bearish candle indicating that the bears are back in the market and a reversal is about to occur.

The second candle should be completely outside the actual bodies of the first and third candles.

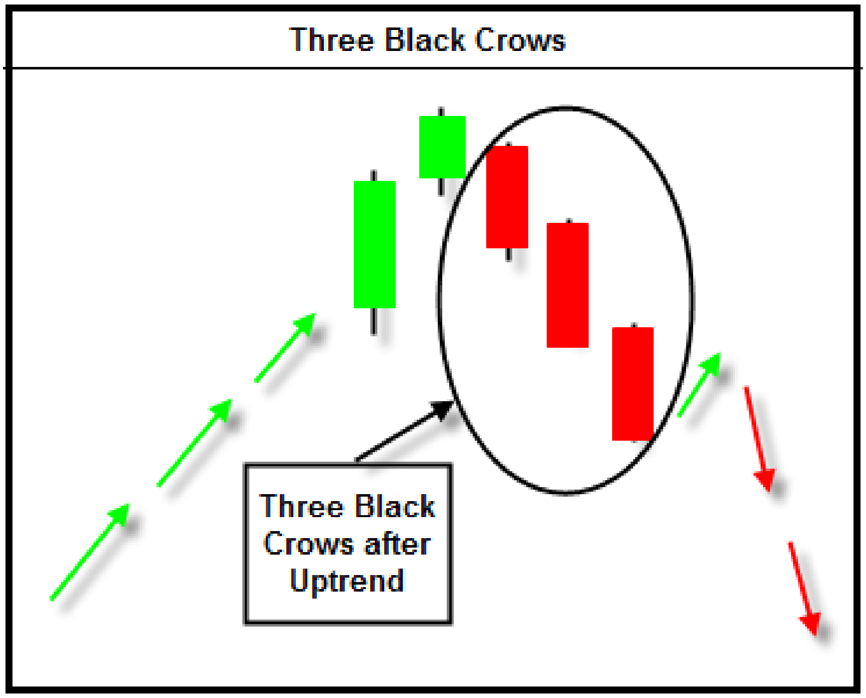
If a bearish candle is formed the next day, traders can enter a long position and place a stop-loss at the high of the second candle.



Three Black Crows :

The Three Black Crow is a multiple candlestick pattern that forms after an uptrend that signals a bearish reversal.

These candlesticks are made up of three bearish bodies that do not have long shadows and open within the actual body of the previous candle in the pattern.

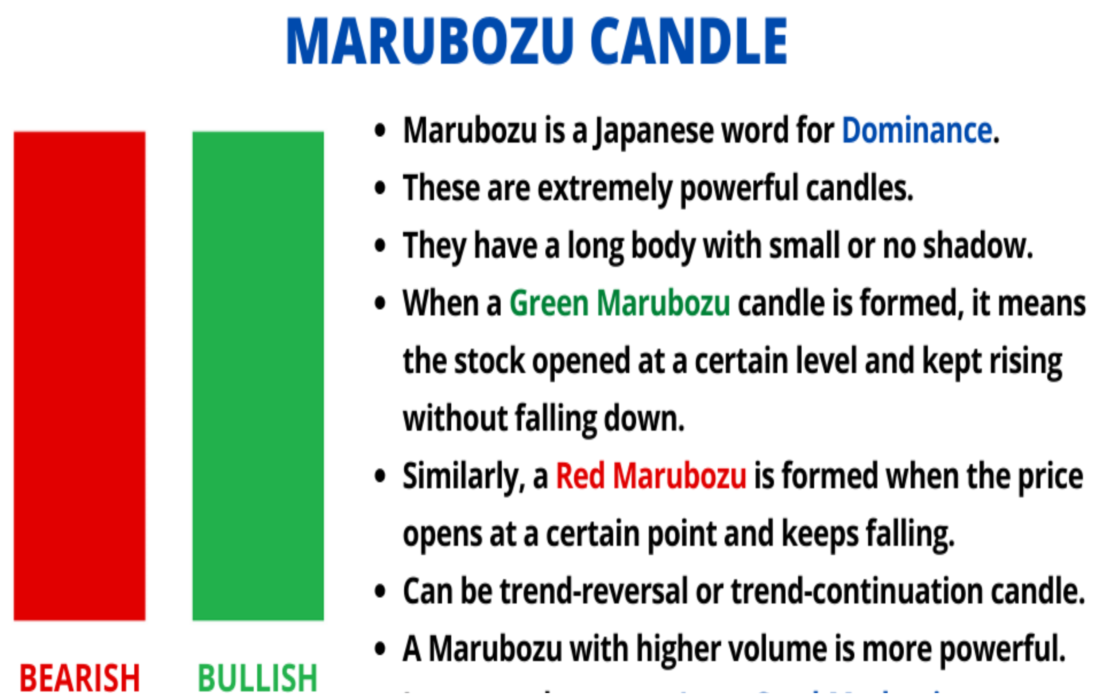


Black Marubozu:

The Black Marubozu is a single candlestick pattern formed after an uptrend that signals a bearish reversal.

This candlestick chart has a long bearish body with no upper or lower shadows, which indicates that the bears are building selling pressure and a bearish trend is likely in the market.

In this candle formation, buyers should be careful and close their buy position.



Three Inside Down :

The Three Inside Down is a multiple candlestick pattern formed after an uptrend indicating a bearish reversal.

It consists of three candlesticks, the first is a long bullish candle, the second is a short bearish candlestick that should be in the range of the first candlestick.

The third candlestick chart should be a long bearish candlestick that confirms a bearish reversal.

The first and second candlesticks should belong to the Bearish Harami candlestick pattern.

Traders can take short positions after the completion of this candlestick pattern.

Bearish Harami :

There is a Bearish Harami multiple candlestick pattern formed after an uptrend indicating a bearish reversal.

It consists of two candlesticks, the first candlestick is a long bullish candle and the second is a short bearish candle which should be in the range of the first candlestick chart.

The first bullish candle indicates a continuation of the bullish trend and the second candle indicates that the bears are back in the market.

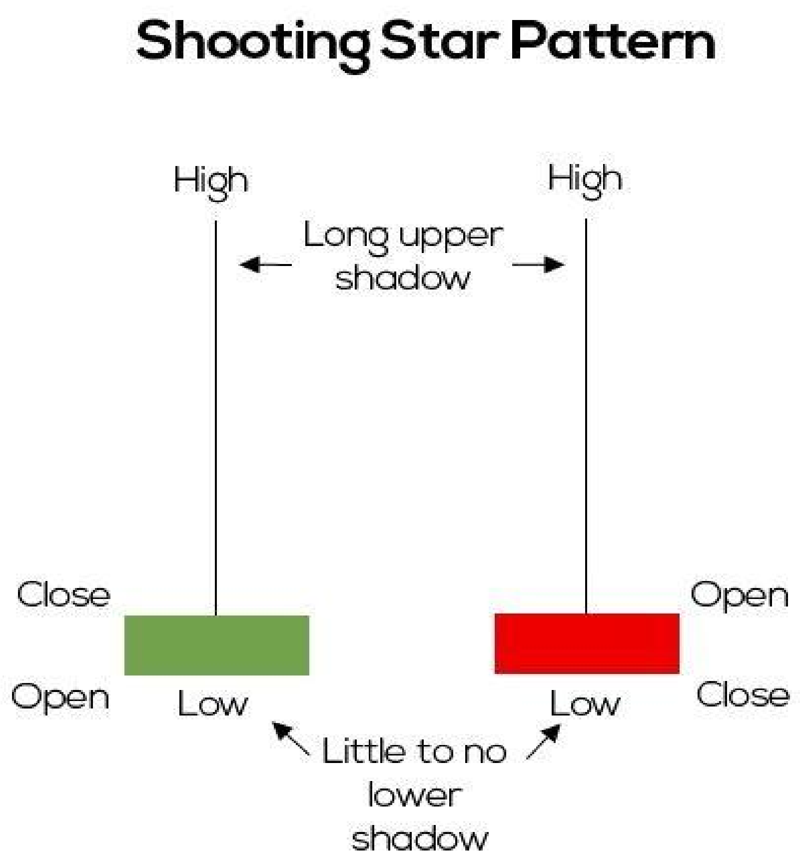
Traders can take short positions after the completion of this candlestick pattern.

Shooting Star :

A shooting star is formed at the end of an uptrend and signals a bearish reversal.

In this candlestick chart the real body is located at the end and there is a long upper shadow. This is the inverse of the Hanging Man candlestick pattern.

This pattern is formed when the opening and closing prices are close to each other and the upper shadow should be more than twice that of the actual body.



Tweezer Top:

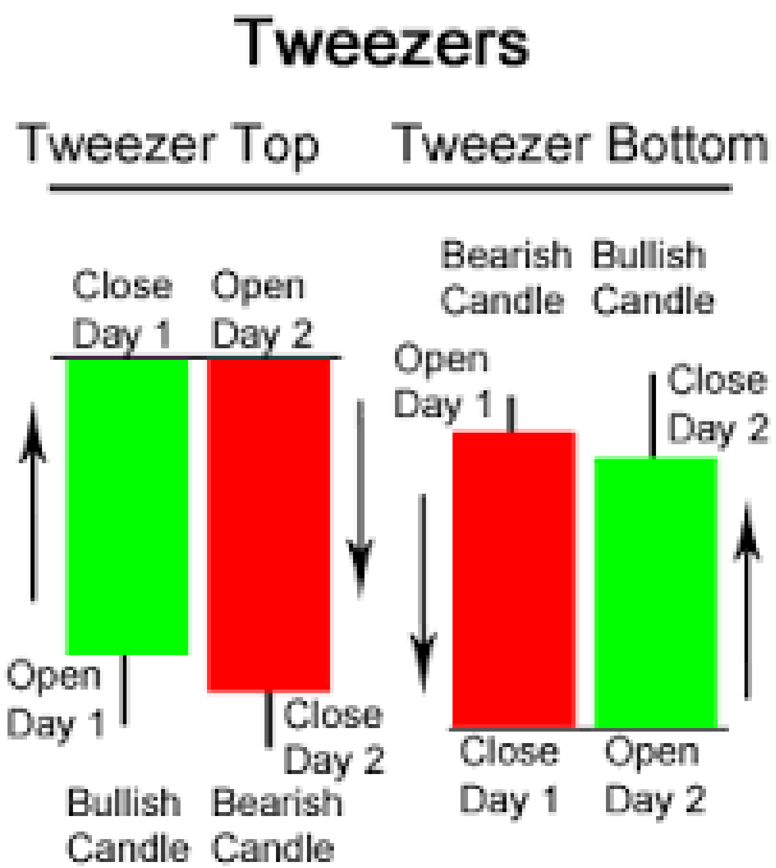
The Tweezer Top Pattern is a bearish reversal candlestick pattern that forms at the end of an uptrend.

It consists of two candlesticks, one is Bullish and the other is Bearish. Both tweezer candlesticks make almost or the same high.

When the Tweezer Top candlestick pattern is formed, the prior trend is an uptrend. A bullish candlestick is formed which looks like a continuation of an ongoing uptrend.

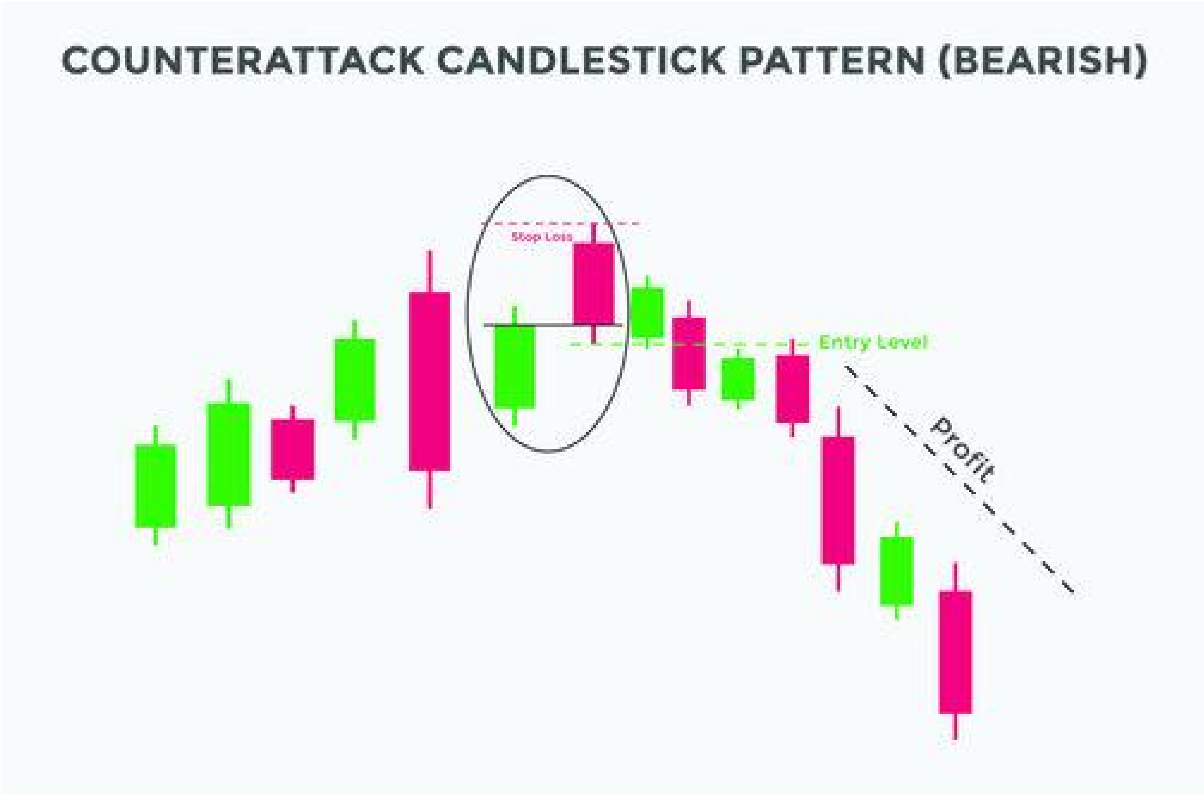
The next day, the second day's bearish candle highs indicate a resistance level. The bulls seem to be pushing the prices upwards, but now they are not ready to buy higher prices.

Top candles with almost the same height indicate the strength of resistance and also indicate that an uptrend may reverse to form a downtrend. This bearish reversal is confirmed the next day when a bearish candle is formed.



Bearish Counterattack :

Bearish Reversal Candlestick Pattern A bearish reversal pattern that appears during an uptrend in the market. It predicts that the market will make an existing uptrend and a new downtrend will take over the market.



Doji :

The Doji pattern is a candlestick pattern of indecision that is formed when the opening and closing prices are almost equal.

It is formed when both the bulls and the bears are fighting to control the prices but no one is successful in gaining complete control over the prices.

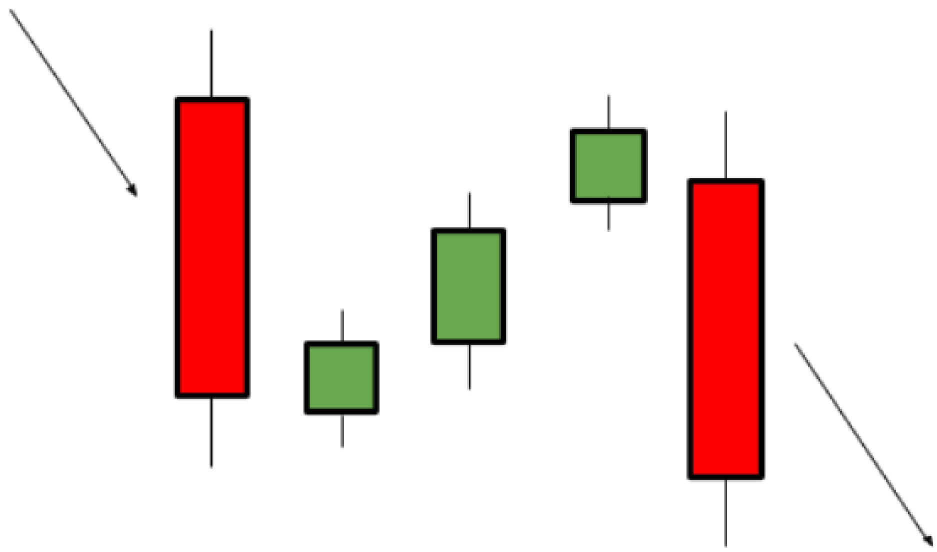
The candlestick pattern looks like a cross with a very small real body and a long shadow.

Falling Three Methods :

The "Three Ways to Fall" is a bearish, five candle continuation pattern that signals a halt, but not a reversal of the ongoing downtrend.

The candlestick pattern is made up of two long candlestick charts in the direction of the trend, i.e. downtrend at the beginning and end, with three short counter-trend candlesticks in the middle.

The candlestick pattern is important as it shows traders that the bulls still do not have enough strength to reverse the trend.

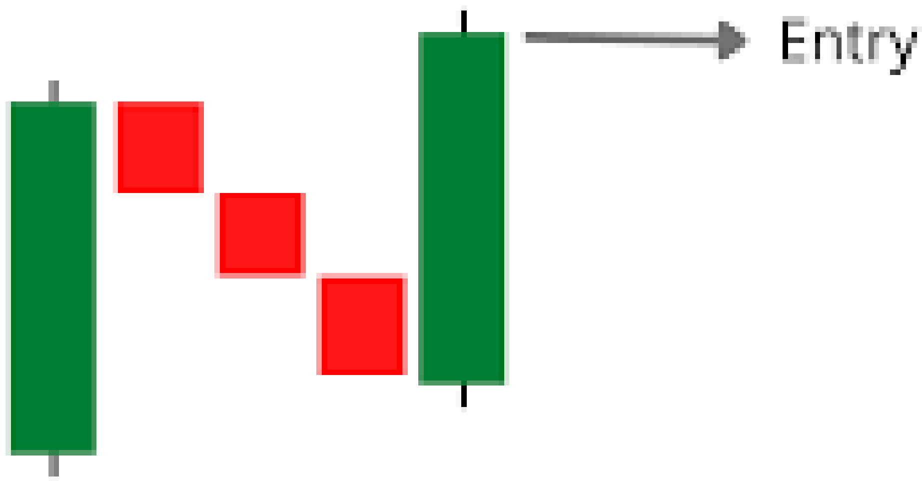


Rising Three Methods :

The "Rising Three Methods" is a bullish, five candle continuation pattern that signals a halt, but not a reversal of the ongoing uptrend.

The candlestick pattern is made up of two long candlesticks in the direction of the trend i.e. uptrend in this case. At the beginning and end, with three small counter-trend candlesticks in the middle.

The candlestick pattern is important because it shows traders that the bears still do not have enough power to reverse the trend.

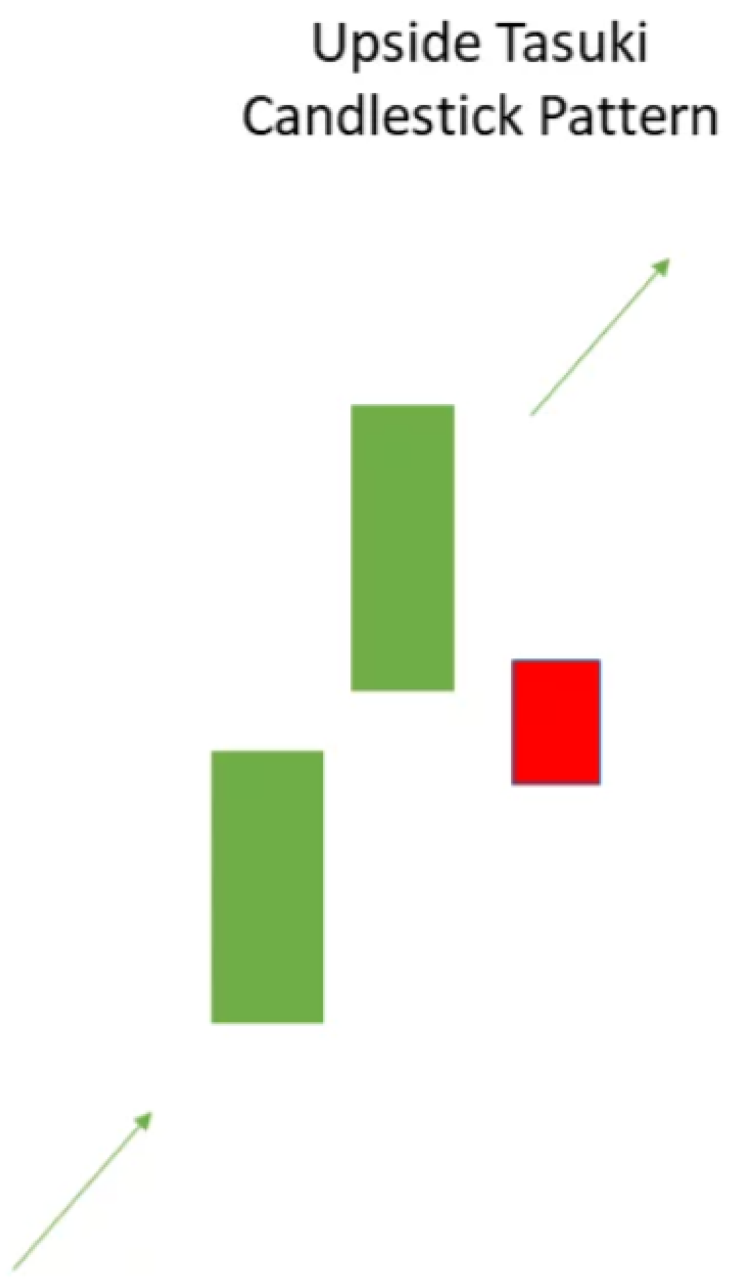


Upside Tasuki Gap :

This is a Bullish continuation candlestick pattern forming in an ongoing uptrend.

This candlestick pattern consists of three candles, the first candlestick is a long bodied bullish candlestick, and the second candlestick is also a bullish candlestick chart formed after the gap up.

The third candlestick is a bearish candle that closes in the gap formed between these first two bullish candles.

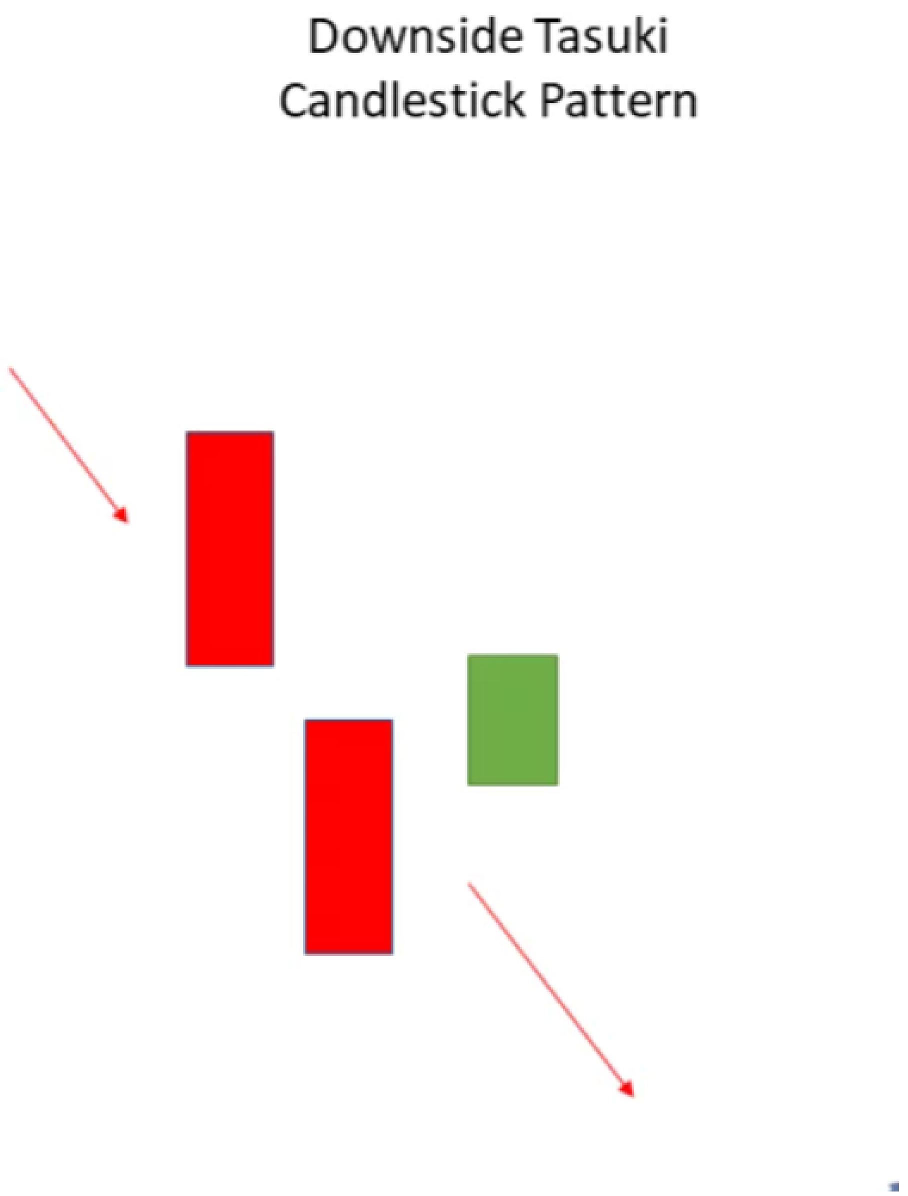


Downside Tasuki Gap :

This is a bearish continuation candlestick pattern formed in an ongoing downtrend.

This candlestick pattern consists of three candles, the first candlestick is a long bodied bearish candlestick, and the second candlestick is also a bearish candlestick formed after a gap down.

The third candlestick is a bullish candle that closes in the gap between the first two bearish candles.

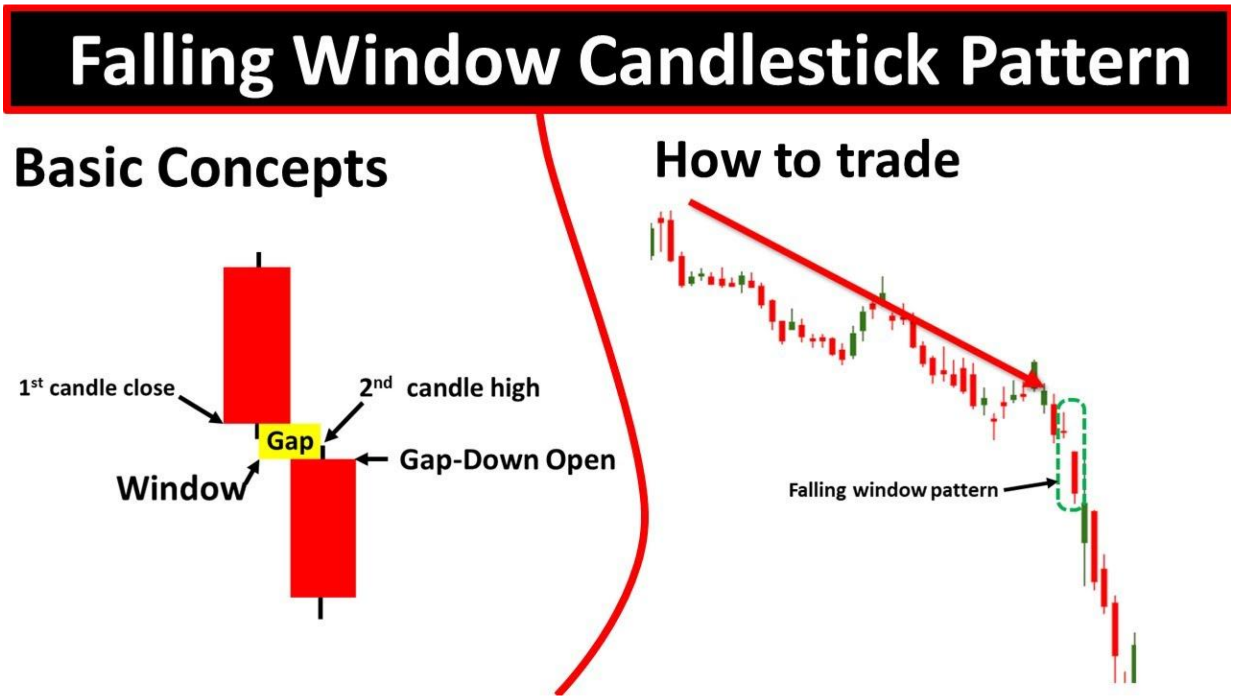


Rising Window:

A rising window is a candlestick pattern in which there is a gap between two bullish candlesticks. Gap is the space between the high and low of two candlesticks which results in high trading volatility. This is a trend continuation candlestick pattern which indicates strong buyer strength in the market.

Falling Window

A falling window is a candlestick pattern consisting of two bearish candlesticks with a gap between them. The gap is the space between the high and low of two candlesticks. This is due to the high trading volatility. This is a trend continuation candlestick pattern and it is a sign of strong seller strength in the market.

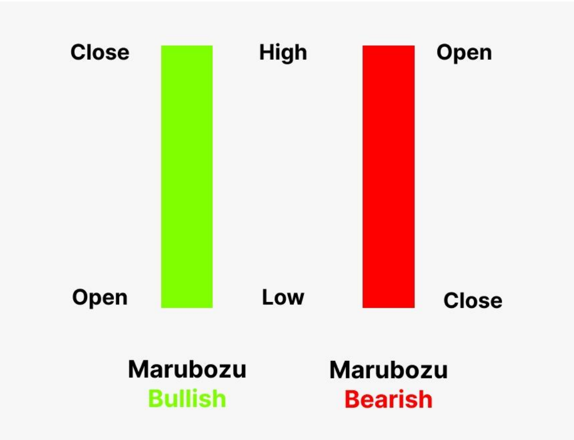


White Marubozu :

The White Marubozu is a single candlestick pattern formed after a downtrend that signals a bullish reversal.

This candlestick consists of a long bullish body with no upper or lower shadows, which indicates that the bulls are building up buying pressure and the market is likely to move higher.

In this candle formation, sellers should be careful and close their shorting positions.



Candlestick patterns are important tools in technical trading. Understanding them allows traders to interpret potential market trends and make decisions from those projections. There are different types of candlestick patterns that can indicate bullish or bearish movements.

1. Risk in the stock market is when you do not know what you are doing in the stock market.

2. It is very important for the investor to have confidence in himself while investing.

3. If you lose in the share market, that is the real meaning of victory and the new way to win.

4. If there is no possibility of defeat than victory has no meaning. 5.

You should have the utmost confidence in yourself while investing.

Investing in the stock market comes with its share of ups and downs. It is important to understand that investing in stocks can be profitable and can also cause harm. The market movement is not always upwards. That's why it takes time, patience and the right mindset to make a good investment.

KEY TAKEAWAYS

- Candlestick patterns are technical trading tools that have been used for centuries to predict price direction.

- There are dozens of different candlestick patterns with intuitive, descriptive names; most also have a corollary pattern between the upside and downside. For instance, an “abandoned baby top” has its corollary in an “abandoned baby bottom;” “tweezer bottoms” have their upside corollary in “tweezer tops.”

- Traders supplement candlestick patterns with additional technical indicators to refine their trading strategy (e.g., entry, exit).

- Candlesticks are based on current and past price movements and are not future indicators.