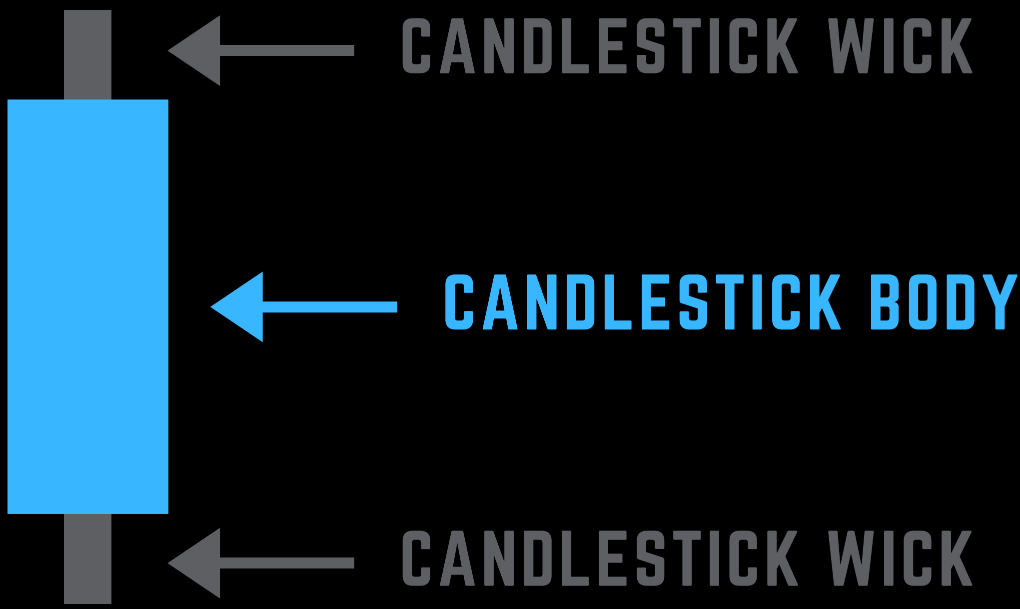
CANDLESTICKS

When we are comfortable with all aspects of 'market flow' & reading market trends we need to advance our knowledge onto the topic of Japanese candlesticks to find the confirmations needed for consistently accurate trade entries. Candles are used primarily to gauge shifts in momentum & there are a number of patterns/formations that allow us to read these momentum changes. Let's recap....

CANDLESTICK ANATOMY

Japanese candlesticks are made up of two parts; candlestick bodies & wicks/shadows. Candle bodies show the real open & close price within a given timeframe & wicks/shadows show rejected/attempted prices in that same timeframe.



Every candlestick tells a story. Through practise & experience we can learn to successfully read the story that they tell. In this guide we will be recapping all candlestick aspects that have been covered in the video course so far.

CANDLESTICK MOMENTUM

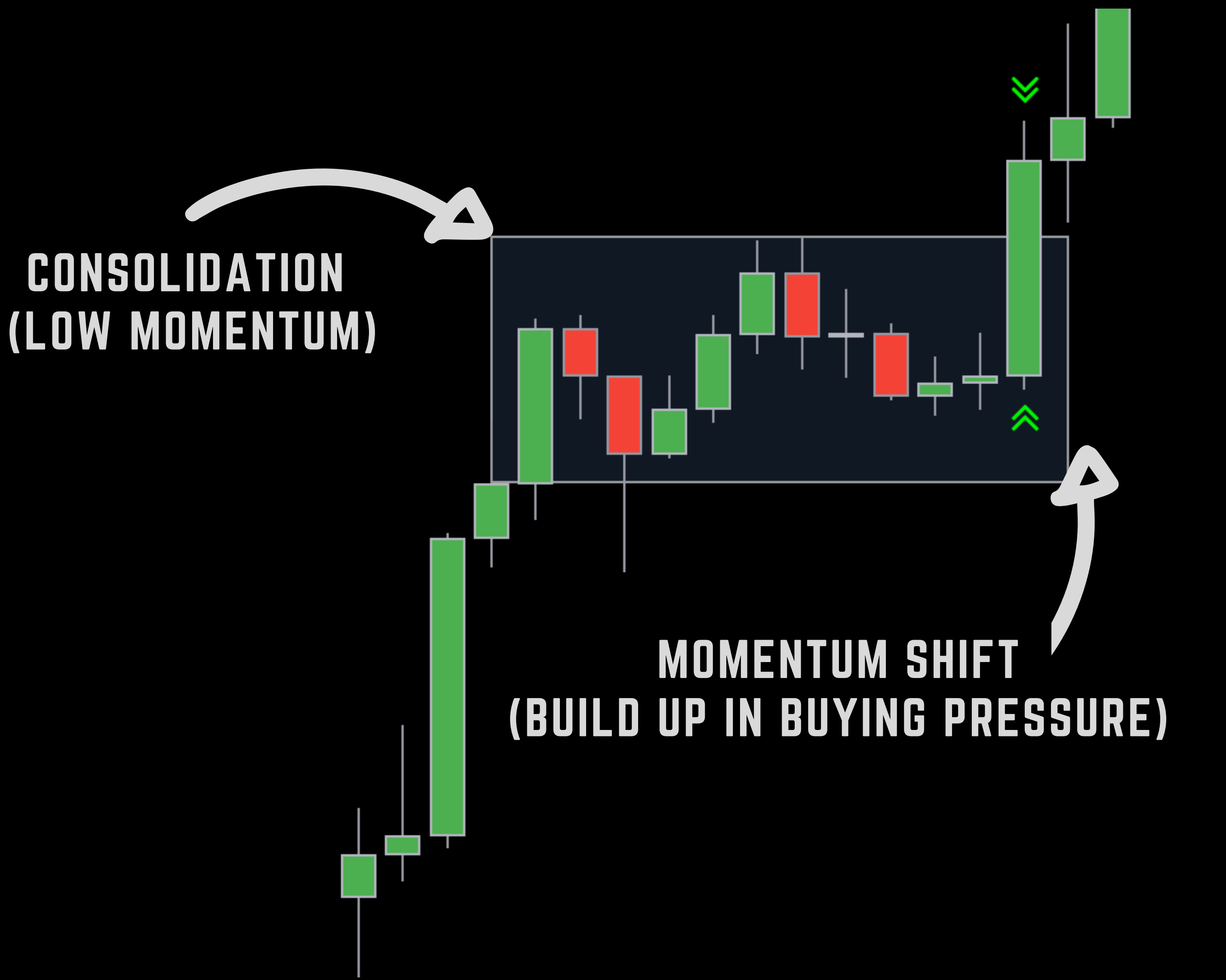
We read momentum using candle bodies & wicks. High momentum is indicated by candles with little to no wicks & large uninterrupted candle bodies. On the contrary low momentum is indicated by small bodied candles paired with larger wicks; showing indecision in the market & slow moving buying/selling pressure.

High momentum market conditions are favourable for us as traders, allowing for faster & more direct trade profits than low momentum conditions. Our goal with candlesticks is to identify price areas where momentum is about to pick up one way or the other by using candlestick patterns in conjunction with market flow aspects.

MOMENTUM SHIFTS

Momentum shifts are great for confirming trade entries & can be identified by 'breakout' style movements from shorter term consolidation phases. When a market enters a phase of sideways movement we see slow momentum while sell/buy orders accumulate in the market. When the consolidation breaks out to the upside or downside with a strong candle this indicates a new wave of momentum, confirming a trading opportunity one way or the other.

To identify momentum shifts we are looking for strong uninterrupted bullish or bearish candles that breakout of sideways trading ranges. When traded in line with additional market flow aspects momentum can be a surefire way to confirm accurate trade entries in line with the trend.



WICK REJECTIONS

Wick rejections are best used to help us identify market reversals & spot areas where momentum is dying down. When we see an accumulation of wick rejections we can see a lack of buying/selling pressure struggling to move the market further which indicates the potential for a reversal.

WICK REJECTIONS; CONTINUATION

Wicks can be used to identify continuation in line with trends. When we see wicks forming at a supply/demand zone or key level in line with the overall structure we can look to buy/sell the market with the direction of the wicks. The wicks in the example below show that the trend is intact & selling pressure remains stronger than buying pressure. Higher prices are rejected out of the zone & the trend continues.

Wick rejections are useful for identifying potential areas of reversal to catch continuation trades from. They show an inability for prices to ride higher or lower therefore confirming continuation of the trending bias.

Wicks should be used only when in conjunction with other market flow aspects like structure, supply & demand & key level support & resistance.

WICK REJECTIONS; REVERSAL

Wicks can also be used to identify areas of reversal. As we know wicks are presenting rejected prices, so if we see large accumulations of wicks towards the bottom or top of a trending market movement we may be able to identify reversal from this point.

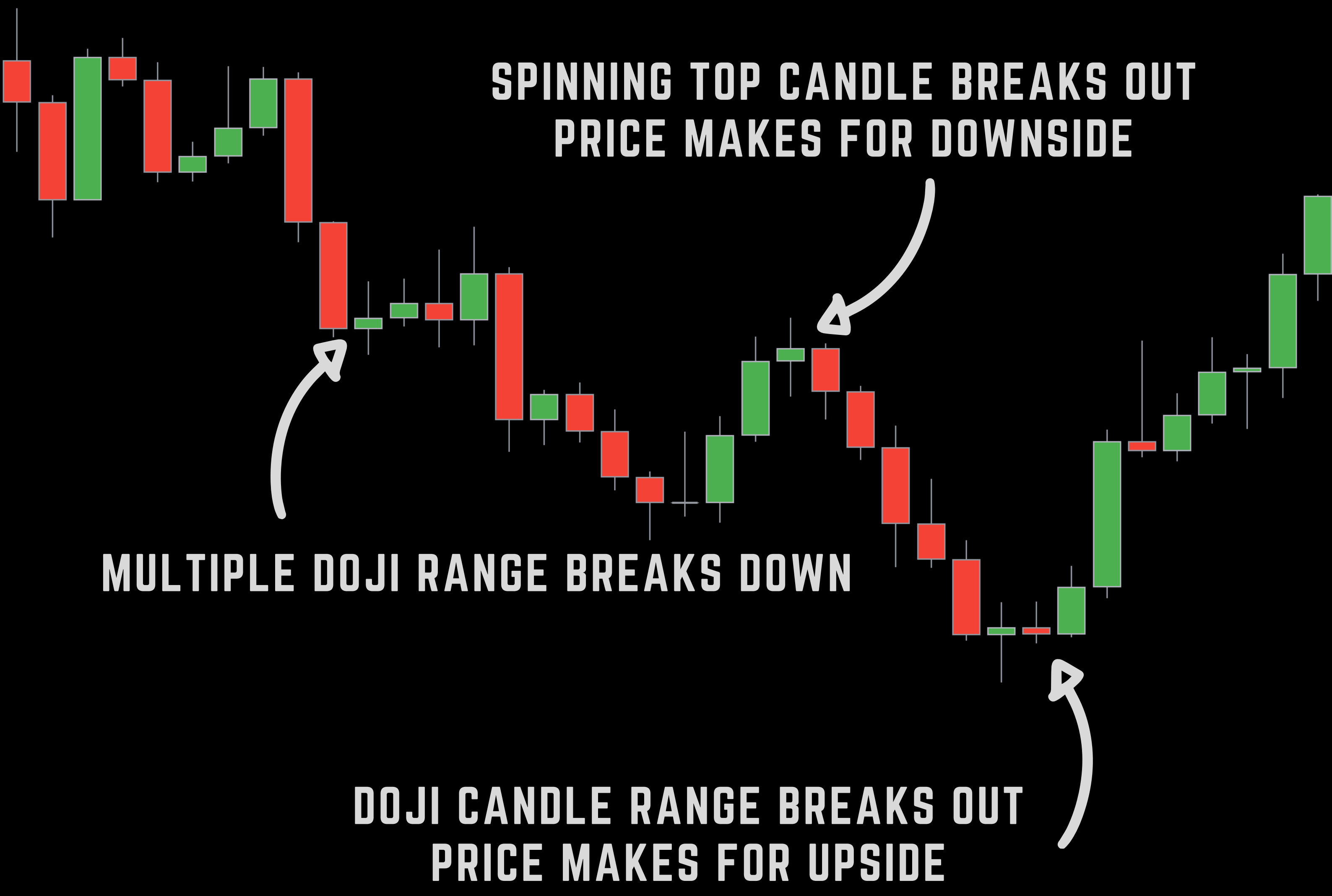
In the chart below we can see a downtrend coming to a close with a lot of downside wick rejections indicating a build up in buying pressure and a potential reversal beginning. From there we see the market enter a phase of markup. In this instance we could have used the big build up of wick rejections to identify this area as a reversal point and look to switch direction from downside to upside.

As always you should never take a trade using only wicks & wick rejections, especially not a reversal trade. Wicks should primarily be used to identify possible areas of turnaround - and should always be used in conjunction with other market flow aspects like market structure, supply & demand and key level support & resistance.

DOJIS//SPINNING TOPS

Dojis & spinning tops are candlestick formations that indicate 'indecision' in a market suggesting a lack of control from both buyers & sellers. A doji or spinning top alone is not an indication to buy or sell but it does present us with an area of interest to focus on for our next trade. When a doji breaks out one way or the other it can indicate a shift in momentum & open the doors for a profitable opportunity.

Here's a chart showing the use of dojis and spinning top candles in action in the market. As mentioned while they don't act as confirmation candles they do line us up with areas of interest to trade in line with market trends & other market flow confluences.



PINBARS

Pinbar candles are used to identify market reversals. Much like dojis/spinning tops they do not provide trade confirmation but instead present us with areas of interest to scope out potential reversals.

Pinbars are made up of a small candle body with the open & close prices very near to one another, and a large upside or downside wick indicating large rejection of prices either in line with or against the trend.

The example chart above shows an uptrend turning to a downtrend after the formation of a pinbar candle. The candle shows an attempt at much higher prices which was entirely rejected indicating a huge build-up of selling pressure & a lack of buying pressure easing out of the market.

ENGULFING CANDLES

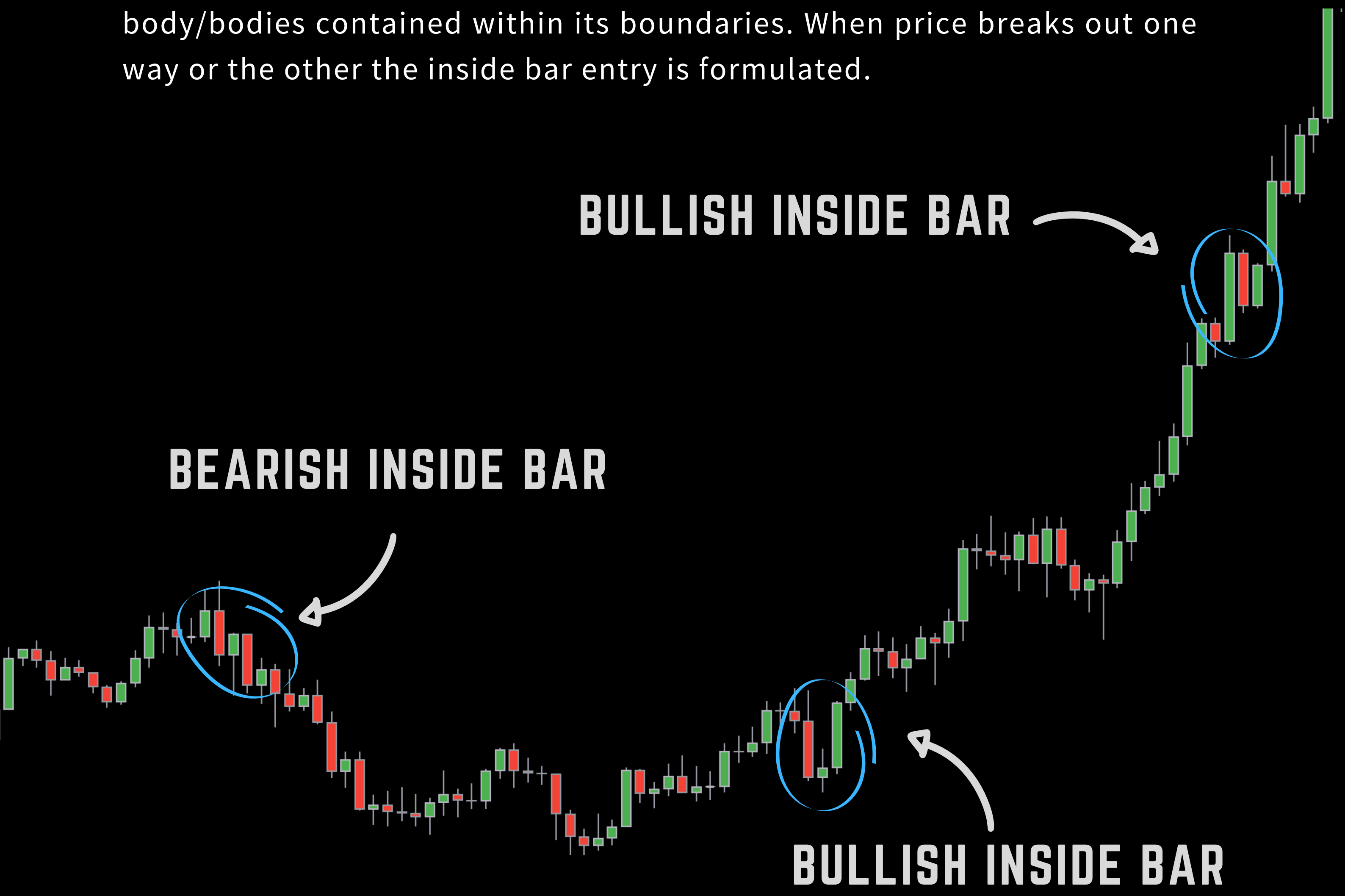
Engulfing candles are my favourite candlestick patterns & they indicate clear confirmation to enter a trade. Engulfing shows a shift in momentum one way or the other and when traded in line with the trend and other market flow aspects can prove a valuable tool for confirming & executing trades accurately.

The chart below shows examples of a bullish engulfing candle & a bearish engulfing candle & how they lead into new momentum movements to the upside & downside.

A bearish engulfing pattern is a bear candle with 1 or more previous candles of price action contained within it. A bullish engulfing pattern is a bull candle with 1 or more previous candles of price action contained within it. Engulfing patterns should always be used in line with the trend & other market flow aspects for the best results & highest accuracy.

INSIDE BARS

The Inside bar pattern is another confirmation candlestick pattern that can prove useful for executing high probability trade entries. The Inside bar pattern is made up of a 'master candle' with the next candle body/bodies contained within its boundaries. When price breaks out one way or the other the inside bar entry is formulated.



The above chart shows a few examples. Notice the master candle with the next smaller candles contained within it, a breakout of the inside bar range is confirmed with a bullish or bearish closure & from there the market moves in the given direction.

When identifying Inside bars I personally focus on candle bodies only & not so much on wick - this approach has worked for me for a long time.

CANDLESTICKS SUMMARY

Japanese candlesticks are a very valuable tool for us as traders. While our primary focus in technical analysis will be identifying & trading in line with all the market flow aspects that we've covered throughout the course, candlesticks are the scaled in tools we use to find safe & accurate trade execution points & areas of interest for our positions.

We don't need to learn the 20+ variations of every candlestick pattern ever found, mastering the few high accuracy signals that we've covered in the course is enough to find effective trade execution points & confirmations without overloading your brain.

The primary use of candlesticks is to identify shifts in momentum & to view the battle between buyers & sellers - using wicks & candle bodies to identify areas of high selling and buying pressure. Spend the time required to master each candlestick formation that we've covered and get comfortable identifying & understanding each in varied market conditions.

I recommend carrying out some backtesting sessions using past price data to identify each of the candle patterns that we've spoken about so far. **Real market experience is the best way to develop your skills as a trader.**

THANK YOU