# 30 Profitable Candlestick Patterns Every Trader Must Know

A Beginner's Guide to Understanding and Using Candlestick Patterns Effectively

PipPluseFX | Prince A.

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# Introduction: Why Candlestick Patterns?

Candlestick patterns serve as the market's “body language,” offering insights into potential future price movements. By analyzing these patterns, traders can better understand market sentiment and make more informed decisions. Think of candlesticks as a way to "listen" to the market's cues, helping you interpret what buyers and sellers are feeling at any given moment.

## Analogy

Imagine watching two people on a seesaw. When one person starts to move down slowly, it indicates they're gaining weight or strength on that side, suggesting increasing demand. Conversely, if one person suddenly jumps off, the other side quickly drops down, indicating a sudden shift in momentum.

Candlestick patterns work in much the same way:

- **Weight Shifts:** Just as the seesaw reflects changes in weight, candlestick patterns show shifts in market dynamics between buyers (demand) and sellers (supply). A series of bullish candlesticks may suggest increasing buyer strength, while bearish candlesticks can indicate sellers gaining control.
- **Predicting Jumps:** Candlestick patterns can also signal potential abrupt changes in market sentiment. For example, if you see a bullish engulfing pattern, it’s akin to one person on the seesaw making a powerful jump—indicating a sudden surge in buying pressure that could lead to significant upward movement.

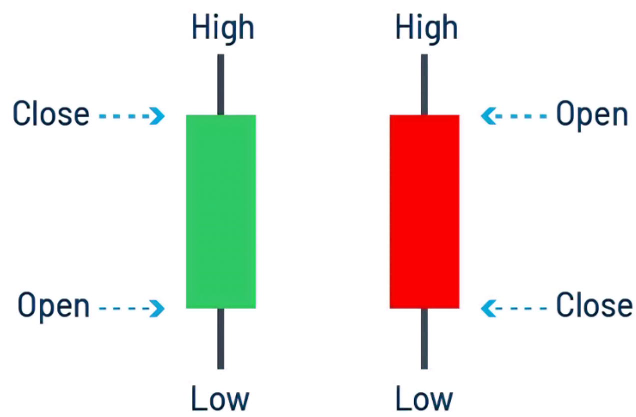
Understanding candlestick patterns is crucial for traders looking to enhance their market analysis skills. By recognizing these patterns, traders can:

1. Identify Trends
2. Spot Reversals
3. Manage Risk
4. Enhance Decision-Making

# How to Read a Candlestick

## Anatomy of a Candlestick:




A candlestick is a visual representation of price movement in a financial market over a specific time period. Understanding its components can help you analyze market trends and make informed trading decisions. Here's a breakdown of the key parts of a candlestick:

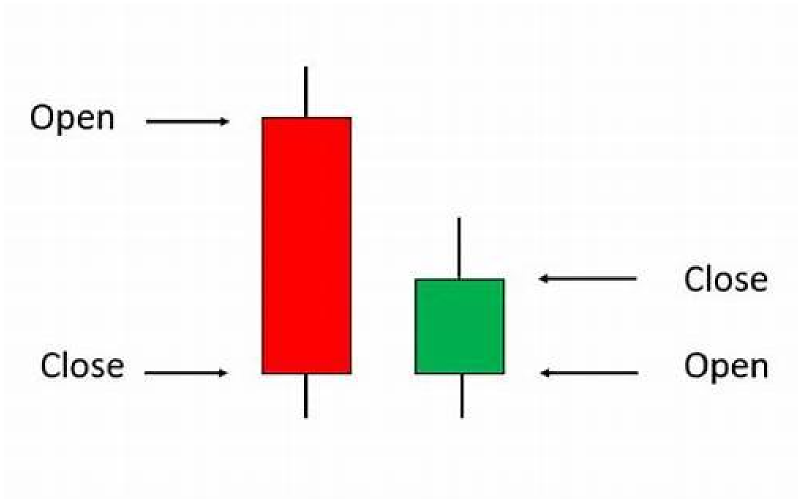
1. **Real Body**
    - The **real body** is the thick part of the candlestick. It shows the price range between the opening and closing prices during a specific time frame.
    - If the closing price is higher than the opening price, the real body is typically displayed as a **bullish candlestick** (often green or light-colored).
    - If the closing price is lower than the opening price, the real body is shown as a **bearish candlestick** (often red or dark-colored).
2. **Upper Shadow**
    - The **upper shadow** (or wick) is the thin line that extends above the real body. It represents the highest price reached during the time period.

    - The length of the upper shadow indicates how much the price rose above the opening or closing price.
3. **Lower Shadow**
    - The **lower shadow** is the thin line that extends below the real body. It shows the lowest price reached during the time period.
    - The length of the lower shadow indicates how much the price fell below the opening or closing price.
4. **Open Price**
    - The **open price** is the price at which the asset started trading at the beginning of the time period. It is the bottom of the real body in a bullish candlestick and the top in a bearish candlestick.
5. **Close Price**
    - The **close price** is the price at which the asset finished trading at the end of the time period. It is the top of the real body in a bullish candlestick and the bottom in a bearish candlestick.
6. **High Price**
    - The **high price** is the highest price reached during the time period, represented by the top of the upper shadow.
7. **Low Price**
    - The **low price** is the lowest price reached during the time period, represented by the bottom of the lower shadow.

Understanding the anatomy of a candlestick is crucial for interpreting market behavior. By analyzing the real body, upper shadow, and lower shadow, you can gain insights into the market's price action, sentiment, and potential future movements.

# Candlestick body sizes:

Candlesticks have different body sizes:



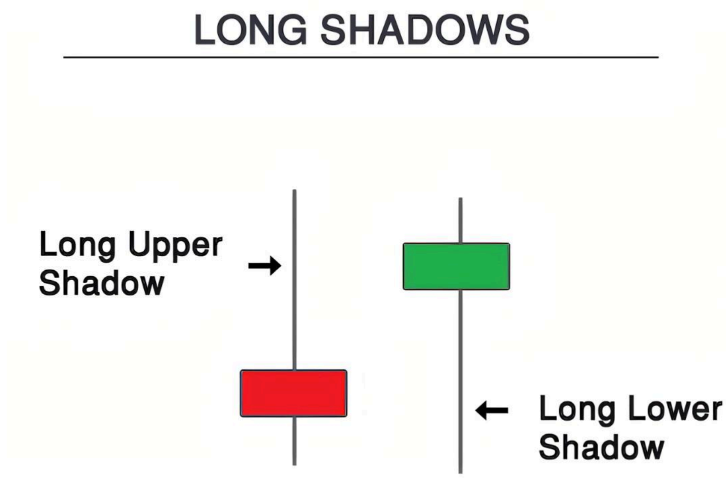

Long bodies refer to strong buying or selling pressure, if there is a candlestick in which the close is above the open with a long body, this indicates that buyers are stronger and they are taking control of the market during this period of time.

Conversely, if there is a bearish candlestick in which the open is above the close with a long body, this means that the selling pressure controls the market during this chosen time frame.

-Short and small bodies indicate a little buying or selling activity.

## Candlestick shadows (tails)

The upper and lower shadows give us important information about the trading session.




-Upper shadows signify the session high

-Lower shadows signify the session low

**Fun Fact:** Candlesticks with long shadows suggest that trading action occurred well beyond the open and close prices, indicating volatility and potential indecision.

### Exercise:

Find a live or past trading chart and identify 3 candlesticks with long wicks. Ask yourself: “What could these wicks mean about buyer/seller strength?”

# Candlestick Patterns: The Market's Storytellers

Candlestick patterns are like the characters in a market's story, each revealing insights into the emotions and actions of buyers and sellers. By learning to read these patterns, you can become a better trader, gaining the ability to anticipate market movements and make informed decisions.

## Why Are Candlestick Patterns Important?

1. **Market Sentiment:** Think of candlestick patterns as the mood rings of the market! They reflect how buyers and sellers feel about price movements. Are they optimistic? Pessimistic? Indifferent? Understanding these moods can guide your trading strategy.
2. **Trend Identification:** Just like weather patterns help you decide whether to carry an umbrella, candlestick patterns can signal the beginning or continuation of market trends. Are you ready to ride the wave or avoid the storm?
3. **Reversal Signals:** Some patterns act as warning signs, indicating potential reversals. Recognizing these signals can help you enter or exit trades at the right moment, maximizing your profit potential.

In the sections below, we'll explore some essential candlestick patterns. As you read through each one, imagine you're a detective piecing together clues to solve the mystery of market movements!

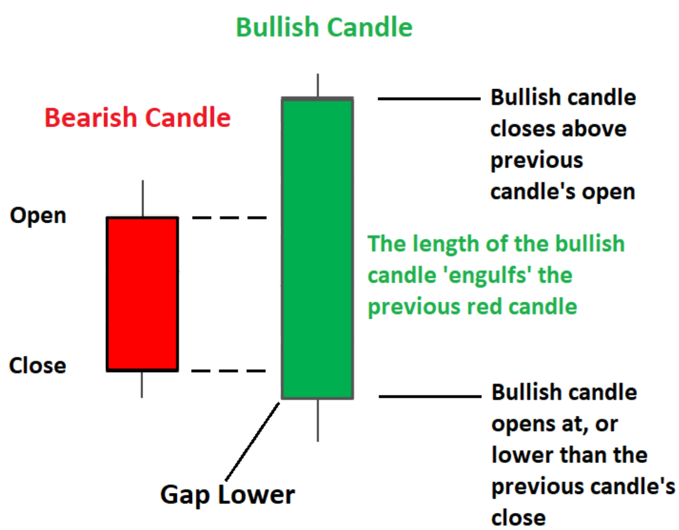
## ☐ BULLISH PATTERNS

Bullish patterns signal the end of a downtrend and are often cues to consider buying.

### Pattern 1: Bullish Engulfing

The bullish engulfing bar consists of two candlesticks, the first one is the small body, and the second is the engulfing candle,

See the illustration:




A bullish engulfing pattern appears when a small bearish candle is immediately followed by a larger bullish candle that completely "engulfs" the previous candle's body.

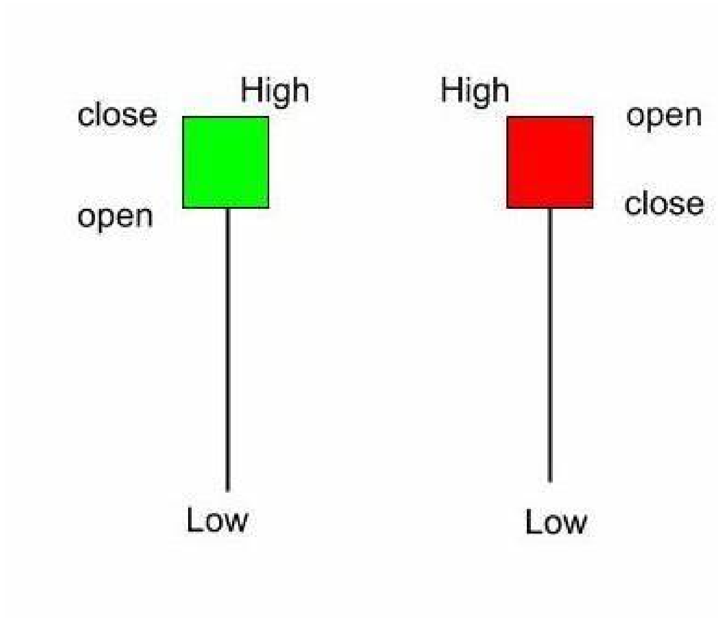
**Analogy**: Imagine someone stepping onto the dance floor confidently, pushing away the person who was standing in the center. The larger bullish candle "takes over" the market sentiment.

This pattern suggests a potential shift from sellers (bearish sentiment) to buyers (bullish sentiment), commonly seen at the bottom of a downtrend, signaling a reversal.

**How to Spot It:** Look for this pattern near support zones, especially after a prolonged downtrend. High trading volume adds strength to the pattern.

## Pattern 2: Hammer

The hammer is a single candle with a small body, usually at the top, and a long lower wick (at least twice the length of the body).




Hammer candlestick pattern

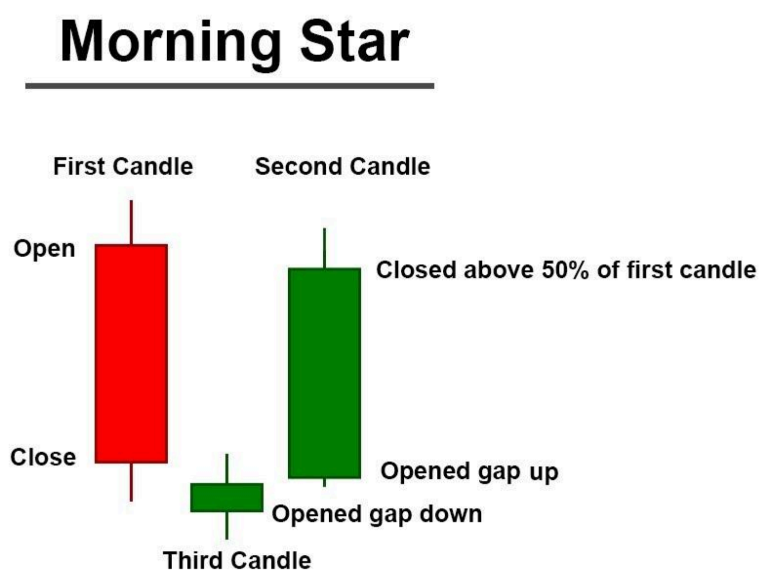
**Analogy**: Imagine a hammer coming down and hitting the ground, but then buyers quickly “lift” it back up, showing a rejection of lower prices.

This suggests that buyers are pushing back against sellers after a period of selling pressure, often seen at the bottom of a downtrend, indicating a potential reversal.

**How to Spot It:** The hammer is most reliable in downtrends, particularly at key support levels.

### Pattern 3: The Morning Star

This is a three-candle pattern, with a bearish candle, a small-bodied candle (bullish or bearish), and a bullish candle. The small-bodied candle represents indecision, while the third candle confirms a shift toward buying pressure.




**Analogy**: Think of the morning sun rising, gradually brightening the sky. The market is "awakening" to a bullish reversal.

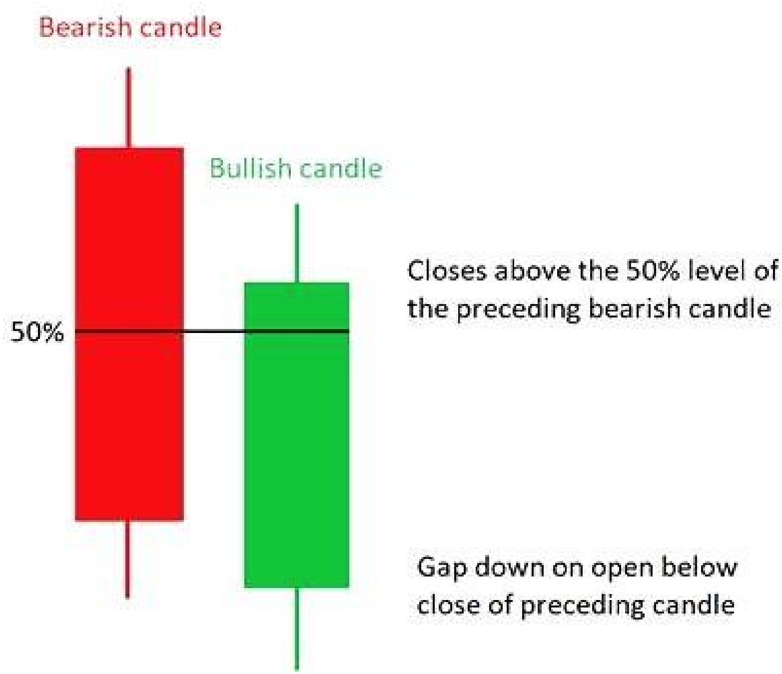
This Candlestick pattern indicates a potential reversal, typically signaling the end of a downtrend.

**How to Spot It**: Look for the morning star pattern in a downtrend, especially when the third bullish candle "gaps" up.

## Pattern 4: Piercing Line

The piercing line is a two-candle pattern. A bearish candle is followed by a bullish candle that opens below the previous close but closes more than halfway up the bearish candle.




**Analogy**: Imagine a spear (bullish candle) piercing into the market sentiment, symbolizing buyers pushing back.

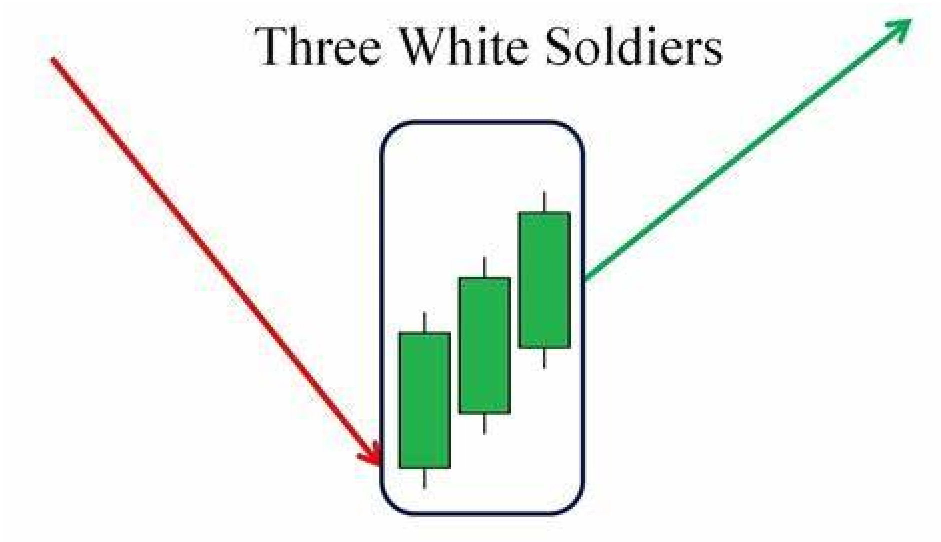
It Indicates a potential bullish reversal, especially when the bullish candle closes in the upper half of the previous bearish candle.

**How to Spot It**: Commonly seen in downtrends at support levels, indicating that buyers may be preparing to take control.

## Pattern 5: Three White Soldiers

This is a three-candle bullish pattern, where three consecutive long bullish candles appear with each opening within or above the previous candle's body.



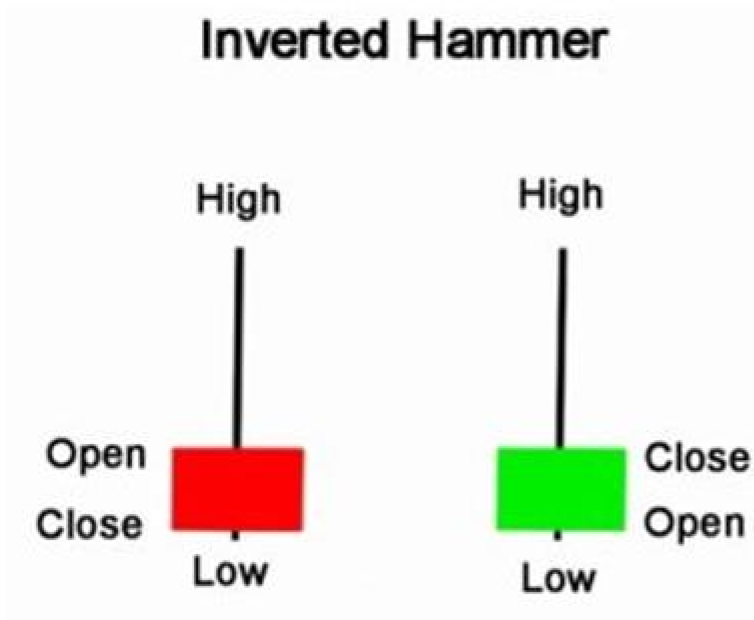

**Analogy**: Imagine three soldiers marching forward in unity, each building on the previous one’s momentum.

It Indicates a strong bullish reversal, often seen after a period of bearish movement or consolidation.

**How to Spot It:** Look for steady upward movement over three sessions or periods, ideally with small or no wicks.

## Pattern 6: Inverted Hammer

The inverted hammer has a small body, a long upper wick, and little to no lower wick. It resembles a hammer turned upside down.




**Analogy**: Think of a push back against sellers; buyers "pushed up," but sellers managed to drag the price down a bit.

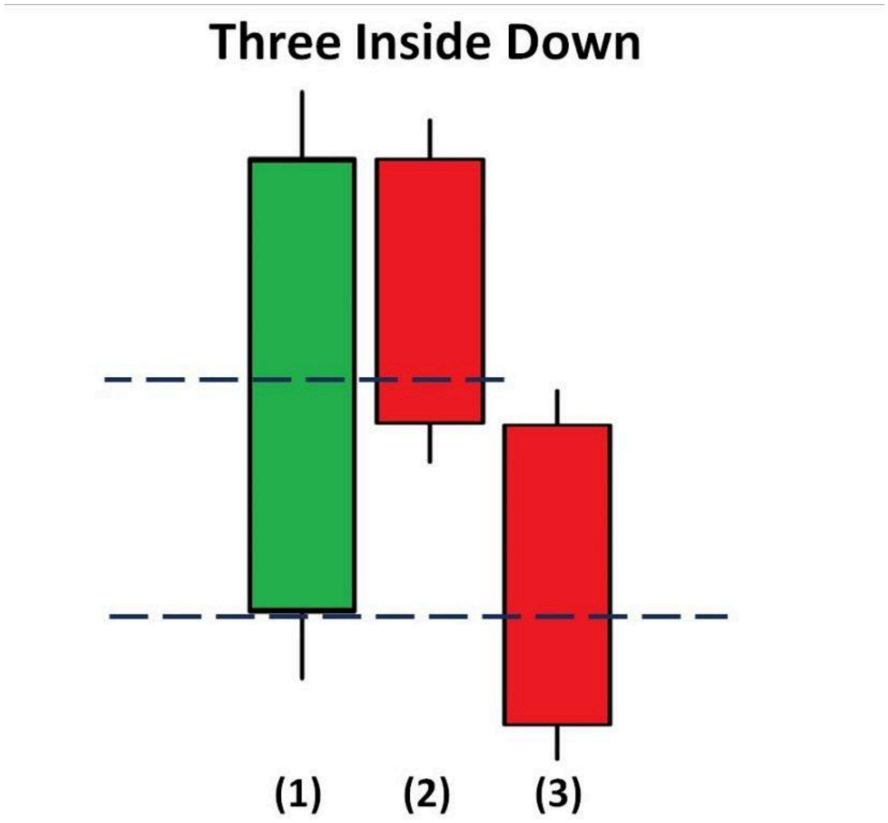
It Indicates a potential reversal from a downtrend to an uptrend.

**How to Spot It:** Look for it at the bottom of a downtrend, ideally confirmed by a bullish candle after the pattern.

## Pattern 7: Three Inside Up

The inside up consists of a three-candle pattern, starting with a bearish candle, followed by a bullish candle that closes within the first candle, and then another bullish candle that closes higher than the first.



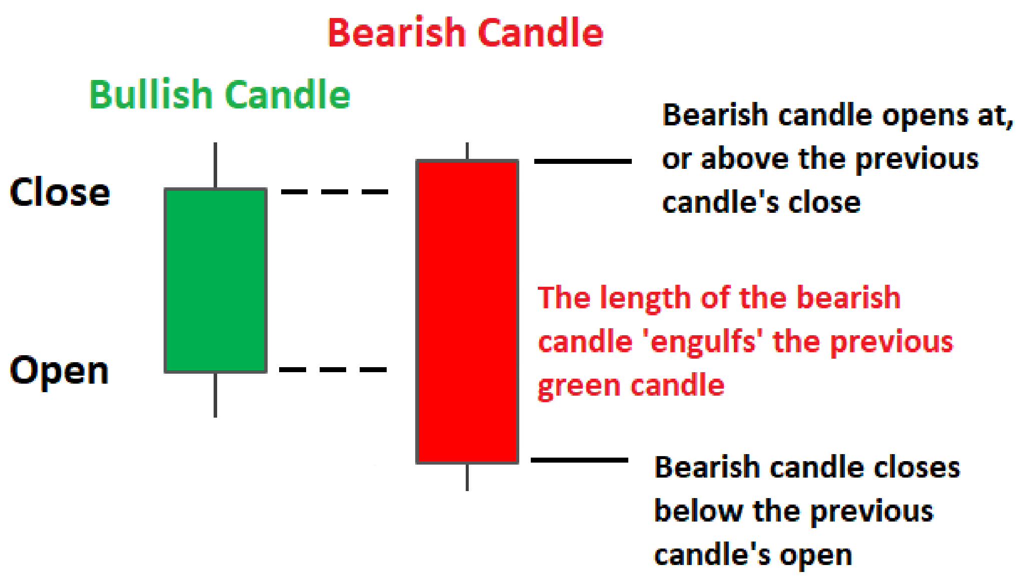

**Analogy**: Like a gentle push from buyers gaining momentum. It indicates a Reversal from bearish to bullish.

**How to Spot It**: Found in downtrends, with higher volume on the third candle indicating strength.

## ☐ BEARISH PATTERNS

### Pattern 1: The Bearish Engulfing

A bearish engulfing pattern consists of a small bullish candle followed by a larger bearish candle that completely “engulfs” the bullish candle.



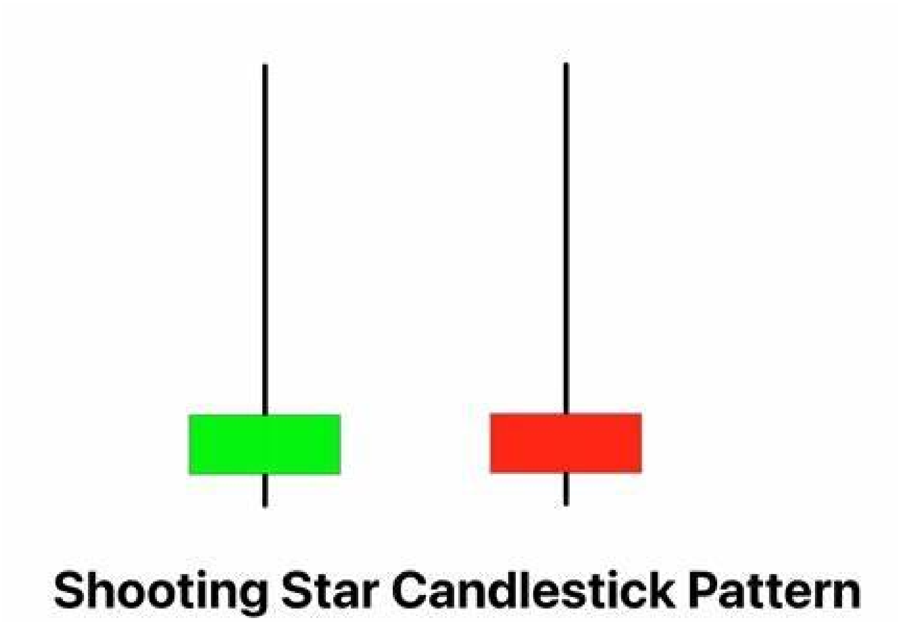

**Analogy**: Imagine a large shadow overtaking a smaller figure, with sellers overpowering buyers.

This is a bearish reversal signal, suggesting that sellers are taking control.

**How to Spot It:** Often found at the top of an uptrend, especially near resistance levels, with high volume confirming its strength.

## Pattern 2: Shooting Star

The Shooting Star consist of a single candle with a small body near the low, a long upper wick, and little to no lower wick.




**Analogy**: Think of it as a "star" that shot up but quickly fell back down, showing a rejection of higher prices.

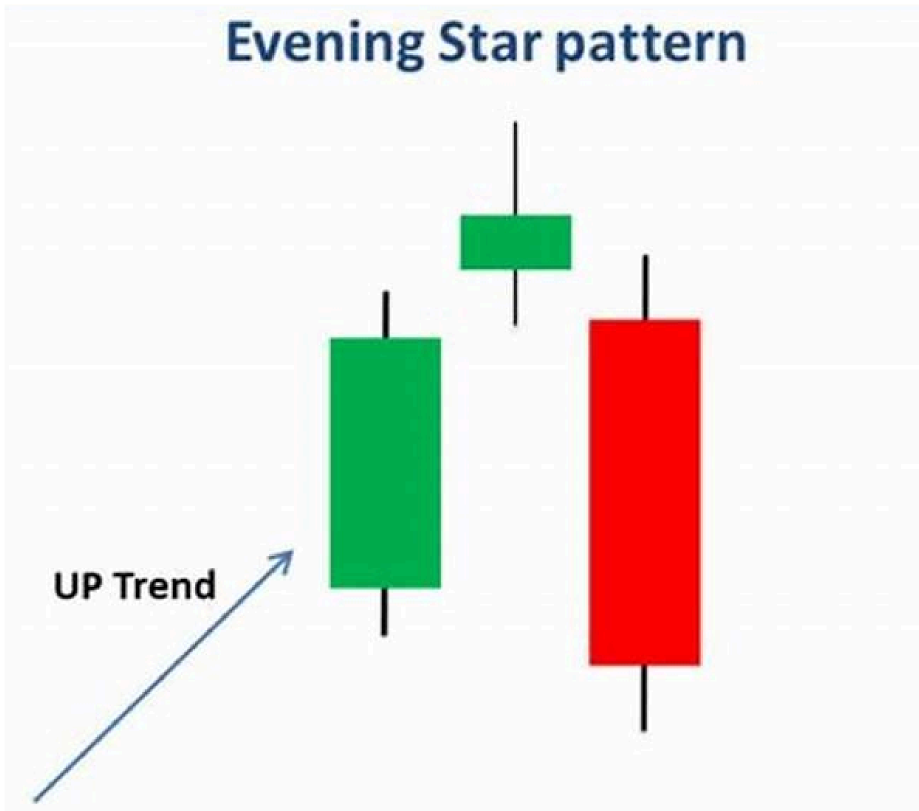
This pattern suggests that buyers tried to push the price up but failed, indicating a bearish reversal.

**How to Spot It:** The shooting star is most effective at the top of an uptrend.

## Pattern 3: The Evening Star

This is a three-candle pattern, with a bullish candle, a small-bodied candle (showing indecision), and a bearish candle that closes within the body of the first candle.




**Analogy**: Similar to a sunset marking the end of the day, this pattern marks the end of an uptrend.

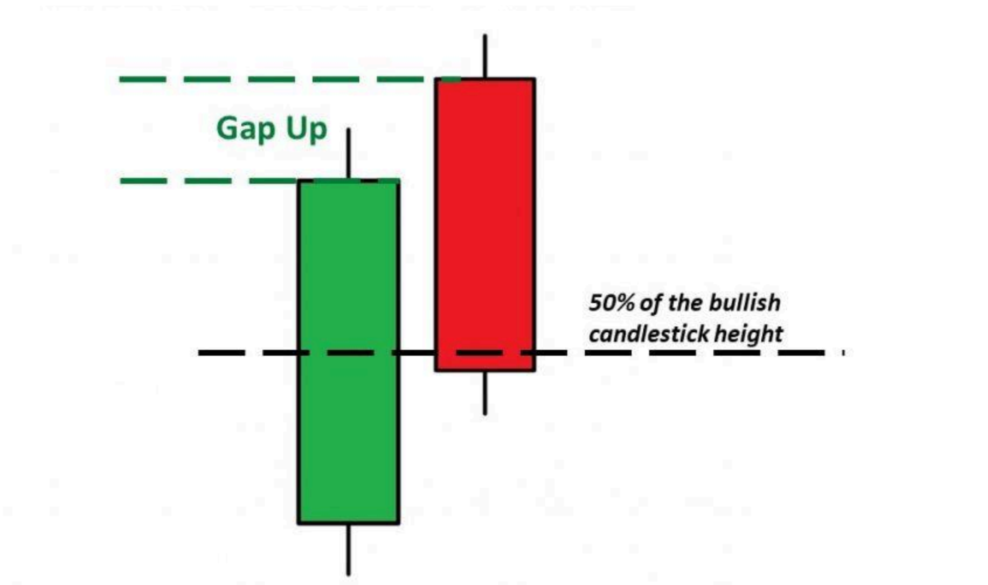
This pattern indicates a bearish reversal, commonly signaling the end of an uptrend.

**How to Spot It:** Appears at the top of an uptrend, with a strong bearish candle as the third part of the pattern.

## Pattern 4: Dark Cloud Cover

This two-candle pattern begins with a bullish candle, followed by a bearish candle that opens above the previous high and closes below the midpoint of the bullish candle.



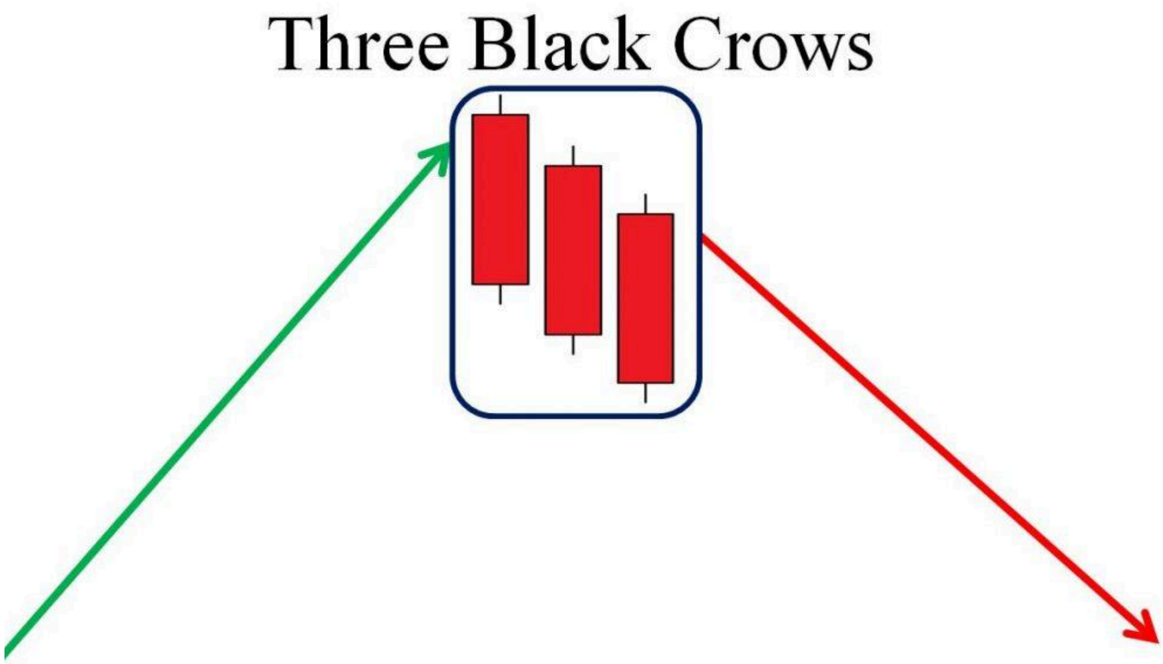

**Analogy**: Imagine dark clouds covering a sunny sky, hinting at potential rain (selling pressure).

The Dark Cloud Cover indicates a bearish reversal, suggesting that buyers' momentum may be weakening.

**How to Spot It:** Most effective near resistance levels in an uptrend.

## Pattern 5: Three Black Crows

This is a three-candle bearish pattern, with three consecutive long bearish candles.




**Analogy**: Picture three black crows descending, each step signaling a stronger bearish trend.

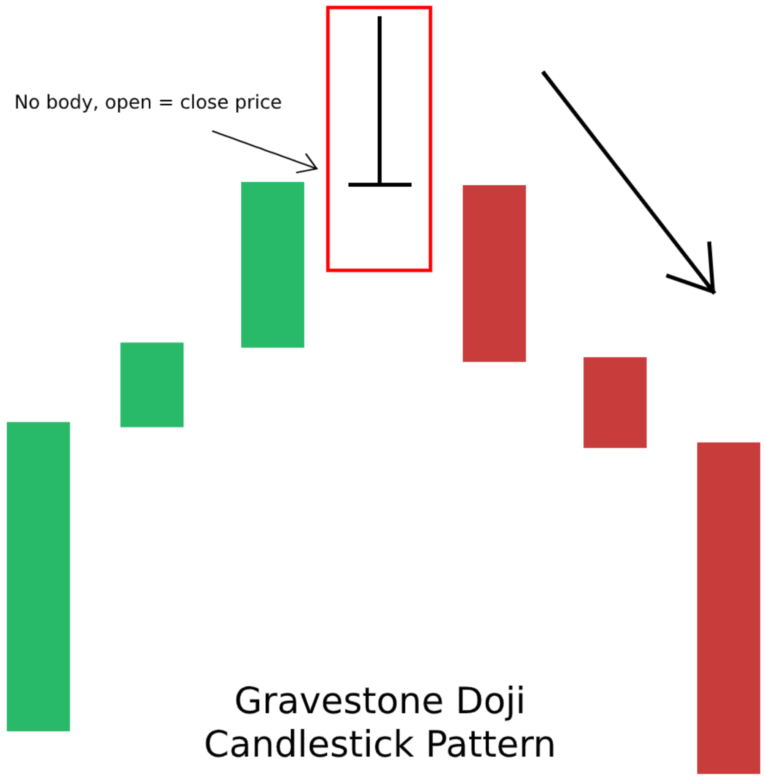
This pattern indicates a strong bearish reversal, suggesting sustained selling pressure.

**How to Spot It:** Look for three consistent bearish candles with minimal lower wicks, especially after an uptrend.

## Pattern 6: Gravestone Doji

The Gravestone Doji is a Doji with no lower wick and a long upper wick, resembling a gravestone.



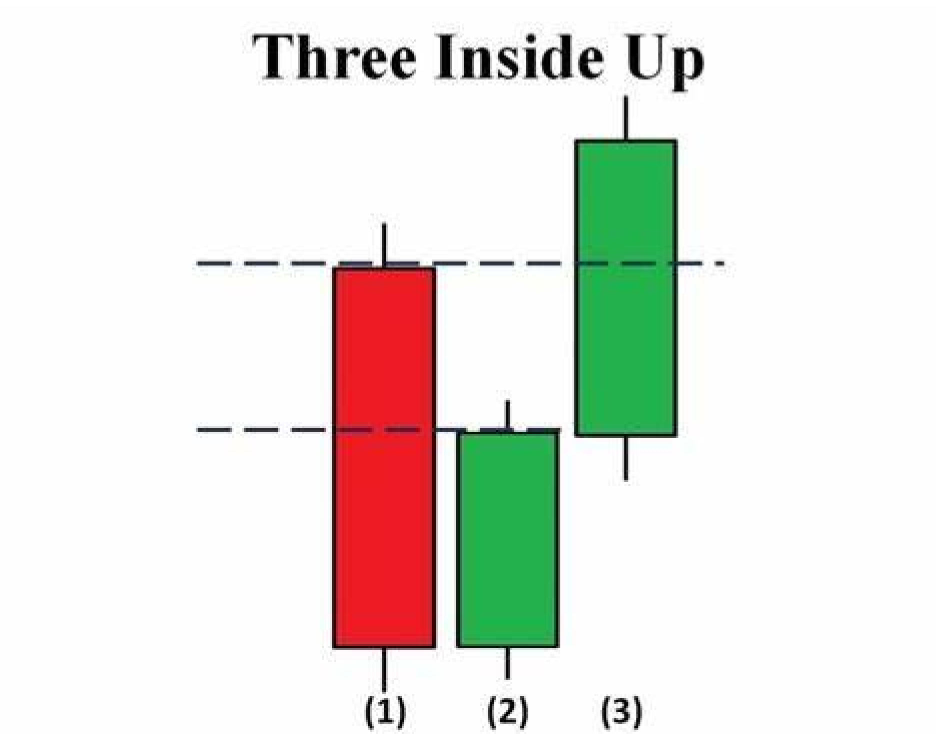

**Analogy**: Think of it as the market testing higher ground but being pulled back down.

The Gravestone Doji indicates a strong bearish reversal, typically at the top of an uptrend.

**How to Spot It:** Appears at the top of an uptrend, indicating potential reversal when followed by a bearish candle.

## Pattern 7: Three Inside Down

This pattern consists of a bearish three-candle pattern, with the first candle being bullish, the second candle bearish and closing within the first, and the third candle bearish and closing below the first.




**Analogy**: Like a gradual transition where sellers "ease in" before taking control and it indicates a Bearish reversal.

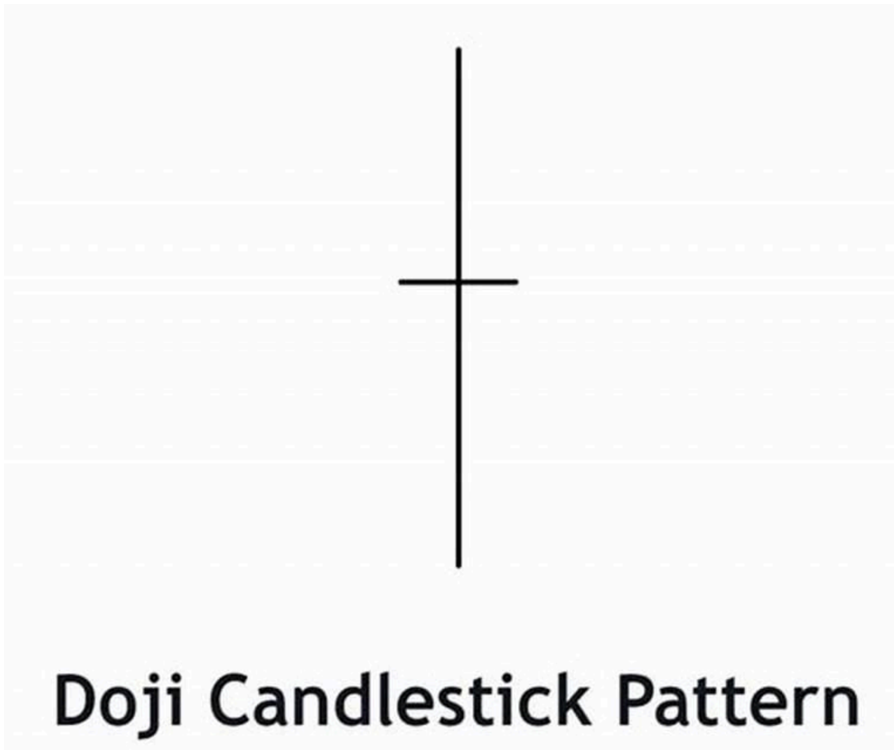
**How to Spot It**: Commonly appears at the top of an uptrend.

## ☐ REVERSAL PATTERNS

### Pattern 1: Doji

The Doji has a very small body with equal or nearly equal upper and lower wicks.




**Analogy**: Imagine the market "standing still," showing indecision between buyers and sellers.

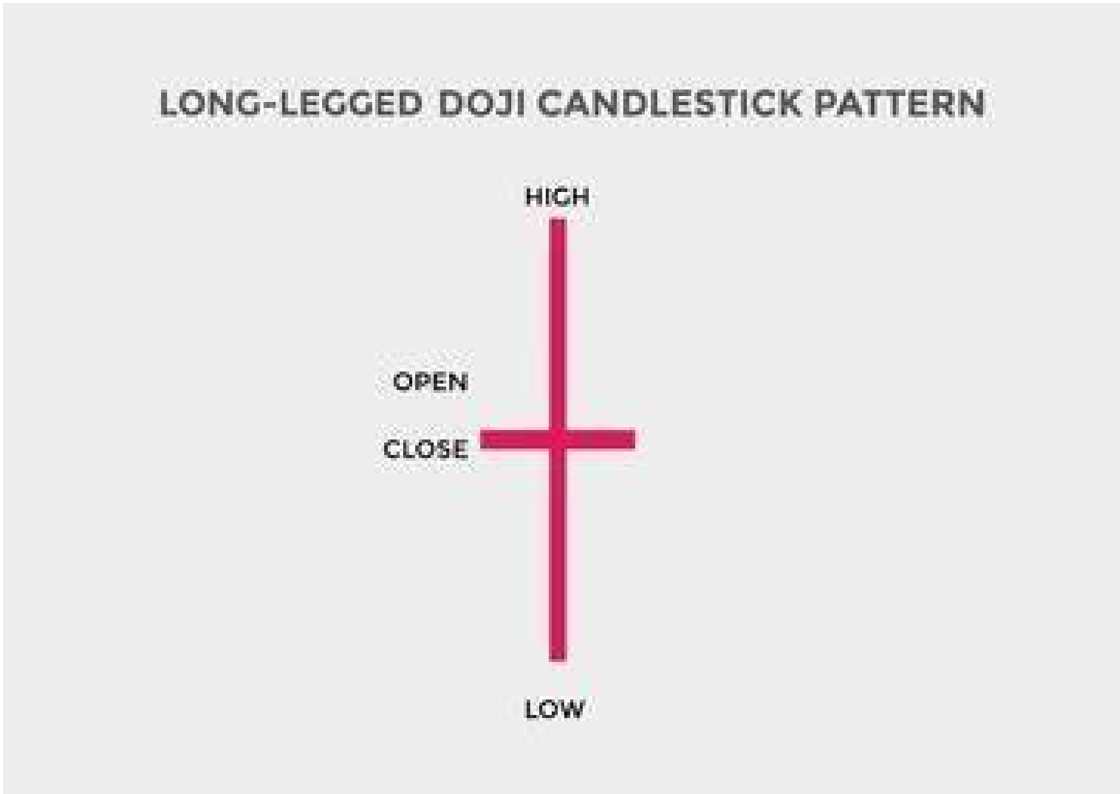
**What It Indicates:** A pause or reversal point, depending on context.

**How to Spot It:** The Doji is commonly found at the end of a trend, signaling potential reversal.

## Pattern 2: Long-Legged Doji

This is a Doji with long upper and lower wicks, signaling indecision as both buyers and sellers push the price around without reaching a consensus.




**Analogy**: Imagine a tug-of-war where neither team can make a clear move.

**What It Indicates:** Strong indecision, typically leading to a reversal.

**How to Spot It:** Found at market tops and bottoms, especially in overbought or oversold conditions.

## Pattern 3: Dragonfly Doji

This is a Doji with a long lower wick and no upper wick, shaped like a dragonfly.

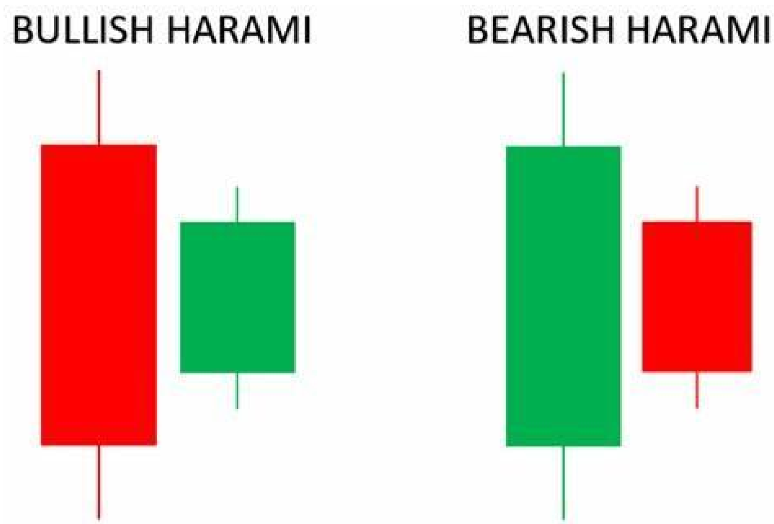

**Analogy**: Picture a “flyer” hovering near the ground, with buyers keeping it up after sellers pushed it down.

**What It Indicates:** Bullish reversal if found at the bottom of a downtrend, indicating buyers taking control.

**How to Spot It:** Reliable near support levels and oversold areas.

## Pattern 4: Harami

The Harami consists of a two-candle pattern where a small candle fits within the body of the previous larger candle.



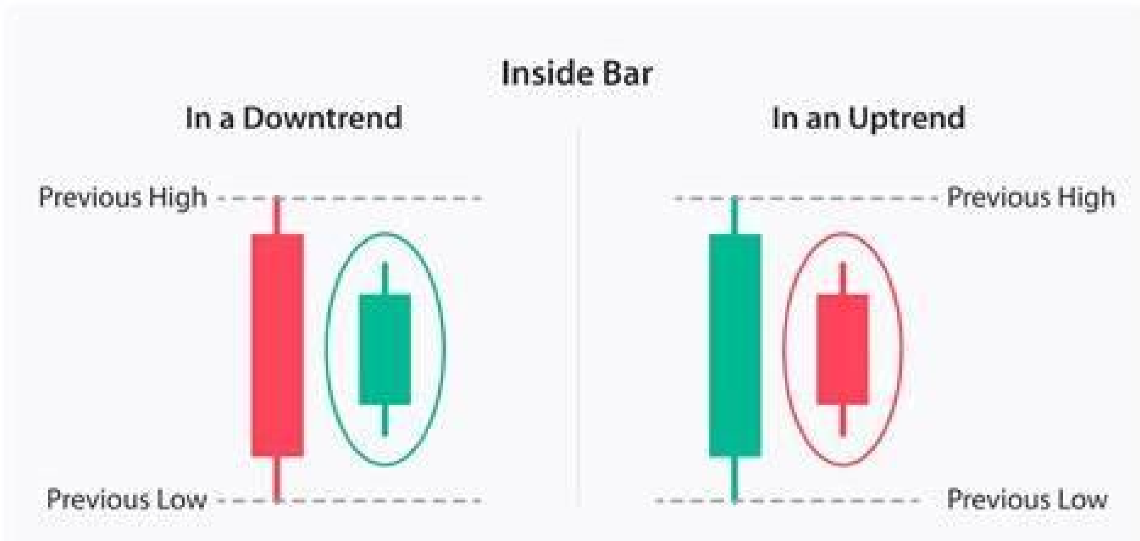

**Analogy**: Think of a child (smaller candle) within a parent's protection, signaling that the market may change direction.

**What It Indicates:** Often indicates a potential reversal or slowing of momentum.

**How to Spot It:** Found at the tops and bottoms of trends, with a higher confirmation when followed by a confirming candle.

## Pattern 5: Inside Bar

This pattern occurs when a smaller candle is completely within the high and low range of the previous candle.




**Analogy**: Imagine a pause or hesitation; the market takes a breather.

**What It Indicates:** Typically signals indecision and potential reversal or continuation.

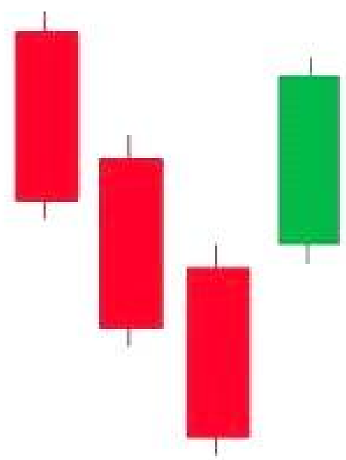
**How to Spot It**: Effective near resistance or support levels in both uptrends and downtrends.

## ☐ CONTINUATION PATTERNS

### Pattern 1: The Bullish Kicker

A bullish kicker consists of a strong bullish candle following a gap from a previous bearish candle.



Bullish Kicker

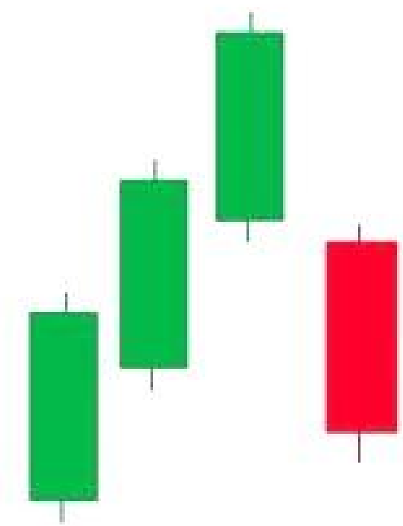
**Analogy**: Think of it as a quick “kick” that propels the price upward.

**What It Indicates:** A bullish continuation, especially if it appears in an uptrend.

How to Spot It: Often follows consolidation, with a noticeable gap.

## Pattern 2: The Bearish Kicker

A bearish kicker has a strong bearish candle following a gap from a bullish candle.



Bearish Kicker

**Analogy**: Similar to a door being slammed shut on buyers.

**What It Indicates:** A bearish continuation, especially effective after consolidation.

**How to Spot It:** Look for a noticeable gap in downtrends.

## Pattern 3: Rising Three Methods

This candlestick pattern consists of a strong bullish candle followed by three smaller bearish candles and then another bullish candle.


**Analogy**: Picture a team taking a breather before moving forward again.

**What It Indicates:** Continuation of an uptrend.

**How to Spot It:** Effective in uptrends, especially with high volume on the bullish candles.

# ADVANCED CANDLESTICK PATTERNS

## ☐ ADVANCED CONTINUATION PATTERNS

### Pattern 1: Falling Three Methods

This is a strong bearish candle, followed by three smaller bullish candles, then another bearish candle.

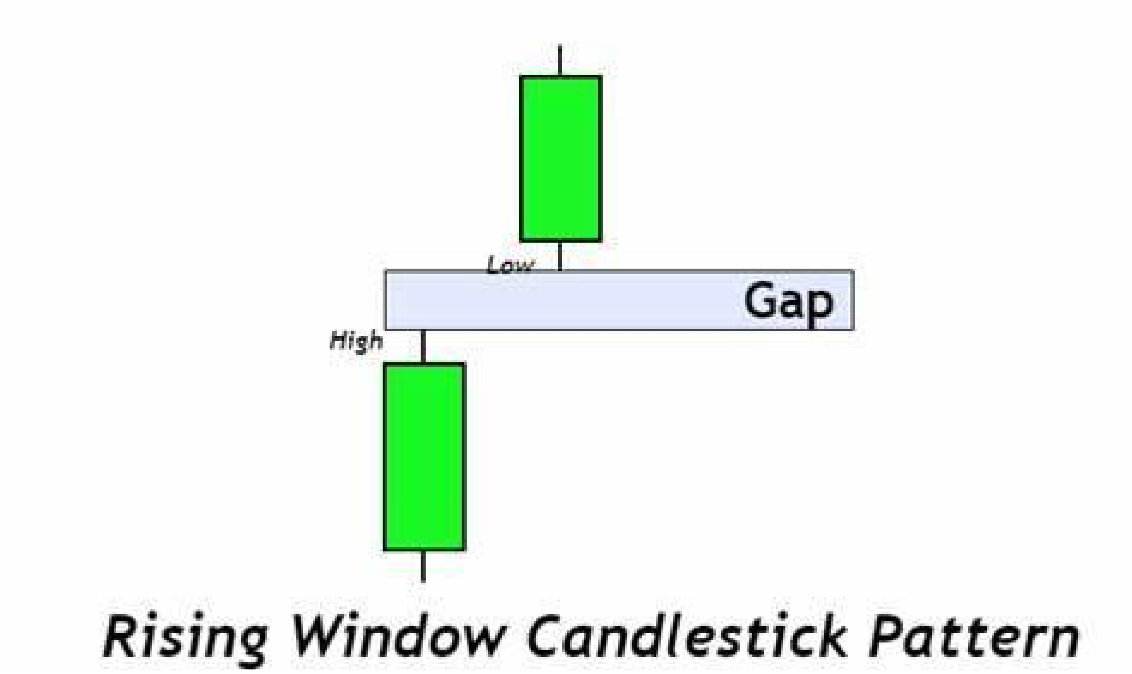

**Analogy:** Think of it as a pause before the “fall” resumes.

**What It Indicates:** Continuation of a downtrend.

**How to Spot It:** Effective in downtrends, with high volume on the bearish candles.

## Pattern 2: Rising Window (Gap Up)

This pattern isn't a traditional candlestick, but a gap up that remains unfilled.



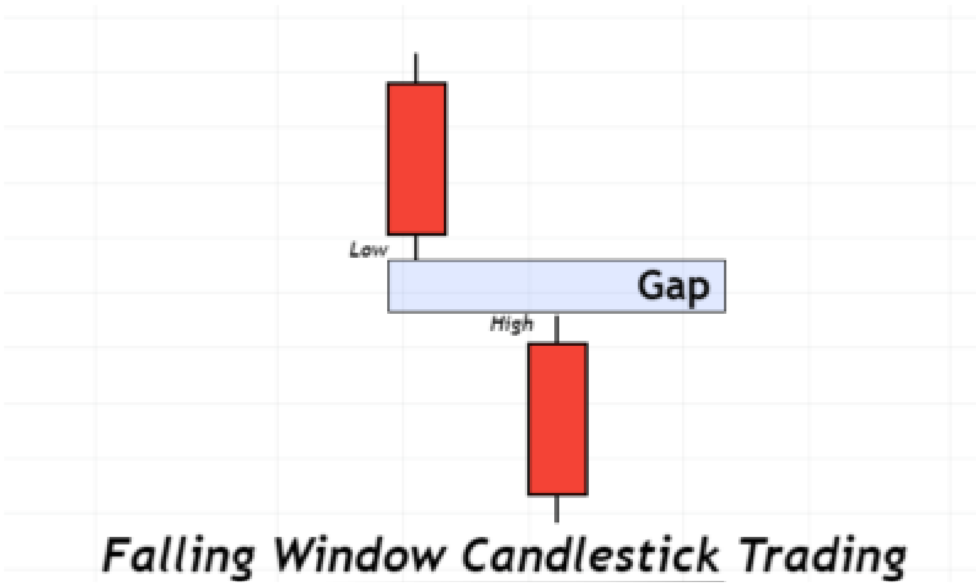

**Analogy**: Picture a "jump" in price as the market sentiment suddenly changes.

**What It Indicates:** Strong bullish sentiment, usually indicating a continuation.

**How to Spot It:** Found in uptrends and suggests bullish continuation when the gap remains unfilled.

## Pattern 3: Falling Window (Gap Down)

This is the opposite of a rising window, where there is a gap down that remains unfilled.




**Analogy**: Imagine a sudden "drop" in price, like a step down.

**What It Indicates:** Strong bearish sentiment.

**How to Spot It:** Found in downtrends and indicates bearish continuation when the gap remains unfilled.

## ☐ EXHAUSTION AND ADVANCED PATTERNS

### Pattern 1: Three Line Strike (Bullish)

This four-candle pattern starts with three bearish candles followed by a large bullish candle that “strikes” back and closes above the open of the first bearish candle.


**Analogy:** Think of three small steps backward followed by a big push forward.

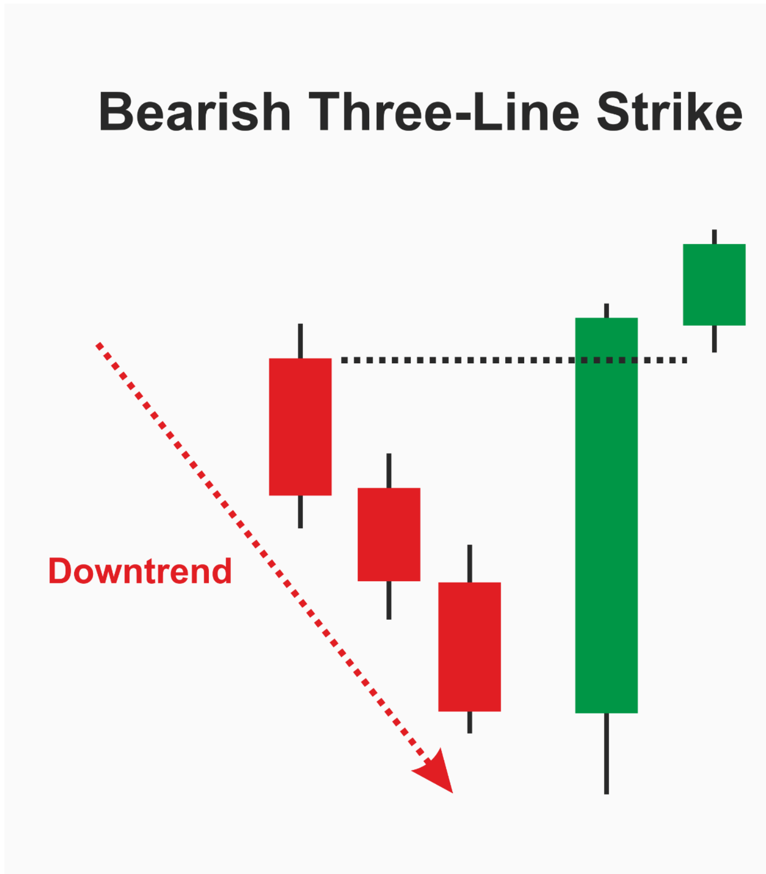
**What It Indicates:** Strong bullish reversal, often marking the end of a downtrend.

**How to Spot It:** Best seen in downtrends, signaling exhaustion of sellers.

## Pattern 2: Three Line Strike (Bearish)

Similar to the bullish version but with three bullish candles followed by a large bearish candle.



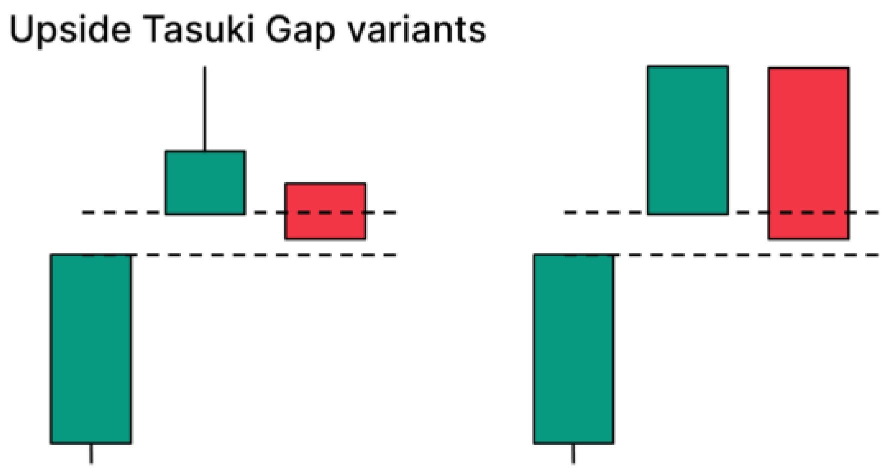

**Analogy:** Like taking a breath before a sudden release.

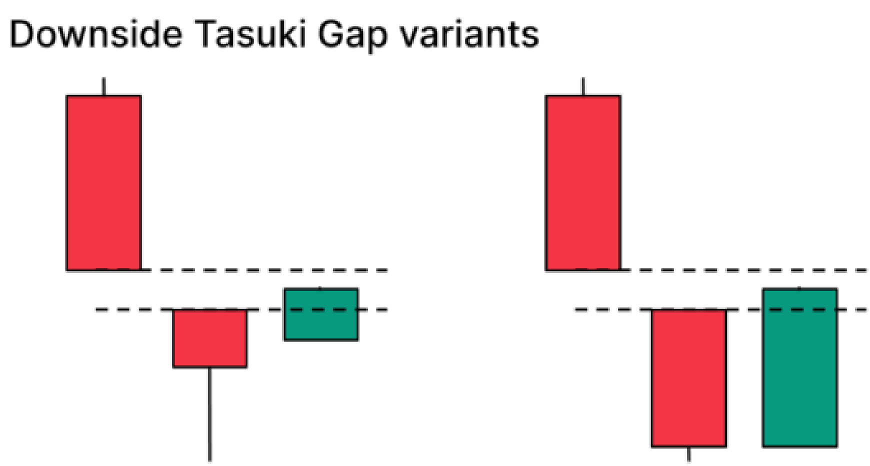
**What It Indicates:** Strong bearish reversal.

**How to Spot It:** Commonly found in uptrends, signaling exhaustion of buyers.

## Pattern 3: Tasuki Gap (Bullish & Bearish)

In a bullish tasuki gap, there's a gap between two bullish candles, with the third candle retracing slightly but not closing the gap. In a bearish tasuki gap, the gap occurs between bearish candles.




**Analogy:** Picture two upward or downward strides with a cautious pause, maintaining direction.

**What It Indicates:** Continuation pattern.

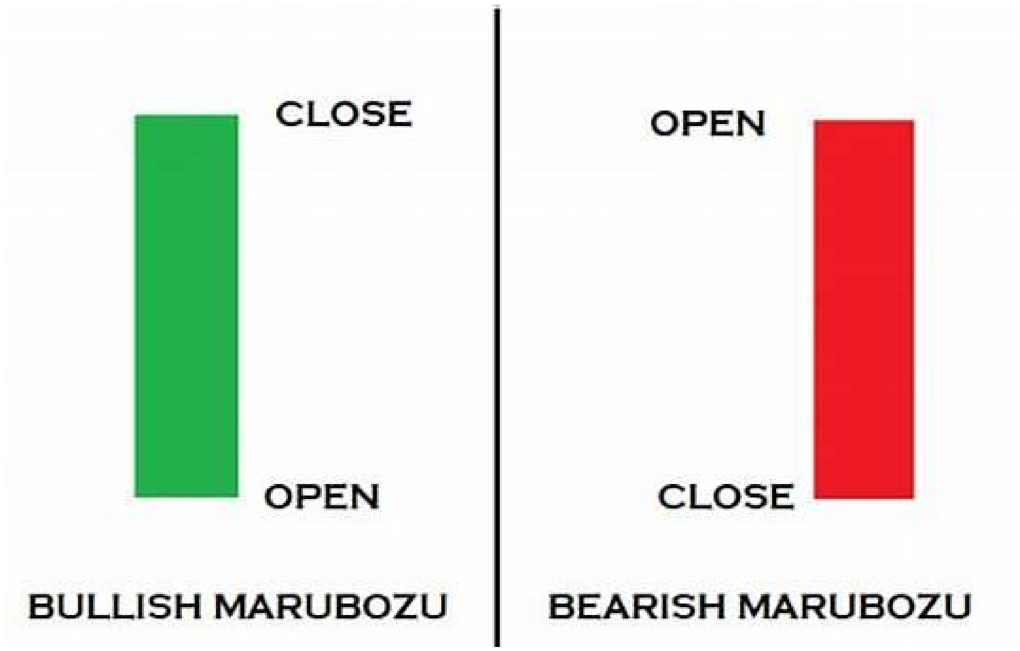
**How to Spot It:** Often forms within strong trends, confirming the strength of the trend.

## ☐ Volume and Exhaustion Candlestick Patterns

### Pattern 1: Marubozu (Bullish & Bearish)

The Marubozu is a candle without any wicks, indicating pure buying or selling pressure.




**Analogy:** Think of it as "all-in" buying or selling with no hesitation.

**What It Indicates:** In an uptrend, a bullish marubozu shows strong bullish momentum; in a downtrend, a bearish marubozu signals strong bearish sentiment.

**How to Spot It:** Appears when there is decisive action, often leading to a continuation or reversal if appearing at support or resistance.

## Pattern 2: Spinning Top

This is a candle with a small body and long upper and lower wicks, symbolizing indecision.


**Analogy:** Think of a spinning top that wobbles, suggesting a lack of clear direction.

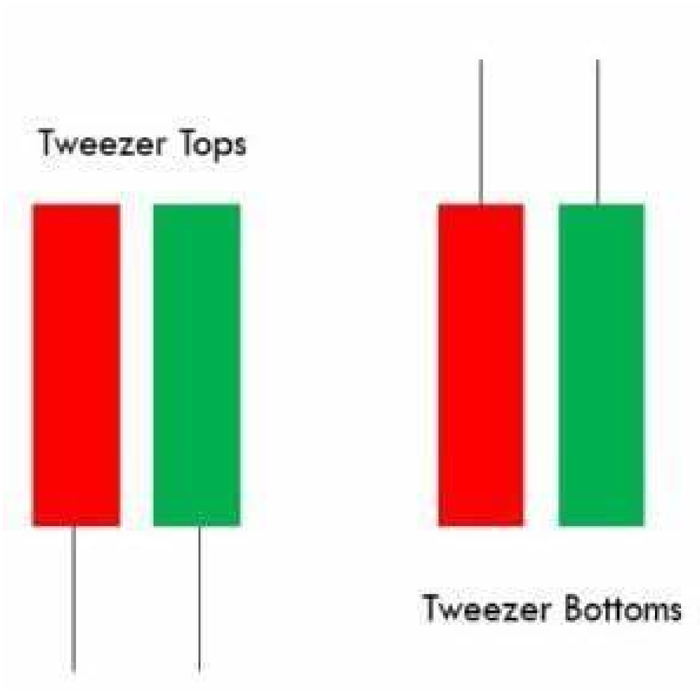
**What It Indicates:** Market indecision; commonly seen before a reversal or continuation.

**How to Spot It:** Best used with other indicators, as it often signals a pause in momentum.

## Pattern 3: Tweezer Tops and Bottoms

This is a combination of two candles with almost identical highs (tweezer top) or lows (tweezer bottom), signaling a rejection of a particular level.




**Analogy:** Imagine a pair of tweezers pinching down at a peak or a dip.

**What It Indicates:** Reversal, especially when confirmed with other indicators.

**How to Spot It:** Found at the top of an uptrend (tweezer top) or bottom of a downtrend (tweezer bottom), indicating reversal potential.

## ☐ BONUS: Special Candlestick Patterns

### Pattern 1: Island Reversal

A gap occurs after a series of candles in one direction, followed by a gap in the opposite direction, forming a kind of "island."



**Analogy:** Picture an isolated peak or dip, signaling an abrupt sentiment change.

**What It Indicates:** Strong reversal signal, marking the end of a trend.

**How to Spot It:** Commonly found at tops and bottoms of trends, often signaling exhaustion.

# Conclusion

Understanding candlestick patterns is an essential skill for any trader looking to navigate the financial markets effectively. Throughout this document, we've explored **30 profitable candlestick patterns**, each offering unique insights into market sentiment and potential price movements.

By recognizing these patterns, you can enhance your ability to make informed trading decisions, manage risk, and identify opportunities. Remember, the key to successful trading lies not only in recognizing these patterns but also in practicing their application in real market scenarios.

As you continue your trading journey, consider using these patterns as part of a broader trading strategy. Combine them with other technical analysis tools, maintain a disciplined approach, and always stay updated with market trends. With practice and patience, you'll find that candlestick patterns can significantly contribute to your trading success.

Thank you for investing your time in this guide, and may your trading endeavors be profitable and rewarding!

## References and Further Reading

To deepen your understanding of candlestick patterns and trading strategies, consider exploring the following resources:

1. **Books:**
   - *Japanese Candlestick Charting Techniques* by Steve Nison
   - *Technical Analysis of the Financial Markets* by John J. Murphy
   - *A Beginner's Guide to Forex Trading* by Matthew Driver
2. **Websites:**
   - Investopedia - Candlestick Patterns
   - BabyPips - Learn Forex Trading
   - StockCharts - Candlestick Charting
3. **Courses:**
   - Online courses on platforms like Udemy or Coursera focusing on candlestick analysis and trading strategies.

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