Mastering Candlestick Charts 1

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Table of Contents

Candlestick Analysis

Cutting Through the Candlestick Hype

- *The signals on a bar chart are the same as a candle chart.*

- *Those signals will be seen at the same time and are no more reliable than those of a bar chart.*

- *The use of indicators will not increase the reliability of candles.*

- *There are no advanced candlestick patterns, but there is a deeper understanding of price movements and that is the focus of The Pristine Method®.*

- *So, why use candle charts at all?*

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Why Use Candlesticks?

- *Provides a visual picture of what is occurring.*

- *Gives visual insights into others' thoughts and expectations.*

- *Gives visual confirmation signals of support and resistance.*

- *Can visually align your thoughts with the market.*

- *Can visually point to potential reversal points.*

- *Can a bar chart do this? Yes, but you can do it faster with candles!*

Candlestick Analysis

Candle Language Produces Thoughts

◉ *Proper trading is said to be proper thinking, but how do we know what to think?*

◉ *Pattern recognition is a recurring arrangement of price bars that suggests the future movement of prices, which guides our thoughts.*

◉ *These patterns communicate how traders have acted and what their beliefs (expectations) are in that time frame, at the moment.*

◉ *Candles provide a picture of those expectations on an ongoing basis.*

◉ *Those pictures speak to us in "Candle Language" and are the basis for our continuous thoughts and trading decisions.*

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Miscellaneous Thoughts on Candlesticks

○ *Attempting to define the accuracy of candle names or patterns without considering the trend, support and resistance is useless.*

○ *There are a least 50 different candle patterns, bullish and bearish. Some memorize them, but you will see this is completely unnecessary.*

○ *While candles are very good at visually showing reversal signals, the signals that do Not work are often the most powerful!*

○ *All that is needed is a chart of price bars -- all else is secondary.*

○ *While other analysis tools may add additional information, they can only follow existing price action.*
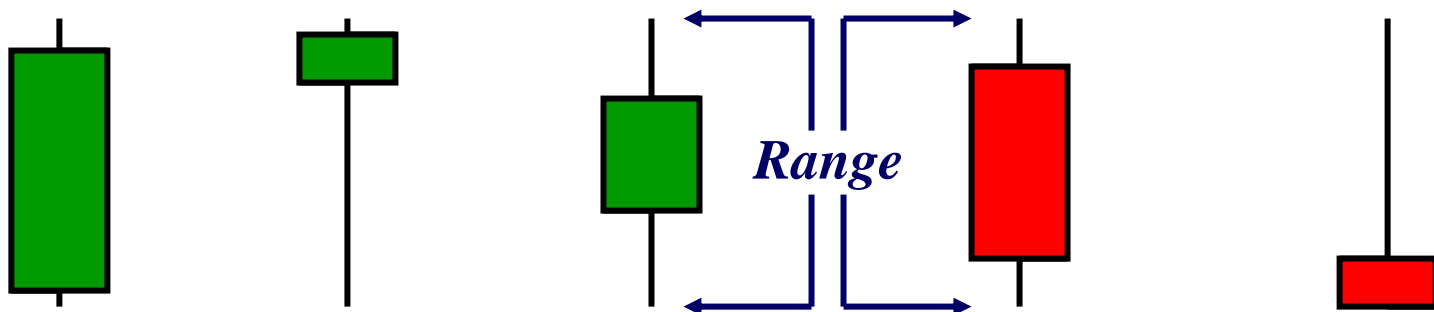
Candlestick Basics

Candlestick Analysis

*Candlesticks show the same **O, H, L, C** information as Western bars, but the battle between buyers and sellers is "visually" clearer.*

Open on Left

Range

Close on Right
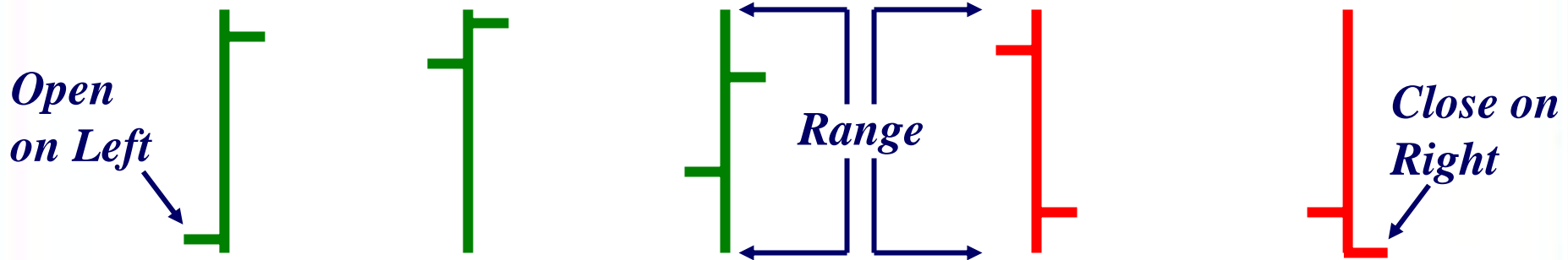
The Range of a bar is the difference between the high and the low

Range

*Closes above the Open = **Green***

*Closes below the Open = **Red***
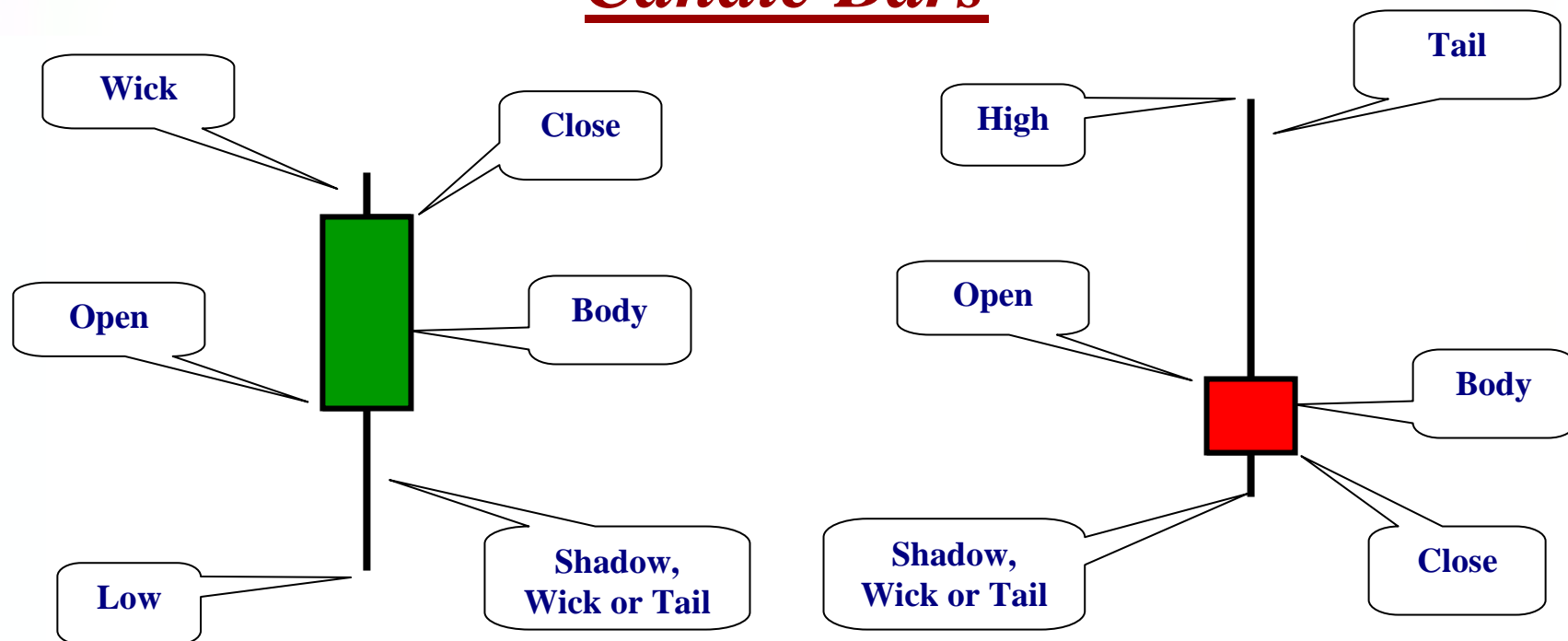
9

Candle Bars

Wick

Close

Open

Body

Low

Shadow,
Wick or Tail

Tail

High

Open

Body

Shadow,
Wick or Tail

Close

● *The candle body is the difference between the open and the closing prices.*

● *The part on either side of the body is called a Shadow, Wick or Tail.*

Candlestick Analysis

 Let's first review most individual candles and their names to give you a background..

 Remembering names is unnecessary because that will not help you use candles or understand their meaning!

When we are done with this DVD, not only will you understand what candles are saying, you will also:

 Have a objective method of knowing when to enter

 Know where to place a stop

 Know how to monitor a position once in it

Candlestick Analysis

The Individual Candles

DOJI – *A bar with the open and close at or very near the same price*

Gravestone DOJI – *A Doji with the open and close at the bar's low*

Dragon Fly DOJI – *A Doji with the open and close at the bar's high*

Long Legged DOJI – *A Doji with long upper and lower shadows*

The Individual Candles

Spinning Top – **A bar with a small body and small range, after a multi-bar move.**

High Wave – **A bar with a small body and wider range, after a multi-bar move.**

Hammer – **A bar with a small body (red or green), long lower tail, and small to no upper tail, after a *multi-bar down move.***

The Individual Candles

Inverted Hammer *– A bar with a small body (red or green), long upper tail, and small to no lower tail, after a **multi-bar down move**.*

Hangman *– A bar with a small body (red or green), long lower tail, and small to no upper tail, after a **multi-bar up move**.*

Shooting Star *– A bar with a small body (red or green), long upper tail, and small to no lower tail, after **a multi-bar up move**.*

Let's begin to simplify all of these prior candles.

Single Candle Questions:

- *Were the prior candles moving up or down?*

- *Was there a tail on the top, bottom or both sides of the body?*

- *Was the body relatively small in relation to the candle range?*

- *Interpretation – Momentum slowed down and there may have been an increase in buying or selling.*

Candlestick Analysis

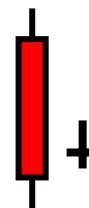- *As you can see, an individual candle may or may not result in a reversal.*

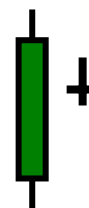- *More information is needed for them to be meaningful.*

High Wave

Long Legged DOJI

Shooting Star

DOJI

Shooting Star

Inverted Hammer
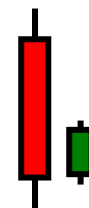
Spinning Top

DOJI

Two-Bar Combinations

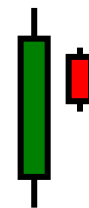***Harami Cross Bullish*** – *A DOJI inside a large red body.*

Harami Cross Bearish – *A DOJI inside a large green body.*

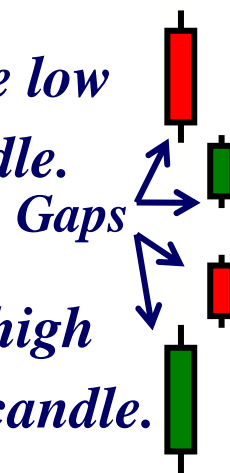***Harami Bullish*** – *A small green bar inside a large red body.*

Harami Bearish – *A small red bar inside a large green body.*
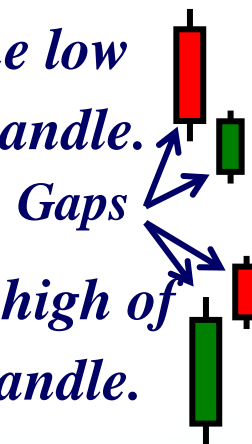
Two-Bar Combinations Con't

<u>On Neck Line Bullish</u> – *A green candle that opens below the low of a prior red candle (gap) and closes at the low of the prior candle.*

Gaps

<u>On Neck Line Bearish</u> – *A red candle that opens above the high of a prior green candle (gap) and closes at the high of the prior candle.*

<u>In Neck Line Bullish</u> – *A green candle that opens below the low of a prior red candle (gap) and closes at the close of the prior candle.*
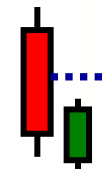
Gaps

<u>In Neck Line Bearish</u> – *A red candle that opens above the high of a prior green candle (gap) and closes at the close of the prior candle.*
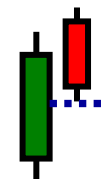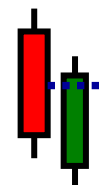
Two-Bar Combinations Con't

Thrust Line Bullish – **A green candle that opens below the low of a prior red candle and closes inside the prior red candle's body, but below the midpoint.**
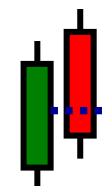
Thrust Line Bearish – **A red candle that opens above the high of a prior green candle and closes inside the prior green candle's body, but above the midpoint.**

Piercing Line Bullish – **A green bar that opens below the low of a red bar and closes above the midpoint of the prior bar.**
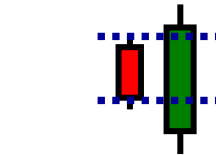
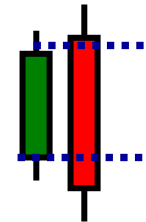**Dark Cloud Cover Bearish** – **A red bar that opens above the high of a green bar and closes below the midpoint of the prior bar.**

Two-Bar Combinations Con't

Engulfing Bullish – *A larger green body engulfing a smaller red body.*
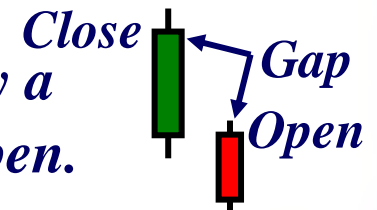
Engulfing Bearish – *A larger red body engulfing a smaller green body.*

Separating Lines Bullish – *A red candle followed by a green candle that opens (gaps) at or near the prior candle's open.*

Open

Gap

Close
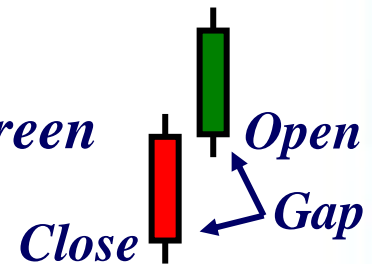
Separating Lines Bearish – *A green candle followed by a red candle that opens (gaps) at or near the prior candle's open.*

Close

Gap

Open

Let's begin to simplify all of these prior candles.

Two Candle Combination Questions:

- *Were the prior candles moving up or down?*

- *If a gap occurred, to what degree did it fail to follow through?*

- *How far did the current bar retrace and close into the prior?*

- *Was there a complete reversal of the prior candle?*

- *Interpretation – Momentum has shifted to varying degrees.*

Candlestick Analysis

Two-Bar Combinations

Two-bar combinations are an improvement over individual candles at signaling reversals.

Engulfing Bearish

Engulfing Bearish

Engulfing Bearish

Harami Bearish

Engulfing Bullish

Now let's look at three-bar combinations

Thrusting Line Bullish

Harami Bullish

Three-Bar Combinations

Morning Star Bullish – **The first bar is a long red bar; the second gaps below the prior body; the third closes well into the first.**

Gap

Evening Star Bearish – **The first bar is a long green bar; the second gaps above the prior body; the third closes well into the first.**
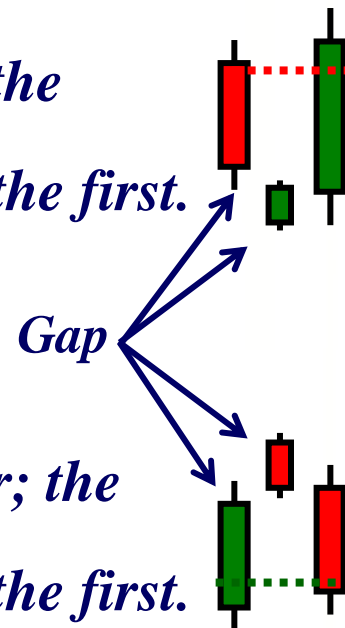
Morning/Evening DOJI Star – *Replace Star with DOJI*

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Candlestick Analysis
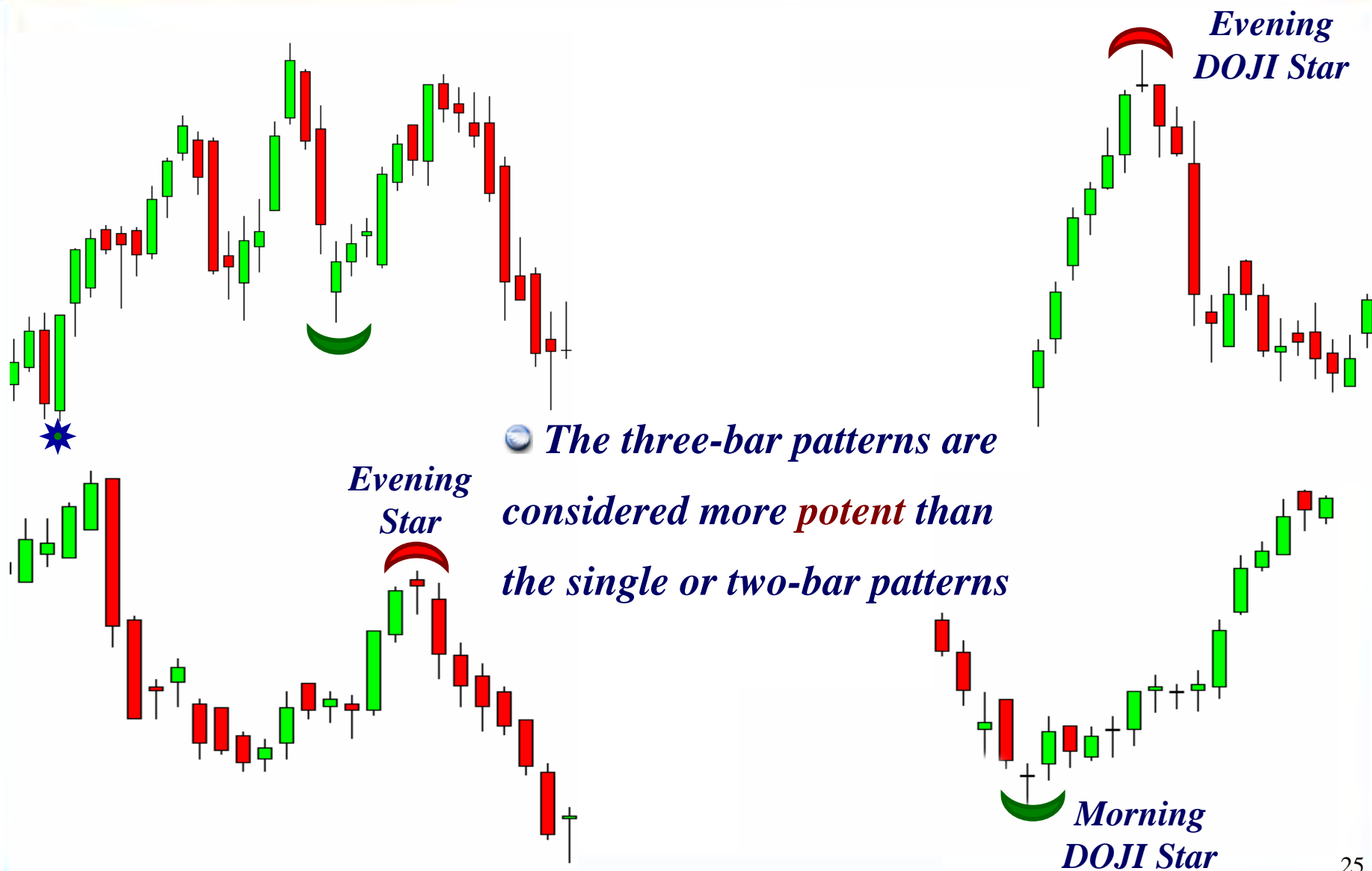
Let's begin to simplify all of these prior candles.

Three-Bar Combination Questions:

⊙ *Were the prior candles moving up or down?*

⊙ *To what degree did momentum slow and begin to shift?*

⊙ *To what degree did the next candle penetrate and close into the prior candles?*

⊙ *Interpretation – Momentum slowed down, reversed and there has been an increase in buying or selling.*

Candlestick Analysis

Evening DOJI Star

Evening Star

The three-bar patterns are considered more potent than the single or two-bar patterns

Morning DOJI Star

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Candlestick Analysis

Engulfing

- *Not all candles will produce a reversal, but they all have meaning!*

Harami Bearish

Engulfing

Inverted Hammer

Evening Doji Star

Engulfing

Piercing

Hammers

- *Some would say: Candle messages occurring within a consolidation are meaningless.*

- *In time, you will see how they offer very valuable information.*

Candlestick Analysis

Shooting Star

Separating lines

Harami Bearish

DOJI

At times, candle patterns have No Follow Through (NFT) to their suggested meaning.

GBI

Engulfing Bullish, but GBI

Engulfing Bearish

Hammer

High Wave

RBI?

Red bars ignored (RBI) and Green bars ignored (GBI) can provide powerful messages!

Engulfing Bullish

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Candlestick Analysis

- *The basics offered a good starting point for the interpretation of candlesticks.*

- *In the next sections, we are going to look at candlestick analysis from the Pristine point of view.*

- *A deeper understanding of candlestick analysis will not only demystify them, but will also simplify their use.*

Beyond the Basics of Candlesticks

Candlestick analysis is the study of momentum increases and decreases, which may lead to a price reversal.

Candlestick Analysis

Common Candle Terms:

Engulfing Bar, Piercing Bar, Dark Cloud Cover, Harami, Thrusting Line.

Doji, Star, Hammer, Hangman

Pristine Candle Terms:

COG – These have different levels of penetration into the prior bar's range
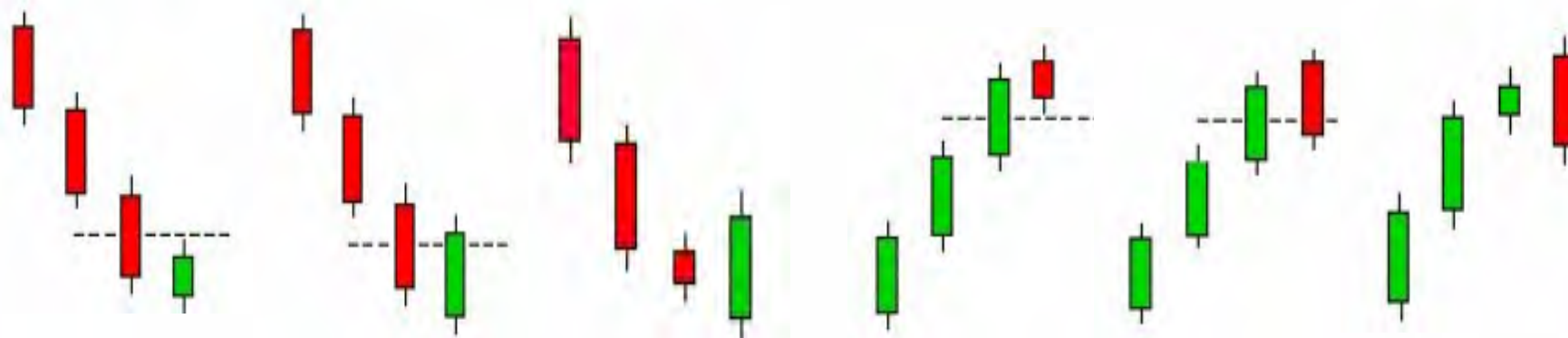
NRB, NB, BT, TT – Different levels of slowing momentum

WRB – An increase in range or momentum compared to recent bars.

- *Terms are unimportant, each candle's message is.*
- *Do NOT assume the outcome of the current candle and or message.*
- *A candle is not complete until that time period ends.*
- *The combination of candle messages will speak to you.*

COG REVERSAL BAR

Bullish Reversals

Bearish Reversals

Pristine Tip: While there are different variations, the message is always the same ! A reversal in momentum has occurred!

Narrow Range Bodies (NB)

- *Bars in which the body of the candle is small relative to the overall length of the candle. They may have Tails on either side of the body.*

- *The appearance of tails shows uncertainty in the prevailing trend of bars.*

Pristine Tip: While there are different variations, the message is always the same ! A slowing in momentum has occurred!

Narrow Bodies

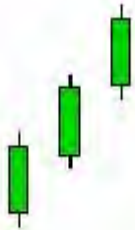**Uncertainty** **Certainty**

Narrow Body

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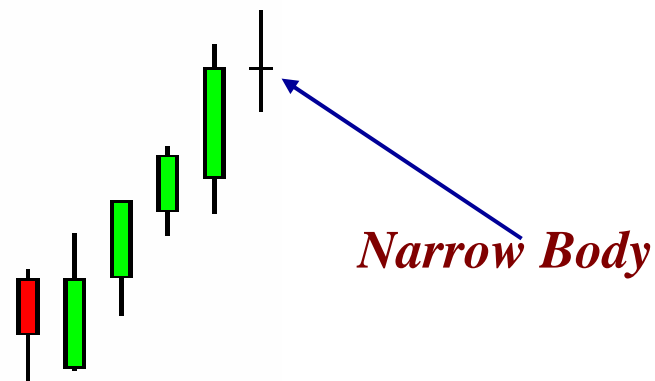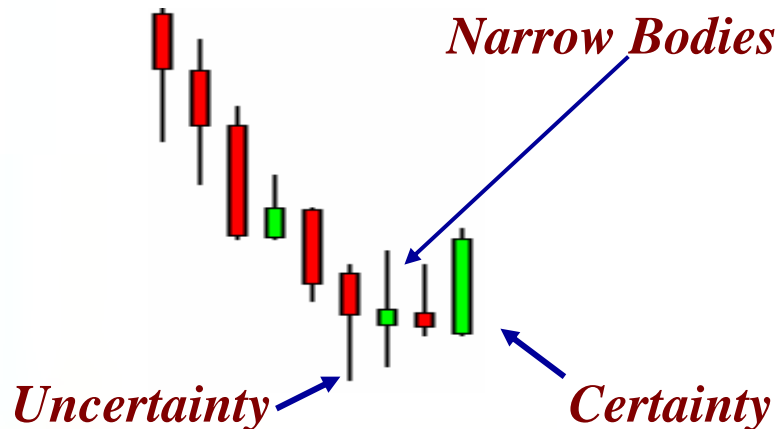
Narrowing Range Bars (NRB)

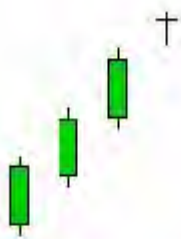🔵 *A series of bars in which the difference between the highs and lows is narrowing.*

Pristine Tip: While there are different variations, the message is always the same ! A slowing in momentum is occurring!

Narrowing Range Bars

Candlestick Analysis

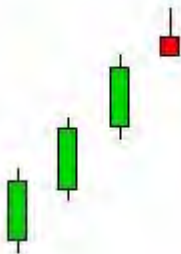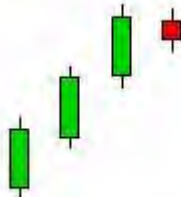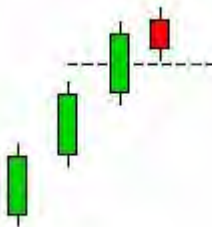| Sell Setup	Bearish Doji Star	Bearish Star	Bearish Hangman
3 or more bars up in downtrend.	Gapped up, and opened and closed at the same price.	Gapped up, closing under open, leaving a small real body.	Narrow range body with topping tail, near higher end of prior bar.

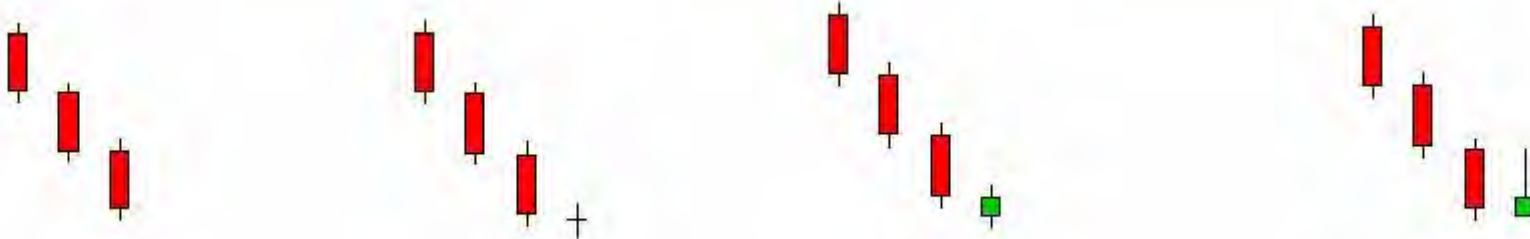| Bearish Shooting Star	Bearish Harami	Bearish Thrust	Bearish Piercing	Bearish Engulfing
Narrow range body with topping tail, near higher end of prior bar.	Opened near the prior bar's close, rose and fell during the day, closing with small real body.	Gapped up and closed down less than half way into the prior bar's range.	Gapped up and closed down over ½ into the prior bar's range.	Gapped up and fell down to engulf the entire prior bar's real body.

Prices are trending higher, the **potency** *of the reversal signals are increasing.* 35

Candlestick Analysis

Buy Setup	Bullish Doji Star	Bullish Star	Bullish Inverted Hammer
3 or more bars down in uptrend.	Gapped down, and opened and closed at the same price.	Gapped down, closing over open, leaving a small real body.	Narrow range body with topping tail, near lower end of prior bar.

| Bullish Hammer	Bullish Harami	Bullish Thrust	Bullish Piercing	Bullish Engulfing
Narrow range body with bottom tail, near lower end of prior bar.	Opened near the prior bar's close, fell and rose during the day, closing with small real body.	Gapped down and closed up less than half way into the prior bar's range.	Gapped down and closed over ½ into the prior bar's range.	Gapped down and rose up to engulf the entire prior bar's real body.

Prices are trending lower, the *potency* *of the reversal signals are increasing.*

Candlestick Analysis

Topping Tail Bars (TT)

○ *Normal or wide range bars in which prices had been higher, then supply forced prices below the mid-point of the bar's range.*

Pristine Tip: While there are different variations, the message is always the same ! Distribution has occurred, and overhead Supply has been increased!

Topping Tails
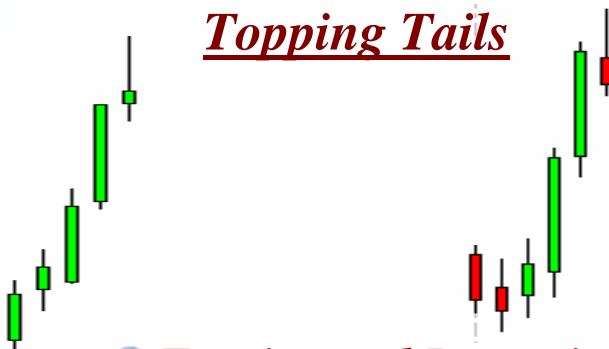
Bottoming Tail Bars (BT)

○ *Normal or wide range bars in which prices had been lower, then demand forced prices higher above the mid-point of the bar's range.*

Pristine Tip: While there are different variations, the message is always the same ! Accumulation has occurred, and Supply overhead has been removed!
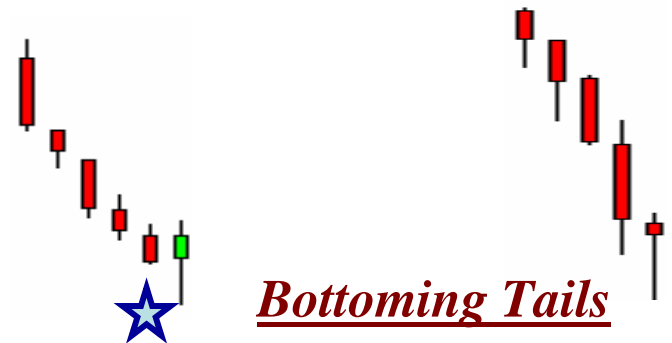
Bottoming Tails

○ *Topping and Bottoming Tails bars that are also a "Range Expansion" relative to prior bars have better odds of being an actual reversal point.*

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Candlestick Analysis

Has A Significant Shift In Momentum Occurred?

Potency is Increasing

Least Potent

Most Potent

20MA
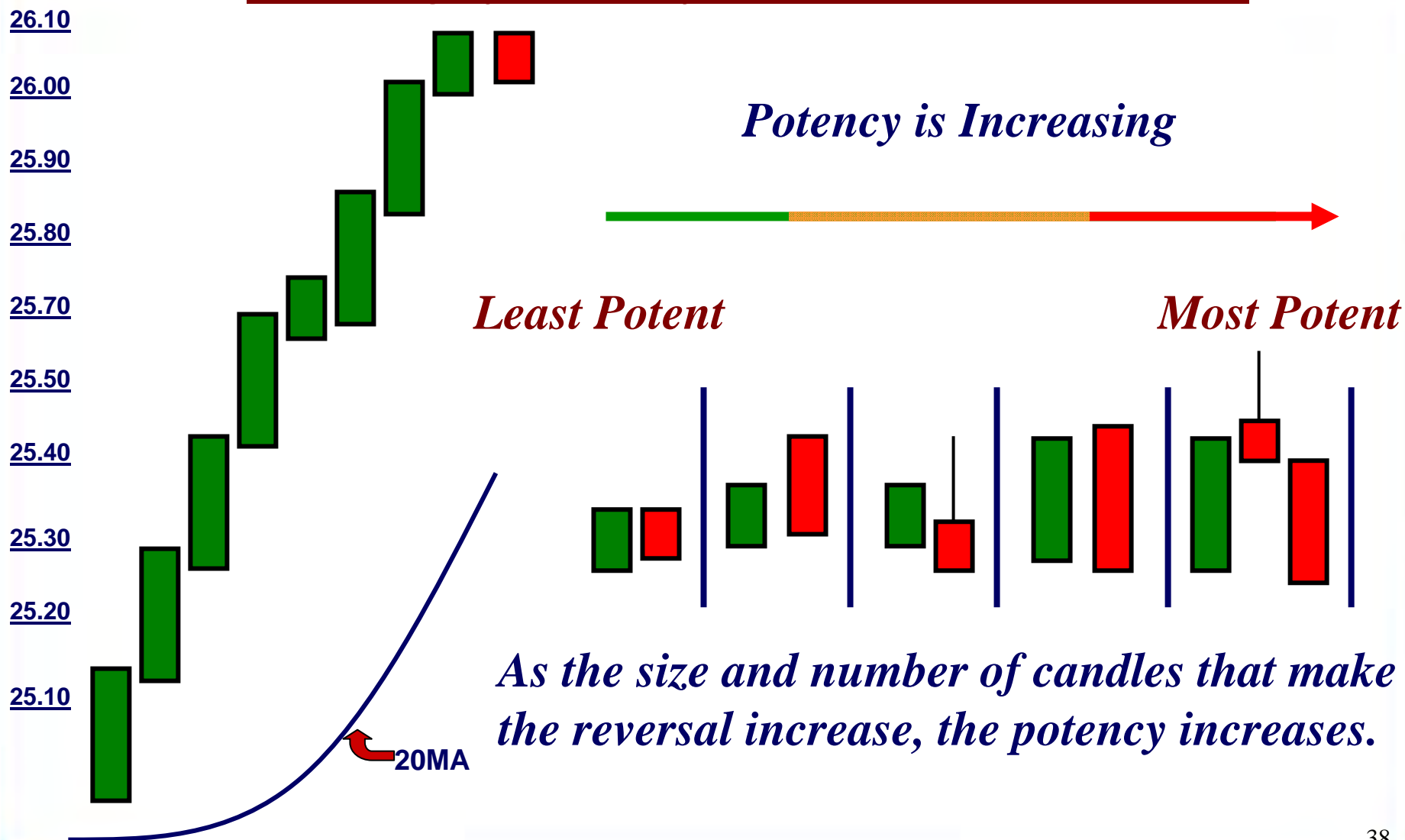
As the size and number of candles that make the reversal increase, the potency increases.

You now have an understanding of some of Pristine's terms and interpretation of candles.

Now lets look at Wide Range Bars and Potent Reversals, and consider these candles' effects on emotions and begin to think in "Candle Language."

Candlestick Analysis
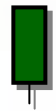
Wide Range Bar (WRB)

- *A bar in which the candle's body is relatively wide compared to the most recent bars.*

- *A Wide Range Bar after a period of low volatility ignites momentum in that direction.*

- *A Wide Range Bar after an extended advance or decline typically happens near the end of a move. A NB or COG signals the turn.*
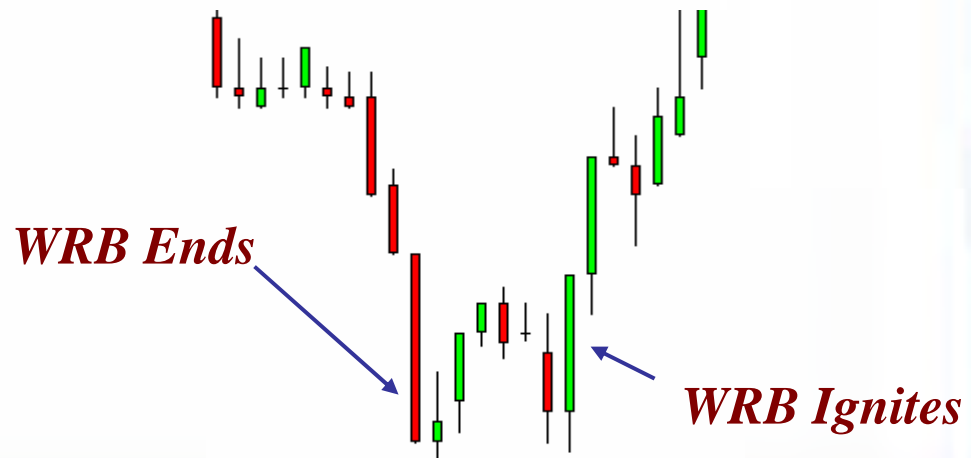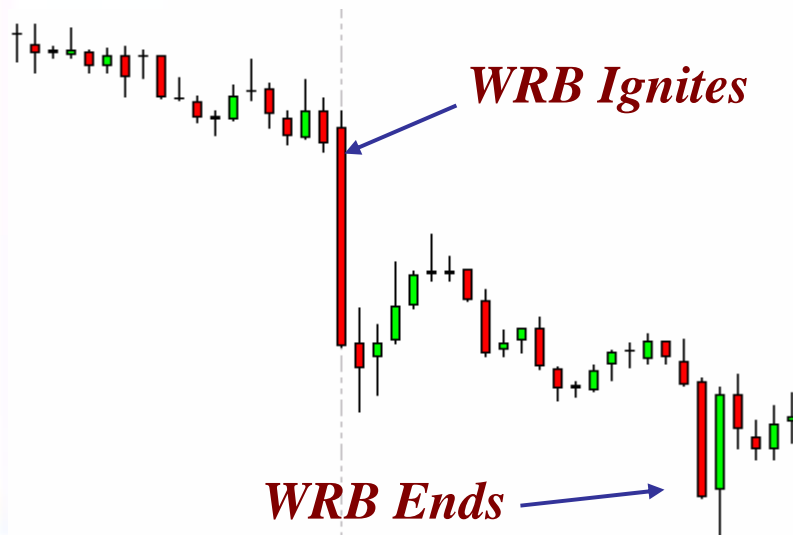
WRB Ignites

WRB Ends

WRB Ends

WRB Ignites

Candlestick Analysis

Narrow Range

Wide Range

Range Expansion

Range Expansion

- *A Narrow Range bar can indicate that momentum has slowed or that volatility is low.*

- *A WRB or RE bar displays <u>commitment and emotion</u>.*

- *A Wide Range Bar (WRB) is a Range Expansion (RE) by definition.*

- *A Bottom Tail (BT) or Top Tail (TT) may or may not be a Range Expansion (RE) bar.*

- *A WRB is an indication that momentum may soon slow or end an existing move.*

- *A WRB Breakout or breakdown, after a consolidation, <u>ignites</u> a move in that direction.*

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Potent

Not Potent
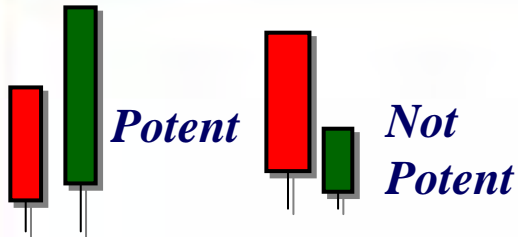
- ☻ **The larger the reversal bar is in relation to the prior bar, the more potent**
- ☻ **The level or depth of retracement into the prior candle increases potency**
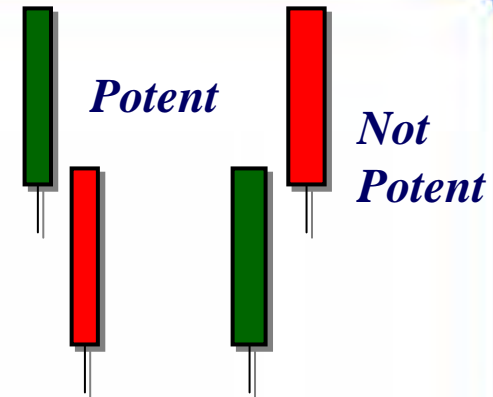
Potent

Not Potent

- ☻ **Expanding range indicates Fear or Greed is increasing and becoming extreme**

- ☻ **Expanding range (*increased volatility*) increases the odds of a reversal**

Fear is increasing

Momentum is slowing, but fear is not extreme

Momentum is slowing, but greed is not extreme

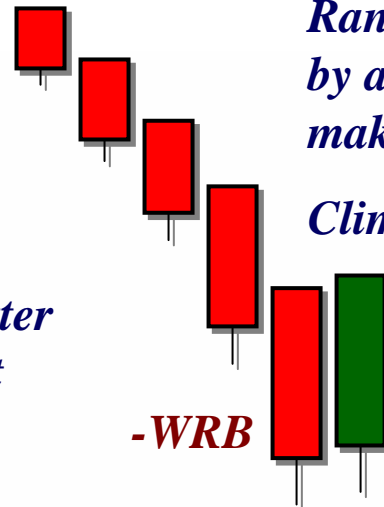*Greed is increasing*

Candlestick Analysis

-WRB

This is not climactic and the reversal is not Potent

No fear, just slowing momentum

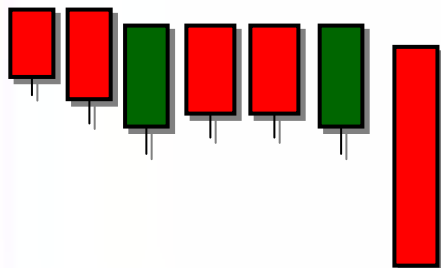A retest of a this low has better odds of a larger retracement

Range Expanded followed by a complete reversal, making it very potent!

Climactic and Potent

-WRB   +WRB

Range Expansion after low volatility ignites a move

-WRB

-WRB

Not climactic, but Potent

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Candlestick Analysis

Wide Range Bar

This Bottom Tail bar at (A) is also a Range Expansion and was a Wide Range Bar (-WRB) prior to completion!

Range Expansion TT, BT

What were traders thinking when the bar was forming as a –WRB, and then when it became a BT?

B

A

What are they thinking after the reversal at (C)?

C

What about the +WRB at (B) becoming a TT?
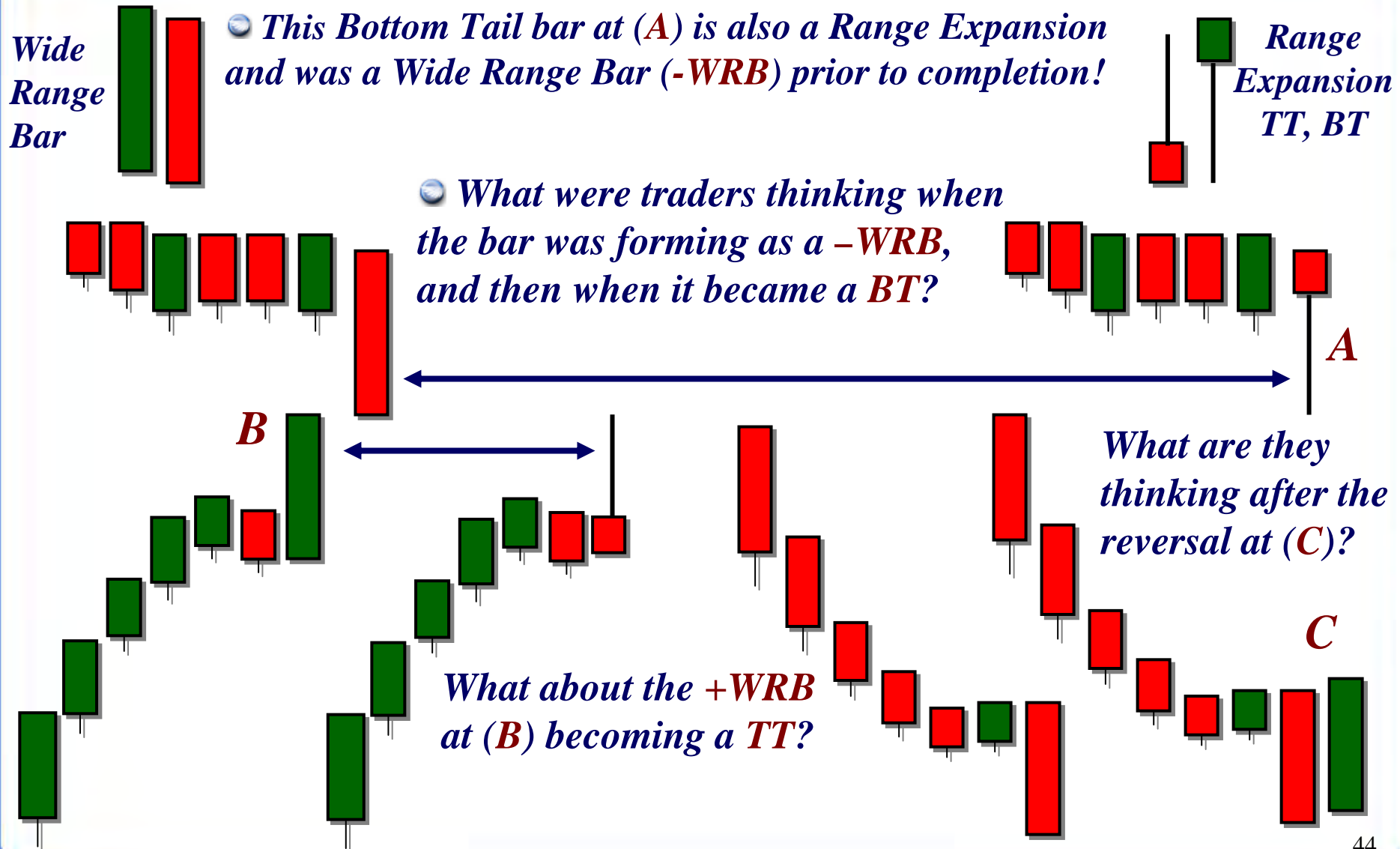
Combine the Candle Messages

- *A signal bar, two-bar or three-bar candle pattern can point you to high probability reversal points, but ….*

- *A combination of these candles in the same area will give a stronger message of a reversal point.*

- *By interpreting the meaning of all recent candles combined, the odds of successfully locating a reversal increase.*

Candlestick Analysis

At (**A**), An expanding range breakdown is followed by an inside narrow range bar (**Harami**)

At (**B**) A retest of that "area" is followed by a Bottoming Tail (**BT**) and Potent + COG (**Morning Star**)

Strongly suggests a move higher
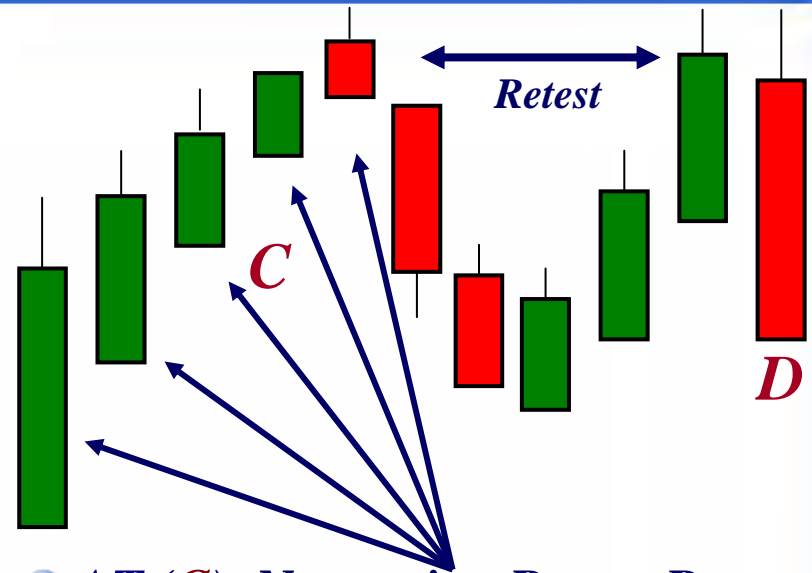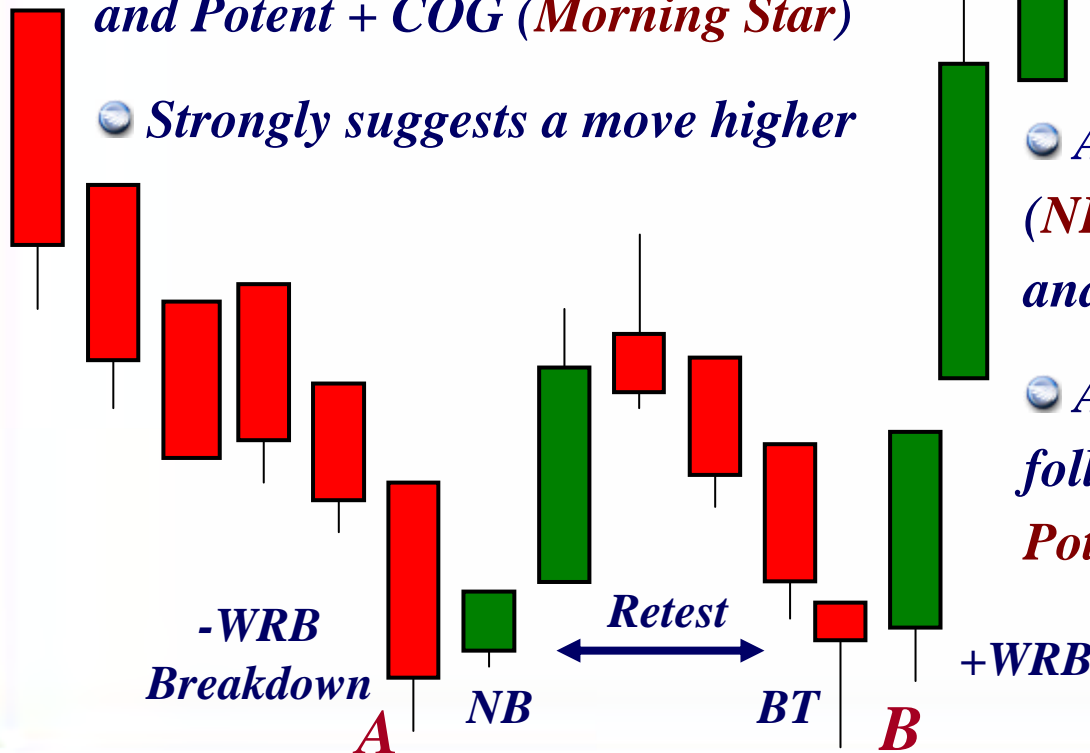
AT (**C**), Narrowing Range Bars (**NR**) are followed by a gap down and move lower

At (**D**), a retest of the area is followed by a minor gap lower and Potent –COG suggests a move lower

C

D

Retest

-WRB
Breakdown

A

NB

Retest

BT

B

+WRB

46

Candlestick Analysis

- *Notice how momentum increases and decreases in a controlled manner.*

- *The candles do not "run" higher building into a climatic + WRB.*

Potent?

Potent?

This was a –WRB prior to completion?

Candlestick Analysis

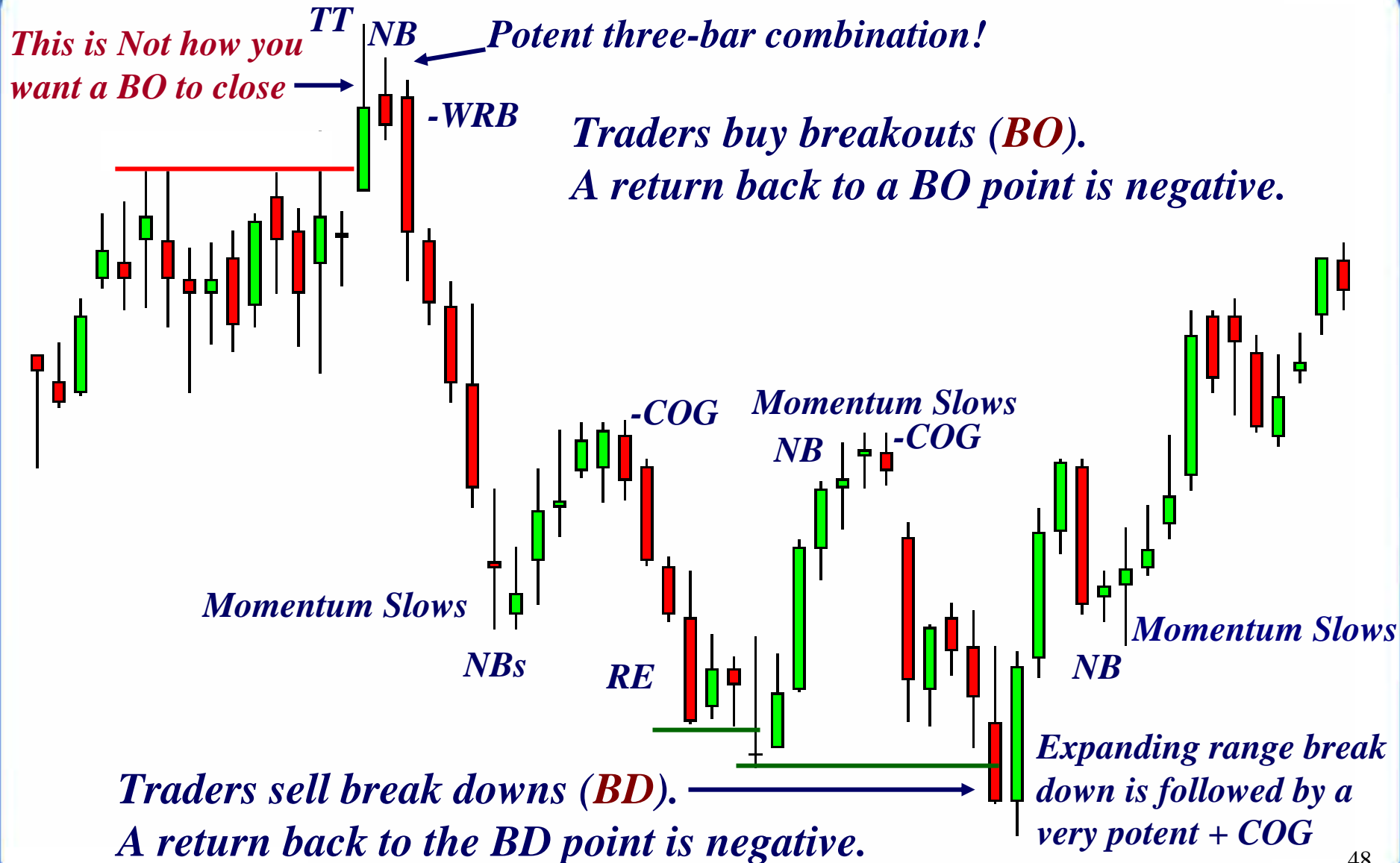*Traders buy breakouts (**BO**).*
A return back to a BO point is negative.

This is Not how you want a BO to close

TT *NB*

-WRB

Potent three-bar combination!

Momentum Slows
NB *-COG*

-COG

Momentum Slows

NBs

RE

*Traders sell break downs (**BD**).*
A return back to the BD point is negative.

NB

Momentum Slows

Expanding range break down is followed by a very potent + COG

48
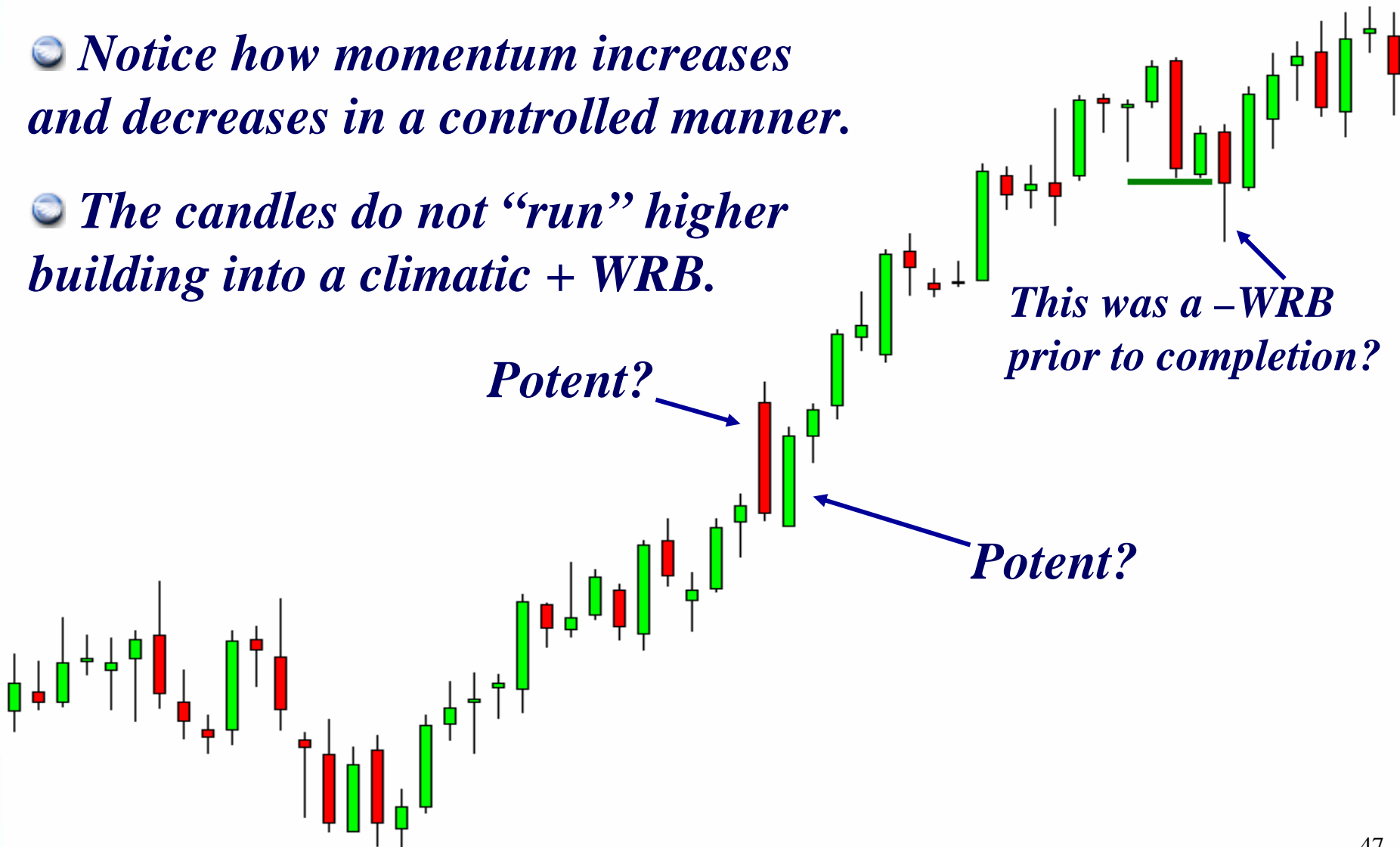
Candlestick Analysis

- *As fear and greed increase, ranges expand*
- *As fear and greed decrease, ranges and/or bodies contract*
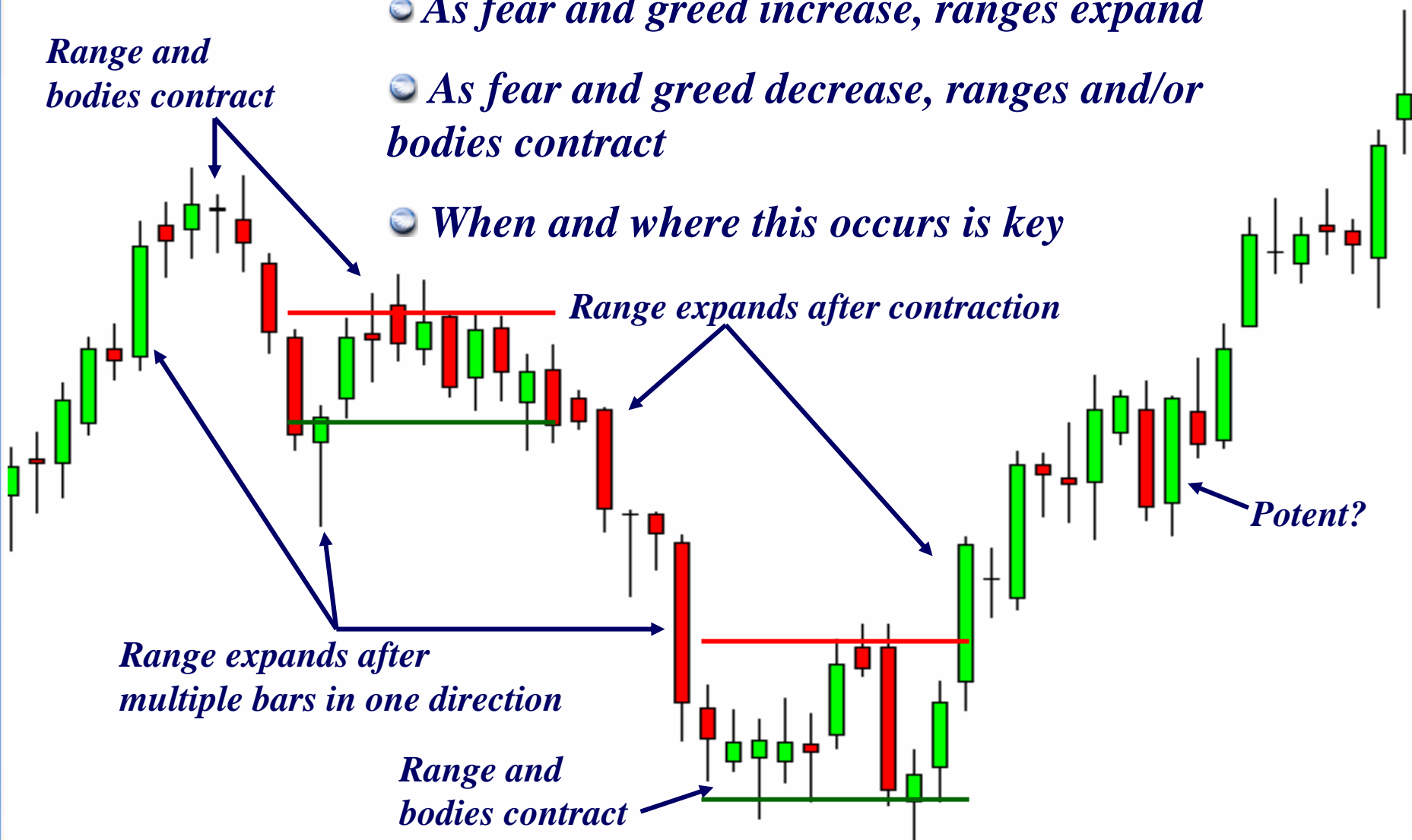- *When and where this occurs is key*

Range and bodies contract

Range expands after contraction

Range expands after multiple bars in one direction

Range and bodies contract

Potent?

49

- *As you can see, it is possible to understand what candles are saying without knowing their various names and patterns.*

- *Remembering candle pattern names does not equate to using them successfully, but there is so much focus on them.*

- *If you remember the patterns, fine; but you now see there is a much easier, and better way.*

- *The use of candles can not guarantee a successful trade, but this deeper understanding gives much greater odds of success.*

Concluding Thoughts

- *At this point, you have a great start to using candles. Now, it's up to you to work with the material and make it yours.*

- *You should be able to analyze candle patterns objectively and make intelligent trading decisions.*

- *Defining an opportunity, where the odds are in your favor, then having the discipline to follow your trading and money management rules is all that you can do.*

In closing, we at Pristine wish you great success!

Mastering Candlestick Charts 2

Disclaimer

It should not be assumed that the methods, techniques, or indicators presented in this book and seminar will be profitable or that they will not result in losses. Past results are not necessarily indicative of future results. Examples in this book and seminar are for educational purposes only. This is not a solicitation of any order to buy or sell.

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Day Trading can result in large losses and may not be an activity suitable for everyone.

Table of Contents

Cutting Through the Candlestick Hype

- *The signals on a bar chart are the same as a candle chart.*

- *Those signals will be seen at the same time and are no more reliable than those of a bar chart.*

- *The use of indicators will not increase the reliability of candles.*

- *There are no advanced candlestick patterns, but there is a deeper understanding of price movements and that is the focus of The Pristine Method®.*

- *So, why use candle charts at all?*

4

Why Use Candlesticks?

- *They provide a visual picture of what is occurring.*

- *They give visual insights into others' thoughts and expectations.*

- *They give visual confirmation signals of support and resistance.*

- *They can visually align your thoughts with the market.*

- *They can visually point to potential reversal points.*

Candle Language Produces Thoughts

- *Proper trading is said to be proper thinking, but how do we know what to think?*

- *Pattern recognition is a recurring arrangement of price bars that suggests the future movement of prices, which guides our thoughts.*

- *These patterns communicate how traders have acted and what their beliefs (expectations) are in that time frame, at the moment.*

- *Candles provide a picture of those expectations on an ongoing basis.*

- *Those pictures speak to us in "Candle Language" and are the basis for our continuous thoughts and trading decisions.*

Miscellaneous Thoughts on Candlesticks

⦿ *Attempting to define the accuracy of candle names or patterns without considering the overall pattern is useless and misleading.*

⦿ *There are a least 50 different candle patterns, bullish and bearish. Some memorize them, but you will see this is completely unnecessary.*

⦿ *While candles are very good at visually showing reversal signals, the signals that do not work are often the most powerful!*

⦿ *All that is needed is a chart of price bars -- all else is secondary.*

⦿ *While other analysis tools may add additional information, they can only follow existing price action.*

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Candlestick Basics & Beyond Review

8

Candlestick Analysis

Candle Bars
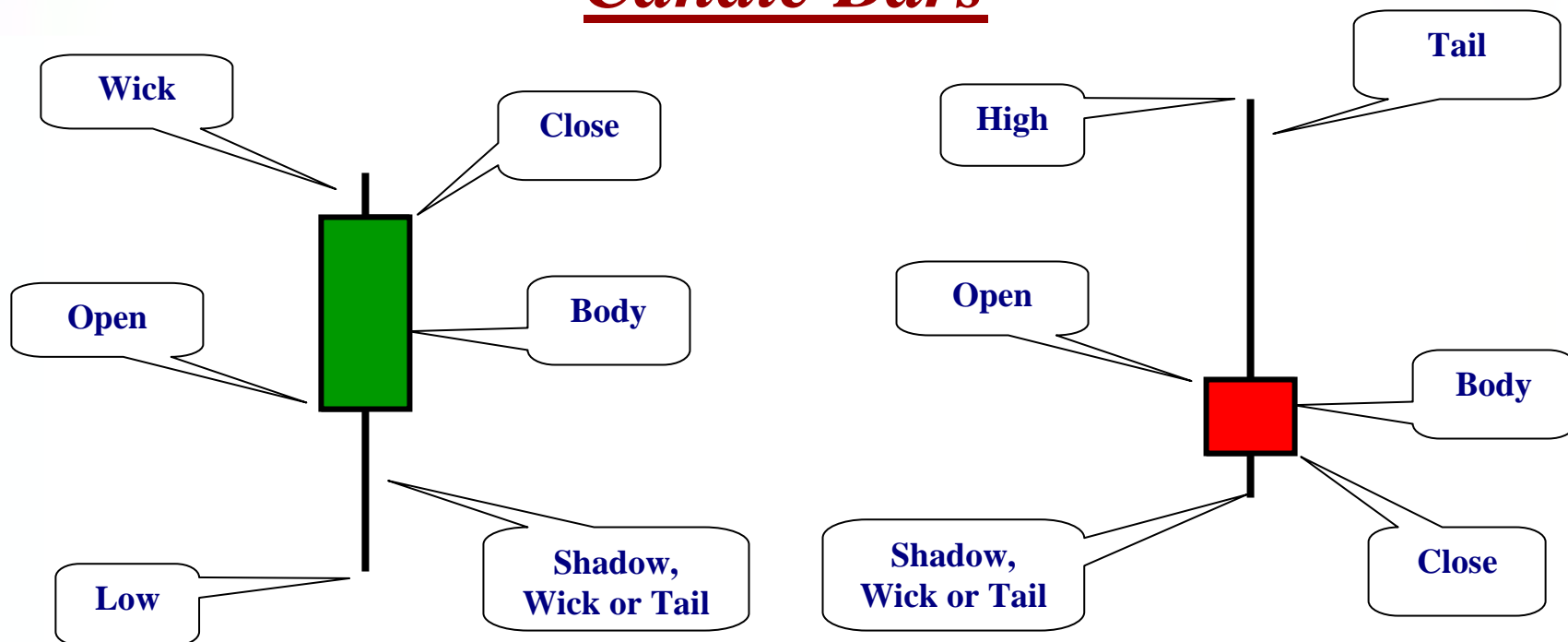
- *The candle body is the difference between the open and the closing prices.*

- *The part on either side of the body is called a Shadow, Wick or Tail.*

Candlestick Analysis

- *Let's first review some individual candles and their names to make sure you have the background.   See Intro to candles.*

- *Remembering their names is unnecessary because that will not help you use candles or understand their meaning!*
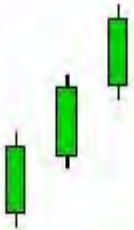
When we are done, not only will you understand what candles are saying, you will also:

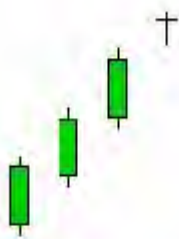- *Have a objective method of knowing when to enter*

- *Know where to place a stop*

- *Know how to monitor a position once in it*
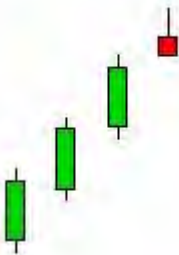
Candlestick Analysis

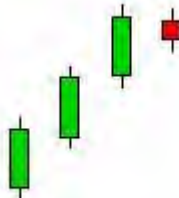| Sell Setup	Bearish Doji Star	Bearish Star	Bearish Hangman
3 or more bars up in downtrend.	Gapped up, and opened and closed at the same price.	Gapped up, closing under open, leaving a small real body.	Narrow range body with topping tail, near higher end of prior bar.

Bearish Shooting Star	Bearish Harami	Bearish Thrust	Bearish Piercing	Bearish Engulfing
Narrow range body with topping tail, near higher end of prior bar.	Opened near the prior bar's close, rose and fell during the day, closing with small real body.	Gapped up and closed down less than half way into the prior bar's range.	Gapped up and closed down over ½ into the prior bar's range.	Gapped up and fell down to engulf the entire prior bar's real body.

Prices are trending higher, the **potency** *of the reversal signals are increasing.* 11

Candlestick Analysis

Buy Setup	Bullish Doji Star	Bullish Star	Bullish Inverted Hammer
3 or more bars down in uptrend.	Gapped down, and opened and closed at the same price.	Gapped down, closing over open, leaving a small real body.	Narrow range body with topping tail, near lower end of prior bar.

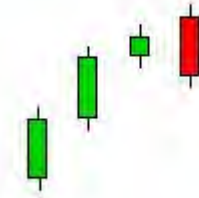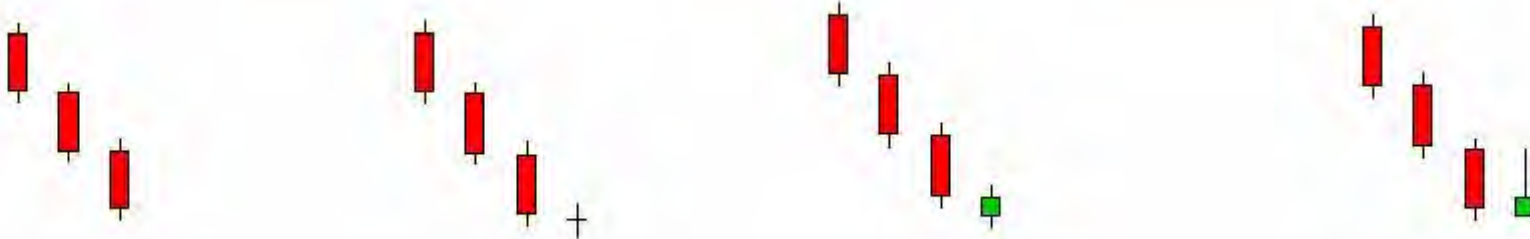| Bullish Hammer	Bullish Harami	Bullish Thrust	Bullish Piercing	Bullish Engulfing
Narrow range body with bottom tail, near lower end of prior bar.	Opened near the prior bar's close, fell and rose during the day, closing with small real body.	Gapped down and closed up less than half way into the prior bar's range.	Gapped down and closed over ½ into the prior bar's range.	Gapped down and rose up to engulf the entire prior bar's real body.

Prices are trending lower, the potency of the reversal signals are increasing. 12

⚪ *The level of accumulation and distribution will be seen through candles displaying shifts in momentum.*

⚪ *Those shifts take on various forms. Your job is to recognize them and assess the odds of follow through.*

Candlestick Analysis
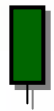
Narrow Range	Wide Range	Range Expansion	Range Expansion

- *A Narrow Range bar can indicate that momentum has slowed or that volatility is low.*

- *A WRB or RE bar displays <u>commitment and emotion</u>.*

- *A Wide Range Bar (WRB) is a Range Expansion (RE) by definition.*

- *A Bottom Tail (BT) or Top Tail (TT) may or may not be a Range Expansion (RE) bar.*

- *A WRB is an indication that momentum may soon slow or end an existing move.*

- *A WRB Breakout or Breakdown, after a consolidation, <u>ignites</u> a move in that direction.*

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Candlestick Analysis

Shooting Star

Separating lines

Harami Bearish

Hammer

Engulfing Bullish, but *GBI*

DOJI

High Wave

RBI

Engulfing Bearish

Engulfing Bullish

RBI?

⬤ *At times, candle patterns have No Follow Through (NFT) to their suggested meaning.*

⬤ *Red bars ignored (RBI) and Green bars ignored (GBI) can provide powerful messages!*

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Candlestick Analysis

● *A signal bar, two-bar or three-bar candle pattern can point you to high probability reversal points, but ….*

● *By interpreting the meaning of all recent candles combined, the odds of successfully locating a reversal increase.*

● *We will now consider the trend of current bars, support, resistance, volume, and a monitoring technique.*

Support and Resistance Basics

Candlestick Analysis

⦿ *Candlestick analysis is a powerful tool that becomes more powerful with the additional understanding of Support and Resistance.*

⦿ *This introduction to Pristine's systematic approach to analyzing Support and Resistance will give you a real advantage!*

Let's take a look!

What is Support and Resistance?

- *Prior highs and lows*

- *Overlapping price bars (e.g., a base)*

- *An unfilled gap between price bars*

The only "real" support or resistance is price.

Subjective Support and Resistance

- *Trading Bands or Envelopes*

- *Fibonacci Retracements*

- *Moving Averages*

These tools are subjective and unnecessary when you understand what is real.

- *Trendlines*

Candlestick Analysis

Basic Support – Resistance

- *The first reference of support is a prior candle's low, so a bearish candle's low must be violated to confirm a bearish signal.*

- *If that bearish candle's high is overcome on a closing basis first, the signal has been negated.*

- *The number of bars making up prior support or resistance will suggest the odds of overcoming or not overcoming that area.*

- *Prior highs, lows, and gaps are focal points of potential reversals.*

Candlestick Analysis

The Open = Beginning S / D   **The Low** = Demand, Support

The High = Supply, Resistance   **The Close** = Ending S / D

The Body = The difference between the open and close, which is the degree by which the battle between **Bulls** and **Bears** has been won or lost
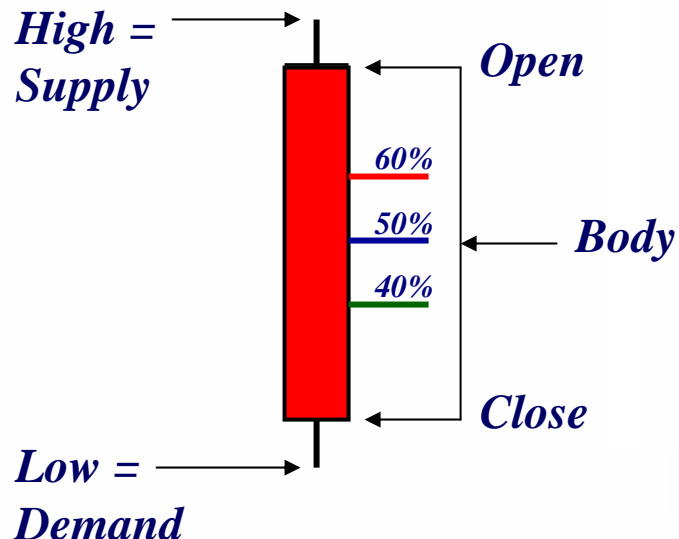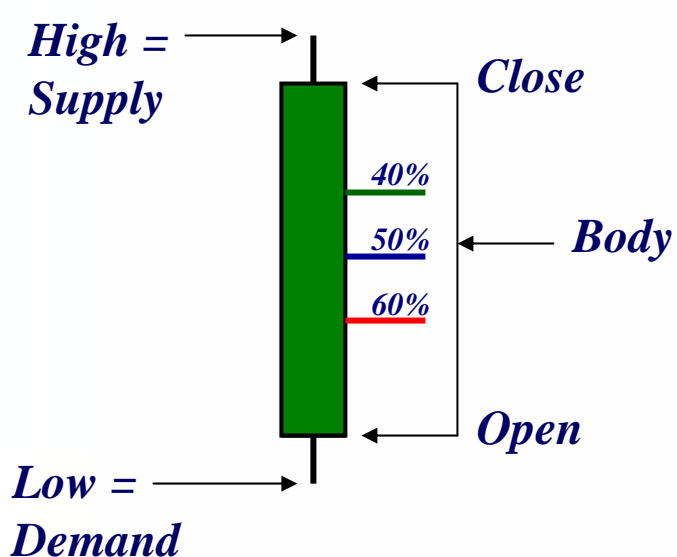
The closing price within the range of a candle is a measurement of the strength of the **bulls** or **bears** in that period.

Support and Resistance Analysis

Multiple bars or congestion is a significant area of Resistance or Support.

They form rounding or square formations within a trend.

One-to-three bars reversals are less significant.

Congestion = Resistance

No Resistance

No Congestion

No Support

No Congestion

No Congestion

Retest

Congestion! This is not support until there is a close decisively above it.
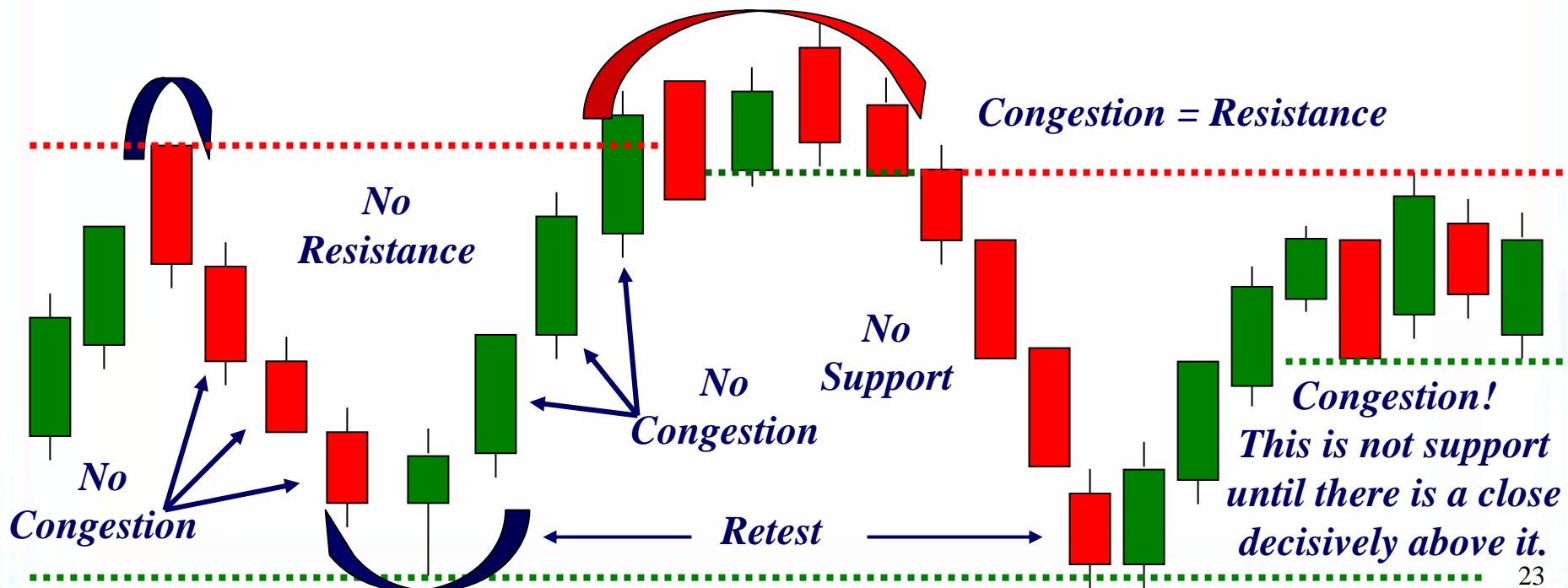
Candlestick Analysis

● *Gaps are considered support or resistance reversal points, but it is not that simple.*

    ● *Prices pull back into the gap with several bars and form a potent + COG. This pattern suggests a reversal.*

GAP

Potent + COG

GAP

● *Prices exploded into the gap with a + WRB suggesting continuation, not a reversal.*

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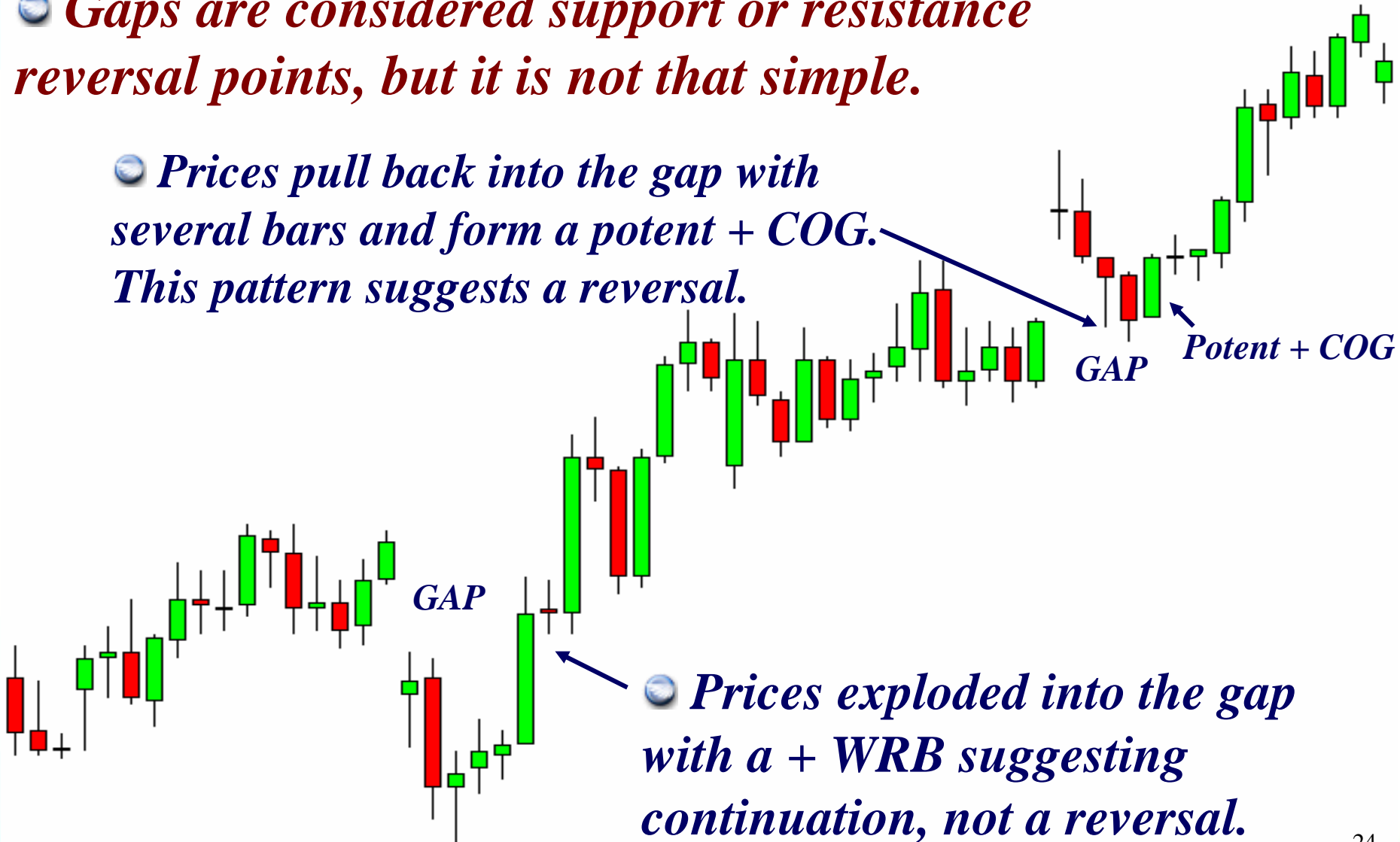
Candlestick Analysis

- *Three or more bars moving into a Gap, followed by slowing momentum, sets up up a high-odds trade*

- *Read the candles as they form*

GAP

Expanding

GAP

- *One or two bars moving into a Gap on expanding momentum suggests continuation.*

Slowing

25
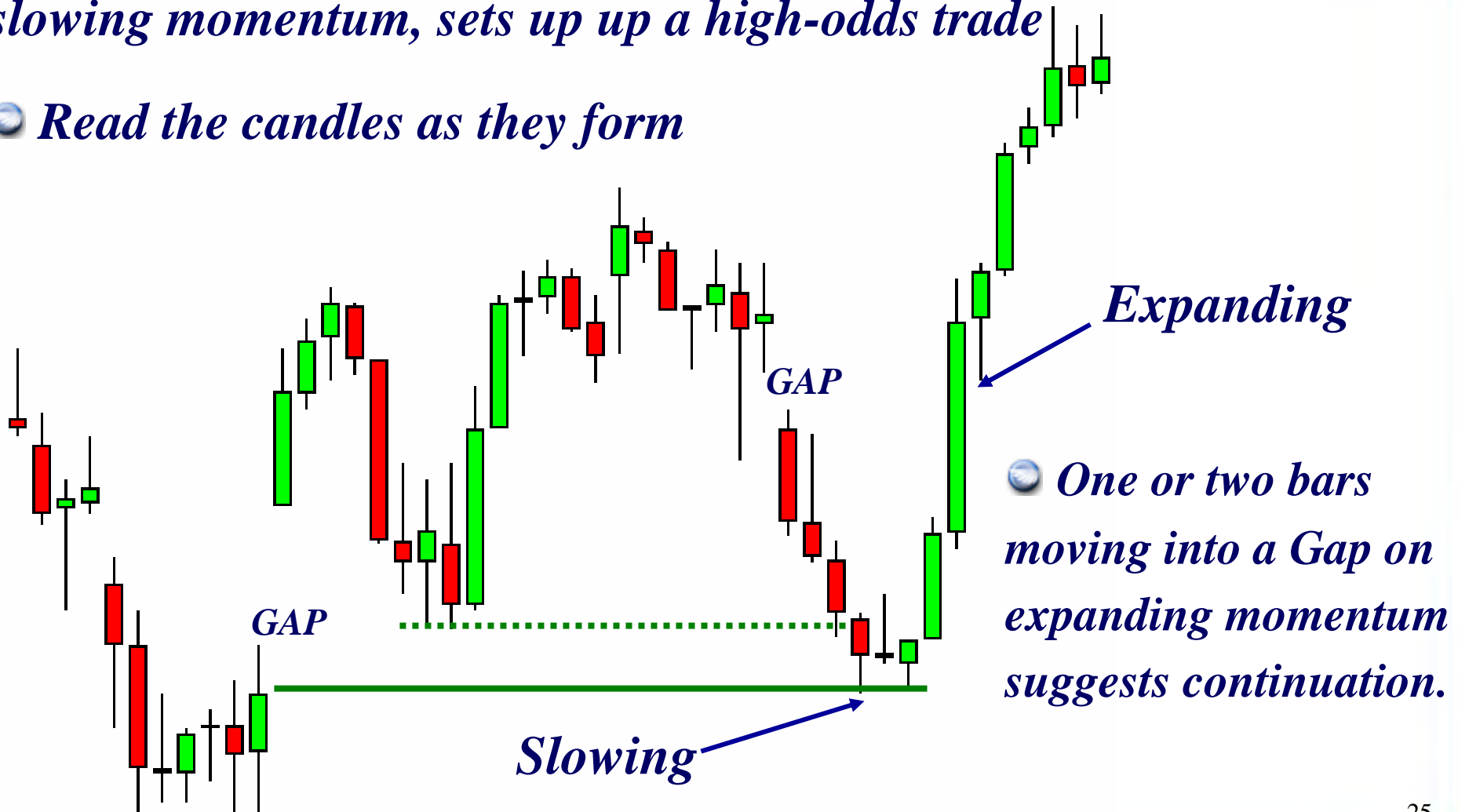
Candlestick Analysis

TPM S-R Concepts

B *B*

Potent Reversal

-WRB Igniting

A *A*

- *As prices move sideways away from prior support (A), it becomes less significant.*

- *That sideways movement (B), once broken becomes an area of supply to push prices lower.*

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Support and Resistance Questions

- **Support and Resistance are areas, not exact points.**

- **This fall leaves no congestion.**
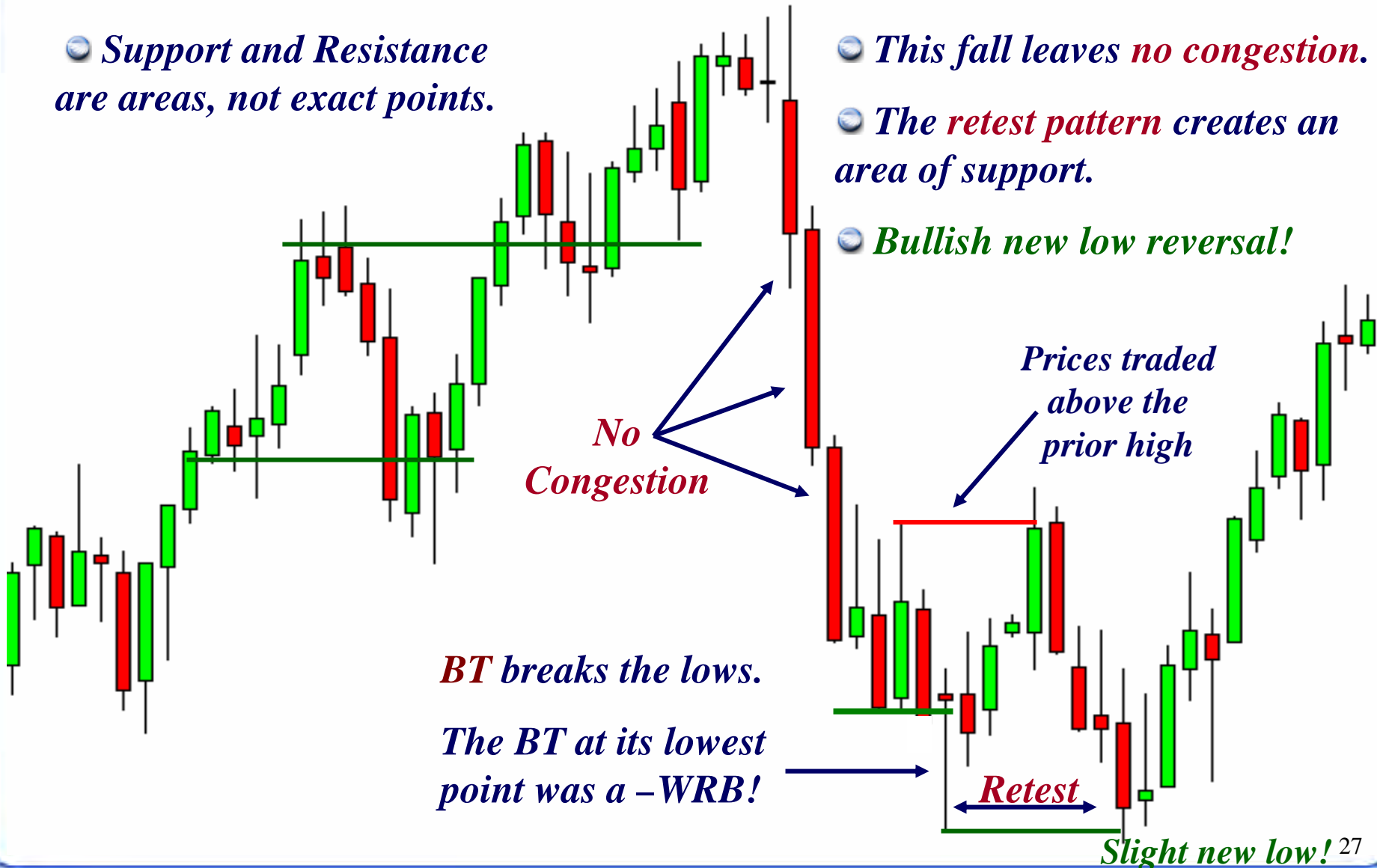
- **The retest pattern creates an area of support.**

- **Bullish new low reversal!**

No Congestion

Prices traded above the prior high

BT breaks the lows.

The BT at its lowest point was a –WRB!

Retest

Slight new low!

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Candlestick Analysis

TPM covers trend quality and trend reversals extensively

Broken

Broken

Broken

- *This reversal is very significant and potent.*

- *The breakout above the prior high was completely reversed.*

- *Track prior highs 1st resistance, then move to pivot reversal points when they form as 2nd resistance.*

- *Stay objective about the trend!*

Ask These Questions When Analyzing Support and Resistance:

- Is it two bars or multiple bars of congestion?

- What is the distance between Support and Resistance?

- Has there been a break and/or close above/below a prior bar's high/low?

- Has there been a retest and/or break of a prior pivot high/low?

- Are there any unfilled gaps that prices are moving towards?

- What type of candles form as prices move towards support or resistance?

- Objectively reading Support and Resistance is the key to chart reading.

Bar-by-Bar Analysis or Candle-by-Candle

Candles and Price Patterns Produce Thoughts

◉ *Once you have learned a candle pattern that suggests a future result, it produces expectations for that result.*

◉ *Expectations potentially lead to failure when it comes to technical trading if they are not kept in alignment with current patterns.*

◉ *Without a method to update new information as it occurs, your expectations of the past will keep you there!*

◉ *Bar-by-Bar Analysis is a Pristine tool that keeps you in the present.*
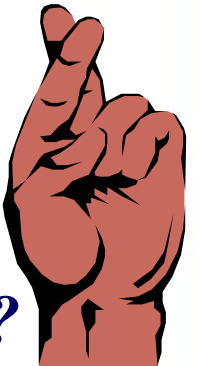
Candlestick Analysis

Each Candle Produces New Thoughts!

- *Where is the next O, H, L and C in relation to the prior candle?*

- *Once the current candle is complete, what does it communicate?*

- *Does it confirm or contradict the prior candle or candles' message?*

- *Did that candle break and/or close beyond a prior high or low?*

- *After each candle forms, ask yourself: "Is this confirmation of the prior bar or bars; is it weak or did it even negate it completely?"*
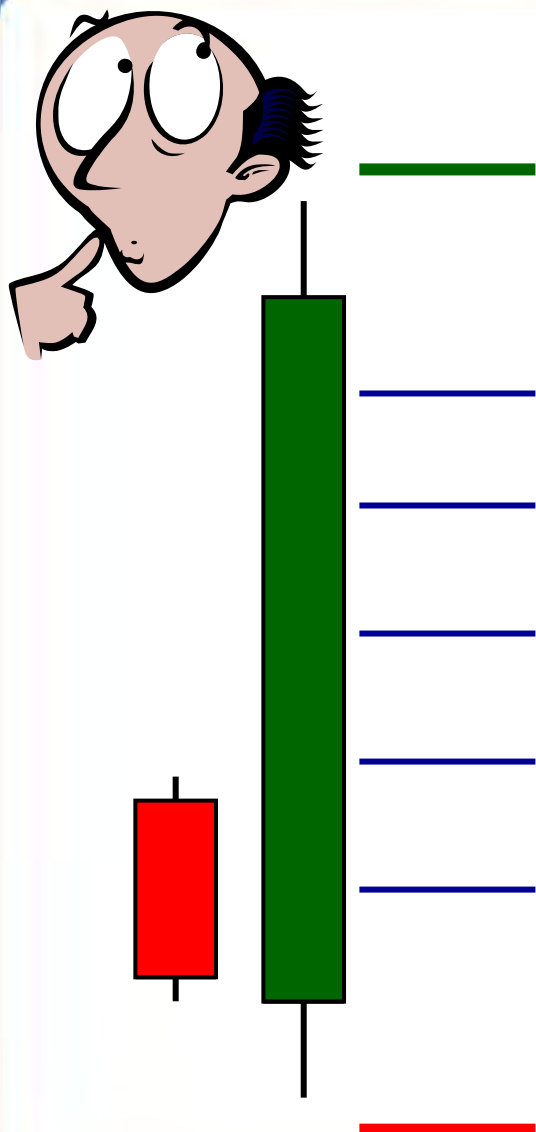
Candlestick Analysis

- *What does this two-bar pattern suggest?*

- *Where is support?*

- *Where is resistance?*

- *What are the expectations of traders?*

- *What would confirm those expectations?*

- *What would change those expectations?*

- *What would change those expectations to a lesser degree, but still affect them?*

Consider all of the marks to the right of the bar as the point where the next bar's opening price was.

What would the various points of opening suggest?

How would these various points of opening affect expectations?

Might any of the openings bring about an action by traders?

Candlestick Analysis

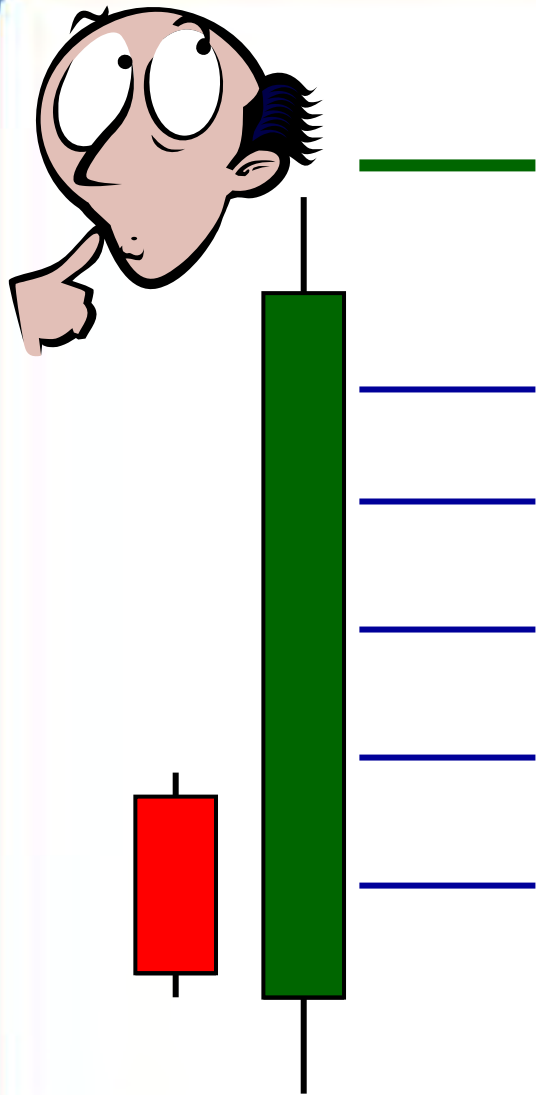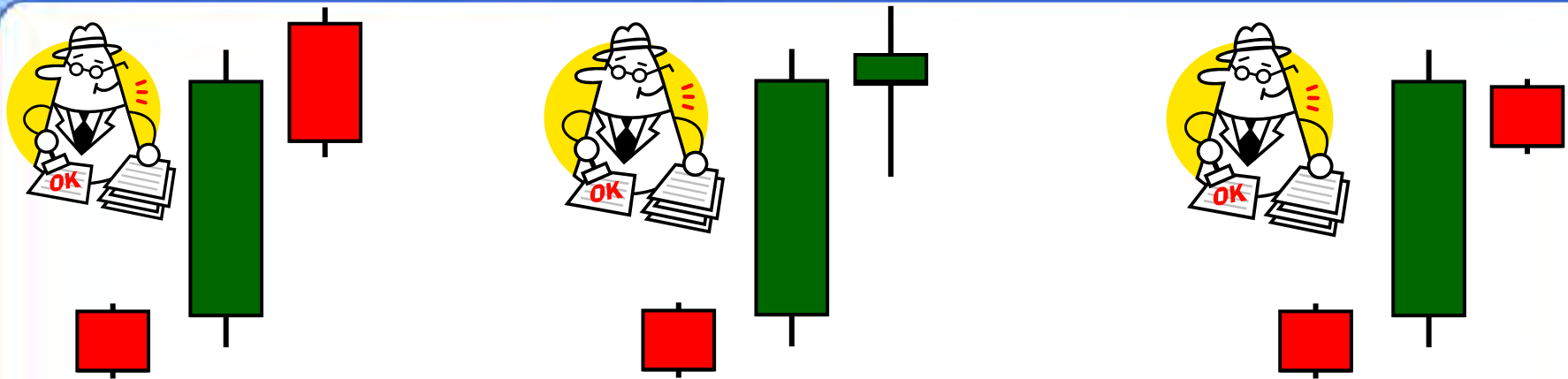🔵 *Now consider all of the marks to the right of the bar as the point where the next bar's closing price was.*

🔵 *What would the various points of closing suggest?*

🔵 *The stronger the close, the greater the odds of follow through (continuation).*

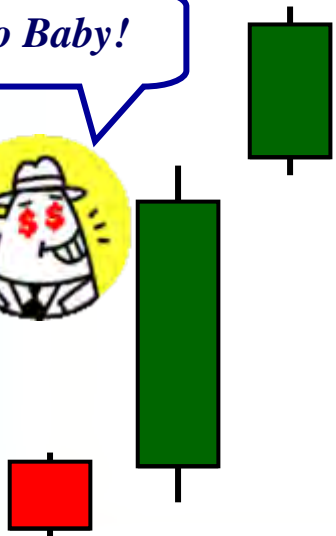🔵 *Can you see how different bars will "speak" to us without thinking about specific candle patterns and names?*
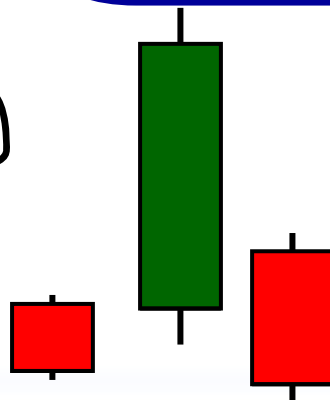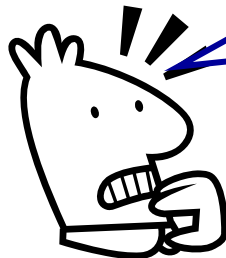
Candlestick Analysis

Can you see how various combinations of opens and closes "speak" to us about ours and others' expectations!

Go Baby!

It gapped down near the prior low and then closed under it!

It opened ok, but closed under the prior low, and at the low of the day!

Candlestick Analysis

Retest of prior high **TT**

B

+WRB

A
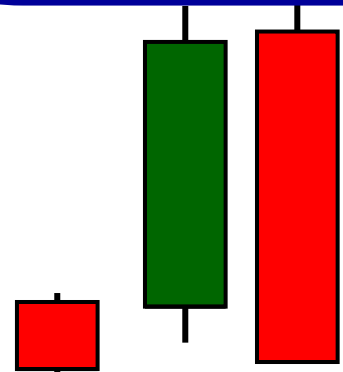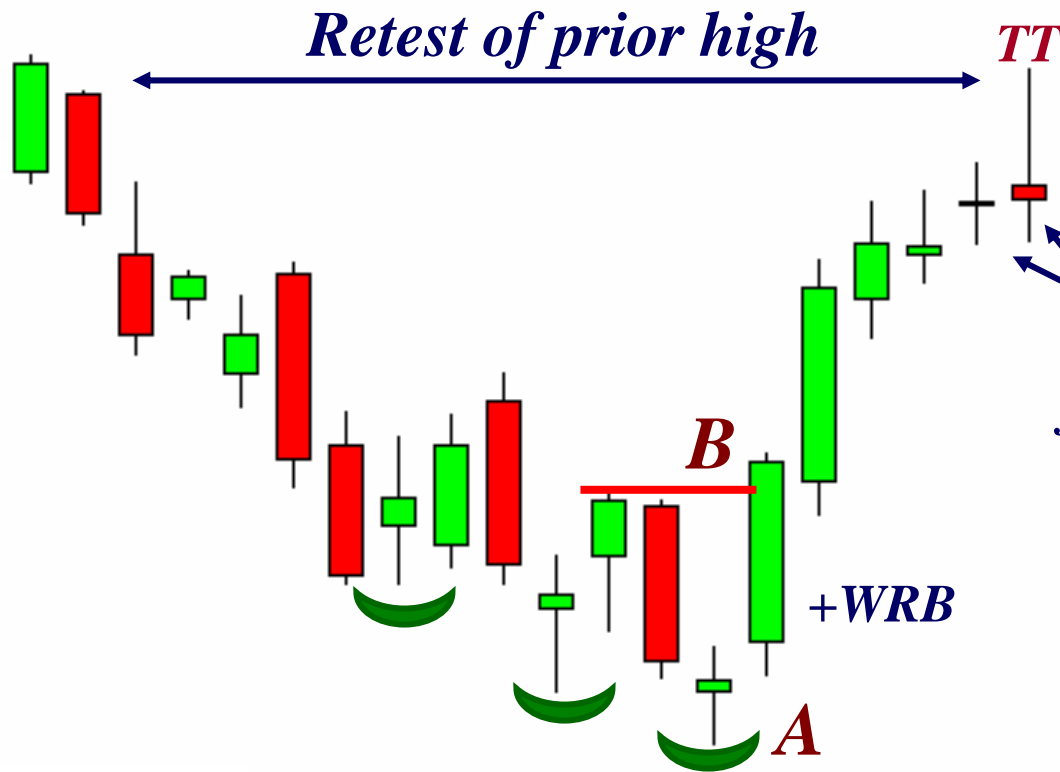
- *Momentum begins to slow in the area of the prior high.*

- *A Narrow Body (NB) was followed by a Topping Tail (TT) candle, but a prior low has not been overcome.*

- *The message is that price might move lower*

- *The third reversal at (A), was the most significant.*

- *It formed a +WRB candle (B) and closed above the prior highs.*

Candlestick Analysis

- *A Topping Tail (**TT**) alone is not a reason to take a short position, even with prior resistance.*

- *As you can see, a candle's message can be ignored completely!*

- *It was not confirmed by trading below the **TT** low either.*

TT

B

A

C
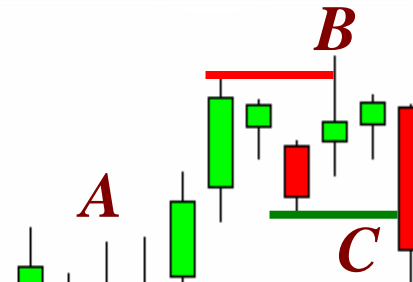
- *At **A**, momentum slows, but a prior bar's low is not overcome.*

- *At **B**, a move to a new high closed back inside the range with a NB = Weakness.*

- *At **C**, the first break and close below a prior pivot low occurs.*

The trend is sideways and may move lower, but we need more information.

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- *At **D**, the candle's close is just less than ½ way into the red bar. Mark the low after the next HL bar.*

- *At **E**, a Top Tail forms in the area of the prior failed new high at (**B**). This confirms the resistance at B.*

B

E

A

C

D

F

- *At **F**, a potent engulfing candle confirms resistance.*

- *The message is that selling is increasing, but there is no signal to trade.*

- *Let the candles guide your thoughts, not your wishes or fears.*

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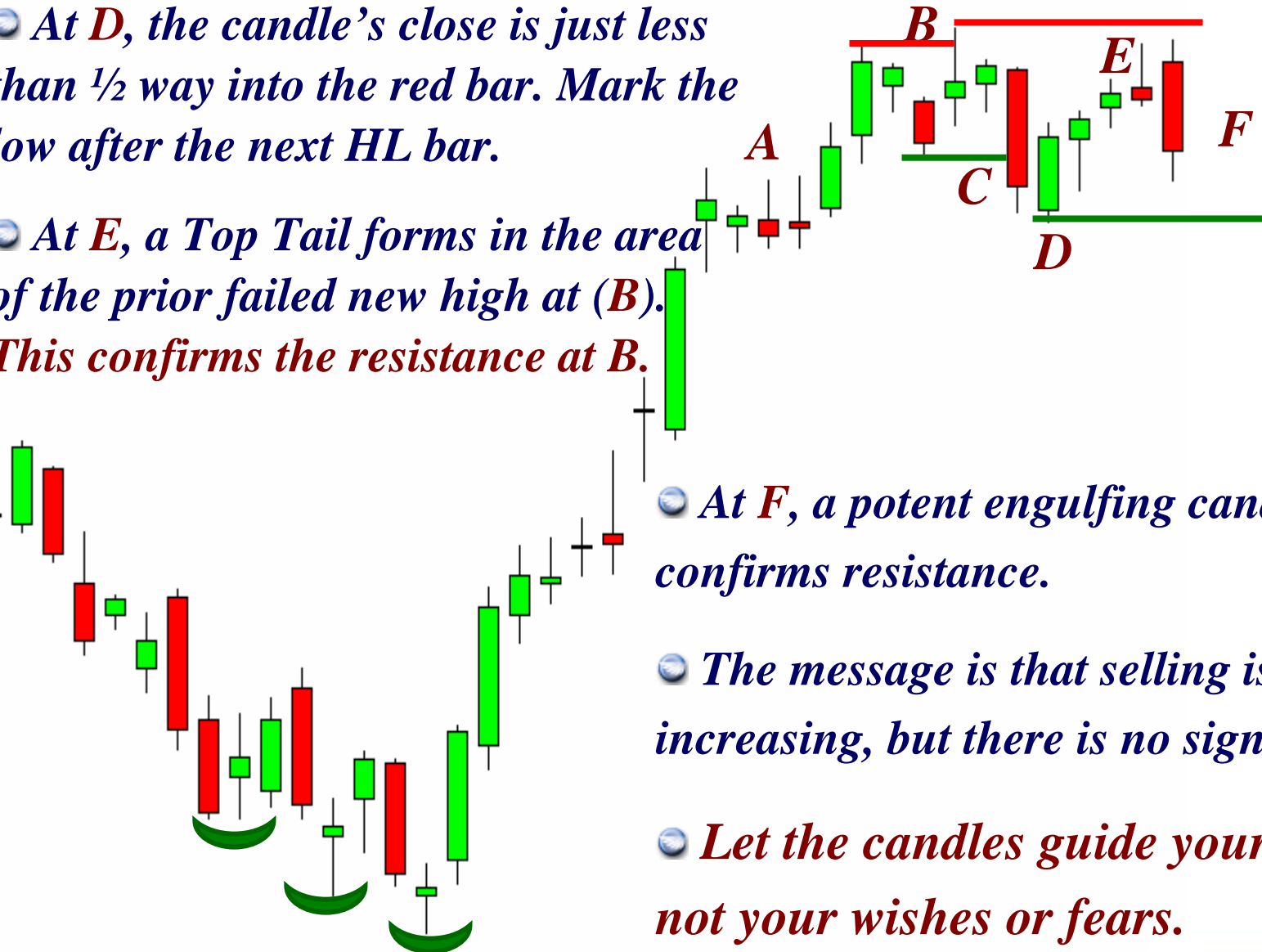
Candlestick Analysis

As You Look at a Candlestick Chart, Ask These Questions:

- *Where is the open in relation to the prior close?*

- *Where is the close in relation to the open and prior close?*

- *Are there tails? How long are they and what do they suggest?*

- *What was the depth of penetration into the prior candle body?*

- *Is momentum increasing or decreasing?*

- *Were your expectations validated or is there now uncertainty?*

- *Never think beyond the current candle.*

Volume and Multiple Time Frames

Candlestick Analysis

General Volume Principles

⦿ *An expansion in volume should be accompanied by an expansion in the candle body range.*

⦿ *An expansion in volume accompanied by a contraction in the candle body range may indicate a turning point.*

⦿ *Price movements with the trend ideally occur on increasing volume.*

⦿ *Price movements against the trend ideally occur on decreasing volume.*

⦿ *While these guidelines are the ideal, prices can move in the direction suggested by candles without the above volume criteria.*

Candlestick Analysis
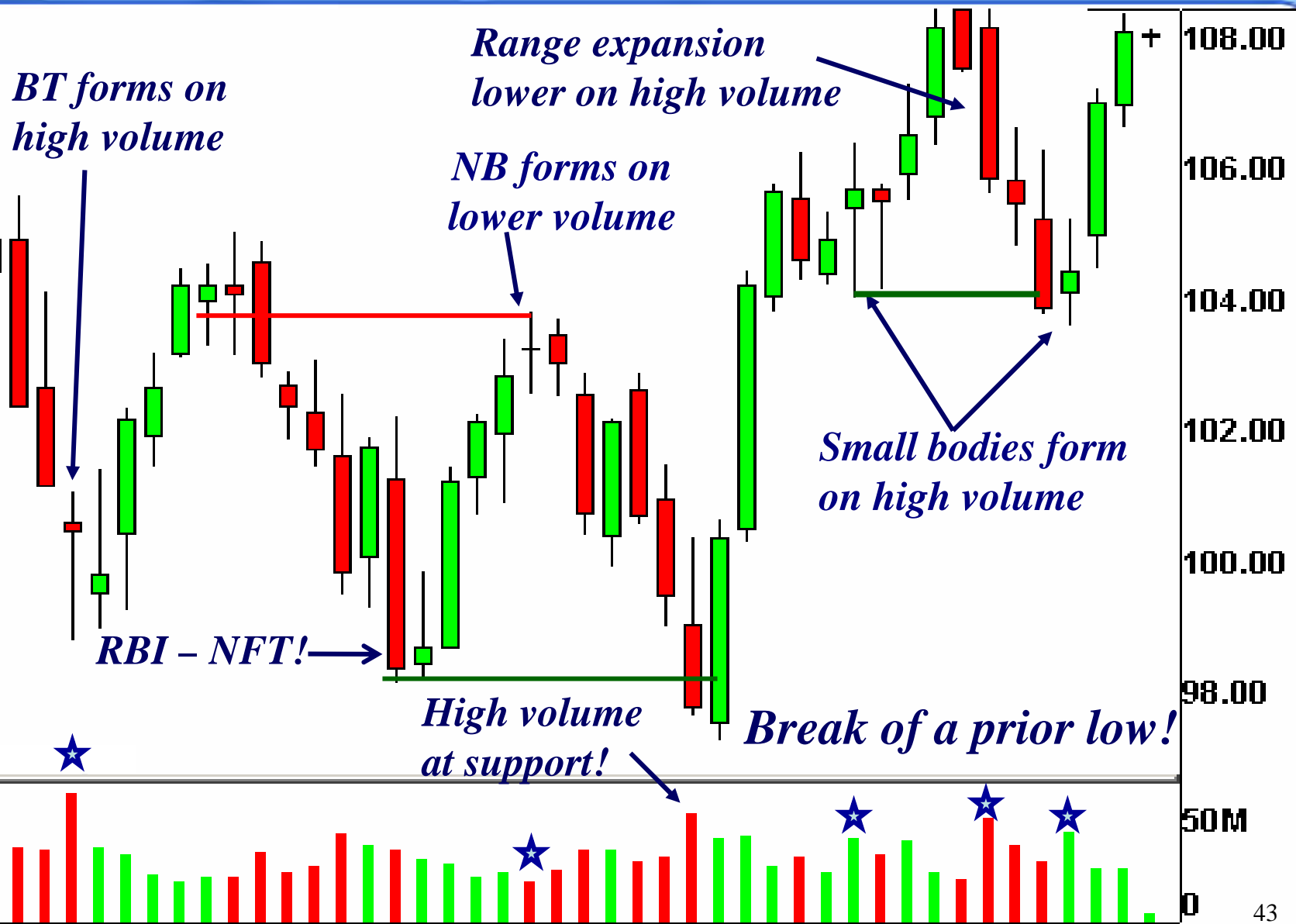
Candlestick Analysis

Volume can be a helpful addition, but price tells you what is happening and when to act.

Volume is secondary

Narrow Body (NB) on high volume

Potent reversal forms on higher volume

Potent reversal forms on high volume

Bottom Tail (BT) forms on high volume
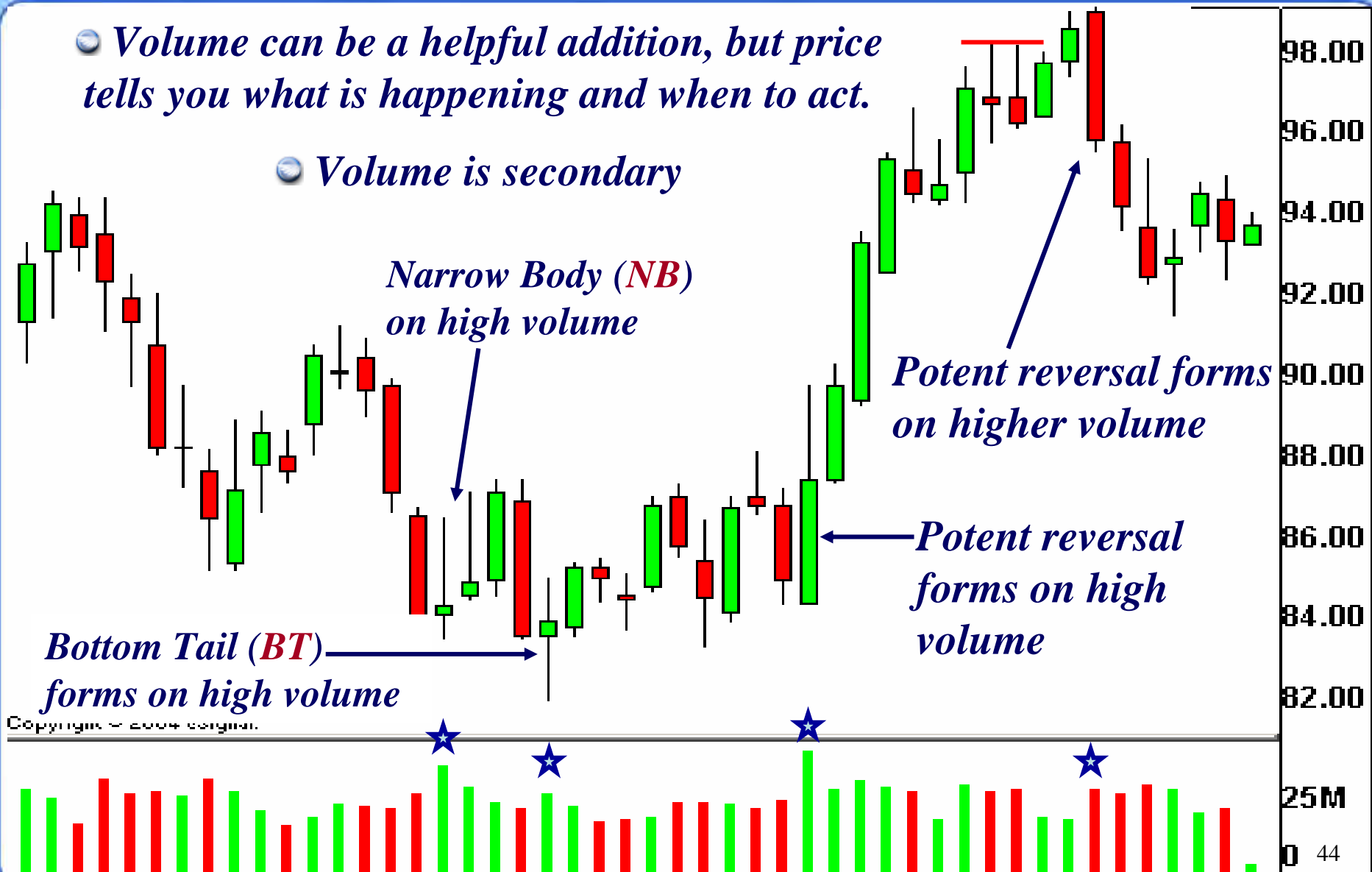
Candlestick Analysis

🔵 *Volume is secondary to price and is never a reason to enter a trade by itself.*

🔵 *If volume confirms price action, that is all well and good, but if price action changes from the prior signal, do not ignore it.*

🔵 *At times, volume may be an early indication of a trend change in price. Wait for that price change to occur before acting!*

🔵 *At times, price can and will make significant moves without the "ideal" volume characteristics.*

🔵 *Remember …. Price is king – everything else is secondary!*

Multiple Time Frames

Candlestick Analysis

- *Using too many time frames typically leads to confusion.*

- *Once you have formed a bias from a longer time frame and have candle confirmation in the shorter, place the trade.*

- *The time frame being used must be in alignment with your money management guidelines.*

- *Whatever the time frame you are using, the candle patterns are relevant, in that time. Do not second guess them.*

- *Changing time frames to stay in a trade is one of Pristine's Seven Deadly Sins; maybe the most deadly.*

- *There is no such thing as a perfect time frame!*

Candlestick Analysis

Narrow Body (NB) at resistance, while extended

A breakout results in a complete reversal that trades under support.

Traders are caught long

Daily

Intra-day

- **Develop your bias from the candle pattern on a longer time frame.**

- **Then move to the shorter.**

- **The candle patterns in both time frames are suggesting a pull back.**

- **Now assess the reward-to-risk.**

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Candlestick Analysis

A second TT candle forms that closes under the prior candle's low

Daily

- -WRB breakdown

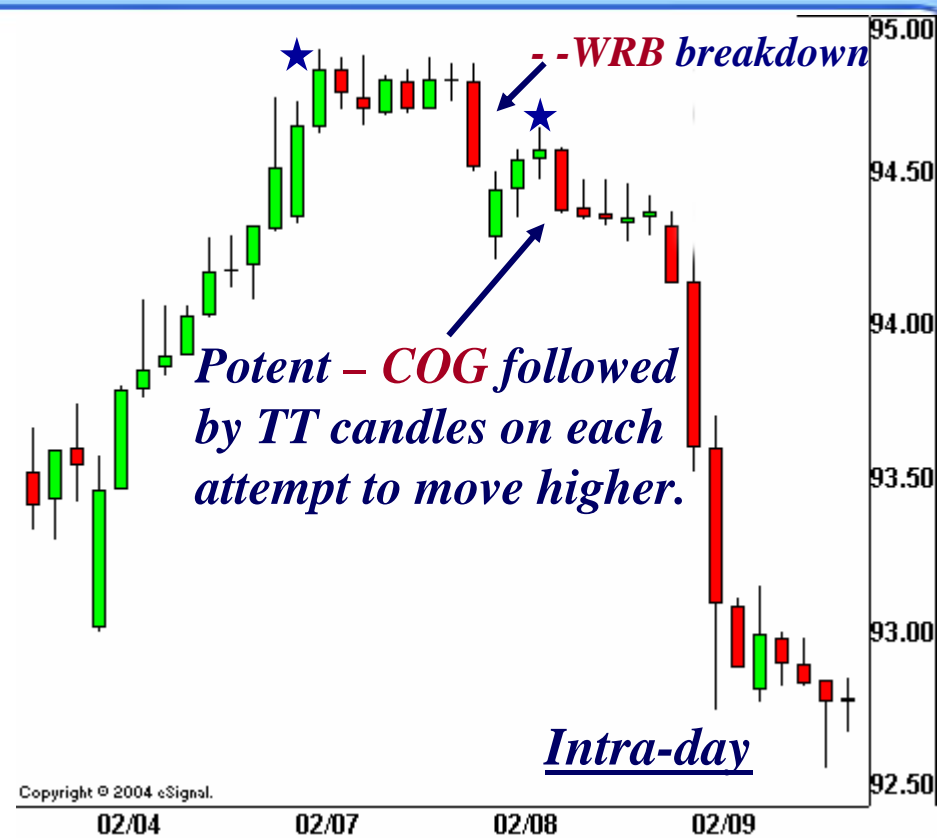*Potent – COG followed by TT candles on each attempt to move higher.*

Intra-day

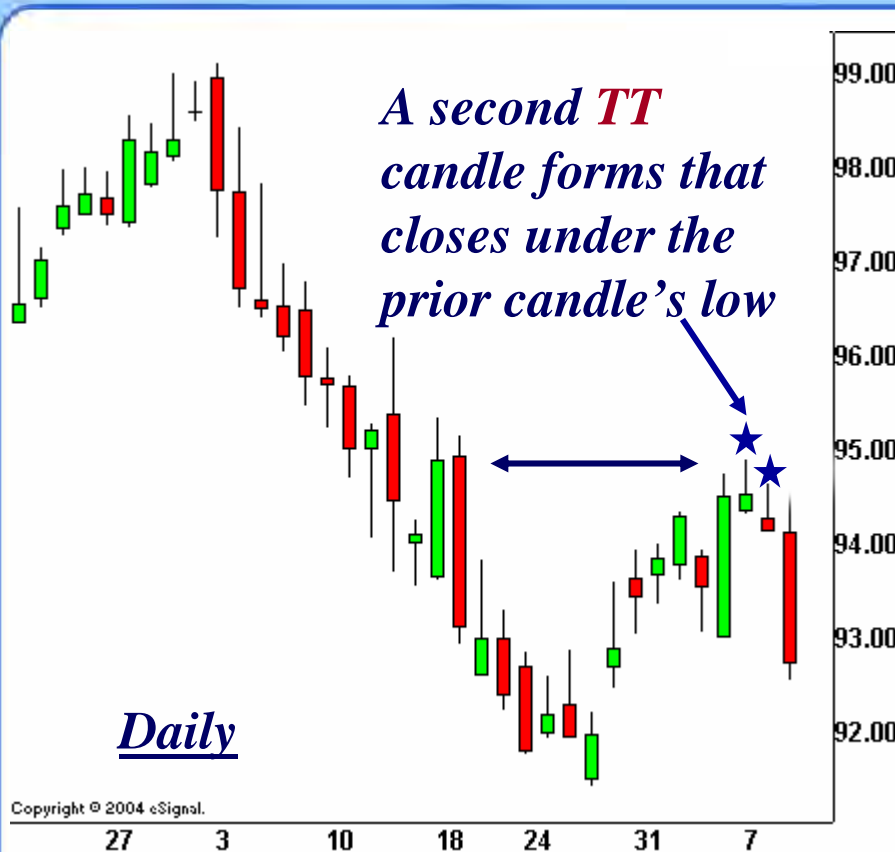⦿ *Develop your bias from the candle pattern on a longer time frame.*

⦿ *Then move to the shorter.*

⦿ *Do the candles in the intra-day time frame being viewed show a candle pattern that confirms the longer?*

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Candles in Action

We have covered many concepts from the basics of candles to an advanced method of monitoring bar-by-bar analysis.

Let's review some of those concepts together.

Candlestick Analysis

Traders got caught trying to play an oversold bounce!

Prices begin falling

Range Expands

+ COG

BT

Momentum slows

Retest and Potent Reversal

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Candlestick Analysis

TT & Potent Reversal

+COG

Range Expands,
Fear is increasing!

Range
Expanding BT!

Momentum Slows

Stops are taken out followed
by an immediate reversal!

NL!

The reversal bar closes near
the high of the red bar's body

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Candlestick Analysis

A NB (red TT), ⭐ *indicates slowing momentum after a multiple bar move*

⭐ *Retest and Reversal (R&R)*

Potent, Decisive Reversal Bar

Short under the low, stop above the high

-WRB after low volatility ignites the move lower

Short breakdown or under the low of the -WRB, stop above the high

Void

Void

Gap Fill

RE and Reversal

56500
56450
56400
56350
56300
56250
56200
56150
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56050
56000
55950

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15:00   15:30   16:00   09:30   10:00   10:30

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Concluding Comments

○ *Focus on the message of Candle Language, not the money.*

○ *If you focus on the money, odds are you will not see the patterns.*

○ *Once a pattern is complete and a position has been taken, monitor bar-by-bar. This will keep you objective and in the present.*

○ *Trading is not about predicting; it is about recognizing what is occurring in the moment, then accepting change as it happens.*

A Few Words On Indicators

⬤ *They are a derivative of price action, which cannot provide more accurate or timely information than price.*

⬤ *They are useful tools for computers to search price action.*

⬤ *If you can read the message communicated by candles in the moment, you will not need indicators.*

⬤ *If indicators take up more space on your chart than price, hopefully the education learned here will enable you to change.*

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In Closing

- *This DVD is a great start to understanding price action.*

- *If you have not taken a Pristine Seminar, consider it.*

- *Success in anything comes from education, then practice.*

- *Then focus on the development of **your** Trading Plan.*

- *We will be happy to assist you further in order to help you achieve the financial goals you have set for yourself.*