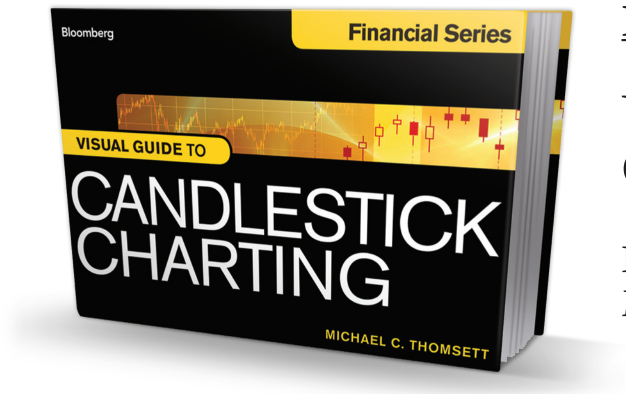

Excerpt from:

Visual Guide to Candlestick Charting

BY
Michael C. Thomsett

Chapter 3:
Candlesticks and Their Attributes

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CHAPTER 3

Candlesticks and Their Attributes

Candlestick attributes features and trend indicators found on every candlestick. The value to this form of charting is found in the fact that all pricing data for a session is easily identified at first glance and that viewing a series of sessions helps traders easily identify momentum, direction, and reversal.

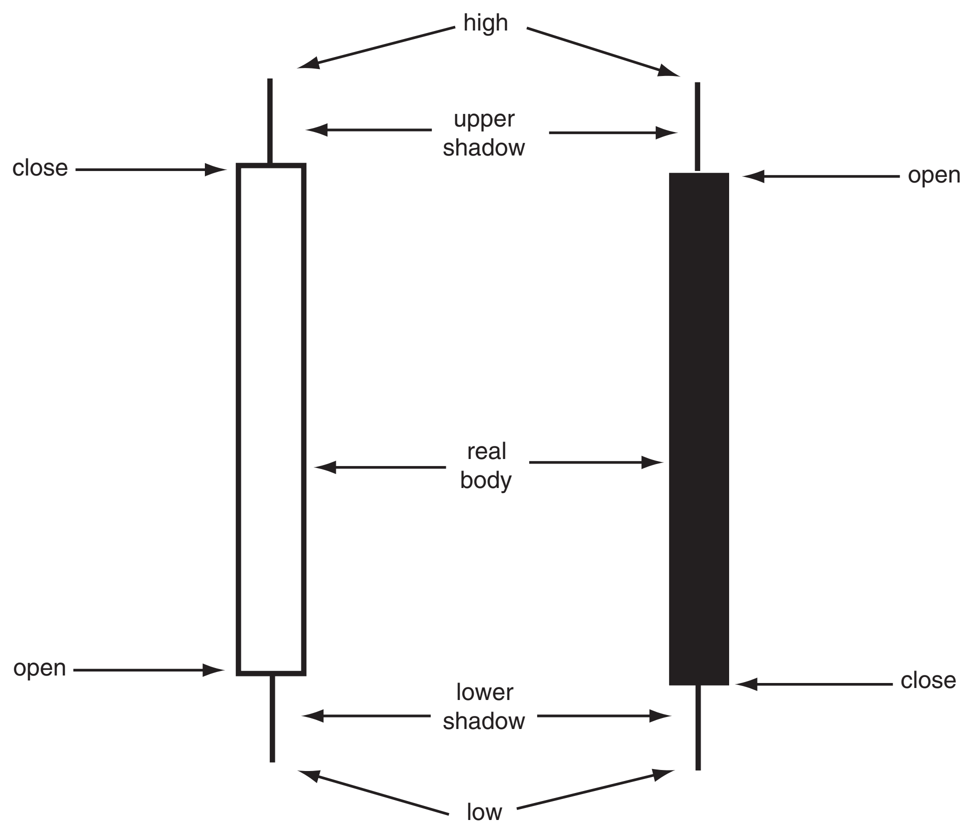
The attributes of every candlestick are defined in three areas:

1. **Opening and closing price.** Each session's opening and closing prices are found at the horizontal borders of the rectangular box for the session. The opening price is at the bottom of a white candlestick or at the top of a black candlestick. The closing price is at the top of a white candlestick or at the bottom of a black candlestick. The rectangular box is called the real body. When the opening and closing price are identical or very close, the real body is replaced by a horizontal line. This type of formation is among the most revealing of candlestick sessions and is called a doji (in Japanese, "doji" means "mistake").
2. **Trading range from high to low.** The full trading range for each session is represented by the upper and lower extensions from the real body. These are called the upper shadow and lower shadow (also called tails or wicks). The complete lack of shadow has significance in many candlestick formations, and an exceptionally long shadow also reveals failed momentum by buyers (long upper shadow) or sellers (long lower shadow), signaling potential reversal of the existing trend.
3. **Direction of movement.** One of the most powerful visual attributes of candlestick charting is the ability to immediately see the overall direction that price is moving. While line charts and OHLC charts reveal direction through the shape and duration of each session, the candlestick short-term trend is easily spotted. A white candlestick reveals that the session moved upward, and a black candlestick reveals a downward-moving session.

KEY POINT:

Every candlestick provides price information in three major areas: opening and closing prices, trading range, and direction.

candlestick attributes

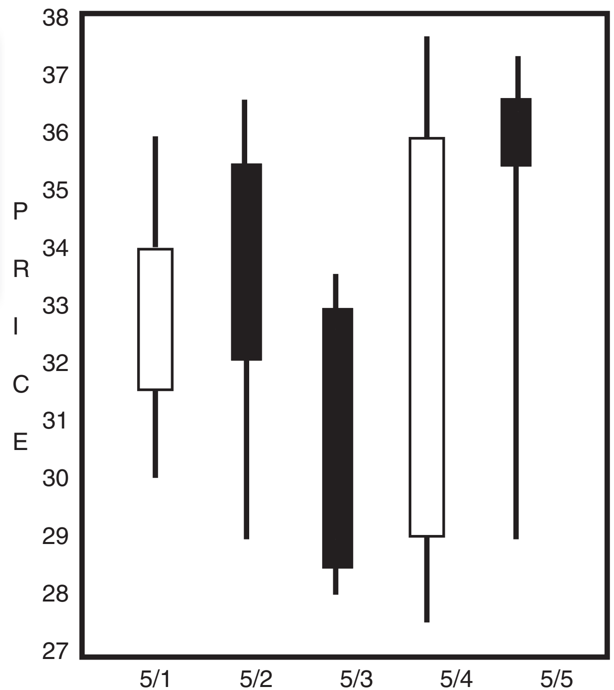


A candlestick chart for five sessions requires the following values:

	opening prices	closing prices	daily high	daily low
5/1	$31.75	$34.00	$36.00	$30.00
5/2	$35.50	32.15	36.50	29.00
5/3	$33.00	28.50	33.50	28.00
5/4	$29.25	36.00	37.75	27.50
5/5	$36.75	35.50	37.50	29.00

The attributes of candlesticks include the opening and closing prices, the high and low for the session, and the direction (white for upward sessions and black for downward sessions). A candlestick chart for these is as follows:

the candlestick chart



DEFINITION:
Marubozu

"Marubozu" is a Japanese word meaning "little hair." This is a long candlestick with little or no upper or lower shadow. As significant as a long candlestick is, the marubozu is exceptionally revealing; the lack of shadows identifies momentum and control on one side or the other.

DEFINITION:
Doji

The doji (Japanese for "mistake") is a session in which opening and closing prices are identical or very close.

KEY POINT:

Doji significance (like marubozu significance) is a relative matter based on price levels of the stock. For example, a one-point move in an $80 stock is a 1.25 percent change, but the same one-point change in a $10 stock is a 10 percent move.

The Importance of Long Candlesticks

Beyond the revealing attributes of the candlestick's color and extensions, its shape and size is equally important. The longer the real body, the more struggle there is between buyers and sellers. So long candlesticks often signal continuation or reversal. When the long body appears in the same direction as the existing trend (white in uptrends or black in downtrends) it indicates continuation. When the long session is opposite, it often serves as a signal of reversal, either by itself or as part of a multisession reversal indicator. This is especially true when the long session also marks or touches resistance or support, or when price breaks through those levels and then retreats.

One form of the long candlestick is the **marubozu**, which has little or no upper or lower shadow. The lack of extension above or below the session's open or close indicates exceptional strength in the direction the long session moves. This reveals which side (buyers or sellers) are in control of price movement and which side manages the momentum in price.

Although shorter than average candlesticks signal less volatility and even consolidation—a form of "agreement" between buyers and sellers, a very narrow range (doji) session can signal more volatility.

The Opposite: The Extremely Narrow-Range Session

As important as long candlesticks are in identifying momentum and control issues between buyers and sellers, a different kind of importance is attached to very short sessions. The **doji** session is one in which the real body is so narrow that it consists only of a horizontal line (identical price or very thin range between high and low).

Swing traders look for the narrow-range day (NRD) as an important turning point in a short-term trend. Candlestick terminology is different, but analysis recognizes the same significance. The doji is the candlestick name for the NRD.

The upper and lower shadows on doji sessions vary and provide different signals, based not only on the size of the shadow but also on where the doji appears in the current short-term trend. A doji might look like a cross (with both upper and lower shadows) or contain upper shadows only or lower shadows only. The most important attribute of the doji is that it indicates a very tight struggle between buyers and sellers. The fact that neither side was able to move price off the open during the session is revealing to the analyst; the more shadow movement occurring within the session, the more important the doji becomes in how the current trend has to be interpreted.

The meaning of candlestick breadth varies in importance based on sessions surrounding the change. For example, when a doji is found after a period of very low volatility, it probably does not contain a lot of meaning. However, when it follows a very volatile period of long candlestick sessions, price gaps, and tests of resistance or support, a doji has greater meaning, especially if one or both of its shadows are also long.

Attributes Missing in Candlestick Analysis

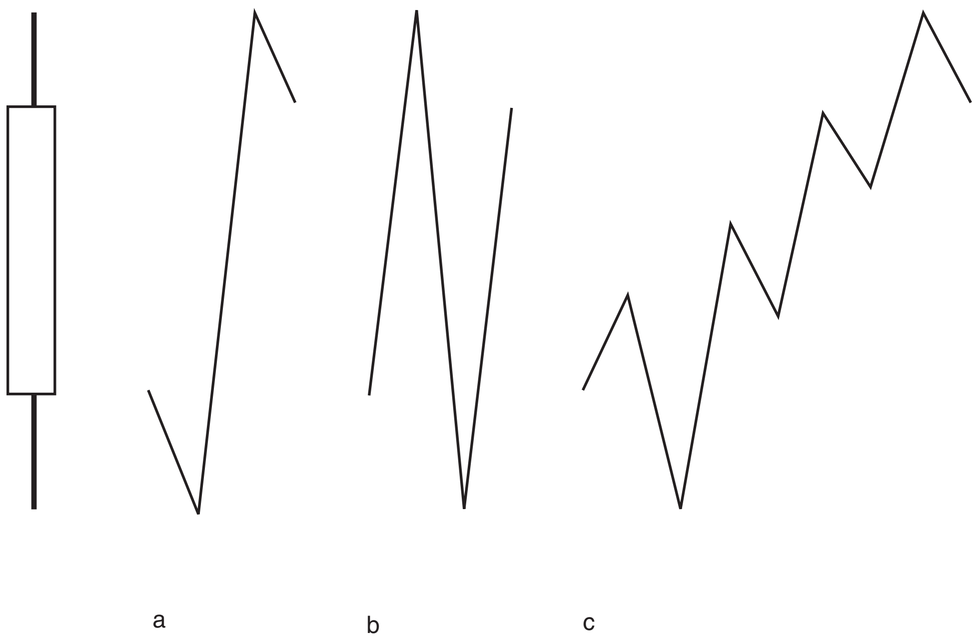
No form of charting is perfect and, like all types of charts, candlestick charts have flaws. To truly understand how a session's price action has developed and what it reveals, the sequence of events has to be tracked throughout the session. Candlesticks show the range between open and close, and the distance between high and low, but they do not reveal the sequence in which that occurs.

This is why chartists like to compare daily candlesticks to charts with higher frequency duration, such as one-hour or 20-minute charts. These more-frequent-duration charts track the sequence of price history throughout the session, revealing more price action and improving entry and exit timing.

KEY POINT:

A daily session is summarized by a candlestick, but this does not disclose the sequence of price change during the day. For that you need shorter-duration charts, because sequence can be as revealing as open, close, high, and low prices.

sequence variations



KEY POINT:

Many possible sequencing variations are possible. Studying a full day's sequence is likely to affect a trader's opinion about momentum, volatility, and overall trend strength.

A session's change can take many forms. This is demonstrated in the preceding figure. The candlestick chart reveals an upward-moving session with moderate upper and lower shadows, but that is the extent of what it discloses.

In variation a, the session price falls to the low of the day, moves to the high, and retreats to the close.

In variation b, the price moves first to the high, retreats to the low, and then rises to the closing price.

In the final variation, c, the price moves upward and downward in a series of exchanges that reveal a more robust struggle between buyers and sellers.

With these three examples of possible sequencing of price during the day (and keeping in mind that many more variations are also possible), it is clear that the daily session's summary does not reveal all that a trader might need to know. The solution to the problem of hidden sequencing is to combine daily session analysis with intraday charts of varying duration. This enables the trader to see how quickly price levels change and how much volatility is taking place, factors that are likely to be invisible in the candlestick summarizing the entire day's trading.

BEIJING
+86 10 6649 7500

FRANKFURT
+49 69 9204 1210

LONDON
+44 20 7330 7500

NEW YORK
+1 212 318 2000

SÃO PAULO
+55 11 3048 4500

SYDNEY
+61 2 9777 8600

DUBAI
+971 4 364 1000

HONG KONG
+852 2977 6000

MUMBAI
+91 22 6120 3600

SAN FRANCISCO
+1 415 912 2960

SINGAPORE
+65 6212 1000

TOKYO
+81 3 3201 8900