Candlesticks and Support

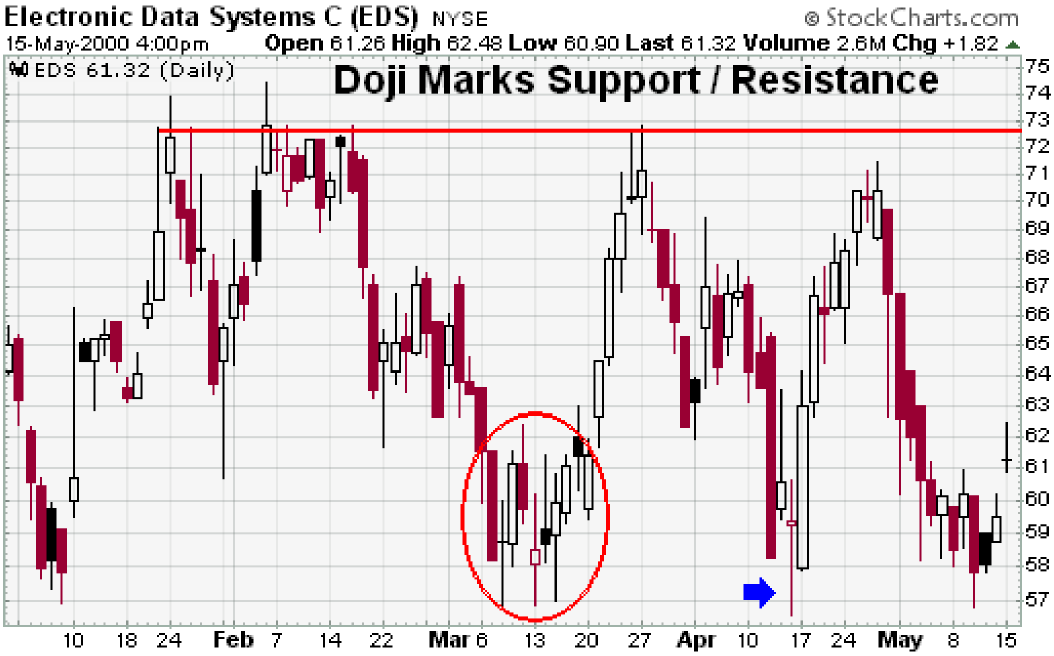
Single candlesticks and candlestick patterns can be used to confirm or mark support levels. Such a support level could be new after an extended decline or confirm a previous support level within a trading range. In a trading range, candlesticks can help choose entry points for buying near support and selling near resistance. The list below contains some, but not all, of the candlesticks and candlestick patterns that can be used together with support levels. The bullish reversal patterns are marked (R).

- Bullish Engulfing (R)
- Bullish Harami (R)
- Doji (Normal, Long Legged, Dragonfly)
- Hammer (R)
- Inverted Hammer (R)
- Long White candlestick or White Marubozu
- Morning Star or Bullish Abandoned Baby (R)
- Piercing Pattern (R)
- Spinning Top
- Three White Soldiers (R)

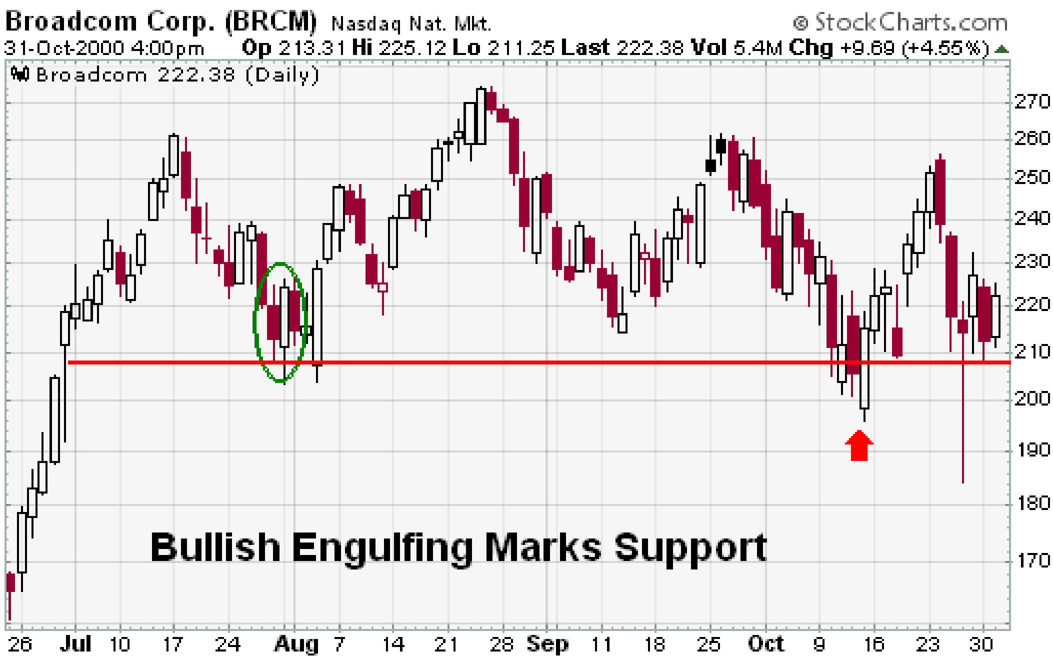
Bullish reversal candlesticks and patterns suggest that early selling pressure was overcome and buying pressure emerged for a strong finish. Such bullish price action indicates strong demand and that support may be found.

The inverted hammer, long white candlestick, and marubozu show increased buying pressure rather than an actual price reversal. With its long upper shadow, an inverted hammer signifies intra-session buying interest that faded by the finish. Even though the security finished well below its high, the ability of buyers to push prices higher during the session is bullish. The long white candlestick and white marubozu signify sustained buying pressure in which prices advanced sharply from open to close. Signs of increased buying pressure bode well for support.

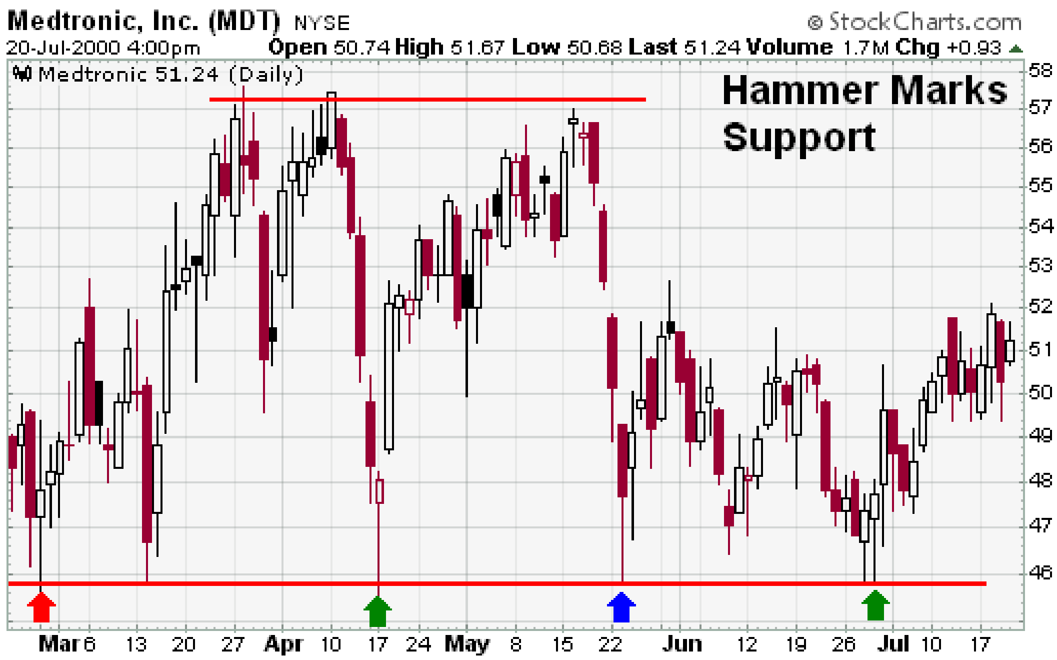
The doji and spinning top denote indecision and are generally considered neutral. These non-reversal patterns indicate a decrease in selling pressure, but not necessarily a revival of buying pressure. After a decline, the appearance of a doji or spinning top denotes a sudden letup in selling pressure. A stand-off has developed between buyers and sellers, and a support level may form.



Electronic Data Systems (EDS) traded in a range bound by 58 and 75 for about 4 months at the beginning of 2000. Support at 58 was first established in early January and resistance at 75 in late January. The stock declined to its previous support level in early March, formed a long-legged doji and later a spinning top (red circle). Notice that the doji formed immediately after a long black Marubozu (long black candlestick without upper or lower shadows). This doji marked a sudden decrease in relative selling pressure and support held. Support was tested again in April and this test was also marked by a long-legged doji (blue arrow).



Broadcom (BRCM) formed a bullish engulfing pattern to mark a new support level just below 210 (green oval) in late July 2000. A few days later a long white candlestick formed and engulfed the previous 4 candlesticks. The combination of the bullish engulfing and long white candlestick served to reinforce the validity of support around 208. The stock has since tested support around 208 once in early September and twice in October. A piercing pattern (red arrow) formed in early October and a large hammer in late October.



Medtronic (MDT) established support around 46 in late February with a spinning top (red arrow) and early March with a harami. The stock declined sharply in April and formed a hammer to confirm support at 46 (1st green arrow). After a reaction rally to resistance around 57, the stock declined sharply and again found support around 46 (blue arrow).

Additional Reading

- You may also be interested in our next article on Candlesticks and Resistance.
- Reference Tool: Candlestick Pattern Dictionary