

CandleVolume [ChartSchool]



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Table of Contents

- [CandleVolume](#)

CandleVolume

Introduction

As its name implies, CandleVolume charts merge volume into candlesticks. This allows chartists to analyze both price action and volume with one look at the price chart.

CandleVolume charts are similar to [Equivolume charts](#), but offer more information because candlesticks are used instead of high-low boxes. This means chartists can see the open and close for each period, as well as the high and the low. CandleVolume charts can be used just like normal charts. Chartists can look for candlestick patterns as well as classical chart patterns, such as triangles and wedges, to generate signals.

Calculation

A CandleVolume candlestick consists of five components: open, high, low, close and volume. As with [normal candlesticks](#), the open and close form the body of the candlestick, while the high and low form the upper and lower shadows. Volume determines the width of the candlestick. Wide candlesticks form when volume is high, while narrow candlesticks form when volume is low. The example below shows basic black and white (filled and hollow) candlesticks based on CandleVolume. Wide and hollow candlesticks form when the close is well above the open and volume is high. Wide and filled candlesticks form when the close is well below the open and volume is high. Narrow candlesticks form when volume is relatively low.

FDX FedEx Corp. NYSE

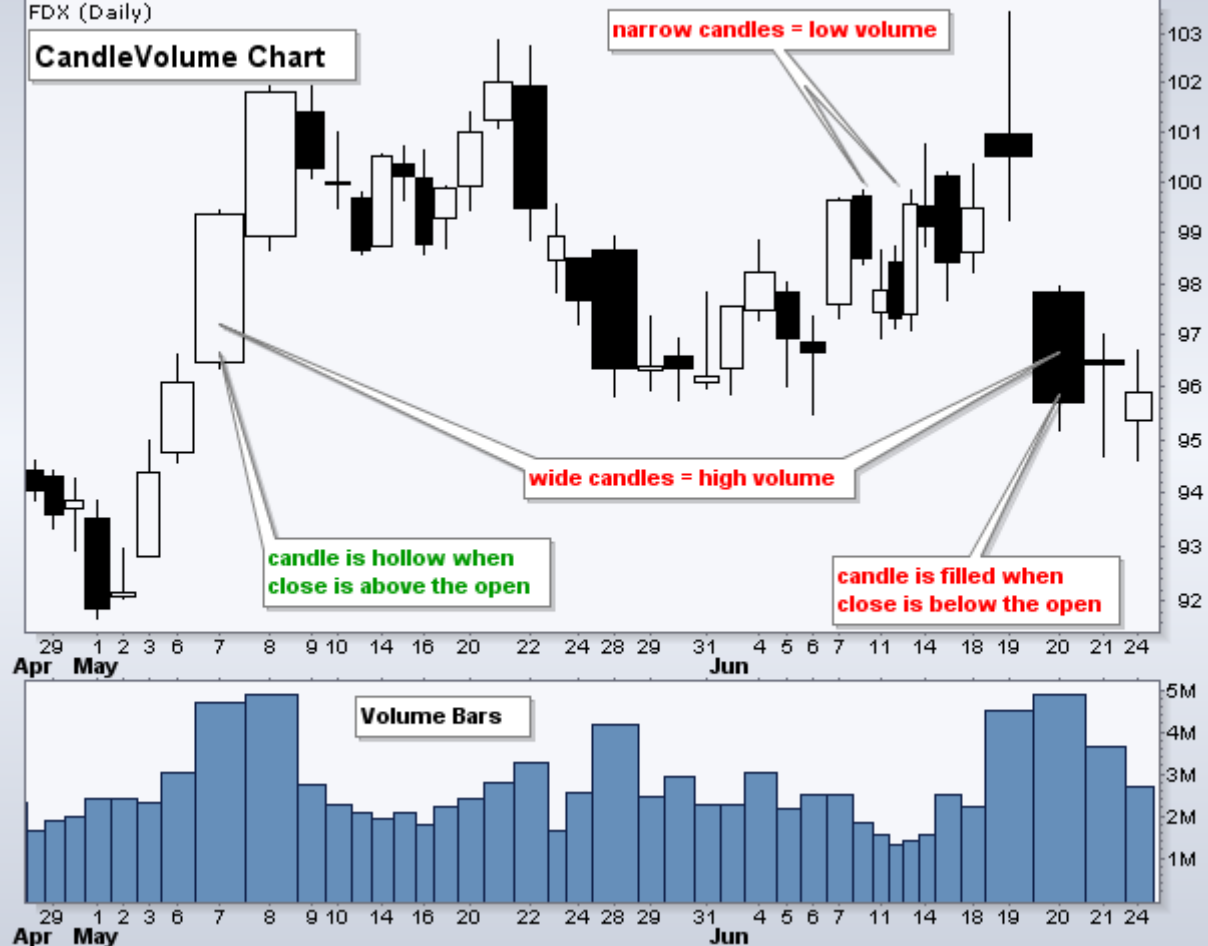
24-Jun-2013

Open 95.37 High 96.70 Low 94.60 Last 95.90 Volume 2.7M Chg -0.56 (-0.58%)

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FDX (Daily)

CandleVolume Chart



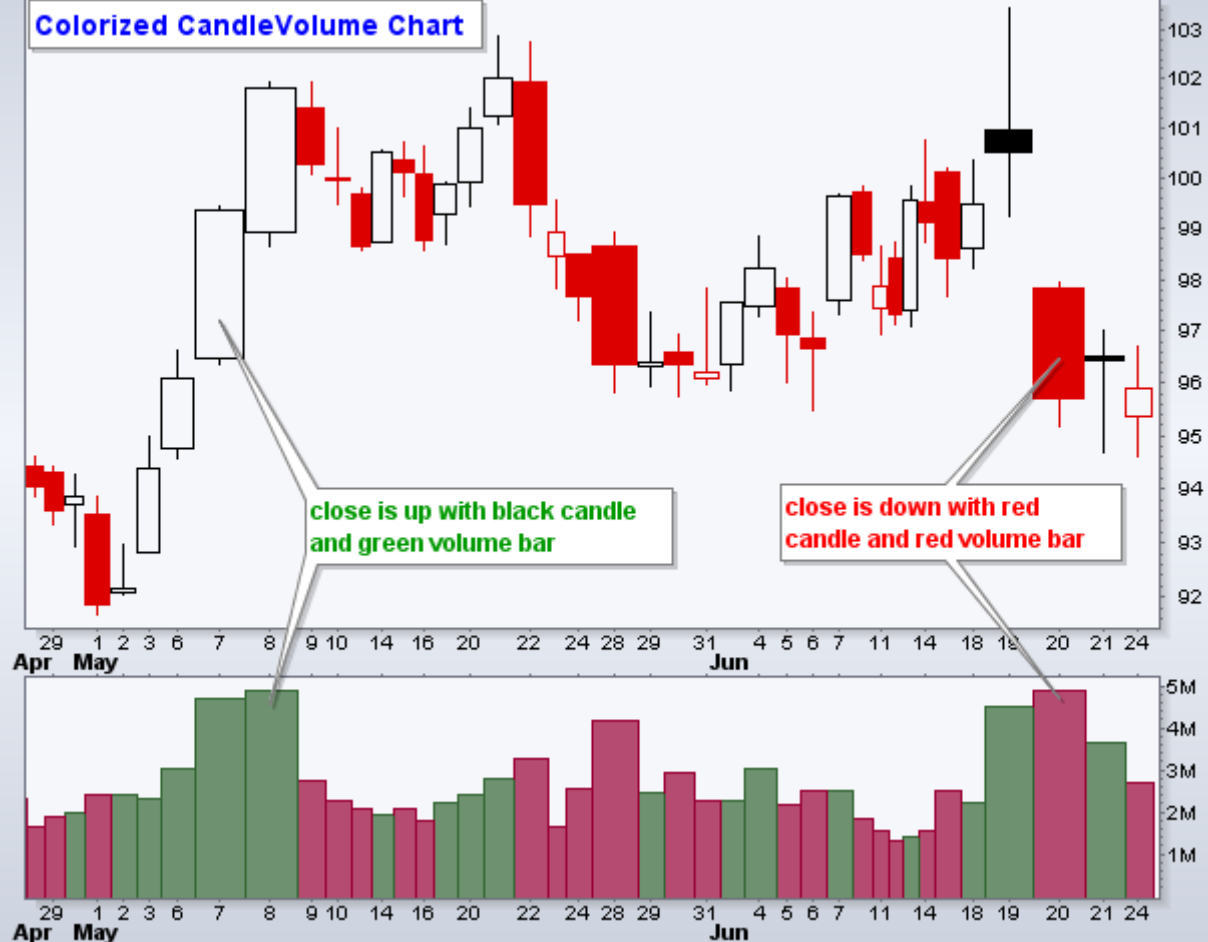
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Colorized CandleVolume Chart



Chartists can also colorize candlesticks and volume bars to identify up periods and down periods. The second chart shows a colorized version of the same stock (FDX) over the same period. Just below the chart, in the Chart Attributes section, chartists can check the “Color Prices” box and “Color Volume” box to colorize. A hollow candlestick still means the close was above the open, and a filled candlestick means the close was below the open. The red candlestick means the close was below the prior close, while a black candlestick means the close was above the prior close. The same applies to the red and green volume bars.

When calculating CandleVolume charts, note that volume is normalized to show it as a percentage of the look-back period. For a four month daily chart, each day's volume would be divided by total volume for the look-back period (four months). As such, the width of each box represents the percentage of total volume for the look-back period. Big volume days take up more space on the X-axis (horizontal) than low volume days. With varying width, this means the date axis is usually not uniform on CandleVolume charts. Some weeks will extend longer because of wide candlesticks, while others will be shorter because of narrow candlesticks. The first chart below shows Pfizer (PFE) with normal candlesticks and a normal X-axis. The second chart shows how CandleVolume changes the X-axis because volume was much higher in June than in prior months.

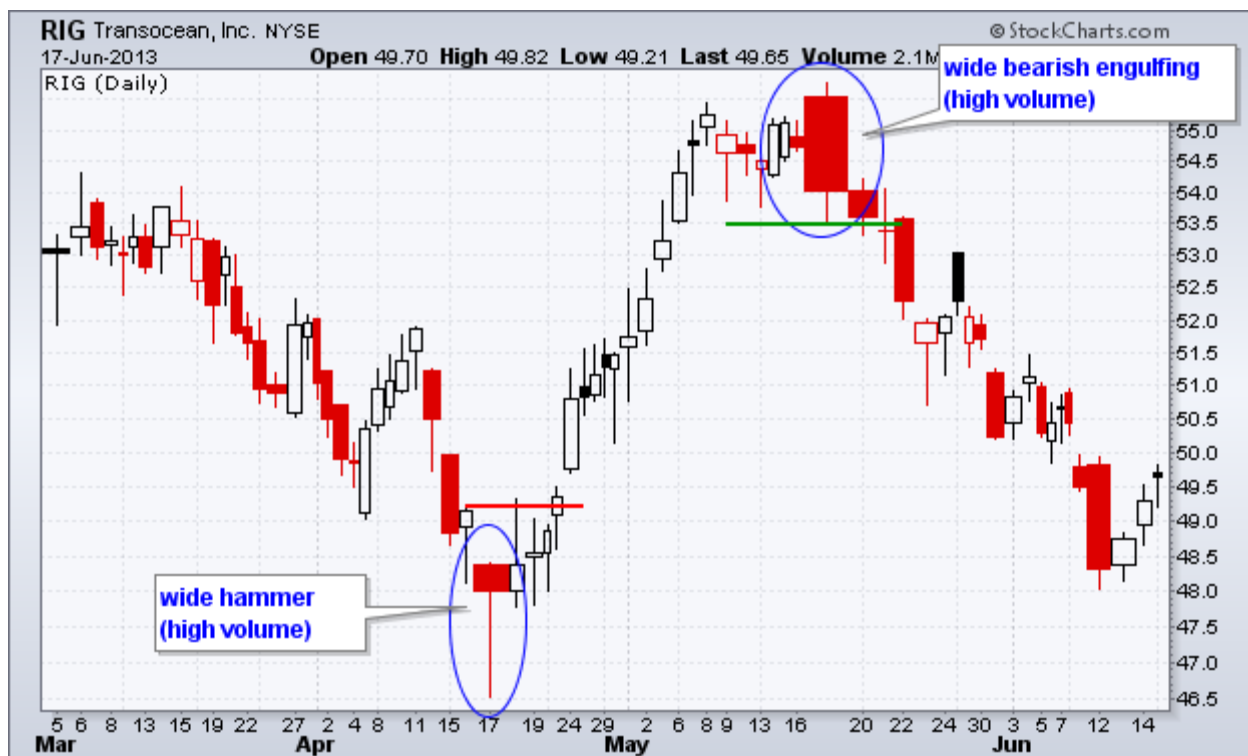
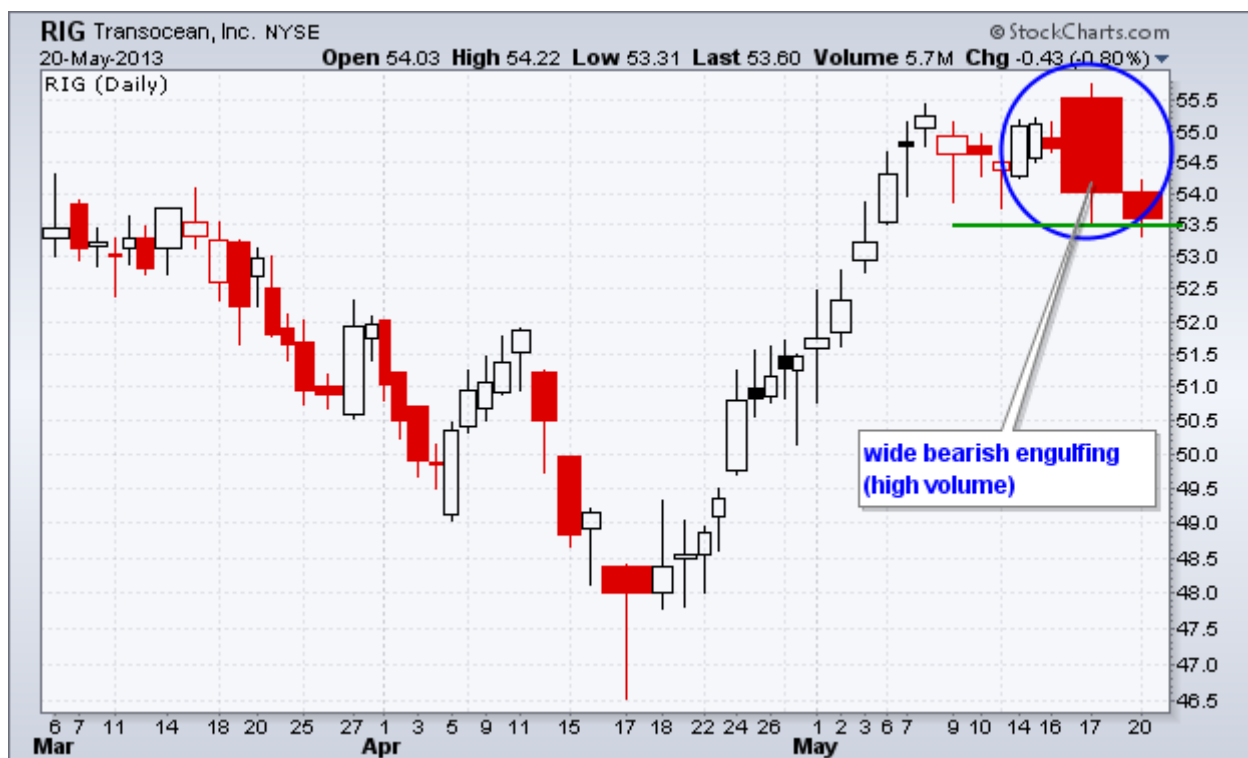




Candlestick Reversals

CandleVolume charts can be used to validate candlestick reversal patterns. A candlestick reversal pattern on high volume carries more weight than a candlestick reversal pattern on low volume. The first chart below shows Transocean (RIG) forming a wide hammer in mid-April. The second chart shows RIG forming a wide bearish engulfing in mid-May. The third chart shows price action after these patterns.





Breakout Validation

Volume is an important part of chart analysis, especially for validating support and resistance breaks. An upside breakout on high volume is more bullish than a breakout on low volume because volume is fuel. An upside breakout on high volume shows strong demand that is less likely to fade away. The chart below shows Google (GOOG) with a CandleVolume chart ending on April 19th. Notice how the stock broke above resistance with a wide hollow candlestick. This shows high volume (strong demand) on the breakout. The second chart shows what happened next. Not all setups work out this well but CandleVolume can help separate the pretenders from the contenders.



Conclusions

CandleVolume charts put price action and volume together for easy visual analysis. Because these candlesticks share the same features as normal candlesticks, chartists can use them to validate candlestick patterns. CandleVolume charts can also be used to affirm a support test or validate a resistance level. A bounce off support with a wide candlestick is stronger than a bounce with a narrow candlestick. The same is true for a decline from resistance. Basically, almost anything done on normal candlestick charts can be applied to CandleVolume charts. [Click here](#) for a live CandleVolume chart.

CandleVolume and SharpCharts

SharpCharts users can find CandleVolume under “**Chart Attributes**” and “Type”. There is also a volume option directly underneath. Users can choose to have volume off, separate or as an overlay. Volume can also be skipped (off) because it is reflected right on the CandleVolume chart. The example below also shows the check boxes for selecting “Color Prices” and “Color Volume”.



Further Study