

Candlesticks and Resistance

 stockcharts.com/school/doku.php

Single candlesticks and candlestick patterns can be used to confirm or mark resistance levels. Such a resistance level could be new after an extended advance, or an existing resistance level confirmed within a trading range. In a trading range, candlesticks can help identify entry points to sell near resistance or buy near support. The list below contains some, but not all, of the candlesticks and candlestick patterns that can be used to identify or confirm resistance levels. The bearish reversal patterns are marked (R).

- Bearish Engulfing (R)
- Bearish Harami (R)
- Dark Cloud Cover (R)
- Doji (Normal, Long Legged, Gravestone)
- Evening Star or Bearish Abandoned Baby (R)
- Hanging Man (R)
- Long Black Candlestick or Black Marubozu
- Shooting Star (R)
- Spinning Top
- Three Black Crows (R)

Bearish reversal candlesticks and patterns suggest that buying pressure was suddenly overturned and selling pressure prevailed. Such a quick reversal of fortune indicates overhead supply and a resistance level may form.

The hanging man, long black candlestick, and black marubozu signify increased selling pressure rather than an actual reversal. After an advance, the hanging man's long lower shadow indicates intra-session selling pressure that was overcome by the end of the session. Even though the security finished above its low, the ability of sellers to drive prices lower raises a yellow flag. The long black candlestick and black marubozu signify sustained selling pressure that moved prices significantly lower from beginning to end. Such intense selling pressure signals weakness among buyers and a resistance level may be established.

The doji and spinning top show indecision and are generally considered neutral. These non-reversal patterns indicate decreased buying pressure, but no noticeable increase in selling pressure. For an advance to continue, new buyers must be willing to pay higher prices. As noted by the spinning top and doji, a standoff shows lack of conviction among buyers and a possible resistance level.

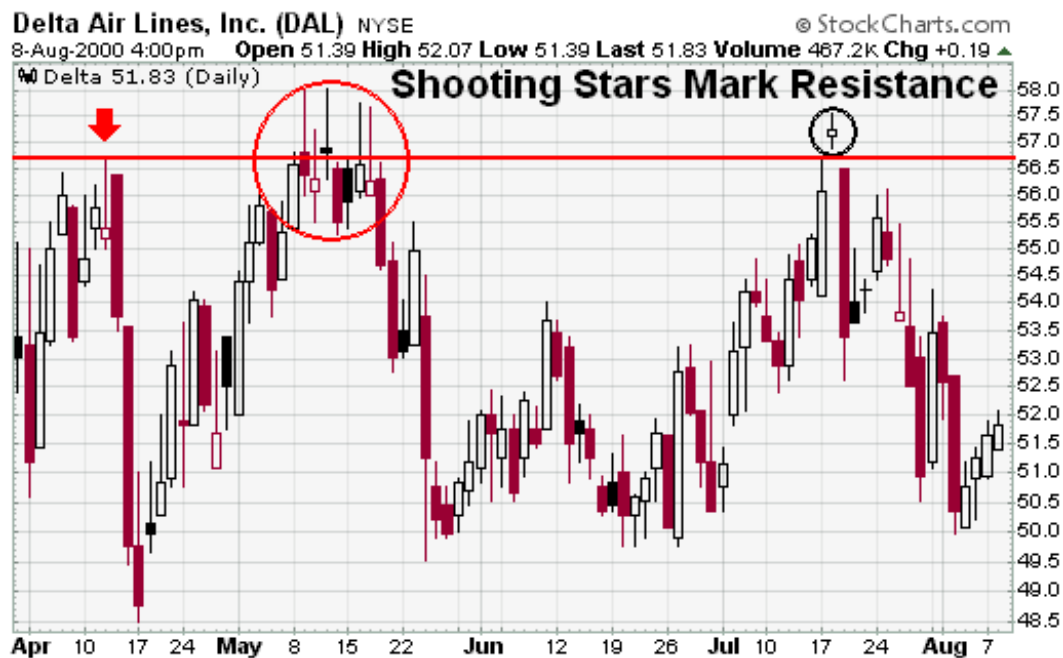
Note: All of the above patterns will be covered in this candlestick series in the next week or two.



In late May, Veritas (VRTS) advanced from 90 to 140 in about two weeks. The final jump came with a gap up and two doji. These doji marked a sudden stalemate between buyers and sellers, and a resistance level subsequently formed. After a resistance test in mid-June, another doji formed to indicate that buyers lacked conviction. This led to a decline and subsequent reaction rally in early July. The advance carried the stock from 105 to 140, where another doji formed to confirm resistance set in early June.



Lucent (LU) traded in a range bound by 53 and 42 for about 4 months. Resistance was first established in late April with a shooting star and dark cloud cover. Both of these bearish reversals were confirmed with a gap down two days later and a test of resistance at 52. As the stock neared support at 42, candlesticks with long lower shadow started to form and a reversal occurred at the end of May. After a sharp advance, resistance was met at and another dark cloud cover formed at resistance in early June. Buyers clearly lacked conviction near 53 and sellers were all too eager to unload their stock. A final resistance test occurred in mid-July. After a breakout above 53, the stock reversed course and closed back below 52. The rest is history.



After a spring advance, Delta Air Lines (DAL) first established resistance at 57 in early April with the high of a shooting star. The stock declined sharply, but rebounded to test resistance at 57 again in May. While at resistance in May, a whole slew of shooting stars formed as well as the odd spinning top and long-legged doji. The decline that broke below 56 confirmed these as bearish and the stock tested support around 50. After another advance to 57, the stock appeared to be on the verge of a breakout. However, a small white candlestick formed in mid-July (black circle). The gap up may have been a positive, but the lack of followthrough signaled by the small white candlestick raised the yellow flag. The subsequent gap down formed a bearish evening star and the stock fell back to support again.