Price Action & Candlestick Charting Practice Guide

Improve Understanding Of Market Context
& Improve Charting Skills
Through Examples & Practice

By Simon Milgard

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Disclaimer

All examples and explanations are strictly for demonstrative purposes only. They are not recommendations to buy or sell certain securities. Please do the appropriate research and consult a certified financial professional if necessary before you trade and invest. Some methods discussed in the book may not be suitable for everybody depending on individual ability and/or risk tolerance.

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Introduction

Understanding price action is a core skill that enhances the analysis of any price chart. Candle charting provides simple yet detailed insight into the state of market conditions that can be applied to clarify the context of past, present, and future price action. That is why candle charting is a primary component underlying price action analysis. Learning about price action and candle patterns is quite straightforward but using them effectively in real live market conditions takes plenty of time and practice in order to build experience and develop skill. Studying and practising with chart examples is a great way to condense years of experience in the market. That is why the majority of content here is focused on detailed case studies that outline price action and candle patterns before, during, and after their development. In doing so a clearer understanding of charting can be gained due to the process being very similar to real live market conditions, except in a more convenient and condensed experience without the need to spend time searching and studying charts over the course of many years.

Note that the examples will primarily take place from 2015-2020 but the generally applicable knowledge can be applied in the study of other time periods in the past or future. So the examples will grow old over time but the usefulness of their lessons will constantly remain applicable. As well the charts are primarily of American stocks but there are also an assortment of charts from other regions of the world and other markets such as currencies and commodity futures, which further demonstrate the universal principles of candle charting throughout various time periods and markets.

It is most productive to understand the implications of general price movement "formations" rather than focusing on memorizing and searching for strict "candle patterns." For this reason the first section will focus on general price action and how it relates to the main principles of candle charting. Next those basic ideas behind price action and candle charting will be applied to the most common and effective candle patterns. Understanding the logic of general price action movements and formations allows for a relatively easy grasp of the multitude of candle patterns that are covered in a detailed discussion with plenty of diagrams. Finally the bulk of the material examines dozens of case studies encompassing 100s of scenarios and situations to go from theoretical ideas to real live market conditions. The chart examples found in the case studies are divided into several sections that focus on particular types of price action and candle patterns Then the last section comprises an assortment of various price action and candle patterns that enables for enhanced charting practice since the exact price action and candle patterns being examined won’t be known ahead of time. Thus allowing for further practice of quickly identifying key price action and candle patterns to apply towards better understanding of market conditions.

Chapter 1 Market Price Action And Candle Reading Guide

A few quick notes before proceeding.

There are many different names and variations of names for describing general price action and specific candle patterns. Don’t get too caught up in trying to memorize the variety of names and terms and instead focus on being able to identify what certain price movements can imply about market conditions.

Candle charting can trace its origins to Japan that is why it is sometimes interchangeably called Japanese candle charting, and why some of the candle names are direct Japanese translations.

Think of candles as summarizing and represent price action from a given time period in a clear and concise format. Think of them as charts within charts that provide more detail to the context of price action.

Candles can be used to represent any time-frame for example there are charts with each candle representing price action over: 1 minute, 15 minutes, 30minutes, 1 hour, 4 hours, 1 day, 1 week, 1 month, or even 1 year. Then you may ask: “Which Time-frame Is Best For Candle Charting?” The most important time-frame is the daily candle chart where each candle represents the price action of 1 day, this applies to all markets. That is because it is the most common default setting price charts are displayed in. It is also a good medium between looking at the long term and short term context of a market. It bridges the big picture view of monthly and weekly candle charts with intraday candle charts of less than 1 day(usually candle charts between 4 hours – 5 minutes).

Often when traders in the short term and investors in the long term combine time frames the daily time-frame will be used as a reference. As well the daily time frame on its own is already a good balance between understanding the long term context, while at the same time providing more short term details without necessarily displaying a lot of “noise”(inconsequential price movement that becomes more prevalent the shorter the time-frame gets. For short term details a 15 minute time-frame is a good balance when combined with the daily time frame as it doesn't have as much "noise" like the 5 or 1 minute charts but still provides details that the daily chart may not display so clearly. For long term details a weekly chart usually suffices especially when combined with a daily chart, even when looking at 10 years of price action because the monthly chart often leaves out too many details. Though the monthly chart does become more useful when looking at price action over a span of more than 10 years.

Also note the word "wicked" is sometimes used but not with the meaning of "evil" or "bad" it refers to "wick" + ed similar to an adjective to describe the "wicks" of candles on the charts sometimes.

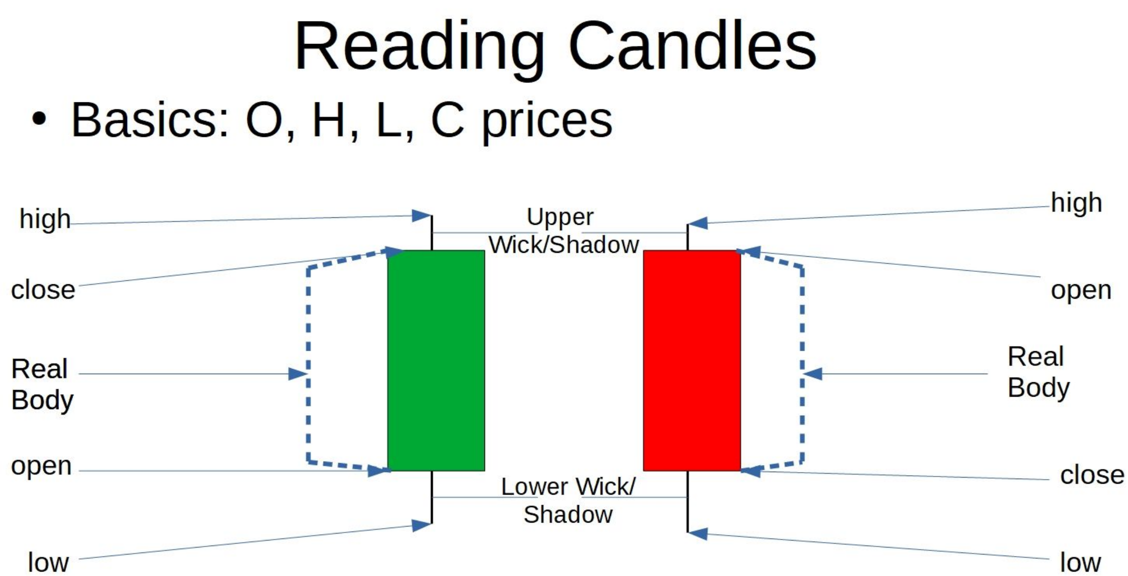


Figure 1.0

A candle represents the full range of price in a given time period by the low(L) to high(H) range in the case of a bullish candle when price increases. It is essentially the same when price decreases except it will be in a bearish context with the perspective of high(H) to low(L) range. In any case the highest and lowest prices are intuitively marked by the "wick" or "shadow" of the candle that is represented as a thin vertical line that resembles the thin wick of a wax candle that burns.

The open(O) price is the price of a financial instrument at the start of a given time period. While the close (C) price is the price of a financial instrument at the end of a given time period. In the case of a bullish candle when price increases the candle opens lower and closes higher. in the case of a bearish candle when price decreases the candle opens higher and closes lower.

The “Real Body” of a candle is the coloured portion. Candles are intuitively coloured most often with green representing a bullish candle for a price increase and a bearish candle that is red to represent a decrease in price.

It is possible for the opening price of a bullish candle to be the same as the low price. Thus there is no “lower wick.” When the low is lower than the open price of a bullish candle, the distance between open and low forms the range of the lower wick. It is also possible for the closing price of a bullish candle to be the same as the high price. Thus there is no “upper wick.” When the high is higher than the close price of a bullish candle, the distance between high and close forms the range of the upper wick.

Likewise it is possible for the opening price of a bearish candle to be the same as the high price. Thus there is no “upper wick.” When the high is higher than the open price of a bearish candle, the distance between open and high forms the range of the upper wick. It is also possible for the closing price of a bullish candle to be the same as the low price. Thus there is no “lower wick.” When the low is lower than the close price of a bearish candle, the distance between low and close forms the range of the lower wick.

The importance of O, H, C, and L, prices varies depending on the context. However it can be argued that O and especially the C prices are the most important. The reasoning is similar to why the daily candle chart can be considered the most important time frame for the majority of situations. By default price charts display closing prices. This is usually in the daily time frame as well but even if it isn’t for example for monthly charts looking at the long term context, or 15 minute charts to highlight intraday price action, it is more common to see the closing prices displayed.

O and C prices are also generally where most of the action happens especially in the daily time frame when trading in the market starts and ends. Naturally lots of orders to buy and sell will be placed right when the market opens and nearing the close. As well the closing price will also become a main reference price for many traders and investors which is why it will often remain a relevant price for a longer duration than H, L, and even O prices. The open and close of financial markets in the daily time frame are also points where lots of emotion and interest are focused. These are often the times when the largest moves happen. This is especially true in the stock market where the first 30 minutes and last 30 minutes of the day can see large variations in price, and even if there are no major shifts in price there will usually always be more volume around the O and C prices compared to any other point in the intraday period.

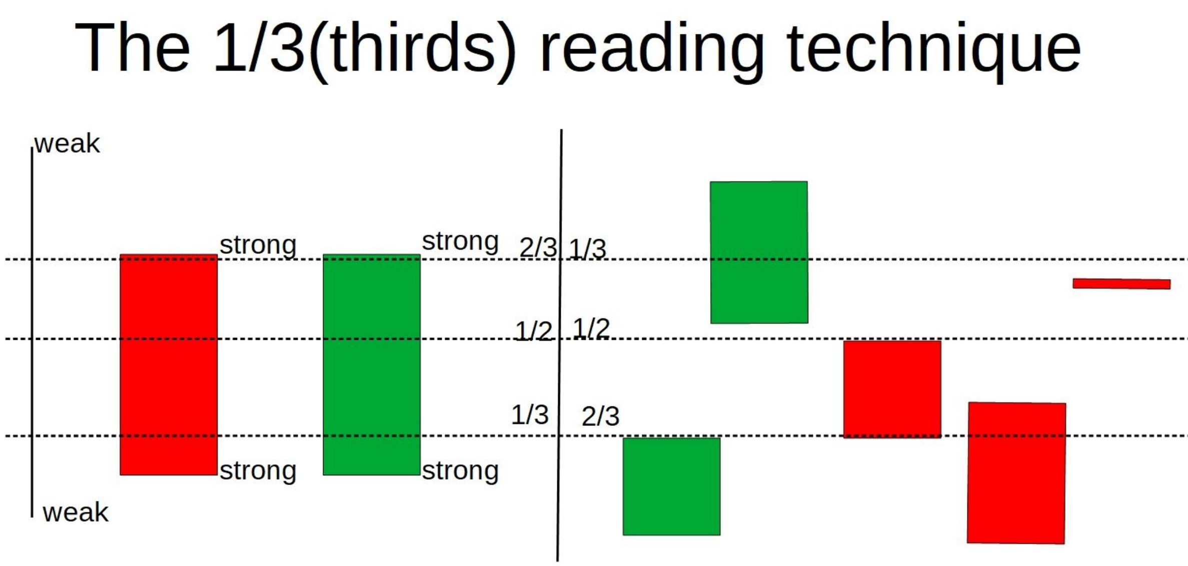


Figure 1.1

It is helpful to think of a candle as summarizing price action by visually displaying concentration of activity. By understanding the price ranges where certain kinds of activity is focused, a clearer picture of market context can be gained. Dividing a candle into thirds and halves allows for an easy visual indication of whether the market was bullish bearish or neutral during a given time period(s) represented by one or a combination of multiple candles. As mentioned the importance of O, H, C, and L, prices varies depending on the context. However the proportion of a candle that comprises the “real body” is generally where the strongest concentration of market activity and therefore price action is concentrated. “Strong” in this context simply refers to more attention placed on certain price ranges that form from the "real body" of a candle. In other words the market is heavily attracted to the O and C, it almost gravitates towards them. "Weak" refers to the inability of the market to maintain H and L prices. Generally the longer the wick is the weaker the move in the direction of the wick. In the case of a long upper wick it is a move that weakened as higher prices were not maintained. In the case of a long lower wick it is a move that weakened as lower prices were not maintained. A wick can be called "long" or more accurately "longer" when it is longer than the distance of the real body and longer than its wick counterpart(the upper wick in relation to a lower wick and visa versa). The following diagrams and examples visually convey this meaning better than mere words.

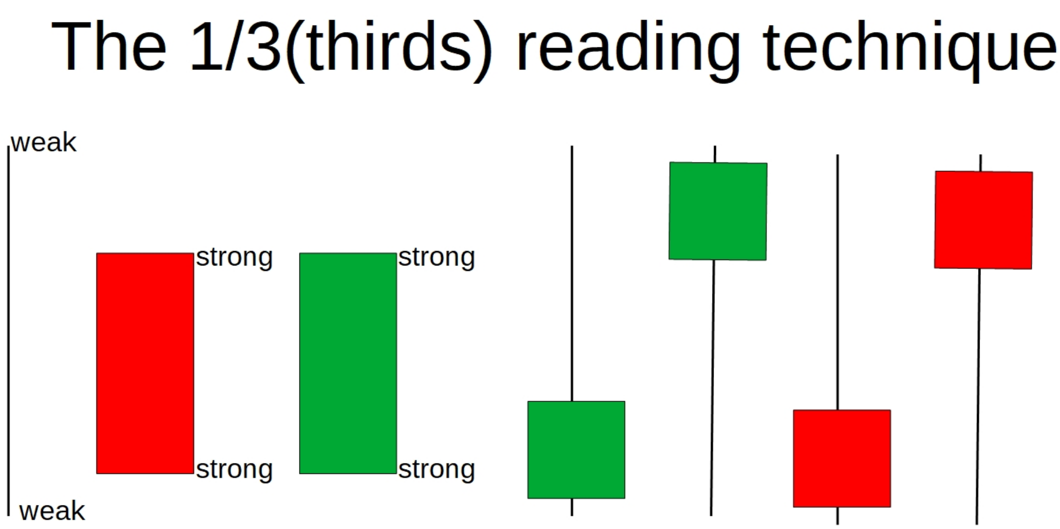


Figure 1.2

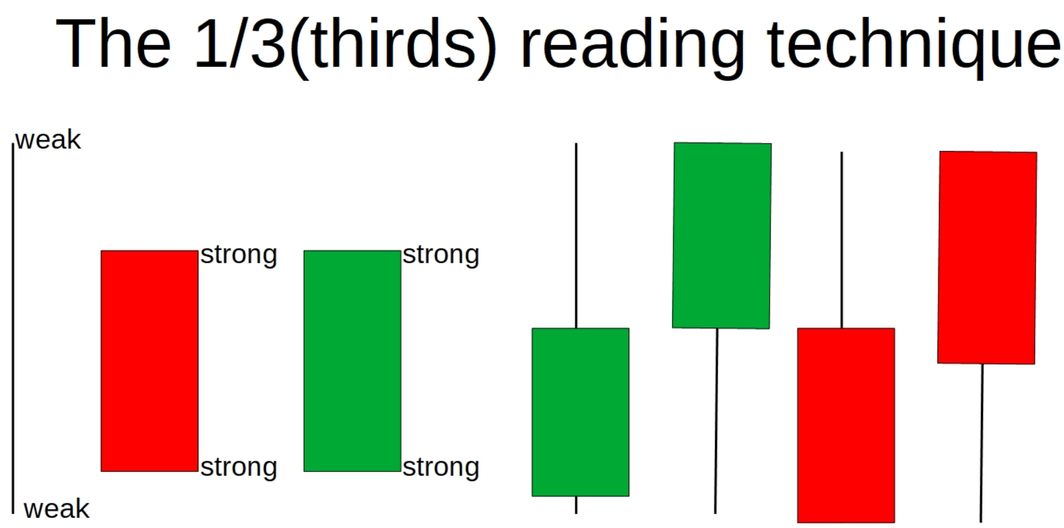


Figure 1.3

When price action is skewed in one direction it naturally indicates intent in the market that tends towards a particular direction. For example figures 1.2 and 1.3 show candles with real bodies skewed more to one side, resulting in longer wicks. This means the market tried to go in the direction of the wicks but was unable to maintain temporary highs/lows and returned back closer to the opening prices to finish off the market session, which indicates more interest, attention, or importance, in a more narrow range defined by the real body. The market still holds a lot of intent to stay closer to the real body range. While at the same time there was intent to move in the direction of the wick but that intent was weak or became weak resulting in price retreating from the higher prices in the case of a bearish context and lower prices in the case of a bullish context to move back closer to the O to close the session. The session can be any time frame with each candle on the chart representing for example one week, one hour, or 5 minutes of price movement. Though as mentioned earlier the daily candle with each candle on the chart representing the O, H, L, and C prices of one day's price action is generally most important.

Figure 1.4

Large thick real bodied candles remaining in one direction can indicate strong directional price movement when found during an existing trend. In some cases strong up trending markets can keep going up and have the same C and H prices. While strong down trends with large bearish candles almost fully red can have the same C and L prices. Then if such scenarios don’t happen the upper and lower wicks will be proportionally very short compared to the real body.

Figure 1.5

In other contexts candles with large real bodies and short or no wicks can indicate indecision and volatility especially if the market is already moving sideways and no clear up or down trend is present. If such candles are found near a swing point they are often along side candles that are more clear in market direction with real bodies and wicks that are skewed.

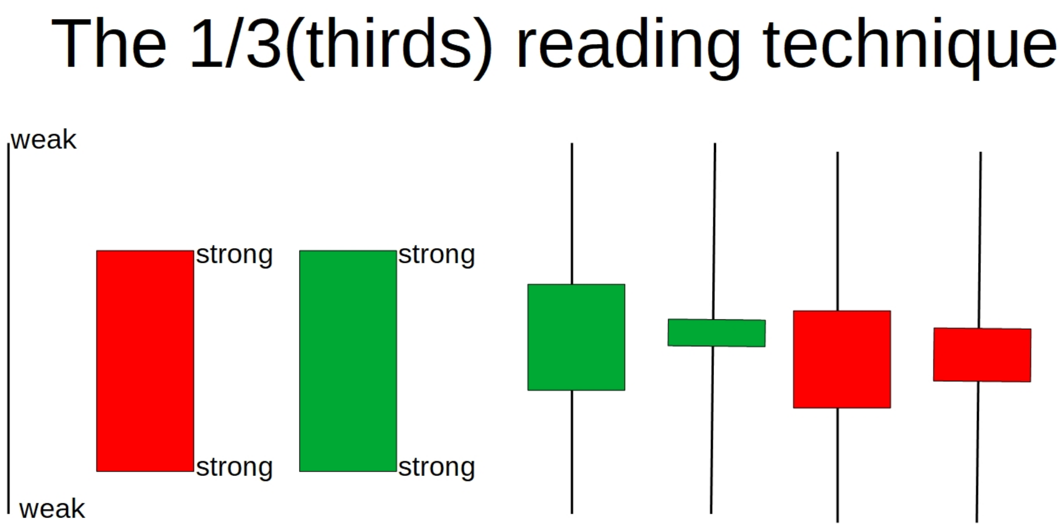


Figure 1.6

Candles can still have smaller real bodies closer to 1/3 or even 1/4 of the total H-L range and still be indecisive if the real body is centred in the H-L range to form a relatively balanced candle with no major skewing of the real body to the upper or lower half. This is especially true if the market has already been stuck in a sideways price range.

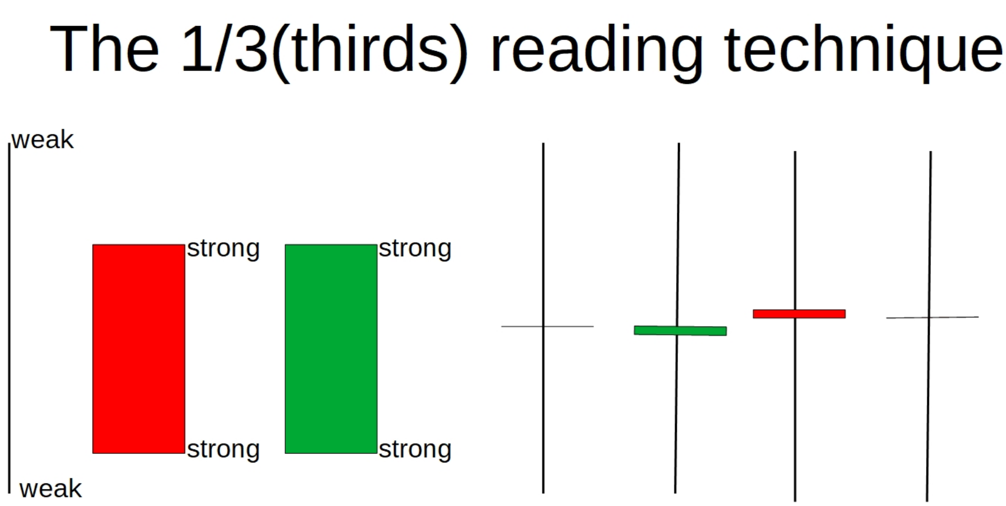


Figure 1.7

When candles are balanced but the real body is very thin(but still relatively centred between the H and L) the price action is generally indecisive. However it can be directional and point to a potential price reversal if there are certain factors present. These can be things such as nearing an established resistance/support range, appearing along side a large thick bodied candle, and having abnormally high or low trading volume in comparison to the previous few candles.

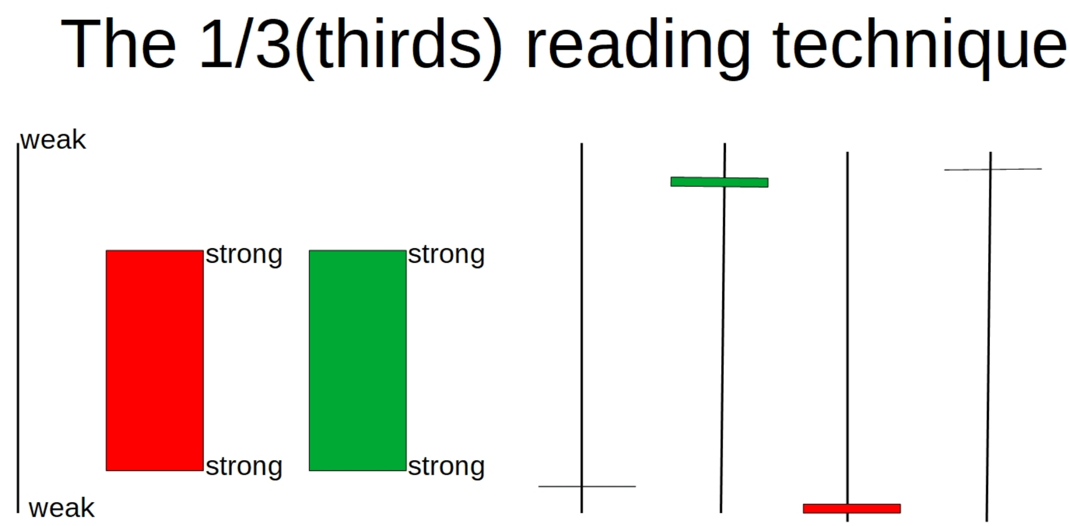


Figure 1.8

When candles have a very thin real body that is skewed closer to the H or L, indecision sentiment and directional intent can both be present. Similarly there is more directional intent when there are factors such as nearing an established resistance/support range, appearing along side a large thick bodied candle, and having abnormally high or low trading volume in comparison to the previous few candles.

3 Main Types Of Candles

	single	multi
Reversals		
Indecision		
Continuations		

Figure 1.9

Price action represented by so called “candle patterns” can be categorized in the manner shown in figure 1.9. Two simple criteria define the relevance of candles. Firstly whether it is a candle pattern comprised of one single candle, or comprising of two or more candles in which case it can be a multi candle pattern. Then perhaps more importantly the context of the candle, whether it demonstrates more intent in the market to form a reversal of an existing trend. If the candle(s) does not reveal intent to reverse a trend then there is further examination needed to determine if the market is leaning towards indecision and sideways movement or a continuation in the same direction as the existing trend.

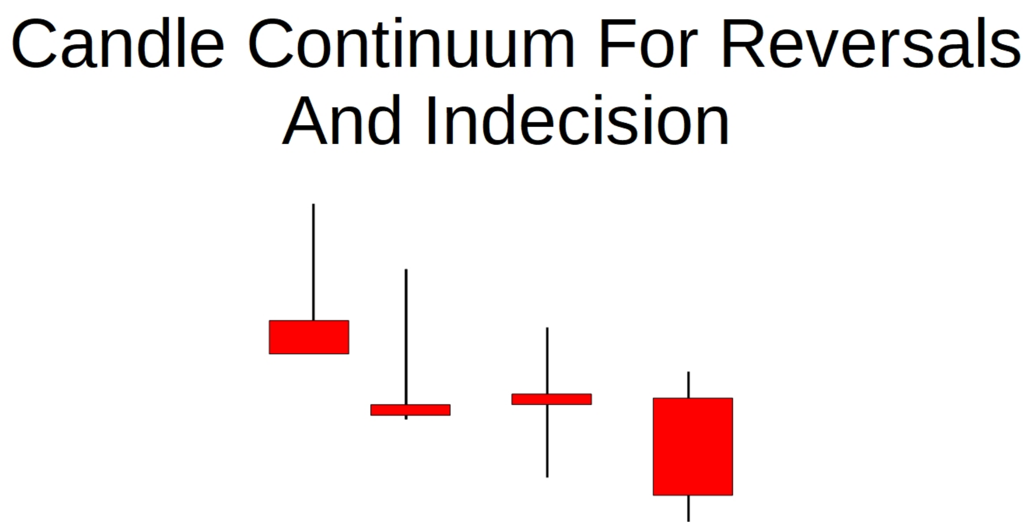


Figure 1.10

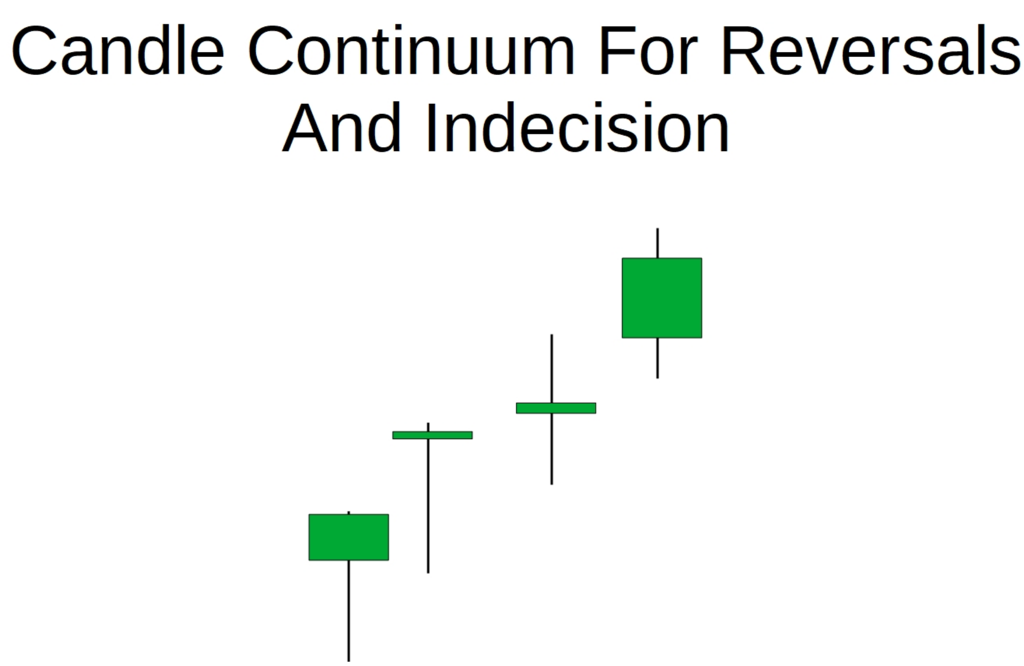


Figure 1.11

Figure 1.10 presents a continuum of candles from strongest potential for a bearish(downward) reversal of an uptrend with the two candles on the left being more bearish while the two candles on the right tend towards more indecision. Figure 1.11 presents a continuum of candles from strongest potential for a bullish(upward) reversal of a downtrend with the two candles on the left being more bullish while the two candles on the right tend towards more indecision.

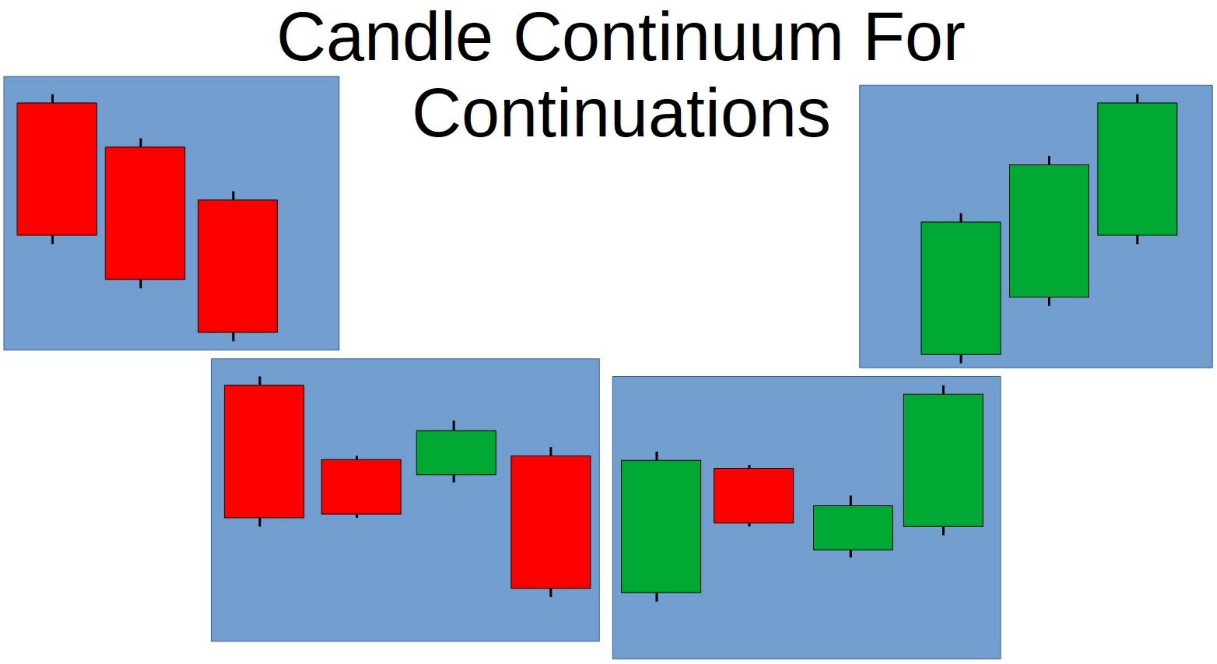


Figure 1.12

The top left candle formation in figure 1.12 is the general outline of strong price action for the likely continuation of a downtrend, while the depiction on the bottom left is still a strong continuation it has some indecision during the middle phase and such price action will often be less rapid in continuing an existing downtrend.

The top right candle formation is the general outline of strong price action for the likely continuation of an uptrend, while the depiction on the bottom right is still a strong upward continuation it has some indecision during the middle phase and will often be less rapid in continuing an existing uptrend.

Chapter 2 Examining Price Action Outlines And Effective Candle Patterns

The following diagrams elaborate further on general price action and explain specific candle formations into context. Remember these are the most common and effective candle formations with their most common names. There are certainly other candle patterns and other names for the candle patterns shown here but they are less common.

Also keep in mind once again that candle patterns are most effective when they appear in an established trend. Otherwise using candles without context(especially the context of a trend) is less effective and even counterproductive in trying to better understand the state of a market and movements in price.

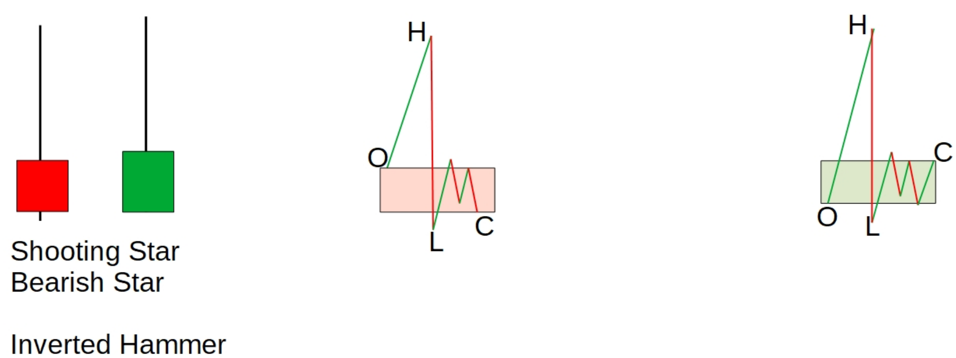


Figure 2.0

Whatever it may be called: the Shooting Star or Bearish Star, both names describe a single candle that shows intent to reverse price downward. Both names make sense as the real body is more concentrated to the downside with a trailing wick much like a shooting star in the sky pointing down with a glowing trail behind it.

Nomenclature, symbolism, and analogies aside this type of candle demonstrates price action that has risen for a time but was weak and retreated from the high to close closer to the L and O. This again shows concentration of market activity downward with the O, L, & C all in the lower 1/2-1/3 of the candle. Naturally a red candle with a lower C than O is slightly more bearish than a green candle with the same general shape and proportions but with a higher C than O.

A bearish star mainly represents bearish price action and intent to go down for the reasons discussed above. Though downward movement will be more likely to proceed if a bearish star is found following an existing uptrend. Downward movement is much more likely to reverse a prior uptrend if the next candle trades below the low of the bearish star, or even better close below the low of the bearish star. If it is found in a more sideways range it is still bearish but given the context it is not to be taken as a definitive reason as to why the market will decline.

The inverted hammer name comes from the shape resembling an upside down hammer. It is referring to the same candle with the real body concentrated in the lower half of the H-L range with a minimum of the real body in at least the bottom half but preferably occupying the approximate lower 1/3 range. Yes it is indeed the same candle but the name is different and categorized separately from the bearish or shooting star connotation because inverted hammer is used when this candle is found forming in an existing downtrend. It points to the potential for an upward reversal. The market attempts to end the price slide of the downtrend by reaching for higher prices. It is initially successful but does not hold the bullish advantage and soon retreats back down to close closer to the L. Thus the influence of the downtrend remains to hold price down but bullish intent to go back up has certainly been demonstrated by the H. For the best chances of an upward reversal from an inverted hammer it is ideal to see the next candle trade above the inverted hammer's high and close above it.

Whether this candle is a bearish star at the top of an uptrend or an inverted hammer at the bottom of a downtrend the chances of a reversal are increased the faster the market follows through on the intent shown by the price action. In other words the candles after the bearish star trading and closing below the low. In the case of the inverted hammer once again to have immediate trading above the H and preferably to close above it. This is the best case scenario however real live markets often hold indecision and the chances for a reversal can decrease if the following candles don't follow through in the intended direction of the candle's price action, and instead move sideways creating uncertainty or even negating the candle by continuing the prior trend. This will be a common theme for all reversal candles. The faster the market reverses following a reversal candle the better the chances of a new trend developing with strength and stability.

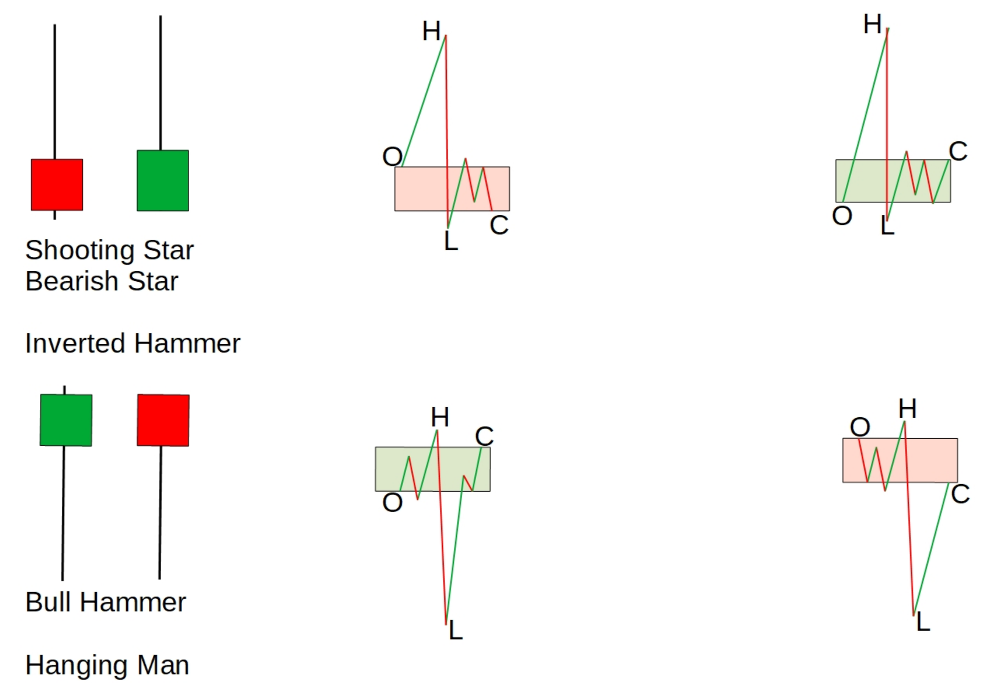


Figure 2.1

A bull hammer is perhaps the candle that is searched for the most by the majority of market participants. It is the epitome of price action showing upward intent. As seen in the diagram in figure 2.1 it is the opposite of the bearish star with O, C, & H prices concentrated on the upper half of the candle. Ideally this would be the upper third of the candle for increased chances of a bullish reversal. It strikes a balance between the market rejecting a drive for lower prices. While at the same time ending the candle with a clear upward push. Naturally a green bullish hammer is slightly more bullish with a close higher than the open compared to a red bullish hammer with a close slightly lower than the open. The upper wick is very short or does not appear at all similar to how the lower wick is short or does not appear at all for a bearish star. This indicates strong directional movement upward since C and H prices closely contact or overlap each other.

This same candle is a hanging man indicating bearish movement when found during an existing uptrend. This means the market tried to drive lower in opposition to the upward momentum but was unable to sustain the counter move to move down further, resulting in a close back up inline with the upward influence of the uptrend. Thus the market still continues the uptrend that is put into doubt due to the temporary drive lower. It is called a hanging man because the shape may resemble the silhouette of a hanging man and it refers to the possible end of the lively green uptrend.

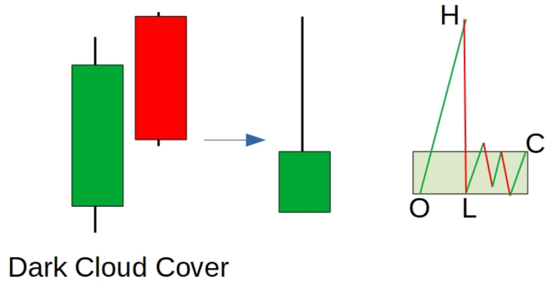


Figure 2.2

Dark cloud cover is a multi candle pattern but the price action is the same general outline to that of the bearish star, except it takes place over the course of two candles. In theory it is one notch less bearish than the bearish star because the same price action takes longer to form and it can be more a manifestation of bearish intent to a lower degree similar to the hanging man. This is because it first continues the uptrend with a green candle that carries over to the O of the 2^{nd} candle that is always red and will close to the halfway point or lower of the first candle, but it will not go lower to close lower than the low of the first candle. It can get close to the open of the first candle or even overlap and have the same price as the open of the first candle, but it is rare and not ideal.

A close near the half way point of the first candle is closer to a strict dark cloud cover formation. That is similar to the bearish star but it is less swift and it will always result in a green bearish star when the two candles are combined. The first candle to the open of the second candle is similar to the upper wick of a bearish star. The close to the low of the second candle more closely resembles the bearish intent of a hanging man that is bearish but not fully realized. Thus in the theoretical continuum of candles dark cloud cover is almost as bearish as the same price action taking place in a single bearish star. Dark Cloud cover is a suitable name to highlight this differentiation in bearishness because it shows intent but not overwhelmingly strong intent similar to how dark clouds can likely lead to precipitation but not as certain as a shooting star that will continue on a downward trajectory.

As with the bearish star it is also best to have immediate follow through with the proceeding candles trading below the low of the dark cloud cover or better yet close below the low of the dark clout cover which will be the low of the first candle.

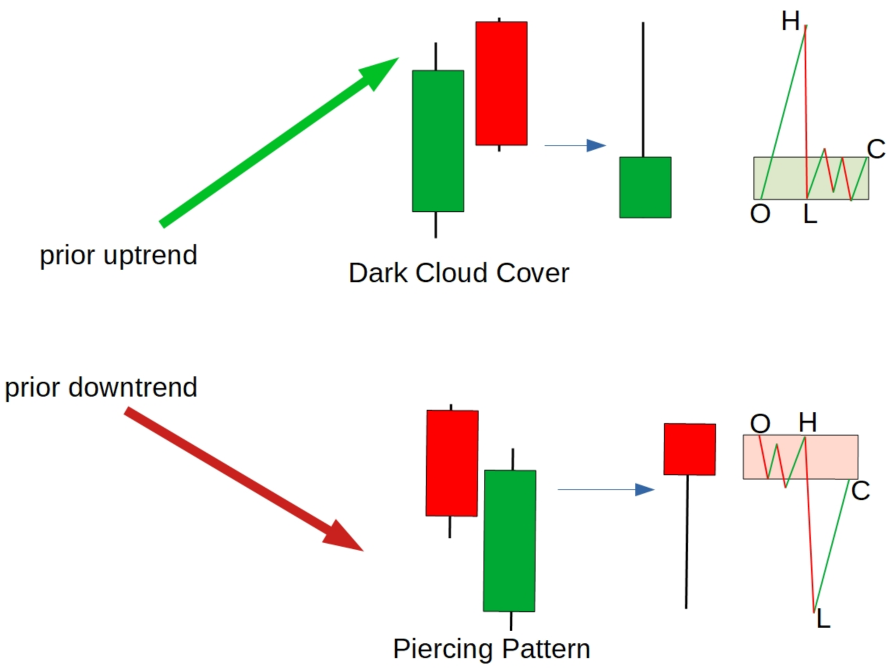
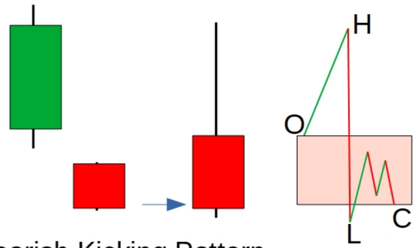


Figure 2.3

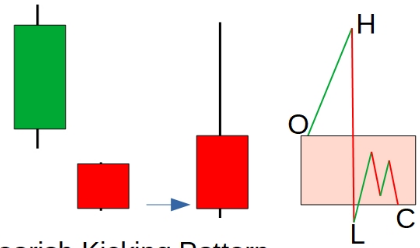
A piercing pattern is to dark cloud cover what the bull hammer is to the bearish star. It is the corresponding counterpart that points to the possibility of an upward reversal. Except it starts as a red candle that is best seen continuing an existing downtrend. Then the second candle that follows opens lower but turns green to close near the half way point of the first candle that was red. Essentially it is the price action of a bull hammer spread over two candles. Similar to the dark cloud cover it puts doubt into the existing trend(in this case a down trend).



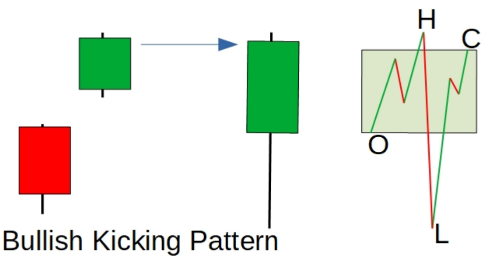
Bearish Kicking Pattern

Figure 2.4

A bearish kicking pattern forms the strongest variant of a bear star that being a red one since the second candle closes lower than the low of the first candle that is green. It also distinctly forms a gap from between the real bodies of the two candles. It does show strong bearish intent but there can be a higher degree of volatility due to the gap between the real bodies. Gaps between the real bodies from one candle to the next are often present during highly volatile periods in the market.



Bearish Kicking Pattern



Bullish Kicking Pattern

Figure 2.5

Statements about figure 2.3 apply in the reverse for the bullish kicking pattern.

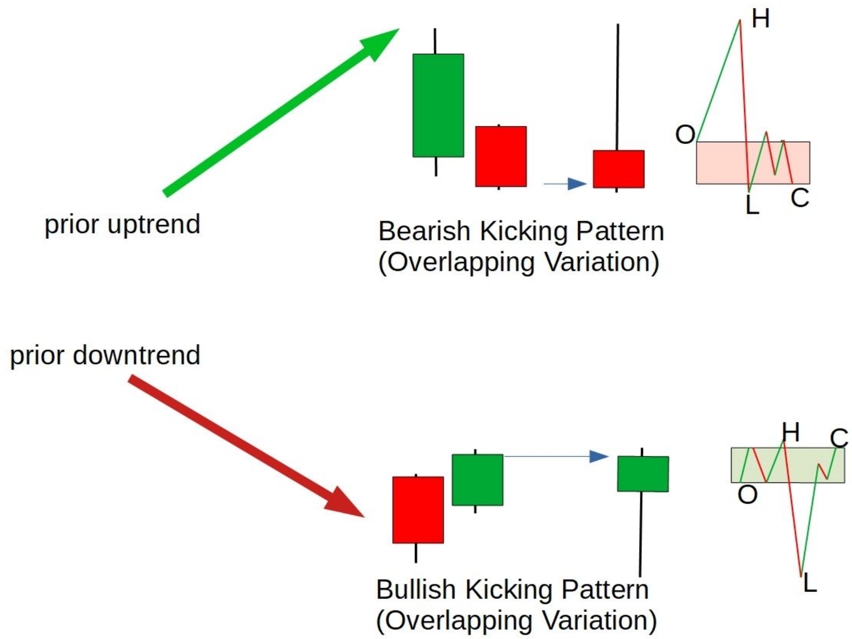


Figure 2.6

The kicking pattern can form to a lesser degree when real bodies overlap. This is more stable but shows a lower degree of reversal intent compared to the normal version that has a gap between real bodies. However overlapping kicking patterns are normally more common.

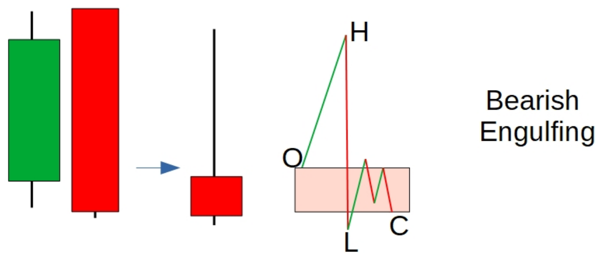


Figure 2.7

The bearish engulfing is a fairly reliable candle pattern and is the more sought after variation of the bearish star that forms over two candles. This is because as the name suggests the previous uptrend that continues with the first green candle has its real body completely engulfed by the red real body of the second candle to close lower than the low of the first candle. Thus the previous uptrend is definitively opposed, while at the same time the emergence of bearish price action demonstrates strong intent for a downward reversal.

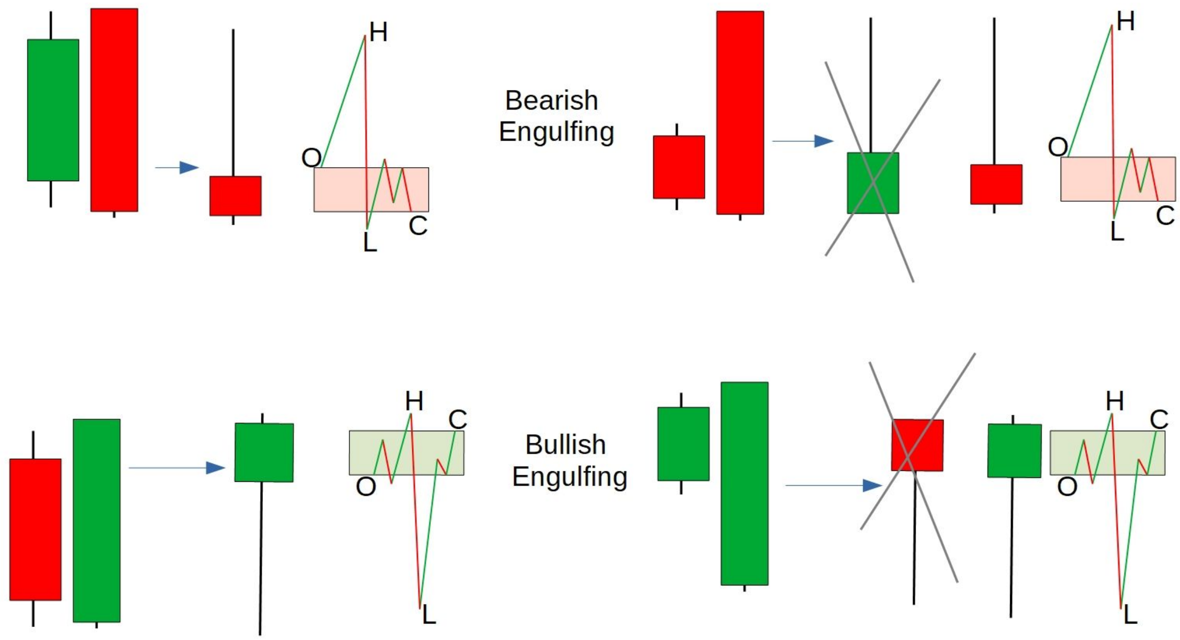


Figure 2.8

The reverse applies to the bullish engulfing pattern. Furthermore the first candle of a bullish engulfing is normally red and continues the existing (downtrend in this case) just like the green continues the existing (uptrend for the bearish engulfing. Then the second candle is the opposite color in favor of the direction of a reversal, thus a bearish engulfing always forms a red bearish star and a bullish one always forms a green bullish hammer. Both candles can be the same color for engulfing patterns but it is less common. Engulfing patterns form the strongest two candle reversals but without a gap like the kicking pattern. Strong intent is shown but stability is present.

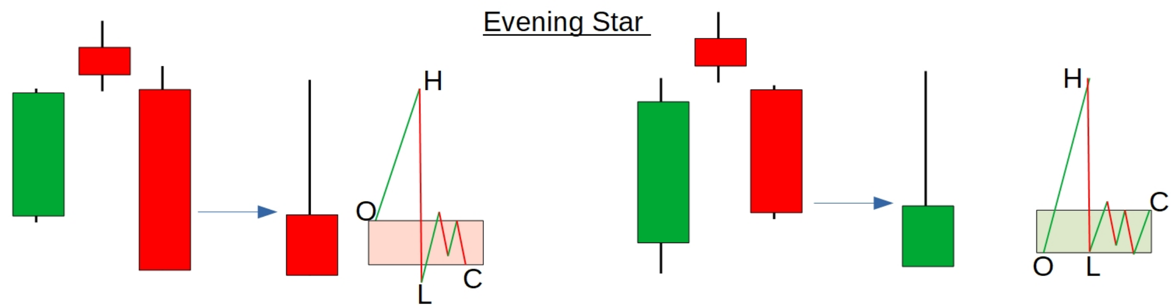


Figure 2.9

A bearish evening star pattern starts with a green candle that keeps the existing trend(uptrend) going. This is followed by a second candle that can be a variety of shapes but it is best to see its real body be shorter than the first candle and for there to be a gap between the real bodies. It can also be red or green but preferably red since it is to signal a bearish reversal. The third candle is also preferably red to tip the market on a decline. Its real body will be longer than the second candle. The first candle can be longer or shorter than thee third candle but both have longer real bodies than the second. Though a conceptually perfect pattern has symmetrical lengths for the first(green) and third(red) candle. Since there are three candles that can have some variation this pattern comes in many shapes and sizes. The important thing to remember is that this is a gradual transition and the second candle signifies deliberation.

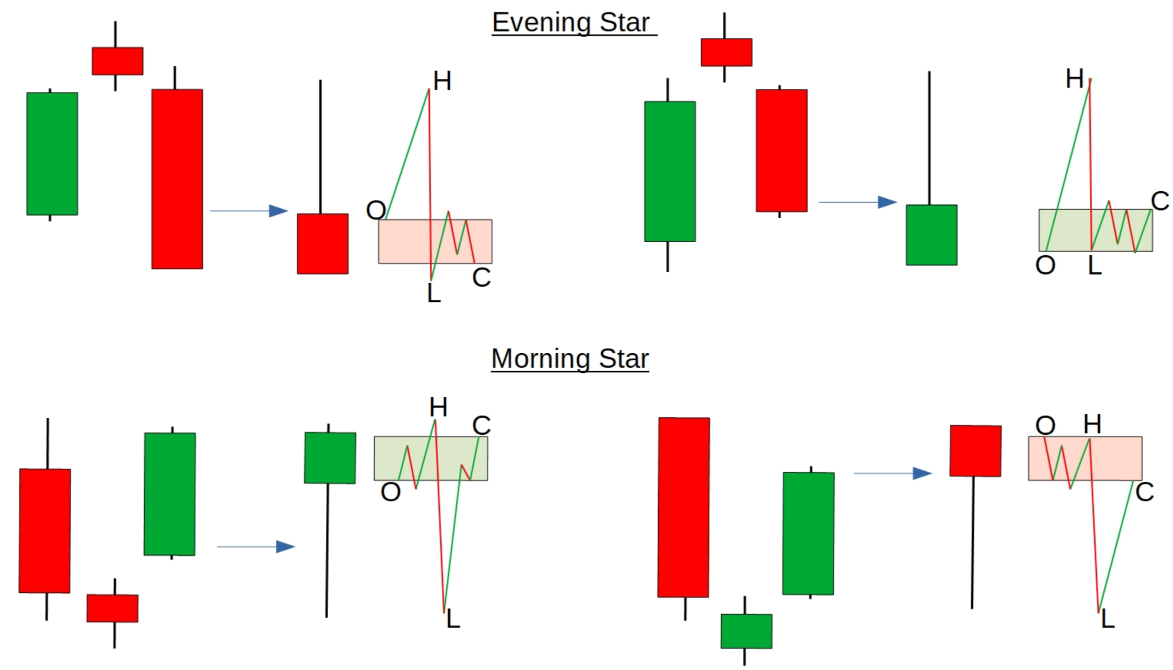


Figure 2.10

As would be expected the morning star is the bullish counterpart to the evening star with the same statements made about figure 2.9 except in the reverse for the context of a bullish reversal.

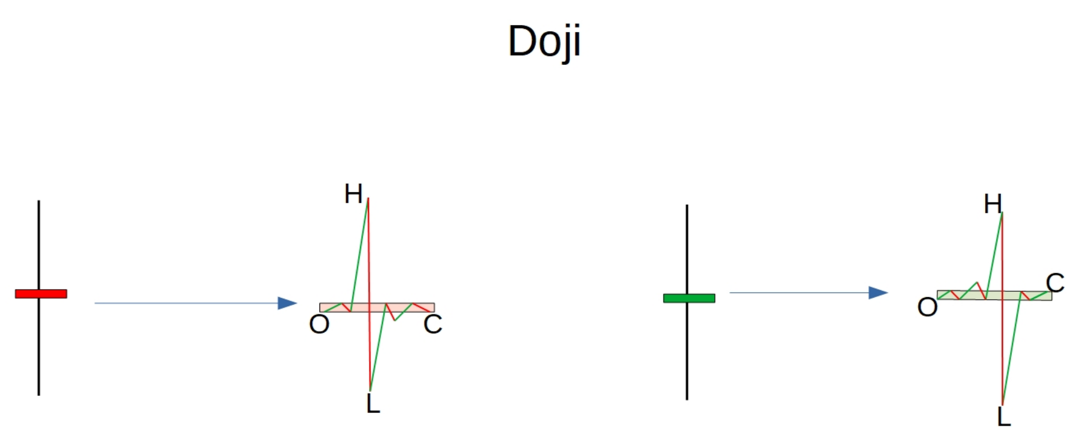


Figure 2.11

Dojis are straightforward a stiff balance between bulls and bears, up and down. The real body is very thin to indicate no distinct advantage for any particular direction.

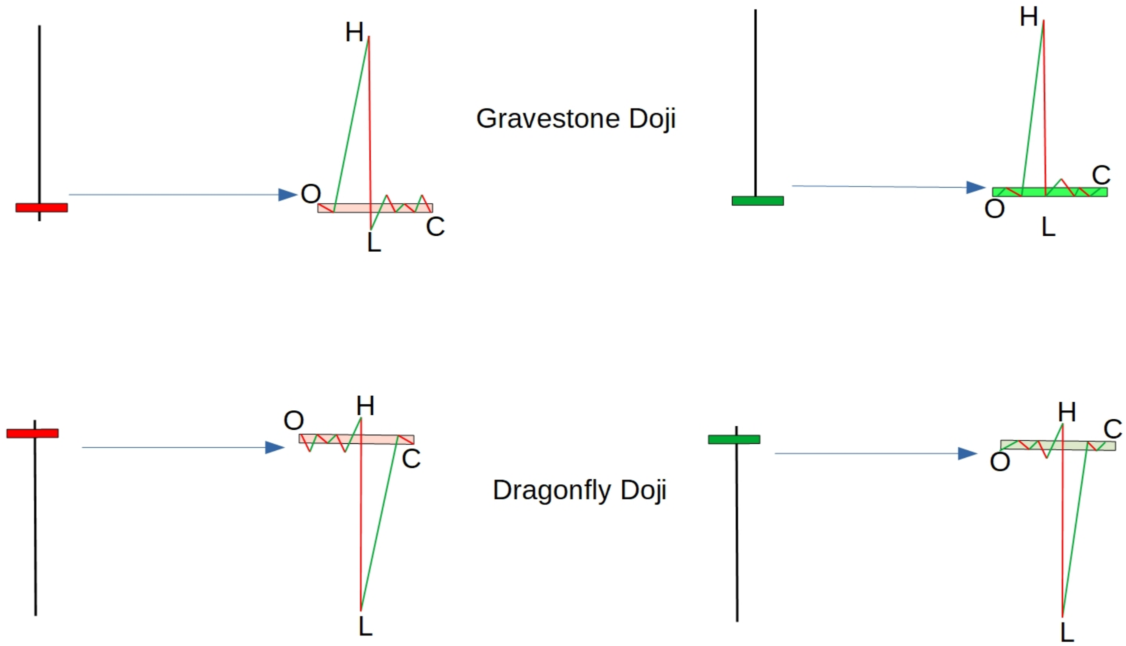


Figure 2.12

A gravestone doji has a connection to the bearish star since price action is skewed to the downside and the dragonfly doji has a connection to the bull hammer with a skew to the upside. However they also have an element of indecision due to the feature of a very thin body. Thus the overall direction is favoring one side in terms of how prices are distributed in the H-L range. Then the thin real body suggests indecision like a balanced doji with the thin body closer to the center of the H-L range. Dojis and the more directional variant of the dragonfly and gravestone tend to be very interesting as the context of broader price action is even more important in determining what they can reveal about the market.

Gravestone dojis likely get their name because they can signal the death of an uptrend and the sharp spike can resemble some markings on a gravestone. While the dragonfly signifies upward movement with the long slender body lifting off low prices and the thin real body can resemble the wings on the slender body of a dragonfly.

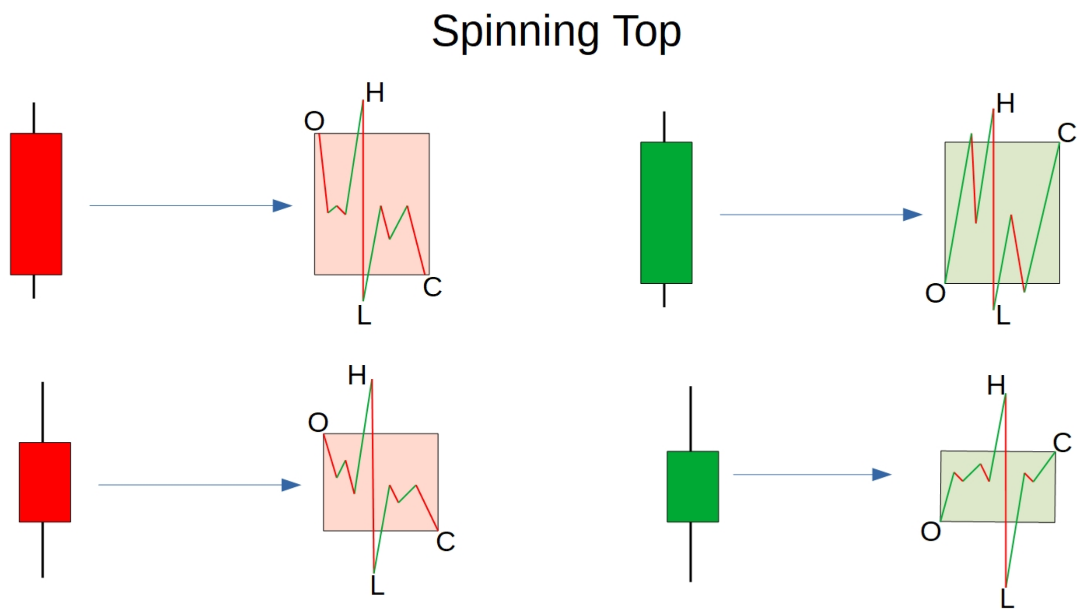


Figure 2.13

Spinning tops are similar to normal dojis in that they are balanced and don't have a real body further on the bottom or top half. The real body can be of varying lengths but often covers at least half of the H-L range. Usually they are not as important as reversal or indecisive dojis. However that can change when they are alongside reversal candles and dojis and when they form in the context of a continuation. Like the name suggests it is fairly indecisive but the context or the "spin" / direction is an important factor when determining the importance or irrelevance of a spinning top.

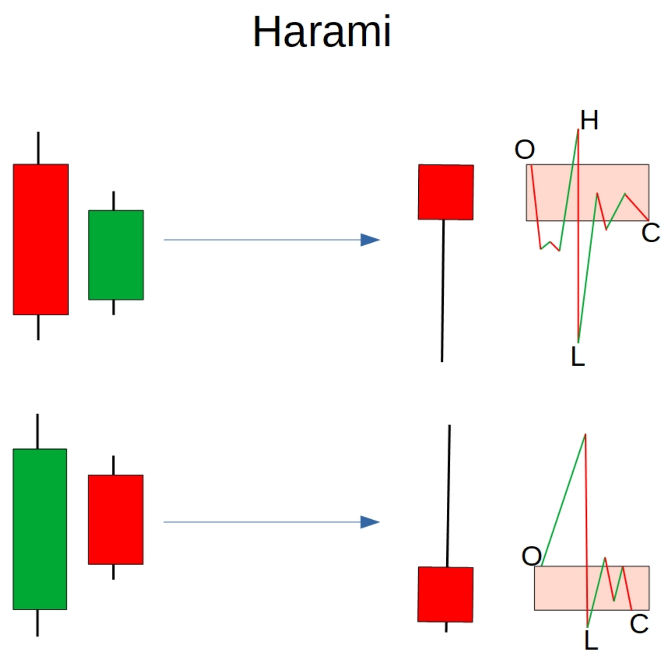
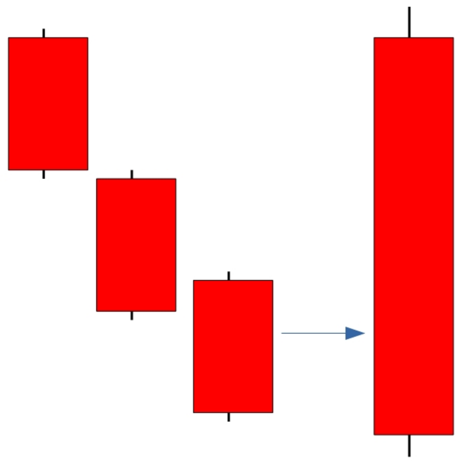


Figure 2.14

Harami carries the meaning of pregnant and that is a suitable name given the price action it represents. In the case of a bearish harami the first candle is green to continue an existing uptrend however the second candle is red and is ideally contained within the entire real body of the first candle. Thus the first candle is like a pregnant mother. While the second candle is the coming birth of a new trend in the womb. Less strict variations can see H and L outside the real body of the first candle but the real body is still engulfed by the first candle. It is essentially the reverse of the bearish engulfing pattern. That means it can signal a potential reversal but it carries an equally strong indecisive tone with an element of doubt and uncertainty as to the future of the existing uptrend. Thus like the regular balanced doji and spinning top it is very important to take into account the broader context. This will be seen in many examples later on. It straddles the boundary of reversal and indecisive candle pattern. The bullish variation starts red and the second candle is green. As usual the reverse of the bearish Harami applies to the bullish harami.



3 Black Crows

Figure 2.15

The 3 Black Crows refers to a row of red candles. Each candle closes lower than the low of the previous one. The perfect formation would have a full gap between the close of the previous candle and the open of the next candle. Though in reality there will usually be overlap of the real bodies. There may also be three or more candles. Regardless the end result equates to one large drop. The candles are often large real bodies with little to no wick appearing. This means they can be red spinning tops but since they are in the context of a downtrend they indicate strong directional movement and a rapid continuation of an existing decline.

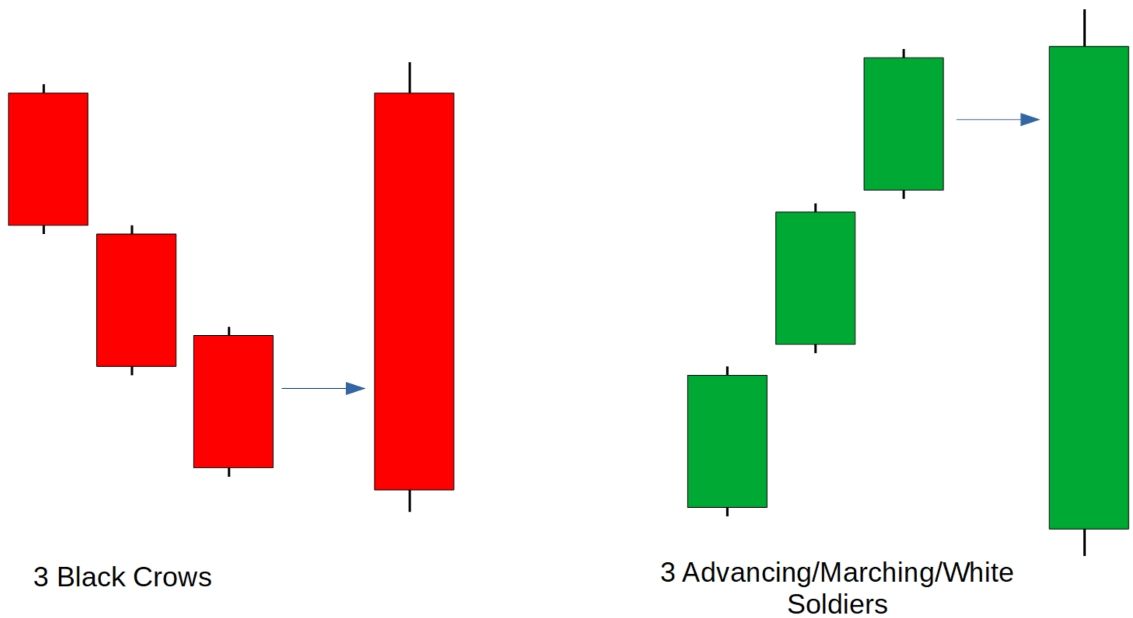


Figure 2.16

Three black crows is an ominous and fitting name as it has connotations of decline like when crows descend from the sky. “Black” in the name can refer to the color of crows but it can also refer to the color of black candles representing falling price instead of red. This would have been more common when color print was less common in the past. That would mean white was the bullish counterpart instead of green. That ties in to the counterpart of the 3 black crows in the form of 3 advancing/marching white soldiers. Quite a fitting name as well as an uptrend steps up strongly to continue an existing increasing of prices. As usual the exact same points apply from the bearish version of the 3 black crows except in the reverse with the bullish context.

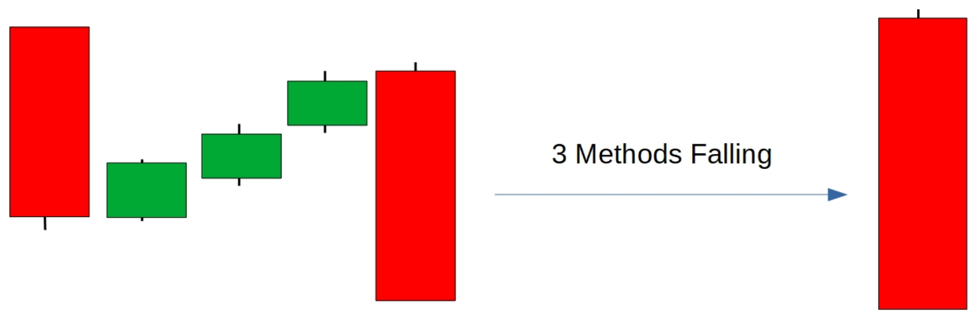


Figure 2.17

The falling 3 methods equates to a large red candle like the 3 black crows except it is a slightly slower continuation formation. Price drops quickly with the first and last candles which often have large red real bodies with little to no wick. In between the first and last candles are are row of candles (usually 3 candles) that go neutral to bullish with a flat to slight incline in price to form a “resting phase”. Essentially the candles in between are a pause before the last candle carries on the drop from the first candle. There doesn’t necessarily have to be 3 candles in the resting phase. 3 methods falling is just a name and because often there are an average of 3 smaller bodied candles between the first and last large red bodied candles the name is commonly used.

In some cases there can be just one or two candles to form the resting phase. As well there can be more than 3 candles in the resting phase to form a larger formation. These candles can be a mix of red and green candles but the defining feature is they are small bodied in comparison to the first and last candles. They are also ideally contained within the range of the first candles real body, though some minor overlap and movement under the first candle’s range is acceptable and common on real live charts.

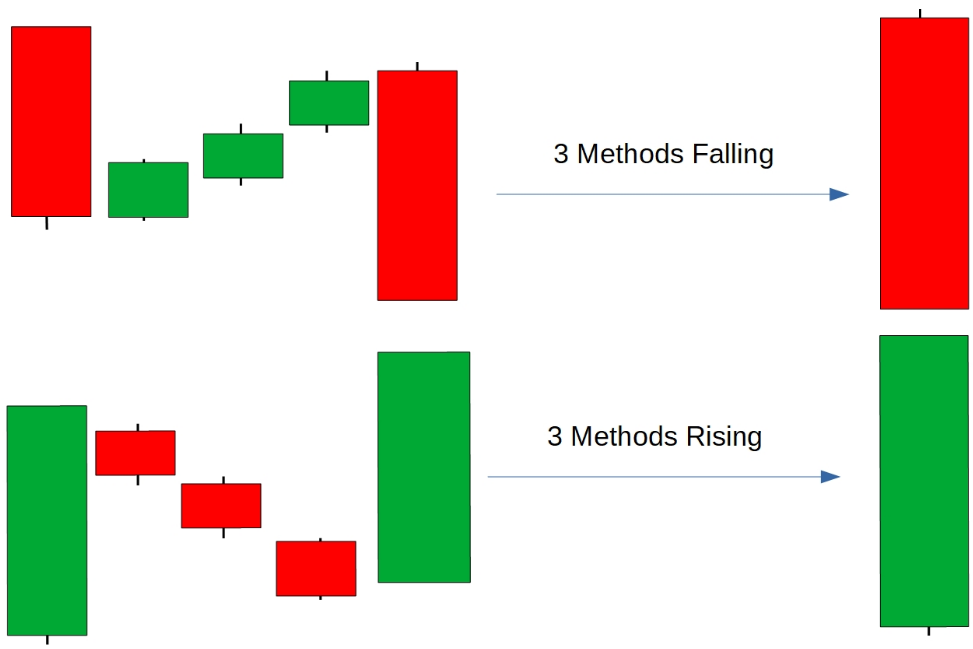


Figure 2.18

Naturally the reverse of the 3 methods falling is the 3 methods rising with all the points about figure 2.17 applying in the reverse to the bullish context.

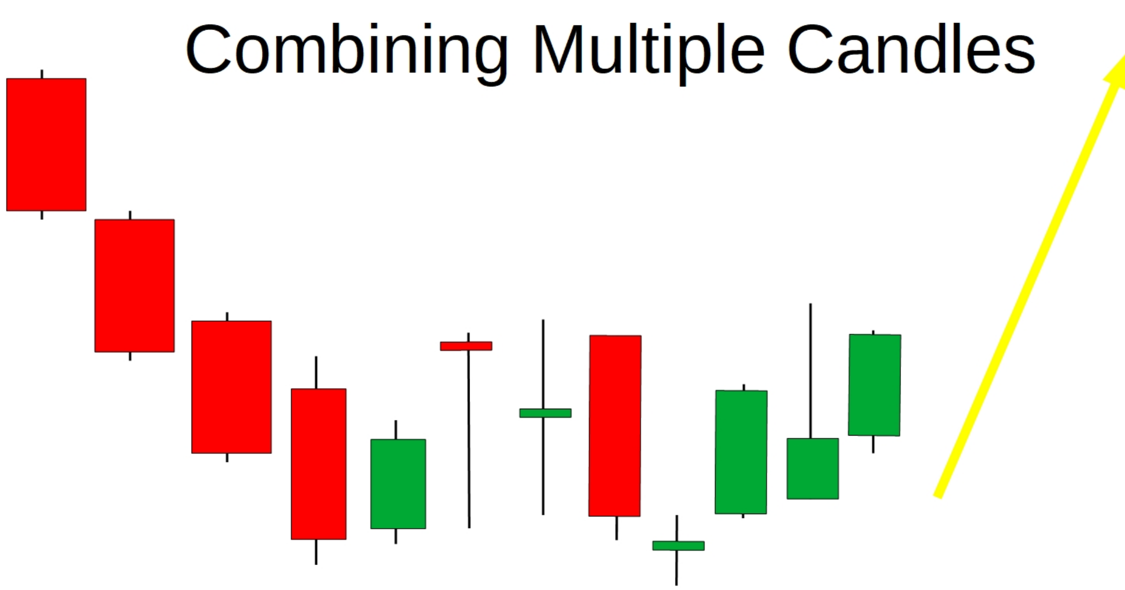


Figure 2.19

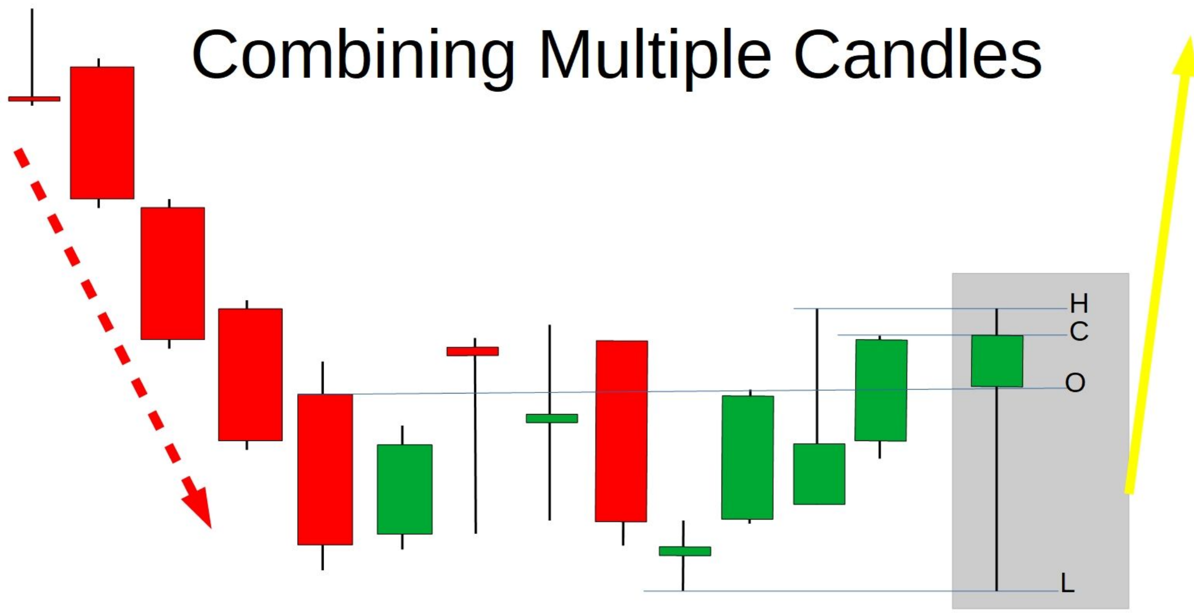


Figure 2.20

It can be useful to combine candles in cases where price is indecisive and ambiguous for an extended period of time. This is not entirely necessary but can be helpful in furthering understanding of general price action and certain candle patterns. The O of the first candle in the combined group forms the O of the amalgamated candle. The C of the last candle in the group forms the C for the amalgamated candle. The H comes from the highest H in the candle group and the L from the lowest L in the candle group.

Chapter 3 Indecisive Price And Doji Example Case Studies

Indecisive Price And Doji Example Case Study 1

The larger context is overwhelmingly bullish with a clear uptrend that has some short periods of indecisive price action. Not surprisingly there a dojis found in these areas.

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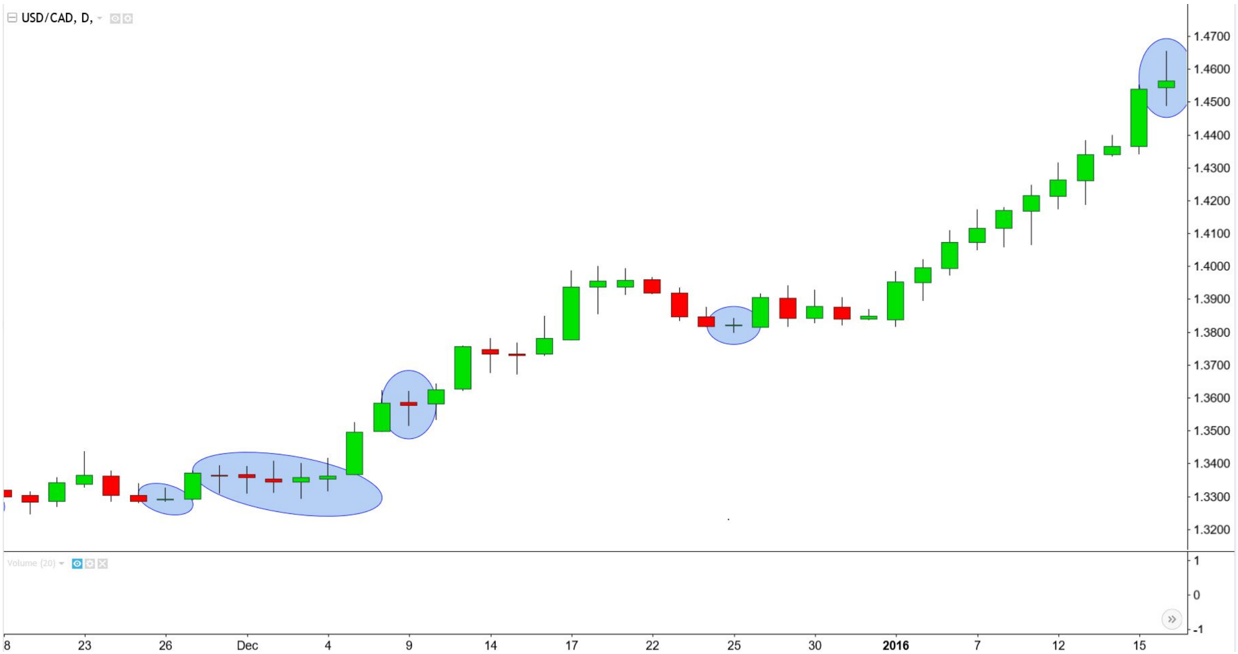
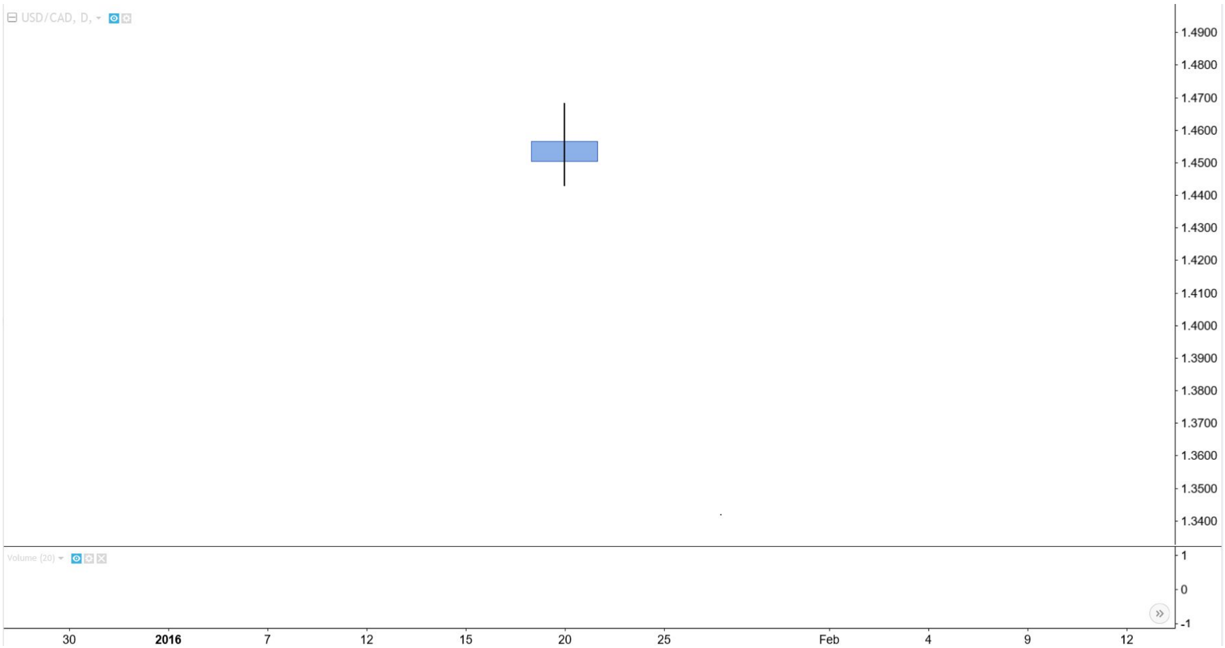


A strong incline carries on higher but now there is a fairly indecisive candle that is fairly balanced. It can be called a fat or thick doji or a thin spinning top but the general price action is balanced and indecisive.

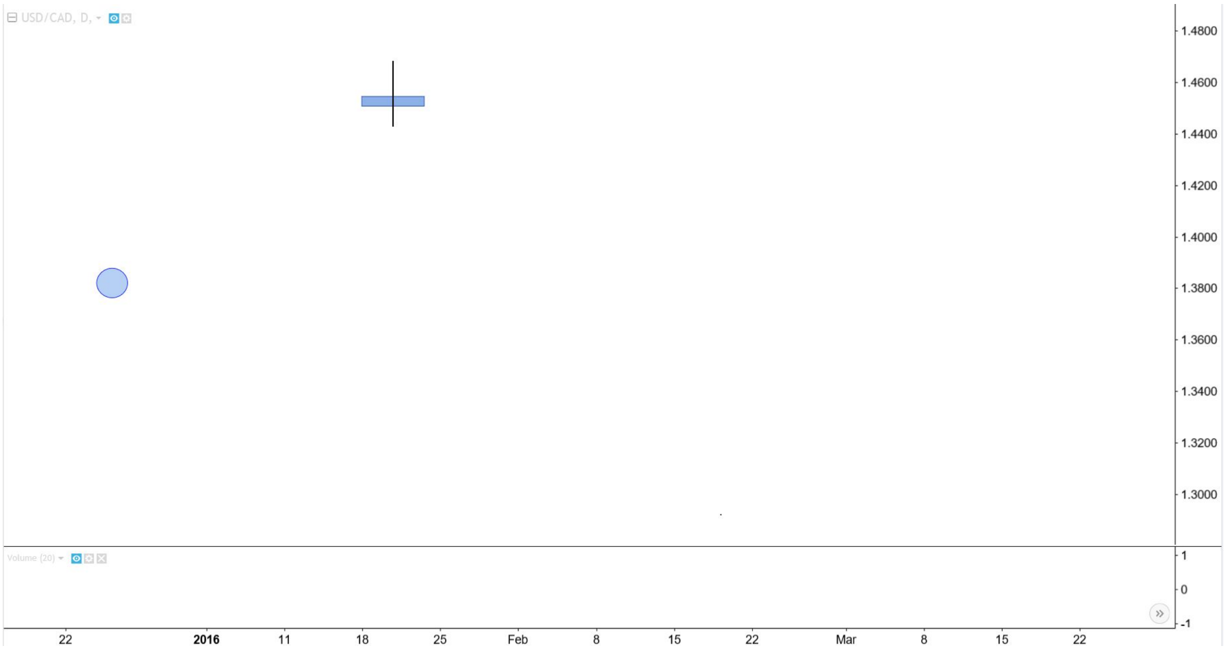
The following candle is a green hanging man since it is in an uptrend though it doesn't drive much lower. This can hint at a possible downward reversal but not overwhelmingly conclusive Then a red bearish star candle introduces more doubt but once again price is little changed and confined to a narrow range. Things are still range bound but the bearish tone has increased.

A strong thick bodied candle closes below the low of all the previous 3 candles for a highly likely reversal to take price lower.

The next candle does the same to form a clear downtrend. It is a moderate drop and not a strong continuation lower like with a 3 black crows that would form if the following candles kept closing lower. The presence of a few green candles and dojis is enough to reduce the pace of the downtrend to a more gradual slide.



The three candles at the top were able to be combined to form a single candle with a slight bias lower as its real body was concentrated in the lower half of the H-L range. This is done by taking the highest H and lowest L of the three candles for the H and L of the combined candle. Then taking the O of the first candle and the C of the last candle to form the real body. That can be useful when the price action is unclear such as during the top 3 candles it can give further proof the market was shifting towards bearish.



It is indeed a large reversal with dojis that appear during flatter price action.


USD/CAD, D,
Volume (20)
1.4000
1.3900
1.3800
1.3700
1.3600
1.3500
1.3400
1.3300
1.3200
1.3100
1.3000
1.2900
1.2800
1.2700
1.2600
1.2500
1
0
-1
17
23
Mar
7
11
17
23
Apr
7
13
19
25


USD/CAD, D,
Volume (20)
1.4000
1.3900
1.3800
1.3700
1.3600
1.3500
1.3400
1.3300
1.3200
1.3100
1.3000
1.2900
1.2800
1.2700
1.2600
1.2500
1.2400
1
0
-1
23
Mar
7
11
17
23
Apr
7
13
19
25
May

The bearish sentiment in the market begins to slow and hesitate as summarized by the increasing amount of dojis that shift price to a more neutral to bearish tone. This eventually becomes more bullish with huge green candles that easily engulf the lowest candle that formed to start May. Furthermore this is near the 1.2500 level a very key level that had reversed the market up and down in the long term context.

That means even though price action was flattening it was not entirely indecisive despite the large number of dojis. The immediate green surge following a brief L below the 1.25 was also a helpful indication and stronger sign of a rapid upward reversal.

Context is certainly key because if that same price action had formed at a less significant price range it may have very well led to prolonged range bound trading. As would be expected a strong and fairly stable uptrend emerged. Additionally 1.25 remained a key area even years later, as price concentrated around it during periods of reversals.

Indecisive Price And Doji Example Case Study 2

Overall Waste Management stock (WM) rose slowly but stably with a few rapid rises. Dojis can be found during reversals and the relatively flat phases.

Bearish stars are abundant during areas where rising price is resisted.

Great examples of Bull hammers in February

Dojis can be strong precursors to reversals similar to bull hammers and bearish stars when they form in established trends and clear areas of support and resistance. Interesting to note how in late April a gravestone doji forms at the bottom of a minor downtrend to form a swift upward reversal after price immediately closes above it. It very much behaves like an inverted bull hammer but with an element of indecision due to the narrower body. Nonetheless the important note is the general price action intending to rise.

Although there was an inverted hammer and bull hammer that formed in the early stages of the massive drop the context was virtually all bearish. The key resistance area at the mid 50s saw a gravestone doji, thus WM failed to drive higher. Immediate follow through emerged with the next two candles gapping down and closing lower. Therefore the inverted hammer and bull hammer were not much of an obstacle despite their short term bullish price action(not to mention they were also red and closed progressively lower.

Switching to a line chart with each dot representing a closing price gives a clearer view of the long term context. There was a triple top chart pattern as well which added to the strength of the larger drop. There is also no coincidence that many closing prices concentrated directly on or near the 55-55.25 levels. Closing prices are after all the most important price in general particularly for marking long term areas of significance.

51 is an influential medium to lower level but it is easily breached

due to the large drop. Nevertheless it remains influential in resisting the recovery back into the 50s later on.

Eventually there is a return back towards 55 and a candle forms in the continuum between a hanging man, regular balanced doji and dragonfly with a thin real body at the top. There is both indecision and downward intent. This is again echoed with the next two candles heading lower but unable to develop a clear downtrend. Then a gravestone doji finally makes contact with 55 with a very long upper wick to indicate heavy resistance at this major upper boundary that remains firm.

The bearish tone continues but there is also hesitation and indecision especially with the dragonfly doji that temporarily slows down the drive lower.

Finally a close below the low of the large gravestone doji moves the market into a clear downtrend but despite this two inverted hammers halt the drop for a brief time as there upper wicks cast some doubt about the strength of the developing downtrend. In the event bearish sentiment increases 51 can be reached but if the doubt continues and bullish candles persist the 55 range can be in the spotlight yet again.

Not surprisingly after the market staves off the drop towards 51 a shorter term resistance range with several dojis emerges at 54 the exact area where those two inverted hammers cast doubt about the downtrend's sustainability.

54 is a nice round number and close to the highs of the inverted hammers and the real body of the large gravestone doji. Thus as many of the recent candles open at 54 and close lower there is

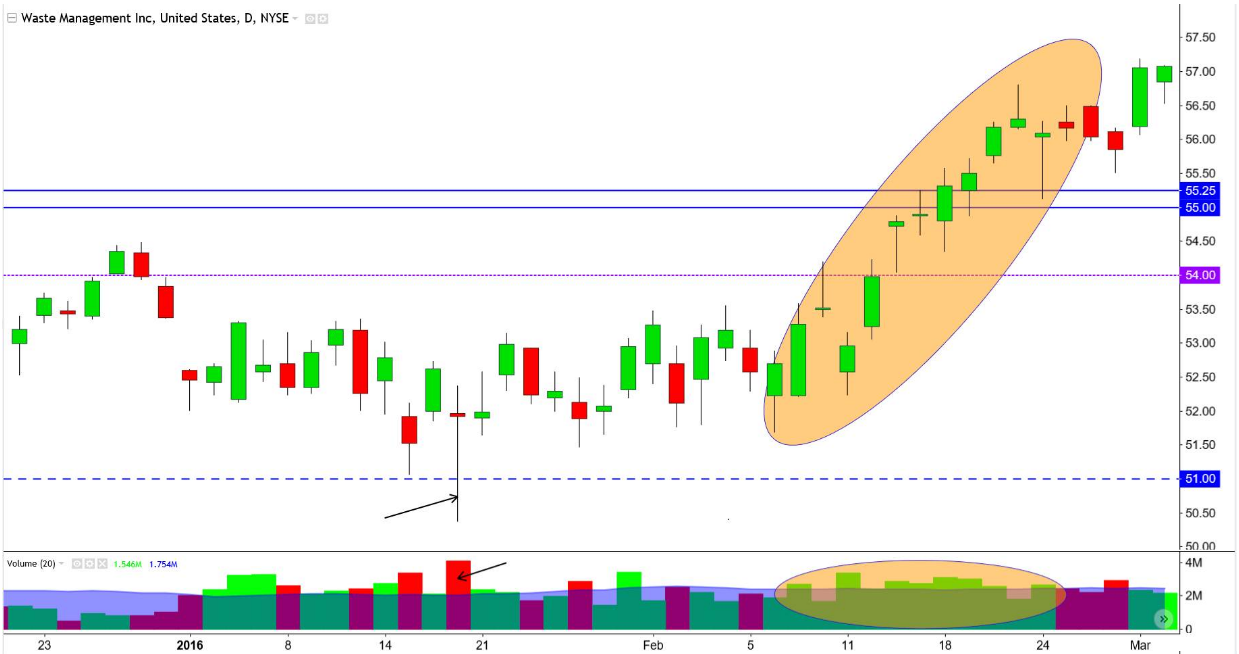
stronger downward bias re-emerging along with the mainly H prices only being able to get above 54 for most of the candles.

A large red candle resumes the original bearish sentiment and takes WM closer to 51 once more. However 51 remains a strong medium term support area and a bull hammer forms with immediate follow through to rapidly shift the market back higher.

The tug of war continues the rapid pace as a candle with the price action of a hanging man candle pattern forms. The real body could be closer to the H and the upper wick could be shorter but the overall price action of a hanging man candle pattern is present. Wick rejection around the H leads to a clear drop that is slow to materialize due to the heavy volatility that persists.

At last 51 is reached and acts as a swift support. It is the exact opposite of the large gravestone doji at 55 as an equally large dragonfly doji forms. Once again like the hanging man it could have a shorter upper wick and real body closer to the H. Though the overall price action is close to a strict dragonfly doji. Since the context is a downtrend nearing a potential support level the dragonfly doji is a bullish candle. The most important feature is certainly the long lower wick to demonstrate unwillingness of the market balance to favor further selling.

Furthermore with the addition of volume on the chart it is also welcome to see high volume for the dragonfly doji. Since it is a doji the color doesn’t matter as much even though it is red. The price action that follows is bullish but not exceedingly bullish. This is in part due to the mostly lower than normal trading volume in the following weeks. That being said it is still green overall to demonstrate a clearer halt to additional rapid selling.



The 55 range is finally surpassed. Volume is slightly above normal but not exceedingly strong. The main strength of the break higher is due to the consistent and stable build up of consistent bullish buying both in the candles and the trading volume. Trading volume can shine further light on the strength of a move and candle's relevance but is not entirely necessary. Price action is key and if this was a forex chart like the earlier USD/CAD chart without volume than the same inferences could be made without volume. Albeit with a slightly lower degree of certainty.

Later on there are two massive bullish surges with exceedingly high volume as well. Thus the rise is more rapid and there are “resting phases” before and after with price going flat to lower and with relatively lower volume. In essence it is like one huge continuation pattern similar to the price action of the 3 methods rising candle pattern.

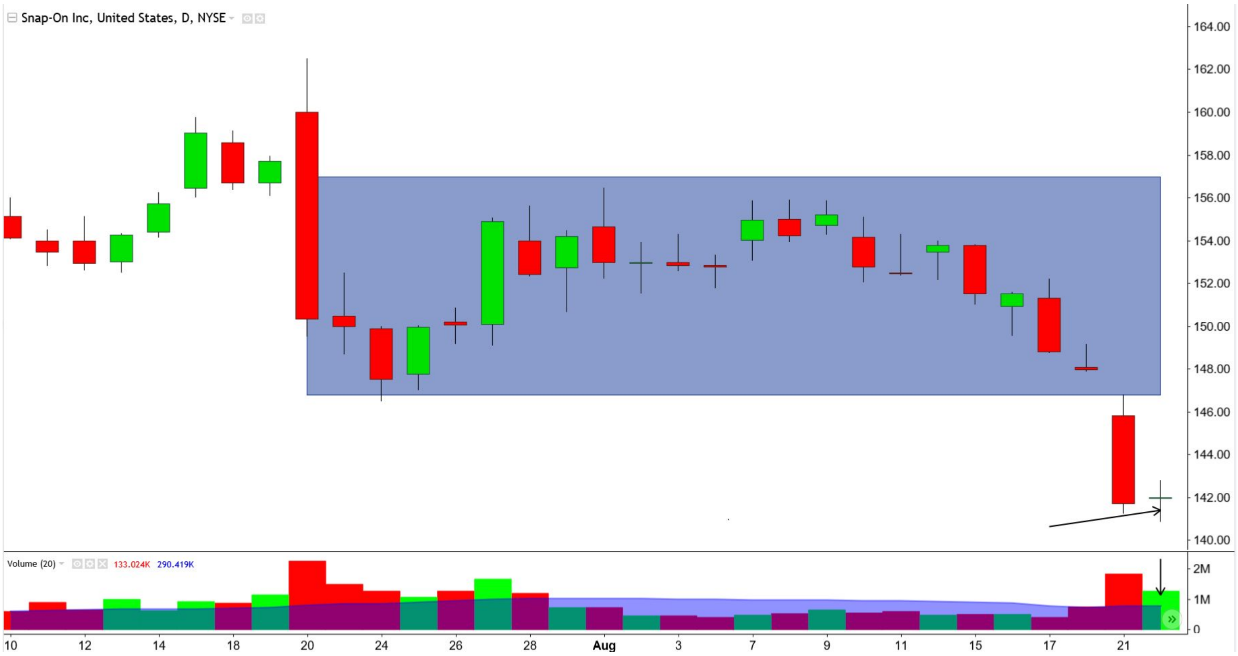
Similar to the situation with the 55 range earlier the low 70s presented a major obstacle to higher prices and naturally saw resistance and the bearish star that formed. Then like earlier the upper boundary is surpassed with a bullish surge, except this time it has exceedingly high volume along with overwhelmingly bullish candles. All making for a rapid rise. After that the market consolidates into the 70s where there are many dojis in the relatively sideways range that even has a gravestone doji act as strong as a bearish star.

Volatility remained high due to the large red candle that proceeded the gravestone doji at the top of the temporary flat range in late April.

Though overall the long term context saw the 55 and 70-71 ranges as mere pullbacks and minor continuations in the grand scheme of things. Price did drop but never to exceedingly high levels to end the stable long term uptrend.

Indecisive Price And Doji Example Case Study 3

A steady downtrend accelerates to end July and resumes a rapid pace lower towards the end of August after a brief neutral to upward range. The middle phase highlights a resting phase where there are a good number of dojis present due to this area holding more uncertainty as the market waits to see whether the downtrend will resume.



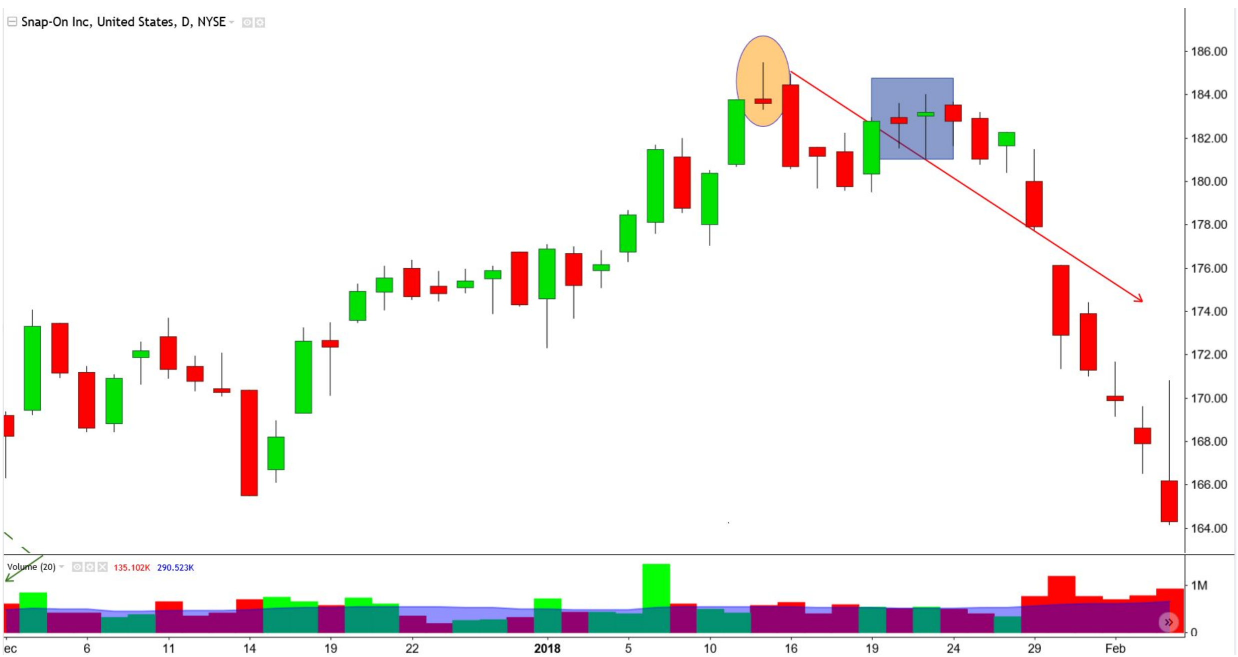
This would seem like a likely continuation similar to the price action of a 3 methods falling pattern. However the emergence of a doji with high green volume puts doubt into the downtrend continuing.

The next candle is an inverted hammer that carries on the bearish tone but also shows intent to rise. Moreover the candle doesn't close or even have its L trade below the low of the doji.

Taking a longer term perspective clarifies the somewhat perplexing pause to the seemingly assured downtrend continuation in the short term. 142 has been reached and it is a major supporting price.

Price certainly does rise and quite rapidly especially in later October. However it was a slow start. Due to the influence of the resting phase that went neutral to slightly upward during the proposed continuation pattern. Naturally price remained flat for much of September with the influence of some dojis. There were also dojis before the rapid October rise as the market was less certain on the approach back to the upper 150s. Then the second highlighted area towards December illustrates a completed upward continuation like a 3 methods rising pattern. Naturally there are dojis concentrated around the lower boundary of the resting phase near 157-155 since that is the area the market would focus on to see if the downswing would go lower or be a pullback before a return higher.

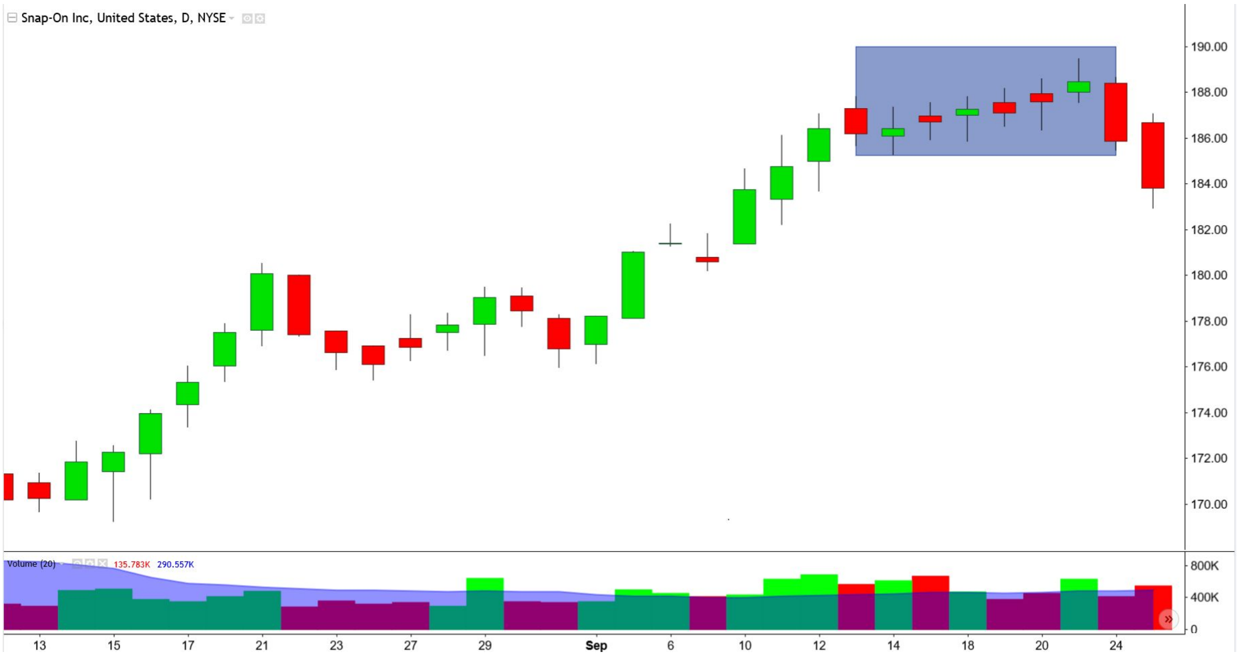
A strong break higher with decisive green spikes both in volume and the candles.



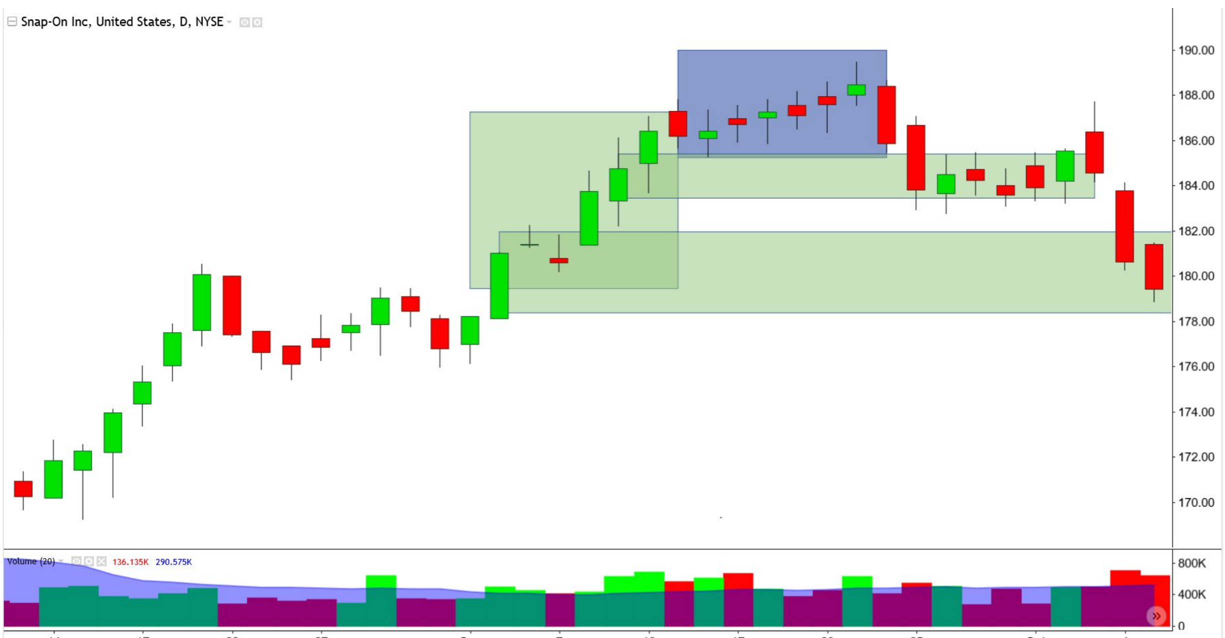
When the market forms a peak it is with a sharp candle. Criteria need not be so strict as to whether it is a thick gravestone doji or thin bearish star the end result is a major downtrend, especially since the next candle closed lower for immediate follow through lower. That being said there was a slow down due to lower volume albeit red volume. Along with the presence of a bull hammer and later candles with longer lower wicks that could be called thicker dragonfly dojis. In general the price action was bearish but the market still had some bullish buying to reject lower prices and form those candles with longer lower wicks. Though once again the deciding factor was a strong row of red candles with high volume to finally drive lower with increased red selling volume as well.

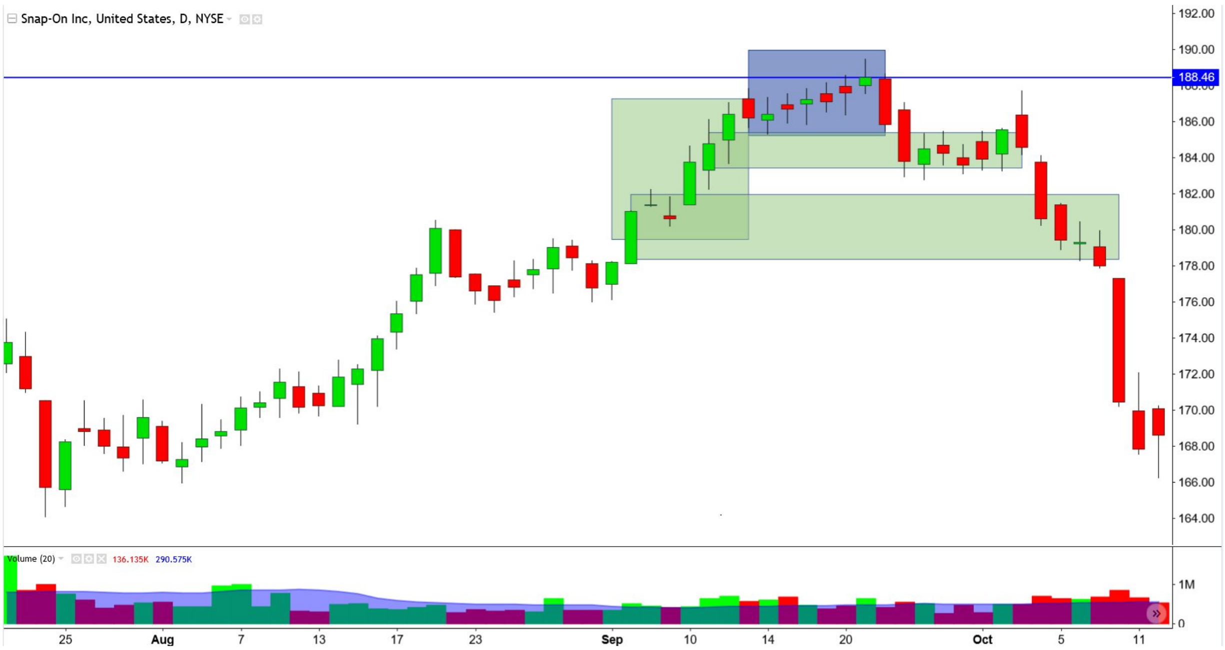
It was indeed a massive and rapid downtrend. Naturally the prior lower range was a contentious area and set the stage for the recovery. Notice the long wicks that are often seen at such contentious areas.

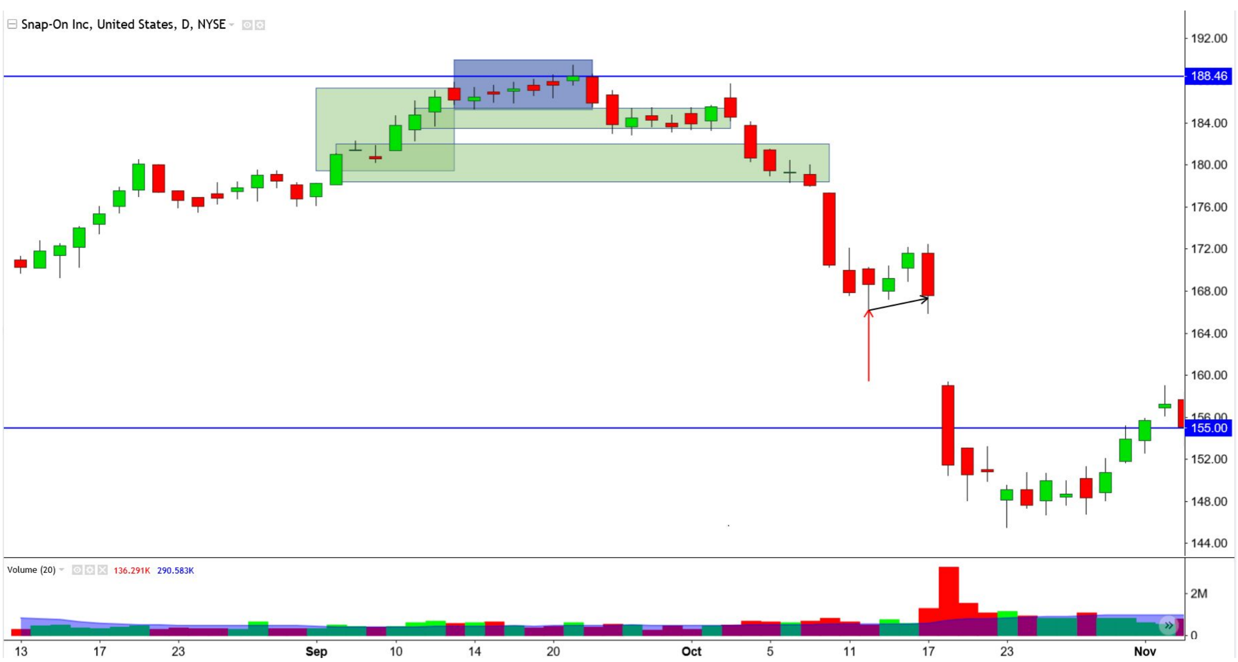
When Snap-On returns higher a familiar sight emerges with the uptrend continuing but gradually flattening. Whenever this occurs the flatter areas often have dojis and/or spinning tops. The most recent candle has a real body slightly lower and a longer upper wick. Not the strictest bearish star and not low or thin enough to be a gravestone doji. Though the general movement is from a more balanced real body to a skew downwards.



Two successive closes lower quickly end the brief deliberation period as selling volume also increases.







It is another massive drop that was slow to start. Note how volume quickly went back to normal levels after bearish candles formed around 188 and only after the red volume increased significantly did the downtrend's progress resume. Though even without looking at the volume the initial stalling does contain relatively balanced candles and even a doji. Moreover these areas line up with the flatter ranges just before the flat top formed around 188. Thus indecision and contention was present around the 180s area both on the way up towards it and on the way down away from it.

The lower range in the 150s and 140s remained highly influential as a support for falling price.

All the price levels marked earlier turned out to be of great significance in the long term. Flatter price action with dojis is very normal along with dojis as the market approaches them as their is hesitation due to the greater attention of both buyers and sellers at those areas. Furthermore when such major levels are passed it often occurs with large real bodied candles and/or a steady row of thicker bodied candles. This applies to both bearish and bullish moves. There is also significantly higher volume which is required to pass such major support/resistance areas. If there is no major surge in volume there is a steady and consistent stream of volume and candles such as in June of 2018 when the market moved back above 155.

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Chapter 4 Swift Reversals and Single Candle Reversal Examples

Swift Reversals and Single Candle Reversal Example Case Study 1

EUR/JPY continues to rise with a strong start to April as seen before the flattening often sees balanced candles in the form of dojis and spinning tops. There is also strong wick rejection at the upper and lower bounds of ranges.

That means the lower wick of bull hammer candles poke through but don’t continue lower. Upper wicks can also point towards the top of the range but the candles don’t close above the narrow ranges.

A large bearish star is followed by a candle that trades and closes below it. However it is a large bull hammer and in effect negates the bearish star.


EUR/JPY, D,
Volume (20)
134.50
134.00
133.50
133.00
132.50
132.00
131.50
131.00
130.50
130.00
129.50
129.00
128.50
128.00
127.50
127.00
126.50
126.00
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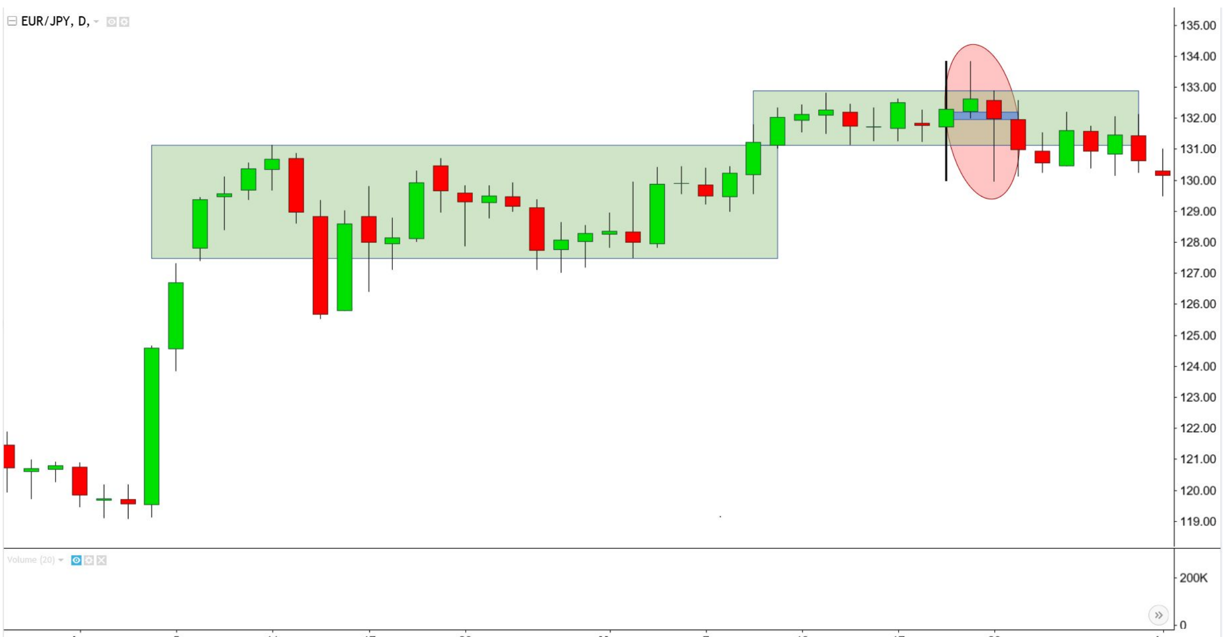
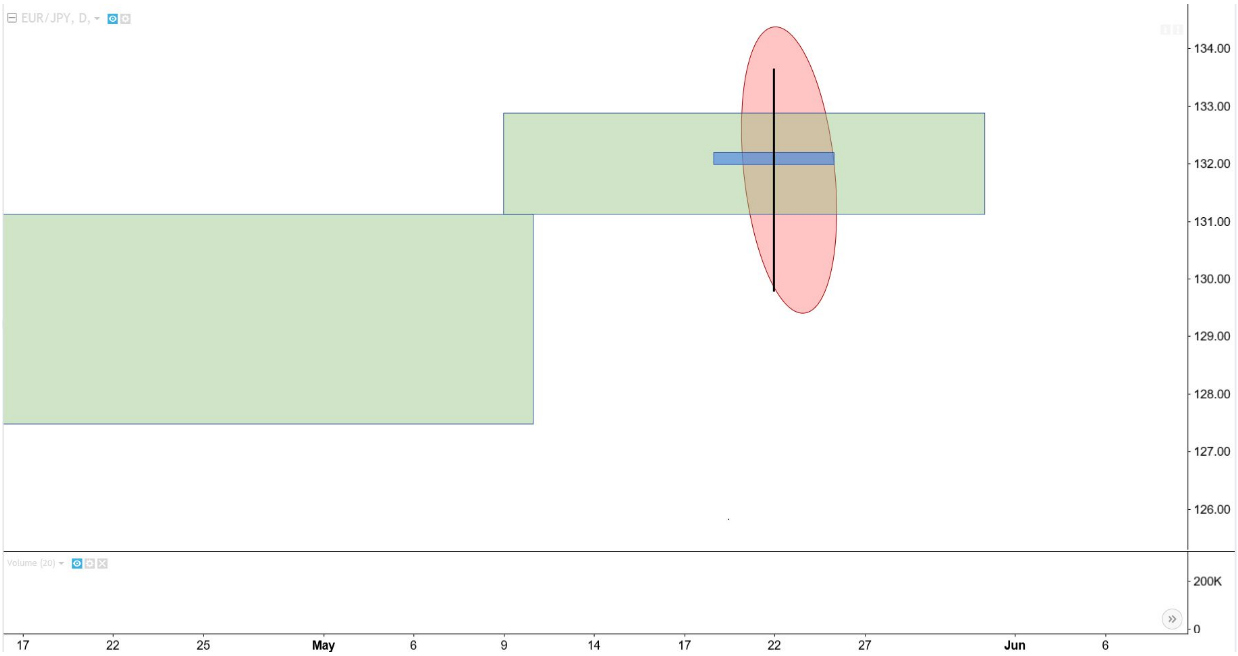
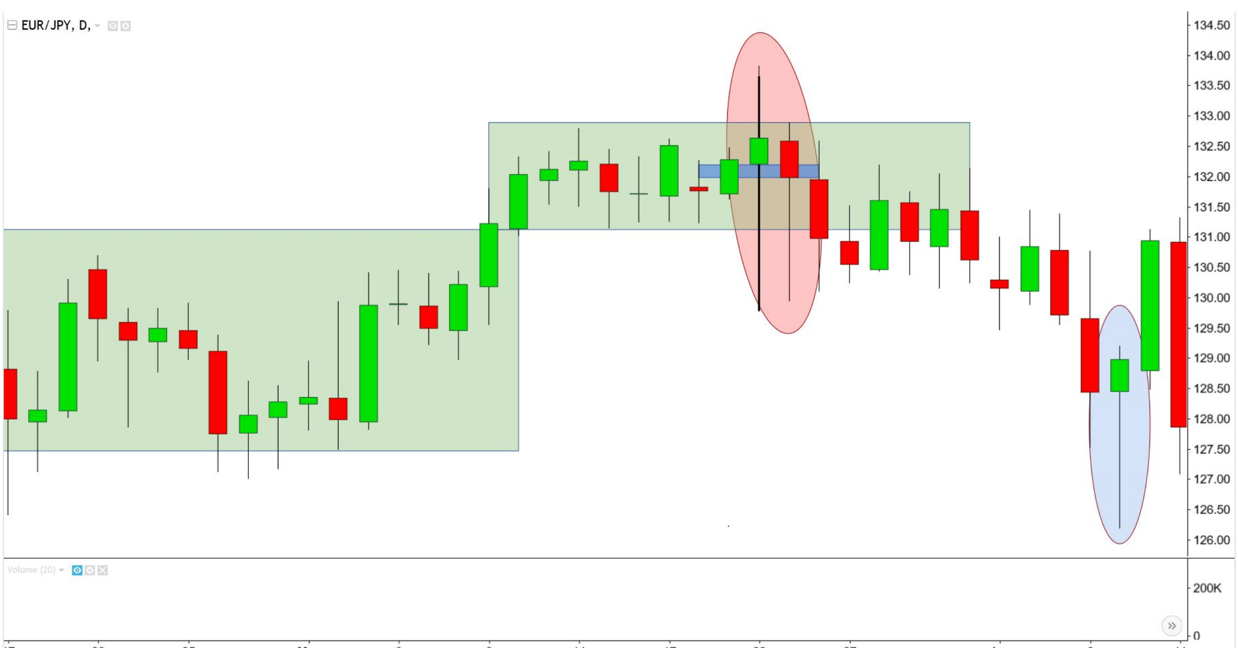
17
21
23
27
29


EUR/JPY, D,
Volume (20)
135.00
134.00
133.00
132.00
131.00
130.00
129.00
128.00
127.00
126.00
125.00
124.00
123.00
122.00
121.00
120.00
119.00
200K
0
Apr
5
11
17
23
May
7
13
17
23
Jun



Combine the two and it is basically one large doji, equal push and rejection to the upside and downside to end off with a balanced and centred real body.



Slowly but surely the market slides lower with a gradual increase in thicker red bodied candles. Though some indecision remains due to the periodic green candle and one thick doji as June begins.

The downtrend had set in but the two bull hammers put doubt into the longevity. The longer lower wicks tend to indicate the market is unwilling to go lower so fast and for much longer.

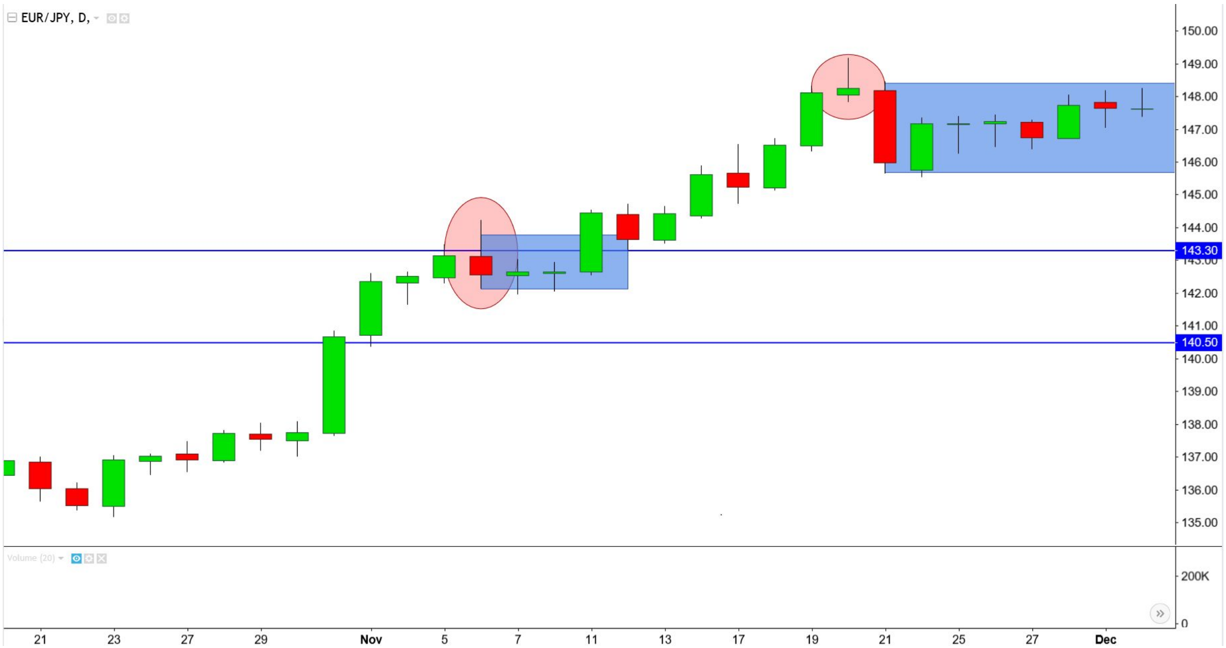
Going back a few years reveals why the 132.50 area was such a contentious area and relevant resistance zone.

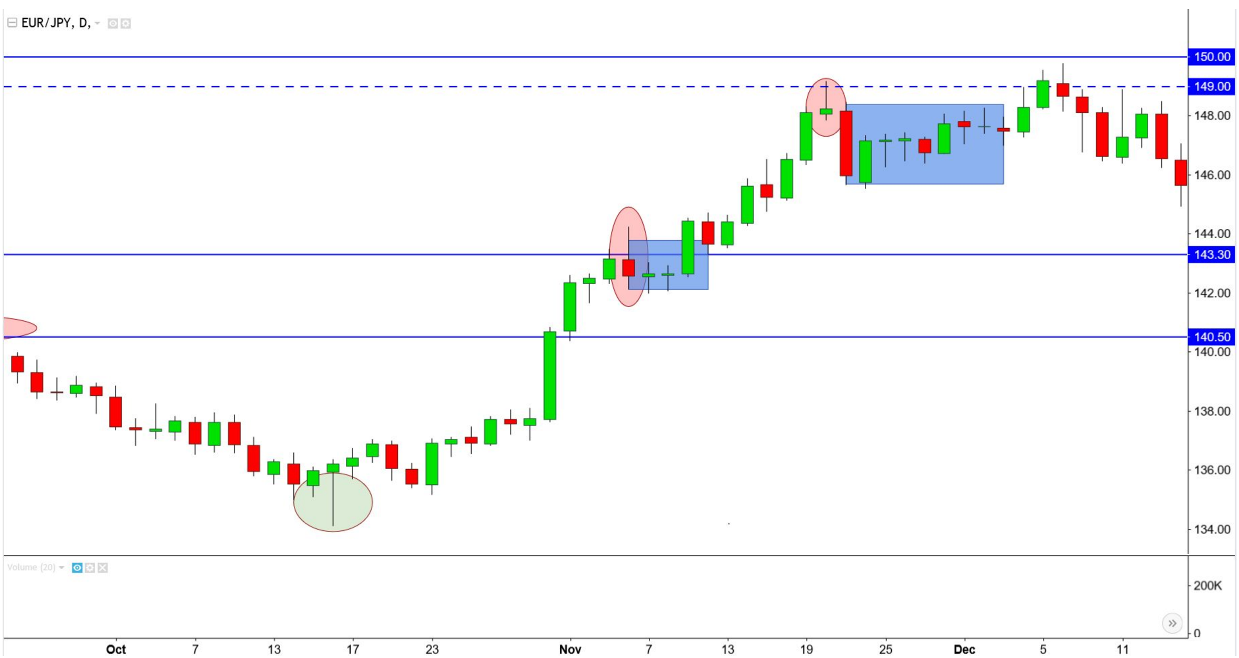
The influence of 132.50 continued well into the future as the market fluctuated drastically above and below it.

When focusing on the downtrend that started 2014 there is a similar slow start despite a very clear upper wick rejection. Overall a bearish star albeit a slightly less bearish one due to it being green and having a thicker real body closer to the 1/2 instead of lower 1/3 of the H-L range. The real decisive move was the one large red candle 4 days later. Not immediately trading below the low of the bearish star naturally hesitated the market.

During the downtrend and eventual recovery there are plenty of single candle reversals that are comparatively more rapid with immediate follow through. Sharp wick rejection the upper wick of bearish stars and sharp lower wick rejection for bull hammers. As well some dojis also form upswings in late July and early

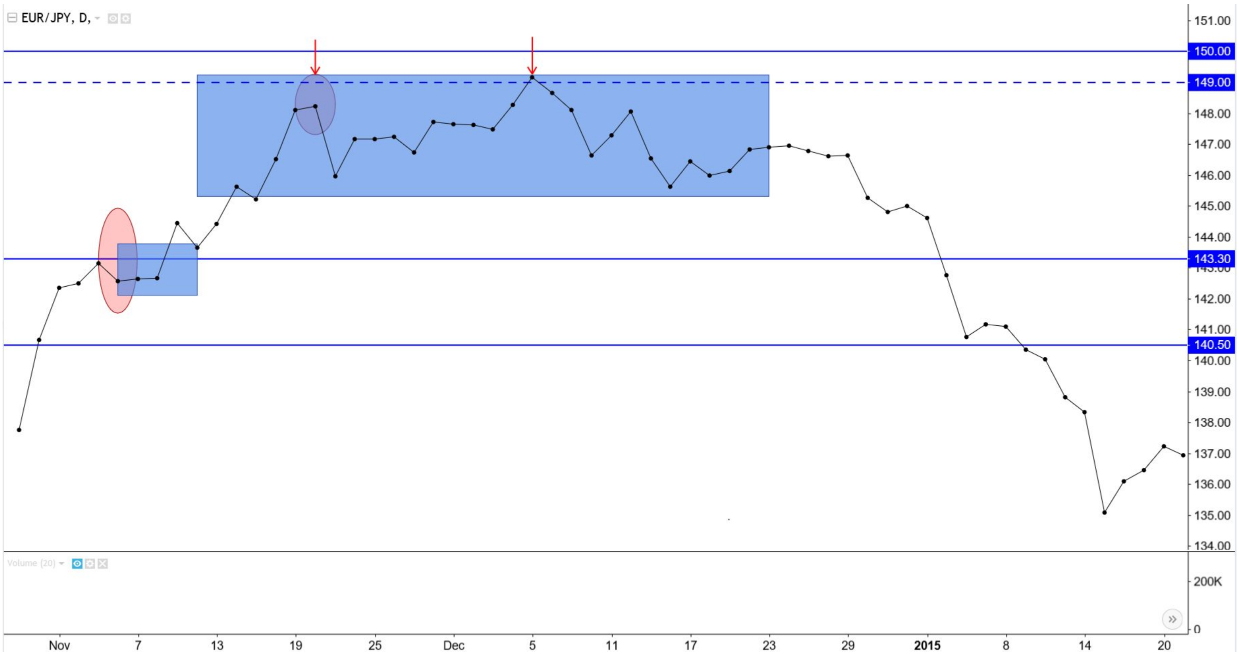
September since their lower wicks are rejected at lower ranges similar to bull hammers or dragonfly dojis.





Once again dojis emerge at flatter ranges(marked with blue rectangles) close to significant long term levels. Such price action serves to call into question whether the market would have reversed downward immediately.

The upper wick rejection at a major upper range is a bearish sign but the market is slow to follow through despite initial closes lower. This is in part due to the close proximity of the 143-140 area that forms a tighter range and potential support to halt an advance lower.



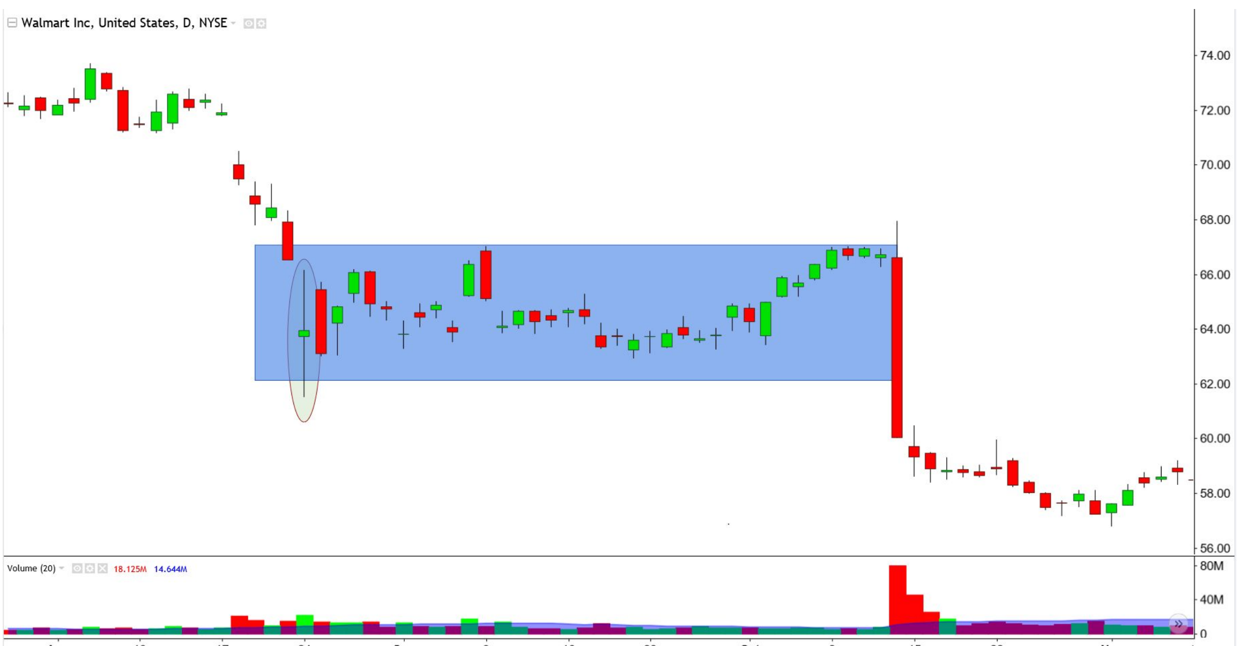
Line chart with closing prices shows the tendency for closing prices to be near the upper and lower boundaries of key long term ranges.

The large red candles at the tail end of 2014 finally develop the downtrend that was likely to be large in scope due to the 150 level being a major upper boundary. A continuation of a falling 3 methods pattern forms after breaking 140.50. Thus a continuation lower is more likely.

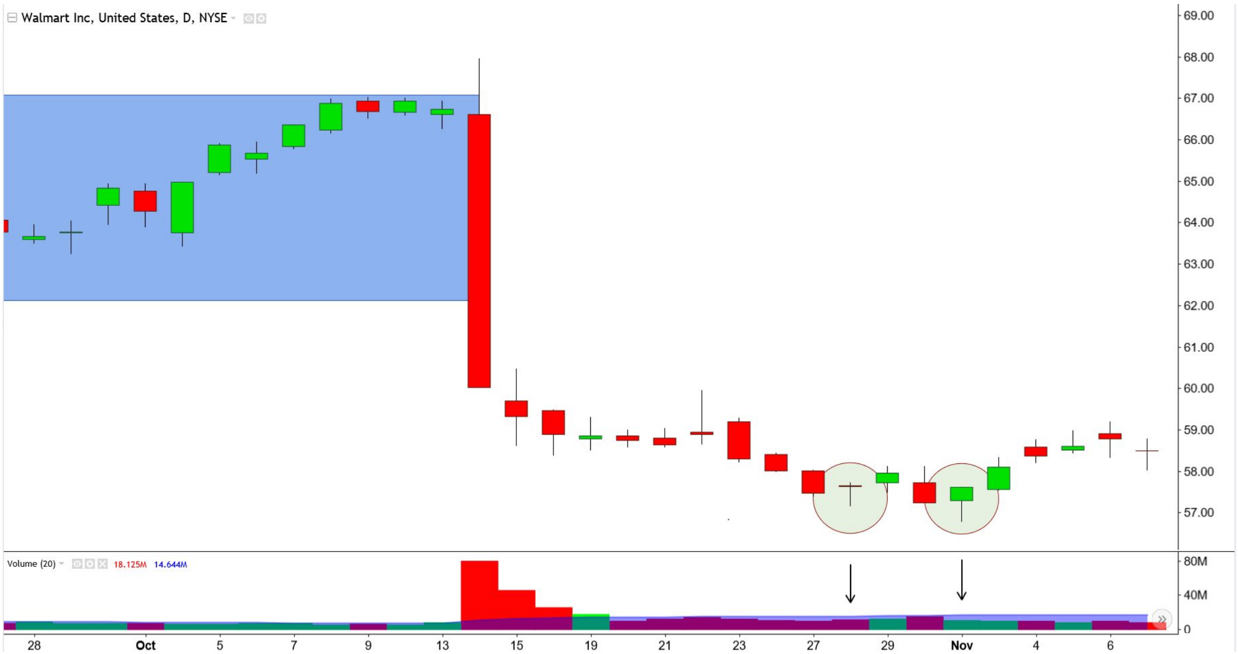
The old 132.50 level reemerges to really slow down the otherwise rapid decline. Note the wick rejection and tendency for real bodies to form above 132.50 that acts as a support. Although it doesn't lead to an upward reversal, supporting price action is still present as sellers step back and buyers temporarily hold price in the 130s.

The same levels are highly influential months later and are only passed with large green spikes. Normal upper wick rejection to form a double top reversal at 140.50. The upswing in September is certainly no bull hammer it is actually a harami, but when combined into one candle it becomes a bull hammer. The first red candle also closes above 132.50 and the lower wick rejects lower prices to show bullish intent that rapidly materializes.

Swift Reversals and Single Candle Reversal Example Case Study 2



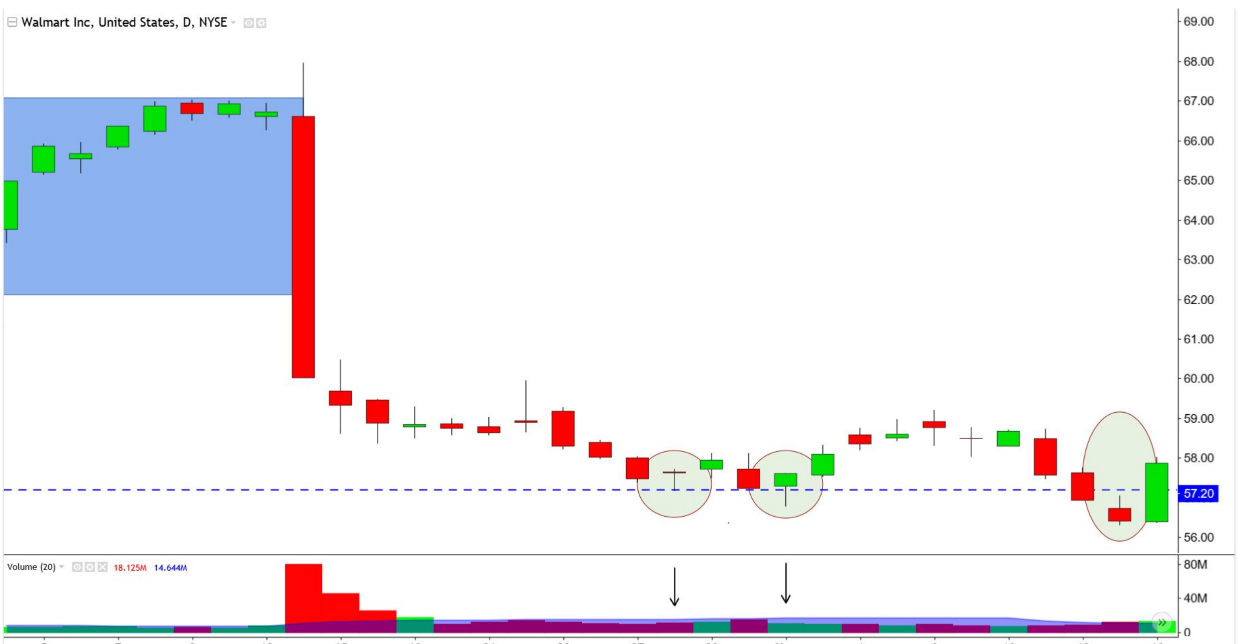
Clear continuation of the existing downtrend. Though the large candle on August 24th was indecisive on its own resembling a thick doji, it acts as a small upward reversal. Similar to a bull hammer the lower wick reject 62 to assert the temporary lower boundary of the resting phase range before the continuation resumes with the red spikes in mid October.



Similar story with the dragon fly doji and stubby bull hammer that have low volume and are in a flattening range with plenty of indecision as evidenced by the surrounding dojis and decreasing volume.

Longer term context clarifies the situation as 57.20 is revealed to be a major potential support, having acted as an influential resistance years earlier.

A small red build up puts 57.20 under pressure but an inverted hammer quickly puts bearish sentiment into doubt.



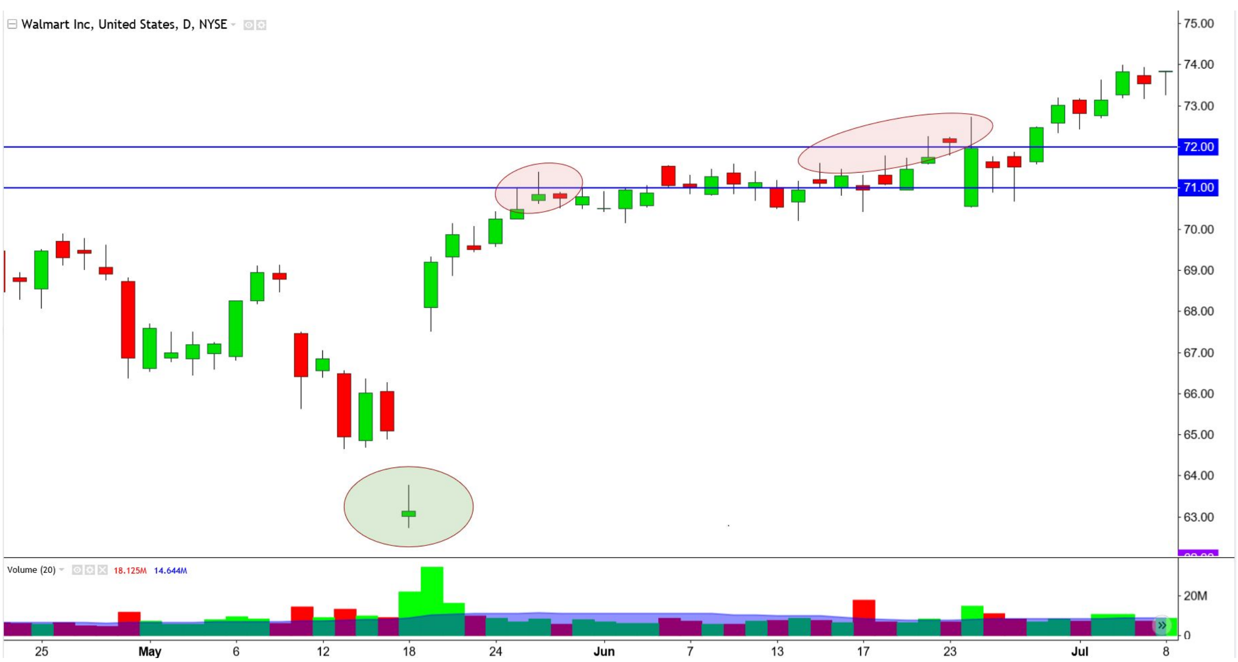
Renewed optimism for a bullish reversal as the inverted hammer is fully engulfed with increasing volume too.

Swift rise but resistance from the close of the large continuation candle at 60(from October 14th) stalls the climb. Hesitation materializes with a few dojis and spinning tops.

A small downswing is not sustained and the market remains in contact with 60. Eventually there is a gradual and consistent row of green candles to make up for the low volume to start 2016 on an increasingly more bullish note. This soon leads to a decisive surge to easily surpass the stronger 62 resistance that formed from the lower range of the earlier resting phase. 62 is also a key lower boundary when the market establishes newer highs

A less common occurrence with an "abandoned baby" which is a candle with large gaps from the candle before and after it. This demonstrates a major short term over extension(in this case to the downside). Thereby creating a strong rebound in the opposite direction(back up in this case). Abandoned baby candles are commonly from balanced thick dojis but they can be skewed like a bearish star, hanging man, bull hammer, or closer to an inverted hammer like in this example. Naturally volume increases during these events mainly due to the rapid volatility.

Even if there was no downward over extension with the "abandoned baby" the 62 level offered strong support and that large wicks similar to the earlier bull hammer would naturally form around 62 as well.



Back to the low 70s range with upper wick rejection and many O and C prices concentrating on 71.

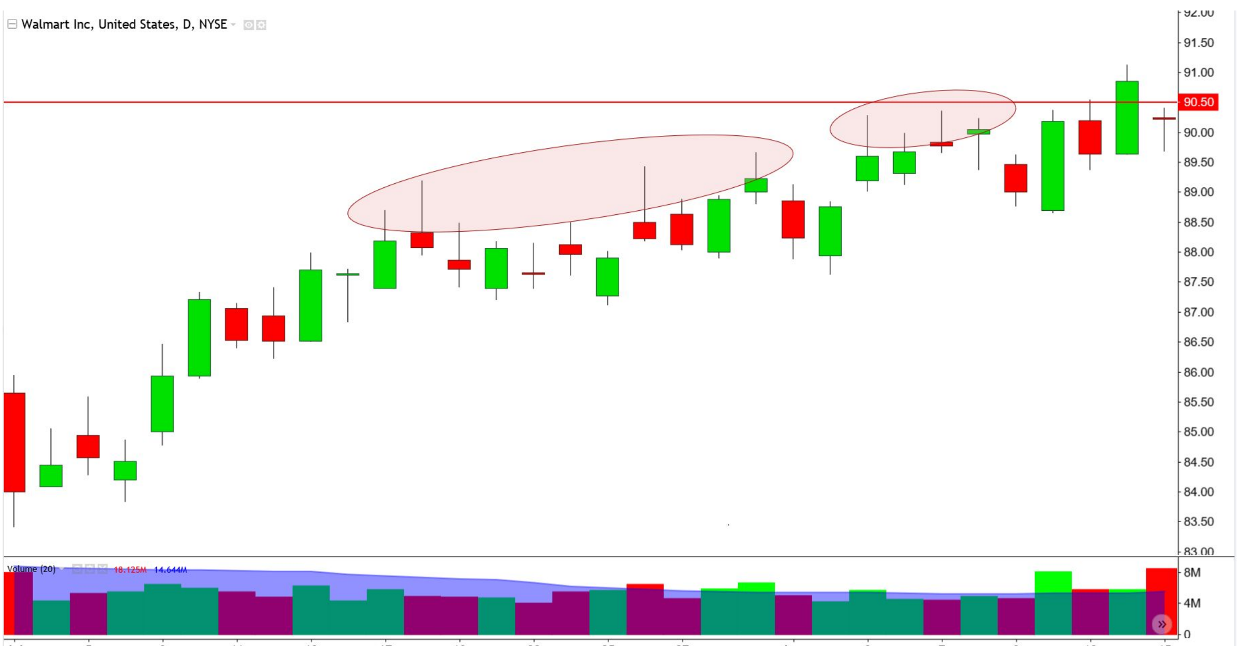
A great demonstration of a bearish star at major resistance acting as more of a long pause rather than leading to a major downtrend.

General price action shows upper wick rejection for bearish stars as well as the thinner central gravestone doji. Volume increasing with Walmart gradually trading and closing lower

90.50 is also a round number at a previous long term resistance. Price has also risen quite sharply in the short term and is slightly over extended upward.

All signs seemed to point down. Walmart rose instead because the volatile and unpredictable event of the third quarter report took place. Such scheduled but unpredictable(in terms of results and market reaction) events like quarterly earnings essentially negate technical setups on the chart such as the seemingly clear bearish reversal. That is why it is often not suitable to be in the market or looking to enter positions during quarterly earnings reports for short to medium term traders. As well as long term investors looking to enter or exit a position under more stable conditions.

The 90.50 high being a "gap fill" level naturally influences Walmart's price action. It even slows down the large drop in late February and begins to resist the recovery in mid August.



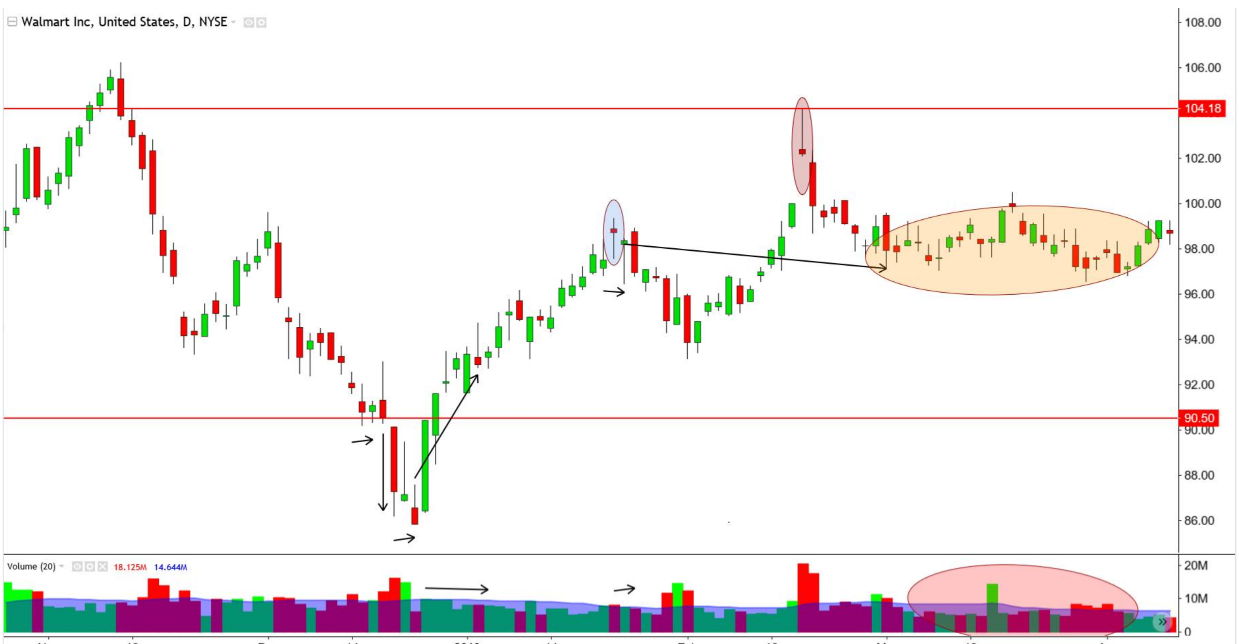
Upper wick rejection followed by candles trading lower and increasing volume, that are soon negated by indecisive price action pushing up and down through the still influential 90.50 level.

Once again a seemingly perplexing jump higher in spite of the bearish context on the chart. It is a repeat with another quarterly report. Such events don't necessarily negate bearish setups and result in a jump in price. That is just the result for WMT stock in this example. Major catalyst events like quarterly earnings can jump down, or stay sideways with varying degrees of volatility. All resulting in such time periods being less stable and candle patterns and general price action being less reliable.

90.50 acting as support with lower wick rejection and an inverted hammer attempting to reverse up. However red candles and volume still predominate and the recent surge lower is almost a guarantee for further lows.

Walmart does indeed go lower but not by much and not for long. As soon as those inverted hammers appeared the drive lower was put into doubt and after a large green candle closed above their lows on December 26th, a major reversal was likely after 90.50 was cleared once more. Additionally it is more of a downward over extension taking the chart into oversold territory. The upward reversal isn't that strong but it is consistent. Just by looking at the shift from more red to green candles after the inverted hammers is a big clue, along with the almost absent and low red volume that was replaced by normal to low, but consistent green volume into 2019. This made for a stable and slower climb back into the 90s. This illustrates how rapid immediate trading above a bullish candle increases the chance of an upward reversal.

In later January 2019 the green bearish star was followed by two candles that were more like dragonfly dojis rather than hanging man candles due to their thin bodies. Though the effect is similar, the uptrend is put into doubt with the lows pushing lower but at the same time price doesn't close significantly lower. This led to more of a neutral to slightly bearish phase like a resting phase. The rows of green candles before and after are essentially the price action of a 3 methods rising candle pattern spread over a few weeks.



The next bearish star forms an ideal reversal at the previous upper ranges. Long upper wick rejection, high volume and the next candle surges to close lower. The reversal is so fast it leads to a short term downward over extension. Too much selling too fast. Thus the bearish sentiment is still present but it is exhausted and that allows price to remain neutral but not bullish. The market deliberates after an expected drop but one that was too quick of a decline.

Similar to the situation at 90.50 in late 2018, Walmart's price proceeds to decline but only marginally. Then it becomes clear the 98.64 level formed a support largely from the closing prices of recent downward reversal candles seen earlier. This shifts conditions in favour for an upswing that does happen but once again it is slow at first but gradually accelerates due to the normal to low but overwhelmingly consistent row of green volume and candles. While at the same time there is almost an abrupt absence of red candles and volume.

A repeat with upper wick rejection at 104 but the 98 boundary holds, leading to another favourable bullish rise with consistent and increasing volume.

Classic role reversal of a prior resistance level becoming a major support after price falls from newer highs. Interestingly many L and C prices naturally form close to it.

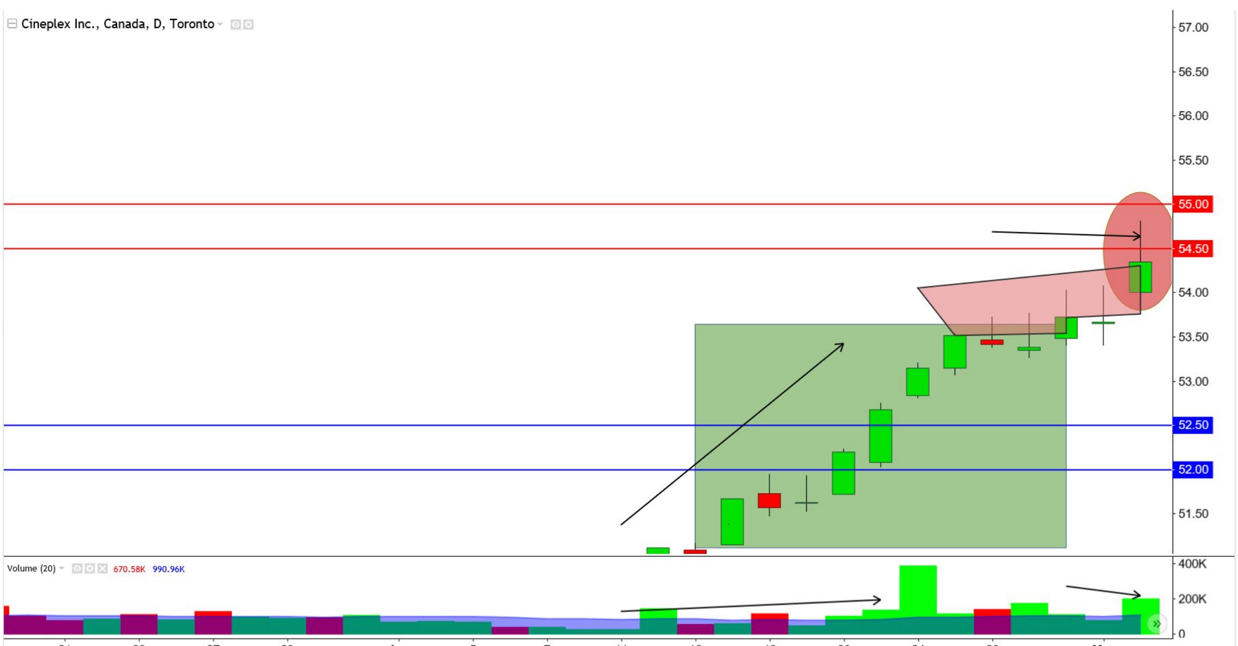
Sometimes a support level or range can be so strong along with the market intent to rise a candle may form slightly above it like in late February with the dragonfly doji. As with other examples these two candles in mid March are not strict and perfect inverted hammers but they show the general price action favouring a move up with their highs and a rejection of going under 104.18 as seen by closes above that level.

Combining time frames(here it is the daily(left chart where each candle is one day of price action) with the intraday 15 minute (right chart with each candle representing 15 minutes of price action), allows for details to be combined from both a longer and shorter time frame for greater context. In this case it is possible to see two bearish stars and their temporary highs that end with lower closes in the shorter time frame. As well the general higher importance of O and C prices can be seen since most activity centres around them in the longer term context. It also illustrates how candles are merely summaries of general price action and that they can be thought of as charts within charts.

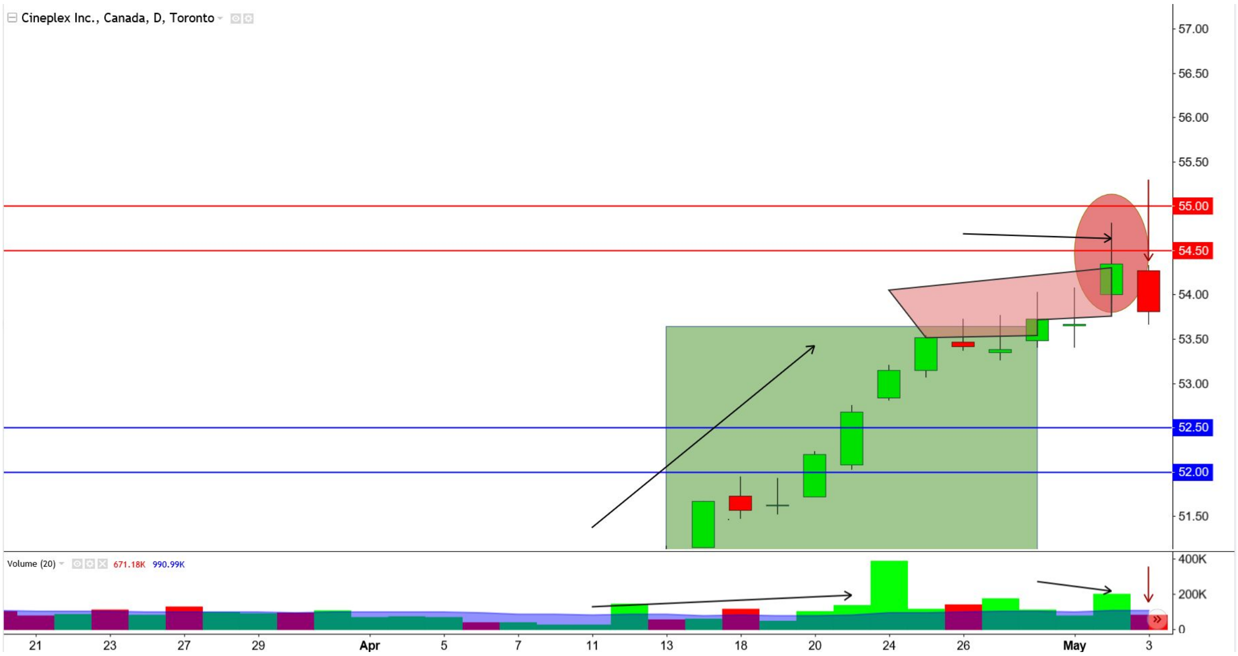
Swift Reversals and Single Candle Reversal Example Case Study 3

Candle charting can be used in all time frames and markets Cineplex stock is another example as it is a stock on the Canadian stock exchange. Though the same insights from candles can be used similar to the earlier American stocks and forex charts such as the EUR/JPY. Once again general price action is the key rather than remembering strict candle patterns. Many of the upper and lower wicks rejected at support and resistance are of candles that resemble but do not exactly match the strict criteria of bull hammers and bearish stars in terms of having the exact proportions seen in the diagrams from chapter 2.

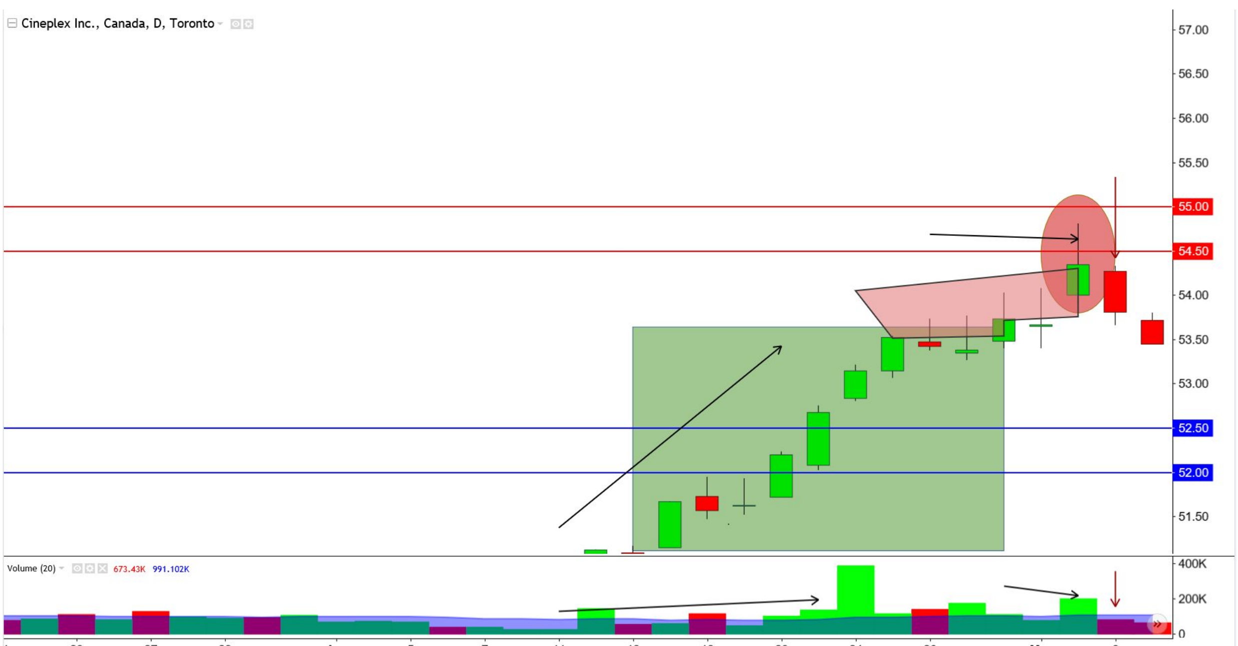
Another example of a major resistance that is passed due to increasing bullish candles and volume.



A new upper range is reached with dojis(and lower volume) slowing down the climb as the natural materialization of hesitation in the market as to the longevity of the strong uptrend. A downward reversal can be likely due to this short term context, along with the uptrend that can become over extended if it continues too steeply, along with opposition from interest to sell in the mid 50s that are a clear resistance range. The first real sign of confirmation for early bearish sentiment comes if the next candle trades below the bearish star's low and preferably closes under the bearish star's low.



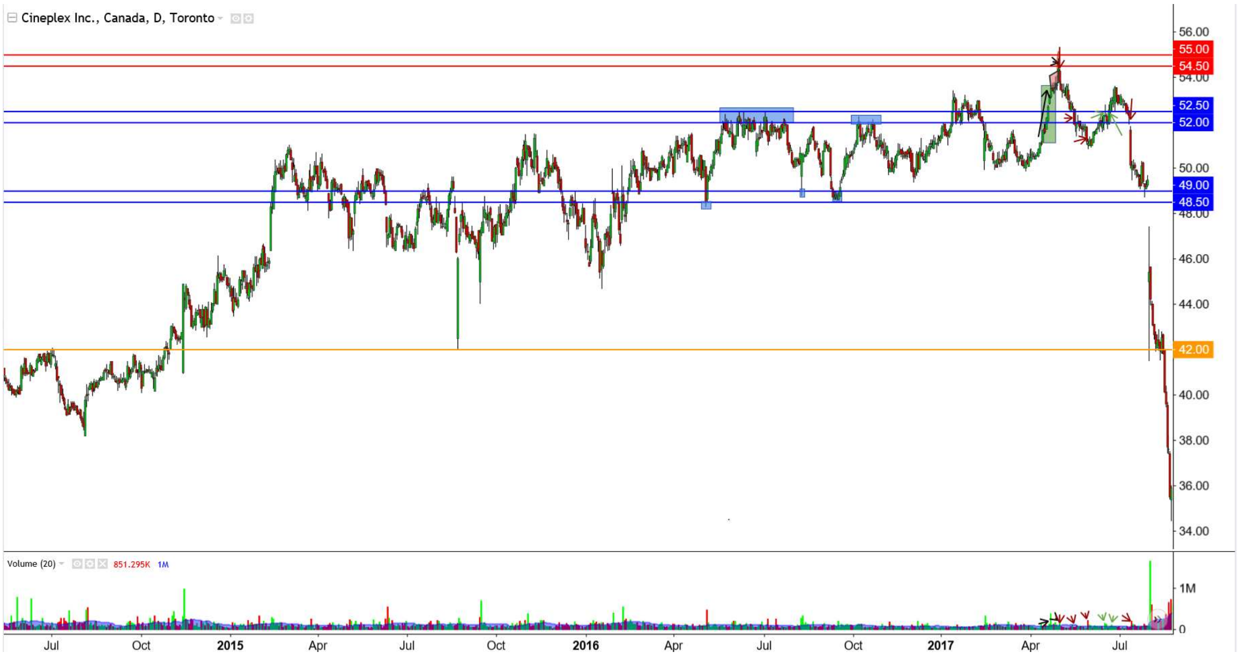
A downtrend is more likely now. Not only is there confirmation with a close below the low of the previous candle on May 2nd the newest candle has increasing volume and large upper wick rejection. Further weakness nearing 55 and stronger intent to move lower.



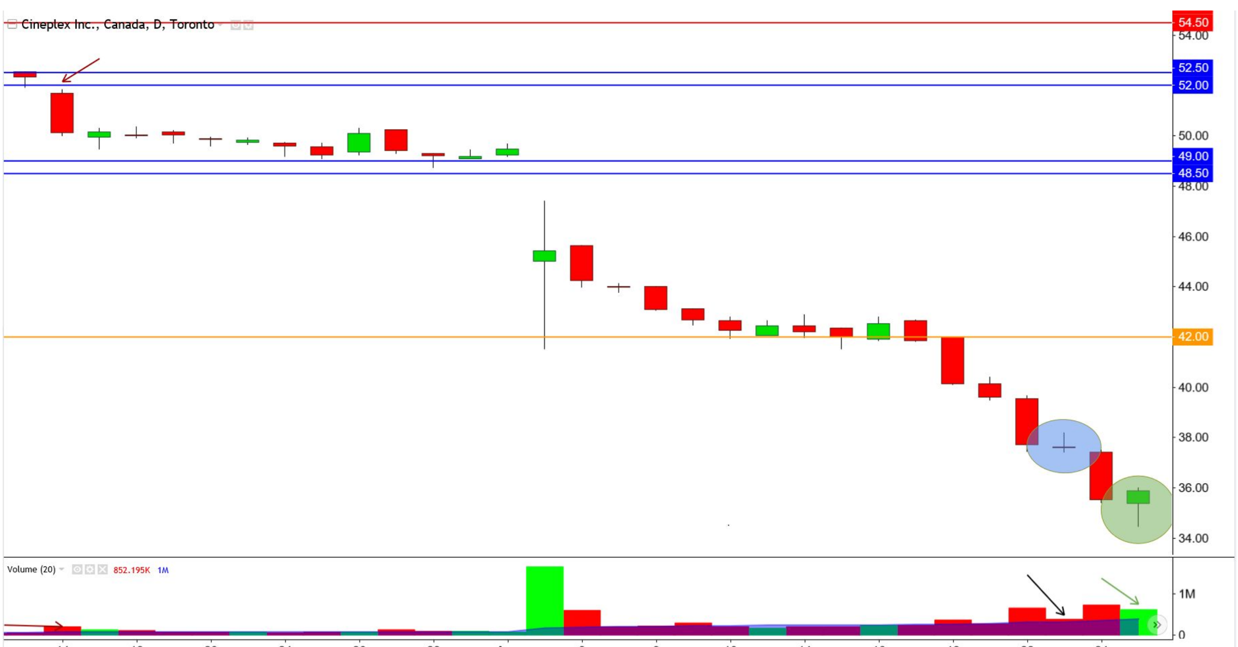
The market is in agreement and while the volume decreases the tone is still increasingly bearish with another close below the bearish star(s).

Overall a major reversal forms and slows down due to decreased volume and dojis approaching the prior 52 range is normal due to the support influence offered at that range.

Two major gap downs easily take Cineplex into the low 40s where there is high lower wick rejection in August. It is by no means a bull hammer or dragonfly doji but the real body is in the upper half of the H-L range. Volume is very green and the round 42 level too. However the large bullish candle on August 2nd is short lived as the market immediately closes lower in subsequent weeks and doesn’t even near the high of that single massive bullish candle. Volume is not exceedingly high but the quantity of red candles is increasing to put more pressure on the solid 42 level.

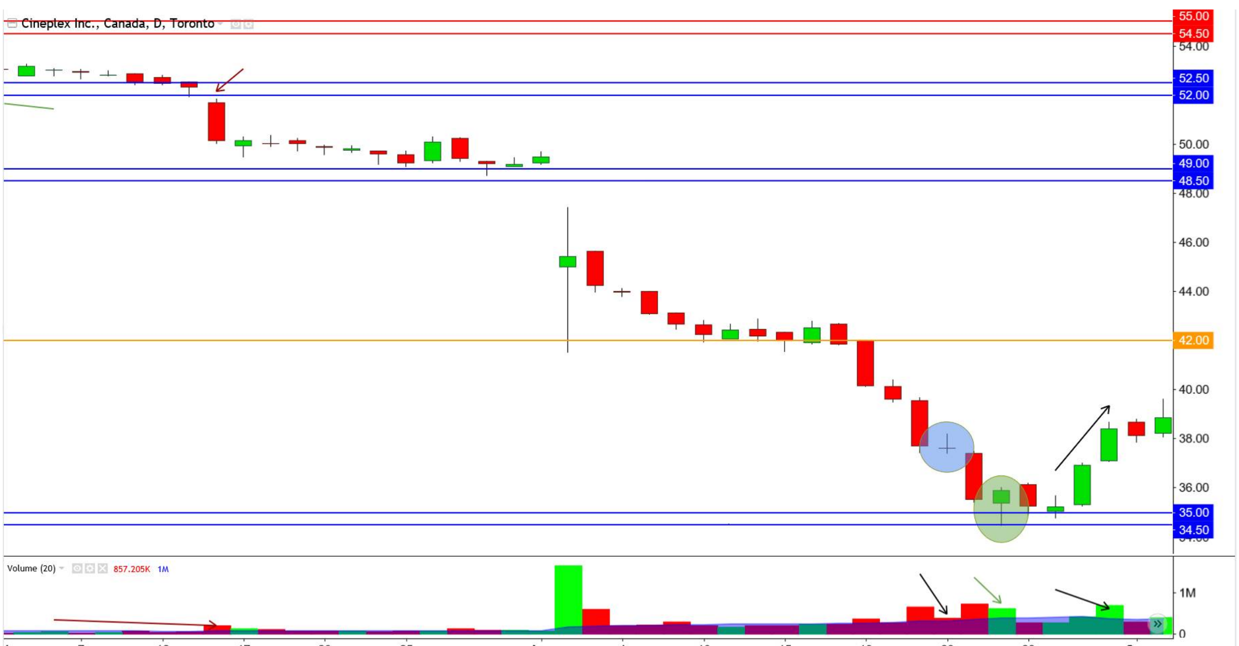


An excellent demonstration of how no immediate confirmation of trading above a bullish candle and price continuing to close lower can lead to a further drop despite a solid support level like 42.



The strong break under 42 sees a doji form as a temporary pause to hint at the possible overselling and exhaustion of the established downtrend. It becomes more convincing when a near perfect bull hammer forms with high volume.

It is not strong confirmation of an upward reversal but it can be said the downtrend is at least halted due to the bull hammer and brief trading above its high with the next candle that was red but had significantly lower volume. 35-34.50 is a nice rounded range and a potential support range.



The clean 35 level holds and eventually bullish activity increases. This was helped due to the inverted hammer on August 29th that had lower wick rejection during the brief dip below 35.

Note the slow down and bearish star blocking the young uptrend. It lines up around 38 and the doji marked earlier on August 23rd. It is similar to how the lower boundaries of downward continuations in previous examples acted as a temporary resistance areas to developing up trends.

Amazingly this pause is prolonged and although there are many red selling spikes the market is unwilling to go back to 35. Thus selling pressure is increasing but the market is still oversold due to the prior steep downtrend.

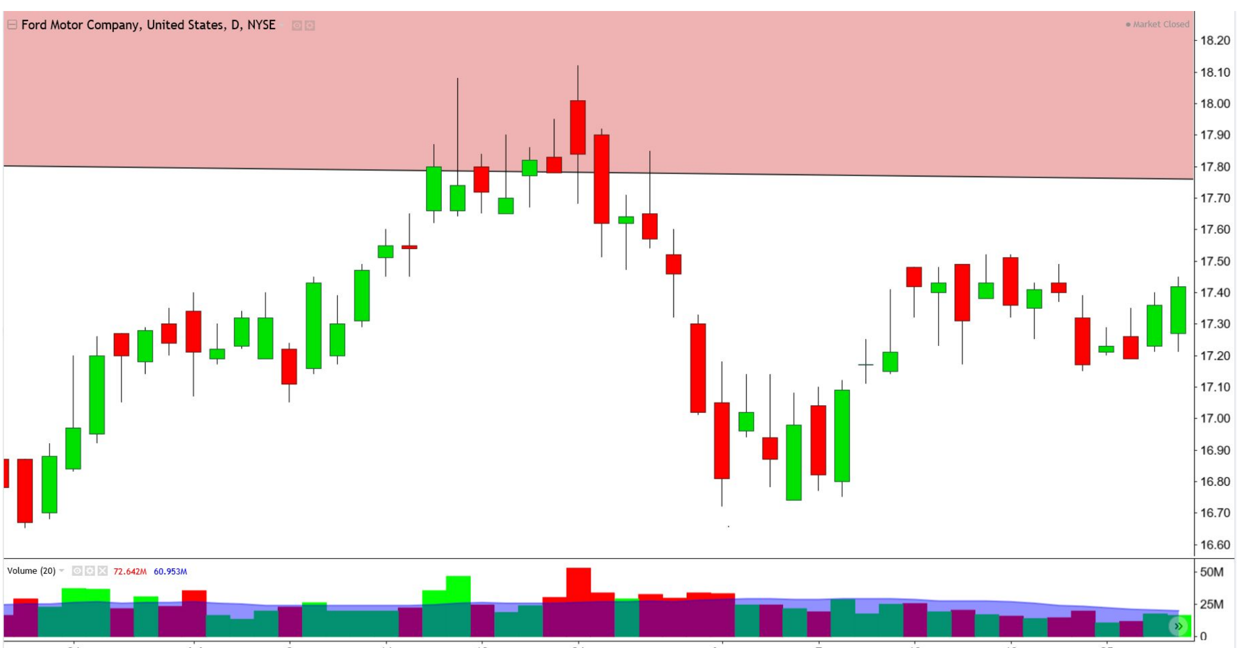
Though eventually the upper 30s resistance range persists and forms strong upper wick rejection that culminates in a pair of bearish stars and increasing bearish volume as 2018 begins.

No surprise then that the solid 35-34.50 range no longer held, and that remained influential months later as stiff resistance.

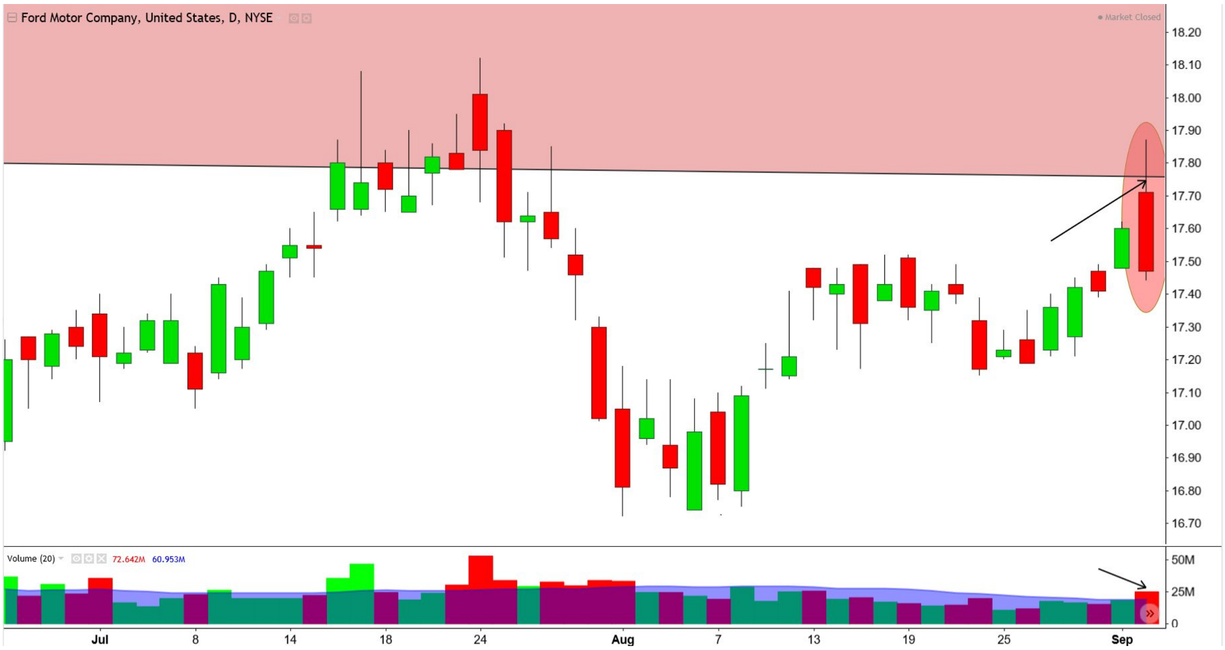
Chapter 5 Two Candle Reversal Examples

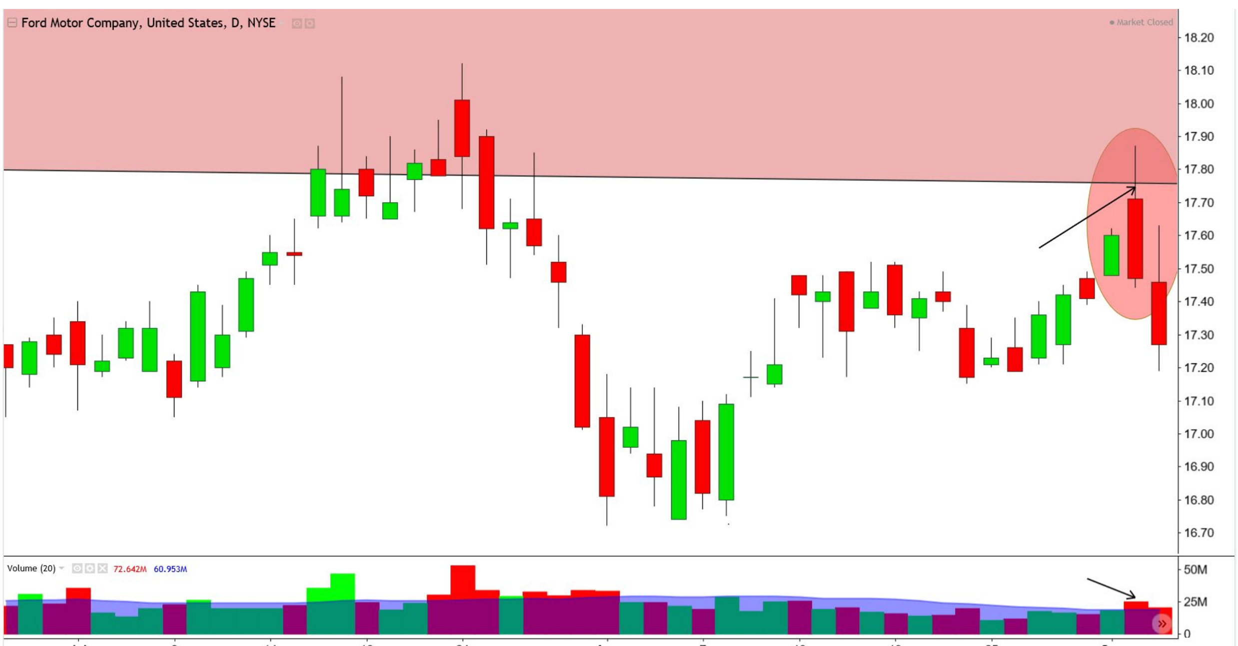
Two Candle Reversal Example Case Study 1

Ford is a lower priced stock than many of the previous stock charts in this example but the general principles of price action and candle charting can still be applied.



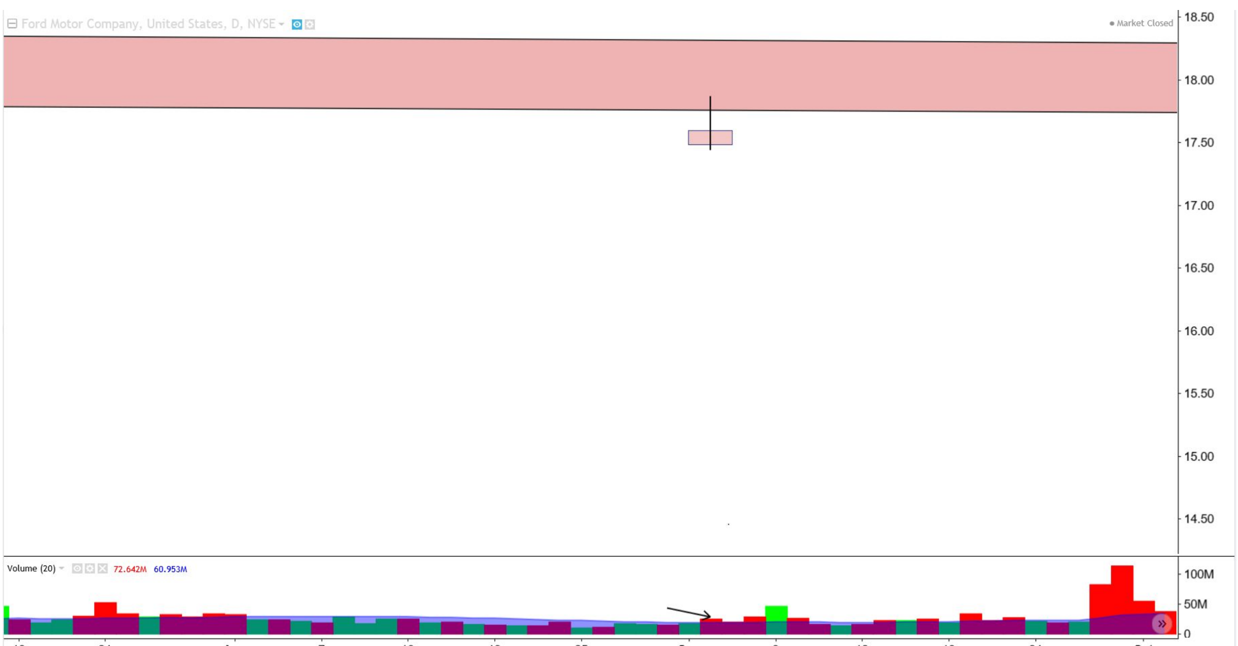
A clear downtrend places a bearish tone on top of the large upswings. Naturally upper wick rejection is seen followed by large red candles and increasing volume.



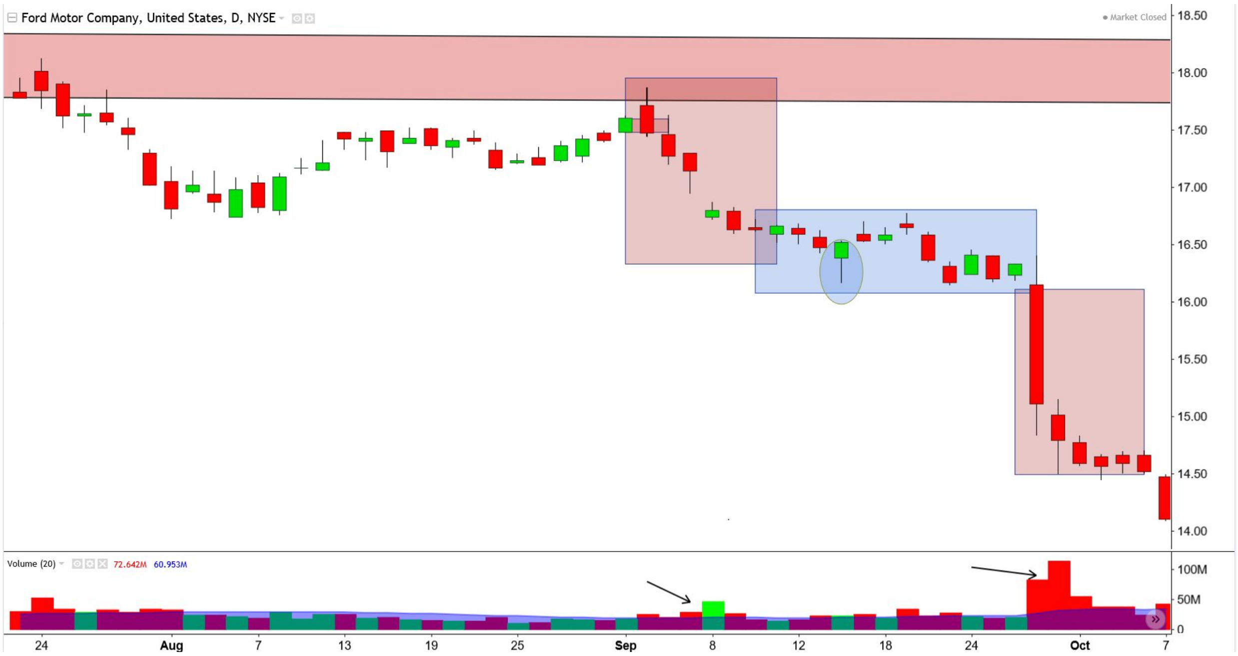


Trajectory is still heading lower despite the renewed upswing. The large red candle on September 2nd is certainly no bearish star but the upper wick rejection in the sliding resistance zone tells the same bearish story.

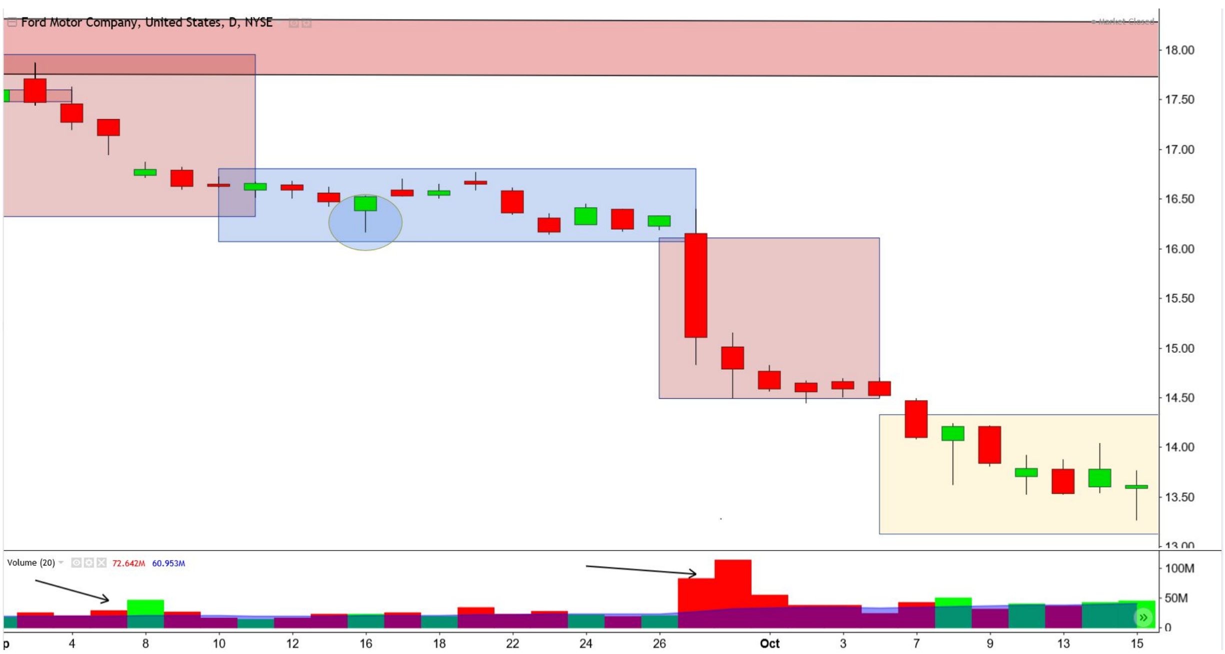
The following two candles make a definitive drop possible as they close much lower.



Combining the two candles of the bearish engulfing pattern forms a clean bearish star. Confirmation is very clear with the next two candles closing well below its low.



Classic continuation lower similar to the 3 methods falling pattern, except spread over a few weeks.



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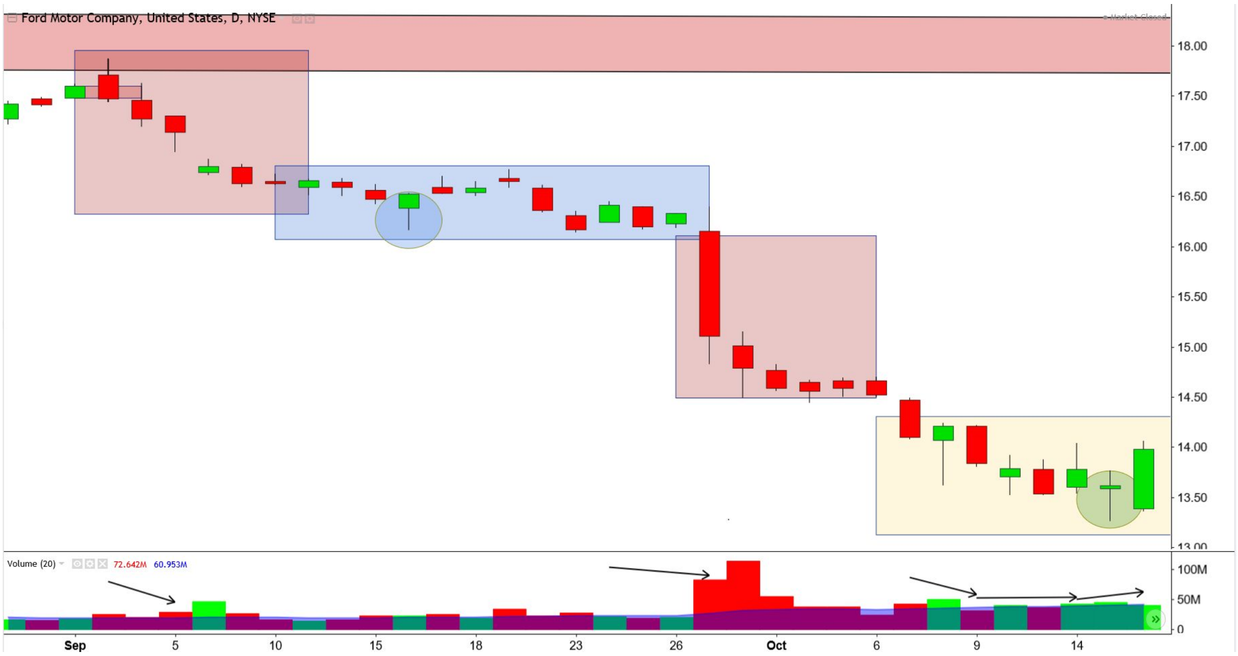
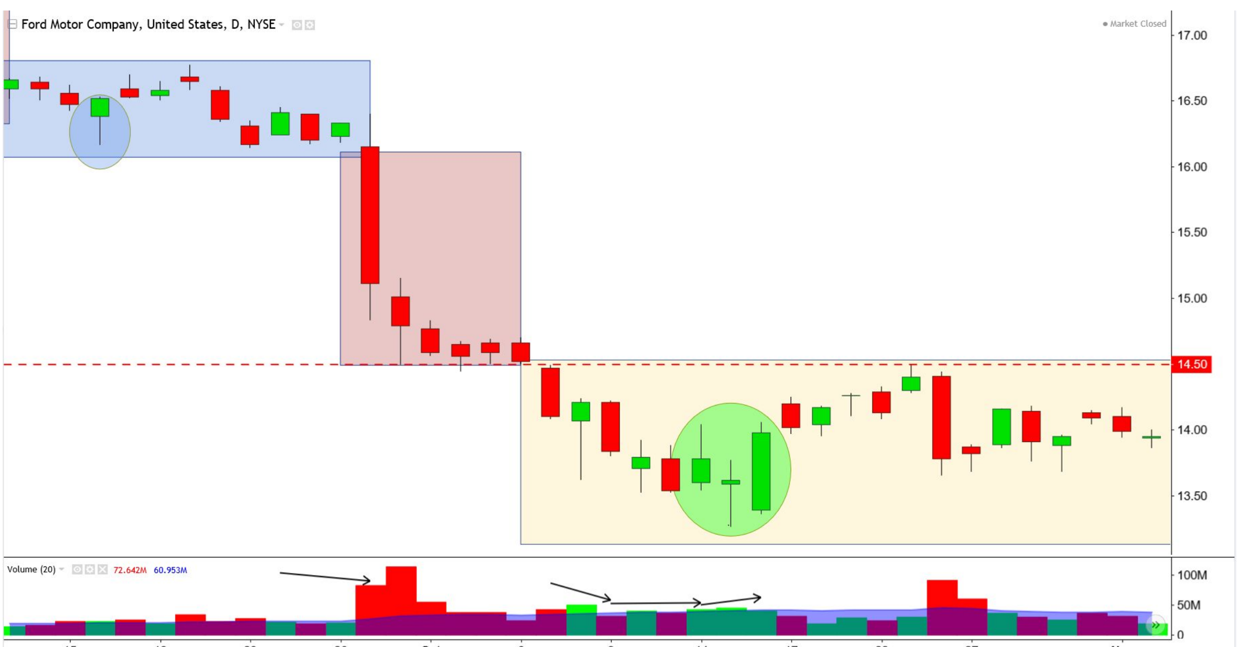


Bull hammer on Oct. 8th slows down the drop significantly. Though there is no upward reversal largely because the next candle didn't even trade above its high.



A thick dragonfly doji has more success because price immediately traded above it. In fact the minor upward shift is from a bullish engulfing pattern that had price trade immediately above it on October 17th even though it was a red candle it closed higher. The large bullish candle on Oct. 16th exemplifies the full body of the thick dragonfly doji being engulfed.

Indecision persisted but every time price fell there were bull hammers and dojis that formed a short term lower boundary with repeated wick rejection. This eventually led to a gradual shift seen in previous examples that culminated in a bullish acceleration over the 14.50 barrier which once again is a temporary resistance to a developing uptrend that formed from a boundary that was part of a previous downward continuation.

Familiar sights with relatively swift single candle reversals for upswings(lower wick rejections) and downswings forming from upper wick rejections.

Late August 2015 is almost like a colossal bull hammer but still demonstrates lower wick rejection on an amplified scale. Not surprisingly the real body near 13 and its closing price become an influential price range later on. The downswing and up swing that follow are great examples of dojis in directional contexts rather than indecisive price action.

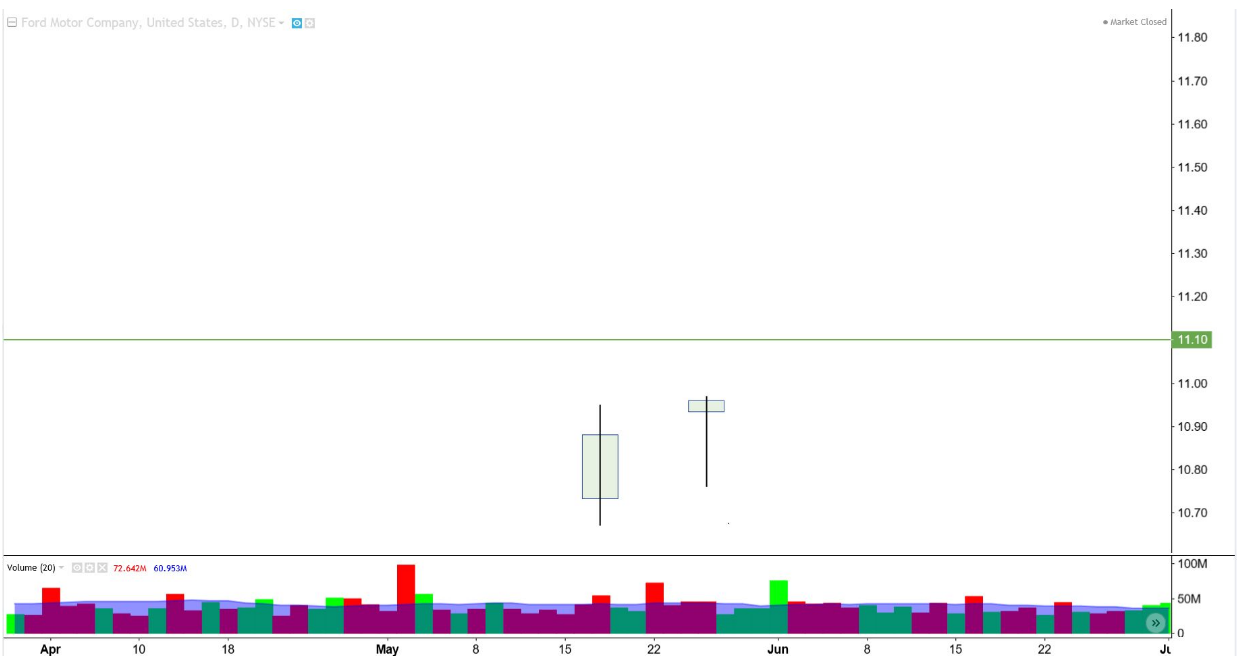
Price action with inverted hammers, bull hammers and dragon fly dojis. Once again just because the candle is bullish it does not guarantee an upward reversal. Price can trade or even close above the H of a reversal candle such as on Oct. 14th but not lead to an uptrend. This is largely because selling pressure persists as seen by the still high red volume.

There is lower wick rejection but the real pivotal candle is the large green one forming to develop a large bearish engulfing pattern that is able to effectively engulf a whole series of candles. Higher volume also helps increase the chances of a bullish reversal in the event the next candle closes higher.

This does indeed happen leading to a picture perfect jump with increasing bullish volume as a bonus. Upper wick rejection around the 12.30-12-50 range is normal as it is near the areas of past indecision.

Addition of longer term context also reveals 11.10 to be a major lower boundary that furthered the bullish background.

An overlapping kicking pattern and a piercing pattern lead to minor upswings during later fluctuation around 11.10.



It is a volatile period with rapid and wide variations in price. Combining those two candles in each pattern provides a clearer picture to show bullish intent and lower wick rejection.

A temporary jump over 11.10 ends with green candles that form a bearish kicking pattern with the gap down on July 20th with the longer lower wick gravestone doji. A clear bull hammer right on 11.10 on July 26th slows down the drop. Despite the next candle closing above it and almost engulfing it the downtrend resumes as August begins with a renewed surge in selling.

Bull hammer right on the round 10.50 and next major support level. This is followed by an inverted hammer that trades above the red bull hammer's high, a minor bullish sign. Indecision remains as these two recent candles can simply combine to form a large doji. Ford will have to immediately trade and close above the inverted hammer in order to avoid a prolonged range around 10.50 and possible drop further.

Yet again a gradual shift to bullish price action with the next few candles progressively closing higher with increasing bullish volume.

The pace back up to cross 11.10 is strong and is able to overcome the large bearish star that forms on the final day of August.

Things were certainly looking up for Ford in the short to medium context due to the strong 11.10 to 10.50 boundary being crossed but eventually the market fell back into bearish sentiment for the long term. During a later recovery the 10.50 level has upper wick rejection as a resistance and initially begins with dark cloud cover to almost bearishly engulf. Not a very clean two candles but the overall price action is bearish to develop into a major double top to hold Ford's price down well into the future.

Two Candle Reversal Example Case Study 2

A stock market index like the S&P 500 can also be examined using candle charting.

A harami forms a minor downswing upon first contact with 2400 it is a two candle pattern that can lead to reversals but it can often lead to indecisive price behaviour, so it will be examined separately in a later section.

A dark cloud cover pattern is a two candle pattern that materializes more certain reversals. The candles on May 15th-16th aren't a great example in terms of following the ideal diagrams where the second red candle closes closer to half way within the first green candle's range. Though it nevertheless casts a bearish tone that has immediate confirmation with a strong close lower on the 17^{th}.

An inverted hammer initiates a strong upswing off the previous support range and gap fill area. It also forms a piercing pattern. Though once again it is not a strict candle pattern like in the diagrams. Realistically the market won't always form candles with the exact proportions as seen in the diagrams. Regardless the general price action is there with the inverted hammer nearing but not at the half way point of the large red candle's mid point.

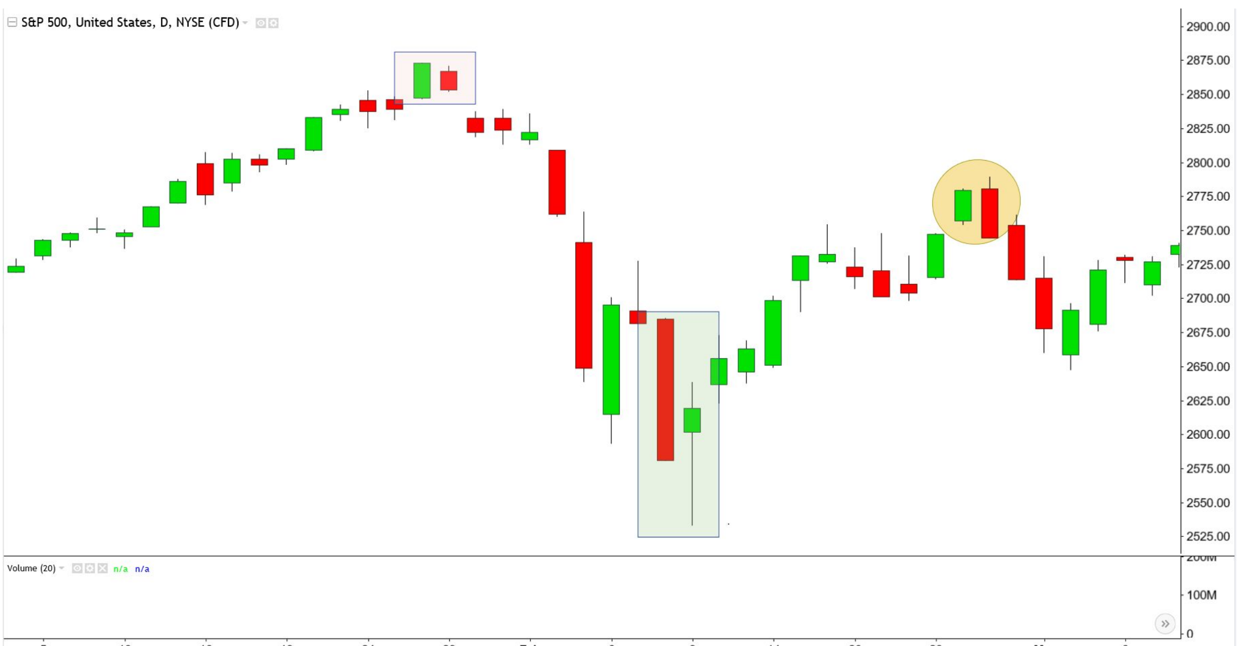
Minor wick rejection on a spinning top upon return to 2400. The row of green candles originating from the inverted hammer and piercing pattern develop a rapid climb due to the gaps between the real bodies in the fashion of a strong 3 marching soldiers pattern.

As seen before a major upper range (24000) is passed and the market dips back towards it after new highs are established in order to stabilize and consolidate the existing up trend. During the minor dip there are many bearish candles but enough lowerwick rejection to avoid 2400. Also the down and upswing in the highlighted red area originate from kicking patterns of the variety that has overlapping real bodies rather than a gap between real bodies.

More of the same in August. Note the wick rejection for both the down and upswing. The upswing in particular is a longer lower wicked inverted hammer followed by a bull hammer. They could be combined into a doji but the end result is still wick rejection of lower prices close to the prior upswing around the low 2400s. In fact look closer and the bull hammer's real body actually engulfs the real body of the inverted hammer to form a bullish engulfing pattern that has immediate follow through as the next candle is a thick bodied bullish candle that immediately closes higher.

A strong bullish background from the engulfing pattern accelerates a return to the previous upward trajectory to reach new record highs.

A rapid correction forms after the market peaks with a harami. The drop ends with a bull hammer that also forms a harami with the previous full bodied red candle on Feb 8 fully containing the green full body of the bull hammer.



Later a bearish engulfing pattern forms a minor downswing.

Market recovers but natural resistance develops around the upper 2700s where the bearish engulfing formed.

There is upper wick rejection but these are certainly not bearish stars, though still a sign of resistance at upper ranges. In fact it is just as bearish if not more bearish than a single bearish star. The two red candles highlighted form a bearish engulfing pattern that is quite unusual. Normally the first candle is green the second red. However since both candles are red they essentially combine to form one large red candle that forms dark cloud cover over the last green candle on March 9th.Immediate closes below the lows of the bearish engulfing form another rapid downtrend.

A descending trend line forms and is eventually crossed to signify a return to the upper 2700s and more initiative to get back on the long term uptrend. Naturally the upper 2700s resist this bullish intent with plenty of upper wick rejection and even another bearish engulfing pattern. Followed by a consolidating range that is very indecisive at first.

The consolidating range establishes above 2700 but the presence of successive haramis and gravestone dojis later slow down the push to newer record high ranges. It is all normal hesitation as markets climb to newer record highs.

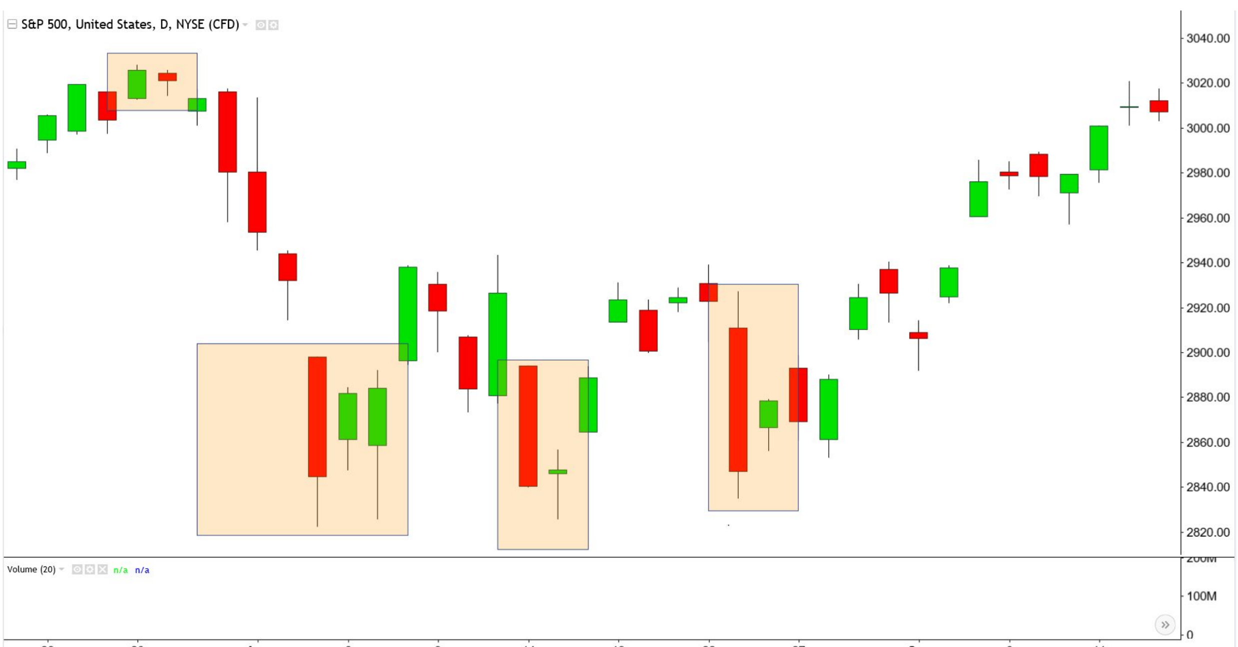
Again not a clean dark cloud cover like the diagrams but the same general rejection of higher prices over the course of two candles. Regardless the rows of red candles that follow to close and trade lower increase the chances of a downswing significantly.

Upper 2700s reverses roles to offer support to falling price. Although it doesn't lead to a reversal back up it does slow down the drop in the face of large red bodied candles.

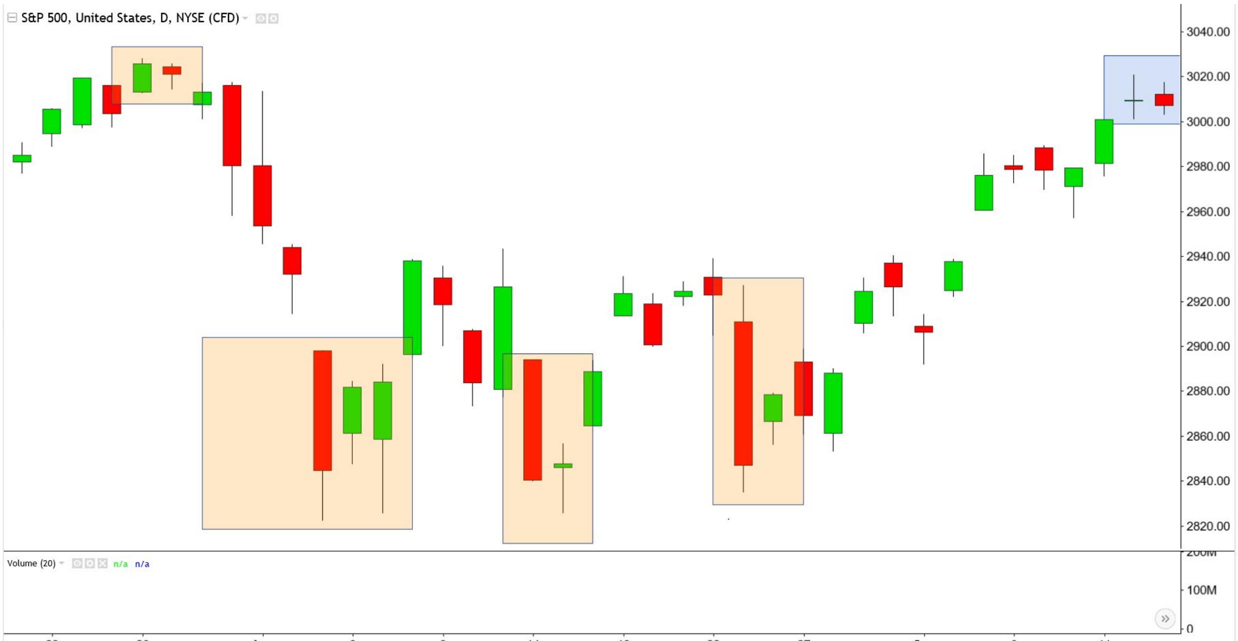
Natural wick rejection during failed attempts to return back above the upper 2700s in November. They are mostly downswings from dojis that border the spectrum between dark cloud cover and bearish engulfing.

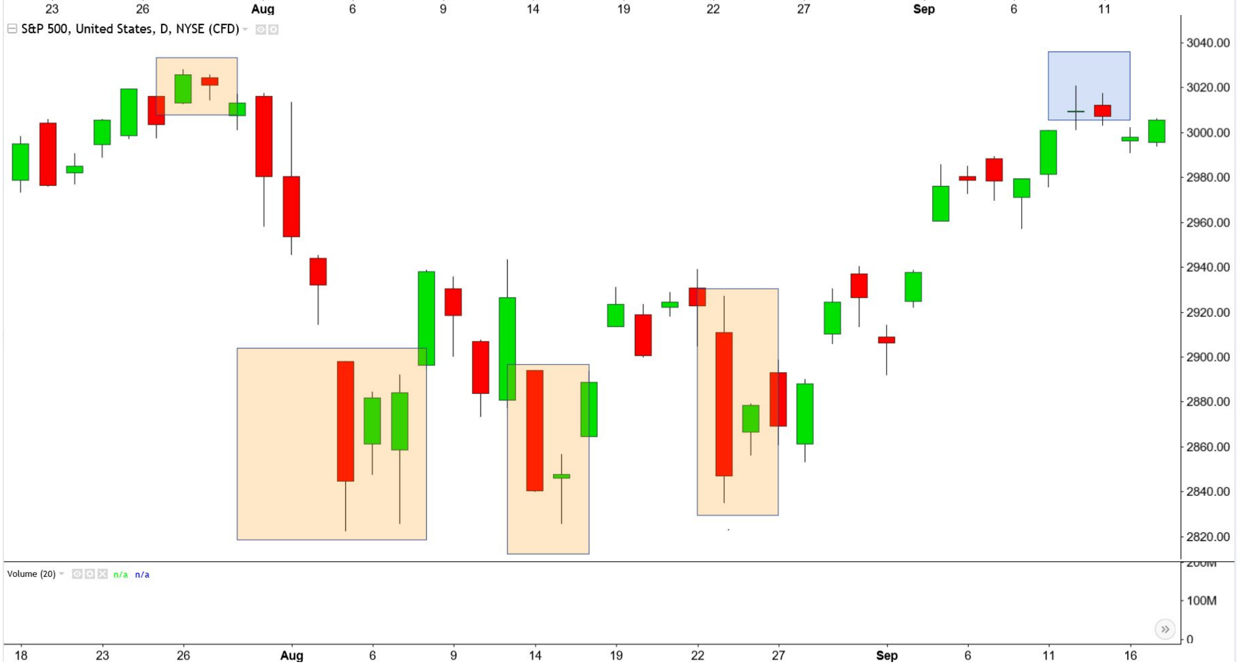
A very clear bearish engulfing adds further incentive to sell off after the more indecisive combination bodied of a bearish star and hanging man.

Lower wick rejection but contained within the ranges of large red candles to form haramis which produce indecision rather than swift reversals more common with single candle reversal patterns.



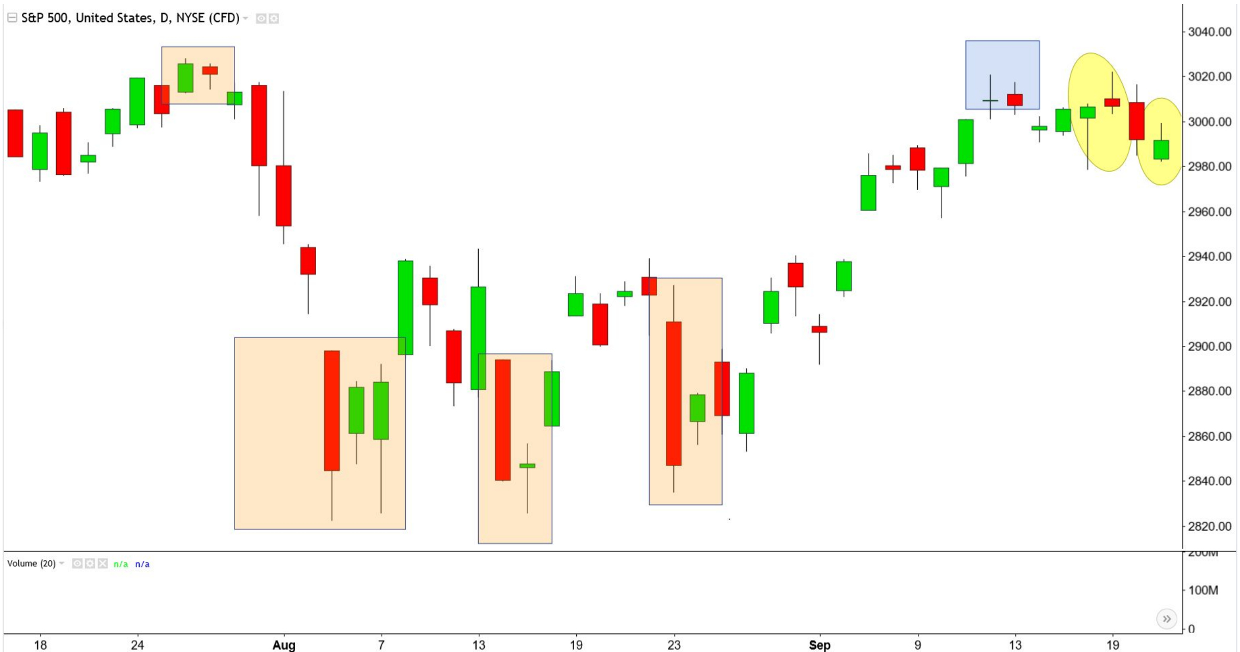
A narrow range is formed with an upper boundary near 2940. After 2940 was passed with a strong green gap up the market was leaning back to a bullish incline. In the process a triple bottom reversal also formed and was confirmed.

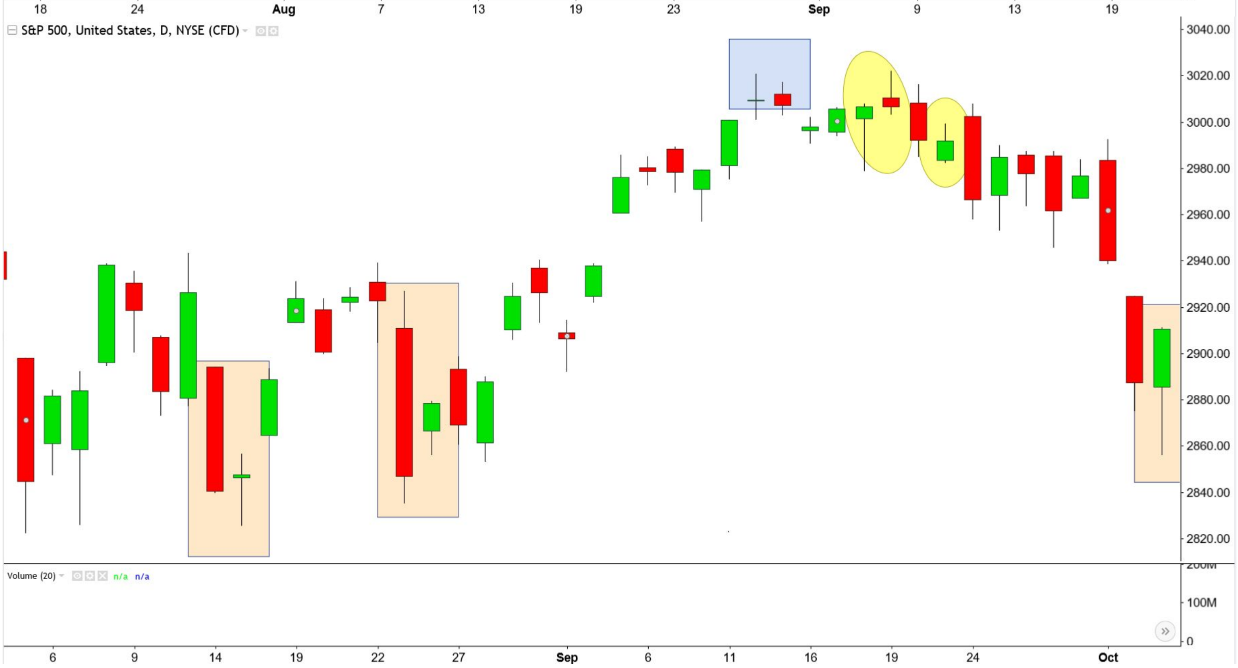




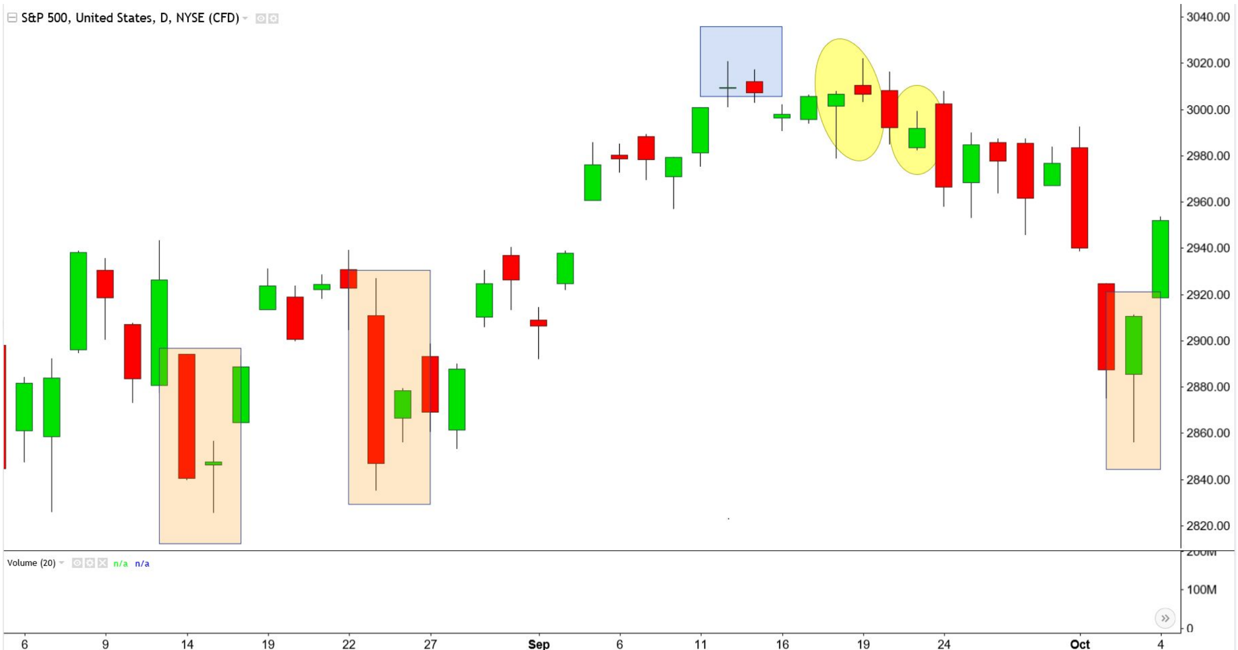
Indecisive doji engulfed at previous highs.

The following candles close below the bearish engulfing's but are green. The tone is bearish but not overwhelmingly bearish, some indecision remains.





Progress is expected to be slow for a downtrend developing due to the hesitation to decline rapidly.



In hindsight it is a rapid drop but in that situation those few weeks seem longer than they actually are as the market holds upper ranges and stock prices slide so slowly they aren't noticeable if attention is too fixated in the short term, which can often happen when focusing on candles alone.Classic lower wick Lower wick rejection near the previous support.

In effect a zoomed out view provides better context. The volatile range was merely a resting phase in the continuation of the long term uptrend.

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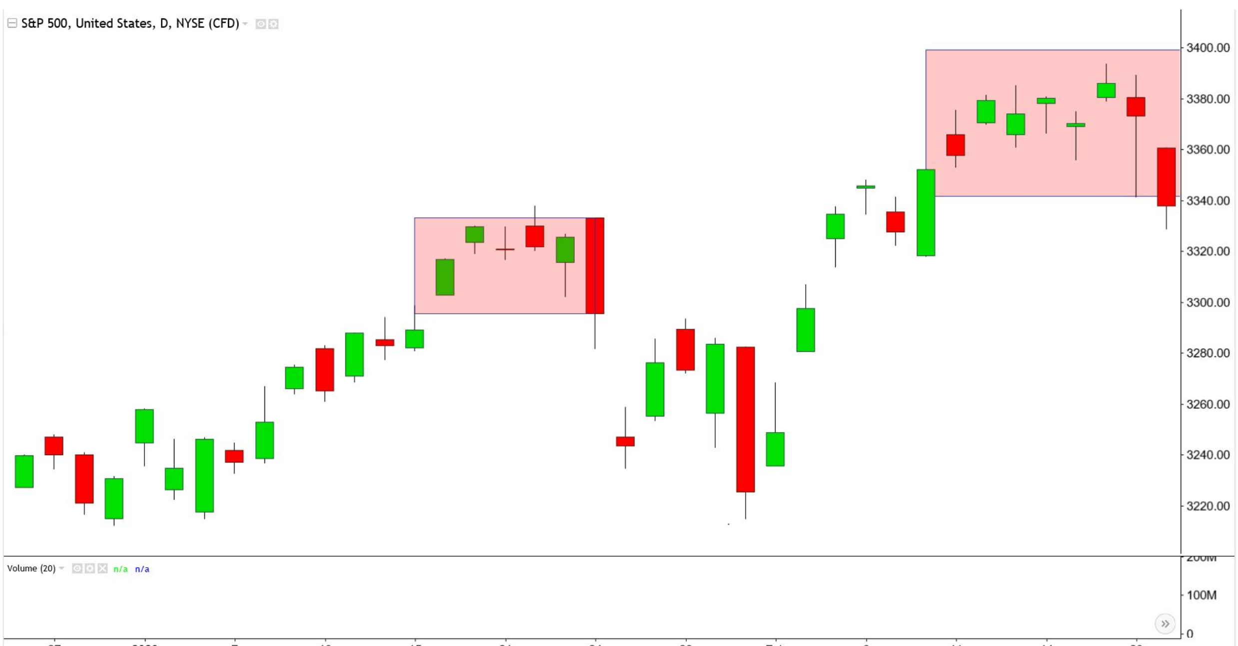
Upper wick rejection and a hanging man are not decisive until a large bearish engulfing candle consumes the past 5 candles to drastically favor a reversal lower.

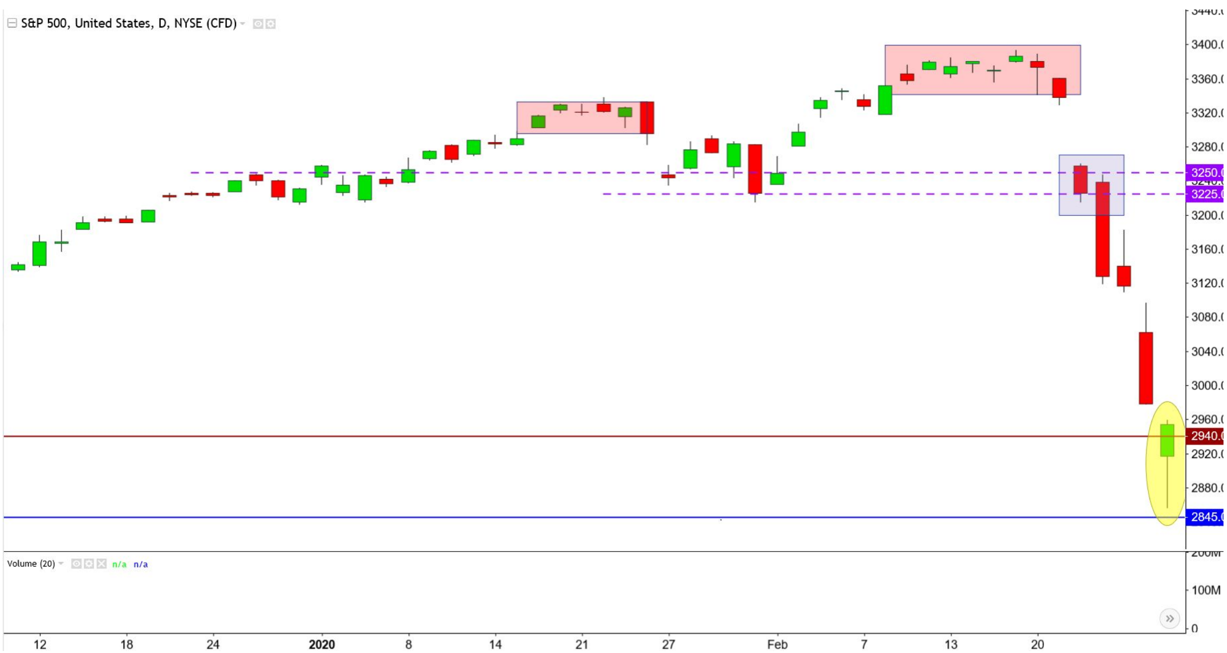
A gap down between the real bodies is a strong sign of a new downtrend. The most recent candle is essentially indecisive in the short term because the market tends to deliberate after such a significant drop especially for a major index like the S&P 500.

The gap down over extended the market too much and although there was still a bearish tone the following week the initial progress was not built upon to form a new downtrend. The green candles that gapped to new highs basically countered the strong bearish engulfing.

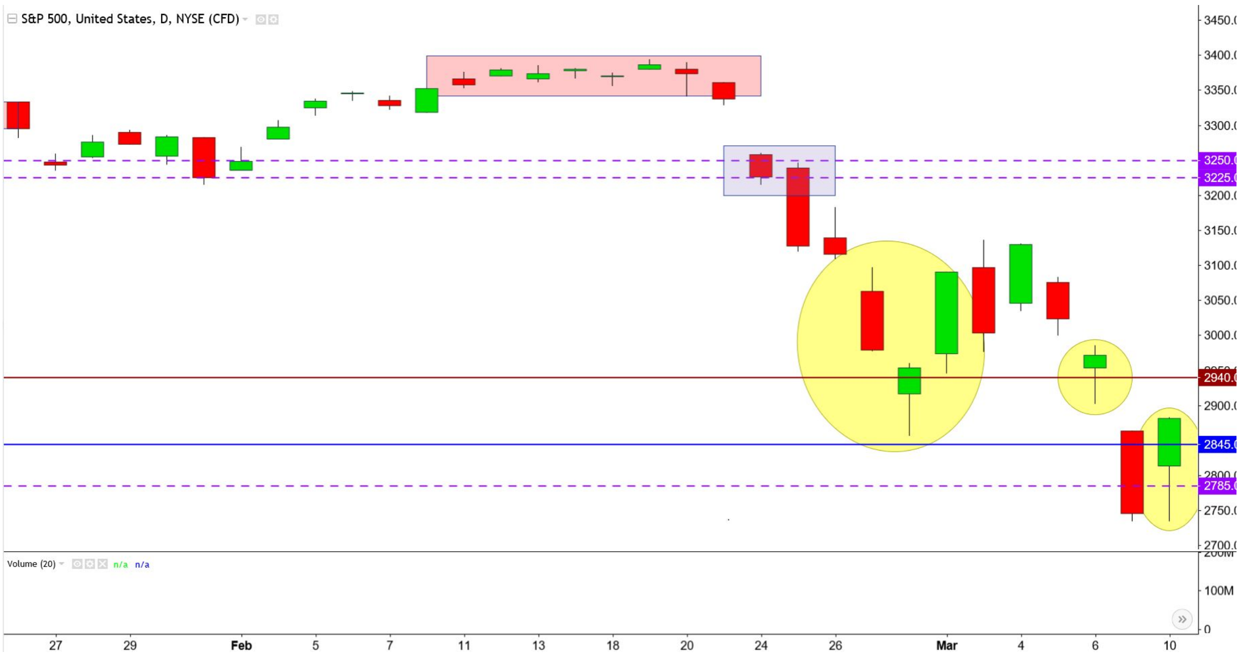


There is no one single pattern but a series of bearish candles that produce a renewed bearish tone. First it is upper wick rejection closer to bearish stars then hanging man candles unable to rapidly drive lower. Then it is somewhat of a kicking pattern with red candles most recently gapping and closing strongly lower.

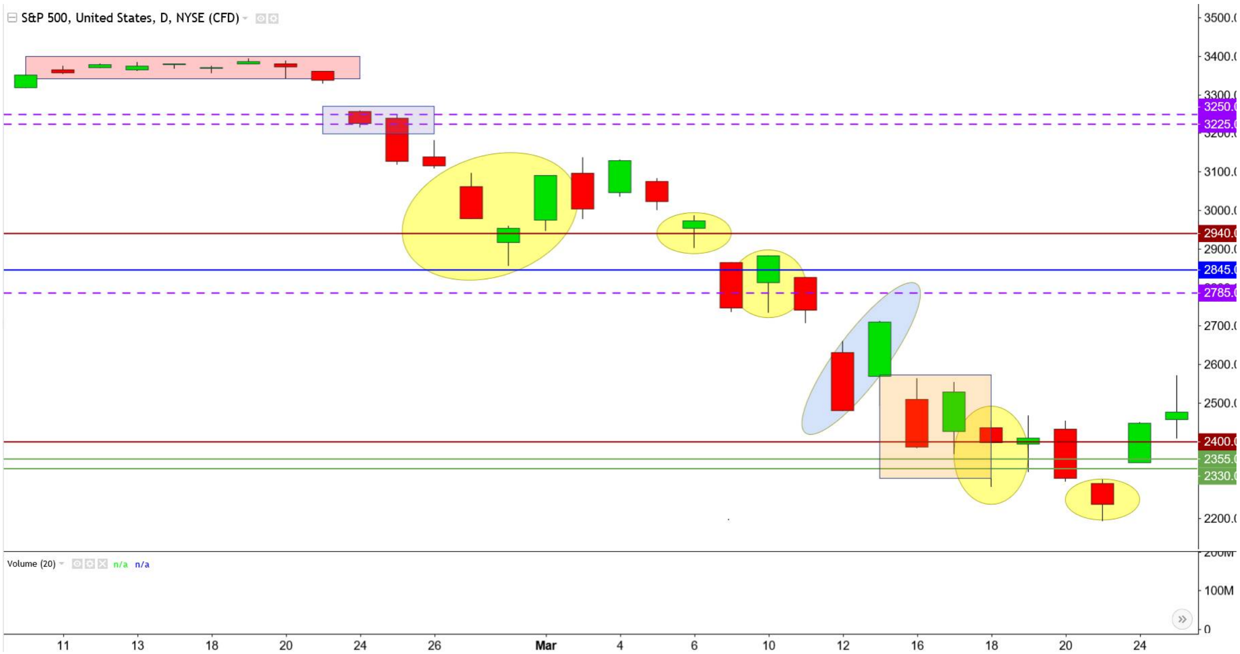
A large bull hammer quickly halts the drop right at the top of the upper range of the past few years that now offers strong support. In the process the morning star candle pattern formed.



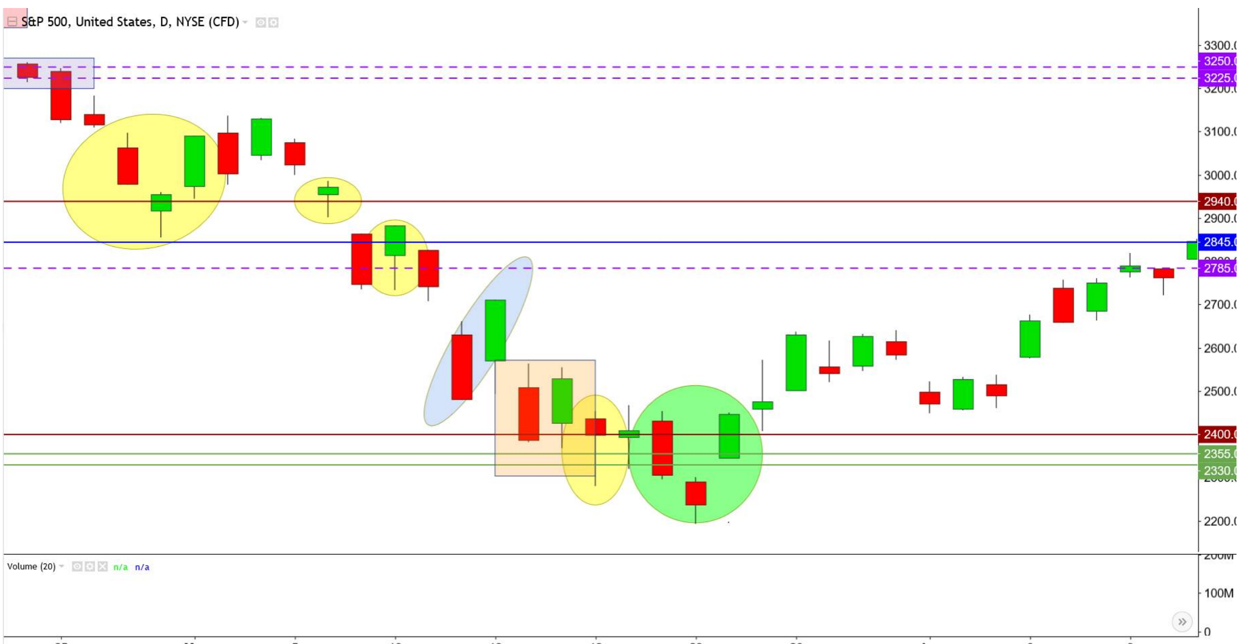
Also note the 3200 range temporarily slowed down the rapid drop as it lined up with a minor support range from the earlier indecision approaching record highs.



Though the bull hammer in the middle of a morning star pattern is a very bullish formation, it is not a guarantee even though the following two candles traded and briefly closed above the morning star's high. A great example of nothing being a 100% guarantee. However again there is a temporary pause to the drop instead of an upward reversal.



A pair of overlapping kicking patterns followed by lower wick rejection at previous significant ranges

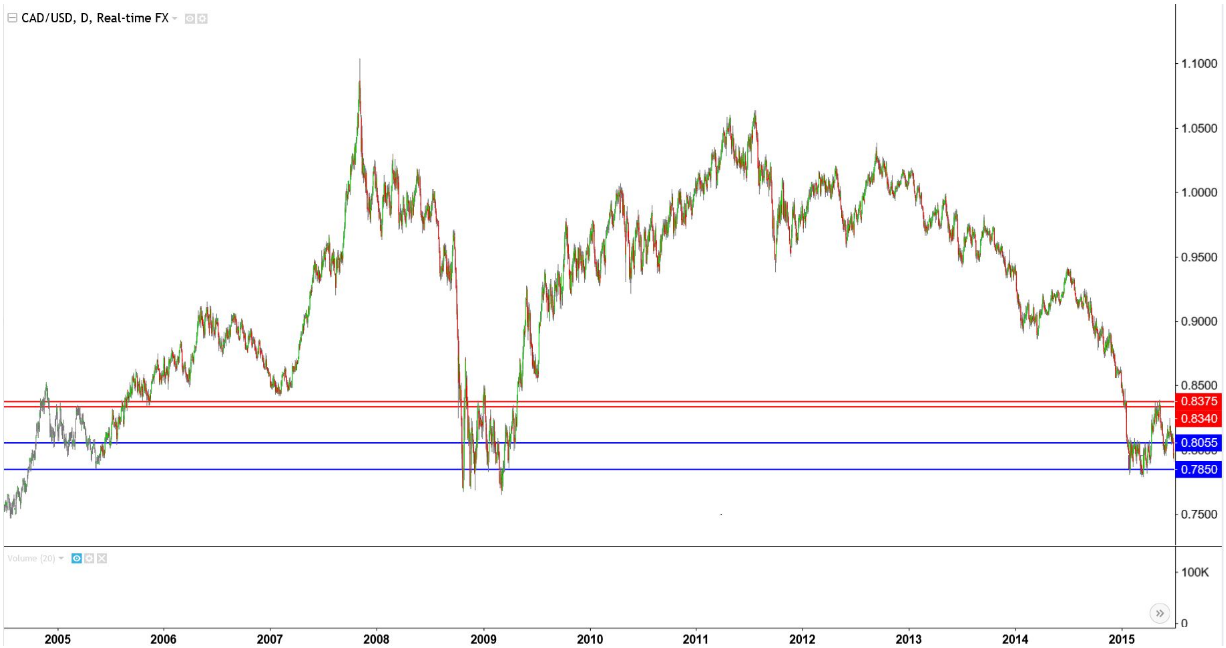


Price trades above all including a red bull hammer in the middle of a morning star. Even though there are fewer indecisive candles the market is hesitant especially with a strong resistance range so close above. The candles reveal the shorter term situation of an oversold market shifting to bullish sentiment. However such a major drop allows doubt to linger. Only after 2940 is passed can a major recovery be declared to be in progress.

As expected major resistance with upper wick rejection and later a bearish engulfing but the market holds above 2785. A slow and tenuous continuation follows to eventually surpass the still relevant 3200 range.

Two Candle Reversal Example Case Study 3

A firm lower base forms with two large bullish engulfing patterns to anchor down a lower range in the high 0.70s. The long term downtrend may not be completely over for certain, but it has certainly halted.



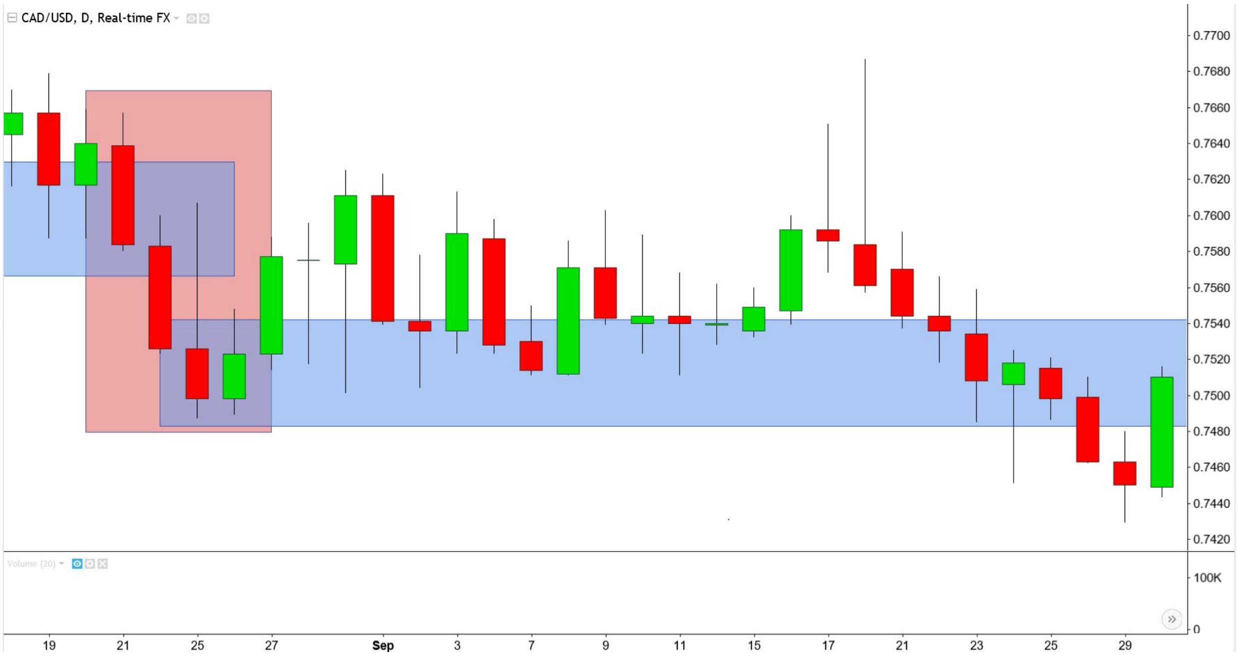
The upper 0.70s turn out to be a major long term range, and the shorter term context with recent candles is in agreement. Lower wick rejection and real bodies tending to close above the 0.7850 level.

Another case where a good bullish background does not lead to a major reversal due to one large spike down in mid July that reestablished the downtrend.

The downward pace gradually slows despite another minor continuation in August with the emergence of more single reversal candles and dojis that show lower wick rejection especially in the 0.75s. A base of support is forming in the mid 0.70s but there is still a bearish to neutral tone. The most recent green candle does not mean much for an upward reversal unless it can be followed by a row of consecutive closes higher.

The next two candles are especially telling on September 17-18th with high wick rejection, essentially inverted hammers. However they are red and they are more in the context of a sideways range. Inability to hold higher prices leans the market back on a bearish decline.

The emergence of a very clean green bull hammer serves to prolong the longevity of the mid 70s support. Another case where a strong bullish candle doesn’t produce an upward reversal but instead shows a secondary sign of support by delaying the ongoing drop.

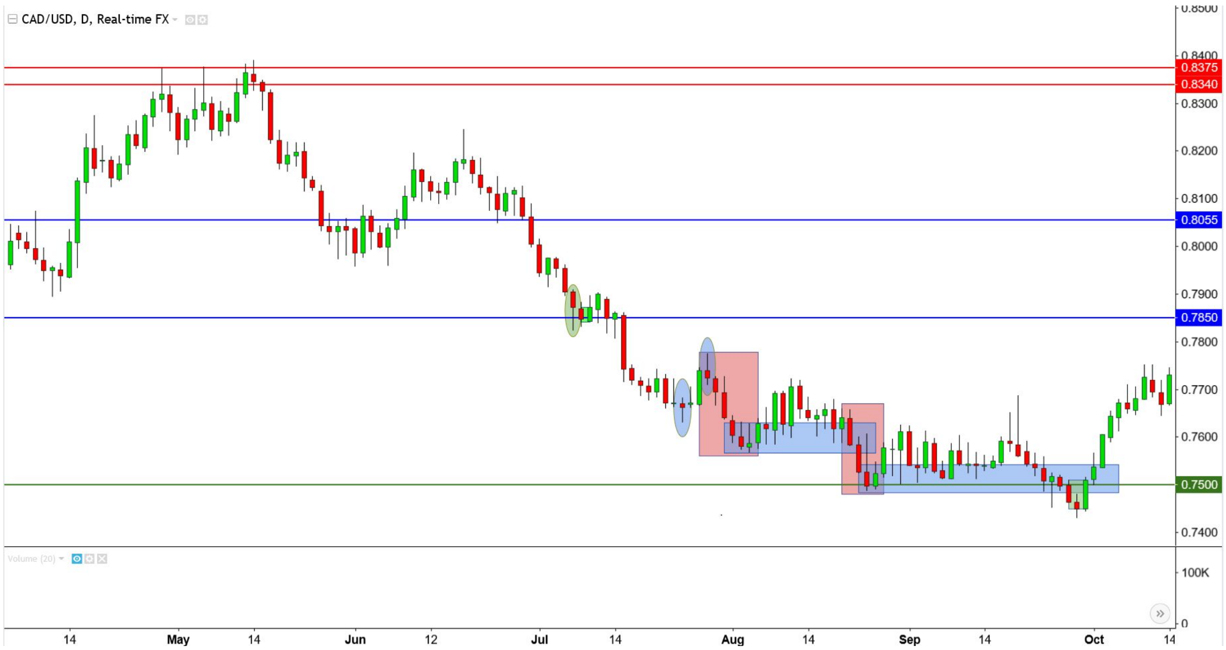


September 29th sees the lowest candle so far and it is effectively indecisive on its own. However the next candle forms a bullish engulfing pattern to reconnect with the mid 0.70s range. In effect the September 29th candle does leave the range but it is essentially lower wick rejection as the combining of it with the bullish engulfing candle forms lower wick rejection in the shape of a bull hammer spread over two days. This also forms in the context of clearly declining price. Almost a full row of lower red closes to move under the blue sideways range.

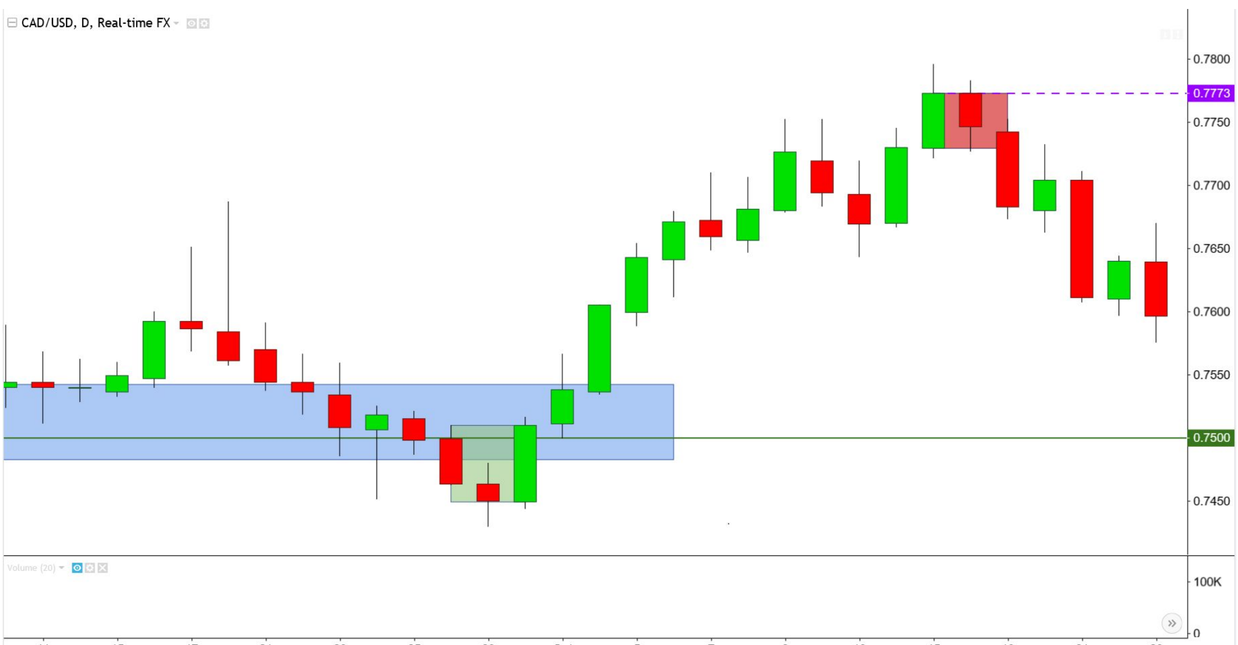
Great followup the next day with immediate confirmation by a higher close. Normal upper wick rejection to start October since the. 0.7540 level is a very narrow upper boundary in the short term.

Another close higher where the real body is almost entirely above the close of the previous candle. A very strong sign close to a 3 marching soldiers pattern. Most definitely a probable swing point. Then if the 0.76 level and those upper wicks from September 17-18th can be cleared, a stronger uptrend can be established.

The strong start continues but as with prior examples the minor continuation range a few weeks earlier can offer resistance to the developing uptrend.


CAD/USD, D, Real-time FX
0.8500
0.8400
0.8375
0.8340
0.8300
0.8200
0.8100
0.8055
0.8000
0.7900
0.7850
0.7800
0.7700
0.7600
0.7500
0.7400
Volume (20)
100K
0
14
May
14
Jun
12
Jul
14
Aug
14
Sep
14
Oct
14


CAD/USD, D, Real-time FX
0.7800
0.7773
0.7750
0.7700
0.7650
0.7600
0.7550
0.7500
0.7450
Volume (20)
100K
0
7
9
11
15
17
21
23
25
29
Oct
5
7
9
13
15
19



The early recovery is indeed resisted by the influence of the downward continuation from August around the 0.7773. Interestingly a harami forms here to initiate a downswing with the C of the first and O of the second candle almost in line at 0.7773 about the same level where the prior downward continuation started in August.

A sizable drop and back to square one where there is a cluster of reversal candles concentrated around 0.75 again.

There is no follow through with higher closes above the reversal candles. The balance tips toward neutral to bearish with more dojis and a few large red candles.

Lower wick rejection kept contact with 0.75 but the current large red bodied candle poses a similar scenario to the break of 0.7850 in mid July.

A rapid drop is followed by deliberation and hesitation in the form of the current thick doji.

More of the same, a large and strong continuation with a resting phase full of dojis and spinning tops.

0.70 another strong boundary is breached. Often the market continues lower like in this case but the major 0.70 level does also serve to slow down the drop similar to previous examples. That is why it is normal to see some reversal candles form in the past 3 days after a rapid break under 0.70

The inverted hammer is the first major sign of at least a temporary halt to the longer term downtrend. The current bull hammer leans sentiment slightly more bullish and puts doubt into the strength of the downtrend due to lower wick rejection. However combining all the last 3 candles essentially amounts to a doji. Thus selling pressure is lessening but it is indecisive at the moment.

Note also that the green bull hammer formed a bullish engulfing pattern with its real body containing the real body of the inverted hammer before it. That does slightly tip market deliberation bullish. However only after the high of the bull hammer and inverted hammer are cleared by at least 3 closes higher can a major upward reversal be considered. Otherwise it is more of the same, another sideways to slightly upward range that acts as a resting phase in the long running downtrend.

CAD/USD, D, Real-time FX
0.7900
0.7850
0.7800
0.7773
0.7700
0.7600
0.7500
0.7400
0.7300
0.7200
0.7100
0.7000
0.6900
0.6855
0.6800
Volume (20)
100K
0
Aug
13
Sep
11
Oct
13
Nov
12
Dec
11
23
2016
14

CAD/USD, D, Real-time FX
0.7600
0.7550
0.7500
0.7450
0.7400
0.7350
0.7300
0.7250
0.7200
0.7150
0.7100
0.7050
0.7000
0.6950
0.6900
0.6855
0.6800
Volume (20)
100K
0
Dec
4
9
14
17
22
25
30
2016
7
12
15
20

Immediate confirmation with a strong close that even gets above 0.70 that naturally acts as the first obstacle.

Some natural indecision at such a key level but still staying in the 0.70s for a bullish advantage.

More follow through to build on the initial bullish momentum to develop an uptrend that stands a better chance of returning to at least the mid 0.70s.

Normal resistance from the upper boundary of the last downward continuations resting phase at 0.73. Though the uptrend remains intact with only a slight dip that is welcome to stabilize the trajectory from becoming too steep and unsustainable.

2016 was definitely a comeback following a prolonged downtrend that did begin to get overextended nearing the end of 2015 with the steep downward continuation that is more clearly seen with a zoomed out view.

During the flat to downward sloping range in late 2016-2017 there are a few very clean up and downswings that are almost complete bullish and bearish engulfing patterns. The general price action reverses direction in an engulfing pattern even though the large red and green candles that reverse price tend to not fully encompass the full real body of the candle(s) before them.

0.75 again shows a situation where a strong downtrend negates a bull hammer but the drop is still gradually slowed down as a secondary effect. The current candle at .74 is almost like a spinning top but it has a bit of a longer lower wick and the real body is closer to the upper half of the H-L range.

It is helpful that the next candle bullishly engulfs the previous red real body and remains above 0.74 at the close. Now it is a matter of waiting for confirmation with higher closes in the next few days.

Not fully over the high of the bullish engulfing but still a bullish candle and above the previous close. Leaning more in favor of developing an upswing.

Some delay but the current large green candle speaks for itself in reversing the market. If this was a stock chart with trading volume this would almost certainly have a large increase in volume too.

Unfortunately for the CAD/USD 0.75 remains highly influential as an obstacle to rising price and bullish sentiment does not build on the initial success in March. The prolonged flat range around 0.75 was essentially a resting phase for a downward continuation.

Still strongly bearish but that bull hammer with a longer upper wick does begin to apply the breaks to the drop with the help of the 0.73 level.

A large green real bodied candle with lower wick rejection is no bull hammer but it is still a strong bullish formation in the face of the medium term downtrend following the drop in mid April. Its real body easily engulfs the real bodies of the past 4 red candles and when combining it with the longer upper wicked bull hammer it forms a candle between a bull hammer and dragonfly doji for very long lower wick rejection.

Remaining marginally more bullish because the past two red candles have lower wick rejection and are bull hammers with longer upper wicks.

Bullish advantage gone with no progress higher but bearish selling is unable to drive cleanly below .73, effectively an indecisive phase.

Selling pressure persists but there is prompt lower wick rejection for the majority of real body ranges staying above .73. A slight incline develops to point at the possibility of a bullish resurgence. Also the most recent candle finally trades above the high of the bullish engulfing pattern, not a strong sign since it was delayed and didn't happen right after the bullish engulfing pattern. Though still a minor positive sign.

A bullish week follows to end May off on a high note. Natural flattening as heavier resistance is reached to line up with the resting phase of the last downward continuation's resting phase range.

Flat range continues sideways after the last large green candle cleared 0.74 in late May. Now note the recent large green candle that is able to close above the firm 0.75 level. It may look like a very familiar and even repetitive formation of price action over the past few weeks following the early May upswing.

It is indeed another continuation except this time it is bullish. A normal slow down after overcoming 0.75 and the market now begins to consolidate. As long as closes remain above 0.75 there can be further development of the currently solid uptrend.

The bullish comeback did indeed materialize and in the very short term it is interesting to note a bullishly engulfed bearish star that essentially amounts to hesitation and a neutral to bearish tone.

More upper wick rejection as a proper bearish engulfing forms in the suitable context of an uptrend.

Minor confirmation with the next two candles trading lower. Though the situation is not fully bear yet since there is still lower wick rejection despite the attempts to sell lower.

Back to back lower closes gradually increase the bearish tone and easily close below the low of the bearish engulfing to decisively shift into an early downtrend.

Even though there were a series of strong upswings and bullish engulfing patterns combined with lower wick rejection, the CAD/USD returned back to another bearish cycle with many of the previous levels of significance still remaining highly relevant.

Chapter 6 Three Candle Reversal Example Case Studies

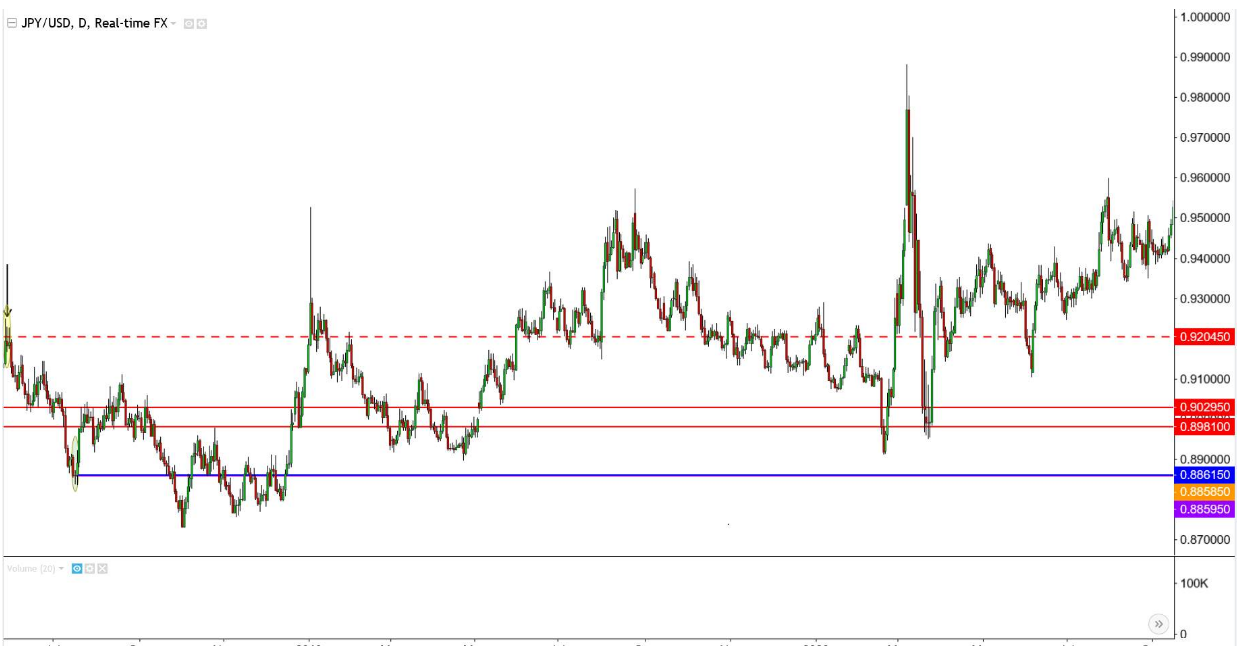
Three Candle Reversal Example Case Study 1

Familiar sight with a doji providing upward reversal potential since it forms a swift upswing during an established downtrend. The following candles promptly close above its high. Naturally forex charts have fewer large gaps in between each day due to the global and longer duration trading sessions. That being said the small gaps in between the real body of the doji and the red candle before it and the green candle after it form a morning star. Effectively analogous to a gradual but strong turnaround to put a likely end to the existing downtrend.

A strict morning star has a shorter middle candle with gaps and no overlap of the real bodies. Confirmation is trading and preferably a close above the high of the morning star that is the highest H of the 3 candles that make up the pattern. Though there can be some minor overlap of real bodies if less strict criteria is used. It is the same general gradual reversing price action but it can be less reliable.

Upper wick rejection due to the break of a prior support and upswing in the .89-.90 range that forms firm resistance. Similar to the CAD/USD in an earlier example the initial bullish momentum was not maintained at the first barrier to an uptrend and that led to a sideways range and eventual drop. Rapid pace is essential at the early stages to build on to a solid uptrend.

A morning star began May but it was not developed further. Subsequently a minor upper boundary formed at .92 with clean upper wick rejection.



.88 has residual but minor influence on later price action. The same happens for the 3 red levels but they have a greater and longer lasting influence on the market due to the greater significance they had in the past.

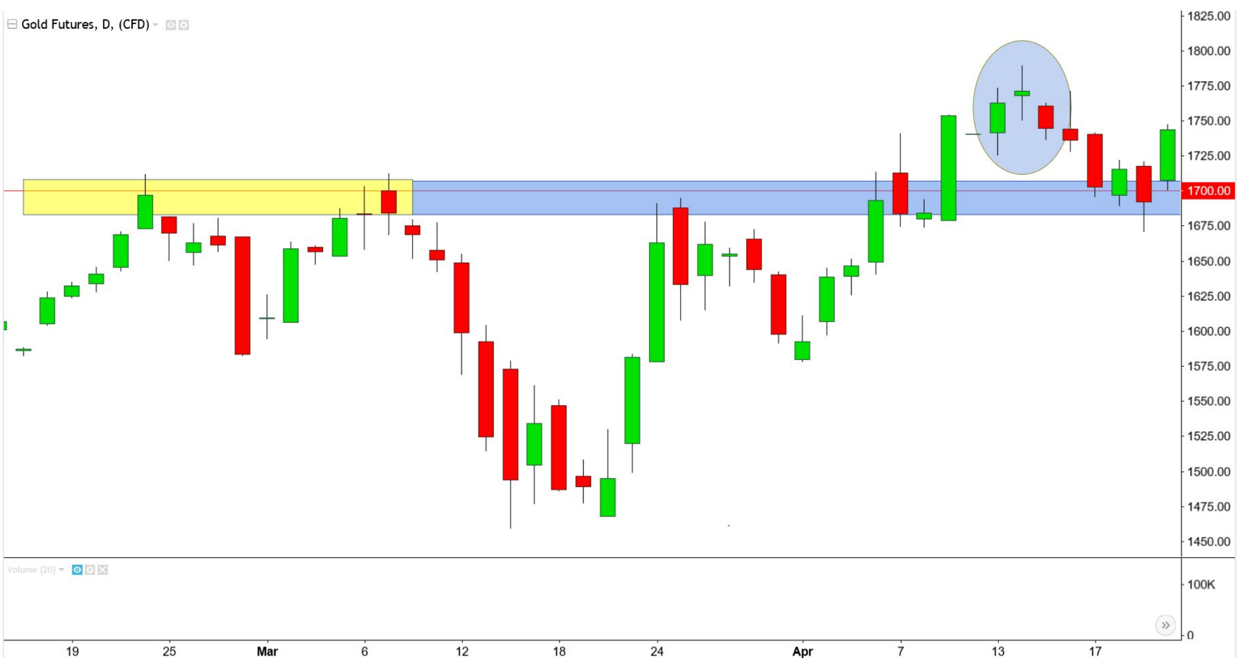
Three Candle Reversal Example Case Study 2

A flat range gradually slopes higher, largely with the help of lower wick rejection and a few large green real bodied candles.

A longer upper wicked bull hammer is immediately confirmed for greater upswing potential with the current candle trading and closing above its high.

A very swift and stable uptrend forms due to the solid start. Note it was more than a bull hammer. It was actually a morning star when combined with the candle before and after it. Thus adding more bullish advantage.

Upper wick rejection at a firm resistance is overcome with the help of a large green real bodied candle in early April.



A normal minor downswing to consolidate and attempt to establish over the prior resistance range. Note the downswing point is more than a thick bodied doji. It is an evening star producing a swift but minor downswing that is held a loft by the influence of 1700 now providing support for the evolving uptrend. A very clear evening star with easily identifiable gaps between the real bodies. The price action is like the gaps for an "abandoned baby candle" but on a much smaller scale and more of a transition and deliberation candle rather than an over extension.

Clean consolidation of 1700 for a strong uptrend to resume.

The recent sharp peak formed from very bearish candles in the shorter term context to begin August. The bearish star was more of a precursor before the bearish engulfing confirmed the rapid bearish shift.

Lower wick rejection continues to halt the early progress downward, largely due to the large bullish hammer forming a clear lower range in the short to medium term.

Three Candle Reversal Example Case Study 3

Unusual long lower wick begins December that is more of a bull hammer or simply strong lower wick rejection countering the earlier gravestone doji rather than a hanging man. That is why there is no downtrend to end 2017 despite a strong downswing forming at the end of November to early December.

Dropping from 3 bearish engulfing patterns in a row without delay.

The 3 upswings that counter show clear lower wick rejection to form a support range. They are not morning stars by any means but they have some analogous features in that the first candle is a large red real body. The second candle is proportionally shorter and is close to the close of the first candle for varying degrees of real body overlap or a slight gap. Then the third candle is closer to a bullish engulfing rather than the third candle gapping up in a morning star reversal. However the third candles are also large green real bodied candles similar to the bullish intent that concludes a morning star.


iShares Russell 2000 ETF, United States, D, NYSE
Volume (20) 14.39M 21.773M
162.00
160.00
158.00
156.00
154.00
152.00
150.00
148.00
146.92
146.76
145.44
144.00
142.00
40M
0
17
24
Feb
8
15
Mar
8
15
22
Apr
9


iShares Russell 2000 ETF, United States, D, NYSE
Volume (20) 14.48M 21.778M
162.00
160.00
158.97
158.46
156.00
154.00
152.00
150.00
147.92
146.92
146.76
145.44
144.00
142.00
40M
0
17
24
Feb
8
15
Mar
8
15
22
Apr
9
16

Returning to the upper range with a gravestone doji.

Next candle immediately closes lower for gravestone doji confirmation of a more likely downswing. Then notice that there are gaps between the real bodies of the gravestone dojis and the real bodies of the green candle before and red candle after it. Those candles also had proportionally larger real bodies. Thus it is an evening star. The gravestone doji was deliberating neutral to bearish.

Evening star confirmed for a more likely downswing due to the next candle closing below its low(which is the lowest L of the 3 candles(in this case the L of the third candle).

Clear gaps between the real bodies.

Downtrend develops but quickly slows.

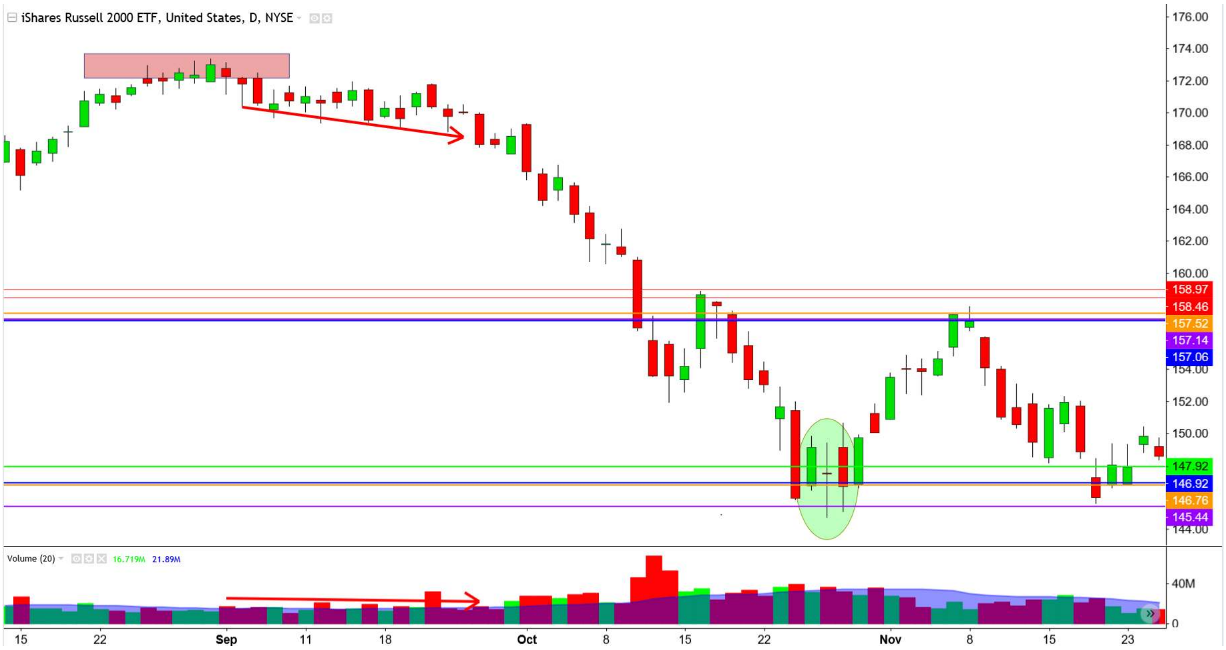
Remember the bigger picture and the upward sloping support range that effectively forms an ascending triangle pattern in the medium to long term context for an upward continuation able to surpass the upper 150s with normal to low but consistent green volume and candles. Thus once again candles used in one time frame can lead to tunnel vision in the short term. It is not a fault of candle charting on its own. It is important for, traders, investors, and market observers to form complete context and take into account other factors in the longer term context where applicable.

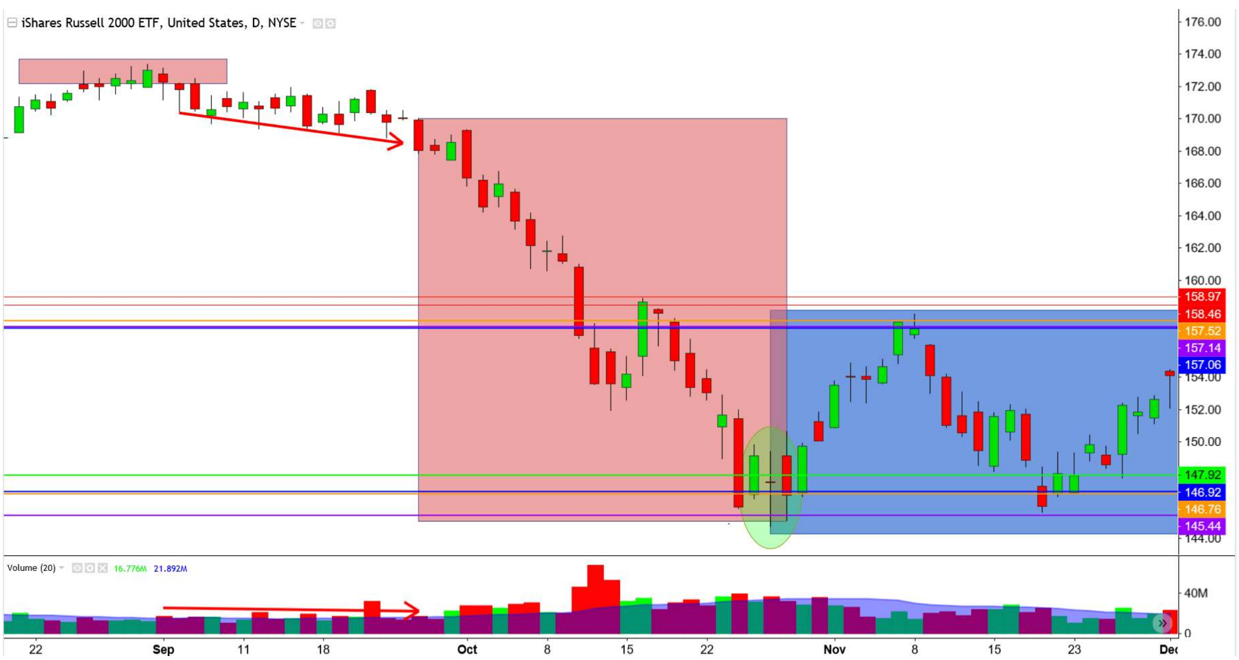
New upper range forms with another series of bearish engulfing patterns. Yes the first one isn't completely engulfed but it is very close and effectively demonstrates the same general price action. The drastically higher red selling volume also helps hold down price.

A later high range is not as strong to begin with after upper wick rejection was not followed by candles closing below the first bearish star's low for over a week. Though price did trade under and the downtrend gradually accelerated with increasing volume.

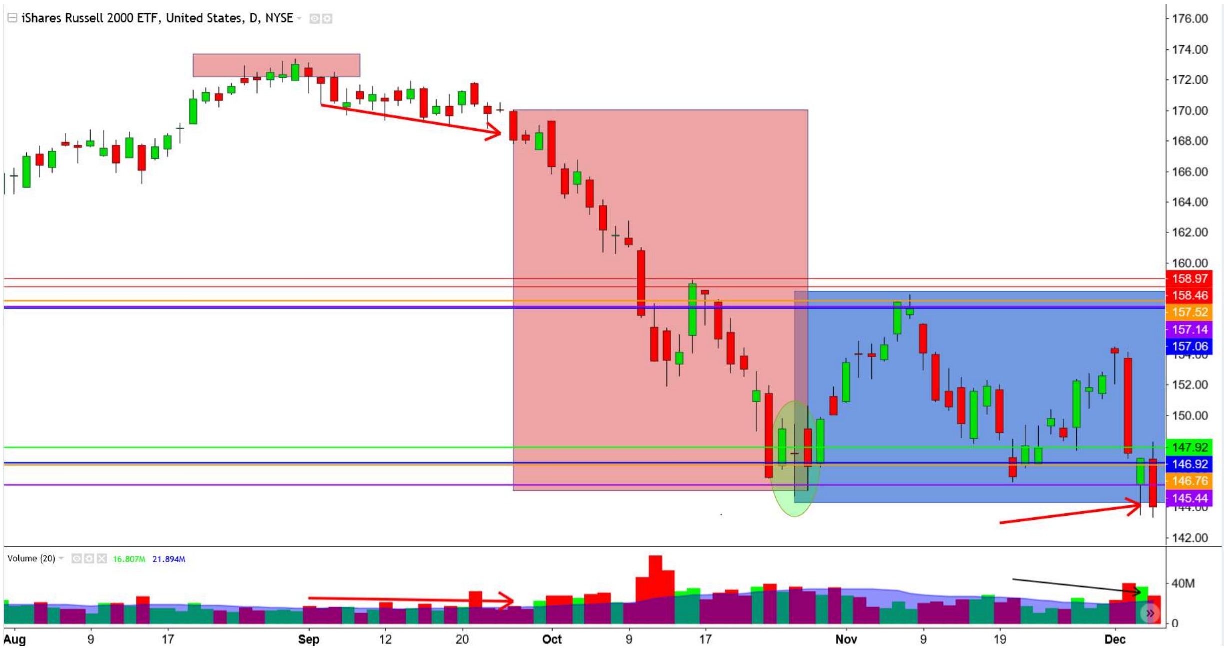
Upper 150s offered firm support but the bearish momentum was more than adequate to fall further. That being said the upper 150s showed that secondary characteristic of slowing down the drop rather than reversing it.

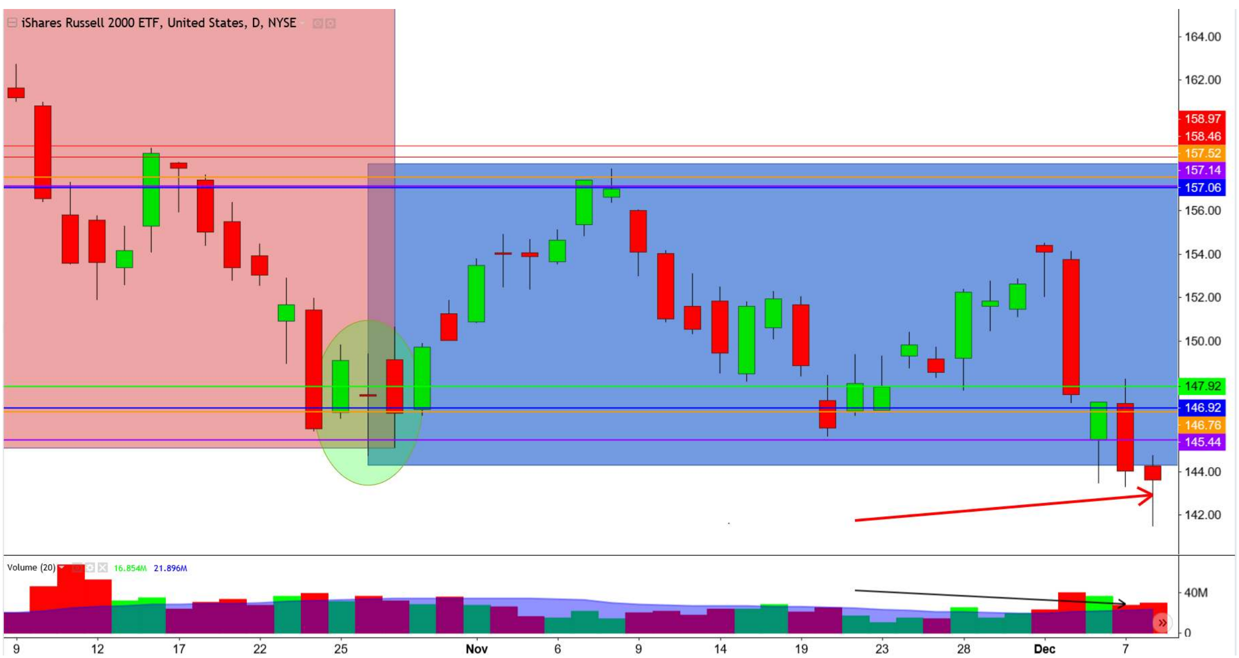
An indecisive base forms from a harami and doji. It becomes slightly more bullish to end October as lower wick rejection persists on the established mid 140s support range. It is certainly no morning star but similar price action with the doji acting as a deliberation day in between two larger real bodied candles.



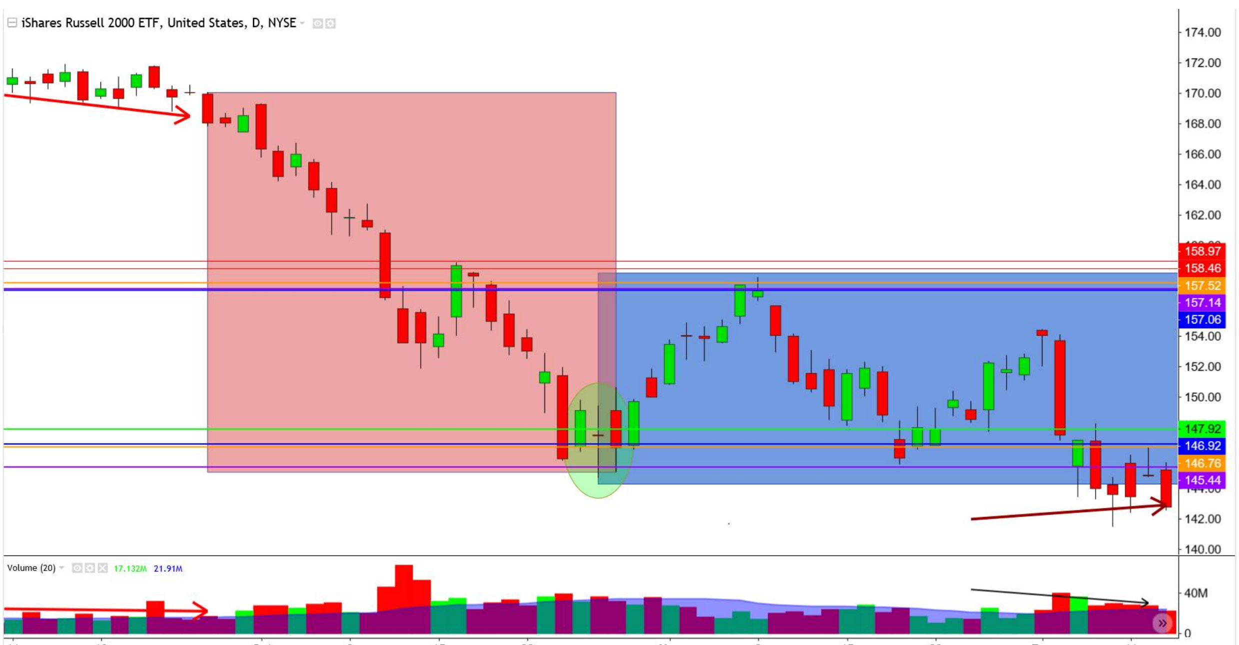


A minor upswing is naturally repelled by the firm upper 150s that returns to being a resistance range. It is more a case of the early November upswing being a minor rise after the market was heavily oversold during the rapid downtrend. This is further evidenced by another upswing that also currently has low volume. It can be referred to as a more “passive” rise due to overselling rather than the market fully shifting over to a bullish tone.





More of the same as a fairly flat but slightly down sloping range forms to return back into the mid 140s where support is still strong as seen with the bull hammers that drastically slow down the strong red candles.

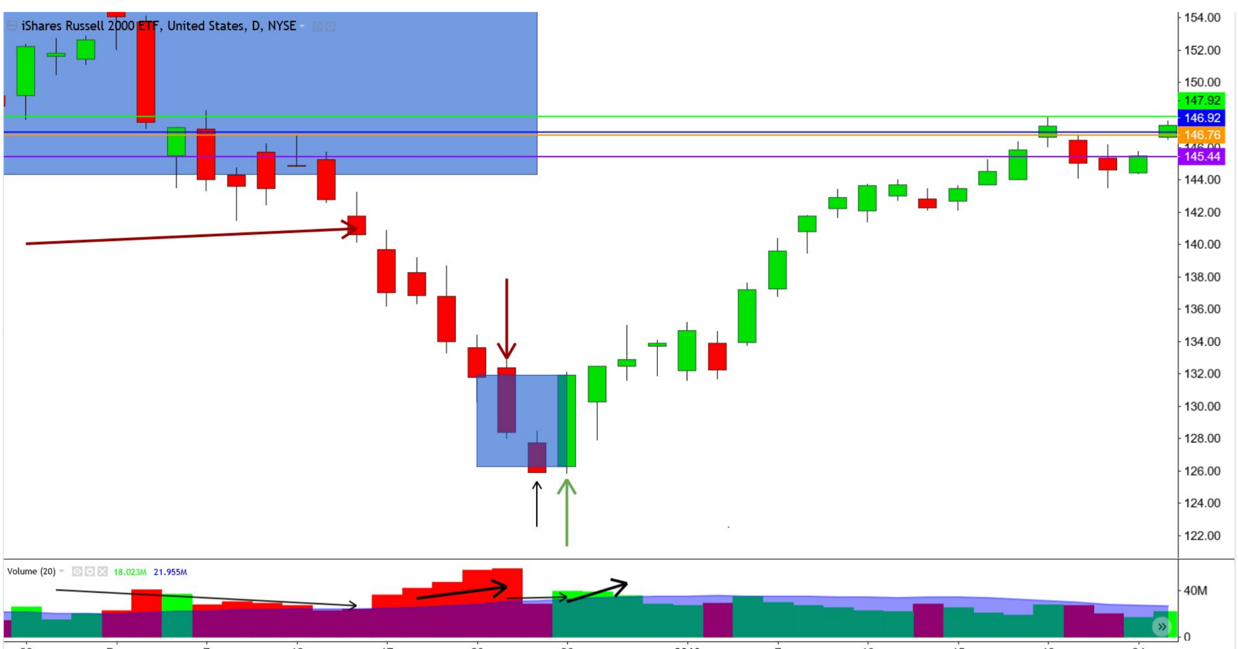


Maintaining contact with the support range but the short and longer term contexts are both increasingly bearish. Actually it is a familiar sight like in prior examples.

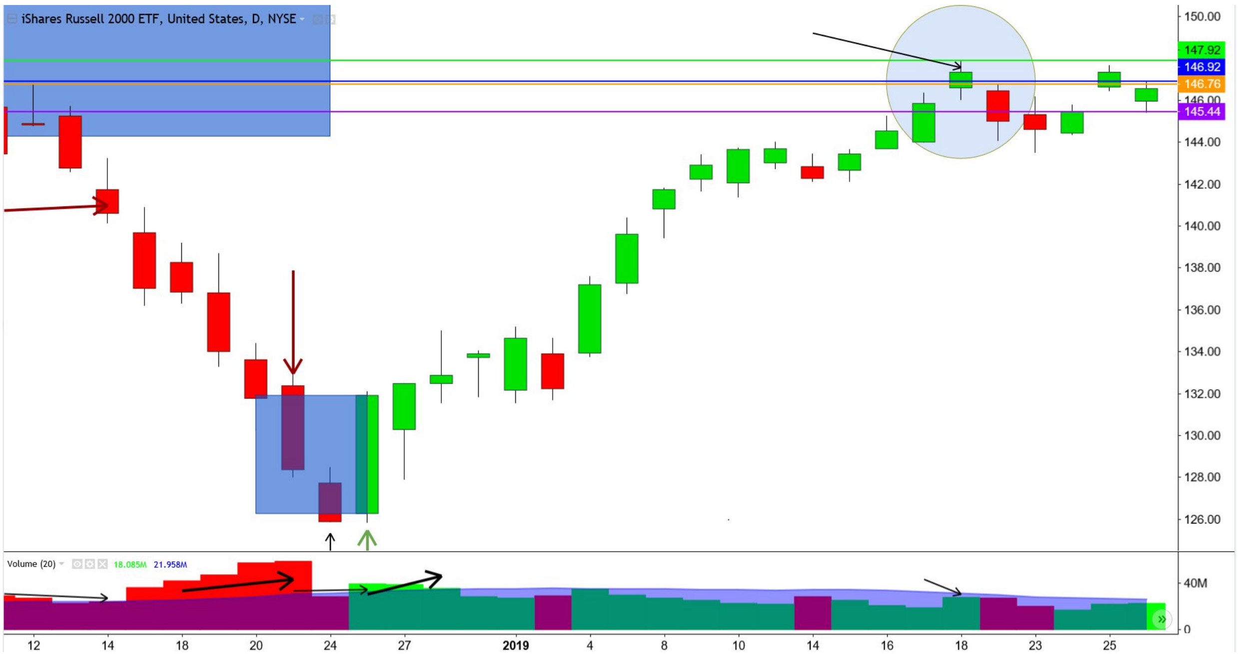
Slowly but surely the firm support range has eroded and bearish volume remains above normal levels. A further drop is more likely now as this continuation price action progresses towards completion.

As expected the market loses contact with the lower boundary with the onset of a rapid continuation lower.

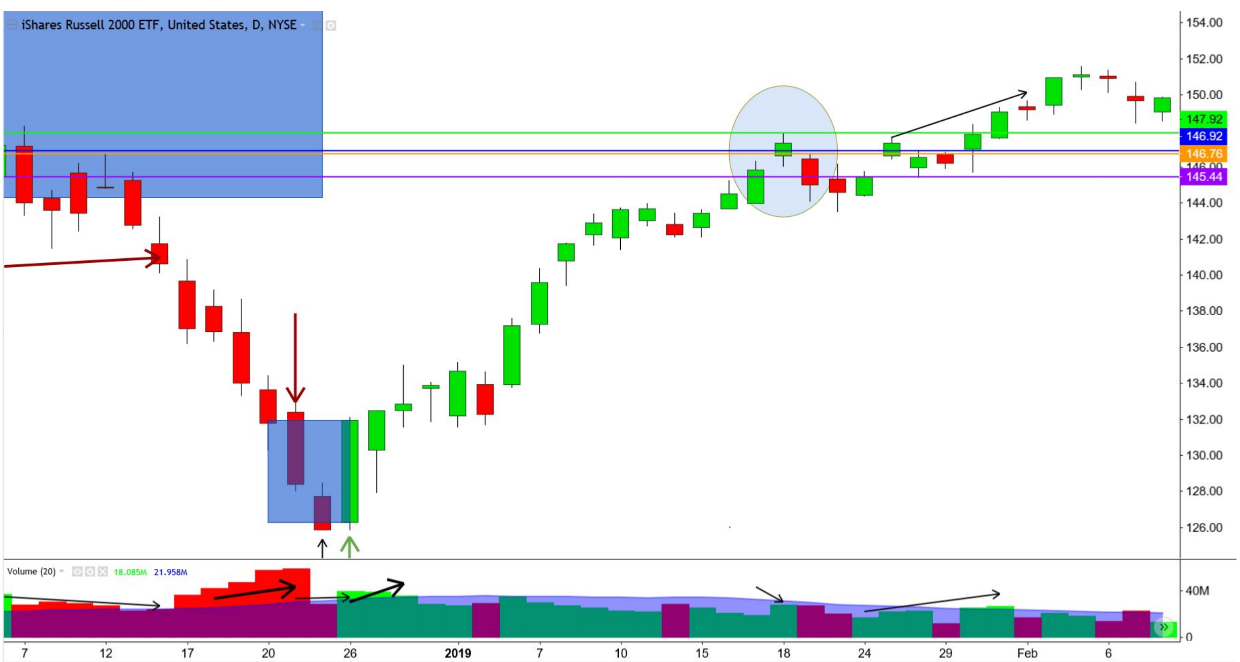
Upswing into 2019 is certainly stronger than those in November 2018 since there are overwhelmingly more green candles successively closing higher with consistent volume closer to normal levels. However there is still an element of a “passive” rise in response to the oversold market following the December drop.



On closer inspection the upswing point is not a clean pattern of any kind but rather the merging of general price action from several patterns. It has the large red first candle, smaller bodied second candle followed by a large third green candle like a morning star. However there is too much overlap with the second and third candles to be a morning star, but too little engulfing to be bullish engulfing. Overall still the general price action of a gradual shift from down to uptrend. The lower volume for the second candle and higher volume for the first and third candles is also a favorable sign for an upswing.



Like other examples the first major obstacle is with the lower boundary of the resting phase from the earlier downward continuation.

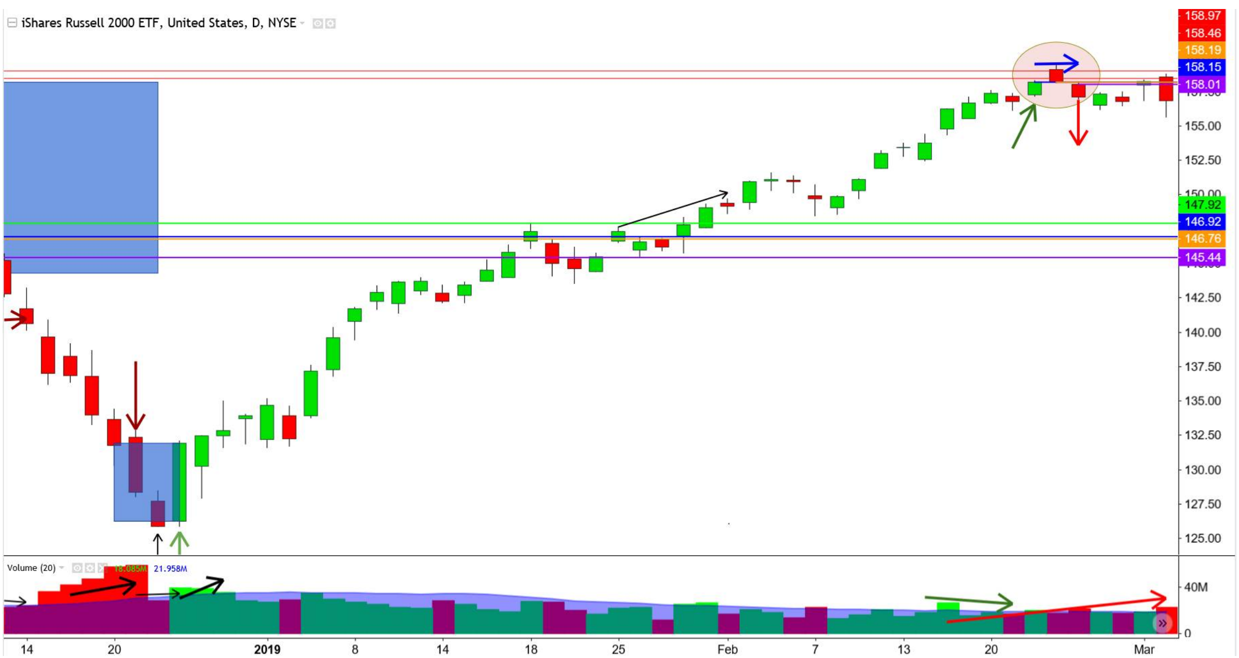


An evening star technically did form but it wasn’t too symmetrical in terms of even gap lengths and the close of the middle candle was above 146.92 to drive higher and show less upper wick rejection even for a relatively balanced second candle of deliberation. Volume was also normal to low before during and after the evening star. Volume was also mostly green for days at a time to indicate a gradual build up of bullish intent that ultimately culminated in the rise over the mid 140s range.

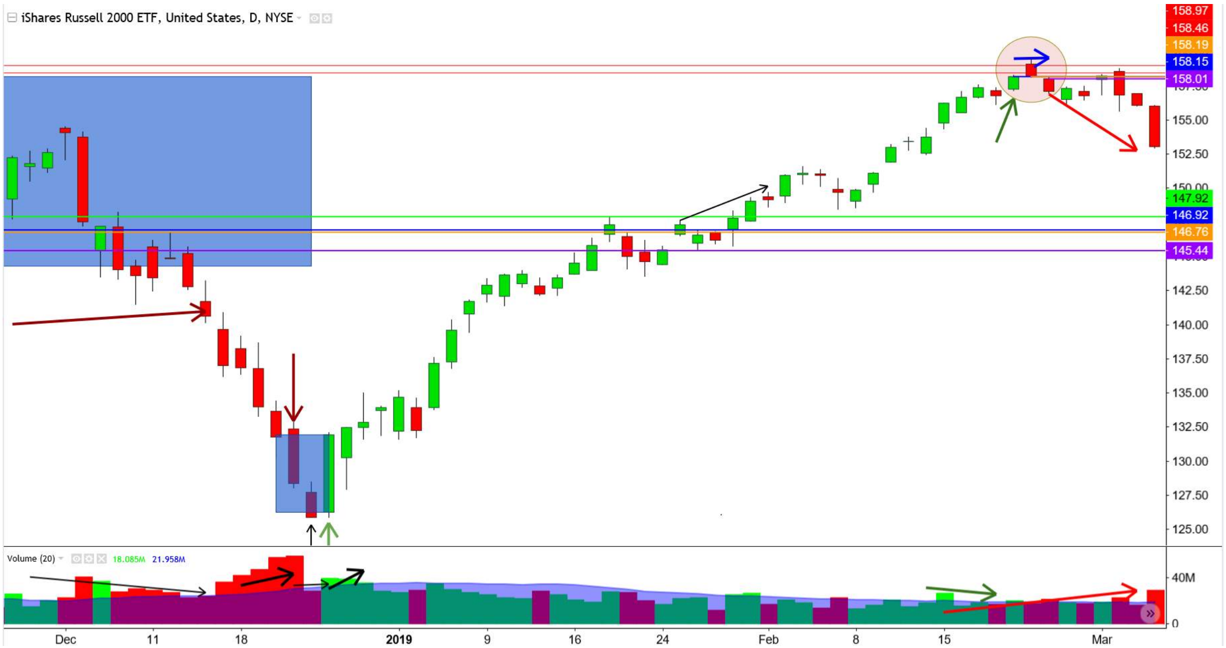
A strong but steady rise to the next major obstacle in the upper 150s with volume staying at near normal but consistent levels.

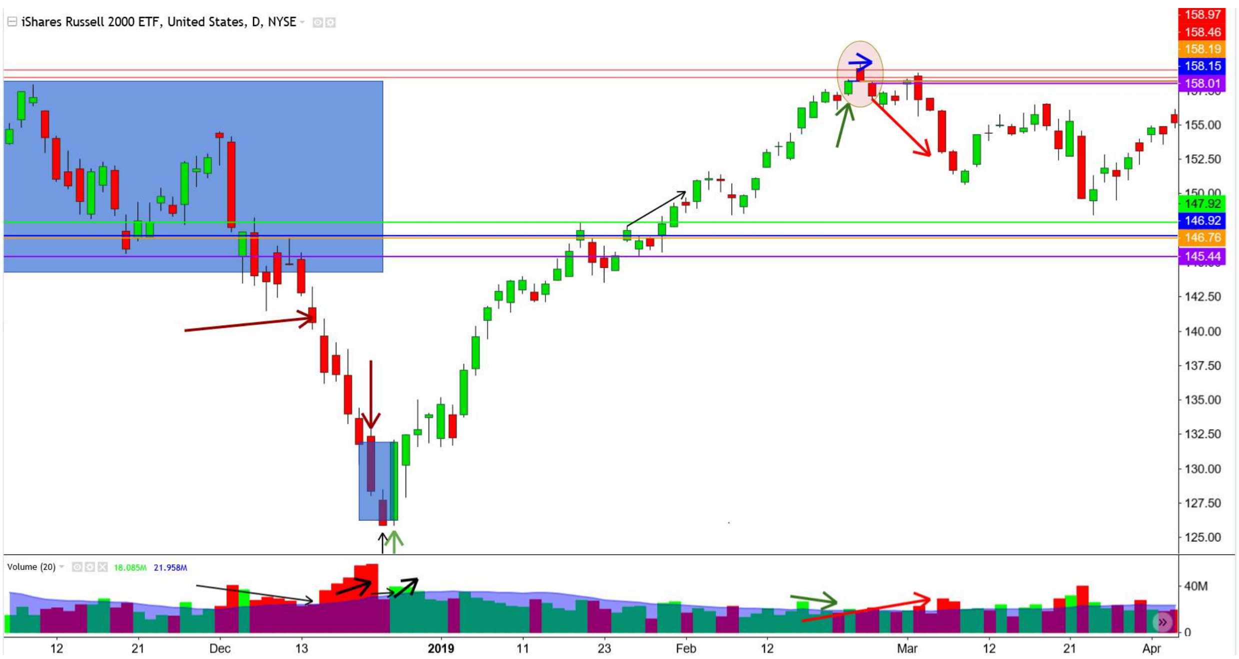
As expected resistance upon contact with the upper 150s first a harami then a relatively clean evening star. Overall symmetrical with higher volume for the first and third candles. Adequate gaps are present. The only glaring imperfection from picture perfect diagrams of evening stars is the first and third candles are not significantly larger than the second. That is a minor discrepancy between theoretical ideal and price behavior in real world circumstances. Also good to see minor upper wick rejection on the second candle to close under 158.46 to be slightly more bearish.

The gradual U shaped downswing is followed by brief trading below the evening star's low. It is a minor bearish sign since the current candle is green and closes back above the evening star's low. This can delay the otherwise bearish context.

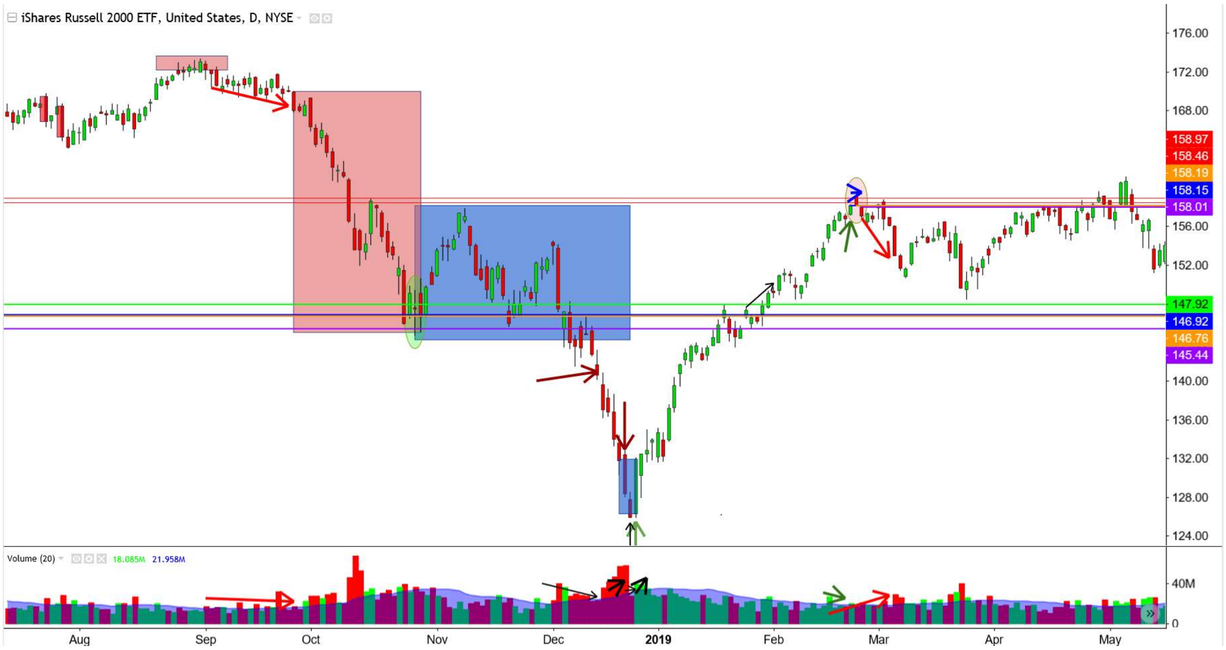


Bearish activity resumes but lower wick rejection in the last week delays and lessens the possibility of another strong downswing from the upper 150s range. On the other hand there is still renewed opportunity for a drop from the increased bearish volume and the large red real body of the current candle.

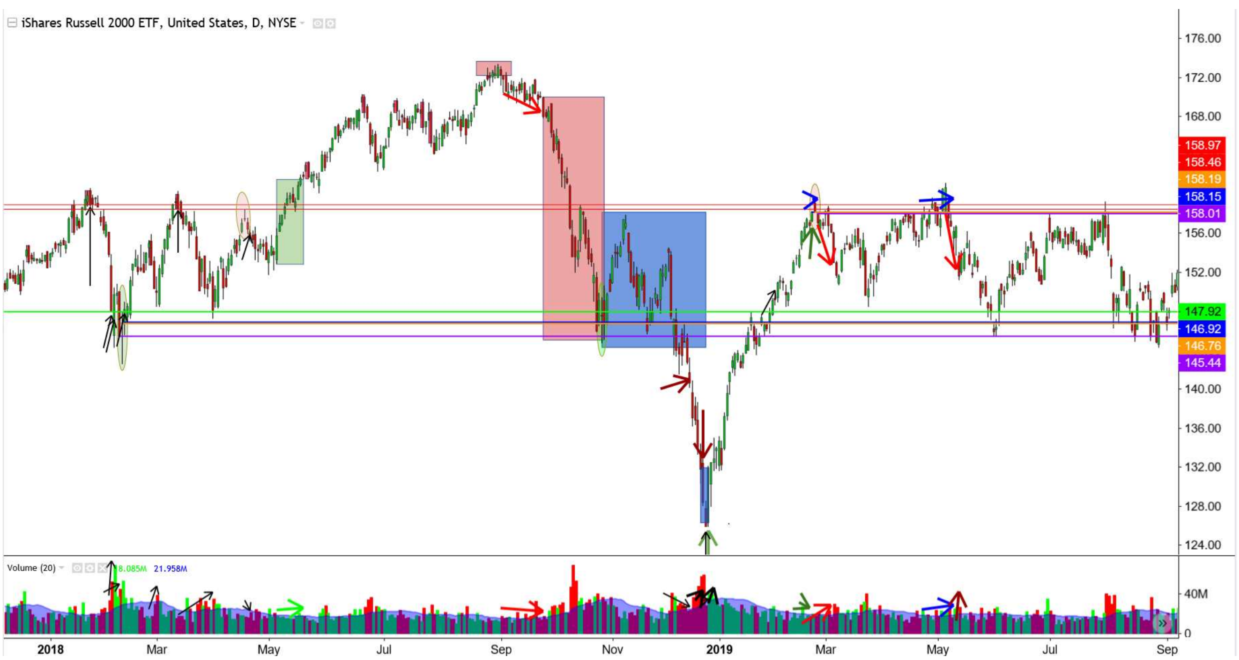




A steady downtrend eventually emerges with timely increase in red candles and bearish volume. The upswing in early March is a cross between a bullish kicking pattern and an unsymmetrical morning star. While the second upswing draws heavy influence from the mid 140s support range to form lower wick rejection in the form of a large spinning top that is found in a bullish context.

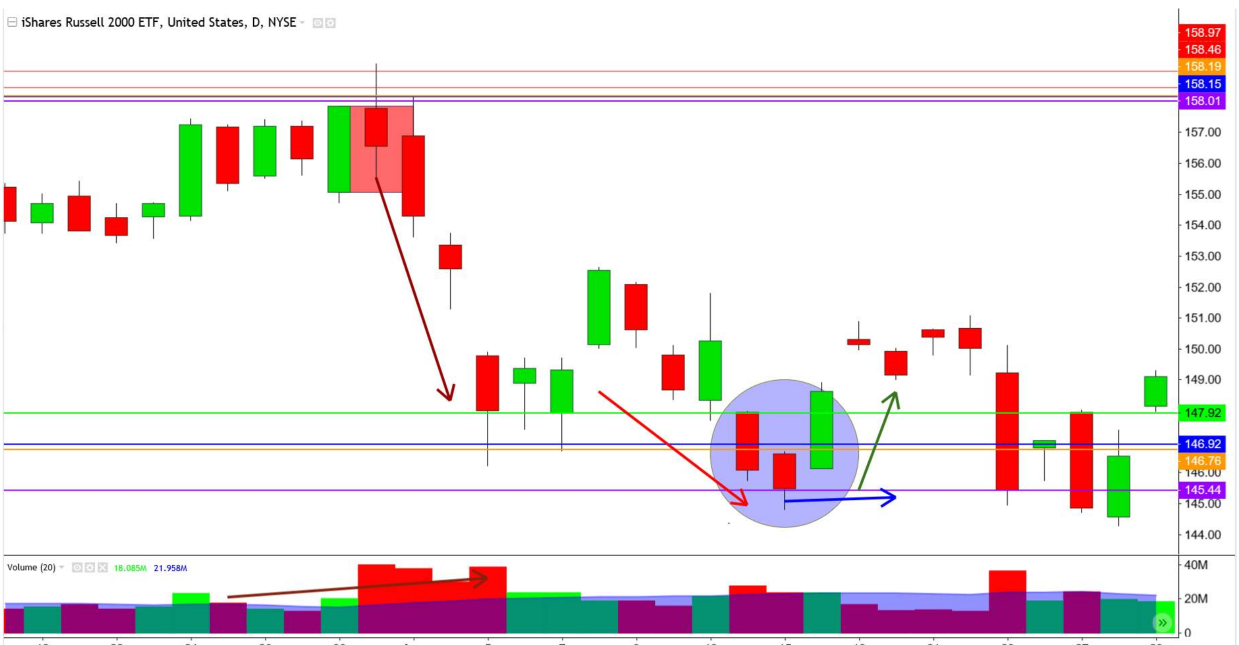


The upper 150s remain a contentious area. Despite upper wick rejection and a bearish engulfing pattern in later April a bullish balance persists to stall a seemingly inevitable drop once more.

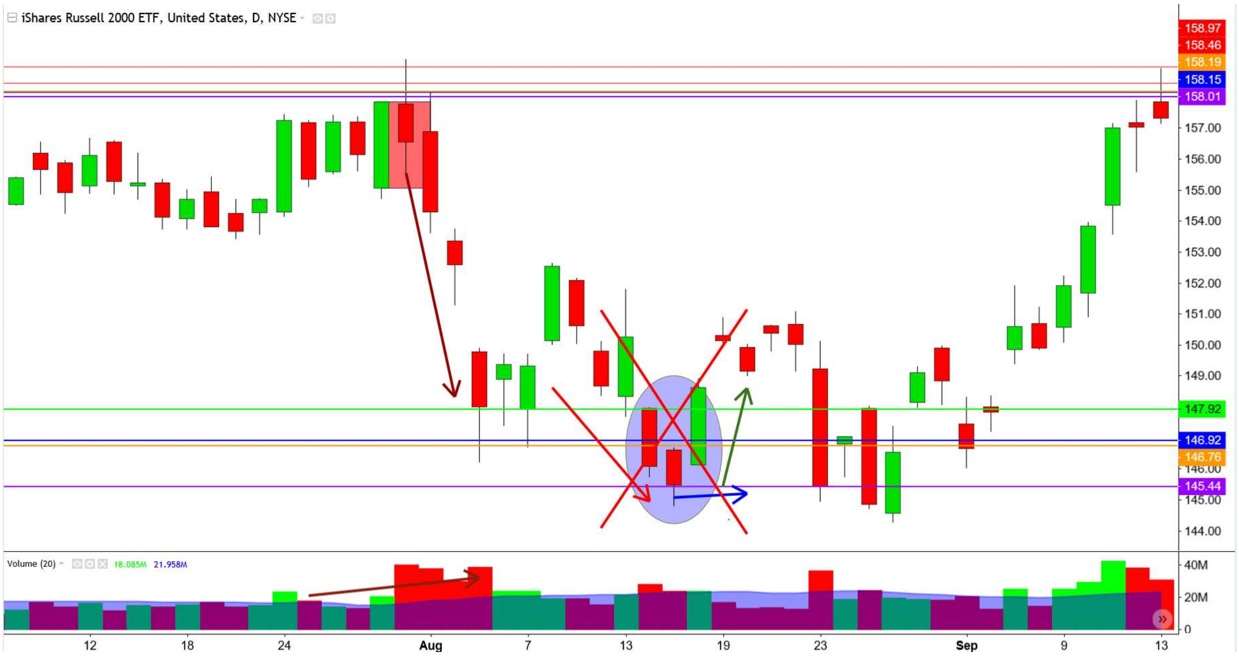


A major upper intermediate range has formed during the volatile year and a half to form a strong zone of confinement from the mid 140s to upper 150s.

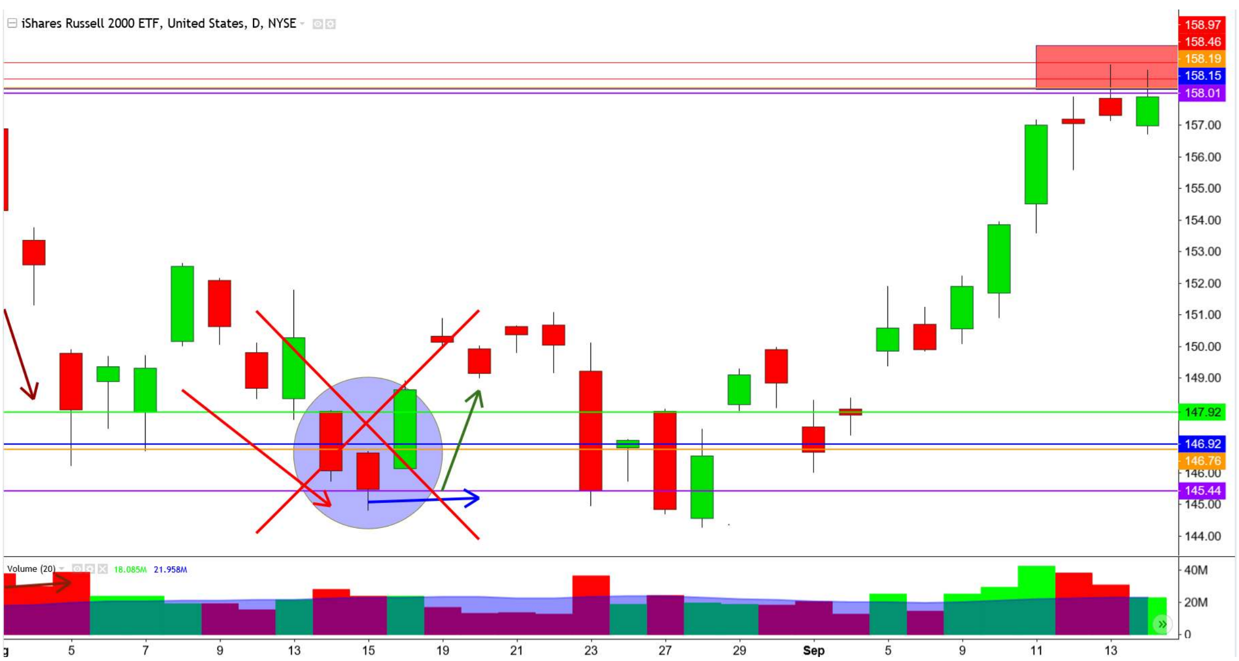
Note the upper wick rejection with two red spinning tops that directly contact the resistance zone to illustrate a case where spinning tops can form directional movement(bearish context in this case).



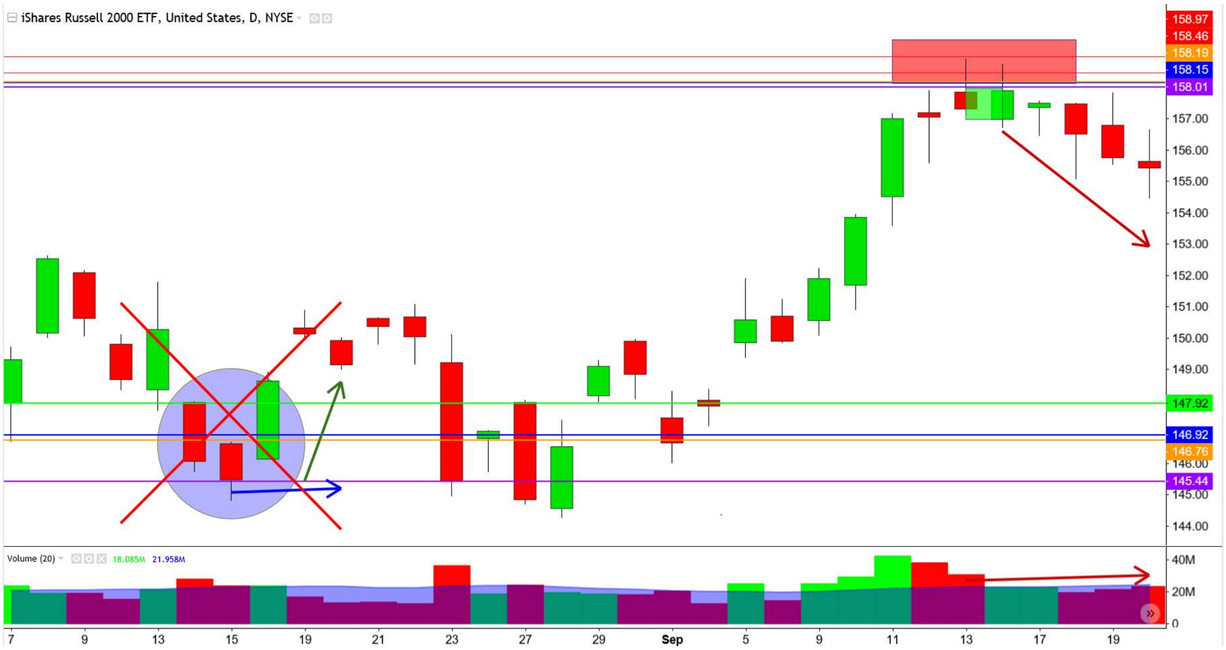
Not a morning star in mid August due to overlapping real body ranges but those 3 candles have the same general U shaped price action. When combining the range from the O of the first candle, C of the third L of the second and H of the third the result is closer to the price action of a bull hammer or thick dragonfly doji spread over 3 candles. In any case it is similar to rejection of lower prices in the support range like the thicker red real bodied bull hammer on August 5th.



No morning star but a strong foundation builds along with the upswing point before and after it. Once again the range persists with a strong rise back to the upper boundary where resistance soon forms with a doji slowing down the rise before the current bearish star.



A green candle but another bearish star keeps the tone bearish with price trading lower for a brief time. A downswing is more certain once there is a close below the current and newest bearish star's low.



Classic descent with volume and price action gradually accelerating more bearishly to be stopped at the expected lower boundary with clean lower wick rejection. Note the pair of bearish stars could be thought of as one large green bearish star which incidentally looks like an out of place bullish engulfing at the top of an uptrend.

Speaking of bullish engulfing October started off with the exact reverse with a pair of bull hammers that was also a bullish engulfing pattern that had immediate confirmation. Even though price stalled and dropped back on October 8th it further bolstered the uptrend forming a swift double bottom pattern in the medium term context to prolong the range. The upswing was also quite rapid with low but consistent green volume due to a downward over extension in September. More of a “passive” rise back to the upper 150s where no surprise there is apparent resistance. Clustered red candles and a peaking bearish star.

Resistance is still present but note how even the bearish candles manage to close higher than the previous few downswings at the same range. The tone gradually becomes more neutral with the market unwilling to sell below 158.

The large green candle in late November finally breaks above the range with high volume as an added boost to the continuation of the prior uptrend. After that there is a minor evening star to form the downswing that often forms after a break over major resistance to consolidate and establish more stable highs. This morning star has gaps between the real bodies and is unsymmetrical. It is also unusual in that the first candle is a gravestone doji and red. Nonetheless the U shaped price action is present and there is immediate follow through with a strong red candle to start December. There is also a bit more upper wick overlap of the first and third candles in the real body range of the second candle. This may not be proper if strictly adhering to theoretical candle charting diagrams that have little or no wick overlap.

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iShares Russell 2000 ETF, United States, D, NYSE
Volume (20) 18.085M 21.958M
19
22
Dec
5
10
13
18
23
27
2020
7
10
15
172.00
171.00
170.00
169.00
168.00
167.00
166.00
165.00
164.00
163.00
162.00
161.00
160.00
158.97
158.46
158.19
158.15
158.01
20M
0


iShares Russell 2000 ETF, United States, D, NYSE
Volume (20) 18.085M 21.958M
19
22
Dec
5
10
13
18
23
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2020
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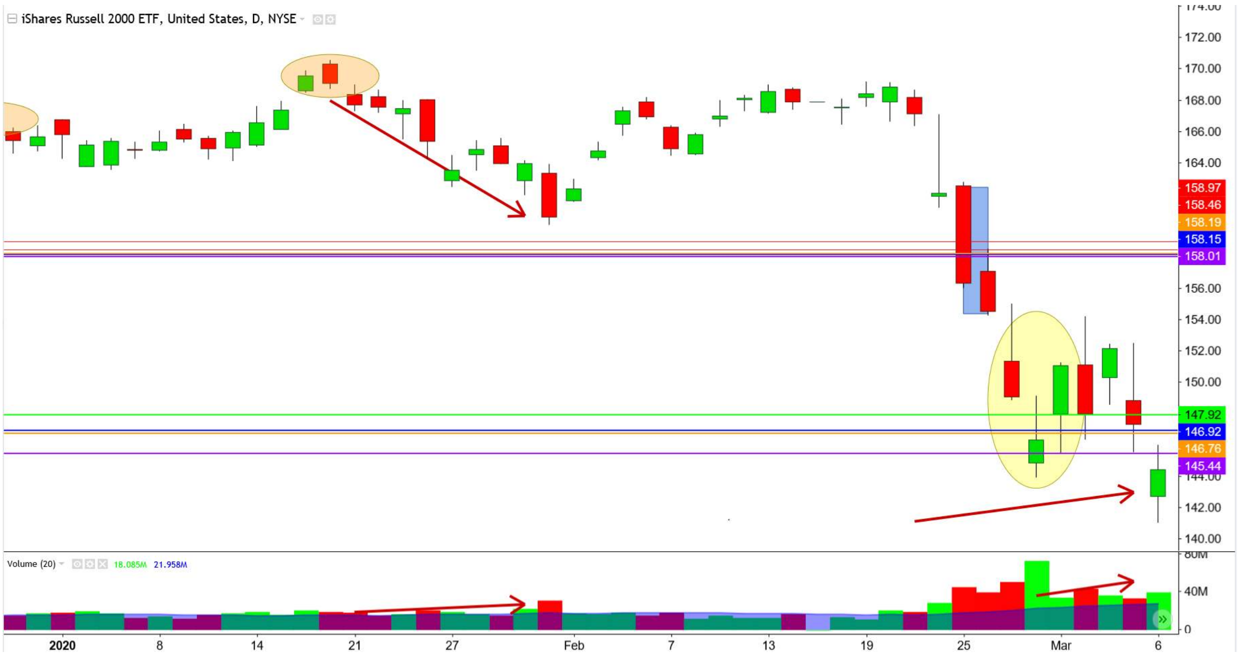
15
172.00
171.00
170.00
169.00
168.00
167.00
166.00
165.00
164.00
163.00
162.00
161.00
160.00
158.97
158.46
158.19
158.15
158.01
20M
0

Bearish engulfing has little effect since 2020's bullish start countered the minor downswing. Dark cloud cover later on had the requisite follow through with plenty of red candles gradually accelerating lower with increasing volume.

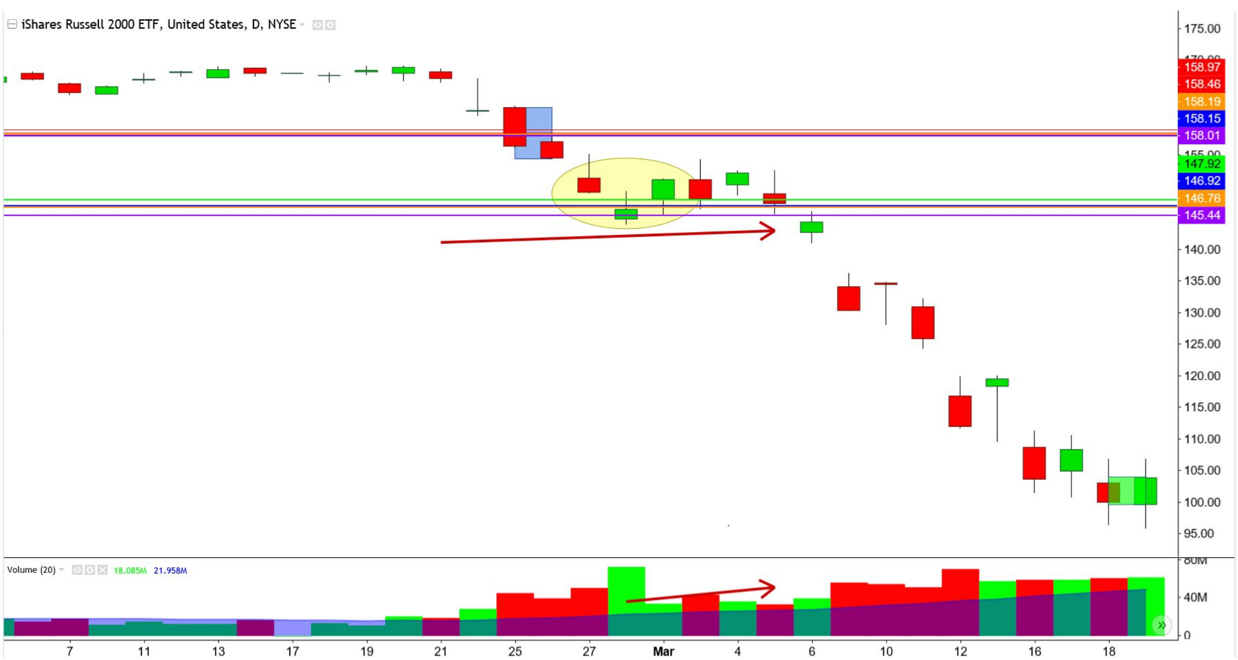
Strong support appears from the recent break over the upper 150s. However the upswing is weak and erratic with many gaps in between the small candles that have declining volume. Also the upswing point is formed from a harami that has a very large red candle. The prior bearish context and weak upswing effectively cancel each other to imply a more neutral context as the market returns to the previous high.

Minor increase in bullish volume is not enough as the prior peak forms firm resistance with two dark cloud cover patterns that form a double top in the short term and a sloping triple top in the medium term. Another example of a major support range slowing down even the strongest of drops that does become over extended in the short term to form a minor sideways range largely composed of inverted hammers. The bigger picture is still bearish but the short term is oversold and there is minor intent to rise as seen with the upper wicks of the inverted hammers.



A lower close under the support range to resemble a downward continuation ready to accelerate down. This is highly likely even though the current candle is unusual in that it is green rather than red. Focusing on general price action is more sensible rather than one single green candle.

The longer term and more general context of downward continuation price action prevails over the minor doubt of the one green candle that still technically took price lower.



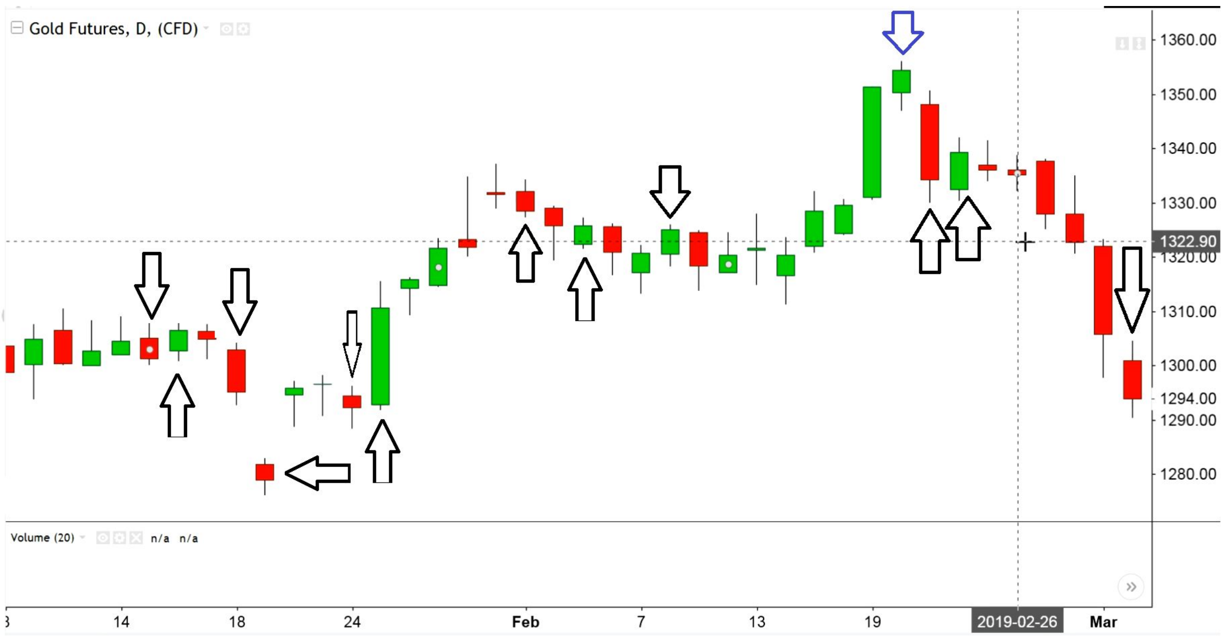
More bullish candles with lower wick rejection emerge to end march as the rapid sell off can be considered over extended. A bullish engulfing is also promising for at least a minor upswing.

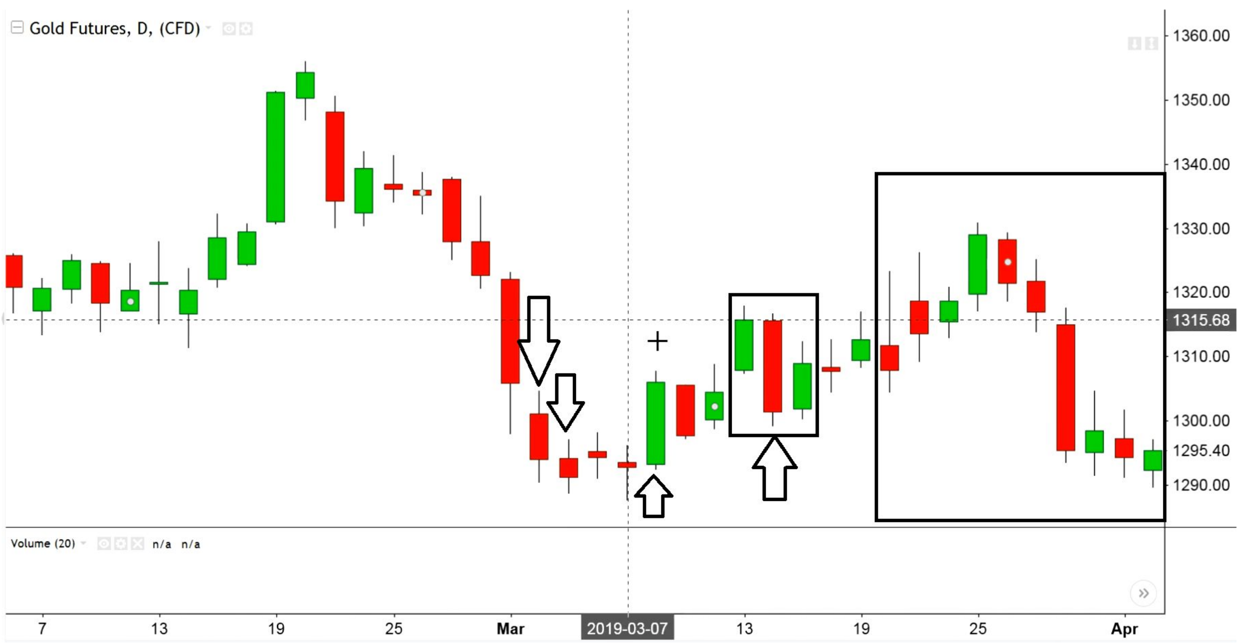
Volatility remains and the next two candles are large red ones. However the market does manage to hold the lows with more lower wick rejection. Price is weak as it first trades above but does not close over the bullish engulfing pattern's high. This can be normal after such a major global and volatile market drop like in March 2020 where clean single candle upswings are less common.

Along the way back up to the previous upper intermediate range there are some evening stars. The first one is closer to what is seen in theoretical candle diagrams with more defined gaps and shorter wicks. Though it is still strange in that the second candle is larger than the first and second and the first candle is red during an uptrend. Speaking of the uptrend it gradually stabilizes and that is likely a reason why the downswing is small as the market becomes bullish prior to reaching the mid 140s. The second evening star is a less strict and ideal example similar to the evening star seen back in late November of 2018. Again the downswing it produces does not start a downtrend due to the existing uptrend that has normal to low volume. Thus it has the element of a "passive" rise rather than a fully active uptrend. This is in part due to the rapid sell off and over extension in February and March.

Chapter 7 Spinning Top Candle Example Case Studies

Spinning Top Candle Example Case Study 1





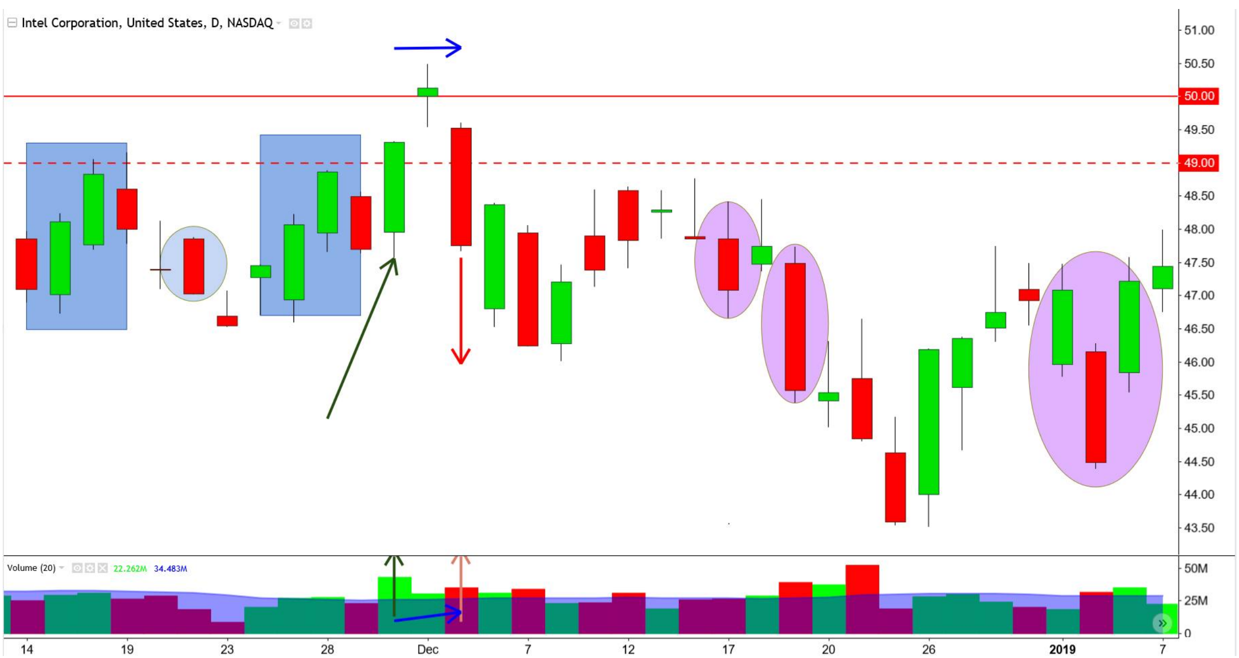
Spinning tops don't have much meaning on their own. They mainly represent indecision, especially in sideways ranges. However they can have directional meaning when found alongside reversal or even doji candles. For example a spinning top can be the second large green candle in a bullish engulfing pattern or the first and second candles in an evening star. Spinning tops near support/resistance ranges can also add to directional meaning.

Spinning Top Candle Example Case Study 2

Examples of spinning tops with less meaning while they are in the middle of upswings, downswings, and flat ranges. October 24th can be combined with the next green candle to effectively represent lower wick rejection over two candles.

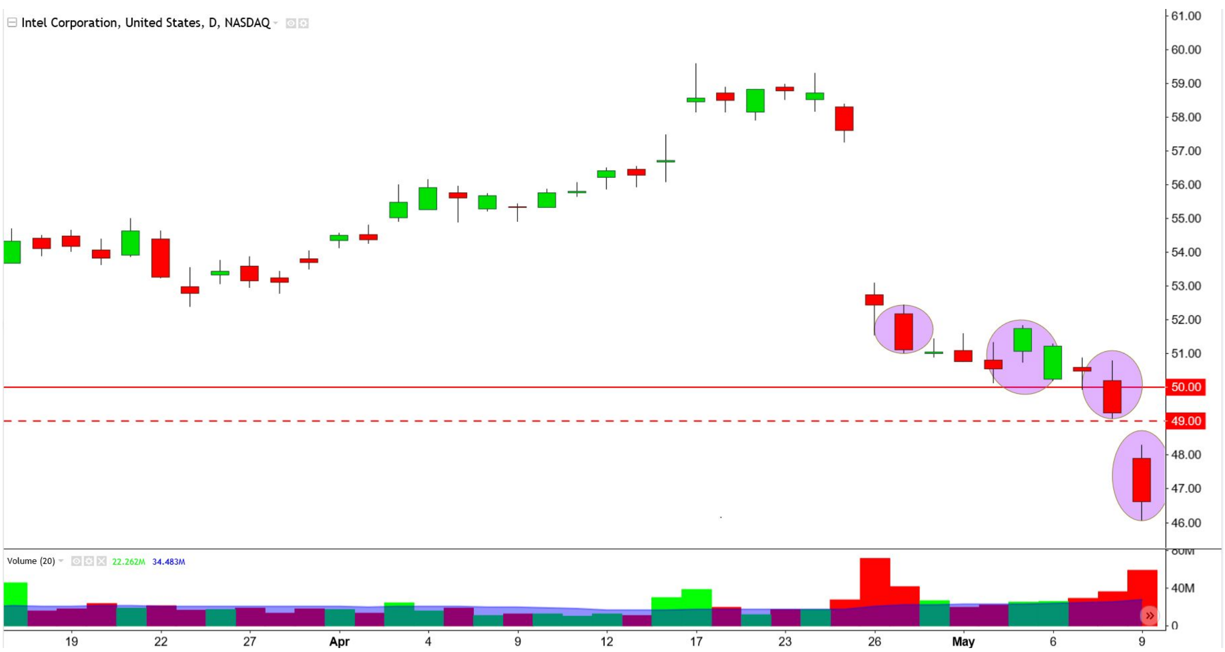
Intel Corporation, United States, D, NASDAQ
54.00
53.00
52.00
51.00
50.00
49.00
48.00
47.00
46.00
45.00
44.00
43.00
42.00
Volume (20)
22.262M
34.483M
40M
0
Aug
9
17
Sep
12
20
Oct
9
17
Nov
9
19

Intel Corporation, United States, D, NASDAQ
60.00
58.00
56.00
54.00
52.00
50.00
49.00
48.00
46.00
44.00
42.00
40.00
38.00
36.00
34.00
32.00
Volume (20)
22.262M
34.483M
100M
0
Mar
May
Jul
Sep
Nov
2018
Mar
May
Jul
Sep
Nov



Spinning tops under the 49-50 resistance range were mostly indecisive but the first and third candle of the evening star stretching from the end of November to the start of December are in a directional(bearish) context. First two red candles highlighted in purple are simply part of the downtrend confirmation and early development. The first red candle of 2018 is like another lower wick rejection forming a small upswing over 3 days much like a morning star's price action.


Intel Corporation, United States, D, NASDAQ
Volume (20) 22.262M 34.483M
Jun Jul Aug Sep Oct Nov Dec 2019 Feb Mar Apr May
50.00
49.00


Intel Corporation, United States, D, NASDAQ
Volume (20) 22.262M 34.483M
19 22 27 Apr 4 9 12 17 23 26 May 6 9
50.00
49.00

Naturally the 49-50 range remains highly influential far into the future. Even when there are strong bullish and bearish moves through it, there is the natural secondary effect of slowing down price action rather than reversing it. As per usual slowing down often leads to flatter and more hesitant and/or indecisive price action. Thus spinning tops are a common sight during the abrupt or gradual slow down of strong up and downtrends through major areas such as the 49-50 range here.

Spinning Top Candle Example Case Study 3

Long term downtrend sees spinning tops as part of candle patterns composed of two candles. Harami, bearish engulfing, and another harami. In these cases the haramis lead to more directional rather than sideways movement. All 3 examples illustrate red spinning tops but in directional contexts due to the candles before or after them.

Small upswing from confirmation of inverted hammers at the beginning of February in the form of a green spinning top that acts as a bullish engulfing but not at the exact upswing point. Closer to March a large red candle can be considered a spinning top that is more bearish as it negates the bull hammer before it. Then the bullish engulfing after that is once again negated by a longer upper wicked red spinning top. Bullish engulfing in mid to later march once again has the green engulfing candle in a bullish context rather than a less significant spinning top candle by itself.

Flat range develops in March with plenty of dojis and spinning tops forming indecisive price action. In August large green bodied candles can be called spinning tops on their own. However they are more accurately called bullish due to their role in the continuation higher.

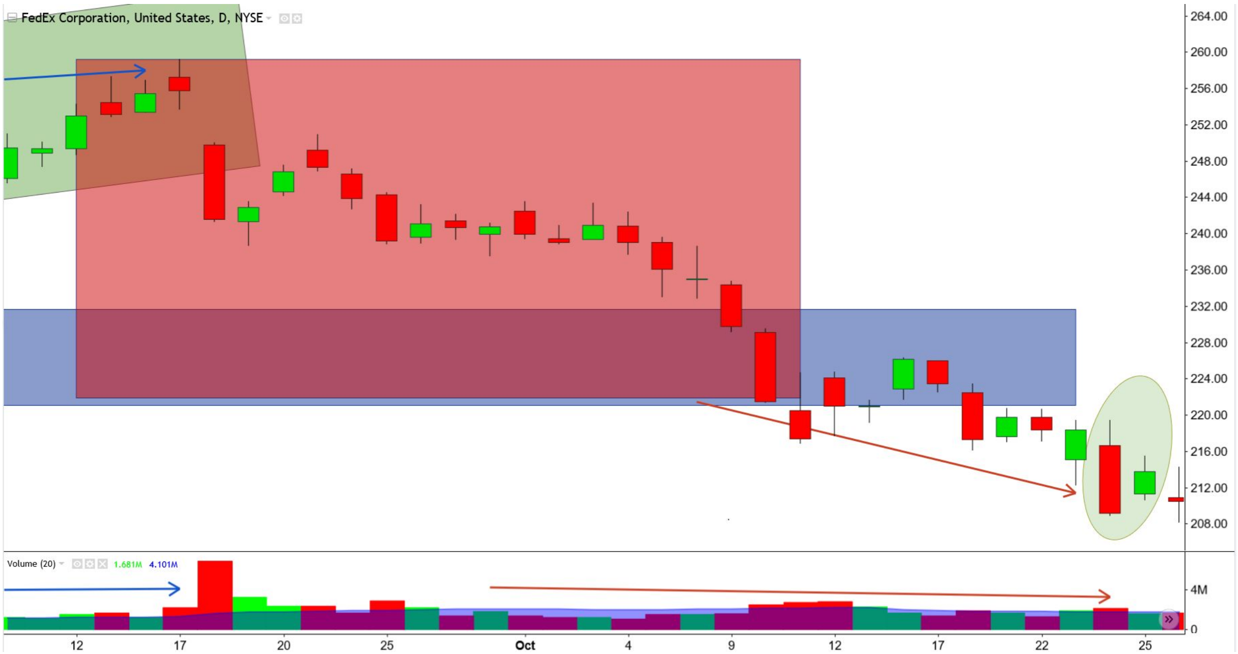
Chapter 8 Harami Candle Example Case Studies

Harami Candle Example Case Study 1

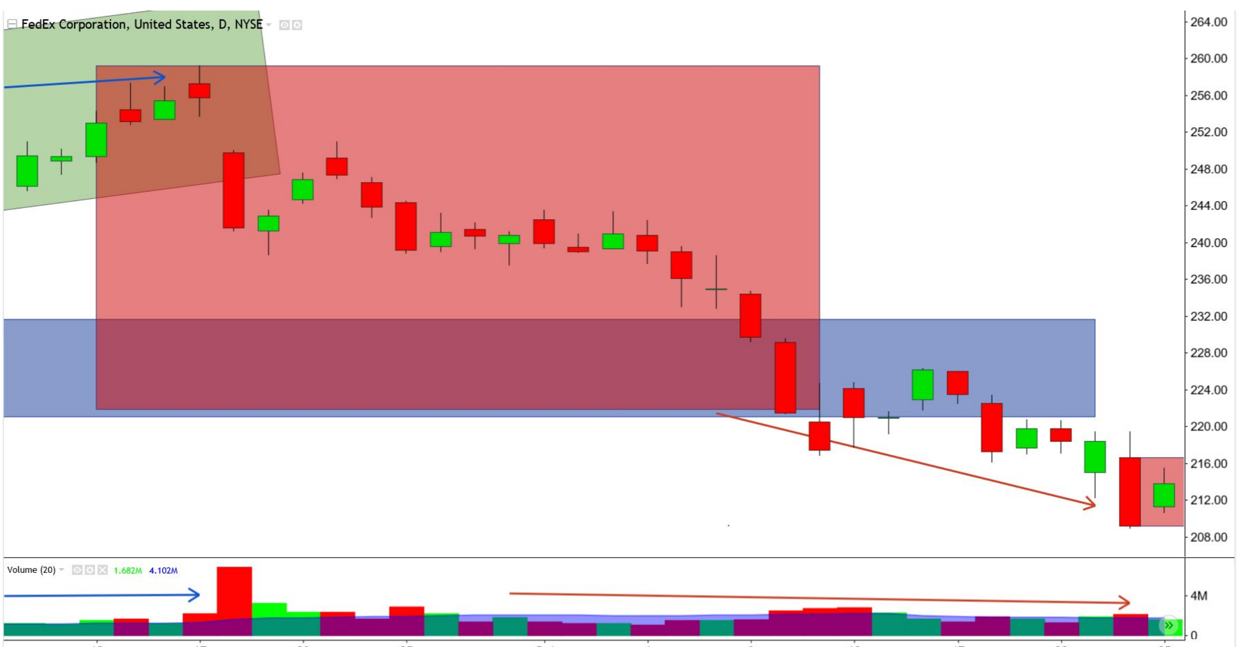
Long term context: clear up trend has peaked and market hesitation confines trading to a prolonged flat range for now.

Haramis are technically two candle patterns as they comprise two candles. They can also be considered two candle reversal patterns when they produce up or downswings. However they are treated somewhat separately since they can also have a tendency to produce flat and indecisive ranges. Thus they can be a special type of two candle pattern that is highly dependent on market context. This is in contrast to patterns like the bearish and bullish engulfing seen at the start of the now likely downward continuation range.

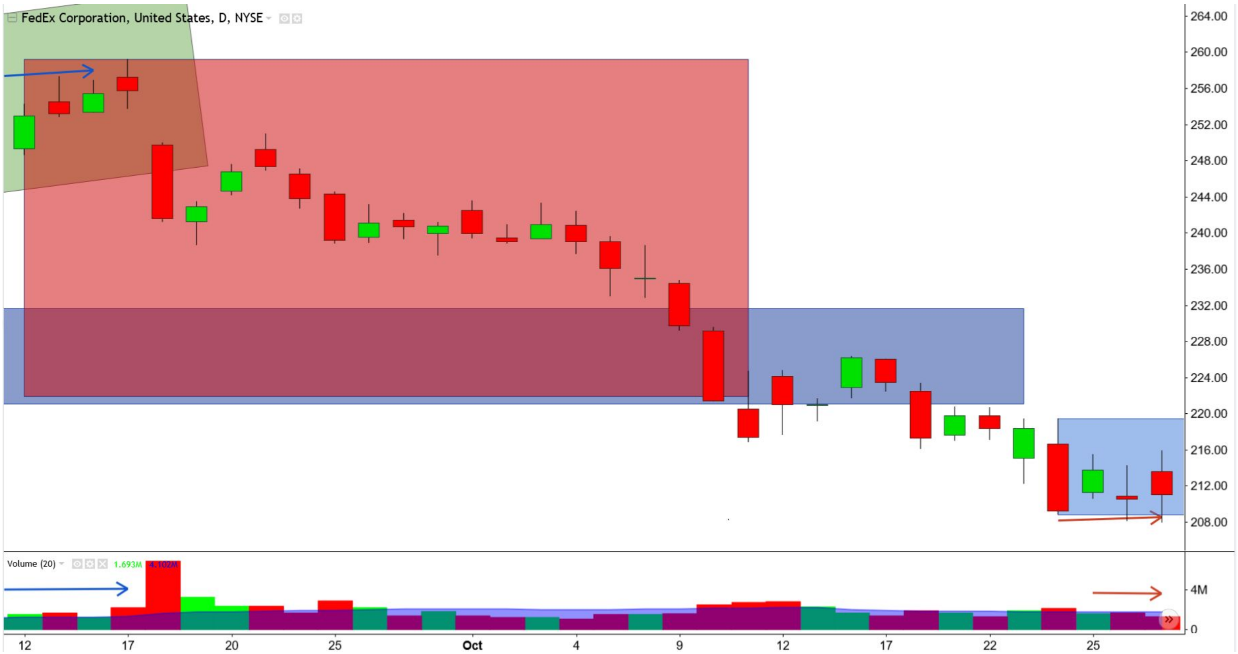
Increasing red candles and volume breaking the lower boundary like the prior examples



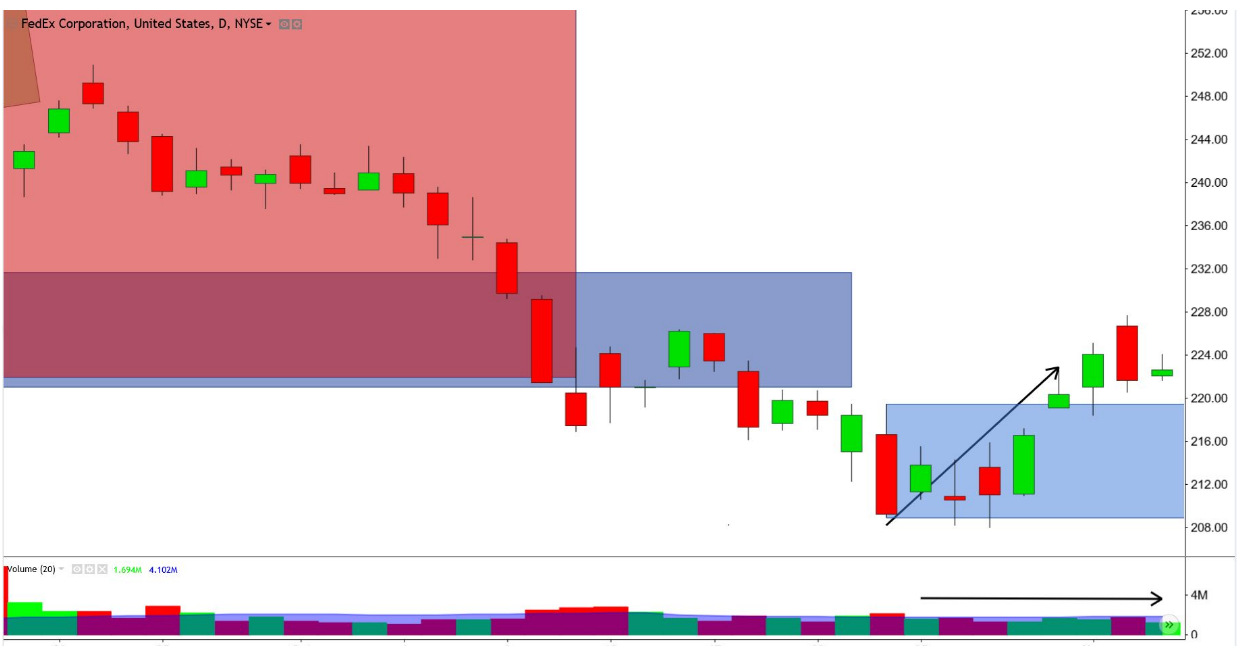
Note the 3 candles from Oct. 10-12th have the general price action of a morning star and even have an inverted hammer and bull hammer as the second and third candles. However they are in the context of a likely downward continuation and they are all red and closing below the lower 220 boundary. It is another case where reversal type price action does not produce an upswing but does stall the drop at a key lower boundary.



Classic haramis have formed with a red candle continuing the downtrend and the green candles that follows has its real body fully contained in the real bodied range of the larger red candle before it.

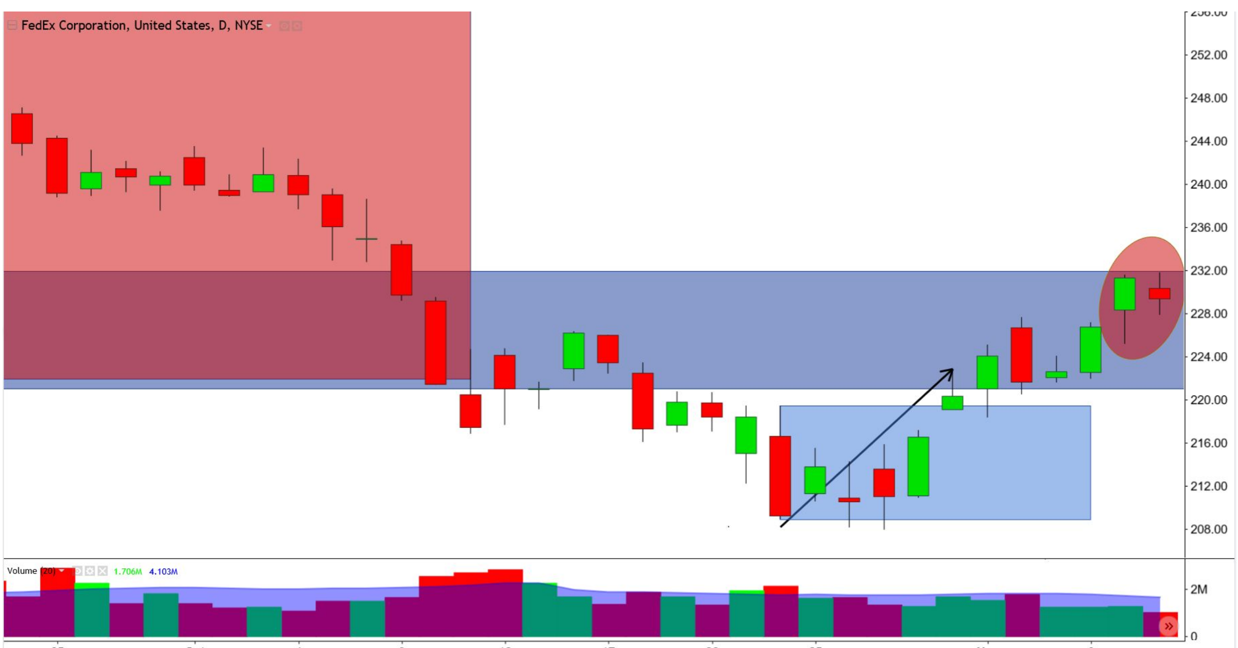


Naturally the green candle is bullish but often first leads to doubt in the downtrend followed by a more bullish tone once price is trading and closes above the high of the harami which is often the high of the first candle.

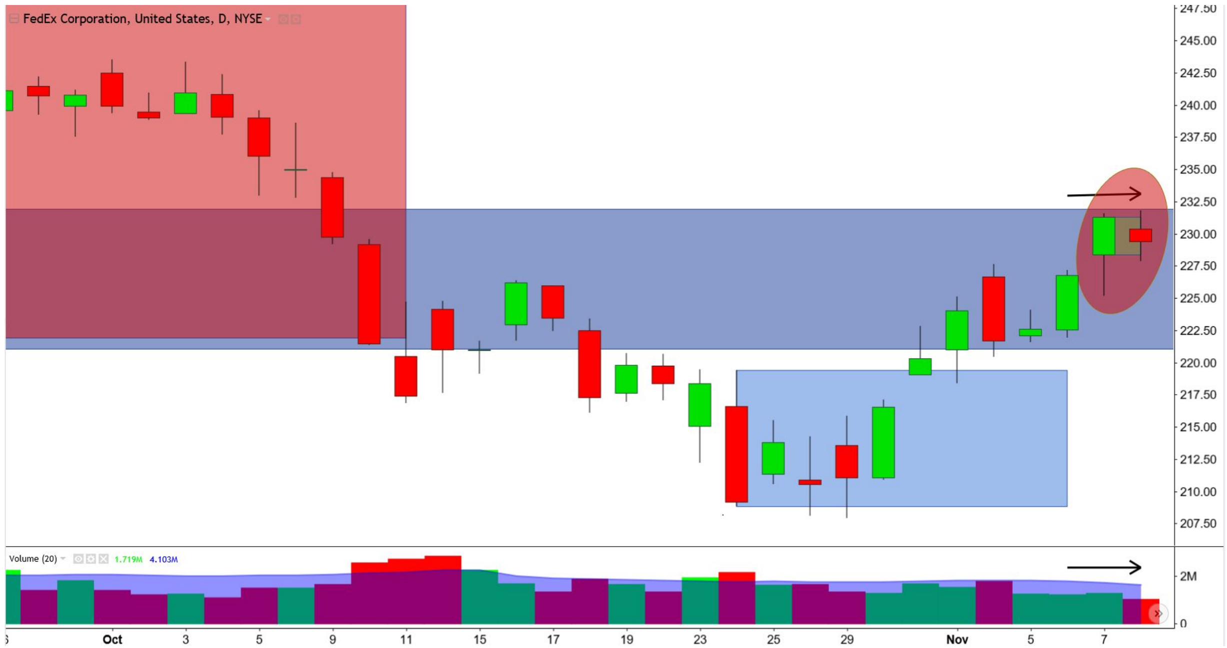


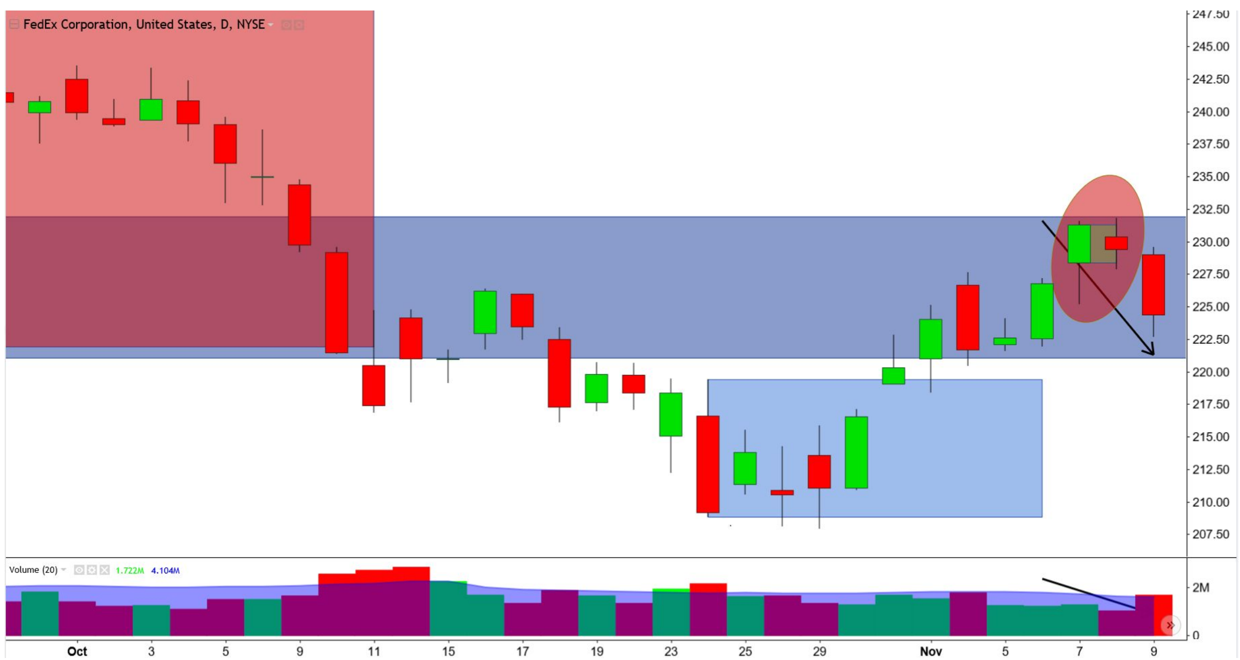
Doji and spinning top after harami are indicative of indecision.

Confirmation of a more likely uptrend after closing above harami's high. Again the faster price closes above the haramis high the more likely the uptrend will be stronger and last longer. Though haramis often have more delayed confirmation compared to bull hammers or bullish engulfings, if an uptrend develops at all.

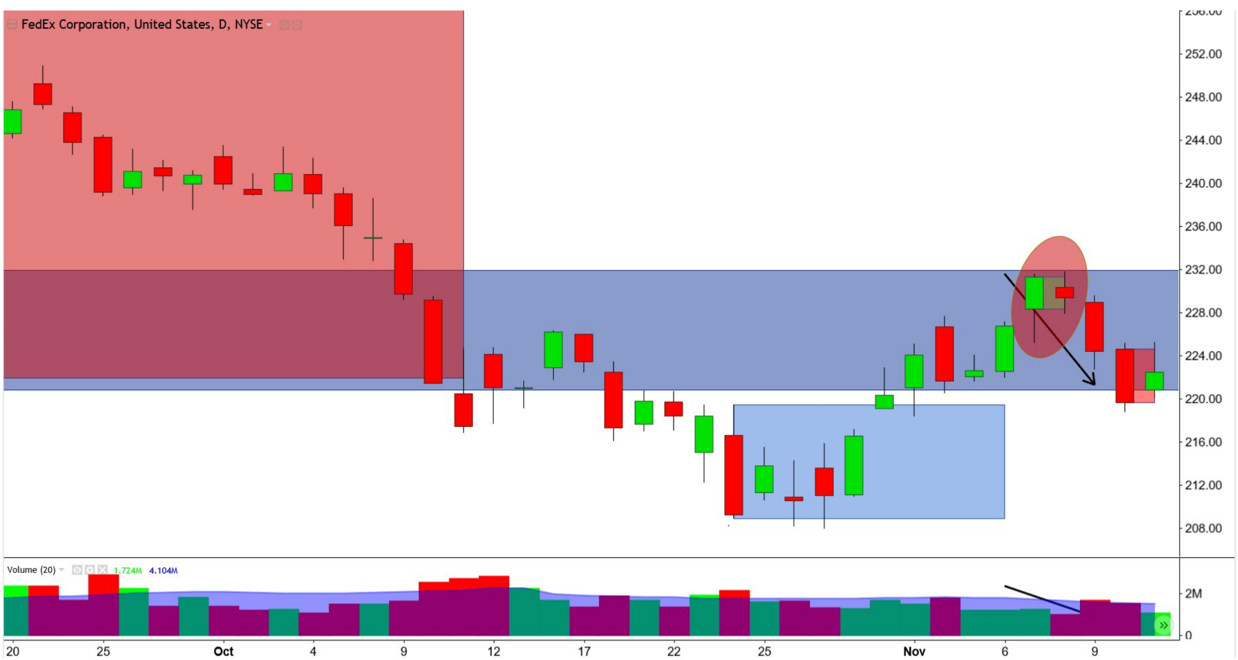


Naturally the prior 220-230 lower range is the first resistance range for a developing uptrend. Most recently another harami has formed in the bearish context.

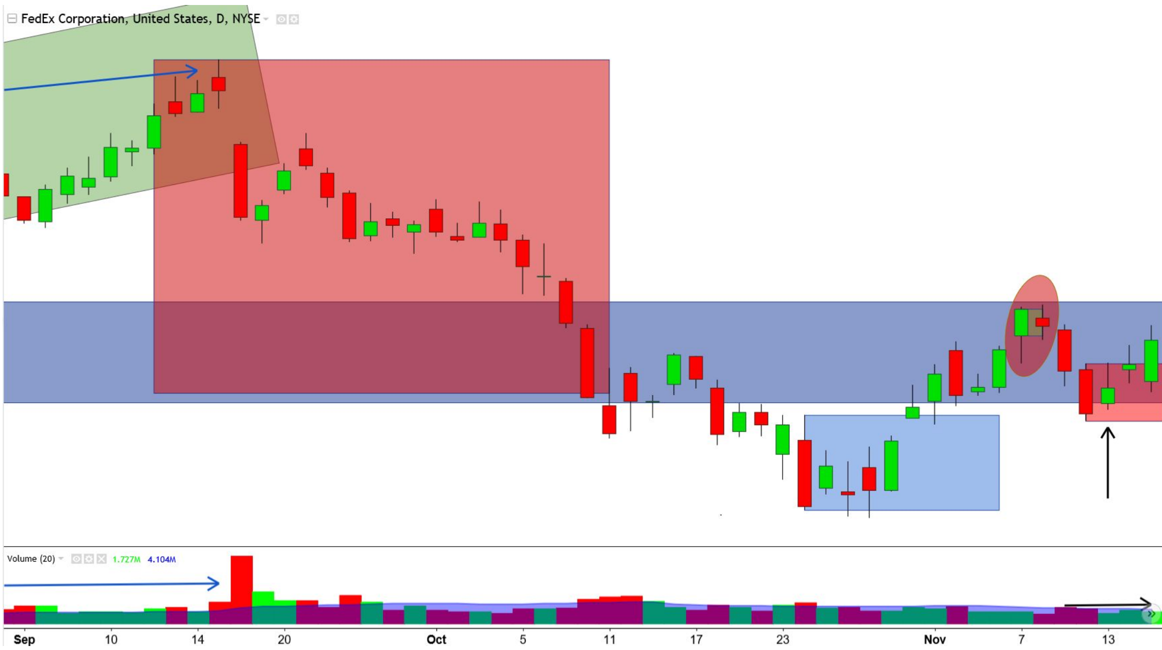


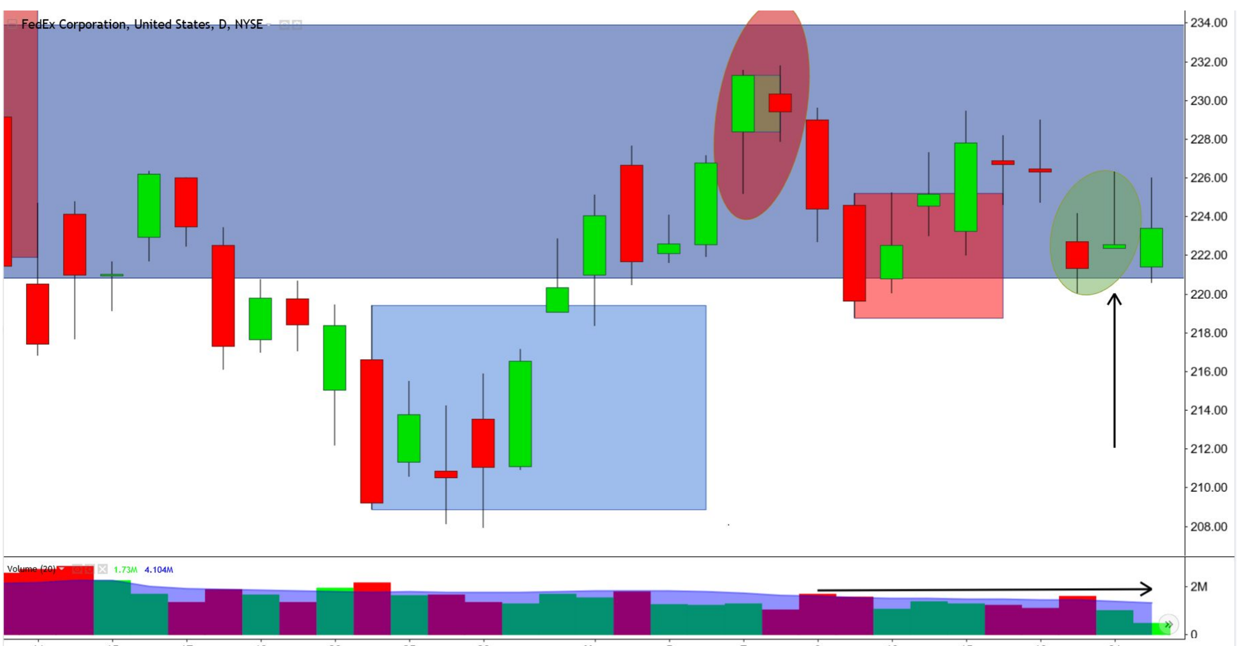


Immediate "confirmation" of a more likely downswing with the next candle strongly closing below the harami's low.

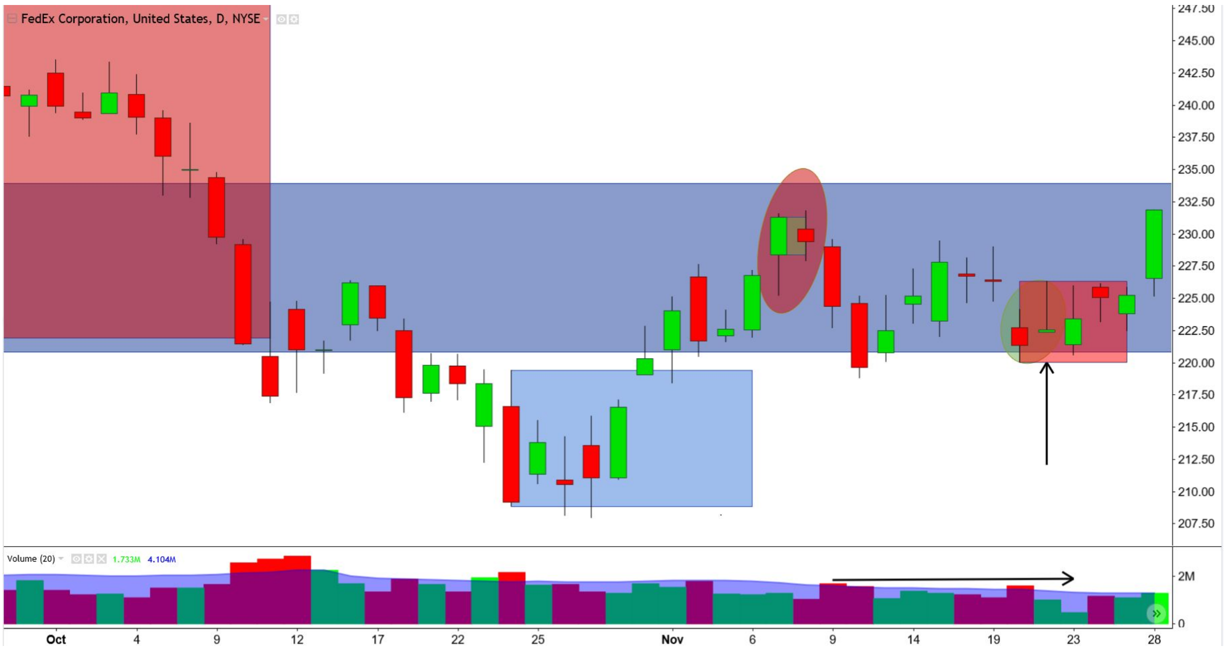


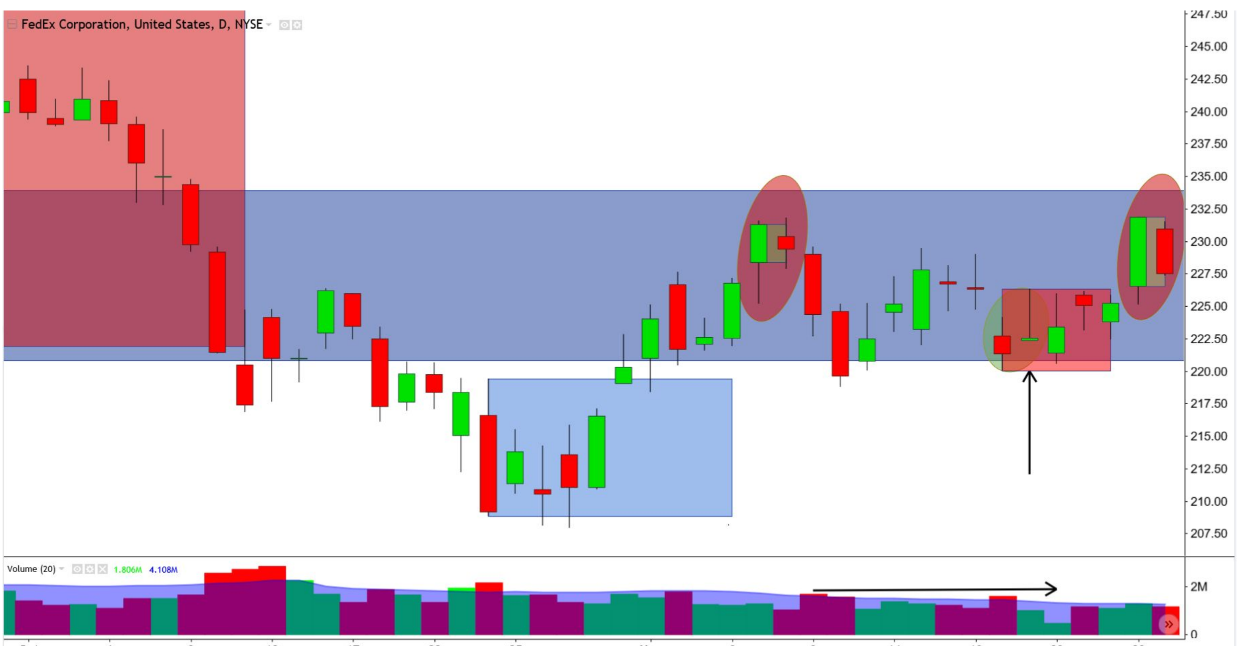
Major long term 220-230 range is a natural stiff barrier and contentious area since it was a key lower boundary to finish off the downward continuation in October. Another harami but back to a sideways to bullish context due to it forming at the lower boundary of the narrow 220-230 range and coming after the brief downswing began.



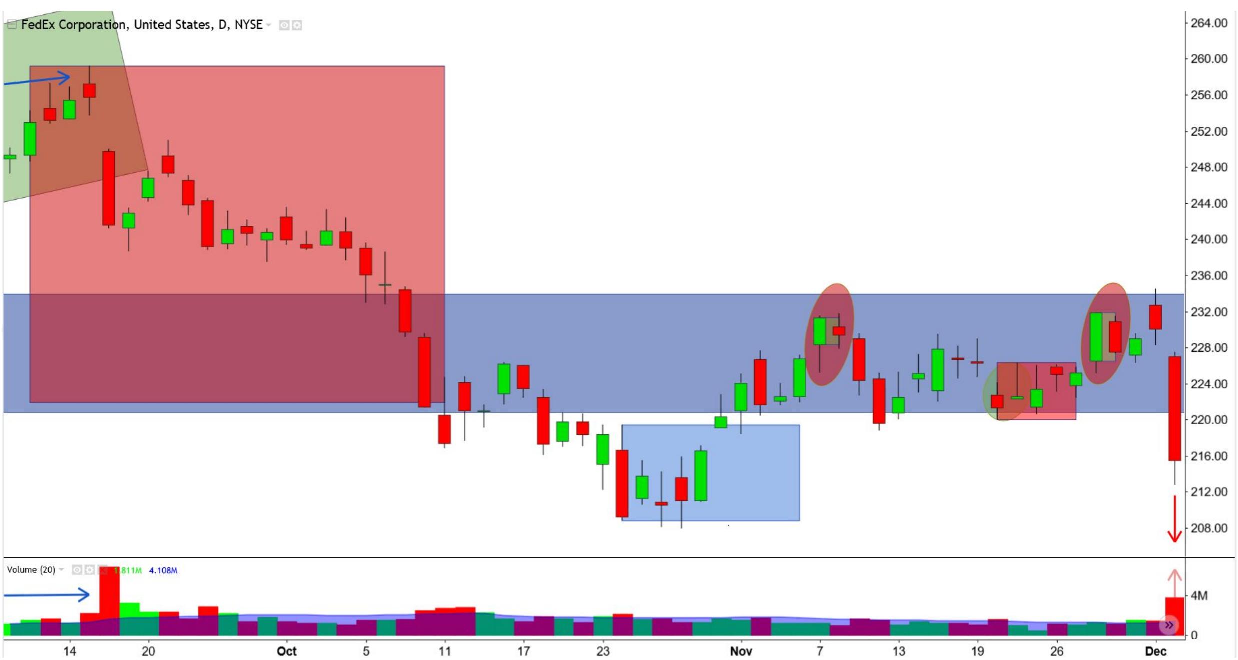


Bullish to flat with a marginal upswing. Once price returns to the lower 220 threshold a bullish harami forms with a gravestone doji that signals intent to rise again with its upper wick similar to an inverted hammer . Though it is weak bullish sentiment with low volume and price unable to close above the first red candle's high.

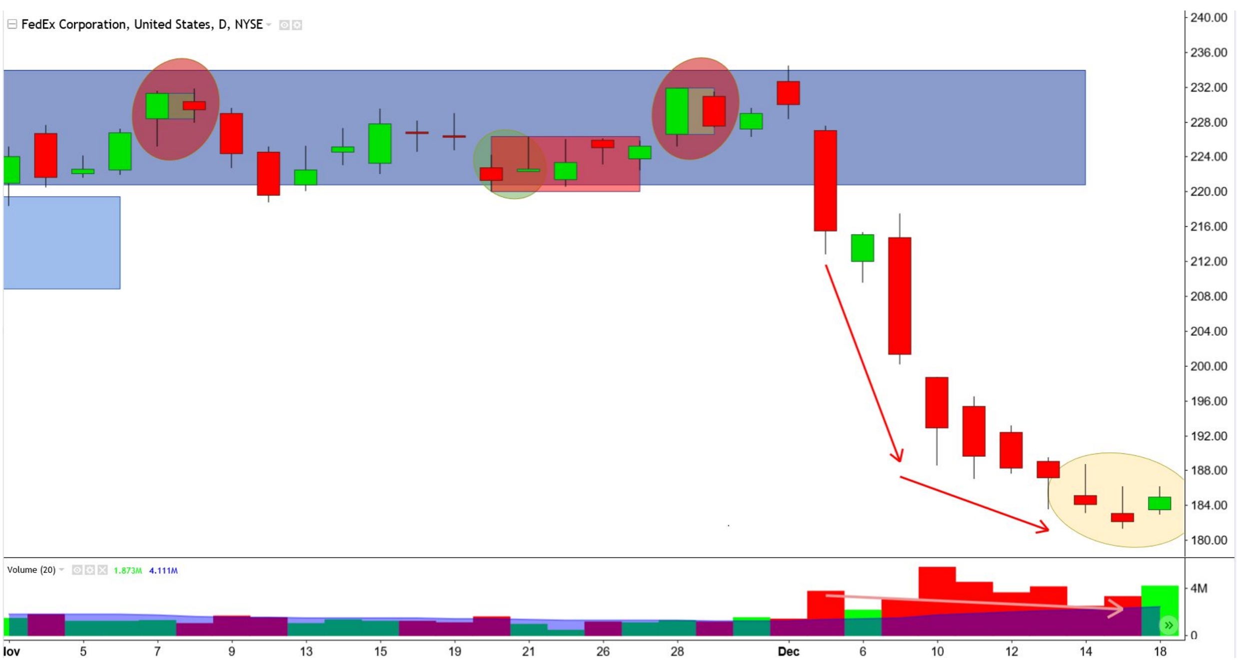




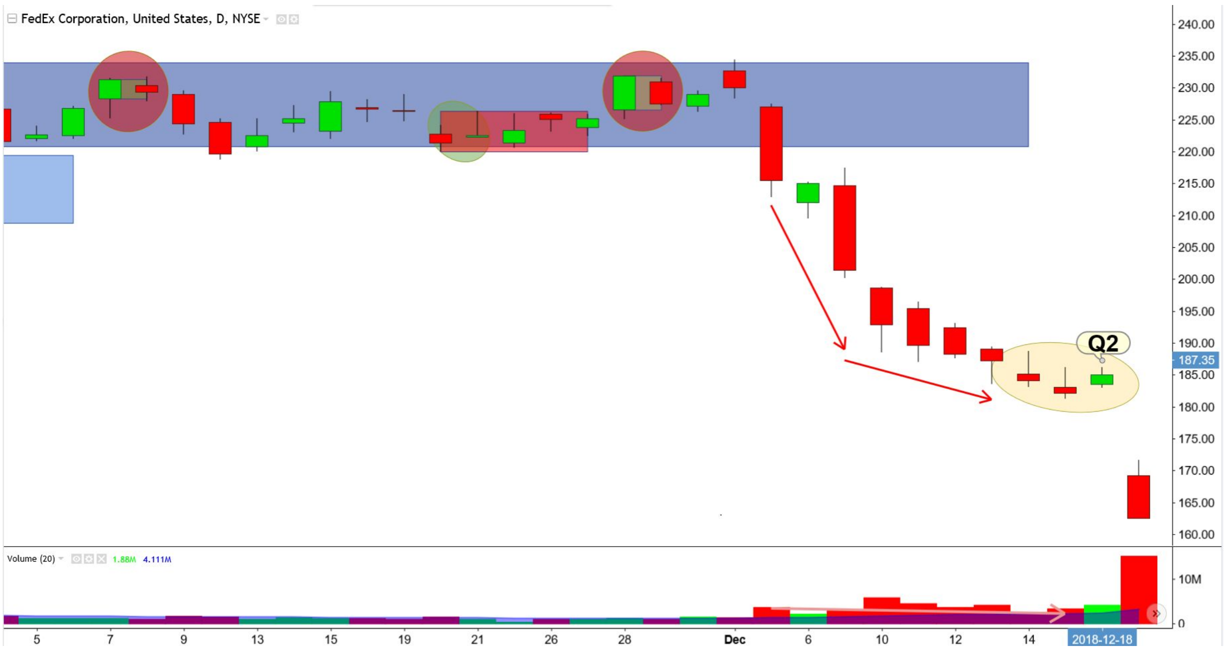
Drastic moves in the short term but very inconsequential in the long term until FedEx stock can move out of the narrow contentious range.



Large red spike strongly closes under the 220 boundary for a more likely shift back to lower prices.

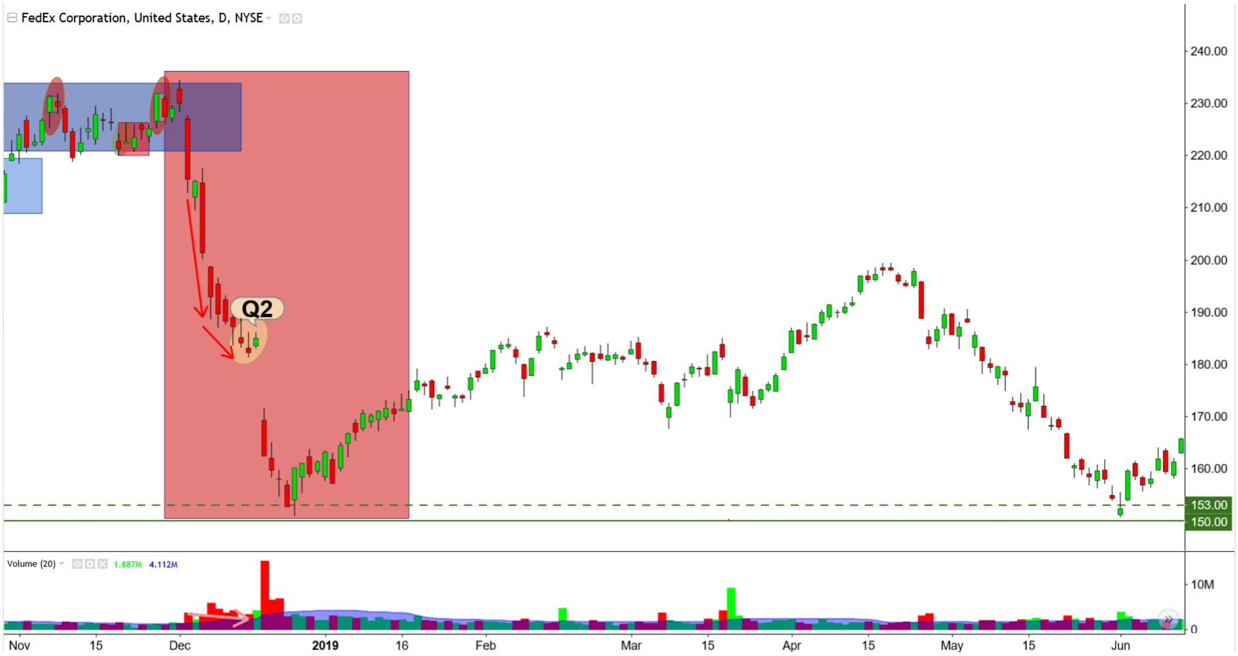


The familiar sight of a rapid rush lower following the break under a key range. The pace accelerates along with volume. Note the major slow down with bull hammers and inverted hammers after lower wick rejection began on December 10th. It even forms a morning star with the current third green candle having increased volume. It is a possible bullish reversal in the making.



The opposite occurs as the longer term downtrend resumes with a catalyst. This was the second quarter results being reported. Similar to the Walmart example there is a negation of clear technical factors on the chart such as the morning star and inverted hammers. Due to a volatile and unpredictable event(in terms of the market's reaction) to something like the announcement of quarterly results. Quarterly reports can see price jump as well such as in the Walmart case study. However given the bearish background on the chart alone this was less likely.

The market does become oversold and it is more of a "passive" rise as discussed in earlier examples where the rise generally has low bullish volume but shifts higher due to the bearish imbalance during the rapid decline. Note the upswing at the end of December formed from two candles not quite a bearish engulfing and too much real body overlap to be even the loosest interpretation of a kicking pattern. The important part is the general price action starts from the O of the first red candle to the C of the second green candle and it is essentially a bull hammer over the course of two candles.



Inverted hammers form a bearish star with increased green buying volume. To catch the latest downtrend at the support range offered by the low 150s as June begins.

Early "confirmation" with the next candle trading above the morning star's high. However since it was red it showed weakness along with the generally low volume and slow rise to the natural resistance at 170 the site of the gap down from the Q2 report and past swing points.

A downswing just under 170 can be called evening star price action but it is more of a bearish star followed by dojis and eventual closes lower. It is a rapid downward acceleration and a volatile time in the market with a rapid rise to counter and form a harami that leans more bullish due to the current baby candle being near equal size to the mother candle but still has its real body range within the mother candle’s real body range, along with exceedingly high volume.

Immediate confirmation for a short lived upswing. The two downswings that followed are essentially upper wick rejection followed by near bearish engulfing price action. These two candle reversals are a familiar sight and generally more certain and rapid compared to haramis that carry indecisive price action due to the second candle that is contained within the influence of the first larger candle.

A moderate but consistent break over 170 is short lived. The latest return to the mid 150s sees a brief upswing that is once again somewhere in the spectrum between bullish engulfing and kicking pattern. Though too much overlapping for a kicking pattern and too little engulfing for a bullish engulfing.

The lower range that has formed is generally of low volume and less important in the long term until the market decisively breaks out of it similar to the earlier situation.

Bullish engulfing has an early confirmation to start another bullish attempt off the low 150s

Consistent and noticeably increased volume compared to the previous break over 170.

Another gap down due to an earnings report. Before that was natural flat price action that is often from caution in the market prior to the catalyst event of the earnings announcement. A natural first lower boundary at the still firm lower 150s. A piercing pattern shows bullish intent much more so than if a harami had formed with the second candle's real body within the range of the first red candle's real body range.

Piercing pattern alone is less significant even at a major support range without immediate confirmation to build on. The next few candles do the exact opposite to effectively negate it and close lower.

Instead going below the low of the piercing pattern and the long standing 150 level which produces the opposite effect of a further drop. Though not a strong continuation such as with 3 methods falling type price action since much of the selling was exhausted in the gap down as evidenced by rapidly declining volume and volatility in terms of narrower H-L and O-C ranges of recent candles.

Gradually bearish to neutral with more market deliberation. Particularly with the emergence of a thick doji that forms a harami with the candle before it. A bullish reversal can come if FedEx rapidly moves over this harami's high. If it doesn't than flatter price action is more likely.

Return to longer term context. The market has been oversold at times but the downtrend is still strong and there is still room to fall to even lower support ranges.

Almost a morning star in terms of the U shaped price action. Volume is declining but the tone shifts to a more neutral to marginally bullish stance with the short green candle ever so slightly higher than the harami's high to also introduce element's of a bullish kicking pattern.

Rapid follow through with a row of higher closes provides a good example where early confirmation is built on to turn a harami closer to other two candle patterns in a reversal role such as the bullish engulfing or piercing patterns that are inherently more directional and only lead to flat price action when the market delays confirmation over their highs or negates their bullish intent with lower closes in the proceeding candles.

Depending on how strict the criteria is for a harami some patterns outlined above are or are not haramis. This is in regards to whether the upper and lower wick moving out of the O-C or even H-L range of the first candle constitutes a harami. If a more loose interpretation is applied than the first two swing points are haramis. Overall the general price action is similar as long as the second real body is within the first candle's real body range. The first and third haramis are great examples of haramis in a directional context. While the second harami is closer to the more common neutral to directional movement that follows a harami.

FedEx does indeed continue lower before it finally recovers a portion of the losses over the last few years. The break under the 137 level is another great demonstration of a reversal pattern(a bullishly engulfed inverted hammer in this case) that is negated by the following candles that begin strongly closing in the opposite direction (in this case bearishly downward).

Harami Candle Example Case Study 2

December starts with what can technically be considered a harami due to the second candle's real body being fully contained within the real body of the first larger red candle. Though the proportions of the first candle are a lot more extreme than a normal harami.

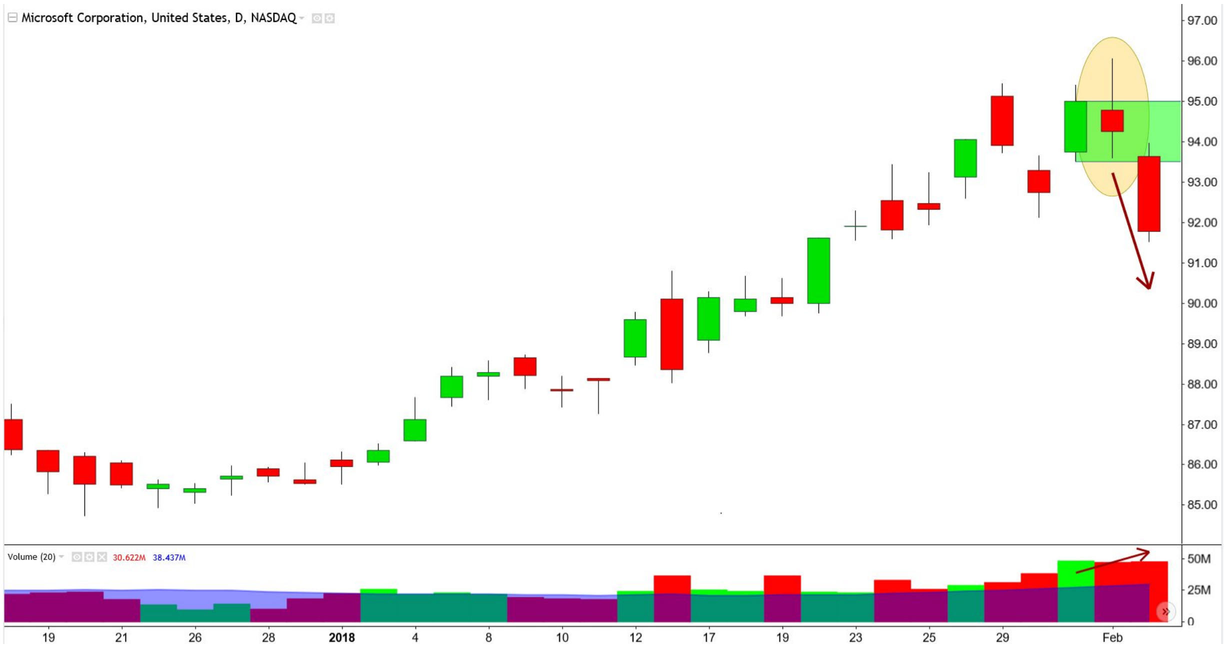
The large red candle is more of a downward over extension similar to a short lived gap down rather than forming a reliable harami. Focus on the inverted hammer and its immediate confirmation is more useful. Then closing above the high of this disproportional harami and the bearish star of the gap up from late October around 85 can be used as a sign of the longer term uptrend resuming.

Close to a dark cloud cover pattern but with less strict criteria since the second candle doesn't close near the mid point of the first green candle.

Less strict dark cloud cover is confirmed with a close lower to also form price action similar to an evening star.

A single green candle immediately puts doubt into a possible downswing that is seemingly certain especially with the increasing red volume before hand.

A less strict harami forms. There is real body containment but the upper wick surpasses the first candles high. In any case the current candle shifts back to a firm bearish tone due to upper wick rejection and a spike in red volume. The harami adds some indecision but it should also be noted that a very narrow double top forms with the prior high of the dark cloud cover formation.



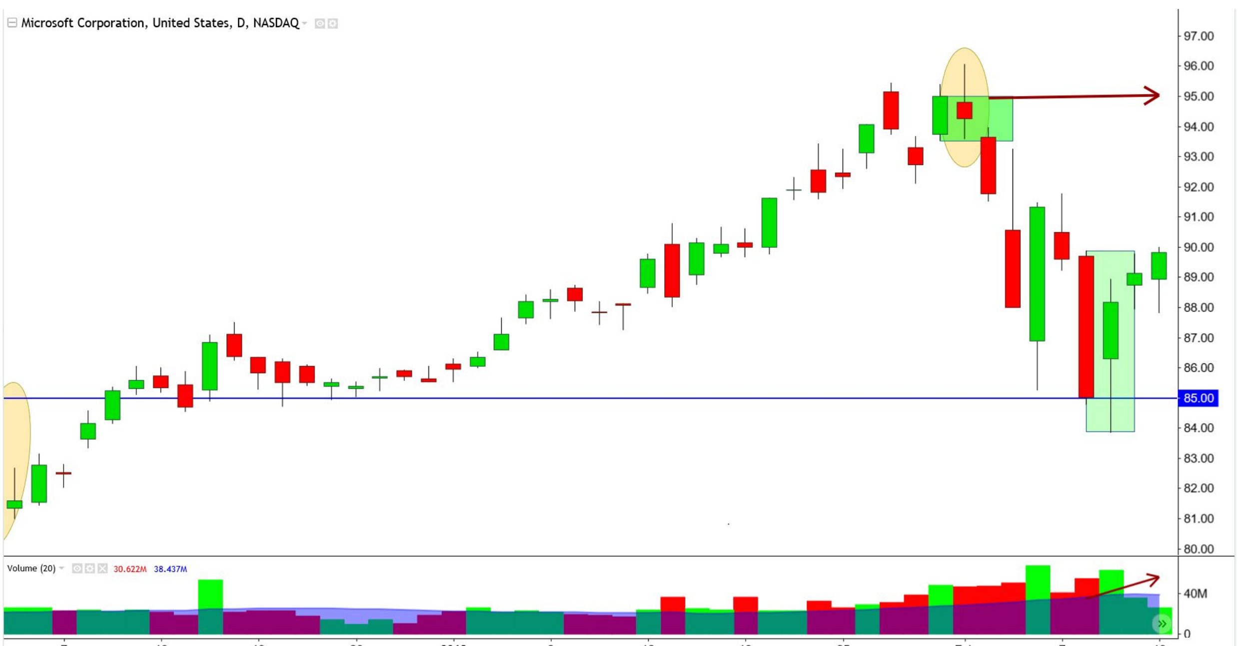
Microsoft Corporation, United States, D, NASDAQ
Volume (20) 30.622M 38.437M
97.00
96.00
95.00
94.00
93.00
92.00
91.00
90.00
89.00
88.00
87.00
86.00
85.00
50M
25M
0
19
21
26
28
2018
4
8
10
12
17
19
23
25
29
Feb

Microsoft Corporation, United States, D, NASDAQ
Volume (20) 30.622M 38.437M
97.00
96.00
95.00
94.00
93.00
92.00
91.00
90.00
89.00
88.00
87.00
86.00
85.00
84.00
83.00
82.00
81.00
80.00
40M
0
6
11
14
19
22
2018
5
10
16
19
24
29
Feb
6

Rapid drop ensues after immediate closes under the lows of the harami and dark cloud cover. Nearing the mid 80s a likely support range as it was the approximate prior upper boundary.

The key take away here is not so much to argue whether the looser interpretations of the dark cloud cover or harami were correct or incorrect. Rather it is to demonstrate the candles are just a convenient summary of price action. The general price action is still demonstrated to be an overall bearish time in the market. Even though the dark cloud cover and harami could have been discounted if stricter criteria was applied, the general movement was upward weakness and increasing selling concentrated to the lows of the candles.

A very large harami but since the second candle is also of near equal H-L range this is a more proportional harami than the one seen in December. In any case the second candle is more important as it shows lower wick rejection and is effectively a large bull hammer that has immediate confirmation. The closing of price over the high of this less strict harami can be considered further bullish momentum in the development of an early uptrend. Once again this can not be considered a harami if strict criteria eliminates it due to the lower wick breaching the low of the first large red candle. However the overall price action is similar in that it is indecisive to bullish.



A slow but gradual climb that will see strong opposition nearing the mid 90s


Microsoft Corporation, United States, D, NASDAQ
97.00
96.00
95.00
94.00
93.00
92.00
91.00
90.00
89.00
88.00
87.00
86.00
85.00
84.00
Volume (20)
30.622M
38.437M
40M
0
2018
8
12
19
25
Feb
7
13
20
Mar
7


Microsoft Corporation, United States, D, NASDAQ
98.00
97.00
96.00
95.00
94.00
93.00
92.00
91.00
90.00
89.00
88.00
87.00
86.00
85.00
84.00
Volume (20)
30.622M
38.437M
40M
0
8
12
19
25
Feb
7
13
20
Mar
7
13

The upper range is maintained despite marginally higher bearish engulfings.

Bearish engulfings can still be slow to start but are certainly more directional than haramis and indecisive price action that forms in the lower part of the developing range.

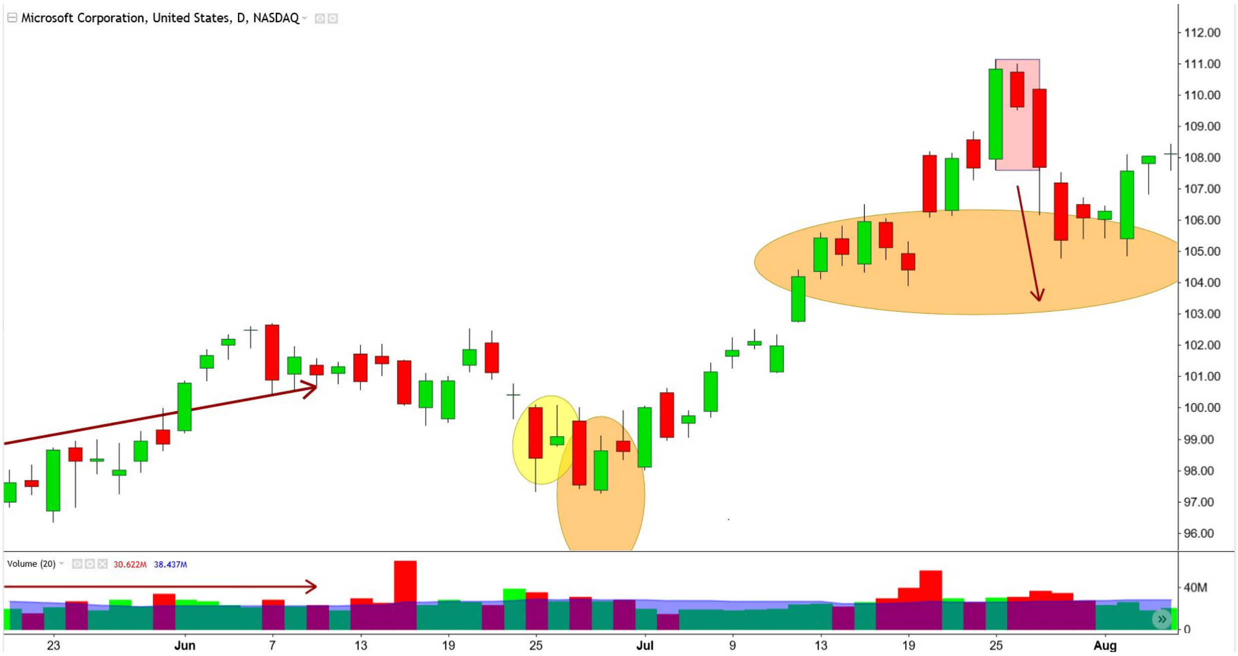
This lower range holds and once again it is a demonstration of a somewhat more “passive” rise. Sharp drops from the mid 90s led to an oversold market in the short term and that allowed for a relatively slow but stable rise with less green bullish price action and volume. Later red spikes at and above the mid 90s further demonstrate this as those short events are unable to push price much lower in the oversold environment.

A harami and piercing pattern side by side to quickly shift the sentiment from neutral to bullish. Additional bullish factors were the lower wick rejection of the first “mother” harami candle and the second or “baby” candle being an inverted hammer. There was also rapid price action over the lows of the upswing point. Volume that followed was below normal but consistently green.

Harami forms to introduce indecision as the uptrend continues. The current candle shifts sentiment back on a more bullish track.

A disconnect between high red volume and red candles that don't drive lower and actually rise.

A disparity soon corrected with a harami that quickly turns the market bearish as the recent candle trades and almost closes below its low with increased selling volume.



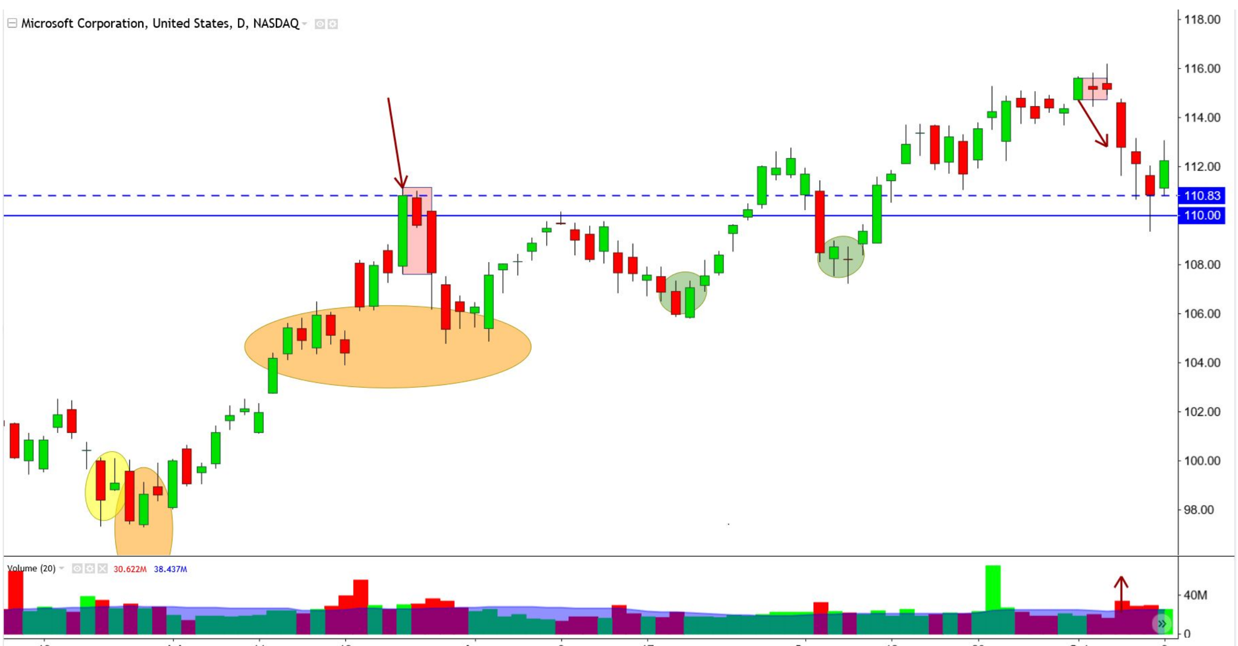
Rapid overselling in the short term leads to inability for the market to sell Microsoft under the low 100s range where prior hesitation and indecision took place in mid July.

Uptrend resumes and is actively bought up higher rather than the initial passive rise from overselling. First a clean bullish engulfing followed by bull hammer and doji lower wick rejection that formed similar price action to a morning star except it is unsymmetrical and skewed to the lower left at first.

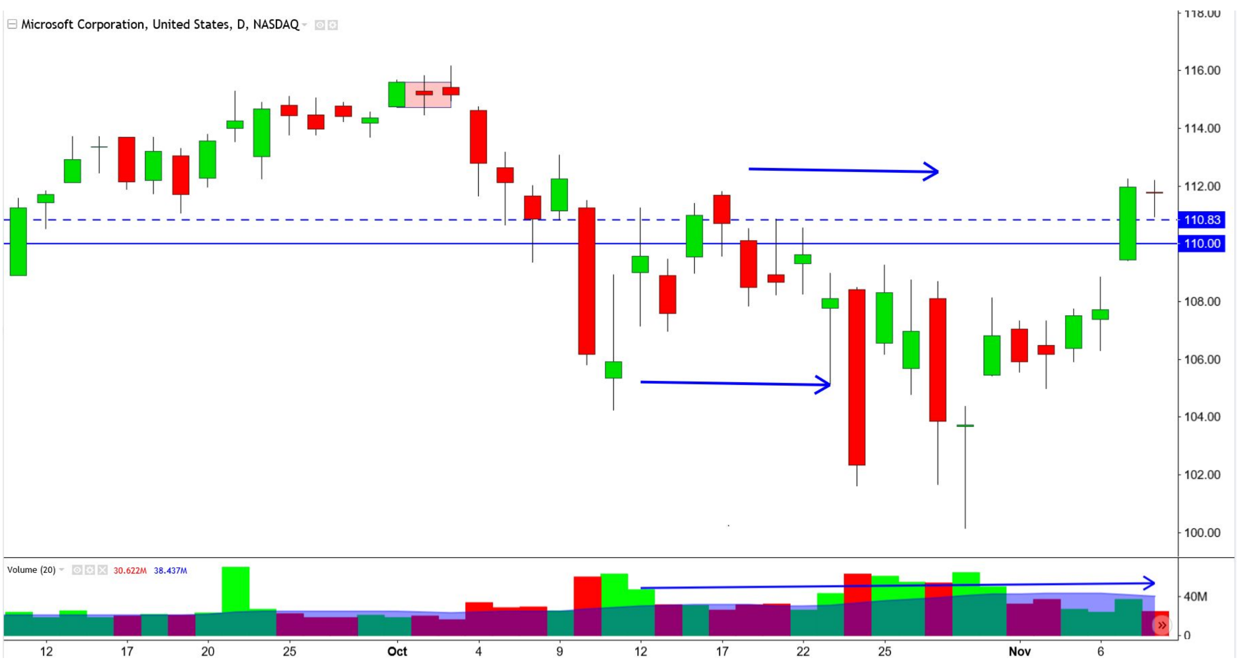
Though once again the general price action and immediate bullish closes higher are more important.

Volume is also consistent and generally slightly above average levels a very stable uptrend prior to the current neutral to bearish tone from the recent harami and upper wick rejection.

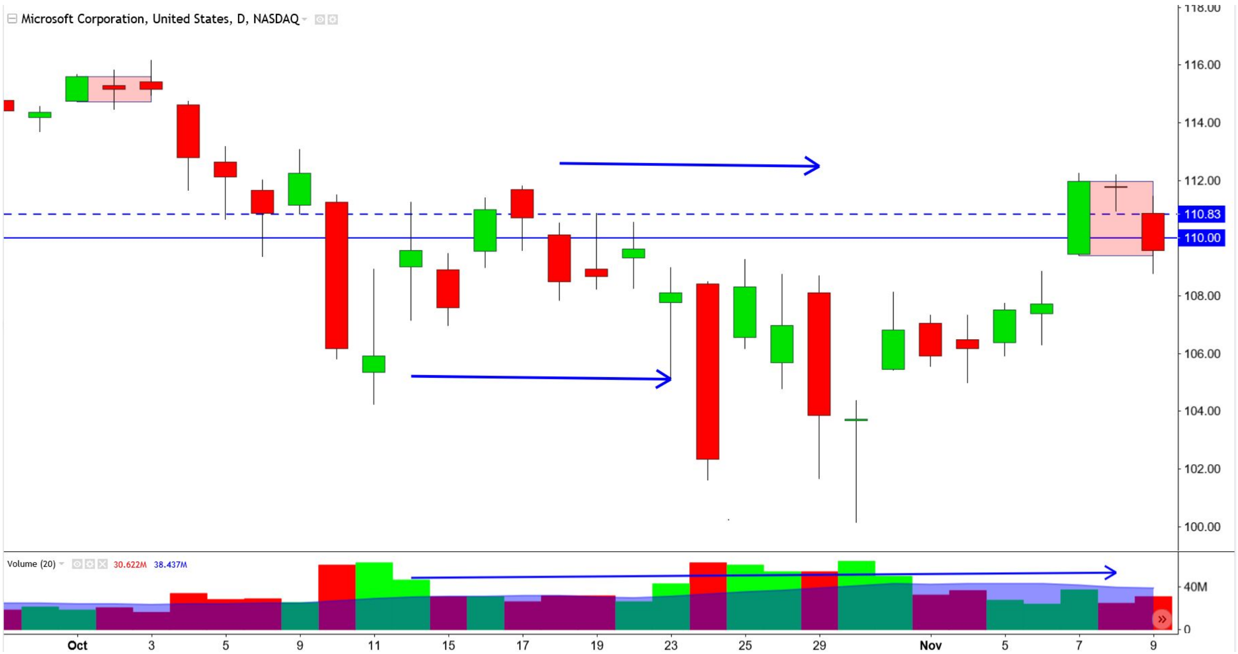
High bearish confirmation for a likely downswing.



As would be expected the market moves lower but finds quick support from the prior 110 range.



It is a highly volatile time that is neutral to bearish in the long term, mainly due to the large red candle breaking under 110 on October 10th and negating the seemingly strong bullish confirmation on the 9th.



The last 3 candles have the general price action of an evening star as price tries to reestablish over 110. Though a strict interpretation of an evening star would not qualify the last 3 candles since there is real body overlap. It is also an upwardly skewed harami with the second or “baby” candle concentrating higher similar to a hanging man. Nonetheless it is a bearish indication at resistance. Particularly with the current candle being a thicker red real bodied bearish star.

Confirmation for the evening star downswing looks likely to have 110 hold

Microsoft down longer.

The neutral range is volatile and rapidly accelerates lower for familiar results. Oversold in the short term to end 2018 and produce a mostly passive rise that is accelerated to pass 110 in March of 2019.

A minor sideways range follows at new record highs but it is much more stable with cleaner candle formations. The one commonality is that it is also composed of haramis that mainly appear in directional contexts to form the upper and lower boundaries. It is more of a continuation or resting phase in the bullish trend mainly because of the rapid confirmation of the harami in the early June upswing to avoid prolonged flat trading.

Harami Candle Example Case Study 3

Extreme proportions of a bearish engulfing are reverse in a short time with the early July bullish engulfing with more normal proportions.

Clear upper and lower ranges form despite some prolonged and volatile flat periods.

Another harami with a slight upward concentration where the second candle is near the high of the first.

It also illustrates another formation close to an evening star's U shaped turn. The absence of gaps between real bodies is more understandable given it is a forex chart. Regardless of how strict or loose the criteria is for evening stars and haramis. The past 3 candles demonstrate a leaning towards bearish movement with upper wick rejection approaching the firm 123 level and closing lower.

A doji that immediately forms for normal and brief pausing that is quickly overcome. Then a normal rapid upward reversal with a bullish engulfing that has the next few candles close immediately above it.

Familiar sight of the market establishing above the prior resistance with a minor downswing and flat range before jumping in July.

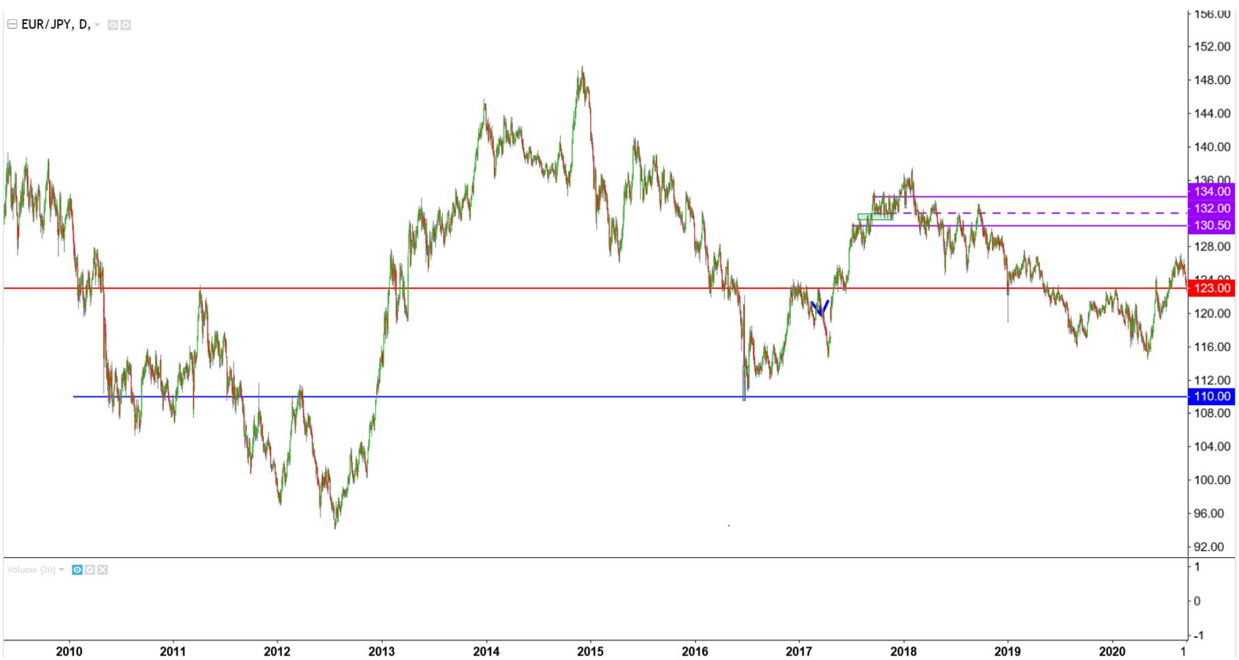
Initial bearish price action from the harami is not taken advantage of for the bearish perspective. Normal flat range from a row mainly made up of dojis and spinning tops.

Either a continuation goes ahead to resume climbing by surpassing 134 soon or 132 is breached to reach the 130 support.

132 is under pressure but lower wick rejection holds the line.

More upwardly skewed haramis at 134

134 is passed but overbought territory is reached due to severely sharper peaks to begin 2018.



2018 ends on a highly bullish note with a long lower wicked bullish hammer holding over 123 as it is engulfed by the next candle to form a minor uptrend to start 2019.

Chapter 9 Continuation Price Formations And Candle Example Case Studies

Continuation Price Formations And Candle Example Case Study 1


Crude Oil WTI Futures, D, (CFD)
80.00
76.00
72.00
68.00
64.00
60.00
56.00
52.00
48.00
44.00
40.00
36.00
32.00
28.00
24.00
Volume (20)
1
0
-1
Oct
2016
Apr
Jul
Oct
2017
Apr
Jul
Oct
2018
Apr
Jul
Oct


Crude Oil WTI Futures, D, (CFD)
78.00
76.00
74.00
72.00
70.00
68.00
66.00
64.00
62.00
60.00
58.00
56.00
54.00
Volume (20)
1
0
-1
Nov
Dec
2018
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov

A major upward channel is broken to give way to a stable and sustainable downtrend that provides a great demonstration of multiple 3 methods falling candle patterns. Similar to many continuations before but closer to the original 3 methods falling during the span of fewer candles.

Major upswing originates from a formation that has the price action of a bullish star but also comprises a harami and bullish engulfing at the same time. In any case it is an overall bullish formation from the upward facing U turn shape.

Like earlier examples there is natural resistance around the continuation levels from 3 methods falling patterns. Especially the O and C of the first large candle that really defines the outline of the pattern.

More 3 methods falling examples originating from the downswing point that is a bearish harami due to the immediate closing confirmation below its low in the next candle that also proceeds to go under the 66 resistance.

In some ways the first two phases of a 3 methods falling are like a harami in that the large red candle contains the real bodies of the smaller candles that follow. This provides a neutral to bullish tone before the last candle finishes the pattern lower to return the original bearish conditions in a similar fashion to a bearish engulfing pattern.

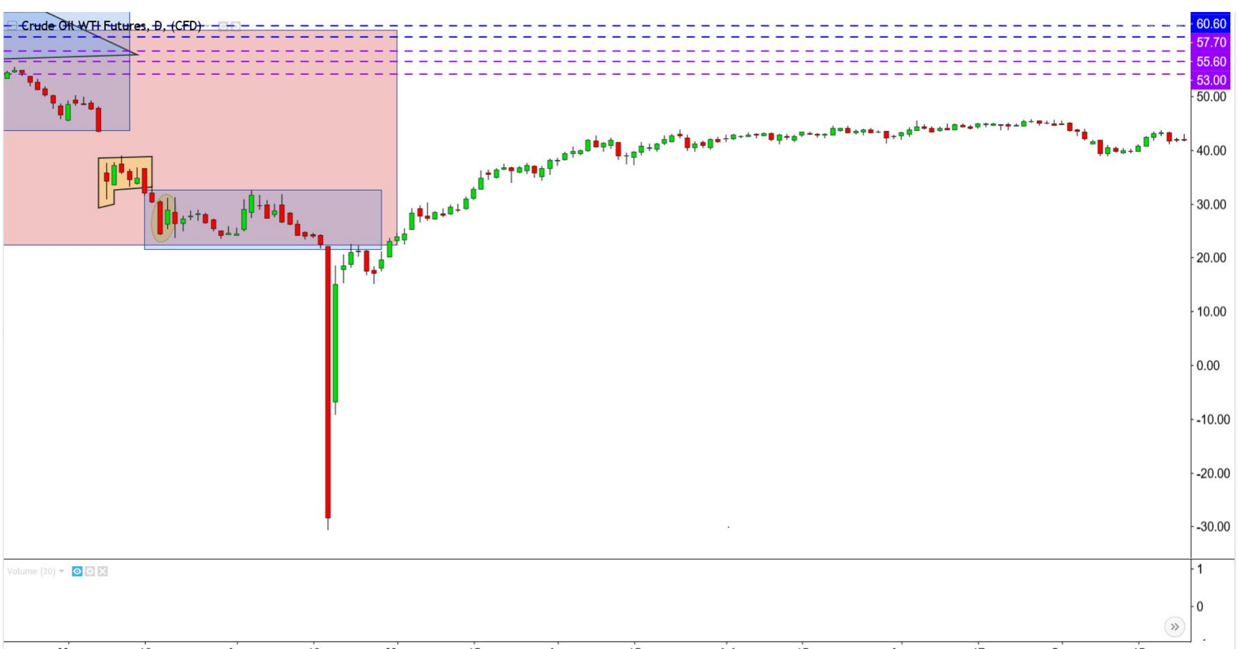
Double bottom comprises two piercing patterns for a rapid reversal.

As expected the prior price ranges from the first downtrend remain highly influential well into the future.

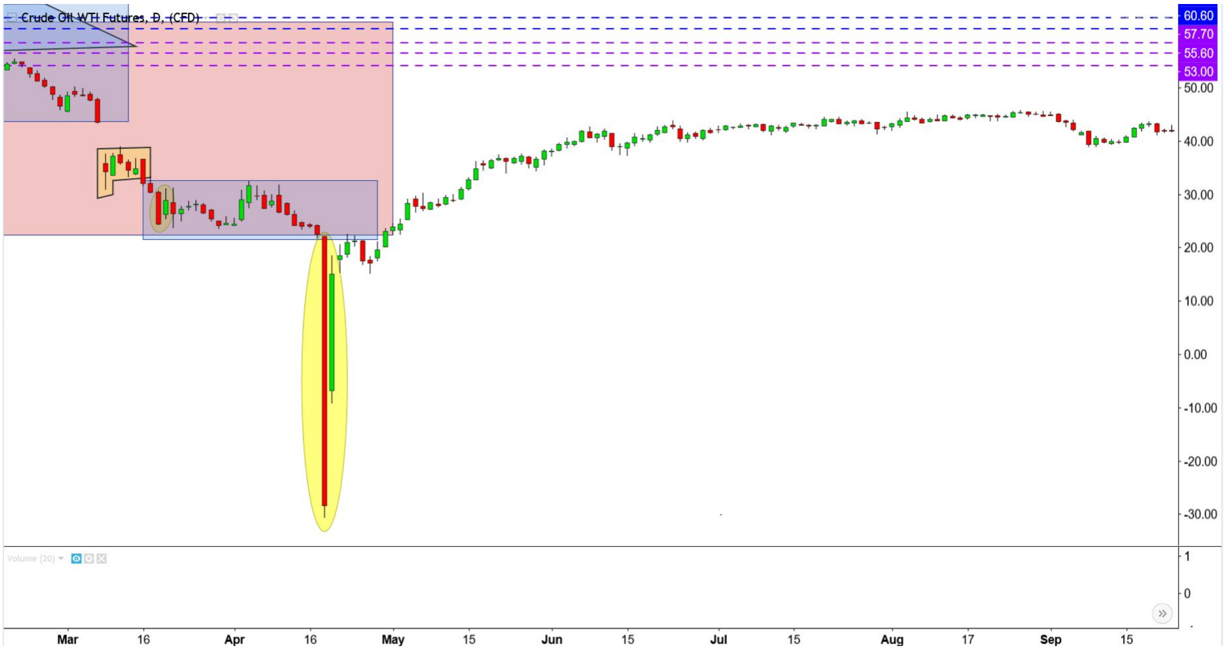
Combining a shorter time frame (15 minute intraday chart on the left) with a longer time frame (daily chart on the right) provides greater context and illustrates the price action or chart within a chart that candles summarize. As well it shows why the O and C prices are generally more significant in the long term and the importance of the O and C of the first large red candle that sets the main structure of a falling 3 methods.

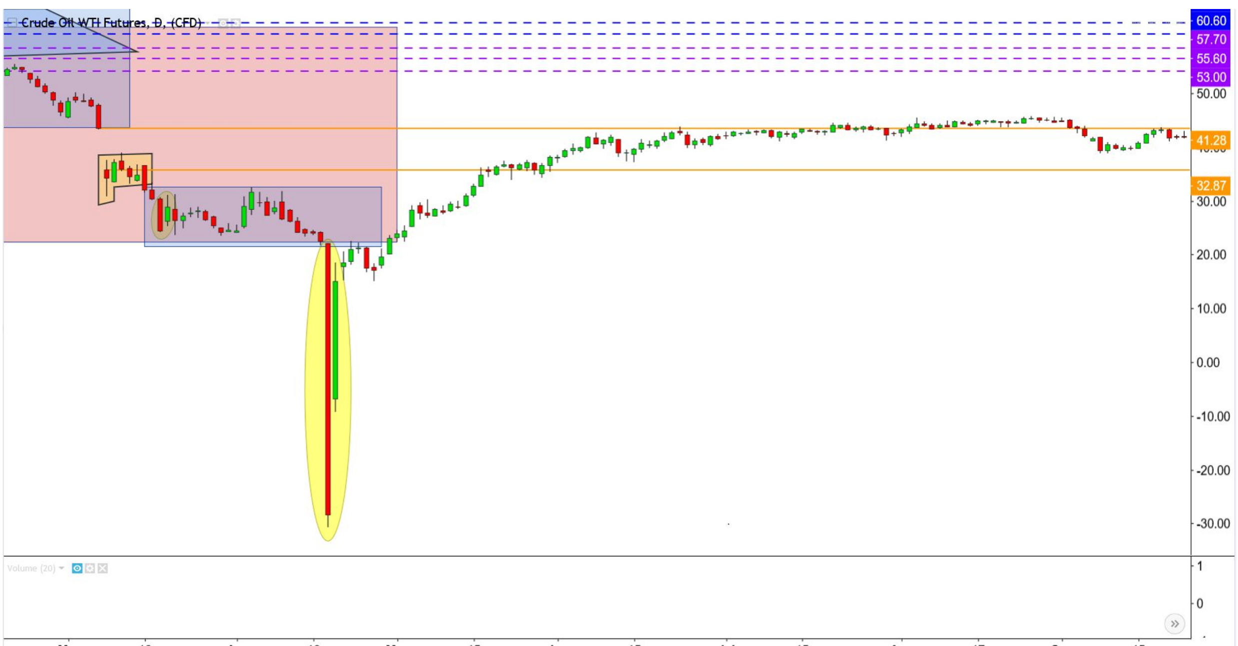
More merging of multiple time frames a multi year downward continuation that basically has the same price action and elements as a smaller scale 3 methods falling.

March begins with a gap down and illustration of how bull hammers can especially slow down a large drop even if they don't lead to an upswing. This has been seen in many other examples. The market is actually bullish in the very short term in more of a "passive" rise after a rapid drop oversells during the break of a key lower boundary.



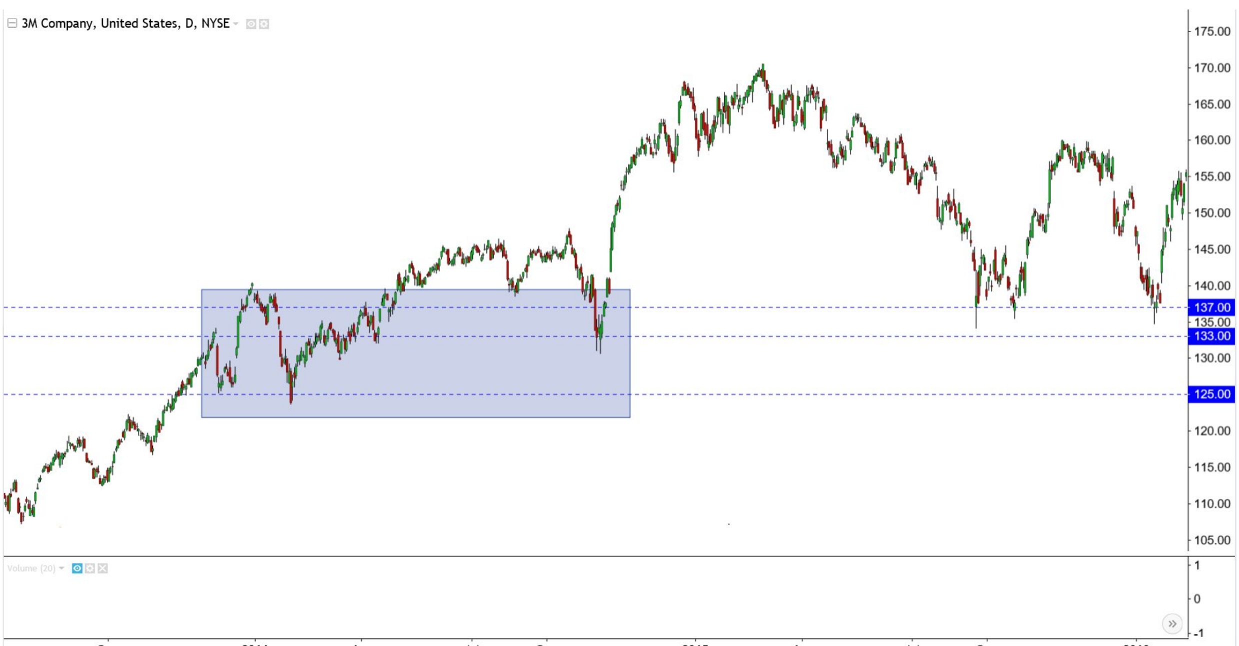
This oversold then "passive" bullish rise is even seen when the key lower 20s range is breached during the historic crude oil futures drop into negative territory. A downward continuation over extended. The two candles in negative price ranges effectively form lower wick rejection and a thicker bodied bull hammer when combined. An uptrend is highly possible after the high of this large harami is passed and oil closes above the lower 20s range that offered a first resistance range.





Naturally the historic volatility led to the candles of the next few months appearing drastically more stable in comparison. The gap down levels naturally provide further lower intermediate resistance.

Continuation Price Formations And Candle Example Case Study 2



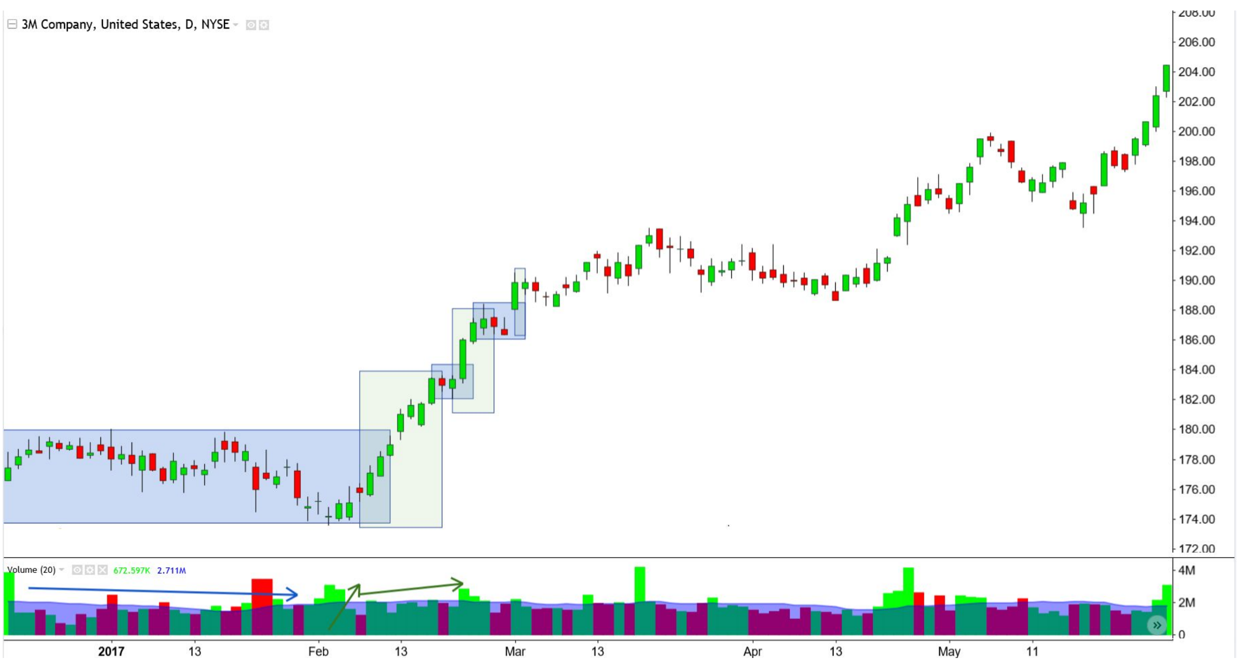
Excellent lower wick rejection as a prior upper range reverses roles to become a major support range.

Upward continuations are essentially 3 methods rising on a larger scale. Primary features are the increased price action and volume of rapidly rising price with a flat to downward range in between that often has proportionally lower volume and smaller candles.


3M Company, United States, D, NYSE
Volume (20)
664.524K 2.71M
184.00
183.00
182.00
181.00
180.00
179.00
178.00
177.00
176.00
175.00
174.00
173.00
4M
2M
0
4 19 22 28 2017 6 11 17 20 25 Feb 6 9 14


3M Company, United States, D, NYSE
Volume (20)
664.801K 2.71M
184.00
183.00
182.00
181.00
180.00
179.00
178.00
177.00
176.00
175.00
174.00
173.00
4M
2M
0
19 22 28 2017 6 11 17 20 25 Feb 6 9 14 17

Hesitation from an upwardly skewed harami is quickly overcome to produce a 3 methods rising and a likely rise provided the following candle close successively higher.



The rise does indeed happen with higher than average green buying volume too and demonstrates a 3 methods rising formation with just two candles for the resting phase.


3M Company, United States, D, NYSE
Volume (20) 675.457K 2.711M
17
20
25
May
4
9
12
17
22
25
Jun


3M Company, United States, D, NYSE
Volume (20) 2.711M
20
25
May
4
9
12
17
22
25
Jun
6

Some upper wick rejection and close to the outline of a hanging man near the temporary upper boundary near 208, but overall still bullish in every other aspect in a likely upward continuation.

Continuation comes with the usual features of a row of increasing green candles and consistent green volume.

All up trends end at some point. This one gaps down and is caught near the important O of the first green candles that began the final upward continuation.

Longer term context places the gap down as a minor pullback. Then the next major downtrend is halted at the lower support range seen at the start of this example. Thereby illustrating the relevance of major ranges once again, even years later.

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Continuation Price Formations And Candle Example Case Study 3

Similar start to an earlier example with FedEx stock that had a sharp peak then a flat range to end a long term uptrend.

While volume is helpful it might not always be adequate or readily available on all charts especially on less heavily traded stocks or assets outside the stock market like forex that don't readily display volume. This example is a great demonstration showing 3 methods rising price action. Generally normal to slightly below normal levels of mainly green bullish volume. Even without the volume the price action alone is more than adequate in clarifying that an uptrend is continuing and developing a consistent pace higher.

Price action is volatile but overall clear during contact with the 165-170 upper intermediate range where resistance is naturally going to occur. The downswings are clear upper wick rejection and dark cloud cover as seen in other examples.

Again expected resistance halts the rise at the prior 178 range. Bearishly engulfed hanging man with immediate close below it, downswing more likely. However additional context is needed. 170 will be a key lower boundary before an established downtrend can form. Also the O-L of the large green candle on October 23rd will also oppose a drop since it is a potential first candle in a pssible 3 methods rising formation. The last 4 candles can be developing an upward continuation especially since the last 2 red candles are decreasing in volume compared to the two green candles before them.

Remaining bearish but to a lower degree since both bearish price action and volume are decreasing in intensity.

The lower 170s hold the minor neutral to bearish move and the current large green real body candle forms a clear 3 methods rising. Its higher volume and close above the 178 resistance level are additional bullish features. As usual the confirmation for further bullish movement to newer highs will be more likely if price can immediately trade above and close over the 3 methods rising's high with the next candle.

Price does trade higher but the candle is bearish to close lower with higher bearish volume. This puts doubt into a continuation higher but it is more of a unique situation since this is a major resistance at record high ranges compared to the earlier 3 methods risings that were in the lower to middle portions of established trading ranges where resistance was comparatively weaker.

Similar to late October McDonald's stock price drops but at a relatively slower pace and with lower volume than the larger green candles that have taken price back up faster and with proportionally higher volume. In fact this could just be another 3 methods rising in the making especially with the current candle rejecting lower prices. It is a bull hammer in a very short term context with the O of the large green candle on October 30^{th} being the lower immediate lower support boundary.

It is indeed another 3 methods rising with a strong gap up higher for the O on November 5th with a spike in green volume once more. This along with another close over 178.36 provides additional bullish attributes.

Green volume flattens off but remains consistent with an immediate close above the 3 method's rising's high. A clear break to newer highs has begun and even if there is another downswing the 178.36 level offers a firm base to consolidate over.

A near perfect continuation composed of 3 methods risings that do form the eventual minor downswing and flat range to consolidate but the trend is so strong it forms higher near the mid 180s as opposed to directly returning to the 178 area at previous highs. Volume decreases back to near normal or lower than normal levels but it remains consistently green overall.

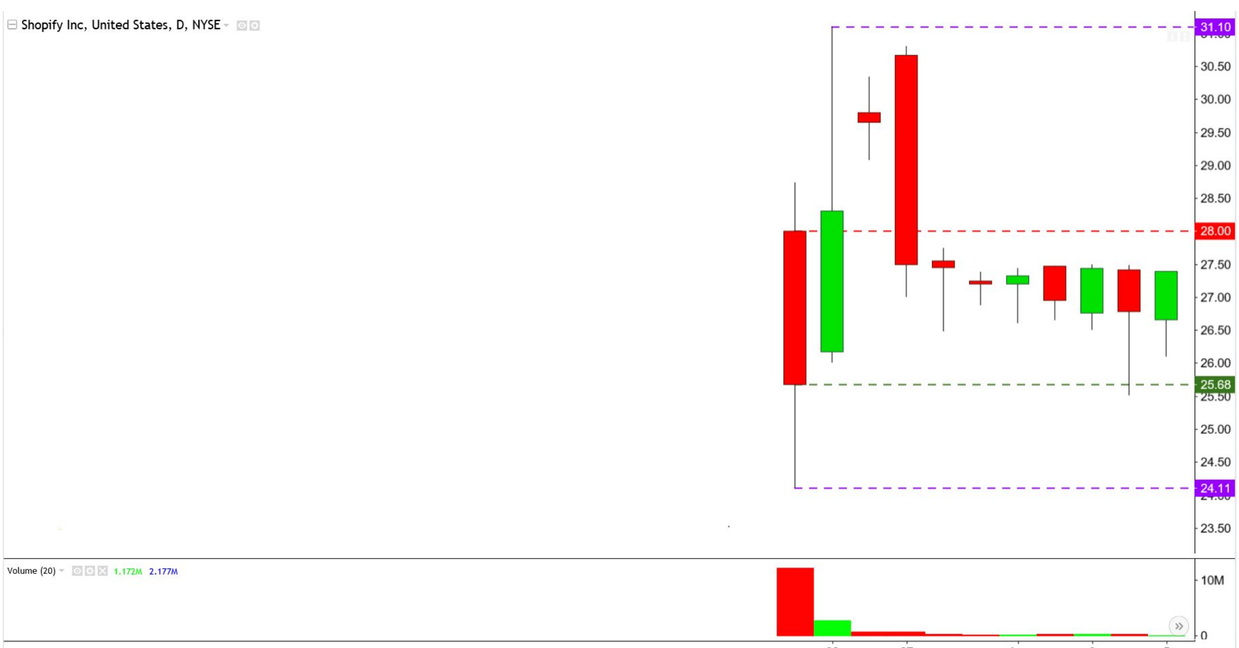
Short term volatility and fear from the broader market sees the transition into 2019 emerge to seemingly negate recent progress. However a longer term perspective sees the prior 170s ranges significantly reduce the stronger spikes in selling. The 3 methods risings that ended 2018 were key in maintaining the 170s range and weather the bearish periods better compared to other stocks during the same time.

Longer term context does indeed clarify the situation as essentially one large 3 methods rising continuation similar to other large continuations seen earlier. The key points here are flat ranges did form but the lower boundaries were never breached significantly or for sustained periods of time. While the downswings were short lived and often rapidly reversed. That all contributed to relatively stable "resting phases" of bearish to neutral price action in between the rapid bullish rises.

Later when the market corrects due to another broader market decline in early 2020, the previous ranges remain highly influential in slowing down the strong drop. Then familiar bullish reversal candles form to begin an uptrend that is still influenced by the 150- 180 ranges yet again.

Chapter 10 Strong Price Action And Candle Continuation Example Case Studies

Strong Price Action And Candle Continuation Example Case Study 1



Shopify stock will provide a good case study to illustrate candle charting and general price action during uncertain times that are first present during the normal speculation in stock prices when a company first begins trading on the stock market such as Shopify did in mid 2015.

Naturally O, C, L, & H prices of the first days are spread over a wide range due to initial speculation. These are key ranges that influence stock price far into the future. It can be referred to as the IPO(initial public offering) range. The one red candle on June 10th is normal even during a rapid rise due to the 28.00 opening price of the first day. Offering some selling pressure. Though overall it is more like a minor resting phase the general price action in the last 3 days is essentially the most rapid form of a 3 methods rising with the bear minimum criteria of 2 large green candles with one resting bearish to neutral candle in between.

Immediate confirmation with a strong close over the 3 methods rising price action points to the higher likelihood of Shopify establishing newer highs during its early trading on the stock market.

Rapid upward acceleration with increasing volume too. The strongest of continuations in the form a 3 marching soldiers pattern. Large green real body candles with clear gaps between them for a near vertical climb. The candle on June 15th does have larger wicks(especially the upper one) However it is still predominately bullish. As with other candle patterns it will be less common to match theoretical diagram proportions all the time on real live charts. As long as the general price action features are present there can be slight deviation from the proportions of candle diagrams. This is especially true for the 3 marching soldiers as there will usually be some short term volatility that forms a longer wick in at least one of the candles.

Familiar sight especially after a rapid rise that can be considered over extended. Bearish star is immediately confirmed with a close lower for a likely downswing. 3 marching soldiers is by nature a rapid and short lived move. It along with the 3 black crows pattern lead to over extension as they develop trends too quickly in the short term. As long as price dips back to and reverses off a recent support level a longer term uptrend in this case can remain intact.

Very normal volatility in the next few months drawn back into the IPO range. The overall sentiment is neutral to bullish because the IPO low of 24.11 had not been breached and when it was contacted there was strong lower wick rejection.

A flat lower range is overcome similar to the formation of the IPO range. There is some minor real body overlap between the candles but after the bullish engulfing there is a strong continuation higher with the same general 3 marching soldiers price action. Also note in late august the row of red candles breaching under 31.10 forms a clean 3 black crows pattern with gradually increasing volume. When 31.10 is first dropped on too there is still some minor lower wick rejection on August 19th to show normal residual support slowing down the downswing for a brief time. The same is true for lower wick rejection on August 21st with the drop back onto 28.00.

Another attempt into the 40s fails. Leading to a decisive downtrend under the IPO low of 24.11 to turn market sentiment bearish.

Again there is minor real body overlap but a row of green candles successively closing higher is the more important aspect of general price action to focus on. Rather than the more minor detail of how much of a gap or overlap exists between candles that are rapidly closing higher to eventually form an uptrend to retry entry into the 40s.

31.10 halts the rise as it remains influential. May begins with what can be considered the general price action of a 3 black crows pattern that makes up most of the current downswing. The candles are not uniform in size like a theoretical diagram, and there is massive disparity in the lower wick rejection on May 4th, though there are gaps between the real bodies. Overall it is without a doubt the general rapid declining in price that is more important than the minor details of candle proportions.

Sustained red volume spikes keep the slide on a steep angle where short term over extension and lower wick rejection combined with the 25.68 support level provide a base to begin an upswing that is accelerated by a 3 marching soldiers pattern with increasing gap distance between real bodies to indicate very strong bullish sentiment. The lower wick rejection in early May did point to some weakness in the downtrend and bullish sentiment that remained closer to the 25-28 range.

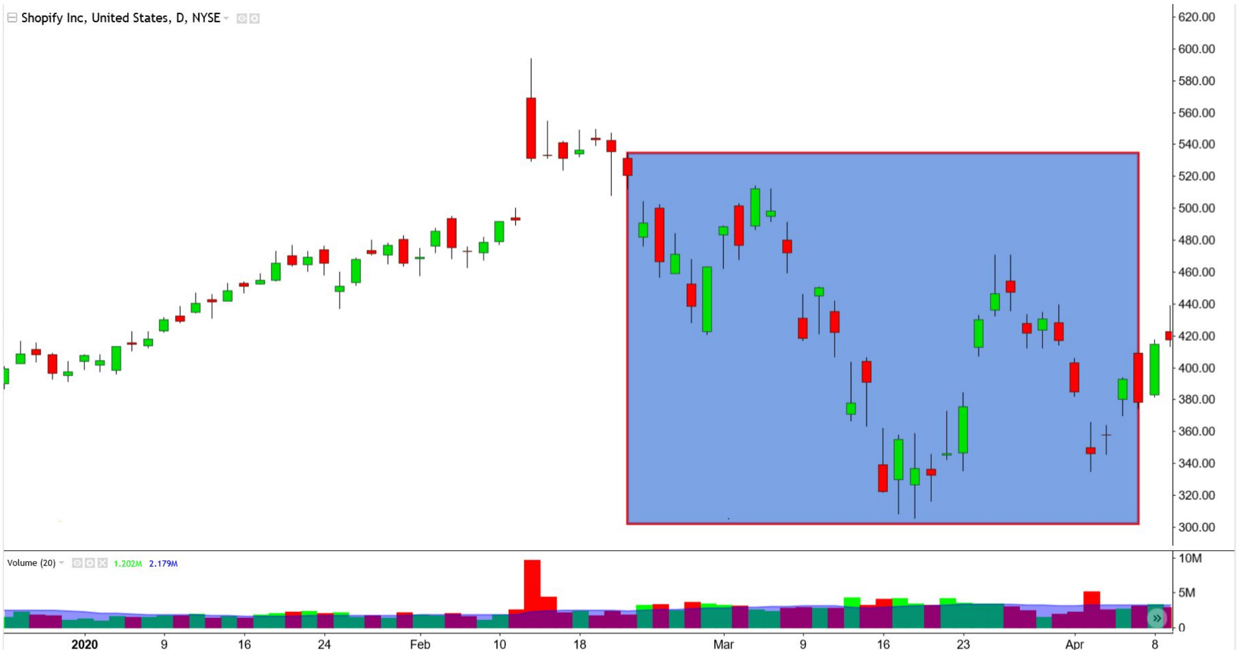
Normally a chart has less volatility after a full year of trading after IPO stocks often stabilize and develop clearer direction. In Shopify's case there is still some high volatility at times but price action has stabilized overall and the transition into 2017 sees all kinds of strong upward continuations from the first 3 marching soldiers to the 3 methods rising pattern that holds to finally establish and surpass the 40s range. Then the one single large green candle in mid February that is essentially the sum representation of any bullish continuation price action.

Examples of single large real bodied candles instead of 3 marching soldiers, 3 methods rising and their bearish counterparts. Even though they are disproportionately larger they still behave to form a lower range with minor lower wick rejection in the mid 80s and upper wick rejection at the 100 area.

3 methods falling in early December. Then abrupt but expected upswing emerges from a bullishly engulfed doji that has lower wick rejection relative to the supporting range in the lower 90s still remaining active from October.

April and August 2018 saw extreme 3 black crows with the final candles sprinting down. They were large but unsustainable bearish moves and naturally became overextended immediately upon completion. The drop in June is still strong but weaker and slower in comparison due to high real body overlap.

In the long term the 120-100 range holds to form a resting phase that is easily surpassed in 2019. 100 is a key stock price especially for a stock like Shopify having only traded on the stock market for a few years. Often after passing 100 following an IPO, a stock can go on a strong uptrend as seen here. It is not a guarantee all newly listed stocks would go on such a large uptrend but 100 does become a firm base after it is passed.



Note the downtrend shows weakness and indecision. Many dojis and lower wick rejection that slow down the drop. Volume is slightly above normal. Bullish green volume easily reverses the short term drops from red candles that have increased volume but little effect in forming a solid longer term reversal as the lower 300s form a solid base similar to earlier lower boundaries.

Taken in the longer term context the brief bearish phase was more of a resting phase in the longer term uptrend which resumed with a strong bullish move out of the 300s to end April. Very much like the formation of a 3 methods rising on a large scale.

Strong Price Action And Candle Continuation Example Case Study 2

The boundary between the 30s and 40s remains highly influential despite large shifts in price over the years.

Examples of strong continuations during upswings and downswings close to the key 41-39 range.

Neutral to bullish after the bounce following lower wick rejection off 41.00 to begin 2016. Bullish volume is less consistent than the still constant selling present in 2016. However the periodic rows of large green candles and increased buying volume are enough to hold the 57.50 area and eventually form a bullish continuation to end 2016.

Uptrend slows due to a short term bearish return that is not maintained. If stronger selling doesn't begin soon the flat range can give way to another bullish continuation to move further into 2017.

Key break of the lower mid 70s range with increasing bearish volume too.

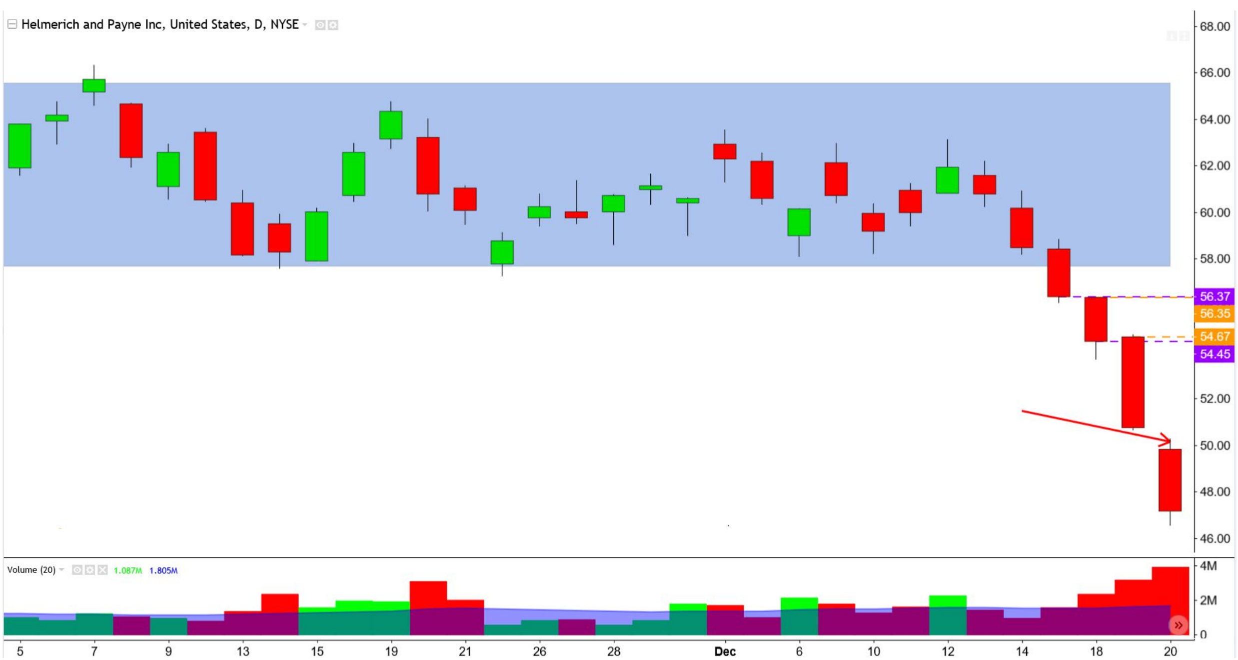
Immediate follow through the next day. A clear sign of a downward continuation with a possible 3 black crows in the shorter term context.

Indeed a 3 black crows finishes the downward continuation strongly. The drop gradually slows due to short term downward over extension as well as decreasing volume in general. Also bullish volume and lower wick rejection are present but they are not sufficient to fully counter the relatively stronger bearish price action and volume into March.

A bearish advantage is held to fall towards 41 where before there is even direct contact with the key lower range another major uptrend forms to end 2017 similar to how 2016 started.

A swift reversal forms off the sharp peak of upper wick rejection in early October. A familiar sight as the mid 70s now presented resistance from the prior peak. Another familiar sight in that the market started moving more neutral to bearish. Despite some sharp bearish spikes the downtrend progressively slows towards the prior upper 50s range that is offering strong support.

Temporary range is breached at the solid short term support. Once again another resting phase finishes for a likely continuation drop.



In the shorter term there is a 3 black crows candle pattern. It is a 3 black crows with less strict criteria when referring to theoretical diagrams. Gaps between the real bodies could be more abundant, but that is not much of a problem since real body overlap is low. Other than the lack of gaps between real bodies the candles are strongly bearish as they have small wicks and they increase in size along with increasing bearish selling volume approaching the end of December. The end result is similar whether it is a 3 black crows with less or more gaps between real bodies, A large and rapid drop.

Lower close and volume is still high. Though the inverted hammer is a sign of a possible slow down, if not a complete upward reversal.

Price doesn't reverse immediately but the downtrend has weakened significantly. Then following the next inverted hammer on December 24th there is not only lower wick rejection and a bullish candle closing higher but the general price action of a morning star. It is quite a unique example where a potential reversal forms with large shifts in volume and price during the end of December since market activity tends to slow down towards the end of the year with Christmas and New Years.

As usual an uptrend following a downward continuation encounters firm resistance at key ranges in the downward continuation's formation. In this case it is the mid 50s around the area where the continuation breached the resting phase's lower boundary to finish lower.

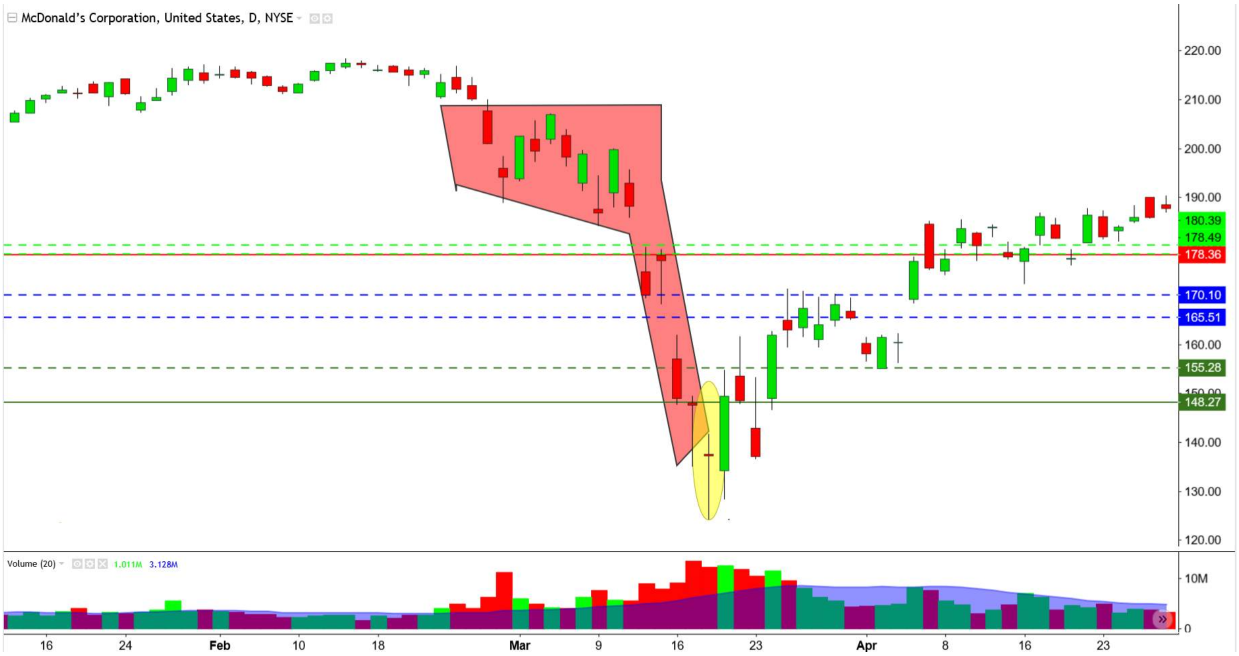
Bullish volume was sustained to remain then rise into the upper 60s where resistance was present from the upper boundary of the downward continuation's resting phase. The subsequent downtrend that formed naturally found major support around the 41-39 range seen at the start of this example. However the sell off was strong even into the new decade when the strong support was decisively breached to form another strong downward continuation. The broader market decline in early 2020 helped accelerate the drop even more.

Strong Price Action And Candle Continuation Example Case Study 3

The second candle in the early February drop is an example of lower wick rejection during price action that is otherwise a strong 3 black crows drop. It is almost like the brief pausing resting phase of a 3 methods falling except on a smaller scale.

Mid August sees a downward continuation that isn't a massive 3 black crows, but the price action is similar. It still amounts to an accelerated sell off rapidly driving down price. Volume also increases to strengthen the bearish move that moves slower in comparison to the normal 3 black crows on a near vertical descent.

Price is over extended downward to begin March. This coupled with an immediate drop in bearish volume and a bullish engulfing candle leads to a strong uptrend that is soon given further strength by a 3 marching soldiers pattern that is not exceedingly strong in terms of having large candles and spikes in green volume, but it is consistent and uniform with large green real bodies and little to no wicks in proportion. The one doji between the bullish engulfing and the 3 marching soldiers is normal during such a major and rapid shift in the market. Indecision is present for a short duration. Even though that single doji didn't close above the high of the bullish engulfing it was more of a neutral to bullish sign given that it traded over the bullish engulfing's high.



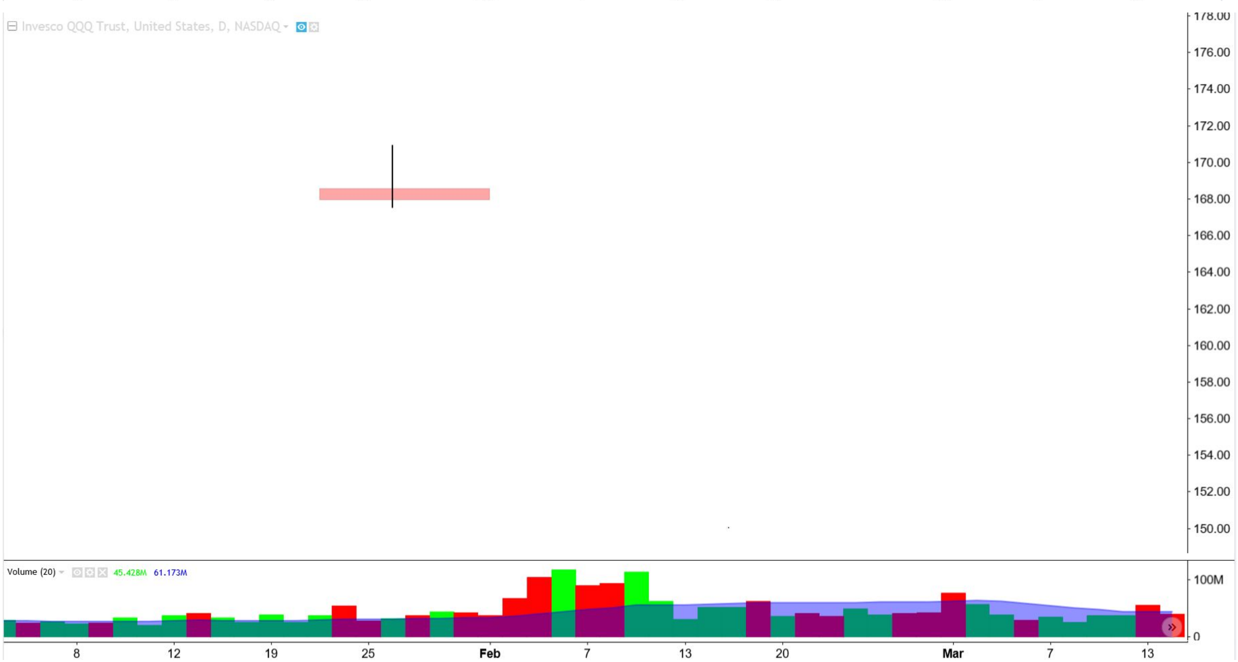
As seen before with the earlier example of McDonald's stock chart and other charts, there was a general stock market decline in early 2020. It is not a strict 3 black crows pattern but the rapid row of falling red candles and high red volume speaks for itself in illustrating the same general price action. Lower wick rejection near the eventual upswing was an indication of a downtrend slow down.

Chapter 11 Combining Multiple Candles, Reversal Example Case Studies

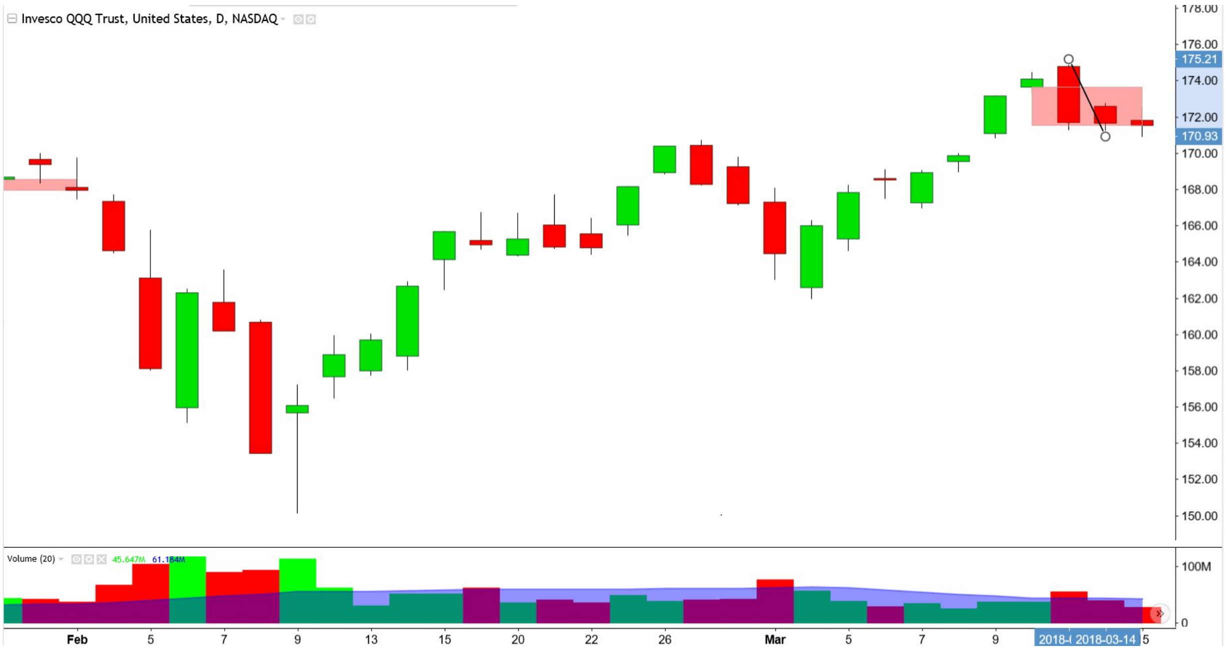
Combining Multiple Candles, Reversal Example Case Study 1

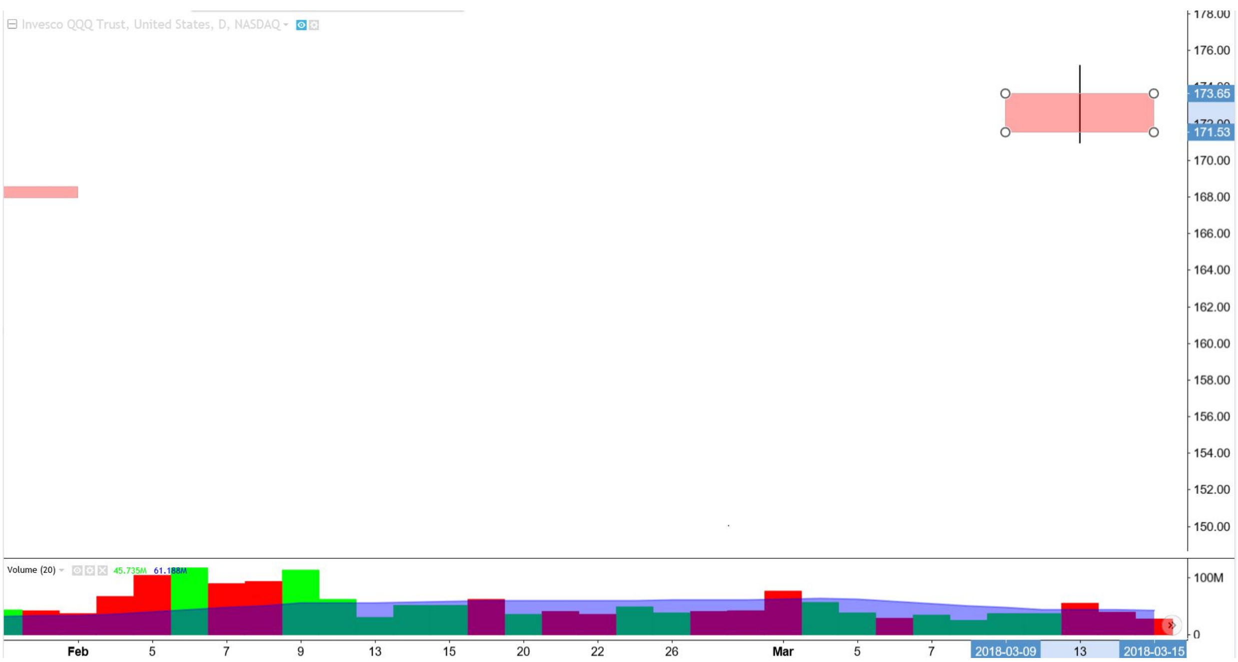
Major stock market indices and the ETFs that track them such as the QQQ ETF that tracks the Nasdaq index, tend to have fewer sharp swing points compared to individual stocks. This is mainly due to indices being an average of broad stock market price movement which is reflected in the aggregated price action of indices. This means candle patterns can be less clear and often have delayed confirmation of a likely reversal.

Such an issue can be remedied by combining multiple candles. This is most effective at established support and resistance ranges.

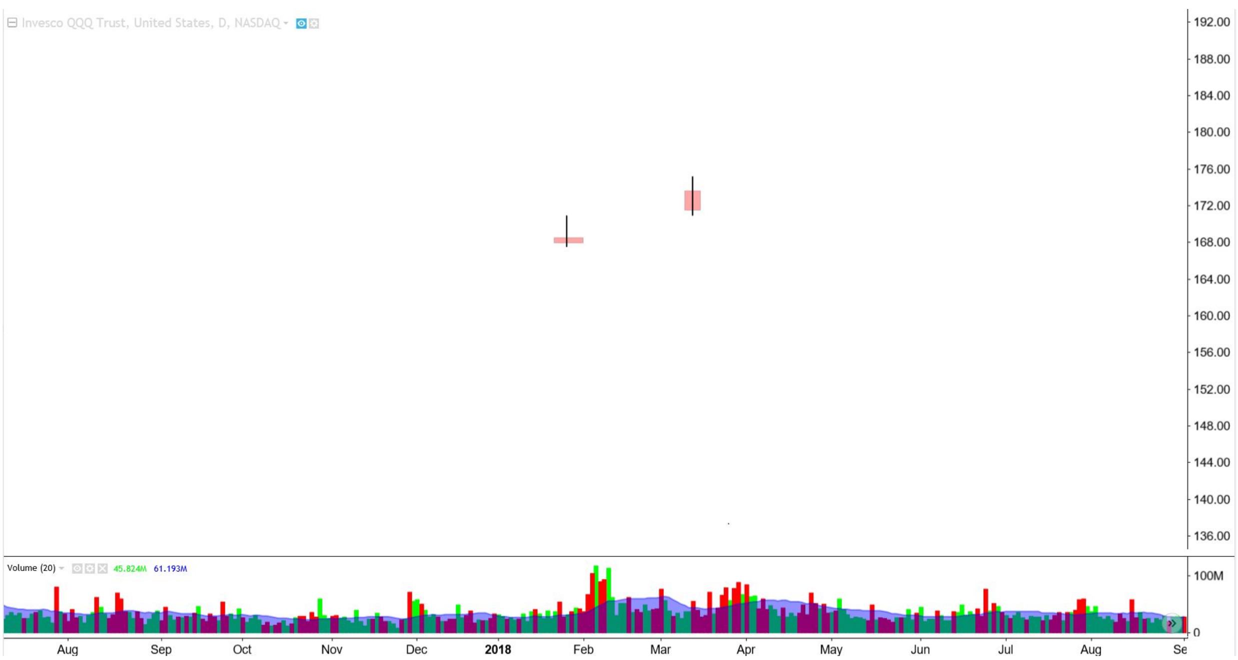


The rounded top is a sharp upper wick rejection prior to the surge of red selling in February. Simply starting with the O of the first candle in the bearish engulfing pattern then ending with the C of the thicker bodied gravestone doji to form the real body. Then draw the wick with a vertical line from the highest H found in the group of candles and the lowest L.



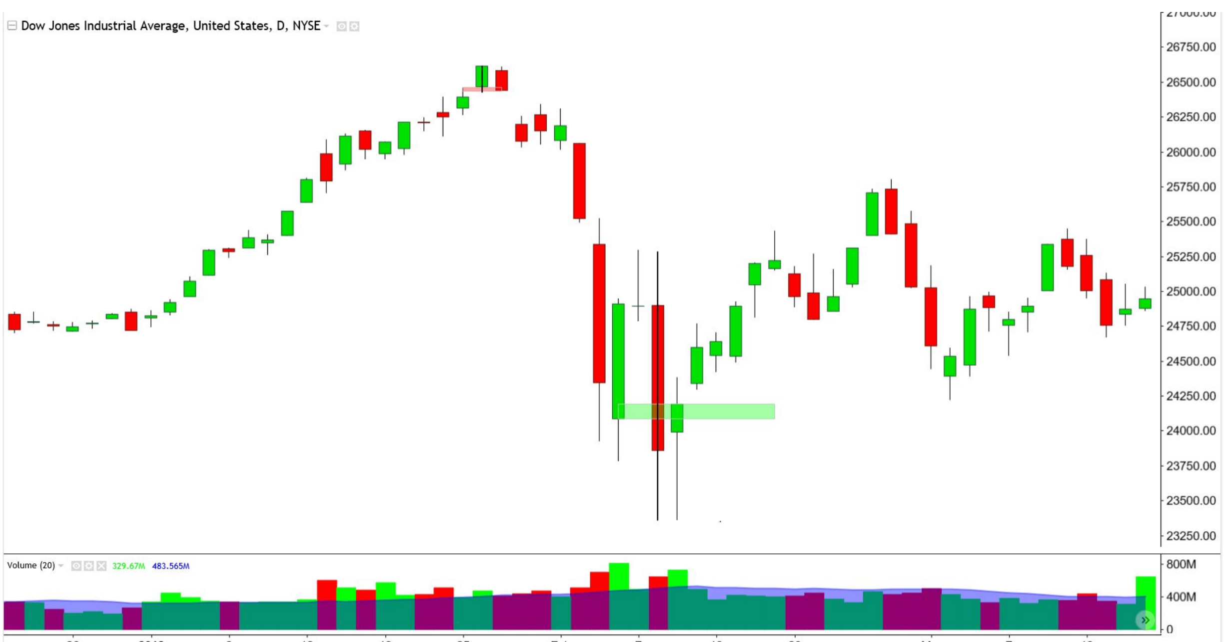


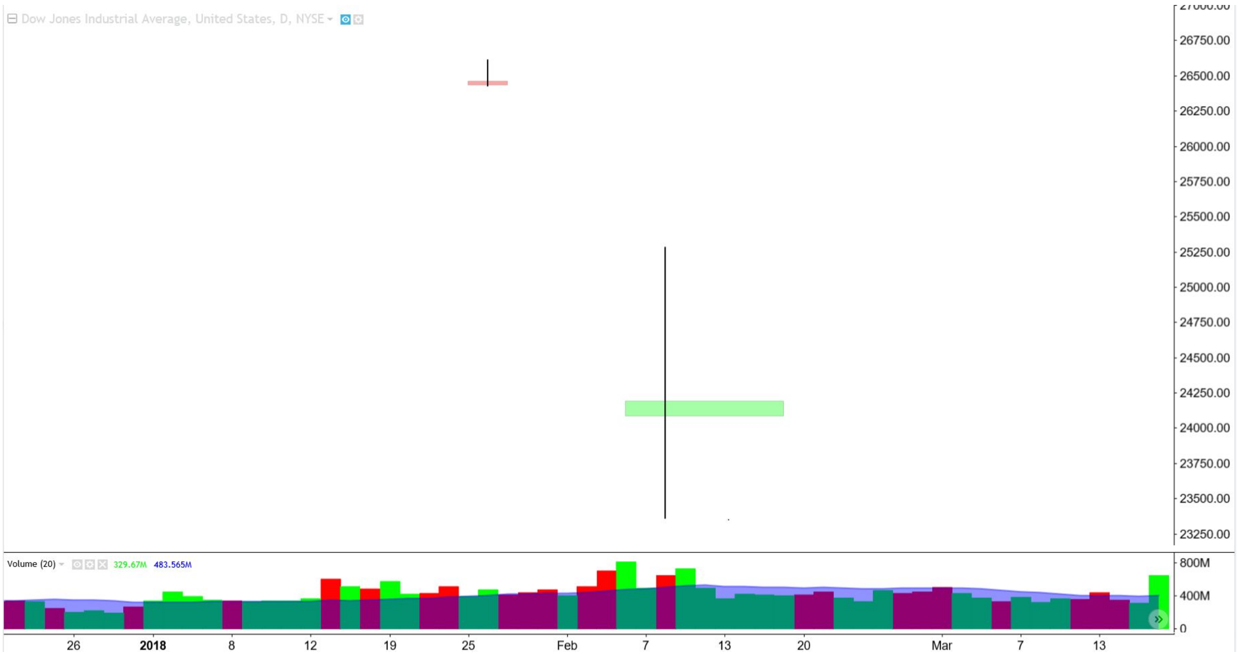
Another similar case starting with a bearish engulfing that was the first sign of a possible bearish reversal. It also helped that this was at a now clearly established upper resistance range.



These two instances of combined candles were useful in clarifying price action that was generally bearish with higher price rejection present among the majority of candles that formed at the 170 area which formed an upper boundary at the time.

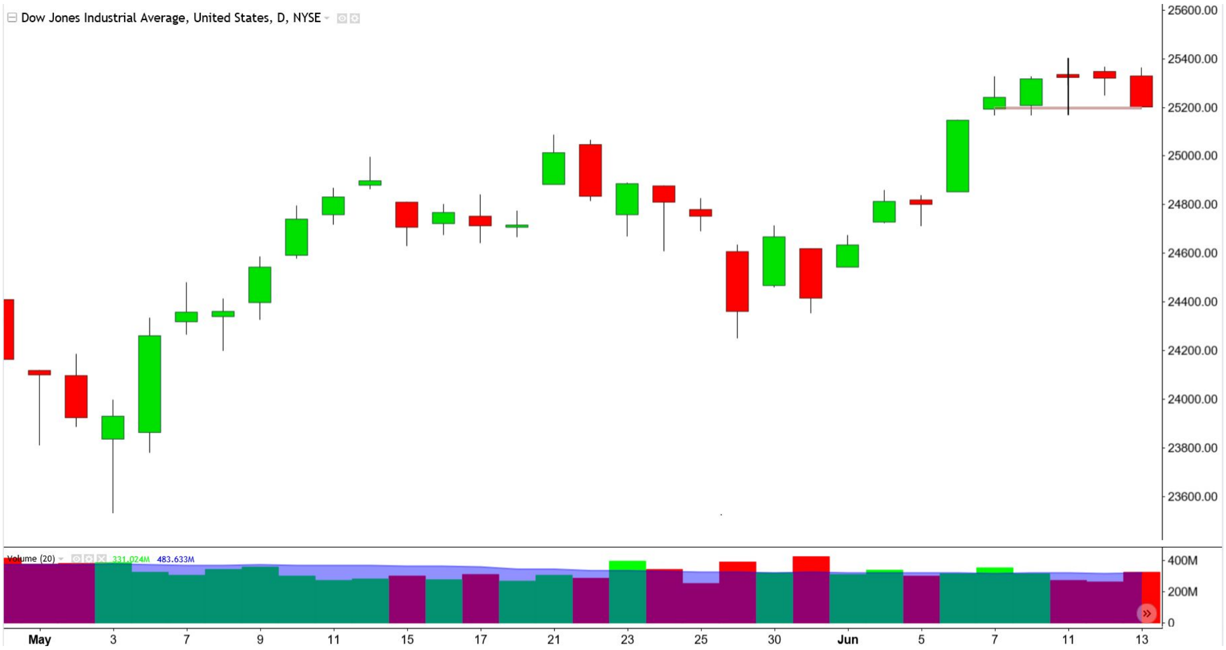
Combining Multiple Candles, Reversal Example Case Study 2

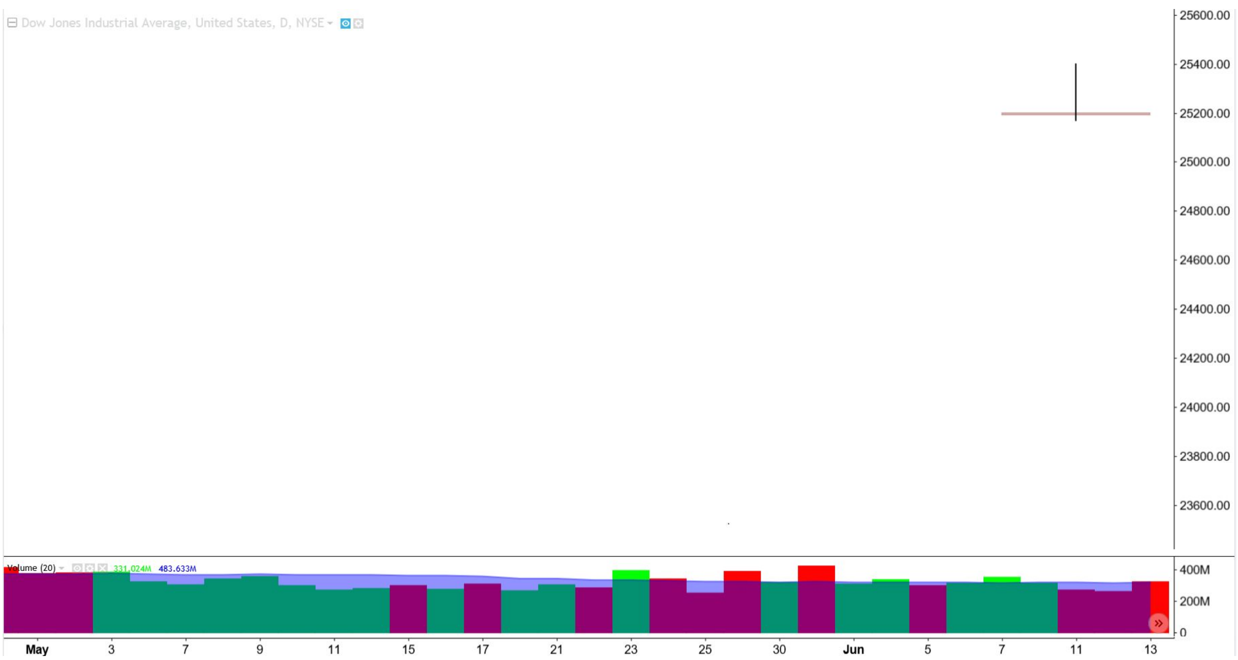




Gravestone doji forms a sharp peak with the highest candles combined.

The bullish reversal in February begins with the O of the second candle in the large piercing pattern and ends with the C of the bull hammer and large harami two candles later. It is not a neat formation and essentially a large thick bodied doji with overall lower wick rejection comprised of the highly volatile candles that rapidly shifted from day to day. Not an ideal example but a great demonstration of how things aren't always neat and orderly in real live markets even when combining candles for further clarity on the market situation. It could have started with the O of the first red candle in the large piercing pattern as well to show the same general lower wick rejection.





The group of candles is still bearish overall but a delay to a possible downtrend creates uncertainty. Combining the O of the initial bearish star and the C of the most recent increasingly bearish candle creates a gravestone doji.

Price immediately trades below these combined candles and just like a single gravestone doji there is a higher likelihood of a downtrend when price closes below the low of the gravestone doji. Especially when volume increases.

A downtrend certainly did form but it was weaker due to a lack of sustained red bearish volume above normal levels. Also there was constant bullish buying as evidenced by the many lower wick rejection candles in June. This downswing from combined candles is unique it that it could be used during the downswings formation. It will often be difficult to combined candles in this way in live markets. Often combining candles is used to clarify past price action to establish clearer ranges rather then interpreting a possible developing reversal like the example here.

Chapter 12 Assorted Case Study Practice Examples

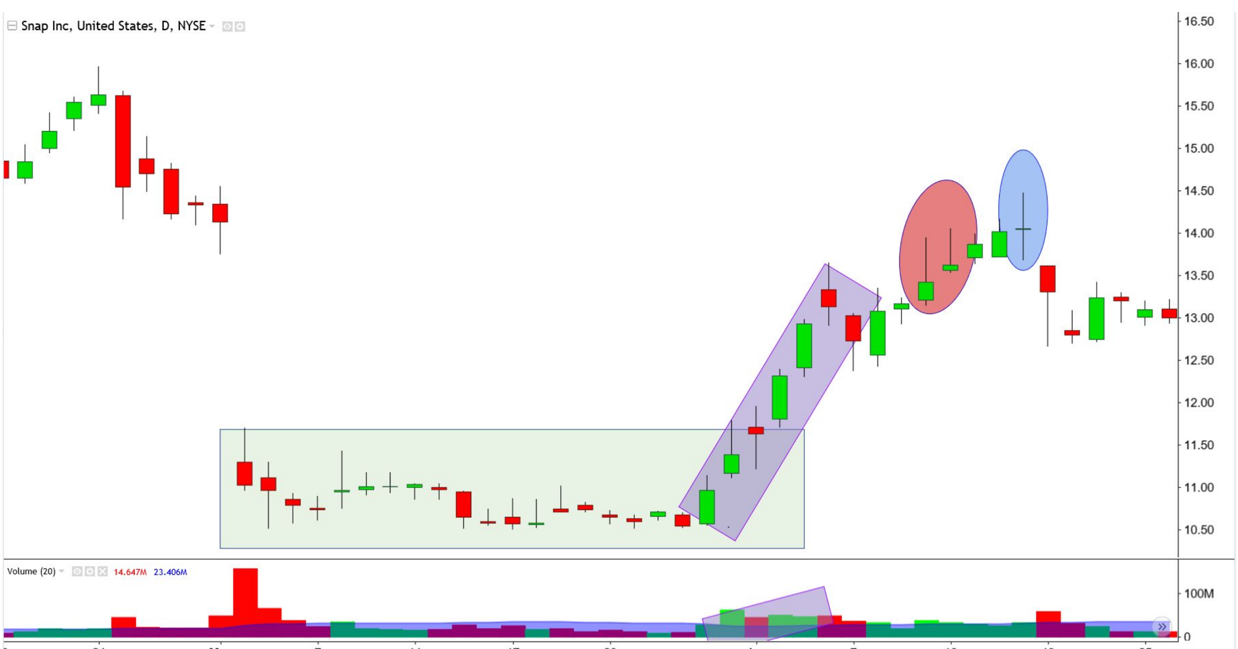
Assorted Practice Case Study 1

An example of a newly listed stock off to a bearish start that has been accelerated further with the recent gap down.

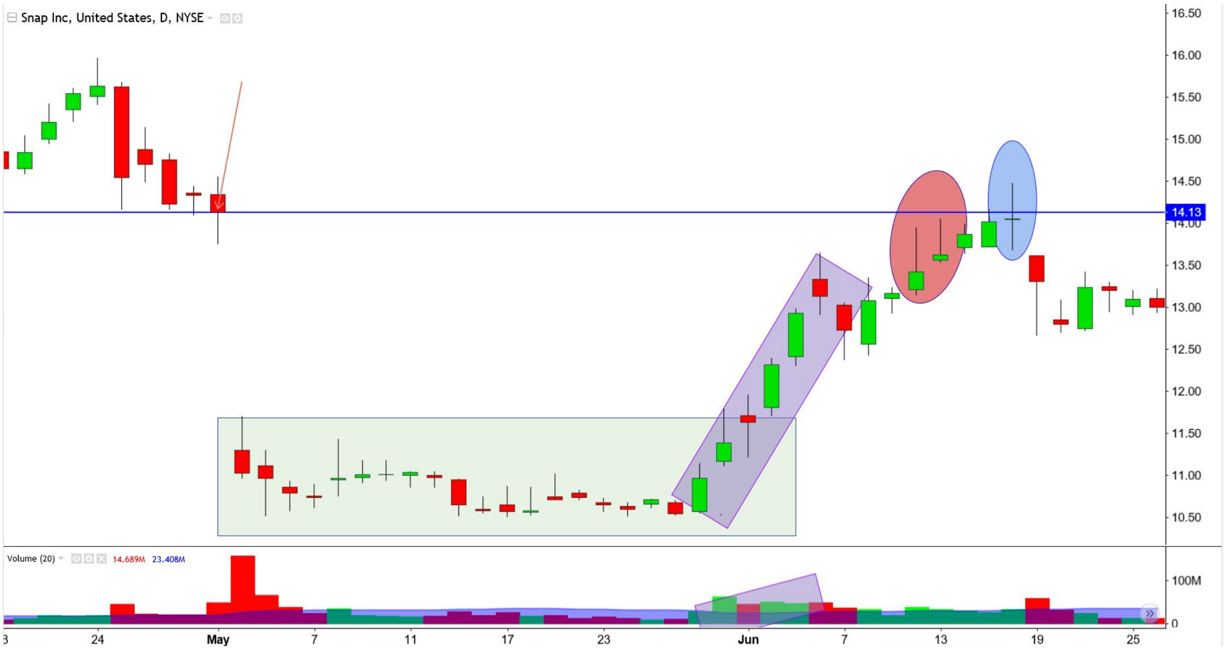
First an inverted hammer and now a bull hammer to slow down the move to lower prices. The tone is still heavily bearish but the two recent reversal candles point to some bullish influence especially with the current lower wick rejection. There is also short term downward over extension as there often is with gap downs. This coupled with the existing downtrend points to a slowing down if not a complete reversal in the near future.

No reversal and that is normal due to the next few candles unable to close above the high of the May 3rd bull hammer. 10.00 is a key range for low priced stocks regardless of how long they have been on the market, it is just a clean round psychological number. Thus it is a natural strong support range as evidenced by the lower wick rejection and dojis for an increasingly neutral to bearish tone.

The opposite of a resting phase in a downward continuation. Price breaks above the gap down range with some natural opposition to slow down the strong incline around 11.50 where the gap down marked the top of the temporary range. A range of deliberation as seen with the high concentration of dojis.



Upper wick rejection even with a balanced doji on June 18th(marked with the blue oval) along side clear bearish stars are to be expected to hold price down around the 14 range as it is a normal gap fill resistance.



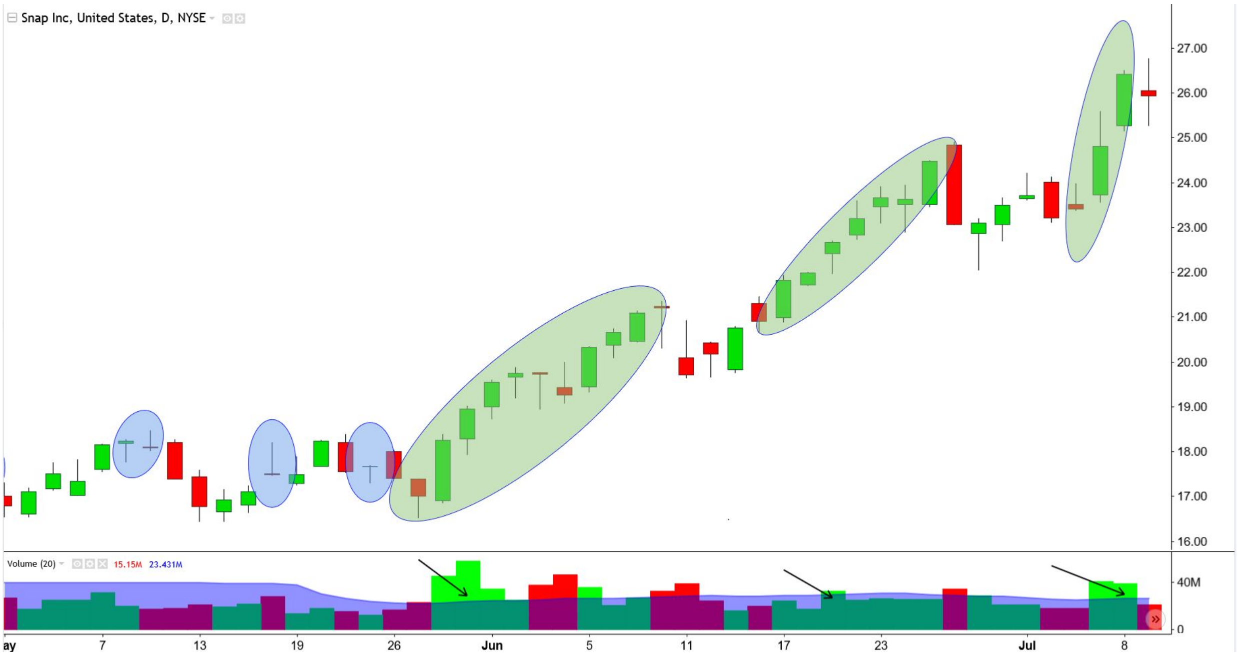
The 14 range remains a firm upper barrier and the row of bearish stars are confirmed with a big red candle closing lower on June 19th. However it is a bull hammer candle that isn't in a reversal context but the lower wick rejection demonstrates an unwillingness in a portion of the market to rapidly accelerate lower. Furthermore the row of bearish stars were green and gradually closed higher for a slow down of the prior uptrend rather than a rapid shift to immediate strong selling. On top of all that the volume decreases significantly while price action becomes indecisive in the next few weeks. Also note the 14 range was the center of volatile up and down price action in later 2018 and became a gap up that was filled for a minor upswing before it was breached with the recent gap down in April.

Snapchat stock was held up but mostly repelled before even directly contacting 14.00. When it was directly contacted it led to rapid upper wick rejection even for dojis. Pressure at 14 coupled with weak bullish intent gave way when selling gradually increased for a sustained downtrend that had periodic slow downs when dojis emerged alongside some single bullish reversal candles that were never strongly confirmed for a minor upswing.

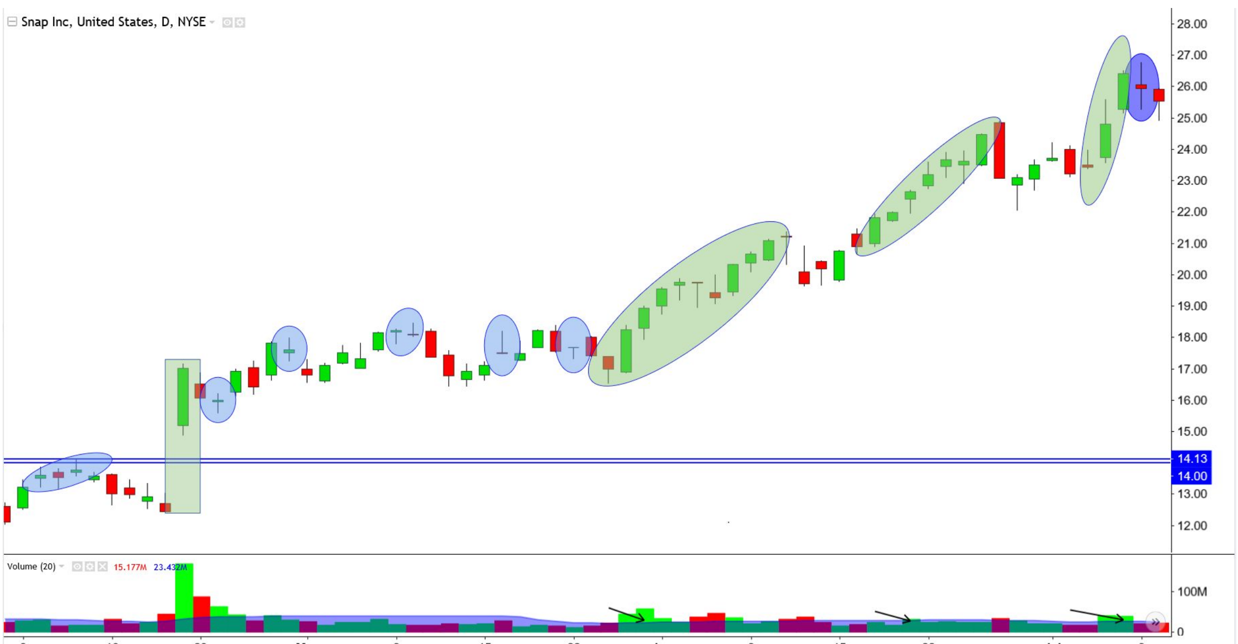
Bull hammer in mid December was engulfed with immediate trading and closes going successively higher. Volume was at normal levels to make it an upswing of decent strength that gradually rose due to the slight downward over extension in the downtrend from increasingly more frequent bearish spikes that persisted for a short time even into 2019. Though overall the uptrend gained a stable footing and now demonstrates the reverse with periodic bullish spikes holding prices higher.

Strong lower wick rejection and a gap up provide a strong new base back at the 14 area.

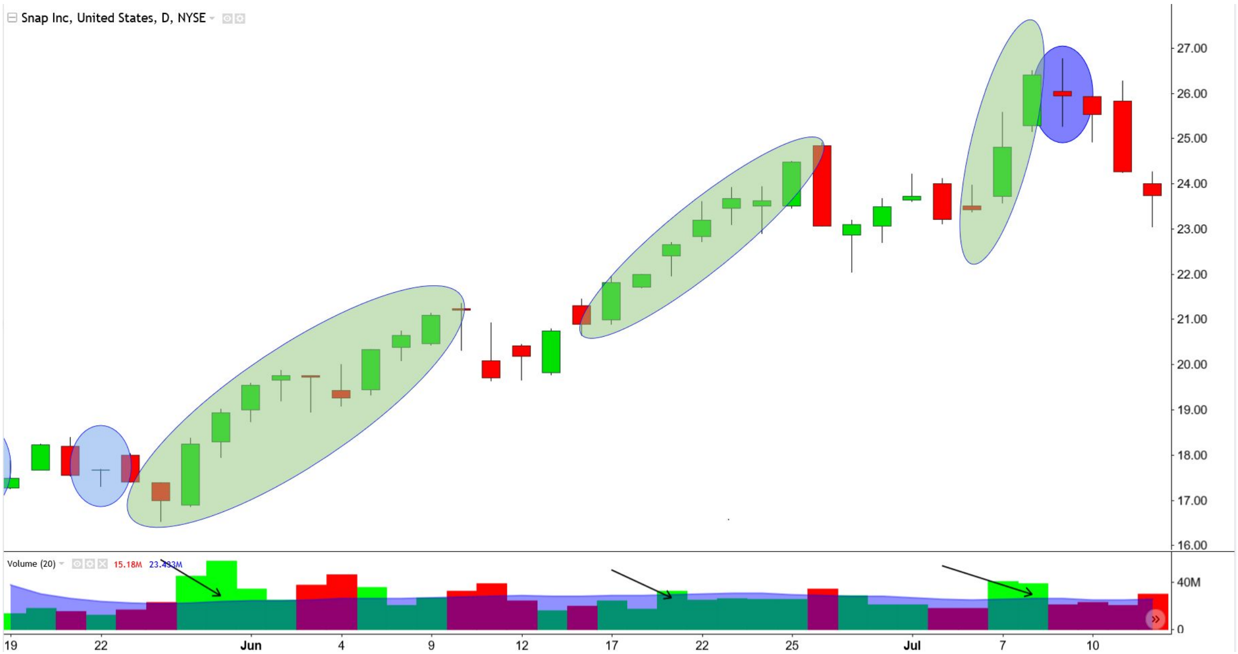
Another demonstration of a strong support range stalling a drop when it does not reverse it. Lower wick rejection on 14.00 in early March is negated by large red candles for a downward continuation upon break of the temporary support range. Later the 14 area does the opposite during a rapid shift back up that doesn't get too over extended upward into May because of dojis and upper wick rejection that stabilize to a shallower incline with minor downswings.



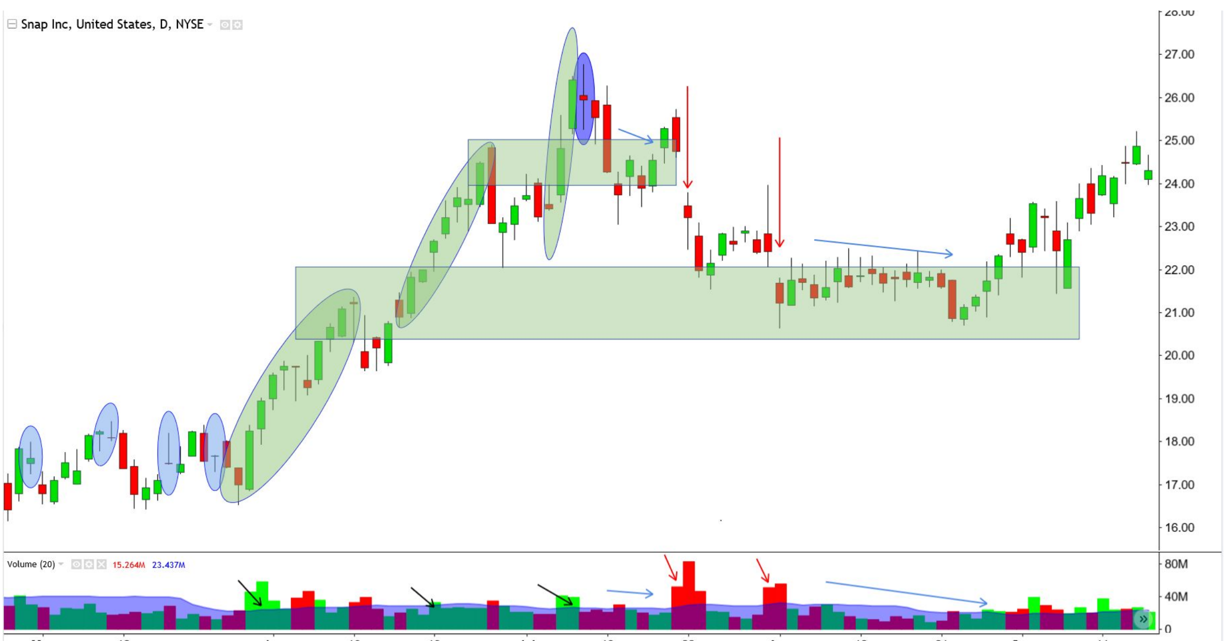
The stabilization of the short term steep incline gives way to a series of rapid bullish continuations after prices establishes a firm hold around the 17 range.



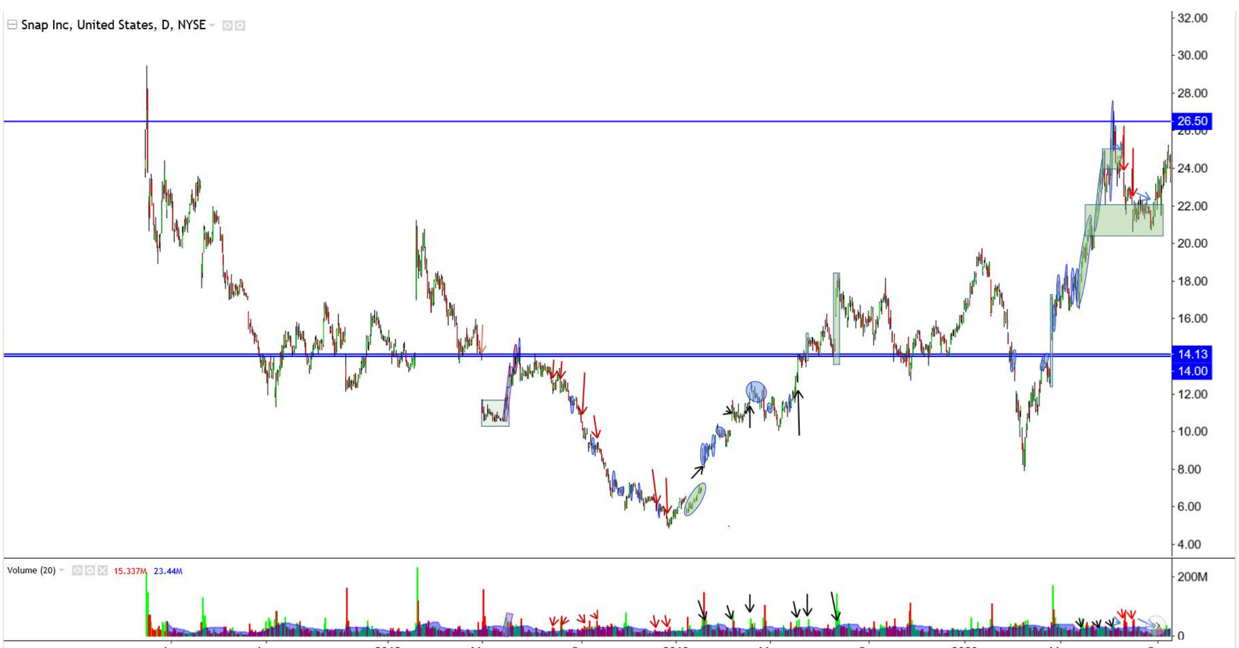
June ends with a bearish engulfing that is not sustained with the next candle being a bull hammer to counter it and hold price relatively flat before a minor spike higher. That is when a neutral to bearish tone develops with a harami that also has some opposition from the current bull hammer rejecting lower prices for a possible downtrend to develop.



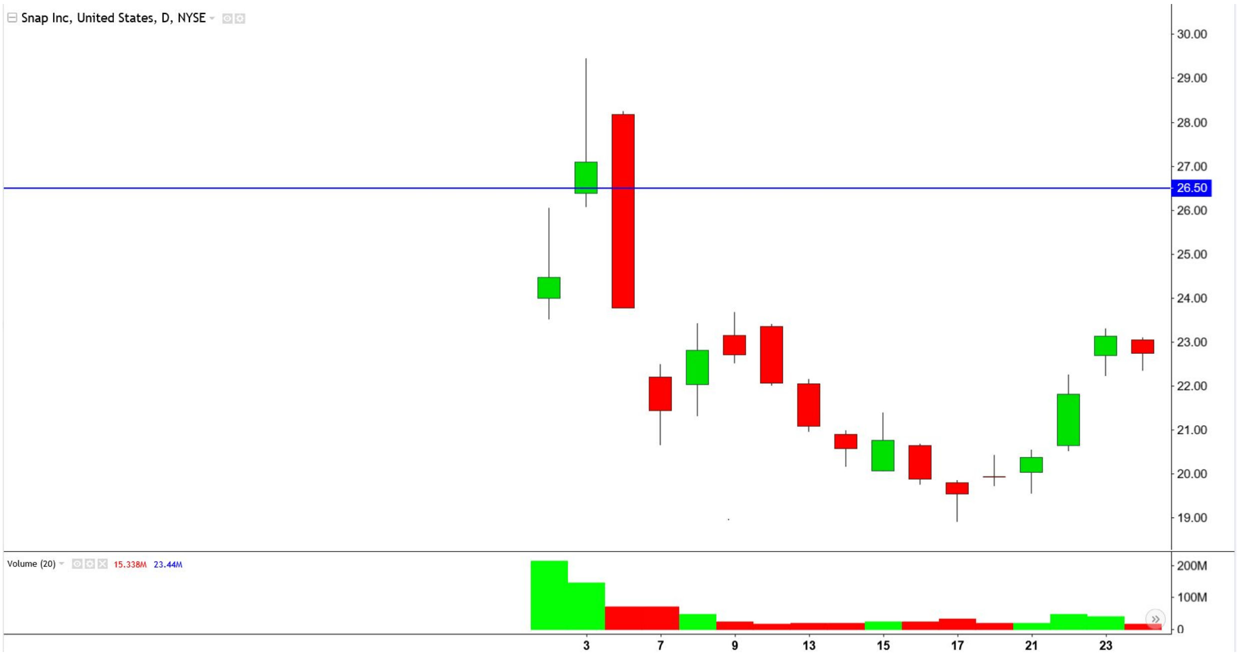
The tone shifts more bearish with a strong close down but once again a bull hammer emerges to slow down the drop at this early stage of a possible downtrend.



Another case of the swing points from upward continuations providing support to falling price and slowing down a developing downtrend.



The uptrend has indeed been steep but it had adequate stabilization from the minor bearish to neutral ranges to avoid some strong surges of selling becoming a long term downtrend.



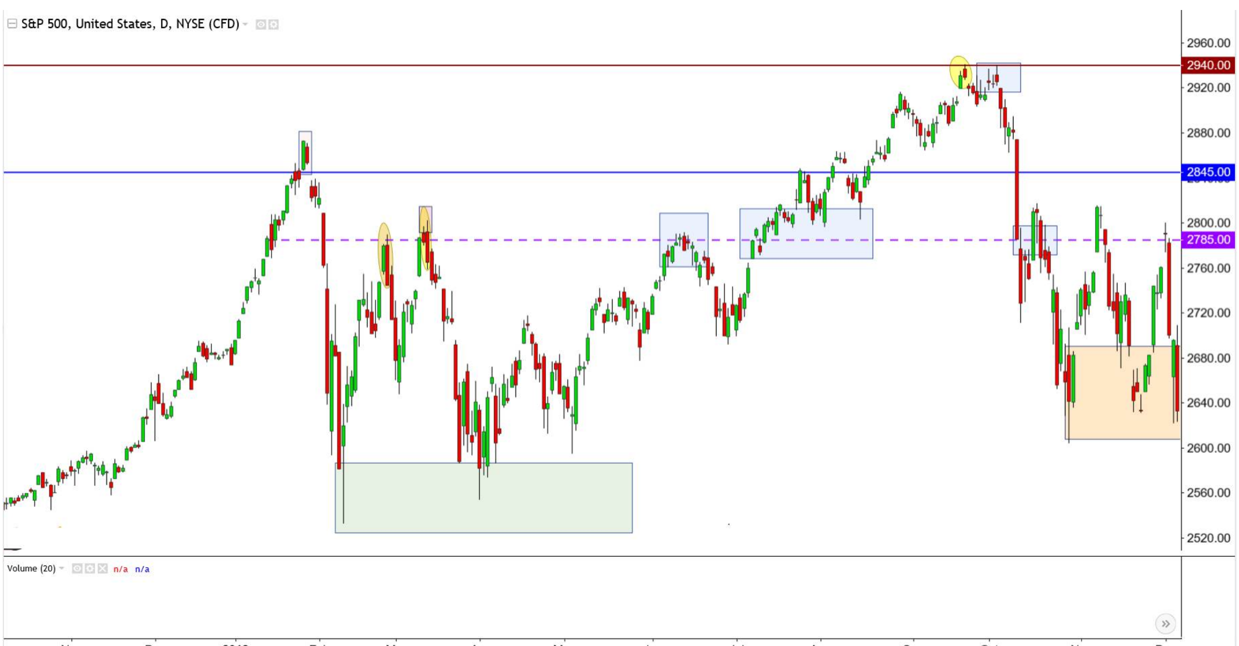
Returning back to the IPO range with 26.50 being a nice round number at an early downswing point. In this case it is near the open of a bearish star that is bearishly engulfed. Naturally these few factors are more than enough to have 26.50 back in the spotlight as many longer term positions are concentrated around this early pivotal price.

24.00 will certainly be a major boundary as well due to it being the actual IPO price.

The overall uptrend remains strong and stable. It is slowed down by the long term 26.50-24.00 range. This is very normal especially since this range was also a recent downswing area in July. There was normal volatility at the 24.00 IPO. Despite these bullish candles remained consistent at near normal levels of volume to make a steady rather than a steep climb through this upper intermediate range.

Assorted Practice Case Study 2

Dark cloud cover and a series of bearish stars and dojis form a defined top that is accelerated by a few large red candles. Though there are still periods of indecision that slow down the strong downtrend.



A less strict bullish engulfing at the end of October is a key event near the last major range of support.

Strong selling continues with a few large red spikes but they are abruptly stopped in a new range of support made up of clear and swift single candle reversals in the proceeding two upswings. The second upswing in late November is a combination of a gravestone doji in the context of an inverted hammer and the middle candle in the general price action of a morning star. Also note 2785 is a key upper range with clear and swift reversals as well. Interesting to see dojis in a bearish context.

The early December bull hammer had some initial success in holding price in the 2600s but selling pressure persists and the recent close under the bull hammer's close renews the likelihood of lower prices as the recent support range is under increasing pressure.

Bull hammer and temporary lower 2600 range has been negated with a continued row of progressively lower red candles.

In fact this is a strong downward continuation that is likely to complete or at least halt quite soon. A 3 black crows has even formed with the last 3 candles and there preceding red candles making for the beginnings of a rapid downward over extension. There is also lower wick rejection on December 20th with a slightly longer lower wick closer to a bull hammer. Then the current candle is still strongly bearish and symmetrical in terms of a balanced real body and upper and lower wicks being evenly distributed. However the lower wick runs through 2400.

Taking a look back reveals 2400 to be a major long term level, thereby making lower wick rejection on it a normal occurrence. The downtrend persists for a short time longer with one last bearish thrust lower into the 2300s which is an even stronger lower boundary than the 2400 level. The market is oversold in the short term to help form a strong bounce along with the influential 2300 range. This allows for a strong and relatively stable uptrend to develop.

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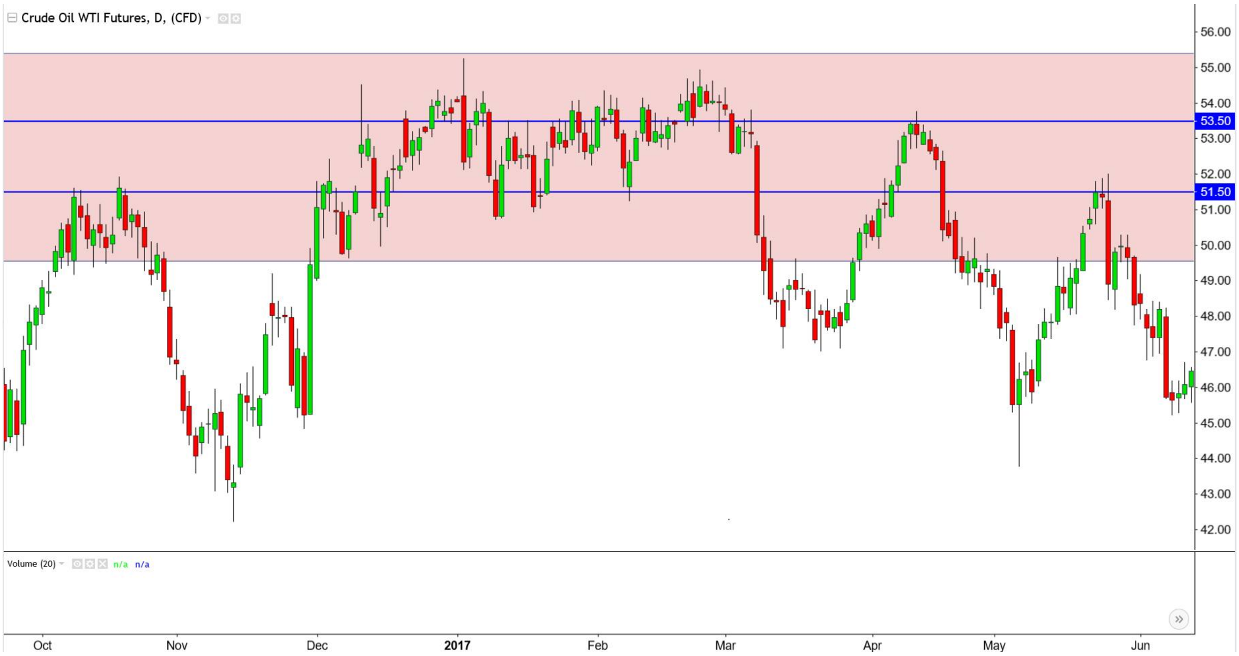
Assorted Practice Case Study 3

A highly contentious range in the lower to mid 50s has led to flatter price action over the years.



Even when there are more defined reversals in this range there is often some delay in forming a trend for the long term such as the delayed downtrend from prolonged resistance moving from 2016-2017.

Crude oil futures also provides an example of analyzing a chart without volume. Even without volume there is a clear break higher with two green candles with gaps between their real bodies to pass the upper boundary of the stiff range in early November. There is the characteristic bearish to neutral range that follows to consolidate higher and there is good lower wick rejection upon first contact swinging down onto and over the 56 area to en 2017 on continually more bullish sentiment. This is apparent with large green real bodied candles moving towards the 60s. Even though there is no volume the general increase in successively higher green candles is a simple yet effective indication of bullish strength.

A clear upward channel demonstrates long term bullish stability.

Clear trend lines can be drawn closer to the real bodies of candles that form up and downswing points to produce highly valid trend lines.

Similar to the earlier flat horizontal 50s range, a channel can have additional trend lines drawn within the wider range to add more detail.

After the break below the upward channel there are strong downward continuations prior to recontact with the mid to lower 50s that are still a highly contentious area and the greater presence of dojis in and around this areas indicates continued uncertainty and indecision in and around this area. Even without large red volume spikes it is quite apparent the market gradually becomes over sold from the rapid downward acceleration that has both large red candles and continued gaps between the row of red candles. A strong bearish move but one that inevitably becomes unsustainable without some minor bullish to neutral ranges to sustain the downtrend. Also note the late 2018 upswing is a combination of a harami and bullish engulfing for price action close to a morning star.

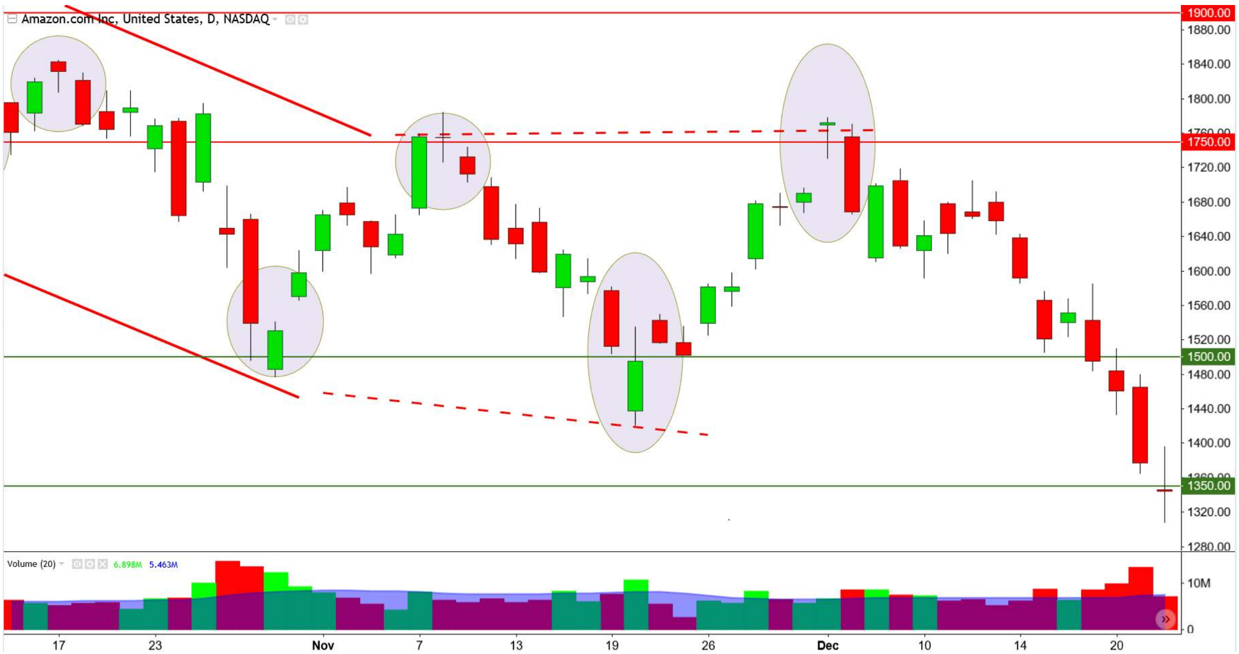
Assorted Practice Case Study 4

"Smooth" movement in terms of the gradual acceleration and flattening of the downtrend comprised largely of swing points with morning or evening star price action.

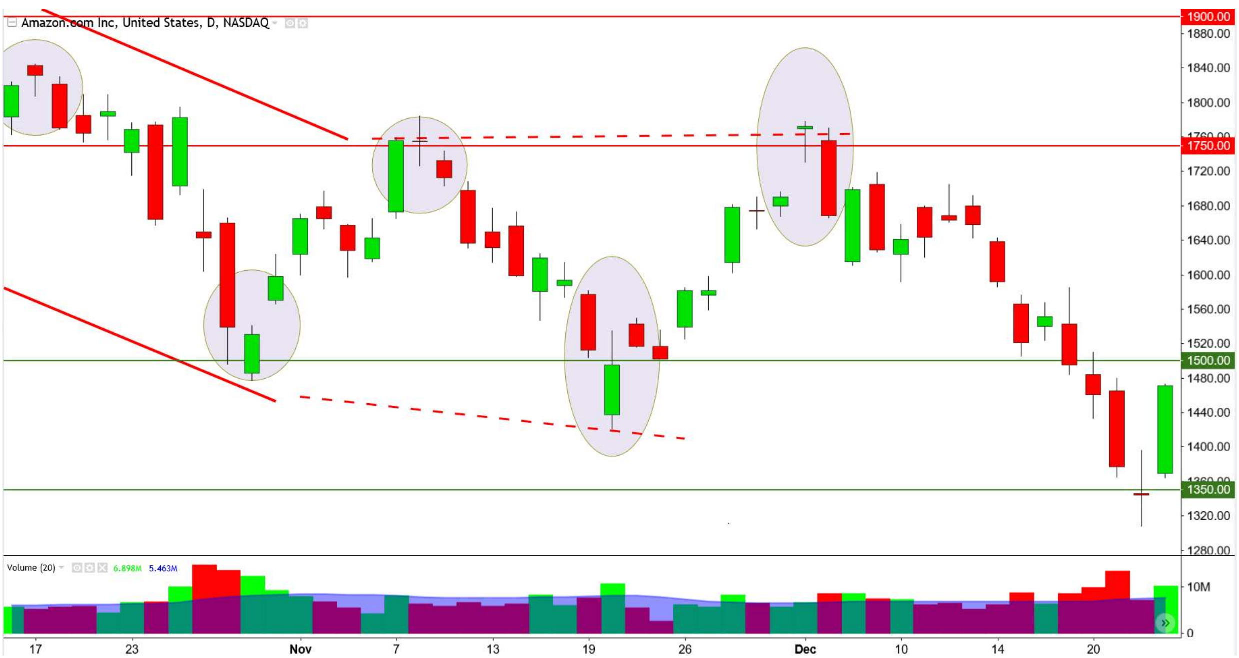
December starts with a hanging man that gaps down into a strong kicking pattern at 1760 and the last downswing points. Though the current green candle puts doubt into a rapid downtrend.

The one green candle countering the clear downswing point led to a delay of the downtrend that only began to take hold with an increase in red selling volume and real bodies with large gaps in between them for a 3 black crows acceleration toward the temporary support defined around the 1400s from the last two upswings.

Reaching a major long term range that coincides with the more recent lower support range around 1500.



Market continues to be volatile and uncertainty remains.



Another single large green bodied candle changes the situation drastically. It not only quickly injects a bullish sentiment with a near perfect morning star formed in terms of matching the proportions seen on theoretical diagrams, the volume also shifts with the second candle having lower volume during the deliberation with the large doji. While the volume for the first and third candles is proportionally higher.

The clear outline for a potential uptrend is there but the current candle shows some delay and further deliberation as it is unable to close or even trade over the morning star's high. However a bullish advantage still remains in the short term as the current candle shows lower wick rejection and continued high green volume.

A similar situation with the next candle that maintains high bullish volume and even trades over the morning stars high but is still unable to close above it(the H is from the H of the first red candle since it is the highest H in the morning star. The current candle is also a doji with upper wick rejection at 1500 which now acts as the first barrier to the upswing becoming a defined uptrend.

Bearish candle but volume is proportionally lower than the past 3 bullish candles. It is also normal for a slight pause at the 1500 now acting as resistance. The candle H-L range has also decreased significantly compared to the last few candles to simply but effectively demonstrate lowered volatility.

A neutral to bullish tone sets in with the market holding up around 1500 but unable to build on the initial rise of the morning star. Note how the candles close near or above 1500 with most of the price action over 1500 with the past 3 candles. Essentially lower wick rejection when the last 3 candles are combined to illustrate favor to remain over the 1500 level but still indecisive in the short term.

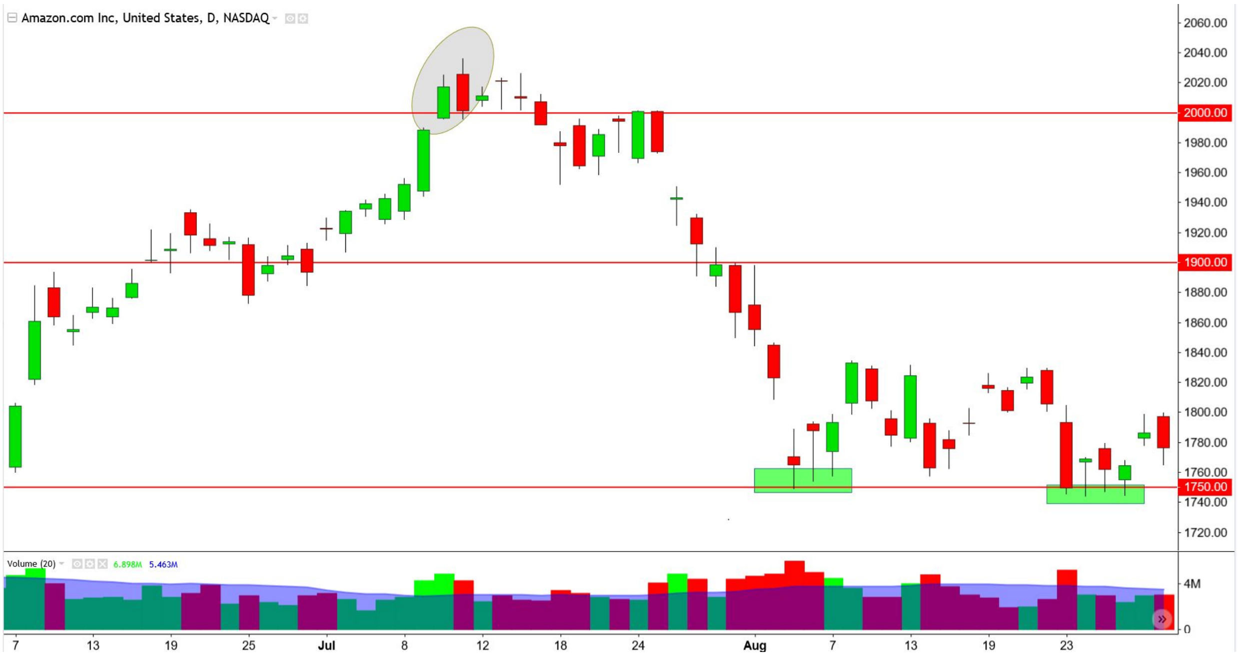
Price action and volume begin a bullish uptick again with the current candle decisively trading and closing higher for a defined break over 1500 to develop into a longer lasting uptrend.

Bullish momentum quickly subsides but it remains constant at normal to low levels of volume to slowly drift towards 1750 the next major obstacle to returning higher. Volatility and indecision reemerge into February.

Similar to before the market is increasingly volatile with rapidly shifting price in the slightly bearish to neutral range. However the upswings and downswings are mostly formed with morning and evening star price action for more gradual and stable swing points to define the temporary range.

The influx of bullish volume into latter March is short lived but adequate to take Amazon stock toward previous high ranges where stronger selling unsurprisingly begins. 1750 then holds into June to prolong the uptrend. June begins with another short but vital injection of green volume to gap up.

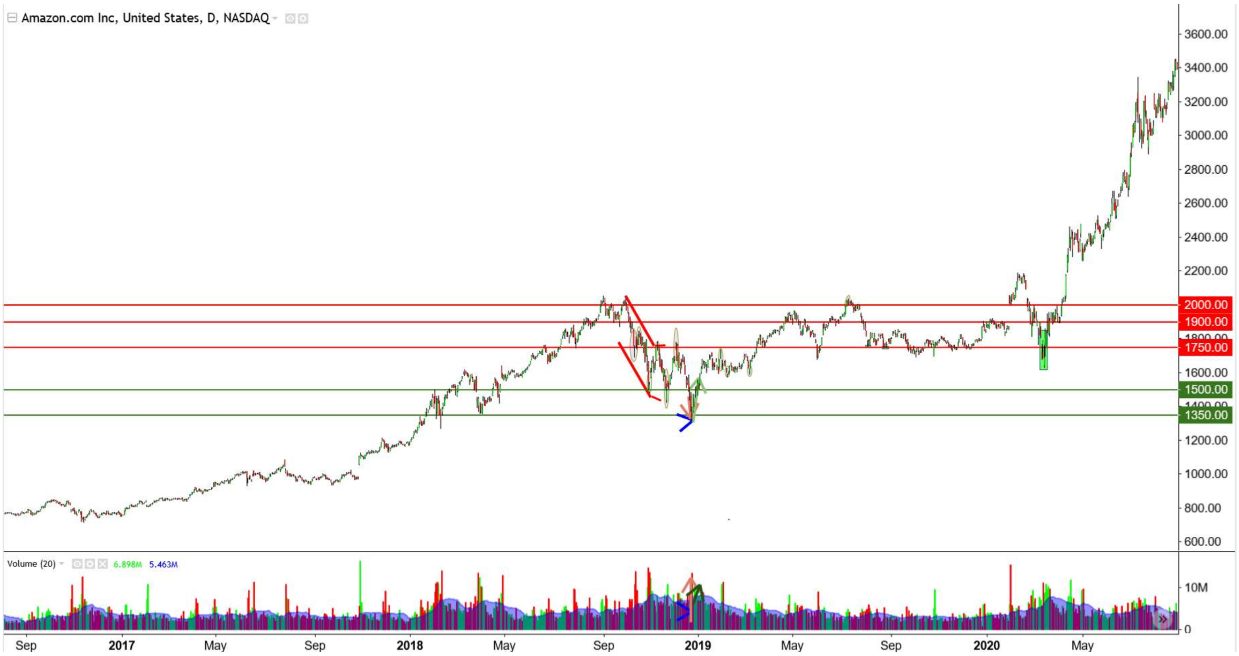
This is followed up again in early July after a pause at 1900 to form a bullish continuation that is able to counter the bearish sentiment built up in May.



Clear example of a dark cloud cover leading to delayed bearish selling after a few dojis. When the selling volume increases near the end of July the downtrend is solidly confirmed.

1750 develops into a major lower range to show plenty of lower wick rejection. It is only breached temporarily with larger red spikes that are short lived.

Like the rest of the market Amazon stock was under bearish pressure and had high volatility during the massive drop in early 2020. However the 1750 level held. Price traded below it but only for a short time after a large bearish spike. Nonetheless a whole week of trading still managed to maintain contact with 1750 despite all the uncertainty. This led to an eventual upswing as price finally closed higher towards 1900 to end March.



At first it was more of a “passive” rise in reaction to the downward over extension of the steep early 2020 downtrend. Then periodic spikes with minor bearish to neutral ranges in between managed to push price to newer highs similar to the prior range in 2018-2019.

Another example of a consolidation to newer highs with a strong bullish break over 3000 followed by a minor downswing that did not proceed lower and was instead followed by a gradual upswing.

Lower wick rejection is all that matters on the 2900 level. Certainly not a bull hammer but enough to discern a maintenance of higher prices and rejection of trading back down into the 2000s.

Price gradually flattens prior to the highest close of the hanging man that is confirmed for a likely downtrend with the current large red candle strongly closing lower to form a kicking pattern and a less strict evening star with the last 3 candles combined.

As expected a strong downtrend develops. However it may not be long lasting due to the distinct lower wick rejection pushing back up against the strong drop.

Indeed the bearish sentiment gradually subsides to produce a much shallower incline on the approach to the 3000-2900 range that immediately begins to show lower wick rejection to greatly decrease the chances of developing a rapid downtrend.

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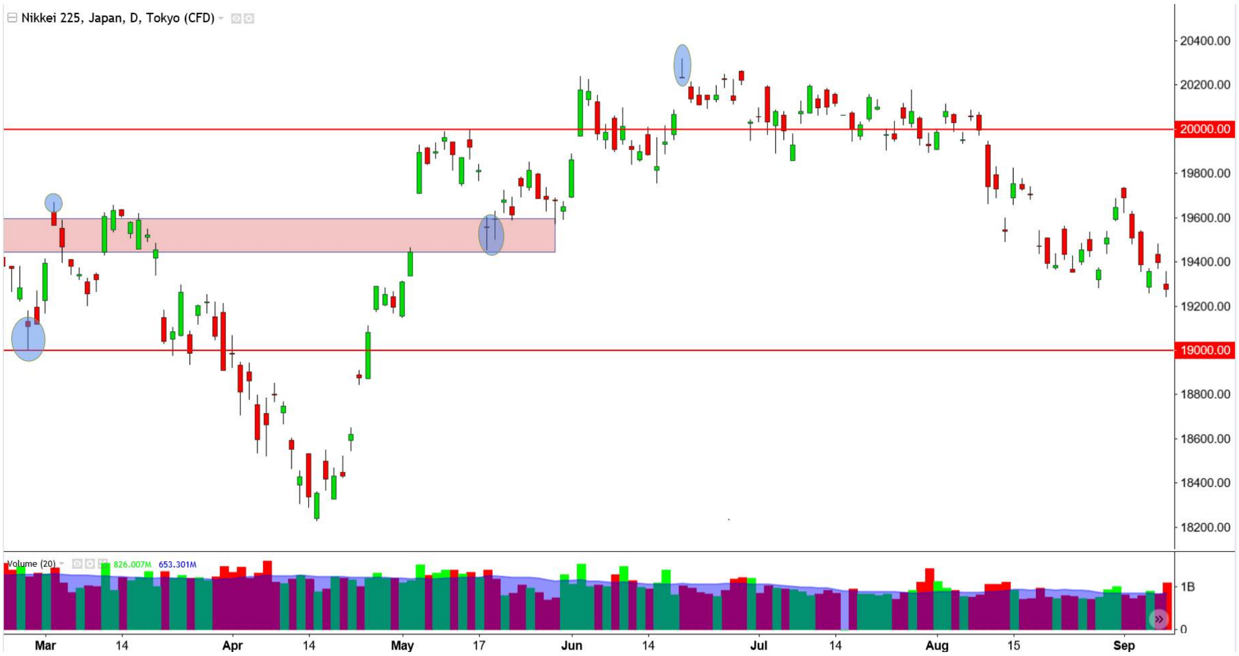
Assorted Practice Case Study 5

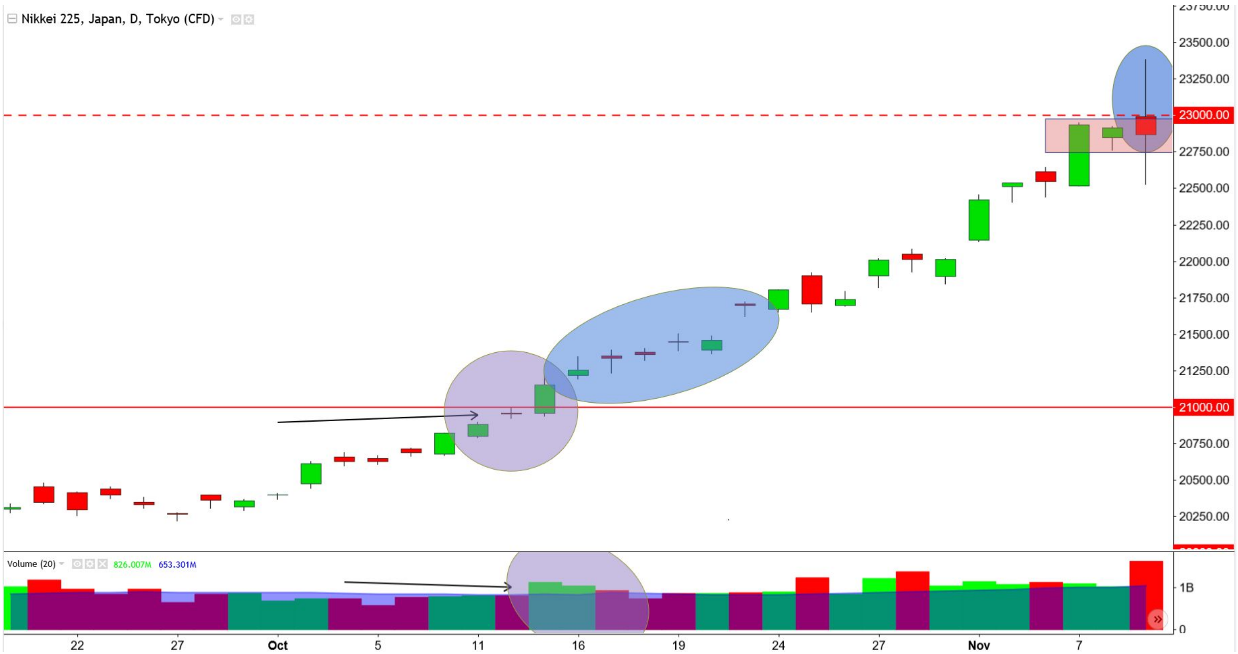
A fitting case study to examine the Nikkei 225 the Japanese benchmark stock index since candlestick charting can trace its origins back to Japan.

An evening star leads to a sustained push down to lower prices with several strong 3 black crows sending stock prices towards short term downward over extension at times.

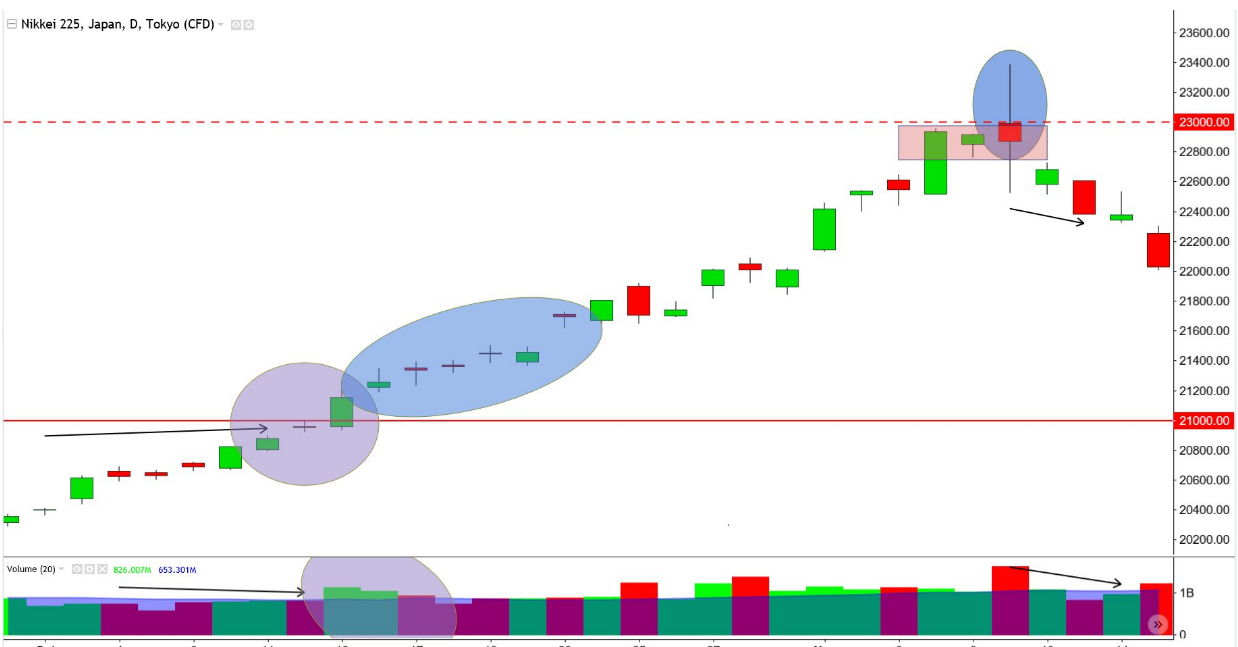
Trading is confined in a range after a major recovery takes the Nikkei back up to upper intermediate ranges. It is a temporary flat range held in place with many clear swing points made up of familiar candle patterns. Eventually the lower boundary at 19000 comes under increasing pressure for a likely downtrend once more.



Prices do decline but the bearish advantage is not sustained since there was reduced red volume prior to the mid April upswing that was initially a passive rise that was accelerated with periodic bullish surges with strong 3 marching soldiers and 3 methods rising price action. Also note the two examples of swift reversals from directional dojis forming an upswing and later starting a downtrend.



21000 is firm resistance with plenty of selling pressure still present but October sees general 3 methods rising price action to varying degrees to pass it.

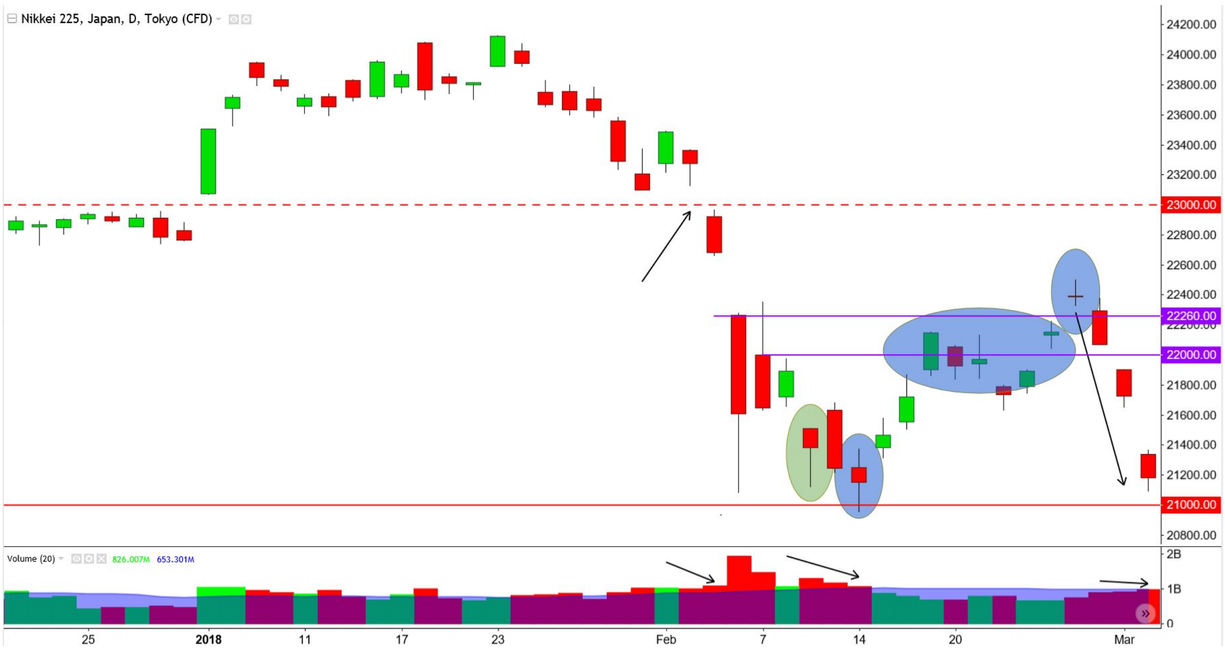


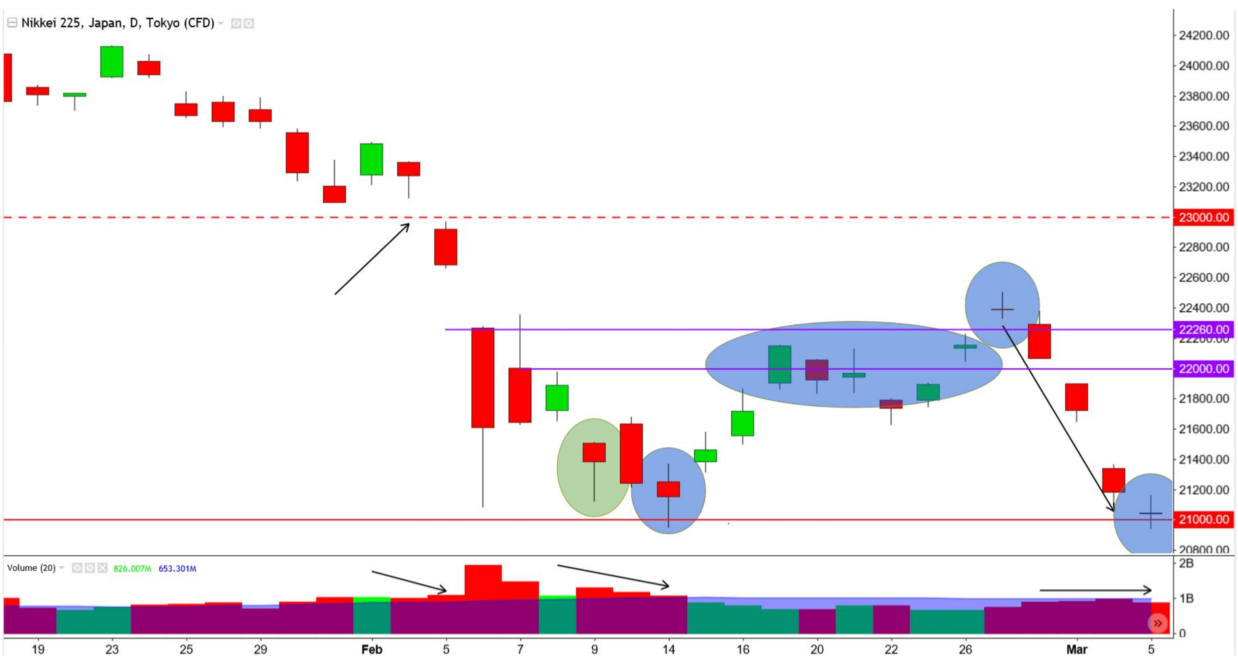
Currently a hanging man that turned into dark cloud cover with a disproportionately large wicked candle begins a downtrend with bearish volume still abundant.

23000 remains highly influential and is the site of a strong bullish rise and rapid decline to illustrate a strong 3 black crows in early February.

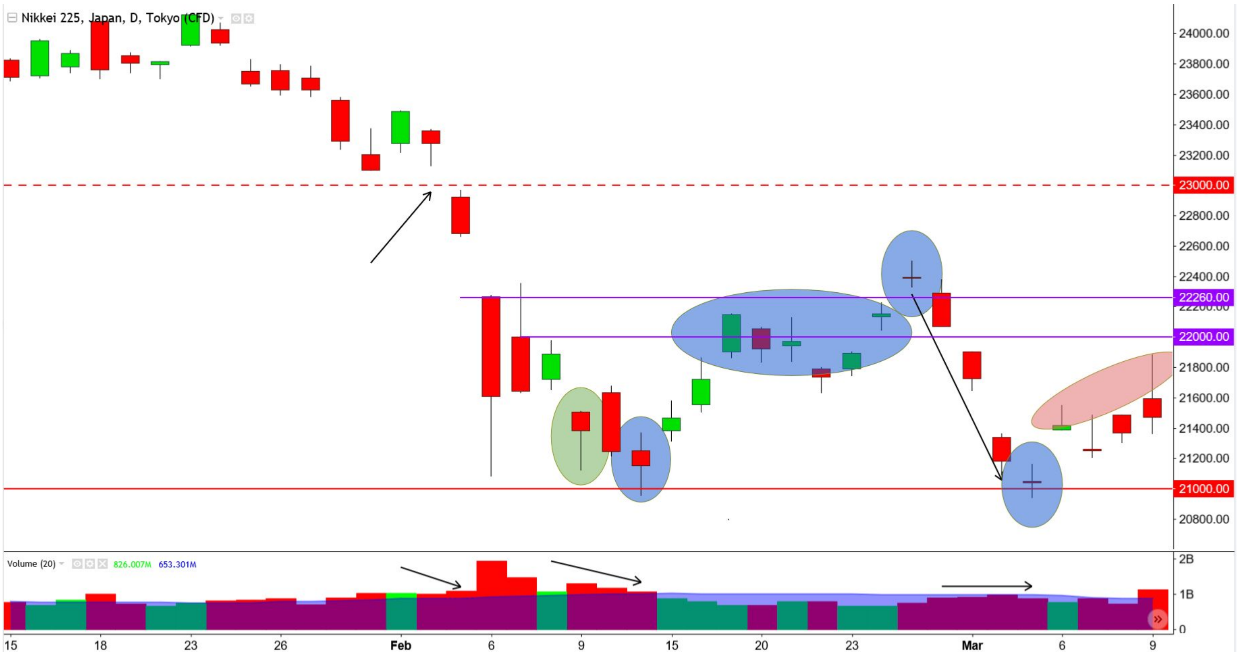
Similar to other examples selling pressure was strong before and after the 3 black crows but it was over extended in the drop, especially with the lower wick rejection on the final candle on February 6th that really slowed down the drop.

A gradual rise after lower wick rejection appears around 2100. A passive rise with low but consistent green buying volume and candles gapping higher following the abrupt halt to the bearish over selling.



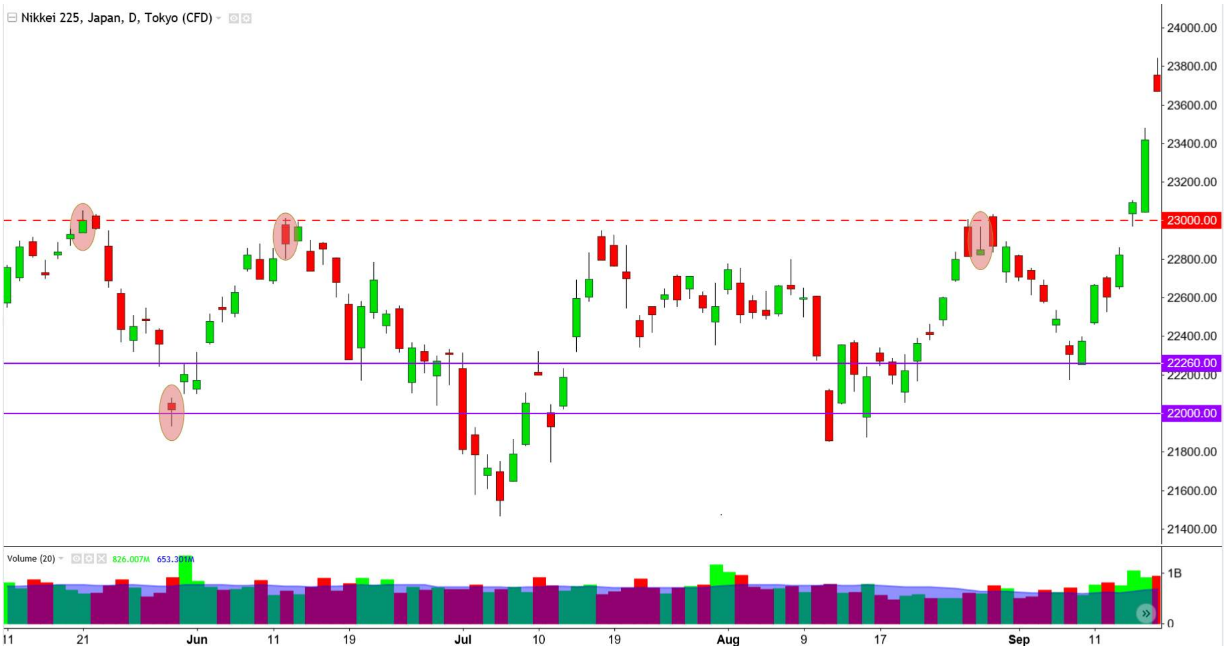


A normal first resistance to the new uptrend from the opening prices of two major red candles in the last downtrend in terms of large H-L range and selling volume.



Lower range holds with a doji in the middle of general morning star price action.

A less strict piercing pattern ends March with an upswing and counter to an isolated spike in bearish volume that is not maintained in the following months during a relatively passive rise after so much selling pressure was expended.



Clear up and down swing points with familiar candle patterns mostly with lower and upper wick rejection to form defined trading ranges in between the existing long term levels at 23000 and 21000.

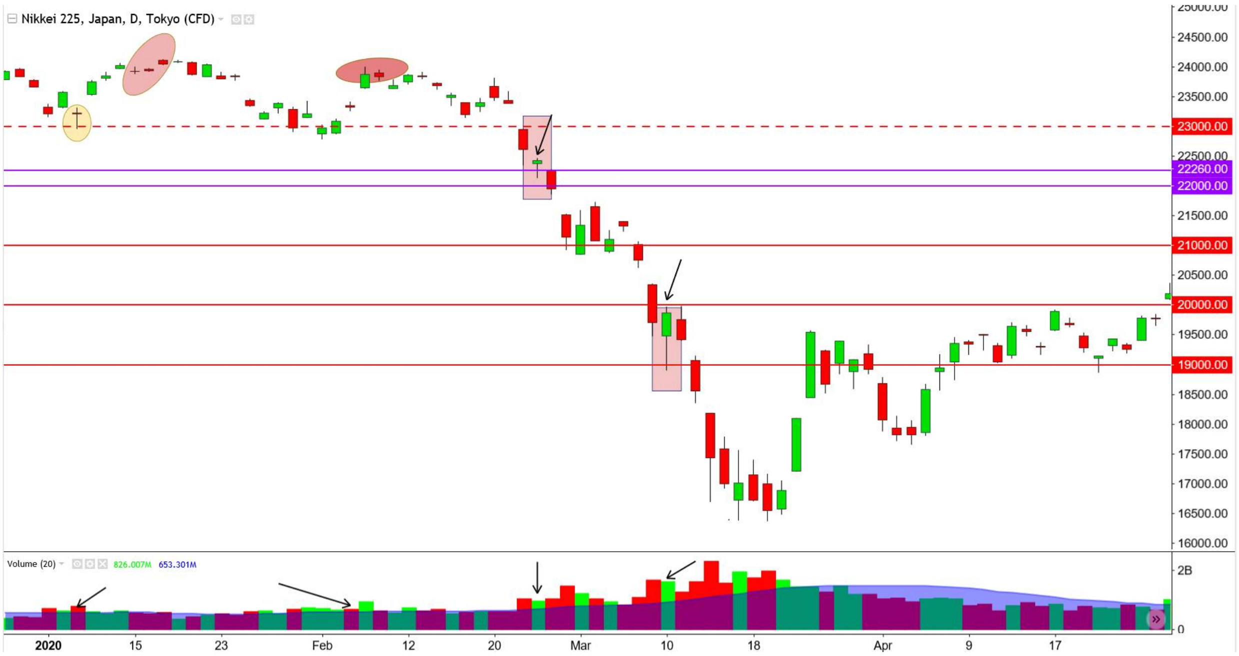
A familiar situation with a downward continuation ending with over extension following the final phase that is comprised of 3 black crows creating heavy over selling. Doji with lower wick rejection in late December on the still relevant 19000 level to form a harami in a bullish context.

Naturally 20000 offers some opposition but the bullish advantage is sustained with consistent volume and is helped by the bull hammer to start 2019 with rejection of lower prices.

Back to defined upper ranges where many clear swing points form with increased volume and distinct candle patterns, mainly the bull hammer.

Nikkei 225, Japan, D, Tokyo (CFD)
25000.00
24000.00
23000.00
22260.00
22000.00
21000.00
20000.00
19000.00
18000.00
17000.00
16000.00
Volume (20)
826.007M
653.301M
2B
0
2017
Apr
Jul
Oct
2018
Apr
Jul
Oct
2019
May
Aug
2020
May
Aug

Nikkei 225, Japan, D, Tokyo (CFD)
24400.00
24000.00
23600.00
23200.00
23000.00
22800.00
22400.00
22260.00
22000.00
21600.00
21200.00
21000.00
20800.00
20400.00
20000.00
19600.00
19200.00
19000.00
18800.00
Volume (20)
826.007M
653.301M
1B
0
10
23
Nov
13
Dec
11
20
2020
16
Feb
13
Mar



Long term highs continue to push price back down but even during the strong drop there is the secondary supporting action of pauses on major price levels that are unable to produce upswings.

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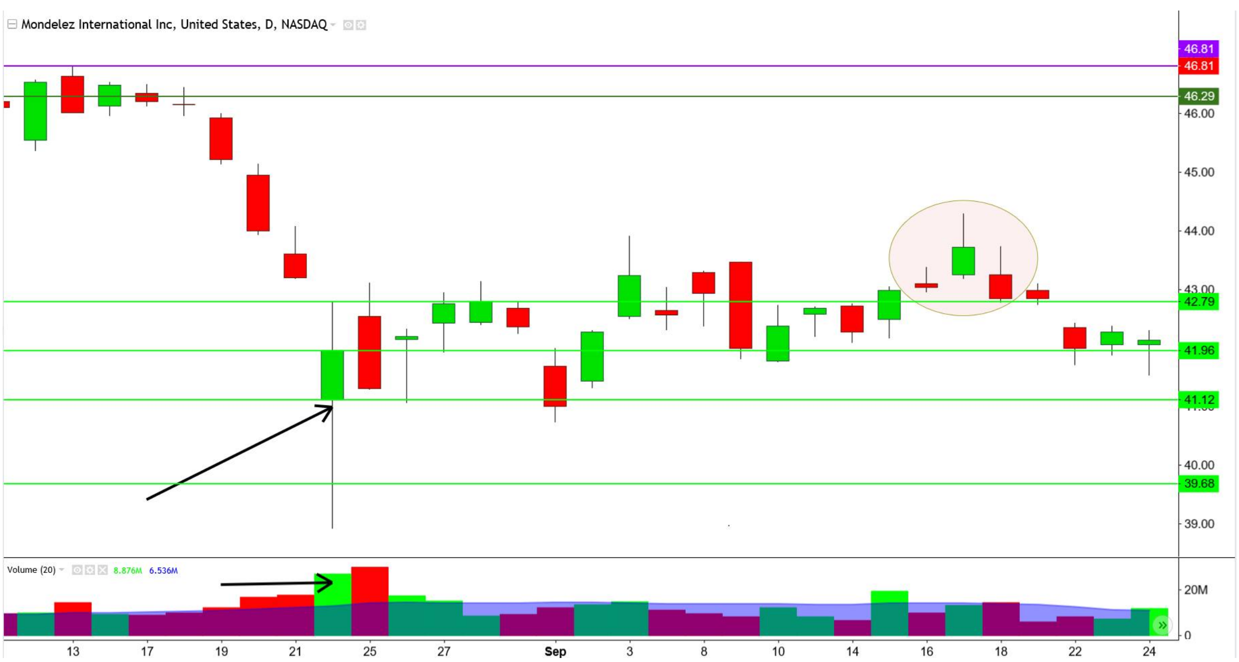
Assorted Practice Case Study 6

Stable long term uptrend has a major reversal stemming from a sharp peak.

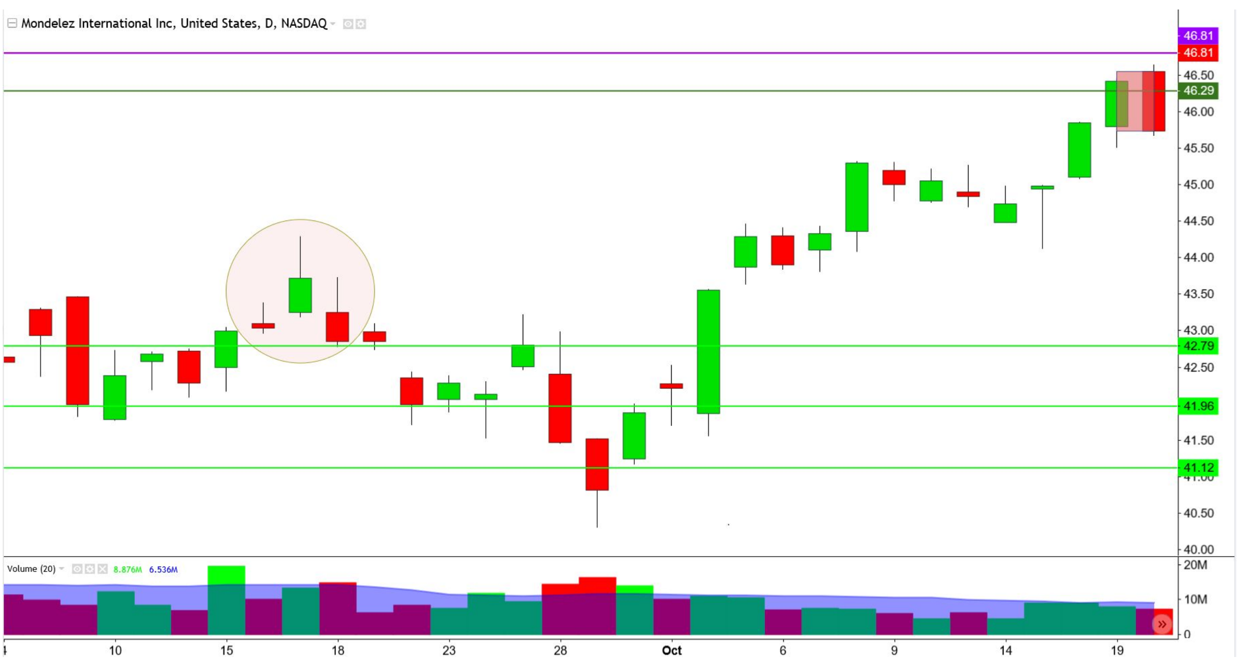
The peak at record highs is an abnormally high a large red bodied candle, certainly no hanging man or bearish star but a strong sign of the coming downtrend by the disproportionately higher selling price action and volume compared to other candles around it. In fact it has the general evening star price action when combined with the candle before and after it. As usual the delayed drop accelerates once a 3 black crows progressively forms stronger and lower closes for a short term over extension downward.

Similar to most other stocks there was a massive drop in late August 2015 that formed another candle of larger proportions. Except in this case it was a clear bull hammer with a longer upper wick.

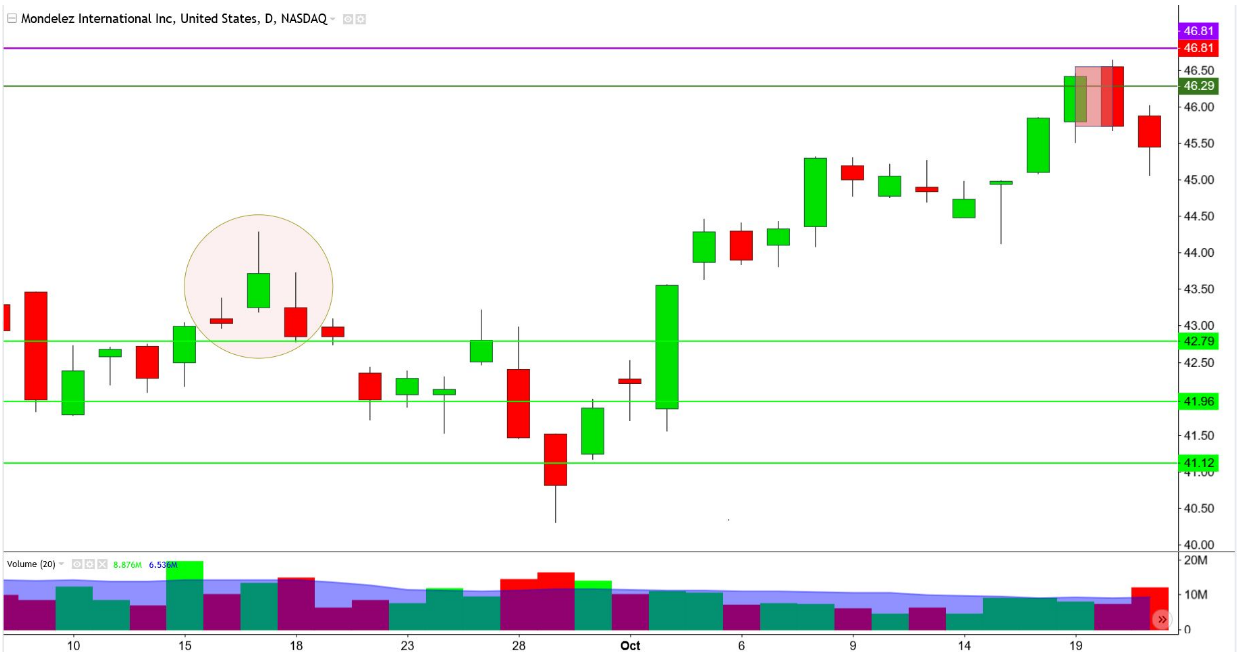


Mainly indecisive with price unable to immediately close over the bull hammer high at 42.79. Similar to other charts there is more of a "passive" rise from overselling in the short term after a 3 black crows is followed by a major reversal candle like the large bull hammer on August 24th. The familiar characteristics of bullish volume being consistent but not exceedingly high while bearish volume and candles have drastically subsided. Note the 3 bearish stars of various sizes in late September that form a morning star. It is a more bearish morning star but likely to be a weak downswing due to the low red volume and little progress the red candles make in lowering price compared to the increasing amount of bullish candles with increasing volume that begin to appear.

September ends with an accelerated drop but it is not enough to breach the 41.12 level formed from the opening price of the large bull hammer. A clear demonstration of the generally higher importance of O and C prices when forming clearer and longer lasting support and resistance levels.



Bullish volume is still not exceedingly high but it gradually becomes even more consistent to sustain the early uptrend and rejection of lower prices in the low 40s. Bearish engulfing nearing record highs with near normal levels of volume and no disproportionately large candles. As usual be on the look out for lower closes and increasing red bearish volume to confirm a more likely downtrend.



Another familiar sight. There is a close lower with increased bearish volume but it is a bull hammer. The lower wick rejection can slow down a potential downtrend from developing.

Strong bullish candle negates the price action of the last 3 candles but still struggles to surpass the mid 46s where upper wick rejection is very normal. Similar to the 41.12 O of the August 24th bull hammer the 46.81 from the C of the record high candle in early August holds major influence. Except in this case it is a bearish context in developing a longer term resistance range to recovering price. Regardless it still demonstrates the generally higher importance of O and C prices even with a disproportionately large candle as opposed to swift bearish stars or bull hammer swing points.

The general market sentiment drifts towards a more neutral posture with close contact in the price range formed by O and C prices from the evening star in early August. Overall price drifts to close marginally lower with decreasing volume. There is strong lower wick rejection to hold on to 46.29. Nonetheless it can still be said the tone will remain mostly neutral to slightly bearish, which is normal at a major upper range. A downtrend will likely emerge with 3 black crows price action similar to other charts that had delayed downtrends at major resistance ranges. Then a bullish perspective will likely see a slow climb into the upper 40s similar to the rise over 42.79 in early October.

It looks to be more of the same but the general market sentiment has shifted more bearish in the last two days with lower closes.

As expected the downtrend emerges from red candles gapping down lower. However it is a weaker move due to the lower wick rejection in the steepest part of the drop so far.

A downtrend does indeed develop but lower wick rejection continues to slow it down especially approaching the 41-42 range formed by the supporting action of the August 24th bull hammer. When a clear upswing forms in February of 2016 it is once again more of a “passive” rise with low but consistent green candles and volume. While over selling in the final leg down to breach 39.68 drastically shifts to virtually no selling in the proceeding few weeks. That largely explains why the 41-42 range was easily re-contacted without offering much resistance.

On closer inspection it is a very strong piercing pattern to form the pivotal upswing.

Resistance is much less but still present in the 41-42 range. This combined with a sharp short term sell off in late March formed a bearish to neutral range before turning back higher. It is a bullish continuation after 39.68 held. However progress begins to stall at the 42.79 level but it is not a major bearish situation until 3 black crows price action takes hold. Also note 39.68 continued to have influence as it was near the low of the large August 24th bull hammer and had already been a major upper range at previous record highs before that.

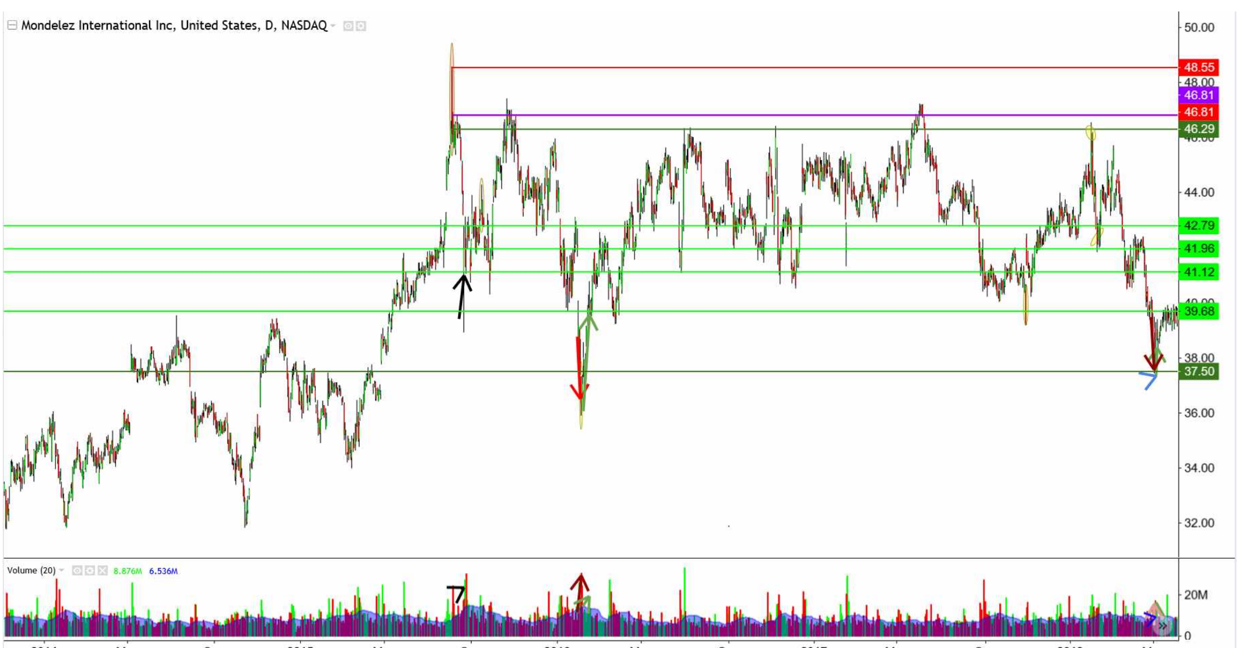
Progress is slow but stable overall to recontact the 46s that retained strong resistance potential. The 39-42 ranges also remained an equally strong supporting area mostly due to the large August 24th bull hammer.

Late October demonstrates another swing point formed from a disproportionately large candle off 39.68. It is not much of a candle pattern of any kind but the general rapid shift shows short term downward over extension. The large Green candle that starts February is similar in a bearish context with upward over extension. However it is closer to familiar candles and price action as its upper wick is longer than its lower wick and is rejected at the firm 46s along with the clearer price action of the next two candles closer to the upper wick rejection of bearish stars.

Not a clean 3 black crows or 3 methods falling but the large red candles indicate a similar situation of rapid short term over selling. This leads to expected support and a more likely upswing off the 42-41 range now acting as support to falling price. The upswing combines lower wick rejection of a harami and a bullish engulfing pattern. This is no morning star but there are some similarities in that the middle candle is one of deliberation between the large red candle ending the downtrend and the first of many green candles engulfing to form a minor uptrend. When all 3 candles are combined it is close to a dragon fly doji which makes sense given it combines indecision from the harami with the more bullish tone of the bullish engulfing.

Eventually the multi year range is broken in favour of bearish sellers. Even the strong 39-42 range is no guarantee when sustained selling is readily apparent just by looking at the steep quantity of red candles and volume taking Mondelez stock price down at a steady pace.

The start of May saw a strong bullish engulfing pattern that has been slow to move higher since the 39.8 level offers almost immediate resistance. Also note the general price action for the current upswing is no morning star but the general kind of price action is there. Furthermore the volume is also similar to an ideal morning star with the lowest candle having the least volume.



37.50 was naturally the next major price level after the multi year range was breached due to its major role in past ranges and reversals.

There are elements of a passive rise after over selling leads to almost no more red volume and consistent but low green volume. Though after May 17th and the eventual close over 39.68 there was a strengthening uptrend with a steady increase in volume and higher closes. Downswings are normal for a healthy trend by alleviating selling pressure but not breaching the defined support levels.

In the short term the C and H prices of a thicker bodied bearish star from early August exert resistance on the current September 20th bearish star. It is another demonstration of the general higher importance of C prices.

A very long lower wick for the current candle but still the general price action of a bearish star with more upper wick rejection to inject a bearish tone along with the spike in red selling volume.

Immediate close lower but with low volume. A downtrend is possible but it can be slower and weaker if stronger selling doesn't return.

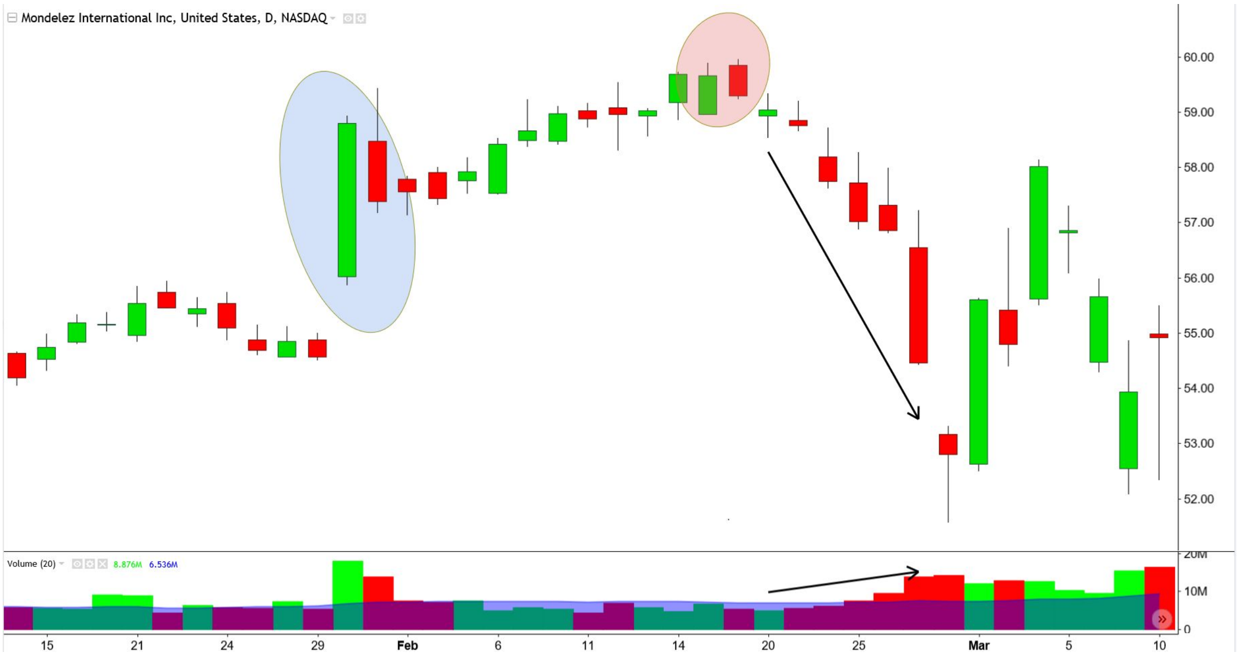
Its mostly been a volatile and moderately paced downtrend. October 11th was likely too much selling in a short time span leading to downward over extension. This coupled with the current bull hammer on the prior 41.12 level presents an increasing chance of a pause if not a complete reversal to the current drop.

The drop remains strong to breach 41.12 and negate the bull hammer by closing below its low the next day. This once again demonstrates a stall at support(here on 41.12) rather than a guaranteed upswing. Mid December wasn't a strict 3 black crows but the simple magnitude of increasingly steep red candles and increasing selling volume point to a sell off all the same. Lower wick rejection is present every time the strong drop encountered the still influential levels from 42.79-39.68 that largely trace their origins back to the large August 24th 2015 bull hammer.

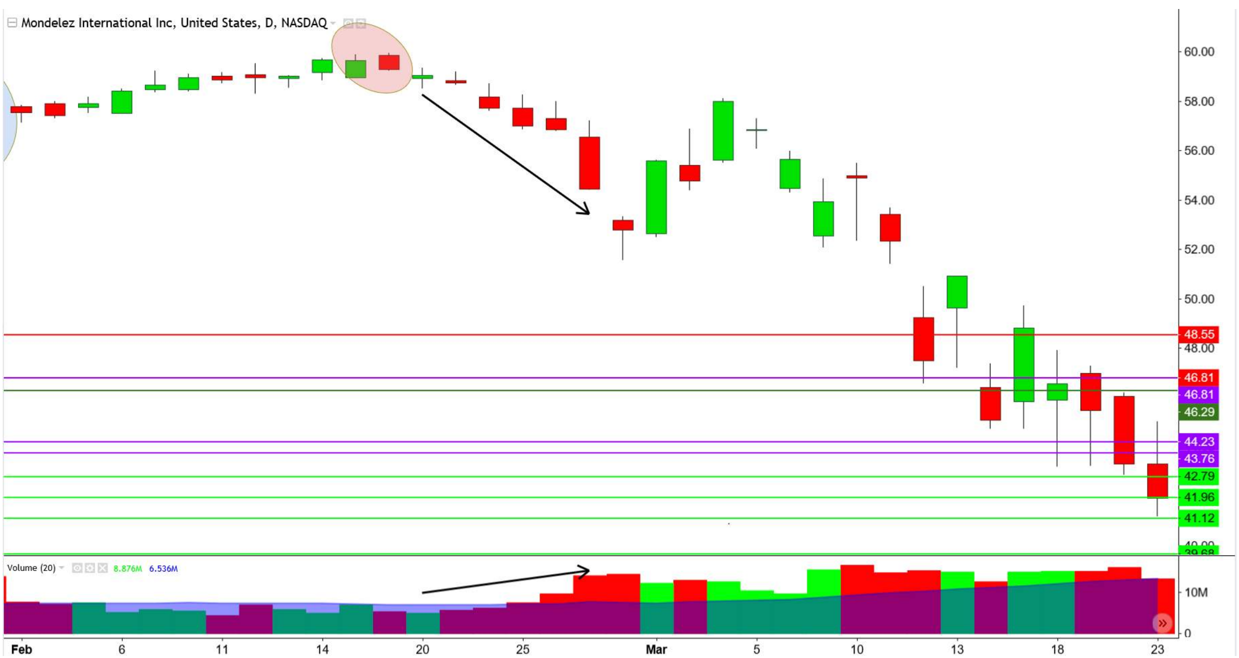
The general price action of a morning star with low volume is enough for the upswing to finish off a bullish continuation of the steady uptrend. Moreover it is back at the original record highs of the large red candle back in 2015. It is a steady break to record highs as well but the 48.55 level still slows down the climb for a brief time as seen with the dojis and spinning tops moving into April.

Overall a stable rise that is quickly reversed during the broader stock market decline in early 2020.

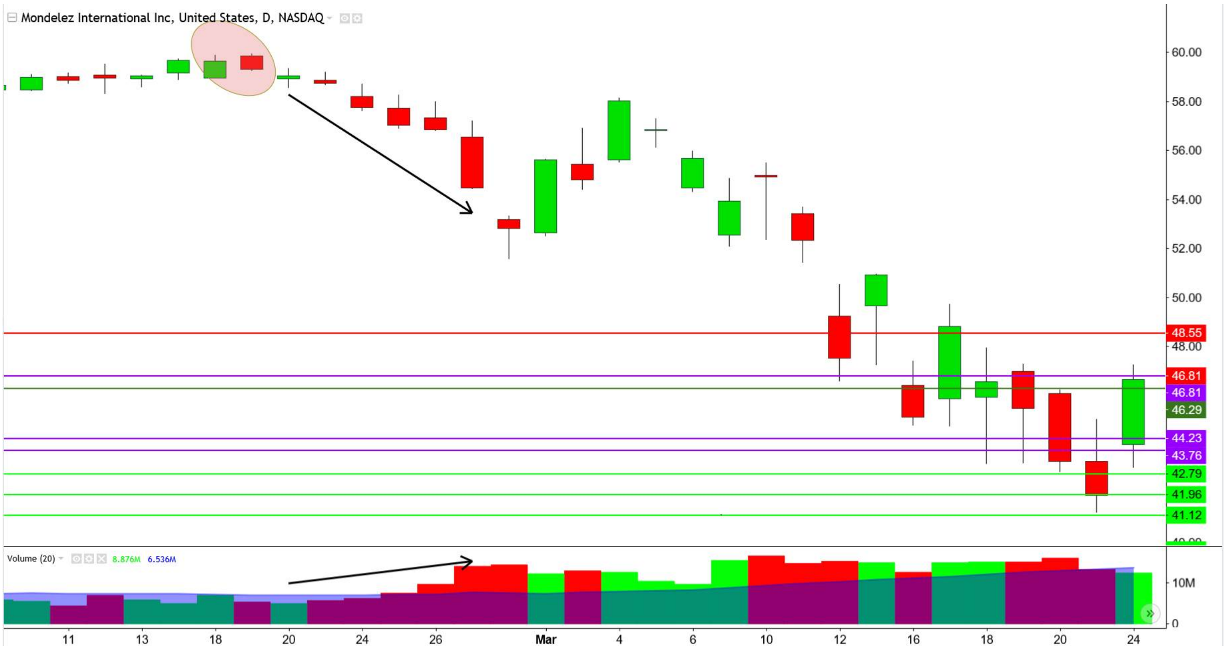
Large harami leads to a period of uncertainty.

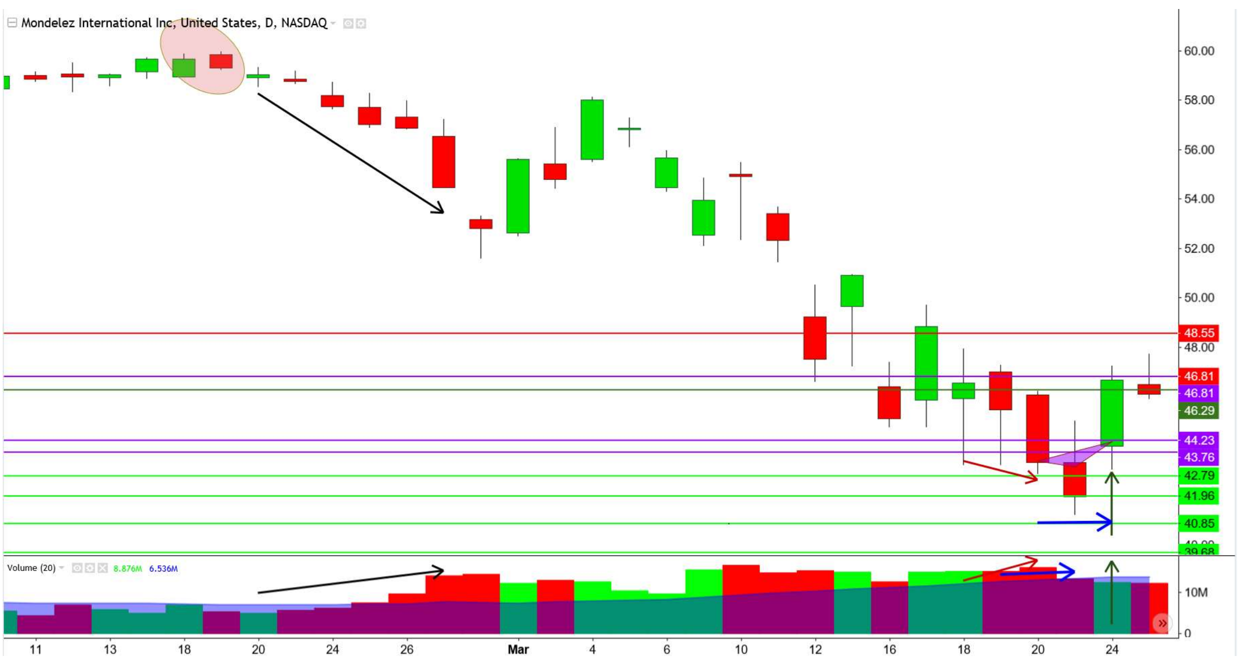


Dark cloud cover forms the peak and a great example of a rapid reversal towards March when the bull hammer is bullishly engulfed.



Another example of reversal candles appearing but no sustained uptrend emerges due to broader market forces and an already steady sell off. Some minor upswings are normal similar to minor downswing pullbacks to stabilize an uptrend.





Large mornings star forms in the middle of a long term range that is a natural long term support even for such a major downtrend.

With time Mondelez recovers at a moderate pace after a sharp and mostly passive rise as seen many times before after a steep drop becomes oversold.

Strong evening star formation but it is not built upon for a downtrend.

57.25 is a focal point of resistance due to the C of the harami in February being the first major sign of a slow down in the prior uptrend. It also illustrates the general higher importance of C and O prices but with a two candle pattern.

Assorted Practice Case Study 7

Entrenched lower ranges after a sharp peak from the historic Bitcoin and so called "crypto crash"

Combining time frames the longer (daily on the left) and shorter (intraday 15 minute on the right)

Seeing the internal price action during the days when a harami formed a rapid downswing during a minor head and shoulders pattern. The bearish context of the harami is seen with the neutral to slower downward trading taking hold after the C of the first candle to the O of the second candle. Then the market decidedly shifts completely bearish with the August 19th candle closing lower on a near vertical descent.

Dark cloud cover in the intraday 15 minute time frame formed the high of the harami for a gradual drop in the short term.

Similar to an earlier example with crude oil futures the 15 minute chart provides the finer details of the longer term downward continuation from general 3 methods falling price action into September. Note the brief downswing formed by a bearish engulfing to start September turns out to be a major double top reversal in the shorter 15 minute time frame. Then see that the large candle breaching below 10820 still had some delay on the 15 minute chart with a few swing points directly through it.

Overall bullish price action returning to 10820 for the daily chart. While the 15 minute chart shows the large shifts in price that occur in a shorter time horizon.

Lower wick rejection on the daily chart appears as large upswings on the 15 minute chart during the brief float over 10820 that was eventually breached to show up as a large drop on both time frames.

Great example of a large piercing pattern and general morning star price action forming a double bottom reversal in the very short term.

Short term peak defined by a large dark cloud cover on the 15 minute chart.

The intraday time frame is often more volatile even for charts with higher trading volume such as Bitcoin being one of the main cryptocurrencies at the time of this example. The same also applies to the stock market with more disproportionate candles after going to time frames shorter than the daily.

There have certainly been many repetitive topics but remember this isn't for entertainment value or lazy writing and demonstration. It is simply to show the commonalities of general price action and specific candle patterns that can be found again and again regardless of the time period, time frame, or particular market and chart being analyzed. Once certain themes begin to emerge with price action repeating again and again in multiple context it is possible to more efficiently recognize when reversals, continuations, and stalls in price action are more likely to occur.

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