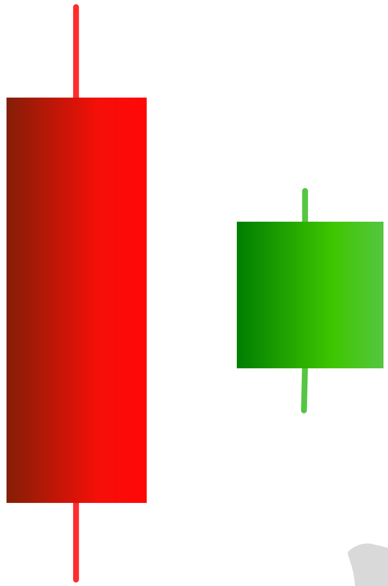
*Pattern 4*

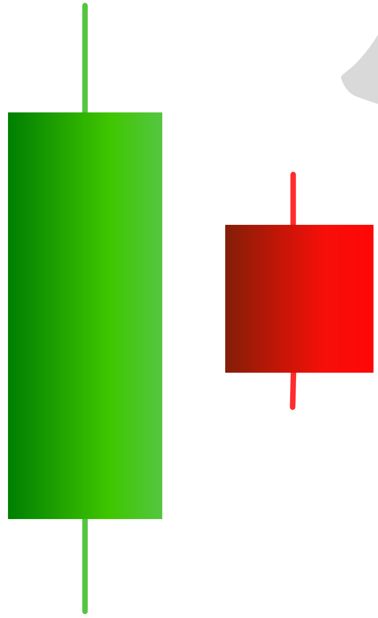
# HARAMI BULL & BEAR

The 'Harami' is again a two candlestick pattern that can be formed in two types–bull and bear. Here, we have the first candle that reflects the trend that currently exists in the market (bull candle for bull trend and a bear candle for a bear trend). The second candle's body is completely contained within the first candle's body and is in an opposite direction. This means that the open and close of the second candle falls within the range of previous day's open and close range.



## HARAMI BEAR

Bear harami is formed when the market is in a bull trend and then the bull candle is followed by a bear candle, such that the latter's body is completely contained within the former's body.



## HARAMI BULL

Bull harami is formed when the market is in a bear trend and then the bear candle is followed by a bull candle such that the latter's body is completely contained within the former' body.

## WHAT DOES IT INDICATE?

Harami candlestick patterns are a signal of a trend reversal in the market. This is because, in the case of a harami bear, the bulls were in complete control of the market, but the bears have not only just managed to stop the ascend of bulls but also managed a bear candle for themselves. This shows signs of the bulls wearing out and bears gaining control. We expect the bears to build on this and increase their control of the market.

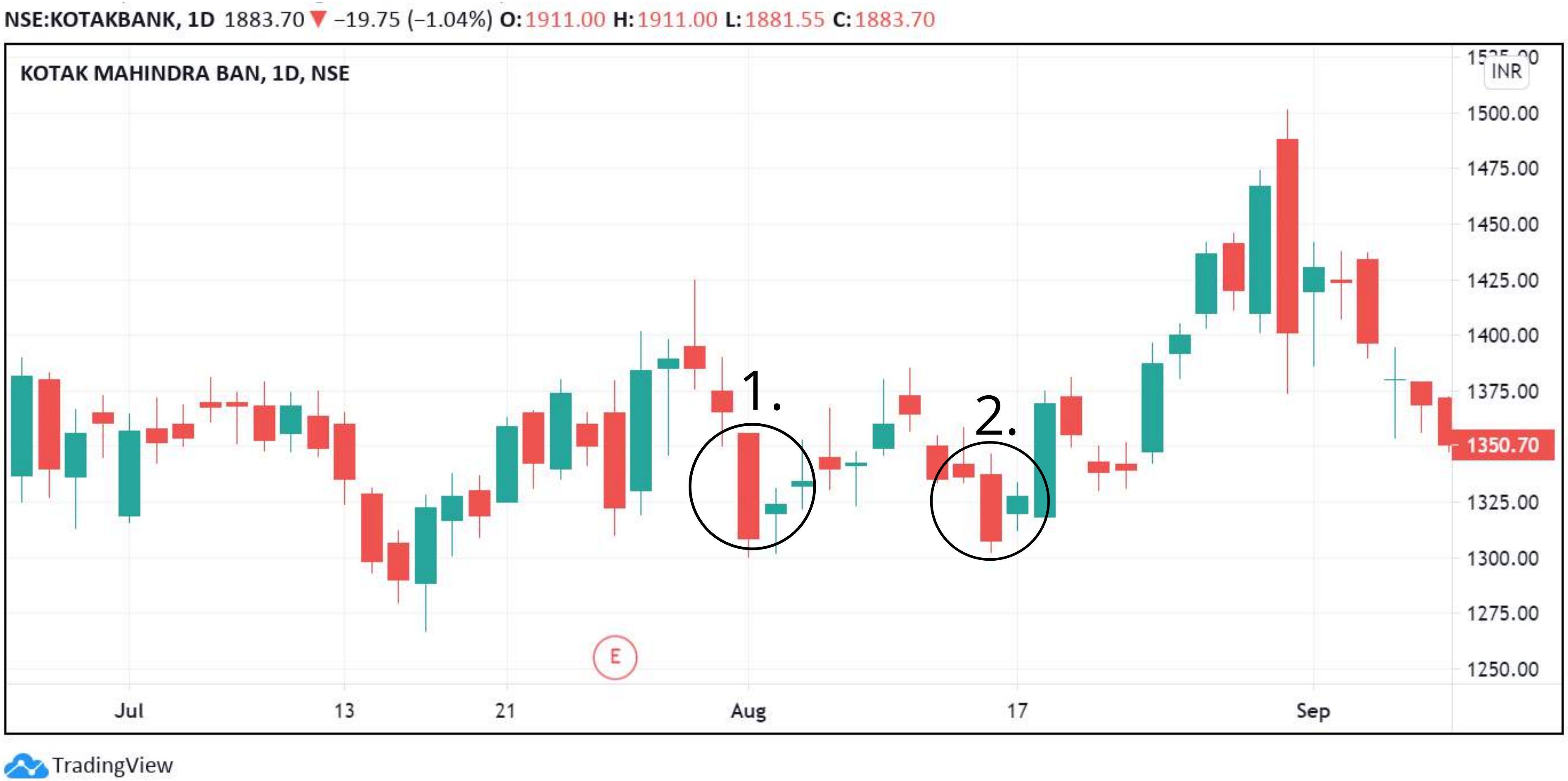
The opposite of the same is also true for harami bull. However, here the transition of control is from bears to bulls. We expect the trend to reverse here. However, in practice, we will also see a lot of falls in harami on both sides. Segregating the true and the false ones is what art is about.

## HOW TO TRADE?

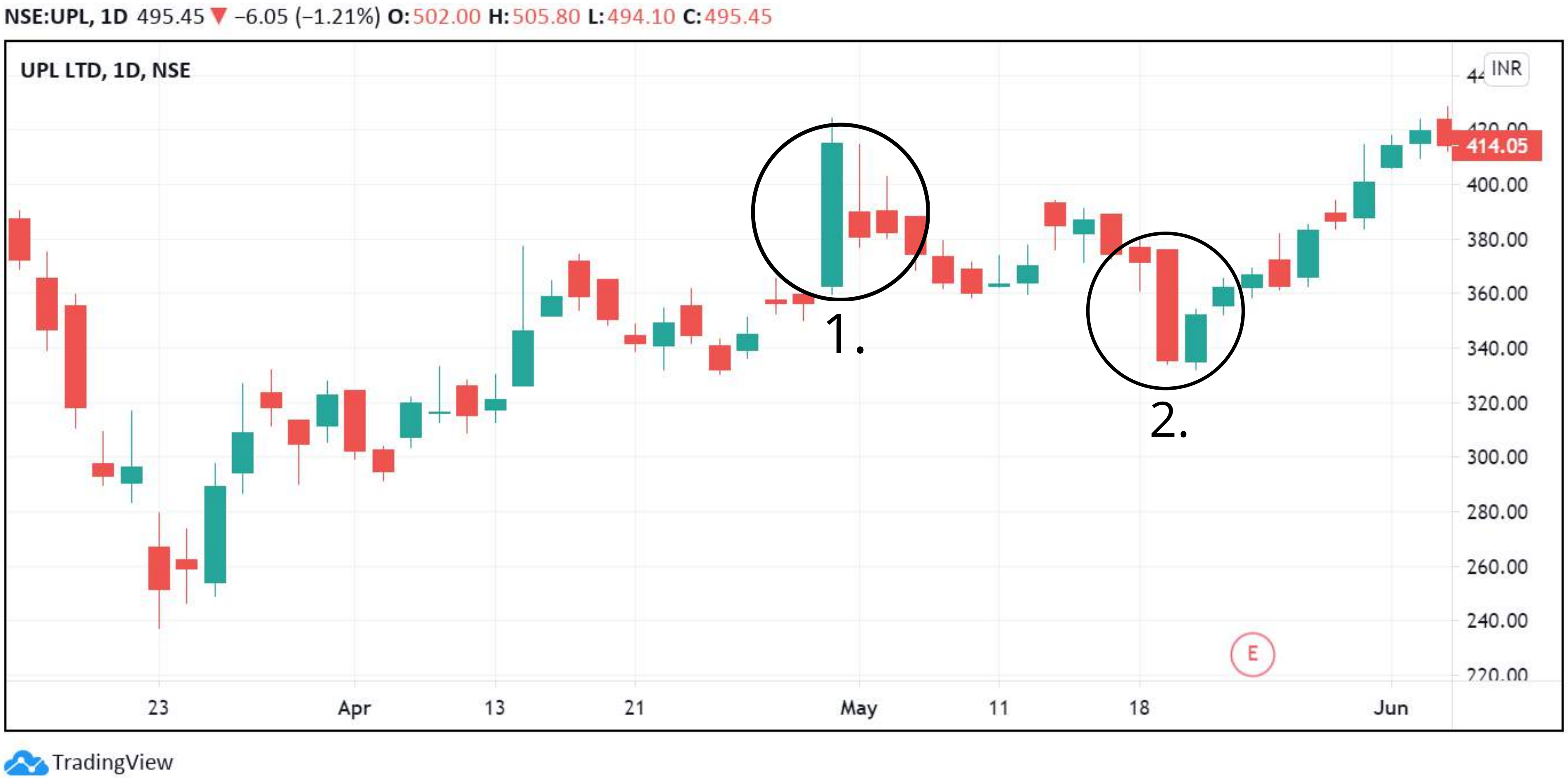
We expect the trend to reverse once a harami candlestick pattern is formed. We will short the asset when a bear harami is formed and long the market in case of a bull harami. For a bear harami, we will take a position in the next session following the formation of harami, if the price opens lower than the harami candle's close price. We can have the stop loss as the high price of the bull candle just before the harami. The reverse of this is also true for bull harami. This way we define our entry strategy, stop losses, and exit circumstances.

A trader could use all his custom preferences here about when he would like to enter a trade and there is no such hard and fast rule bounding him. The above-mentioned rule is just a general suggestion. There is no limit to how creative one can get here and whatever makes their system work should be done.


1. This a bullish harami. The second candle is completely contained within the range of the previous bear candle. The bulls have managed such a candle after bears having complete control over the market, which indicates a reversal in the market. A trader may enter a new trade over here, based on the entry, exit, and stop-loss rules they have defined for themselves.




1. This is a bullish harami again. A trader can take a long position following this based on his strategy.
2. This is a bullish harami. Here, again we can expect a reversal going ahead. The bulls can go long here based on their strategy.




1. This is a bearish harami. The candle body of the second candle is completely contained within the range of the first candle. We can expect a reversal here and the trader can go short based on their exit and entry strategy.
2. This is a bullish harami as the second candle is contained within the first candle's body.

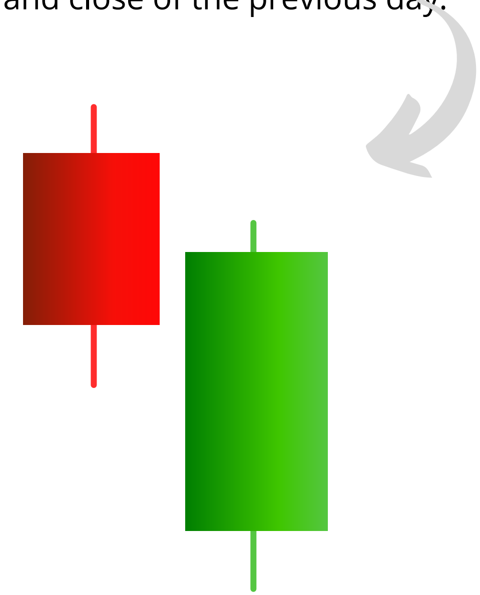
This is how harami looks and works. They indicate strong reversal and we can initiate trades based on these candles.

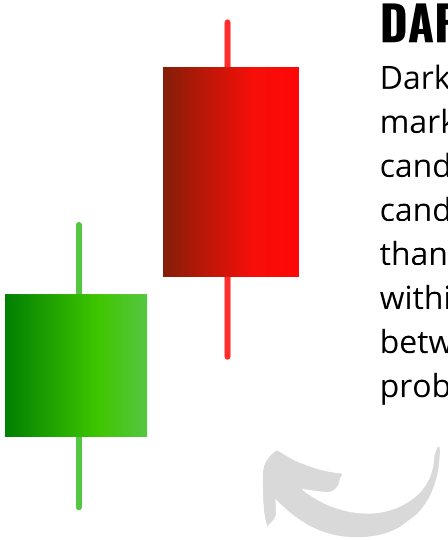
*Pattern 5*

# DARK CLOUD COVER & PIERCEING

## PIERCEING

The bull version of the same is called a piercing. The market here is in a bear trend and following one of the bear candles is a bull candle such that it opens below the previous day's close but closes between the open and close of the previous day.





## DARK CLOUD COVER

Dark cloud cover is a two candle pattern. Here, the market is in a bull trend and forms multiple bull candles. Following one such bull candle is a bear candle such that the open of the candle is higher than the previous candle's body but the close is within the range of the previous candle's body i.e. between the open and close. This indicates a probable trend reversal.

## WHAT IT INDICATES ?

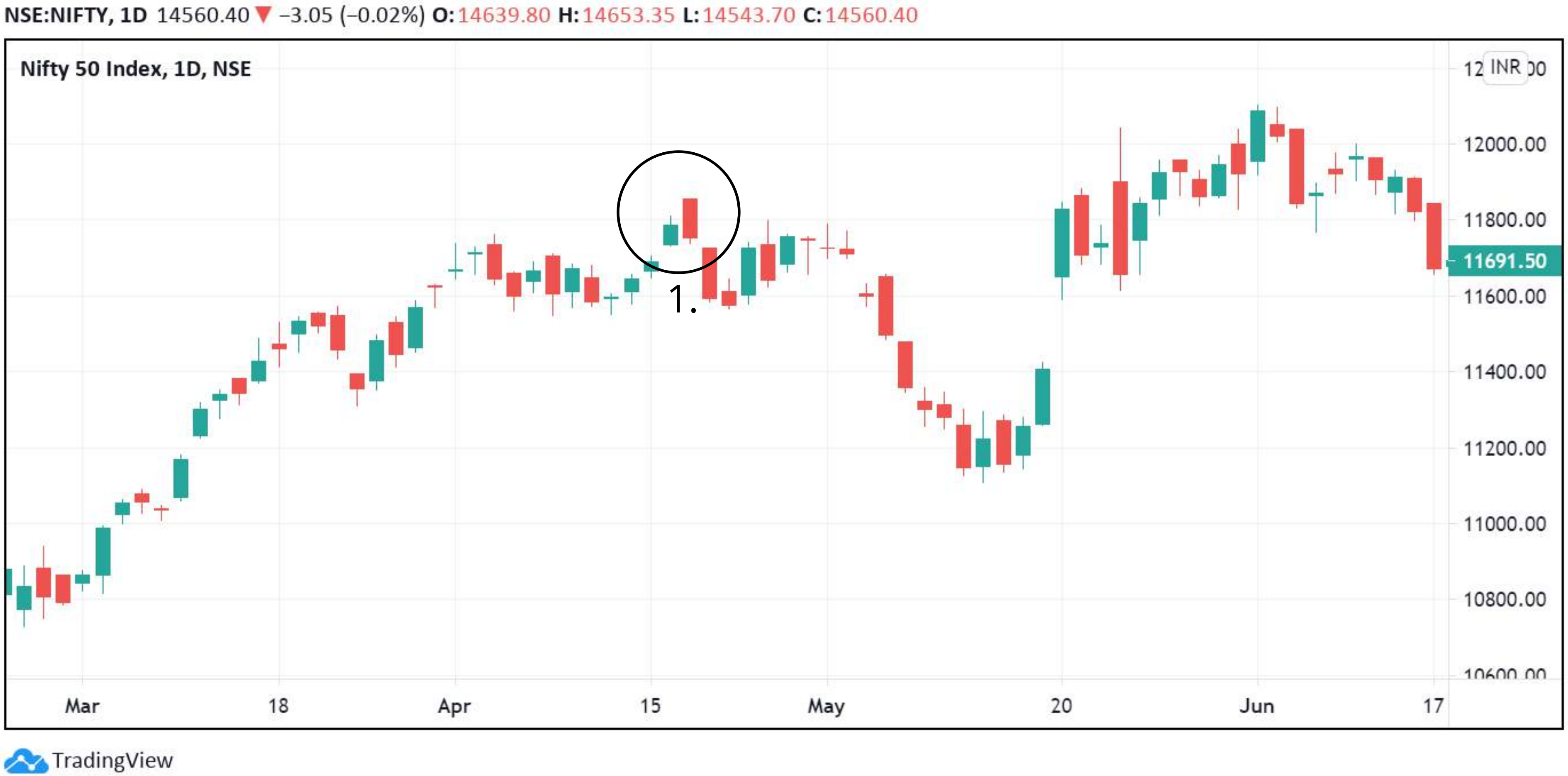
Dark cloud cover as the name suggests indicates a trend reversal from bull to bear. We see that the market was in a bull trend and building on that, the asset price opened at a higher price in the next session as well. However, the bears were able to drag the market despite the open to a lower level. As a result, we see the bears gaining significant strength and expect them to build on it and as a result, the trend should reverse. Piercing is the bull version of the same. Here, we can expect the control to shift from bears to bull as the bulls have been able to recover the prices to relatively higher levels despite the control from bears.

## HOW TO TRADE ?

We will short the asset following dark cloud cover as we expect the bears to get greater control over the market. In the case of piercing, we will long the asset.

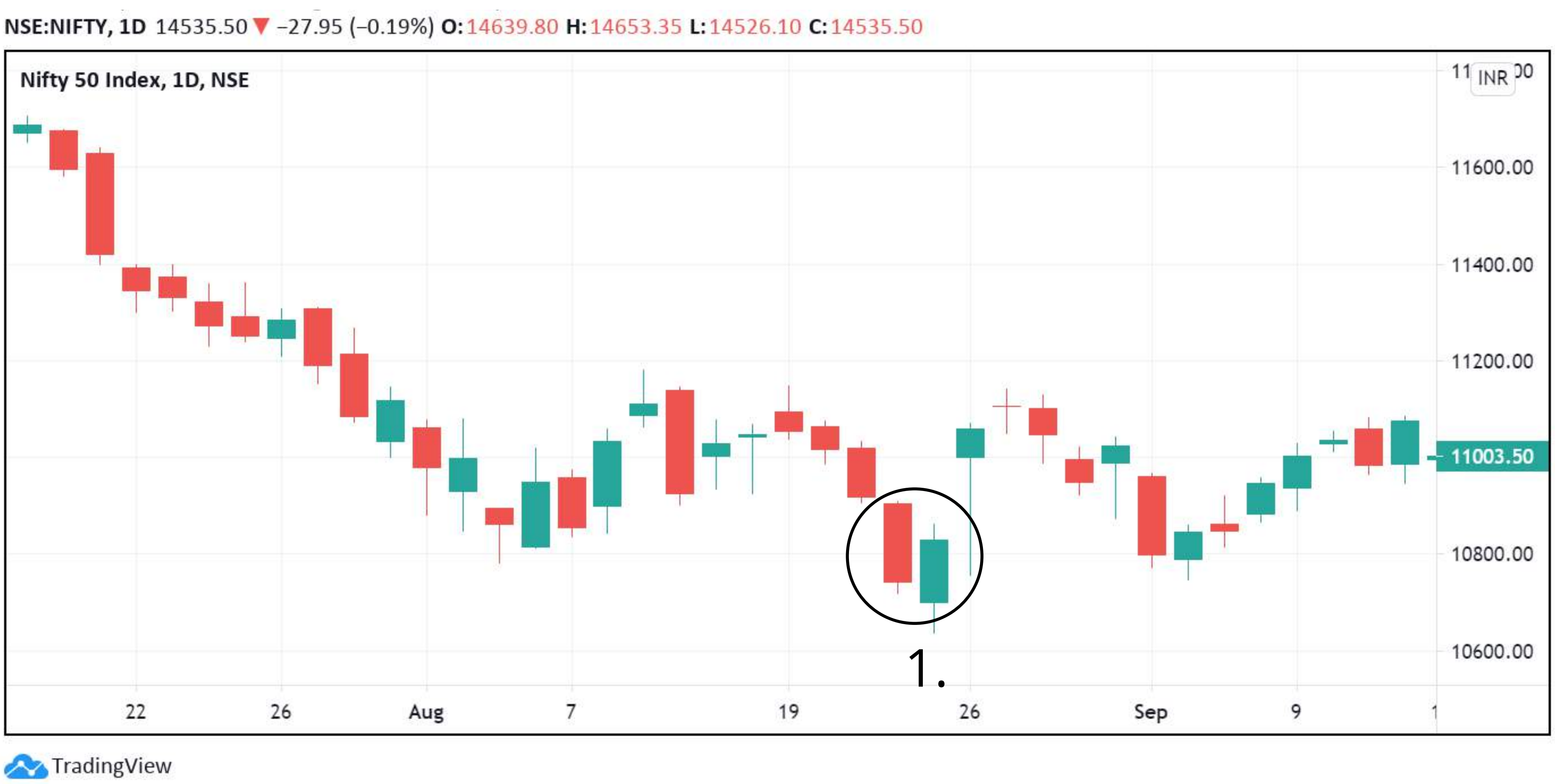
In the case of the dark cloud, an analyst can take a position based on the next day's prices i.e. short the same if the asset prices open lower than the previous day's prices. They can also take the position towards the end of the period when the dark cloud cover formation has been formed.

A stop-loss will also be needed. The same can be high or open of the dark cloud candlestick. These are subjective decisions based on the strategy adopted by the analyst and the trader. The same can be followed on the lower side when a piercing formation is created and we can initiate a trade based on the same.

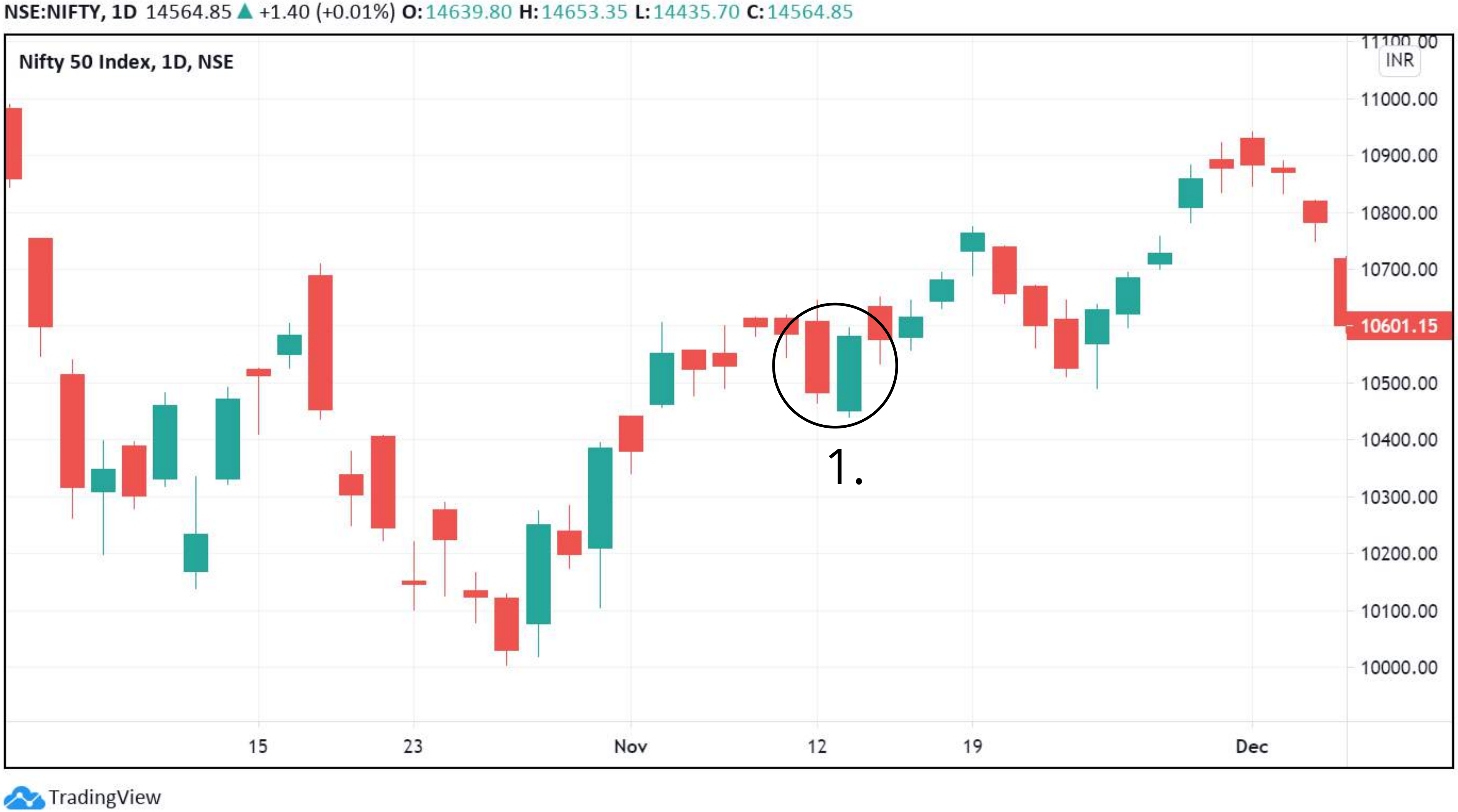



1. This is a dark cloud cover formation. The second candle covers the previous candle partially with a closing in between the previous candle's body. We see that this a strong reversal signal that the bears have been able to get back market control despite a higher opening on the second day.


1. This a piercing candlestick formation. We see that the second candle opens below the previous day's closing and the bulls were able to get it back to close higher. This indicates a strong reversal. A trader can initiate a trade here based on their entry, exit and stop-loss strategy.




1. This is again piercing candlestick formation. This suggests a strong trend reversal.

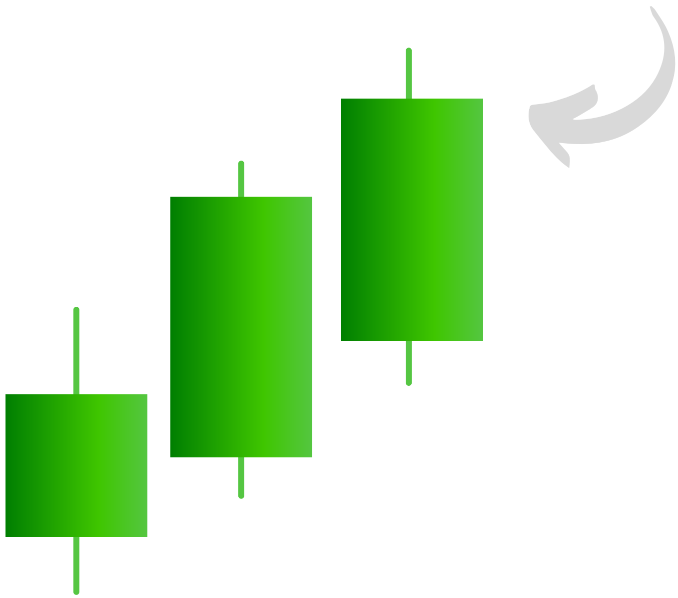


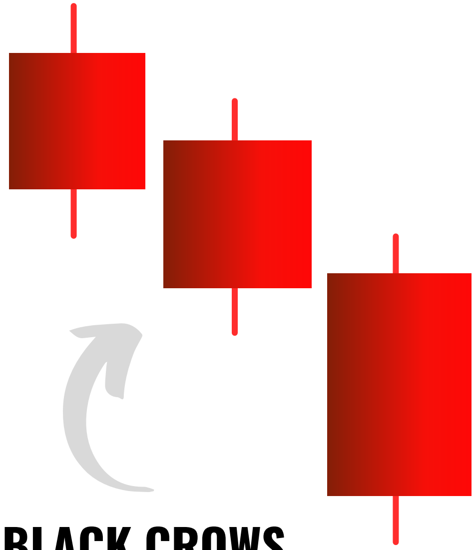

1. This is another piercing candlestick pattern. We see this to be a reversal indicator as well. This is how dark cloud cover and piercing candlesticks look. They are a bearish and bullish version of the same formation. These are used to identify reversals. An analyst can initiate trade based on these and their strategy. The key is to practice more and spot such candlesticks while they are being formed. Let us now move ahead and understand the next candlestick pattern.

# Pattern 6 THREE BLACK CROWS & THREE WHITE SOLDIERS

## THREE WHITE SOLDIERS

Three white soldiers are the bullish version of the same formation. Here, we have three bullish candlesticks that are formed and the close of the second candle is higher than the close of the first candle and the close of the third candle is higher than the close of the second candle.





## THREE BLACK CROWS

In three black crows, there are three continuous bear candles in successive formation, in a way such that the close of the second candle is lower than the close of the first candle and the close of the third candle is lower than that of the second candle.

## WHAT IT INDICATES ?

Three black crows and three white soldiers indicate a trend in the market. They re-affirm who has control over the market currently. They do not show any signs of reversal. Three black crows indicate that the market is in very strong control of the bears. Hence, the asset price is in a position to fall in such an unopposed manner. Three black crows often follow a piece of significant news in the market. It shows that currently, the bulls have no control over the market. Three white soldiers indicate the opposite. It shows that the market is in the control of the bulls and currently the bears do not find a standing.

## HOW TO TRADE ?

Initiating a new trade based on Three Black Crows and Three White Soldiers is always a dangerous idea. The reason for the same is that after forming a Three Black Crows, the bears have used a lot of their control and there is a good chance for them to exhaust themselves. Also, there is a chance of strong reversal as the Bears have used their resources and the Bulls might come back with great force and the Bears will not have the resources to oppose them. Also, there can be a strong reversal due to profit-booking by Bears. As a result, we will not initiate a trade following three black crows or three white soldiers. Instead, if we have a position and one of these is formed, we will hold on to the position and it should re-affirm to us the same.


1. This is three black crows formation and the close of each candle is lower than the previous close. The bears have great control over the market here.
2. This is again three black crows. We see that the close is lower than the previous one and also there is a gap down. This shows a bear grip over the market.

Also, it is evident that initiating a new trade following these is a risky proposition as the bears might have exhausted themselves and the trend might see a strong reversal.


1. These is three black crows. We can say that the market is in bear grip over here. In hindsight, if we would have entered a trade here, we would have done well. However, this is rare and therefore, we will avoid entering new trades following these patterns. Also, there are no fixed rules. It all depends on one's personal decisions and trading strategy.


1. This is three white soldiers. We see that the market is infirm bull control. We will not take any trade following such formation. However, if we had a long position, we will hold on.
2. This is again three white soldiers which shows that the market is in great control of the bulls.
3. These are three black crows. We can see that these are preceded by Doji and gap downs. So, there is a good chance a trader was short here and if one had a position here, they should hold on the same.


1. This is another example of three white soldiers. We see how the close of each candle is higher than the previous candle. With this, we will try and identify more such patterns on our own in different charts.

# OTHER PATTERNS

We have just concluded our discussion of various candlestick patterns. There are numerous other candlestick patterns that one can learn. We have covered the ones that will be most commonly used. However, there is a wide variety of such patterns –

1. EVENING STAR
2. MORNING STAR
3. HAMMER
4. INVERTED HAMMER
5. KICKING PATTERN
6. DRAGONFLY
7. ABANDONED BABY

& SO ON........

We have covered most of the important ones in our discussion so far. One can create a well-functioning strategy using just these. So, for any beginner, it is a must to keep it simple and stick to the candlestick patterns that have been discussed so far. However, as they go advanced, they will be in a position to learn more about other patterns as well. Candlestick pattern-based trading is more about practicing it rather than being more knowledgable about it.

Here, we have covered the most important candlestick patterns. Let us practice these in detail, get fluent in them, apply them in paper trading and real markets. We can go back to learning more advanced candlestick formations at a later stage.