Reading the Candlestick

In order to be considered a proponent of Technical Analysis, we all have to admit, knowing how to read the Candlestick is the most basic of concept that one have to master. We must not underestimate this one small Candlestick as one Candlestick can contain many vital information that can help guide us to our decision to invest or trade.

Taking Candlestick all the way to the start, it was actually invented by the Japanese when they first used this method to chart out the prices of rice a few hundred years ago. With the information presented clearly in the Candlestick form, they are able to trade rice back in the olden times.

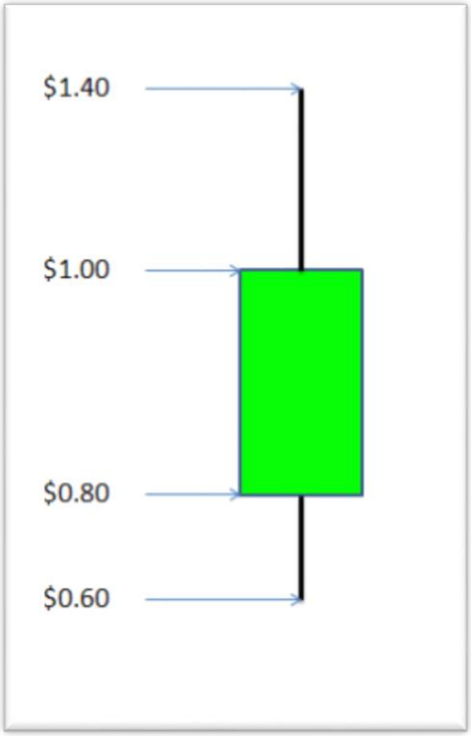
In order to understand how the Candlestick is helpful to us, we have to first understand the components that make up a Candlestick. The figure below shows how a candlestick looks like.

A candlestick is made up of 2 main parts, namely the body (also known as the candle) and the wick (some call it the shadow). Let’s start with understanding the body. The body in the diagram shows two colours, white and black. In other charting software, they can be green or red. White and green mean that that candle is a bullish candle while black and red is a bearish candle. Armed with the information on whether it’s a bullish or bearish candle, we can then lead us to deciphering the opening and closing prices. For a bullish candle, the opening price is below the closing price, signifying that the price went up during that period of time. Now for the converse, in a bearish candle, the opening price is lower than the closing price as the prices went down during the time period. In both cases, the length of the body is determined by the difference between the opening and closing prices for the time period.

Moving on to the wick, a wick tells us the range of the price movement during the time period of a Candlestick. The wick can extend from both on top or below the candle and the length of the wick is dependent on the price movement during the time period.

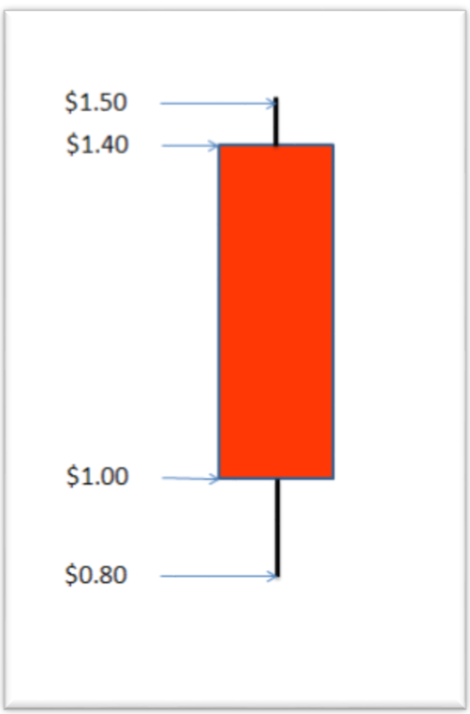
In the above paragraphs, I have been repeated the phrase time period several times. Time period here refers to how long it takes to form one Candlestick. Time period can be of any duration which you want to read. One candlestick can represent daily, weekly, monthly or even down to 1 minute.

I will be doing two examples below to illustrate the concept that was explained above and you can also consolidate your understanding. The time period defined for the two examples is one day.



Example 1:

1. This is a bullish Candlestick as its green in color.
2. Opening Price for the day is $0.80 and Closing Price for the day is $1.00.
3. During the day, the price went up to a high of $1.40 and a low of $0.60.



Example 2:

1. This is a bearish Candlestick as its red in color.
2. Opening Price for the day is $1.40 and Closing Price for the day is $1.00.
3. During the day, the price went up to a high of $1.50 and a low of $0.80.

It is really fascinating to read Candlesticks as one candle can contain so many information. The beauty of Candlesticks is that when you read many Candlesticks together with other information like volume and the use of the different trading indicators, they can paint a pretty comprehensive picture of how the price of the asset has moved over time and hence guiding you in your trading decisions.