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Gravestone Doji Definition

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What Is a Gravestone Doji?

A gravestone doji is a bearish reversal candlestick pattern that is formed when the open, low, and closing prices are all near each other with a long upper shadow. The long upper shadow suggests that the bullish advance in the beginning of the session was overcome by bears by the end of the session, which often comes just before a longer term bearish downtrend.

KEY TAKEAWAYS

- A gravestone doji is a bearish pattern that suggests a reversal followed by a downturn in the price action.
- A gravestone pattern can be used as a sign to take profits on a bullish position or enter a bearish trade.
- The opposite of a gravestone doji is a dragonfly doji.

What Does a Gravestone Doji Tell You?

A gravestone doji pattern implies that a bearish reversal is coming. While the open, low, and closing prices don't have to be equal for the pattern to be valid, there should be a relatively small tail, else the pattern could be classified as an inverted hammer, shooting star, or a spinning top. The market narrative is that the bulls attempt to push to new highs over the session, but the bears push the price action to near the open by the session close. So the long upper shadow represents the bulls losing momentum.

While the gravestone doji can be found at the end of a downtrend, it's more common to be found at the end of an uptrend. Although the gravestone doji is popular, it suffers from the same reliability issues as many visual patterns. Generally traders will not act on a gravestone doji unless the next candle provides confirmation of the reversal.

Trading the Gravestone Doji

Traders will often exit long positions or initiate short positions after identifying a gravestone doji pattern, although it's important to use this candlestick pattern in conjunction with other forms of technical analysis as a confirmation. Often times, traders will also look at the volume associated with the session, as well as the previous sessions' activity, as potential indicators of the reliability of the pattern.

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The following chart shows a gravestone doji in Cyanotech Corp.'s stock following a significant high volume uptrend, which could indicate a bearish reversal over the near-term following the breakout.



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In this example, the gravestone doji could predict a further breakdown from the current levels to close the gap near the 50- or 200-day moving averages at \$4.16 and \$4.08, respectively. Traders would also take a look at other technical indicators to confirm a potential breakdown, such as the [relative strength index](#) (RSI) or the [moving average convergence divergence](#) (MACD). Day traders may also put a [stop-loss](#) just above the upper shadow at around \$5.10, although intermediate-term traders may place a higher stop-loss to avoid being stopped out.

The Difference Between a Gravestone Doji and a Dragonfly Doji

The opposite pattern of a gravestone doji is a bullish dragonfly doji. The dragonfly doji looks like a "T" and it is formed when the high, open and close of the session are all near the same. Although these two formations are talked about as separate entities, they are essentially the same phenomenon. When confirmed, one can be called bullish and the other bearish, but sometimes they can appear in the opposite scenario. For example, a gravestone doji can be followed by an uptrend or a bullish dragonfly may appear before a downtrend. Both patterns need volume and the following candle for confirmation. It is perhaps more useful to think of both patterns as visual representations of uncertainty rather than pure bearish or bullish signals.

Limitations of a Gravestone Doji

The gravestone doji can be used to suggest a stop loss placement and eyeball a profit taking plan on a downtrend, but these are less precise methods than other technical indicators provide. Although reliability increases with volume and a confirming candle, the gravestone doji is best accompanied by other technical tools to guide trading.

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Dragonfly Doji Candlestick Definition

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A dragonfly doji is a candlestick pattern that signals a possible price reversal. The candle is composed of a long lower shadow and an open, high, and close price that equal each other. [more](#)

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