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Hammer Candlestick

By CORY MITCHELL Updated August 29, 2021
Reviewed by CHARLES POTTERS
Fact checked by PETE RATHBURN

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What Is a Hammer Candlestick?

A hammer is a price pattern in candlestick charting that occurs when a security trades significantly lower than its opening, but rallies within the period to close near the opening price. This pattern forms a hammer-shaped candlestick, in which the lower shadow is at least twice the size of the real body. The body of the candlestick represents the difference between the open and closing prices, while the shadow shows the high and low prices for the period.

KEY TAKEAWAYS

- Hammer candlesticks typically occur after a price decline. They have a small real body and a long lower shadow.
- The hammer candlestick occurs when sellers enter the market during a price decline. By the time of market close, buyers absorb selling pressure and push the market price near the opening price.
- The close can be above or below the opening price, although the close should be near the open in order for the real body of the candlestick to remain small.
- The lower shadow should be at least two times the height of the real body.
- Hammer candlesticks indicate a potential price reversal to the upside. The price must start moving up following the hammer; this is called confirmation.

Bullish Candlestick Patterns Examples

Understanding Hammer Candlesticks

A hammer occurs after the price of a security has been declining, suggesting the market is attempting to determine a bottom.

Hammers signal a potential capitulation by sellers to form a bottom, accompanied by a price rise to indicate a potential reversal in price direction. This happens all during a single period, where the price falls after the opening but then regroups to close near the opening price.

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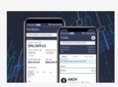
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Hammers are most effective when they are preceded by at least three or more declining candles. A declining candle is one that closes lower than the close of the candle before it.

A hammer should look similar to a "T". This indicates the potential for a hammer candle. A hammer candlestick does not indicate a price reversal to the upside until it is confirmed.

Confirmation occurs if the candle following the hammer closes above the closing price of the hammer. Ideally, this confirmation candle shows strong buying. Candlestick traders will typically look to enter long positions or exit short positions during or after the confirmation candle. For those taking new long positions, a stop loss can be placed below the low of the hammer's shadow.

Hammers aren't usually used in isolation, even with confirmation. Traders typically utilize price or trend analysis, or technical indicators to further confirm candlestick patterns.

Hammers occur on all time frames, including one-minute charts, daily charts, and weekly charts.

Example of How to Use a Hammer Candlestick

Hammer Candlestick Example. Investopedia

The chart shows a price decline followed by a hammer pattern. This pattern had a long lower shadow, several times longer than the real body. The hammer signaled a possible price reversal to the upside.

Confirmation came on the next candle, which gapped higher and then saw the price get bid up to a close well above the closing price of the hammer.

During the confirmation, candle is when traders typically step in to buy. A stop loss is placed below the low of the hammer, or even potentially just below the hammer's real body if the price is moving aggressively higher during the confirmation candle.

The Difference Between a Hammer Candlestick and a Doji

A doji is another type of candlestick with a small real body. A doji signifies indecision because it has both an upper and lower shadow. Dojis may signal a price reversal or

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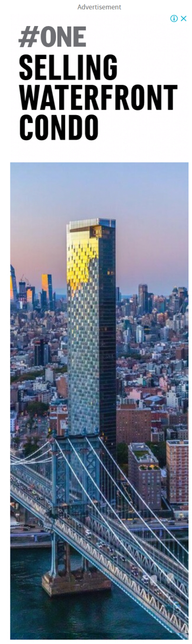

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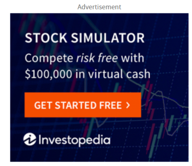

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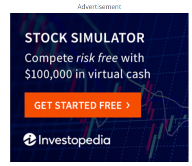

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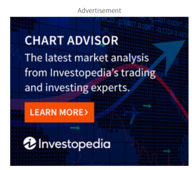

trend continuation, depending on the confirmation that follows This differs from the hammer which occurs after a price decline, signals a potential upside reversal (if followed by confirmation), and only has a long lower shadow.

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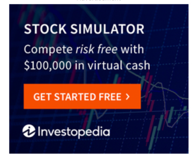

Limitations of Using Hammer Candlesticks

There is no assurance the price will continue to move to the upside following the confirmation candle. A long-shadowed hammer and a strong confirmation candle may push the price quite high within two periods. This may not be an ideal spot to buy as the stop loss may be a great distance away from the entry point, exposing the trader to risk which doesn't justify the potential reward.

Hammers also don't provide a price target, so figuring what the reward potential for a hammer trade is can be difficult. Exits need to be based on other types of candlesticks patterns or analysis.

What Is a Hammer Candlestick?

A hammer candlestick is a technical trading pattern that resembles a "T" whereby the price trend of a security will fall below its opening price, illustrating a long lower shadow, and then consequently reverse and close near its opening. Hammer candlestick patterns occur after a security has fallen in price, typically over three trading days. They are often considered signals for a reversal pattern.

Is a Hammer Candlestick Pattern Bullish?

The hammer candlestick is a bullish trading pattern that may indicate that a stock has reached its bottom, and is positioned for trend reversal. Specifically, it indicates that sellers entered the market, pushing the price down, but were later outnumbered by buyers who drove the asset price up. Importantly, the upside price reversal must be confirmed, which means that the next candle must close above the hammer's previous closing price.

What Is the Difference Between a Hammer Candlestick and a Shooting Star?

While a hammer candlestick pattern signals a bullish reversal, a shooting star pattern indicates a bearish price trend. Shooting star patterns occur after a stock uptrend, illustrating an upper shadow. Essentially the opposite of a hammer candlestick, the shooting star rises after opening but closes roughly at the same level of the trading period. A shooting star pattern signals the top of a price trend.

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Related Terms

Unique Three River Definition and Example
The unique three river is a candlestick pattern composed of three specific candles, and it may lead to a bullish reversal or a bearish continuation. more

What Is a Doji Candle Pattern?
A doji is a name for a session in which the candlestick for a security has an open and close that are virtually equal and are often components in patterns. more

Rickshaw Man Definition
The rickshaw man is a long candlestick with a doji body, centered between the high and low, that indicates indecision in the market. more

Short Line Candle Definition
Short Line Candles – also known as 'short candles' – are candles on a candlestick chart that have a short real body. more

Ladder Bottom/Top Definition
Ladder bottom/top are reversal patterns composed of five candlesticks that may also act as continuation patterns. more

Hanging Man Candlestick Definition and Tactics
A hanging man is a bearish candlestick pattern that forms at the end of an uptrend and warns of lower prices to come. The candle is formed by a long lower shadow coupled with a small real body. more

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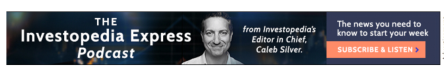

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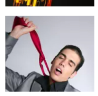
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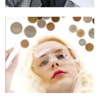
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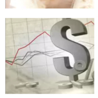
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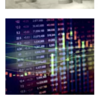
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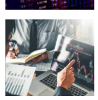
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