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Stick Sandwich

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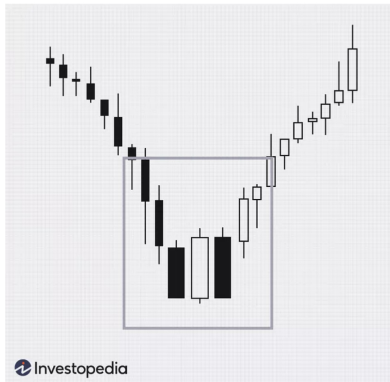
What Is a Stick Sandwich?

A stick sandwich is a technical trading pattern in which three candlesticks form what appears to resemble a sandwich on a trader's screen. Stick sandwiches will have the middle candlestick oppositely colored of the candlesticks on either side of it, both of which will have a larger trading range than the middle candlestick. Stick sandwich patterns can occur in both bearish and bullish indications.



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KEY TAKEAWAYS

- Candlestick charts are used by traders to determine possible price movement based on past patterns.
- One candlestick pattern is the stick sandwich because it resembles a sandwich when plotted on a price chart - they will have the middle candlestick oppositely colored vs. the candlesticks on either side of it, both of which will have a larger trading range than the middle candlestick.
- These patterns may indicate either bullish or bearish trends, and so should be used in conjunction with other methods or signals.

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Understanding the Stick Sandwich

In a bearish stick sandwich, the outside candlesticks will be long green candlesticks, while the inside candlestick will be shorter and red, and will be completely engulfed by the outside sticks. A bullish stick sandwich will look mostly the same but with the opposite color and trading patterns as the bearish sandwich. Traders typically will take cues from the closing prices of the third candlestick when deciding to take bullish or bearish positions.

Just like a bar chart, a daily candlestick shows the market's open, high, low, and close price for the day. The candlestick has a wide part, which is called the "real body." This real body represents the price range between the open and close of that day's trading. When the real body is filled in or black, it means the close was lower than the open. If the real body is empty, it means the close was higher than the open.

Although recognizing a stick sandwich pattern is not overly difficult, because they can present themselves during a bull or bear market, traders must be careful to take note of the colors involved. Basic criteria include accounting for the color of candlesticks on both sides, as well as the color of the candlestick *sandwiched* in the middle. After this pattern is recognized, traders consider a bearish sandwich to run green-red-green, and a bullish sandwich to run red-green-red.

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The theoretical rationale behind the stick sandwich approach is that when the market is testing new lows, it will produce a red day. The following day will unexpectedly open higher and will trend higher all day, closing at or near its high. This movement hints at the reversal of a downtrend, and most short traders will proceed carefully. Then on the next day, prices open even higher, which accelerates shorts covering initially. However, prices then drift lower to close at the same level as two days prior. Savvy traders will take note of the support price implied by the two same level closes.

Candlestick Pattern Reliability

Not all candlestick patterns work equally well. Their huge popularity has lowered reliability because they've been deconstructed by hedge funds and their algorithms. These well-funded players rely on lightning-speed execution to trade against retail investors and traditional fund managers who execute technical analysis strategies found in popular texts. In other words, hedge fund managers use software to trap participants looking for high-odds bullish or bearish outcomes. However, reliable patterns continue to appear, allowing for short- and long-term profit opportunities.

Here are five candlestick patterns that perform exceptionally well as precursors of price direction and momentum. Each works within the context of surrounding price bars in predicting higher or lower prices. They are also time sensitive in two ways. First, they only work within the limitations of the chart being reviewed, whether intraday, daily, weekly or monthly. Second, their potency decreases rapidly three to five bars after the pattern has completed.

Candlestick patterns capture the attention of market players, but many reversal and continuation signals emitted by these patterns don't work reliably in the modern electronic environment. Fortunately, statistics by Thomas Bulkowski show unusual accuracy for a narrow selection of these patterns, offering traders actionable buy and sell signals.

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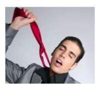
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