



TECHNICAL ANALYSIS &gt; ADVANCED TECHNICAL ANALYSIS CONCEPTS

## Understanding the 'Hanging Man' Candlestick Pattern

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#### ► The Bottom Line

The term "hanging man" refers to the candle's shape and what the appearance of this pattern infers. The hanging man represents a potential [reversal](#) in an [uptrend](#).<sup>[1]</sup> While selling an asset solely based on a hanging man pattern is a risky proposition, many believe it's a key piece of evidence that [market sentiment](#) is beginning to turn. The strength in the uptrend is no longer there.

#### KEY TAKEAWAYS

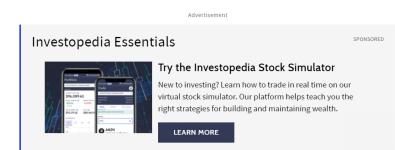
- The hanging man is a type of candlestick pattern and refers to the candle's shape and appearance, representing a potential reversal in an uptrend.
- Candlesticks display a security's high, low, opening, and closing prices for a specific time frame and reflect the impact of investors' emotions on prices.
- The hanging man occurs when two criteria are present: an asset has been in an uptrend, and the candle has a small real body and a long lower shadow.



Understanding Basic Candlestick Charts

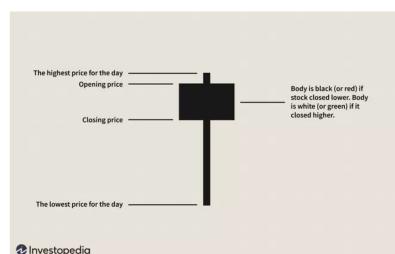
### The Hanging Man Explained

The hanging man occurs when two main criteria are present:



- The asset has been in an uptrend.
  - The candle has a small [real body](#) (distance between open and close) and a long [lower shadow](#). There is little to no upper shadow.<sup>[1]</sup>
- Given these two criteria, when a hanging man forms in an uptrend, it indicates that buyers have lost their strength. While demand has been pushing the stock price higher, there was significant selling on this day. While buyers managed to bring the price back to near the open, the initial sell-off is an indication that a growing number of investors think the price has peaked. For believers in candlestick trading, the pattern provides an opportunity to sell existing [long](#) positions or even go [short](#) in anticipation of a price decline.

The hanging man is characterized by a small "body" on top of a long lower shadow. The shadow underneath should be at least twice the length of the body.

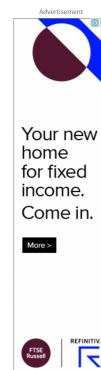


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The chart below shows two hanging man patterns in Meta ([FB](#)), formerly Facebook stock, both of which led to at least short-term moves lower in the price. The long-term direction of the asset was unaffected, as hanging man patterns are only useful for gauging short-term momentum and price changes.



Even though traders often count on candlestick formations to detect the movement of individual stocks, it is also appropriate to look for candlestick patterns in indexes, such as the [S&P 500](#) or [Dow Jones Industrial Average](#). Candlesticks can be also used to



monitor momentum and price action in other asset classes, including currencies or [futures](#).

### Distinguishing Features

If it's an actual hanging man pattern, the lower shadow is at least two times as long as the body.<sup>[3]</sup> In other words, traders want to see that long lower shadow to verify that sellers stepped in aggressively at some point during the formation of that candle.

Thomas Bulkowski's "Encyclopedia of Candlestick Charts" suggests that the longer the lower shadow, the more meaningful the pattern becomes. Using historical market data, he studied some 20,000 hanging man shapes.<sup>[3]</sup> In most cases, those with elongated shadows outperformed those with shorter ones. Some traders will also look for strong trading [volume](#). Bulkowski's research supports this view. Of the many candlesticks he analyzed, those with heavier trading volume were better predictors of the price moving lower than those with lower volume.

Another distinguishing feature is the presence of a confirmation candle the day after a hanging man appears. Since the hanging man hints at a price drop, the signal should be confirmed by a price drop the next day. That may come by way of a [gap](#) lower or the price simply moving down the next day (lower close than the hanging man close). According to Bulkowski, such occurrences foreshadow a further pricing reversal up to 70% of the time.<sup>[4]</sup>

It's worth noting that the color of the hanging man's real body isn't of concern. All that matters is that the real body is relatively small compared with the lower shadow.



### Trading the Hanging Man

The hanging man patterns that have above-average volume, long lower shadows, and are followed by a selling day have the best chance of resulting in the price moving lower. Therefore, it follows that these are ideal patterns to use as a basis for trading.

Upon seeing such a pattern, consider initiating a short trade near the close of the down day *following* the hanging man. A more aggressive strategy is to take a trade near the closing price of the hanging man or near the open of the next candle. Place a [stop-loss order](#) above the high of the hanging man candle. The following chart shows the possible entries, as well as the stop-loss location.



One of the problems with candlesticks is that they don't provide [price targets](#). Therefore, stay in the trade while the downward momentum remains intact, but get out when the price starts to rise again. Hanging man patterns are only short-term [reversal signals](#).



### A Question of Reliability

If looking for any hanging man, the pattern is only a mild predictor of a reversal. Look for specific characteristics, and it becomes a much better predictor. Bulkowski is among those who feel the hanging man formation is, in and of itself, undependable. According to his analysis, the upward price trend actually continues a slight majority of the time when the hanging man appears on a chart.<sup>[5]</sup>



However, there are things to look for that increase the chances of the price falling after a hanging man. These include above-average volume, longer lower shadows, and selling on the following day. By looking for hanging man candlestick patterns with all these characteristics, it becomes a better predictor of the price moving lower. Stick to trading only these strong types of patterns.

### Hanging Man vs. Shooting Stars and Hammers

There are two other similar candlestick patterns. This can lead to some confusion.

The hanging man appears near the top of an uptrend, and so do [shooting stars](#). The difference is that it has a small real body of a hanging man is near the top of the entire candlestick, and it has a long *lower shadow*. A shooting star has a small real body near the bottom of the candlestick, with a long *upper shadow*.<sup>[6]</sup> Basically, a shooting star is a hanging man flipped upside down. In both cases, the shadows should be at least two times the height of the real body. Both indicate a potential slide lower in price.

The hanging man and the [hammer](#) are both candlestick patterns that indicate trend reversal. The only difference between the two is the nature of the trend in which they appear. If the pattern appears in a chart with an upward trend indicating a [bearish reversal](#), it is called the hanging man. If it appears in a downward trend indicating a [bullish reversal](#), it is a hammer. Apart from this key difference, the patterns and their components are identical.<sup>[7]</sup>

### The Bottom Line

Hanging men occur frequently. If you highlight them all on a chart, you will find that most are poor predictors of a price move lower. Look for increased volume, a sell-off the next day, and longer, lower shadows and the pattern becomes more reliable. Utilize a stop loss above the hanging man high if you are going to trade it.

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