Dragonfly Doji Candlestick

By CORY MITCHELL Updated August 18, 2021
Reviewed by GORDON SCOTT

What Is a Dragonfly Doji?

A Dragonfly Doji is a type of candlestick pattern that can signal a potential reversal in price to the downside or upside, depending on past price action. It's formed when the asset's high, open, and close prices are the same. The long lower shadow suggests that there was aggressive selling during the period of the candle, but since the price closed near the open it shows that buyers were able to absorb the selling and push the price back up.

KEY TAKEAWAYS

- A dragonfly doji can occur after a price rise or a price decline.
- The open, high, and close prices match each other, and the low of the period is significantly lower than the former three. This creates a "T" shape.
- The appearance of a dragonfly doji after a price advance warns of a potential price decline. A move lower on the next candle provides confirmation.
- A dragonfly doji after a price decline warns the price may rise. If the next candle rises that provides confirmation.
- Candlestick traders typically wait for the confirmation candle before acting on the dragonfly doji.

What Does the Dragonfly Doji Tell You?

Following a downtrend, the dragonfly candlestick may signal a price rise is forthcoming. Following an uptrend, it shows more selling is entering the market and a price decline could follow. In both cases, the candle following the dragonfly doji needs to confirm the direction.

The dragonfly doji pattern doesn't occur frequently, but when it does it is a warning sign that the trend may change direction. Following a price advance, the dragonfly's long lower shadow shows that sellers were able to take control for at least part of the period. While the price ended up closing unchanged, the increase in selling pressure during the period is a warning sign.

The candle following a potentially bearish dragonfly needs to confirm the reversal. The candle following must drop and close below the close of the dragonfly candle. If the price rises on the confirmation candle, the reversal signal is invalidated as the price could continue rising.

Following a price decline, the dragonfly doji shows that the sellers were present early in the period, but by the end of the session the buyers had pushed the price back to the open. This indicates increased buying pressure during a downtrend and could signal a price move higher.

The signal is confirmed if the candle following the dragonfly rises, closing above the close of the dragonfly. The stronger the rally on the day following the bullish dragonfly, the more reliable the reversal is.

Traders typically enter trades during or shortly after the confirmation candle completes. If entering long on a bullish reversal, a stop loss can be placed below the low of the dragonfly. If enter short after a bearish reversal, a stop loss can be placed above the high of the dragonfly.

The dragonfly doji works best when used in conjunction with other technical indicators, especially since the candlestick pattern can be a sign of indecision as well as an outright reversal pattern. A dragonfly doji with high volume is generally more reliable than a relatively low volume one. Ideally, the confirmation candle also has a strong price move and strong volume.

In addition, the dragonfly doji might appear in the context of a larger chart pattern, such as the end of a head and shoulders pattern. It's important to look at the whole picture rather than relying on any single candlestick.

Example of How to Use the Dragonfly Doji

Dragonfly dojis are very rare, because it is uncommon for the open, high, and close all to be exactly the same. There are usually slight discrepancies between these three prices. The example below shows a dragonfly doji that occurred during a sideways correction within a longer-term uptrend. The dragonfly doji moves below the recent lows but then is quickly swept higher by the buyers.

Image by Sabrina Jiang © Investopedia 2020

Following the dragonfly, the price proceeds higher on the following candle, confirming the price is moving back to the upside. Traders would buy during or shortly after the confirmation candle. A stop-loss can be placed below the low of the dragonfly.

The example shows the flexibility that candlesticks provide. The price wasn't dropping aggressively coming into the dragonfly, but the price still dropped and then was pushed back higher, confirming the price was likely to continue higher. Looking at the overall context, the dragonfly pattern and the confirmation candle signaled that the short-term correction was over and the uptrend was resuming.

The Difference Between the Dragonfly Doji and the Gravestone Doji

A gravestone doji occurs when the low, open, and close prices are the same, and the candle has a long upper shadow. The gravestone looks like an upside down "T." The implications for the gravestone are the same as the dragonfly. Both indicate possible trend reversals but must be confirmed by the candle that follows.

Limitations of Using the Dragonfly Doji

The dragonfly doji is not a common occurrence, therefore, it is not a reliable tool for spotting most price reversals. When it does occur, it isn't always reliable either. There is no assurance the price will continue in the expected direction following the confirmation candle.

The size of the dragonfly coupled with the size of the confirmation candle can sometimes mean the entry point for a trade is a long way from the stop loss location. This means traders will need to find another location for the stop loss, or they may need to forgo the trade since too large of a stop loss may not justify the potential reward of the trade.

Estimating the potential reward of a dragonfly trade can also be difficult since candlestick patterns don't typically provide price targets. Other techniques, such as other candlestick patterns, indicators, or strategies are required in order to exit the trade when and if profitable.

Compete Risk Free with $100,000 in Virtual Cash

Put your trading skills to the test with our FREE Stock Simulator. Compete with thousands of Investopedia traders and trade your way to the top! Submit trades in a virtual environment before you start risking your own money. Practice trading strategies so that when you're ready to enter the real market, you've had the practice you need. Try our Stock Simulator today >>

Related Terms

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

What Is a Hammer Candlestick?
A hammer is a candlestick pattern that indicates a price decline is potentially over and an upward price move is forthcoming. more

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

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

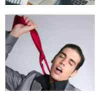
Gravestone Doji
A gravestone doji is a bearish reversal candlestick pattern formed when the open, low, and closing prices are all near each other with a long upper shadow. more

Three Stars in the South
The three stars in the south is a three-candle bullish reversal pattern, following a decline, that appears on candlestick charts. more

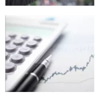
Related Articles

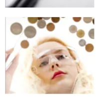

TECHNICAL ANALYSIS BASIC EDUCATION
Using Bullish Candlestick Patterns To Buy Stocks


TECHNICAL ANALYSIS BASIC EDUCATION
How Do Traders Interpret a Dragonfly Doji Pattern?


ADVANCED TECHNICAL ANALYSIS CONCEPTS
Understanding the 'Hanging Man' Candlestick Pattern


TECHNICAL ANALYSIS BASIC EDUCATION
What Is a Candlestick With No Shadows?


TECHNICAL ANALYSIS BASIC EDUCATION
What Are Common Strategies for Using Volume Weighted Average Price?


TECHNICAL ANALYSIS BASIC EDUCATION
Tweezers Provide Precision for Trend Traders