

How To Use An Inverted Hammer Candlestick Pattern In Technical Analysis

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In this guide to understanding the **Inverted Hammer Candlestick Pattern**, we'll show you what this chart looks like, explain its components, teach you how to interpret it with an example, and how to trade on it.

Contents [hide]

- [What Is the Inverted Hammer Candlestick?](#)
- [What Does the Inverted Hammer Look Like?](#)
- [What Does the Inverted Candlestick Hammer Mean?](#)
- [Where Can I Trade?](#)
- [FAQ](#)
- [Further Reading](#)

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What Is the Inverted Hammer Candlestick?

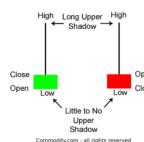
The Inverted Hammer candlestick formation occurs mainly at the bottom of downtrends and can act as a warning of a potential bullish reversal pattern.

What happens on the next day after the Inverted Hammer pattern is what gives traders an idea as to whether or not prices will go higher or lower.

What Does the Inverted Hammer Look Like?

The Inverted Hammer formation is created when the open, low, and close are roughly the same price. Also, there is a long upper shadow which should be at least twice the length of the [real body](#).

Inverted Hammer



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Chart 1

Is an Inverted Hammer Candlestick Bullish or Bearish?

After a long downtrend, the formation of an Inverted Hammer is bullish because prices hesitated to move downward during the day.

Sellers pushed prices back to where they were at the open, but increasing prices shows that bulls are testing the power of the bears.

Green vs Red Inverted Hammer

When the low and the open are the same, a bullish, **green** Inverted Hammer candlestick is formed and it is considered a stronger [bullish](#) sign than when the low and close are the same (a **red** Inverted Hammer).

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What Does the Inverted Candlestick Hammer Mean?

[Chart 2](#) below of the S&P 500 Futures contract shows the Inverted

Hammer foreshadowing future price increases:



Chart 2

Chart 2 shows that the market began the day by [gapping down](#). Prices moved higher until resistance and supply were found at the high of the day. The bulls' excursion upward was halted and prices ended the day below the open.

Confirmation that the downtrend was in trouble occurred the next day when the E-mini S&P 500 Futures contract [gapped up](#) the next day and continued to move upward, creating a bullish green candle.

To some traders, this confirmation candle, plus the fact that the downward trendline resistance was broken, gave them a potential signal to go long.

How Do You Trade on an Inverted Hammer Candlestick?

It is important to note that the inverted pattern is a warning of potential price change, not a signal, by itself, to buy.

[Other indicators](#) such as a trendline break or confirmation candle should be used to generate a potential buy signal.

i The bearish version of the Inverted Hammer is the [Shooting Star](#) formation that occurs after an uptrend.

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FAQ

Below we answer some common questions about Inverted Hammer candlestick patterns.

Is an Inverted Hammer the same as a Shooting Star?

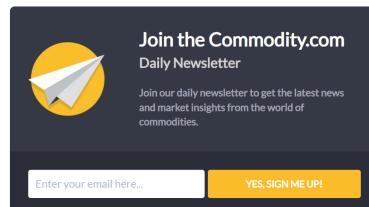
Although in isolation, the [Shooting Star](#) formation looks exactly like the Inverted Hammer, their placement in time is quite different. The

main difference between the two patterns is that the Shooting Star occurs at the top of an uptrend ([bearish](#) reversal pattern) and the Inverted Hammer occurs at the bottom of a downtrend (bullish reversal pattern).

Further Reading

Learn more about [technical analysis indicators](#), concepts, and strategies including:

- [Bearish Engulfing](#)
- [Bullish Engulfing](#)
- [Dark Cloud Cover](#)
- [Evening Star](#)
- [Hammer](#)
- [Hanging Man](#)
- [Harami](#)
- [Morning Star](#)
- [Piercing Pattern](#)
- [Shooting Star](#)

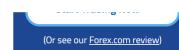


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Lawrence Pines is a Princeton University graduate with more than 25 years of experience as an equity and foreign exchange options trader for multinational banks and proprietary trading groups. Mr. Pines has traded on the NYSE, CBOE and Pacific Stock Exchange. In 2011, Mr. Pines started his own consulting firm through which he advises law firms and investment professionals on issues related to trading, and derivatives. Lawrence has served as an expert witness in a number of high profile trials in US Federal and international courts.



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