

Candlestick Patterns

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by Geert De Boeck for FXTSP.COM
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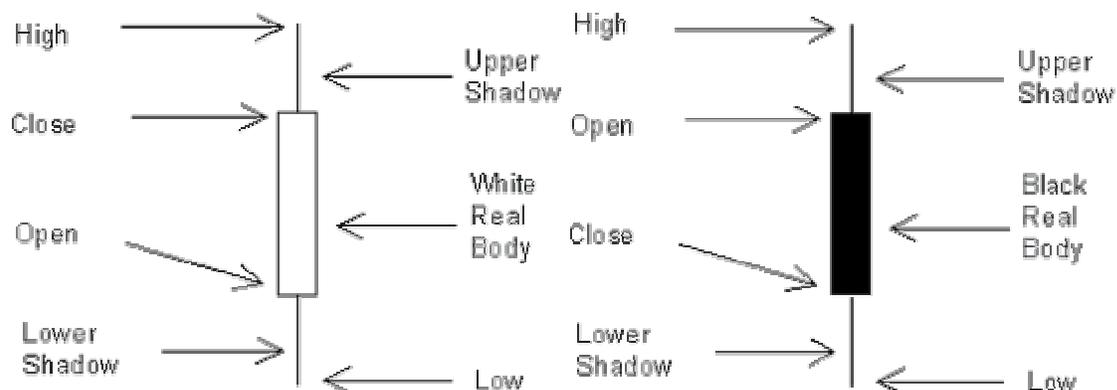
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1. Where do Candlesticks Come From?

In the 1600s, the Japanese developed a method of technical analysis to analyze the price of rice contracts. This technique is called candlestick charting. Candlestick charts are simply a new way of looking at price; they don't involve any calculations.

2. What do Candlesticks Look Like?

Candlestick charts are much more visually appealing than a standard two-dimensional bar chart. As in a standard bar chart, there are four elements necessary to construct a candlestick chart, the OPEN, HIGH, LOW and CLOSING price for a given time period. Below are examples of candlesticks and a definition for each candlestick component:

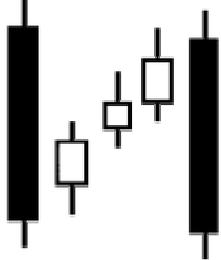
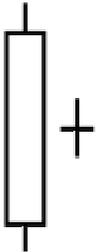
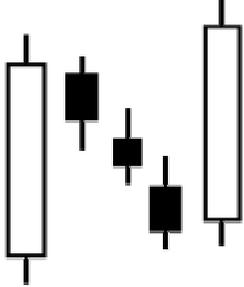
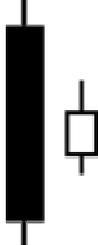


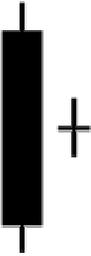
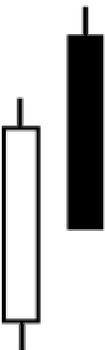
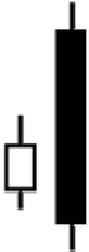
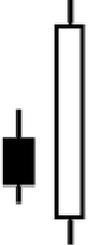
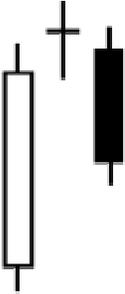
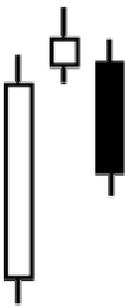
The body of the candlestick is called the real body, and represents the range between the open and closing prices.

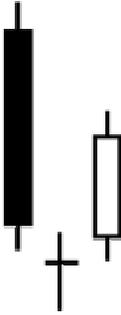
A black or filled-in body represents that the close during that time period was lower than the open, (normally considered bearish) and when the body is open or white, that means the close was higher than the open (normally bullish).

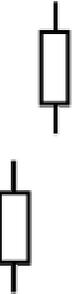
The thin vertical line above and/or below the real body is called the upper/lower shadow, representing the high/low price extremes for the period (one period of time measures the duration of selling or buying within the market). As a trader, you can use any time period you want, time intervals may be a tick chart, 1 min, 5min, 10 min, 1 hour, 4 hour, 1 day,...

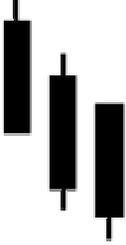
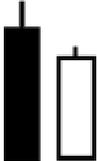
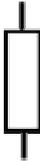
3. Candlestick Patterns

	<p>Bearish 3</p> <p>Pattern: A long black body followed by several small bodies and ending in another long black body. The small bodies are usually contained within the first black body's range.</p> <p>Interpretation: A bearish continuation pattern.</p>		<p>Bearish Harami</p> <p>Pattern: A very large white body followed by a small black body that is contained within the previous bar.</p> <p>Interpretation: A bearish pattern when preceded by an uptrend.</p>
	<p>Bearish Harami Cross</p> <p>Pattern: A Doji contained within a large white body.</p> <p>Interpretation: A top reversal signal</p>		<p>Big Black Candle</p> <p>Pattern: An unusually long black body with a wide range. Prices open near the high and close near the low.</p> <p>Interpretation: A bearish pattern.</p>
	<p>Big White Candle</p> <p>Pattern: A very long white body with a wide range between high and low. Prices open near the low and close near the high.</p> <p>Interpretation: A bullish pattern.</p>		<p>Black Body</p> <p>Pattern: This candlestick is formed when the closing price is lower than the opening price.</p> <p>Interpretation: A bearish signal. More important when part of a pattern.</p>
	<p>Bullish 3</p> <p>Pattern: A long white body followed by three small bodies, ending in another long white body. The three small bodies are contained within the first white body.</p> <p>Interpretation: A</p>		<p>Bullish Harami</p> <p>Pattern: A very large black body is followed by a small white body and is contained within the black body.</p> <p>Interpretation: A bullish pattern when preceded by a downtrend.</p>

	bullish continuation pattern.		
	<p>Bullish Harami Cross</p> <p>Pattern: A Doji contained within a large black body.</p> <p>Interpretation: A bottom reversal pattern.</p>		<p>Dark Cloud Cover</p> <p>Pattern: A long white body followed by a black body. The following black candlestick opens higher than the white candlestick's high and closes at least 50% into the white candlestick's body.</p> <p>Interpretation: A bearish reversal signal during an uptrend.</p>
	<p>Doji</p> <p>Pattern: The open and close are the same.</p> <p>Interpretation: Dojis are usually components of many candlestick patterns. This candlestick assumes more importance the longer the vertical line.</p>		<p>Doji Star</p> <p>Pattern: A Doji which gaps above or below a white or black candlestick.</p> <p>Interpretation: A reversal signal confirmed by the next candlestick (eg. a long white candlestick would confirm a reversal up).</p>
	<p>Engulfing Bearish Line</p> <p>Pattern: A small white body followed by and contained within a large black body.</p> <p>Interpretation: A top reversal signal.</p>		<p>Engulfing Bullish Line</p> <p>Pattern: A small black body followed by and contained within a large white body.</p> <p>Interpretation: A bottom reversal signal.</p>
	<p>Evening Doji Star</p> <p>Pattern: A large white body followed by a Doji that gaps above the white body. The third candlestick is a black body that closes 50% or more into the white body.</p> <p>Interpretation: A top reversal signal, more bearish than the regular evening star pattern.</p>		<p>Evening Star</p> <p>Pattern: A large white body followed by a small body that gaps above the white body. The third candlestick is a black body that closes 50% or more into the white body.</p> <p>Interpretation: A top reversal signal.</p>

	<p>Falling Window</p> <p>Pattern: A gap or "window" between the low of the first candlestick and the high of the second candlestick.</p> <p>Interpretation: A rally to the gap is highly probable. The gap should provide resistance.</p>		<p>Gravestone Doji</p> <p>Pattern: The open and close are at the low of the bar.</p> <p>Interpretation: A top reversal signal. The longer the upper wick, the more bearish the signal.</p>
	<p>Hammer</p> <p>Pattern: A small body near the high with a long lower wick with little or no upper wick.</p> <p>Interpretation: A bullish pattern during a downtrend.</p>		<p>Hanging Man</p> <p>Pattern: A small body near the high with a long lower wick with little or no upper wick. The lower wick should be several times the height of the body.</p> <p>Interpretation: A bearish pattern during an uptrend.</p>
	<p>Inverted Black Hammer</p> <p>Pattern: An upside-down hammer with a black body.</p> <p>Interpretation: A bottom reversal signal with confirmation the next trading bar.</p>		<p>Inverted Hammer</p> <p>Pattern: An upside-down hammer with a white or black body.</p> <p>Interpretation: A bottom reversal signal with confirmation the next trading bar.</p>
	<p>Long Legged Doji</p> <p>Pattern: A Doji pattern with long upper and lower wicks.</p> <p>Interpretation: A top reversal signal.</p>		<p>Long Lower Shadow</p> <p>Pattern: A candlestick with a long lower wick with a length equal to or longer than the range of the candlestick.</p> <p>Interpretation: A bullish signal.</p>
	<p>Long Upper Shadow</p> <p>Pattern: A candlestick with an upper wick that has a length equal to or greater than the range of the candlestick.</p> <p>Interpretation: A bearish signal.</p>		<p>Morning Doji Star</p> <p>Pattern: A large black body followed by a Doji that gaps below the black body. The next candlestick is a white body that closes 50% or more into the black body.</p> <p>Interpretation: A bottom reversal signal.</p>

	<p>Morning Star</p> <p>Pattern: A large black body followed by a small body that gaps below the black body. The following candlestick is a white body that closes 50% or more into the black body.</p> <p>Interpretation: A bottom reversal signal.</p>		<p>On Neck-Line</p> <p>Pattern: In a downtrend, a black candlestick is followed by a small white candlestick with its close near the low of the black candlestick.</p> <p>Interpretation: A bearish pattern where the market should move lower when the white candlestick's low is penetrated by the next bar.</p>
	<p>Piercing Line</p> <p>Pattern: A black candlestick followed by a white candlestick that opens lower than the black candlestick's low, but closes 50% or more into the black body.</p> <p>Interpretation: A bottom reversal signal.</p>		<p>Rising Window</p> <p>Pattern: A gap or "window" between the high of the first candlestick and the low of the second candlestick.</p> <p>Interpretation: A selloff to the gap is highly likely. The gap should provide support.</p>
	<p>Separating Lines</p> <p>Pattern: In an uptrend, a black candlestick is followed by a white candlestick with the same opening price.</p> <p>Interpretation: A continuation pattern. The prior trend should resume.</p>		<p>Shaven Bottom</p> <p>Pattern: A candlestick with no lower wick.</p> <p>Interpretation: A bottom reversal signal with confirmation the next trading bar.</p>
	<p>Shaven Head</p> <p>Pattern: A candlestick with no upper wick.</p> <p>Interpretation: A bullish pattern during a downtrend and a bearish pattern during an uptrend.</p>		<p>Shooting Star</p> <p>Pattern: A candlestick with a small body, long upper wick, and little or no lower wick.</p> <p>Interpretation: A bearish pattern during an uptrend.</p>

	<p>Spinning Top</p> <p>Pattern: A candlestick with a small body. The size of the wicks is not critical.</p> <p>Interpretation: A neutral pattern usually associated with other formations.</p>		<p>Three Black Crows</p> <p>Pattern: Three long black candlesticks with consecutively lower closes that close near their lows.</p> <p>Interpretation: A top reversal signal.</p>
	<p>Three White Soldiers</p> <p>Pattern: Three white candlesticks with consecutively higher closes that close near their highs.</p> <p>Interpretation: A bottom reversal signal.</p>		<p>Tweezer Bottoms</p> <p>Pattern: Two or more candlesticks with matching bottoms. The size or color of the candlestick does not matter.</p> <p>Interpretation: A Minor reversal signal.</p>
	<p>Tweezer Tops</p> <p>Pattern: Two or more candlesticks with similar tops.</p> <p>Interpretation: A reversal signal.</p>		<p>White Body</p> <p>Pattern: A candlestick formed when the closing price is higher than the opening price.</p> <p>Interpretation: A bullish signal.</p>