

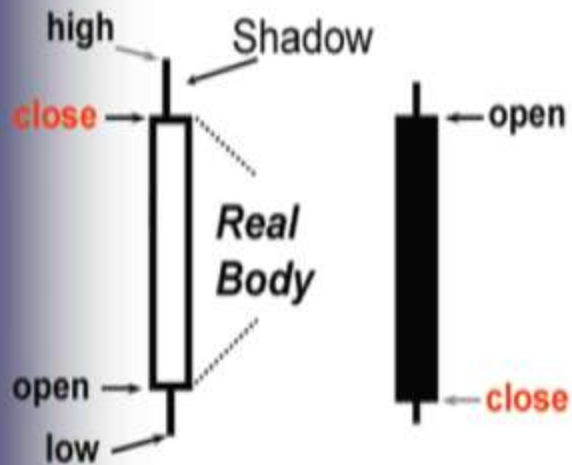
# Candlesticks

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- Candlesticks are geared toward short-term trading. For Swing trader and below. Days to couple of weeks.
- 90% of traders are speculators in FX market, highest percentage of speculation in trading markets.
- To confirm candlestick signals, we wait for the next session to confirm, by doing that, we increase the likelihood of a trend at the expense of profit. Or if the candlestick confirms with a western technical.
- Not every candle should be acted on.
- Sometimes we could use candle to exit position, other time, the signal is also valid to not only exit but enter position. (exit when the market is losing steam, possible of reversal, when candles confirm with other SR indicator, possibility of reversal goes up even more, enough to enter a position)
- Candlestick is valid on all time frames.
- When the candles are giving certain signal for reversal, does not mean reversal is going to happen only that the probability goes up. Hence, it is not advisable to make decision as if a reversal is coming up, but new position or entry should give consideration to the possible reversal signal. (eg, if market is giving a bearish reversal signal, does not mean need to sell, but should not buy)
- In FOREX, even if the bigger body is wrapped around a doji. Its still a engulfing pattern.
- If a resistance or support is tested more often, and broken, the break is more important.
- Never forget risk reward.
- Not every single candlestick is valid. Always look for candles in context with overall market condition, and other indicators.
- "the real body is the essence of the price movement"
- Candlestick analysis requires 2 main criteria.
  - The formation or shape of the candle
  - The preceding trend.

## Symbols

# Constructing the Candlestick Line



**Real Bodies / Shadows**

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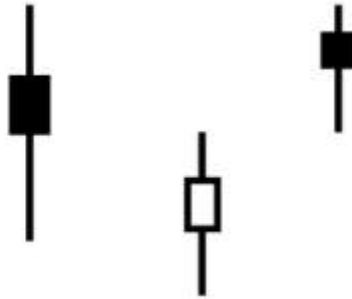


**Doji**

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## Small Real Bodies (spinning tops)

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Criteria	Small real body – color not important
Implication	Prior trend is losing force

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- means that the trend is losing steam.

Small body

## Now what does this candle chart say?



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The above chart indicates that the bulls are losing steam, with small real bodies. Yet with the 2 small real bodies, we should not assume that a reversal is GOING TO HAPPEN 100%, and initiate a Short Position. Not all candlestick signals are valid for reversals. Through the above chart, we should however

1. Lighten up on Long positions, could be bad risk reward.
2. If we are in a long position, take some profits, and move up stops.

However, if the above Doji and spinning tops are also confirming a pre-existing resistance level, or confirming with other bearish indicators, we could think about shorting.

*Doji*

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# Doji

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Criteria: Open and close are the same  
Implication: Market is "tired"

Dojis are especially potent at signally beginning reversal.

# Doji



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- ✓ In above chart, a Doji is formed after 3 bars of bullish rally. This does not mean reversal is going to happen, only that the probability of reversal is more likely.
- ✓ Initial **Doji** means that market has gone from trend to neutral, the likelihood of a reversal is more probable yet not 100 percent
- ✓ So how do we confirm a doji which signals reversal? We could wait for the next session, or if the doji aligns with other Support or resistance level, or other western indicators. (extends to all candlestick signals)
- ✓ When doing so, we trade assurance with some potential profits.

# Doji



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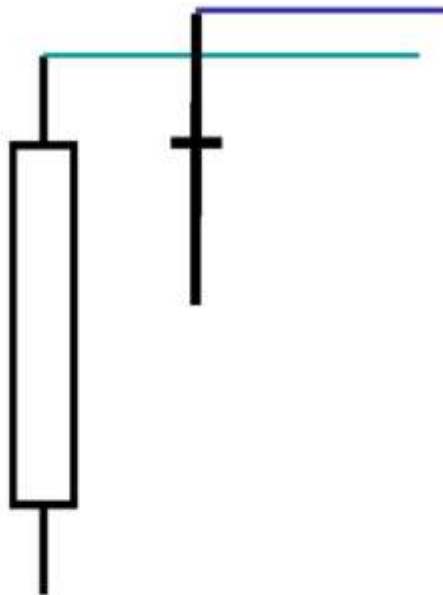
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- In the above chart, the Doji at the red arrow signals a fairly likelihood of reversal, because the doji is at a resistance level tested twice before. The blue lines are classic resistance levels.

# Doji as Resistance

**Criteria:** Use the highest high of those two sessions (top of upper shadow) as resistance

**Implication:** Close over that area: market is "refreshed"



- ✚ When we do use Dojis to set resistance levels, we use the highest high of the candlesticks
- ✓ If new candle closes above a resistance point defined by shadows of doji, there is more likelihood of a breakout.
- ✓ A good place to buy is if the candle closes above the resistance level.



## Doji as Resistance



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- ✚ In the above chart, We use the doji as the resistance level because the ladder candles though pierced above it, could not close above it. This usually happens, as intraday trades could often get above resistance yet could not close above it.
- ✓ If a candle pierces through a resistance level but always close below it, it brings about pessimistic probability of a break-out.

## Doji as Resistance



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- In the above chart, the doji in red circle is not a significant reversal signal, because it is trading in a box range, or sideways. And a Doji has no implications if **the immediate preceding trend** is neutral, or in a box. On the other hand, If a Doji is occurring in a trend, it is a good place to define resistance by shadows, and the implication of the doji also becomes more significant ( the probability of a reversal goes up).

## Nison Trading Principle #6

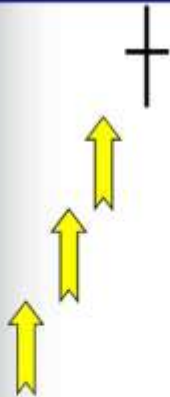
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**A candlestick line or pattern requires two criteria:**

- The shape of the line or pattern
- The preceding trend

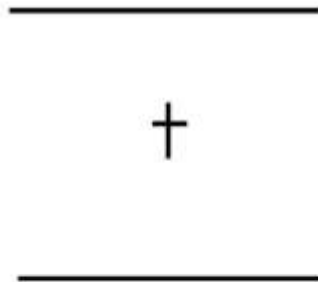
# Doji and Trend

**Concept:**  
To use a northern doji as  
a signal we need to have  
an uptrend to reverse



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**Doji in a "Box Range" is  
not a trading signal**



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- ✚ When you have a doji at an obvious up trend or down trend, with tall shadows, it could be a resistance level, also increasing the probability of a turn. On the other hand, if a doji is trading in a box range, there are no implications.
  - To get an immediate neutral trend, or a box range, the previous couple of candles have to have same highs, and same lows with the shadows.

## Candles in Context of Trend



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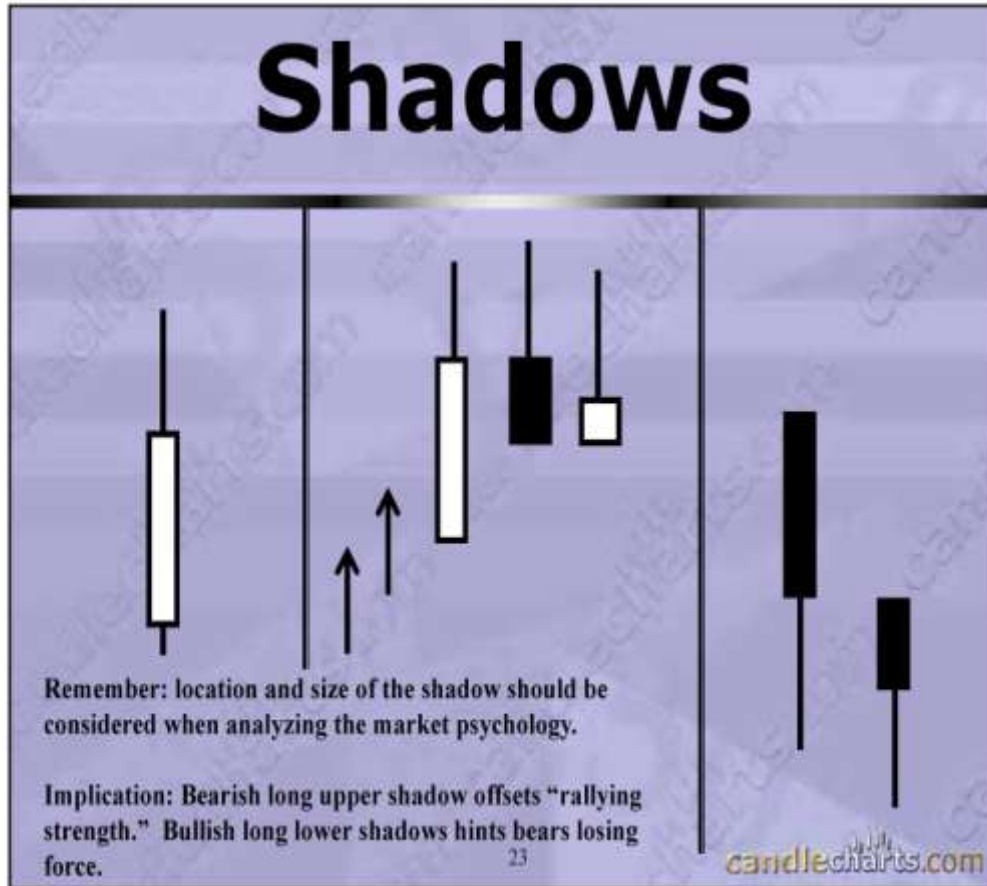
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- In the above Chart, both doji pointed by blue arrows are trading in a box range, because the immediate preceding trend is lateral. Therefore both doji have not implications.
- In the above chart, the first doji pointed by the black arrow emerges at the top of a box range, and its preceding trend is clear, (up), in this case, we could initiate a short sell because the doji is confirming resistance level in a longer term box range, also with a clear support or limit taking level.

### Miscellaneous

- On a daily chart, we should have at least 2 – 3 month of data, unless we need higher or lower support or resistance, in which case, we need more months of data.
- In the Forex market, Doji are often same as spinning tops, therefore having the same significance and potential implications.



- In the above chart, the 3<sup>rd</sup> grid have 2 black candles with long low shadows, the trend is classified as down/neutral, because even though the market is closing lower, the lower shadow offset the bearish strength.
- A long upper shadow, offset the bullish strength. If an up trend is happening, and new candles with long upper shadows at same heights, could be a possible resistance area, increasing the likelihood of a turn (**especially if the real body is getting smaller**).
- Shadows are important if they are confirming a resistance or support area. If price pulls back every time it gets to a significant support and resistance area, the market is showing that it is rejecting a breakout.
- In a bearish trend, if new candles are formed with long low shadows, means the market is rejecting lower level, and support could be close, possible reversal.

## Bullish Shadows



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- ✚ In the above chart, in the red box, time after time, small bodies and long low shadows shows that market is rejecting lower prices. Therefore it is a possible reversal signal, also valid to be deemed as a support level.

## Bearish Shadows



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- ✚ In the above chart, high shadows shows market is rejecting higher prices. The doji could be set as resistance level, even though prices seems to spike above the resistance set by doji.

*Hammers & shooting stars*

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# Hammer

## Criteria:

- Small real body at, or near top, of range
- Lower shadow at least 2x real body
- Market in down trend

Implication: "Groping for a bottom"

black or white

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Usually, single candlesticks are not significant, the exception is the hammer and shooting stars.

- ✓ Hammer Criteria: The lower shadow should be 2x of the real body. Very little to no upper shadow, 10% of lower shadow.

If the hammer confirms the support area, higher likelihood of a turning.

Also the upper 50% of the hammer's lower shadow is often re-tested. **Always think about risk reward.**

# Hammer



*If you are buying on the hammer, you have to risk as much as the lower shadow of the hammer.*

Also, a hammer could be true, yet does not mean that rally would happen immediately.

UPPER SHADOW COULD NOT BE LONG, 10% of lower shadow.

## Hammer as support



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- ✚ In the above chart, the huge hammer is not a good place to place a trade, since the risk reward does not yield a good trade, when buying on a hammer, we need to be willing to risk to the low of the hammer, in the above, the stop level which is the support is huge compare to short term resistance level.

## Hammer as support



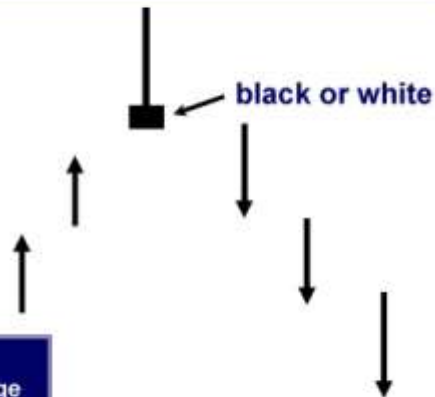
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- ✓ Shooting Star Criteria: The upper shadow should be 2x of the real body. Very little to no lower shadow, 10% of upper shadow.

# Shooting Star



## Criteria:

- Small real body at, or near bottom, of range
- Upper shadow at least 2x real body
- Market in an up trend

Implication: 'Signaling Trouble Overhead'

- Usually implies that a resistance might be met, if preceding trend is up, and the latter candles could not close above the high of the shooting star.

## Shooting Star - Hammer



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### Shooting Star as resistance



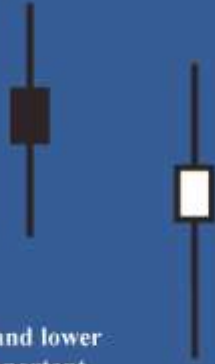
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### High wave candles

# High Wave Candles



Criteria: very long shadows and lower  
small real body - color not important

Implication: Trend is losing force

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An candle that is made of long upper and lower shadow, also have small real bodies. *[Implication: the market is confused]*



## High Wave Candles



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✚ In the above chart, the high wave candles shows that the trend has gone from up to neutral. Since the bullish trend has been offset by the high wave, the market is in a place of confusion

✚ **The checkmate principle**

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# The Checkmate Principle

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## Bearish Checkmate:

A series of tall white candles followed by black candles or small real bodies near the same resistance level. It reveals that the bulls' drive is being "checkmated"

## Bullish Checkmate:

A series of long black candles followed by white candles or small real bodies near the same support level. It reveals that the bears' drive is being "checkmated"

- ✚ **Bearish checkmate** - A series of tall green candles followed by red candles or small real bodies near the same resistance level. It reveals that the bulls' drive is being "checkmated" bull are losing strength.
- ✚ **Bullish checkmate** - A series of tall red candles followed by green candles or small real bodies near the same resistance level. It reveals that the Bear drive is being "checkmated" bear are losing strength.
- ✚ If there is no follow through for a couple of sticks, the predominant force eventually gives in. one time no big deal.

## Bull Checkmate

1 of 2



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- ✚ In the above chart, the bears are in control, yet in a next couple of session, the bear is shown to be unable to bid the price lower. Hence a bullish checkmate.

## Bull Checkmate

2 of 2



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Another way to think about checkmates is that, the trend has met resistance or support, and could not break, yet instead of giving up, and reverse right away, the price repeatedly tries to break the S or R with the high red and green candles.

### 2 candlestick formations

*The power of the market could be reflected in a single candlestick line, or a combination of candlestick lines*

#### *Engulfing patterns*

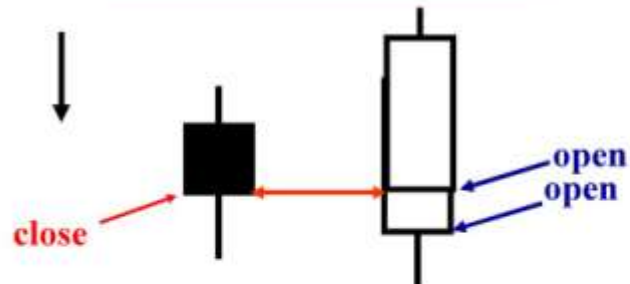
**Bullish** - A latter green candle longer in length than the previous red candle, **the preceding trend is down.**

# Bullish Engulfing Pattern

## Criteria:

- White real body wraps around preceding black real body
- Market in down trend

•Implication: Market bottoming out



## Bullish Engulfing Pattern



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✚ In the above chart, the two arrows shows bullish engulfing patterns

## Bullish Engulfing Pattern



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- In the above chart, a bullish engulfing pattern happens right after a hammer. Chance of reversal goes up, and the support level should be set at the low of the hammer

## Bullish Engulfing Pattern



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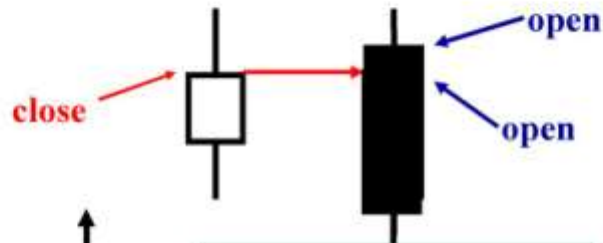
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- ✚ Of course nothing works 100%, the bullish engulfing pattern shown by the red arrows did not work
- ✚ Also in the above chart if we went long on the second bullish engulfing pattern shown by the green semi circle, we could take some profit when the price forms a doji shown on the chart right before a mini drop, also move up stops as professional traders do.

**Bearish** - A latter red candle longer in length than the previous green candle, **the preceding trend is up.**



# Bearish Engulfing Pattern



**Criteria:**

- Black real body wraps around preceding white real body
- Market in up trend

**Implication:** 'Bulls have been constrained'

(Real body wrap around real body, does not have to wrap around shadow.)

## Bearish Engulfing Pattern



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- ✚ Engulfing patterns does not ensure that market is turning; only increase the probability of a reversal. The engulfer should be a strong resistance or support level.
- ✚ In the above chart, even though we have a strong bearish engulfing pattern, it does not mean that price will reverse down, only that the probability has increased.

## Bearish Engulfing Pattern



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- In the above, the first pattern pointed by the red arrow is a bearish engulfing pattern, the second pattern encircle in red with a question mark is NOT a bearish engulfing pattern. Because the preceding trend is down. And a bearish engulfing pattern could only in a UPTREND.

## Bearish Engulfing Pattern as Resistance



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## Engulfing Patterns compared to Outside Reversal



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Sometimes, when a strong reversal signal is apparent, one should contemplate on adhere to the signal, also with consideration of the support level, or resistance level. If a bearish engulfing pattern happens right above a recent support level, there is also likely hood that price would bounce, therefore, down trend has to be proven once the bearish engulfing patten aligns with closing below the support level.

- ✚ In the above chart, if we went short on the second engulfing pattern shown by the second blue rectangle, we are also shorting right at a short term support level shown by the red line. When the price close below the support however, we could consider shorting.

## Engulfing Patterns – Compare Real Bodies



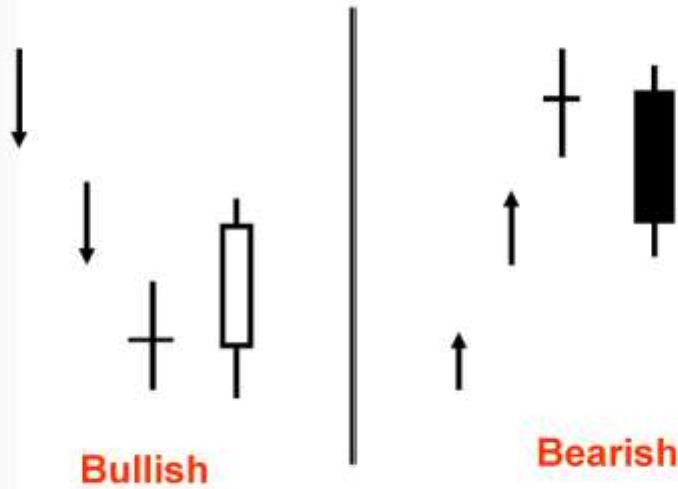
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- ✚ The engulfing patterns should be obvious, one should be comparatively bigger than the other one. And not in box ranges.
- ✚ In the above, the bearish engulfing pattern shown by the red rectangle shows that bearish is not really taking over because the bearish engulfing pattern is not that obvious.

## Engulfing Patterns



## Bullish Engulfing Pattern as Support



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*Dark clouds & Piercing*

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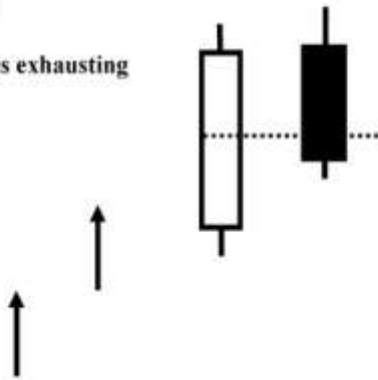


## Forex Dark Cloud Cover

### Criteria:

- Opens at (or within few pips) of prior close
- Black real body closes deeply into prior long white candle
- Market moving north

Implication: "Advance is exhausting itself"



**Bearish/dark cloud** – the latter candle, which is red, is half or more the length of the previous green candle, the tall shadow (high) of the red candle should also be a new resistance level. **Also the preceding trend should be up.**

## Dark Cloud Cover as Resistance



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✚ The high of the dark cloud cover should be the resistance.

## Dark Cloud Cover



- In the above chart, the first pattern circled by red is NOT a dark cloud cover because the black did not close half way into the white candle. The second pattern circled by red is also NOT a dark cloud cover, because the preceding trend is not clearly up, and with both small bodies, there is no real change in psychology.
- The classic situation of dark cloud cover is when bulls are clearly in control and then a black candle cuts into the tall white candle.

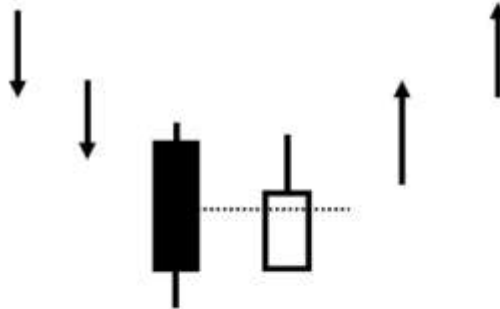
**Piercing pattern** - the latter candle, which is green, is half or more the length of the previous red candle, the tall shadow (low) of the green candle should also be a new support level. The preceding trend should be down.

## Forex Piercing Pattern

**Criteria:**

- Market moving south
- Opens at (or near) prior close
- White real body close more than halfway into long prior black candle

**Implication:** "hint that the decline is exhausting itself"



## Piercing Pattern



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- ✚ In the above chart the first black arrow points to something that is not a piercing pattern because the white candle did not cut half way into the previous black candle

## Piercing Pattern Confirming Support



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## Piercing Pattern as Support



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## Confluence of Candles



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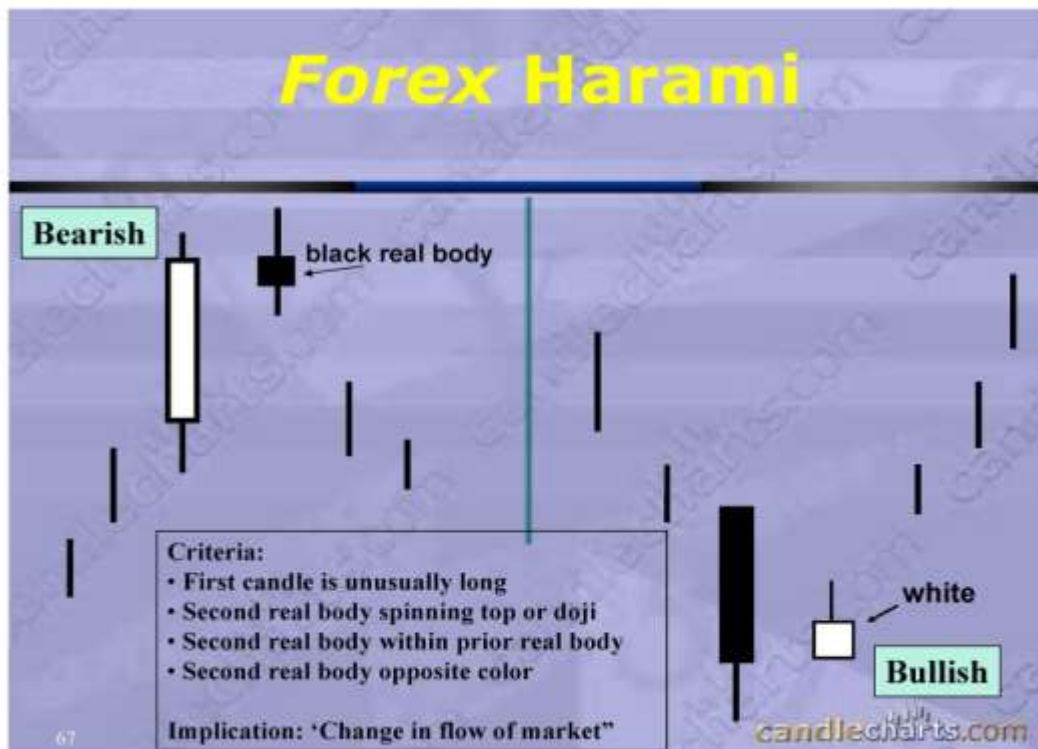
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- ✚ In the above chart, we have 2 piercing pattern shown by number 1 and 2 and eventually a bullish engulfing pattern before the price goes up. This chart also shows that candlestick pattern doesn't work every time. Comparatively, we could be a lot more comfortable to go long on the third pattern, the bullish engulfing pattern which also wrapped around 3 prior black candlesticks.
- Sometimes, two consecutive candles could make for the half length of the first candle, that could also be a cloud or piercing cover.
- Also, same as engulfing patterns, the candles have to be relatively big, should be comparatively bigger than spinning tops. If the body are all small, there is indecision in the market.
- Just like engulfing patterns, should always wait to confirm, the probability of reversal go up, does not guarantee.

### Harami

It is a phenomenon formed by 2 candlesticks, like dark clouds and engulfing patterns.





The 1<sup>st</sup> candlestick has unusually long body, and the following candlestick has a small real body, either a spinning top or a doji. The second real body is within the first real body, could be black or white. The second candlestick is always the opposite color of the first candlestick.

Harami should not be used as resistance or support, unlike engulfing or clouds.

- Reversal possibility: Engulfing pattern > dark clouds > Harami.

## Bear Harami



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✚ In the above chart, the two pivot high shown by red semi circle is both bearish harami

## Harami confirms resistance



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# Harami

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- When a reversal happens, a engulfing pattern, a piercing pattern, use the shadows as support or resistance.

**Morning star**

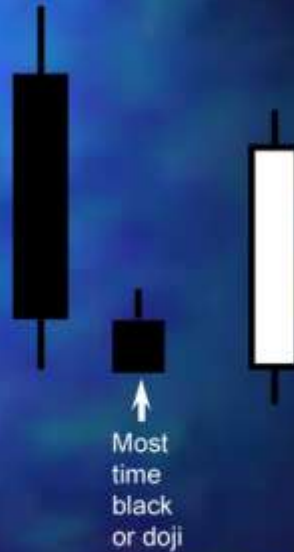
**Criteria:** Market trend is down. First candle is long red candle. Second candle is **a lot** smaller than the first one, also in the same color, could be a doji, or small white or black body. Third candle is a green candle, which closes above the half of the first red candle's real body. Third is a engulfing pattern in relations to the second candle. Shadows does not matter. The lower shadow of the morning star is the support. Same for all candlesticks, the lowest or the highest of a obvious pattern is a support or resistance.

# Forex Morning Star

## Criteria:

- Market in down trend
- First candle long black
- Second real body is black or doji
- Third candle (white) closes deeply in first black real body

Implication: Bulls are taking control



## Morning Star Confirms Support



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✚ In the above, a morning star shown by red semi circle confirms the support by a previous bullish engulfing pattern.

### Evening star

**Criteria:** uptrend, with first long green body, and the second is a small body, could be a small body or doji, and the third red candle cuts to the half or more of the first real green body.

# Forex Evening Star

## Criteria:

- Market in an up trend
- First candle is long white
- Second real body is white spinning top or doji
- Third candle (black) closes deeply in first white real body

Implication: Bears are taking control

Most time  
white or  
doji



## Evening Star





## Evening Star Variation



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- In the above chart, the red semi circle shows a variation of evening star. Also a bearish engulfing pattern right behind it.
- Would you sell short when price is at resistance again, the answer is no, because even though the price is at resistance, there is no sign that bulls are losing control, without bearish signals or candlesticks there is no guarantee that the price would retrace.

### Evening Star as resistance area



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The minimum requirement of a star formation is that the third candle cuts AT LEAST half way into the first candle, if the third candle exceeds the first candle, its also a star formation. – **strictly talking about real bodies, the shadows does not matter as criterions of candlestick patterns.**