

Candlestick analysis



Dealing Room
Milica Nikolic



Outline

- Line vs. Bar vs. Candlestick Chart
- What comprises a candlestick
- Marubozu, Doji, Spinning Top, etc..
- The Star position
- The Hammer and the Hanging Man
- The Inverted Hammer and the Shooting Star
- Review & Questions

EURUSD 1 day Line Chart



EURUSD 1 day Bar Chart



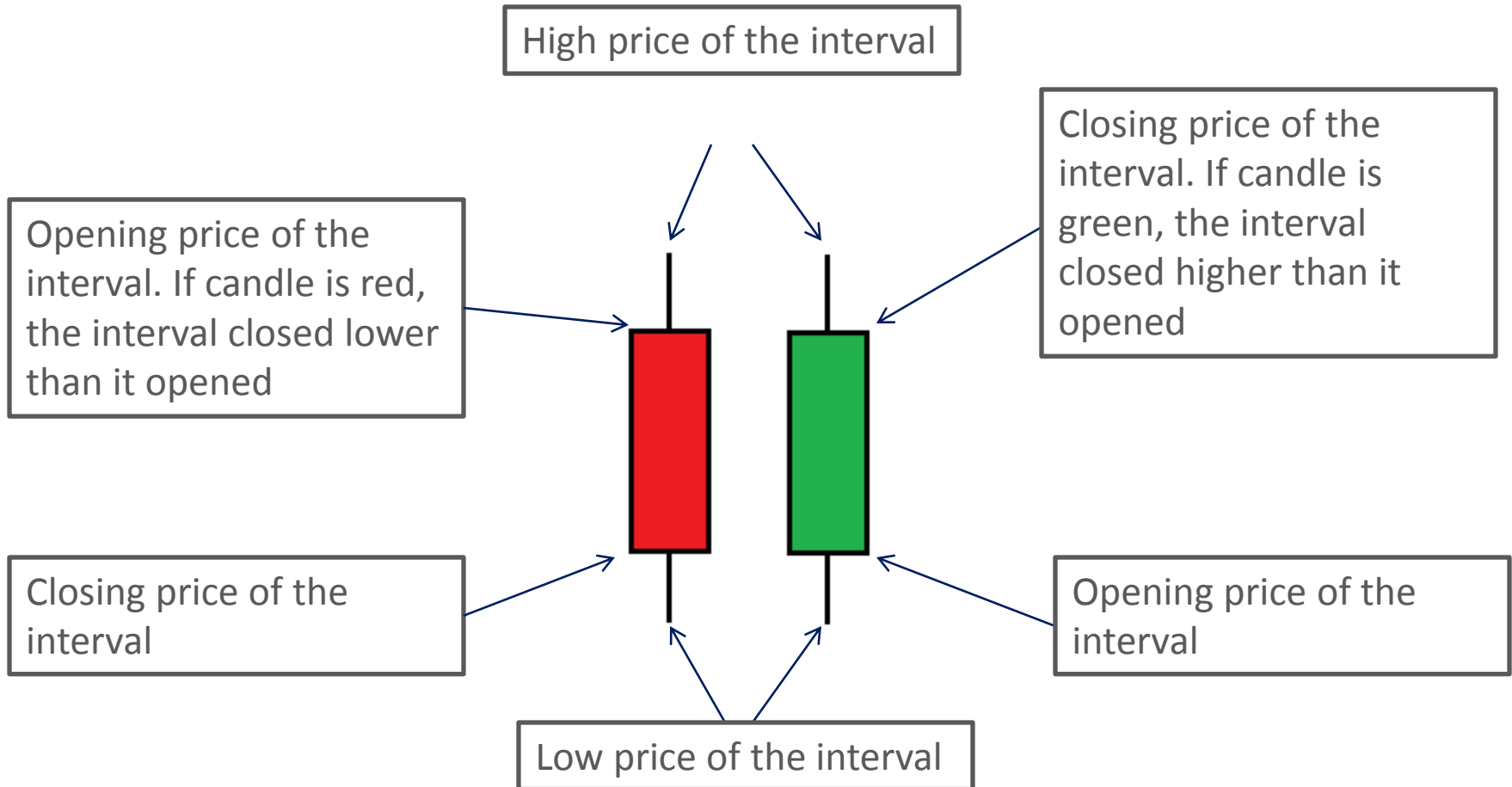
EURUSD 1 day Candlestick Chart



EURUSD 1 day Candlestick Chart



Candlestick broken down



What is a Candlestick Chart?

On a daily chart,
each candlestick
represents 24h

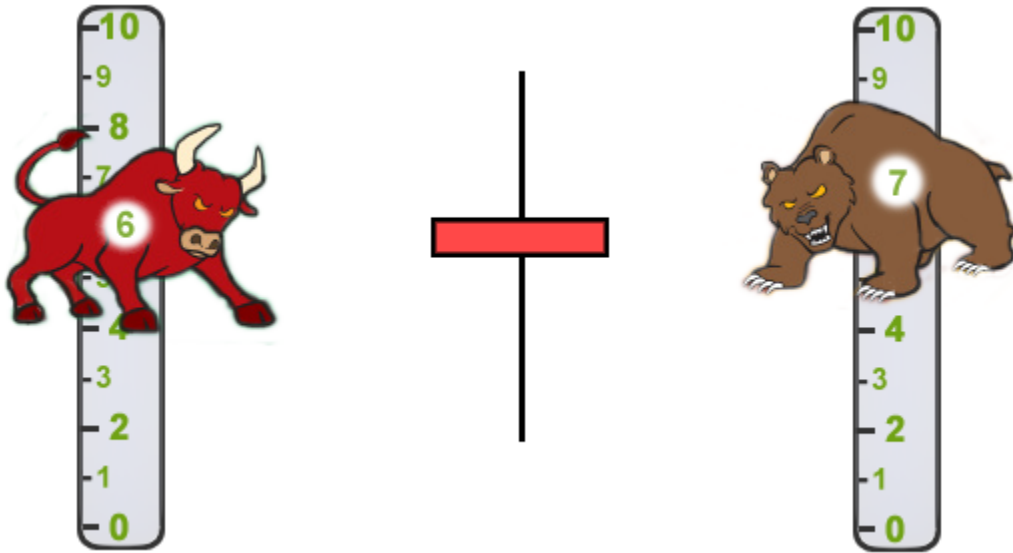


On the 5 minute chart,
each candlestick
represents a 5 minute
interval

What is a Candlestick Chart?

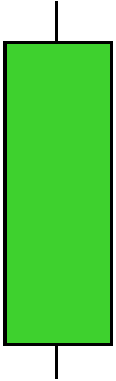
- Candlestick colours vary across charting packages
- Usually candlesticks where the close price is greater than the open are **white** or **green** or **blue**
- Candlesticks where the close price is below the open are usually **red** or **black**

Bulls versus Bears – a football analogy

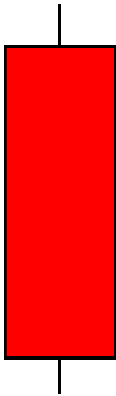


- A candlestick is the battle between Bulls (buyers) and Bears (sellers) over a given period
- Let's think of it as a football match between 2 teams

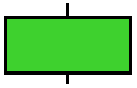
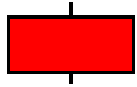
- The closer the close is to the low, the closer the Bears came to scoring a goal
- The closer the close is to the high, the closer the Bulls came to scoring
- Let's look at six scenarios



1. Bulls controlled the ball (trading) most of the game



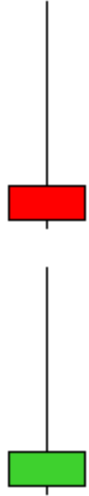
2. Bears controlled the ball (trading) most of the game



3. Neither team could move the ball, and prices finished close to when they started



4. The Bears controlled the ball for part of the game, but lost control by the end and the Bulls made a comeback



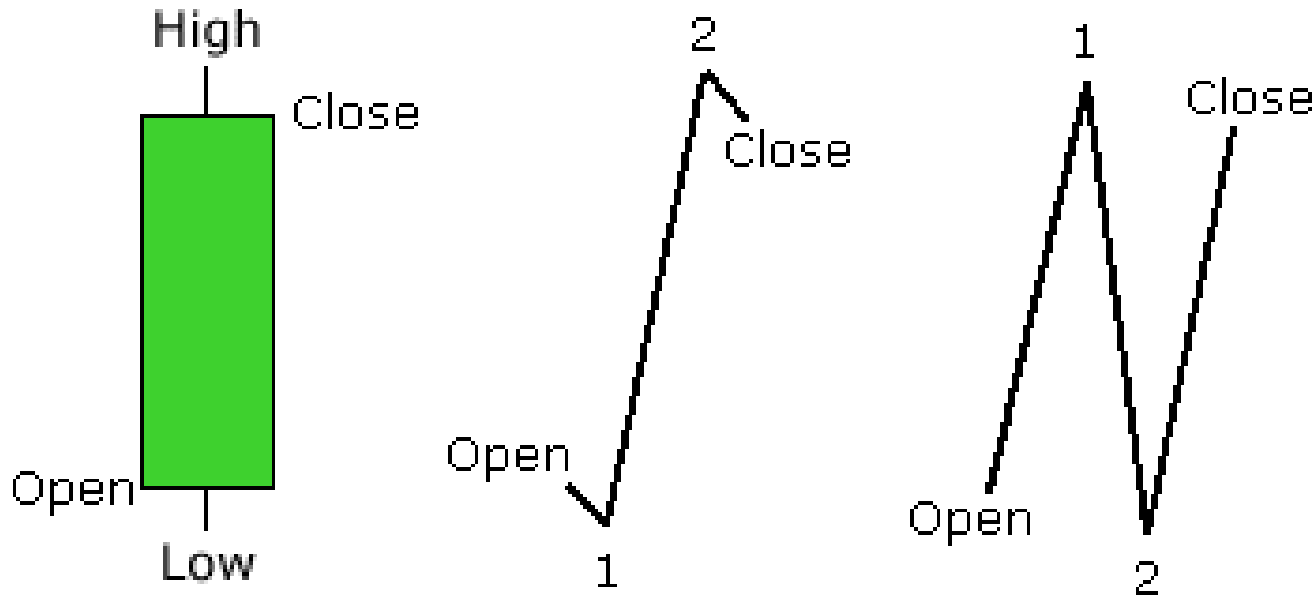
5. The Bulls controlled the ball for part of the game, but then the Bears made a comeback



6. Both the Bulls and the Bears had their moments, but in the end neither could dominate

What Candlesticks don't Tell Us

- Candlesticks don't tell us about the sequence in which the prices moved

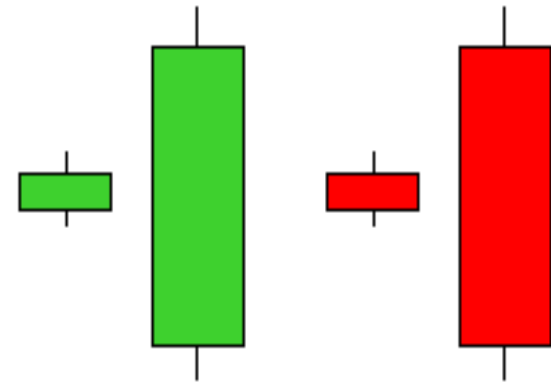


What are candlestick patterns?

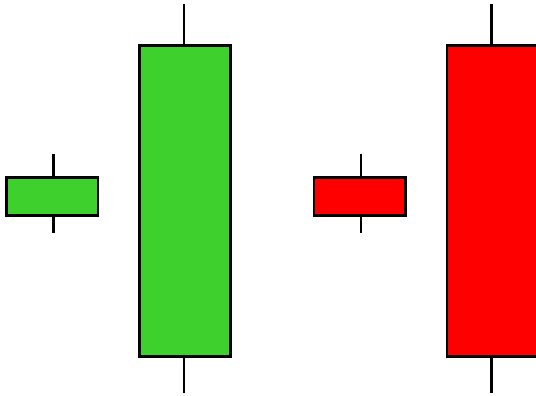
- Candlestick Charts are more visually intuitive and easier to interpret than Bar Charts
- The vital relationship between open and close forms the essence of candlesticks
- **Green** candlesticks represent **buying** pressure
- **Red** candlesticks indicate **selling** pressure

Long versus Short

- Longer body → more intense buying or selling pressure
- Shorter body → less price movement, possible consolidation



Long versus Short

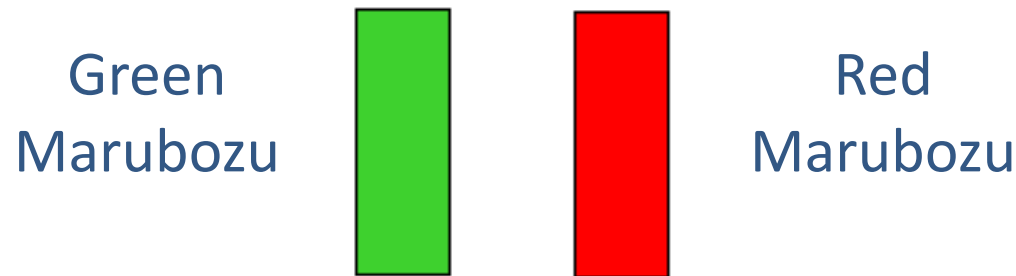


- Long candles → strong buying or selling pressure
- The longer the candlestick, the more aggressive the buyers or sellers
- Long candles are generally bullish or bearish, but we must consider their position within the broader technical picture

Long versus Short Candles

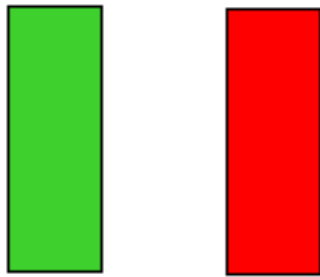
Long Green candlesticks after extended declines	→	potential turning point or support level
A long Red candlestick after a long rally	→	Turning point or future resistance level
A long Red candlestick after a long decline	→	Panic or capitulation

Marubozu



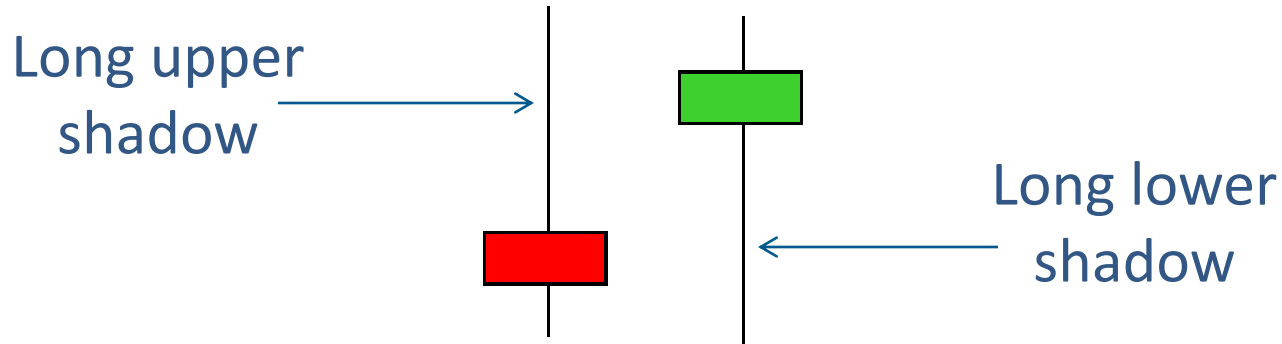
- Marubozu don't have upper or lower shadows
- The high and the low are represented by the open and the close

Marubozu



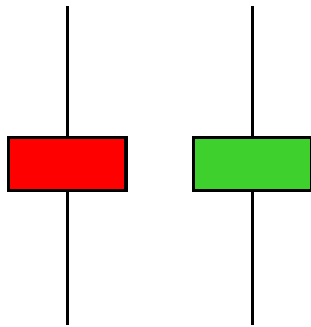
- Green Marubozu → Buyers controlled the price action from the first trade to the last
- Red Marubozu → Sellers controlled the price action from the first trade to the last

Long versus Short Shadows



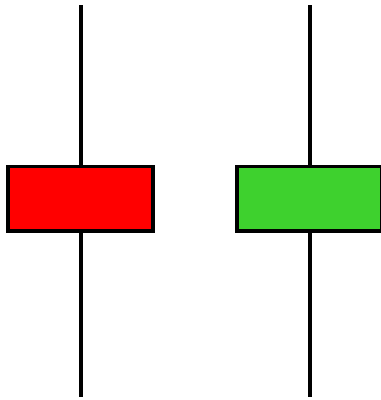
- Upper shadows → session high
- Lower shadows → session low
- Long shadows → prices extended well past the open and the close

Spinning Tops

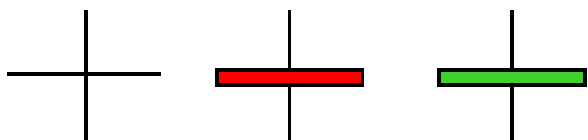


- Small bodies and long upper and lower shadows
- 1 long shadow may represent a reversal
- 2 long shadows (a spinning top) represent **indecision**
- Long shadows → both buyers and sellers were active but neither could gain advantage
- Small body (either **Red** or **Green**) → little real movement from open to close

Spinning Tops



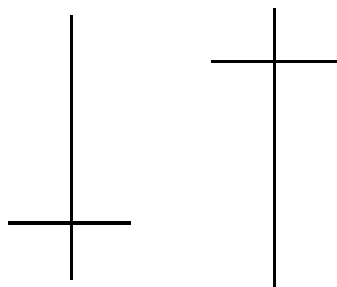
- If found after a long rally or a long **Green** candlestick →
 - Weakness among buyers
 - Possible interruption or change of trend
- If seen after a long decline or a long **Red** candle →
 - Weakness among sellers
 - Possible interruption or change of trend



Doji

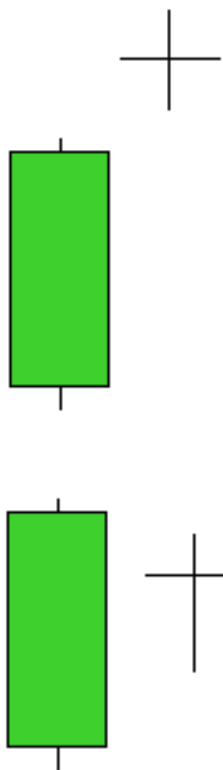
- Doji provide information:

1. on their own
2. as a part of several candlestick patterns



- Open = Close (any length of shadows)
- Demand and supply are even, so a change in trend may be near
- A Doji between long-body candles is significant
- A Doji between small-body candles isn't important
- On their own, Doji are neutral patterns

Long Green Candle & Doji

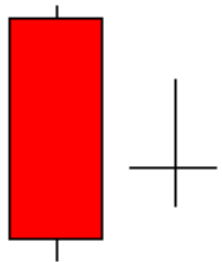


- After a rally or a long **Green** candle, a Doji signals weakening buying pressure - uptrend could be nearing an end
- Further downside is still needed for bearish confirmation:
 - A gap down
 - A long **Red** candlestick
 - A fall below the long Green candle's open

Long Green Candle & Doji





- After a decline or a long **Red** candle, a Doji signals weakening selling pressure - the downtrend could be nearing an end

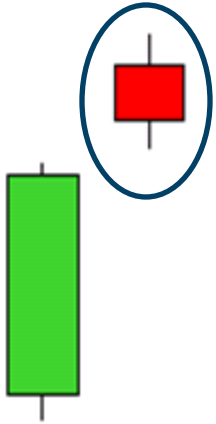


- We still need further bullish confirmation:
 - A gap up
 - A long **Green** candlestick
 - A rise above the long Red candle's open

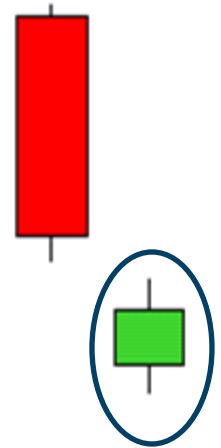
Past Trend

- For a pattern to be considered a 'reversal' pattern, there needs to exist a trend to be reversed
- **Bullish** reversals require a preceding 
- **Bearish** reversals require a preceding 
- The trend direction can be determined using trendlines, Moving Averages, or other indicators
- As candlesticks are short-term in nature, it is usually best to consider the last 1-4 weeks of price action

The Star Position



- A candle that gaps away from the last candle is in a **Star Position**
- The first candle usually has a large body and the second a small body



- Candles can be any combination of **Red** or **Green**
- Candles can be **Doji**, **Hammers** (seen later), **Shooting Stars** (seen later), & **Spinning Tops**
- We will look at 2- and 3-candlestick combinations that utilize the **Star Position** later

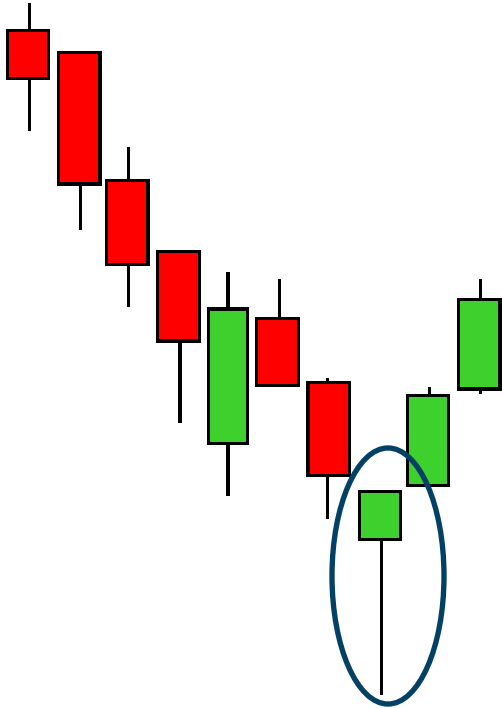
The Hammer and the Hanging Man


- They have:
 - small bodies (any colour)
 - short or no upper shadows
 - long lower shadows at least twice the length of their body
- They look exactly the same but are completely different depending on past price action



- They both mark potential trend reversals, but confirmation is needed before action

The Hammer



- This is a **bullish** reversal pattern that forms after a 
- Aside from a potential trend reversal, hammers can also mark bottoms or support levels
- Confirmation such as a gap up or a long **green** candle that closes above the open of the candle before the hammer is needed before action

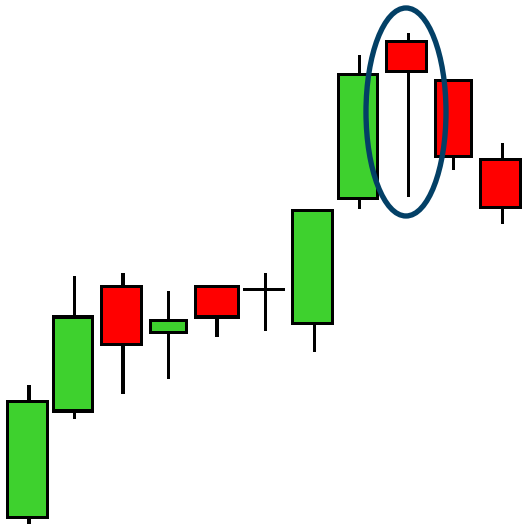
Example of the Hammer


The Hammer after a decline, but NO confirmation (next candle closes negative) – don't buy, but this could be a support level



The Hammer after a decline, next candle closes above the previous candle's opening, near earlier support → **BUY**

The Hanging Man



- This is a **bearish** reversal pattern
- Aside from a  reversal, it can also mark a top or a resistance level
- Shows sellers are starting to outnumber buyers
- Confirmation such as a gap down or long **red** candle is needed before action

Example of the Hanging Man

The Hanging Man forms after a rally, and the next candle closes below the previous candle's opening. This signals a bearish reversal → **SELL**



The Inverted Hammer & Shooting Star


- Small bodies
- Short or no lower shadows
- Long upper shadows at least twice the length of their body
- Although identical, they signal completely different things depending on past price action



- Both mark possible trend reversals, but confirmation is needed before action

The Inverted Hammer

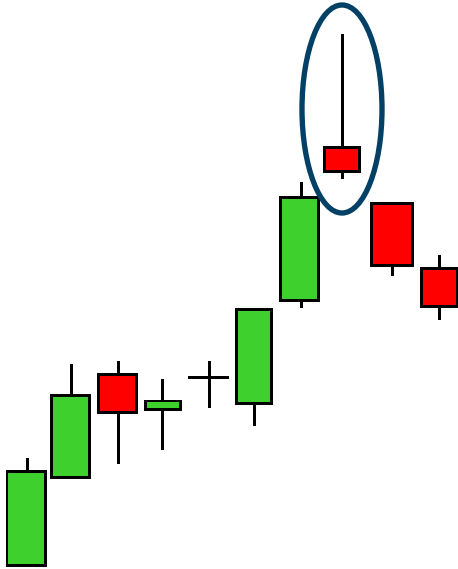



- After a  it signals a possible **bullish** reversal, a support or a bottom
- Since sellers can't push the price lower, everyone who wanted to sell has already sold
- Confirmation such as a gap up or a long **green** candlestick that closes above the open of the candle before the inverted hammer is needed

Example of the Inverted Hammer



The Shooting Star

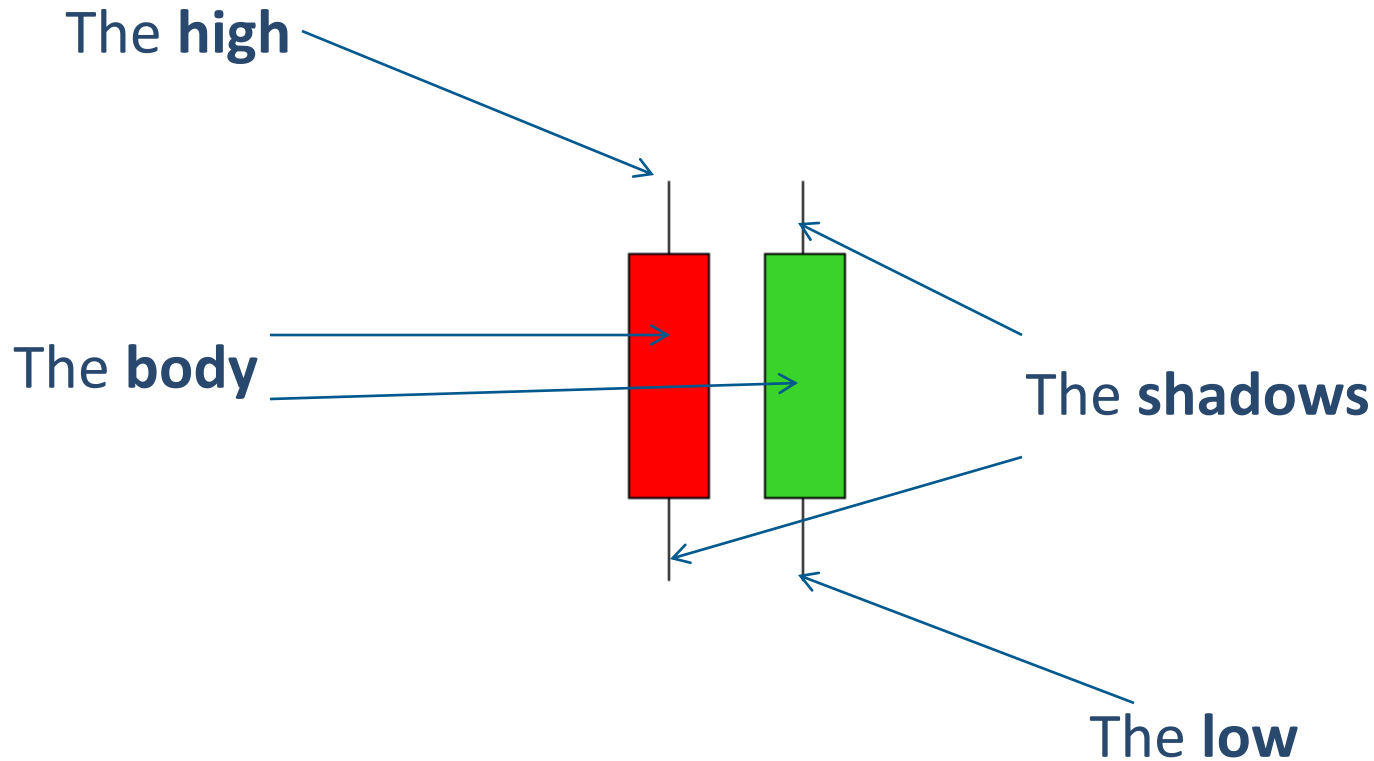


- After a  this can be a bearish reversal, a top, or a resistance
- Since buyers can't push the price higher, everyone who wanted to buy has already bought
- Bearish confirmation such as a gap down or a long **red** candle closing below the open of the candle before the star is needed before action

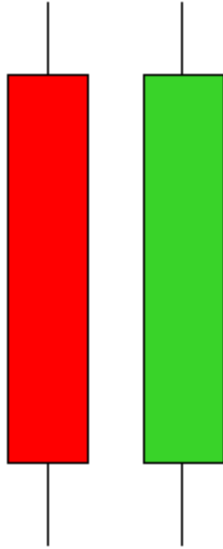
Example of the Shooting Star



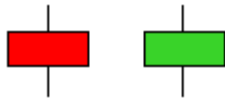
Summary



Summary

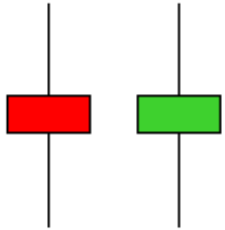


Strong buying or selling. The longer the body is, the more intense the buying or selling pressure

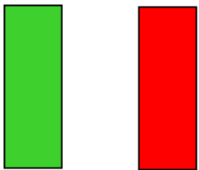


Very little buying or selling activity

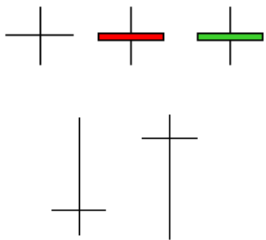
Summary



Candlesticks with long shadows and small real bodies are called **Spinning Tops**. The pattern indicates the indecision between the buyers and sellers



Marubozu means there are no shadows. The high and low are the same as the open or close.



Doji have the same open and close price, or at least their bodies are extremely short

Summary



The **hammer** is a bullish reversal pattern that forms during a downtrend.

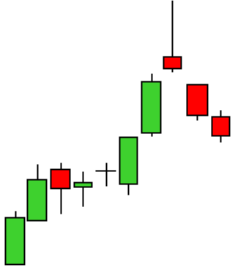


The **hanging man** is a bearish reversal pattern that can also mark a top or strong resistance level



The **inverted hammer** occurs when price has been falling, and suggests the possibility of a reversal

Summary



The **shooting star** is a bearish reversal pattern that looks identical to the inverted hammer but occurs when price has been rising

- Candlestick patterns can show us when the trend is changing or when we've reached a support or a resistance level
- Always look for conformation of a reversal before jumping in
- Be aware of any news out that could cause a break-out at the level
- Use in combination with other technical indicators to optimize your entry and exit strategy

Thank you!



Questions?

Email: milica@easy-forex.com

easy-forex® endorses responsible and moderate trading. Forex trading (OTC Trading) involves substantial risk of loss, and may not be suitable for everyone and we would like to recommend you not to risk any money that you cannot afford to lose. Please note that the information and content provided in our workshops and/or seminars is made available for informative and educational purposes only and can under no circumstances be considered as a recommendation to you by easy-forex® or any easy-forex® personnel to engage in any trade. Hence, neither easy-forex® nor any of its personnel can under any circumstances be held responsible for any outcome of trading decisions or trades in regard to any of these workshops and/or seminars.

easy-forex® group is regulated by CySEC (07907) in Europe, by the NFA in the US and by ASIC (AFSL 246566 ABN 73107184510) in Australia