

# Candlestick analysis



Dealing Room  
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# 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

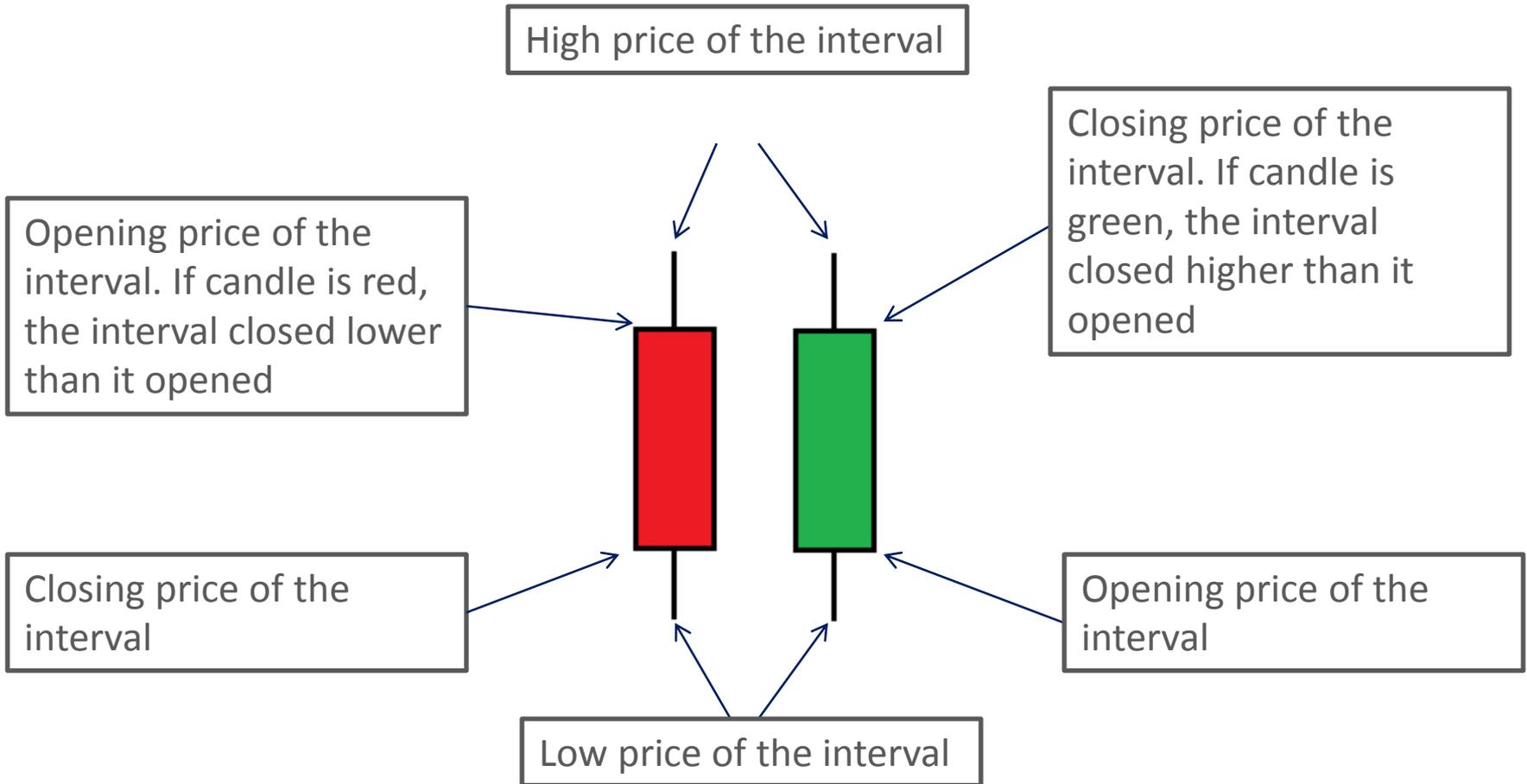


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# EURUSD 1 day Candlestick Chart



# Candlestick broken down



# What is a Candlestick Chart?

On a daily chart,  
each candlestick  
represents 24h

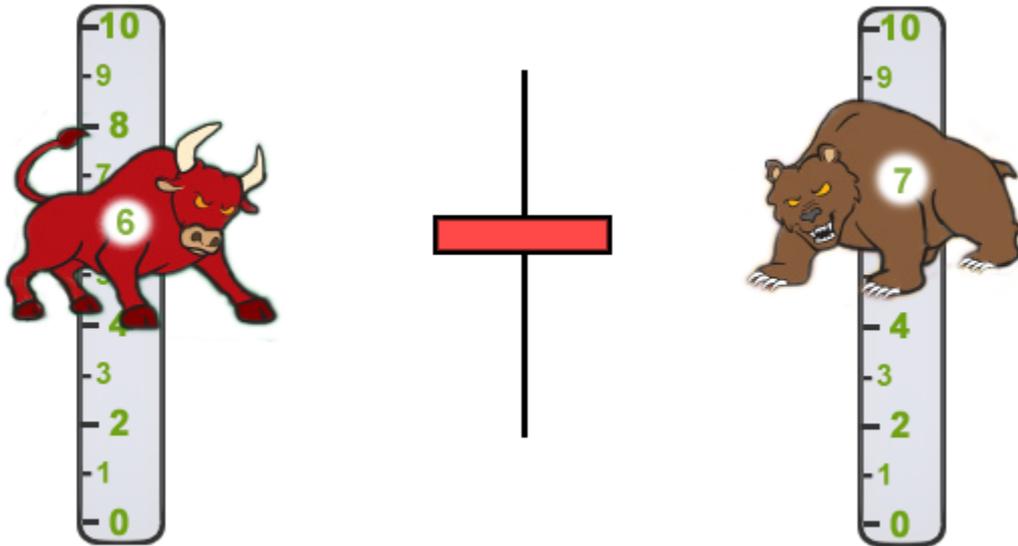


On the 5 minute chart,  
each candlestick  
represents a 5 minute  
interval

# What is a Candlestick Chart?

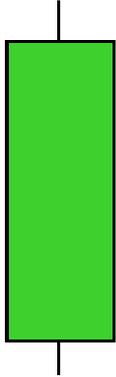
- Candlestick colours vary across charting packages
- Usually candlesticks where the close price is greater than the open are white or green or blue
- Candlesticks where the close price is below the open are usually red or black

# 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

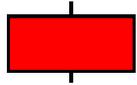
- The closer the close is to the low, the closer the Bears came to scoring a goal
- The closer the close is to the high, the closer the Bulls came to scoring
- Let's look at six scenarios



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



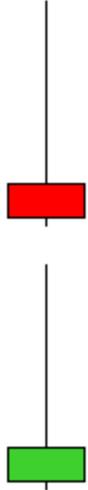
2. Bears controlled the ball (trading) most of the game



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



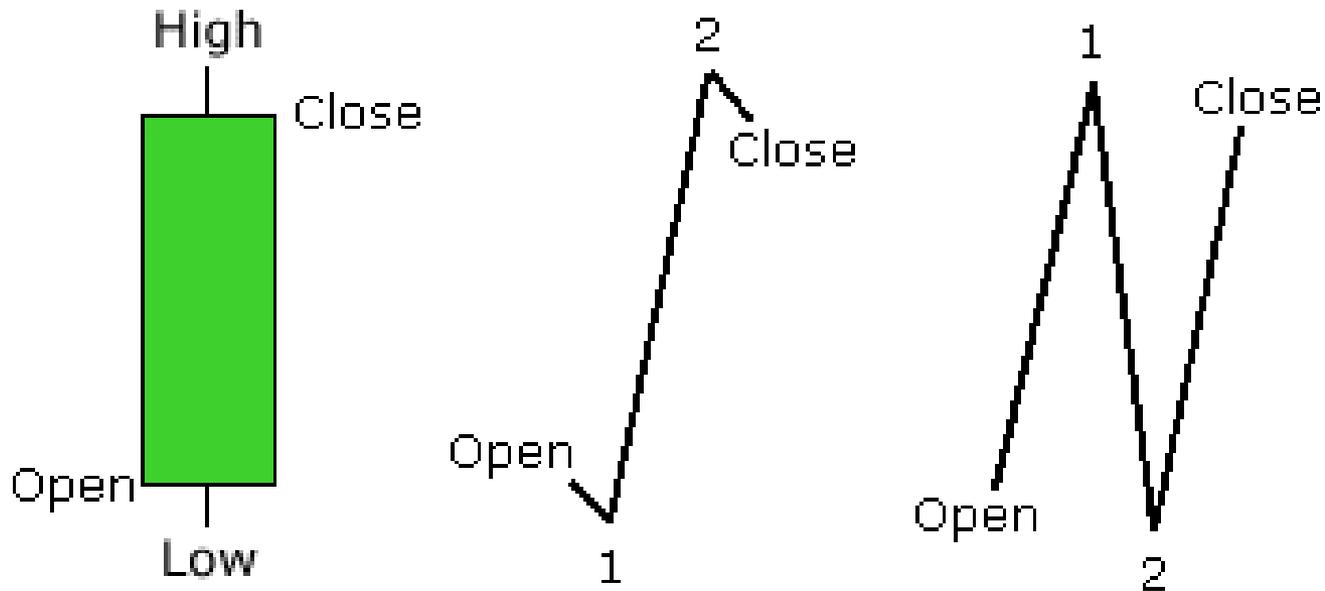
5. The Bulls controlled the ball for part of the game, but then the Bears made a comeback



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

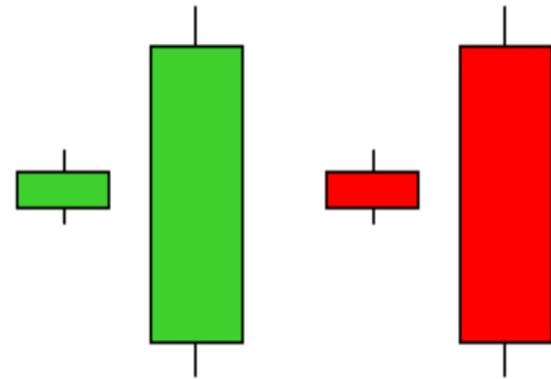


# What are candlestick patterns?

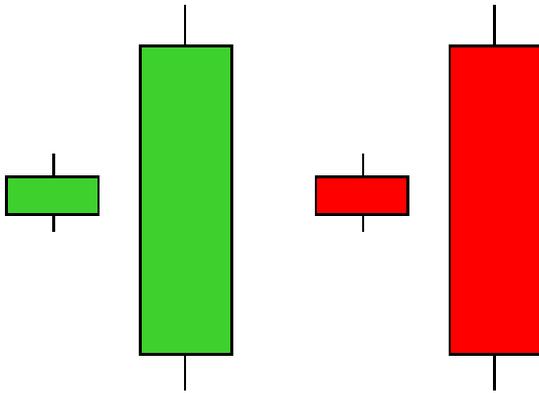
- Candlestick Charts are more visually intuitive and easier to interpret than Bar Charts
- The vital relationship between open and close forms the essence of candlesticks
- **Green** candlesticks represent **buying** pressure
- **Red** candlesticks indicate **selling** pressure

# Long versus Short

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



# Long versus Short

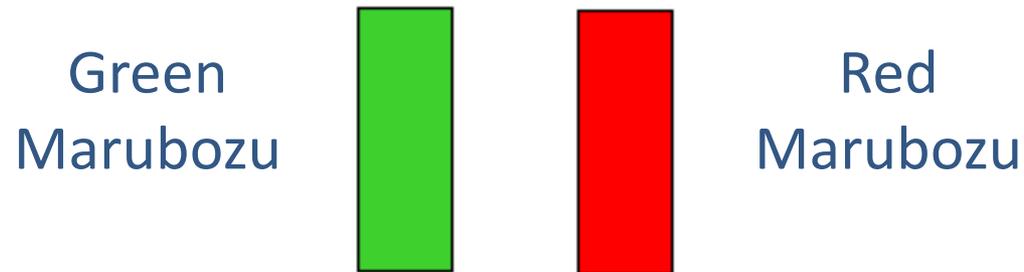


- Long candles → strong buying or selling pressure
  - The longer the candlestick, the more aggressive the buyers or sellers
- 
- Long candles are generally bullish or bearish, but we must consider their position within the broader technical picture

# Long versus Short Candles

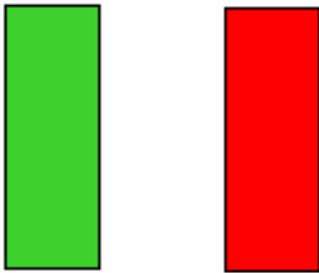
- Long **Green** candlesticks after extended declines → potential turning point or support level
- A long **Red** candlestick after a long rally → Turning point or future resistance level
- A long **Red** candlestick after a long decline → Panic or capitulation

# Marubozu



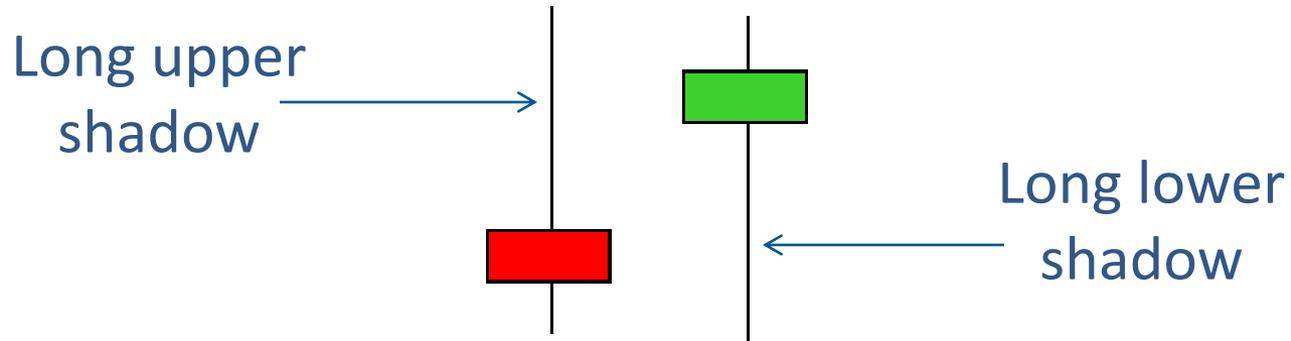
- Marubozu don't have upper or lower shadows
- The high and the low are represented by the open and the close

# Marubozu



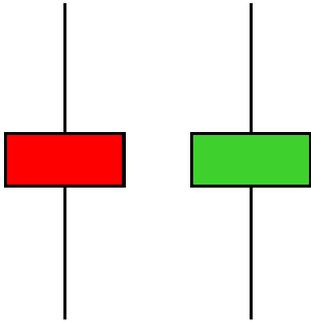
- Green Marubozu → Buyers controlled the price action from the first trade to the last
- Red Marubozu → Sellers controlled the price action from the first trade to the last

# Long versus Short Shadows



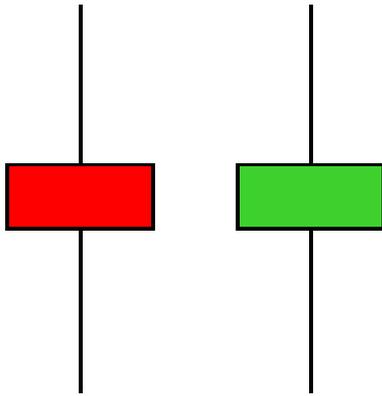
- Upper shadows → session high
- Lower shadows → session low
- Long shadows → prices extended well past the open and the close

# Spinning Tops



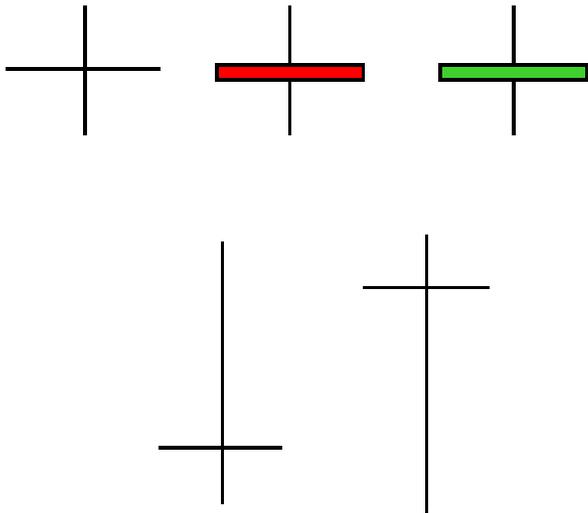
- Small bodies and long upper and lower shadows
- 1 long shadow may represent a reversal
- 2 long shadows (a spinning top) represent **indecision**
- Long shadows → both buyers and sellers were active but neither could gain advantage
- Small body (either **Red** or **Green**) → little real movement from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

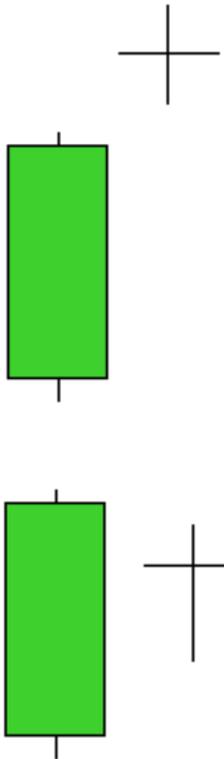
# Doji



- Doji provide information:
  1. on their own
  2. as a part of several candlestick patterns

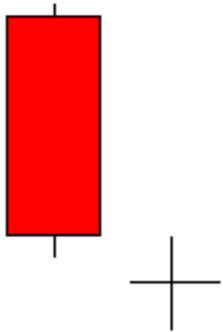
- Open = Close (any length of shadows)
- Demand and supply are even, so a change in trend may be near
- A Doji between long-body candles is significant
- A Doji between small-body candles isn't important
- On their own, Doji are neutral patterns

# Long Green Candle & Doji

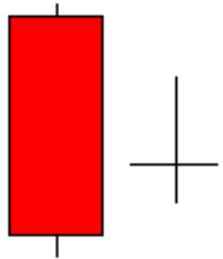


- After a rally or a long **Green** candle, a Doji signals weakening buying pressure - uptrend could be nearing an end
- Further downside is still needed for bearish confirmation:
  - A gap down
  - A long **Red** candlestick
  - A fall below the long Green candle's open

# 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

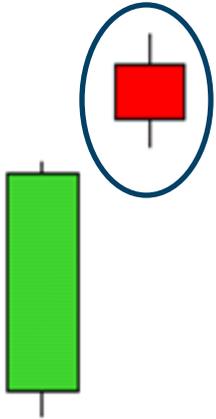


- We still need further bullish confirmation:
  - A gap up
  - A long **Green** candlestick
  - A rise above the long Red candle's open

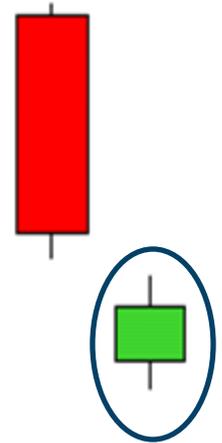
# Past Trend

- 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



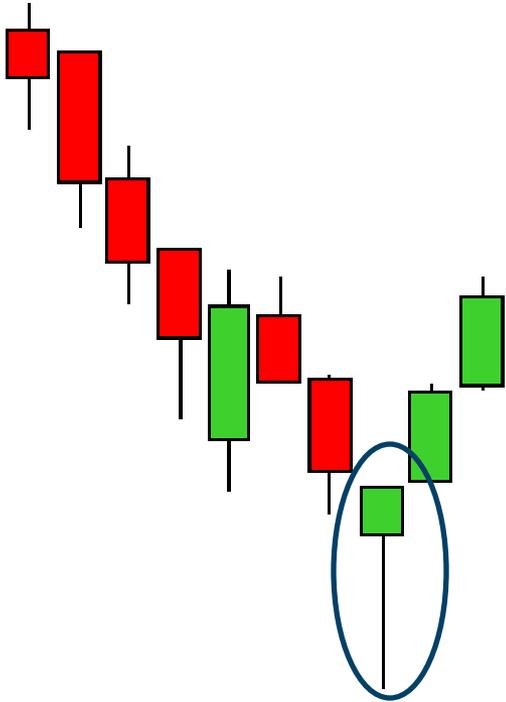
- Candles can be any combination of **Red** or **Green**
- Candles can be **Doji**, **Hammers** (seen later), **Shooting Stars** (seen later), & **Spinning Tops**
- We will look at 2- and 3-candlestick combinations that utilize the **Star Position** later

# 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 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



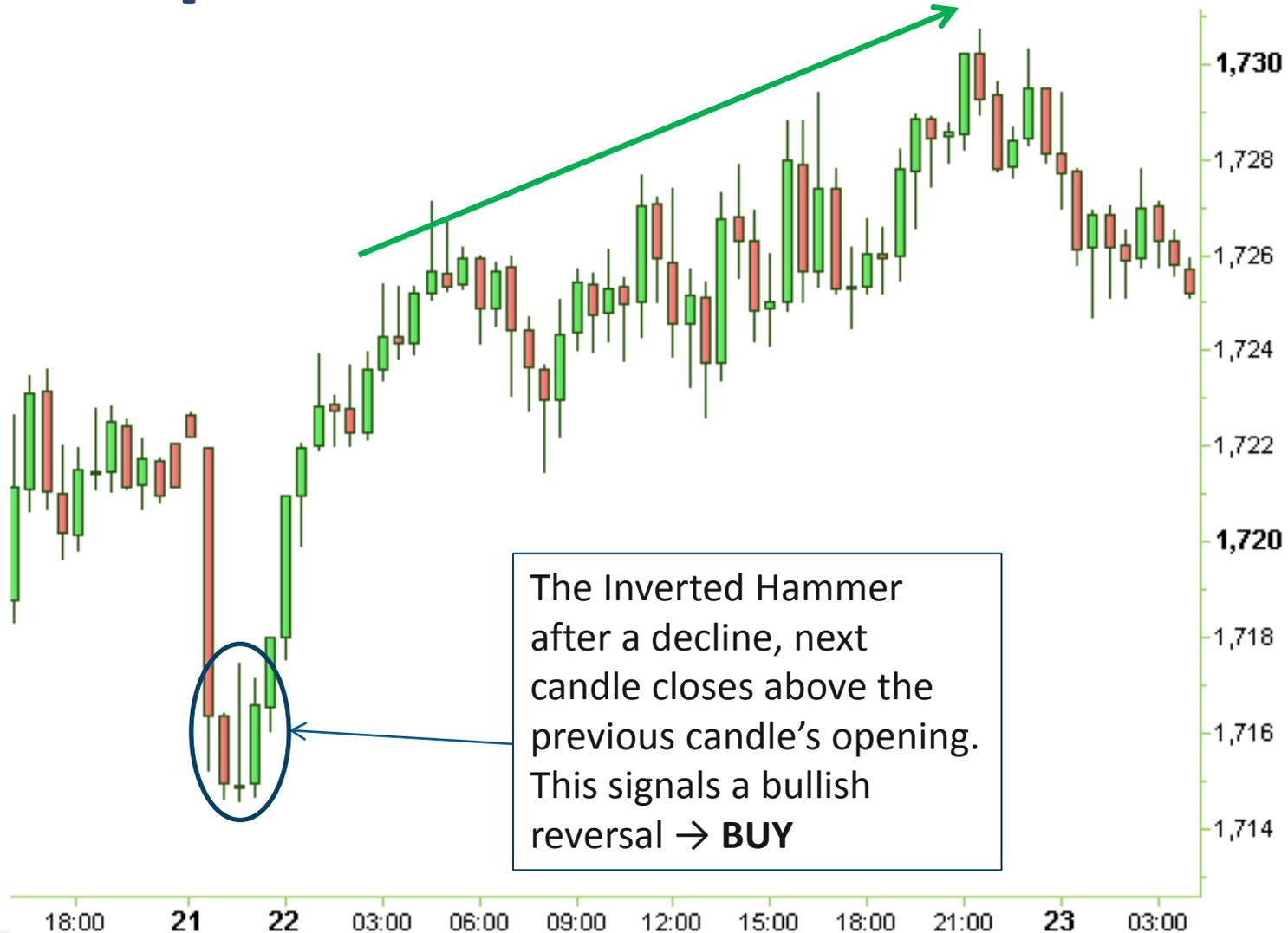
- Both mark possible trend reversals, but confirmation is needed before action

# The Inverted Hammer

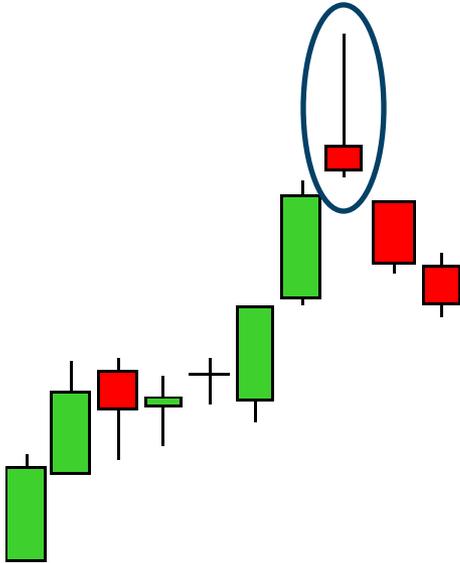


- After a  it signals a possible **bullish** reversal, a support or a bottom
- Since sellers can't push the price lower, everyone who wanted to sell has already sold
- Confirmation such as a gap up or a long **green** candlestick that closes above the open of the candle before the inverted hammer is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

# Example of the Inverted Hammer



# The Shooting Star

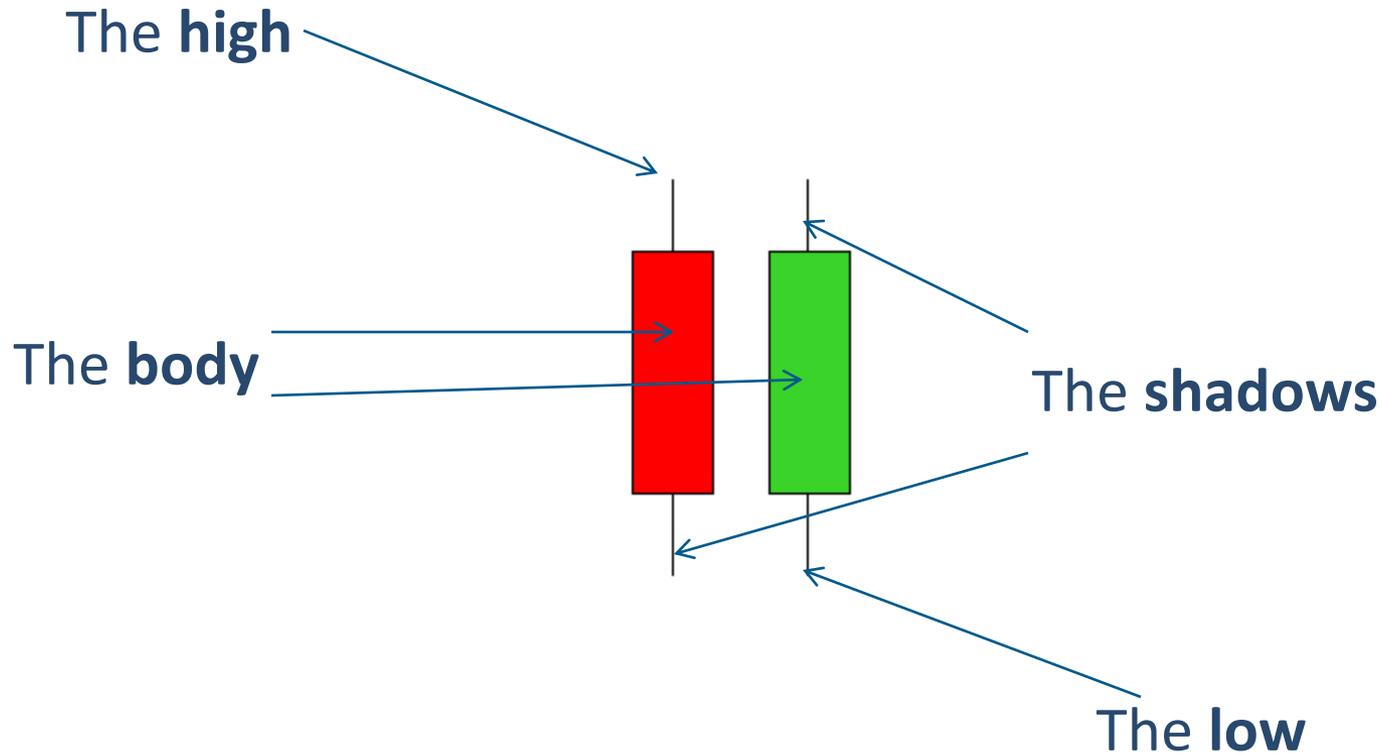


- After a  this can be a bearish reversal, a top, or a resistance
- Since buyers can't push the price higher, everyone who wanted to buy has already bought
- Bearish confirmation such as a gap down or a long **red** candle closing below the open of the candle before the star is needed before action

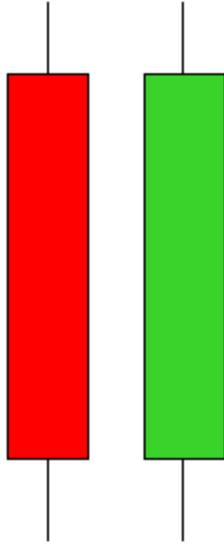
# Example of the Shooting Star



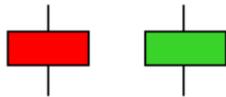
# Summary



# Summary

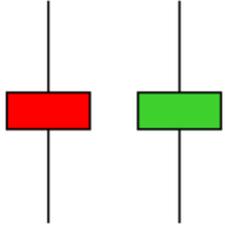


Strong buying or selling. The longer the body is, the more intense the buying or selling pressure

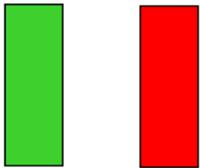


Very little buying or selling activity

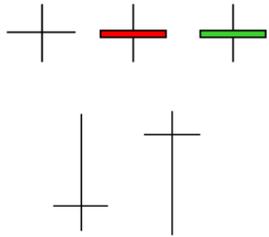
# Summary



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?

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