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## A Note from the Author

Hey there – this is Chris Lee from [ForexCandlesticksMadeEasy.com](http://ForexCandlesticksMadeEasy.com)

Over the past weeks I've been receiving requests from many of my subscribers to share some of my candlestick analysis techniques... and so this report is a way of saying 'Thank You' to all of you who have been supporting me.

I sincerely value your opinions and would like to share with you as much as I can about the trading techniques that have been profitable for me.

As usual, please don't hesitate to send me any of your questions or comments regarding any of my reports. I'd love to hear what you think of them!

Best regards,

CHRISTOPHER LEE

## **Just to clarify...**

This report was written with the Forex market in mind. Although Japanese candlesticks are often used as an analysis tool in many other trading markets, the concepts that I'll reveal in Section 2 and 3 of this report are specifically with reference to the currency market.

This being said, I will also teach you how to read and understand the basic principles behind candlesticks in Section 1. This is a universal concept that can be applied to other financial markets.

If you think you already understand candlestick basics, please think again. Candlesticks reveal more information than just the opening and closing prices of the market.

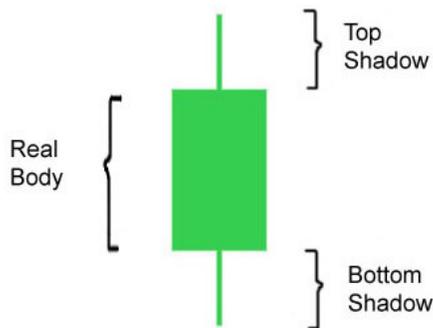
Read on, and I hope you learn something new :)

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## Section 1 – Miracle Wax

What are candlesticks?

Candlesticks are graphical representations of market price movements within a specified time period. A candlestick may represent price movement that occurred in the last 5 minutes; 15 minutes; 30 minutes; 1 hour; 4 hours; 1 day; 1 week; or 1 month for example.



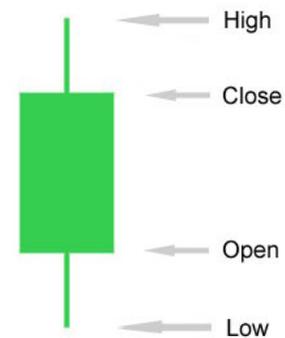
This is what a candlestick looks like. The thick portion is known as the real body, and the thin parts are known as the shadow.

Got it? Now let's now see what the real body and shadow can tell us about how market prices have moved.

Remember that each candlestick represents a specific time period?

Let's assume the the candlestick to the right represents price movement in a 1 hour period.

The 'open' would be the market price at the beginning of the 1 hour. The 'close' is the market price at the end of the 1 hour. The 'high' and 'low' are the highest and lowest prices that were traded within that 1 hour, respectively.



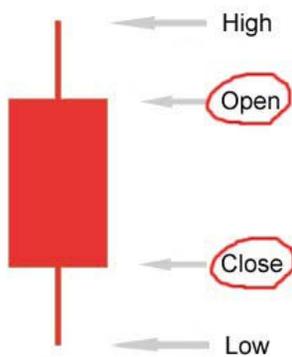
You may have wondered at this point why the candlestick is green in colour. Most trading platforms today will allow you the option to change the colour of the candlesticks that you see on your charts, so it doesn't really matter.

For the rest of this report, let's use **green** to represent a bullish candlestick, and **red** to represent a bearish candlestick.

## What is a bullish/ bearish candlestick?

A bullish candlestick represents market prices that are moving up. If you look back at the 1 hour candlestick (in the previous page), you'll see that the 'close' (end) price is higher than the 'open' (beginning) price. This means that in that 1 hour, the market has moved from the 'open' price, up to the 'close' price.

And now here's a bearish candlestick:

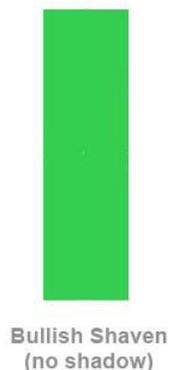


Notice that a bearish candlestick is the opposite of a bullish candlestick: it shows how prices have moved down within the time frame that the candlestick represents.

Bearish candlesticks are usually represented by the colour red.

## Special candlesticks

Occasionally, you'll come across candlesticks that have no shadows, or have no real body. These are very special candlesticks that can provide you with crucial information about where market price may be headed. I will discuss more about these special candlesticks next.



## Section 2 – The Power of Momentum

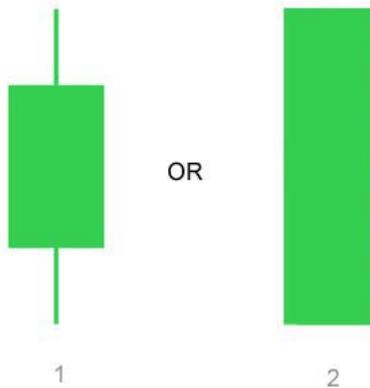
This is potentially the most important concept in Forex chart analysis. If there's only one thing you can learn from candlestick analysis, I recommend that you learn about how to read momentum.

So what is momentum?

Momentum is essentially a measure of **how strong** price movement is.

Try to answer this question:

**Which of these candlesticks show a stronger upward price movement?**



Using what you've just learned about how to read candlesticks, take a moment to think about your answer.

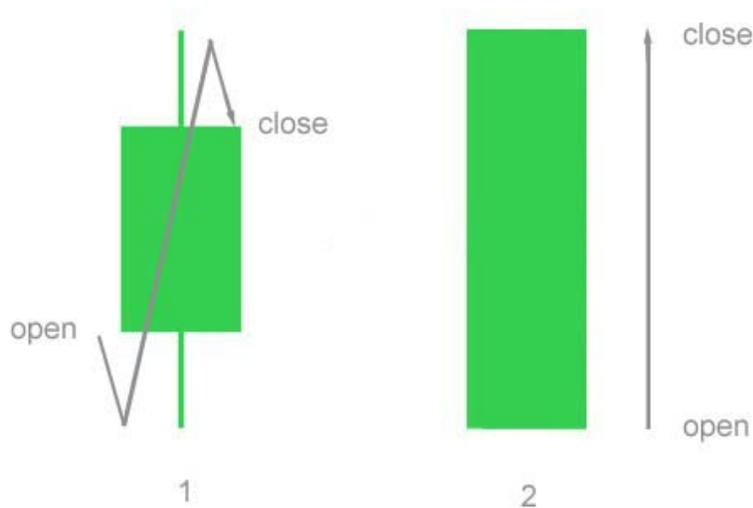
Turn to the next page when you've decided on your answer...

Did you guess candlestick 2? If you did, good job!

So why does candlestick 2 show a stronger upward momentum?

Although both candlesticks have the same high-low price range, candlestick 2 shows **no hesitation in upward price movement**. Also, candlestick 2 shows a **higher closing price**.

Here's an example of how prices moved:



Can you see how candlestick 2 shows the price moving straight up? This is an indication of a strong upward momentum.

Candlestick 2 is often called a **bullish shaven candle**. The opposite of a bullish shaven candle is called a bearish shaven candle. (duh)

But how does understanding price momentum help you make money in trading?

Let's now look at an example of how shaven candles can help...



Here, we see a bearish shaven candle that is soon followed by a further drop in prices. If you sold the market after seeing this bearish shaven candle, you would have made money!

Now, if you open up your trading charts and take a look, you'll be able to find many similar instances where a bearish (or bullish) shaven candle is usually followed by a subsequent drop (or rise) in prices.

Go ahead and check out your trading charts now. It's important that you're convinced of the strong influence of shaven candlesticks on future price direction.

...

Turn over the page when you're ready...

**All right Chris, I'm convinced.**

**But why are shaven candles so accurate in predicting the direction of future prices?**

The answer is because shaven candles indicate **strong momentum** in price movements. In the above bearish shaven example, there was no shadow because the sellers in the market completely overwhelmed the buyers; the buyers couldn't drive the price up at all! The sellers were too strong.

And once the buyers are temporarily defeated, prices will continue to free-fall until the buyers can regain their strength and start pushing prices back up again.

**Wow that's great! Are shaven candles 100% accurate in predicting future price movements?**

Nope. Not a chance. If it did then all traders would be rich by now. Haha... nice try.

Sometimes, shaven candles are immediately followed by prices moving in the opposite direction of them... as is often the case during the release of certain economic news announcements.

For example, the moment the U.S. GDP figures are revealed to be unexpectedly low, flocks of news traders all over the world will immediately enter into a SELL trade for the U.S. Dollar. This will likely result in a huge bearish shaven candle on the trading chart. However, this bearish shaven candle will often be immediately followed by a strong bullish candle because the news traders will begin to take their profits by exiting their positions (thus driving price up again).

So, if you come across a shaven candle during periods when important economic news is announced, do yourself a favour and ignore it. Shaven candles are good predictors of future price direction only when they have been 'naturally' formed by normal everyday trading activity.

Of course, shaven candles are not the only indicators of strong momentum in the market. There are several other ways to identify the strength of market price movements. However, shaven candles are one of the most reliable indicators that I've come across.

### **To summarize...**

I hope you now have a good foundation of how momentum works... the main point you should remember is that momentum is like throwing a stone: the stronger the initial thrust, the further the stone travels. Likewise, the larger a shaven candle, the more likely (and further) prices will continue move in the direction of that candle.

However, you should ignore any shaven candles on the charts during times when important economic news is announced.

## **BUT!**

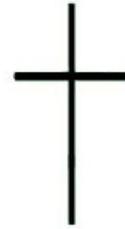
As with all other trading indicators and analysis tools, you should never, ever, ever (EVER) rely solely on candlestick analysis to trade. This means that you shouldn't just blindly enter into a BUY trade the moment you see a bullish shaven candle.

Candlestick analysis is meant only to be one criteria out of the many trading criteria you should have in your own trading system. Use candlestick analysis together with your technical indicators. If you see a bullish shaven candle, but your other technical indicators tell you not to enter into a BUY trade, then please **don't** buy!

In the next section, I'll discuss about markets with weakening momentum...

### **Section 3: When Momentum Is Lost**

When momentum is strong in the market, it's a good time to enter into a trade. But when do you exit the trade? The answer is when that momentum begins to slow down. And as you might have guessed, the candlestick that best shows the lack of momentum is the Doji:



On the trading charts, a Doji looks like a cross because the open price is the same as the close price; therefore, this candlestick has no real body at all.

A Doji can represent either one of two things:

1. Buyers and sellers are equally strong
2. Indecision in the market

#### **1. Buyers and sellers are equally strong**

When the buyers and sellers of the market are fiercely fighting each other, prices may not fluctuate much. This is because both sides are equally strong at that point in time, and are caught in a deadlock. However, the moment one of the sides starts to lose strength, the other side will usually push prices strongly in their direction.

#### **2. Indecision in the market**

Sometimes when the market is behaving unpredictably, traders in the market don't know whether to buy or sell. This results in a Doji candlestick on the charts because neither buyers nor sellers are strong... they're both weak! This is the opposite of the (above) point 1 when both sides are exerting strong buying/selling pressure.

#### **How to trade using a Doji candlestick**

Many Forex books and websites claim that a Doji candlestick indicates a change in market direction. Now that you understand the reasons for the formation of a Doji, do you agree with what these books and websites say?

Not necessarily, right? Whether or not a Doji indicates a possible change in market direction depends on the reason for the formation of the Doji. For example, indecision in

the market is unlikely to cause a change in market direction! Weak buyers/sellers will not be able to push price in any direction at all.

### Summary

By now, you should know that long shaven candles signify strong price momentum in the market, and that strong momentum is a good indicator of the direction of future price movements.

You also now know that a good time to exit your 'in-the-money' trades is when loss of momentum is observed in the market. A Doji signifies a loss in momentum, although this does not mean that prices will definitely reverse in the opposite direction. Never try to predict trend reversals (and enter the market) based on a single Doji candlestick!

## **Thanks for Reading!**

That's all folks! I hope this report has been an informative read for you.

If you want the full book on simple but incredibly effective candlestick trading techniques, you can grab a copy now at: <http://forexcandlesticksmadeeasy.com/>

If you have any questions or comments regarding this report, just drop me a quick Email at: [Chris@forexcandlesticksmadeeasy.com](mailto:Chris@forexcandlesticksmadeeasy.com)

I'll talk to you again soon...

Take care,

CHRISTOPHER LEE