

# Japanese Candlestick Patterns Explained

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A special thanks to [www.worden.com](http://www.worden.com) and the worden brothers, their moderators and designers employees etc. for their fine charting platform Telechart 2007. Visit their website and discussion boards for every PCF imagineable.

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25 Japanese candlestick patterns

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Welcome to candlestick genius. In this material you will learn the art of applying reliable candlestick patterns to your equities, derivatives, forex or other trading preferences. No matter what you trade, you will find that the following candlestick patterns and their variations are not only a fantastic means of understanding price action, but they also provide excellent insight into potential reversals and continuations.

The objective of the candlestick pattern technician is to identify the underlying psychology within the pattern. This will include the highs, lows and the opens and closes, especially relative to the previous candlesticks.

You see, when a candlestick attempts new highs and fails to close at those highs you can get some clues as to who's in charge at the moment, the bulls or the bears. There are single candlestick clues, as well as 2, 3 and even 4 candlestick patterns that will reveal a lot about who's in charge.

Combine these patterns with some specific indicators and you are well on your way to identifying short term market tops and bottoms and identifying some very specific entry and exit points.

As you move through the various patterns in this book, take a close look at 1 candlestick at a time, say to yourself, "Here's the open, the high, the low, and the close." Then look at the next candlestick's open relative to the previous close and go through the high, low and close again. Next observe the 3rd and or 4th candlestick in the pattern and look back at each candlestick and try and sum up the underlying clue that the pattern is providing.

See how accurate your assessment of the pattern is compared to what's described here. You may not be very good at this initially, but when you are, you will then have what I call an "intuitive understanding" of these high probability patterns.

Once they become "intuitive", you will really be able to apply the power that these patterns have.

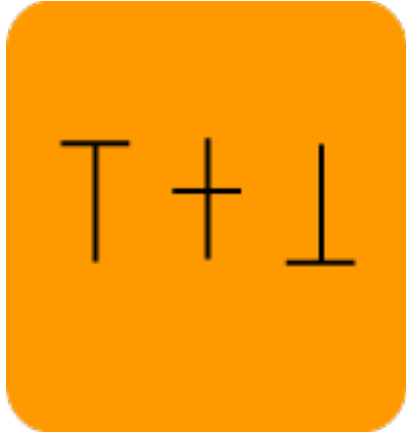
Good luck to you, and if you require any assistance please feel free to e-mail me.

Sincerely,

Mark Deaton  
mark@renegadetrader.com

# 25 High Probability Candlestick Patterns

# Doji's



The doji comes in many forms. We'll talk about a doji all by itself for now. These 3 variations are similar but each has its own underlying meaning. Lets look at each of them and what they are saying.

The first is the **dragonfly doji**. What happens here is the open, close and high are all the same price, but price did attempt a low that wasn't able to stay down. This is a period of indecision, or some would say a period of agreement between the bears and the bulls that price is "fair", at least for the time being.

The fact that the low wasn't sustained is actually a little bullish, but the other fact is that the open and the close were the same which is a bit bearish.

All in all the dragon fly doji should get your attention. Coming off of an up trend this is a reasonably strong reversal signal. With confirmation this doji can be very reliable.

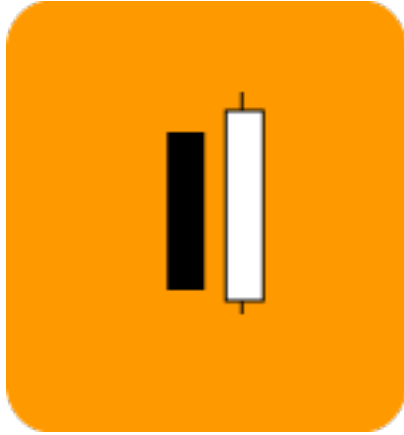
The next doji is the **Doji cross**. This shows us an open and close that are identical, but there was a decent high and low during the day, and ironically price ended up closing at the open price. This is very similar to the dragonfly save the fact that price moved around a bit in both directions before closing right where it started hours earlier. (Daily.)

Also a period where a reversal is likely. We will go into bearish or bullish sentiment when we look at these candlesticks coming off of trends.

The last doji is the **gravestone doji**. This candlestick opened, made a nice high and then closed at the open. Off of a bullish run this is very bearish and according to the Japanese does not require confirmation.

We will examine these doji's in various trends later.

## Engulfing Patterns - Reversal



These two patterns are characterized by a number two candlestick that completely “engulfs” the first. In the case of a bullish engulfing formation, the white candlestick opens below the previous close, and then closes above the previous open.

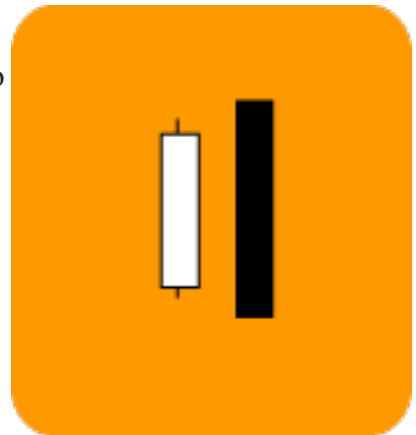
This demonstrates a pretty immediate change in sentiment. Remember that the first candlestick closes below its open. In other words it opens, and then closes lower - bearish. The next candlestick (white) actually gaps down a bit appearing initially that its going to continue the downward movement, but then suddenly

reverses and closes above the previous days open.

Do you see the reason this is a bullish pattern ? Look for a bullish engulfing formation at the bottom of a short term trend down.

Next is the bearish engulfing formation. Exactly the opposite. The white candlestick opens, and goes on to close higher than it opened. -

Bullish. The next candlestick then opens higher than the previous days close, a bullish start, as if its going to continue the trend, but then it falls to close below the previous days open.

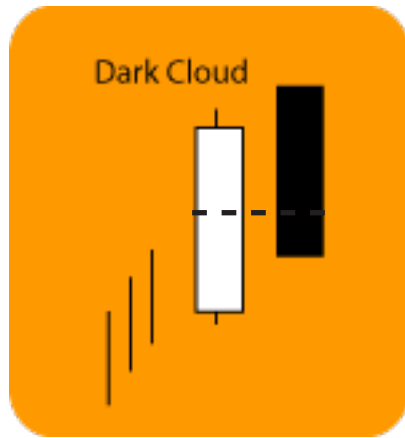


Look for these reversal patterns at the top and bottom of short term trends for some high probability trades. Combine these buy / sell signals with Bollinger bands or other solid indicators and you will not run out of solid profitable set-ups.

Bullish Engulfing PCF -  $((O1 > C1) \text{ AND } (C > O) \text{ AND } (C \geq O1) \text{ AND } (C1 \geq O) \text{ AND } ((C - O) > (O1 - C1)))$

Bearish Engulfing PCF -  $((C1 > O1) \text{ AND } (O > C) \text{ AND } (O \geq C1) \text{ AND } (O1 \geq C) \text{ AND } ((O - C) > (C1 - O1)))$

## Pattern Type - Reversal



A dark cloud and piercing line are very important reversal patterns. When they occur they demonstrate a rather sharp change in sentiment.

Take a look at the dark cloud. You have a series of candlesticks making higher highs and higher lows. The last candlestick opens above the previous close, as if it was going to be even more bullish than the previous candlesticks, but then it fails immediately and closes well into the real body of the previous candlestick.

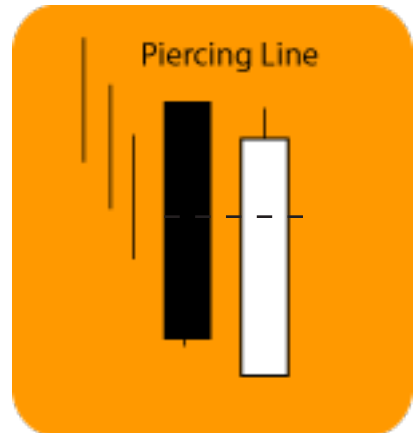
The last candlestick must penetrate at least half way or more into the previous candlesticks real body.

The piercing line is identical except its a bullish reversal. We first have a series of lower highs and lower lows. The last candlestick gaps down as if to be more bearish, but then ends up closing beyond the 50% point of the previous candlestick.

Look for confirmation from the next 1 or 2 candlesticks and also, use your favorite indicators. A piercing line or dark cloud can be a very profitable set-up

Dark Cloud PCF -  $((C1 > O1) \text{ AND } (((C1 + O1) / 2) > C) \text{ AND } (O > C) \text{ AND } (O > C1) \text{ AND } (C > O1) \text{ AND } ((O - C) / (.001 + (H - L)) > .6))$

Piercing Line PCF -  $((C1 < O1) \text{ AND } (((O1 + C1) / 2) < C) \text{ AND } (O < C) \text{ AND } (O < C1) \text{ AND } (C < O1) \text{ AND } ((C - O) / (.001 + (H - L)) > 0.6))$



## Pattern Type - Reversal



The kicker signal is a very powerful short term reversal signal. The kicker identifies a very drastic change in market sentiment.

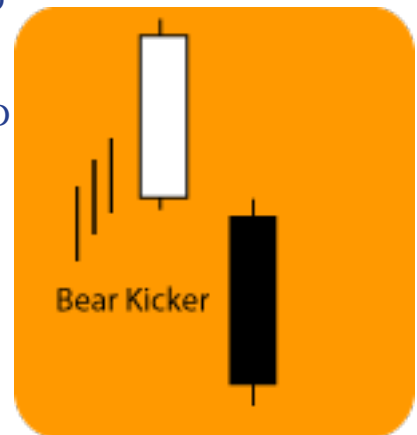
Looking at the bullish kicker we see a down trend, then we instantly get an open that is at or above the previous candlesticks open and then price continues to head in the opposite direction.

The bearish kicker is identical, we have a stock that is up trending, and then an open that is less than the previous candlesticks open.

The candlestick proceeds to close lower than the open. Take note as to the obvious dramatic change in market sentiment.

Bullish Kicker PCF -  $(O1 > C1) \text{ AND } (O \geq O1) \text{ AND } (C > O)$

Bearish Kicker PCF -  $(O1 < C1) \text{ AND } (O \leq O1) \text{ AND } (C \leq O)$



## Pattern Type - Reversal



A Harami is a signal to just take note of. Its basically telling you that a potential change is near. A bullish Harami forms when a stock is down trending.

The signal candlestick then proceeds to open inside the real body of the previous candlestick, and then close higher than it opened, but lower than the previous days open.

A bearish Harami is the same thing, coming off of a bullish trend the last candlestick opens well into the real body and then closes below the open, but also

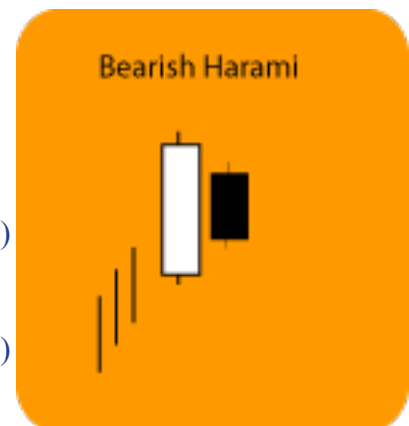
higher than the previous days open.

A Harami looks like a backwards engulfing pattern. This pattern is simply telling you that the bears (bulls) are losing steam, and that the bulls (bears) are probably taking over.

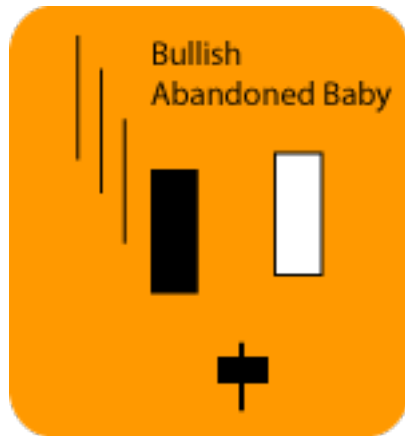
Watch the next candlesticks to confirm the potential change in market sentiment, and add an indicator for additional confirmation.

Bullish Harami PCF -  $((O1 > C1) \text{ AND } (C > O) \text{ AND } (C \leq O1) \text{ AND } (C1 \leq O) \text{ AND } ((C - O) < (O1 - C1)))$

Bearish Harami PCF -  $((C1 > O1) \text{ AND } (O > C) \text{ AND } (O \leq C1) \text{ AND } (O1 \leq C) \text{ AND } ((O - C) < (C1 - O1)))$



## Pattern Type - Reversal



A bullish abandoned baby is a 3 candlestick reversal pattern where the first candlestick is simply a reflection of the prevailing trend.

The doji is a small gap down and indicates that the bears are losing strength. Notice that the doji failed to make any bearish headway.

The next day the stock gaps up and then closes higher than the open. The higher the close on this day the more powerful the signal.

A bullish abandoned baby is a very high probability pattern.

A bearish abandoned baby is one where the overall trend is bullish, the first candlestick continuing that trend. The doji candlestick gaps up but makes no bullish headway. This is telling us that the bullish trend may be over.

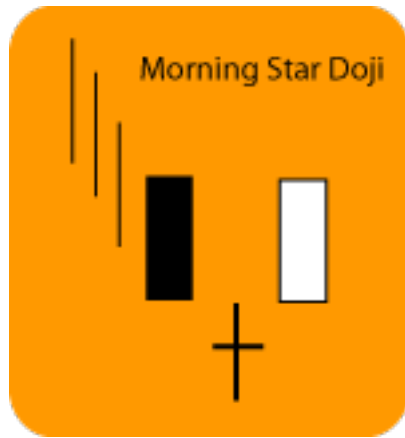
The next day there's a little gap down, and then the close is lower than the open, forming the strong and reliable abandoned baby.

Bullish Abandoned Baby PFC -  $C2 < O2$  AND  $ABS(C2 - O2) > (H2 - L2) * 0.50$  AND  $H1 > L2$  AND  $(C1 + O1) / 2 \geq ((H1 + L1) / 2) * 0.40$  AND  $(C1 + O1) / 2 \leq ((H1 + L1) / 2) * 0.60$  AND  $ABS(C1 - O1) \leq (H1 - L1) * 10$  AND  $L > H1$  AND  $C < O$



Bearish Abandoned Baby PCF -  $ABS(C2 - O2) > (H2 - L2) * 0.50$  AND  $C2 > O2$  AND  $ABS(C1 - O1) \leq (H1 - L1) * 0.05$  AND  $((C1 + O1) / 2) - L1 \geq (H1 - L1) * 0.40$  AND  $((C1 + O1) / 2) - L1 \leq (H1 - L1) * 0.60$  AND  $L1 > H2$  AND  $C < O$  AND  $H < L1$  AND  $O > C2$  AND  $(L > O2 \text{ OR } C < L2)$

## Pattern Type - Reversal



An morning star doji is a 3 candlestick reversal pattern where the first candlestick is simply a reflection of the prevailing trend.

The next day we get a doji that indicates that the bears are losing strength. Notice that the doji failed to make any bearish headway.

The following day the stock opens and then closes higher than it opened.. The higher the close on this day the more powerful the signal. Must close at least thru the half way point of the first candlestick in the

pattern. A morning star doji is a very high probability pattern.

An evening star doji is one where the overall trend is bullish, the first candlestick continuing that trend. Then we have a doji candlestick that tells us that the bulls have pushed as far as they are going to right now.

The very next day the stock open at or near the previous close and then continues to close lower than the open.

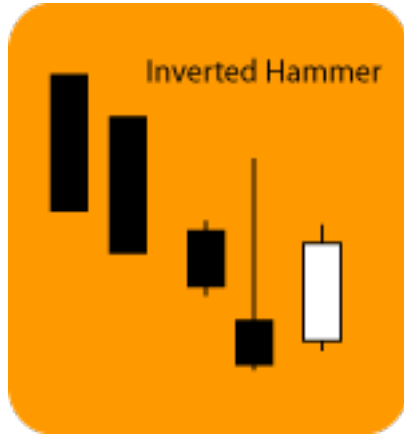
The reversal has completed.

Bullish Morning Star Doji PCF -  $C2 < O2$  AND  $ABS(C2 - O2) > (H2 - L2) * 0.50$  AND  $H1 < L2$  AND  $((C1 + O1) / 2) - L > (H - L) * 0.40$  AND  $((C1 + O1) / 2) - L < (H - L) * 0.60$  AND  $ABS(C1 - O1) < (H1 - L1) * 0.20$  AND  $C > O$

Bearish Evening Star Doji PCF -  $ABS(C2 - O2) > (H - L) * 0.50$  AND  $C2 > O2$  AND  $ABS(C1 - O1) < (H1 - L1) * 0.05$  AND  $(H1 - L1) < (AVGH21.1 - AVGL21.1) * 0.20$  AND  $O1 > C2$  AND  $C < O$



## Pattern Type - Reversal



There are a couple of ways to look at an inverted hammer, we'll stick with what most people would tell you for now.

The inverted hammer is a single candlestick signal and like single candlestick signals go requires other confirmation.

Notice the prevailing downward trend. Then the hammer forms. What happened is the stock slowed down its downward movement, but also made a nice attempt at reversing on that day and then failed.

Notice the upper wick of the hammer candlestick. Price action did put up a nice fight but by day end got pushed back down.

What price did succeed in doing was not allowing the bears to make much ground. The next day we get a candlestick that supports the hammers failed attempt, and we see a reversal is forming.

A shooting star is a hammer but in this case its coming off of a bullish trend. Its the same but different. The shooting star makes a great new high but fails to close anywhere near it. Additionally the real body makes very little or no progress in the bullish direction.



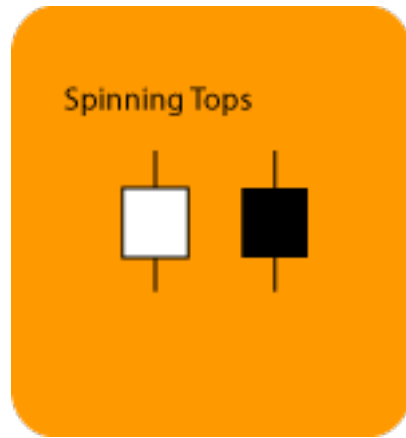
What makes it a shooting star is the long tail, the failed attempt at closing near the new high.

The following candlesticks let us know that we are now moving in a new direction.

Inverted Hammer PCF -  $((H - L) > 3 * (O - C)) \text{ AND } ((H - C) / (.001 + H - L) > 0.6) \text{ AND } ((H - O) / (.001 + H - L) > 0.6))$

Shooting Star PCF -  $((H - L) > 4 * (O - C)) \text{ AND } ((H - C) / (.001 + H - L) \geq 0.75) \text{ AND } ((H - O) / (.001 + H - L) \geq 0.75))$

### Pattern Type -



A spinning top is found where there is indecision in the marketplace. Some would also call it a time when the bears and the bulls agree on price.

I prefer the latter. Its a semi rare point in the market when the bears and the bulls have found some equilibrium, if only temporary.

A spinning top simply represents a period where the high, low, open and close are all in a reasonably tight range. There are times when you will see many spinning tops in a row, forming a tight trading range.

These tight ranges result in constricting volatility, and a breakout in one direction or the other is imminent.

## Pattern Type - Reversal



The three black crows candle formation does not happen very frequently, but when it does occur swing traders should be very alert to the crow's caw.

Look for the obvious tall 3 black candlesticks.

On the day the first black crow appears, the formation is most predictive if the first "crow" -- or dark candlestick -- closes below the white candle's real body, of the previous trend. . That is the first step in setting up a Minor trend reversal -- where today's high is lower than yesterday's high and today's low is below yesterday's low.

Two more long-bodied consecutive down days then ensue. On each of these days, it appears as if the stock wants to regain its former strength, as the stock opens higher than on the previous day.

By the end of each day however, the sellers regain control and the stock drops to a new closing low.

Three Black Crows PCF -  $O1 < O2$  AND  $O1 > C2$  AND  $O < O1$  AND  $O > C1$  AND  $C1 < L2$  AND  $C < L1$  AND  $C2 < L2 * 1.05$  AND  $C1 < L1 * 1.05$  AND  $C < L * 1.05$

## Pattern Type - Reversal

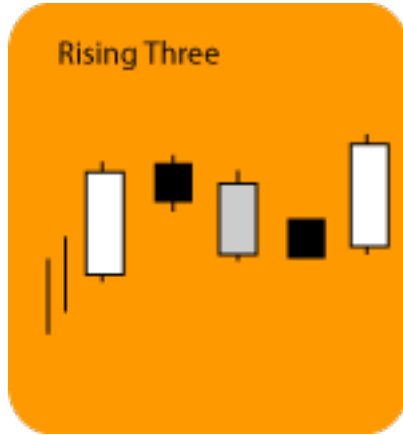


Following a downtrend, three long positive days with consecutively higher closes act as a strong indicator, in and of itself. Certainly the very definition of an up trend, and almost assuring bullish moves to come. In fact its really already started.

Each candlestick initially appears to demonstrate weakness by virtue of the opening relative to the close of the previous candlestick, yet each candlestick still closes higher than the previous close.

Three White Soldiers PCF -  $C > C1$  AND  $C1 > C2$  AND  $C > O$  AND  $C1 > O1$  AND  $C2 > O2$  AND  $ABS(C2 - O2) > (H2 - L2) * 0.50$  AND  $ABS(C1 - O1) > (H1 - L1) * 0.50$  AND  $(H - L) > (AVGH21 - AVGL21)$  AND  $O > O1$  AND  $O < C1$  AND  $O1 > O2$  AND  $O1 < C2$  AND  $O2 > O3$  AND  $O2 < C3$  AND  $C > H * 0.85$  AND  $C1 > H1 * 0.85$  AND  $C2 > H2 * 0.85$

## Pattern Type - Continuation



A long white day in an up trend is followed by three relatively small candles that move opposite the overall trend but stay within the range of the first day.

The fifth day is a long white day that closes above the close of the first day and continues the up trend.

In an up trend, a long white day is followed by a brief pullback (preferably on light volume). The fifth day simply continues the trend. The brief pullback is nothing more than a few days off for the bulls.

Rising Three Method PCF -  $(C4 > O4) \text{ AND } (H4 - L4) > (AVGH21.4 - AVGL21.4) \text{ AND } C2 < C3 \text{ AND } C1 < C2 \text{ AND } C3 < H4 \text{ AND } C3 > L4 \text{ AND } C2 < H4 \text{ AND } C2 > L4 \text{ AND } C1 < H4 \text{ AND } C1 > L4 \text{ AND } ABS(C3 - O3) \leq ABS(C4 - O4) * 0.75 \text{ AND } ABS(C2 - O2) \leq ABS(C4 - O4) * 0.75 \text{ AND } ABS(C2 - O2) \leq ABS(C4 - O4) * 0.75 \text{ AND } C > O \text{ AND } (H - L) > (AVGH21 - AVGL21) \text{ AND } C > C4$

## Pattern Type - Continuation



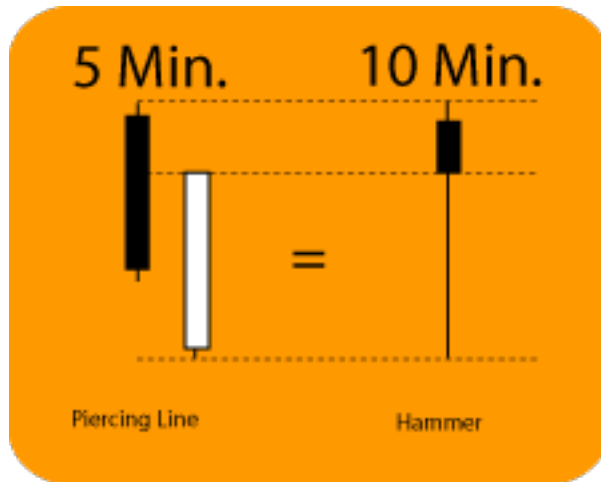
The Bearish Falling Three Methods Pattern is a continuation pattern, with a small 3 candles retracement of the first candlestick.

The pattern is characterized by a long black candlestick during a downtrend. It is then followed by small consecutive small bodies that look like a short up trend. These can be black or white candlesticks.

These small bodies must all remain within the high-low range of the first day's black candlestick. The pattern is completed by a long black candlestick, closing at a new low and showing that bears are finally taking over.

Falling Three Method PCF -  $ABS(C4-O4) > (H4-L4) * 0.50$  AND  $C4 < O4$  AND  $ABS(C3-O3) < ABS(C4-O4)$  AND  $ABS(C2-O2) < ABS(C4-O4)$  AND  $ABS(C1-O1) < ABS(C4-O4)$  AND  $L3 \geq L4$  AND  $H3 \leq H4$  AND  $L2 \geq L4$  AND  $H2 \leq H4$  AND  $L1 \geq L4$  AND  $H1 \leq H4$  AND  $H2 > H3$  AND  $H1 > H2$  AND  $C < O$  AND  $C < C4$

### Pattern Type -



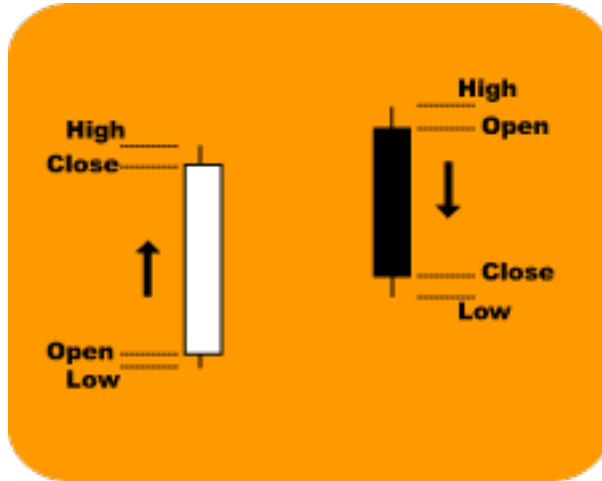
Take a look at this diagram. It shows you what two candlesticks forming a piercing line look like when combined into one 10 min. Candlestick.

Its not something you need to memorize, but do consider the fact that there are other time frames to view and its always a good idea to get agreement / confirmation between time frames.

When I'm planning a trade on a daily chart, I always take a look at a weekly and a 1 hr. chart just to be certain that

there isn't a pattern or formation that is forming against my forecast.

## Pattern Type -



Here is a diagram of the opens closes highs and lows on the black and white candlesticks.

Keep in mind that in telechart for example, you have green candlesticks for up and red for down. Up meaning the close is greater than the open, and down meaning the close is less than the open.

To really give you something to learn, and provide more insight consider that telechart and other programs actually

tell you much more than just this. Telechart (and other charting platforms.) has red solid, red hallow and green solid and green hallow.

In telechart ([www.worden.com](http://www.worden.com)) these are what a candlestick chart tells you.

Solid red candlestick means today's close is less than the open, and today's close is less than yesterdays close.

Solid green candlestick means today's close is less than the open, and today's close is greater than yesterdays close.

Hallow red candlestick means today's close is greater than the open and today's close is less than yesterdays close.

Hallow green candlestick means today's close is greater than the open, and today's close is greater than yesterdays close.

Now don't worry about memorizing this because believe it or not, this does become intuitive and you will begin to understand intuitively.

## Examples

### Doji



## Doji / Bearish engulfin



## Piercing Lines



## Dark Cloud Cover -



### Kicker / Rising Three -



Notice the kicker signal, then a rising three immediately following before a very nice move up.

## Bullish Harami -



## Bearish Harami -



## Abandoned Baby-



## Abandoned Baby Bearish -



