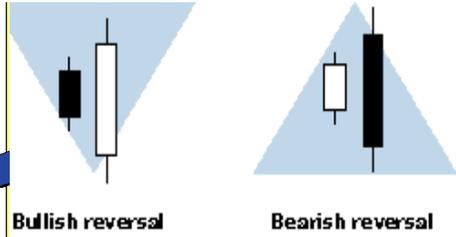
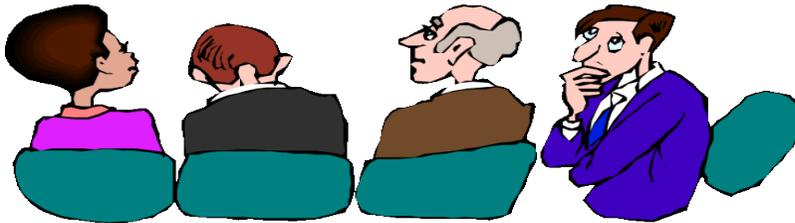


Vol. 4



Trade with
<CHARTS>
CANDLESTICKS



CANDLESTICKS

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Trading Friend
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From the desk of
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 Hyderabad-AP
 INDIA

TECHNICAL Analysis

Dynamic Subject

Logical Thinking towards Price Action



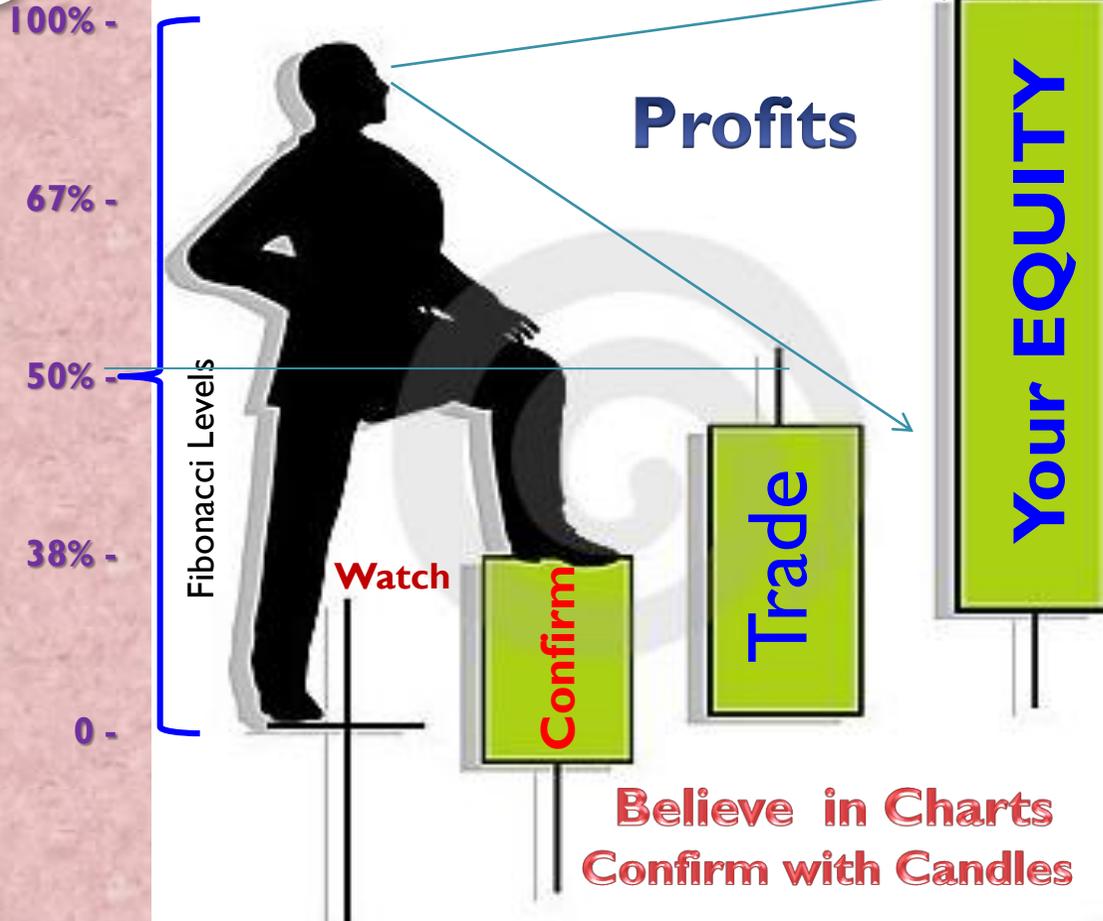
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This should be Your Success

- 1 **DOJI – in style**
 - Doji-4 price/Longleg
 - Dragon Fly Doji
 - Gravestone Doji
- 2 **Others (types)**
 - Spinning Tops
 - Maruboji (2)
 - Hammer (2)
 - Hanging Man
 - Shooting Star
 - Engulfing (2)
 - Harami (2)
 - Dark Cloud Cover
 - Tweezers (2)
 - Windows
- 3 **DOJI – in chart**
 - Morning Star
 - Evening Star
 - Tri-star

CANDLESTIC PATTERNS
 can give you invaluable insight into price action at a glance. While the basic candlestick patterns can tell you what the market is thinking, they often generate false signals because they are so common.





CANDLISTICK Patterns



Candlestick Basics :

Candlestick charts are an effective way of visualizing price movements.

Candlesticks can be used for any time frame,

(whether it be one day, one hour, 30-minutes - whatever you want)

Candlesticks are used to describe price action during given time frame.

Bullish Candle: When the close is higher than the open (usually green or white)

Bearish Candle: When the close is lower than the open (usually red or black)

Candlestick Parts (3)

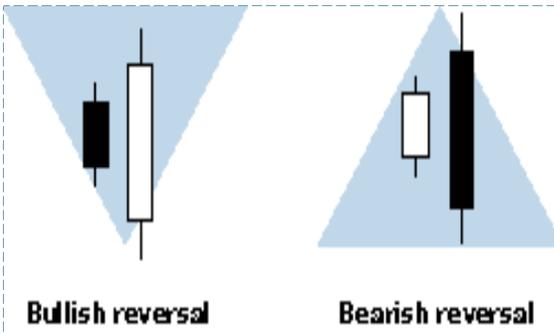
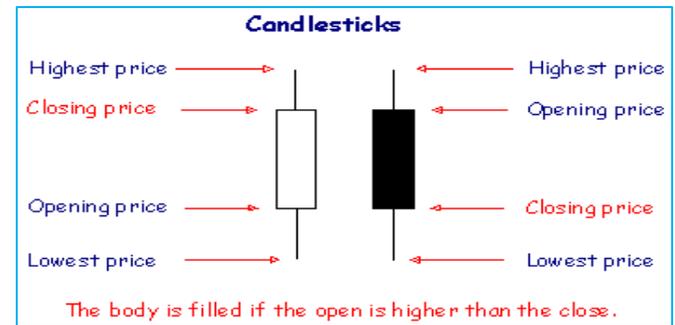
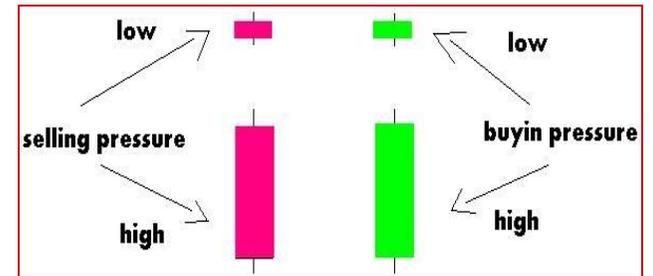
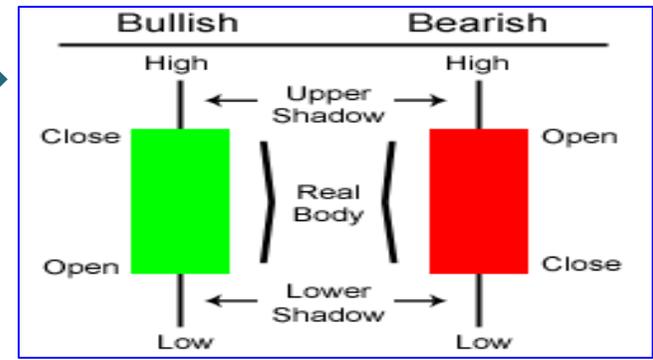
Upper Shadow: The vertical line between the high of the day and the close (bullish candle) or open (bearish candle)

Real Body : The difference between the open and close; colored portion of the candlestick

Lower Shadow: The vertical line between the low of the day and the open (bullish candle) or close (bearish candle)

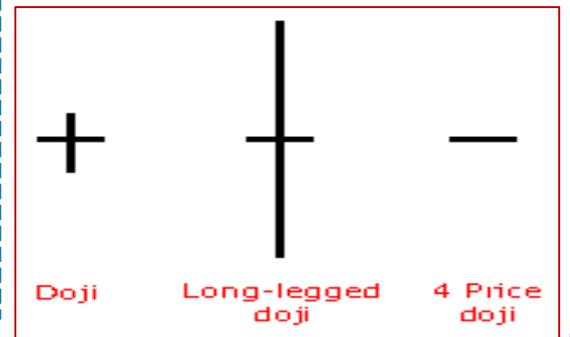
Candlestick Patterns :

The power of Candlestick Charts is with multiple candlesticks forming reversal and continuation patterns.



The Japanese have been using candlestick charts since the **17th century** to analyze rice prices.

Candlesticks were introduced into modern technical analysis by Steve Nison in his book *Japanese Candlestick Charting Techniques*.





CANDLESTICKS

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CANDLESTIC (Quick View- 1)

No. of Bars	Name	Type	Look Like	No. of Bars	Name	Type	Look Like
1 BAR	- Doji -Long leg -4price doji	Neutral In trend reversal		1 BAR	Hammer Hanging Man	Reversal Signal	
1 BAR	Dragon Fly	Trend Reversal		1 BAR	Inverted Hammer Shooting Star	Bearish Reversal	
1 BAR	Grave Stone doji	Trend Reversal		1 or 2 BAR	Spinning TOPS	Probable Reverse	
1 BAR	Maruboji	Trend Reversal		2 BAR S	Windows (Gaps)	Probable Down Trend	
2 Bars	Bullish Engulfing	Trend Reversal		2 Bars	Bearish Engulfing	Trend Reversal	



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CANDLESTIC (Quick View-2)

No. of Bars	Name	Type	Look Like	No. of Bars	Name	Type	Look Like
2 Bars	Bearish Harami	Reversal		2 Bars	Piercing Line	Reversal	
2 Bars	Bullish Harami	Reversal		2 Bars	Dark Cloud Cover	Trend Reversal	
2 Bars	Bearish Harami Cross	Probable Reversal		More Bars	Morning STAR	Trend Reversal	
2 Bars	Bullish Harami Cross	Probable Reversal		More Bars	Evening STAR	Trend Reversal	
2 Bars	Twin TOWERS (Tweezers)	Probable Reverse		More Bars	Tri-STAR Star	Trend Reversal	



DOJI & other Styles



Indecision

Market closes back where the day started.

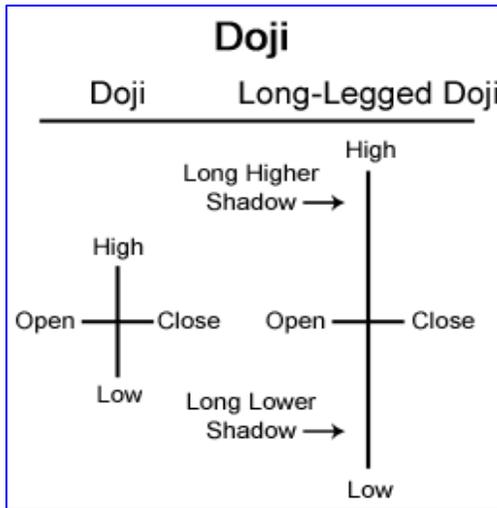
(1) 4-price Doji (-)

(2) Doji (+)

(3) Long legged Doji

Signifies **Indecision between Bulls & Bears.**

These (3) candle formats :
are more helpful in deciding trend / trend reversals

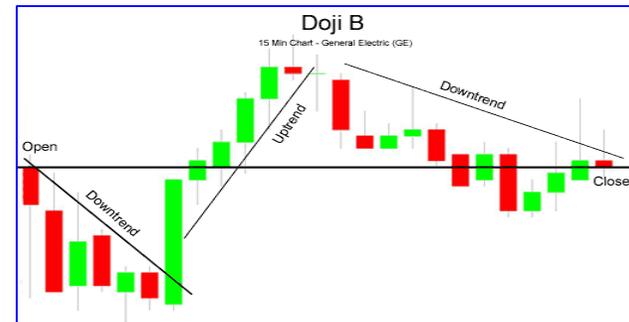
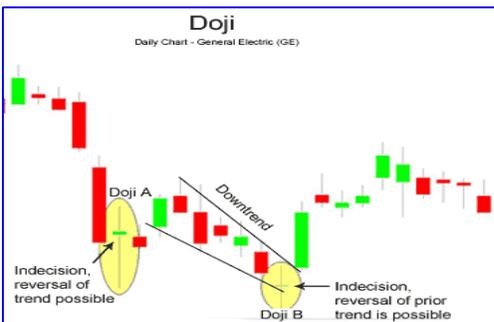


- A Doji is quite often found at the **bottom and top of trends** and thus is considered as a sign of **possible reversal** of price direction,
- Doji can be viewed as a **continuation pattern** as well (some times)

- 1) **Doji** is formed only when **opening price & closing price** are equal.
- 2) **Long-legged Doji**, (Rickshaw Man) except the upper & lower shadows are much longer than Doji.
- 3) **4-Price Doji** is formed when the **OHLC** (Open, High, Low, Close) are equal.

Doji represents indecision. After the open, bulls push prices higher only for prices to be rejected and pushed lower by the bears.

However, bears are unable to keep prices lower, and bulls then push prices back to the opening price.





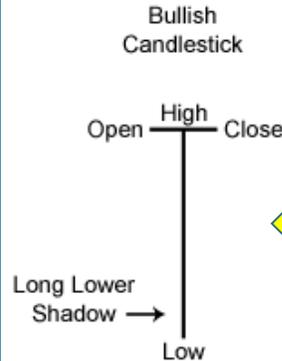
Dragon FLY Doji

Bullish

Dragonfly Doji
Significant bullish reversal candlestick pattern

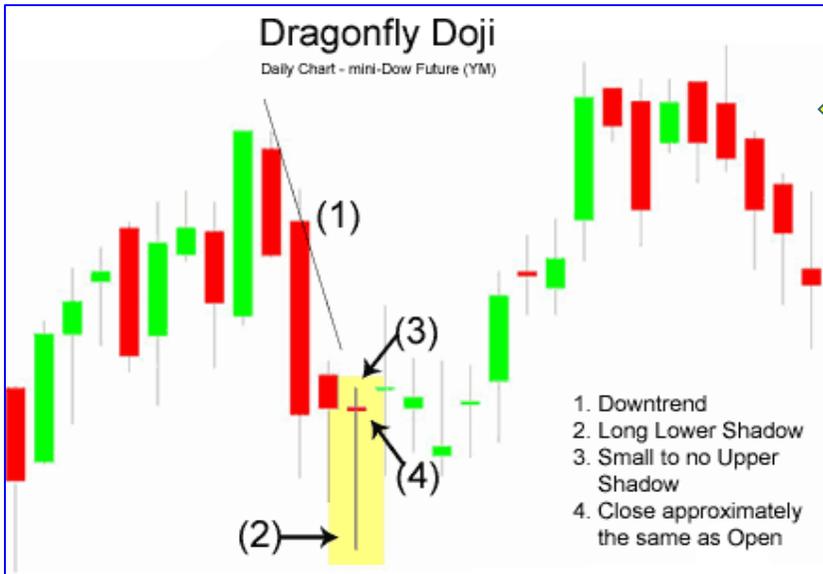
Mainly occurs at the bottom of downtrends.

Dragonfly Doji



The **Dragonfly Doji** is created when the open, high, and close are the same or about the same price (Where the open, high, and close are exactly the same price is quite rare). The most important part of the Dragonfly Doji is the **long lower shadow**.

The long lower shadow implies that the market tested to find where demand was located and found it. Bears were able to press prices downward, but an area of support was found at the low of the day and buying pressure was able to push prices back up to the opening price. Thus, the bearish advance downward was entirely rejected by the bulls.



In the chart, the market began the day testing to find where demand would enter the market. The Stock eventually found support at the low of the day, so much support and subsequent buying pressure, that prices were able to close the day approximately where they started the day.

The Dragonfly Doji is an extremely helpful Candlestick pattern to help traders **visually see where support and demand is located**. After a downtrend, the Dragonfly Doji can signal to traders that the downtrend could be over and that short positions should probably be covered. Other indicators should be used in conjunction with the Dragonfly Doji pattern to determine buy signals, for example, a break of a downward trendline.

Note: The reverse of the Dragon Fly is Gravestone Doji (see: **Gravestone Doji**).

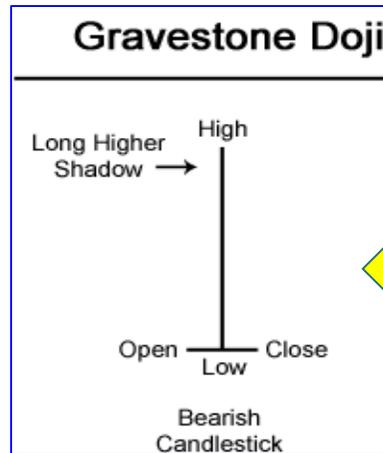


Grave STONE Doji

Bearish

Gravestone Doji : significant bearish reversal candlestick pattern.

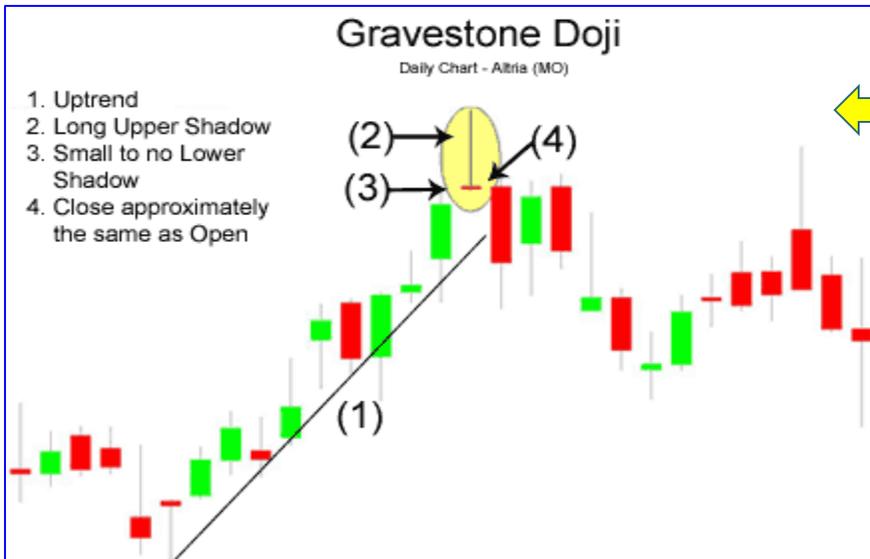
Mainly occurs at the top of uptrends.



The Gravestone Doji is created when the open, low, and close are the same or about the same price (Where the open, low, and close are exactly the same price is quite rare). The most important part of the Graveston Doji is the **long upper shadow**.

The long upper shadow is generally interpreted by technicians as meaning that the market is testing to find where supply and potential resistance is located.

- The construction of the Gravestone Doji pattern occurs when bulls are able to press prices upward.
- However, an area of resistance is found at the high of the day and selling pressure is able to push prices back down to the opening price.
- Therefore, the bullish advance upward was entirely rejected by the bears.



1. Uptrend
2. Long Upper Shadow
3. Small to no Lower Shadow
4. Close approximately the same as Open

The Gravestone Doji is an extremely helpful Candlestick reversal pattern to help traders visually see where resistance and supply is likely located.

After an uptrend, the Gravestone Doji can signal to traders that the uptrend could be over and that long positions should probably be exited. But other indicators should be used in conjunction with the Gravestone Doji pattern to determine an actual sell signal.

A potential trigger could be a break of the upward trendline support.

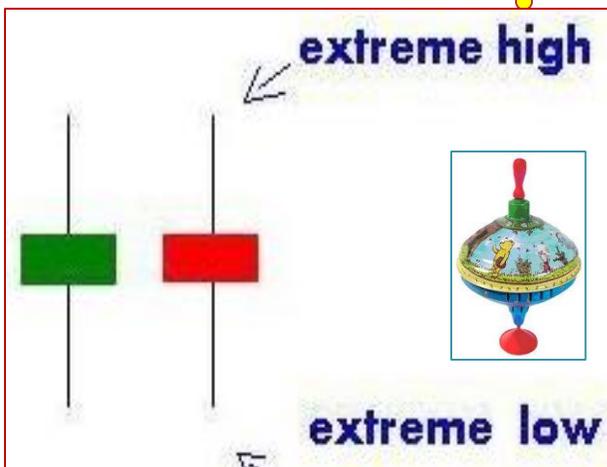
Note: The reverse of the Gravestone is Dragon Fly Doji (see: **DragonFly Doji**).



Spinning TOPS

Indecision

Spinning Tops or (koma) is a candlestick which the body of the candlestick is smaller than the lower and upper wicks.



IT represents a neutral position in which neither the bulls or bears are able to gain control during the trading session.

Color of the real body is irrelevant as (body of the candle is so small)

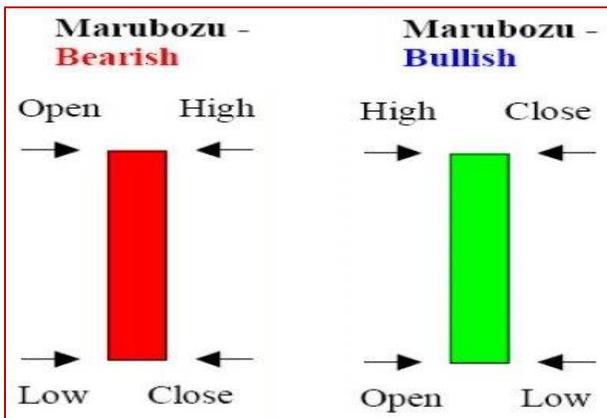
If a spinning top **arises after a strong uptrend or downtrend**, it is an early sign that the **trend could be reversing**.

Traders should wait for more confirmation that the trend is changing prior to taking a short or long position.

MARUBOJU

Reversal

MARUBOZU :when recognized, is a good example of a strong buying (in case of a bullish Marubozu) or selling (in case of a bearish Marubozu) pressure.



When we spot a Marubozu candle, we would want to regard it with connection to how the market is trading right now. If we are in the middle of a long bullish trend, and we spot a bearish Marubozu, this can be a sign for a coming reversal in price.

If we spot on our chart a bullish Marubozu candle for example, we can quickly come to the conclusion that for that time period (represented by the candle) the buyers have controlled the price action from the first trade to the last trade. You can clearly see that a Marubozu candle has no shadows (high and low price levels outside the body).This means in the case of a bullish Marubozu – that the seller could not push the buyers back from any new high price that was created in that time period.

The opposite for a bearish Marubozu: the sellers had total control on the price action, and the buyers could not push the market back up from any new low.

As I mentioned before, the greater the time period of candles we are looking at, the more important the shapes of the candles is to us.



Bullish ENGULFING

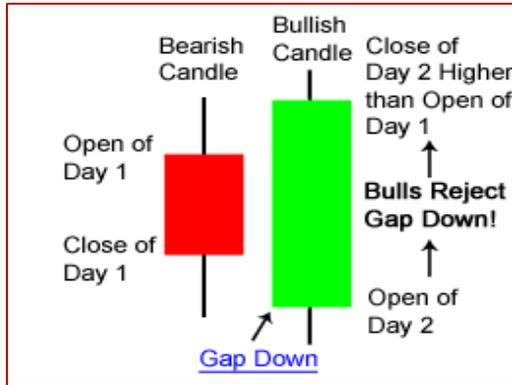


CANDLESTICKS

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Reversal



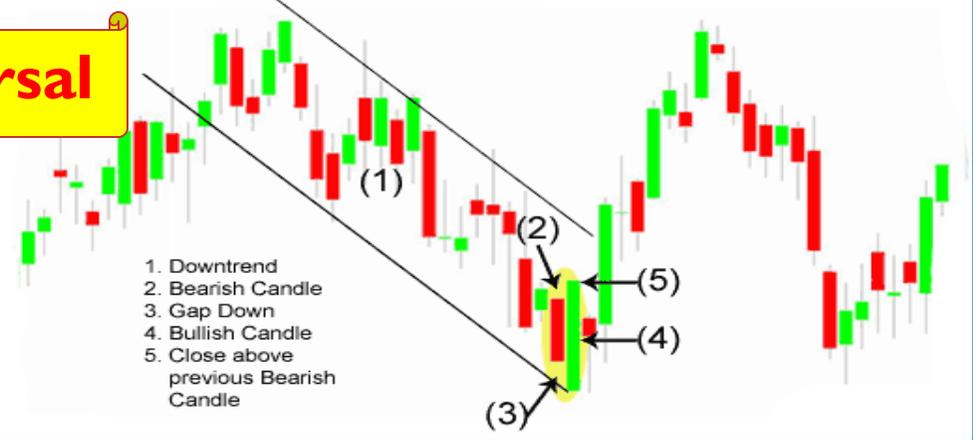
Bullish Engulfing Pattern

A chart pattern that forms when a small black candlestick is followed by a large white candlestick that completely eclipses or "engulfs" the previous day's candlestick.

The shadows or tails of the small candlestick are short, which enables the body of the large candlestick to cover the entire candlestick from the previous Day.

Bullish Engulfing Pattern

Daily Chart - S&P Depository Receipts ETF (SPY)



The bearish candle real body of Day-1 is usually contained within the real body of the bullish candle of Day 2.

On Day-2, the market gaps down; however, the bears do not get very far before bulls take over and push prices higher, filling in the gap down from the morning's open and pushing prices past the previous day's open.

The power of the Bullish Engulfing Pattern comes from the incredible change of sentiment from a bearish gap down in the morning, to a large bullish real body candle that closes at the highs of the day.

Bears have overstayed their welcome and bulls have taken control of the market.

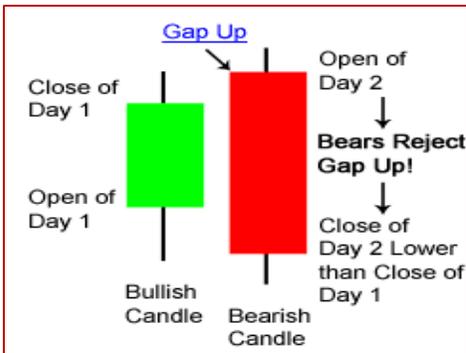
Bullish Engulfing Pattern

15 Min Chart - S&P Depository Receipts ETF (SPY)

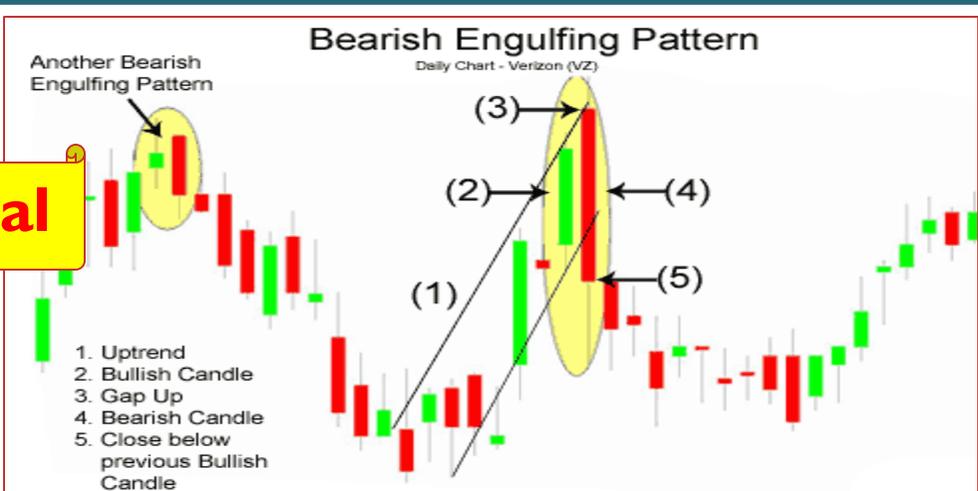




Bearish ENGULFING



Reversal



Generally, the bullish candle real body of Day 1 is contained within the real body of the bearish candle of Day 2.

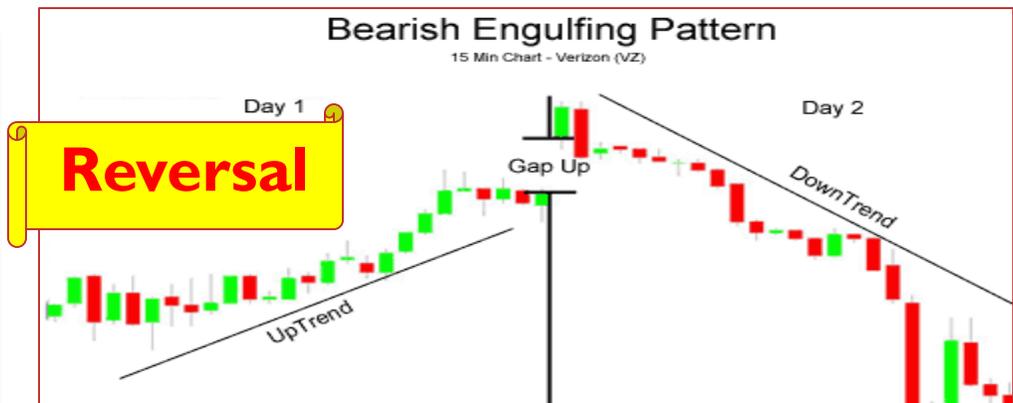
The market gaps up (bullish sign) on Day 2; but, the bulls do not push very far higher before bears take over and push prices further down, not only filling in the gap down from the morning's open but also pushing prices below the previous day's open.

With the Bullish Engulfing Pattern, there is an incredible change of sentiment from the bullish gap up at the open, to the large bearish real body candle that closed at the lows of the day.

Bears have successfully overtaken bulls for the day and possibly for the next few periods.

Bearish Engulfing Pattern

A chart pattern that consists of a small white candlestick with short shadows or tails followed by a large black candlestick that eclipses or "engulfs" the small white one. Which is reversal pattern

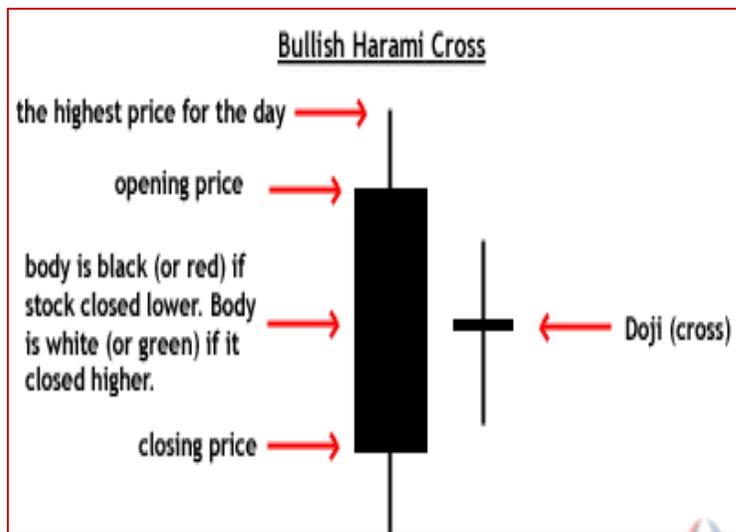


Reversal

A bearish harami may be formed from a combination of a large white or black candlestick and a smaller white or black candlestick. The smaller the second candlestick, the more likely the reversal. It is thought to be a strong sign that a trend is ending when a large white candle stick is followed by a small black candlestick.



Bullish HARAMI cross



BULLSIH HARAMI CROSS

Type : **Reversal**
 Relevance: : **BULLISH**
 Prior Trend: : **BEARISH**
 Reliability: ; **Medium**
 Confirmation: **Recommended**
 No. of Sticks : **2**

Harami Cross

A trend indicated by a large candlestick followed by a doji that is located within the top and bottom of the candlestick's body. This indicates that the previous trend is about to reverse.

Definition:

Bullish Harami Cross Pattern is a doji preceded by a long black real body. The Bullish Harami Cross Pattern is a major bullish reversal pattern. It is more significant than a regular Bullish Harami Pattern.

Recognition Criteria:

1. Market is characterized by downtrend.
2. Then we see a long black candlestick.
3. Long black candlestick is followed by a doji completely engulfed by the real body of the first day. The shadows (high/low) of the doji may not be necessarily contained within the first black body, though it's preferable if they are.

Explanation:

The Bullish Harami Cross Pattern is a strong signal of disparity about the market's health. During a downtrend, the heavy selling reflected by a long, black real body; is followed by a doji next day. This shows that the market is starting to sever itself from the prior downtrend.

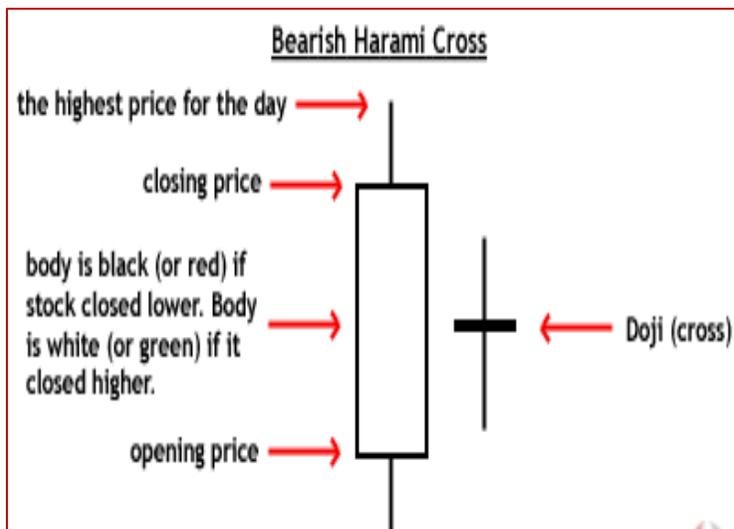
Important Factors:

The Bullish Harami Pattern is not a major reversal pattern, however the Bullish Harami Cross Pattern is a major upside reversal pattern. Short traders will not be wise to ignore the significance of a harami cross just after a long black candlestick. Harami crosses point out to the bottoms.

A third day confirmation of the reversal is recommended (though not required) to judge that the downtrend has reversed. The confirmation may be in the form of a white candlestick, a large gap up or a higher close on the next trading day.



Bearish HARAMI cross



BEARISH HARAMI CROSS

Type : **Reversal**
 Relevance: : **Bearish**
 Prior Trend: : **Bullish**
 Reliability: ; **Medium**
 Confirmation: **Recommended**
 No. of Sticks : **2**

Harami Cross

A trend indicated by a large candlestick followed by a doji that is located within the top and bottom of the candlestick's body. This indicates that the previous trend is about to reverse.

Definition:

Bearish Harami Cross Pattern is a doji preceded by a long white real body. The Bearish Harami Cross Pattern is a major reversal pattern and is more significant than a regular Bearish Harami Pattern.

Recognition Criteria:

1. Market is characterized by uptrend.
2. We see a long white candlestick in the first day.
3. Then we see a doji completely engulfed by the real body of the first day on the second day. The shadows (high/low) of this Doji do not have to be contained within the first, though it's preferable if they are.

Explanation:

The Bearish Harami Cross Pattern is a sign of disparity about the market's health. Market is bullish and strong buying continues as evidenced by the long, white real body but then we see the doji. This shows that the market may not continue in uptrend.

Important Factors:

While the Bearish Harami Pattern is not a major reversal pattern, the Bearish Harami Cross Pattern is a major downside reversal pattern. If a harami cross appears after a long white candlestick, longs should take notice of it since Harami Crosses call tops very effectively.

A confirmation on the third day is required to be sure that the uptrend has reversed.

This confirmation may be in the form of a black candlestick, a large gap down or a lower close on the third day.

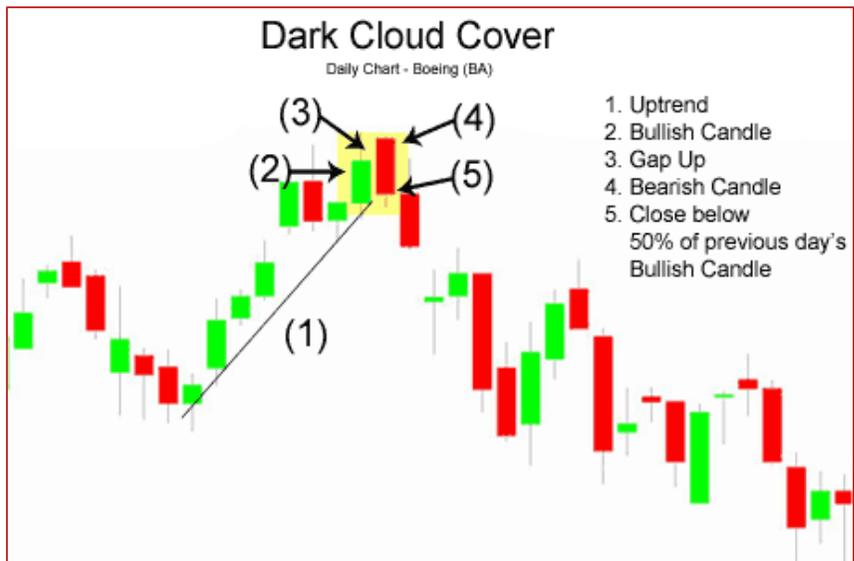
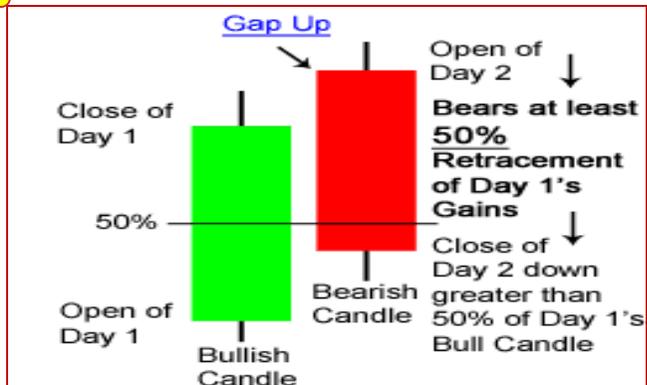
A Harami cross can be either bullish or bearish, depending on the previous trend. The appearance of a Harami Cross, rather than a smaller body, increases the likelihood that the trend will reverse.



DARK CLOUD COVER

Bearish

A Dark Cloud pattern encountered after an up-trend is a reversal signal, warning of "rainy days" ahead.



A more bearish reversal pattern is the Bearish Engulfing Pattern (see: [Bearish Engulfing Pattern](#)) that completely rejects the gains of Day 1 and usually closes below the lows of Day 1.

Note : the bullish equivalent of the Dark Cloud Cover Pattern is the [Piercing Pattern](#) (see: [Piercing Pattern](#)).

Dark Cloud Cover

Dark Cloud Cover is a bearish candlestick reversal pattern, similar to the Bearish Engulfing Pattern (see: [Bearish Engulfing Pattern](#)).

Components of a Dark Cloud Cover formation: [Bullish Candle](#) (1st) & [Bearish Candle](#) (2nd)

A Dark Cloud Cover Pattern occurs when a bearish candle on Day 2 closes below the middle of Day 1's candle. In addition, price gaps up on Day 2 only to fill the gap (see: [Gaps](#)) and close significantly into the gains made by Day 1's bullish candlestick.

The rejection of the gap up is a bearish sign in and of itself, but the retracement into the gains of the previous day's gains adds even more bearish sentiment. Bulls are unable to hold prices higher, demand is unable to keep up with the building supply.

Dark Cloud Cover Sell Signal

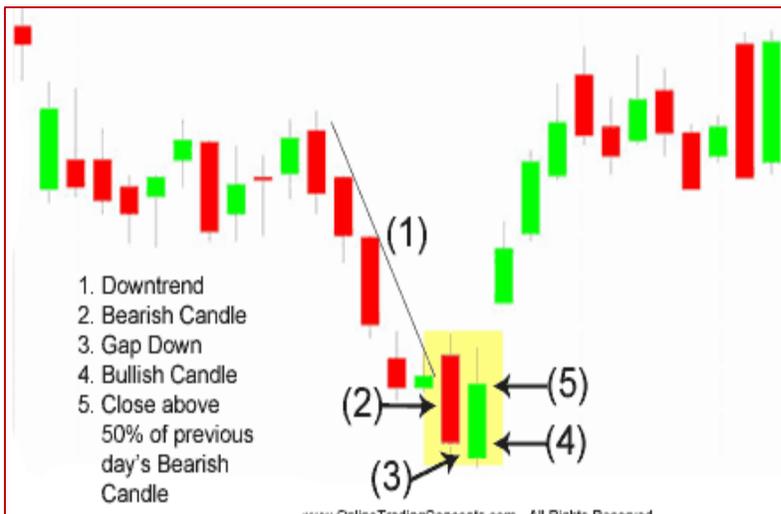
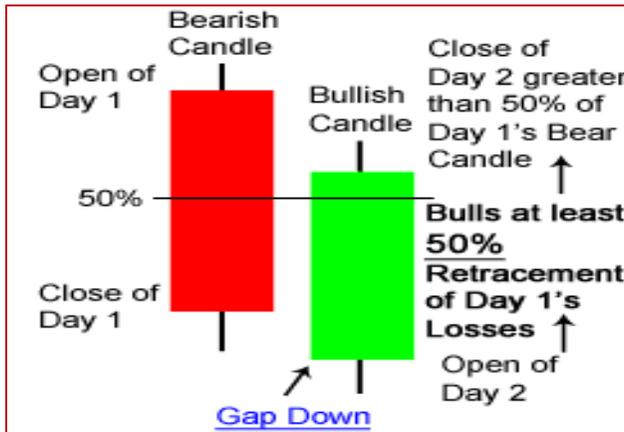
Traders usually suggest not selling exactly when one sees the Dark Cloud Cover Pattern (Day 1 & Day 2) until other confirming signals are given such as a break of an upward trendline or other technical indicators. One reason for waiting for confirmation is that the Dark Cloud Cover Pattern is a bearish pattern, but not as bearish as it could be: part of the gains from Day 1 have still been preserved.



PIERCING Line

Bullish

The Piercing Line is the opposite of the Dark Cloud pattern and is a reversal signal if it appears after a downtrend.



Piercing Line Pattern

A Bullish candlestick reversal pattern, similar to the Bullish Engulfing Pattern (see: [Bullish Engulfing Pattern](#)). Components of a Piercing Pattern : [Bearish Candle](#) (1st) & [Bullish Candle](#) (2nd)

A Piercing Pattern occurs when a bullish candle on Day 2 closes above the middle of Day 1's bearish candle. Moreover, price gaps down on Day 2 only for the gap to be filled (see: [Gaps](#)) and closes significantly into the losses made previously in Day 1's bearish candlestick. The rejection of the gap up by the bulls is a major bullish sign, and the fact that bulls were able to press further up into the losses of the previous day adds even more bullish sentiment. Bulls were successful in holding prices higher, absorbing excess supply and increasing the level of demand.

Piercing Pattern Candlestick Buy Signal

Generally other technical indicators are used to confirm a buy signal given by the Piercing Pattern (i.e. downward trendline break). Since the Piercing Pattern means that bulls were unable to completely reverse the losses of Day 1, more bullish movement should be expected before an outright buy signal is given. Also, more volume than usual on the bullish advance on Day 2 is a stronger indicator that bulls have taken charge and that the prior downtrend is likely ending.

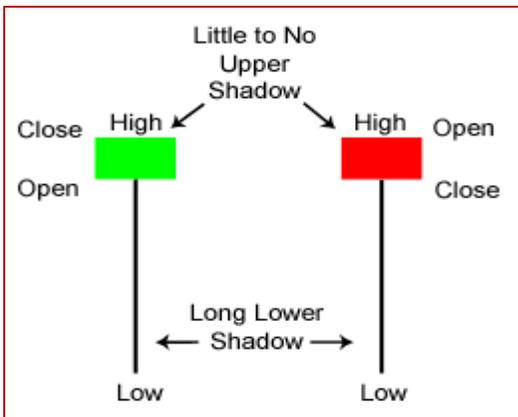
A more bullish reversal pattern is the Bullish Engulfing Pattern (see: [Bullish Engulfing Pattern](#)) that completely reverses the losses of Day 1 and adds new gains.

For further study, the bearish equivalent of the Piercing Pattern is the Dark Cloud Cover Pattern



Hanging Man

A **hammer** that occurs after an up trend is called a **'hanging man'** and is a **bearish** signal.

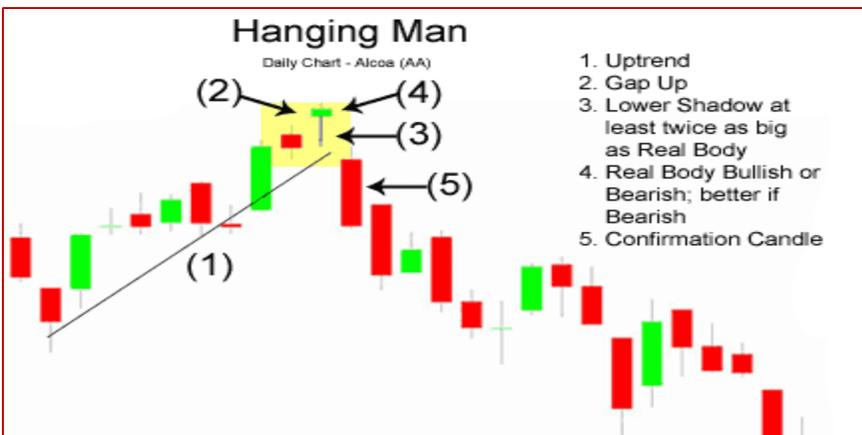


Confirmation that the uptrend was in trouble occurred when Alcoa gapped down the next day and continued downward creating a large bearish red candle. To some traders, this confirmation candle, plus the fact that the upward trendline support was broken, gave the signal to go short. It is important to repeat, that the Hanging Man formation is not the sign to go short; other indicators such as a trendline break or confirmation candle should be used to generate sell signals. The bullish version of the Hanging Man is the Hammer formation (see: [Hammer](#)) that occurs after downtrends.

Hanging Man - The Hanging Man candlestick formation, as one could predict from the name, is a bearish sign. This pattern occurs mainly at the top of uptrends and is a warning of a potential reversal downward. It is important to emphasize that the Hanging Man pattern is a warning of potential price change, not a signal, in and of itself, to go short.

The Hanging Man formation, just like the [Hammer](#), is created when the open, high, and close are roughly the same price. Also, there is a long lower shadow, which should be at least twice the length of the [real body](#). When the high and the open are the same, a bearish Hanging Man candlestick is formed and it is considered a stronger bearish sign than when the high and close are the same, forming a bullish Hanging Man (the bullish Hanging Man is still bearish, just less so because the day closed with gains).

After a long uptrend, the formation of a Hanging Man is bearish because prices hesitated by dropping significantly during the day. Granted, buyers came back into the stock, future, or currency and pushed price back near the open, but the fact that prices were able to fall significantly shows that bears are testing the resolve of the bulls. What happens on the next day after the Hanging Man pattern is what gives traders an idea as to whether or not prices will go higher or lower.





TWEEZERS

Twin Towers

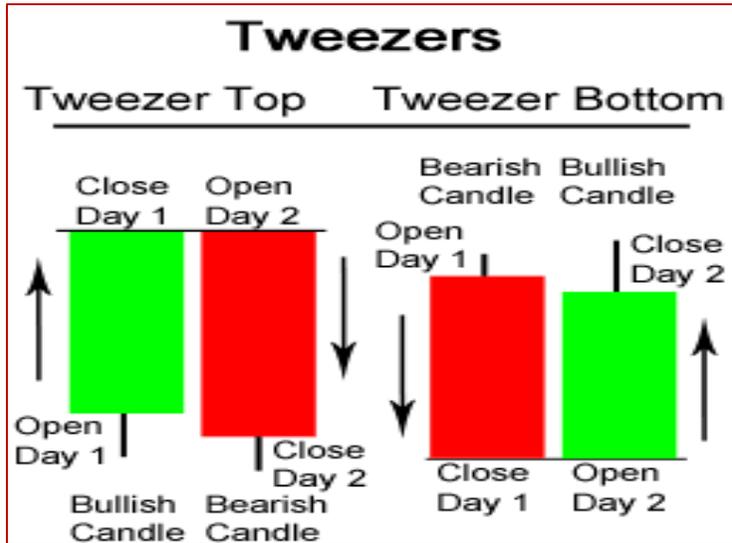
Reversal



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Tweezer Tops and Bottoms

The Tweezer Top formation is a bearish reversal pattern seen at the top of uptrends and the Tweezer Bottom formation is a bullish reversal pattern seen at the bottom of downtrends.

Tweezer Top formation consists of two candlesticks:

Bullish Candle (Day 1)

Bearish Candle (Day 2)

Tweezer Bottom formation consists of two candlesticks:

Bearish Candle (Day 1)

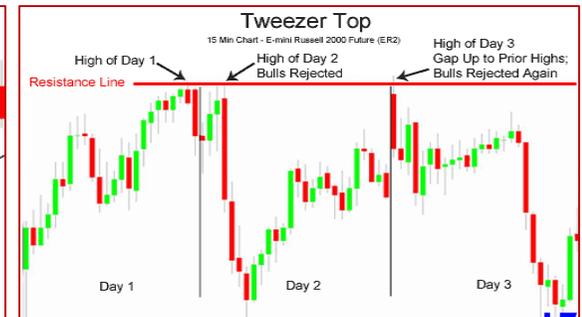
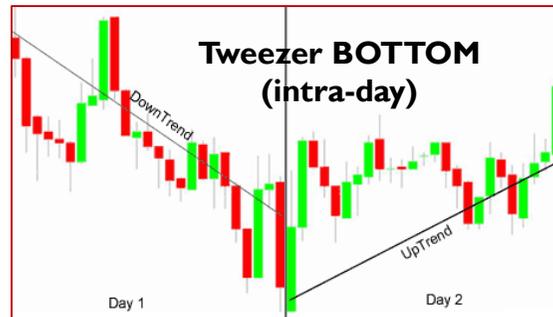
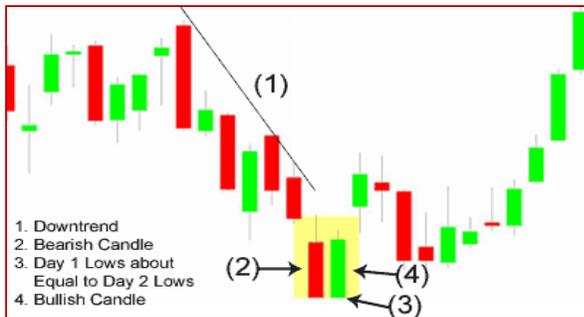
Bullish Candle (Day 2)

Sometimes Tweezer Tops or Bottoms have three candlesticks.

A **bearish Tweezer Top** occurs during an uptrend when bulls take prices higher, often closing the day off near the highs (a bullish sign). However, on the second day, how traders feel (i.e. their sentiment) reverses completely. The market opens and goes straight down, often eliminating the entire gains of Day 1.

The reverse, a **bullish Tweezer Bottom** occurs during a downtrend when bears continue to take prices lower, usually closing the day near the lows (a bearish sign).

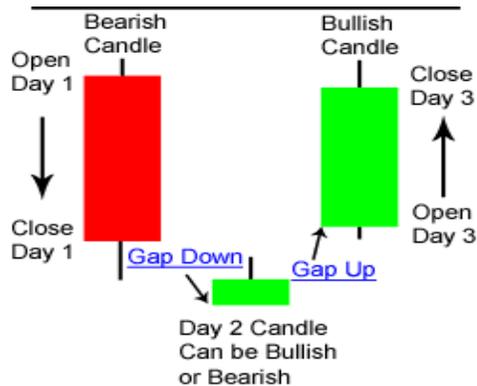
Nevertheless, Day 2 is completely opposite because prices open and go nowhere but upwards. This bullish advance on Day 2 sometimes eliminates all losses from the previous day.





Morning STAR

Bullish



1. Morning Star :

A bullish candlestick pattern that consists of three candles that have demonstrated the following characteristics:

1. The first bar is a large red candlestick located within a defined downtrend.
2. The second bar is a small-bodied candle (either red or white) that closes below the first red bar.
3. The last bar is a large white candle that opens above the middle candle and closes near the center of the first bar's body.

As shown by the chart, this pattern is used by traders as an early indication that the downtrend is about to reverse.

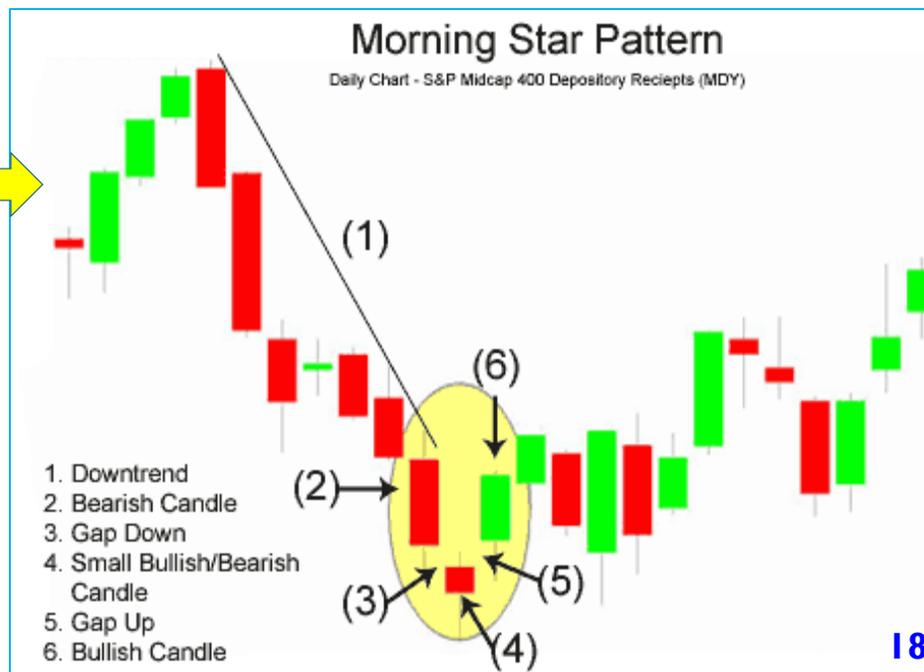
Morning Star pattern - can be useful in determining trend changes, Particularly when used in conjunction with other technical indicators. Many traders also use price oscillators such as the **MACD** and **RSI** to confirm the reversal.

Day 1 of the Morning Star pattern for the Midcap 400 (MDY) chart above was a strong bearish red candle. Day 2 continued Day 1's bearish sentiment by gapping down.

Day 2 was a Doji, which is a candlestick signifying indecision. Bears were unable to continue the large decreases of the previous day; they were only able to close slightly lower than the open.

Day 3 began with a bullish gap up. The bulls then took hold of the Midcap 400 exchange traded fund for the entire day. Also, Day 3 broke above the downward trendline that had served as resistance for MDY for the past week and a half. Both the trendline break and the classic Morning Star pattern gave traders a signal to go long and buy the Midcap 400 exchange traded fund.

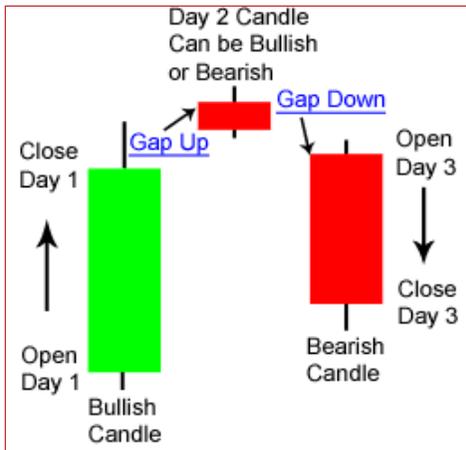
The Morning Star pattern is a very powerful three candlestick bullish reversal pattern. The bearish equivalent of the Morning Star is the Evening Star pattern (see: Evening Star).





Evening STAR

Bearish



Evening Star:

A bearish candlestick pattern consisting of three candles that have demonstrated the following characteristics:

1. The first bar is a large white candlestick located within an uptrend.
2. The middle bar is a small-bodied candle (red or white) that closes above the first white bar.
3. The last bar is a large red candle that opens below the middle candle and closes near the center of the first bar's body.

As shown by the chart below, this pattern is used by traders as an early indication that the uptrend is about to reverse.

Day 1 of the Evening Star pattern for Exxon-Mobil (XOM) stock above was a strong bullish candle, in fact it was so strong that the close was the same as the high (very bullish sign).

Day 2 continued Day 1's bullish sentiment by gapping up. However, Day 2 was a Doji, which is a candlestick signifying indecision. Bulls were unable to continue the large rally of the previous day; they were only able to close slightly higher than the open.

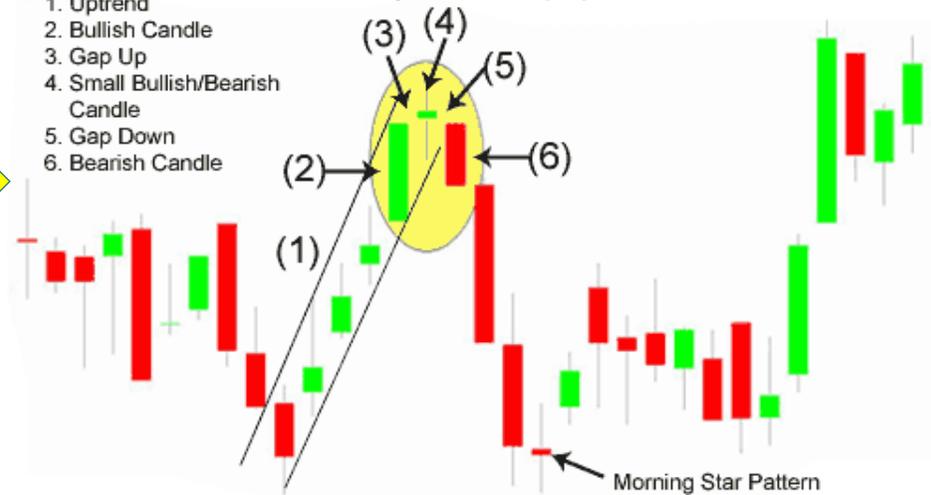
Day 3 began with a bearish gap down. In fact, bears took hold of Exxon-Mobil stock the entire day, the open was the same as the high and the close was the same as the low (a sign of very bearish sentiment). Also, Day 3 powerfully broke below the upward trendline that had served as support for XOM for the past week. Both the trendline break and the classic Evening Star pattern gave traders a signal to sell short>

The Evening Star pattern is a very powerful three candlestick bearish reversal pattern. The bullish equivalent of the Evening Star is the Morning Star pattern (see: Morning Star).

Evening Star Pattern

Daily Chart - Exxon-Mobil (XOM)

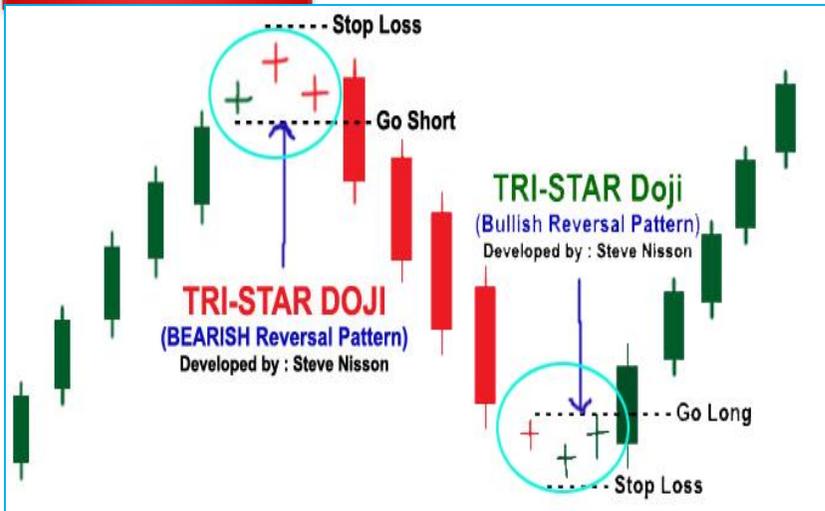
1. Uptrend
2. Bullish Candle
3. Gap Up
4. Small Bullish/Bearish Candle
5. Gap Down
6. Bearish Candle



Evening Star formations can be useful in determining trend changes, particularly when used in conjunction with other indicators. Many traders use price oscillators and trendlines to confirm this candlestick pattern



TRI Star



Tri-Star - A type of candlestick pattern that signals a reversal in the current trend. This pattern is formed when three consecutive doji candlesticks appear at the end of a prolonged trend.

The chart below illustrates a bearish tri-star pattern at the top of the uptrend and is used to mark the beginning of a shift in momentum.

Tri-Star - A single Doji candlestick is an infrequent occurrence that is used by traders to suggest market indecision. Having a series of three consecutive doji candles is extremely rare, but when it is discovered, the severe market indecision generally leads to a sharp reversal of the given trend. The "three stars" pattern can also be used to signal the reversal of downward momentum when the pattern is formed at the end of a prolonged downtrend.



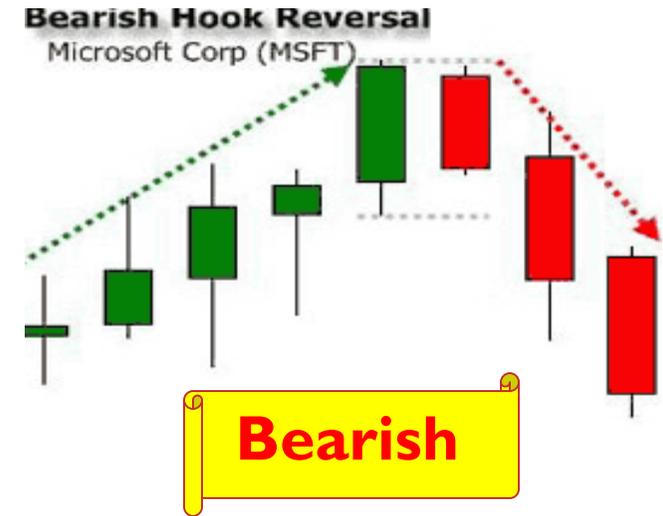
NEW PATTERN



Hook Reversal Pattern



Hook reversals are short- to medium-term reversal patterns. They are identified by a higher low and a lower high compared to the previous day.



Entry: **Confirming the reversal pattern** -

If the pattern occurs after an uptrend, then the open must be near the prior high, and the low must be near the prior low.

If the pattern occurs after a downtrend, then the opposite is true. As with the island reversal pattern, we are also looking for high volume on this second candle. Finally, the stronger the prior trend, the more reliable the reversal pattern.

Exit:

Defining the target and stop -

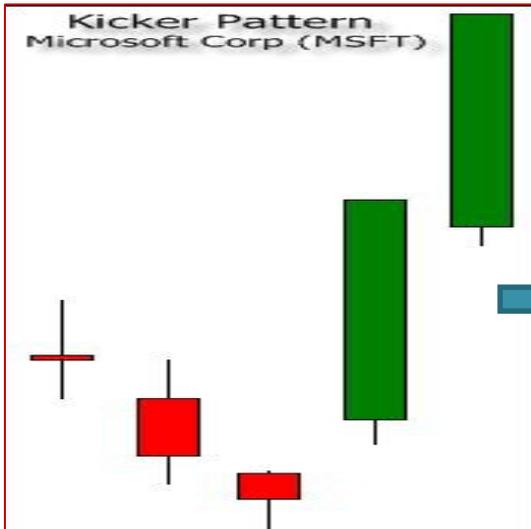
In most cases, you will see a sharp reversal (as seen in Figs. 3 and 4) when using this pattern. If the next candle shows a strong continuation of the prior trend, then the reversal pattern is invalidated, and you should exit quickly, but prudently.



Kickers

Bullish

Kicker patterns are some of the strongest, most reliable candlestick patterns. They are characterized by a very sharp reversal in price during the span of two candlesticks.



Entry: Confirming the reversal pattern -

This kind of price action tells you that one group of traders has overpowered the other (often as a result of a fundamental change in the company), and a new trend is being established.

Ideally, you should look for a gap between the first and second candles, along with high volume.

Exit: Defining a target and stop -

When using this pattern, you will see an immediate reversal, which should result in an overall trend change.

If the trend instead moves sideways or against the reversal direction, then you should exit quickly, but prudently.

Candles
Appear
On
CHART





San-Ku (Three Gaps) Patterns

Bearish

San-Ku (Three Gaps) Patterns

are anticipatory trend reversal indicators. In other words, they do not indicate an exact point of reversal; rather, they indicate that a reversal is likely to occur in the near future. They are identified by three gaps within a strong trend.



Entry: Confirming the reversal pattern -

This pattern operates on the premise that prices are likely to retreat after sharp moves because traders are likely to start booking profits. Therefore, this pattern is best used with their [exhaustion](#) indicators. So, look for extremes being reached in indicators such as the [RSI](#) (relative strength index), [MACD](#) (moving average convergence divergence) [crossovers](#), and other such indicators. It is also useful to look for volume patterns that suggest exhaustion.

Exit: Defining the target and stop -

In most cases, when using this pattern, you will see a price reversal shortly after the third gap takes place (as seen in Fig. 5). However, if there are any breakouts on high volume after the last gap, then the pattern is invalidated, and you should exit quickly, but prudently.

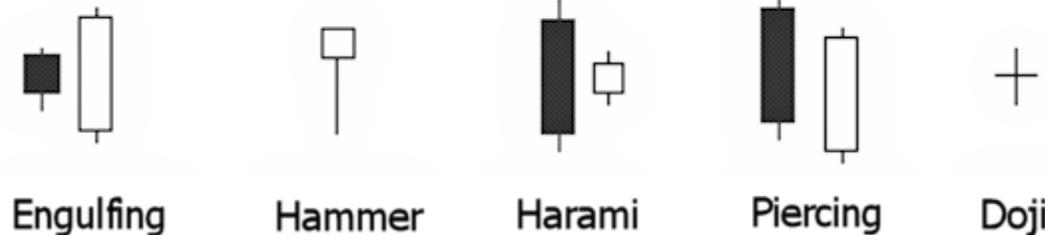
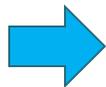


CANDLESTICKS

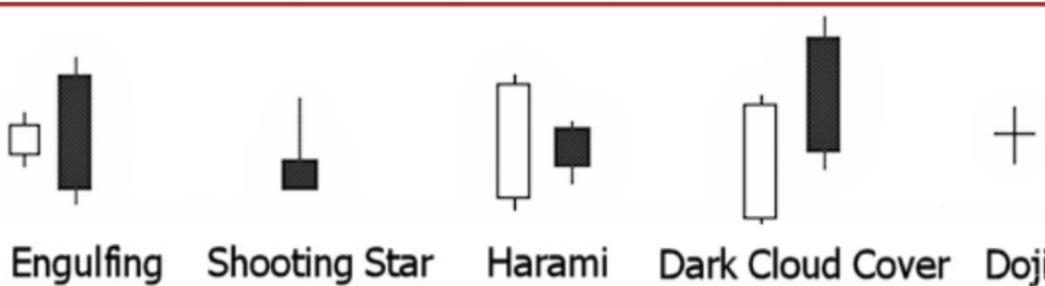
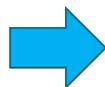
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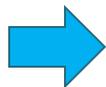
BULLISH Candlestick Patterns



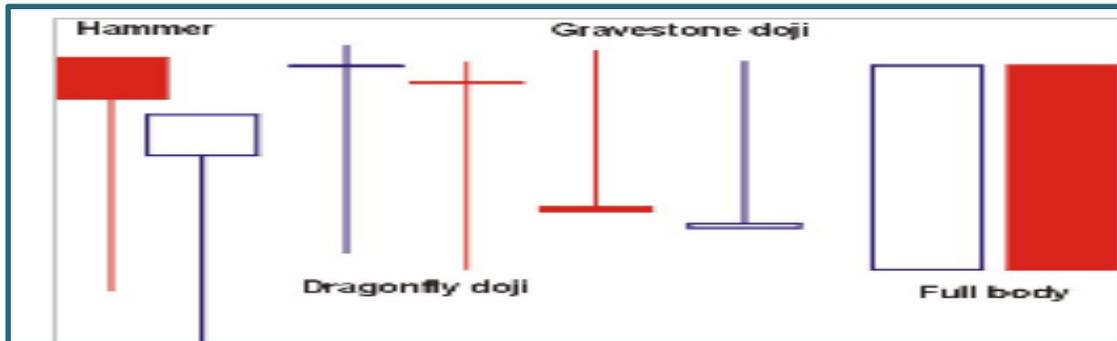
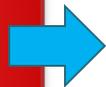
BEARISH Candlestick Patterns



Clickers



Trend REVERSALS





SAKATA 5-method

Munehisa Honma -1755 - One of Sakata's method baselines is that if you feel you could benefit from a certain formation, wait 3 days and if it still looks promising, enter the trade and you can most likely make profits.

Sakata's method has its own set of [candlestick patterns](#) and they have been developed based on Honma's 160 rules. **The number 3 is important in case of his patterns**

Three Mountains -

Previously, when talking about other type of [charts](#) and such I have mentioned the three top formations etc. This three mountains looks similar.

Triple TOPS

Three soldiers/black crows

I'd say it's similar to the three [gaps](#) – three soldiers who are all going in the same direction, except that no [gaps](#) are required. Note that this is not a reversal but rather a CONTINUATION pattern.

Three rivers /Three Sisters-

Opposite to the three mountains formation. This is basically a three bottom formation. Note that in case of Sakata's method there's not just 1-5 candlesticks that we are looking at anymore but rather the whole chart which may consist of multiple weeks, months or years.

Triple BOTTOMS

3 –days
3-methods

Three Methods

- Raising 3 method

- falling 3 method

This looks similar to the rising three of falling three method discussed in my other post. The market makes a pause within this pattern and starts to go in the direction of the trend again after the three methods is „over”.

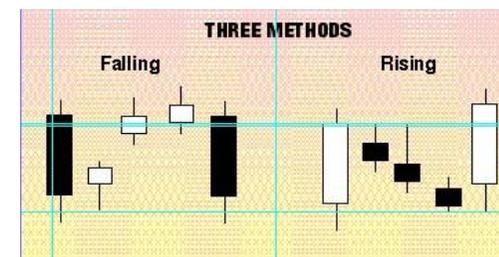
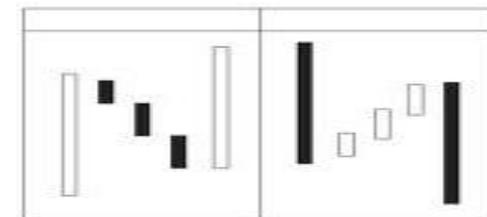
Three Buddhas -

like head and shoulders formation.

Head & Shoulder

Three Gaps –

After the market has bottomed, you can see three empty candlesticks going up, there's a gap between all of them. Once the third long candlestick is visible, you can expect a reversal.



BAR REVERSAL

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Bar REVERSAL

Bar-Reversal

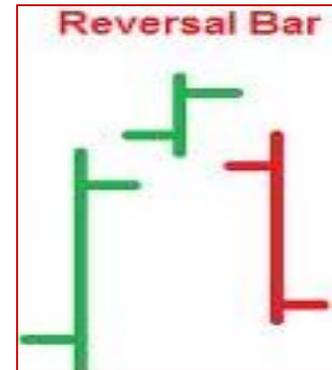
When a particular bar/a group of bars combined together and speaks for a **change in a trend** a bar-reversal is said.

As because it the reversal phenomena it occurs either after a prolong rise or after a prolong down-fall.

Reversal will not occur in the middle point of chart..

BAR CHART PATTERNS can give you invaluable insight into price action at a glance. While the basic candlestick patterns can tell you what the market is thinking, they often generate false signals because they are so common.

Here we introduce you to more advanced **BAR REVERSAL PATTERNS**, with a higher degree of reliability, as well as explore how they can be combined with gaps to produce profitable trading strategies.



BAR REVERSALS

1. UPWARD KEY- reversal
2. DOWNWARD KEY – reversal
3. Perfect Upward Key-reversal
4. Perfect Downward Key-reversal
5. Two day reversal
6. Island Reversal (bull/bear)
7. Low Leaving Bar (LL bar)
8. Formation of TAIL BAR
9. 5C reversal
10. 3K bar (knocking Bar)



Upward KEY-reversal

Comes after a prolong down trend

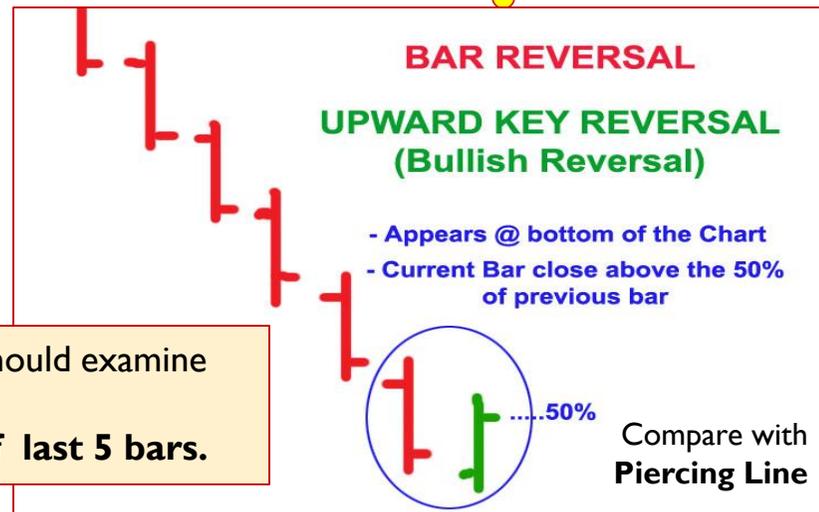
Bullish Reversal

Symptoms:

The previous trend was down , market has been falling for a considerable period of time. One day market open below of the previous day and keep falling further. After some time price starts recovery from the day low and moved within the body of the previous day bar at least by 50% and manages to close near the high of the day.

Trading method: Before taking long position – one should examine the VOLUME of the said period.

Volume should be 2 times better than the average of last 5 bars.



Downward KEY-reversal

Comes after a prolong up trend

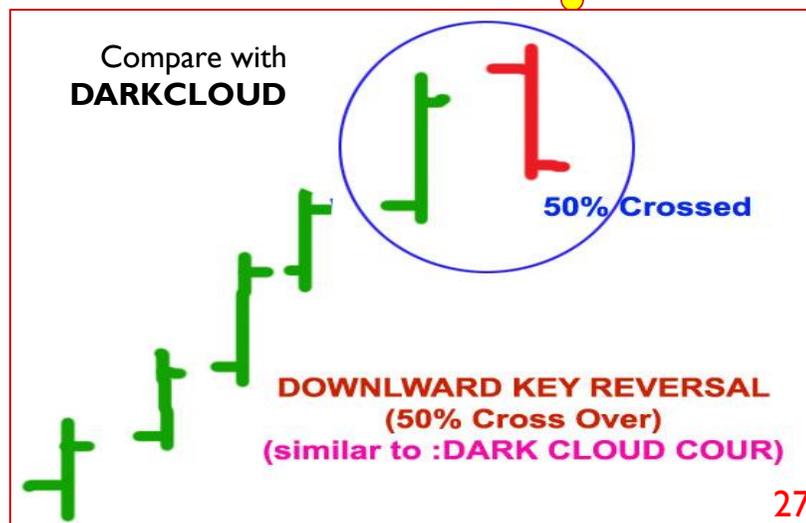
Bearish Reversal

Symptoms:

The previous trend was UP, market moves for a considerable period of time and one day the market open up of the previous day high and keep going up trend.

After a considerable time the price starts selling pressure with or without volumes. (revers of the above)

Trading method: -Volume has no IMPORTANCE





Perfect upward KEY-reversal

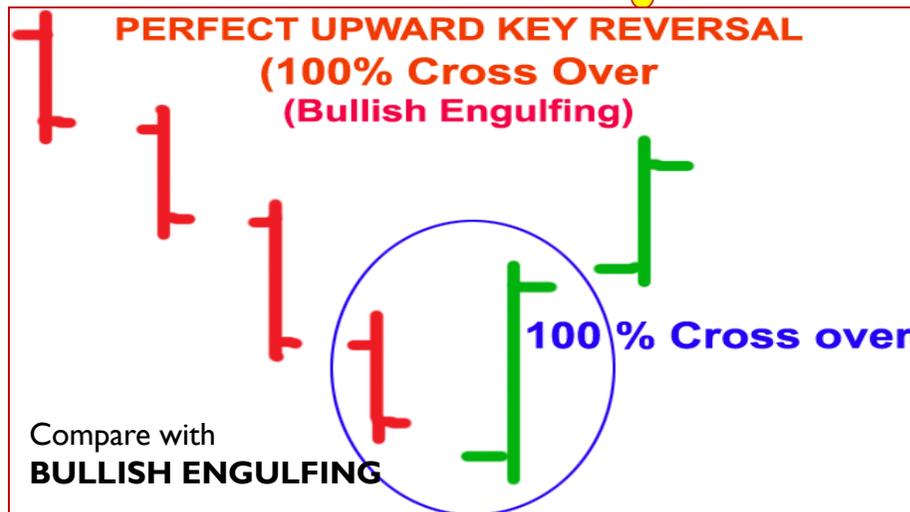
Bullish Reversal

In case of the perfect upwards key reversal volume tends to greater than the upward key reversal. Some time it acts as a bear market-bottom.

The previous trend was UP, market moves for a considerable period of time and one day the market open up of the previous day high and keep going up trend. After a considerable time the price starts selling pressure with or without volumes.

Trading method:

Before taking long position – one should examine the VOLUME of the said period.
Volume has no IMPORTANCE



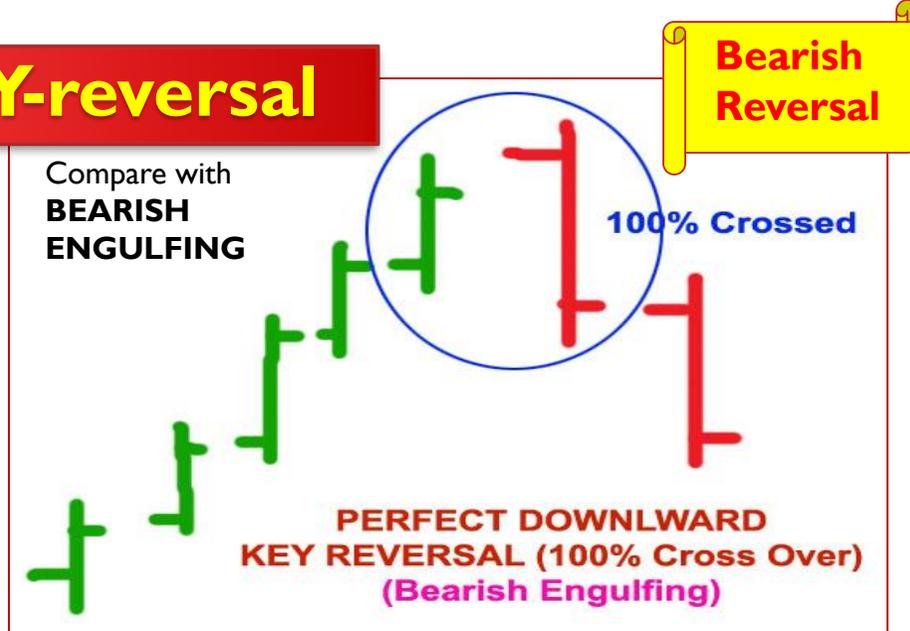
Perfect downward KEY-reversal

Bearish Reversal

In case of the perfect DOWNwards key reversal volume tends to LESSER than the DOWN ward key reversal. Some time it acts as a BULL market-Tops

The previous trend was UP, market moves for a considerable period of time and one day the market open up of the previous day high and keep going up trend. After a considerable time the price starts selling pressure with or without volumes. (reverses of the above)

Trading method: -Volume has no IMPORTANCE





2-day Reversal

BULLISH



Two day reversal bar occurs on a consecutive two-day bars where the main of the bars is equal but nature is totally different.

In case of the Bullish two day reversal which as closing above the opening on the 1st and closing above the opening on the 2nd day.

In case of bullish two-day reversal the formation of the second bar should supported by the greater volume

BEARISH



Two day reversal bar occurs on a consecutive two-day bars where the main of the bars is equal but nature is totally different.

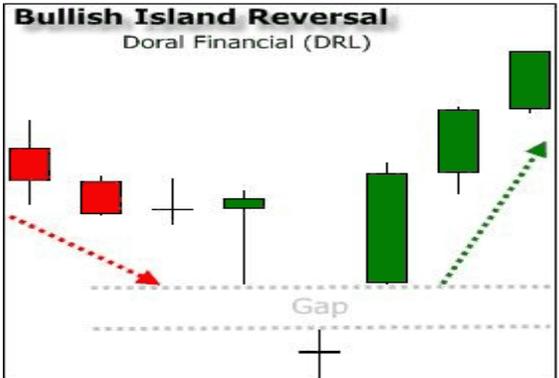
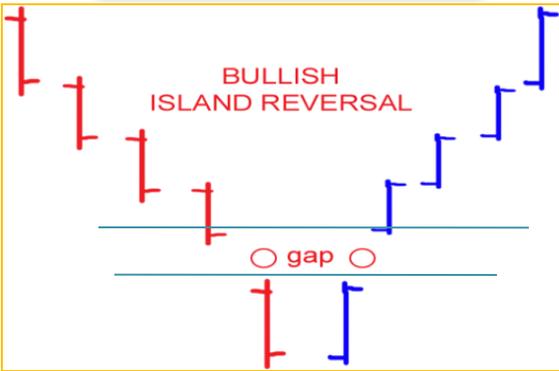
In case of the Bullish two day reversal which as closing below the opening on the 1st and closing above the opening on the 2nd day.

Volume has No criteria



ISLAND REVERSAL

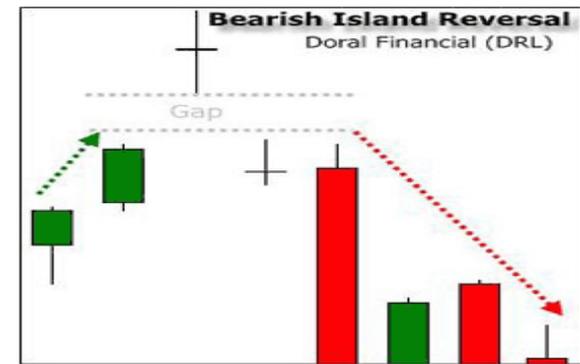
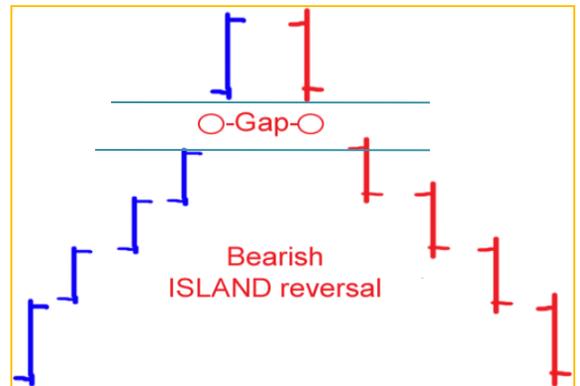
BULLISH



Island Reversal Patterns
 are strong short-term trend reversal indicators. They are identified by a gap between a reversal candlestick and two candles on either side of it.

Island reversals can also occur in "clusters" - that is, in a multi-candle reversal pattern, such as an engulfing, as opposed to a single candle reversal. Clusters are easier to spot, but they often result in weaker reversals that are not as sharp and take longer to occur.

BEARISH



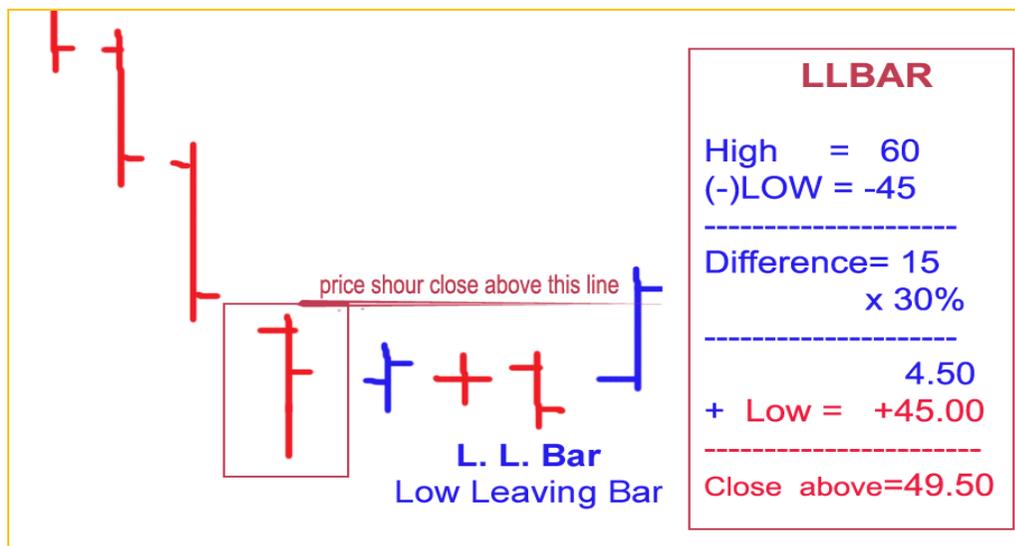
Entry: Confirming the reversal pattern - When looking for an island reversal, you are looking for indecision and a battle between bulls and bears. This type of scenario is best characterized by a long-ended doji candle that has high volume occurring after a long prior trend; it is important to look for these three elements to confirm any potential reversal pattern.

Exit: Defining the target and stop - In most cases, you will see a sharp reversal (as seen in Figs. 1 and 2) when using this pattern. This reversal pattern does not necessarily indicate a medium- or long-term reversal, so it would be prudent to exit your position after the swing move has been made. If the next candle ever fills the gap, then the reversal pattern is invalidated, and you should exit prudently.



LL Bar (Low Leaving Bar)

Low leaving bar occurs after a prolong down fall. After opening of the market price fall in the first session but manages to find support in second session. And manage to close at least 30% of the above of day low. Buy signal occurred while price manages/crosses the high of the low leaving bar.



Formation of TAIL BAR

The length of the said bar is greater than the **average of the last 11 bars**.

If the Low leaving bar is occurred at the top of the Chart then there is a High Chance of BEARISH trend Reversal.

Reverse the same if it appears at the bottom of the Chart. Then one could expect a BULLISH rally from the Point.





3 k (knocking) BAR

A single bar should close below the low of the previous three candles
It signifies the Bearish

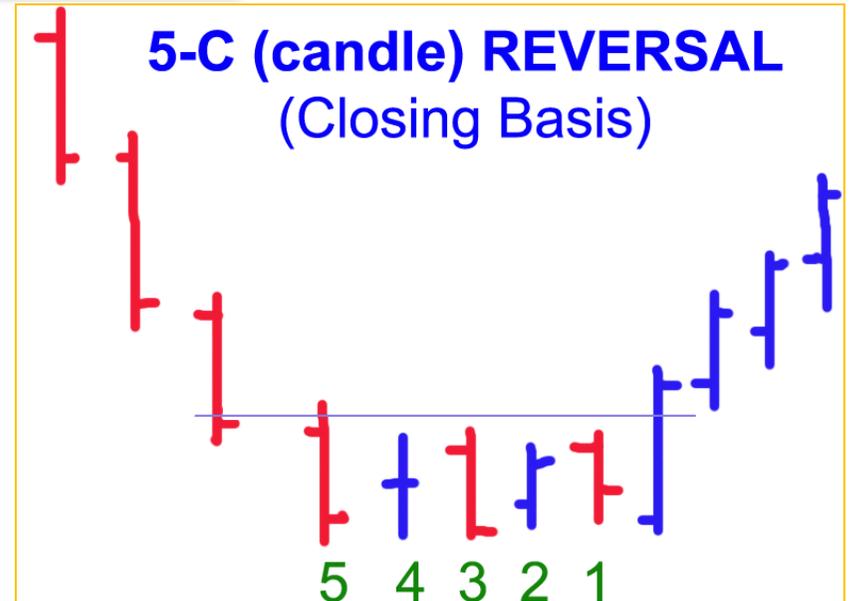


5 C Reversal (Closing Basis)

5C reversal (closing basis):
Rock Sold bottom...after strong consolidations...market moves towards high trending.

It has to close above the last 5 candle... other-wise it is not a valid 5C reversal.

Trade with sl= 5 bars low= solid rock means highly and no. of times tested it support.





Candlestick Patters

Major & Imp. Patterns

Doji Signal	Long-Legged Doji
Bullish Engulfing	Bearish Engulfing S
Hammer	Hanging Man
Piercing Pattern	Dark Cloud
Bullish Harami	Bearish Harami
Morning Star	Evening Star
Kicker Signals	Shooting Star
Inverted Hammer	

Secondary Patterns

The Tri Star	Three Black Crows
Three Identical Crows	Two Crows
Upside Gap Two Crows	Meeting Lines
Belt Hold	The Breakaway
Deliberation	Advance Block
Ladder Bottom	Homing Pigeon
Stick Sandwich	Matching Low
Three Stars in the South	Three White Soldiers
Unique Three River Bottom	
Three Inside Up & Three Inside Down	
Concealing Baby Swallow	

All other Patterns

High Profitable Patterns

Cradle Pattern	Series of Shadows at the Top
Dumpling Top	Series of Doji at the Top
Fry Pan Bottom	Series of Doji at the Bottom
Jay-Hook Pattern	Doji End of Flat Trading Range Top
coop Pattern	Doji End of Flat Trading Range Bottom
Tweezer Bottom / TOP	Combination Bullish Signals at the Bottom
Double Bottom / Top	Combination Sell Signals at the Top
Double Top	Double Bullish Engulfing Pattern
Trading Channels	Double Bearish Engulfing Pattern
Gap Down Hammer at the Bottom	Breakout Through Moving Averages
Gap Up Inverted Hammer	Moving Averages Act as Price Magnets
Gap Down After a Doji at the Top	Moving Average as Support
Gap Down Doji at the Bottom	Moving Average as Resistance
Gap Down Bullish Engulfing	
Gap Down Bearish Harami	
Gap Down Shooting Star	
Gap Down Hanging Man	
Multiple Tails to the Downside	

CANDLESTICKS

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Day Trading Strategies

1. BUY above> or SELL below<
2. Day LOW and HIGH breakings
3. Previous day Closing
4. Volume (Value or Qty.)
5. RSI (over bought/over sold)
6. Moving Averages/ MACd crossover
7. Divergence (price vs. Indicators)
8. Double Top/Bottoms
9. Spread strategies
10. Hedging
11. Price Gaps Trading
12. Choosing Options

PROFIT Deciding Factors

1. **Breakouts**
2. **Support & Resistance**
3. **Retracement Levels**
 - Pivot Points
 - Fibonacci
4. **Trend Reversal**
5. **Moving Averages & Cross over**
6. **Anniversary Figures**
7. **Rounded Figures**
8. **Holidays / Weekends**
9. **Popular Patterns**
 - Head & Shoulder
 - Triangles
 - Double Top/Bottoms
 - Cup & Handle
 - Rounding Top/Bottom
 - Diamond Pattern
 - Greatly Pattern

Tgt. & Sl. fixation

Regular System:

- Day Low or Day High
- Yesterday Closing

Technical Aspect

- Change of Open Interest
- Tech. Support & Resistance (Pivot-Day)
- Tech. Support & Resistance (Fibonacci)
- Pys. Support & Resistance (Trend Lines)
- Supports & Resistance (Patterns)
- Moving Averages Crossover
- RSI-Over bought/sold conditions
- Stochastics
- Divergence
- Last 'n' No. of Bars
- Last (3) bars High/Lows

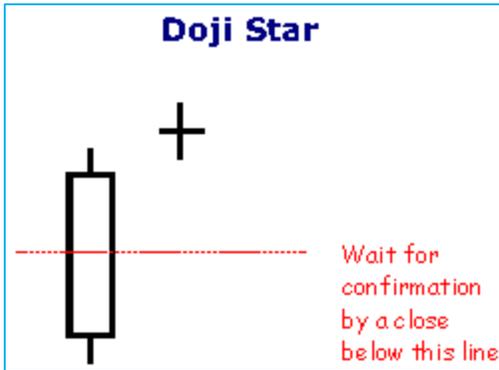
Other Affective Factors :

- Supply & Demand
- Inventory
- Bulk deals/profit booking/panic buying
- Economy Statistics(GDP/Inflation)
- News Alerts (Intl. Meets, Resolutions)
- Corporate Results
 - (Dividends, Orders, Returns)
- Government Policies
 - (Imports/Exports/Taxes)
- Rounded Figures /Historical Figures
- Historical Importance
- Seasons / weather
- Holidays
- Political Issues/Strikes
- Geographical Issues/Earth quake



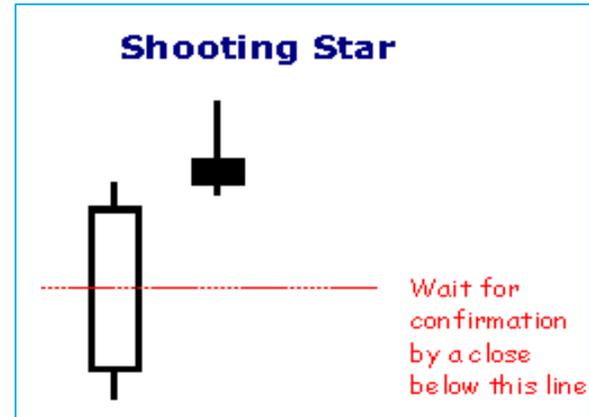


Doji Star



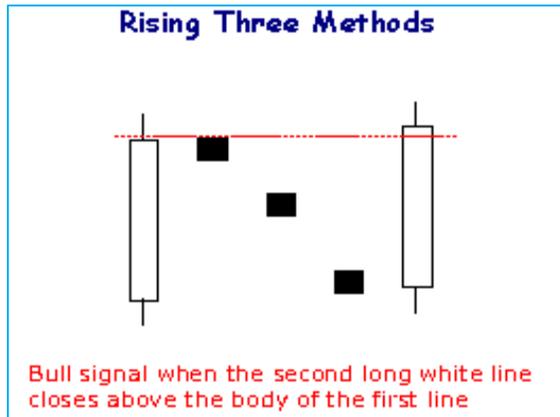
A Doji Star is weaker than the **Morning** or **Evening** Star: the **doji** represents indecision. The doji star requires confirmation from the next candlestick closing in the bottom half of the body of the first candlestick.

Shooting Star



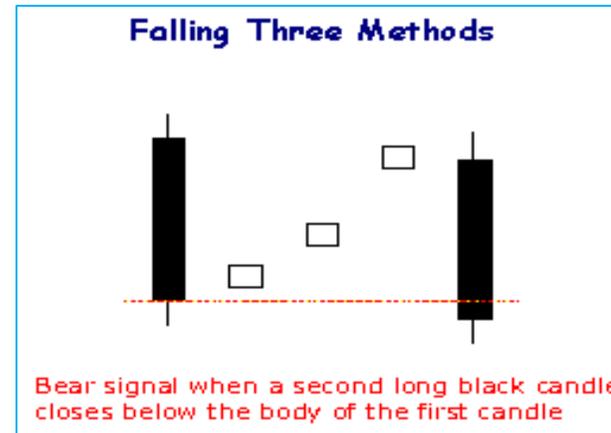
With a Shooting Star, the body on the second candlestick must be near the low -- at the bottom end of the trading range -- and the upper **shadow** must be taller. This is also a weaker reversal signal than the **Morning** or **Evening** Star. The pattern requires confirmation from the next candlestick closing below half-way on the body of the first.

Raising 3 (method)



The Rising Method consists of two strong white **lines** bracketing 3 or 4 small declining black candlesticks. The final white line forms a new closing high. The pattern is definitely bullish.

Falling 3 (method)



The bearish Falling Method consists of two long **black lines** bracketing 3 or 4 small ascending white candlesticks, the second black line forming a new closing low.

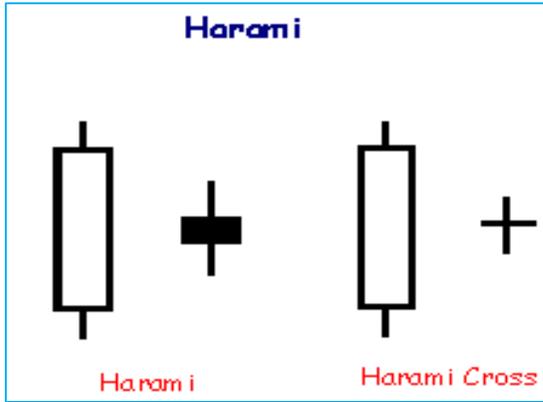
Evaluation

While candlesticks may offer useful pointers as to short-term direction, trading on the strength of candlestick signals alone is not advisable.

Jack Schwager in *Technical Analysis* conducted fairly extensive tests with candlesticks over a number of markets with disappointing results.

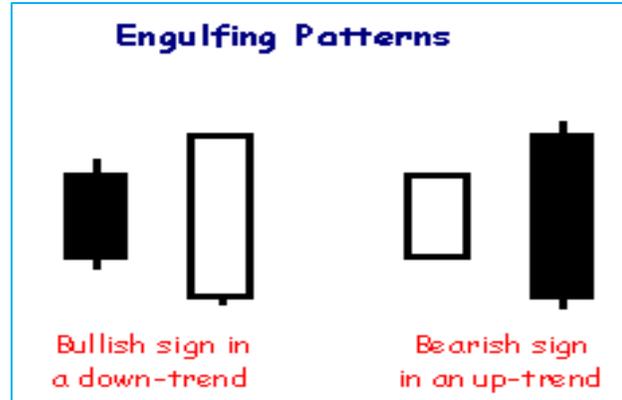
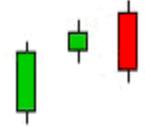


Harami



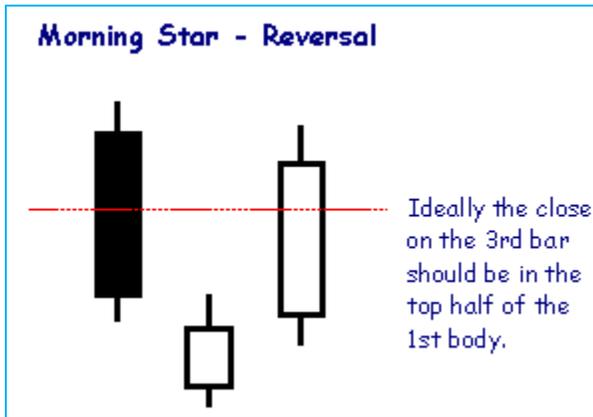
A Harami formation indicates loss of momentum and often warns of reversal after a strong trend. Harami means 'pregnant' which is quite descriptive. The second candlestick must be contained within the body of the first, though the shadows may protrude slightly.

Engulfing Patterns



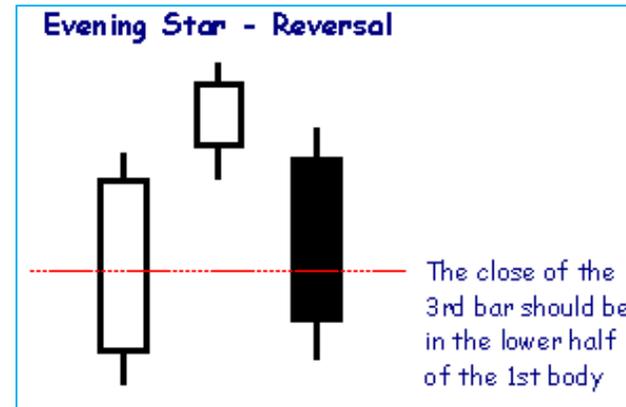
Engulfing patterns are where the body of the second candlestick 'engulfs' the first. They often follow or complete [doji](#), [hammer](#) or [gravestone](#) patterns and signal reversal in the short-term trend.

Morning Star Reversal

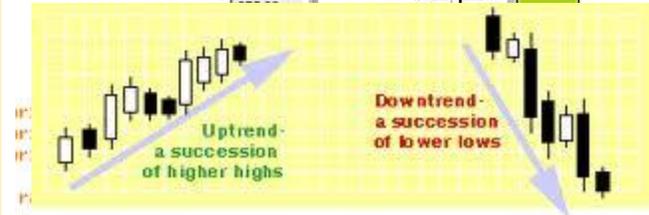
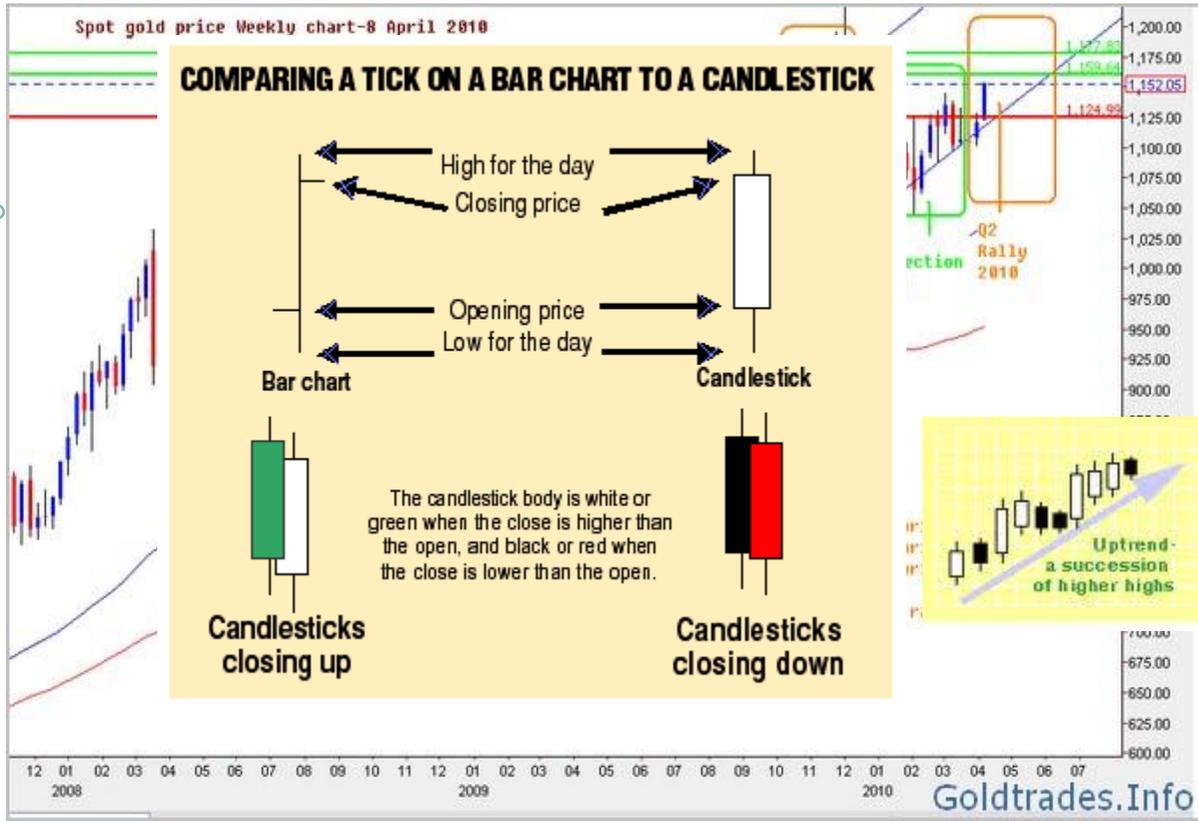


The Morning Star pattern signals a bullish reversal after a down-trend. The first candlestick has a long black body. The second candlestick gaps down from the first (the bodies display a gap, but the shadows may still overlap) and is more bullish if hollow. The next candlestick has a long white body which closes in the top half of the body of the first candlestick.

Evening Star Reversal



The Evening Star pattern is opposite to [Morning Star](#) and is a reversal signal at the end of an up-trend. The pattern is more bearish if the second candlestick is filled rather than hollow.



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Technical Analysis

For disciplined Trader who have
PATIENCE - CONFIDENCE