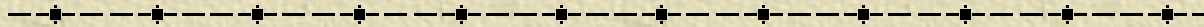
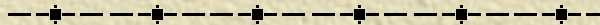




A Candlestick Primer



By
Tom Bierovic



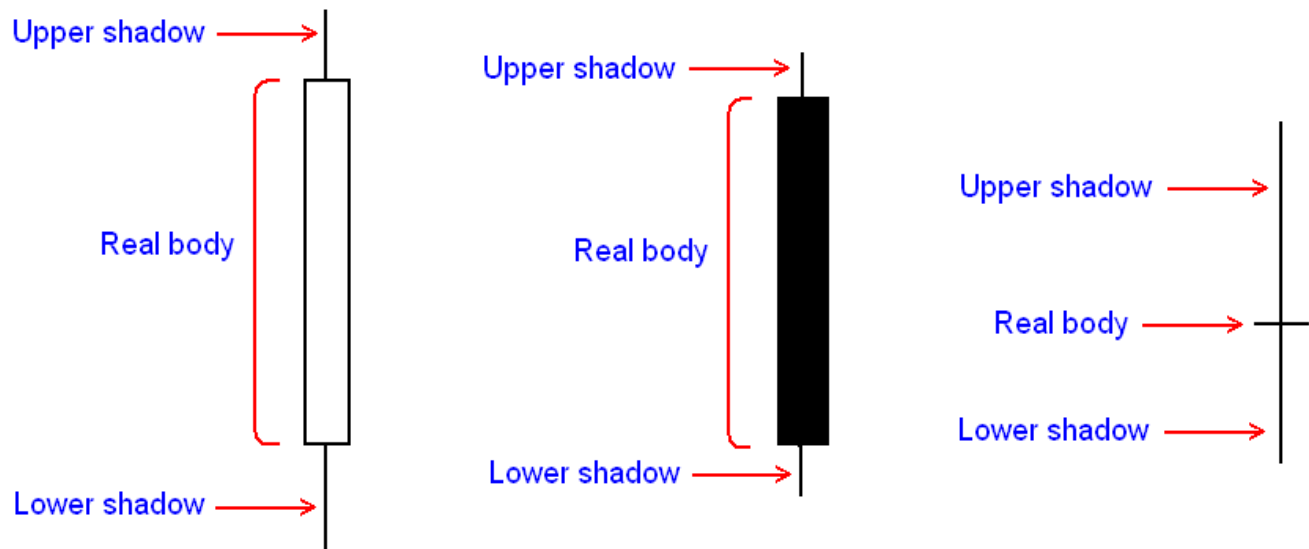
Introduction

Although centuries old, Japanese candlestick charts are relatively new to the West: Steve Nison introduced them here in 1991 in his book, *Japanese Candlestick Charting Techniques*. The candles provide the same price information (open, high, low, and close) that bar charts do, but they display that information in a more visually appealing, more meaningful way. In this e-book, you'll learn how to read candlesticks and how to identify the most important candlestick patterns. The first slide presents a daily candlestick chart, the second introduces the terminology for a candlestick's components, and the third shows how to read a candlestick. The rest of the e-book describes and illustrates many useful candlestick patterns.



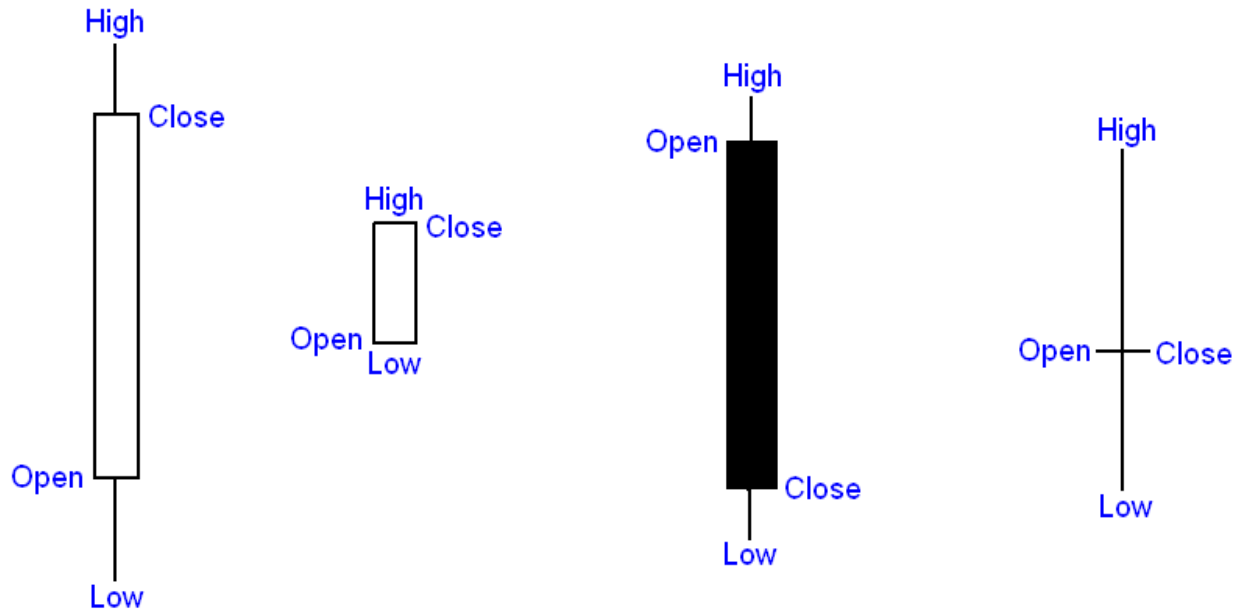
Japanese Candlestick Chart

Reading a candlestick



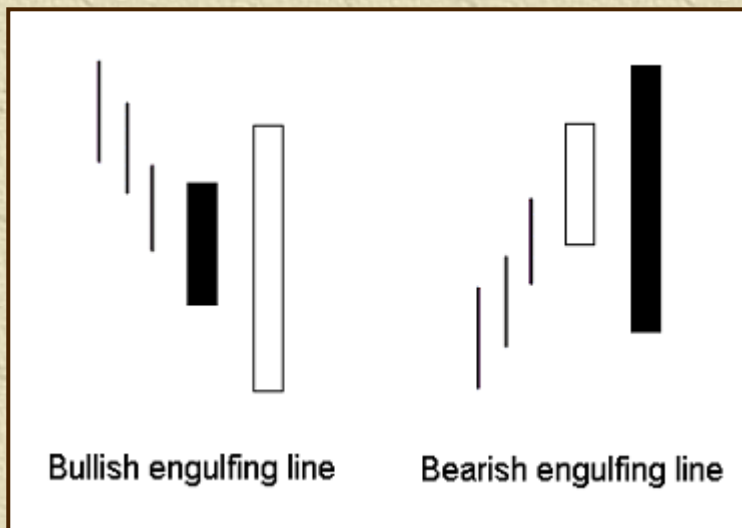
Components of Japanese Candlesticks

Reading a candlestick



Reading Japanese Candlesticks

Bullish and Bearish Engulfing Lines

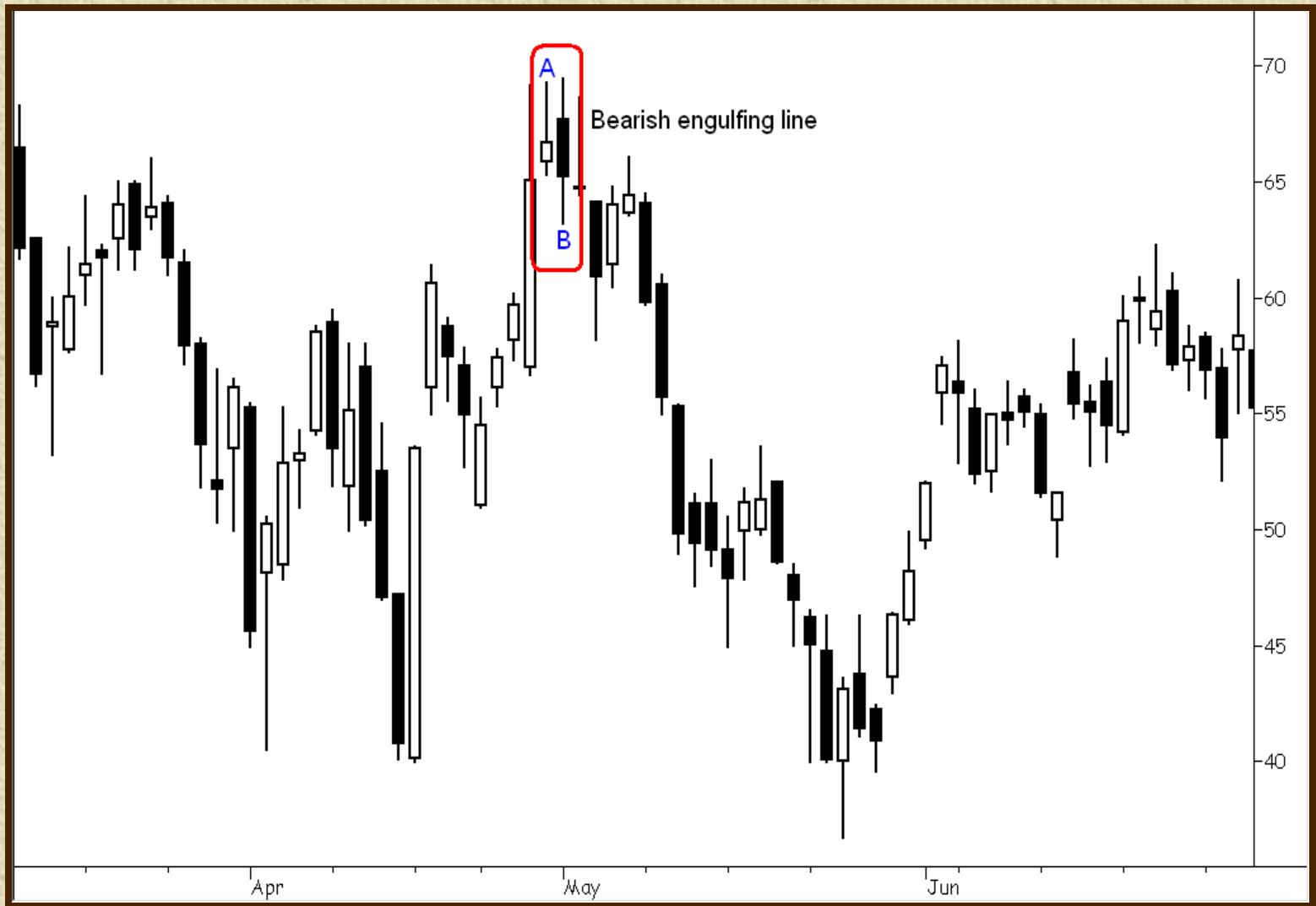


A bullish engulfing line, which occurs in a downtrend, is a tall, white real body that engulfs the previous session's smaller, black real body. The bullish engulfing line opens below the previous session's close and closes above the previous session's open.

A bearish engulfing line occurs in an uptrend. Its tall, black real body engulfs the previous session's smaller, white real body. In other words, a bearish engulfing line opens above the previous session's close and closes below the previous session's open.

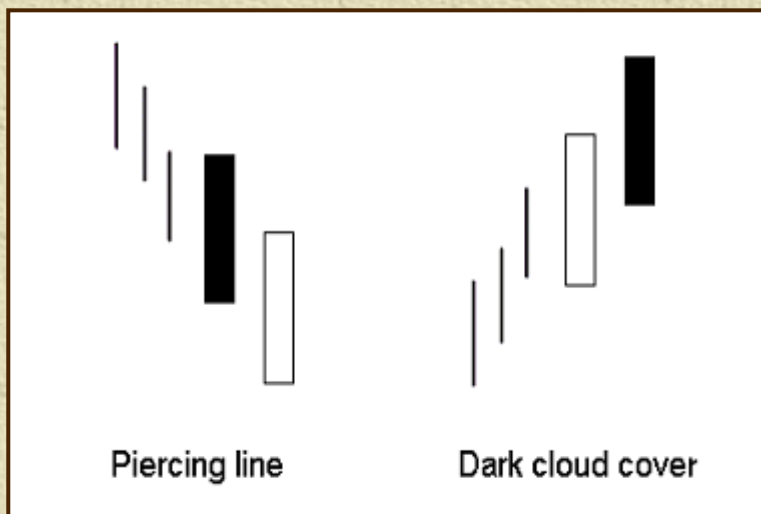


Bullish Engulfing Line



Bearish Engulfing Line

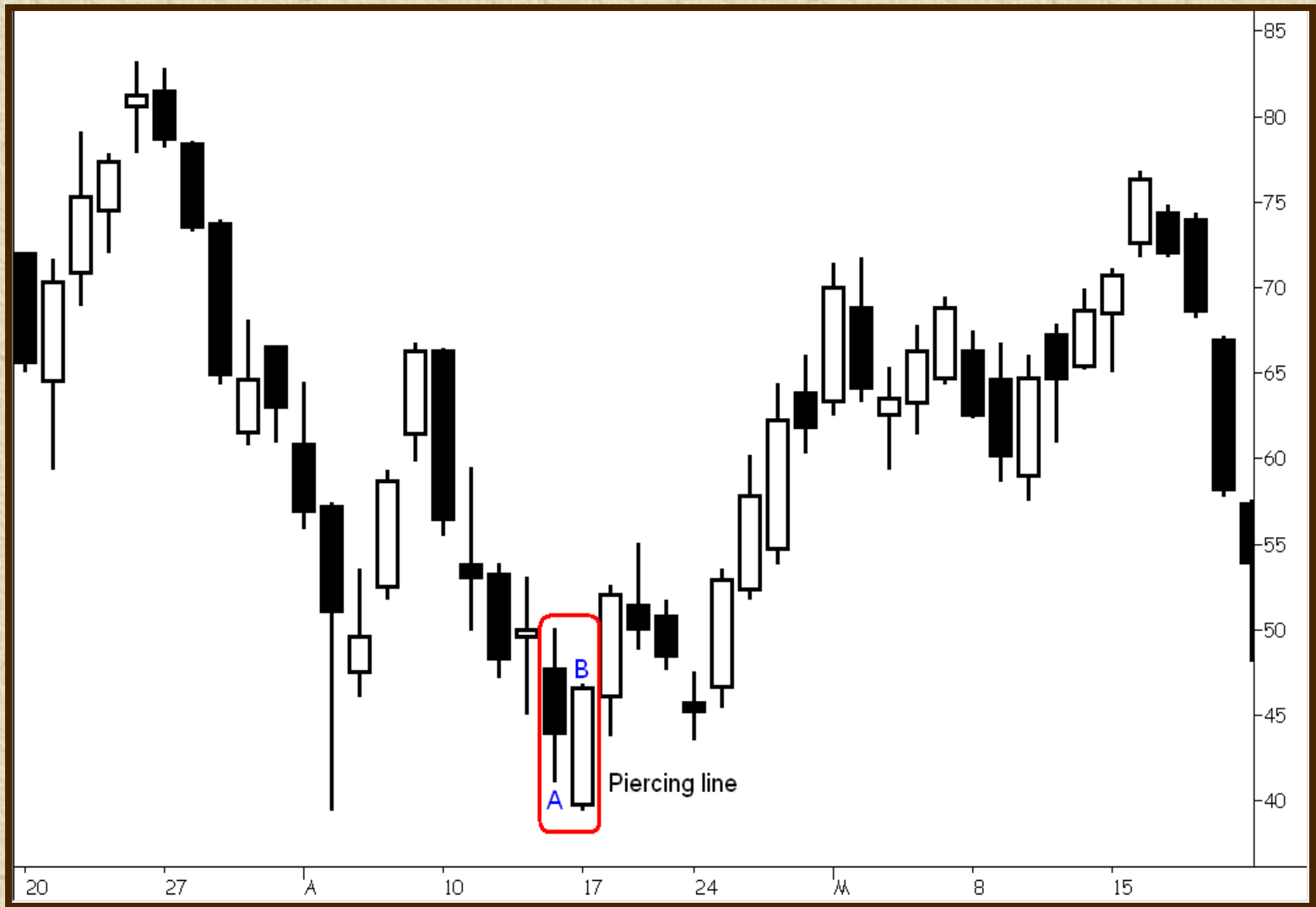
Piercing Line and Dark Cloud Cover



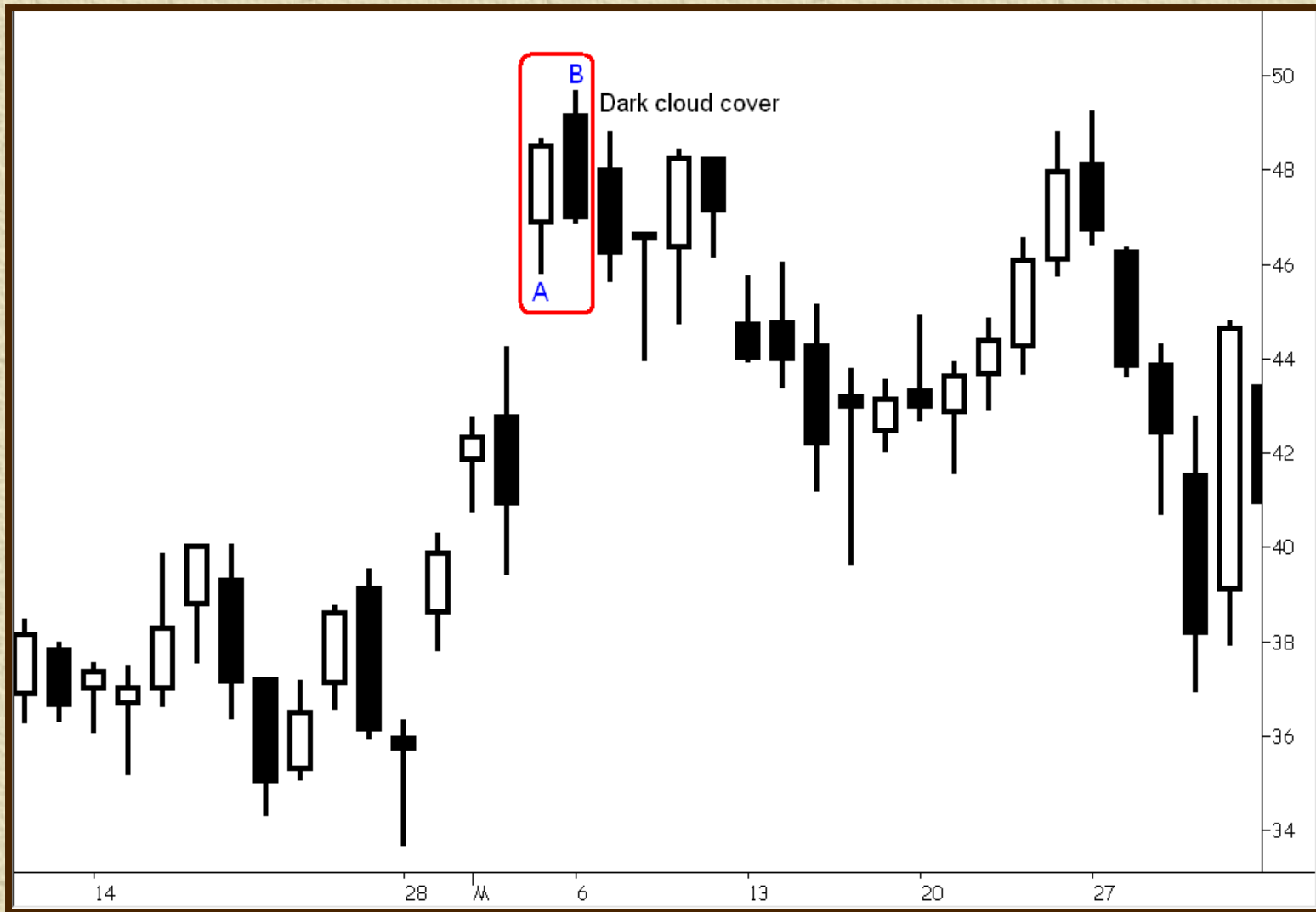
A piercing line is a tall white candle that follows a tall black candle in a downtrend. It opens below the previous candle's low but closes at least halfway into the previous candle's real body.

A dark cloud cover is a tall black candle that follows a tall white candle in an uptrend. It opens above the previous candle's high but closes at least halfway into the previous candle's real body.

A piercing line is bullish, and a dark cloud cover is bearish .

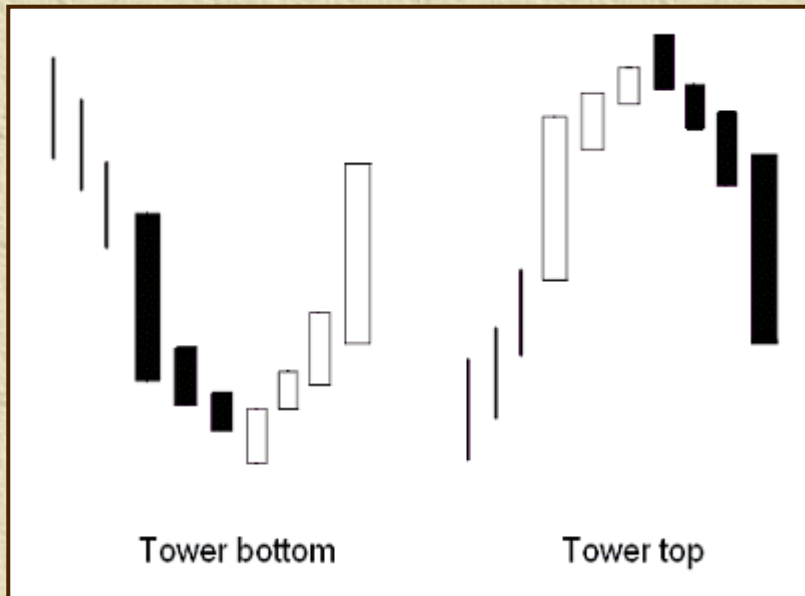


Piercing Line



Dark Cloud Cover

Tower Bottoms and Tower Tops

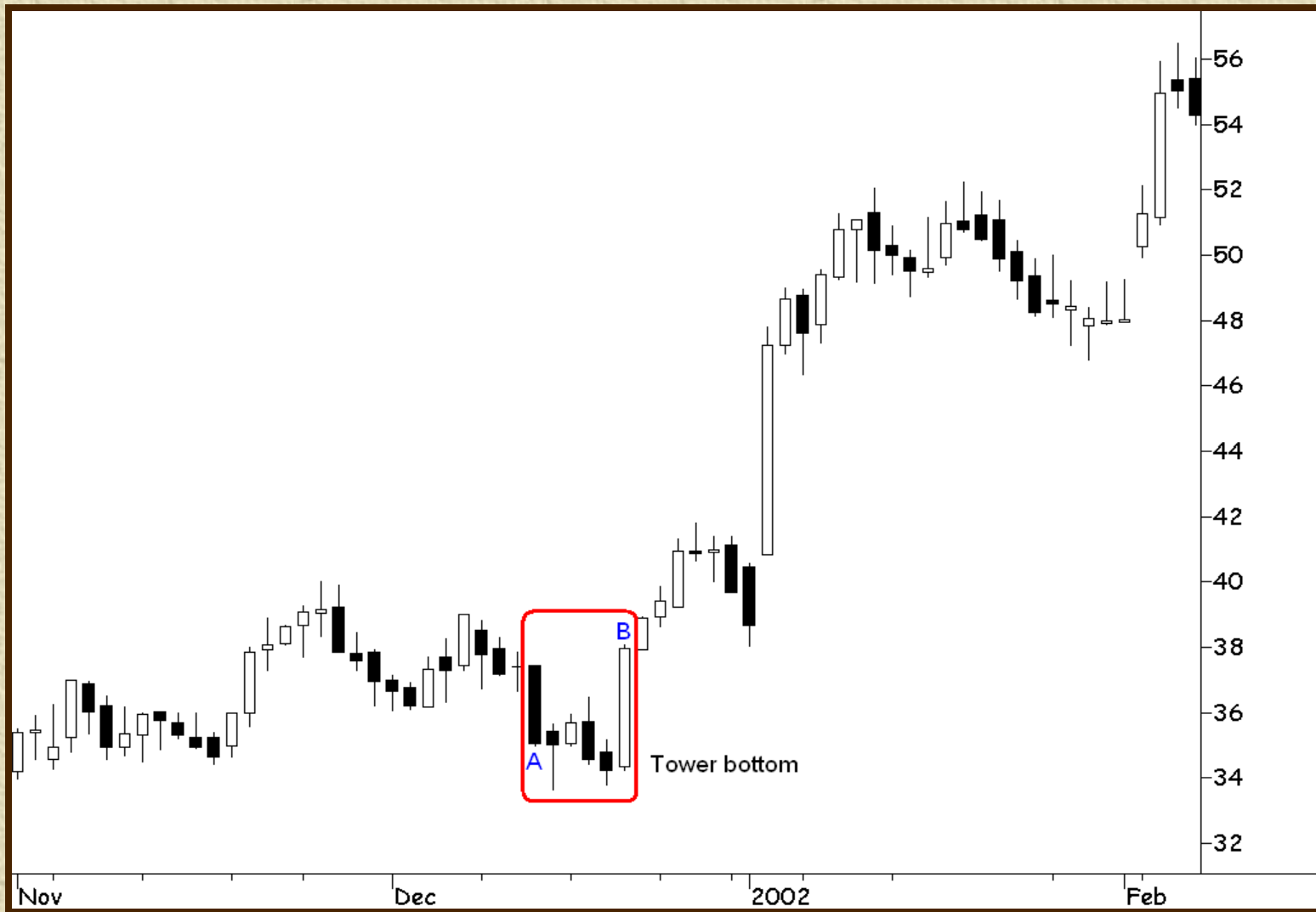


A tower bottom begins with a tall black candle in a downtrend. It's followed by a series of smaller real bodies that trade sideways. Finally, a tall white candle forms the second tower, completing the pattern.

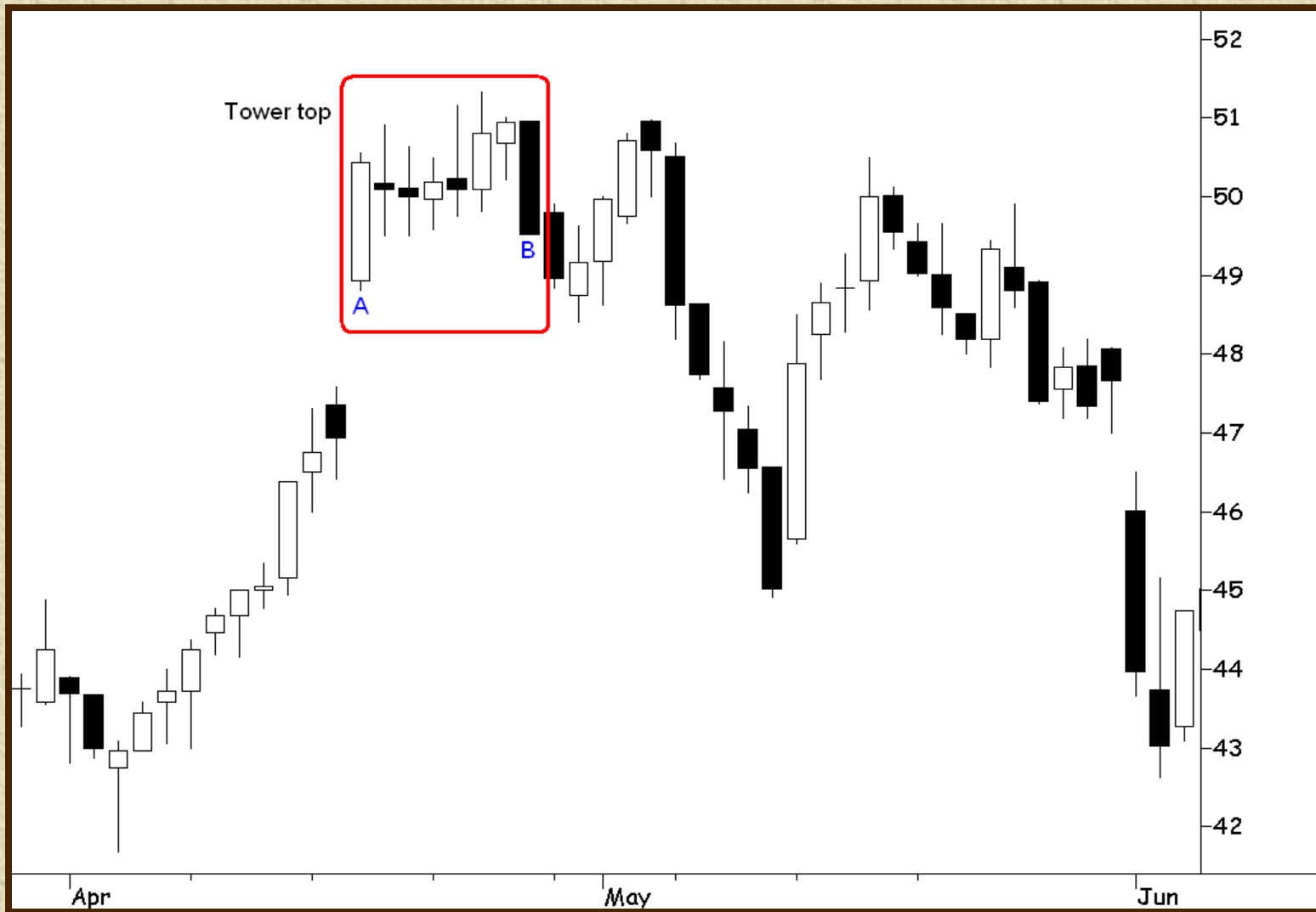
A tower top begins with a tall white candle in an uptrend. It's followed by a series of smaller real bodies that trade sideways. Finally, a tall black candle forms the second tower, completing the pattern.

A tower bottom is bullish, and a tower top is bearish.

A tower bottom is bullish, and a tower top is bearish .

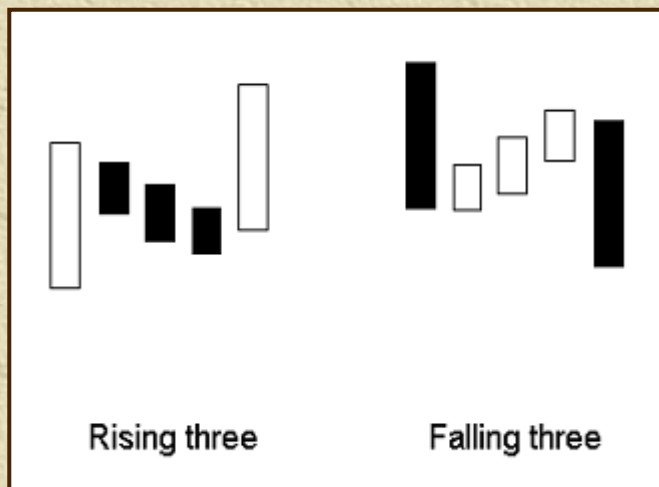


Tower Bottom



Tower Top

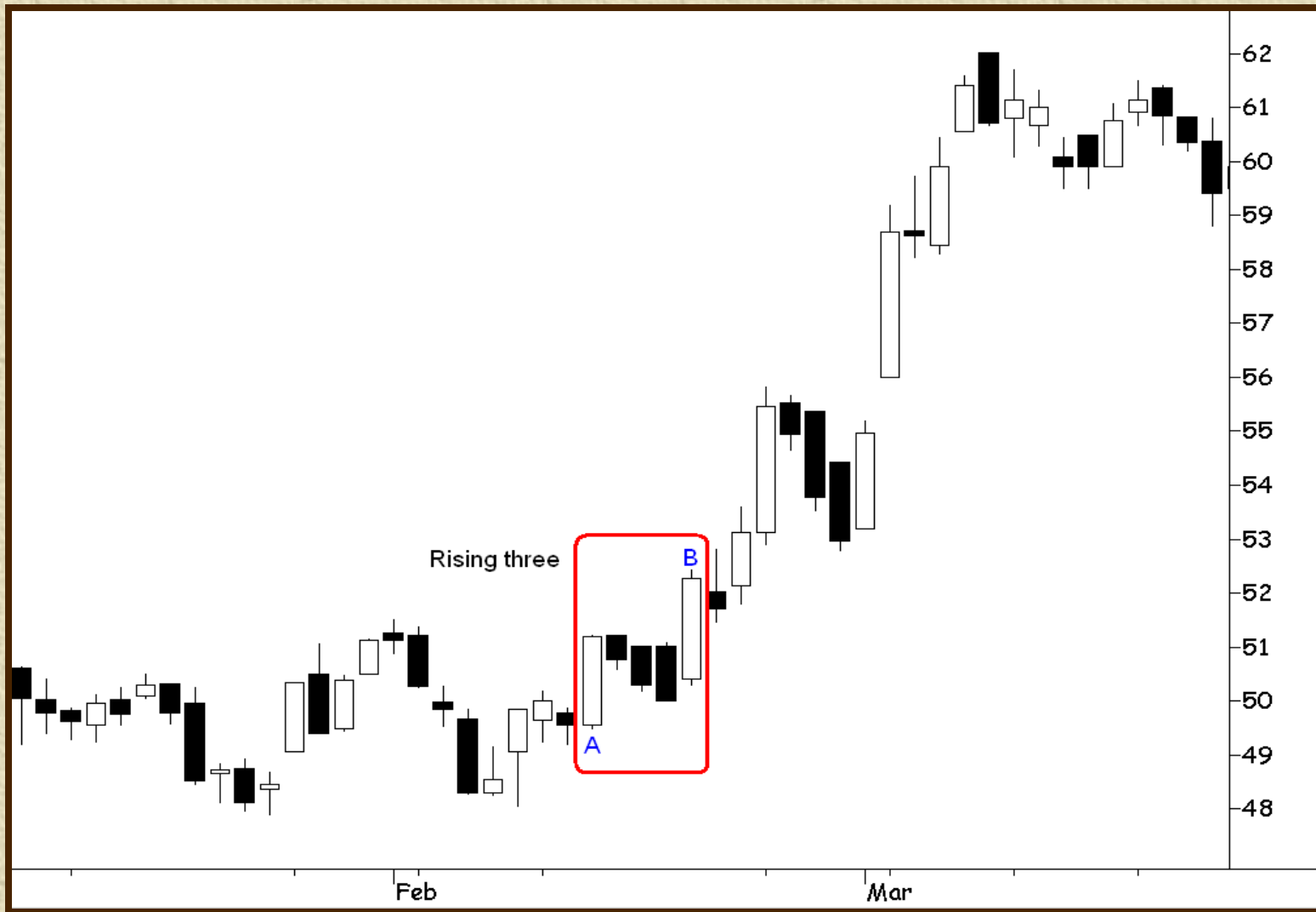
Rising Three and Falling Three



A rising three pattern begins with a tall white candle in an uptrend. It's followed by three small real bodies (usually black) that hold within the white candle's range. A tall white candle that closes above the high of the first white candle completes the pattern.

A falling three pattern begins with a tall black candle in a downtrend. It's followed by three small real bodies (usually white) that hold within the black candle's range. A tall black candle that closes below the low of the first black candle completes the pattern.

A rising three pattern is bullish; a falling three pattern is bearish.

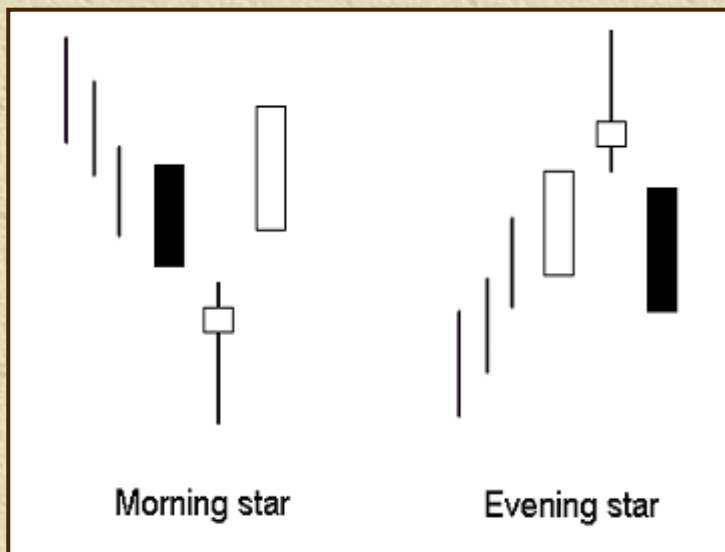


Rising Three



Falling Three

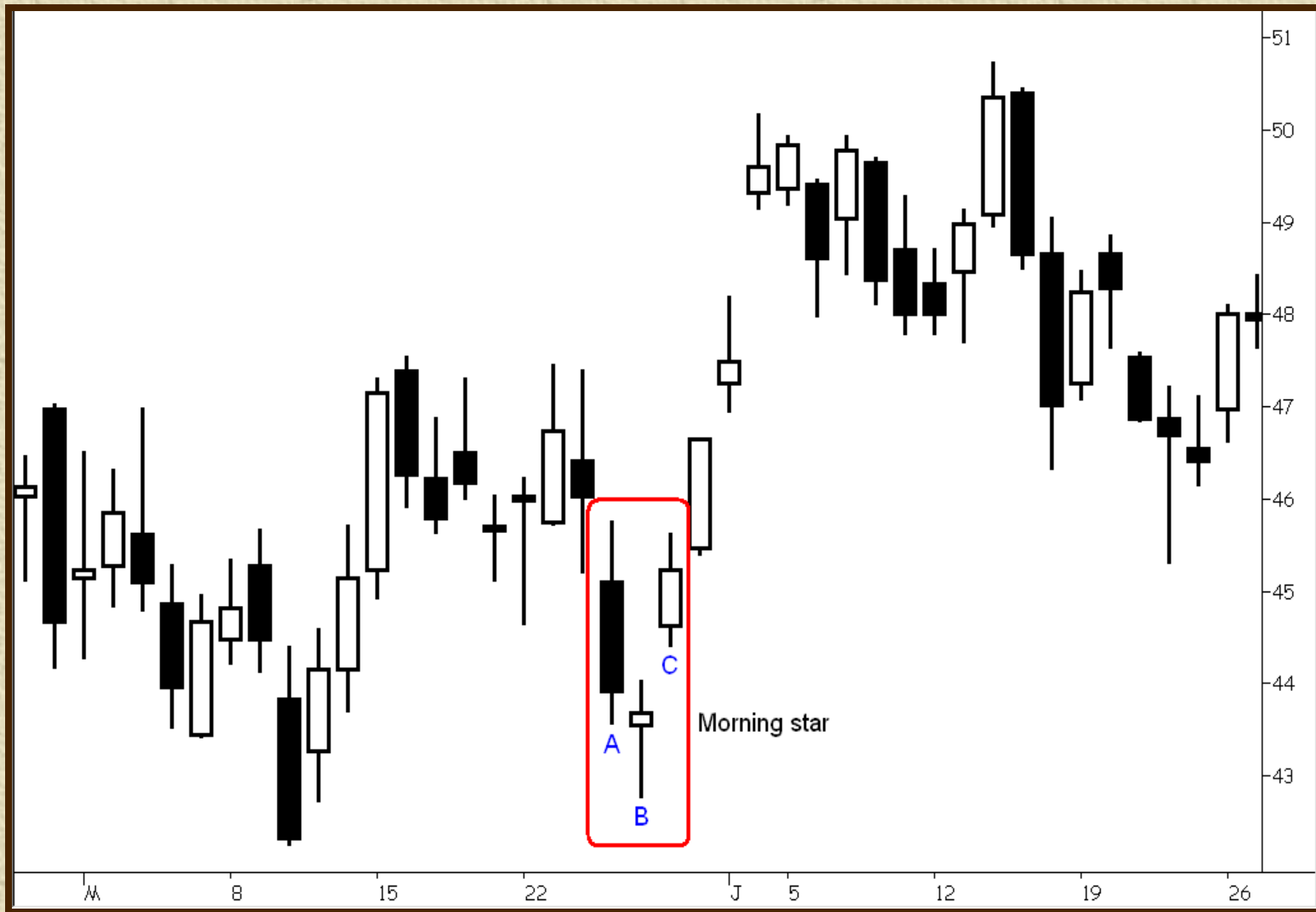
Morning Star and Evening Star



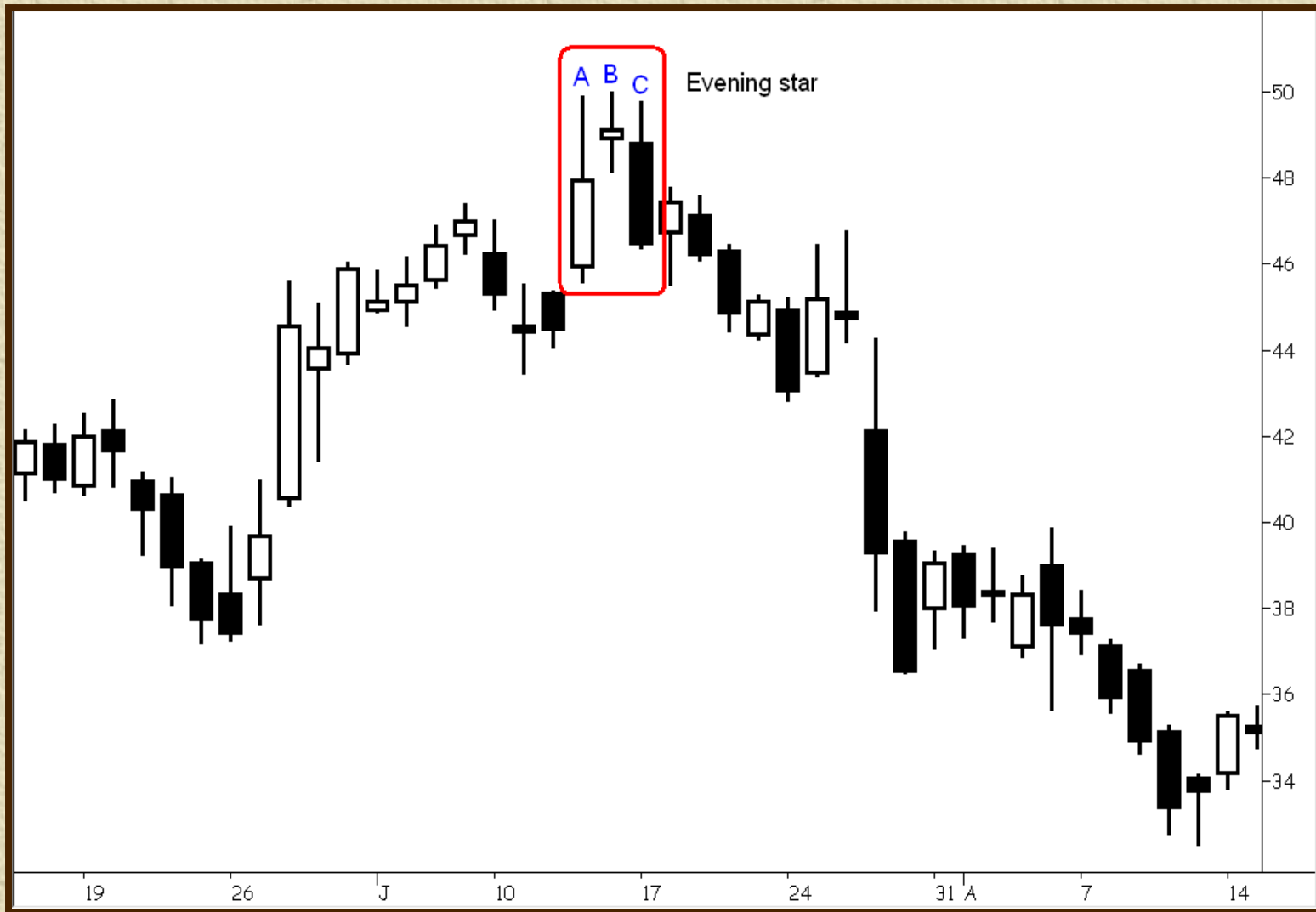
A morning star, which occurs in a downtrend, consists of three candles: a tall, black real body, a small real body (either white or black) that gaps open below the real body of the first candle, and a tall white candle with a strong close at least halfway into the first candle's real body.

An evening star is a three-candle pattern in an uptrend: a tall, white real body, a small real body (either white or black) that gaps open above the real body of the first candle, and a tall black candle with a close at least halfway into the first candle's real body.

A morning star is bullish; an evening star is bearish.

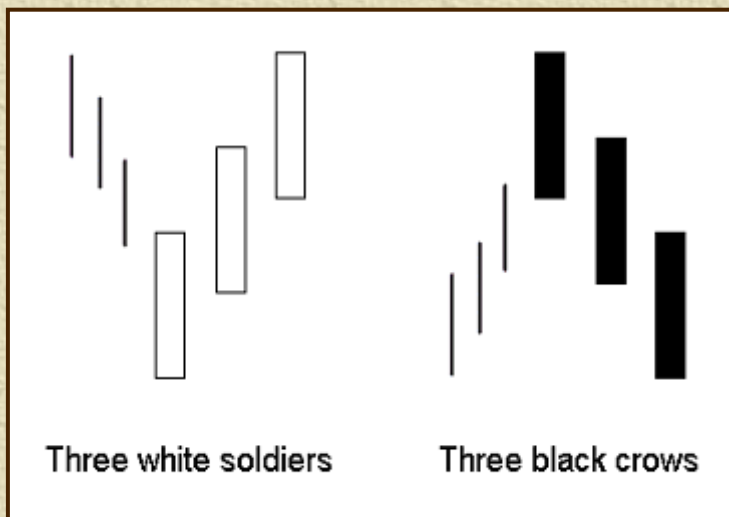


Morning Star



Evening Star

Three White Soldiers and Three Black Crows

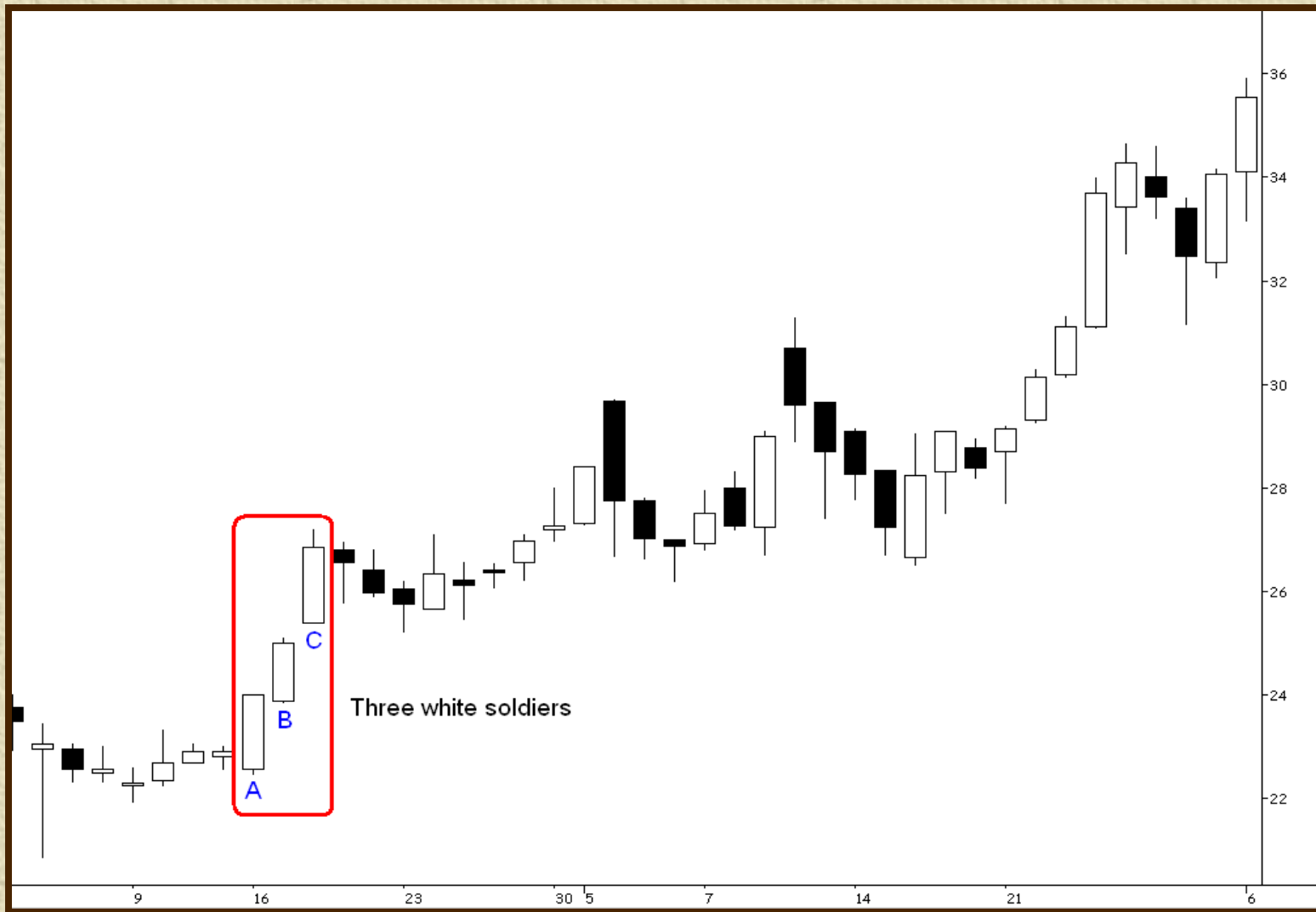


The three white soldiers pattern is composed of three consecutive tall white candles that close near their highs. Upper and lower shadows are usually absent or small.

The three black crows pattern is composed of three consecutive

tall black candles that close near their lows. Upper and lower shadows are usually absent or small.

A three white soldiers pattern is bullish. A three black crows pattern is bearish.

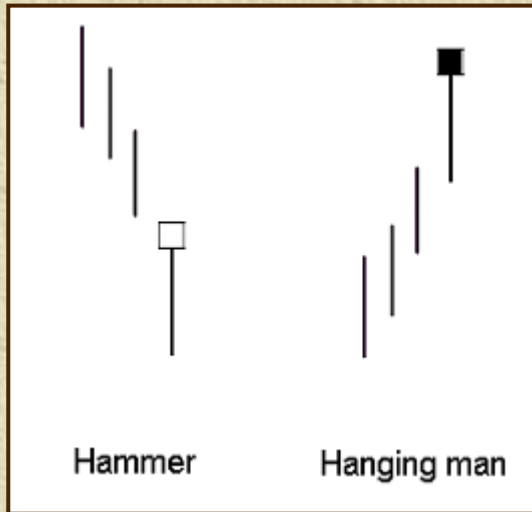


Three White Soldiers



Three Black Crows

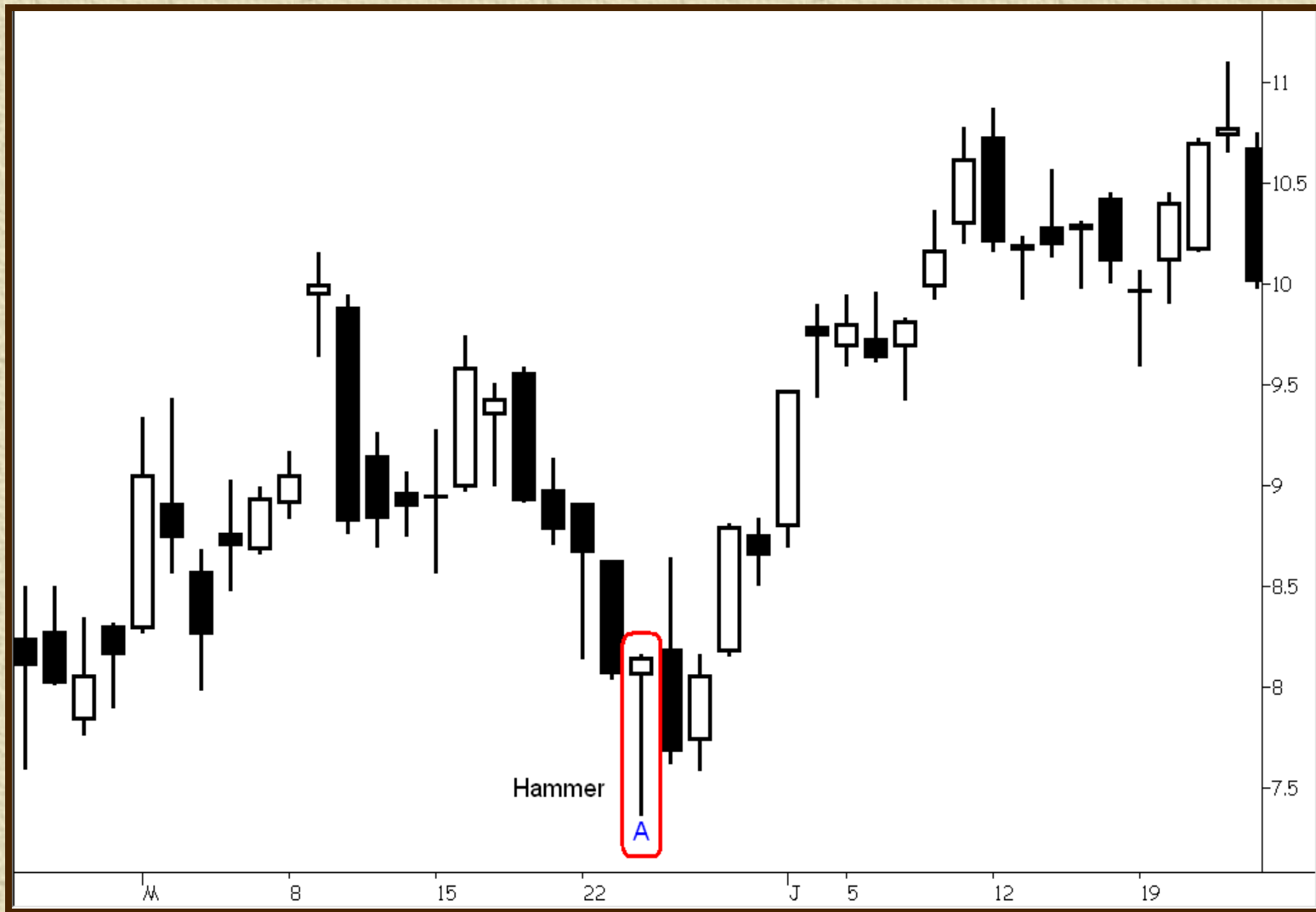
Hammer and Hanging Man



A hammer, which occurs in a downtrend, has a small real body (either black or white) at the top of its range. A hammer has little or no upper shadow, but its lower shadow must be at least twice as tall as the real body.

A hanging man is identical to a hammer, with one exception: a hanging man is found in an uptrend, while a hammer is found in a downtrend.

A hammer is bullish; a hanging man is bearish.

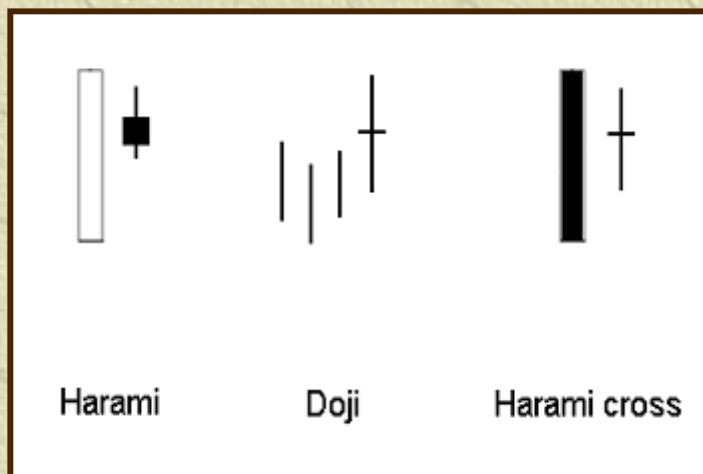


Hammer



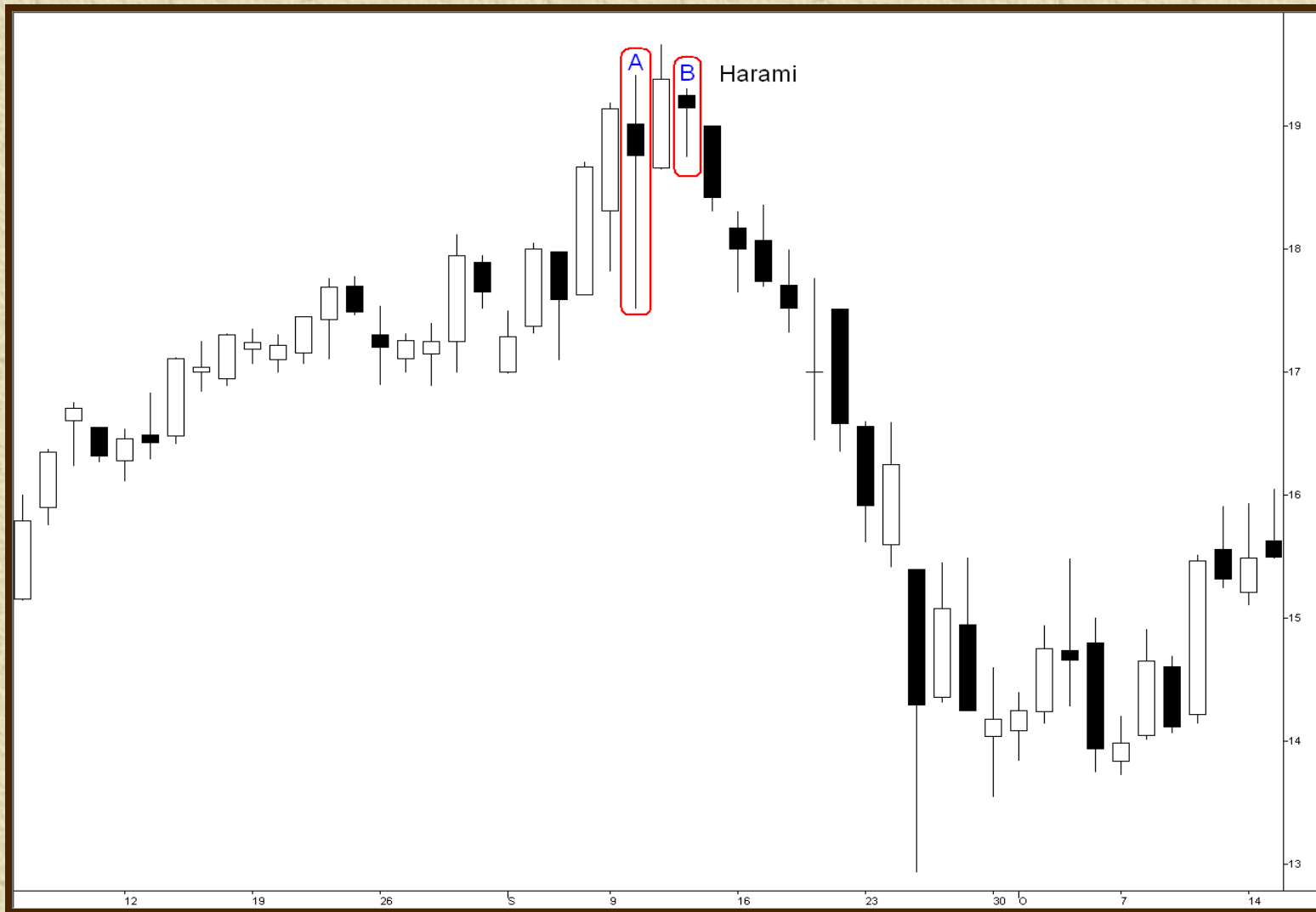
Hanging Man

Harami, Doji, and Harami Cross



A harami is a small real body that is within the previous candle's real body. Although the color of the harami's real body is usually the opposite color of the previous candle, it can be either white or black. A doji represents a trading session in which the open and close occur at the

same (or nearly the same) price; therefore, a doji has a very small real body. A harami cross is a combination of a harami and a doji, i.e., its real body, which represents an open and close at the same (or nearly the same price), is contained within the previous candle's real body. In a downtrend, these three patterns are bullish; in an uptrend, they're bearish.



Harami



Doji



Harami Cross

Conclusion

By now you should have learned to identify the most important candlestick patterns. Your next step will be learning to integrate the patterns into your own trading strategy. Look for ways to combine candles with Western technical tools like gaps, trendlines, support and resistance, moving averages, and classic chart patterns (e.g., flags and triangles). There are as many ways to trade with candles as there are grains of rice in a bushel basket. Let the candles light your way!