# TRADING TERMS

## Buy

To take a position by buying shares of a company.
As a trader, you generally buy shares when you think a stock's price will rise.

## Sell

To sell the shares you currently own.
Traders generally sell shares when they see an opportunity to take profits or they think the stock's rise is ending.

## Bid

When a trader in the market makes an offer to buy shares.
Traders will bid for a stock at a certain price.

## Ask

When a trader offers their shares for sale at a certain price.
If a trader holds shares, and they want to sell them at a particular price, they'll place an order asking buyers to purchase them.

## Bid-Ask Spread

The difference between the highest price at which someone is willing to buy shares and the lowest price someone is willing to sell shares.

## Bull Market

A market condition where stock prices are continually rising.
Bull markets are characterized by optimism and excitement from traders and investors.

## Bear Market

A bear market is the opposite of a bull market. It's a market condition where prices are continually falling.
Bear markets are times where the outlook appears bad for a company, an industry, or the overall economy. Traders and investors are less willing to buy stocks, and many are looking to sell their stocks. This causes prices to fall.

## Limit Order

A type of stock market order that provides instruction to only execute at a certain price, or one that is more profitable.
For example, a trader could place a limit buy order to purchase 100 shares of a stock at $10.20. The broker will attempt to buy 100 shares at a price of $10.20 or below.

## Market Order

A type of stock market order that provides instruction to buy or sell as quickly as possible, at whatever price is currently available.
Market orders can be expensive if there's not enough volume being traded. If you're going to trade penny stocks, you should almost never use a market order.

## Good Till Canceled Order

A type of stock market order to buy or sell shares that remains open until the trade is made or you cancel the order. Also known as a GTC order.

## Day Order

A type of stock market order to buy or sell shares in which if the order isn't filled during the day, it's automatically canceled at the market close.

## Volatility

The statistical measure of how much a stock moves up or down.
Stocks that move up and down wildly are known as volatile stocks. They can provide great profit opportunities, but also come with greater risk.

## Liquidity

The measure of a stock's ability to be bought and sold quickly. More shares being bought and sold means more liquidity.
If there are lots of buyers and sellers trading lots of shares of a stock, you'll generally find it easier to enter and exit a position.

## Trading Volume

The number of shares being traded at a point in time.
More trading volume means a stock is more active, and it's easier to enter and exit positions.

## Going Long
By going long, you’re purchasing shares of a stock and you’re looking to profit if the stock price rises.
## Going Short
When a trader looks to profit from a stock’s price going down.
A trader goes short by borrowing shares from a broker, selling them, and hoping to buy them back and return them to the broker after the price has dropped.
## Averaging Down
This is where an investor or trader buys more shares of a stock as the price drops, lowering the average price paid for the position.
Averaging down can be an intelligent strategy for long-term investors, but we don’t recommend that active traders do it.
## Market Capitalization
Market capitalization, also known as market cap, is the total value of all a company’s shares.
For example, if a company has one million shares outstanding and the stock price is $10 per share, the market cap will be $10 million.
## Public Float
This is the term for a company’s freely traded shares. Many companies will have large chunks of shares that aren’t tradeable because they’re held by company management or key investors.
As active traders, we generally look for companies with a small public float, as their prices tend to be more volatile.
## Outstanding Shares
This is the total number of a company’s shares. It includes both the public float and restricted shares held by management or key investors.
## IPO
IPO stands for initial public offering. It’s when a company goes through the process of selling shares on the stock market for the first time.
## Secondary Offering
A company may raise money from investors by offering shares, even after the company’s shares are traded on a stock exchange. This is called a secondary offering.
## Blue-Chip Stock
These are large, stable, well-known companies that are often profitable and pay consistent dividends.
## Forex
Forex is short for foreign exchange. The term refers to the global trading of currencies in a way similar to the way stocks are traded.
## Hedge Funds
A hedge fund is a type of investment fund that often uses non-standard investment and trading techniques.
Hedge funds generally try to be profitable regardless of whether the market is up or down, and they’re generally reserved for high net worth investors.
## Mutual Funds
Mutual funds are pools of investor money put together to invest in stocks, bonds, and other financial assets.
## ETFs
ETF is short for exchange-traded fund. ETFs are similar to mutual funds in that they’re pools of capital being used for investment purposes. But instead of wiring your money into the fund, you can simply purchase shares of the ETF on a stock exchange.
## ADR
ADR is short for American Depositary Receipt. These are certificates that represent shares of overseas stocks.
ADRs allow you to buy and sell overseas stocks on U.S. stock exchanges in much the same way you can trade American stocks.
## Beta
The statistical measure of the way a stock performs compared with the broader market. Investors use beta as a way of understanding how much risk there is in holding a stock.

## Stockbroker

A person or company that acts as an agent, allowing traders and investors to buy and sell stocks. Need help picking a broker? Find out more here.

## Day Trading

The practice of entering and exiting stock trades within a single day.
For example, if you purchase a stock in the morning, then sell it for a profit in the afternoon, you've day traded.

## Dividend

This is when a company pays a portion of its earnings to its shareholders. Long-term investors and retirees generally focus on dividends.

## Stock Charts

The visual graph of the price of a stock over time. Traders use stock charts as a way to help them interpret what the stock price is doing and what's likely to happen next.

## Stock Exchange

A stock exchange is an entity where stocks are bought and sold. The most well-known stock exchanges are the New York Stock Exchange (NYSE) and the Nasdaq.

## Execution

Execution is the act of fulfilling a stock trading order.
For example, you place an order with your broker to buy 100 shares of XYZ at $10. When that trade has been completed, you can refer to that order as having been executed.

## Margin

Margin refers to the use of borrowed money to trade shares. Some brokers allow margin trading, but we don't recommend it, especially if you're new to the markets.
For example, you might have $10,000 in your trading account, but use a margin account to purchase $20,000 of stock. With margin, you can make money and lose money faster. Be careful!

## Moving Average

A commonly used technical indicator found on stock charts. The moving average is an average of the stock price over a certain time period.
For example, the 20-day moving average is calculated by taking the price of the stock on each of the prior 20 days, then finding the average of those 20 prices.
It's a quick and simple way for traders to see the trend direction of a stock.

## Stock Portfolio

A stock portfolio is an investor's collection of stocks.

## Trading Mentor

An experienced trader who can shorten your learning curve by teaching you how they trade and what they've found to work in the markets.
I'm a huge fan of mentorship, and I teach a bunch of students everything I know about the markets in the SteadyTrade Team community. If you want to get serious about trading, come join us!

## Price Quote

A price quote is a stock's price at a certain point in time. Traders will often want up-to-date price quotes to better analyze stocks and find decent trading set-ups.

## Price Rally

A price rally is when a stock price rises at a noticeably quicker pace.

## Sector

The stock market is made up of shares of companies in different industries and niches. We refer to them as sectors.

## Stock Symbol

A unique collection of letters and/or numbers that represent a stock. Amazon, for example, trades on the Nasdaq under the symbol AMZN.

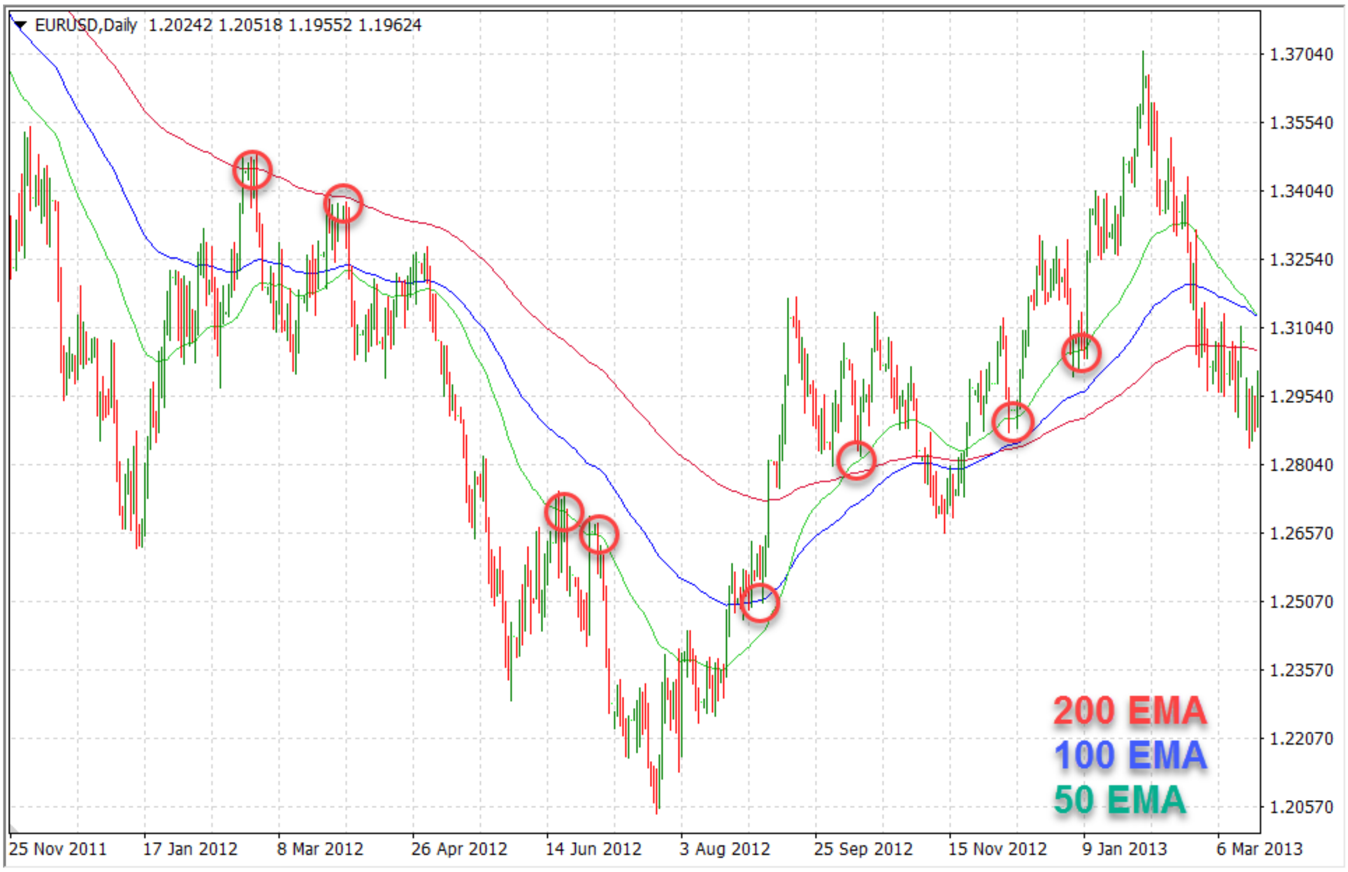
## Dividend Yield

This refers to the size of a company's dividend compared with the price of its stock.
For example, if a stock price is $20 and the company pays a dividend of $1 per share, the dividend yield would be 5%.

# INDICATORS

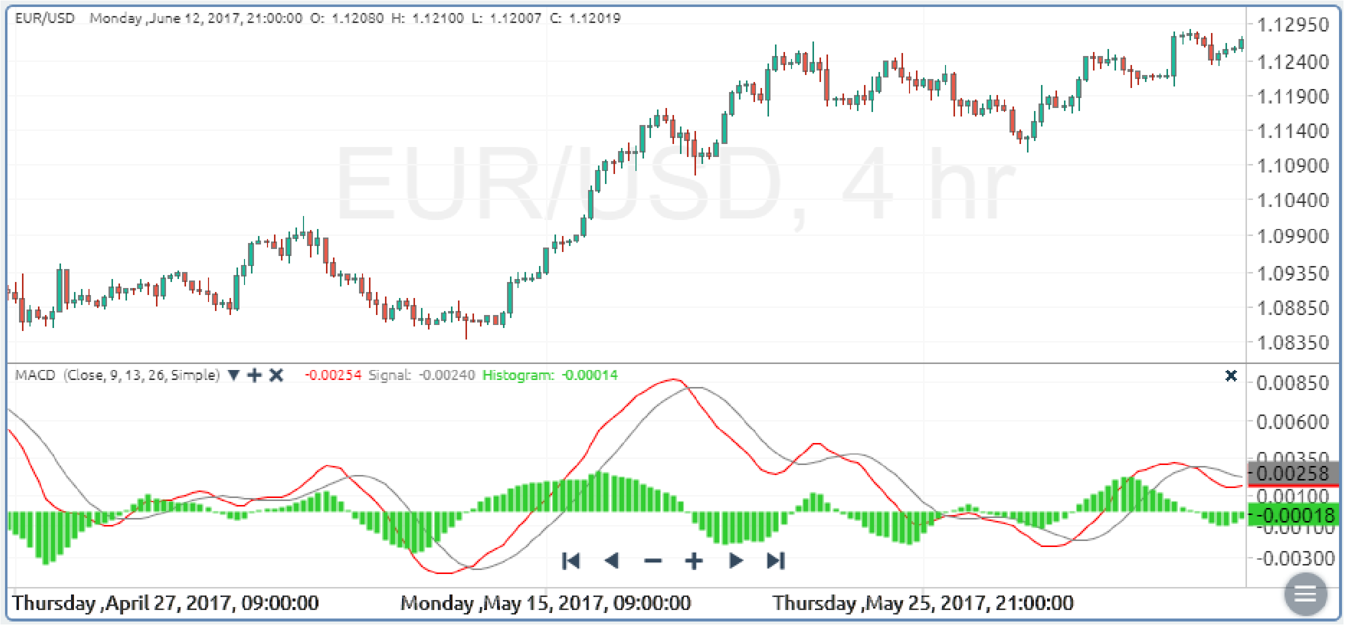
## Moving Averages

Moving averages are a popular day trading indicator. They're used both as a trend-following indicator and a counter-trend trading indicator. Moving averages represent the average of the last n-period closing prices. With each new closing price, a moving average drops the last closing price in its series and adds the newest one. Moving averages are usually plotted on the price chart itself. Moving averages can be grouped into simple moving averages (SMAs) and exponential moving averages (EMAs). SMAs are the simplest form of moving averages, as they take the arithmetic average of the last n-period closing prices. This means that each closing price has an equal weight in the calculation of an SMA. EMAs, on the other hand, use the exponential average of the last n-period closing prices, which makes them quicker react to new closing prices than their SMA peers. If you don't know which type of moving averages to use, I would recommend you to start with EMAs and see how they align with your trading strategy. Moving averages are also often used as dynamic support and resistance lines. Traders often use longer-term MAs, such as the 200-day or 100-day MA, to find areas where the price could retrace and continue in the direction of the underlying trend. Here's an example of dynamic support and resistance zone created by moving averages. The following chart shows the daily EUR/USD chart with the 200-day EMA, 100-day EMA, and 50-day EMA applied to it.




## MACD

The MACD indicator (pronounced mac-dee, short for Moving Average Convergence Divergence) is a powerful technical indicator that combines the best of trend-following indicators and oscillators. The MACD consists of two lines and the MACD histogram. The first MACD line usually represents the difference between two moving averages (one faster and one slower MA), while the second MACD line is a moving average of the first MACD line. The MACD Histogram represents the difference between the two MACD lines in a graphically appealing way. In essence, when the two lines cross, the MACD histogram returns a value of zero. As the two lines diverge one from another, the MACD histogram starts to rise. The MACD indicator is often used to confirm the trend in a price-chart. If the latest histogram bar is higher than the previous bar, this shows that an uptrend is starting to form. Similarly, if the latest bar is lower than the previous bar, this signals the start of an upcoming downtrend. Learn more, take our free course: MACD Fast Track Here's the MACD indicator applied below the 4-hour EUR/USD chart. The MACD histogram provides an effective way to determine periods of rising or falling prices.




## RSI

Originally developed by J. Welles Wilder in 1978, the RSI (Relative Strength Index) is still one of the most popular day trading indicators today. The RSI measures the magnitude of recent price-changes and returns a reading of between 0 and 100. The indicator is mostly used to determine overbought and oversold market conditions – A reading above 70 usually signals that the underlying market is overbought, while a reading below 30 signals that the market is oversold. A common trading strategy based on the RSI is to buy when the RSI falls below 30, bottoms, and then returns to a value above 30. Conversely, a trader could sell when the RSI rises above 70, tops, and then returns to a value below 70. However, bear in mind that this strategy returns the best results in markets that are not trending, i.e. that are trading in a range. If the market is trending, the value of the RSI can stay overbought or oversold for a long period of time before we see a market correction. That's why you should use additional filters and combine different types of technical indicators (both trend-following and momentum) in your trading strategy. The following chart shows the RSI indicator in a sideways-moving EUR/USD daily chart. Notice the overbought and oversold levels and the price reaction.


## Bollinger Bands

Another popular day trading indicator, Bollinger Bands are based on a simple moving average and can be used to identify the current market volatility. Bollinger Bands include three lines: The middle line is a simple moving average, and the upper and lower lines are lines that are plotted two standard deviations away from the simple moving average, creating a band. Since standard deviation is a measure of volatility, the bands widen when the market volatility increases and contract when the volatility decreases. This phenomenon can be used to create interesting trading strategies, such as the Bollinger Squeeze. The Squeeze forms as a result of very low volatility that leads to very tight Bollinger Bands. Traders who expect a surge in volatility after a period of very slow trading can enter a long position when the latest bar closes above the upper band and a short position when the latest bar closes below the lower band. Bear in mind that around 95% of all price-action occurs inside the two standard deviations above/below the simple moving average. Here's an example of the Bollinger Bands indicator on the GBP/JPY chart. Notice the Bollinger Squeeze on the right-hand side of the chart.


## CCI

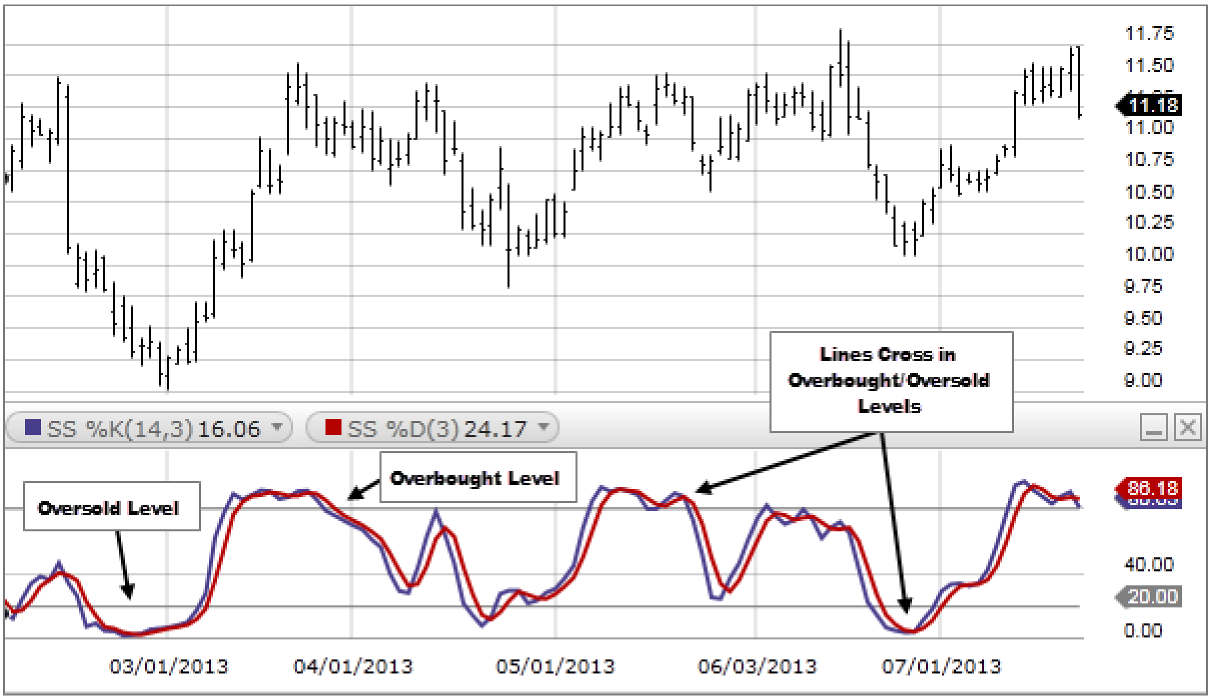
The CCI, or Commodity Channel Index, was developed in 1980 by Donald Lambert. The indicator compares the current price relative to the average price over a specific period of time and fluctuates above or below a zero-line. Around 75% of all CCI values fall in the range between -100 and +100, with values above that range signaling extremely strong price-changes relative to the average price. Despite its name, the CCI indicator can be successfully used across different types of markets, including the stock market and Forex market. Day traders usually apply the CCI indicator to short-term charts to get more trading signals. In addition, when applied to shorter timeframes, the CCI returns more trading signals than when applied to longer-term charts. When the CCI rises above +100, this signals a buying opportunity, and when the CCI falls below -100, this signals a selling opportunity.


## Fibonacci

Although the Fibonacci tool is not a regular technical indicator, it's still one of the most effective tools that traders can use to day trade the market. The Fibonacci tool is based on the Fibonacci sequence of numbers, which goes like this: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55… In the sequence, each number is the sum of the previous two numbers. If we divide two consecutive numbers, the result is always the same: 0.618, also called the Golden ratio. This ratio is used in the Fibonacci tool to determine possible retracement levels in trending markets. Other major Fibonacci levels include the 38.2% and 50% levels. When trading Fibonacci retracement levels, don't focus too much on precise levels. Instead, think about Fibonacci levels as "zones" where the price has a higher probability to retrace and continue in the direction of the underlying trend. For example, the zone between 38.2% and 61.8% can be considered as an important support zone during uptrends and resistance zone during downtrends. The following image shows the Fibonacci retracement tool confirming a trade setup based on a horizontal support zone. The price retraced at the 38.2% Fibonacci level.


## Stochastics

The Stochastics indicator is an oscillator that compares the actual price of a security to a range of prices over a certain period of time. The interpretation of the Stochastics indicator is quite similar to the RSI indicator: Traders look for overbought and oversold levels in Stochastics to determine whether to buy or sell a security. However, unlike the RSI indicator where overbought and oversold levels appear at an indicator reading of 70 and 30 (in default settings), respectively, when using the Stochastics indicator traders look at the 80 and 20 levels. Stochastics has similar disadvantages to RSI. While the indicator works great in ranging markets, it starts to return fake signals when markets start to trend. That's why you're better off combining different types of indicators, such as oscillators and trend-following indicators for example. If a trend-following indicator shows that the market is trending, don't pay attention to signals generated by oscillators, and vice-versa. The following indicator that we'll cover, ADX, is a trend-following indicator that can be used in that regard.




## ADX

The Average Directional Movement Index, or ADX, is a trend-following indicator that can be used to determine both the direction and strength of the underlying trend. The ADX indicator consists of three lines: The ADX line, the +DI line, and the –DI line. The +DI and –DI lines determine the direction of the trend. When the +DI line crosses above the –DI line, the market is entering into an uptrend, and when the –DI line crosses above the +DI line, the market is entering into a downtrend. The ADX line is used to determine the strength of the trend: A reading above 25 usually signals a weak trend, readings between 25 and 50 signal a strong trend, and readings above 50 a very strong trend. The ADX indicator is best used when day trading the market with a trend-following approach. If the reading reaches 25 or above, you could wait for pullbacks (for example to an important Fibonacci level) to enter into the direction of the underlying trend. The indicator can also be combined with oscillators to reduce the number of fake signals. For example, if the ADX shows that the market is trending, don't pay attention to overbought and oversold readings in the RSI or Stochastics indicators.

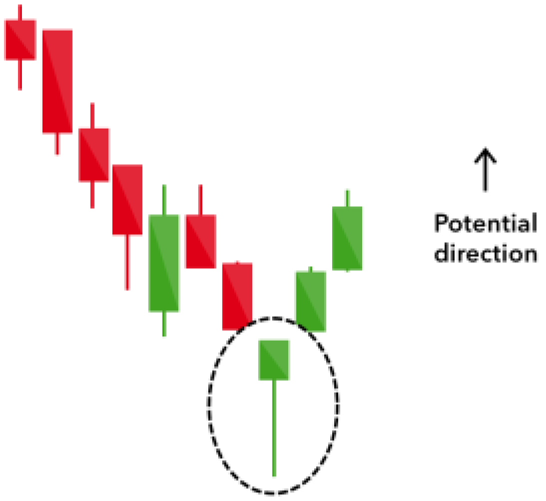

## ATR

The Average True Range indicator (ATR) is a technical indicator that measures market volatility by taking the greatest of the following: the current high minus the current low, the absolute value of the current high minus the previous close, and the absolute value of the current low minus the previous close. The ATR indicator takes then the average of those values for a pre-specified period of time and plots them in the form of a moving average on the chart. As a measure of volatility, the ATR is often used by day traders for calculating their stop-loss levels.

# Six bullish candlestick patterns

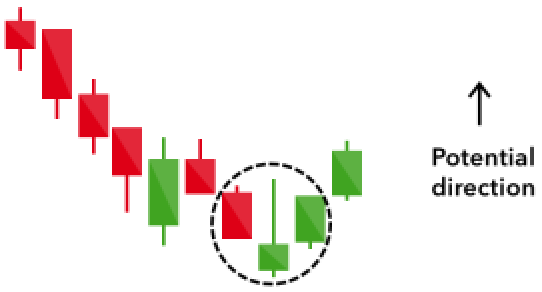
## Hammer

The hammer candlestick pattern is formed of a short body with a long lower wick, and is found at the bottom of a downward trend. A hammer shows that although there were selling pressures during the day, ultimately a strong buying pressure drove the price back up. The colour of the body can vary, but green hammers indicate a stronger bull market than red hammers.




## Inverse hammer

A similarly bullish pattern is the inverted hammer. The only difference being that the upper wick is long, while the lower wick is short. It indicates a buying pressure, followed by a selling pressure that was not strong enough to drive the market price down. The inverse hammer suggests that buyers will soon have control of the market.

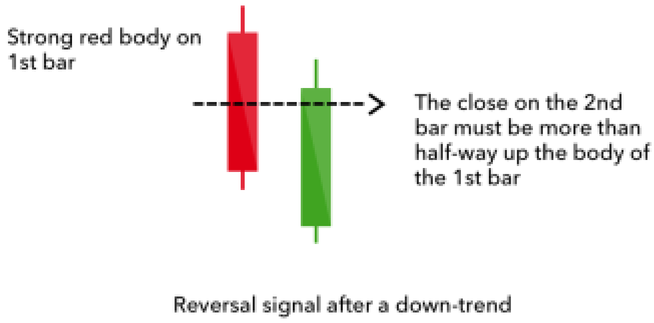



## Bullish engulfing

The bullish engulfing pattern is formed of two candlesticks. The first candle is a short red body that is completely engulfed by a larger green candle. Though the second day opens lower than the first, the bullish market pushes the price up, culminating in an obvious win for buyers.

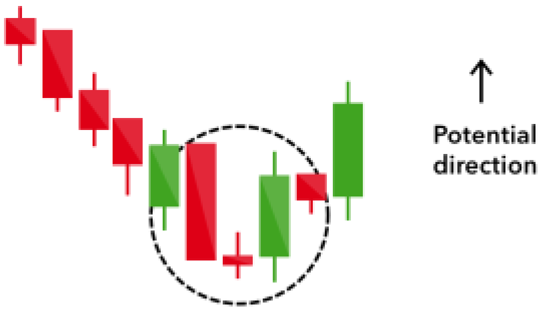
## Piercing line

The piercing line is also a two-stick pattern, made up of a long red candle, followed by a long green candle. There is usually a significant gap down between the first candlestick's closing price, and the green candlestick's opening. It indicates a strong buying pressure, as the price is pushed up to or above the mid-price of the previous day.



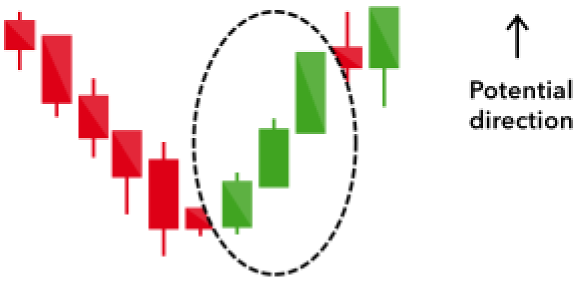

## Morning star

The morning star candlestick pattern is considered a sign of hope in a bleak market downtrend. It is a three-stick pattern: one short-bodied candle between a long red and a long green. Traditionally, the 'star' will have no overlap with the longer bodies, as the market gaps both on open and close. It signals that the selling pressure of the first day is subsiding, and a bull market is on the horizon.




## Three white soldiers

The three white soldiers pattern occurs over three days. It consists of consecutive long green (or white) candles with small wicks, which open and close progressively higher than the previous day. It is a very strong bullish signal that occurs after a downtrend, and shows a steady advance of buying pressure.



# Six bearish candlestick patterns

## Hanging man

The hanging man is the bearish equivalent of a hammer; it has the same shape but forms at the end of an uptrend. It indicates that there was a significant sell-off during the day, but that buyers were able to push the price up again. The large sell-off is often seen as an indication that the bulls are losing control of the market.


## Shooting star

The shooting star is the same shape as the inverted hammer, but is formed in an uptrend: it has a small lower body, and a long upper wick. Usually, the market will gap slightly higher on opening and rally to an intra-day high before closing at a price just above the open – like a star falling to the ground.


## Bearish engulfing

A bearish engulfing pattern occurs at the end of an uptrend. The first candle has a small green body that is engulfed by a subsequent long red candle. It signifies a peak or slowdown of price movement, and is a sign of an impending market downturn. The lower the second candle goes, the more significant the trend is likely to be.

## Evening star

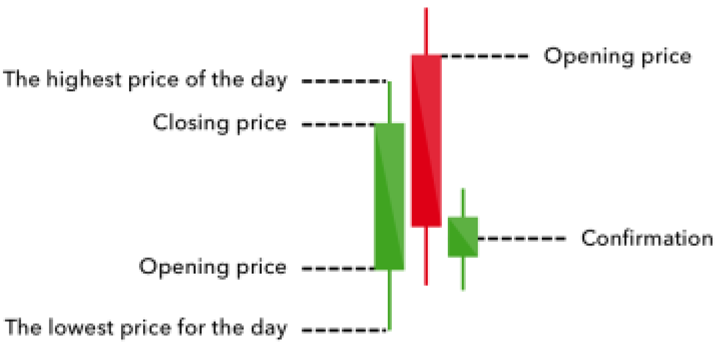
The evening star is a three-candlestick pattern that is the equivalent of the bullish morning star. It is formed of a short candle sandwiched between a long green candle and a large red candlestick. It indicates the reversal of an uptrend, and is particularly strong when the third candlestick erases the gains of the first candle.


## Three black crows

The three black crows candlestick pattern comprises of three consecutive long red candles with short or non-existent wicks. Each session opens at a similar price to the previous day, but selling pressures push the price lower and lower with each close. Traders interpret this pattern as the start of a bearish downtrend, as the sellers have overtaken the buyers during three successive trading days.


## Dark cloud cover

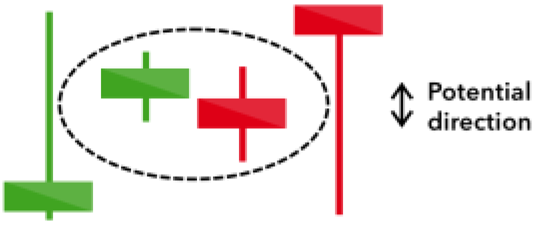
The dark cloud cover candlestick pattern indicates a bearish reversal – a black cloud over the previous day's optimism. It comprises two candlesticks: a red candlestick which opens above the previous green body, and closes below its midpoint. It signals that the bears have taken over the session, pushing the price sharply lower. If the wicks of the candles are short it suggests that the downtrend was extremely decisive.



# Four continuation candlestick patterns

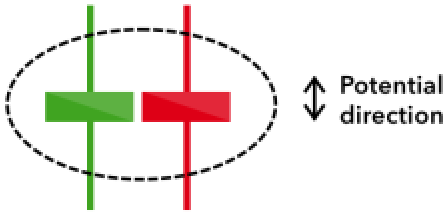
## Doji

When a market's open and close are almost at the same price point, the candlestick resembles a cross or plus sign – traders should look out for a short to non-existent body, with wicks of varying length. This doji's pattern conveys a struggle between buyers and sellers that results in no net gain for either side. Alone a doji is neutral signal, but it can be found in reversal patterns such as the bullish morning star and bearish evening star.




## Spinning top

The spinning top candlestick pattern has a short body centred between wicks of equal length. The pattern indicates indecision in the market, resulting in no meaningful change in price: the bulls sent the price higher, while the bears pushed it low again. Spinning tops are often interpreted as a period of consolidation, or rest, following a significant uptrend or downtrend. On its own the spinning top is a relatively benign signal, but they can be interpreted as a sign of things to come as it signifies that the current market pressure is losing control.

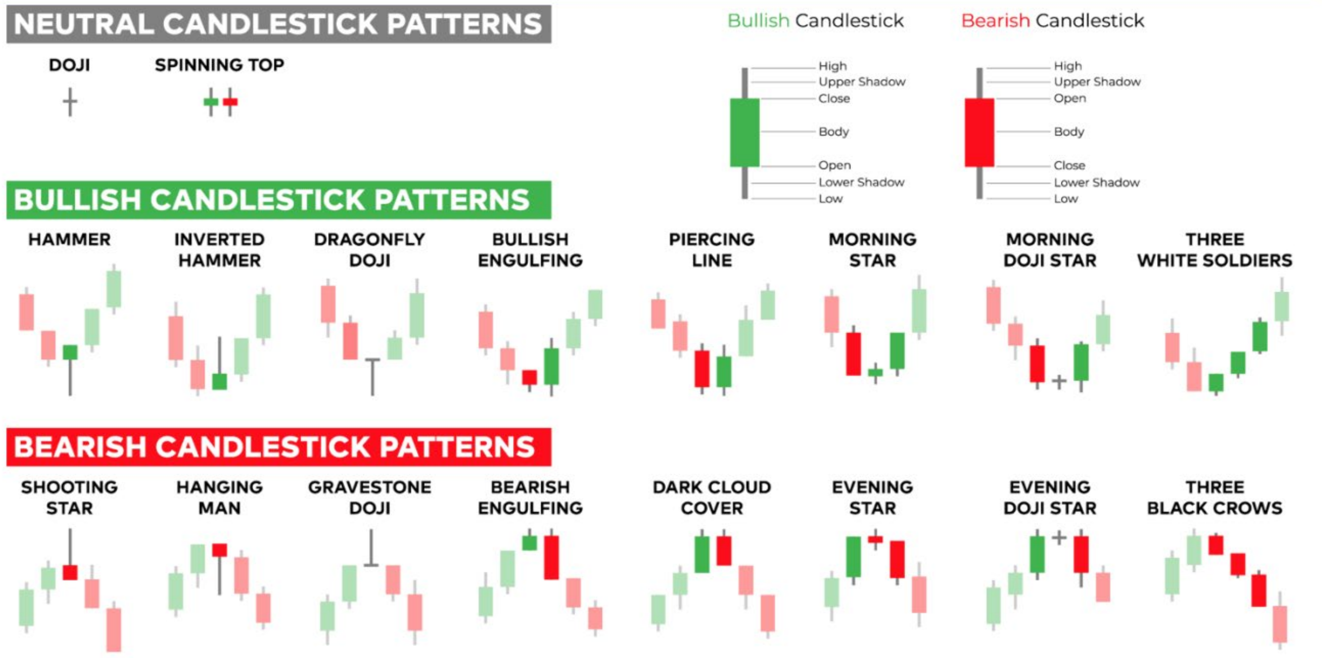



## Falling three methods

Three-method formation patterns are used to predict the continuation of a current trend, be it bearish or bullish. The bearish pattern is called the 'falling three methods'. It is formed of a long red body, followed by three small green bodies, and another red body – the green candles are all contained within the range of the bearish bodies. It shows traders that the bulls do not have enough strength to reverse the trend.

## Rising three methods

The opposite is true for the bullish pattern, called the 'rising three methods' candlestick pattern. It comprises of three short reds sandwiched within the range of two long greens. The pattern shows traders that, despite some selling pressure, buyers are retaining control of the market.


NEUTRAL CANDLESTICK PATTERNS
DOJI
SPINNING TOP
Bullish Candlestick
High
Upper Shadow
Close
Body
Open
Lower Shadow
Low
Bearish Candlestick
High
Upper Shadow
Open
Body
Close
Lower Shadow
Low
BULLISH CANDLESTICK PATTERNS
HAMMER
INVERTED HAMMER
DRAGONFLY DOJI
BULLISH ENGULFING
PIERCING LINE
MORNING STAR
MORNING DOJI STAR
THREE WHITE SOLDIERS
BEARISH CANDLESTICK PATTERNS
SHOOTING STAR
HANGING MAN
GRAVESTONE DOJI
BEARISH ENGULFING
DARK CLOUD COVER
EVENING STAR
EVENING DOJI STAR
THREE BLACK CROWS

# ALL CANDLESTICKS

## Bearish Abandoned Baby

### Bearish Abandoned Baby: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Three. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a white candle in an upward price trend. Following that, a doji whose lower shadow remains above the prior candle's high. The third day is a black candle with an upper shadow below the doji's low. |

### Bearish Abandoned Baby: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bearish abandoned baby candles that appear within a third of the yearly low perform best when the breakout direction aligns with the prevailing price trend (bull market/up breakout and bear market/down breakout) -- page 72-73.
2. Select tall candles in a bull market for the best performance -- page 73.
3. Look for a downward breakout in a bull market -- page 76.

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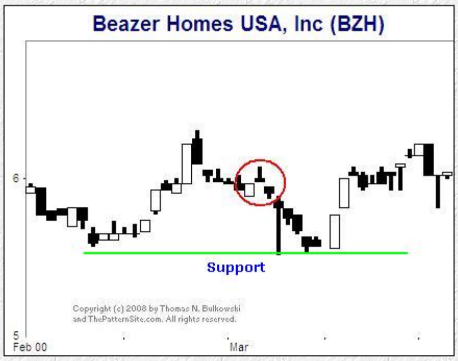
### Bearish Abandoned Baby: Example

Shown is a bearish abandoned baby candlestick circled in red on the daily chart. The first candle is white and it is supposed to appear in an upward price trend. Clearly I do not see an uptrend in the days before the candle begins, but overlook that, please. Finding good examples of this candlestick is a difficult task. In my defense, the black candle before the beginning of the bearish abandoned baby has a lower close, so I consider that the beginning of an upward price trend.




Candle height is not important. The second day is the doji, so called because the opening and closing prices are within pennies of each other, leaving almost no body visible except a thin line. The doji gaps above the adjacent candles. The last day in the bearish abandoned baby is a black candle. Height is not important on this one either, just as long as any upper shadow remains below the doji's low price.

This bearish abandoned baby functions as a reversal or continuation pattern, depending on how you define the incoming price trend. The breakout is downward and price makes a long lower shadow the next day, finding support at the green line.

-- Thomas Bulkowski

## Bullish Abandoned Baby

### Bullish Abandoned Baby: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Three. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for the bullish abandoned baby in a downward price trend and find a black candle as the first day. Following that, a doji should appear that gaps below the two adjacent candle shadows. The last day is a white candle with a lower shadow that remains above the top of the doji. |

### Bullish Abandoned Baby: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bullish abandoned baby candles that appear within a third of the yearly low perform best after an upward breakout (but samples are few so this result might change) -- page 83.
2. Select tall candles for the best performance -- page 83.
3. Bullish abandoned babies form at the end of short down trends -- page 84-86.

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### Bullish Abandoned Baby: Example

The chart shows a bullish abandoned baby circled in red on the daily scale. Price trends downward for a few days before the candle pattern begins.


The first day is a black candle of any shape -- wide, tall, who cares? The next day is the doji. A doji is a candle line in which the opening and closing prices are within pennies of each other. The final day is a white candle. There must be a price gap between the top of the doji and the surrounding two candles, like that shown in the figure.

Since the price trend leading to this bullish abandoned baby is downward and the breakout is upward, this candle acts as a reversal. An upward breakout is when price closes above the top of the pattern. A downward breakout would be a close below the bottom of the three-line pattern. Notice that the upward price trend after the bullish abandoned baby does not last long.

-- Thomas Bulkowski

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# Above The Stomach

## Above The Stomach: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for two candles in a downward price trend. The first candle is black and the second white. The white candle should open and close at or above the mid point of the black candle's body. |

## Above The Stomach: Three Trading Tidbits

If you want a few bones from my [Encyclopedia of candlestick charts]() book, here are three to chew on. The pages refer to the book where the tips appear.

1. Above the stomach candles that appear within a third of the yearly low perform best -- page 92.
2. Above the stomach candles within a third of the yearly high frequently act as reversals -- page 95.
3. Above the stomach works best as part of a downward retracement in an upward price trend -- page 93.

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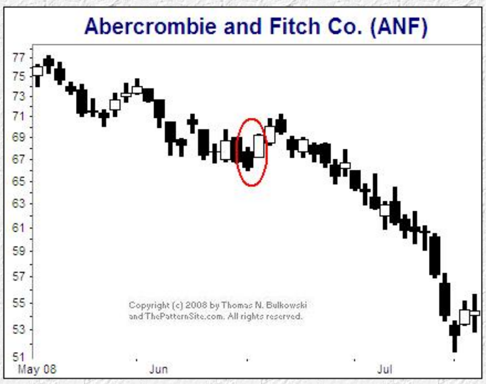
## Above The Stomach: Example

The above the stomach candlestick pattern appears on the daily scale and it is circled in red. The candle appears in a downward price trend with the first candle being black followed by a white one. The white candle has a body that is above the mid point of the body of the black candle, and this one acts as a temporary reversal of the downward price trend.




I write *temporary* reversal because when price rejoins the downward price trend, it cannot fight the current for long. The upward move falters and then price begins sliding, pulled down by a downward price trend already established. For this reason, that is why I recommend trading this candle as part of a downward retrace in an *upward* price trend. When price exits from the candle pattern, it rejoins the upward trend and off you go.

-- Thomas Bulkowski

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## See Also

# Advance Block

## Advance Block: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Three. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for three white candles in an upward price trend. On each candle, price opens within the body of the previous candle. The height of the shadows grow taller on the last two candles. |

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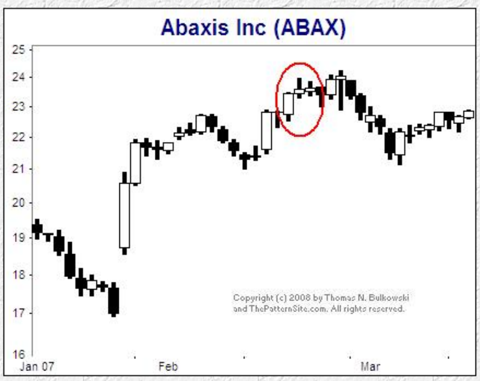
## Advance Block: Three Trading Tidbits

If you want a few bones from my [Encyclopedia of candlestick charts]() book, here are three to chew on. The pages refer to the book where the tips appear.

1. For advance blocks that signal a reversal, look for them in an upward retracement of a downward price trend -- page 103.
2. Select tall candles for the best performance -- page 101.
3. The advance block breaks out upward most often -- page 105.

## Advance Block: Example

I consider this chart a wimpy example of an advance block candlestick pattern. In an upward price trend, price forms a tall white candle followed by two smaller bodied white candles (the tall candle is not a requirement, but an observation in this example). Each of the last two candles has taller upper shadows when compared to their body height.




The candle pattern shows the progression from bullish enthusiasm to bearish warning. On the last two candle lines, bulls push price higher only to be beaten back down by the bears. But that does not stop the bulls because a few days later, price stages an upward breakout by closing above the top of the pattern.

Since price trends upward leading to the advance block and breaks out upward, this is an example of a continuation pattern. That is not how theory says the candle works, but you will find it behaving as a continuation almost two-thirds of the time.

-- Thomas Bulkowski

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# Bearish Belt Hold

## Bearish Belt Hold: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | Upward. |
| Configuration | Price opens at the high for the day and closes near the low, forming a tall black candle, often with a small lower shadow. |

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## Bearish Belt Hold: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bearish belt hold candles that appear within a third of the yearly low perform best -- page 121.
2. Belt hold candles within a third of the yearly low frequently act as reversals -- page 124.
3. Breakouts from bearish belt hold candles below the 50-trading day exponential moving average tend to outperform -- page 125.

## Bearish Belt Hold: Example

The chart shows two bearish belt hold candlesticks on the daily scale. The first, A, forms a small Eve & Eve double top chart pattern (if you ignore the shallow valley between peaks C and A), where the belt hold is on the right peak. The candlestick accurately predicts a downturn in the stock.

Belt hold B tells you that the upward retrace of the downtrend is over. These types of reversal candles that form at the peak of a retrace against the prevailing trend (in this case, the longer term trend is downward and the candle marks the end of a short-term up trend) tend to work best. If you are looking for a trading setup, then that is what you should search for: the candle to appear at the top of a retrace against the prevailing price trend.

-- by Thomas Bulkowski


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### See Also

# Bearish Breakaway

## Bearish Breakaway: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Five. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for 5 candle lines in an upward price trend with the first candle being a tall white one. The second day should be a white candle with a gap between the two bodies, but the shadows can overlap. Day three should have a higher close and the candle can be any color. Day 4 shows a white candle with a higher close. The last day is a tall black candle with a close within the gap between the bodies of the first two candles. |

## Bearish Breakaway: Example

Shown circled in red is one of the few bearish breakaway candlestick patterns that I could find. The first day is a tall white candle followed by another white candle with a gap between the two bodies. Days 3 and 4 are white candles, both of which have higher closes. The last day in the pattern is a tall black candle that closes within the gap set by the first two candles. Yes, this is a complicated pattern and that is why you won't find it often.

When the bearish breakaway completes, the upward trend reverses and price breaks out downward. In this case, price does not drop all that far, at least for the days shown.

-- Thomas Bulkowski


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### See Also

# Bearish Doji Star

## Bearish Doji Star: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Upward |
| Configuration | Look for a two-candle pattern in an uptrend. The first candle is a long white one. The next day, price gaps higher and the body remains above the prior body. A doji forms with the opening and closing prices within pennies of each other. The shadows on the doji should be comparatively short. |

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## Bearish Doji Star: Three Trading Tidbits

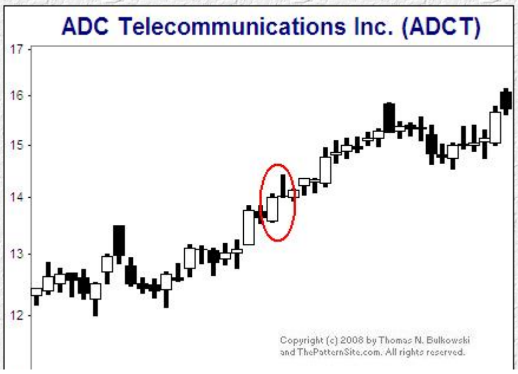
If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bearish doji star candles that appear within a third of the yearly low perform best -- page 268.
2. Trade a bearish doji star as part of an upward retracement in a downward price trend -- page 271.
3. Volume gives performance clues -- page 270.

## Bearish Doji Star: Example

Shown in the **red** circle on the daily chart is a bearish doji star. Price trends upward leading to a tall white candle. The next day, price gaps open higher (in this case, the gap may only be a penny high) and a doji forms. The length of the shadows on the doji, combined (upper plus lower), should be smaller than the body of the white candle. In this example, a gravestone doji appears. The combination does little to halt the price rise. The breakout is upward when price closes above the top of the bearish doji star candlestick pattern.

-- Thomas Bulkowski

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# Bearish Engulfing

## Bearish Engulfing: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a two candle pattern in an upward price trend. The first candle is white and the second is black. The body of the black candle is taller and overlaps the candle of the white body. Shadows are unimportant. |

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## Bearish Engulfing: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bearish engulfing candles that appear within a third of the yearly low perform best -- page 311.
2. Select tall candles -- page 311.
3. Trade upward retracements in a downward price trend -- page 313.

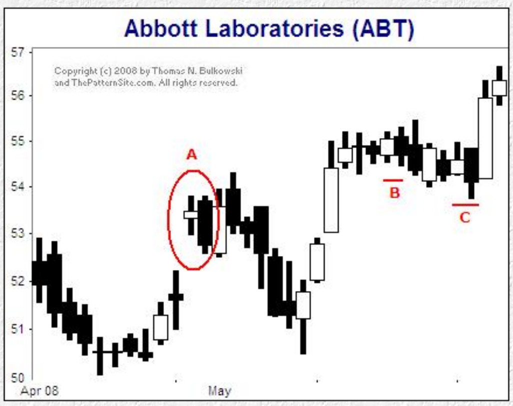
## Bearish Engulfing: Example

The bearish engulfing candlestick appears a A, circled in red, on the daily price chart. In an upward price trend, look for a white candle followed by a black candle. The body of the black candle should engulf or overlap the white candle's body, as shown here. Shadow overlap is not important.

This bearish engulfing candlestick breaks out downward when price closes below the bottom of the candlestick pattern first. Thus, the bearish engulfing candlestick serves as a bearish reversal in this example and in 79% of the other 20,000 that I studied.

Two additional bearish engulfing candlesticks appear at B and C. Candle B acts as another bearish reversal, but C acts as a continuation of the uptrend.

-- Thomas Bulkowski

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## See Also

# Bearish Harami Candlestick

## Bearish Harami: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a tall white candle followed by a small black one. The opening and closing prices must be within the body of the white candle. Ignore the shadows. Either the tops of the bodies or the bottoms (or both) must be a different price. |

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## Bearish Harami Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. If the bearish harami appears near the top of a trend channel, then a downward breakout is more likely -- page 379.
2. Select tall candles -- page 377-378.
3. Volume gives performance clues -- page 378-379.

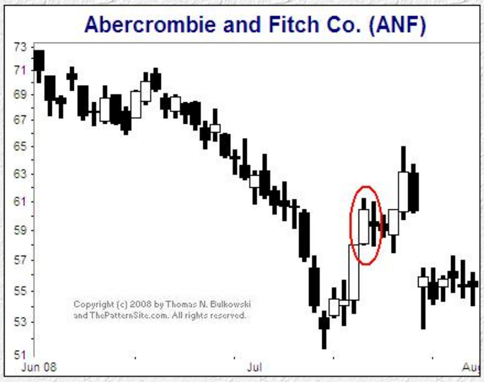
## Bearish Harami Candlestick: Example

The chart shows a bearish harami, circled in **red**, on the daily scale. This one appears in an upward price trend, as required. The first candle is a tall white one followed by a black candle with a smaller body. The body fits within the body of the white candle.

The breakout from this candlestick pattern is upward. A breakout, by the way, is a close either above the top of the candlestick pattern or below the bottom of it. In this example, price closes above the top of the candle first, so the breakout is upward.

This bearish harami candle acts as a continuation of the upward price trend, but notice that the trend soon ends. Also notice that the primary trend is downward. Although this bearish harami happened to breakout upward shortly before a downturn, the setup is correct. In other words, for the best results as a reversal candle, look for the bearish harami to appear at the top of an upward retrace in a downward price trend. When price breaks out downward, it rejoins the existing primary trend and price tends to drop.

-- Thomas Bulkowski




# Bearish Harami Cross Candlestick

## Bearish Harami Cross Candlestick: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a tall white candle in an upward price trend. The next day, a doji appears that is inside (including the shadows) the trading range of the white candle. |

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## Bearish Harami Cross Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

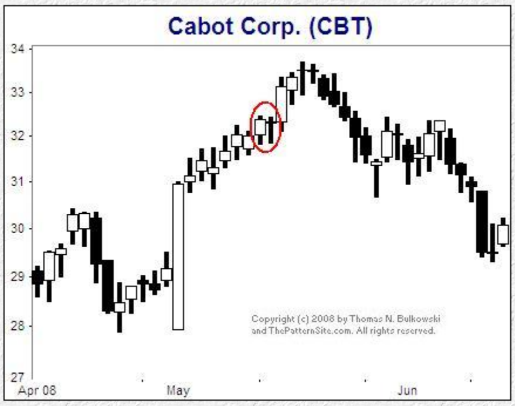
1. Bearish harami cross candles that appear within a third of the yearly low perform best -- page 394.
2. Select tall candles -- page 395.
3. The best performance from a reversal comes after an upward retracement of the downward price trend -- page 396-397.

## Bearish Harami Cross Candlestick: Example

The chart shows a bearish harami cross circled in **red** on the daily chart. Price trends upward leading to the two line pattern then a tall white candle appears. Following that, a doji shows. A doji is a candlestick that has opening and closing prices within pennies of each other. The doji, including its shadows, fits inside the high-low range of the white candle. Those versed in chart patterns will recognize this as an inside day.

In this example, price breaks out upward the day after the doji, continuing the upward trend. That happens 57% of the time in a bull market. Notice that the trend does not last that long -- three days before price peaks (in a few more doji) and reverses.

-- Thomas Bulkowski

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# Bearish Kicking Candlestick

## Bearish Kicking Candlestick: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | None required. |
| Configuration | The first days is a white marubozu candle followed by a black marubozu. Between the two candles must be a gap. |

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## Bearish Kicking Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

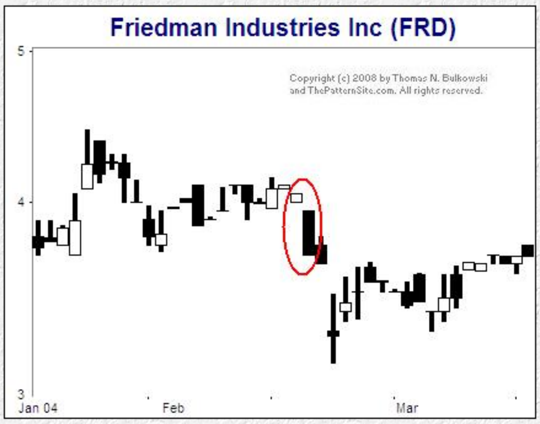
1. The bearish kicking candle breaks out downward most often -- page 449.
2. Select tall candles for the best performance -- page 447.
3. Volume gives performance clues -- page 448.

## Bearish Kicking Candlestick: Example

Circled in **red**, the chart shows a bearish kicking candlestick pattern on the daily scale. The first candle is a white marubozu pattern. That is a white candle with no shadows. The following day, price gaps lower forming a black marubozu. That is a black candle with no shadows.

In this example, price rises in the two weeks leading to the start of the bearish kicking pattern and then drops. The breakout is downward when price closes below the bottom of the kicking candle pattern. Since price is trending upward leading to the bearish kicking candle and breaks out downward, this pattern acts as a bearish reversal of the short-term up trend.

-- Thomas Bulkowski

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# Bearish Meeting Lines Candlestick

## Bearish Meeting Lines Candlestick: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a tall white candle in an upward price trend. Following that, the next candle should be a tall black one. The closes of the two candles should be "near" one another, whatever that means. |

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## Bearish Meeting Lines Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bearish meeting lines candles that appear within a third of the yearly low perform best -- page 573.
2. A lower close the day after the bearish meeting lines candle completes suggests a reversal 67% to 70% of the time -- page 575.
3. Bearish meeting lines in a bear market within a third of the yearly high act as continuations most often. -- page 576.

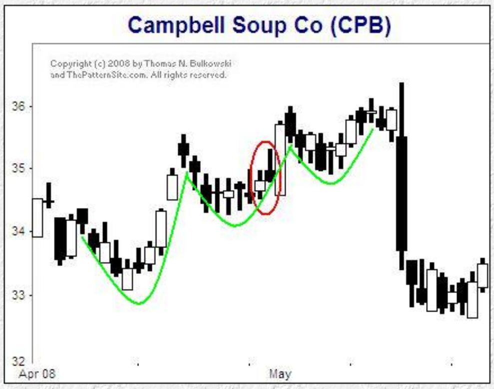
## Bearish Meeting Lines Candlestick: Example

Since the identification guidelines call for tall black and white candles, the bodies can be any size, with long or short shadows. Thus, you can get some weird looking candles.

Circled in **red**, are bearish meeting lines. The candles are tall ones but their bodies are short. The closing price of each of the two candles are at or near the same price. The upward price trend is brief, and the breakout from this candle pattern is also upward.

I added **green** lines to highlight three ascending scallop chart patterns. Ascending scallops are J-shaped patterns. Notice how each bowl of the scallop is less deep or wide than the prior one. That progression hints of a trend change. But I have also found the reverse, where each ascending scallop gets wider or deeper and then the price trend changes.

-- Thomas Bulkowski

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# Bearish Separating Lines Candlestick

## Bearish Separating Lines Candlestick: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for a tall white candle in a downward price trend followed by a tall black candle. The opening price of the two candles should be similar. |

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## Bearish Separating Lines Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bearish separating lines candles that appear within a third of the yearly low perform best -- page 644.
2. Select tall candles for the best performance -- page 645.
3. Price breaks out downward most often -- page 647.

## Bearish Separating Lines Candlestick: Example


The chart shows bearish separating lines candlestick circled in **red** on the daily scale. The downward price trend begins in mid June, then goes horizontal into July before resuming the down swing when the bearish separating lines appear. The first candlestick is a tall white one. A tall black candle, which does not appear to be tall but is when taken into the context of the many small candles in early July, shows and the opening prices match between the black and white candles.

The breakout from this bearish separating lines is downward when price closes below the bottom of the two-day candle. Since price enters from the top trending down and breaks out downward, this candlestick is a continuation pattern. It continues the downtrend already underway.

-- Thomas Bulkowski

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## See Also

# Bearish Side by Side White Lines

## Bearish Side by Side White Lines: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Three. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for a black candle in a downward price trend. Following that, find two white candles with bodies about the same size and similar opening prices. The closing prices of both white candles must remain below the body of the black candle. |

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## Bearish Side by Side White Lines: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bearish side by side white lines candles that have tall upper shadows perform best -- page 680.
2. Select tall candles for the best performance -- page 679.
3. Bearish side by side white lines within a third of the yearly low tend to act as continuations most often -- page 682.

## Bearish Side by Side White Lines: Example


The bearish side by side white lines appears circled in **red** on the daily scale. Price trends downward leading to the candle pattern when a black candle appears in the night sky. The next day, two white candles brighten the day with bodies about the same size, similar opening prices, and bodies that remain below the body of the first day -- the black candle.

The breakout from this bearish side by side white lines candle pattern is downward, joining the downtrend already in progress. That means this bearish side by side white lines acts as a continuation of the move toward zero. Incidentally, a downward breakout occurs when price closes below the bottom of the candlestick pattern.

Given that the bearish side by side white lines candlestick breaks out downward slightly more often than upward, this candle pattern would do best in the setup shown. After the candle completes, the stock joins a downward price trend already underway.

-- Thomas Bulkowski

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# Bearish Three-Line Strike Candlestick

## Bearish Three-Line Strike Candlestick: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Four. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for three black candles forming lower lows followed by a tall white candle that opens below the prior close and closes above the first day's open. In other words, the last candle spans most of the price action of the prior three days. |

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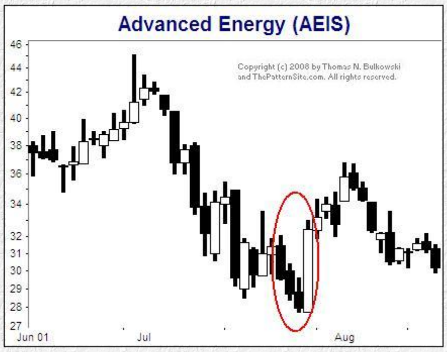
## Bearish Three-Line Strike Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bearish three-line strike candles that appear within a third of the yearly low perform best -- page 759.
2. Trade bearish three-line strike candles that appear in a downward retracement of an upward price trend -- page 761.
3. Bearish three line strike candles act as reversals most often within a third of the yearly high -- page 761.

## Bearish Three-Line Strike Candlestick: Example




The bearish three-line strike candle pattern appears in the **red** circle on the daily scale. Price forms three black candles, each with lower closes, in a downward price trend. A tall white candle engulfs the price action of the prior three days. The candle acts as a bullish reversal when price breaks out upward, and closes above the top of the candle pattern.

# Bearish Tri-Star Candlestick

## Bearish Tri-Star Candlestick: Discussion

The bearish tri-star candlestick is supposed to act as a bearish reversal and it does, but only 52% of the time. That is about randomly, so do not try to anticipate the breakout direction. The overall performance rank of 76 is well down the list. That means price is unlikely to form a lasting trend after the breakout.

The best average move 10 days after the breakout is a drop of 4.29% in a bear market. I consider moves of 6% or higher to be good ones, so this falls well short of the goal. The best performance rank 10 days after the breakout is 41 (bull market, upward breakout).

## Bearish Tri-Star Candlestick: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Three. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for three doji candles, the middle one has a body above the other two. |

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## Bearish Tri-Star Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bearish tri-star candles that appear within a third of the yearly low perform best -- page 814-815.
2. Select tall candles for the best performance -- page 815.
3. For the best performance, trade the bearish tri-star in an upward retrace of the primary downtrend -- page 816.

## Bearish Tri-Star Candlestick: Example

The chart shows one example of a bearish tri-star candlestick, circled in **red** on the daily scale. It appears as a gang of three doji candlesticks, the middle of which has a body above the other two. A doji, by the way, is a candle in which the opening and closing prices are within a few pennies of each other.

The breakout from this bearish tri-star is upward when price closes above the top of the candlestick pattern. That joins the uptrend already underway, so the pattern acts as a continuation candle.

According to my research, the chart shows a good example of where the candle pattern will appear: the start of a retrace that does not carry far.

A better trading setup is to find the bearish tri-star as part of an upward retrace of a downward price trend.

-- Thomas Bulkowski


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# Black Spinning Top Candlestick

## Black Spinning Top Candlestick: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | None required. |
| Configuration | Look for a small black body with shadows taller than the body. |

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## Black Spinning Top Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Black spinning top candles that appear within a third of the yearly low perform best -- page 696.
2. Black spinning top candles with shadows taller than the median outperform those shorter than the median -- page 697-698.
3. Volume gives performance clues -- page 698.

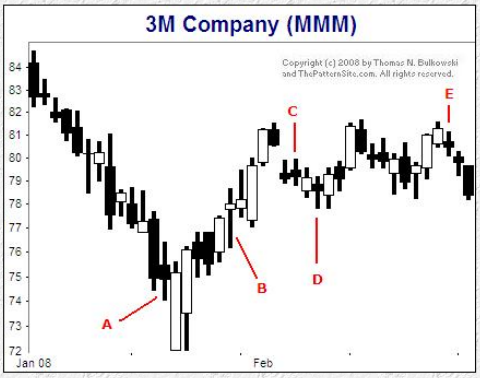
## Black Spinning Top Candlestick: Example

The chart shows black and white spinning tops on the daily scale. The candle at **A** is a black spinning top because the body is black, small, and the candle has shadows taller than the body. This one occurs in a downward price trend, but the breakout is upward. Thus, it acts as a reversal. And a breakout occurs when price closes either above the top or below the bottom of the candlestick.

Candle **B** is a white spinning top that appears in an upward price trend. Notice the small white body and tall upper and lower shadows. Price breaks out upward from this spinning top two days later, meaning the spinner acted as a continuation of the up trend.

Candles **C**, **D**, and **E** are also black spinning tops. Candles **C** and **E** act as continuations of the downward price trend whereas candle **D** is a reversal. Price enters and exits the candle from the top.

-- Thomas Bulkowski

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# Bullish Doji Star

## Bullish Doji Star: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Downward |
| Configuration | Look for a tall black candle on the first day followed by a doji (where the opening and closing prices are within pennies of each other) that gaps below the prior candle's body. The shadows can overlap, but the doji's shadows should not be unusually long, whatever that means. |

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## Bullish Doji Star: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bullish doji star candles that appear within a third of the yearly low perform best -- page 279.
2. Select tall candles -- page 279.
3. Support and resistance zones are important to the bullish doji star -- page 281.

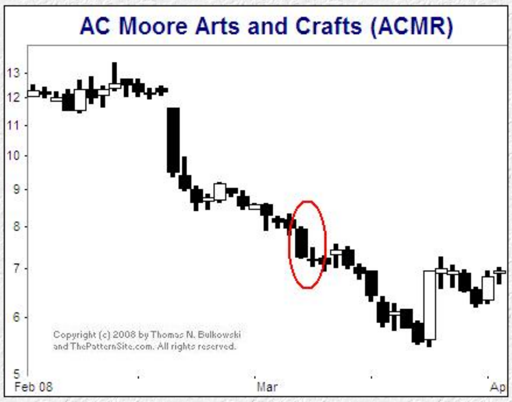
## Bullish Doji Star: Example

Shown circled in **red** on the daily chart is a bullish doji star. Even though price climbs for a few days after the candlestick pattern ends, the breakout is still downward, resuming the falling trend already underway. This bullish doji star is not bullish at all, but bearish like most of the bullish doji star patterns.

The first day of the bullish doji star is a tall black candle followed by a doji whose body gaps below the prior body. That means the closing price on the black candle is above the opening price of the doji. The shadows can overlap and they do in this example. The shadow length on the doji is not unusually long, but that is a touchy-feely thing. Clearly they are not like the shadows on a high wave candle or a rickshaw man.

The breakout is downward when price closes below the lowest low posted in the two-day candle, so this one acts as a continuation of the downtrend.

-- Thomas Bulkowski

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# Bullish Engulfing

## Bullish Engulfing: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for two candles in a downward price trend. The first is a black candle followed by a taller white one. The white candle should have a close above the prior open and an open below the prior close. In other words, the body of the white candle should engulf or overlap the body of the black candle. Ignore the shadows. |

## Bullish Engulfing: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bullish engulfing candles that appear within a third of the yearly low perform best -- page 320.
2. Select tall candles -- page 320-321.
3. Avoid bullish engulfing candles that appear in a downward primary trend -- page 322.

## Bullish Engulfing: Example

The chart shows a bullish engulfing candlestick circled in red on the daily scale. The first candle is black followed by a white one in which the body of the white candle covers, overlaps, or engulfs the body of the black candle. Ignore the shadows.

This bullish engulfing candlestick acts as a temporary reversal of the downward price trend. This is also one of the trading setups that I suggest you avoid. Why? Because the primary trend is downward. The bullish engulfing candlestick reverses that trend, but only for a short time. The primary downward trend takes over and price resumes falling.

Trade bullish engulfing candlesticks when the primary trend is upward. Look for a downward retrace in a rising price trend for the best chance of success.

-- Thomas Bulkowski


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## See Also

# Bullish Harami Candlestick

## Bullish Harami Candlestick: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for a tall black candle in a downward price trend. The next day a white candle should be nestled within the body of the prior candle. Ignore the shadows. The tops or bottoms of the bodies can be the same price, but not both. |

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## Bullish Harami Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bullish harami candles that appear within a third of the yearly low perform best -- page 385.
2. Select tall candles -- page 386.
3. Trade bullish harami as part of a downward reversal in an up trend -- page 387-388.

## Bullish Harami Candlestick: Example

This bullish harami, circled in **red**, appears as a reversal in a short term downtrend. What strikes me first about this picture is the wonderful looking triple top chart pattern. The three peaks (**1**, **2**, and **3**) beginning in February near the same price are bearish and price drops after the pattern completes, as predicted by the pattern.

The bullish harami doesn't have much to reverse, does it? The tall black candle speaks of a continued downward price trend but the next day, a white candle appears. The body of the white candle is inside the body of the black candle.

In this example, the bullish harami functions as a bullish reversal of the downtrend when price breaks out upward. However, overhead resistance setup by the prior two peaks stop the upward trust and price collapses again.

-- Thomas Bulkowski


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## See Also

# Bullish Harami Cross Candlestick

## Bullish Harami Cross: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for a two candle pattern in a downward price trend. The first line is a tall black candle followed by a doji that fits within the high-low price range of the prior day. |

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## Bullish Harami Cross Candlestick: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Bullish harami cross candles that appear within a third of the yearly low perform best -- page 403.
2. Select tall candles -- page 404.
3. Bullish harami cross patterns that appear within a third of the yearly low tend to act as continuations -- page 406.

## Bullish Harami Cross Candlestick: Example


The chart shows a bullish harami cross (circled in **red**) in a downward price trend on the daily chart. The downtrend meanders lower instead of the straight-line runs that I like to see. The breakout from this candle pattern is upward when price closes above the top of the bullish harami cross. That takes about two weeks to happen, but happen it does. The uptrend is short lived, though, as the chart shows. Since the primary trend before the pattern began was downward, the price trend resumes falling during the trading doldrums of August.

# Closing Black Marubozu

## Closing Black Marubozu: Discussion

The closing black marubozu is a tall black candlestick with an upper shadow but no lower one. It acts as a continuation of the existing price trend 52% of the time, which is just about random. The performance after the breakout is mid list at 43, where 1 is best and 103 worst. The best average move in 10 days is 5.82% and that occurs after an upward breakout in a bear market. Both are counter trend, meaning a bear market sees lower prices over time and the closing black marubozu has a close at the bottom of the candle. Price has to fight its way upward, against the one-day down trend and the bear market to breakout higher. I consider wonderful moves of 6% or more, so the closing black marubozu comes close. That performance also gives the candle its best rank of 20.

## Closing Black Marubozu: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | None required. |
| Configuration | Look for a tall black candle with an upper shadow but no lower one. |

## Closing Black Marubozu: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Closing black marubozu candles that appear within a third of the yearly low perform best -- page 515.
2. Closing black marubozu candles with tall upper shadows outperform -- page 516.
3. Closing black marubozu within a third of the yearly low often act as continuation candlesticks -- page 516-517.

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## Closing Black Marubozu: Example

The daily chart shows two closing black marubozu candles, the first at **A** and the second at **B**. Both are tall black candles with no lower shadows, but they do have upper shadows. In this example, the candlesticks appear in a downward price trend, and both breakout downward, too.

If the candle before **B** were white, the **AB** pattern would represent a variation of the falling three methods candlestick. Besides the black candle, the only other glitch I see is that the second candle drops below the high-low range of the first candle (**A**). Having so many identification rules for the falling three methods candlestick pattern is what makes it so rare.

-- Thomas Bulkowski

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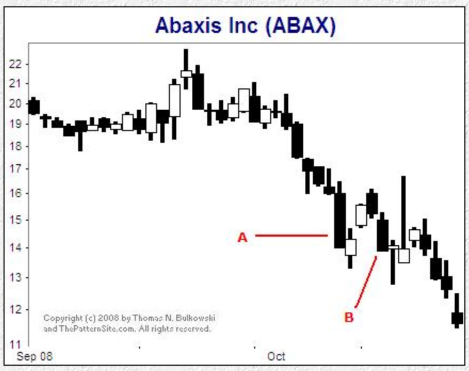

# Closing White Marubozu

## Closing White Marubozu: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | None required. |
| Configuration | Look for a tall white candle with a lower shadow but no upper one. |

## Closing White Marubozu: Three Trading Tidbits

If you want a few bones from my Encyclopedia of candlestick charts book, here are three to chew on. The pages refer to the book where the tips appear.

1. Closing white marubozu candles that appear within a third of the yearly low perform best -- page 523.
2. Closing white marubozu candles taller than the median show price that moves about 50% farther after the breakout than those shorter than the median -- page 523.
3. Closing white marubozu within a third of the yearly high tend to act as continuations most often -- page 525.

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## Closing White Marubozu: Example

The closing white marubozu candle appears in the daily chart at **A**. It is a tall white candlestick with a lower shadow and price closes at the high for the day, meaning it has no upper shadow. This one appears in an upward price trend, but the trend could just as easily have been downward. The breakout is upward when price closes above the top of the closing white marubozu candle the next day.


You might think that the closing white marubozu begins a three white soldiers candlestick pattern, but this example has two flaws. First, the price trend is upward instead of downward and second, price should open within the body of the prior candle. It does not during the second day of the three candle line pattern. In other words, the bodies should overlap more than they do.

-- Thomas Bulkowski

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## Other Closing White Marubozu Examples

- Closing white marubozu in NFG.

# Collapsing Doji Star

## Collapsing Doji Star: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Three. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a white candle in an upward price trend. Following that, find a doji that gaps below yesterday's low. The last day is a black candle that also gaps below the doji. None of the shadows on the three candles should overlap, so there should be gaps surrounding the doji. |

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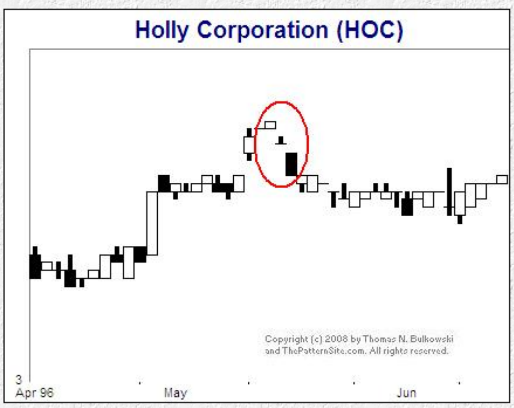
## Collapsing Doji Star: Example

The chart shows the collapsing doji star circled in **red** on the daily scale. Price moves up to the start of the collapsing doji star when a white candle appears. Below that is the doji and notice that the shadows of either candle do not overlap. The last day is a black candle and again, the shadows do not overlap so the doji appears to float between the candles on either side of it.




Based on the picture, I would say that the stock during this period probably did not trade often or it split so many times that the price differences became minor, removing the shadows from the candlesticks. Perhaps both occurred.

This collapsing doji star candlestick functions as a reversal of the brief up trend when price breaks out downward. A downward breakout happens when price closes below the bottom of the candle pattern. In this example, the downtrend does not last long before price moves horizontally.

-- Thomas Bulkowski

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# DOJI CANDLESTICKS

## Dragonfly Doji

Based on how the dragonfly doji works in the marketplace, it acts as a reversal 50% of the time. Thus, it is neither a reversal nor a continuation candle. It represent indecision. Because the lower shadow is so long and the closing price is pegged at the top of the candlestick, upward breakouts predominate.

| Characteristic | Discussion |
| --- | --- |
| Number of candle lines | One. |
| Price trend leading to the pattern | None required. |
| Configuration | Look for a long lower shadow with a small body (open and close are within pennies of each other). |

1. Dragonfly doji that appear within a third of the yearly low perform best -- page 205.
2. Dragonfly doji break out upward most often -- page 207.
3. For those Dragonfly doji in which the opening and closing prices are different, white bodies perform best after upward breakouts, and those with black bodies outperform after downward breakouts -- page 207.


The daily chart shows a dragonfly doji (A) at the end of an uptrend. The long lower shadow would suggest a bullish move according to some authors on candlesticks. However, when the opening and closing prices match, it speaks of indecision.

In this example, price breaks out downward and when that happens, the move can be a decent one. Price retraces about half of the prior up move before resuming the rise at a more leisurely pace.

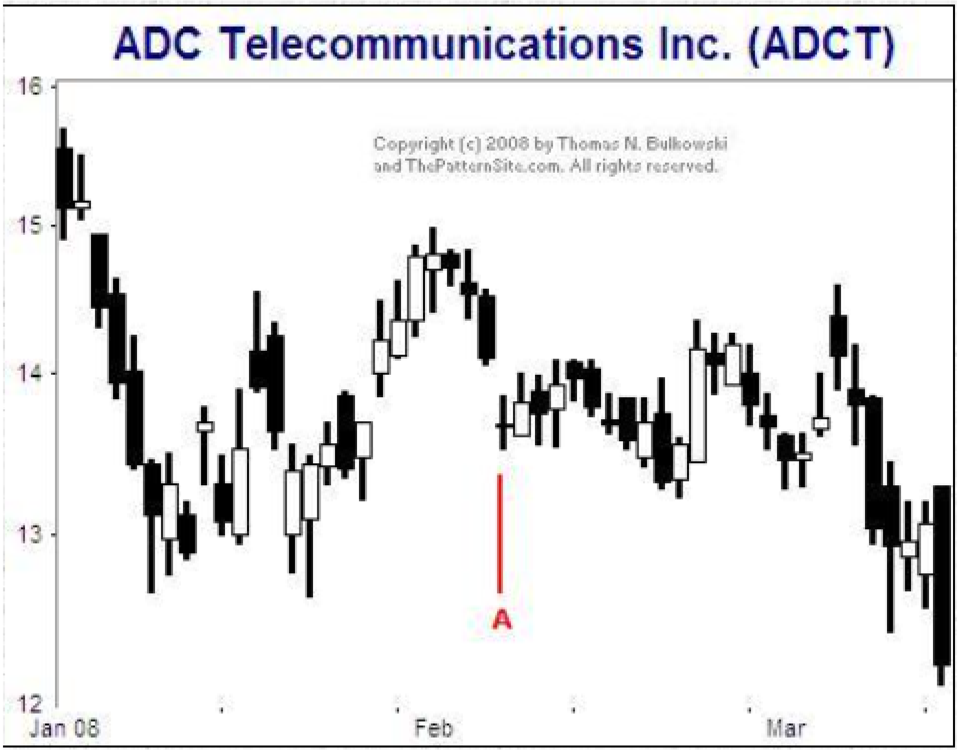
# Gapping Down Doji

The gapping down doji candlestick acts as a bullish reversal of the prevailing downtrend.

## Gapping Down Doji: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | Downward |
| Configuration | In a downtrend, price gaps lower and forms a doji (a candle in which the opening and closing prices are no more than a few pennies apart). |

1. Gapping down doji candles that appear within a third of the yearly low perform best except after an upward breakout in a bear market -- page 214.
2. Determine the gap type to help anticipate the breakout direction -- page 216.
3. The candle breaks out upward most often -- page 217.




The daily chart shows a gapping down doji candlestick (A) in a down trend. I classify a breakout as when price closes either above the top or below the bottom of the candlestick pattern, including the shadows. In this case, the breakout is upward.

The uptrend does not last for long (4 days) before the downward move continues. Notice how the gap above A almost matches the price level of the gap to its left (B). You can consider the AB move as creating an island reversal. Coupled with the left shoulder (LS), head, and right shoulder (RS), the chart pattern is a head-and-shoulders top, albeit somewhat unsymmetrical. All of those patterns suggest price will continue down.

## Gapping Up Doji: Important Results

The gapping up doji is a bullish continuation pattern. I found that it acts as a bearish reversal 57% of the time. I consider that near random.

### Gapping Up Doji: Identification Guidelines

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | Upward. |
| Configuration | Price gaps higher, including the shadows, in an uptrend and forms a doji candle. A doji is one in which the opening and closing prices are within pennies of each other. |

1. Gapping up doji candles that appear within a third of the yearly low perform best -- page 224.
2. Gapping up doji candles with upper shadows taller than the median perform well -- page 224-225.
3. The gapping up doji breaks out downward most often -- page 227.


The chart shows a gapping up doji candlestick on the daily scale at A. Price is moving up in a retrace of the downtrend and then it gaps higher in a last gasp of bullish enthusiasm. A doji forms, one in which the opening and closing prices are similar. This one has an unusually long upper shadow, with the close near the low, but the lower shadow does not extend far enough downward to close the gap. That upward thrust suggests the bulls were enthusiastic about the stock sometime during the day (to force price to gap open higher and climb even more) before the bears appeared and pushed price back down going into the close.

After the candlestick ended, price resumed the downtrend. This scenario -- an upward retrace in a downtrend accompanied by a reversal candle -- is one of the key trading setups for candles. Price resumes the downward price trend. It reminds me of crossing a river by swimming with and against the current. If you are not run over by a speed boat, you will likely make it to the other side, but when swimming with the current, it is safer and faster. Trade reversal candles in which the price trend resumes the primary trend after reversal. Those are the setups that tend to do well (trading with the primary price trend).

## Gravestone Doji

The actual, tested, behavior of the gravestone doji matches the theoretical performance: indecision or randomness, packaged into a tight little bundle of joy. Price closes at the bottom of the candlestick and price should breakout downward most often, which it does. The gravestone doji is rare in a bear market, which I find odd. That can be due to the dearth of bear markets, but the ratio of bullish to bearish sightings is about 15 to 1.

**Gravestone Doji: Identification Guidelines**

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | None required. |
| Configuration | Look for a candle with a tall upper shadow and little or no lower one. The opening and closing prices should be within pennies of each other. |

1. Gravestone doji candles that appear within a third of the yearly low perform best -- page 233.
2. Gravestone doji candles taller than the median show price that moves about 50% farther after the breakout than those shorter than the median -- pages 233-234.

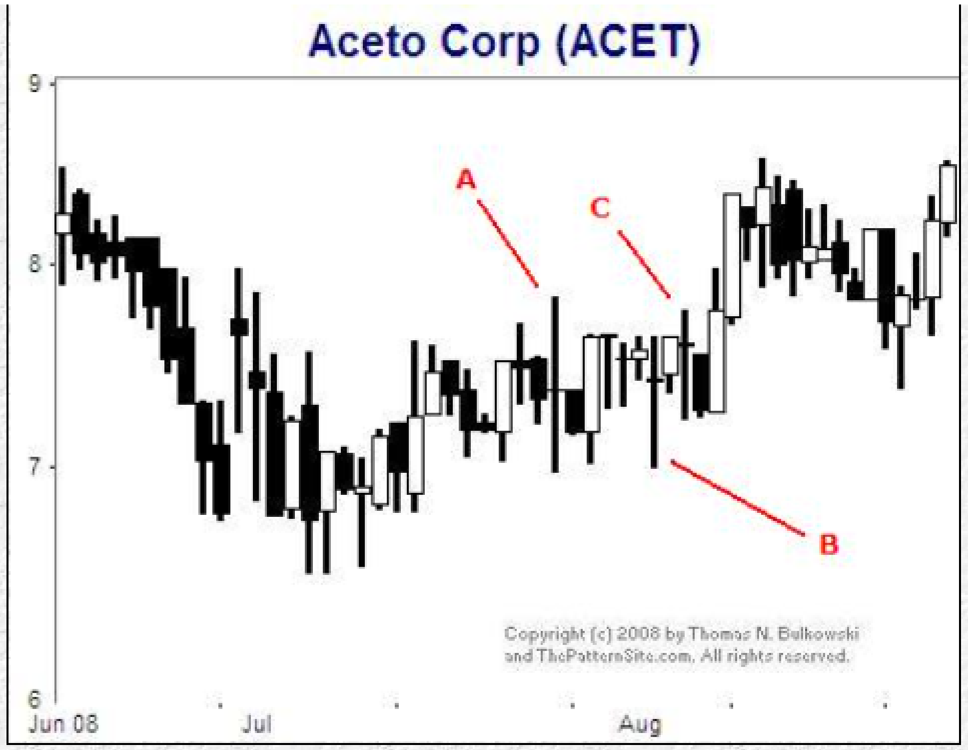

The daily chart shows a gravestone doji candlestick (A) at the top of a short up trend. Notice how the opening and closing prices are at the bottom of the candle line with a tall upper shadow. In this example, price trends upward for a few days leading to the gravestone doji and then reverse direction -- falling. Price continues lower following the general market down. -(edited)

## Long Legged Doji Candlestick

My tests show that the long legged doji acts as a bullish continuation candlestick 51% of the time, which I consider random. Thus, the indecision label is an apt one. The breakout direction is not known, and trying to depend on this candle hinting at a direction is fraught with error.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | None. |
| Configuration | Look for a doji (opening and closing prices are within a few pennies of each other) accompanied by long shadows. |

1. Long legged doji candles that appear within a third of the yearly low perform best -- page 242.
2. long legged doji candles with shadows taller than the median show price that moves 50% farther than do those with shorter shadows -- page 243.
3. Breakouts below the 50-trading day moving average outperform




The chart shows three long legged doji candlesticks on the daily scale. Candle A appears in the middle of a sideways price trend. In fact, all three, A, B, and C are positioned in the same congestion area. Price has no direction after the doji appears, just as my tests indicate.

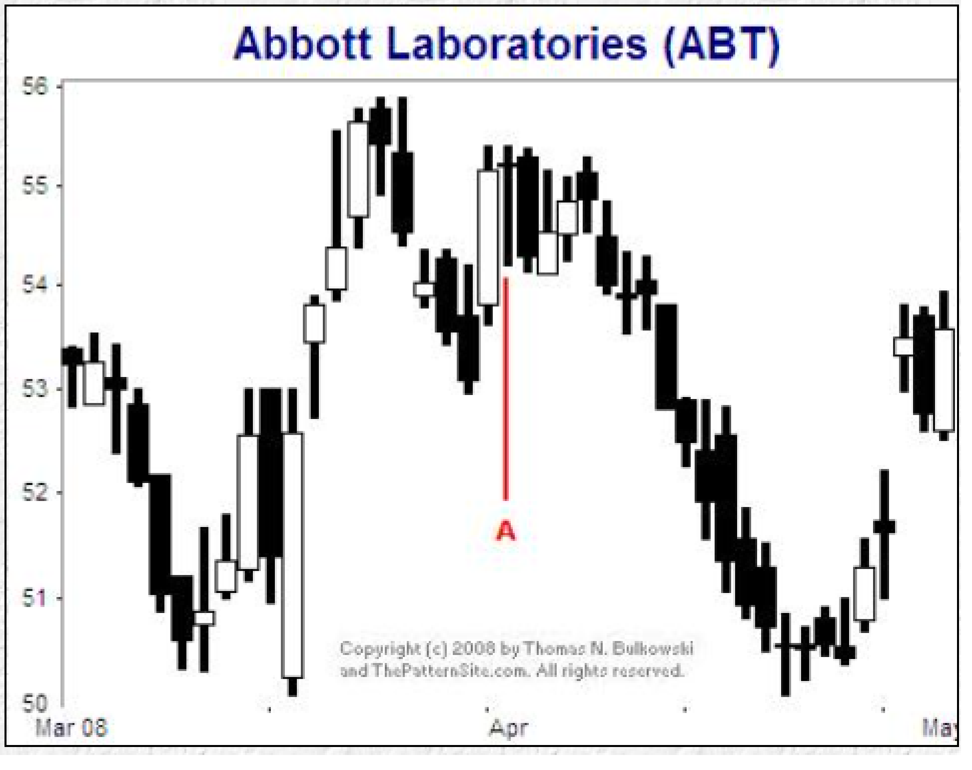
Notice the long upper and lower shadows on the long legged doji, giving the candlestick its name. The length of the shadows need not appear the same, only that they are longer than recent shadows on other candles.

## Northern Doji Candlestick

As I mentioned in the introduction, the northern doji is supposed to act as a bearish reversal, but is a bullish continuation instead. However, the different is slight, just one percentage point. With a frequency rank of 6, you will find them almost as often as sand at a beach. When do you find them, do not expect price to trend long after the breakout. The northern doji ranks 83 for overall performance.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a candle in which the opening and closing prices are within pennies of each other (a doji) in an up trend. |

1. Northern doji candles that appear within a third of the yearly low perform best -- page 250.
2. Opening gap confirmation works best -- page 254.
3. Breakouts below the 50-trading day moving average lead to the best performance -- page 254.




Shows is a daily chart with a northern doji candlestick at A. Any type of doji qualifies as a northern doji provided it appears in an upward price trend like the one shown here. A doji candlestick has the opening and closing prices within a few pennies of each other. In this case, a long lower shadow would suggest the bulls battled back the bears for possession of the price trend. Nevertheless, the bears won in the coming days when price broke out downward from the candlestick. This northern doji acted as a bearish reversal and went wee, wee, wee, all the way home.

## Southern Doji Candlestick

Theory matches the performance found in the field: the southern doji acts as a bullish reversal but only 52% of the time. Based on the frequency rank (8), you will find it often in a historical price trend, but performance after the breakout ranks well down the list of performers: 78. Since I only looked at 103 candlesticks, with 1 being best, the southern doji is not one worth hunting for.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for a doji candlestick (one in which the opening and closing prices are a few pennies from each other) in a downward price trend. |

1. Southern doji candles that appear within a third of the yearly low perform best -- page 260.
2. Southern doji candles with shadows taller than the median outperform -- page 261.
3. Southern doji within a third of the yearly high tend to act as reversals -- page 262.

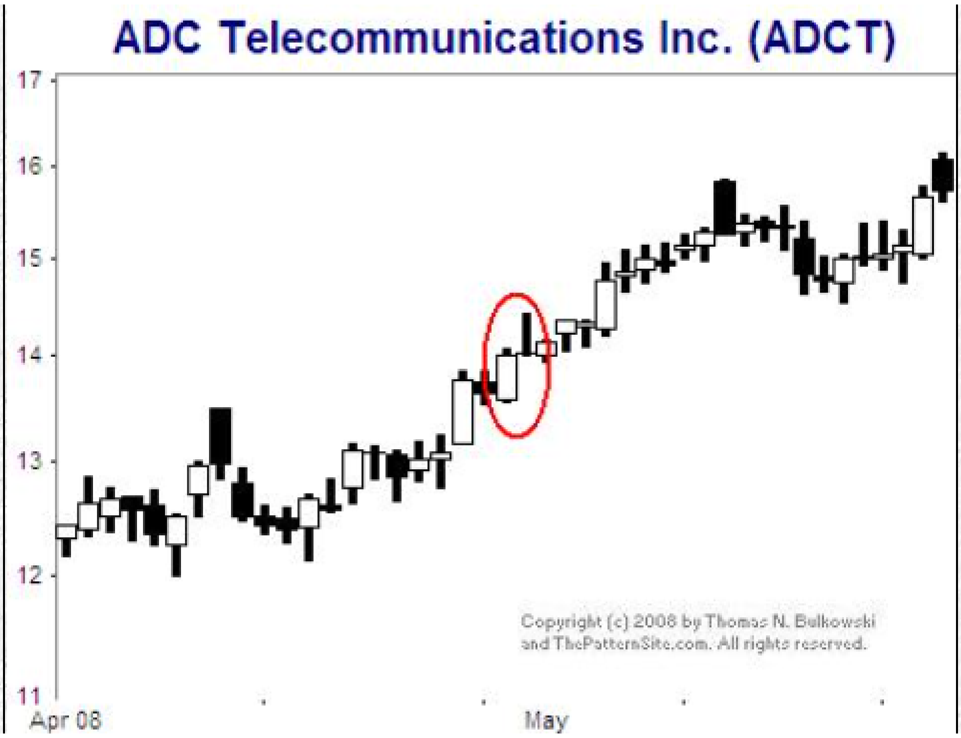

Shown is a southern doji (A) on the daily chart. This doji has the opening and closing prices the same and it appears in a downward price trend -- all the ingredients to qualify it as a southern doji. Price reverses trend when it breaks out upward (a close above the top of the doji).

## Bearish Doji Star

When I saw that 69% performance rate, I was excited until I learned that it was for a continuation pattern and not a reversal. That number is not as good as it sounds because price is at the top of the candle pattern, in a doji, no less. All price has to do to signal a continuation is close above the top of the doji. That is easy compared to a downward breakout which would require a close below the bottom of the candlestick pattern.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Upward |
| Configuration | Look for a two-candle pattern in an uptrend. The first candle is a long white one. The next day, price gaps higher and the body remains above the prior body. A doji forms with the opening and closing prices within pennies of each other. The shadows on the doji should be comparatively short. |

1. Bearish doji star candles that appear within a third of the yearly low perform best -- page 268.
2. Trade a bearish doji star as part of an upward retracement in a downward price trend -- page 271.
3. Volume gives performance clues -- page 270.



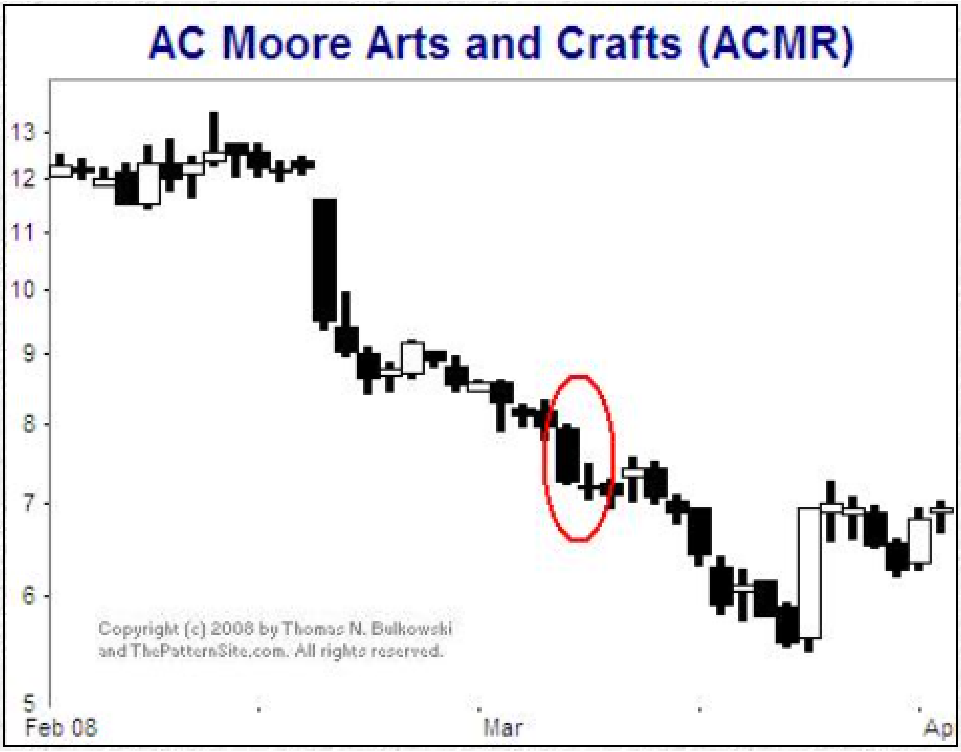

Shown in the red circle on the daily chart is a bearish doji star. Price trends upward leading to a tall white candle. The next day, price gaps open higher (in this case, the gap may only be a penny high) and a doji forms. The length of the shadows on the doji, combined (upper plus lower), should be smaller than the body of the white candle. In this example, a gravestone doji appears. The combination does little to halt the price rise. The breakout is upward when price closes above the top of the bearish doji star candlestick pattern.

## Bullish Doji Star

As I mentioned in the introduction, the bullish doji star acts as a continuation of the existing price trend 64% of the time. This is most likely because price is situated near the bottom of the pattern, making a downward breakout likely. When price does break out, the trend ranks 49th, or mid list, so it is not a star performer either. In other words, do not expect the downward trend to last for long. The frequency rank, at 53, is almost mid way from 1 to 103 candlestick types, so you should be able to located examples of the bullish doji star often.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Two. |
| Price trend leading to the pattern | Downward |
| Configuration | Look for a tall black candle on the first day followed by a doji (where the opening and closing prices are within pennies of each other) that gaps below the prior candle's body. The shadows can overlap, but the doji's shadows should not be unusually long, whatever that means. |

1. Bullish doji star candles that appear within a third of the yearly low perform best -- page 279.
2. Select tall candles -- page 279.
3. Support and resistance zones are important to the bullish doji star -- page 281.



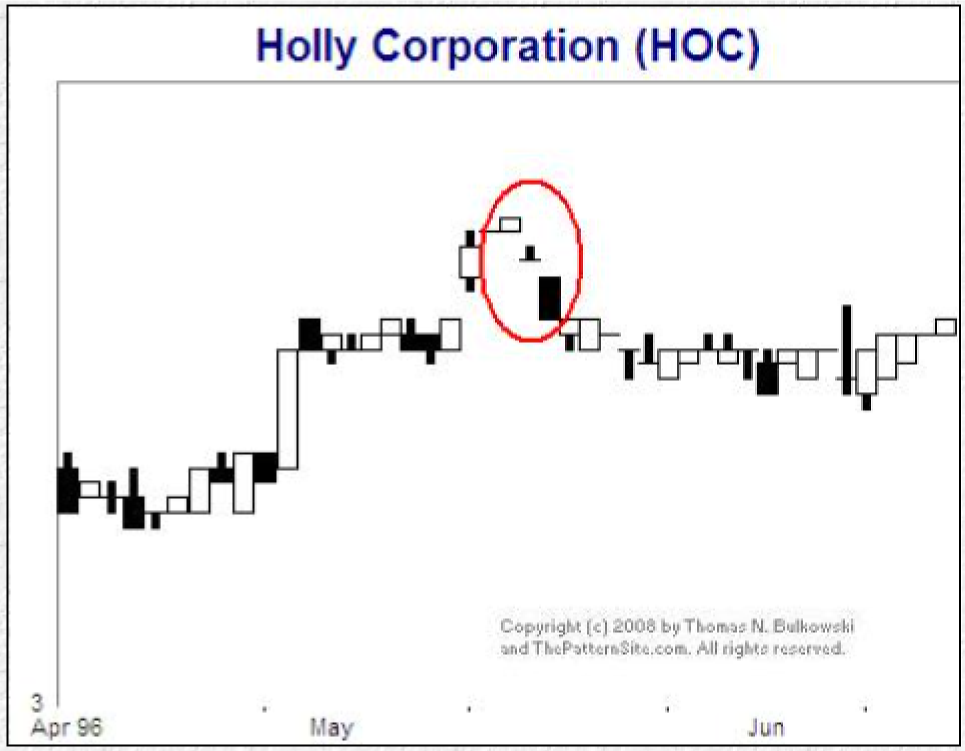

Shown circled in red on the daily chart is a bullish doji star. Even though price climbs for a few days after the candlestick pattern ends, the breakout is still downward, resuming the falling trend already underway. This bullish doji star is not bullish at all, but bearish like most of the bullish doji star patterns.

The first day of the bullish doji star is a tall black candle followed by a doji whose body gaps below the prior body. That means the closing price on the black candle is above the opening price of the doji. The shadows can overlap and they do in this example. The shadow length on the doji is not unusually long, but that is a touchy-feely thing. Clearly they are not like the shadows on a high wave candle or a rickshaw man.

## Collapsing Doji Star

The collapsing doji star acts in theory as it does in reality, as a bearish reversal of the upward price trend 63% of the time. However, the frequency rank is 101 out of 103, so you may never find an example. The overall performance is 97th and that is because I could not find any in patterns in a bear market. That hurt the results.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Three. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a white candle in an upward price trend. Following that, find a doji that gaps below yesterday's low. The last day is a black candle that also gaps below the doji. None of the shadows on the three candles should overlap, so there should be gaps surrounding the doji. |




The chart shows the collapsing doji star circled in red on the daily scale. Price moves up to the start of the collapsing doji star when a white candle appears. Below that is the doji and notice that the shadows of either candle do not overlap. The last day is a black candle and again, the shadows do not overlap so the doji appears to float between the candles on either side of it.

Based on the picture, I would say that the stock during this period probably did not trade often or it split so many times that the price differences became minor, removing the shadows from the candlesticks. Perhaps both occurred.

This collapsing doji star candlestick functions as a reversal of the brief up trend when price breaks out downward. A downward breakout happens when price closes below the bottom of the candle pattern. In this example, the downtrend does not last long before price moves horizontally.

## Evening Doji Star

Candle theory says that the evening doji star pattern should act as a bearish reversal of the upward price trend, and testing reveals that it does 71% of the time. That gives the candle a rank of 12th, which is quite high. However, with a frequency rank of 81st, you might not find this candle. The overall performance rank is 30th, so it could be a better performer over time, but actually does quite well -- thank you very much.

| Characteristic | Discussion |
| --- | --- |
| Number of candle lines | Three. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a tall white candle in an upward price trend followed by a doji whose body gaps above the two surrounding days. Ignore the shadows. The last day is a tall black candle that closes at or below the mid point of the first day. |

1. Evening doji star candles with upward breakouts perform well -- page 329.
2. Select tall candles for the best performance -- page 320-330.
3. Evening doji stars within a third of the yearly low tend to act as reversals most often -- page 332.


The evening doji star appears circled in red on the daily scale. Price moves up to a tall white candle. The next day, a doji forms whose body floats above the bodies of the surrounding two candles. The next day, a black candle takes price below the mid point of the body of the first candle in the pattern, completing the evening doji star.

This evening doji star acts as a bearish reversal of the upward price trend because price rises into the pattern and breaks out downward. A downward breakout occurs when price closes below the bottom of the candlestick pattern.

Since price in the last candle is already near the low, a downward breakout is expected -- not guaranteed, just expected. A check of the numbers shows that it breaks out downward 71% of the time.

## Dragonfly Doji

Based on how the dragonfly doji works in the marketplace, it acts as a reversal 50% of the time. Thus, it is neither a reversal nor a continuation candle. It represent indecision. Because the lower shadow is so long and the closing price is pegged at the top of the candlestick, upward breakouts predominate. A frequency rank of 44 means it is more plentiful than many other candles, so you should see it often in a historical price series. The performance rank, at 98, is near the bottom of the list. Do not expect price to trend for long after a dragonfly doji.

| Characteristic | Discussion |
| --- | --- |
| Number of candle lines | One. |
| Price trend leading to the pattern | None required. |
| Configuration | Look for a long lower shadow with a small body (open and close are within pennies of each other). |

1. Dragonfly doji that appear within a third of the yearly low perform best -- page 205.
2. Dragonfly doji break out upward most often -- page 207.
3. For those Dragonfly doji in which the opening and closing prices are different, white bodies perform best after upward breakouts, and those with black bodies outperform after downward breakouts -- page 207.


The daily chart shows a dragonfly doji (A) at the end of an uptrend. The long lower shadow would suggest a bullish move according to some authors on candlesticks. However, when the opening and closing prices match, it speaks of indecision.

In this example, price breaks out downward and when that happens, the move can be a decent one. Price retraces about half of the prior up move before resuming the rise at a more leisurely pace.

## Evening Doji Star

Candle theory says that the evening doji star pattern should act as a bearish reversal of the upward price trend, and testing reveals that it does 71% of the time. That gives the candle a rank of 12th, which is quite high. However, with a frequency rank of 81st, you might not find this candle. The overall performance rank is 30th, so it could be a better performer over time, but actually does quite well -- thank you very much.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Three. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a tall white candle in an upward price trend followed by a doji whose body gaps above the two surrounding days. Ignore the shadows. The last day is a tall black candle that closes at or below the mid point of the first day. |

1. Evening doji star candles with upward breakouts perform well -- page 329.
2. Select tall candles for the best performance -- page 320-330.
3. Evening doji stars within a third of the yearly low tend to act as reversals most often -- page 332.


The evening doji star appears circled in red on the daily scale. Price moves up to a tall white candle. The next day, a doji forms whose body floats above the bodies of the surrounding two candles. The next day, a black candle takes price below the mid point of the body of the first candle in the pattern, completing the evening doji star.

This evening doji star acts as a bearish reversal of the upward price trend because price rises into the pattern and breaks out downward. A downward breakout occurs when price closes below the bottom of the candlestick pattern.

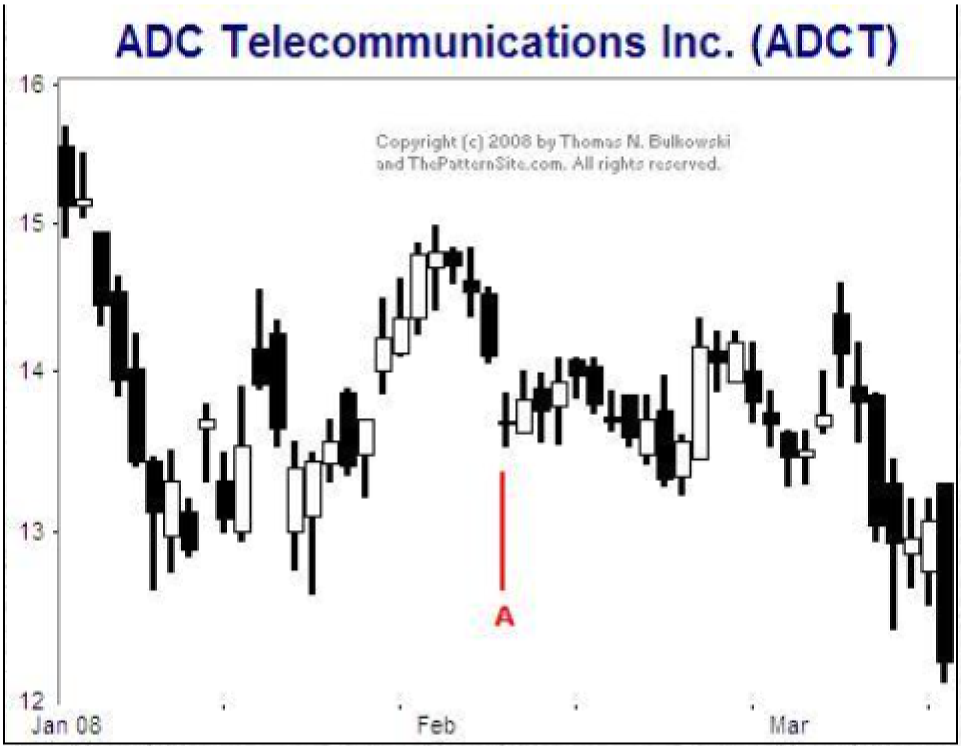
Since price in the last candle is already near the low, a downward breakout is expected -- not guaranteed, just expected. A check of the numbers shows that it breaks out downward 71% of the time.

## Gapping Down Doji

The gapping down doji candlestick acts as a bullish reversal of the prevailing downtrend despite what theory says, at least according to my numbers. After price reverses, it does not trend far, either, scoring a rank of 88 and rising just 2.52% in 10 days. I consider a move of at least 6% to be exciting. The best performance rank over 10 days is just 65, where 1 is best, so it flunks there, too.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | Downward |
| Configuration | In a downtrend, price gaps lower and forms a doji (a candle in which the opening and closing prices are no more than a few pennies apart). |

1. Gapping down doji candles that appear within a third of the yearly low perform best except after an upward breakout in a bear market -- page 214.
2. Determine the gap type to help anticipate the breakout direction -- page 216.
3. The candle breaks out upward most often -- page 217.
4.




The daily chart shows a gapping down doji candlestick (A) in a down trend. I classify a breakout as when price closes either above the top or below the bottom of the candlestick pattern, including the shadows. In this case, the breakout is upward. The uptrend does not last for long (4 days) before the downward move continues.

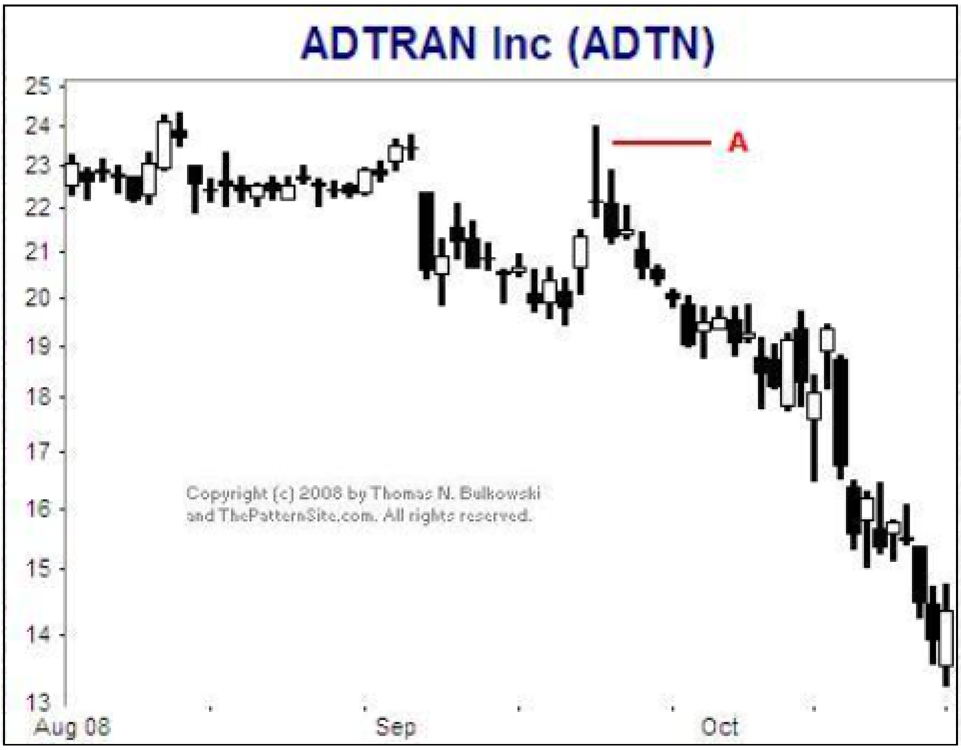
Notice how the gap above A almost matches the price level of the gap to its left (B). You can consider the AB move as creating an island reversal. Coupled with the left shoulder (LS), head, and right shoulder (RS), the chart pattern is a head-and-shoulders top, albeit somewhat unsymmetrical. All of those patterns suggest price will continue down.

## Gapping Up Doji

Candlestick theory, according to authors and websites that I looked at, says the gapping up doji is a bullish continuation pattern. I found that it acts as a bearish reversal 57% of the time. I consider that near random. The pattern occurs frequently, placing its rank at 49 or about mid list. When it does appear, the following trend is not a long one and the overall performance rank of 92 (where 1 is best) shows that.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | Upward. |
| Configuration | Price gaps higher, including the shadows, in an uptrend and forms a doji candle. A doji is one in which the opening and closing prices are within pennies of each other. |

1. Gapping up doji candles that appear within a third of the yearly low perform best -- page 224.
2. Gapping up doji candles with upper shadows taller than the median perform well -- page 224-225.
3. The gapping up doji breaks out downward most often -- page 227.




The chart shows a gapping up doji candlestick on the daily scale at A. Price is moving up in a retrace of the downtrend and then it gaps higher in a last gasp of bullish enthusiasm. A doji forms, one in which the opening and closing prices are similar. This one has an unusually long upper shadow, with the close near the low, but the lower shadow does not extend far enough downward to close the gap. That upward thrust suggests the bulls were enthusiastic about the stock sometime during the day (to force price to gap open higher and climb even more) before the bears appeared and pushed price back down going into the close.

After the candlestick ended, price resumed the downtrend. This scenario -- an upward retrace in a downtrend accompanied by a reversal candle -- is one of the key trading setups for candles. Price resumes the downward price trend. It reminds me of crossing a river by swimming with and against the current. If you are not run over by a speed boat, you will likely make it to the other side, but when swimming with the current, it is safer and faster. Trade reversal candles in which the price trend resumes the primary trend after reversal. Those are the setups that tend to do well (trading with the primary price trend).

# Gravestone Doji

The actual, tested, behavior of the gravestone doji matches the theoretical performance: indecision or randomness, packaged into a tight little bundle of joy. Price closes at the bottom of the candlestick and price should breakout downward most often, which it does. The gravestone doji is rare in a bear market, which I find odd. That can be due to the dearth of bear markets, but the ratio of bullish to bearish sightings is about 15 to 1.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | None required. |
| Configuration | Look for a candle with a tall upper shadow and little or no lower one. The opening and closing prices should be within pennies of each other. |

1. Gravestone doji candles that appear within a third of the yearly low perform best -- page 233.
2. Gravestone doji candles taller than the median show price that moves about 50% farther after the breakout than those shorter than the median -- pages 233-234.

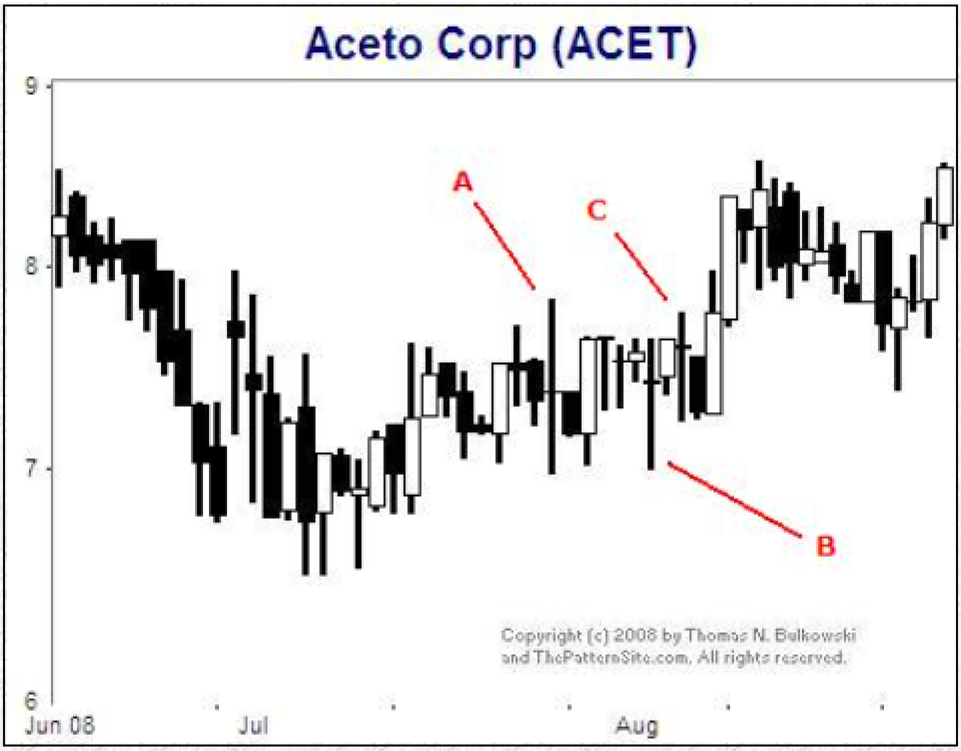

The daily chart shows a gravestone doji candlestick (A) at the top of a short up trend. Notice how the opening and closing prices are at the bottom of the candle line with a tall upper shadow. In this example, price trends upward for a few days leading to the gravestone doji and then reverse direction -- falling. Price continues lower following the general market down.

# Long Legged Doji Candlestick

My tests show that the long legged doji acts as a bullish continuation candlestick 51% of the time, which I consider random. Thus, the indecision label is an apt one. The breakout direction is not known, and trying to depend on this candle hinting at a direction is fraught with error.

| Characteristic | Discussion |
| --- | --- |
| Number of candle lines | One. |
| Price trend leading to the pattern | None. |
| Configuration | Look for a doji (opening and closing prices are within a few pennies of each other) accompanied by long shadows. |

1. Long legged doji candles that appear within a third of the yearly low perform best -- page 242.
2. Long legged doji candles with shadows taller than the median show price that moves 50% farther than do those with shorter shadows -- page 243.
3.




The chart shows three long legged doji candlesticks on the daily scale. Candle A appears in the middle of a sideways price trend. In fact, all three, A, B, and C are positioned in the same congestion area. Price has no direction after the doji appears, just as my tests indicate.

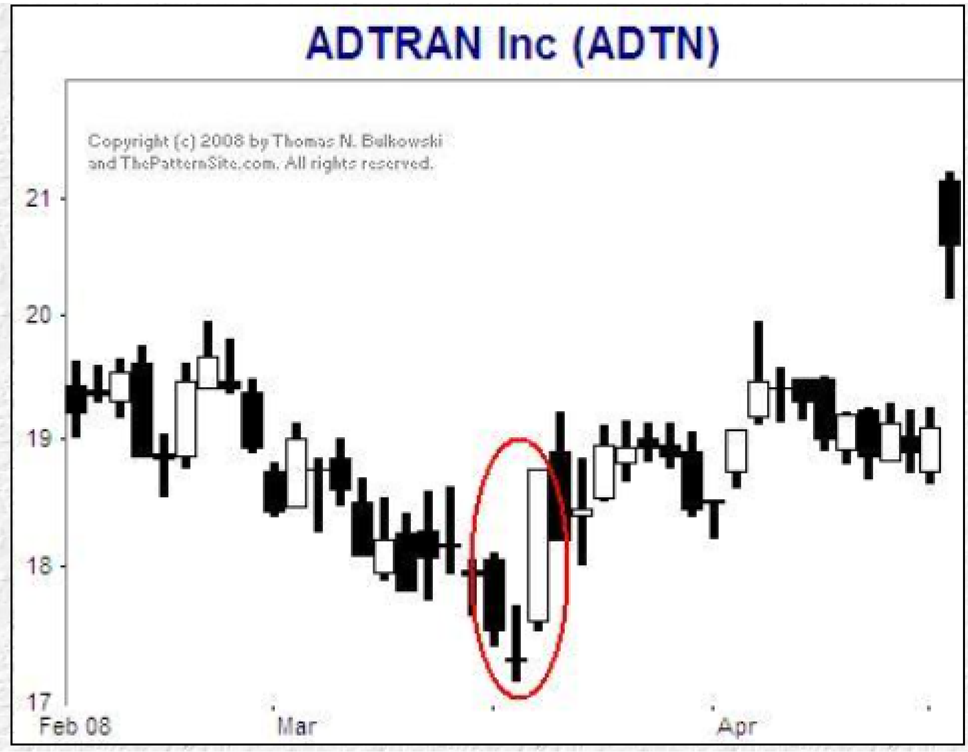
Notice the long upper and lower shadows on the long legged doji, giving the candlestick its name. The length of the shadows need not appear the same, only that they are longer than recent shadows on other candles.

# Morning Doji Star Candlestick

The morning doji star is supposed to act as a bullish reversal and it does 76% of the time, confirmed by testing 932 examples. That is well short of the 20,000 that I usually like to dissect. The bear market samples are few (33 for bear market/down breakouts), so view those results with skepticism. The frequency rank of 78 is a good hint at the scarcity of the morning doji star.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | Three. |
| Price trend leading to the pattern | Downward |
| Configuration | Look for a tall black candle in a downward price trend. The next day, a doji appears and its body gaps below the prior candle's body. The final day is a tall white candle whose body gaps above the doji's. |

1. Morning doji star candles that appear within a third of the yearly high tend to act as reversals most often -- page 594-595.
2. Select tall candles for the best performance in most markets -- page 591-592.




The chart shows a morning doji star circled in red on the daily scale. In a downward price trend, a tall black candle appears followed by a doji. After the doji, a tall white candle points the way higher. The body of the doji must gap below the two adjacent bodies, and it does in this example.

The breakout from this morning doji star candle pattern is upward. An upward breakout occurs when price closes above the top of the candle. Since price trends downward into the morning doji star and exits upward, the candle acts as a reversal of the downtrend.

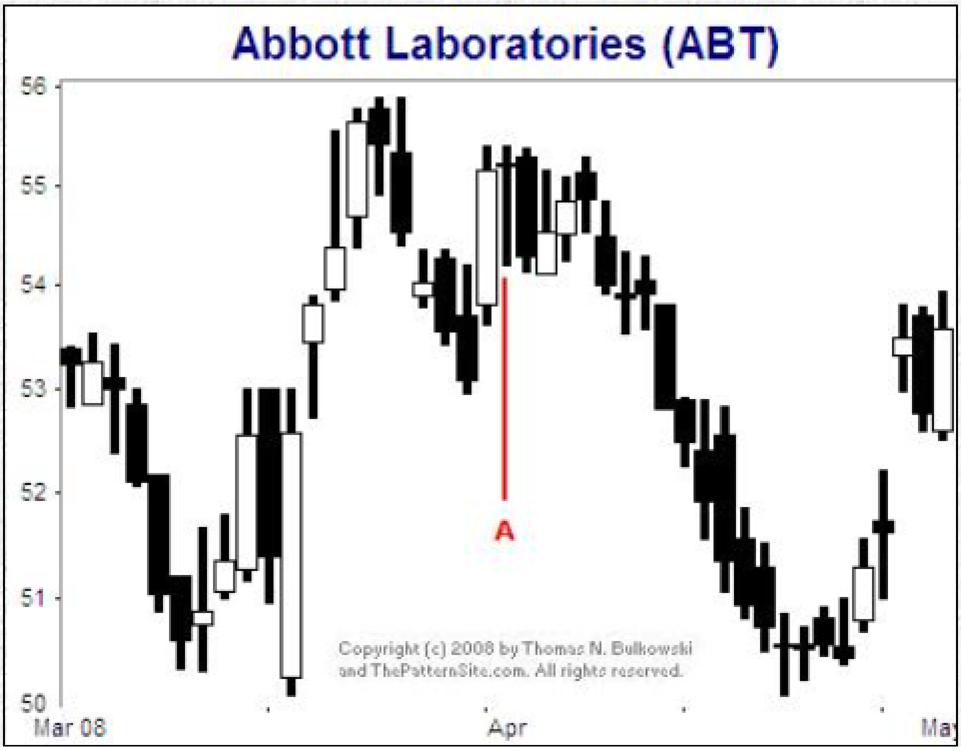
Shown is not necessarily the best setup for the morning doji star. I have found that the best setups are those in which the primary trend is upward and the morning doji star appears as part of a downward retrace in that upward trend. When price breaks out upward, it joins with the uptrend already in existence and away it goes.

## Northern Doji Candlestick

As I mentioned in the introduction, the northern doji is supposed to act as a bearish reversal, but is a bullish continuation instead. However, the different is slight, just one percentage point. With a frequency rank of 6, you will find them almost as often as sand at a beach. When do you find them, do not expect price to trend long after the breakout. The northern doji ranks 83 for overall performance.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | Upward. |
| Configuration | Look for a candle in which the opening and closing prices are within pennies of each other (a doji) in an up trend. |

1. Northern doji candles that appear within a third of the yearly low perform best -- page 250.
2. Opening gap confirmation works best -- page 254.
3. Breakouts below the 50-trading day moving average lead to the best performance -- page 254.




Shows is a daily chart with a northern doji candlestick at A. Any type of doji qualifies as a northern doji provided it appears in an upward price trend like the one shown here. A doji candlestick has the opening and closing prices within a few pennies of each other. In this case, a long lower shadow would suggest the bulls battled back the bears for possession of the price trend. Nevertheless, the bears won in the coming days when price broke out downward from the candlestick. This northern doji acted as a bearish reversal and went wee, wee, wee, all the way home.

## Southern Doji Candlestick

Theory matches the performance found in the field: the southern doji acts as a bullish reversal but only 52% of the time. Based on the frequency rank (8), you will find it often in a historical price trend, but performance after the breakout ranks well down the list of performers: 78. Since I only looked at 103 candlesticks, with 1 being best, the southern doji is not one worth hunting for.

| Characteristic | Discussion |
|---|---|
| Number of candle lines | One. |
| Price trend leading to the pattern | Downward. |
| Configuration | Look for a doji candlestick (one in which the opening and closing prices are a few pennies from each other) in a downward price trend. |

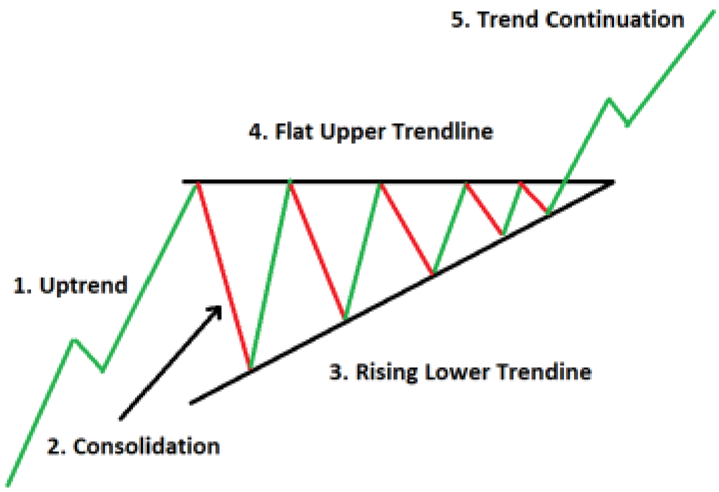
1. Southern doji candles that appear within a third of the yearly low perform best -- page 260.
2. Southern doji candles with shadows taller than the median outperform -- page 261.
3. Southern doji within a third of the yearly high tend to act as reversals -- page 262.


Shown is a southern doji (A) on the daily chart. This doji has the opening and closing prices the same and it appears in a downward price trend -- all the ingredients to qualify it as a southern doji. Price reverses trend when it breaks out upward (a close above the top of the doji).

# PATTERNS

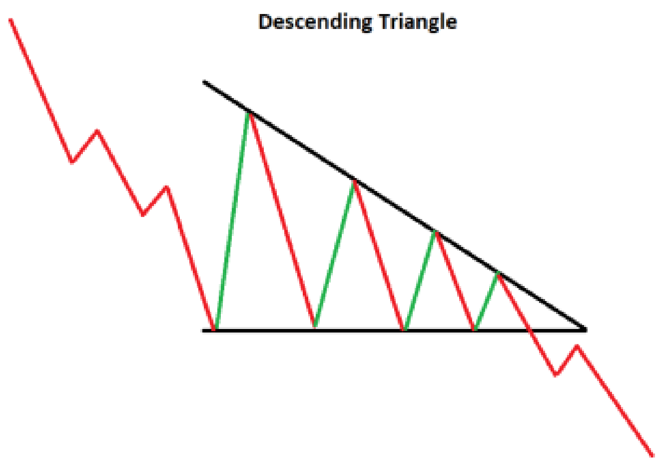
## Ascending triangle

The ascending triangle is a bullish ‘continuation’ pattern that signifies a breakout is likely where the triangle lines converge. To draw this pattern, you need to place a horizontal line (the resistance line) on the resistance points and draw an ascending line (the uptrend line) along the support point



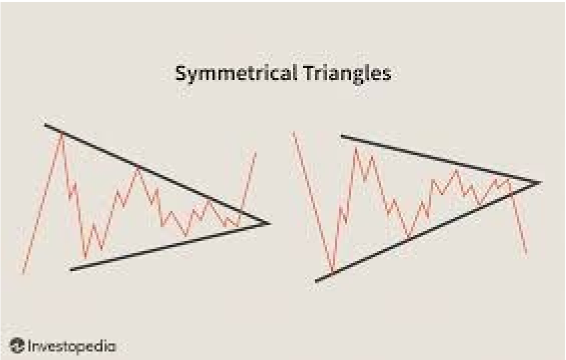

## Descending triangle

Unlike ascending triangles, the descending triangle represents a bearish market downtrend. The support line is horizontal, and the resistance line is descending, signifying the possibility of a downward breakout.

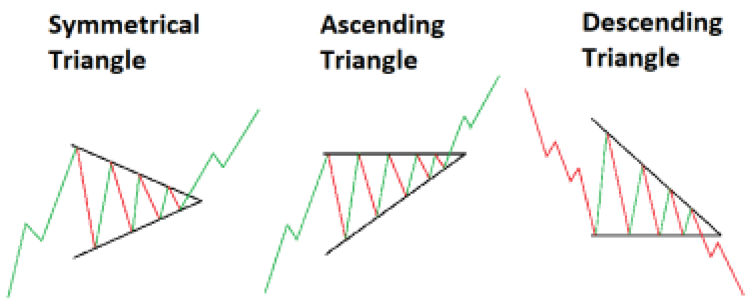



## Symmetrical triangle

For symmetrical triangles, two trend lines start to meet which signifies a breakout in either direction. The support line is drawn with an upward trend, and the resistance line is drawn with a downward trend. Even though the breakout can happen in either direction, it often follows the general trend of the market.



Ascending triangle VS Descending triangle VS Symmetrical triangle




## Pennant

Pennants are represented by two lines that meet at a set point. They are often formed after strong upward or downward moves where traders pause and the price consolidates, before the trend continues in the same direction. 5. Flag: The flag chart pattern is shaped as a sloping rectangle, where the support and resistance lines run parallel until there is a breakout. The breakout is usually the opposite direction of the trendlines, meaning this is a reversal pattern.


## Wedge

A wedge represents a tightening price movement between the support and resistance lines, this can be either a rising wedge or a falling wedge. Unlike the triangle, the wedge doesn't have a horizontal trend line and is characterised by either two upward trend lines or two downward trend lines.  For a downward wedge it is thought that the price will break through the resistance and for an upward wedge, the price is hypothesised to break through the support. This means the wedge is a reversal pattern as the breakout is opposite to the general trend.

## Double bottom

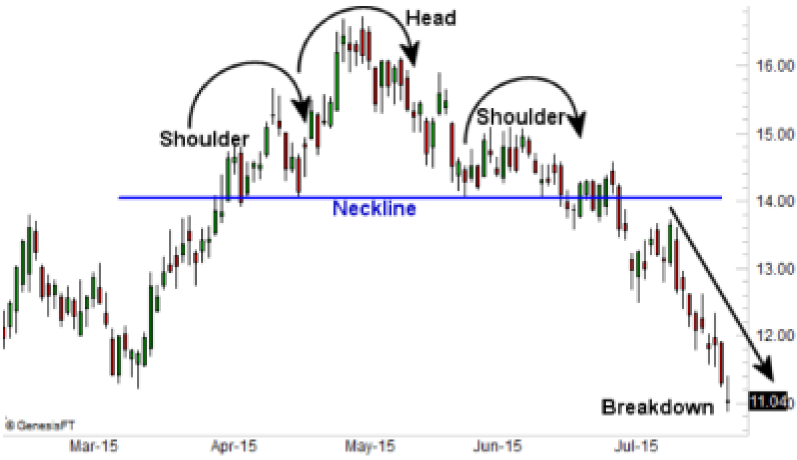
A double bottom looks similar to the letter W and indicates when the price has made two unsuccessful attempts at breaking through the support level. It is a reversal pattern as it highlights a trend reversal. After unsuccessfully breaking through the support twice, the market price shifts towards an uptrend.


## Double top

Opposite to a double bottom, a double top looks much like the letter M. The trend enters a reversal phase after failing to break through the resistance level twice. The trend then follows back to the support threshold and starts a downward trend breaking through the support line.


## Head and shoulders

The head and shoulders pattern tries to predict a bull to bear market reversal. Characterised by a large peak with two smaller peaks either side, all three levels fall back to the same support level. The trend is then likely to breakout in a downward motion.

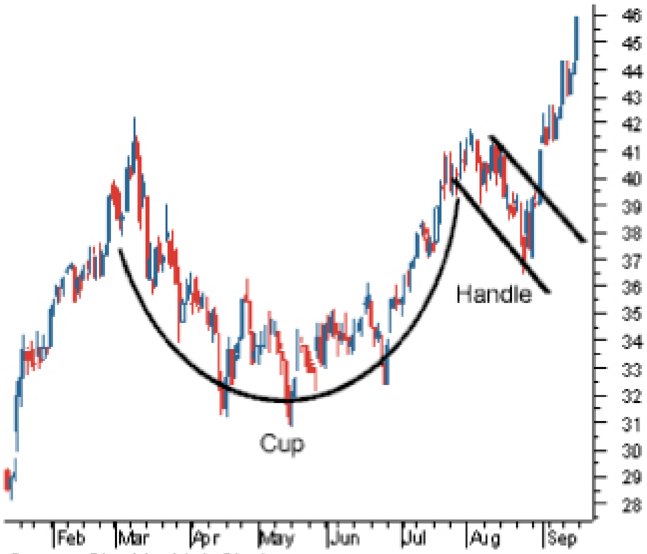


## Rounding bottom

A rounding bottom or cup usually indicates a bullish upward trend. Traders can buy at the middle of the U shape, capitalising on the bullish trend that follows as it breaks through the resistance levels.


## Cup and handle

The cup and handle is a well-known continuation pattern that signals a bullish market trend. It is the same as the above rounding bottom, but features a handle after the rounding bottom. The handle resembles a flag or pennant, and once completed can see the market breakout in a bullish upwards trend.

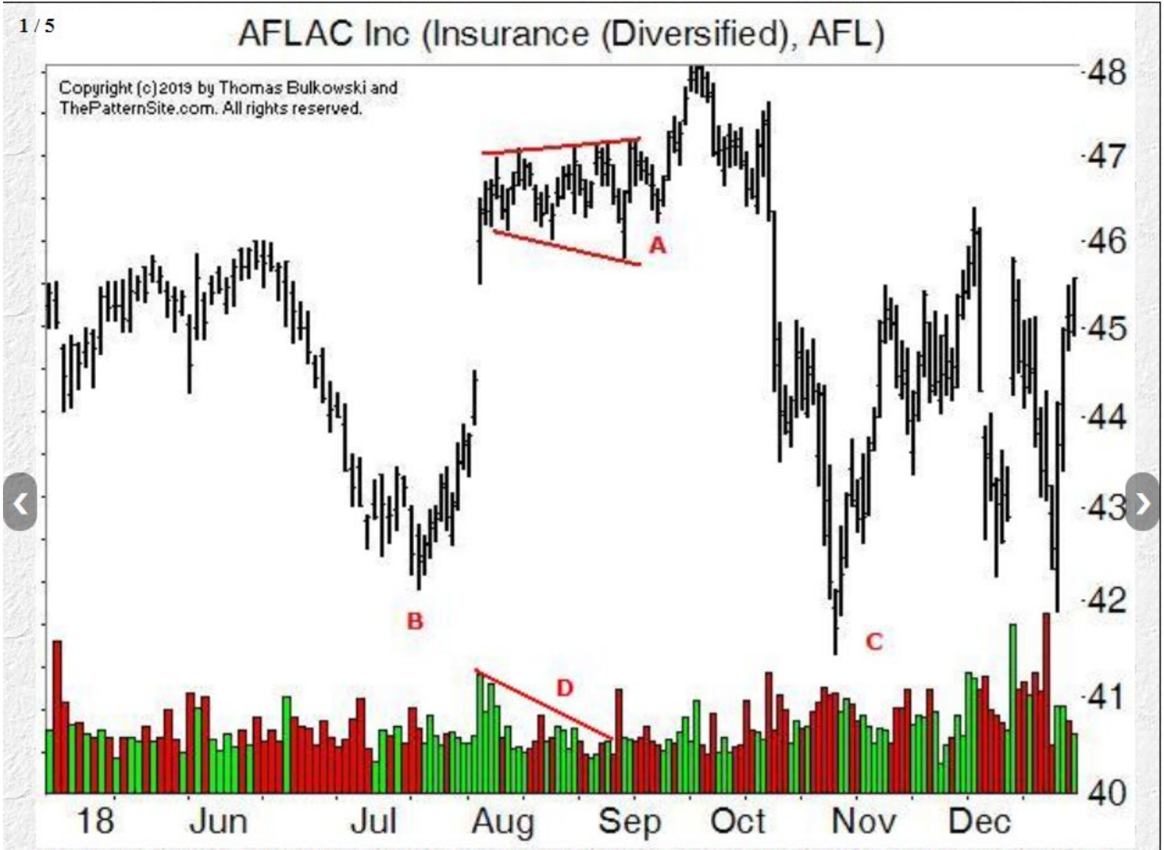



Source: Chart by MetaStock

# EXAMPLE CHARTS

Another way to trade it with a later sell signal that doesn't leave much profit.

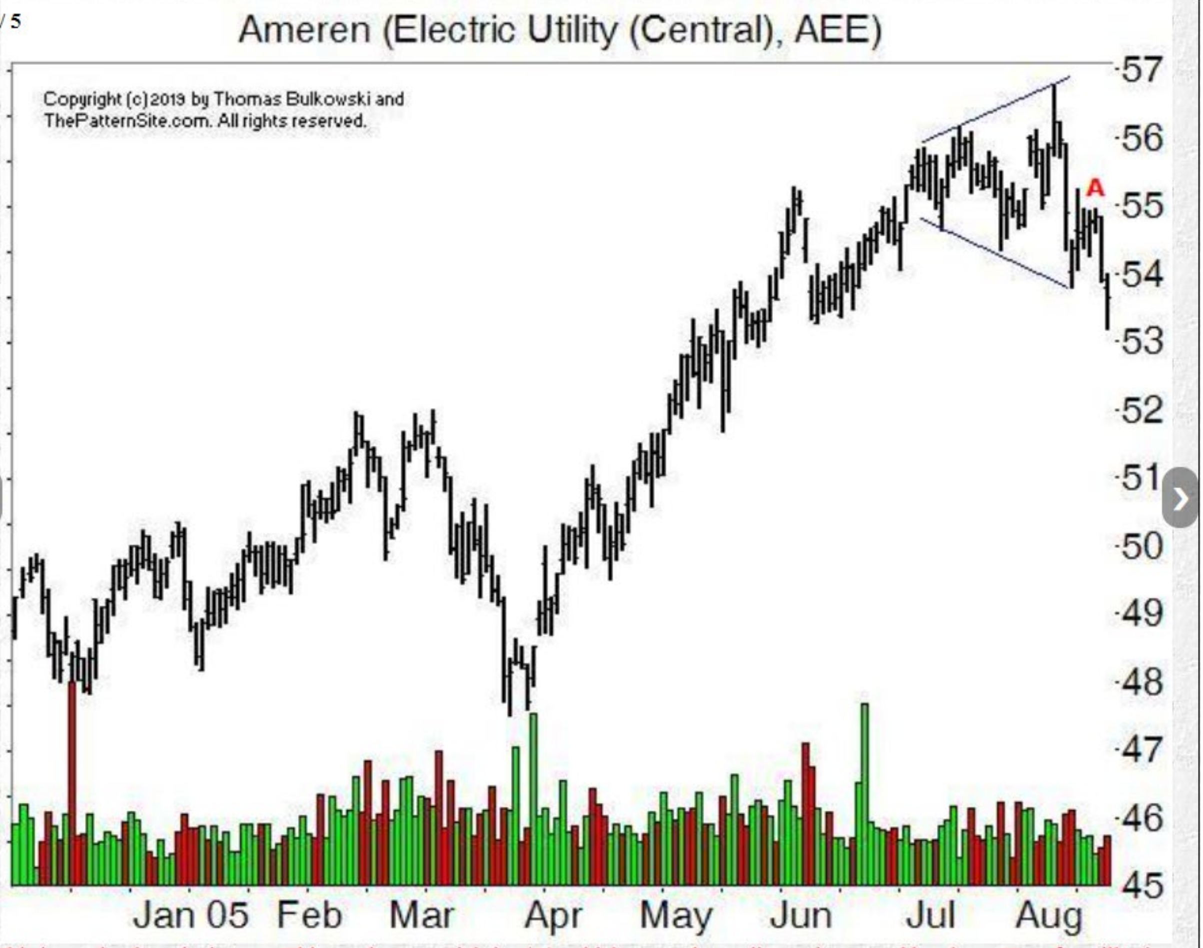
Here's one way to trade the triangle. The rising wedge gives a timely exit signal.




A broadening top (outlined in red), begins with price rising into the chart pattern. The 'launch price' is at B. That's where a strong uptrend begins. Notice that the stock returns to the launch price at C and coasts a bit lower than B (often C will remain above B). Volume trends downward in this example, as shown at D, but trends upward 67% of the time. Price crosses the pattern plenty of times, touching the two trendlines at least 5 times (at least three touches of one side and two on the other). The breakout can be in any direction. At A, a partial decline correctly predicts an upward breakout 74% of the time. Indeed, price breaks out upward in this case before busting the breakout and heading to C.


Broadening top C shows a partial decline which correctly predicts an upward breakout. Broadening top D also shows a partial decline, but this one fails when price breaks out downward. Pattern A is not a broadening top. It's a broadening bottom. I ignore any overshoot or undershoot (B) when determining a top or bottom. If you ignore the minor low at B, the trend is downward into the pattern, making it a broadening bottom and not a top.

4 / 5




This is another broadening top. This one has a partial rise (A), which correctly predicts a downward breakout. How far will price drop? Where will it pause on the way down?

5 / 6


A is the falling wedge. B is the scallop. The wedge breaks out upward at C. How far will price rise (pick 1, 2, 3, or 4, one of the green lines).