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Candlesticks Made Simple

*Understanding Candlestick Charting To
Assess Prevailing Market Forces*

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Introduction

Although bar and candlestick charts both display the same information (high, low, open, and close for a specified period), with bar charts the information may not always be immediately obvious at first glance.

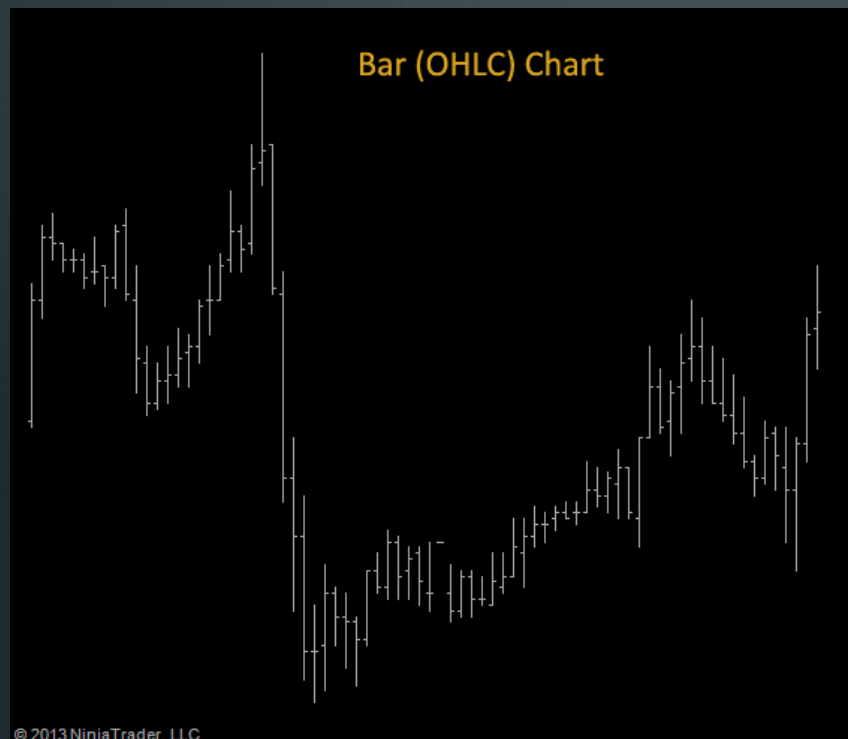
For example, did the bar close higher or lower than where it opened. With candlesticks this is obvious at first glance, without having to look closely at the little dashes on a bar chart to know this.

Candlestick charts highlight much more visually, the area between the open and close price, than on a bar chart.

For many this can help quickly assess the prevailing market forces and help your mind quickly prioritise things.

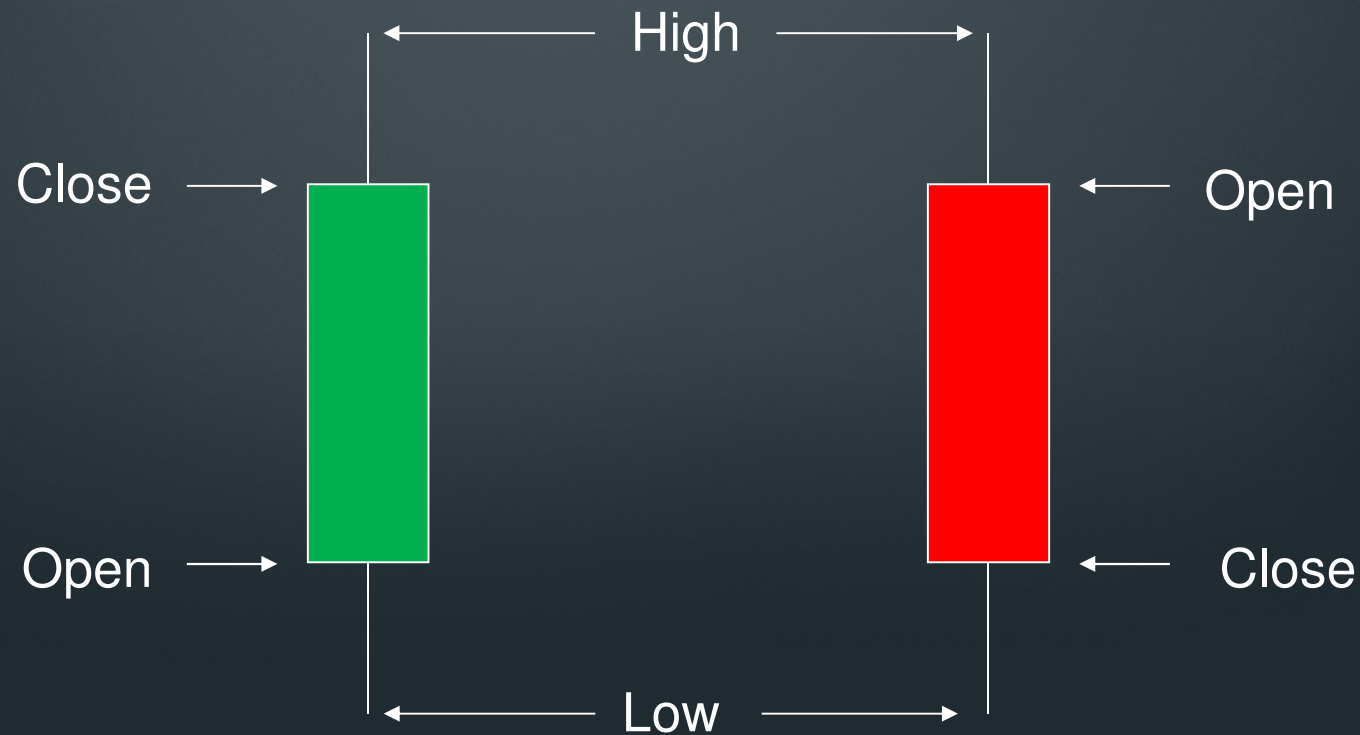
Bar & Candlestick Chart Comparison

Side by side comparison for the same period



Candlestick Construction

Displays high, low, open, & close price for a specified period



Candlestick Construction

Body of the Candlestick



Two Rules of the Market

When buyers accept what the sellers ask,
the price will go up

When sellers accept what the buyers bid,
the price will go down

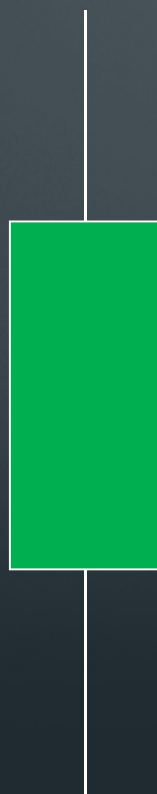
Reading Candlesticks

C - High

D - Close

A - Open

B - Low



- Here the market opened at point A.
- During the period, the sellers moved into the market and pushed the price down to point B (low).
- At point B, the buyers took control of the market and pushed up the price of the share. During the period buyers also moved into the market and pushed price all the way up to point C (high).
- At point C, the sellers took back some control of the market to push price down from it's high and the price of the share then closes at point D.



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Five Aspects of Candlesticks

1. Body Colour
2. Body Size
3. Shadow Position
4. Shadow Size
5. Candlestick Range

Body Colour



- A green coloured (or hollow) body represents buyers in control.
- A red (or dark) coloured body represents sellers in control

Body Size

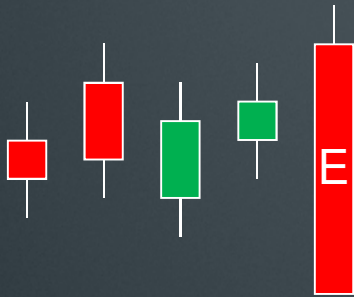


- Large body candlesticks are also referred to as *Long Days*.
- These represent a large price movement for the day, which **shows commitment** to the move from the market participants in control.

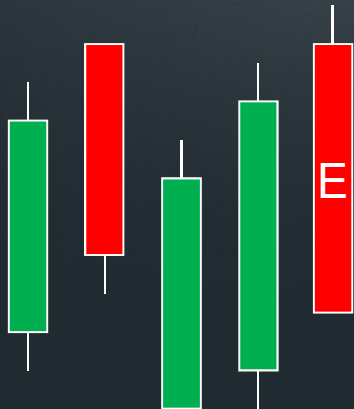


- Small body candlesticks are also referred to as *Short Days*.
- These represent a small price movement for the day, which shows **lack of commitment** to the price move from buyers and sellers.

What is large?

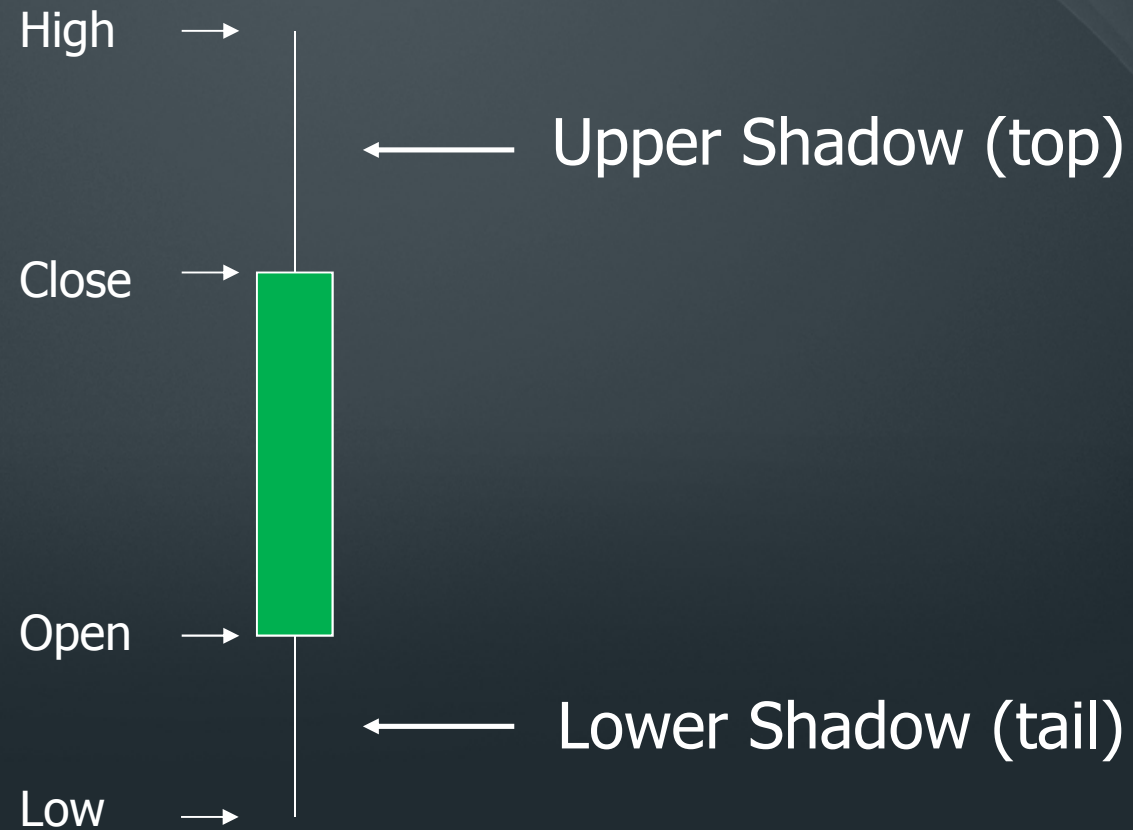


- Candlestick E **would** be considered to be a large body candle in this context, as is it significantly larger than the previous candlesticks.



- Candlestick E would **not** be considered to be a large body candle in this context, as is it not significantly larger than the previous candlesticks

Shadow Position



Shadow Position

*A shadow on the **top** of a candlestick represents **sellers** in control of the market.*

*A shadow at the **bottom** of a candlestick represents **buyers** in control of the market.*

Shadow Position – Blended Candles

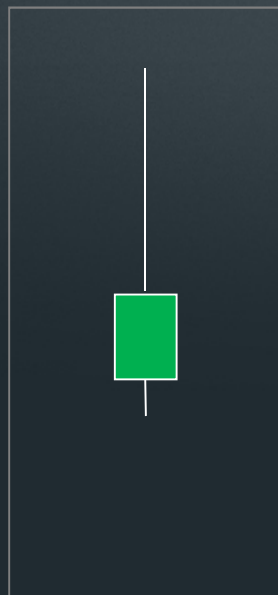
“when two candles are combined, the meaning becomes more significant”

– Steve Nison

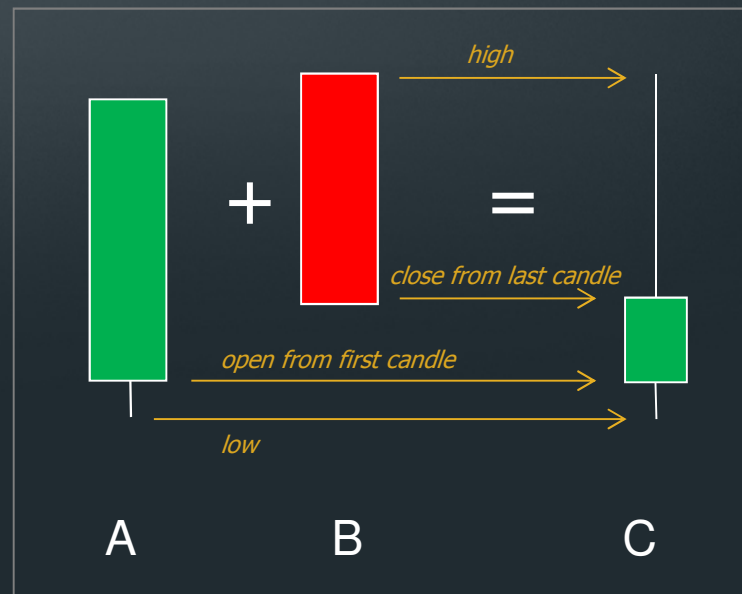
Two candles can be 'blended' using same guidelines as a single candle... open from the first candle, close from the last candle and high/low of the candles being blended.

- Note the long upper shadow (top) on the blended candle (C).

Single Candle



Two Candles 'Blended' To Make One



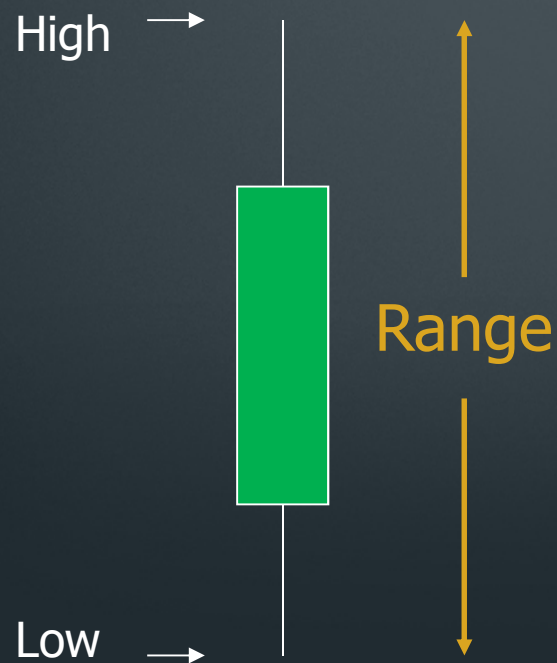
Shadow Size

Strength and Commitment

- A large shadow on top of the body of the candlestick represents significant selling and is considered to be a bearish signal – even if the body of the candlestick is green (light) in colour.
- A large shadow at the bottom of the body of the candlestick represents significant buying and is considered to be a bullish signal – even if the body of the candlestick is red (dark) in colour.

Candlestick Range

Range of the candlestick is the distance from the high to the low

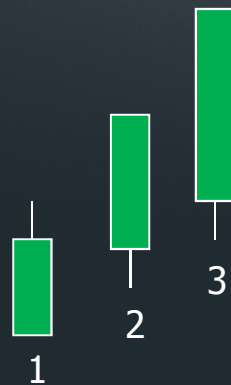


- Represents the volatility of the price during the candlestick period
 - A wide (larger) range indicates volatility has increased
 - A narrow (smaller) range indicates volatility has decreased
- Must interpret in context to prior candles

Candlestick Range



1. Strong commitment from buyers
2. Reducing Range, shadow on top – buyers losing commitment
3. Narrow range – indecision in the market



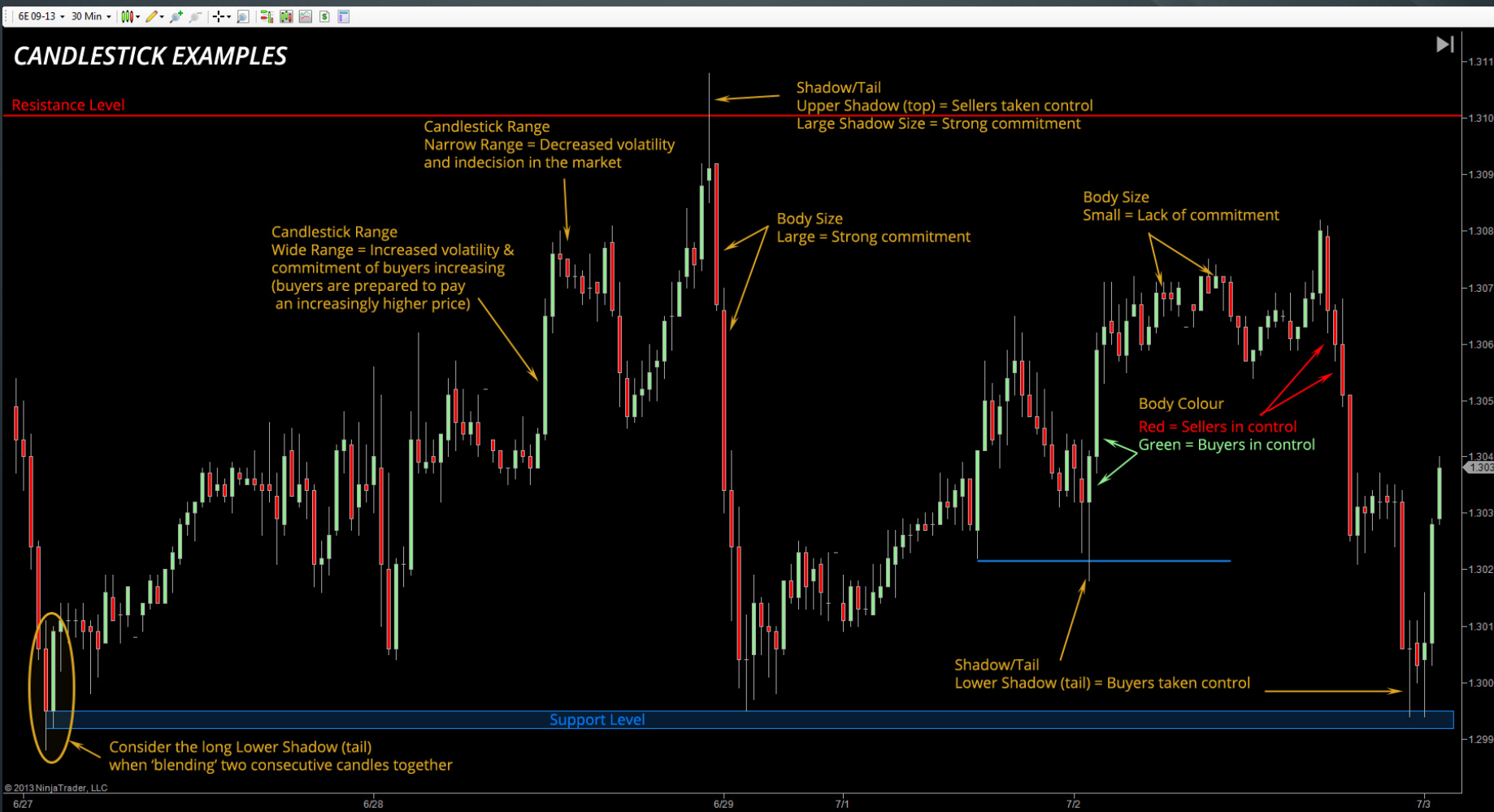
1. Buyers in control
2. Increasing range – commitment of buyers increasing
3. Buyers are prepared to pay an increasingly higher price

Review

Body Colour	Green (White or Hollow) – Buyers in control Red (Dark) – Sellers in control
Body Size	Large – Strong commitment Small – Lack of commitment
Shadow/Tail	Top – Sellers taken control Bottom – Buyers taken control
Shadow Size	Large – strong commitment
Candlestick Range	Volatility of price Must interpret in context to prior candle size

All candlestick formations must be interpreted in context to the current market structure, not solely in isolation!

Candlestick Examples



Candlestick Charting



Candlestick Charting





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