What Are Candlestick Charts?

Candlestick charts are an effective way of visualizing price movements invented by a Japanese rice trader in the 1700s. Astute reading of candlestick charts may help traders better understand the market's movements.

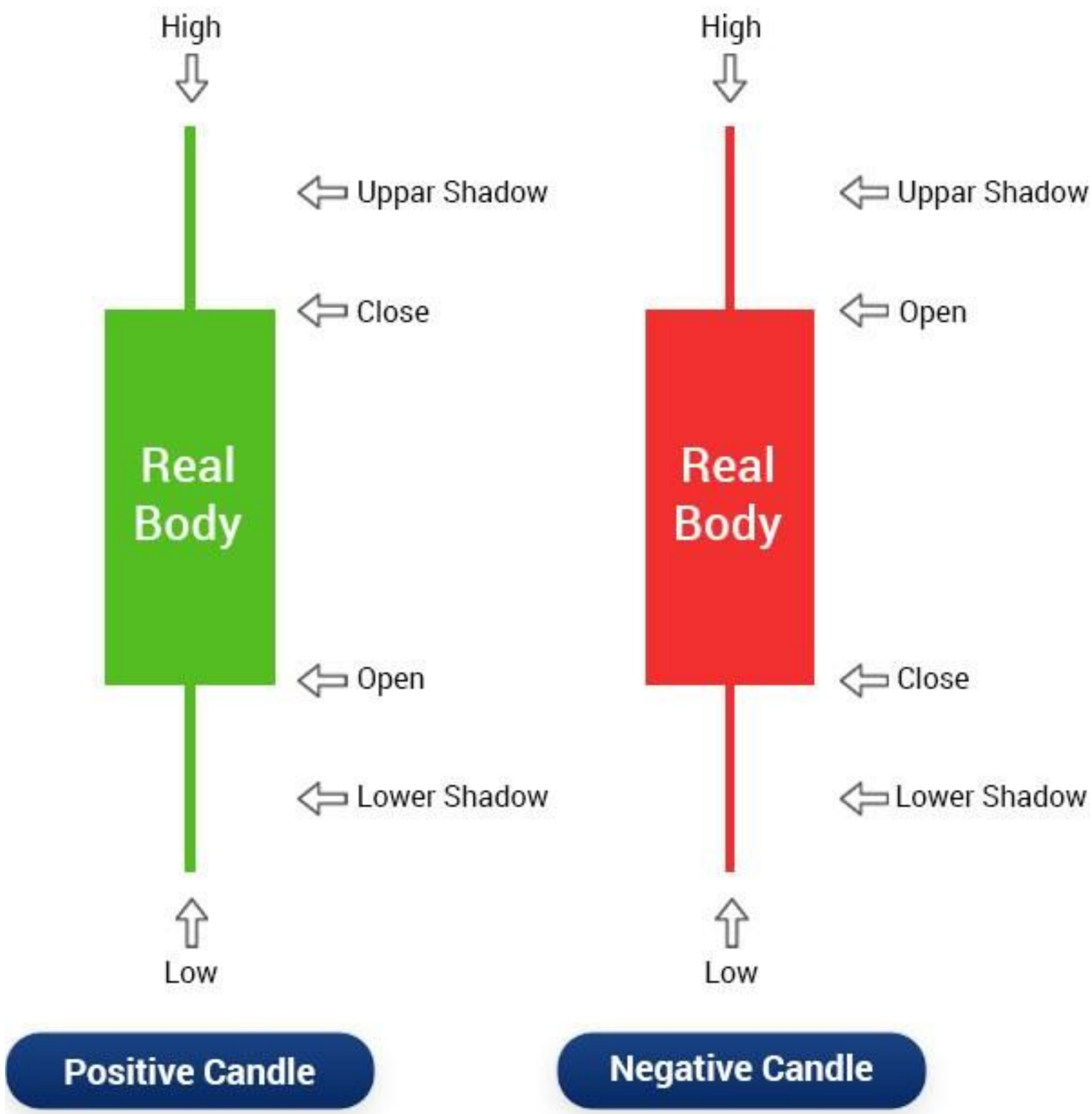
How to Read Candlestick Charts Candlesticks summarize a period's trading action by visualizing four price points:

Open :- Price at the beginning of the period

Close:- Price at the end of the period

High :p- The maximum price achieved during that period

Low :- The lowest price of the asset during the period



What Are the Parts of a Candlestick Chart? There are three main parts to a candlestick:

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

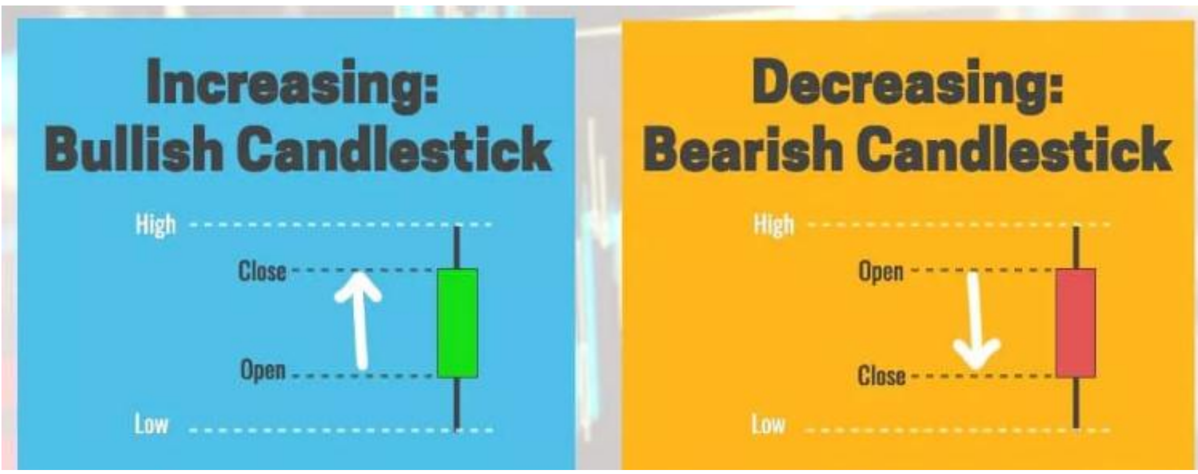
Real Body: The difference between the opening price and closing prices. This is shown by the colored portion of the candlestick.

A green (or white) body indicates that an asset's price moved higher over the day's trading.

A red (or black) body indicates that prices ended lower than they were at the day's opening.

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

How to Interpret Price Movement on a Candlestick Chart



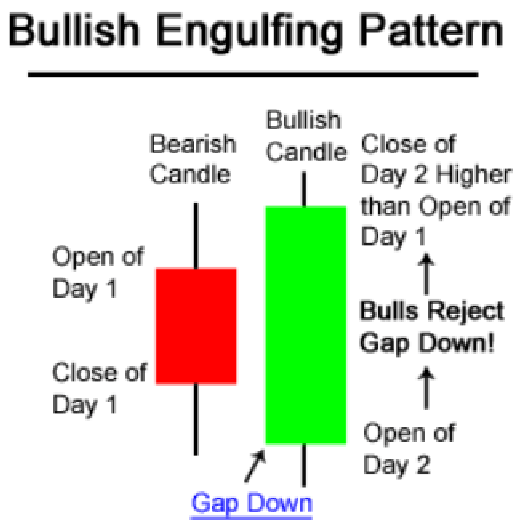
There are two basic candlesticks which are illustrated on the image above:

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

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

More Candlestick Patterns Candlestick patterns can be made up of one candle or multiple candlesticks. They can also form reversal or continuation patterns.

The Bullish Engulfing pattern consists of two Candlesticks:-



Smaller Bearish Candle (Day 1)

Larger Bullish Candle (Day 2)

The bearish candle real body of Day 1 is usually contained within the real body of the bullish candle of Day 2. On Day 2, the market gaps down; however, the bears do not get very far before bulls take over and push prices higher, filling in the gap down from the morning's open and pushing prices past the previous day's open.

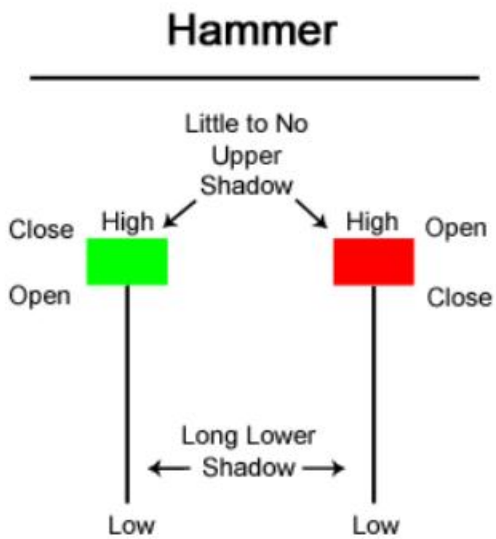
What Is the Hammer Candlestick Formation?

The Hammer candlestick formation is viewed as a bullish reversal candlestick pattern that mainly occurs at the bottom of downtrends.

The Hammer helps traders visualize where support and demand are located. After a downtrend, the Hammer can signal to traders that the downtrend could be over and that short positions could potentially be covered.

What Does the Hammer Candlestick Look Like?

The Hammer formation is created when the open, high, and close prices are roughly the same. Also, there is a long lower shadow that's twice the length as the real body.

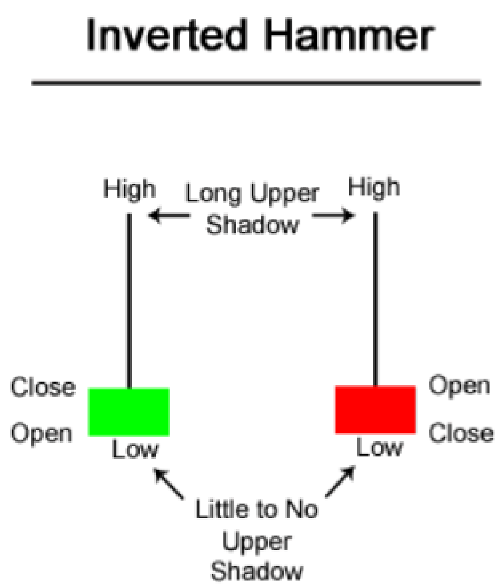


When the high and the close are the same, a bullish Hammer candlestick is formed. In contrast, when the open and high are the same, the red Hammer formation is considered less bullish, but still bullish.

Green Hammer If the Hammer is green, it is considered a stronger formation than a red hammer because the bulls were able to reject the bears completely. Also, the bulls were able to push up the price past the opening price. Is a Red Hammer Bullish? A red Hammer candlestick pattern is still a bullish sign. The bulls were still able to counteract the bears, but they were just not able to bring the price back up to the opening price.

What Is the Inverted Hammer Candlestick?

The Inverted Hammer candlestick formation occurs mainly at the bottom of downtrends and can act as a warning of a potential bullish reversal pattern. What happens on the next day after the Inverted Hammer pattern is what gives traders an idea as to whether or not prices will go higher or lower. What Does the Inverted Hammer Look Like? The Inverted Hammer formation is created when the open, low, and close are roughly the same price. Also, there is a long upper shadow which should be at least twice the length of the real body.



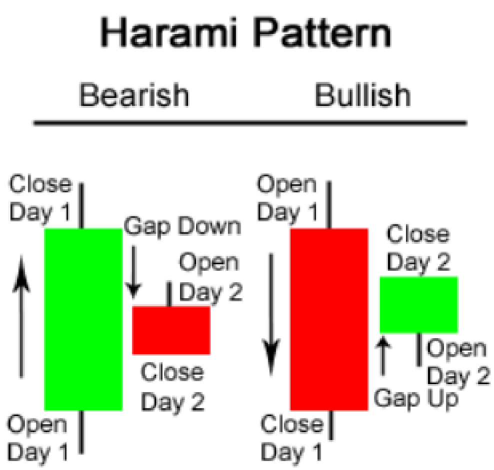
Is an Inverted Hammer Candlestick Bullish or Bearish? After a long downtrend, the formation of an Inverted Hammer is bullish because prices hesitated to move downward during the day. Sellers pushed prices back to where they were at the open, but increasing prices shows that bulls are testing the power of the bears. Green vs Red Inverted Hammer When the low and the open are the same, a bullish, green Inverted Hammer candlestick is formed and it is considered a stronger bullish sign than when the low and close are the same (a red Inverted Hammer).

What Is a Harami Candlestick Pattern?

The Harami Candlestick Pattern is considered a trend reversal pattern that can either be bullish or bearish, depending on the direction of the price action. What Does a Harami Candlestick Look Like? A Harami pattern can be either bullish or bearish, depending on the color of its candles.

Each pattern consists of two Candlesticks that occur on successive days

What Does a Harami Candlestick Look Like? A Harami pattern can be either bullish or bearish, depending on the color of its candles. Each pattern consists of two Candlesticks that occur on successive days:



What Is a Bearish Harami ?

A bearish Harami occurs at the top of an uptrend when there is a large bullish green candle on Day 1 followed by a smaller bearish or bullish candle on Day 2.

What Is a Bullish Harami ?

A bullish Harami occurs at the bottom of a downtrend when there is a large bearish red candle on Day 1 followed by a smaller bearish or bullish candle on Day 2.

Again, the most important aspect of the bullish Harami is that prices gapped up on Day 2 and the price was held up and unable to move lower back to the bearish close of Day 1.

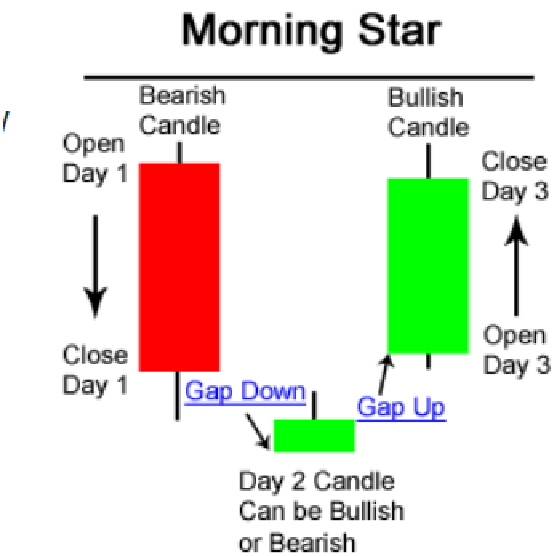
What Is The Morning Star Candlestick?

The Morning Star Pattern is viewed as a bullish reversal pattern, usually occurring at the bottom of a downtrend. The pattern consists of three candlesticks:

Large Bearish Candle(Day 1)

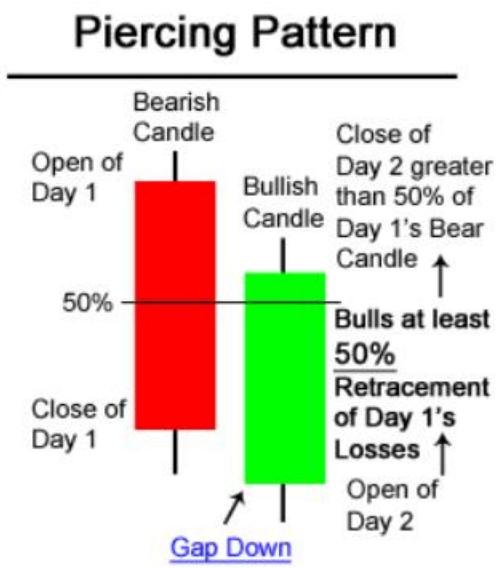
Small Bullish or Bearish Candle (Day 2)

Large Bullish Candle (Day 3)



What Does the Piercing Pattern Look Like?

There are two components of a Piercing Pattern formation: A Bearish Candle on Day 1 A Bullish Candle on Day 2 A Piercing Pattern occurs when a bullish candle on Day 2 closes above the middle of Day 1's bearish candle, as shown in Chart 1 below:



Additionally, the price gaps down on Day 2 only for the gap to be filled and closes significantly into the losses made previously in Day 1's bearish candlestick.

[just sign up to make Free Chart analysis & Technical Analysis.]