



A QUICK GUIDE TO JAPANESE CANDLESTICKS

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INTRODUCTION | FOREWARD

A trader's and investor's arsenal isn't complete until he or she (you) can quickly spot and react to reversals in the market. Here, I will review some of the very most common and easiest Japanese candlestick patterns to watch for and react to. This knowledge combined with your market indicators and studies will give you an extra added edge in your market of choice. When thinking about Japanese candlesticks, there are 3 parts to them. The wick, the body, and the tail. You will learn this nomenclature as you progress through this e-book. I'm going to keep this discussion as simple as possible. Because the simpler something is, the quicker a person can learn this information and use it profitably. A good thing to understand also is how **volume** plays into these patterns. Often, an unusually large bar indicates an exhaustion point by buyers (or sellers) and a very small tick or bar indicates a change in market sentiment and hence a change in direction is imminent.

As a hint, finding and spotting **bearish reversals** are the easiest and are quite profitable very quickly! A **bearish reversal** occurs at the top or at the end of a buying spree (**bull market**) when all of the buyers have finally finished buying. It signals the beginning of a **downward trend**. It's the end (**death**) of a **bull run's trend** and the market's run-up. Hence, the bull market is set to head south. **I'll cover them first because they are the easiest to stop!**

A **bullish reversal** is the exact opposite. It's the end of the **bear market**, its consequent sell-off and the **beginning of an uptrend**. A **bullish reversal** occurs at the bottom of a selling spree (**bear market**) which is primed to reverse, rebound, and **go higher** because either the short selling has ended or most traders have gotten out of their very painful and losing trades. Jumping on this opportunity is trickier because of that old adage of "a wall of worry" by buyers. "Buyer beware!" **FYI**: A new bull run can take a while to develop.

DISCLAIMER: As always, this is for educational purposes only. It is not trading advice. There's plenty of other resources online which explain these too. I provided you here with the easiest Japanese candlestick patterns only as a starting point for newbie traders and investors. **LOOK, LISTEN and LEARN.**

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EITHER OR NEUTRAL PATTERNS

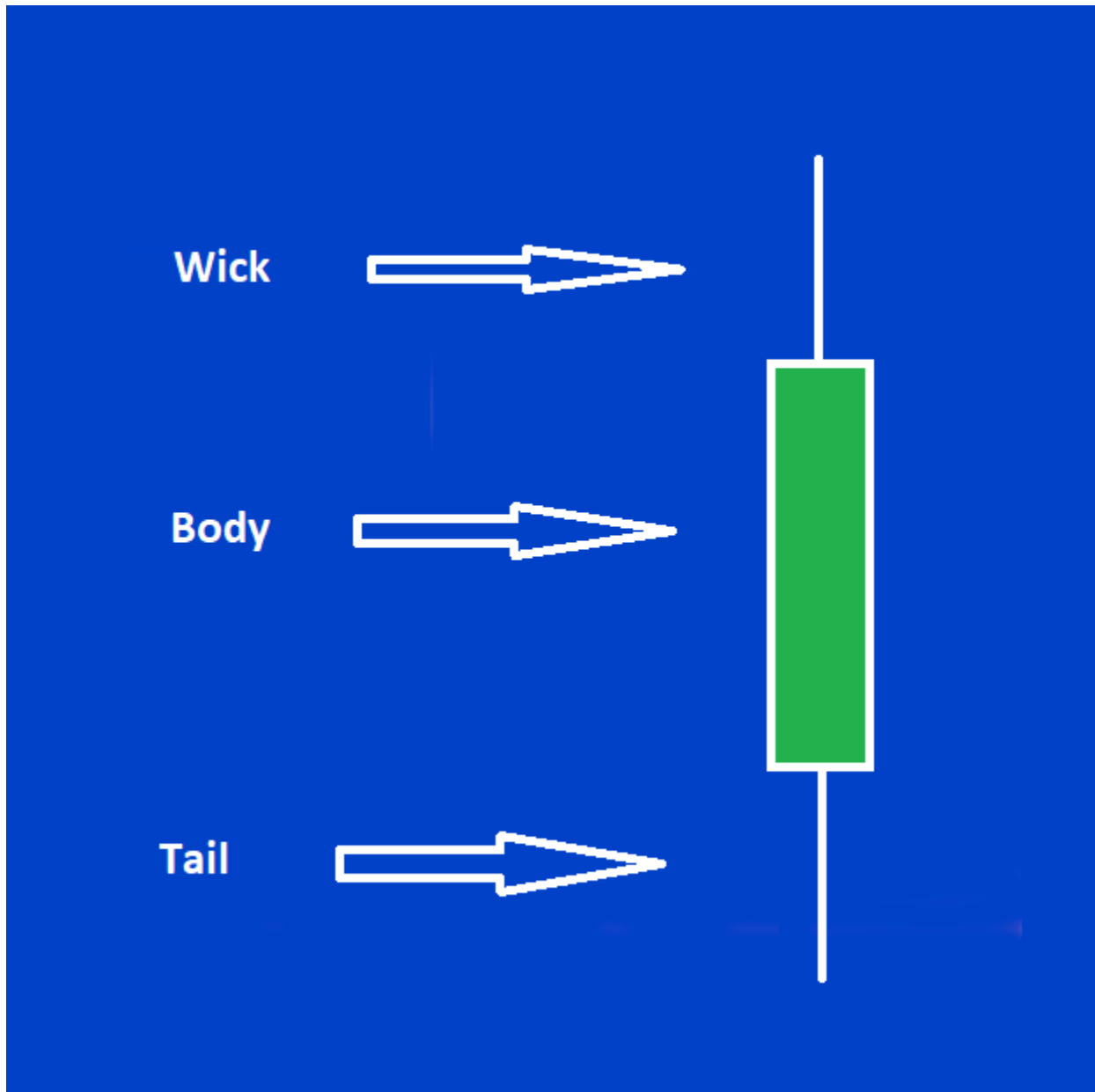
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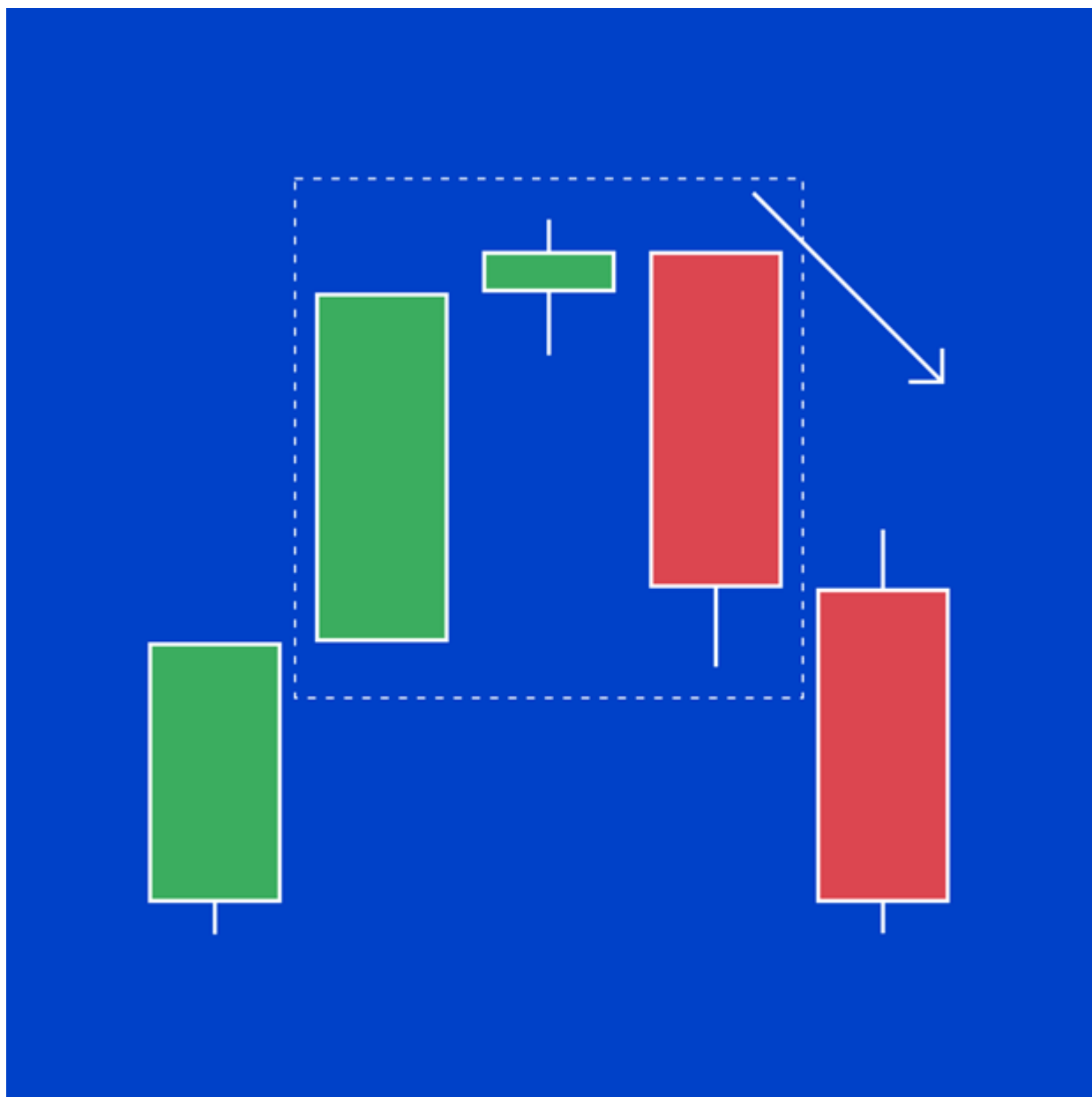
CANDLESTICK NOMENCLATURE

The nomenclature of the Japanese candlesticks is pretty straight forward. Different technicians and traders will call these parts by the different labels. So, this is the way I explain the parts of a candlestick.



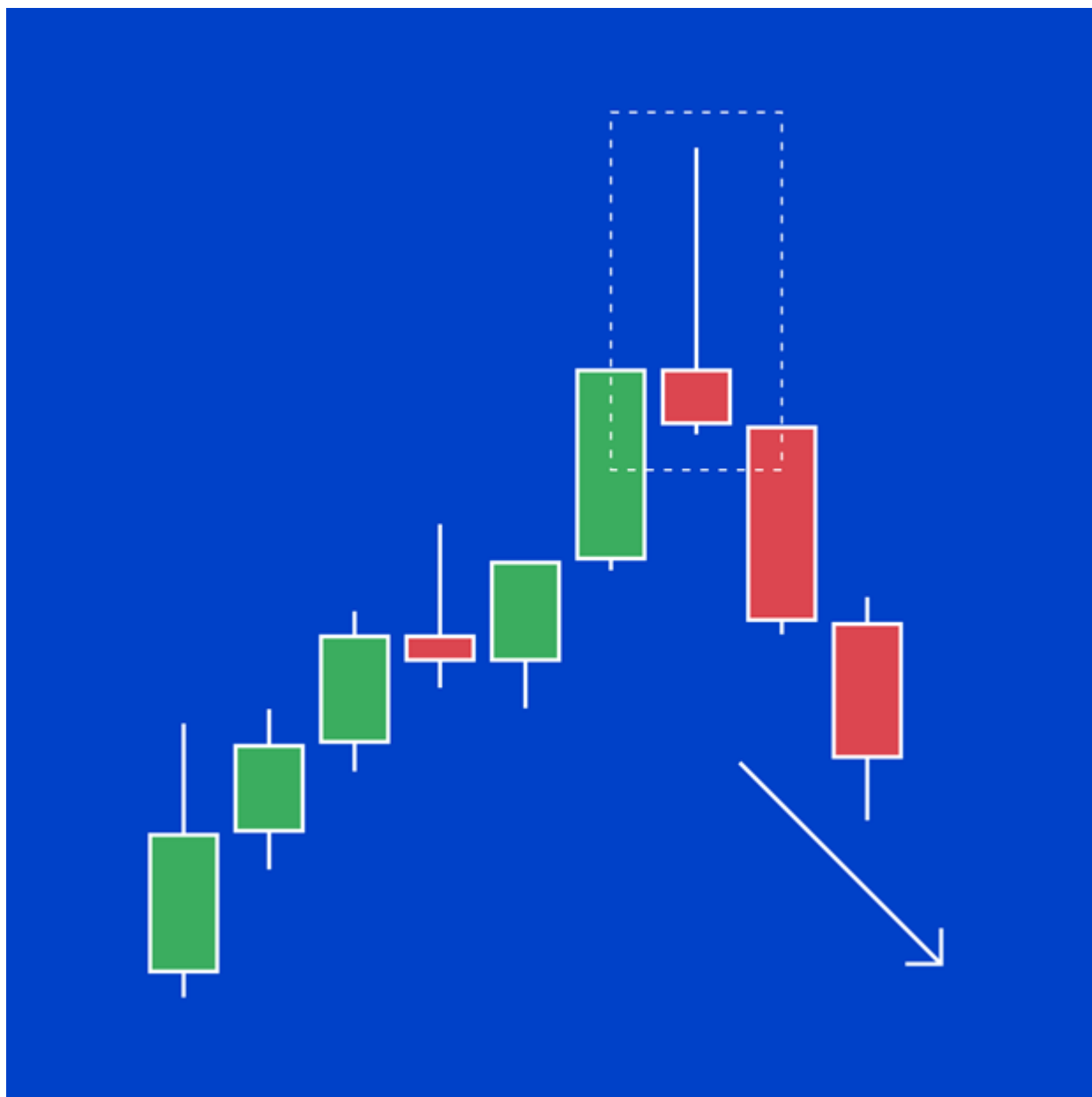
Evening Star

Just like the name says, it's a star sitting way up in the sky (at the top) all by its lonesome or sometimes between two other much larger bars. Its small size means, indicates and signals that the market volume has abruptly ended and the players are about to either close out their positions or sell short the market.



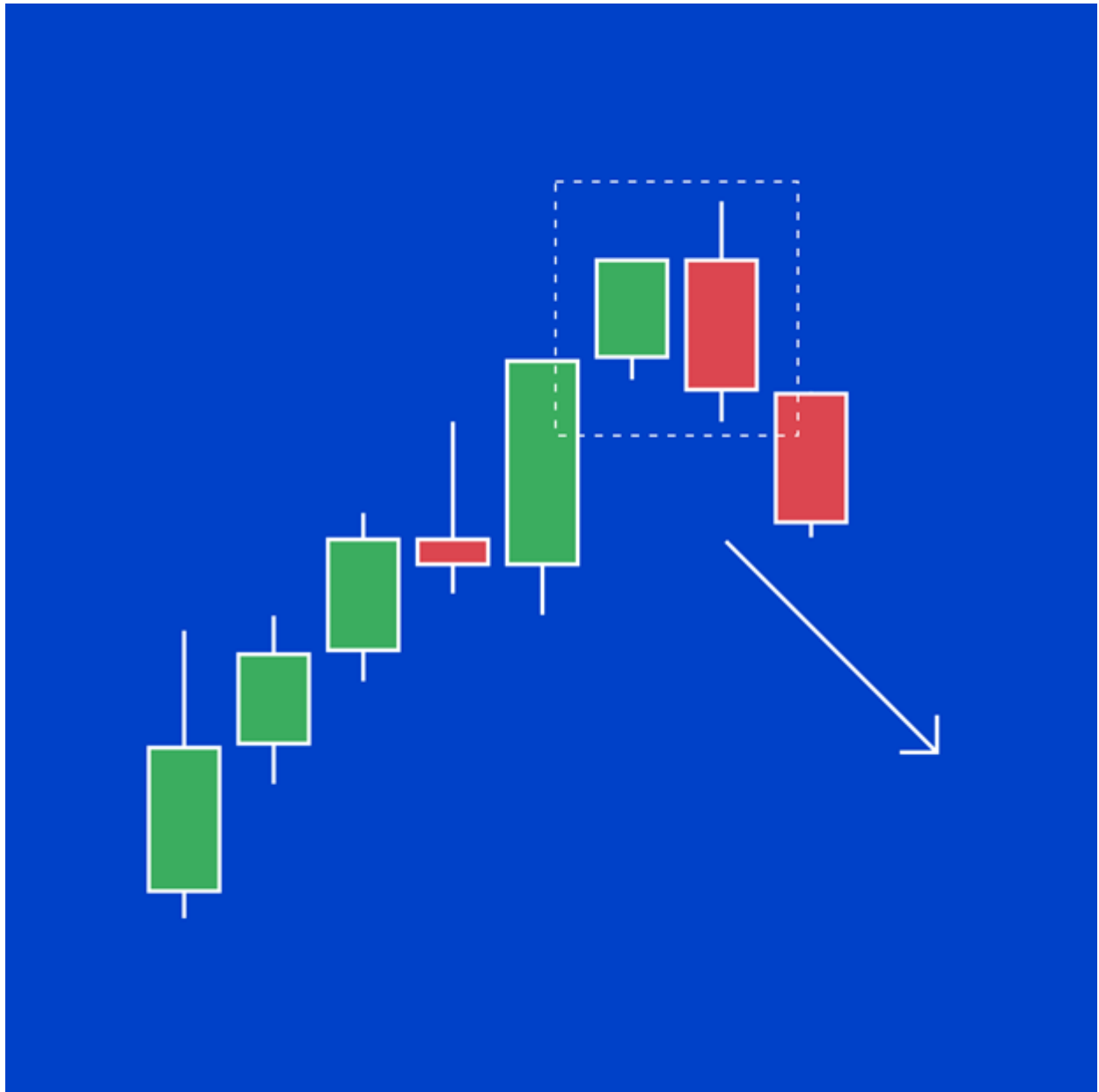
Shooting Star

The Shooting Star is exactly what it means. It's a Star that's falling quickly after a large run up and back to its entry point or below it. So, you'll usually see them with a small red body and a very tall wick above its body. Reversals may or may not happen here. It all depends on where the market is at in its trend. Sometimes the market will go higher after one of these occurs.



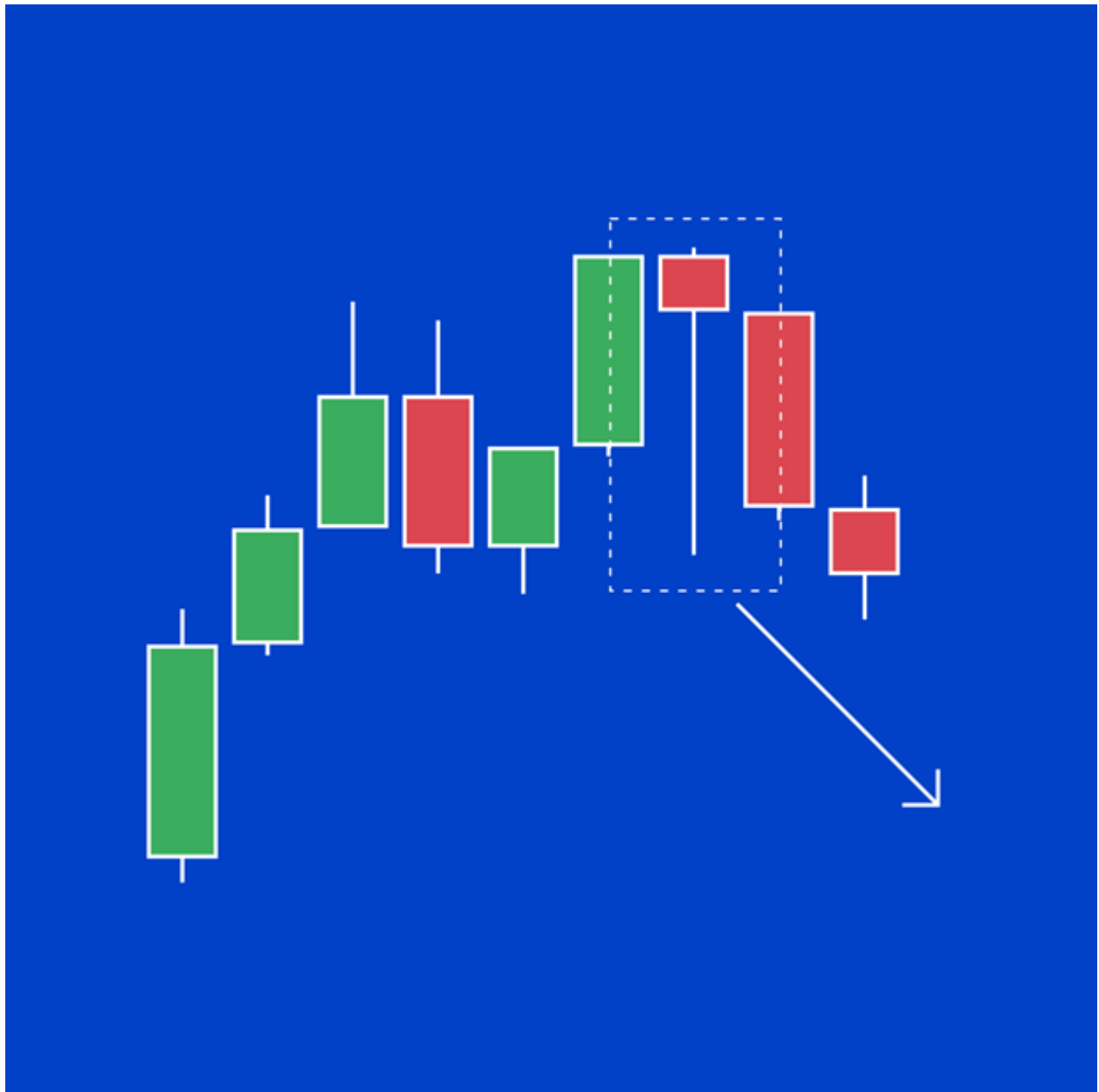
Bearish Engulfing

Engulf means to either enclose or envelop something. Thus, a bearish engulfing pattern occurs when a downward red bar completely overshadows a prior green bar. Its body, wick and tail engulfs the prior bar.



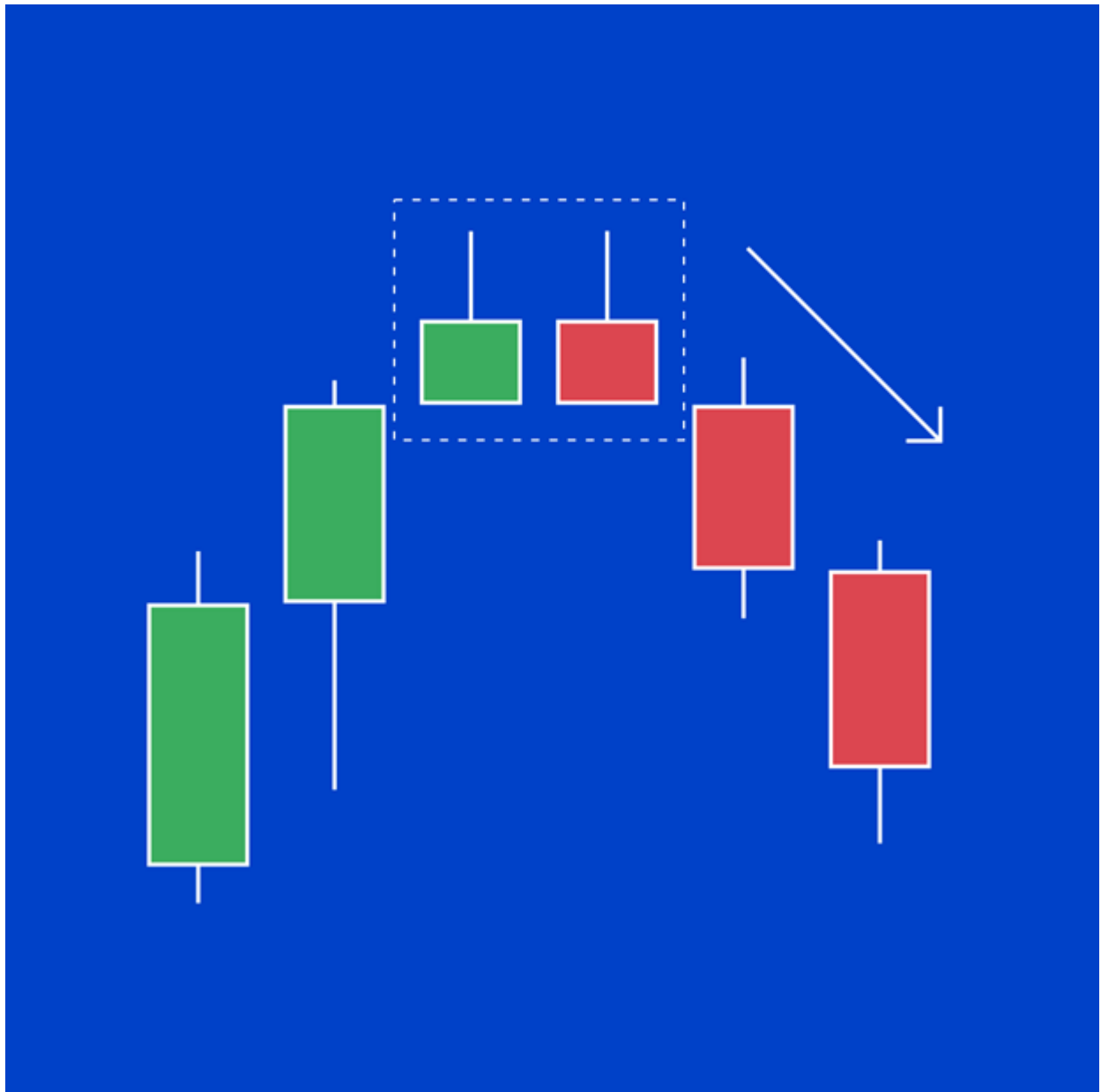
Hanging Man

The hang man is like it says it is. Think of a noose around a neck by someone on the gallows and about to die. A hanging man pattern indicates a looming reversal to the downside. It has a small red body at the top and a large tail below. I like to think of that tail as an arrow pointing and signaling a sell.



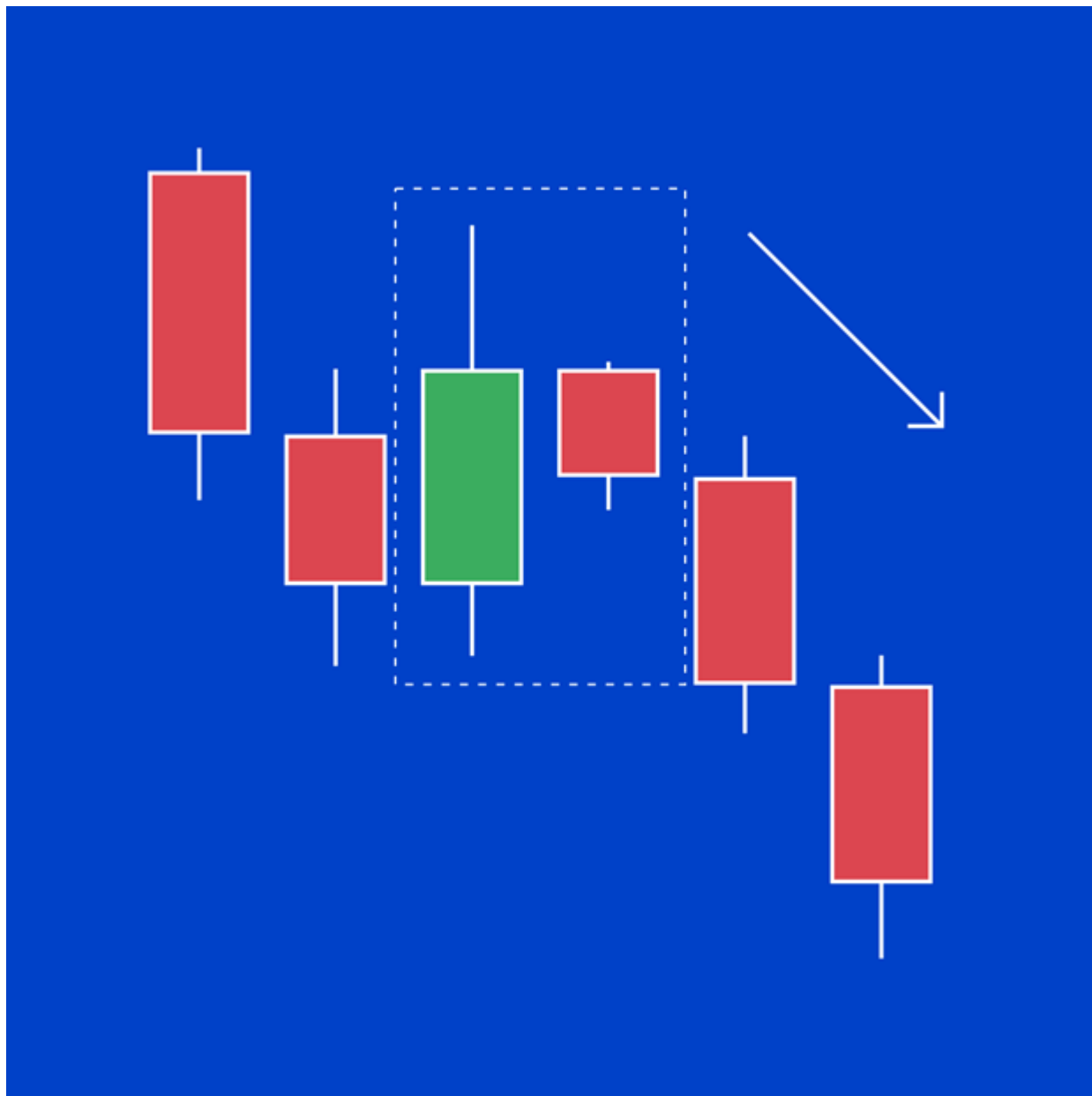
Topping Tweezers

When you think of tweezers, think about pinchers or two antennae sticking up. And what do antennae do? They send out signals. These signal a bullish reversal. The bull run has died just like in the previous hang man pattern. Also note that the bodies are small in comparison to the bars around them.



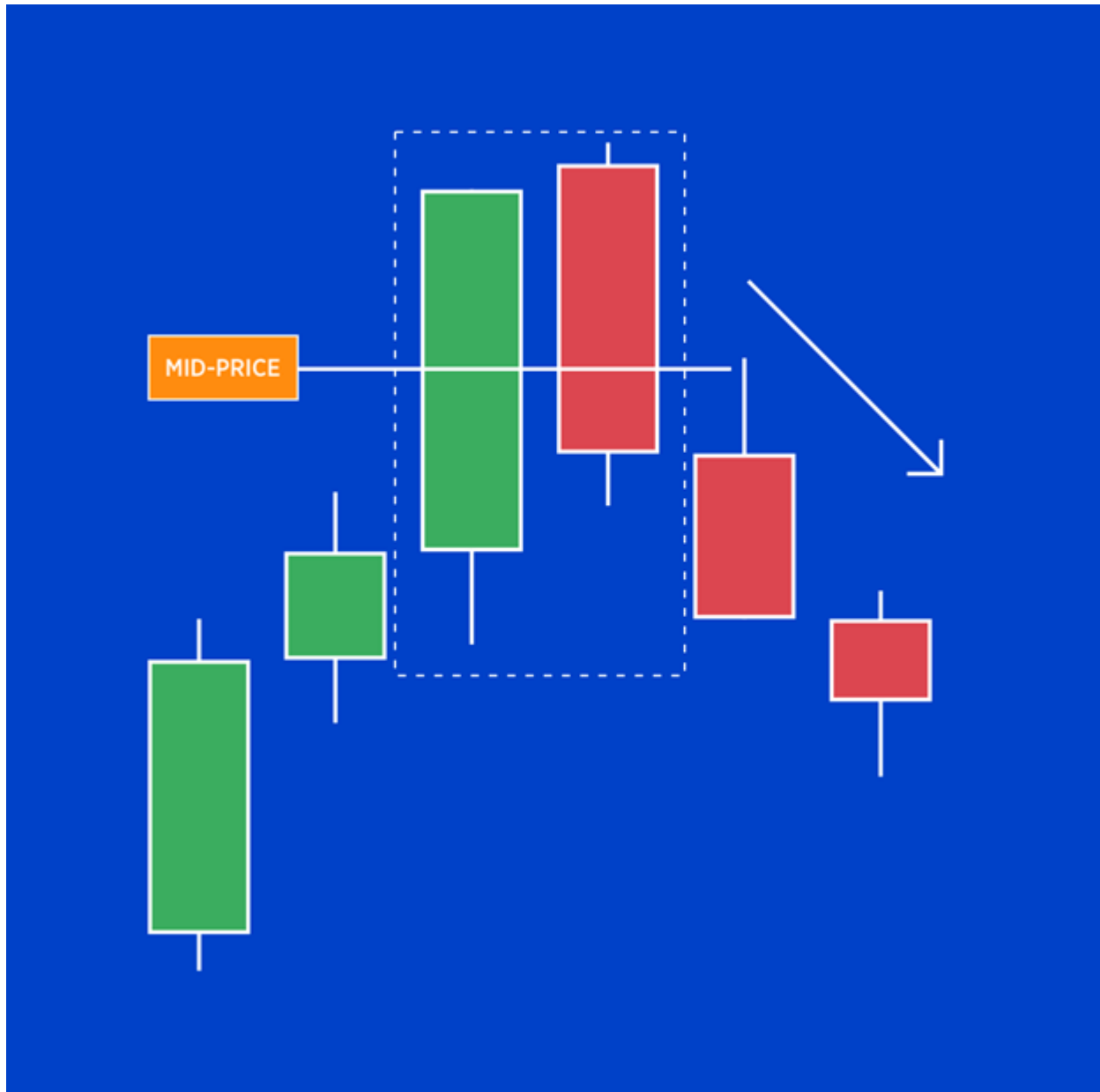
Bearish Harami

The word “harami” in Japanese means “pregnant.” So, you can imagine how a pregnant woman looks like when viewed from the side. A large green bar is followed by a smaller, almost centered, red bar to the right of the green bar. The red bar is usually within the boundaries of the green bar’s main body.



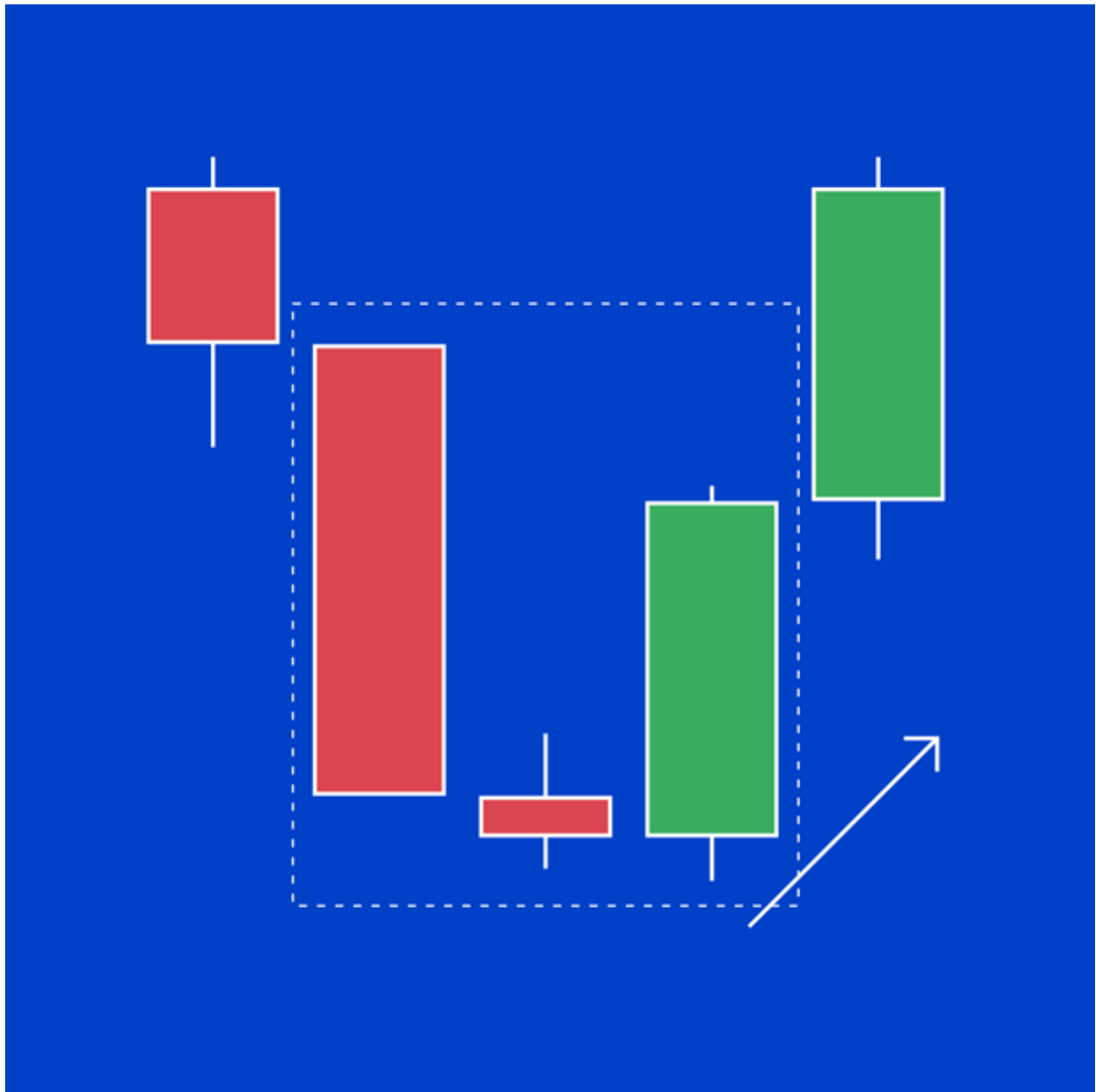
Dark Cloud Cover

Think of someone in which a dark cloud seems to follow him wherever he goes. Here the buyers have placed their sell-stops at the mid-point of the last large green candle to keep somewhat of a profit. The red candle opens higher than the prior close and a big sell-off occurs after the mid-point is broken.



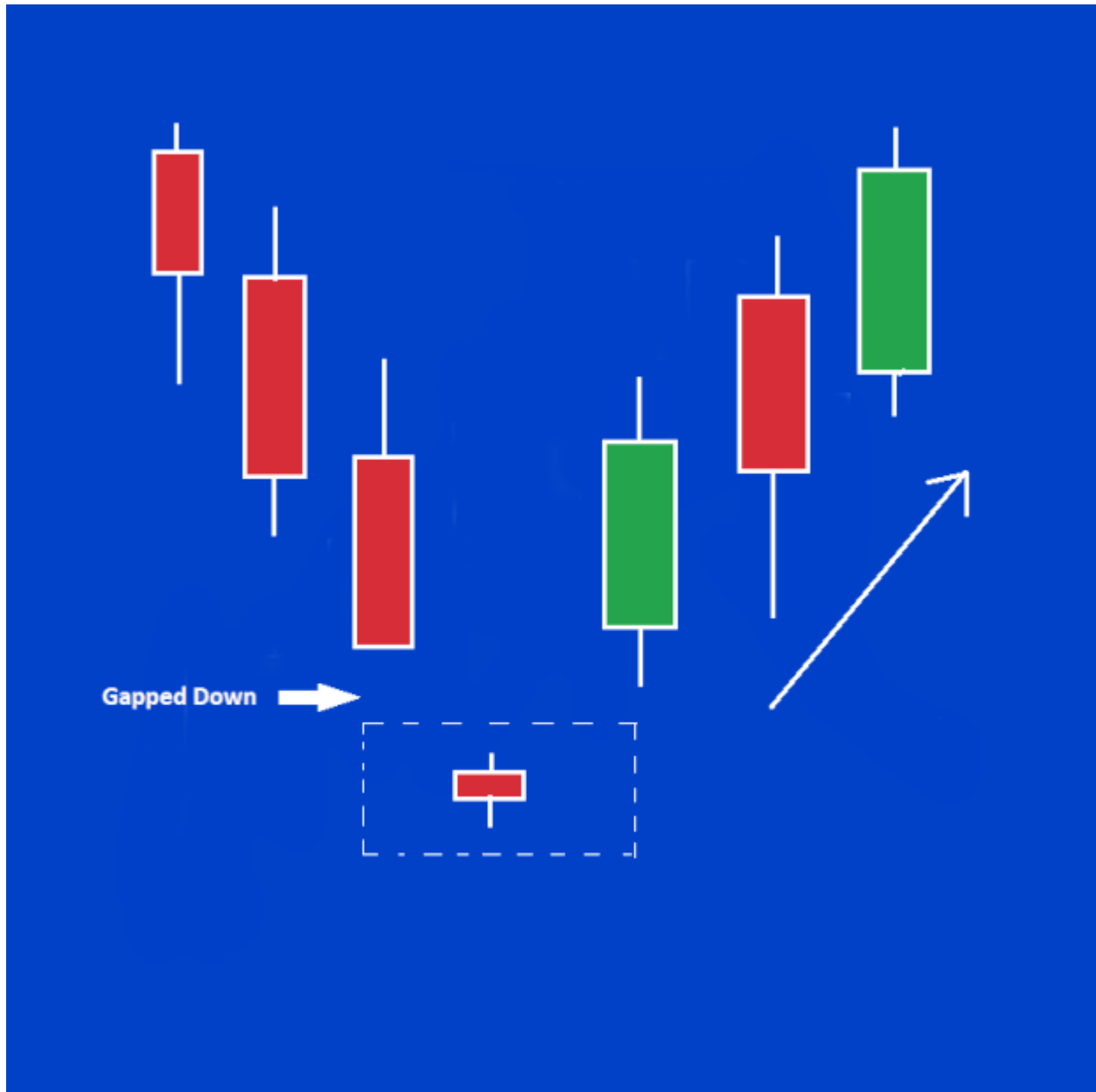
Morning Star

The Morning Star is the opposite of the Evening Star. It's also similar to an Abandoned Baby in looks. You'll see one large red selling bar (body), a small bar (body) at the bottom and between two bars, and then a larger green buying bar (body) to the Morning Star's right. The key here is the body size.



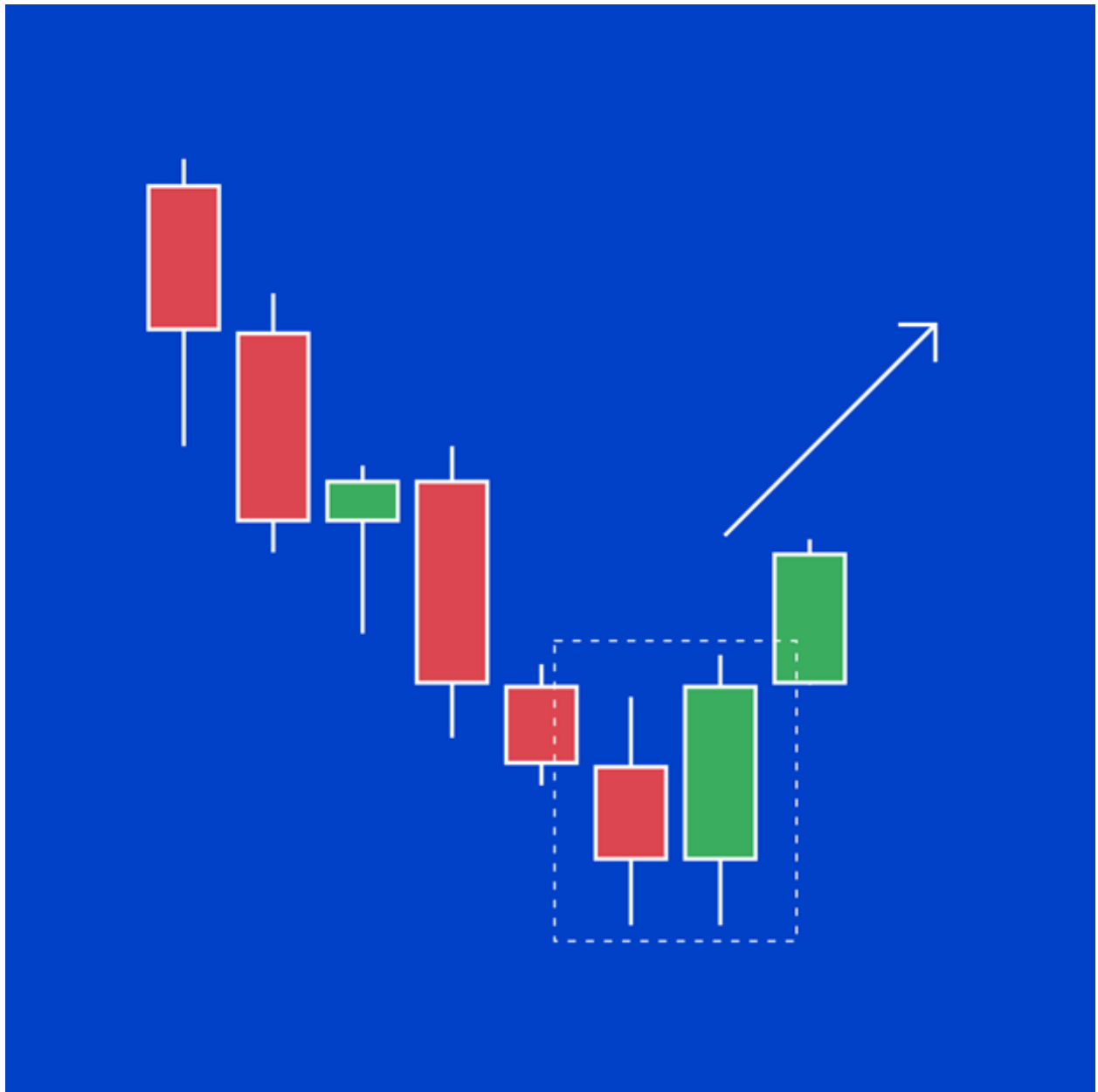
Abandoned Baby

The Abandoned Baby is similar to but opposite of the Evening Star in direction. It has a characteristic “gap” to the downside and has a small body too. Hence, it signals a change in sentiment and a market reversal to the upside. It doesn’t touch any of the bars or tails that are above it. It’s a strong reversal pattern.



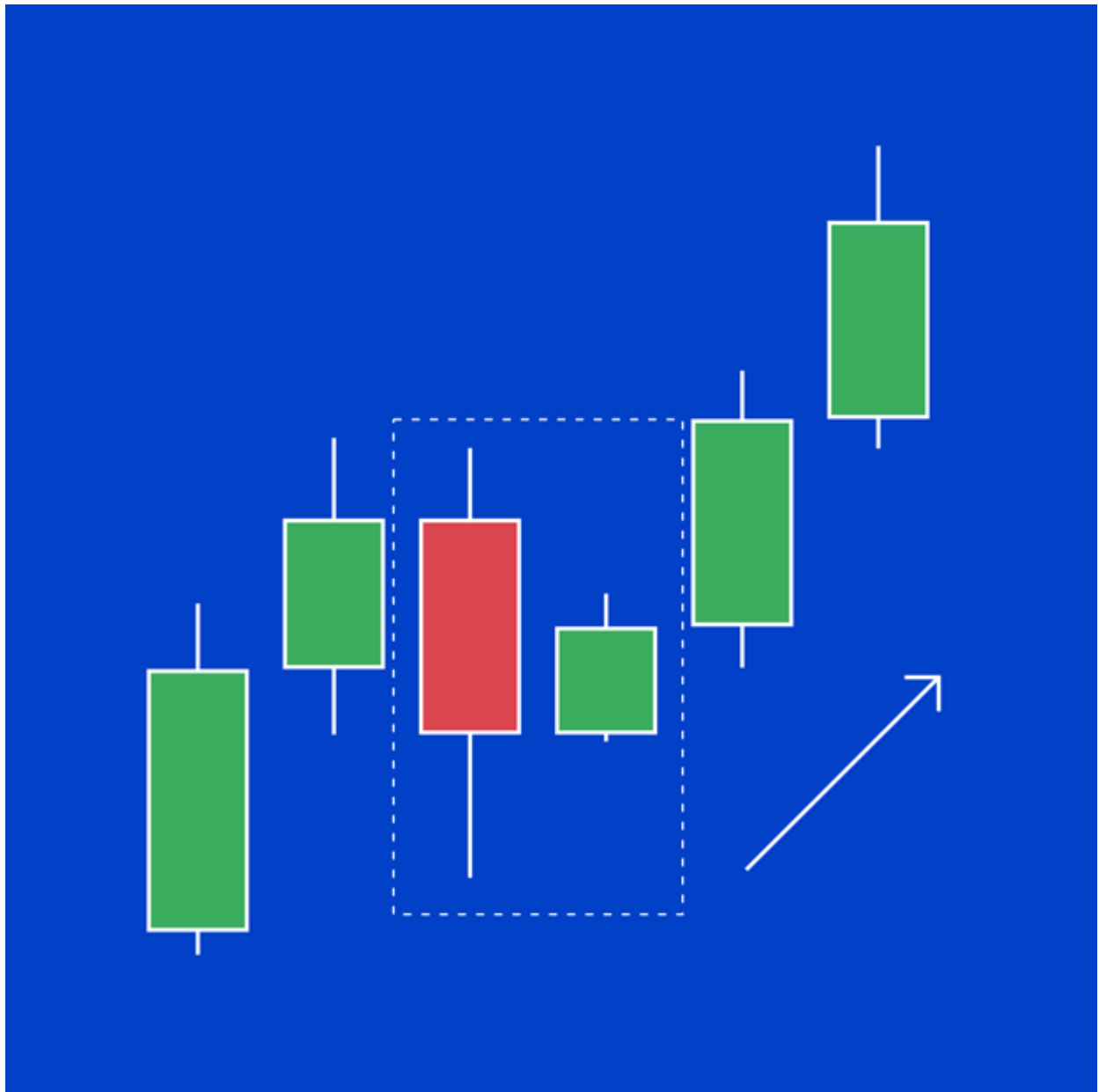
Bullish Engulfing

An engulfing pattern will involve two bars (candlesticks). The first one is an average sized red (down bar). The one to its right has a large green body, wick, and tail which shadows (engulfs) the prior bar to its left. This signals that the market has changed direction to the upside.



Bullish Harami

A Bullish Harami (pregnant) is the opposite of a Bearish Harami. It is formed out of two candles or bars. There is an initial large red (downward) bar followed by a green (upward) candle. The green candle is much smaller than the preceding red candle and it fits well within the shadow of the red candle.



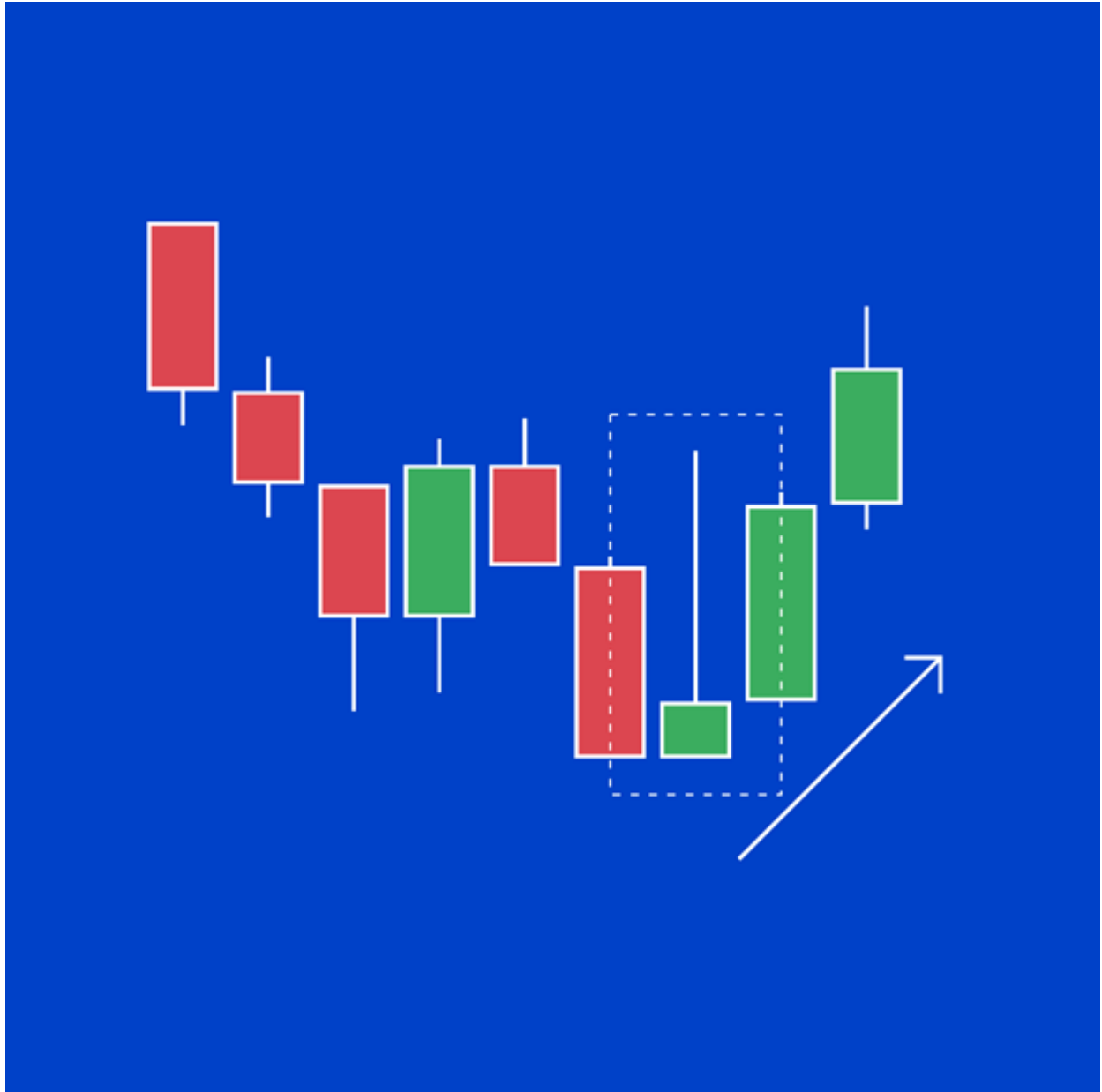
Hammer

When you think of a hammer, think about pounding a nail downwards. It has a small body with a long tail below it. It means that the buyers (bulls) have taken control of the market. This isn't a guaranteed play, but it does give a good clue that conditions are changing. It's tail should be about 3X longer than its body.



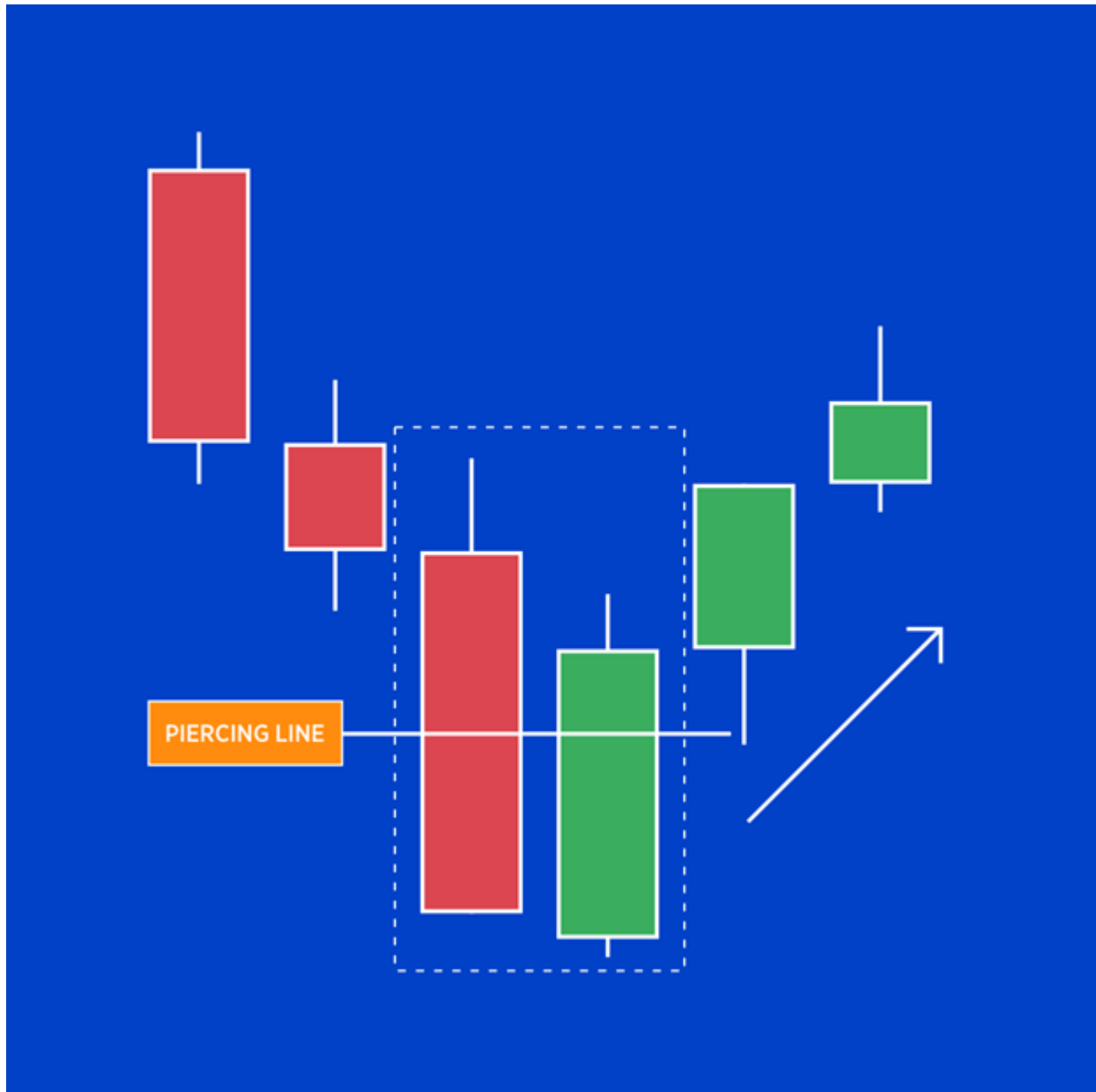
Inverse Hammer

When I think of an inverse hammer, I think about pounding a nail into the ceiling. An Inverse Hammer is a bearish reversal and signals a bullish attitude and change in the market. It also has a small body and a very long and tall wick above its body. It will have a little if not no tail below it.



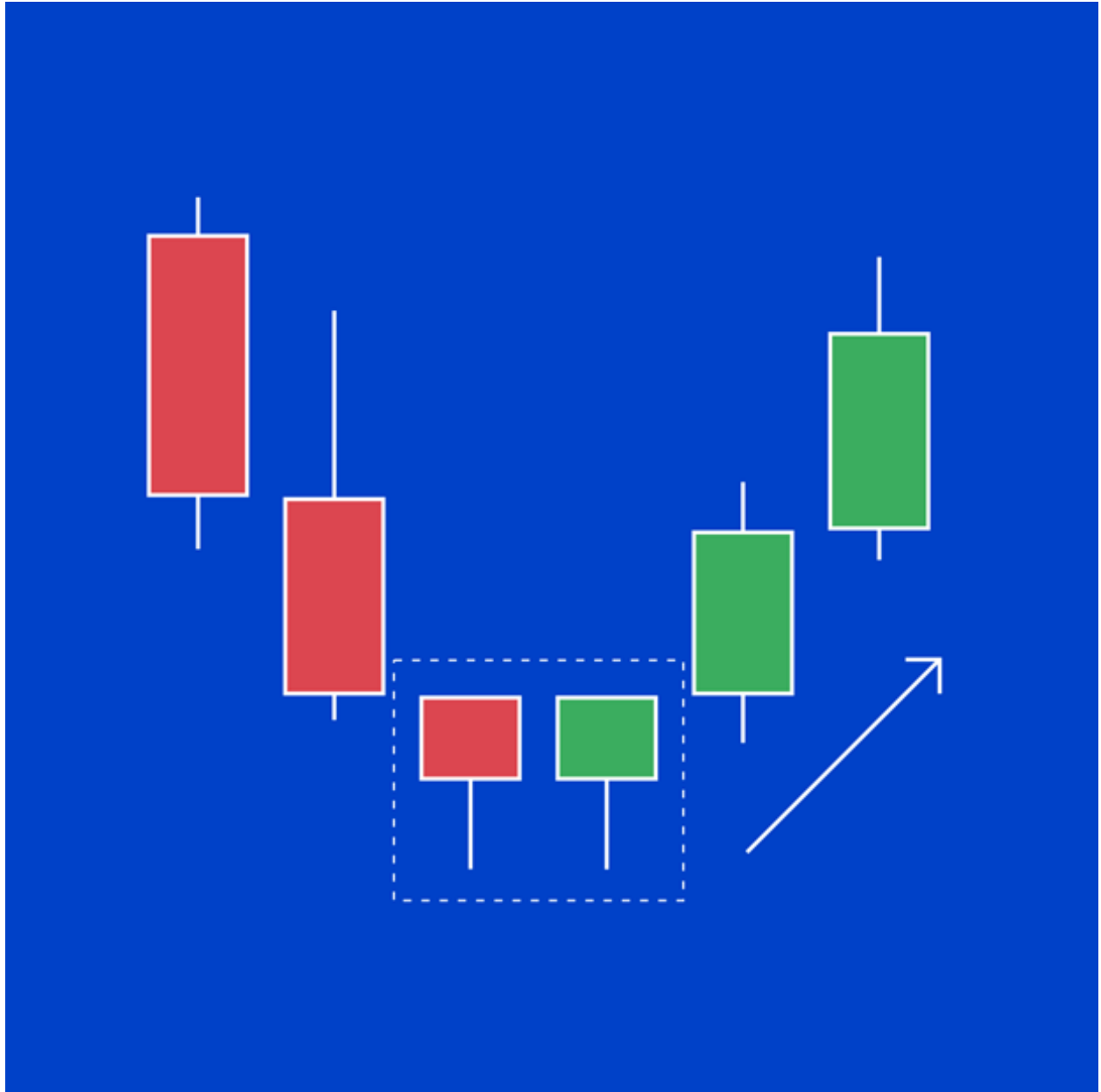
Piercing Line

The Piercing Line is similar to the Dark Cloud Cover and Bullish Engulfing patterns. The Piercing Line is a bullish signal of a bearish reversal. It consists of two candles. The red candle is very long and is not engulfed by the following green candle. The green candle closes above the midpoint of the red candle.



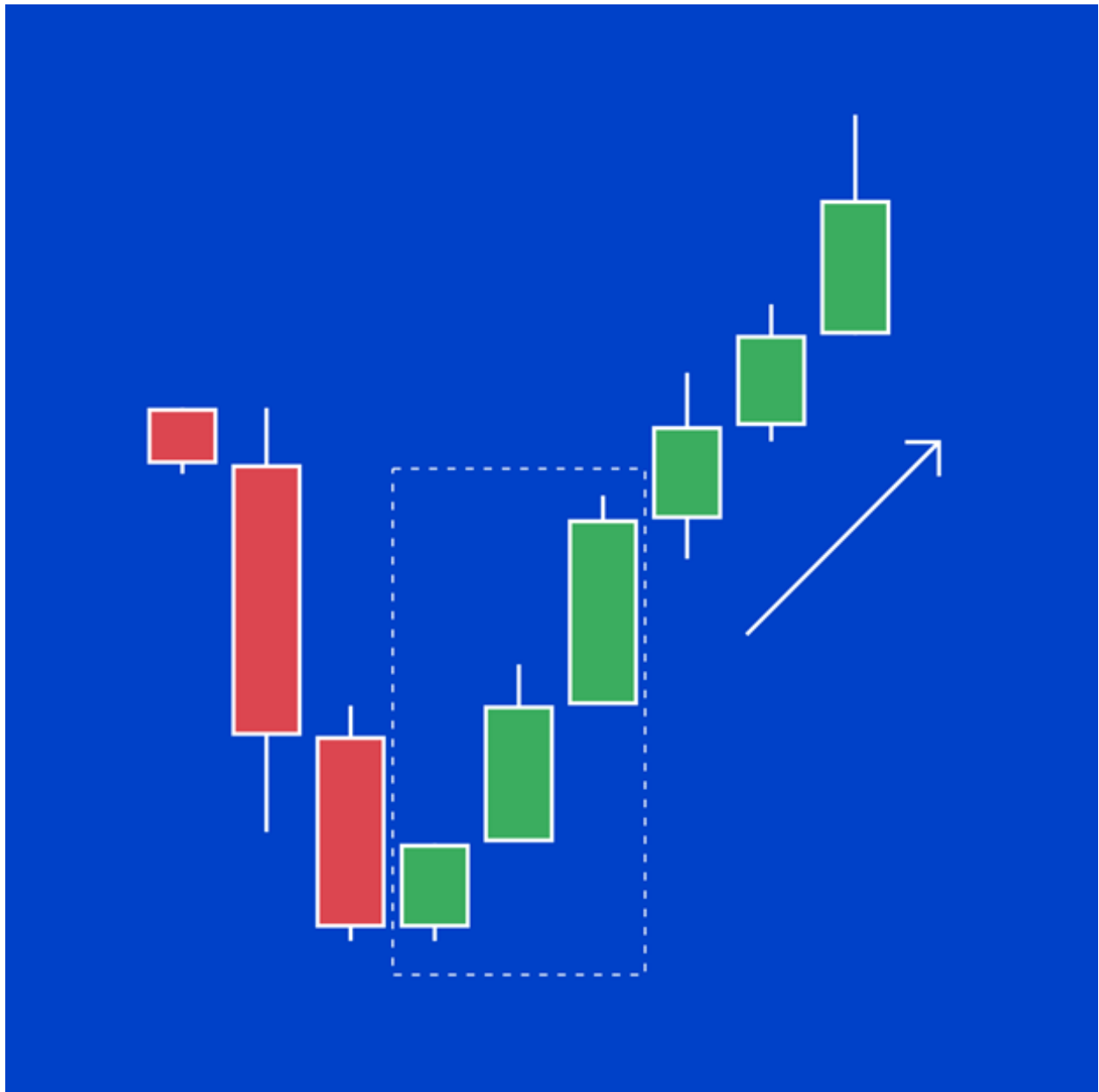
Bottoming Tweezers

Bottom Tweezers are the exact opposite and inverse of Topping Tweezers. They consist of two small bodies. The first body being red and the following body being green. They will share equal length tails below them which gives you the clue that traders can't push the market lower.



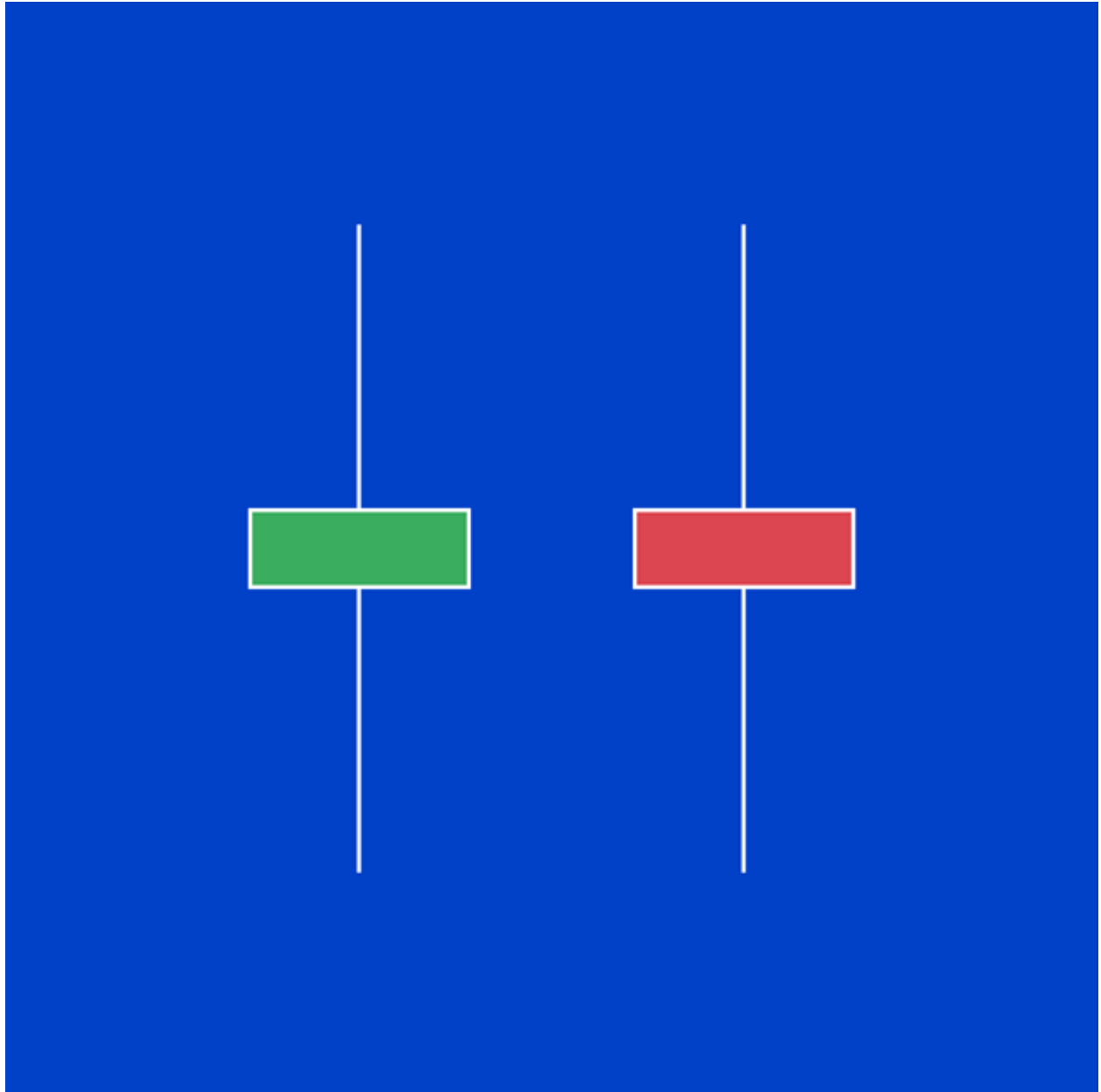
Three White Soldiers

After a sharp and hard downturn, you'll quite likely see a turn around of three green candles going up in succession. What you will notice here is that each successive green candle is longer than the prior one. Note where the candles open and close along their upward climb.



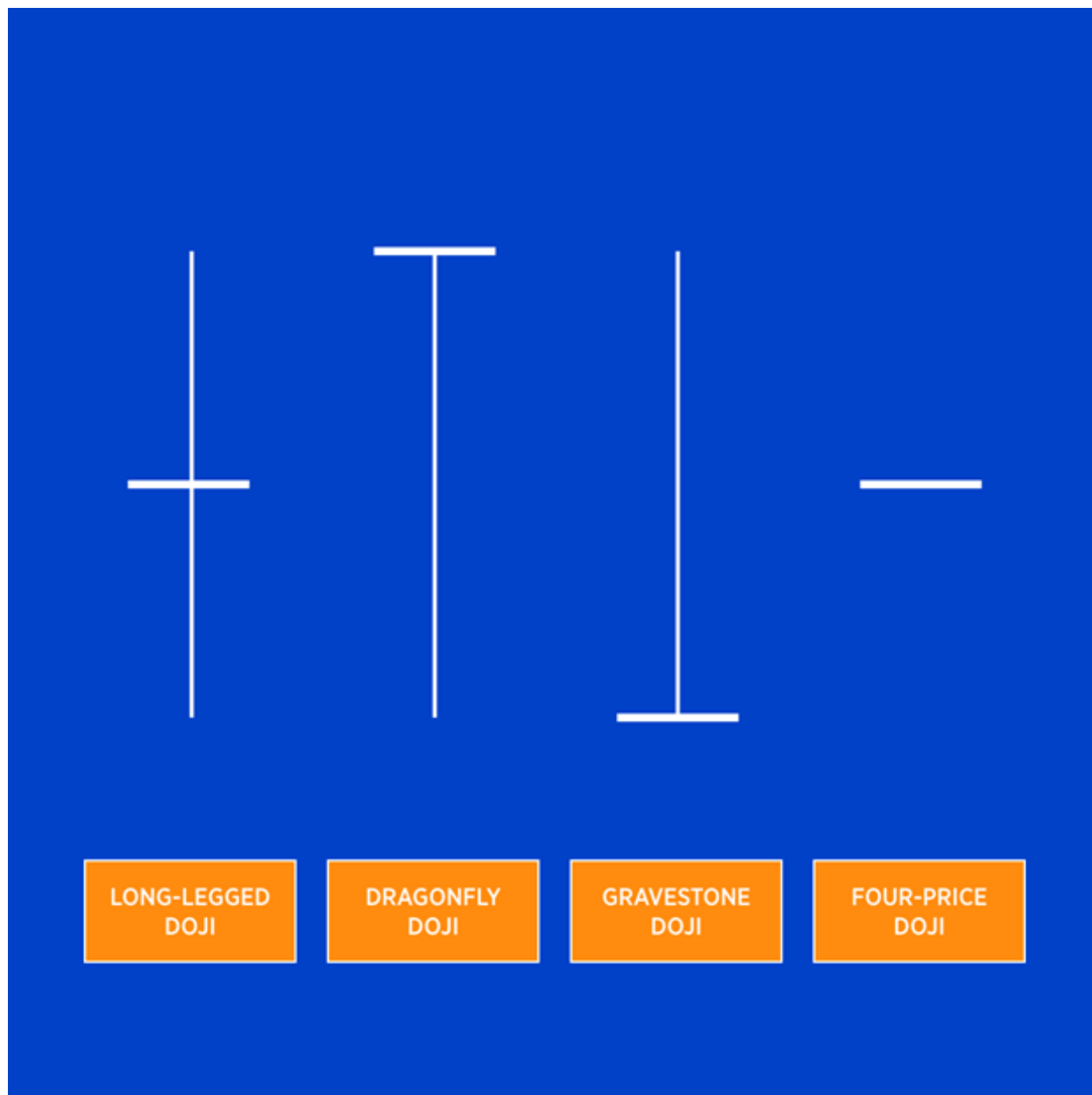
Spinning Tops

Spinning Tops get their name from toy tops because they kind of look like spinning toys. They are very similar to dojis; however, they have a small body to them but with long wicks and tails. These are indicative of volatility in the market or session and that the market's trend may be coming to an end.



Dojis

The word Doji in Japanese means “equal.” In other words, the opening and closing prices are equal. This is also another neutral type of candle just like the Spinning Tops. The body should be less than 5% of the total range of the bar. There are four types of dojis as you’ll observe in this picture:



Marubozus

Marubozus, in Japanese, means “**bald**,” “**close cropped**” or “**shaved head**.” These candles will not have any wick or tails to them. They can either be bearish or bullish Marubozus. They generally indicate a **continuation of the trend**. These candles are really easy to spot too.

The **bearish marubozu** is a red candle with no wick whatsoever. The opening price was the market’s highest point during the session, and it ended at its lowest point.

In a green marubozu, **bullish marubozu**, the bulls had almost total control to the upside direction. The longer the body, the more control the buyers had. The session opened at its lowest and closed at its top. Hence, no wicks or tails.

