

CANDLESTICK



CHEAT SHEET

How to Spot Candlestick Formations in Any Market & What to Do Once You Spot Them

WHAT IS A CANDLESTICK?

A candlestick depicts the battle between Bulls (buyers) and Bears (sellers) over a given period of time.

Before we get down to the nitty-gritty, (spoiler alert: awesome candlestick formation images are coming your way) it's important for you to understand what a candlestick actually is.

No, we're not talking about the kind you pick up from that fancy candle store to set the mood on date night. We're talking about Japanese Candlesticks — the market signal that shows the battle between the Bulls (buyers) and the Bears (sellers) over a certain amount of time.

Why do you need to know Candlesticks like the back of your hand? Because knowledge could give you the upper hand when the Bulls and the Bears are in the middle of a market smackdown. Candlestick formations allow you to find setups, determine market direction and identify optimal entry and exit points that could help you execute profitable returns consistently in your trades.

Understanding the Language of the Market

Bulls, Bears, buyers, sellers...is anyone else confused? Don't get your trendlines in a bunch; it's easier than you think.

Now that you know what a candlestick is, we can talk about how they essentially determine how you attack the market. At first glance, you'll notice two types of candlesticks:



Hollow (Light) candlesticks - close price is greater than the open price, indicating buying pressure



Filled (Dark) candlesticks - close price is less than open price, indicating selling pressure

Clear as black and white, wouldn't you agree? Now that you have this part down pat, you're ready to learn about the Bulls and the Bears.

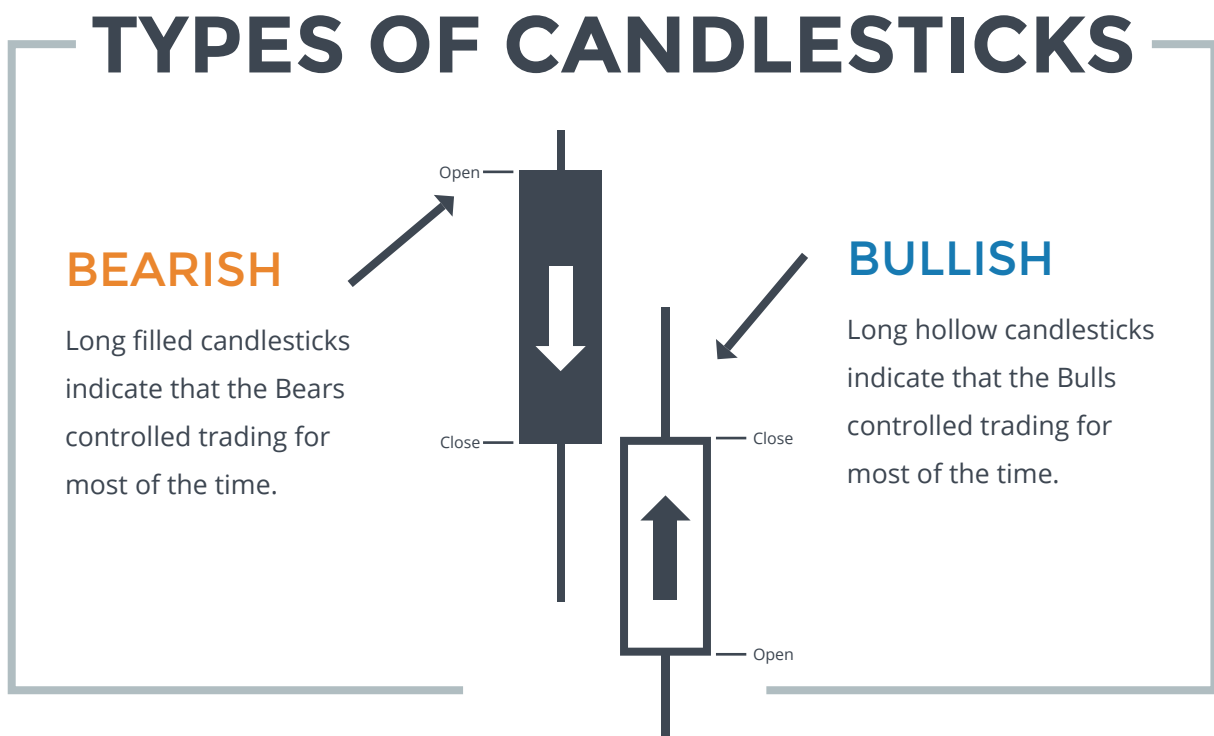
PRO TRADER TIP

Most charts allow you to color code your candlesticks however you like, but for the purpose of this e-book, we'll be referring to Bullish as light-colored candlesticks and Bearish as dark-colored candlesticks.

What can their formations tell us?

The relationship between the open and close is considered vital information and forms the essence of candlesticks.

Hollow candlesticks, where the close is greater than the open, indicate buying pressure. Filled candlesticks, where the close is less than the open, indicate selling pressure.



BULLISH

Bullish candlesticks indicate the market is moving in an upward trend. An easy way to remember this is by picturing an actual bull: bulls' horns go up just like the market will when you spot this type of candlestick.

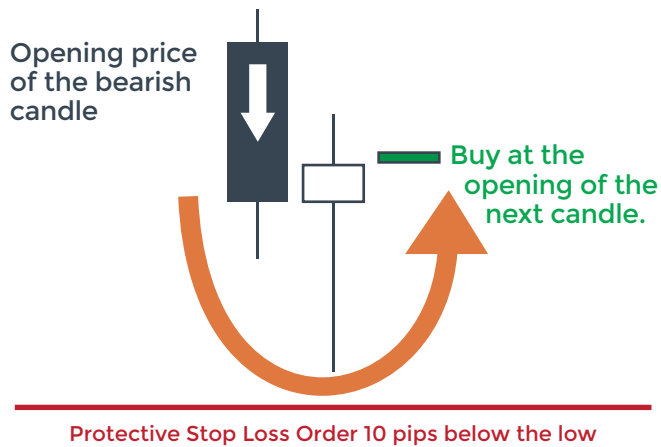


So, what exactly are you looking for? Keep an eye out for those hollow or light-colored candlesticks we were talking about earlier. Once you have your bullish candle, take a look at the body. The bigger the body, the bigger the upward price movement for that specific point in time. Ideally, you want to identify a full-bodied candlestick with small wicks.

PRO TRADER TIP

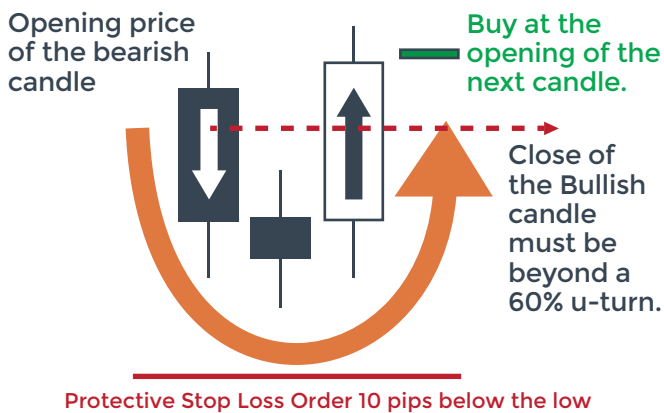
The small wicks signify the highest and lowest price. The smaller the wick, the less volatile the price movement during that time period. Small bodies with large wicks mean indecision and fighting for control. Large bodies with small wicks means one group is in control of the market for that particular time period.

Now that you're a certified market matador, here are a couple of bullish formations you could find in your charts (see next page).



BULLISH SHOOTING STAR

When you see this: **BUY** in the direction of the trend at the opening of the next candle or when it meets the criteria of the Bullish Shooting Star.



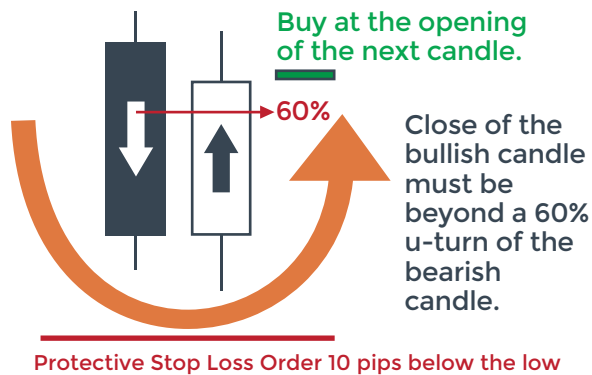
BULLISH MORNING STAR

When you see this: **BUY** in the direction of the trend at the opening of the next candle or when it meets the criteria of the Bullish Morning Star.



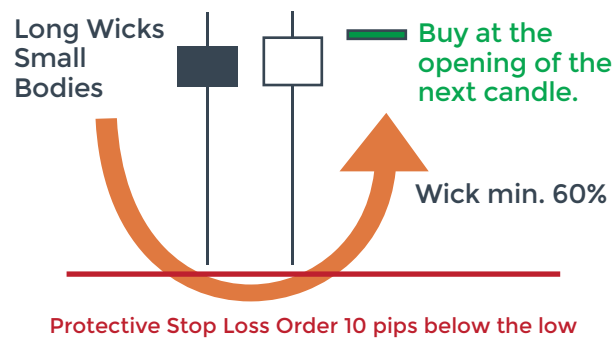
BULLISH ENGULFING CANDLE

After the Bullish Engulfing Candle appears in the direction of the trend, **BUY** at the opening of the next candle with a protective stop loss order approximately 10 pips beyond the lows of the wicks.



BULLISH PIERCING LINE

When you see this: **BUY** in the direction of the trend at the opening of the next candle or when it meets the criteria of the Bullish Piercing Line.



BULLISH TWEezer BOTTOM

When you see this: **BUY** in the direction of the trend at the opening of the next candle or when it meets the criteria of the Tweezer Bottom.

HAVE ANY QUESTIONS? Send them our way by heading to our Facebook, LinkedIn, Google+ or Twitter pages and we'll do our best to answer them as quickly as possible!



APPLY IT

Can you spot the bullish candlestick formations?

Identify formations A, B & C. Answers provided upside-down under the chart. No peeking!



A. BULLISH MORNING STAR | B. BULLISH ENGLUFING CANDLE | C. BULLISH TWEEZER BOTTOM



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BEARISH



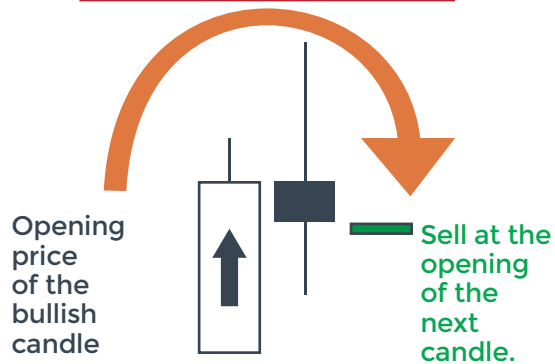
Bearish candlesticks indicate the market is moving in a downward trend. Need an easy way to remember this? Think of a bear trying to swat down a bee hive for some honey; only you're a trader and you're trying to swat some pips into your P/L statement to help you see returns sweeter than honey!

Now, what makes a candlestick bearish? You guessed it: filled or dark-colored candlesticks. Once you spot one, make sure it follows the same body-to-wick ratio that we talked about for bullish candlesticks.

The body rule still holds true for bearish candlesticks except this time, we're in a downward price movement. Guess what they say is true: the bigger they are the harder they fall.

Here are a few of bearish formations that frequently pop up on the charts (see next page).

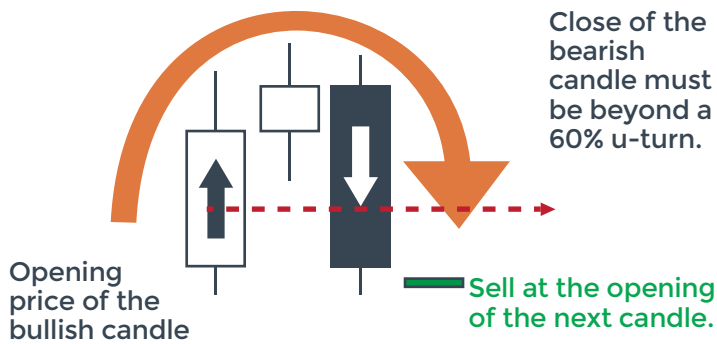
Protective Stop Loss Order 15 pips above the high



BEARISH SHOOTING STAR

When you see this: **SELL** in the direction of the trend at the opening of the next candle or when it meets the criteria of the Bearish Shooting Star.

Protective Stop Loss Order 15 pips above the high



BEARISH EVENING STAR

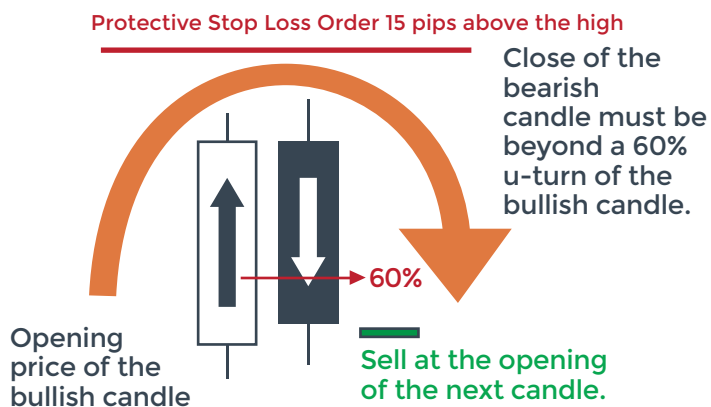
When you see this: **SELL** in the direction of the trend at the opening of the next candle or when it meets the criteria of the Bearish Evening Star.

Protective Stop Loss Order 15 pips above the high



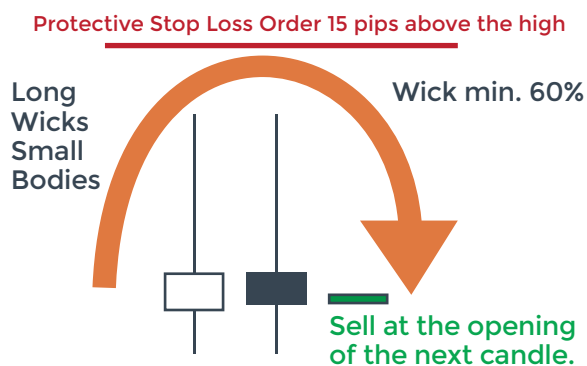
BEARISH ENGULFING CANDLE

When you see this: After the Engulfing Bearish Candle appears in the direction of the trend, **SELL** at the opening of the next candle with a protective stop loss order approximately 15 pips beyond the **HIGHS** of the wicks.



BEARISH DARK CLOUD COVER

When you see this: **SELL** in the direction of the trend at the opening of the next candle or when it meets the criteria of the Bearish Dark Cloud Cover formation.



BEARISH TWEezer TOP

When you see this: After you have two candles that have met the criteria of a Tweezer Top, **SELL** at the opening of the next candle with a protective stop loss order approximately 15 pips beyond the highs of the wicks.

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APPLY IT

Can you spot the bearish candlestick formations?

Identify formations A, B & C. Answers provided upside-down under the chart. No peeking!



A. BEARISH EVENING STAR | B. BEARISH ENGLUFING CANDLE | C. BEARISH TWEezer TOP

Get More Trading Tips

Look at you becoming a pro trader! Keep the momentum going and get a taste for what the market has to offer by attending one of our free live market workshops. There's no better way to see these formations in action!



So What Did You Learn?

Other than you are going to be one heck of a trader!

Here's a quick overview to tie everything together:

Candlesticks help you determine market movements. There are hollow/light candlesticks, known as Bullish candlesticks and there are filled/dark candlesticks, known as Bearish candlesticks.

Bullish candlesticks mean the markets moving in an upward trend, indicating buying pressure.

Bearish candlesticks reveal the market is in a downward trend and there is high selling pressure.

With enough consecutive Bullish candlesticks and the right indicators, you can determine that an upward movement is taking place.



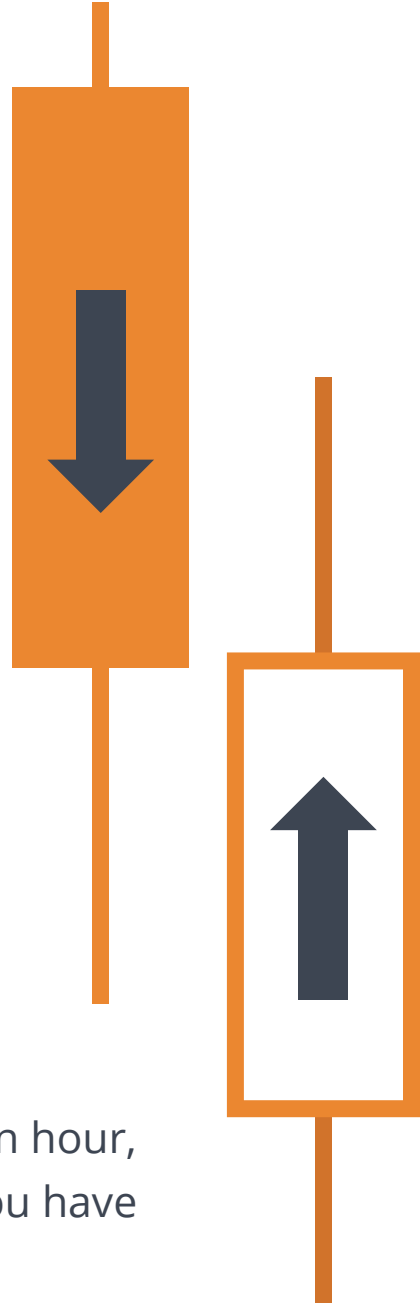
This tells you to trade that upward movement in an uptrend.

On the other hand, Bearish candlesticks reveal the market is in a downward trend and there is high selling pressure. Once you spot a trail of Bearish candlesticks, you'll be looking at a downwards movement, signifying you could trade that movement as a downtrend.

The size of the candlestick's body is also important to help you determine how much movement happened during a certain time period (it could be an hour, a week, or a month, depending on how you have your charts set-up).

You also got a brief overview of some of the candlestick formations that typically pop up on your charts.

Candlesticks are only one way to see where the market is going. There are many other indicators that could help determine trend direction or reversals in the market. [To learn what these indicators are and how they could boost your trading results, come to one of our upcoming workshops and see how these candlesticks play out in action.](#)



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