

# 5 CANDLESTICK SECRETS YOU NEVER KNEW



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# 5 SECRETS OF CANDLESTICKS BET YOU NEVER KNEW

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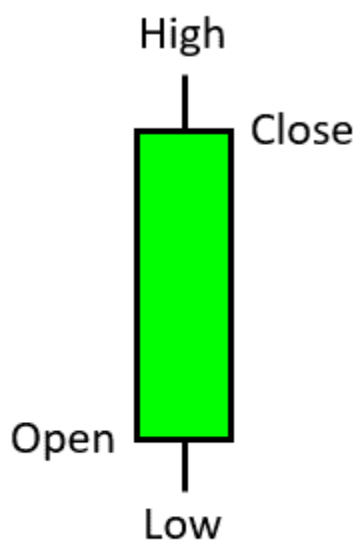
## ANATOMY OF A CANDLESTICK

A Candlestick is made of two parts: **Real Body and Shadows (Wicks)**.

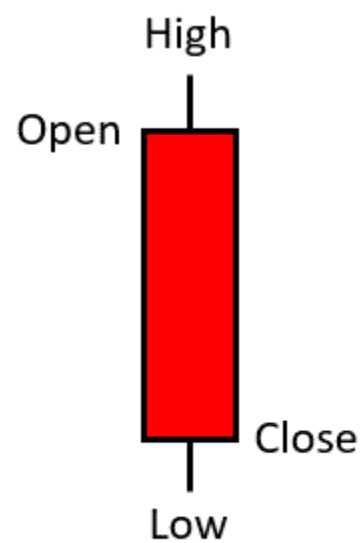
**Body** is made by Open and Close price of the candle.

**Shadows** are made of High and Low Price of the candle.

Following images explain the different parts of the candlestick.



Bullish candlestick



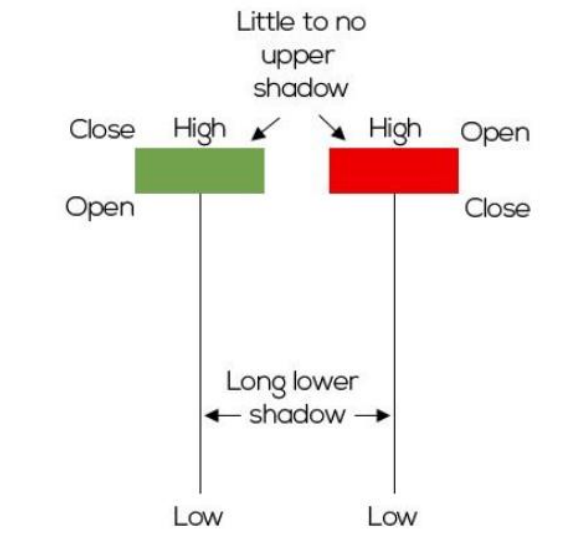
Bearish candlestick

## **5 SECRETS** OF CANDLESTICKS THAT YOU NEVER KNEW (Knowing These Can Completely Change Your Trading)

1. **Small Body** Candle **always Needs Confirmation** to Trade. This means that a trader should never trade only by looking at the small candle alone, confirmation is always needed to trade small candle patterns. Confirmation can be had using an indicator, volume or any other candle combined with the small candle pattern.
2. **Long Body** Candles can be traded **without confirmation** also. This means that a trader can take trades solely on the basis of long body candles also. However, to increase the probability and chances of winning, a trader can use other analytical tools like an indicator, volume etc. along with a long body candle.
3. There should be a **Prevalent Trend Before** a candle pattern appears on the charts. This means that, if there is no trend (Uptrend or Downtrend) before the pattern appears then the pattern may fail or will not give the results that it otherwise can give.
4. **Failure of a Pattern is also a Pattern** 😊. This justifies the fact that nothing is 100% accurate in trading and same is with candlesticks too. The pattern may appear to be a Picture Perfect yet it has the probability of failure. Always remember, Market is Supreme. **Respect the markets and be a winner even when you lose.**
5. The **Location** of the Candlestick Pattern **determines the strength** of that Pattern. If the pattern appears at the right location, the probability of winning increases manifold. This says, candle patterns keep on forming at various places on the chart but every pattern should not to be traded. Only those patterns should be traded that appear at the right point on the chart.

# SINGLE CANDLE PATTERNS

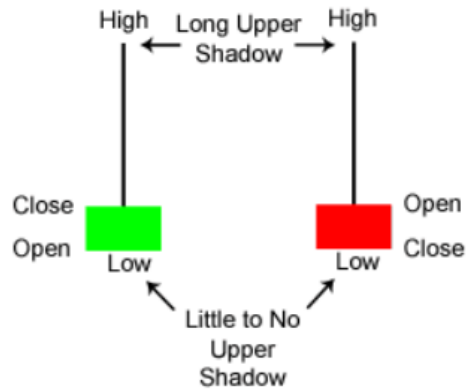
## HAMMER



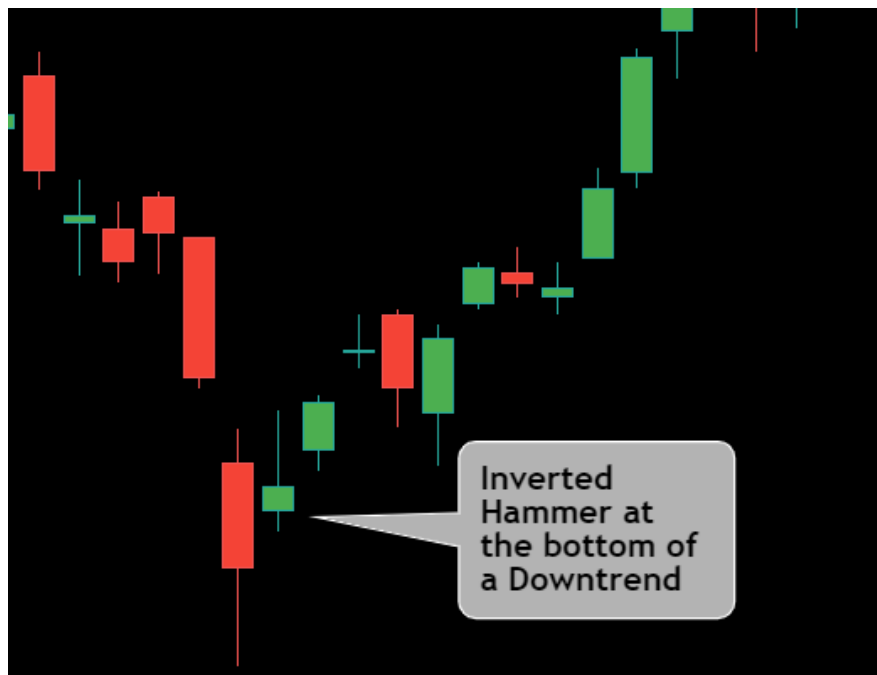
**Hammer Candlestick Pattern:** A Hammer candlestick is formed when a price moves significantly lower during the session but moves much higher before the close of the session. This Pattern has a small body and a small upper wick and since it looks like a Hammer it is named as such. This is a Bullish Reversal Pattern but the Hammer can be green or red and is equally powerful despite of having red colour even though it is a bullish pattern. It has impact only if it appears after a Downtrend.



## INVERTED HAMMER



**Inverted Hammer Pattern:** An Inverted Hammer candlestick as the name suggests is the opposite of the Hammer. This Pattern has a small body and a small lower wick. This is a Bearish Reversal Pattern. It can have a green body or a red body. It has impact only if it appears after a downtrend.





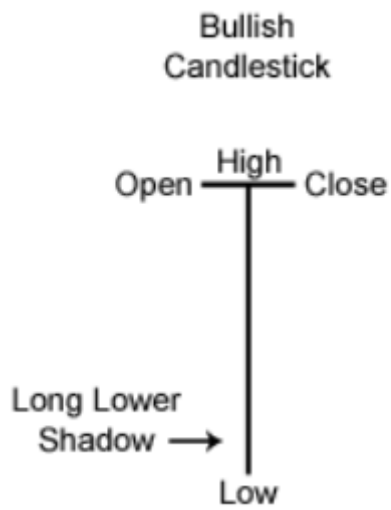
## GRAVESTONE DOJI



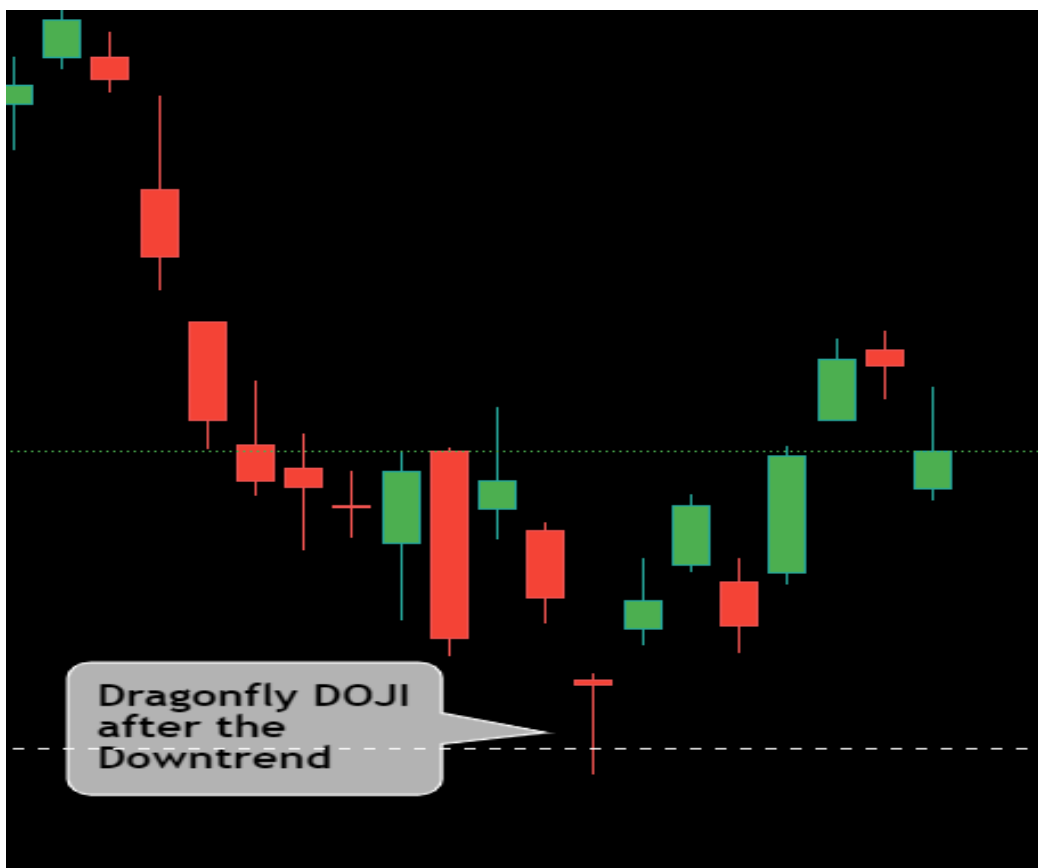
**GRAVESTONE DOJI PATTERN:** Gravestone Doji Pattern is a Bearish Reversal Pattern that appears after an uptrend. A trader should become cautious whenever a DOJI candle is formed. If you carefully look at a Doji Pattern it shows a tight fight between the Bulls and the Bears and at the end no one has won the battle.



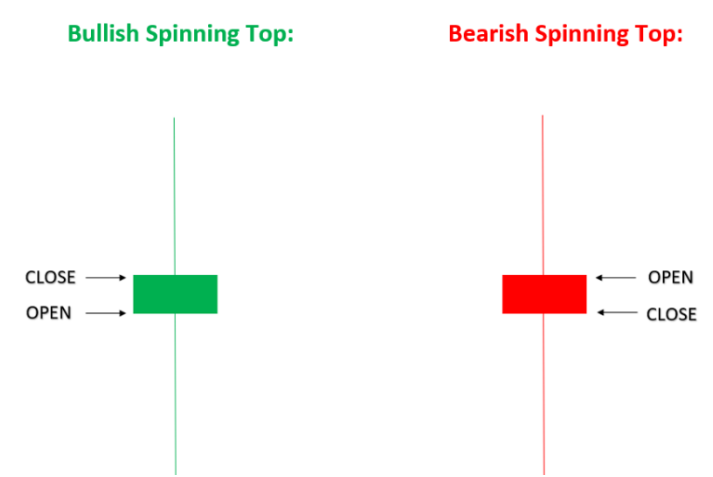
## DRAGONFLY DOJI



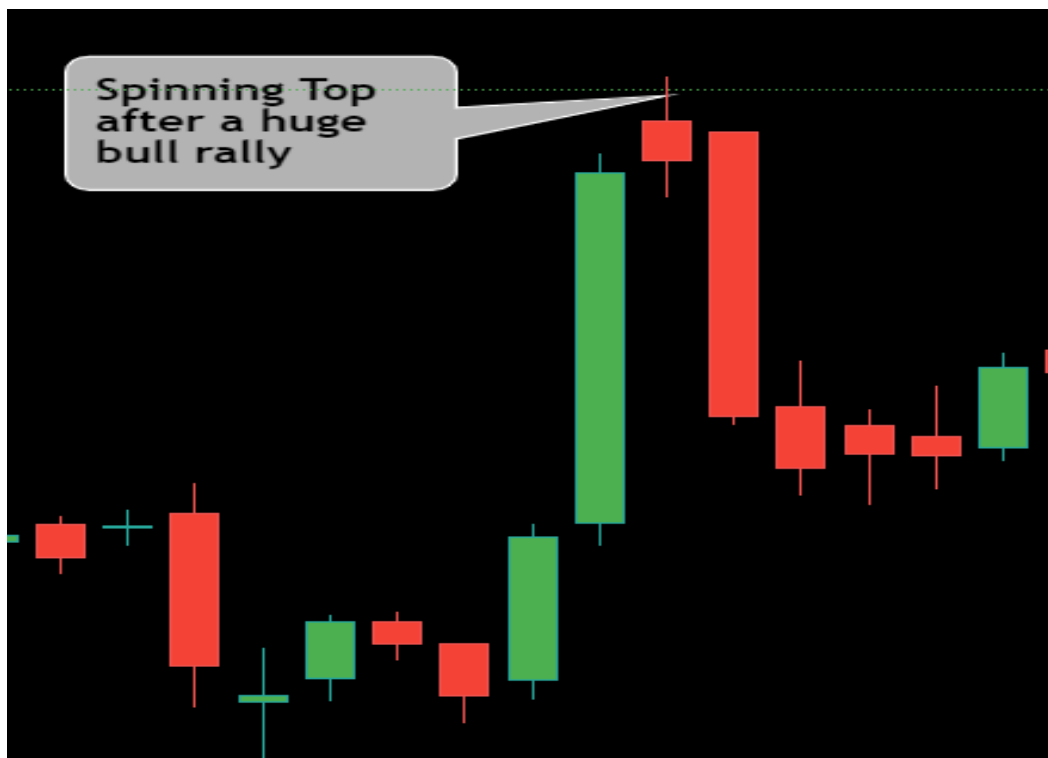
**DRAGONFLY DOJI PATTERN:** Dragonfly Doji Pattern is a Bullish Reversal Pattern that appears after a downtrend. A trader should become cautious whenever a DOJI candle is formed. If you carefully look at a Doji Pattern it shows a tight fight between the Bulls and the Bears and at the end no one has won the battle.



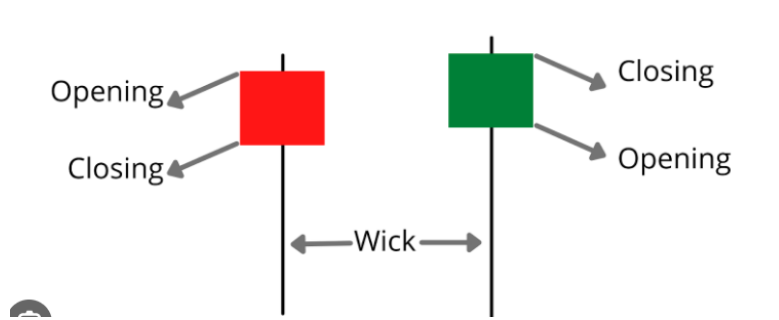
## SPINNING TOPS



**SPINNING TOPS**: Spinning Tops are the one candle pattern that are complete by themselves. This means that, this is the pattern which can be traded without confirmation even though it is a small candle pattern. Spinning tops have a small real body at the center of the range of the candle and big wicks on both sides. One of the most powerful candlestick patterns that exist is the spinning top. If there is a higher volume along with this candle it becomes a super strong signal for trend reversal.



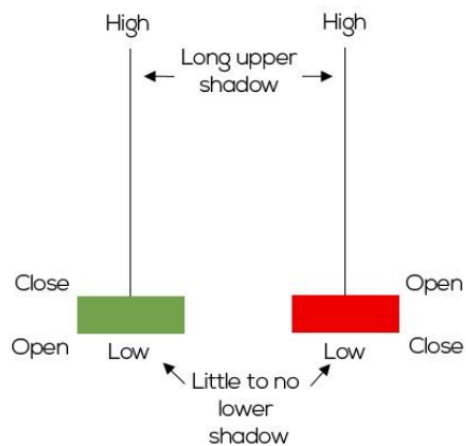
## HANGING MAN



**HANGING MAN PATTERN:** Hanging Man is nothing but a Hammer Pattern that appears at the top of an uptrend. A Hammer appears at the bottom of the downtrend while Hanging Man appears at the top of the uptrend. Hanging Man signals the probable end of an uptrend. As said, a small body candle required confirmation, so if the hanging man is supported by an additional confirmation, it signals the reversal of an uptrend.



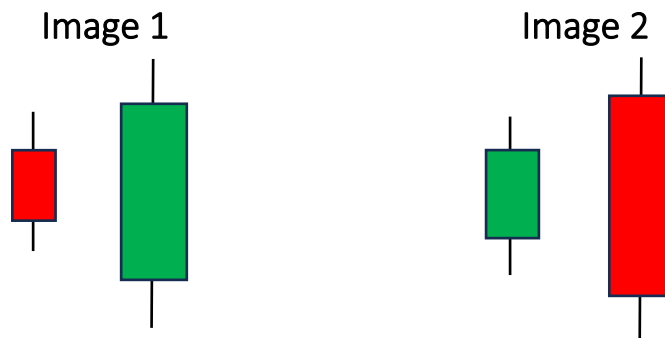
## SHOOTING STAR



**SHOOTING STAR PATTERN:** Shooting Star is nothing but an Inverted Hammer Pattern that appears at the top of an uptrend. An Inverted Hammer appears at the bottom of the downtrend while a Shooting Star appears at the top of the uptrend. Shooting Star signals the probable end of an uptrend. Combined with confirmation and other signals from indicators or patterns, shooting stars can give an early signal of trend reversals.



## ENGULFING PATTERN



**ENGULFING PATTERN**: Important Points to note for an Engulfing Candlestick Pattern are:

1. It is a 2 Candlesticks Pattern
2. Bullish Engulfing Pattern should be preceded by a downtrend.
3. Bearish Engulfing Pattern should be preceded by an Uptrend.
4. As shown in the images above, the first candle should be smaller one and the second candle should be bigger one that completely engulfs (covers) the first candle.
5. In case of Bullish Engulfing Pattern, it is stronger when the first candle is a bearish candle (red).
6. In case of Bearish Engulfing Pattern, it is stronger when the first candle is a bullish candle (green).

**Image 1** below shows the Bullish Engulfing Pattern on Nifty Chart

**Image 2** below shows the Bearish Engulfing Pattern on JSW Steel Chart

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## HARAMI PATTERN (Bullish and Bearish Harami Pattern)

Image 1

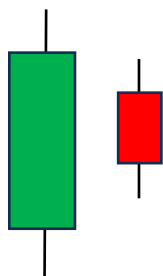
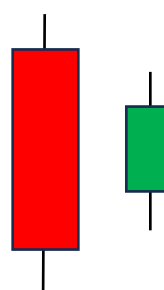


Image 2



**HARAMI PATTERN**: Harami in Japanese Language means Pregnant Lady. If you closely observe the first candle in the Harami Pattern is the bigger candle and is also termed as a Mother Candle. Second Candle in the Harami Pattern is a smaller candle and is also termed as a Baby Candle.

Important Points to note for a Harami Candlestick Pattern are:

1. It is a 2 Candlesticks Pattern
2. Colour of the Mother and Baby Candles is not important, just the preceding trend is important.
3. Bullish Harami Pattern should be preceded by a downtrend.
4. Bearish Harami Pattern should be preceded by an Uptrend.
5. In case of Bullish Harami Pattern, it is stronger when the mother candle is a bearish candle (red).
6. In case of Bearish Harami Pattern, it is stronger when the mother candle is a bullish candle (green).

Image 1 below Shows the Bullish Harami Pattern in Bajaj Auto

Image 2 below Shows the Bearish Harami Pattern in DLF



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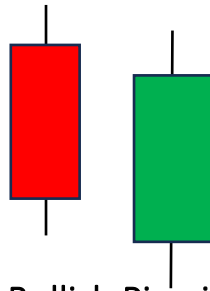
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## BULLISH PIERCING PATTERN



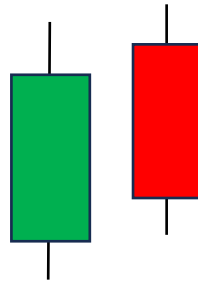
Important Points to note for a **Bullish Piercing Pattern** are:

1. It is a 2 Candlesticks Pattern
2. It should appear after a downtrend.
3. Second candle **should open gap down** i.e. below the close of the previous candle and then rise during the session to finally close above minimum 50% body of the previous candle as shown in the image above.
4. Bullish Piercing is a very powerful reversal pattern that signals the change of trend from bearish to bullish.
5. If the second candle covers the entire body of the previous candle then it becomes the engulfing candle as taught in the previous pattern.

Image below shows the bullish piercing pattern in INDUSIND Bank after a strong downtrend



## BEARISH PIERCING PATTERN



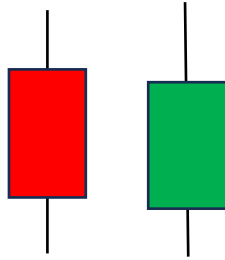
Important Points to note for a **Bearish Piercing Pattern** are:

1. It is a 2 Candlesticks Pattern
2. It should appear after an Uptrend.
3. Second candle **should open gap up** i.e. above the close of the previous candle and then fall during the session to finally close below minimum 50% body of the previous candle as shown in the image above.
4. Bearish Piercing is a very powerful reversal pattern that signals the change of trend from bullish to bearish.
5. If the second candle covers the entire body of the previous candle then it becomes the engulfing candle as taught earlier.

Image below shows the bearish piercing pattern in INDUSIND Bank after a strong uptrend.



## TWEEZER BOTTOM PATTERN



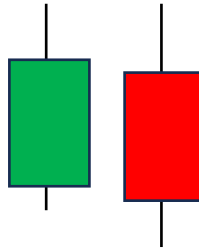
Important Points to note for a **Tweezer Bottom Pattern** are:

1. It is a 2 Candlesticks Pattern
2. It should appear after a downtrend.
3. As shown in the image above the low of both the candles is exactly or almost the same and that is why it is called as tweezer bottom.
4. This Pattern becomes stronger when the first candle in the pattern is bearish candle and the second candle is a bullish candle with same low price. However, this pattern is also effective when after a downtrend two bullish candles are formed with a same low.
5. Second candle can be any candle like an engulfing, piercing, harami etc.

Image below shows the Tweezer Bottom Pattern in DLF.



## TWEEZER TOP PATTERN



Important Points to note for a **Tweezer Top Pattern** are:

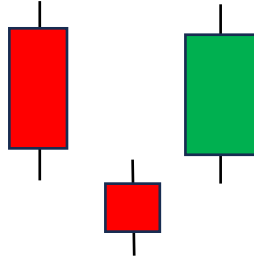
1. It is a 2 Candlesticks Pattern
2. It should appear after an uptrend.
3. As shown in the image above the high of both the candles is exactly or almost the same and that is why it is called as tweezer top.
4. This Pattern becomes stronger when the first candle in the pattern is bullish candle and the second candle is a bearish candle with same high price. However, this pattern is also effective when after an uptrend two bearish candles are formed with a same high.
5. Second candle can be any candle like an engulfing, piercing, harami etc.

Image below shows the Tweezer Top Pattern in DLF.



## THREE CANDLE PATTERNS

### MORNING STAR PATTERN



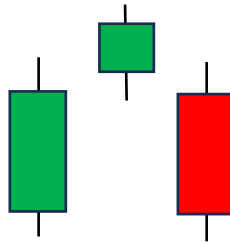
Important Points to note for a **Morning Star Pattern** are:

1. It is a 3 Candlesticks Pattern
2. It should appear after a downtrend.
3. First Candle should be a bearish candle, second should open with or without gap and is generally a small body candle and the third candle is a bullish candle that opens with or without a gap up.
4. This is a very strong Bullish Reversal Pattern.

Image below shows the Morning Star Pattern in Reliance Industries.



## EVENING STAR PATTERN



Important Points to note for an **Evening Star Pattern** are:

1. It is a 3 Candlesticks Pattern
2. It should appear after an uptrend.
3. First Candle should be a bullish candle, second should open with or without gap and is generally a small body candle and the third candle is a bearish candle that opens with or without a gap down.
4. This is a very strong Bearish Reversal Pattern.

Image below shows the Evening Star Pattern in Reliance Industries.



## GOLDEN NUGGETS FROM THE AUTHORS

(If you follow these nuggets from the authors, nothing can stop you from becoming a Successful Person and a Trader)

- **Have a Goal** – Decide why you want to become a Professional Trader. Bina Goal ke aap Gol Gol Ghumte Rahoge (Without a Goal you will go round and round endlessly).
- **Make a Plan** – Making a Plan to achieve goals is very important in life. Have a Plan A, Plan B and Plan C for various situations.
- **Educate Yourself** – Learn from a Good Trader and a Trainer. Without learning, earning is impossible.
- **Practice Discipline and Patience** – Discipline and Patience are the most important qualities of a Professional Trader. You should be disciplined in your life first so that you can bring that discipline to trading also. Patience is the Key to get best results because time is the best healer and giver.
- **Be Consistent** – Follow your trading strategy consistently without fail. Follow all the rules of your strategy in every trade you take.
- **Focus on The Process and not on the Profits (Results)** – Focus on the Process because that is what will make money for you and that is what will also make losses. However, if you consistently focus on the process, you will end up with positive results in long term.
- **Physical and Mental fitness is must** – Trading is not just about taking trades and money. It also demands a fit body and a fit mind. After all, Health is Wealth we all know.



- **Have Healthy Relationships** – As said above, trading is not just about trading and money, it is also more about having a harmonious life and a balanced life. Having Healthy Relationships is one of the most important requirements to become successful in life. Relationship with oneself, family, friends, associates, sub-ordinates and every one else.
  
- **Mistakes are your best friends** – Learn from your mistakes. Mistakes are your stepping stones to becoming a successful trader.
  
- **Maintain a Trading Journal** – A Trading Journal is your Individual Bible. Maintaining a Journal of your trades helps you rectify your mistakes and also helps you focus on right things and avoid wrong things.

**GOOD LUCK  
AND  
HAPPY TRADING**