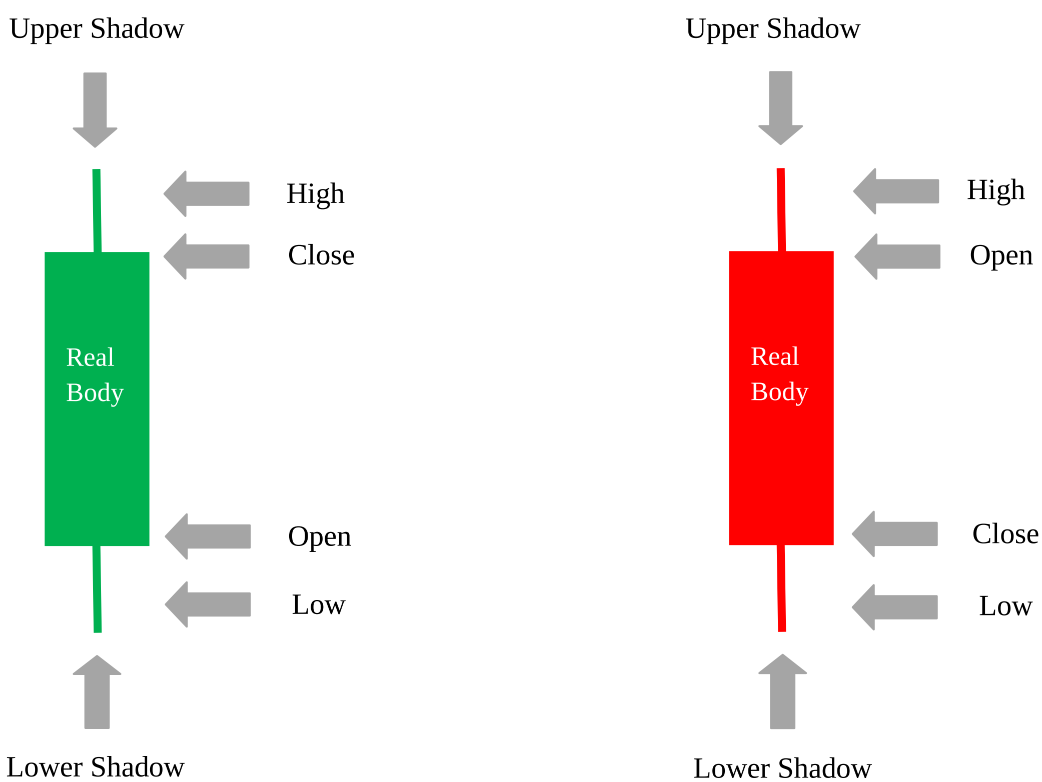
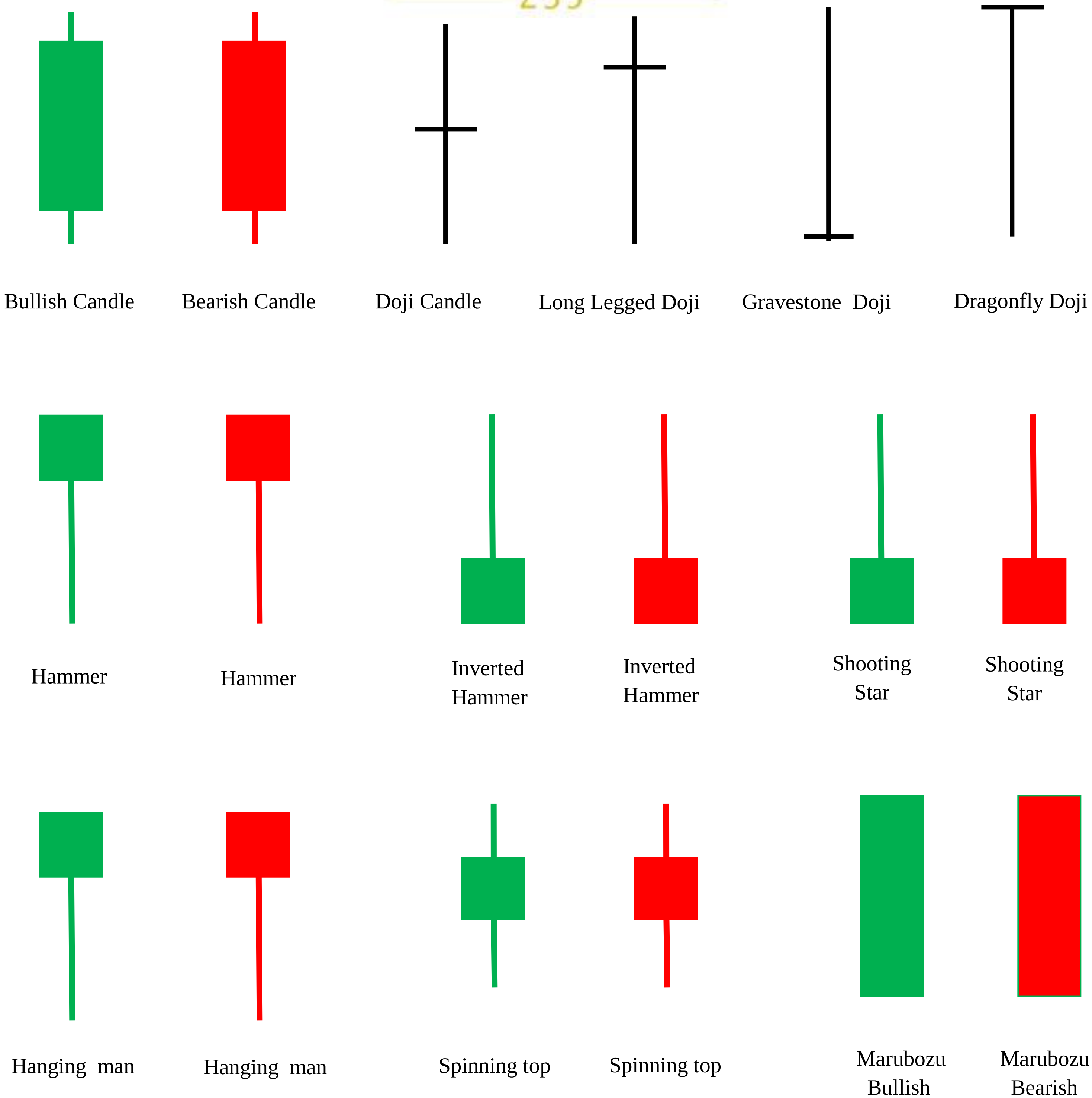
Candlestick Patterns (Every trader should know)

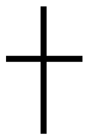



Bullish Candle
Bearish Candle
Doji Candle
Long Legged Doji
Gravestone Doji
Dragonfly Doji
Hammer
Hammer
Inverted Hammer
Inverted Hammer
Shooting Star
Shooting Star
Hanging man
Hanging man
Spinning top
Spinning top
Marubozu Bullish
Marubozu Bearish

A doji names a trading session in which a security has an open and close that are virtually equal, which resembles a candlestick on a chart. The word doji comes from the Japanese phrase meaning "the same thing." A doji candlestick is a neutral indicator that provides little information.
The candlestick indicates indecision between buyers and sellers; therefore, a doji pattern can be seen as a potential signal for a trading opportunity. There are several types of doji candles that can occur on a candlestick chart.

For example

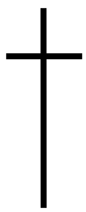
Doji Star



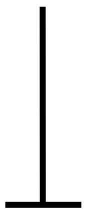
A long-legged doji has long upper and lower shadows and roughly the same opening and closing prices. The long-legged doji is a type of candlestick pattern that signals to traders a point of indecision about the future direction of a security's price and it is a far more dramatic candle. It says that prices moved far higher on the day, but then profit taking kicked in. Typically, a very large upper shadow is left. A clos below the midpoint of the candle shows a lot of weakness. Here’s an example of a long-legged doji

For example

Long-legged doji



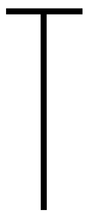
A “gravestone doji” as the name implies, is probably the most ominous candle of all, on that day, price rallied, but could not stand the altitude they achieved. By the end of the day. They came back and closed at the same level. Here ’s an example of a gravestone doji.



For example

A “Dragonfly” doji depicts a day on which prices opened high, sold off, and then returned to the opening price. Dragonflies are fairly infrequent. When they do occur, however, they often resolve bullishly (provided the stock is not already overbought as show by Bollinger bands and indicators such as stochastic).

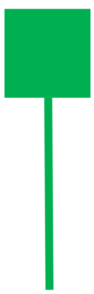
Dragonfly doji



For example

A hammer is a type of bullish reversal candlestick pattern, made up of just one candle, found in price charts of financial assets. The candle looks like a hammer, as it has a long lower wick and a short body at the top of the candlestick with little or no upper wick.

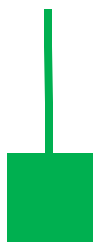
Hammer



For example

The inverted hammer candlestick pattern (or inverse hammer) is a candlestick that appears on a chart when there is pressure from buyers to push an asset's price up. It often appears at the bottom of a downtrend, signaling potential bullish reversal.

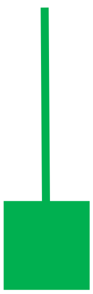
Inverted Hammer



For example

A shooting star pattern is found at the top of an uptrend, when the trend is losing its momentum. The shooting star is actually the hammer candle turned upside down, very much like the inverted hammer pattern. The wick extends higher, instead of lower, while the open, low, and close are all near the same level in the bottom part of the candle.
The difference is that the shooting star occurs at the top of an uptrend. It’s a bearish chart pattern as it helps end the uptrend. The inverted hammer, on the other hand, is a bullish chart pattern that can be found at the bottom of a downtrend and signals that the price is likely to trend upward.

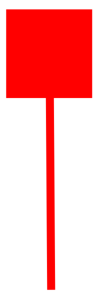
Shooting Star



For example

A hanging man is a bearish reversal candlestick pattern that occurs after a price advance. The advance can be small or large, but should be composed of at least a few price bars moving higher overall. The candle must have a small real body and a long lower shadow that is at least twice the size as the real body.

Hanging man



For example

A spinning top is a candlestick formation that signals indecision regarding the future trend direction.

Similar to a doji pattern, a spinning top is considered a neutral pattern, although many do end in reversals.

Spinning Top

For example

FOREX
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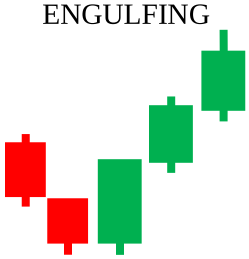
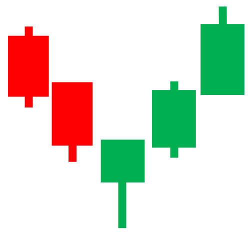
CANDLESTICK PATTERNS

BULLISH

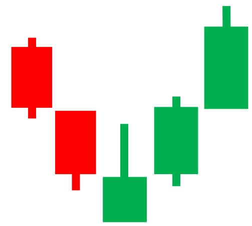
BULLISH ENGULFING



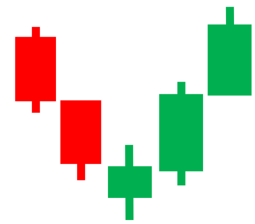
HAMMER



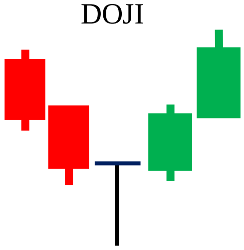
INVERTED HAMMER



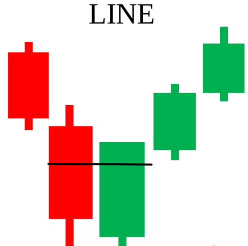
MORNING STAR



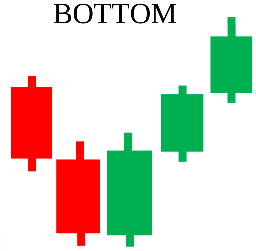
DRAGONFLY DOJI



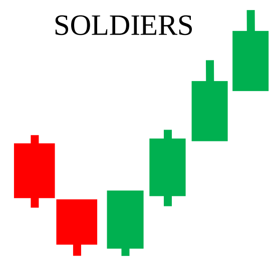
PIERCING LINE



TWEEZER BOTTOM

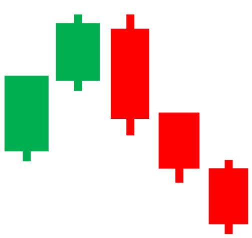


THREE WHITE SOLDIERS

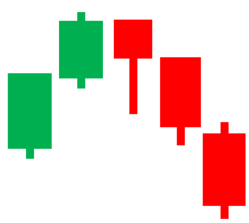


BEARISH

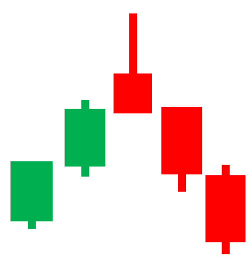
BEARISH ENGULFING



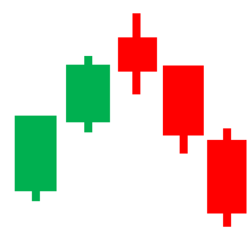
HANGING MAN



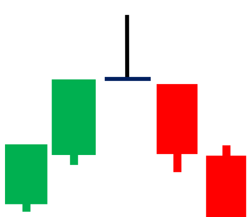
SHOOTING STAR



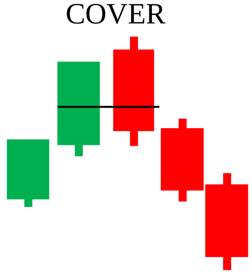
EVENING STAR



GRAVESTONE DOJI



DARK CLOUD COVER



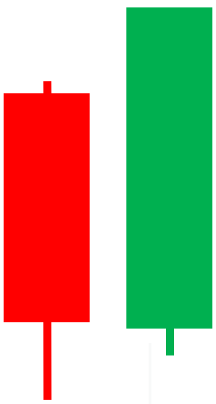
TWEEZER TOP

THREE BLACK CROWS

Bullish Engulfing Pattern

The bullish engulfing pattern is a two-candle reversal pattern. The second candle completely 'engulfs' the real body of the first one, without regard to the length of the tail shadows. This pattern appears in a downtrend and is a combination of one dark candle followed by a larger hollow candle.

Bullish Engulfing

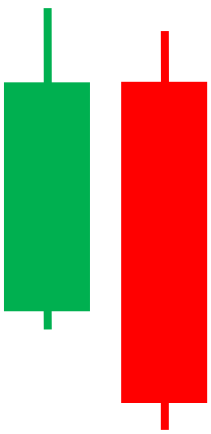


For example

Bearish Engulfing Pattern

A bearish engulfing pattern is a technical chart pattern that signals lower prices to come. The pattern consists of an up (white or green) candlestick followed by a large down (black or red) candlestick that eclipses or "engulfs" the smaller up candle.

Bullish Engulfing

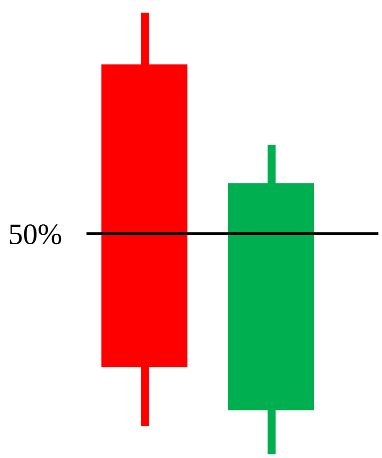


For example

Piercing Line Candlestick Pattern

The piercing line candlestick pattern is a bullish candlestick pattern that forms after an extended bearish trend. It can be used as an indicator to predict the resumption of the uptrend as it shows market indecision at support levels, which then reverses as bulls overpower bears to push prices higher again.

Piercing Line Candlestick Pattern



For example

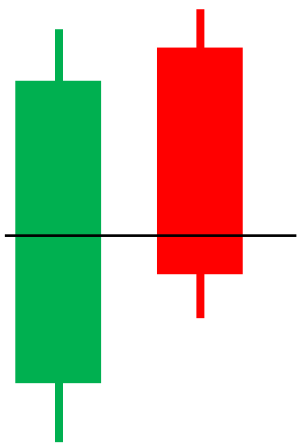
Dark Cloud Cover Pattern

Dark Cloud Cover is a candlestick pattern that shows a shift in momentum to the downside following a price rise. The pattern is composed of a bearish candle that opens above but then closes below the midpoint of the prior bullish candle.

Dark Cloud Cover Pattern

For example

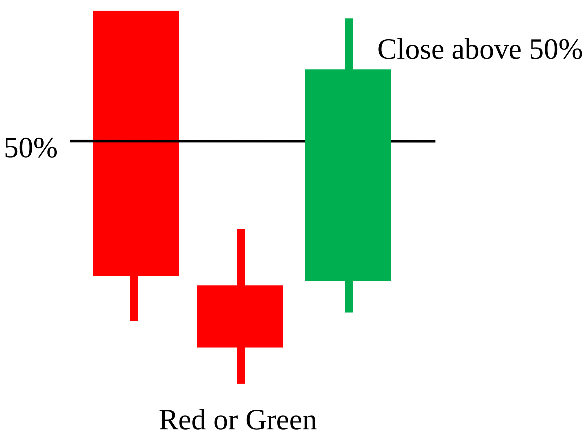
50%



Morning Star

A morning star is a bullish candlestick pattern in a price chart. It consists of three candles and is generally seen as a sign of a potential recovery

Morning Star

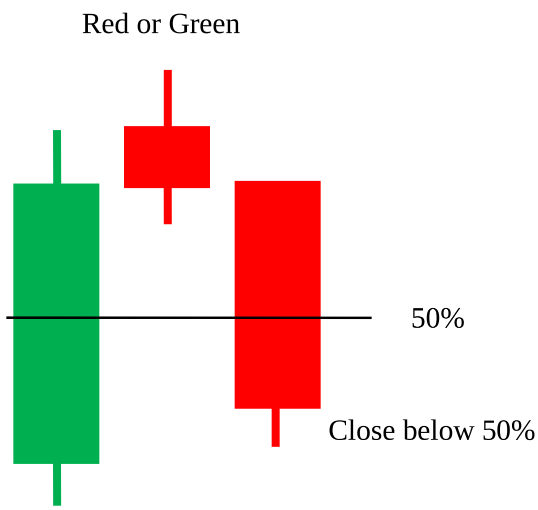


For example

Evening Star

An evening star is a stock price chart pattern that's used by technical analysts to detect when a trend is about to reverse. It's a bearish candlestick pattern that consists of three candles: a large white candlestick, a small-bodied candle, and a red candle.

Evening Star

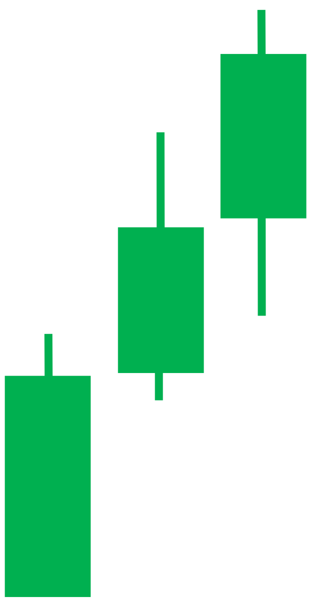


For example

Three White Soldiers

Three white soldiers is a bullish candlestick pattern that is used to predict the reversal of the current downtrend in a pricing chart. The pattern consists of three consecutive long-bodied candlesticks that open within the previous candle's real body and a close that exceeds the previous candle's high.

Three White Soldiers

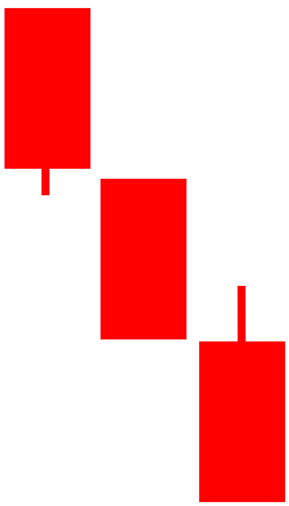


For example

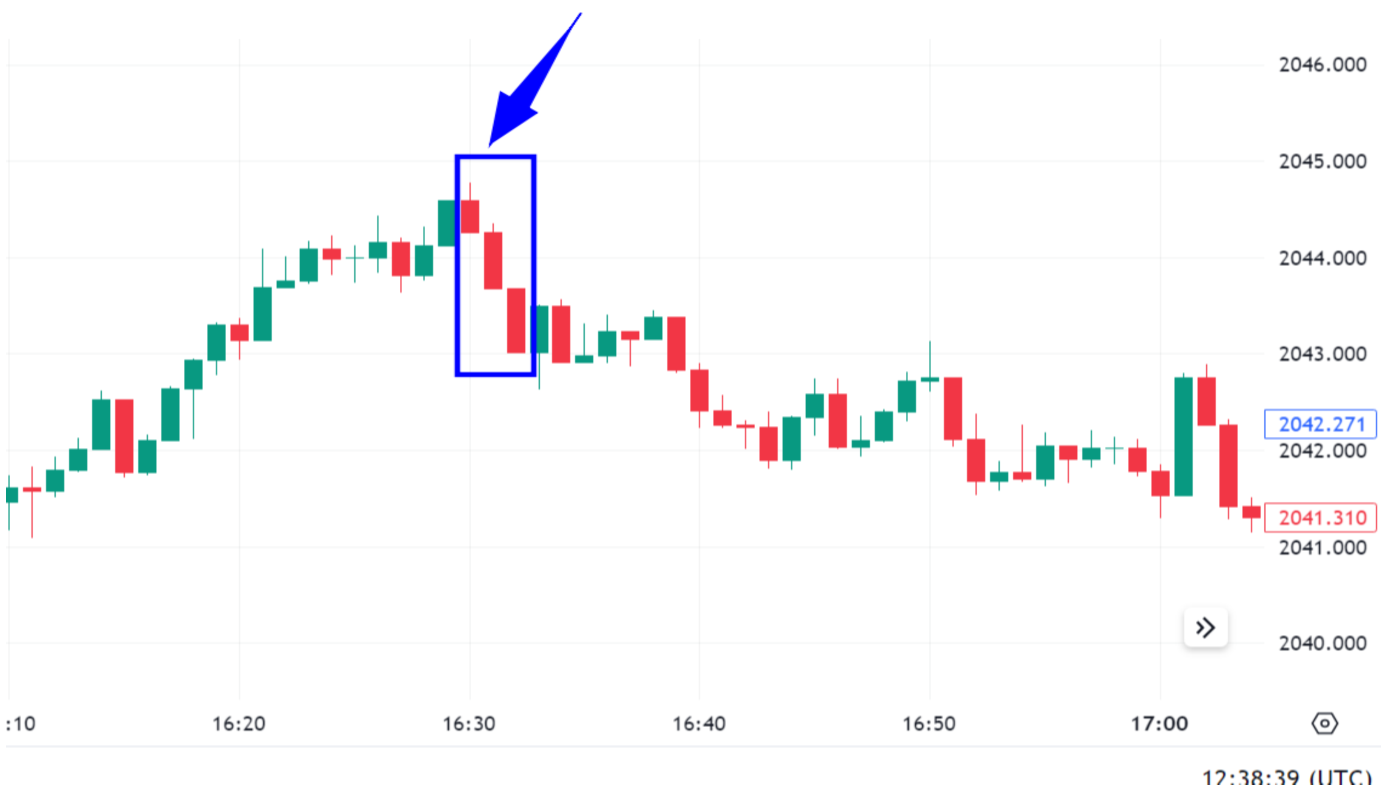
Three Black Crows

The three black crows candlestick pattern is considered a relatively reliable bearish reversal pattern. Consisting of three consecutive bearish candles at the end of a bullish trend, the three black crows signals a shift of control from the bulls to the bears.

Three Black Crows



For example



CHARTING SUCCESS

MASTERING MARKET INDICATORS

I. Brief Context

Navigating the financial market is akin to exploring a vast realm of opportunities, where every moment holds the potential for a fresh start and lucrative trades. Despite its apparent intricacies, a judicious application of chart analysis serves as a beacon to simplify the process, enhancing your earnings and refining your mastery of trading.

Consider envisioning a comprehensive roadmap in this intricate world, guiding your every move towards your desired destination. Seasoned experts in financial markets, relying on scientific analysis, consider indicators as their indispensable roadmap. The journey to these indicators requires delving into the bedrock of chart analysis: Support, Resistance, and Channels. Our e-book embarks on this exploration, laying the groundwork to furnish you with fundamental knowledge.

Armed with this foundational knowledge, a burgeoning trader becomes better equipped to delve into the nuances of indicators. These include stalwarts such as the Relative Strength Index (RSI), the pronounced MACDI (Moving Average Convergence Divergence), the Momentum indicator, and those associated with Moving Averages, such as the Guppy Multiple Moving Averages (Guppy MMA).

FOREX235 stands by its slogan, placing the customer at the heart of the business. This e-book, unlike any other, is not confined to theoretical knowledge; it is a practical guide crafted to propel you into executing profitable trades. Beyond mere knowledge enhancement, its objective is to fuel your passion for this intriguing field, whether you are trading currencies, crypto currencies, metals, indices, or any other financial instruments.

It is with immense pleasure that we present this concise yet critically important e-book, designed to steer your trades, augment your knowledge, and kindle your enthusiasm, irrespective of your chosen market.

II. Exploring Support, Resistance, and Channels:

Picture support and resistance levels as essential lines etched onto your trading chart. These lines act as formidable constraints, shaping market movement. Akin to a floor, the support line prevents prices from descending further, while the resistance line acts as a ceiling, hindering upward movements. Refer to Figure (1) for a visual exploration using the Gold chart. These visual cues are pivotal in predicting reversals and crucial turning points in the dynamic world of trading.

Building on Figure (1), observe as the price breaks the resistance line, venturing beyond after a robust barrier. Post-breakout, a swift surge unfolds, indicating two pivotal developments: a shift in momentum and the potential initiation of a new market trend.

1. The drawn resistance line displayed remarkable resilience in market dynamics.
2. Price breakthrough transforms the resistance line into a future reference support. Explore in Figure (2).

2

Frequently, price attempts to breach support and resistance lines, rebounding upon impact. Precise line drawing requires a minimum of two touches, solidifying their validity. The strength of these lines intensifies with more touches, fortifying their resilience against price movements. Refer to Figure (3) for a visual elucidation of this principle, illustrating the robustness derived from multiple interactions with the market.

3

We notice in the Figure the price touched the support on six occasions facing an enormous resilient, additionally, the price broke below the support line only to break back in, a clear indicator of the strength of this support level. This small breakout, encircled in Figure (3), can be a false breakout, the price may not break the support level shortly and could rise far from it, inversely, it could drop far below it. In any case, this drawn line can be utilized as a reliable support or resistance level whenever the price fluctuates near it.

Let's revisit a recent period, examining another support line in Figure (4) for valuable insights into market dynamics.

4

In Figure (4), a prolonged resilient support line, enduring weeks of pressure, defied multiple false breakouts highlighted in a rectangle. Despite these attempts, the price consistently rebounded above, emphasizing the line's strength. However, a critical shift occurs as the price breaks the support, transforming it into a resistance line. The subsequent rapid decline indicates a significant market transformation, underscoring the importance of recognizing when a previously robust support level is breached, often foretelling a substantial downward movement in price. This insight is pivotal for traders navigating changing market dynamics and anticipating potential trend reversals.

Crucially, support and resistance levels, while depicted as straight lines, aren't always horizontal, as evident in Figure (5). This dynamic understanding is vital for traders adapting to varying market structures and anticipating trend shifts.

5

In Figure (5), observe the support and resistance levels shaping two parallel trendlines, forming a channel. This channel, defined by these parallel lines, signifies a period during which the price consistently rebounds between them.

III. Uncovering Indicators:

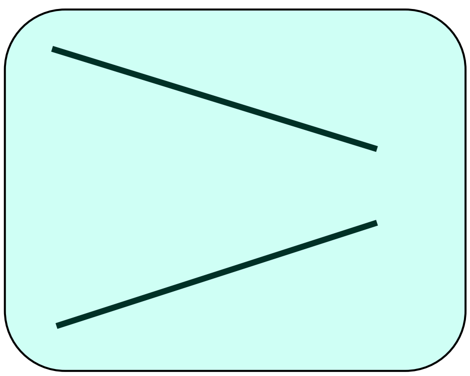
Indicators are invaluable tools, empowering traders to analyze and make informed decisions, ensuring opportune moments for buying or selling in the dynamic financial markets.

A. RSI

Let's delve into the Relative Strength Index (RSI), a pivotal indicator gauging the speed and magnitude of price movements on a scale from 0 to 100. Comprising two lines, the blue represents the RSI itself, and the red signifies the RSI's moving average. This moving average calculates the average of RSI values over a specified timeframe. Additionally, RSI introduces overbought (above 70) and oversold (below 30) zones, providing traders with crucial insights into potential reversal points, guiding informed decisions on when to buy or sell in the market.

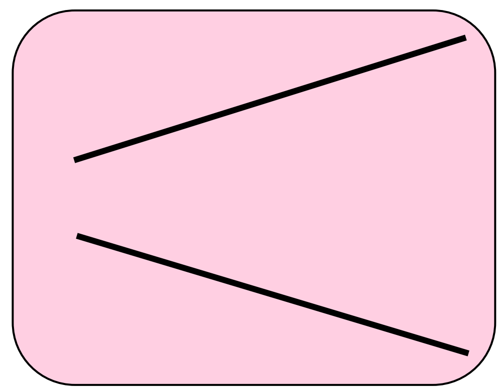
The analysis of RSI can be conducted in three ways:
1. The movement of RSI in relation to its signal
2. The overbought and oversold regions; highlighted in red in Figure (6).
3. The intersection of the RSI with its signal; encircled in Figure (6)

Initiating the analysis, the RSI consistently resided in the overbought zone for a substantial duration—a signal suggesting a likely price decline. This probability intensified as the RSI line intersected its moving average, affirming the potential for a price drop. Subsequently, the market validated this projection, with the price indeed experiencing a notable decline. This alignment of RSI signals and subsequent market movement underscores the efficacy of RSI as a predictive tool in guiding trading decisions.



Bullish Divergence

The price displays a downtrend, while the RSI displays an uptrend. This signifies that although the price is dropping, it is gaining momentum and should make a reversal to start rising



Bearish Divergence

The price displays an uptrend, while the RSI displays a downtrend. This signifies that although the price is increasing, it is losing momentum and should make a reversal to start dropping.

Bullish Divergence

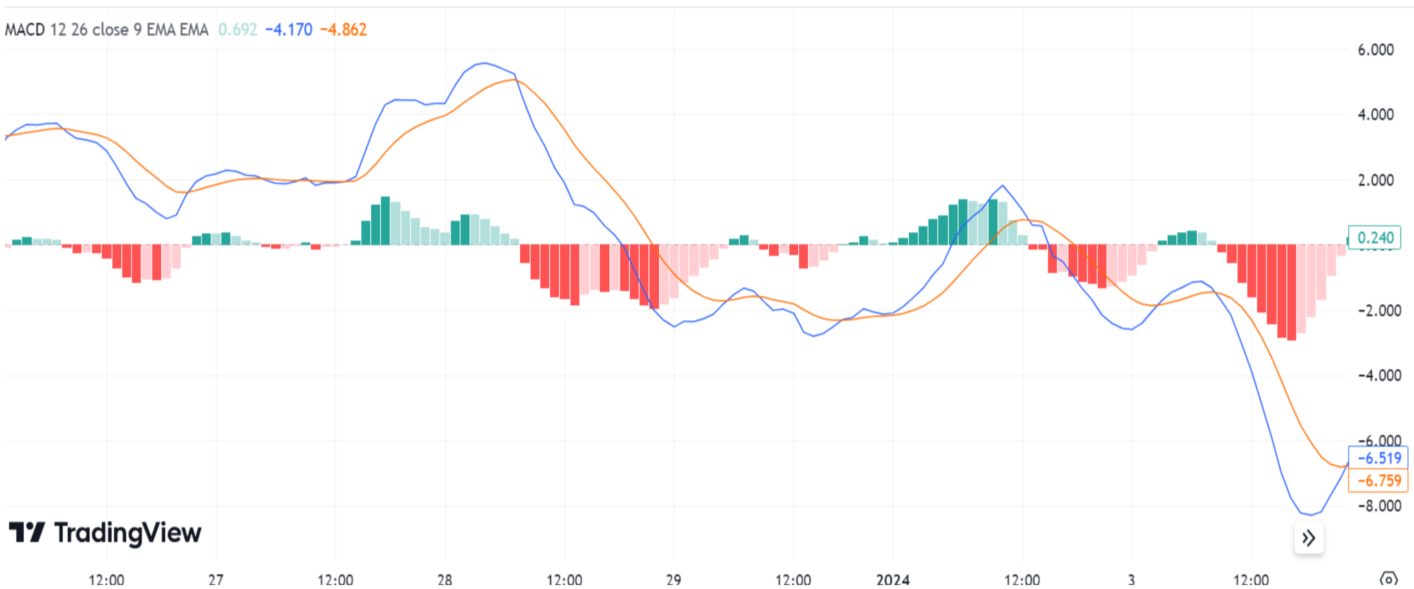
7

Bearish Divergence

8

B. MACD

The MACD, featuring a histogram with green and red bars, serves as a dynamic indicator. Green bars signify a bullish trend, marking a strengthening uptrend, while red bars denote a bearish trend, signaling a deepening downtrend. Expanding green bars indicate a sustained uptrend, contrasting with growing red bars indicating a prolonged downtrend. Shifts between green and red highlight potential market reversals, providing traders with valuable insights into changing market dynamics and trend developments.



9

Traders analyze the two MACD lines, akin to the RSI and its moving average. A rising blue line, crossing and moving above the red line, creating increased separation, signals a high probability of a forthcoming price increase. Conversely, the opposite scenario suggests a potential price decrease, offering traders strategic insights into market movements.

The MACD is a good indicator; however, it is better to combine it with other indicators, and technical tools, see Figure (10)

10

The crossing of lines on numerous occasions lacked significant follow-through on price, but a noteworthy market shift occurred when the trend breached the channel. Such indications act as confirmations for potentially profitable trades. Now, let's delve into a fascinating aspect—market memory. In the provided figure, observe two distinct channels, with the second channel created by duplicating the first. Remarkably, repetitive price patterns emerge as the market consistently bounces between support and resistance lines, mirroring previous channels. This robust indicator underscores the market's ability to recall and replicate past price movements, emphasizing the concept of market memory. Notably, observe the consequential significant price drops following breakouts from both channels. This insight into market memory enables traders to anticipate potential movements based on historical patterns, enriching their strategic decision-making and reinforcing the importance of recognizing repetitive market behavior. As we navigate the complex world of trading, acknowledging and leveraging market memory proves to be a valuable tool for enhancing predictive accuracy and seizing profitable opportunities.

C. GUPPY MMA

The Guppy Multiple Moving Averages (GMMA) indicators offer traders a powerful tool for trend analysis and timely decision-making in the financial markets. Comprising 12 moving averages split into equal groups of short- and long-term indicators, the GMMA employs a distinctive color scheme — green for short-term and red for long-term moving averages.

Effectively capturing the essence of market trends, this indicator facilitates both entry and exit points for traders. When the green moving averages cross above the red ones, it signals the onset of an uptrend, presenting an opportune time to enter a trade. Conversely, a downtrend is indicated when the red lines cross above the green ones, prompting traders to consider exiting or adopting a bearish position.

This visual representation of moving averages aids traders in seizing the entire potential of a trend, maximizing profits while minimizing losses. By aligning with the cross-sectional movements of the two groups, traders can strategically time their trades, ensuring they capitalize on market opportunities and safeguard against adverse reversals. The GMMA stands as a reliable guide for traders seeking to navigate market trends with precision and confidence. Refer to figure (11) for a visual representation of this strategic approach.

10

IV. Culmination

Delve into the intricacies of financial markets with the enlightening e-book from FOREX235, designed to elevate your understanding, whether you're a seasoned trader or a novice. This comprehensive guide illuminates the significance of technical indicators as indispensable tools for traders, mapping out a route to desired profits while mitigating potential losses.

The e-book skillfully blends theoretical insights with practical applications of support, resistance, channels, and various indicators, offering a well-rounded understanding of market dynamics. Emphasizing the synergy of these elements for heightened accuracy, the guide encourages traders to amalgamate these insights into their analyses.

Rich with practical examples, the e-book empowers readers with the essential knowledge for astute decision-making, bridging the gap between theory and profitable practice. FOREX235's commitment to your interests shines through, fostering an environment where education is paramount. With a dedication to providing an enjoyable trading experience, the company stands as your ally in navigating the complexities of financial markets, ensuring you relish trading as much as they do.

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