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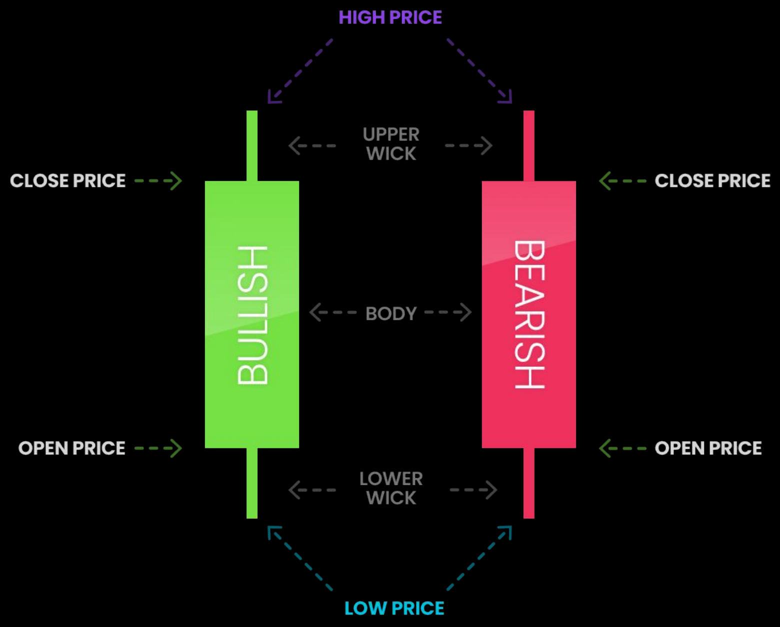
Candlestick Language

Japanese Candlesticks

History: In the 1700s, a Japanese rice trader named Homma developed the idea of charting with candlesticks to visually represent the price action of an asset. **Candlestick charting** is the most commonly used chart in technical analysis today.

The Anatomy of a Candlestick



Time Frames

The candlestick plots the opening price, the closing price, the high price and the low price for each time frame displayed.

What time frame is displayed? Traders who use technical analysis have the luxury of using multiple time frames to speculate future price action.

Example: In a “one hour chart” (1H), every candle takes one hour to finish printing and it represents the price movement from the beginning of the hour until the end of the hour. In a “five minute chart” (5M), every candle takes five minutes to print and represents the price action over a five minute period.

Anatomy of a Candlestick

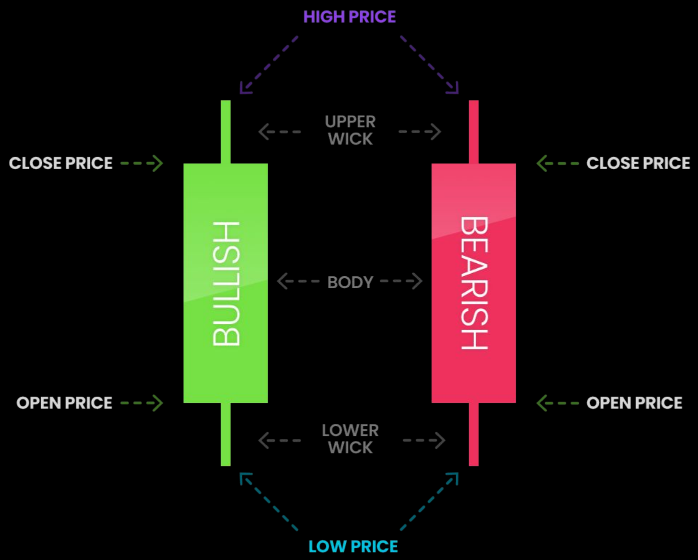
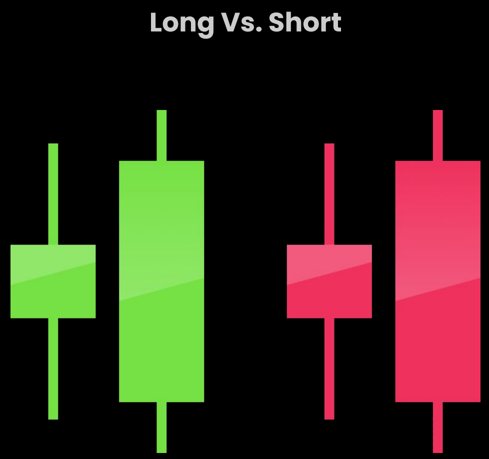


Chart Examples

Let’s go to the charts for time frame examples

The Candlestick Body

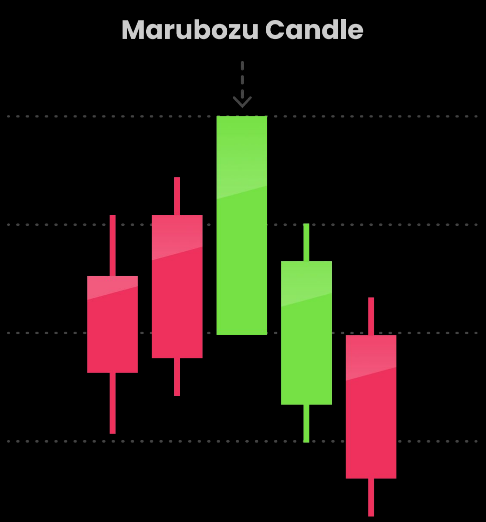
In general, the **longer** the body of the candlestick, the greater the buying or selling pressure is during that time period. Conversely, a **short** candlestick indicates that the market is consolidating with little price action.



Marubozu Candles

Marubozu is Japanese for dominance.

These long candlesticks do not have a wick on the top or bottom, signifying **strong buying or selling pressure** from the very beginning of the candle’s time period to the end.



Long Wicked Candles

The upper and lower candlestick wicks provide speculators with valuable information about the price action of the particular time frame.

A candle with a long upper wick indicates that buyers dominated the price action during the time frame, but sellers ultimately forced the price down before the candle closed. This is called a **Bearish Rejection.**

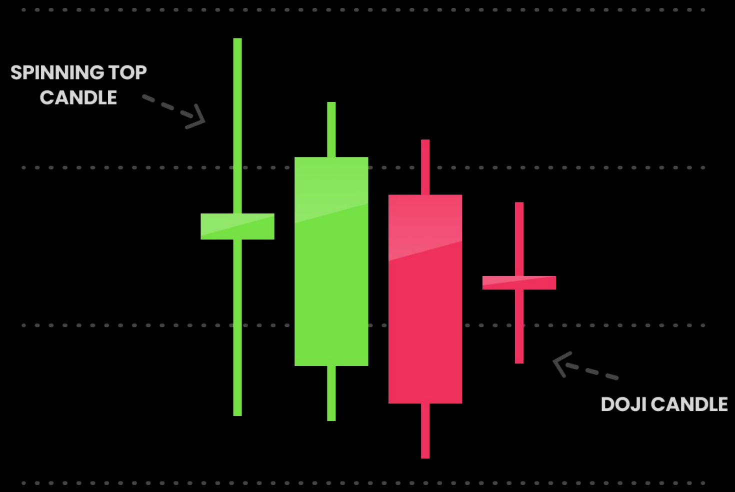
A candle with a long lower wick indicates that sellers dominated the price action during the time frame, but buyers ultimately forced the price up before the candle closed. This is called a **Bullish Rejection.**

Spinning Top Candles

If a long wick is a rejection and a sign that the market might change direction, then a spinning top is a sign of indecision in the market.

Spinning top candlesticks have a long upper wick and long lower wick, representing that although the market moved significantly over the course of the candle, neither buyers or sellers gained the upper hand.

Similarly, a **Doji candlestick** , which looks like a cross, is when the opening and closing price were (nearly) identical to each other. This market standoff may signify an upcoming reversal in price direction.

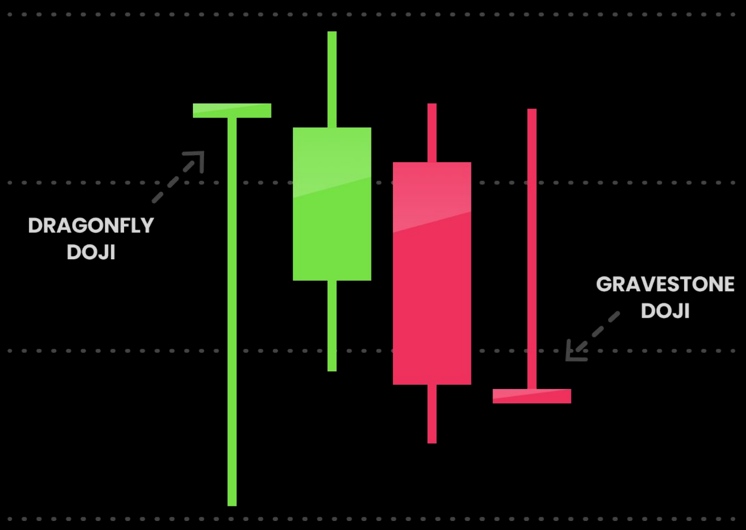


Dragonfly Doji & Gravestone Doji

Dragonfly Doji This candle prints when the opening and closing price were identical to each other yet the long lower wick indicates there was significant selling pressure during the course of the candle. Although the bulls were able to push the price back up to the original opening price, it's clear that sellers are still looming.

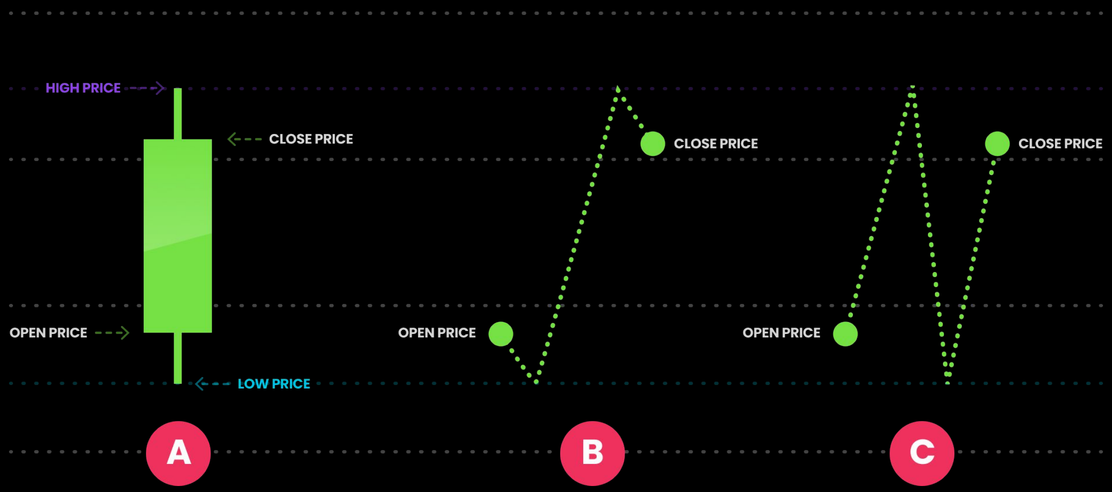
A **Gravestone Doji** also has an identical opening and closing price, but the long upper wick indicates that during the course of the candle there was heavy buying pressure.

Note: After a downtrend or uptrend, these dojis may signify an upcoming reversal in price direction.



Where Candlesticks Fall Short

Candlesticks only report the relationship between the opening and closing price of the candle's time frame, but not the sequence of events, or movement of price between the open and close. They can't tell us which came first or how long the price remained in one place etc.



This diagram shows how the same candle (A) could have two different sequences (B and C).

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