

# *Mastering Candlestick Charts 1*

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# Table of Contents

## *Introduction*

*Candlestick Hype*

*Candle Benefits*

*Thoughts and Candle Language*

## *Candle Basics*

*Individual Candles*

*Two-Bar Patterns*

*Three-Bar Patterns*

## *Beyond the Basics*

*Pristine Candle Terms and Understanding*

*Reading Greed and Fear in Candles*

*Combining the Candle Messages*

*Reversal Candle Potency*

## *Support & Resistance*

*Understanding Support and Resistance*

*A Deeper Understanding of Candles*

## *Bar-by-Bar Analysis*

*Monitoring in Candle Language*

## *Multiple Time Frames, Volume and Indicators*

*General Understanding and Use*

## *Candles in Action*

# Candlestick Analysis

## *Cutting Through the Candlestick Hype*

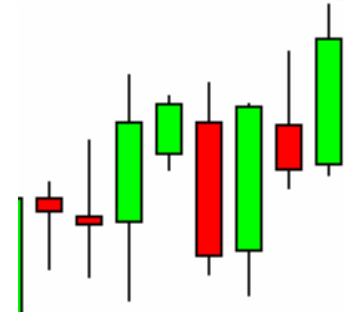
- *The signals on a bar chart are the same as a candle chart.*
- *Those signals will be seen at the same time and are no more reliable than those of a bar chart.*
- *The use of indicators will not increase the reliability of candles.*
- *There are no advanced candlestick patterns, but there is a deeper understanding of price movements and that is the focus of The Pristine Method®.*
- *So, why use candle charts at all?*



# Candlestick Analysis

## Why Use Candlesticks?

- Provides a visual picture of what is occurring.
- Gives visual insights into others' thoughts and expectations.
- Gives visual confirmation signals of support and resistance.
- Can visually align your thoughts with the market.
- Can visually point to potential reversal points.
- Can a bar chart do this? Yes, but you can do it faster with candles!



# Candlestick Analysis

## *Candle Language Produces Thoughts*



- *Proper trading is said to be proper thinking, but how do we know what to think?*
- *Pattern recognition is a recurring arrangement of price bars that suggests the future movement of prices, which guides our thoughts.*
- *These patterns communicate how traders have acted and what their beliefs (**expectations**) are in that time frame, at the moment.*
- *Candles provide a picture of those expectations on an ongoing basis.*
- *Those pictures speak to us in “**Candle Language**” and are the basis for our continuous thoughts and trading decisions.*

# Candlestick Analysis

## *Miscellaneous Thoughts on Candlesticks*

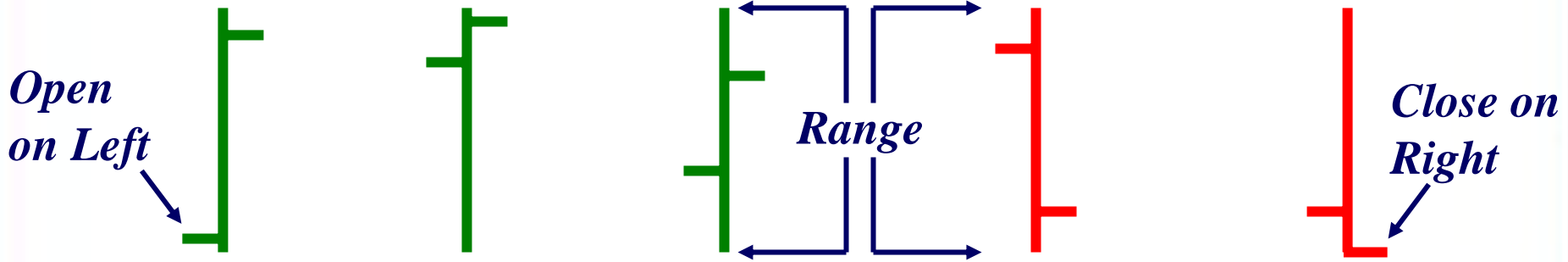
- *Attempting to define the accuracy of candle names or patterns without considering the trend, support and resistance is useless.*
- *There are a least 50 different candle patterns, bullish and bearish. Some memorize them, but you will see this is completely unnecessary.*
- *While candles are very good at visually showing reversal signals, the signals that do Not work are often the most powerful!*
- *All that is needed is a chart of price bars -- all else is secondary.*
- *While other analysis tools may add additional information, they can only follow existing price action.*

# *Candlestick Basics*

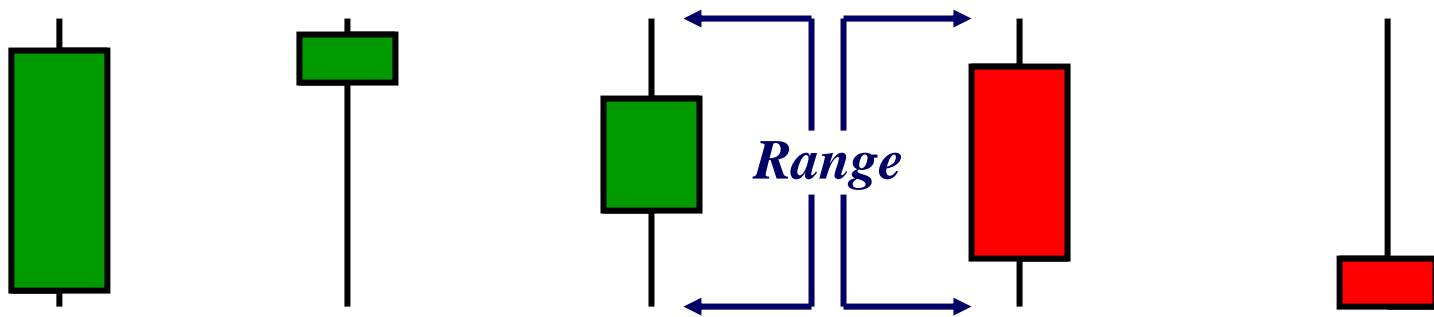


# Candlestick Analysis

● *Candlesticks show the same **O, H, L, C** information as Western bars, but the battle between buyers and sellers is “visually” clearer.*

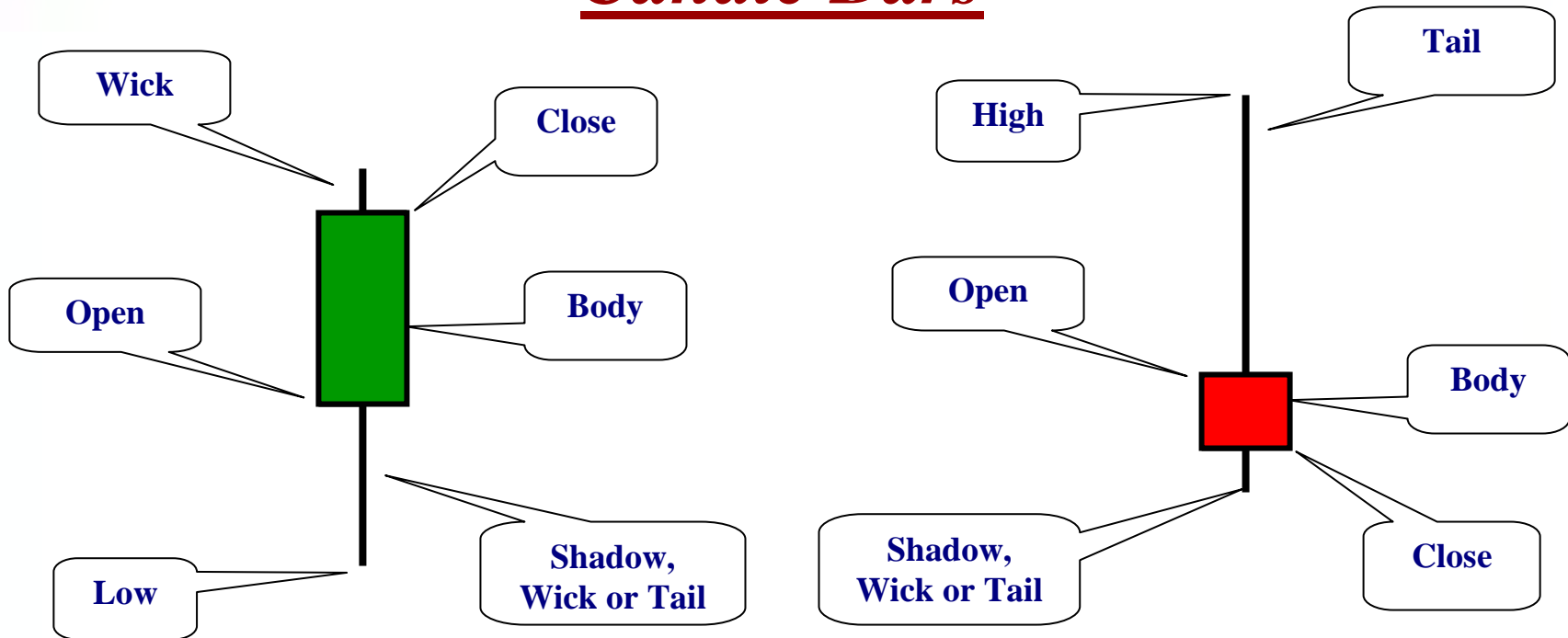


*The Range of a bar is the difference between the high and the low*



# Candlestick Analysis

## Candle Bars



- *The candle body is the difference between the open and the closing prices.*
- *The part on either side of the body is called a Shadow, Wick or Tail.*

# Candlestick Analysis

● *Let's first review most individual candles and their names to give you a background..*

● *Remembering names is unnecessary because that will not help you use candles or understand their meaning!*

*When we are done with this DVD, not only will you understand what candles are saying, you will also:*

● *Have a objective method of knowing when to enter*

● *Know where to place a stop*

● *Know how to monitor a position once in it*

# Candlestick Analysis

## *The Individual Candles*

*DOJI* – A bar with the open and close at or very near the same price +

*Gravestone DOJI* – A Doji with the open and close at the bar's low ⊥

*Dragon Fly DOJI* – A Doji with the open and close at the bar's high ⊤

*Long Legged DOJI* – A Doji with long upper and lower shadows ⊕

# Candlestick Analysis

## The Individual Candles

**Spinning Top** – A bar with a small body and small range, after a multi-bar move.



**High Wave** – A bar with a small body and wider range, after a multi-bar move.



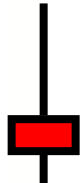
**Hammer** – A bar with a small body (red or green), long lower tail, and small to no upper tail, after a multi-bar down move.



# Candlestick Analysis

## *The Individual Candles*

*Inverted Hammer* – A bar with a small body (red or green), long upper tail, and small to no lower tail, after a **multi-bar down move**.



*Hangman* – A bar with a small body (red or green), long lower tail, and small to no upper tail, after a **multi-bar up move**.



*Shooting Star* – A bar with a small body (red or green), long upper tail, and small to no lower tail, after a **multi-bar up move**.



# Candlestick Analysis

*Let's begin to simplify all of these prior candles.*

## *Single Candle Questions:*

- Were the prior candles moving up or down?*
- Was there a tail on the top, bottom or both sides of the body?*
- Was the body relatively small in relation to the candle range?*
- Interpretation – Momentum slowed down and there may have been an increase in buying or selling.*

# Candlestick Analysis

● *As you can see, an individual candle may or may not result in a reversal.*

● *More information is needed for them to be meaningful.*





# Candlestick Analysis

## Two-Bar Combinations

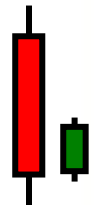
Harami Cross Bullish – A DOJI inside a large red body.



Harami Cross Bearish – A DOJI inside a large green body.



Harami Bullish – A small green bar inside a large red body.



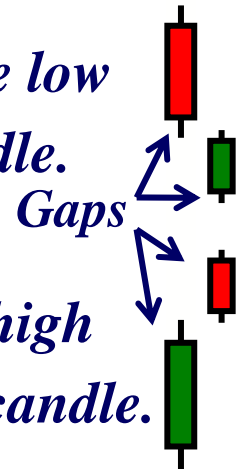
Harami Bearish – A small red bar inside a large green body.



# Candlestick Analysis

## Two-Bar Combinations Con't

**On Neck Line Bullish** – A green candle that opens below the low of a prior red candle (gap) and closes at the low of the prior candle.

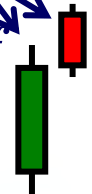


**On Neck Line Bearish** – A red candle that opens above the high of a prior green candle (gap) and closes at the high of the prior candle.

**In Neck Line Bullish** – A green candle that opens below the low of a prior red candle (gap) and closes at the close of the prior candle.



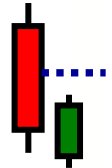
**In Neck Line Bearish** – A red candle that opens above the high of a prior green candle (gap) and closes at the close of the prior candle.



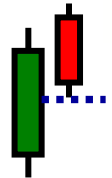
# Candlestick Analysis

## Two-Bar Combinations Con't

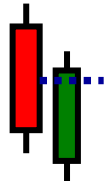
**Thrust Line Bullish** – A green candle that opens below the low of a prior red candle and closes inside the prior red candle's body, but below the midpoint.



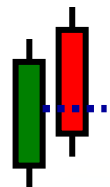
**Thrust Line Bearish** – A red candle that opens above the high of a prior green candle and closes inside the prior green candle's body, but above the midpoint.



**Piercing Line Bullish** – A green bar that opens below the low of a red bar and closes above the midpoint of the prior bar.



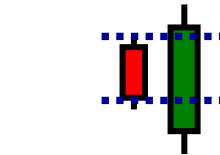
**Dark Cloud Cover Bearish** – A red bar that opens above the high of a green bar and closes below the midpoint of the prior bar.



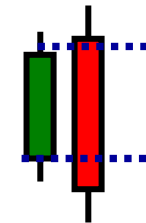
# Candlestick Analysis

## Two-Bar Combinations Con't

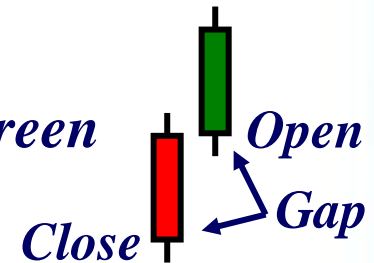
**Engulfing Bullish** – A larger green body engulfing a smaller red body.



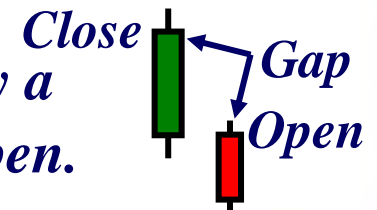
**Engulfing Bearish** – A larger red body engulfing a smaller green body.



**Separating Lines Bullish** – A red candle followed by a green candle that opens (gaps) at or near the prior candle's open.



**Separating Lines Bearish** – A green candle followed by a red candle that opens (gaps) at or near the prior candle's open.



# Candlestick Analysis

*Let's begin to simplify all of these prior candles.*

## *Two Candle Combination Questions:*

- Were the prior candles moving up or down?*
- If a gap occurred, to what degree did it fail to follow through?*
- How far did the current bar retrace and close into the prior?*
- Was there a complete reversal of the prior candle?*
- Interpretation – Momentum has shifted to varying degrees.*

# Candlestick Analysis

## Two-Bar Combinations

Two-bar combinations are an improvement over individual candles at signaling reversals.



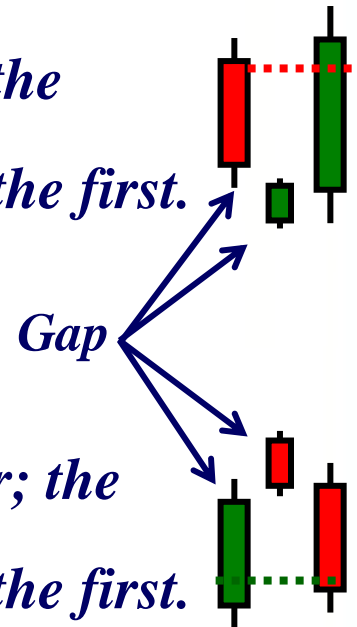
Now let's look at three-bar combinations

# Candlestick Analysis

## Three-Bar Combinations

**Morning Star Bullish** – The first bar is a long red bar; the second gaps below the prior body; the third closes well into the first.

**Evening Star Bearish** – The first bar is a long green bar; the second gaps above the prior body; the third closes well into the first.



**Morning/Evening DOJI Star** – Replace Star with DOJI

# Candlestick Analysis

*Let's begin to simplify all of these prior candles.*

## *Three-Bar Combination Questions:*

- Were the prior candles moving up or down?*
- To what degree did momentum slow and begin to shift?*
- To what degree did the next candle penetrate and close into the prior candles?*
- Interpretation – Momentum slowed down, reversed and there has been an increase in buying or selling.*



# Candlestick Analysis



# Candlestick Analysis



● *Not all candles will produce a reversal, but they all have meaning!*

● *Some would say: Candle messages occurring within a consolidation are meaningless.*

● *In time, you will see how they offer very valuable information.*

# Candlestick Analysis



At times, candle patterns have No Follow Through (*NFT*) to their suggested

Red bars ignored (*RBI*) and Green bars ignored (*GBI*) can provide powerful messages!

# Candlestick Analysis

- *The basics offered a good starting point for the interpretation of candlesticks.*
- *In the next sections, we are going to look at candlestick analysis from the Pristine point of view.*
- *A deeper understanding of candlestick analysis will not only demystify them, but will also simplify their use.*

***Beyond the  
Basics of  
Candlesticks***

# Candlestick Analysis

● *Candlestick analysis is the study of momentum*

*increases and decreases, which may lead to a price reversal.*



# Candlestick Analysis

## Common Candle Terms:

*Engulfing Bar, Piercing Bar,  
Dark Cloud Cover, Harami,  
Thrusting Line.*

*Doji, Star, Hammer, Hangman*

## Pristine Candle Terms:

COG – *These have different levels of penetration into the prior bar's range*

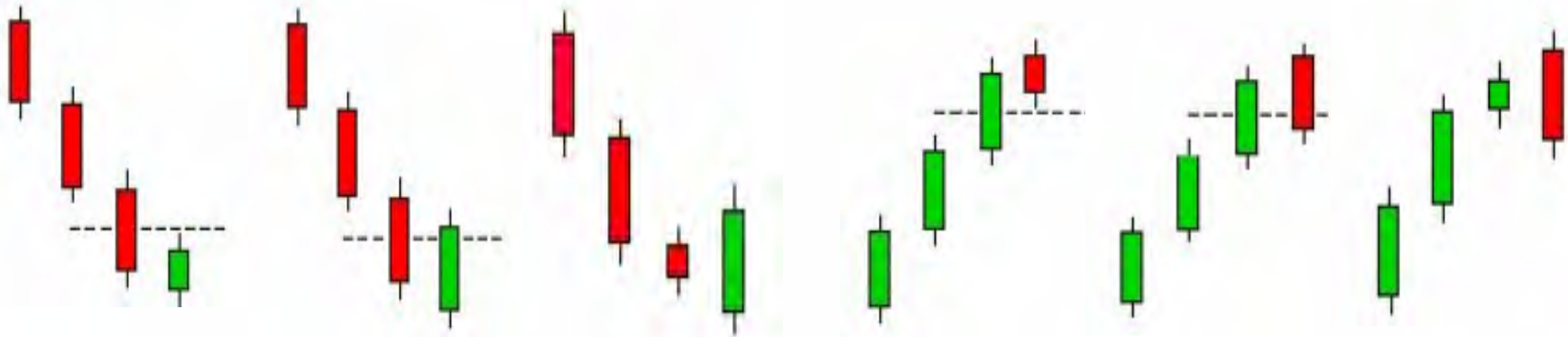
NRB, NB, BT, TT – *Different levels of slowing momentum*

WRB – *An increase in range or momentum compared to recent bars.*

- *Terms are unimportant, each candle's message is.*
- *Do **NOT** assume the outcome of the current candle and or message.*
- *A candle is not complete until that time period ends.*
- *The combination of candle messages will speak to you.*

# Candlestick Analysis

## *COG REVERSAL BAR*



*Bullish Reversals*

*Bearish Reversals*

*Pristine Tip:* While there are different variations, the message is always the same ! A reversal in momentum *has* occurred!



# Candlestick Analysis

## Narrow Range Bodies (NB)

- *Bars in which the body of the candle is small relative to the overall length of the candle. They may have Tails on either side of the body.*
- *The appearance of tails shows uncertainty in the prevailing trend of bars.*

**Pristine Tip:** *While there are different variations, the message is always the same ! A slowing in momentum **has occurred!***



# Candlestick Analysis

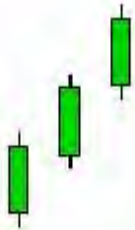
## Narrowing Range Bars (NRB)

- *A series of bars in which the difference between the highs and lows is narrowing.*

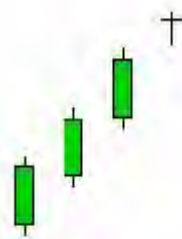
**Pristine Tip:** *While there are different variations, the message is always the same ! A slowing in momentum **is occurring!***



# Candlestick Analysis



**Sell Setup**  
3 or more bars up in downtrend.



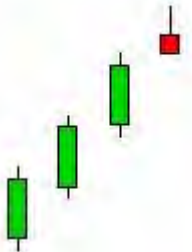
**Bearish Doji Star**  
Gapped up, and opened and closed at the same price.



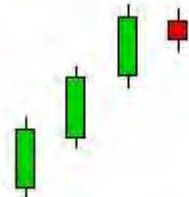
**Bearish Star**  
Gapped up, closing under open, leaving a small real body.



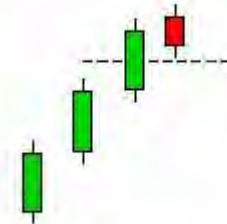
**Bearish Hangman**  
Narrow range body with topping tail, near higher end of prior bar.



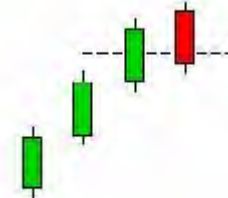
**Bearish Shooting Star**  
Narrow range body with topping tail, near higher end of prior bar.



**Bearish Harami**  
Opened near the prior bar's close, rose and fell during the day, closing with small real body.



**Bearish Thrust**  
Gapped up and closed down less than half way into the prior bar's range.

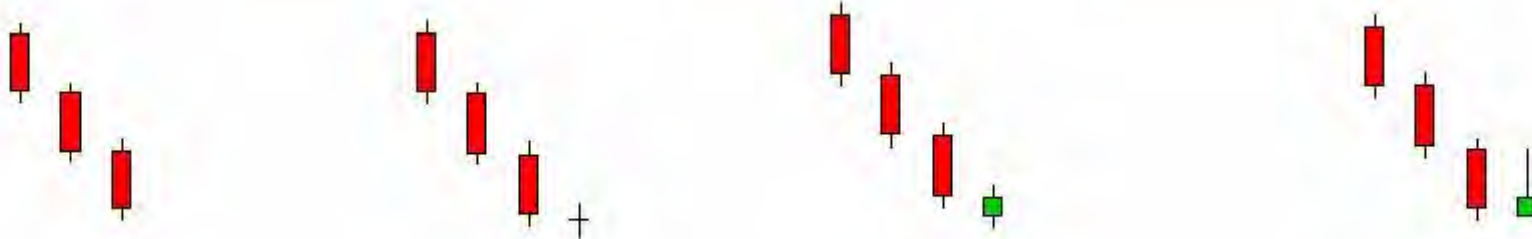


**Bearish Piercing**  
Gapped up and closed down over  $\frac{1}{2}$  into the prior bar's range.



**Bearish Engulfing**  
Gapped up and fell down to engulf the entire prior bar's real body.

# Candlestick Analysis



<p><b><u>Buy Setup</u></b> 3 or more bars down in uptrend.</p>	<p><b><u>Bullish Doji Star</u></b> Gapped down, and opened and closed at the same price.</p>	<p><b><u>Bullish Star</u></b> Gapped down, closing over open, leaving a small real body.</p>	<p><b><u>Bullish Inverted Hammer</u></b> Narrow range body with topping tail, near lower end of prior bar.</p>
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<p><b><u>Bullish Hammer</u></b> Narrow range body with bottom tail, near lower end of prior bar.</p>	<p><b><u>Bullish Harami</u></b> Opened near the prior bar's close, fell and rose during the day, closing with small real body.</p>	<p><b><u>Bullish Thrust</u></b> Gapped down and closed up less than half way into the prior bar's range.</p>	<p><b><u>Bullish Piercing</u></b> Gapped down and closed over <math>\frac{1}{2}</math> into the prior bar's range.</p>	<p><b><u>Bullish Engulfing</u></b> Gapped down and rose up to engulf the entire prior bar's real body.</p>
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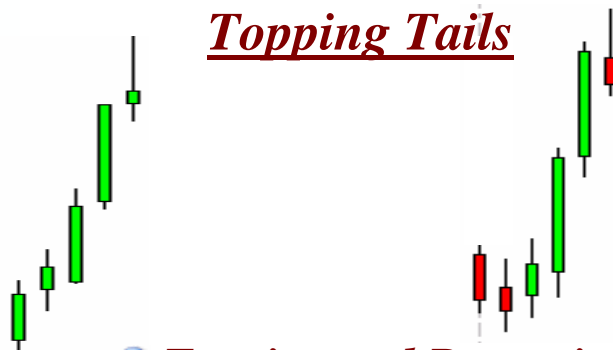
● *Prices are trending lower, the **potency** of the reversal signals are increasing.* 36

# Candlestick Analysis

## Topping Tail Bars (TT)

● Normal or wide range bars in which prices had been higher, then supply forced prices below the mid-point of the bar's range.

**Pristine Tip:** While there are different variations, the message is always the same ! Distribution has occurred, and overhead Supply has been increased!

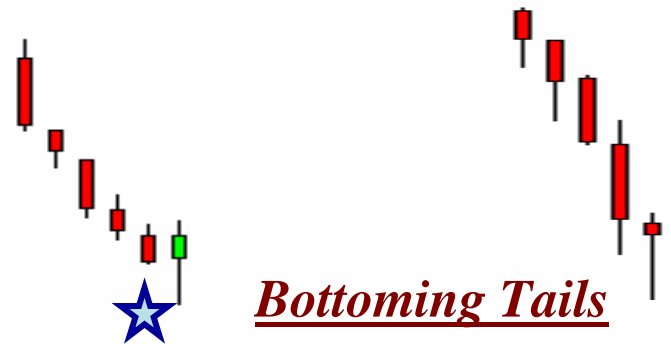


Topping Tails

## Bottoming Tail Bars (BT)

● Normal or wide range bars in which prices had been lower, then demand forced prices higher above the mid-point of the bar's range.

**Pristine Tip:** While there are different variations, the message is always the same ! Accumulation has occurred, and Supply overhead has been removed!

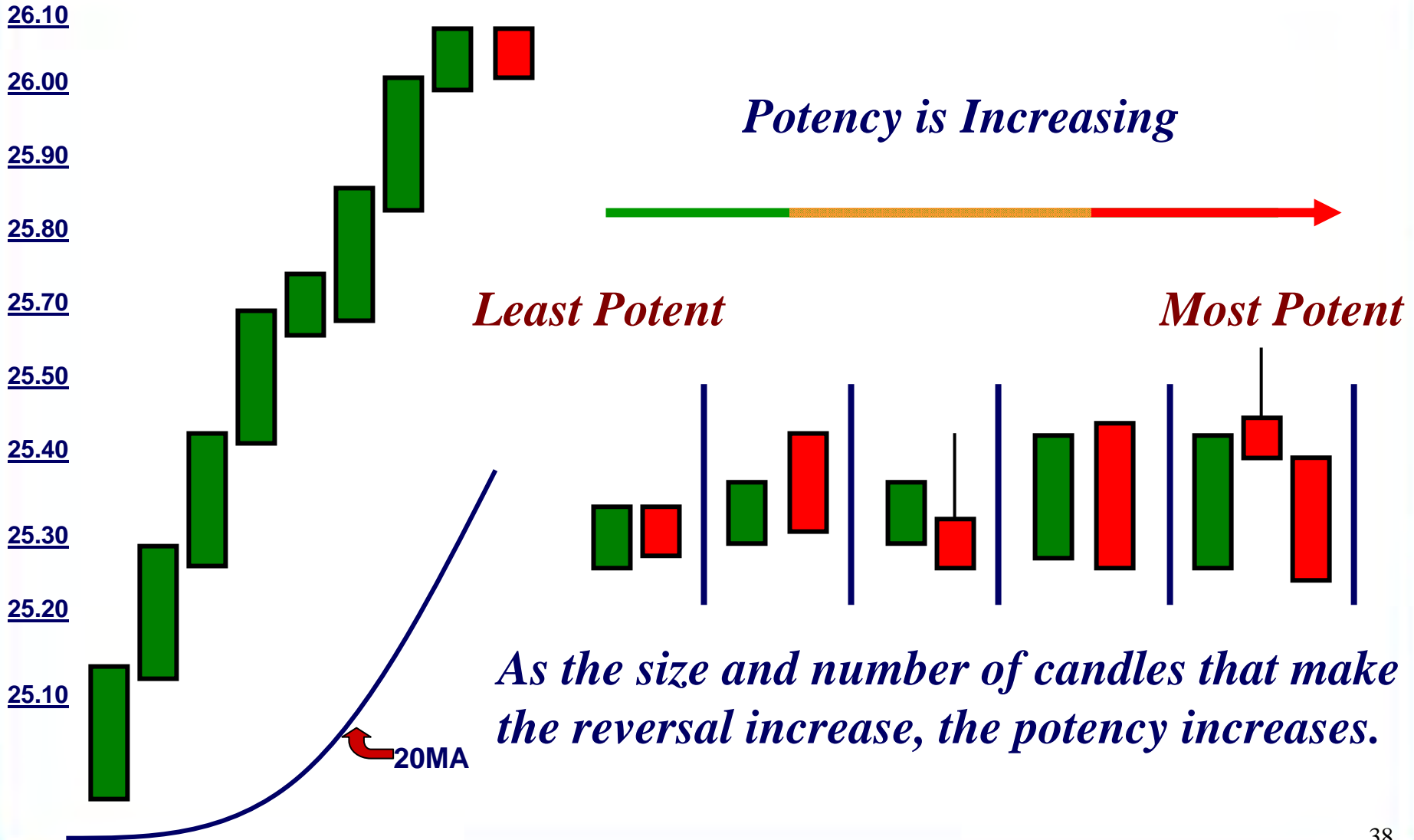


Bottoming Tails

● Topping and Bottoming Tails bars that are also a "Range Expansion" relative to prior bars have better odds of being an actual reversal point.

# Candlestick Analysis

*Has A Significant Shift In Momentum Occurred?*



# Candlestick Analysis

*You now have an understanding of some of Pristine's terms and interpretation of candles.*



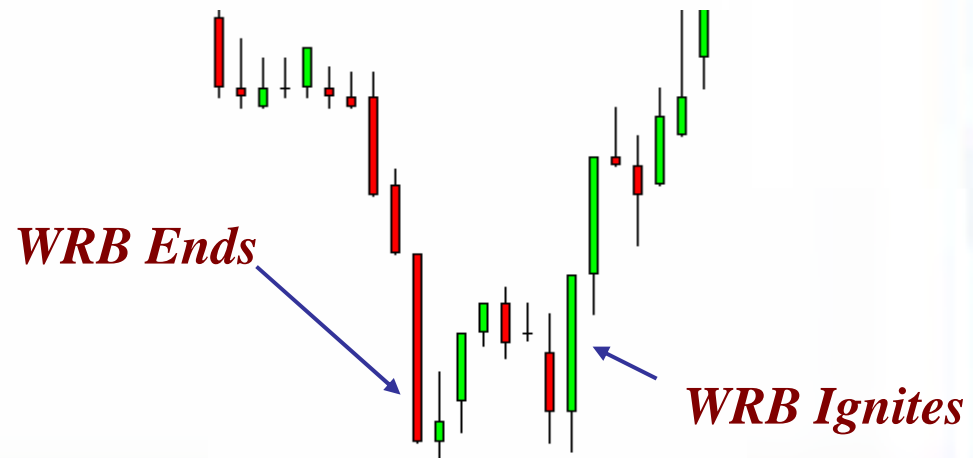
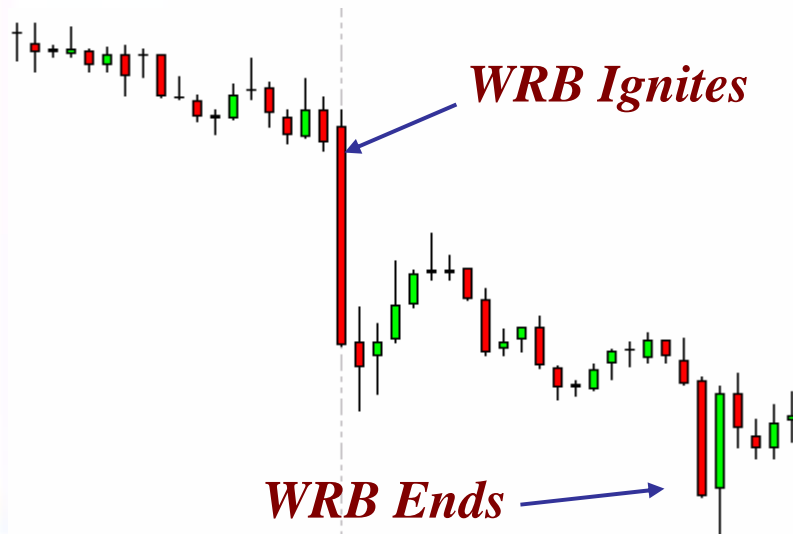
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*Now lets look at Wide Range Bars and Potent Reversals, and consider these candles' effects on emotions and begin to think in "Candle Language."*

# Candlestick Analysis

## Wide Range Bar (WRB)

- A bar in which the candle's body is *relatively wide* compared to the most recent bars.
- A Wide Range Bar after a period of low volatility ignites momentum in that direction.
- A Wide Range Bar after an extended advance or decline typically happens near the end of a move. A **NB** or **COG** signals the turn.



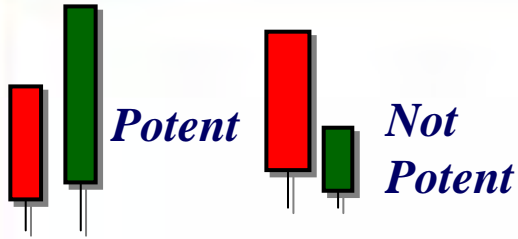


# Candlestick Analysis

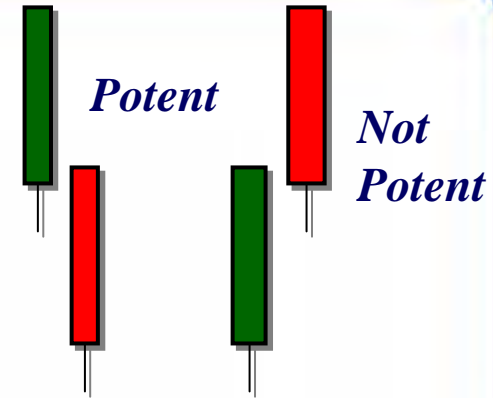


- A *Narrow Range* bar can indicate that momentum has slowed or that volatility is low.
- A *WRB* or *RE* bar displays commitment and emotion.
- A *Wide Range Bar (WRB)* is a *Range Expansion (RE)* by definition.
- A *Bottom Tail (BT)* or *Top Tail (TT)* may or may not be a *Range Expansion (RE)* bar.
- A *WRB* is an indication that momentum may soon slow or end an existing move.
- A *WRB Breakout* or *breakdown*, after a consolidation, ignites a move in that direction.

# Candlestick Analysis



- *The larger the reversal bar is in relation to the prior bar, the more potent*
- *The level or depth of retracement into the prior candle increases potency*



- *Expanding range indicates Fear or Greed is increasing and becoming extreme*
- *Expanding range (**increased volatility**) increases the odds of a reversal*



# Candlestick Analysis

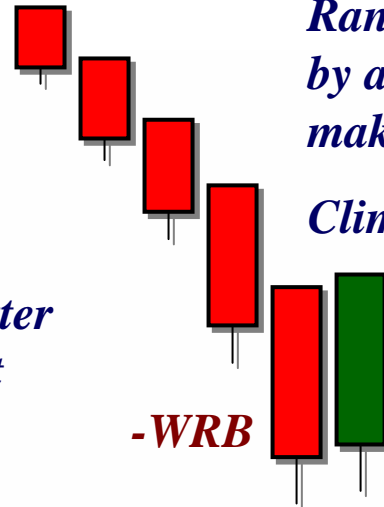


**-WRB**

*This is not climactic and the reversal is not Potent*

*No fear, just slowing momentum*

*A retest of a this low has better odds of a larger retracement*

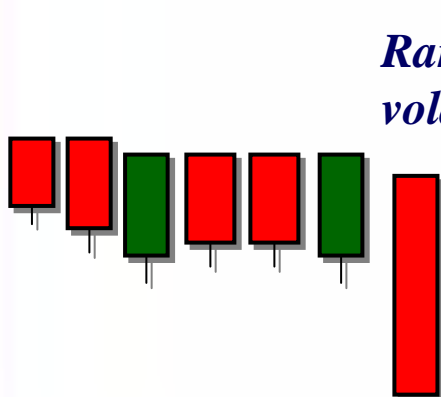


*Range Expanded followed by a complete reversal, making it very potent!*

*Climactic and Potent*

**-WRB**

**+WRB**



*Range Expansion after low volatility ignites a move*

**-WRB**

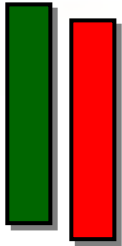


**-WRB**

*Not climactic, but Potent*

# Candlestick Analysis

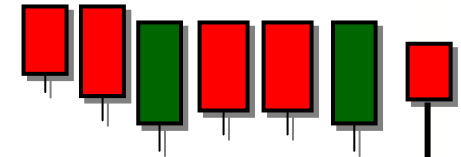
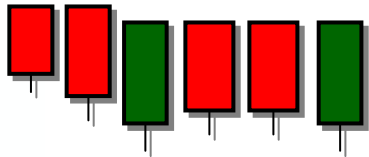
Wide Range Bar



• This Bottom Tail bar at (A) is also a Range Expansion and was a Wide Range Bar (-WRB) prior to completion!



• What were traders thinking when the bar was forming as a -WRB, and then when it became a BT?



A

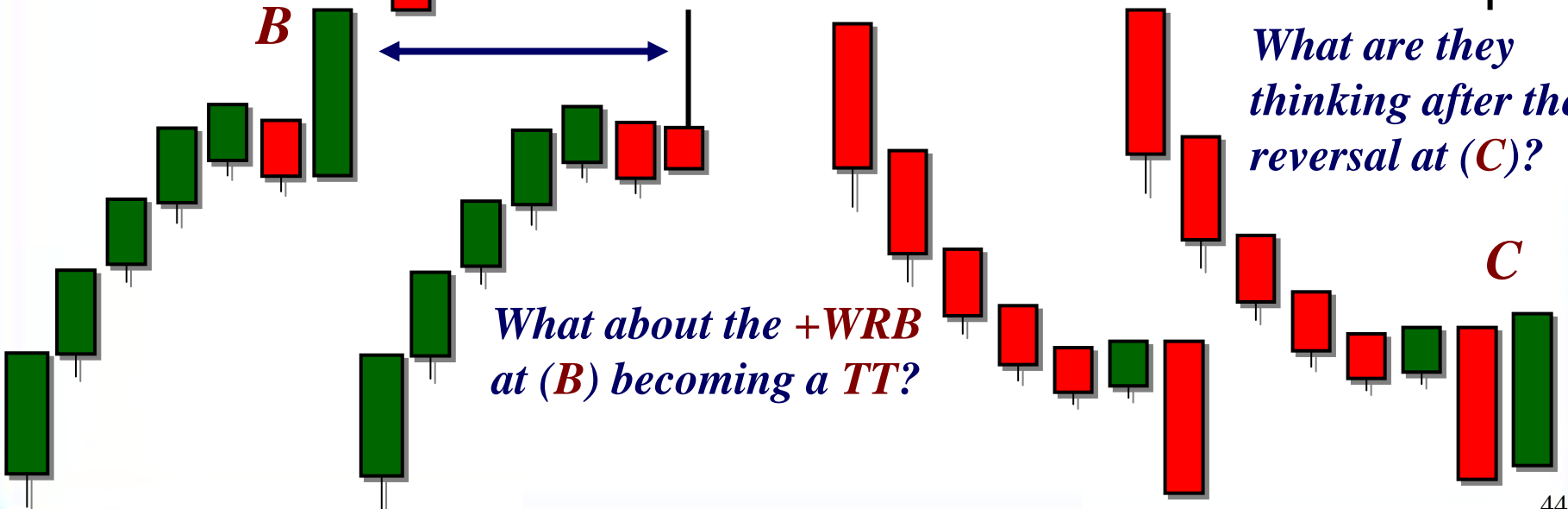
B



What are they thinking after the reversal at (C)?

What about the +WRB at (B) becoming a TT?

C



## *Combine the Candle Messages*

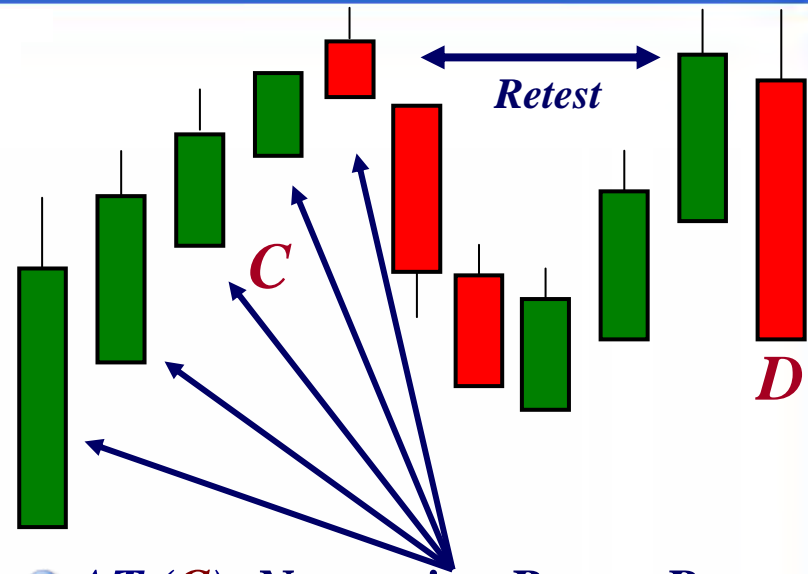
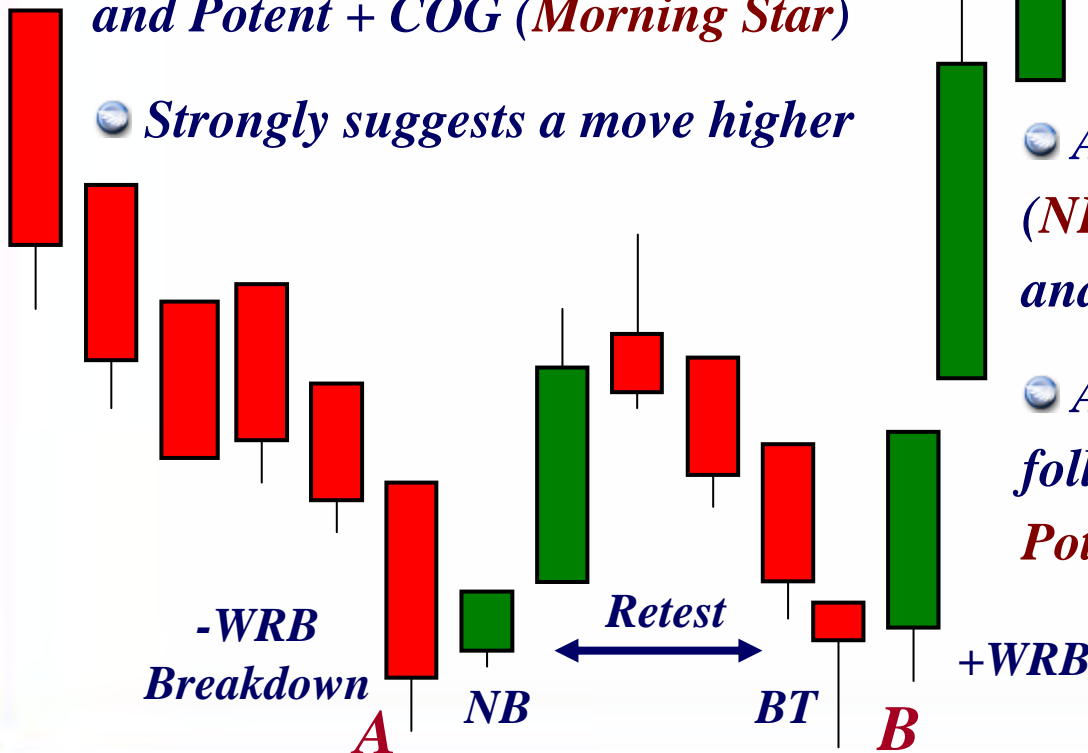
- *A signal bar, two-bar or three-bar candle pattern can point you to high probability reversal points, but ....*
- *A combination of these candles in the same area will give a stronger message of a reversal point.*
- *By interpreting the meaning of all recent candles combined, the odds of successfully locating a reversal increase.*

# Candlestick Analysis

- At (A), An expanding range breakdown is followed by an inside narrow range bar (**Harami**)

- At (B) A retest of that “area” is followed by a **Bottoming Tail (BT)** and **Potent + COG (Morning Star)**

- Strongly suggests a move higher

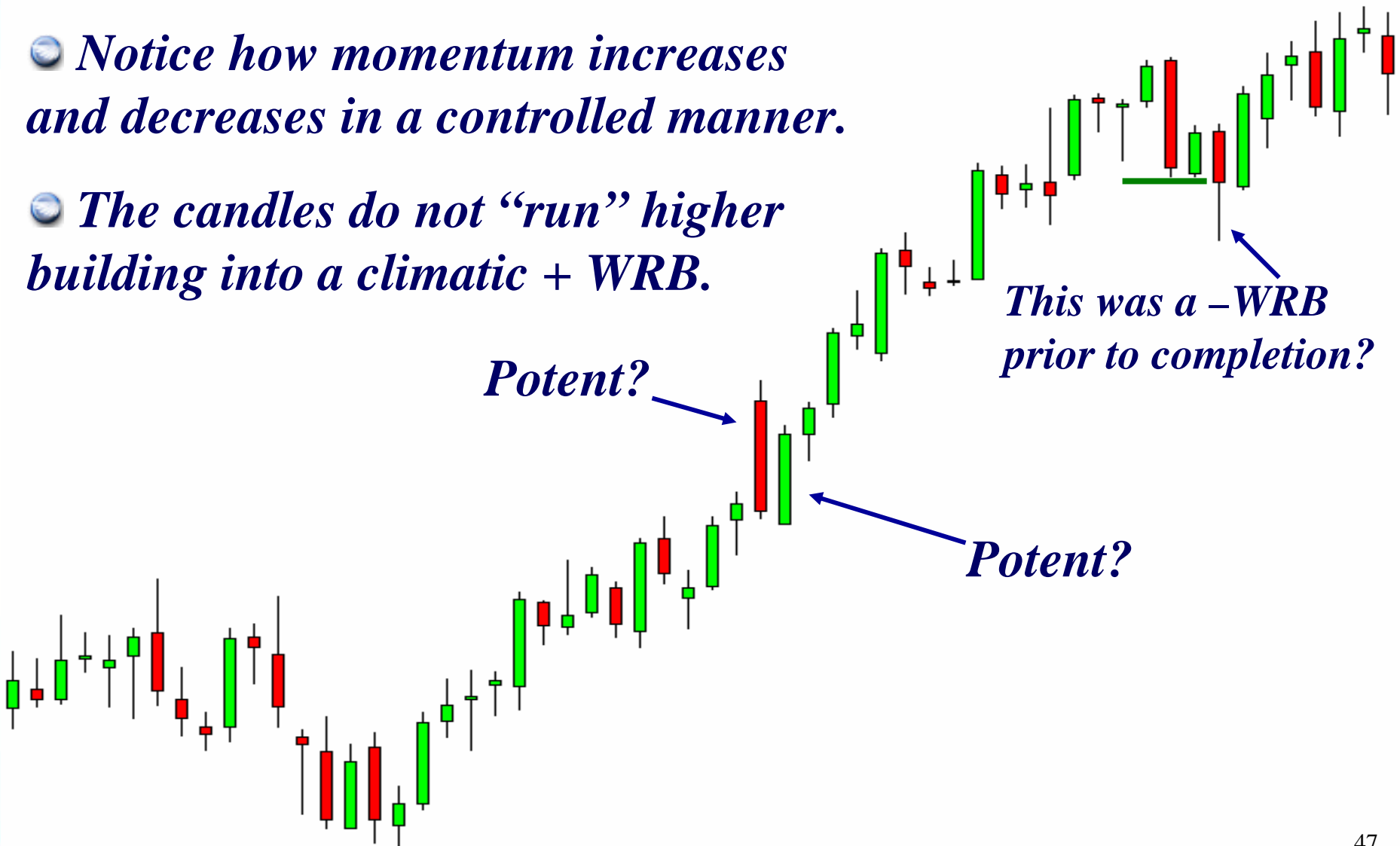


- AT (C), **Narrowing Range Bars (NR)** are followed by a gap down and move lower

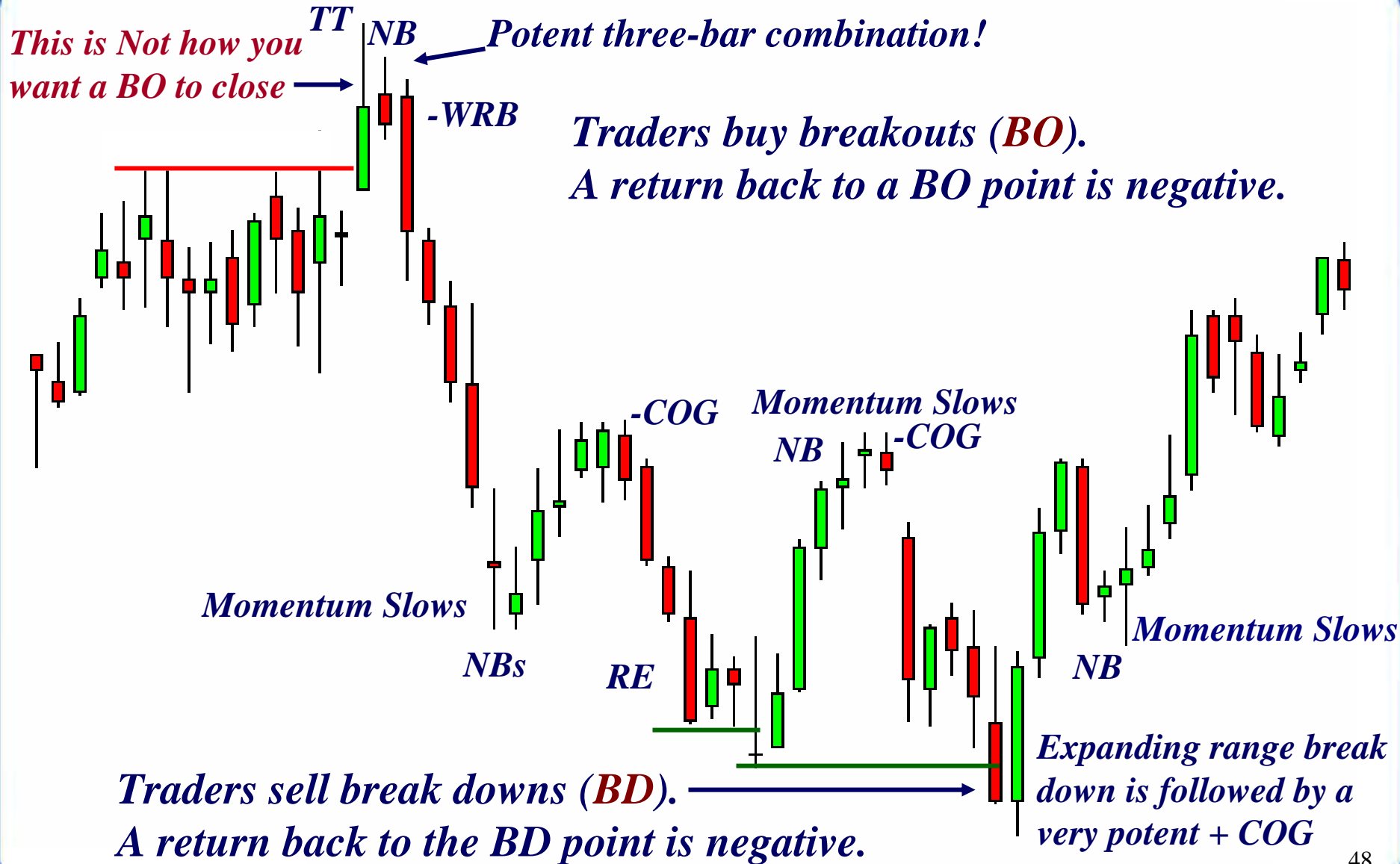
- At (D), a retest of the area is followed by a minor gap lower and **Potent -COG** suggests a move lower

# Candlestick Analysis

- *Notice how momentum increases and decreases in a controlled manner.*
- *The candles do not “run” higher building into a climatic + WRB.*



# Candlestick Analysis





# Candlestick Analysis

- *As fear and greed increase, ranges expand*
- *As fear and greed decrease, ranges and/or bodies contract*
- *When and where this occurs is key*

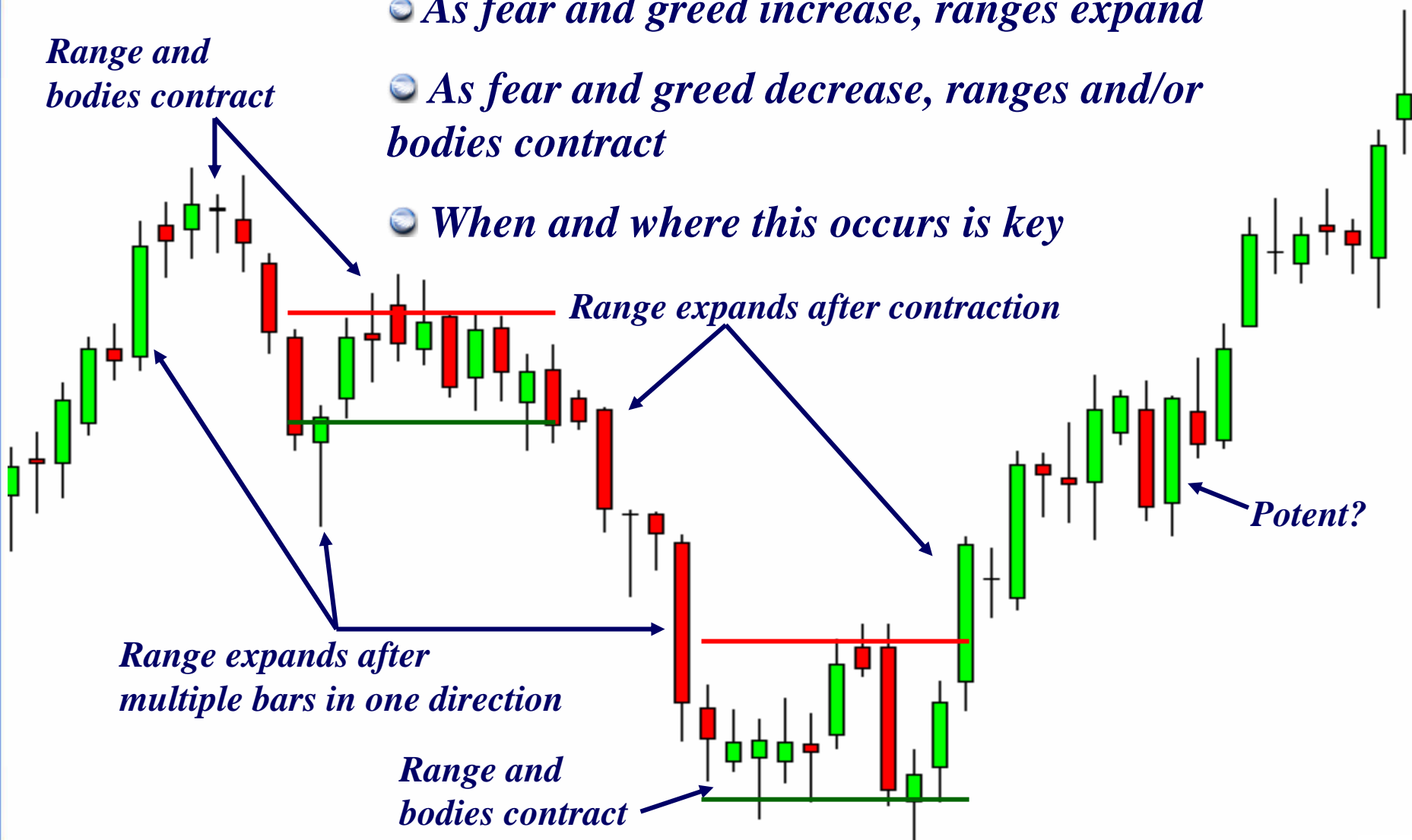
*Range and bodies contract*

*Range expands after contraction*

*Range expands after multiple bars in one direction*

*Range and bodies contract*

*Potent?*



# Candlestick Analysis

- *As you can see, it is possible to understand what candles are saying without knowing their various names and patterns.*
- *Remembering candle pattern names does not equate to using them successfully, but there is so much focus on them.*
- *If you remember the patterns, fine; but you now see there is a much easier, and better way.*
- *The use of candles can not guarantee a successful trade, but this deeper understanding gives much greater odds of success.*

# Concluding Thoughts

- *At this point, you have a great start to using candles. Now, it's up to you to work with the material and make it yours.*
- *You should be able to analyze candle patterns objectively and make intelligent trading decisions.*
- *Defining an opportunity, where the odds are in your favor, then having the discipline to follow your trading and money management rules is all that you can do.*

*In closing, we at Pristine wish you great success!*