

# *Mastering Candlestick Charts 2*

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# Candlestick Analysis

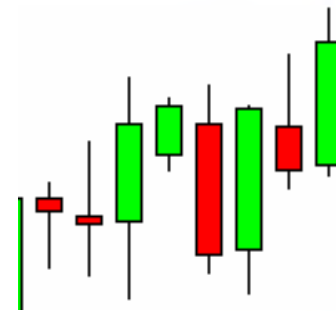
## *Cutting Through the Candlestick Hype*

- *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?*



# Why Use Candlesticks?

- *They provide a visual picture of what is occurring.*
- *They give visual insights into others' thoughts and expectations.*
- *They give visual confirmation signals of support and resistance.*
- *They can visually align your thoughts with the market.*
- *They can visually point to potential reversal points.*



# 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*

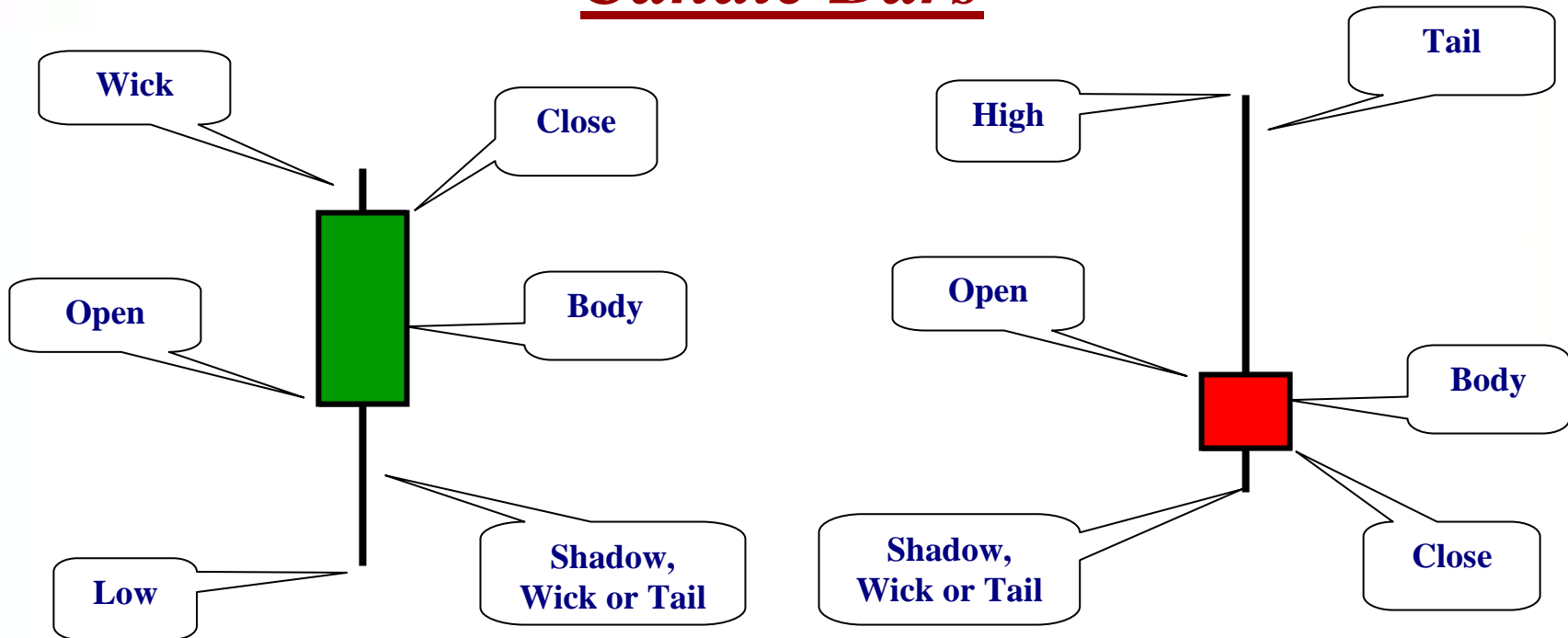
- *Attempting to define the accuracy of candle names or patterns without considering the overall pattern is useless and misleading.*
- *There are a least 50 different candle patterns, bullish and bearish. Some memorize them, but you will see this is completely unnecessary.*
- *While candles are very 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 & Beyond  
Review***



# 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 some individual candles and their names to make sure you have the background. See Intro to candles.*

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

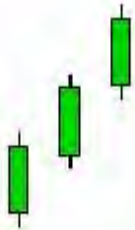
*When we are done, not only will you understand what candles are saying, you will also:*

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

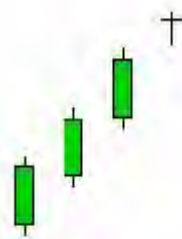
● *Know where to place a stop*

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

# Candlestick Analysis



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



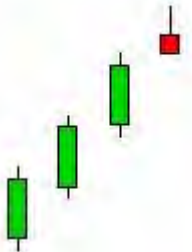
**Bearish Doji Star**  
Gapped up, and opened and  
closed at the same price.



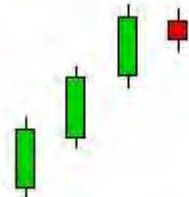
**Bearish Star**  
Gapped up, closing under open,  
leaving a small real body.



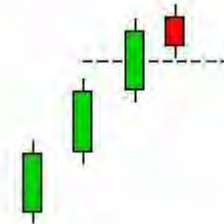
**Bearish Hangman**  
Narrow range body with topping  
tail, near higher end of prior bar.



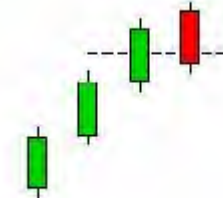
**Bearish Shooting Star**  
Narrow range body with  
topping tail, near higher  
end of prior bar.



**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.

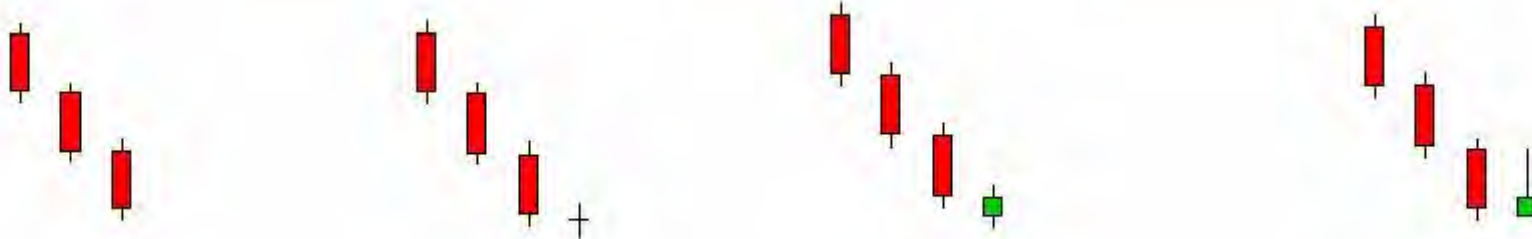


**Bearish Piercing**  
Gapped up and  
closed down over 1/2  
into the prior bar's  
range.



**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. 12

# Candlestick Analysis

● *The level of accumulation and distribution will be seen through candles displaying shifts in momentum.*



● *Those shifts take on various forms. Your job is to recognize them and assess the odds of follow through.*

# 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

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



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

# Candlestick Analysis

- *A signal bar, two-bar or three-bar candle pattern can point you to high probability reversal points, but ....*
- *By interpreting the meaning of all recent candles combined, the odds of successfully locating a reversal increase.*
- *We will now consider the trend of current bars, support, resistance, volume, and a monitoring technique.*



# *Support and Resistance Basics*

## Candlestick Analysis

● *Candlestick analysis is a powerful tool that becomes more powerful with the additional understanding of **Support** and **Resistance**.*

● *This introduction to Pristine's systematic approach to analyzing **Support** and **Resistance** will give you a real advantage!*

*Let's take a look!*

## *What is Support and Resistance?*

- *Prior highs and lows*
- *Overlapping price bars (e.g., a base)*
- *An unfilled gap between price bars*

*The only “**real**” support or resistance is price.*

## *Subjective Support and Resistance*

- *Trading Bands or Envelopes*
- *Fibonacci Retracements*
- *Moving Averages*
- *Trendlines*

*These tools are subjective and unnecessary when you understand what is real.*

# Candlestick Analysis

## *Basic Support – Resistance*

- *The first reference of support is a prior candle's low, so a bearish candle's low must be violated to confirm a bearish signal.*
- *If that bearish candle's high is overcome on a closing basis first, the signal has been negated.*
- *The number of bars making up prior support or resistance will suggest the odds of overcoming or not overcoming that area.*
- *Prior highs, lows, and gaps are focal points of potential reversals.*

# Candlestick Analysis

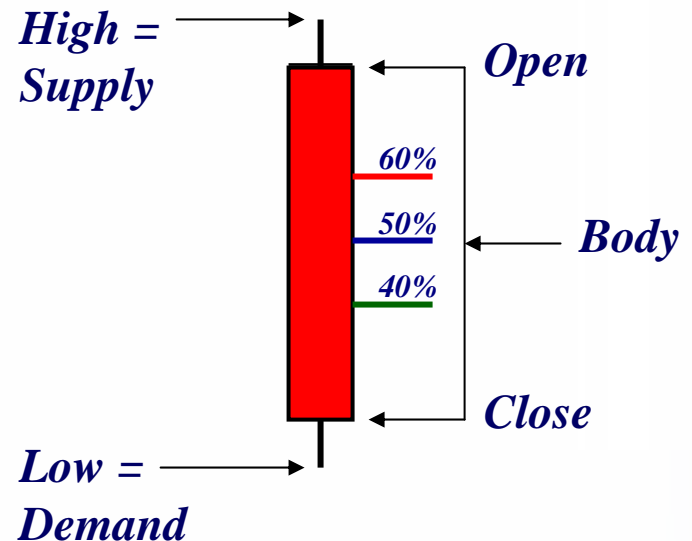
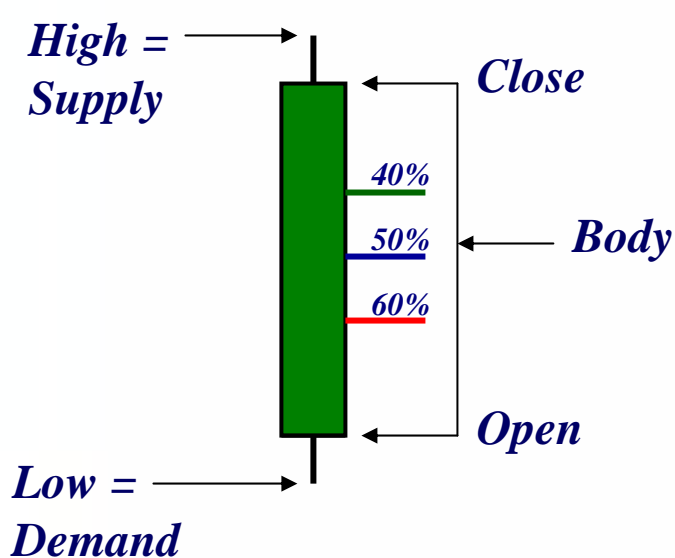
The Open = Beginning S / D

The High = Supply,  
Resistance

The Low = Demand, Support

The Close = Ending S / D

The Body = The difference between the open and close, which is the degree by which the battle between **Bulls** and **Bears** has been won or lost



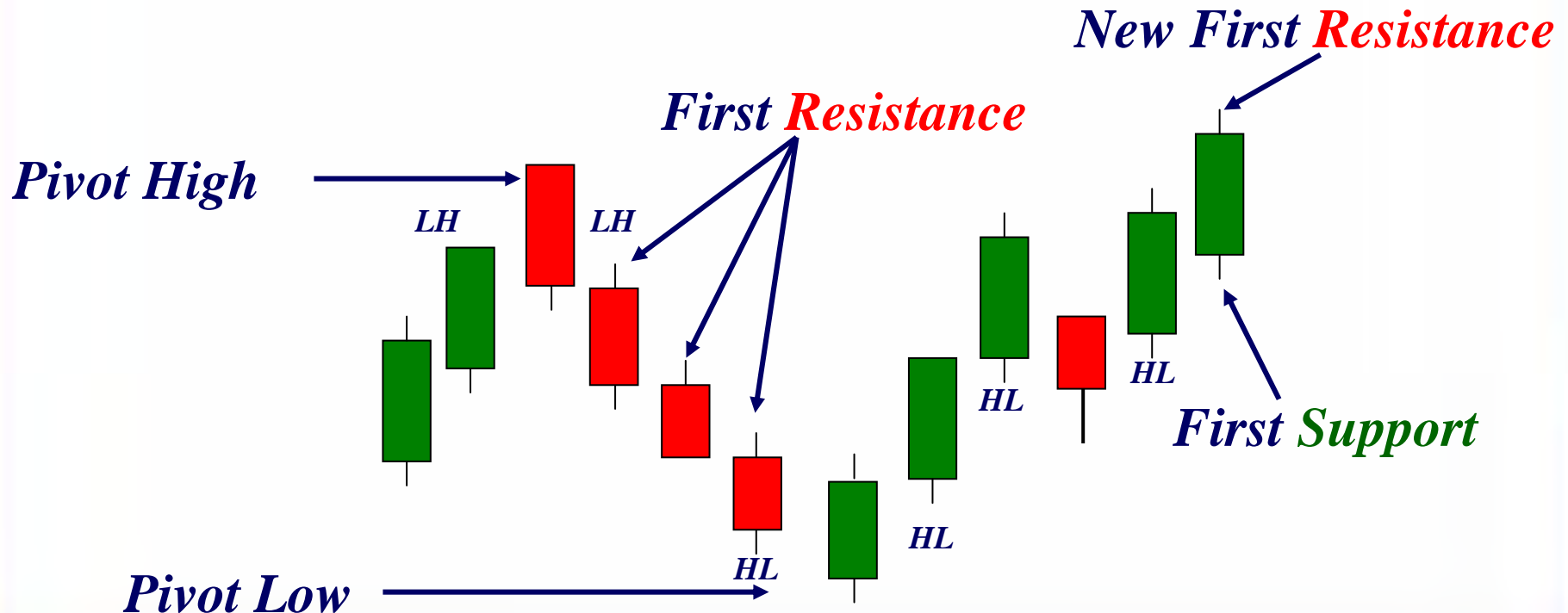
- The closing price within the range of a candle is a measurement of the strength of the **bulls** or **bears** in that period.

# Support and Resistance Analysis

*The first point of **support** is the prior bar's low.*

*The first point of **resistance** is the prior bar's high.*

*The second point of **support** or **resistance** is a Pivot Point.*

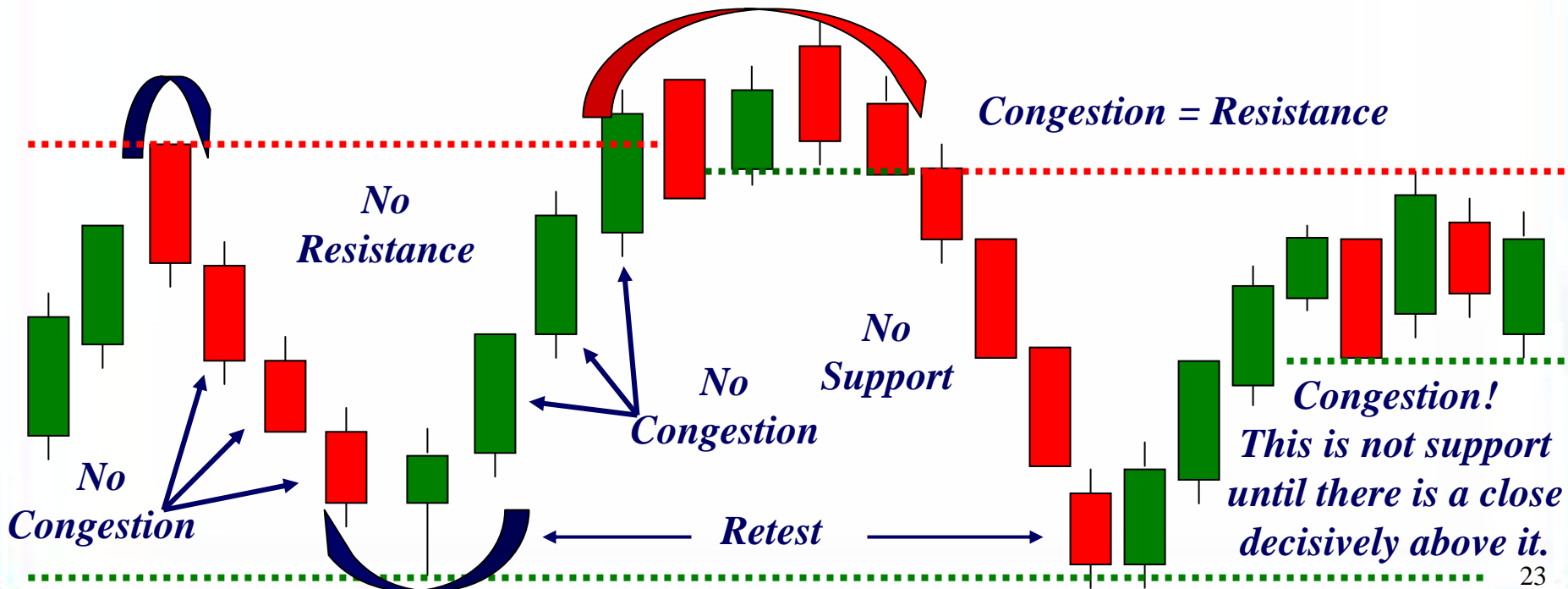


# Support and Resistance Analysis

*Multiple bars or congestion is a significant area of **Resistance** or **Support**.*

*They form **rounding** or **square** formations within a trend.*

*One-to-three bars reversals are less significant.*

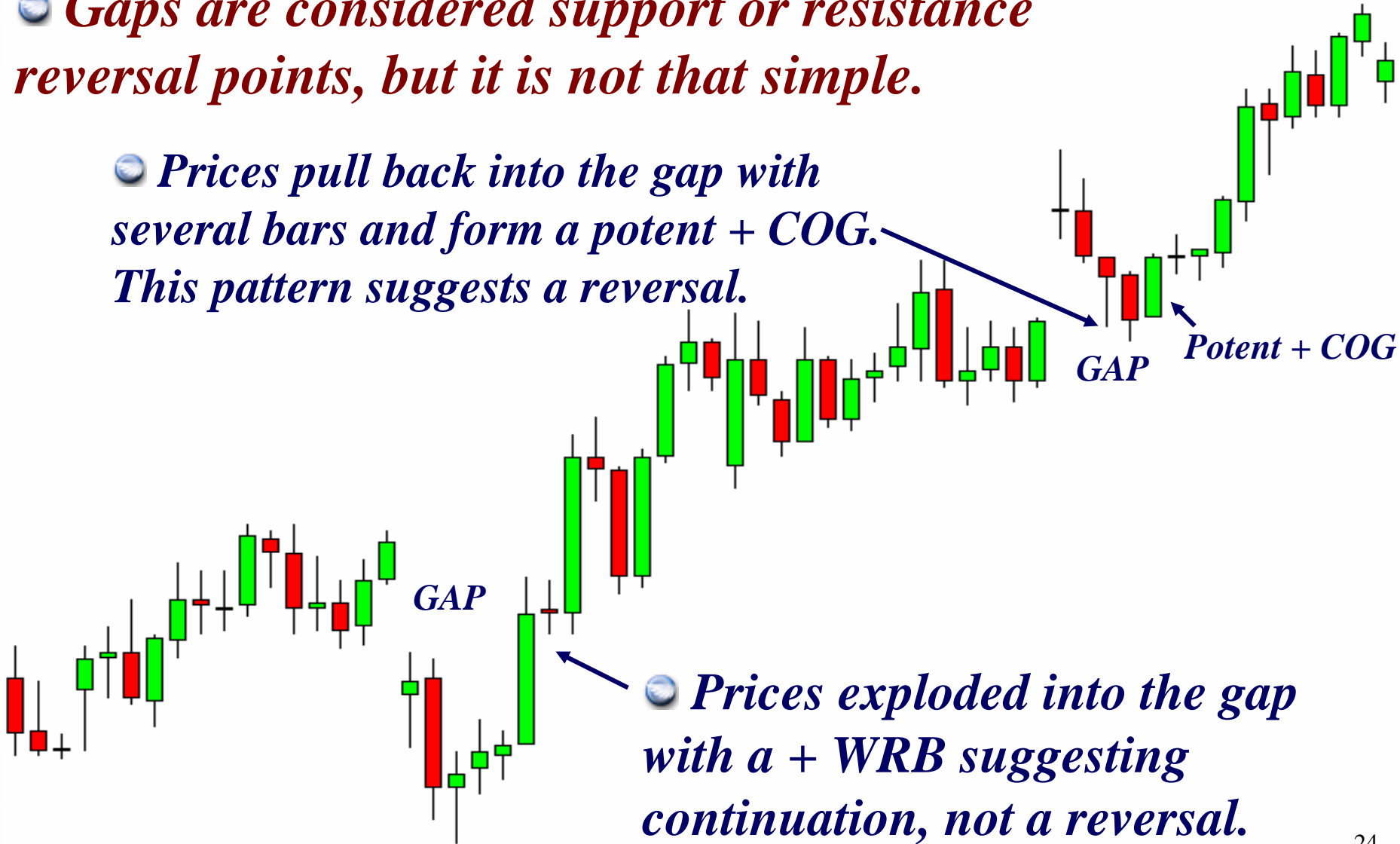


# Candlestick Analysis

*Gaps are considered support or resistance reversal points, but it is not that simple.*

*Prices pull back into the gap with several bars and form a potent + COG. This pattern suggests a reversal.*

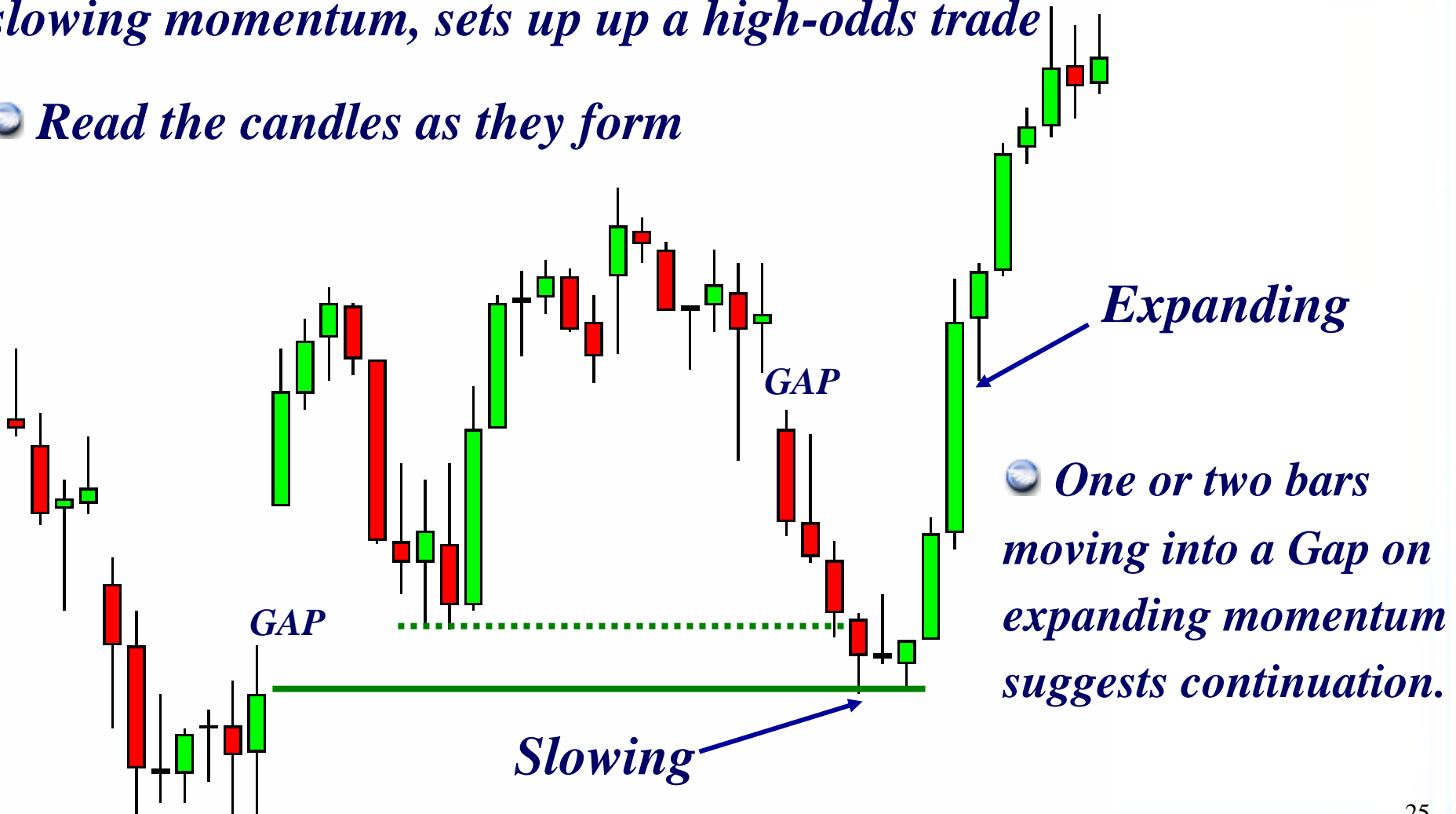
*Prices exploded into the gap with a + WRB suggesting continuation, not a reversal.*





# Candlestick Analysis

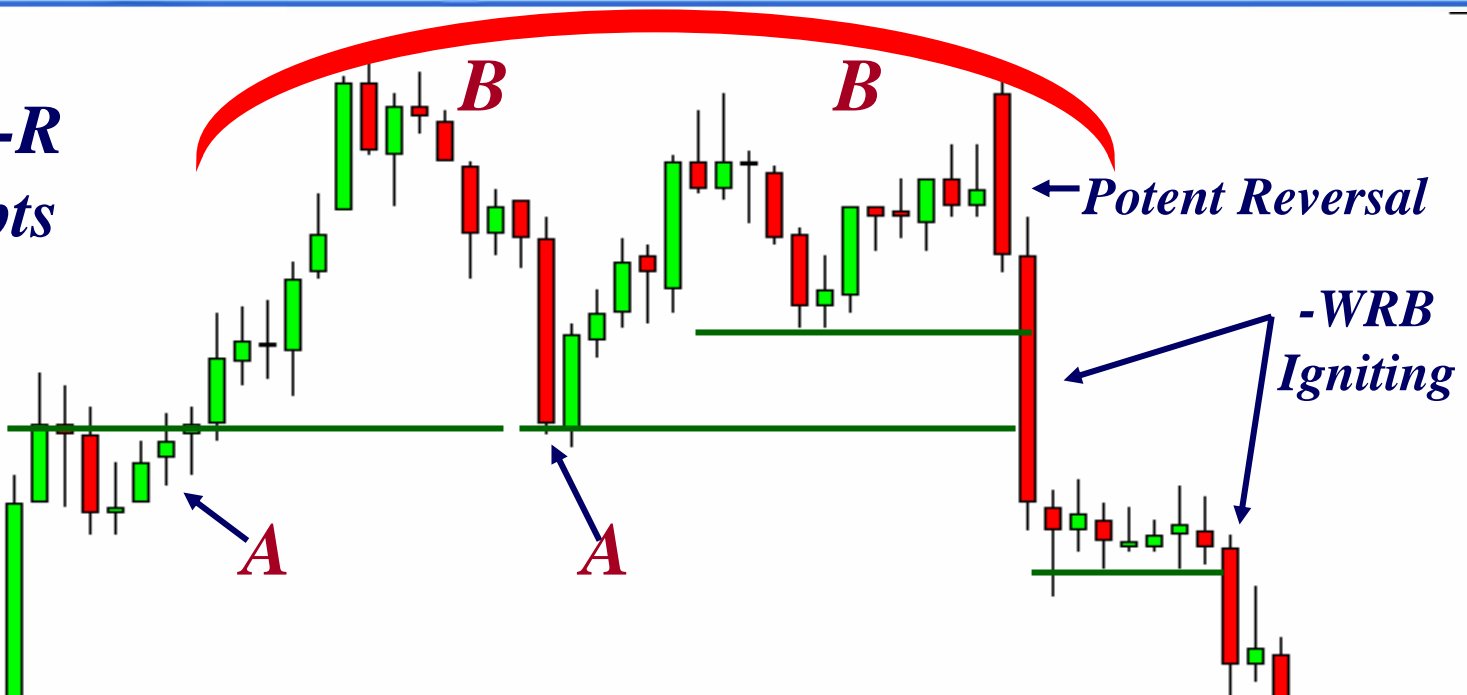
- *Three or more bars moving into a Gap, followed by slowing momentum, sets up up a high-odds trade*
- *Read the candles as they form*



- *One or two bars moving into a Gap on expanding momentum suggests continuation.*

# Candlestick Analysis

## TPM S-R Concepts



- As prices move sideways away from prior support (*A*), it becomes less significant.
- That sideways movement (*B*), once broken becomes an area of supply to push prices lower.

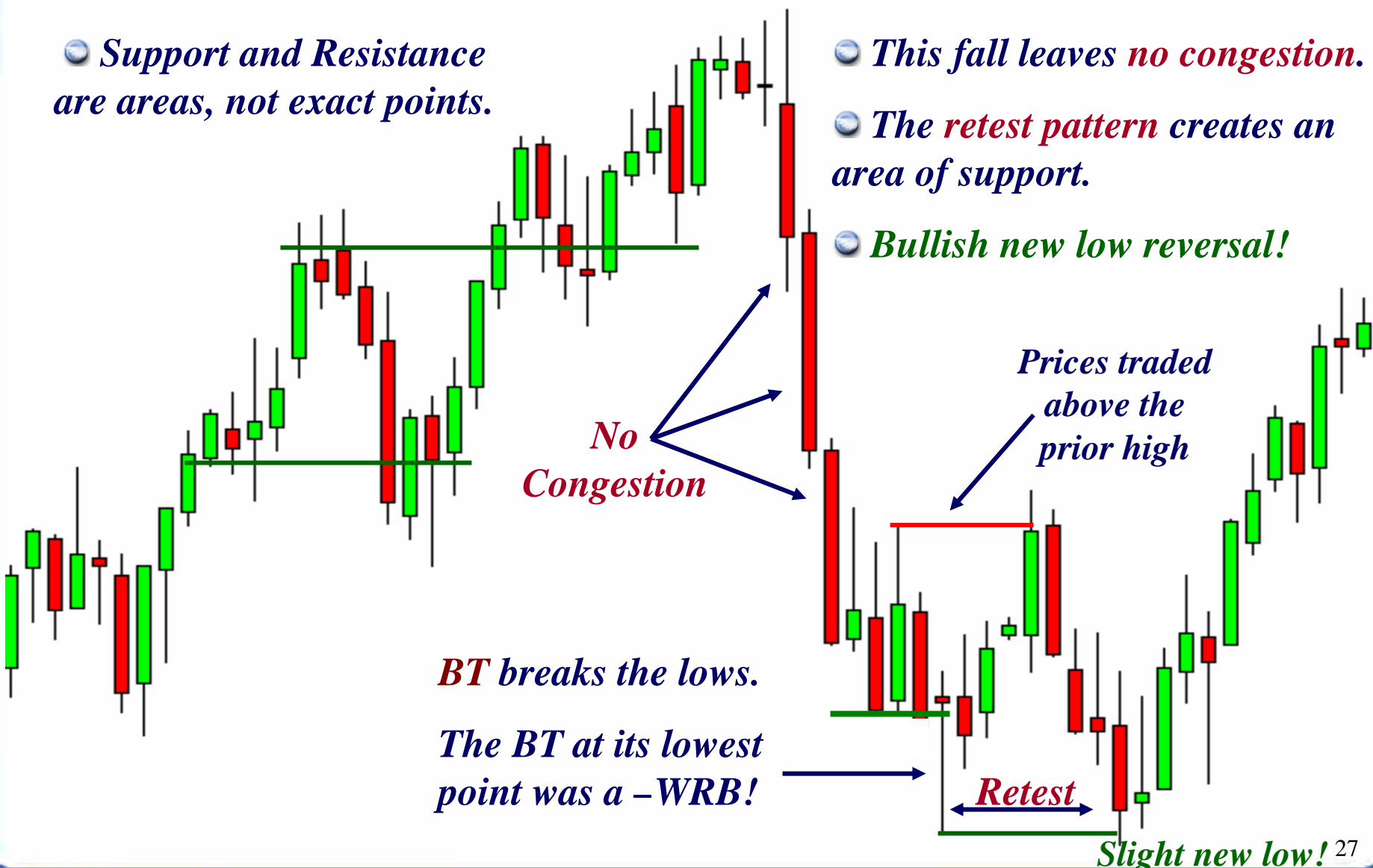
# Support and Resistance Questions

● *Support and Resistance are areas, not exact points.*

● *This fall leaves **no congestion**.*

● *The **retest pattern** creates an area of support.*

● ***Bullish new low reversal!***



*No Congestion*

*Prices traded above the prior high*

*BT breaks the lows.*

*The BT at its lowest point was a -WRB!*

*Retest*

*Slight new low!* 27

# Candlestick Analysis

*TPM covers trend quality and trend reversals extensively*



● *This reversal is very significant and potent.*

● *The breakout above the prior high was completely reversed.*

● *Track prior highs\* 1<sup>st</sup> resistance, then move to pivot reversal points when they form as 2<sup>nd</sup> resistance.*

● *Stay objective about the trend!*

# Support and Resistance Questions

## *Ask These Questions When Analyzing Support and Resistance:*

- Is it two bars or multiple bars of congestion?*
- What is the distance between Support and Resistance?*
- Has there been a break and/or close above/below a prior bar's high/low?*
- Has there been a retest and/or break of a prior pivot high/low?*
- Are there any unfilled gaps that prices are moving towards?*
- What type of candles form as prices move towards support or resistance?*
- Objectively reading Support and Resistance is the key to chart reading.*

***Bar-by-Bar  
Analysis or  
Candle-by-Candle***

# Candlestick Analysis

## *Candles and Price Patterns Produce Thoughts*

- *Once you have learned a candle pattern that suggests a future result, it produces expectations for that result.*
- *Expectations potentially lead to failure when it comes to technical trading if they are not kept in alignment with current patterns.*
- *Without a method to update new information as it occurs, your expectations of the past will keep you there!*
- *Bar-by-Bar Analysis is a Pristine tool that keeps you in the present.*

# Candlestick Analysis

## *Each Candle Produces New Thoughts!*

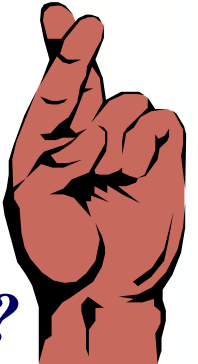
- *Where is the next O, H, L and C in relation to the prior candle?*
- *Once the current candle is complete, what does it communicate?*
- *Does it confirm or contradict the prior candle or candles' message?*
- *Did that candle break and/or close beyond a prior high or low?*
- *After each candle forms, ask yourself: “Is this confirmation of the prior bar or bars; is it weak or did it even negate it completely?”*



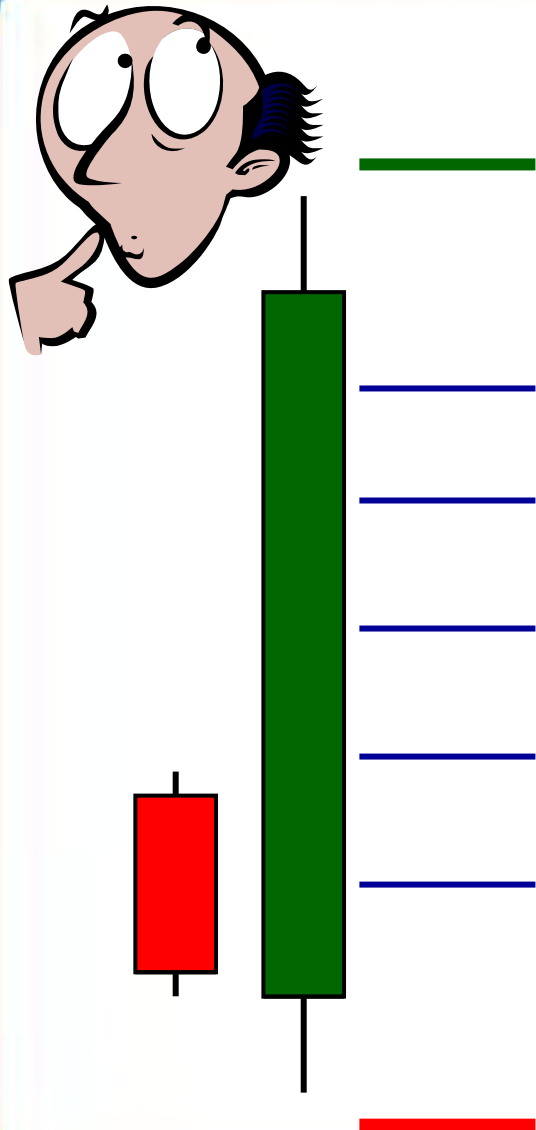
# Candlestick Analysis



- *What does this two-bar pattern suggest?*
- *Where is **support**?*
- *Where is **resistance**?*
- *What are the expectations of traders?*
- *What would confirm those expectations?*
- *What would change those expectations?*
- *What would change those expectations to a lesser degree, but still affect them?*

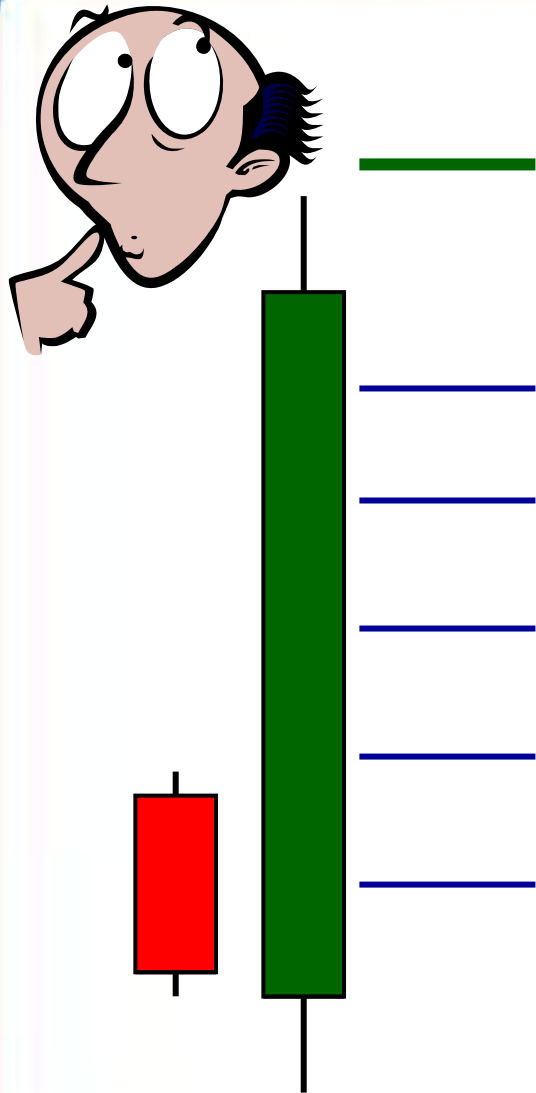


# Candlestick Analysis



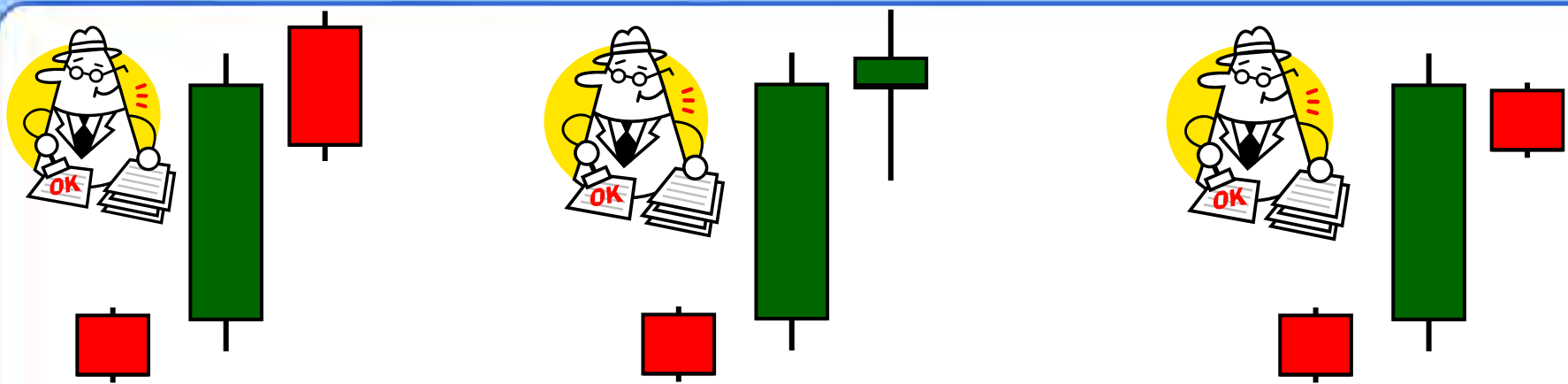
- *Consider all of the marks to the right of the bar as the point where the next bar's **opening price** was.*
- *What would the various points of opening suggest?*
- *How would these various points of opening affect expectations?*
- *Might any of the openings bring about an action by traders?*

# Candlestick Analysis



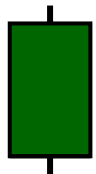
- *Now consider all of the marks to the right of the bar as the point where the next bar's **closing price** was.*
- *What would the various points of closing suggest?*
- *The stronger the close, the greater the odds of follow through (continuation).*
- *Can you see how different bars will “**speak**” to us without thinking about specific candle patterns and names?*

# Candlestick Analysis

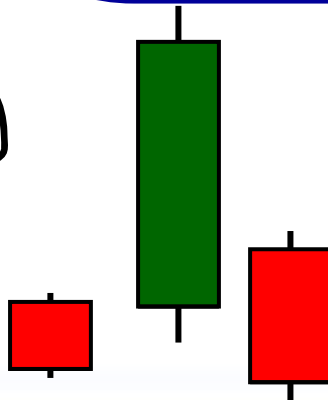
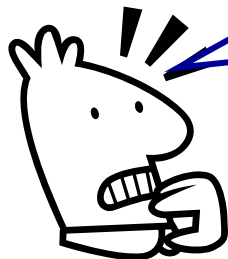


● *Can you see how various combinations of opens and closes “speak” to us about ours and others’ expectations!*

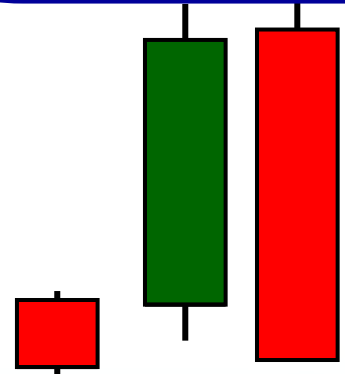
Go Baby!



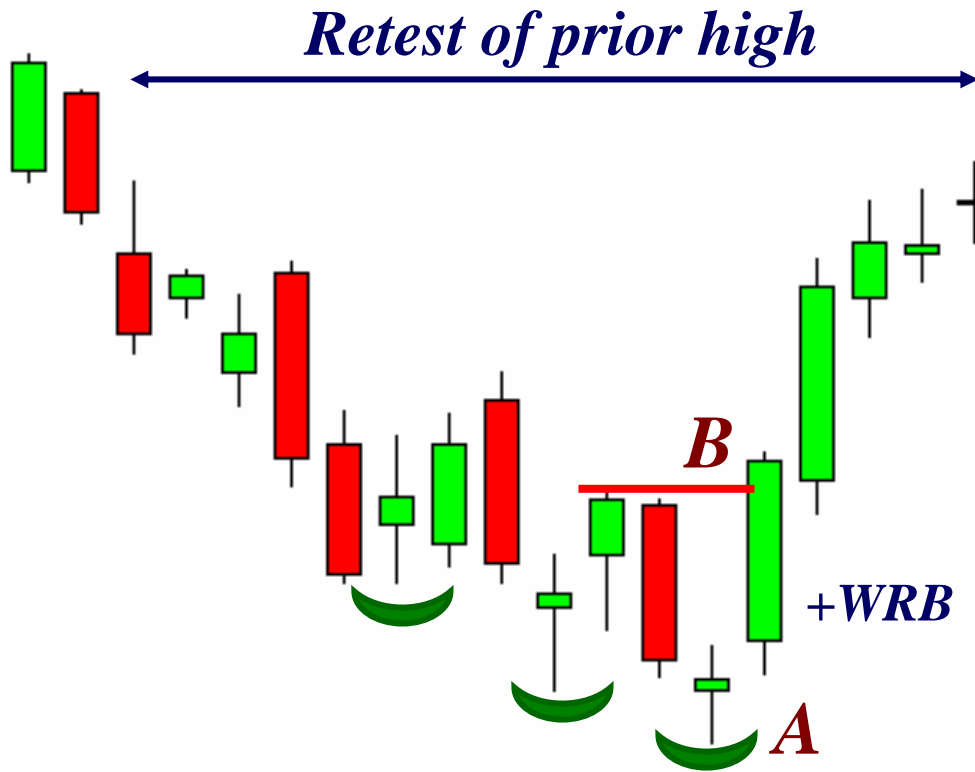
*It gapped down near the prior low and then closed under it!*



*It opened ok, but closed under the prior low, and at the low of the day!*



# Candlestick Analysis



- Momentum begins to slow in the area of the prior high.
- A Narrow Body (**NB**) was followed by a Topping Tail (**TT**) candle, but a prior low has not been overcome.
- The message is that price might move lower

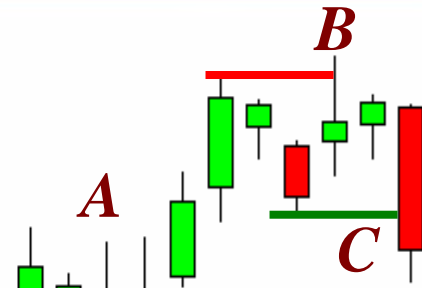
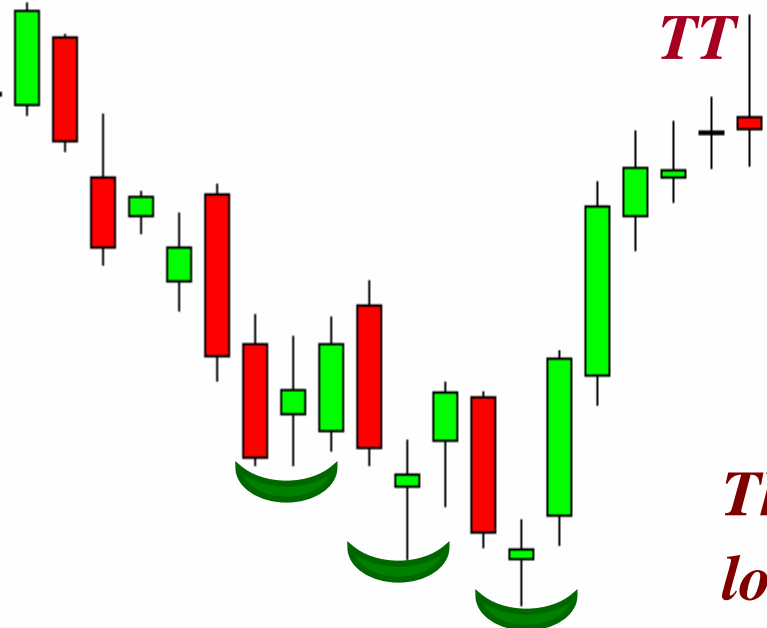
- The third reversal at (**A**), was the most significant.
- It formed a +WRB candle (**B**) and closed above the prior highs.

# Candlestick Analysis

- A *Topping Tail (TT)* alone is not a reason to take a short position, even with prior resistance.

- As you can see, a candle's message can be ignored completely!

- It was not confirmed by trading below the *TT* low either.



- At *A*, momentum slows, but a prior bar's low is not overcome.

- At *B*, a move to a new high closed back inside the range with a *NB* = Weakness.

- At *C*, the first break and close below a prior pivot low occurs.

*The trend is sideways and may move lower, but we need more information.*

# Candlestick Analysis

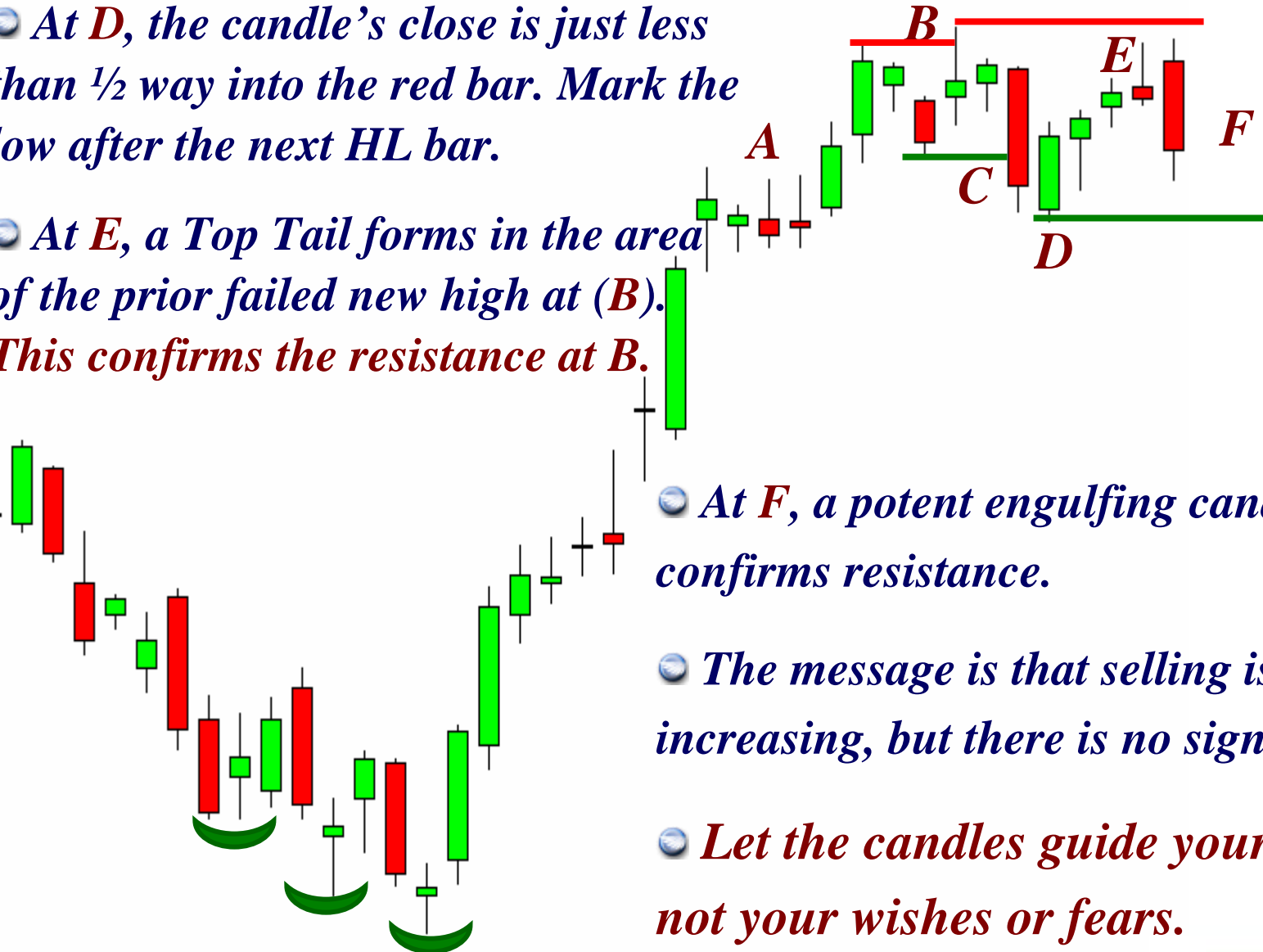
At **D**, the candle's close is just less than 1/2 way into the red bar. Mark the low after the next HL bar.

At **E**, a Top Tail forms in the area of the prior failed new high at (**B**). This confirms the resistance at **B**.

At **F**, a potent engulfing candle confirms resistance.

The message is that selling is increasing, but there is no signal to trade.

Let the candles guide your thoughts, not your wishes or fears.



# Candlestick Analysis

## *As You Look at a Candlestick Chart, Ask These Questions:*

- *Where is the open in relation to the prior close?*
- *Where is the close in relation to the open and prior close?*
- *Are there tails? How long are they and what do they suggest?*
- *What was the depth of penetration into the prior candle body?*
- *Is momentum increasing or decreasing?*
- *Were your expectations validated or is there now uncertainty?*
- *Never think beyond the current candle.*



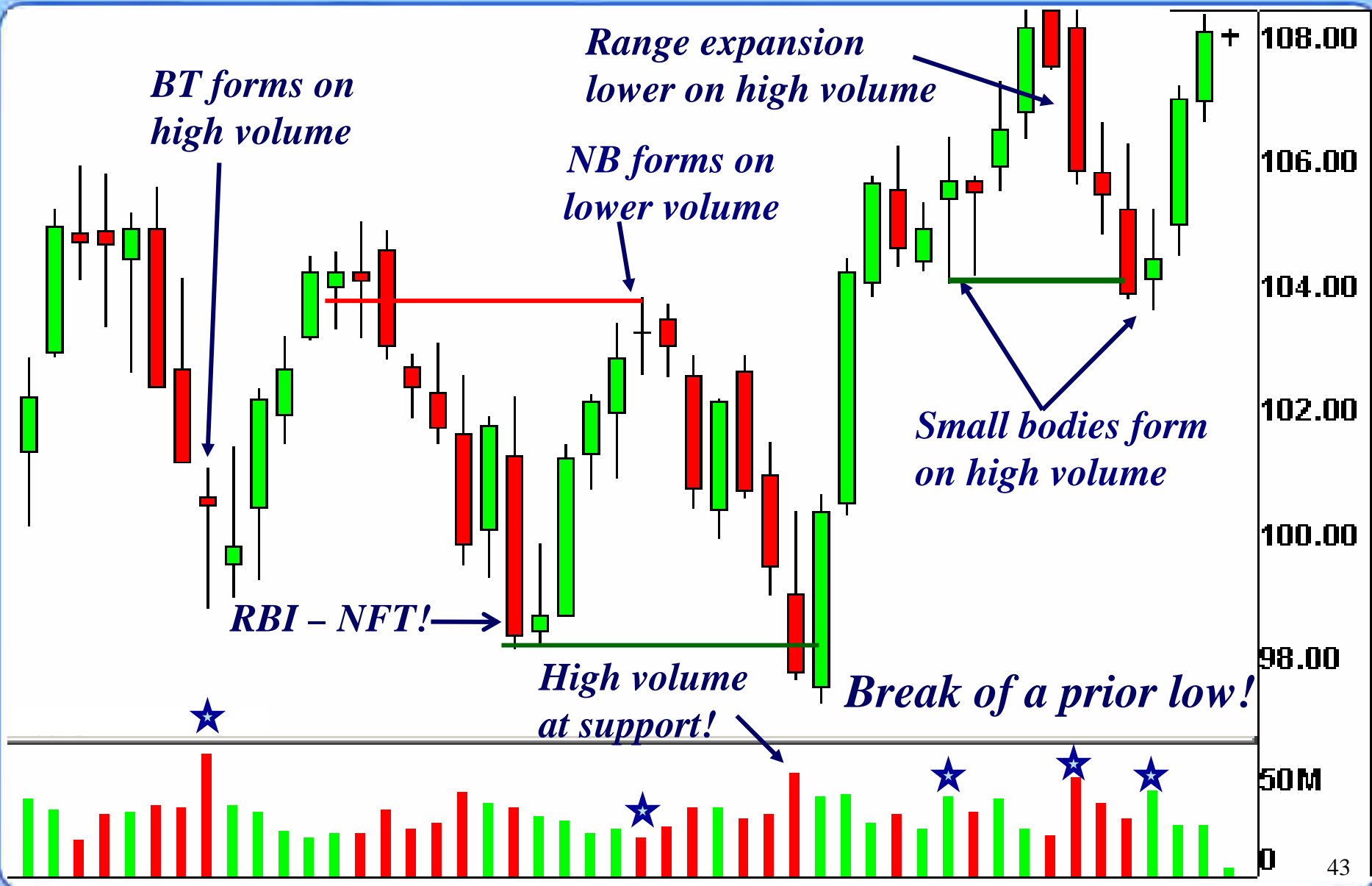
# *Volume and Multiple Time Frames*

# Candlestick Analysis

## *General Volume Principles*

- *An expansion in volume should be accompanied by an expansion in the candle body range.*
- *An expansion in volume accompanied by a contraction in the candle body range may indicate a turning point.*
- *Price movements with the trend ideally occur on increasing volume.*
- *Price movements against the trend ideally occur on decreasing volume.*
- *While these guidelines are the ideal, prices can move in the direction suggested by candles without the above volume criteria.*

# Candlestick Analysis



# Candlestick Analysis

● *Volume can be a helpful addition, but price tells you what is happening and when to act.*

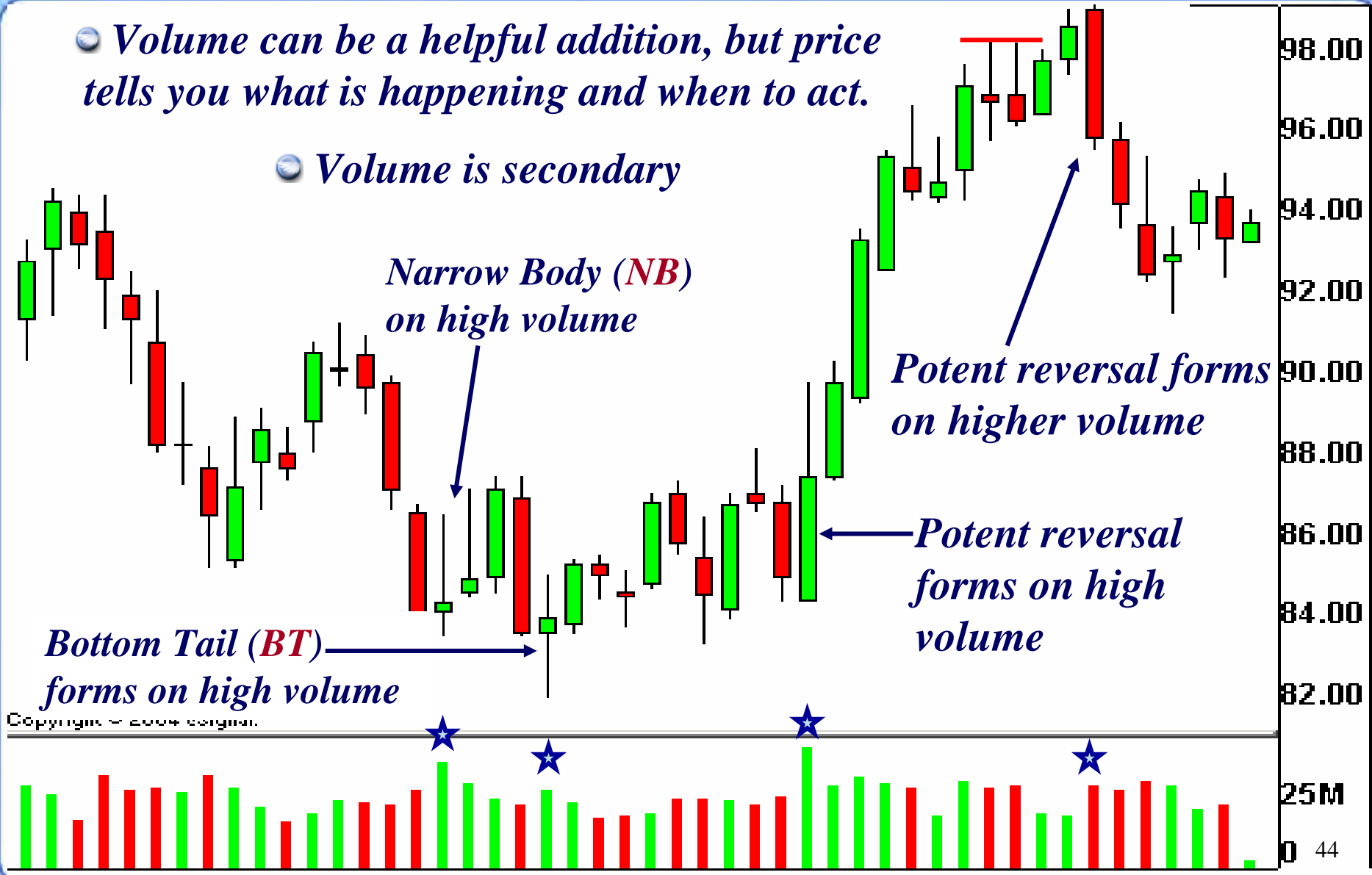
● *Volume is secondary*

*Narrow Body (NB)  
on high volume*

*Potent reversal forms  
on higher volume*

*Potent reversal  
forms on high  
volume*

*Bottom Tail (BT)  
forms on high volume*



# Candlestick Analysis

- *Volume is secondary to price and is never a reason to enter a trade by itself.*
- *If volume confirms price action, that is all well and good, but if price action changes from the prior signal, do not ignore it.*
- *At times, volume may be an early indication of a trend change in price. Wait for that price change to occur before acting!*
- *At times, price can and will make significant moves without the “ideal” volume characteristics.*
- *Remember .... **Price is king** – everything else is secondary!*

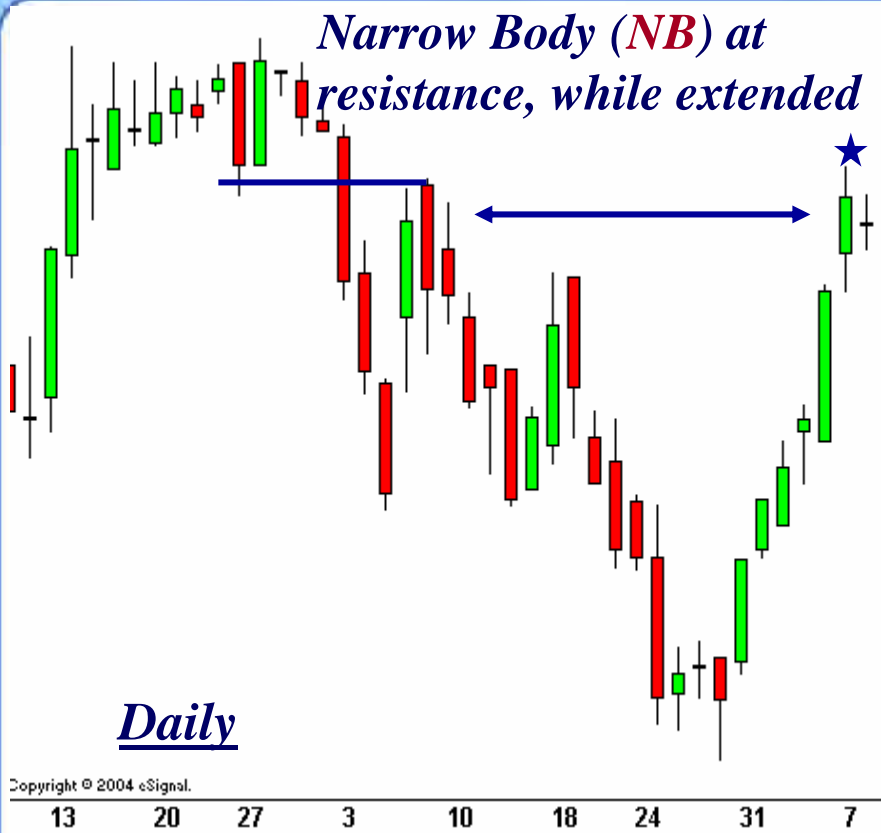
# *Multiple Time Frames*

# Candlestick Analysis

- *Using too many time frames typically leads to confusion.*
- *Once you have formed a bias from a longer time frame and have candle confirmation in the shorter, place the trade.*
- *The time frame being used must be in alignment with your money management guidelines.*
- *Whatever the time frame you are using, the candle patterns are relevant, in that time. Do not second guess them.*
- *Changing time frames to stay in a trade is one of Pristine's Seven Deadly Sins; maybe the most deadly.*
- *There is no such thing as a perfect time frame!*

# Candlestick Analysis

*Narrow Body (NB) at resistance, while extended*



Daily

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*A breakout results in a complete reversal that trades under support.*

*Traders are caught long*



Intra-day

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● *Develop your bias from the candle pattern on a longer time frame.*

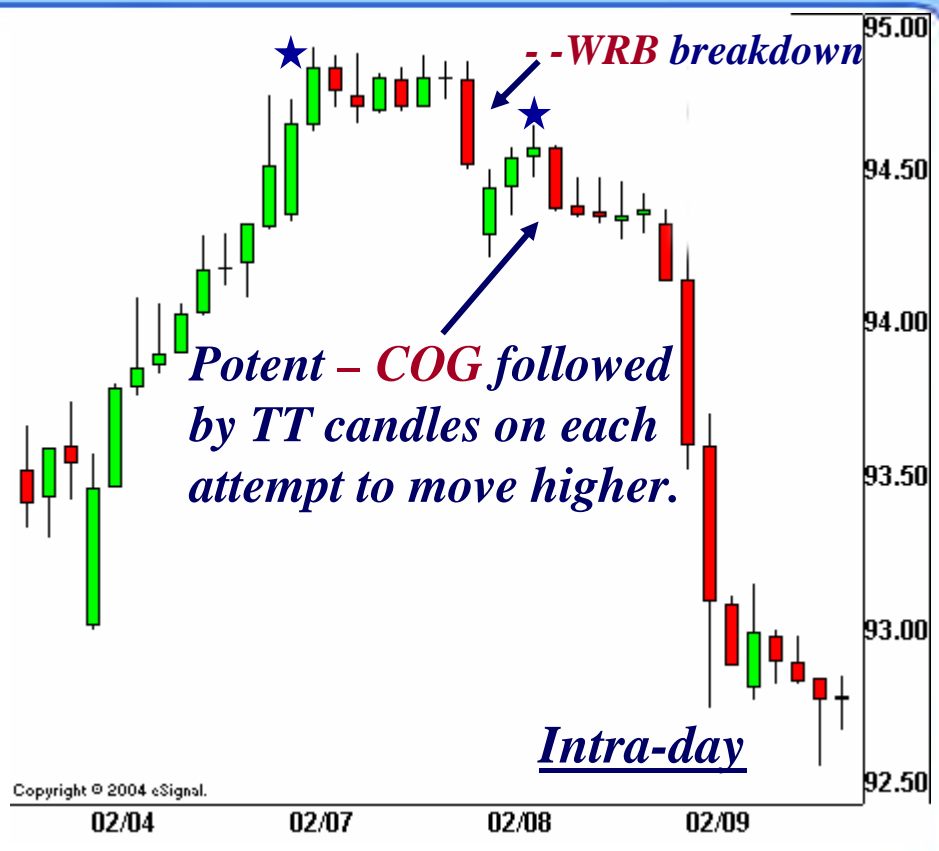
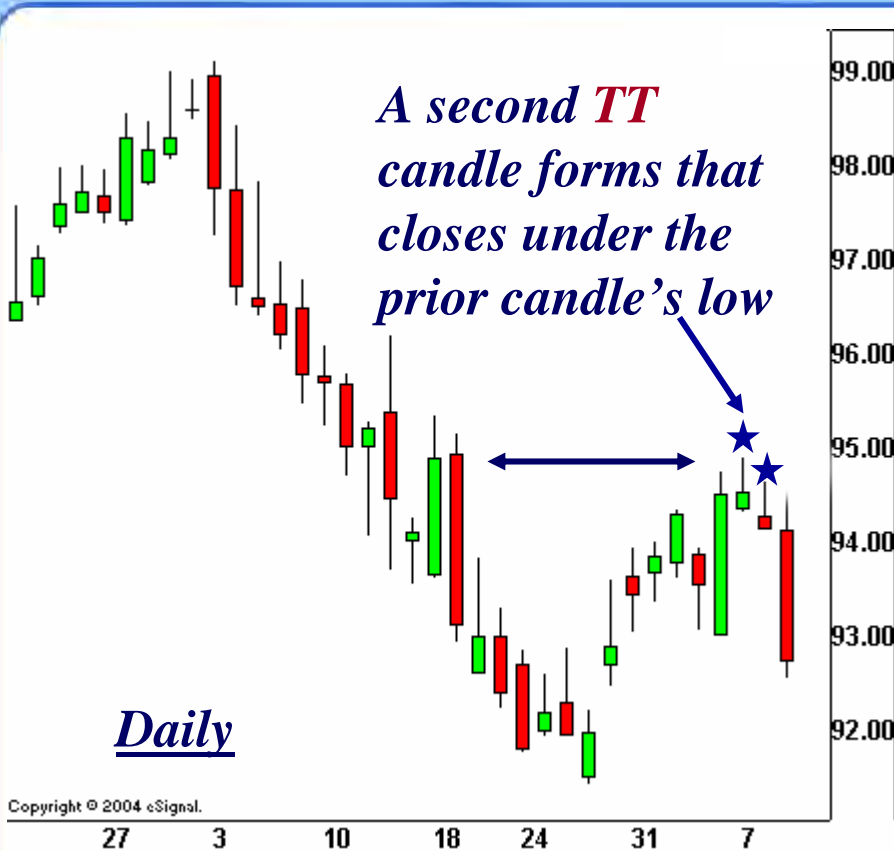
● *Then move to the shorter.*

● *The candle patterns in both time frames are suggesting a pull back.*

● *Now assess the reward-to-risk.*



# Candlestick Analysis



● *Develop your bias from the candle pattern on a longer time frame.*

● *Then move to the shorter.*

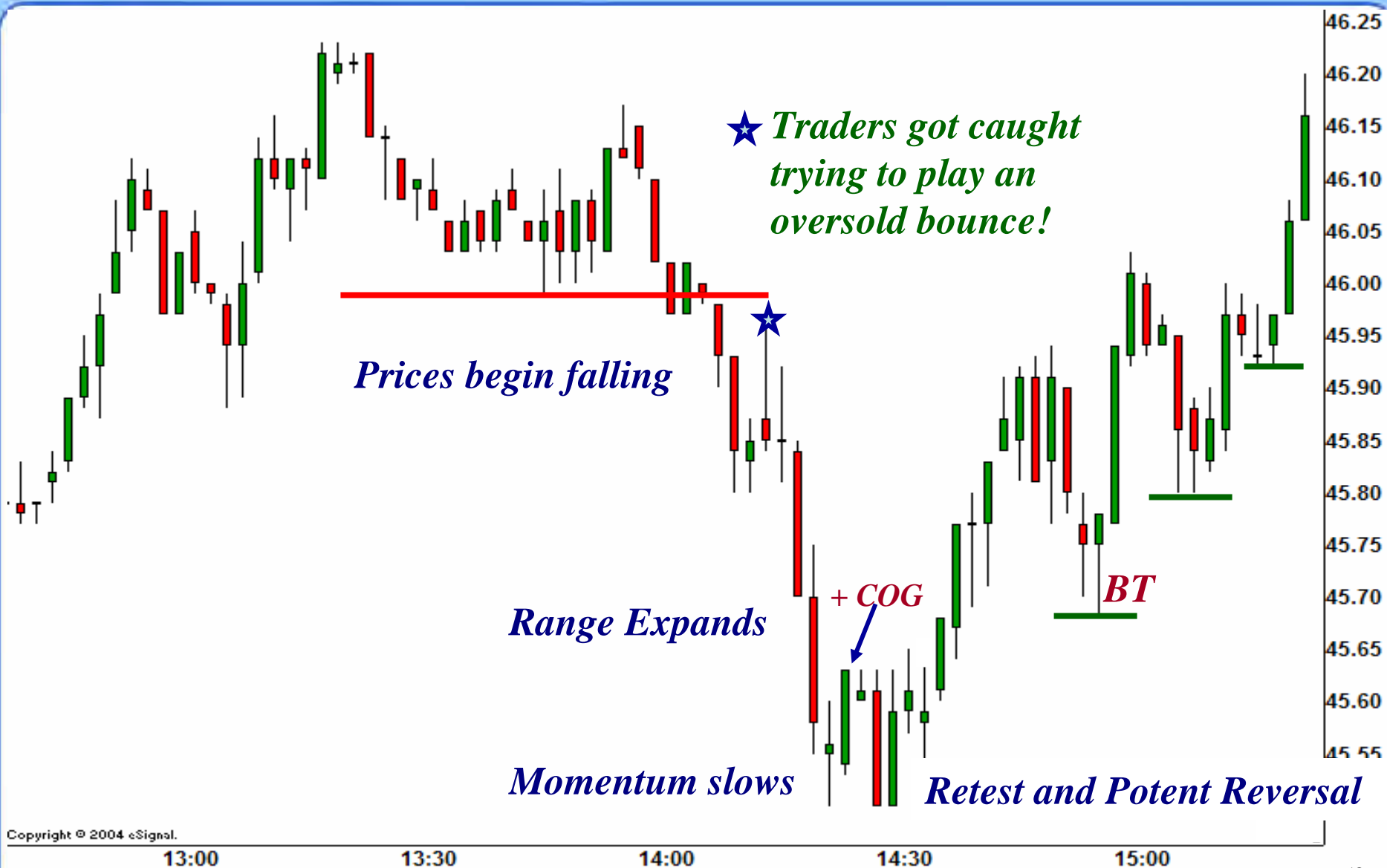
● *Do the candles in the intra-day time frame being viewed show a candle pattern that confirms the longer?*

# *Candles in Action*

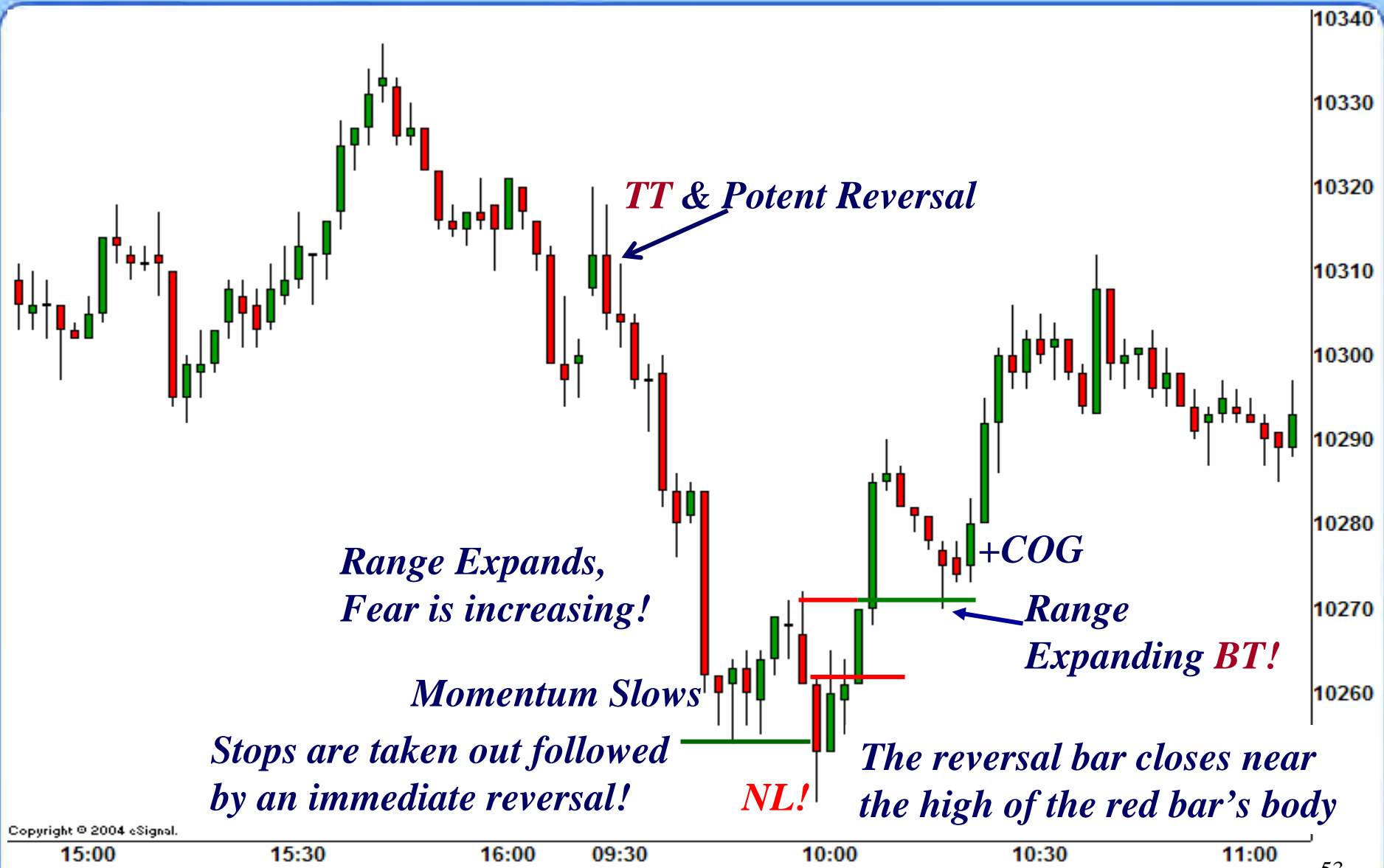
● *We have covered many concepts from the basics of candles to an advanced method of monitoring bar-by-bar analysis.*

● *Let's review some of those concepts together.*

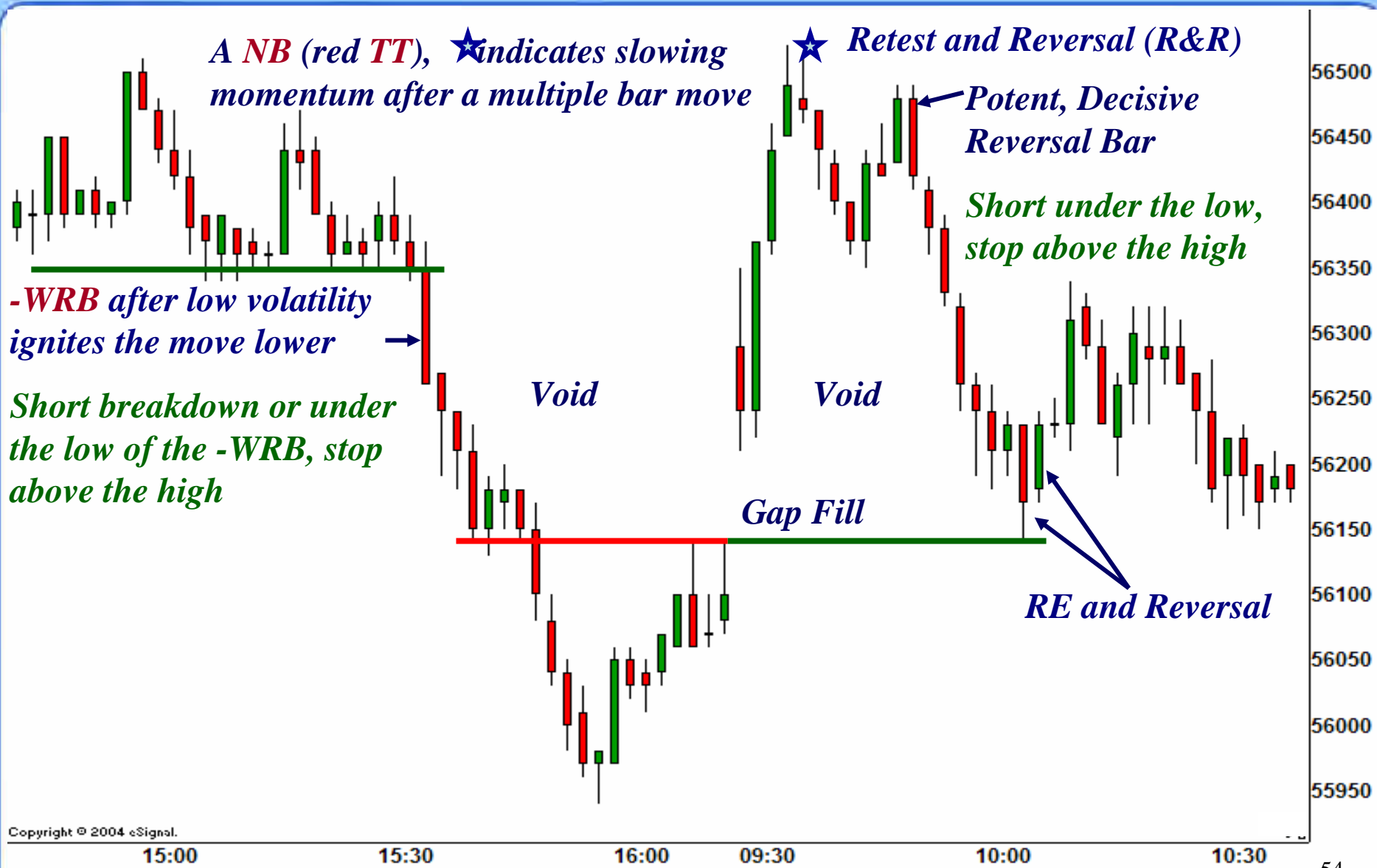
# Candlestick Analysis



# Candlestick Analysis



# Candlestick Analysis



## Concluding Comments

- *Focus on the message of Candle Language, not the money.*
- *If you focus on the money, odds are you will not see the patterns.*
- *Once a pattern is complete and a position has been taken, monitor bar-by-bar. This will keep you objective and in the present.*
- *Trading is not about predicting; it is about recognizing what is occurring in the moment, then accepting change as it happens.*

# Candlestick Analysis

## *A Few Words On Indicators*

- *They are a derivative of price action, which cannot provide more accurate or timely information than price.*
- *They are useful tools for computers to search price action.*
- *If you can read the message communicated by candles in the moment, you will not need indicators.*
- *If indicators take up more space on your chart than price, hopefully the education learned here will enable you to change.*



## In Closing

- *This DVD is a great start to understanding price action.*
- *If you have not taken a Pristine Seminar, consider it.*
- *Success in anything comes from education, then practice.*
- *Then focus on the development of your Trading Plan.*
- *We will be happy to assist you further in order to help you achieve the financial goals you have set for yourself.*