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GF Markets Academy

Candlesticks **for Beginners**

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If you don’t find a way to make money while you sleep, you will work until you die

Warren Buffett

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Introduction

- In order to study how the price of an asset moves, you need start by understanding its price movements and the chart.
- The first thing a trader looks at is the chart of the asset. All available information are reflected in the price charts. That is supply, demand and economic or other events that can influence the price.
- Charts show all the transactions that are being made either that is from central banks, an AI from a hedge fund, or from retail traders.

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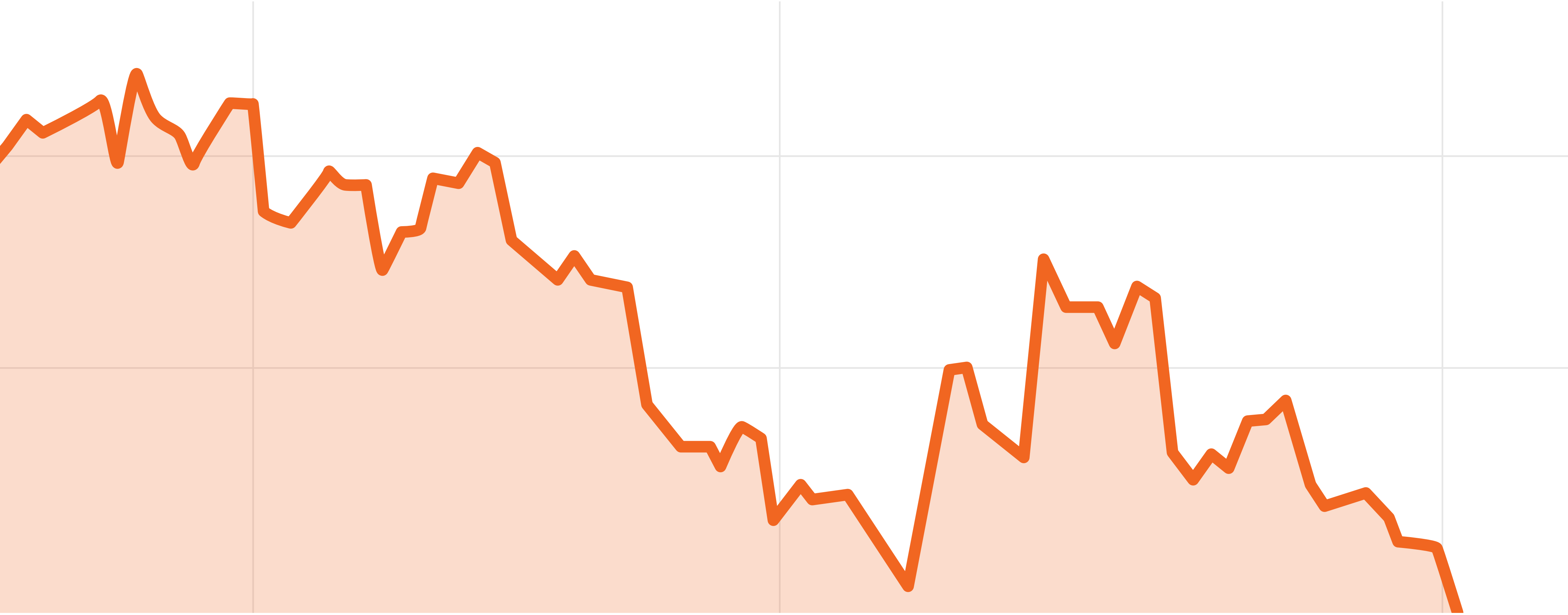
Chapter 1

Types Of Charts

- Line Chart
- Bar chart
- Candlestick Chart

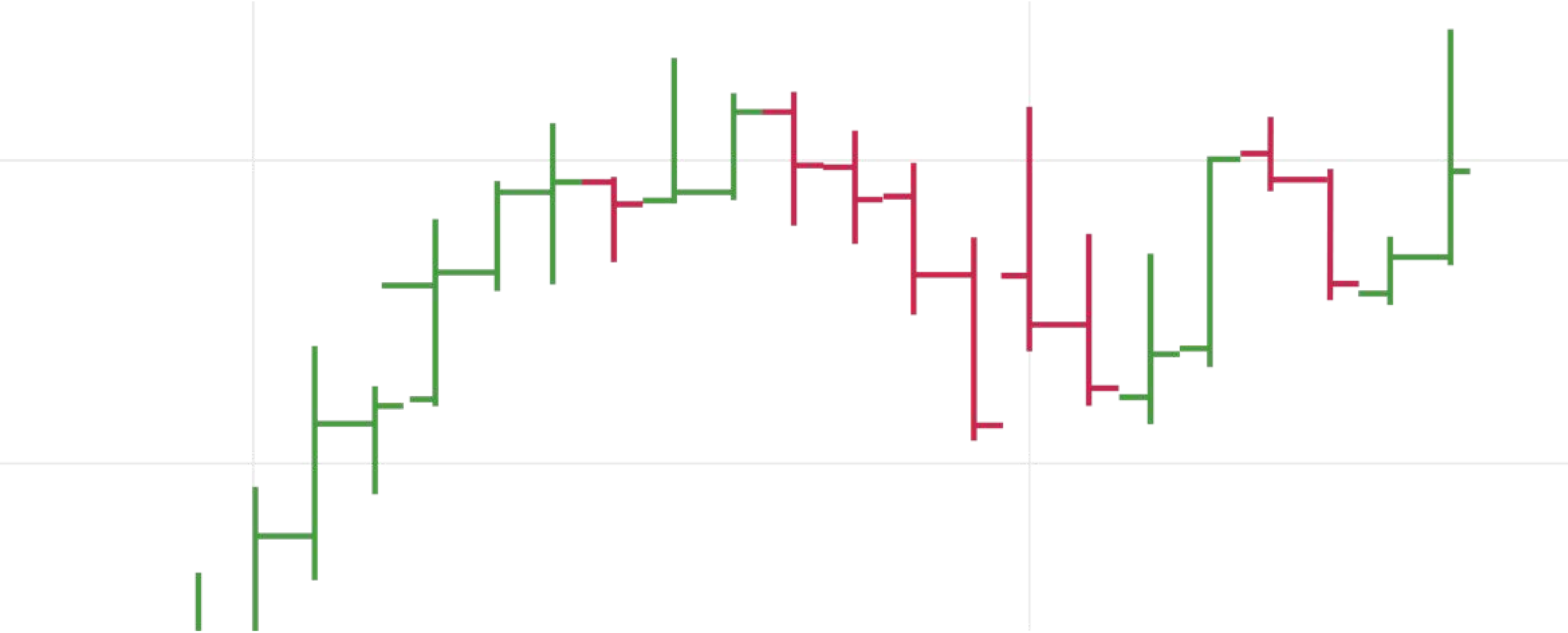
Line Charts

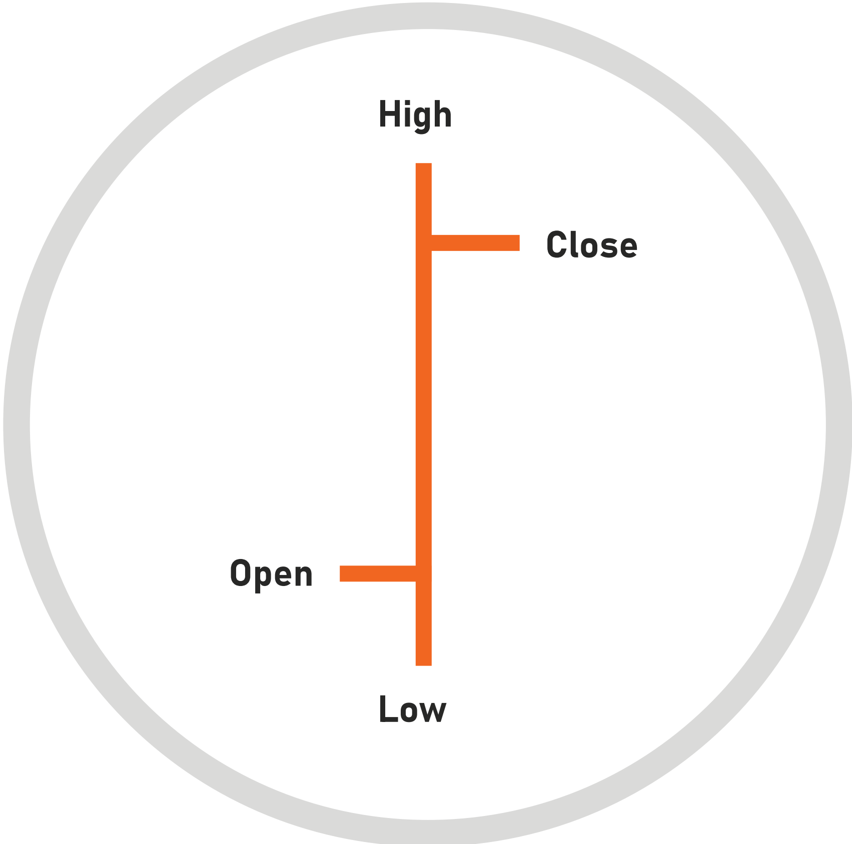
A line chart is a very simple line and does not tell a trader much. It just paints the bigger picture of the price movements.



Bar Charts

Bars become larger or smaller according to the volatility in the market. When the volatility increases a bar will be longer and vice versa.





Bar Charts

Bars become larger or smaller according to the volatility in the market. When the volatility increases a bar will be longer and vice versa.

High: The top of the vertical line defines the highest price of the time period

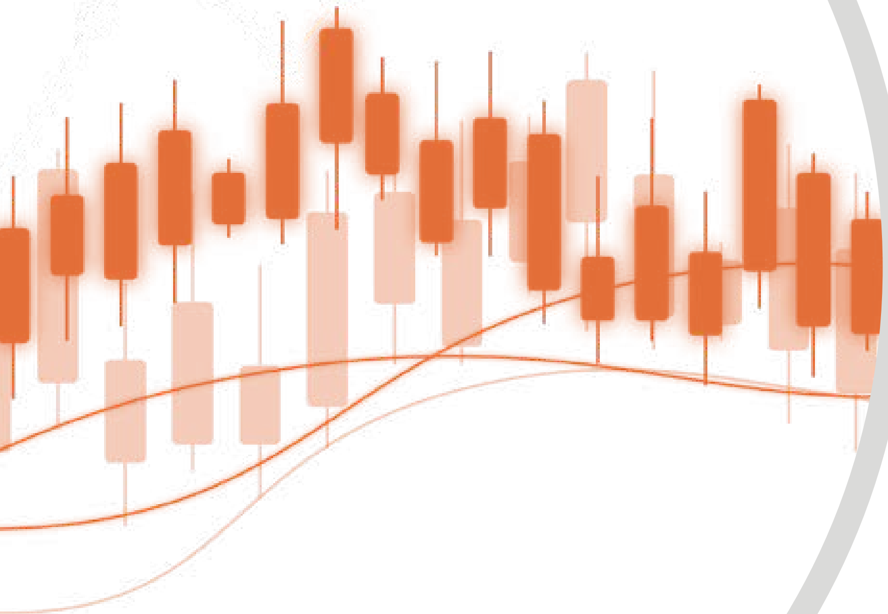
Low: The bottom of the vertical line defines the lowest price of the time period

Open: The little horizontal line on the left is the opening price

Close: The little horizontal line on the right is the closing price

Candlestick Charts

Candlestick charts are used by most traders because they are easier to read due to their body(the larger block). They show whether the sentiment is bullish or bearish.



Candlesticks vs. Bar charts

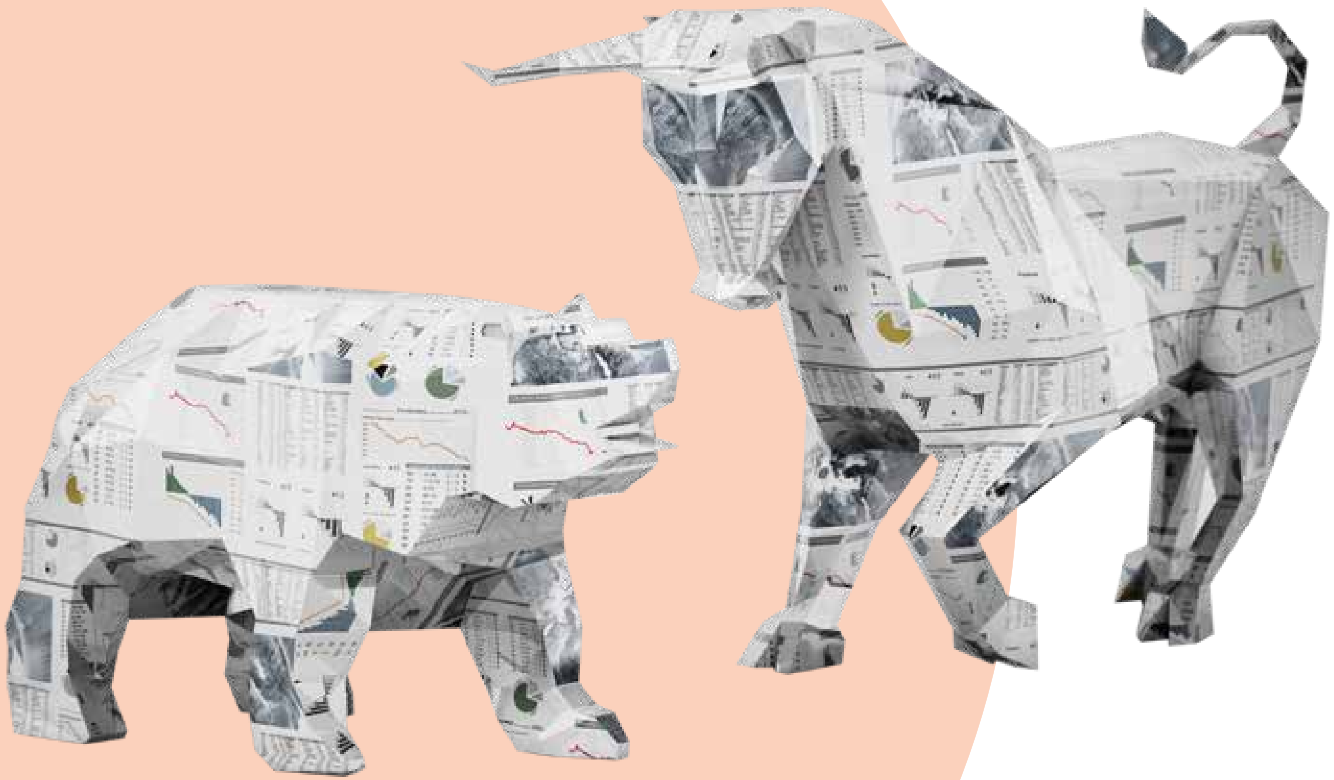
- A stock also referred to as equity, represents a fraction of ownership in a company. Investors choose a stock (the company) and then purchase shares. For example, Facebook's stock has a total of 100,000 shares. If you purchase 1000 shares you would own 1% of the company's assets and earnings.

- When a private company goes public, it provides liquidity for its shareholders. Its major shareholders may wish to cash in on the wealth they have tied up in the business. The public offer creates a market for the company's shares that gives investors the ability to sell their holdings.

Chapter 2

Candlestick Patterns

- Bullish Patterns – Buy Signals
- Bearish Patterns – Sell Signals
- Indecisive Patterns – Neutral Signals



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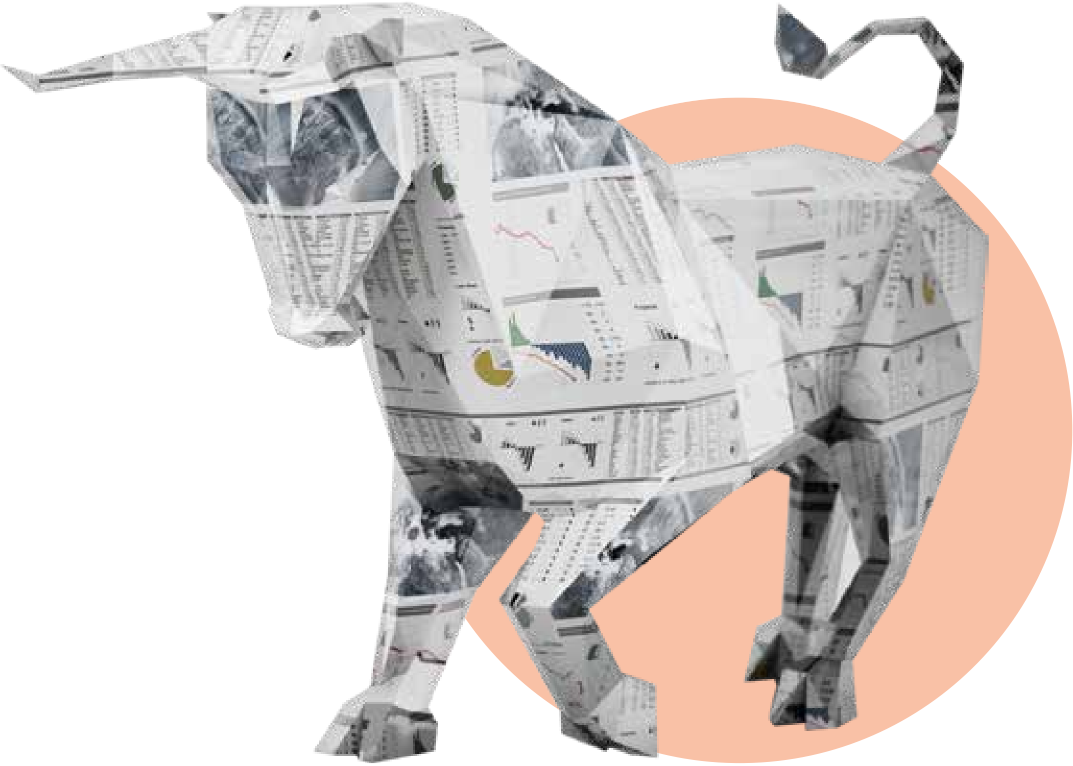
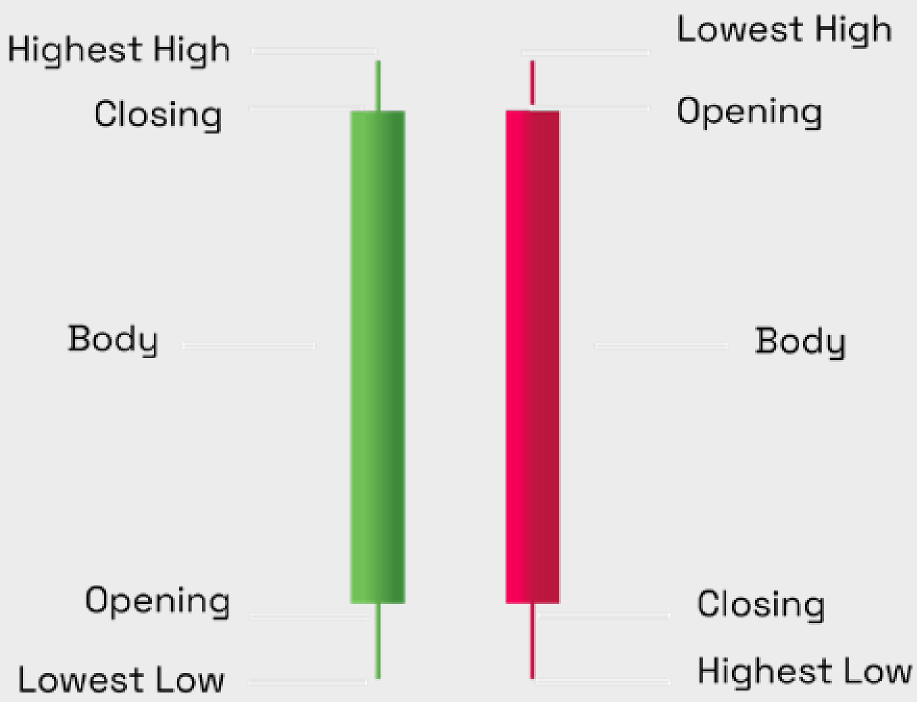
Bull Market

The term bull market is used for an uptrend. It is derived by the way the bull animal attacks its enemy. That is, a bull will move its horns from down towards up to the air to attack. Today it makes sense to say that the market is bullish if the prices move up.



Bear Market

The term bear market is used for a downtrend. It is derived by the way a bear attacks the enemy. Compared to the bull, the bear will swipe down. Today it makes sense to say the market is bearish if the prices move down.



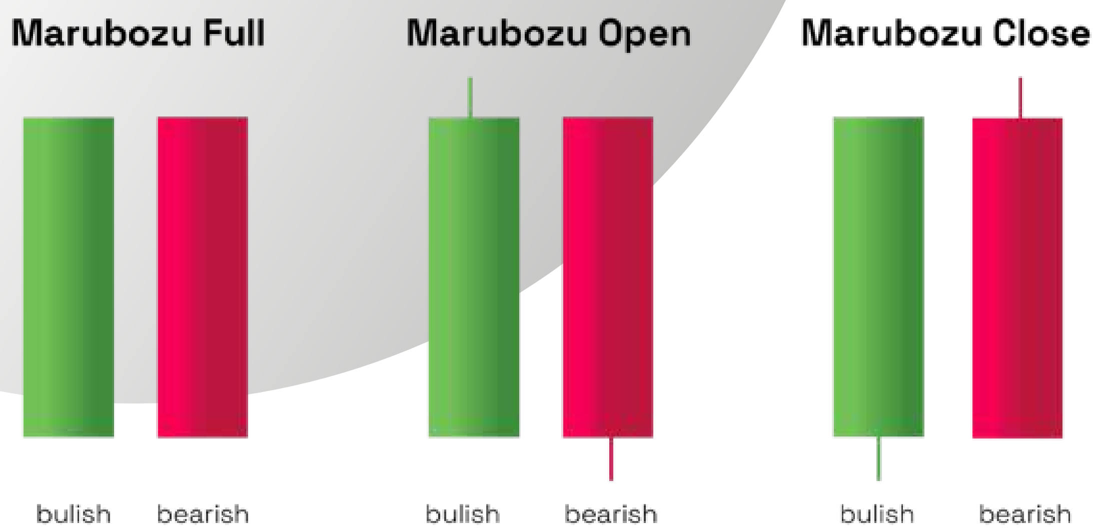
A single candlestick looks like this:

As you can see, the **body** of the candlestick is red or black if the price is declining and white or green if the price of a specific asset is inclining. Then the **upper tail/highest** high of the candlestick represents the highest price the asset went to. Whereas the **lower tail/lowest low** represents the lowest price of the day (If it's a 1day chart) that the price went to. According to the movement, the closing or the opening price is determining. So, if it is a green candle (price going up) the opening price will start from below and will finish at the top. If it is a red candle (price going down) the opening price will start from above, going downwards.

Bullish Patterns - Buy Signals

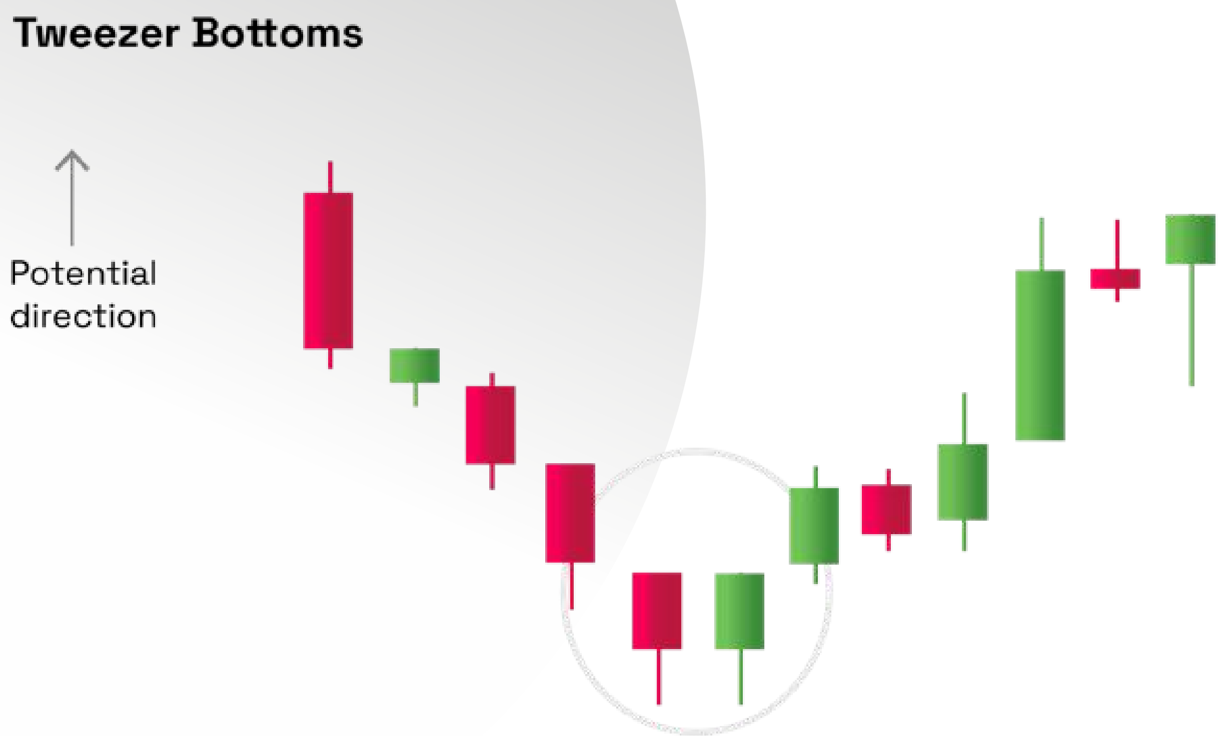
Marubozu

Let's start with a bullish marubozu. A bullish marubozu shows the expectation of bullishness that will continue over the next few trading sessions. The absence of upper and lower tails/ shadows as shown below implies that the low is equal to the opening price and the high is equal to the closing price. Therefore, you see the tails missing. The opening marubo-zu applies when the opening price occurs and is no longer disappearing. When the opening price is equal to the high of the day it is a bearish signal and when the price is at the low of the day it is a bullish marubozu.



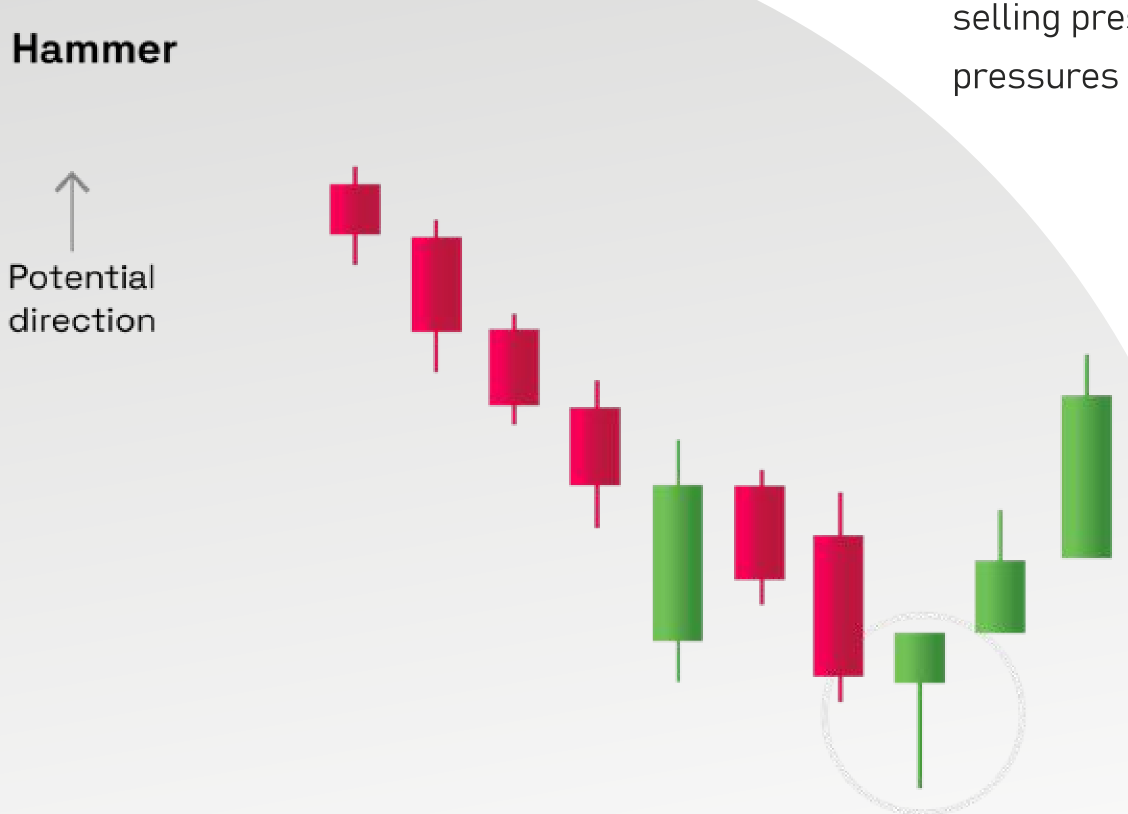
Tweezer Bottoms

Tweezer bottoms are part of the dual candlesticks pattern. As shown in the image above, the two candlesticks should have the same lows. The bearish candlestick should be followed by a bullish candlestick that has the same length of low. In this way, it indicates a bullish movement and a potential buy signal.



Hammer

The hammer candlestick has a very short body with a longer lower tail. Sometimes it can have a very small upper tail or no upper tail at all like the image below. It is usually formed at the bottom of a downward trend, which is why it gives a reversal signal since the price will reverse from downward to upward. The hammer shows that although there were selling pressures during the day, ultimately a stronger buying pressures drove the price back up.



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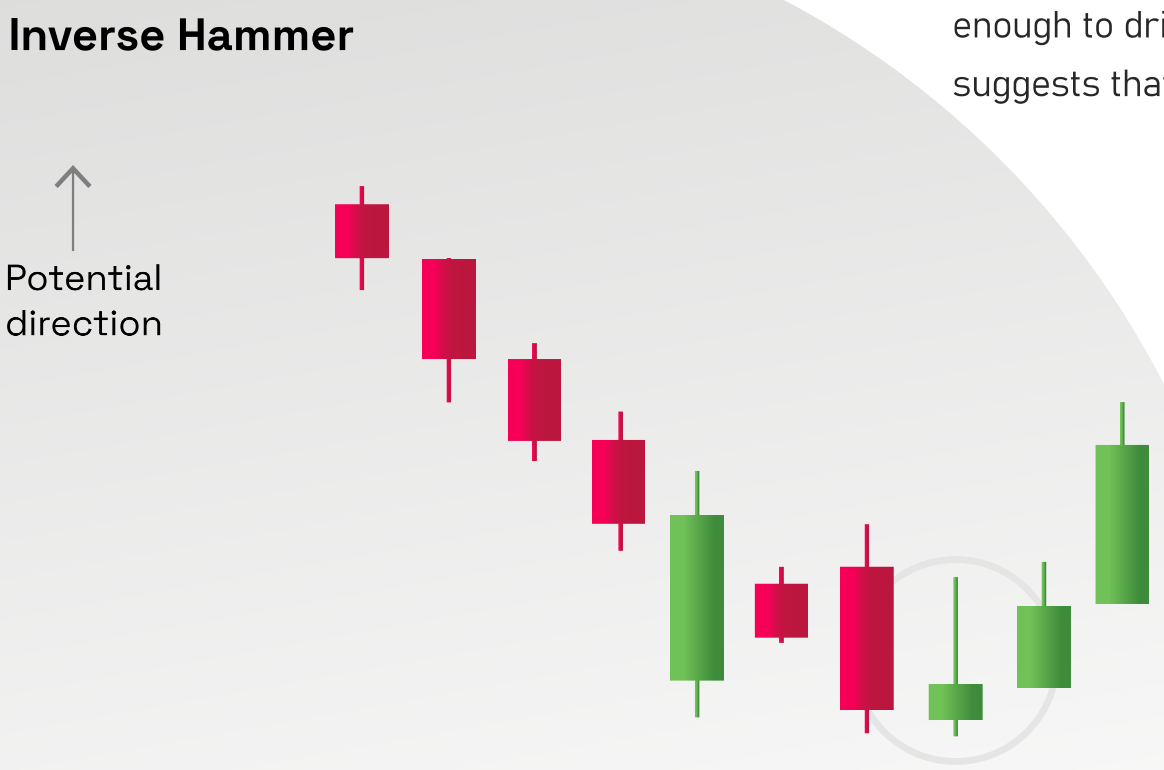
Inverted Hammer

A similarly bullish pattern is the inverted hammer. The only difference between the two is that the longer tail appears to be the upper one. Like the hammer above, it can also have no lower tail at all or a very small one compared to the upper one.

It is also indicating the buying pressure that is followed by selling pressure. However, the selling pressure was not strong enough to drive the market price down. The inverse hammer suggests that buyers will soon have control of the market.



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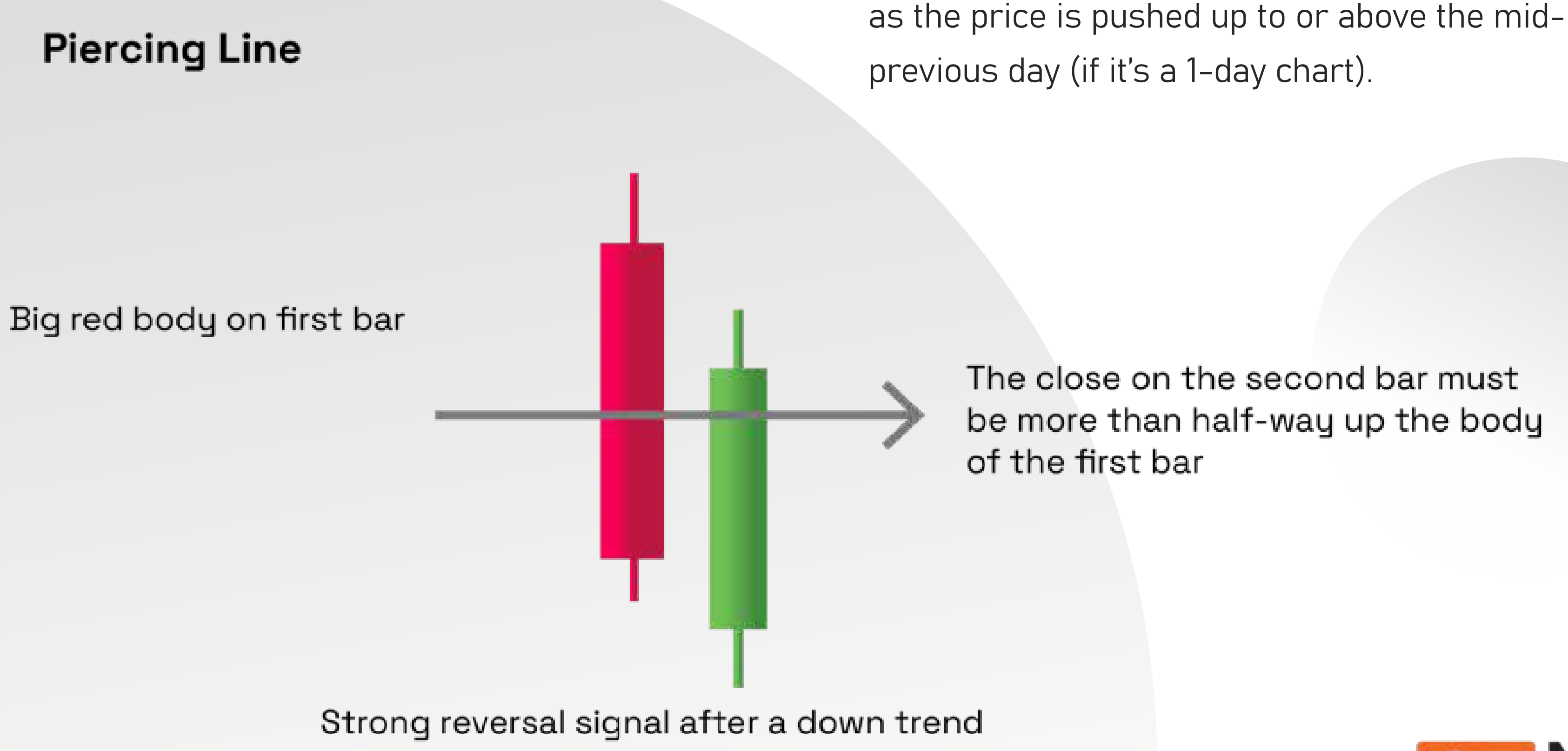
Bullish Engulfing

The bullish engulfing pattern is a dual candlestick pattern. The first candle is a short red/bearish body that is completely engulfed by a larger green/bullish candle. The bullish market will eventually push the price up, culminating in an obvious win for buyers back up.

Bullish Engulfing

Piercing Line

The piercing line is also a dual candlestick pattern. It is formed by a long red candlestick that is then followed by a long green candlestick. In order for traders not to confuse it, they need to make sure that the second candlestick has its closing price higher than the half of the red candle. A piercing line is a very strong reversal signal. It indicates a strong buying pressure, as the price is pushed up to or above the mid-price of the previous day (if it's a 1-day chart).



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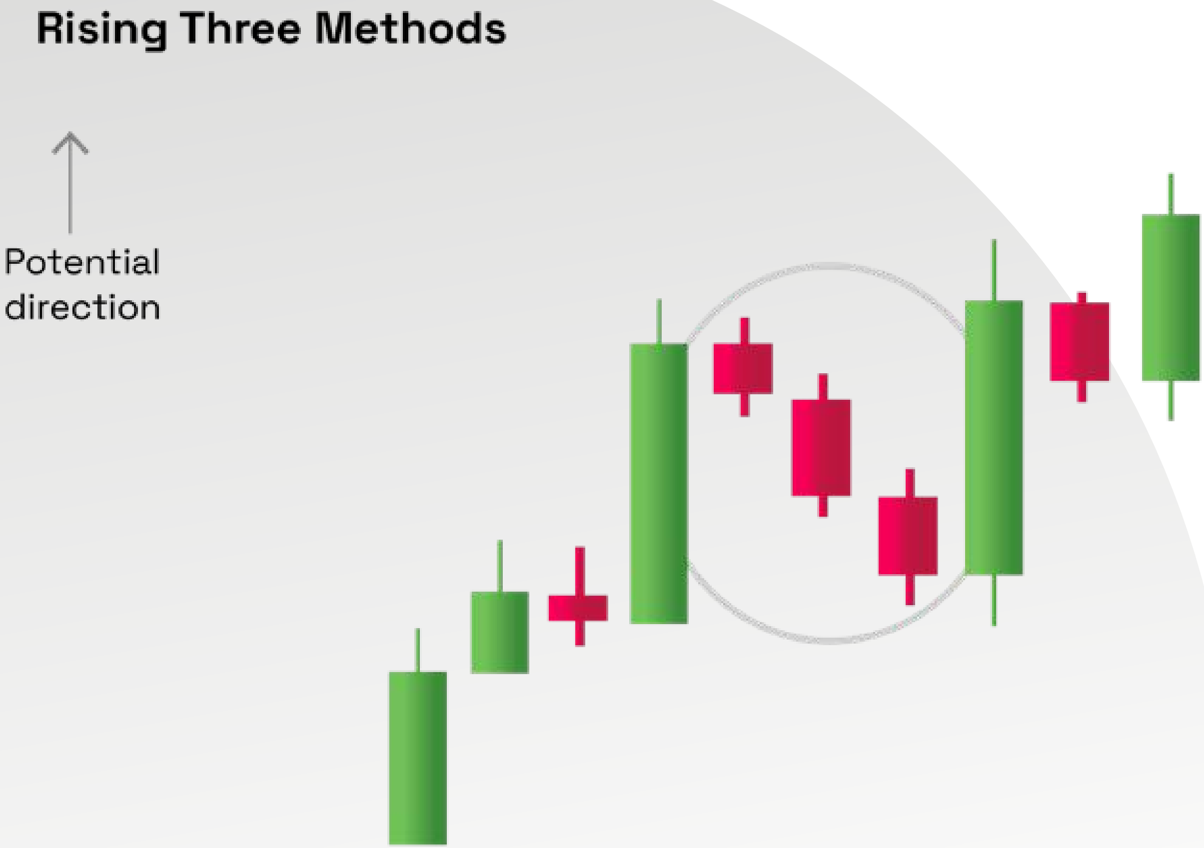
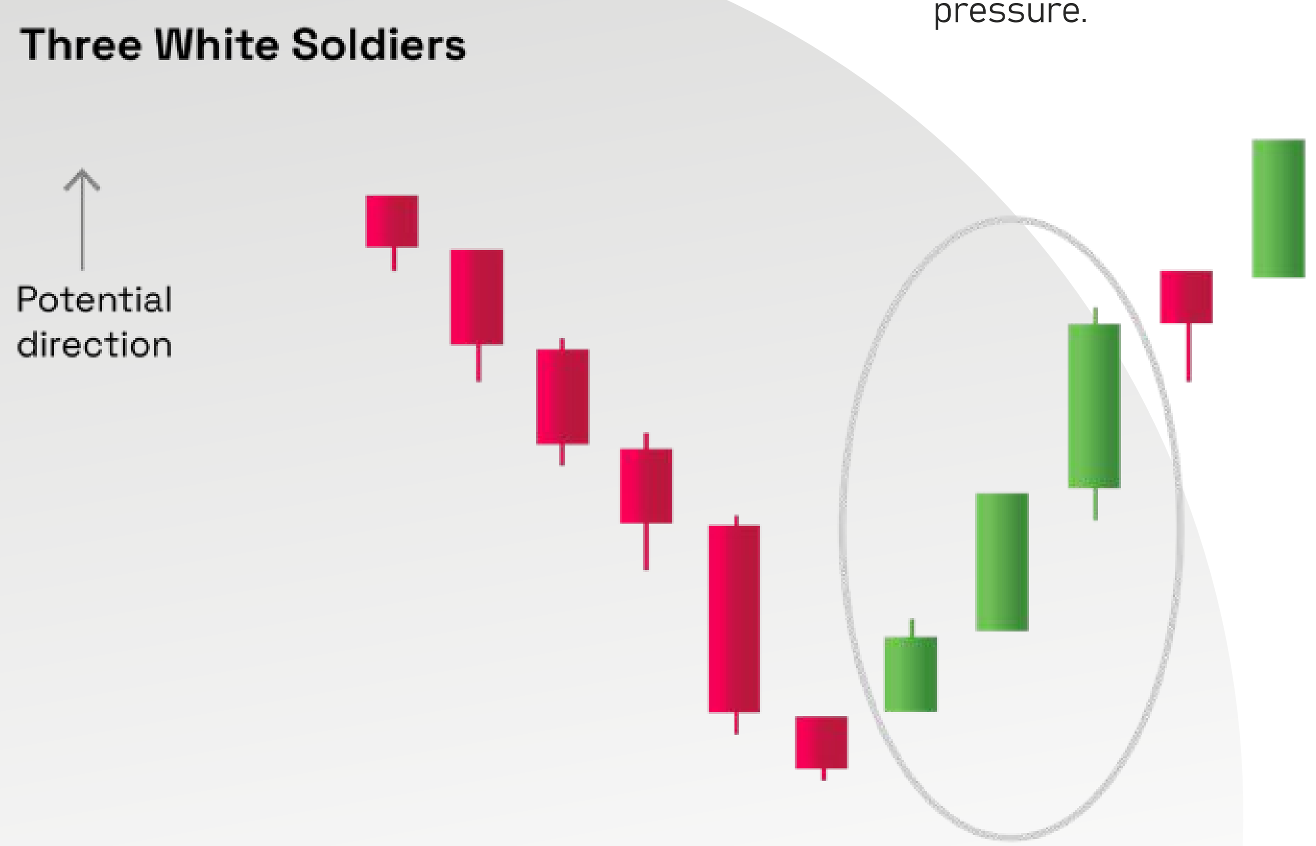
Rising Three Methods

The rising three methods appear in a bullish market that will continue to be bullish even if sellers are trying to change the direction. The same thing is true for this pattern. The red candles are formed in between two long green candles and do not exceed them.



Three White Soldiers

The three white soldiers pattern occurs over three days (if we are looking at a 1-day chart). It consists of consecutive long green (or white) candles with small tails, which open and close are progressively higher than the previous day. It is a very strong bullish signal that occurs after a downtrend and shows a steady advance of buying pressure.



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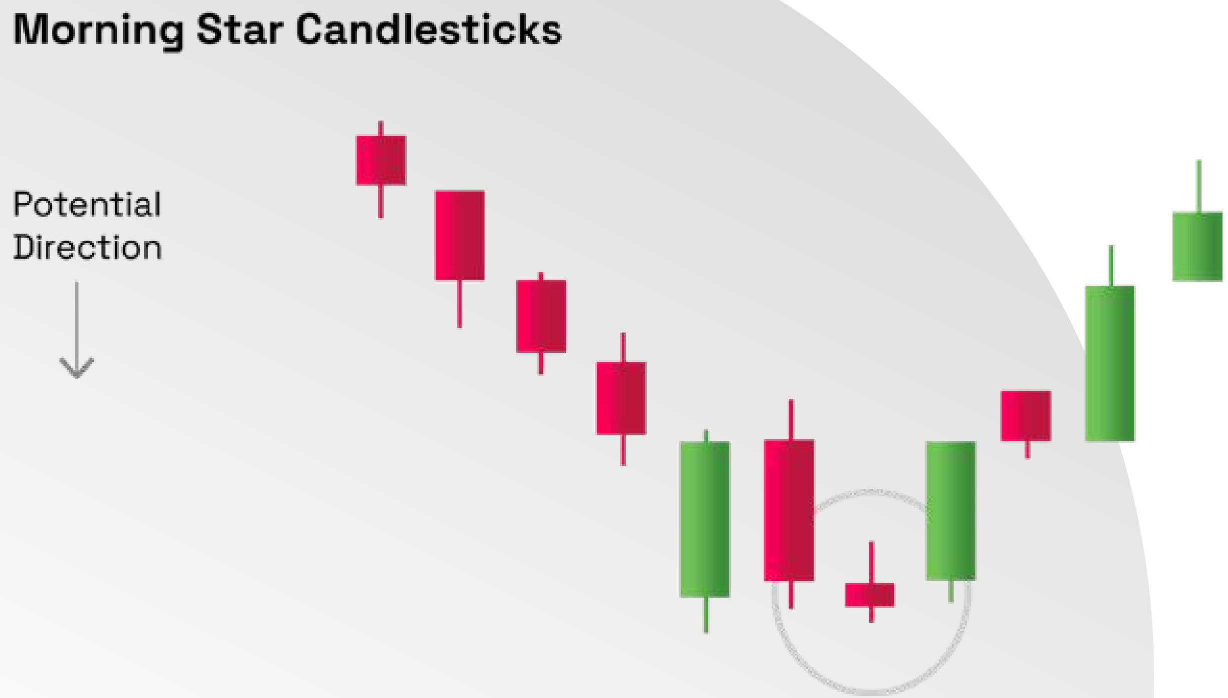
Morning Star

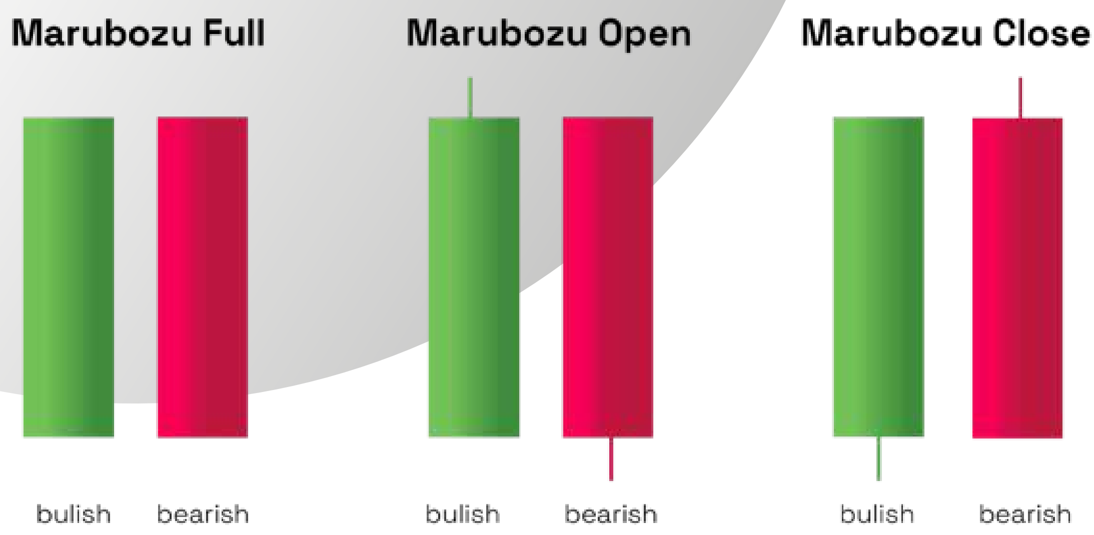
The morning star candlestick is considered a sign of hope in a bleak market downtrend. It is a three-stick pattern: a long red candle, a shorter body candle in the middle, and lastly a long green candle. Traditionally, the 'star' will have no overlap with the longer bodies, as the market gaps both on open and close. It signals that the selling pressure of the first day is subsiding, and a bull market is on the horizon.



Bearish Patterns - Sell Signals

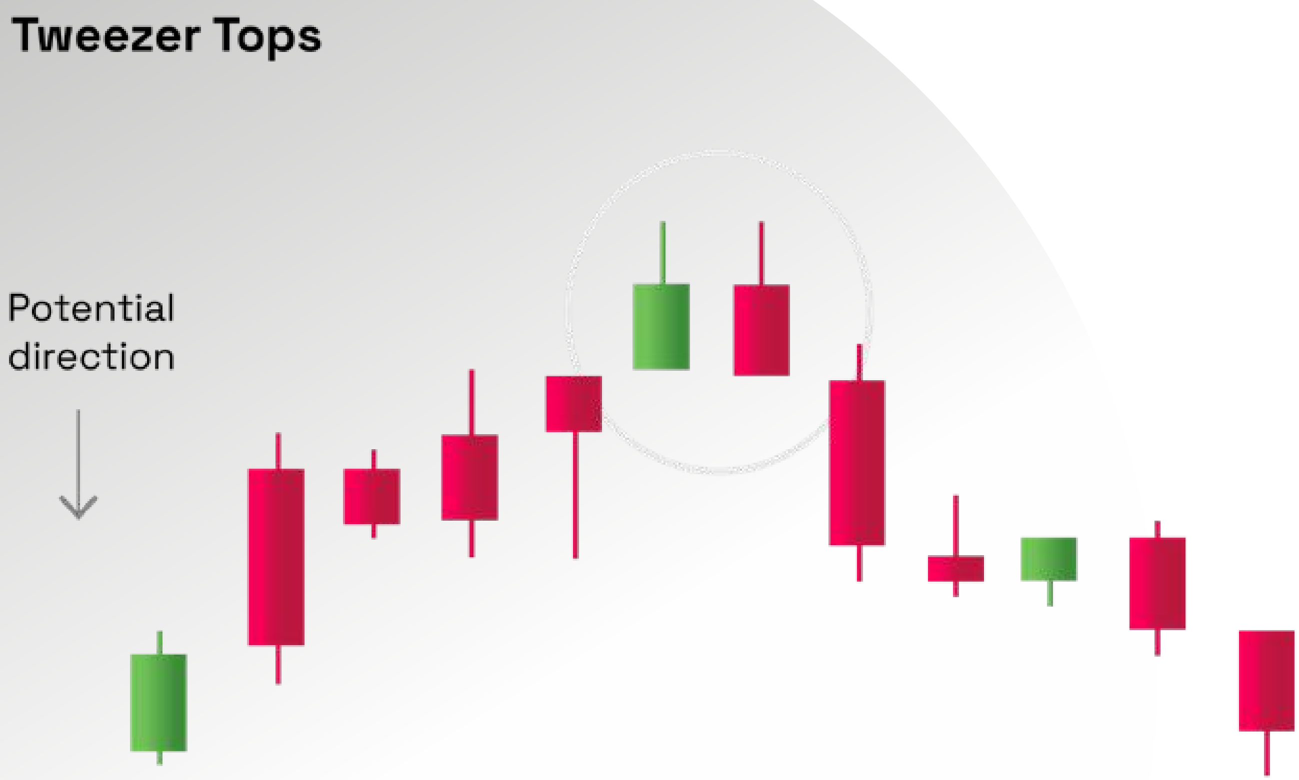
Bearish Marubozu

Whenever a bearish marubozu arises the expectations are bearish, and this bearishness will continue over the next few trading sessions. The absence of upper and lower tails/ shadows implies that the high is equal to the open and the low is equal to the close. Therefore, the tails do not appear in the chart.



Tweezer Tops

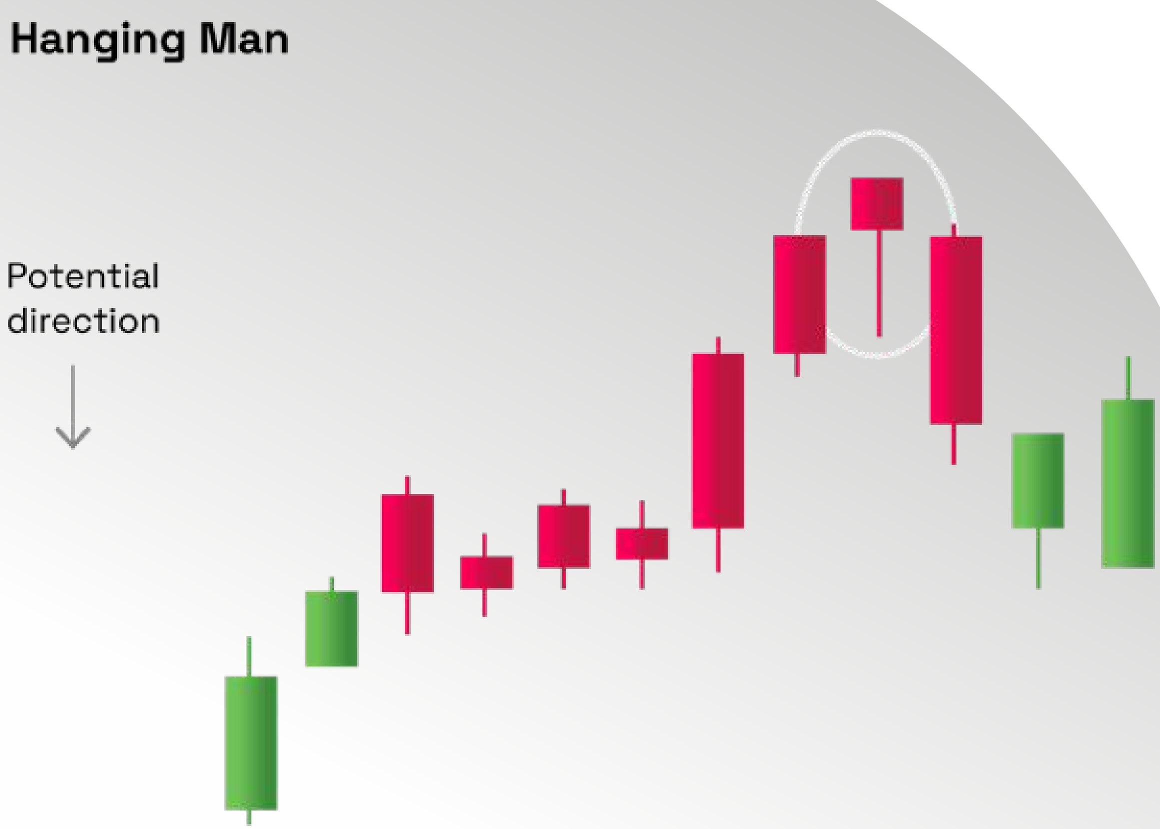
Tweezer tops are part of the dual candlesticks pattern. The two candlesticks should have the same highs and the bullish candle should be followed by a bearish candle with the same length of high to indicate a bearish movement and a potential sell signal.



Hanging Man

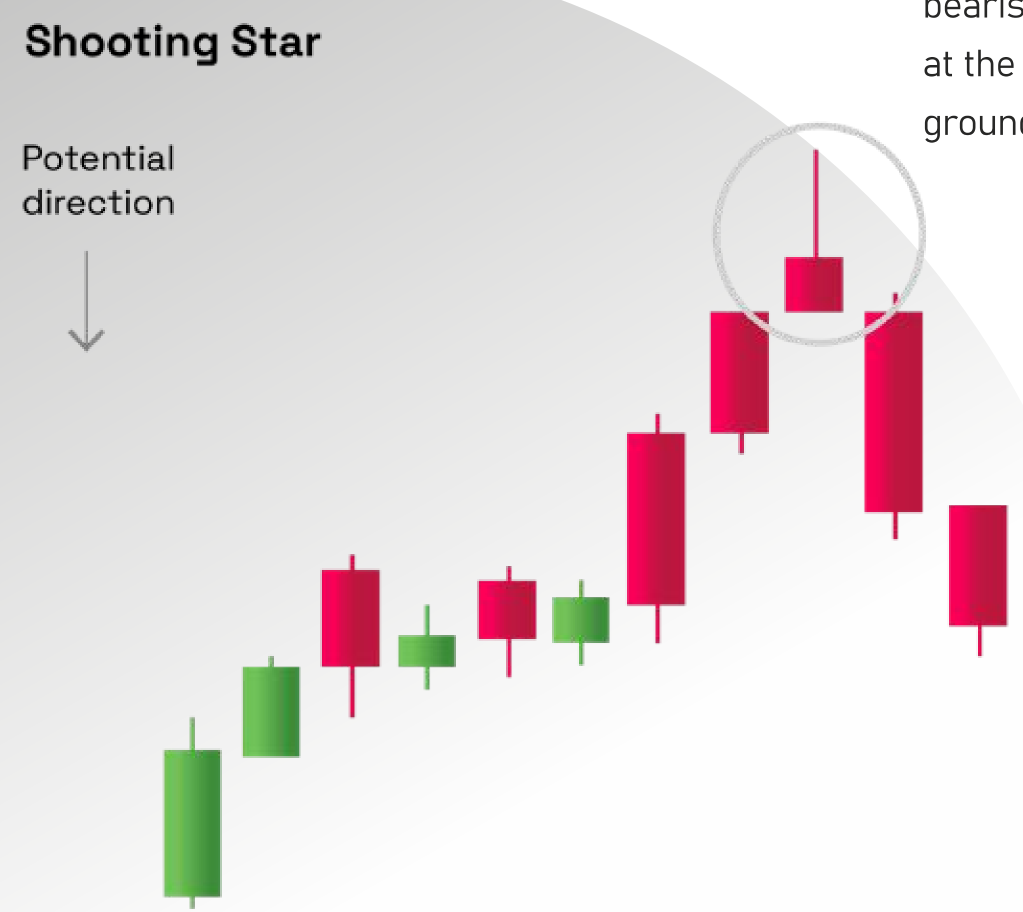
The hanging man is the bearish equivalent of a hammer. It has the same shape but forms at the end of an uptrend instead of a downtrend.

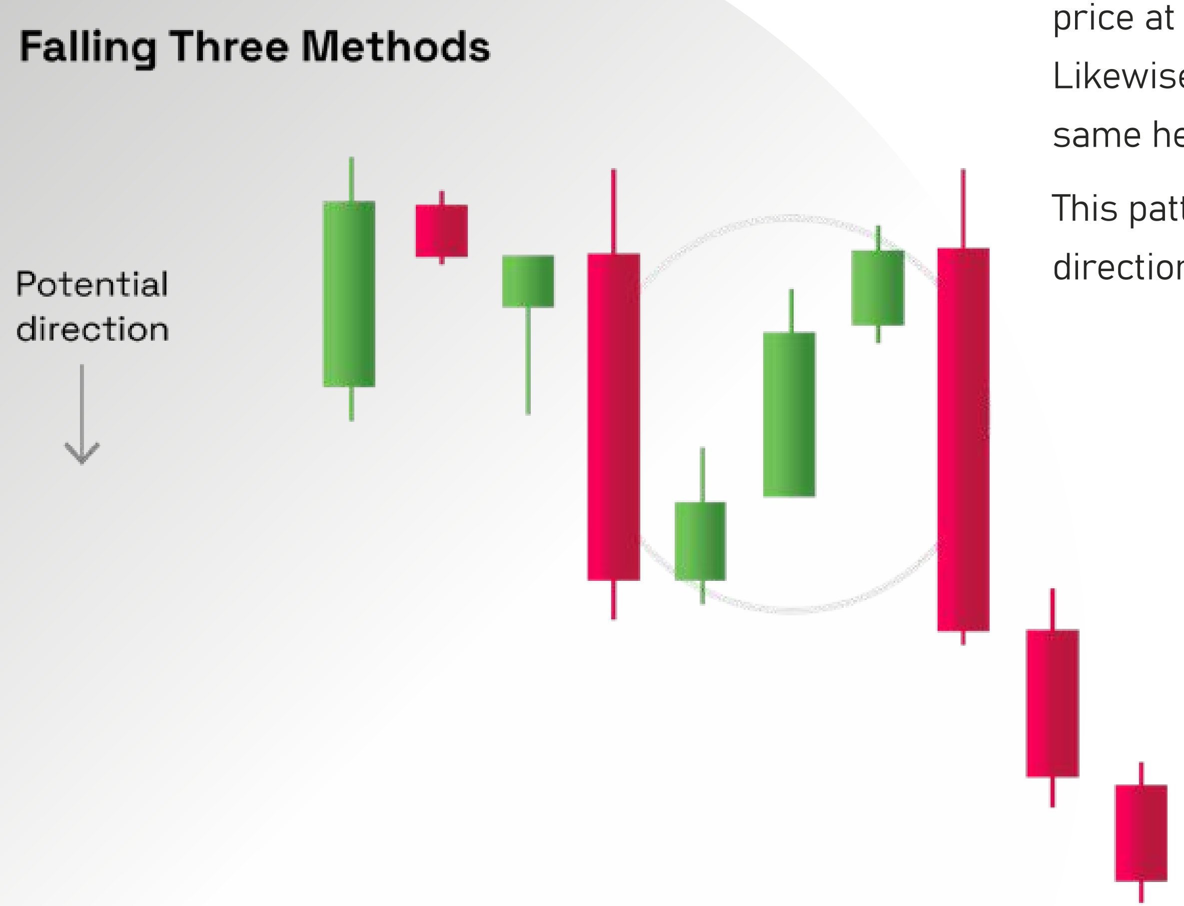
It indicates that there was a significant sell-off during the day, but that buyers were able to push the price up again. The large sell-off is often seen as an indication that the bulls are losing control of the market.



Shooting Star

The shooting star has the same shape as the inverted hammer but is formed in an uptrend. In other words, it has a small lower body and a long upper tail. As you can see in the below image, the shooting star will go slightly higher than the previous candle but will close just above it. (Since it is a bearish move the opening price started from above and closed at the bottom). The movement is like a star falling to the ground, thus the name.





Falling Three Methods

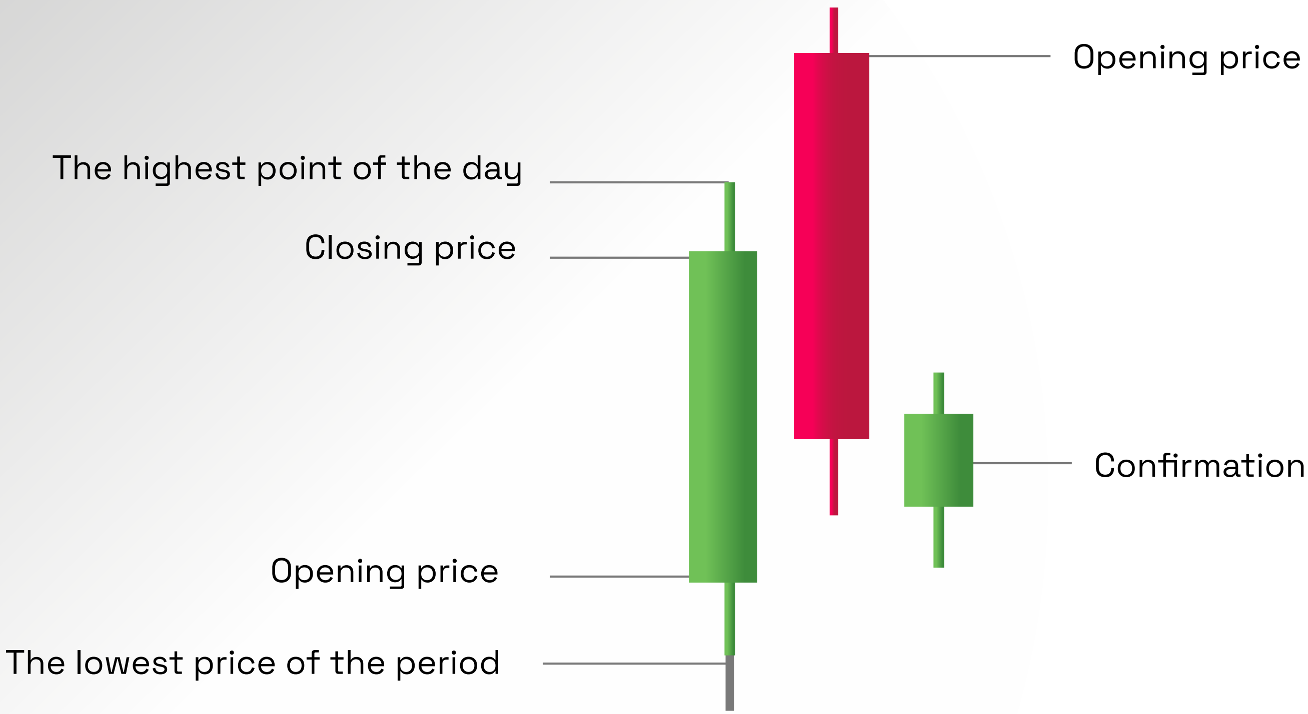
The falling three-method formation patterns appear when the current falling market will continue to fall. In the picture, we can see that the falling three methods are formed in between two long red candlesticks. The green candles are not exceeding the two red candles. The first green candle has its opening price at the same height as the first red candles' closing price. Likewise, the last green candle has its closing price at the same height as the second red candles' opening price.

This pattern tells us that buyers did not manage to change the direction of the falling market.

Dark Cloud Cover

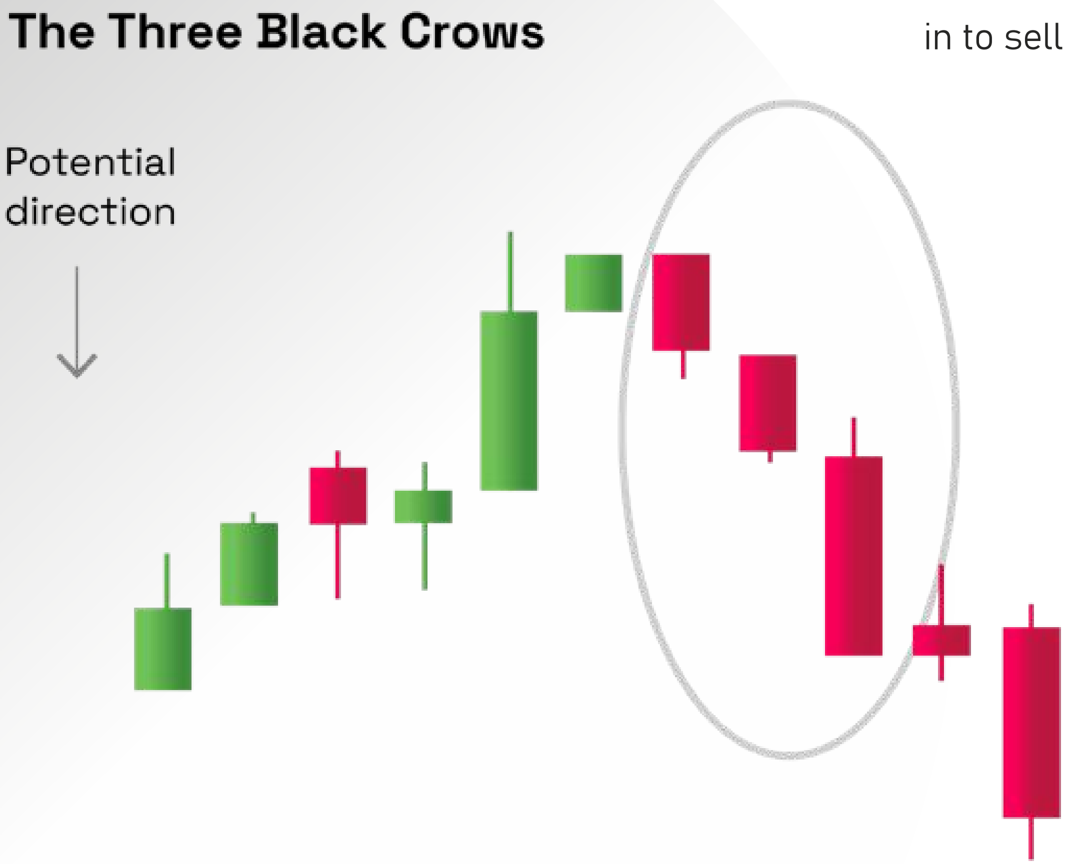
The dark cloud cover is the candlestick pattern that indicates a bearish reversal is approaching. Thus, the name “a black cloud over the previous day’s optimism”. It comprises two candle-sticks: a red candlestick which opens higher than the previous green candle and is followed by a small green candle (usually taken as the confirmation of the pattern). This means that the bullish movement was taken too high for sellers and jumped in to sell back to normal.

Dark Clolud Cover



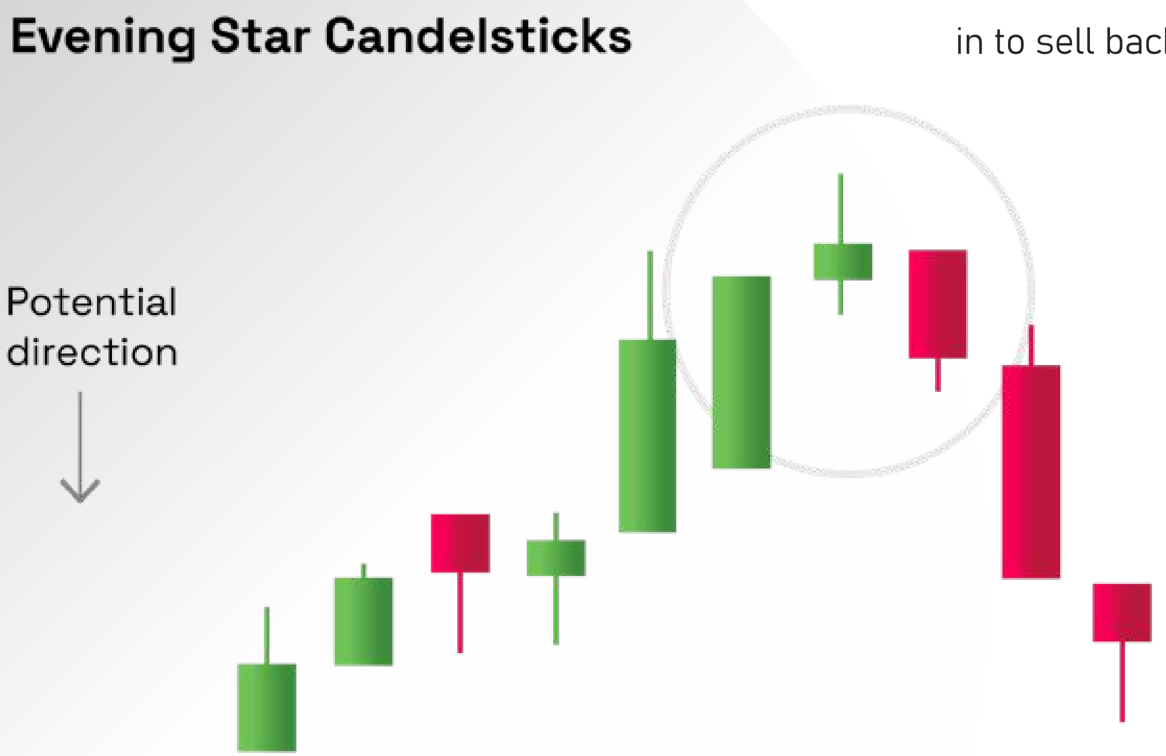
The Three Black Crows

The dark cloud cover is the candlestick pattern that indicates a bearish reversal is approaching. Thus, the name “a black cloud over the previous day’s optimism”. It comprises two candle-sticks: a red candlestick which opens higher than the previous green candle and is followed by a small green candle (usually taken as the confirmation of the pattern). This means that the bullish movement was taken too high for sellers and jumped in to sell back to normal.



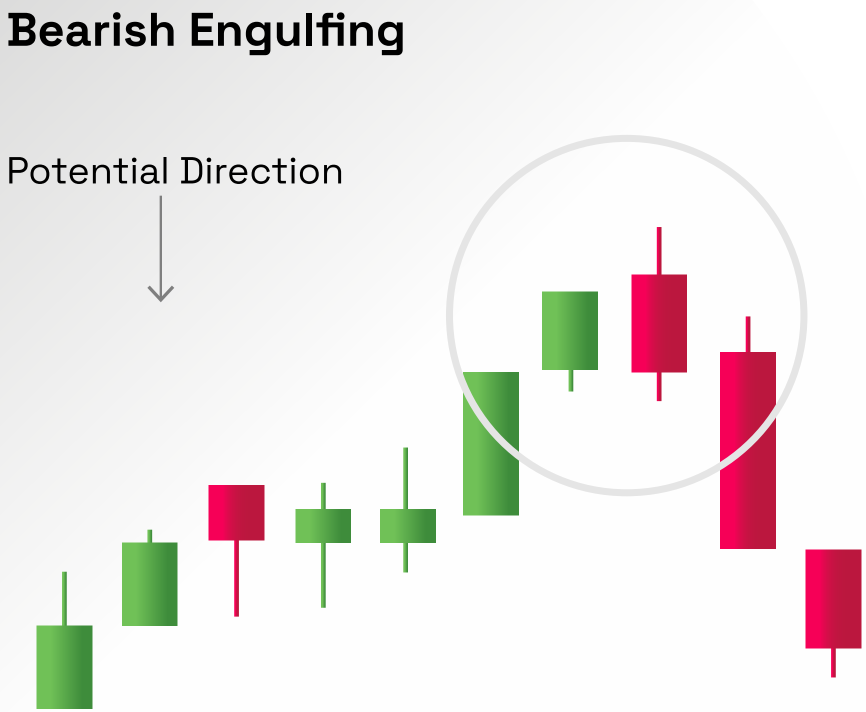
Evening Star

The dark cloud cover is the candlestick pattern that indicates a bearish reversal is approaching. Thus, the name “a black cloud over the previous day’s optimism”. It comprises two candle-sticks: a red candlestick which opens higher than the previous green candle and is followed by a small green candle (usually taken as the confirmation of the pattern). This means that the bullish movement was taken too high for sellers and jumped in to sell back to normal.



Bearish Engulfing

A bearish engulfing pattern occurs at the end of an uptrend which is why it can be viewed as a resistance signal. The first candle has a small green body that is engulfed by a subsequent long red candle. It signifies a peak or slowdown of price movement and is a sign of an impending market downturn. The lower the second candle goes, the more significant the trend is likely to be.

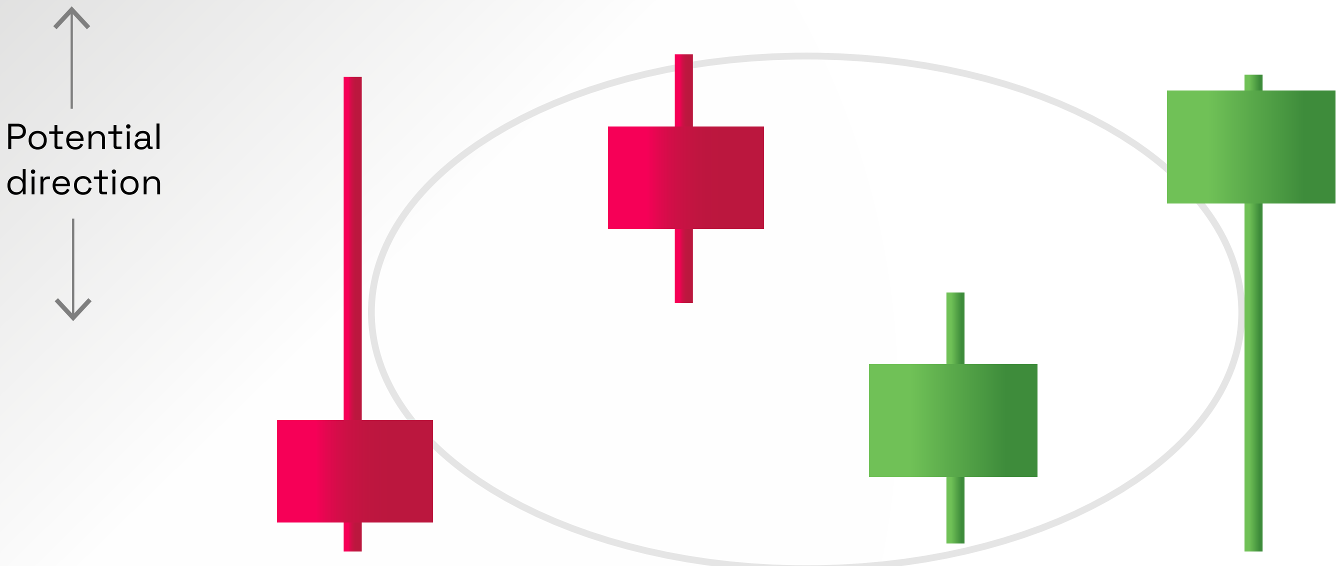


Indecisive Candlestick – Neutral Signals

Doji

Doji candlesticks are the most common signal of indecision. They show that the market might signal an impending change of trend or market reversal. The unique feature of a Doji candlestick is that the opening and closing prices are identical. Therefore, the candlestick body is a simple flat line or a very tiny body. In addition, when the upper or lower "tails" are longer, the market indecision is stronger. This can lead the price to a possible reversal.

Doji Candlesticks



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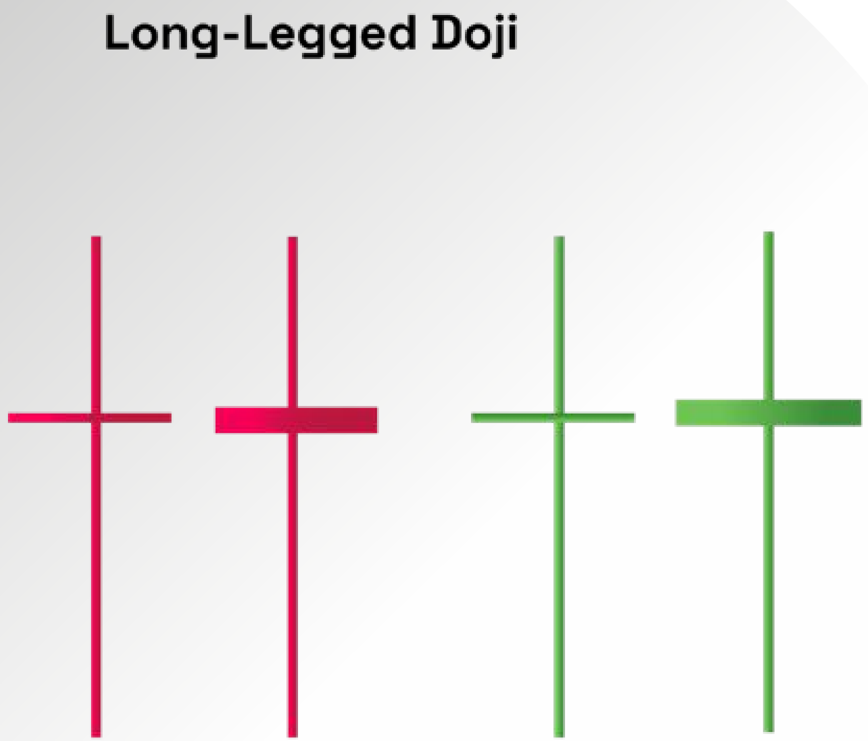
Long - Legged Doji

The Long-legged Doji is the most common one and you will see it appear more frequently than the rest. As the name suggests, both tails are long and the opening and closing times are in the middle without a body being formed. The visual appearance clearly indicates indecision in the market. It can also tell us that the same number of buyers and sellers enter the opposite trades.Whenever this Doji appears following an uptrend or a downtrend, traders take it as a signal of a reversal. For example, if the price is bearish and this Doji appears it is very possible that the market will take direction and become bullish. The same is true for the opposite.



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Gravestone Doji

The Gravestone Doji, as its name hints, is a ‘gravestone’ for investors and traders. This Doji is the exact opposite of the dragonfly. It shows the resistance and refusion of pushing the price upwards. This is why the opening and closing prices are at the bottom, indicating a potential downtrend is about to take place.

Gravestone Doji

Gravestone Doji

Dragonfly Doji

Four Price Doji

Dragonfly Doji

The Dragonfly Doji emerges after an extended downtrend in the price. The dragonfly has a significantly long lower tail and the opening and closing prices are at the top. This Doji shows the resistance of the price to stay low which is why the price 'recovers' at the highest point. It is clearly rejecting to go down and indicates a reversal upwards.

Four Price Doji

This is the rarest Doji of all four. The four price Doji does not have any tails and shows very strong indecision in the market. When this Doji appears traders cannot identify when the next price will go. This can happen when the market just opens, closes, and in-between carry out buying and selling at the exact price within the same period. It is very rare because the buyers and the sellers cannot just be the same in number at the exact same period.

Did you know you can choose the time frame you want on a chart?

Different time frames: 1 min, 2 min, 5 min, 15 min, 30 min, 1 hours, 4 hours, 1 day, 1 week, 1 month.

In the 1-hour chart every candlestick will represent a 1-hour movement. Likewise, in a 1-day chart you will see that candlesticks will be different, representing a price movement per day per candle.

The longer the time frame the more reliable the signals. The shorter the time frames the more “fake” moves and breakouts you will get.

However, day traders use mostly 15-minute charts and 60-minute define the primary trend and a five-minute chart (or even a tick chart) to define the short-term trend.

Always Trade Smart

GF Markets is created by traders with years in the industry. Our mission is to provide an accessible and intuitive way for traders of all levels to invest.

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