

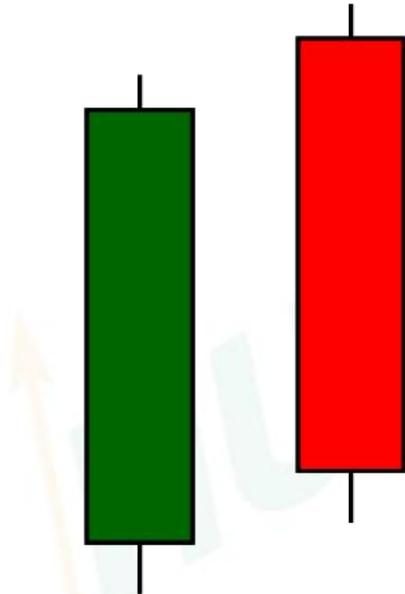
***HUNTRADERS***

**THE ART OF  
JAPANESE CANDLESTICKS**

Preview

Full course: 160 page

# The art of Japanese Candlesticks



- The origin of candlesticks
- Illustrating share prices
- Single candlesticks
- The categorisation of candlesticks
- Trend reversal formations
- Stars
- Trend continuation formations
- The magical Doji
- Formations confirming each other

# The origin of Japanese Candlesticks

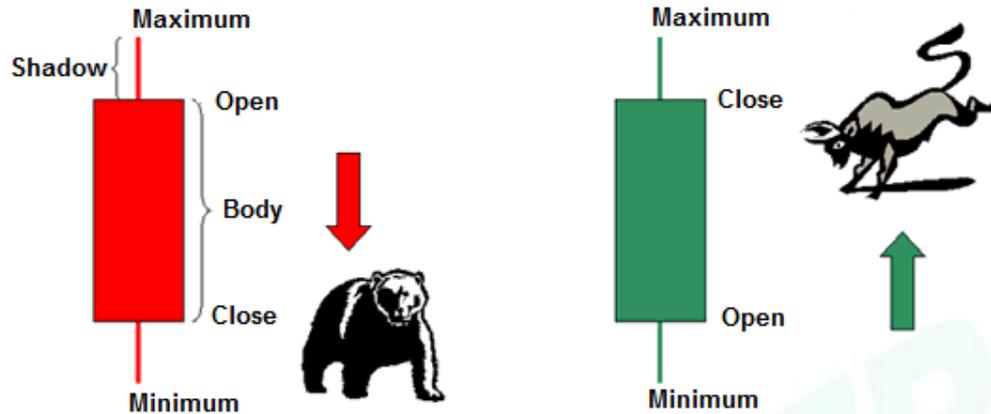
- The **Japanese** were the first to use this kind of technical analysis on the rice market back in the early 1700s.
- A trader called **Homma** discovered that
  - not only the demand and supply of rice, but also the mood of the rice traders influences the prices.
  - if he understood, organised, and defined these mood changes, he could predict the future rice price changes.
  - there is a huge difference between the value and the price of the rice.
  - principles should be developed to monitor and forecast market mood.



# The role of Japanese Candlesticks

- **The analysis of Japanese Candlesticks** is built on the principles of Homma.
  - The Japanese candle analysis took long to develop, but nowadays it is used worldwide.
  - It offers excellent trading results when used together with other indicators.
  - Using Japanese Candlesticks can offset specific technical elements (e.g. the lack of volume).
  - The theory defines several **single candles** and **formations**.
  - **In FX trading** the use of candlesticks is especially recommended.

# The illustration of Japanese Candlesticks



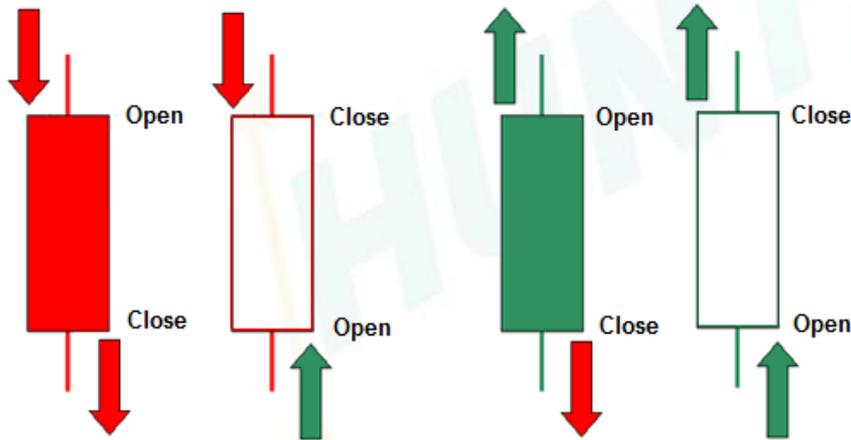
*Only applicable if at least the following data are known:*

- opening price
- closing price
- maximum price
- minimum price

*The colour of the body can be*

- **green (or white)**, if the price increased - opening price higher than the closing price - in the period illustrated by one candle (usually 1 day)

- **red (or black)**, if the price decreased - opening price lower than the closing price - in the period illustrated by one candle



■ closed below the previous day's closing ■ closed above the previous day's closing

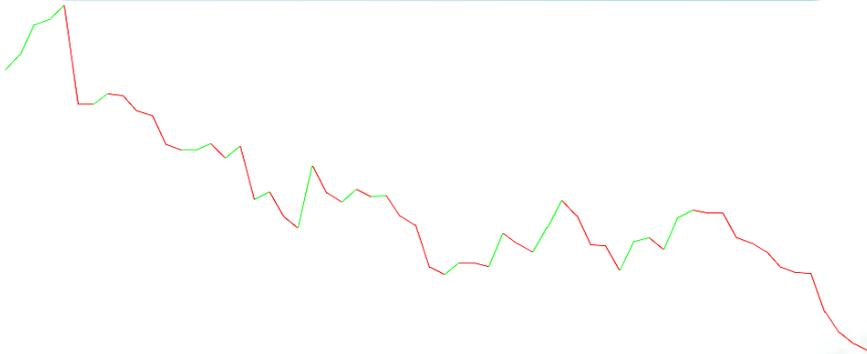
*When the lower or upper shadow is missing,* the opening or the closing price equals the minimum or the maximum price

# Example for the two types of illustrations



## Further illustrations

Line chart



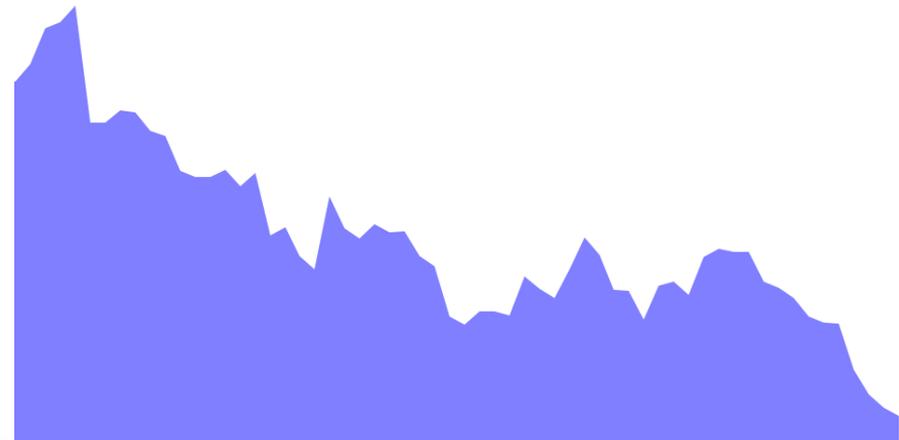
Bar chart



Heikin-Ashi

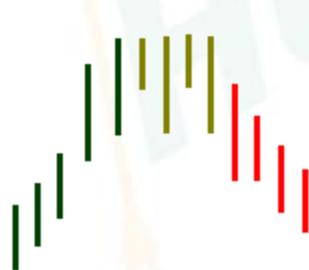


Area chart

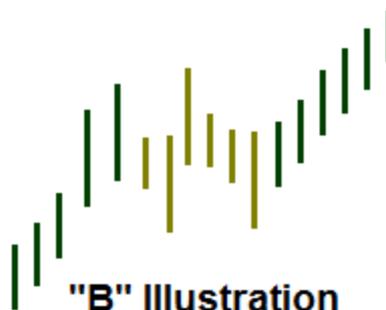


# Trend reversal formations

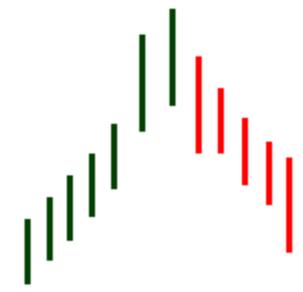
- Only **signals reversal in short term**, the punctuality of the forecasts exponentially decreases over time
- Trend reversal formations have a high chance of forecasting a change in the trend, but it is not always the case
- After the pattern appears, **sideways movement** can also develop before a correction (illustration "A")
- After the pattern appears, the price can rocket again after a **short pull-back** (illustration "B")
- After the pattern appears, **the reversal can happen**. Thus, the short-term trend reverses (illustration "C")
- Do not trade against the current **long-term trend**, only open position if the trend reversal candle makes the prices move in the primary trend's direction



"A" Illustration



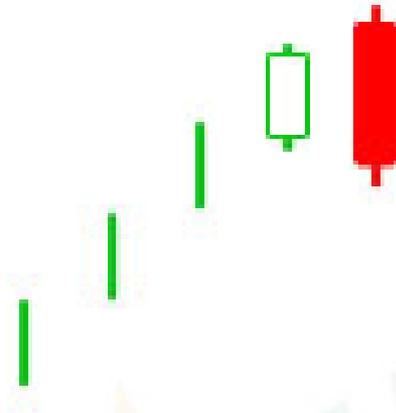
"B" Illustration



"C" Illustration

## Bearish Engulfing

Bearish – Trend reversal – High



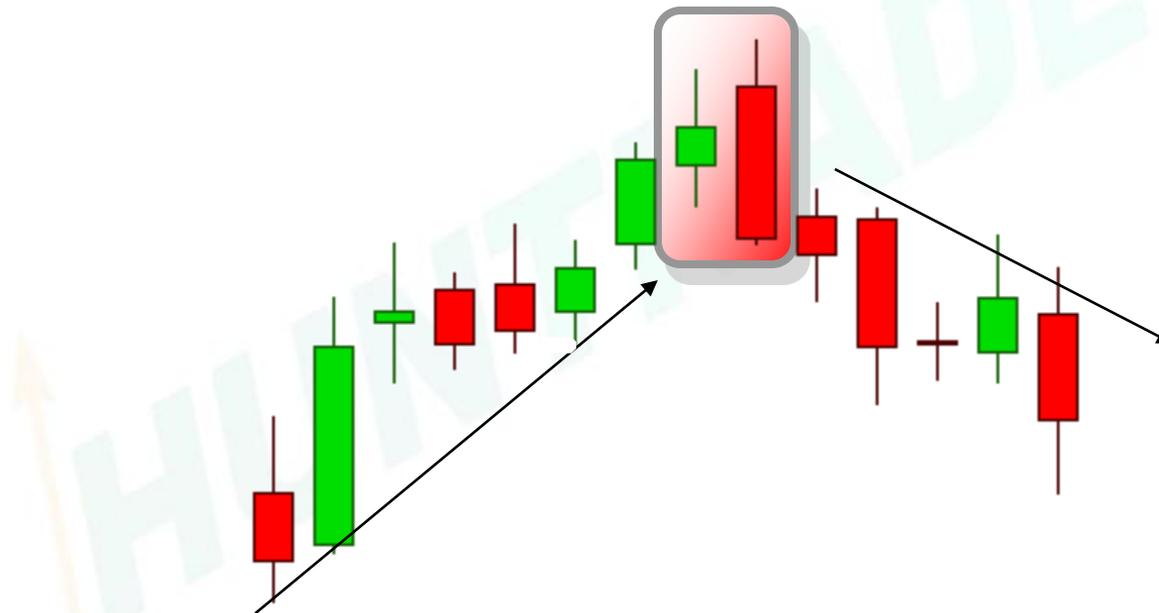
***Trend reversal formation forecasting a fall with high reliability***

*The high volume on the second day strengthens the formation*

- ***How to recognise***
  - There is a small, white candle on the first day
  - On the next day, a black candle appears with higher opening than the previous day's closing
  - The share closes below the previous day's opening
- ***What does it mean***
  - The trading starts with a gap on the ascending market, but the price covers the full body of the candle on the first day
  - The longer the black candle's body relative to the white candle, the higher the chance for a trend reversal
  - The opposite of this formation is the ***Bullish Engulfing*** formation

# Bearish Engulfing *Example*

QQQQ – April 6, 2006



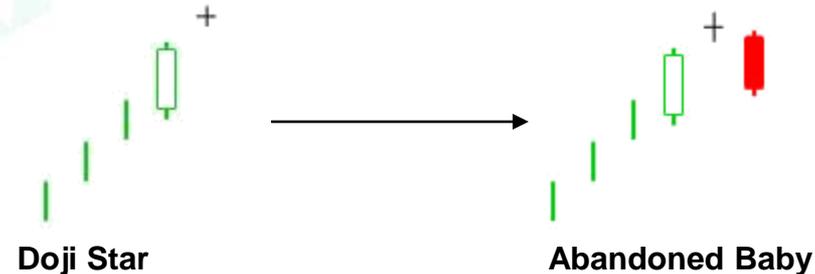
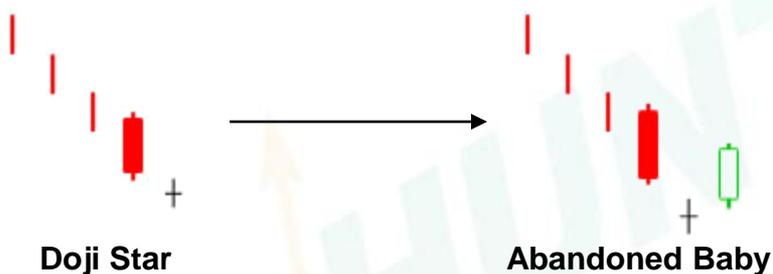
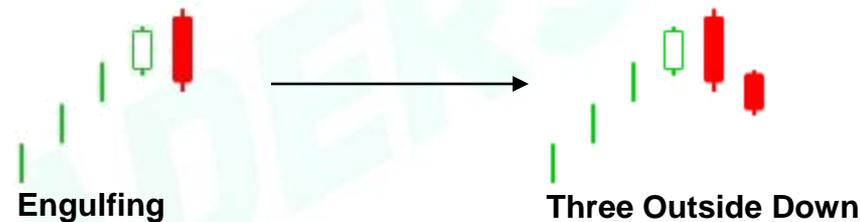
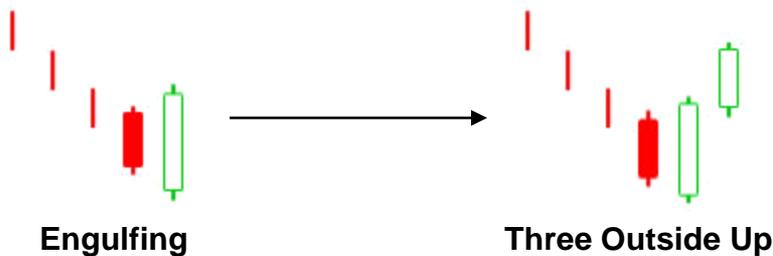
# The magical Doji

- The opening and closing price are **close to each other**. Furthermore, the daily minimum and maximum are not far from the candle's small body
- A Doji appearing on an ascending or descending chart **usually brings a trend reversal**
- When a Doji appears in an ascending trend, it signals the exhaustion of the market. In a descending trend, it signals the exhaustion of the bears
- The **candle following the Doji has large significance**, because it can confirm the potential trend reversal
- If there are several short candles or Dojis on the chart, the appearance of a new Doji is less significant
- Its signals on a sideways market **aren't reliable**
- In an ascending trend a Doji called "**Gravestone**" is the sinister, while in a descending trend "**Dragonfly Doji**" candles bring the reversal with the biggest probability

# Formations confirming each other

Trend reversal bullish candles

Trend reversal bearish candles



# Would you like to learn more?

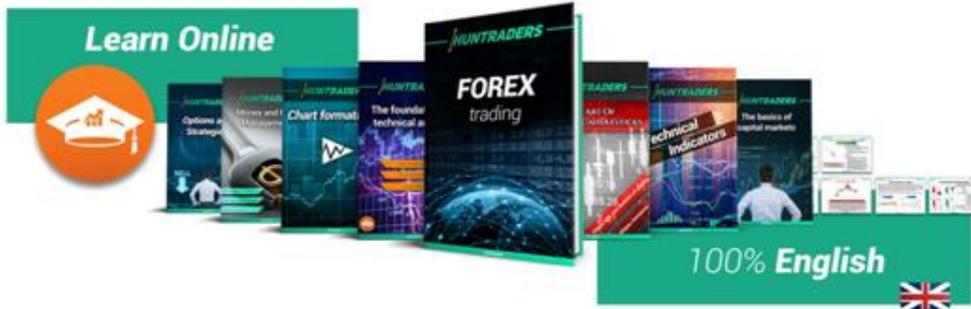
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