

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

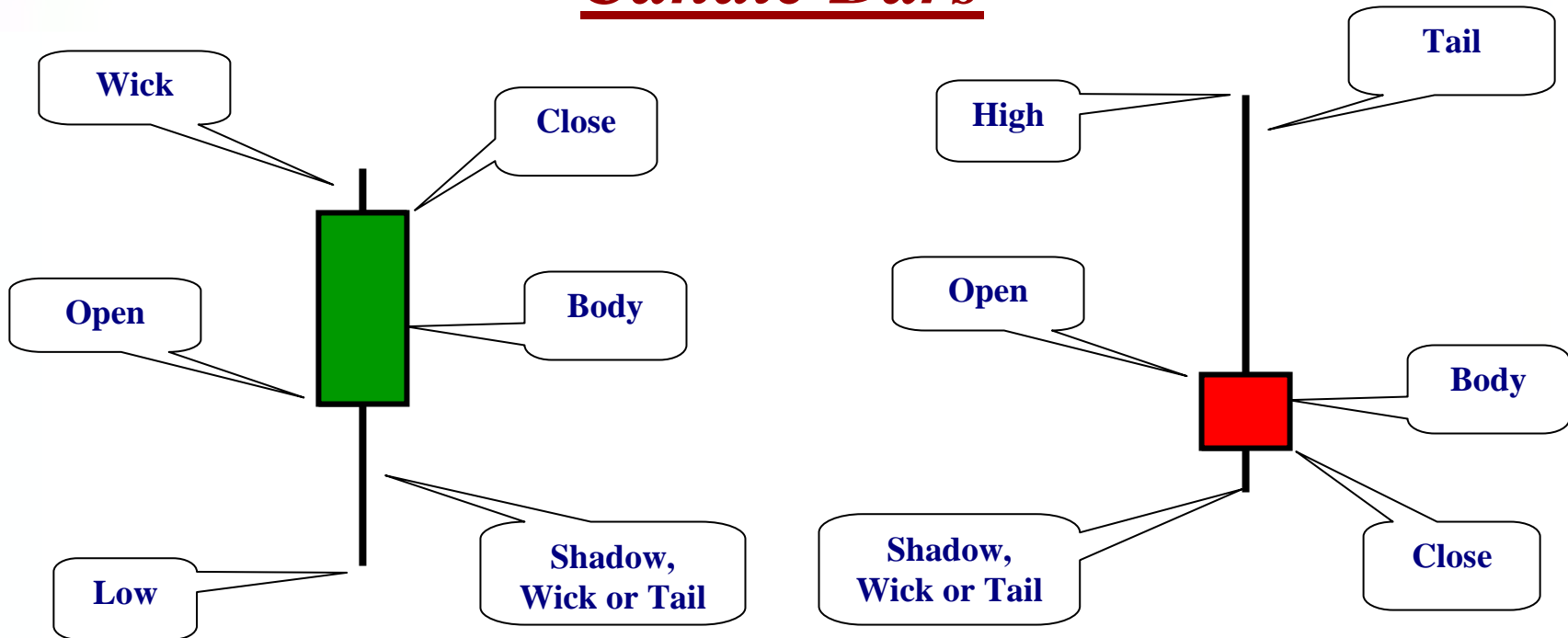
Miscellaneous Thoughts on Candlesticks

- *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!*

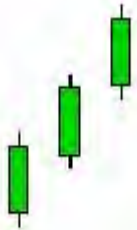
When we are done, not only will you understand what candles are saying, you will also:

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

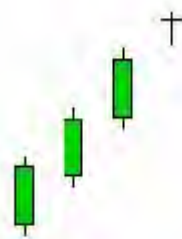
● *Know where to place a stop*

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

Candlestick Analysis



Sell Setup
3 or more bars up
in downtrend.



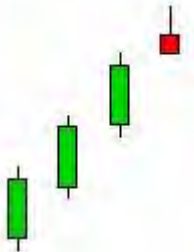
Bearish Doji Star
Gapped up, and opened and
closed at the same price.



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



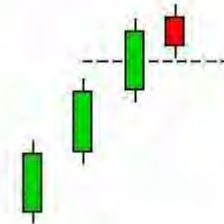
Bearish Hangman
Narrow range body with topping
tail, near higher end of prior bar.



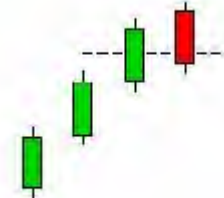
Bearish Shooting Star
Narrow range body with
topping tail, near higher
end of prior bar.



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.

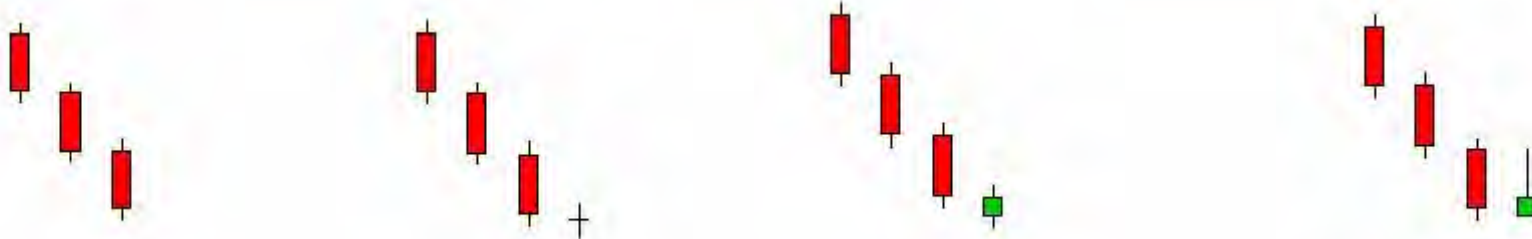


Bearish Piercing
Gapped up and
closed down over $\frac{1}{2}$
into the prior bar's
range.



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

Candlestick Analysis



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

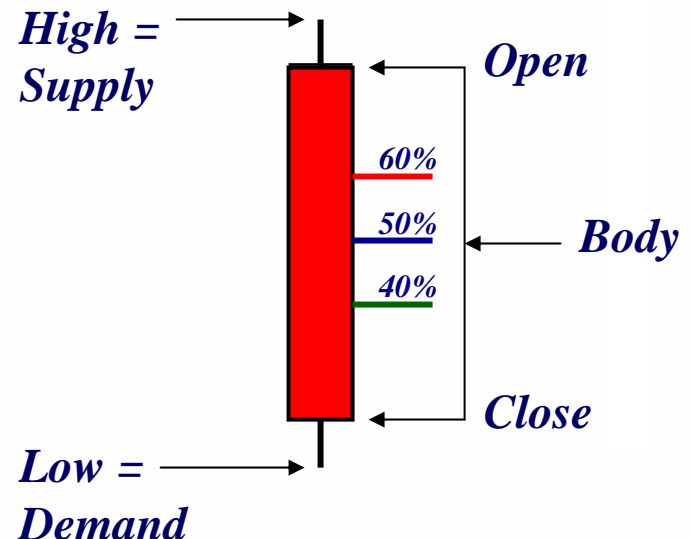
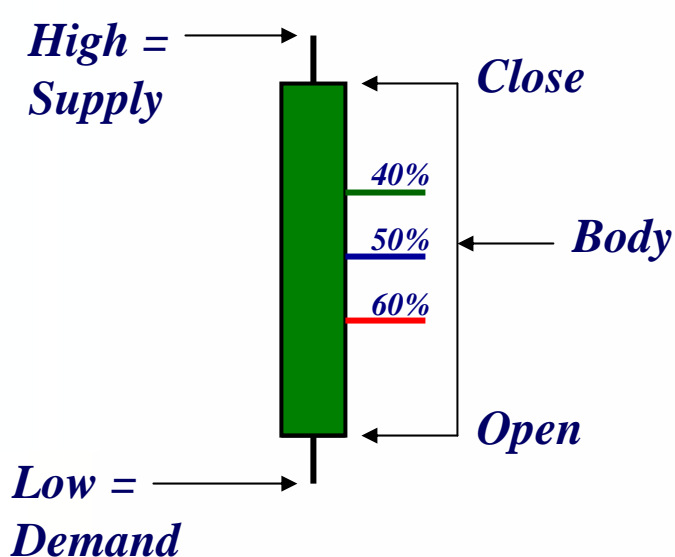
The Open = Beginning S / D

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



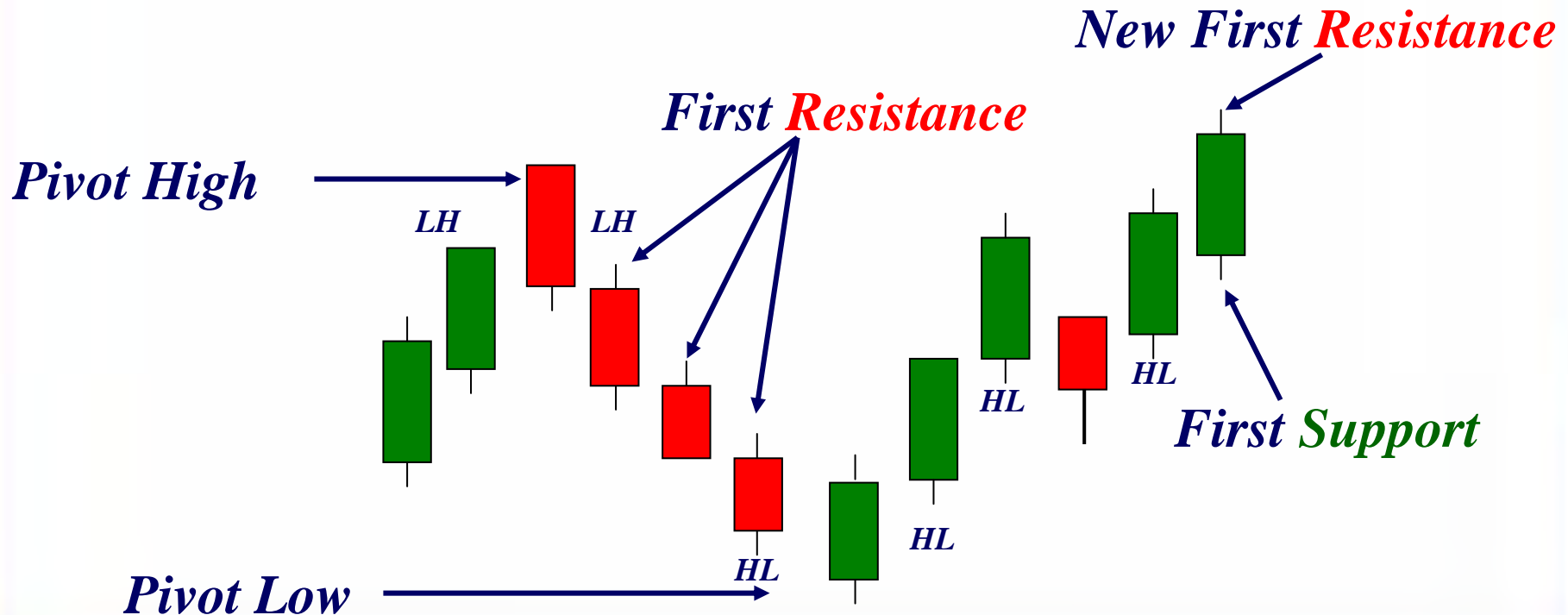
- The closing price within the range of a candle is a measurement of the strength of the **bulls** or **bears** in that period.

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.*

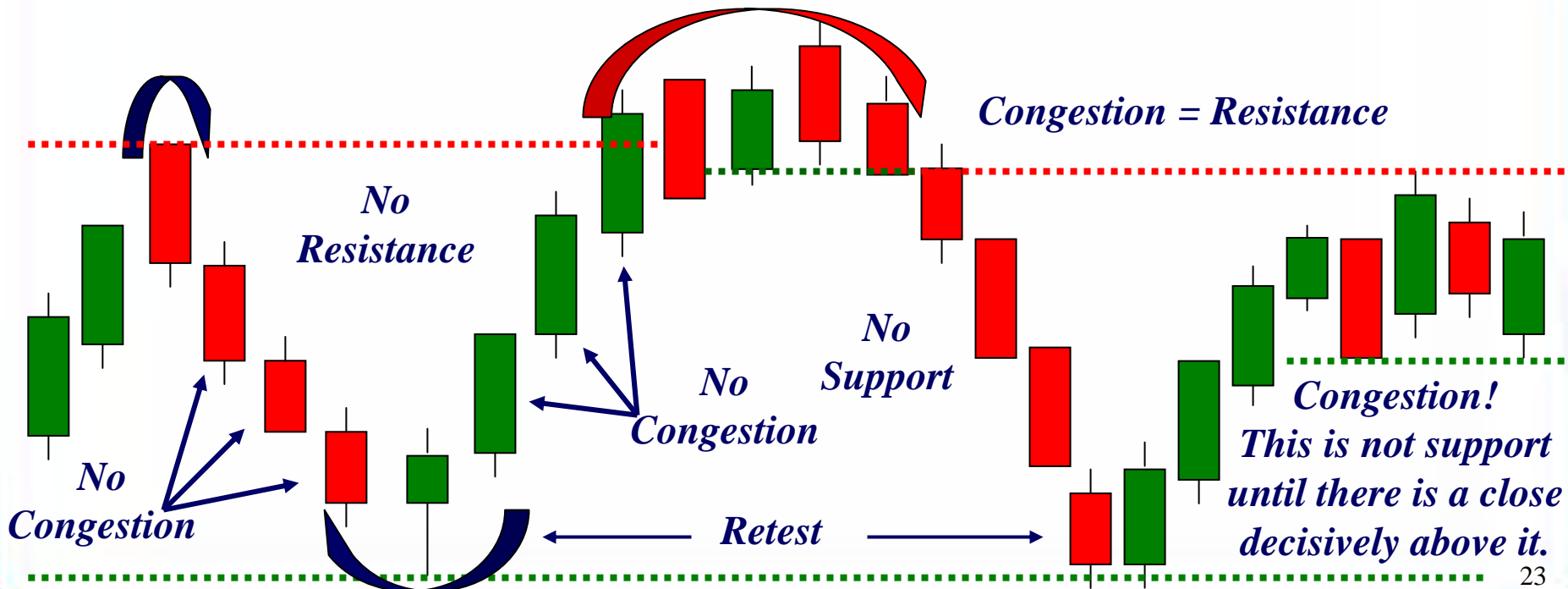


Support and Resistance Analysis

*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.

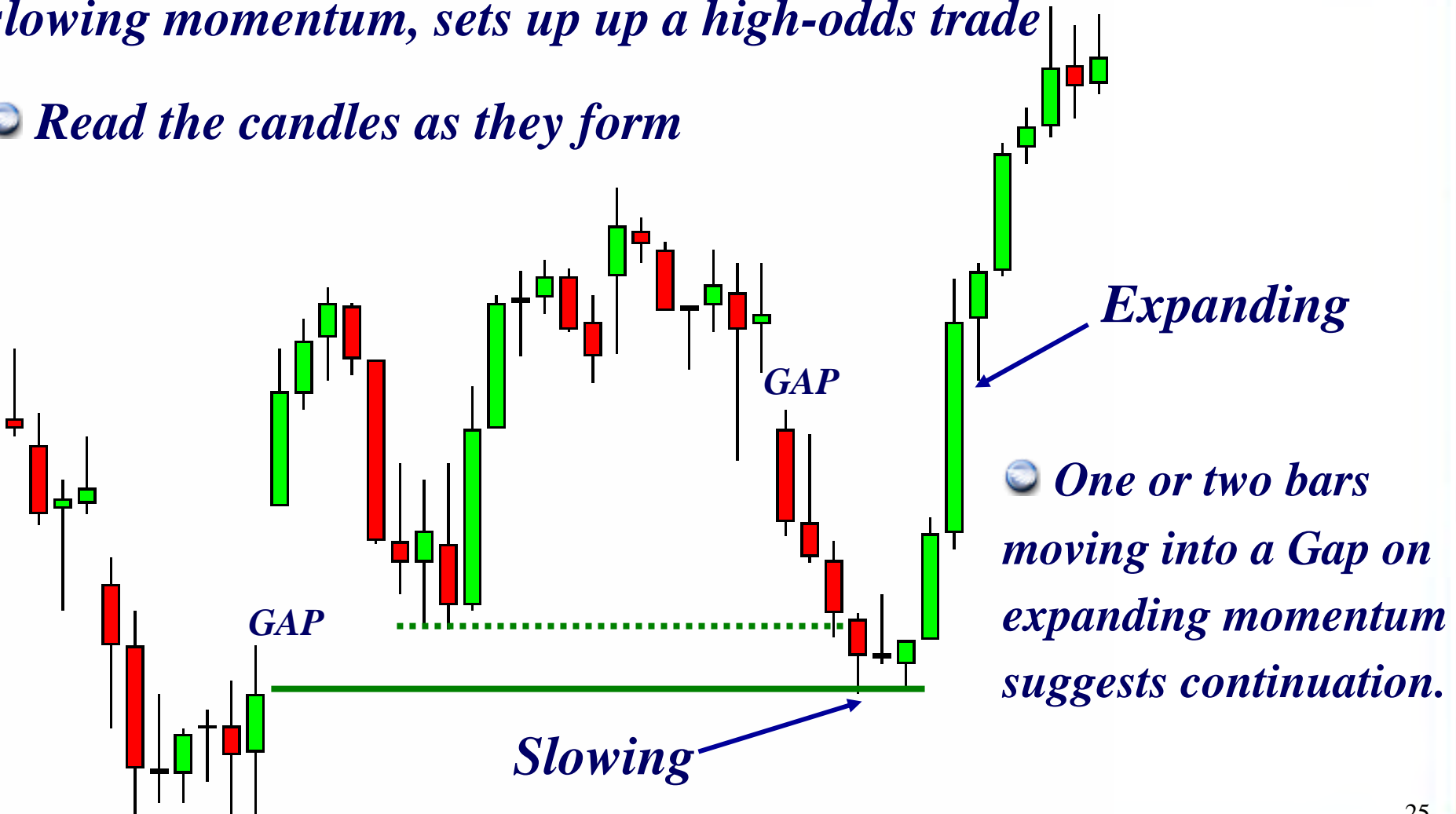
Prices pull back into the gap with several bars and form a potent + COG. This pattern suggests a reversal.



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

Candlestick Analysis

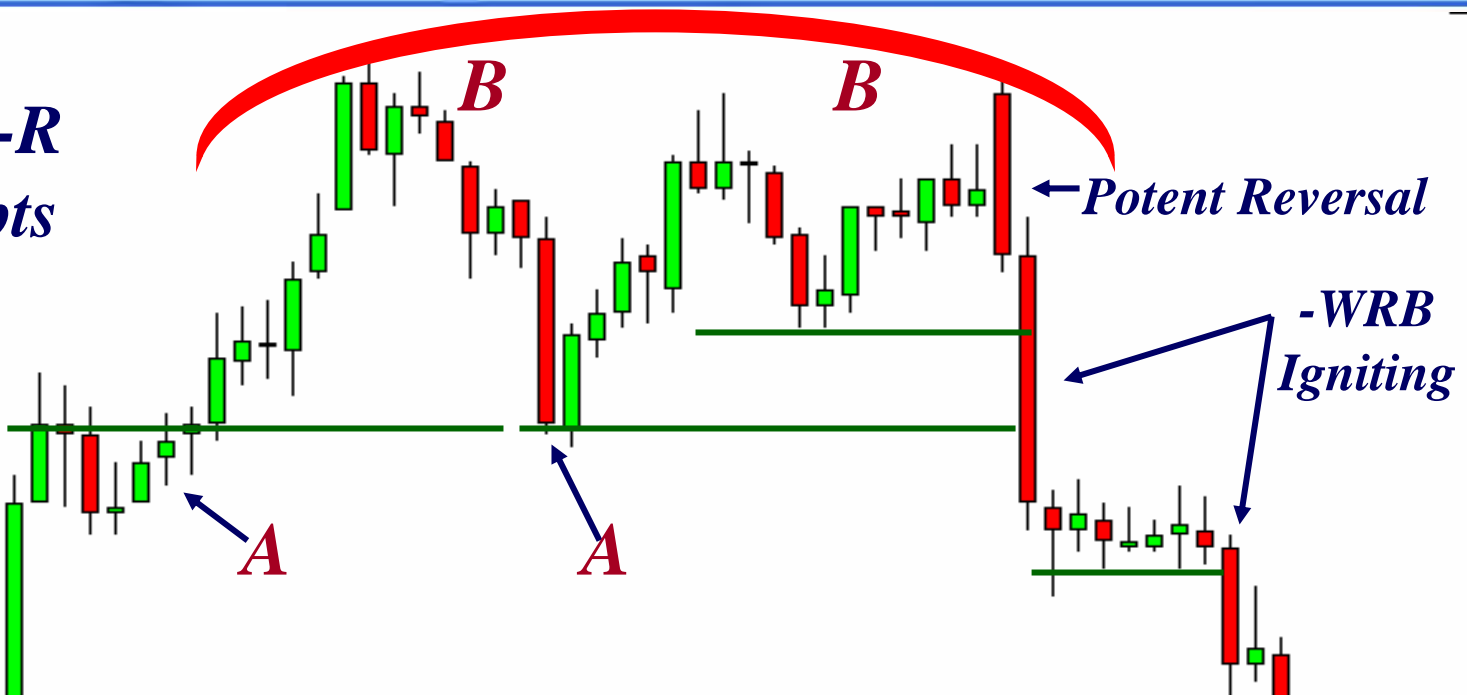
- Three or more bars moving into a Gap, followed by slowing momentum, sets up a high-odds trade
- Read the candles as they form



- 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.

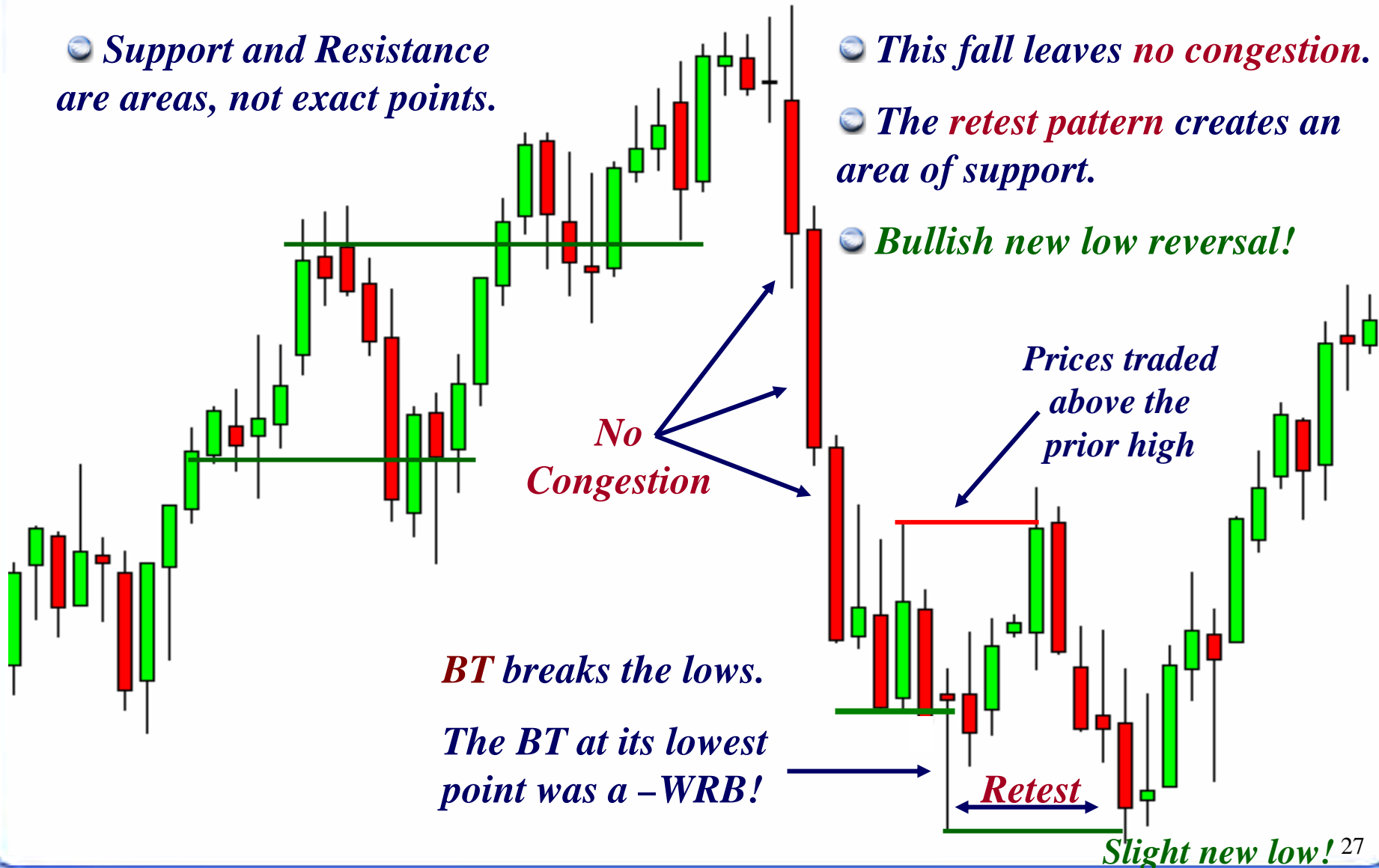
Support and Resistance Questions

● *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!***



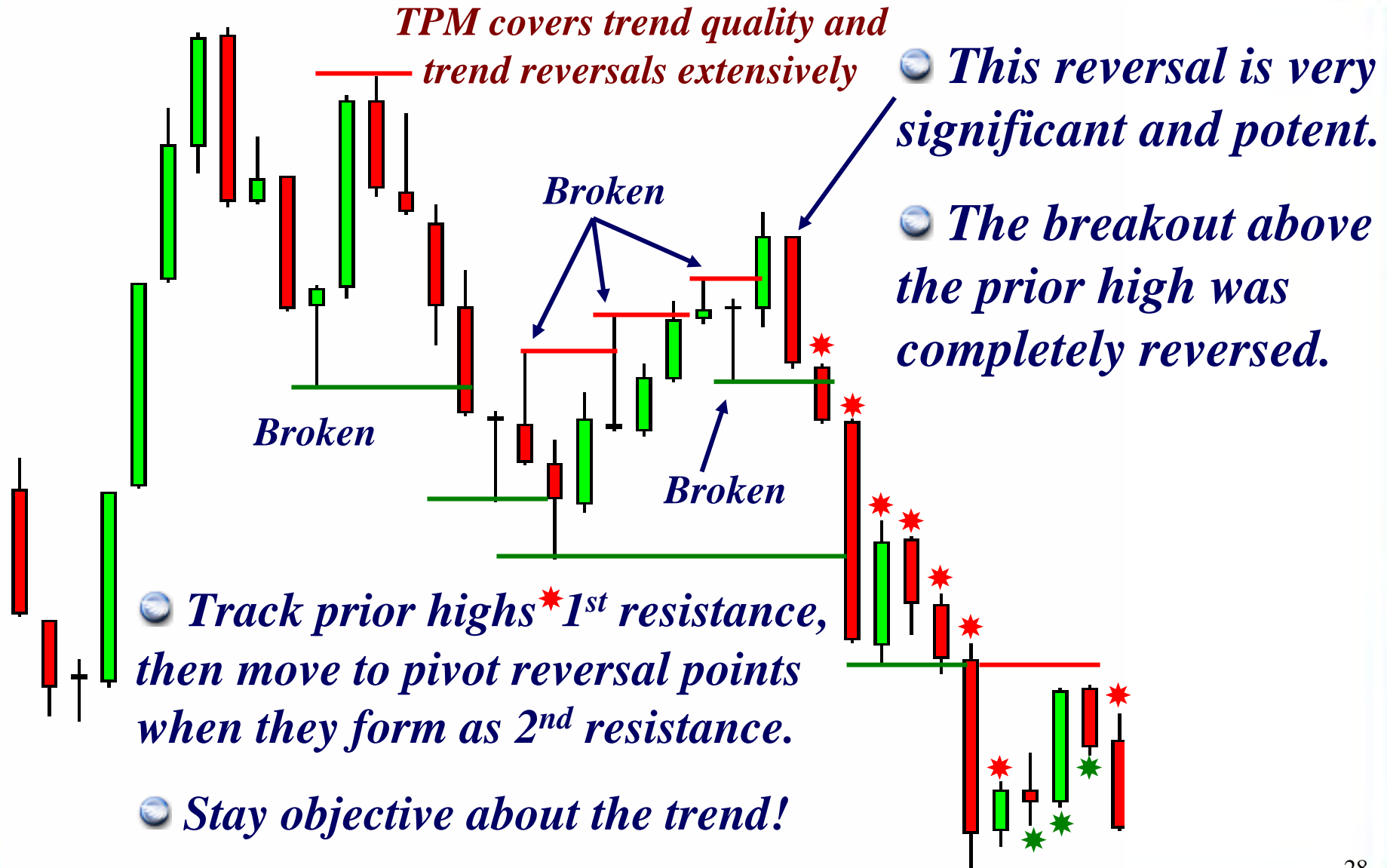
BT breaks the lows.

The BT at its lowest point was a -WRB!

Retest

Slight new low! 27

Candlestick Analysis



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

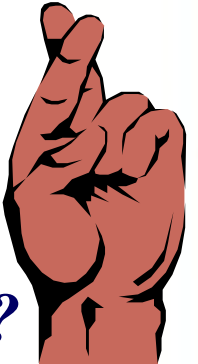
Each Candle Produces New Thoughts!

- *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?”*

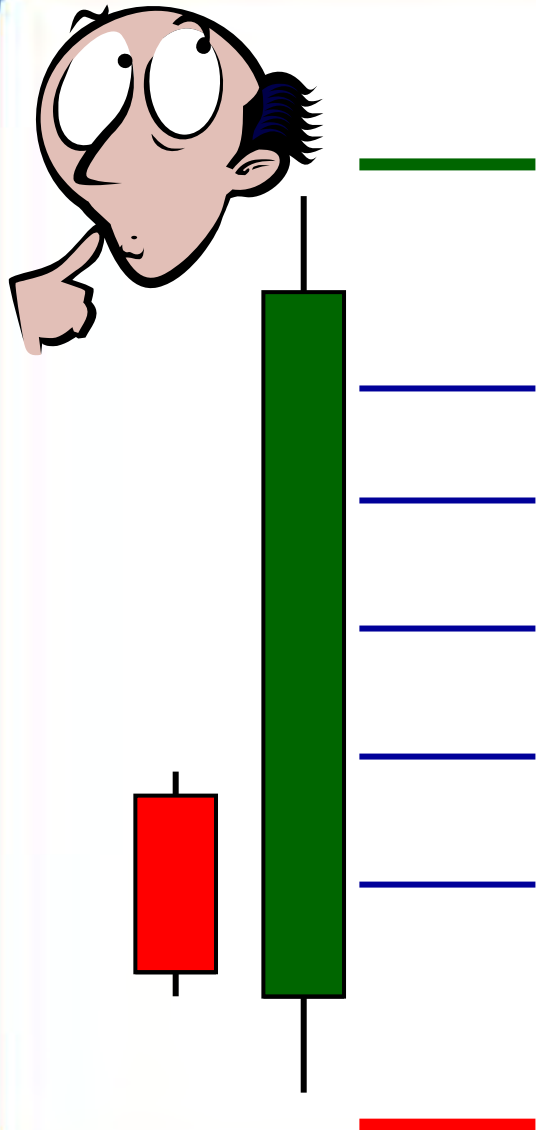
Candlestick Analysis



- *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?*

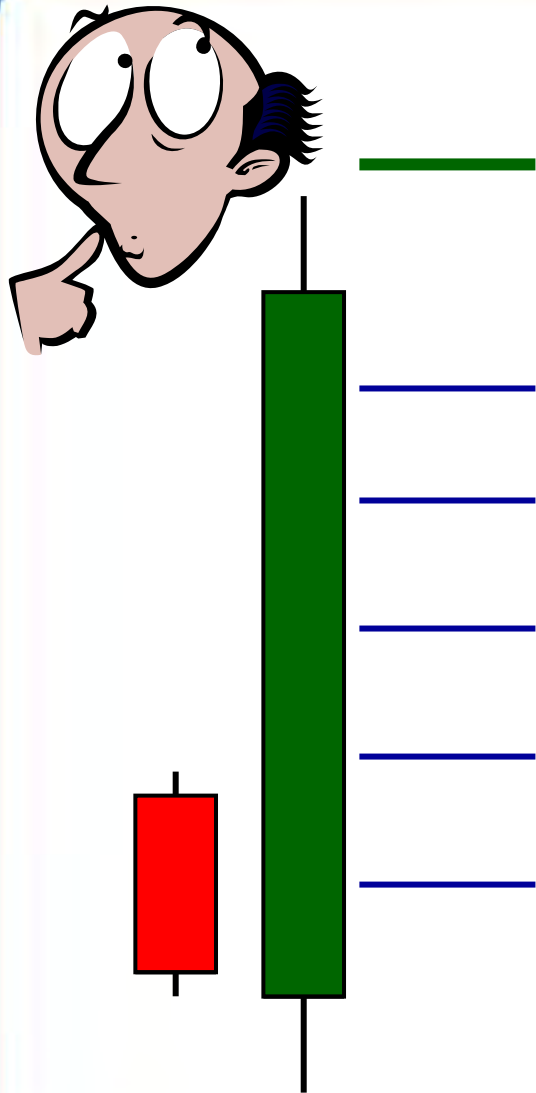


Candlestick Analysis



- *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



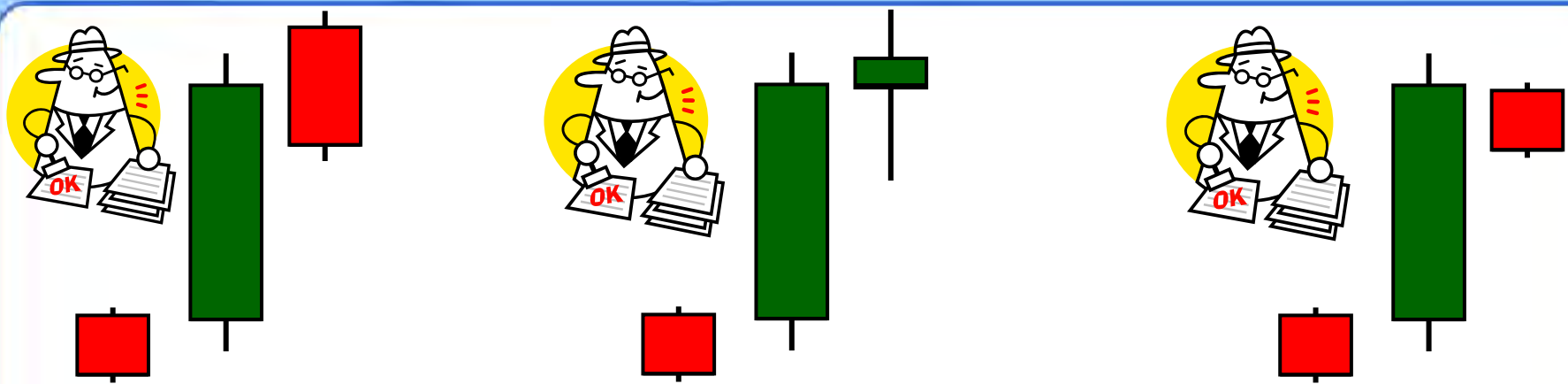
- *Now consider all of the marks to the right of the bar as the point where the next bar's **closing price** was.*

- *What would the various points of closing suggest?*

- *The stronger the close, the greater the odds of follow through (continuation).*

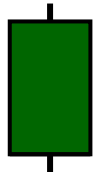
- *Can you see how different bars will “**speak**” to us without thinking about specific candle patterns and names?*

Candlestick Analysis

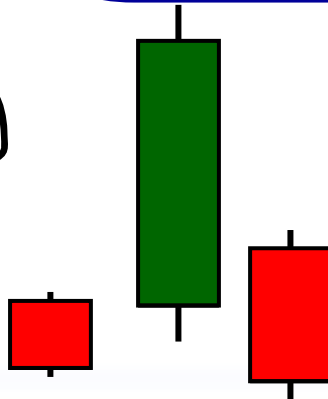


● *Can you see how various combinations of opens and closes “speak” to us about ours and others’ expectations!*

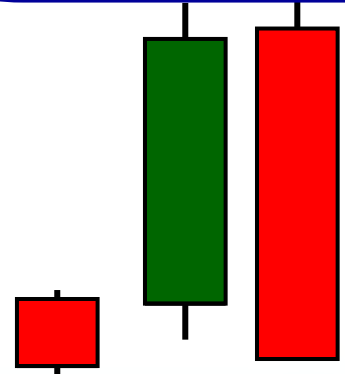
Go Baby!



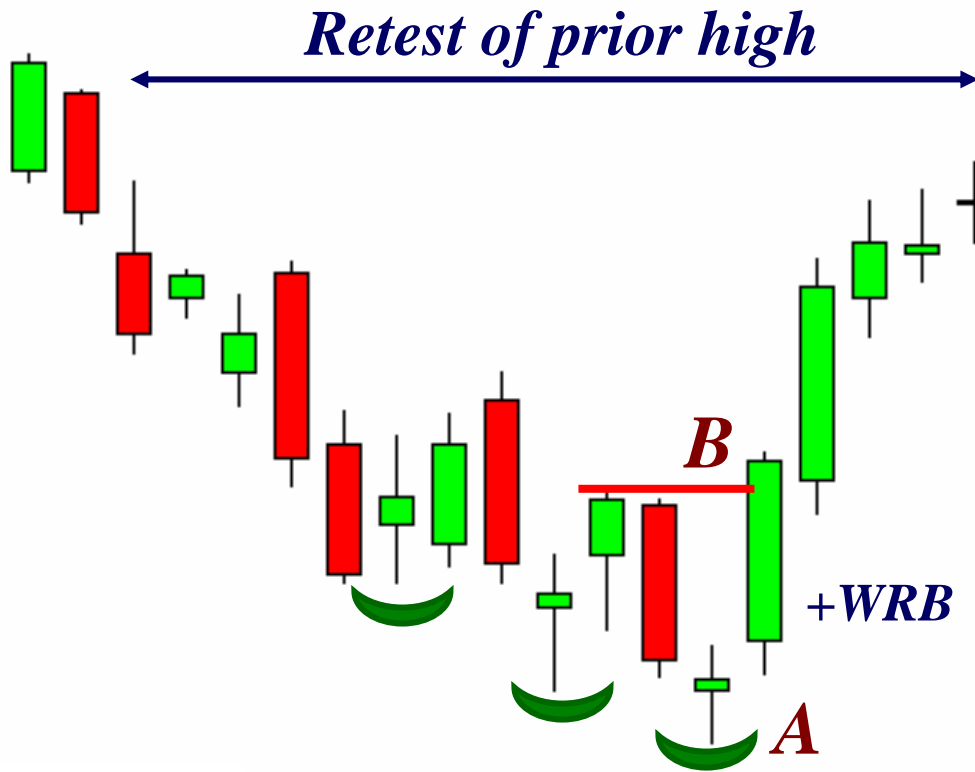
It gapped down near the prior low and then closed under it!



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

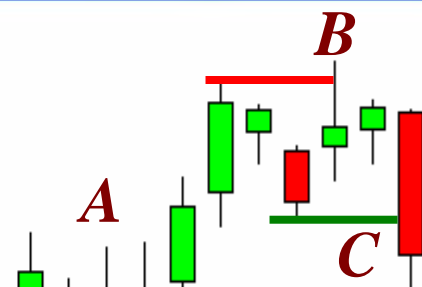
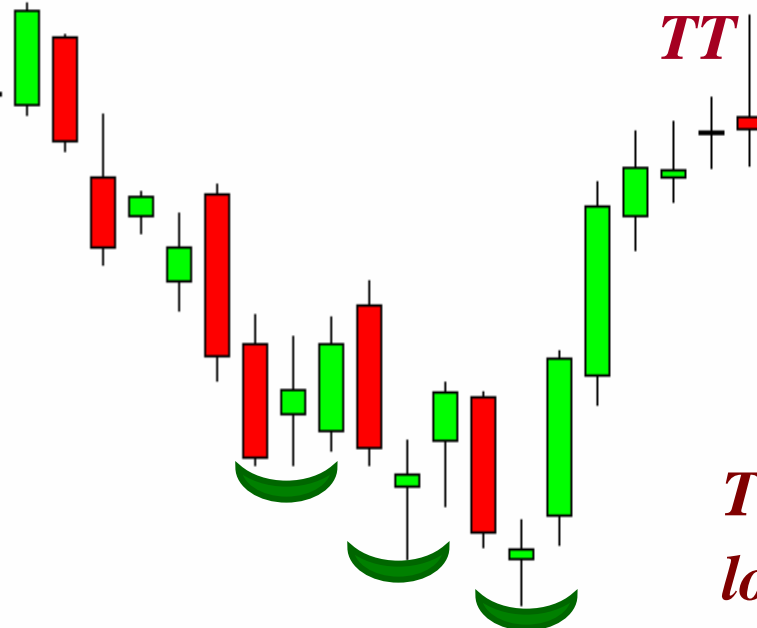
- The third reversal at (**A**), was the most significant.
- It formed a +WRB candle (**B**) and closed above the prior highs.

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

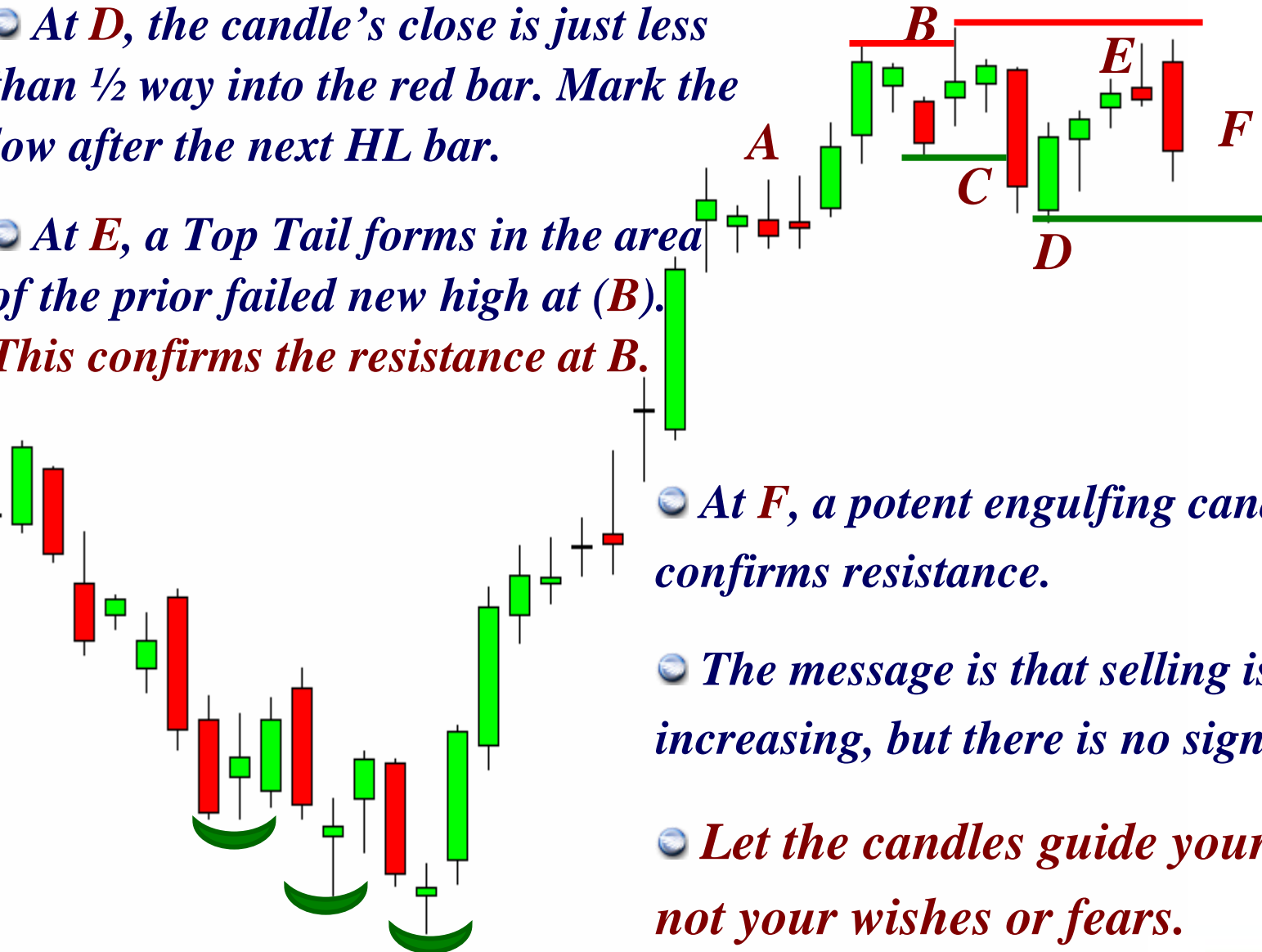
At **D**, the candle's close is just less than $\frac{1}{2}$ way into the red bar. Mark the low after the next HL bar.

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.*

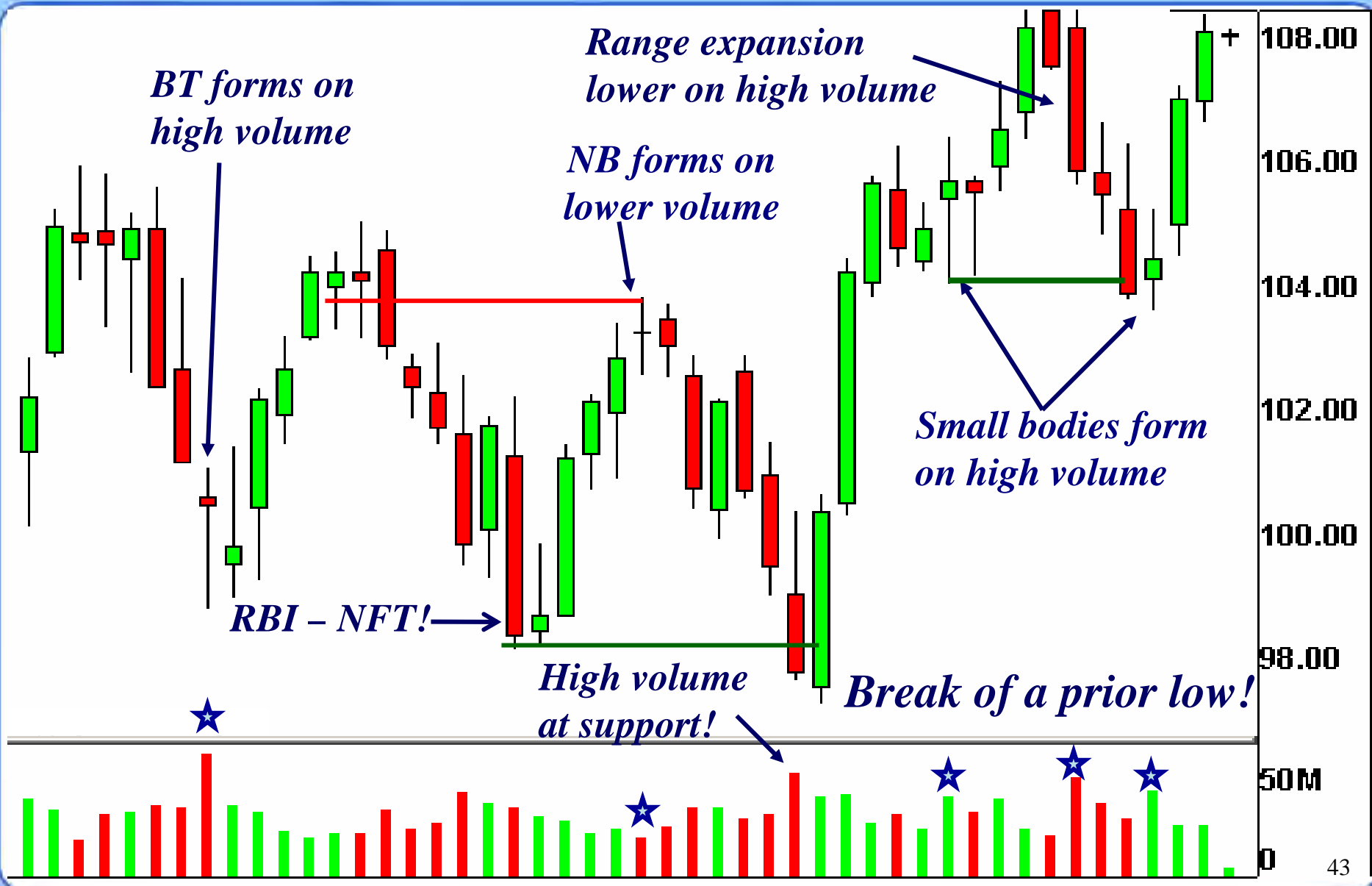
Volume and Multiple Time Frames

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.*

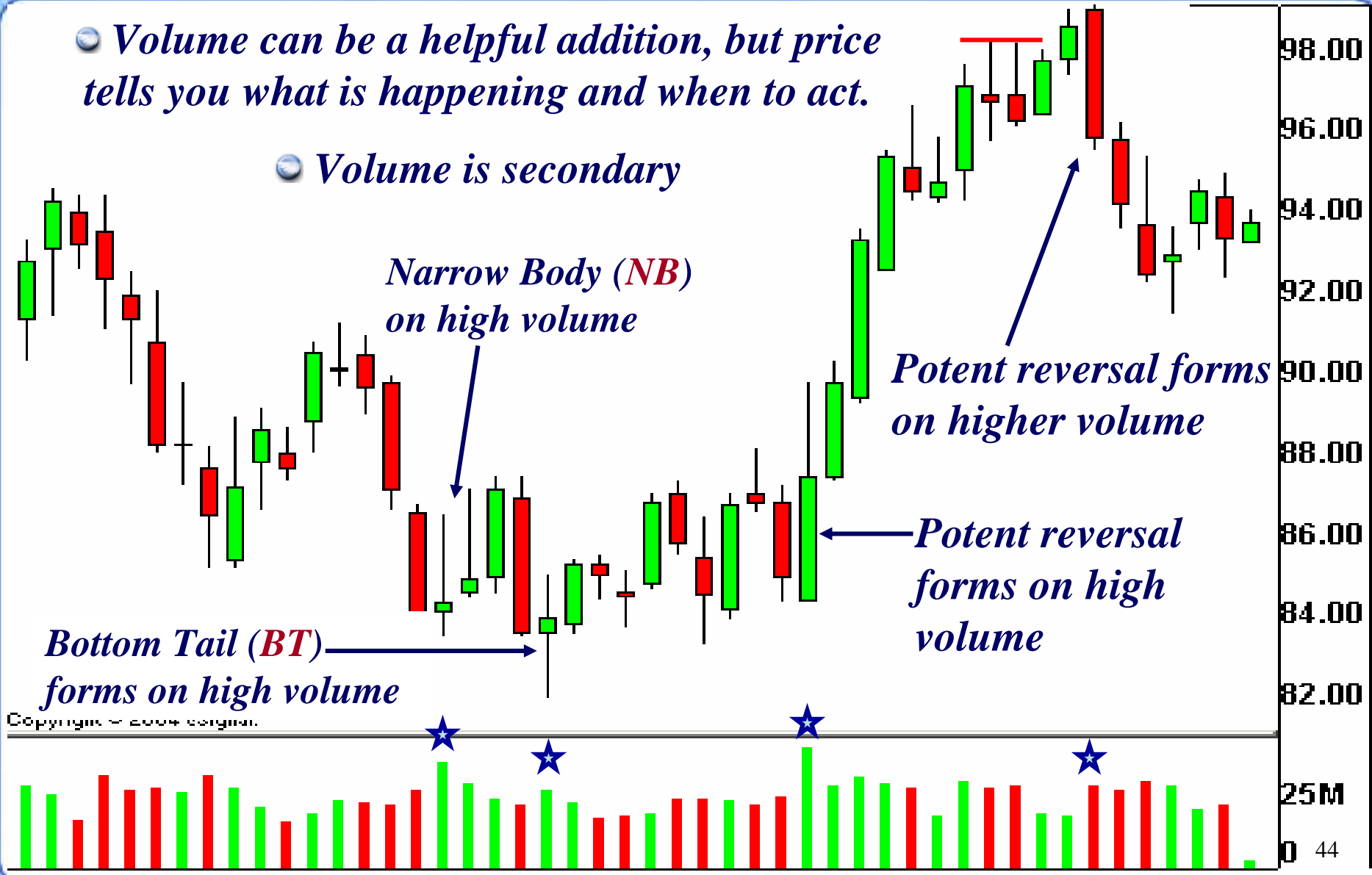
Candlestick Analysis



Candlestick Analysis

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

● *Volume is secondary*



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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



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

Traders are caught long



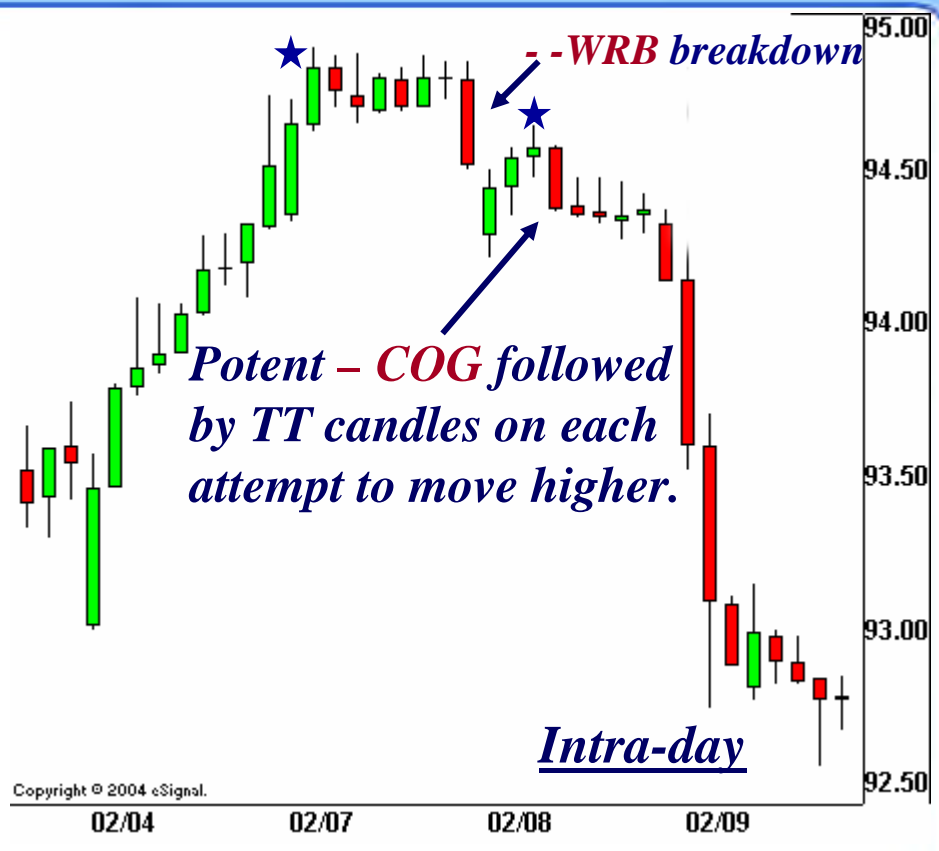
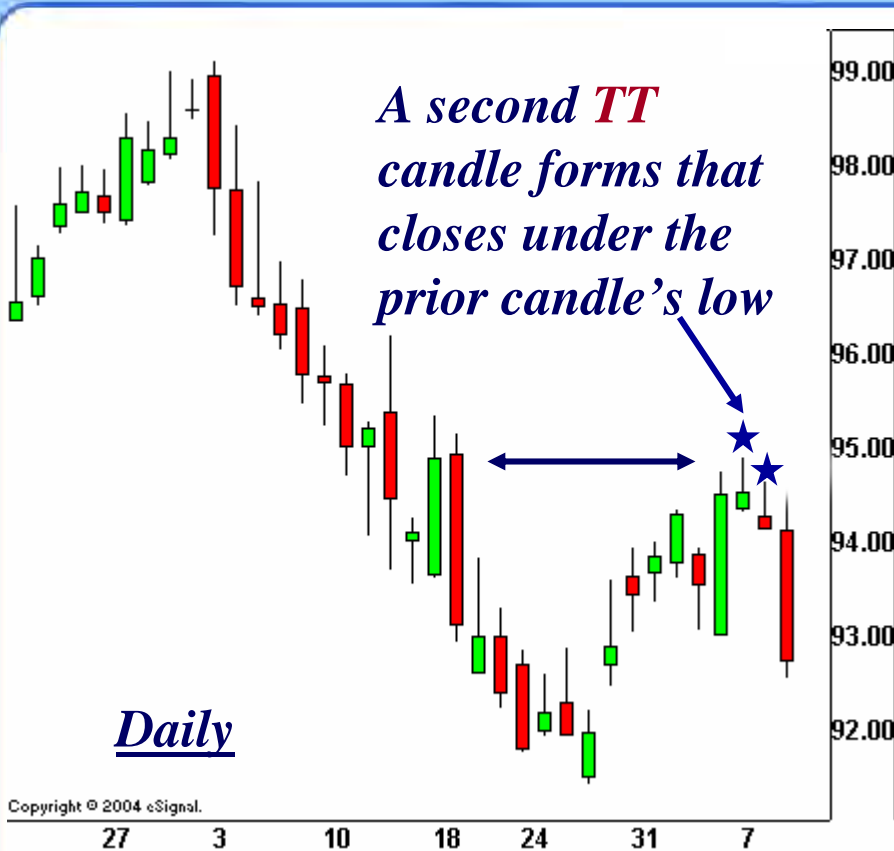
● *Develop your bias from the candle pattern on a longer time frame.*

● *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.*

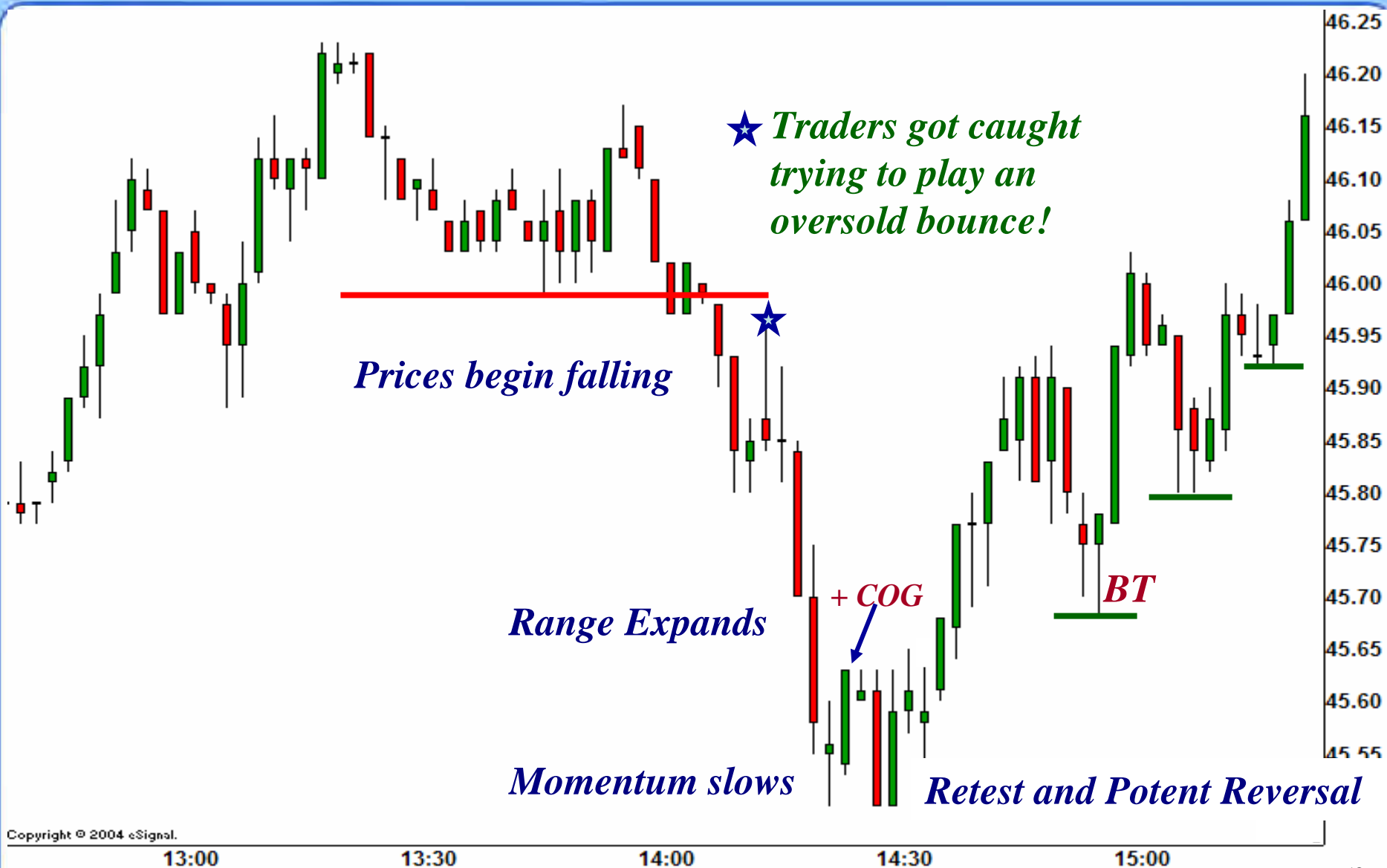
- *Do the candles in the intra-day time frame being viewed show a candle pattern that confirms the longer?*

Candles in Action

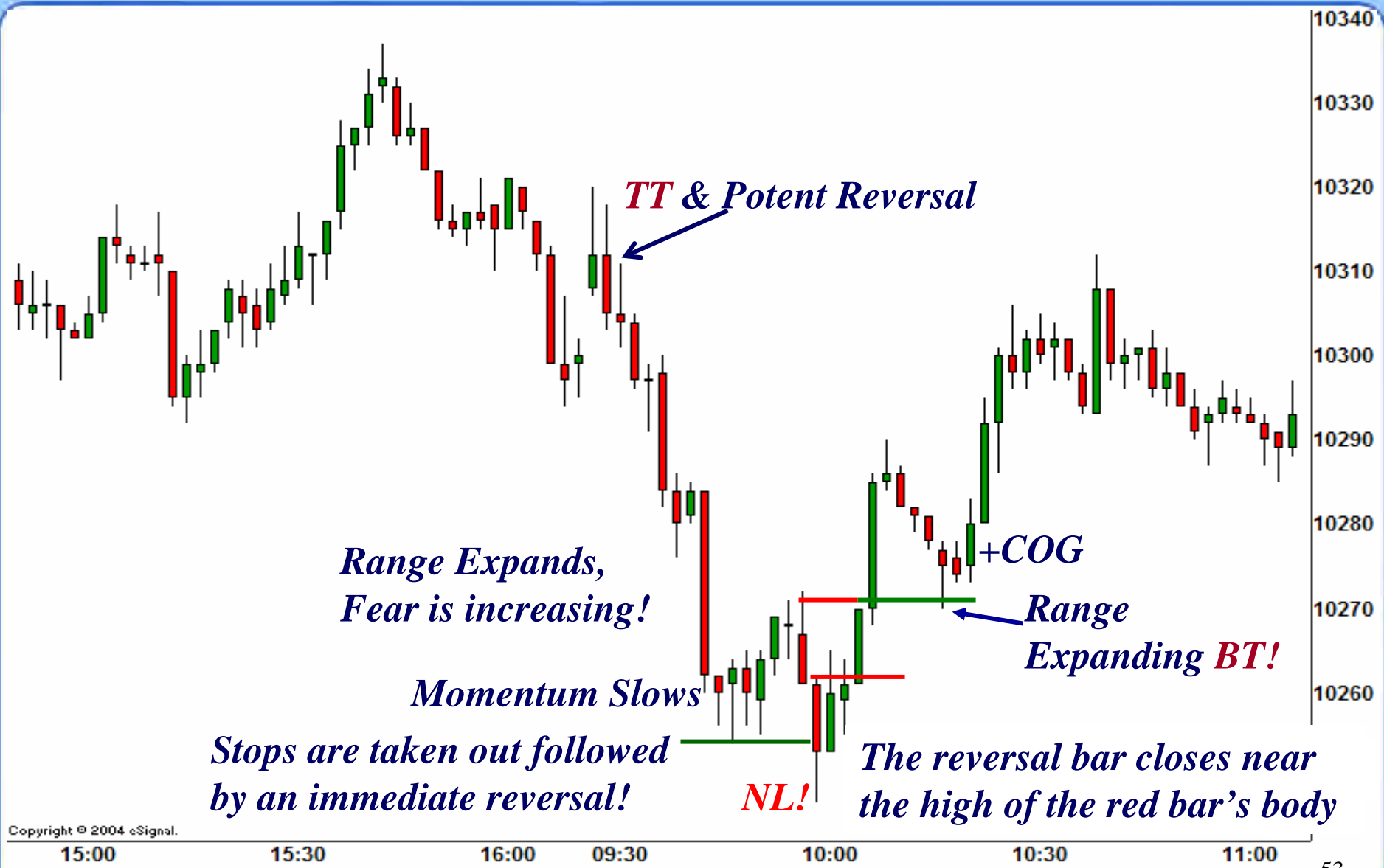
● *We have covered many concepts from the basics of candles to an advanced method of monitoring bar-by-bar analysis.*

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

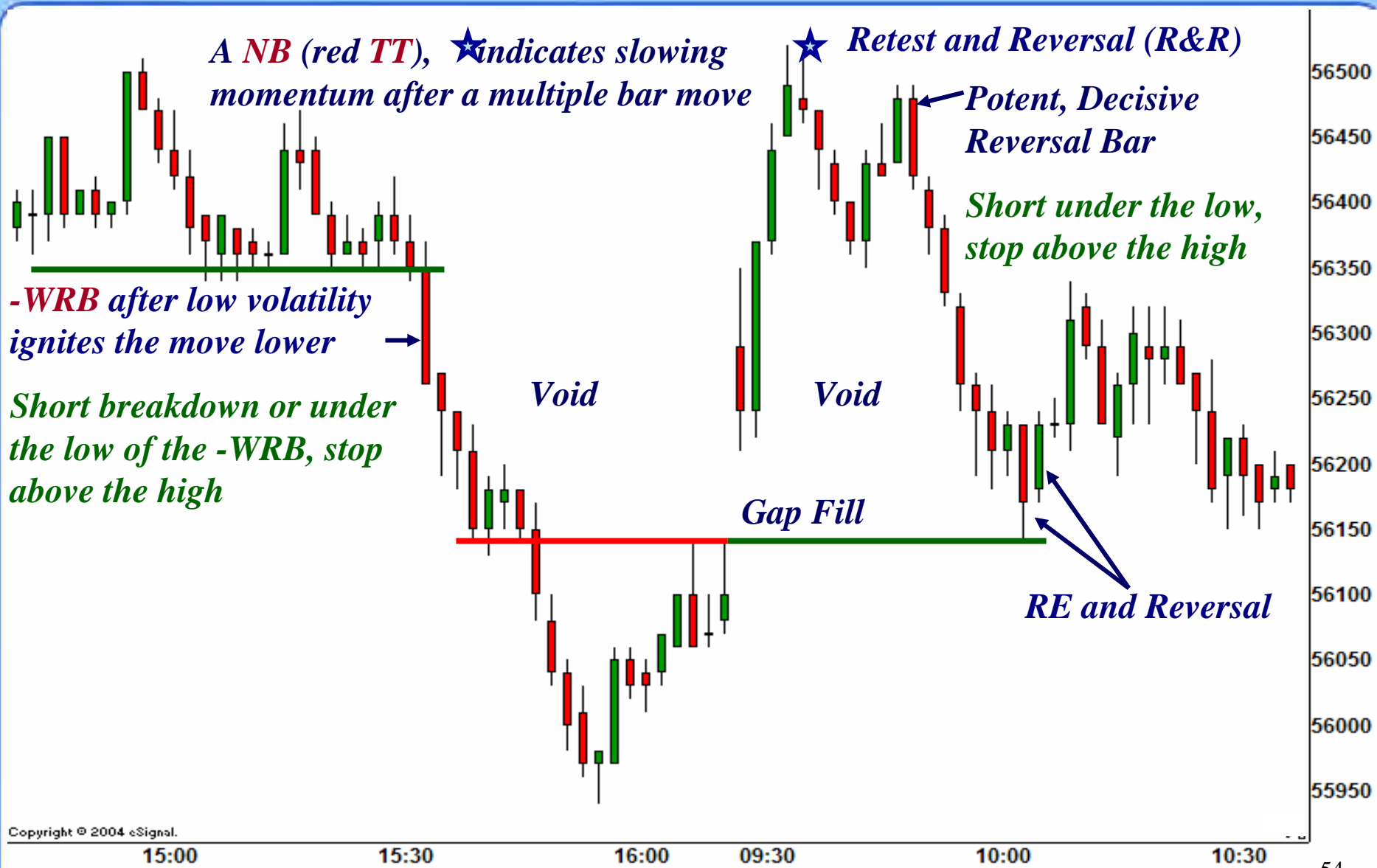
Candlestick Analysis



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.*