

# *Mastering Candlestick Charts 1*

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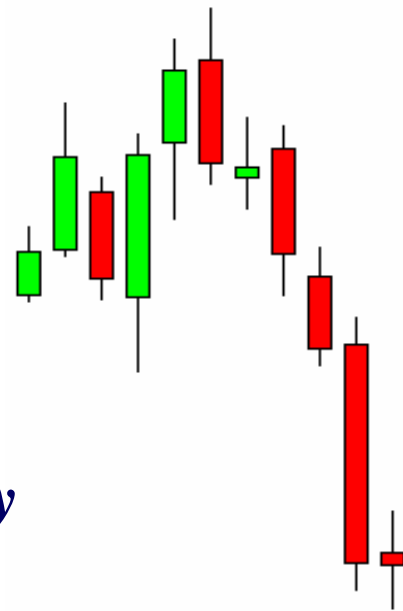
*General Understanding and Use*

## ***Candles in Action***

# Candlestick Analysis

## *Cutting Through the Candlestick Hype*

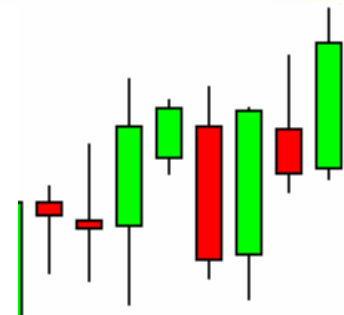
- *The signals on a bar chart are the same as a candle chart.*
- *Those signals will be seen at the same time and are no more reliable than those of a bar chart.*
- *The use of indicators will not increase the reliability of candles.*
- *There are no advanced candlestick patterns, but there is a deeper 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.*

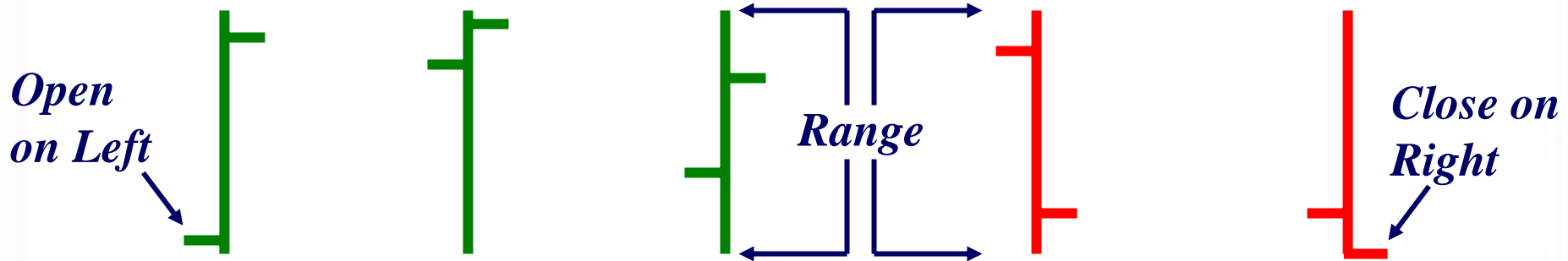


# *Candlestick Basics*

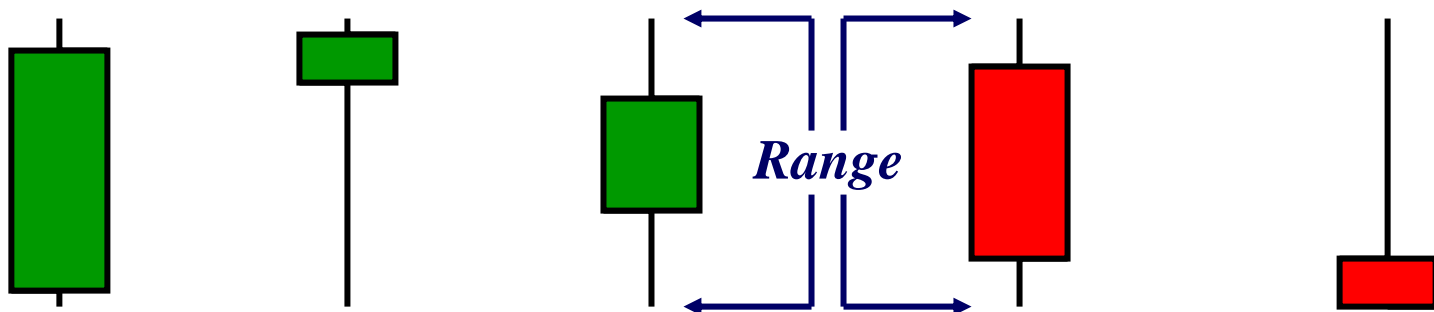


# Candlestick Analysis

- *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*

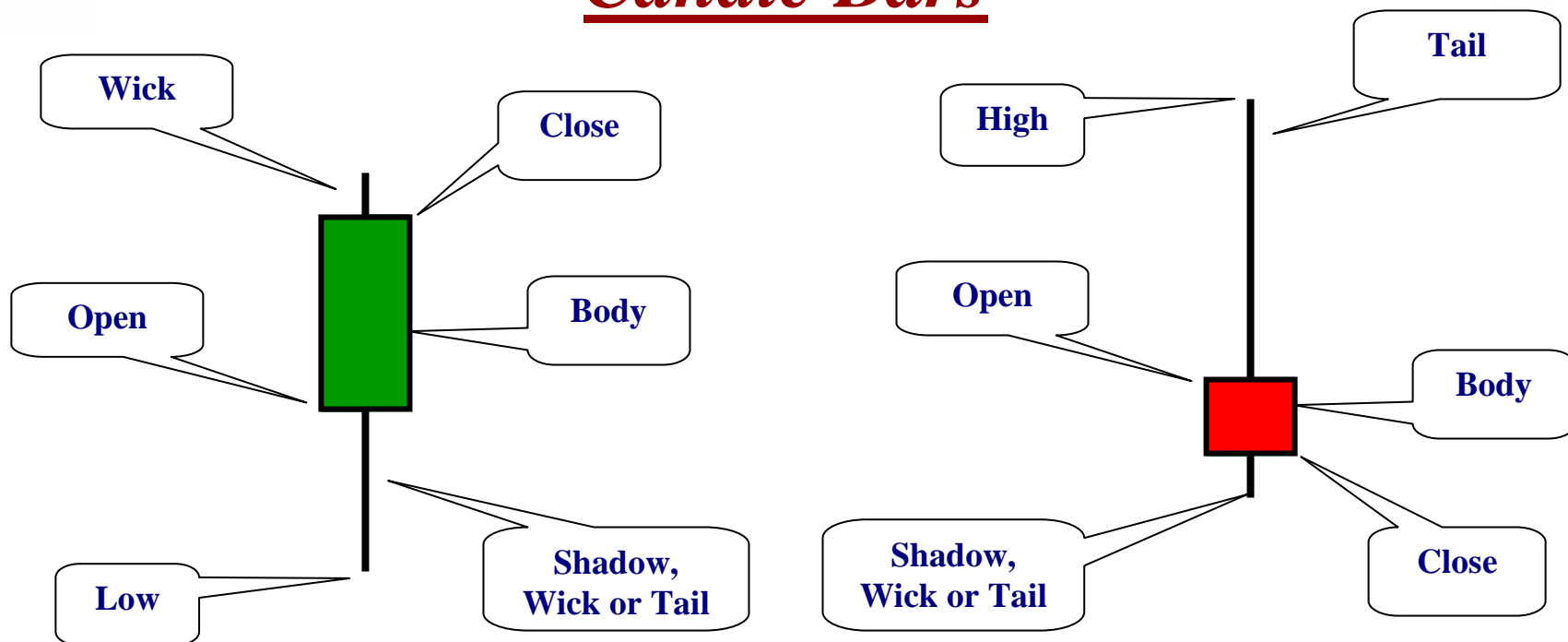


*Closes above the  
Open = **Green***

*Closes below the  
Open = **Red***

# 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 T

**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.

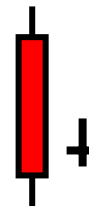
More information is needed for them to be meaningful.



# Candlestick Analysis

## Two-Bar Combinations

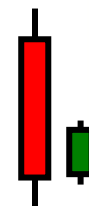
**Harami Cross Bullish** – A DOJI inside a large red body.



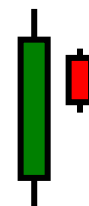
**Harami Cross Bearish** – A DOJI inside a large green body.



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



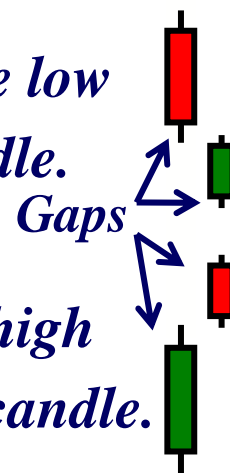
**Harami Bearish** – A small red bar inside a large green body.



# Candlestick Analysis

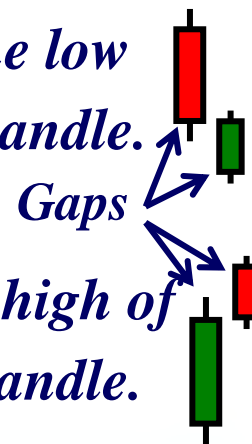
## Two-Bar Combinations Con't

**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.

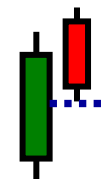
# Candlestick Analysis

## Two-Bar Combinations Con't

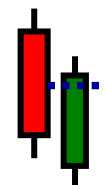
**Thrust Line Bullish** – A green candle that opens below the low of a prior red candle and closes inside the prior red candle's body, but below the midpoint.



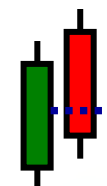
**Thrust Line Bearish** – A red candle that opens above the high of a prior green candle and closes inside the prior green candle's body, but above the midpoint.



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



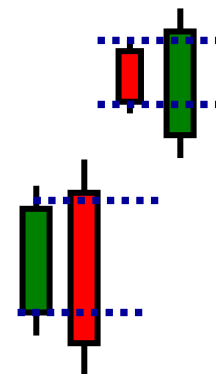
**Dark Cloud Cover Bearish** – A red bar that opens above the high of a green bar and closes below the midpoint of the prior bar.



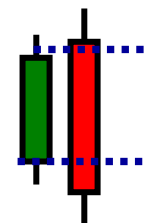
# Candlestick Analysis

## Two-Bar Combinations Con't

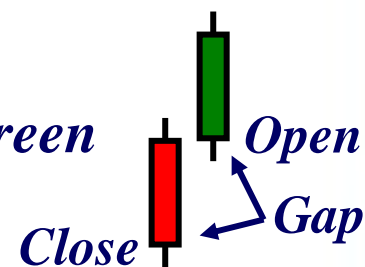
**Engulfing Bullish** – A larger green body engulfing a smaller red body.



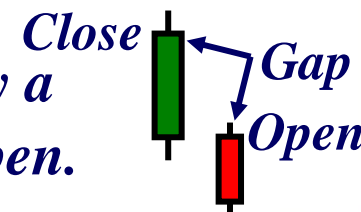
**Engulfing Bearish** – A larger red body engulfing a smaller green body.



**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

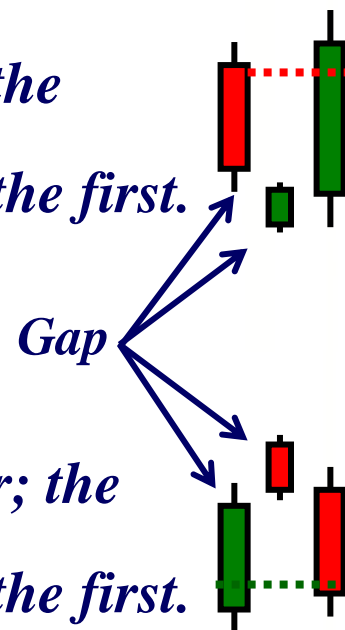


# Candlestick Analysis

## 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



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

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

# Candlestick Analysis



# 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*

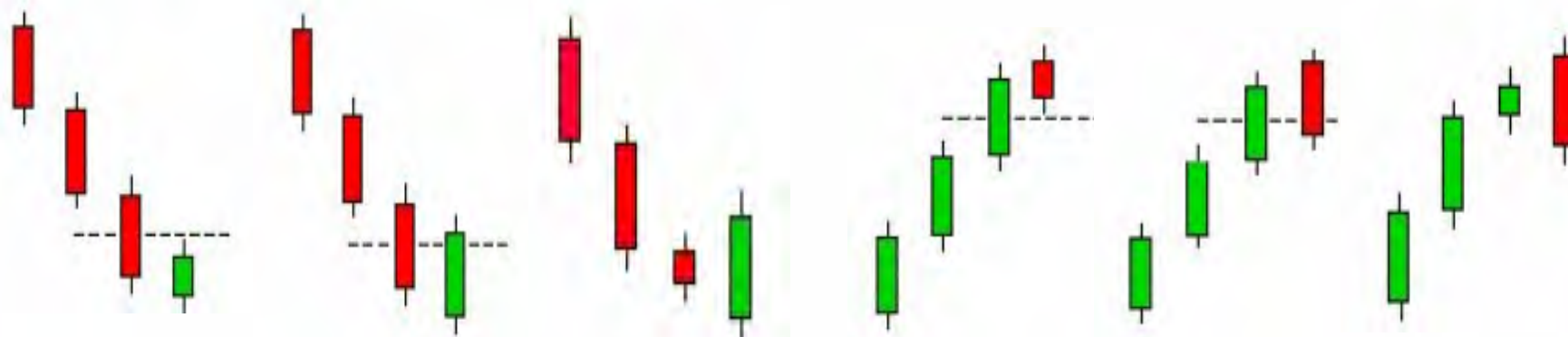
NRB, NB, BT, TT – *Different levels of slowing momentum*

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

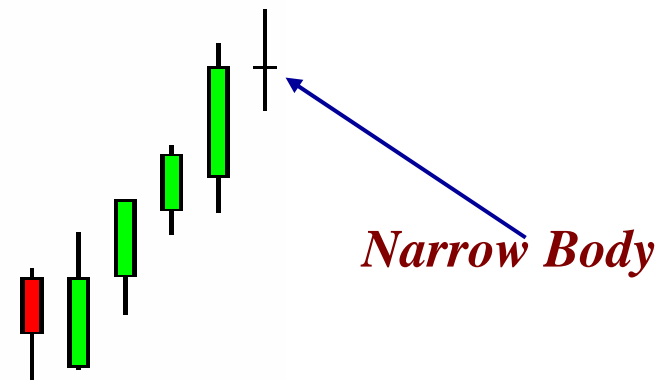
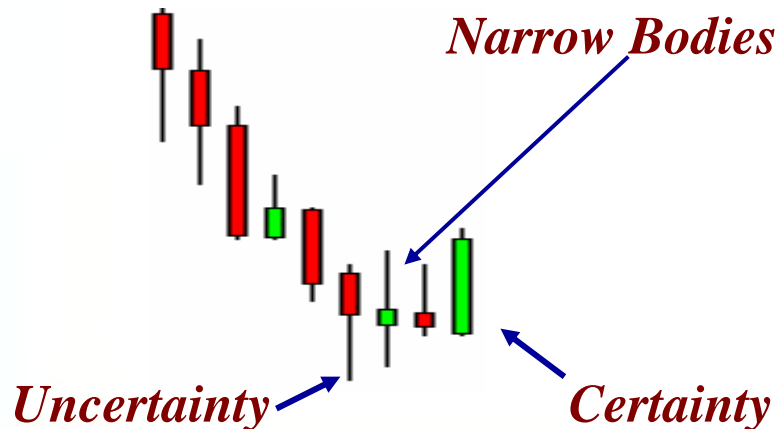
**Pristine Tip:** While there are different variations, the message is always the same ! A reversal in momentum *has* occurred!

# 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

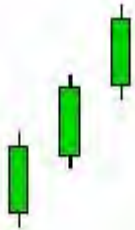
## Narrowing Range Bars (NRB)

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

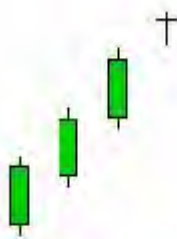
**Pristine Tip:** *While there are different variations, the message is always the same ! A slowing in momentum **is occurring!***



# Candlestick Analysis



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



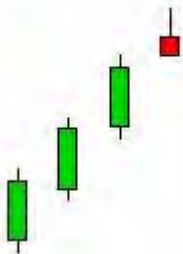
**Bearish Doji Star**  
Gapped up, and opened and  
closed at the same price.



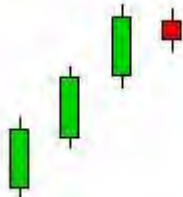
**Bearish Star**  
Gapped up, closing under open,  
leaving a small real body.



**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.

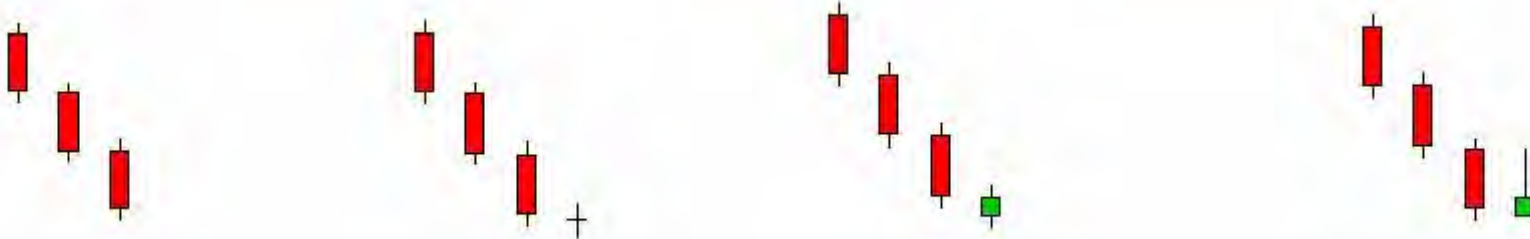


**Bearish Piercing**  
Gapped up and  
closed down over  $\frac{1}{2}$   
into the prior bar's  
range.



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

# Candlestick Analysis



## Buy Setup

3 or more bars  
down in uptrend.

## Bullish Doji Star

Gapped down, and opened  
and closed at the same price.

## Bullish Star

Gapped down, closing over open,  
leaving a small real body.

## Bullish Inverted Hammer

Narrow range body with topping  
tail, near lower end of prior bar.



## Bullish Hammer

Narrow range body with  
bottom tail, near lower end  
of prior bar.

## Bullish Harami

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

## Bullish Thrust

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

## Bullish Piercing

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

## Bullish Engulfing

Gapped down and rose  
up to engulf the entire  
prior bar's real body.



# 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.

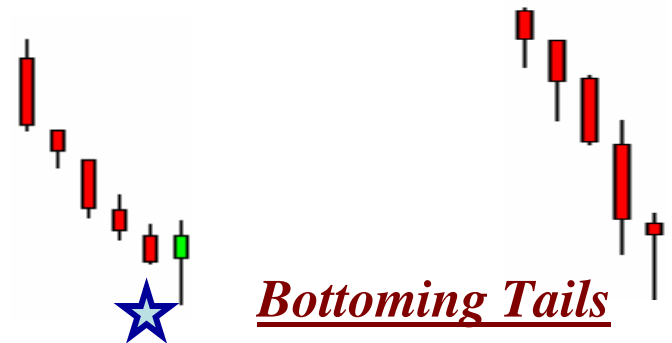
**Pristine Tip:** While there are different variations, the message is always the same ! *Distribution has occurred, and overhead Supply has been increased!*



## 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.

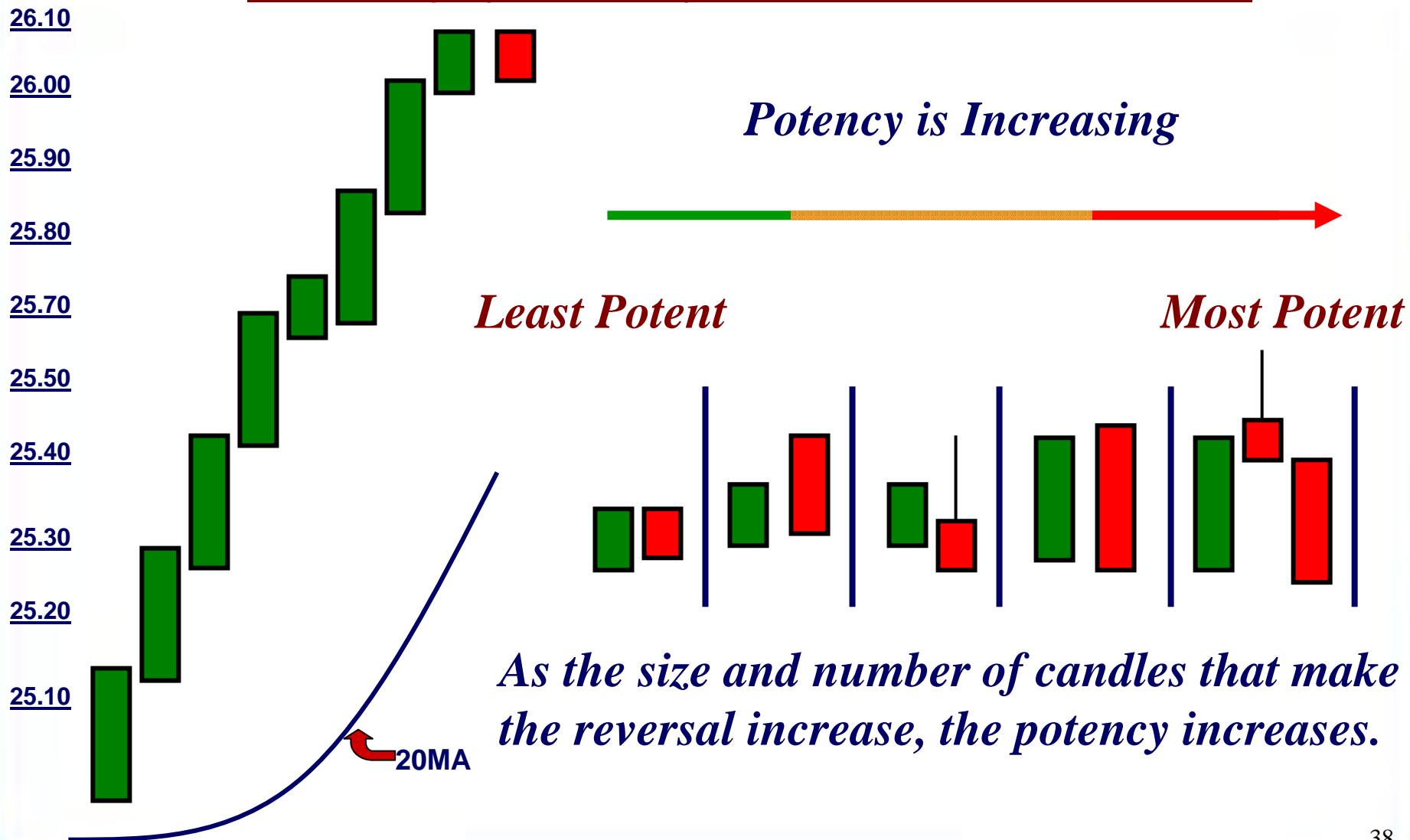
**Pristine Tip:** While there are different variations, the message is always the same ! *Accumulation has occurred, and Supply overhead has been removed!*



● 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.*

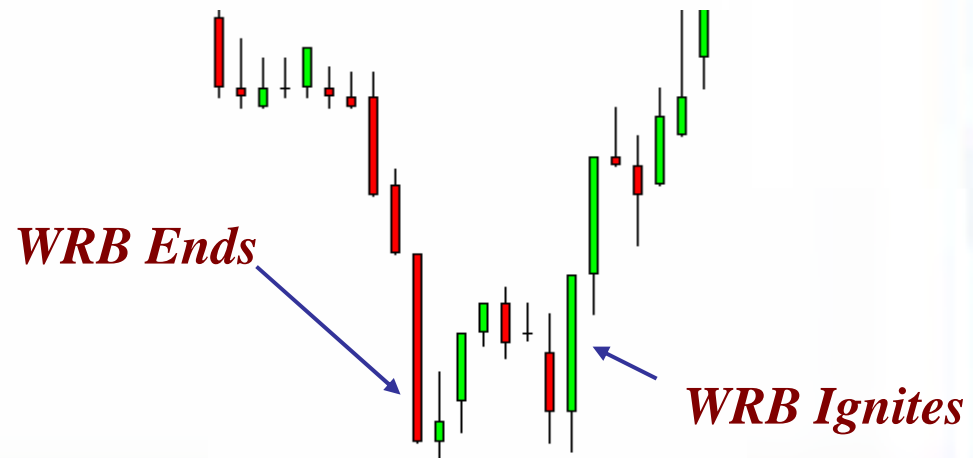
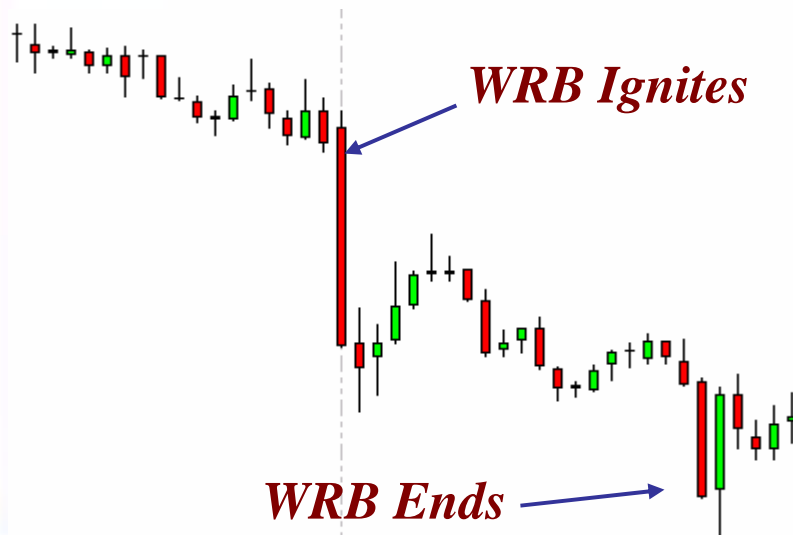


*Now lets look at Wide Range Bars and Potent Reversals, and consider these candles' effects on emotions and begin to think in "Candle Language."*

# 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



*Narrow  
Range*



*Wide  
Range*



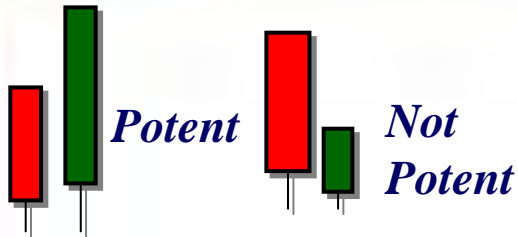
*Range  
Expansion*



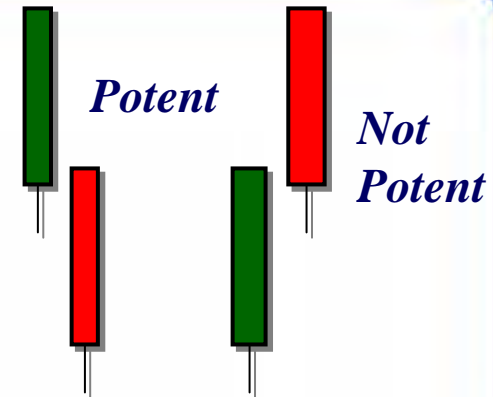
*Range  
Expansion*

- 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*

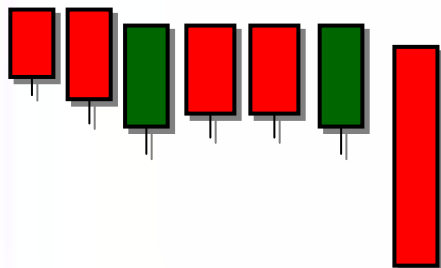


**-WRB**

**+WRB**

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

*Climactic and Potent*



**-WRB**

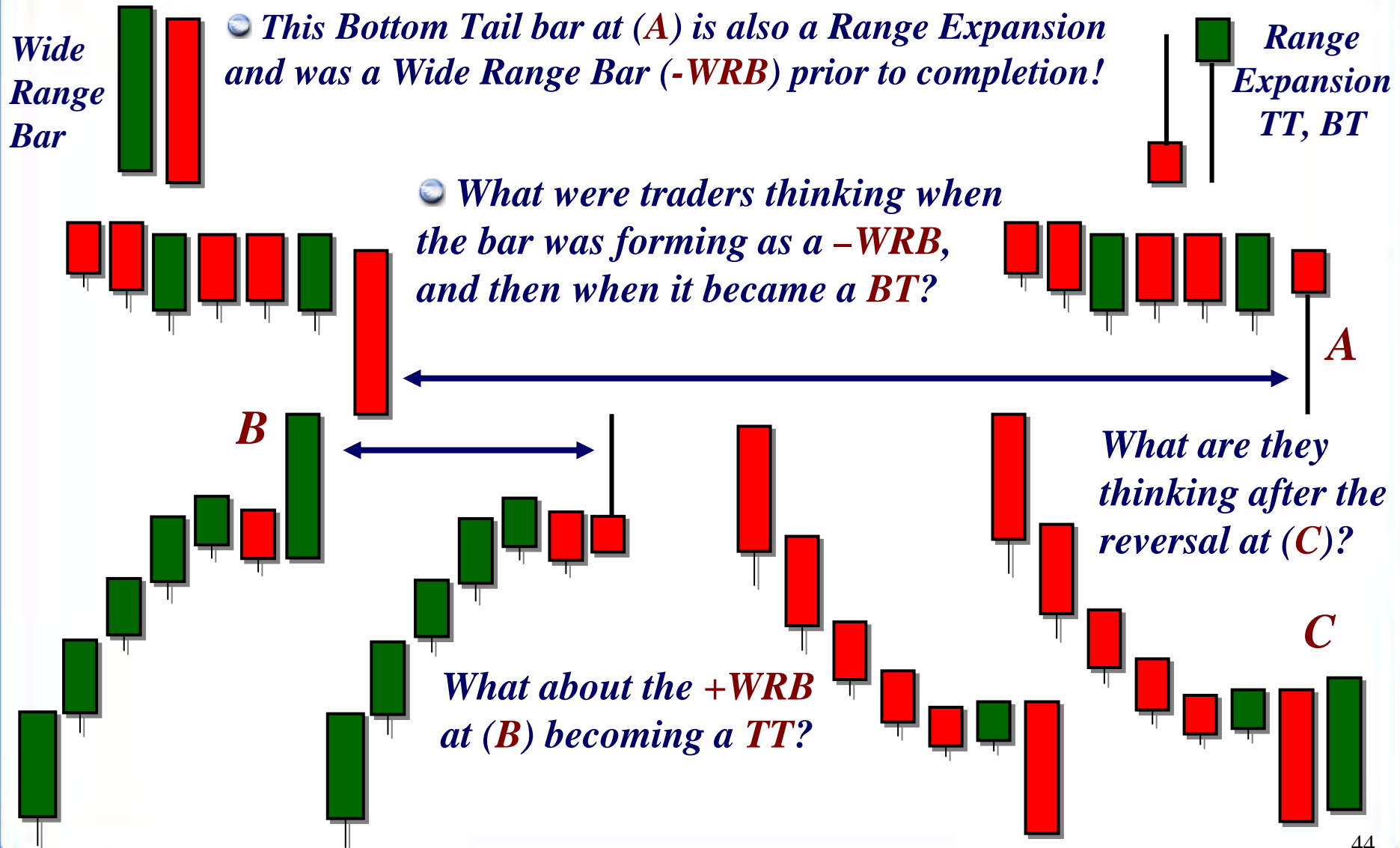
*Range Expansion after low volatility ignites a move*



**-WRB**

*Not climactic, but Potent*

# Candlestick Analysis





# Candlestick Analysis

## *Combine the Candle Messages*

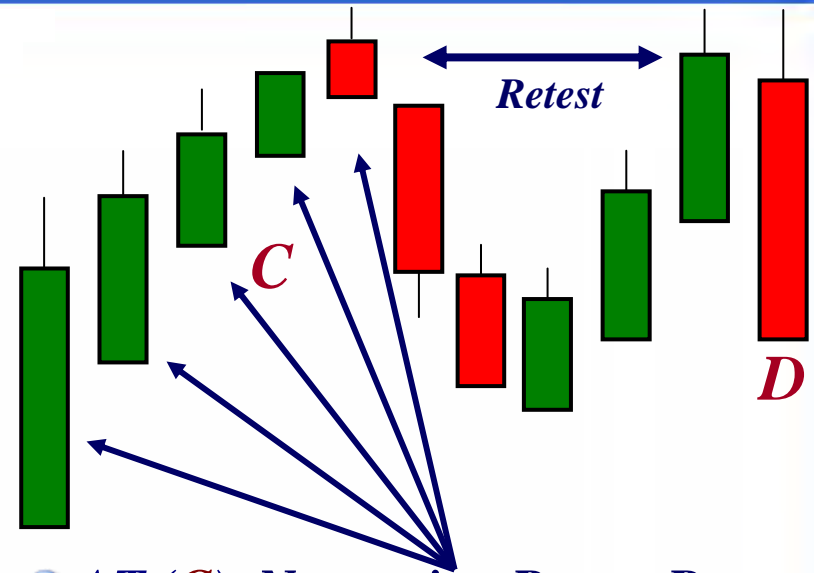
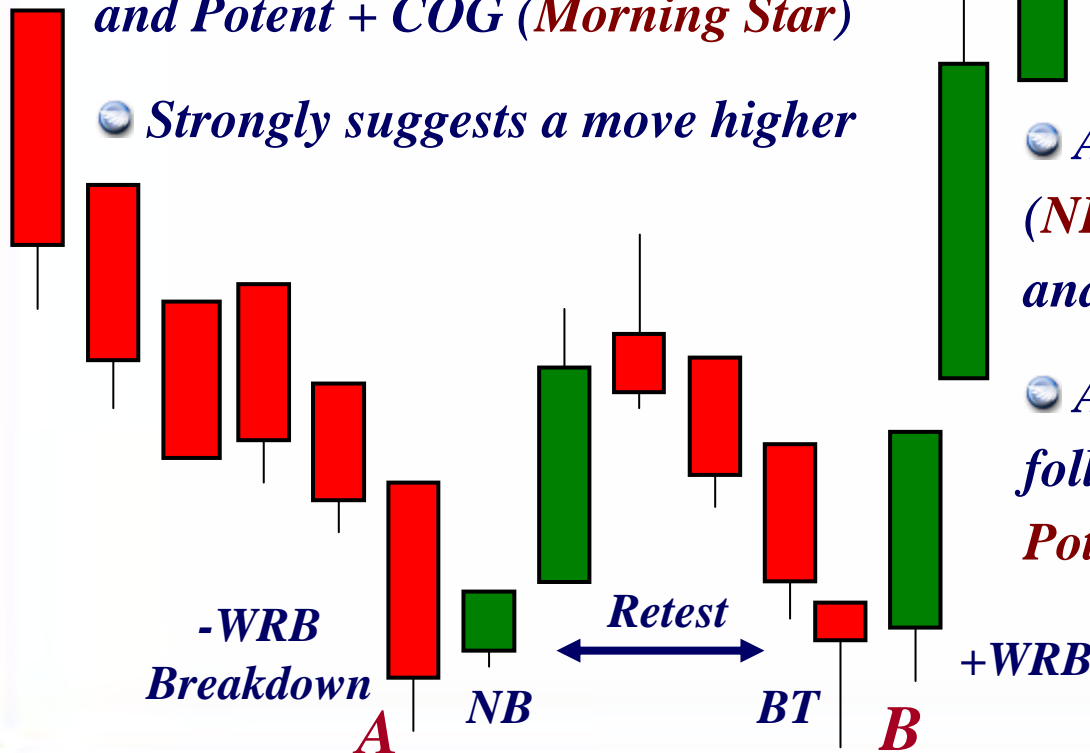
- *A signal bar, two-bar or three-bar candle pattern can point you to high probability reversal points, but ....*
- *A combination of these candles in the same area will give a stronger message of a reversal point.*
- *By interpreting the meaning of all recent candles combined, the odds of successfully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



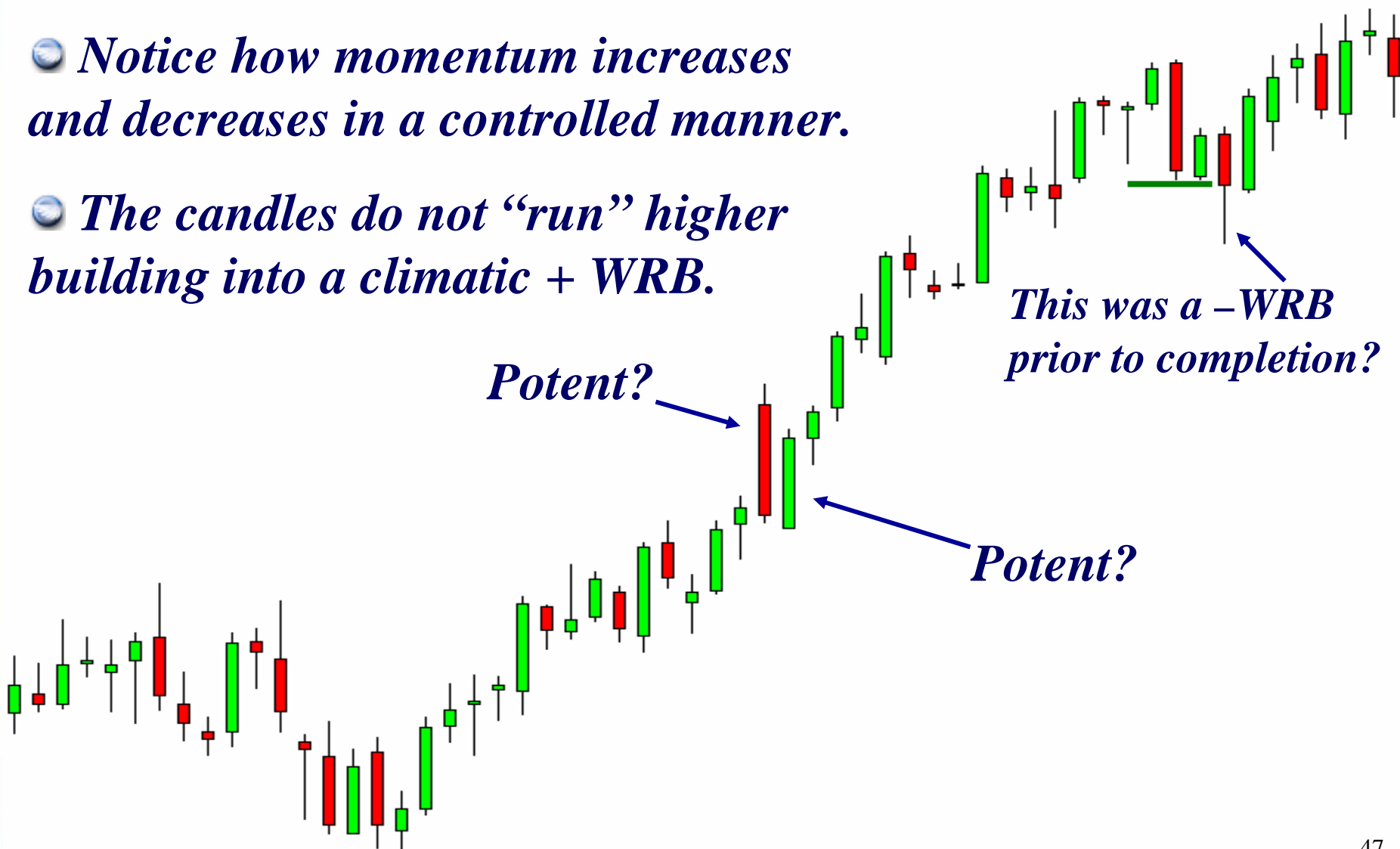
AT (C), Narrowing Range Bars (NR) are followed by a gap down and move lower

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

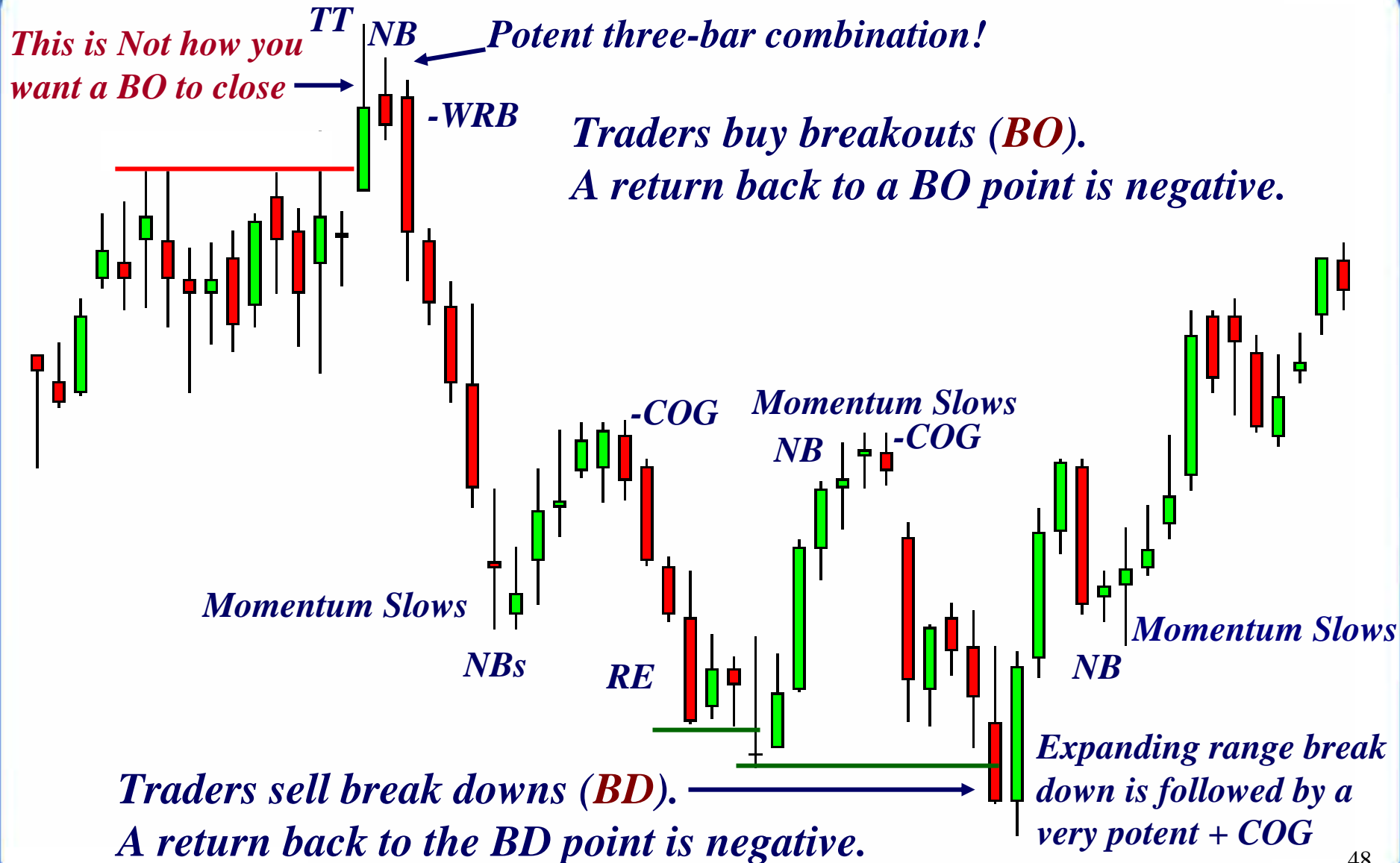
# Candlestick Analysis

● *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*

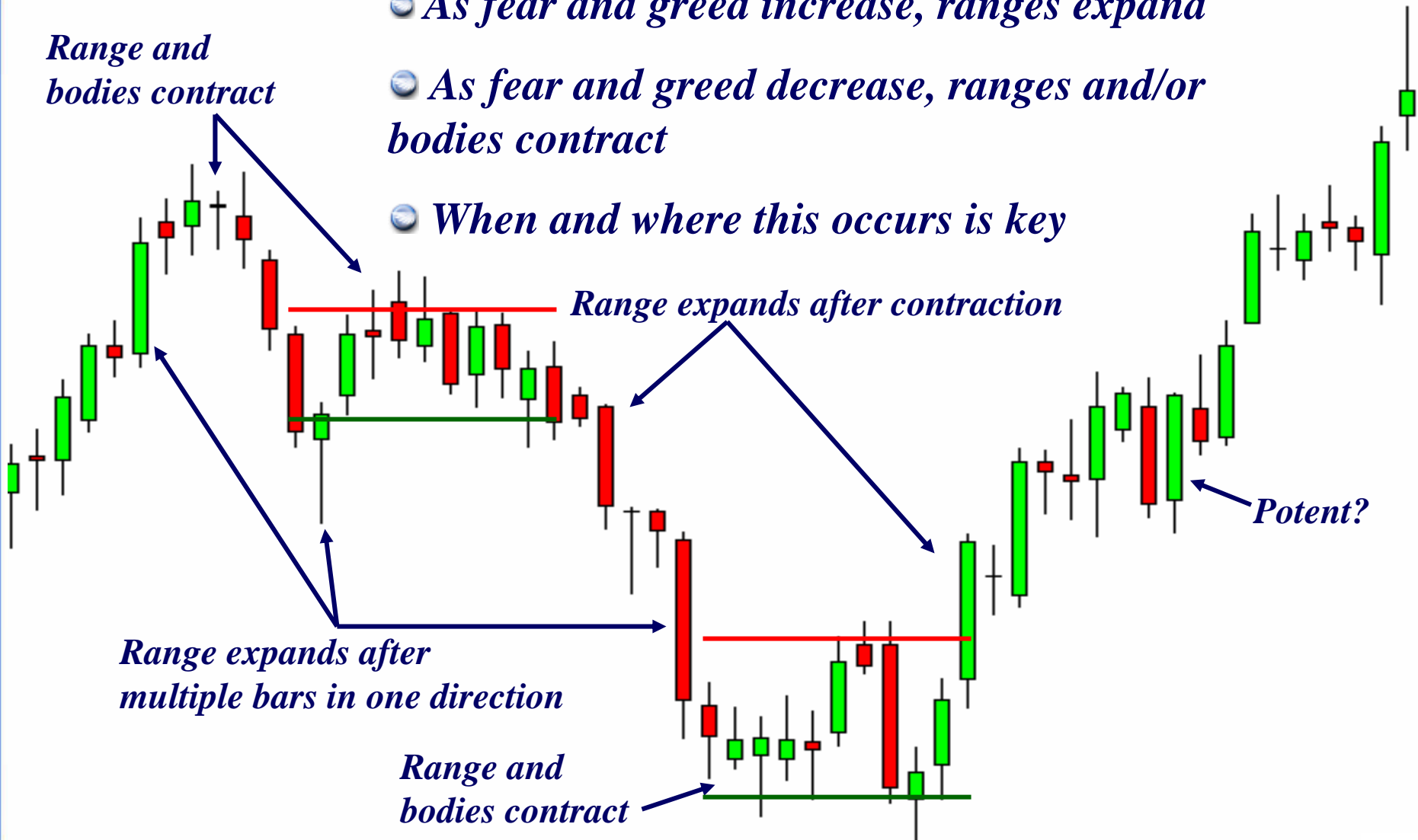
*Range and  
bodies contract*

*Range expands after contraction*

*Potent?*

*Range expands after  
multiple bars in one direction*

*Range and  
bodies contract*



# 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!*