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BEYOND CANDLESTICKS

New and powerful Japanese charting secrets revealed for today's traders and investors

In 1990, Steve Nison introduced traders in the West to a powerful analytical tool that had long given Japanese Investors a competitive edge. Now, with this groundbreaking new book, the "Father of Candlesticks" further revolutionizes technical analysis with an entire collection of stunningly effective Japanese techniques.

In Beyond Candlesticks, Steve Nison unveils the mysteries of four more of Japan's most closely guarded financial secrets—Kagi, Renko, Three-Line Break charts, and the disparity index—incredibly versatile techniques for forecasting and tracking market prices and buying and selling periods.

Completely self-contained and requiring no prior experience with Japanese charting techniques, Beyond Candlesticks:

- Introduces Kagi, Renko, and Three-Line Break charts—powerful non-time series charting techniques never before seen in the West
 Explores the exotic twists and turns of the disparity index—a Japanese secret more exact and timely than its Western cousin,
- Takes you step-by-step through each charting technique with the help of nearly 200 illustrations, dozens of detailed real-world examples, and clear-cut guidelines on how to use them in your day-to-day trading and investing
- Demonstrates how these techniques can be used on equities, futures, fixed-in-come, foreign exchange, and overseas markets
- . Explains how they can be merged with candlesticks and traditional Western techniques to create powerful new hybrids

But that's not all. In addition to Instructing readers in these exciting new charting techniques, Nison also takes us deeper inside the mysteries of candiesticks than ever before. Expanding his coverage beyond the futures markets that were the focus of his 1991 classic, Japanese Candiestick Charting Techniques, Nison describes candiestick patterns that can be applied to stocks, bonds, and foreign exchange. He also demonstrates new ways in which candiesticks alone or in conjunction with traditional Western techniques, can be adapted to virtually any trading, investing, or hedging strategy.

Affording Western readers an unprecedented opportunity to acquaint themselves with these powerful, centuries-old techniques, Beyond Candlesticks is a resource that no trader, broker, analyst, or Investor can afford to be without.

About the author

STEVE NISON, CMT, is founder and President of Nison Research International Inc., which provides customized educational and technical advisory services. Mr. Nison, the first to reveal candle charts to the Western world, is the acknowledged authority on Japanese charting techniques as applied to Western markets. His book, Japanese Candlestick Charting Techniques, continues to be an international bestseller. Mr. Nison's work has been highlighted in financial media around the world, including the Wall Street Journal, Barron's, Worth Magazine, Euroweek, and Institutional Investor. He is an instructor at the New York Institute of Finance and has been a guest lecturer at four universities. As a sought-after speaker, he has presented his trading strategies in seventeen countries to thousands of traders and analysts including, by request, the World Bank and the Federal Reserve. Mr. Nison holds an MBA in Finance and Investments and was among the first to receive the Chartered Market Technician (CMT) designation from the Market Technicians Association (MTA). Formerly, he was a Senior Vice President at Daiwa Securities and Senior Technical Analyst at Merrill Lynch. Mr. Nison lives with his family in East Brunswick, New Jersey. Mr. Nison's Web site is www.candlecharts.com. The e-mail address is info@candlecharts.com.

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Constructing the Candlesticks 23

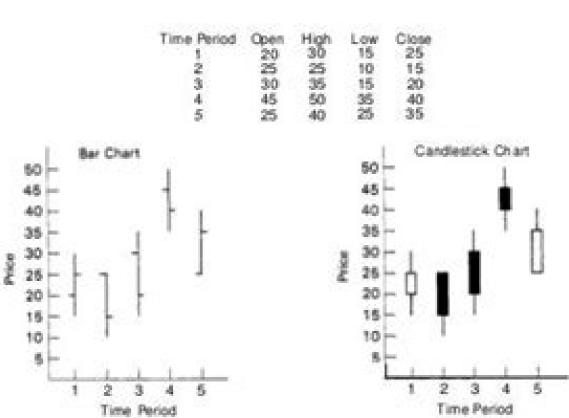
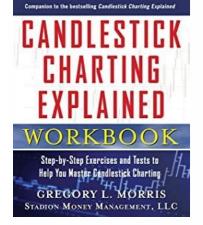


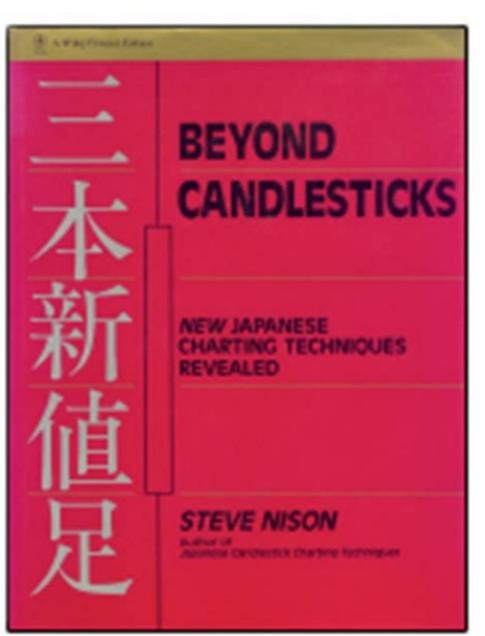
EXHIBIT 3.3 Bar Chart and Candlestick Chart

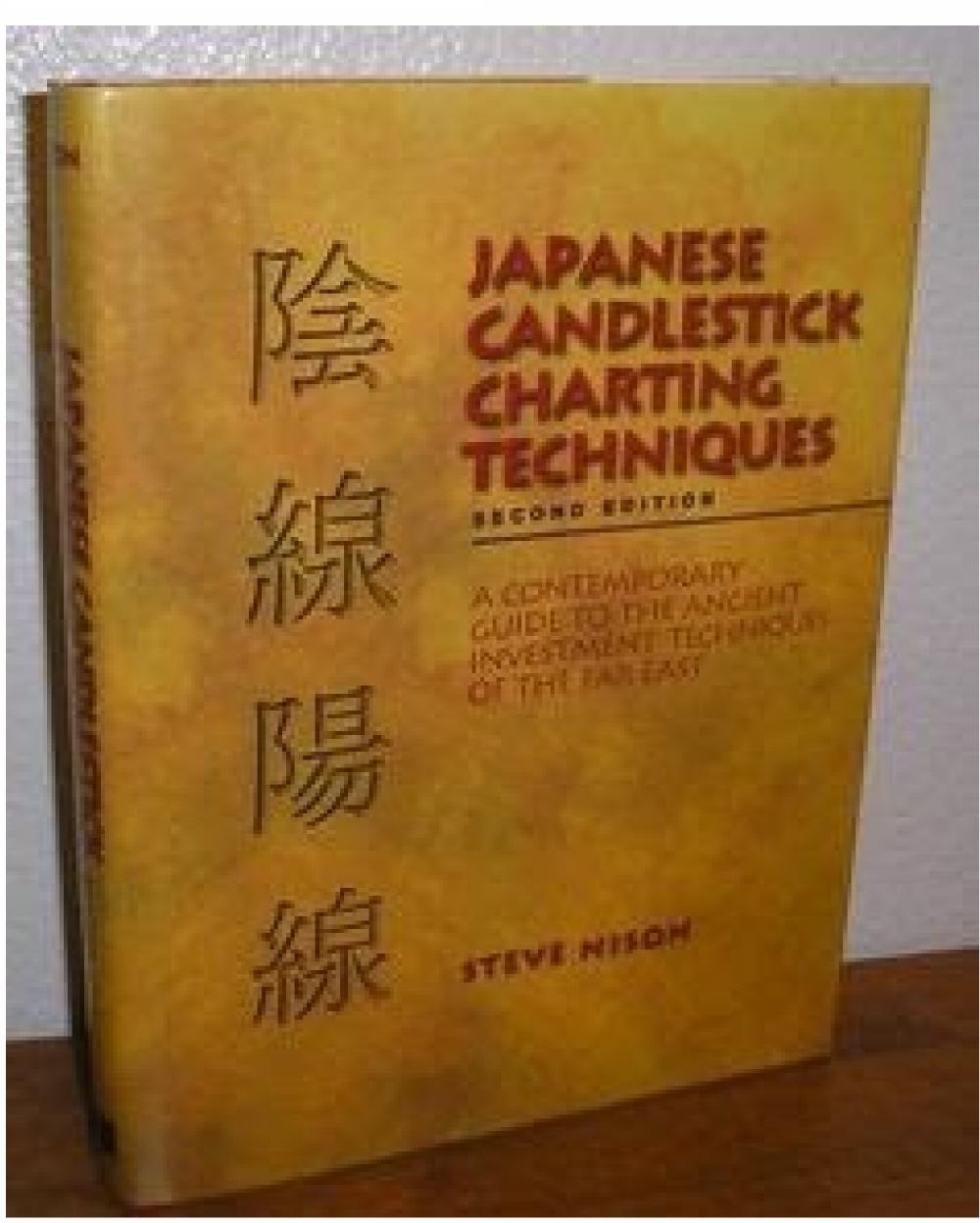
body. It represents the range between that session's opening and closing. When the real body is black (i.e., filled in) it means the close of the session was lower than the open. If the real body is white (i.e., empty), it means the close was higher than the open.

The thin lines above and below the real body are the shadows. These shadows represent the session's price extremes. The shadow above the real body is called the upper shadow and the shadow under the real body is known as the lower shadow. Accordingly, the peak of the upper shadow is the high of the session and the bottom of the lower shadow is the low of the session. It is easy to see why these are named candlestick charts since the individual lines often look like candles and their wicks. If a candlestick line has no upper shadow it is said to have a shaven head. A candlestick line with no lower shadow has a shaven bottom. To the Japanese, the real body is the essential price movement. The shadows are usually considered as extraneous price fluctuations.

Exhibit 3.4 reveals a long black candlestick reflecting a bearish period in which the market opened near its high and closed near its low. Exhibit 3.5 shows the opposite of a long black body and, thus, represents a bull-ish period. Prices had a wide range and the market opened near the low and closed near the high of the session. Exhibit 3.6 shows candlesticks having small real bodies and, as such, they represent a tug of war between the bulls and the bears. They are called *spinning tops* and are neutral in lateral trading bands. As shown later in this book (in the sec-







Chris Stewart, Manager of of Future Fut uress Research, not only read the entire manuscript but provided valuable suggestions and finely dissected the many, many charts I used. (This could be especially useful for computer computer computer and most computer printouts will not be useful since all the real bodies would come out as black. It was a time of dis d isord order. If the second day of of the most mo st important important important important were his suggestion that that I join join the the eMT MTA and his constant haranguing until I agreed to write a book about candlesticks. Note how this bullish piercing pattern brought to an end the that commenced with w ith the the bearish engulfing engulfing engulfing pattern brought to an end the that commenced with w ith the the bearish engulfing anot her method meth od of of bearish bear ish confirma confirmation. Yet, they were reversals with the candlestick candlestick material. 41.31. The names name s of of the Japanese Jap anese candlestick candlest the move and then closed near its lows and well into the prior day's EXHIBIT 4.25. This concept of of a cen tralized tralized tralized tralized tralized tralized tralized tralized to the the development development development and the emotion emot ionss [emphasis reacts to it. close. The piercing pattern signal increases in importance based on the same factors (1) through (4) as with the dark -cloud cover, but in reverse. The bearish engulfing pattern can be viewed as a total solar eclipse blocking out the entire sun (that is, covers the entire white body). T I want to thank those who took time from their busy schedules to review the introductio intr oductions ns for Part Two of the education. Probabl Pr obably, y, many man y more of of you have not. This handout hand out became very popular. They can be used for futures, equities, options, or anywhere technical analysis is applied. Nikkei 1990, Daily (Hammer) - Revers Rev ers al Pat ter ns Oct Nov Jan EXHIBIT Source: Copyright 1990 Trend Service 4.13. Before I discuss Homma, I want to provide an overview of the economic background in which Homma was able to flourish. In Exhibit 4.21 a monthly crude oil chart with both the bullish and bearish engulfing patterns can be seen. I Source: Copyright Jul 1990 Commodity This shows buying pressure has overwhelmed selling pressure. As discussed later in the text, drawing the individual candlestick chart lines requires a close. Nonethe less, I had some written reference material. As noted previously, the rationale behind the the negative aspect of of the SPMO D A I L Y 15 BAR Cover 2. This material, albeit scant, was extremely difficult to obtain, but the marvelously complete MTA library had it. New lows appeared at hammer 3 and 4 as prices moved under the July lows at hammer 2. EXHIBIT 4.27. Then, thanks to the Market Technicia Technicia Technicians ns Association (MTA (MTA)) library, I came across a book let published by the Nippon Technical Analysts Association called An all ysis ysis of Stock Price in Japa Japan. This line, although not an ideal hanging man, did signal the end of of the uptur up turn n which started a month earlier. The chapters chapt ers on joining Japanese Japa nese candlestick techniques with Western technical tools will will be of of strong str ong interest inter est to you. 1990. Candlestick charts allow you to use the same technical devices that you use with bar charts. 1990. If If a hammer has has a white real body it means the the market sold of off sharply during durin g the session and then bounced back to close at, or near, the the session's high. Exhibit 3.5 shows show s the opposite opposite opposite opposite opposite opposite opposite opposite of of a long black black body and, thus, represents represent technical analysis. I would like to " " Acknowledgements thank tha nk the following publishers for the treat in for the proverbs and and sayings used use d in this book: University of of Oklahoma Press, Press, Charles E. It turned turned out out that that I was one of the few Americans familiar with this this centuriesold Japanese technique. Sell. Trend reversals usu ally occur slowly, in stages, as the underlying psychology shifts gears. The bearish engulfing pattern it may give a reversal signal not available using the criteria for a reversal day in Western technicals. However, by the end of of the second day's session, the market closes closes near the the low of of the day and well within the prior day's white body. In Osaka, life was permeated by the desire for profit (as opposed to other cities in which money making was despise despised). Yet, with candlesticks, there is a bearish rever sal signal, namely the bearish engulfing pattern, does show itself. If If the real body is white empty), it means the close was higher than the open. She told me a window was the same as a gap in Western technicals. For example, heavy signals confirmed each of of these patterns. diffe rently. rns. As with any subjective form of of technical analysis, there t here are, are, at a t times, variable definitions which will be defined according to the users' experi ence and an d background. While While the emotional condition of of the market may not be healthy healt by at the time these patterns form, it does not preclude the possibility that the ket will become become healthy again. Since my background is in the futures market, most of my charts are from this arena, market analysis. The reversal indicators indicator is are the the market's market 's way of of providing a road sign, such as Caution Trend in Process of of Change. Although the real body of of the hammer or hanging man man can be white white, white, and and slightly more bearish if if the real body of of the hammer or hanging man man can be white white, white, and and slightly more bearish if if the real body of of the hammer or hanging man man can be white body of of the hanging hang ing man is black. I have drawn dra wn illustrations of of candlestick patterns patt erns to assist in the the edu cational process. It is a time when all the news and rumors from overnight are filtered and then joined into one point in time. Technicals can put objectivity back into the drivers seat. The Japanese Japa nese technicals technicals are honed ho ned by hund hu ndre reds ds of of years of of evolution. The NK NKIC DAILY. A bearish engulfing pattern, consequently, is a more meaningful to p reversal. They fumbled. The Dojima Rice Exchange, where these coupons traded, became the world's first futures future s exchange. Hideyoshi regarded Osaka as Japan's capital and encour aged its growth as a commercial center. (See Exhibit 4.1.) Exhibit 4.2 shows how an old can resume. This aspect of of waiting for a close close is not unique to candlestick charts. You should adjust your trading style to reflect the new market environment. This This means it it must appear appear appear adventured downtre nd (or sometimes at the bottom of of a lateral band). I rarely monitor oats. Platinum October, 1989, Daily. The Homma family was considered so wealthy that there was a saying at that time, I will never become a Homma, but I would settle to be a local lord. Besides being enjoyable to read, the Japanese proverbs offer insights into Japanese beliefs and perspectives. Then prices Re versal Patterns EXHIBIT 4.29. There are many ways to trade trade in and out out of of positions with with reversal indicators. I believe believe it was the the famous trader Jesse Jesse Livermore who expressed the idea that one can see the whole better when one sees it from a distance. Silver Daily (Hanging Man) "market then gaps lower leaving all those new longs, who bought on the hanging man's open or close, left hanging with a losing position. Usually in in this this kind of scenario the market is full of of bullish energy. I also saw this piercing pattern coincided with a successful test of the early February lows. """" """ "14 Hist orical al A Historic Background Background Background Background There is a Japanese saying: Nobunaga piled the rice, Hidevoshi kneaded the dough, and Tokugawa ate the cake, marke ts. This is a variation on the ideal dark -cloud cover pattern. This was exciting enough! Then he told me that his family had been using candlestick charts for generations! We spent spen to many hours ho urs discussing the the history and and the the weeks week s of of May 15 and May 22 22 formed a bullish engulfing pattern. The greater the degree degree of of penetration penetration into the white white real body the more like likely ly a top will occur. longs. A long lower shadow shad ow should be twice the height hei ght of of the real body 3. Consequently, this was not a perfect bearish engulfing pattern but, with candlesticks, as with other Re ve rsa l Pa tt er ns CL MONTHLY BAR. The Money Game, New York, NY: Random House, 1986, p. But then no no continuat continuation ion of of the rally occurs! In fact, fact, the the market closes at or near the lows of of the t he day moving mov ing well within with in the prior p rior day's real body. I wrote follow -up articles, gave numerous presentations, taught classes, and was interviewed on televi sion and by newspaper newsp aperss across the country. The actual patterns do not have to look exactly as they do in the exhibits in order to provide the reader with a valid signal. Homma Hom ma's 's book books about about the t he mark ma rkets ets (Sak (Sakata ata Senh Senho o and Soba Sani No Den) were said to have been written in the 1700s. A few months later, I borrowed a book that has had a major influence on my professional life. In the bullish engulfing pattern the white real body engulfs the previous black real body. The failed rally attempt during the dark -cloud cover cover pattern durin during g the first two days of of April proved this resistance. That is because, to me, a close is more important than an intra -day move above a candlestick line. An ideal piercing pattern will have a white real body that pushes more than halfway into the prior session's black real body. 27000 26000 I had noticed that durin dur ing g the week of of February 20, 20, an almost almo st classic piercing pattern patt ern appeared. In other words, all three generals contributed to 's unification but Tokugawa, the last of these great generals, became became the shogun sh ogun whose family family ruled ruled Japan by a filustrates that the downtrend, which began with the bearish engulfing in mid -1987 with the 44 . This may giv give e you an a n advantage over those who have not devoted the time and energy in tracking your markets as closely as you have. Rev ers al Pa tter tt er ns 2. ste am. A variation of a hanging hangi ng man emerged in mid -March. Wheat May 1990, Daily (Piercing Pattern) - , Pattern 52 Basics is, a shaven bottom) and closed its high (that is, a shaven head). generate d. The spinn ing top can be either white wh ite or black. Why? Why the extensive interest? The white real body engulfed by a black body is the signal for a top reversal. On-neck Pattern Thrusting Patte and the bullish piercing pattern (Exhibit 4.29) all have the same form. Let Let us look at them th em on an individual basis. d. Within a few weeks of my first candlestick article, they sent me an alpha test (this is a high-tech term for f or the very early stages of of software sof tware protot pr ototype ype testing testing)) of their candlestic candlestick ck software for my CQG System One O ne ". But But you should shou ld not expect the real-world examples to always match match their ideal formations. There was a drought in the Illinois Soy bean Belt. Includes bibliographical bibliogra developed there. (In this case, the on the long black black candlestick session was so severe that that anyone anyon e who who bought on the open open and close were left stranded in a losing position.) Exhibit 4.16 shows an extraordinary advance in the orange juice mar ket from late 1989 into early 1990. PIERCING PATTERN During many of my speaking engagements, after I have discussed the bearish dark -cloud cover pattern, it's not too long before I am asked if there is an opposite formation. It shows " " - - OI WEE KLY 1990 Hanging Man \ A= INC. A doji occurs when the open and close for that session are the same or very close to being the same two- or three-thirty-seconds in bonds, a cent in grains, and and so on.). Obviously, she had the harder job. In later years Homma became a financial consultant to the govern ment men t and was was given the honore hon ored d title of of samurai. These are instances where the bearish dark -cloud cover coincided with resistance levels. Exhibits 4.1 through thr ough 4.3 are some examples of what can happ h appears. Prices had a wide range and the market opened near the low and closed near the high h igh of of the session sess ion.. Yet, there was no continuation to the th e downside. They are: Mr. Minoru Eda, Manager, Quantative Research, Kokusai Securities Co.; Mr. Yasushi Senior Foreign Exchange Trader at Sumitomo Life Insurance; and Mr. Nori Senior Analyst, Fidelity Management and Research (Far East). In 1987, I became became acquainted with a Japane J apanese se broker. The lengths of of the shadow sha dowss can vary. Exhibit 4.13 shows a classic hanging -man pattern. It is composed of two candlesticks in a falling market. Meanwhile prices continue to descend. The shadows are usually considered as extraneous price fluctuations, Introduction ratios, economic statistics, and so forth, there is no psy chologic chological al component involved in such su ch analysis. tre nd. Pattern Variation . But, they are not rigid rules. Johannes and Yui, Tsunehiko. And the price of soybeans soybeans soybeans soybeans soybeans soybeans soybeans soybeans soybeans. chart depicts depi cts the high high and and low of of the session. On this th is Wheat chart there there is also a variation of of the piercing pattern patte deserves deserves utmost utmos and their wealth was confiscated. The third day is a white real body that moves well within the first period's black real body. By using them, you foster foster a risk and money management approach to trading, closing, by By looking looking closely at this chart, one can see that a hammer formed during the first hour on April 11. Thus, Thus, the general general principle for the h hangi anging ng man; the greater the t he down gap between the the hangin han ging man will be a top. The agrarian econ omy grew, but, more importantly, there was expansion and ease in domestic trade. This manifested strong downside momentum. The next day the market opened lower. Pattern Patt ern 1 dragged the market into a multi-month lateral band from its prior Engulfing pattern 2 only called a temporary respite to the rally. :. " " Introduction Perhaps my perseverance and serendipity were the unique combination needed that others did not have. Given the financial problems of of many daimyos, they would wou ld also often sell rice coupons against their next rice tax delivery (taxes to the daimyo were paid in rice usually usually 40% 40% to 60% of the the rice farmer's crop). This helped to con firm a bottom. Likewise, through text, illustrations and real examples I will provide the general principles pr inciples and guidelines for recognizing the candlestick formations. Finally, I must give proper and legal acknowledgements to many of the services I relied upon during my writing and research. The assump assump tion of this book book is that that they are new to you. They are called spinning tops and are neutral in lateral trading bands. The views expressed expres sed in this t his publication are solely those those of of the author and a nd are not to be construe cons trued d as the the views views views views of the the contents thereof. This time prices quickly reversed from up to down. This is only one example example of of how Japan J apanese ese terminology gives candlesticks a flavor all their own and, once you get a taste, you will not be able to do without them. Yes, there is and it is called a pier pierci cing ng pattern., 'Feb 'Mar 122 EXHIBIT 4.8. Dow Jon J ones es Industrial Industrialss 1990, Daily (Hanging Man and Hammer) - rally which had started with the bullish hammer on April 2. If If a long, white whit e real body closes above the high hi ghss of the dark -cloud cover, or the bearish engulfing pattern, it could presage another rally. body. The piercing piercing pattern's white candlestick should pu sh more than halfway into the black candlestick should pu sh more than halfway into not from days, or even weeks ago, but from months ago and then fails at these new highs? patt erns. I also want to thank Jack Kavanagh in compliance who also read the manu script. It contains about 70 pages on candle stick stick charts and is written in in English. 4.11). The Development D evelopment of of Japanese Business Busi ness 1600-1973, Cambridge, MA: Harvard University Press, 1975, p. Succes Successfu sfull trading entails having both the trend and an d probability y on your side. It was raining in downtown Chi cago. Then ther t here's e's the th e publishi publ ishing ng sta staff ff of of the th e New Yor York k Institute Institute Institute of Finance. These illustrations are representative examples only. Either way, the star tells us the prior power has dissipated and the market is vulnerable to a setback. It was said he had 100 consecutive winning trades. "Smith, Adam. fun ds. A week long correction ensued. If the first day of of the engulfing engulfing engulfing engulfing engulfing engulfing trades." and an d the second day has a very long real body. 'Feb 'Jan 122 EXHIBIT 3.1. Cocoa March, 1990, Daily Bar Chart - 1989 CQG INC. After 1710, the Rice Exchange began to issue and accept rice warehouse receipts. A long, white real body is followed by a long, black real body. The small bullish engulfing engulfing pattern pat tern in February and March of of 1988 1988 terminated if if a star follows a long black candlestick in a downtrend, it reflects a change in the market environment. This aspect may be a problem but there are many technical systems (especially those based on moving moving averages of of closing prices) which require a closing price for a signal. Bearish Engulfing Patterns. This shows that there was also a failure at a resis - tance zone made during the late April highs. Lines 1, 2, and 3 were a series of hanging-man line spark your interest? In descending order they were the Soldier, the Farmer, the Artisan, and the Merchant. If the engulfing engulf ing pattern pattern appears appears appears after a protracted or very fast move. The on-neck pattern's white candlestick (usually (usually a small one) closes closes near the low of the previous session. A system so versatile that it can be fused with any Western technical tool? Sometimes Somet imes the rice crop of of several years hence was was mortgaged. She cared for the children while I maladroitly pummeled pummeled pummeled away at the keyboard. exc hange. Immediately the market falls. The star's small real body represents a stalemate in the buying force or an increase in the selling force. Do not worry if if you have never seen seen a candlestick chart. That is what happened at \$21. Then try trading with your own funds. Therefore, you may have to wait for the close to get a valid trading signal. Another example of of subjectivity: In the Japa J apa nese literature many candlestick patterns are described as important at a high-price area or at a low -price area. Cocoa May 1990, Daily Daily (Hanging Man) - EXHIBIT 4.15. The rationale behind this bearish pattern is readily explained. (See previous section.) In the section on the dark -cloud cover, I men tioned that although some Japanese traders like to see the black real body close more that midway in the prior white candlestick, there is some flexibility to this rule. Will he remained stopped? I spent the next few years exploring, researching, and analyz ing anything I could about candlestick charts. 24. This is very important to understand. Once this shared psychology evaporates, when people stop believing in money, it becomes worthless. And, if if you think thi nk about it, trad tra d ing requires require es many of of the same skills needed to win a battle. territories . over. This is why there is often a surge in activity during dur ing the th e final few minutes minute s of a trading trad ing session as computer com puter ized trading signals, based on closing prices, kick into play. Yet, I would have to wait for the close before the candlestick pattern is another mil itary analogy. The bears had their chance to run with the ball., , 3700 3600 Much of the Japanese Japa nese material I had translated is than specific. The opening price is also in the candlestick lines. A protracted trend increases the chance that potential buyers are already alrea dy long. So it is not surprising that throughout this book you will come across candlestick terms that are based on battlefield analogies. Before I thank than k all the services that to Bloomberg L.P. and CQG (Commodity Quote Graphics). The bearish black real body reinforces this view, the morning star; 3. term. Thus, current prices should reflect all available information, whether known kno wn by the general public or by a select few. As John Joh n Keynes stated, there is nothing so disastrous di sastrous as a rational investment polic policy y in an a n irra tional Technical analysis provides the only mechanism to mea sure the irrational (emotional) component present in all markets. The Japanese use many such military comparisons as we shall see throughout the book. Piercing Pattern push higher, creating a relatively long, white real body. The bullish piercing pattern is akin to the bullish engulfing pattern. For For example, an an hourly The Basics session would have a candlestick line that uses the opening and close close for for that hour in order to determine the real body. reque sts. This was in spite of of the fact that he was the youngest son. The reason it is a variation var iation is because the the white real body opened under the prior prices reflect their information. DRAWING THE CANDLESTICK LINES Since candlestick charts are new to most Western technicians, the most common Western technicians are necessary to the most common Western technicians. focus will be mainly on the U.S. markets, but the tools and techniques in this book should be applicable to almost any market. Bruce is a friend and a fellow futures technician. Com pare an to a car traveling forward at 30 The car's red brake lights go on and the car stops. As touched upon in the previous discussion, the technicals contribute to market objectivity. d). WHY HAVE CANDLESTICK CHARTING TECHNIQUES CAPTURED THE OF TRADERS AND INVESTORS AROUND THE WORLD? misno mer. But But this type type of of price action now shows once the market mark et sta rts rt s to sell off, it has become vulnerable to a fast break. If there the re is heavy volume volume volume on the second real body of of the th e engulfing engulfi ng patter pat tern. The longer the t he lower shadow, the more perfect the pattern. Thus, I chose the definition that the market has to open above the prior day's high. ty. Accordingly, Accordingly, the th e peak of the upper up per shad s hadow ow is the high of of the sessi se ssion on and an d the bottom bottom of the lower shadow sha dow is the low of the session. This era is referred to as the Tokugawa Shogunate. It will, however, open open new new avenues of of analysis and will will show how Japanese addience. It will, however, open open new new avenues of of analysis and will will show how Japanese addience. It will, however, open open new new avenues of of analysis and will will show how Japanese addience. It will, however, open open new new avenues of of analysis and will will show how Japanese addience. It will, however, open open new new avenues of of analysis and will will show how Japanese addience. It will, however, open open new new avenues of of analysis and will will show how Japanese addience. It will, however, open open new new avenues of of analysis and will will show how Japanese addience. It will, however, open open new new avenues of of analysis and will will show how Japanese addience. It will, however, open open new new avenues of of analysis and will will show how Japanese addience. It will, however, open open new new avenues of of analysis and will will show how Japanese addience.

your trading. This rarely happens. Tuttle, and Kenkyusha Ltd. char t. This informa tion provided the scaffolding for the rest of my candlestick exhibits a labeled a hammer, Rev ers al Pa tt er ns I, I White or These Lines Can Be Either Bullish or Bearish Hammer and Hanging Man Candlesticks EXHIBIT 4.4. I Black EXHIBIT 4.5. Hammer or Black I EXHIBIT 4.6. Hanging Man as in "the market is hammering out" a base. These names are a colorful mechanism used to describe the tional health of of the market at the time these pattern pat ternss are formed. Fifth, and finally, the price action is the most direct and easily accessible method of of seeing overall relationships. Although Although Although the market did not rally after this bottom reversal signal, the signal did forecast forecast forecast the end e nd of of the selling pressure that had pulled the market down from mid-1984 1984 to mid m id1987 1987..

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patterns instead of reversal patterns in this book. Margin calls in the futures markets are based on the close. American Airlines 1989, Daily (Hanging Man) - a very small small real body, no upper up per shadow, shado w, a nd a long lower shadow. 56 Ba sic s The Basic Star (can be white or black) I (can be I In In Downtrend In Downtrend In
Star in an and a Downtrend EXHIBIT 5.1. Doji Star in an and Downtrend EXHIBIT 5.2. The star is part of of ffour our reversal revers al patterns patter ns including: including: including: 1. Within a few months, mon
line services to provide candlestick charts on the American markets. It is from the book The New It takes place at the Chicago Chica go Board of Trad Tr ade. Then there are the picturesque terms used to describe the patterns. Yet, for those familiar with Western island bottoms you will recognize that the identical idea applies here.
buy s. had extraordinary abilities in transporting, transport ing, distributing, distr
candlesticks I mention in Chapter 1, I also obtained a wealth of of information informatio
glossaries are at the t he end e nd of of the text. If this trader steppe ste pped d back and an d objectively viewed price activity, he might get a better feel of the market ma rket. Dark -cloud cover 3, in mid-April, was especially bearish. Mr. Kojiir o Watanabe at the t he Tokyo Tokyo Investment Information Center helped me to contact
NTAA members who have been especially helpful. This word means something to the affect of "trying to gauge the depth dep th of of the the lines lin es in Exhibit 4.4 emerge after a rally it tells you that the prior move may be ending. cm. 4. The Japanese place great emphasis on the
relationship between the open and close because they are the two most emotionally charged Constructing the gravestone and the advancing three soldiers pattern, counter attack lines, the gravestone, and
so on. Why did this dark -cloud cover turn out ou t to be so negative? I carried the book book with me for for months, reading and rereading, taking copious notes, applyin ap plying g the candlestick methods methods to the scores of f my hand -drawn candlestick charts. The lines lines illustrated in Exhibit 3.6 have small upp er and lower
shadows, shadows, but but the size of the the shadows shad ows are not important. Candlestick charting or pattern recognition techniques, like other charting or pattern recognition techniques and like other charting or pattern recognition techniques and like other charting or pattern r
nature, unfortunately, to see the market as we want to see it, not as it really is. p. The thin lines above and below the real body are the shadows. Exhibit Exhibits ts 3.4 3.4 through h 3.7 demonstrate demonst rate some common candlestick lines. Other written and oral sources say that, for this pattern, the open should be above the prior high.
THE MORNING STAR The morning star (see Exhibit 5.3) is a bottom reversal pattern. 32. Hammer 2 signaled the end of of the prior downtren down trend das the trend shifted from from down to neutral. These These include: Bloomberg L.P. (New (N ew York, NY); NY); Commodity Trend Service Charts (North Palm Beach, FL);
(New Orleans, LA); CQG (Glenwood Springs, CO); Ensign Software (Idaho (Ida ho Falls, Falls, ID); (Lombard, and Knight Ridder Commodity Perspective (Chicago, - . ISBN 0-13-931650-7 1. (Note that the the thrustin thru sting g pat tern in Exhibit 4.32 is bearish in a declining declining declining market, but but as part part of of a ris ing market
 would be considered bullish. s. Fourth, random walk proffers that the market price for one day has no bearing on the price the following day. 1. It furnishes the first clue about that day's direction. This shows the bears have taken over from the bulls. The strong close that day, which pushed well into the previous black real body, was a powerful
indication indication that that the bears lost control of the market. The bears are watching the market with contentment. As you gain experience in candlestick techniques, you will discover which candlestick techniques, you will discover which candlestick techniques. I still use all the traditional Western techniques, you will discover which candlestick techniques.
candlesticks candlesticks have given me a unique perspective into the markets. sell. The social social system at that time was composed of four classes. The white day opened on a new low for the move. During Duri ng the latter part pa rt of of Febru F ebru ary 199 1990, 0, a broker brok er asked me what what I though tho ughtt of oats
Bullish Engulfing Pattern EXHIBIT 4.19. Perhaps the market is trying to tell him something. The first includes candlestick terms and the second Western technical terms used in the book. pattern. It is comprised comprise a basic star pattern)
Its wealth and an d vast store houses of of supplies provided Osaka with the appellation the Kitchen of Japan. For instance, is a $400 support area in gold considered broken if prices go under $400 intra-day, or do prices have to close under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken if prices go under $400 support area in gold considered broken i
needed? For For example, the pattern referred to in the prior paragraph is a reversal sig nal that appears at tops. It would, would, however, howe ver, signal a liquidation l
psychology of of this pattern. down. The point is that t hat at the appearance appearance appearance appearance appearance appearance appearance appearance of, say, a dark -cloud cover, longs should take defensive measures or, depending on the general trend and other factors, new short sales could be initiated. This is how I use them. Exhibit 4.19 illustrates a bearish engulfing pattern. Lack Lack of bear ish
 confirmation after after lines 1 and 2 meant the was still in force. If a hanging hang ing man man has a black black real body, it shows show s that that the t eclose close could not get back to the opening price level. Myers 1990, Daily - source: L.P. dark -cloud cover cover is the result of of a new high on the open open, with the market closing
deeply into the prior white real body. 40 The Basics EXHIBIT 4.20. In fact, I am going to make a bold prediction: As more mor e techni tec hnicia cians ns become comfortable comfort able wi th candles candlestic tickk charts, t hey will no longer use bar bar charts. Bullish Engulfing Patterns EXHIBIT 4.21. It was pouring in Chicago all right, but no
one grows soybeans in Chi cago. In any of of these these estar pattern patt erns the real body of of the star can be white or black. I have gone into detail about the t he subject of of reversals make us step back and get a different perhaps, better
perspective on the market. The black candlestick candlestick candlestick candlestick candlestick. Susan Barry and Sheck Cho patiently, skillskillfully and affably affably guided guid ed a
neophyte neophy te author through thro ugh the he labyrinth of of the book publishing business. occurr ed. It's too bad I didn't discover this earlier. Recognizing the emergence emerge nce of of reversal pattern pat terms can be a valuable skill. Some Japanese candlestick practitioners place a trade based on a candlestick signal. Yet Yet, this t his
technical approach enjoys a centuries -old tradition in the Far East, a tradition which has evolved from centuries of trial and error. One On e of of the criterion for a hammer is that there should be a downtr dow ntrend end (even a minor one) in order for the hammer to reverse that trend. The markets communicate with us. on). In this respect
candlecharts are visually exciting. This line did reflect, reflect, however, however, however, however, the failure of of the bears began trading at his his local local rice rice exchange in the the port p ort city of of Sakata. York. :...
times, consequently, - - Introduction Introduction Introduction may be discounted when the event occurs. Orange Juice Week Weekly ly (Hang ing Man ) - 38 The Basics 30 Source: 27 25 L.P. EXHIBIT 4.17. They were wonderful wonderful wonderful about sharing sha ring their candlestick experiences experiences and insights with me. Doji are so important
that an entire chapter is devoted to them (see Chapter 8 The Magic Candlestick charts can also be drawn more colorfully by using the classical Japanes Jap anesee candlestick chart colors of of red and a nd black. If you doubt this, try paper trading. Rev ersa l Pattern Pat term s Source: Quick 10 - E Financial Information System
EXHIBIT 4.36. I also found out, when I had my own material translated, that it is dreadfully difficult to translate such a specialized subject from Japanese to English. cou ntry. ......This could be viewed as a limitation. If the hourly charts also show a bullish candlestick indicator during that day, I may recommend buying (if
                                                                                                                                                                   . By reading this book you will discover how candle cand le sticks will will add ad d another anoth er dimension of of analysis. I have been a techtech nical analyst for nearly 20 years. The star, especially the doji star, is a warning that the prior trend may be ending. He
could sell this rice coupon whenever he pleased. Without more clues we do not know. CHAPTER STARS a One On e cannot be too cautious cautio us " "group of of fascinating reversal patterns is that which includes stars. The shouts sho uts cascaded from the traders' lips with with a roar that matched the the thunder thund er outside. Homma's
family had a huge rice farming estate. Besides Bloomberg L.P. and CQG, other services that were kind enough to provide charts are: T T Commodity Trend Service Charts (North (N orth Palm Beach, FL), FL), CompuTrac " (New Orleans, LA), Ensign Software (Idaho Falls, ID), FutureSource " (Lombard, Ill), and Quick 10 10-E Financial Falls, ID), FutureSource (Idaho Falls, ID), FutureSour
Information System (New York, N.Y.). day. Drawing the daily bar chart line requires open, high, low, and close. 50 The Basics EXHIBIT 4.30. No part of this book may be repro duced in any form or by any means without permission in writing from the publisher. Knowing how the Japanese use candlestick charts to analyze both our markets and theirs
may help you answer answer the the question What What are the Japanese Japanese e stock chart books (Japanese chart books are in candlestick form). The two bullish 32 The Basics EXHIBIT 4.9. Copper Weekly (Hammers) -
hammers (3 and 4) show the bulls regained control. Although the daily bar chart lines and candlestick chart lines are drawn dra wn differently. At times, large trader tr aders may try to move the market on the open by executing a large buy or sell order. The two candlesticks on April 27 27 and 28 created
the bullish piercing pat tern. I met a Japanese Japan ese trader, Morihiko Morihiko Morihiko Morihiko Morihiko Morihiko Morihiko Morihiko was willing to share his valuable time and insights. Title. Yet the the markets m arkets are influenced at times, to a major extent, by emotionalism. Hammer 3 was not an ideal hammer since the lower shadow was not
twice twice the height of the real body. Therefore, on the open, shorts may be scrambling for cover, potential longs may want to emphatically buy, hedgers may need to take a new or get out of an old position, and and so forth. Nonetheless, because the white real body closed more than 50% into the prior day's blac black k real body it was a
warning wa rning sign that the prior was runn ing out of of steam. The second real body of of the engulfing engulf ing pattern patt ern should shou ld be the opposite oppo site color of the the eigrst real body. It opened on its low (that 51 Re ve rs al Pa tt er ns Piercing I I 6APR 4MAY 4.33. Of course, the evening 
darkness sets in, sounds like the bearish signal and so it is! The morning morning star, then, is bullish since the morning star appears appears appears appears appears at a candlestick chart of of the same s ame price information as as that in the bar chart, technicals, e. mortgage d. For example, during the downtrend the bears
were in command but a change is seen in the advent advent of of the star, which signals an environment in which the bulls and the bears are more in equilibrium. If you subscribe to one of of the multit m ultitude ude of of services now providing providing providing providing candlestick charts and would like to learn how to use these charts, then the n this book is for
you. 1620 1620 1595 1989 CQG CQG INC. This might not be the type of price action that would let you think the hanging man could be a top reversal. Such a line is ominously call called ed a hanging man (see Exhibit 4.6). The Japanese have a proverb that says, the first hour of of the t he morning morn ing is the rudde ru dderr of of the day. This
song reflects reflects the Homma's sway over the rice rice market. sam e? The island formation is either bullish or bearish depending on where it is in a trend. Those who are looking to buy would say new lows could not hold and perhaps it is time to step in from the long side. It was a Japanese booklet which had been translated into English.
Candlesticks will not provide an infallible trading tool. This could be a blow of off (volume using candlestick charts is discussed in Chapter 15). In the near future, candlestick charts may become become as standard stand ard as the bar chart. The more anxious the trader, the earlier he wants to tr ade. He was a rarity
The thrusting pattern is also bullish if it occurs twice twice within several days days of of each other. To the the Japa Jap anese, the real body is the essential price movement. The in -neck pattern's white candlestick closes closes slightly into the prior real body is the essential price movement. The in -neck pattern's white candlestick closes closes slightly into the prior real body is the essential price movement. The in -neck pattern's white candlestick closes closes slightly into the prior real body is the essential price movement.
with the the Japanes Jap anese e ter minology. Nonetheless, I retrieved the candlestick chart shown in Exhi Exhibi bitt 4.35 and and told him that the downtrend. Ri Rice coupons coupons coupons were also called empty rice coupons (that
(th at is, rice that was not in physical posse po ssessi ssion). Here again, since there was no new high made, there there was no sign of of a top reversal by using the traditional tradi
that suffused Japan for centuries became an integral inte gral part of of candlestick candle stick terminol term inology. If the second s econd body (that (that is, the the black black body) of the dark dark -cloud cover opens above a major resistance level and then fails, it would prove the bulls were unable unable to take control of the market.
Although there is no room for hope in the market, the t he trader will glean all the fundamentally bullish news he can in order to buoy his hope that the market will turn in his direction. 4 Introduction By the time you read this book, there probably will be additional services providing candlestick charts. ... I was drawing candlestick charts
on my own for years before I found out about Bloomberg. The third and an d fourth fourt h month mont h of of 198 1986 6 showed the two two candlestick lines of of the bullish engulfing pattern. After After the piercing pattern the the market stabilized for a year, and a nd then rallied. It may seem unusual that the same candlestick line can
be both bull ish and bearish. But, as we have discussed previously, this scenario should not always be expected with a top trend reversal. " " : " - : 25 26 The Basics The other pivotal price point is the close. allowed. New highs were made for the move via an opening gap on the hanging -man day. If If the black candlestick does not close
below the halfway point of the white candlestick it may be best to wait for more bearish confirmation following the dark cloud cover. Based on one estimate there are probably fewer than 400 full-time Japanese-to-English translators)' I had to find a trans lator who could not only translate
routine material, but also the highly specialized subject of of technical analysis. I also want to thank than k them for reading over and providing information for Chapter 2 on the history of Japanese Japa nese technical analysis. Not only did Richard do a wonderful job of translating, but he helped me hunt down and obtain Japanese candlestick
literature. It is sold with the understanding that the publisher publisher publisher publisher is not engaged in rendering legal, accounting, or other professional service. Now let us turn our attention to how the candlestick charts, your
competition will! If you like reading read ing about about colorful terminology termin ology like hanging -man lines, dark -cloud covers, and evening stars then this book is for you. This may allow you to get a jump on those who use tradi tional reversal days as a reversal signal. Although Although the market opened opened about unchanged uncha
nged after hanging hangin g man 3, by the time of its close, just about anyon an yone e who bought on the opening ope ning or closing of hang ing man 3 was hanging in a losing trade. Yuko Yuko Song provide prov ided d extra insights insight singular trade. Yuko Yuko Song provide prov ided d extra insights insight singular trade.
who w ho use candlesticks. Constructing the Candlesticks Time Period 1 2 3 4 Time Period 5 1.2 3 4 Time Period
Copyright 1990 Commodity Trend Service' 46 The Basics CLNO DAILY BAR 26 1855. If a large buy or sell order is pushed into the market at, or near, the close, with the intentio inte ntion n of of affecting the close, the t he Japanes Japa nese e call call this action a night attack. He would be given a coupon as a receipt for this rice. ...
variety of candlestick lines shown in i n the the exhibit are fascinating fasc
important to remember the individual patterns in Exhibits 4.30 to 4.32. Throughout our 15 -year friendship he has provided me with many valuable ideas and suggestions. sha dows. wind ow. My initial education education education was with with the the help of of a Japanese broker and through through through through drawing and analyzing candlestick charts on my
own. body. The brake light was the reversal indicator showing that the prior trend (that is, the car moving forward) was about to end.) This This was probably because because of of Munehisa's market savvy. 1989 DAILY BAR. The second day's day's price opens open s above the - The Basi cs EXHIBIT 4.24. The Japanese use a combination of
candlestick charting techniques along with Western technical tools. There were more than 1,300 rice dealers. Here the market is trending higher. You will will soon discover how deeply the counterproductive aspects of tension, tensi on, anticipation, and anxiety alter the way you trade trade and view " " 10 Introduction the markets usually in
proportion to the funds committed. The relative stability engendered by the centralized Japanese feudal system lead by Tokugawa offered new opportunities. The difference between them is in the degree of penetration penetration penetration by the white 
do the same? An important principle is to place a new position (based on a reversal signal) only if if that signal is in the t he direction dire ction of of the the major trend. The commoner did not always know how a samurai expected him to act or to answer. EXHIBIT 4.28. Do not worry, worry, if if you do do not read the following following following the the direction direc
section, it will not interfere with later candlestick chart analysis information. She exclaimed, look, a window. The color of the real body is not important. Once I had this software, my candlestick research progressed exponentially.
. And now, after discovering all their benefits, I only use candlestick charts. Observe the price action action on July 7 and 8. Reading it was
like finding an oasis in a desert. To To help guide you, you, I x Preface have included a glossary of of all the western wes term and Japanes Ja panese e candlestick terms used used with bar charting (such as moving averages, trendlines, Elliott
Wave, retracements, and so on) can be employed with candlestick charts. The longer the lower shadow, shadow, the shorter the upper shadow and a nd the t he smaller the real body the more meaningful the bullish hammer or bear ish hanging hanging man. Unfortunately, there were just ten pages on interpreting candlestick
charts. The two candlestick lines 1 and 2 in early June look like a bullish - . Trad e. In Osaka, Yodoya Keian became a war merchant for Hideyoshi (one of the three great military unifiers). But now that the car is stationary will the driver then decide to put the car in reverse? .....
discussed, they can send important signals about the market's health. This This may mean a market on close order may be needed or you may have to try and anticipate what the close will be and place an order a few minutes prior to the close. Vague and anticipate what the close will be and place an order may be needed or you may have to try and anticipate what the close will be and place an order a few minutes prior to the close.
this regard re gard I was was lucky to have the the help of of Language Lang uagess Services Unlimited in New York. In cases where there were different definitions, I chose the rules that increased the the probability that the pattern's pat term's forecast would be correct. A rule for the Western top reversal day (or, in this case, reversal
month) is that a new high has to be made for the move. But But this academic view leaves out an important component people. 3500 Piercing 4/26/90, . This would produce very negative connotations. EXHIBIT 5.3. Morning Star "That's Not What I Said, Business Tokyo, August August 1990, 1990, pp. This is probed in Exhibits 4.21, 4.22, and 4.23.
The prior for instance, could con vert into a period of of sideways price action. re sume. This line is not a hanging man either since a hanging man either since a hanging man should appear after after an In this case, if if this line arose near the t he highs high s of the prior pr ior black black candlestick session, it would have been considered a hanging man. The
engulfing pattern is the first of these the se multiple candlestic ck line patterns. My claim is that candlestick ck line patterns the the white body. Bob. patte rns. PREFACE A clever hawk hidestick charting techniques t
                        you like to learn a technical system refined by centuries centu ries of of use, but virtually unknown here? This gives gives you a n idea of the dual dual nature nature nature of of these the se lines. They may wait for a close to confirm a
break br eak out from a significant chart point. " " " " " " " Contents Preface Chapter ix INTRODUCTION 1 Some background, 1 How I learned about candlestick charts, 1 Why have candlestick charts, 2 Why have candlestick charts, 3 Why have candlestick charts, 2 Why have candlestick charts, 3 Why have candlestick charts, 4 Why have charts
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harami haram i pattern, patt ern, 79 Harami Cross, 85 Tweezers Tweezers tops and bottoms, 88 Belt-hold Bel
fry pan bottoms, bottoms, 113 113 Tower tops and tower bottoms, 115 CONTINUATION PATTERNS Chapter Windows, 119 Upward- and downward-gap tasuki, 129 High-price and low-price gapping plays, 131 Gapping side-by-side white lines, 134 Rising and an d falling falling three methods, methods, methods, methods, 135 135 Three advancing white soldiers, 143
143 Separating lines, 147 Chapter 8 THE MAGIC DOJI The importance 
session's high (that is, above the top to p of of the upper up per shado sh adow). Stars can occur at tops or at bottoms (sometimes a star during a downtrend is labeled a rain drop). There will also be examples of patterns patt erns that t hat,, at times, did not work. Their popularity grows stronger str onger every day. I have had calls and faxs from
 around the world requesting more infor mation about candlestick techniques. He used his insights to amass a huge fortune. reversal s. It is still a star as long as the ecanon for a market move. The bears will be second guessing their
position. But, as shown in the hanging man of mid mi d-March, a long lower shadow may not have to be twice the height of of the real r eal body in order to give a reversal signals not available with the Western reversal day. Then came a steady trickle
 which turned into a steady downpour. However, to keep consistent with other " " " " 28 The Basics EXHIBIT 4.1. Top Reversal EXHIBIT 4.2. EXHIBIT 4.2. EXHIBIT 4.3. Top Reversal nical analysis literature, I decided to use the term reversal patterns.
                                                                                                                                                                                                                                                                                                                                                      I want to thank again idea a day Bruce Kamich. Why shouldn't shouldn't we do the same? A star is a small real body that gaps away from the large real body pre ceding it (see
many others whom I would like to thank for their help along my candle stick path. It. It was also confirmed by a lower close the next day...
vestm st ment en t Techniques Techniques of the the Far East STEVE NISON NEW YO YORK RK INSTITUTE INST ITUTE OF OF FINANCE London Toronto Sydney Tokyo Singapore Library of Congress Cataloging-in-Publication Data Nison, Steve. If a candlestick line has no upper shadow it is said to have a shaven head. This is disconcert ing if if you
consider that that they are are among the the biggest players in the finan cial markets. endeavors. Yet the term reversal pattern is somewhat somewhat of a misnomer. Their power meant that information about the rice rice market was usually available available to to In addition, additio
conditions. Those who disparage technical analysis forget this last point. Dollar Index Weekly (Hanging Man) - Reve rsal rsa l Pat ter ns Observe hanging man 3. The thick part of of the candlestick candle stick line is called the real The Basics 13 CCHO DAILY BAR. If there are any mistakes mistakes that remain, they are those that I failed to
correct. Try writing a book boo k with a newborn and a rambunctious four-year-old daughter daugh ter,, Rebe Rebecca, and you start st art to get an a n idea of of how much my wife, Bonnie, contributed to this book. Since they are a market moving factor, they should be watched. If If you you would like to learn more about the
th e topic, I suggest sugg est you read r ead Jo hn Murphy's excellent book Technical Analysis of the Futures Markets (The New Yor York Institute 
you market omniscience. Dark -cloud cover 2. Of course there t here is my family, candle stick, Look, someone shouted, rain!. As shown later in this book (in the 23 24 The Basics EXHIBIT 3.6, Spinning Tops EXHIBIT 3.7, Doji
 Examples tions on stars and harami patterns), these spinning tops do become important important important twhen whe n part of of certain formations. This pattern is a signal that the bulls have seized control. I don't know the answer, ans wer, but it has ha s taken years of of research to fit all the pieces together. Think of of the dark -cloud cover as a partial
solar eclipse eclipse blocking blocking out ou t part p art of of the s un (that (that is, is, covers only part of of the prior white body). Without knowing what these patterns look like or what they imply for for the market, just by by hearing their names which do you think is bullish and which is bearish? - " " " " " " " 15 16 A Historical Background
Background When Munehisa father died, Munehisa father died, Munehisa was placed in charge of managing the family's assets. How often does the fol lowing occur? 3. " A Historical Background at NOTES first name is sometimes translated as Sokyu and his last name is sometimes translated as Sokyu and his last name is sometimes translated as Sokyu and his last name is sometimes translated as Honma. New York Institute te of of Finance
Financ e Simon Schuster Printed in the the United States of of America 1 0 9 8 7 Acknowledgements Like having ice cream after a tonsillectomy, this section is my treat after the book's completion. To give give you an idea of of the popularity popularity
were were a total total of of 110,000 110,000 0 bales (rice used use d to trad t rade e in bales) bale s) of empty-rice coupons coup ons traded traded in Osaka. close . Many computer trading systems (for example, moving m oving average systems) are based on o n closes. For this book, when I describe the candlestick lines and patterns, I
will often refer to daily data. The high and low for that hour would be used for the upper uppe r and lower shadows. Exhibit 3.4 reveals a long black candlestick reflecting a bearish period in which the market opened near its high and closed near its high and closed near its low. In the first part of of the book, book, you learn how to draw and interpret inter pret over 50
candlestick lines and formations. Observe where this rally stopped. Yo You should shoul d not no t expect rigid rules with most forms for ms of technica tech nicall analysis just just guideposts. Exhibit 4.25 demonstrates the difference between the dark -cloud cover and the bearish engulfing pattern. He was an American fluent in Japanese who
understood, and used, technical analysis. Exhibit 4.34 shows a classic piercing pattern during the week of March 26. Sakata was was a collections and distribution area for rice. In Exhibit 4.34 shows a classic piercing pattern during the week of March 26. Sakata was was a collections and distribution area for rice. In Exhibit 4.34 shows a classic piercing pattern during the week of March 26. Sakata was was a collections and distribution area for rice. In Exhibit 4.34 shows a classic piercing pattern during the week of March 26. Sakata was was a collections and distribution area for rice.
manifested. The interesting interesting interesting feature fea ture of of this chart is the buy signal sig nal given early in 199 1990. The writing style was sometimes obscure. I asked what she was talking about. Here is an entertaining story about strongly psychology can affect a market. It was a long, black day with a shaven head and a shaven bottom (that is, it
opened on its high and closed on its low). ............. Introduction As we will see in Chapter 3 on drawing candlestick lines, the open, high, low, and close). The same Japanese symbols for Homma's first name, depending on the translator
can be Sokyu or hisa. assets. After dominating the Osaka markets, Homma went to trade in the regional exchange at Edo (now called Tokyo). If you are a seasoned seaso ned technician, you will discover how joining Japa Jap a nese candlesticks with your other technician, technician, you will discover how joining Japa Jap a nese candlesticks with your other technician, technician, you will discover how joining Japa Jap a nese candlesticks with your other technician, you will discover how joining Japa Jap a nese candlesticks with your other technician, you will discover how joining Japa Jap a nese candlesticks with your other technician, you will discover how joining Japa Jap a nese candlesticks with your other technician, you will discover how joining Japa Jap a nese candlesticks with your other technician, you will discover how joining Japa Jap a nese candlestick with your other technician, you will discover how joining Japa Jap a nese candlestick with your other technician, you will discover how joining Japa Jap a nese candlestick with your other technician, you will discover how joining Japa Jap a nese candlestick with your other technician, you will discover how joining Japa Jap a nese candlestick with your other technician, you will discover how joining Japa Jap a nese candlestick with your other technician will be a new joining Japa Jap a nese candlestick with your other technician will be a new joining Jap a nese candlestick with your other technician will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a nese candlestick will be a new joining Jap a
this thi s instance, instance, instance, instance, instance, there the re may be less of of a suppl su pply y of of new longs in order to keep the the expressions hanging man or dark -cloud cover, would you think the market is in an emotionally
healthy state of course not! These are both bearish patterns and their names clearly convey the unhealthy state state of the the market. With the piercing pattern should be a longer white candlestick
that is stronger than the in-neck pattern but bu t still still does not close above the the middle of of the prior black real body. Indeed, Indeed, Indeed, Indeed, Indeed, Indeed, Indeed of of the prior black real body. Indeed of the prior black real bo
of the battlefield battlefield battlefield and and a provi sional indication of of friendly friendly and opposin opp osing g troops. This will slowly and clearly lay a solid foundation for the second part where you will learn to use candle sticks in combination with Western techniques. Note how the old $21 $21 support, support, once breached breached
 Revers Reversal al Patterns Patterns on March 9, converted to resistance. It is not an in -depth discussion. We We shall discuss them throughout the bearish engulfing pattern in mid -1987. Yet, amazingly, we do not know how the
Japanese analyze our markets with their traditional technical tool called candlesticks. It was not easy. " CANDLESTICK TERMINOLOGY AND MARKET EMOTION Technica tool called candlesticks. It was not easy." CANDLESTICK TERMINOLOGY AND MARKET EMOTION Technical tool called candlesticks. It was not easy."
erchange ange ability of supp s upport ort and a nd resistance.) resist ance.) 3. By employing candlestick charting instea in stead d of of bar charting when there is a good rice crop in Sakata, rice prices fall on the Dojima Rice Exchange and
collapse in Edo. From 1500 to 1600, Japan was a country incessantly at war as each of the daimyo (literally big name meaning a feudal lord) sought to wrestle control of of neighboring ne
as follows: The market is in a downtrend. 5 6 Introdu ction I believe that the best way to explain how an indicator works is through marketplace examples. Closes. When I asked them questions via fax I expected just brief answers. Using can dlesticks will help improve your market analysis. He H e died in 180 1803. If If legal advice or other other
expert assistance is required, the services of of a comp etent ete nt professional person should be sought. These warehouse receipts were called rice coupons. Candlestick charts are flexible flexible. Thus, there is some subjectivit subjectivity y in deciding whether whe ther a certain candle stick formation meets the guidelines for that particular
formation, but this subjectivity is no different than that used with other charting tech niques. These examples span the entire investment spectrum from futures, fixed-income, equity, London metal markets and foreign exchange markets. Swiss Franc Weekly ly (Bullish and an d Bearish Engulfing Engulfing Engulfing Patterns Patt erns)) -Week 4. Exhibi Exhibits
4.23 4.23 is a series of of bearish engulfing engul fing pattern pat terns. The first candlestick is a black real body day the second is a long, white real body day. But the candlestick charts give you signals not available with bar charts. Part of of this might be the result of of the Japanese Japan ese penchant penc hant for being vague. The same is true,
but b ut in reverse, for a star in a downtre down trend. I also look look at the th e entire time from intra-day to daily, weekly, and monthly candlestick charts. (The exception to this rule r ule is if if the th e first real body of of the engulfing eng ulfing pattern patt ern is so small it is almost a doji (or is is a doji). More than 500 pairs pair s of eyes eye s
[the [th e traders trad ers editor's note] shifted shifted to the big windows. (It was usually the eldest son who inherited the power during duri ng that era.) era. In I n 1642 1642,, certain cer tain officials officials officials and an d merchants tried to corner the rice market. Obviously what constitutes a high-price or low-price area is open to interpretation. These area is open to interpretation.
shadows represent the session's price extremes. Part explains how to meld candlestick shows the high, low, open, open, and and close of the session se ssion (see Exhi Exhibit bit 4.11). New highs for the move were not made by the black real
body periods in the bearish engulfing patterns. In In Japan J apan,, a black candlestick is called called in-sen (black line) and the white candlestick methodology currently used in Japan. In Exhibit 4.14 we see that the
rally, which began in early February, terminate term inated d with the th e arrival of two consecutive consecutive consecutive consecutive end e nd of of the major decline which which had began months mont his earlier. 1842 Dark cloud - 1989 CQG. An ounce of
emotion can be worth wort ha poun pound dof facts. On the hanging-man day, the market opens at or near the highs, then sharply sells off, and then rallies to close at or near the highs. In early June, when when the bullish engulfing pattern appeared it did not warrant action since it did not warrant action since it did not appear in a downtrend. Dark -cloud cover 1. The black
candlestick which followed pro vided the bearish confirmation confir mation of this t his hanging hangin g man line. Many times proverbs in the United States are considered trite and are rarely used. On occasion, I can use the hourly candlestick charts to get a trade signal rather that han n waiting for the close of that that day. The Bakufu was
 apprehensive about the increasing amount of power powe r acquired acquir ed by certain cert ain merchants. The New Gatsbys, Chicago, Bob Tamarkin, 1985, pp. However, after the second hanging man, when the market opened under the hanging man's real body, the market backed off. THE THE IMPORTANCE IMPORTAN CE OF TECHNICAL
ANALYSIS ANALYS IS The importance import ance of of technical techn ical analysis and ysis is fivefive-fold. Part I of the book reveals the basic basics on constructing, reading, and inter i nterpreting over 50 candlestick chart lines and patterns. +15. Another hanging man appeared in July. sion. Munehisa Homma was born in 1724 into
wealthy family. The importanc importance imp
subject. These rice coupons were actively traded. This opening turned out to be the low of the day and Boeing closed well within the prior day's black real body. This concept, where more than one technical indi indi cator corroborates another, another, another, another important important important. As I discovered, while the book yielded a harvest of of
information, it took some effort and time to get comfortable with its concepts. Some factors that would be: 1. What if a supposedly suppose dly bullish bulli sh story is released and an d prices do not move up or even fall?,, Soybeans Weekly (Bearish
Engulfing Patterns) Trend Servicee DARK-CLOUD COVER Our next reversal pattern is the dark -cloud cover (see Exhibit 4.24). There is a bearish hanging man in mid-April that that to signaled the the end of of the "1990 CQG BOZO DAILY BAR 7:39". I chose the English translation of of Homma's name as used by the Nippon N
pon Technical Technical Analysts Association. For example, in Chapter 5 you will learn about the evening star and the morning star and the morning star. This white day opens ope ns sharply lower, un der the low of of the prior black black day. To wit, peoples' reactions indeed affect price, but price also affects peoples' reactions. That type type of of price action is is
sending out ou t volumes of of information information information about about the psychology psychology of the market and how one should trade in it. The closest analogy to the Japanese call this a morning attack. After the
appearanc appea rance e of the t he hanging -man reversal pattern, the prior ended with the new ne w trend moving sideways. I am not trying to convince veteran technicians that this system is superior to whatever else they may be using. The profusion of services services offering offering the candlestick charts attests to both their popularity.
and their usefulness. For instance, inst ance, there ther e could be a potentially bullish candlestick pattern patte rn on the daily chart. Depend Depe nding on my source of of information, these were instances instance, there there is a potentially bullish candlestick pattern pattern on the daily chart.
a certain pattern. signal.and stay with that trade until anothe a notherr candlestick pattern tells them to offset. For instance, I may say that in order to complete a candlestick pattern the market has to open above the prior prior prior prior prior prior that trade until another candlestick pattern tells them to offset. For instance, I may say that in order to complete a candlestick pattern that trade until another candl
price action. The Japanese probably know all the Western methods method s of of technical analysis, yet we know almost nothing about theirs. C QG. His prestige was such that there was the following folk song from Edo: When it is sunny in Sakata (Homma's town), it is cloudy in Dojima (the Dojima Rice Exchange in Osaka) and rainy at Kuramae (the
 Kuramae exchange in Edo). I was fortunate in another sense. HOW I LEARNED ABOUT CANDLESTICK CHARTS " Why, I have often asked myself, has a system which has been around so long almost completely unknown in the West? There are other methods to forecast tartar gets (such as prior support or resistance levels, retracements, swing
objectives, and so on). Stocks Charts, Charts, diagrams, etc. With the emergence of of a star after a long white wh ite candlestick in an it is a signal of of a shift from the buyers being in control to a deadlock between the buying and selling forces. w).
 well within the prior white real body. It is pruden pru dentt to think think of of reversal patterns as trend tr end change patterns. classes . rang e. The real body is at the the upper up per end e nd of of the trading range. er. 220 EXHIBIT 4.7. Soybean Oil December, 1990, Daily (Hanging Man and Hammer) - Reversal Patterns as trend tr end change patterns.
31 CQG INC. In late 1985, a precipitous $20 decline began. Was Was it the the lack lack of of information information information information information and a Commit Com mit tee of of Publishers P ublishers and
Associations by Steve Nison All All rights reserved. Their prow ess and achievements are celebrated in Japanese history and folklore. At the time that I was writing this book, our newborn son Evan entered ent ered the picture (with all all the excitement about candlesticks, I came close to calling him Candlesticks Nison). patt ern. In Exhibit
4.33, the bears successfully knocked the market to new lows for the move on April 27 as shown by the long black day. John Gambino, one of of the best colleagues anyone an
probably over. This dark -cloud cover also signified a failed attempt by the bulls to take out resistance at the mid-February highs. shad ow). Then the hanging man appears. Dark cloud Cover 3 - 4/90 1855 1873 .......
the the hanging man's real body. This chart illustrates the point that a reversal pattern does not mean that prices will reverse, as we discussed in Chapter 3. nd. 'Jul . (Bearish Engulfing Pattern) Patt ern) - engulfing pattern. The name hanging man is derived from the fact that it looks like a hanging man with dangling legs. the shooting star. Without
Richard Richard this book would have been much less extensive. patter n. In this sense, subjectivity may not be a liability. This This trader is closing closing his eyes and and ears to the messages being sent by the market. We can monitor these messages by using the technicals. Without that book, this book would not have been possible. A significant
advantage attributed to candlestick charting techniques is that these techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to, not instead of, other techniques can be used in addition to addition to a constant of the contract of the 
out regional differences in supply. It It probably won't be too long before this multitude of new longs (and old longs who have ridden the realize that the ship they jumped onto is the Titanic. If you are an amateur technician, you will find how effective candle stick stick charts are as a stand stand alone charting metho me thod. Dark -cloud cover 3.
Such skills include strategy, psychology, competition, strategic withdrawals, and yes, even luck. It contained very basic introductory material, but it was the only readily available information on candlestick charts in the United States. As soon as you have money in the market, emotionalism is in the driver's seat and rationale and objectivity are merely
passengers. Suddenly Sudden ly a few drops of of water wat er slid down a window. Rev Rever erssal patte attern rnss are these technical clues. This is because candlestick charts can be used alone or in combination with other technical analysis techniques.
 The reason for less latitude with the bullish piercing pattern than with the bearish dark -cloud cover pattern is the fact that the Japanese have three other patterns called the on-neck, the in-neck, and the thrusting pattern (see Exhibits 4.30 to 4.32) that have the same basic formation as the piercing pattern, but which are viewed as bearish signals
The following week's hammer reinforced the conclu sion that a bottom reversal was likely to occur. Remember that when I say reversal pattern it means only that in a bull market, a top reversal pattern appears. People remember prices from one day to the next
and act accordingly. th. Does Does he take a loss. Exhibit Exhibit 3.6 shows sho ws candlesticks candlestick candl
In order to continually develop my abilities in candlestick charts appeared in late 1989, there were few services offering candlestick charts in the United States
on .). In this dark -cloud cover, the second day's black real body opened opene d at a t the prior day's high instead of above a bove it. It is more bearish if if the market mark et just opens open s above the prior day's close close and
then the n failed. Since Homma came from Sakata, you will frequently come across the expression Sakata, you will frequently come across the expression Sakata body enveloped by a very large black real body could be a bearish reversal pattern). Since there was no currency standard (the prior attempts at hard currency fail
failed ed due to the debasing of of the coins), rice rice became the defacto medium of of exchange. Candles might help light the way, but without the assistance and an d insights insight sof many others other s it would have been almost impossible to do this book. Before e I delve into the topic of of candlestick charts, I will brief briefly ly
discuss discuss the the importance of of technical analysis as a separate separat e discipline. The rice market that originally developed in Yodoya's yard was institutionalized tutional ized when when the the Dojima Ri Rice Exchange Exch
has a shaven bottom. Exhibit 4.35 illustrates how candlestick patterns can help the analyst get a quick quick sense of of the market's marke t's heal h ealth. Exhibit 4.27 shows sho we that that during durin g the early part of of March, dark dark dark early part of of March, dark dark during durin g the early part of of the market's marke t's heal h ealth. Exhibit 4.27 shows sho we that that during durin g the early part of of March, dark dark during durin g the early part of of March, dark dark during durin g the early part of of March, dark dark during durin g the early part of of March, dark dark during durin g the early part of of March, dark dark during durin g the early part of of March, dark during durin g the early part of of March, dark during durin g the early part of of March, dark during durin g the early part of of March, dark during durin g the early part of of March, dark during durin g the early part of of March, dark during durin g the early part of of March, dark during durin g the early part of of March, dark during 
candlestick charts become more common, more newspapers will include openings individual stocks. Osaka's easy access to the sea, at a time where land travel was slow, dangerous, and costly, made it a national depot for assembling and disbursing supplies. Daily Source: Bloomberg 42, WKO DAILY BAR Pattern) 1990 CQG INC. This could
have potentially bearish implications. This hammer line brings out an important point about hammers (or any of of the other patterns I discuss). The market is in a Exhibit Exhibit 4.18 shows a bullish trend, tren d, then a white bullish real body wraps around, or engulfs, the prior period's black real body. rn. I would like to thank the following
                                        publishers and authors for these books that I used as references: Kabushikisouba no Technical Bunseki (Stock Market Technical Analysis) by Gappo Ikutaro, published by Jiyukokuminsha Keisen Kyoshit su Part (Chart
Classroom Part Stock Charts) by published by Toshi Rader Kabuka K
Kenji Oyama, published by Nihon Keisai Shimbunsha Jissen Kabushiki Chart (Introduction to Stoc Stock k Charts) Char ts) by Okasan Keisai Kenkyusho, published by Nihon Shoken Shimbunsha Yoshimi Toshihiko no Chato Kyoshitsu (Toshihiko no Chato Kyoshitsu (Toshihiko no Charts) Char
(Toshihiko Yoshim Yoshim's i's Cha Chart rt Classroom) by Toshihiko Yoshimi, published by Nihon Chart Then there's the team at Merrill Lynch who were so helpful in look ing over the manuscript, making suggestions, and providing ideas. sess ion. Hanging Man . trad ing. Rice Rice brokerage became the foundation of Osaka's
prosperi pros perity. See Exhibit 4.5. Interestingly, the actual Japanese word for this line is takuri. It It is an intriguing history. The logi logic c for this has to do with how the hanging hangi ng-man line is generated. If so, this t his book on Japanese candlestick charting char ting techniques is for you. Its lower shadow was long, but not twice the height
he ight of of the real body. 4000. Besides this dark -cloud cover, there was another reason for caution at this $21 level. Sakata. However, I think the more important reason for the somewhat ous explanations has to do with fact that technical analysis is more of an art than th an a science. The Japanese Japa
chart and an d candlestick techniques to analyze the markets. skill. In a strong the bulls are in charge. Like Like hammer 4 in Exhibit 4.10, prices prices gapped lower but the white candlestick which followed closed higher. This is the scenario that unfolded in April. We see how the dark -cloud cover's black real real body covered only part part of of
the prior prior white real body. If, If, on on the openin opening g of the second day there there is very heavy volume, a buying blow of off could have occurred. And unless it ended soon, there would be a severe shortage of beans. " " May - 36 The Basics 1016 1017 1003 1005. Chan ge. 20. " " " " - Sell. The Japanese Japan ese Chart Chart
of Charts provided the t he foundat foun dation ion for the rest of of my investigation into candlesticks. By By the the early three extraordinary generals Nobunaga Oda, Hideyoshi Toyotomi, and Ieyasu Ieya su Tokuga Wa had had unified Japan over a 40-year period. This bearish signal would not warrant a short sale. The Japanese are big
technical traders. levels. She went we nt on to explain that while Western technicians use the expression filling in the gap the Japanese would say closing the window. 1989 CQG .. (Dark -cloud Covers) Dark cloud - , 48, The Basics Cover .......
                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  ....... Equity traders, who do not have access to on -line quote machines, may not be 8 Introduction able
to get opening prices on stocks in their newspapers. Even today the traditional greeting in Osaka is makka which means, are you making a profit? Nison. With the hundred hund redss of of charts throughout throu ghout this this book, do not be sursur prised if if you see patterns pattern s that that I have missed within w ithin charts. 154. The
day before this hammer, the market formed an extremely bearish candlestick line. Bloomberg. The downward energy has thus been cooled. The horizontal line to the t he left of of the vertical buyers buye rs and an d sellers have a benchmark from
which they can expect expect buying and selling. Among the first and the most famous people in Japan to use past prices to predict future price movements was the legendary Munehisa He amassed a huge fortune trading in the rice movements was the legendary Munehisa He amassed a huge fortune trading to the rice movements was the legendary Munehisa He amassed and selling.
and your market philosophy. During this era Japan went from 60 provinces to a unified country where commerce blossomed. WHAT IS IN THIS BOOK? At prearranged times he placed men on rooftops to send signals by flags. Candlestick patterns should always be viewed in the context as to what occurred before and in relation to other technical
evidence. Japanese candlestick charts are older than bar charts and point and figure charts. Those who were waiting for selling short now have a benchmark to place a stop at the new high of of the dark -cloud cover pattern. A daimyo need in eeding ng money would send his surplus rice to Osaka where it would be placed
in a warehouse in his name. The CBOT holds exclusive copyrights to the Market Profile B and Liquid ity Data [email protected] [email prote
was still only a warning sign but it was viewed as a negative factor. Yet Yet, throug th roughout hout all of Jap J apan an there ther e were only 000 bales of Into this background steps Homma, called god of the t he markets. The MTA office manager, Shelley Lebeck, brought a book entitled The Japanese Chart of Charts by Seiki Shimizu and
translated by Greg Nicholson (published by the Tokyo Futures Trading Publishing Co.) back from Japan. Exhibit 3.7 reveals no real bodies. candlesticks. After After this bullish engulfing pattern, the white real body only pierces the prior black body.
There were so many who contributed in one way or another to this project that if I have forgotten to mention anyone I apologize for this oversight. Consequently, I have included many such examples. During a prolonged if there there is a strong strong white day d ay which opens on its low (t hat is, a shaven bottom) and closes closes on its high (that
(that is, a shaven head) and the next day reveals a long black real body day, opening on its low, then a shaven head and shaven bettom black candlestick session of dark -cloud cover 3. He became very wealthy as it turned out, too
wealthy. For each chapter's heading, and throughout the book, I used Japanese proverbs or sayings. pattern. A=. The horizontal horizontal horizontal horizontal horizontal line to the right right of of the vertical line is the close. If there was a prevailing downtren down trend, d, this same top reversal formation could be used to place short sales. There are many new patterns and
ideas in this book, but the tive names employed by the Japanese not only make candlestick charting fun, but easier to remember if the patterns are bullish or bearish. For For instance, if a Japanese author says that a candlestick line has to be surpassed to signal - "Introduction" the next bull move. I equate surpassed with on a close above. Exhibit
4.7 is an excellent excellent excellent example of of how the same line can be bearish (as in the hanging-man line on July 3) or bullish (the hammer on July Although both the hanging man and hammer in this example have black bodies, the the color color of the the real body is not of of major importance importance importance. In other words, the market's psychology is
                                                                                                                                                                                                                                 . If the th e star is a doji inst in stead ead of of a small sm all real body, it is called a doji star (see Exhibit 5.2). Candlesticks are exciting, powerful, and fun. Just as a dark -cloud cover is a top reversal, its opposite, the piercing pattern, is a
in transformation. It took until the for merchants to break down the social barrier. ...
bottom reversal (see Exhibit 4.29). These These are examples exam ples of of what what are are termed termed downtrend should end. Bearish Bearish Bearish Bearish Bearish engulfing patterns pattern s 3, 3, 4, 4, and a nd 5 all gave reversal signals that
were not available with Western technical techniques (that is, since no new highs were made for the move they were not considered reversal weeks). Some Japanese technicians require more t han a 50% penetration of of the th e patter pa
tterns ns can still provide 'mportan 'mpo rtantt clues about about the state of the markets. crop). Users run the spectrum from first -time chartists to seasoned professionals. A Western Western reversal revers
(or above) the prior day's close. But these thre th ree e NT NTAA members member s took their valuable time to write pages pag es of of explan ex plana ations, complete with drawings. By the 17th century, a national market had evolved evo lved to replace the system sy stem of of local local and isolated is olated markets. Western reversal indicators
include double tops and bottoms, reversal days, head and shoulders, and island tops and bottoms. Then the price of of soybeans soybe ans broke like some tropic tropic fever. ....
                                                                                                                                                                                                                                                                                                                                                                                                                                                            .. I chewed and grinded away at the new ideas and terminology, examples. So why use a bar chart? However, the bullish
engulfing pattern is a bottom trend tren d reversal reversal indicator. I have included hund hundre reds ds of of charts c harts in this book from various services. Exhibit 4.9 shows shows a series serie s of bullish hammers hammer in spite of of its minute upper upper
shadow). The colo colorr of of the star is not not important. For example, one Japanese author writes that the open has to be above the prior close in order to complete a dark -cloud cover pattern (see Chapter 4). " " " " " SOME LIMITATIONS As with all charting methods, candlestick chart patterns are subject to the interpretation interpretation of
of the user. 5. answ er. " " " - " HAMMER AND HANGING-MAN LINES Exhibit 4.4 shows candlestick with long lower shadows and small real bodies. But candlestick candlestick candlestick candlestick candlestick with long lower shadows and small real bodies. But candlestick ca
tern) - charting techniques, techniques, techniques, there should be some latitude allowed. mercha nts. Instead, they have horizontal lines. The primary reason for the widespread attention aroused by candle stick charts is that using them instead of, or in addition to, bar charts is a win-win situation. Second, technicals technicals are also an important important
compon c omponent ent of of disciplined trading, pattern . The engulfing pattern is a major reversal signal with two opposite color color real bodies composing this this patter or der.. Now it is our turn to benefit from their knowledge. For those of
you who are new to this t his topic, topic, the following section is meant to emphaempha size why technical analysis is so important. For those who are in a rush to get to the meat of the book (that is, the techniques and uses of of candlesticks), you can skip this chapter, or return return to it after you have completed the rest of of the th e book. This
increased the the chance that a double bot tom had been built. analysis. Now a plethora of of services offer these these charts. Some tech nicians consider only a close above resistance a valid buy signal so they have to wait until until the the chance that a double bot tom had been built. analysis. Now a plethora of of services offer offer these these charts.
morning star (the planet Mercury) that fore tells the the sunrise, sunrise, it presages higher prices. (Note the bullish hammer in early April.) ENGULFING PATTERN The hammer and hanging man are individual candlestick lines. They were all so new. Exhibit 4.17 illustrates a classic hanging man are individual candlestick lines.
trend is still up up.. Feb 'Mar 'May I Oil EXHIBIT 4.26. The candlestick glossary includes a visual glossary of of all the patterns. Considering the the aforementioned bearish factors, it would be prudent to wait for confirmation that the bulls were in charge again before acting on hammer 4. I . 165 Contents Chapter 16 CANDLESTICKS WITH
ELLIO TT WAVE Elliott wave basics, 253 253 Elliott wave with candlesticks, 268 Chapter CANDLESTICKS WITH MARKET PROFILE " Market profile with candlesticks, 269 Chapter HEDGING WITH CANDLESTICKS Chapter HOW I
HAVE USED CANDLESTICKS CONCLUSION Glossary Glos sary CANDLESTICK TE TERM RMS S A N D VISUAL GLOSSARY Glossary AMERICAN TECHNICAL TERMS BIBLIOGRAPHY INDEX Contents PART TWO: THE RULE RULE OF O F MUL MULTIP TIPLE LE TECHNICAL TECHNIQUES Chapter A CONFLUENCE OF CANDLESTICKS
Chapter CANDLESTICKS WITH TRENDLINES Support and resistance lines with candlesticks, 185 Springs and upthrusts, 193 The change of of polarity principle, p
simple moving average, 215 The weighted moving averages, 216 The exponential moving averages, 217 Dual moving averages, 218 How to Use RSI, 229 Stochastics,
232 How to Compute Stochastics, 232 How to Use Stochastics, 234 Open interest, interest, 248 Open interest, 248 Open interest with
candlesticks, 249, 241 CHAPTER INTRODUCTION The beginning is most important " " SOME BACKGROUND Some of you yo u may have already alrea dy heard of candlestick charts. 'Feb EXHIBIT 4.14. This
span between 1500 and 1600 is referred to as Sengoku Jidai or, literally, Age of Country at War, Dark cloud Cover 1 - The long lower shadow, and no upper shadow made this a classic hammer, 42 The Basics Source; EXHIBIT 4.22. Everyone believes believes believes it will
will be be accepted, so it is. Exhibit 3.3 shows how the same data would be used to construct a bar chart and a candlestick chart. 122 123. Third, following the technicals technicals technical sis important important
 Acknowledgements Gramza for the chapter on Market [email protected]; Jeff Korzenik for the the chapter on options and hedging; John Murphy for the chapter on volume and open interest; once again, John J ohn Gambino Gambino for the chapter on Elliot Elliottt Wave Wave;; Charles for the chapter on oscillators; Gerard Sanfilippo and
Judy Ganes for the chapter on hedging; and Bruce Kamich for the English language glossary. With these patterns, as prices move under the white low, the trader trad er knows that it's time to sell. Another bearish verification could be a black black real body session with with a lower close close than the hanging-man sessions close. Most of of the the
 charts in this thi s book are courtesy of of CQG. Extended experience with candlestick charting in your market specialty will will show you which of of the t he patterns, patte rns, and a nd variations of of thes t hese e patterns patte rns, work best. I also had an extensive amount of Japanese candlestick literature translated. EXHIBI EXHIBIT T 4.
CHAPTER REVERSAL PATTERNS Dark Darkne ness ss Lie Lies One " Ah Ahead "Technicians watch for price clues that can alert them to a shift in mar ket psychology and trend. 1991 90-22736 - This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is safer to view this as a
bearish engulfing pattern with all its inherently bearish implications than to ignore that possibility just because of 8 ticks. Cash Yen, Monthly (Piercing Pattern) appearan appearan appearan appearan appearan appearan appearance ce of this piercing pattern. Thanks to his help I might have the largest collection of Japanese books on candlesticks candlesticks in the t he country. Hanging Man - 240
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..... Exhibit 3.1 is the familiar Western bar chart. In Exhibit Exhibit 4.28, we see that the price incline incline commencing commencing February February 10 came to an abrupt halt with the mid-February dark -cloud cover. education. If the market opens op ens lower the next day day,, those t hose who bought boug ht on the the hanging with a losing position. But even if if it wasn't was n't raining on heads of the traders, and and that is all that counts the soybean fields it was in the heads [emphasis added]. But, and this is the key point, candlestick charts can send signals not avail able from bar bar charts. They do, however, add a vibrant color to your technical palette. Exhibit 4.22 4.22 shows another instance where the tangent color to your technical palette. jump on regular bar charting tools. Two more dark -cloud covers formed in April. 11612313016 EXHIBIT 4.12. \$21. In Exhibit 4.26 three dark -cloud covers can be seen. Then the t he market sells offs. .. Yet, Yet, because because of this this book may be swayed by the author's trading trad ing philosophy. This is not a favorable scenario scenar io for a continuation continuation continuation continuation continuation continuation of the the bear market. There may be news not known to the general public but you can expect it is already in the price. They do not, no t, however, provide price targets. His last name, again depending on the translator, can be either Homma or Honma. We can thus expect heavy emotional involvement into how the market closes. For example, a white candlestick which closed higher than the n the trend trend is short short short term. I will break down this three candlestic candlestick ck pattern into its components in order to und erstand the rationale behind this last statement. trend but not necessarily reverse. I. Then the market surges toward the close, managing not only to close unchanged from the prior day's close, but sharply above that level. Market and Liquidity Data registered regis tered tradema tr ademarks rks of of the Chicago Board Board of Trade. body). Yet Yet the other other criteria (a real body at the upper end e nd of of the daily range and almost no upper uppe r shadow) were met. It was at the library that I first discovered candlestick material written in English. On the candlestick chart, prices seem to jump off the page presenting presenting presenting a stereoscopic stereoscopic view view of of the market as it pushe p ushess the flat, two-dimensional bar chart into three dimensions. The hammer and hanging man can be recognized by three criteria: 1. Thus far, the bulls are in complete control. The time span sp an of this overview ove rview is from the late 150 1500s 0s to the mid-1700s. But the same principles will be valid for all time frames. In the piercing pattern, the greater the degree degree of of penetrat pen etration ion into i nto the the black black real body, the more likely it will be a bottom reversal. Invest tment analysis. Japanese candlestick charting techniques: a contemporary guide to the ancient ancient investment investme Without "Boat and a not between betwee the last two weeks of of July, Jul y, a bearish engulfing pattern emerged. The shadow above the real body is known as the lower shadow under the real body is known as the lower shadow. If the market closes und er the lows of of the bullish bullis another should resume. Part of of this might mi ght have resulted from the translation. In early 1990 1990,, I wrote a short reference piece for my Chartered Market Technician thesis about candle stick charts. Why is that paper, with no intrinsic value, exchanged exchanged for something tangible? bo dy. markets. The final coup de grace came a few weeks later when the bearish engulfing pattern materialized. There are many reasons and a few are: 1. Thus, using the criteria criteria for the Western reversal they would not be recognized as reversal patterns in the United States. September's bullish engulfing pattern was the the bottom bott om of the t he prior to the major rally. 1551 Pattern 'Feb EXHIBIT 4.35. inter est. It is a two candlestick pattern patter n that is a top reversal after a or, at times, at the t he top t op of a congestion band. The following is is a list of of some factors facto rs that intensify in tensify the importan importance ce of of dark -cloud covers: - 1. Thus, after an extended downtrend, a tiny white real body engulfed by a very large white real body could be a bottom reversal. Some readers may have heard the expression yin and yang lines. In December 1989, I wrote an an introduct introduction of the sec ond on d half half of of this t his book where the combinat comb ination ion of candles can dlestick tick techniques tech subjectivity. Exhibits 3.4 to 3.7 illuminate how the relationship between a period's open, open, high, high, low, and and close close alters the the look look of the individual techniques are for the most part unused in the United States. This would reflect a dissi pation of of the prior p rior trend's force force and and then then an increase in force force behind behind the new move. ogy. Were the Jap anese ane se trying to keep it secret? It stoppe sto pped d at the hang h anging ing man made in the third third week of of 1990. important. Tick Volume Profile "is a registered trademar tradem indicator implies that the prior trend should end. The close is also a pivotal price point for for many technicians. Discipline helps helps mitigate the nemesis of of all traders trad ers,, namely, mention mention. Usually usual graciously acted as our intermediary via fax messages. ses sion. Note that after the appearance appearance of the first first hanging man, the the market opened opened higher. I was hooked.

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