Brainy's Articles on
BullCharts
Candle Patterns Indicator

Article No:
BC-08-200
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31 Jan 2010
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Introduction

There are a few challenges that face the budding technical analyst. One of these is the challenge to understand the huge range of technical chart indicators to choose from (or simply choose none). Another one is to understand the extensive range of candlestick patterns that can be useful in spotting certain conditions in the market.

BullCharts includes one specific indicator which can help with all this because it identifies and flags about 50 specific candlestick patterns. The indicator can be applied to a price chart with all of these candle patterns flagged, or just some of them. The sample chart in Figure 1 below shows a daily chart of the S&P/ASX 200 index (ie. the XJO) throughout the month of January 2010, with the BullCharts Candle Patterns indicator applied and flagging a number of candlestick patterns.

This article in Brainy's series on BullCharts (number BC-08-200) provides a brief overview of the concept of candlestick patterns — including both single-candle patterns, and multi-candle patterns — and information on the BullCharts Candle Patterns indicator and how to use it.

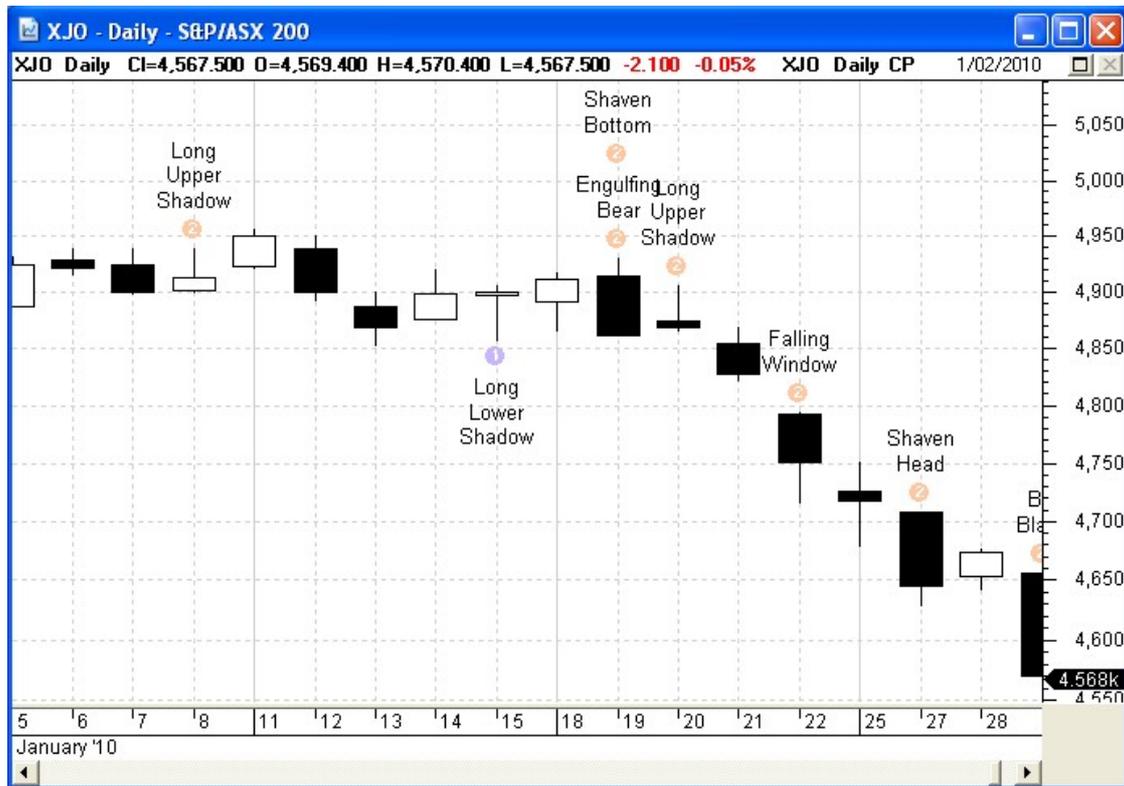For a basic explanation of candlesticks, refer to Brainy's Article TA-3110, "*Candles Explained*".

Figure 1: The Candle-Pattern indicator in BullCharts identifies many candle patterns.

What is the definition of each pattern?

You might wonder exactly how the BullCharts indicator software determines whether a pattern is present or not. This is defined inside the BullCharts system. Each pattern is allocated a BullScript variable name, and these names are used within the indicator and in the relevant scans.

Which candle patterns are included?

Refer to the table on page 4 for a list of the candle patterns that are included in this indicator.

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Candle patterns — single and multi-candle patterns

For the chartist who has started out learning about candlesticks and candle patterns, it is important to firstly note that candles can often be classified into different types. Here are just some very simple samples.

Single-candle patterns

Figure 2 at right shows just three simple sample patterns which are single-candle patterns:

- A (Hammer) — Short body with a long lower shadow in a downtrend.

- B — Normal candle, with relatively short high and low tails.

- C (Marubozu) — No tails at all and a long body implies a strong day. This is referred to as a Marubozu candle.
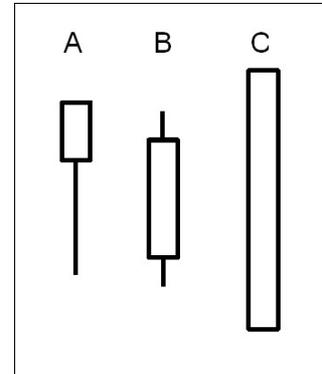
Figure 2: Some simple single-candle patterns.

Multi-candle patterns

The occurrence of two, or even three, candles together in a particular arrangement can be significant, and can give clues about the state of the market.

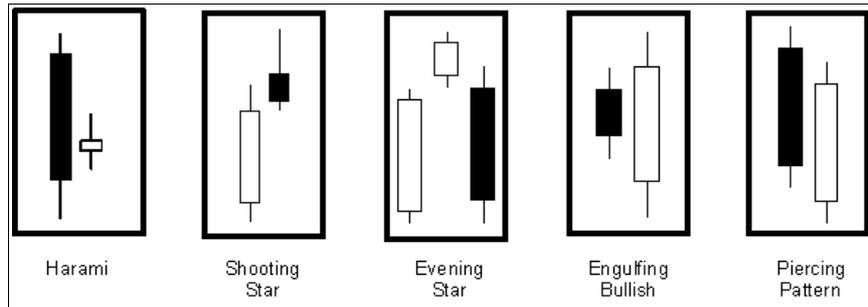Just a few samples are shown in Figure 3 at right.

| Harami | Shooting Star | Evening Star | Engulfing Bullish | Piercing Pattern |

Figure 3: Some multi-candle patterns.

The BullCharts Candle Pattern indicator

The Candle Pattern indicator can be applied to a price chart in the same way as any other indicator.

The easiest way to find it when using the "Insert indicator" dialogue, is to choose the "Candlesticks" option from the "Category" drop-down box as shown in Figure 4 at right.

When you insert this indicator into a price chart, it can take a few moments to "calculate" whether the patterns are present or not, and to flag them.

By default, this indicator includes about 50 candle patterns, but only a few of them are enabled for initial display. Others can be easily shown or hidden.

There are a few options for the display of the patterns, and these are explained below.
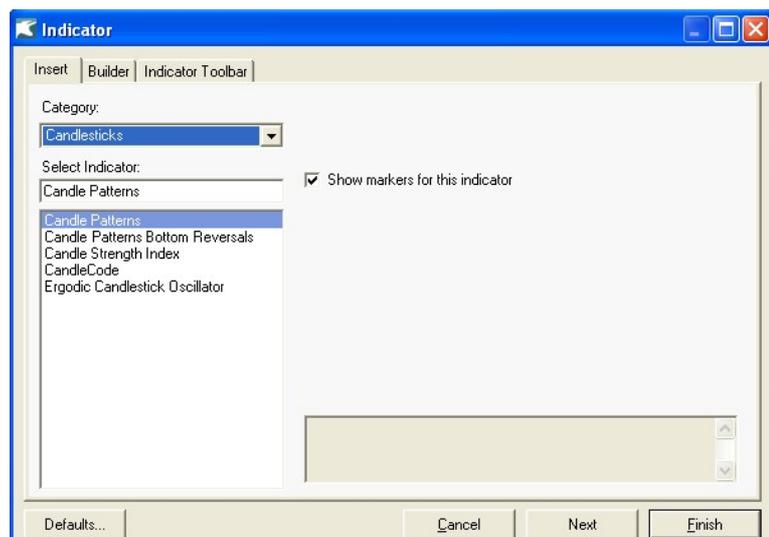
Figure 4: The "Insert Indicator" dialogue - and selecting "Candlesticks" in the Category drop-down selection.

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Candle Pattern indicator — the properties

The candle pattern indicator properties that are available for change are indicated in Figure 5 at right.

On the "Styles" tab, note the long list of "Displayed Plots" (candle patterns). You can click on the check box at the bottom of this list to show them all, or hide them all. Or you can work down the list and show/hide individual ones.

Note the options in the right hand half of this properties dialogue box.

To produce the sample chart in Figure 1 above, I have turned on all patterns, and then turned off two individual ones — the "Black" and the "White".

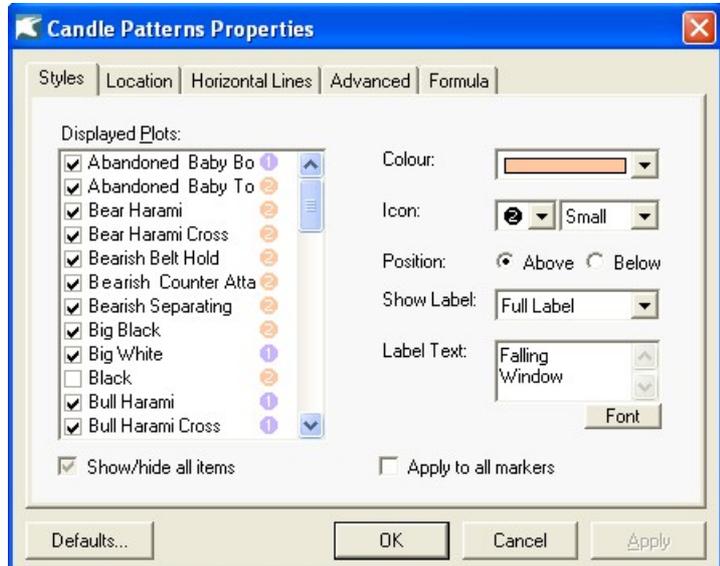Note the following points regarding these options:

Figure 5: Candle Pattern indicator - the properties.

- All of the bearish candle patterns are coloured the same salmon colour, with (2) as the icon. Conversely, all bullish patterns are coded with a purple colour, and with (1) as the icon. This is customisable.

- Note that you can safely sweep through these settings for many of the patterns, and then easily change them all back to the original default settings by using the "Defaults..." button near the bottom left corner of the dialogue box, and then select "Restore indicator defaults".

- The "Show Label" option is set to show the "Full Label" by default, but you can change this to an abbreviated label (ie. just a couple of letters instead of the full words), or even no label.

- There is an "Apply to all markers" check box near the bottom. You can click this, and then select an option like "Show Label — Abbreviated". This change would be applied to all patterns. You could then turn this option off, and change individual ones back to "Full Label" if you want.

- You can also change the actual text that is displayed on the chart adjacent to each pattern — the "Label Text" — and the font for this text (the typeface, the size, etc.). Once again, you can change it for individual patterns, or for "all markers".

- The Icon size and position can also be changed for some or all patterns.

Note the "Formula" tab on the Candle Patterns Properties dialogue box in Figure 5 above. This option will display the BullScript code for the indicator, including the English name for each pattern, and the BullScript name for the pattern. If you understand a little about BullScript, then you could modify the script codes in this indicator to suit your own requirements.

Scanning for candle patterns

It is easily possible in BullCharts to scan for one or more candle patterns. By default, there are two supplied scans to give you a head start — "Candlestick Patterns" and "Candlestick Reversal Patterns", both under the Scan Category of "Candlesticks".

If you open one of these supplied scans you will be able to see some key points regarding the scan definition and criteria.

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With reference to Figure 6 at right, note the following points regarding the scan criteria when using a scan to search for specific candle patterns:

- In the Category drop-down selection box, choose "*Is an indicator signal*".

- In the second drop-down box, choose "Candle Patterns" from the long list of indicator types.

- Then click on the "Parameters" button to choose a pattern from the long list of patterns. Note that this list appears to be unsorted — it is actually in the same sequence in which the indicators appear within the indicator definition. It is not wise to try to change this.

Figure 6: BullScan Criteria Properties to search for candle patterns.

You can either create a new scan of your own, or modify an existing one, to scan for candle patterns in stocks within a watchlist. Your scan might end up with a list of criteria such as in Figure 7 below.

Figure 7: Selection Criteria in the Candlestick Patterns scan.

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In the scan properties in the example screen shot above, note the following key points:

- We are searching for the candle patterns as "true" (ie. it has occurred) , for "any bar in the last 3 bars". You can change this to be any number of bars.

- The "Match All Criteria" check box on the right hand side has been unchecked, which makes some more options available: "Importance" and "Required". If we leave this check box enabled, then the stocks will only be selected of ALL criteria are met. But this is not what we want. We want a stock selected if any of the candle patterns have appeared recently.

- The "Importance" and "Required" options can be changed within each criteria (bottom right corner of the dialogue box). The "Importance" item can be given a number from 1 through 9.

List of candle patterns in the indicator

The following table is a list of the candle patterns that are included in the current version of BullCharts.

Abandoned Baby Bottom	Doji Star	Rising Three
Abandoned Baby Top	Downward Gapping Tasuki	Rising Window
Bear Harami	Engulfing Bear	Separating Lines
Bear Harami Cross	Engulfing Bull	Shaven Bottom
Bearish Belt Hold	Falling Three	Shaven Head
Bearish Counter Attack	Falling Window	Shooting Star
Bearish Separating Line	Gravestone Doji	Three Black Crows
Big Black	Hammer	Three White Soldiers
Big White	Hanging Man	Tri-Star Bottom
Black	Inverted Black Hammer	Tri-Star Top
Bull Harami	Inverted Hammer	Tweezer Bottoms
Bull Harami Cross	Long Legged Doji	Tweezer Tops
Bullish Belt Hold	Long Lower Shadow	Upside Gap Two Crows
Bullish Counter Attack	Long Upper Shadow	Upward Gapping Tasuki
Bullish Separating Line	Morning Doji Star	White
Dark Cloud Cover	Morning Star	
Doji	Piercing Pattern	

Table — A list of the candle patterns that are included in the indicator.

Summary

This article in Brainy's series on BullCharts (number BC-08-200) provides an introduction to the Candle Pattern indicator supplied in BullCharts, as well as an overview of the concept of candlestick patterns — including both single-candle patterns, and multi-candle patterns.

For more information on Share Trading, or
Technical Analysis, or BullCharts software,
look for more of Brainy's articles, or the other resources, in
Brainy's Share Market Toolbox: www.robertbrain.com

Your own notes and comments: ....

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