



Brainy's Articles on Technical Analysis

Candlestick interpretation

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page 1 of 6
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Introduction

Candlestick price charts tell us a lot more about a stock, or an index, than the simple line chart. Each individual candle has features that can reveal the underlying sentiment of traders and investors, and multiple candles together can add to this.

As a simple example, take a look at the few candles in the daily price chart of Ansell Limited during a 5-day period, in Figure 1 at right. The white candle in the middle of the chart has a reasonably sized body, and a tallish upper tail. The tall tail tells us something about both the buyers and sellers during the day of 14th August. Likewise, the very small body and long lower tail of the following candle tells us a lot about the sellers disappearing on the 15th.

In this article in Brainy's series on Technical Analysis (number TA-3710) we look in more detail at interpreting candlestick shapes and candle patterns.

Also included at the end of this Article are three 1-page posters depicting common candle patterns.

Readers should also refer to other Articles in this series for more information, in particular:

- TA-3700, "**Candlesticks explained**",
- TA-3750, "**Candlestick patterns**", and
- TA-3780, "**Composite candles and candle addition**".

Candlestick basics — quick revision

Here is a quick recap of some key candlestick concepts with reference to Figure 2 at right, noting that a candle might, or might not, comprise a body, and possibly an upper shadow, and possibly a lower shadow.

Candle body — The rectangular candle body highlights the trading range from the open to the close and it might be very short or rather long. Candles tend to be either white/black on a chart, or green/red. The white (or green) candle indicates the close is higher than the open. The black (or red) candle indicates the close is lower than the open.

Candle tails, wicks, shadows — The top of the upper shadow is the high of the period, while the bottom of the lower shadow is the low of the period. The shadows might be non-existent, or at the other extreme they can be very long. (The names for this feature — tail, wick, shadow — are all interchangeable.)

Candle psychology — the bulls and bears tug of war

To better understand the ideas about candle shapes and patterns, it is useful to appreciate that the share market operations are akin to a tug of war between buyers and sellers in the market very much like an auction. This is explained in the following section on *market depth*.

Information about interpreting both single-candle shapes, and multi-candle patterns, is included below.

Market depth shows buyers and sellers

Take a look at Figure 3 below. This is a screenshot of what is known as the *market depth*. This snap

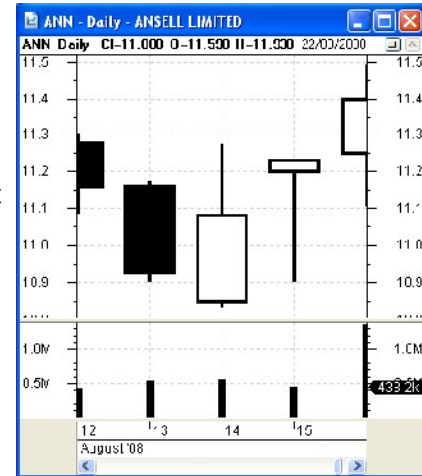


Figure 1: A simple (but complex) candlestick chart.

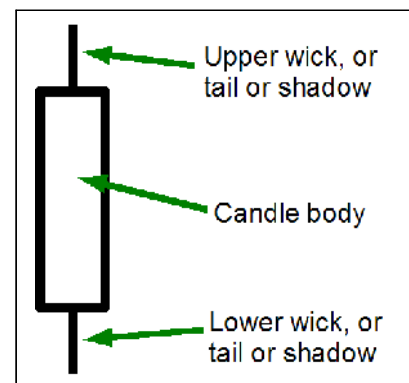


Figure 2: Candlestick elements.

* — Brainy's eBook (PDF) Articles are only available to **Share Market Toolbox** members. Visit www.robertbrain.com/articles/ for more information.

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