



Brainy's Articles on Technical Analysis

Composite candles and candle addition

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Introduction

For many people, candlestick charts can reveal a lot about the underlying mood and sentiment of the market, and can hint at possible changes in trend. But there is one particular aspect in the study of candles which is not covered very well — what we call *candle addition*, and *composite candles*. And related to this is the study of *candle development*.

In this article in Brainy's series on Technical Analysis (number TA-3780) we focus on the topics of *candle addition* and *composite candles*, and help you to also understand the idea of *candle development*.

In the following pages we study a number of simple sample candlestick patterns, and look at the result of the *candle addition* operation. We also discuss the notion of *compound candles*, and explain it with regard to different time periods (ie. daily, weekly, monthly). Also included are some real samples of utilising these techniques to help identify trend turning points (in particular on the market index).

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

- TA-3700, "*Candlesticks explained*",
- TA-3710, "*Candlestick interpretation*"; and
- TA-3750, "*Candlestick patterns*".

What is candle addition?

Figure 1 at right shows two candles which, when "added" together produce a single candle.

The first candle is a fairly tall black candle indicating heavy selling in the period (it's almost tall enough to be a *Big Black*, but perhaps not quite). The second candle is a *Big White* which opens lower than the black, and closes higher than the Black (ie. it is an *Engulfing* candle — also referred to as an *outside day*). These two candles together form the *Bullish Engulfing* reversal candle pattern.

When we combine these two candles into one candle using *candle addition*, the result is the third candle in the figure which could be either a *Hanging Man* (if in an uptrend), or a *Hammer* (if in a down trend). The long lower tail on this third candle suggests that buyers overpowered sellers in the "period" — that is, a rejection of lower prices.

Because the third candle is the result of adding these two candles together, this third candle can be referred to as a *compound candle*. Now if we were to start with the third candle, and work backwards and contemplate what sort of candles could be added together to produce it, then this process is known as *candle development*.

Sample candle additions

The best way to further explore this subject is to provide a number of samples, and walk through some simple explanations. These are included in the following pages.

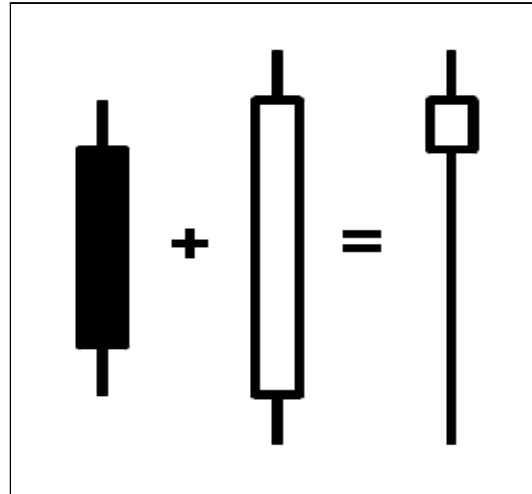


Figure 1: Candle addition sample.