

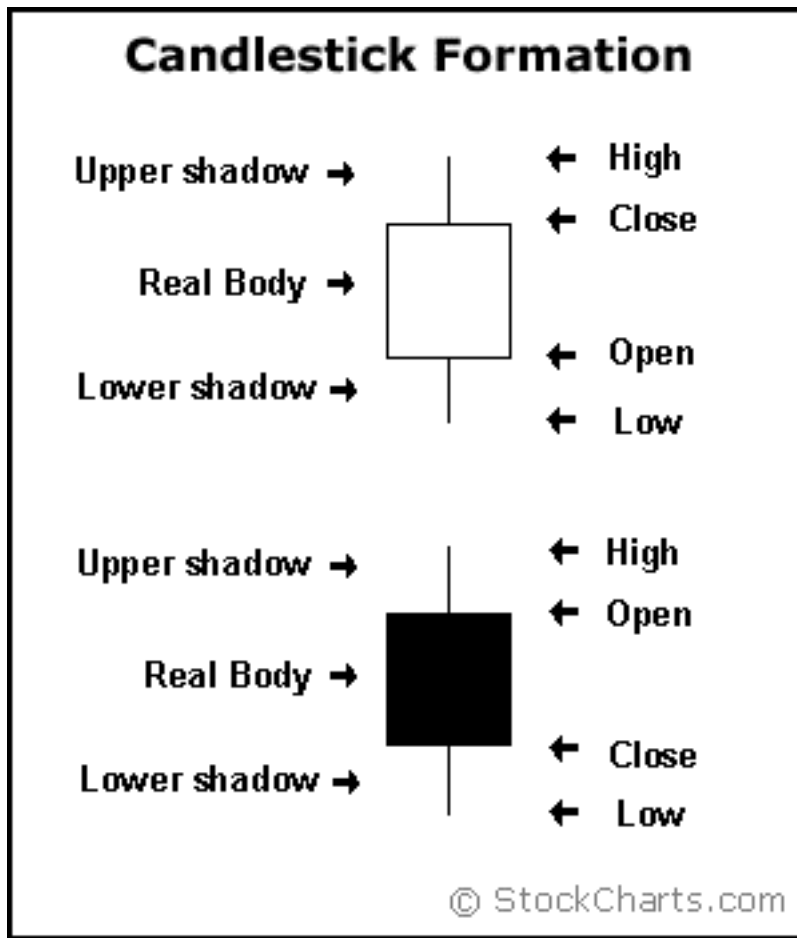
Introduction to Candlesticks

History

The Japanese began using technical analysis to trade rice in the 17th century. While this early version of the technical analysis may have been different from the US version initiated by [Charles Dow](#) around 1900, many of the guiding principles were very similar.

- The "what" (price action) is more important than the "why" (news, earnings, and so on).
- All known information is reflected in the price.
- Buyers and sellers move markets based on expectations and emotions (fear and greed).
- Markets fluctuate.
- The actual price may not reflect the underlying value.

According to [Steve Nison](#), candlestick charting came later and probably began sometime after 1850. Much of the credit for candlestick development and charting goes to Homma, a legendary rice trader from Sakata. Even though it is not exactly clear "who" created candlesticks, Nison notes that they likely resulted from a collective effort developed over many years of trading.



Formation

Candlesticks are formed using the open, high, low and close. Without opening prices, candlestick charts are impossible to draw. If the close is above the open, then a hollow candlestick (usually displayed as white) is drawn. If the close is below the open, then a filled candlestick (usually displayed as black) is drawn. The hollow or filled portion of the candlestick is called the body (also referred to as the "real

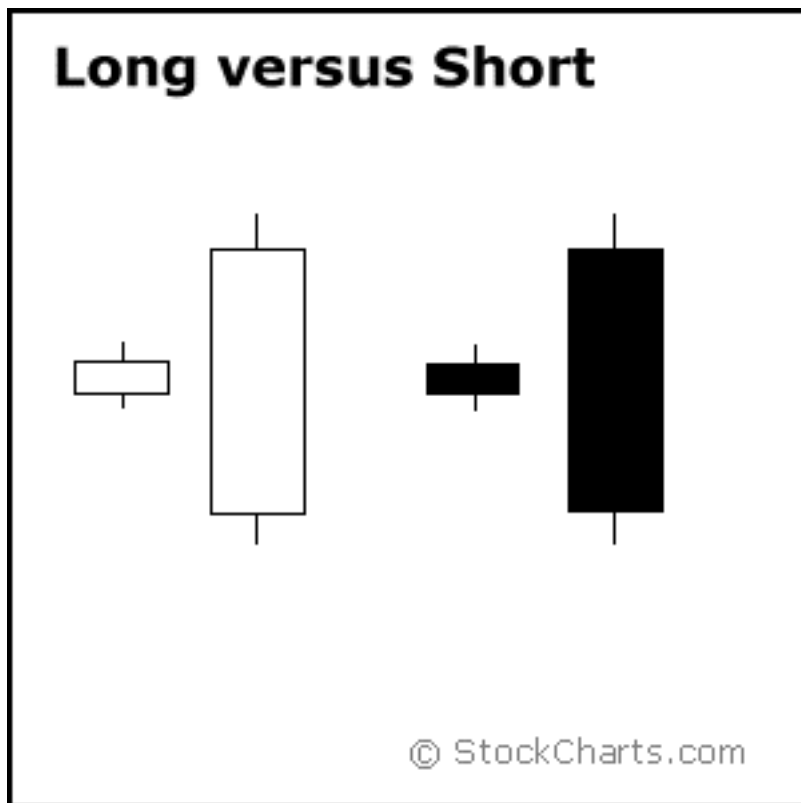
body"). The long thin lines above and below the body represent the high/low range and are called shadows (also referred to as wicks and tails). The high is marked by the top of the upper shadow and the low by the bottom of the lower shadow.



Compared to traditional bar charts, many traders consider candlestick charts more visually appealing and easier to interpret. Each candlestick provides an easy-to-decipher picture of price action. Immediately a trader can see compare the relationship between the open and close as well as the high and low. The relationship between the open and close is considered vital information and forms the essence of candlesticks. White candlesticks, where the close is greater than the open, indicate buying pressure. Black candlesticks, where the close is less than the open, indicate selling pressure.

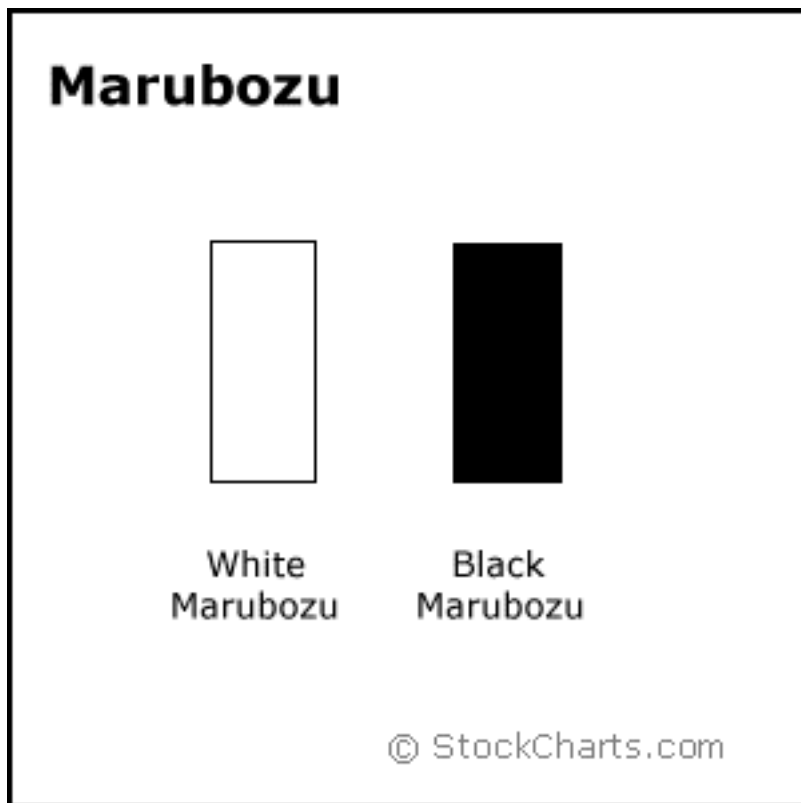
Long versus Short Bodies

Generally speaking, the longer the body is, the more intense the buying or selling pressure. Conversely, short candlesticks indicate little price movement and represent consolidation.



Long white candlesticks show strong buying pressure. The longer the white candlestick is, the further the close is above the open. This indicates that prices advanced significantly from open to close and buyers were aggressive. While long white candlesticks are generally bullish, much depends on their position within the broader technical picture. After extended declines, long white candlesticks can mark a potential turning point or support level. If buying gets too aggressive after a long advance, it can lead to excessive bullishness.

Long black candlesticks show strong selling pressure. The longer the black candlestick is, the further the close is below the open. This indicates that prices declined significantly from the open and sellers were aggressive. After a long advance, a long black candlestick can foreshadow a turning point or mark a future resistance level. After a long decline a long black candlestick can indicate panic or capitulation.

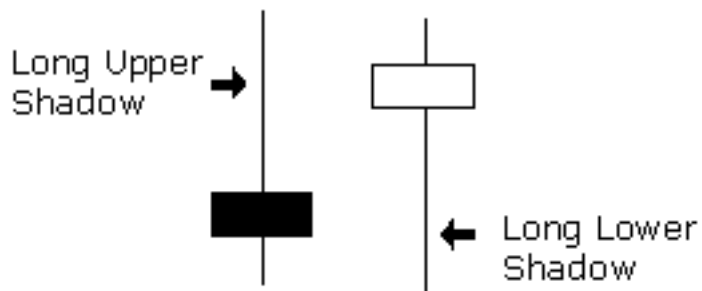


Even more potent long candlesticks are the Marubozu brothers, Black and White. Marubozu do not have upper or lower shadows and the high and low are represented by the open or close. A White Marubozu forms when the open equals the low and the close equals the high. This indicates that buyers controlled the price action from the first trade to the last trade. Black Marubozu form when the open equals the high and the close equals the low. This indicates that sellers controlled the price action from the first trade to the last trade.

Long versus Short Shadows

The upper and lower shadows on candlesticks can provide valuable information about the trading session. Upper shadows represent the session high and lower shadows the session low. Candlesticks with short shadows indicate that most of the trading action was confined near the open and close. Candlestick with long shadows show that traded extended well past the open and close.

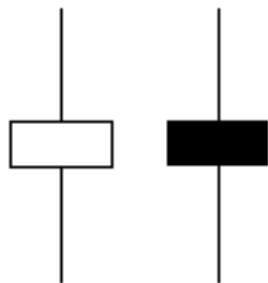
Long Shadows



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Candlesticks with a long upper shadow and short lower shadow indicate that buyers dominated during the session and bid prices higher. However, sellers later forced prices down off of their highs and the weak close created a long upper shadow. Conversely, candlesticks with long lower shadows and short upper shadows indicate that sellers dominated during the session and drove prices lower. However, buyers later resurfaced to bid prices higher by the end of the session and the strong close created a long lower shadow.

Spinning Tops



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Candlesticks with a long upper shadow, long lower shadow and small real body are called spinning tops. One long shadow represents a reversal of sorts; spinning tops represent indecision. The small real body (whether hollow or filled) shows little movement from open to close, and the shadows indicate that both

bulls and bears were active during the session. Even though the session opened and closed with little change, prices moved significantly higher and lower in the mean time. Neither buyers nor sellers could gain the upper hand and the result was a standoff. After a long advance or long white candlestick, a spinning top indicates weakness among the bulls and a potential change or interruption in trend. After a long decline or long black candlestick, a spinning top indicates weakness among the bears and a potential change or interruption in trend.

Written by Arthur Hill

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