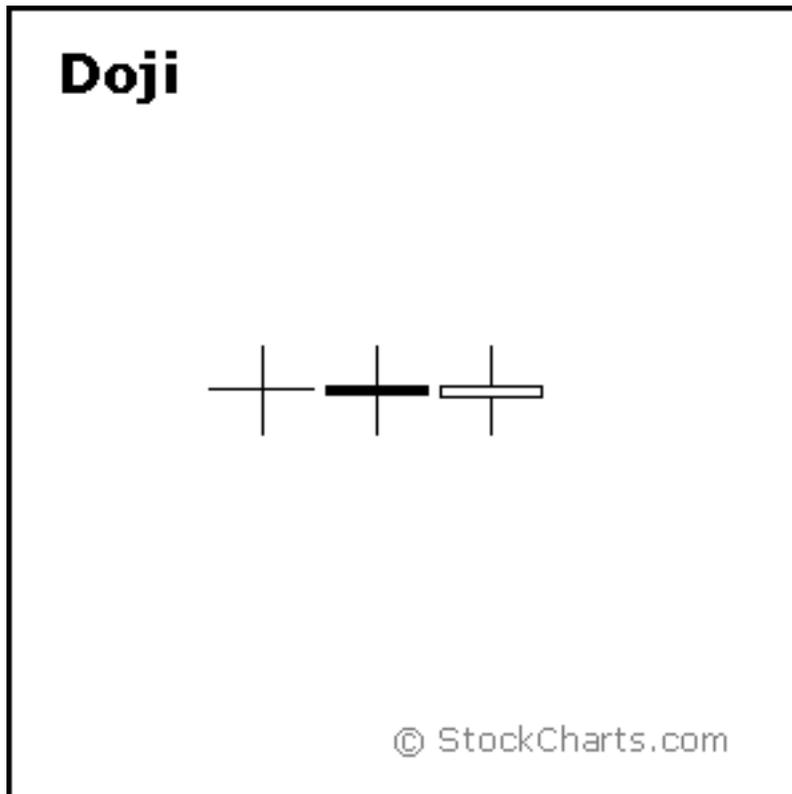




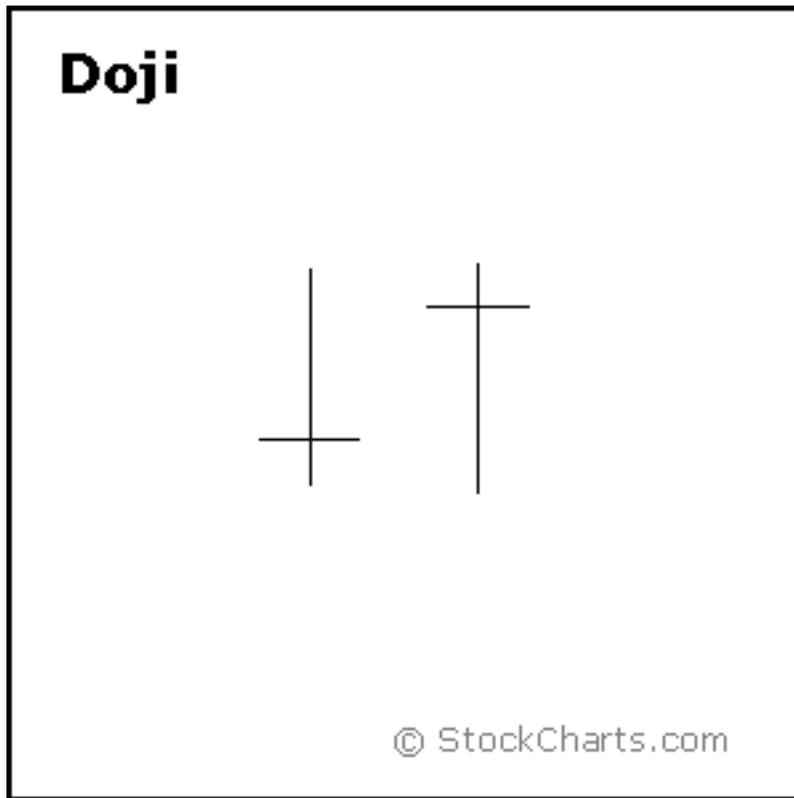
Introduction to Candlesticks Part 2

Doji

Doji are important candlesticks that provide information on their own and also feature in a number of important patterns. Doji form when a security's open and close are virtually equal. The length of the upper and lower shadows can vary and the resulting candlestick looks like a cross, inverted cross or plus sign. Alone, doji are neutral patterns. Any bullish or bearish bias is based on preceding price action and future confirmation. The word "Doji" refers to both the singular and plural form.



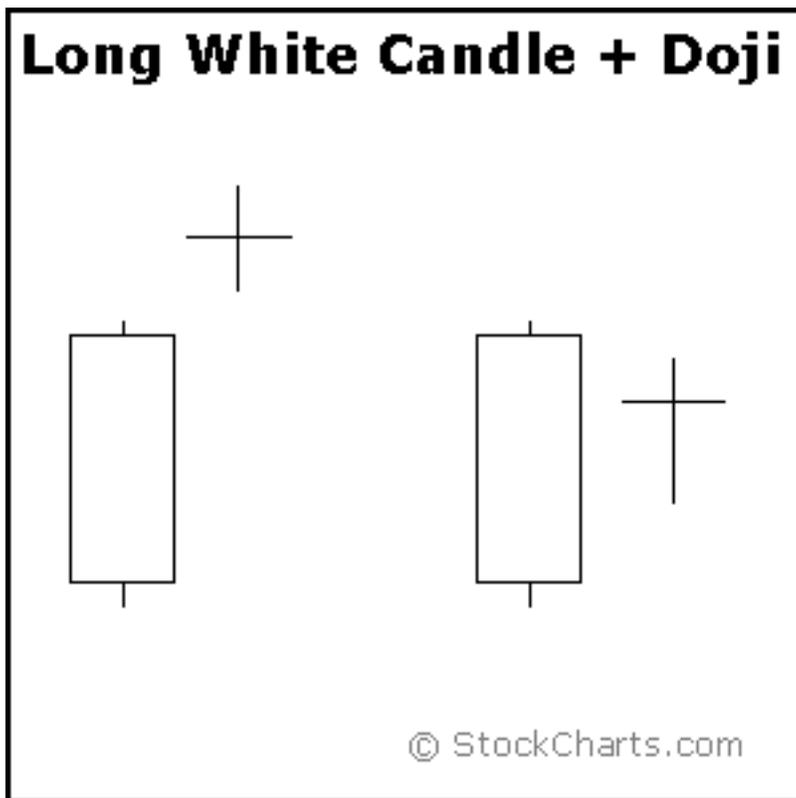
Ideally, but not necessarily, the open and close should be equal. While a doji with an equal open and close would be considered more robust, it is more important to capture the essence of the candlestick. Doji convey a sense of indecision or tug-of-war between buyers and sellers. Prices move above and below the opening level during the session, but close at or near the opening level. The result is a standoff. Neither bulls nor bears were able to gain control and a turning point could be developing.



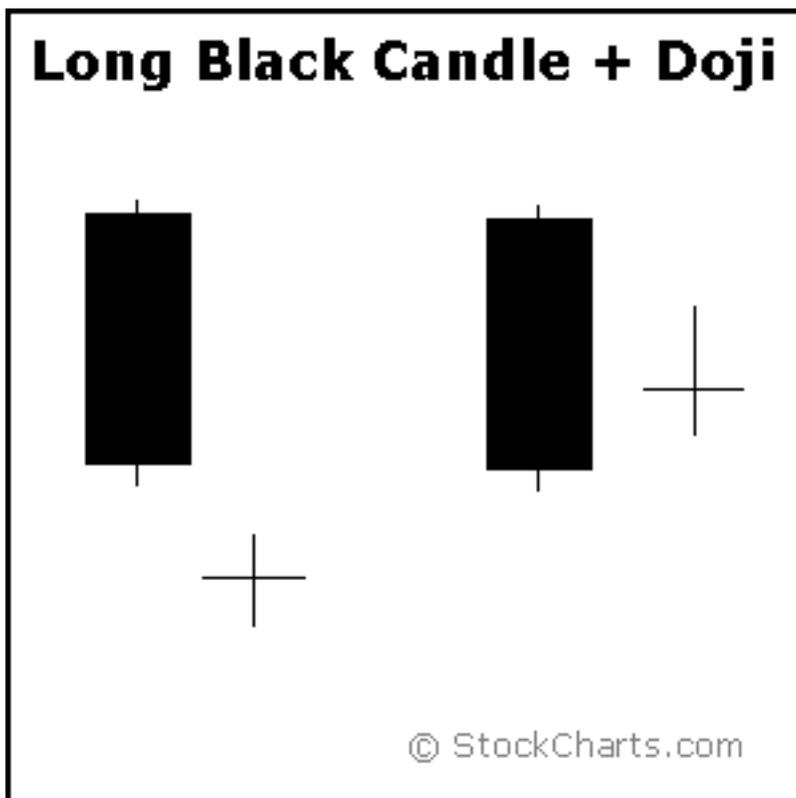
Different securities have different criteria for determining the robustness of a doji. A \$20 stock could form a doji with a $\frac{1}{8}$ point difference between open and close, while a \$200 stock might form one with a $1\frac{1}{4}$ point difference. Determining the robustness of the doji will depend on the price, recent [volatility](#) and previous candlesticks. Relative to previous candlesticks, the doji should have a very small body that appears as a thin line. Steven Nison notes that a doji that forms among other candlesticks with small real bodies would not be considered important. However, a doji that forms among candlesticks with long real bodies would be deemed significant.

Doji and Trend

The relevance of a doji depends on the preceding trend or preceding candlesticks. After an advance, or long white candlestick, a doji signals that the buying pressure is starting to weaken. After a decline, or long black candlestick, a doji signals that selling pressure is starting to diminish. Doji indicate that the forces of supply and demand are becoming more evenly matched and a change in trend may be near. Doji alone are not enough to mark a reversal and further confirmation may be warranted.



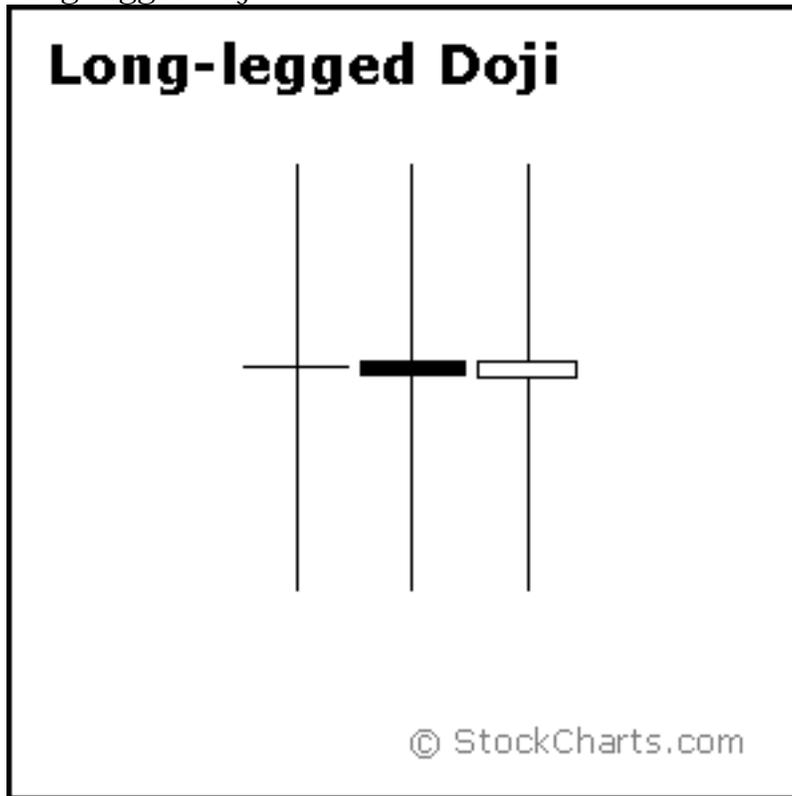
After an advance or long white candlestick, a doji signals that buying pressure may be diminishing and the uptrend could be nearing an end. Whereas a security can decline simply from a lack of buyers, continued buying pressure is required to sustain an uptrend. Therefore, a doji may be more significant after an uptrend or long white candlestick. Even after the doji forms, further downside is required for bearish confirmation. This may come as a [gap down](#), long black candlestick, or decline below the long white candlestick's open. After a long white candlestick and doji, traders should be on the alert for a potential evening doji star.



After a decline or long black candlestick, a doji indicates that selling pressure may be diminishing and the

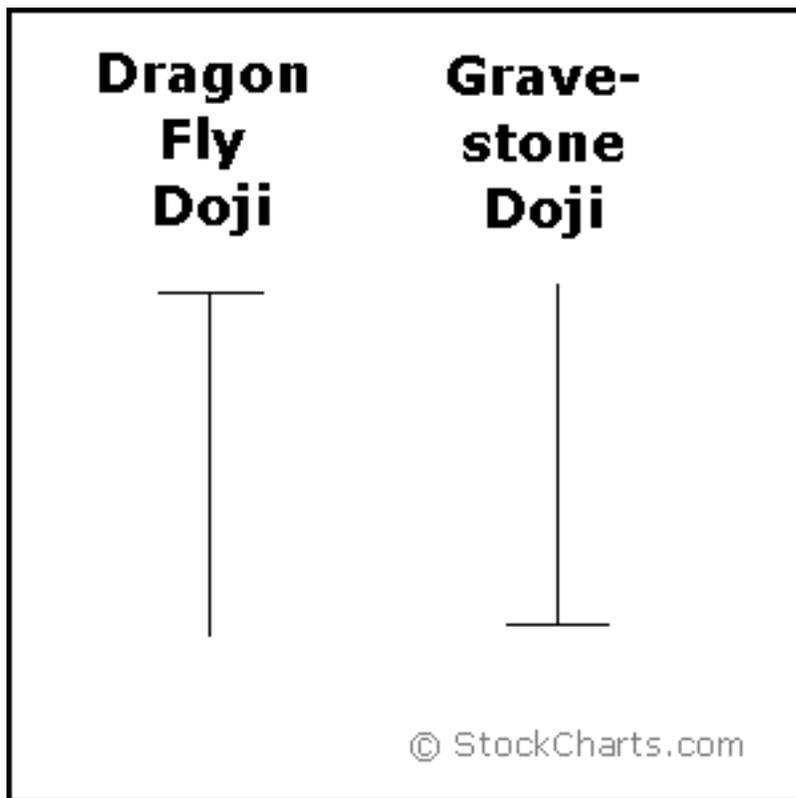
downtrend could be nearing an end. Even though the bears are starting to lose control of the decline, further strength is required to confirm any reversal. Bullish confirmation could come from a gap up, long white candlestick or advance above the long black candlestick's open. After a long black candlestick and doji, traders should be on the alert for a potential morning doji star.

Long-legged Doji



Long-legged doji have long upper and lower shadows that are almost equal in length. These doji reflect a great amount of indecision in the market. Long-legged doji indicate that prices traded well above and below the session's opening level, but closed virtually even with the open. After a whole lot of yelling and screaming, the end result showed little change from the initial open.

Dragon Fly Doji



Dragon fly doji form when the open, high and close are equal and the low creates a long lower shadow. The resulting candlestick looks like a "T" with a long lower shadow and no upper shadow. Dragon fly doji indicate that sellers dominated trading and drove prices lower during the session. By the end of the session, buyers resurfaced and pushed prices back to the opening level and the session high.

The reversal implications of a dragon fly doji depend on previous price action and future confirmation. The long lower shadow provides evidence of buying pressure, but the low indicates that plenty of sellers still loom. After a long downtrend, long black candlestick or at [support](#), a dragon fly doji could signal a potential bullish reversal or bottom. After a long uptrend, long white candlestick or at [resistance](#), the long lower shadow could foreshadow a potential bearish reversal or top. Bearish or bullish confirmation is required for both situations.

Gravestone Doji

Gravestone doji form when the open, low and close are equal and the high creates a long upper shadow. The resulting candlestick looks like an upside down "T" with a long upper shadow and no lower shadow. Gravestone doji indicate that buyers dominated trading and drove prices higher during the session. However, by the end of the session, sellers resurfaced and pushed prices back to the opening level and the session low.

As with the dragon fly doji and other candlesticks, the reversal implications of gravestone doji depend on previous price action and future confirmation. Even though the long upper shadow indicates a failed rally, the intraday high provides evidence of some buying pressure. After a long downtrend, long black candlestick or at [support](#), focus turns to the evidence of buying pressure and a potential bullish reversal. After a long uptrend, long white candlestick or at [resistance](#), focus turns to the failed rally and a potential bearish reversal. Bearish or bullish confirmation is required for both situations.

Written by Arthur Hill

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