

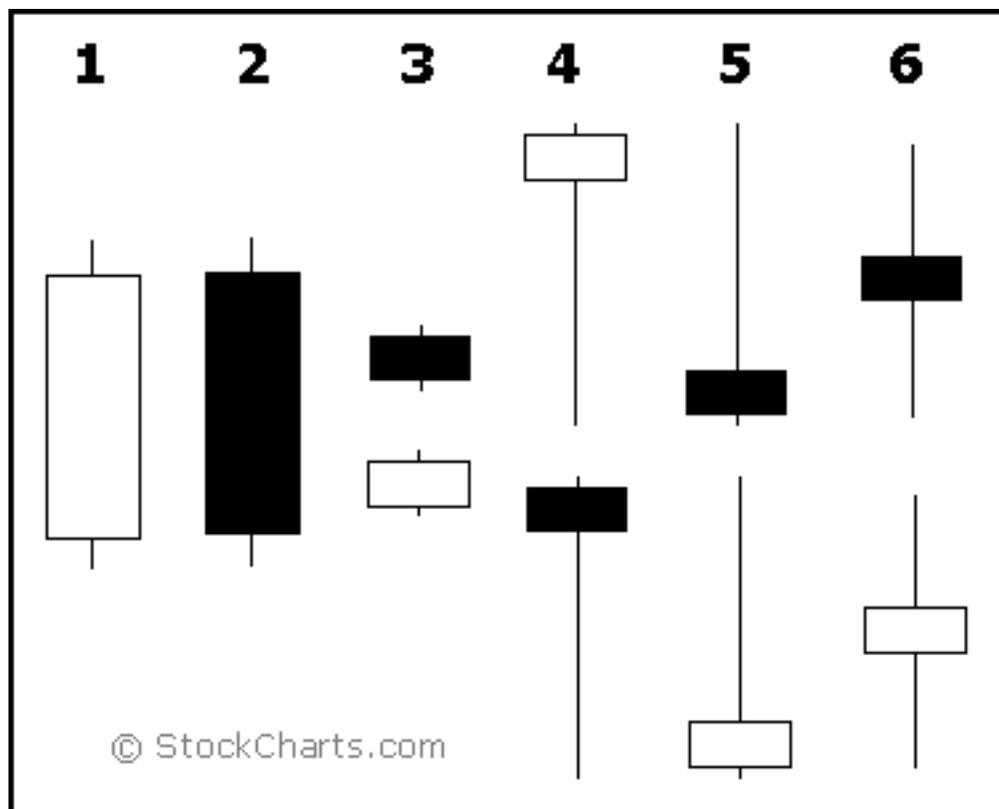


## Introduction to Candlesticks Part 3

Before turning to the single and multiple candlestick patterns, there are a few general guidelines to cover.

### Bulls vs. Bears

A candlestick depicts the battle between Bulls (buyers) and Bears (sellers) over a given period of time. An analogy to this battle can be made between two football teams, which we can also call the Bulls and the Bears. The bottom (intra-session low) of the candlestick represents a touchdown for the Bears and the top (intra-session high) a touchdown for the Bulls. The closer the close is to the high, the closer the Bulls are to a touchdown. The closer the close is to the low, the closer the Bears are to a touchdown. While there are many variations, I have narrowed the field to 6 types of games (or candlesticks):

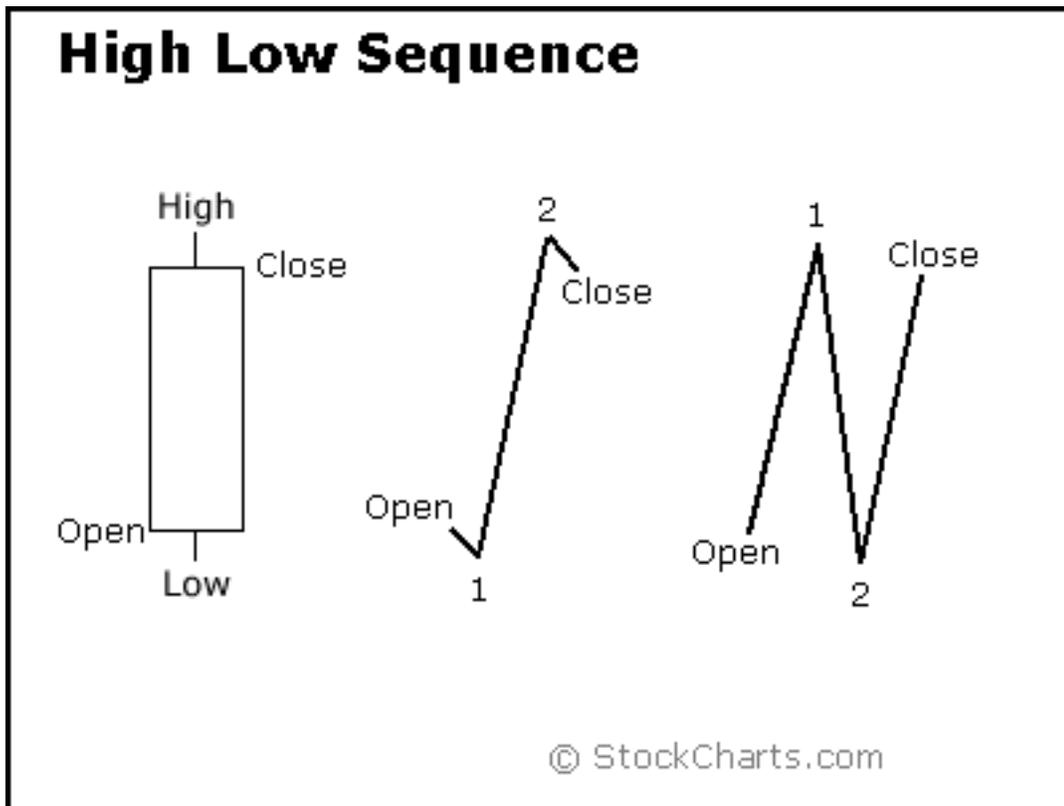


1. Long white candlesticks indicate that the Bulls controlled the ball (trading) for most of the game.
2. Long black candlesticks indicate that the Bears controlled the ball (trading) for most of the game.
3. Small candlesticks indicate that neither team could move the ball and prices finished about where they started.
4. A long lower shadow indicates that the Bears controlled the ball for part of the game, but lost control by the end and the Bulls made an impressive comeback.
5. A long upper shadow indicates that the Bulls controlled the ball for part of the game, but lost control by the end and the Bears made an impressive comeback.
6. A long upper and lower shadow indicates that the both the Bears and the Bulls had their moments during the game, but neither could put the other away, resulting in a standoff.

### What Candlesticks Don't Tell You

Candlesticks do not reflect the sequence of events between the open and close, only the relationship between the open and the close. The high and the low are obvious and indisputable, but candlesticks

(and bar charts) cannot tell us which came first.

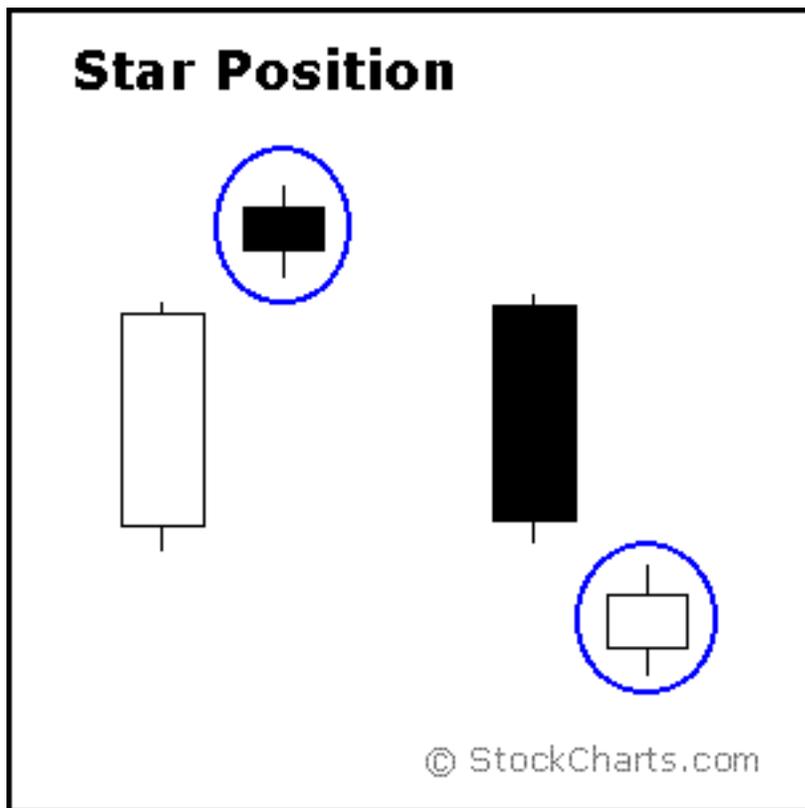


With a long white candlestick, the assumption is that prices advanced most of the session. However, based on the high/low sequence, the session could have been more [volatile](#). The example above depicts two possible high/low sequences that would form the same candlestick. The first sequence shows two small moves and one large move: a small decline off the open to form the low, a sharp advance to form the high and a small decline to form the close. The second sequence shows three rather sharp moves: a sharp advance off the open to form the high, a sharp decline to form the low and a sharp advance to form the close. The first sequence portrays strong sustained buying pressure and would be considered more bullish. The second sequence reflects more volatility and some selling pressure. These are just two examples and there are hundreds of potential combinations that could result in the same candlestick. Candlesticks still offer valuable information on the relative positions of the open, high, low and close. However, the trading activity that forms a particular candlestick can vary.

### Prior Trend

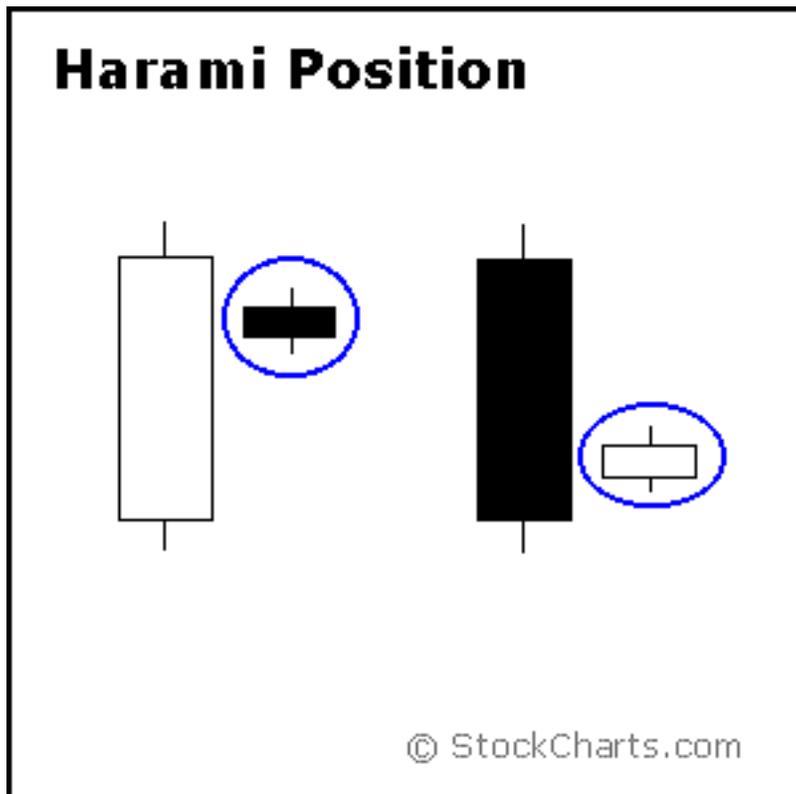
In his book, [Candlestick Charting Explained](#), Greg Morris notes that for a pattern to qualify as a reversal pattern, there should be a prior trend to reverse. Bullish reversals require a preceding downtrend and bearish reversals require a prior uptrend. The direction of the trend can be determined using [trendlines](#), [moving averages](#), peak/trough analysis or other aspects of technical analysis. A downtrend might exist as long as the security was trading below its down trendline, below its previous [reaction high](#) or below a specific moving average. The length and duration will depend on individual preferences. However, because candlesticks are short-term in nature, it is usually best to consider the last 1-4 weeks of price action.

### Candlestick Positioning



### Star Position

A candlestick that gaps away from the previous candlestick is said to be in star position. The first candlestick usually has a large real body, but not always, and the second candlestick in star position has a small real body. Depending on the previous candlestick, the star position candlestick [gaps up or down](#) and appears isolated from previous price action. The two candlesticks can be any combination of white and black. [Doji](#), [hammers](#), [shooting stars](#) and spinning tops have small real bodies and can form in the star position. Later we will examine 2- and 3-candlestick patterns that utilize the star position.



### Harami Position

A candlestick that forms within the real body of the previous candlestick is in Harami position. Harami means pregnant in Japanese and the second candlestick is nestled inside the first. The first candlestick usually has a large real body and the second a smaller real body than the first. The shadows (high/low) of the second candlestick do not have to be contained within the first, though it's preferable if they are. Doji and spinning tops have small real bodies and can form in the harami position as well. Later we will examine candlestick patterns that utilize the harami position.

Written by Arthur Hill

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