

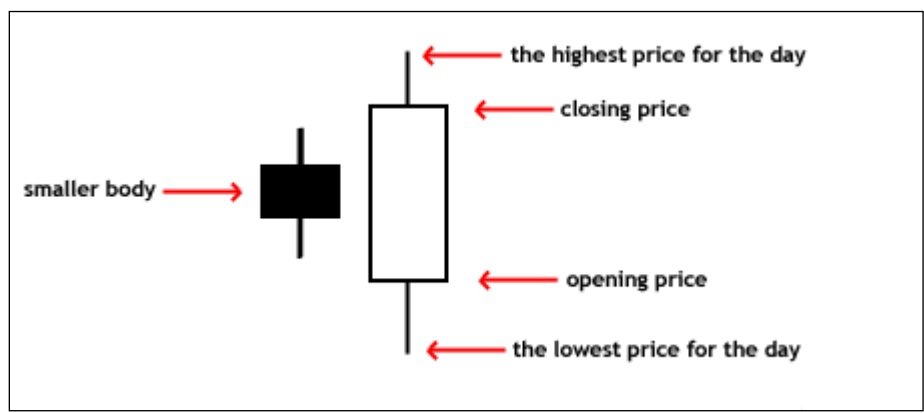


Types of *Japanese Candlestick Patterns*

In our previous update, we have highlighted the types of charts and the basic definition of the charts. Now, in this edition we are going to discuss the types of Japanese candlestick pattern. There are basically three types of Candlestick pattern; Bullish Reversal Candlestick pattern, Bearish Reversal Candlestick pattern and the Continuation Candlestick pattern. In this update, we are going to share the Bullish Reversal Candlestick pattern. There are dozens of bullish reversal candlestick patterns but we have elected to narrow the field by selecting the most popular for detailed explanations. Below are some of the key bullish reversal patterns with the number of candlesticks required in parentheses.

✚ Bullish Engulfing (2)

A bullish engulfing pattern is a chart pattern that forms when a small black candlestick is followed by a large white candlestick that completely eclipses or "engulfs" the previous day's candlestick. The shadows or tails of the small candlestick are short, which enables the body of the large candlestick to cover the entire candlestick from the previous day.

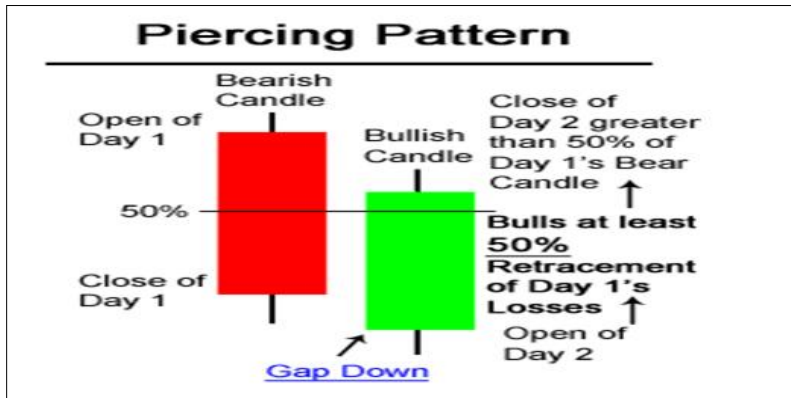


✚ Piercing Pattern (2)

A technical trading signal that is marked by a closing down day with a good-sized trading range, followed by a trading gap (drop) lower the following day that covers at least half of the upward length of the previous day's real body (the range between the opening and closing prices), and then

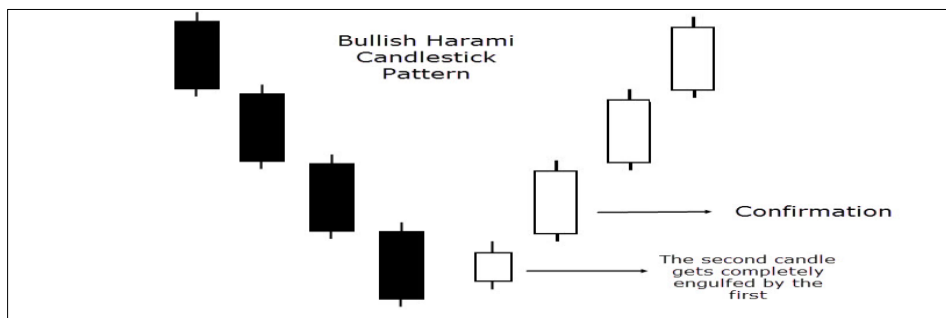


closes up for the day. A piercing pattern often signals the end of a small to moderate downward trend.



✚ Bullish Harami (2)

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.



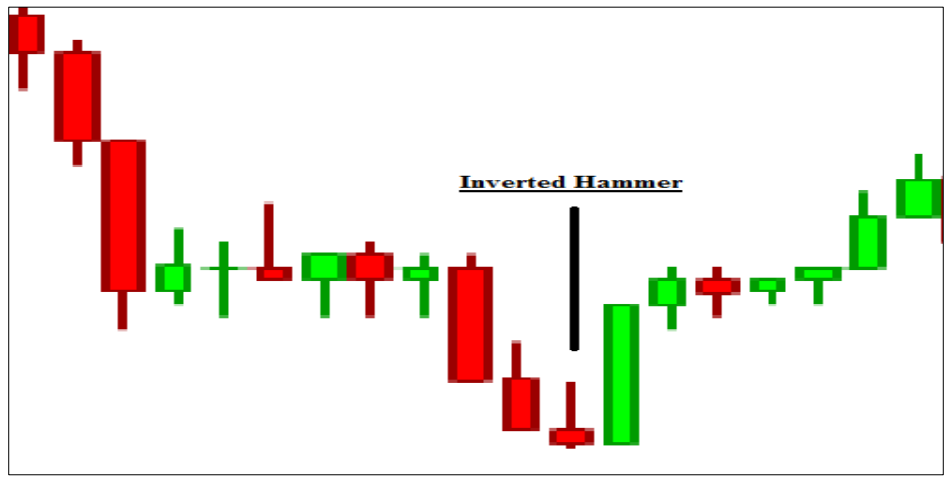
✚ Bullish Hammer (1)

The candlestick with a long lower shadow and small real body is a hammer pattern. The real bodies are near the top of the daily range. Interestingly, the actual Japanese word for this line is TAKURI. This word means something to the effect of "trying to gauge the depth of the water by feeling for its bottom. The Bullish hammer means that market open and sold off sharply during the session and then bounce back to close at or near the day's high. The longer the lower shadow, the shorter the upper shadow and the smaller the real body the more meaningful the bullish hammer.



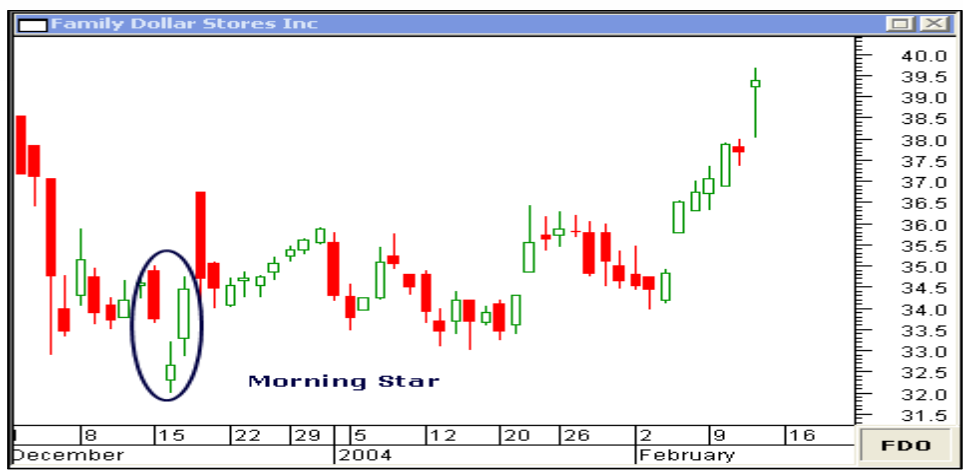
🚩 Inverted Hammer (1)

An inverted hammer is a long upper shadow and small real body at the lower end of the range and considered to be a bottom reversal line. As with a regular hammer, the inverted hammer is a bullish pattern after a downtrend. On the inverted hammer session, the market opens on, or near its low, then rallies. The bulls fail to sustain the rally and prices close at, or near, the lows of the session. It is important to wait for bullish verification on the session following the inverted hammer. Verification could be in the form of the next day opening above the inverted hammer's real body.



🚩 Morning Star (3)

The morning star is a bottom reversal pattern. Its name is derived because, like the morning star (the planet Mercury) that foretells the sunrise, it presages higher prices. It is comprised of a tall, black real body followed by a small real body which gap lower (these two lines comprise a basic star pattern). The third day is a white real body that moves well within the first period's black real body. This pattern is a signal that the bulls have seized control. An ideal morning star would have a gap before and after the middle line's real body (that is, the star). This second gap is rare, but lack of it does not seem to vitiate the power of this formation.



Conclusion

Learning to read and recognize candlestick patterns is important for anyone who aspires to trade based on chart patterns. Perfecting this skill will take time and practice - mastering it will elevate it to the level of an art. Remember it's your money, so think, learn and invest it wisely.