CAPITAL STREET|FX

CHART PATTERN

Capademy Tutorial Series

Candlestick patterns

The candlestick chart was invented in Japan to record the price movement of rice. A single candle gives us four market data for a particular point of time that is open, High, low, close and the colour of the candle show us whether the market is making a loss, i.e. Bearish or red candle or gain, i.e. bullish or green candle at that particular time.

Candlestick pattern is a method used by a technical analyst to anticipate movement in the market. The candlestick patterns are formed by one candle or by groping more the one candles in a particular sequence. However, multiple candlestick patterns are more reliable than a single candlestick pattern.

Types of candlestick pattern

Types of candlestick patterns can be defined on **the basis of the number of candles**.

– On the basis of numbers of candles, candlestick patterns are of two types.

1. **Single candlestick pattern-** As the name suggests, these candlestick patterns are made of single candles. Some of the most important candlestick patterns are, the Marubozu, the spinning top, Doji, the Hammer, the Hanging man
2. **the marubozu** when a candle does not have upper or lower shadow with a real body or in other words when closing prices is equals the low of the market, and opening prices equal to high of the market this will form a bearish marubozu and revers of that is will create a bullish marubozu.
3. **the spinning top candlestick pattern** a candle with a small real body and almost equal upper and lower shadow but larger than the real body. It conveys indecision in the market as bulls and bears are not able to influence the market.
4. **Multiple candlestick patterns-** these are those patterns that are made of more than one candles. These patterns are more reliable than single candlestick patterns. Some of the most important patterns are head and shoulders, double top, rounding bottom, cup and handle, ascending tringle.
5. **head and shoulders-** head and shoulder is a reversal pattern, it generally appears at top or bottom. In head and shoulder chart pattern a large peak which is known as head has a slightly smaller peak on both the side know as shoulders. If a head and shoulder appear at the top of an on-going trend, then the strength of that trend is in question and it may experience a trend reversal, resulting in a downtrend. Conversely, if head and shoulder appear at the bottom, that trend may experience a trend reversal, resulting in an uptrend.

1. **Double bottomor Double top-** double top and double bottom are reversal pattern where double bottom appears in a downtrend, and double top appears in an uptrend. A double top is represented by a short-term swing high followed by a failed attempt to break out the high, resulting in a trend reversal. Conversely, if the market falls to new swing low followed by a failed attempt to breakdown the low, resulting in a trend reversal.
2. **Cup and Handles-**the cup and handle pattern work as a reversal as well as a continuation pattern. It acts like reversal during a downtrend, and if it appears during an uptrend, it acts as a continuation pattern. Cup and handle pattern forms when the price falls slowly then stabilize for few sessions, followed by a rally of approximately equal to prior decline creating a U-shape after that price moves sideways in a channel that forms the handle.

Conclusion-

Like any other technical indicator’s candlestick chart is also a technical indicator and should be used like one. It helps us to understand the price movements and strength of bulls and bears in the market. We have discussed the most popular candlestick patterns that signals buy or sell opportunities. They can help us to identify any change in market sentiment. Like any other technical indicator candlestick chart also doesn’t give a perfect indication of performance.

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