The Major Candlestick Signals

'12 Signals to Master any Market'

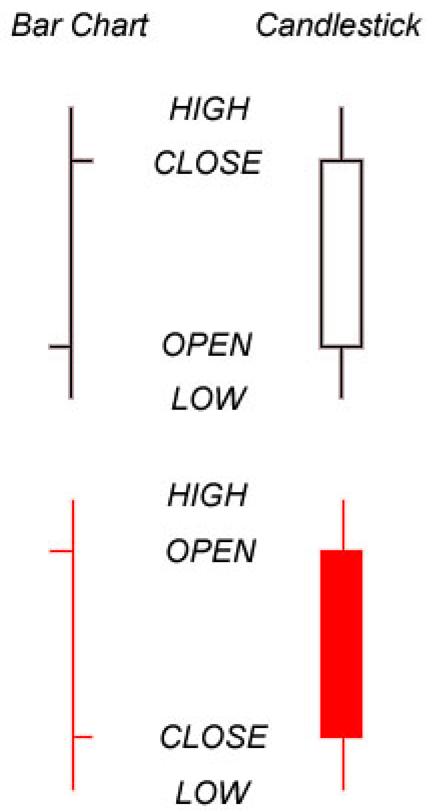
Master these Major Candlestick Signals if you want to Master the Market.

Published by The Candlestick Forum LLC
www.candlestickforum.com

Table of Contents

The Basics of Japanese Candlesticks

Candlestick trading analysis does not require knowing intricate formulas or ratios. Candlestick analysis does not require massive amounts of education to effectively utilize the signals. The stock investing basics of Japanese Candlesticks result in clear and easy to identify patterns that demonstrate highly accurate turns in investor sentiment. The average investor does not have to be dependent on the investment professional, a professional whose recommendation does not always have your interest at the forefront. Whether totally unfamiliar with investment concepts or very sophisticated in investment experience, the Japanese Candlestick trading formations are easily utilized. The signals and patterns are easy to see. As illustrated, a stock price closing higher than where it opened will produce a white candle. A stock price closing lower than where it opened creates a black candle. The boxes formed are called "the body". The extremes of the daily price movement, represented by lines extending from the body, are called "shadows or tails."



A stock price closing where it opened or very close to where it opened is called a 'doji."

A hollow candle forms when the stock closes higher than its opening price.

A solid (or filled) candle forms when the stock closes lower than its opening price.

Memorizing the Japanese Candlesticks names and descriptions of the candlestick trading formations is not necessary for successful trading. Reading about the Japanese Candlesticks signals is interesting and it aids in remembering them.

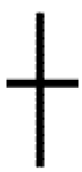
The Candlestick Forum is the foremost aid in learning how to use the Japanese Candlestick trading signals correctly. Stephen W. Bigalow has studied, analyzed and developed simple methods for profiting from the signals. His published book, PROFITABLE CANDLESTICK TRADING: PINPOINTING MARKET OPPORTUNITIES TO MAXIMIZE PROFITS, incorporates the common sense, logical disciplines that most investors are aware of but ignore.

The Dynamic Doji

The Japanese say that whenever a Doji appears, always take notice. A well-founded rule of Candlestick followers is that when a Doji appears at the top of a trend, in an overbought area, sell immediately. Conversely, a Doji seen at the bottom of an extended downtrend requires buying signals the next day to confirm the reversal. Otherwise, the weight of the market could take the trend lower.

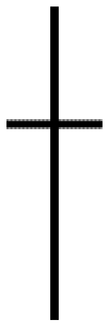
The Doji signal is composed of one candle. It is formed when they open and the close occur at the same level or very close to the same level in a specific timeframe. In Candlestick charting, this essentially creates a “cross” formation. As the following illustration demonstrates, the horizontal line represents the open and close occurring at the same level. The vertical line represents the total trading range during that time.

Doji Star



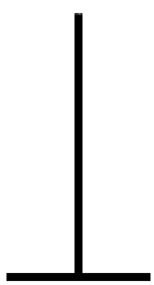
Upon seeing a Doji in an overbought or oversold condition, an extremely high probability reversal situation becomes evident. Overbought or oversold conditions can be defined using other indicators such as stochastics, When a Doji appears, it is demonstrating that there is indecision now occurring at an extreme portion of a trend. This indecision can be portrayed in a few variations of the Doji.

Long-legged Doji



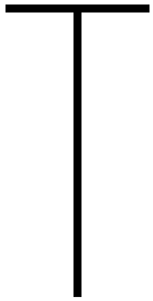
The Long-legged Doji is composed of long upper and lower shadows. Throughout the time period, the price moved up and down dramatically before it closed at or very near the opening price. This reflects the great indecision that exists between the bulls and the bears.

Gravestone Doji



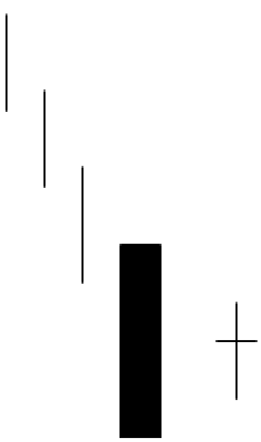
The Gravestone Doji is formed when the open and the close occur at the low end of the trading range. The price opens at the low of the day and rallies from there, but by the close the price is beaten back down to the opening price. The Japanese analogy is that it represents those who have died in battle. The victories of the day are all lost by the end of the day. A Gravestone Doji, at the top of the trend, is a specific version of the Shooting Star. At the bottom, it is a variation of the Inverted Hammer.

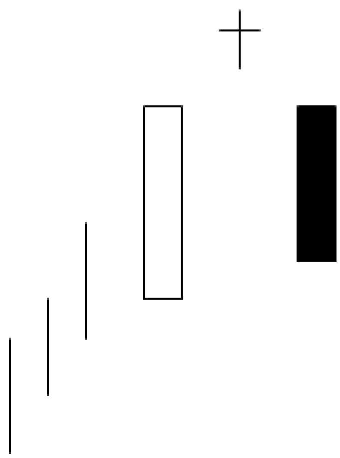
Dragonfly Doji



The Dragonfly Doji occurs when trading opens, trades lower, then closes at the open price which is the high of the day. At the top of the market, it becomes a variation of the Hanging Man. At the bottom of a trend, it becomes a specific Hammer. An extensively long shadow on a Dragonfly Doji at the bottom of a trend is very bullish.

Doji's that occur in multi-signal patterns make those signals more convincing reversal signals



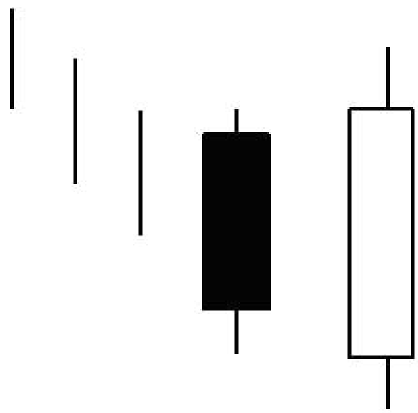


Harami – Doji **Evening Star - Abandoned Baby**

Having the knowledge of what a Doji represents, indecision, allows the Candlestick analyst to take advantage of reversal moves at the most opportune levels. Regardless of whether you are trading long-term holds for day trading from the one-minute, five-minute, and fifteen-minute charts, the Doji illustrates indecision in any time frame.

Bullish Engulfing Signal

A Bullish Engulfing signal is one of the major signals. When the elements out of a Bullish Engulfing signal are broken down, an investor can clearly understand what was going on in investor sentiment to cause a reversal. 400 years of observations from Japanese Rice traders has recognized the Bullish Engulfing signal as a very high probability reversal signal.



Description

The Engulfing pattern is a major reversal pattern comprised of two opposite colored bodies. The Bullish Engulfing Pattern formed after a downtrend. It opens lower that the previous day's close and closes higher than the previous day's open. Thus, the white candle completely engulfs the previous day's black candle.

Criteria

1. The body of the second day completely engulfs the body of the first day. Shadows are not a consideration.
2. Prices have been in a definable down trend, even if it has been short term.
3. The body of the second candle is opposite color of the first candle, the first candle being the color of the previous trend. The exception to this rule is when the engulfed body is a doji or an extremely small body.

Signal Enhancements

1. A large body engulfing a small body. The previous day shows the trend was running out of steam. The large body shows that the new direction has started with good force.
2. When the engulfing pattern occurs after a fast move down, there will be less supply of stock to slow down the reversal move. A fast move makes a stock price over extended and increases the potential for profit taking.

3. Large volume on the engulfing day increases the chances that a blowoff day has occurred.
4. The engulfing body engulfs the body and the shadows of the previous day, the reversal has a greater probability of working.
5. The greater the open gaps down from the previous close, the greater the probability of a strong reversal.

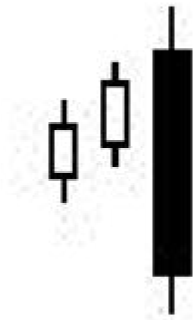
Pattern Psychology

After a downtrend has been in effect, the price opens lower than where it closed the previous day. Before the end of the day, the buyers have taken over and moved the price above where it opened the day before. The emotional psychology of the trend has now been altered.

The Bullish Engulfing pattern represents a complete change in investor sentiment. Using this pattern as a buy signal eliminates the need to grab for the fallen knife. When is “low” the right time to buy? The Bullish Engulfing pattern reveals when the buyers have stepped in.

Bearish Engulfing Signal

A simple description of the Bearish Engulfing signal reveals why the signal works very well as a candlestick sell signal. This is the stock market data that an investor should be using for both technical analysis as well as fundamental analysis. The information conveyed in this signal creates an extremely high probability that the buying is over. It also reveals an opportunity for establishing a good short position.



Description

The Bearish Engulfing pattern is a major reversal pattern comprised of two opposite colored bodies. The Bearish Engulfing Pattern is formed after an up trend. It opens higher than the previous day's close and closes lower than the previous day's open. Thus, the black candle completely engulfs the previous day's white candle. Engulfing can include either the open or the close be equal to the open or close of the previous day, but not both.

Criteria

1. The body of the second day completely engulfs the body of the first day. Shadows are not a consideration.
2. Prices have been in a definable down trend, even if it has been short term.
3. The body of the second candle is opposite color of the first candle, the first candle being the color of the previous trend. The exception to this rule is when the engulfed body is a Doji or an extremely small body.

Signal Enhancements

1. A large body engulfing a small body. The previous day was showing the trend was running out of steam. The large body shows that the new direction has started with good force.

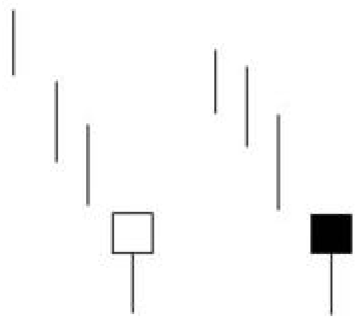
2. When the engulfing pattern occurs after a fast spike up, there will less supply of stock to slow down the reversal move. A fast move makes a stock price over-extended and increases the potential for profit taking and a meaningful pullback.
3. Large volume on the engulfing day increases the chances that a blowoff day has occurred.
4. The engulfing body engulfing more than one previous body demonstrates power in the reversal.
5. If the engulfing body engulfs the body and the shadows of the previous day, the reversal has a greater probability of working.
6. The greater the open gaps up from the previous close, the greater the probability of a strong reversal.

Pattern Psychology

After an uptrend has been in effect, the price opens higher than where it closed the previous day. Before the end of the day, the sellers have taken over and moved the price below where it opened the day before. The emotional psychology of the trend has now been reversed.

The Hammer Signal

One of the most visually compelling signals is the Hammer signal. The hammer signal is easily recognized by the lower shadow (the tail) protruding to the downside after an extended downtrend.



Description

The Hammer is comprised of one candle. It is easily identified by the presence of a small body with a shadow at least two times greater than the body. Found at the bottom of a downtrend, this shows evidence that the bulls started to step in. The color of the small body is not important but a white candle has slightly more bullish implications than the black body. A positive day is required the following day to confirm this signal.

Criteria

1. The lower shadow should be at least two times the length of the body.
2. The real body is at the upper end of the trading range. The color of the body is not important although a white body should have slightly more bullish implications.
3. There should be no upper shadow or a very small upper shadow.
4. The following day needs to confirm the Hammer signal with a strong bullish day

Signal Enhancements

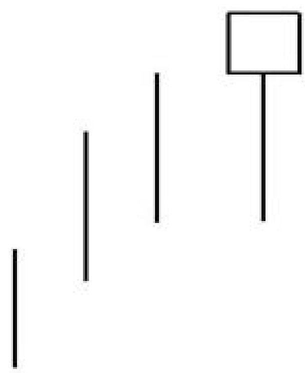
1. The longer the lower shadow, the higher the potential of a reversal occurring.
2. A gap down from the previous day's close sets up for a stronger reversal move provided the day after the Hammer signal opens higher.
3. Large volume on the Hammer day increases the chances that a blow off day has occurred.

Pattern Psychology

After a downtrend has been in effect, the atmosphere is very bearish. The price opens and starts to trade lower. The bears are still in control. The bulls then step in. They start bringing the price back up towards the top of the trading range. This creates a small body with a large lower shadow. This represents that the bears could not maintain control. The long lower shadow now has the bears questioning whether the decline is still intact. A higher open the next day would confirm that the bulls had taken control.

Hanging Man

The Hanging Man produces some very important attributes when analyzing a potential reversal. It is considered one of the 12 major signals. Learn how to use a Hanging Man signal correctly. The probabilities of being in a correct trade when utilizing this signal becomes extremely high.



Description

The Hanging Man is also comprised of one candle. It is easily identified by the presence of a small body with a shadow at least two times greater than the body. It is found at the top of an up trend. The Japanese named this pattern because it looks like a head with the feet dangling down.

Criteria

1. The upper shadow should be at least two times the length of the body.
2. The real body is at the upper end of the trading range. The color of the body is not important although a black body should have slightly more bearish implications.
3. There should be no upper shadow or a very small upper shadow.
4. The following day needs to confirm the Hanging Man signal with a black candle or   better yet, a gap down with a lower close.

Signal Enhancements

1. The longer the lower shadow, the higher the potential of a reversal occurring.
2. A gap up from the previous days close sets up for a stronger reversal move provided the day after the Hanging Man signal trades lower.
3. Large volume on the signal day increases the chances that a blowoff day has occurred although it is not a necessity.

Pattern Psychology

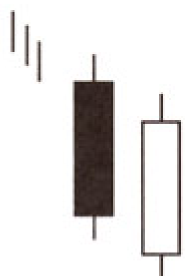
After a strong up-trend has been in effect, the atmosphere is bullish. The price opens higher but starts to move lower. The bears take control. But before the end of the day, the bulls step in and take the price back up to the higher end of the trading range, creating a small body for the day. This could indicate that the bulls still have control if analyzing a Western bar chart. However, the long lower shadow represents that sellers had started stepping in at these levels. Even though the bulls may have been able to keep the price positive by the end of the day, the evidence of the selling was apparent. A lower open or a black candle the next day reinforces the fact that selling is going on.

When identifying the Hanging Man signal under the correct conditions, with stochastics in the overbought conditions, at the top of an uptrend, provides the information needed for identifying the possibility of a trend reversal. When learning to play the stock market, being able to put all the probabilities in ones favor is very important. When will an uptrend reverse? When indications start appearing that demonstrate that the sellers are starting to take control! The Hanging Man signal provides the elements that indicate the sellers stepping into a trend. Use this information to your advantage.

The Piercing Pattern

Being able to utilize information that has been used successfully in the past is a much more viable investment strategy than taking shots in the dark. Keep in mind, when you are given privileged information about stock market tips, where you are in the food chain. Are you one of those privileged few that gets top-notch pertinent information on a timely manner, or you one of the masses that feed into a frenzy and allow the smart money to make the profits?

PIERCING PATTERN



Piercing Line

Description

The Piercing Pattern is composed of a two-candle formation in a downtrending market. The first candle is black, a continuation of the existing trend. The second candle is formed by opening below the low of the previous day. It closes more than midway up the black candle, near or at the high for the day

Criteria

1. The body of the first candle is black; the body of the second candle is white.
2. The downtrend has been evident for a good period. A long black candle occurs at the end of the trend.
3. The second day opens lower than the trading of the prior day.
4. The white candle closes more than halfway up the black candle.

Signal Enhancements

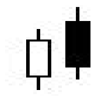
1. The longer the black candle and the white candle, the more forceful the reversal.
2. The greater the gap down from the previous days close, the more pronounced the reversal.
3. The higher the white candle closes into the black candle, the stronger the reversal.
4. Large volume during these two trading days is a significant confirmation.

Pattern Psychology

After a strong downtrend has been in effect, the atmosphere is bearish. Fear becomes more predominant. The prices gap down. The bears may even push the prices down further. However, before the end of the day, the bulls step in and dramatically turn prices around. They finish near the high of the day. The move has almost negated the price decline of the previous day. This now has the bears concerned. More buying the next day will confirm the move.

Dark Cloud Cover

The Dark Cloud signal is a signal that tells an obvious reversal of a trend. It is named because it looks like a dark cloud over a nice bright sunny uptrend.



Description

The dark Cloud Cover is the bearish counterpart to the Piercing pattern. The first day of the pattern is a long white candle at the top end of a trend. The second day's open is higher that the high of the previous day. It closes at least one-half way down the previous day candle, the further down the white candle, the more convincing the reversal. Remember that a close at or below the previous day's open turns this pattern into a Bearish Engulfing pattern. Kabuse means to get covered or to hang over.

Criteria

1. The body of the first candle is white, the body of the second candle is black.
2. The up-trend has been evident for a good period. A long white candle occurs at
   the top of the trend.
3. The second day opens higher than the trading of the prior day.
4. The black candle closes more than half-way down the white candle.

Signal Enhancements

1. The longer the white candle and the black candle, the more forceful the reversal.
2. A higher the gap up from the previous days close, the more pronounced the reversal.
3. The lower the black candle closes into the white candle, the stronger the reversal.
4. Large volume during these two trading days is a significant confirmation

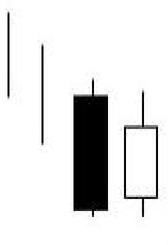
Pattern Psychology

After a strong up-trend has been in effect, the atmosphere is bullish. Exuberance sets in. They gap the price up. The bears start to show up and push the price back down. It finally closes at or near the lows for the day. The close has negated most of the previous days gains. The bulls are now concerned. They obviously see that the uptrend may have stopped. This signal makes for a good short, with a stop being the high of the black candle day. Notice that if the Dark Cloud Cover were to close lower, below the open of the previous day, it becomes a Bearish Engulfing pattern. The Bearish Engulfing pattern has slightly stronger bearish implications.

Using candlesticks signals with other technical analysis greatly enhances the ability to recognize what the candlestick charts are revealing. Use of valuable information provided in the 12 major signals. They will benefit you for the rest of your investment career.

Bullish Harami

The Bullish Harami is an example of visual statistical analysis. Upon witnessing a bullish Harami at the end of a downtrend, an investor has a good idea of what to expect. This major signal becomes a vital information packed analytical tool.



Description

The Harami is an often seen formation The pattern is composed of a two candle formation in a down-trending market. The body of the first candle is the same color as the current trend. The first body of the pattern is a long body, the second body is smaller. The open and the close occur inside the open and the close of the previous day. It’s presence indicates that the trend is over.

The Japanese definition for Harami is pregnant woman or body within. The first candle is black, a continuation of the existing trend. The second candle, the little belly sticking out, is usually white, but that is not always the case. The location and size of the second candle will influence the magnitude of the reversal.

Criteria

1. The body of the first candle is black, the body of the second candle is white.
2. The downtrend has been evident for a good period. A long black candle occurs at the end of the trend.
3. The second day opens higher than the close of the previous day and closes lower than the open of the prior day.
4. Unlike the Western "Inside Day", just the body needs to remain in the previous day’s body, where as the "Inside Day" requires both the body and the shadows to remain inside the previous day’s body.
5. For a reversal signal, further confirmation is required to indicate that the trend is now moving up.

Signal Enhancements

1. The longer the black candle and the white candle, the more forceful the reversal.

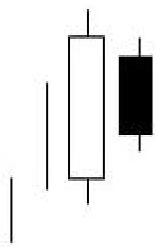
2. The higher the white candle closes up on the black candle, the more convincing that a reversal has occurred despite the size of the white candle.

Pattern Psychology

After a strong down-trend has been in effect and after a selling day, the bulls open the price a higher than the previous close. The short's get concerned and start covering. The price finishes higher for the day. This is enough support to have the short sellers take notice that the trend has been violated. A strong day the next day would convince everybody that the trend was reversing. Usually the volume is above the recent norm due to the unwinding of short positions.

Bearish Harami

The Bearish Harami is one of the major signals that exhibits common sense into graphic depiction. Candlestick analysis provides a clear understanding of what happens to investor sentiment at the reversal areas. The elements that create a Bearish Harami produce clear insights into what was going on in investor minds at a reversal.



Description
The Bearish Harami is the exact opposite of the Bullish Harami. The pattern is composed of a two-candle formation. The body of the first candle is the same color as the current trend. The first body of the pattern is a long body; the second body is smaller. The open and the close occur inside the open and the close of the previous day. Its presence indicates that the trend is over.

Criteria

1. The body of the first candle is white; the body of the second candle is black.
2. The uptrend has been apparent. A long white candle occurs at the end of the trend.
3. The second day opens lower than the close of the previous day and closes higher than the open of the prior day.
4. For a reversal signal, confirmation is needed. The next day should show weakness.

Signal Enhancements

1. The longer the white candle and the black candle, the more forceful the reversal.
2. The lower the black candle closes down on the white candle, the more convincing that a reversal has occurred, despite the size of the black candle.

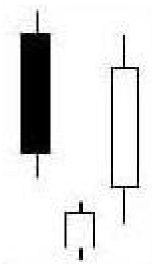
Pattern Psychology

After a strong uptrend has been in effect and after a long white candle day, the bears open the price lower than the previous close. The longs get concerned and start profit taking. The price finishes lower for the day. The bulls are now concerned as the price closes lower. It is becoming evident that the trend has been violated. A weak day after that would convince everybody that the trend was reversing. Volume increases due to the profit taking and the addition of short sales.

Having insight into the effect of Haramis provides an opportunity to maximize returns. If all of your investment funds are being fully used, a Harami may reveal that one of the positions has stalled for a few days. An aggressive trader may want to move those funds to a better trade, and then come back after a few days to reinvest once the position is moving.

The Morning Star Signal

What good is stock market advice if you still don't know how to read a stock chart? This page will help you to identify The Morning Star signal and the trading criteria used for successful implementation. We hope this is helping you along your way to successful stock market trading. Be sure to join Stephen Bigalow live over the internet for his free Thursday evening Chat Sessions.



Description

The Morning Star is a bottom reversal signal. Like the planet Mercury, the morning star, it foretells that brighter things - sunrise, is about to occur, or that prices are going to go higher. It is formed after an obvious downtrend. It is made by a long black body, usually one of the fear-induces days at the bottom of a long decline. The following day gaps down. However, the magnitude of the trading range remains small for the day. This is the *star* of the formation. The third day is a white candle day. And represents the fact that the bulls have now stepped in and seized control. The optimal Morning Star signal would have a gap before and after the star day.

The make up of the star, an indecision formation, can consist of a number of candle formations. The important factor is to witness the confirmation of the bulls taking over the next day. That candle should consist of a closing that is at least halfway up the black candle of two days prior.

Criteria

1. The downtrend has been apparent.
2. The body of the first candle is black, continuing the current trend. The second candle is an indecision formation.
3. The third day shows evidence that the bulls have stepped in. That candle should close at least halfway up the black candle.

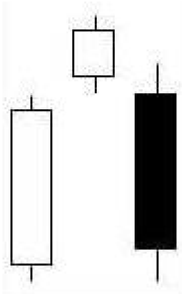
Signal Enhancements

1. The longer the black candle and the white candle, the more forceful the reversal.
2. The more indecision that the star day illustrates, the better probabilities that a reversal will occur.
3. A Gap between the first day and the second day adds to the probability that a reversal is occurring.
4. A gap before and after the star day is even more desirable.
5. The magnitude, that the third day comes up into the black candle of the first day, indicates the strength of the reversal.

Pattern Psychology

A strong downtrend has been in effect. The sellers start getting panicky. There is a large sell-off day. The next day as the selling continues, bulls are stepping in at the low prices. If there is big volume during these days, it shows that the ownership has dramatically changed hands. The second day does not have a large trading range. The third day the bears start to lose conviction as the bull increase their buying. When the price starts moving back into the trading range of the first day, the sellers diminish and the buyers seize control.

The Evening Star Signal



Description

The Evening Star pattern is a top reversal signal. It is exactly the opposite of the Morning Star signal. Like the planet Venice , the evening star, it foretells that darkness is about to set or that prices are going to go lower. It is formed after an obvious uptrend. It is made by a long white body occurring at the end of an uptrend., usually when the confidence has finally built up. The following day gaps up, yet the trading range remains small for the day. Again, this is the star of the formation. The third day is a black candle day and represents the fact that the bears have now seized control. That candle should consist of a closing that is at least halfway down the white candle of two days prior. The optimal Evening Star signal would have a gap before and after the star day.

Criteria

1. The uptrend has been apparent.
2. The body of the first candle is white, continuing the current trend. The second candle is an indecision formation.
3. The third day shows evidence that the bears have stepped in. That candle should close at least halfway down the white candle.

Signal Enhancements

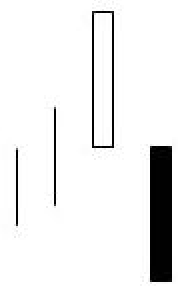
1. The longer the white candle and the black candle, the more forceful the reversal.
2. The more indecision that the star day illustrates, the better probabilities that a reversal will occur.
3. A gap between the first day and the second day adds to the probability that a reversal is occurring.
4. A gap before and after the star day is even more desirable. The magnitude, that the third day comes down into the white candle of the first day, indicates the strength of the reversal.

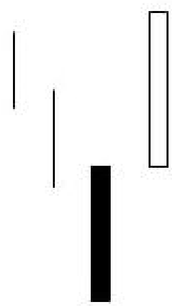
Pattern Psychology

A strong uptrend has been in effect. The buyers can't imagine anything going wrong, they are piling in. However, it has now reached the prices where sellers start taking profits or think the price is fairly valued. The next day all the buying is being met with the selling, causing for a small trading range. The bulls get concerned and the bears start taking over. The third day is a large sell off day. If there is big volume during these days, it shows that the ownership has dramatically changed hands. The change of direction is immediately seen in the color of the bodies.

Kicker Signals

One of the strongest candlestick signals!





Bearish Kicker Bullish Kicker

Description

The Kicker signal is the most powerful signal of all. It works equally well in both directions. Its relevance is magnified when occurring in the overbought or oversold area. It is formed by two candles. The first candle opens and moves in the direction of the current trend. The second candle opens at the same open of the previous day, a gap open, and heads in the opposite direction of the previous day's candle. The bodies of the candles are opposite colors. This formation is indicative of a dramatic change in investor sentiment. The candlesticks visually depict the magnitude of the change.

Criteria

1. The first day's open and the second day's open are the same. The price movement is in opposite directions from the opening price.
2. The trend has no relevance in a Kicker situation.
3. The signal is usually formed by surprise news before or after market hours.
4. The price never retraces into the previous day's trading range.

Signal Enhancements

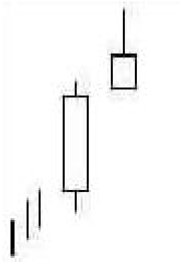
1. The longer the candles, the more dramatic the price reversal.
2. Opening from yesterday's close to yesterday's open already is a gap. However, gapping away from the previous day's open further enhances the reversal.

Pattern Psychology

The Kicker signal demonstrates a dramatic change in the investor sentiment. Something has occurred to violently change the direction of the price. Usually a surprise news item is the cause of this type of move. The signal illustrates such a change in the current direction that the new direction will persist with strength for a good while.

There is one caveat to this signal. If the next day prices gap back the other way, liquidate the trade immediately. This does not happen very often, but when it does, get out immediately.

Shooting Star



Description

The Shooting Star is comprised of one candle. It is easily identified by the presence of a small body with a shadow at least two times greater than the body. It is found at the top of an uptrend. The Japanese named this pattern because it looks like a shooting star falling from the sky with the tail trailing it.

Criteria

1. The upper shadow should be at least two times the length of the body.
2. The real body is at the lower end of the trading range. The color of the body is not important although a black body should have slightly more bearish implications.
3. There should be no lower shadow or a very small lower shadow.
4. The following day needs to confirm the Shooting Star signal with a black candle or better yet, a gap down with a lower close.

Signal Enhancements

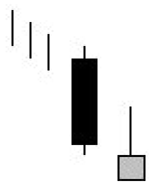
1. The longer the upper shadow, the higher the potential of a reversal occurring.
2. A gap up from the previous day's close sets up for a stronger reversal move provided.
3. The day after the Shooting Star signal opens lower.
4. Large volume on the Shooting Star day increases the chances that a blow-off day has occurred although it is not a necessity.

Pattern Psychology

After a strong up-trend has been in effect, the atmosphere is bullish. The price opens and trades higher. The bulls are in control. But before the end of the day, the bears step in and take the price back down to the lower end of the trading range, creating a small body for the day. This could indicate that the bulls still have control if analyzing a Western bar chart. However, the long upper shadow represents that sellers had started stepping in at these levels. Even though the bulls may have been able to keep the price positive by the end of the day, the evidence of the selling was apparent. A lower open or a black candle the next day reinforces the fact that selling is going on.

Inverted Hammer

The Inverted Hammer produces some very important attributes when analyzing a potential reversal. It is considered one of the 12 major signals. Learn how to use an inverted hammer signal correctly. The probabilities of being in a correct trade when utilizing this signal becomes extremely high.



Description

The Inverted Hammer is comprised of one candle. It is easily identified by the small body with a shadow at least two times greater than the body. Found at the bottom of a downtrend, this shows evidence that the bulls are stepping in, but the selling is still going on. The color of the small body is not important but the white body has more bullish indications than a black body. A positive day is required the following day to confirm this signal.

Criteria

1. The upper shadow should be at least two times the length of the body.
2. The real body is at the lower end of the trading range. The color of the body is not important, although a white body should have slightly more bullish implications.
3. There should be no lower shadow, or a very small lower shadow.

Signal Enhancements

1. The longer the upper shadow, the higher the potential of a reversal occurring.
2. A gap down from the previous day's close sets up for a stronger reversal move.
3. The day after the inverted hammer signal opens higher.
4. Large volume on the day of the inverted hammer signal increases the chances that a blowoff day has occurred.

Pattern Psychology

After a downtrend has been in effect, the atmosphere is bearish. The price opens and starts to trade higher. The Bulls have stepped in, but they cannot maintain the strength. The existing sellers knock the price back down to the lower end of the trading range. The Bears are still in control. But the next day, the Bulls step in and take the price back up without major resistance from the Bears. If the price maintains strong after the Inverted Hammer day the signal is confirmed.

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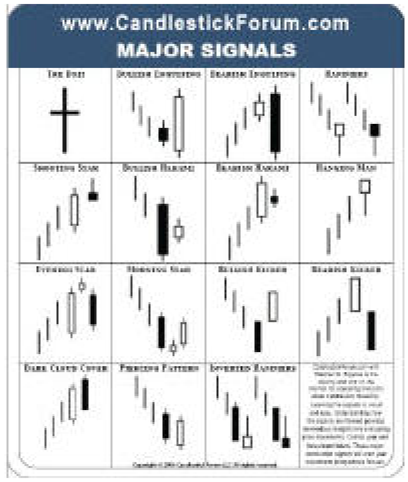

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