

A graphic of a candlestick chart with several bars of varying heights and colors (white and black) positioned above the main title.

candlecharts.com

Revealing the Past. Lighting the Future.™



Advanced Candlestick Charting Techniques:

***Secrets to Becoming a
Samurai Trader***

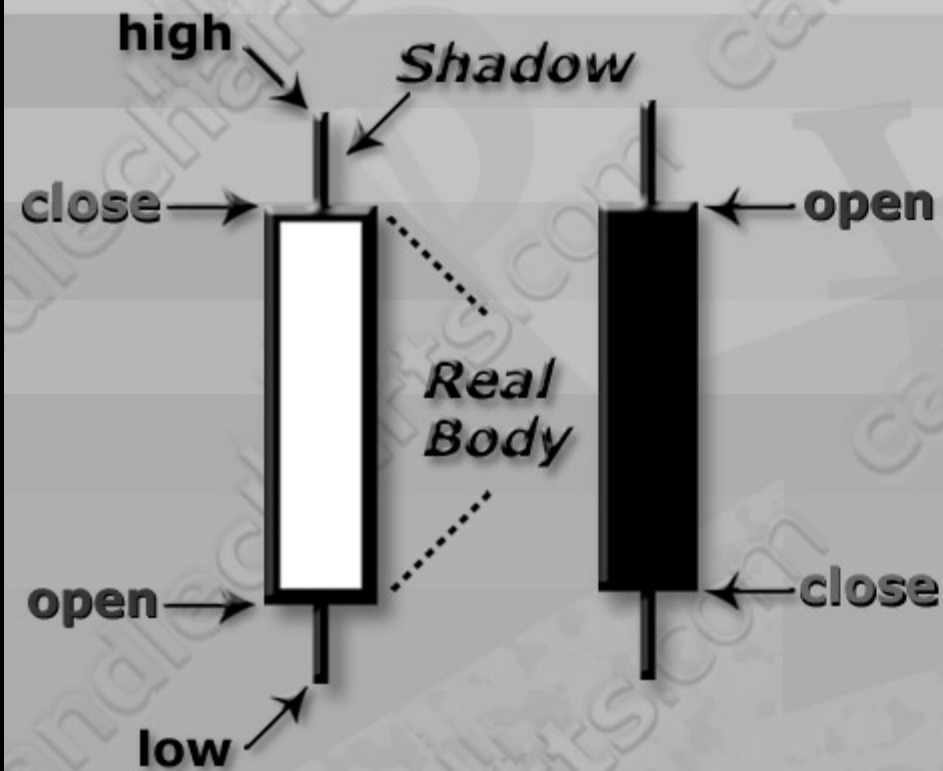
- **Tel: 732.254.8860 (USA)**
- **Email: nison@candlecharts.com**
- **www.candlecharts.com**

Steve Nison, President

“He who is well
prepared has won
half the battle”

- **New refinements and enhancements for high success trading with candle charts**
- **See when to ignore a candle signal**
- **Special section on on intraday charts**
- **Uncover the one rule every candlestick trader ignores at their own peril**
- **The P.R.O.F.I.T.S methodology**
- **Learn the six principles every candlestick trader must know**
- **Uncloak new uses for the most potent candle pattern - the window**
- **Effective money management concepts to maximize the effectiveness of candle charts**
- **Interactive practice sessions**

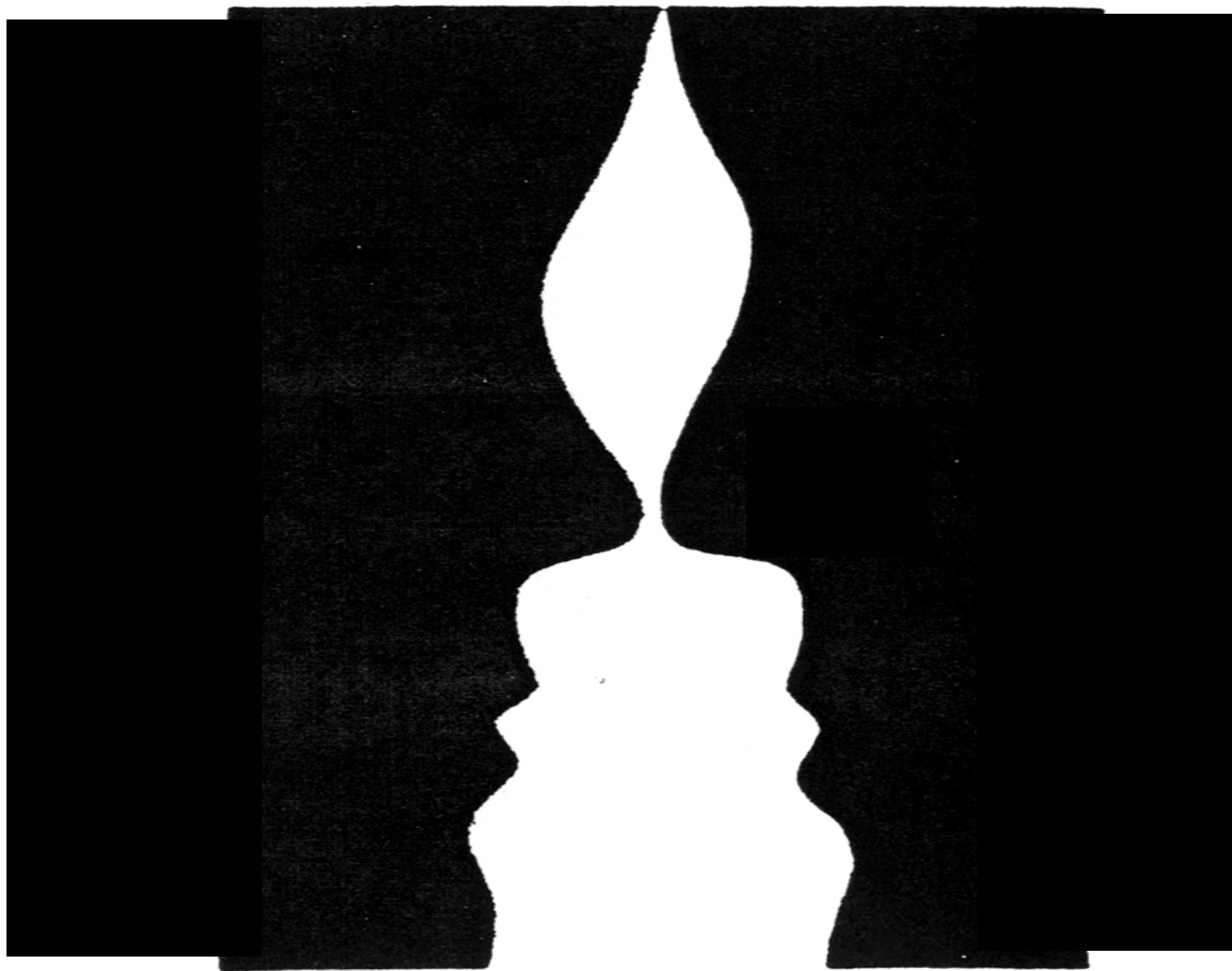
Constructing the Candle Line



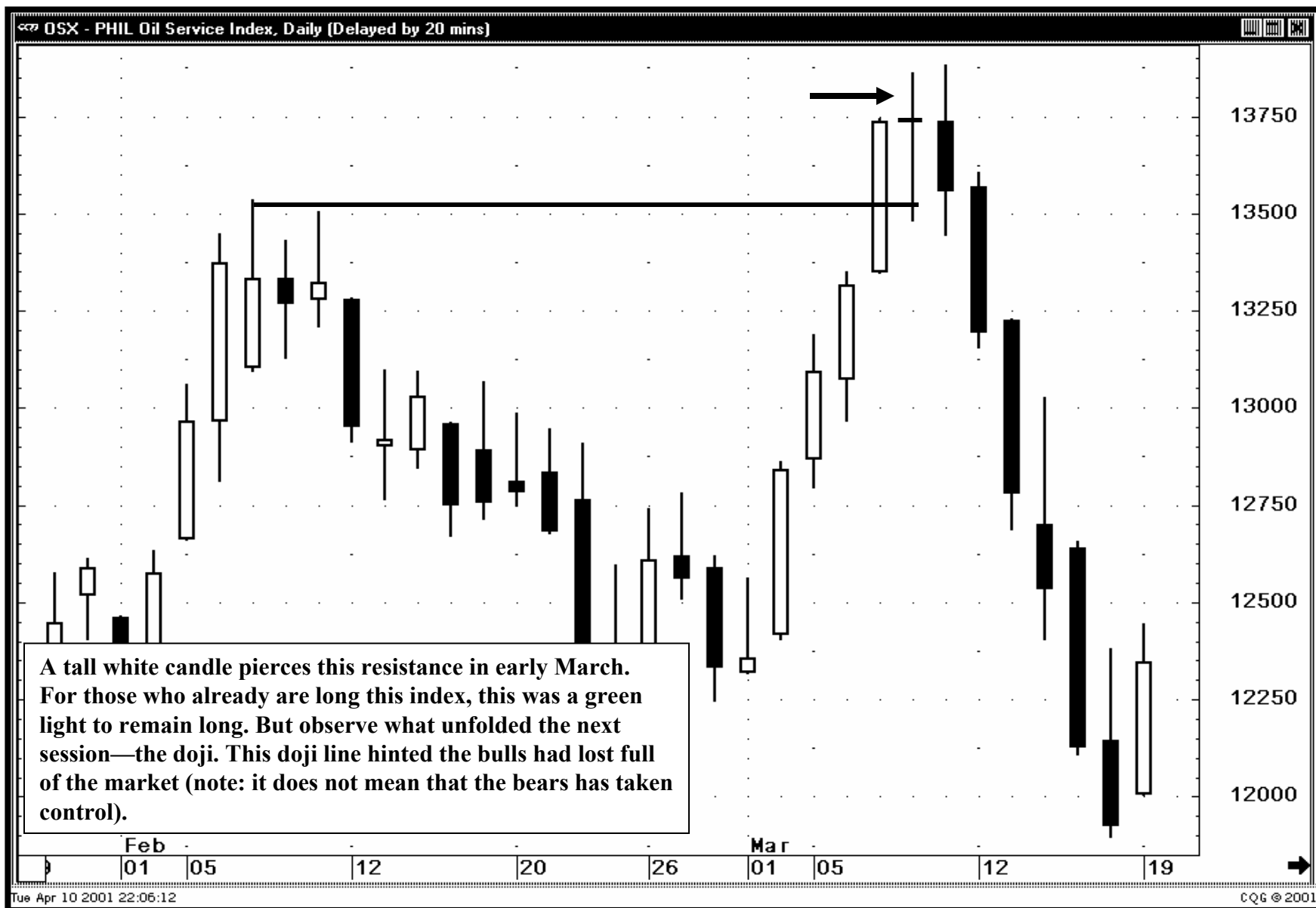
*Real Bodies
and Shadows*



Doji



Candles shine at Preserving Capital



Warren Buffet's Rules of Money Management

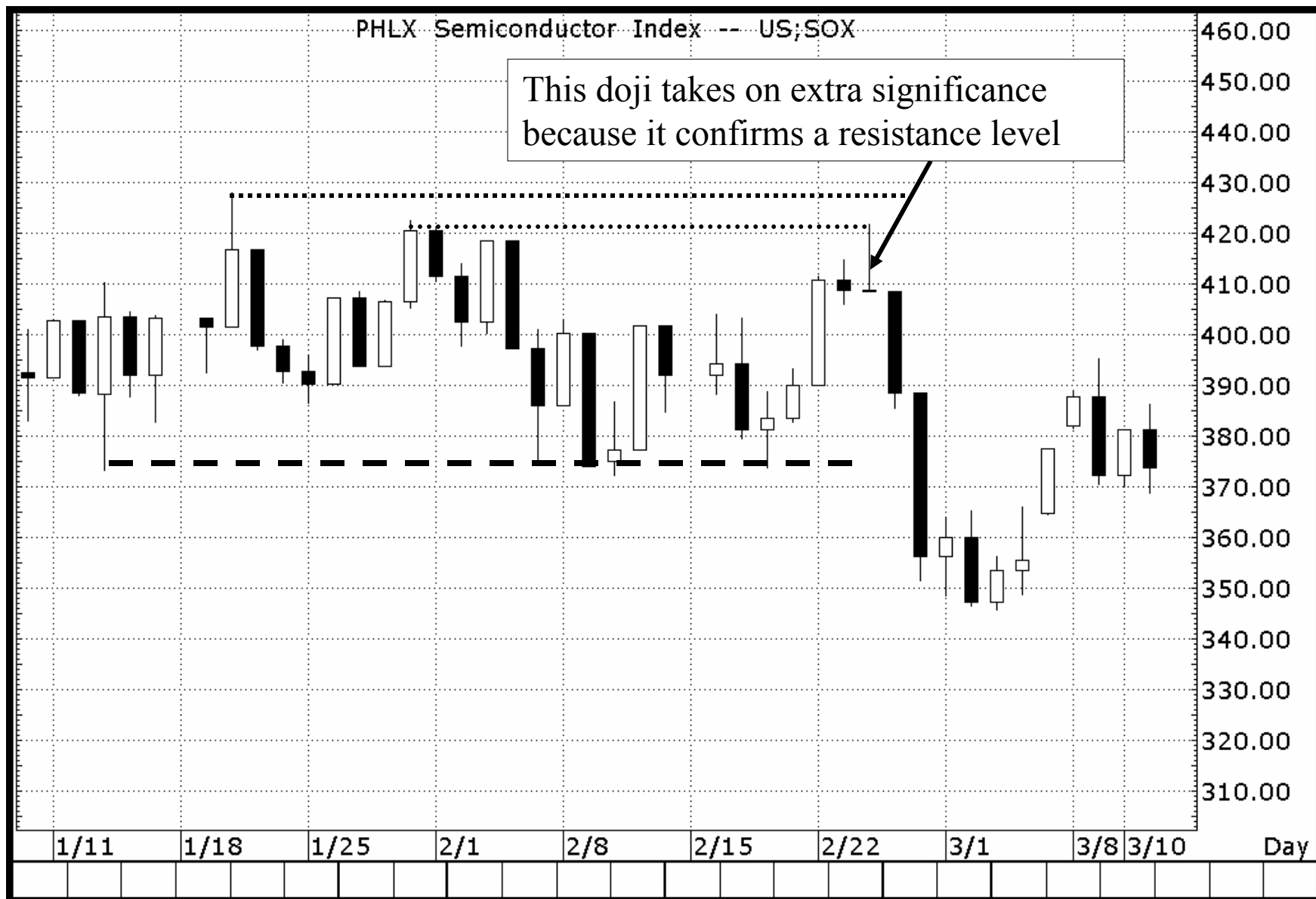
Rule 1 – Not to lose money

Rule 2 – Don't forget rule 1

Nison Trading Principle

Candlesticks do not give
price targets.

Gravestone Doji



Nison Trading Principle

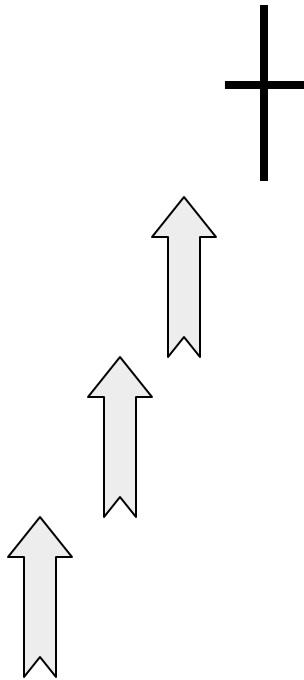
A candlestick line or pattern requires two criteria:

- **The shape of the line or pattern**
- **The preceding trend**

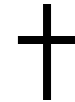
Doji and Trend

Concept:

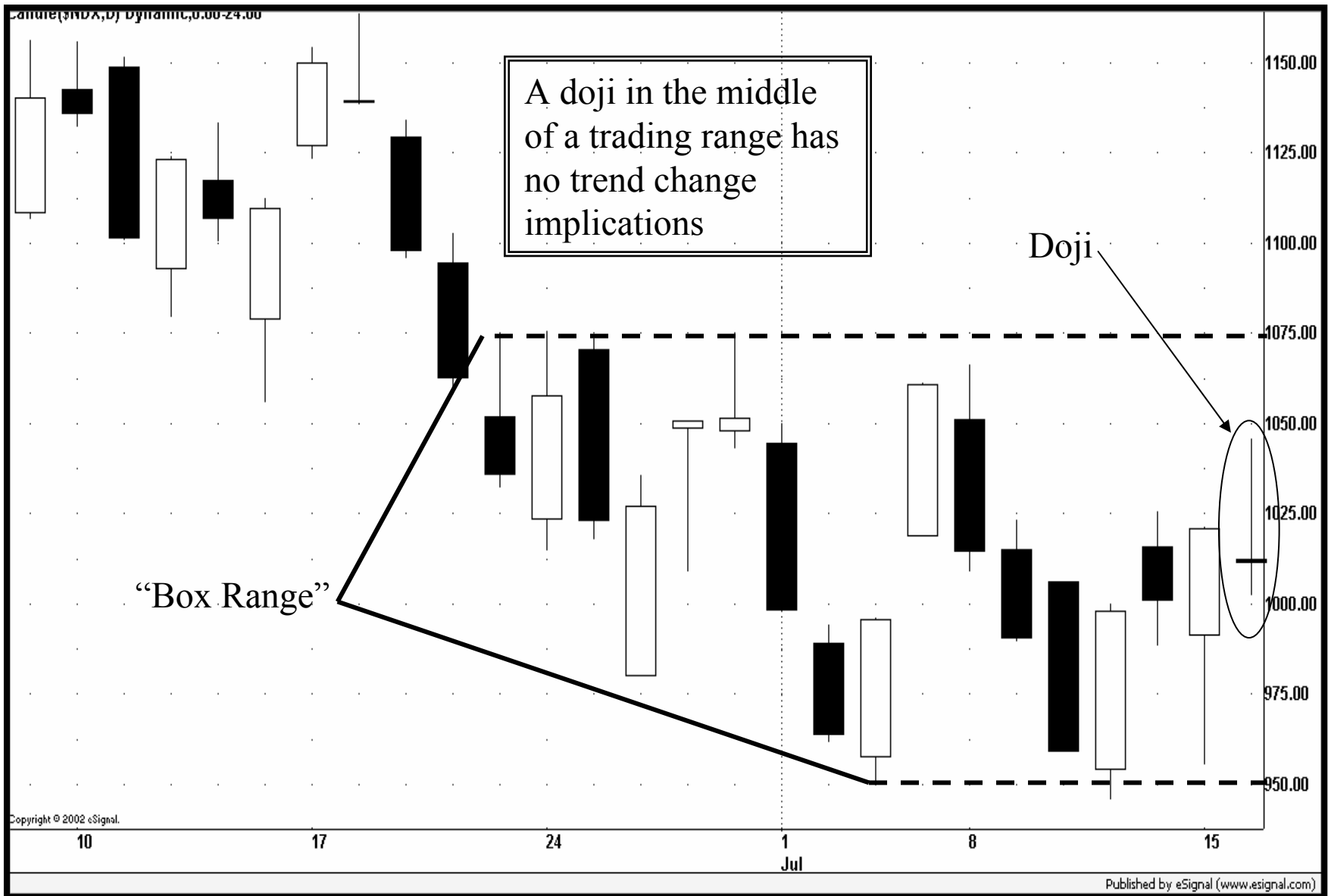
To use a northern doji as a signal we need to have an uptrend to reverse



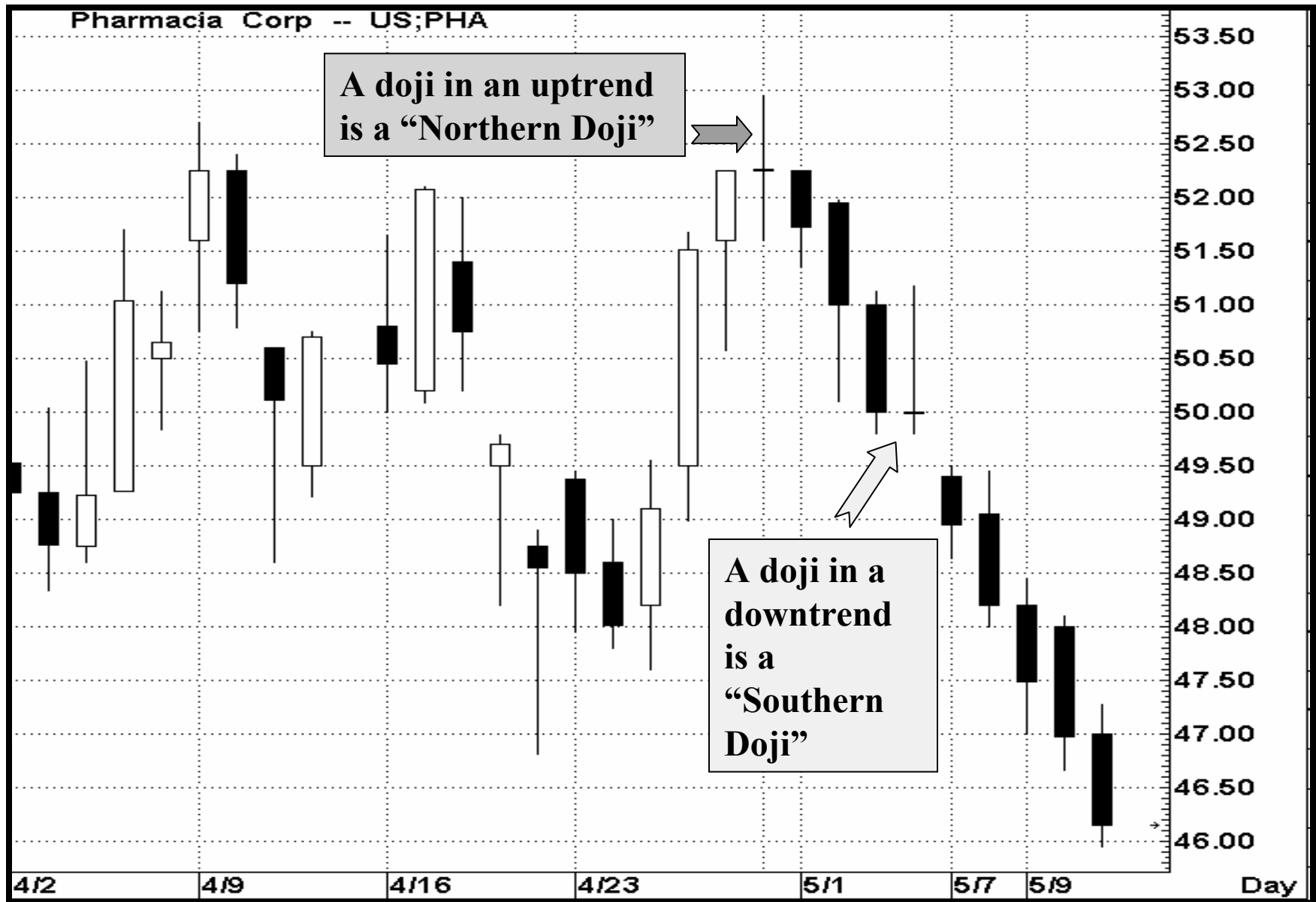
Doji in a “Box Range” is
not a trading signal



Doji and trend



Northern and Southern Doji



Southern Doji



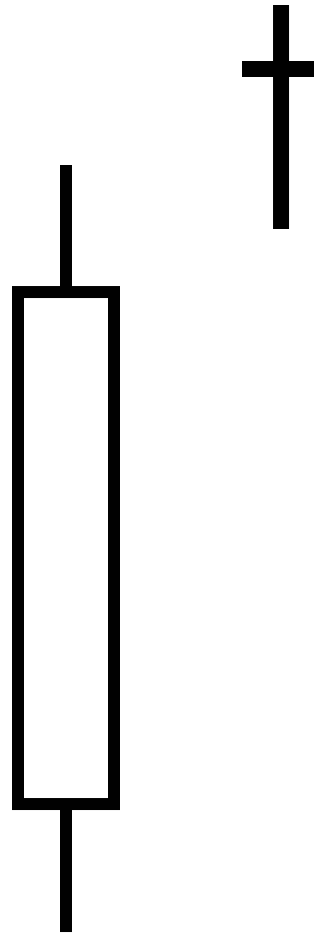
Nison Trading Principle

Candle signals must be
evaluated and acted upon
within the market's context

Doji in Context

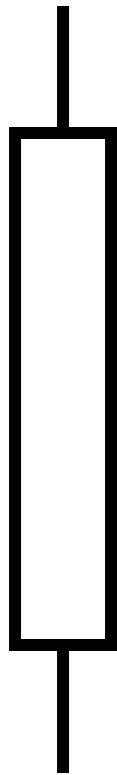
Concept:

If a doji makes a new high close for the move, wait for bearish confirmation with a close under the doji's close



Need a close under here to turn bearish

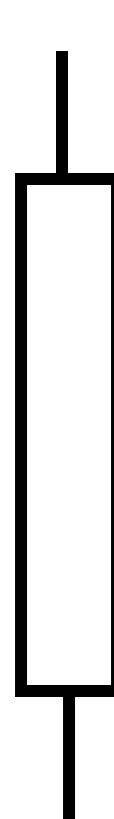
Doji in Context



Scenario 1



Which of these scenarios is a more likely top reversal?



Scenario 2



Doji, but New High Close



Doji, but New High close



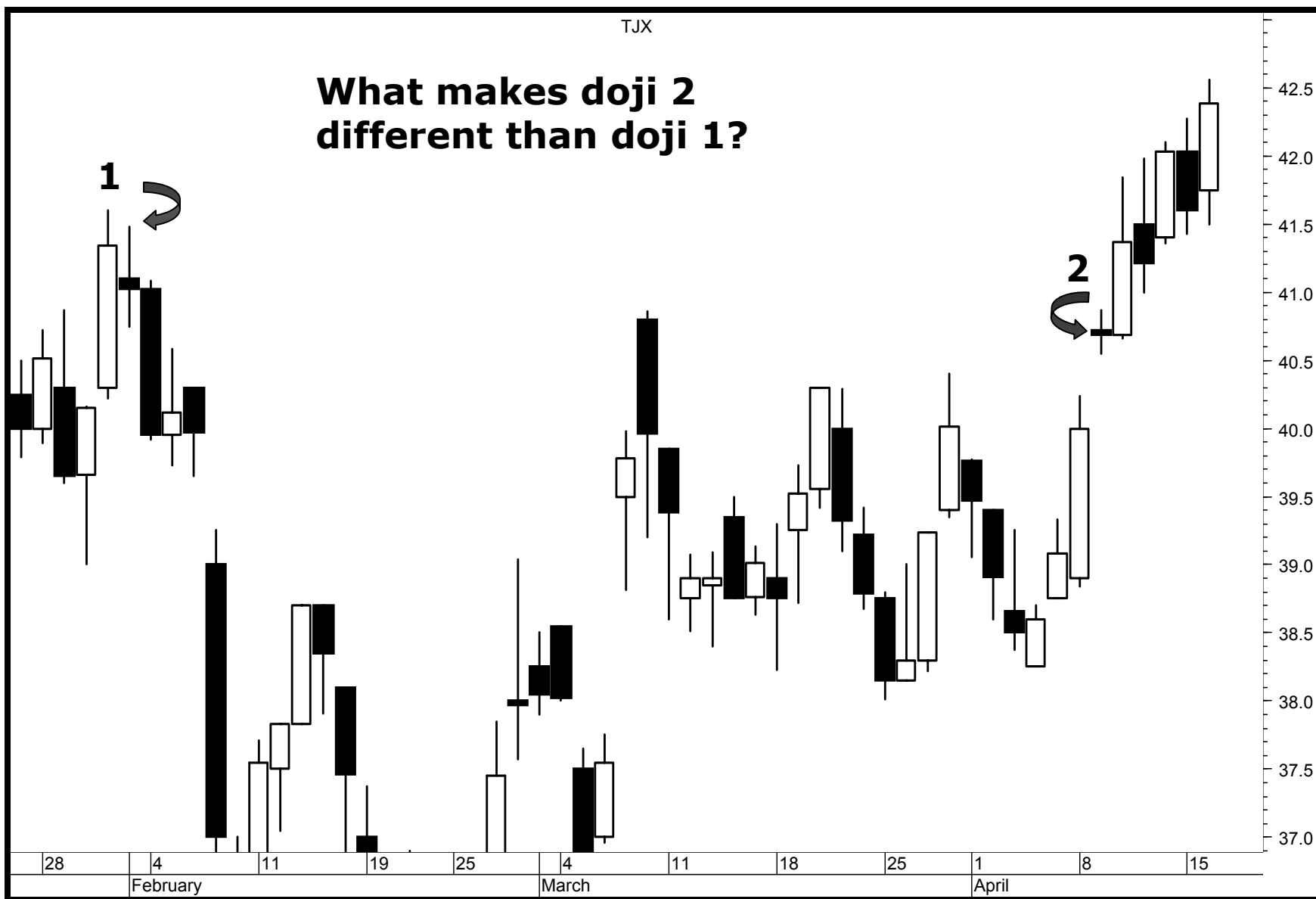
Flexibility with Candles (and Confluence)



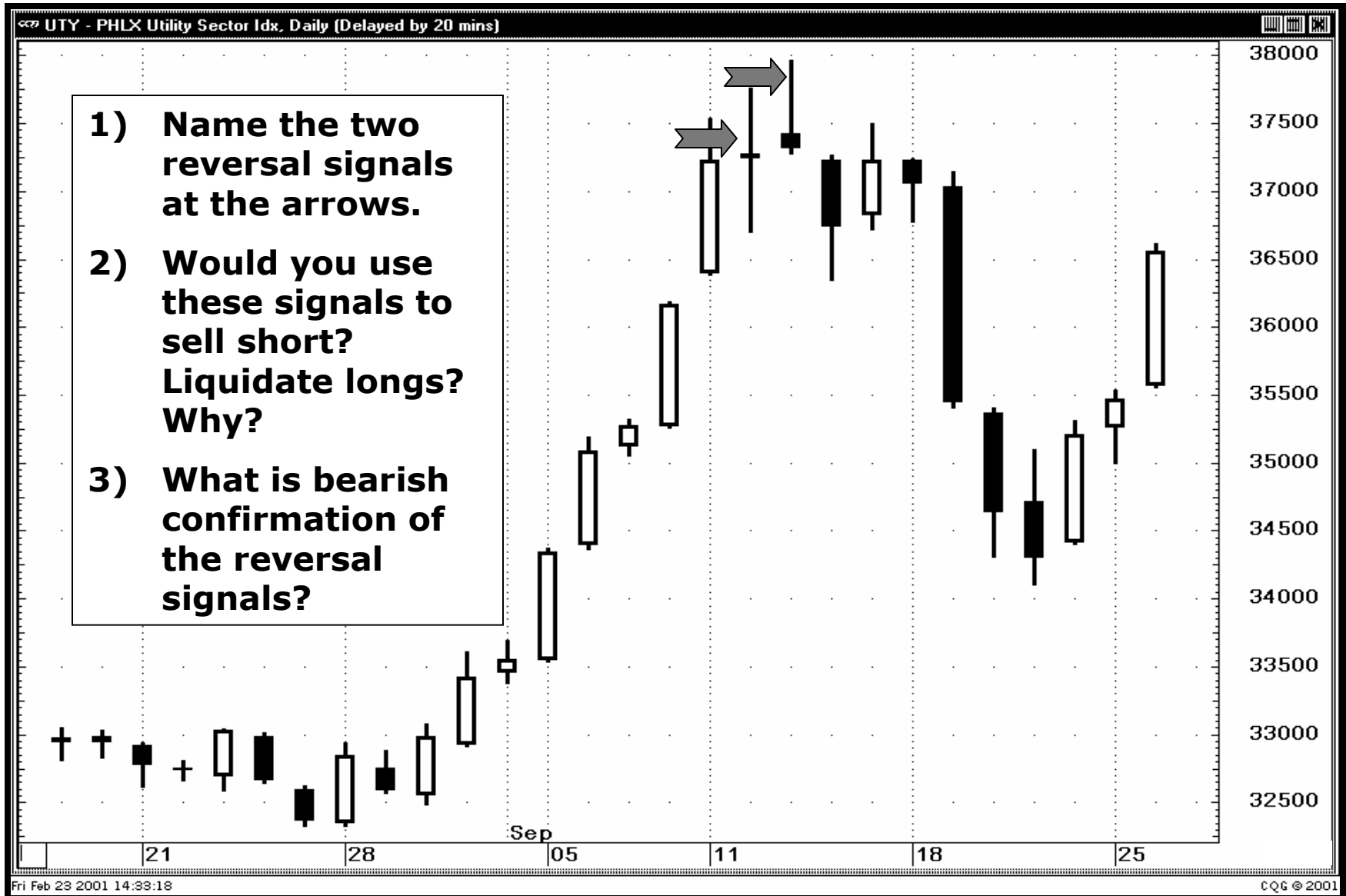
Doji

TJX

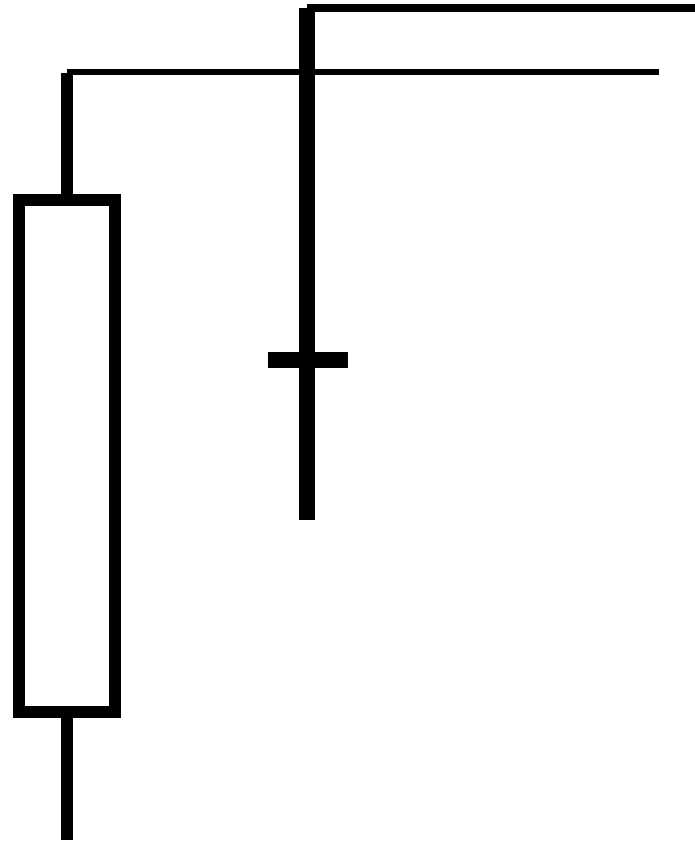
What makes doji 2 different than doji 1?



Trading Tactics



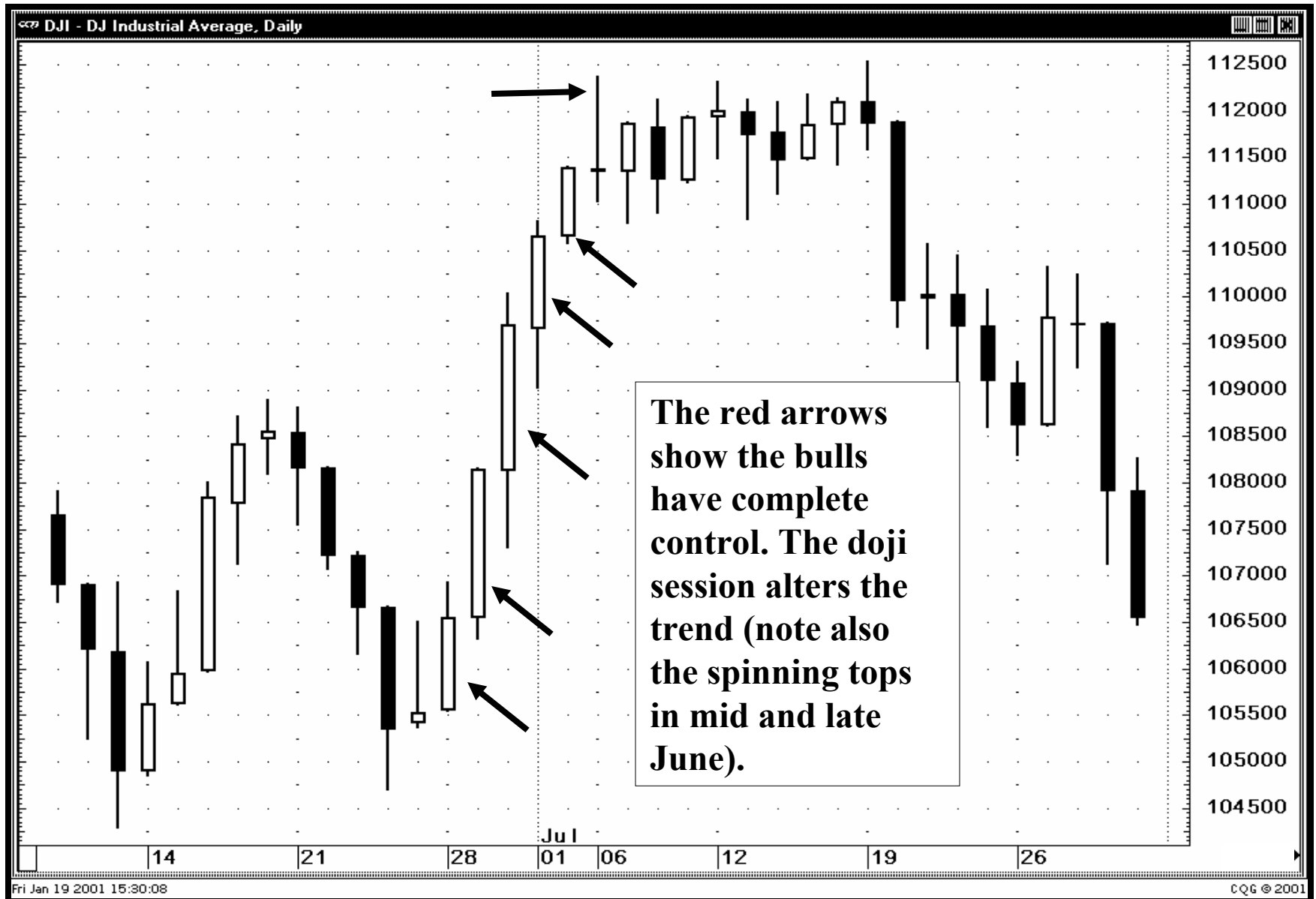
Doji as Resistance



Criteria: Use the highest high of those two sessions (top of upper shadow) as resistance

Implication: Close over that area:
market is “refreshed”

Doji



Small Real Body as a doji



Doji after tall white



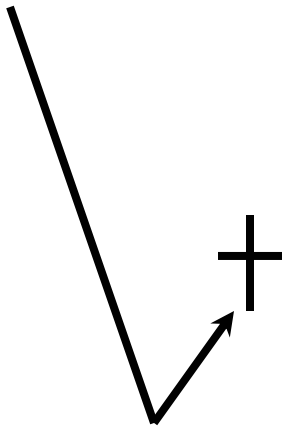
Doji as Resistance



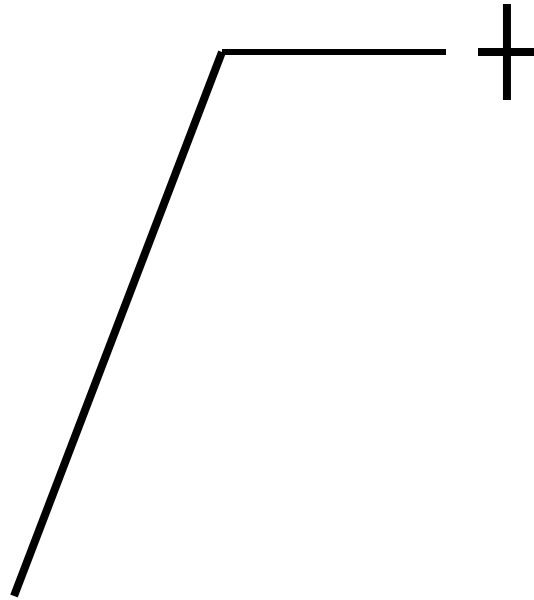
Trading Tactics - *Doji*

Analyze these doji in the context of what happened before. Are any of these a more likely reversal and why?

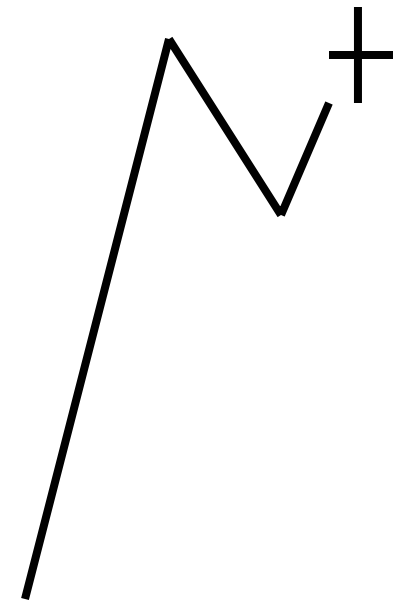
A -1



B-2



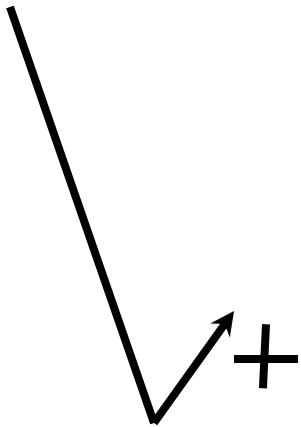
C-3



Trading Tactics – *Doji* (answer)

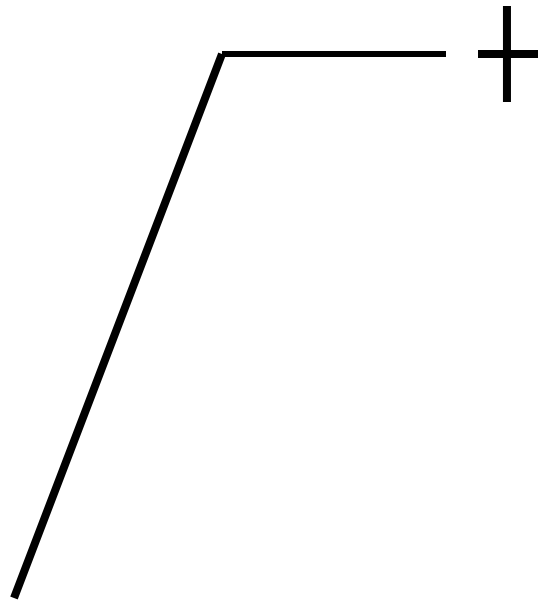
Analyze these doji in the context of what happened before. Are any of these a more likely reversal and why?

A-1



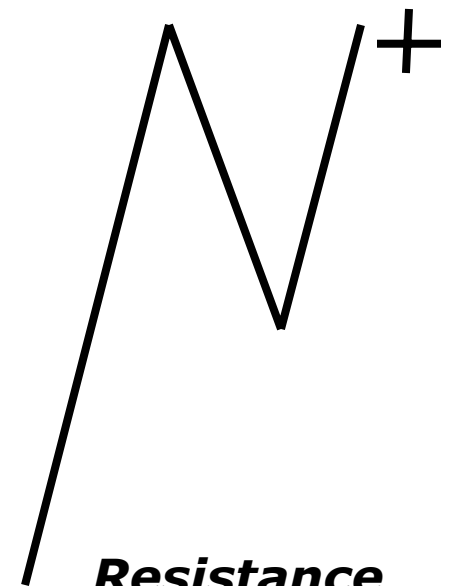
***Rally may
just be
starting***

B-2



***Market not
overextended***

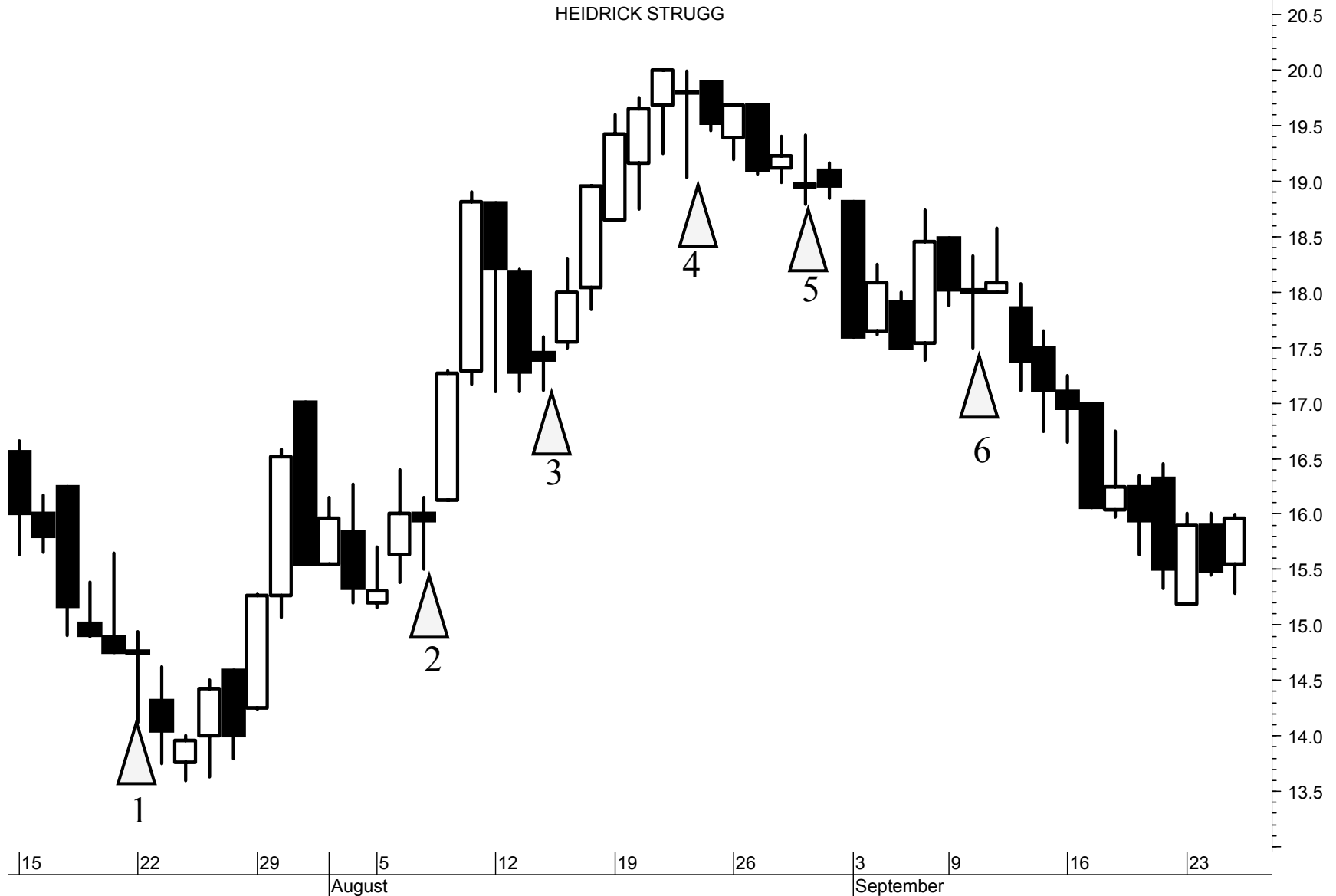
C-3 ☒



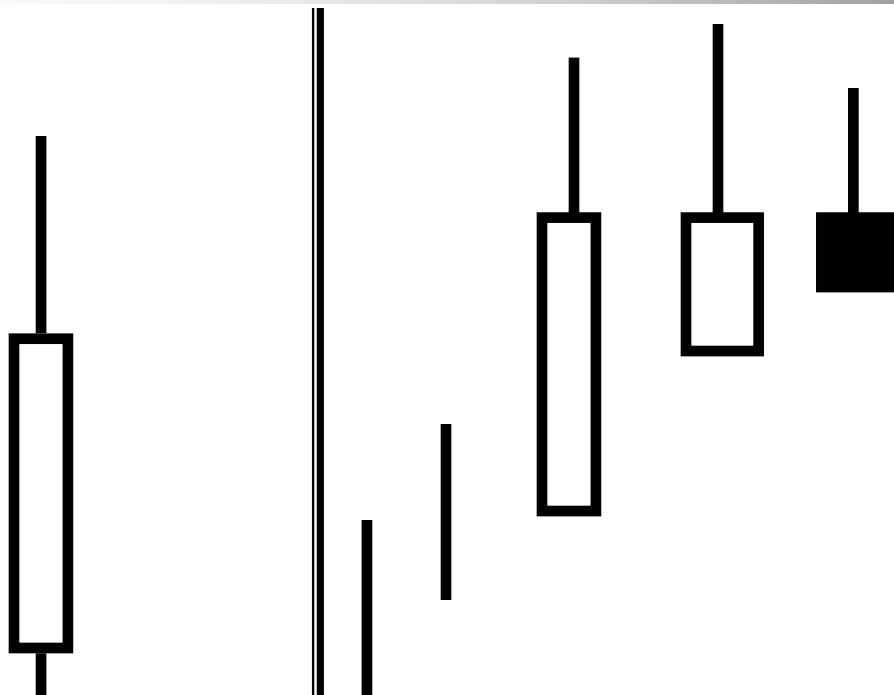
***Resistance
confirmed by
doji***

Doji Overview – Analyze Each Doji in Context of Trend

HEIDRICK STRUGG



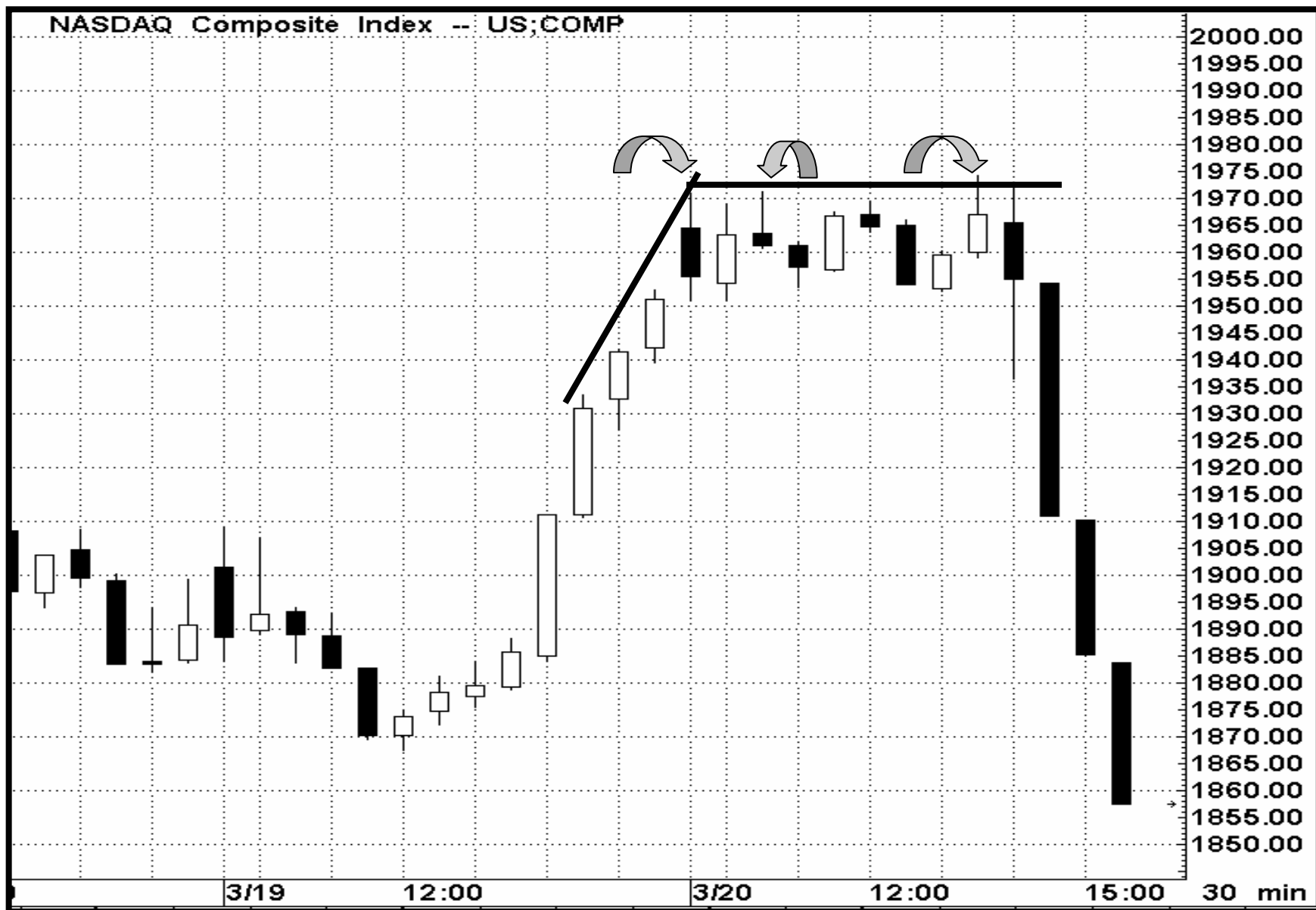
Shadows



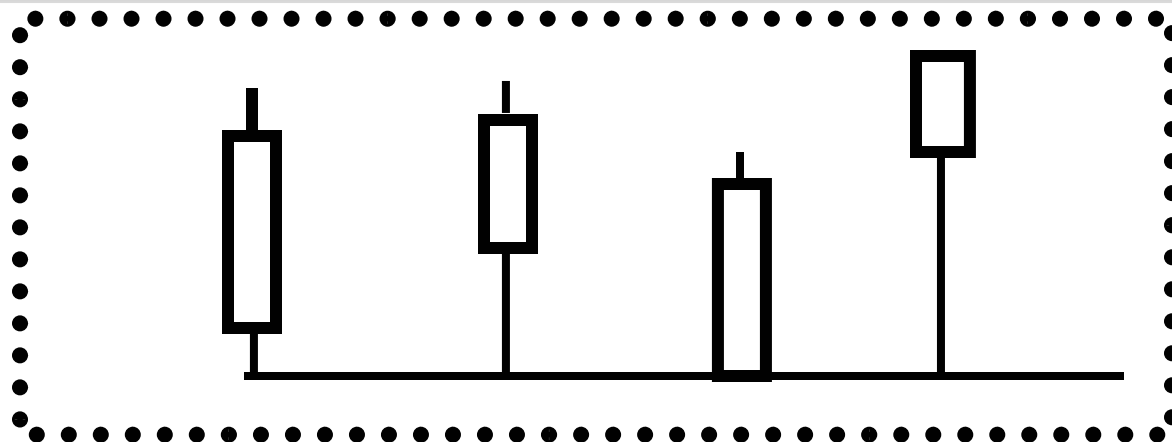
Remember: location and size of the shadow should be considered when analyzing the market psychology.

Implication: Bearish long upper shadow offsets “rallying strength.” Bullish long lower shadows hints bears losing force.

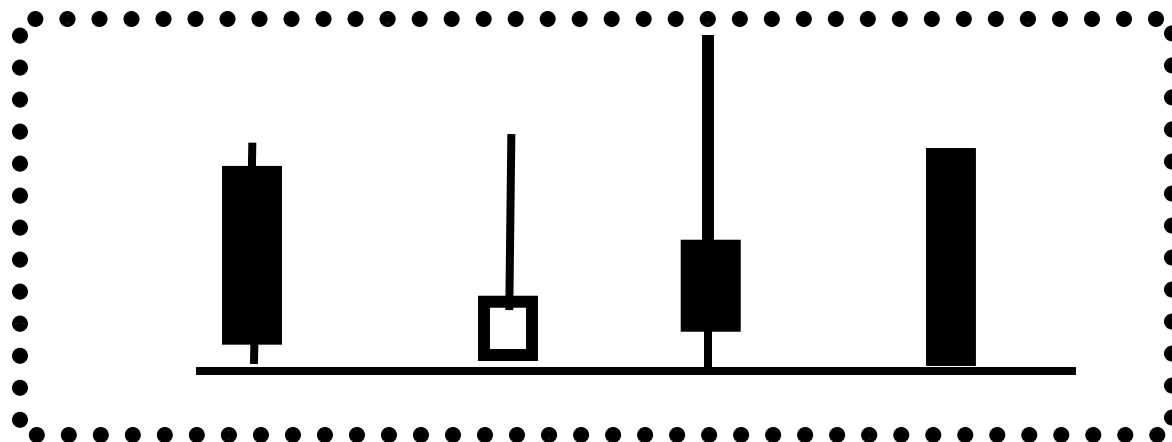
Upper Shadows and slope of advance



The Tools of the West with the Light of the Candles



**Scenario
1**



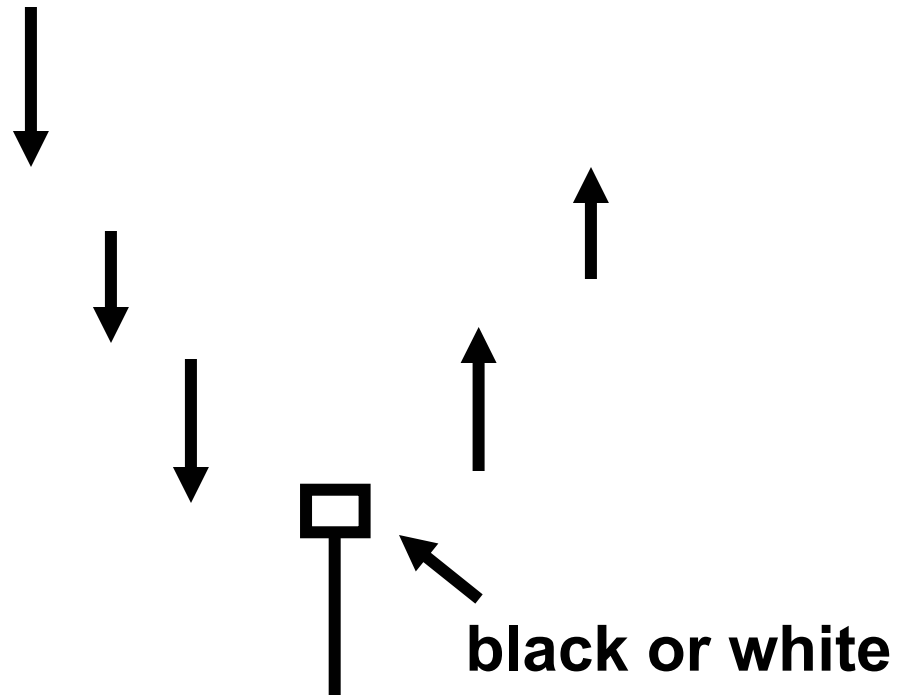
**Scenario
2**

Hammer

Criteria:

- Small real body at, or near top, of range
- Lower shadow at least 2x real body
- Market in down trend

Implication: ‘Groping for a bottom’

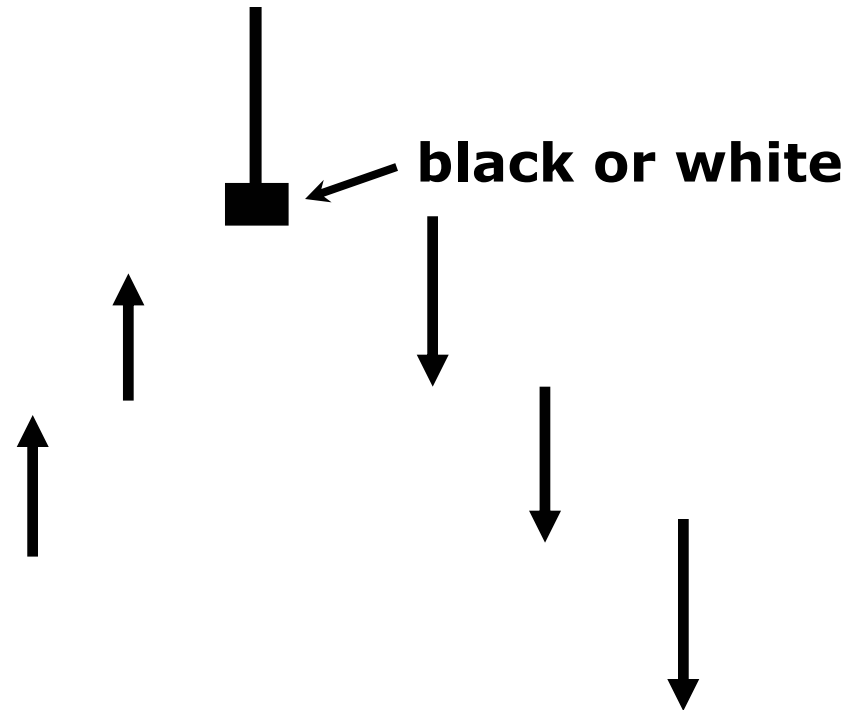


Shooting Star

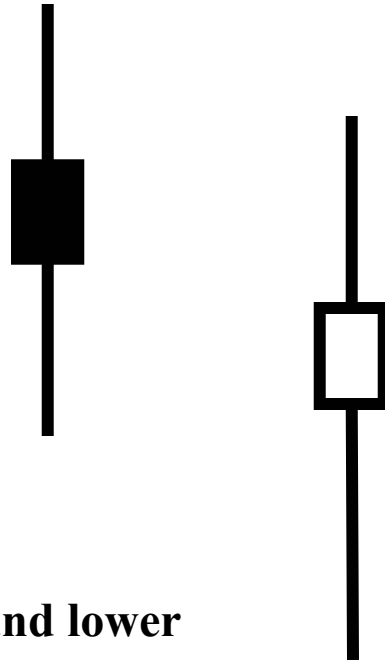
- **Criteria:**

- Small real body at, or near bottom, of range
- Upper shadow at least 2x real body
- Market in an up trend

- **Implication: ‘Signaling Trouble Overhead’**

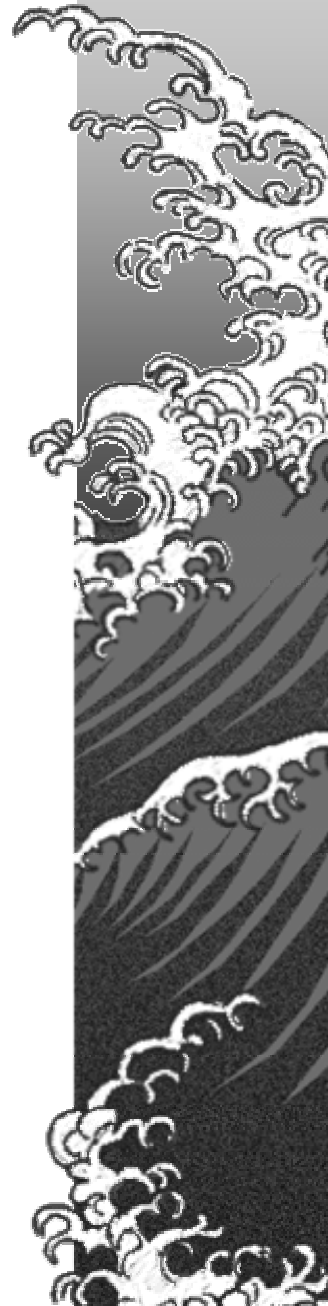


High Wave Candles

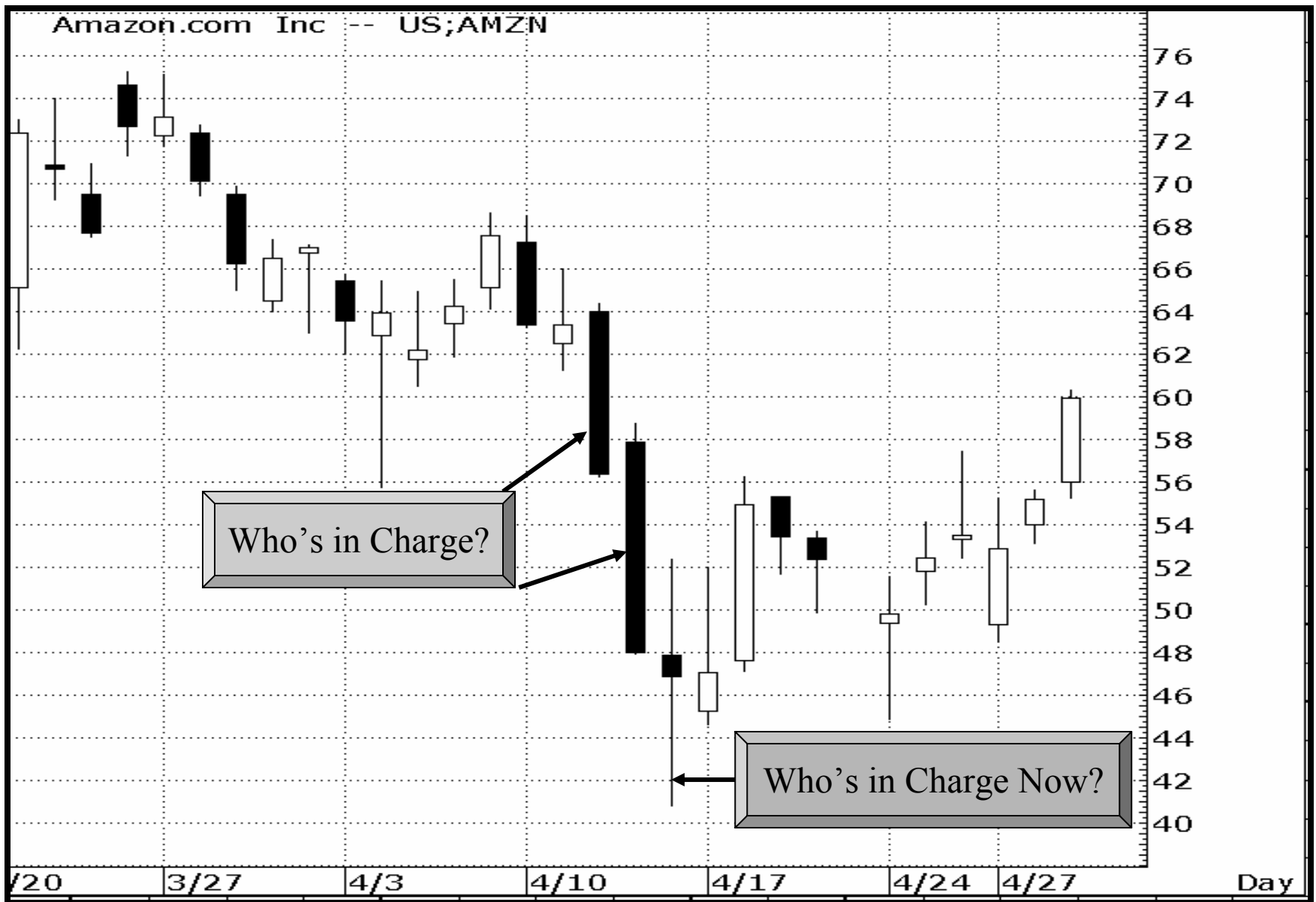


Criteria: very long shadows and lower small real body - color not important

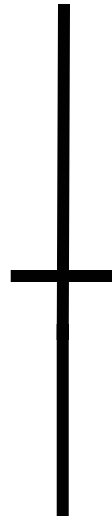
Implication: Trend is losing force



High Wave Candle



Long Legged Doji – “Rickshaw Man”

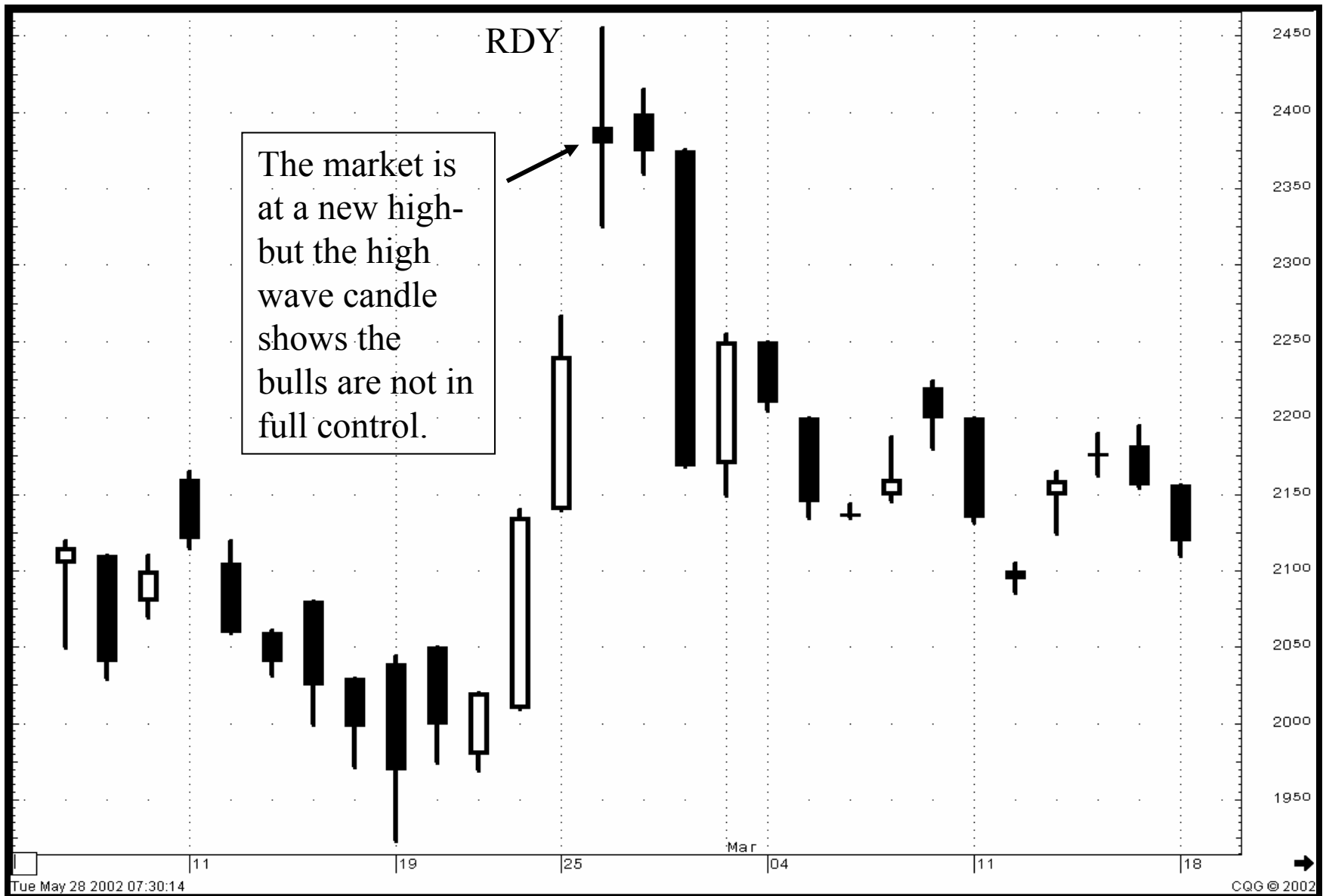


Criteria: very long shadows and lower small real body - color not important

Implication: “Market has lost it’s sense of direction”

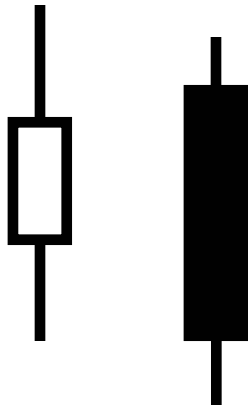


High-wave candle



Engulfing Patterns

Bearish Engulfing Pattern



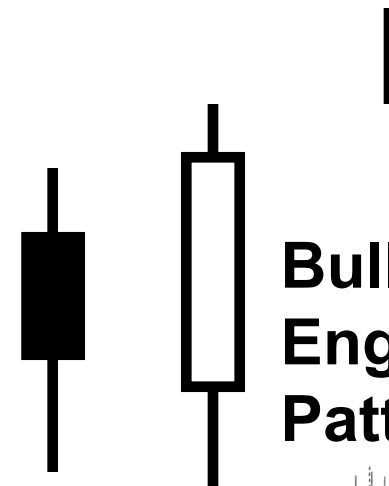
Criteria:

- Black real body wraps around preceding white real body
- Market in up trend

Implication: 'Bulls have been constrained'

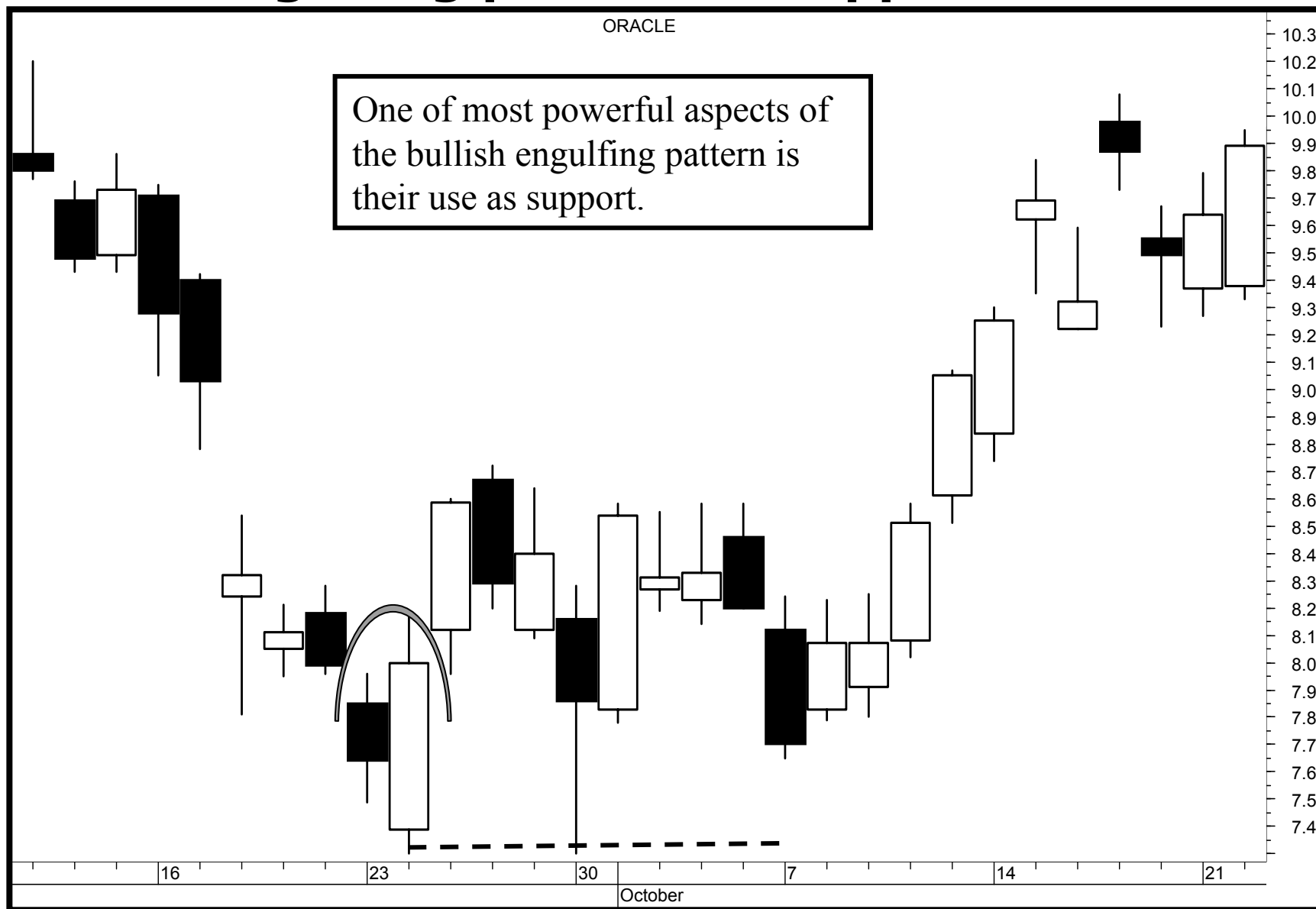
Criteria:

- White real body wraps around preceding black real body
- Market in down trend
- Implication: Market bottoming out

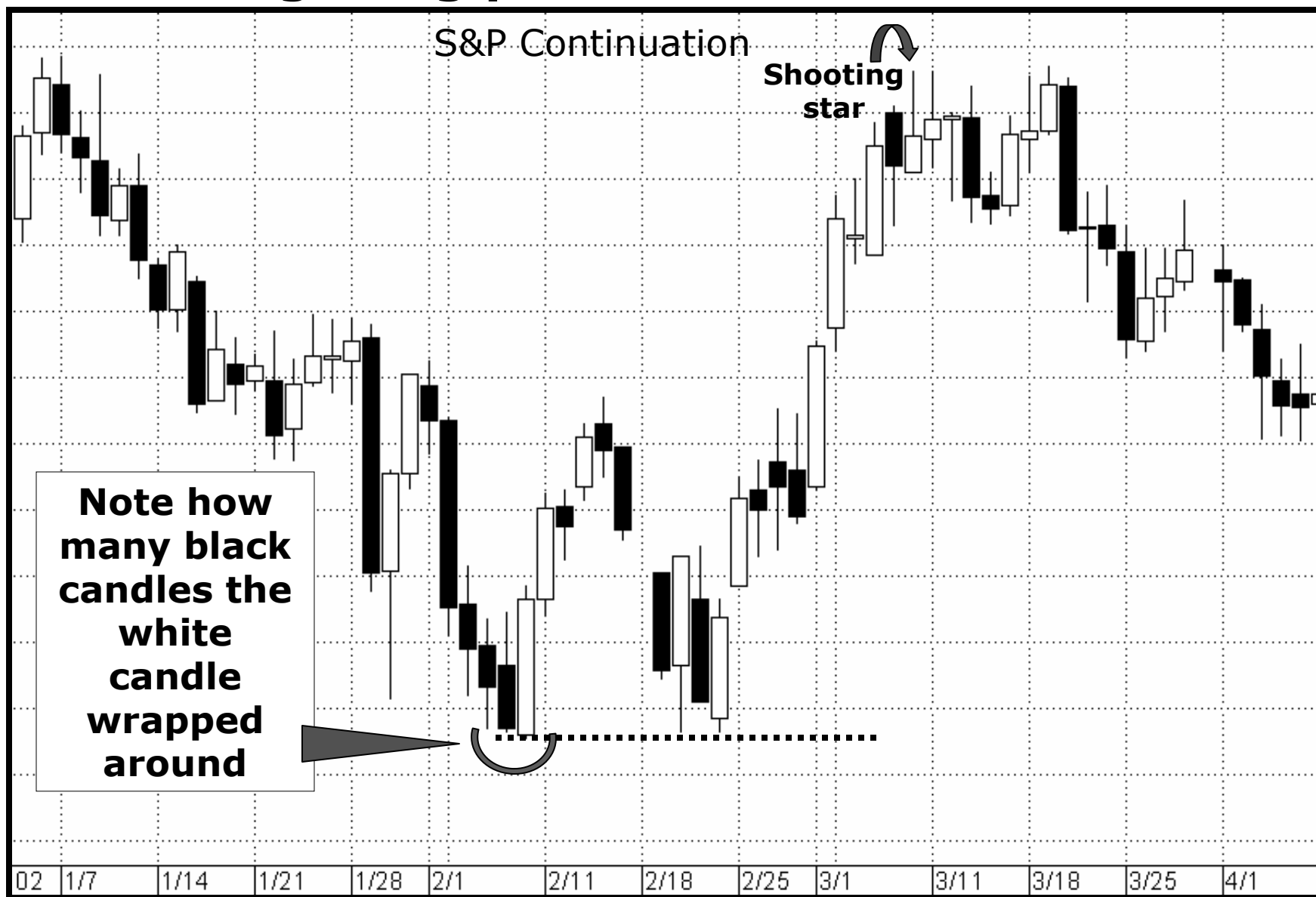


Bullish Engulfing Pattern

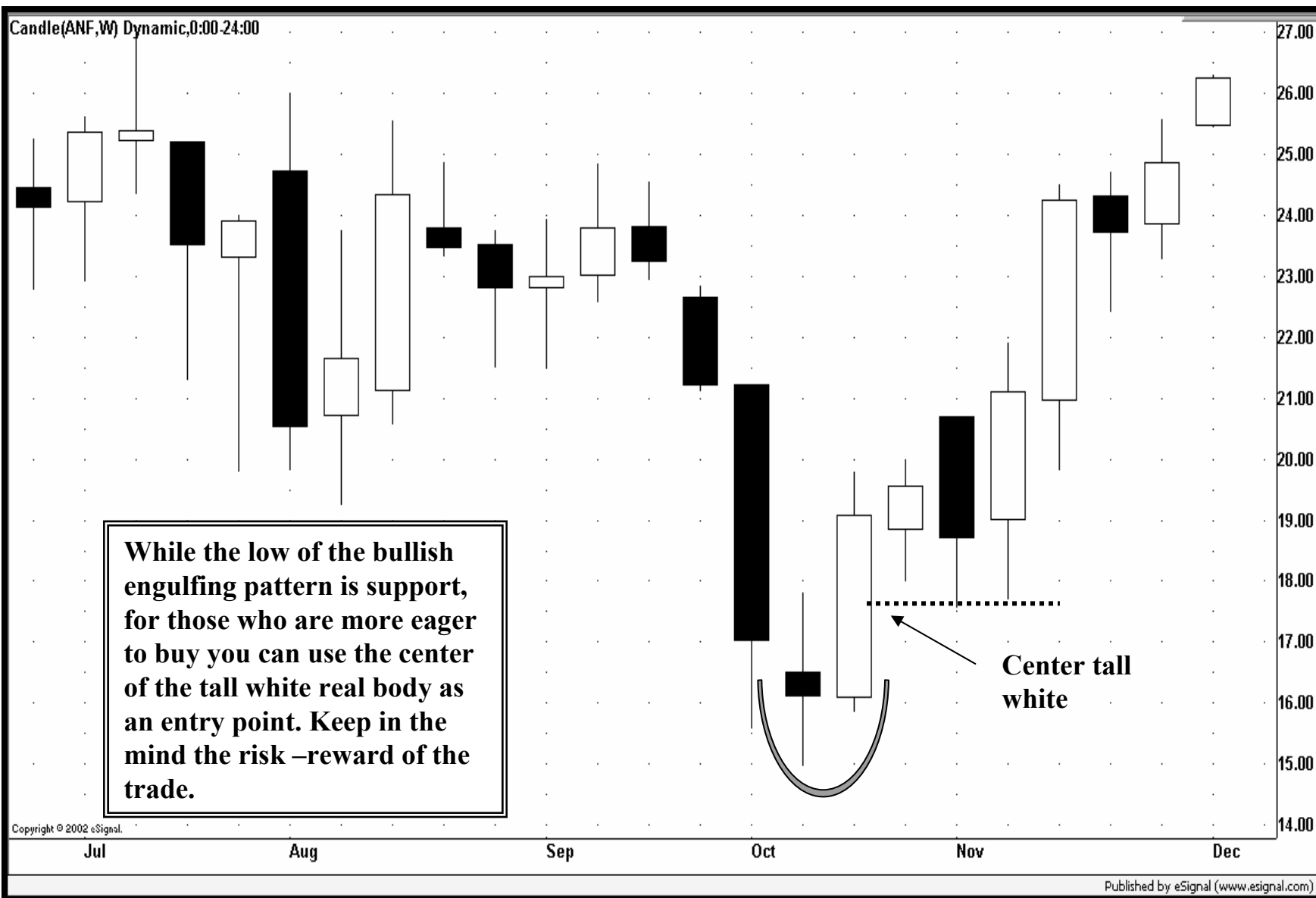
Bullish engulfing pattern as support



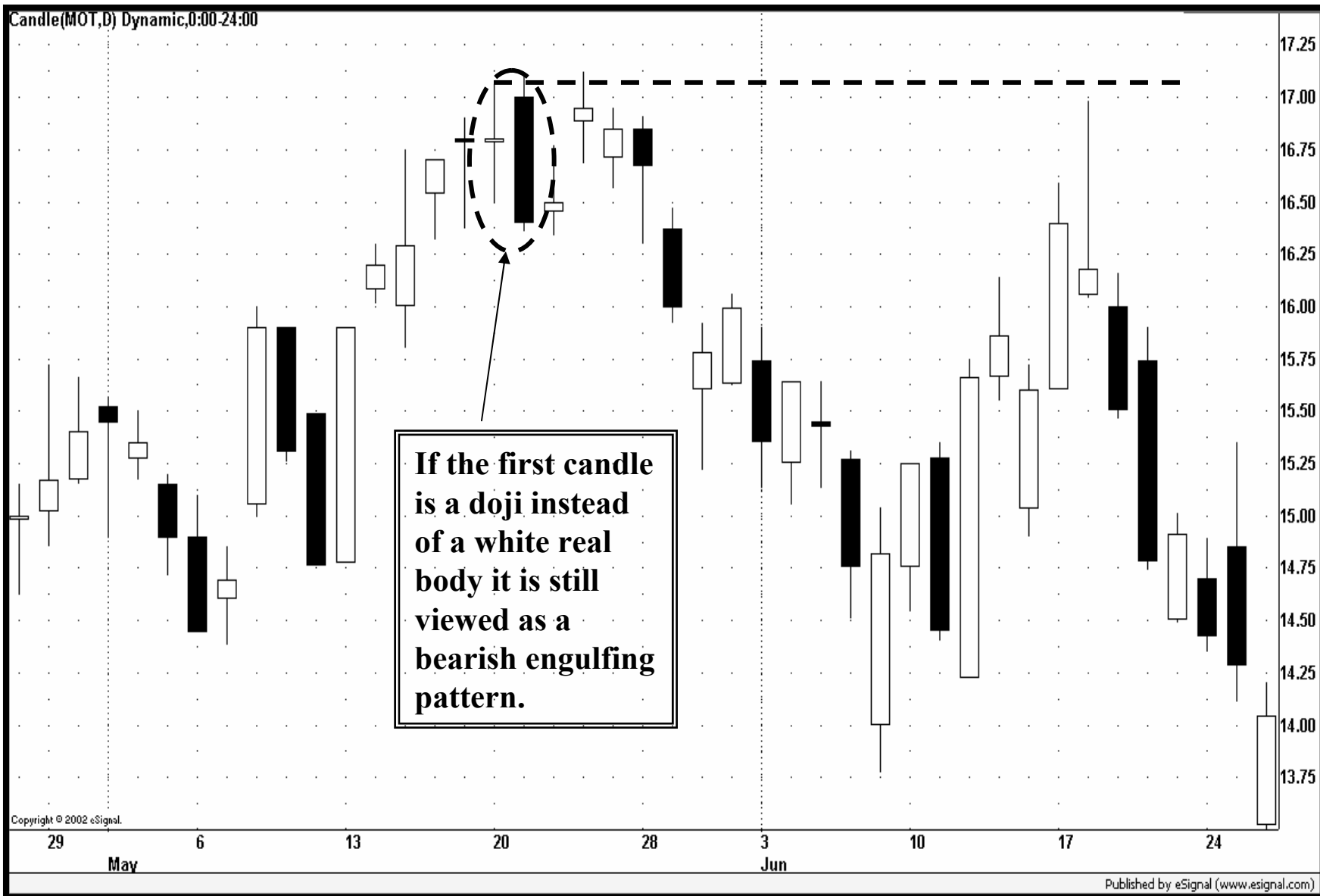
Bullish engulfing pattern



Bullish engulfing pattern as support



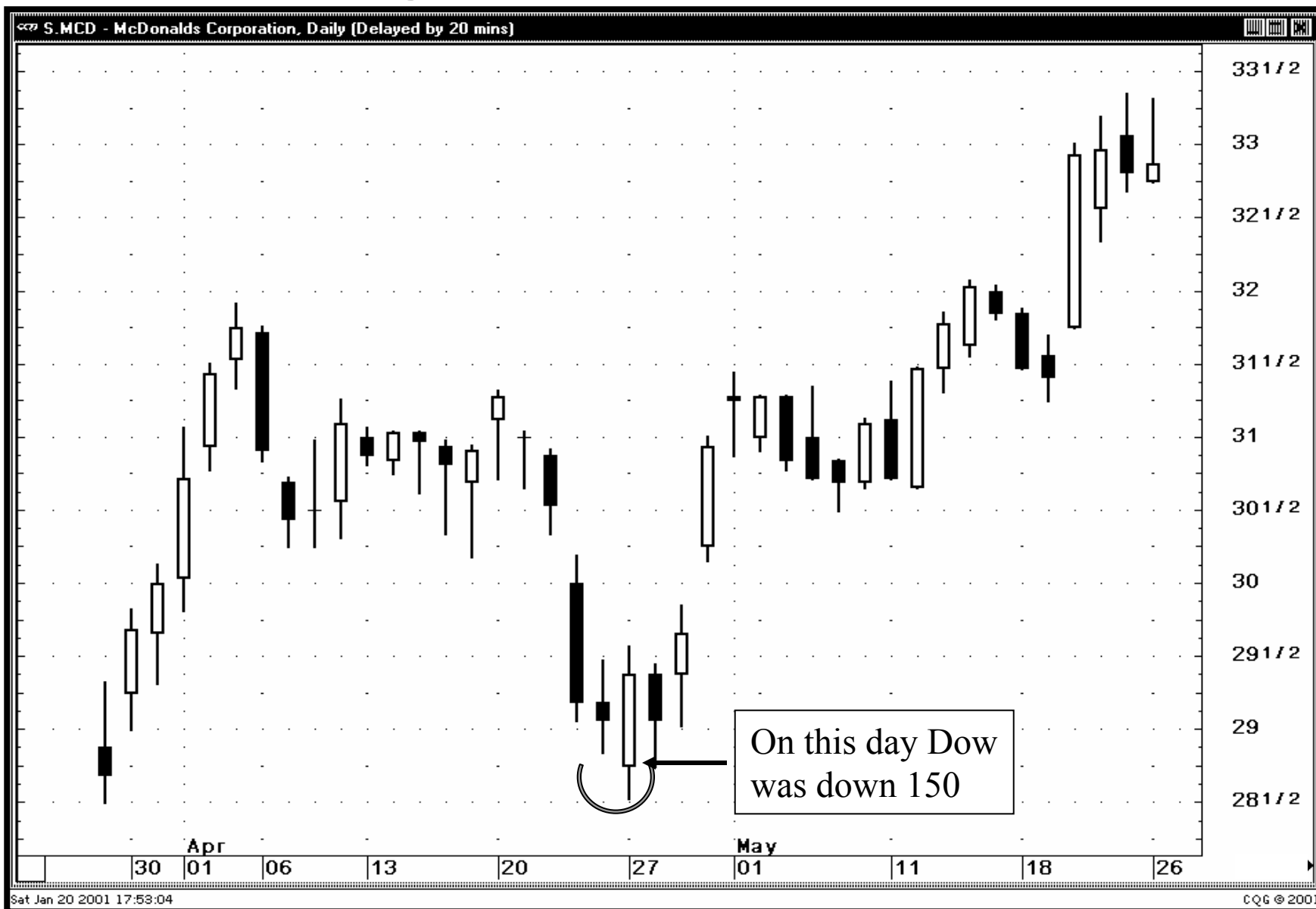
Bearish engulfing pattern as resistance



Bearish Engulfing Pattern compared to Western outside reversal



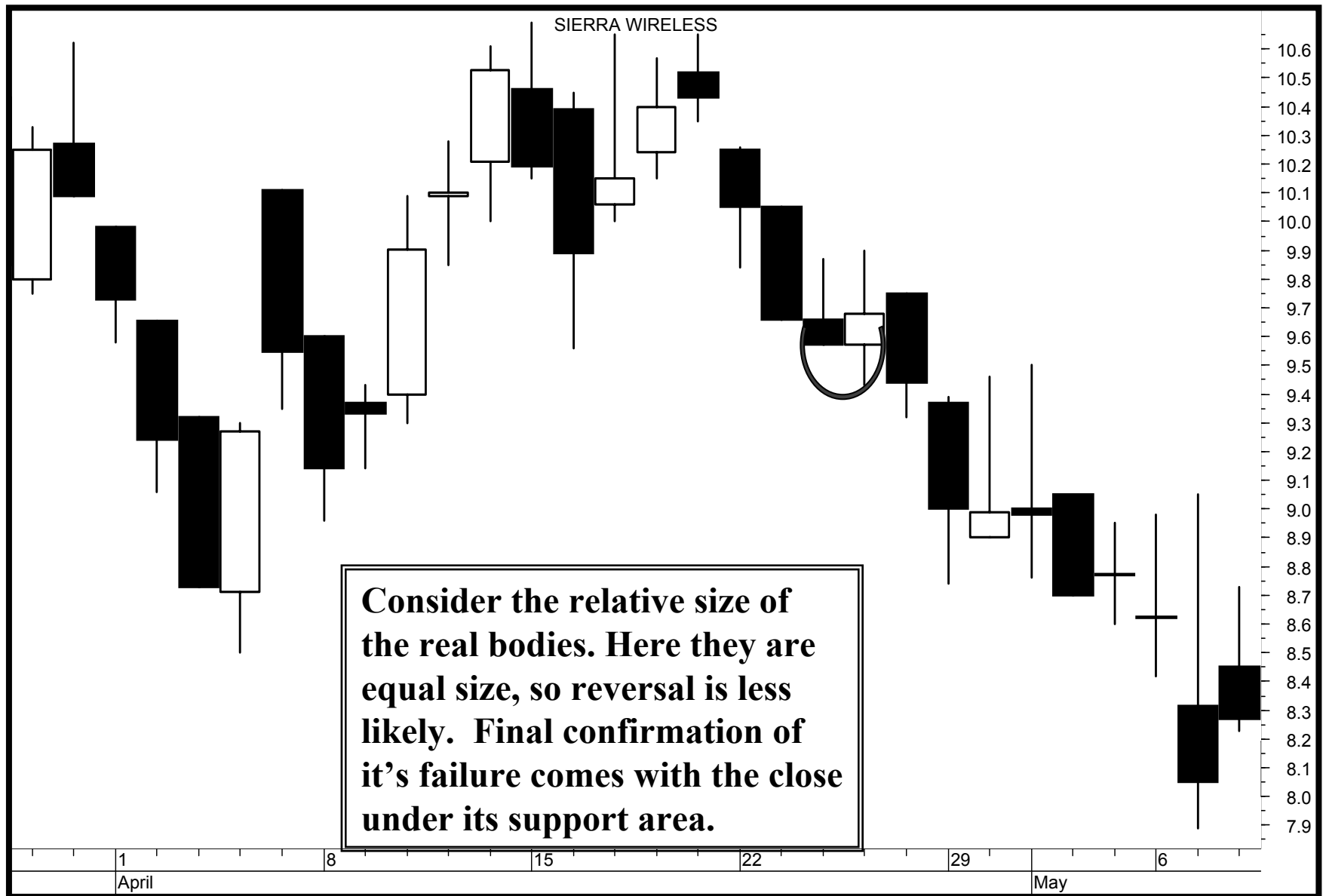
Relative Strength



Bullish Engulfing Pattern

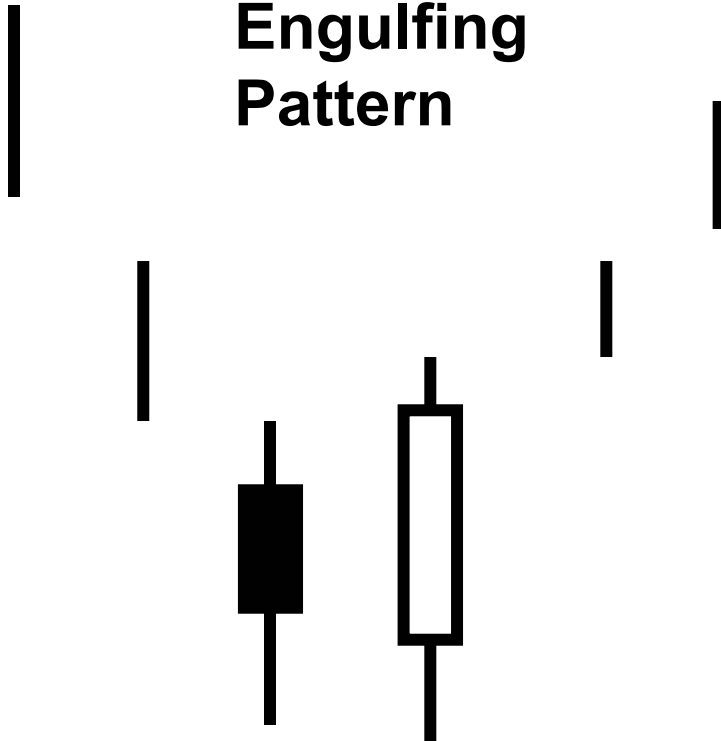


Engulfing pattern – comparing size of real bodies

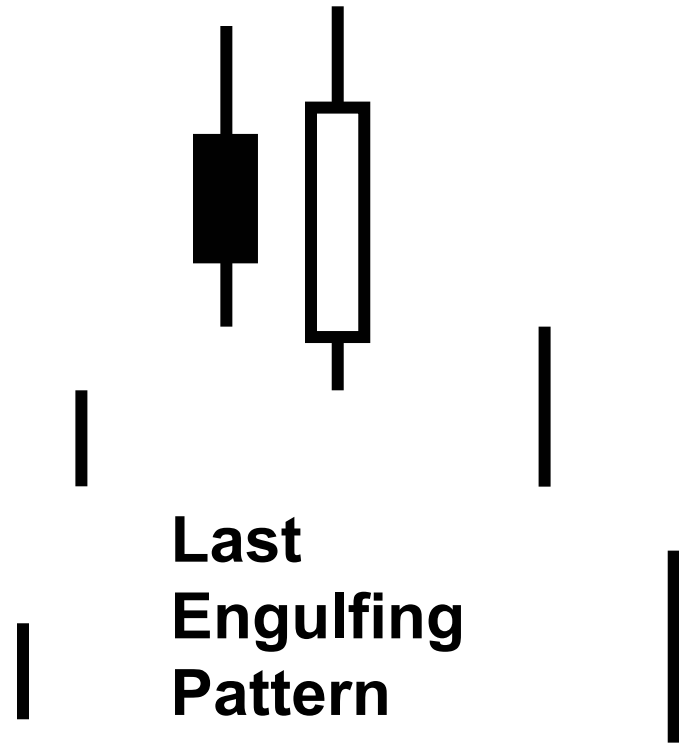


Last Engulfing Pattern

**Bullish
Engulfing
Pattern**



**Last
Engulfing
Pattern**



Last Engulfing Pattern



Last Engulfing Pattern



Last Engulfing Pattern

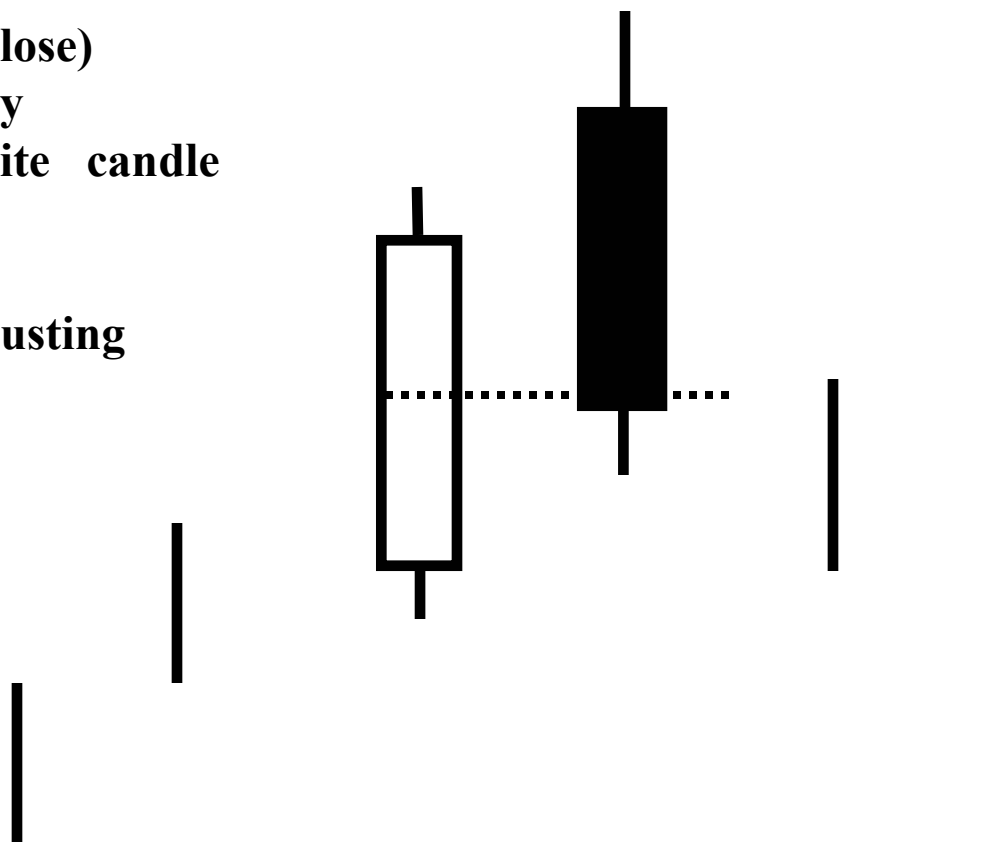


Dark Cloud Cover

Criteria:

- Opens above prior high (or close)
- Closes as long black real body
- Close well into prior long white candle
- Market moving north

Implication: “Advance is exhausting itself”



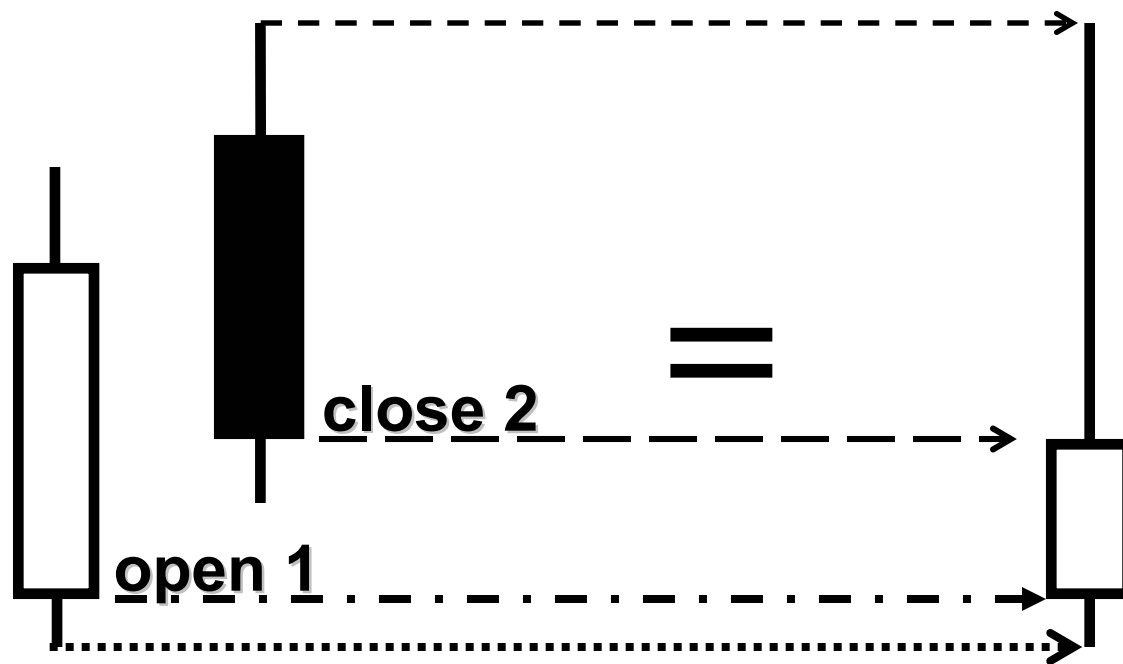
Nison Trading Principle

Not all candle signals should be used to buy or sell. Always consider the risk/reward aspect of the trade.

Dark Cloud Cover and Risk/Reward

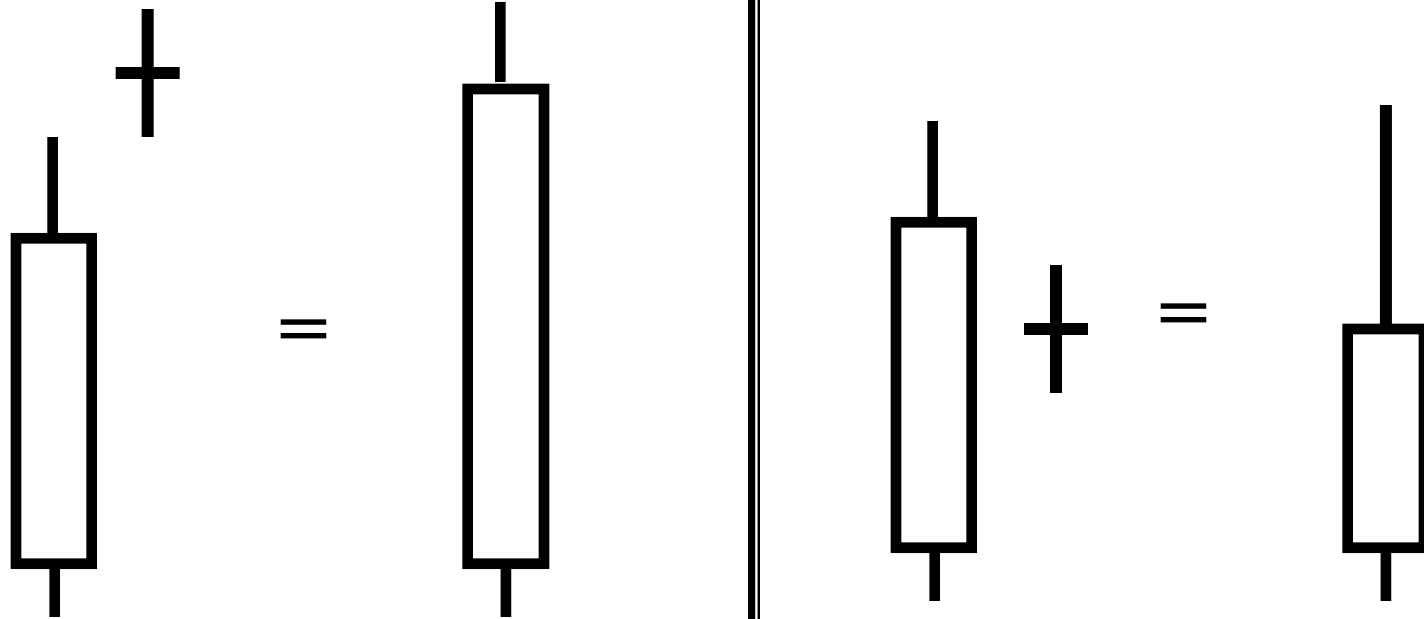


The Blended Candle Line



Blended candle real body = open of the first session, close of the last session. Blended candle shadows = highest high and lowest close of all sessions

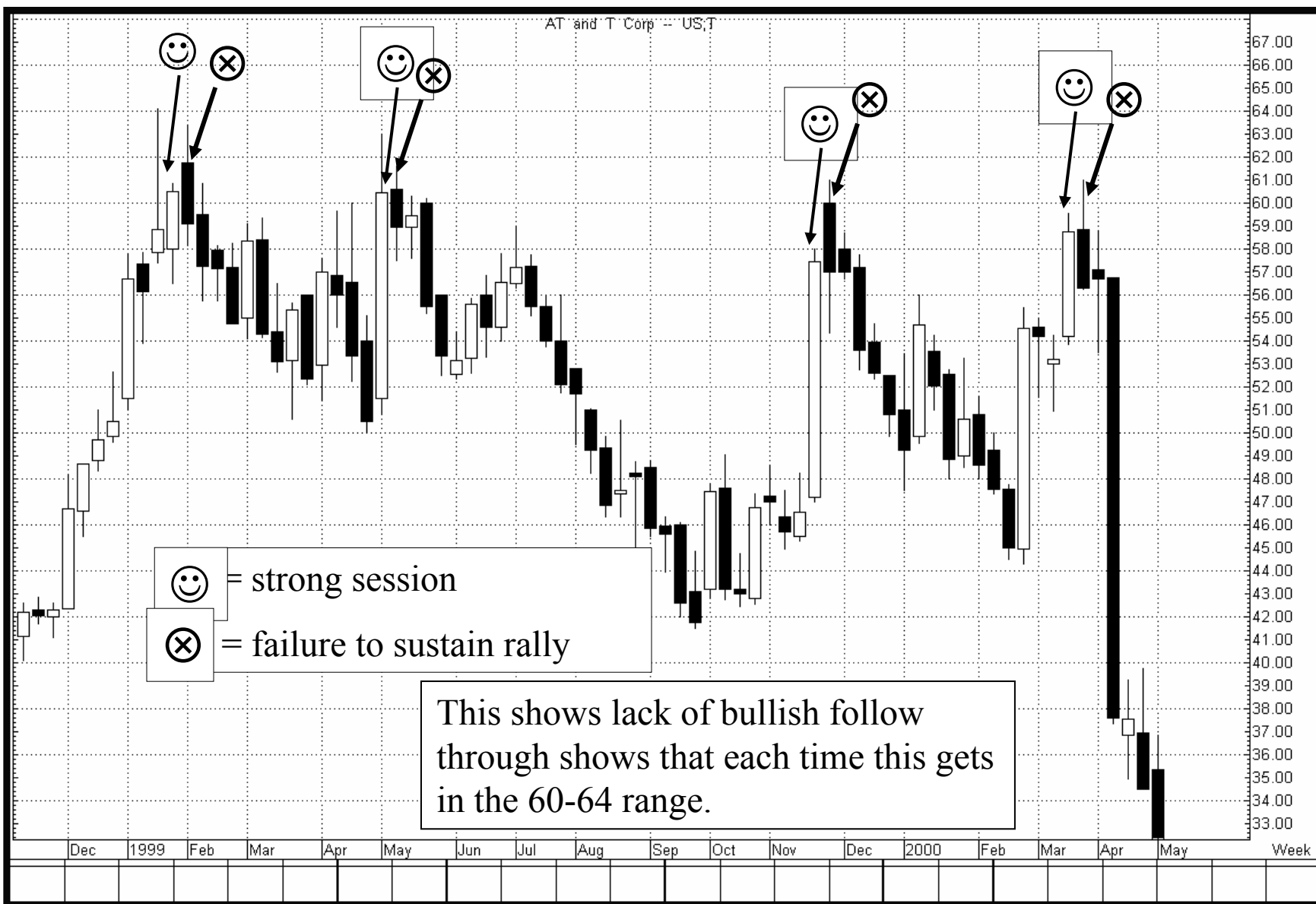
The Blended Candle Line



The Checkmate Principle:

- A series of tall white candles followed by black candles (or small real bodies) near the same resistance level reveals that the bulls' drive is being "checkmated"
- A series of long black candles followed by white candles (or small real bodies) near the same support level reveals that the bears' drive is being "checkmated"

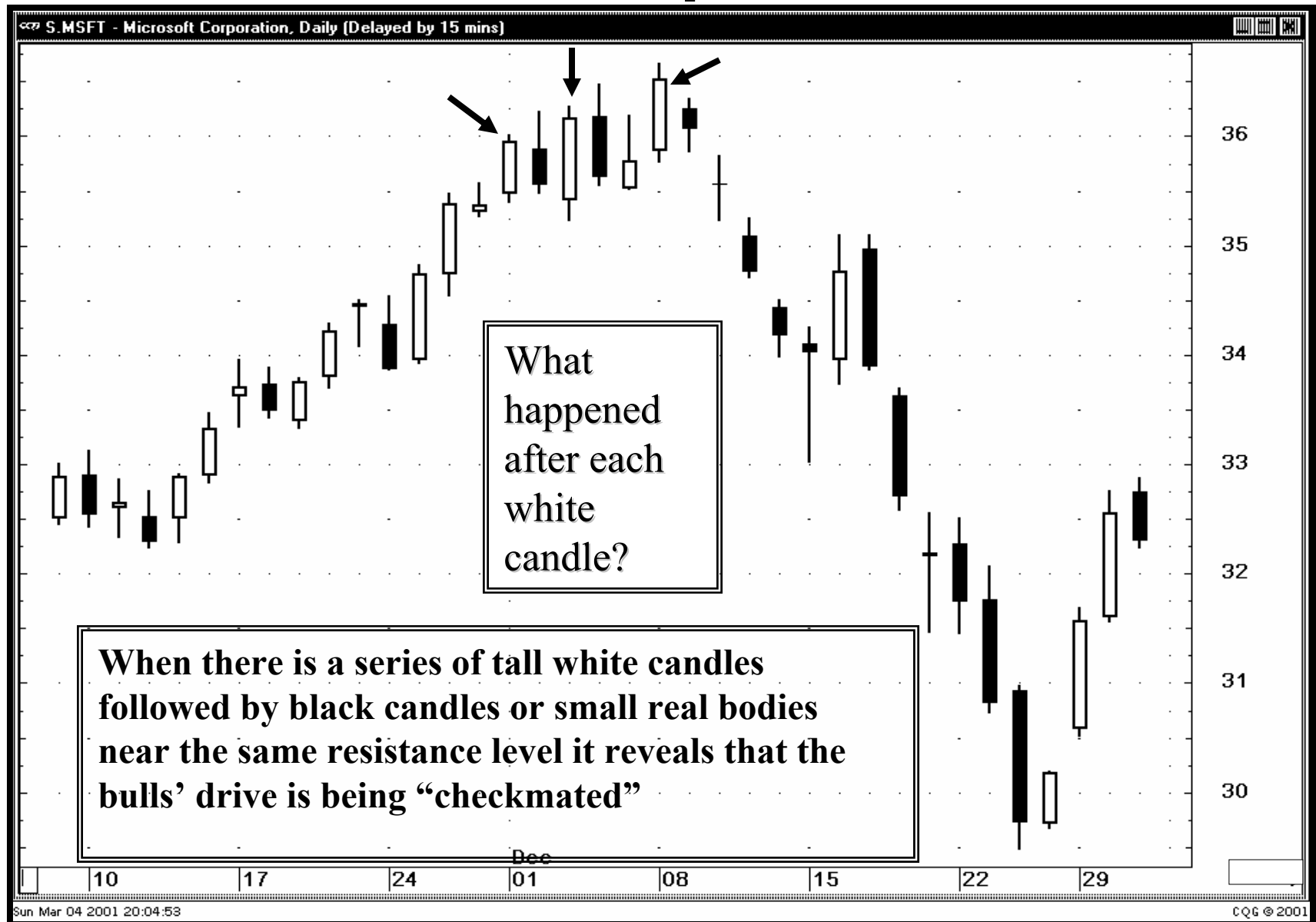
Bearish Checkmate



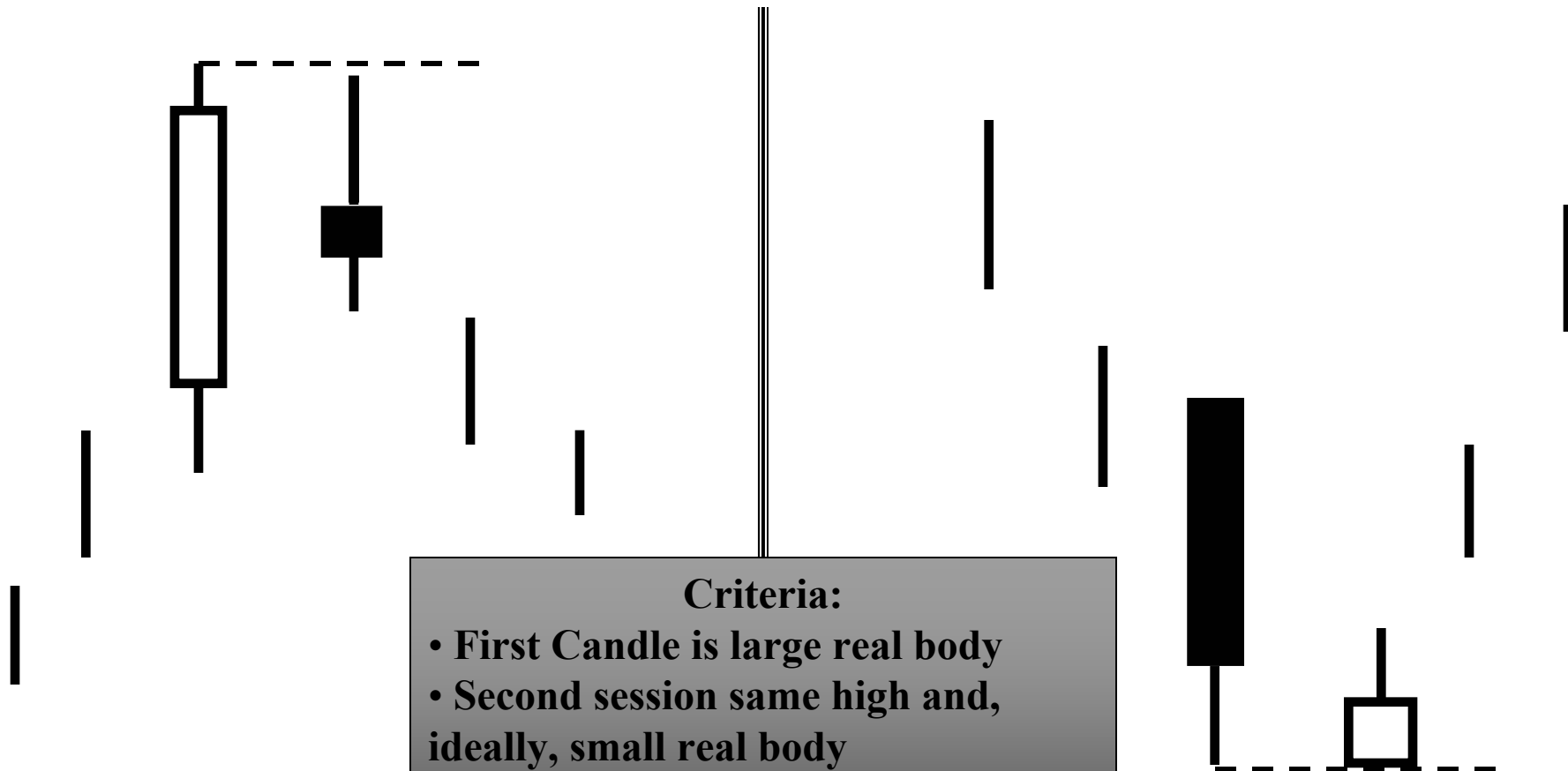
Hammer as support



The Checkmate Principle



Tweezers Tops and Bottom



Criteria:

- First Candle is large real body
- Second session same high and, ideally, small real body

Implication: Prior trend doesn't have a solid foundation

Tweezers Bottom



Tweezers tops



Tweezers top

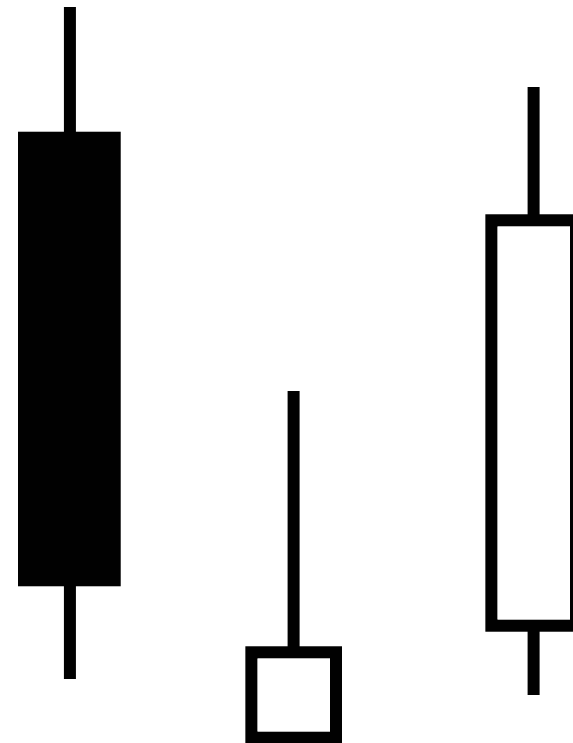


Morning Star

Criteria:

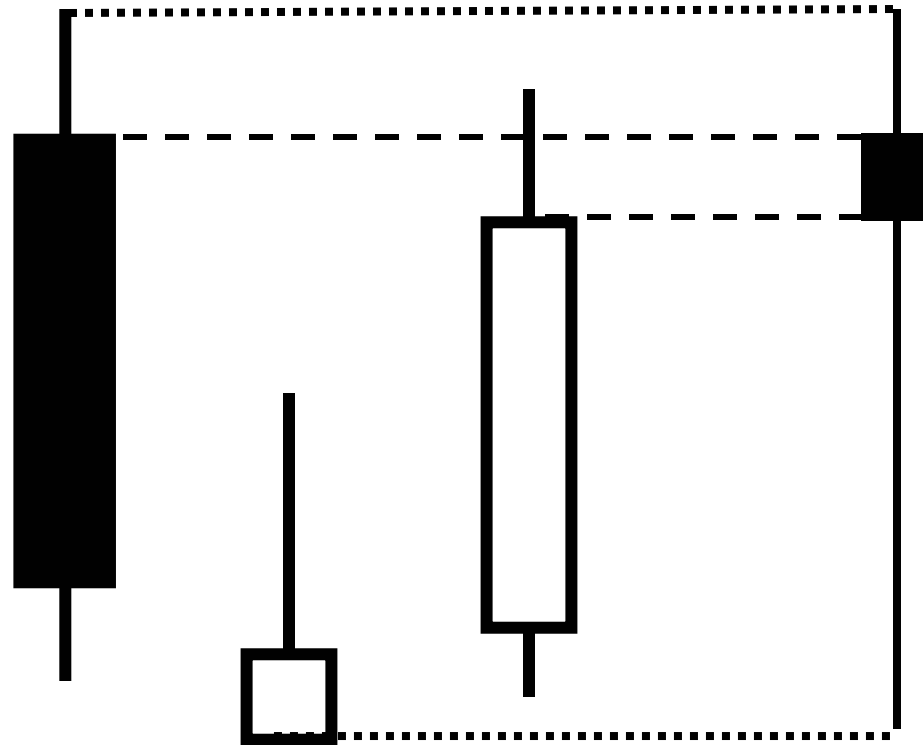
- Market in down trend
- First candle long black
- Second real body (spinning top, black or white) doesn't overlap first session's real body
- Third candle (white) closes deeply in first black real body

Implication: Bulls are taking control



white or black

Morning Star



white or black

Morning Star variation



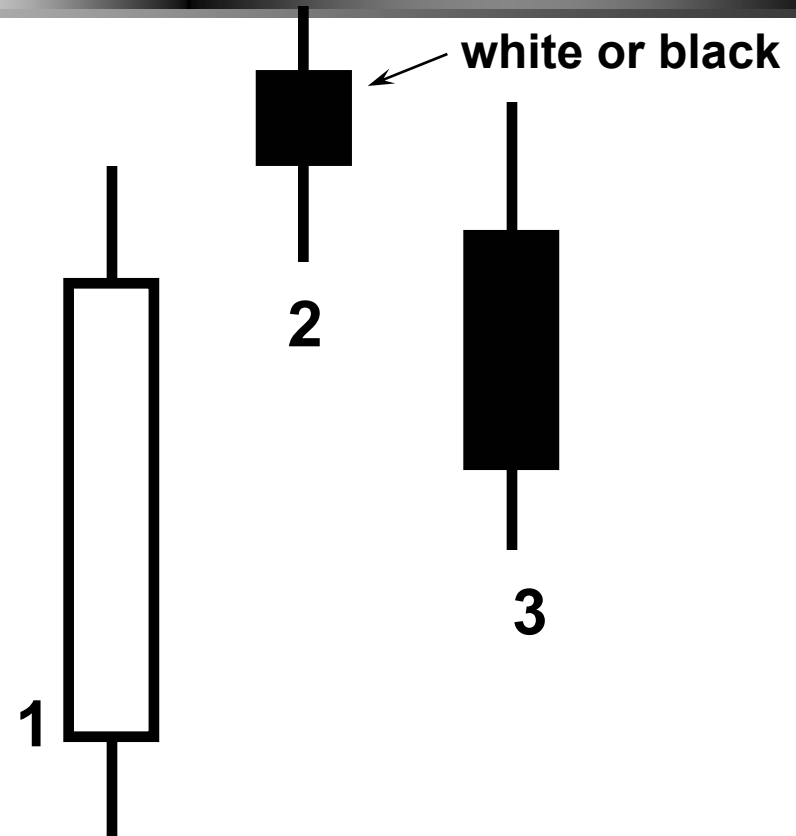
Published by eSignal (www.esignal.com)

Evening Star

Criteria:

- Market in an up trend
- First candle is long white
- Second real body (black or white spinning top) doesn't overlap first session's real body
- Third candle (black) closes deeply in first white real body

Implication: Bears are taking control



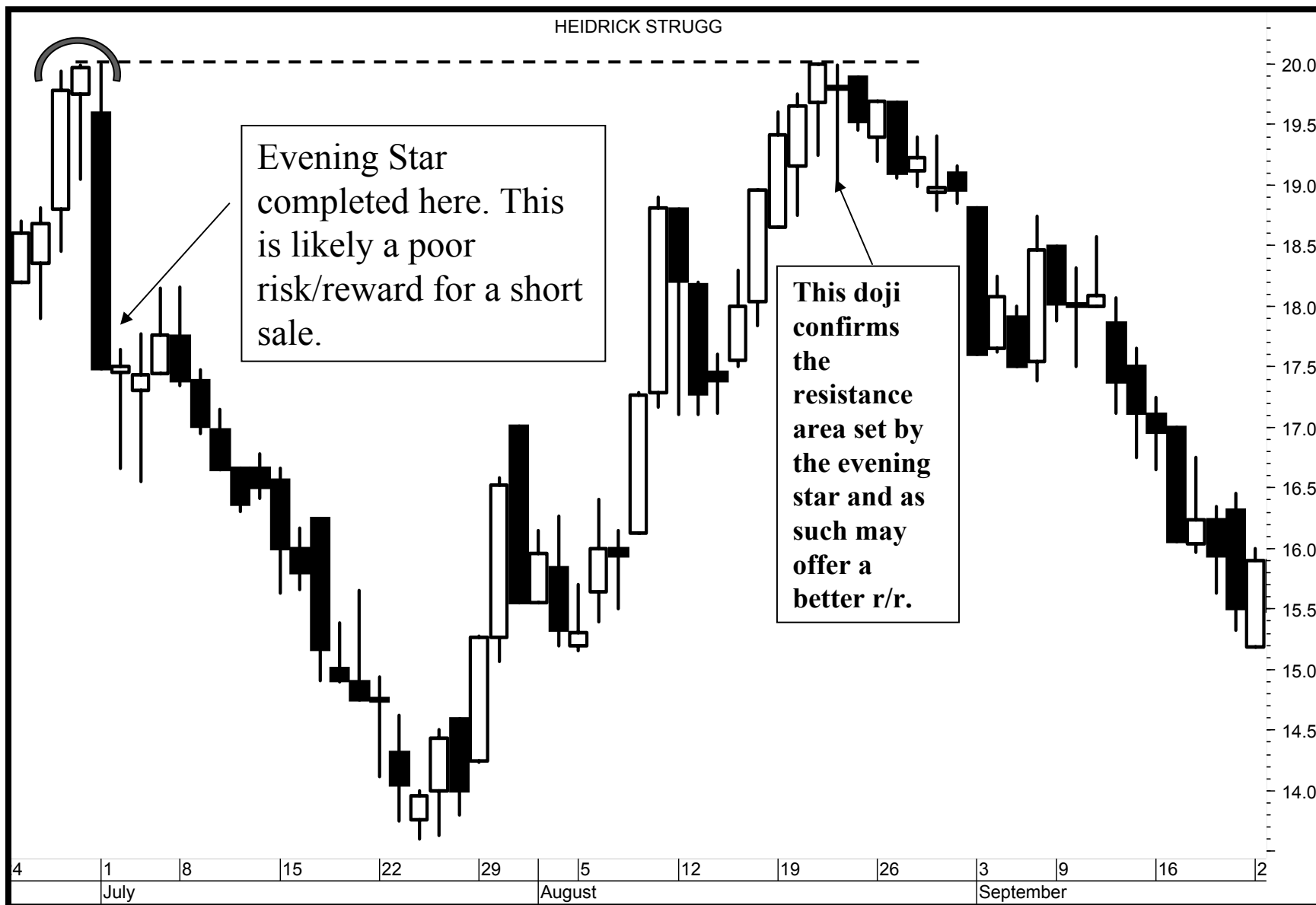
Nison Trading Principle

Candle signals must be
evaluated and acted
upon within the market's
context

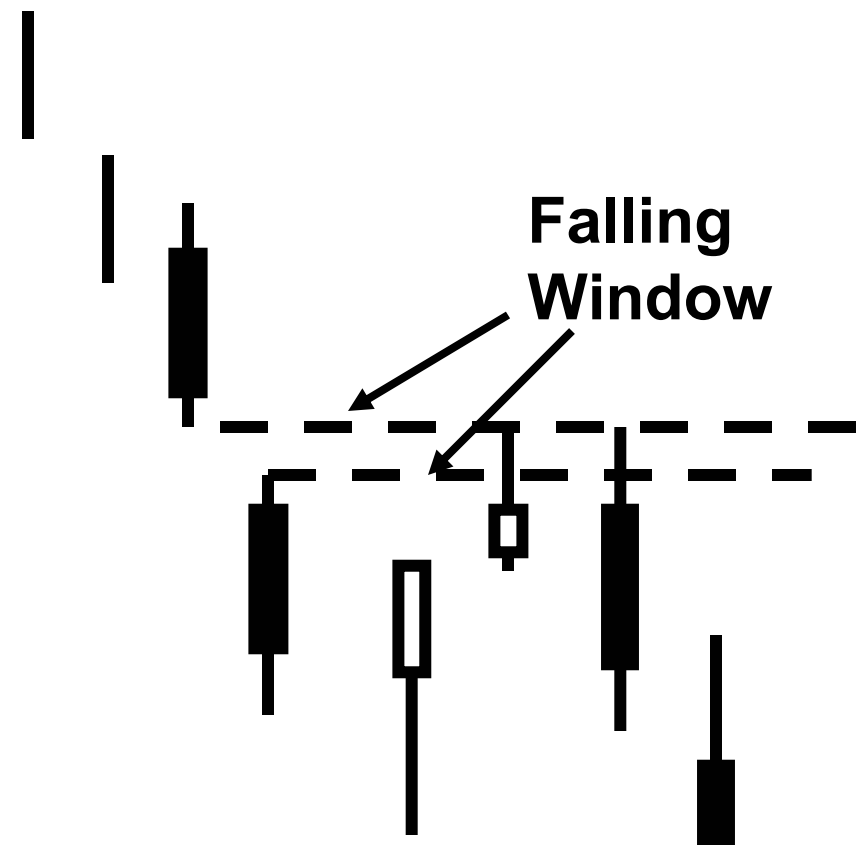
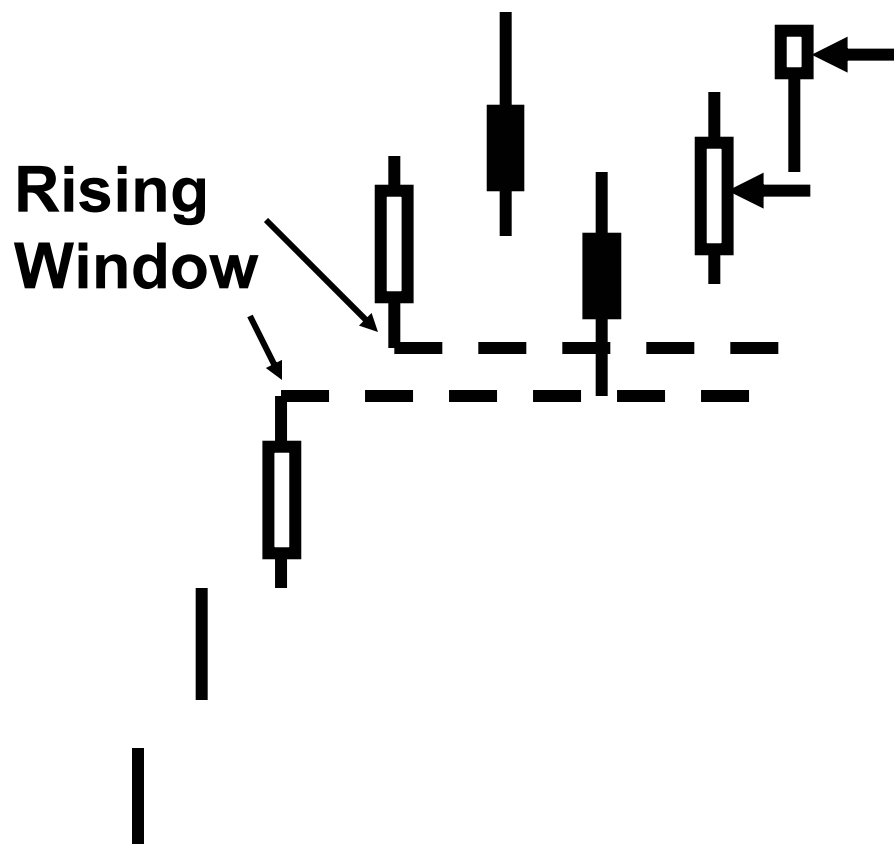
Evening Star compared to Morning Star



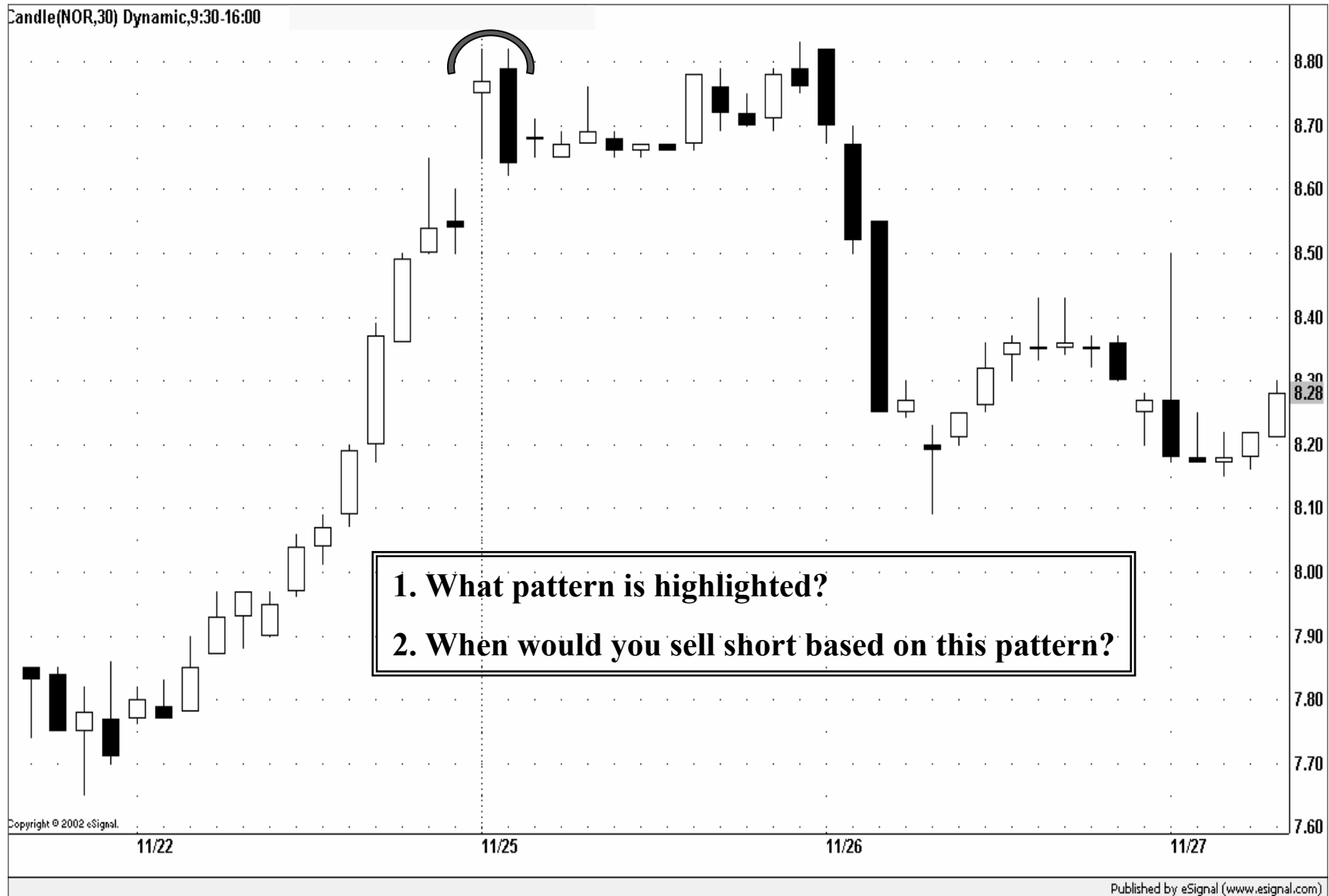
Evening Star and Risk/ Reward



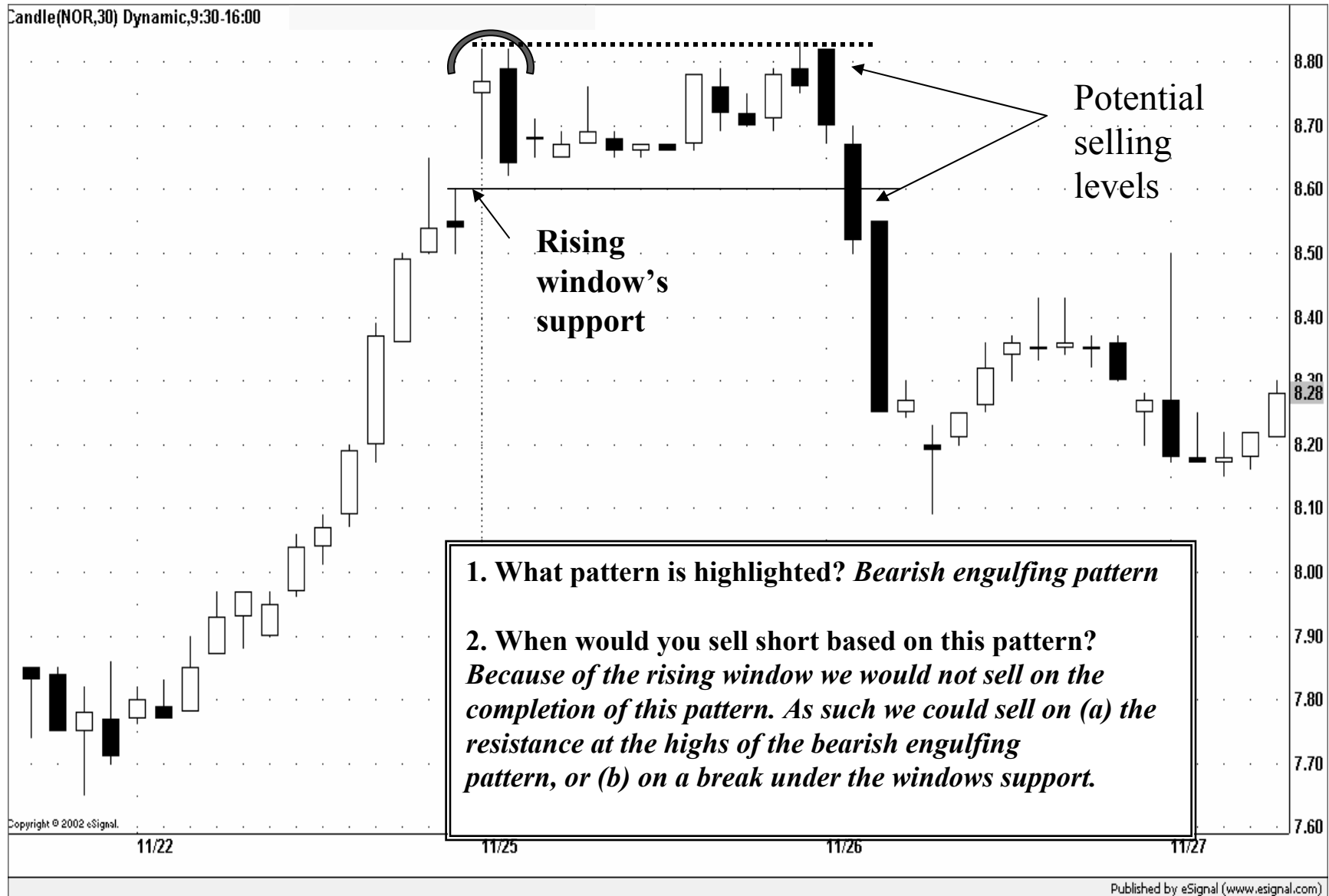
Windows



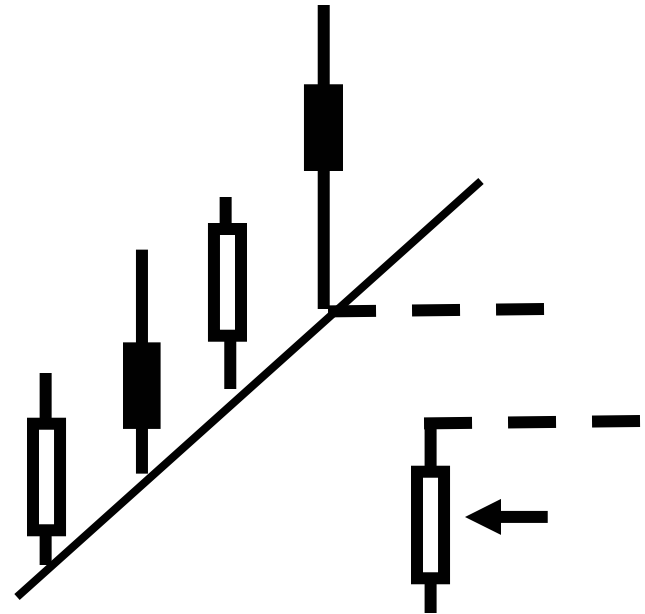
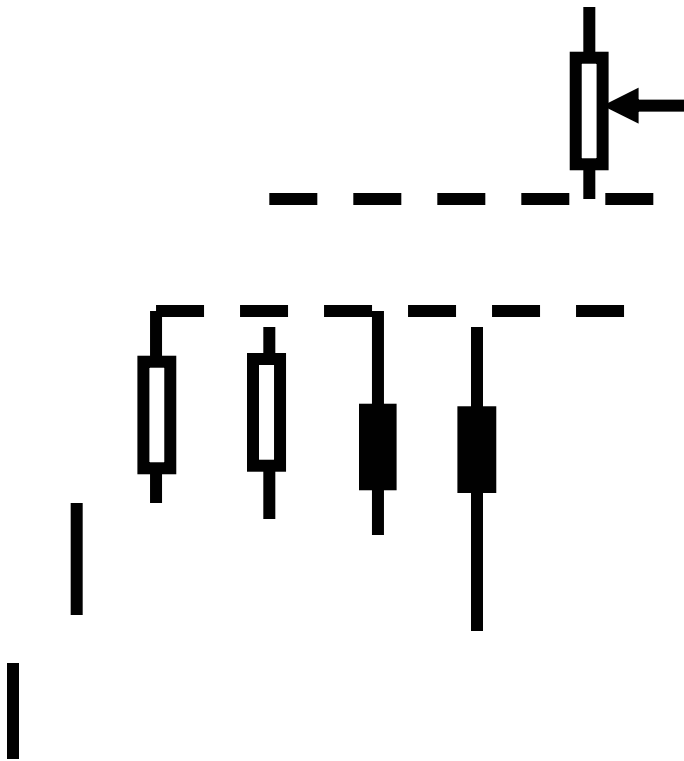
Trading Tactics – practice



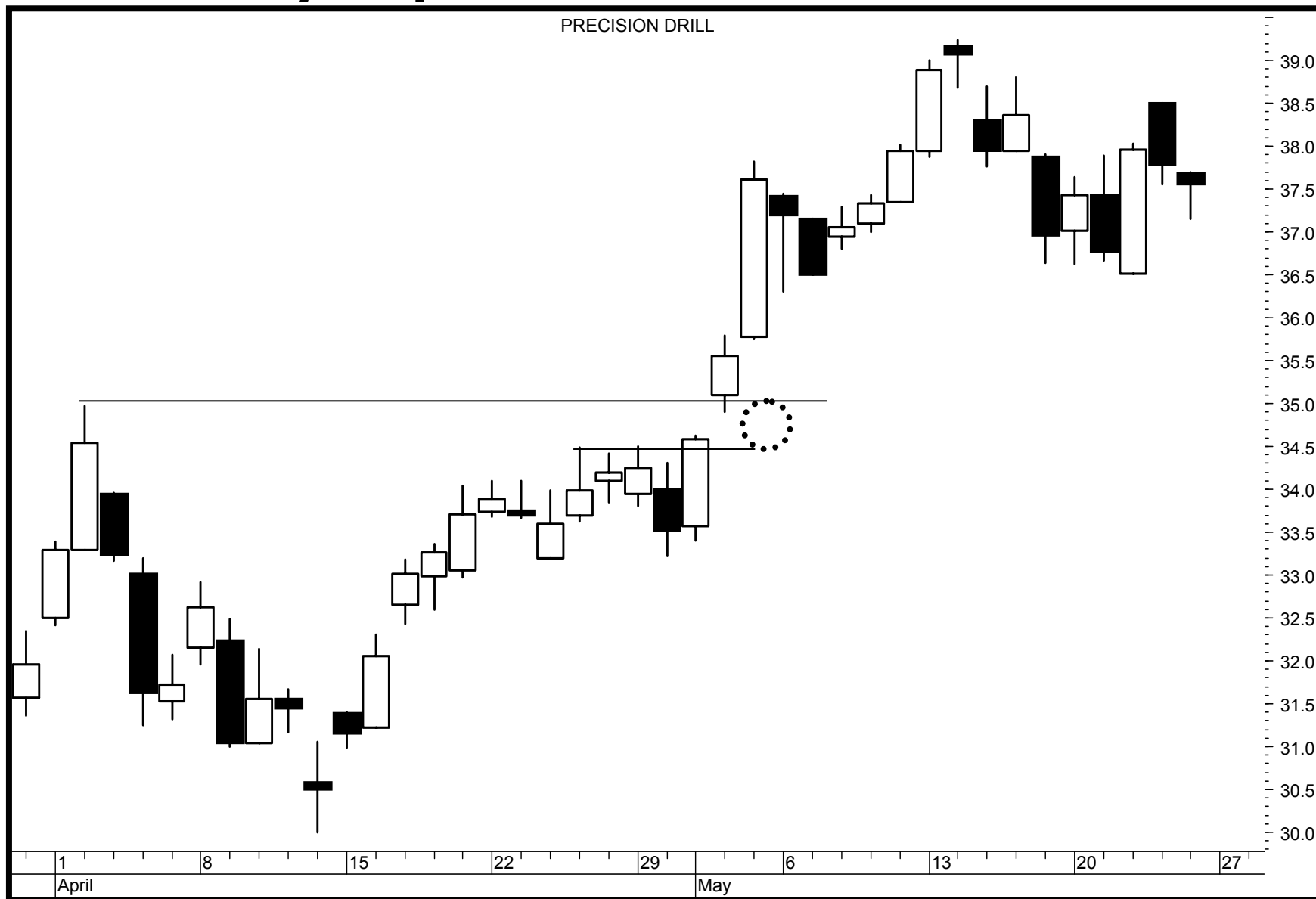
Trading Tactics – practice (answer)



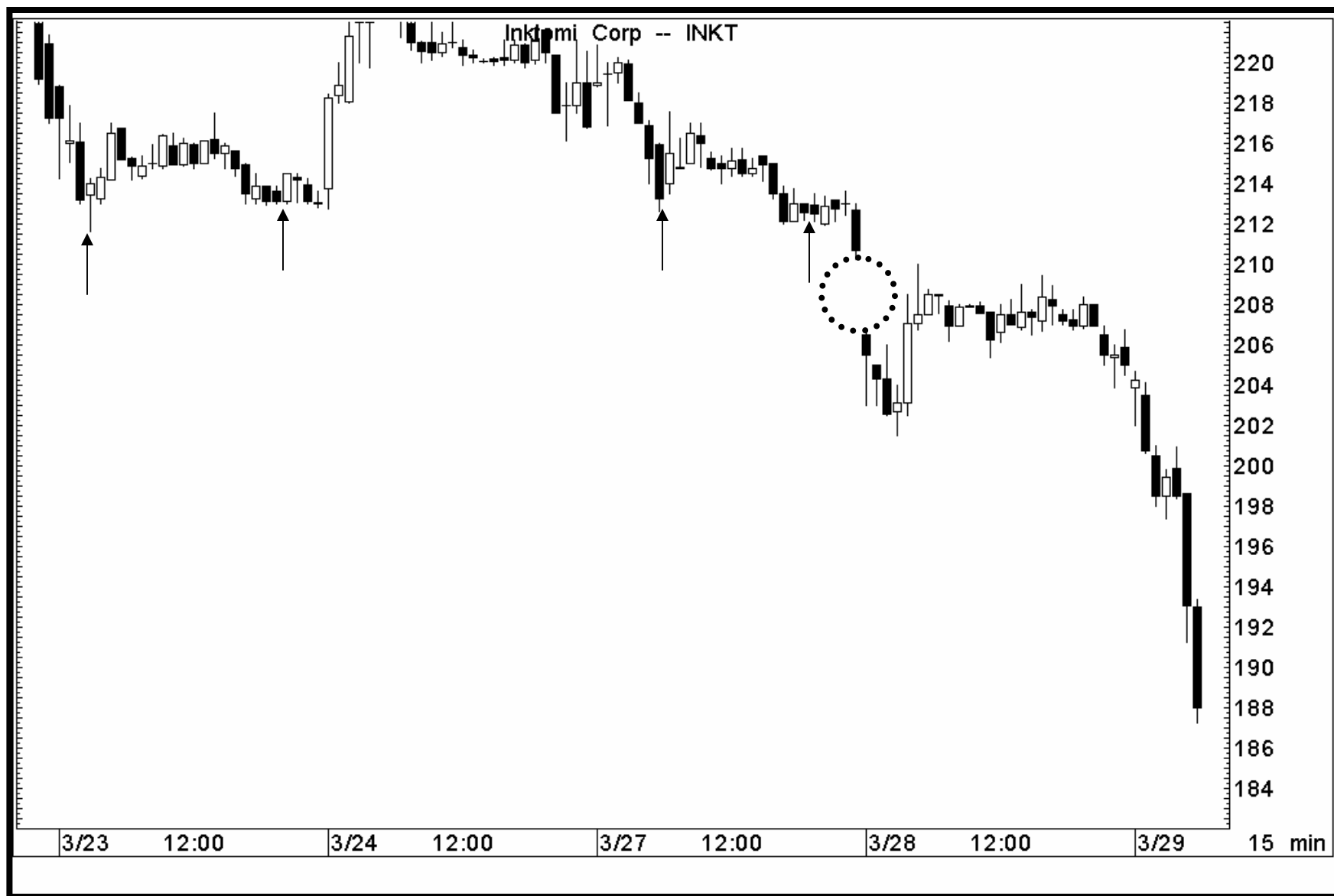
Breakaway Gaps



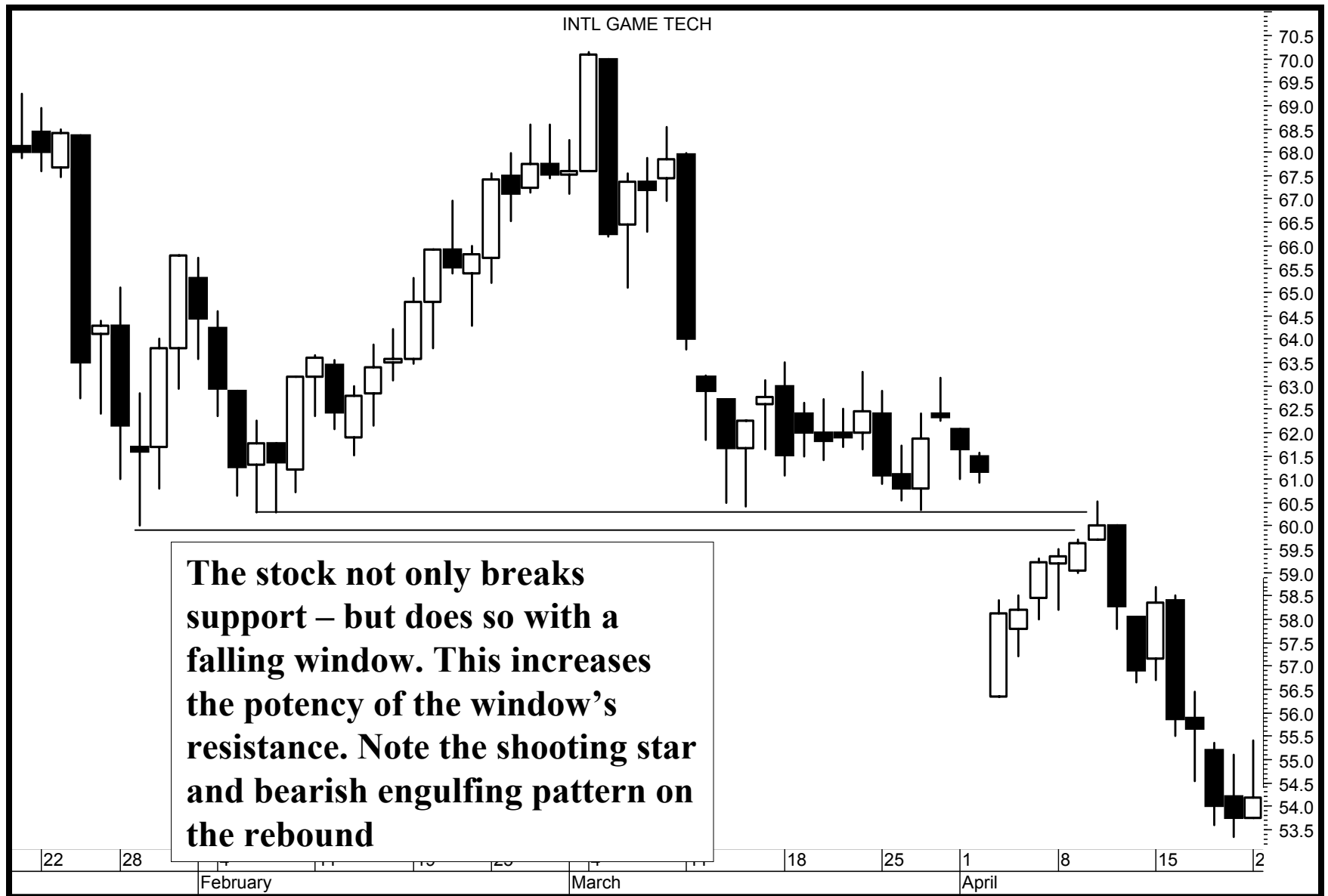
Breakaway Gap



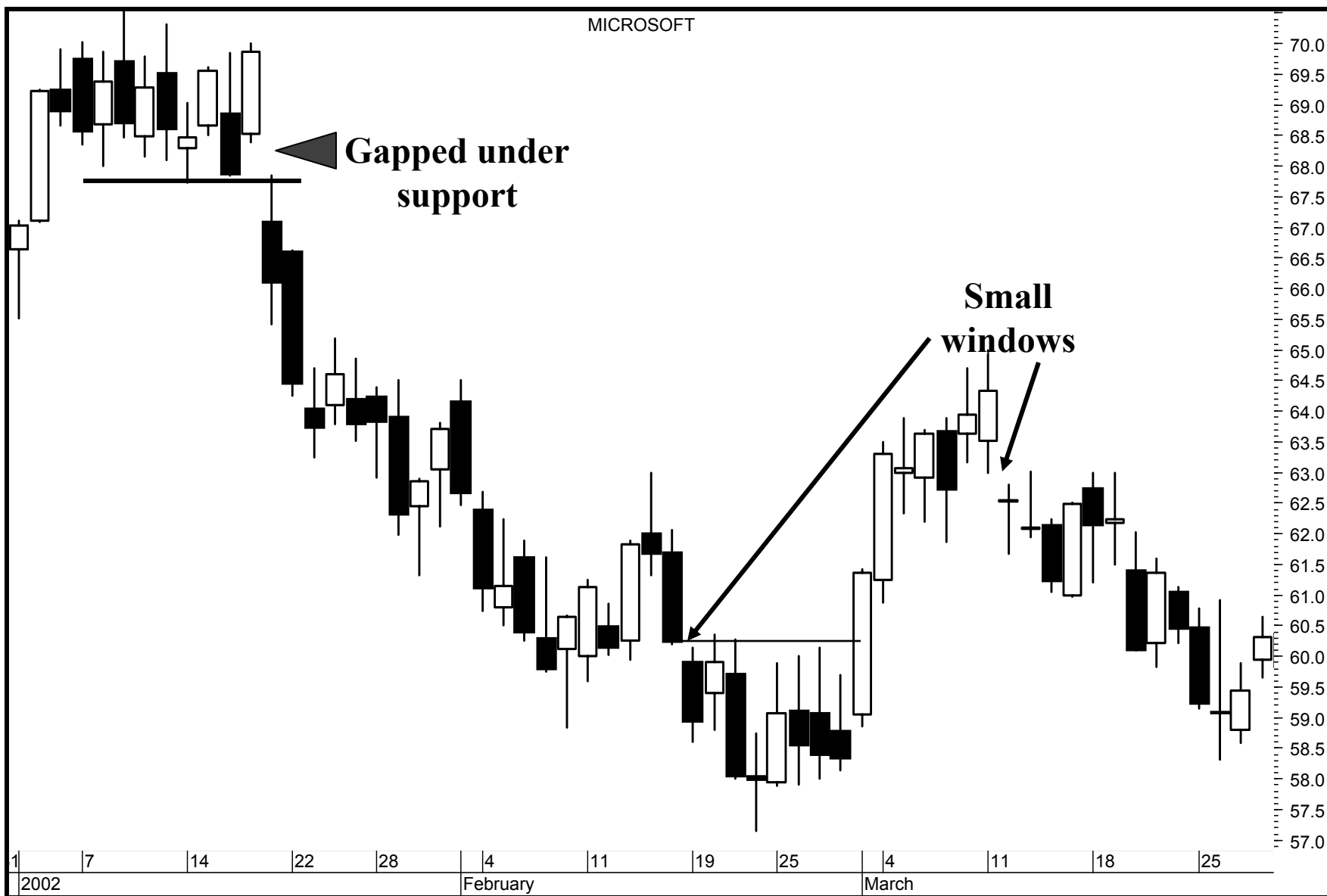
Breakaway Gap



Breakaway gap



Breakaway Gap



Breakaway Gap



Nison Trading Principle

With windows size does
not matter.

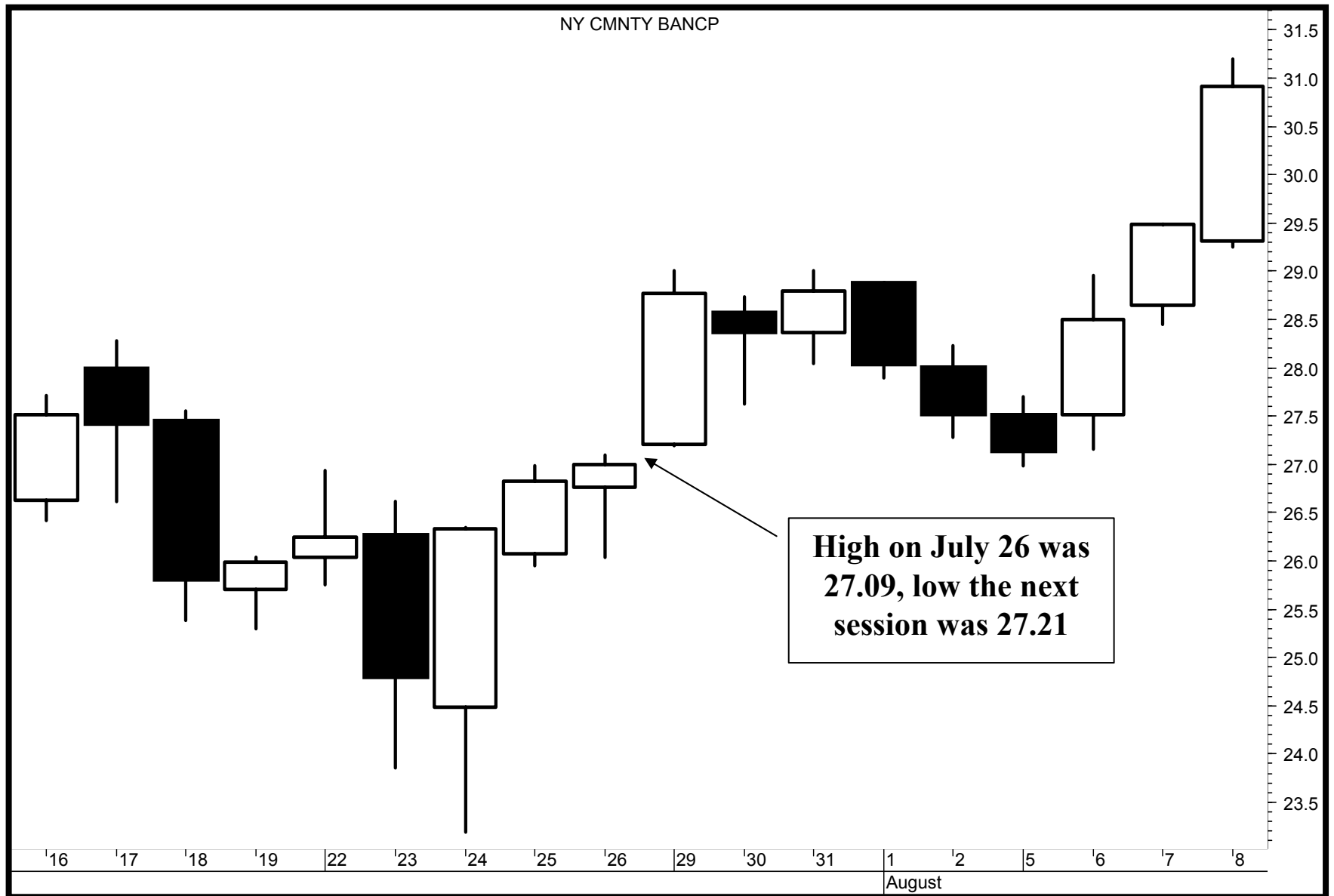
Large and small windows



Large Window



With windows size does not matter



Small Window



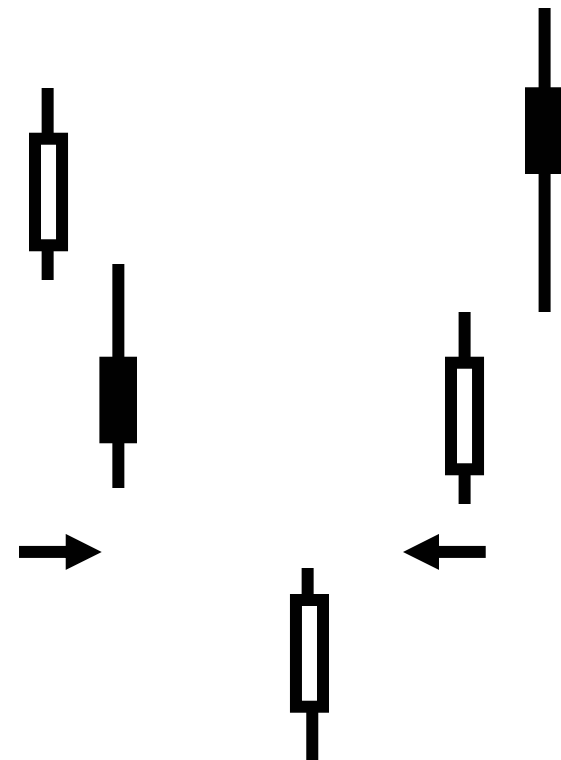
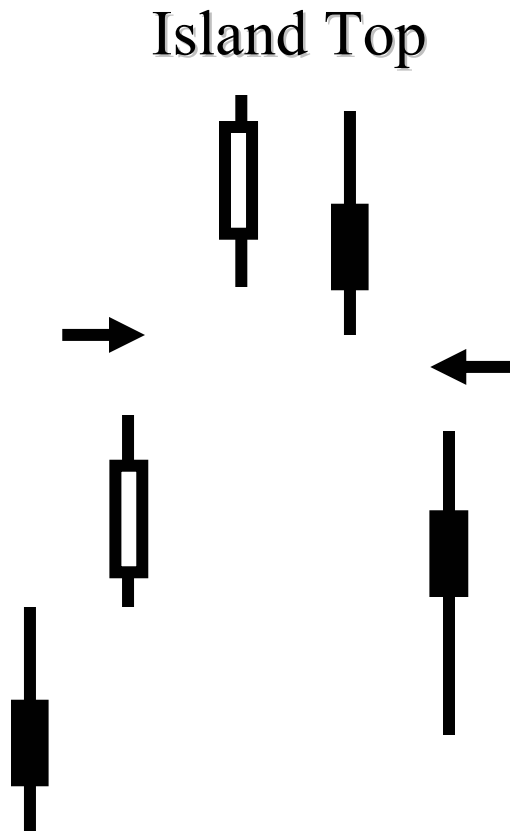
More than three windows



Three Windows

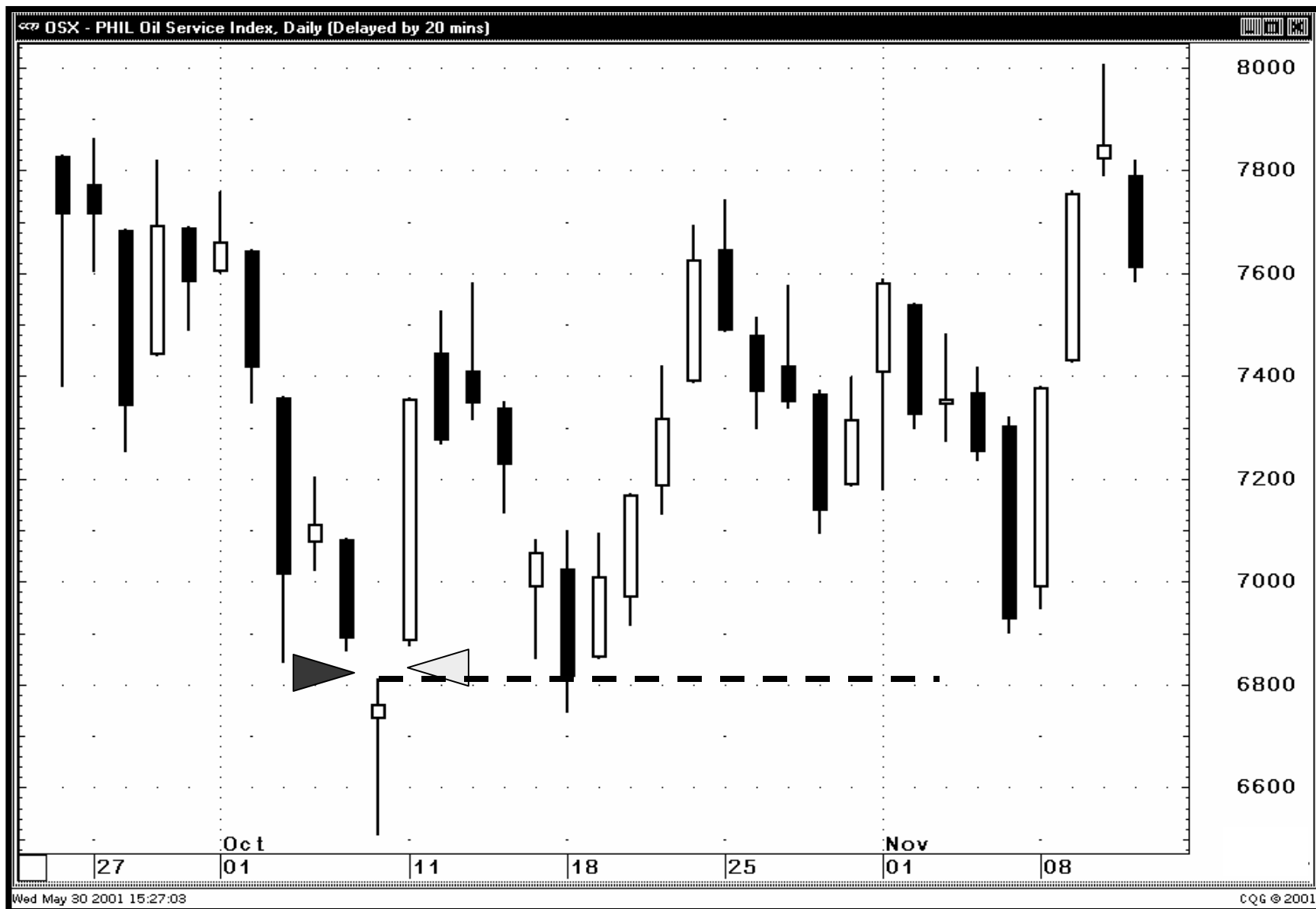


Island Top and Bottom



Island Bottom

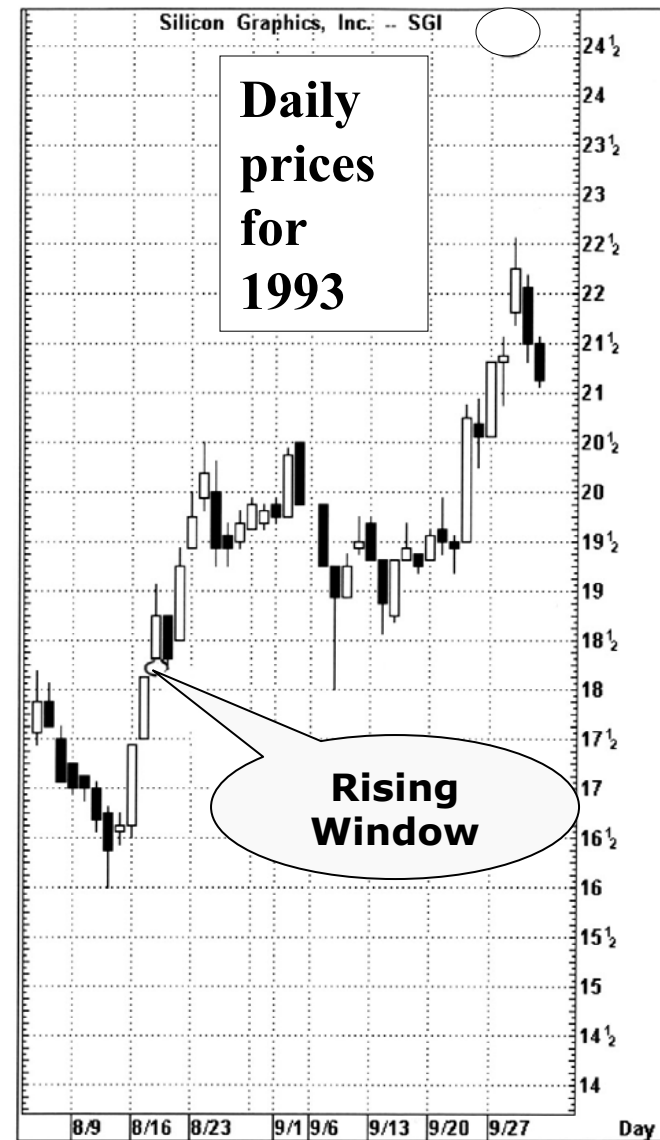
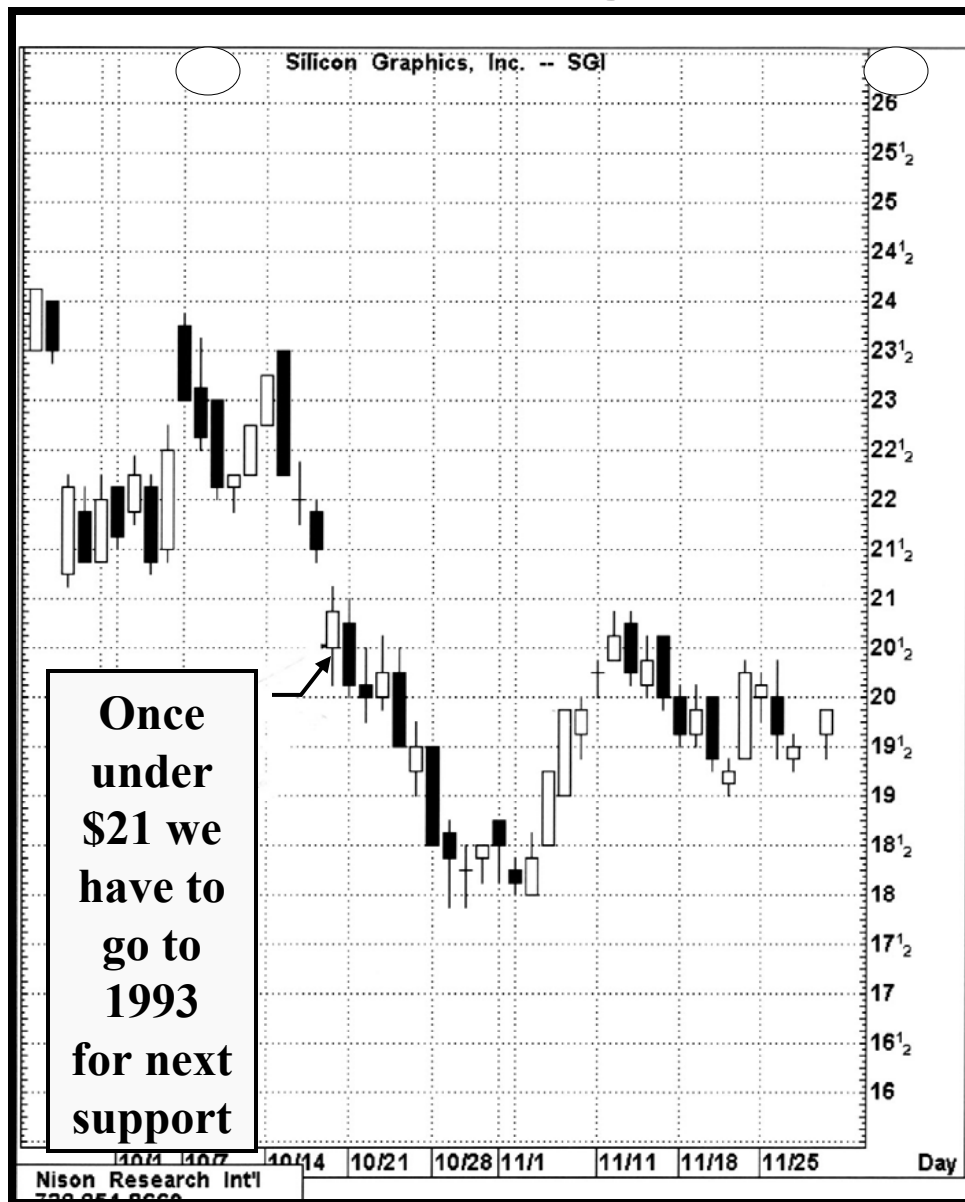
Island Bottom



Island Top



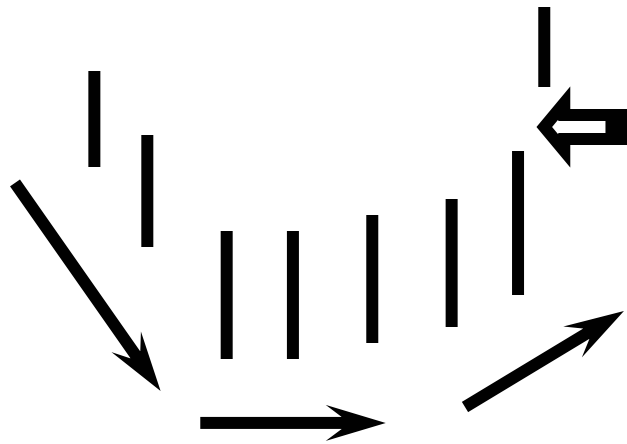
Windows as Target



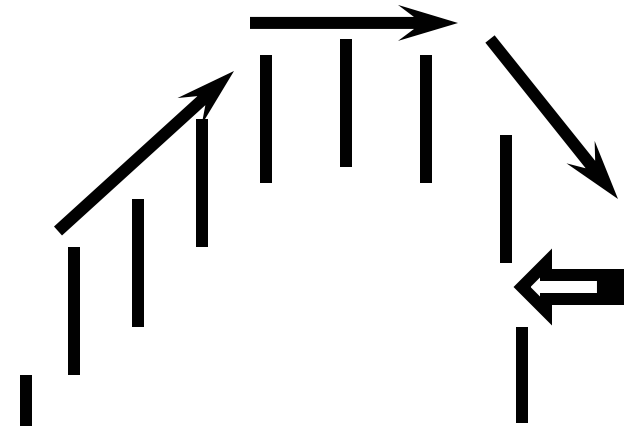
Window as a target



Rounding Tops/Bottoms



Fry Pan Bottom

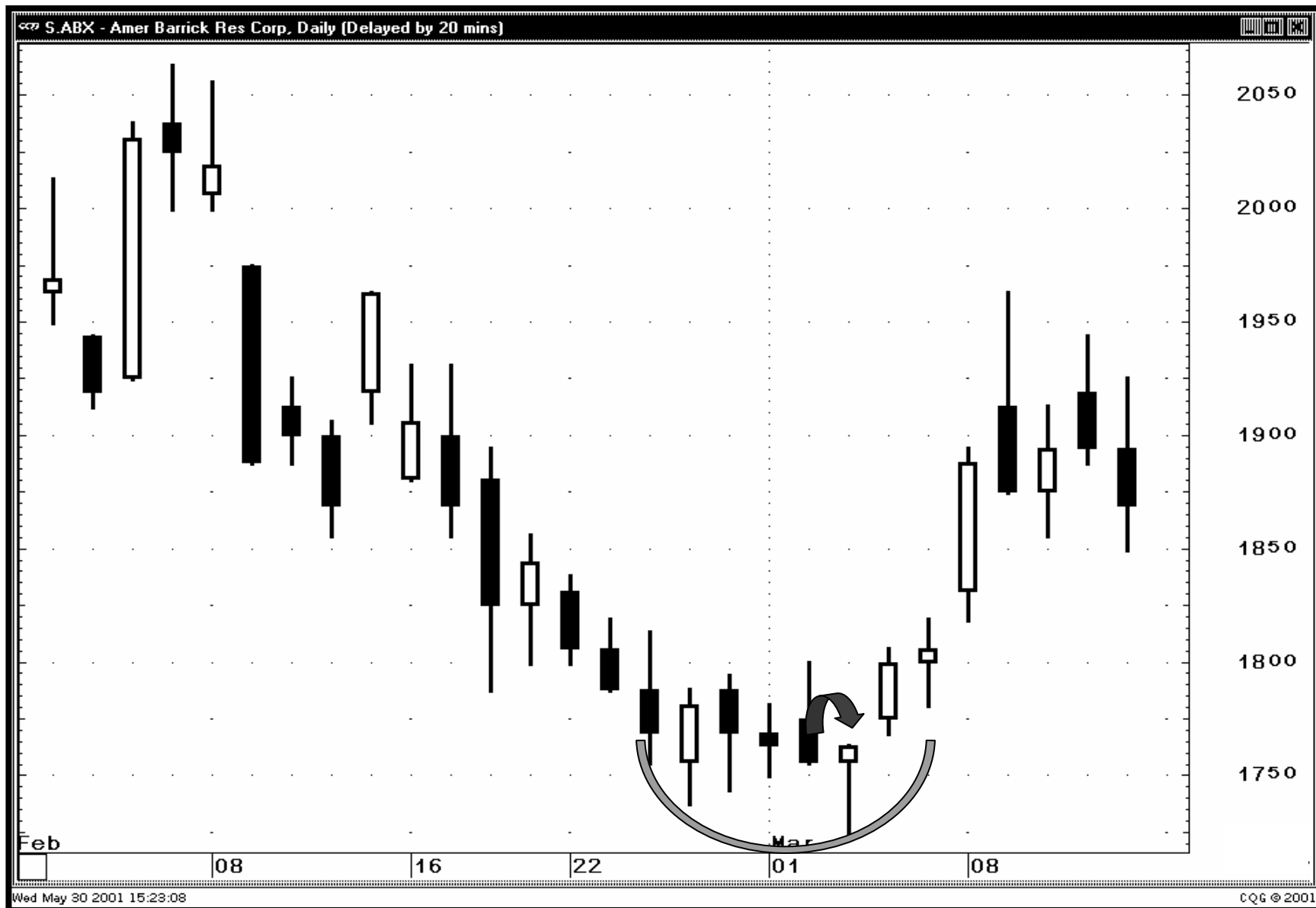


Dumpling Top

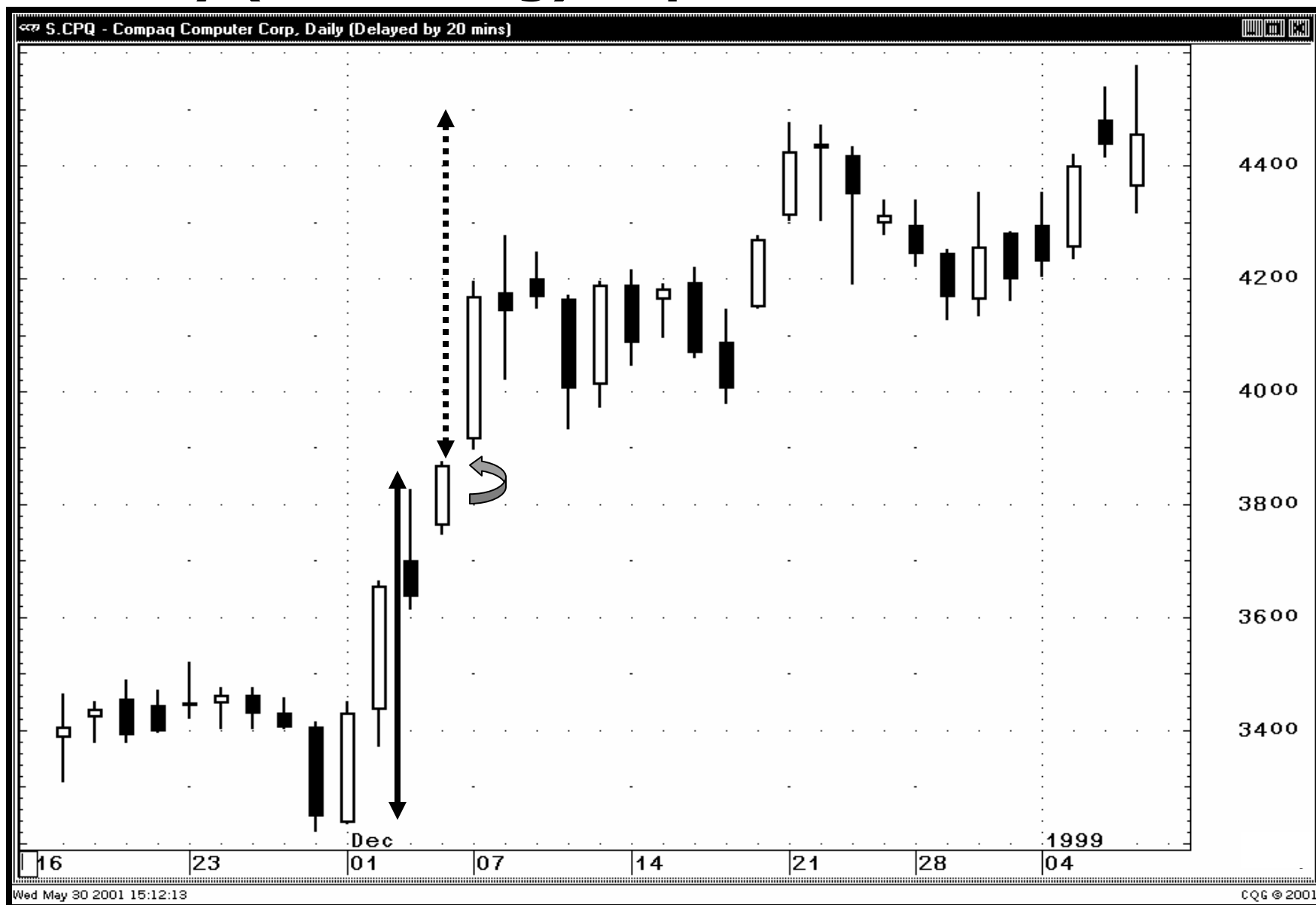
Dumpling Top



Fry Pan Bottom



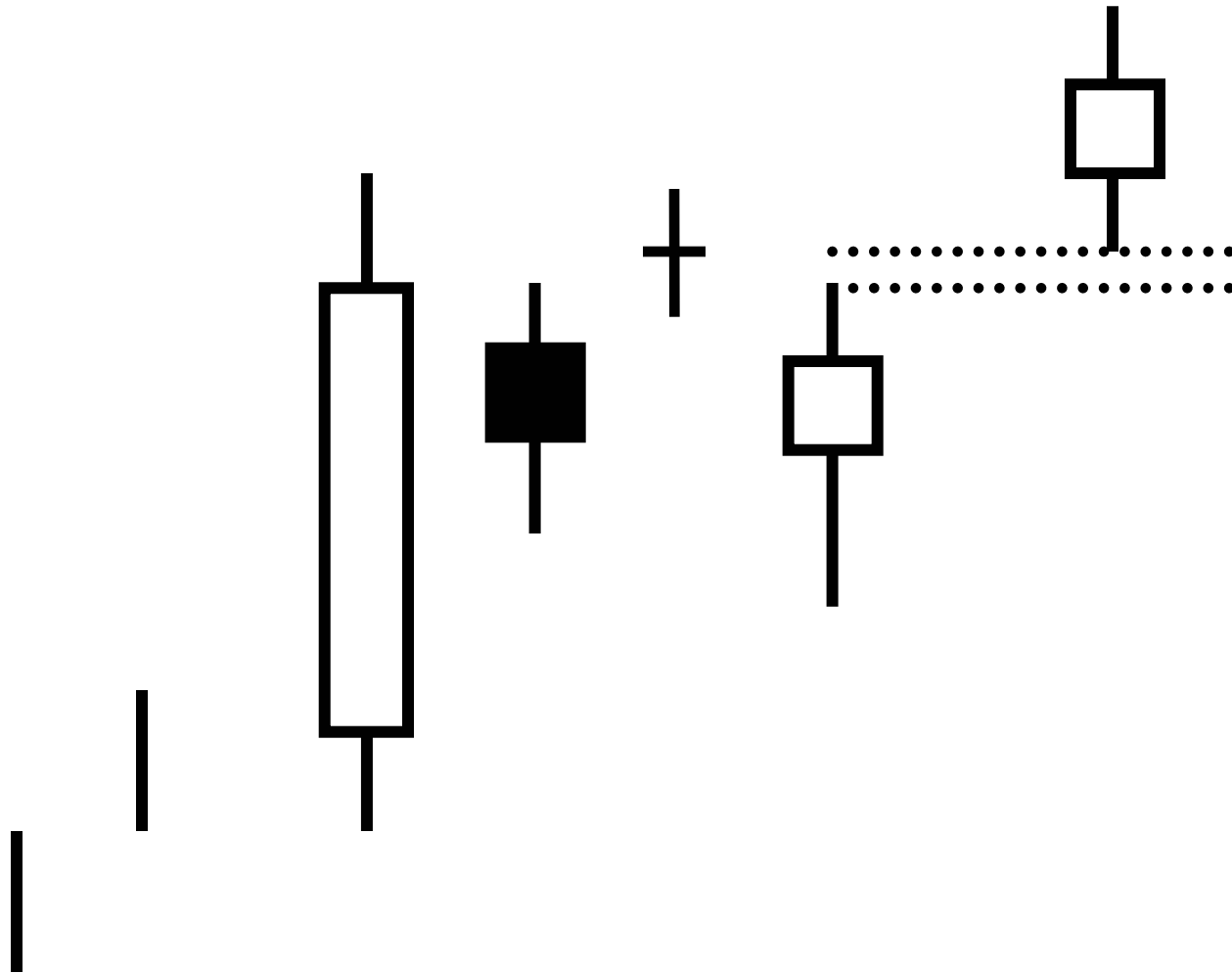
Midway (measuring) Gap



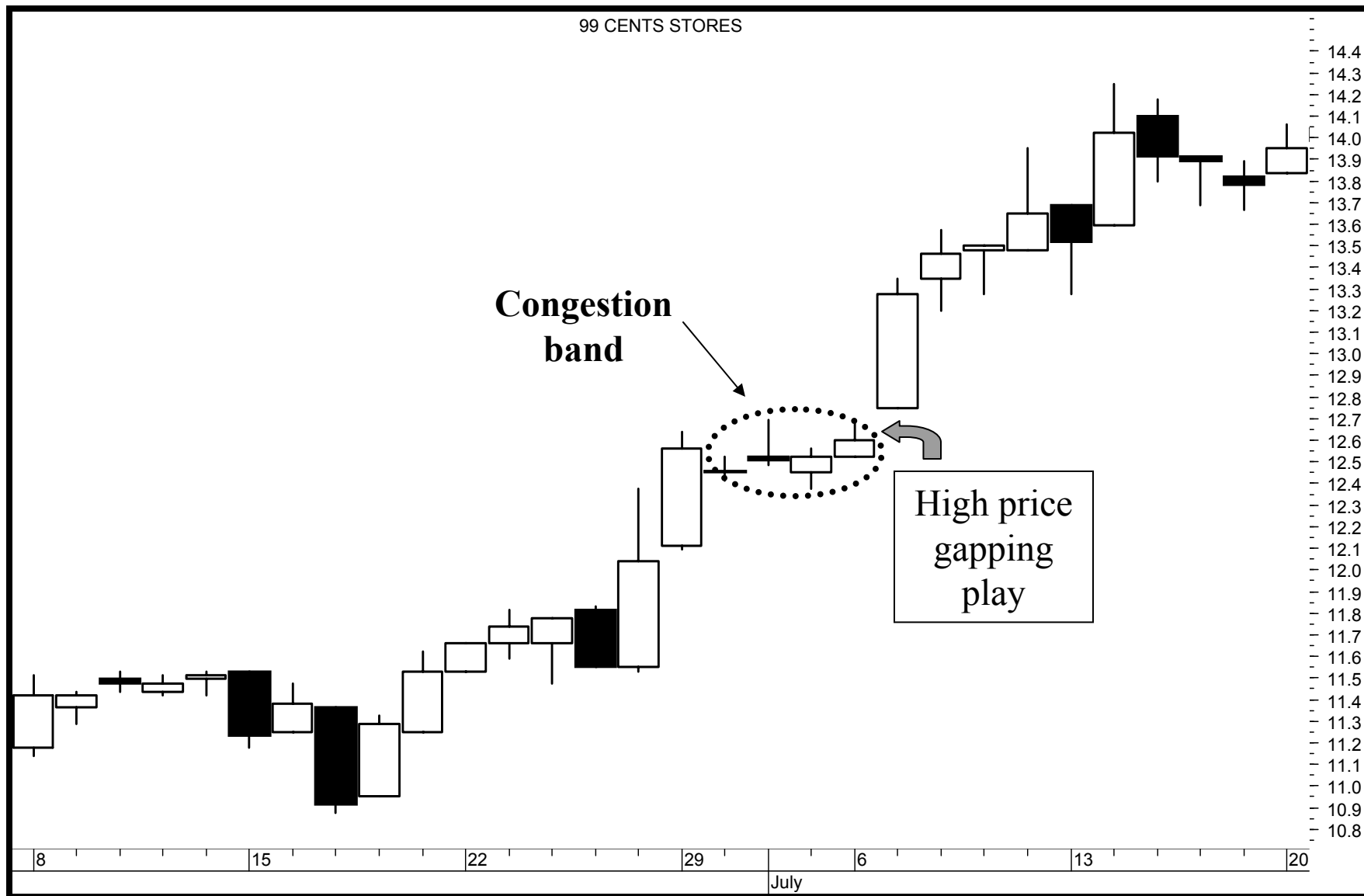
Midway Gap



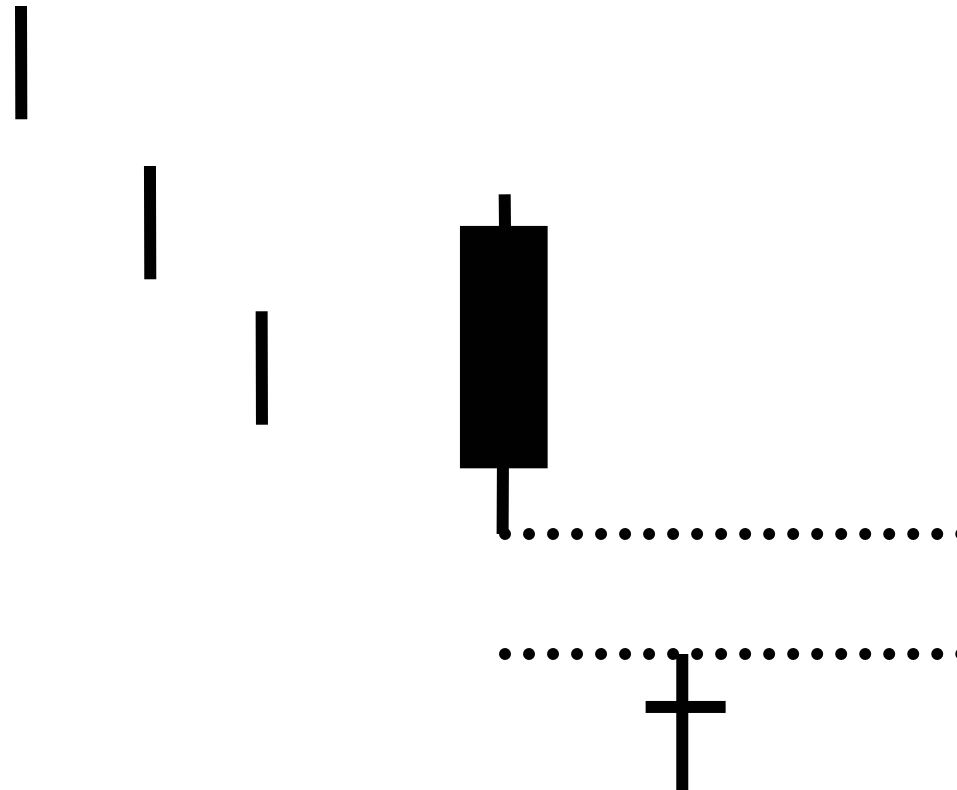
High Price Gapping Play



High Price Gapping Play



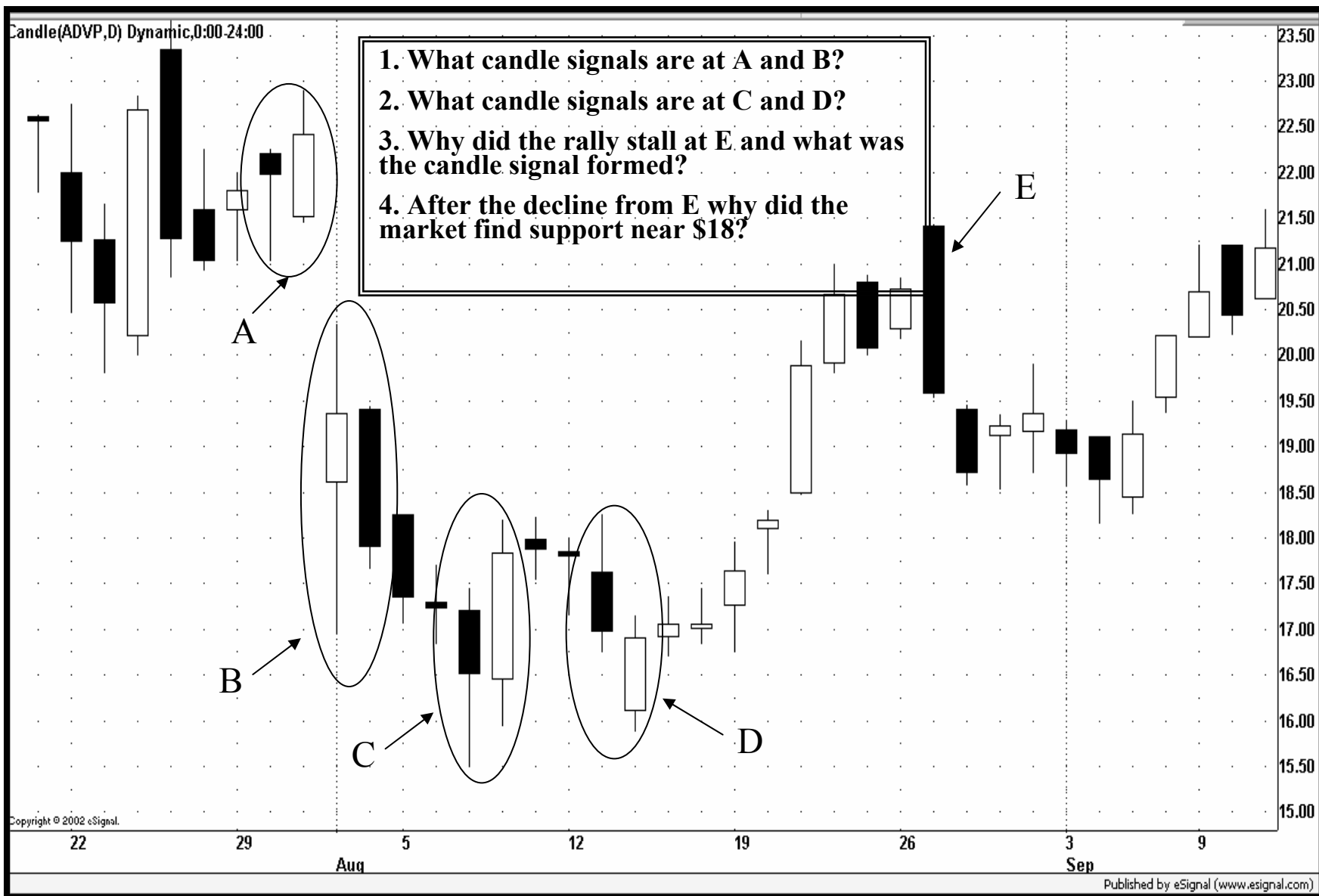
Gapping Doji



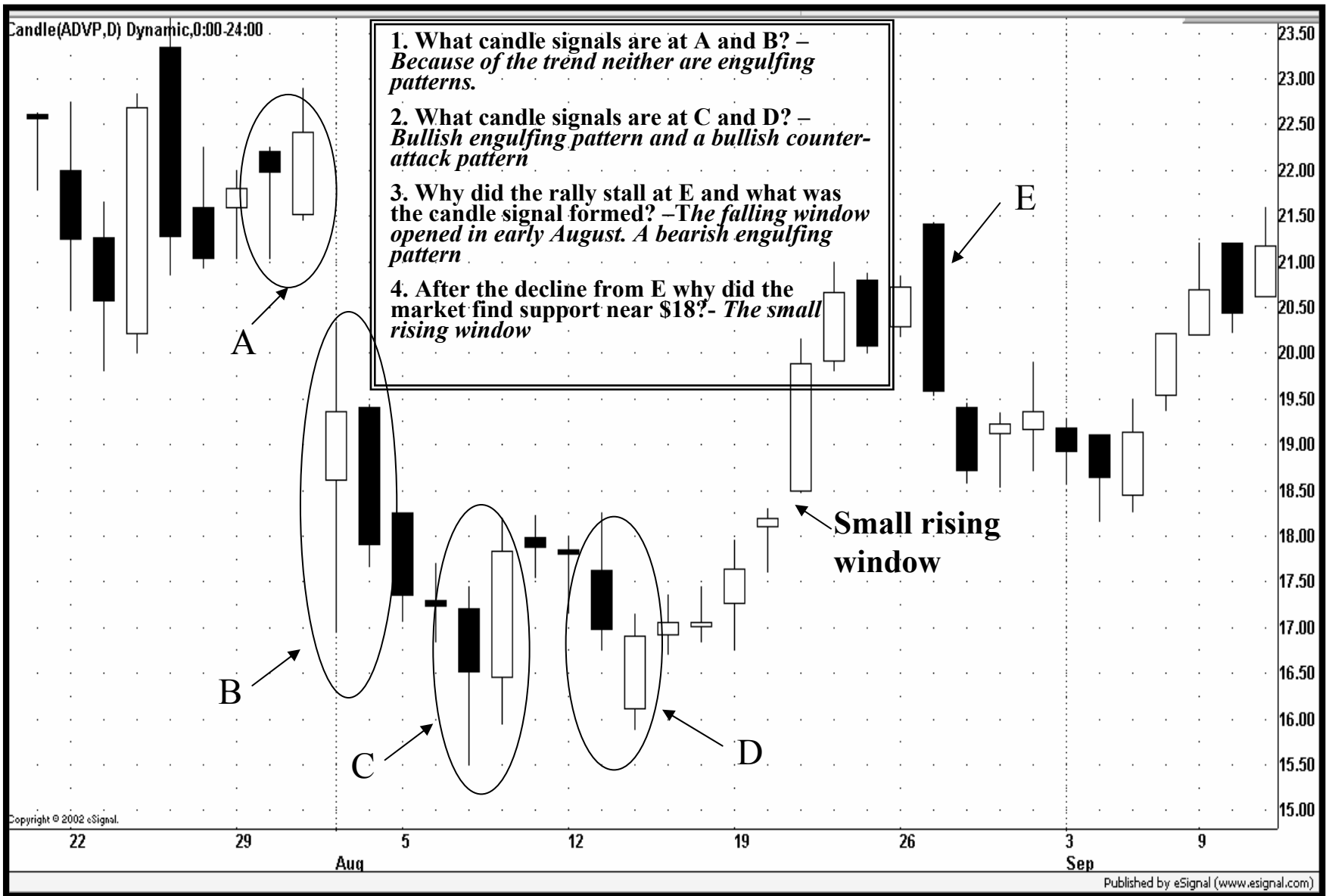
Gapping Doji



Interactive Chart



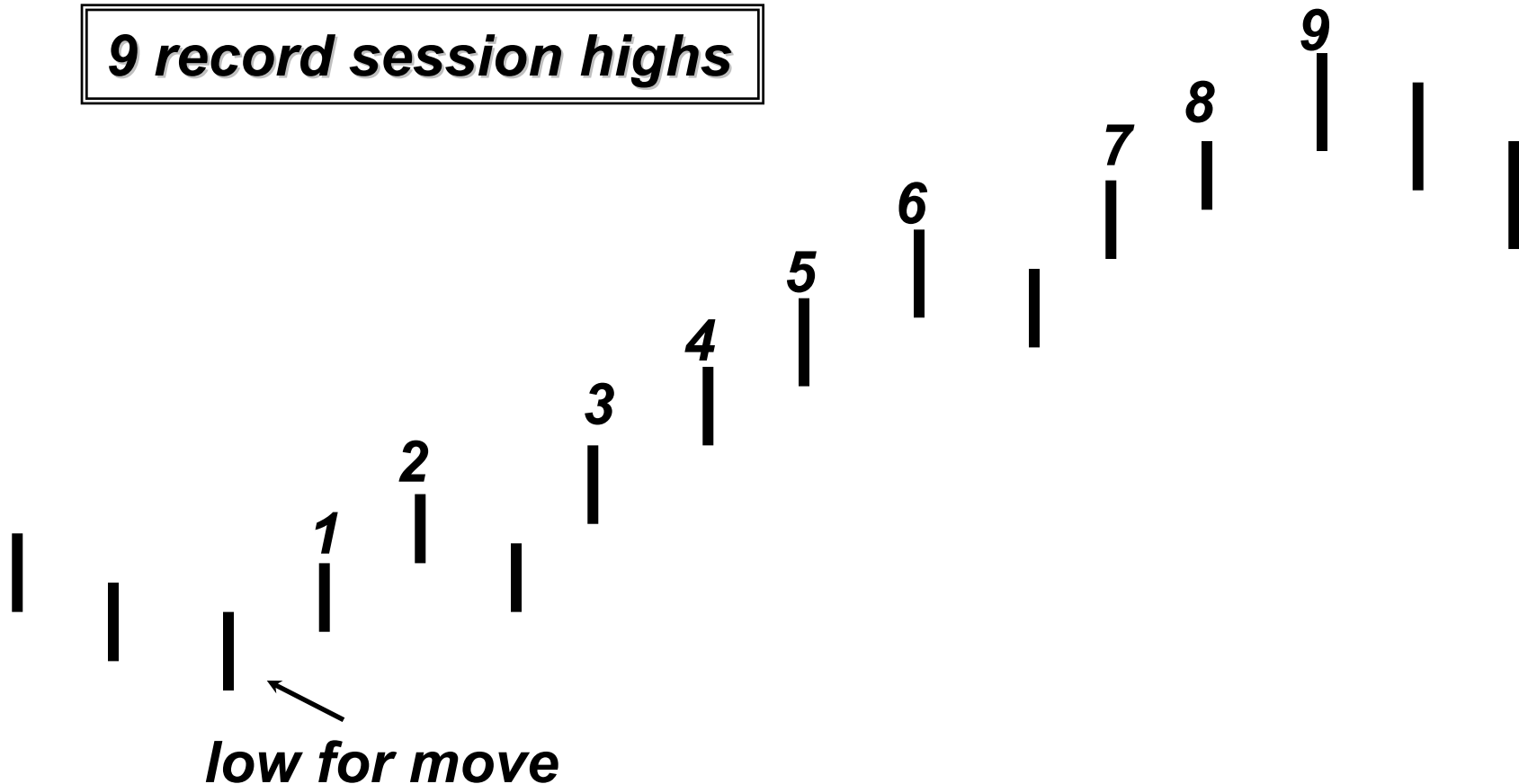
Interactive Chart - answers



Record Sessions

Overbought / Oversold Indicator

9 record session highs



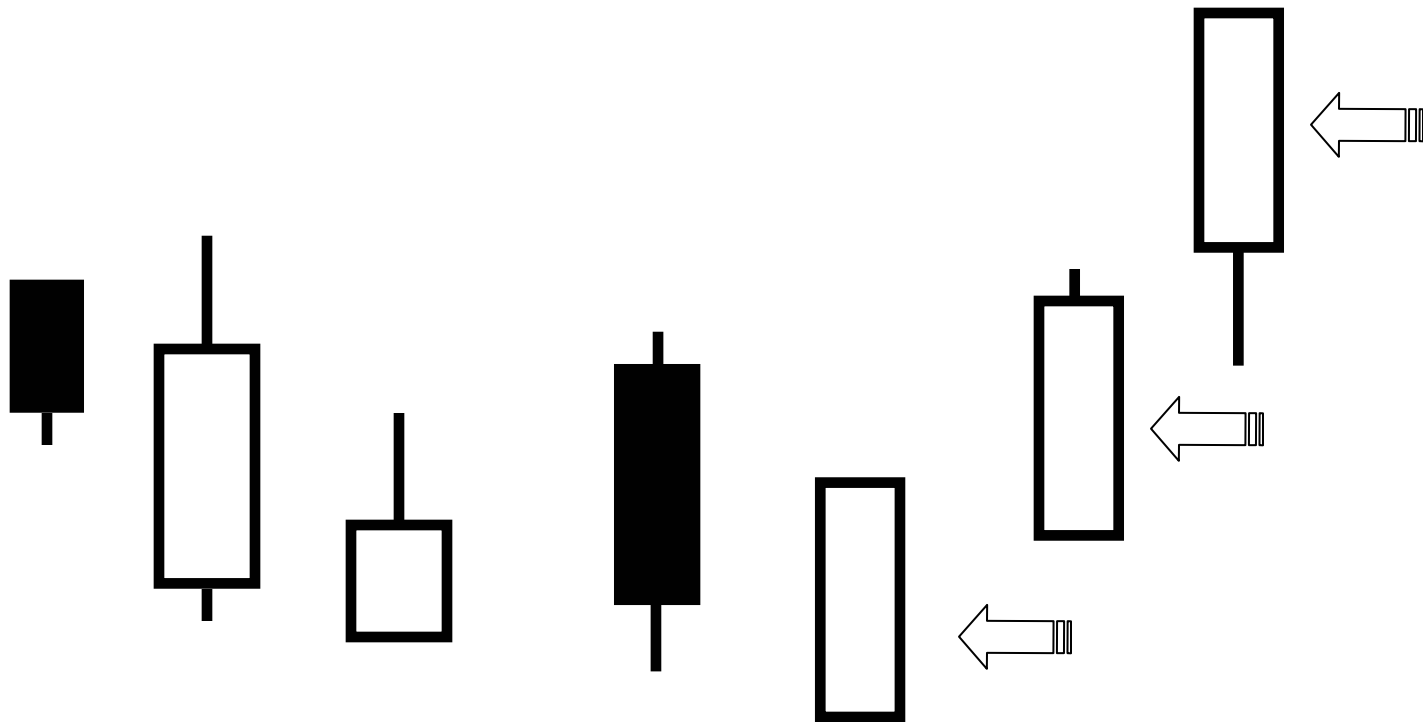
Record Session Highs



Record session highs



Three Advancing White Soldiers



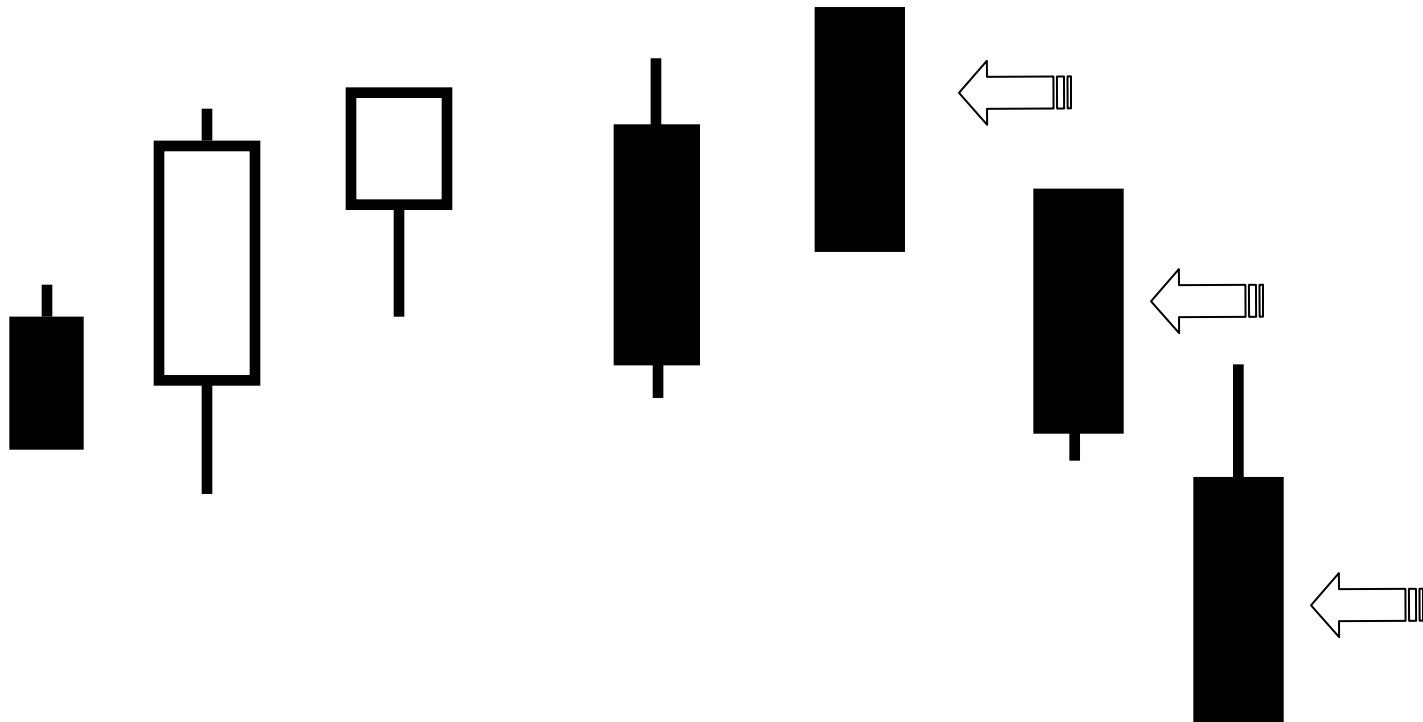
Three White Soliders



Three White Soliders



Three Black Crows



Three Black Crows

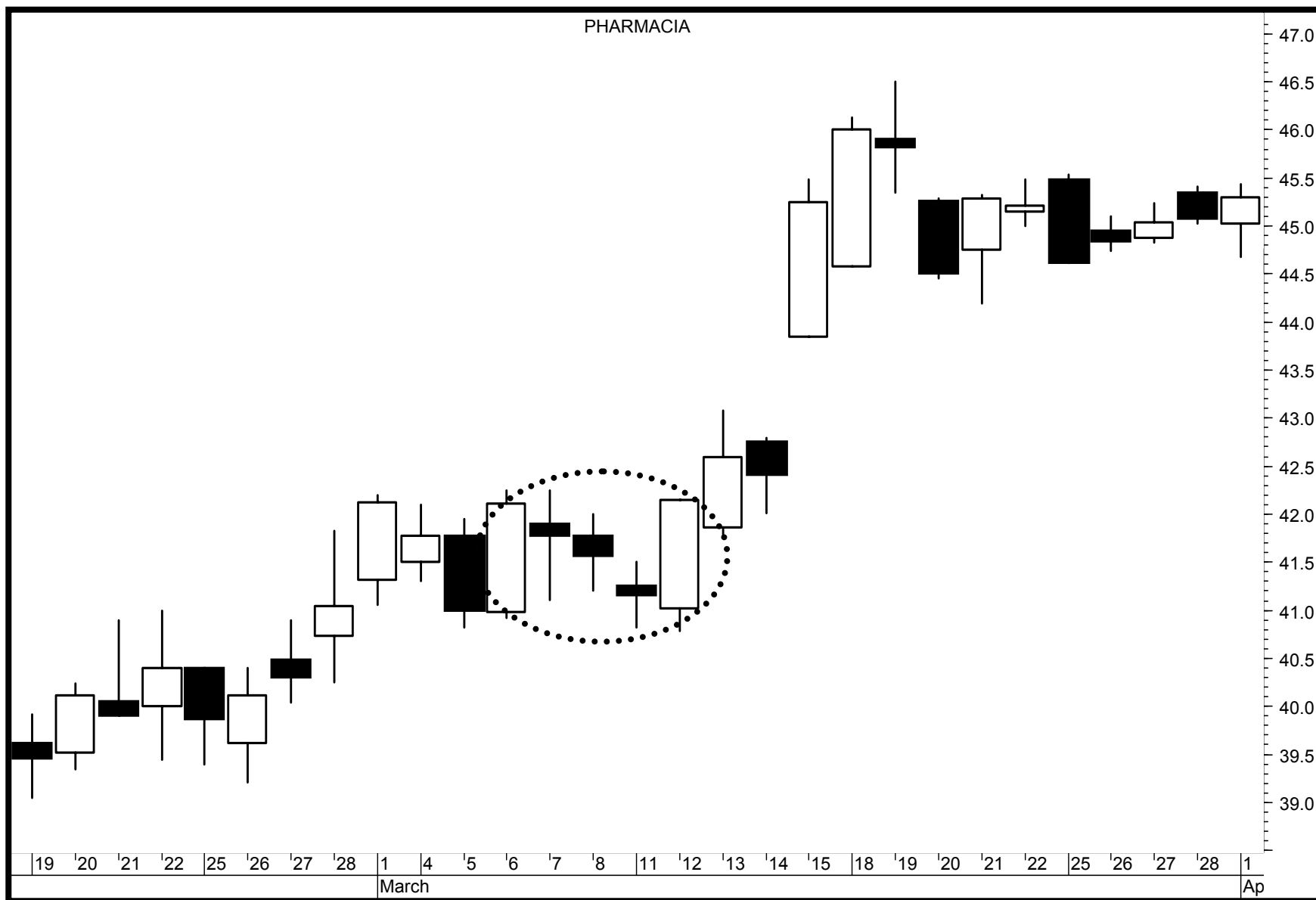


Rising and Falling Three Methods

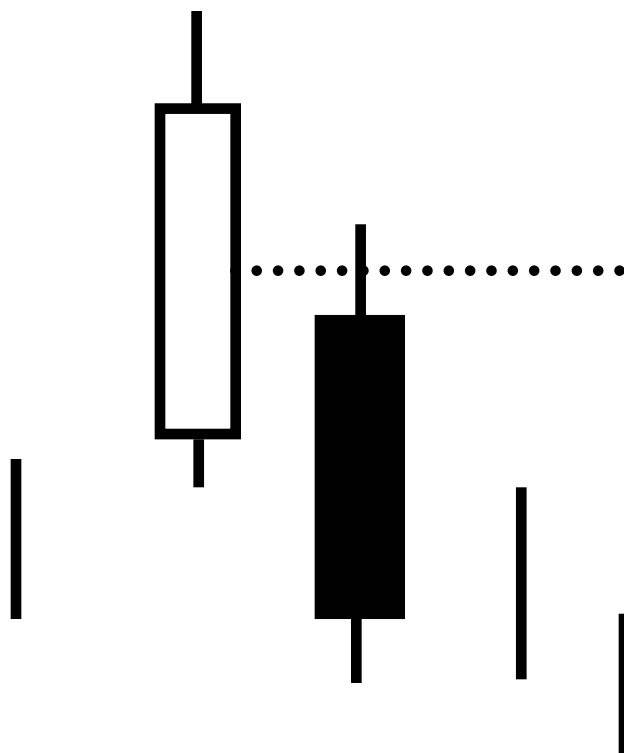
Rising Three

Falling Three

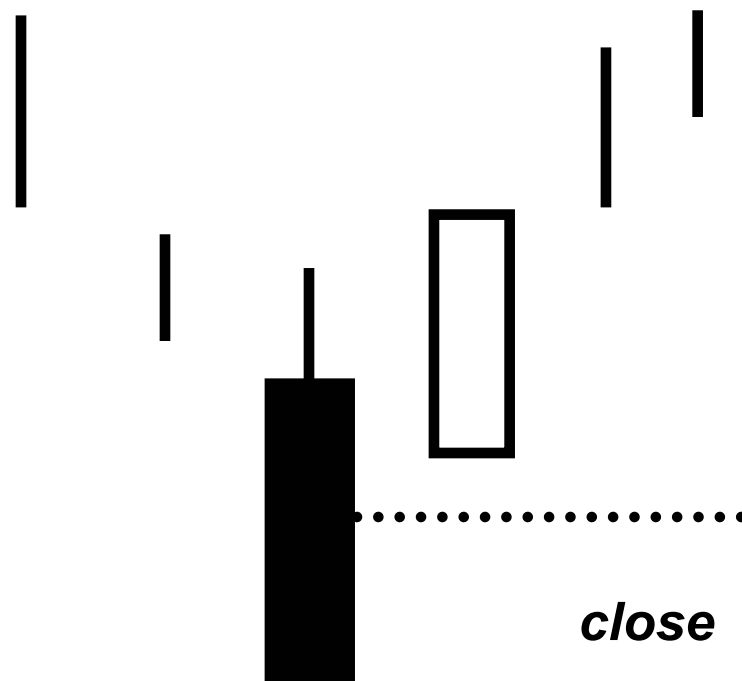
Rising Three Methods



Open below/above the Stomach



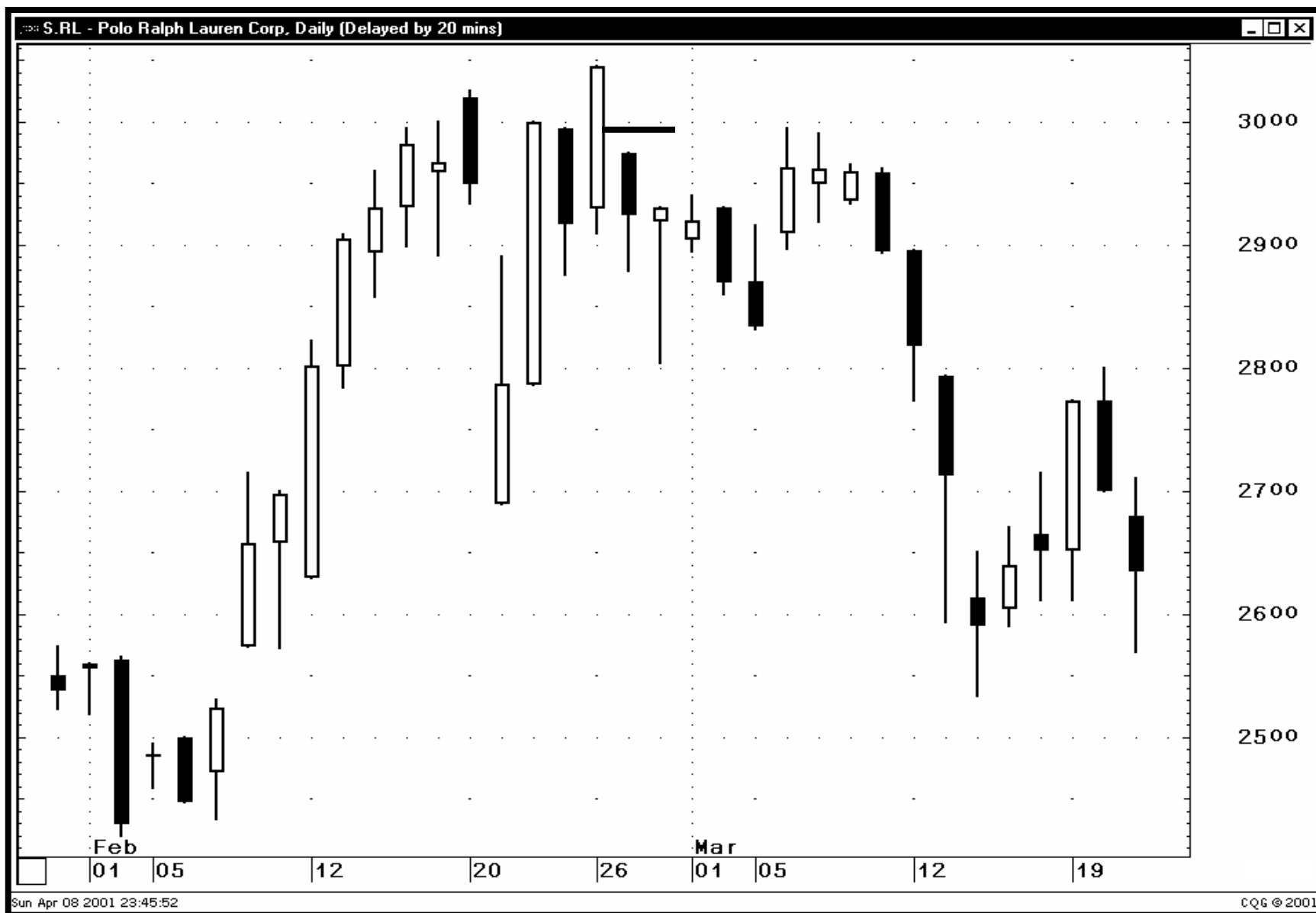
Below Middle White



close

Above Middle Black

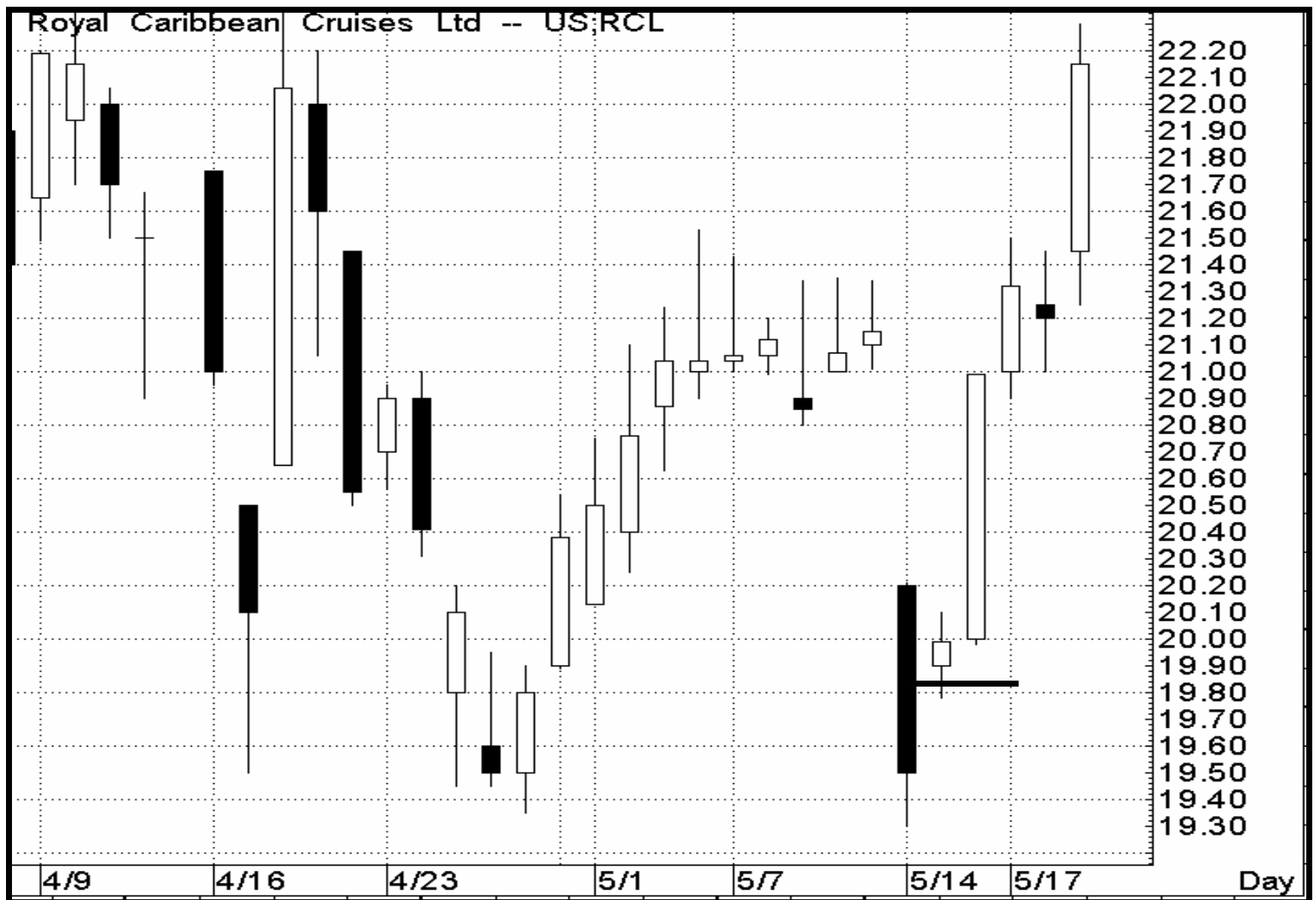
Open below the stomach



Above the Stomach



Above the Stomach



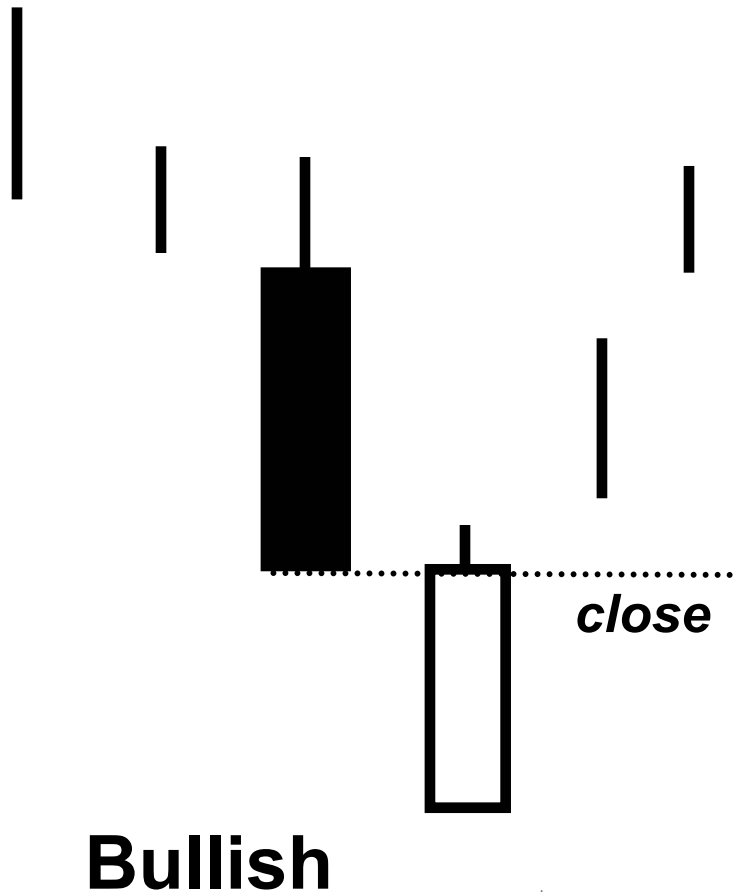
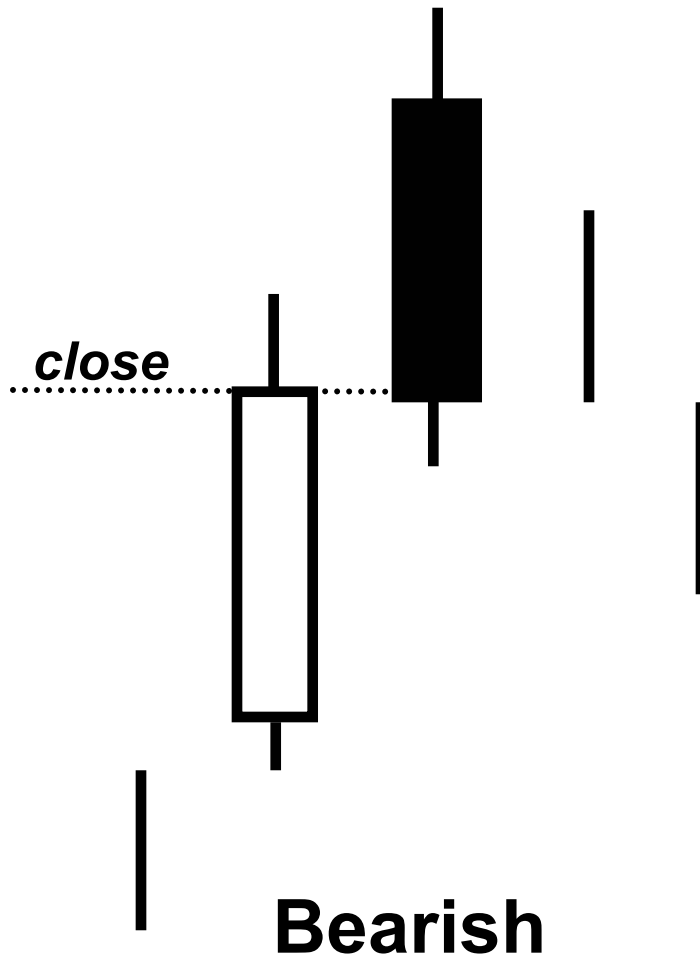
Above the Stomach



Below the Stomach

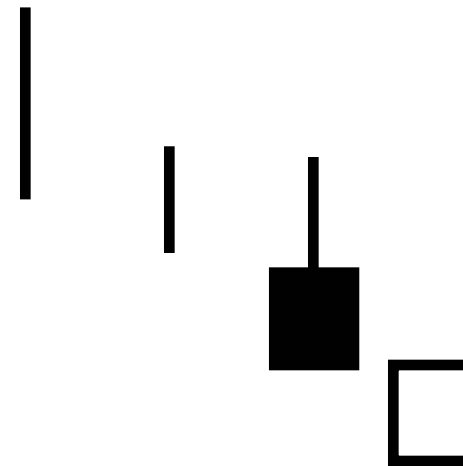
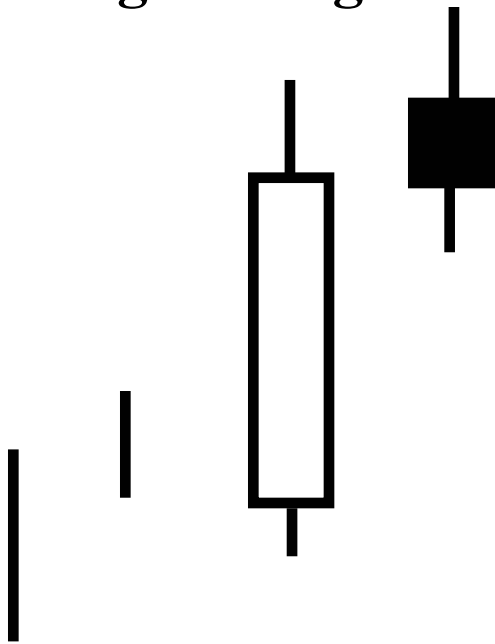


Counter Attack Lines



Not Counter Attack Lines

**Second session did not
open high enough**



**Both sessions were not
long real bodies**

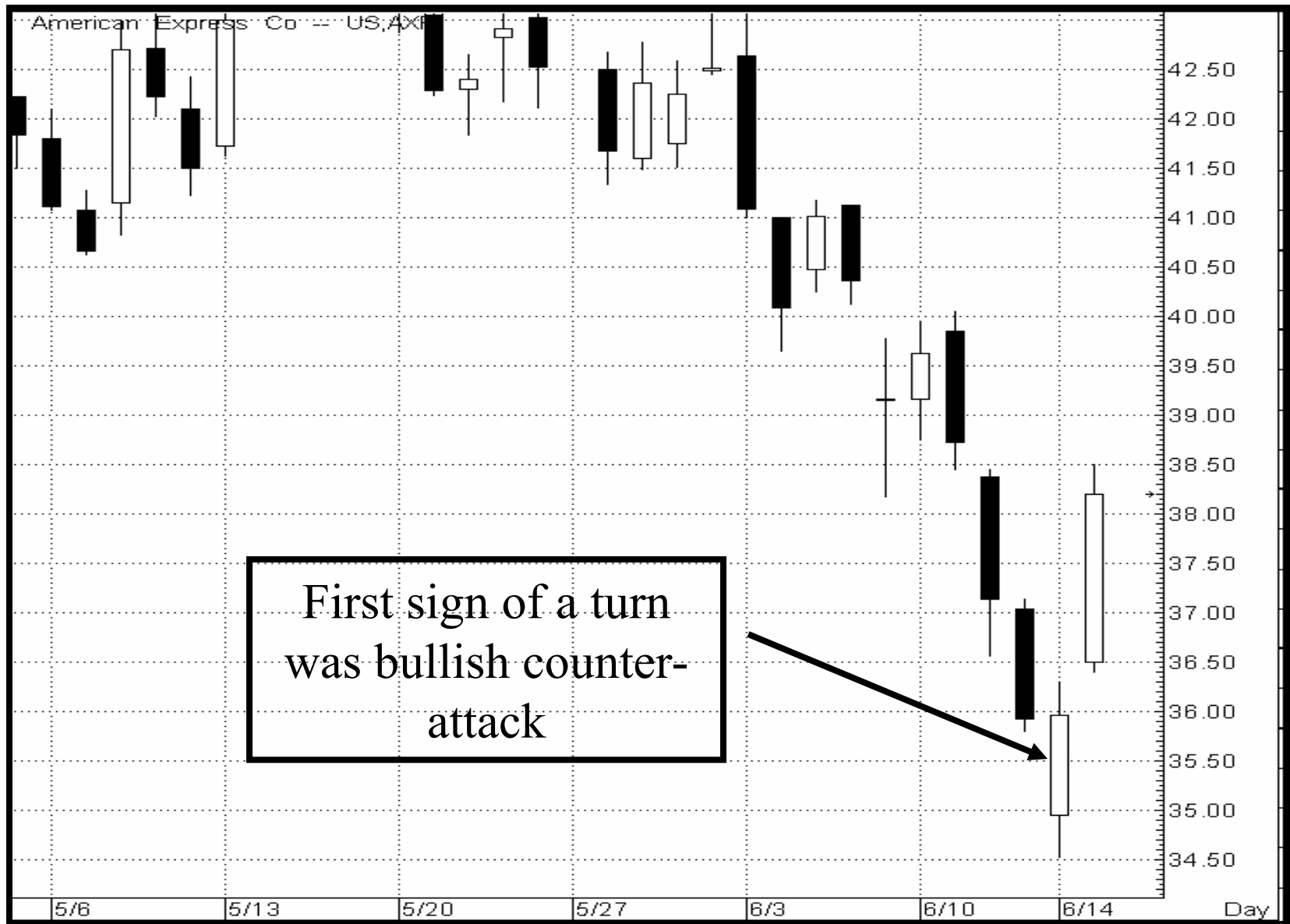
Bullish Counter Attack



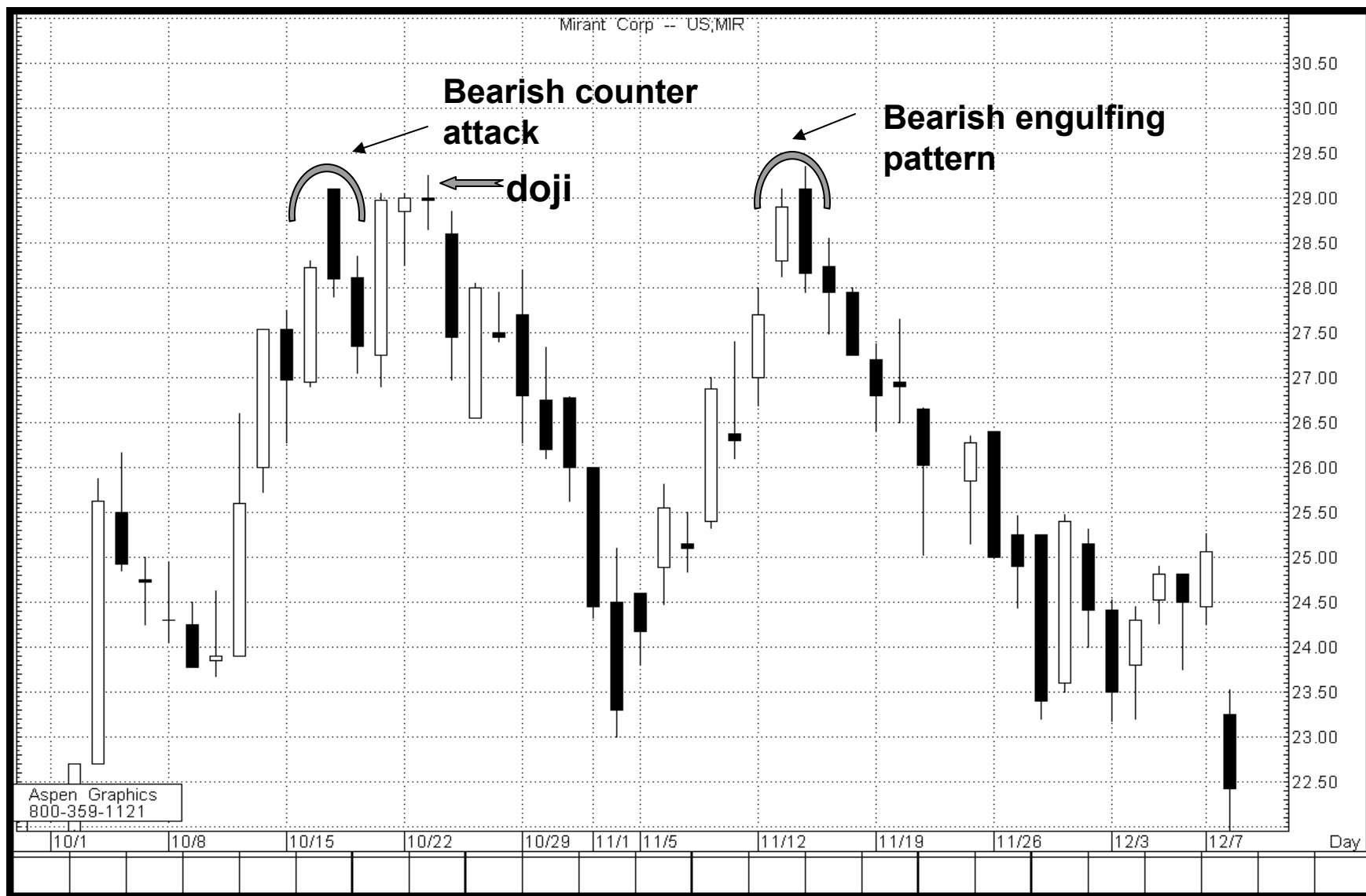
Volume – Counter Attack



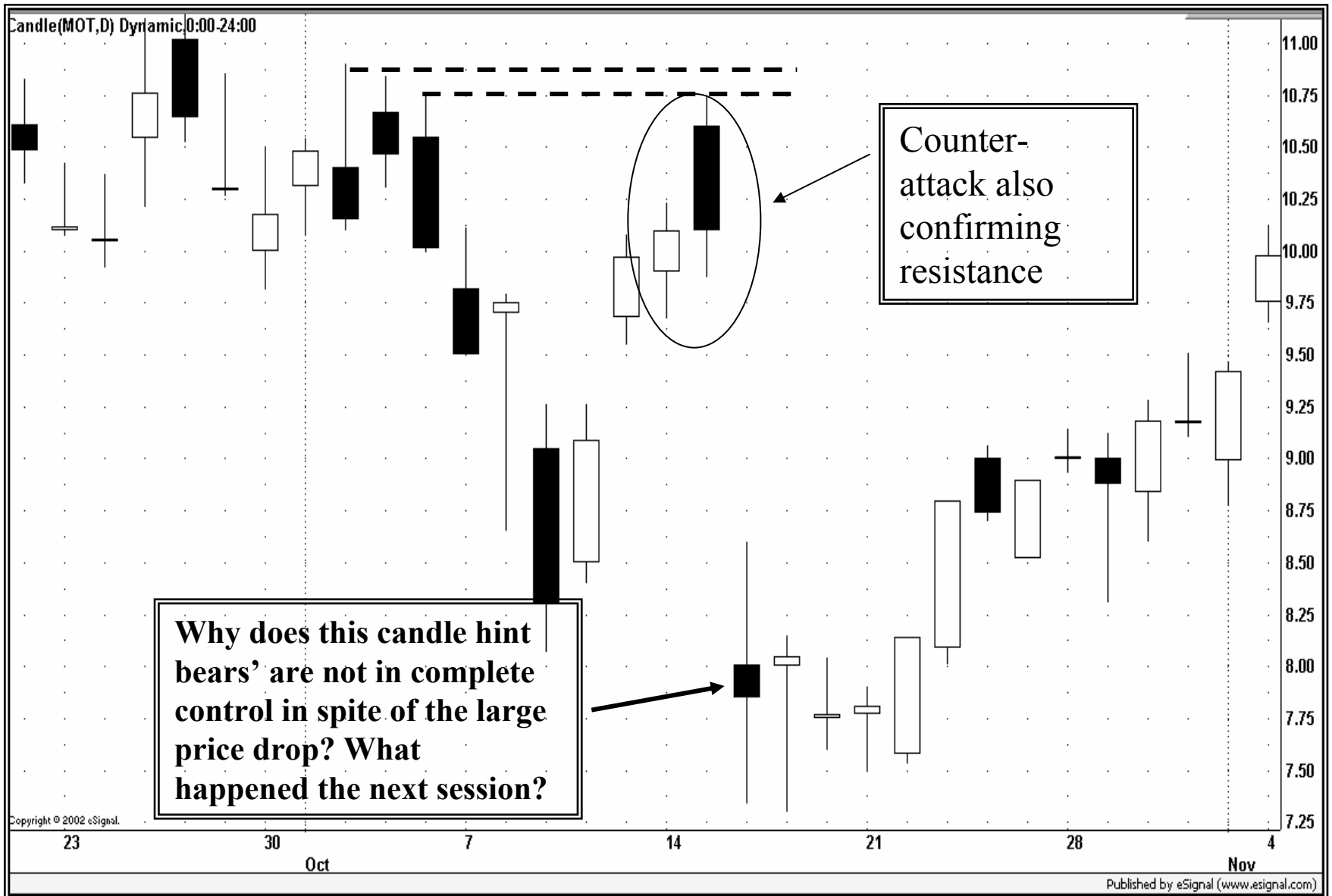
Bullish Counter-attack



Convergence of Clues- Counter Attack



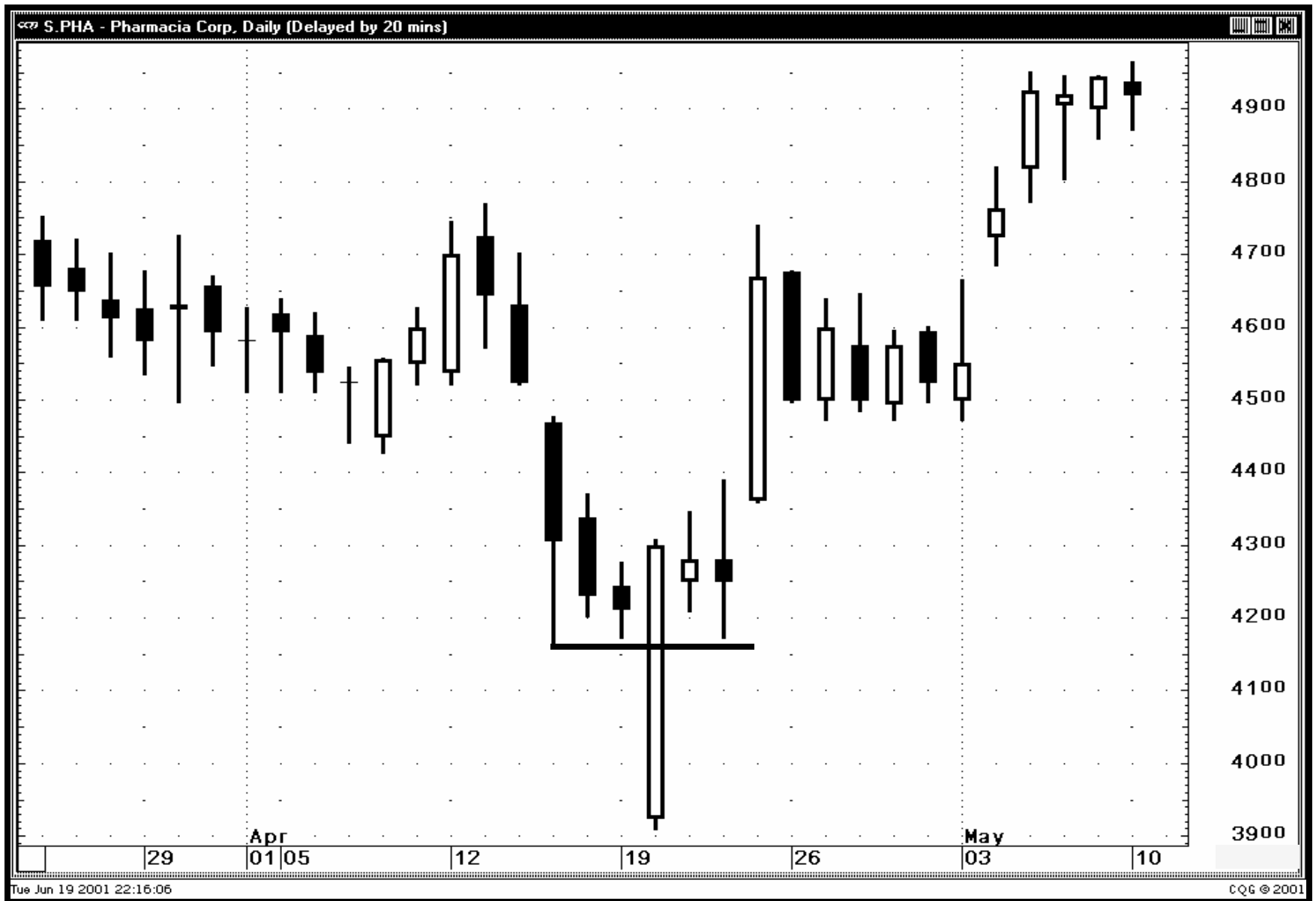
Bearish Counter-attack



The "Phantom" method



Phantom method



Phantom



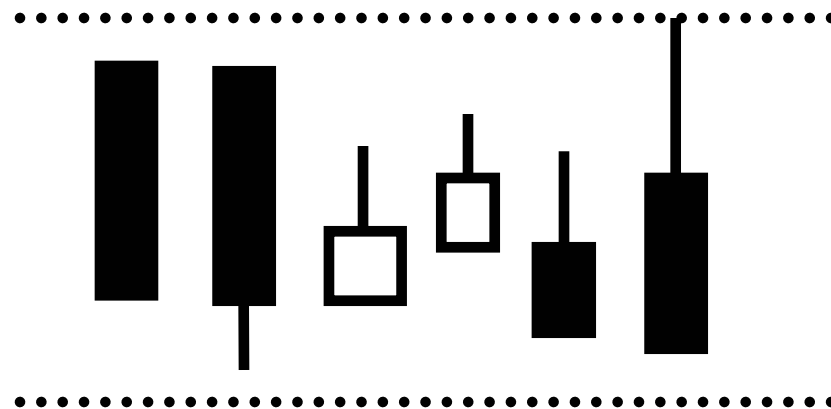
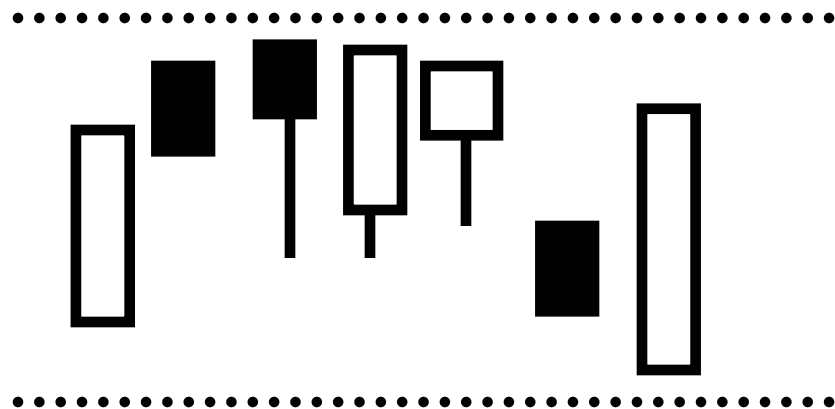
Phantom method – where's R1? (slide 1 of 2)



Phantom method (slide 2 of 2)



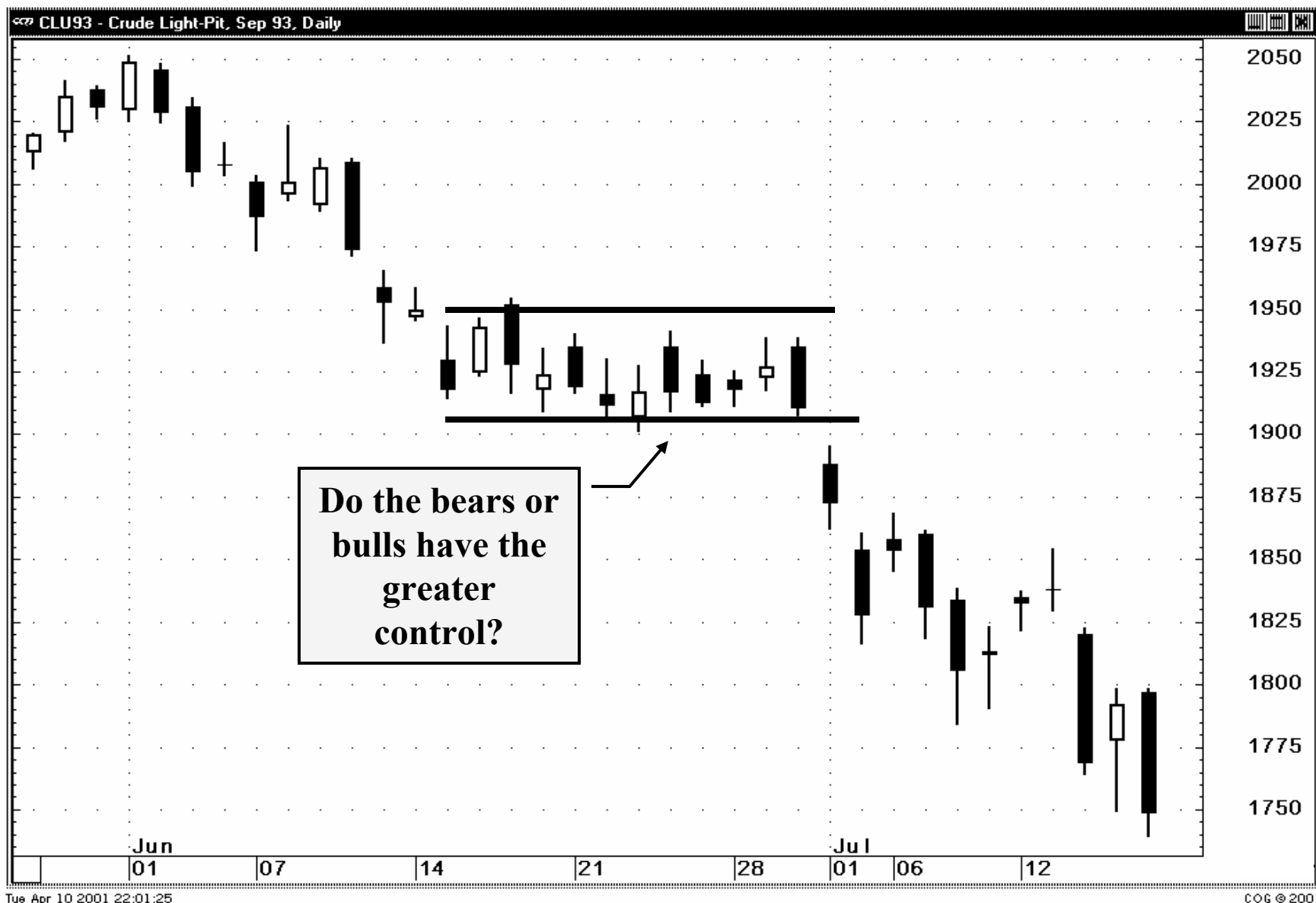
Using Candles in a "Box" Range



Box range



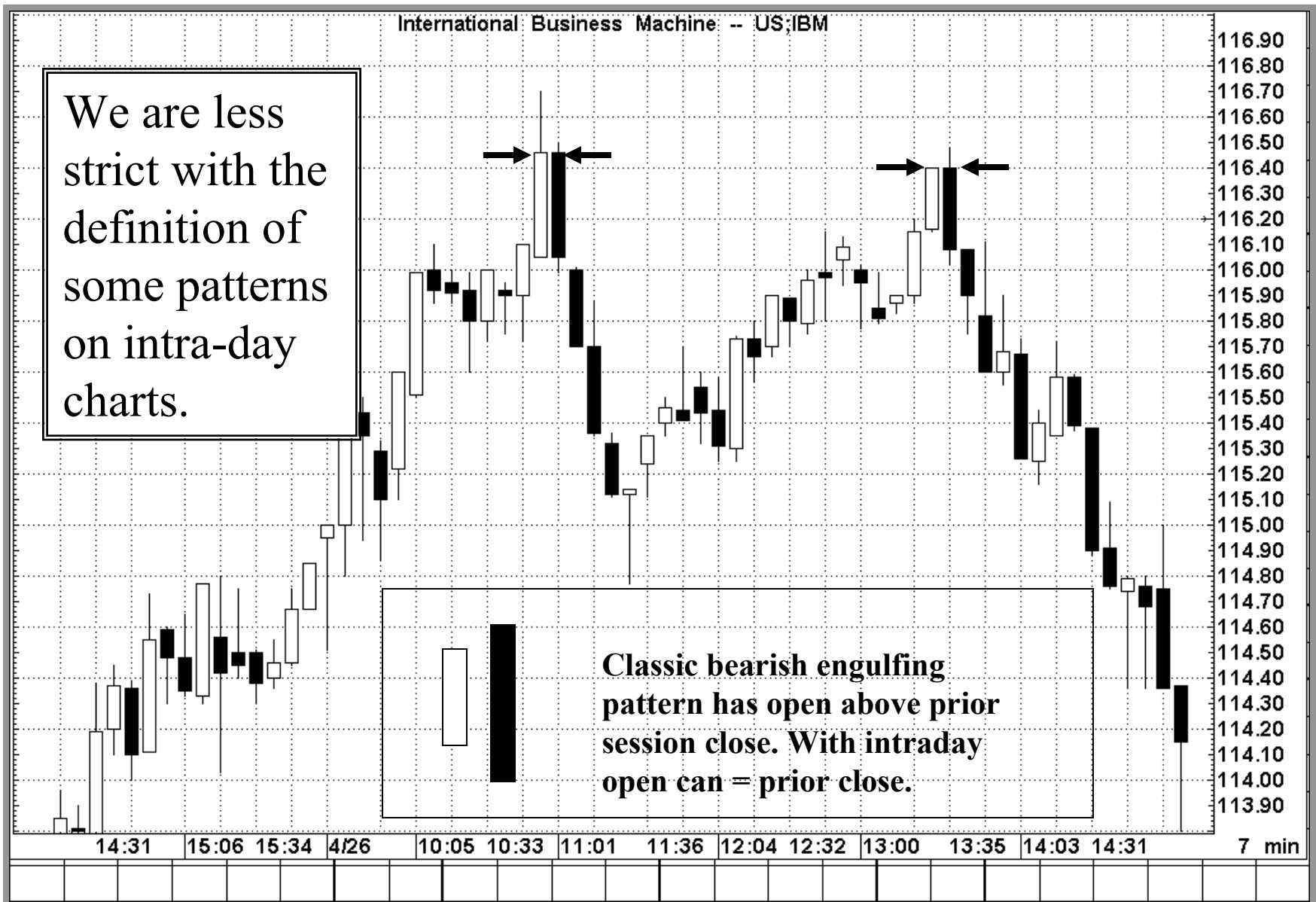
Box Range



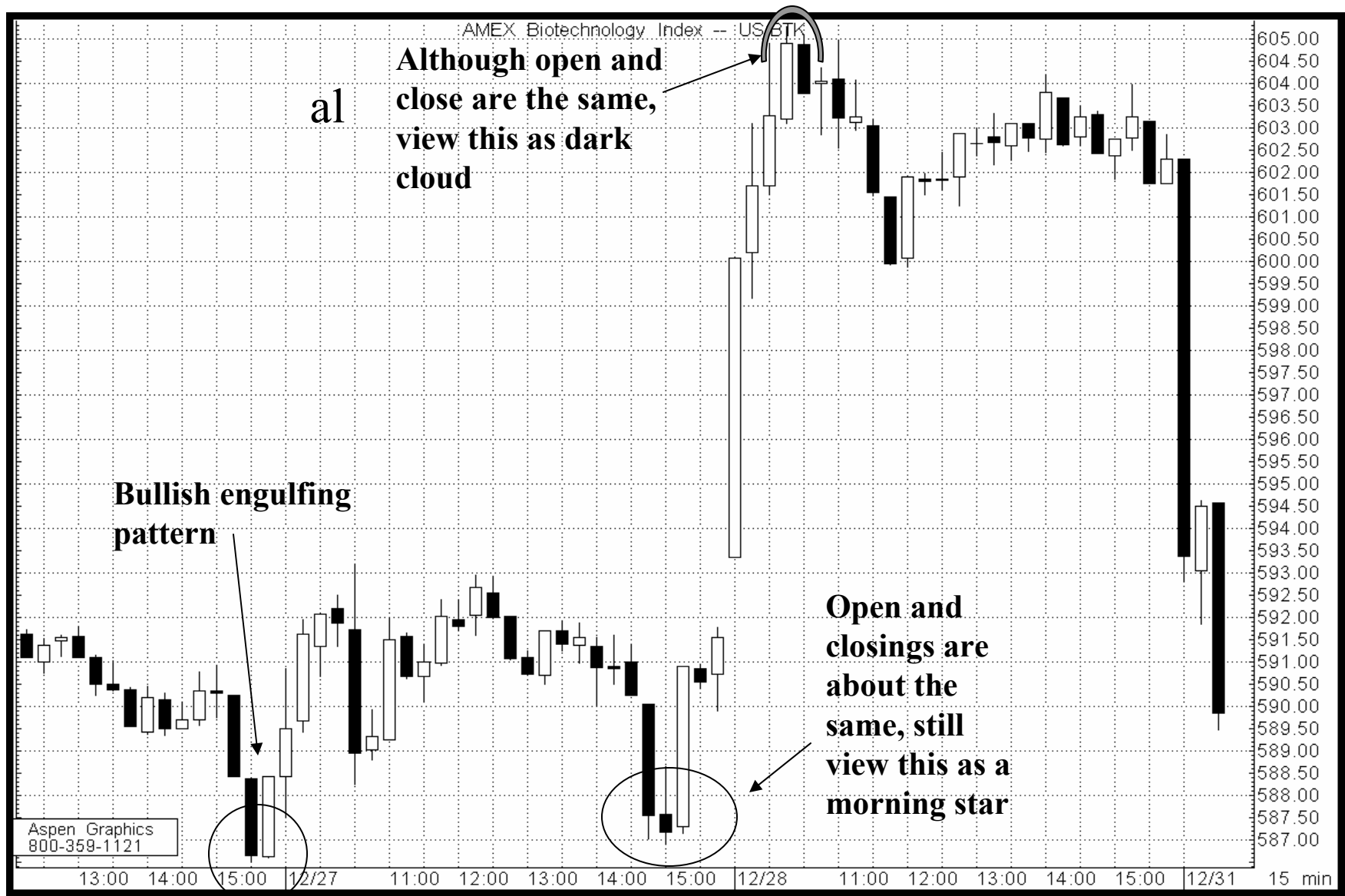
Intraday Techniques

- **Flexibility reading candle signals**
- **Combining intraday signals with longer time frame support or resistance.**
- **Harnessing intraday charts for signals not available on daily charts**

Bearish engulfing pattern and Intraday charts



Intra-day candle patterns



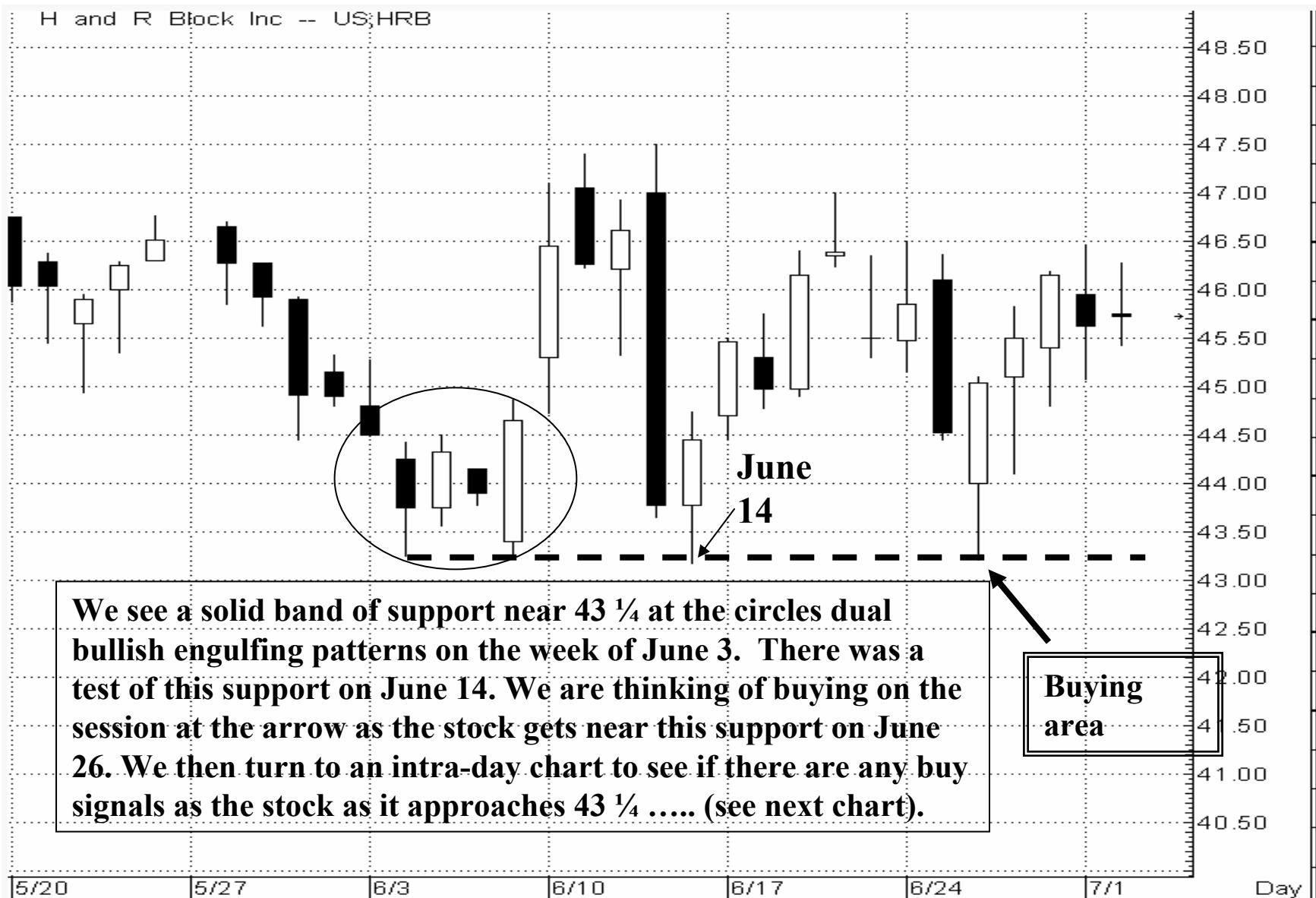
Windows on intraday



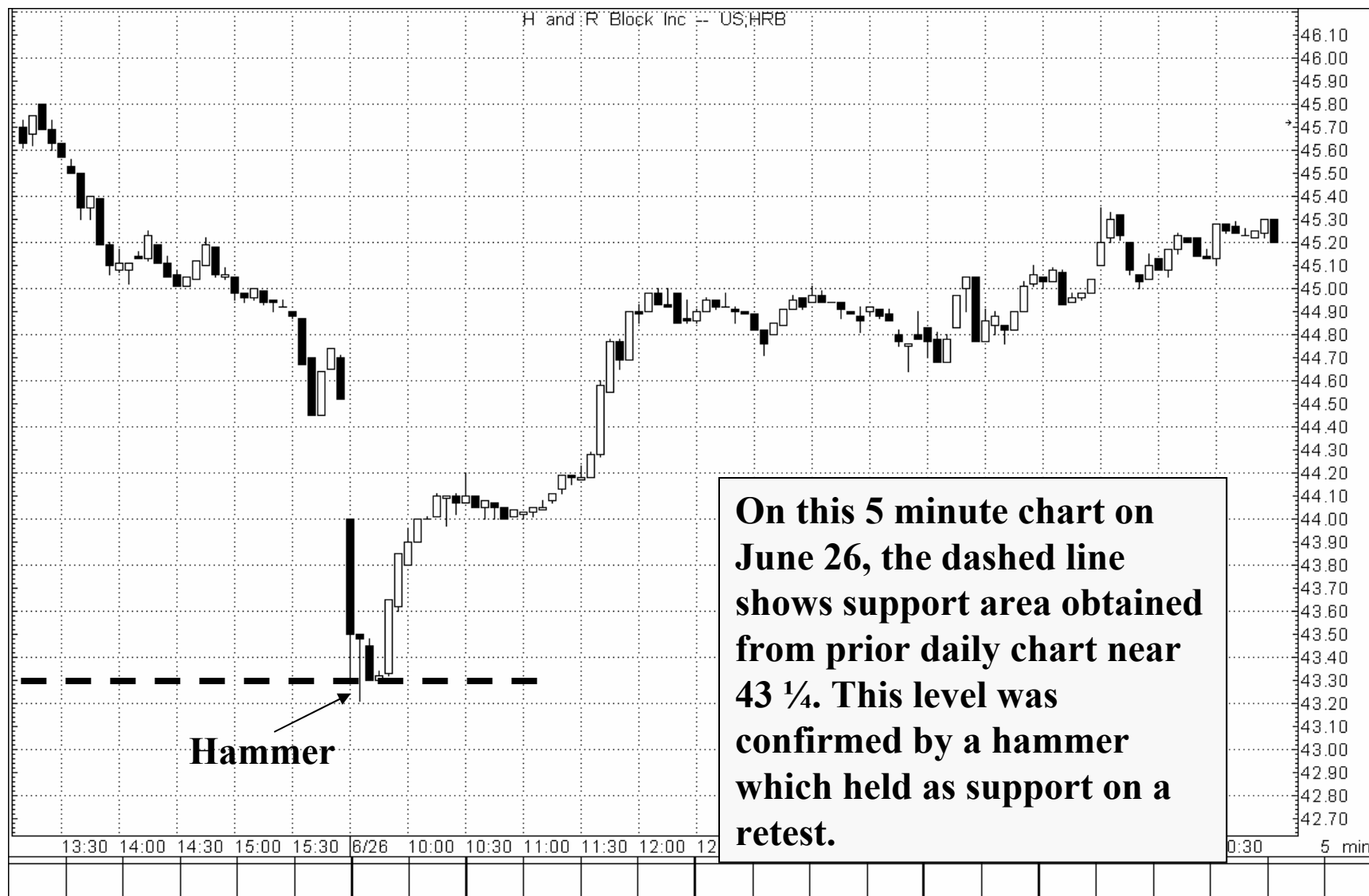
Intraday Techniques

- **Combining intraday signals with longer time frame support or resistance.**

Daily chart for support (slide 1 of 2)

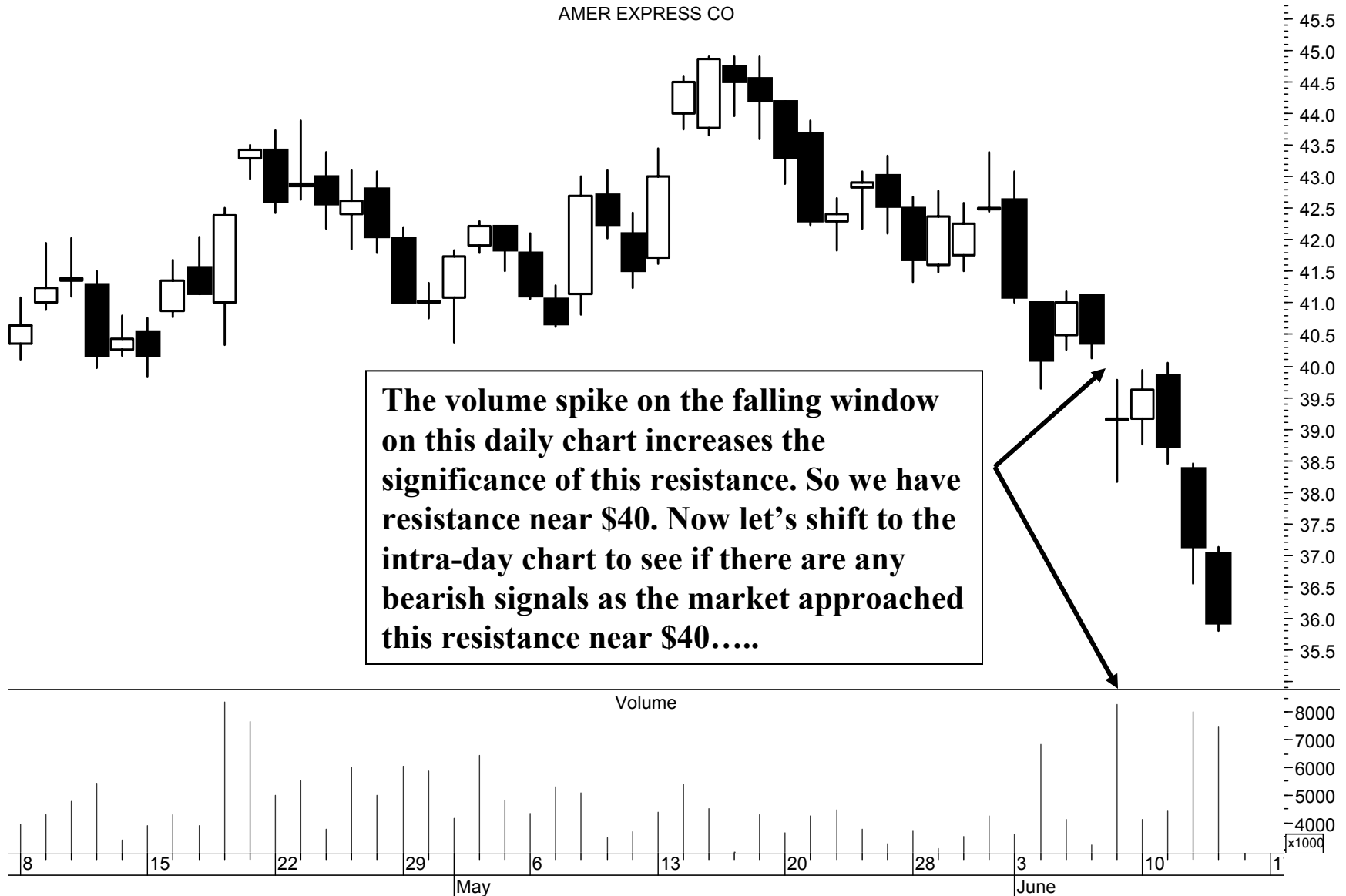


Intra-day to place trade on confirmation of support level obtained from daily chart (*slide 2 or 2*)



Use time frame of higher degree for resistance (slide 1 of 2)

AMER EXPRESS CO



Intra-day chart to position trade (slide 2 of 2)



Chart of higher degree (slide 1 of 2) – Daily

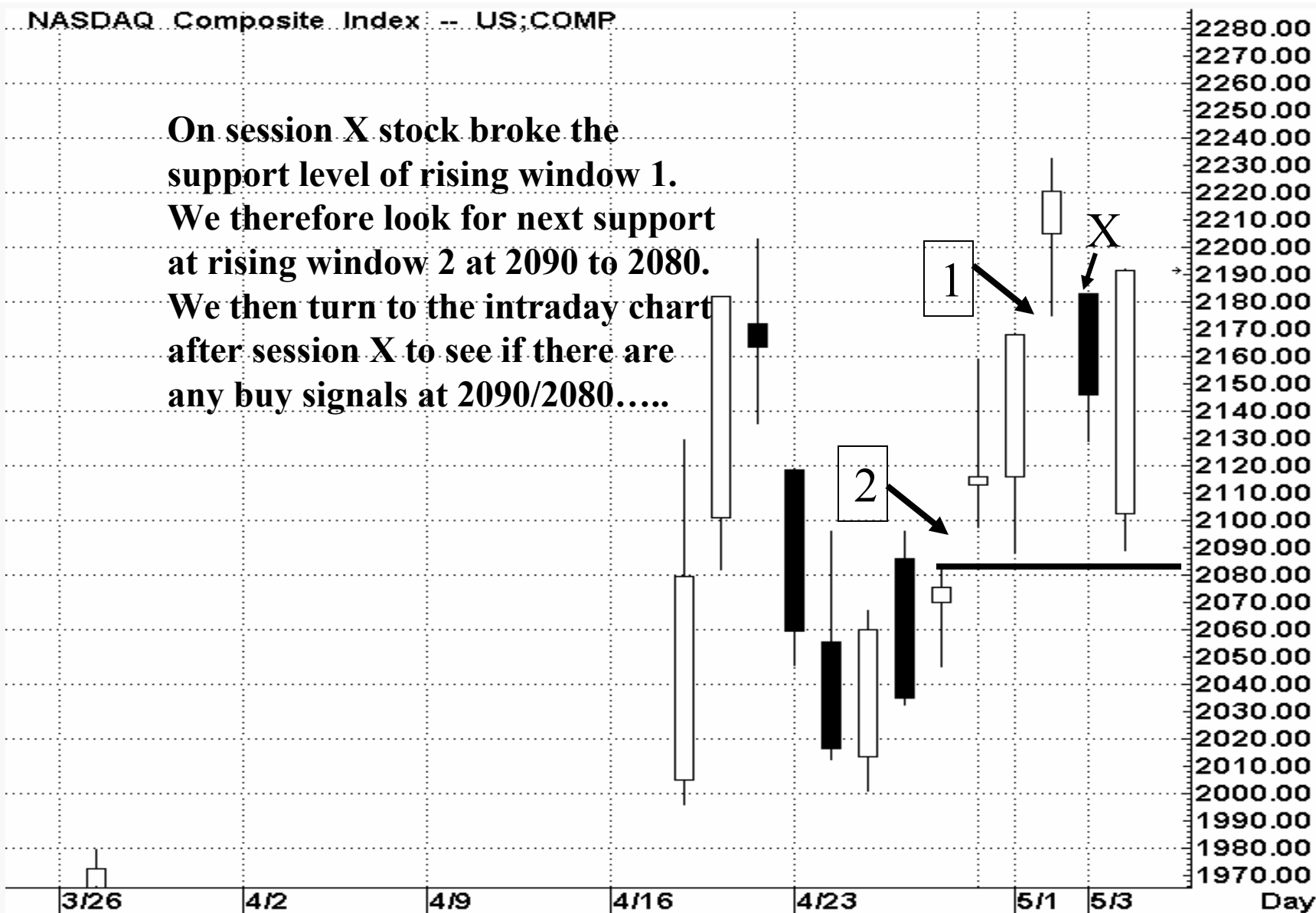


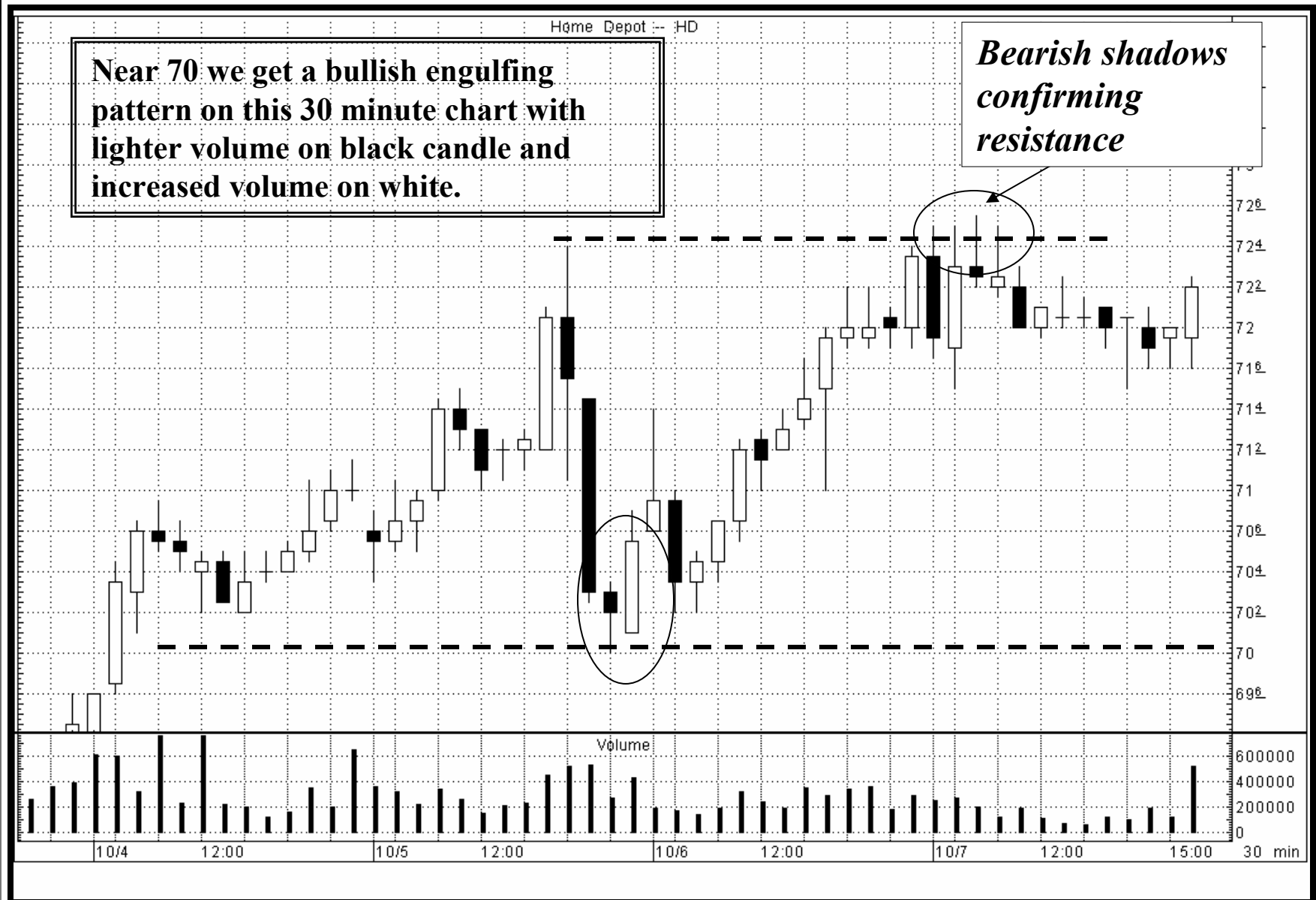
Chart of higher degree (slide 2 of 2) – 5 Minute



Daily for Support /intraday for positioning – slide 1 of 2



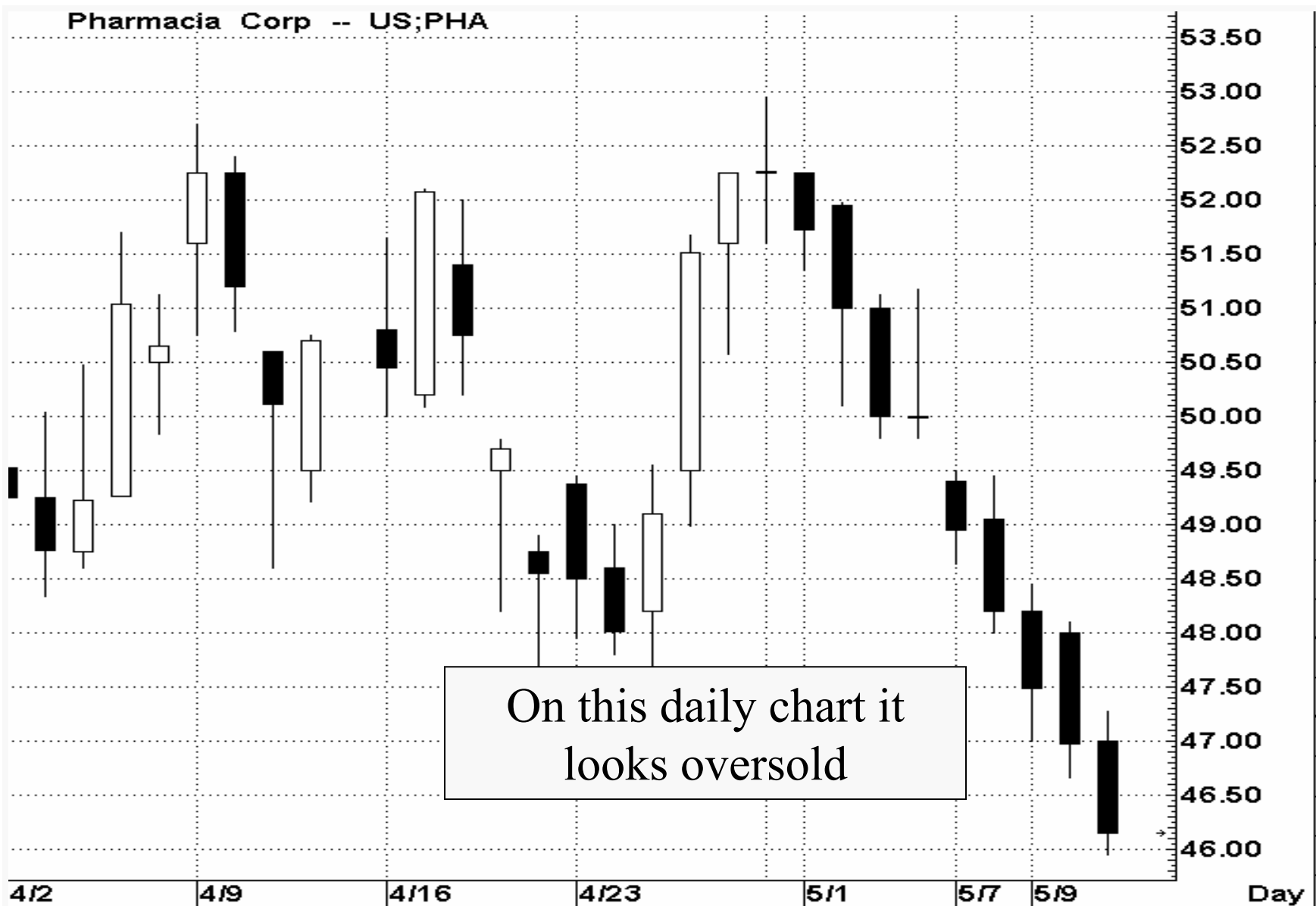
Daily for Support /intraday entry – slide 2 of 2



Intraday Techniques

- **Harnessing intraday charts for signals not available on daily charts**

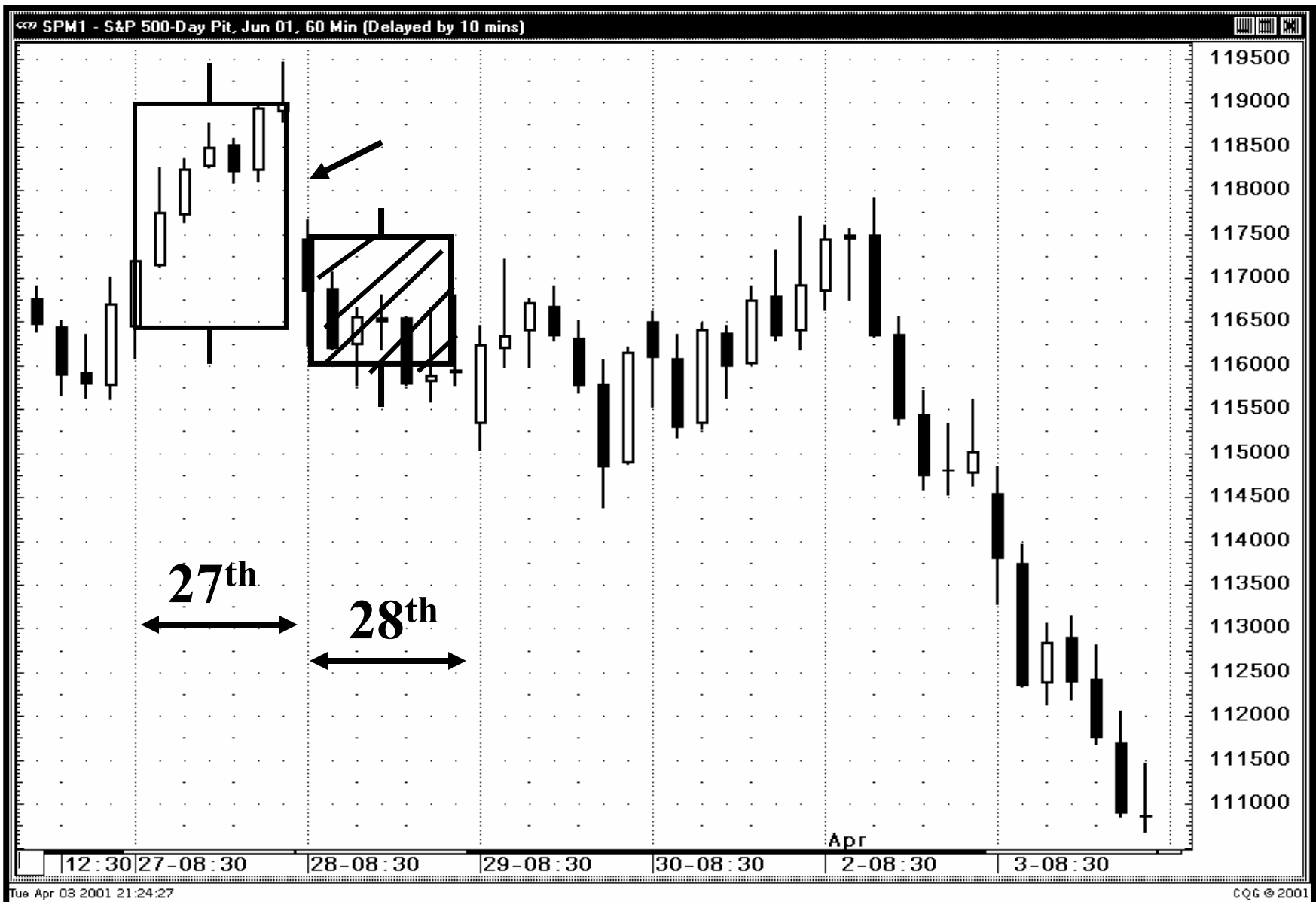
Oversold? - Daily Chart (slide 1 of 2)



Look oversold now? – 30 minute charts (slide 2 of 2)



Intra-day window – not a window on daily



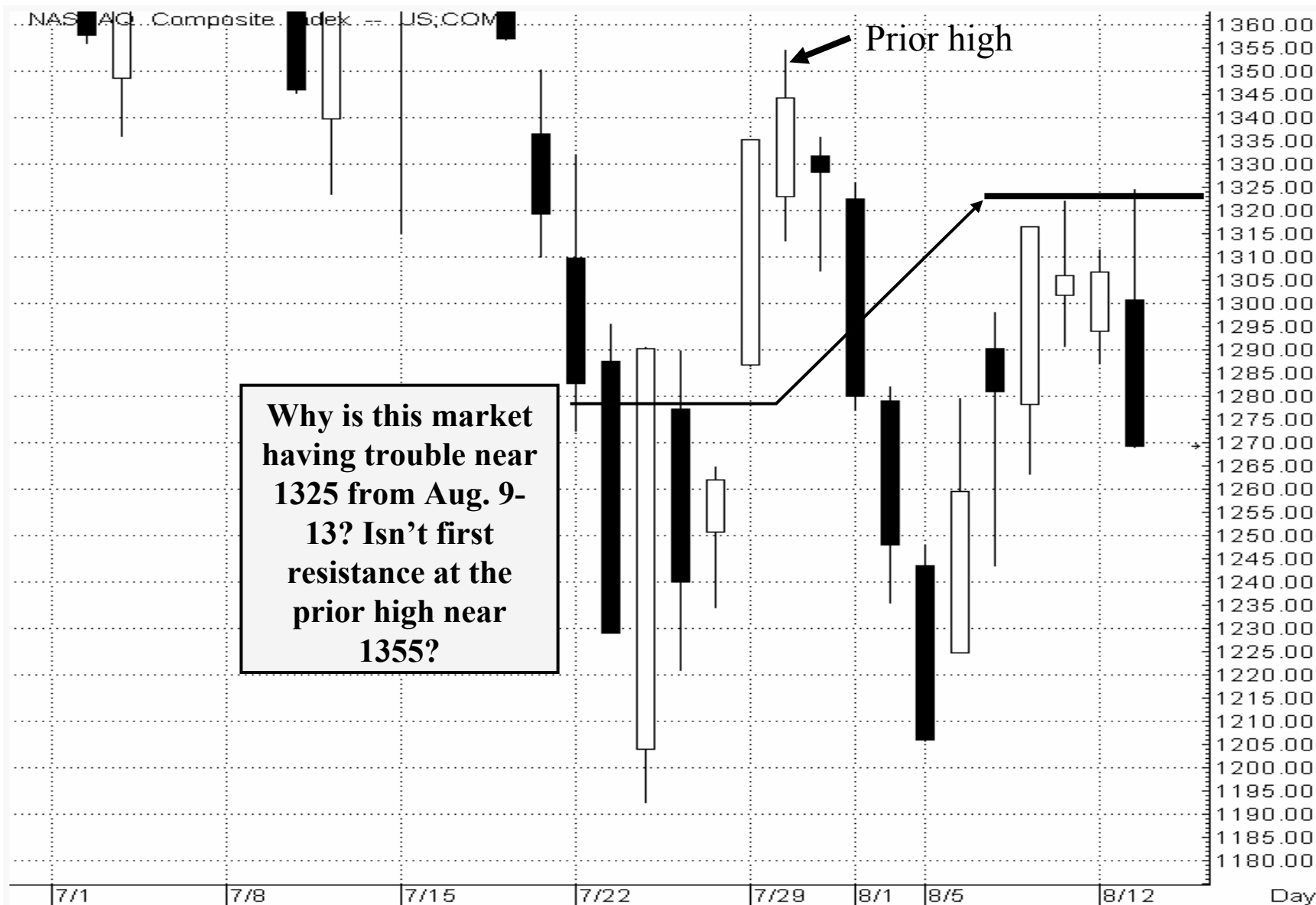
Using intra-day charts for windows (slide 1 of 2)



Using intra-day charts for windows (slide 2 of 2)



Using intraday charts – slide 1 of 2



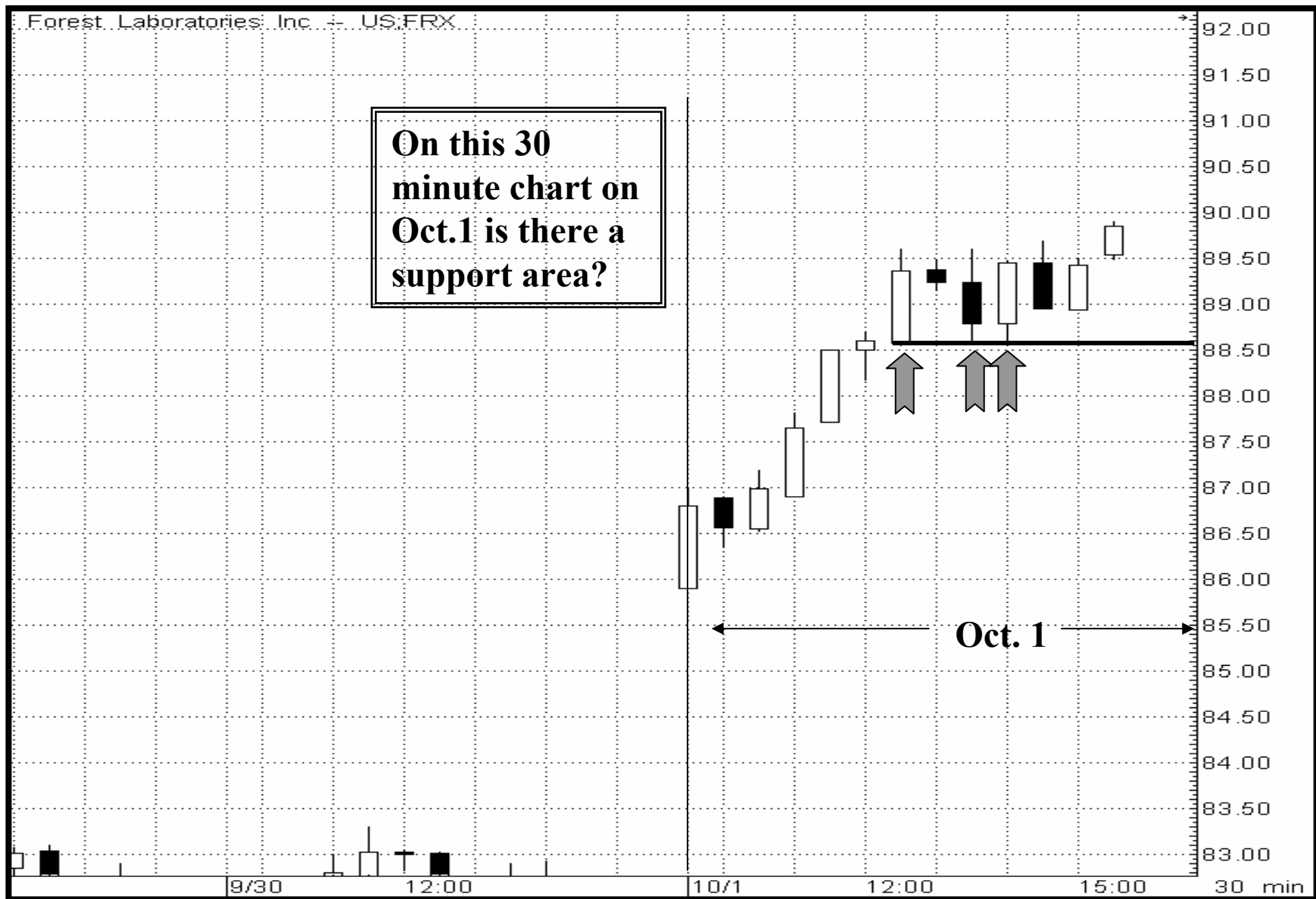
Using intraday charts – slide 2 of 2



Using intra- charts for support - (slide 1 of 3)



Using intraday chart for support - slide 2 of 3



Forest Laboratories Inc - US:FRX

This chart shows action after Oct. 1. Note how the 88 1/2 area held as support.

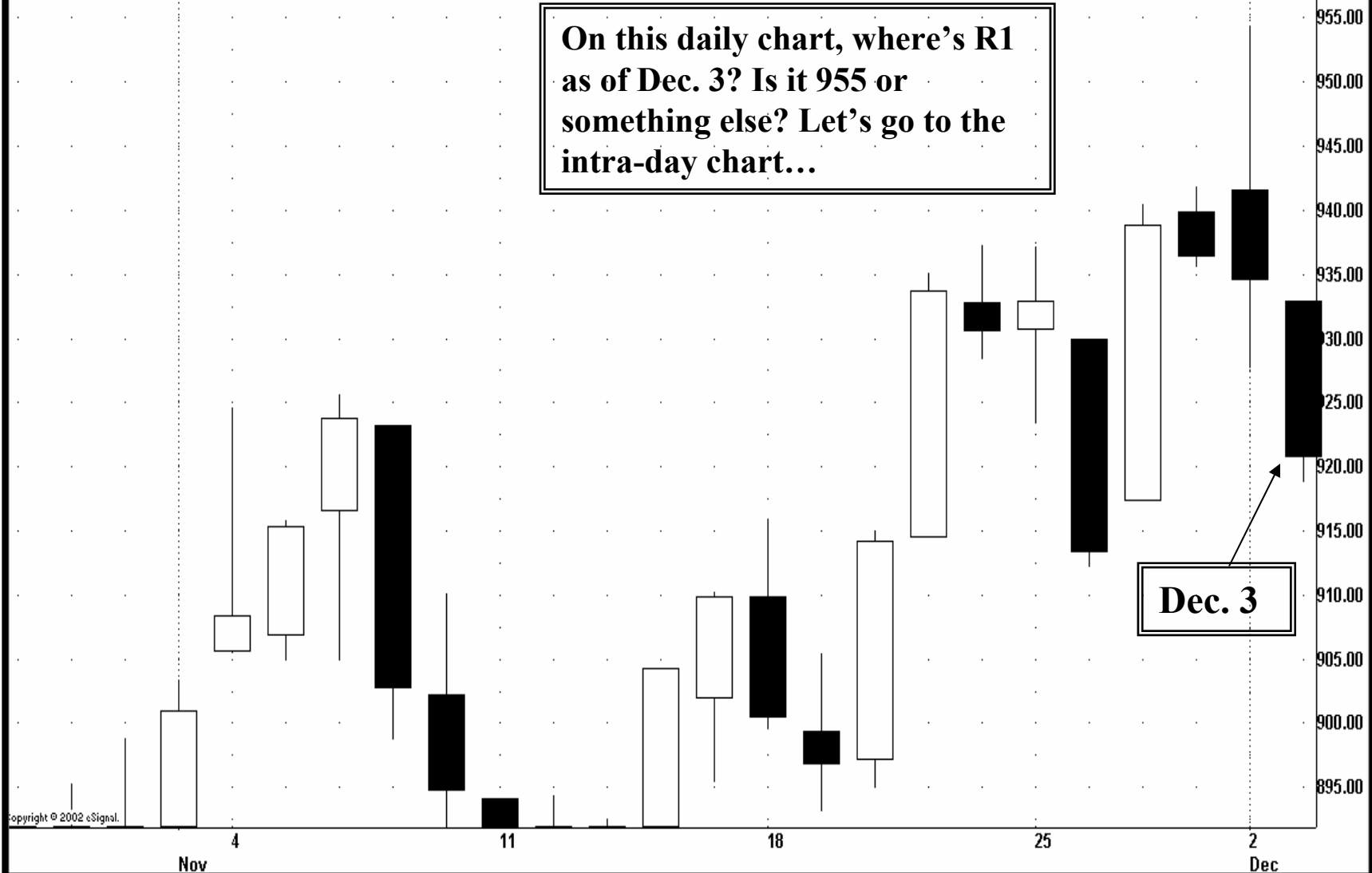
Y-axis labels: 88.30, 88.40, 88.50, 88.60, 88.70, 88.80, 88.90, 89.00, 89.10, 89.20, 89.30, 89.40, 89.50, 89.60, 89.70, 89.80, 89.90, 90.00, 90.10, 90.20, 90.30, 90.40, 90.50, 90.60, 90.70, 90.80, 90.90, 91.00, 91.10, 91.20, 91.30, 91.40, 91.50, 91.60, 91.70, 91.80, 91.90

X-axis labels: 10/1, 12:00, 10/2, 12:00, 10/3, 12:00, 15:00, 30 min

Intraday trading tactics – slide 1 of 3

candle(\$SPX,D) Dynamic,0:00-24:00

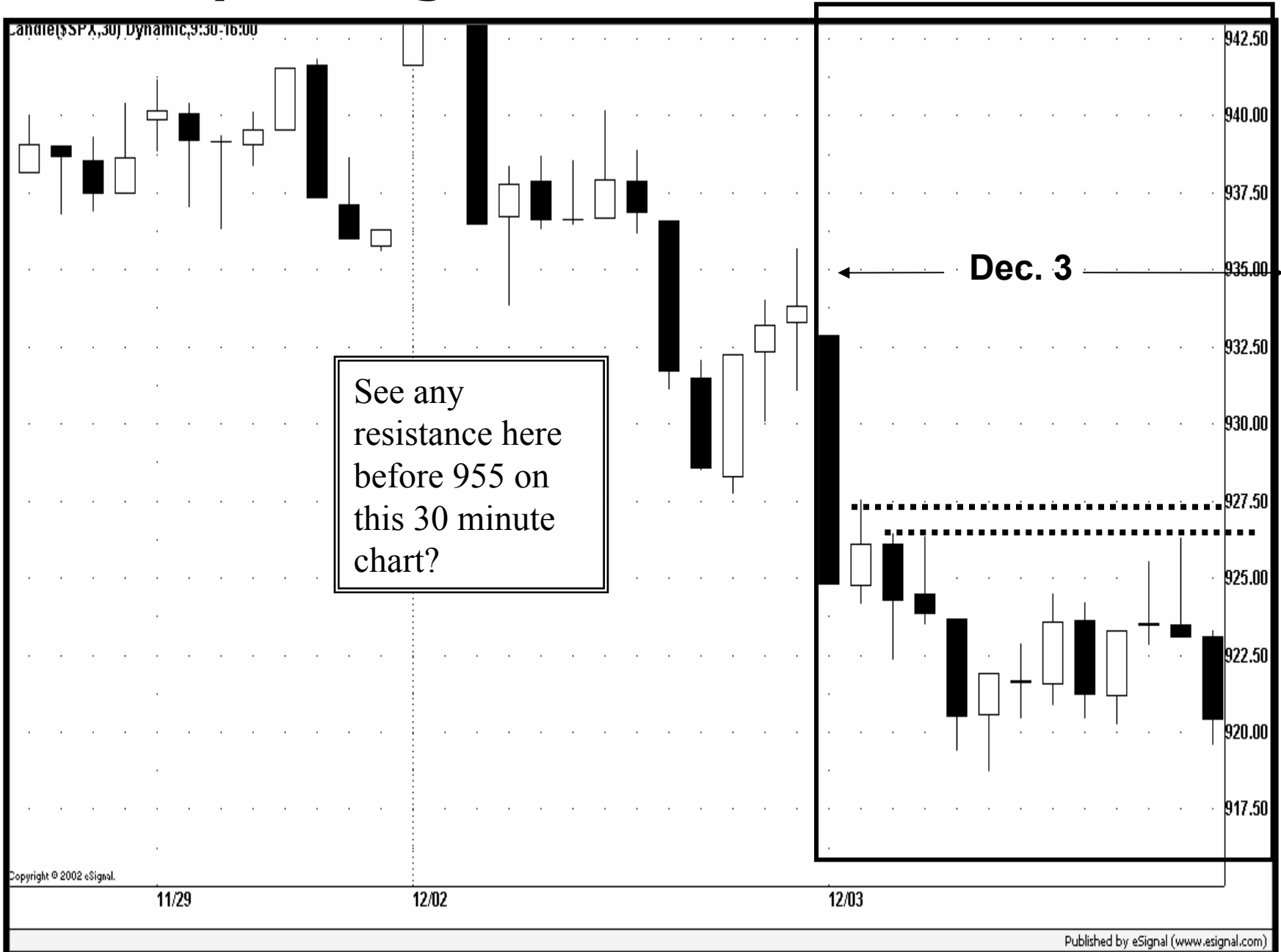
On this daily chart, where's R1 as of Dec. 3? Is it 955 or something else? Let's go to the intra-day chart...



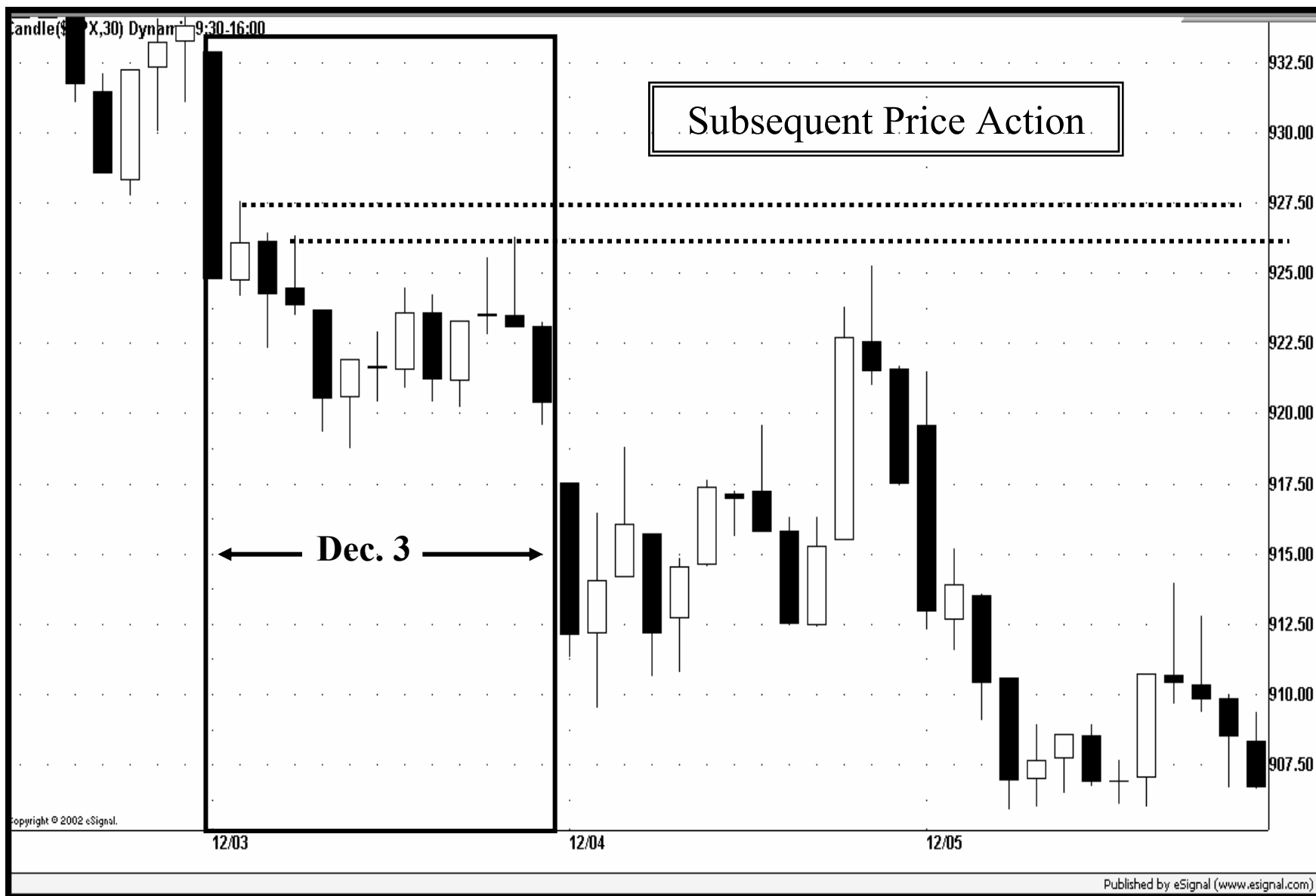
Copyright © 2002 eSignal.

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Intraday trading tactics – slide 2 of 3



Intraday trading tactics – slide 3 of 3



Using Intraday Charts – Daily Chart (Slide 1 of 3)



Using Intraday Charts – Hourly Chart (Slide 2 of 3)



Using Intraday Charts – Daily Chart (Slide 3 of 3)



Candle Charts

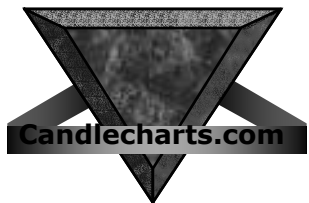
Western

The Trading Triad®

Money Management

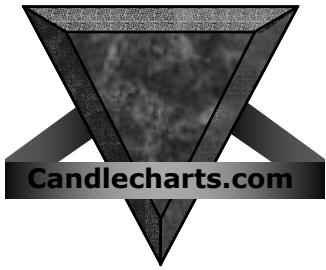
Candlecharts.com

Helping Clients Spot Market Turns *Before* the Competition



Trading Tactics

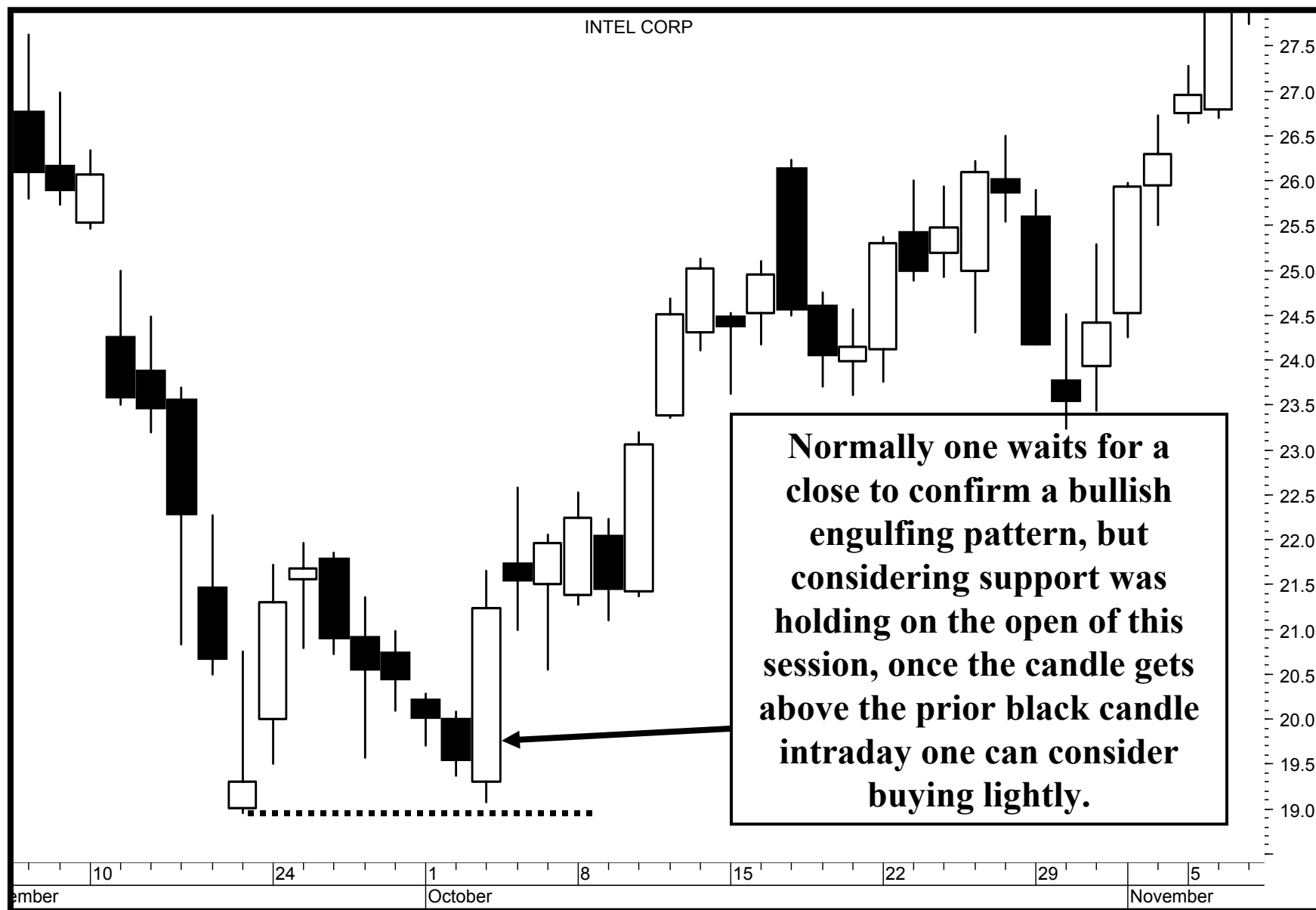
- ★ **Timing**
- ★ **Market Chameleon**
- ★ **Trend**
- ★ **The Three Cs**



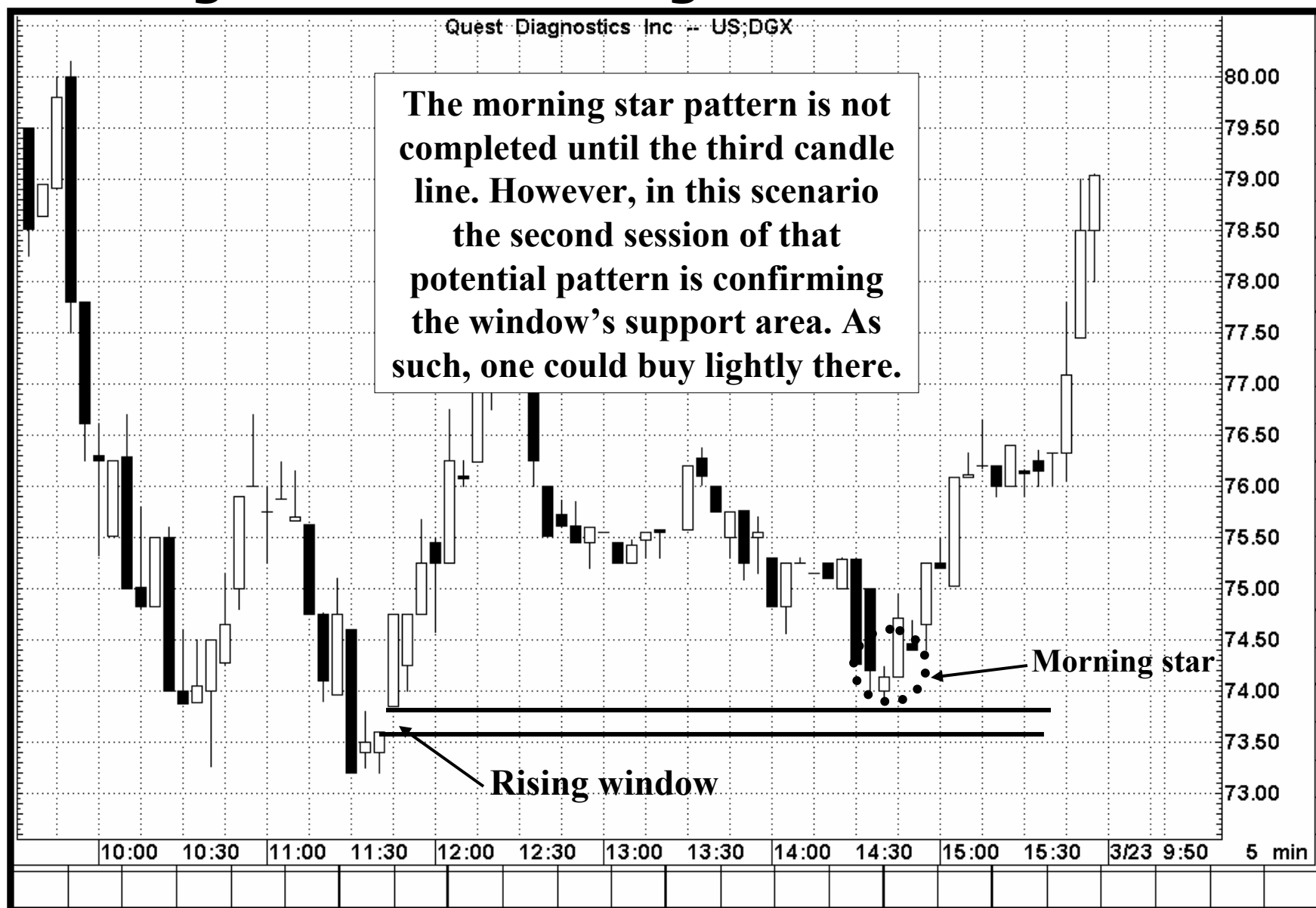
“His potential is that of the fully drawn bow, his timing the release of the trigger”

Market Timing

Trading Tactics – Timing



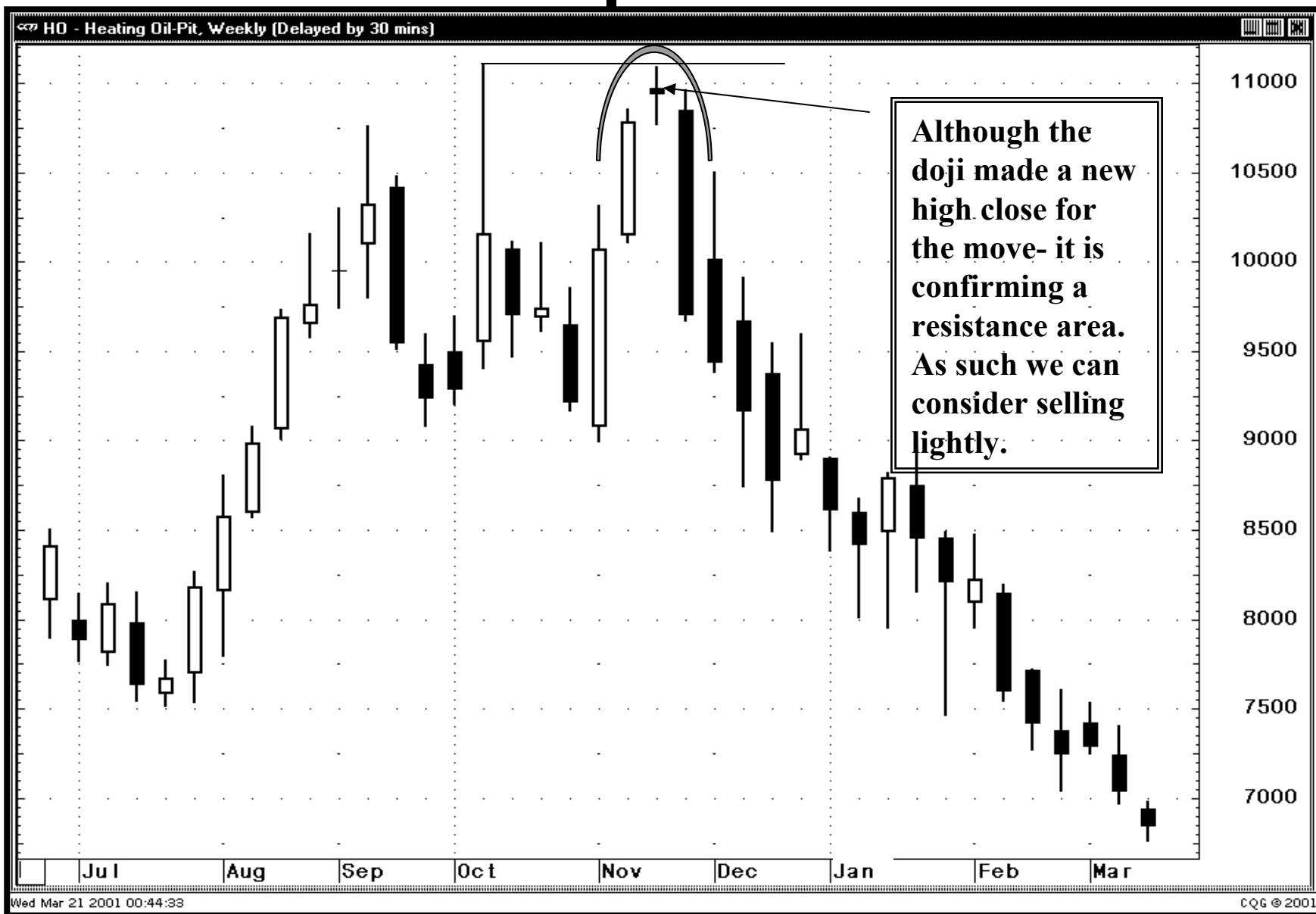
Trading Tactics- Entering a Trade



Trading Tactics – not waiting for the close

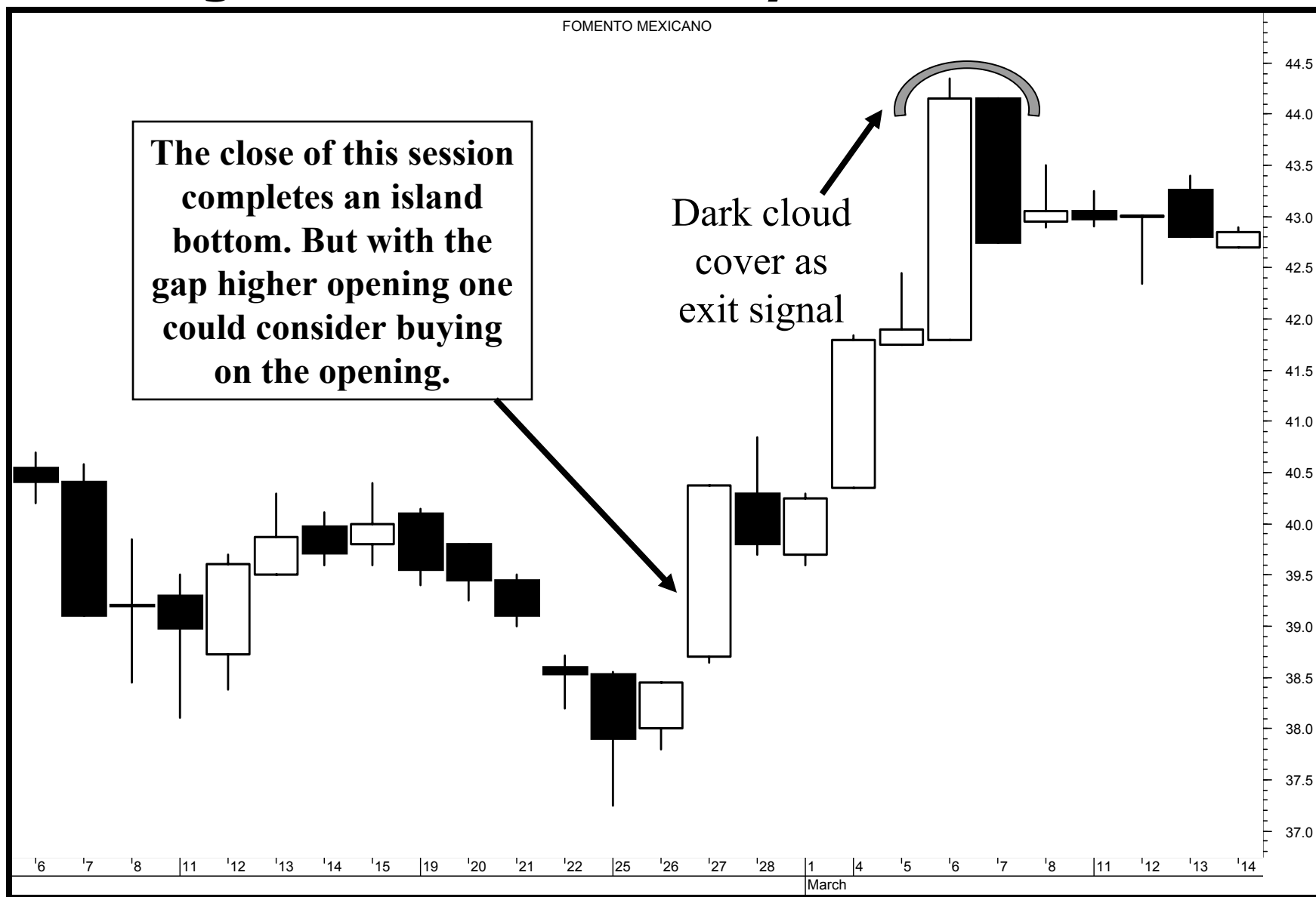


When to initiate a position

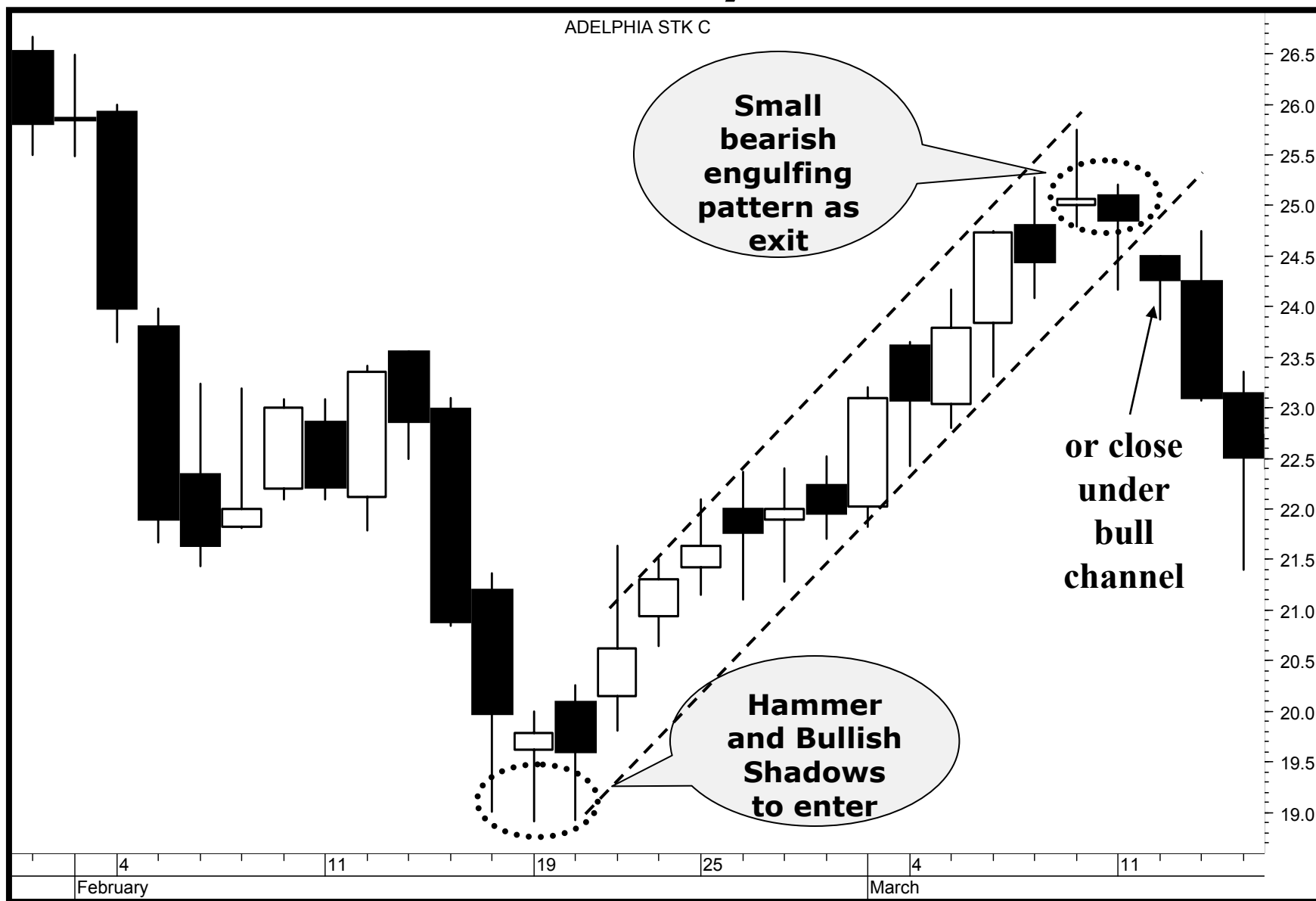


Trading Tactics –Case Study

FOMENTO MEXICANO



Trade Tactics – Case Study





**“Only those who
understand adaptation
will win the battle”**

**Market Chameleon -
adapt to changing
market conditions**

Nison Trading Principle

Being a Market Chameleon:

*As the market environment changes –
based on what the technical signals are
telling us – we should adapt our market
outlook*

Market Chameleon



Adapting to the Market



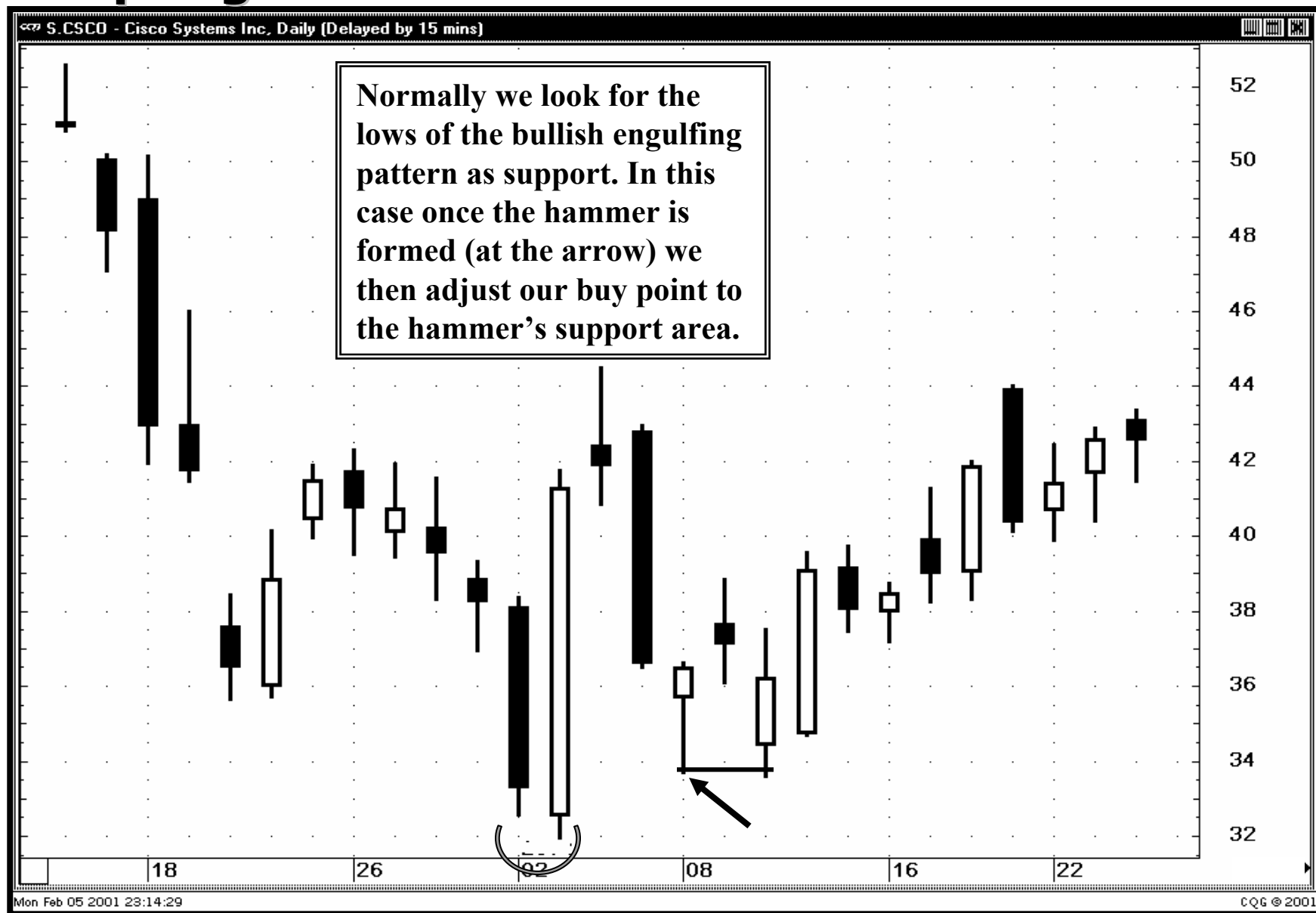
Adapting to the Market



Being a Market Chameleon



Adapting to the market

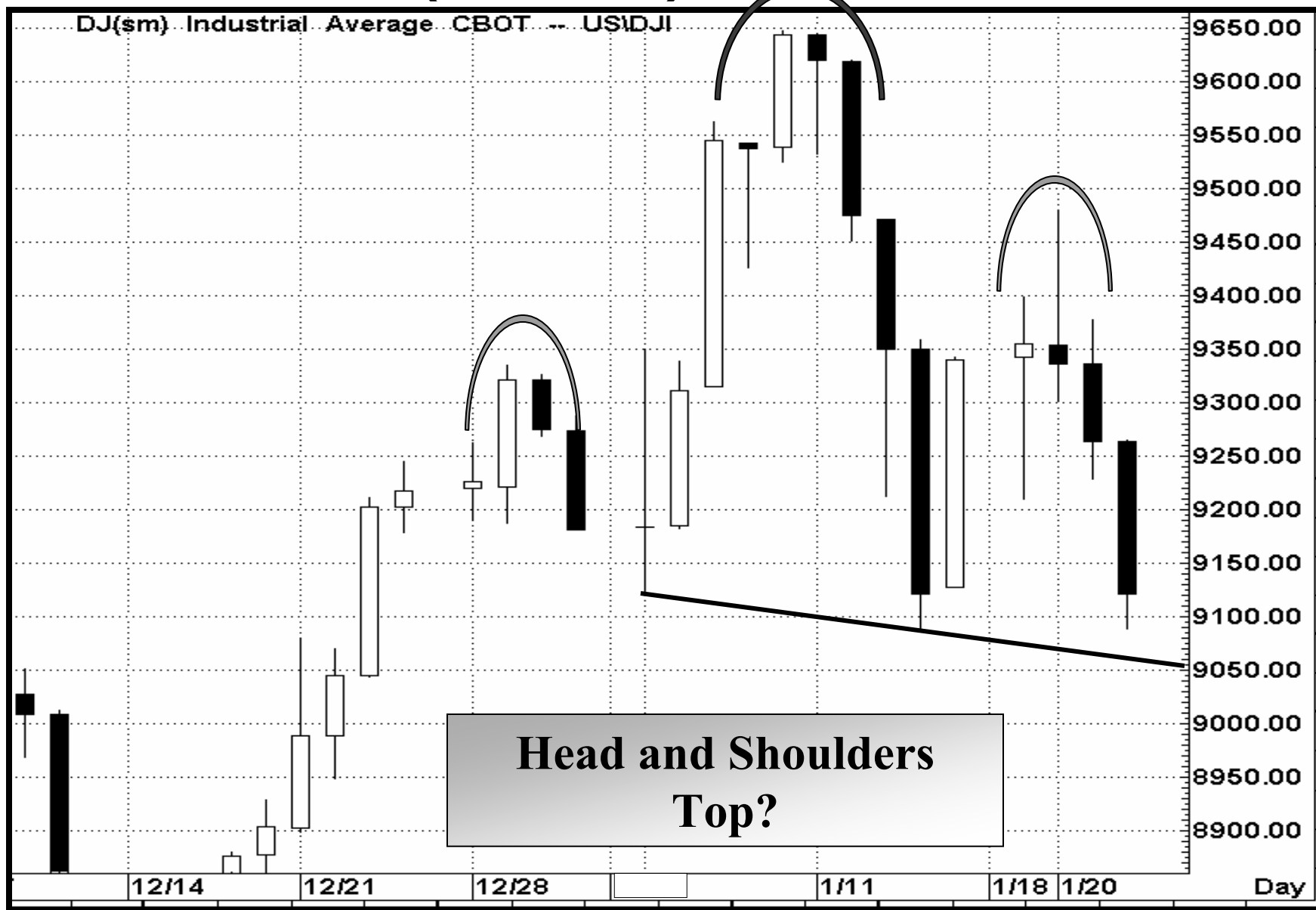


Nison Trading Principle

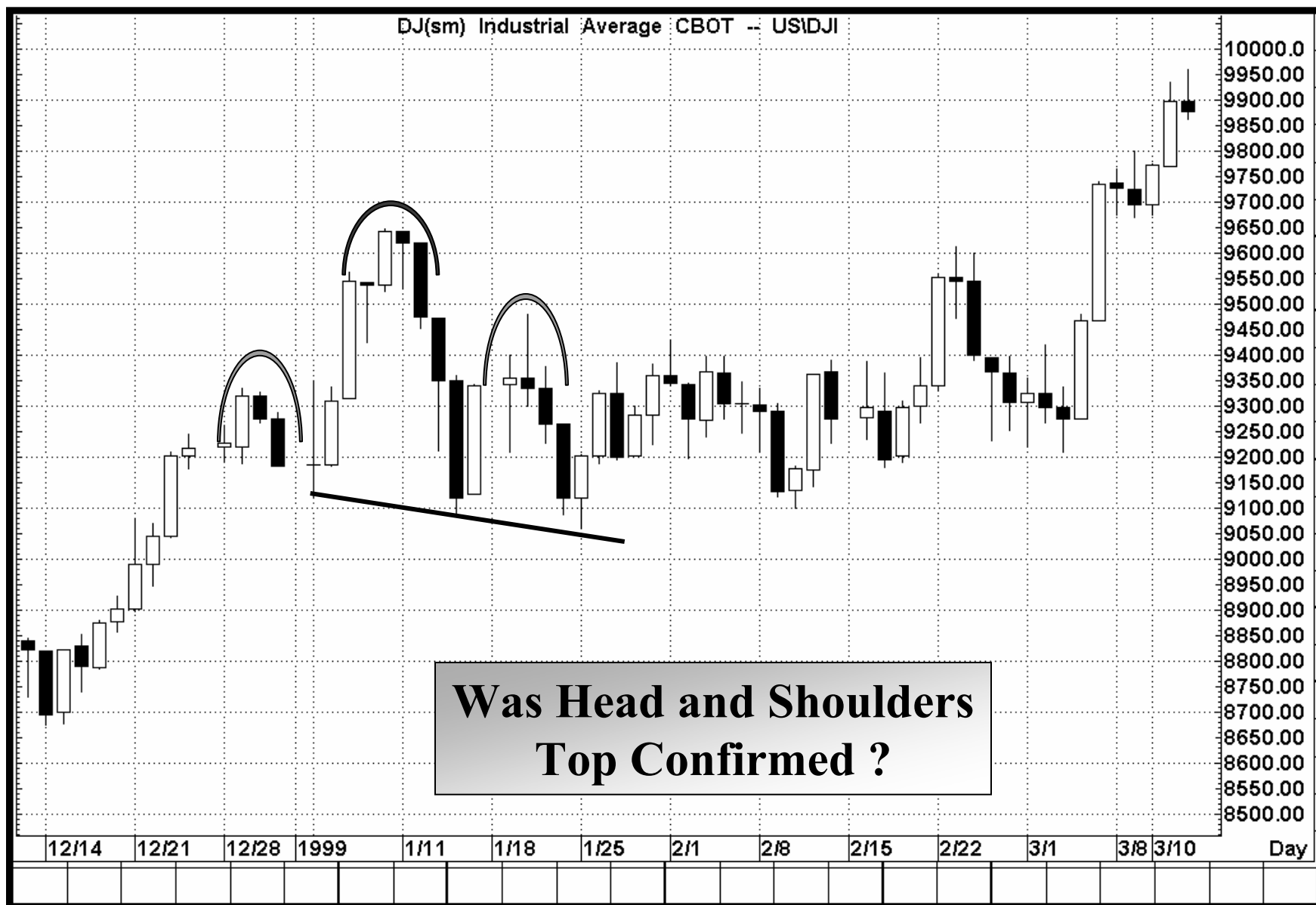
The If...Then Rule:

- If the market does not act as forecasted then exit the position
- Initiate a position when the market justifies your potential trade (i.e. if near resistance, If the market breaks above resistance, Then one can buy).

If....Then Rule (slide 1 of 2)



If....Then Rule (slide 2 of 2)



If....Then Rule





"Take advantage of field conditions"

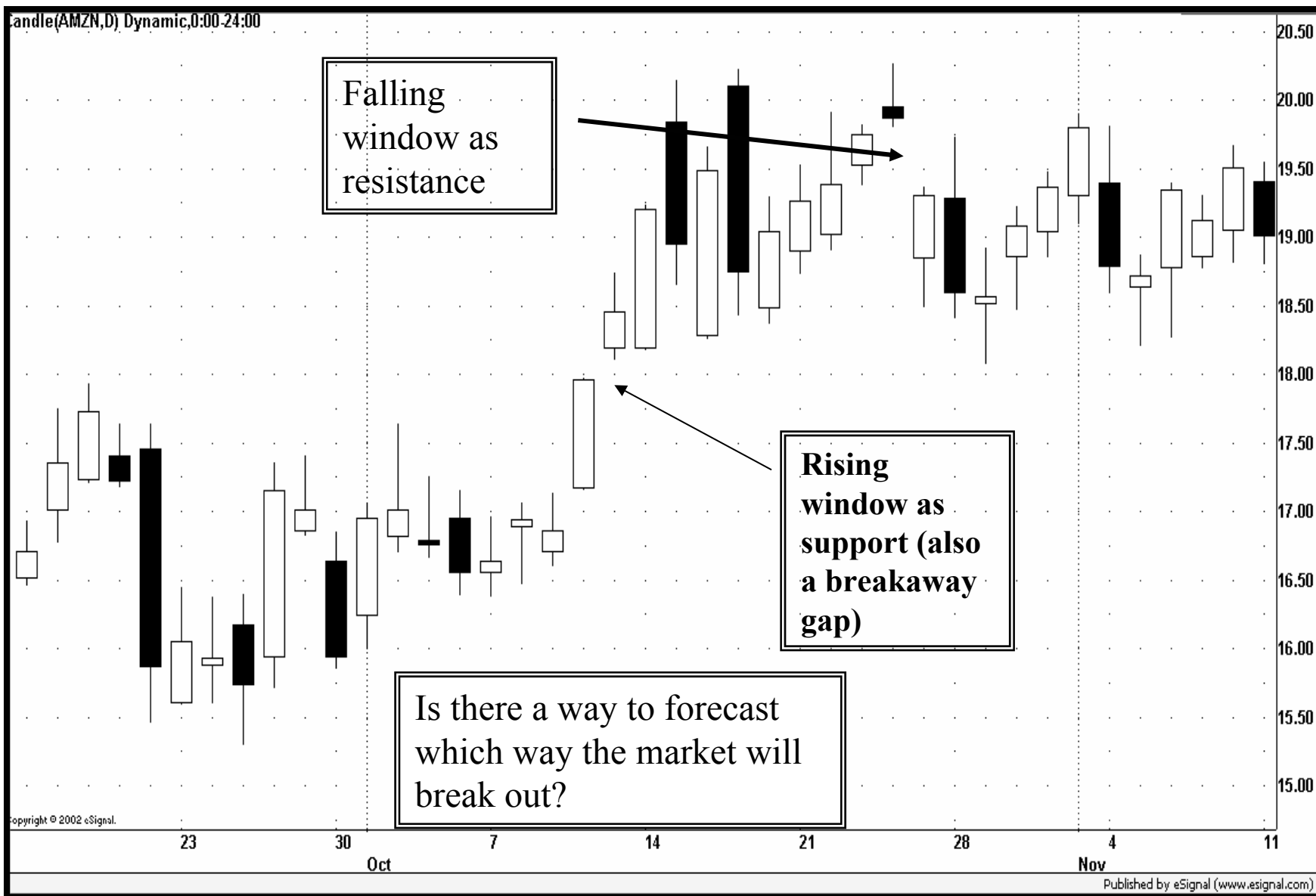
Prevailing Trend

Nison Trading Principle

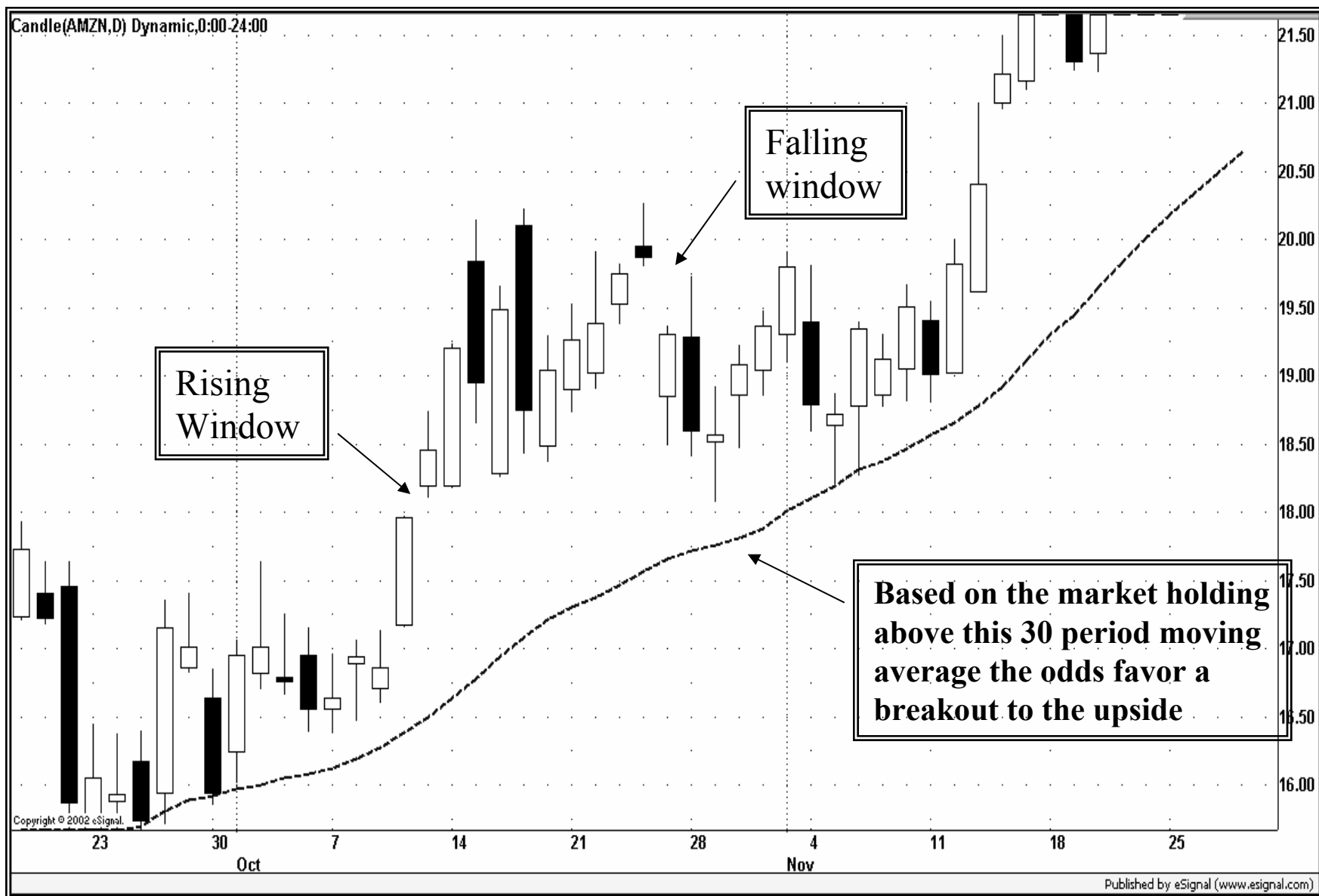
Initiate new trades in the direction of the major trend (unless you are looking for a small move):

- ★ On bullish signals in a bull market buy long. On bullish signals in a bear trend, cover shorts.
- ★ On bearish signals in a bear trend, sell short. On bearish signals in a bull market, liquidate longs.

Battle of the Windows – slide 1 of 2



Go with the trend –slide 2 of 2



Importance of Trend



Go in the direction of the prevailing trend





The Three Cs of Money Management

Candle in Context

Consider Risk-Reward

Confirmation



"Know the lay of the land"

Candles in Context

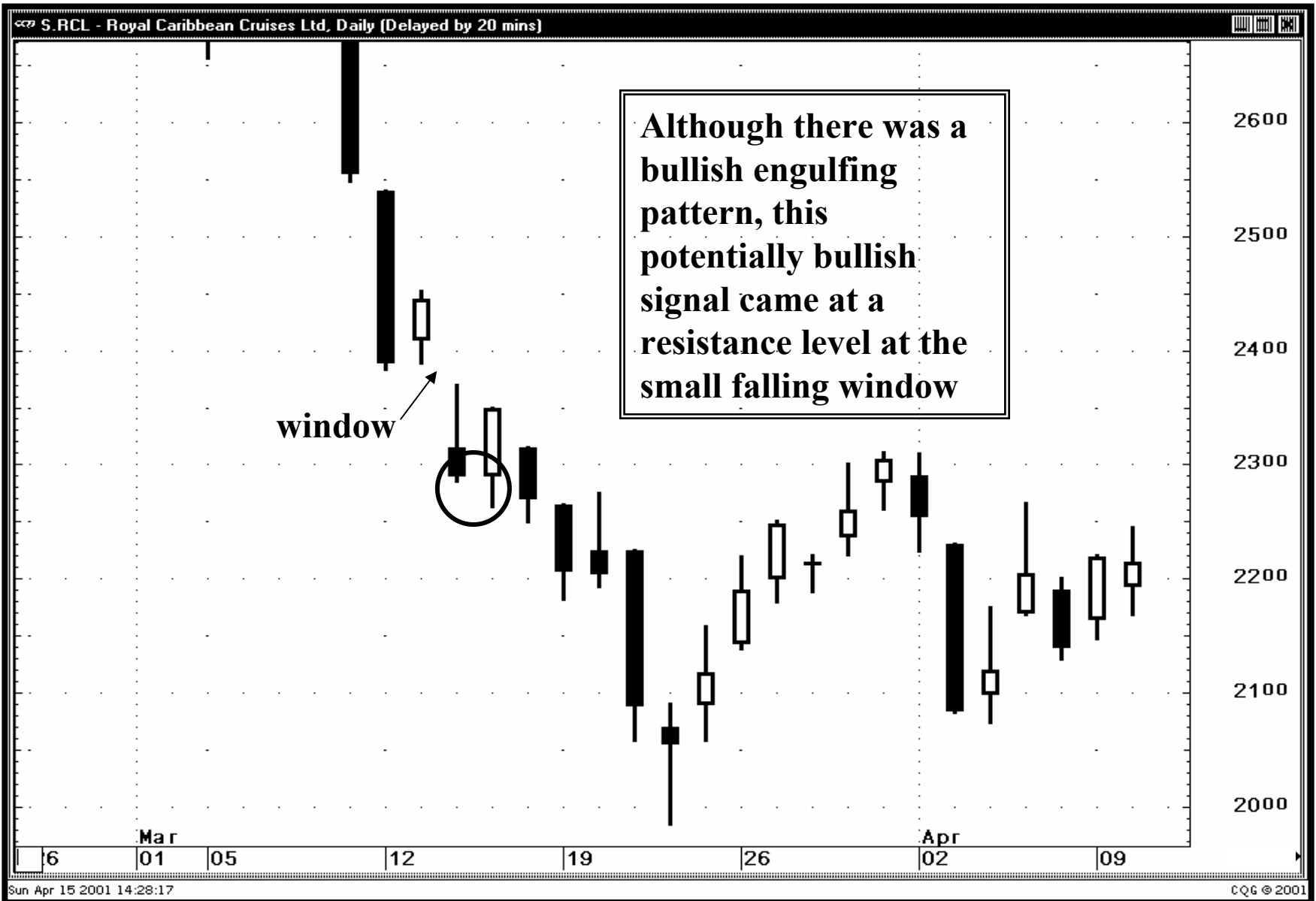
Nison Trading Principle

Candle signals must be evaluated and acted upon within the market's context – for example what happened before the signal?

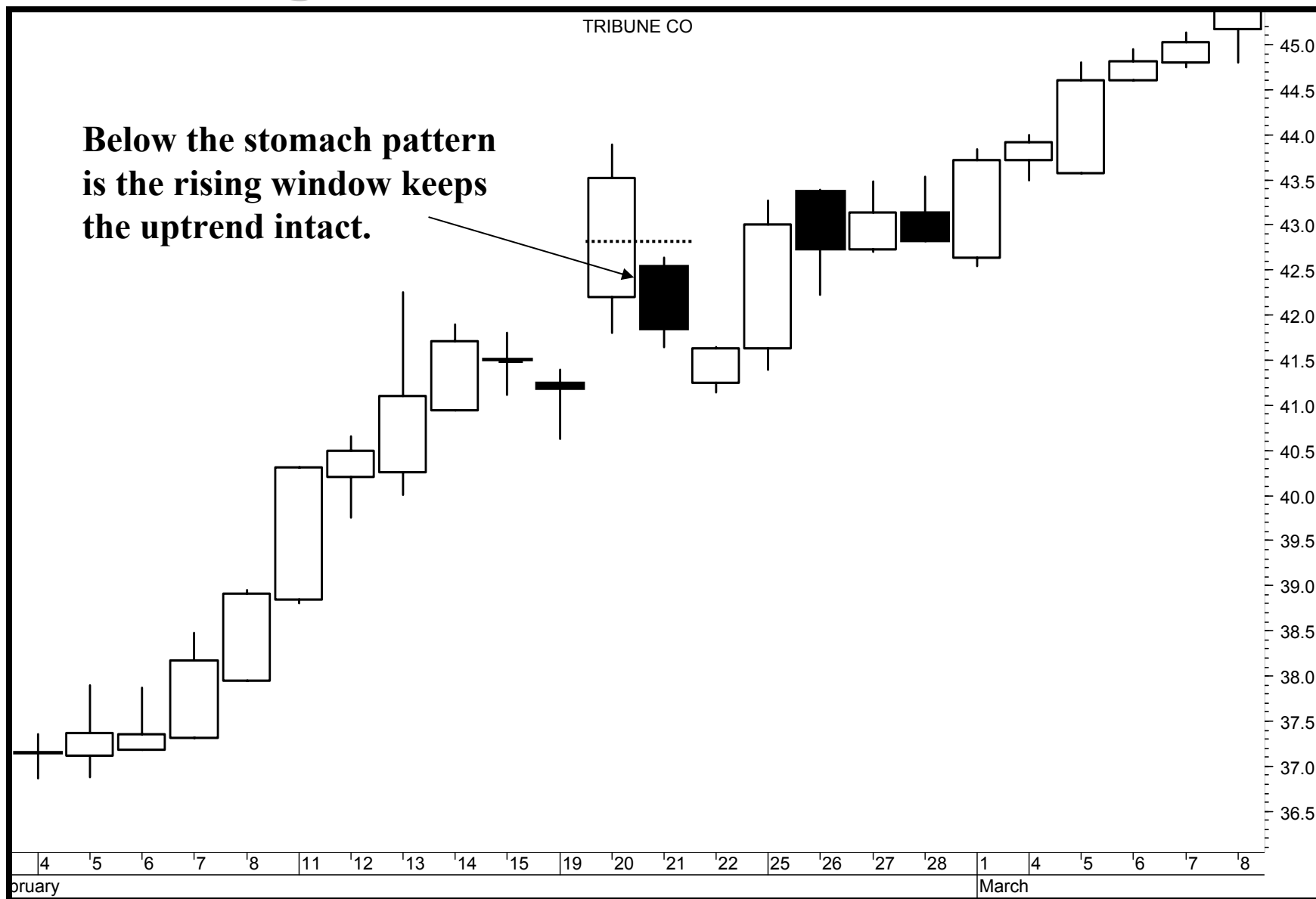
Candles in Context



Patterns in Context – bullish signal at resistance



Candle Signals within market context



Candles in Context



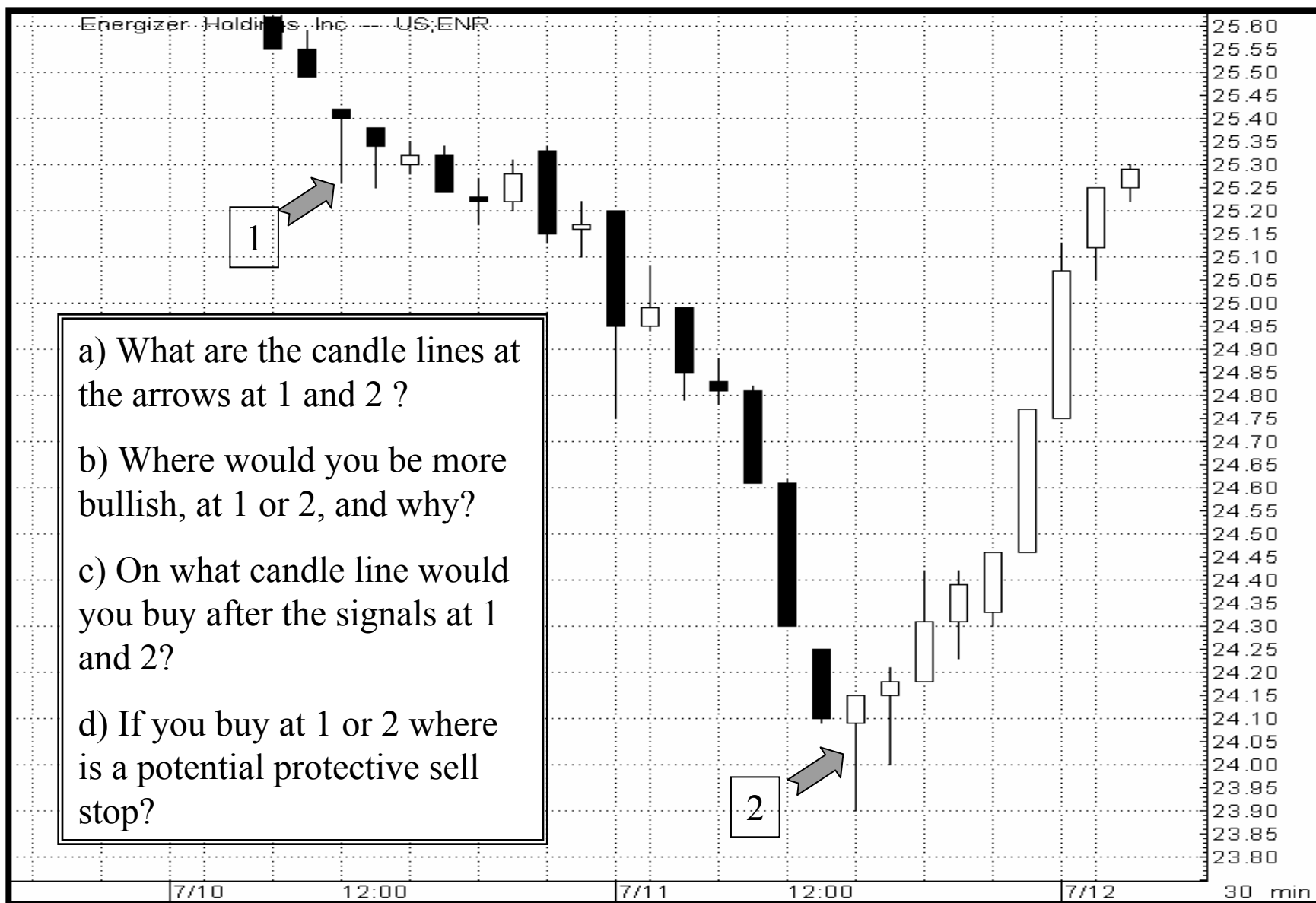
Candles in Context



Candles in Context



Trading Tactics - Candles in Context



Nison Trading Principle

Do not only consider the market's price. Analyze the shape and size of candle lines at that price.

How are new highs are made

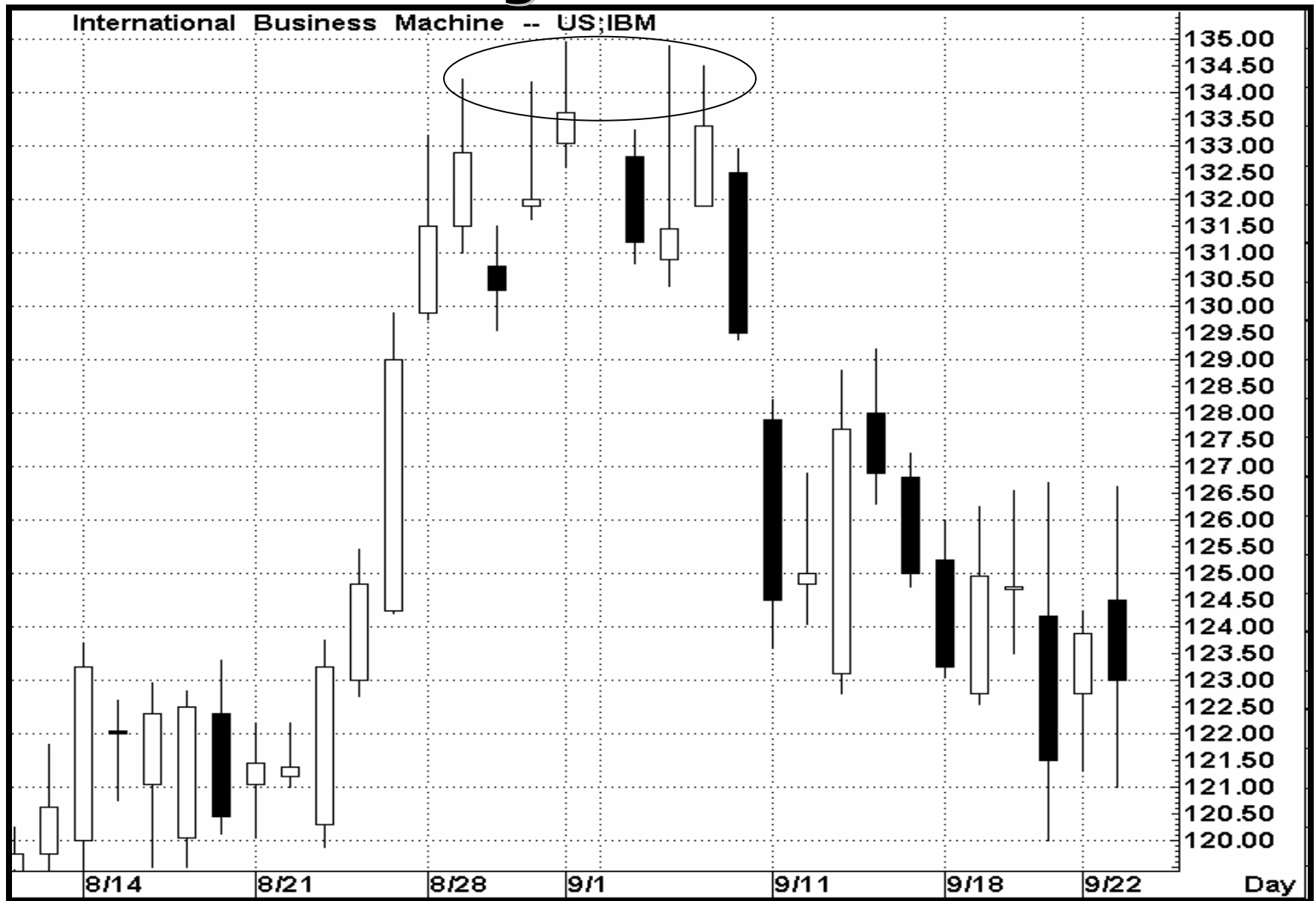
204



How are new highs or lows made



How are new highs made?



How are new highs/lows made?



The water looks fine!





**“Those knowing when
to fight and when not
will be victorious”**

Consider risk-reward

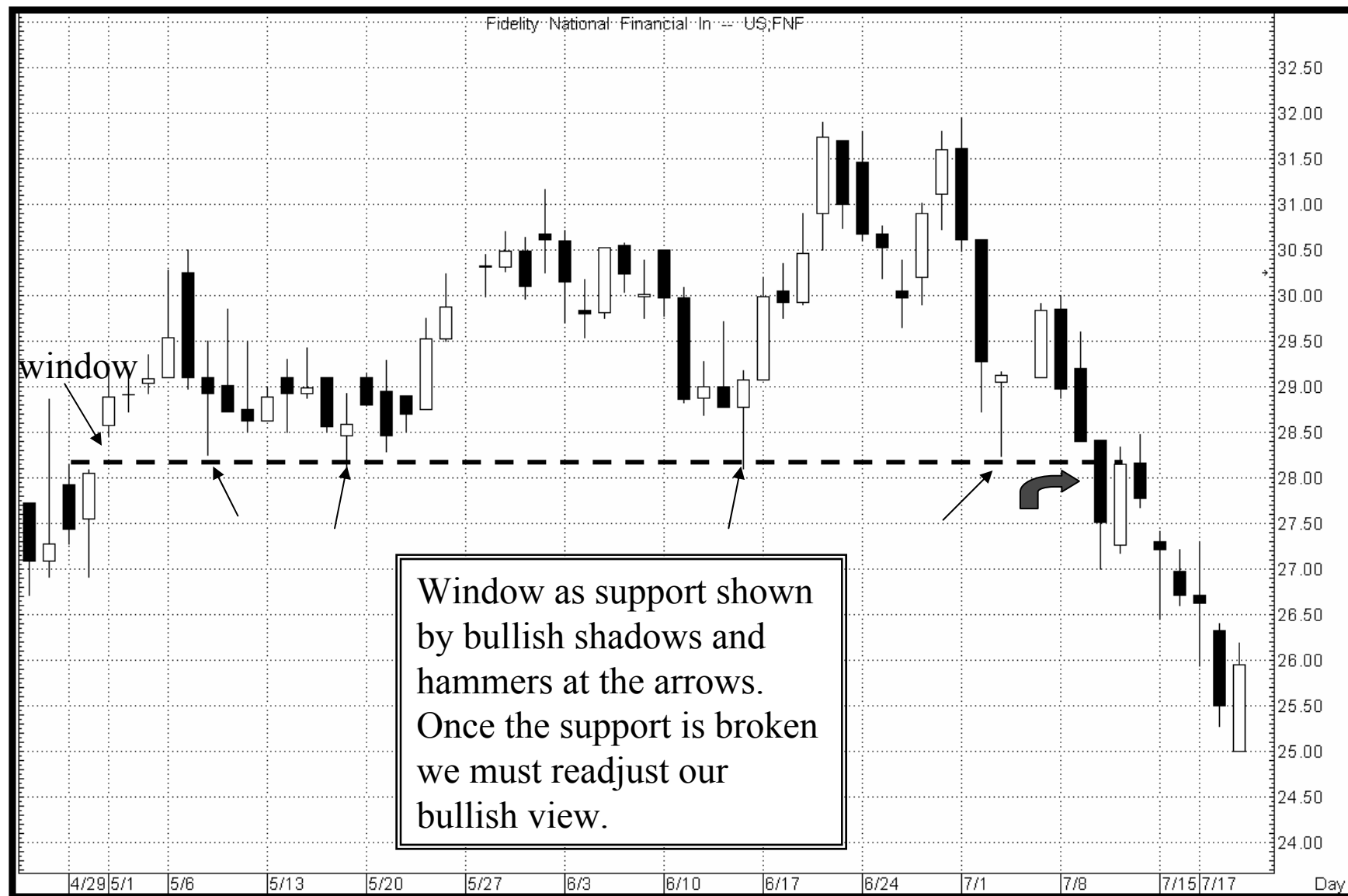
Nison Trading Principle

Even a “perfect” candle signal
does not equal a good trade!
YOU MUST ALWAYS
JUDGE THE POTENTIAL
TRADE’S RISK-REWARD.

Stops



Stops



Obtaining targets



Obtaining Price Targets

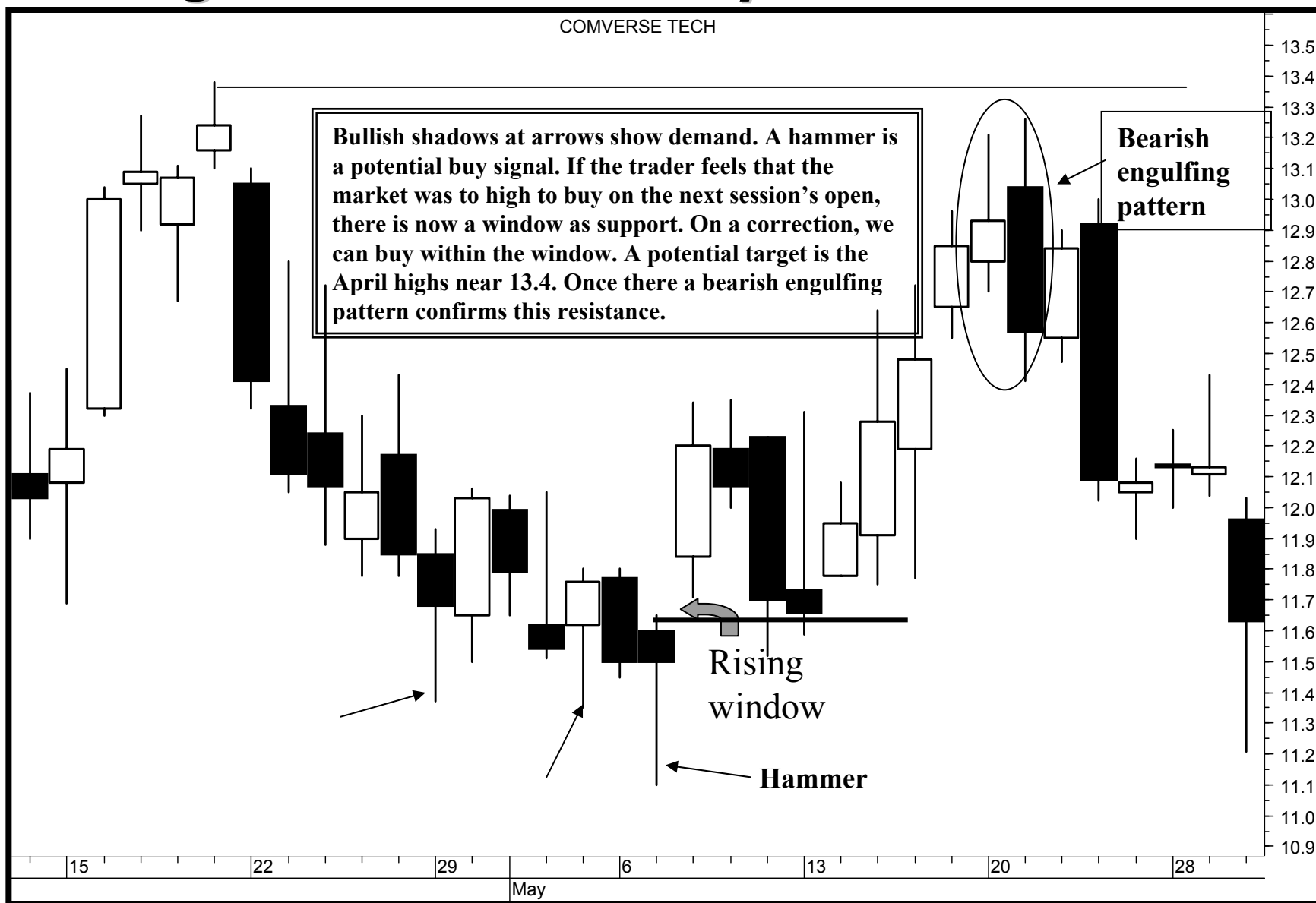


Using Western TA for target

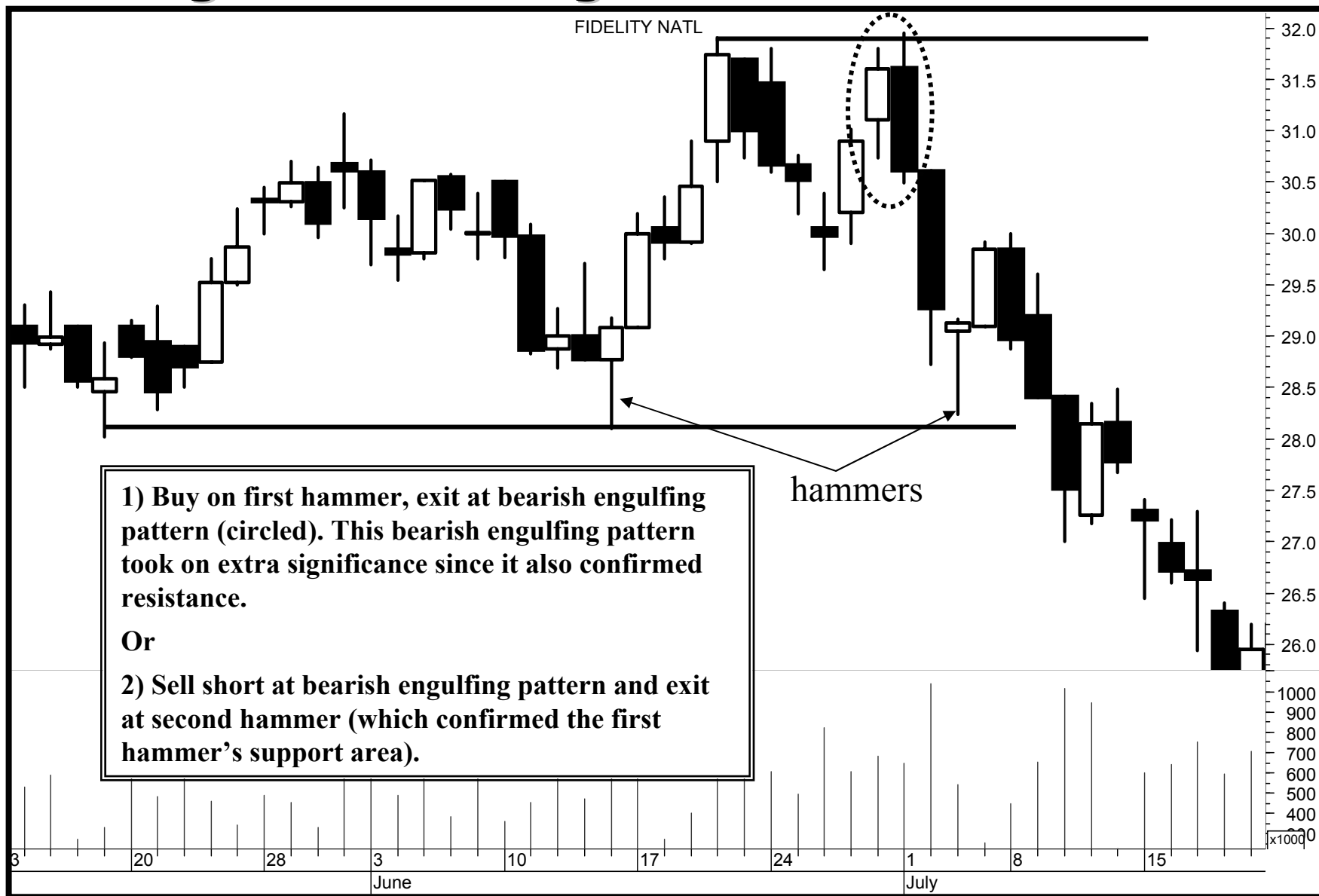


Trading Tactics- Case Study

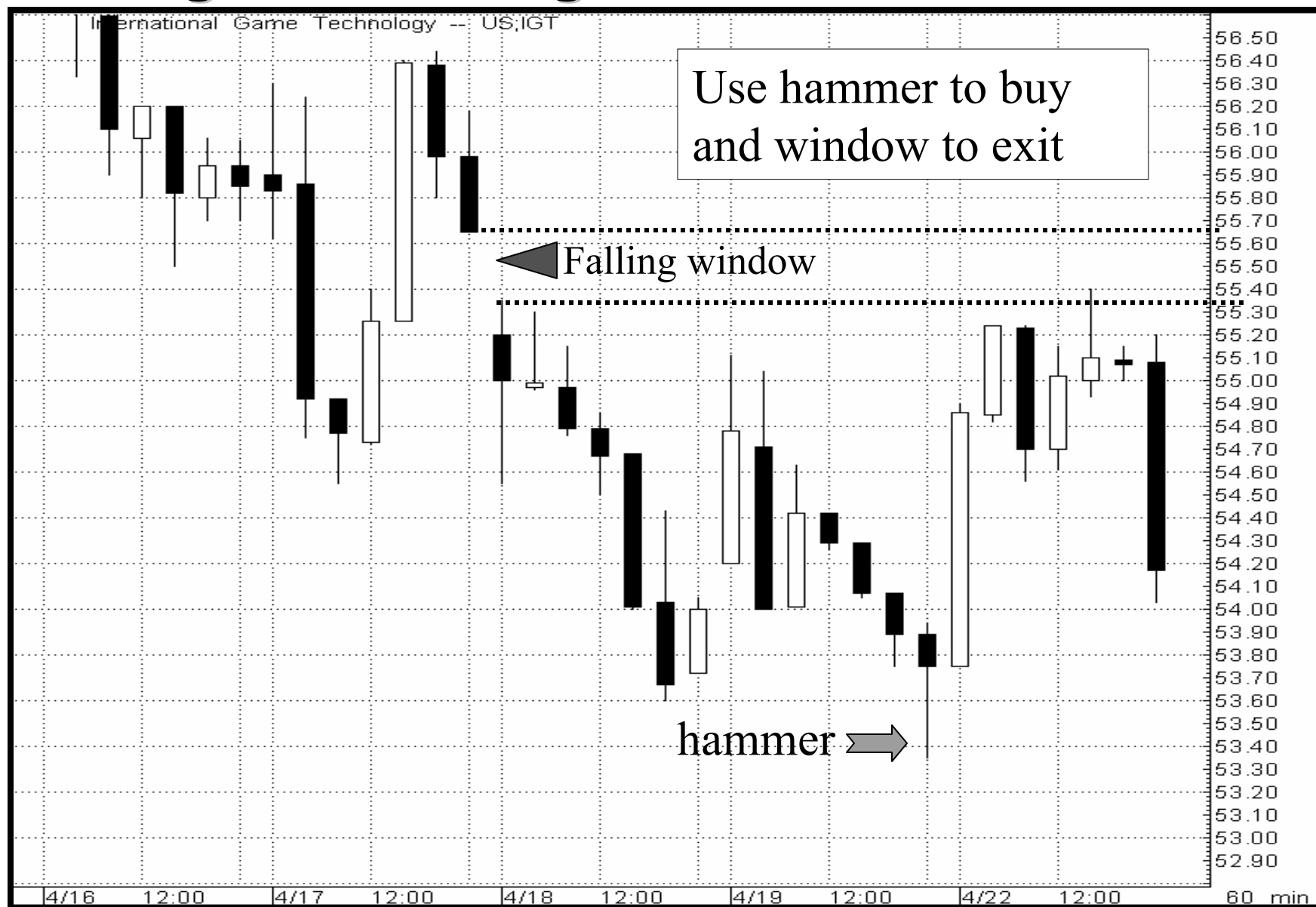
COMVERSE TECH



Trading Tactics- Targets



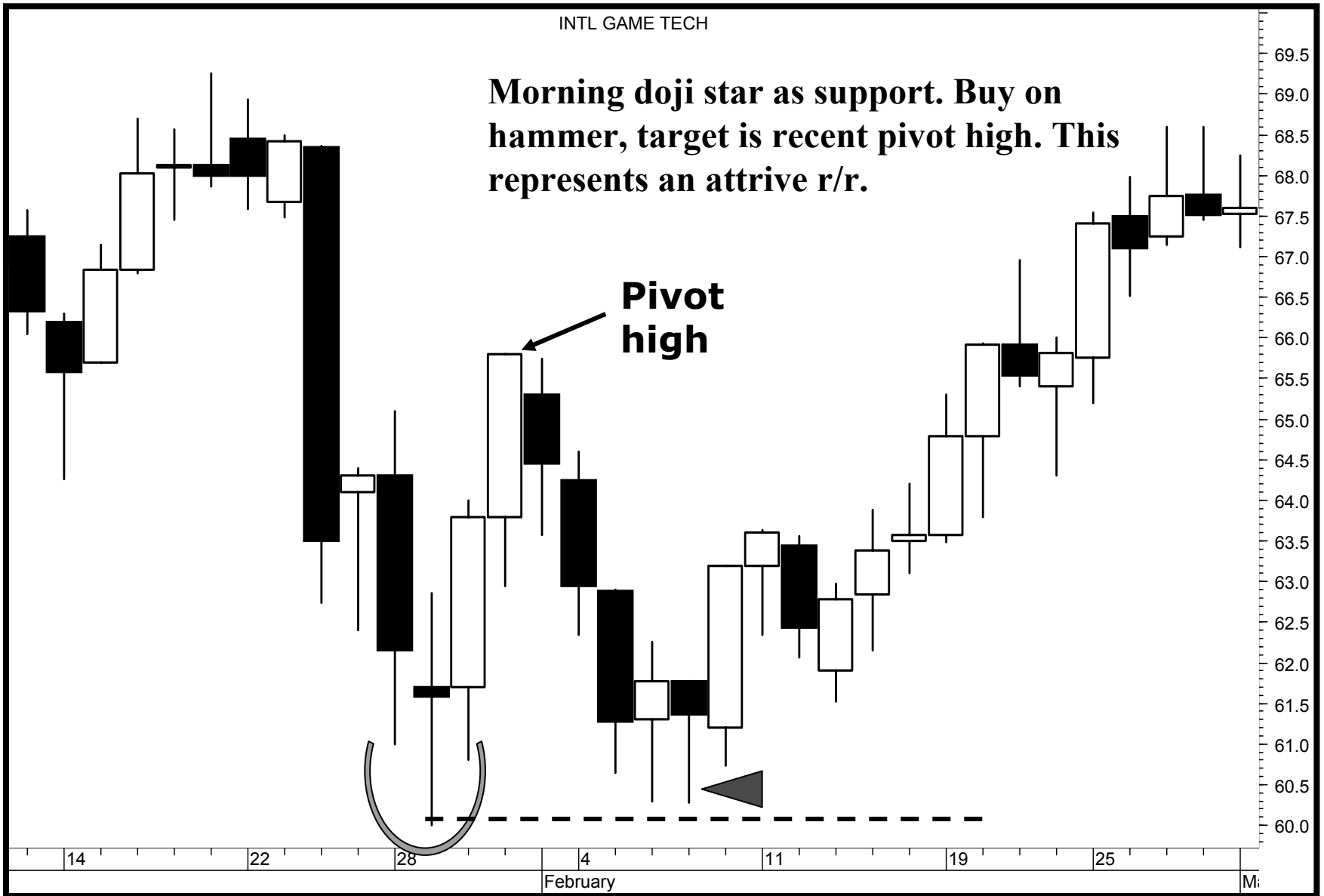
Trading Tactics- Targets



Hammer and Risk/Reward



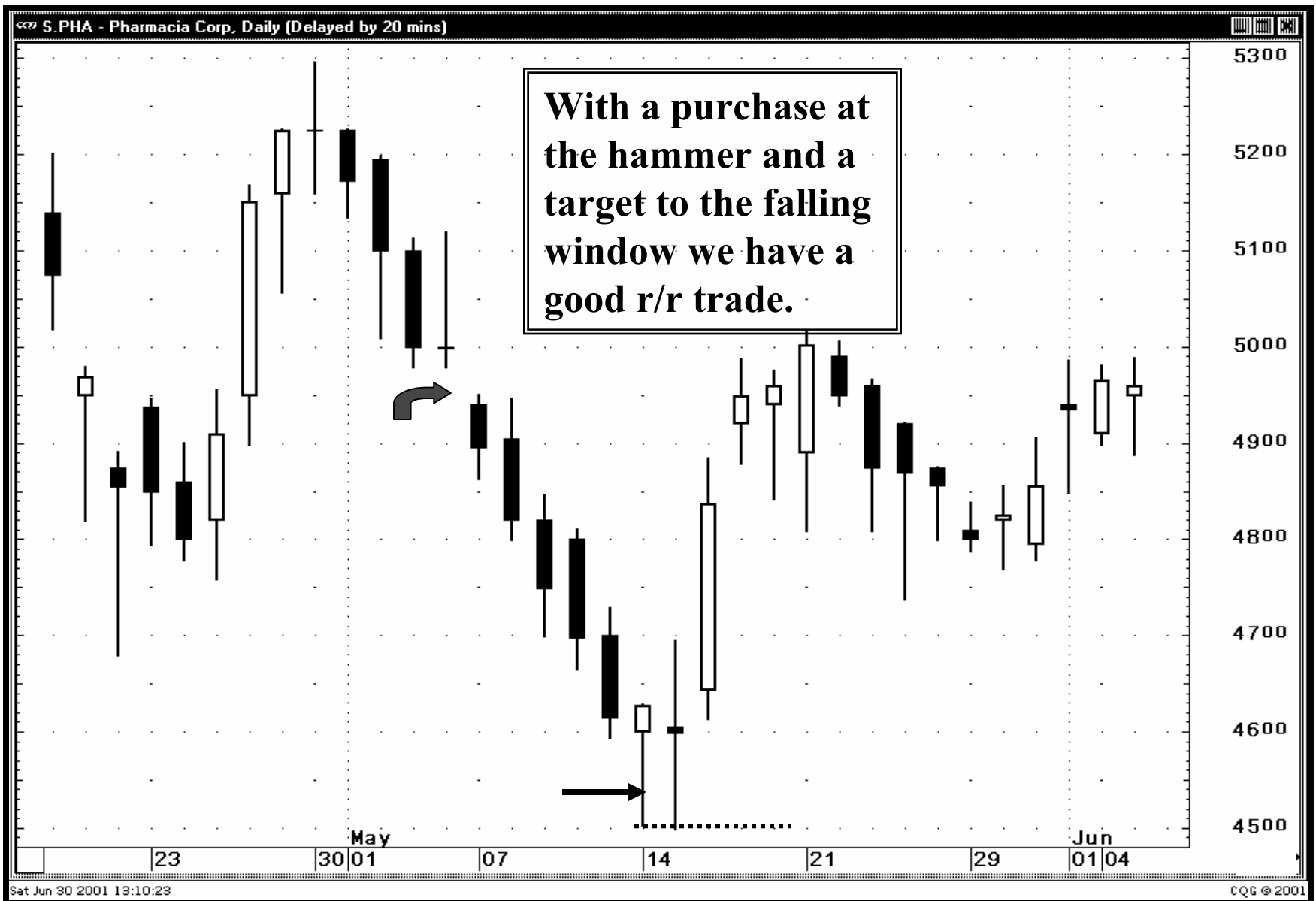
Risk/Reward



Risk/Reward



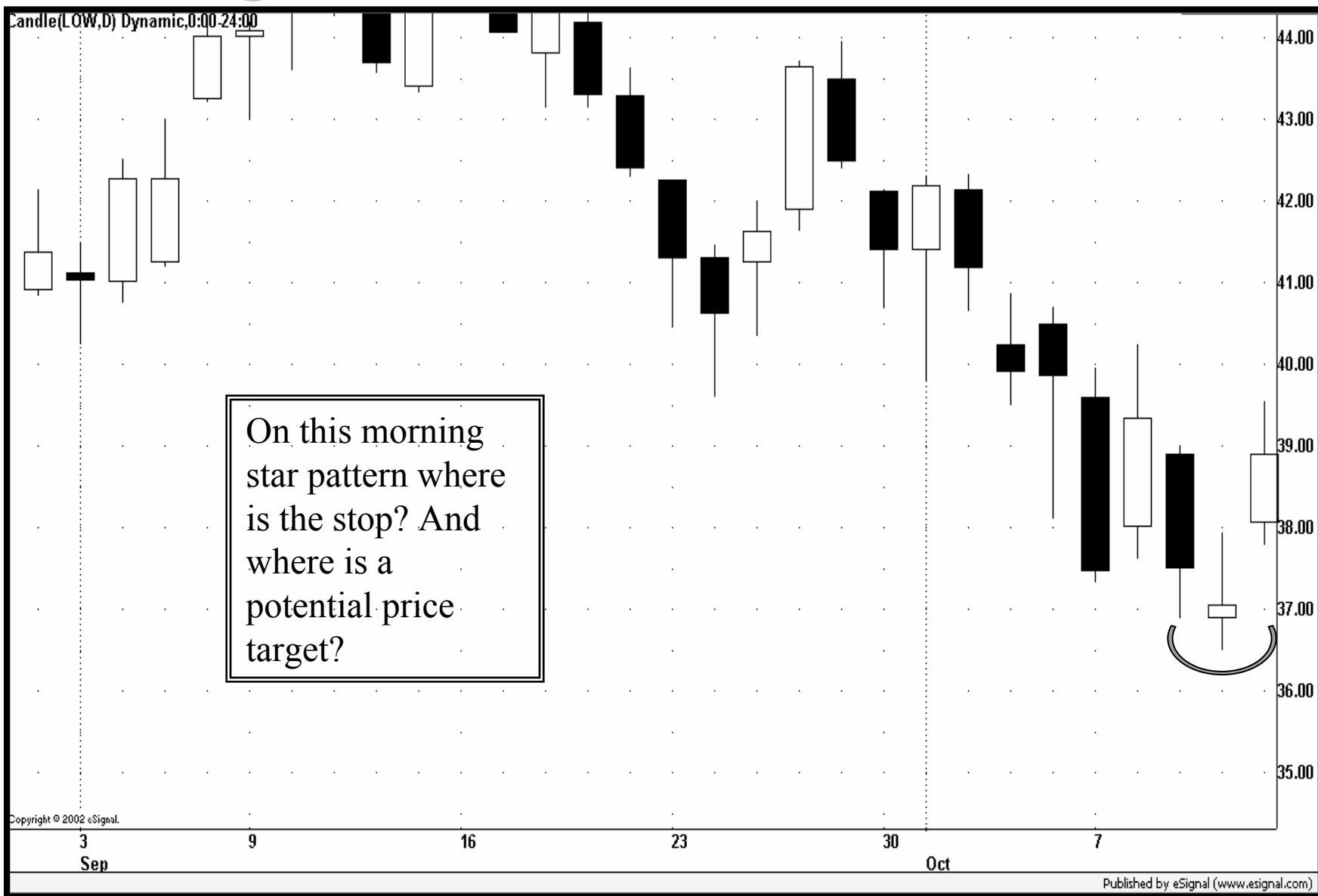
Risk/reward



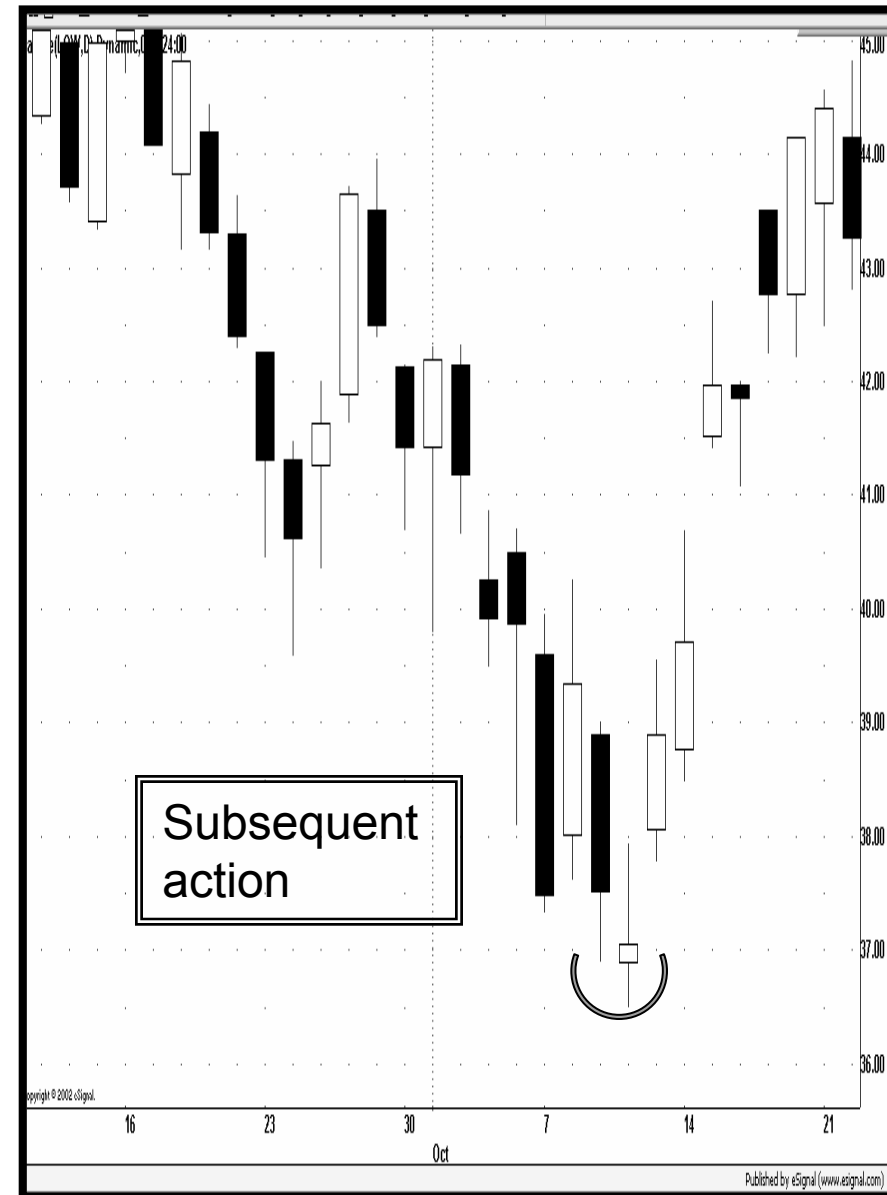
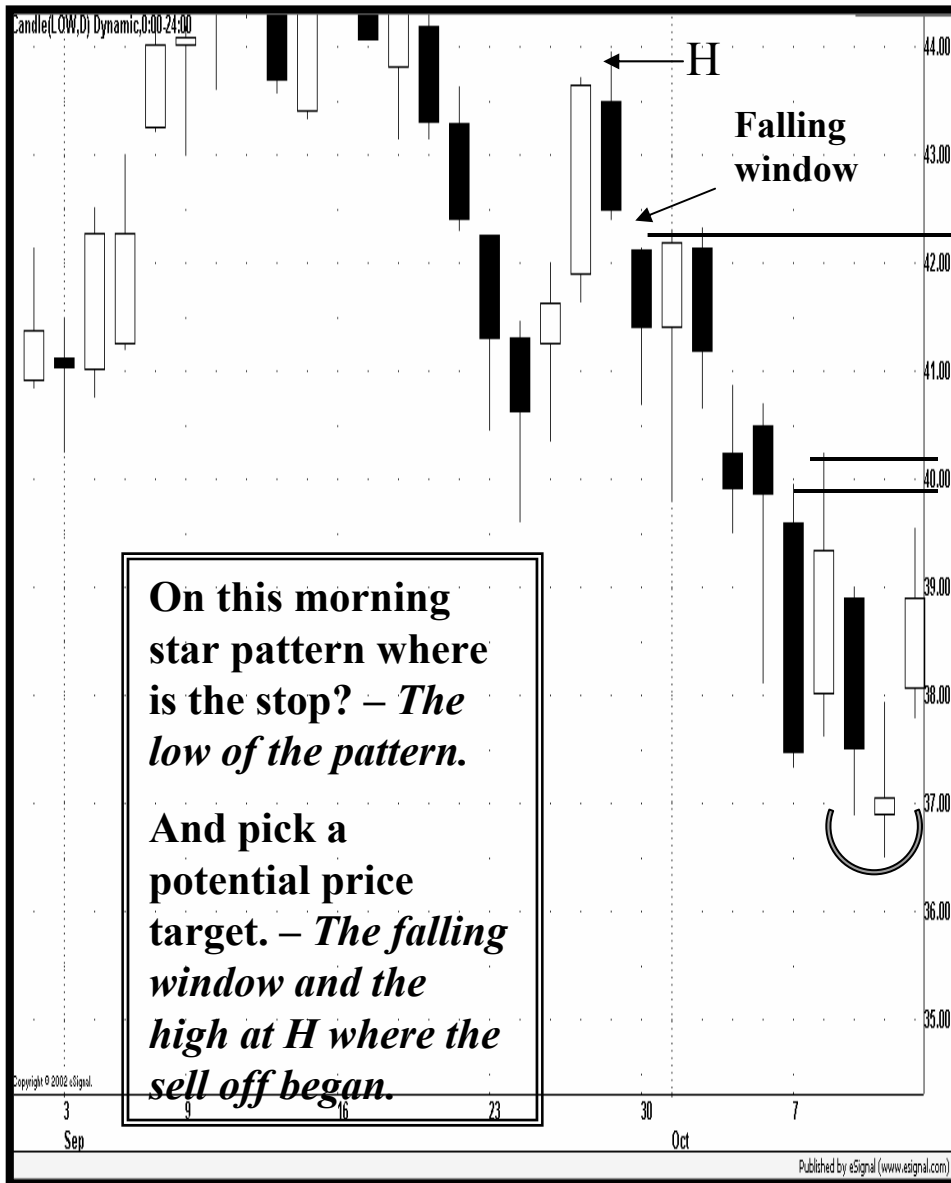
Risk-reward



Price targets – slide 1 of 2



Price targets - slide 2 of 2





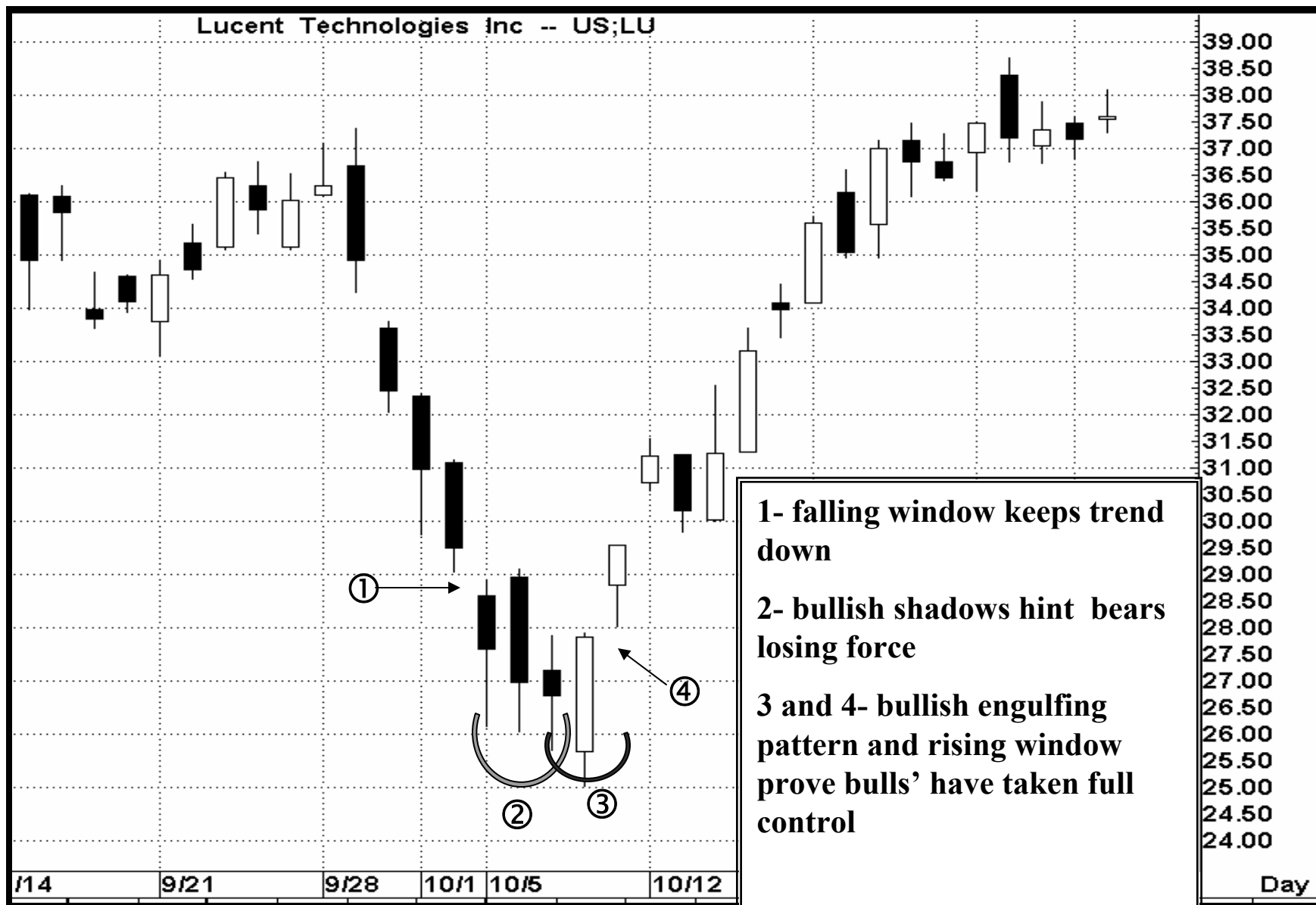
**“He whose ranks are
united in purpose will
be victorious”**

Confirmation

Nison Trading Principle

The more signals- either candle or Western or a combination of both – converge at the same level, the more likely a reversal.

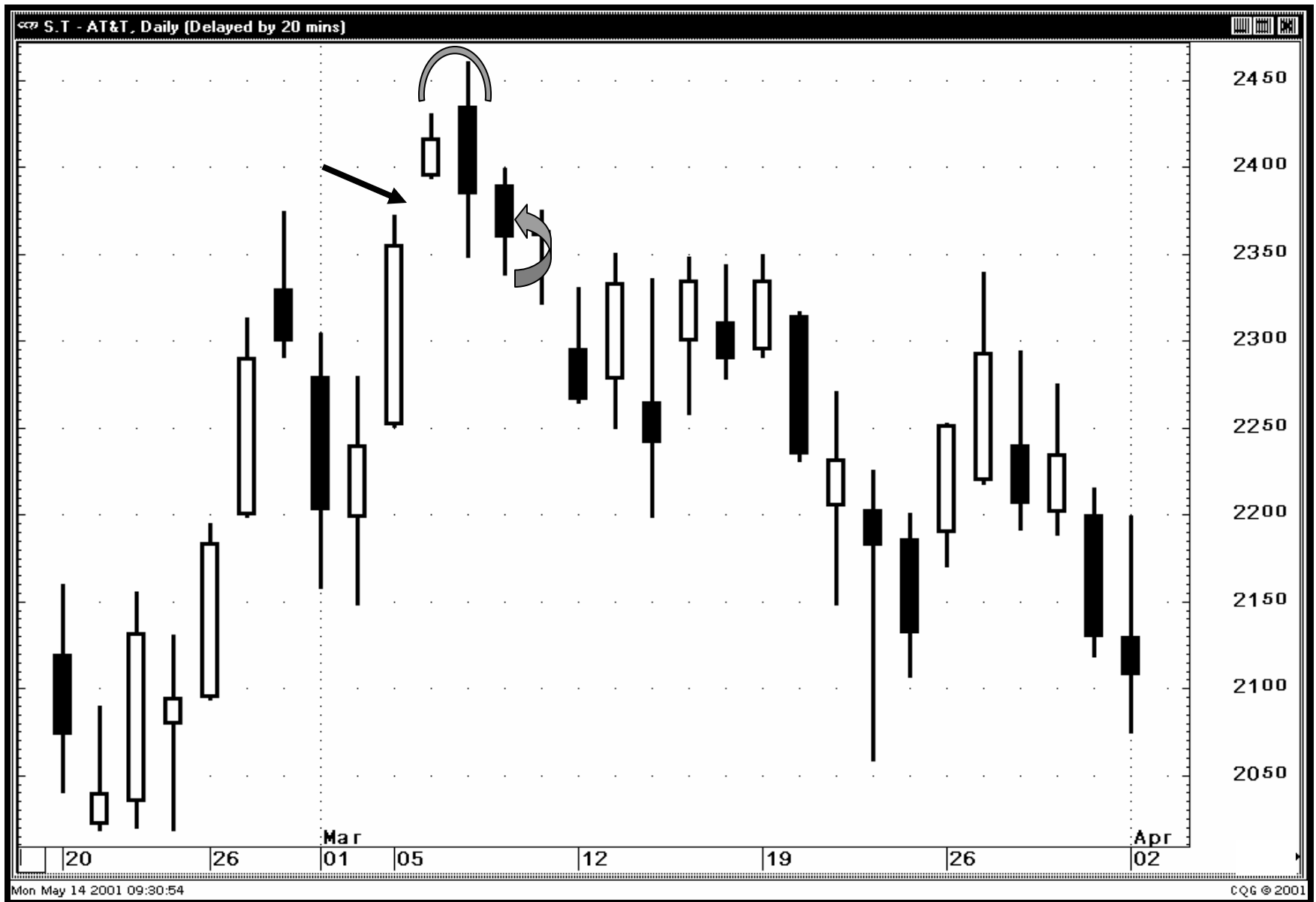
Cluster of Candles



Confirmation



Bearish engulfing pattern but what is confirmation?



P.R.O.F.I.T.S

Potent Insights

Reduce Risks

Outmaneuver your competition

Find Pivotal Support /Resistance

Identify False Breakouts

Terminate Bad Trades

Stay Alive!

Potent Insights

Potent Insights



Reduce Risks

Reduce Risk



Outmaneuver your competition

OSX - PHIL Oil Service Index, Daily (Delayed by 20 mins)

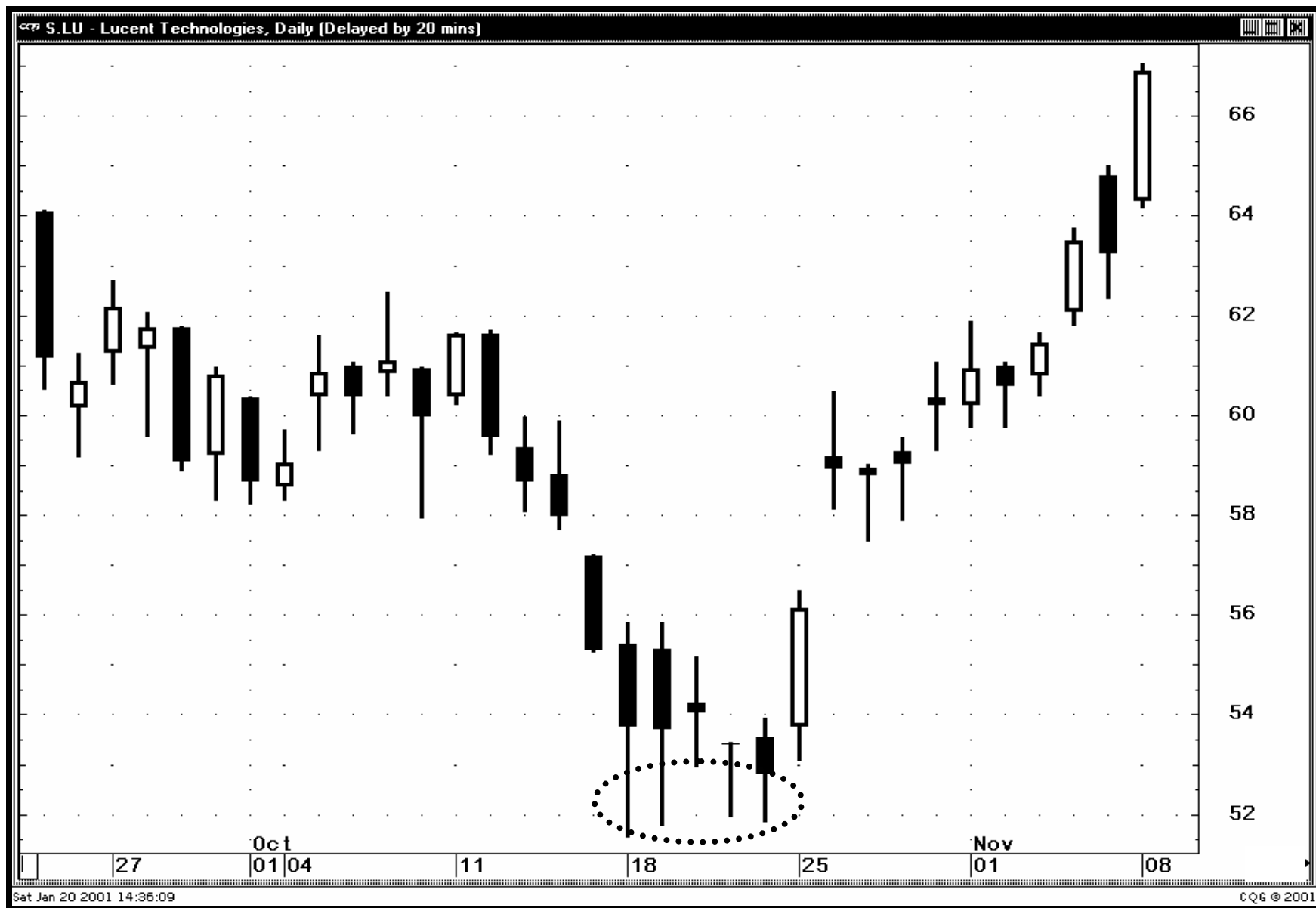
8000
7800
7600
7400
7200
7000
6800
6600

Oct 27 01 11 18 25 01 08 Nov

Wed May 30 2001 15:27:03 CQG © 2001

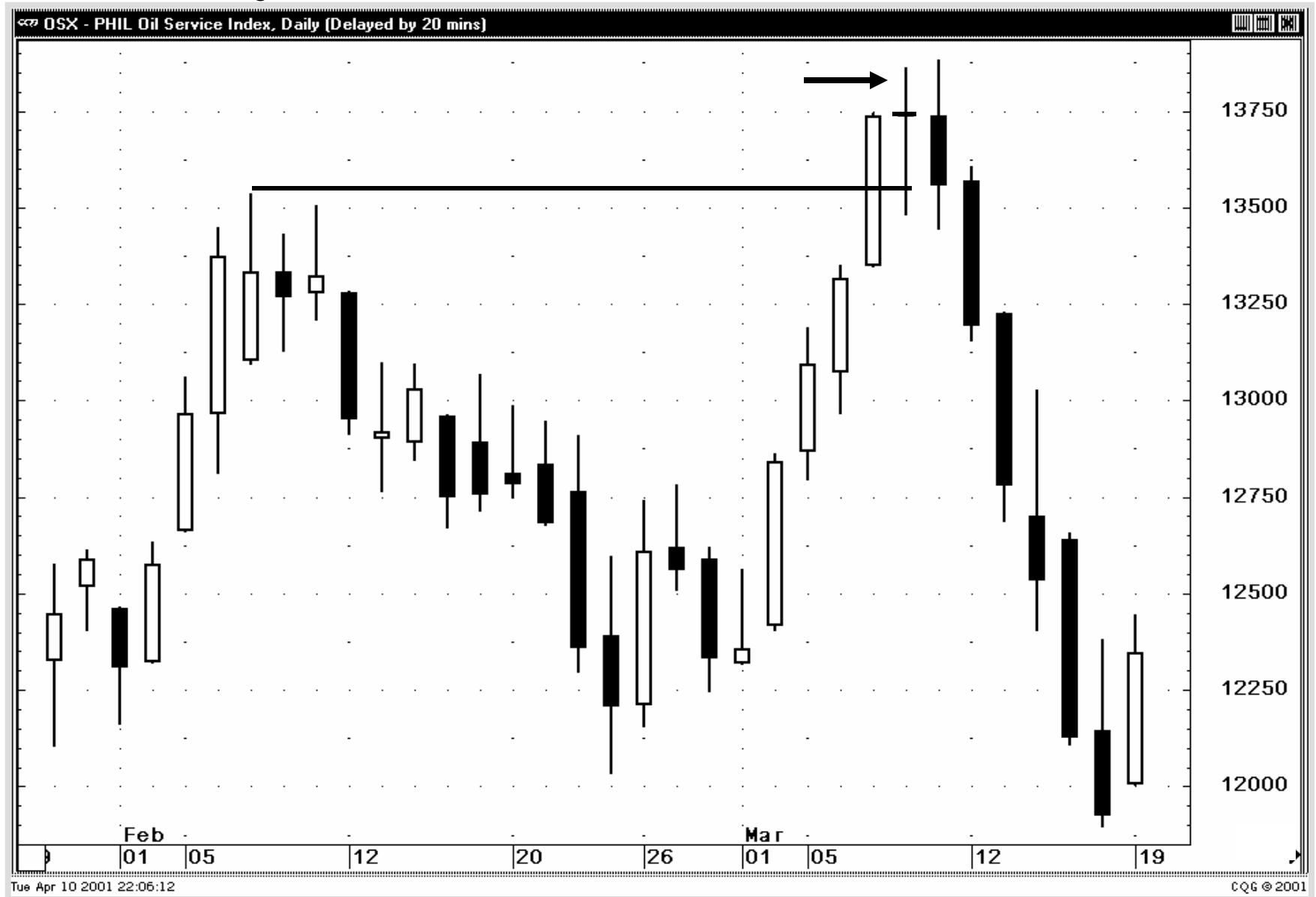
Find Pivotal Support and Resistance

Find pivotal support /resistance



Identify False Breakouts

Identify False Breakouts



Terminate Bad Trades

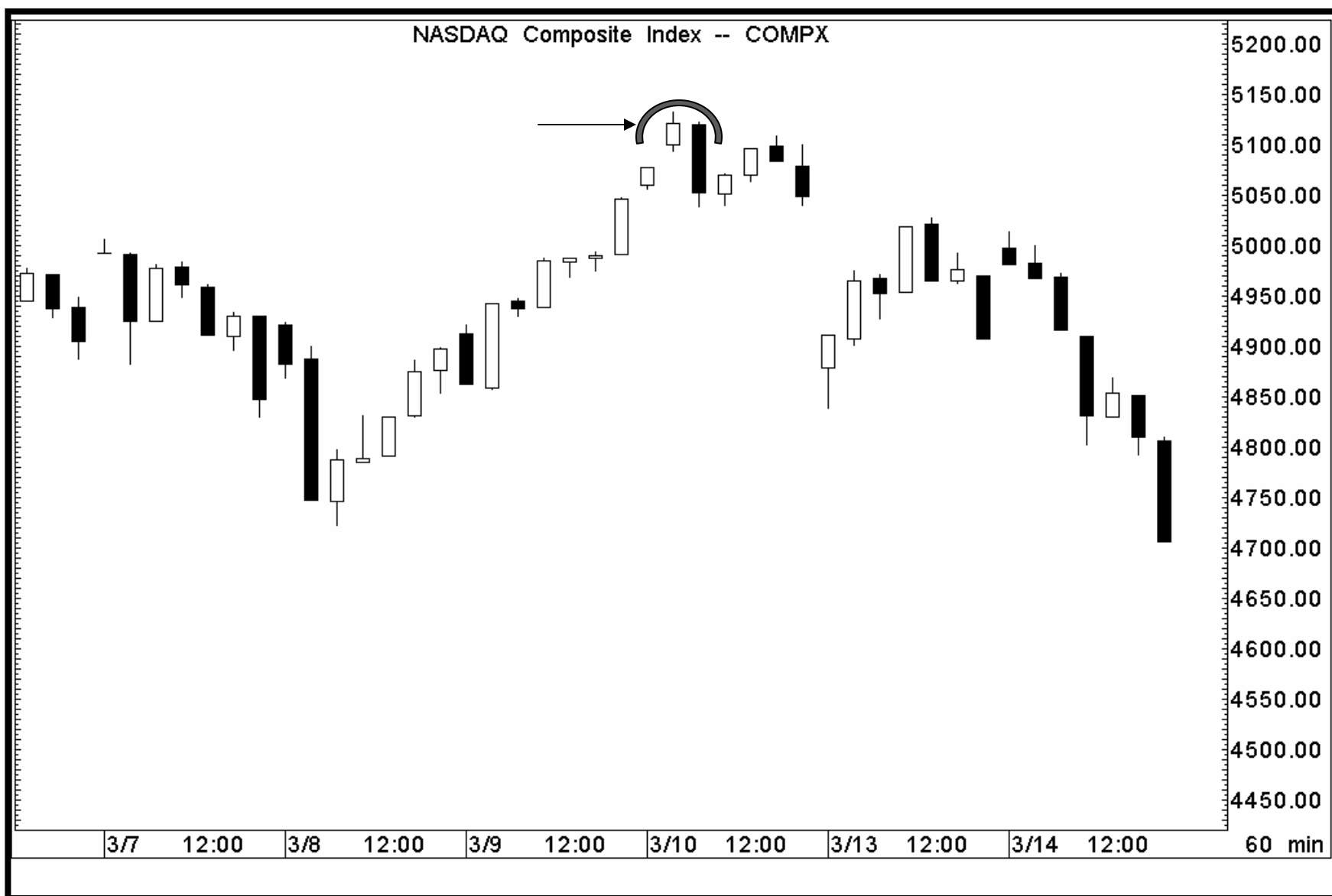
Terminate Bad Trades



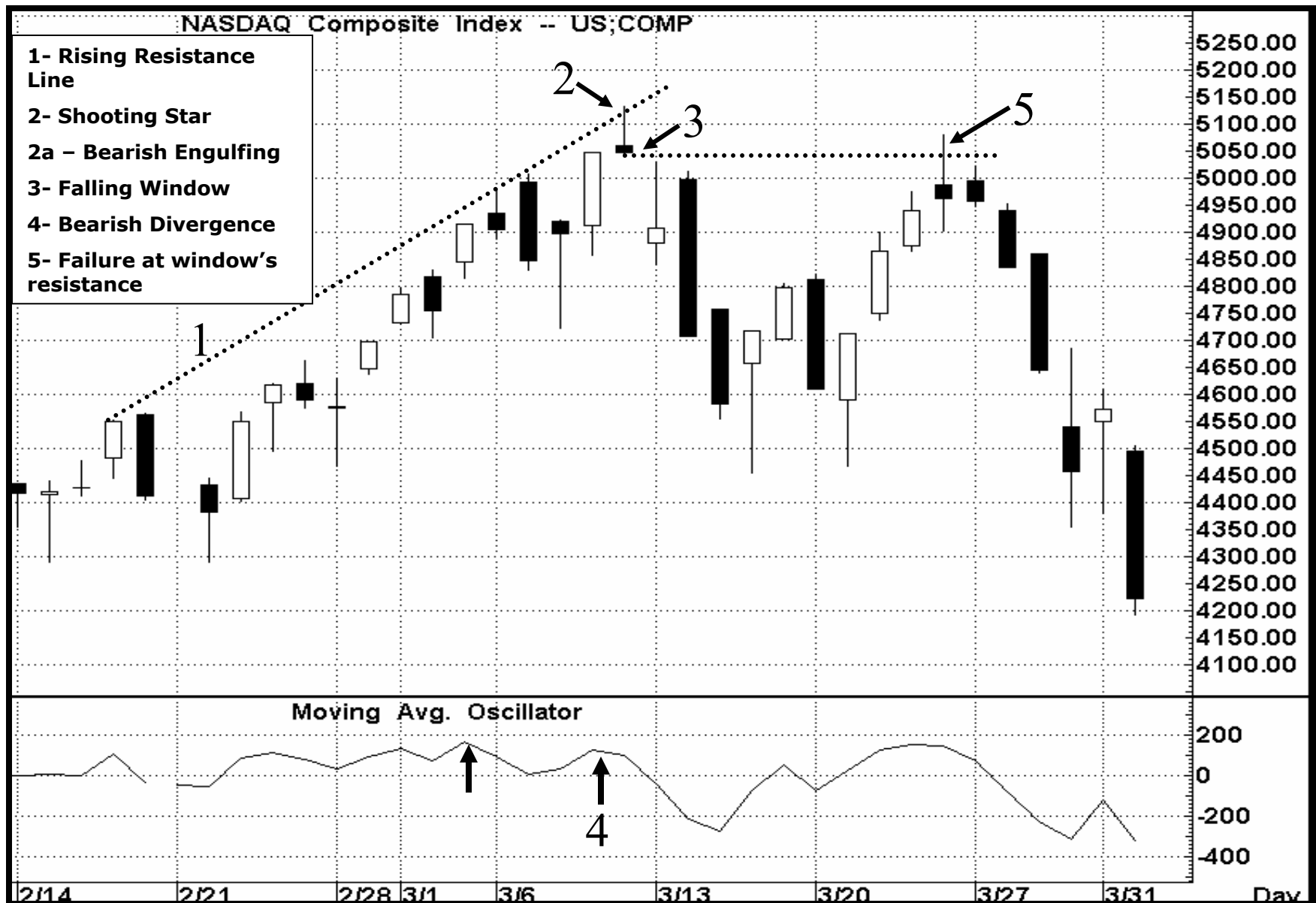
Stay Alive!

The race is not always to the swiftest, but to those who keep running.

How it all comes together (hourly)



Stay Alive- Confluence of signals for NASDAQ



**Every time there is
a trade someone is
wrong!**



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- **E-mail: nison@candlecharts.com**
- **Telephone: 732.254.8660**