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Revealing the Past. Lighting the Future.™



Steve Nison, President

**Advanced Candlestick
Charting Techniques:**

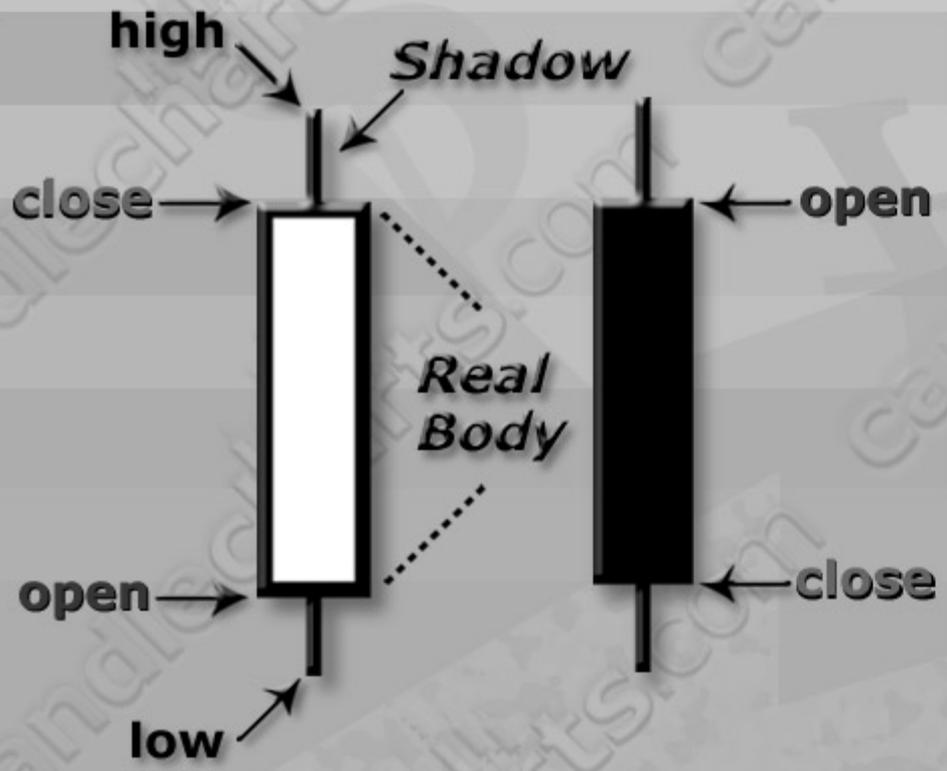
***Secrets to Becoming a
Samurai Trader***

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- **Email: nison@candlecharts.com**
- **www.candlecharts.com**

**“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**

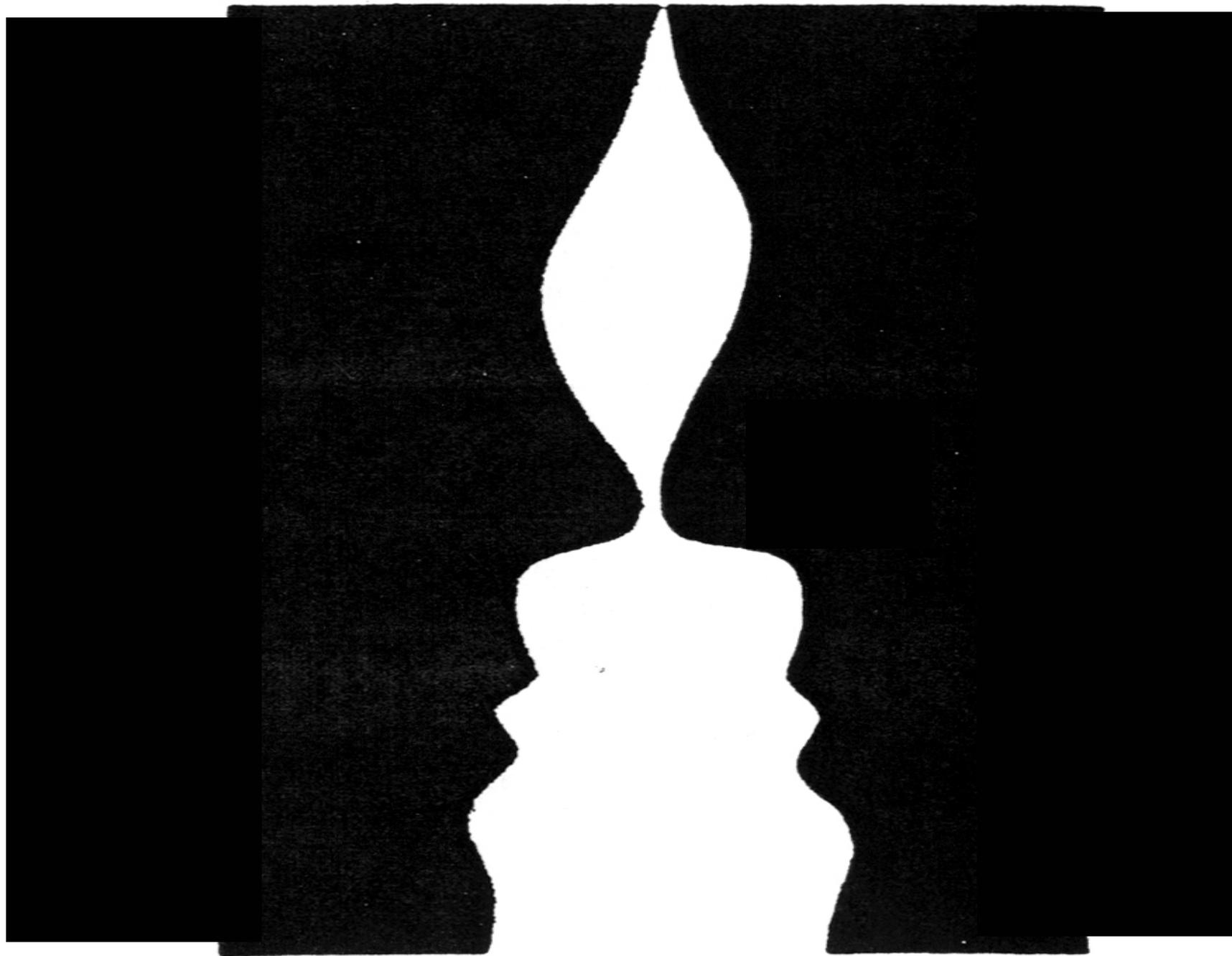
Constructing the Candle Line



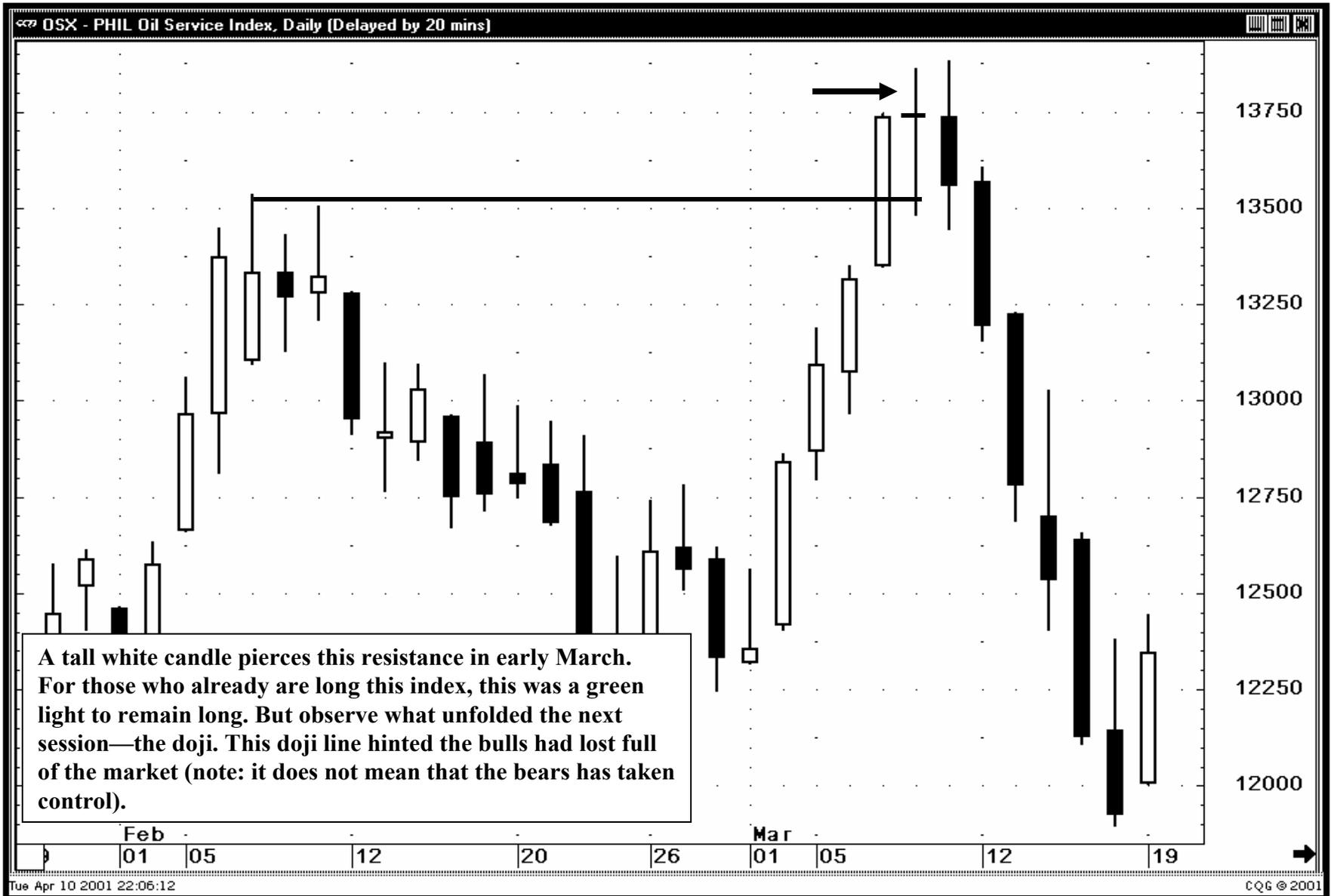
Real Bodies and Shadows



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

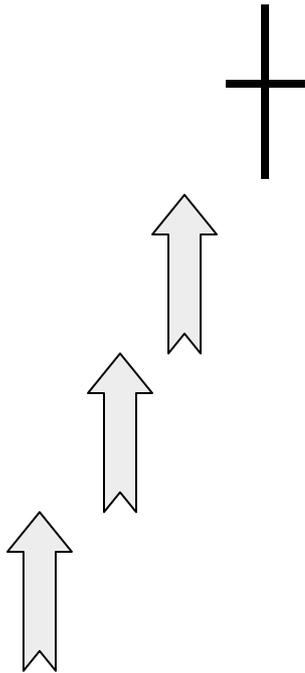
**A candlestick line or pattern
requires two criteria:**

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

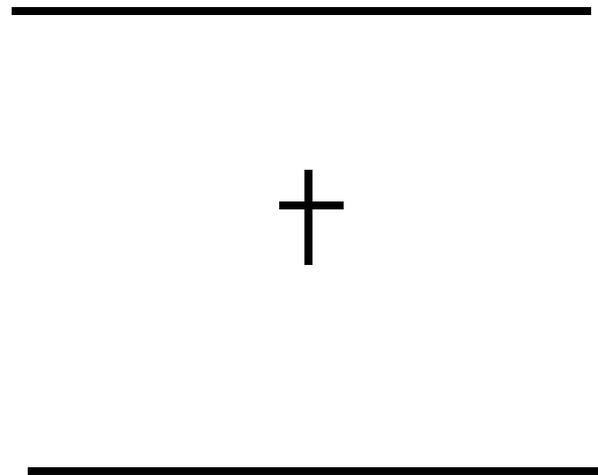
Doji and Trend

Concept:

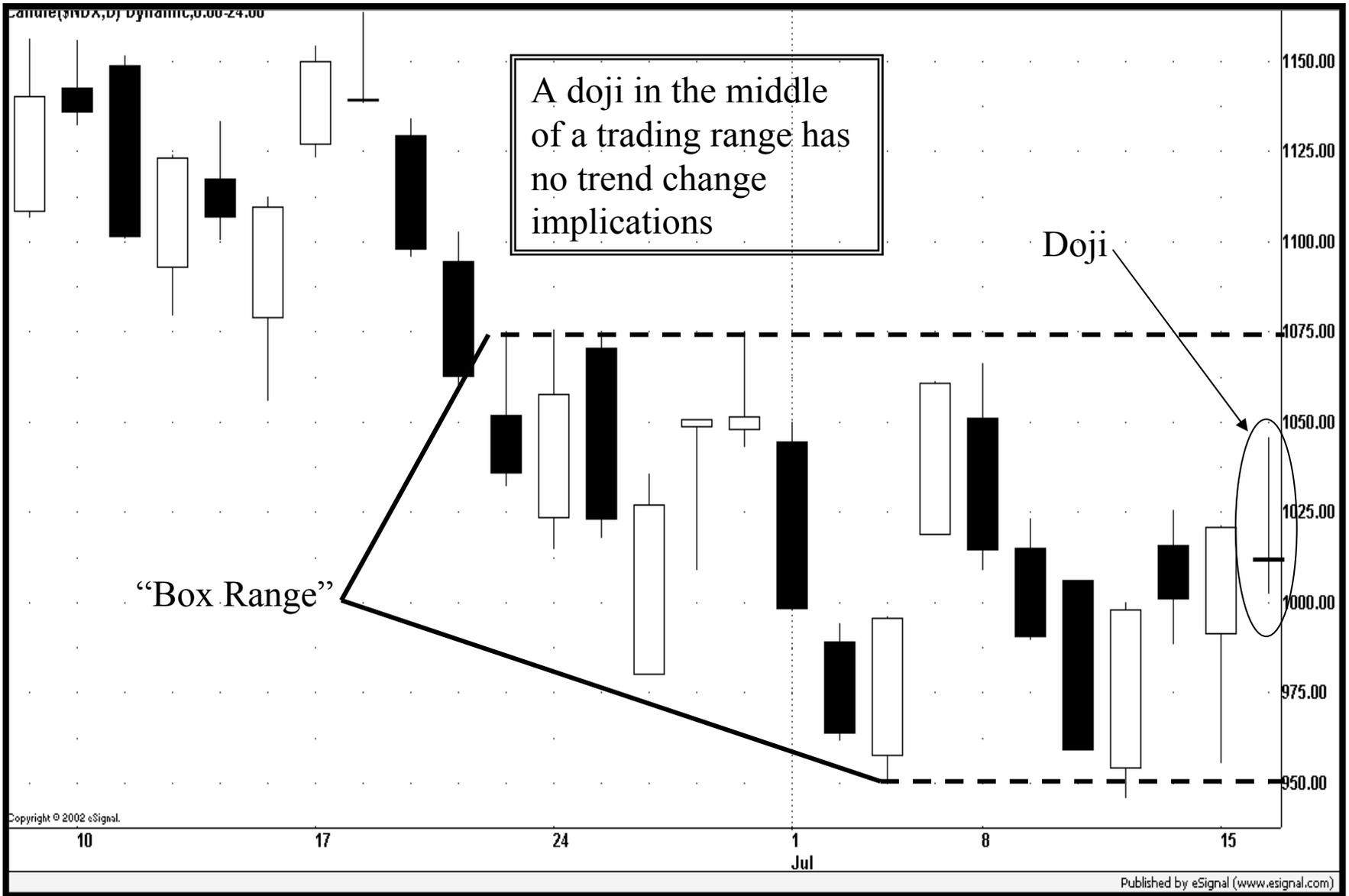
To use a northern doji as a signal we need to have an uptrend to reverse



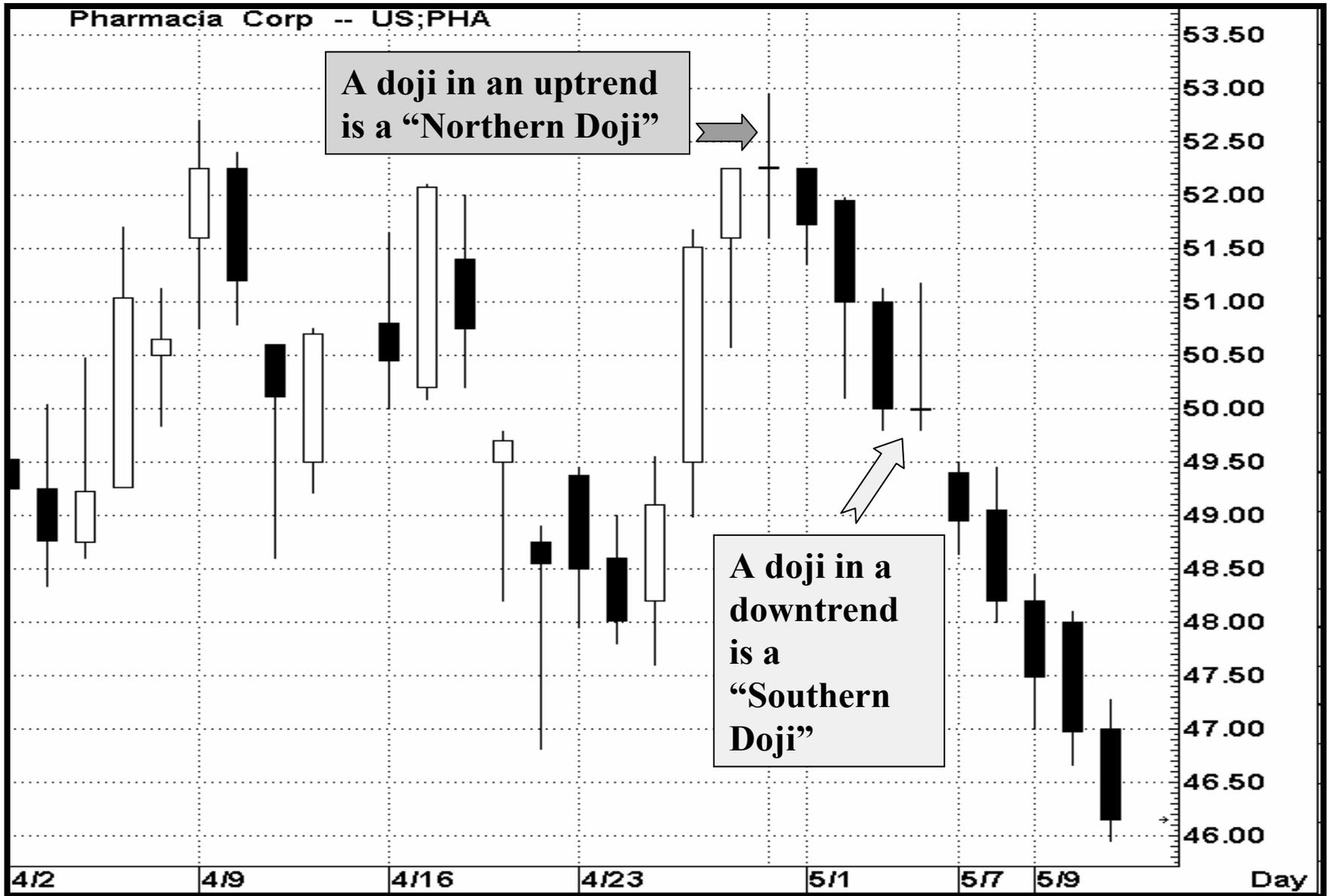
Doji in a “Box Range” is not a trading signal



Doji and trend



Northern and Southern Doji



Southern Doji



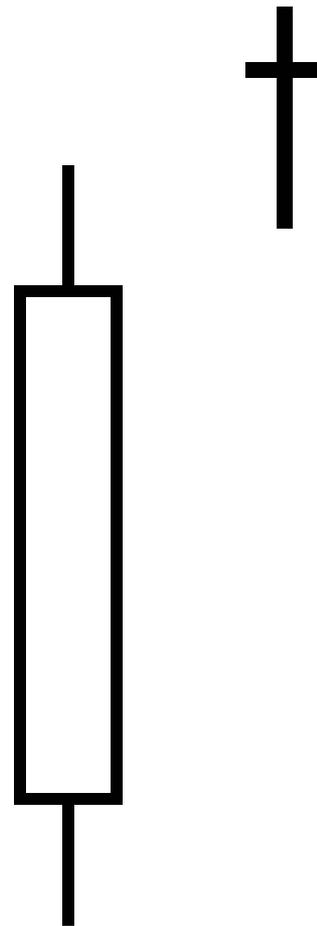
Nison Trading Principle

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



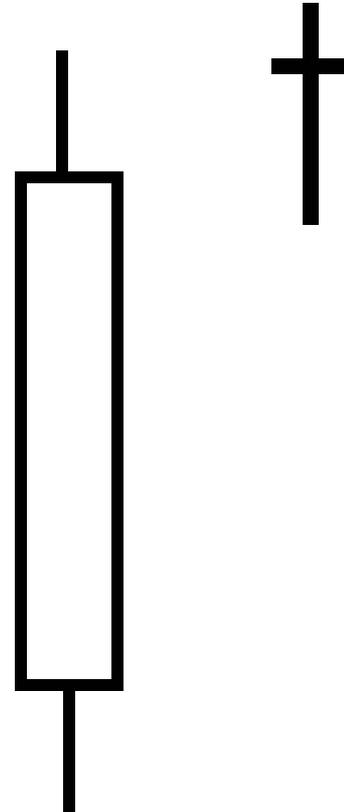
Need a close under here to turn bearish

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



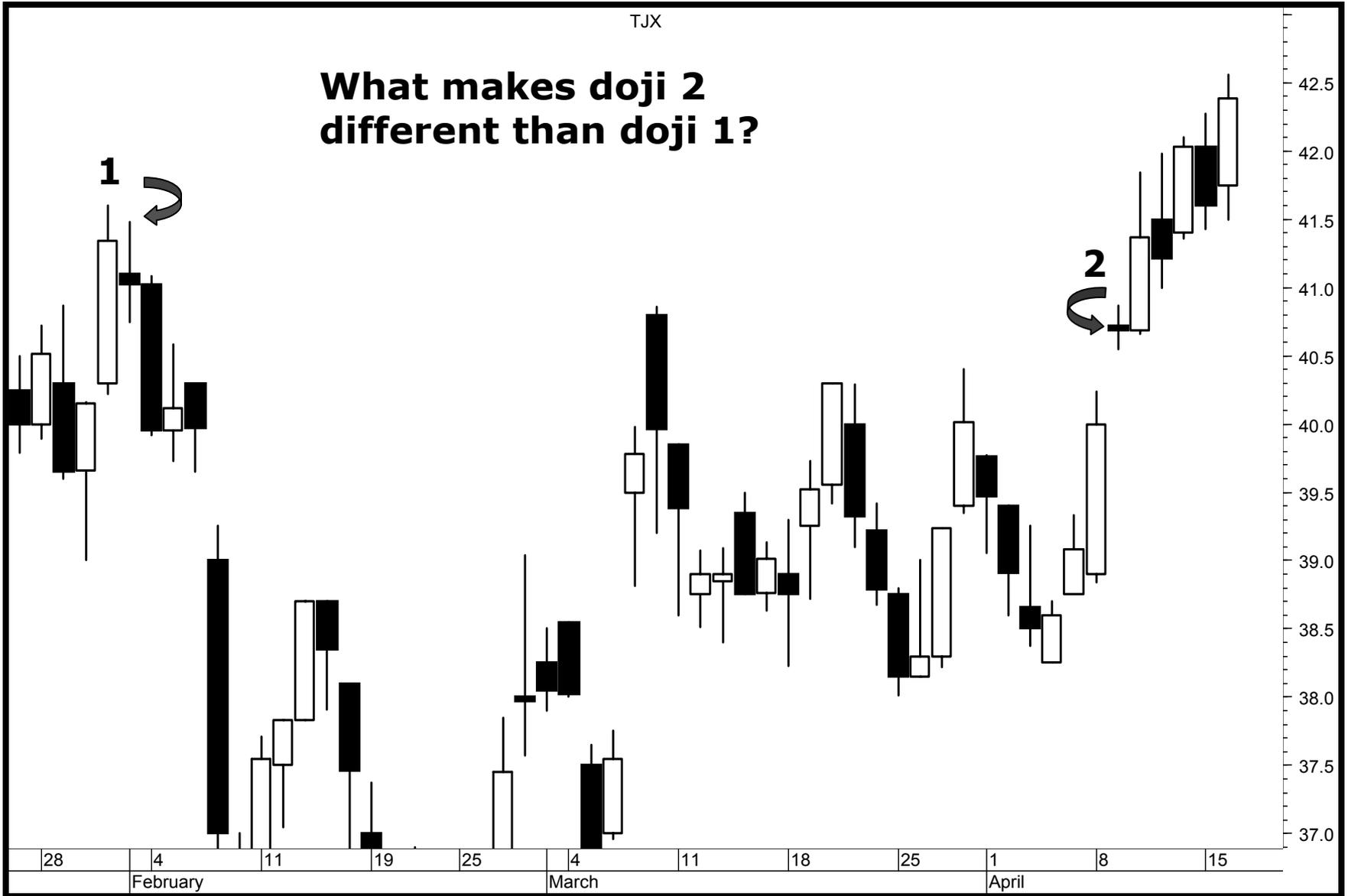
Flexibility with Candles (and Confluence)



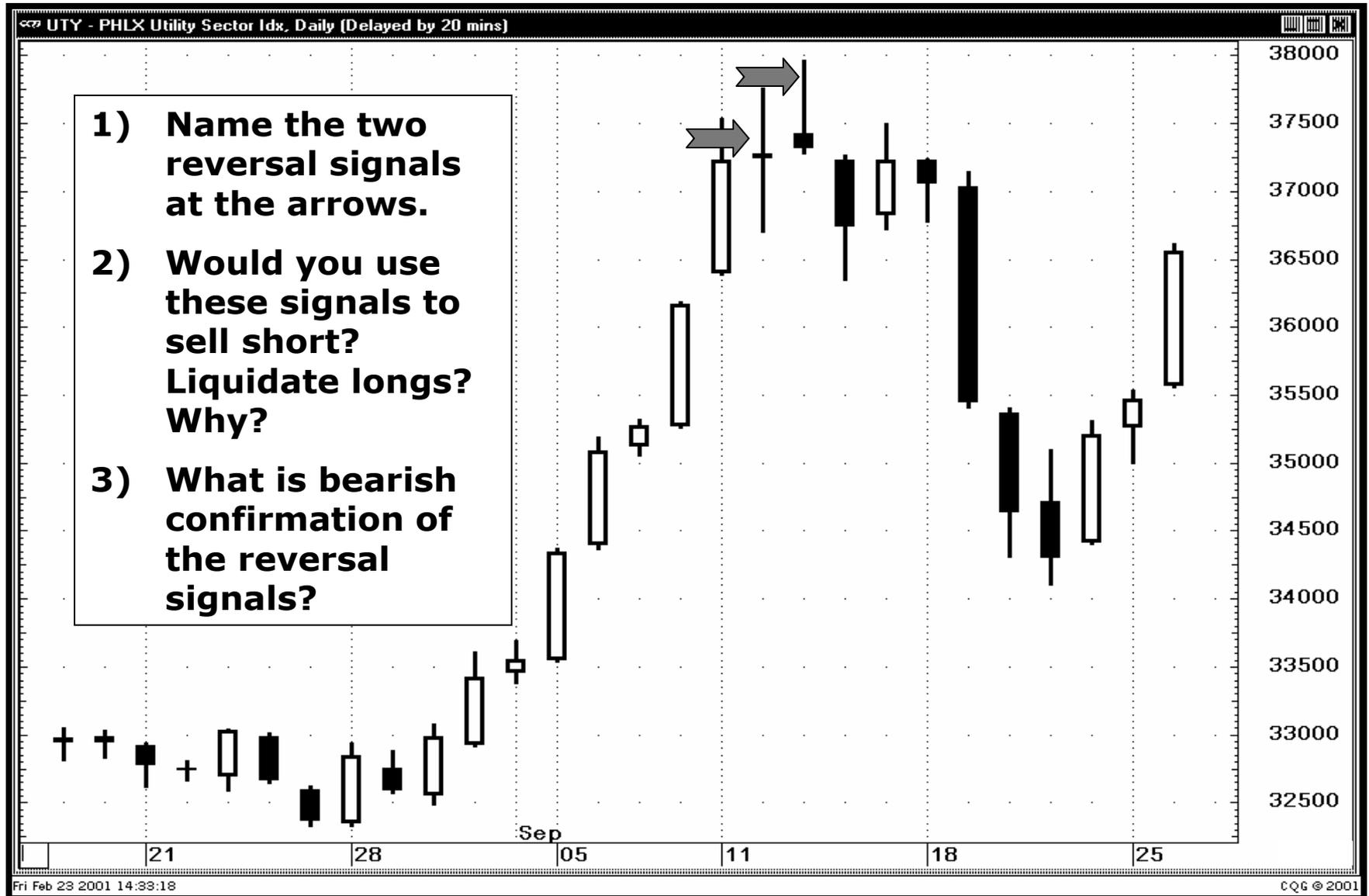
Doji

TJX

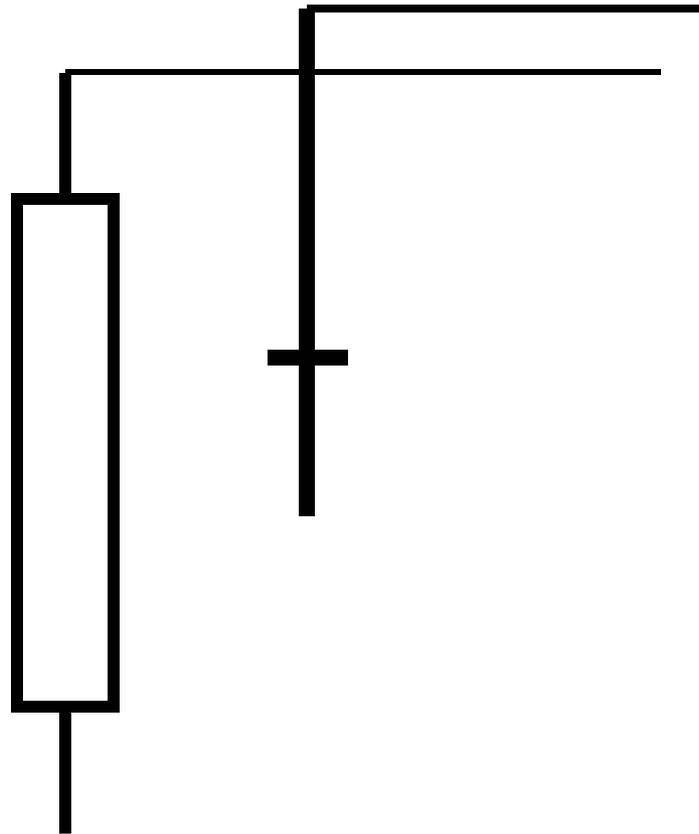
What makes doji 2 different than doji 1?



Trading Tactics



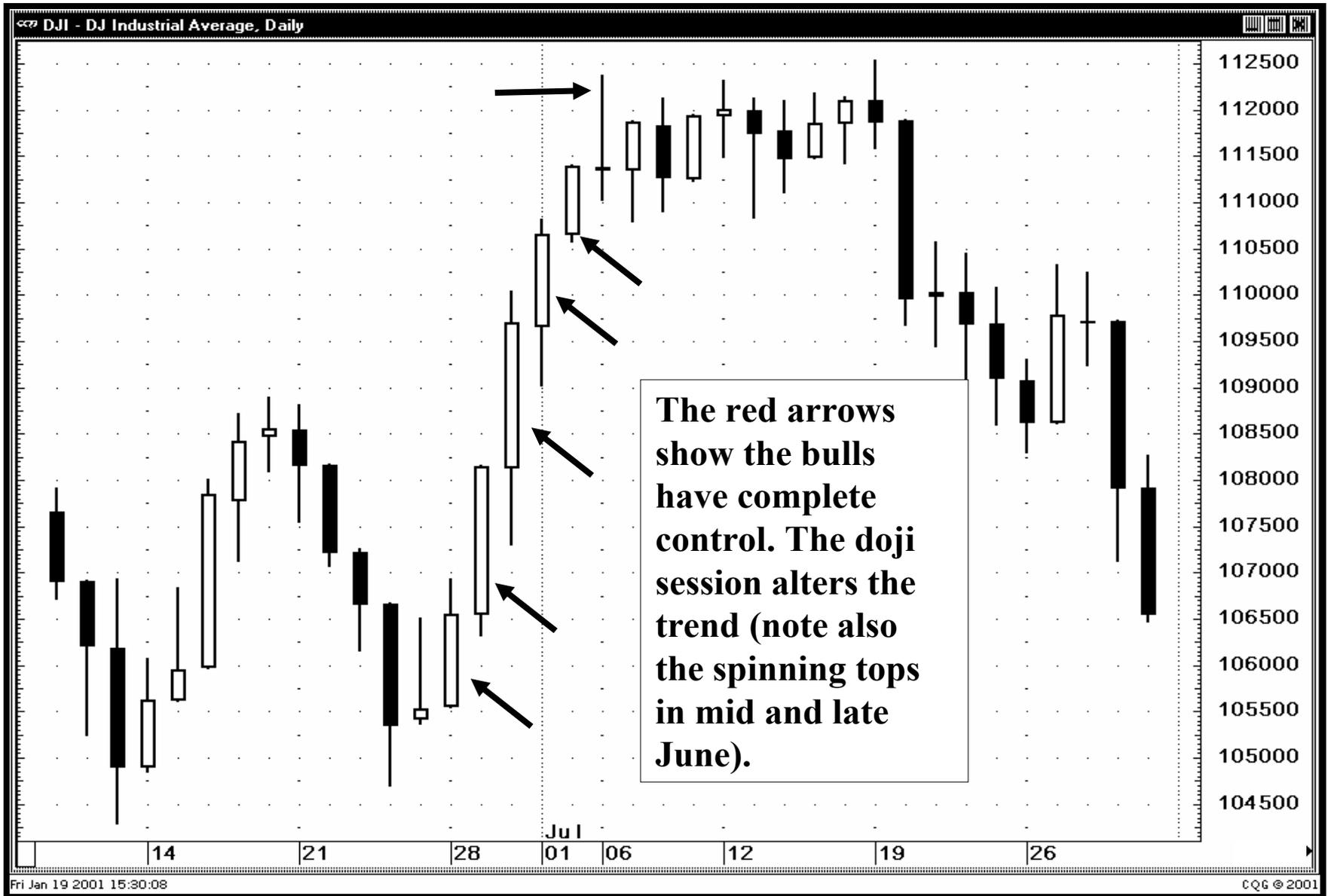
Doji as Resistance



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



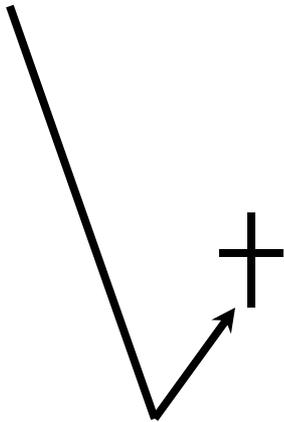
Doji as Resistance



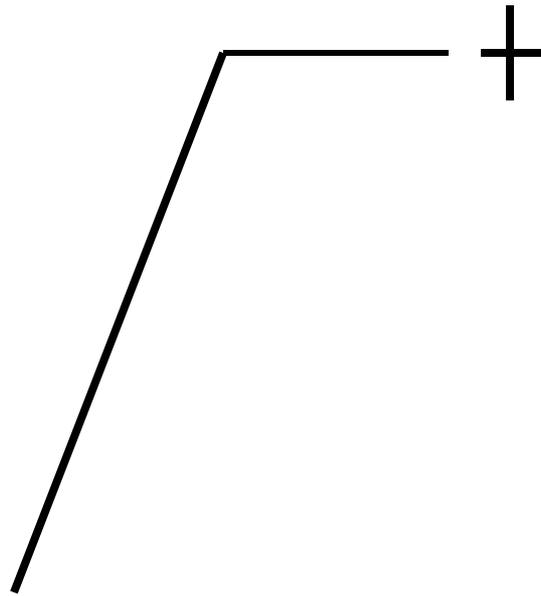
Trading Tactics - *Doji*

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

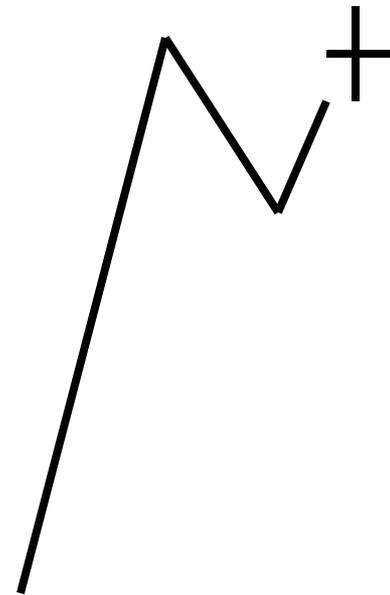
A -1



B-2



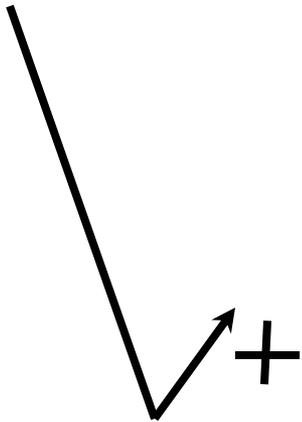
C-3



Trading Tactics – Doji (answer)

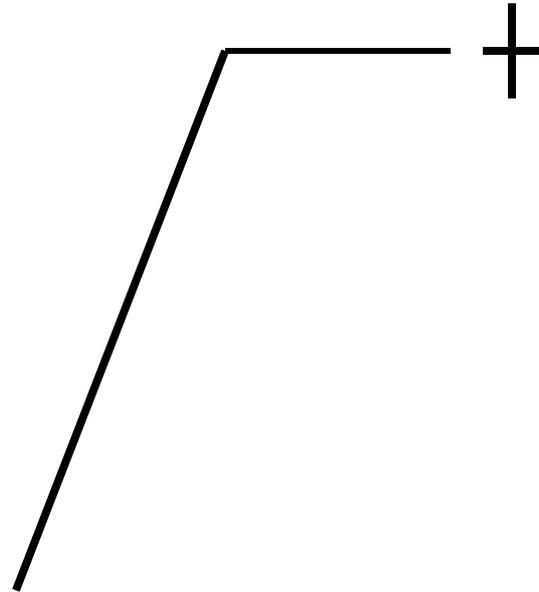
Analyze these doji in the context of what happened before. Are any of these a more likely reversal and why?

A-1



Rally may just be starting

B-2



Market not overextended

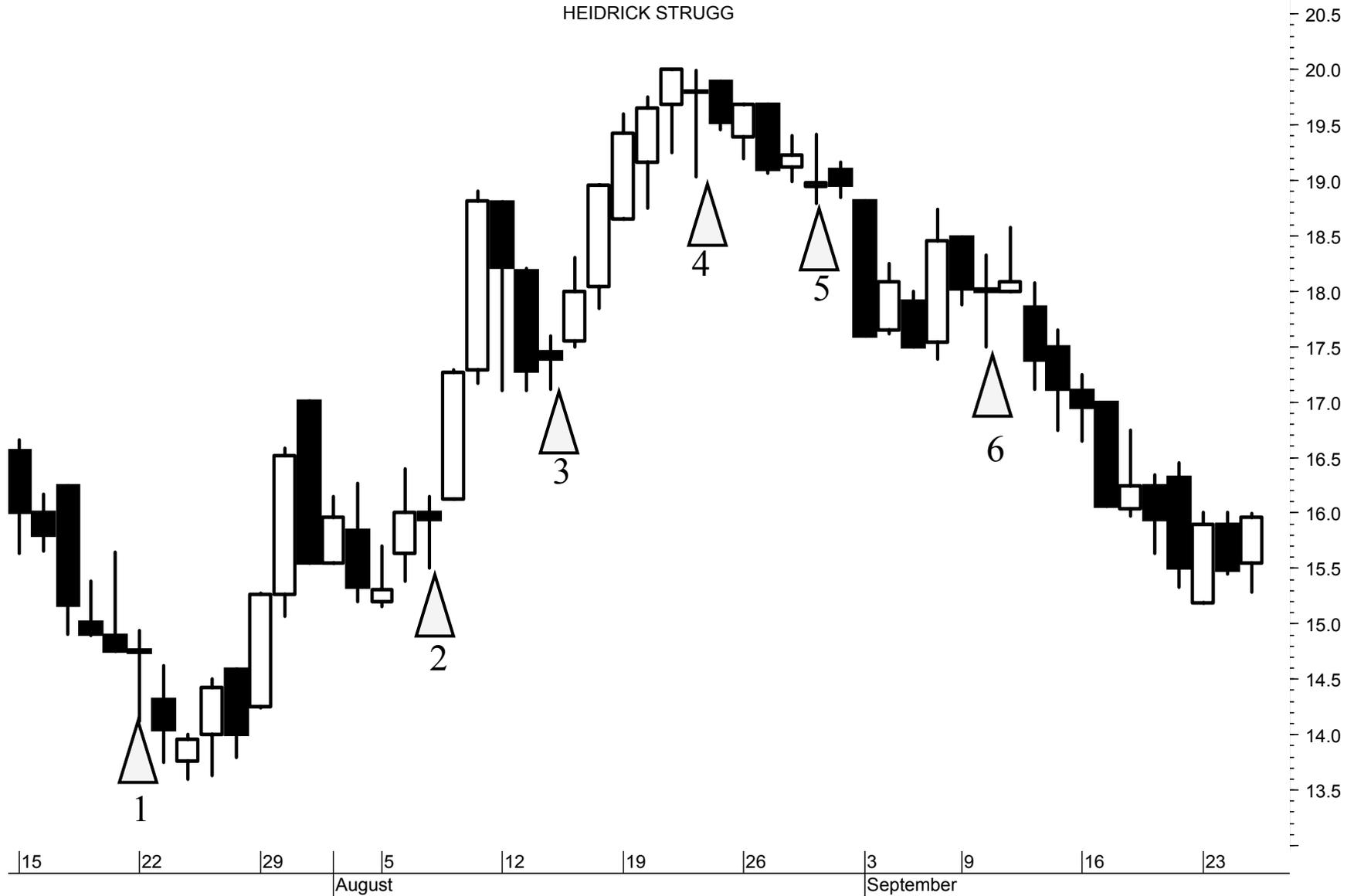
C-3



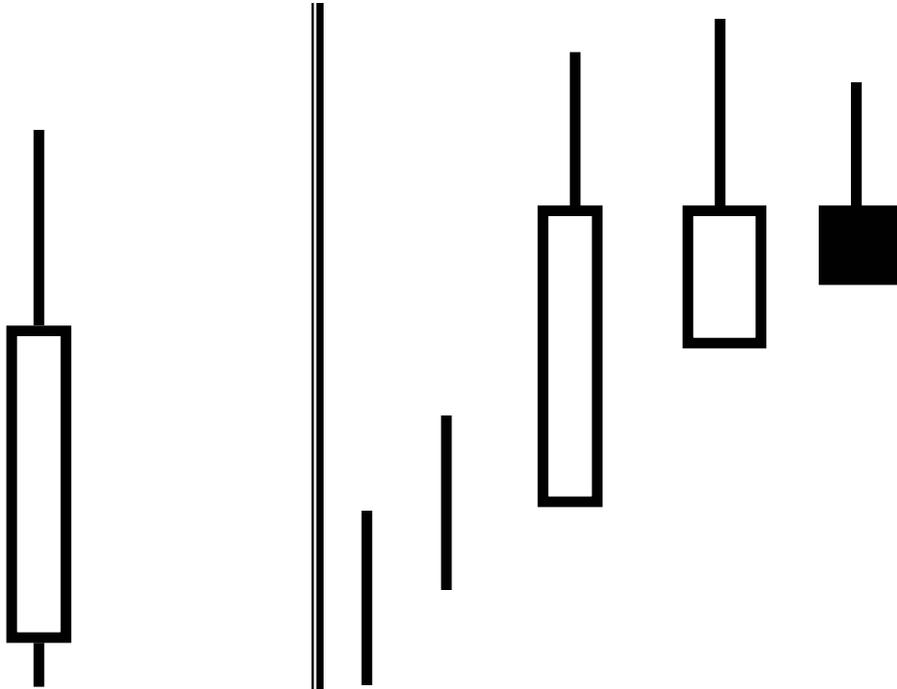
Resistance confirmed by doji

Doji Overview – Analyze Each Doji in Context of Trend

HEIDRICK STRUGG



Shadows



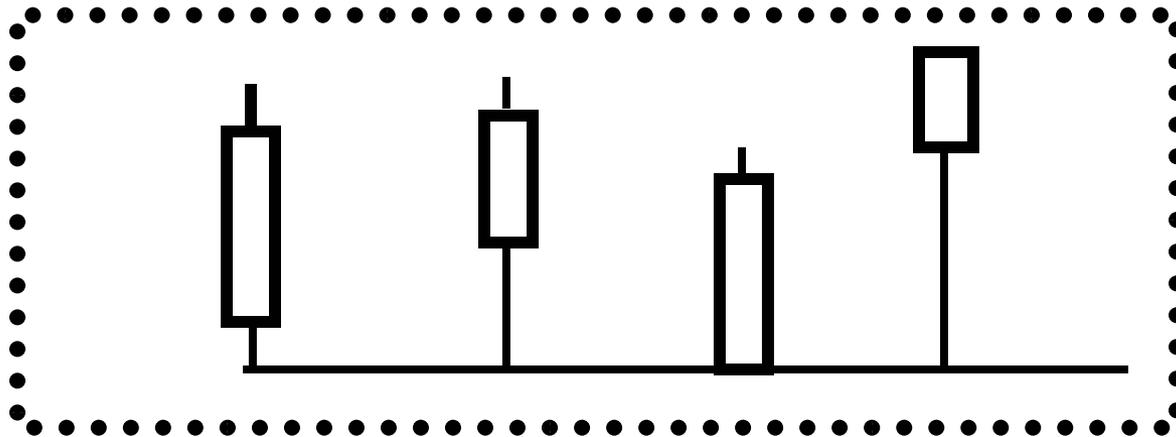
Remember: location and size of the shadow should be considered when analyzing the market psychology.

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

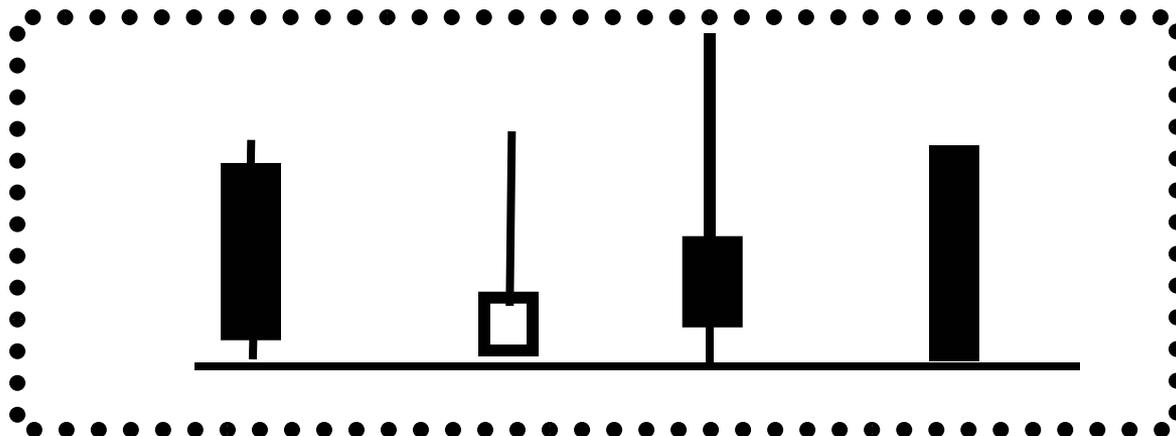
Upper Shadows and slope of advance



The Tools of the West with the Light of the Candles



Scenario
1



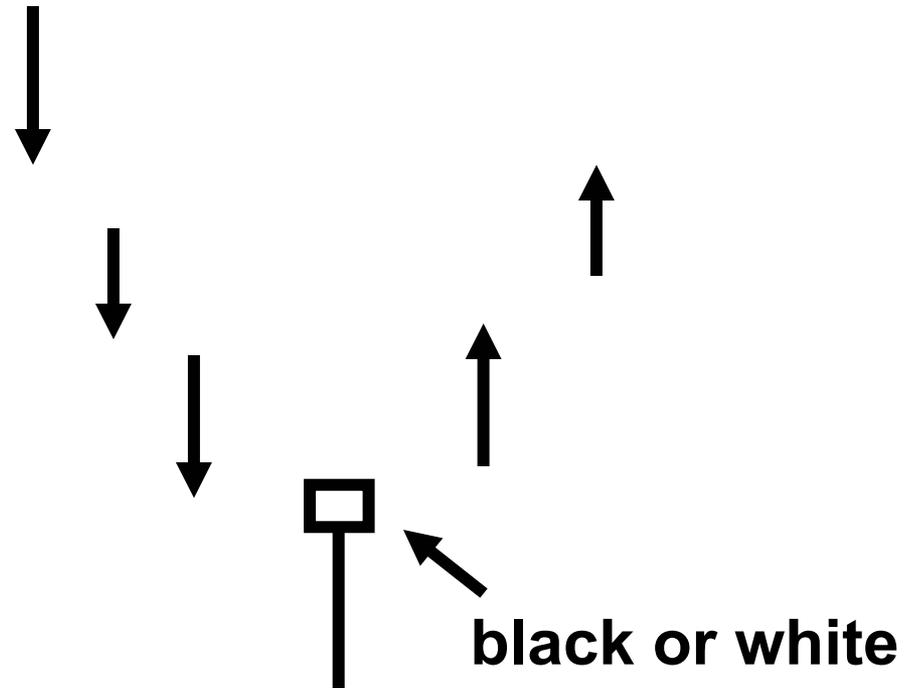
Scenario
2

Hammer

Criteria:

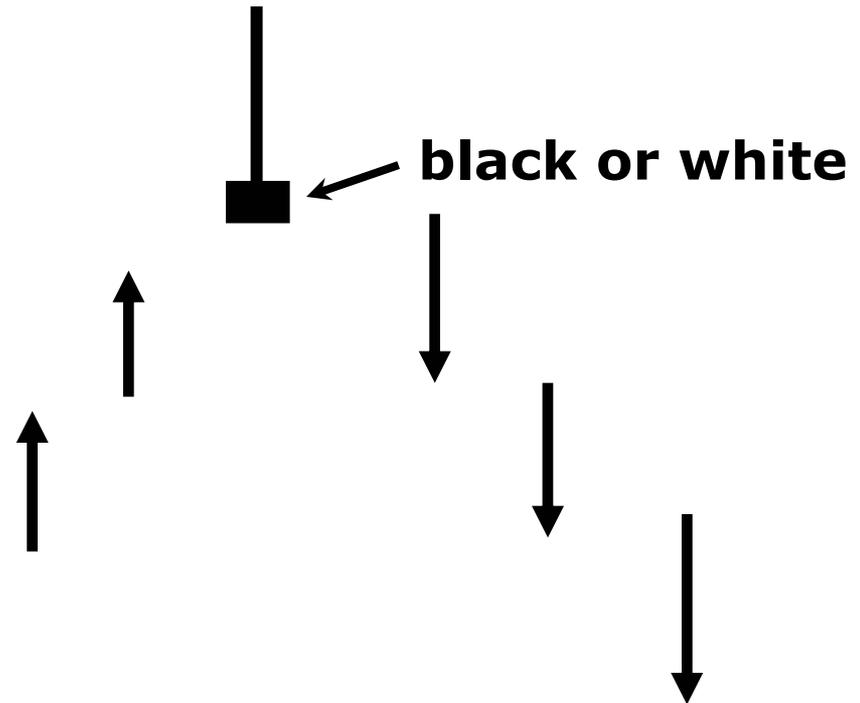
- **Small real body at, or near top, of range**
- **Lower shadow at least 2x real body**
- **Market in down trend**

Implication: ‘Groping for a bottom’

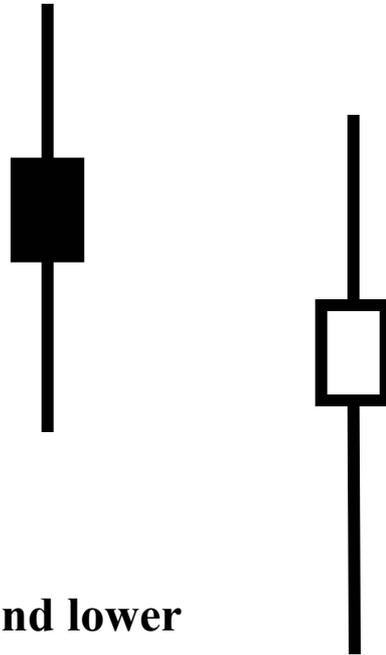


Shooting Star

- **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’**

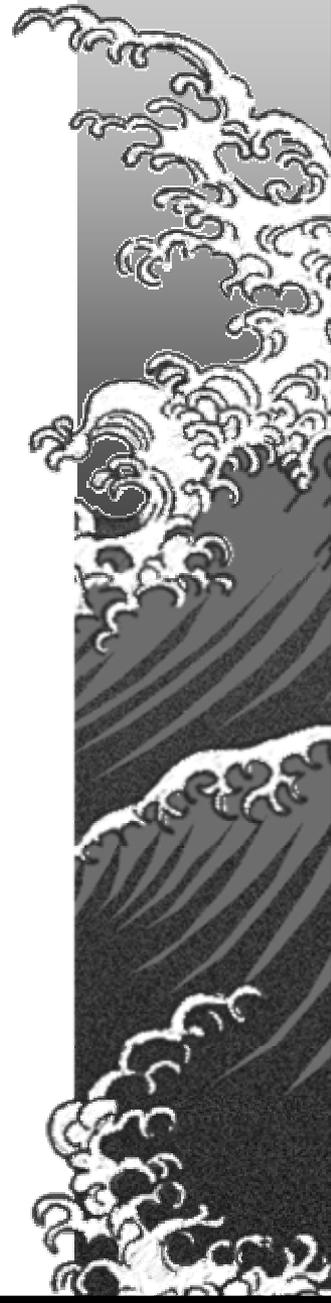


High Wave Candles

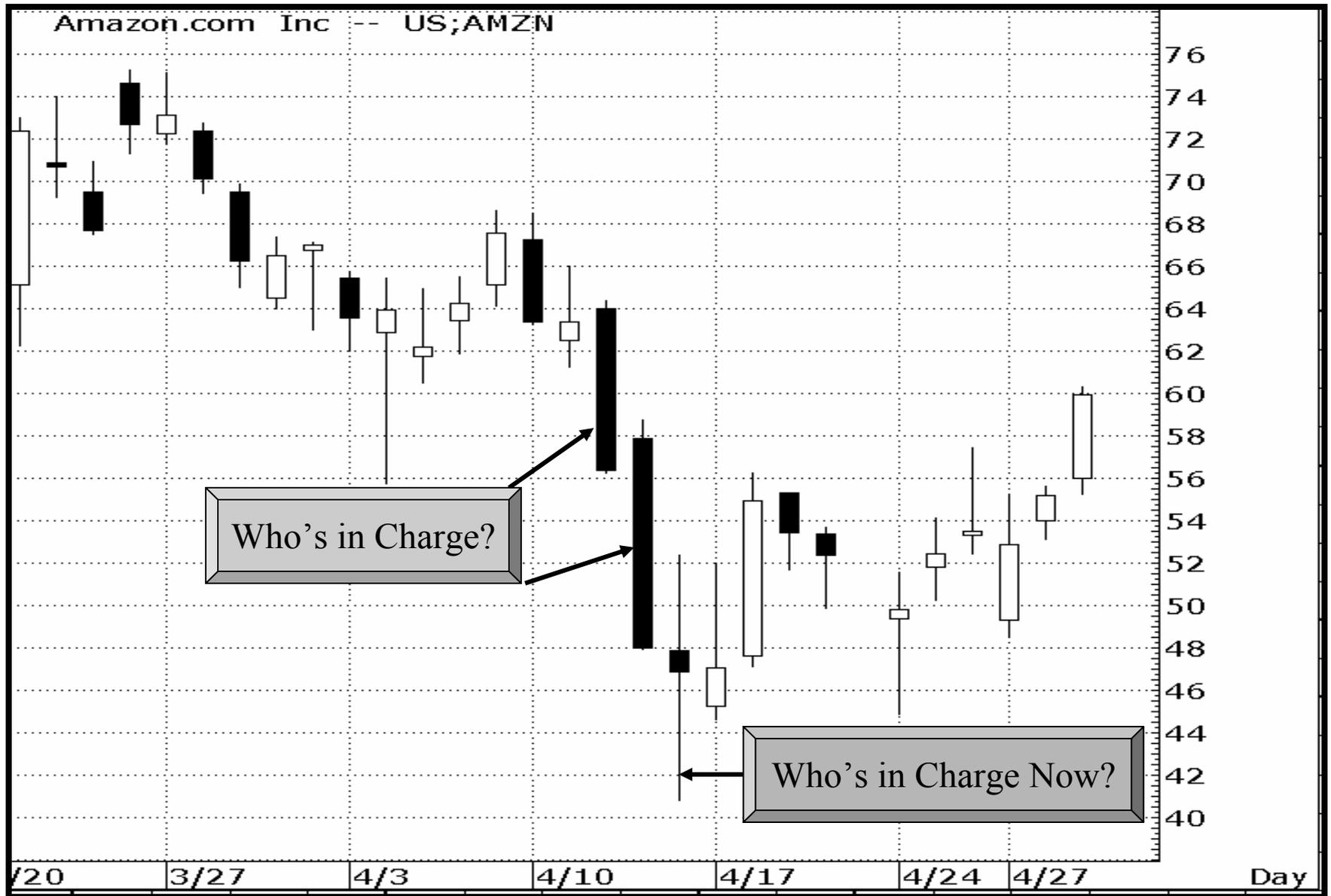


Criteria: very long shadows and lower
small real body - color not important

Implication: Trend is losing force



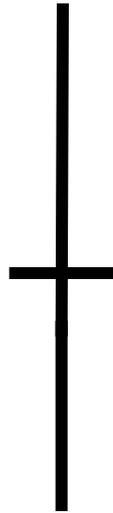
High Wave Candle



High Wave Candle



Long Legged Doji – “Rickshaw Man”

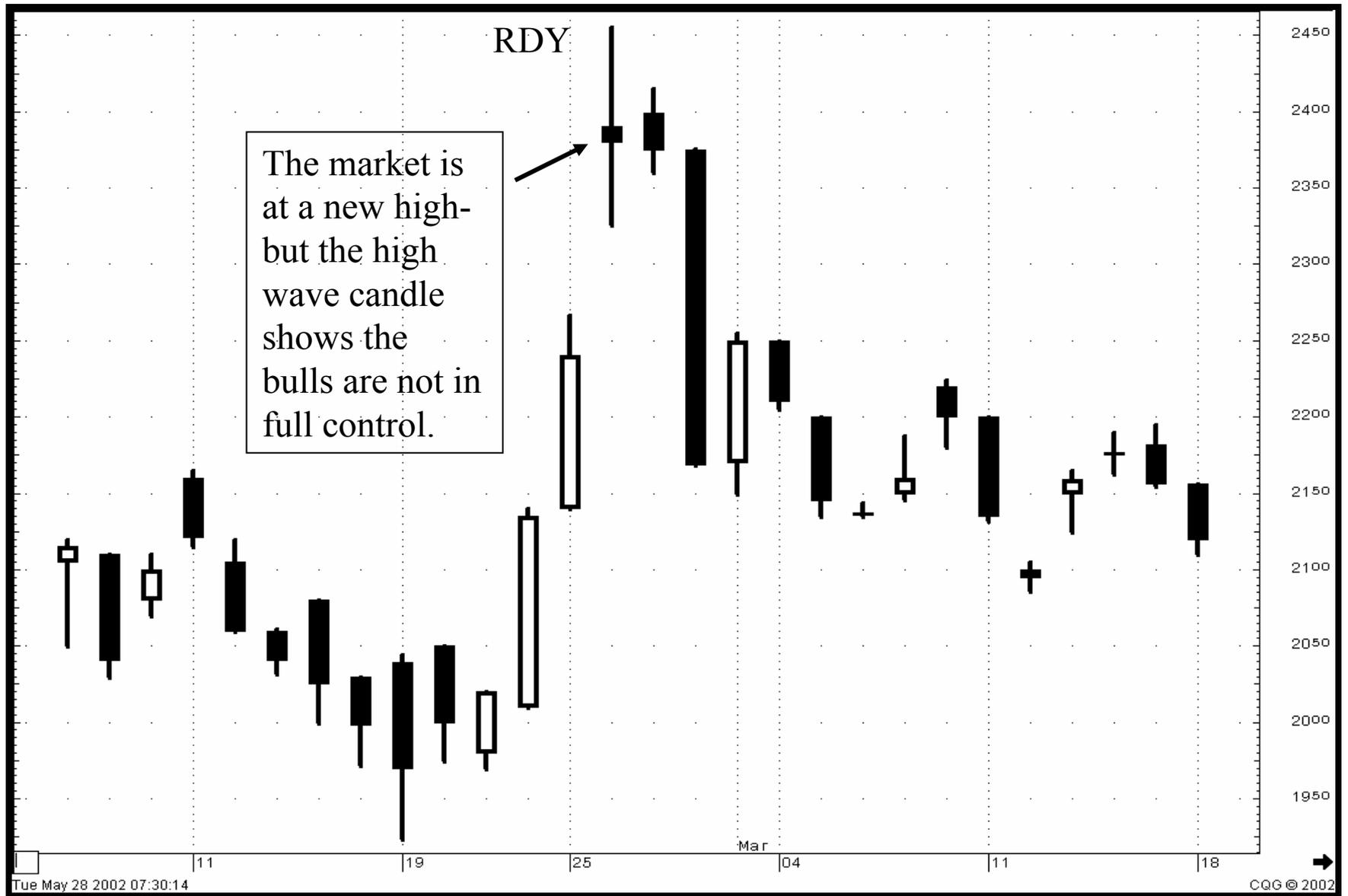


Criteria: very long shadows and lower
small real body - color not important

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

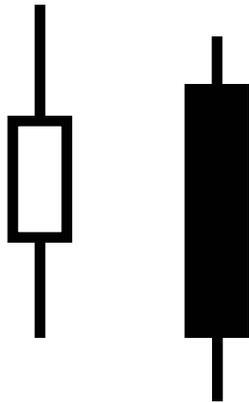


High-wave candle



Engulfing Patterns

Bearish Engulfing Pattern



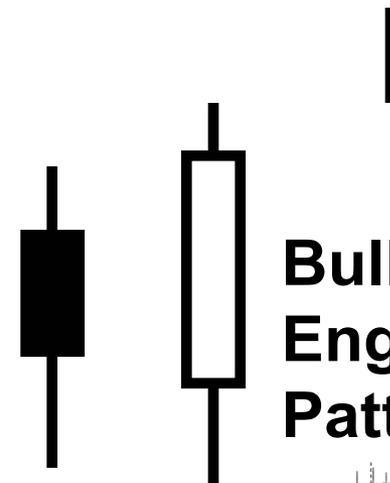
Criteria:

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

Implication: ‘Bulls have been constrained’

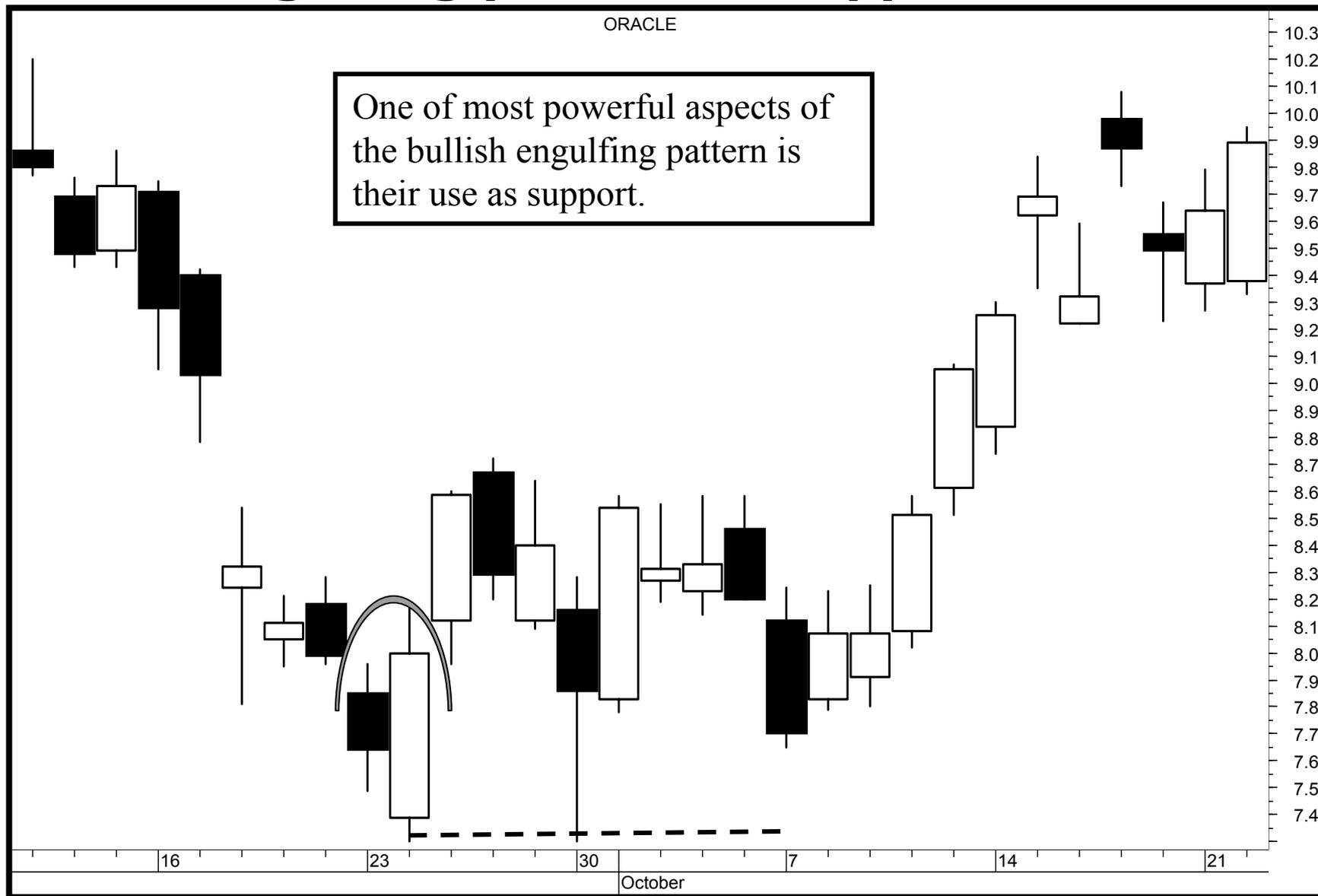
Criteria:

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

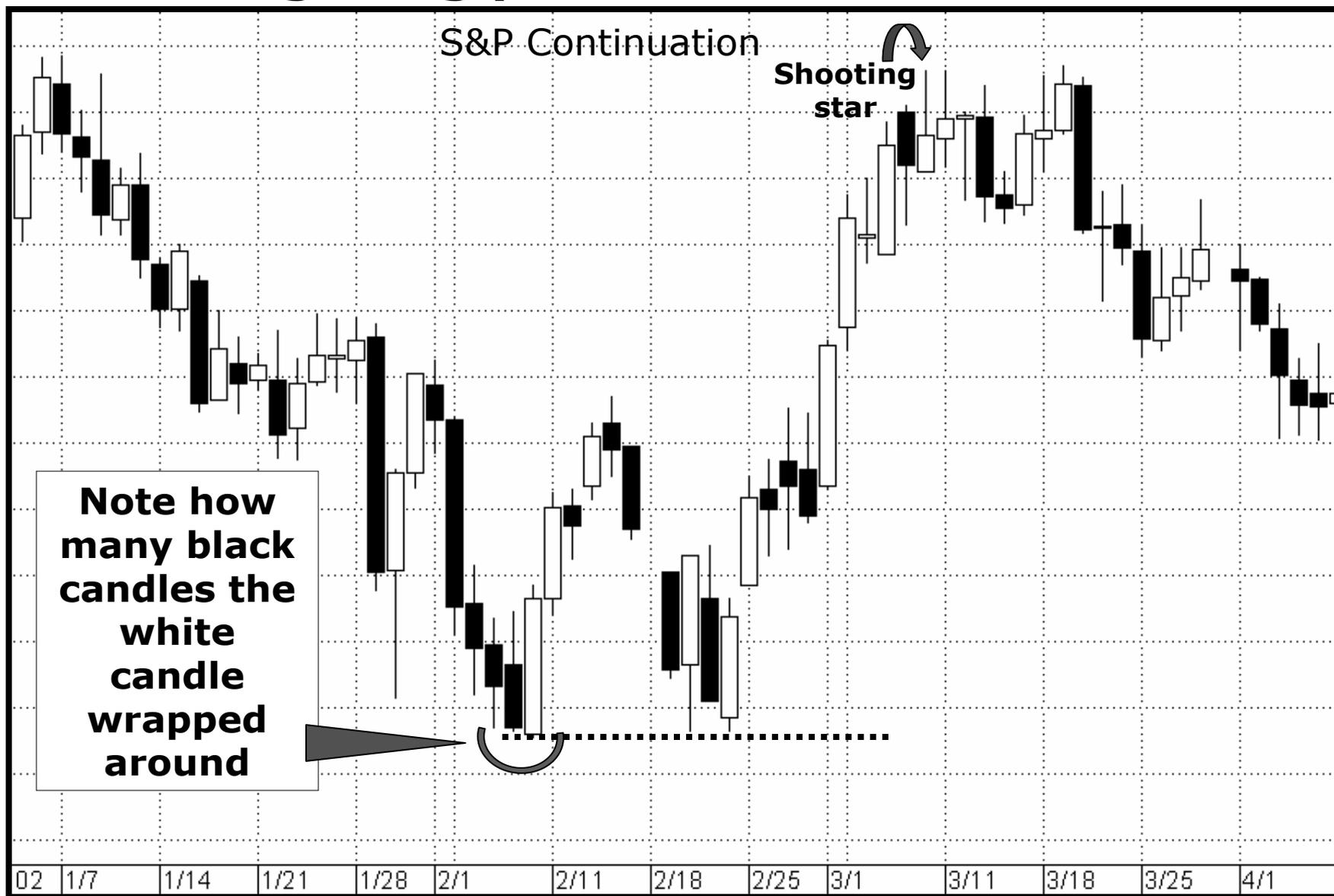


Bullish Engulfing Pattern

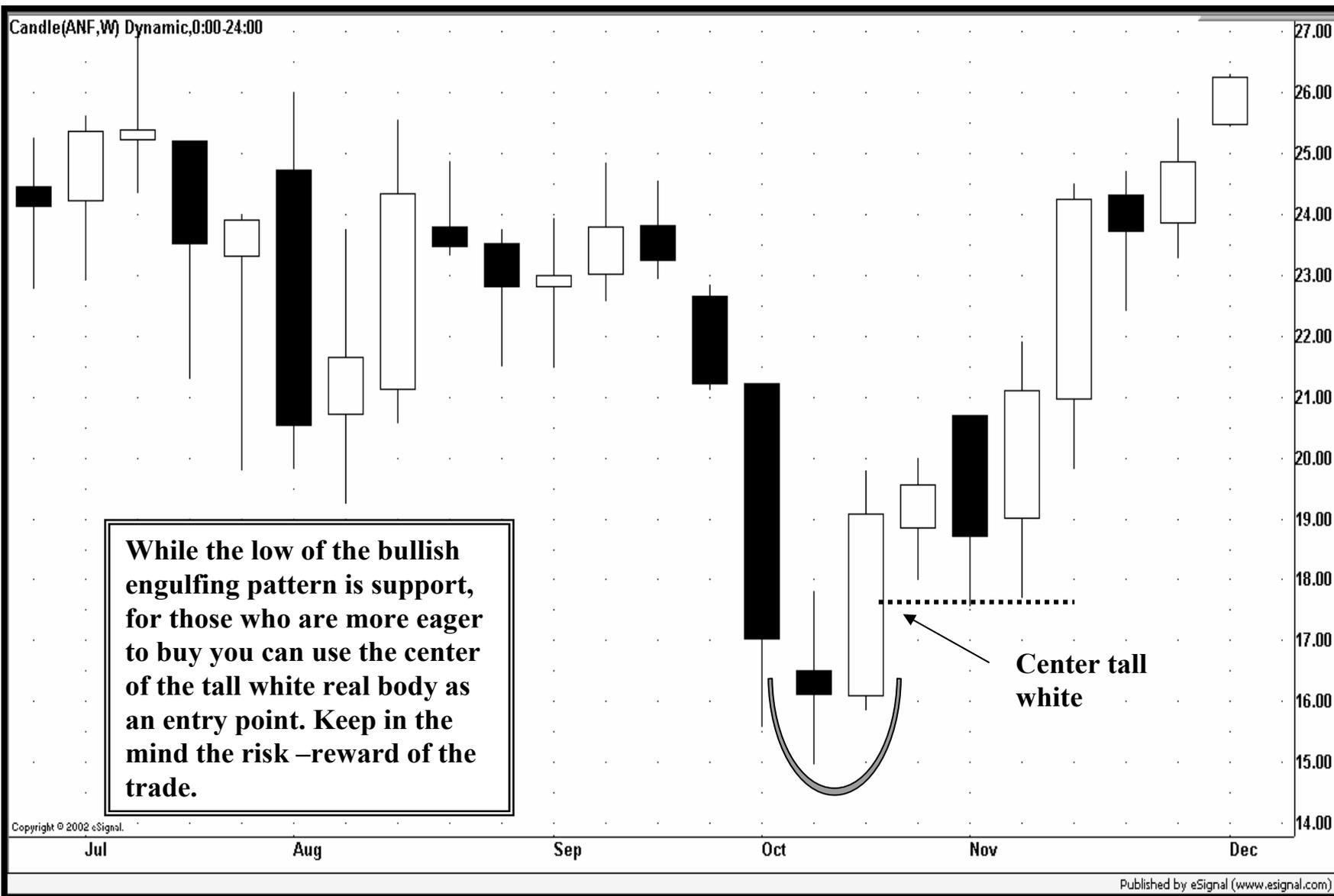
Bullish engulfing pattern as support



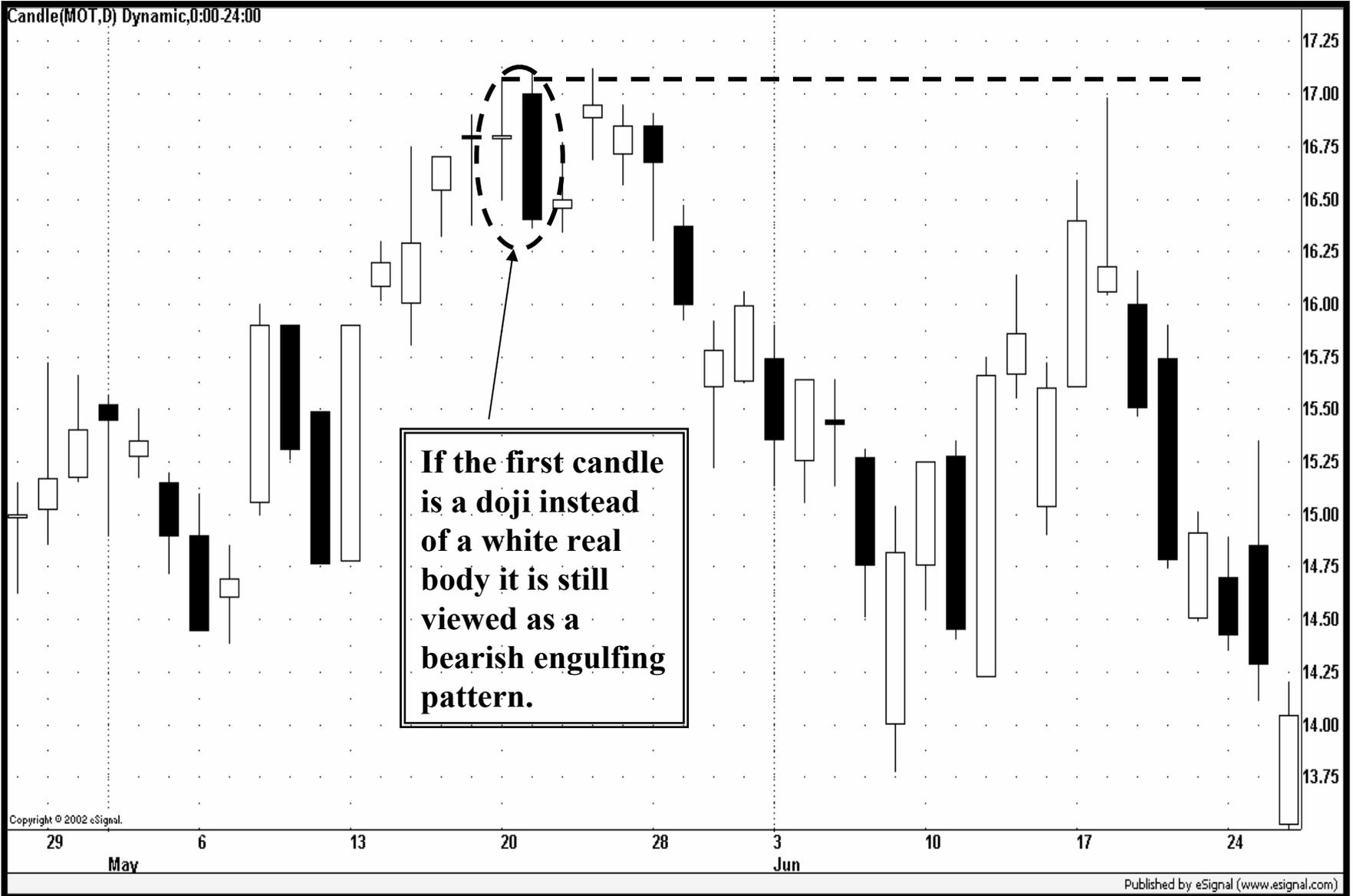
Bullish engulfing pattern



Bullish engulfing pattern as support



Bearish engulfing pattern as resistance



Bearish Engulfing Pattern compared to Western outside reversal



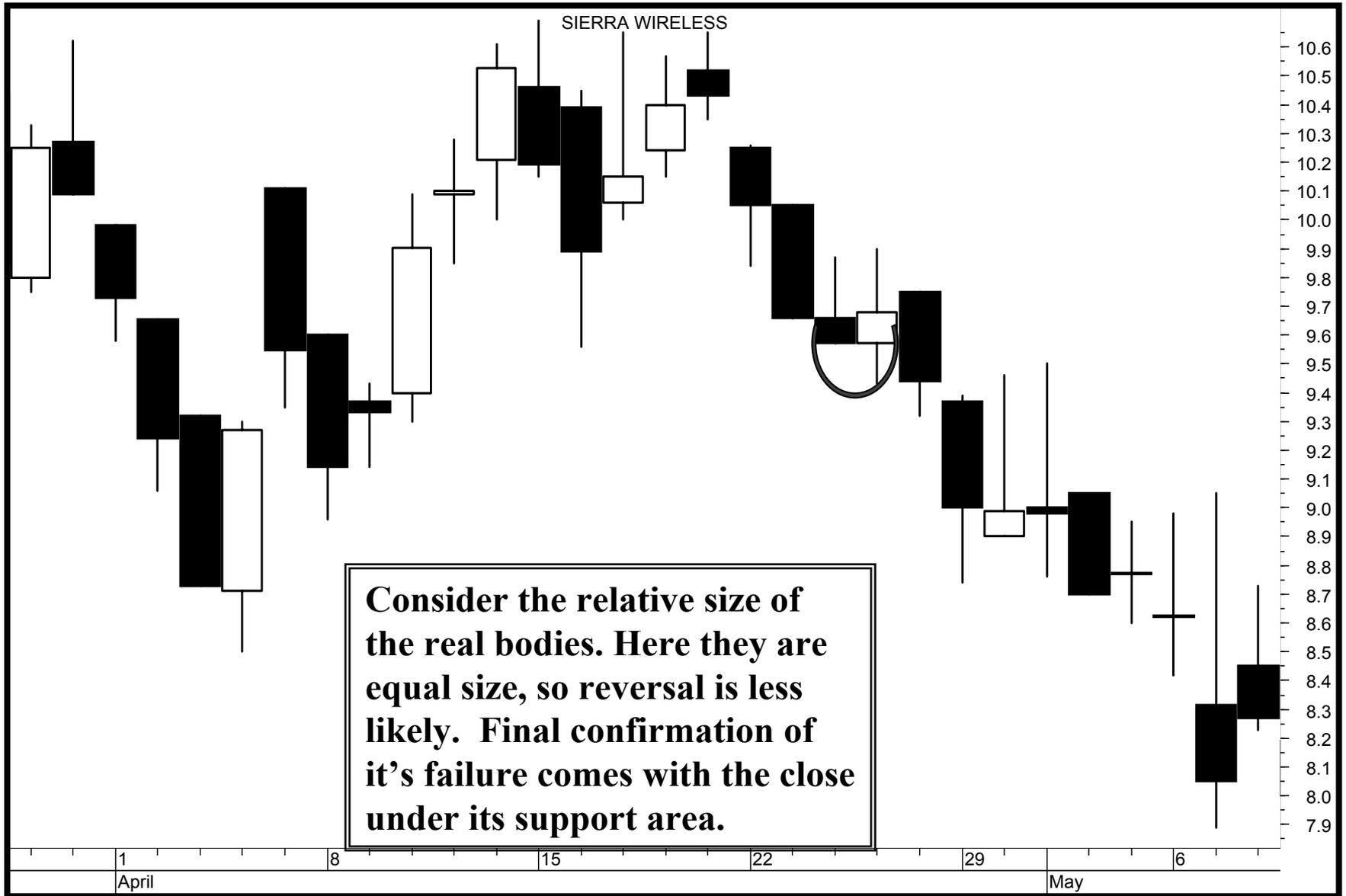
Relative Strength



Bullish Engulfing Pattern

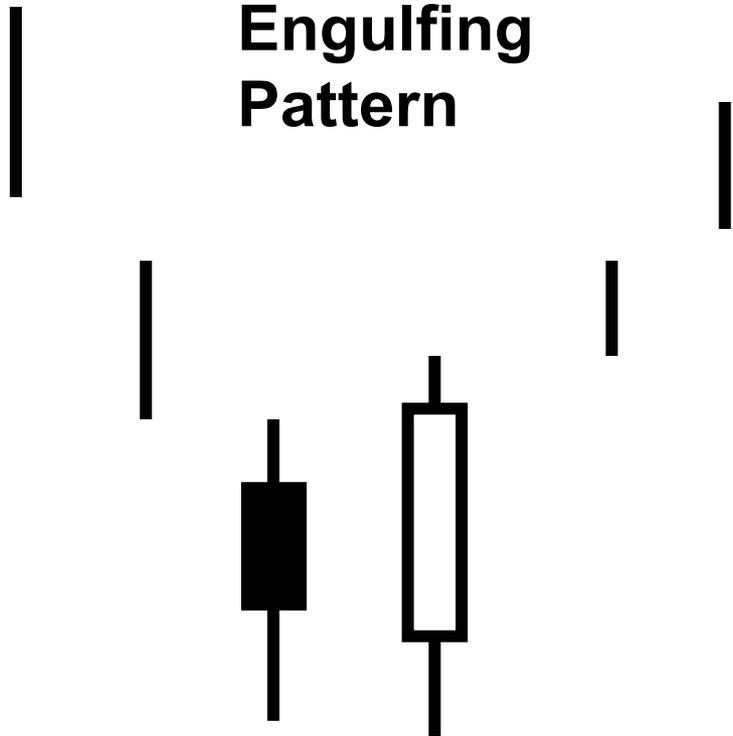


Engulfing pattern – comparing size of real bodies

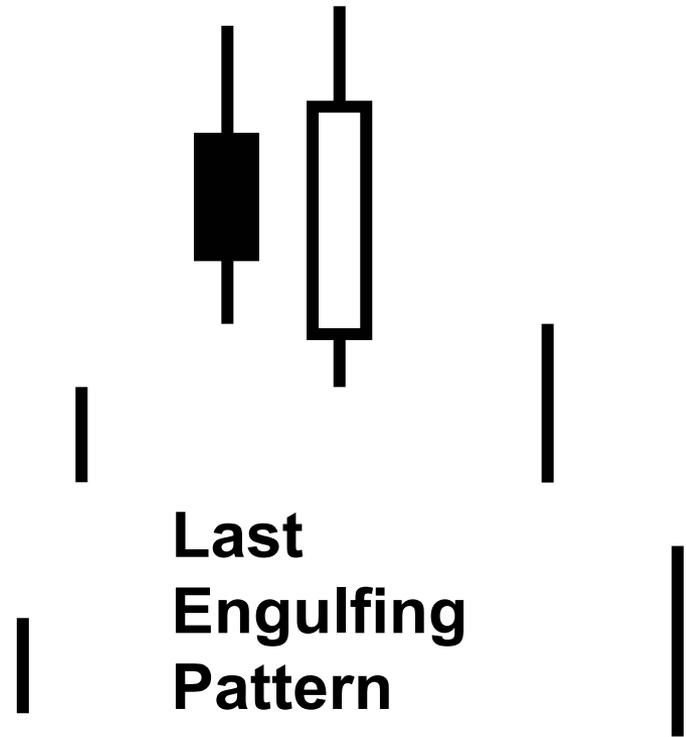


Last Engulfing Pattern

**Bullish
Engulfing
Pattern**



**Last
Engulfing
Pattern**



Last Engulfing Pattern



Last Engulfing Pattern



Last Engulfing Pattern

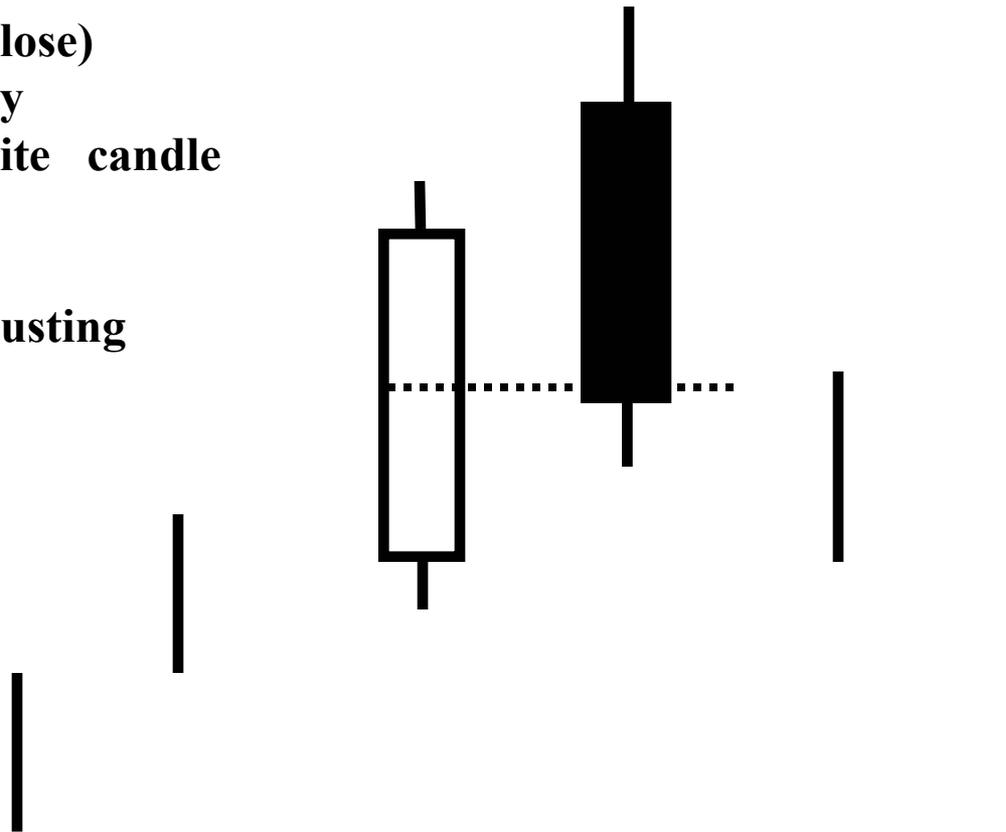


Dark Cloud Cover

Criteria:

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

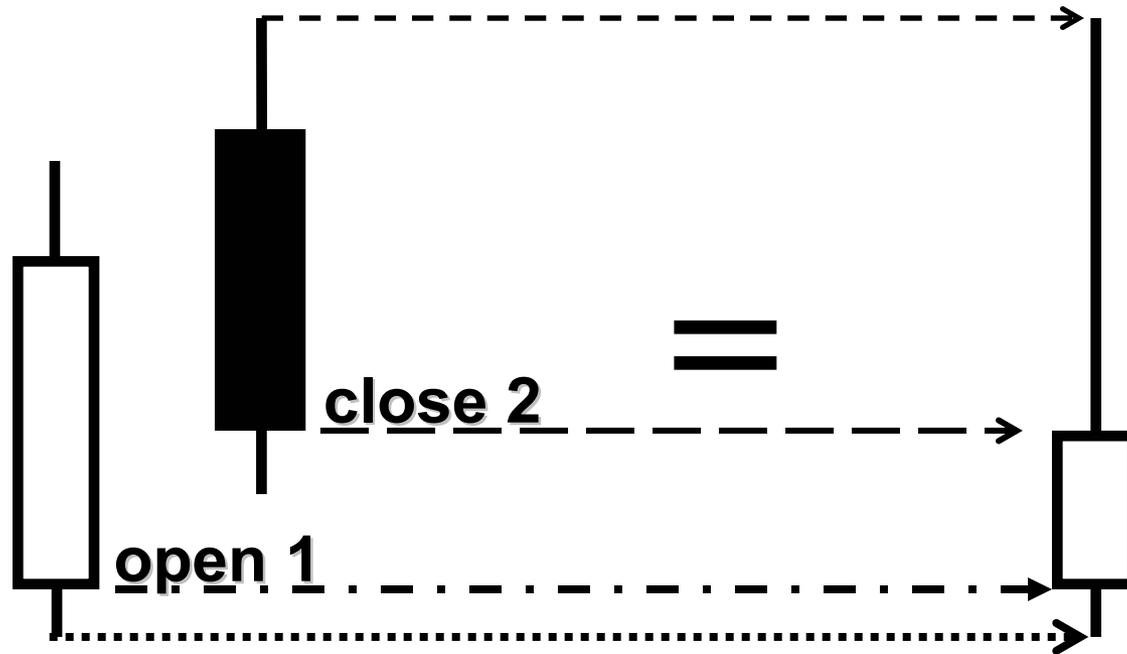
Implication: “Advance is exhausting itself”



Nison Trading Principle

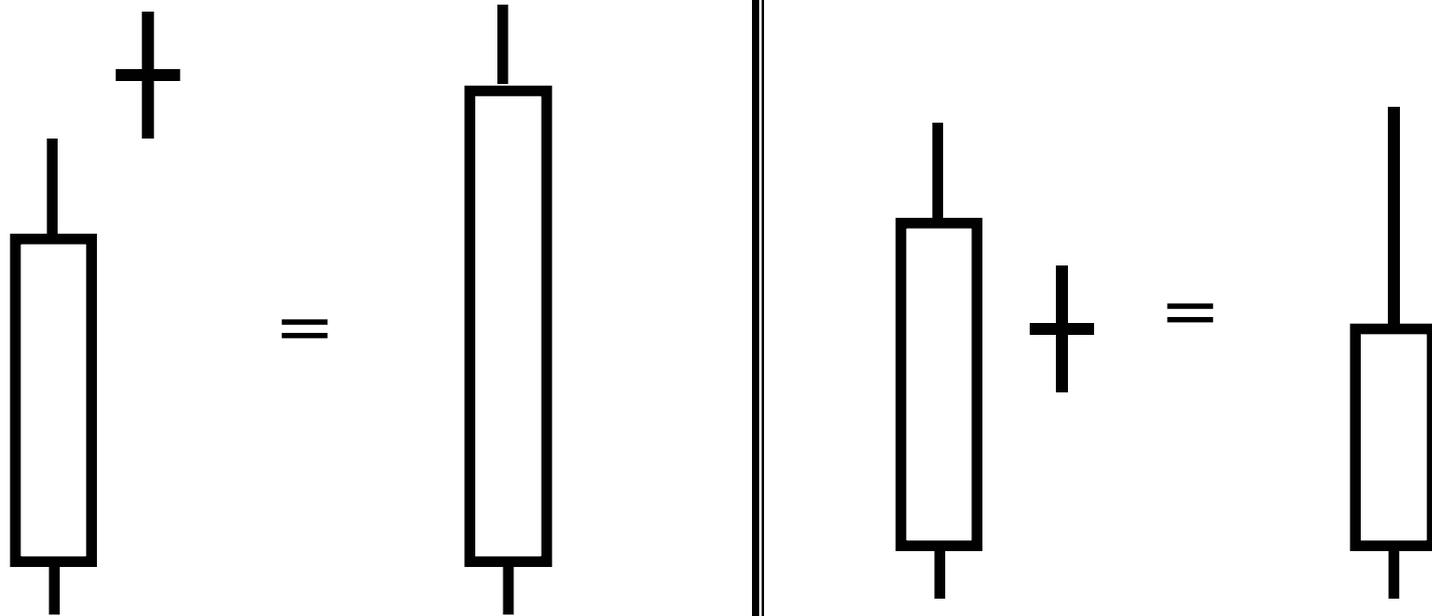
Not all candle signals should be used to buy or sell. Always consider the risk/reward aspect of the trade.

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

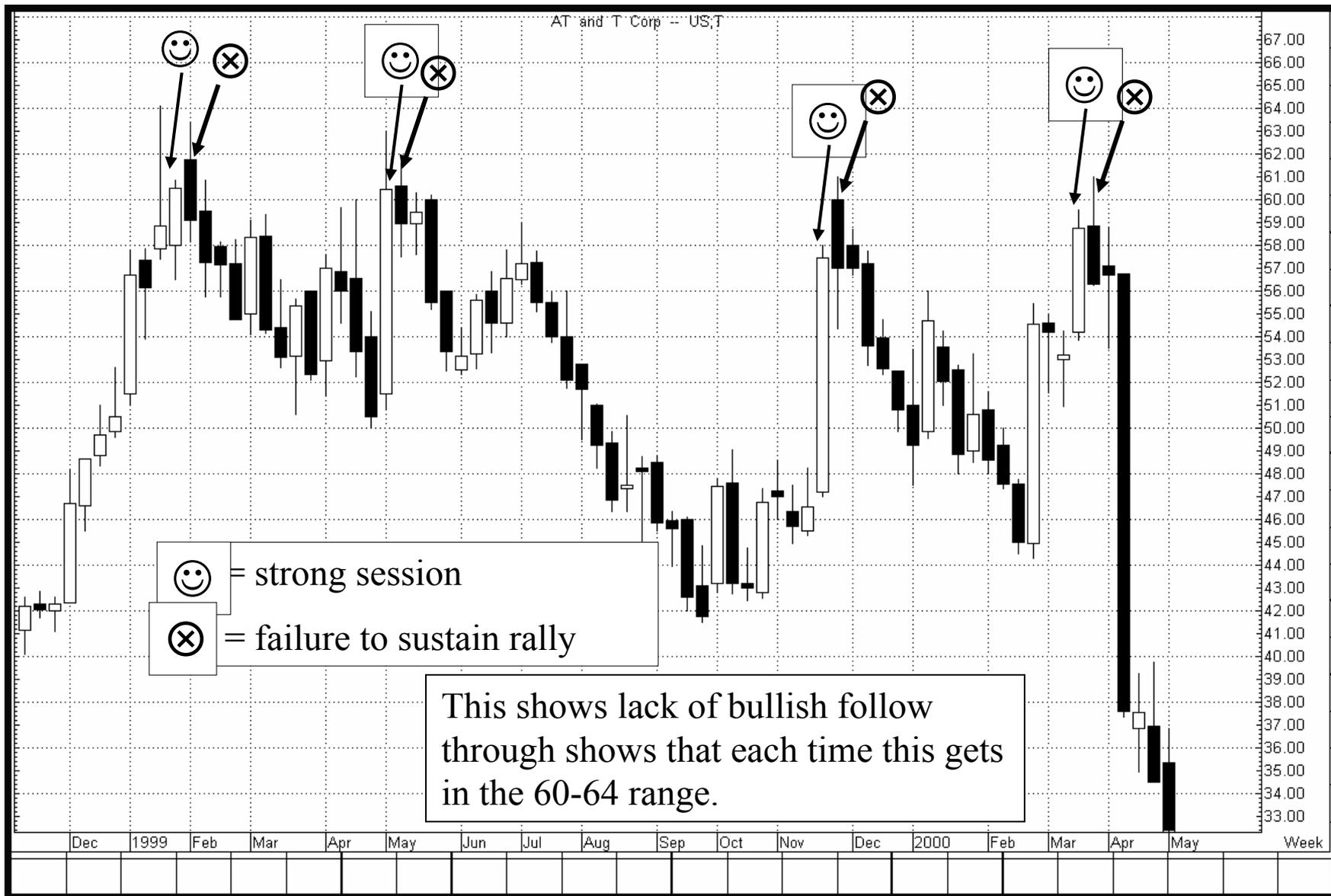
The Blended Candle Line



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"

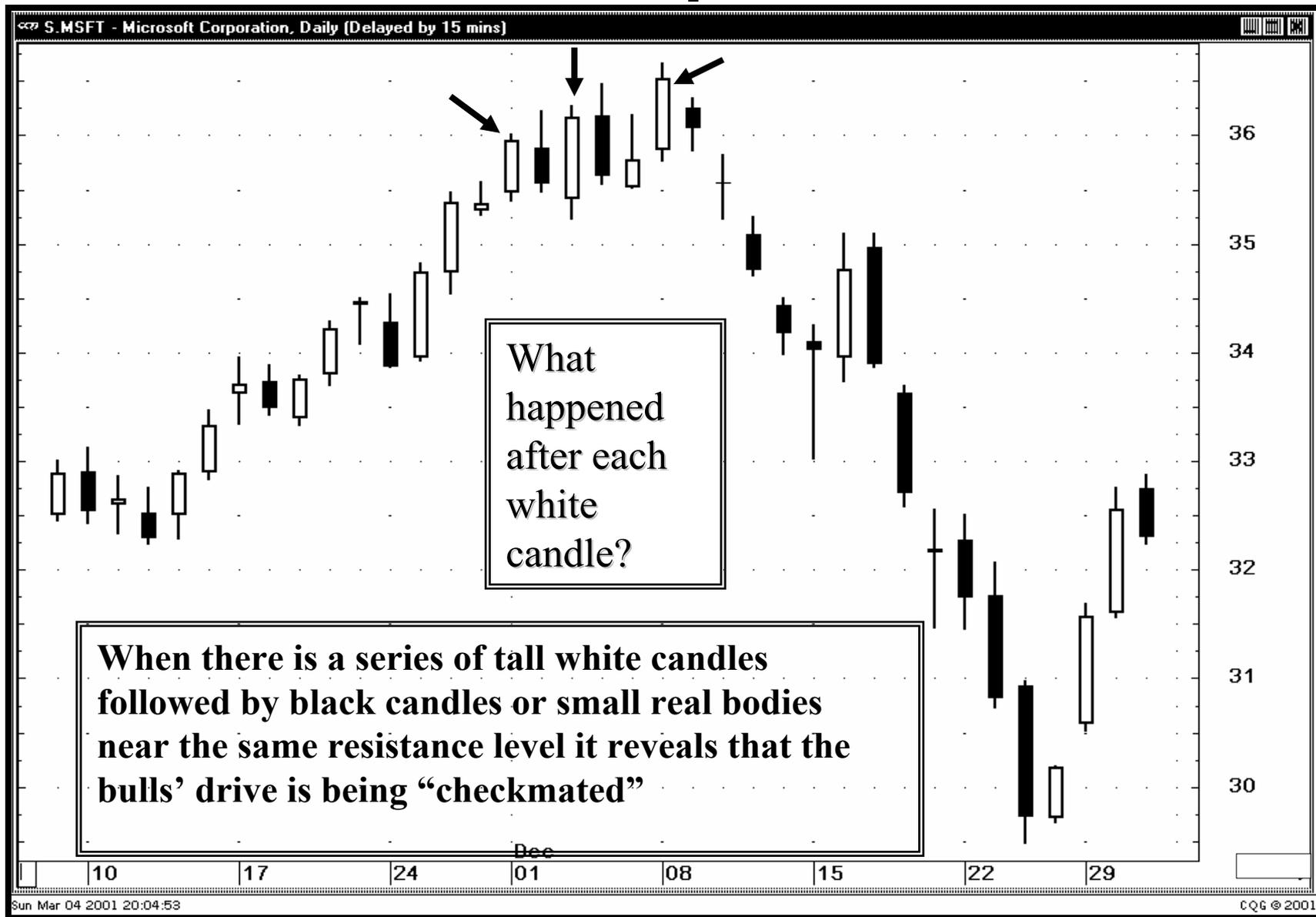
Bearish Checkmate



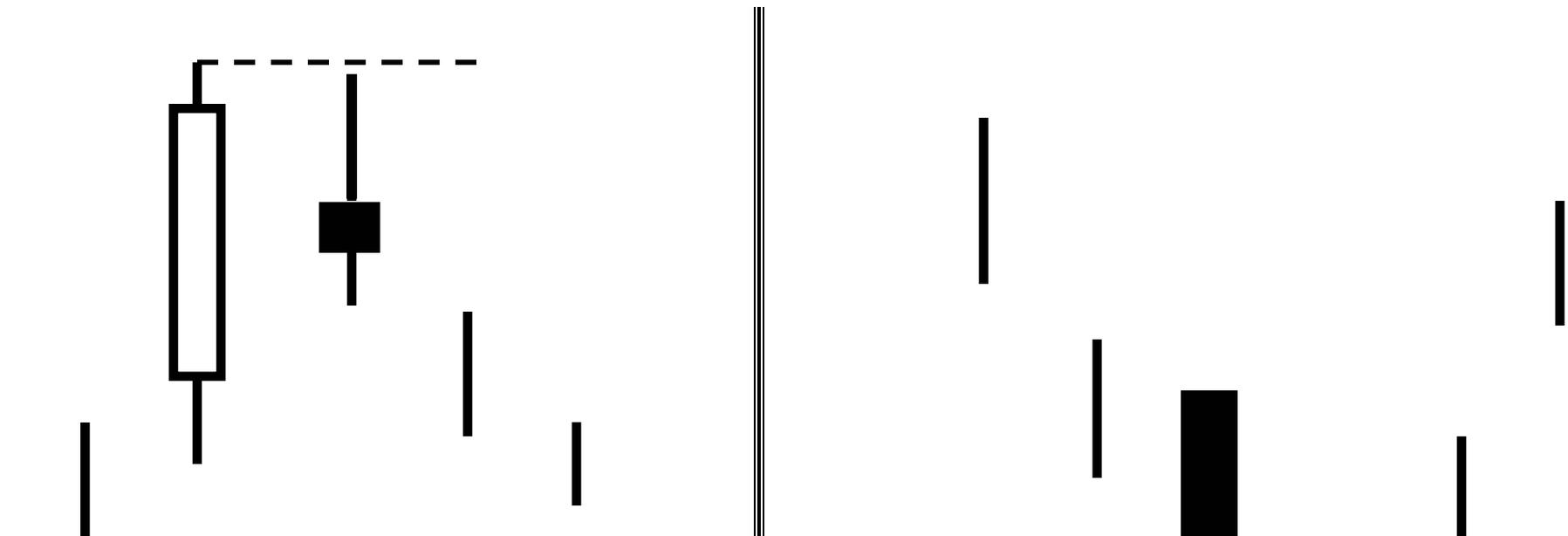
Hammer as support



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

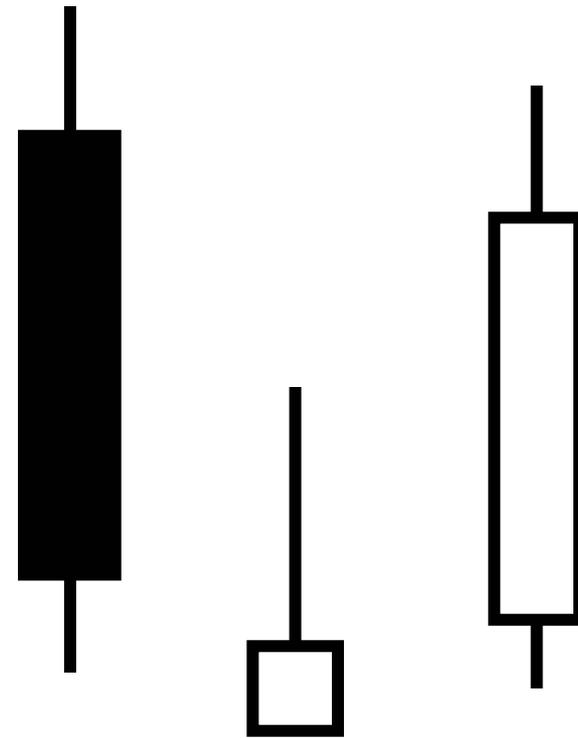


Morning Star

Criteria:

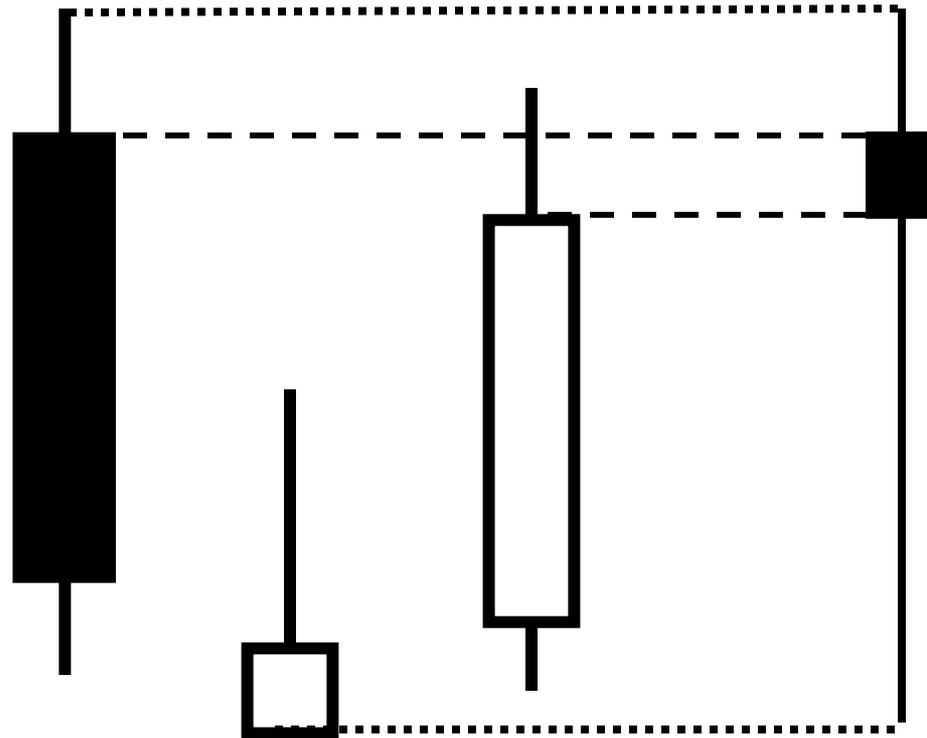
- Market in down trend
- First candle long black
- Second real body (spinning top, black or white) doesn't overlap first session's real body
- Third candle (white) closes deeply in first black real body

Implication: Bulls are taking control



white or black

Morning Star



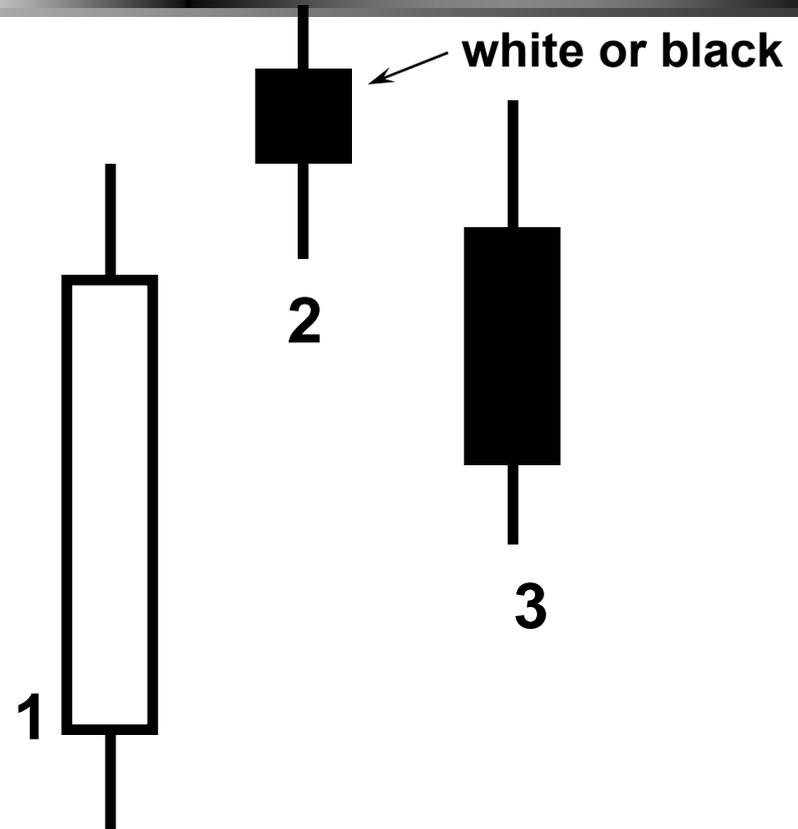
white or black

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

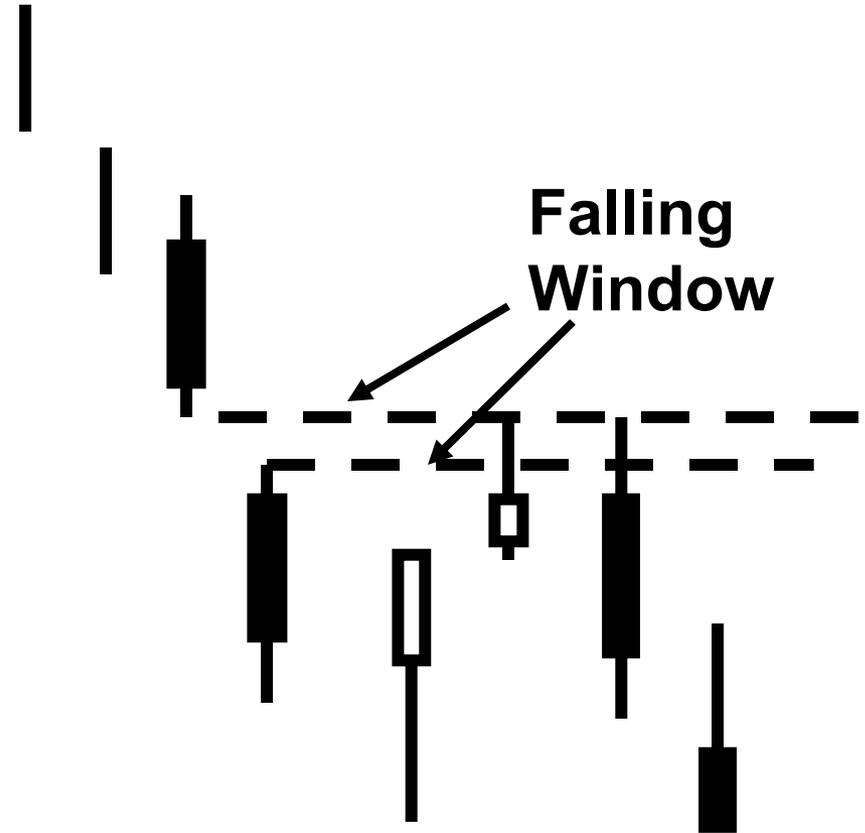
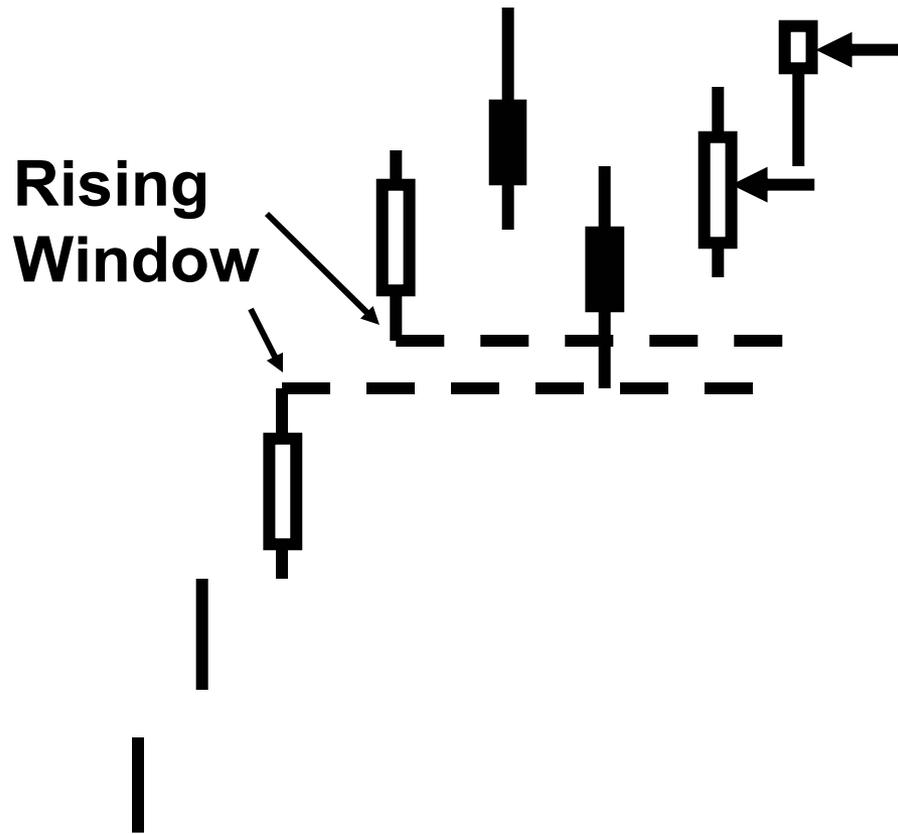
Evening Star compared to Morning Star



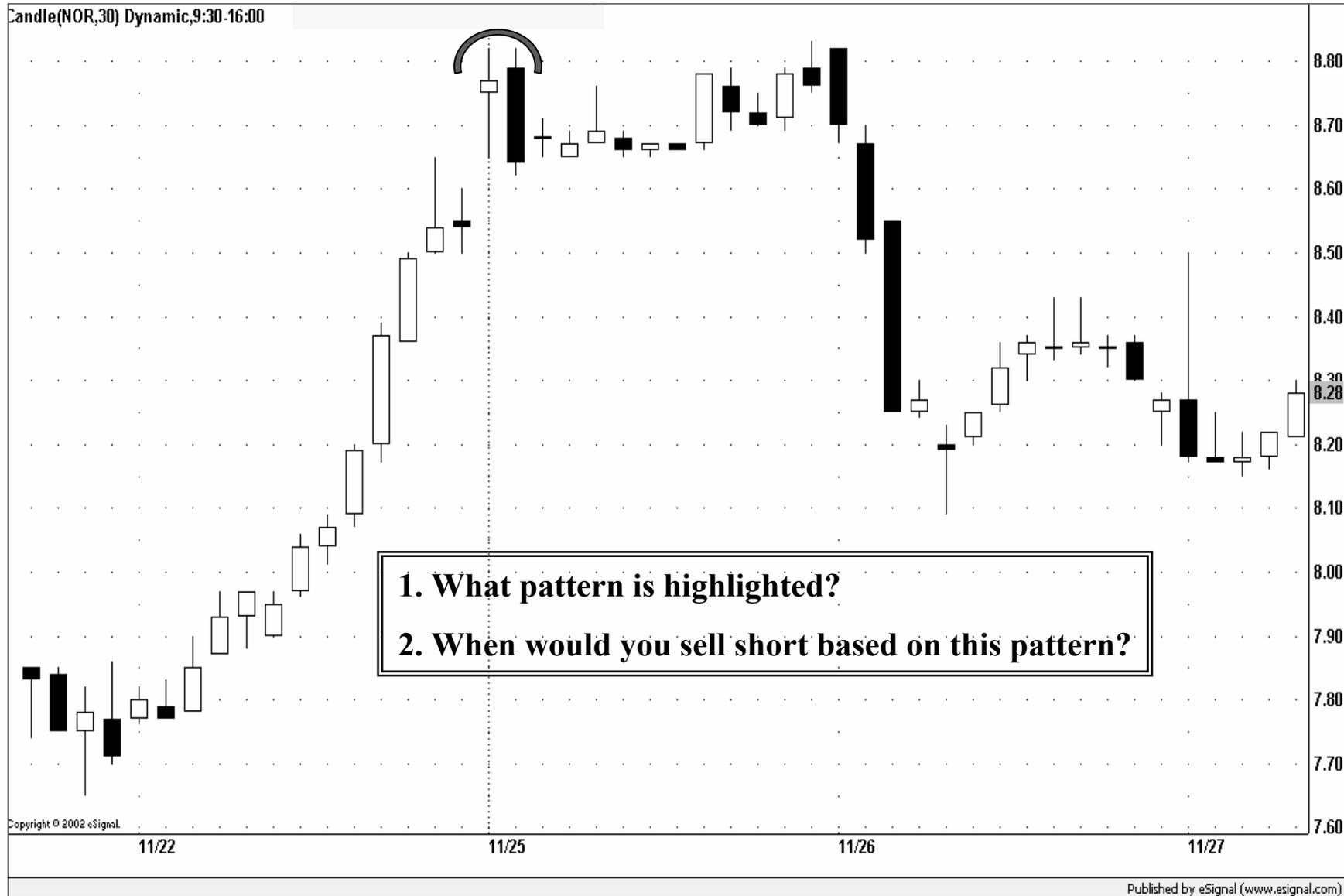
Evening Star and Risk/ Reward



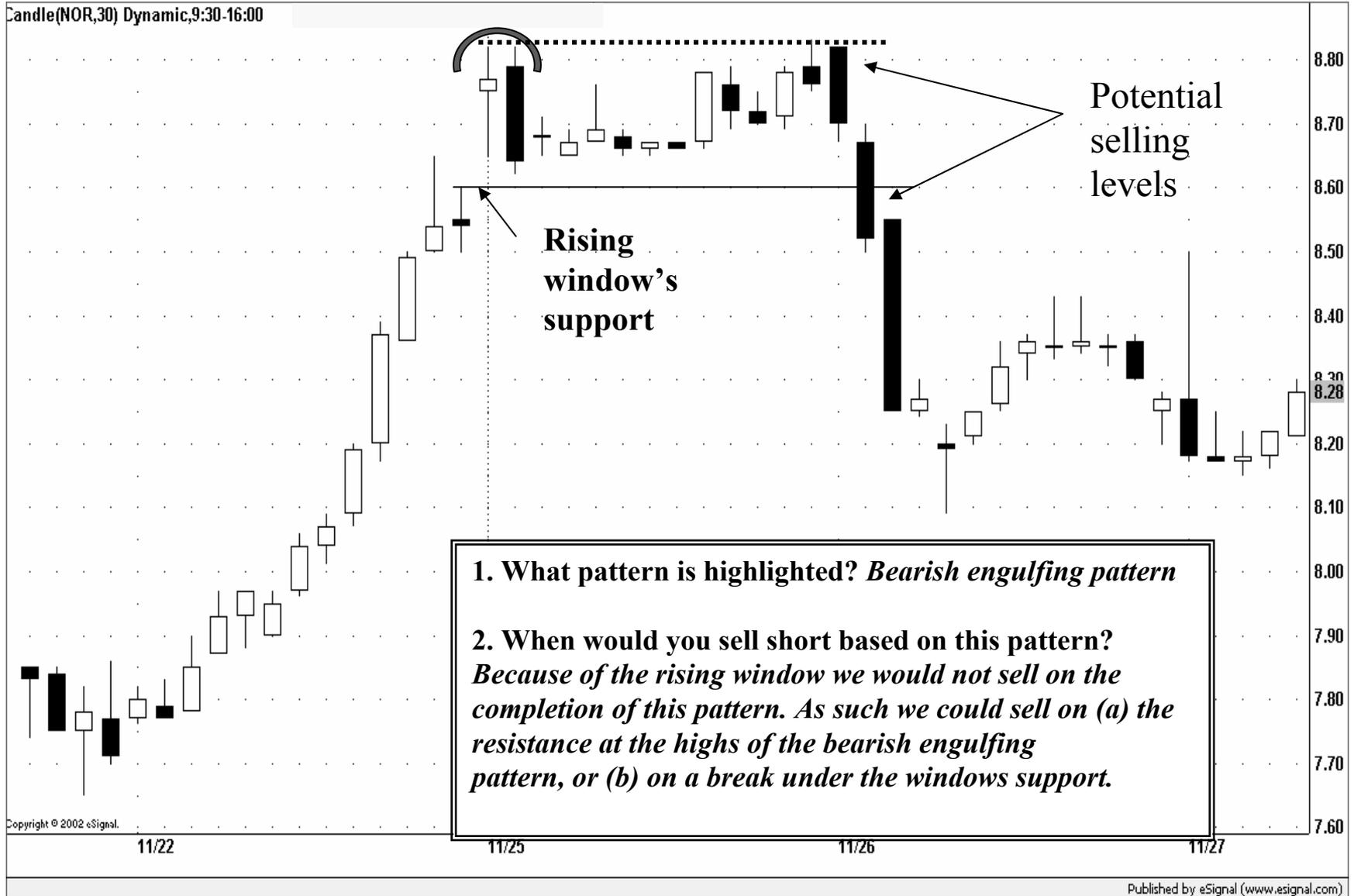
Windows



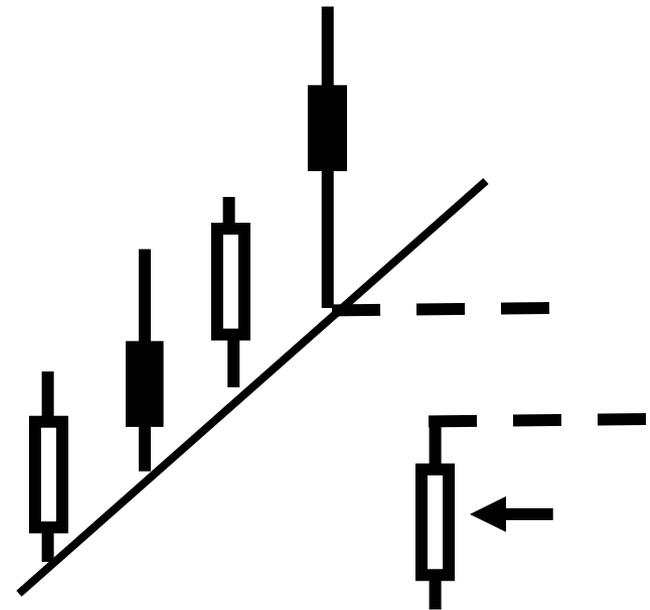
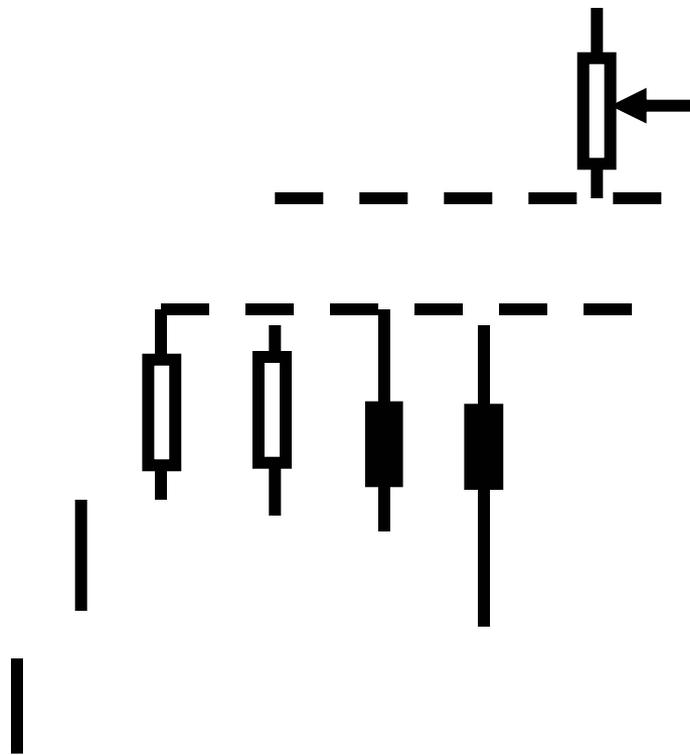
Trading Tactics – practice



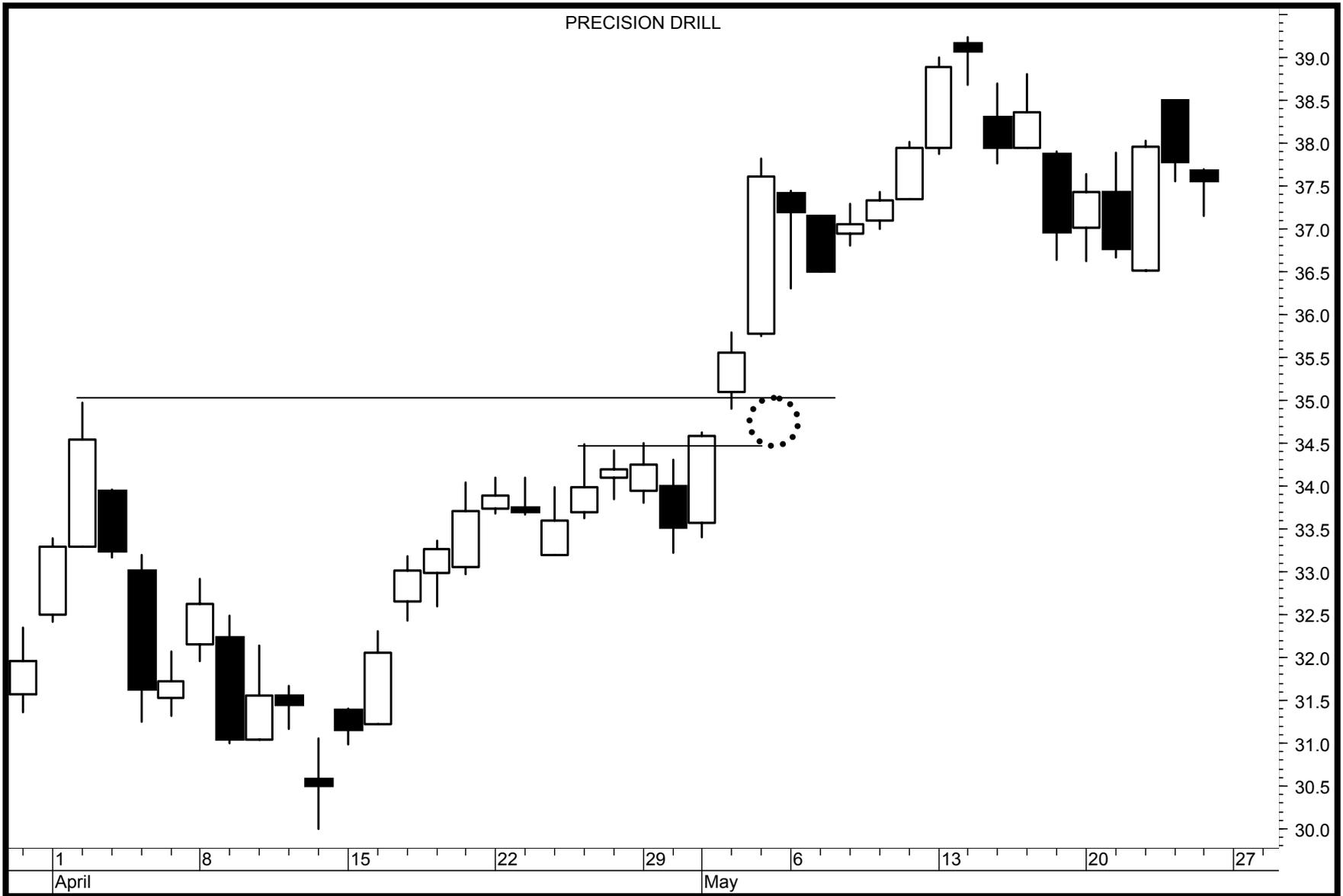
Trading Tactics – practice (answer)



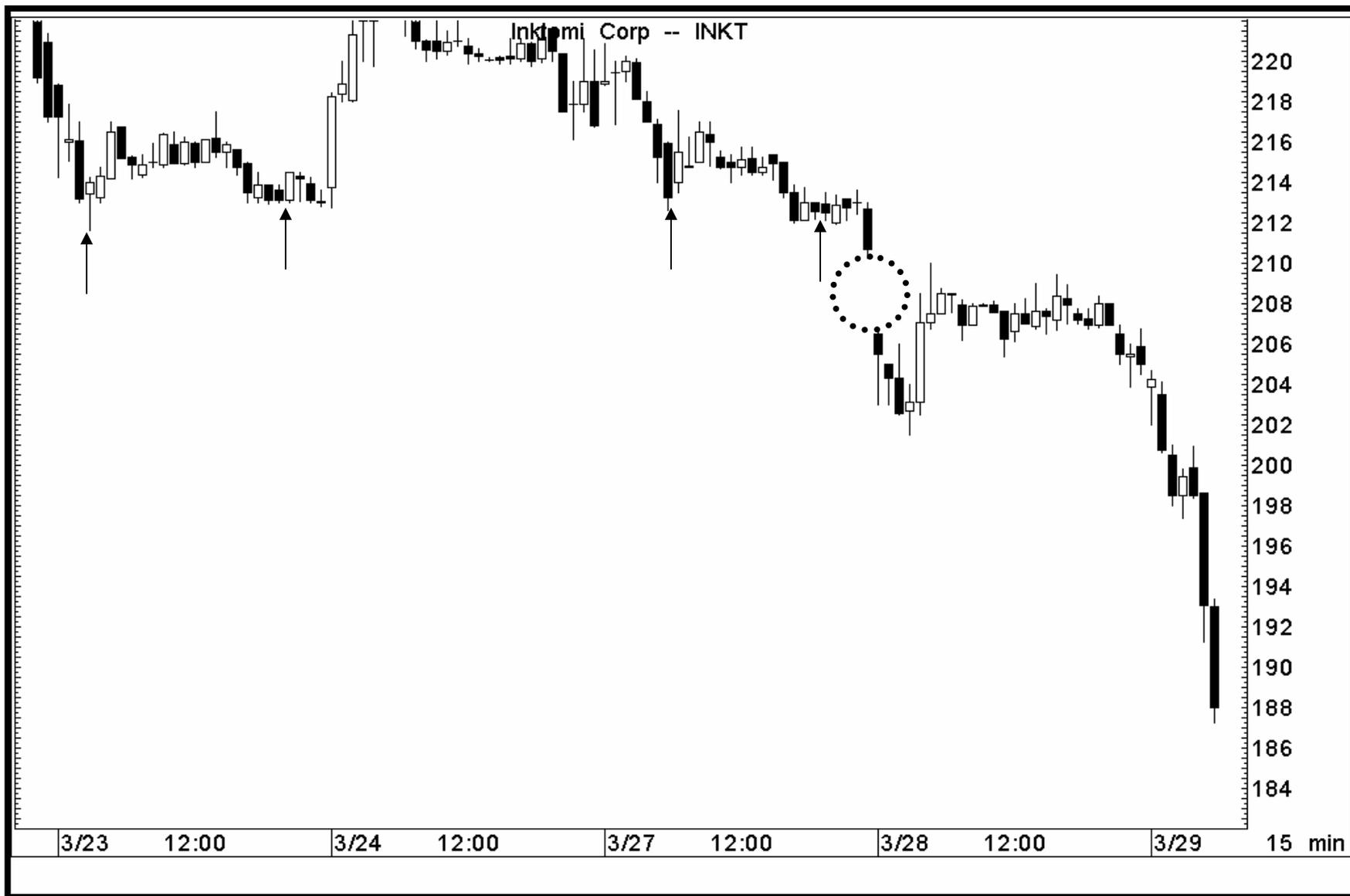
Breakaway Gaps



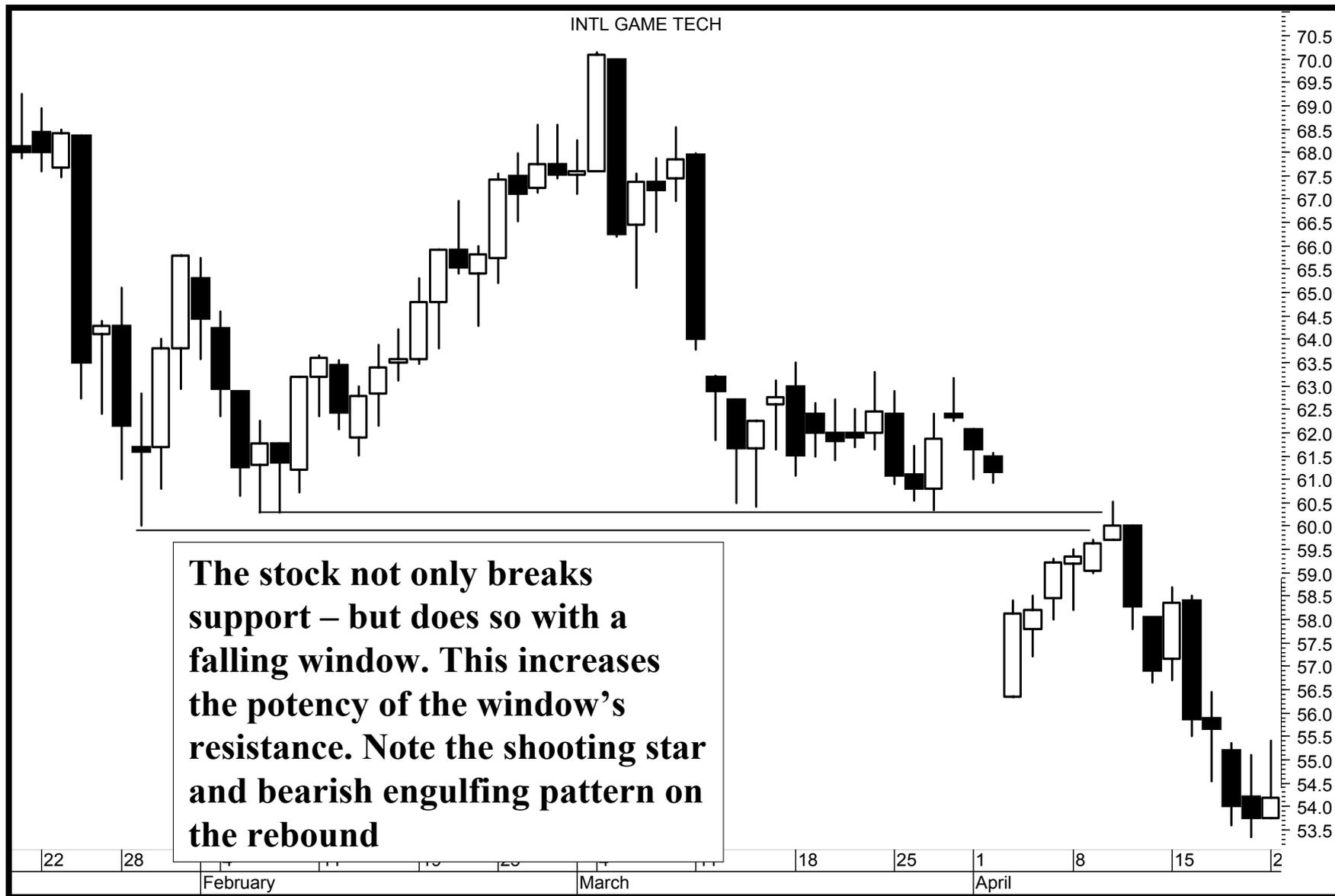
Breakaway Gap



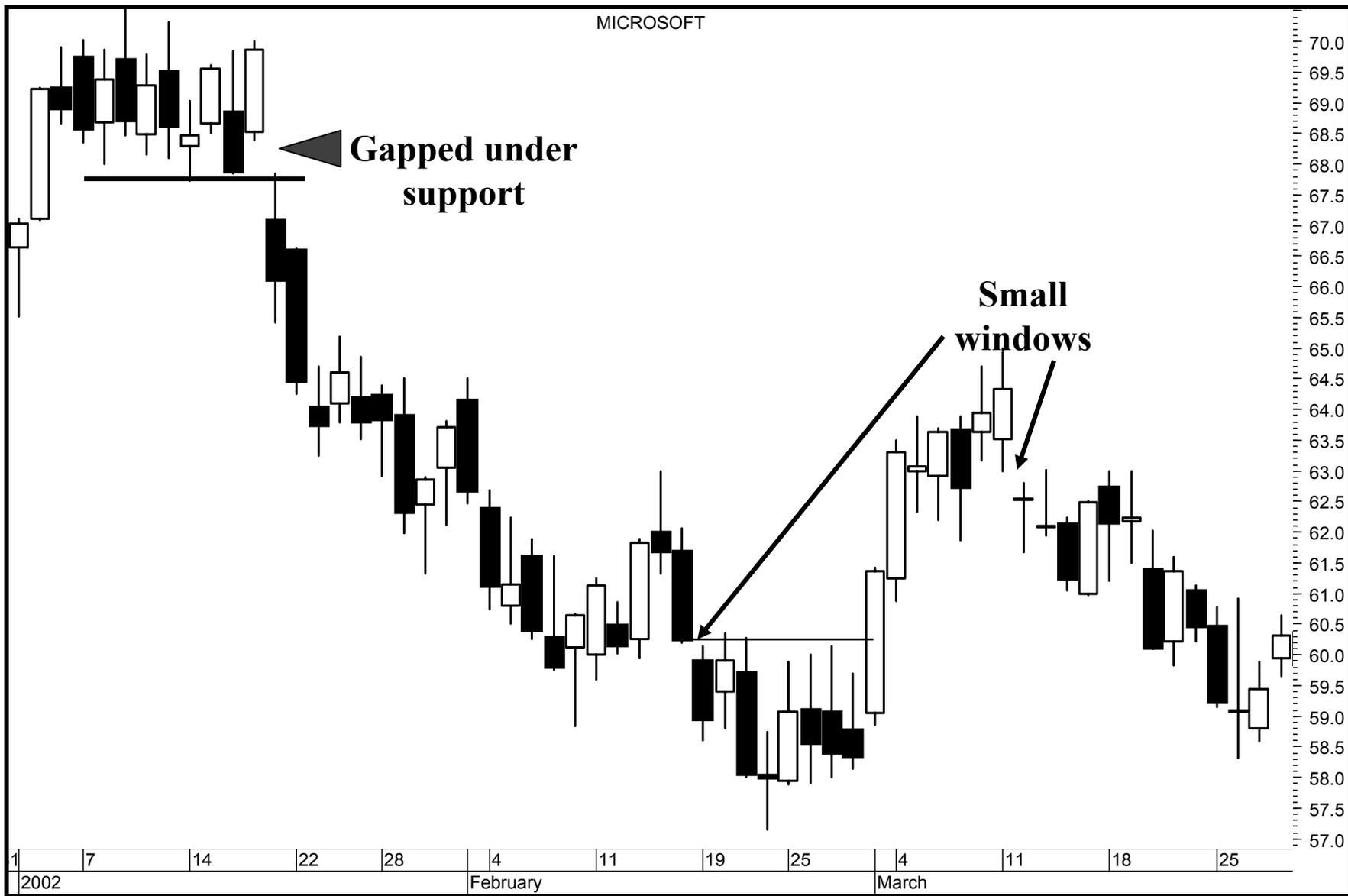
Breakaway Gap



Breakaway gap



Breakaway Gap



Breakaway Gap



Nison Trading Principle

With windows size does
not matter.

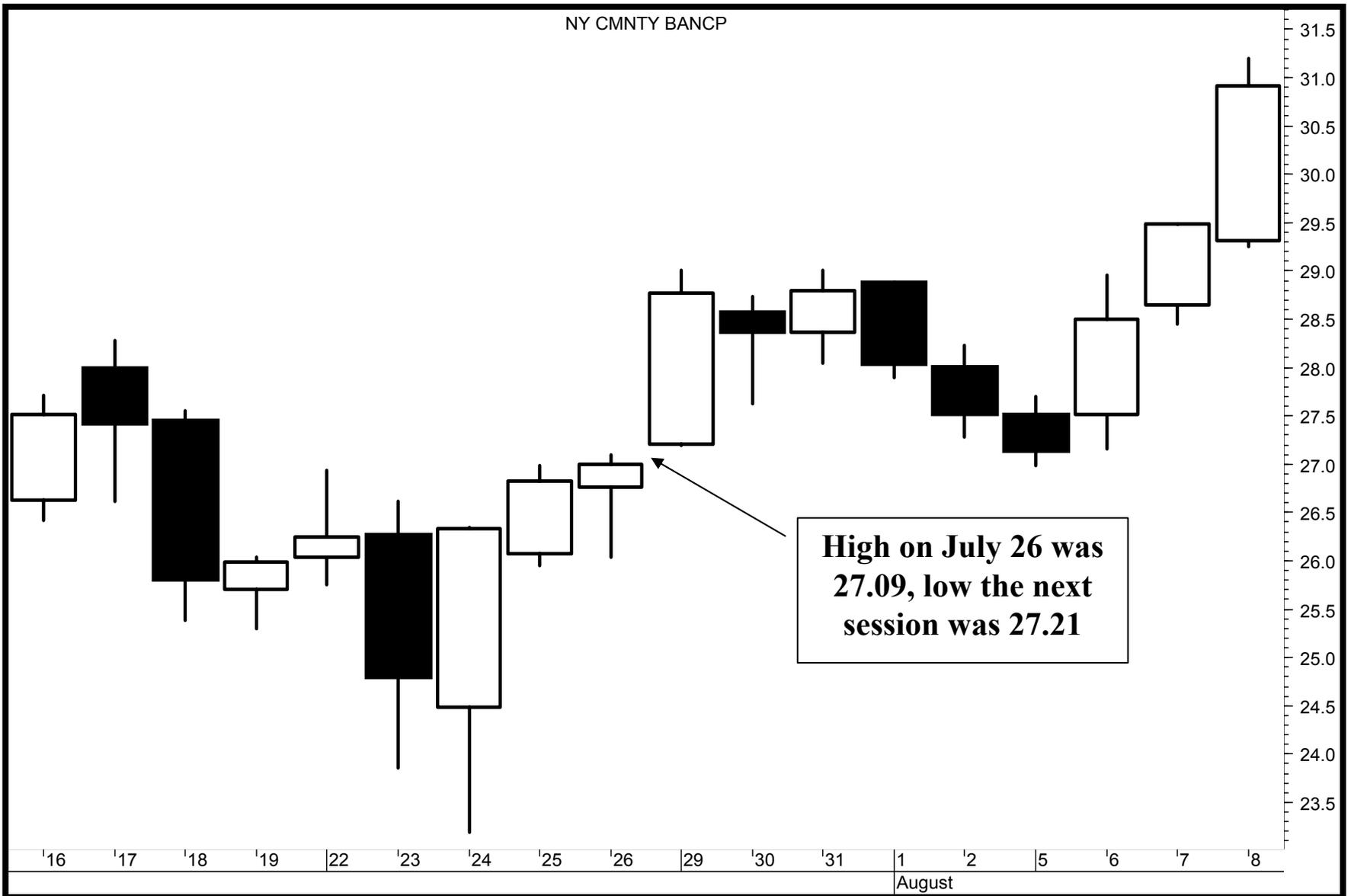
Large and small windows



Large Window



With windows size does not matter



Small Window



More than three windows

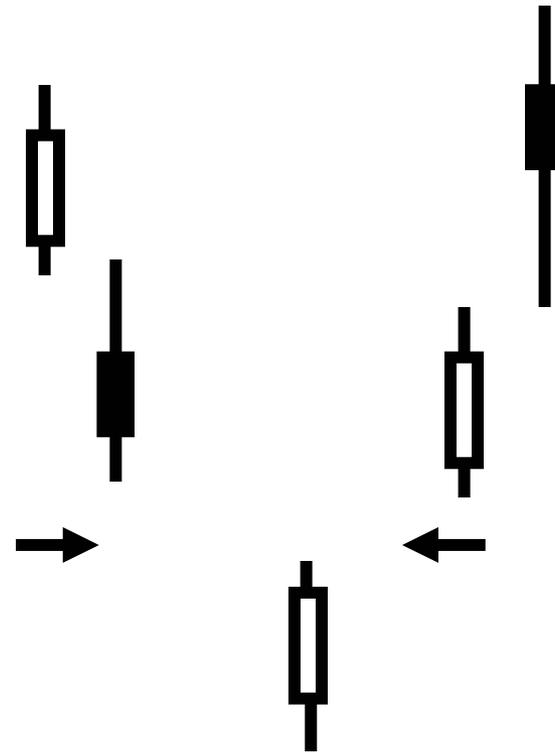
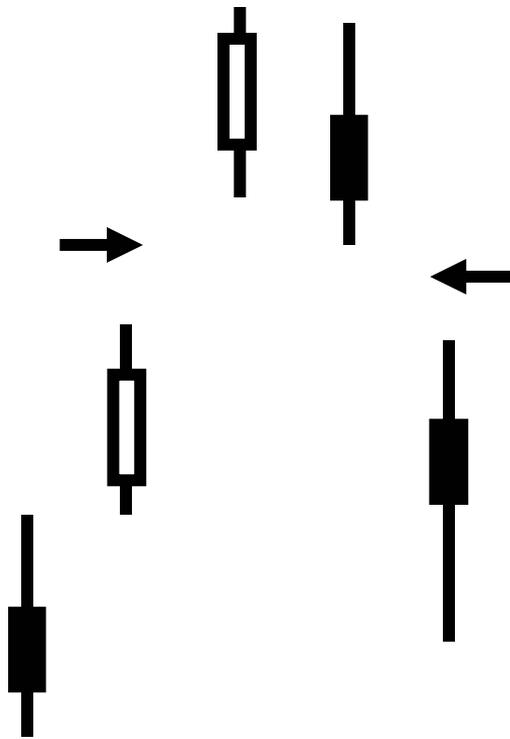


Three Windows



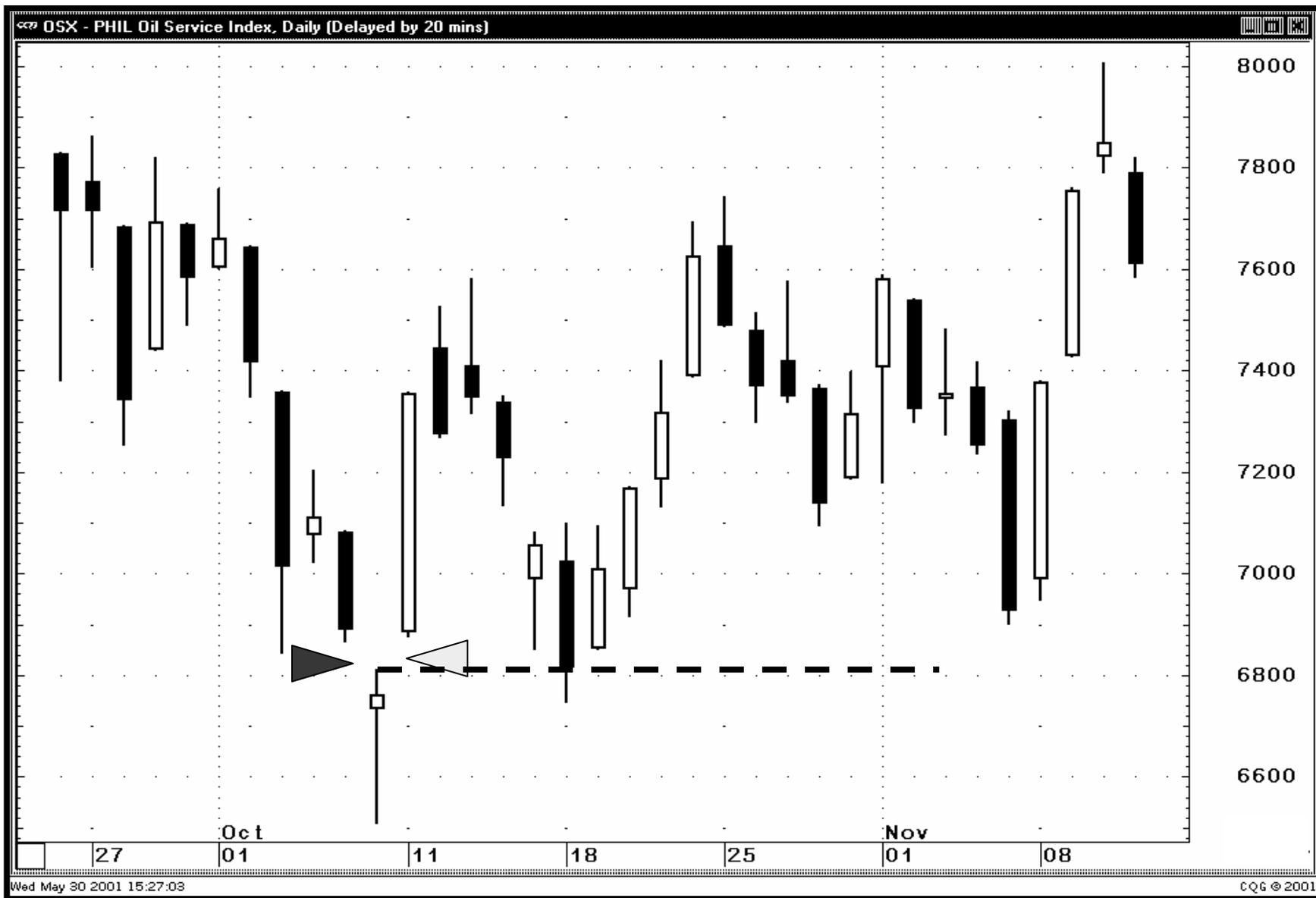
Island Top and Bottom

Island Top



Island Bottom

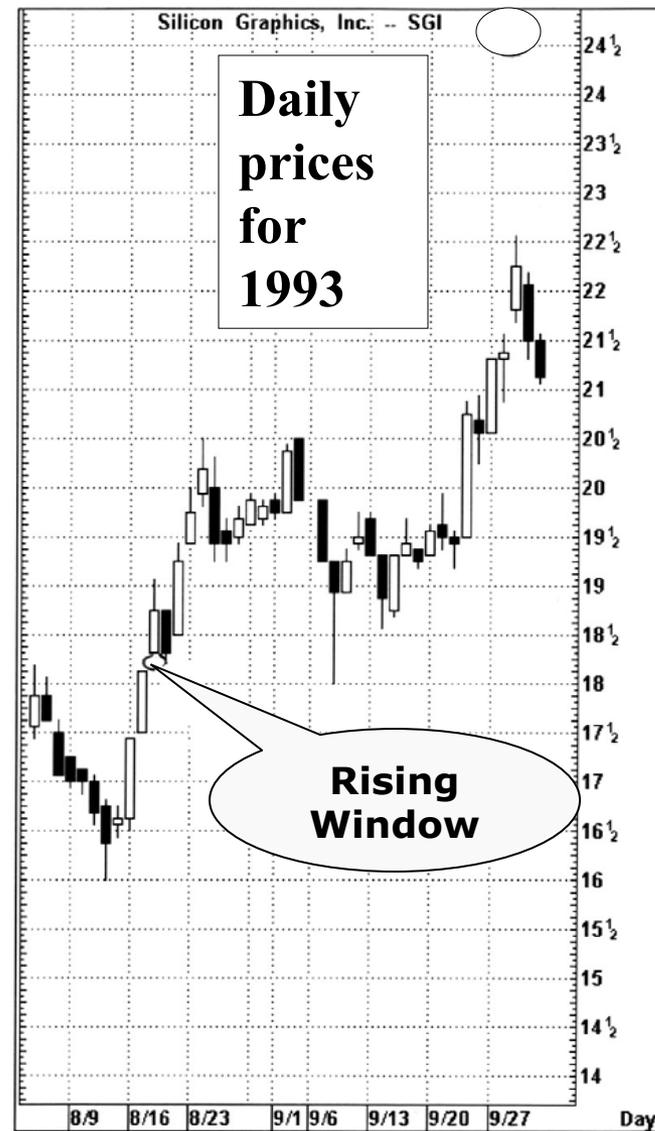
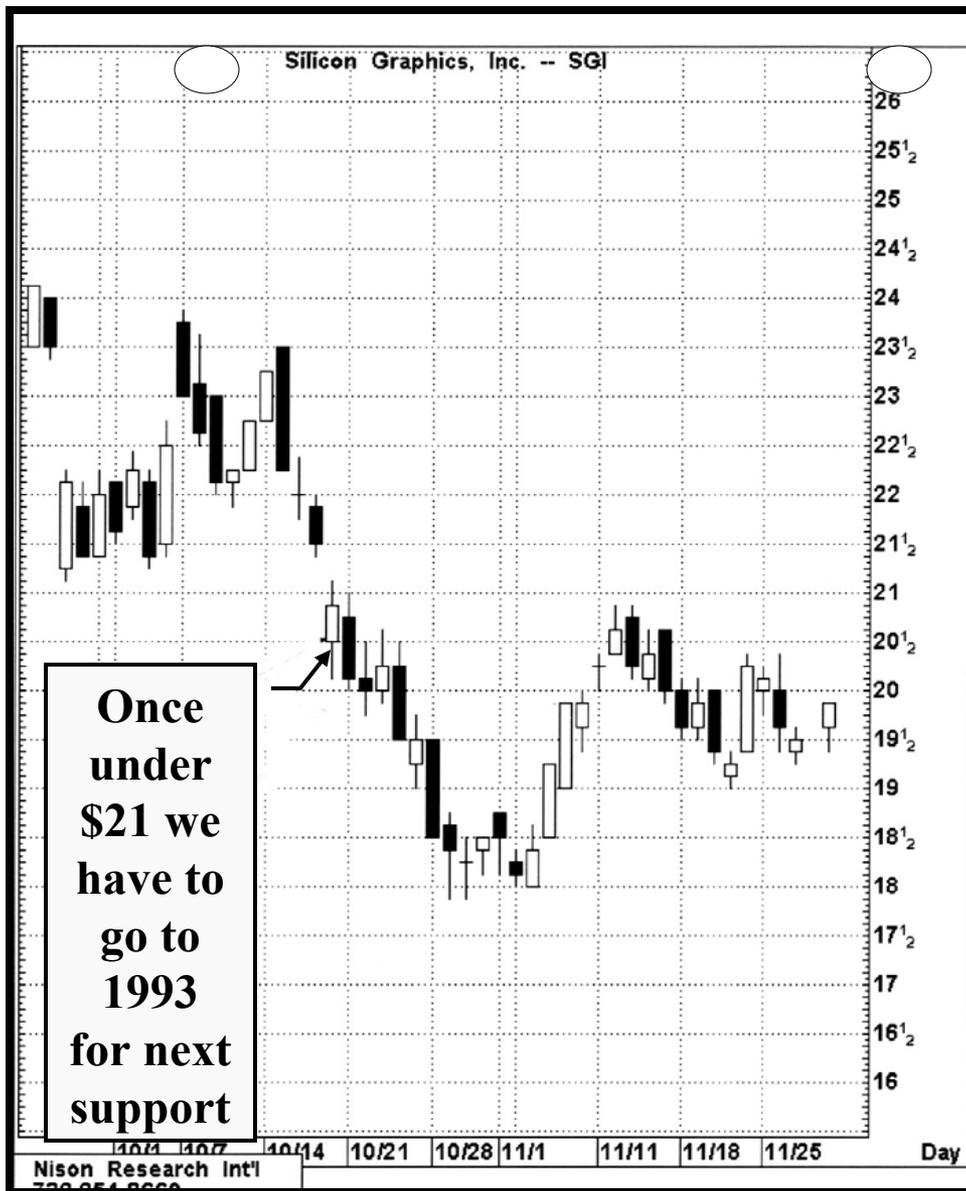
Island Bottom



Island Top



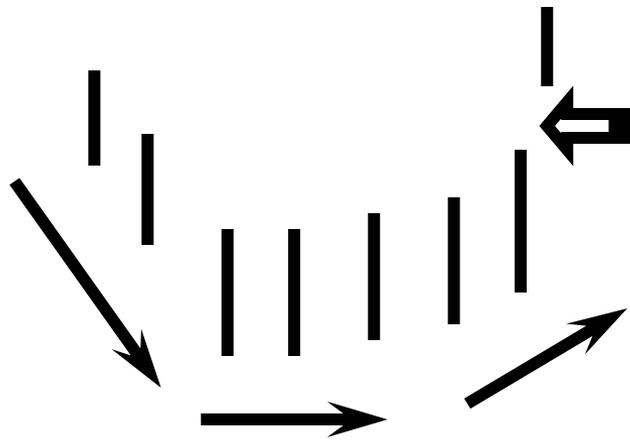
Windows as Target



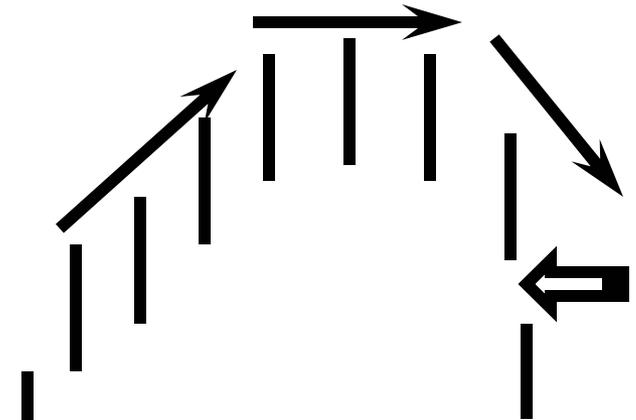
Window as a target



Rounding Tops/Bottoms



Fry Pan Bottom

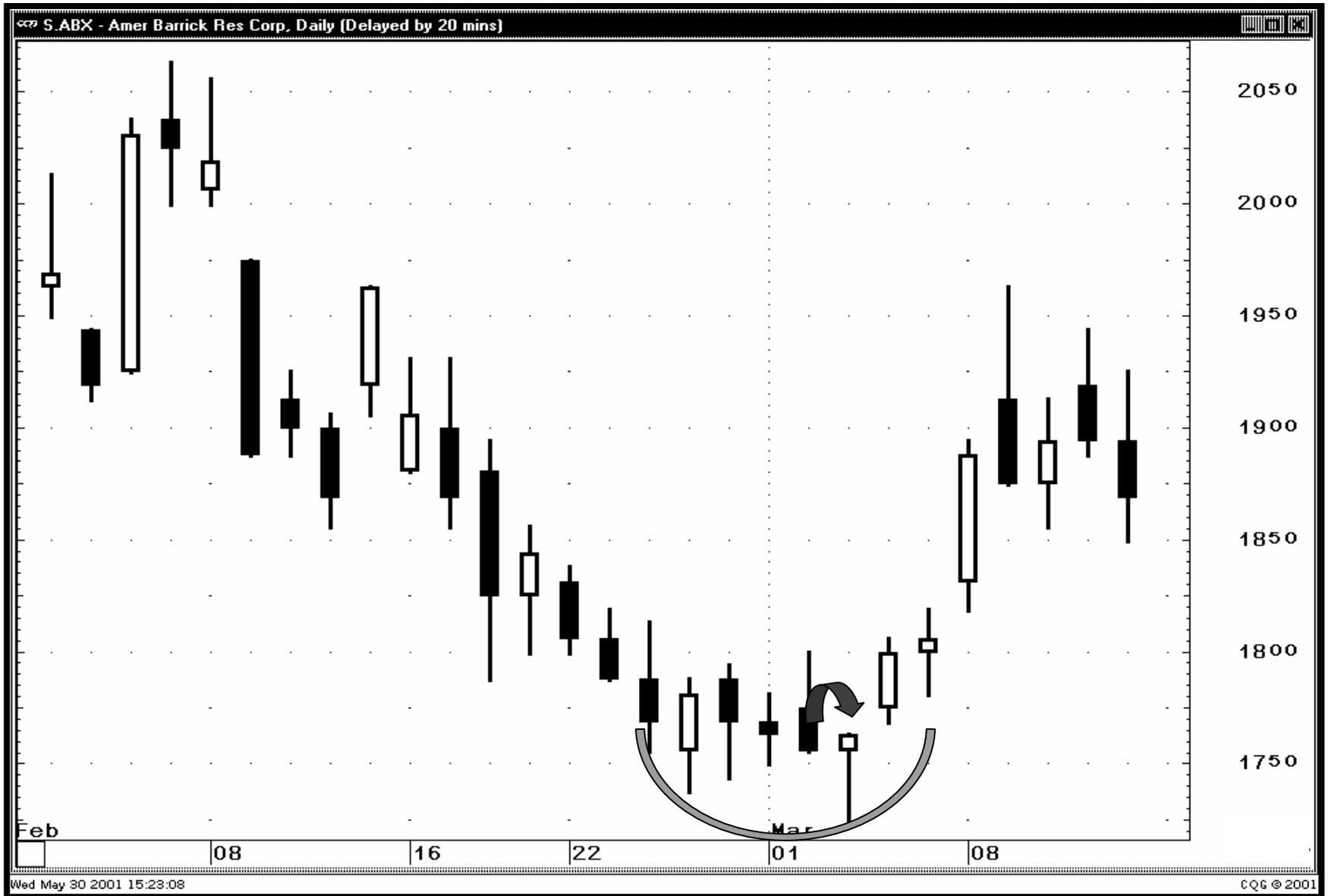


Dumpling Top

Dumpling Top



Fry Pan Bottom



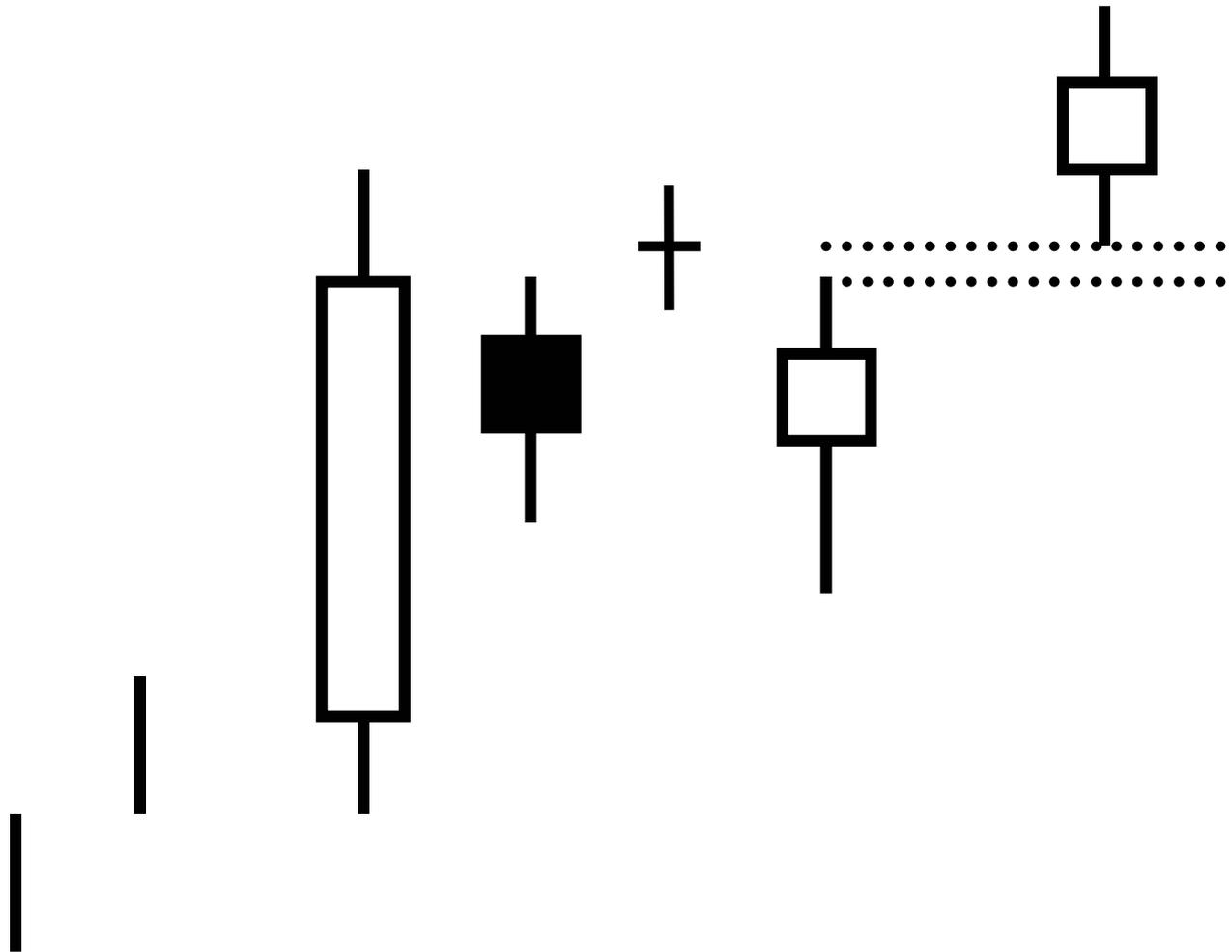
Midway (measuring) Gap



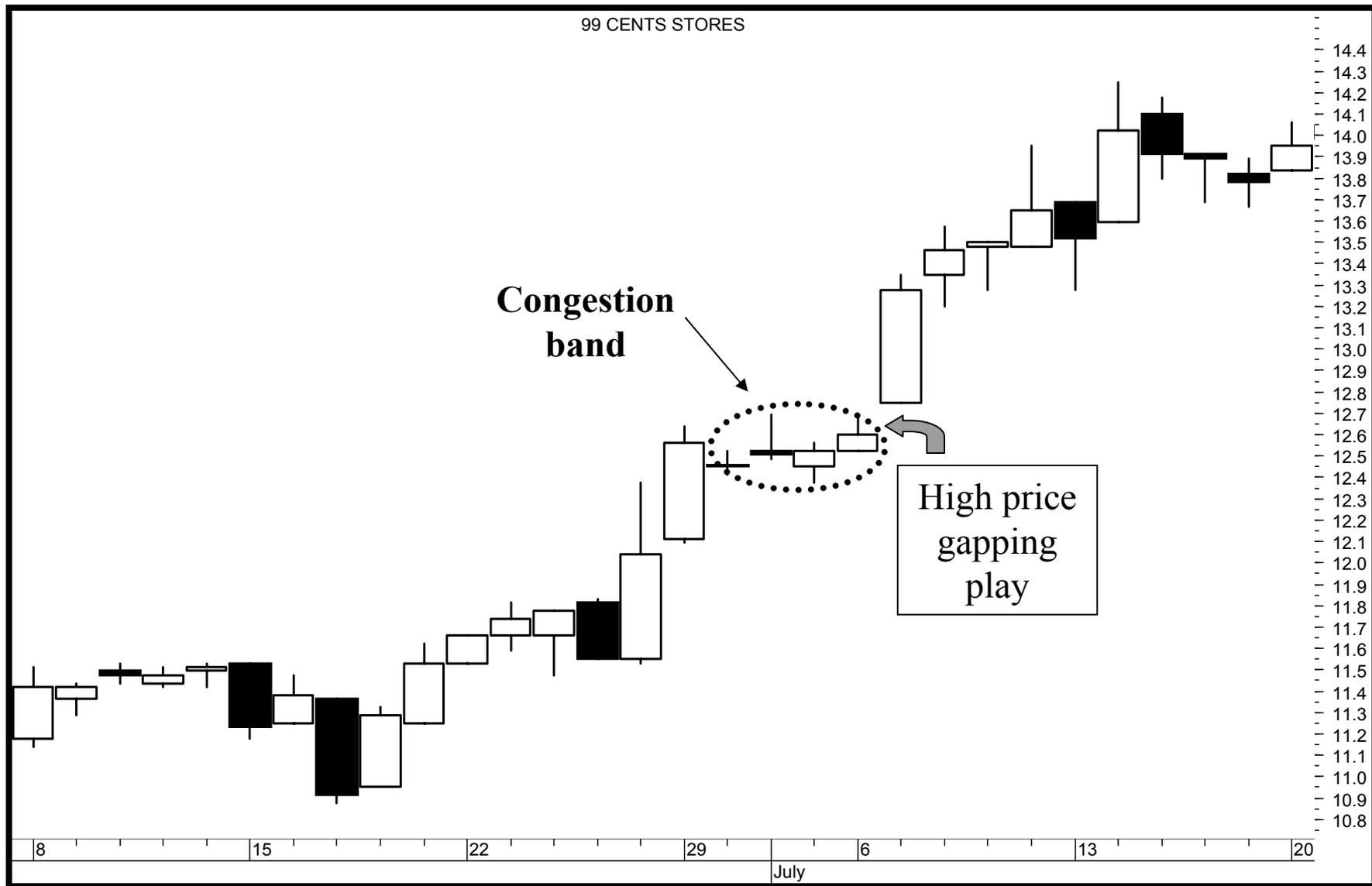
Midway Gap



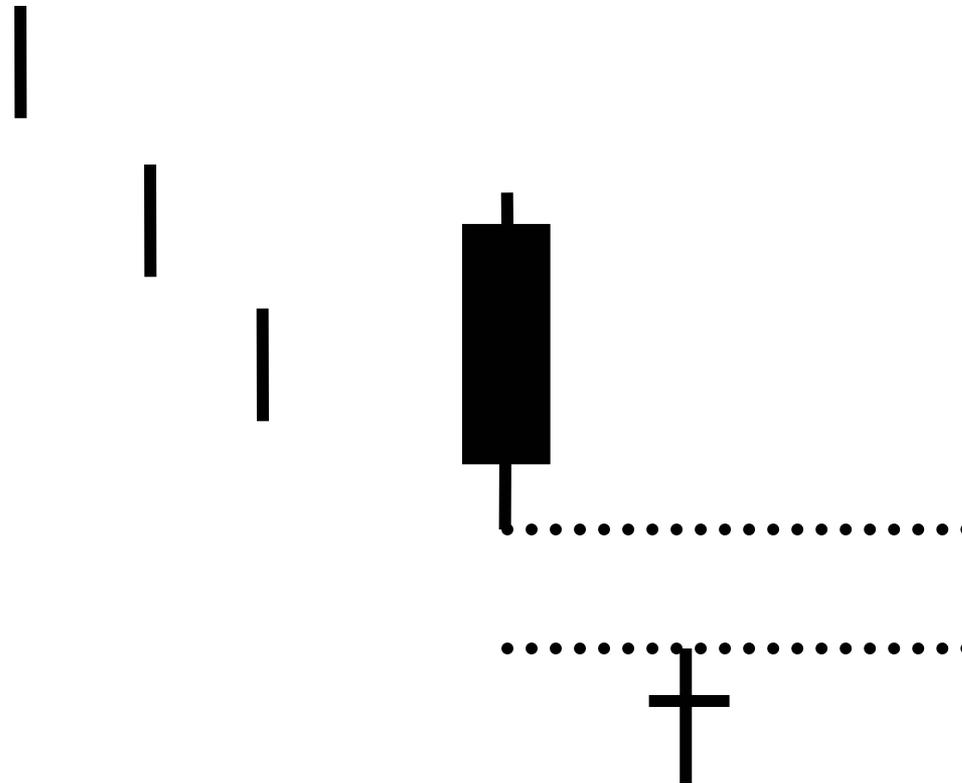
High Price Gapping Play



High Price Gapping Play



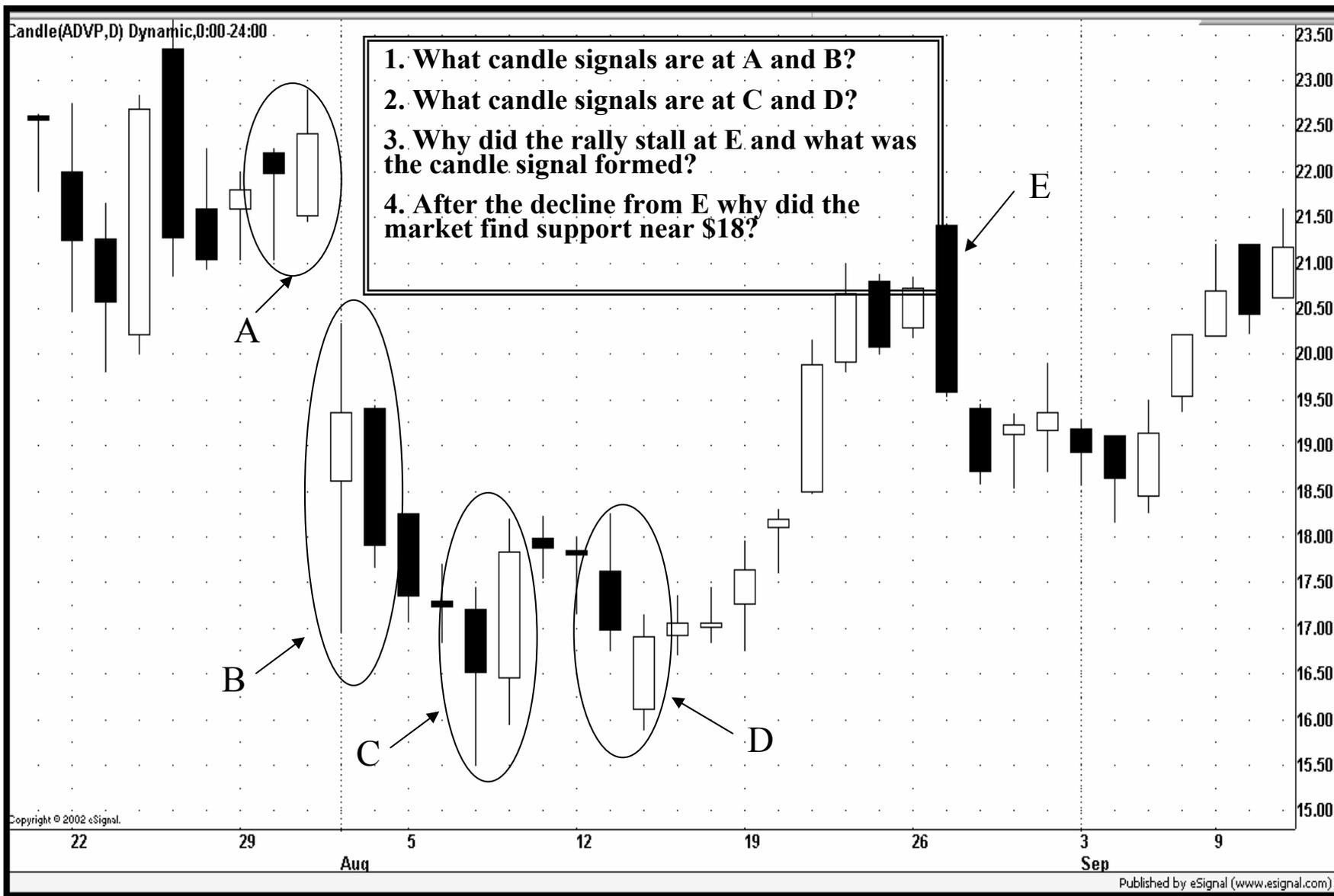
Gapping Doji



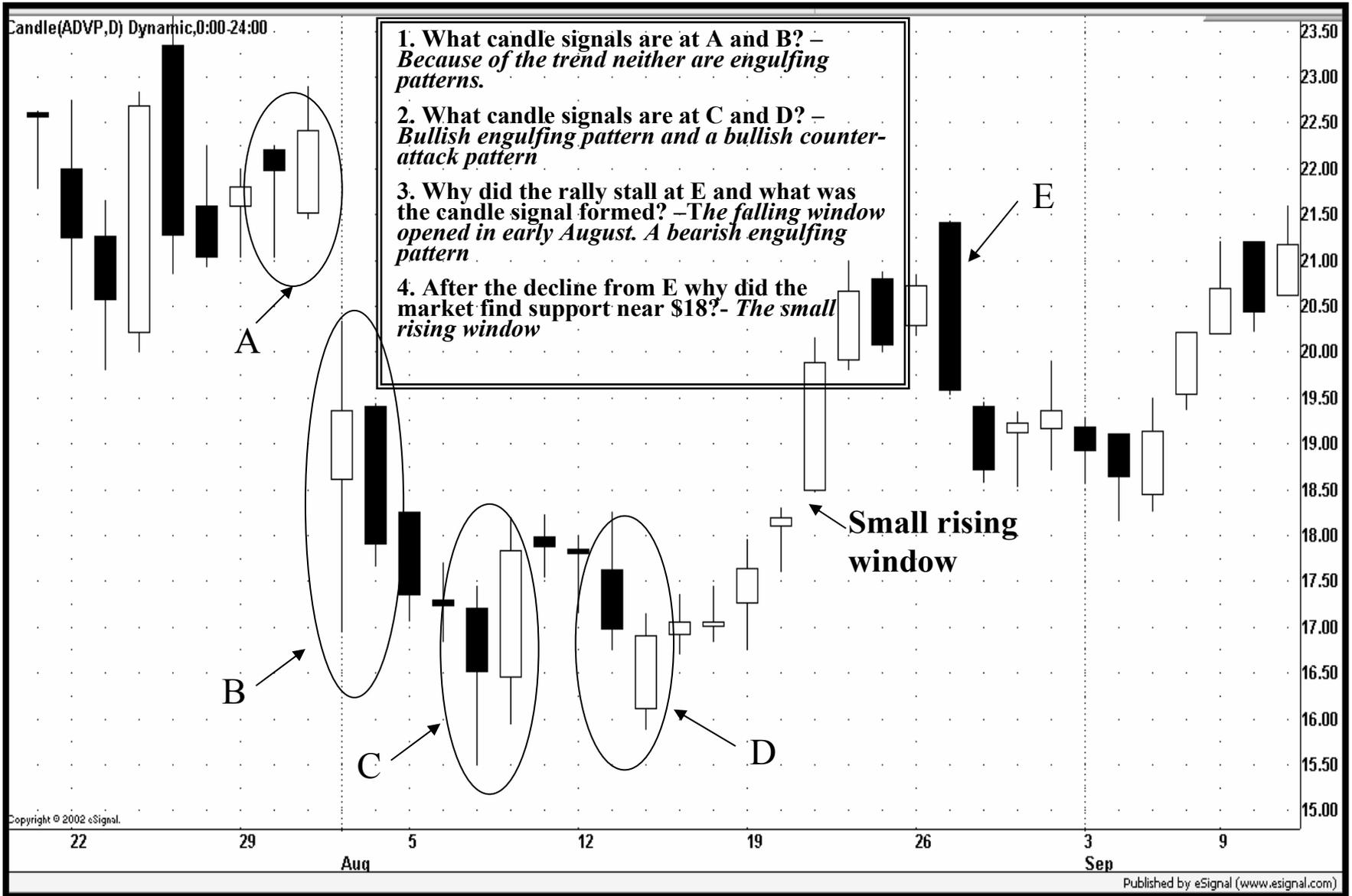
Gapping Doji



Interactive Chart



Interactive Chart - answers



Record Sessions

Overbought / Oversold Indicator

9 record session highs



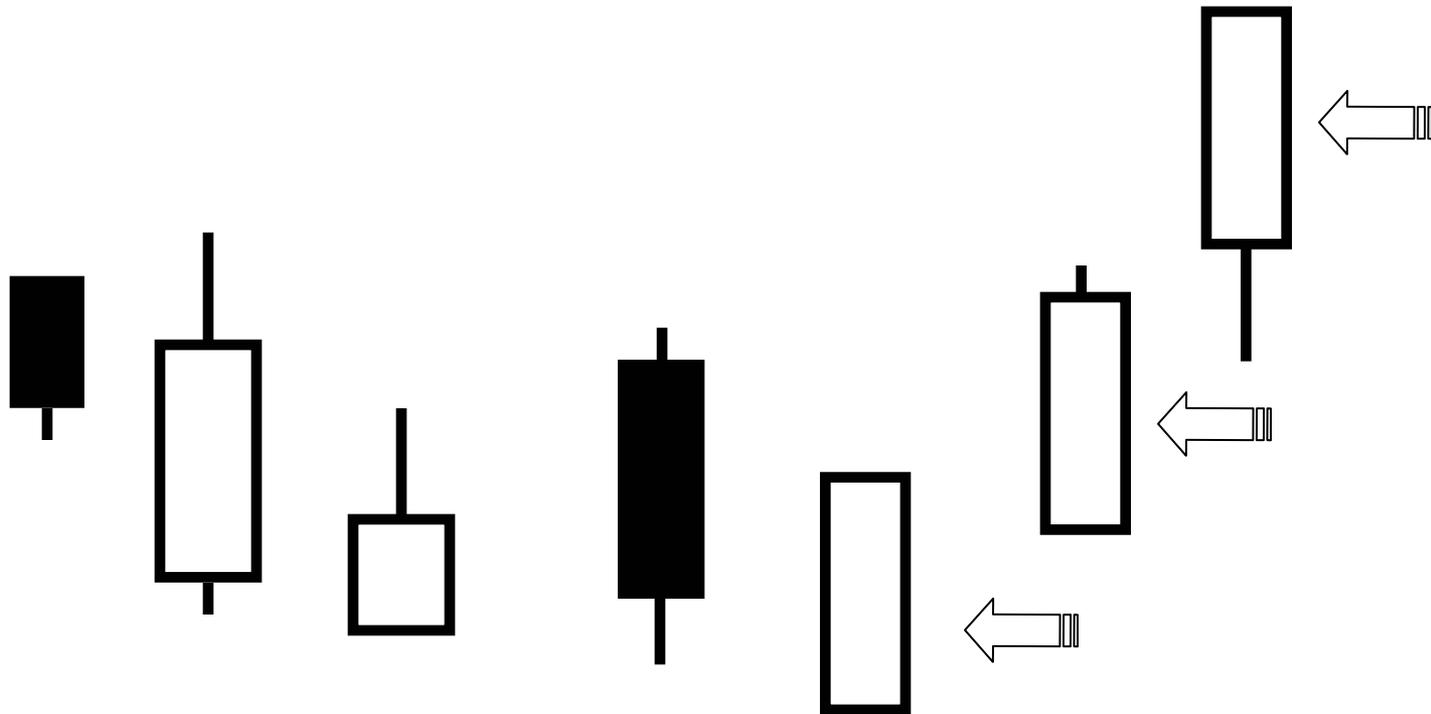
Record Session Highs



Record session highs



Three Advancing White Soldiers



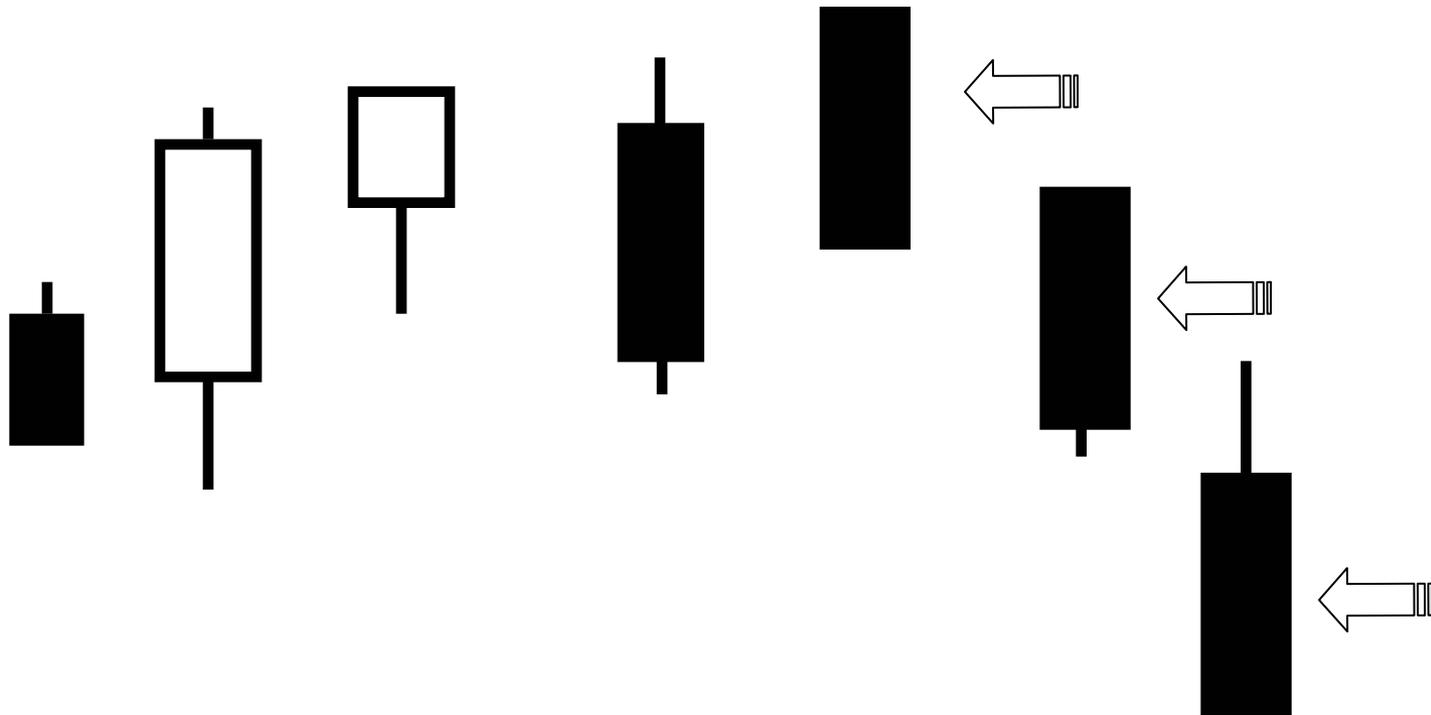
Three White Soliders



Three White Soliders



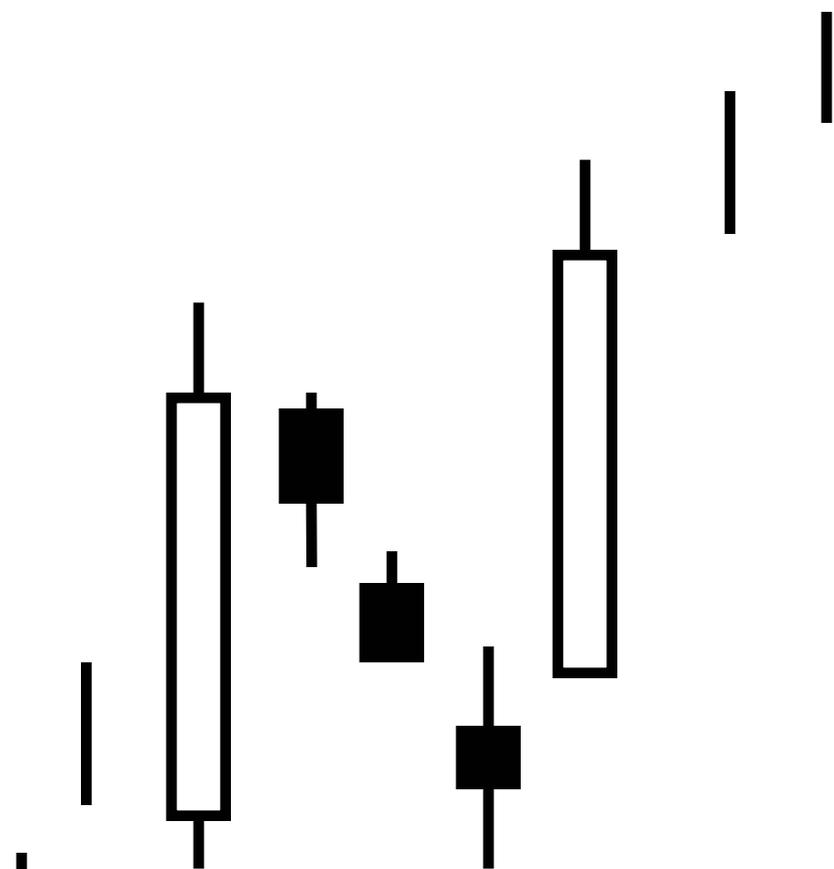
Three Black Crows



Three Black Crows



Rising and Falling Three Methods

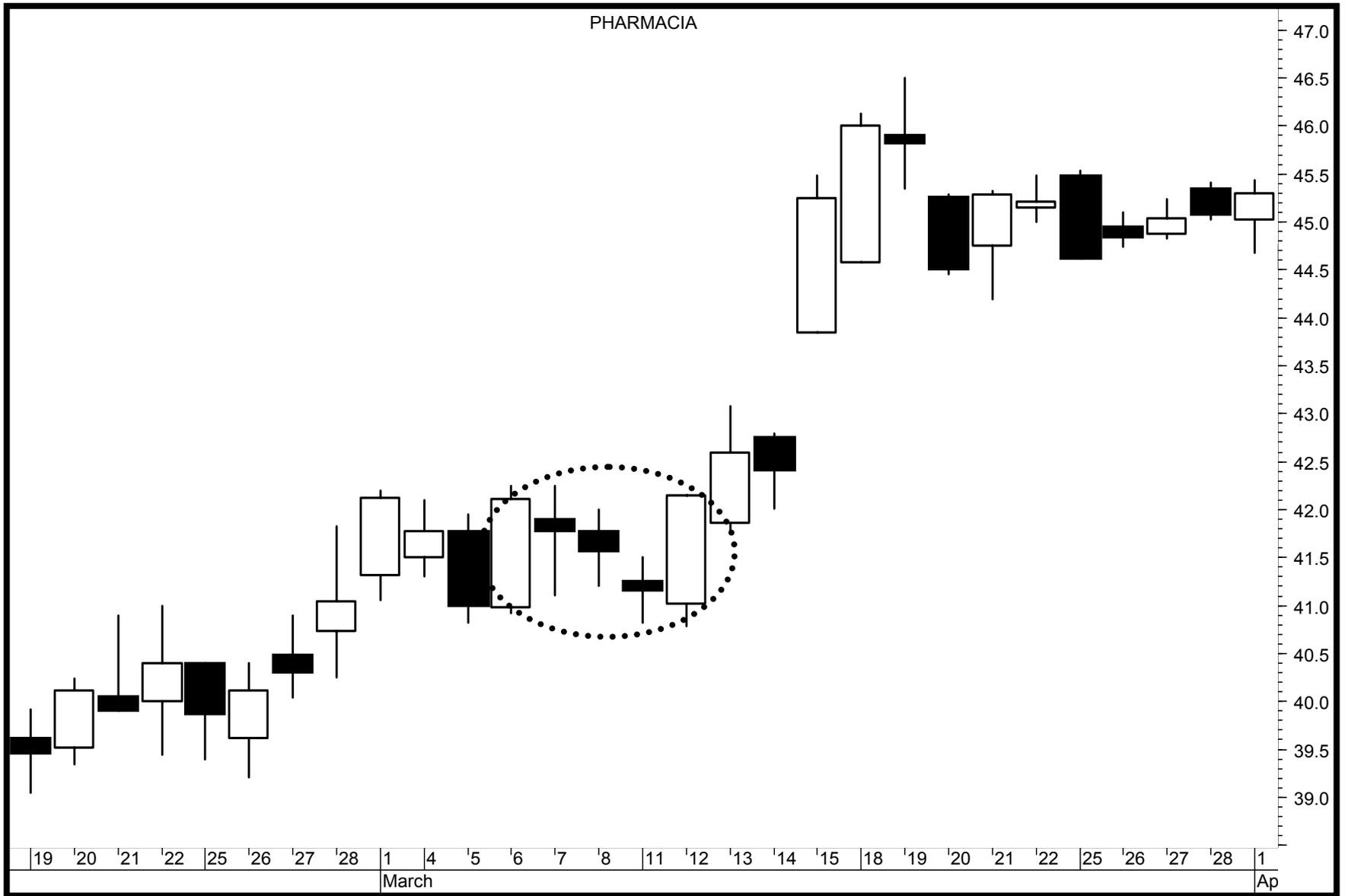


Rising Three

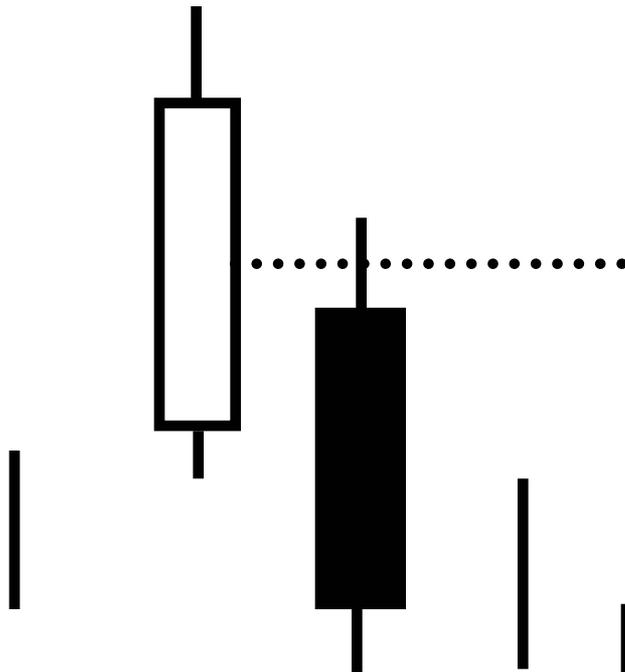


Falling Three

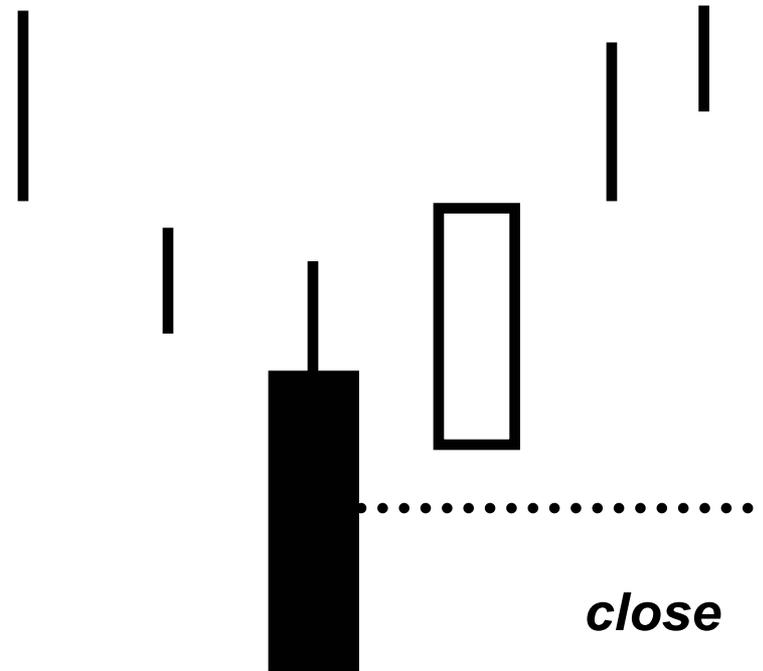
Rising Three Methods



Open below/above the Stomach



Below Middle White



close

Above Middle Black

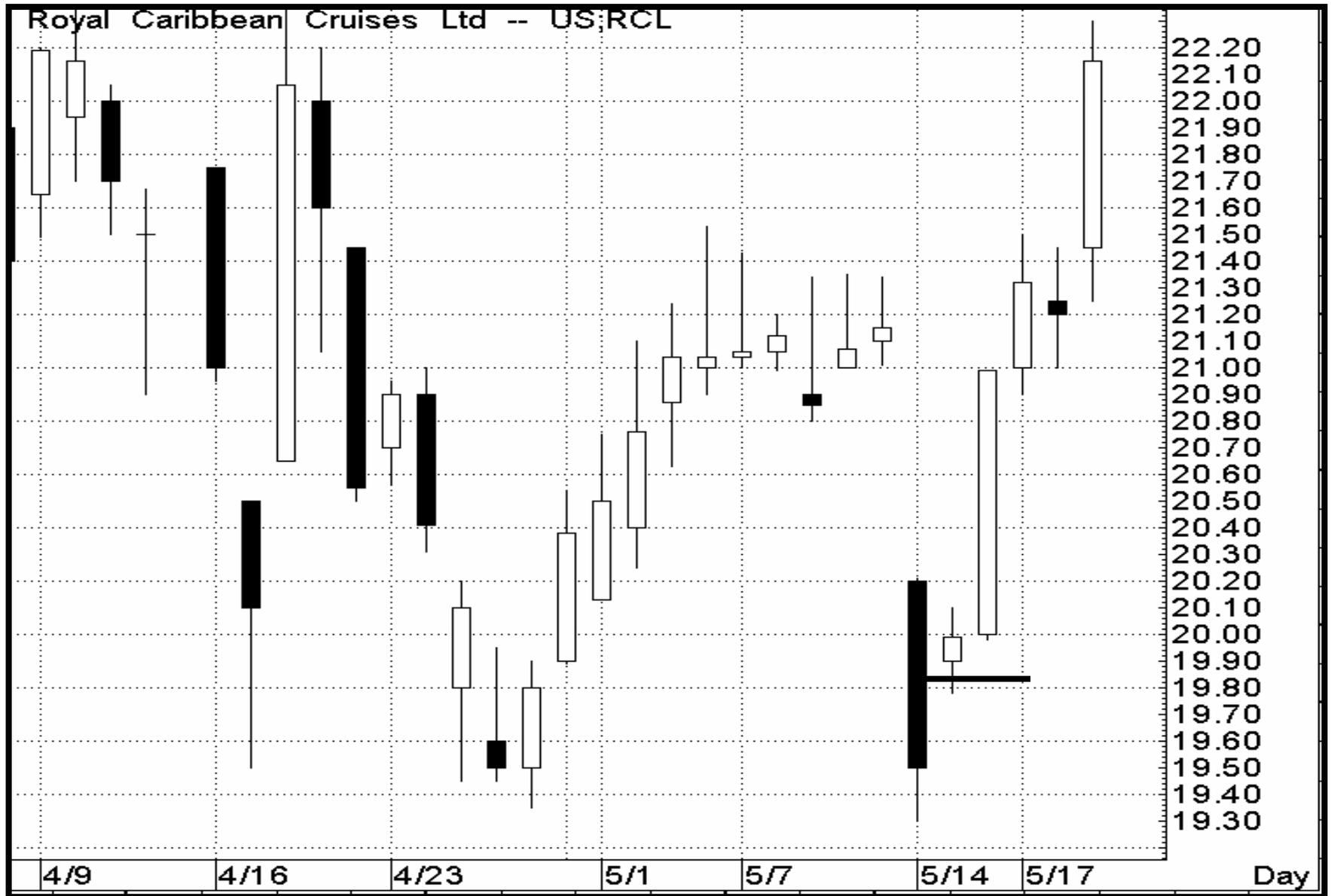
Open below the stomach



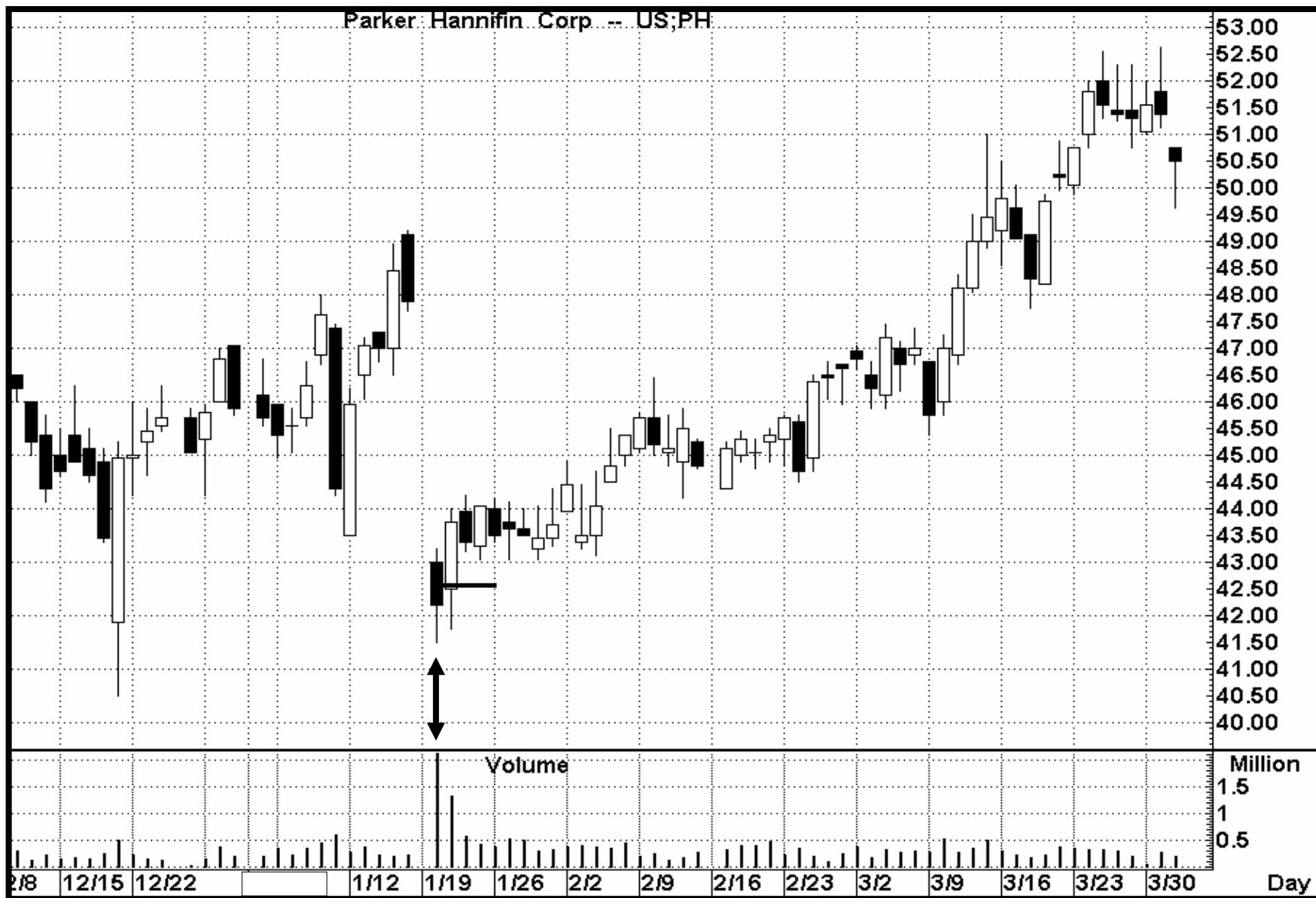
Above the Stomach



Above the Stomach



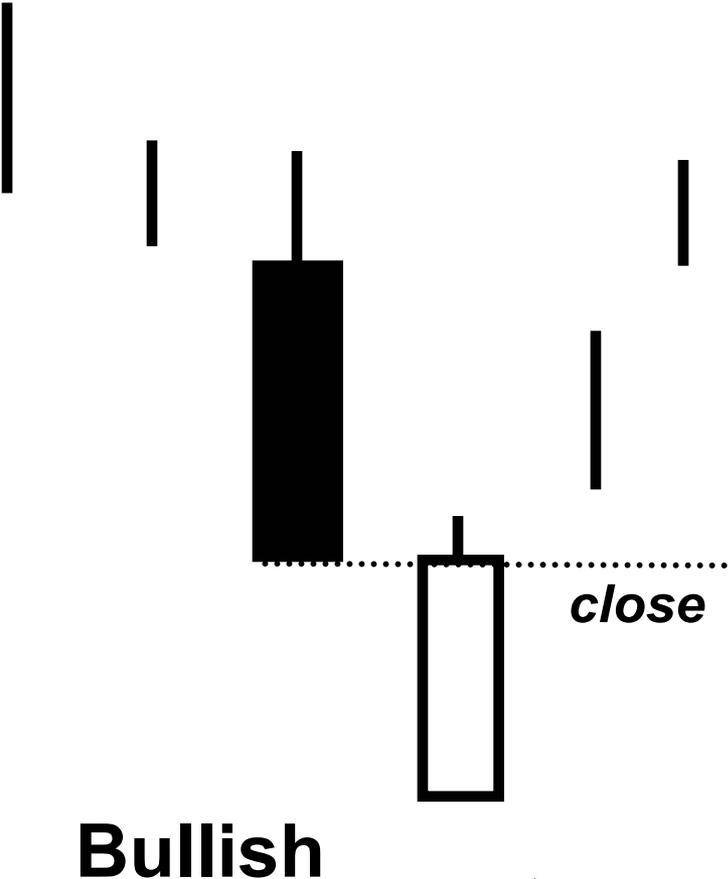
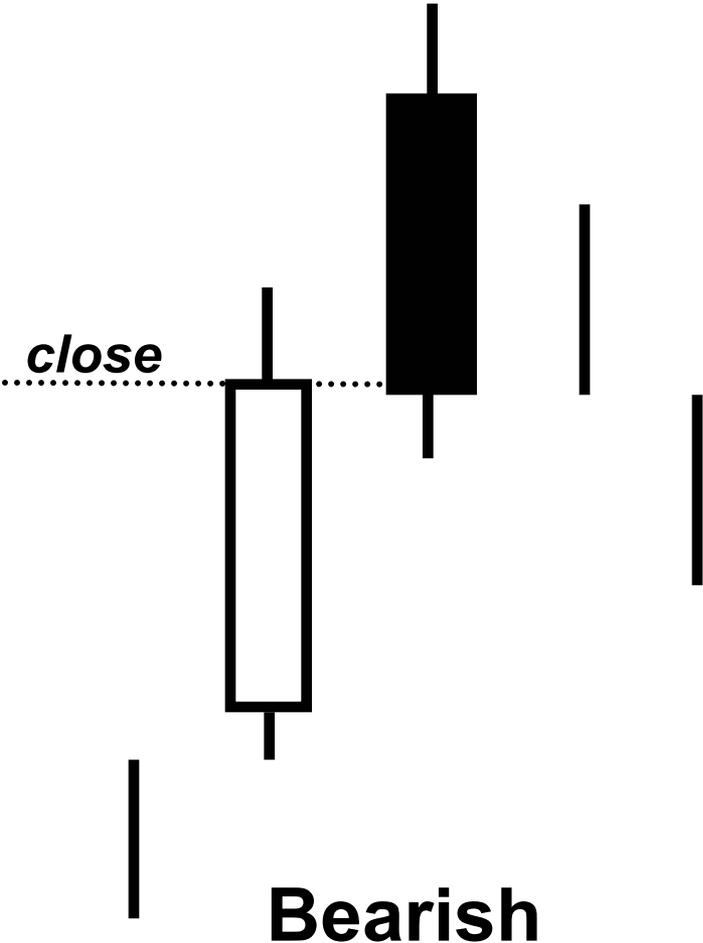
Above the Stomach



Below the Stomach

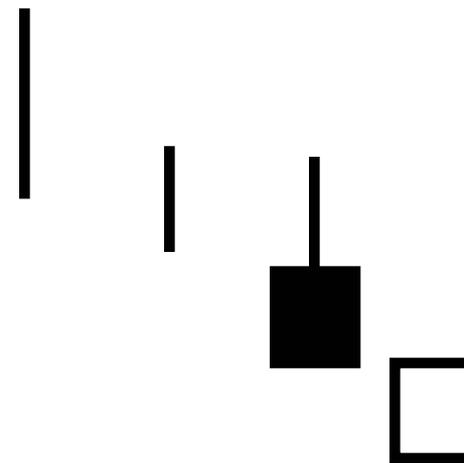
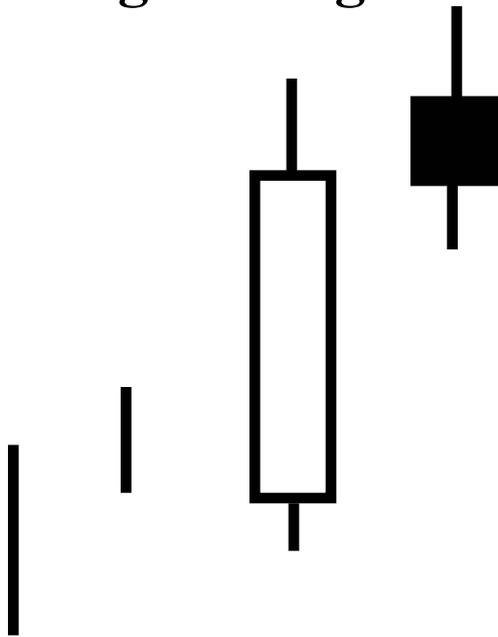


Counter Attack Lines



Not Counter Attack Lines

**Second session did not
open high enough**



**Both sessions were not
long real bodies**

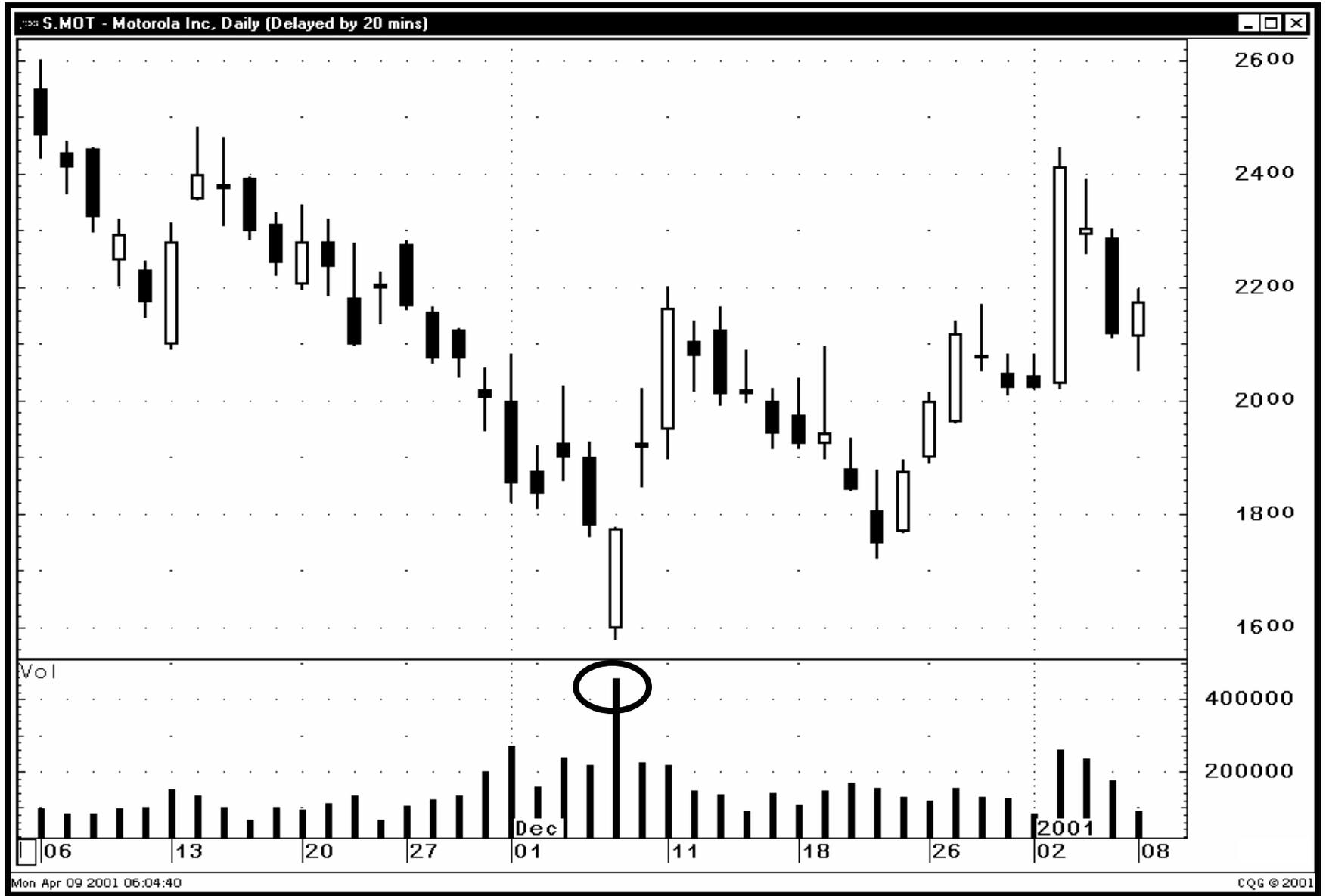
Bullish Counter Attack



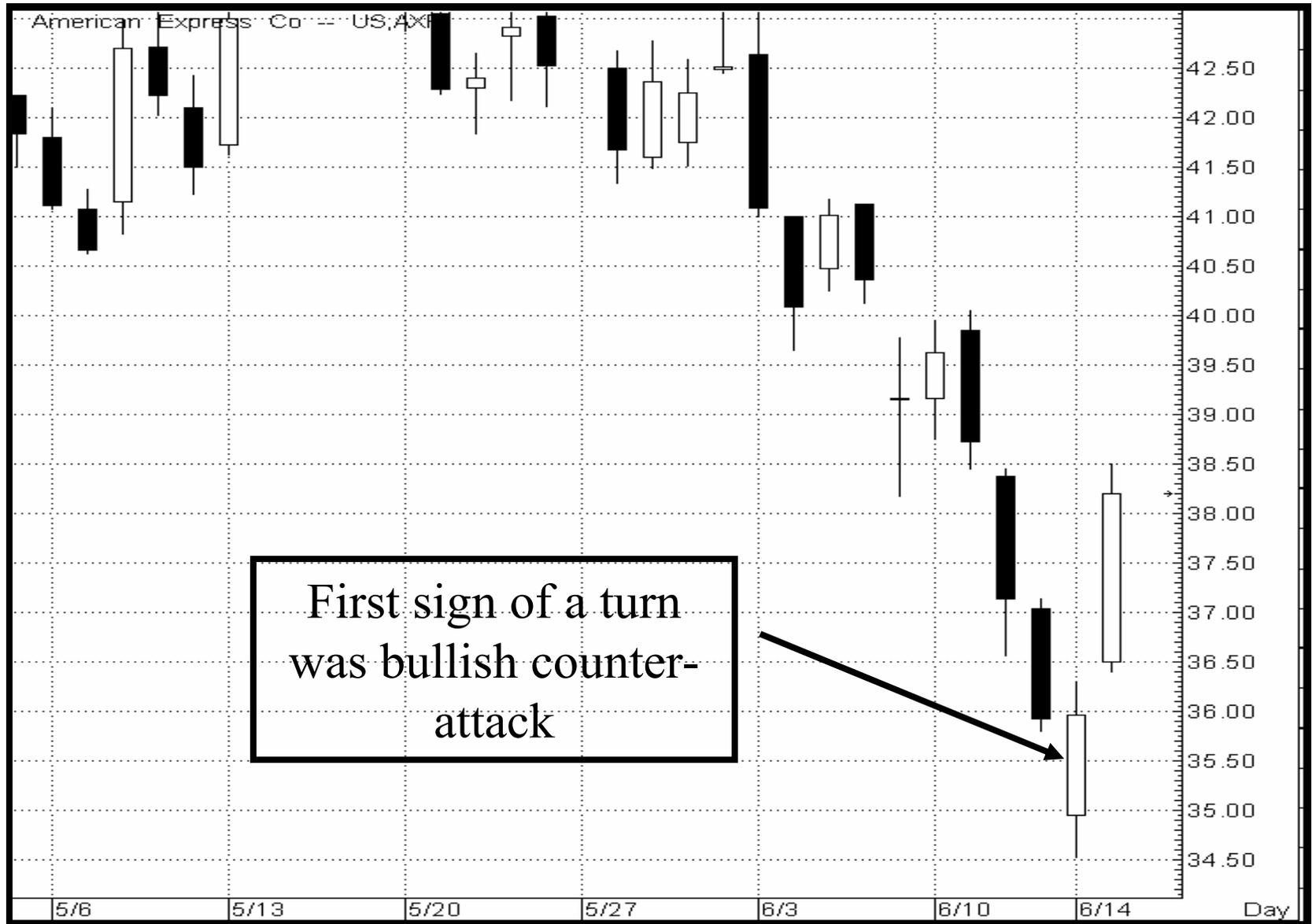
Mon Apr 09 2001 02:24:32

CQG © 2001

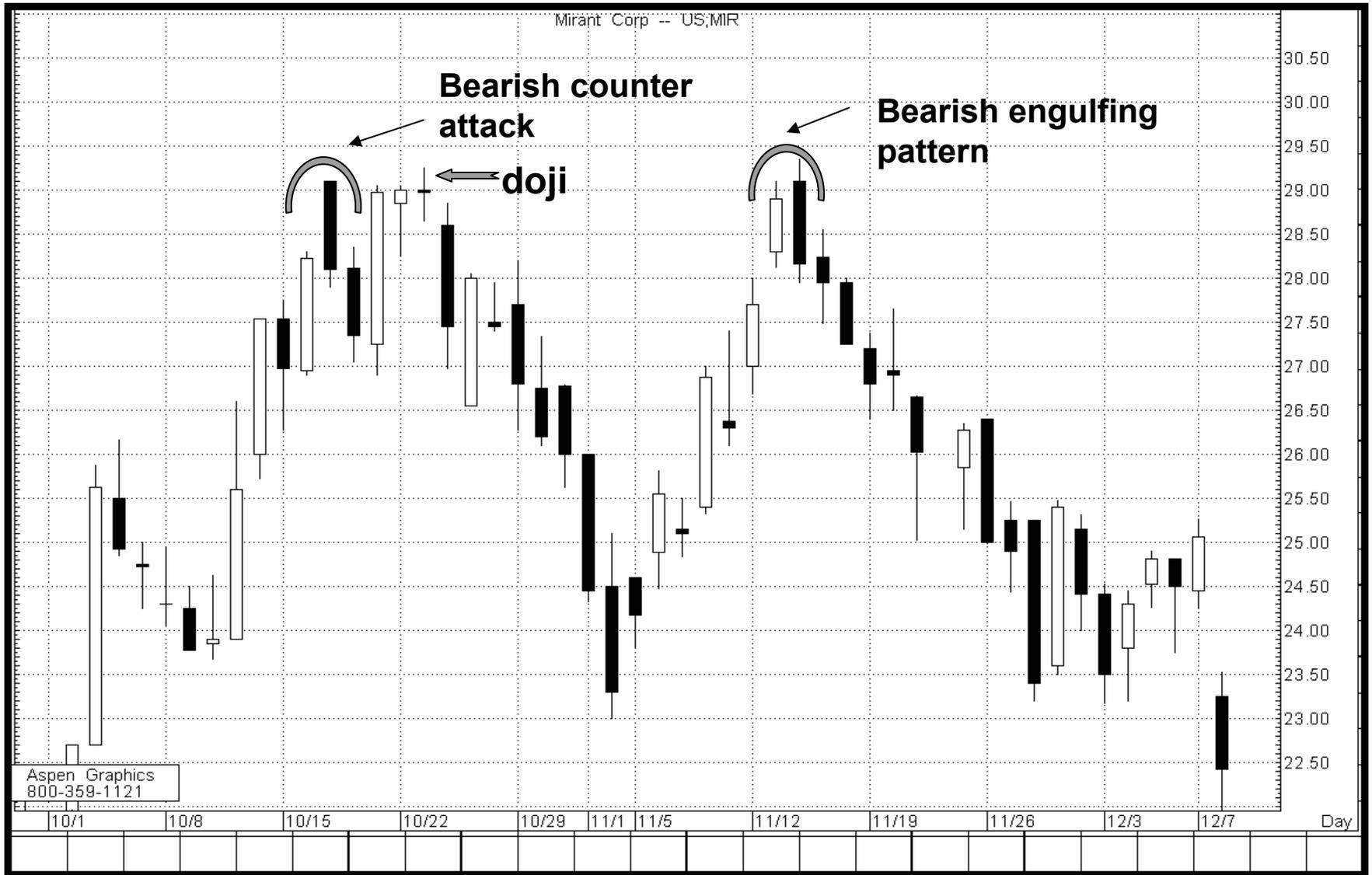
Volume - Counter Attack



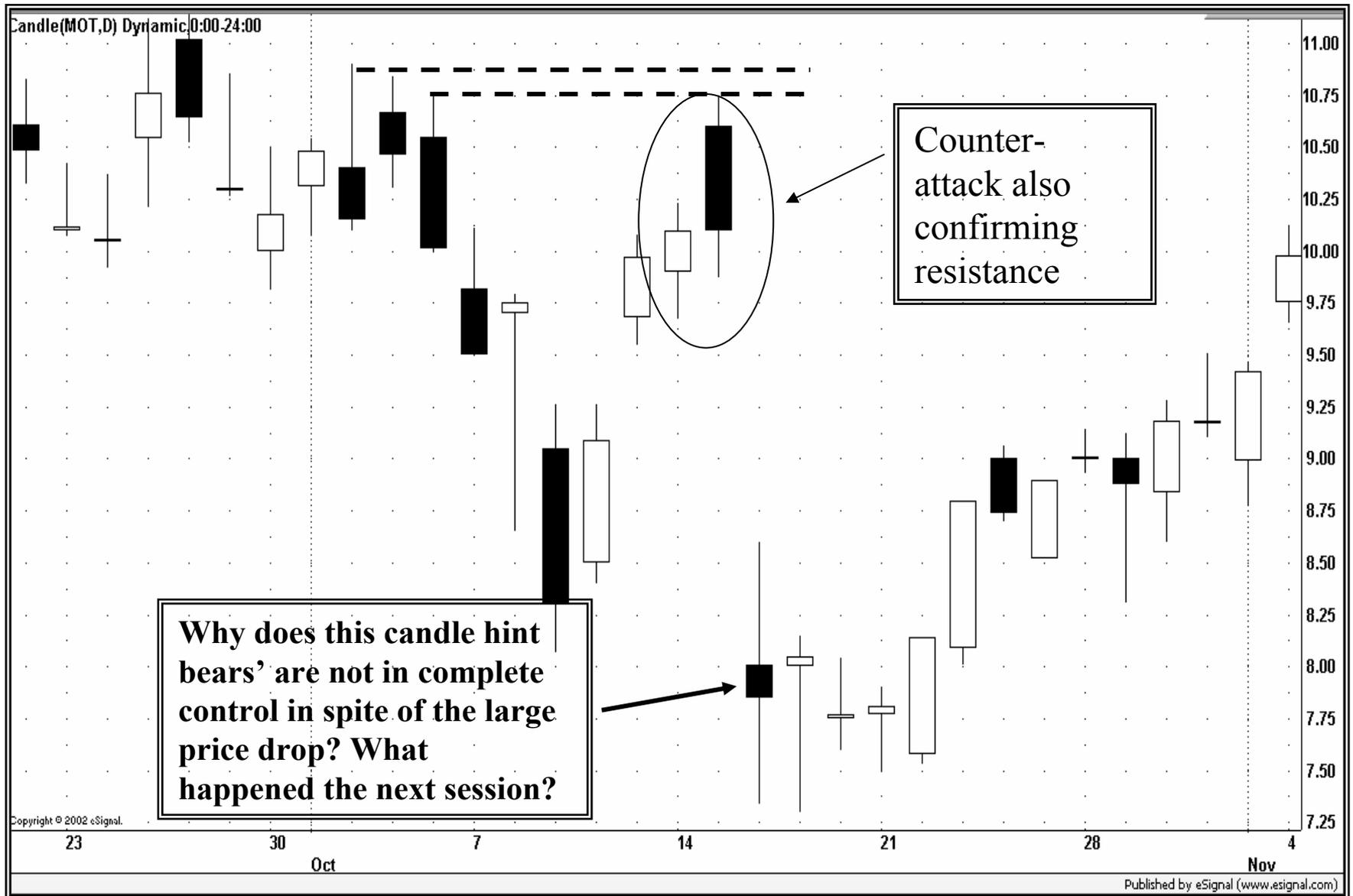
Bullish Counter-attack



Convergence of Clues- Counter Attack



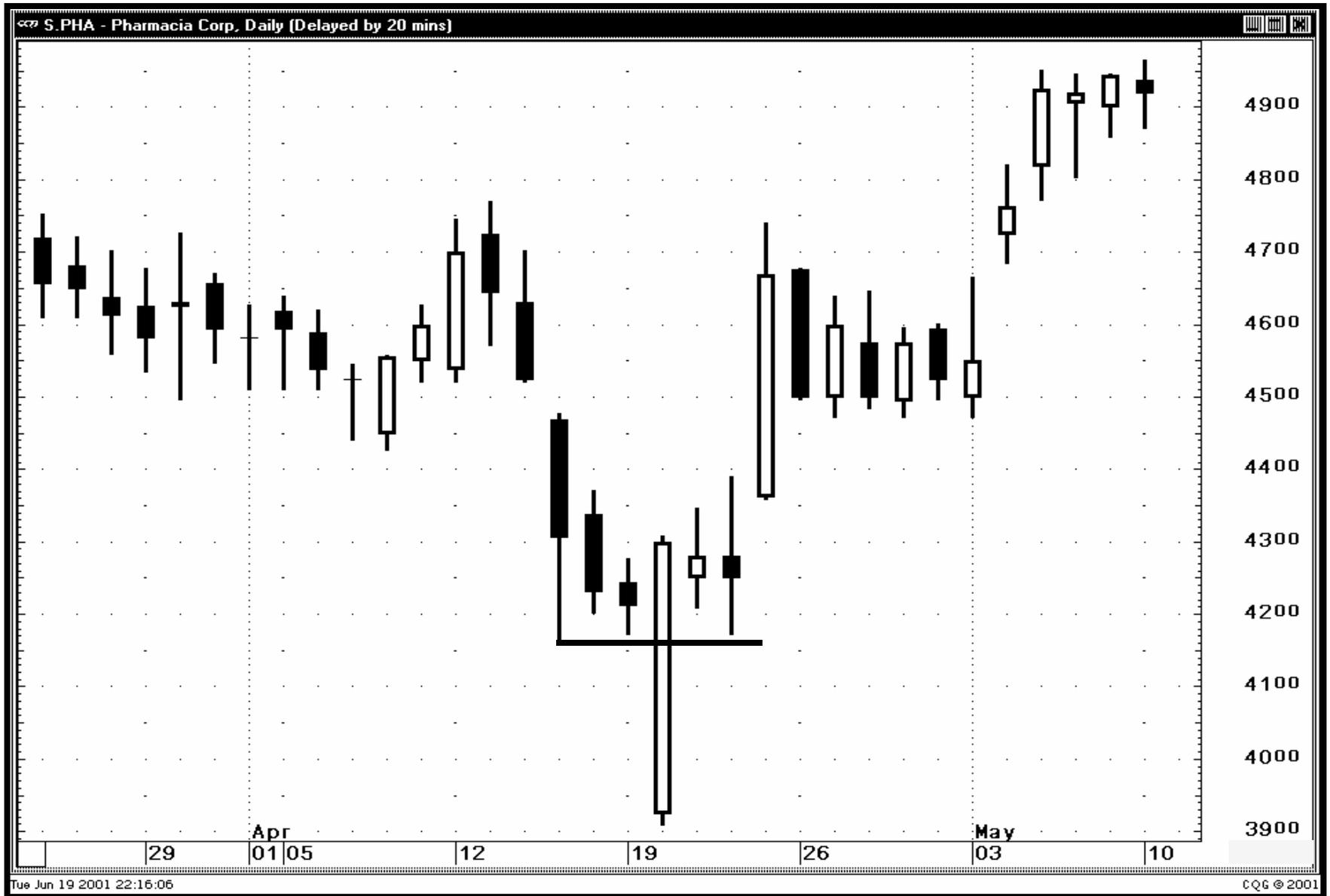
Bearish Counter-attack



The "Phantom" method



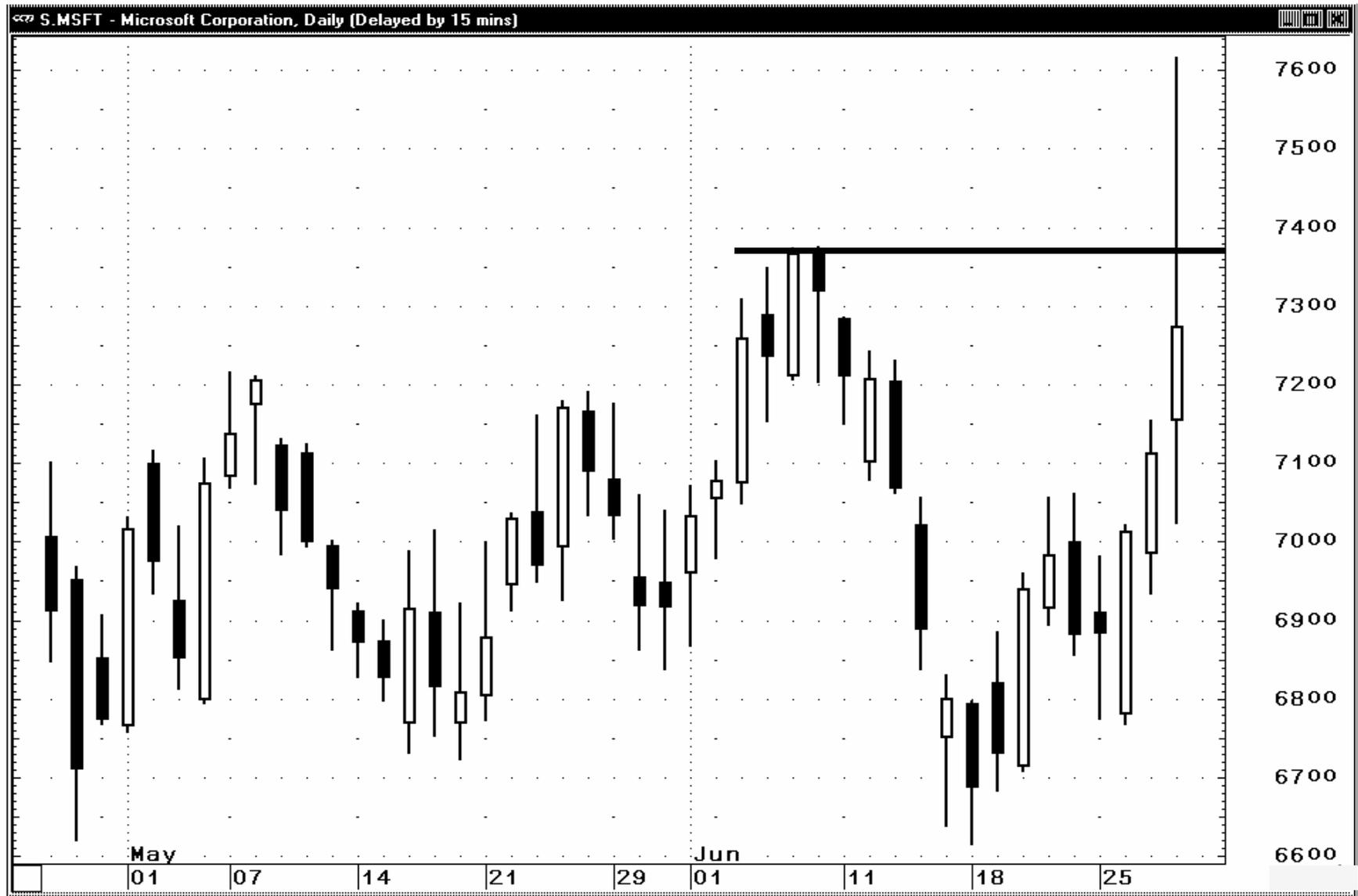
Phantom method



Phantom



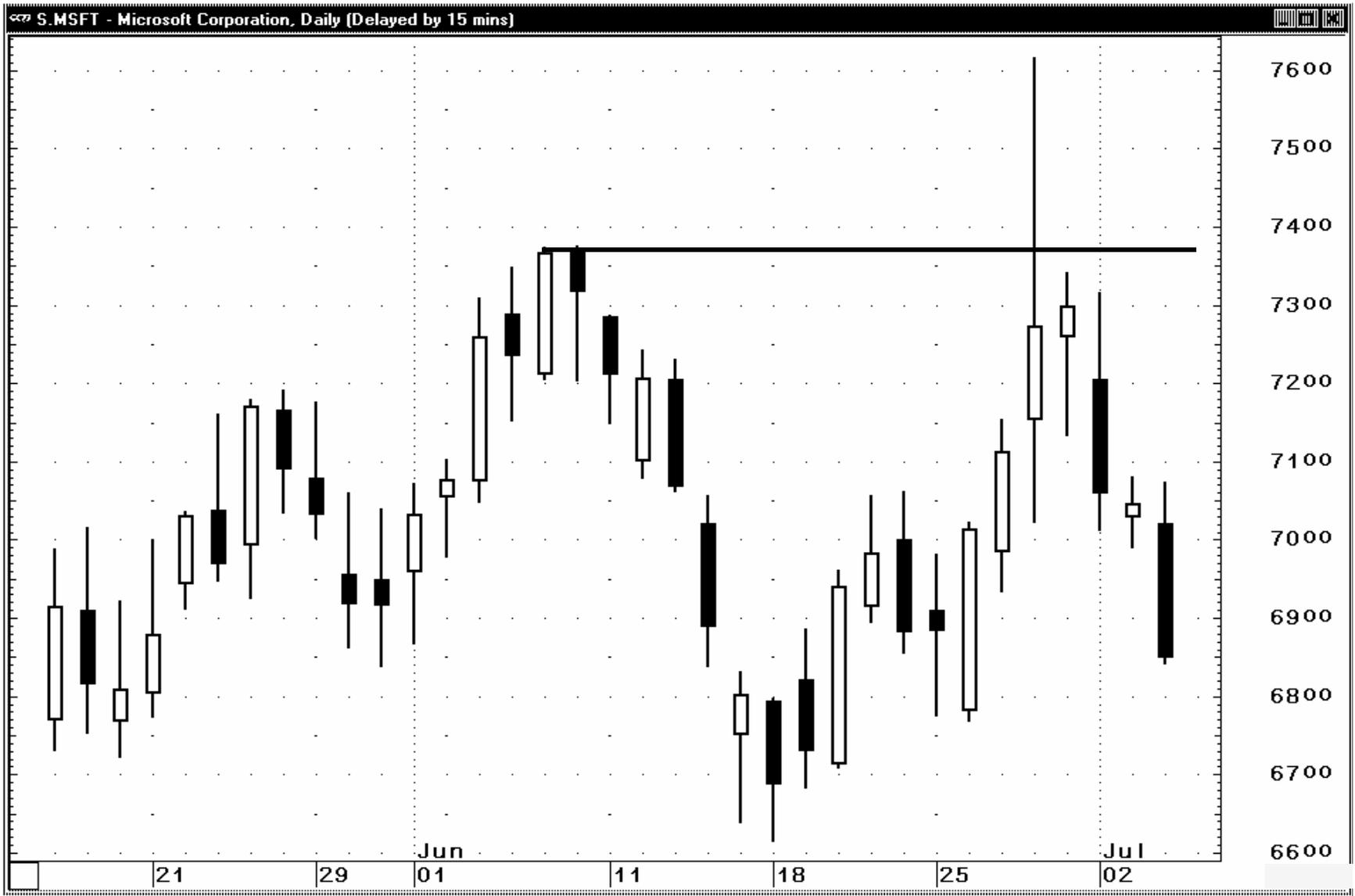
Phantom method – where's R1? (slide 1 of 2)



Mon Jul 02 2001 19:00:56

CG © 2001

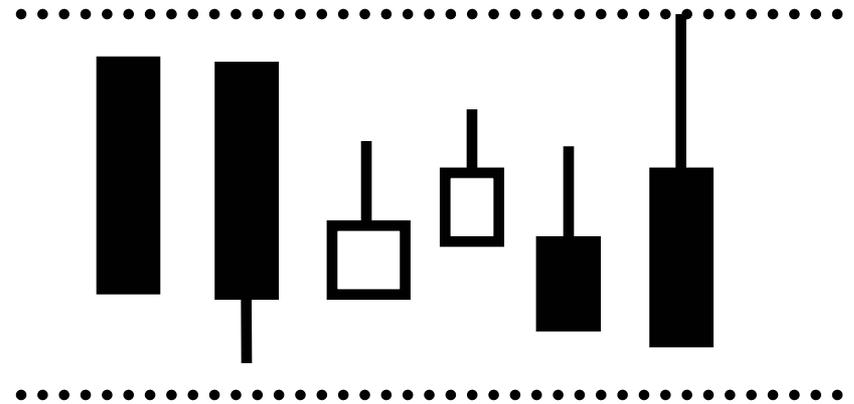
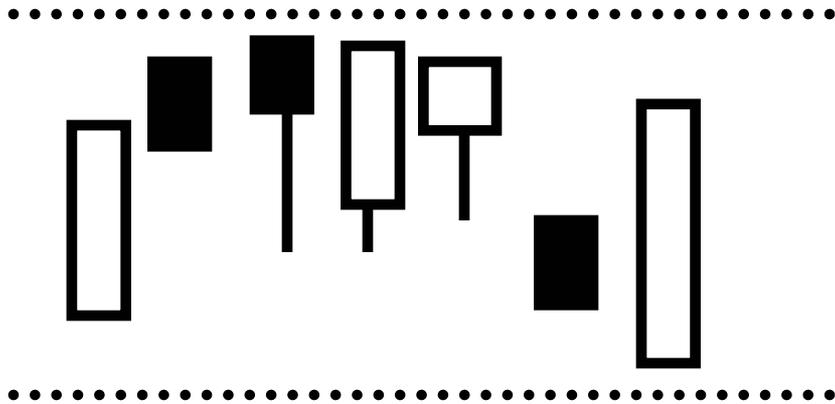
Phantom method (slide 2 of 2)



Thu Jul 05 2001 22:16:42

©QG © 2001

Using Candles in a "Box" Range



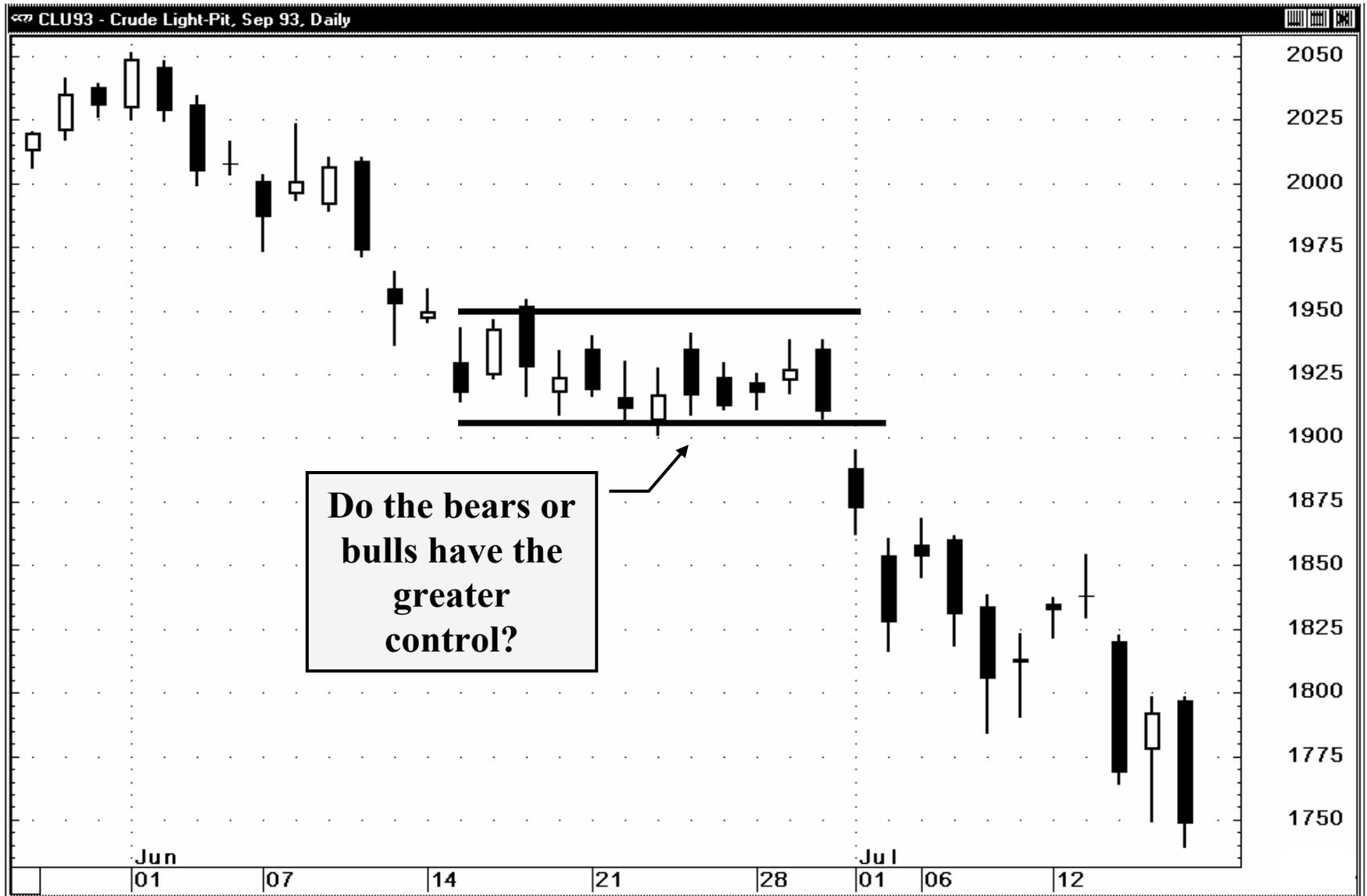
Box range



Tue Apr 10 2001 22:04:35

©QG © 2001

Box Range



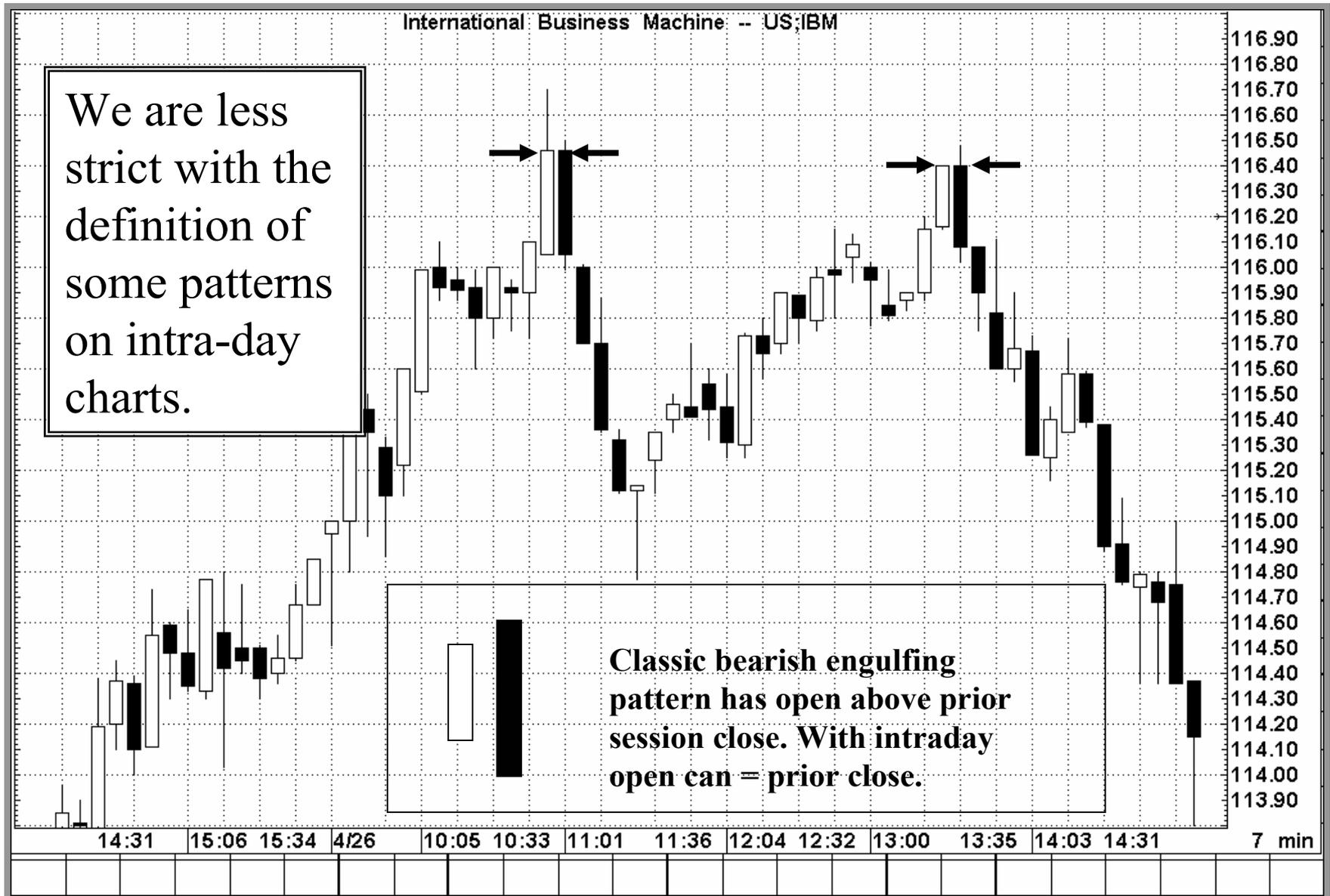
Tue Apr 10 2001 22:01:25

©QG © 2001

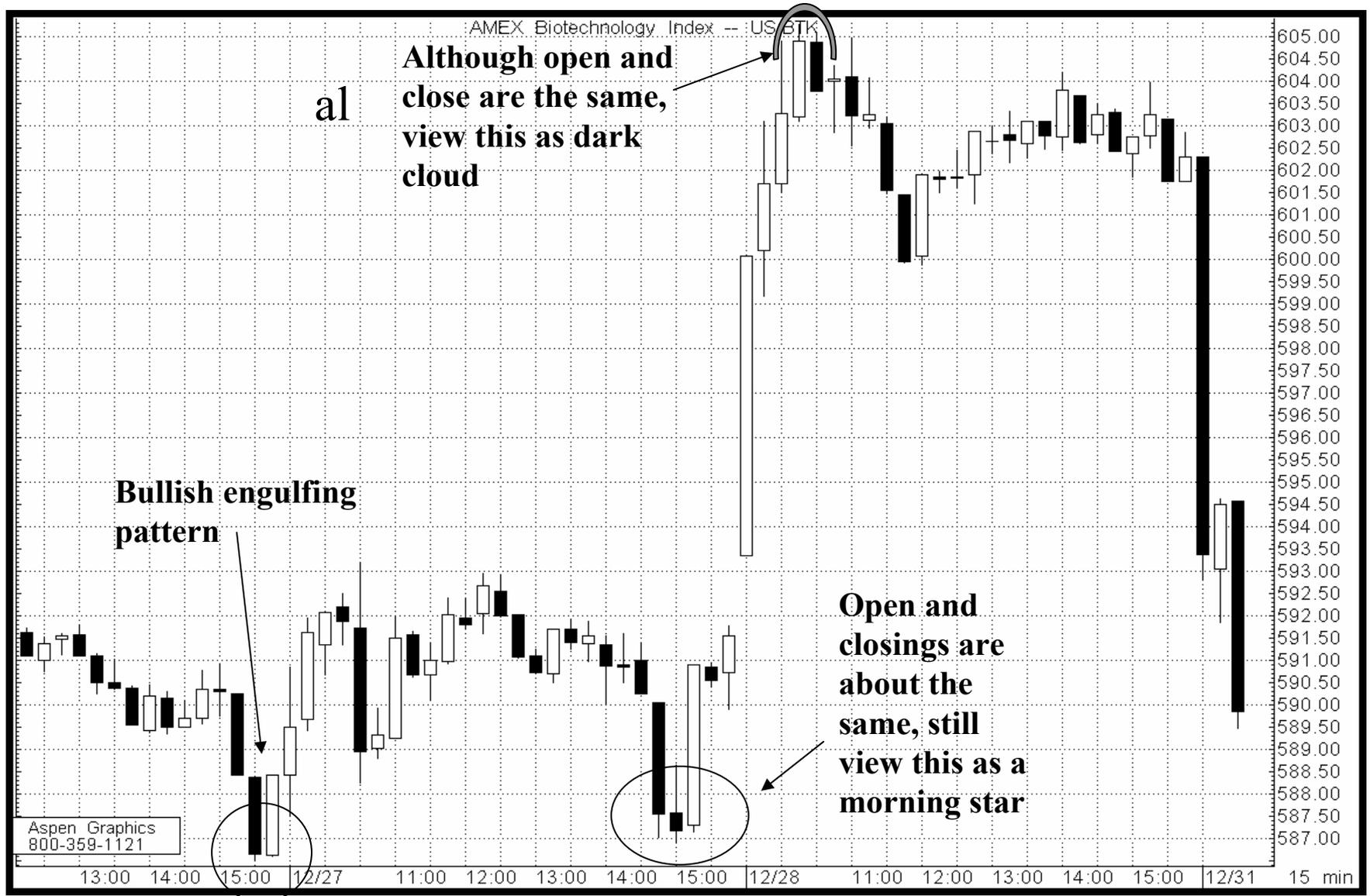
Intraday Techniques

- **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



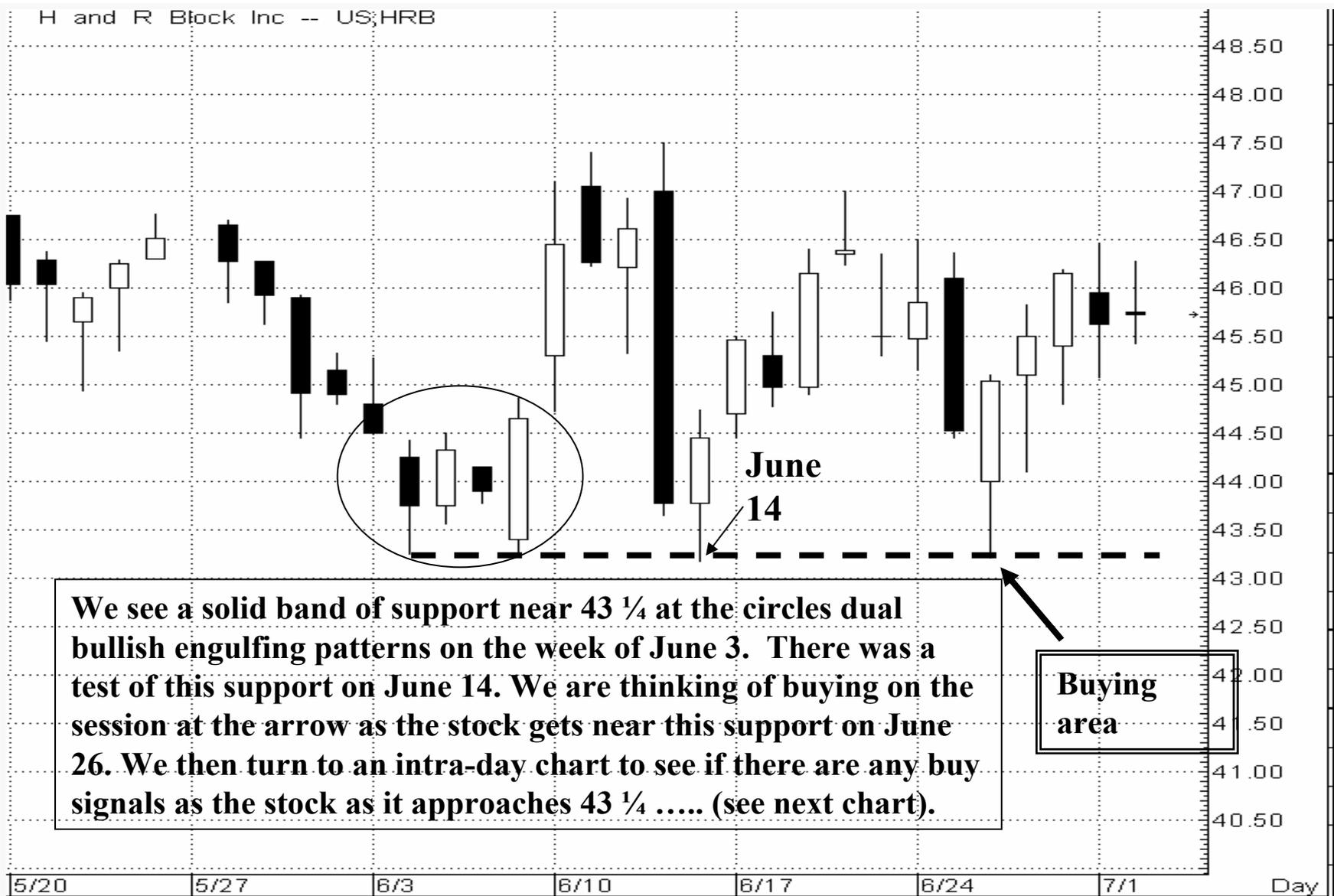
Windows on intraday



Intraday Techniques

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

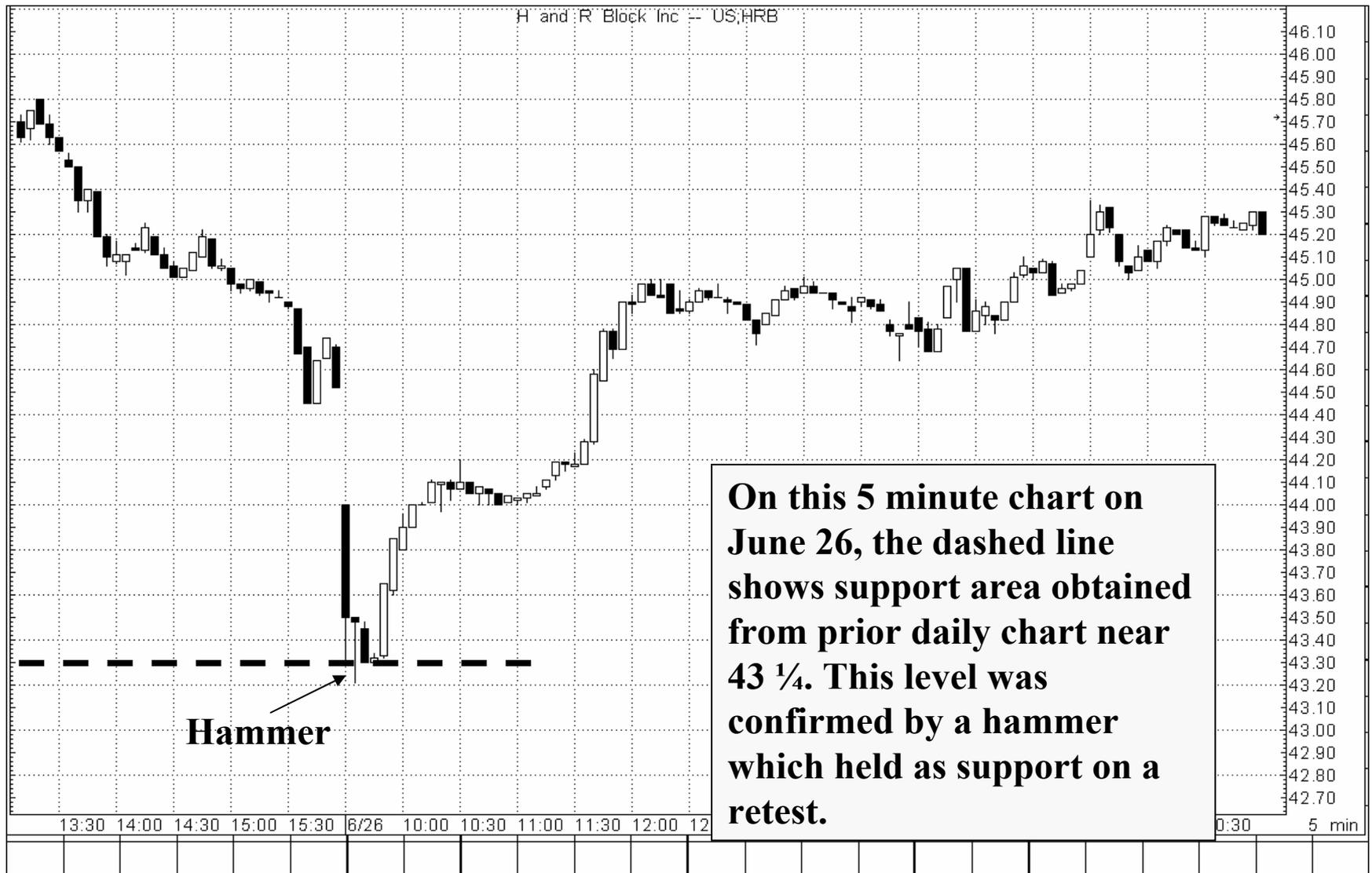
Daily chart for support (slide 1 of 2)



We see a solid band of support near $43 \frac{1}{4}$ at the circles dual bullish engulfing patterns on the week of June 3. There was a test of this support on June 14. We are thinking of buying on the session at the arrow as the stock gets near this support on June 26. We then turn to an intra-day chart to see if there are any buy signals as the stock as it approaches $43 \frac{1}{4}$ (see next chart).

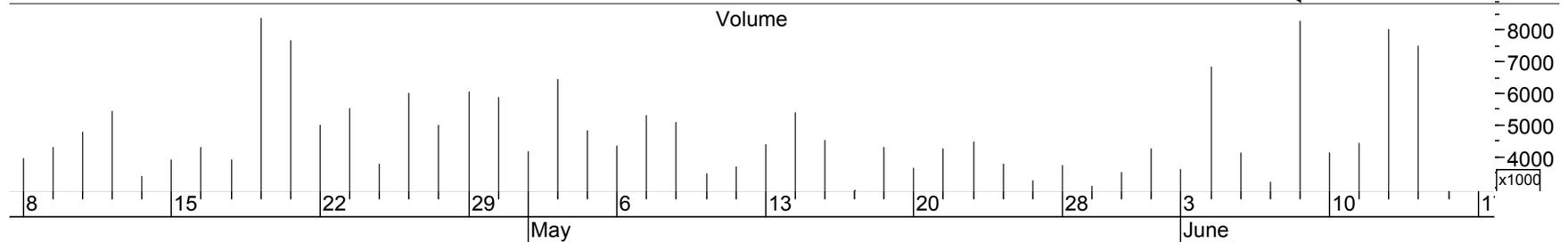
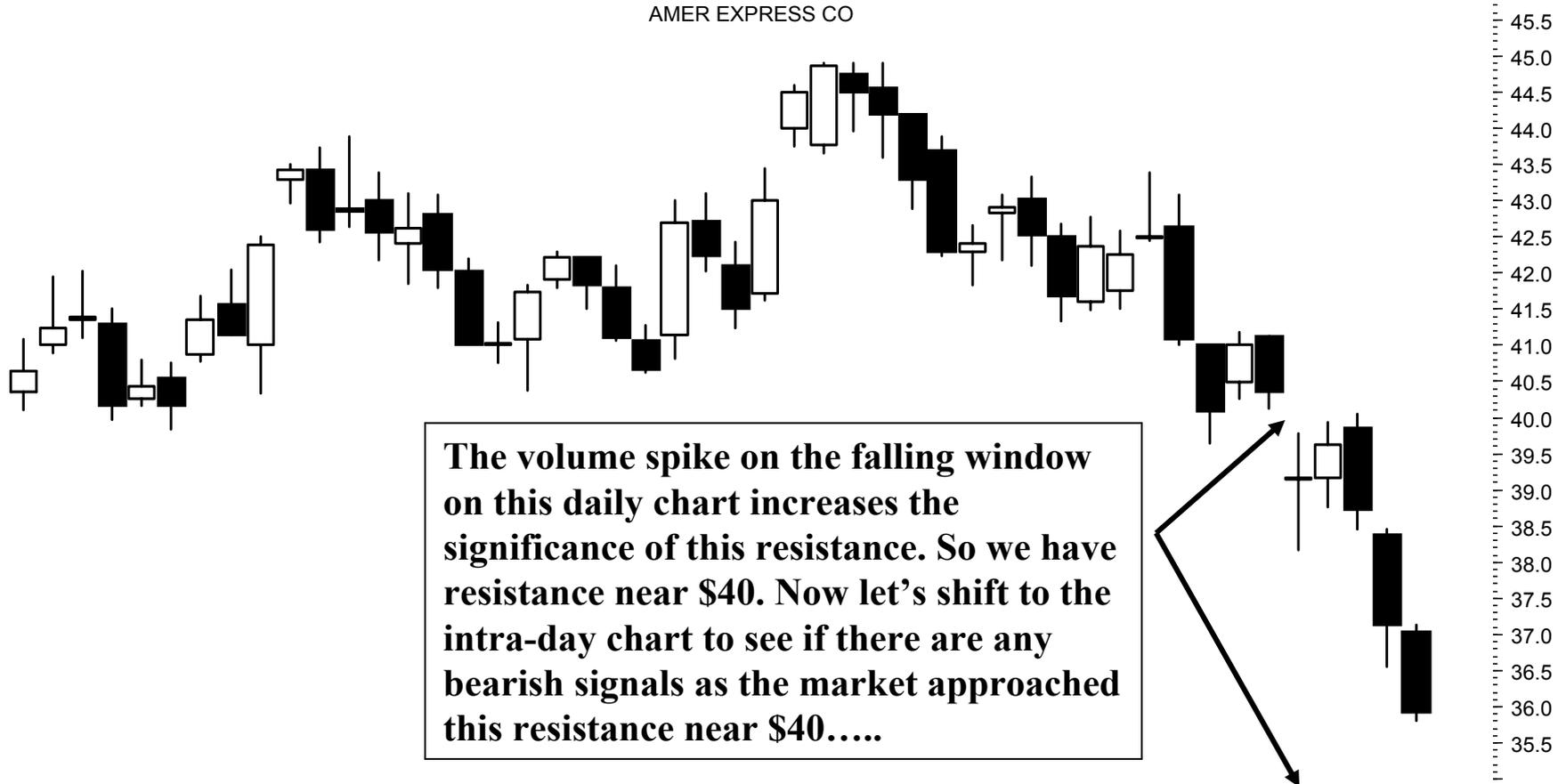
Buying area

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

NASDAQ Composite Index -- US;COMP

On session X stock broke the support level of rising window 1. We therefore look for next support at rising window 2 at 2090 to 2080. We then turn to the intraday chart after session X to see if there are any buy signals at 2090/2080.....



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



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

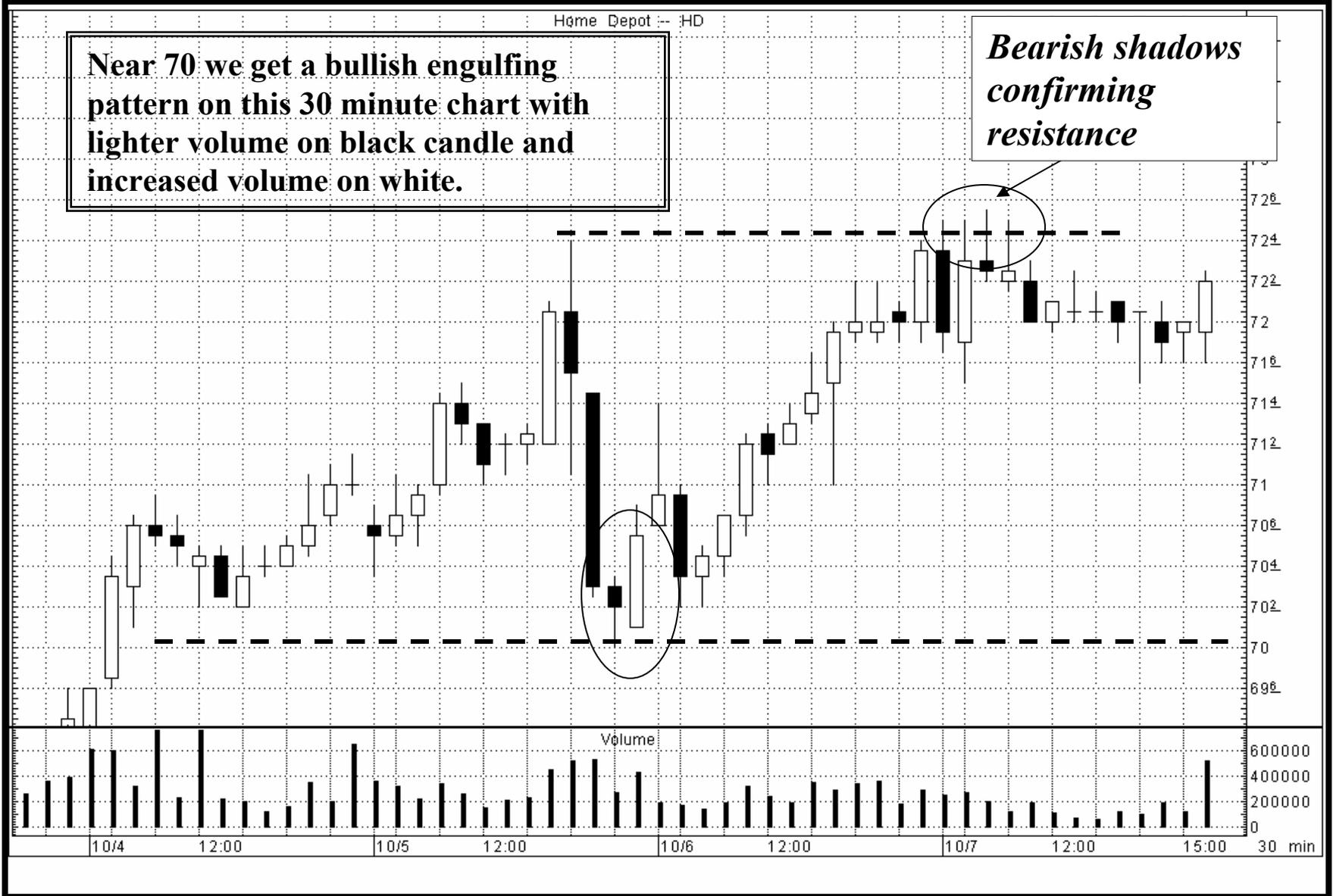


Daily for Support /intraday entry – slide 2 of 2

Home Depot -- HD

Near 70 we get a bullish engulfing pattern on this 30 minute chart with lighter volume on black candle and increased volume on white.

Bearish shadows confirming resistance



Intraday Techniques

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

Oversold? - Daily Chart (slide 1 of 2)

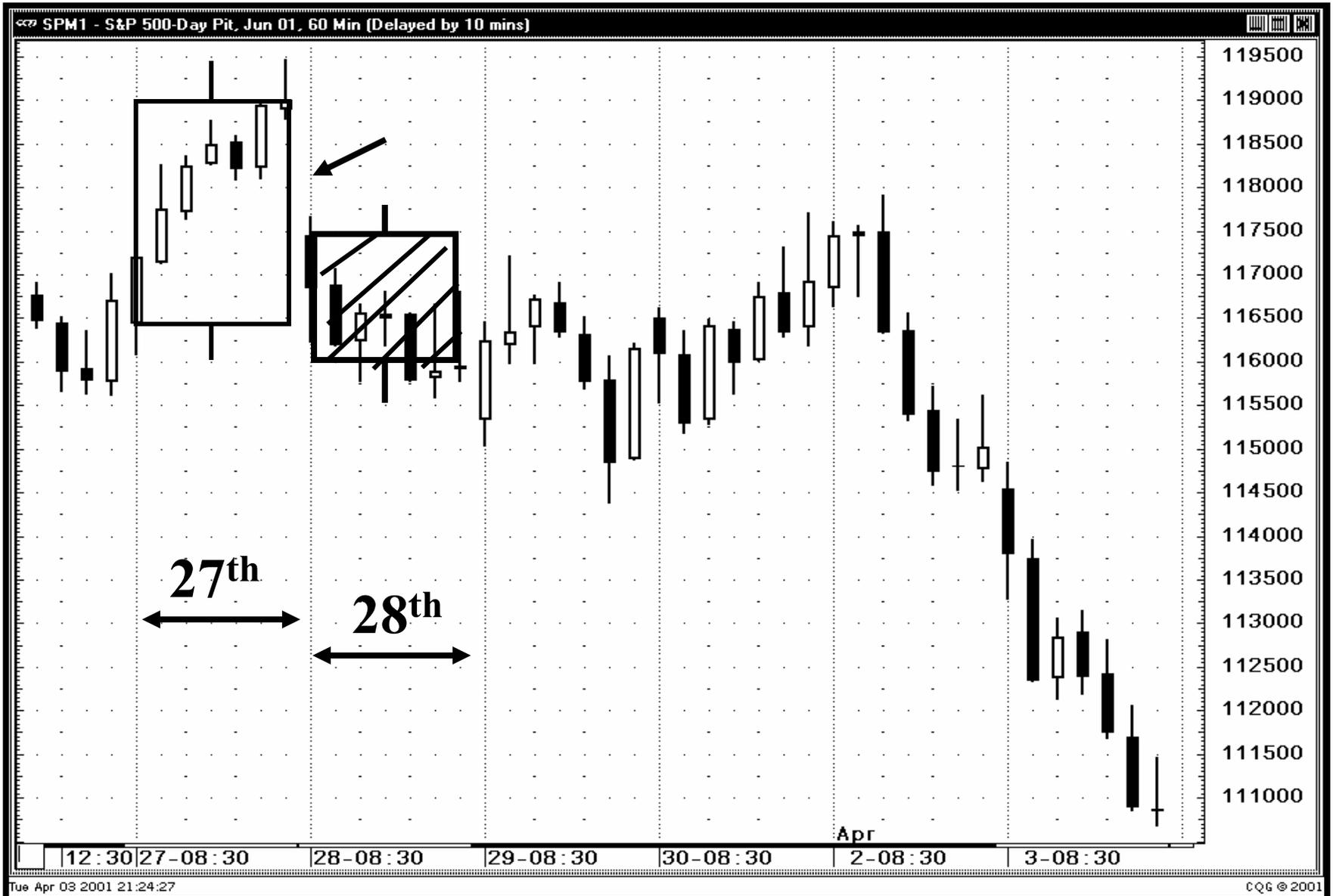


On this daily chart it looks oversold

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)

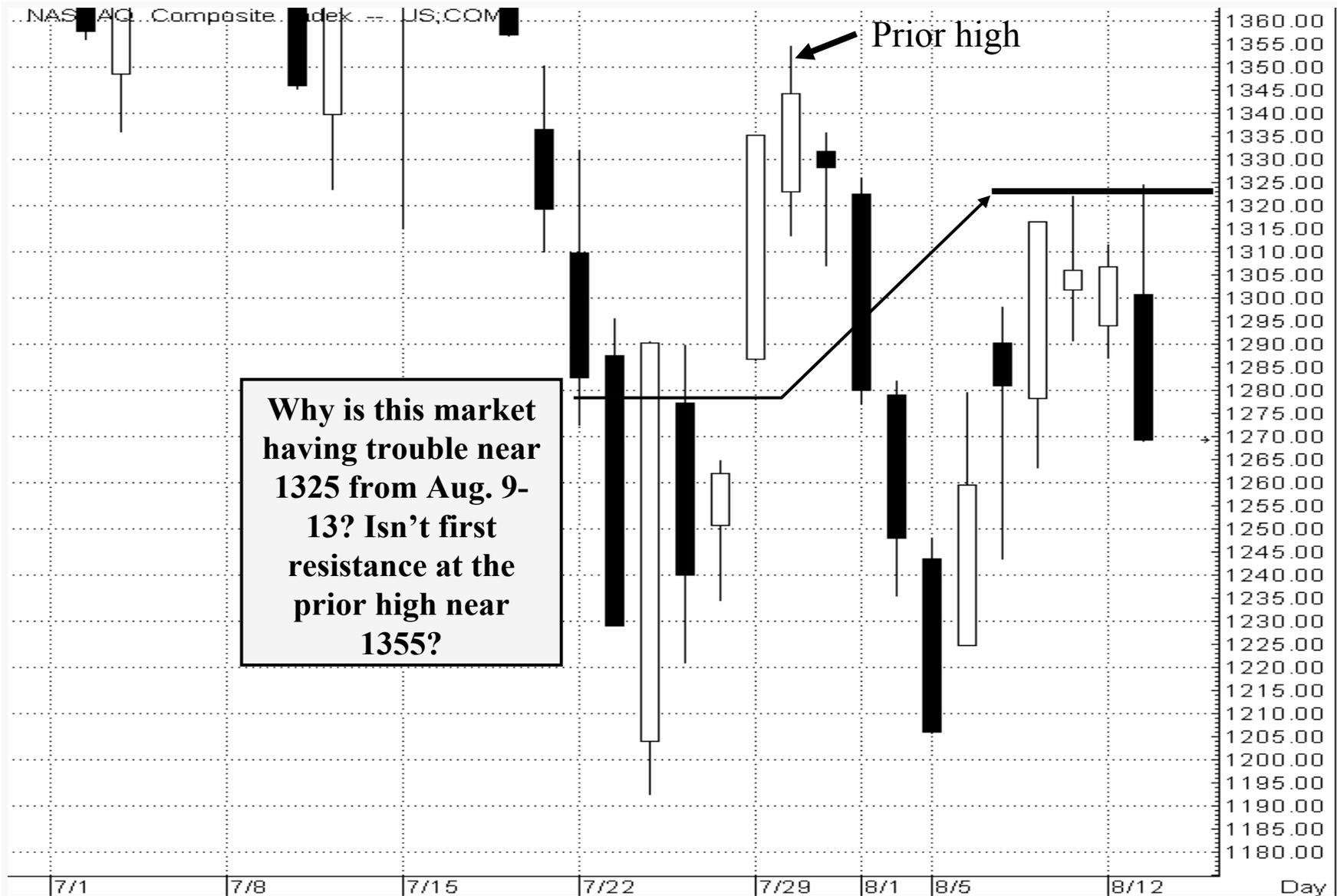


no window on this daily chart on June 7- but check intra-day chart

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



Using intraday charts – slide 1 of 2



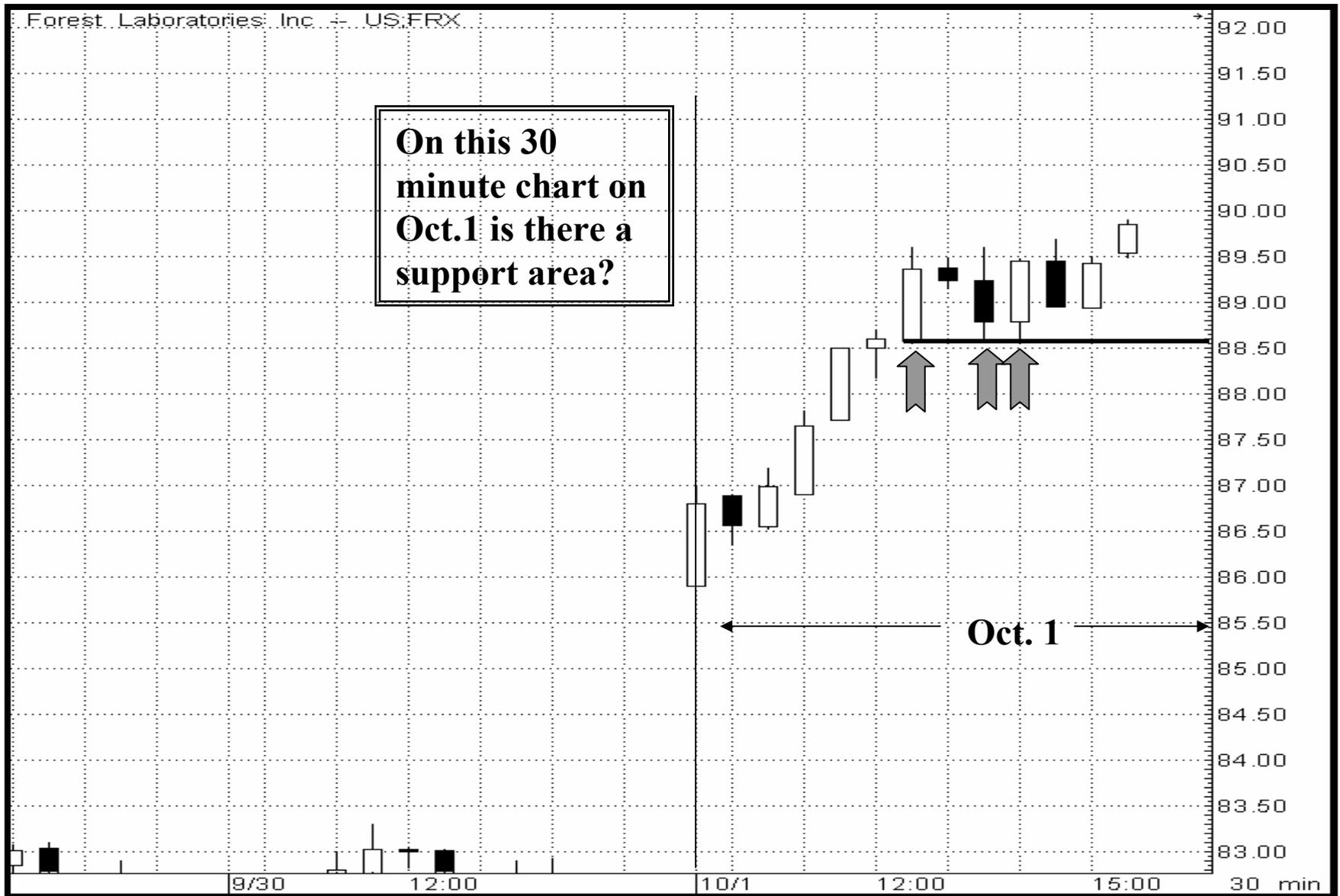
Using intraday charts – slide 2 of 2



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



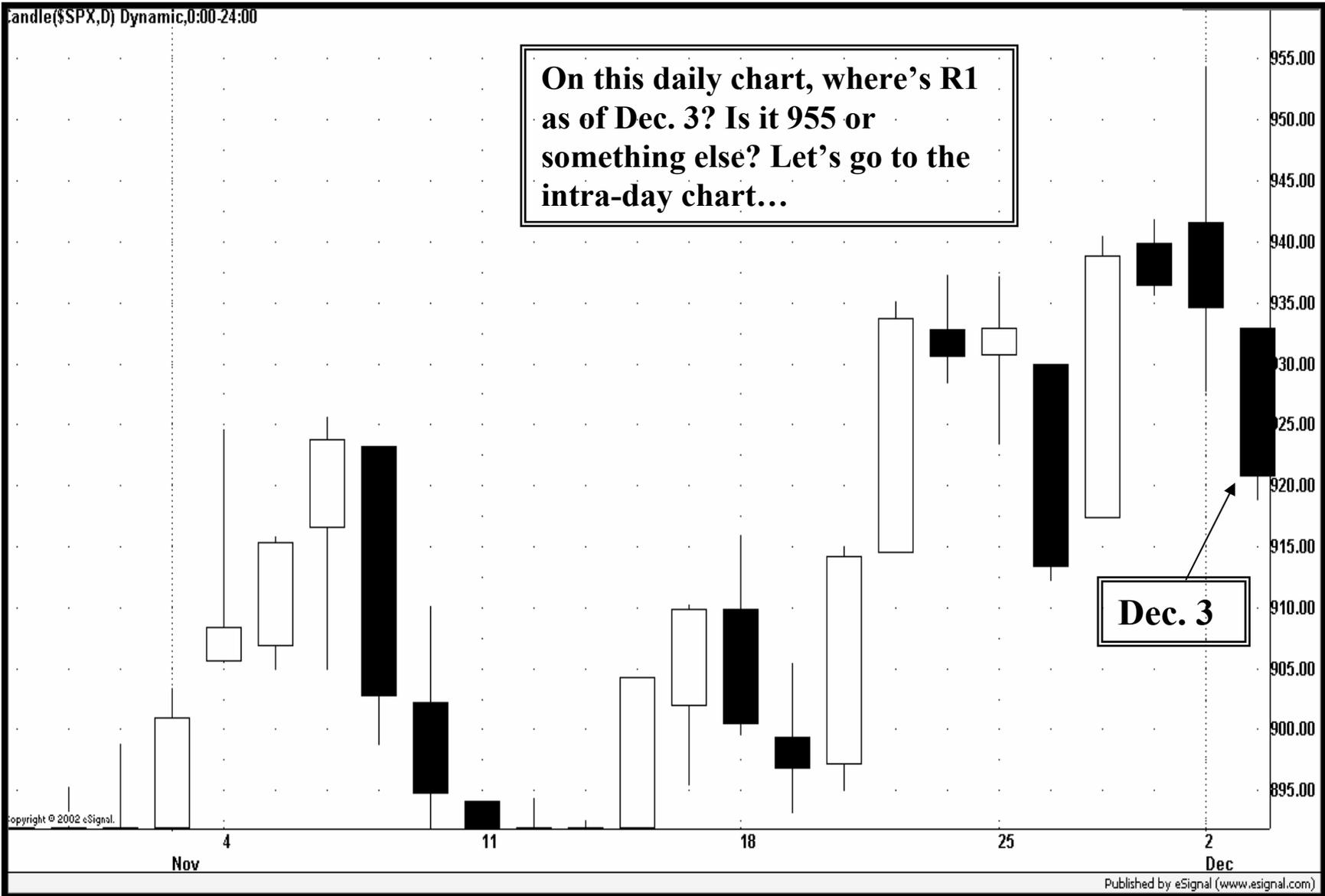
Using intraday chart for support - slide 2 of 3



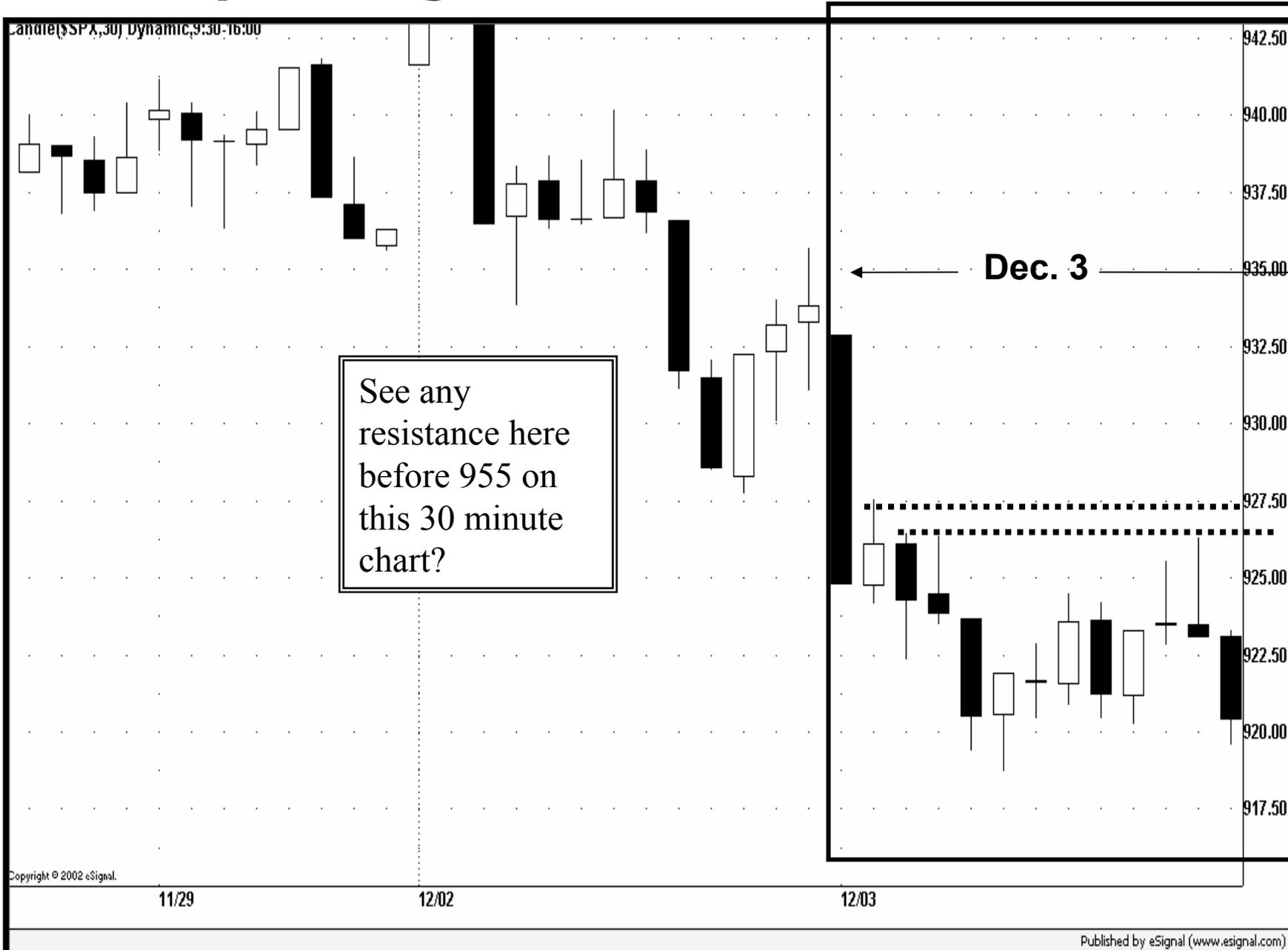
Using intraday chart for support - slide 3 of 3



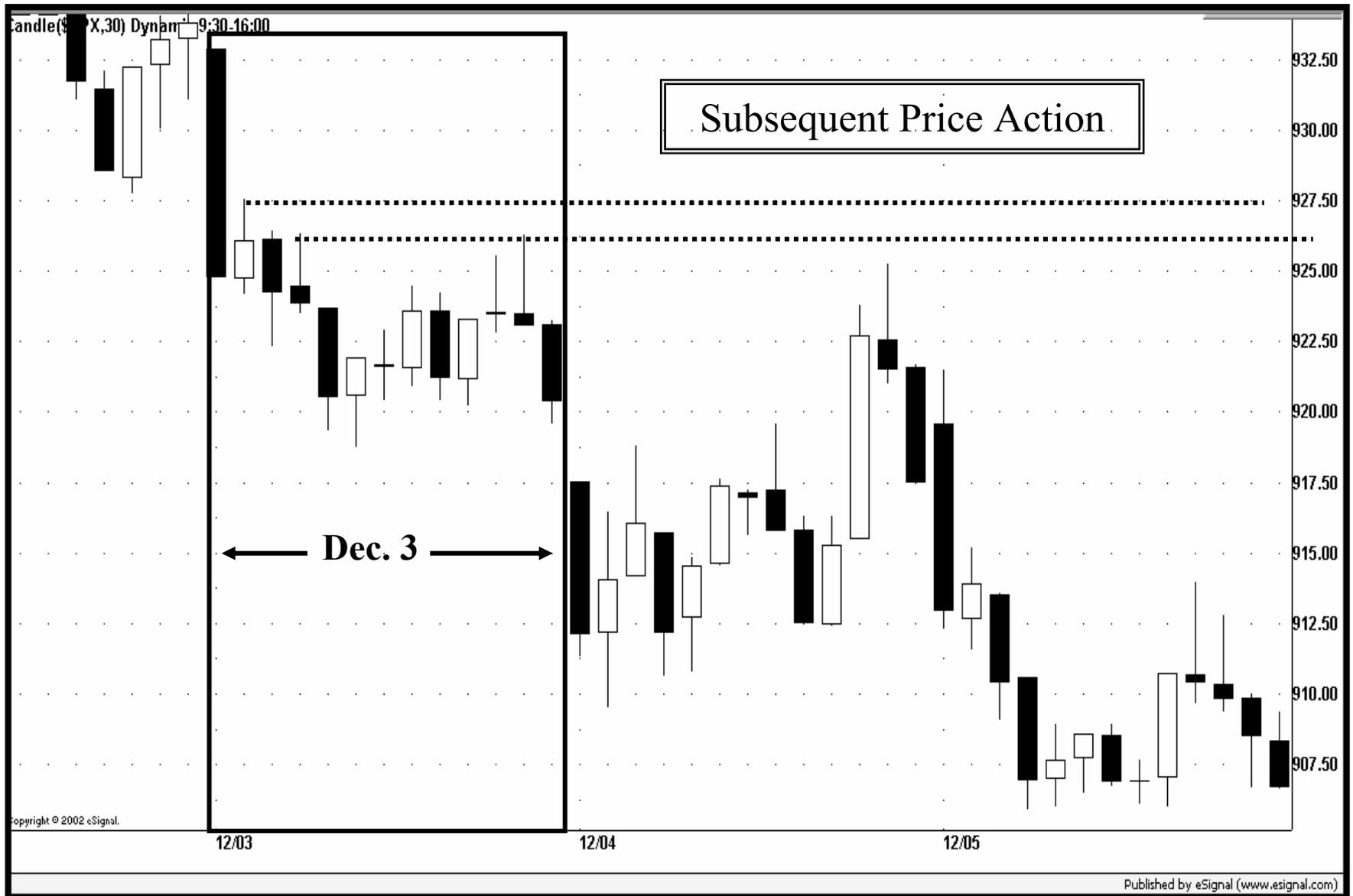
Intraday trading tactics – slide 1 of 3



Intraday trading tactics – slide 2 of 3



Intraday trading tactics – slide 3 of 3



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

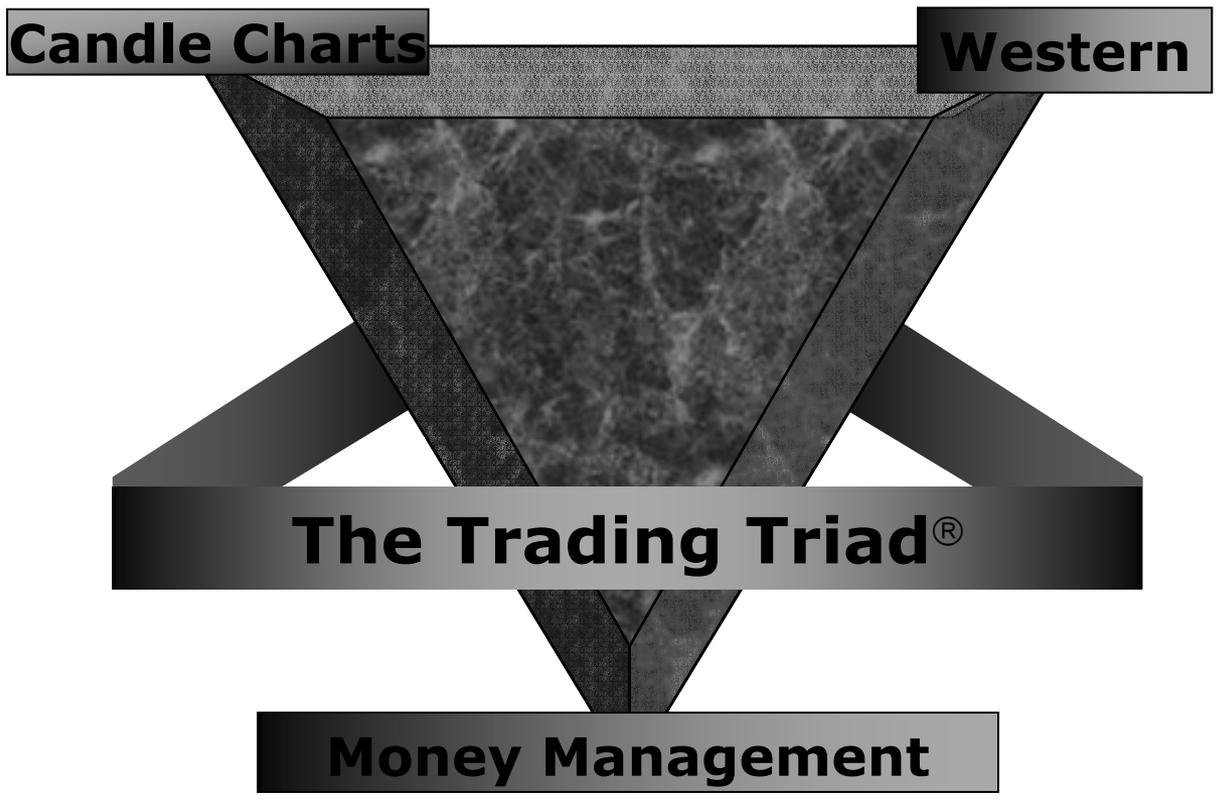


Using Intraday Charts – Hourly Chart (Slide 2 of 3)



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





Candlecharts.com

Helping Clients Spot Market Turns *Before* the Competition



Trading Tactics

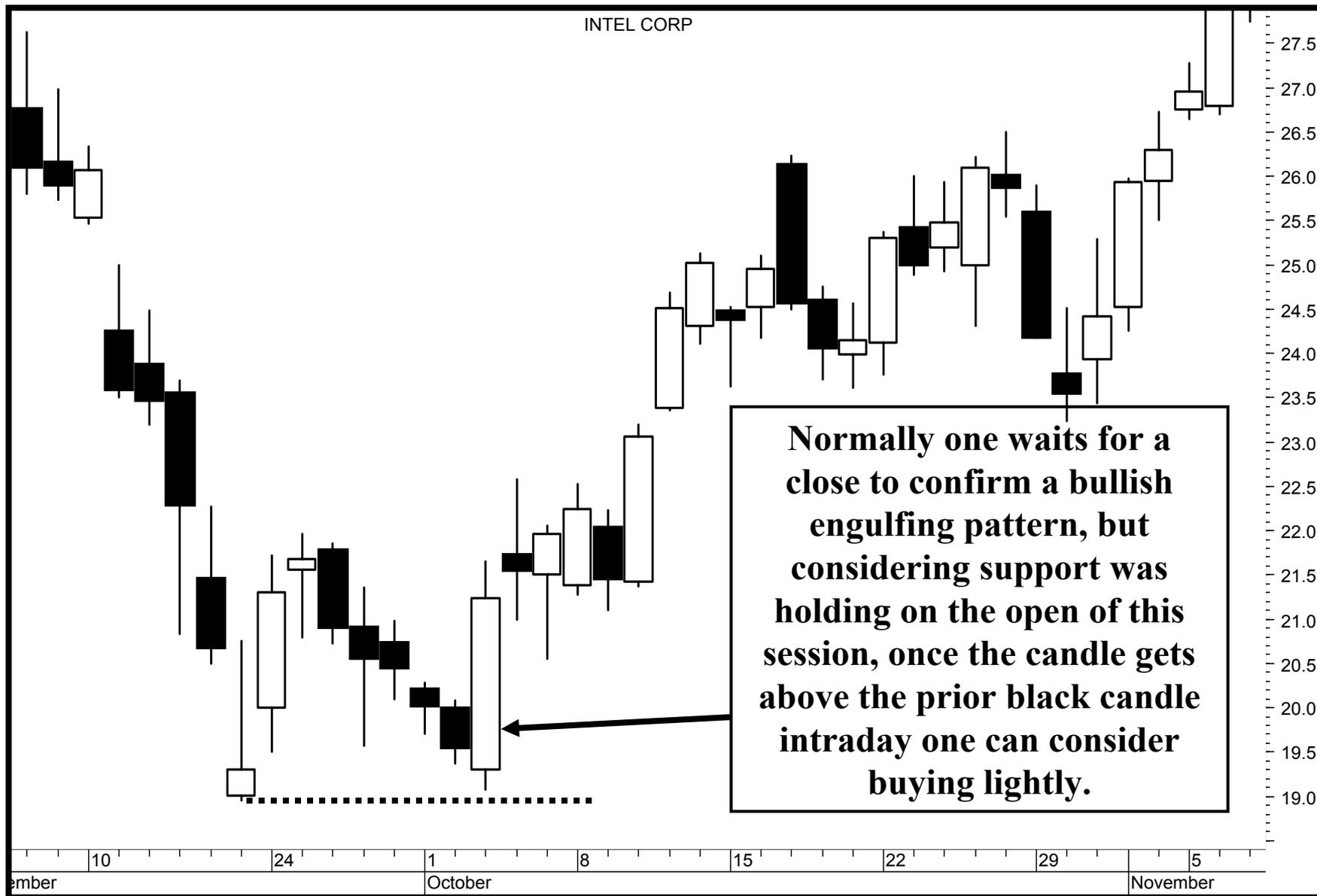
- ✦ **Timing**
- ✦ **Market Chameleon**
- ✦ **Trend**
- ✦ **The Three Cs**



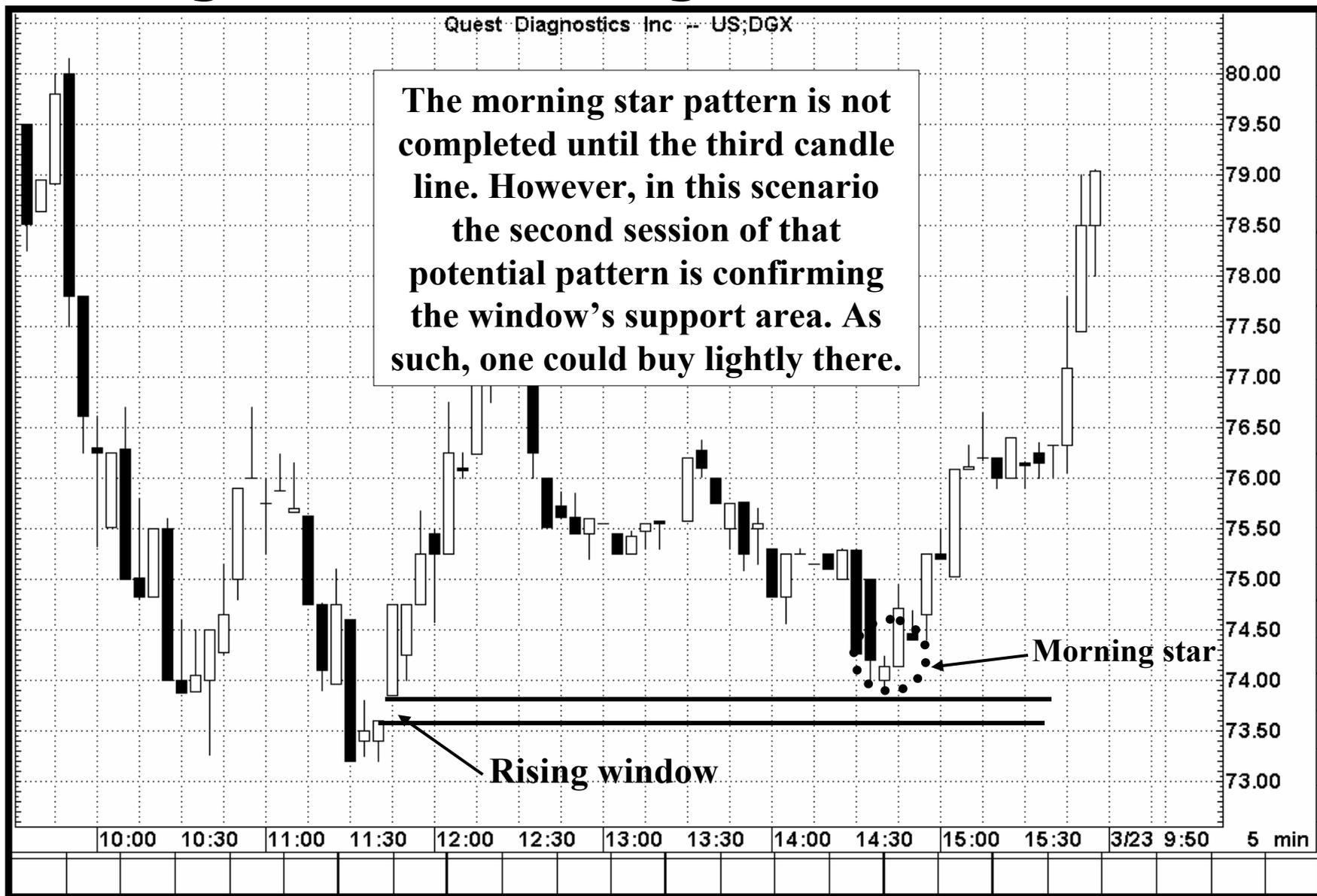
“His potential is that of the fully drawn bow, his timing the release of the trigger”

Market Timing

Trading Tactics – Timing



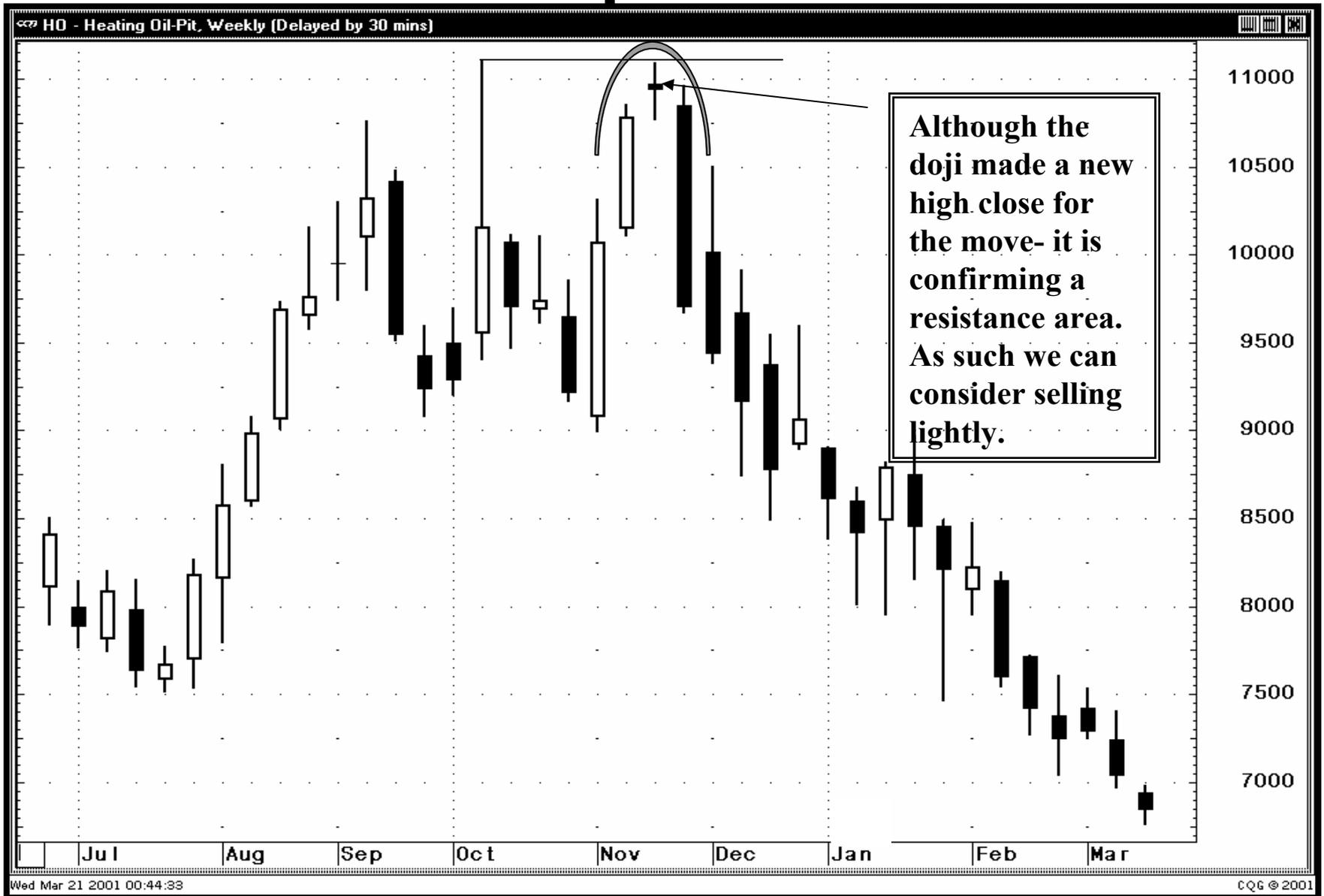
Trading Tactics- Entering a Trade



Trading Tactics – not waiting for the close



When to initiate a position

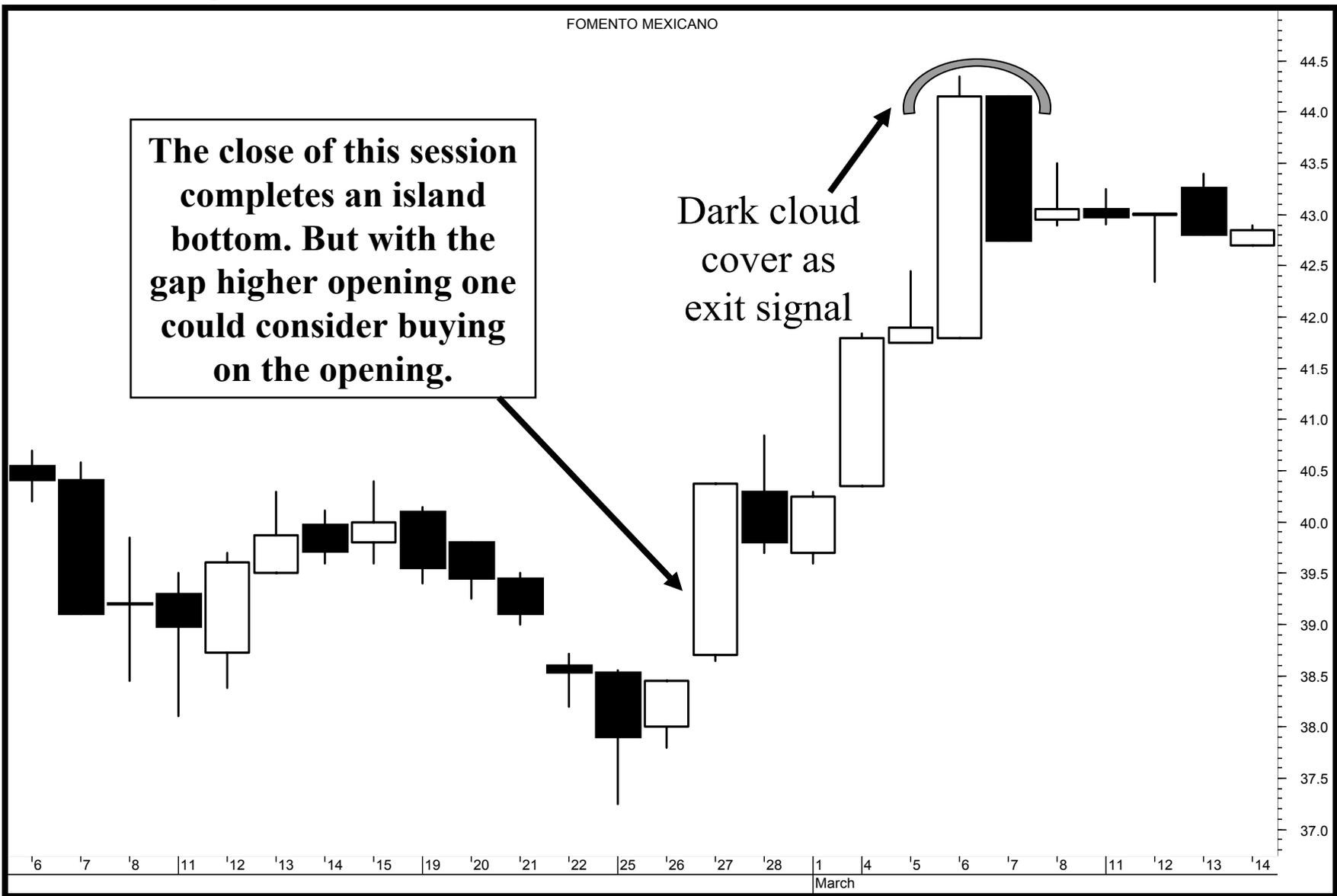


Trading Tactics - Case Study

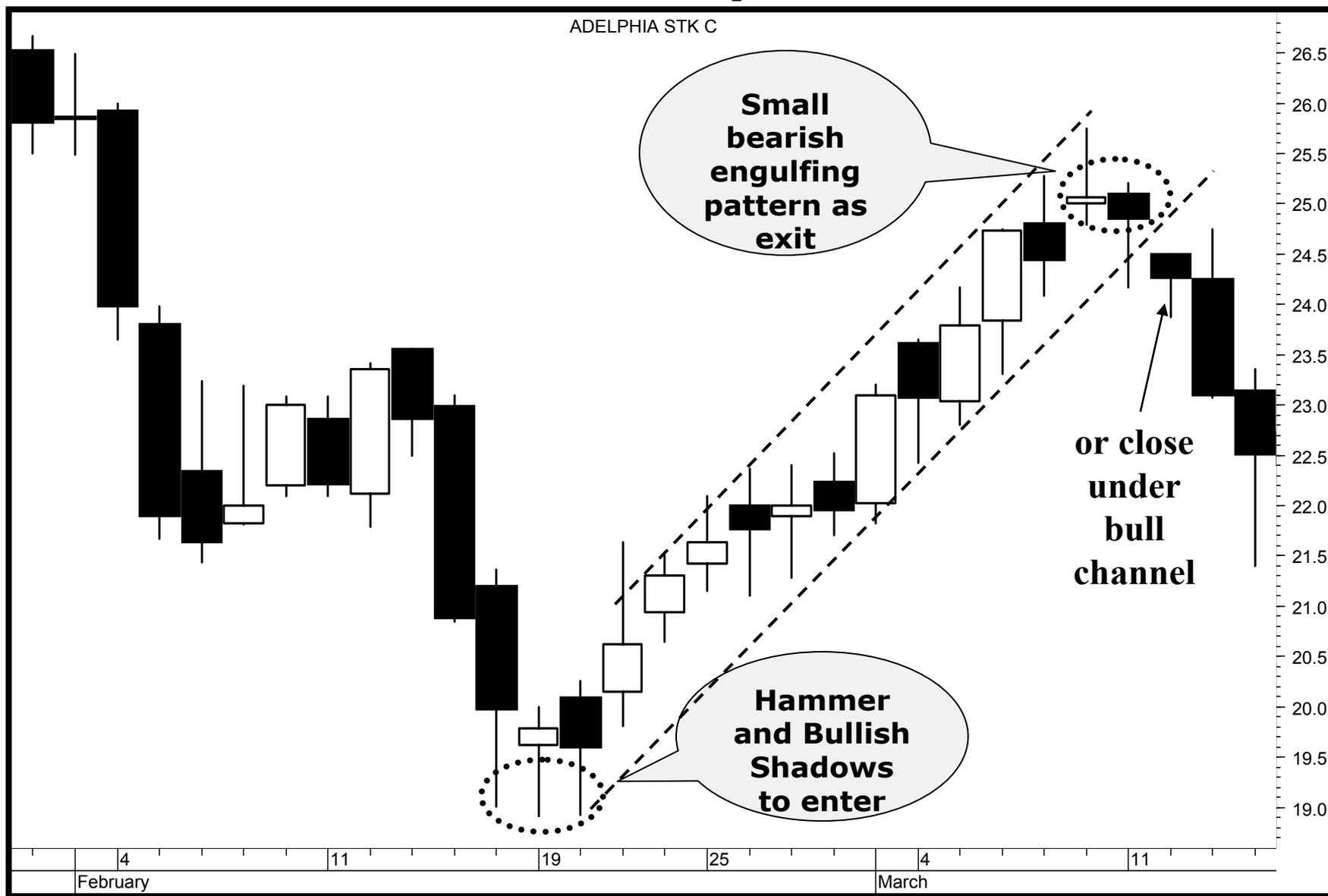
FOMENTO MEXICANO

The close of this session completes an island bottom. But with the gap higher opening one could consider buying on the opening.

Dark cloud cover as exit signal



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



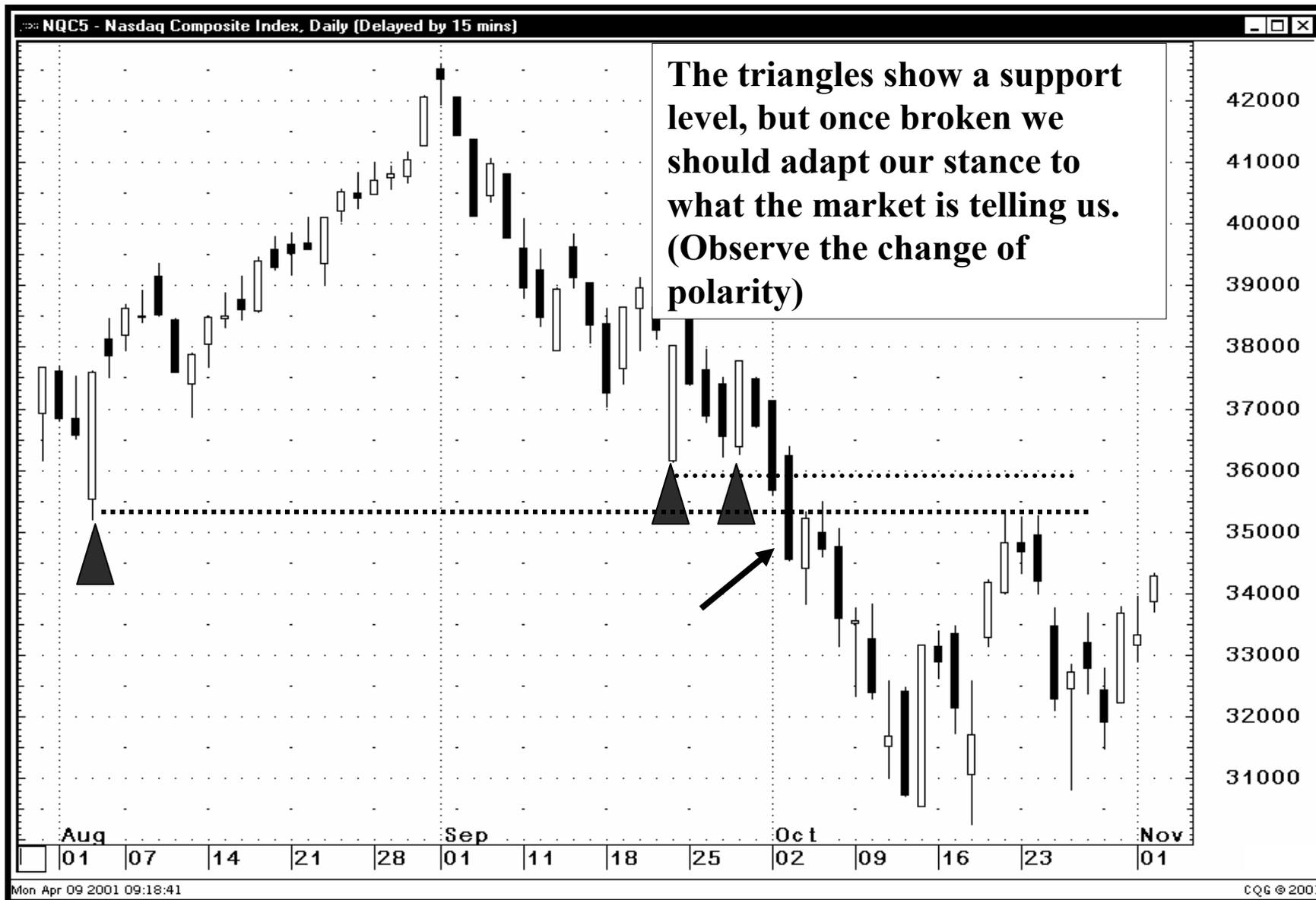
Adapting to the Market



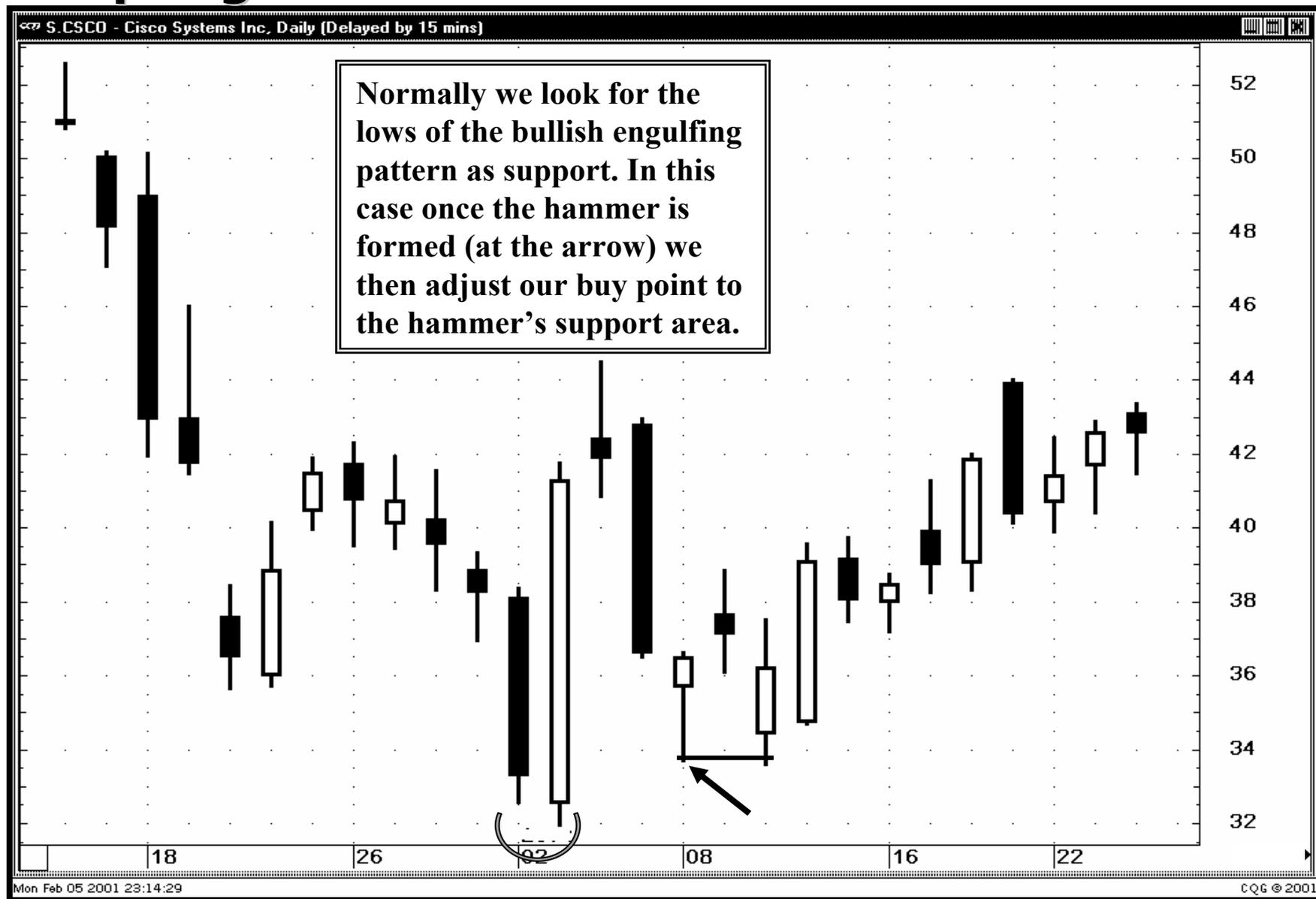
Adapting to the Market



Being a Market Chameleon



Adapting to the market

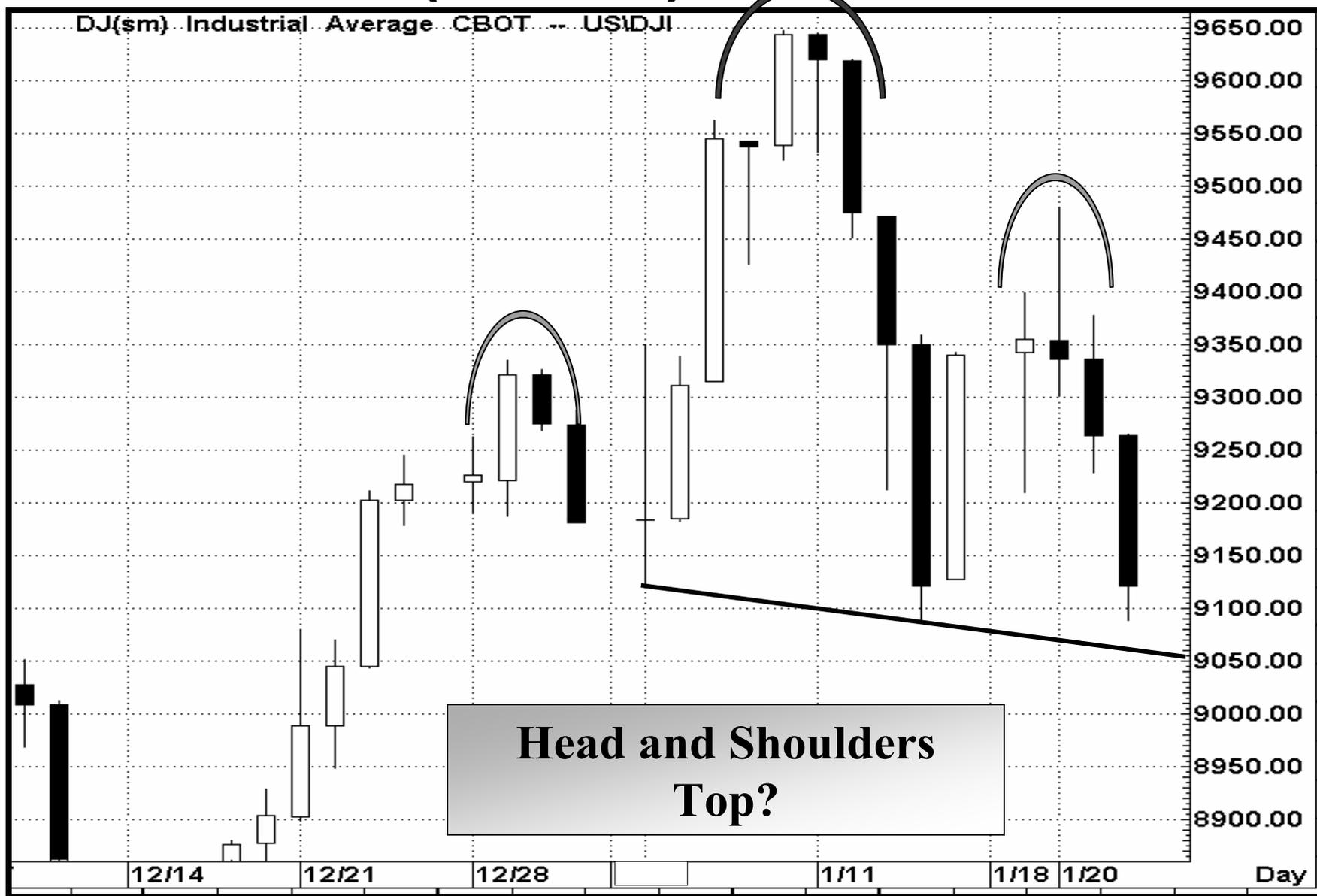


Nison Trading Principle

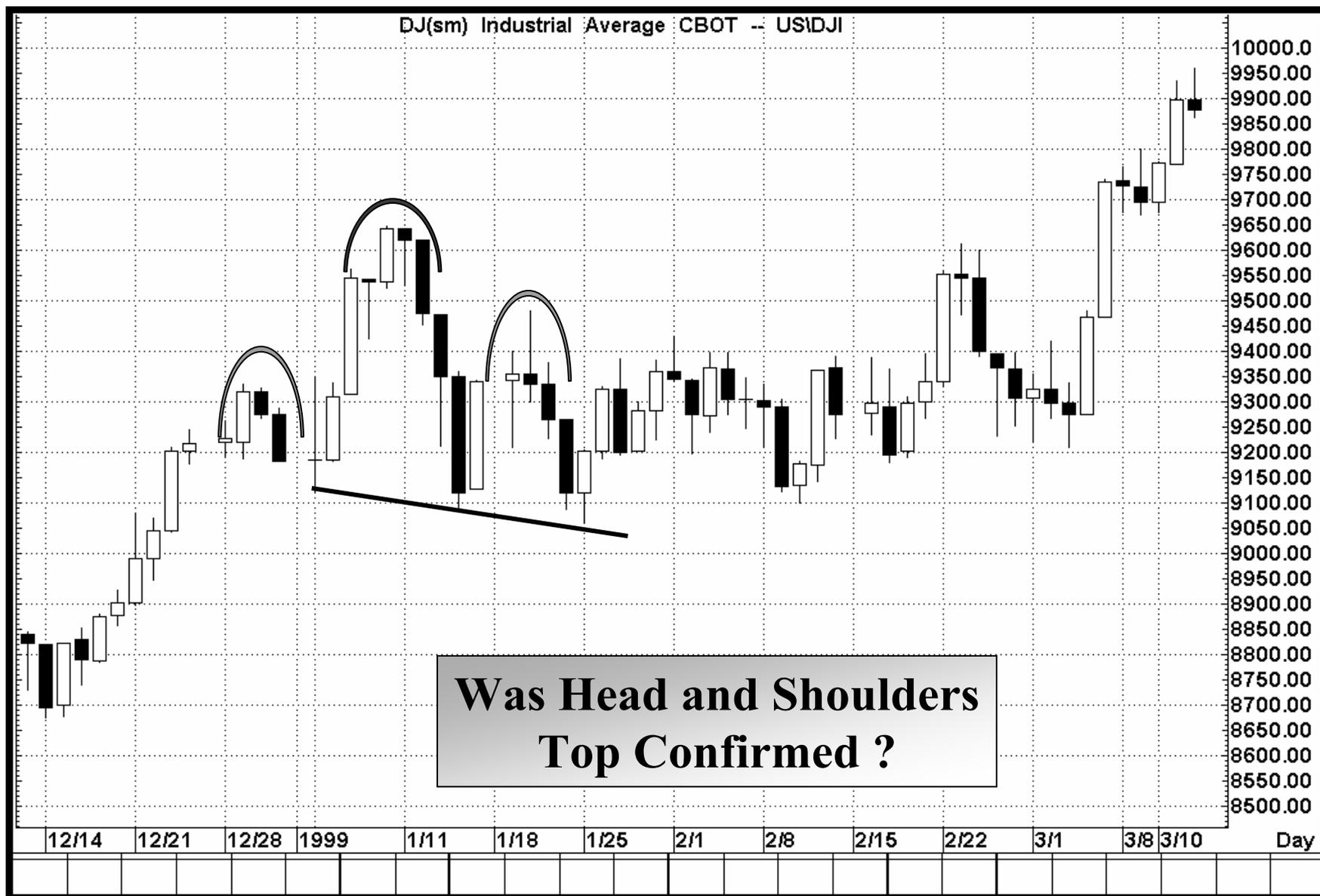
The If...Then Rule:

- 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”

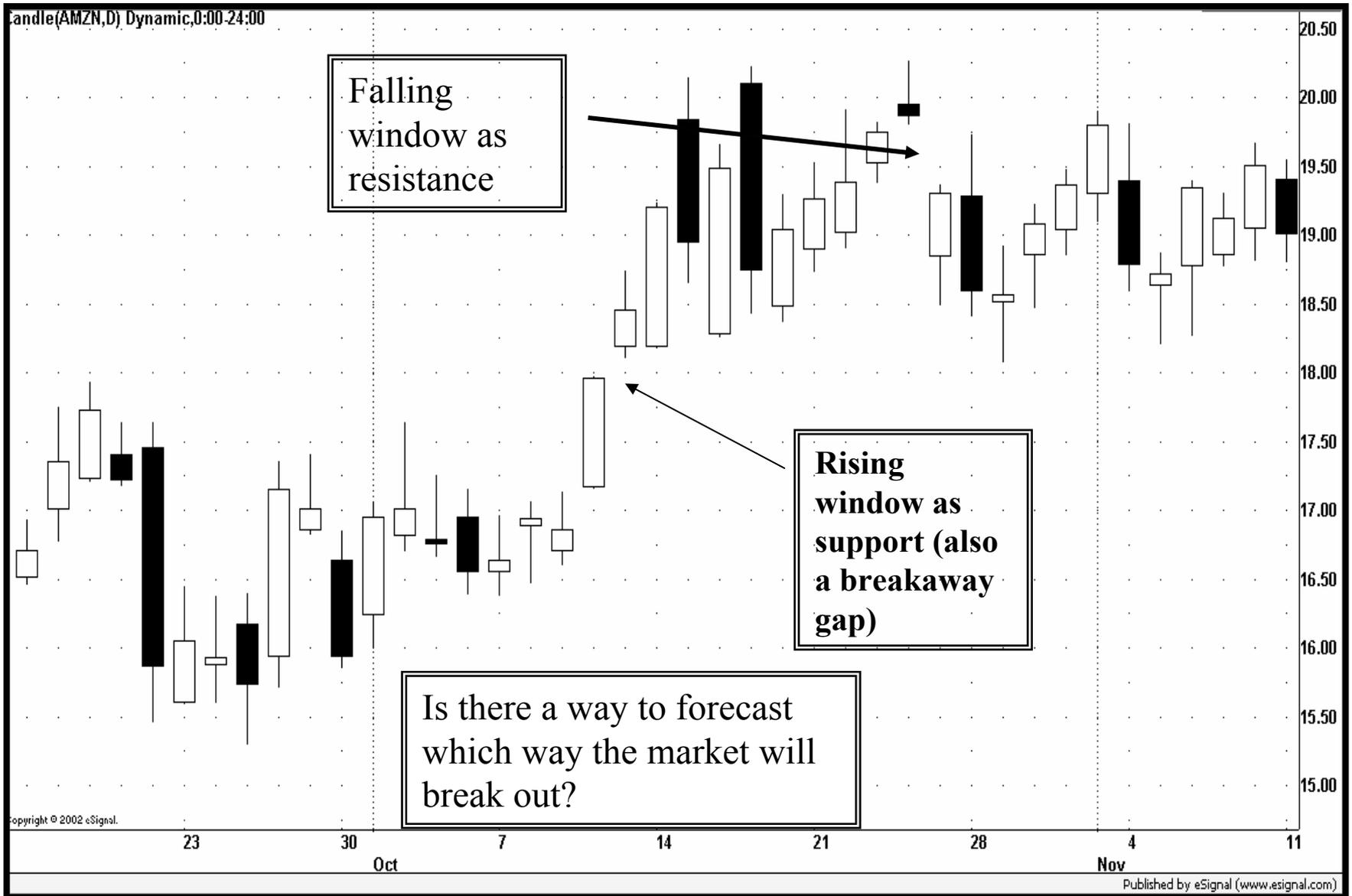
Prevailing Trend

Nison Trading Principle

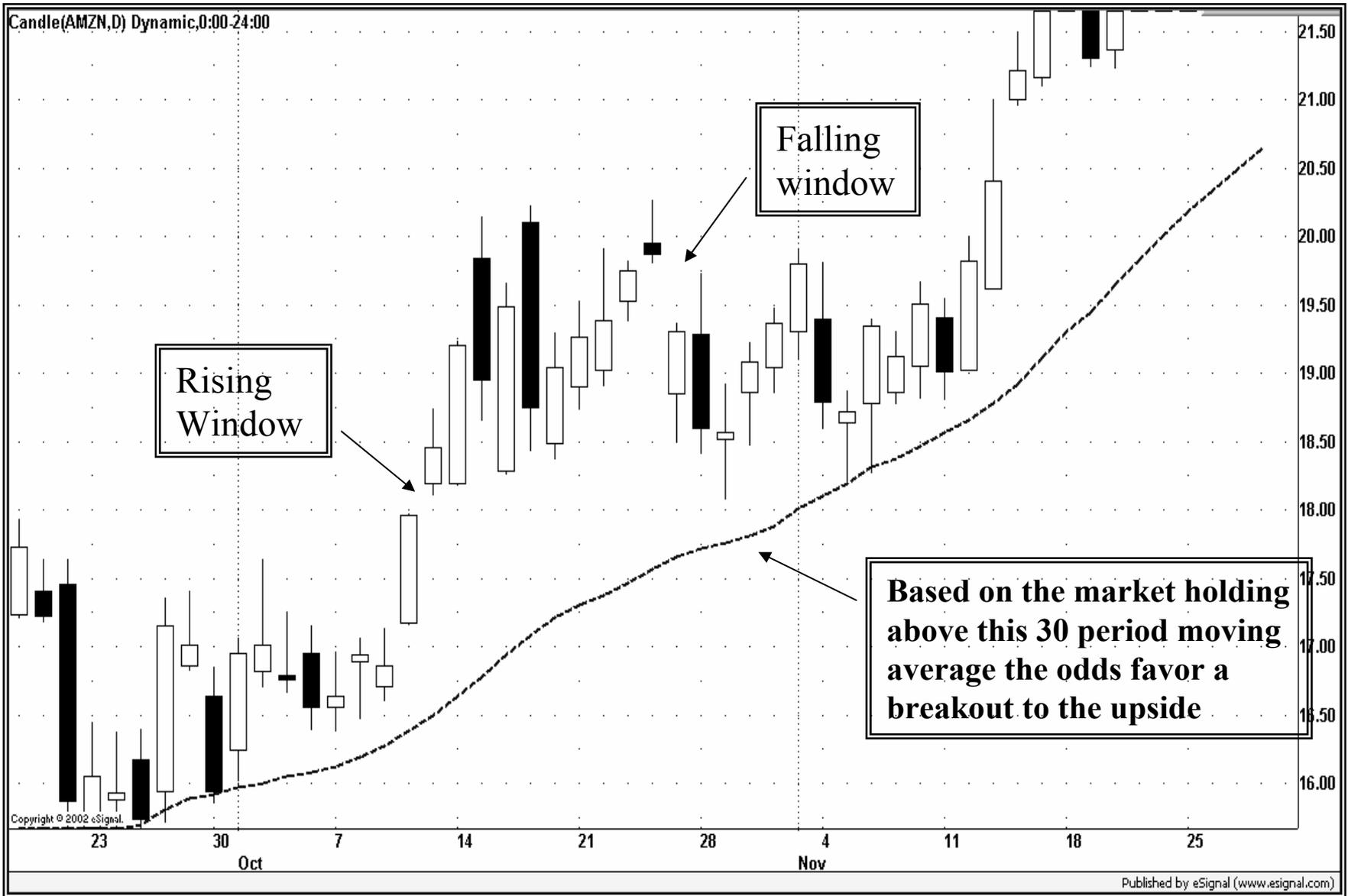
Initiate new trades in the direction of the major trend (unless you are looking for a small move):

- ★ 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

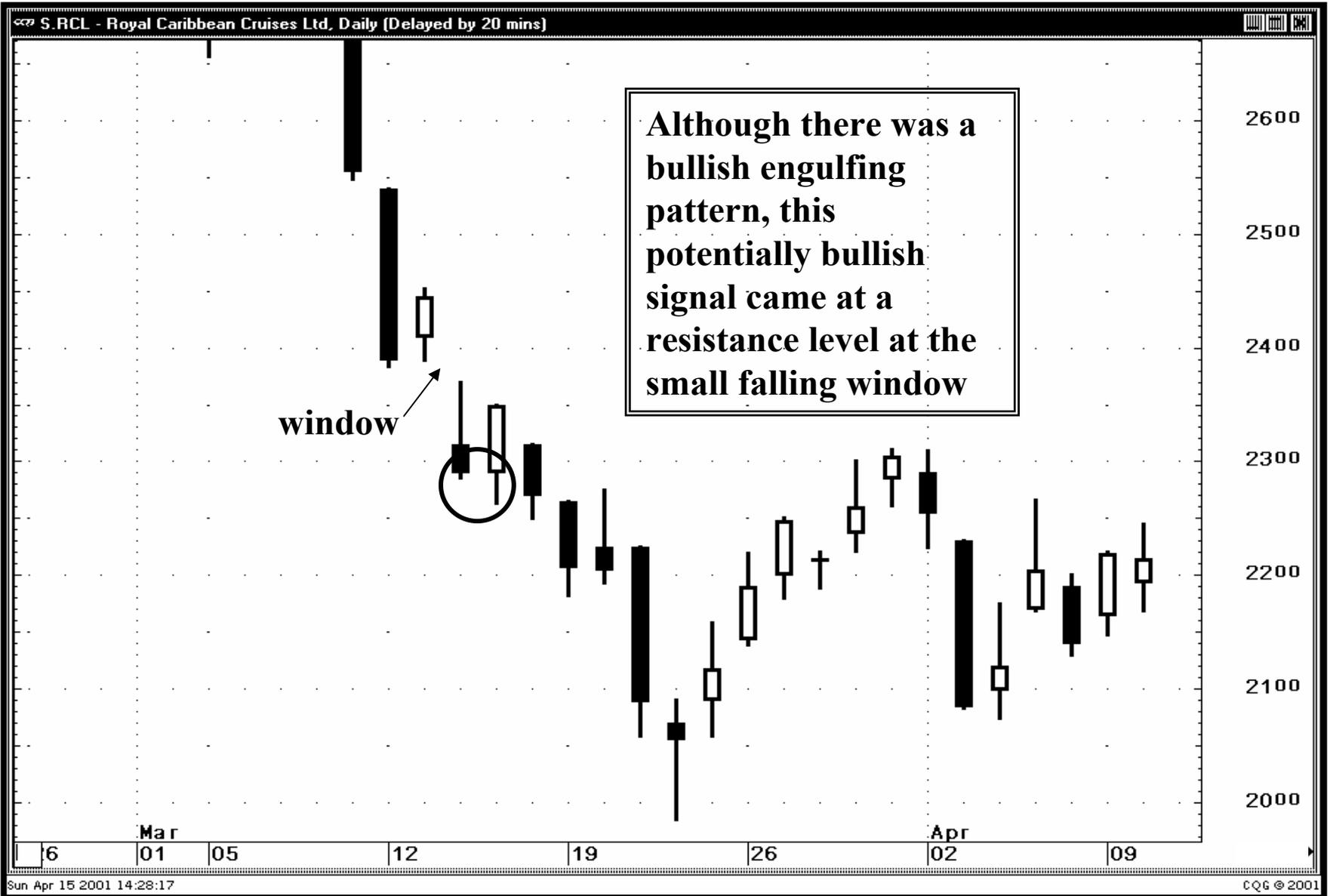
Nison Trading Principle

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

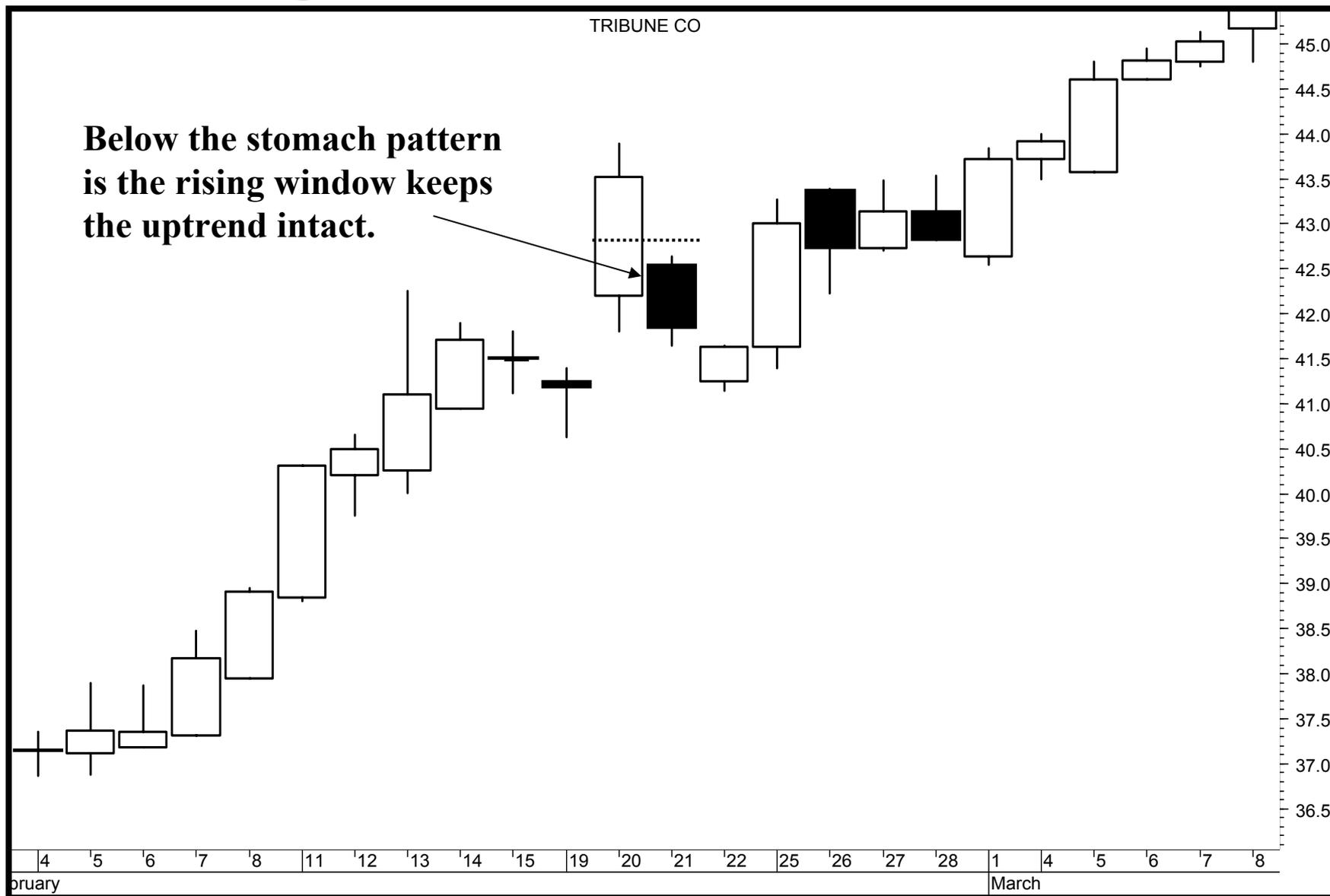
Candles in Context



Patterns in Context – bullish signal at resistance



Candle Signals within market context



Candles in Context



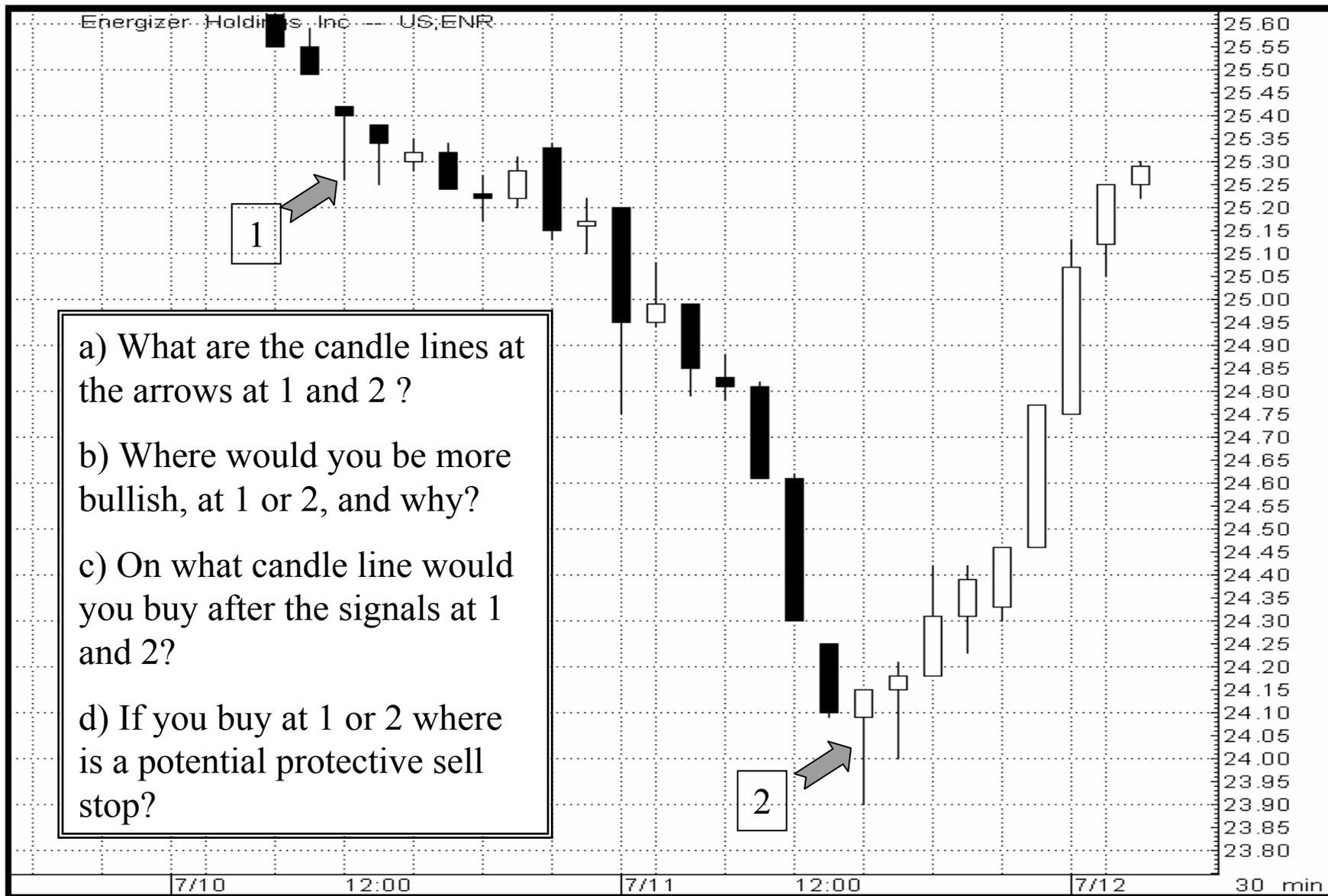
Candles in Context



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.

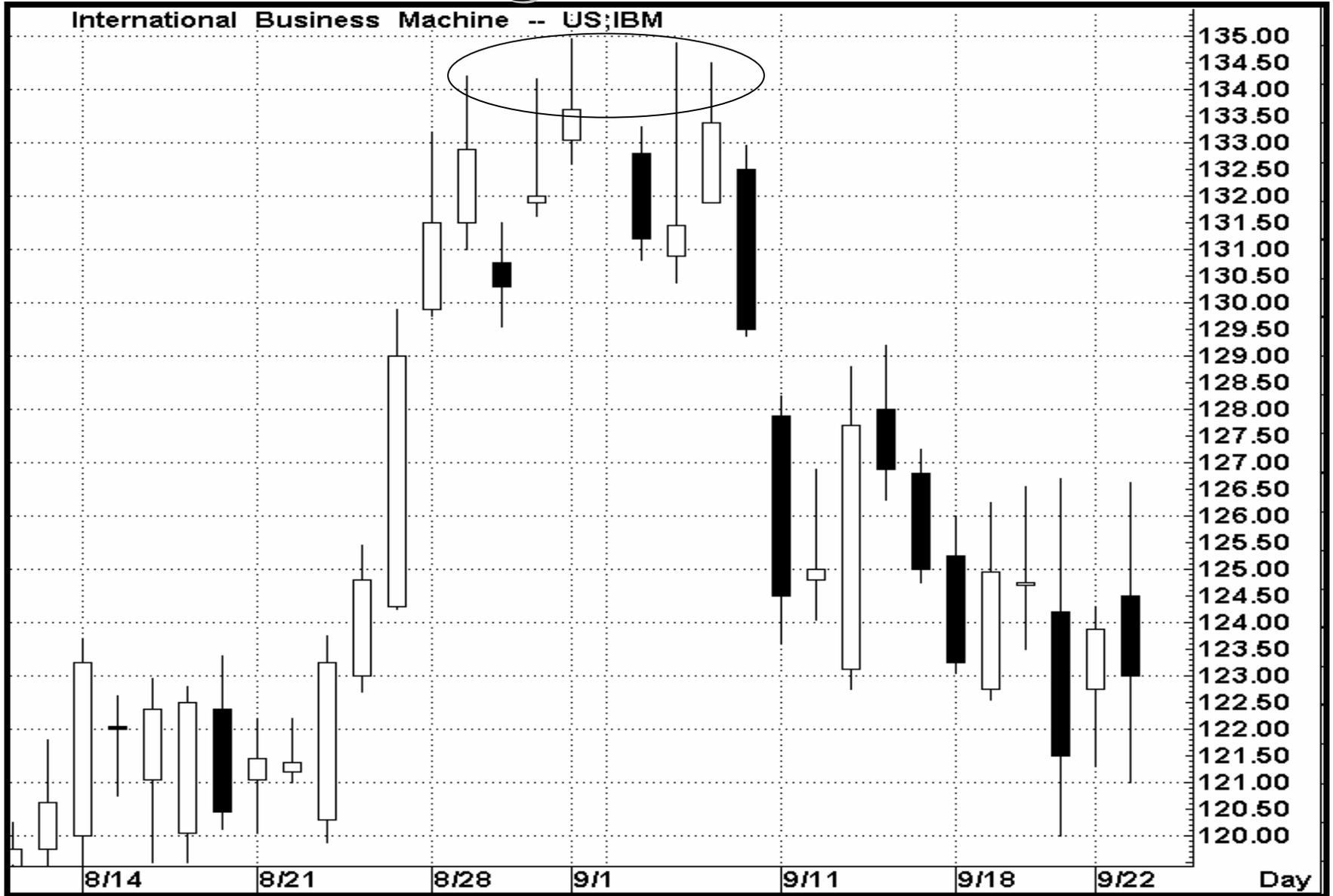
How are new highs are made



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

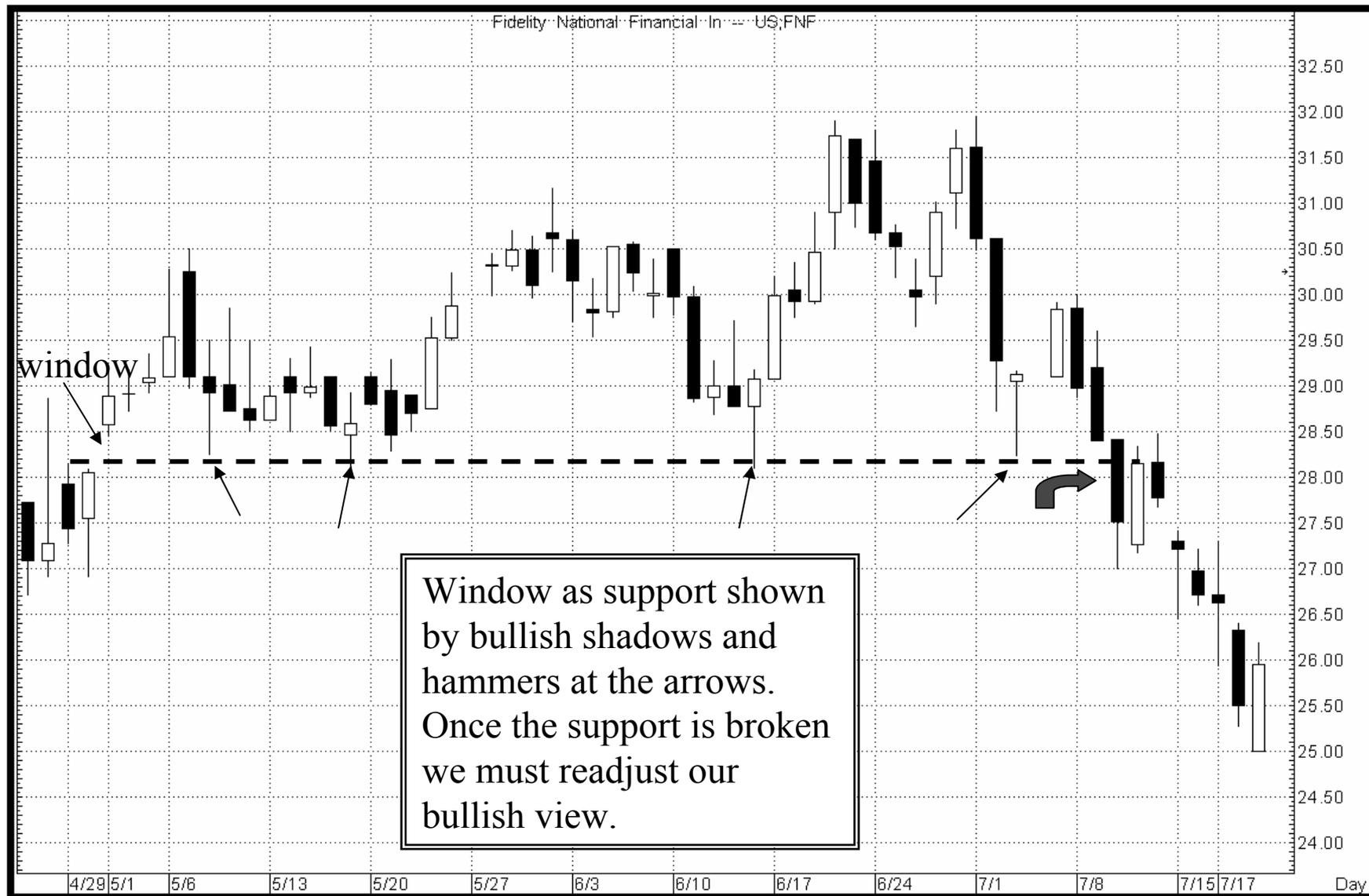
Nison Trading Principle

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

Stops



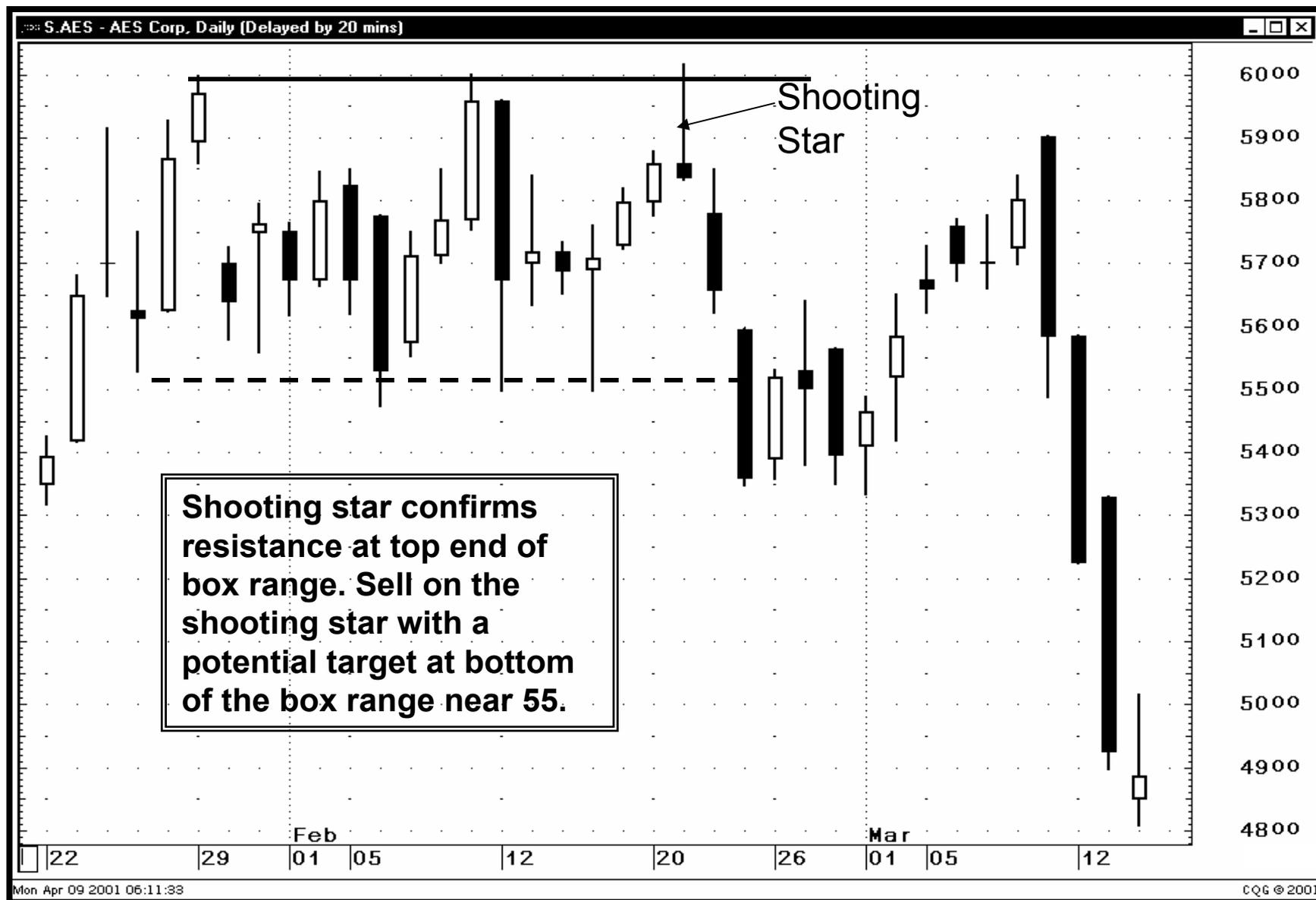
Stops



Obtaining targets



Obtaining Price Targets

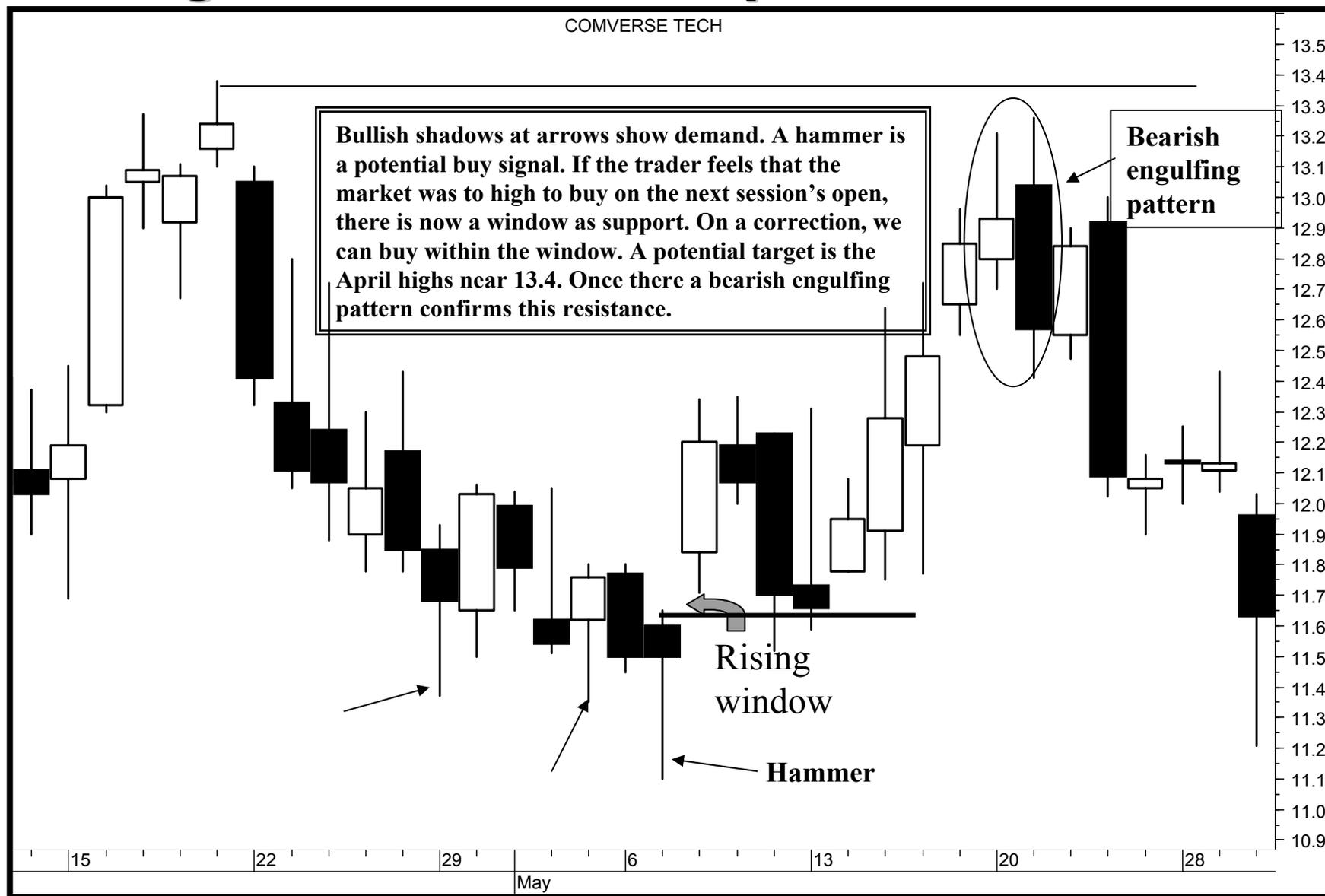


Using Western TA for target

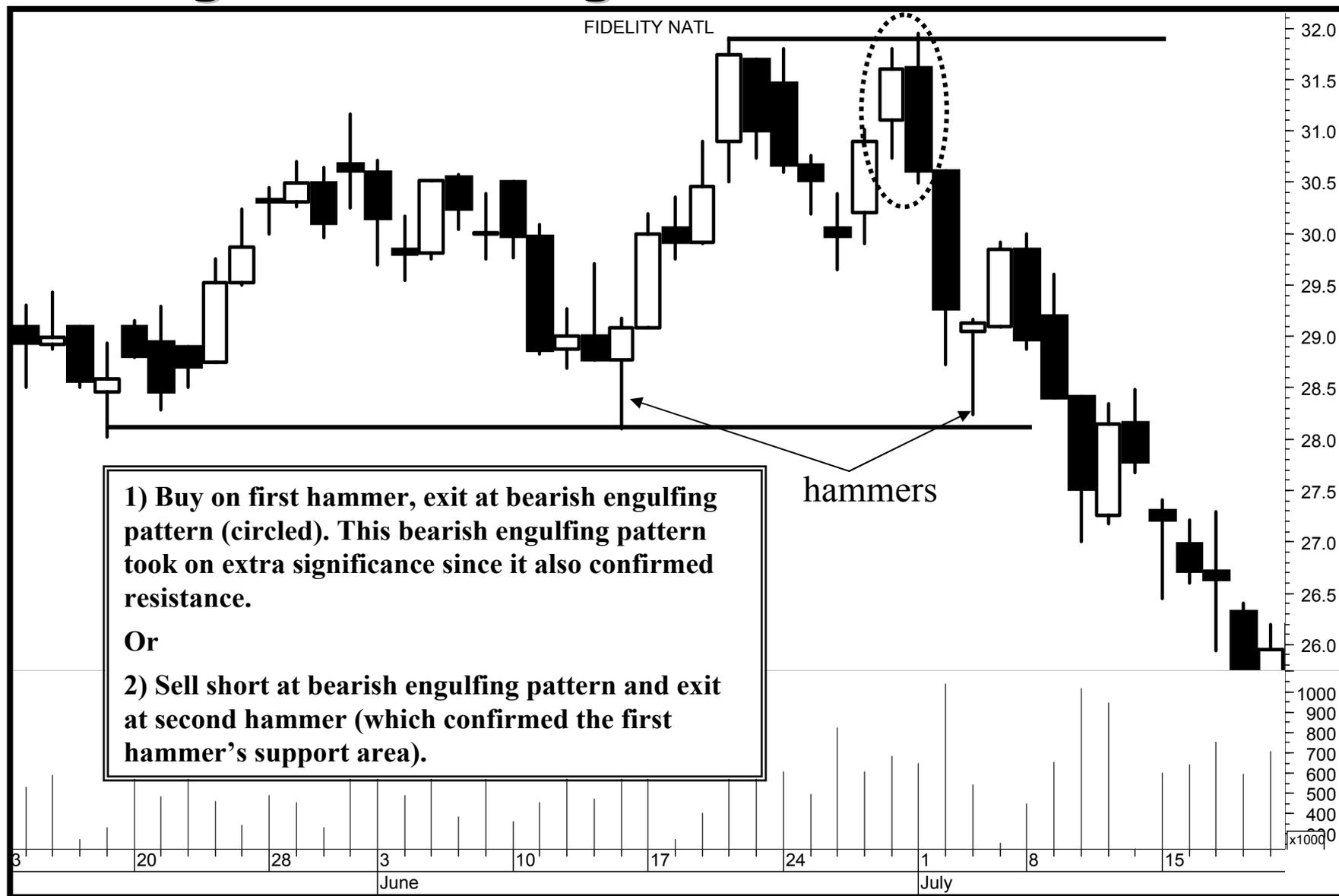


Trading Tactics- Case Study

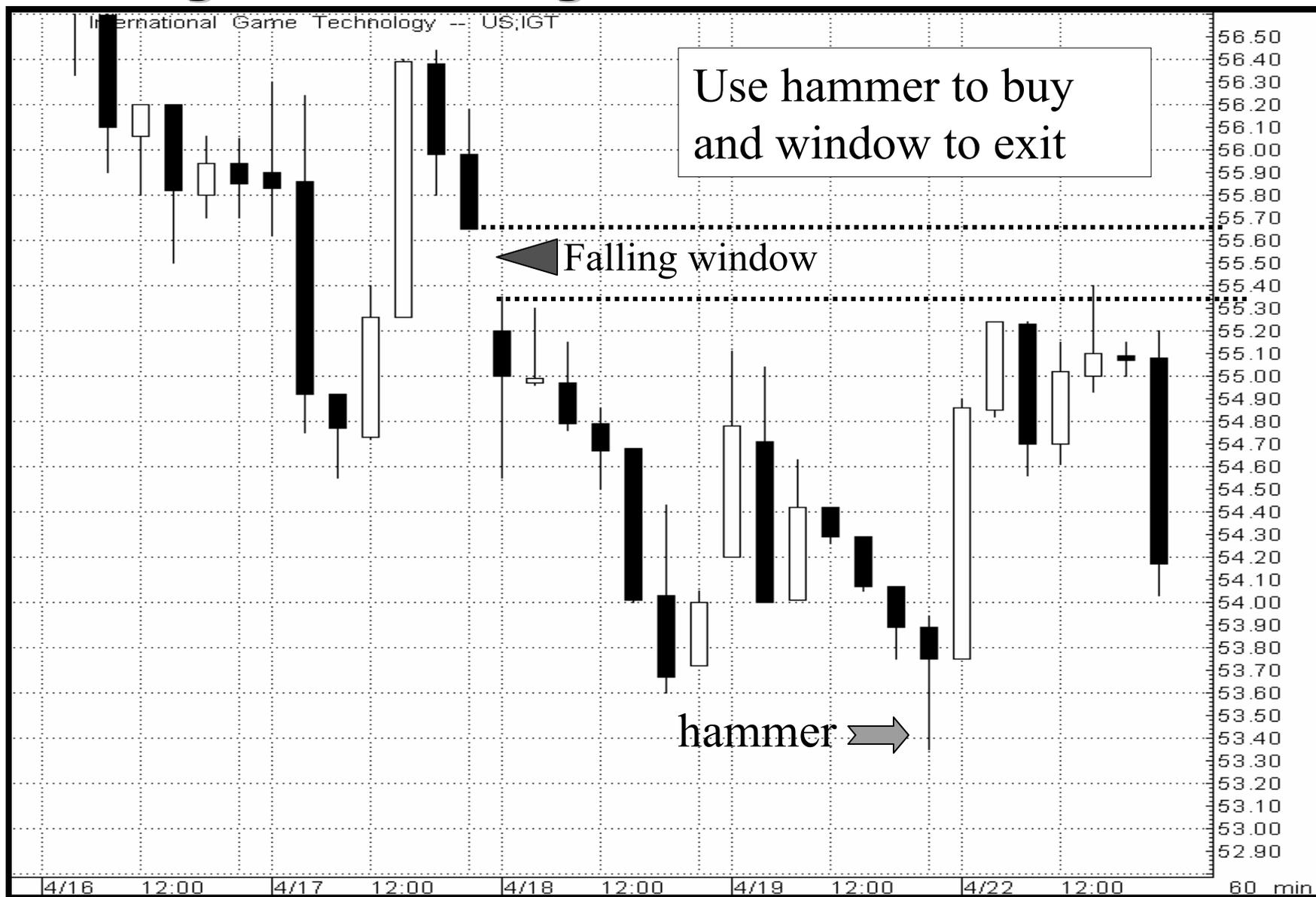
COMVERSE TECH



Trading Tactics- Targets



Trading Tactics- Targets



Hammer and Risk/Reward

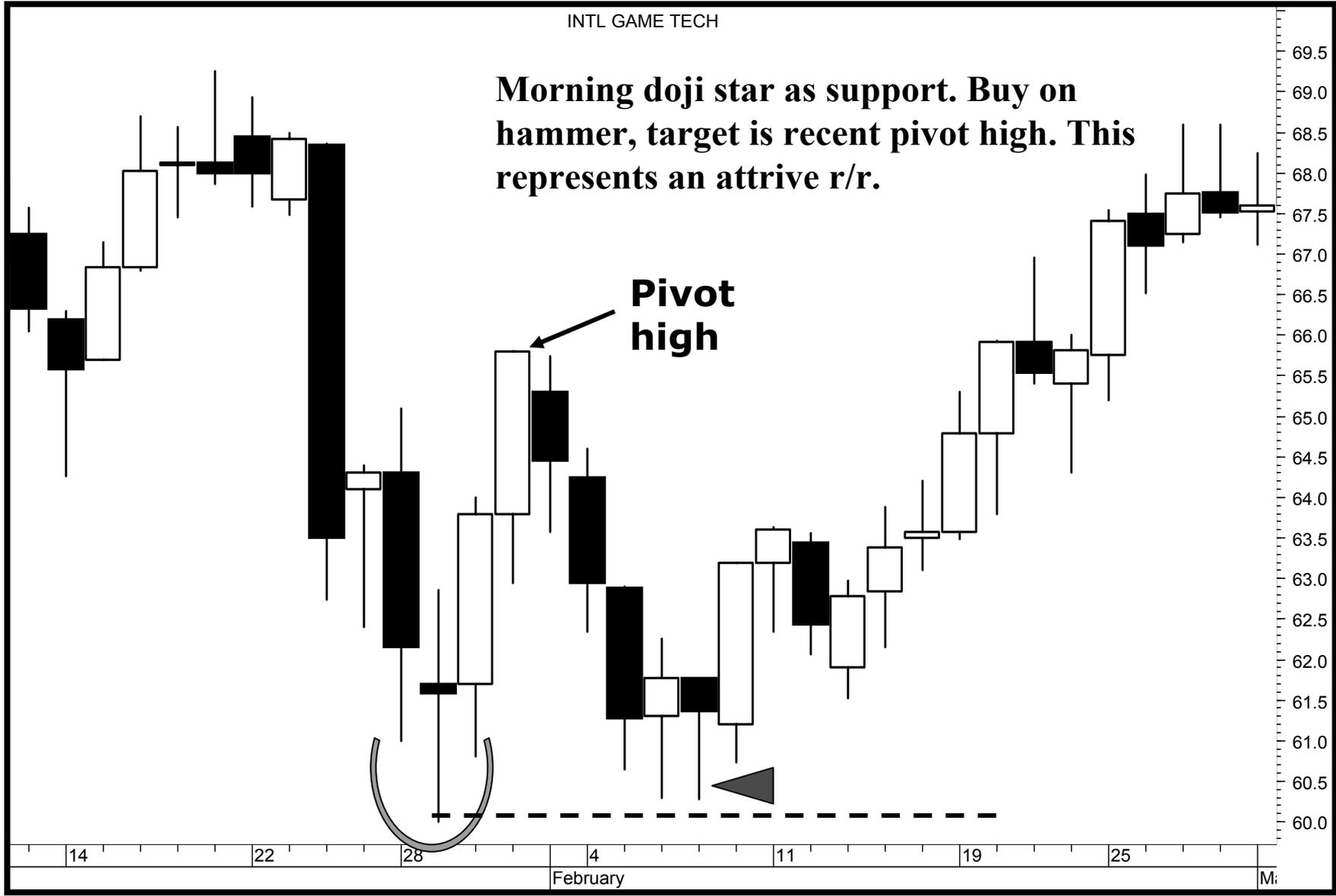


Risk/Reward

INTL GAME TECH

Morning doji star as support. Buy on hammer, target is recent pivot high. This represents an attrive r/r.

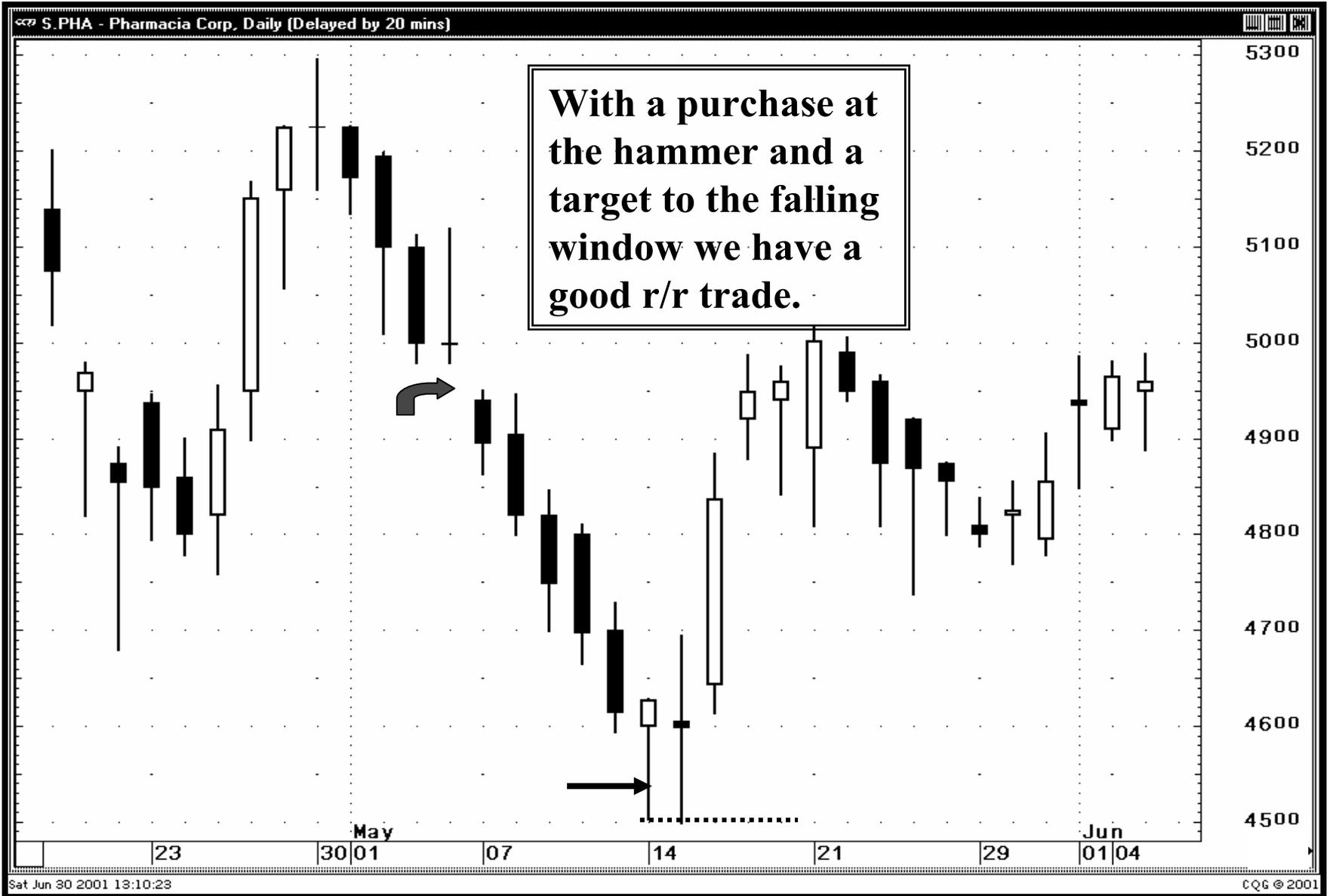
Pivot high



Risk/Reward



Risk/reward



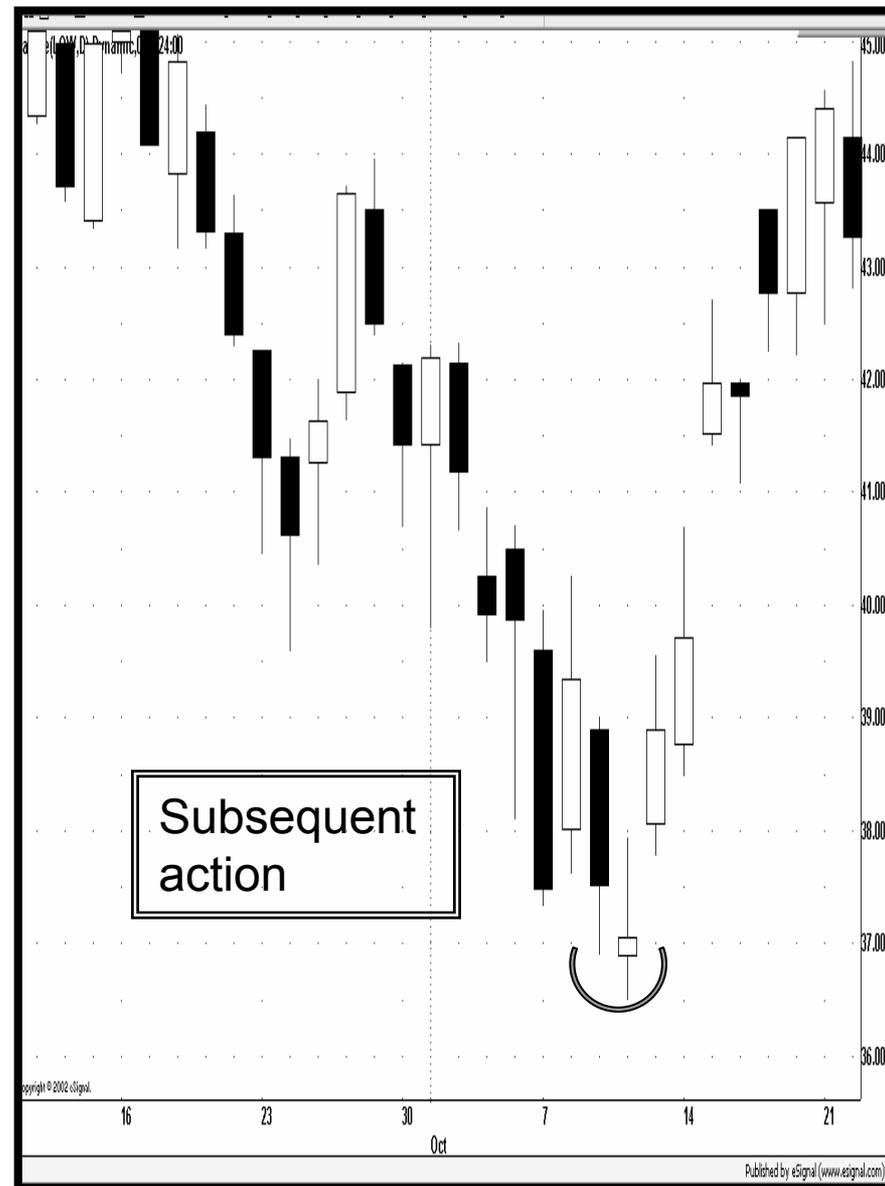
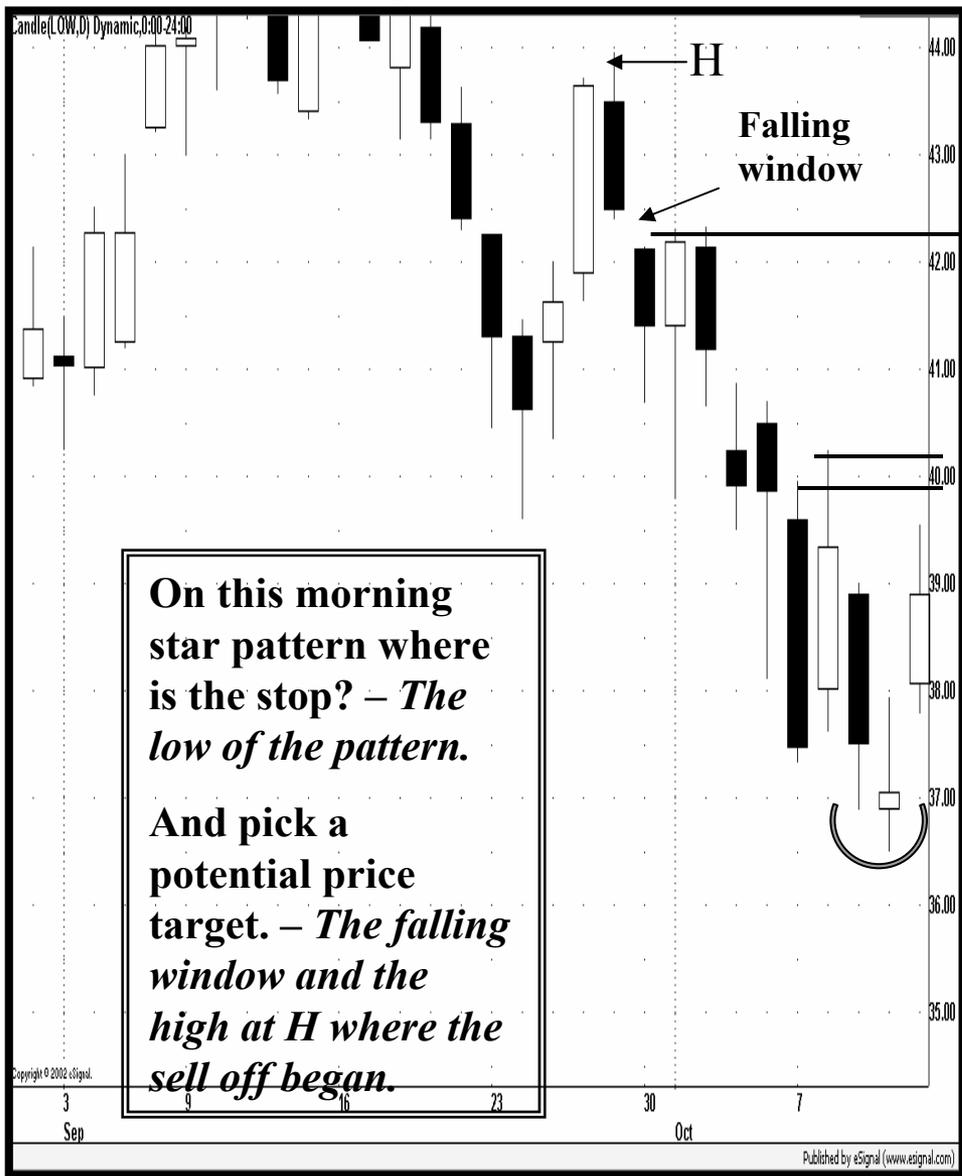
Risk-reward



Price targets – slide 1 of 2



Price targets - slide 2 of 2





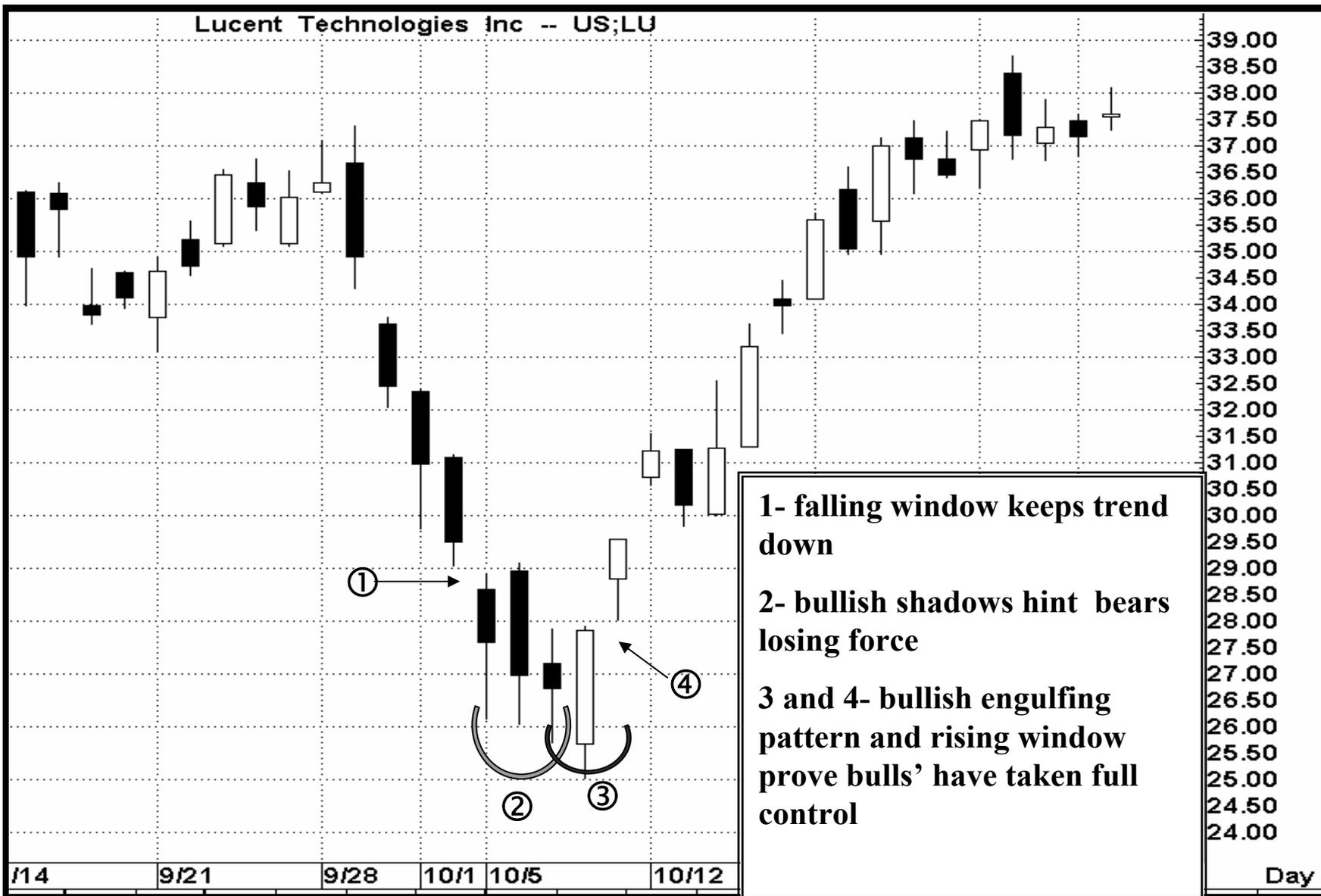
“He whose ranks are united in purpose will be victorious”

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.

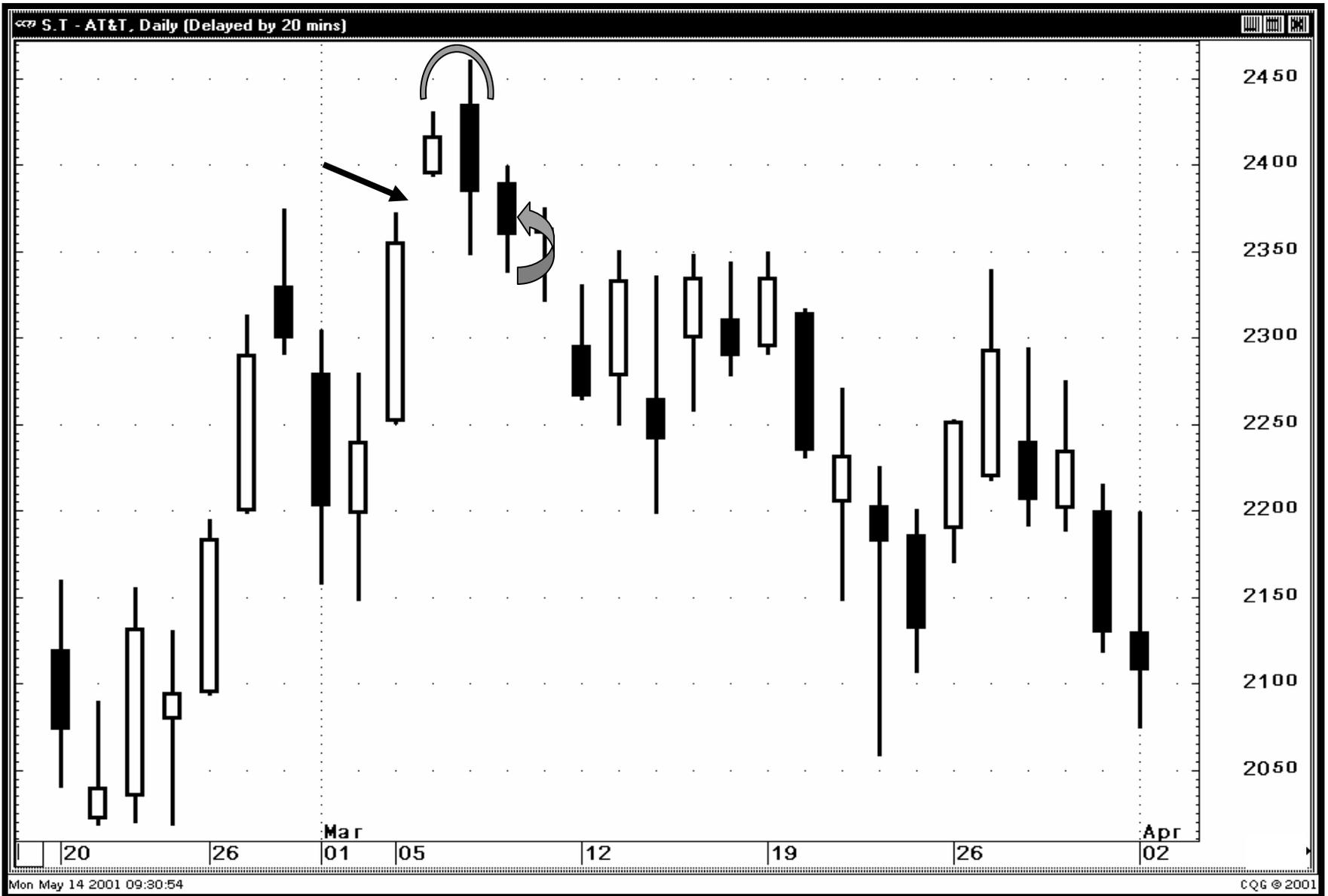
Cluster of Candles



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!

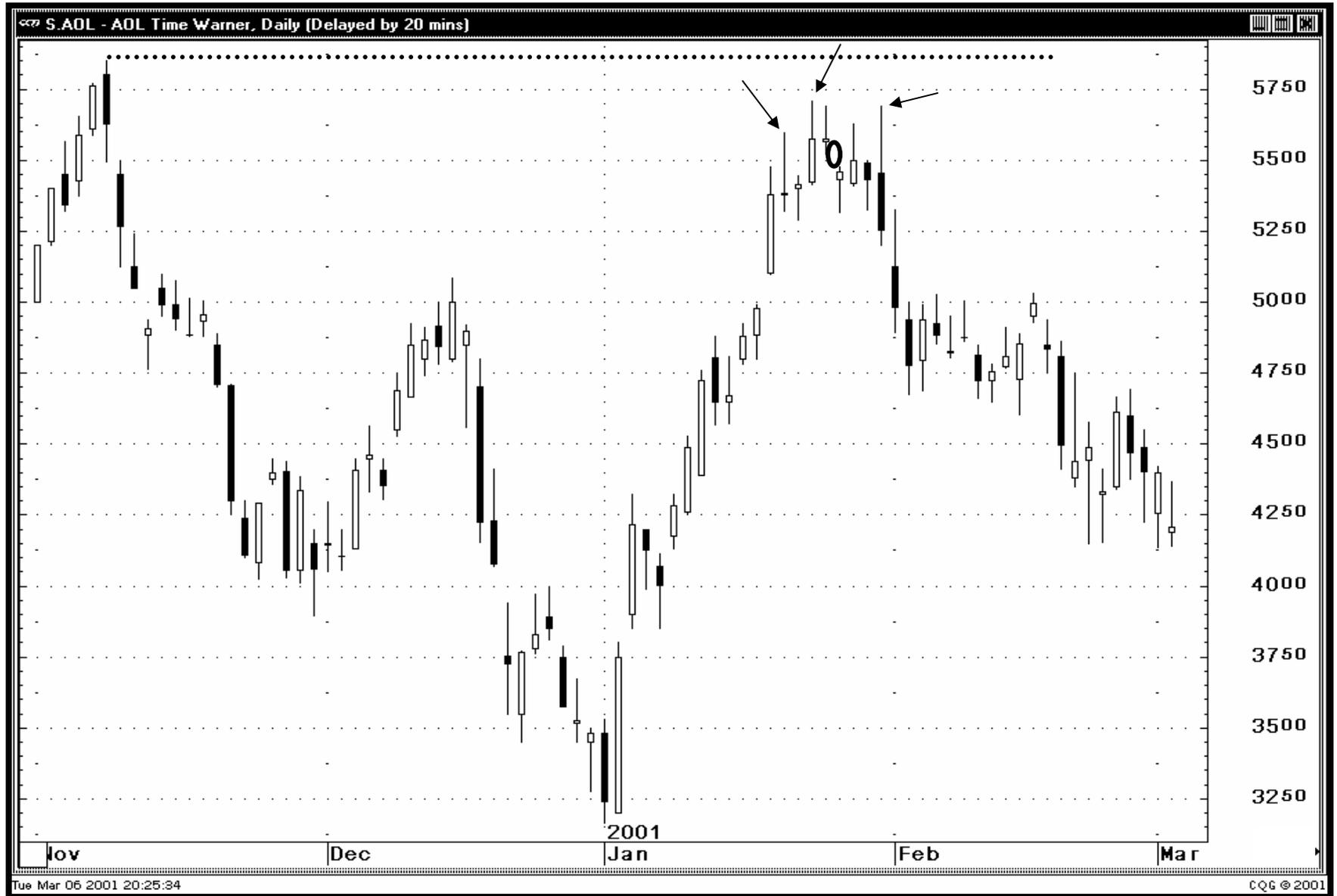
Potent Insights

Potent Insights



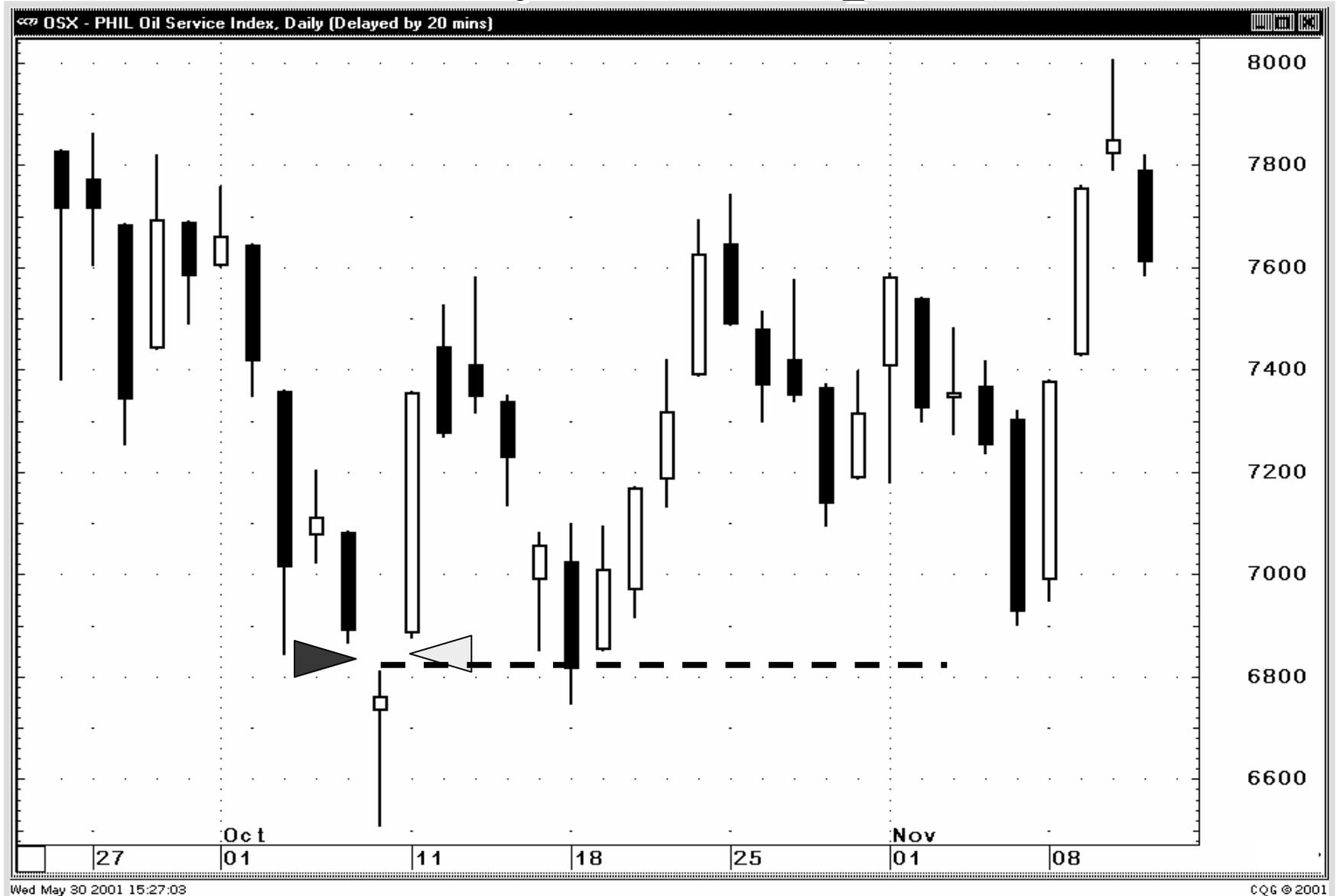
Reduce Risks

Reduce Risk



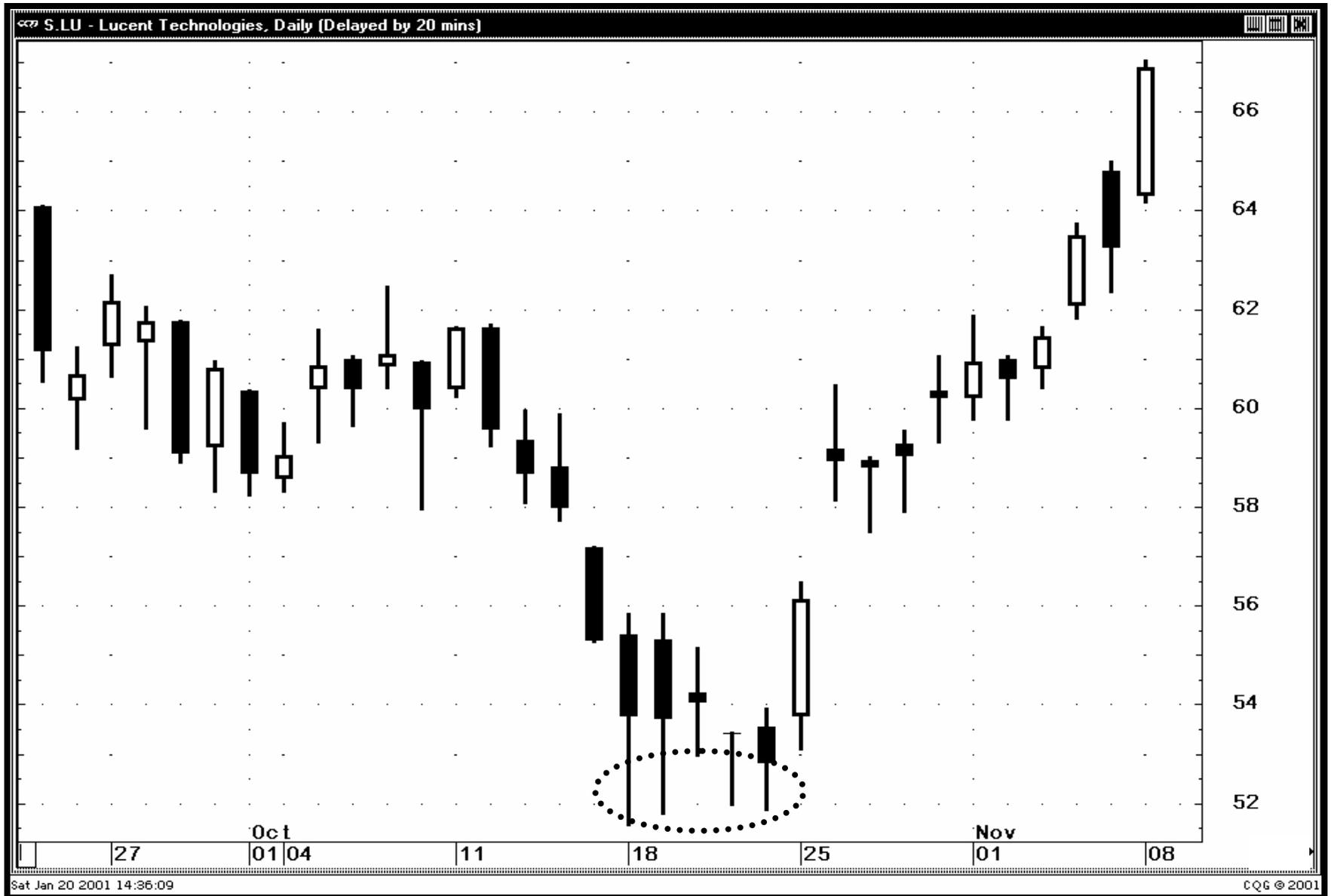
Outmaneuver your competition

Outmaneuver your competition



Find Pivotal Support and Resistance

Find pivotal support /resistance



Identify False Breakouts

Identify False Breakouts



Terminate Bad Trades

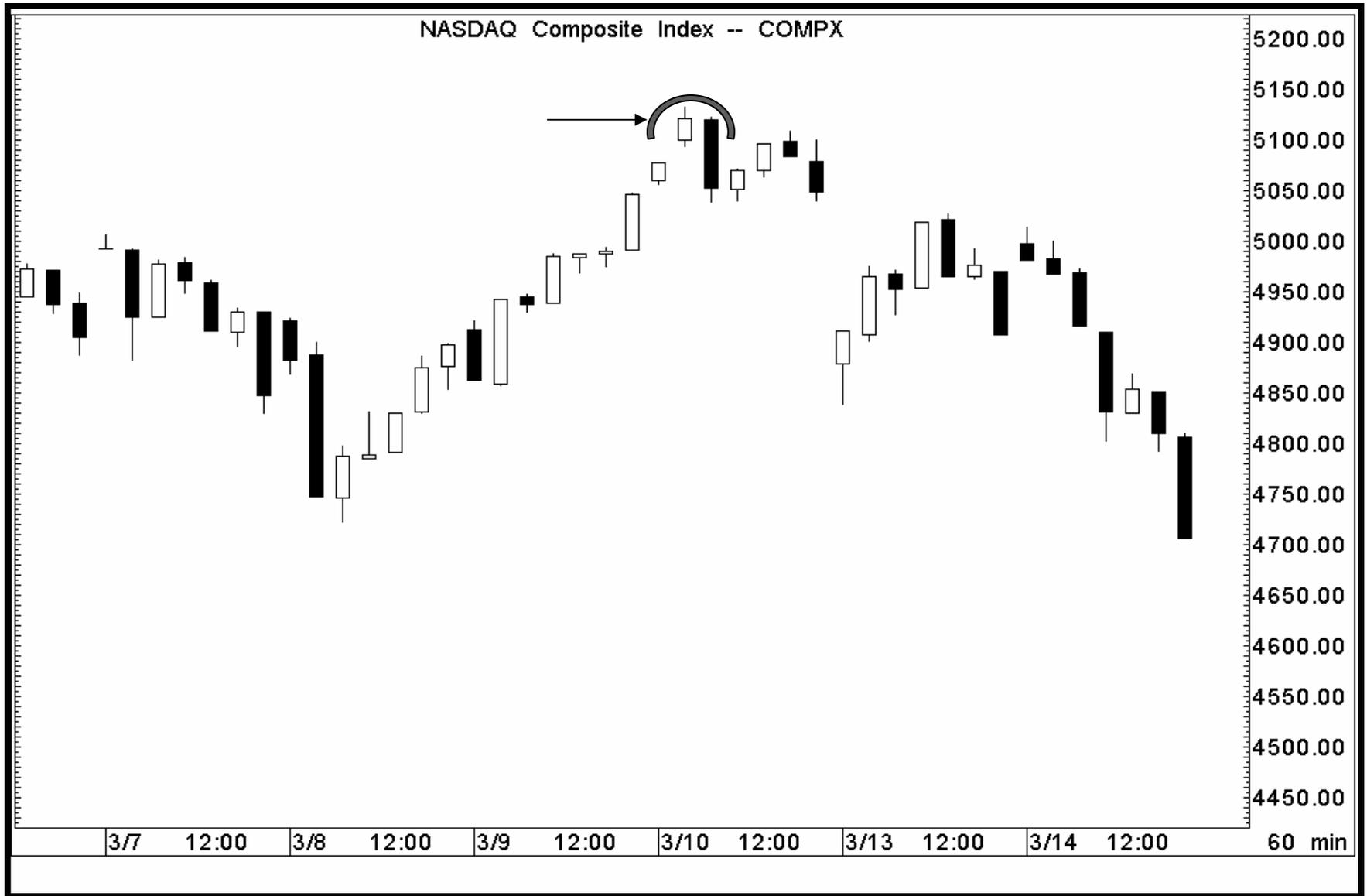
Terminate Bad Trades



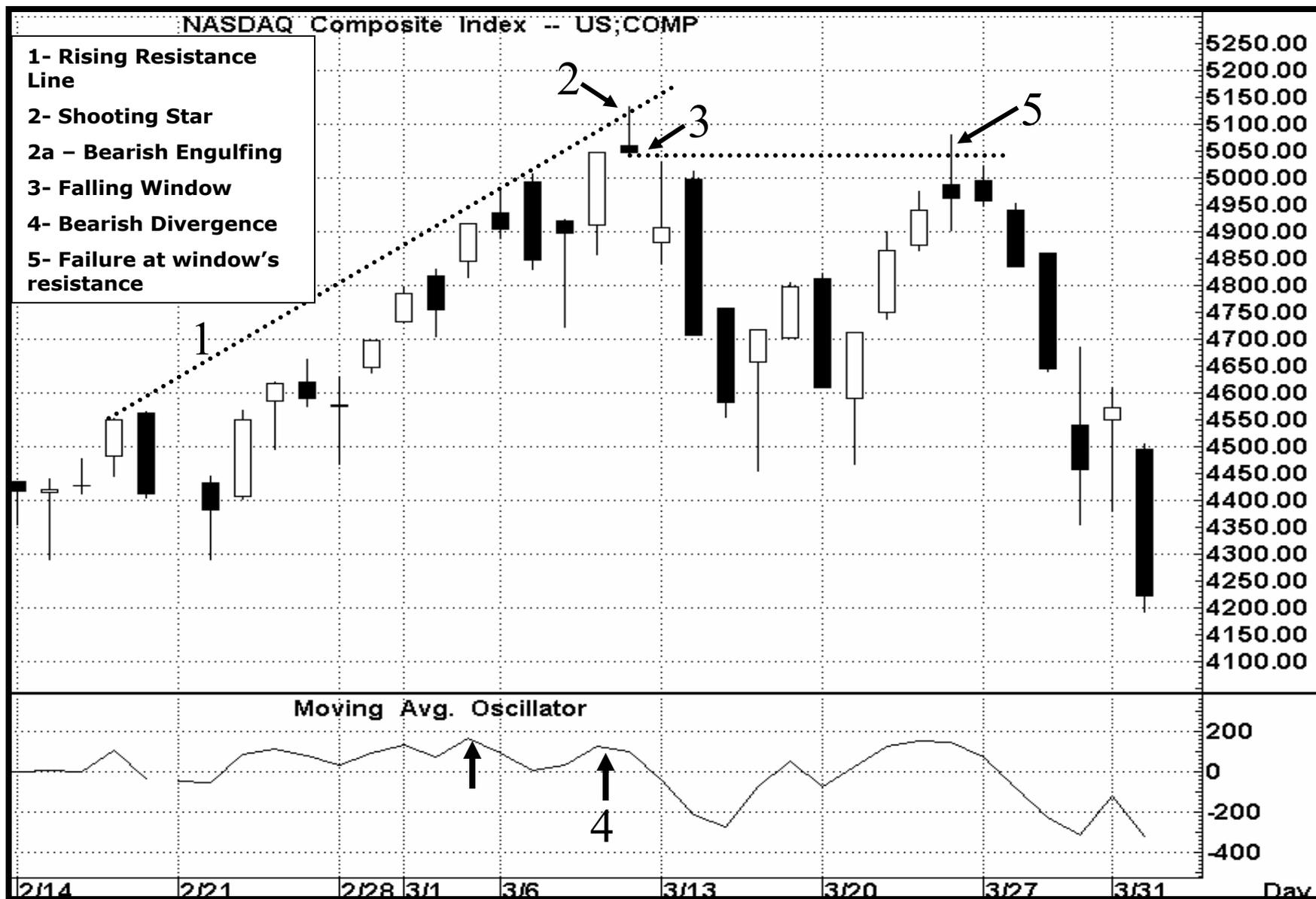
Stay Alive!

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

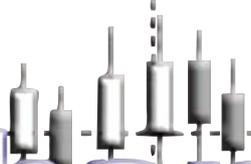
How it all comes together (hourly)



Stay Alive- Confluence of signals for NASDAQ



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



candlecharts.com

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- **Web site: www.candlecharts.com**
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