Candlestick Charts

A condensed field guide to reading price action

Condensed and rewritten by Claude, with original explanations, illustrations, and examples, from *Candlestick Charts: An Introduction to Using Candlestick Charts* by Clive Lambert (Harriman House, 2009). This is a short-form companion — not a replacement — for readers who want the core ideas without the full 188 pages.

1. What a Candlestick Actually Shows

A candlestick compresses four numbers from a single time period — the open, high, low, and close — into one shape. The thick block is the **real body**: the distance between the open and close. The thin lines above and below it are the **shadows** (or wicks): the high and low reached during the period. A wide body means one side (buyers or sellers) was in firm control; long shadows mean the price wandered somewhere it ultimately could not hold.

Colour tells you who won. If the close is above the open, the body is usually drawn **green (or hollow)** — buyers pushed the price up over the period. If the close is below the open, the body is **red (or filled)** — sellers won. That is the entire alphabet of candlesticks: everything else is pattern recognition built on top of this one shape.

MY EXAMPLE — Reading one candle

Say a stock opens the day at $50, trades up to $54, dips to $48, then closes at $53. You would draw a green body from $50 to $53, with a short lower wick down to $48 and almost no upper wick (since the close was close to the high). At a glance, without reading a single number, you can tell buyers dominated the session and were still in control by the close.

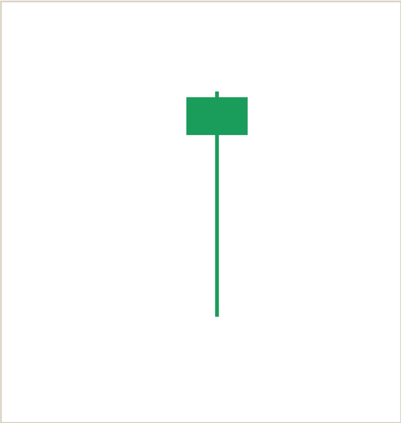
The book calls the fundamental question of chart reading: *who is controlling the market right now — the bulls or the bears?* Every pattern below is really just a different answer to that one question.

2. Two Extremes Worth Knowing First

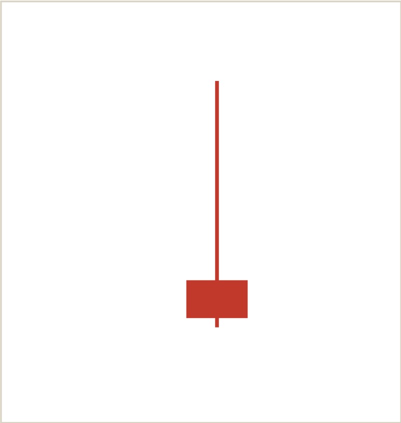
Before the named patterns, it helps to recognise the two ends of the spectrum. A **Marubozu** (the book uses the older transliteration "Marabuzo") is a candle with little or no shadow at all — the open is the high (or low) and the close is the low (or high). It signals total conviction: one side controlled the entire session from bell to bell, and it often marks a strong support or resistance level going forward. A **Doji** sits at the opposite extreme: open and close are essentially equal, so the body collapses to a thin line. It shows indecision — a tug-of-war that ended in a draw, which is often a warning that a trend is losing conviction.

3. Single-Candle Reversal Patterns

These patterns need only one candle to send a signal, though the book stresses that a following candle in the expected direction is what confirms the reversal — never trade the signal candle alone.



Hammer — small body near the top, long lower shadow



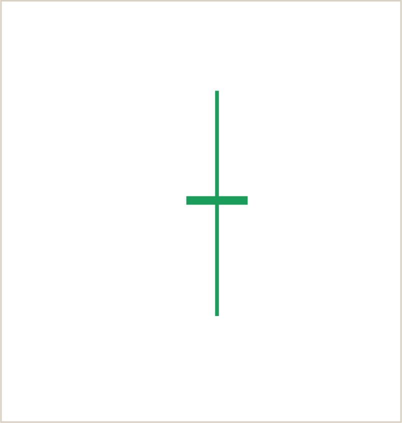
Shooting Star — small body near the bottom, long upper shadow

The **Hammer** appears after a decline. Price sells off hard during the session (long lower shadow) but buyers step in and drag the close back up near the open — a rejection of lower prices. The **Shooting Star** is its mirror image after an advance: price rallies hard, then sellers slam it back down near the open, rejecting higher prices. The same shape appearing at the wrong point in a trend has different names and different implications: a Hammer-shaped candle after an *uptrend* is called a **Hanging Man** (a bearish warning), and a Shooting-Star-shaped candle after a *downtrend* is called an **Inverted Hammer** (a tentative bullish signal). Context — where the candle sits in the trend — is what gives the shape its meaning.

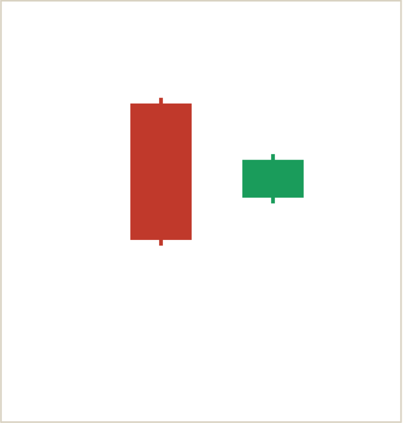
MY EXAMPLE — Hammer in practice

Imagine a stock has fallen for five straight sessions. On day six it opens at $40, drops to $36 intraday (spooking anyone watching), then rallies all the way back to close at $39.50. That long lower shadow with a small body near the top is a Hammer. On its own it only suggests sellers ran out of ammunition; you would want to see day seven close higher still before treating it as a genuine reversal.

Doji Variants



Doji — open and close are essentially equal



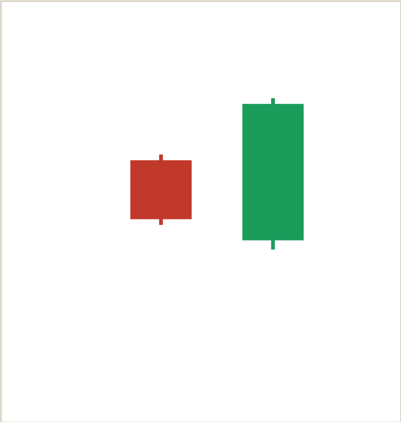
Bullish Harami — small body tucked inside the prior candle

The book distinguishes several Doji shapes by where the tiny body sits: a **Dragonfly Doji** (long lower shadow, little upper shadow — bullish after a decline), a **Gravestone Doji** (long upper shadow, little lower shadow — bearish after an advance), and a **Rickshaw Man** (long shadows on both sides — pure indecision, no directional lean). One of the book's better points: a Doji on very heavy volume is far more meaningful than one on a quiet lunchtime lull, because heavy volume proves both sides genuinely fought and neither could win.

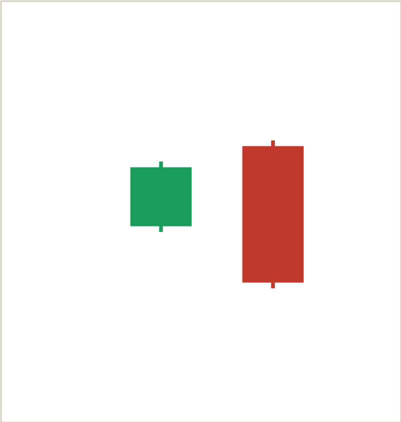
4. Multi-Candle Reversal Patterns

These need two or three candles working together, which generally makes them more reliable than single-candle signals — more of the "argument" is visible on the chart.

Engulfing Patterns



Bullish Engulfing — a large green body swallows the prior red body



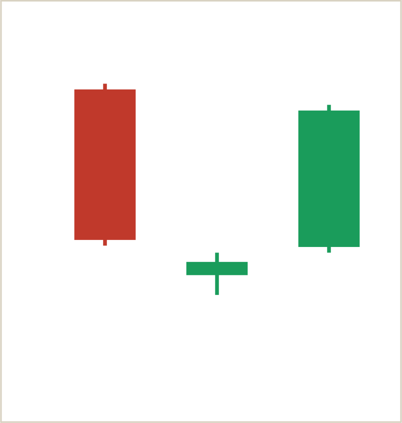
Bearish Engulfing — a large red body swallows the prior green body

A small candle is followed by a larger candle of the opposite colour whose body completely engulfs the first one's body. It reads as a swift changing of the guard: whichever side was in charge just got overrun in a single session. Two close relatives use partial engulfing instead of full: the **Piercing Pattern** (a bullish candle that closes more than halfway up into the prior red body) and its bearish twin, **Dark Cloud Cover** (a red candle that closes more than halfway down into the prior green body). The **Harami** is the reverse shape again — a small body tucked entirely inside the prior, larger candle — and reads as sudden hesitation rather than a full takeover.

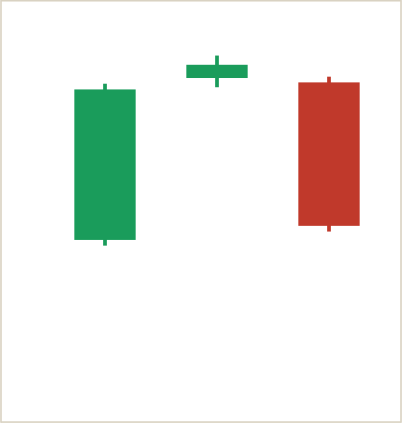
MY EXAMPLE — Bearish Engulfing in practice

A tech stock has been climbing for two weeks. One day it opens at $102, drifts up to close at $104 (a modest green candle). The next day it opens higher at $105 — a gap that looks bullish — but then sellers take over completely and it closes at $99, well below the prior day's open. That red body fully swallows the green one before it. Buyers who bought the gap up are now underwater, which is exactly the kind of shift in sentiment this pattern is built to catch.

Star Patterns



Morning Star — long red, small gapped body, long green



Evening Star — long green, small gapped body, long red

Three-candle patterns that read like a mini-story. The **Morning Star**: a long red candle (sellers in control), then a small-bodied candle that gaps lower (the sell-off stalls), then a long green candle that closes well back into the first candle's body (buyers retake control). The **Evening Star** is the same story upside down at the top of an advance. The middle candle is the hinge of the whole pattern — it is where control changes hands — and the book notes the reversal is strongest when that middle candle is itself a Doji.

5. Continuation Patterns

Not every pattern signals a reversal — some tell you the existing trend is simply pausing for breath before continuing. The **Rising Three Method** is a long green candle, followed by three or so small red candles that drift sideways-to-down but stay within the first candle's range, followed by another long green candle that pushes to a new high. It reads as a brief profit-taking pause inside an intact uptrend. The **Falling Three Method** is the same idea mirrored in a downtrend.

The book also covers **gaps** (called "windows" in the original Japanese terminology): spaces on the chart where no trading occurred between one candle's range and the next. A gap that opens in the direction of an existing trend (a **runaway** or **measuring gap**) tends to reinforce it, while a gap that appears after an extended move (an **exhaustion gap**) can mark the move's last gasp. A useful rule of thumb from the book: gaps in the direction of the trend often act as support or resistance if price later returns to test them.

6. Putting It to Work

Three practical threads run through the second half of the book:

- **Time frames.** Candlestick patterns work the same way on a 10-minute chart as on a daily or weekly chart — a Hammer is a Hammer whether it took twenty minutes or two days to form. Shorter time frames just give more signals, faster, and demand tighter risk control.
- **Support and resistance.** A candlestick pattern carries more weight when it forms at a level that already matters — a prior high or low, a round number, a well-watched moving average. A Hammer in the middle of nowhere is a coin flip; a Hammer sitting exactly on last month's low is a much stronger signal.
- **Momentum confirmation.** The book repeatedly warns against trading candlesticks in isolation. Pairing a reversal candle with a momentum indicator — RSI, Stochastic, or MACD showing an oversold/overbought reading or a divergence — turns a suggestive shape into a genuine, higher-conviction signal.

MY EXAMPLE — Combining signals

A Bullish Engulfing pattern shows up on a daily chart. On its own, treat it as one vote among many. But if it also lands right at a support level from two months ago, and the RSI is below 30 (oversold) and starting to curl upward, you now have three independent signals pointing the same way — candlestick shape, chart structure, and momentum. That confluence is what the book means by not using candlesticks "in isolation."

7. Ten Rules, Condensed to Six

The book closes with ten trading rules; the essence of them collapses into six practical habits.

1. Let the chart argue with you, not for you.
Don't look at a chart already hoping it confirms a view you formed elsewhere. Ask what the chart says, then compare that to your own opinion — not the reverse.

2. Never trade a candlestick pattern alone.
Pair it with support/resistance, a trend line, or a momentum indicator before acting on it.

3. Check more than one time frame.
A pattern on a 10-minute chart that contradicts the daily trend deserves less trust than one that agrees with it.

4. Backtest honestly.
If Shooting Stars have a poor track record on the specific instrument you trade, stop using them there, and be honest with yourself about realistic entry and exit prices when you test.

5. Always know your stop before you enter.
Decide where you are wrong before you find out you are wrong.

6. Retire the plain bar chart.
The book's closing argument: candlesticks show everything a bar chart shows, plus an instant visual read on sentiment — there is little reason to give that up.

This condensed guide covers the shapes and logic of the original book; it does not reproduce its text, charts, or case studies. For the full treatment — real market chart examples, volume studies, and the complete "cheat sheet" — read Clive Lambert's *Candlestick Charts* (Harriman House, 2009) in full.