Reading Candlestick Charts

In this module you will learn how to read the market with the use of Candlestick charts.

Candlesticks are quite an important part of DowScalper trading method. I do understand that many of you may be familiar with the Japanese Candlesticks but I would highly recommend that you go through this module to understand how we use and assess market information with the simple use of candlestick charts.

Once again I would like to remind you that;
There is a difference between 'knowing' and the actual 'application' of the concepts that you are learning in this program, so please make sure that you go through these modules leaving the old baggage behind.

It is my sincere belief that what you are learning in this program regardless of how simple it may seem, it will help you move on to the next level in your trading.

...So let's begin!

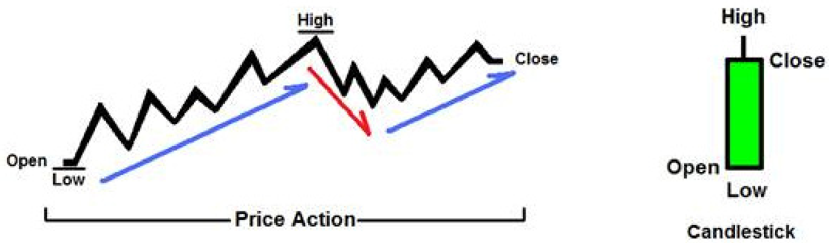
Candlesticks are one of the most important tools of **DowScalper™**, so it is crucial that you go through this entire module.

Understanding Candlesticks

Candlesticks represent trades on a chart, just like bar charts these can be set to any timeframe. Because of their visual appearance in the form of candles this type of chart is called a candlestick chart.

The reason we like to use candlesticks is simply because of their visual appeal, this allows us to read the market in a simple format which the human brain can analyse. With practice you can look at a candle and read the market effortlessly, just like how you read a novel or a book, these candles tell us a story.

The Formation of a Candle



The above diagram shows raw price data and how a candle would interpret the same data in it's own form. This makes it much easier for us to read compared to the tick by tick trades executed in the market.

A tick movement represents a minimum price change when it comes to Dow Emini Index Futures, each contract bought or sold values US $5 per tick movement.

The candle shows the same tick change price movement in a much clearer format and without the noise.

What is a Timeframe?

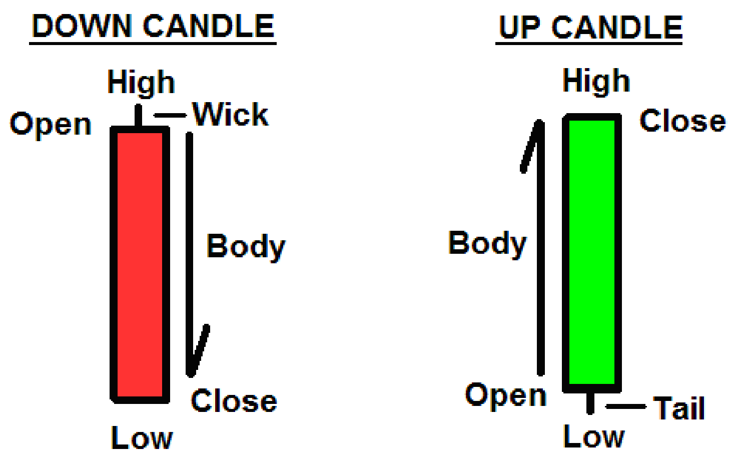
A timeframe is basically where x number of trades placed within a specific time period are put together as one in the form of a candle or a bar, timeframes can be set from 1 minute, 5 minute, 60 minute and even Daily intervals.

The timeframe we will be focusing on in the interest of this course is the 1 minute.

A 1 minute timeframe would show the number of trades which have taken place in the last 60 seconds in the form of a candle, when old and new are all put together, they represent a chart where every candle is 1 minute of data, be it past, present or future.

Reading Candlestick Formations

The beauty of Candlestick Analysis is that it makes it so easy for you to read what the market is doing in any given timeframe.



With the appearance of the Candles above we can see how the maket closed higher or lower from where it opened, the colour of the candle makes it all the more easier for you to see the actual direction of the market. We also get a clear visual read of the price travel range (also known as the Body of the Candle).

Let's just assume for a second that these two candles are showing us data for two different days, based on a daily timeframe.

The first Red Candlestick is telling us that the market on this day was down or fell below the opening price. You can also see that it formed a high (visible in the form of a wick) but than closed right at the low of the day giving us a clear indication that sellers had the authority on this day.

The second Green Candlestick is showing us that the market opened and tried to go lower (forming a tail), however buyers took control on this day and pushed the price right up until the close. There was clearly a lot more demand on this day, so much that the price kept moving higher up until the day's close.

So, looking at these two different candles it becomes quite obvious what happened on these two different days. Now, we care less why the sellers or the buyers had so much interest but what's important for us is that by reading the candles we were able to analyse the market, and knowing that which direction the market was stronger we can anticipate the next move in the market.

Now, I do understand that the interest in the market can change on a day to day basis, but you will be trading on the smallest timeframe which is the 1 minute chart. So, this makes the probability much higher for us to anticipate reading our charts i.e what happened the last minute is likely to continue happening this minute and the minute later.

So, I hope you are excited as going through these modules the puzzle will fall into place and please don't worry about the actual application of the techniques, everything is explained here as you progress further in these modules.

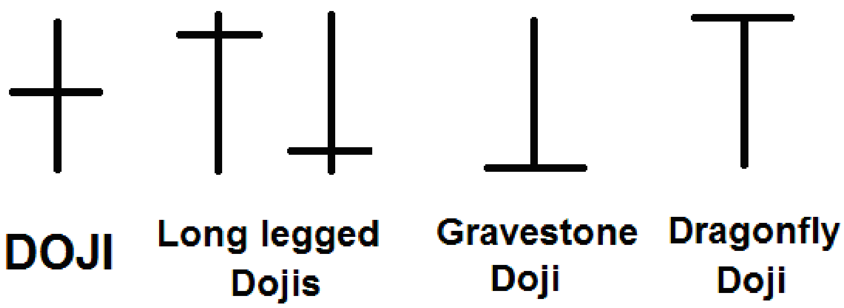
The Doji Pattern

A Doji is a candlestick pattern, it forms when the openinig and the closing price is the same regardless of the price range. There are five different types of dojis, you do not need to learn their names but just remember how they look like and understand why they form.

A Doji is most important if visible in a strong moving market, i.e in a trend in either direction up or down and should be taken a note of if discovered at the most recent high or the most recent low on your chart.

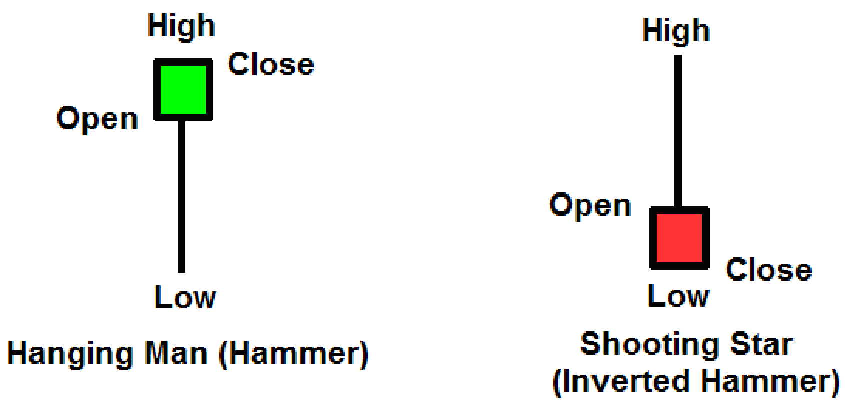
A doji is an outcome of indecision in the market, as with other candles they can also appear in all timeframes, however they are most important if they appear on the chart you are trading with.

Different type of Doji Formations



A candlestick will close as a Doji when there is a lack of control in the market either by the buyers or the sellers. Dojis give us a warning that there may be a change in pace or direction to follow immediately after (depending on the type of Doji), i.e. if conditions don't change, in other words, if the buyers or sellers don't take control again of the predominant trend.

<u>Hanging Man & Shooting Star</u> (Very Important Candles)



The <u>First Green Candle</u> is also known as the hammer, it has a long tail and a small body.

This pattern is a sign of slowing down or dying momentum in a down trend or a falling market.

We can see here that at some stage during the time period sellers had authority and managed to pull the price lower, however as the demand increased the buyers took control and pushed the market higher than where it opened up until the end of this timeframe.

This candle holds great importance in a falling market especially when it's extended, this can also be interpretted as the 'Distribution phase' and a beginning or a reset. (see module 1)

The other <u>Red Candle</u> is called a shooting star which also looks like an inverted hammer, this pattern indicates of trend running out of steam.

The candle is telling us that buyers tried to push the market higher, however sellers took control of the market bringing it lower and closing right at the low within this time period.

The shooting star holds great importance when identified in an up trend, especially one which is extended and due to fall anytime soon. Once again, indicating a start or an end of the distribution phase followed by a reset or a 'Mark-Down' phase.

You have now completed Module 2.

It is recommended that you go through both modules 1 & 2 again so the ideas can sink in, I hope you are beginning to see the light. There is lots more to learn so take a break and come back again.

But before you do, please take a look at this video.

Video 2: Application of Candlesticks

Press the play button to start the player

Advance to Module 3 ==>

Contact Support: support [@] dowscalper.com

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