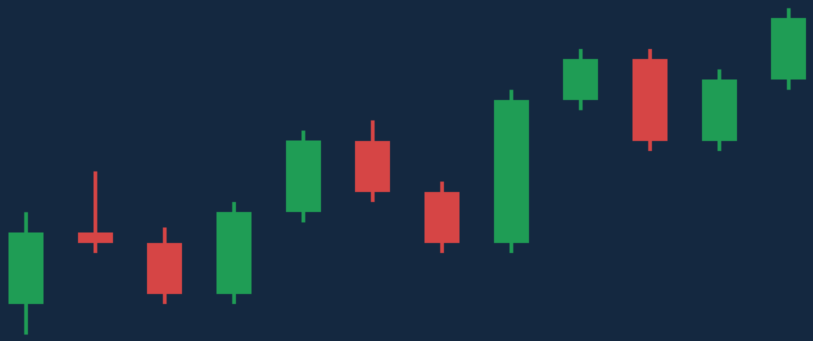
Candlestick Analysis

Reading price like a tape, not a picture book

Patterns · Context · Entries, Exits & Risk

Advanced edition for the active trader

BY MARK S. JAEGER



Educational reference. Patterns express probabilities, not certainties — see risk disclosure inside.

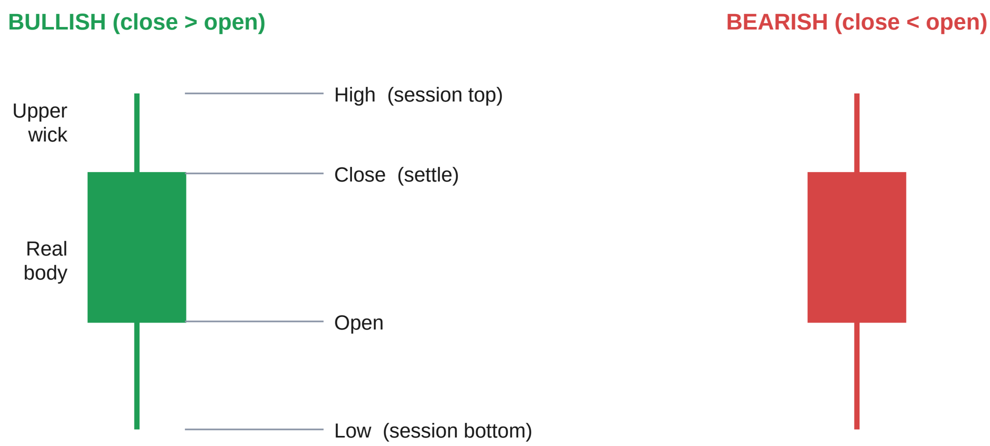
What's Inside

How to use this manual

- Every pattern is drawn to scale — read the **body** (open→close) and the **wicks** (the rejected extremes) as the real signal.
- Green = close above open (buyers won the bar). Red = close below open (sellers won).
- Faint candles set **context** (the trend a pattern appears in). The bold candles are the pattern itself.
- Reliability dots (●) are a relative field-strength guide, not a win-rate guarantee. Context multiplies or kills every signal here.

01 · The Candle Itself

A candlestick is one bar of an auction compressed into four numbers — **open, high, low, close** — drawn so the eye reads the fight between buyers and sellers in a single glance. Master the anatomy and every pattern in this manual becomes self-explanatory: patterns are just sentences built from these letters.



*The four prices and the two zones every candle is made of. The **body** is conviction; the **wicks** (shadows) are rejection — price the market visited but refused to hold.*

What the shape is telling you

Feature	What you see	What it means
Long body	Open and close far apart	One side dominated the whole bar — strong conviction.
Small body	Open ≈ close	Balance / exhaustion — neither side closed the deal.
Long upper wick	Tall shadow above body	Buyers pushed up, sellers slammed it back — supply overhead.
Long lower wick	Tall shadow below body	Sellers pushed down, buyers absorbed it — demand below.
No wick (marubozu)	Body = full range	Trend control from bell to bell.
Body location	Where body sits in range	Tells you who finished in control at the close.

The one rule that survives everything else

A single candle is a **question**; the next candle is the **answer**. Professionals don't trade the pattern bar — they trade the **confirmation** that follows it. Keep that in mind through every page that follows: the signal is the setup, not the trigger.

02 · Single-Candle Signals

These bars carry a message on their own, but each one means the **opposite** thing depending on the trend it interrupts. The same hammer shape is bullish at the bottom of a decline and a warning (“hanging man”) at the top of a rally. Location is half the signal.

Open ≈ close, range explored both ways.

Doji

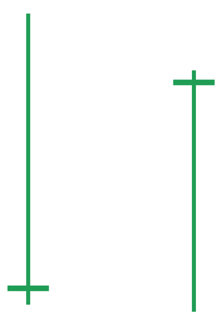
INDECISION

Structure. Open and close are virtually identical; long wicks on one or both sides.

Tape psychology. Perfect indecision. The auction ranged hard and settled right where it started — a stalemate that often precedes a turn or a pause.

Playbook. Never trade alone. Mark the doji's high and low; trade the break of whichever side the next bar resolves.

Reliability



Gravestone (left) · Dragonfly (right).

Gravestone & Dragonfly Doji

EITHER WAY

Structure. Gravestone (left): open=close at the low, tall upper wick. Dragonfly (right): open=close at the high, tall lower wick.

Tape psychology. Gravestone = rally fully rejected (bearish at tops). Dragonfly = sell-off fully absorbed (bullish at bottoms). The long wick is the story.

Playbook. At a swing extreme with volume, treat as a reversal flag; enter on the next bar that confirms the rejection.

Reliability

After a downmove — long lower wick rejects the low.

Hammer

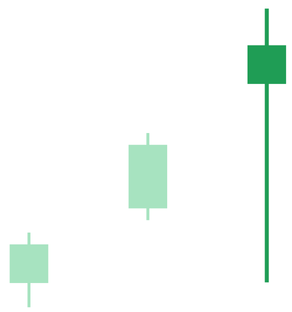
BULLISH REVERSAL

Structure. Small body at the top of the bar, lower wick at least twice the body, little/no upper wick — appearing after a decline.

Tape psychology. Sellers drove price down hard, then buyers stepped in and reclaimed almost the entire bar by the close. Demand has shown up.

Playbook. Enter on a break above the hammer's high; stop just below the wick low; the rejected low becomes your risk line.

Reliability



Same shape as a hammer — but at the top of a rally.

Hanging Man

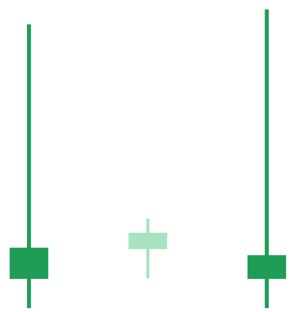
BEARISH REVERSAL

Structure. Identical shape to the hammer — small body, long lower wick — but it appears after an **advance**.

Tape psychology. Even inside an uptrend, sellers were able to dump price intrabar. The character of the move is changing; buyers had to rescue the bar.

Playbook. Bearish only once confirmed: enter short on a close back below the hanging man's low. Without confirmation it is noise.

Reliability ●●●○○



Inverted hammer (bottom) vs shooting star (top).

Inverted Hammer / Shooting Star

EITHER WAY

Structure. Small body at the bottom, long upper wick. After a decline it is a bottoming **inverted hammer**; after a rally it is a topping **shooting star**.

Tape psychology. Buyers (or sellers) made a hard push and got rejected at the extreme. The long upper wick marks supply.

Playbook. Shooting star at resistance: short the break of its low, stop above the wick. Inverted hammer at support: wait for an up-close confirmation.

Reliability ●●●○○

No wicks — open and close at the extremes.

Marubozu

EITHER WAY

Structure. A full-range body with no wicks at all — open is the low and close is the high (bullish), or the reverse (bearish).

Tape psychology. Total control. One side owned the bar from open to close with zero pushback. The strongest single-bar conviction signal.

Playbook. A trend-confirmation bar, not a reversal. Trade in its direction; a marubozu against your position is a warning to tighten.

Reliability ●●●●○

Small body, balanced wicks — stalling momentum.

Spinning Top

INDECISION

Structure. Small real body centered between two long wicks of roughly equal length.

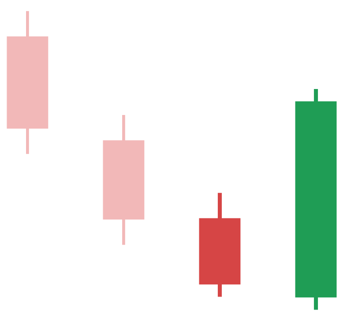
Tape psychology. A genuine tug-of-war: big range, no resolution. Momentum is stalling even if price hasn't turned yet.

Playbook. Read it as a caution flag inside a trend — a reason to trail stops, not to initiate. Confirmation required for any reversal trade.

Reliability ●●○○○

03 · Two-Candle Patterns

Now the second bar answers the first. These are the bread-and-butter reversal signals — the ones that show up at swing highs and lows on every timeframe. The relationship between the two bodies is the entire signal.



Bull body swallows the prior bear body.

Bullish Engulfing

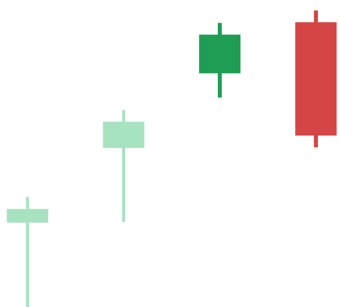
BULLISH REVERSAL

Structure. After a downtrend, a small bear bar is followed by a larger bull bar whose body completely **engulfs** the prior body.

Tape psychology. Sellers set a new low, then buyers overwhelmed them and closed above the prior open. A decisive handoff of control in one bar.

Playbook. Enter on a break of the engulfing bar's high (or at its close on strong volume); stop below the pattern low. Bigger engulf = stronger.

Reliability ●●●●○



Bear body swallows the prior bull body.

Bearish Engulfing

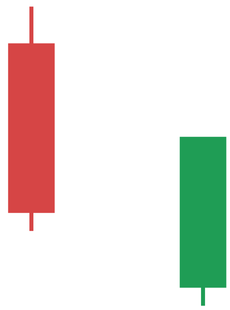
BEARISH REVERSAL

Structure. After an uptrend, a small bull bar is engulfed by a larger bear bar that closes below the prior open.

Tape psychology. Buyers made a new high, then sellers took it all back and more. Distribution showing up at the top of a move.

Playbook. Short the break of the pattern low; stop above the engulfing high. Strongest at resistance or a measured target.

Reliability ●●●●○



Bull closes back above the midpoint of the prior bear.

Piercing Line / Dark Cloud Cover

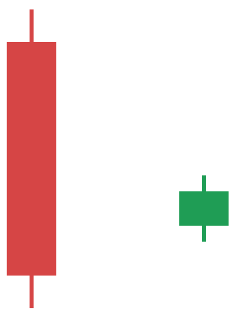
EITHER WAY

Structure. Piercing (bullish): bear bar, then a bull bar that opens at/below the low and closes **back above the midpoint** of the prior body. Dark Cloud Cover is the bearish mirror.

Tape psychology. A gap in the trend direction is fully reversed intrabar. The deeper the close pushes into the prior body, the stronger the signal (a close past 50% is the threshold).

Playbook. Treat as a weaker engulfing: confirm with a follow-through bar before committing. Midpoint reclaim is the line in the sand.

Reliability ●●●○○



Small inside bar coils within the prior large bar.

Bullish / Bearish Harami

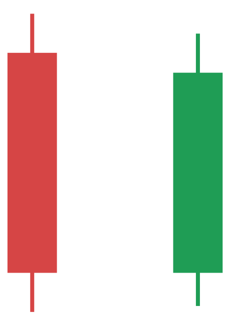
EITHER WAY

Structure. A large bar followed by a small bar whose body sits **entirely inside** the prior body (“inside bar”). Color of the small bar is secondary.

Tape psychology. Violent move, then a sudden contraction — momentum has braked hard. The trend's energy is draining; a coil before resolution.

Playbook. Don't anticipate. Trade the break of the large bar's range in whichever direction price resolves; the harami marks the coil.

Reliability ●●●○○



Matched lows mark a defended level (tweezer bottom).

Tweezer Bottom / Top

EITHER WAY

Structure. Two (or more) adjacent bars sharing a near-identical **low** (tweezer bottom, bullish) or **high** (tweezer top, bearish).

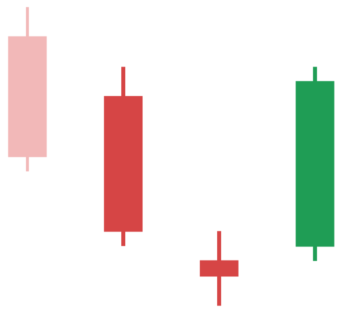
Tape psychology. The market tested the same price twice and was rejected both times. That repeated rejection defines a precise level.

Playbook. The shared wick is your stop reference — tight risk. Enter on confirmation away from the matched extreme.

Reliability ●●●○○

04 · Three-Candle Patterns

Three-bar patterns are higher-conviction because the market gets a setup bar, a transition bar, and a confirmation bar all in one structure. The star family and the soldier/crow family are the workhorses.



Sell-off → indecision star → strong bull reversal.

Morning Star

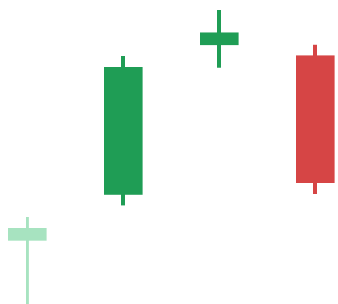
BULLISH REVERSAL

Structure. Three bars after a decline: (1) a strong bear body, (2) a small “star” that gaps lower and stalls, (3) a strong bull bar closing well into bar 1.

Tape psychology. Selling exhausts (bar 1), indecision arrives (bar 2 — buyers and sellers balance), then buyers seize control (bar 3). A textbook bottom.

Playbook. Enter on the close of bar 3 or a break of its high; stop below the star's low. Deeper the bull bar closes into bar 1, the better.

Reliability ●●●●●



Rally → indecision star → strong bear reversal.

Evening Star

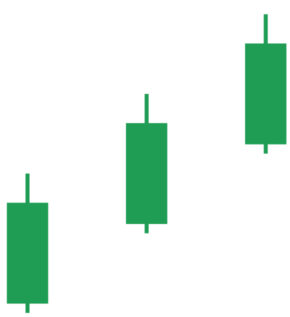
BEARISH REVERSAL

Structure. The bearish mirror of the morning star: strong bull bar, a small star gapping higher, then a strong bear bar closing into bar 1.

Tape psychology. Buying exhausts, the market hesitates at the high, then sellers take over. A classic distribution top.

Playbook. Short the close/break of bar 3's low; stop above the star high. One of the most reliable reversal structures.

Reliability ●●●●●



Three rising bulls — sustained accumulation.

Three White Soldiers

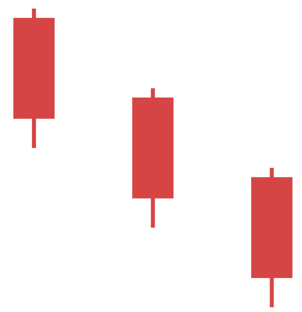
BULLISH REVERSAL

Structure. Three consecutive long bull bars, each opening within the prior body and closing near its high with small upper wicks.

Tape psychology. Steady, broad-based accumulation. Buyers show up bar after bar with no meaningful selling — sustained demand.

Playbook. A momentum-confirmation pattern off a base. Beware chasing the third bar when bars are over-extended; size for a pullback entry.

Reliability ●●●●○



Three falling bears — sustained distribution.

Three Black Crows

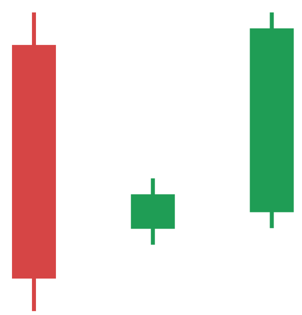
BEARISH REVERSAL

Structure. Three consecutive long bear bars, each opening within the prior body and closing near its low.

Tape psychology. Relentless distribution — sellers in control across three bars with no relief bounce. Strong downside momentum.

Playbook. Confirms a breakdown; avoid fading it. Late entries chase — prefer to short a weak retrace back into the structure.

Reliability ●●●●○



Harami + confirmation bar (shown: inside up).

Three Inside Up / Down

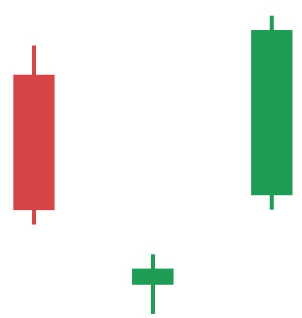
EITHER WAY

Structure. A harami (bars 1–2) plus a confirmation bar (3) that closes beyond bar 1's body. Adds the proof the bare harami lacks.

Tape psychology. The coil (harami) resolves with a committed bar in the new direction. It is a harami you no longer have to guess about.

Playbook. Bar 3 is your trigger — enter on its close/break. Stop beyond bar 1's far extreme. Cleaner than trading a harami blind.

Reliability ●●●●○



Isolated doji gapped away from both bars.

Abandoned Baby

EITHER WAY

Structure. A doji that gaps **away from both** neighbors (a true gap below in a bottom, above in a top) — rare and high-conviction.

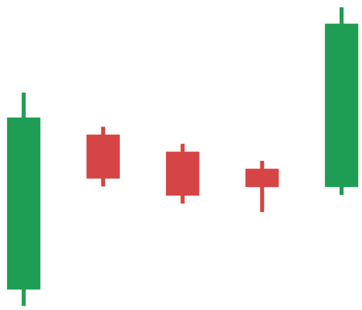
Tape psychology. A total break in continuity: the prior trend gaps to exhaustion, hangs in a doji, then gaps the other way. A violent change of heart.

Playbook. Rare on liquid intraday charts (gaps fill fast). When it appears at a key level it is among the strongest reversals — trade bar 3's confirmation.

Reliability ●●●●○

05 · Continuation Patterns

Most candle education obsesses over reversals — but the highest-probability trade is often **with** the trend. Continuation patterns are orderly pauses: the market rests inside the prior bar's range, shakes out weak hands, then resumes. They let you add or enter mid-trend with defined risk.



Bull bar → shallow pause → breakout continuation.

Rising Three Methods

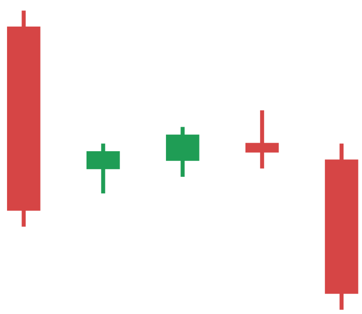
CONTINUATION

Structure. A long bull bar, then three small bars that drift down but stay **within bar 1's range**, then a long bull bar closing to a new high.

Tape psychology. A controlled, low-volume pullback inside an uptrend. Sellers can't break the range; buyers reassert and break out. The trend was only resting.

Playbook. Enter on the breakout bar (bar 5) clearing bar 1's high; stop below the consolidation low. Clean continuation entry with a tight, logical stop.

Reliability ●●●●○



Bear bar → weak bounce → breakdown continuation.

Falling Three Methods

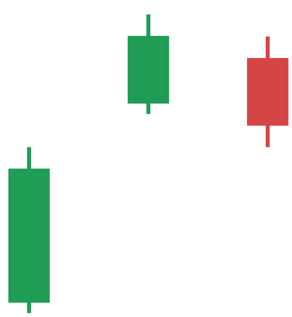
CONTINUATION

Structure. The bearish mirror: a long bear bar, three small bars rising inside its range, then a long bear bar to a new low.

Tape psychology. A weak corrective bounce inside a downtrend that fails to reclaim ground — sellers reload and press lower.

Playbook. Short the breakdown of the consolidation low; stop above the corrective high. A with-trend continuation, not a reversal.

Reliability ●●●●○



Gap defended — pullback fails to fill it.

Upside Tasuki Gap

CONTINUATION

Structure. An up-gap between two bull bars, then a bear bar that opens inside the second body and **partially fills** the gap without closing it.

Tape psychology. Profit-taking nibbles at the gap but buyers defend it — the gap holds as support and the trend stays intact.

Playbook. Continuation hold as long as the gap is unfilled. A full close back through the gap voids it — that's your invalidation.

Reliability ●●●○○

> **Continuation vs reversal — the deciding question**
>
> Ask one thing of every pause: **did price violate the prior structure, or just rest inside it?** A pullback that stays within the impulse bar's range and resumes is continuation. A pullback that breaks structure and closes through it is a potential reversal. The candles describe the pause; the **levels** tell you which kind it is.

06 · Context Is King

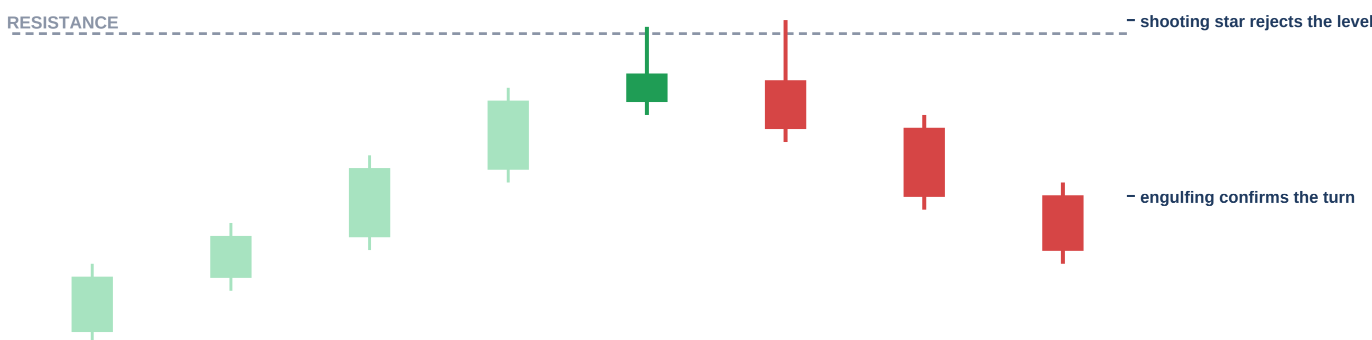
A pattern is a word; context is the sentence. The exact same hammer is a high-probability long at the bottom of a pullback into support on rising volume — and a coin flip in the middle of a choppy range. Four context filters separate tradable signals from chart noise. Stack them; never trade a pattern naked.

Filter 1 — Location in the trend

Reversal patterns only matter where there is something to reverse. A bullish engulfing is meaningful after an extended decline into support; the identical bar mid-range means nothing. Ask first: **is price at an extreme, or in no-man's-land?**

Filter 2 — Confluence with structure

Patterns earn their reliability at prior support/resistance, swing highs/lows, moving averages, VWAP, round numbers, or measured-move targets. The signal and the level must agree. A shooting star *at* resistance is a trade; a shooting star in open air is a guess.



Signal + level = trade. The rejection candle lands exactly at known resistance, and the next bar confirms — that confluence is what you are actually trading.

Filter 3 — Volume confirmation

Conviction needs participation. A reversal or breakout bar on **expanding volume** reflects real commitment; the same bar on thin, fading volume is suspect. A setup taken without volume confirmation is how a good pattern quietly turns into a small, avoidable loss. **Thin volume is a valid reason to skip a setup, not a detail to rationalize away.**

Pattern bar volume	Read	Action
Well above average	Genuine commitment behind the move	Highest-confidence — trade it
About average	Ambiguous — needs more proof	Demand a confirmation bar

Pattern bar volume	Read	Action
Below average / fading	Move lacks participation	Stand aside or size down hard

Filter 4 — Timeframe alignment

A bullish reversal on the 5-minute means little if the daily is in a hard downtrend — you are fighting the bigger tide. Read the pattern on your execution timeframe, but let a higher timeframe vote on direction. When both agree, conviction (and size) can rise; when they conflict, the higher timeframe wins.

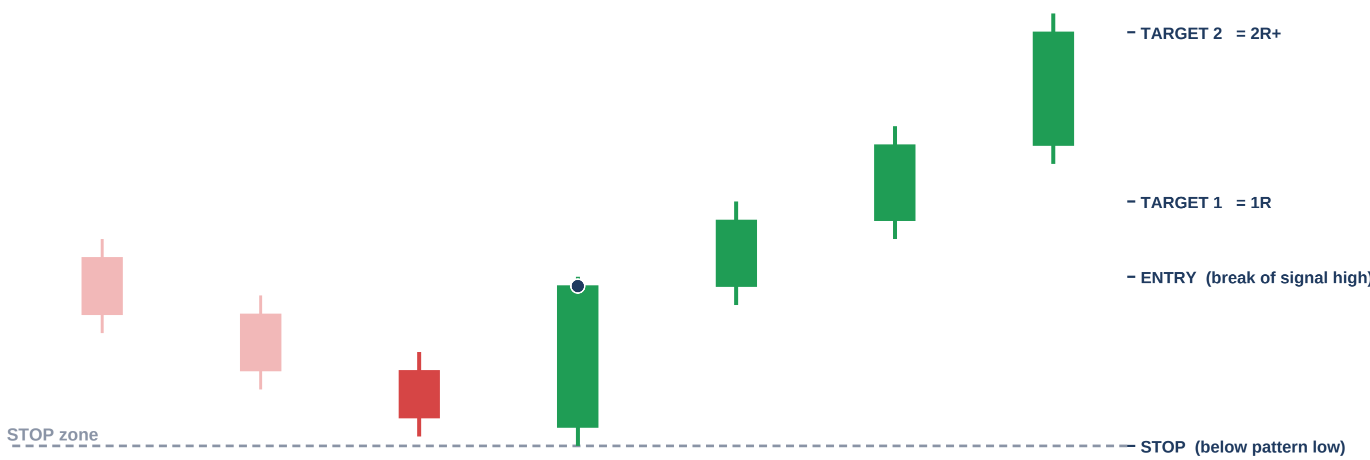
Why patterns fail — keep this honest

- **No location.** A reversal bar with nothing to reverse is just a bar.
- **No confirmation.** The setup bar is a question; acting before the answer is gambling.
- **Wrong regime.** Reversal patterns chop you up in trends; continuation patterns trap you in ranges.
- **Chasing.** Entering bar three of an extended run hands you the worst price and the widest stop.
- **Over-reading.** Not every small body is a doji. If you have to squint to see it, it isn't there.

07 · The Trade System

A pattern is not a trade. A trade is an **entry**, a **stop**, a **target**, and a **size** — decided before you click. This section turns the picture into a repeatable, risk-defined process. The candle gives you the levels; the system gives you the discipline.

The anatomy of one trade



One bullish-engulfing trade, fully specified: enter on the break of the signal bar's high, risk to just below the pattern low, scale out at measured R-multiples. The distance from entry to stop is 1R — every target is quoted in those units.

Entries — wait for the answer bar

- **Break-of-extreme (default).** Buy a tick above the signal bar's high (sell below its low). Price must prove the pattern before you commit capital.

- **Close-confirmation.** Enter on the close of the confirming bar when volume is strong and you don't want to miss a fast move. Slightly worse price, higher hit-rate.
- **Retest entry.** Let the breakout pull back to the broken level and enter on the hold. Best price and tightest stop — but it sometimes leaves without you.

Stops — the wick is your line

The pattern **defines** your invalidation: place the stop just beyond the wick that the signal rejected (below a hammer's low, above a shooting star's high). If price trades through that extreme, the story the candle told is false — there is nothing left to be right about. Never widen a stop to avoid being wrong; that converts a planned small loss into an unplanned large one.

Targets & management — think in R

Define risk as **1R** = entry minus stop. Then quote every target in R so position decisions become arithmetic, not emotion. A common framework: bank partial profit at +1R (move stop to breakeven), let the remainder run toward structure (prior swing, measured move, or a trailing stop under each higher low).

Level	Where it comes from	Action
+1R	Equal to initial risk	Take partial / move stop to breakeven
Structure target	Prior swing high/low, measured move	Primary objective for the core
Trailing stop	Under each higher low (longs)	Lets winners run, protects open profit
Time stop	Setup hasn't worked in N bars	Exit dead trades — free the capital

Sizing — risk a fixed fraction, always

Size is solved *backwards* from the stop, not forwards from conviction. Decide the dollars you will risk per trade (a fixed % of equity), then let the stop distance set the share count. Wide stop → fewer shares; tight stop → more. Your dollar risk stays constant regardless of the setup.

> **Position-size formula**
>
> **`Shares = (Account × Risk%) ÷ (Entry − Stop)`**
>
> Example: a $50,000 account risking 1% ($500) on a setup with a $2.00 stop distance ➝ 500 ÷ 2.00 = **250 shares**. Change the stop and the share count changes; the $500 at risk does not. Margin and your equity floor cap the *maximum* size — never let a setup push you through a hard risk limit.

The pre-trade checklist

#	Check	Pass condition
1	Pattern	A clean, recognizable structure — not a forced read
2	Location	At a swing extreme, not mid-range
3	Confluence	Sits on real S/R, MA, VWAP, or a measured level
4	Volume	Confirming participation on the signal bar
5	Timeframe	Higher-timeframe direction agrees (or is neutral)
6	Entry	A defined trigger — break or confirmed close
7	Stop	Logical invalidation just beyond the rejected wick
8	Reward	At least ~2R available to a real structure target
9	Size	Solved from the stop; within your risk & equity limits

Trade only when the boxes are checked

If a setup fails two or more checks, it is not a trade — it is a temptation. The edge in candlestick trading is not in knowing more patterns than the next person; it is in the discipline to pass on the ones that don't line up. Skipping a marginal setup is itself a winning decision.

08 · Quick-Reference Cheat Sheets

Tear-out tables for the chart side. Reliability is a relative field-strength guide; context still decides every trade.

Bullish reversal patterns

Pattern	Bars	Tell	Strength
Hammer	1	Long lower wick after a decline	●●●●○
Inverted Hammer	1	Long upper wick at a bottom	●●●○○
Dragonfly Doji	1	Open=close at high, long lower wick	●●●○○
Bullish Engulfing	2	Bull body swallows prior bear body	●●●●○
Piercing Line	2	Bull closes above midpoint of prior bear	●●●○○
Tweezer Bottom	2	Matched lows reject the same level	●●●○○
Bullish Harami	2	Small bull inside a large bear	●●●○○
Morning Star	3	Sell-off → star → strong bull	●●●●●
Three Inside Up	3	Harami plus an up confirmation bar	●●●●○
Three White Soldiers	3	Three rising bulls — accumulation	●●●●○

Bearish reversal patterns

Pattern	Bars	Tell	Strength
Hanging Man	1	Long lower wick after a rally	●●●○○
Shooting Star	1	Long upper wick at a top	●●●●○
Gravestone Doji	1	Open=close at low, long upper wick	●●●○○
Bearish Engulfing	2	Bear body swallows prior bull body	●●●●○
Dark Cloud Cover	2	Bear closes below midpoint of prior bull	●●●○○
Tweezer Top	2	Matched highs reject the same level	●●●○○
Bearish Harami	2	Small bear inside a large bull	●●●○○
Evening Star	3	Rally → star → strong bear	●●●●●
Three Inside Down	3	Harami plus a down confirmation bar	●●●●○
Three Black Crows	3	Three falling bears — distribution	●●●●○

Indecision & continuation

Pattern	Type	Tell	Strength
Doji	Indecision	Open ≈ close — stalemate	●●●○○
Spinning Top	Indecision	Small body, balanced wicks	●●○○○
Marubozu	Conviction	Full-range body, no wicks	●●●●○
Rising Three Methods	Continuation	Shallow pause then bull breakout	●●●●○
Falling Three Methods	Continuation	Weak bounce then bear breakdown	●●●●○
Upside Tasuki Gap	Continuation	Up-gap defended, not filled	●●●○○
Abandoned Baby	Reversal (rare)	Doji gapped away from both bars	●●●●○

The five-second read

Decode any candle in one pass

- **Big body?** → conviction, that side won the bar.
- **Small body?** → balance / exhaustion — look for a turn.
- **Long lower wick?** → demand stepped in below (bullish at lows).
- **Long upper wick?** → supply stepped in above (bearish at highs).
- **Where on the chart?** → at an extreme it's a signal; mid-range it's noise.
- **What did the next bar do?** → that confirmation is the actual trade.

09 · Glossary & Risk Disclosure

Glossary

Term	Meaning
Body (real body)	The block between open and close — the bar's net conviction.
Wick / shadow	The thin lines to the high and low — prices visited but rejected.
OHLC	Open, High, Low, Close — the four prices every candle encodes.
Marubozu	A wickless candle; the open and close are the bar's extremes.
Doji	A candle whose open and close are virtually equal — indecision.
Engulfing	A body that fully covers the prior bar's body in the new direction.
Harami / inside bar	A bar whose range sits entirely inside the prior bar's range.
Confluence	Two or more independent factors (signal + level + volume) agreeing.
Confirmation	The follow-through bar that validates a setup before entry.
Invalidation	The price that proves the setup wrong — where the stop lives.
R / R-multiple	One unit of initial risk (entry – stop); targets are quoted in R.
VWAP	Volume-weighted average price — a common intraday confluence level.
Continuation	A pause inside a trend that resolves in the trend's direction.
Distribution / accumulation	Net selling into strength / net buying into weakness.

Risk disclosure

This manual is an educational reference on chart-reading technique. It is not investment advice, not a recommendation to buy or sell any security, and not a promise of results. Candlestick patterns describe ***probabilities and behavior****, never certainties — any individual pattern can and will fail, and no edge exists without disciplined risk management. Trading involves substantial risk of loss, including more than the amount invested when using margin. Back-test and forward-test any method on your own data before risking capital, size every position so a single loss is survivable, and consider consulting a licensed professional regarding your specific circumstances. You alone are responsible for your trading decisions.*

— End of manual —