Candlestick Patterns & Price Action Charting Guide

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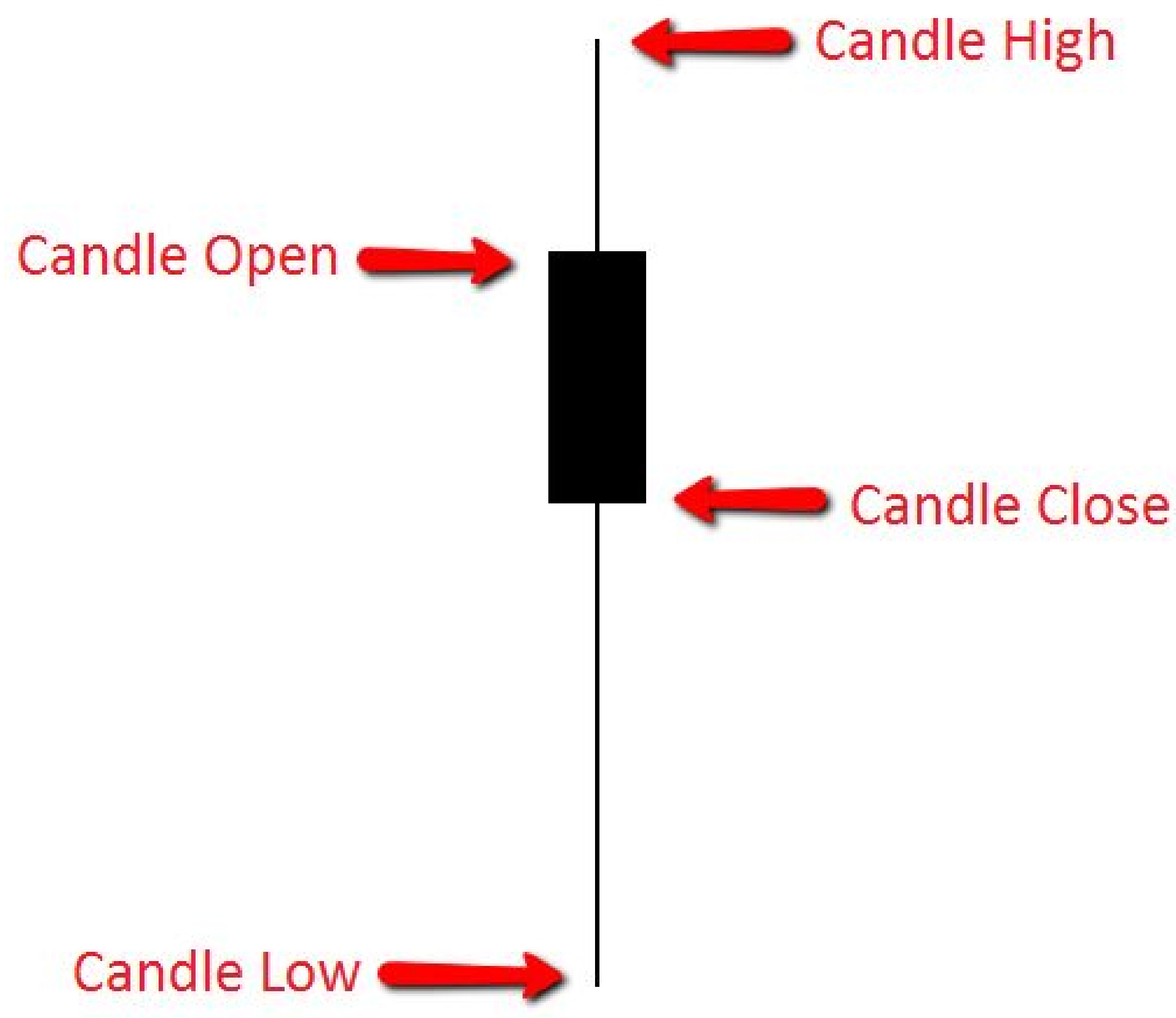
Technical and price action traders often assess their charts and look for trades without looking or thinking to deeply into the matter.

That’s because to be a profitable trader the mechanics of how the system works don’t need to be known as long as the system can be worked and traded correctly.

There are many things we can learn from the inner workings of the price action and the candlestick chart and whilst most traders are simply just looking for one, two or even three candle pattern formations, candlesticks and price action can tell us much more information if we learn to read it.

Every candlestick has an open, close, high and low and every candle is filled with both buyers and sellers jostling for position to enter and exit the market.

Below is a picture of an individual candlestick



The Secrets Can We Read From One Candlestick Pattern

A candlestick is simply one session of price movement printed on a chart showing how traders have behaved. This is why price action and candlesticks are so very powerful when traders are educated in how to trade them.

Price action gives traders the direct insight into how traders and the market are behaving through what the price action is doing and how it is behaving.

From only one candlestick we can see if price has been controlled completely by the bulls or by the bears by whether the whole candle is either completely bullish or bearish and closes right near the highs or the low.

We can see if there was a false move that came over the market mid-session with either a move higher followed by the bears snapping price back lower or vice versa.

Below are two examples showing candlesticks in action;

The first example below shows the bulls in complete control. Notice how the candle has little or no wicks and from the start to the finish of the candle price has climbed from the very low of the candle to the extreme high.

What is also important to take note of is the close of the candle.

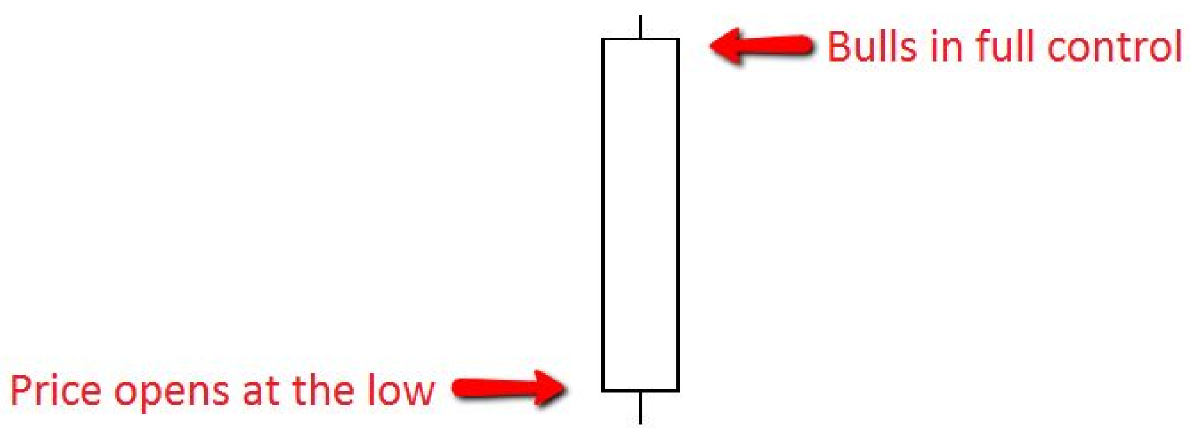
A trader can gain a lot of information about the strength of the candle on where price ended up closing. We can see in this example the bulls were in complete control because price closed right up near the session high. This indicates that at the end of the session there were still plenty of bulls trying to buy into the market.

If the candle is beginning to have a wick on the candle it could be a sign of weakness and a clue that the buy orders are starting to dry up or that new sell orders/bears are coming into the market to push price lower which is creating the wick on the candle.

The size of the candle can also be very important in certain circumstances and something traders need to take into account. Big candles can mean big momentum.

Large full bodied bullish or bearish candles that close to their highs or lows like the example below can be indicating a strong momentum or move in the market.

New traders can often be scared away from really large candles and this is often the opposite to what they should be doing. Having large candles is also important when looking for reversal signals such as pin bars and engulfing bars and this is when the bigger the candles the better because once again big candles equal big momentum.

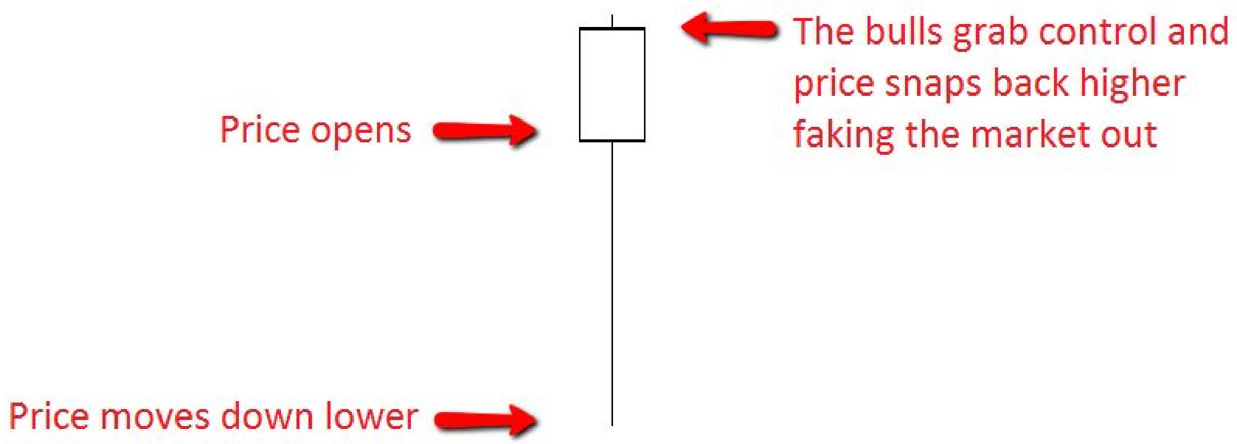


In the example below, the candle is showing traders a false move that has occurred in the session. This is a common candlestick and one that traders will be able to look at their charts and see has formed on many of their charts and on many different time frames.

Price is often moving in one direction before snapping back in the other direction and we can read this play through our charts. The candlestick below shows how this plays out.

Price moves lower at the start of the session.

When this candle was mid-session, it would look like a full black bodied bearish candle. At this point it would take price to find support and bulls (buyers) to enter the market to create the false break. This is where price snaps back higher and creates the large wick on the candle to finish the false break.



The Secrets Can We Read From Price Action

Whilst we can read a lot of information from one candlestick, it is a lot better when it is given context.

Firstly, make sure the charts you are using are New York close 5 day charts, do not have an extra 6th candle and that they are created starting with the Asian session and closing with New York. If they have a smaller 6th candle it will throw all your charts price action information out.

The information we gain from one candle is a lot more powerful when it can be used with the rest of the price action story and this is when well educated price action traders really can be high probability traders that can read the behavior and secrets of the price action.

Some of the best information traders can get out of candlesticks is in the wicks of the candles themselves. So many traders pay no attention to the wicks and this is where so much of the key information is held. Think of it like this; the wick is where price has moved either higher or lower to and has rejected.

This is where price is now telling us it does not want to be.

Remember; price is always telling us something and it is our job to learn to read it. When marking your support and resistance levels, the wicks are crucial pieces of information and must be included with your levels.

Reading the Whole Candlestick

Many traders only include the bodies of the candles, but this is a massive mistake because a lot of information is gained from the wicks. This is also why marking your support and resistance levels using line charts is a massive NO, NO. Line charts do not include the wicks of the candles.

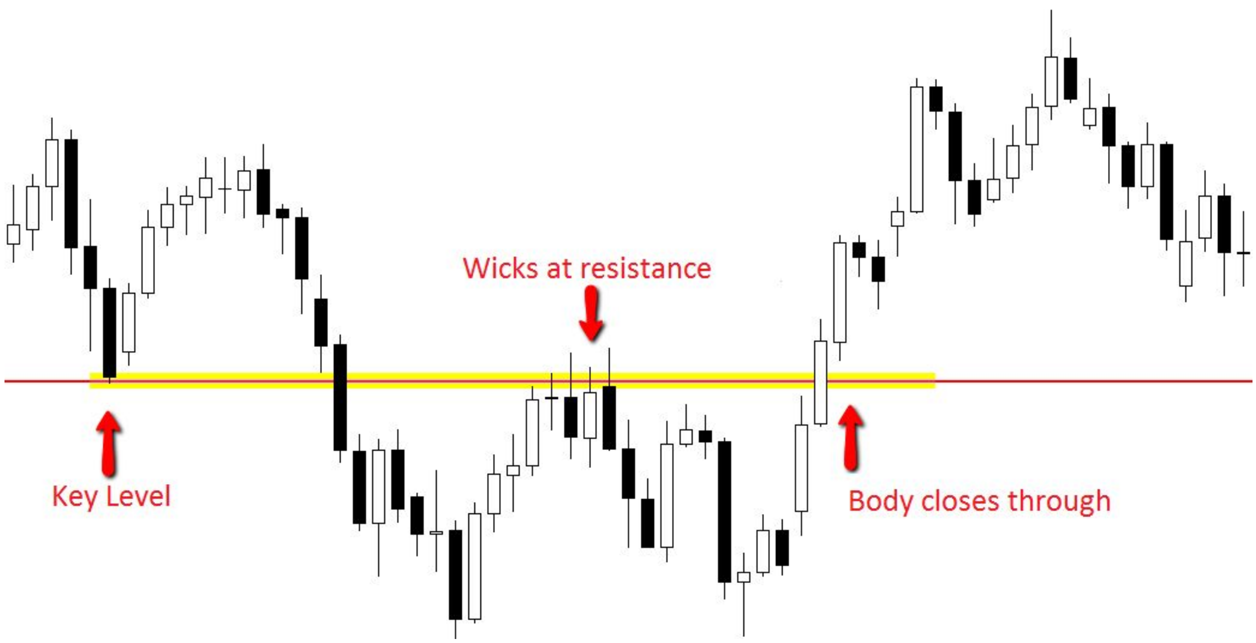
They only include the bodies and this is cutting out crucial information that as price action traders we need to know for accurate levels to see where price has and has not respected.

Importantly the wicks will often go up and test areas and this is where traders will be able to learn where price can and cannot close above or below areas.

Quite often traders will see price move to an area and the candle wick will test and area, but the candle body will not be able to close through. Quite often the support/resistance level has held until the candle body has closed through.

Whilst the wicks of the candles may test and move through, until the body of the candle moves and closes through, this level has not broken. The candle needs to move through and have the body close through.

The chart below shows how the first time price tested the resistance area, only the candle wicks could break the resistance and the candle bodies could not close above; meaning the level had held. The next attempt price made at resistance, the candle bodies closed above. When this happens the level is broken and the resistance "flips" to become a new support area.



The chart below shows a similar example again. This scenario shows how traders can use this information to their advantage over and over again once they are well educated. Price struggled to close below the support level and the wicks of the candles tested the support level many times.

Eventually the candle body closed below the support level and once it did, this was the signal for the level to be broken. Once the support level was broken it flipped from being an old support level to a new resistance level.

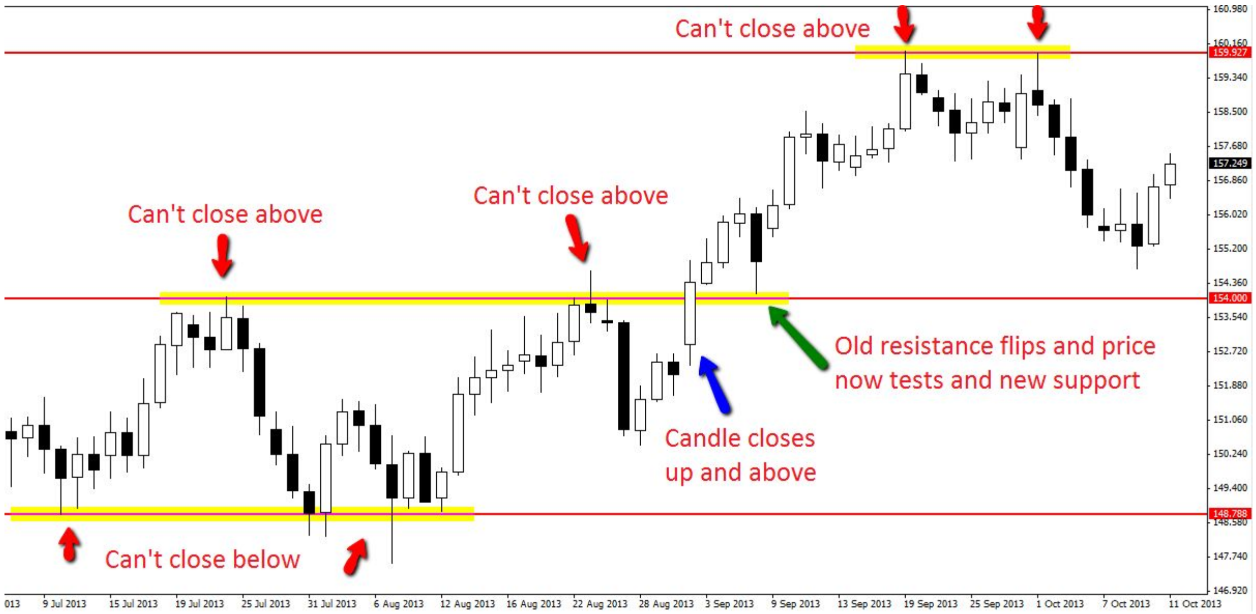
You will notice that price flipped straight away from old support to new resistance and once the price was under the old support price went back to test this level and found new resistance and the key once again was that the candle body could not close back through.

Below is the current daily price action chart of the GBPJPY. You can flick to this chart and see the same price action on your own charts, provided you have the same New York close 5 day charts. If you need to get the correct New York close 5 day charts which are crucial Click Here.

This chart is a perfect example of how traders can use the wicks on the candlesticks with great effect if they know how. Price has been stepping higher in ranges or boxes and each time before breaking out it has been testing the highs and lows of the ranges. While many traders are often faked out into break out trades that don't eventuate, traders that have solid price action knowledge can avoid false breakouts by waiting for a solid close out and confirmation of the breakout.

As this candlestick chart shows; the candle wicks will often move out of the breakout area, but the candles do not close outside. Once the candle closes outside the breakout area price on this chart continues higher.

GBPJPY Daily Price Action Chart



Why do Price Action Signals Work?

Sometimes there can be confusion around price action and that the reason the price action trading signals we trade, such as the engulfing bar or advanced breakout setups the members play work is because other traders are also trading the same signals. For example; if we are playing an engulfing bar on the 4hr chart, then we are hoping others are also trading the exactly the same signal to make it a winner.

This is not how price action works. Being a price action trader allows you to have an insight into the markets behaviour. It does not matter what time frame you go to, you are looking directly at what the market is doing in live time being printed directly onto your chart.

That price printed on your chart is a representation of all the buyers and sellers in the market at that exact time. When you are looking at price action on your chart you are just looking at the behaviour of all the traders in the market and what they have done. Overtime humans and traders react and behave the same way.

They will never react exactly the same way and that’s why no method is and never will be 100% accurate, but given similar circumstances, traders repeat the same habits over and over again.

For as long as there are humans in the marketplace there will forever be a great opportunity to make money from trading price action. Humans all have what are called universal instincts.

These instincts are inbuilt and cannot be changed. These things like; the fear of missing out on a trade, fear of losing, greed, peer pressure etc, they are universal. Whilst these universal instincts can be controlled and that’s why some people can make money, they DO create mistakes and that’s why there will always be an opportunity to make money for as long as humans trade the markets.

These mistakes manifest themselves in the price action and it is in the repeatable price action patterns that the price action traders can start to take advantage of. Price action traders are not just trading patterns, they are trading human behavior, order flow signals and many other market factors all built into the price action.

All That Can be Found

Price holds all the information. So many traders in the trading world browse around for hours on end looking for the fancy indicators, spend hours watching the news and spend money on expensive systems and all that information can be found right in the price. There is only one thing that moves price up or down and that is with traders buying and selling.

The news does not move price up or down. Indicators do not move price up or down. The only thing that moves price up or down is when traders trade price higher or lower. That is the only way.

When a major news announcement comes out, it does not move price. When something major happens in the world such as a major terrorist attack, it does not move price. Why does price move? Because traders trade the price higher or lower. The news or world events do not make the price move.

This is why it is so common for traders to be watching an announcement and for price to go the exact opposite way to what they expected to go. The traders traded the price they wanted.

Why is this so important? Because I need to stress the point about price action. On your price action chart you get to read everything that happens in the marketplace.

You Don't Need It!

You don't need to read the news or stay up with world events. All you need to do is follow and read the price action. You don't need the news to tell you if a bad economic announcement has been released. You can read that in the price. All the clues and secrets are held in the price and you simply need to follow your price action edge.

I really hope you have enjoyed this deeper look into price action. As I said at the very start of the article all that is needed is a profitable trading edge, a switched on trading mind and a committed trader to be profitable, but sometimes it can help the trader to dig a little deeper into the topic and learn that bit extra.

If you want to take to get a far more in-depth guide into price action and how to start using it to trade the markets, then grab Your Free Price Action Trading Guide Here.