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Common Sense and Candlesticks

No doubt that candlestick reversal patterns offer some of the most profitable trades of any price action method of analyzing any stock chart! However, there is so much incomplete information and sometimes just plain misinformation available today that it's difficult to really take candlestick charting seriously anymore. Everyone has the same candlestick charting "information" on their website showing us what candles are and how they are made up. They also tell us the history behind candlestick charting and also the major reversal patterns. **What they don't show you is how to trade candlestick charts profitably!**

Many websites give traders the impression that candlestick reversal patterns act like *magic* and anytime a pattern forms it forces the price of a stock to change direction. We all know that there is no magic formula to stock trading and candlestick charting is no different.

So Why Trade With Candlesticks?

Hey, that's a very valid question! Let me tell you about the approach of Candlestick Trading for Maximum Profits. In our course we teach candlestick reversal patterns along with a time tested method of price action analysis. In short, our course shows you how to find and trade candlestick reversal patterns at crucial price levels. These price levels act as support and resistance and when a candlestick reversal pattern forms at these levels the results can be incredibly accurate candlestick signals.

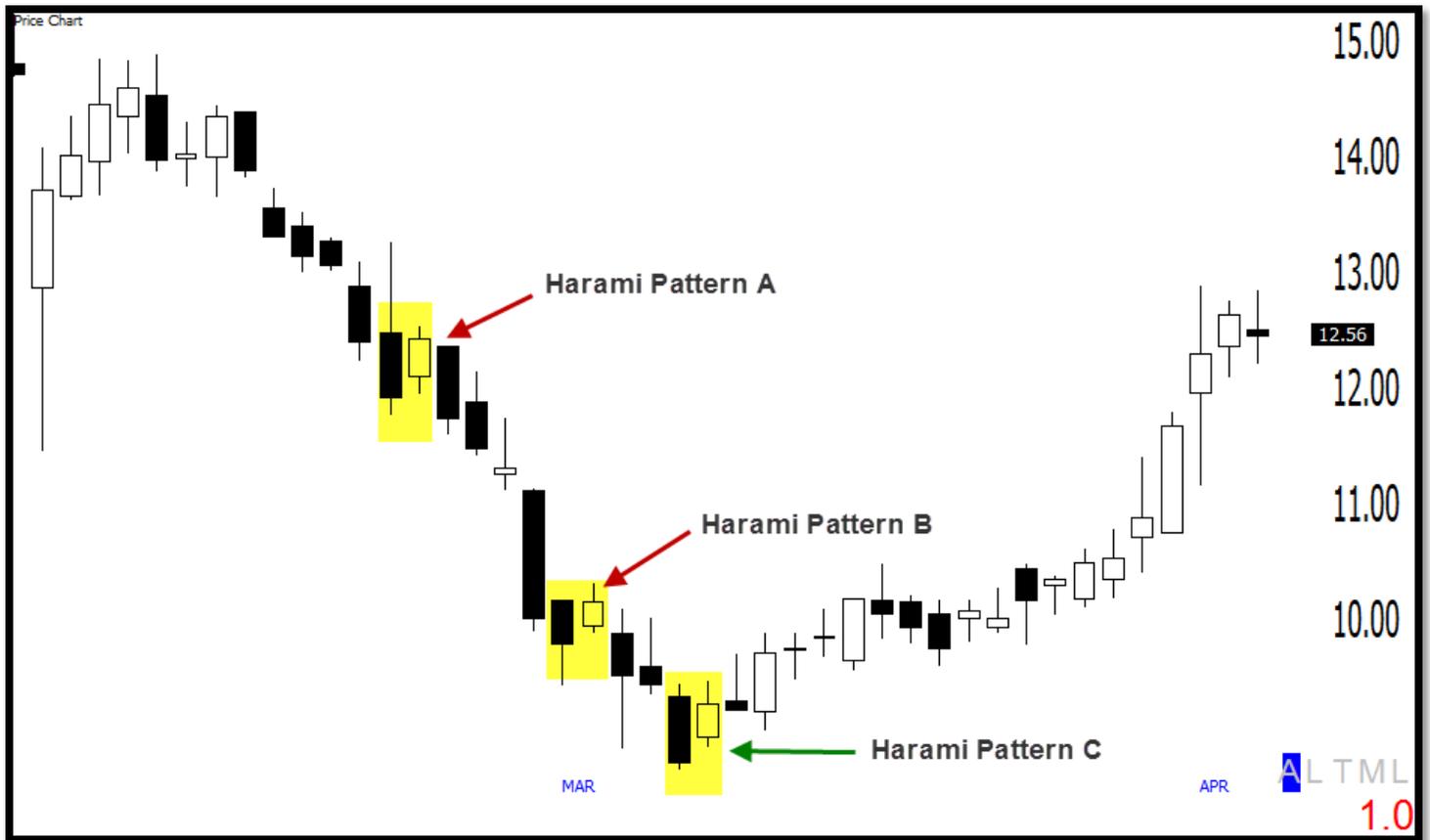
Am I talking about a bunch of indicators? No, many trading systems today have evolved into the use of complicated indicators and all but ignore price action altogether. Candlestick Trading for Maximum Profits teaches you to study price action.

Let Me Illustrate My Point

Below is a chart of LFUS that was in a downtrend during February to the beginning of March 2009. During this downtrend three Bullish Harami candlestick reversal patterns formed but only one would have made a profitable trade.

By examining the chart you can see you would have been stopped out of your trade had you traded bullish Harami patterns A and B and lost money. Harami pattern C was the reversal pattern that signaled the true reversal and the profitable trade. Had you traded all three of these Bullish Harami patterns you might have broke even...if you were lucky.

The Candlestick Trading for Maximum Profits trading system teaches you to filter out signals that I refer to as "*invalid*". Harami patterns A and B were totally ignored due to the rules outlined in our course.



Finding Valid Signals

So I've already told you about invalid candlestick reversal patterns. How do we go about finding good and valid reversal and continuation signals? How much time are you going to spend searching for those valid signals?

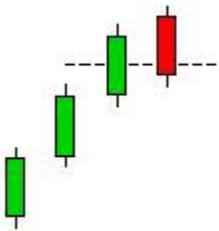
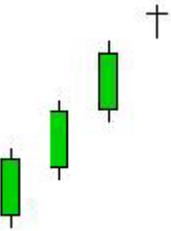
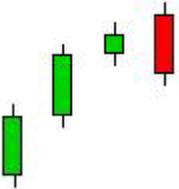
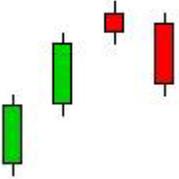
Candlestick Trading for Maximum Profits has enjoyed great success since November, 2007 for one simple reason...simplicity! Our course outlines very simple methods of finding these trading opportunities and without spending much more than twenty minutes a night doing it!

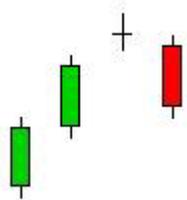
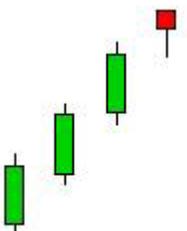
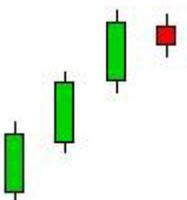
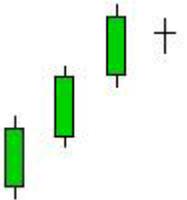
With our new updated course and website we can add to the course with changing market conditions and our members simply login to the member's area and are continually updated with the latest information from our course.

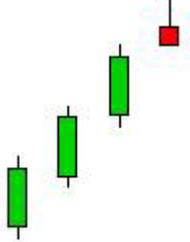
With the previous being said, the following are the major candlestick reversal patterns and what they represent. Remember, use with common sense!

[Get Our Latest Trading Tips](#)

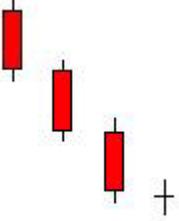
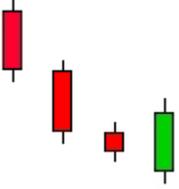
Bearish Candlestick Reversal Patterns

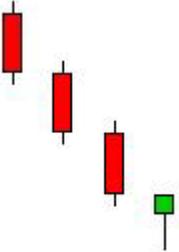
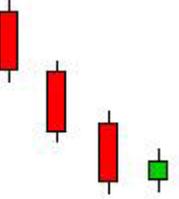
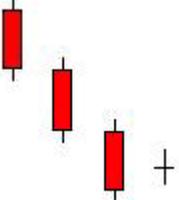
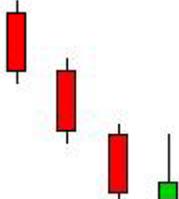
	<p style="text-align: center;">Bearish Dark Cloud</p> <p>1st day is a long green day. 2nd day is a red day which opens above the 1st day's high. 2nd day closes within the 1st day, but below the midpoint.</p>	<p style="text-align: center;">Psychology</p> <p>A long green candlestick is formed on the 1st day and a gap up is created on the 2nd day. This is encouraging to the bulls. However, the 2nd day closes below the midpoint of the 1st day. Longs quickly question their strategy.</p>
	<p style="text-align: center;">Bearish Doji Star</p> <p>1st day is a long green day. 2nd day is a doji day that gaps above the 1st day. The doji shadows shouldn't be excessively long.</p>	<p style="text-align: center;">Psychology</p> <p>The uptrend is in full force with a strong 1st day. All confidence built up by the bulls from the 1st day is destroyed when the 2nd day's gap up closes near its open. Profit takers will quickly appear if the next day opens lower.</p>
	<p style="text-align: center;">Bearish Engulfing Pattern</p> <p>The color of the 1st day's body reflects the trend, however could be a doji. The 2nd day's real body engulfs the 1st day's body.</p>	<p style="text-align: center;">Psychology</p> <p>If not much volume occurs on the 1st day of the Bearish Engulfing formation compared to the 2nd day, then this increases the strength of the pattern. The 2nd day opens above the close of the 1st day, however quickly sells off to finally close below the open of the 1st day. This scares the longs and brings into question the bull trend which prompts additional selling in the coming days.</p>
	<p style="text-align: center;">Bearish Evening Star</p> <p>1st day is a long green day. 2nd day gaps above the 1st day's close. 3rd day is a long red day.</p>	<p style="text-align: center;">Psychology</p> <p>The 2nd day gaps higher, but trades in a small range. The bearishness of this indecision is confirmed by the lower close of the 3rd day. Look for lower prices.</p>

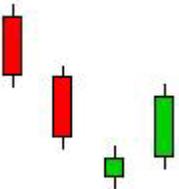
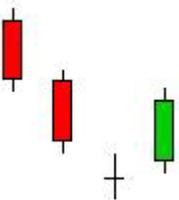
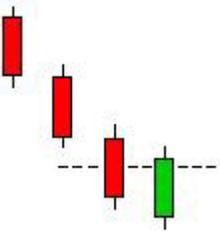
	<p style="text-align: center;">Bearish Evening Doji Star</p> <p>1st day is a long green day. 2nd day is a doji which gaps above the 1st day's close. 3rd day is a red day.</p>	<p style="text-align: center;">Psychology</p> <p>The bearishness of the doji star created on the 1st two days is confirmed with the 3rd day. If the penetration of the 3rd day is more than 50 percent, then this formation has a much better chance to succeed for the trader.</p>
	<p style="text-align: center;">Bearish Hanging Man</p> <p>Small real body at the upper trading range. Color of the body is not important. Long lower shadow at least twice the length of the body. Little or no upper shadow. Previous trend should be bullish.</p>	<p style="text-align: center;">Psychology</p> <p>As with any single candlestick, confirmation is required. The Hanging Man formation shows the price goes much lower than the open then closes near the opening price. This could mean that many longs have positions that they are attempting to sell. Ideally, a red real body Hanging Man with a lower open the following day could be a bearish signal for the days ahead.</p>
	<p style="text-align: center;">Bearish Harami</p> <p>The 1st day is a long green day. The 2nd day is a short day whose body is engulfed by the 1st day's body.</p>	<p style="text-align: center;">Psychology</p> <p>A long 1st day with high volume in the existing uptrend brings complacency to the bulls. The next day trades in a small range within the previous day's real body. Light volume on the 2nd day should give rise to concern by the bulls of an impending change of trend. Look for lower prices over the coming days, especially if the next day provides confirmation of a trend change by closing lower.</p>
	<p style="text-align: center;">Bearish Harami Cross</p> <p>The 1st day is a long green day. The 2nd day is a doji day that is engulfed by the 1st day's body.</p>	<p style="text-align: center;">Psychology</p> <p>The 2nd day's price range does not pierce the previous day's range and closes about where it opened. Volume on the 2nd day is low which indicates that traders are lacking enough information to decide whether to go long or short.</p>

	<p style="text-align: center;">Bearish Shooting Star</p> <p>Price gap open to the upside. Small real body formed near the bottom of the price range. The upper shadow at least three times as long as the body. The lower shadow is small or nonexistent.</p>	<p style="text-align: center;">Psychology</p> <p>The long upper shadow and small real body at the bottom of the trading range are cause for concern by the bulls. They wonder if this is the end of the uptrend and take measures to protect their gains.</p>
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Bullish Candlestick Reversal Patterns

	<p style="text-align: center;">Bullish Doji Star</p> <p>1st day is a long red day. 2nd day is a doji day that gaps below the 1st day. The doji shadows shouldn't be excessively long.</p>	<p style="text-align: center;">Psychology</p> <p>The downtrend is in full force with a strong 1st day. All confidence built up by the bears from the 1st day is destroyed when the 2nd day's gap down closes near its open. Short covering will quickly appear if the next day opens higher.</p>
	<p style="text-align: center;">Bullish Engulfing Pattern</p> <p>The color of the 1st day's body reflects the trend, however could be a doji. The 2nd day's real body engulfs the 1st day's body.</p>	<p style="text-align: center;">Psychology</p> <p>If not much volume occurs on the 1st day of the Bullish Engulfing formation compared to the 2nd day, then this increases the strength of the pattern. The 2nd day opens below the close of the 1st day, however quickly rallies to close above the open of the 1st day. This damages the spirits of the shorts and brings into question the bear trend which prompts additional buying in the coming days.</p>

	<p style="text-align: center;">Bullish Hammer</p> <p>Small real body at the upper trading range. Color of the body is not important. Long lower shadow at least twice the length of the body. Little or no upper shadow. Previous trend should be bearish.</p>	<p style="text-align: center;">Psychology</p> <p>As with any single candlestick, confirmation is required. The Bullish Hammer formation shows the price goes much lower than the open then closes near the opening price. This fact reduces the confidence of the bears. Ideally, a green real body Hammer with a higher open the following day could be a bullish signal for the days ahead.</p>
	<p style="text-align: center;">Bullish Harami</p> <p>The 1st day is a long red day. The 2nd day is a short day whose body is engulfed by the 1st day's body.</p>	<p style="text-align: center;">Psychology</p> <p>A long 1st day with high volume in the existing downtrend brings complacency to the bears. The next day trades in a small range within the previous day's real body. Light volume on the 2nd day should give rise to concern by the bears of an impending change of trend. Look for higher prices over the coming days, especially if the next day provides confirmation of a trend change by closing higher.</p>
	<p style="text-align: center;">Bullish Harami Cross</p> <p>The 1st day is a long red day. The 2nd day is a doji day that is engulfed by the 1st day's body.</p>	<p style="text-align: center;">Psychology</p> <p>The 2nd day's price range does not pierce the previous day's range and closes about where it opened. Volume on the 2nd day is low which indicates that traders are lacking enough information to decide whether to go long or short.</p>
	<p style="text-align: center;">Bullish Inverted Hammer</p> <p>Small real body formed near the bottom of the price range. The upper shadow is no more than two times as long as the body. The lower shadow is small or nonexistent.</p>	<p style="text-align: center;">Psychology</p> <p>The long upper shadow and small real body at the bottom of the trading range are cause for concern by the bears. They wonder if this is the end of the downtrend and take measures to protect their gains. If the next day opens above the body of the Inverted Hammer, then expectations could be for shorts to cover and propel a reversal rally.</p>

	<p style="text-align: center;">Bullish Morning Star</p> <p>1st day is a long red day. 2nd day gaps below the 1st day's close. 3rd day is a long green day.</p>	<p style="text-align: center;">Psychology</p> <p>The 2nd day gaps lower, but trades in a small range. The bullishness of this indecision is confirmed by the higher close of the 3rd day. Look for higher prices.</p>
	<p style="text-align: center;">Morning Doji Star</p> <p>1st day is a long red day. 2nd day is a doji which gaps below the 1st day's close. 3rd day is a green day.</p>	<p style="text-align: center;">Psychology</p> <p>The bullishness of the doji star created on the 1st two days is confirmed with the 3rd day. If the penetration of the 3rd day is more than 50 percent, then this formation has a much better chance to succeed for the trader.</p>
	<p style="text-align: center;">Bullish Piercing Pattern</p> <p>1st day is a long red body. 2nd day is a green body which opens below the low of the 1st day. 2nd day closes within, but above the midpoint of the 1st day's body.</p>	<p style="text-align: center;">Psychology</p> <p>The gap down on the 2nd day perpetuates the downtrend. However, the 2nd day's close is above the midpoint of the 1st day's body. This suggests to the bears that a bottom could be forming. This price action is not nearly as discernable using bar charts as it is with candlestick charts. The more penetration of the close on the 2nd day to the 1st day's body, the more probable the reversal signal will succeed.</p>

Thank you for reading the trading guide. If you'd like to learn more about our fully developed trading systems that take advantage of the most predictable setups be watching your email. We provide trading systems and training for Futures, Forex, Options & Stocks. Be sure to whitelist info@netpicks.com to receive the latest updates.